

# **Financing a feature film and measuring its potential return on investment**

**Master Thesis Synopsis**

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## Problem Statement

US Motion picture industry has been growing in terms of revenues. More and more investors are showing their interest in the intellectual property where movies play a major role. Big studios require lots of funding because of to the gradual increase in their production budgets. However, investing in motion picture production remains very risky and uncertain. The majority of the films end up having negative ROI. On the other hand, the average ROI in the industry stays positive. The reason behind it is that a relatively few number of productions realize very high returns and thus contribute to the financial success of the industry.

The purpose of this paper is to understand and explore the returns in the US motion industry as well as investigate whether there are some relevant factors impacting them. From the investors` point of view it is highly important to have a model, which could provide a better overview of the potential risk and return on the investment in motion pictures after the funds are collected and before the production takes off. Thus, this paper will contribute to enlarging the knowledge about the factors that affect the outcome of investments in motion picture productions.

## Research Approach and methodology

The paper will provide a thorough overview of the financial perspective of the motion picture industry in US. It will explore different revenue channels and the financial models that current producers use. The paper will also analyze whether feature films could work as small enterprises. Moreover, it will investigate the choice of investment regarding a portfolio of the large motion picture studios.

Having in mind all the above and especially the importance of understanding the risk and return in these highly unpredictable assets – namely the movies, my mission will be to create a multifactor model to predict returns based on several factors, and test the latter using historical data. Most researches in the field are relying on factors that could be known no earlier than the actual release of the movie. It might give a good direction, but it is not realistic, because an investor needs to have more certainty before she/he ‘puts the money on the table’. The reason is the funds should be spent on the production process already at that time.

The return on investments (ROI) will be regressed on different factors that might have an impact on the outcome such as but not limited to: genre, film rating, Presence of star actors, presence of a skilled Director, sequel and seasonality. External factors such as US GDP, population, FDI will also be considered in building an appropriate model.

## Description of Data

The data will be extracted from the publicly available sources such as IMDB, Box Office Mojo, Hollywood Stock Exchange, MPAA. It will consist of the total box-office revenue, total costs and information for all the chosen factors to be investigated for approximately 300 randomly selected films produced in USA in the recent years. All selected films are restricted to have more than 1 million dollars expense in production costs and the sample will exclude genres such as animations and documentaries. The amounts will be adjusted to the US inflation rate in order to give accurate results.

## Assumptions and Limitations

Since motion pictures are not traded in public markets there is a scarce of systemized financial data. Revenues and productions costs will subtracted from the public friendly box office. However, the total revenue from DVD rental and sale, TV rights, Pay per View etc. might experience difficulties in estimation.

## Preliminary Outline

### 1. Introduction.

- Motion picture industry.
- Overview of the revenue channels of production.
- The financial models used by the current producers and challenges that they face.

### 2. Analysis

- The financial models used by the current producers and challenges that they face.
- Small enterprises producing feature films.
- Large studios and their portfolio selection.
- Risk and investment. Main factors affecting the financial success in the motion picture industry.
- (US vs. Europe in creating blockbusters)

### 3. Methodology and model selection.

### 4. Description of the data.

### 5. Interpreting the results.

### 6. Conclusions and recommendations for the further research.

## **Preliminary Timetable**

1<sup>st</sup> month: Familiarizing with the core literature in motion picture industry on predicting the returns from movies. Data will be collected and adjusted for the final model. Finishing the introduction.

2<sup>nd</sup> month: Completing analysis and starting to prepare the model.

3<sup>rd</sup> month: Constructing the model.

4<sup>th</sup> month: Analyzing and interpreting results.

5<sup>th</sup> month: Conclusion and final preparations to hand in the paper.

## **Tentative List of Literature**

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