



**NBT Equities Research**

April 23, 2013

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**Initiating Coverage:** Medient Studios, Inc. (MDNT)

**Short Term Target:** \$2

**Current PPS:** 0.60

**Share Price 5/5:** 0.21

**Shares Outstanding:** 36,481,551

**Free Trading Shares:** 2M

**Float:** Approximately 2,000,000

**Estimated True Trading Float:** 300,000 DTC registered shares

We are initiating sponsored research coverage of Medient Studios, Inc. (MDNT) with a \$2 short term target based on DCF of a 5 year proforma of 6-8 films per year and average annual \$50M EPS fully diluted primarily derived from uncapped 30% Georgia State tax credits for in-state film production.

**Our Investment Thesis:** Because of the explosion of demand for multi-language digital entertainment content worldwide, we believe creating a low-cost 100% digital production studio in the United States located OUTSIDE of NYC and LA creates a compelling and defensible competitive advantage for Medient Studios, Inc.

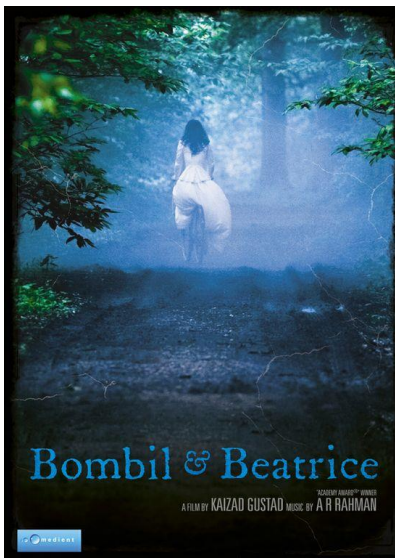
Our belief is that Medient Studios' plan to build and operate the largest and lowest-cost entertainment production studio/complex in the world (outside of Asia) in Savannah, Georgia USA is very

- 1) Feasible
- 2) Financeable
- 3) Timely
- 4) Competitively Advantaged

With the uncapped 30% tax credits guaranteed by the state of Georgia Medient Studios should become the highest margin/lowest cost multi-media production company in the United States.

It is our belief that this mega-production facility will translate into \$hundreds of millions in production, box office and ancillary/residual revenues for Medient and create \$hundreds of millions in shareholder value over the next 18-24 months.

With the major studios focused on big budget “tentpole” productions (i.e. Tom Cruise’s “Oblivion” opened this week with a \$120 million budget), Medient’s “genre” movie making approach (action/horror/sci-fi fantasy/thriller) combined with their high efficiency/cost reduction production strategy means MDNT can actually LOSE money on a film produced in their system (box office/DVD/VOD/foreign distribution rights) and still make 20-30% PROFIT and cash flow from the sale of its unlimited tax credits provided by [Georgia to Georgia tax payers](#).



## Key Investment Factors

**#1 The State of Georgia is offering an uncapped and unlimited 30% film tax credit program to Medient**—this is KEY. Georgia provides one of [the most generous tax incentives](#) in the world. Industry sources report that Georgia tax credits trade for higher prices than other states tax credits...that’s the best indicator of supply vs. demand there is. There is a \$500,000 per person salary cap per movie, but talent costs qualify for tax credits without restriction---THAT is the key differentiator. In addition, Georgia is changing the credits to be “non-recapturable” as long as the producer submits to an audit (which as a public company Medient of course complies with). Tax credit buyers LOVE removing the risk of tax savings “recapture” later down the line...this new aspect to GA tax credits is critical to selling the credits in the VERY active cash market for GA tax credits.

How does the tax credit work? For example, if you are a personal or corporate tax payer in Georgia, and you have a state income bill of say \$1 million, you can buy \$1 million of

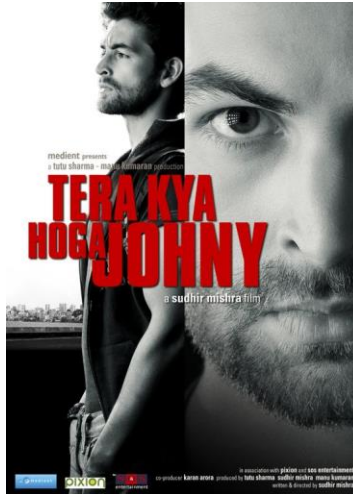
tax credits for a discount to your actual bill. EVERY dollar you pay for the \$1 million tax credit that is LESS than your \$1 million tax bill is a dollar back in your pocket.

Buyers include publicly traded banks/insurance/utilities—just about anyone who thinks it's good fiscal policy to LEGALLY pay the lowest income tax bill possible (know anyone like this?)

With @ \$18 billion in state tax revenues per year...there is literally \$billions in annual demand for Medient Studios' Georgia tax credits by Georgia tax payers.



**#2 The potential value of the Georgia tax credits over five years exceeds \$200,000,000.** ALL of this cash flow from the sale of GA tax credits (to the extent it exceeds production costs and overhead) goes straight to Medient's bottom line. At the traditional 15-18X EPS valuation for publicly traded filmed entertainment companies, \$50 million in annual EPS from these tax credits (i.e., 6-8 films per year at \$15-\$50 million production costs) creates \$550-\$700 million in market cap for Medient Studios, Inc.



**#3 The Superior MDNT Business Model** As opposed to the major studio focus on big budget “tentpole” productions (i.e. Tom Cruise’s “Oblivion” opened this week with \$120 million budget), Medient’s “genre” movie making approach (action/horror/sci-fi fantasy/thrillers) combined with their high efficiency/cost reduction production strategy means Medient can actually LOSE money on a film produced in their system (box office/DVD/VOD/foreign distribution rights) and still make 20-30% PROFIT and cash flow from selling the tax credits provided by [Georgia to Georgia tax payers](#).

Major studio movie making is ALL about risk reduction, franchise creation/extension and hits. The major studios ALL have financial partners who provide 30-50% of the tentpole budgets in return for most/all the tax credits and preferred profit participations.

In the Medient model they KEEP 100% of the tax credits, ALL the revenue participation AND the production/“manufacturing budget” in-house and THEN allocate the tax credits and distribution rights to the highest bidders. Medient participates in ALL the commercial aspects of the film making business and can earn a handsome profit from EVERY film it makes without \$100M budgets and without blockbuster (>\$100 million) box office.

Furthermore, with the focus on technology & equipment efficiencies combined with up to 50% lower labor and cost-of-living expense vs. NYC/LA, the “break-even” point on Medient produced filmed entertainment will be significantly lower than competing studio entertainment...making their tax credits ever more valuable. Production talent with families LOVE the idea of making movies where a nice home costs \$200k vs. an 800 square foot condo costs \$1.2 million (aka NYC).

**#4 Medient has 2 deep pocketed partners in their studio-- State of Georgia and Effingham County.** With their partners the State of Georgia and Effingham County, Medient is going “back to the future”—building a vertically integrated film production process that creates the economies of scale like the old Louis B. Mayer studios of

old...only better. It is worth \$billions in state GDP to build and operate the Medient Studios to Georgia: this fact is NOT lost on everyone involved.

### **#5 The 21<sup>st</sup> Century Movie Studio Concept: Disney meets the GooglePlex in low cost of living Georgia**

Medient's strategy is to restructure the way stories are told within the entertainment industry, primarily focusing on the following:

- Building a fully integrated, state of the art and environmentally conscious studio and campus (incorporating solar and hydro technologies) that has the capability to produce movies and electronic games. The Medient Studio and low-cost-of-living Savannah will be home to sound stages, offices and employees.
- "In-Sourcing" content creation and key elements of the production process (including CGI work) vs. outsourcing to high priced NYC/LA providers.
- Applying modern production efficiencies in a manner similar to creating an "intellectual property factory" where the basic production requirements of modern film making are ALL within one building with economies of scale.
- Delivering well-crafted genre specific stories that will entertain audiences in various languages on a global scale.



**#6 A proven and deep management team.** The Medient management team is directly responsible for over \$3billion in box office, for films such as Face off, The Truman Show, The People vs. Larry Flynt, and Star Trek "Insurrection"

### **Manu Kumaran – Chairman & Chief Executive Officer**

Manu Kumaran is a second-generation international film producer who has produced 19 feature films in four languages. The oldest son of renowned Malayalam film director-producer K P Kumaran, he has been engaged in the film business from an early age, working primarily in

production and distribution. Kumaran joined the Interpublic group agency Lintas in 1993 and quickly rose to become the youngest VP in the history of Indian advertising. In 1998, he produced *Bombay Boys*, a movie that altered the landscape of Indian cinema forever. The film opened a new market for alternative cinema, bringing it into the mainstream. In 2002, Kumaran established Medient and created ABOB, India's first boy band. He later leveraged ABOB's success to produce *Kiss Kis Ko (Who Gets the Kiss?)*, a film based on the band's life. In 2008, he produced the award-winning Malayalam film *Aakashagopuram (Castle in the Air)*, based on the *Henrik Ibsen play Master Builder*, which was the first Indian film to be entirely produced outside of that country. The film set a new benchmark in East-West collaboration within the industry. The first Indian producer to successfully manage the migration to the West, Kumaran is an expert in film tax credits and incentives and has built a reputation for producing theatrical quality releases at minimal costs with strong net margins.

### **Graham Bradstreet – Executive Operations Director**

Bradstreet joined the Working Title Group of Companies in 1986 as a shareholder and Finance Director. Working Title grew to become the UK's pre-eminent production company (*Drop Dead Fred, A World Apart, Map of the Human Heart...*) Bradstreet developed innovative film financing structures that have established him as one of the leading motion picture financiers in the world. He developed the concept of insurance-backed financing and, through ICE Media, raised in excess of US\$1 Billion of insurance-backed funding that contributed to budgets in excess of US\$ 3 Billion covering more than 100 movies (*including The Truman Show, Face/Off, Runaway Bride, Sleepy Hollow*) for both the studio and independent sectors of the film industry.

### **Pankaj Kapoor – Executive Creative Director**

Kapoor is veteran journalist-turned-script-writer and co-founder of Medient. He started his career with Times of India (the world's largest English language newspaper), reporting extensively on the Indian film industry. He was a film critic for Asian Age newspaper before turning to screen writing on a full-time basis. He wrote the controversial Hindi film *Ek Choti Se Love Story*, which was considered one of the sleeper "hits" of 2002. This was followed in 2004 by a Bollywood musical film, *Kiss Kis Ko (Who Gets the Kiss?)*, which was based on the lives of ABOB, India's first boy band. In 2005 he wrote *Time Bomb*, a mini-series produced and directed by internationally acclaimed filmmaker Ketan Mehta that won the Indian Television Academy Award for best mini-series. That year Kapoor also wrote a horror show, *Rooh (Spirits)*, which won the RAPA award. Kapoor has executive produced *Yellow* and *Storage 24*. He has served as associate producer on the Hindi films *Mr. Singh Mrs. Mehta and Tera Kya Hoga Jonny (Ride the Wave Jonny)*, which he also co-wrote.

### **Yogesh Ishwar Dhabuwala: President – Filmed Entertainment**

Dhabuwala is a Los Angeles-based film director and writer. A graduate of the Bombay School of Art, he started his career in advertising as a Medienter, prior to following his passion for film making. He worked on a number of TV series and films, including two award-winning films, *Parinda* and *1942 – A Love Story*, as an associate director. Independently, Dhabuwala produced and directed several music videos and company films and made his directorial debut with an Indian film, *Aaghaaz* (released theatrically in the global market). His strongest talents include a

balanced acumen for both budgets and artistry. He joined Medient in 2008 as vice president of the film division. Dhabuwala manages the development and production of all Medient feature films.

**Manoj Koshy: President Infrastructure**

Koshy, a graduate of College of Engineering, Trivandrum, has been involved in project management for the last five years. He has been a long time resident of the Middle East and been involved in various type of projects from the initial engineering and planning phases through to execution. He has just finished the management of a major project for the construction of two new Jack Up rigs with a cost of US\$345 Million for one of the major owner/operators in the Middle East. He is responsible for the oversight of the successful; construction and management of the infrastructure of the mega studio complex in Effingham, GA.

**Shilpa Sharma: Vice President – Production**

Sharma, an engineer by training, has over 10 years of experience in marketing and production. She joined Medient in 2006 as an assistant line producer and since then has worked on all of the films produced by the Company. She is a global expert on tax credit structures and has end-to-end knowledge of the production process. As Vice President – Production, Sharma has specific responsibility for managing co-productions, vendor relationships, and delivering films within budget and on schedule.

**Megan C Murphy: Vice President – Strategic Affairs**

Murphy is a multi-media executive with over 15 years of business development, content creation, and feature film development experience. She has worked as an Executive Producer at HRO and was Vice President of Affiliate and Business Relations at AnswersMedia, a premier technology and content creation company, where she led the launch of AnswersTV.com, a multi-platform, lifestyle know-how television network. Megan also served as VP, Managing Director, and Executive Producer of Kurtis Productions, a long-form documentary production company, which under Murphy's leadership provided over 500 hours of content for major cable and network clients and won several prestigious media awards, including National Emmys and an Oscar Nomination.

**Victoria Foster: Vice President – Content Development**

Foster has worked in development on feature films, television, and interactive content since 2003 at companies that include CAA, Mosaic Media and the top TV commercial production company MJZ. She was involved in the screenplay development of Season of the Witch (starring Nicholas Cage), Pathfinder (Karl Urban), and Priest (Paul Bettany). She also helped package, with Kevin Spacey and Robin Williams, the indie feature Shrink which premiered at Sundance Film Festival, 2009. She served as Director of Development for action filmmakers Kevin Donovan (The Tuxedo) and Marcus Nispel, director of the rainmaking Texas Chainsaw Massacre, and Friday The 13<sup>th</sup>. Most recently, she has served as Vice President of Development & Production at Voyage Media, a company that helps established filmmakers and emerging talent develop market and sell their projects. She holds an M.F.A. from the U.S.C. School of Cinema-Television and a B.A. from Stanford University.

### **Steve Cook: Vice President – Post Production**

Cook joined the film industry as a re-recording mixer working on major productions, including The Godfather, Return of the Pink Panther and Deliverance. In 1975, he became Studio manager at John Wood Studios in London, where he was responsible for one of its most profitable sound mixing studios. In 1982, he started Megamasters Sound Studios, which became one of London's leading sound and post production houses. In 1992 Cook opened a Megamasters sister facility in Burbank California, the clients of which included such companies as Disney, Universal and Warner Bros. Cook received a BAFTA nomination in 2000 for Best Sound for The Testimony of Taliesin Jones. Throughout his career, he has worked on over 300 feature films, thousands of TV commercials and dozens of TV drama series.



### **Risk Factors**

Obviously the primary risk factors in the Medient story is the availability of equity and debt financing for the Medient Studio's project and the approval and zoning required for development.

**Development Risk: Low.** The Master Plan has been completed and is being submitted to the County for formal approval. Construction is expected to commence in summer 2013. As we have stated, the project will be the largest in the US and as much of the site will be open to visitors. As such the studio is expected to become a major tourist destination in the region...and eventually the country.

The Effingham County Industrial Development Authority ([www.effinghamindustry.com](http://www.effinghamindustry.com)) serves as the county's economic development organization charged with promoting trade and industry for the benefit of the community. The Effingham IDA will enter a 20 year capital lease with Medient and is providing \$1.25 million for site development. John Henry, CEO of the Effingham IDA, stated, "This project truly has the potential to be a game changer for this entire region. We believe that our area will see significant benefit from this project for years to come."

**Financing Risk: Moderate** As they say in Hollywood...a deal is not done until it's done. Given the importance of the studio development to both Effingham County and the State of Georgia



and the superior economics of the Medient business plan and proven management team, it is hard to imagine a scenario where equity and debt financing does not happen very shortly.

Management is obviously pursuing multiple equity/debt and other financing sources. With the development deal signed with the county...and State of Georgia giving its financial and governmental blessing to the project...we expect that the well-funded (\$billions) of existing film financing infrastructure (banks/hedge funds/investment bank) investors and lenders will step in provide both equity/lending capital for the development in a traditional commercial real estate structure.

Medient is also pursuing multiple equity investment avenues, and our sister company NBT Capital Markets LLC sees multiple parties of interest in this type of development.

**Shareholder Dilution Risk:** Moderate We expect some sort of preferred convertible equity raise in the near term. 20-30% dilution from the current capital structure seems reasonable. Once the studio is operating we would expect permanent debt financing that may include some warrant coverage or covenants.

## Summary

Medient Studios

- creates commercial content to fill vacuum in market demand
- will produce filmed entertainment content at significantly lower cost than the competition
- benefits from substantial tax incentives & government support
- extends its content horizontally to increase revenues with limited additional costs
- is led by a proven and stable management team which has been reinforced by a battery of industry and finance professionals

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## Recent Press

### **\$90 million movie studio slated for Effingham**

[http://investing.businessweek.com/research/markets/news/article.asp?docKey=600-201303200619KRTRIB\\_BUSNEWS\\_34650\\_620-1](http://investing.businessweek.com/research/markets/news/article.asp?docKey=600-201303200619KRTRIB_BUSNEWS_34650_620-1)

### **Medient to Build America's Largest Movie Studio in Effingham, Georgia**

<http://www.reuters.com/article/2013/03/20/idUSnMKW98630a+1c0+MKW20130320>

[http://investing.businessweek.com/research/markets/news/article.asp?docKey=600-201303200619KRTRIB\\_BUSNEWS\\_34650\\_620-1](http://investing.businessweek.com/research/markets/news/article.asp?docKey=600-201303200619KRTRIB_BUSNEWS_34650_620-1)

## Reviews and news stories on Medient films

<http://medient.com/news-a-updates>

<http://www.marketwire.com/press-release/medient-to-build-americas-largest-movie-studio-in-effingham-georgia-otcqb-mdnt-1770109.htm>

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