

diffusetap
Virtual Event Series

Film Finance Due Diligence

Guest Speakers:



Brian Katz
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Tom Zambeck
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Hosts:



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DiffuseTap: Film Finance Due Diligence

Last time on DiffuseTap, Brian Katz and Tom Zambeck of Umbrellic talked about evaluating investment opportunities in the film and entertainment industry, what's different with due diligence in this space as compared to other asset classes, and how independent investors can get their foot in the door of investing in Hollywood without breaking the bank.

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Meet the Speakers



BRIAN KATZ, Partner at Umbrellic, is a tried and tested business leader with almost two decades of experience in several tech and IT services companies. Aside from his role in the production company Umbrellic, Brian is also a Consultant at Protect Connect, where he helps businesses find technology solutions to solve problems and accelerate growth from within the company. LinkedIn: [@brian-katz](#)



THOMAS ZAMBECK, Founder/CEO at Umbrellic, is a producer with almost two decades of experience in the film industry. Previously working at Sony Pictures and Ascent Media, he founded Umbrellic to help independent investors responsibly invest in film and television ventures. He also serves as Senior Director of Client Servicing and Producer at Post Haste Digital, a motion picture production company based in Los Angeles. LinkedIn: [@thomas-zambeck](#)

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DiffuseTap

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KENNY ESTES: Today's expert speakers are Brian Katz and Tom Zambeck. Brian and Tom, maybe we should briefly talk a little bit about your background and what you're up to with Umbrellic. Brian, do you want to start things off?

BRIAN KATZ: Sure. Umbrellic is basically Tom and myself, and essentially, what we're trying to do is to lower the barrier of entry for investors in the Midwest for film financing.

I think everyone has a story about an equity play where a filmmaker is essentially an innovator/entrepreneur who looks to their natural market to try and fund their picture, then they bring it to market via a Film Festival. What we have done, and what we're trying to do, is to bring models that actually include not just equity, but also debt financing. That includes debt financing for tax credits, pre-sale agreements, and other levels like that.

My background is in sales. I've been an independent sales contractor for about 20 years, working for myself in various industries including manufacturing technology, and with private equity. Tom can tell you more about himself and his background, but we've been friends for about 25 years. And we love movies. And this is where we are today. So Tom, if you will.

TOM ZAMBECK: We just wrapped production for "Turning Point" last week and the wrap party was last night. We just closed the books on it.

As Brian said, we basically provide an alternative strategy for film investments. We like to consider ourselves a safe entry point to invest in the entertainment industry. We find that most people that go into it, go into it with the hopes of a big sale down the line. That's not necessarily the most effective and cautious way to go into it. There are ways that we can mitigate the risk on the front end.

My background is primarily in delivery, and for those who are not familiar with what that means, in the film business, delivery is essentially contract fulfillment on what the pre-sale purchase agreements mean. I handle both technical, as well as some legal deliveries on films. I've been doing that for over a decade.

From that, I got a peek behind the curtain, so to speak, on how some of these deals were structured, how some of these financial arrangements were put into place, and how the contracts were ultimately fulfilled and paid out on the back end. So that was what inspired Brian and I to start this and actually take it out of the banking space, and bring it more to independent investors.

KENNY: That's great. Thank you both for joining us this morning. Ayla. Do you want to take it away with the questions?

AYLA KREMB: Yeah, absolutely. Why is it so important to do due diligence in film finance, specifically? How is it different from other industries?

TOM: That's a good question. I think that a film is often driven by those that have a dream. So naturally, the sales pitch tends to come from creatives — there's nothing wrong with that. We love creatives and



our business thrives on them — but they don't necessarily have the business moxie to make sure the investment is safe and secure.

And while everybody wants to make a great movie in hopes it sells for big bucks at Sundance, that's not always the case. You have to figure out what assets are tangible, and what hard assets the film has, in order to consider investing in it and determine whether or not you want to go through with the project.

Basically, the way we look at it is we start with 100%. For example, if the film is a million dollars, we work backwards from there and say, "Which of that million is secure?" and, "what is the exposure for the investor?". There are a lot of different categories we look at to determine that.

BRIAN: To simplify some of those points, a lot of times, the creatives are the one driving the charge for the fundraising and everything else there. That's great, but the problem I find most of the time is, they're not thinking of the investor as a customer. In terms of mindset, that's what we try to focus on. The way we think about it is that they are our customers, and they are investing in our product. So with that in mind, what do we need to do? What criteria do we need to make sure that the product gets delivered on time?

KENNY: The investor is the customer, got it. When they're looking at these projects, and as you're as you're doing them, what do you need to deliver to them to give them that feeling of comfort? What are the nuts and bolts of that process?

TOM: We look at what debt agreements could be in place, whether that's tax credits — which I know we've touched on already — or pre-sale agreements. Also, whether there's an element that Brian or I can help bring to market.

For example, there's a big actor attached to it, or a notable actor that we could bring to market through our connections. In that case, we can pre-sell either domestically or in an international territory and help mitigate some of the risks. Genre is also a big factor. If it's Action, Horror, or Sci-Fi, you have an easier time selling it internationally and getting interest in it. They just tend to play well in international markets.

We also look at (and I hate to use the word) intangibles, which means there is something intriguing about it that might separate it from the pack. For example, we have one project that a notable band is involved with, and that helps us bring it to a slightly different marketplace. In this case, we know just based on the allegiance to the band, that that will help mitigate the risks down the line. We look at all these factors, as well as tangible, hard paper that can be lent against.

RON NELKEN: How involved are you, creatively? Since you folks are financing, do you get involved in the creative aspect? Or are you like the line producers, who look at their watch and say, "okay, you have to get off from this particular setup" or "No, you can't do this"?

TOM: Very good question, Ron. I guess the answer would be it depends. You'll hear me say that a lot (that's one of our favorite phrases), but film investments are never alike. On this project that we just



wrapped, we had an opportunity for a pre-buy. I sat down with the writer and talked about what we needed to achieve, and so we hashed out the story together. He wrote the script based on that. So in that sense, I was somewhat involved creatively on this project.

We have other deals though, that we have no creative insight whatsoever, and we're just strictly looking at it from a numbers game. There are times, where if we're very, very involved, we will be looking at our watches during the shoots. Brian was kind of the timekeeper this time in a way, because he was the one looking at our expenditures, whether we ran over on certain days on set, and what it would mean if we didn't hit our marks on certain things. It really depends on what level of involvement we're in.

BRIAN: I have a very angry face, so it's good for me to be on set for those reasons. But to answer your question, Ron, it really depends on the investor. Typically, we're not looking to be involved creatively, because these are, again, just investment opportunities we're bringing to our investor pool.

It depends on if they care about the creative involvement. We're not really involved in it, it's their own project that we're building from the ground up in terms of production. For this particular project, it was more of a proof of concept that we were doing for members of our investor pool.

Sometimes we get projects at different levels. Tom can talk a little more about the different phases we get the projects in, but we don't really have to be involved creatively, and that's not really our job. A lot of these things are not really a passion project for us either. We're just trying to bring the opportunities to our investors clean, with a fair valuation to our investor pool, and to see if it is something they want to be involved with.

It really depends on the investors too, in terms of the reason for why they want to be involved with the project. Some want to be involved just to make money, some want to both make money and have fun, and some want to be involved, make money, have fun, and have a credit in the film and be able to point (refer) to it

Also, somebody asked a joking question, is it like "Get Shorty" at all? Well, Tom talked about this a little bit, but in some ways, it kind of is. He talked about bringing other resources to a project, and that isn't necessarily just cash to build a project for packaging, but it could also be an actor, or a director, or a piece of talent that is essentially a commodity that brings value to the project itself.

For example, if we're trying to secure presale internationally and trying to offset that exposure for the investor, then I could maybe cast a certain actor like Til Schweiger. I know if I cast Til Schweiger, I'll get Germany to buy the movie. Or if I cast Adrien Brody, perhaps China will be interested. We have to look at it that way.

But it's not necessarily just because I want to pick this guy or that guy. Obviously, we want to have good actors in there to execute the project. But again, we're looking at the investors, the customer, what is going to help drive this film to sale, and what is going to ensure that they feel comfortable investing in the project.



AYLA: That was a good question. As a follow up to that, what is the state of pre-sales right now? People say that it has tanked recently. Is that the case? What's your take on the current pre-sales?

TOM: No, it has not tanked, just to give a very short answer to that question. It is harder to navigate, based on the way the market looks on it. The good thing is there's a flood of content right now, because there are so many different platforms and so many different people in need of content, whether it's the Amazons of the world, or even smaller Roku channels, and things like that.

And even internationally, the markets have boomed and expanded, so that's good. The flip side to that is, there is a lot of content out there right now, so you have to compete against other content for pre-sales. With regards to what you need for a pre-sale, the only three things are cast, genre, and connections. Those three things should be able to get it done.

The buyers will buy from the people that they've bought from for years. As long as you're tied in with a good sales company, or have worked with international buyers before, then you can do it. You can sell a property. But on the other hand, it is hard for an independent filmmaker to go to the American Film Market in Santa Monica every year and say, "Here's my movie" and sell it. That is very challenging, and is probably more challenging now than ever before.

KENNY: Brian, maybe you have some thoughts on this next question from the chat. How does Amazon buying MGM change the industry? How does that change what you guys are doing?

TOM: Well, that actually doesn't affect us at all, really, because it's more catalog based, which is good. It's catalog and intellectual property based, that's why Amazon bought MGM. And this has been rumored for a while. I think somebody alluded to that in the chat. We actually have a couple friends that work at MGM, so we've heard rumblings of this deal for quite some time.

So, why did Amazon buy it? That is because it's going to be helpful for them to have Wizard of Oz on their platform. It will be helpful for them to do another Rocky sequel, because that will elevate their brand, so to speak. Does it change what we do? Not necessarily. Catalog is a different beast in its own way.

It's the same way that franchises are a different beast. We tend to look more toward one-off, singular investments that we can bring to the marketplace. I'm personally looking forward to seeing what Amazon does with that. I expect there will be another Wizard of Oz sequel, or remake. Mark my words.



AYLA: One of the questions coming up here, is a bit more down to the details with the funding. What is the smallest check or average check that you would like to accept from an individual investor? What is your relationship with them if they invest in a single project, or multiple projects? How does that whole, investor side and LP management side work for you guys?

What's the minimum investment? What's the kind of average capital investment that you would like to take from a single investor?

BRIAN: It could be anywhere from 150,000 up. About six figures is where we're usually at, but we've also committed seven figures and more. We have projects that have seven, eight figure level budgets that we're still shopping around. We're open to any conversations regarding minimum payment.

TOM: Yeah. To build on that a little bit, the micro budget space is a buzzword around Hollywood. It is a thriving space right now. There is something to be said for doing a sub-million-dollar movie because obviously, your recoupable is extremely low. There is just a different strategy and approach to doing those movies than doing something over seven figures.

Does it make it easier? No, it just makes it different. It can be cleaner in some ways to do something like that. But what is required for a low budget film? Again, genre is a big thing. That is why you see a lot of low budget horror content out there, it's because they sell. Whereas a low budget action movie probably won't be very good.

BRIAN: A low budget action won't be very good, but action and horror generally do sell internationally. Comedy does not translate well internationally between different cultures all the time. What they find funny here might not be as funny in Hungary, for example.

To build on Tom's point with the micro budget space, I think with sub 1 million, it's easier to diversify in that space. You can do multiple projects at that level, and then sell, and get better deals as you go along. And you can also secure minimum guarantees and pre-sales at that level at a bigger volume. It's not easier, but it's a less barricaded conversation to have.

KENNY: We have a different question from Mariah about a totally different topic. But given what you're doing, what you're focusing on, blockchain seems to be all the buzz right now. Blockchains, NFTs, and all of that. As far as content production and monetization, is that something you're seeing very much in your world? Or is that still pretty far out?

TOM: It's not as present in our world and what we're doing, but I do see a lot of it with content creators and people that we're trying to do feature films and TV shows with. A lot of the people that we network with who have built, basically, their TikTok channels, their Instagrams, or YouTube videos and have turned it into something. They're a little bit more in the blockchain space.



I have to admit, I'm a little ignorant on it. I've dabbled in it, but it's not something that I would feel safe with, considering that we have a responsibility to our investors to make sure things are as secure as possible. It's such a wild west space that you really have to learn how to navigate. I don't think I would feel comfortable approaching a feature film from that angle.

BRIAN: I will say that one time I did encounter a multinational organization out of Europe that had a film library, and they started using blockchain technology to create an internal currency reward system. So we have seen them apply it that way.

And another opportunity, building on this, is this niche that we've discovered with international lending. A lot of companies and domestic banks do not want to lend against foreign paper. These are publicly traded companies with well-established backgrounds offering bonds, guarantees, or pre-sale agreements that are looking for funding. So as a private space, I think there's actually a niche in there for blockchain as well

AYLA: Maybe one last question before we do breakout rooms. In terms of returns, what should an investor expect with this asset class? Let's say they invest in micro projects under a million, or maybe it's more of an average size project. What kind of returns can somebody expect on their invested capital?

TOM: Going back to that "it depends" phrase, it would really depend on the project. In our niche and the space that we'd like to play in, one thing that we found is that banks will tend to only lend to movies that are over \$10 million dollars. They only want to play in that space. Now, we can't compete with bank rates on debt lending. They're going to be the lowest you'll find. But banks require an extreme amount of due diligence upfront.

There are private lenders that will lend to independent films under 10 million, but we found their rates to be exorbitant, and often crippling to the production. Sometimes they can be as high as 20%, and sometimes they come with fees associated with that as well. In this recent project, what Brian and I said is that we could land in that sweet spot of maybe 12 to 15% return on debt lending. But what we actually like to negotiate is a debt lending hybrid model where 80% of it is covered through debt, which is either in pre-sales and tax credits, and the other 20% is covered with equity.

With that equity play, you get 80% of the security of debt, but all the benefits of equity are presented if the film pays out. So, if you do happen to have a monster hit on your hands, you're not just beholden to the interest rate, you actually cash in on the back end.

BRIAN: Also, films over seven figures are typically bonded as a standard practice. That means they have an insurance policy. If a hurricane hits, or maybe Bruce Willis gets mad and walks off, the bond will kick in and ensure that the project does finish and satisfy the agreement criteria. In which case, payment is triggered. That actually adds a little bit more safety to the investment.



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Dennis Chookaszian
Corporate Director, CME Group

DiffuseTap: Institutional Grade Governance

Sharing his decades-long expertise on corporate governance, Dennis discussed how to avoid a co-partnership going sour, the problem with overly idealistic CEOs, and the importance of keeping your board in check. [Read on](#)



Susan Brazer
CEO & Founder, LionShare Media

DiffuseTap: Media Metaverse 2022

Susan talked about the 2020 digital media landscape; the evolution of media distribution; how converging, emerging technology points to the metaverse; and the prospect of having an open, decentralized, and free Web 3.0 marketplace. [Read on](#)



Raj Mukherjee J.D.
VP/Global Head of Tax, Binance.US

DiffuseTap: Crypto Taxes Decoded with Binance.US

Raj explained the complexities of the US crypto tax landscape, how he built a dynamic tax information system for Coinbase and Binance from scratch, and how investors can profit from crypto without getting caught in a taxation mess. [Read on](#)

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