

Film Finance Demystified

Q1 2025

Table of Contents

I. Introduction to Film Finance

- Overview
- Executive Summary
- Understanding the Industry: The Hollywood Business Model

II. Investing in Film

- Film Finance vs Alternative Asset Classes
- Private Credit vs Private Equity In Film
- What Does Production Lending Have in Common with Trade Finance?

III. Collateral and Risk Management in Film Financing

- The Waterfall Structure in Film Financing
- Collateral in Film Lending: Types and Bases Explained
- Mitigating Lending Risks

IV. The Film Production Process and Financing

- Overview of the Film Production Process
- The Stages of Film Production Explained
- Financing the Stages of Production

V. Current Industry Trends

VI. Conclusions

VII. About Us

I. Introduction to Film Financing



Overview

This report seeks to provide an overview of film finance and demystify an underappreciated opportunity to secure attractive, risk-adjusted returns in a niche of private credit underpenetrated by institutional investment managers. Investing in Hollywood productions is commonly associated with private equity investments in films rather than lending to specific film production segments. This research will demonstrate that private credit lending offers the opportunity for high-yield, uncorrelated, short-duration returns, paid upon the satisfaction of triggering events. This drastically contrasts equity commitments in films, which are exposed to long-tail income streams dependent on unpredictable box-office outcomes. The paper will also emphasize how asset-backed / collateralized-based lending often provides downside protection unavailable to equity investors.

Film finance is a rapidly evolving niche within specialty finance, particularly through the lens of private credit. Lending to film productions is relatively overlooked by institutional investors despite sharing many similarities with more traditional financial products. By uniquely combining elements of specialty finance and trade finance, film production financing returns can often surpass those of other credit strategies and even different forms of venture and growth equity investing throughout a market cycle. Typically, a film production loan term ranges from 2 to 15 months, yielding 15-30% gross annual returns. These returns are realized when specific stages of the production process are completed, triggering repayment or a collateral release before the film's distribution/release and, importantly, not tied to speculative box office success. On the other hand, equity returns are often realized over a 10-year period and represent the residual of financial success only after all other stakeholders have been paid to deliver a completed film to market.

As the consumer demand for film content grows globally, so does the demand for access to credit from an expanding universe of independent film production companies. A very fragmented base of lenders will become more institutionalized in their approach to serving these needs over time. Historically, origination has proven easier than demonstrating an ability to secure consistent investment returns. History has shown that more than traditional credit analysis alone is required to identify and manage the execution risks that undermine successful outcomes within film financing. Understanding more about the production process and the nature of financing at each stage of a film's development will provide a foundation to better inform investors seeking sources of diversification and higher alpha through private credit lending within film finance.



Executive Summary

Film production is generally financed through a mix of equity and debt. Equity investors typically provide the first stage of financing, with their investment return generated from future revenue streams. Lenders are then sought after by productions to finance the remaining balance of their funding requirements.

Equity investors shoulder most of the financial risk because they are the last in line to get paid after the “box office” results become evident and only if the production was managed profitably. Lenders, by contrast, get paid ahead of the equity as segments of filming are completed, typically before the film even gets to theaters. Typically, lenders also have a claim on some form of an asset value or collateral to protect their downside.

Production budgets range in size, but for institutional investors, the \$10–\$100 million range offers a sweet spot: budgets are substantial enough to attract talent and distribution but small enough to avoid the blockbuster volatility of \$100M+ films. The financing structure of these films relies on a blend of equity, debt, and soft money (e.g., tax incentives or grants).

Understanding the typical allocation of financing sources, alongside the producer’s strategies for securing and packaging these funds, is essential for evaluating investment opportunities in the film industry. Producers act as orchestrators and business managers, assembling a financing package through a multi-step process that mitigates risk and attracts capital.

Equity commitments from private investors or institutions typically represent 10–30% of an average budget. This seed capital secures a script and bankable talent to define a budget and the revenue prospects against which the film can unlock additional funding. Producers then seek to maximize non-dilutive forms of financing, such as tax incentives or grants, by filming in incentive-rich regions (e.g., Georgia, Canada). Borrowing against these “soft money” commitments can contribute 10–40% of an average budget. With this capital in place, producers can negotiate pre-sale agreements with distributors (e.g., foreign territories or streaming platforms), which provide guaranteed revenue post-completion. These contracts serve as collateral for senior debt from banks, covering 25–35% of the budget. Gap financing then fills the remaining holes (10–20%) by leveraging the remaining unsold distribution rights. Bridge loans may help secure talent upfront and/or cover shortfalls in production budgets. Finally, completion bonds (insurance against production failure) are put in place to reassure investors and lenders.

The producer structures these elements into a recoupment waterfall, first prioritizing debt repayment as contract milestones are met throughout the 18-24 month production cycle. Once debt is repaid, equity recoupment follows, with profit sharing coming last and distributed over an average 6-10 year stream of box office revenues and streaming fees.

Understanding the Industry: The Evolving Hollywood Business Model

From Studio Dominance to External Financing

The film industry emerged during the **Golden Age** of Hollywood (1927-1969), when major studios held a tight grip on the entire filmmaking process. At the time, studios were not only the creative and financial hubs of production but also the gatekeepers to distribution and exhibition - controlling the entire lifecycle of a film.

However, the **1948 Paramount Decree**, a landmark antitrust ruling by the U.S. Supreme Court, began to dismantle this monopolistic structure. The decree prohibited studios from owning movie theaters, forcing them to sell their theater chains. This shift marked the end of their vertical integration, which had combined the control of production, distribution, and exhibition under one roof. As a result, independent theaters gained more control over which films to screen, and this door to greater competition ultimately led to the rise of **independent filmmakers**.

The loosening of studio control allowed independent producers to flourish. By the 1960s, filmmakers like Stanley Kubrick and Francis Ford Coppola created ground-breaking films. As film budgets grew, particularly during the **blockbuster era** in the 1980s, studios began turning to external sources of financing. They collaborated with **private equity firms and banks** to engage in co-productions to mitigate the growing financial risks associated with larger budgets. This led to the emergence of **gap financing**, where banks provided loans to cover the difference between a film's production budget and the amount raised through pre-sales. Additionally, **completion bonds** were introduced, which guaranteed that films would be completed, offering reassurance to lenders.

By the early 2000s, **major financial institutions** like J.P. Morgan and Chase set up specialized entertainment divisions, providing loans to both studios and independent filmmakers. These loans were secured by various forms of collateral, such as distribution rights, pre-sales, and even tax credits. Slate financing—lending money for a portfolio of films rather than just a single production—became more common. However, the **2008 financial crisis** and global recession marked another turning point. The introduction of stricter capital requirements for banks made lending to high-risk sectors like film production less appealing. Major lenders like Merrill Lynch and Lehman Brothers either pulled back or dissolved their media finance departments entirely.

Post-2020, film financing continued to evolve as COVID-19 accelerated existing trends, favoring streamers, franchise IP, and risk-averse funding models while squeezing independent and mid-budget productions. However, this shift also created new opportunities. Major studios prioritized global viewership across platforms like Netflix, Amazon Prime, and Apple. Streaming services, with their broad reach and subscription-based revenue models, fundamentally reshaped film financing. They began directly funding films or entering co-production deals with independent filmmakers, providing new avenues for creators to showcase their work and access global audiences.

This transformation also opened the door for new players in film financing, eager to capitalize on the rising demand for original content. In response, **tech-driven** platforms emerged, redefining how films are financed once again. Designed to democratize the process, these platforms made it easier for filmmakers to access capital and connect with investors:

- **Crowdfunding and Crowdfunding Platforms:** **Seed & Spark** and **Indiegogo** allow independent filmmakers to raise capital directly from fans and smaller investors. **Republic** and **WeFunder** offer crowdfunding, where investors can take ownership stakes in projects.
- **Blockchain and Tokenization Platforms:** **Film.io** and **SingularDTV** facilitate decentralized film funding. Tokenizing film assets enables fractional ownership, allowing smaller investors to participate in the funding process.
- **Data-Driven Lending Platforms:** **Purely Capital** and **Bondit Media Capital** provide capital to film producers by advancing funds based on contracted future receivables. These tech-driven platforms streamline the underwriting process, enabling faster and more efficient capital deployment.
- **Fintech and Peer-to-Peer Lending Platforms:** **FilmHedge**, **LendingClub**, and **Prosper** offer the potential for media financing through peer-to-peer (P2P) lending models. These platforms enable both individual and institutional investors to lend directly to film producers.

As the industry continues to evolve, time will tell if these emerging platforms will succeed in delivering stable, positive investment returns. Historically, raising and deploying capital on scalable platforms has proven infinitely easier for financial institutions than achieving consistent investment returns. Traditional credit analysis and loan diversification alone have proven insufficient in mitigating the unique risks of the film industry. Managing execution risk through the production cycle has proven to be an elusive challenge. Producers are typically more entrepreneurial and creative by stereotype and frequently struggle to reliably sustain fiscal discipline in managing a production process.

In short, the film industry has undergone significant changes, evolving from a system where major studios controlled all aspects of production to a more decentralized model. Following the 2008 financial crisis and shifts post-2020, studios pivoted to focus on distribution. They now generally finance only a select number of high-budget films, often through partnerships with independent producers. This transformation allowed room for institutional investors to enter the market. While technology-driven platforms have played a role in expanding access to financing, the industry's core shift towards collaboration and external financing continues to shape its future.

II. Investing in Film

Film Finance vs Alternative Asset Classes

The Potential For Compelling Relative Returns

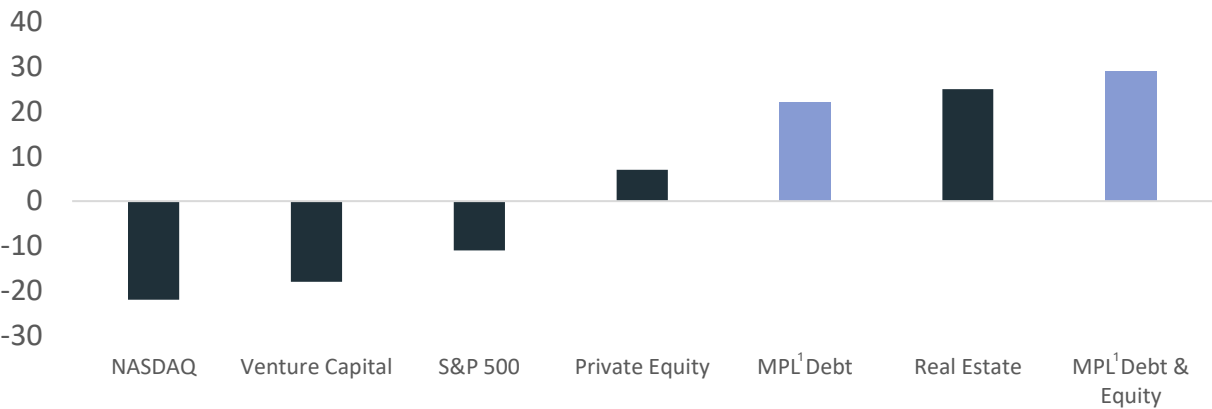
Alternative private credit products have seen a surge in popularity over the past couple of years, especially during periods of turbulence within the equity markets. Specialty financing as a segment of private credit has significantly outperformed peers, recently garnering a 12.62% mean IRR relative to direct lending's 8.87% in 2023. Notably, Media Production Lending¹ is a growing niche that stands out within the specialty financing class as it has achieved comparably higher risk-adjusted returns, averaging an IRR of 22.5% vs. Specialty Finance, with an IRR of 12.6% in that same year.

Ranking Private Debt (PD) Strategy Performance

Rank	Strategy	IRR (Mean)	IRR (St Dev) +/-
1.	Media Production Lending	22.50	54.41
2.	Specialty Finance	12.62	23.10
3.	Mezzanine	9.04	14.40
4.	Direct Lending	8.87	14.20
5.	Distressed Debt	8.37	11.00
6.	Venture Debt	8.22	5.10

FilmHedge: (Film + TV Private Credit Insights, 2023)

Index Return Benchmarks (2022-2023)



FilmHedge: (Film + TV Private Credit Insights, 2023)

Representative Film Production loan terms can vary from 2-15 months, yielding an average range of 15-30% APY. This performance reflects the current environment, featuring higher and more volatile interest rates, drawing investors to a diversified source of steady income with returns generally uncorrelated with other asset classes and broader market movements. Film Production Lending provides diversification and the potential for attractively short-duration, high-yielding risk-adjusted returns in a low-growth, illiquid market.

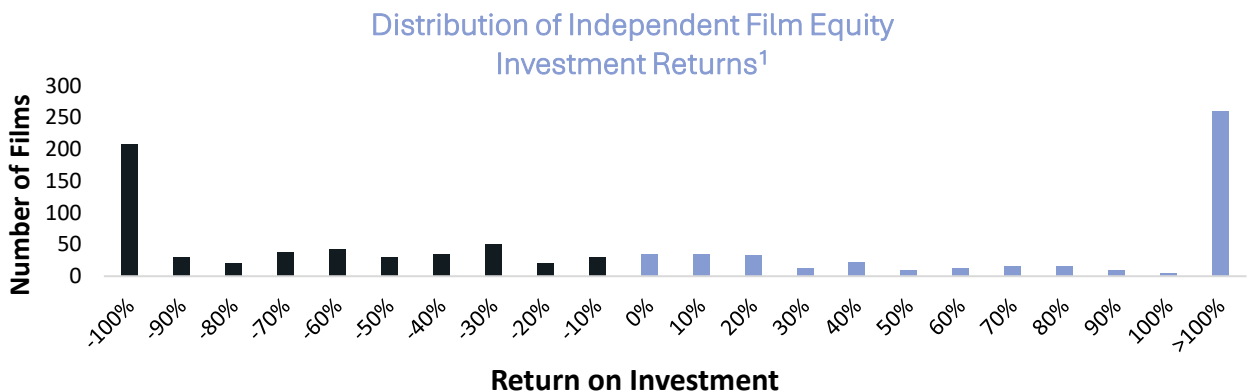
1. Film Production Lending is generally considered a major subset of Media Production Lending. The overall Media Production Lending landscape includes various types of content, such as films, television shows, digital series, and other entertainment content, each with its own financing structures and characteristics.

Private Credit vs Private Equity

Have you ever been asked to invest in a friend's restaurant? Much the same, investing in films through equity commitments offers participation in glitz and glamour... access to the red carpet. However, in both cases, the business models have historically lacked transparency and predictability regarding how and when equity investors can anticipate a return on their investment.

The uncertainty of a production's box office sales is a stark reality that overshadows the relevance of how equity investors make money. They are, by default, last in line to be paid from the revenues generated by the film. So, before any return on their investment, all other financial obligations must be met for them to earn a profit. In other words, even in the case of outrageous box office success, financial mismanagement of a film's production process can wipe out an investor's prospects of earning a return on their capital. Film producers play a crucial role in managing these financial risks, often acting as the founders of early-stage venture capital companies where, all too often, there is an imbalance of creative genius and financial leadership skills.

The NYU Stern Study, which analyzes the ROI of independently produced films, offers data showing that less than 45% of independent films make money, with no apparent pattern among the factors influencing success. They further assert that even in the 25% of outcomes where investors have doubled their money, the average annual return over a 10-year period of collecting those cash flows from the time of the initial investment is only 7.18%. The median ROI for equity investors across the entire return distribution of independently financed movies in the study was a disappointing -13.12%. This lack of consistent profitability and high levels of risk ultimately led to the downfall of the once-popular slate financing, a strategy that aimed to mitigate the risk of equity investing through diversification by investing in a 'slate' or a group of films.



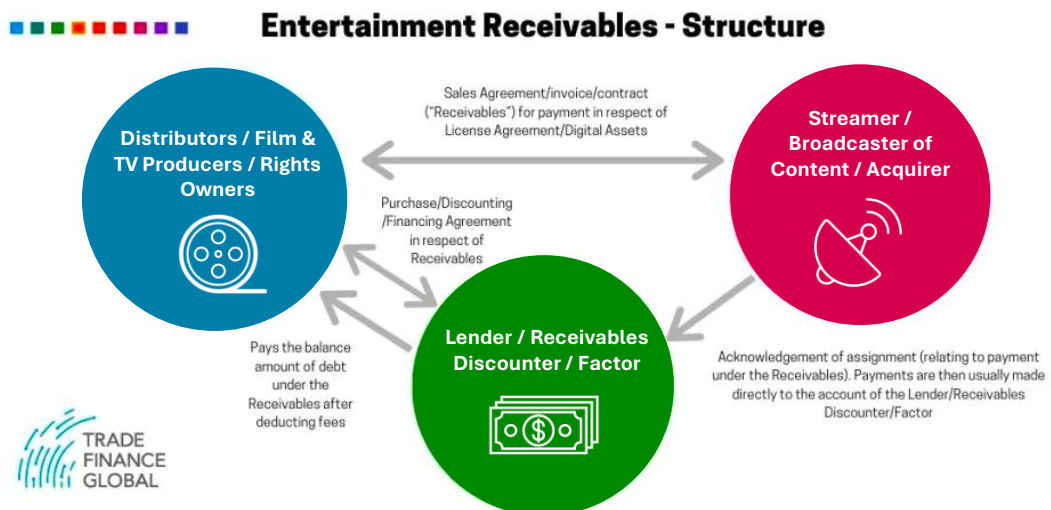
1: B. Lucini, NYU Stern, "Analyzing the ROI of Independently Financed Films"

By contrast, private credit lending offers a more stable and predictable alternative. Unlike equity investment, it is secured by collateral such as sales contracts or future revenue streams, providing downside protection. Investment returns are triggered as production milestones are met, allowing repayments to occur well before films are released to theaters. This structure makes the risk uncorrelated with box office outcomes, ensuring greater security regardless of a film's performance. Additionally, capital recovery is faster, with lending typically spanning a few months (or, in some cases, weeks) up to 18 months, compared to the long-term returns equity investors receive over a decade from distribution revenues.

What Does Production Lending Have in Common with Trade Finance?

Private credit investors exploring the broader ecosystem of specialty financing will find film production lending shares notable similarities with trade finance. In trade finance, credit products are used to meet the short-term working capital needs of individual transactions, with financing backed by tangible collateral, such as goods being shipped. Similarly, film production lending provides producers with the necessary capital to fund various stages of production, offering cash flow management, access to financing, and the ability to leverage existing contracts or future revenue as collateral. As production milestones are met, guaranteed payments are released to lenders to fulfill contract obligations while providing lenders with uncorrelated, risk-adjusted returns.

In both cases, lenders act as intermediaries, connecting the parties involved in the transaction. In film financing, the intermediary role is critical as lenders facilitate relationships between film producers, content distributors (like Lionsgate, Netflix, or Paramount), and various collateral providers, such as tax credit authorities, banks, and insurance companies. For example, distribution rights to a film are often pre-sold or licensed, while states (e.g., Mississippi) and countries (e.g., Canada) offer tax incentives to encourage filmmakers to spend more on production within their jurisdictions, further driving financial backing.



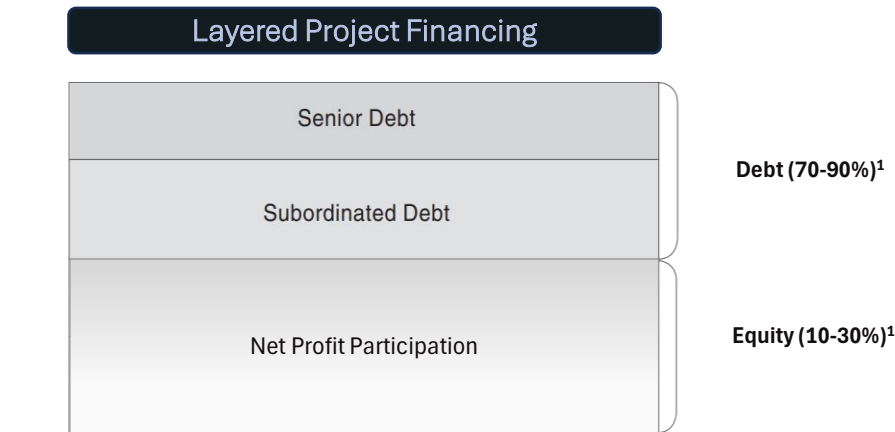
While both financing models share common elements, there are important distinctions. Traditional trade finance tends to be more structured and risk-averse, while film production lending is characterized by greater flexibility and a higher risk tolerance. This flexibility, however, comes with added costs, as film financing is more complex and requires careful risk management. Film production lenders still perform an intermediary role, connecting producers with distributors, tax credit authorities, and insurance companies, but the unique risks and potential returns in the film industry require more thorough due diligence than trade finance to assess financial viability and protect investments.

In both cases, due diligence plays a critical role in managing risk. Lenders closely examine factors such as revenue, creditworthiness, and the viability of the transaction. In the context of film production, collateral is scrutinized through pre-sales agreements, tax credits, and insurance guarantees, which can help to protect lenders' investments. By carefully evaluating these elements, lenders can mitigate the unique risks of film production financing, balancing the pursuit of high returns with the need to protect their investments.

III. Collateral and Risk Management in Film Financing

The Waterfall Structure in Film Financing

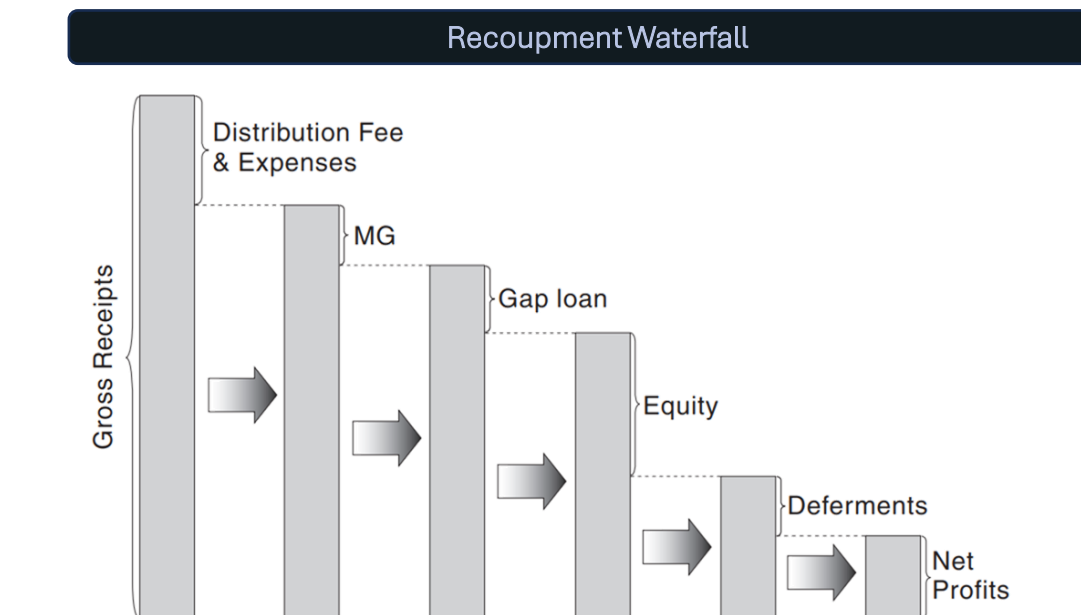
A film production generates revenue from several sources beyond box office ticket sales. These include government-sponsored tax rebates, pre-sale agreements for distribution rights, and film sales to major studios. The principal for a private creditor is secured by claims on these revenues and may also be collateralized through contractual guarantees from financial counterparties. If the production is profitable, equity investors share in the residual profits.



¹ Representative Range

Film projects typically raise both debt and equity financing through layered project financing. This structure is crucial for understanding the recoupment process and the debt servicing schedule tied to a loan. It also allows for the segmentation of debt and equity funding to meet different risk/return profiles that align with investor preferences.

Funds are dispensed at various stages of production, flowing through different debt and equity layers. Since debt holders must be repaid before equity distributions, credit offerings generally realize returns earlier, often receiving payment before the film's completion. In contrast, equity investors must wait until the film is delivered and distributed to start receiving a return on their investment.



(Gaustad, Terje., 2009)

Collateral in Film Lending: Types and Bases Explained

Collateral is a key tool that helps entice lenders to finance a project. As with other financial products, collateral pools in film financing help mitigate the financial risk for investors by ensuring lenders have some form of recourse should production default or fail to meet its financial obligations.

There are three key collateral bases present in film projects that producers can typically leverage to attract financing :

Tax Credits



- **What it is:** Many regions offer tax incentives or rebates to film productions in exchange for filming within their jurisdictions.
- **Collateral Provider:** The producer, leveraging the government-issued tax credit or rebate.
- **Trigger to Collect:** Lenders can collect the tax credits or rebate to recoup their investment if the production defaults upon the loan.

Pre-Sale Agreements



- **What it is:** These are signed contracts with distributors for the rights to release the film in specific territories or platforms (e.g., international markets, domestic streaming services) for a specific minimum price (the minimum guarantee).
- **Collateral Provider:** The film's producer provides the contractual agreements as collateral to the lender.
- **Trigger to Collect:** If the producer defaults upon the loan, the lender can collect on the contractually defined payments directly from the distributors to recover their investment.

Unsold Territory Sales



- **What it is:** The unsold rights to distribute the film domestically or internationally.
- **Collateral Provider:** The film production company or its producers.
- **Trigger to Collect:** If the production cannot fulfill its financial obligations, the lender can take control of the distribution rights to recoup losses by selling or distributing the film directly.

Mitigating Lending Risk

Beyond Traditional Credit Analysis

As discussed earlier, the rise of tech-driven platforms has significantly transformed the film financing landscape. These platforms were designed to democratize the process, making it easier for filmmakers to access capital and connect with investors. Technology has facilitated raising money at scale from a wider audience and allocating that capital to an increasing velocity of deal flow. However, when it comes to mitigating risk, technology has yet to provide an equally scalable solution.

Traditional credit analysis and prudent portfolio diversification provide a useful starting point but have limitations as a tool in risk mitigation. For instance, default rates by guarantors have historically been low, and relying on metrics like FICO scores and quantitative projections of future box office outcomes has limited value in addressing the primary sources of risk. Interestingly, collateral default or an impairment of underlying asset values experienced by senior lenders is actually fairly low. The key risk factor in film financing is mismanagement and poor execution — production delays and cost overruns — rather than defaults related to collateral quality. In simpler terms, producers are often not the best business managers. Creative goals frequently undermine fiscal discipline, and more often than not, assurances fall short of expectations. Production delays and cost overruns are the norm, not the exception.

To effectively manage the complexities of film production finance, comprehensive due diligence, a strong on-the-ground presence, and thorough contingency planning are essential. Incorporating industry expertise into the lending team's investment process is crucial, as this helps identify and proactively address potential risks. Due diligence is a hands-on, manual process that requires strong documentation to ensure the lender's position remains secure within the waterfall structure, a previously discussed term used to describe the order in which investors are repaid. Unfortunately, this position is sometimes exploited or mismanaged by producers eager to resolve budget crises. In such cases, industry relationships with other lenders, producers, and agencies provide invaluable real-time validation and feedback when budget or schedule issues arise. These relationships also enable the adjustment of compensation structures to account for shifting risks and their impact on return objectives. When incentives are properly aligned, the likelihood of achieving favorable outcomes increases.

When things go wrong, engaging directly with producers on set to manage or take responsibility for resolving issues is crucial. This requires a presence that many traditional credit analysts may not be accustomed to. A well-resourced and experienced lending team with production experience can deliver solutions that go beyond the obvious, particularly when a producer is overwhelmed by the business of delivering a finished product.

In short, managing execution risk in film finance demands an experienced, engaged investment team supported by technology — though never replaced by it.

IV. The Film Production Process and Financing

Overview of The Film Production Process

Film projects consist of several distinct phases, each with its own set of logistical and financial requirements. A significant portion of financing for these projects comes in the form of short-term, interest-bearing loans, with clear collateral triggers that ensure repayment upon reaching specific production milestones.

The process begins with the development phase, which is typically funded by the producer and focuses on script development. Once the script is finalized, the film moves into pre-production, where logistics, casting, operations, and budgeting are finalized. At this stage, key collateral pools, such as rebate incentives tied to filming locations and pre-sales of the film's distribution rights, are established. These collateral bases lay the groundwork for attracting private credit investors.

During the pre-production phase, most of the film's financing is secured to cover the full production budget. The project then progresses to the production and post-production phases, where filming takes place, followed by mastering and finalizing the film. Once completed, the film is marketed and released, starting with its box office debut and later transitioning to video-on-demand channels to generate residual income. At this point, equity investors begin to see returns, but only after most, if not all, credit investors have recouped their investment.

Below is a chart summarizing each phase of the production process, the associated sources of financing, and the collateral guarantees tied to these loans:

Production Overview					
Stage	Timeline	Action:	Funding Source:	Collateral Guarantor:	Example:
Development	1-3 years	<ul style="list-style-type: none">Sourcing screenplaySecuring IP	<ul style="list-style-type: none">Equity investingProducer funds	<ul style="list-style-type: none">No guarantorFilm production	<ul style="list-style-type: none">Movie Sales (Initial Box Office)
Soft Prep	12 months	<ul style="list-style-type: none">Hiring cast/crewBudget & schedulingFinancing planPre-sales	<ul style="list-style-type: none">Tax credit & rebatePre-sale contractMG paperMezzanine fundingGap funding	<ul style="list-style-type: none">Government jurisdictionsForeign distributorsStudios and streaming platformsFilm Production	<ul style="list-style-type: none">Utah, CanadaParamount Pictures UKLionsgate, Netflix, Hulu
Hard Prep	1-3 months	<ul style="list-style-type: none">Location scoutingPre-sale deposit collectionFinalize schedule & logistics	<ul style="list-style-type: none">Senior lendingBridge financing	<ul style="list-style-type: none">Senior lender	<ul style="list-style-type: none">Western Alliance Bank
Production	1-3 months	<ul style="list-style-type: none">Filming	<ul style="list-style-type: none">Senior lending	<ul style="list-style-type: none">Senior lender	<ul style="list-style-type: none">Western Alliance Bank
Post-Production	>6 months	<ul style="list-style-type: none">Video editingSound mixing	<ul style="list-style-type: none">Senior lending	<ul style="list-style-type: none">Senior lender	<ul style="list-style-type: none">Western Alliance Bank
Distribution	2 years	<ul style="list-style-type: none">MarketingDistribution	<ul style="list-style-type: none">P+A Loans	<ul style="list-style-type: none">Film production	<ul style="list-style-type: none">Movie Sales (Initial Box Office)

Financing The Stages of Production

The mix of equity and debt instruments featured in the waterfall is the backbone of production budgets. Producers finance the stages of a production process much like working capital/trade finance. Each stage may have different lenders and different underlying assets or collateral backing. Each lending product has a collateral base and risk profile related to its stage of the production process. The duration of the loans and average relative returns relate to each type of lending.

Risk		Collateral	Average Duration	Average Gross Return
	Foreign Pre-Sale Loans	Pre-Sold Foreign Territories	12-18 months	12-18%
	Tax Credits & Rebates	Tax Credit & Rebate	3-18 months	10-18% With a Floor of 10%
	Minimum Guaranteed Paper	Advance on Domestic Distributor Pre-Sales	12-18 months	12%-18%
	Print & Advertising Loans	First Movie Sales	3-12 months	20% Annualized With a Floor of 20%
	GAP Funding	Unsold Territories	12-20 months	20% Annualized
	Mezzanine Funding	Unsold Territories, Profit Participation Points	12-20 months	18-20% Annualized + Equity
	Bridge Loans	IP	2 Weeks – 3 Months	10-25%

Foreign Pre-Sales Loans

Foreign pre-sales loans are financing arrangements collateralized by the advanced distribution agreements for a film in international territories. The collateral for these kinds of loans is the pre-sale contracts with foreign distributors in which they agree to pay production a minimum amount of money for the film's distribution rights in their territory. The repayment obligation is triggered when the distributors pay production their agreed-upon minimum guarantees upon film completion and delivery. The value of the collateral can be vetted by assessing the creditworthiness and reputation of the distributor. Risks include distributor default and currency fluctuations. Risks can be monitored through regular production updates and completion bonds.

Risk	Low
Collateral Base	Foreign Pre-Sales of the Film
Collateral Owner	Foreign Distributors & Domestic Studios
Term	12-18 Months
Average Gross Return	12-18% Annualized
Production Stage	Pre-Production

Tax Credit & Rebate Loans

Tax credit and rebate loans are based on anticipated tax incentives offered by various jurisdictions to offset the cost of film production. The repayment obligation is triggered upon the issuance of a tax credit or rebate by the relevant government authority. The total value of credits and rebates is confirmed by a pertinent jurisdiction via an approval letter during pre-production following the finalization of logistics. The collateral is the expected tax credit or rebate, and its value is vetted by reviewing the specific incentive program rules and the production's planned qualifying expenditures. Risks include changes to tax law, budget overruns reducing the credit amount, and delays in credit issuance. Risks can be monitored through the traction of qualifying expenses and communication with tax authorities.

Risk	Low
Collateral Base	Tax Credit & Rebate
Collateral Owner	Government Jurisdictions
Term	3-18 Months
Average Gross Return	10-18% With a Floor of 10%
Production Stage	Pre-Production

Minimum Guarantee Loans

A minimum guarantee (MG) loan is a loan against a minimum guaranteed paper. MG loans are financing arrangements collateralized by the advanced distribution agreements for a film in US domestic territory. Like foreign pre-sale loans, the collateral for these types of loans is the pre-sale contracts, but with domestic distributors instead of foreign ones, who agree to pay a minimum amount of money for the film's distribution rights in their territory. Since purchasers in this category represent major studios or streaming platforms (i.e., Hulu or Lionsgate), their commitments are generally considered strong forms of collateral. Ultimately, the risk is categorized by the creditworthiness of the purchaser of the film. Since the purchaser could void the agreement if the producer violates the contract or fails to complete the movie, MG loans are less secure than tax credits or rebates.

Risk	Low
Collateral Base	Advance on Domestic Distributor Pre Sales
Collateral Owner	Major US Studios, Streaming Platforms
Term	12-18 Months
Average Gross Return	12-18%
Production Stage	Pre-Production

Print & Advertising Loans

Prints and Advertising (P&A) Loans, are typically smaller, later-stage loans used to finance the cost of marketing and advertising for film distribution. The collateral is often the film's distribution rights or future revenues, where the value is vetted by assessing the film's commercial potential. These loans are riskier than loans mentioned above from a collateral perspective, given they are repaid from the initial sales of the film and, therefore, correlate with its success to a certain degree. Other risks include poor box office performance and ineffective marketing. However, these risks can be significantly mitigated by holding the first position in the waterfall, i.e., "last in, first out." P&A loans are typically very short-term and are repaid quickly out of the first profits of the film, allowing other, longer-term investors in the waterfall to begin recouping their capital after repayment.

Risk	Mid
Collateral Base	First Movie Sales
Collateral Owner	Film Production
Term	3-12 Months
Gross Return	20% Annualized with a Floor of 20%
Production Stage	Distribution

GAP Financing Loans

GAP loans cover the difference between the total production budget of a film and the amount of money secured from other sources. The repayment obligation is typically triggered when the film is completed and begins generating revenue. The collateral is usually the remaining unsold distribution rights or revenues from territories without existing pre-sales contracts. The value is vetted by assessing the film's commercial potential in terms of the value of the unsold territories. Risks include underperformance in unsold territories and overestimating the film's commercial potential. The higher level of risk is also associated with this loan's reliance on market conditions. For example, if audience perception of a film decreases, GAP lenders face an increasing risk of not getting repaid. However, risks can be mitigated through regular monitoring of sales pipelines and contracts, as well as performance tracking in unsold territories.

Risk	Mid
Collateral Base	Unsold Territories
Collateral Owner	Film Production
Term	12-20 months
Gross Return	20% Annualized
Production Stage	Pre-production

Mezzanine Loans

Mezzanine financing is a hybrid of debt and equity financing for independent films, typically subordinate to other loans but senior to equity investors. These loans are a higher-risk option, often used to fill the gap between senior debt and equity for films with budgets ranging from \$10 million to \$30 million. Given the higher risk, mezzanine financiers earn a higher interest rate and a share of the film's profits. The collateral is revenues from territories without existing pre-sales contracts, and its value is vetted by assessing the overall financial structure of the film's potential proceeds. The repayment obligation is triggered by revenue streams after the senior debt is serviced. Risks include insufficient cash flow to service the debt and potential conflicts with senior lenders. Loan default typically extends to the production company. Risk can be monitored through regular financial reporting and performance tracking.

Risk	High
Collateral Base	Unsold Territories, Profit Participation Points
Collateral Owner	Film Production
Term	12-20 Months
Gross Return	18-20% Annualized + Equity
Production Stage	Pre-production

Bridge Loans

A bridge loan, or interim financing, is a short-term financing option that helps producers bridge the gap between the development and production stages of their movie projects. Bridge loans typically arise in response to unanticipated delays, budget overruns or a misalignment in working capital timing and require proactive, hands-on management. They can be time-consuming and complicated and therefore command returns for investors that account for the related risk. The repayment obligation is typically triggered when longer-term financing or revenue becomes available. The collateral can vary but often will include future financing commitments or revenue streams. The collateral value is vetted by assessing the likelihood and timing of the anticipated longer-term financing or revenue as well as the IP strength of the film. Risks include delays in securing long-term financing or revenue shortfalls. Risk can be monitored through regular updates on the status of long-term financing and production progress.

Risk	High
Collateral Base	IP
Collateral Owner	Senior Lender (e.g. Bank)
Term	2 Weeks – 3 Months
Gross Return	10-25%
Production Stage	Pre-Production & Sometimes Post-production



V. Current Industry Trends

Over the past 24 months, the landscape of film finance has undergone significant shifts, shaped by the evolving strategies of streaming platforms, changing production budgets, and new challenges in domestic versus international filming. These dynamics have altered the risk-return profile for private credit investors in the independent film sector.

Streaming Demand: Boom to Retrenchment

The surge in demand for content during the streaming wars of 2020–2022 fueled aggressive spending by major platforms. However, by late 2023, market saturation and investor pressure for profitability led to a sharp retrenchment. Streamers like Netflix, Disney+, and Warner Bros. Discovery have pivoted from a volume-driven strategy to a focus on select, high-performing projects. This shift has created funding gaps for mid-budget and independent films that previously relied on streamer acquisitions, increasing the need for alternative financing sources such as private credit.

Production Budget Adjustments & Independent Film Financing

The average size of studio-backed production budgets has bifurcated, with tentpole blockbusters securing premium funding while mid-budget films (\$15M–\$50M) seeing reduced allocations. Independent productions have responded with more strategic budgeting, with a notable shift toward micro-budget (\$1M–\$5M) and lower-mid-budget (\$5M–\$15M) films, which now represent a growing share of the independent film market. Private credit has stepped in to bridge financing gaps, especially in presale-driven models where distributors commit to international territories in advance.

Profitability & Success in the Post-COVID-19 Landscape

Theatrical performance for independent films remains volatile, with fewer breakout successes compared to pre-pandemic years. The festival circuit (e.g., Sundance, TIFF, Cannes) has regained momentum, but distribution advances remain below pre-COVID-19 levels. Meanwhile, AVOD (advertising-based video on demand) and FAST (free ad-supported streaming TV) platforms have emerged as alternative revenue streams for independent films, creating new monetization avenues for investors willing to underwrite these deals.

Domestic vs. International Filming Opportunities

Cost pressures and labor union negotiations, including the 2023 WGA and SAG-AFTRA strikes, have driven a reevaluation of filming locations. While major productions are returning to Los Angeles and Atlanta due to improved labor agreements, independent producers are increasingly looking to international locations such as Canada, Eastern Europe, and South America, where tax incentives and lower labor costs create more favorable economics. This has opened new financing opportunities tied to regional tax credits and foreign pre-sales structures.



VI. Conclusions

This report highlights the emerging opportunities in film production finance through the lens of private credit lending, offering an attractive alternative to traditional film equity investments, other forms of specialty lending, and even private equity investing.

Private credit in film finance can provide high-yielding, uncorrelated returns within short durations, supported by collateral and contractual repayment structures. By financing specific stages of production and securing returns based upon the completion of key milestones, private credit investments can offer more predictable, risk-adjusted returns that often outperform traditional equity-based approaches. The private credit model in film finance can yield attractive returns of 15-20% annually, presenting significant potential for specialized and disciplined investors.

Historically, lenders in film finance have entered and exited the market based on cyclical trends, often in response to changes in studio and streamer spending patterns. The lack of long-term lending infrastructure has resulted in inefficiencies, with projects frequently relying on ad hoc financing solutions - increasing execution risk. For institutional investors, the opportunity lies in establishing a scalable, structured credit platform that applies traditional credit analysis disciplines and an integrated approach to risk mitigation through on set production supervision.

The private credit market in film finance is at a pivotal moment, offering institutional investors a unique opportunity to participate in the expansion and institutionalization of an asset class that has historically been fragmented and cyclical. While private lenders have long played a role in filling financing gaps, the absence of a dedicated, institutional-scale lending platform has resulted in a market characterized by episodic participation and inconsistent underwriting standards. Today, as the demand for structured, non-dilutive capital in media grows, there is an opportunity to establish a more systematic and disciplined approach to film lending that integrates robust credit analysis with hands-on production oversight.

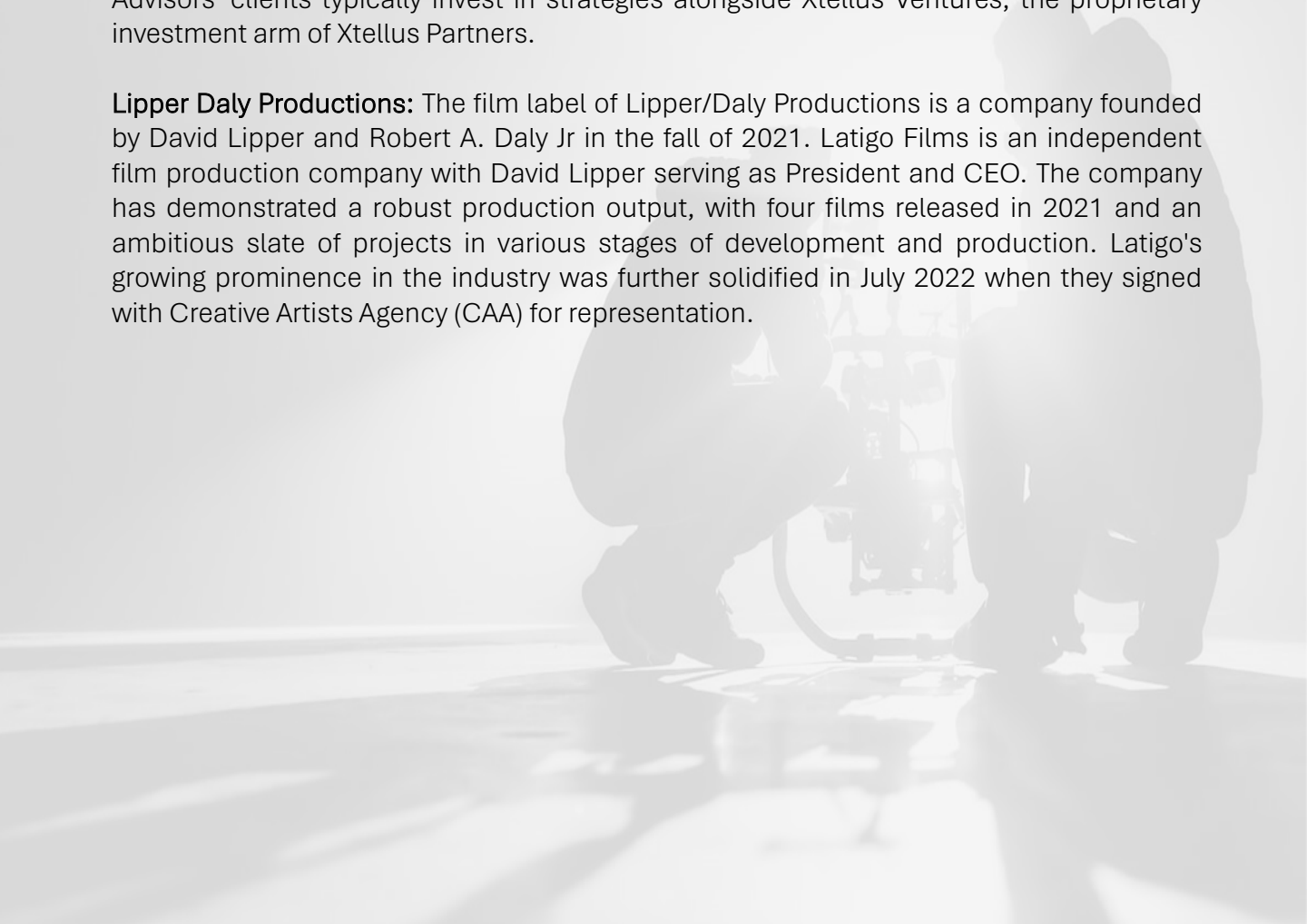
Ultimately, film finance within private credit offers a viable, scalable model with high yield potential in a largely uncorrelated asset class. For investors seeking differentiated returns, a disciplined, collateral-backed lending approach to film production offers a promising avenue for both growth and diversification.

VI. About Us

LX Film Credit Fund: The LX Film Credit Fund is co-managed by Xtellus Advisors and Lipper Daly Productions. The Fund seeks to achieve 15-20% annualized gross returns through primarily collateralized short-term lending across various stages of the film production process. Our approach distinguishes itself by integrating experienced credit analysts with a team of film industry veterans embedded in the production process to identify and manage lending risks preemptively. Our agreements are structured to incentivize positive outcomes while striving to provide additional compensation when risk exposure changes. The Fund expects to accumulate equity stakes through lending incentives and/or as compensation for changes in risk. We believe monetizing a library of these stakes would represent an opportunity to capture additional investment returns.

Xtellus Advisors: Xtellus offers institutional, sovereign wealth, and family office clients direct access to a diverse pipeline of investment opportunities, ranging from venture capital to late-stage private equity, as well as private credit lending transactions. These opportunities are available through funds, special-purpose vehicles, and direct or co-investments. We focus on opportunities where direct engagement with management can provide an edge in selecting, managing, and influencing positive outcomes. Xtellus Advisors' clients typically invest in strategies alongside Xtellus Ventures, the proprietary investment arm of Xtellus Partners.

Lipper Daly Productions: The film label of Lipper/Daly Productions is a company founded by David Lipper and Robert A. Daly Jr in the fall of 2021. Latigo Films is an independent film production company with David Lipper serving as President and CEO. The company has demonstrated a robust production output, with four films released in 2021 and an ambitious slate of projects in various stages of development and production. Latigo's growing prominence in the industry was further solidified in July 2022 when they signed with Creative Artists Agency (CAA) for representation.



Disclaimer

This communication is provided for your internal use only. The information contained herein is proprietary and confidential to Xtellus Advisors LLC (the “Adviser”) and LX Film Credit Fund (the “Fund”) and may not be disclosed to third parties or duplicated or used for any purpose other than the purpose for which it has been provided. This communication is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security or of any fund or account the Adviser manages or offers. No offer or solicitation of the Fund will be made prior to the delivery of the Offering Documents (as defined below). Although the information provided herein has been obtained from sources which the Adviser believes to be reliable, we do not guarantee its accuracy, and such information may be incomplete or condensed. The information is subject to change without notice and the Adviser has no obligation to update you. Since we furnish all information as part of a general information service and without regard to your particular circumstances, the Adviser shall not be liable for any damages arising out of any inaccuracy in the information.

This document should not be the basis of an investment decision. An investment decision should be based on your customary and thorough due diligence procedures, which should include, but not be limited to, a thorough review of all relevant term sheets and other offering documents as well as consultation with legal, tax and regulatory experts. Any person subscribing for an investment must be able to bear the risks involved and must meet the particular Fund’s suitability requirements. Some or all alternative investment programs may not be suitable for certain investors. No assurance can be given that any Fund will meet its investment objectives or avoid losses. A discussion of some, but not all, of the risks and apparent and potential conflicts of interest associated with investing in the Fund can be found in the Fund’s private placement memoranda, subscription agreement, limited partnership or limited liability company agreement, articles of association or other offering documents as applicable, together with any supplements thereto (collectively, the “Offering Documents”).

The information in this report is NOT intended to contain or express exposure recommendations, guidelines or limits applicable to a fund. The information in this report does not disclose or contemplate the hedging or exit strategies of the Fund. While investors should understand and consider risks associated with position concentrations when making an investment decision, this report is not intended to aid an investor in evaluating such risk. The terms set forth in the Offering Documents are controlling in all respects should they conflict with any other term set forth in other marketing materials, and therefore, the Offering Documents must be reviewed carefully before making an investment and periodically while an investment is maintained. Statements made in this release include forward-looking statements. These statements, including those relating to future financial expectations, involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Certain information contained in this presentation constitutes opinions, intentions or beliefs of the Adviser, which may be preceded by the terms “belief,” “opinion,” “consider,” “anticipate,” “seek,” or other similar terms. Such statements of “opinion” merely represent the Adviser’s state of mind and should not be construed as a material statement of fact.

Any use of adjectives or superlatives included herein are a good faith opinion of the Adviser including but not limited to language such as “exhaustive,” “superior,” or “enhanced,” and should not be construed as material statements of fact. Further, other investors, investment advisers, or sophisticated individuals may not agree with the opinions of the Adviser.

This material is not intended to represent the rendering of accounting, tax, legal or regulatory advice. This information is not, and under no circumstances is to be construed as, a prospectus, a public offering, or an offering memorandum as defined under applicable securities legislation. A change in the facts or circumstances of any transaction could materially affect the accounting, tax, legal or regulatory treatment for that transaction. The ultimate responsibility for the decision on the appropriate application of accounting, tax, legal and regulatory treatment rests with the investor and his or her accountants, tax and regulatory counsel. Potential investors should consult, and must rely on their own professional tax, legal and investment advisors as to matters concerning the Fund and their investments in the Fund or any other fund of the Adviser. Prospective investors should inform themselves as to: (1) the legal requirements within their own jurisdictions for the purchase, holding or disposal of investments; (2) and applicable foreign exchange restrictions; and (3) any income and other taxes which may apply to their purchase, holding and disposal of investments or payments in respect of the investments of the Fund.