RE: SFN Productions LLC - Business Plan Pitch Deck and Financial Waterfall

**BACKGROUND:**

I have prepared a draft of the preliminary business plan for the film *“****Wicked Ally****”* (the “Picture” – working title)to determine, specifically, material information for potential investors and financiers, including a summary of the film, estimated budget, production plan, film comparables, basic overview of the motion picture industry, and most importantly, a financing plan and a strategic marketing/distribution plan for the Picture.

These are positive items for getting the film into the marketplace, based on:

1. The Production Company will most likely use a conservative (being low-budget filmmaking) approach to finance the Picture. By keeping the budget down, this helps substantially maximize both negative cost reimbursement back to the investor(s) of the Picture, and maximizing additional profits in the ancillary markets, specifically the VOD and SVOD market, which will no doubt help in continuing to maximize return on investment. It is also in the Horror genre which is extremely popular among specific audience demographics and comparable to such as films that take place within a small-town atmosphere as “Victory Crowley” or “Halloween”.
2. The positive aspect is that the Picture, has known talent attached to the project. Kane Hodder, Felissa Rose, Tuesday Knight, Ari Lehman, and Julie Anne Prescott

**MY APPROACH**

I tailored my Company's computer spreadsheet model to simulate this Picture’s projected potential future income statement, based on assumptions and taking into consideration all the important services, requirements and payer approaches and factors. The estimated budget is around $400,000 with no utilization of tax credit programs or other sources of financing.

While it is difficult to predict how well a Picture will perform in any market, as it is dependent upon its acceptance from its audience, an assumed projected income statement will give the Production Company and its investors at least an idea for an ROI.

**FINANCIAL ASSUMPTIONS FOR PROJECTED INCOME**

I broke the financial projections into five assumed returns using the VOD, AVOD scenario:

- Loss Return: What the Picture would look like if it were a loss on return.

- Expected Return: A more neutral expected return from distribution.

- Low Return: What the Picture would look like on a low return, but higher than expected.

- High Return: If the Picture exceeded expectations.

- Breakeven Return: What the Picture would look like if it at least recouped the negative cost.

This particular financial projection is based on an investment return plan in which the Production Company would be contracting with a Distributor or an Aggregator Service Provider to license the film over a period of time, directly into the DVD/Blu-Ray and VOD markets. Typically, associated costs include prints and advertising (P&A expense) are reimbursable, as well as estimated delivery fees and fees that a distributor will collect which on average range from 25% to 35%, and for this projection I chose the higher fee of 35% as an example after theoretically deducting the 35% distribution fee and recouping the P&A costs, the amount remaining would be paid due to the Production Company, and the investor would usually be entitled to 100% reimbursement of the cost of the film, plus splitting the remaining gross profits with the Production Company. This scenario only assumes the DVD/VOD release, not theatrical as this market has been gravely affected by the covid-19 pandemic. More often than not, the net income from theatrical distribution is generated as a loss because of the costs and fees associated with the release of the film. But let’s not leave out the drive Inns this is where you can maximize income. Say just 100 fully running drive inns at 50% of the door for a weekend the ROI is based on 2 people per car with an average of 200 cars generating 4k in sales now in that on weekend you hit your first goal of 400k recouping the entire budget. As you review each of the five columns it should give you an ideal understanding how the waterfall financial assumptions work. There is no way to really project how much a film will do across all distribution markets and platforms, and there are also dozens of various scenarios that can be ran, however this approach is an attempt to show how the film could perform financially based on genre, talent involved and distribution strategy. I feel that the Picture will need to exceed between $500,000 or more in sales to fully recoup the negative cost with a creative social media marketing plan while at the same time controlling costs associated with P&A on the distribution side.

On the investor side, I assumed the standard ROI contract, being that the investor should be entitled to 100% reimbursement of the negative cost, plus 20% as interest and then everything remaining thereafter would be sharing in the final net profits, usually split 50% with the Production Company. The Production Company and Investor(s) can work however they choose when finalizing the financing arrangements and profit sharing is entirely up to said parties involved. The future potential projected earnings of the film will help amortize the cost of the film over several years, and reduce depreciation in value, and give the investor(s) to write off the film as an investment for tax purposes, if applicable.

The investors will want to discuss numbers to get a general idea as to how the returns will perform once the film enters distribution. My model calculates, again, based on the current budget of $400,000 and using at least one equity investor. If a pool of investors are attached to finance the picture, they will own their 100% of the portion they financed, as well as sharing a smaller pool of the net profits based on future income. If multiple investors are involved, my recommendation in the business pitch deck is a minimum investment amount of $10,000, per unit of the film which is broken down to 40 units, but this final determination can be left to the Production Company.

**ADDITIONAL BUSINESS PLAN ITEMS**

The remaining elements of the business plan discusses the risk factors involved in financing motion pictures, and of course the box office/marketing/distribution plan, financial plan, a basic overview of the motion picture industry from the MPAA (Motion Picture Association) for FY 2019 (FY 2020 statistics are not yet available), and a preliminary production plan and timeline for filming, which of course can be changed based on the Production Company’s actual filming schedule.

As previously stated, I also compared this film to other similar genre films and included their budget, domestic and worldwide box office grosses, in order to compare cost and revenues.

Do feel free to make any modifications, additions, or omissions to the business plan as it is, as it will no doubt change accordingly based on the planning and investment process.

**ADDITIONAL ITEMS TO CONSIDER IN BUSINESS PLAN**

* Recommend discussions with an entertainment attorney to discuss the inclusion of a private placement for the investors to protect the film and complying with any investment and securities laws. I can help consult in this process, if necessary.
* Making cost effective decisions in the finalized budget.

- Consider if the film may be eligible for tax credits in the state of Florida

- Investigate all cast/crew contracts to reduce current expense and allow for deferments which will also reduce the current budget, if applicable, but not usually possible with a budget of this amount.

* Possibility of having a distributor attached before filming begins, if applicable.

If you have any questions or comments, please feel free to call or email me.

Best Regards,

Travis Cecil

SFN Productions LLC

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Enclosures