

## **Canadian Private Equity Firms And Venture Capital Firms In Manitoba Benefit From Tax & Media Finance**

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**July 21, 2008** - [PRLog](#) -- In the last several years, almost 10 billion dollars of Wall Street Private Equity Has Poured Into The Media And Entertainment Business. JP Morgan, Deutsche Bank, CITIGROUP, Sovereign Wealth Funds, Columbus Nova, Citadel, Och-Ziff, Stark Investments, and countless others have bet on Hollywood Studios and Film Producers, and mostly lost their Vegas crapshoots.

However, a Chicago and Los Angeles based structured film finance and production company, Noci Pictures Entertainment, may have discovered the solution for risk minimization that a lot of investors simply have failed to overlook and do their homework on.

"Unfortunately it was a crowd mentality and uneducated vanity play when high rollers were betting on the film business" states Noci's CEO Yuri Rutman. "When everyone was investing with blinders on in dot coms and hoping for a big score without analyzing the real hedging strategies, the same things occurred in film investments. A lot of testosterone driven investments with the the hope of big payouts and mingling with the stars. But then reality started to kick everyone's ass".

In the typical film fund or single picture finance scenarios, investors put up anywhere between 20%-100% of a film's budget and/or marketing costs and hope their rate of return could be proportionately increased by the level of success (or failure) in films. The conservative goal is a 8-12% Internal Rate Of Return and some sweeteners if certain films become breakout hits. But the actual performance of most private equity plays in Hollywood is negative. And the only ones to blame are not the studios with their creative accounting methods, but the promoters of these deals which simply don't have a long-term exit strategy or respect for private equity and too much smoke and mirrors about box office potential. "The reality is most film investors should not look at theatrical box office to gauge their success. Especially for smaller investors who have only \$100,000 or \$1,000,000 to invest.

Which leaves one wondering then "well how do you make money in Hollywood?"

Section 181 And State Tax Incentives in the United States. And Canadian Federal and regional incentives

The American Jobs Creation Act Of 2004, the 2004 enactment of Section 181 of the Internal Revenue Code of 1986 (the "Code") marked an unprecedented change in U.S. policy toward the phenomenon known as "Runaway Production".

Runaway Production refers to a film or television production that leaves one state or country to be filmed in another purely for economic reasons. This movement occurs because producers tend to film in the location where they can minimize production costs through tax incentives, cheaper labor.

Over the years, Canada has been the greatest beneficiary of U.S. runaway productions (according to some reports, Canada has claimed up to 80% of the U.S. runaways, generating an economic impact of \$10.3 billion in production output in 1998 alone).

Section 181 permits a 100% write-off for the cost of certain audio-visual works, regardless of what media

they are destined for (e.g., theatrical, television, DVD, etc.).

An individual or company who makes an investment into Section 181 qualified productions can take a 100% deduction of their investment against their passive income in the year their investment was made.

But if the investor is in Canada, there are even higher incentives for private equity investments.

"If you combine the different incentives, cash rebates, leverage some pre-sales on large films, you can see a 50-100% ROI on your investment before actual revenues", Rutman adds".

It seems that the type of investors who fully would understand these structures are Real Estate Developers, Structured Finance Venture Capitalists, and high net worth investors and family offices.

Familiar individuals who are financing films include Larry Ellison, Paul Allen, Steven Rales, Fred Smith, the CEO of Federal Express, Norman Waitt, the Co-Founder of Gateway Computers, Jeff Skoll Of Ebay, Marc Turteltaub of The Money Store, Roger Marino Of EMC Corp, Sidney Kimmel Of Jones Apparel Group, Minnesota Twins owner Bill Pohlada; Real Estate Developers Tom Rosenberg, Bob Yari, Dan Crown; and, financiers Sheikh Waleed Al Ibrahim.

"I don't know of any other alternative investment that can offer tax incentives, multiple exit strategies, as well as giving back to the local economy, while being involved with the moviemaking process", states Yuri Rutman, the head of Noci Pictures. "Heck, I don't even know of any business that someone can start where they know they will receive an exact ROI before they see any profits".

"I am also surprised how many investors, hedge funds, VC, tax planners, CPA's, tax attorneys, public and private companies have no clue about these benefits", Rutman adds. "Federal Preservation, New Markets Tax Credits, etc was the usual route for tax credit planning or alternative investments , but film production incentives offer more premium and equity upside.

Rutman adds "Whats great is the same formula can be applied in the U.S., Canada, Australia, New Zealand, and dozens of other countries without relying on studio accounting. And the size of the deal doesn't matter whether it's a \$100 million dollar private equity investor or a \$500,000 Angel Investor".

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Source	Noci Pictures
City/Town	Chicago
State/Province	Illinois
Country	United States
Industry	<a href="#">Accounting</a> , <a href="#">Business</a> , <a href="#">Banking</a>
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