

INVESTMENT STRATEGIES

BRIGHT LIGHTS,
BIG
PROFITS

YOUR CLIENTS DON'T HAVE TO BE 'BROADWAY BABIES' TO LIGHT UP THE STAGE WITH THEIR INVESTMENTS.

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IN MEL BROOKS' HIT SHOW "THE PRODUCERS,"

down-and-out Broadway producer Max Bialystock and his accountant Leo Bloom scheme to raise more money than they need to stage what they believe will be a surefire Broadway flop and plan to cook the books to pocket the difference. When the show, "Springtime for Hitler," is a smash hit, the frustrated Bialystock exclaims, "We got the wrong play, the wrong director, the wrong cast. Where did we go right?"

Implicit in that reaction is the mistaken notion that there is a formula for Broadway success. In fact, investing in Broadway plays is risky business and often elicits the same emotional response actors experience on opening night—terrifying and exhilarating all at once.

"The stock market has its ups and downs, but theater isn't like that," says three-time Tony Award-winning producer Hal Luftig, whose credits include the Billy Joel/Twyla Tharp musical "Movin' Out," "Angels In America," "The Diary of Anne Frank," "Jelly's Last Jam," "Moon Over Buffalo," and "Thoroughly Modern Millie."

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Elizabeth Ireland McCann, part of the legendary McCann and Nugent team that produced many of the 80s' Tony Award-winning shows including "Nicholas Nickleby," "The Elephant Man," "Amadeus" and "Dracula," estimates that just 25 percent of Broadway plays and musicals recoup their initial investment. McCann notes that first-time investors are unlikely to get into the sure thing. "A show like Julia Roberts in 'Three Days of Rain' has a very closely held group of four or five investors. Getting in as an outsider was impossible," she says.

So where do you begin if you really want to invest in Broadway?

SQUARE ONE: THE PRODUCER

Although it's tempting to invest in a play that appeals to you, it's important to first look for a producer with an exemplary track record, says Barry Weissler who, with his business and life partner Fran Weissler, is the recipient of five Tony Awards and, with what he estimates as a 75 percent success rate, may boast the best track record on Broadway.

Shows produced by the Weisslers include "Chicago," which will celebrate its 10th year on Broadway this November, "Sweet Charity" with Christina Applegate, "Othello" with James Earl Jones and Christopher Plummer, "My One and Only" with Tommy Tune and Twiggy,

"Cat on a Hot Tin Roof" with Kathleen Turner and Charles Durning, "My Fair Lady" with Richard Chamberlin, and "Grease!" with Rosie O'Donnell and Brooke Shields.

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Also important, notes McCann, are the artistic track records of the director, choreographer, composer and lyricist. "In the old days, you always knew you could count on a Rodgers and Hammerstein show," she says. "However, today there are so many new composing talents out there who have had just one hit, it takes a little bit more savvy to choose." Where to start? Most commercial producers belong to the League of American Theatres and Producers and the organization's Web site (<http://www.livebroadway.com>) provides a wealth of information. In addition, the Theatrical Index, published semi-monthly by Price Berkeley, lists all the shows playing on Broadway as well as all those in development along with information on producers, agents and publicists.

McCann adds that anyone considering a substantial investment in a Broadway show could try to schedule a meeting with one of the three major theatre owners in New York. "Go meet and have a conversation with the president of the Schubert Organization," she advises. "These people see everything and might be a very good guide on where to invest. I doubt if they would put you into a specific investment, but they might know of a show that is opening in the spring that you would never know about in the fall. Also, if you have one broad area of interest, they could point you in a more specific direction."

Additionally, as producers are always looking for investors, they have their own marketing programs to raise money. Recently, Luftig staged a reading for "Legally Blonde," a new musical version of the film, scheduled to open on Broadway in April 2007. "I needed to see the material on its feet. I needed to hear the songs sung by someone other than the composer, the dialog read by someone other than the director. Actors' Equity (the actors' union) allows you to hire a group of actors and rehearse for two weeks. At the end of two weeks, you are allowed to invite an audience, people you think might be interested in coming on board as

co-producers or large investors," Luftig explains.

Cautions McCann, "It's easy for first-time investors to get suckered into the notion that the producer will let them know about everything that goes on. However, the moment the check gets into the bank, that promise is forgotten. If you sail on a cruise ship, you don't expect to be able to stand on the deck with the captain in a hurricane. If the cruise line promises you that, I strongly recommend that you don't take the cruise. The same holds true in theater," she says. "If you are promised intimate involvement in the creative process, consider another investment."

GET IN ON THE NEW YORK GROUND FLOOR

The earlier investors become involved in a show, the bigger the profits come, says Harlene Freezer, a producer who also places investors in shows—many in London's West End including the award-winning musical version of the film "Billy Elliot," with a score by Elton John, that is scheduled for a Broadway debut during the 2007-2008 season.

Additional shows she has co-produced in London include "Ragtime," "Absolutely! (perhaps)," directed by film legend Franco Zeffirelli and starring Dame Joan Plowright, and Edward Hall's all-male staging of Shakespeare's "A Midsummer Night's Dream."

"The first money is at greater risk, so there is greater potential for reward," explains Freezer. "People who put up the front money to hire the writers and the composer or to fund a workshop where all the ideas are worked out get rewarded with a greater share of the profits on the back end."

What's more, investors in the original New York company, called the "mother company," usually have the right to invest in the companies that go out on national tours if the show is successful. " 'Jersey Boys' will have a national tour, maybe two national tours," says Luftig. "It'll go to Las Vegas and London, maybe get a film. When you are a part of that original company, you share in the profits of all those tangential productions—and that's on top of what you already made on Broadway. I read somewhere that people who put money into the original "Fiddler on the Roof" have made back \$1,000 for every dollar they invested."

John Lieberman, a CPA associated with Perelson Weiner LLP in New York, says these bus-and-truck shows that can add significantly to an investor's returns were impossible 25 years ago. Accordingly, he says today's investors are wise to look for live performances, such as "Riverdance," that can be easily replicated. "Today it's possible to take a Broadway show, scale it down, and put it into a truck. Shows that do okay on

JUST 25% OF BROADWAY PLAYS
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Broadway can really make money on the road. I think that although 'Sunset Boulevard' lost money on Broadway, it recouped its investment by being on the road," he says.

Part of Freezer's job is to evaluate the investment quality of these subsequent productions. "These productions involve different partners, different actors, different countries and different marketing plans," she explains. "I was involved in a show in the UK that was doing well and making plans to come to New York. The opening date was moved up by six months, meaning there was no time to build advance sales. I recommended that investors not do it. I'm sorry to say I was right, and the show closed in four months."

Luftig points out that original investors can benefit beyond professional productions. "'Thoroughly Modern Millie' returned more than 90 percent of its investment on Broadway, but that play will be done at every high school and every summer community theater because it is the kind of show that those groups love to do," he explains. "They all have a young girl to play the lead, a good-looking guy for the boyfriend, and a character actress for the evil landlady. It's uplifting music that people can sing. I'm certain it will be performed again and again and every time it is, investors will receive a little money. Over the years, that could be lucrative."

What's more, Lieberman says profits are no longer limited to selling the tickets. "Today, there are nontraditional revenue streams," he notes. "For example, performances can be downloaded on iPods. In addition, an advertising company might buy the rights to use one of the show's

songs, and the initial investors will have a piece of that."

IT'S A NUMBERS GAME: SPREAD YOUR WEALTH

Just as diversification is the key to successful asset management, McCann advises investors to resist one-shot investing. "First-time investors often are wooed into making a major investment in one project because they're promised fancy producer billing and other goodies that make them feel important," she explains. "A wiser move is to get together with several other investors, create a fund, and diversify your investments throughout the Broadway community—maybe invest in a musical, a serious play, and stand up comedy."

Freezer adds that investing as part of a group opens the door to smaller investors. "You can play in this pond on any financial level," she says. "If you are in a position to write a personal check for \$1 million, great! But there are plenty of ways to invest \$10,000. I can put together large investors and a number of small ones and negotiate a better overall deal for all given the total amount of money committed."

Freezer, too, recommends diversifying an investment pool among four or five shows. "Why would anyone want to live or die based on one show?" she asks. "I don't want to do that as a producer. I like seeing investors who are financially and emotionally invested in a number of shows. If you are in five shows, the law of averages says at least one should be a hit—provided you are getting educated, informed advice."

THE BUDGET'S THE THING

Freezer has noticed that investors motivated by their

love of the theater don't always read the investment papers for a show, and Weissler describes the "It's art, so we shouldn't ask how much it costs" syndrome.

"A sound budget and careful management are crucial to any venture," insists Weissler. "The producers who succeed know the product and are careful economically. The ones that fail throw millions at a product and never get it back."

Weissler has always prepared a financial plan for his shows, complete with projections. "We show our investors at what capacity we break even and at what capacity we double or triple their money. At this point, the New York production of 'Chicago' has paid back 12 times the initial investment, and we are still going strong."

McCann, too, finds that a surprising number of investors never ask to sit down with the general manager and go through the budget. "Accounting in the theatre is not that difficult. It's very easy to say to a producer, 'If you want six figures from me, I want 60 minutes from you to go through the budget so I know how the money is being spent.'"

When evaluating a budget, McCann says it's essential to ensure there are sufficient reserves to cover emergencies. "When she was performing in 'Sweet Charity,' Christina Applegate had an accident," she notes. "We'd want to see insurance to cover the actors as well as other key personnel, such as the director."

In Luftig's view, one of the best forms of insurance may be developmental productions. "With 'Blonde,' my total budget is \$12.8 million, and I've spent a little over half-a-million on developmental productions and a few readings, and I'll spend close to \$1.5 million to take the show to San Francisco before it opens in New York," he explains. "The more times you see a show on its feet in front of an audience, the more you are going to learn: That song doesn't work, that scene doesn't work, that joke doesn't work. A paying audience will never lie and, as the producer, I can just stand in the back of the theater and learn. I try to safeguard my investors' money by putting the show, as much as I can, in front of different audiences."

"There are producers who come straight to New York and start previews," Luftig continues, "but that's taking the chance that whatever needs to be fixed can be fixed within the four-week preview period. Of course, that's difficult to do, especially as you are not allowed to rehearse every day. In fact, in New York previews we may get only 10 hours a week of rehearsal time before we need to pay overtime. In San Francisco, one of the things I have built into budget is that I rehearse every day. You can't safeguard against everything," adds Luftig, "but you can create a budget that makes fiscal sense. In this case, I may end up spending \$1.5 to \$2 million more than I needed to, but it'll be spent to protect the \$12 million."

Luftig shares budget information not only with investors, but also with the show's creative team. "Directors never understand why they can't have everything they want, so I sit down with them and go over the budget so we are all on the same page," he says. "Once I explain how the finances work, and how they participate in profits on a weekly basis, it's amazing how quickly they become reasonable and embrace the notion that just because it's art, it doesn't mean you don't have to be fiscally responsible."

NO ABSOLUTES, EXCEPT FOR FUN

As careful and thoughtful as an investor is in evaluating productions, every producer underscores that there are no guarantees. "There is some of this process that is left to alchemy," says Luftig. "The timing's important: There were shows that opened right after 9/11, or maybe you get three weekends' worth of snowstorms in New York."

"Chicago," for example, when it first opened in 1975 directed by Bob Fosse, was deemed too cynical. It also had the unfortunate timing of opening along with 'A Chorus Line,' so people took a quick look at 'Chicago' and forgot about it. However, when it was revived in 1996, OJ was on trial and murder was entertainment. That's what 'Chicago' is about, and it was embraced and became a mega-hit."

As Broadway shows become so much more expensive to put on, it's likely, say the producers, that the preference for the big checks will be greater. Explains Luftig, "When you have many \$10,000 investors, they all need tax documents and distribution checks. That's the practical side, but there is also an ethical obligation. I like to keep all my investors up-to-date on what's going on. Many times I'll send out a newsletter and I invite them to call with questions. It gets a little difficult to return the call of Mrs. Smith who contributed \$10,000, but I do it."

In fact, Luftig is committed to keeping a little piece of his shows for smaller investors. "There are people who invest not so much for the money they will make, although, of course, we all hope we do, but because they feel good being a part of the theater, owning a piece of it. When you go to the theater on opening night, even if you invested \$10,000 in a \$12 million show," he asserts, "you own a piece of the show, and you can sit there with a sense of pride, belonging, and camaraderie, and that's a really cool place to be."

Freezer agrees that apart from the finances, there is often a pure and equally rewarding joy that comes from investing in the theater. Just this week, as one investor's plane was landing from London, he called to thank her for involving him in "Billy Elliot." His conclusion? "This was so much more fun than watching my mutual funds go up and down."

NANCY OPIELA is a freelance writer in Medfield, Mass., specializing in financial topics.

■ Bright Lights, Big Profits**Your clients don't have to be 'Broadway Babies' to light up the stage with their investments.**

9/1/2006

By Nancy Opiela

In Mel Brooks' hit show "The Producers," down-and-out Broadway producer Max Bialystock and his accountant Leo Bloom scheme to raise more money than they need to stage what they believe will be a surefire Broadway flop and plan to cook the books to pocket the difference. When the show, "Springtime for Hitler," is a smash hit, the frustrated Bialystock exclaims, "We got the wrong play, the wrong director, the wrong cast. Where did we go right?" Implicit in that reaction is the mistaken notion that there is a formula for Broadway success. In fact, investing in Broadway plays is risky business and often elicits the same emotional response actors experience on opening night—terrifying and exhilarating all at once.

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