

# Making deals

The finance team behind the VPF structure announces they'll help small and mid-size exhibitors convert to digital

"The industry changed with DCIP's announcement this year," says Entertainment Financial Advisor's Brandt Gully. "We knew that was going to be the event that got the digital transition moving because these three big exhibitors happen to be in the backyard of the smaller exhibitors. As soon as they get converted it puts the smaller ones who aren't converted at a disadvantage."

Gully and EFA partners Ralph Willis and Kenny Farve have a history of smart prediction. For years, they headed the entertainment finance team for GE Capital and have spent years hammering out the details of the digital transition. Their greatest coup was closing the \$217 million financing deal for Cinedigm.

"We were, from the finance side, really the ones who engineered the whole VPF structure," says Gully. And now the trio and their new venture, EFA Partners, is ready to give the rollout a new push with their financing plan for small to mid-sized exhibitors. "It's an industry we really enjoy and we've been told that our expertise there is quite unique," adds Gully. "While at GE, we did a lot of financing for film production, pre and post production companies, integrators, vendors and exhibitors."

EFA's brainstorm was to connect exhibition to the U.S. Small Business Administration, or SBA. The program guarantees good repayment and interest rates for qualified companies. Exhibitors have 10 years to pay back their loans, and it's reasonable to predict that many can put their VPF checks toward the investment. Gully explains, "The exhibitor will be able to finance 100 percent of their conversion costs, and that's unique to any deal we've seen so far. Even the portion that they have to put toward the conversion is something they can finance, and the interest rates are very reasonable compared to what they would get from their local lender."

Adds Willis, "These are the criteria from the SBA, which is meant for smaller businesses. That's why they're in place. While The SBA is guaranteeing the loan, they're not really involved—the lenders are the regular banks and financial institutions."

To qualify, exhibitors must have a net income less than \$3 million and a company net worth under \$8.5 million. "Based on our analysis, most small and midsize exhibitors fall under that line," says Gully. They must have been in business for three years, they must be U.S. citizens and, with their application, they must provide three years of operating history and their personal credit history. Once approved, a theater can start installing digital equipment within 30 days.

"We've really spent a lot of time over the last six to nine months educating financial institutions," says Gully. The EFA partners knew they had a workable business model, but the credit industry was still frozen. Instead of scrapping the idea, they invested time in smoothing the path ahead, patient that there would come a time when the cash would flow more freely. "We figured we'd go out and find people who might be willing to invest, and devote our time and energy to getting them better equipped to understand the industry," says Gully. And their argument to banks was this:

"When we discuss digital financing, we start at the very beginning," says Gully. "We talk about the strength of the film industry,

we talk about the record box office we've seen in the last three years, how well the industry does during recessionary times. That's the key driver. Financial institutions look at the industry as a whole and from there they focus on a niche." And to EFA, the best growth area was clearly digital.

EFA will use their familiarity with the SBA to get exhibitors approved by their local bank. Going forward, the process will be fast and easy. But that's due to months of hard preparatory work.

"To say it's difficult is an understatement—to try to explain to these lenders what a VPF is and how they are going to get repaid," explains Gully. "And the exhibition business itself can be a little unique for banks because it's dependent on product someone *else* is putting together that's obviously seasonal. We've vetted that and they've bought into the industry and the collateral behind this program."

Adds Willis, "While we were at GE, we were totally immersed in the industry meeting software providers, hardware providers, studios, integrators. We had to go through that in order to get the initial Cinedigm deal done in 2006. We know the questions the financial institutions are going to ask."

"One of the biggest concerns for smaller operators is that if they wait, then they'll miss out on the whole VPF concept. The studios are only going to pay these for so long—and then they're going to have to pay 100 percent of it themselves," sighs Gully. But EFA believes that right now they can help provide a sweet spot to small and mid-size exhibitors gauging their options.

"I've been going to ShoWest for the past eight years, and for the last four it's been the exact same stories, the exact same panel discussions," says Gully. "The whole process for years has been a headache to a lot of these exhibitors because it's never been something that they've been excited about doing—excited about spending \$70,000 plus dollars per screen." But after EFA's big debut in Vegas this March, the tone has changed.

"It's become a bit of a frenzied state," says Gully. "Our phones have been ringing off the hook from any size exhibitor wanting us to go over what their options are and deciding what's the best fit for them. I think the urgency level has finally spiked up after several years of just sitting and waiting. It's time to get this done." ■