

FICTION FILM FINANCING IN EUROPE

big
picture
book



Fiction film financing in Europe

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A black and white photograph of Earth from space, showing the curvature of the planet and a dense field of stars in the background. Overlaid on the image is the text "THE BIG P" in large, bold, 3D block letters. The letters are white with black outlines and shadows, giving them a three-dimensional appearance as if they are floating in space. The word "THE" is positioned above "BIG", and "P" is to the right of "BIG".

**THE
BIG P**

A black and white photograph of Earth from space, showing the planet's curvature and surface details. The background is a starry field of stars. Overlaid on the image is the text "THE PICTURE" in a large, bold, 3D sans-serif font. The letters are black with a white shadow effect, giving them a three-dimensional appearance as if they are floating in space.

**THE
PICTURE**

This publication highlights some of the key findings from the recent analysis of financing plans of 445 European live-action films and puts them into context with related insights from various other Observatory reports and analyses.

The purpose of this publication is to grant fact-based insights on how theatrical fiction films are financed in Europe. Or phrased differently, who is - from a pan-European perspective - financing European fiction film production?

It aims to provide stakeholders with 'big picture' insights and thereby contribute to informed discussions on the future of European filmmaking.

The full report on film financing can be downloaded for free from www.obs.coe.int

Fiction film financing in Europe: A sample analysis of films released in 2016.

European Audiovisual Observatory, Strasbourg, 2018

The analysis of financing structures of European films constitutes the output of an extensive collaboration project between the European Audiovisual Observatory and members of the European Film Agency Research Network (EFARN) who provided anonymised financing plan data on a film-by-film basis.

EFARN

The European Film Agencies Research Network is an informal network of researchers actively involved in the collection, analysis and publication of data on the European film industry. These researchers represent a total of 46 different bodies, principally film agencies but also a number of other organisations active in this domain. The EFARN has two main objectives: working towards improving the availability and harmonisation of data on a pan-European level, and undertaking common research projects.

This is a big picture book

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is culturally diverse and very fragmented	28
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Further reading

THIS

A

PICT

BO

IS

BIG

URE

OK

Each film
is **unique**

**but the
big picture**

matters

Each film is unique. So is its financing structure.

Each country is unique. So is its film financing *'ecosystem'*, due to different regulatory frameworks, different public support systems and different market characteristics.

Despite the fact that each individual film differs from another film in artistic terms, market potential and financing structures, certain patterns emerge the more films and the more countries one analyses.

It is the purpose of this publication to identify some of these ***'big-picture patterns'*** based on factual data.

It aims to quantify the importance of individual financing sources from a **pan-European perspective**, thereby complementing work done at national or stakeholder levels.

It does so, by **breaking down** the **cumulative film investment** volume of a representative data sample of theatrical fiction films **by individual financing sources**.

It goes without saying that the reality of any individual film project can differ significantly from these (average) results.

But these big picture insights are important.

They help to put individual film case studies and stakeholder positions into context.

They are an important element in gaining a comprehensive understanding of the complex issues at hand.

Seeing the *big picture* helps film policy makers and other stakeholders to have well informed discussions on the future of European filmmaking and create the best film ecosystems adapted to the specific characteristics of their respective markets.

Beware the **sample analysis!**

data refer only
to live-action
fiction films
released in 2016

All financing related data in this publication are based on a sample analysis of live-action fiction films theatrically released in 2016.

This leads to two limitations:

- ▶ while the data sample is large and considered to be representative, it remains a sample analysis. The validity of the results for countries outside of the data sample or countries with insufficient coverage cannot be guaranteed. All data are hence to be considered as estimates;
- ▶ analysing the financing of films released in 2016 does not reflect any developments which may have taken place since then.

Why then analyse 2016 releases rather than films produced in 2018?

The two-year time lag gives film agencies sufficient time to collect updated financing plans which better reflect the final financing structure of the films. An analysis of provisional financing plans would not be as meaningful.

The data sample

The data sample comprises detailed financing plans for 445 European live-action fiction films* - theatrically released in 2016 - from 21 European countries.

The data sample is estimated to cover 41% of the total number of European** fiction films released in 2016.

It covers a cumulative financing volume of EUR 1.41 billion.

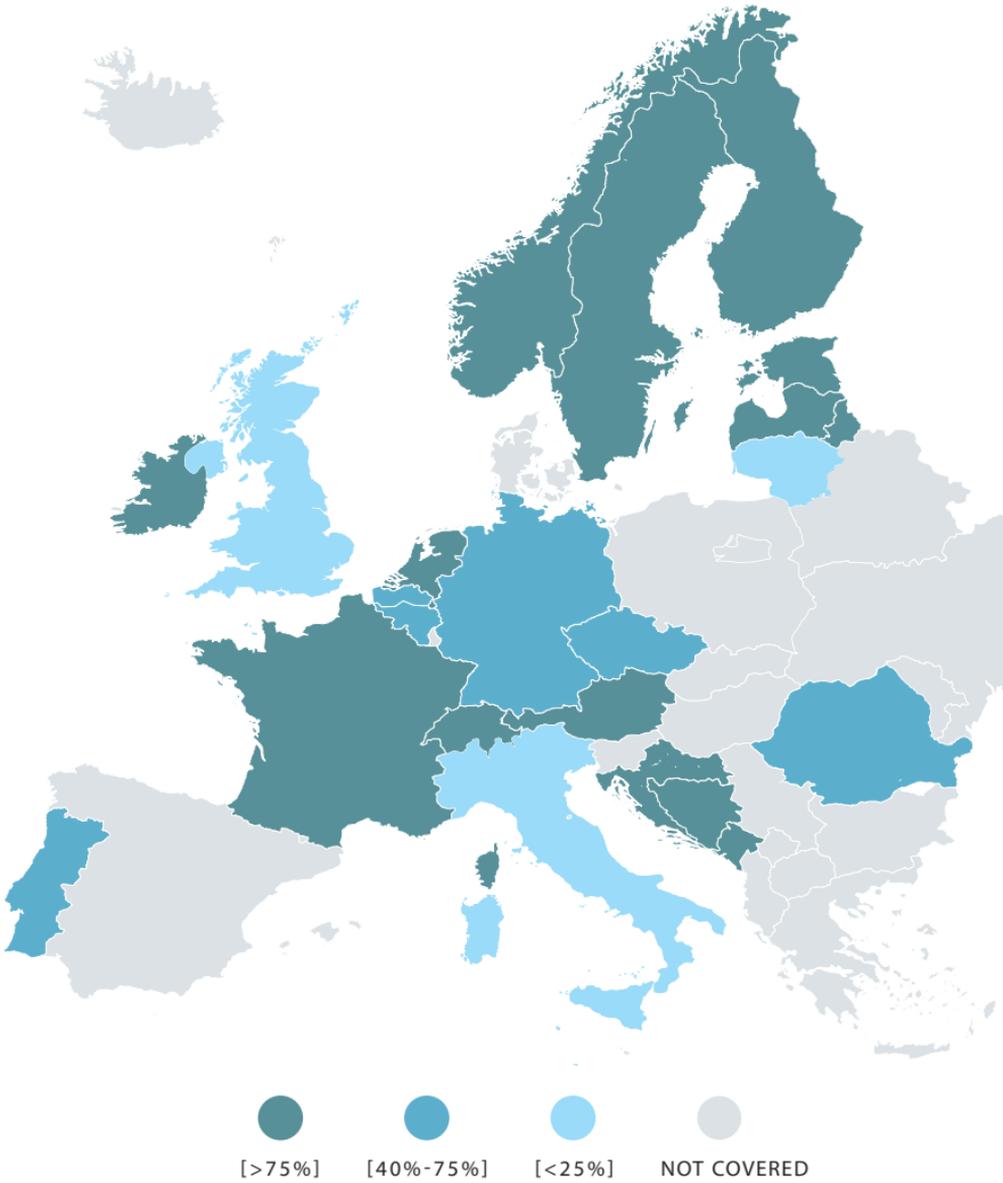
This is - as far as the Observatory knows - the largest pan-European data sample of financing plans of fiction films available to date.

While certain caveats must be considered when interpreting the data, it appears to be of high quality and is sufficiently comparable among countries thanks to an underlying common methodology.

* Including both 100% national as well as European-majority-led co-productions.

** In the context of the analysis of financing plans Europe (EUR 34) is defined as the 28 EU member states plus Bosnia-Herzegovina, North Macedonia, Iceland, Montenegro, Norway and Switzerland.

Coverage of data sample



Source: OBS, Fiction film financing in Europe: A sample analysis of films released in 2016 (2018)

A note on representivity*

This sample analysis provides data on the overall budget and financing structures of European fiction films which have - as far as the Observatory is aware - never been produced before. There are thus no established benchmark figures that can be used to check the accuracy of the analysis results.

The Observatory and EFARN members have however undertaken a significant effort to collect data of good quality and to make it comparable across countries. Plausibility checks were performed both at the pan-European and at country levels.

While it is impossible to make a conclusive assessment about the representivity of the data sample, the Observatory and EFARN regard the size and the quality of the data sample as sufficiently high to produce **valid big-picture insights** into how European fiction films released in 2016 were financed, both at the pan-European and at the market cluster level.

It is however important to address a few caveats with regard to the interpretation of the analysis results.

* Please refer to full report for a detailed description of the methodology and the caveats of the analysis.

By definition, only films for which national film agencies actually do have financing plans could be included in the analysis. In most cases this applies primarily to films funded by the national film agency. This of course introduces a ***selection bias*** to the analysis which **may exaggerate the importance of direct public funding** in the analysis results.

One also has to recognise that the overall analysis results on the pan-European level, and within the large market cluster, are heavily influenced by the over-proportional weight and the special characteristics of French films (***'French bias'***):

French films represent 36% of the sample films and 52% of the cumulative sample financing volume.

At the same time, the analysis reveals that broadcaster financing plays an exceptionally prominent role in film financing in France while direct public funding plays a comparatively limited role compared to most other European markets.

In order to address this bias, analysis results are shown - in case of substantial differences - in a two-fold manner: once for the full data sample including French films; and once for the data sample excluding French films.

Cluster definitions

As budgets and financing structures are expected to differ among individual countries depending among other aspects on their market size, indicators are analysed by market clusters based on annual admission levels:

Market clusters	Admissions in 2016
Small markets	< 10 million
Medium-sized markets	[10 million to 50 million[
Large markets	> 50 million

Similarly, financing structures are expected to differ between films with different budget size. Indicators are hence also analysed by budget types according to the following categorisation scheme:

Film budget types	Budget bandwidth in EUR
Micro-budget films	< 500'
Low-budget films	[500' to 1 million[
Medium-budget films	[1 million to 3 million[
High-budget films	[3 million to 10 million[
Super-high-budget films	[10 million to 30 million[
Blockbuster-budget films	> 30 million

THE
EURO
LAND

PEAN
FILM
SCAPE

is culturally
diverse

and very
fragmented

Europe is culturally diverse.

Take languages. The European Union alone counts 24 official languages and more than 60 regional or minority languages.

The film landscape in Europe reflects this cultural diversity not only in artistic expression but also in film volume. The Observatory estimates that around 1 500 fiction and more than 700 theatrical feature documentaries are produced annually in wider Europe (including e.g. Russia and Turkey)*.

These films are produced by a large number of mostly small and medium-sized companies constituting a heavily fragmented production landscape.

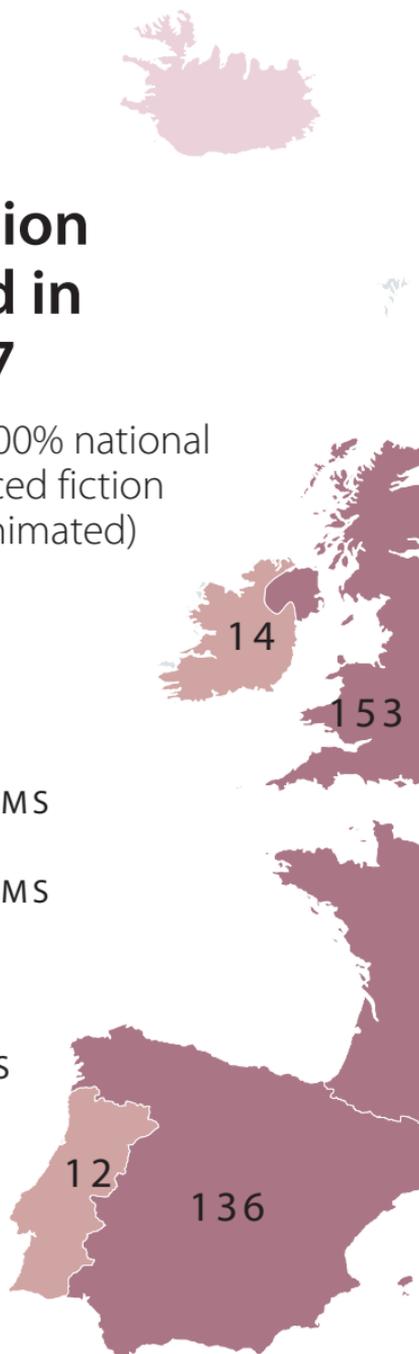
The vast majority of European films are primarily exploited in their respective national markets, very few of which share the same language with another market.

From a distribution point of view, Europe is hence fragmented into a large number of separate national markets which differ significantly in terms of size, ranging from 20 000 annual admissions in Liechtenstein to over 200 million in France or Russia.

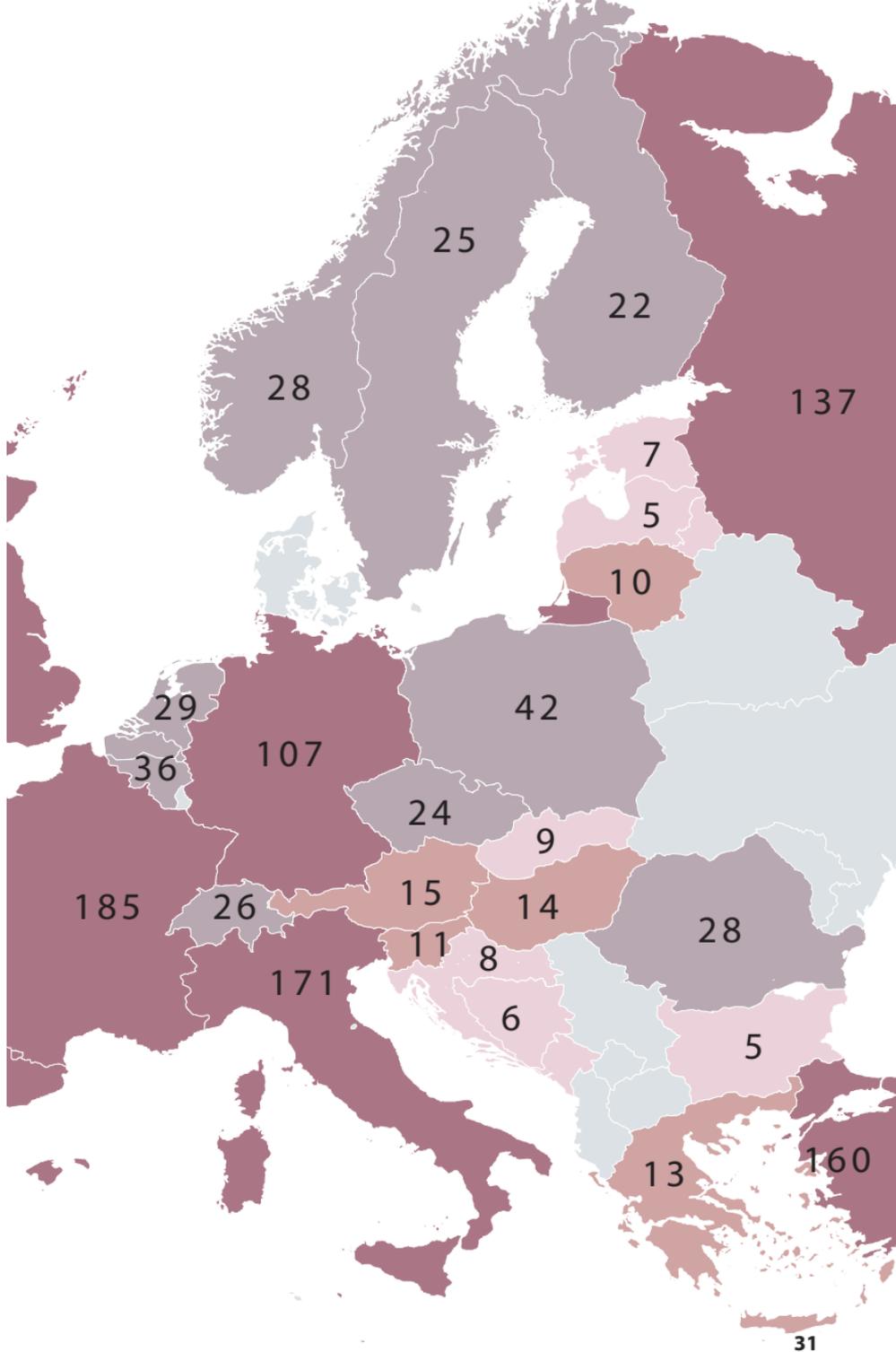
* Of which around 1 100 fiction films and 600 feature documentaries (100% national films and majority co-productions) are produced in the 28 EU member states.

Number of fiction films produced in Europe in 2017

Estimated number of 100% national and majority co-produced fiction films (live-action and animated)



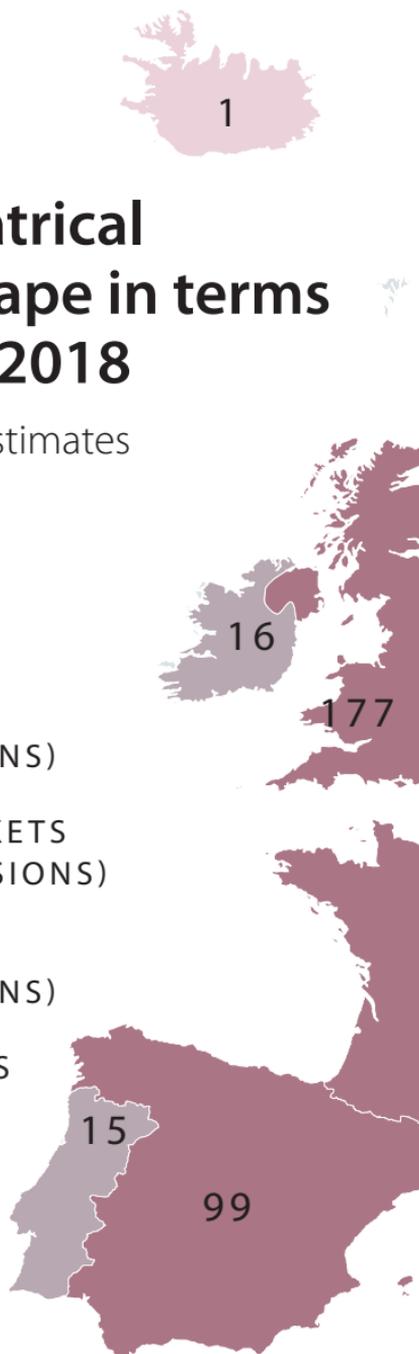
Source: OBS, Observatory Yearbook 2018



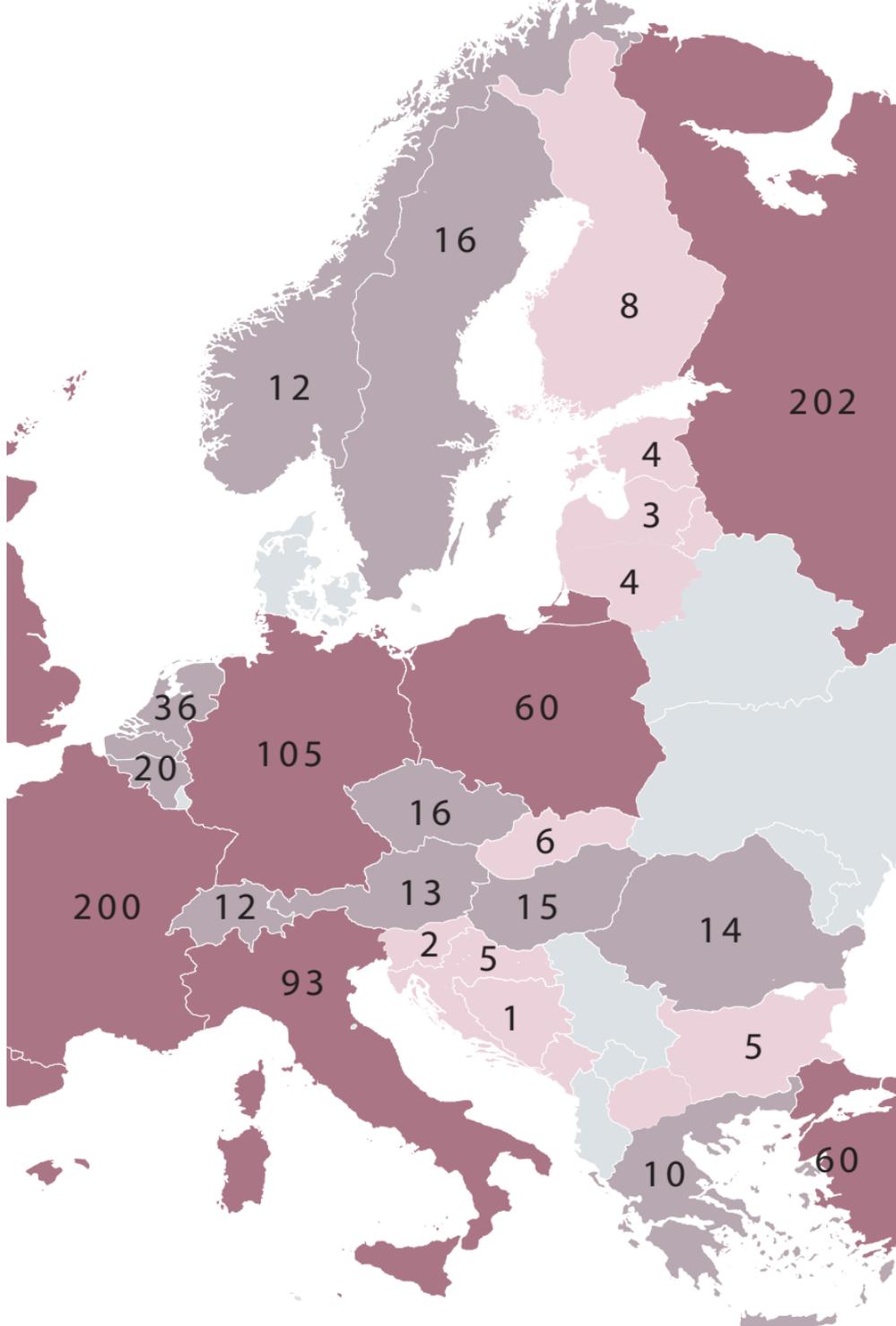
European theatrical market landscape in terms of admissions 2018

In million. Provisional estimates

-  LARGE MARKETS (> 50 MIO. ADMISSIONS)
-  MEDIUM-SIZED MARKETS (10 – 50 MIO. ADMISSIONS)
-  SMALL MARKETS (< 10 MIO. ADMISSIONS)
-  NOT COVERED BY OBS



Source: OBS, Observatory Yearbook 2018



which leads
to significant
differences in
exploitation
potential

and
budgets

The large number of culturally diverse film productions and the fragmented distribution landscape naturally lead to significant differences in the exploitation potential for individual films.

Out of the 1 053 European fiction films produced in 2016 whose theatrical release could be tracked in the Observatory's LUMIERE database, only 39 films managed to sell more than 1.5 million tickets* while the vast majority of European films sold less than 250 000.

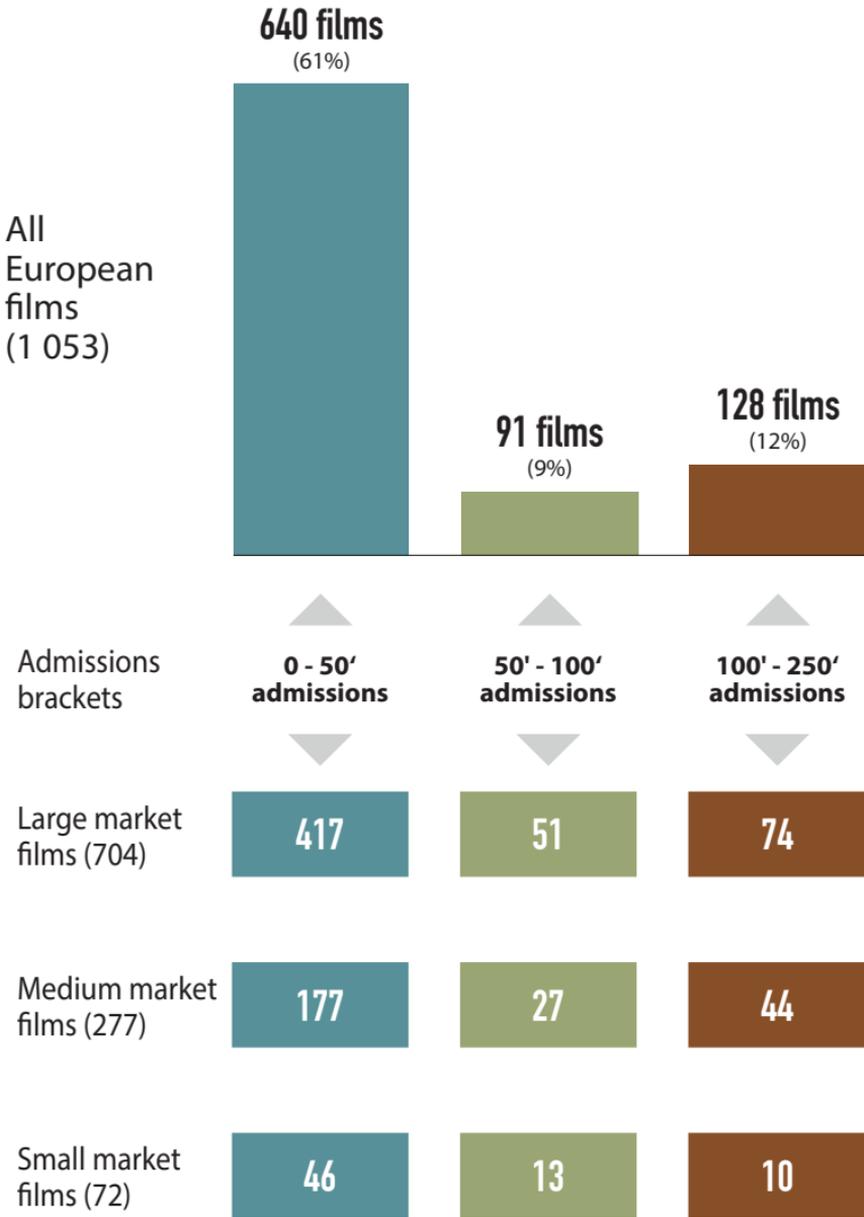
Only films produced in a large European market managed to surpass 1 million admissions while hardly any film originating from a small or medium-sized country managed to do so.

Not surprisingly therefore, European films are produced with widely differing costs. While the median budget for a European live-action film amounted to EUR 2.07 million in 2016, average budgets are significantly higher in large markets and lower in small markets.

43% of the 445 sample film for which financing plan data were available were produced with a budget between EUR 1 to 3 million, while the budget of 35% of the sample films exceeded EUR 3 million.

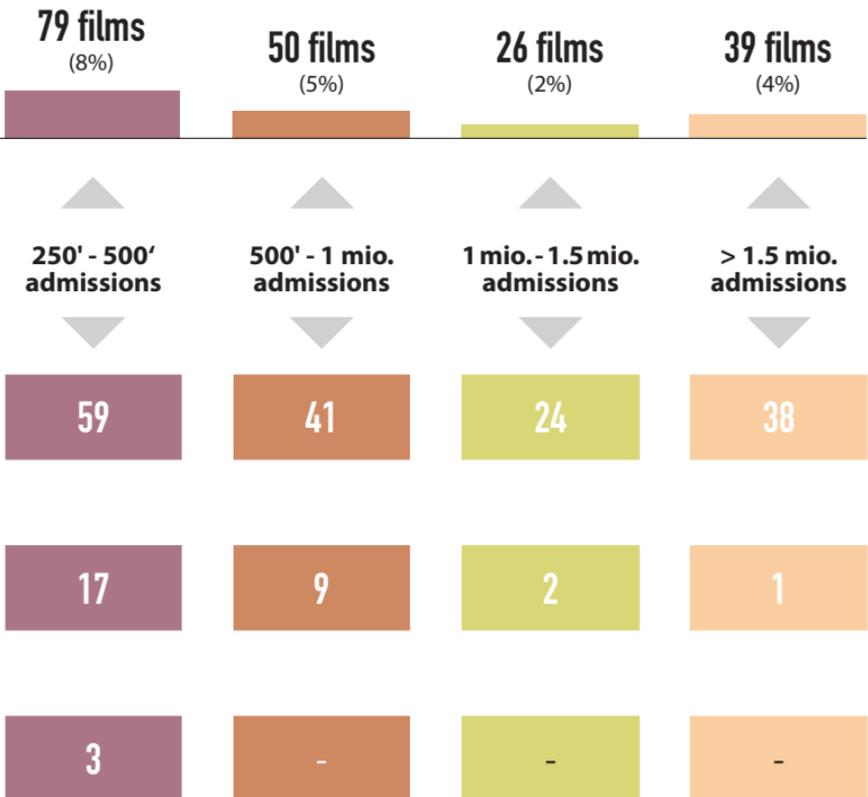
* Cumulative worldwide admissions generated between 2016 and 2018 as tracked by LUMIERE which covers more than 30 European and 12 non-European markets.

NUMBER OF EUROPEAN LIVE-ACTION FILMS PRODUCED IN 2016 BY ADMISSION BRACKETS



Source: OBS / LUMIERE

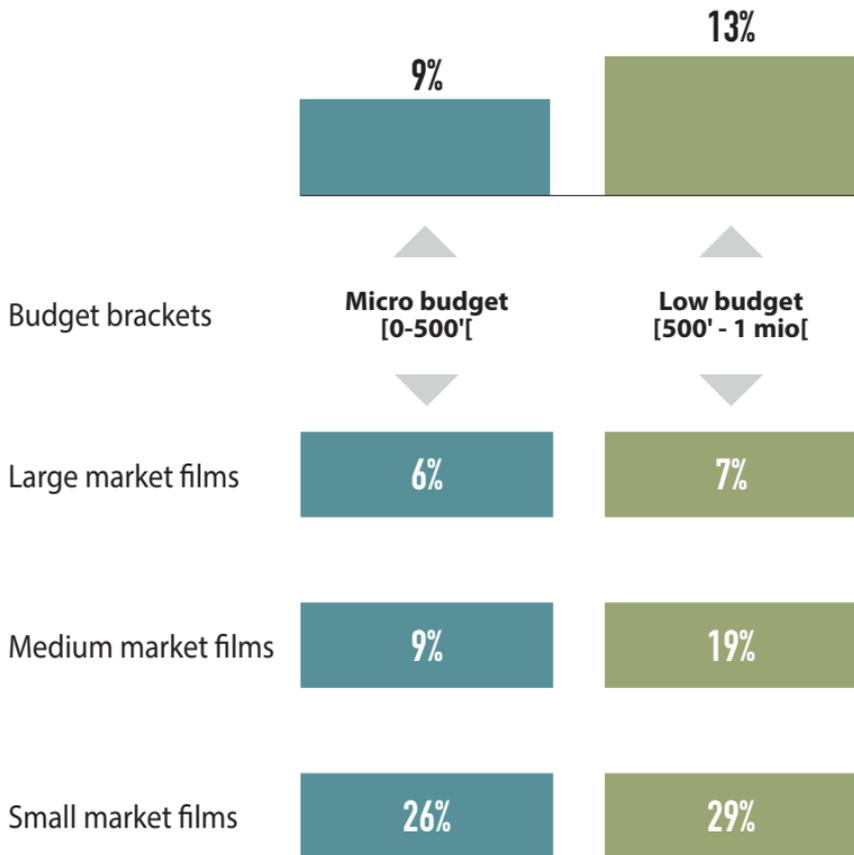
Remark: Admission brackets refer to cumulative worldwide admissions (2016 to 2018) to films produced in 2016. Worldwide admissions refer to admissions in more than 30 European and 12 non-European markets (US, CA, CN, KR, AU, NZ, AR, BR, CO, CL, MX, VE) as tracked in LUMIERE.



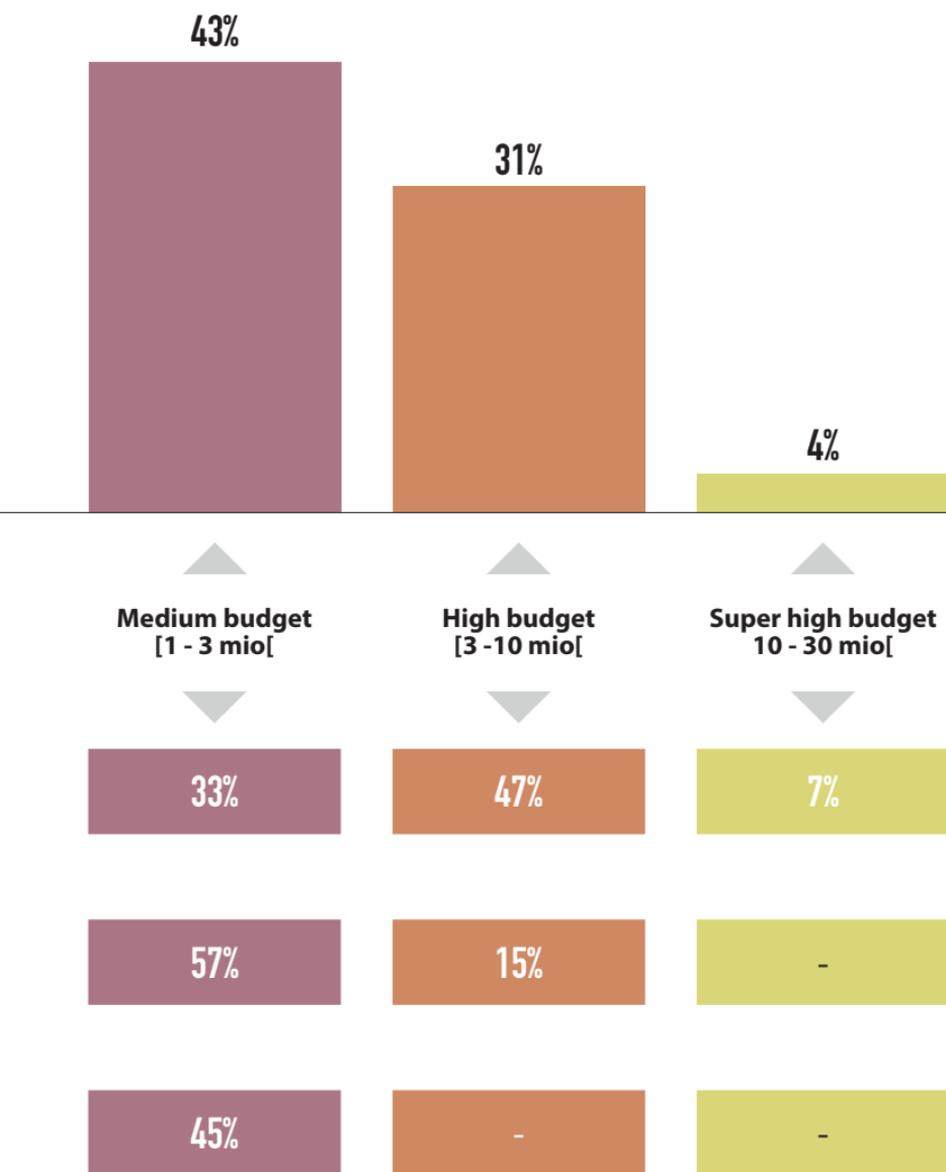
ESTIMATED* BREAKDOWN OF EUROPEAN LIVE-ACTION FILMS RELEASED IN 2016 BY BUDGET BRACKETS

*Estimate is based on the distribution of the 445 sample films for which detailed financing plan data were available.

All European sample films*



Source: OBS, Fiction film financing in Europe: A sample analysis of films released in 2016 (2018)



PRI

film

VATE

financing

Producers

/prə'dju:sə(r)s/

In the context of this analysis, producers are defined as persons, either corporate or individual, responsible for developing, packaging and making the film.

Producers ultimately own and control the copyright of the finished product. This includes both the lead producer as well as co-producers while excluding production service companies which are only engaged by the production company to make the film on its behalf without investing their own equity.

Producer investments

/prə'dju:sə(r) in'ves(t)mənts/

In the context of this analysis, producer investments refer to cash / equity invested by producers in the production of the film, giving them an equity share in the film, i.e. (partial) ownership of the negative and copyrights linked to the film. Producers' equity generally comes last in the recoupment schedule.

Please note that this category combines all equity / cash investments from producers based either in the main production country or one of the minority co-producing countries. To avoid double counting producer investments from broadcasters are excluded, as they are treated as broadcaster investments for the purpose of this analysis.

**Producers
carry around
15% of the
financing
volume**

Not surprisingly it is standard practice for producers to invest in their own films, although this is not always the case as one in ten of the sample films was produced without any direct producer investment.

In total, (co-)producers invested EUR 216 million of the cumulative sample financing volume of EUR 1.41 billion, representing 15%* of the total cumulative funding volume of the data sample.

An analysis of producer investments by market cluster reveals that the financing share carried by producers tends to increase with market size and is lowest in small markets.

Also, producer investments appear proportionally more significant for micro- and low budget films as producers generally carried a proportionally lower financing share in the case of medium and high budget films.

* Including co-production investments of national broadcasters would increase the financing share of producer investments to 21%.

92%

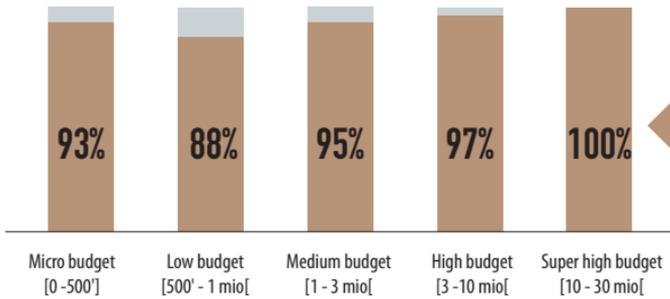
OF **SAMPLE FILMS** PARTLY
FINANCED THROUGH
PRODUCER INVESTMENTS

15%

OF **SAMPLE INVESTMENT
VOLUME** FINANCED THROUGH
PRODUCER INVESTMENTS

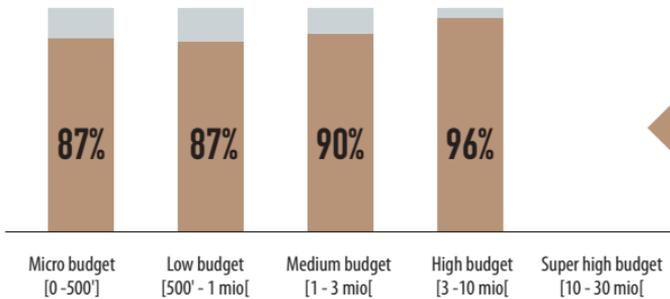
SHARE OF FILMS WITH PRODUCER INVESTMENTS

IN LARGE MARKETS



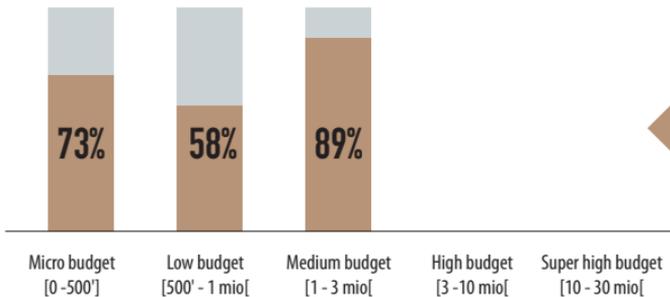
96%
of films

IN MEDIUM MARKETS



90%
of films

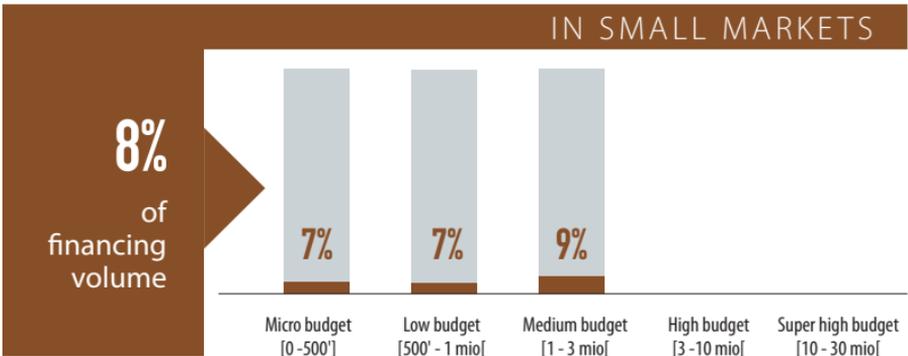
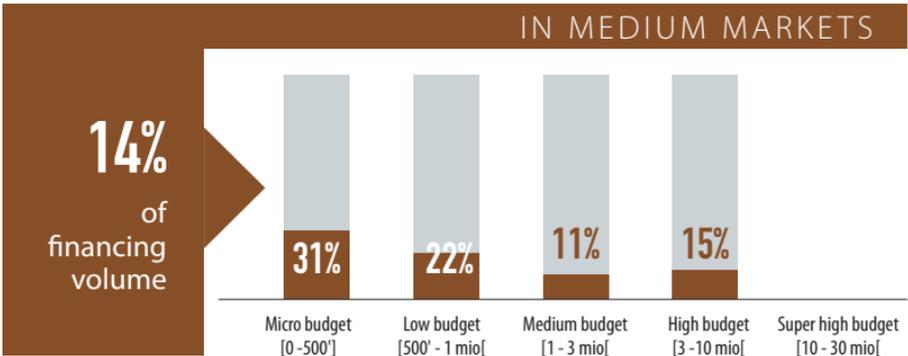
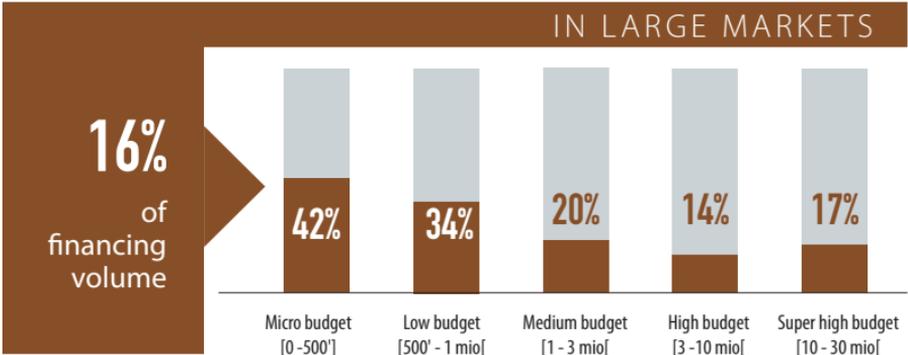
IN SMALL MARKETS



76%
of films

Source: OBS, Fiction film financing in Europe: A sample analysis of films released in 2016 (2018)

SHARE OF PRODUCER INVESTMENTS IN FINANCING VOLUME



Pre-sale

/prē-'sāl/

In the context of this analysis, a pre-sale is defined as the sale of distribution rights (licence to distribute) that takes place at any time prior to the completion of a film production. To be considered as financing funds, receipts from pre-sales have to go into the production account in order to be used to finance the production, rather than into the collection account.

Please note that 'pre-sales' refers to the cumulative amount of all financing raised from pre-sales of national distribution rights in the (co-)producing /-financing countries as well as international, multi-territory presales. In order to avoid double counting pre-sales to broadcasters based in (co-)producing countries are counted as broadcaster investments rather than pre-sales for the purpose of this analysis.

Pre-sales are vital

at least the national ones

The importance of pre-sales in the financing of European films has been one of the key aspects in the discussion on territoriality in the context of the digital single market.

It was argued that the pre-sale of individual territory distribution rights were vital for the European film industry.

Our data analysis confirms this assessment.

The vast majority of sample films (seven out of ten) was partly financed by pre-sales.

In total, pre-sales contributed EUR 222 million to the cumulative sample financing volume of EUR 1.41 billion, representing 16%* of the total cumulative funding volume of the data sample.

This represents a vital share of film financing. Indeed, outside of France pre-sales (excluding national TV rights) represent the second most important financing source of European fiction films.

* Including pre-sales to national broadcasters would increase the financing share of pre-sales to 36%, making it the most important financing form in the pan-European data sample due to the importance of TV pre-sales in France.

70%

OF **SAMPLE FILMS** PARTLY
FINANCED THROUGH PRE-SALES

16%

OF **SAMPLE INVESTMENT VOLUME**
FINANCED THROUGH PRE-SALES

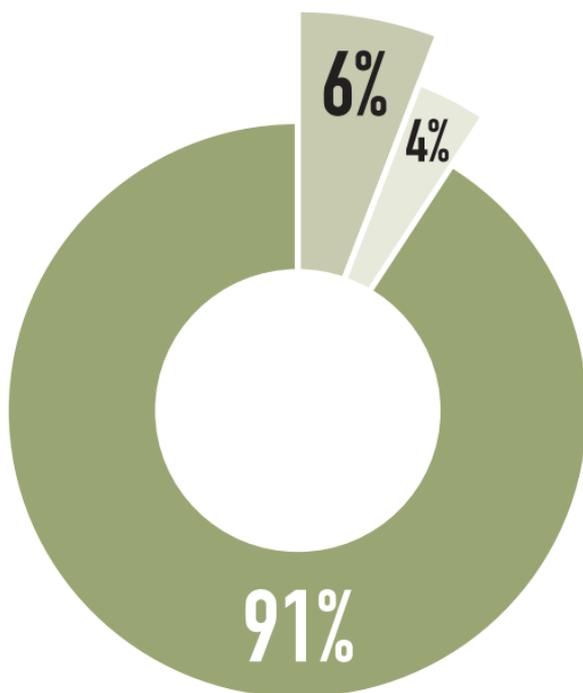
The data analysis suggests that pre-sales financing is mostly raised only in the national market, i.e. pre-sales for the main country of origin, as illustrated by the fact that 91% of the total sample pre-sales financing volume came from the main country of origin*.

While one in five sample films managed to make a pre-sale outside the main country of origin, the raised amounts accounted for only 6% of total pre-sales.

Only one in 10 sample films financed its production through a multi-territory pre-sale. Cumulatively, such pre-sales accounted for 4% of the total pre-sales financing volume.

This would be consistent with the approach to use national pre-sales to finance the production while keeping international rights for future exploitation.

* In order to avoid double counting films, the Observatory allocates to each film a unique (main) country of origin. Adopting a pragmatic approach, the Observatory considers as the main country of origin the country out of which the film is financed. In the case of international co-productions the film is assigned to the country which provides the majority share of production financing.



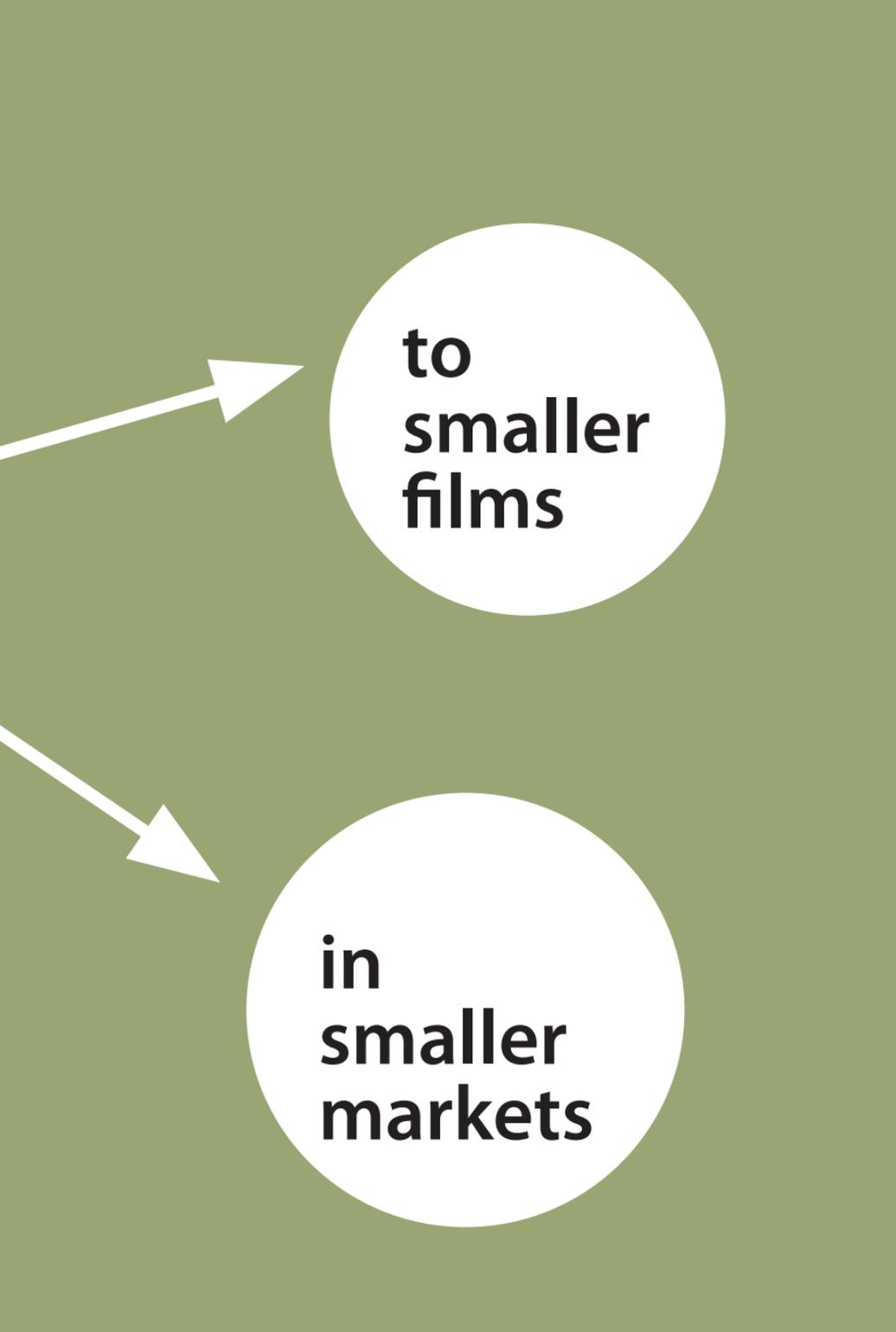
- Pre-sales - main country of origin
- Pre-sales - minority co-producing / financing countries
- Pre-sales - multi-territory

BREAKDOWN OF PRE-SALE FINANCING VOLUME BY ORIGIN

Source: OBS, Fiction film financing in Europe :
A sample analysis of films released in 2016 (2018)

but
pre-sales
are **less**
accessible



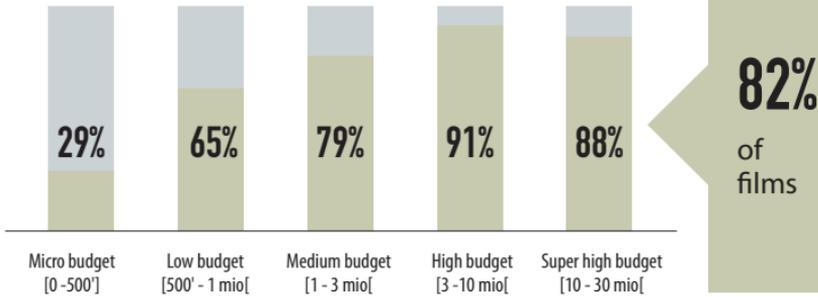


**to
smaller
films**

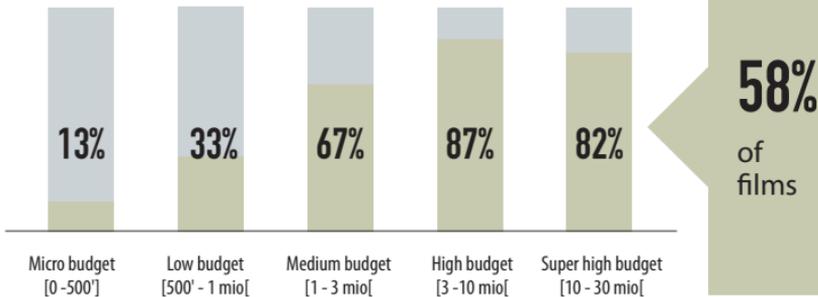
**in
smaller
markets**

SHARE OF FILMS WITH PRE-SALES

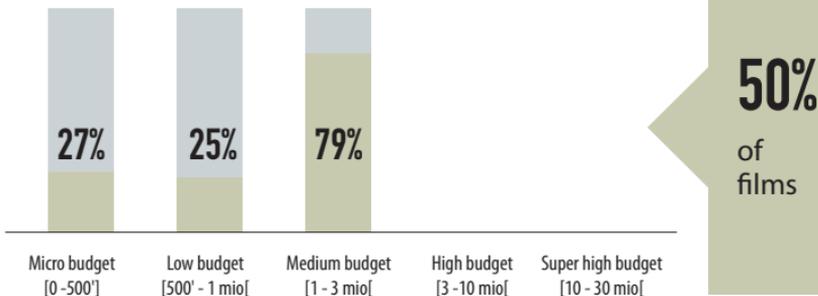
IN LARGE MARKETS



IN MEDIUM MARKETS



IN SMALL MARKETS

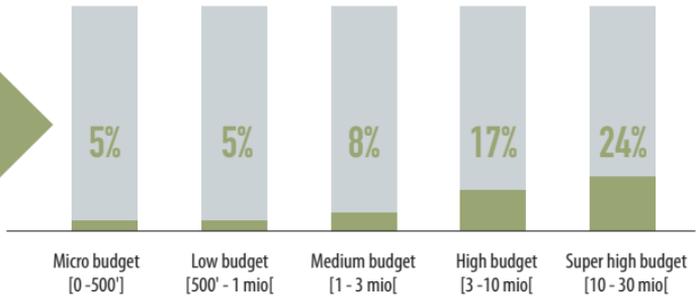


Source: OBS, Fiction film financing in Europe: A sample analysis of films released in 2016 (2018)

SHARE OF PRE-SALES IN FINANCING VOLUME

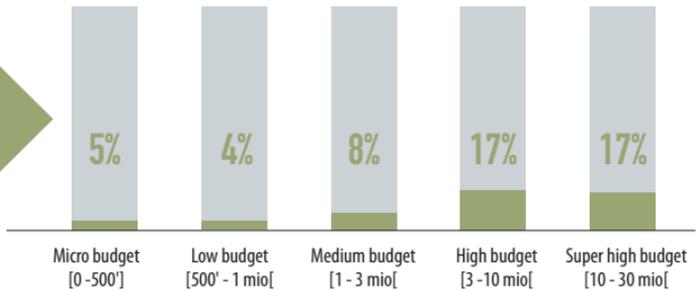
IN LARGE MARKETS

17%
of
financing
volume



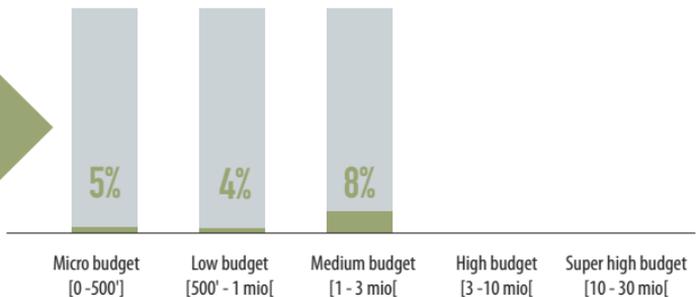
IN MEDIUM MARKETS

11%
of
financing
volume



IN SMALL MARKETS

8%
of
financing
volume



Broadcaster investments

/'brɔ:d,kɑ:sə(r) in'ves(t)mənts /

In the context of this analysis, broadcaster investments can take two different forms: either pre-sales or (co-)production equity investments undertaken by broadcasters located in any of the co-producing countries. This is consistent with regulatory approaches which impose obligations for broadcasters to invest in films but generally leave it up to broadcasters to decide whether to do this by co-producing a film or financing it through pre-sales.

Please note that TV pre-sales outside of the co-producing countries would be taken into consideration in the 'pre-sales' category rather than as 'broadcaster investments'.

Broadcaster financing is widespread

particularly in France

From a pan-European perspective it is evident that broadcasters are essential in financing European feature films.

Indeed, three out of four sample films were partly financed by broadcasters.

Broadcaster investments cumulatively accounted for 25%* of the total sample financing volume, making it by far the most important financing source for fiction films apart from direct public funding on a pan-European level.

However, broadcaster financing is much more significant in France than in most other European countries and excluding French films from the analysis changes the analysis results:

While the vast majority of films (70%) still relies on broadcasters to partially finance their budgets, broadcaster investments accounted for only 11%* of financing, rendering it only the fourth largest financing source of European fiction films outside of France.

* Broadcasters contributed EUR 358 million to the total sample financing volume of EUR 1.41 billion. Excluding French films, broadcasters contributed EUR 76 to the remaining sample financing volume of EUR 679 million.

75%

OF **SAMPLE FILMS** PARTLY
FINANCED BY BROADCASTERS

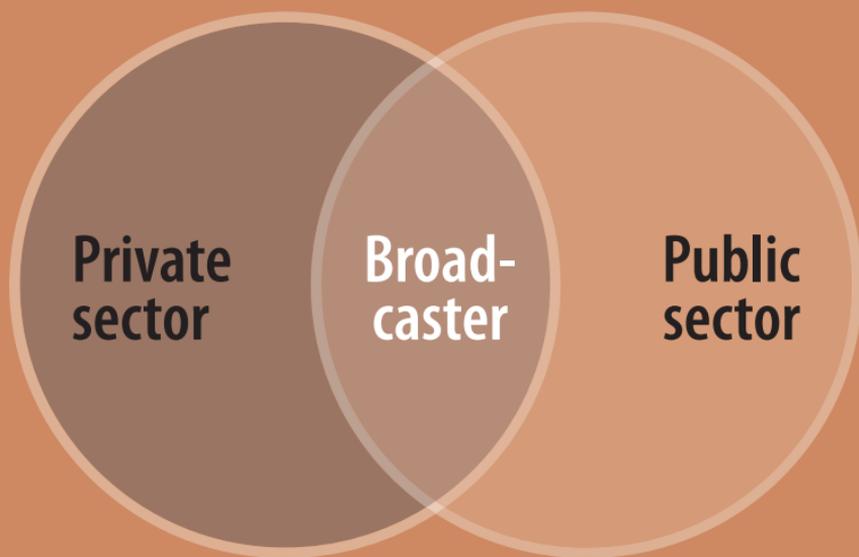
* 70% OUTSIDE OF FRANCE

25%

OF **SAMPLE INVESTMENT VOLUME**
FINANCED BY BROADCASTERS

* 11% OUTSIDE OF FRANCE

as broadcasters are obliged to invest



giving them
a semi-public character

The involvement of broadcasters in financing European films is however not purely driven by economic rationale.

The vast majority of European countries has imposed obligations on broadcasters to invest in cinematographic and audiovisual production.

A recent Observatory mapping of national rules for the promotion of European works found that such financial investment obligations existed in 26 out of the 31* countries analysed.

Yet, in 10 of these countries the obligation is not mandatory but optional, which means that broadcasters can choose between the financial investment (direct contribution) or

- ▶ reserving a percentage of their transmission time (at least 10%) for independent works;
- ▶ paying a levy (indirect contribution), usually to the national film / audiovisual fund.

In the remaining 16 countries, broadcasters are obliged to directly contribute to film production, though in the majority of cases this obligation applies only to public service broadcasters.

* 28 EU members plus Iceland, Norway and Switzerland.

The way these obligations are defined differs from country to country. It is therefore difficult to comment on their impact on film financing.

However, our sample analysis of financing plans provides some hints.

Obligations do not seem to increase the number of films which are partly financed by broadcasters but seem to have an impact on the financing amounts.

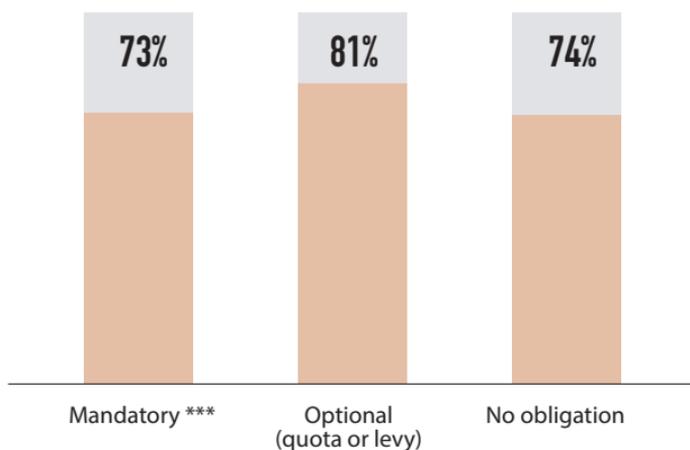
Broadcasters financed the vast majority of sample films, no matter whether direct film investment was mandatory, optional or completely voluntary.

In contrast, broadcasters contributed a significantly higher share to the total financing volume in sample countries* with mandatory or optional direct investments obligations, compared to the few countries where no such obligations exist.**

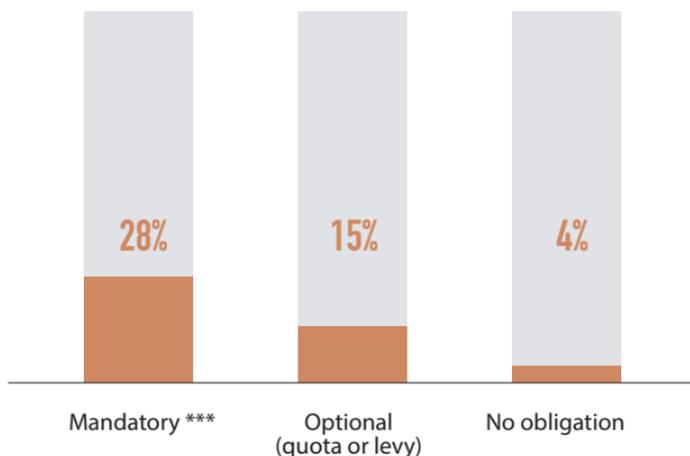
* The financing data sample covers eight of the 16 countries with mandatory direct financial investment obligations, six out of the 10 countries where a direct financial contribution is an alternative to quota or levy obligations as well as four of the five markets where no such obligations exist.

** The high share in the 'mandatory obligation cluster' is due to the exceptionally high importance of broadcaster investments in France and the heavy weight of French films in the data sample.

SHARE OF SAMPLE FILMS WITH BROADCASTER FINANCING BY OBLIGATION CLUSTERS



BROADCASTER SHARE IN SAMPLE FINANCING VOLUME BY OBLIGATION CLUSTERS



*** for public and / or private broadcasters

Source: OBS

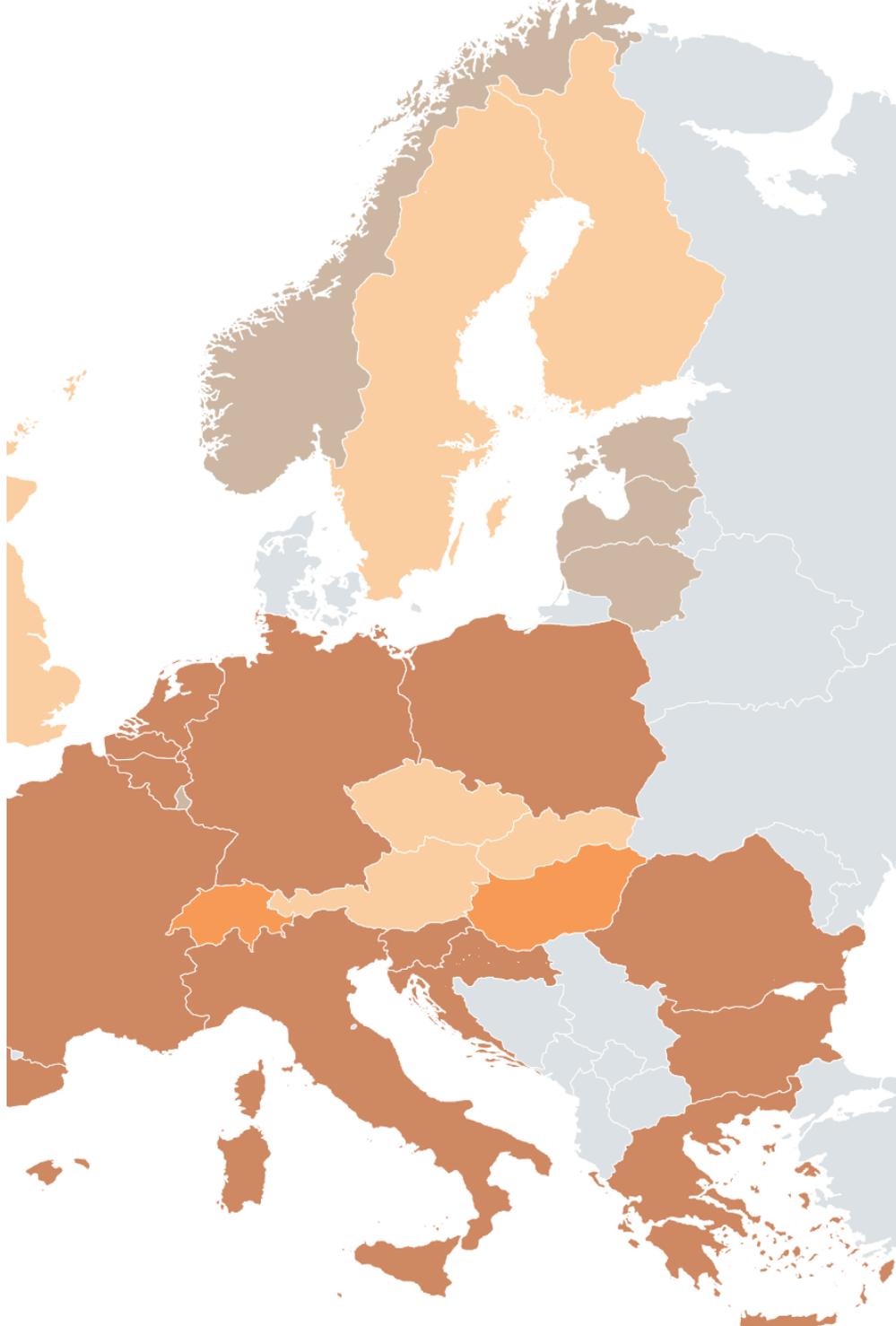


Financial investment obligations for public service broadcasters

in independent European works

- MANDATORY
- OPTIONAL (LEVY)
- OPTIONAL (QUOTA)
- NO OBLIGATION
- NOT COVERED

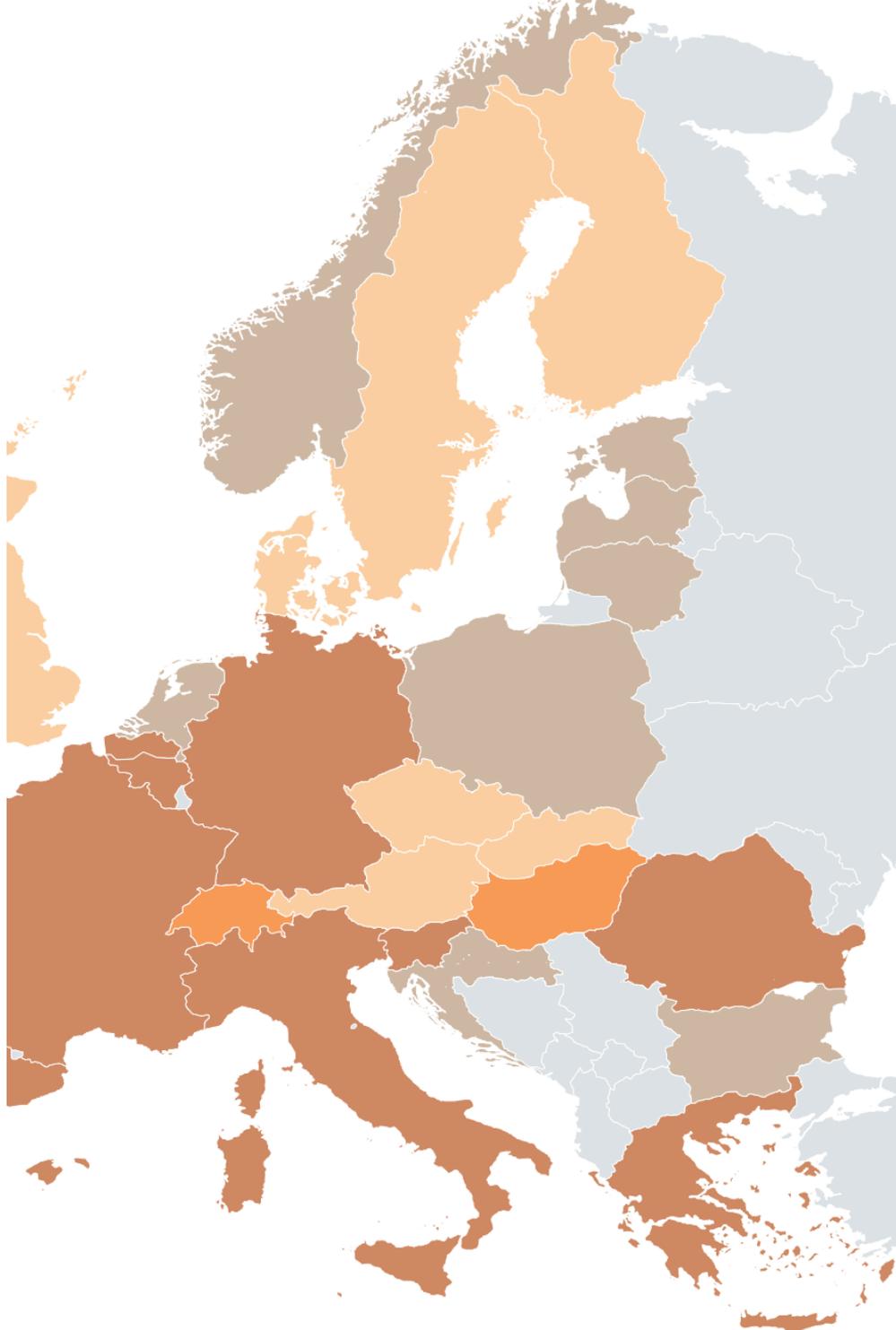




Financial investment obligations for commercial broadcasters in independent European works

- MANDATORY
- OPTIONAL (LEVY)
- OPTIONAL (QUOTA)
- NO OBLIGATION
- NOT COVERED





Broadcasters finance all types of films

except for micro-budget films

The analysis of the full data sample suggests that the lower the budget the more difficult it is to attract broadcaster financing: only one in three micro-budget and 58% of low-budget films managed to do so, compared to eight out of ten films with higher budgets.

Similarly, the significance of national broadcaster investments rises in tandem with budgets. The higher the budget, the higher the share of broadcaster financing.

However, when one excludes French films from the analysis, the picture is less clear.

While the difficulty of micro-budget films to raise broadcaster financing is confirmed, it seems that outside of France broadcaster financing is particularly important for medium budget films. This category features both the highest share of films as well as budget share financed by broadcasters among all budget types.

IMPORTANCE OF BROADCASTER INVESTMENTS BY BUDGET TYPE - TOTAL SAMPLE

All sample films	"Micro budget [0 -500']"	"Low budget [500' - 1 mio["
Total sample films	40	59
Films with broadcaster investments	12	34
<i>% share</i>	30%	58%
Cumulative financing volume of all films	11 963 894	44 132 815
Cumulative funds from broadcaster inv.	715 038	4 936 257
<i>% share</i>	6%	11%
Avg. budget of sample films	299 097	748 014
Avg. amount of broadcaster inv. (when available)	59 587	145 184
<i>% share</i>	20%	19%

IMPORTANCE OF BROADCASTER INVESTMENTS BY BUDGET TYPE - EXCLUDING FRANCE

Excluding French films	"Micro budget [0 -500']"	"Low budget [500' - 1 mio["
Total sample films	27	50
Films with broadcaster investments	10	30
<i>% share</i>	37%	60%
Cumulative financing volume of all films	8 819 252	37 110 867
Cumulative funds from broadcaster inv.	455 038	4 048 382
<i>% share</i>	5%	11%
Avg. budget of sample films	326 639	742 217
Avg. amount of broadcaster inv. (when available)	45 504	134 946
<i>% share</i>	14%	18%

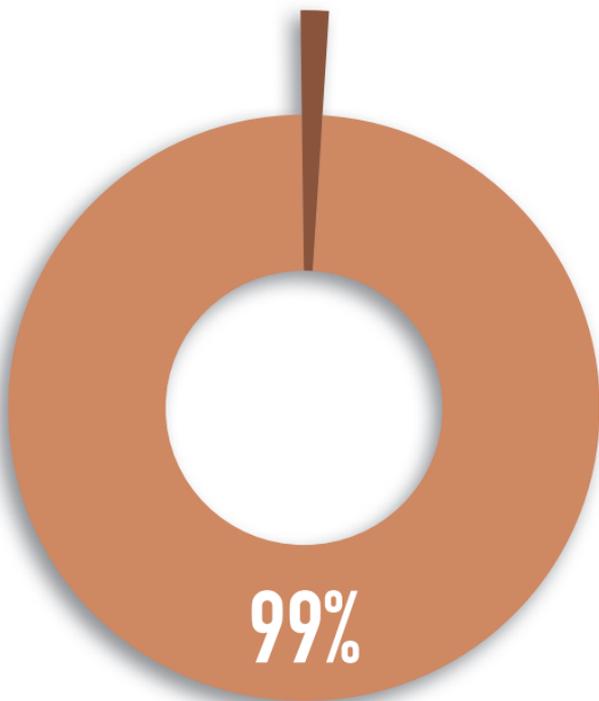
Source: OBS, Fiction film financing in Europe: A sample analysis of films released in 2016 (2018)

"Medium budget [1 - 3 mio]"	"High budget [3 -10 mio]"	"Super high budget [10 - 30 mio]"	Grand Total
191	139	16	445
158	117	12	333
83%	84%	75%	75%
359 104 946	762 725 592	233 795 730	1 411 722 976
63 904 613	218 529 132	69 841 942	357 926 982
18%	29%	30%	25%
1 880 131	5 487 234	14 612 233	3 172 411
404 460	1 867 770	5 820 162	1 074 856
22%	34%	40%	34%

"Medium budget [1 - 3 mio]"	"High budget [3 -10 mio]"	"Super high budget [10 - 30 mio]"	Grand Total
143	62	4	286
120	41	0	201
84%	66%	0%	70%
257 686 068	315 224 806	59 769 037	678 610 030
36 070 839	34 964 320	0	75 538 579
14%	11%	0%	11%
1 802 000	5 084 271	14 942 259	2 372 762
300 590	852 788	0	375 814
17%	17%	0%	16%

**Broadcaster
financing
is only
available
in main
country
of origin**

particularly in France



- Broadcaster investments from main country of origin
- Broadcaster investments from minority co-producing country

BROADCASTER INVESTMENTS BY ORIGIN

Source: OBS, Fiction film financing in Europe:
A sample analysis of films released in 2016 (2018)

**Broadcaster
financing
takes
either the
form of
pre-sales
or co-
productions**

On a pan-European level, broadcasters financed fiction film production primarily through pre-sales rather than (co-) production investments.

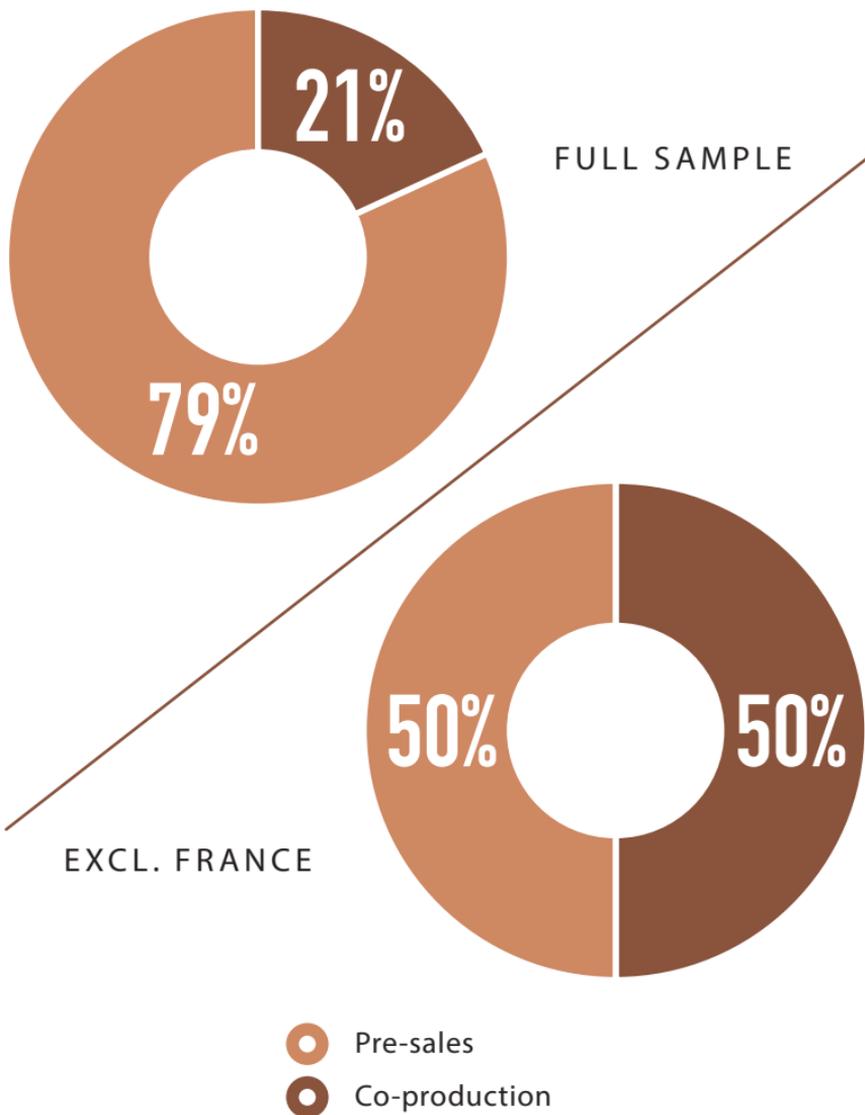
This seeming dominance of broadcaster pre-sale financing is however exclusively due to the French market*.

Outside of France the breakdown is a 50/50 split, indicating significant differences between individual markets.

It is indeed interesting to observe that generally, according to the sample data, one of the two broadcaster investment forms clearly dominates in any country.

Only three sample countries showed a fairly balanced mix between broadcaster pre-sales and direct production investments.

* Nine out of ten French films with broadcaster financing were financed through broadcaster pre-sales rather than as a co-production.



BROADCASTER PRE-SALES VS. CO-PRODUCTION

Source: OBS, Fiction film financing in Europe: A sample analysis of films released in 2016 (2018)

VOD
financing
is (still)
insignificant

at least, for films
released in 2016

Only six of the 445 sample films were co-produced with a VOD service provider.

Cumulatively VOD service providers invested EUR 850 000 into these six films, hence contributing 0.1% to the total sample financing volume.

While the data sample does not allow for the identification of VOD specific pre-sales, it seems permissible to conclude that VOD services did not play a relevant role in financing European fiction films released in 2016.

It seems plausible to assume that the importance of VOD services in financing European fiction film production has increased since then, particularly as financial investment obligations have been imposed on VOD services in 10 countries and general obligations* exist in another 10 countries as of January 2019.

It will be interesting to monitor the role and impact of this fast growing market segment on the financing of European films.

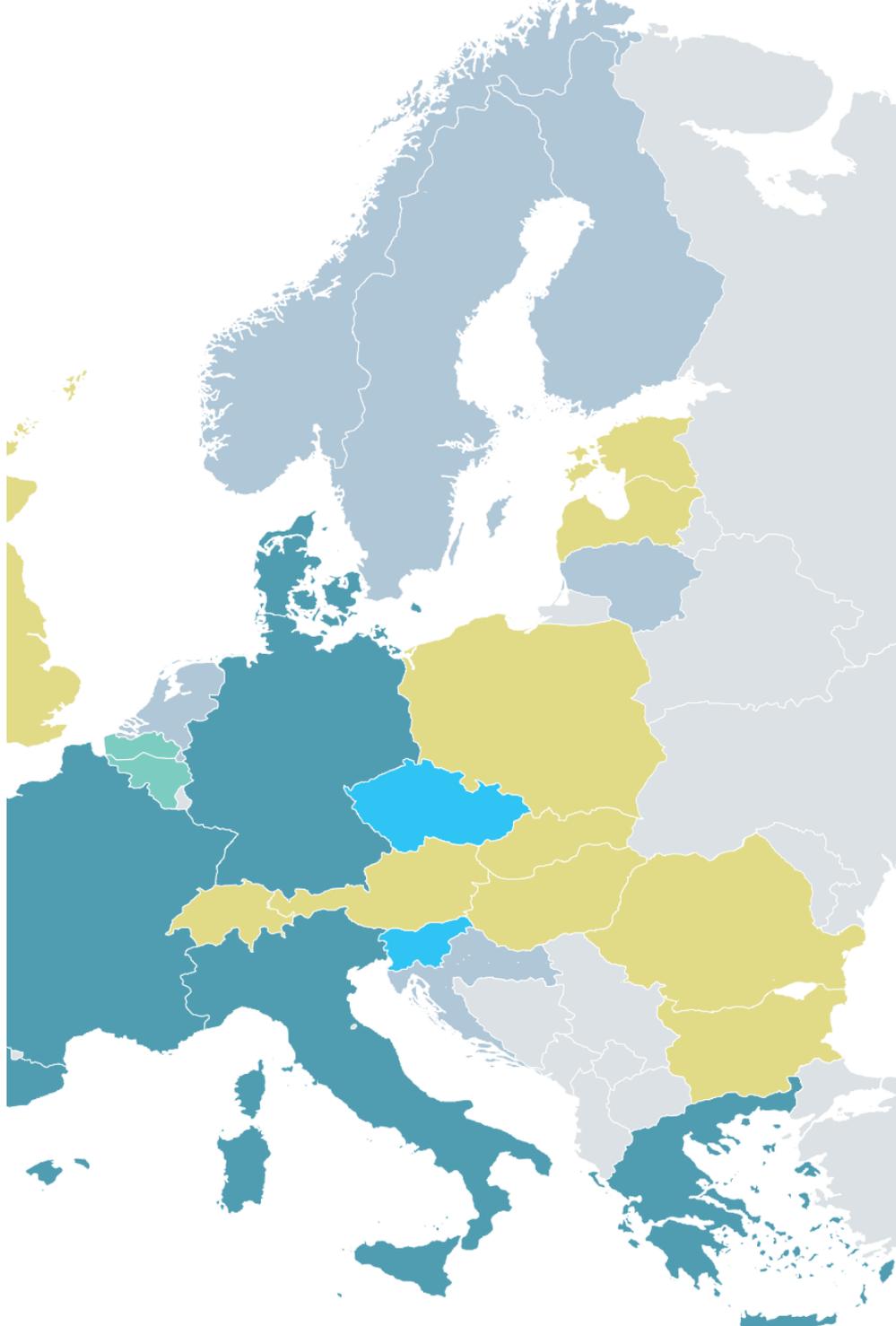
* Example of a general obligation: 'VOD services shall promote, where practicable and by appropriate means, the production of and access to European works.'

Financial investment obligations for VOD services in independent European works

- MANDATORY
- OPTIONAL (LEVY)
- OPTIONAL (QUOTA)
- GENERAL OBLIGATION
- NO OBLIGATION
- NOT COVERED



Source: OBS, Mapping of national rules for the promotion of European works in Europe (2019)



Private equity investments

/'praɪvət 'ekwəti ɪn'ves(t)mənts/

In the context of this analysis private equity investments refer to all **non-tax shelter-related** equity investments from national private investors including for example private equity funds, venture capital funds or individual private investors.

Private equity is negligible

in most countries

In light of increasing pressure on broadcasters and the plunge of physical video markets, discussions have often called for finding ways to make the European film industry more attractive for private equity investors.

However, only one in ten sample films was partly financed with private equity – that is private equity investments which are not related to any tax shelter – and only 1% (EUR 16 million) of the cumulative financing volume was raised from private equity.

While private equity therefore plays a largely negligible role in financing from a pan-European perspective, it can represent a relevant source of financing in a limited number of individual countries.

This is the case in the Netherlands for instance, where half of the films were partly financed by private investors who cumulatively accounted for 8% of the total financing volume.

9%

OF **SAMPLE FILMS** PARTLY
FINANCED THROUGH
PRIVATE EQUITY

1%

OF **SAMPLE INVESTMENT**
VOLUME FINANCED THROUGH
PRIVATE EQUITY

Debt financing

/det 'faɪnænsɪŋ/

In the context of this analysis debt financing refers to all money that is actually owed, including for example loans and deferred payments for goods and services. Debt financing generally comes with fees and interest rates, takes priority recoupment positions (i.e. gets paid back before any equity financiers) and generally does not involve any back-end participation (share in net profits).

Deferments

/dɪ'fɜ:(r)mənts/

The pre-agreed delaying of payment of all or part of a fee, often referring to the producer and / or talent being paid a proportion of their contractual fee out of receipts from distribution / exploitation of the film (either before or after break-even) rather than from the production account, thereby reducing the cash budget.

Gap financing

/gæp 'faɪnænsɪŋ/

Loans provided to finance the gap between a film's budget and the other finance raised. Gap financing is provided against the projected sales estimates relating to unsold territories. This specifically excludes loans discounting rebates, tax credits, tax shelters or pre-sales, all of which are to be taken account of in their respective separate categories. Gap financing is generally provided by banks or specialist private gap funds.

**Debt
financing
is rare
and mostly
comes as
private debt**

but not as bank gap financing

Only 13% of the sample films were partly financed with debt which cumulatively represented only 2% (EUR 23 million) of the total sample financing volume.

While, like private equity, debt plays a largely negligible role in financing European films from a big picture perspective, it can certainly represent an important source of financing for individual films which fail to raise sufficient funds from other sources.

Deferments seem to be the most common form of debt financing but are lower in volume when compared to gap financing.

While 46 sample films were partly financed by deferments, only 18 out of the 445 sample films had gap financing and in only 5 cases was this granted by a bank.

The data suggest that deferment financing is more important to micro and medium budget films while gap financing seems to be more relevant for high and super-high budget films.

13%

OF **SAMPLE FILMS** PARTLY
FINANCED THROUGH DEBT

2%

OF **SAMPLE INVESTMENT VOLUME**
FINANCED THROUGH DEBT

Other private financing sources may matter to individual films but are largely irrelevant from a big picture point of view

Sponsorship

Used by 55 films financing a cumulative amount of EUR 5.2 million

12%
of films

0.4%
of financing volume

In-kind investments

Used by 49 films financing a cumulative amount of EUR 6.2 million

11%
of films

0.4%
of financing volume

Donations / Crowdfunding

Used by 19 films financing a cumulative amount of EUR 1.5 million

4%
of films

0.1%
of financing volume

Product placement

Used by 10 films financing a cumulative amount of EUR 0.5 million

2%
of films

0.0%
of financing volume

Other (not specified)

Used by 57 films financing a cumulative amount of EUR 10.8 million

13%
of films

0.8%
of financing volume

PU

film

BLIC

financing

Direct public funding

/di'rekt pʌblɪk 'fʌndɪŋ/

In the context of this analysis, direct public funding combines all funds granted by a public film fund to support the development and production of a theatrical feature film. Public funding can take various forms, including for example repayable loans, grants and equity investments, and can be granted via selective or automatic schemes.

In the context of this analysis it refers only to production support granted by supra-national, national, regional or local film funding bodies but does not include other forms of public money, such as production / fiscal incentives - which are treated as a separate financing source for reasons of transparency. It includes direct public funding from agencies within the country of origin, as well as from agencies in minority financing countries.

Beware the selection bias!

Please note that in interpreting the insights of the analysis regarding financing structures one must bear in mind that the significance of direct public funding may be exaggerated due to the inherent selection bias which results from the exclusion - in most countries - of films produced without national public support.

Direct public
funding
seems to be
the conditio
sine qua non

particularly
outside of France

Even though there is an inherent selection bias in the data sample which may exaggerate the importance of direct public funding, the data clearly show the paramount importance of public support for the European film landscape.

More than nine out of ten sample films were partly financed by public film funds*.

Direct public funding cumulatively accounted for 29%** of the total sample financing volume, making it the most important financing source for fiction films on a pan-European level.

The importance of public support is even more significantly pronounced in the vast majority of European countries as public funding contributed 41%** of the total sample financing volume outside of France, where broadcaster financing plays an exceptionally important role.

* This high share of films being financed by direct public support may be exaggerated due to the selection bias.

** Direct public funding contributed EUR 408 million to the total sample financing volume of EUR 1.41 billion. Excluding French films, direct public funding contributed EUR 277 to the remaining sample financing volume of EUR 679 million.

93%*

OF **SAMPLE FILMS** PARTLY FINANCED
BY DIRECT PUBLIC FUNDING

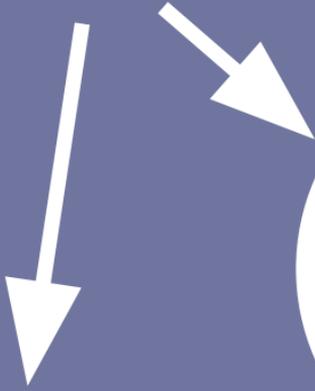
* 94% OUTSIDE OF FRANCE

29%**

OF **SAMPLE INVESTMENT VOLUME**
FINANCED BY DIRECT PUBLIC FUNDING

** 41% OUTSIDE OF FRANCE

it is
particularly
important



**in
smaller
markets**

**for
lower
budgets**

The sample data clearly reveal that the importance of direct public funding is closely linked to the market size of the country of origin - which typically is the film's primary exploitation market.

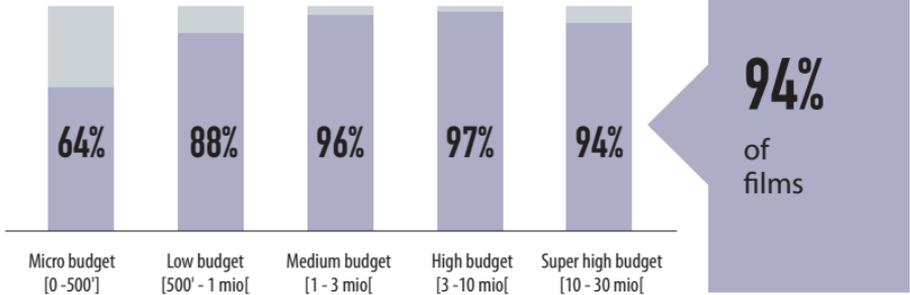
While 'access' to public funding does not seem to differ significantly across market clusters, the weight of direct public funding in film financing increases with declining market size or, phrased differently, the smaller the market, the more important is direct public funding.

While - outside of France - direct public funding seems to be the single most important financing source for all budget types, the importance of direct public funding tends to decrease as budgets increase.

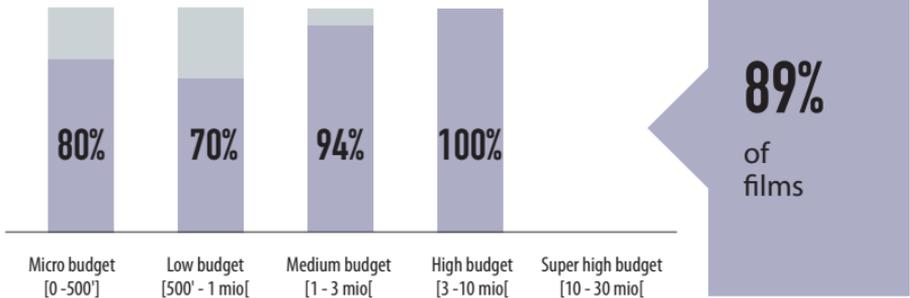
Only in the case of super-high budget films does direct public funding seem to play a secondary role after pre-sale financing.

SHARE OF FILMS WITH DIRECT PUBLIC FUNDING

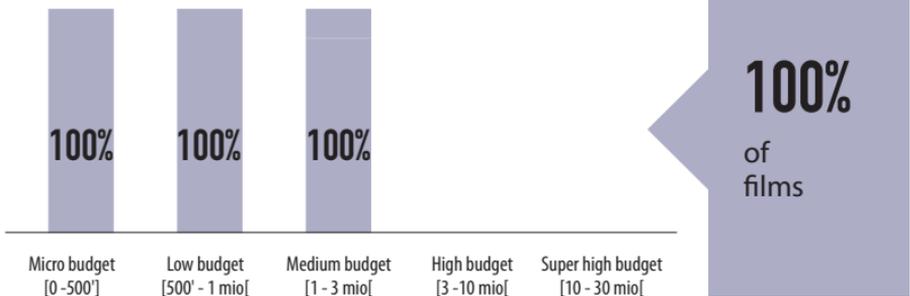
IN LARGE MARKETS



IN MEDIUM MARKETS

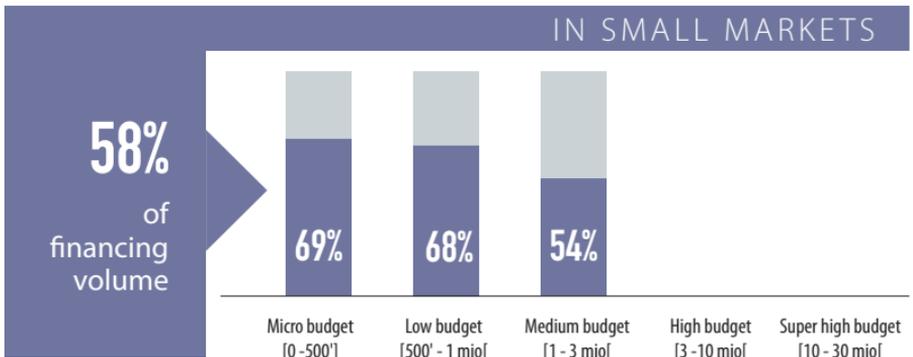
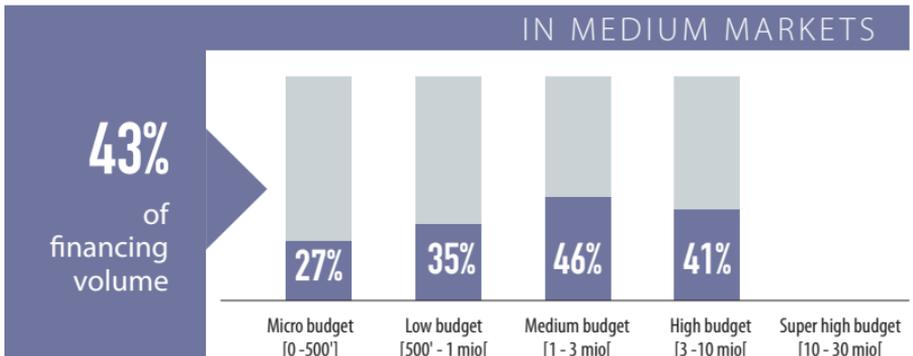
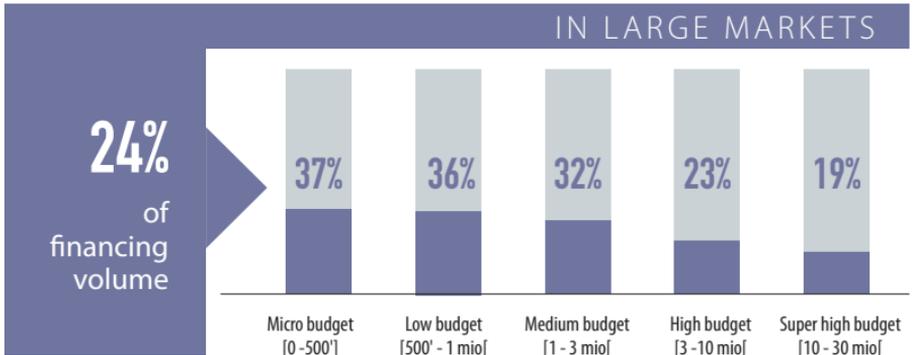


IN SMALL MARKETS



Source: OBS, Fiction film financing in Europe: A sample analysis of films released in 2016 (2018)

SHARE OF DIRECT PUBLIC FUNDING IN FINANCING VOLUME



Direct public
funding
is primarily
provided by
national
funds

Caveat

The selection bias of the data sample, which includes – for reasons of data availability – primarily films receiving funding from national film agencies, may result in an exaggeration of the importance of public funding provided by national film agencies, as it does not cover for example films which received only regional public funding.

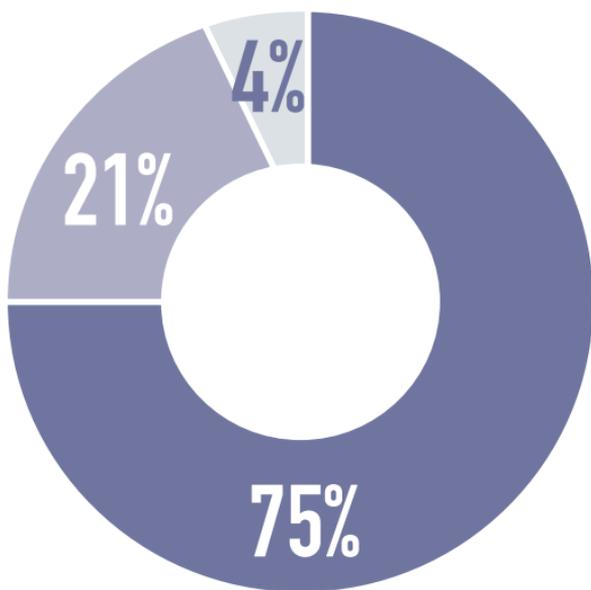
However, the breakdown of direct public funding in the data sample is consistent with the breakdown of total funding spend as analysed in the Observatory's report *Public financing for film and television content* (2016). This suggests that the selection bias of the financing data sample is not substantially distortive.

The importance of national or regional funding evidently depends on the funding landscape in any individual country.

In the majority of European countries film funding is provided primarily by a national film fund, while regional film funds play an important role in countries including e.g. Belgium, Germany, Austria, Switzerland, Spain and the UK.

From a pan-European perspective national film agencies were clearly the most significant providers of direct public funding for the films in the data sample, accounting for 75% of cumulative public funding, followed by regional public funding.

Taking into account the selection bias, it is not surprising to see that nine out of 10 sample films received funding from a national film agency, while less than half of the sample films received regional public funding and one in ten films obtained supranational funding.



- National public funding
- Regional public funding
- Local public funding (0%)
- Supra-national public funding

BREAKDOWN OF DIRECT PUBLIC FUNDING BY ORIGIN

Source: OBS, Fiction film financing in Europe: A sample analysis of films released in 2016 (2018)

Side note:
**And who
in turn is
financing
public film
funds?**

Across Europe, public film funding bodies are financed from a variety of sources whose distribution can differ significantly between national and regional funds as well as country by country. There is hence no “European model” for financing film funds.

One can, however, argue that in most countries, public film funding is an instrument to channel parts of the film industry revenues back into national production and distribution projects.

In 2014 taxes and levies (on broadcasters, cinemas, video sales, VOD services or cable/satellite distributors) contributed directly to the financing of funds in more than half of the 33 European countries studied*.

In the majority of countries however, the lion’s share of funds financing comes from government budgets (mostly national or regional).

Only in five countries was the financing of film funds directly linked to a source outside the film industry, namely lottery funding which is particularly important in the UK and Finland.

* Source: OBS, Public financing for film and television content
– The state of soft money in Europe (2016)

Incentives

/in'sentivs/

In the context of this analysis, incentives refer to the cumulative amounts of certified funds coming from production / fiscal incentives, such as rebates and tax credits (aimed at production companies), and national private investments benefitting from a tax shelter granted in the (co-)producing country(ies).

In the case of rebates and tax credits, a certain percentage share of the film's eligible local production expenditure is paid back to the producer.

In contrast, tax shelters (or tax allowances) offer an incentive for private investors to provide equity cash investments in film productions (either directly in production or through the acquisition of rights), allowing them to reduce their taxable income base by the amount invested. In the case of tax shelter investments, funds thus become available to the production up-front and are provided by private investors rather than fiscal authorities or the state. Hence they have a hybrid nature between equity investments and soft money but are considered as incentives in the context of this analysis.

Incentives
finance
another
10% of
production
investments

but not in
small markets

Europe has seen a significant increase in the number of incentive schemes to support film, TV and video game production over the past decade.

While it is difficult to exactly measure the impact of such schemes, one can observe that more than half of the sample films from 2016 benefitted from production / fiscal incentives.

In total, incentives contributed EUR 144 million to the cumulative sample financing volume of EUR 1.41 billion, representing 10% of the cumulative funding volume of the data sample.

Hence incentives represent one of the five essential financing sources, albeit the smallest one among them.

The data suggest that incentives were provided almost exclusively by the main country of origin, were only available in medium and large markets, and played no significant role in financing films originating in small sample markets.

Incentives seem to be equally important across film types but seem to be slightly more significant for medium budget films and less accessible to micro budget films.

56%

OF **SAMPLE FILMS** PARTLY
FINANCED THROUGH INCENTIVES

10%

OF **SAMPLE INVESTMENT VOLUME**
FINANCED THROUGH INCENTIVES

While older incentive schemes often took the form of tax shelters, more recently-introduced schemes showed a distinct preference for rebate-style structures.

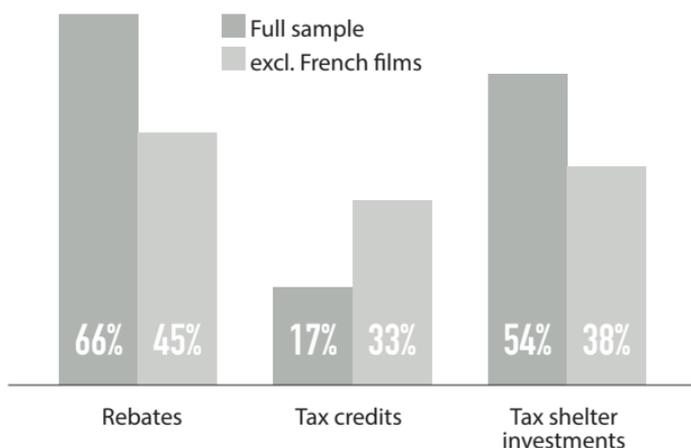
This co-existence of different incentive forms is also reflected in our data sample.

While rebates and tax shelter schemes clearly represented the majority of incentive financing in the full data sample due to the dominance of these two forms in France, the picture is much more balanced when one excludes French films from the analysis.

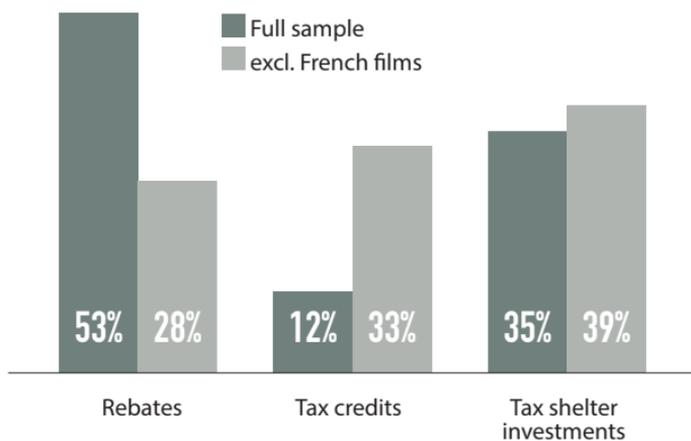
Evidently, the significance of individual forms of fiscal / production incentives differs between countries depending on the respective schemes offered.

Of the nine sample countries offering fiscal incentives, only France and Italy provided more than one type of fiscal incentive. In the other markets fiscal incentives took either the form of rebates, tax credits or tax shelters.

SHARE OF SAMPLE FILMS WITH INCENTIVE FINANCING BY INCENTIVE TYPE

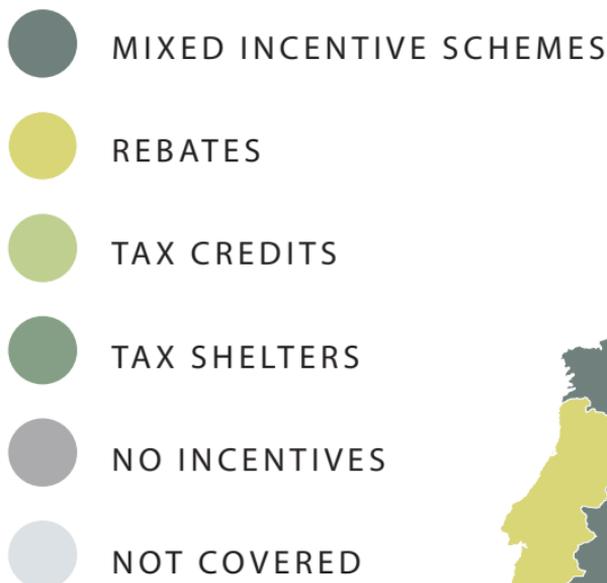


INCENTIVES' SHARE IN SAMPLE FINANCING VOLUME BY INCENTIVE TYPE

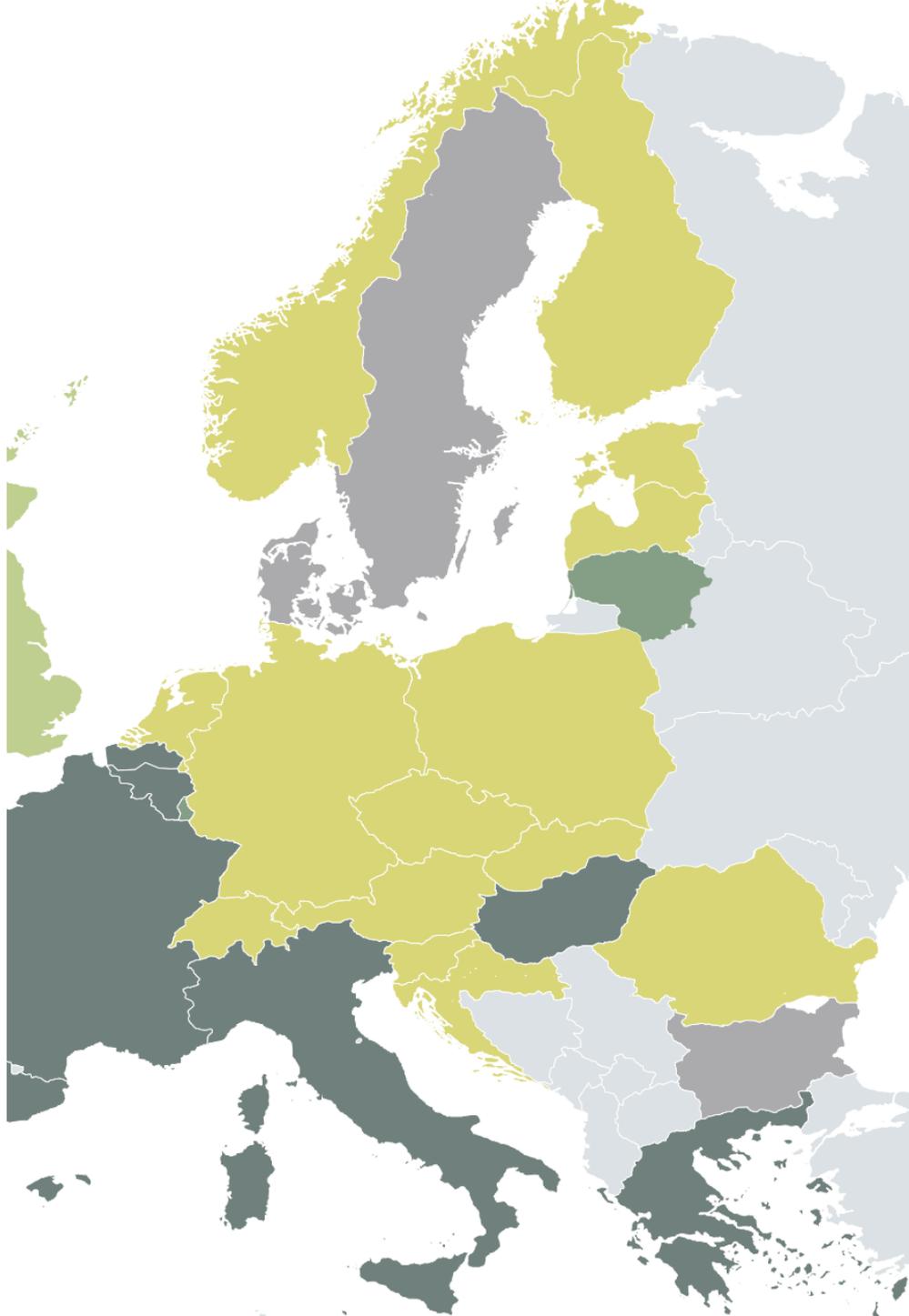


Incentive schemes in Europe (2018)

for the production of film
and audiovisual works



Source: OBS, Impact analysis of fiscal incentive schemes supporting film and audiovisual production in Europe (2014)



THE BOT

TOM
LINE

**Although
financing
structures
can differ
significantly
between
individual
countries**

there are some
common
observations
to be made

**Five
financing
sources are
essential...**

...but direct
public
funding
stands out

In 2016, the financing of European theatrical fiction films relied primarily on five financing sources: direct public funding; broadcaster investments; pre-sales; producer investments and incentives.

The two **most widely used** film financing sources are direct public funding and producer investments (used by more than nine in ten sample films), followed by broadcasters and pre-sales (used by three out of four sample films).

In **terms of funding volume**, the two most important financing sources were clearly direct public funding and broadcaster investments, which accounted for 29% and 25% of total financing, respectively.

From a distance, the second-most important pair of financing sources were pre-sales (16%) and producer investments (15%).

Apart from these four main sources, only incentives (10%) stand out as another, significant financing source. Other financing sources, including private equity, debt financing, financing by VOD services or crowd-funding were negligible from a cumulative perspective.

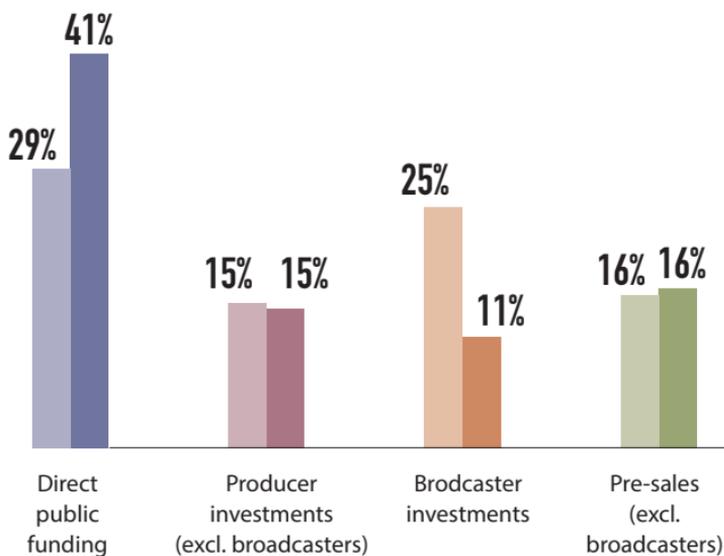
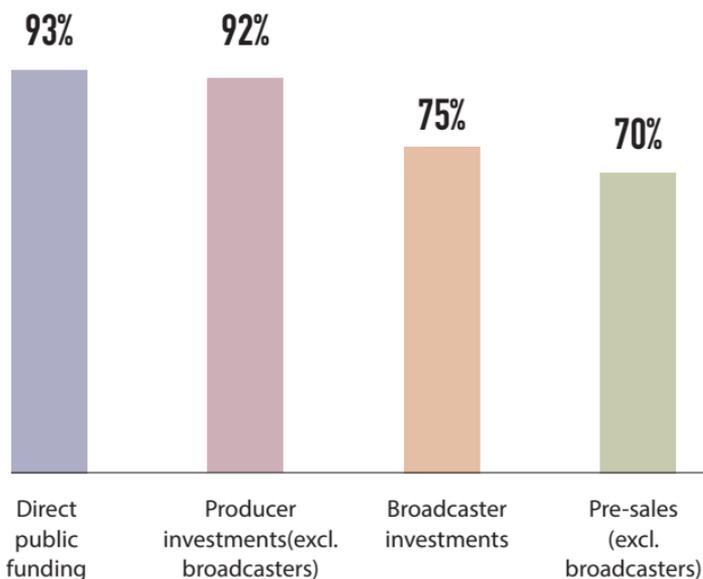
These data however are heavily influenced by the exceptional importance of broadcaster financing in France.

Leaving French films aside, direct public funding clearly emerges as the by far single-most important financing source of European fiction films, accounting for 41% of the cumulative financing volume.

With incentives contributing another 8% and a significant part of broadcaster financing coming from public service broadcasters, it is evident that the public sector is the main investor in European fiction film production.

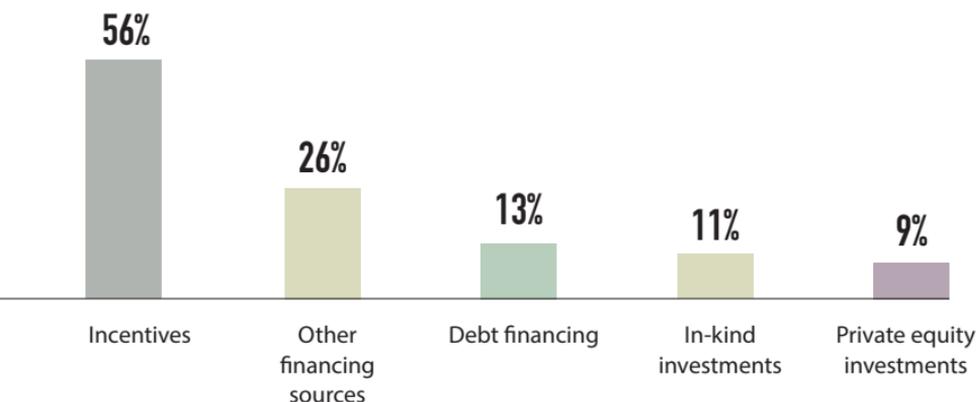
In contrast to France, broadcasters contributed only 11% to the financing volume in the 20 other sample markets, making pre-sales the second most important financing source ahead of producer investments.

* Reminder: it is however important to keep the selection bias in mind, which may be assumed to exaggerate the importance of direct public funding.

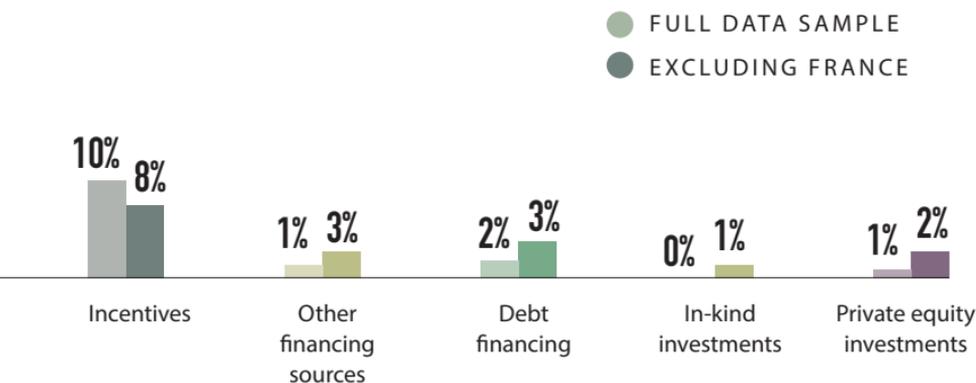


Source: OBS, Fiction film financing in Europe: A sample analysis of films released in 2016 (2018)

PERCENTAGE **SHARE OF SAMPLE FILMS** USING INDIVIDUAL FINANCING SOURCES (2016)



BREAKDOWN OF TOTAL SAMPLE FINANCING VOLUME BY INDIVIDUAL FINANCING SOURCES (2016)



```
graph TD; A((Market size)) --> C[Market potential affects financing structure]; B((Budget size)) --> C;
```

**Market
size**

**Budget
size**

Market potential
affects financing
structure

the lower
the market
potential, the
more important
is direct public
funding

The data also clearly reflect the fact that the expected market potential of a film impacts its financing structure.

Generally speaking, films with a perceived limited market potential tend to rely more heavily on direct public funding while films with a high expected market potential have a proportionally higher share of private (commercial) financing sources in their financing mix.

With no data being publicly available on the expected revenues of individual film projects, one can use market and budget volume as proxies for expected market potential.

Keeping in mind that national markets represent the main exploitation market for the vast majority of European films, it seems fair to assume that the size of the national market determines to a certain extent, a film's expected exploitation potential.

It is therefore telling to observe that the weight of direct public funding decreases with increasing market size while the importance of (national) pre-sales, which represent anticipated exploitation revenues, increases with market size.

Similarly, budget size can be used as a proxy for production value, assuming that films with a high budget / production value have a larger market potential than low budget films and can therefore rely to a larger degree on commercial financing sources. The analysis of financing structures across the different budget types would certainly be consistent with this hypothesis.

Generally speaking, films with a budget of up to EUR 3 million depend to a higher degree on direct public support, while films with higher budgets finance their production with proportionally higher shares of pre-sales, producer investments and - at least in France - broadcaster investments.

Producer investments - like direct public funding - appear proportionally more important for the financing of micro- and low-budget films, as they have very limited access to financing through pre-sales, fiscal incentives and broadcasters.

Also, debt financing seems to be only available to high and super-high budget films, while micro and low-budget films have to be more creative in filling the gap with in-kind investments, deferments and other financing sources.

CUMULATIVE FINANCING STRUCTURES BY MARKET CLUSTER

IN LARGE MARKETS [>50 MIO]

Broadcaster investments	30%
Direct public funding	24%
Pre-sales (excl. broadcasters)	17%
Producer investments (excl. broadcasters)	16%
Fiscal incentives	10%
Debt financing	2%
Private equity cash investments	1%
Other financing sources	0%
In-kind investments	0%
Total sample financing volume (in MEUR)	1 063.4
Number of sample films	245

IN LARGE MARKETS [>50 MIO] EXCL. FRENCH FILMS

Direct public funding	37%
Pre-sales (excl. broadcasters)	22%
Producer investments (excl. broadcasters)	17%
Broadcaster investments	11%
Debt financing	5%
Fiscal incentives	5%
Private equity cash investments	3%
Other financing sources	1%
In-kind investments	0%
Total sample financing volume (in MEUR)	330.3
Number of sample films	86

Source: OBS, Fiction film financing in Europe: A sample analysis of films released in 2016 (2018)

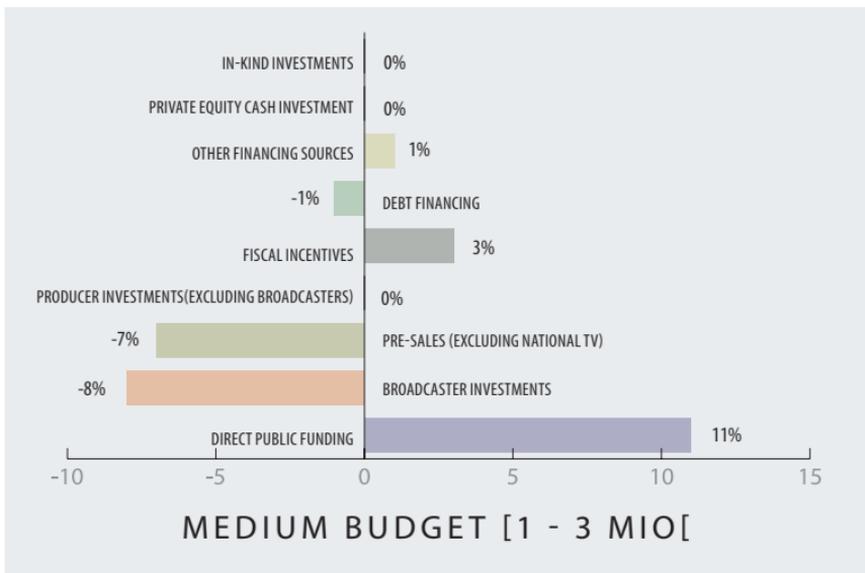
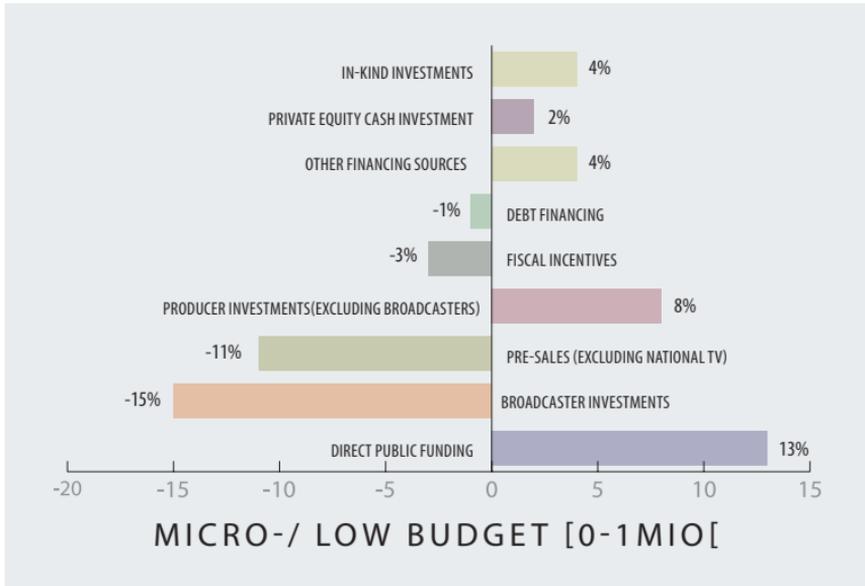
IN MEDIUM-SIZED MARKETS [10 MIO - 50 MIO[

Direct public funding	43%
Producer investments (excl. broadcasters)	14%
Fiscal incentives	11%
Broadcaster investments	11%
Pre-sales (excl. broadcasters)	11%
Other financing sources	4%
Private equity cash investments	2%
Debt financing	2%
In-kind investments	2%
Total sample financing volume (in MEUR)	309.8
Number of sample films	158

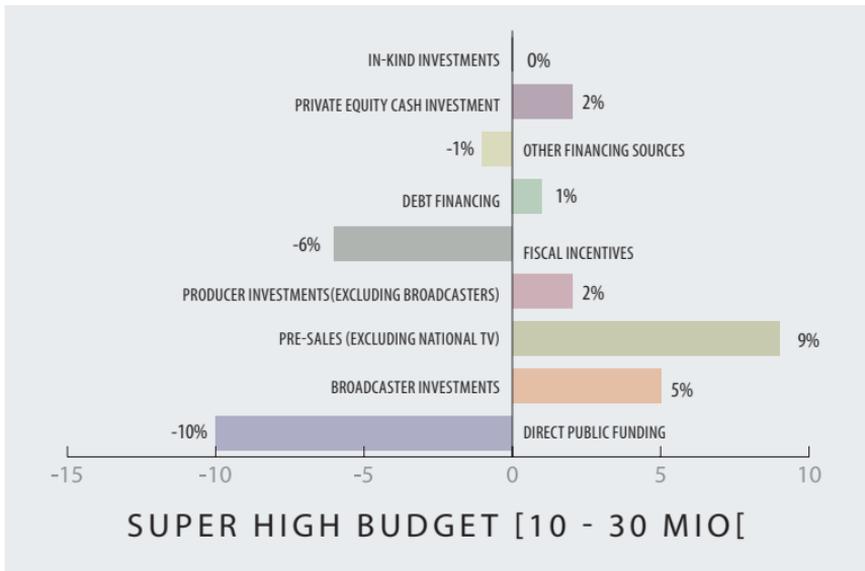
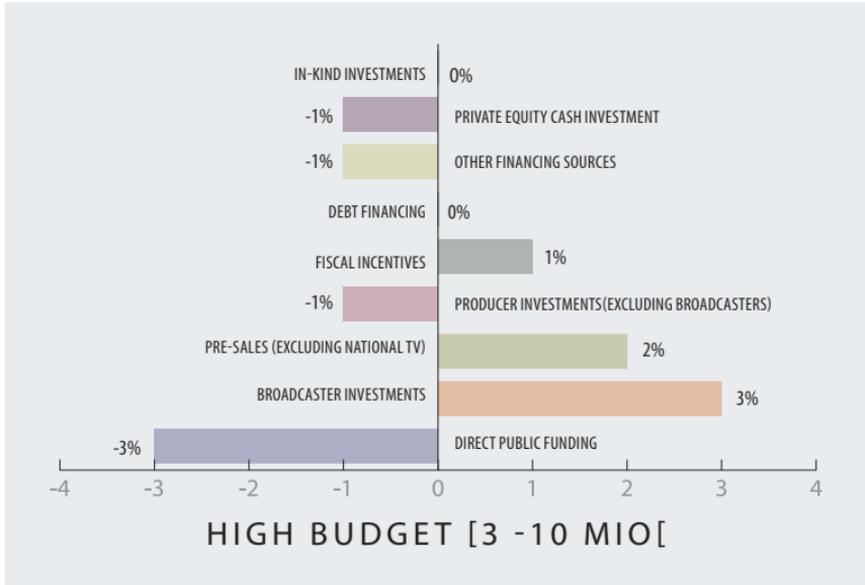
IN SMALL MARKETS [0 - 10 MIO[

Direct public funding	58%
Broadcaster investments	12%
Other financing sources	8%
Producer investments (excl. broadcasters)	8%
Pre-sales (excl. broadcasters)	8%
In-kind investments	3%
Debt financing	1%
Fiscal incentives	0%
Private equity cash investments	0%
Total sample financing volume (in MEUR)	38.5
Number of sample films	42

DEVIATION OF INDIVIDUAL FINANCING SOURCES FROM SAMPLE AVERAGE BY BUDGET TYPE



Remark: The data show the difference between the share of each financing source for each budget type and the overall its share in the total data sample. For instance, direct public funding accounted for 42% of the cumulative financing volume of micro- and low budget films. This share is compared to the share of public funding in the total sample (29%), showing that the weight of public funding in the financing mix of micro and low-budget films is 13 percentage points higher than in the total sample.



**Territoriality
matters
in two
respects**

The possibility to generate revenues by selling exclusive exploitation rights for separate territories and specific distribution platforms represents in two respects a crucial element in the financing of European films.

On the one hand, territorial pre-sales are an essential film financing instrument in its own right as they constitute the second most important financing source outside of France.

Beyond that, territorial distribution rights also seem to be a precondition for recouping producer investments and getting other equity or debt financiers on board. Our data clearly show that European producers use more or less exclusively national TV and other national distribution rights to finance the production budget, while presumably keeping international rights for subsequent exploitation.

Indeed, without such subsequent revenue streams it would be impossible to pay back bank or other loans, pay out deferments or redeem private equity investors. As a consequence these sources would not longer be available as a financing source in the first place.

Film financing in Europe is a complex puzzle

which enables the
co-existence of both
films with large
and more limited
commercial potential

The data clearly indicate that there are significant structural differences among European countries when it comes to how theatrical fiction films are financed.

Indeed, film financing is not only linked to the national market size (and hence exploitation potential) of a country, but also impacted by a variety of other factors, including the existence of investment obligations for broadcasters or other players; the availability of national and / or regional public funding or incentive schemes along with the conditions that come with it and of course national industry practices.

Also it seems that a variety of financing sources are required to close the financing of an individual film, each of them coming with different constraints and obligations. Bringing these together can make financing a European fiction film a complicated task.

The interplay of all these factors makes film financing in Europe a complex puzzle. However the existing system has managed to foster cultural diversity across Europe by enabling the co-existence of a large number of films with both large and limited commercial potential.

**Expected
market
potential**

**Market
size**

Budget size

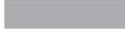
**Public
funding
landscape**

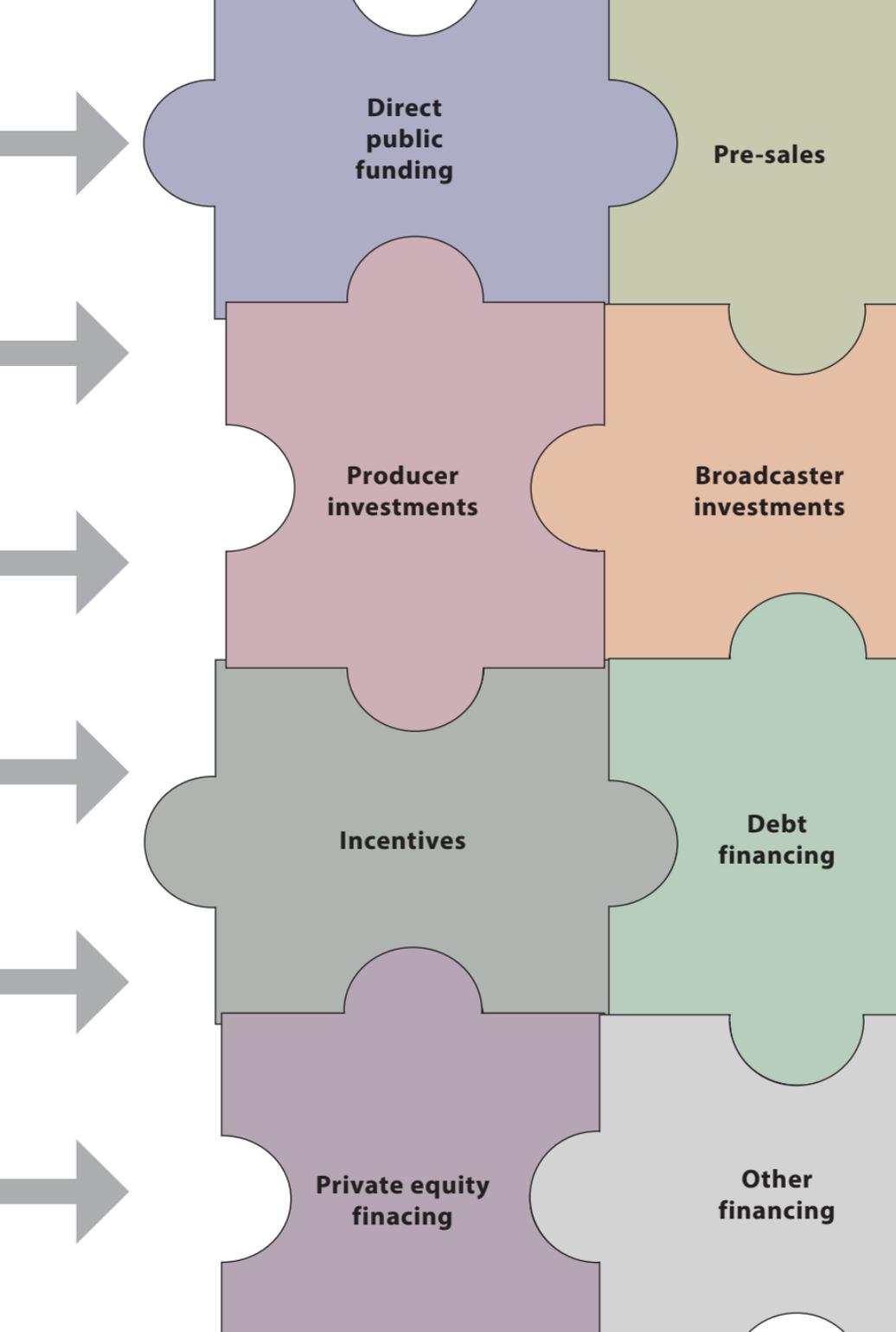
**Incentive
schemes**

**Broadcaster
investment
obligations**

**VOD
investment
obligations**

**Industry
practices**





**Direct
public
funding**

Pre-sales

**Producer
investments**

**Broadcaster
investments**

Incentives

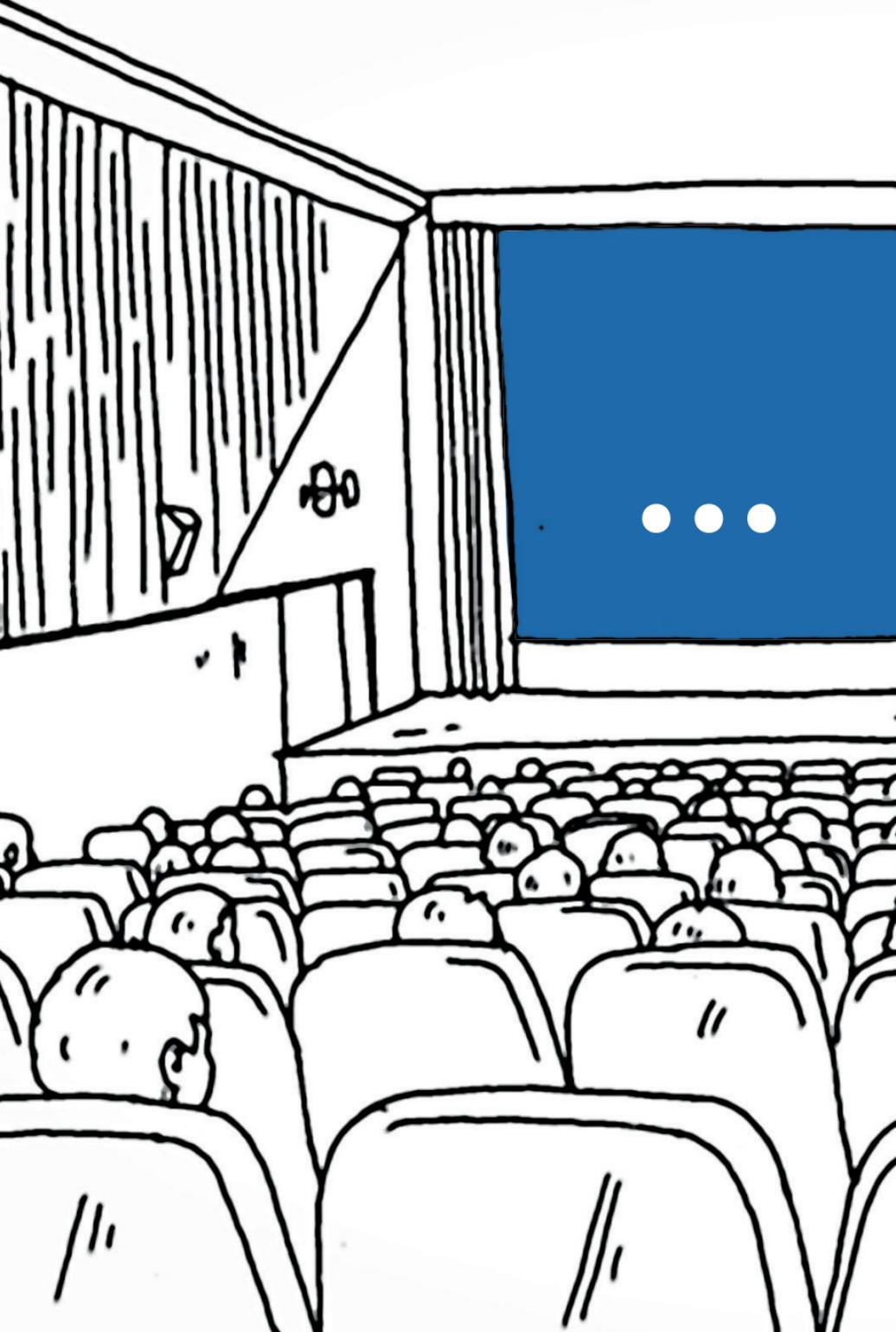
**Debt
financing**

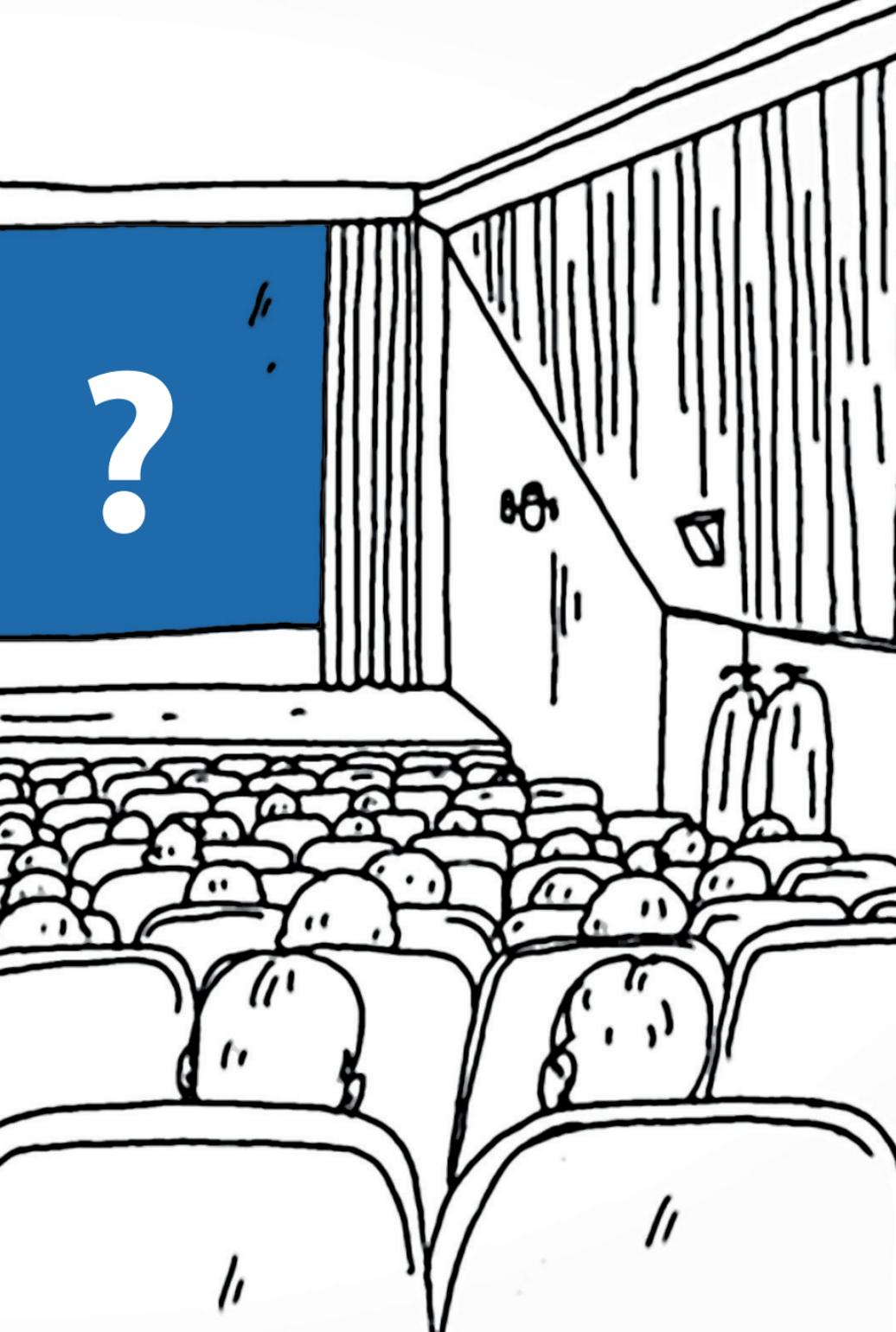
**Private equity
financing**

**Other
financing**

**The crucial
question is**

How will digital
distribution
affect this
complex
financing
system?





The

End!

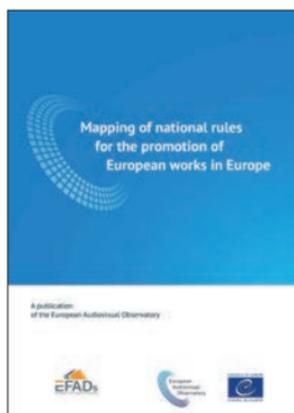
Related
Observatory
reports /
databases

for further
reading



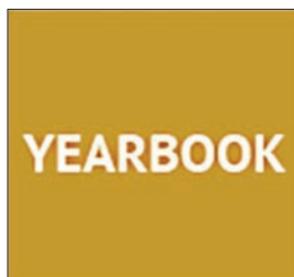
Fiction film financing in Europe: A sample analysis of films released in 2016
published in December 2018

This report analyses the financing structures of European live-action fiction films released in 2016.



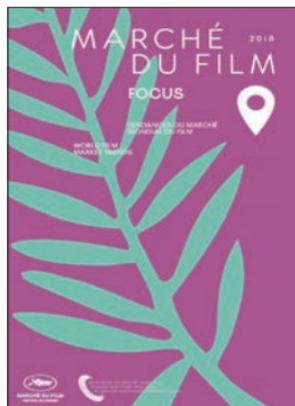
Mapping of national rules for the promotion of European works in Europe
published in February 2019

This report contains a description of the initiatives and rules in the 31 European countries and provides an overview of the “regulatory mix” in each of these countries.



Observatory Yearbook 2018
published in November 2018

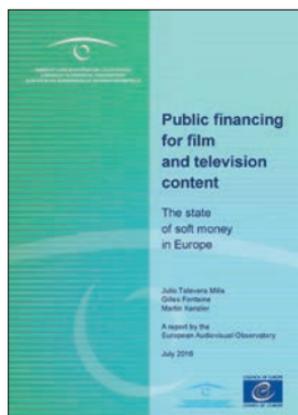
The Yearbook provides statistical data on the television, VOD, cinema and video industries in 40 European markets.



Focus 2019 – World Film Market Trends

published in May 2019

The FOCUS series presents the latest trends on all the major film markets around the world regarding film production and distribution as well as admissions.



Public financing for film and television content – The state of soft money in Europe

published in October 2016

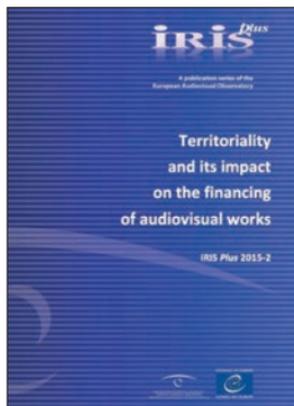
The report covers the four existing public support mechanisms designed to foster the film and audiovisual sectors: public funds, fiscal incentives, investment obligations for broadcasters and guarantee facilities.



Impact analysis of fiscal incentive schemes supporting film and audiovisual production in Europe

published in December 2014

This report drafted by Olsberg-SPI analyses the impact of fiscal incentive schemes – tax shelters, tax credits and rebates – which aim at stimulating investment in the production of film and audiovisual works.



Territoriality and its impact on the financing of audiovisual works

published in September 2015

This report focuses in parallel on copyright and media regulation, in order to take a closer look at the impact of the two leading concepts of “territoriality of copyright” and “country of origin”.



LUMIERE databasewww.lumiere.obs.coe.int

Database on annual admissions to films released in Europe.



EFARN Film Research Library

<https://filmresearch.eu>

Database providing access to film industry research published by film agencies across Europe through a single platform.