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## **S4C DIGITAL MEDIA LIMITED CO-PRODUCTION FUND: INVESTMENT GUIDELINES**

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## **1. Introduction**

S4C Digital Media Limited ("SDML"), a commercial subsidiary of S4C, has decided to set up a co-production fund (the "Fund") to operate on a commercial basis. This document contains further details of the Fund and the investment guidelines which will apply to it.

## **2. What is the size of the Fund?**

The initial size of the Fund is £1m. A further £1m will be available in each of 2012, 2013 and 2014.

## **3. What can the Fund invest in?**

The Fund may invest in content for the S4C channel, or in brands or characters associated with S4C content, which have the potential to generate a commercial return on investment.

The Fund may, for example, invest in:

- (i) Co-productions for broadcast on S4C. These may involve non-Welsh or multi-lingual versions being produced with the involvement of other broadcasters.
- (ii) Co-funded productions for S4C. These might not involve another broadcaster, but part of the production funding would be raised from outside the S4C group because of the commercial potential of the content.
- (iii) Content or formats for S4C which have commercial potential. There might not be another broadcaster or source of funding involved, but the content or format has commercial potential over and above the broadcast value for S4C.
- (iv) The commercialisation of S4C content or brands or characters emanating from S4C content e.g. through merchandise, DVDs, publications, games, etc.

The following are the genres most likely to attract investment from the Fund, but SDML will consider other genres where appropriate:

Kids  
Animation  
Factual  
Drama series with sales potential in other territories

## **4. What are the objectives of the Fund?**

The Fund has a number of objectives:

- (i) To generate a commercial return on investments for SDML, either for reinvestment in the Fund or to enable a dividend to be paid to S4C's public service fund.
- (ii) To help attract additional finance in content from other sources. By acting in partnership with other broadcasters and funders, it is envisaged that S4C could participate in co-productions which deliver greater on-screen value than if a production were fully funded by S4C.
- (iii) To promote the sustainability and competitiveness of S4C's programme suppliers by working with them to develop partnerships with other broadcasters, funders and distributors and seeking routes for commercial exploitation of the intellectual property which they produce.

Whilst meeting the objectives in (ii) and (iii) is desirable, meeting the objective in (i) is a pre-requisite to each investment.

## **5. How will the Fund decide whether to invest?**

Provided the investment is of a type which the Fund can make (see 3 above), the Fund will take into account the following criteria when deciding whether to invest:

- (i) The level of commercial return expected to be generated on the investment, the period over which the return is expected and the degree of risk involved. The net present value of the investment over 5 years should be at least 115% of the sum invested. For this calculation, medium sales forecasts will be discounted by 30%. SDML will assess the editorial appeal of the content and the potential for global exploitation of the intellectual property created. SDML will also undertake due diligence into the arrangements for distribution or other exploitation, marketing plans and sales projections.
- (ii) How much funding from other sources the producer is able to leverage. Before proceeding, SDML will need evidence that the other elements of the funding package are available from reliable sources.
- (iii) The extent to which the project contributes to the sustainability and competitiveness of a programme producer for S4C. SDML will consider, for example, whether the project enables the producer to invest in the development of skills and talent; to sell content to broadcasters other than S4C and/or to generate a commercial return on the intellectual property created.
- (iv) Such other factors as SDML may consider relevant or reasonable within the context of the objectives listed in 4 above. SDML's due diligence will include, for example, the track record of the production team, their ability to deliver and a review of the production budget.

## **6. How much will the Fund invest?**

As a general guideline, individual investments will be in the range of £50,000 - £200,000 and the Fund will not invest more than 15% of the total budget of a production. Additionally, the Fund will not invest more than 50% of the net present value of the discounted medium sales forecasts.

The executive directors of SDML (acting by a majority) may approve individual investments up to £200,000. The Fund may make investments above this amount if warranted in particular circumstances, subject to SDML Board approval.

## **7. On what terms will the Fund invest?**

It is recognised that the commercial terms will vary in each case according to the nature of the deal and the requirements of the other parties. However, the terms will need to include the following:

- (i) The Fund to have a preferential recoupment position for its investment, as it is investing as a commercial investor.
- (ii) The Fund to receive a share of net receipts/the "back end" (i.e. the future revenue stream after repaying recoupable finance) sufficient to generate the expected

commercial return. Where the projections do not show the prospect of sufficient revenues from the back end, SDML will require a premium payable on recoupment of the sum invested. SDML will, as a minimum, seek no less favourable terms than other commercial investors.

- (iii) SDML will require a first legal charge over any production which its funds, with a letter of subordination from any existing charge holders.
- (iv) Other investment requirements are likely to include the following:
  - Satisfactory distribution arrangements and revenue projections and transparency of accounting with regard to sales revenues.
  - Agreeing the production budget and the stages at which SDML will provide funding.
  - SDML to be a beneficiary of insurances for the production.
  - Applicants to pay SDML's legal costs (internal or external) in connection with the investment, which will be recharged to the production budget.

Any departure from these terms would require SDML approval.

Other terms and conditions are contained in SDML's standard funding documents.

## **8. What is the process for seeking an investment from the Fund?**

Applicants are requested to complete the application form which can be found via the following link:

[Co-Production Fund Application Form](#)

and to send the application form and any further information via e-mail to the following address: [co-productions@s4c.cymru](mailto:co-productions@s4c.cymru)

Applicants are asked to submit their applications as far as possible before production commences, but in any event at least 3 months beforehand.

Once an application has been made, SDML will contact the applicant to assess the proposal in more detail. If SDML does not wish to proceed, applicants will be advised of this immediately. SDML reserves the right not to give reasons for a refusal, but would normally advise applicants why their application is being rejected. SDML will not enter into discussions about the eligibility or suitability of proposals – as a commercial entity, SDML will make investment decisions according to its own interests and its own discretion.

No persons directly involved in awarding commissions for S4C will be involved in making investment decisions on behalf of the Fund. If SDML wishes to proceed, an offer will be made to the applicant, subject to contract and any other conditions. If the offer is accepted, there will follow a period of drafting funding documents and further due diligence.

## **9. General**

These guidelines may be reviewed from time to time by the SDML Board.