
THE STANGER REPORT™

A GUIDE TO PARTNERSHIP INVESTING

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Film Partnership Performance

Large film transactions in recent years have been structured to increase safety and accelerate your cash flow. For example, Silver Screen and Star Partners, the two largest fundraisers in recent years, provide "revenue shortfall payments" or investor preferences to help insure that you recoup the capital invested in each film.

The result: Leading programs formed in recent years have distributed an average of 13%-15% of investment in cash annually. Cumulatively, Silver Screen has returned 107% of your investment in program III, 98% in program II and 71% of investment in program I. Other partnerships returning at least 70 cents per dollar invested: Delphi Film Associates (81%), American Entertainment Partners I (85%) and American Entertainment Partners II (74%). Star Partners I, formed in June of 1988, has already returned 57% of your investment in cash.

Looking at cash distributions uncovers these facts about film investing:

- Film deals without safety provisions are more risky than other partnership financings based on volatility of return. At least three programs of the 19 studied already state that investors won't receive return of capital: Balcor Film Investors, DeLaurentis Film Investors and Vista Organization Partnership.
- Film partnerships can have short payback periods. Silver Screen III returned investor capital in about three years; Star Partners I returned more than one-half of investor capital in less than two years.
- To gauge performance accurately, you must view cumulative cash distributions in light of where the partnership's film portfolio stands in the release cycle. For example, ML Delphi Premier Partners, formed in 1986, has paid \$157 in cash distributions per \$1,000 invested and will still be releasing films in 1991. In contrast, American Entertainment Partners, formed the same year, has paid \$854 per \$1,000 invested, but its entire portfolio is far into the release cycle.

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- Silver Screen Management consistently outperforms based on cumulative cash distributions. Three of four programs sponsored (Silver Screen I, II & III), take top positions among 1983, 1985 and 1987 programs. In 1988, Star Partners I, the firm's first public program, leads.
- Preliminary total return data are not entirely encouraging unless the partnership financed grade-A films which have a large home video audience and potential "library value" (the worth of the film after the initial release cycle has passed).

THE STUDY

To judge performance of film partnerships, we analyzed 19 programs formed since 1981 by nine sponsors. The group accounts for \$1.7 billion of invested capital. The major public film financing sponsors are Silver Screen Management with \$976 million LP capital under management (58% of total industry fundraising) and Delphi with \$352 million. Allen J. Schwalb (Star Partners) is the only currently active sponsor, with Star Partners III seeking to raise \$50 million. Star raised \$58 million in two prior public programs and \$247 million privately.

When comparing partnerships based on cumulative cash distributions, be sure you see how far each film portfolio has progressed through the film release cycle. If films are yet to be distributed to theatrical and

home video markets, you can probably expect substantial future distributions (relative to the initial success of the films). Conversely, films which have reached the syndicated television market have passed their peak earning potential, so future cash distributions will be less. You should also identify each partnership's "entertainment industry partners" -- the studios which produce and/or distribute films financed by the partnership.

TOTAL RETURN

How film investors will ultimately fare depends on two factors: future film earnings from sources not yet tapped, and the partnership's "film library value." Films earn revenues from domestic theatrical release, home video cassettes, foreign release, television (first cable, then network and syndication), and ancillary sales (book rights, music, soundtrack albums, merchandise). In recent years, consumer spending has shifted from the box office to video cassettes. However, due to sharing arrangements with distributors, the box office still is the biggest revenue source for partnerships.

A film's ultimate "library value" is based on the discounted value of future cash flow from redistribution of the film. Redistribution revenues depend on such factors as: 1) the original box office revenues; 2) advertising expenditures during initial release; 3) new technologies like pay-per-view cable TV; and 4) development of new markets such as Eastern Europe.

Table 1
FILM PARTNERSHIP PERFORMANCE

Sponsor/Program	Formation Date	Capital Raised (millions)	Results Per \$1,000 Invested			Number Of Film Interests Financed Or Acquired	Progression In Film Market Cycle	Entertainment Industry Partner
			Cash Distributions Thru 7/31/90	Tax Benefit (Cost)	Total After-tax Return Thru 7/31/90			
Allen J. Schwalb Star Partners I	6/88	\$23	\$ 565	\$ 14	\$ 579	5	All films released in domestic and foreign theaters; most released to U.S. video market; some released to U.S. pay/cable TV and foreign video markets. Acquired completed films only.	MGM/UA Communications
Star Partners II	1/89	\$35	\$ 366	\$ 6	\$ 372	7	All films were released in domestic theaters and some to foreign theaters; one film released to domestic video cassette market.	MGM/UA Communications

Note: excerpted from full listing.



Highlight Sheet of Investor Benefits

Investor Benefits:

- ★ Equitable Pro Rata Sharing of Revenue with MGM/UA
- ★ Worldwide Box Office Revenue (U.S. & Foreign)
- ★ Revenue from Home Videocassettes, Pay/Cable TV, etc.
- ★ Unlimited Profit Potential
- ★ Rapid, High Cash Flow
- ★ Predominantly Tax Sheltered Cash Flow
- ★ Several Protective Guarantees & Safety Features
- ★ Limited Risk - Preservation of Capital
- ★ Excellent Risk / Reward Ratio
- ★ No UBTI - Excellent for: IRA's, Keoghs and Pension & Profit Sharing Plans

Motion Picture Investment Advantages:

- ★ 60 year Bull Market
- ★ Recession Proof / Depression Proof
- ★ Inflation Proof / Deflation Proof
- ★ Income Generated From Six Growth Industries

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