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(*English Version*)

Equity Financing in the Film Production

Introduction

Indonesia's film industry has experienced remarkable growth over the last decade driven with the production of high-quality local films that cater to a wide audience in Indonesia. However, producing a movie requires significant financial resources, making it difficult for many producers to finance their projects. One way of financing a film production is through equity investment, which allows investors to invest their money in exchange for partial ownership of the movie. In this article, we will discuss equity financing in film production in Indonesia, the benefits and risks of this financing model, and the common pitfalls that producers need to be aware of.

Equity Financing in Film Production

Equity financing in film production is a type of investment where investors provide funding in exchange for partial ownership of the movie. In Indonesia, equity financing is often used to finance films that have a high potential for commercial success. The investors receive a portion of the revenue generated by the movie based on the percentage of ownership they hold. Equity financing provides a way for investors to potentially earn a significant return on their investment.

Joint Ownership Under Copyright Law in Indonesia

Indonesia's copyright law is governed by Law Number 28 of 2014 concerning Copyright ("**Copyright Law**"). Copyright Law allows for individual or joint ownership of intellectual property. Based on Article 1 number 2 of Copyright Law, the ownership of copyright is the copyright holder, which means an author that is a person or several persons who individually or jointly produce works that are unique and personal. A film, or cinematographic works, is one of the works that is protected under the Copyright Law (Article 40 (1)(m) of Copyright Law).

Furthermore, according to Article 1 number 4 of Copyright Law, the copyright holder means an author as the copyright owner, the party acquiring a lawful right from the author, or other parties who acquire subsequent rights from the party acquiring lawful rights. This will be the legal basis of creating joint ownership between the investing parties in a copyrighted works (ie film). To establish such joint ownership, the copyright owner will need to arrange an agreement with all the investors and the investors will then be, based on the mutual agreed terms, copyright holder of the work.

The usual practice in a joint ownership as mentioned in the paragraph above is splitting the ownership based on the amount of investment put in by the equity investors. The equity investors will receive a portion of the revenue generated by the movie based on the percentage of ownership they hold. The organizing producer retains the right to make creative decisions regarding the film, such as casting and editing.

In addition, based on Article 8 of Copyright Law, the economic rights will be granted to the copyright holder (producer and investors) in order to gain economic benefits from the movie.

Mechanism of Investment and Required Agreements

Before investing in a film, investors should conduct thorough due diligence to ensure the project's viability. This includes examining the film's script, budget, and production team. Investors should also conduct a proper Profit and Loss (P&L) analysis and budget control to prevent overages in the production budget. Once the investor decides to invest in a film, the organizing producer must create an agreement outlining the terms and conditions of the investment. This agreement should include the percentage of ownership the investor will receive, the amount of funding they will provide, and the terms of distribution of revenue.

Investment Journey of "Qodrat"

The investment journey of "Qodrat" showcases the benefits of equity financing in film production. The producers identified potential investors and pitched the project, highlighting its unique elements, marketability, and profitability.

ARMA was chosen to be the legal representative to orchestrate the investment model and prepare all the documents needed for the equity financing for this project. Despite all the challenges, the film was completed within budget and on time. The investors played an active role in promoting and marketing the movie, and using their network, the investors also help in getting overseas connection to get film distribution deals for overseas and also OTT deals, hence such activities also helped to generate significant returns for themselves and the other producers/investors.

The investment journey of "Qodrat" highlights how equity financing can provide investors with an opportunity for creative involvement while potentially earning significant returns. It also enables producers to maintain creative control while accessing the funding needed to bring their vision to life.

Pitfalls of Equity Film Financing

While equity financing provides an opportunity for investors to potentially earn a significant return on their investment, it also comes with risks. One of the primary risks is poor budget management, which can lead to overages in the production budget. This can result in the movie not generating enough revenue to cover the costs, leading to a loss for the investors. Additionally, creative differences between the investors and the organizing producer can lead to a delay in production or a subpar end product.

Role of Investors in Film Production

Investors can contribute more than just financial resources to a film production. They can provide valuable insights into the film's creative direction, marketing, and distribution. They may also have industry connections that can help the film reach a wider audience. Therefore, it is essential to choose investors who are not only financially capable but also knowledgeable and experienced in the film industry.

Benefits of Equity Financing

Despite the risks, equity financing provides several benefits, such as increased creative control for the organizing producer. Equity financing allows the producer to retain control over the creative direction of the film, making it easier to achieve their artistic vision. Additionally, equity financing provides investors with a sense of ownership, which can motivate them to actively promote the movie and ensure its success. This can lead to higher returns for both the investors and the producer.

For more information, please contact Barry Maheswara (barry.maheswara@arma-law.com) and Aurelia Suci Sianturi (aurelia.sianturi@arma-law.com).

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