



Comp Analysis Guide

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Interpreting the Comp Analysis

Introduction

The Nash Information Services, LLC (NIS) comp analysis helps potential investors and business partners understand the potential profit/loss of a film project based on comparison projects and a set of assumptions about the distribution agreements that will be made with studios or independent distributors that release the film.

The comp analysis is *not* a prediction of how much a particular movie is going to make. It is an analysis of how similar movies (“comparison films” or “comps”) have performed in recent years. Comparison films are selected based on a set of criteria agreed between NIS and the client. In most cases, we select comps based on the budget and genre of the film, the experience and bankability of the key talent involved, and choose films that have met the distribution goal set by the producer (e.g., being picked up by a studio specialty division for domestic distribution). We also assume that the film is competently made, appropriately marketed, and will be received positively by audiences. These basic assumptions should be presented in any documentation that supports the comp analysis, and we do not make an evaluation of how likely these assumptions are to turn out to be true. Except where noted below, revenue and expense figures for the comparable films are estimates based on NIS’ industry tracking.

The actual performance of a movie depends on many factors, the most important of which are whether it gets picked up by an appropriate distributor, and how popular it is with audiences.

Evaluating Risk

As well as providing a guideline of the performance for films of a particular type and quality, the analysis can be useful in deciding how risky a particular project is. If the analysis shows many movies making poor returns, and one or two blockbusters, for example, then investing in the movie is probably quite risky, regardless of its other qualities, and even if the overall RoI projection is quite high. On the other hand, if the analysis shows many films making a modest profit, and few outliers at the high or low end, then the project is most likely less risky (although, we must note that this is based on it meeting its goals for quality and distribution as described above).

Revenue Breakdown by Format, and US vs. International Earnings

One other area to look at is how revenues break down across formats and in the domestic market (US and Canada) vs. internationally. As a rule of thumb, for a “typical” independent movie, the four revenue figures for domestic and international box office, and domestic video sales and video rentals will be of very roughly the same magnitude. International video sales and rentals are generally somewhat lower. In analyzing the data, if, for example, domestic video sales numbers are higher than any other category, it might be worth looking at a distributor with a good track record in the home market, rather than looking for a distributor with a strong theatrical record, but weaker home market sales.

Assumptions Tab

The first tab in the spreadsheet, **Assumptions**, is divided into two sections — “**Production Financing and Distribution Assumptions**” and “**Other Assumptions Used in Calculations**”. These assumptions are the foundation of the calculations throughout the spreadsheet. These adjust revenue figures and costs, and will affect the overall analysis. These assumptions are described in more detail in the following sections. The default values are averages based on NIS’ research.

The **Production Budget**, **Production Tax Rebates/Incentives**, **Investor Preferred Return**, **Pre-Production Domestic Advance**, **Post-Production Domestic Advance**, **Pre-Production International Pre-Sales**, and **Post-Production International Advances** are values provided by the client. The other values are based on common industry practices and the financial model of other films, unless tailored to the needs of the client. For example, the **Production Company Share of Production Costs** and **Production Company Equity Share** are set at a default 100%, but may be less if the film is a co-production.

The Other Assumptions Used in Calculations section includes other assumptions used in the calculations in the sheet. These are NIS estimates based on industry standards and analysis of financial reports for other films.

The **Domestic** and **International Theatrical Rental Rates** are the share of the theatrical ticket price that is kept by the movie theater in domestic and international territories respectively. The **Video Rental** and **Retail Margins** are the average profit margins enjoyed by the retailers and renters of video products. The **Video Rental** and **Retail Wholesale Overheads** are the overheads incurred by the distributor for manufacturing and shipping video discs, and for handling returns and spoiled goods.

Video Advertising vs. Theatrical Advertising is the amount a distributor will spend on advertising the video release of a movie compared to their advertising on the theatrical release. For major theatrical releases, this will be about 10%, but it can be considerably higher for limited releases where the distributor concentrates their marketing efforts on the home market.

International Ad Rates vs. Domestic Ad Rates is a measure of the expense of advertising internationally vs. the domestic market. Conceptually, if this field is 70%, say, it means that for every \$1 you spend on advertising in the US, you would only need to spend 70 cents overseas to reach the same number of people. The analysis assumes that international advertising spending will be in the same proportion to international revenue as domestic advertising is to domestic revenue, adjusted by this percentage. Generally, international advertising is less expensive than domestic advertising, and this field provides a means of making an appropriate adjustment to the projection.

Distributor Advertising Overhead and **Other Distributor Overheads vs. P&A Budget** are the overheads incurred by the distributor for marketing the film.

Investor Summary Tab

The **Investor Summary** tab calculates a return on investment for the movie under low-, medium-, and high-performance scenarios. We define the medium performance to correspond to the median performance of all the comparable films (see the *Analysis Tab* for more on that). The low performance is the case where the film earns 50% of the revenue of the medium performance (for example, if the medium performance domestic box office is \$100,000, the low performance would be \$50,000). The high performance corresponds to 200% of the medium revenue (e.g., \$200,000 domestic box, if the medium performance is \$100,000).

The calculations in the Investor Summary are broken into five parts:

Revenue Summary

The first five lines of the analysis summarize the expected revenue under high, medium and low scenarios for each of the major revenue streams: domestic box office, domestic consumer spending on video (including VOD), international box office, international spending on video (including VOD), and TV & ancillary revenues.

Pre-Release Receipts and Post-Release Receipts

These lines show the overages (payments beyond the advances/pre-sales) expected in each scenario, split between domestic and international numbers. In general, the higher the pre-sales are, the lower the overages will be, since the distributors will be absorbing more of the risk associated with the release of the film. The **Domestic Advance** is the anticipated amount the domestic distributor will pay in advance to acquire the rights to the film for the domestic market. A value of \$0 (which is common) indicates no upfront payment. **International Pre-Sales** is the amount promised by international distributors for the rights to the film in their respective territories. The pre-sales may be assumed to be monetizable before production begins (most likely through a third-party funding source that will lend money based on a completion bond and a pre-sale contract).

Investment Required

This section shows what investment will be required in order to finance the film, based on the planned production budget, and the expected tax rebates/incentives and the advances/pre-sales from distributors.

Investor Return Summary

This shows how the earnings from the film would accrue to the investors under each scenario. The low scenario corresponds to the film achieving 50% of the revenue in the median Comp Analysis; the medium scenario corresponds to the figures in the median Comp Analysis; and the high projection corresponds to 150% of the projected revenue. The **Investor Preferred Return** is the percentage that the investor will receive after receiving 100% of the money earned by the production company until they have received their original investment back. Once the investor has received their preferred return, they will receive a percentage (the **Investor Participation**) of all remaining revenues earned by the production company. The final row shows the **Return on Investment** based on the production cost of the movie. A negative % figure indicates a loss and a positive % figure indicates a profit for the producer.

Analysis Tab

The **Analysis** tab shows the estimated revenues and expenses for the comparison films. For each film, a calculation is made of the producer profit/(loss) **based on the assumptions made in the "Assumptions" tab**. What we are presenting here is the profit or loss these films would have made (based on our revenue estimates) *assuming they had the same distribution agreement as we are assuming for the client's film project*. The figures presented here may be a good reflection of how much these individual films made for their producers, but we do not consider factors such as international pre-sales, shared P&A costs, favorable (or poor) distribution agreements, or other factors that will have affected the actual earnings for these projects. The reason we take this approach is that we want to show the range of likely outcomes given the sales/distribution goals of our client.

This tab contains the following columns:

Columns B and C - Domestic **theatrical** and **video release dates** for each movie. The domestic market is defined to be the United States + Canada + Puerto Rico + Guam.

Column D - **Movie Name**

Column E - **Production Budget**. This is either the actual budget, as reported to us directly by producers/studios, as reported in reputable trade press, or as estimated by NIS based on the creative talent involved, the type of film, and the distribution pattern.

Column F - **Advertising Costs** for the domestic theatrical release of the movie

Column G - **Print Costs** for the domestic theatrical release of the movie (i.e., the cost of copying and distributing the spools of film sent to movie theaters)

Column H - **Distributor Collected Revenue**. We make the simplifying assumption that a single distributor distributes the film in every territory worldwide and estimate revenues for the first seven years the film is in release. The revenue collected is based on a number of assumptions about the revenue share with movie theaters and retailers, as described in the Assumptions section.

Column I - **Distribution Fees and Costs** include all fees and costs that we anticipate the studio would charge against the distribution of the film. These include P&A costs for the theatrical release, marketing costs for the video release, marketing overhead charges, guild fees, and the distribution fee charged for distributing the film.

Column J - The **Producer Revenue** column is an estimate of the revenue received by the producer after the studio fees and expenses have been deducted. This is simply the difference between the previous two columns (Distributor Collected Revenue and Distribution Fees and Costs), or zero if the fees and costs incurred by the studio would be greater than the revenue they would receive under this model.

Column K - The **Net Producer Profit/(Loss)** is the amount the producer would have made (or lost) based on the revenue figure in the previous column, subtracting the production budget of the film.

Column L - The **Producer % RoI** is the return on investment for the producer, calculated by comparing the profit to the production budget. A positive figure indicates a profit for the producer. A negative figure indicates a loss.

The figures in the right-hand columns (columns N to W and Y to AA) are revenue figures -- e.g. the amount spent by consumers on renting DVDs, buying tickets at the movie theater etc., and the amount received by the studio/rights holder for TV rights and ancillary revenues.

Column N - The **domestic theatrical box office receipts** for the movie. i.e., How much people spent going to see the movie in theaters.

Column O - The **most theaters** the movie played in at any one time in the domestic market, otherwise known as the point of "widest release."

Column P - **International theatrical box office receipts**. Again, this is the amount spent by moviegoers, this time for the rest of the world.

Column Q - **Domestic Video Sales**. The amount spent by consumers purchasing the movie on video at retail stores, or paying to download a permanent copy of the movie from the internet. This includes VHS tapes, DVDs and Blu-ray, as well as online digital purchases. Since studios do not generally release official sales numbers for video, these numbers are NIS's estimates, which are based on retail surveys and official and unofficial studio reports. These numbers are believed accurate to within about $\pm 10\%$ for major films and $\pm 20\%$ for independent films.

Column R - **International Video Sales**. These are estimates for consumer spending on video at retail internationally. Again these are estimates based on market models, retail surveys and studio reports. These numbers are generally accurate to within about $\pm 20\%$ for major films and $\pm 40\%$ for independent films.

Column S - **Domestic video rentals**. The amount spent by domestic consumers renting the movie, for example at Redbox kiosks or via subscription streaming platforms like Netflix. This also includes digital online purchases (EST) and video-on-demand (VOD). Again, these are NIS's estimates, accurate to within about $\pm 20\%$.

Column T - **International video rentals**. Estimated using NIS' models and accurate to about $\pm 40\%$.

Column U - **Domestic TV Rights**. The amount spent by cable and network TV acquiring rights to show the movies. For most movies, this is an estimate, based on standard industry ratios.

Column V - **International TV Rights**. The amount spent by international cable and network TV companies on the movies.

Column W - **Other ancillary income**. This includes soundtrack sales, licensing of intellectual property for posters etc., licensing to airlines for inflight entertainment, and other revenue that doesn't fit in the other categories above.

The numbers are all broken out for each movie, and then there is an analysis at the bottom of the spreadsheet with the median and average in each category, along with the maximum, minimum and standard deviation, for the mathematically inclined. The "**Revenue Adjustment, Based on Budget**" line adjusts for budget differences between the sample set and the target movie in an analysis. This is used when the median budget for the sample movies is significantly different from the actual budget of the target movie and adjusts for the fact that movies with higher budgets tend to make more money across all revenue streams. For example, a movie with a \$40 million budget can be expected to make about twice as much as a movie budgeted at \$20 million. The budget adjustment percentage is equal to the ratio between the median budget in the sample set, and the actual budget for the target movie.¹

In general, the Revenue Adjustment line provides the best guidance—this gives an idea of what a typical movie like this makes in each area.

Domestic Distribution Tab

The Domestic Distribution tab is an analysis of the domestic distribution figures of the comparable films. This tab uses data from the Analysis tab and the results appear in the calculations in the Investor Summary tab. Like the Investor Summary, the projections show a low, medium, and high-performance scenario.

The theatrical, video, TV and ancillary **Distribution Fees** are the percentage of revenue received by the distributor that it takes "off the top." The **Theatrical Rentals** is the amount paid to exhibitors of the film. The **Advertising Overhead** is the amount the distributor will pay on agency fees etc. on top of the actual advertising costs associated with a film. The **Distributor Overhead** is the additional overheads, such as taxes, currency conversion fees, guild fees, and other expenses that the distributor will charge against the film. The distributor overhead is usually about 20% of the P&A budget of the film. The **Studio Overhead on Advance** is the overhead charged by studio for administration, as percentage of advance (if there is an advance), to cover administrative expenses. The **Domestic Overage** is the

¹ For more information on the relationship between production budgets and revenue, please see Bruce Nash's article "Is There an Ideal Production Budget?" at <http://www.the-numbers.com/news/130360830-Analysis-Is-There-an-Ideal-Production-Budget>.

distributor revenue after subtracting advances. The **Total Distribution Fees + Costs as a % of Distributor Revenue** is a measure of how expensive the film is likely to be to market compared to its revenue.

International Distribution Tab

The International Distribution tab is the same as the Domestic Distribution tab, but does not include Gross Ancillary Revenue. The results from this tab populate the International Overage value in the Investor Summary tab and use data from the comparable film's international performance in the Analysis tab.

Data Sources

Our goal at Nash Information Services is to collect as much information as possible about the film industry in order to help us produce the most accurate analytical models possible.

Home Video Tracking (Including VOD and Subscription Streaming)

We track domestic DVD, Blu-ray, physical disc rental, and transactional video-on-demand (tVOD) for each movie individually. Therefore, we can provide figures for these within a reasonable margin of error. Electronic sell through and subscription streaming estimates are based on models. In the case of EST, the estimate is modeled based on the DVD and Blu-ray spending. For subscription streaming, we have a model based on actual license payments for films by the streaming platforms, with the estimate based on the box office or budget of the film.

Studios and Distributors

Domestic and international theatrical distributors provide us with daily, weekend and weekly box office tracking information for films in current release, as well as release dates, some budget information, cast and crew lists, and other materials related to their films.

Trade Press

- Variety
- Screen International
- Deadline
- The Wrap
- Hollywood Reporter
- Media Play News
- Home Media Magazine (and previously Video Store Magazine)
- Video Business
- Movie Maker

Major News Outlets

- New York Times
- Los Angeles Times
- Wall Street Journal

The three newspapers above are generally the most reliable sources for movie-industry and business information. However we treat other major newspapers reports as reliable if they have well-sourced information (for example a direct quote from a film's director or a studio executive).

National and International Trade Groups

- Digital Entertainment Group
- European Audiovisual Observatory

National Association of Theater Owners
Motion Picture Association of America
Motion Picture Distributors Association of Australia
Motion Picture Distributors Association of New Zealand
British Film Institute
Korean Film Council
FilmNewEurope.com
Boxoffice NL
Roskino
Entgroup, China
MYmovies, Italy
Box Office Türkiye
Dir.bg, Bulgaria
Únia Filmovych Distribútorov Slovenskej Republiky
Cinemagia, Romania
Inspire Entertainment Co., Ltd., Thailand
Film Institut, Austria
ProCinema, Switzerland

Court Records

We obtain public records of film finances from court filings arising from disputes between distributors, producers, agents, financiers, etc.

Profit Participation Statements

Producers and others in the industry provide us with profit participation statements for their films. Confidentiality agreements prohibit us from sharing numbers from these statements, but the numbers are a core component in the construction of our revenue estimate models.

Tracking Services

Rentrak Home Media Essentials
Nielsen VideoScan
Data provided to us privately by retail and rental outlets

Books

The following is a very partial list of some of the books we refer to most for historical information and to help build our analytical models.

Entertainment Industry Economics, Harold Vogel
The Hollywood Reporter Book of Box Office Hits, Susan Sackett
The Big Picture, Edward Jay Epstein
George Lucas's Blockbusting, Edited by Alex Ben Block and Lucy Autrey Wilson