

Stock market proves attractive

Major producers are finding public equity is the way to raise money

BY HARVEY ENCHIN

Entertainment Industries Reporter

TORONTO — Canada's film and television production industry has grown up. And the proof is on the stock market.

Alliance Communications Corp. of Toronto raised \$30.5-million in its initial public offering this month. The stock opened for trading at \$13. Paragon Entertainment Corp., also of Toronto, went public in June and Cinar Group Ltd. of Montreal has filed a preliminary prospectus for a share offering.

"Wall Street and Bay Street see this as the industry of the future," said Alliance vice-chairman Jay Firestone, who orchestrated his company's successful share issue.

With a proliferation of TV channels promised by new technology, the demand for programming will grow. "The more competition there is for viewers," Mr. Firestone said, "the more important it is to get better shows."

Although some small Canadian production houses have gone public in the past (and then quietly disappeared), public equity financing for production is a relatively new means of raising money for major producers. At first, the financial community didn't take the industry seriously because producers lived project to project. That perception has changed over the past decade as TV became the backbone of the industry.

Unlike a movie, which has a six-to-eight-week shooting schedule, a TV series can provide eight months of work. If profitable, a movie yields returns quickly, but a TV show provides consistent, reliable profit further down the road.

The stable TV business has allowed Alliance, Paragon, Cinar and Atlantis Films Ltd. to become vertically integrated companies with their own production, distribution and financing divisions. Atlantis, also considered to be a candidate for a public issue, instead sold a minority interest to New York investors.

Despite the rush to equity financing, project-oriented tax-driven limited partnerships still exist. Since 1986, Ottawa has allowed investors to write off their limited partnerships at 30 per cent a year on a declining balance. In Ontario, a unit in a limited partnership typically costs \$160,000.

But even limited partnerships are taking on a new look. Alliance, for example, sells units in a sort of mutual fund of production. Each year, investors can buy a prorata package of perhaps 10 film and TV projects.

"A measure of the success of the fund," says Jeff Rayman, president of Alliance Equicap, the company's financial arm, "is that there's always a huge demand for it. Every year, the volume has increased far more than we imagined."

Globalization has also influenced film and TV financing. "International markets are becoming more active partners," Mr. Firestone said.

Canada has more than two dozen co-production treaties with foreign governments and has developed expertise in structuring the often complicated agreements that make an official co-production a "national product" in the country of each participant, entitled to the full regulatory and legislative benefits in each jurisdiction.

Some estimates put the value of government incentives around the globe at \$1-billion.

Looking ahead to the 500-channel universe, U.S. television companies, faced with decreasing audience shares and declining revenues, are looking to tap into that co-production expertise.

"Co-production is a burgeoning area, driven by economics," said Stan Thomas, vice-president in charge of programming for CanWest Global Communications Corp. "We have all these channels, and everybody is looking for product or software."

In Canada, government has been reducing the amount of grants and investments it makes in film and TV but Telefilm Canada and provincial agencies such as the Ontario Film Development Corp., B.C. Film and Société générale des industries culturelles in Quebec, remain major players in the industry.

In a recent decision, the Canadian Radio-television and Telecommunications Commission created a new production fund designed to provide \$300-million for TV programming production over five years. Administration of the fund has not been sorted out.

Industry executives say their companies would not have been able to develop without government assistance. Incentives are still necessary, they say, to offset the cost of Canadian cultural programming that has no export potential.

But for many independent film producers, financing has become more difficult as the big entertainment companies siphon off all the available public and private capital.

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Sadness of the Moon wasn't a cheap production even though there was virtually no money behind it. The stars are well-known and usually well-paid veterans of Canadian theatre, film and TV, including Natsuko Ohama, Dana Brooks and David Crean. The crew are unionized professionals. The executive producer is one of Canada's important new directors, Deepa Mehta.

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