AIM Advisers, Inc.
Maximizing Present & Future Value

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Film Finances Raises $77 Million in AIM IPO

$41 Million for the Company and $36 Million for the Selling Shareholders

Overview

Los Angeles, California-based Film Finances, Inc. (FFI) raised $77 million in its recent IPO on the London Stock Exchange's AIM and commanded an opening market capitalization of $306 million. The Company was founded in London in 1950 and opened its LA office in 1982, which is now the headquarters. FFI has generated an average of $44 million of revenue during the last three years. The trailing pre-money revenue and EBITDA multiples and P/E ratio were 5.99, 38.61 and 65.43, respectively.

FFI is the world leader in the provision of completion contracts to the entertainment industry for films, television, mini-series and streaming products with 11 offices, including in London, Stockholm, Toronto, New York, Cape Town, Cologne and Shanghai. The completion contracts FFI issues to financiers provide them with assurance that a production will be completed on time, on budget and to a basic pre-agreed specification. Financiers of independent films and television will typically not provide capital to fund the cost of production without a completion contract. As such, FFI is the gatekeeper to unlocking the capital of financiers, without which the productions may not progress beyond the development phase.

Prior to issuing a completion contract, FFI's staff of industry experts undertake extensive due diligence on each production, including a detailed assessment of the budget and production plans, to ensure that the production can be delivered on time and within budget. Upon issuing a completion contract, FFI simultaneously mitigates its risk through a syndicate of insurance companies. Once the completion contract is issued, FFI's team of production experts monitor the entire production process from start to finish, seeking to identify issues as they arise and working with producers to ensure successful delivery.

Since 2008, FFI has issued completion contracts for approximately 1,700 productions, which has unlocked over $17 billion of gross production budgets. The Company issues completion contracts for approximately 200 productions per year. Since FFI is at the center of the independent film and television entertainment industry, the Company has developed an extensive network of relationships with studios, mini-studios, streaming companies, producers, and financiers involved in the production of films, television and other content. These relationships, together with FFI's deep knowledge and expertise of the film and television production process, has enabled the Company to secure a leading market share and generate a high level of repeat business from longstanding clients. FFI employs 92 people globally.

Given FFI's key role in the production life cycle and extensive network of relationships with the studios, mini-studios, streaming companies, producers and financiers, the Company is embarking on a three-pronged growth strategy which includes acquisitions of non-creative ancillary services businesses, acceleration of its core completion contract offering in China and strategic, low risk investment in content. FFI intends to acquire businesses providing editing solutions, post-production accounting, collection services, localization, sound design and visual effects, which are the main non-creative components of the production ecosystem, that can then be cross-sold into the Company's existing client base. China is the fastest growing market for entertainment in the world but its entertainment industry infrastructure is in its infancy. FFI began offering completion contracts in China in late 2016 for local language and international co-productions and plans to accelerate this core service while adding consulting services for entertainment insurance. Finally, FFI is occasionally asked to invest in content where a predetermined sale to global distributors can be identified on a profitable basis. FFI recently provided partial financing for the production of a documentary to be distributed by IMAX and Warner Bros. and has had discussions to potentially be involved with the production of additional original content in conjunction with IMAX.

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Key Financial Metrics

(in USD millions)	Y/E 3/31/14	Y/E 3/31/15	Y/E 3/31/16	∆ '14 - '15	∆ '15 - '16
Revenue	$43.20	$50.85	$38.68	+18%	-24%
Costs Related to Revenue	15.31	13.69	11.81	-11%	-14%
Administrative Expenses	22.02	27.47	23.73	+25%	-14%
Other Income	1.08	0.17	0.04	-84%	-76%
Interest Income/(Expense)	0.02	(0.04)	(0.03)	-300%	+25%
Net Profit/(Loss) from JV	0.00	(0.04)	0.09	N/A	+325%
Tax Expense	3.02	3.57	1.25	+18%	-65%
Net Income	3.95	6.21	1.99	+57%	-68%
EBITDA	7.13	10.06	3.40	+41%	-66%
Cash and Cash Equivalents	11.71	15.77	14.93	+35%	-5%
Current Assets	117.55	71.96	68.96	-39%	-4%
Current Liabilities	114.22	64.15	64.53	-44%	+1%
Total Equity	8.55	13.18	12.44	+54%	-6%

During fiscal year 2016, the Company generated 81% of its revenue from the U.S., 12% from Europe, 4% from Australia and 3% from the Middle East & Africa. Revenue from the Company's largest customer accounted for between 10% and 15% of total revenue in each of the last three years with no other customer accounting for more than 10% of total revenue in any of the last three years.

Since the IPO did not complete within nine months of the latest audited financial statements, unaudited, comparative, stub period financials were required. During the nine months ended December 31, 2016, the Company generated revenue, EBITDA and net income of $27.09m, $8.84m and $4.66m, respectively. Compared to the nine months ended December 31, 2015, these figures were ↓ 14%, ↑ 36% and ↑ 30%.

Key Listing Metrics[1]

- $77 million was raised, $41 million for the Company and $36 million for the Selling Shareholders

- $34.5 million, net of offering costs, was raised by the Company to be used as follows:
  - $20.3 million for acquisitions of non-creative ancillary services businesses
  - $ 8.1 million to set up a captive insurance entity
  - $ 6.1 million for acquisitions of strategic content

- Aggregate transaction costs amounted to 10% for the Company and the Selling Shareholders

- Offering costs amounted to 16% of the gross capital raised for the Company
  - The offering was undertaken on a 'best efforts' basis, as opposed to being underwritten

- Opening market capitalization of $306 million
- Dilution to existing shareholders of 13.4%
- Free float of 25.1%

- Trailing pre-money revenue multiple of 5.99
- Trailing pre-money EBITDA multiple of 38.61
- Trailing pre-money P/E ratio of 65.43

[1] Since two of the Hunger Games' sequels were booked during fiscal year 2015, the pre-money valuation metrics were calculated based upon the average revenue, EBITDA and net income figures for all three years.

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Shareholder Base

The Company had 136 million shares outstanding prior to the IPO and issued 21 million new shares for cash in the IPO, leaving the Company with 157 million shares outstanding. The Selling Shareholders sold 18.4 million shares and are subject to the lock-in described in the footnotes. The table below details those who held shares in the Company prior to the IPO and those who hold 3% or more of the Company after the IPO, along with the aggregate holding of the other new UK investors who individually hold less than 3%.

Shareholder	Pre-IPO %	Post-IPO%
Bahamas-based Investment Fund Controlled by David Haring	42.01	30.61[2]
Steven Ransohoff, Chief Executive Officer	40.35	30.23[3]
Amlin, Strategic London-based Insurance Industry Investor	9.18	6.88[2]
James Terlizzi, Non-Executive Chairman	7.41	6.42
Gregory Trattner, Los Angeles-based Executive Vice President	1.05	0.79[2]
Global Institution	-	5.32
Global Institution	-	3.69
Bahamas-based Trust and Insurance Company	-	3.68
London-based Private Client Broker	-	3.19
Other New UK Investors	-	9.19
Totals	100.00	100.00

The CEO joined the Company in 1986 and purchased a minority interest in 1991. Amlin acquired its shareholding in 1993 when it became one of the Company's primary insurers. In 2008, the CEO and another member of executive management collectively purchased a controlling stake in the Company. In 2016, the other member of executive management sold his stake to an entity that is 85% controlled by the Bahamas-based Investment Fund and 15% controlled by the Company's current Non-Executive Chairman. This final pre-IPO change-of-ownership was the catalyst for the Company to pursue an AIM IPO and embark on its current three-pronged growth strategy. The IPO is also expected to enhance the Company's public profile; facilitating business development and perhaps setting the Company up to be acquired.

As a result of the AIM IPO, the Company now has an adequate amount of capital to execute upon its three-pronged growth strategy and set up a captive insurance entity, which the Company's actuaries expect will significantly reduce the Company's insurance costs since they were paying for insurance that is neither required nor used. The new, UK-based, blue-chip investors have broadened the shareholder base and can, if required, provide additional capital. The Company does not intend to pay dividends for at least two years while it pursues its three-pronged growth strategy.

The Company intends to establish a Share Option Plan for the Executive Directors and employees wherein a maximum of 5% of the shares outstanding at any given time will be available for the option pool. Awards will normally vest as to 25% on the date of grant and 25% on each of the first three anniversaries of the date of grant. Vesting of awards may be subject to the achievement of performance targets or other conditions as determined by the Remuneration Committee.

[2] Subject to a six-month lock-in and customary orderly market provisions for a further six months.
[3] Subject to a twelve-month lock-in and customary orderly market provisions for a further six months.

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Board of Directors and Corporate Governance

The Board consists of six Directors; three executives (CEO, CFO and COO) and three Non-Executives. The Non-Executive Chairman (NEC) is not considered independent as a result of previous business dealings with the CFO, COO and the Company's largest shareholder. One of the Non-Executive Directors is also not considered independent since he is the brother-in-law of the Company's largest shareholder, however, the other Non-Executive Director (NED) is considered independent. Given the general lack of independence on the Board, and per the terms of the Relationship Agreements described below, the Company intends to recruit an additional Independent NED before the end of this year.

Companies listed on AIM are not required to comply with the UK Corporate Governance Code published by the Financial Reporting Council, which is mandatory for companies listed on the Main Market of the London Stock Exchange. AIM-listed companies typically comply with the Quoted Companies Alliance's Corporate Governance Code for Small and Mid-Sized Quoted Companies, which the Company intends to follow within the constraints of the Company's size and the constitution of the Board. An overarching principle of corporate governance on AIM is to ensure that companies are managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the long term.

The Board intends to meet regularly to review, formulate and approve the Company's strategy, budgets, corporate actions and oversee progress toward its goals. In accordance with best practice, the Company has established Audit and Remuneration Committees. If the need arises, the Board may set up separate committees from time to time to consider specific issues.

The Audit Committee is Chaired by the non-Independent NED with the NEC and Independent NED serving as members. The Audit Committee's primary responsibility is monitoring the quality of internal controls to ensure that the financial performance of the Company is properly measured and reported. It will receive and review reports from the Company's management and external auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Company. The Audit Committee will meet at least two times each fiscal year and will have unrestricted access to Company's external auditors.

The Remuneration Committee is Chaired by the Independent NED with the non-Independent NED and NEC serving as members. The Remuneration Committee will review the performance of the Executive Directors and make recommendations to the Board on matters relating to their remuneration and terms of service. The Remuneration Committee will also make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any share option and/or equity incentive plans in operation from time to time. The Remuneration Committee will meet as and when necessary but at least two times each fiscal year.

Since the largest investor and the CEO each own more than 30% of the Company, they entered into Relationship Agreements with the Company, the principal purposes of which are to ensure that the Company will, at all times, be capable of carrying on its business independently of them and to ensure that all transactions between the Company and its controlling shareholders are, and will be, at arm's-length and on normal commercial terms. The key investor protection in the Relationship Agreements is that the Board shall, at all times, include at least two Independent NEDs and the vast majority of corporate actions require their approval. It is recognized that at the time of the AIM IPO the Company had only one Independent NED, therefore, the Company intends to recruit an additional Independent NED before the end of this year.

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Accounting Considerations

The Company is incorporated in the UK; therefore, it is required to report using IFRS. The vast majority of the Group's operations are conducted through its wholly-owned U.S. subsidiary. Since the primary economic environment in which the Group operates is the U.S., the U.S. Dollar is the functional currency and was also chosen as the reporting currency.

The UK Member Firm of an international accountancy network acted as Auditor and Reporting Accountant. Since the IPO did not complete within nine months of the latest audited financial statements, unaudited, comparative, stub period financials were required and the Company chose to prepare these for the nine months ended December 31, 2015 and 2016. An unaudited, pro forma statement of net assets is never required in connection with an AIM IPO and was not provide in this case given the simplicity of the use of the AIM IPO proceeds.

Legal Considerations

Since the Company is incorporated in the UK, the three significant differences between U.S. and UK corporate law automatically apply as follows:

1. Pre-emption rights (i.e. anti-dilution) – Shareholders may participate in, or the Company must obtain approval from at least 75% of them for, the issuance of shares for cash of more than 10% of the then outstanding shares during any 12-month period.[4]

2. Notifiable interests – Shareholders are required to notify the Company of, and the Company is required to publicly announce, holdings at or above the 3% level and whenever a full percentage point is breached in either direction.

3. Takeovers (i.e. mandatory offer) – If any party, or parties deemed to be acting in concert, accumulates a holding of 30% or more, they must make a cash offer to the other shareholders at the highest price they paid for the Company's shares during the last 12 months.

The IPO was not subject to Regulation S of the U.S. Securities Act of 1933. Since the Company is incorporated in the UK, the shares are eligible for dematerialization and trading within CREST, the most common electronic system for the holding and transfer of shares in the UK. As such, it was not necessary to appoint a Depository and create Depository Interests, as would be the case for a company incorporated outside the UK or one of its Crown Dependencies, the Channel Islands and the Isle of Man.

[4] This is the typical level at which AIM-listed companies seek an annual standing authorization from their shareholders for the issuance of additional shares for cash. This flexibility increases the certainty and speed of small capital raises during the year and reduces transaction costs, since further communications with, and approvals from, shareholders are not required.