



HOLLYWOOD or CHINIWOOD?

Beijing-based Huahua Media had agreed to invest \$1 billion in the studio's movies, another sign that China would be Hollywood's main foreign benefactor for the foreseeable future.. And it did not happen too long ago!

The latest developments says- Sorry it's not going to happen! After months of speculation, Paramount last week said the co-financing arrangement, which would've covered 25% of its film slate, had been scrapped because of the Chinese government's clampdown on foreign investment in entertainment and other industries.

Indeed it was a blow for Paramount. Did they expect it to go that smoothly with such a huge investment? Sure this was not only a blow to Paramount, but also emblematic of a broader pullback of foreign money from Hollywood especially by China in particular. Why? Because China is the world's second largest film market, who has been a key source of box office revenues, and it's played an important role in helping studios to offset the rising costs of making movies. In recent years, foreign investors from China and other countries have financed as much as 35% of film budgets, according to industry financing sources.

The history indicates that this is not the first time it happened!

- China's tightening restrictions on foreign investment include Chinese conglomerate Recon Holding, which scrapped its bid to acquire a majority stake in Millennium Films for \$100 million.
- Dalian Wanda Group, which canceled its \$1-billion acquisition of Dick Clark Productions. Wanda also abandoned plans to integrate Burbank-based Legendary Entertainment into its publicly traded film company.
- In 2016, a dramatic falloff in Chinese money pouring into America's film and TV industry. In 2016, Chinese investment in the U.S. entertainment industry hit \$4.78 billion.
- This year, investments have shrunk to \$489 million as of Sept. 30, according to the research firm Rhodium Group. Beijing has tightened control on money leaving the country, fearing that the outflow of capital could weaken its economy.

How about other investors?

- French conglomerate Vivendi in 2000 took control of Universal Studios through its acquisition of Seagram, but sold off most of its entertainment assets to General Electric in 2004 after amassing huge debts.
- India's Reliance Entertainment backed a re-launch of DreamWorks in 2008, an investment that did not generate enough ROI.
- Japan's Sony Corp. has long struggled to get its film and TV division to work hand-in-hand with its electronics business.

Home is the best place after all!

Under the circumstances, with China taking a step back, there's no clear and committed foreign player stepping in to fill the gap. The industry had no choice but to turn to other sources closer to home for money. Paramount has signed co-financing deals with David



Ellison's Sky dance Media based in Santa Monica and with toymaker Hasbro, which is based in Pawtucket, R.I.

U.S. division of Israel's Leumi Group. shared a comment stating " There are a lot of stories of Chinese investment getting canceled, and there's not an obvious source of capital to replace that."

So is there a shortage of Capital?

Does not look that way. For the film and TV business, Technology companies, including Netflix, Amazon and Apple, are spending billions on movies and TV shows for their own streaming services.

So it's good right? Not for studios! The money made by these companies goes to film makers not studios. So it's a boon for filmmakers who want to get their projects funded,. The studios are still left looking for funds!

So what near future looks like?

- Netflix is expected to spend \$8 billion on content next year, including licensed material and originals, up from \$6 billion in 2017.
- The Los Gatos Company is buying global rights to movies, leaving fewer opportunities for foreign distributors that finance movies by purchasing distribution rights.
- Apple has touted plans to invest \$1 billion in original TV shows and films over the next year.

The reality is that the digital footprint is worldwide. They are replacing foreign capital by squeezing the foreign distributors."

Is it really that bad?

Not really! Plenty of foreign money still flows through Hollywood.

- Sovereign wealth funds have long been interested in film investments, particularly studio film libraries that generate reliable revenues.
- Qatar Investment Authority for example bought Miramax in 2010 with Colony Capital, and later sold the onetime indie powerhouse to Qatari broadcaster BeIN Media.
- Wealth funds, including Singapore's state-backed Temasek and GIC, recently invested in talent agencies CAA and WME-IMG.

However, these funds are selective and cautious in their investments. Hollywood in particular, is an industry where you have to know what you're doing to make money in it, Thus some funds like Sovereign Wealth Fund Institute, a research firm are researching an inside look at what's working and not working.



***Chinese investment in year 2013 was merely \$2 million dollars. It climbed up in one year in 2014 to \$ 151 million, in 2015 to 1.13 Billion, and in 2016 to hooping \$ 4.78 Billion. Thus studios are worried to see merely 489 Million investment in current year. Lot has changed isn't it?**

*Source: Rhodium Group

What it means is that Billionaires from other industries remain a major source of capital.

And how is it working so far?

Well, those wealthy individuals, however, have seen mixed results.

- FedEx founder Fred Smith backs Alcon Entertainment, which produced hits including "The Blind Side" for Warner Bros,
- And most recently made a huge bet on the pricey disappointment "Blade Runner 2049."
- Gulf States Toyota owner Dan Friedkin in 2014 launched production company Imperative Entertainment, which has become embroiled in the sexual abuse scandal surrounding actor Kevin Spacey, the former star of its movie "All the Money in the World."

So no matter what, the history still is that Hollywood has a long track record of attracting colorful and controversial investors.

- Red Granite Pictures, co-founded by Riza Aziz, the step-son of Malaysian Prime Minister Najib Razak was swept up in a U.S. federal corruption probe for more than a year. Prosecutors seized rights to films including "The Wolf of Wall Street," alleging they were financed with money embezzled by Malaysian government officials. Red Granite reached a settlement with the U.S. government in September. Aziz has said he had no knowledge of receiving ill-gotten funds.
- Alwaleed bin Talal, who helped bail out Walt Disney Co.'s Euro Disney theme park in the 1990s and invested in 21st Century Fox, was arrested Nov. 4 in an apparent power consolidation by Crown Prince Mohammed bin Salman. He has sold his holdings in Fox, according Bloomberg data.

As for China, many experts predict investors will return once the government eases restrictions on banks that fund the overseas transactions.

However the experts states that the spigot has not stopped. The studios indeed need to make sure that they have right partners. The film industry is exciting and will very likely to remain the same. They will continue to find capital, and make films!

What they cannot predict is what will be the next wave in this exciting industry? Something we already have seen and experienced before or the one altogether new that industry has not seen yet?

--Shashi Panat

Ref: Courtesy of LA Times