Financing **Strategies**

EFA Partners unveil more about the current financing environment for small-to-mid-sized exhibitors wanting to push ahead with digitization, which begins with an understanding of lenders and an awareness of current financing options.

In *Avatar*, humans in a technologically-advanced age facing an energy crisis must venture to a mysterious planet with a strange species while they look for sustainability solutions for their planet. Similarly, smaller exhibitors, facing a credit crisis in today's changing technological age, must enter the mysterious world of the banker's office in search of seemingly unobtainable financing – a highly valued necessity essential for sustainable competitiveness.

The humans' efforts in *Avatar* were unsuccessful due to: insufficient knowledge of the planet's inhabitants, poor planning and lack of understanding of options, also impatience. As credit markets begin to reopen for Exhibition, theatre owners seeking financing can learn from these mistakes to ensure they recognize the focus and needs of prospective lenders, clearly define business objectives, understand financing options and employ realistic financing timelines.

©Ryan Miller/Capture Imaging

KNOW YOUR LENDERS

Not all financial institutions should be treated alike. The financial world enjoys a broad range of lenders, each with its own investment philosophy and criteria. Therefore, work with ones that best fit your business. If working with local or regional banks, do the necessary homework. Some institutions only focus on particular sectors; others may be willing to discuss new ones but have inadequate lending size limits. With this in mind, local lenders willing to listen could prove a nice fit if specifically focused on lending to your region and with fewer personnel involved in the approval process.

Smaller exhibitors may believe that larger financial institutions only loan to companies with huge balance sheets. That's not always true as many of these firms operate specific units focusing on smaller companies, plus of course they may already understand the industry. First, realize that these firms employ various internal groups with specific areas of focus such as particular industries, loan products, geographic regions or company size, and it's imperative to commence discussions with the right group. Also understand that the credit approval process for these institutions may be prolonged due to the many decision-makers involved. That said, these groups have the wherewithal to grow with your business and become a viable lending alternative.

> When seeking financing for d-Cinema equipment, don't automatically assume lenders will be familiar with the concept… be prepared to discuss the basics of Digital, the industry's ongoing transition, the equipment and theatre benefits, also the role of integrators, service providers and the VPF model.

It is also strongly recommended to work concurrently with two or more prospective lenders. It means extra work, of course, but more favorable terms may be gained through competitive loan proposals.

CLEAR OBJECTIVES

So, what do lenders want to hear? Certainly, a well-thought-out business plan with detailed supporting analyses. As you discuss your needs, it is essential to give a clear, concise message regarding your firm's financing needs, business objectives, cashflow projections and loan repayment ability. For example, if you're seeking capital to build a new site, be prepared to state why that location fits your business plan and will improve your business. Present a detailed analysis of your site-selection criteria and annual projections for the location, while outlining, too, the financing plans with a breakdown of construction and equipment needs. Also summarize the new site's management plans and additional personnel and resources needed.

If you're seeking financing for d-Cinema equipment, don't automatically assume that lenders will be familiar with the concept. Be prepared to discuss the basics of Digital, the industry's ongoing transition, the equipment and the theatre benefits. It will also be necessary to discuss the role of industry integrators, service providers and the VPF model. In general, come prepared and have readily available the supporting analysis.

UNDERSTAND THE FINANCING OPTIONS

In discussing financing with prospective lenders, it is beneficial to understand current financing products. While the credit markets are starting to open, financing terms are quite different from previous years, and exhibitors should also look at outside-the-box offerings.

For traditional loans, lending parameters are much tighter than in the past. Lenders once willing to offer up to five times annual theatre cashflow have now cut multiples to three-to-four times. Also, while interest rates are low, floating rate loans will most likely have a "floor" rate resulting in borrowers not seeing interest rate reduction benefits. Lending terms are also shorter, with lenders once willing to provide seven-year loans now only comfortable with three-to-five years.

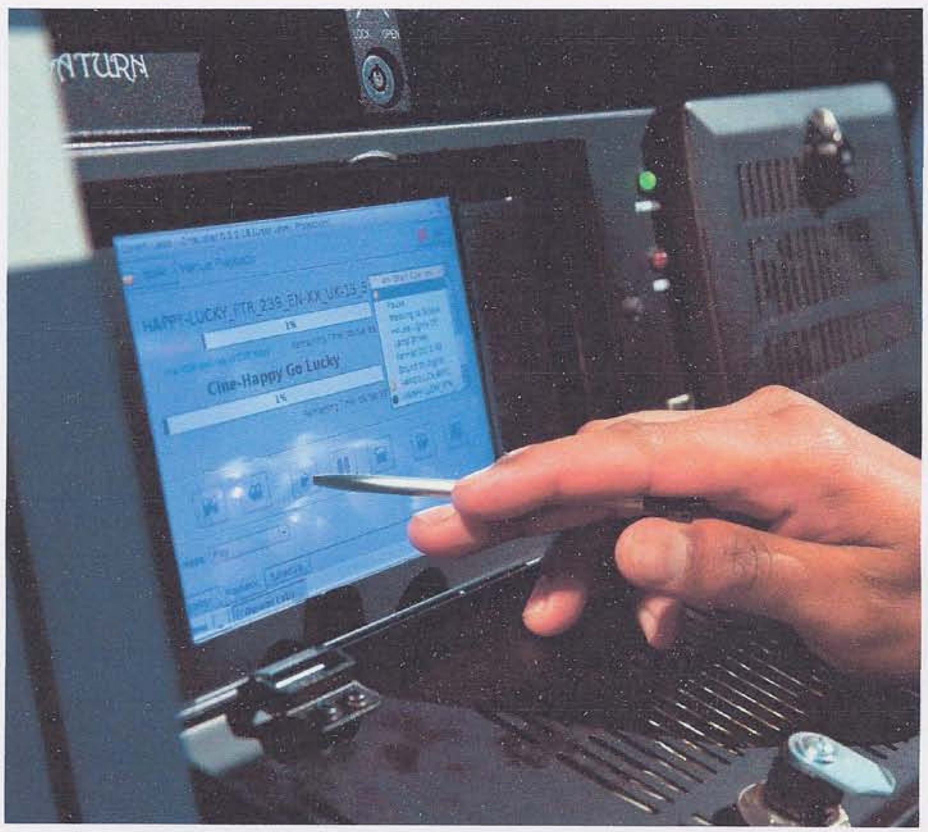
As an alternative, in the U.S. there are current loan programs backed by the U.S. Small Business Administration (SBA). These programs are procured through regional and national lenders – not a U.S. government agency – but the SBA does provide program-lenders with guarantees allowing loans to be offered on more favorable terms. These loans can be utilized for a range of needs, from (digital) equipment-financing to real estate. Interest rates are competitive and loan terms can be 10 years or more. Loans for these programs are typically limited to $2m per business and require personal guarantees; however, the favorable rates and terms could make them an attractive alternative.

For equipment-financing, leasing may represent another viable offering, especially for d-Cinema equipment. To date, leasing was unattractive to lessors due to the equipment's lack of operating history. Now, though, with several thousand digital systems deployed, lessors have a better understanding of the equipment and may be reflected in their terms. With the potential accounting and tax benefits associated with leasing – including potential off-balance sheet-financing – an understanding of lease basics will help determine if it's a suitable option.

REALISTIC FINANCE TIMELINES

Working with lenders takes time. As you commence discussions with lenders, they will invariably ask your financing time expectations. They'd much rather hear a realistic response rather than the all-too-typical: "as soon as possible". Understand that for lenders unfamiliar with the Exhibition industry, it may take several meetings, over several weeks, to help them with the necessary overview and for them to decide if the industry fits their criteria. For lenders already understanding the sector, the loan approval and documentation process is still lengthy.

Prospective lenders will require a comprehensive package of business materials which may take up to two weeks to compile. Such information may include three-to-five years of business operating history and perhaps three-to-five years of the owners' personal financial history. From there, allow for the bank's approval process to be a minimum of two-to-three weeks, and then another two-to-four weeks for the negotiation of proposal agreements and loan documentation. In short, start your financing search early and understand that the process may take up to eight weeks from initial conversation to funding.



As exhibitors enter bank offices, they should heed the warning of Dr. Augustine in *Avatar*: "So you just figured you'd come here, to the most hostile environment known to man, with no training of any kind… and 'see how it went'… what was going through your head?"

***EFA Partners* (*Kenneth Favre, Ralph Willis, Brandt Gully*),** *based in New York and Atlanta, is a specialized advisory and consulting firm focused on providing financial services to the Film & Leisure sectors, providing advice on raising capital, M&A, restructurings, and general business strategy.*
www.EFApartners.com