



Oliver & Ohlbaum

UK Television Production Survey

Financial Census 2018

August 2018

A report by Oliver & Ohlbaum Associates Ltd for Pact

1. Summary
2. Revenue growth
3. UK commissioning trends
4. International and rights revenues

Strong international performance continues to drive overall sector growth

Total UK television production sector income has broadly experienced steady growth since 2012 as a result of rising international income

Total revenues within the UK television production sector grew in 2017 to over £2.7 billion, their highest ever level. After a slight fall in reported revenues last year, this increase has returned the sector to the trend of steady growth of total revenues, roughly 2 per cent per year, since 2012.

Domestic TV revenues experienced a small year-on-year increase in 2017, recovering back to 2015 levels. Over the last six years, domestic revenues have remained relatively consistent; any minor drops in commissioning revenue have been broadly offset by slight rises in rights income.

Sector growth has primarily been driven by international revenues which grew to £802 million in 2017, an 11 per cent year-on-year increase. International commissions have been the main cause of recent growth, aided by additional spending from SVOD services; both international commissions revenue and total international income have more than doubled since 2010.

The composition of the UK production sector is similar to previous years. There has, however, been a small rise in the share of mid-large producers (£25 – 70 million turnover) in 2017, mainly because organic growth of producers across the market has caused some smaller companies to move upwards into bigger size categories.

Total revenues continued to grow steadily

Sector revenues over £2.7 billion in 2017, growing at 1.9 per cent per year since 2012

Commissions from overseas companies are a key driver of growth

This revenue line has grown at 13 per cent per year since 2015 to £549 million in 2017

UK TV income remained relatively consistent

Domestic revenues returned to growth in 2017, but are still broadly similar to reported totals over recent years

Income from SVOD commissioning increased

Grew by 19 per cent year-on-year to £150 million, about one-third of international commissioning income

Introduction

The Census report is based on financial returns from a broad cross-section of active UK production companies

The Pact Census, now in its thirteenth year, is an annual report detailing the characteristics and evolution of the television production landscape within the UK.

By collating yearly market data, the Census provides a unique opportunity to understand the underlying trends shaping the UK television production industry.

Benefits of the Pact Census:

- The survey is completed by a broad cross-section of the UK production sector
- The data collected during the survey is granular, enabling a detailed picture of developing trading trends
- A consistent approach over the last decade enables the identification of long-term industry trends

Financial survey of Pact members

The Pact Census is conducted through a detailed financial survey of Pact members. Pact represents the majority of production companies active in the UK market.

The survey captures detailed information about the past two financial years. This data is then aggregated and used as the basis to estimate the overall size of the market and specific sub-segments of activity.

This year, 71 completed responses were received. These companies represent around 64 per cent of the total industry turnover.

Scope of the Pact Census

The Pact Census defines the 'UK production sector' as TV and film production companies in the UK excluding those companies wholly owned by PSBs. All references to producers and the production sector within this report follows this definition.

Methodology

The figures in this report are reflective of the total market; these are calculated by scaling up our financial survey data based on the current composition of the UK production sector

Turnover band ranges are used to gross up sample responses to provide estimates for the overall industry. Responses are placed into turnover bands, then totals within each band are scaled up based on the known composition of the market (i.e. number of producers by turnover band).

Every year, new companies return our financial survey thus changing the make-up of our sample; this can cause slight variations in our year-on-year market values. These small variations average out over time so trends viewed over multiple years of the Census show a clearer picture of the production sector than single year-on-year fluctuations. We draw attention to differences between consecutive years where they appear to be significant, otherwise we focus on the broader trends.

The completeness of the Census is subject to the level of disclosure provided by participants. Variations between participants in the level of disclosure provided mean that revenues (especially international) are reported to varying degrees of detail. We reflect those that are disclosed in our figures.

Due to different company reporting periods, the annual Census returns include financial information spanning 2016 and 2017.

From year-to-year we occasionally make adjustments to the Census in response to changes within the industry. Adjustments this year include:

- A rationalisation of secondary rights classifications to better reflect the most important back-end revenue streams in the current market.
- Some numbers from prior years have been restated slightly to reflect recent improvements in methodologies.

Glossary

TV channels

- PSBs – public service broadcasters (BBC, ITV, Channel 4, Channel 5)
- Multi-channels – other linear channels (Sky portfolio etc)

Video on demand (VOD)

- SVOD – subscription video on demand e.g. Netflix
- TVOD – transaction video on demand e.g. Google Play

Standalone digital service

- SVOD or TVOD that is not owned by a traditional broadcaster and does not sit alongside existing TV channels, e.g. Netflix, Amazon Prime

New Media

- Non-TV digital activities, including website design, apps, social media administration and games

Linear TV commission

- A production commissioned primarily for broadcast on traditional TV channels

Digital commission

- A production commissioned primarily for distribution on digital platforms (e.g. VOD services)

Pre-production

- Includes external development funding, public funding, distribution advance (prior to production) and advertiser funding (including sponsorship)

Primary commissions / Primary TV rights

- Production of new programmes which have been commissioned by broadcasters, this involves the sale of primary rights which typically include:
 - Exclusive right to broadcast the programme in the UK for a period of five years
 - The option to repeat transmission of the programme for an agreed fee
 - Option to renew these exclusive licences, for a fee, for a further two years
 - Exclusive licence to simulcast or make available on-demand over the internet
 - ‘Holdback’ on the sale of secondary rights to other UK broadcasters during the period of exclusive licence
- ‘UK commissions’ are produced for UK broadcasters or channels whereas ‘International commissions’ refers to commissions from non-UK broadcasters

Secondary TV rights

- Exploitation of other distribution rights that are not contained in primary rights, this can include:
 - Licence to broadcast the programme on a channel other than the one commissioning the programme
 - Sale and distribution of the programme outside of the UK
 - Sale of the programme format outside of the UK
 - Use of the programme for consumer products e.g. DVD, merchandising, etc.

1. Summary

2. Revenue growth

- Total industry revenues have grown to a high of over £2.7 billion in 2017, driven by rising international income
- Domestic TV revenues have recovered back to 2015 levels, supported in particular by primary commissions
- Producers across the market have, in general, continued to grow organically and increase in size

3. UK commissioning trends

4. International and rights revenues

Revenue growth - Summary

The strong performance of international revenues, including both commissioning and sales of finished programmes, has supported continual steady growth of the UK production sector over recent years

After a slight fall last year, total production sector revenues recovered in 2017 – growing by 6 per cent year-on-year to over £2.7 billion.

Reported domestic TV revenues rose year-on-year in 2017, primarily driven by a growth in commissioning income; though they have been broadly consistent since 2012.

Recent sector growth has largely been powered by international TV revenues which have risen due to a rapid increase in commissioning income and consistent growth of sales of finished programming.

UK production sector revenues grew in 2017 to their highest ever level

- Total sector revenues increased from £2.59 billion in 2016 to £2.74 billion in 2017

Domestic TV revenues increased year-on-year back to 2015 levels

- UK TV revenues increased to £1.83 billion in 2017, driven by primary commissioning income which grew by £49 million to £1.55 billion in total

International income continues to be the main source of growth

- In the last three years growth has been much more pronounced in commissioning which has risen by 13 per cent since 2015

New Media activities remained the key area of non-TV income

- Total non-TV income increased from £82 million in 2016 to £110 million
- New Media activities continue to perform well, generating £71 million in 2017

Key Trends – Revenue growth

Total UK production sector revenues rose to over £2.7 billion in 2017, up by nearly one-third since 2008.

Total revenues have grown steadily by 1.9 per cent, or roughly £50 million, per year since 2012.

International revenues have grown strongly in recent years to £802 million in 2017, more than double the £389 million reported in 2010.

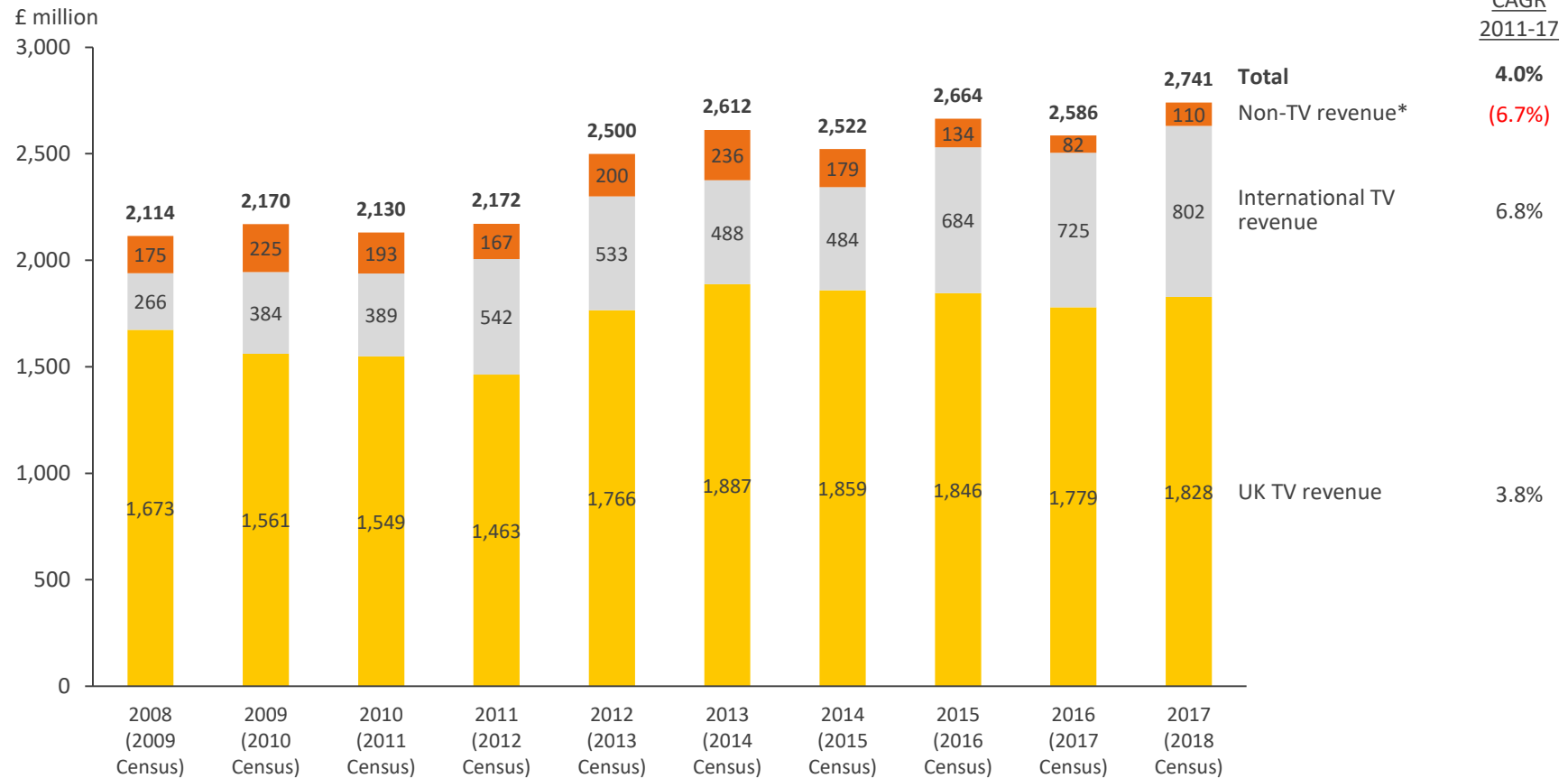
Domestic TV revenues have been reasonably consistent, at around £1.8 billion, since experiencing a large increase in 2012.

Continual organic growth of producers of all sizes across the market has, in general, led to a small increase in the prevalence of mid-large producers in the market.

Total production sector revenues grew to over £2.7 billion in 2017

Industry revenues returned to the long term growth trend following the small drop reported in last year's census. International TV revenues continue to grow strongly while UK revenues have remained relatively consistent

Total Producer revenues (incl. non-TV activities)



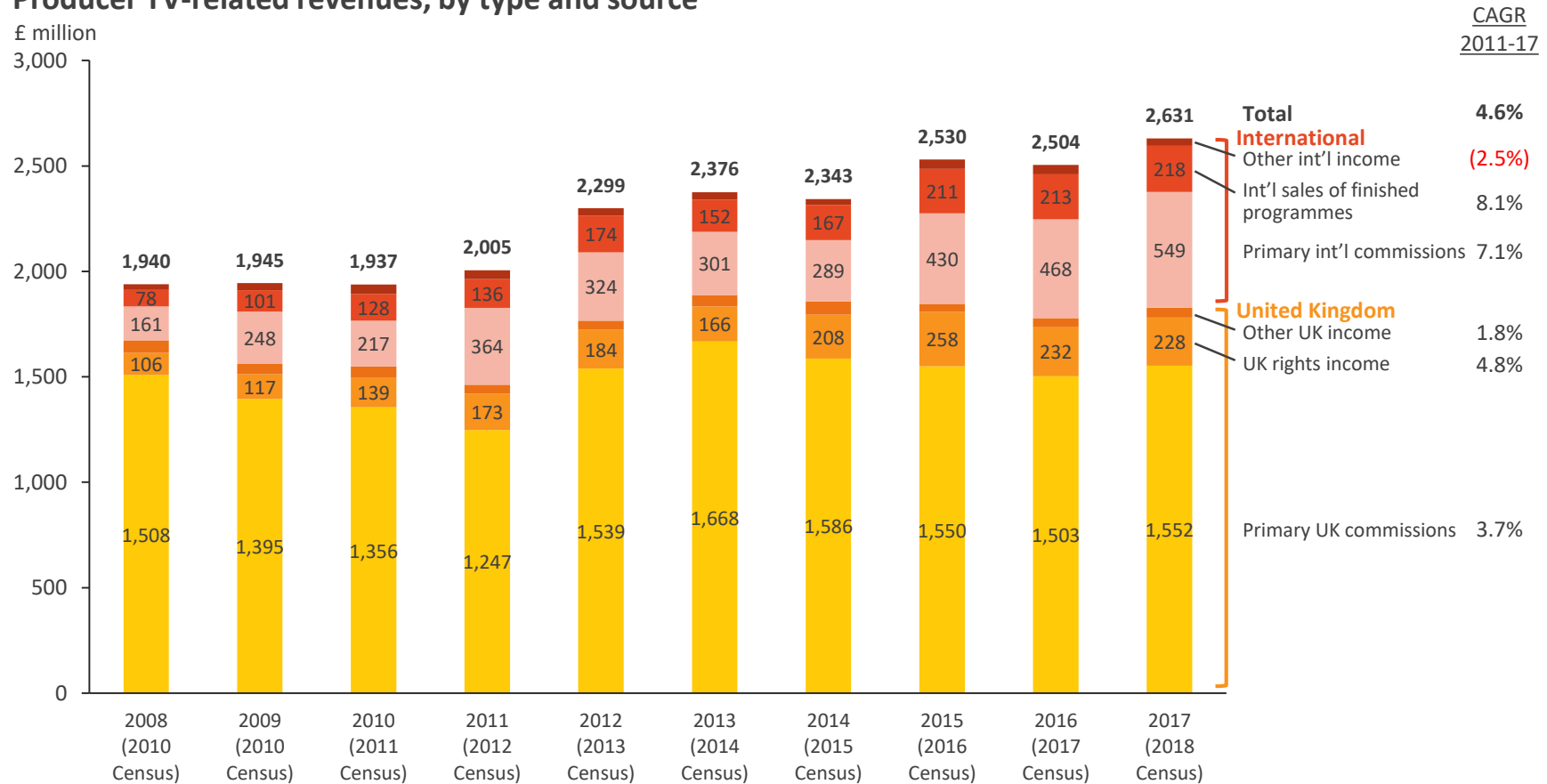
Note: *Non-TV revenue includes corporate production, new media and other non-TV activities such as online publishing, talent management, promotions, public relations and feature films

Source: Pact UK Television Production Census 2018, Oliver & Ohlbaum analysis

International commissioning revenue was the main driver of growth last year

Primary rights revenue from international commissioners grew to over £500m for the first time in 2017. A year-on-year increase in UK primary commissions income also supported overall growth in 2017

Producer TV-related revenues, by type and source



Note: 'UK rights income' – UK secondary sales, merchandising, formats, home entertainment etc.; 'Other UK income' – pre-production and other TV-related revenue; 'Other int'l income' – international rights (excluding finished programme sales), pre-production and other TV-related revenue

Source: Pact UK Television Production Census 2018, Oliver & Ohlbaum analysis

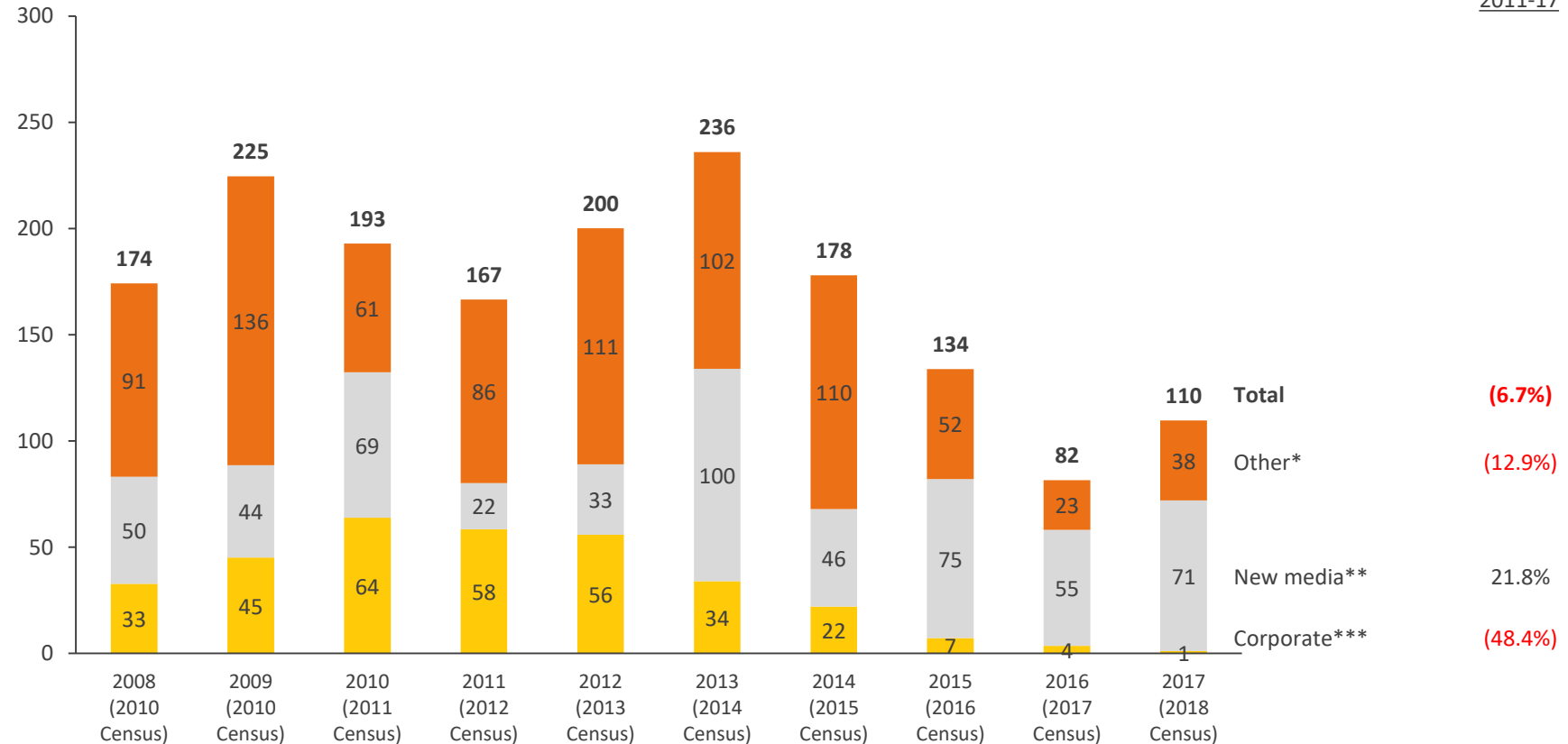
New Media continues to be the largest source of additional revenue

Non-TV revenues remained low in 2017 compared to previous years; however, New Media activities continued to perform well, accounting for over £70m of revenue in 2017

Producer non-TV revenues, by type

£ million

CAGR
2011-17



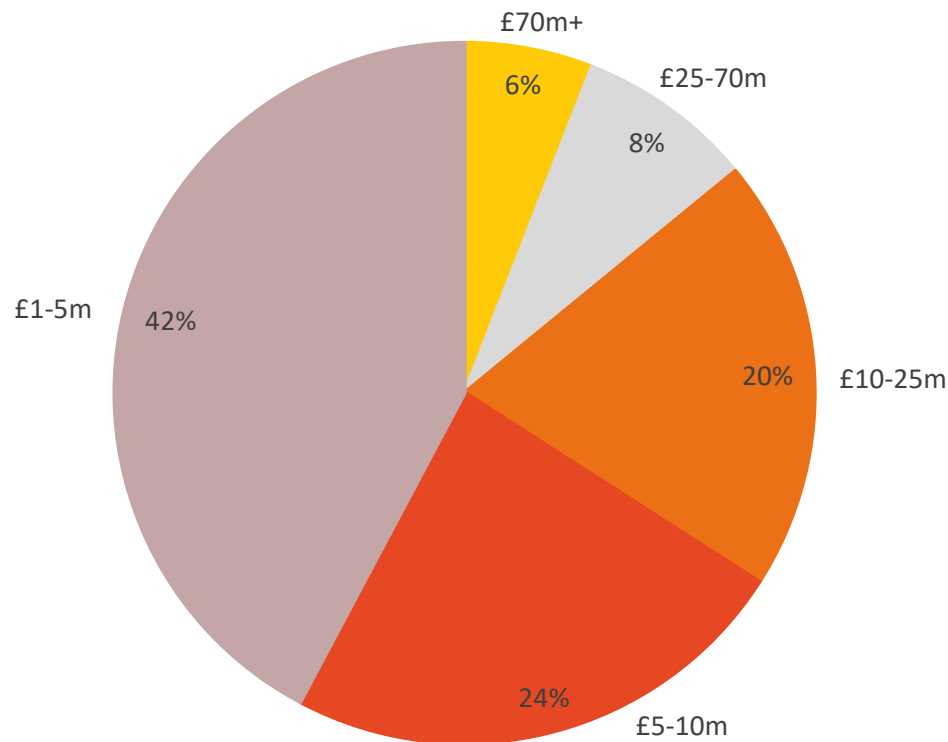
Note: *'Other' includes online publishing, talent management, promotions, public relations and feature films. Figures are particularly sensitive to specific company performance and M&A activity. **'New Media' includes websites, apps, social media and games. ***'Corporate' includes B2B, promotional and educational material and similar not produced for public television

Source: Pact UK Television Production Census 2018, Oliver & Ohlbaum analysis

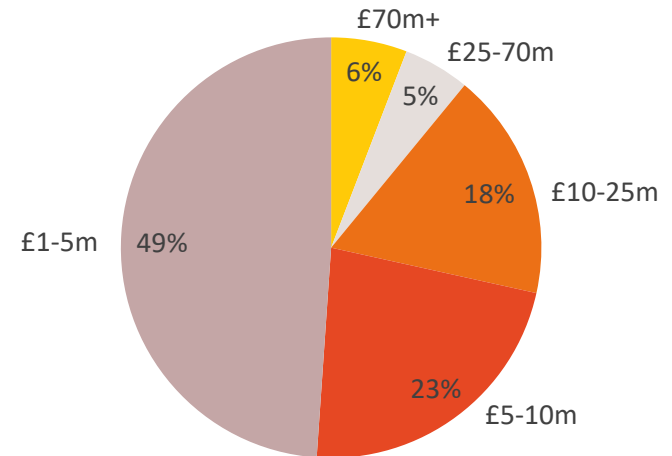
The UK independent production sector remains varied

Producers of all sizes continued to grow, in general, during 2017 resulting in some additions to mid-large turnover brackets. The sector remained diverse though with a large number of smaller producers

Distribution of the number of independent production companies, by turnover bracket, 2017



Distribution, 2016



Note: Results are based on 201 individual companies. Individual companies belonging to a larger group are only counted as part of the group. In addition to the companies above, based on analysis from Broadcast, we estimate there are circa 250 small producers with an annual turnover of less than £1m

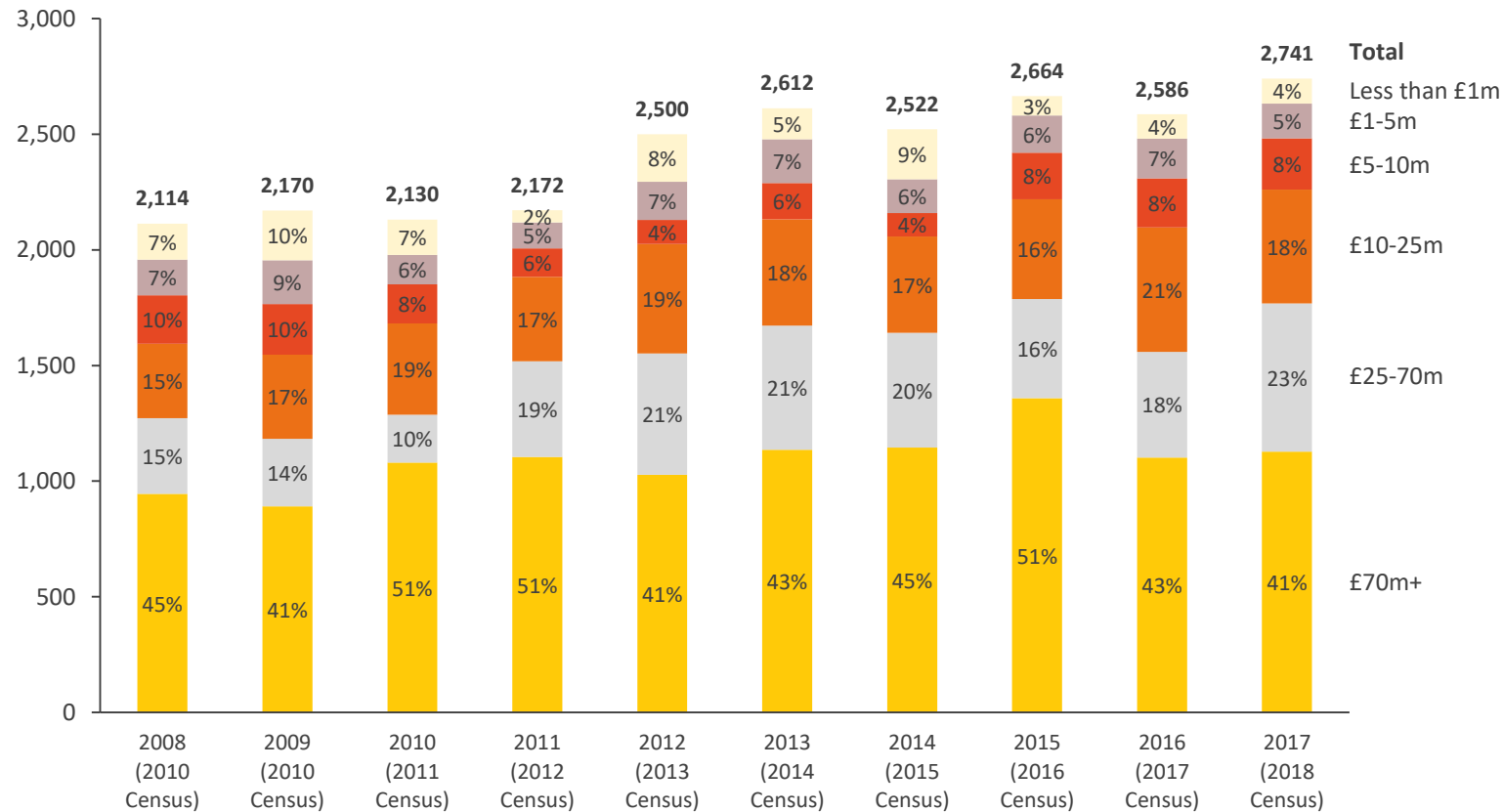
Source: Broadcast, Pact UK Television Production Census 2018, Oliver & Ohlbaum analysis

Smaller companies continue to grow in size alongside industry revenues

Increases to total sector revenues have been shared across producers of all sizes. Growth of producers, particularly smaller firms, has led to a rise in the £25-70 million bracket as companies have moved upwards into this range

Share of total producer revenues, by turnover bracket

£ million, %



1. Summary

2. Revenue growth

3. UK commissioning trends

- Total UK commissioning revenue grew year-on-year, driven by the PSB networks
- The BBC continues to focus more of its external spend on smaller producers compared to the other PSBs
- Genre mix was relatively similar to 2016, with some growth in drama spending after a period of decline

4. International and rights revenues

UK commissioning trends - Summary

Income from UK commissions increased to £1,552 million in 2017, slightly above 2015 levels; this total is similar to previous years going back to 2012 when commissioning revenue increased significantly

Revenue from UK commissions increased by almost £50 million from 2016 to £1.55 billion in 2017. Though this remains below the high reported in 2013, it is otherwise similar to commissioning income over the past five years.

The BBC and Channel 4 continued to commission a lower share from the biggest producers and a higher share on new IP compared to the other PSBs in 2017.

Growth of factual entertainment slowed in 2017, but remains a prominent genre, while there was a small shift of spend back into drama following a period of steady decline.

UK commissioning income grew year-on-year, driving growth of total domestic revenues

- Commissioning revenue grew by roughly £50 million in 2017, the largest reported year-on-year growth since 2013

The PSB networks have generally shifted spend towards smaller producers

- The BBC continues to commission a greater share from smaller companies, compared to other PSBs, while multichannels commission the largest share from the biggest producers

Share of spending on new commissions has broadly increased across most broadcasters

- The BBC continues to have the largest share among the PSBs, the gap between it and the other networks increased in 2017

Change in genre mix has slowed after the recent rise of Factual Entertainment

- In contrast to recent years which have seen a rapid shift of spending to factual entertainment, the genre mix of spending in 2017 was similar to 2016

Key Trends – UK commissioning trends

UK commissioning income recovered rapidly in 2012 following the economic downturn, and has since remained at a roughly similar level.

Channel 5 and multichannel group spending on commissions has grown significantly over time, increasing by 110 and 59 per cent respectively since 2009.

The PSB networks have consistently accounted for slightly more than 80 per cent of total UK commissioning spend over the last six years.

The main PSB networks have gradually spent a larger proportion of their total commissioning spend with smaller producers over the past decade.

Over the past decade there has been a significant shift in commissioning spending away from drama, despite a minor rise in 2017, towards factual entertainment, whose share of spending has nearly doubled since 2008.

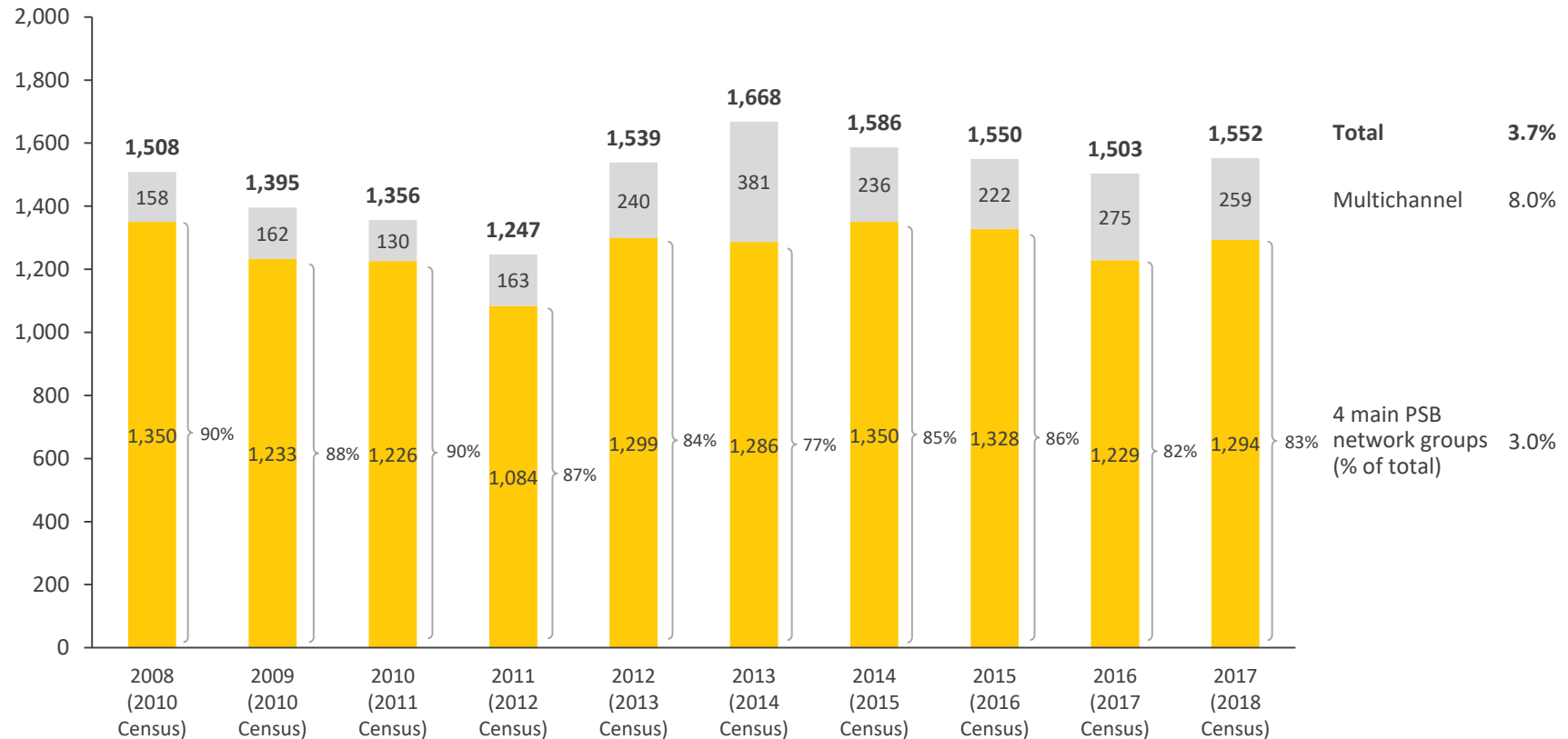
Revenue from UK commissions has recovered to 2015 levels

After a minor fall in 2016, primary rights revenue increased to £1,552 million in 2017, slightly above 2015 levels. In general, commissioning revenue and the share of multichannels has been broadly consistent over the last six years

Value of external UK TV commissions, by type of broadcaster

£ million

CAGR
2011-17



Note: *Includes the main and spin-off channels for the BBC, ITV, Channel 4 and Channel 5 network groups

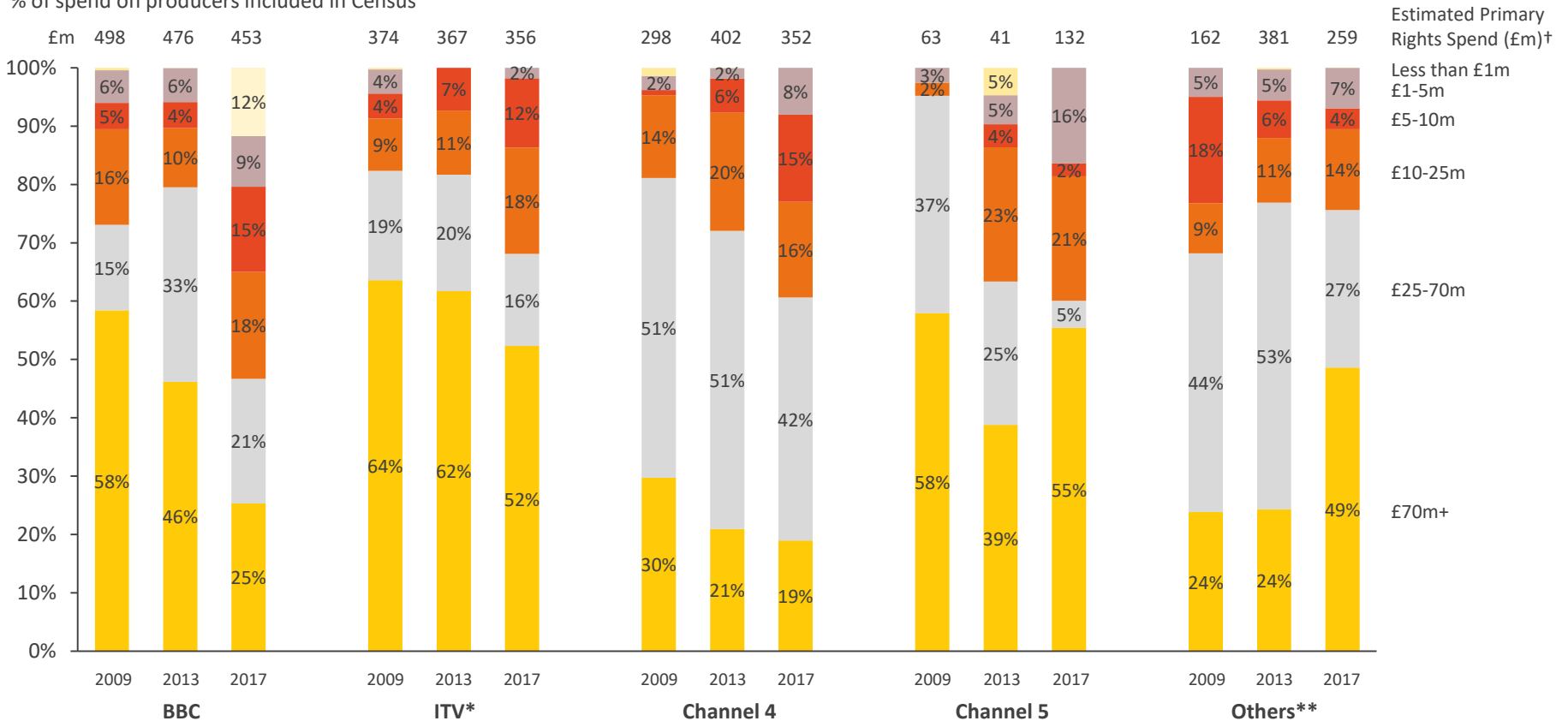
Source: Pact UK Television Production Census 2018, Oliver & Ohlbaum analysis

UK commissioning continues to support both small and large producers

Support for smaller producers has strengthened over the past eight years, with all PSBs spending a growing share of their external commissioning budgets on shows from smaller companies

External commissioning value by UK broadcaster split by company turnover band

% of spend on producers included in Census



Note: *ITV includes STV / UTV, **Includes Sky and other multichannel groups,

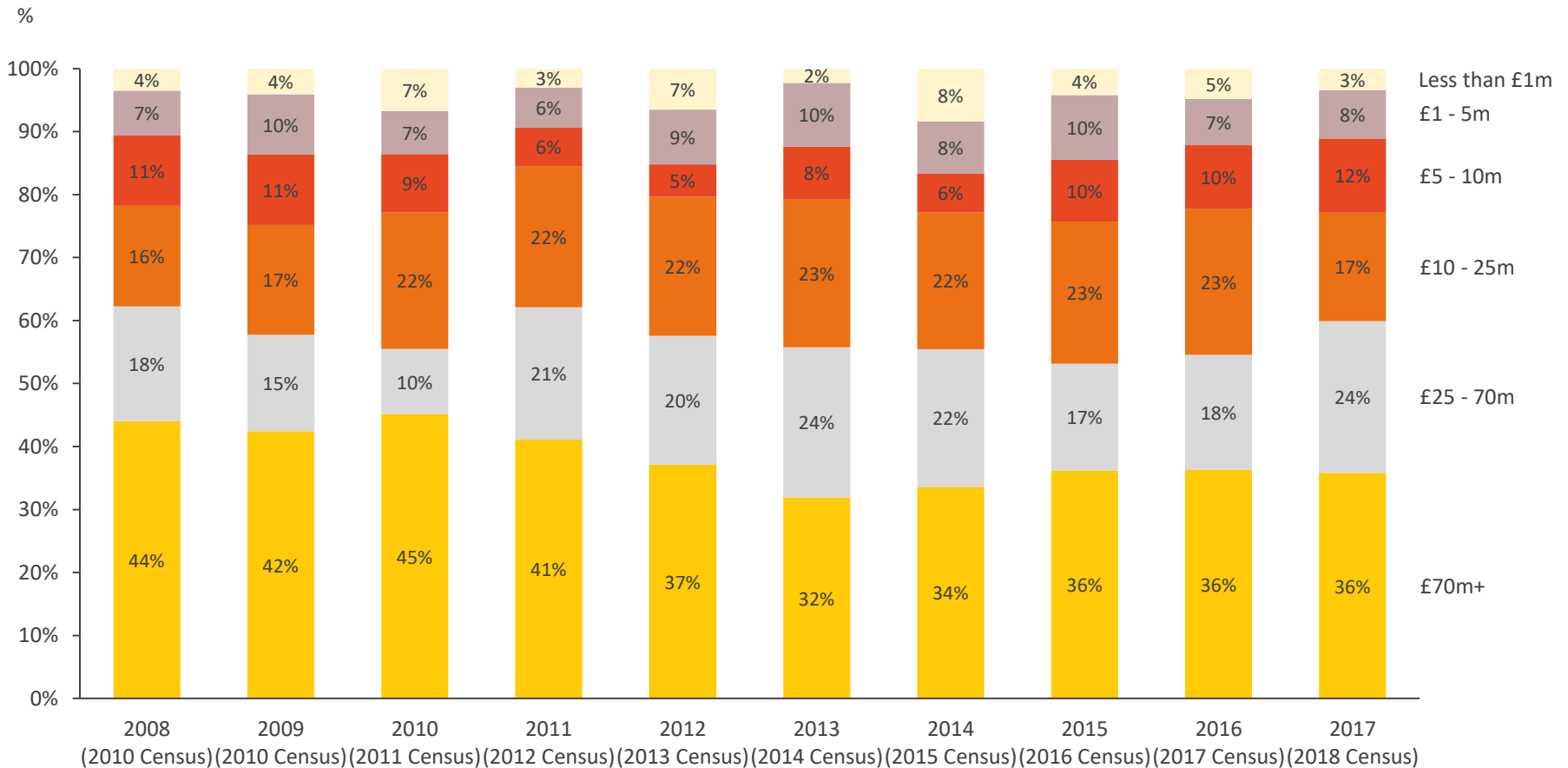
†Our broadcaster spend figures may differ from those reported by the broadcasters as our numbers are estimated from a survey of producers that covers the latest financial year, rather than calendar year; there may also be timing differences between when revenues are recognised

Source: Pact UK Television Production Census 2018, Oliver & Ohlbaum analysis

Smaller producers continue to grow amidst healthy competition in the market

The share of commissioning spend has remained relatively stable; however there was some increase in 2017 within the £25-70m turnover band likely driven by the growth, and thus movement, of companies from smaller bands

Share of total spend on external UK produced primary commissions, by turnover band of producer



Note: Results are calculated at market size, based on Census returns, and are subject to sample change effects in each year

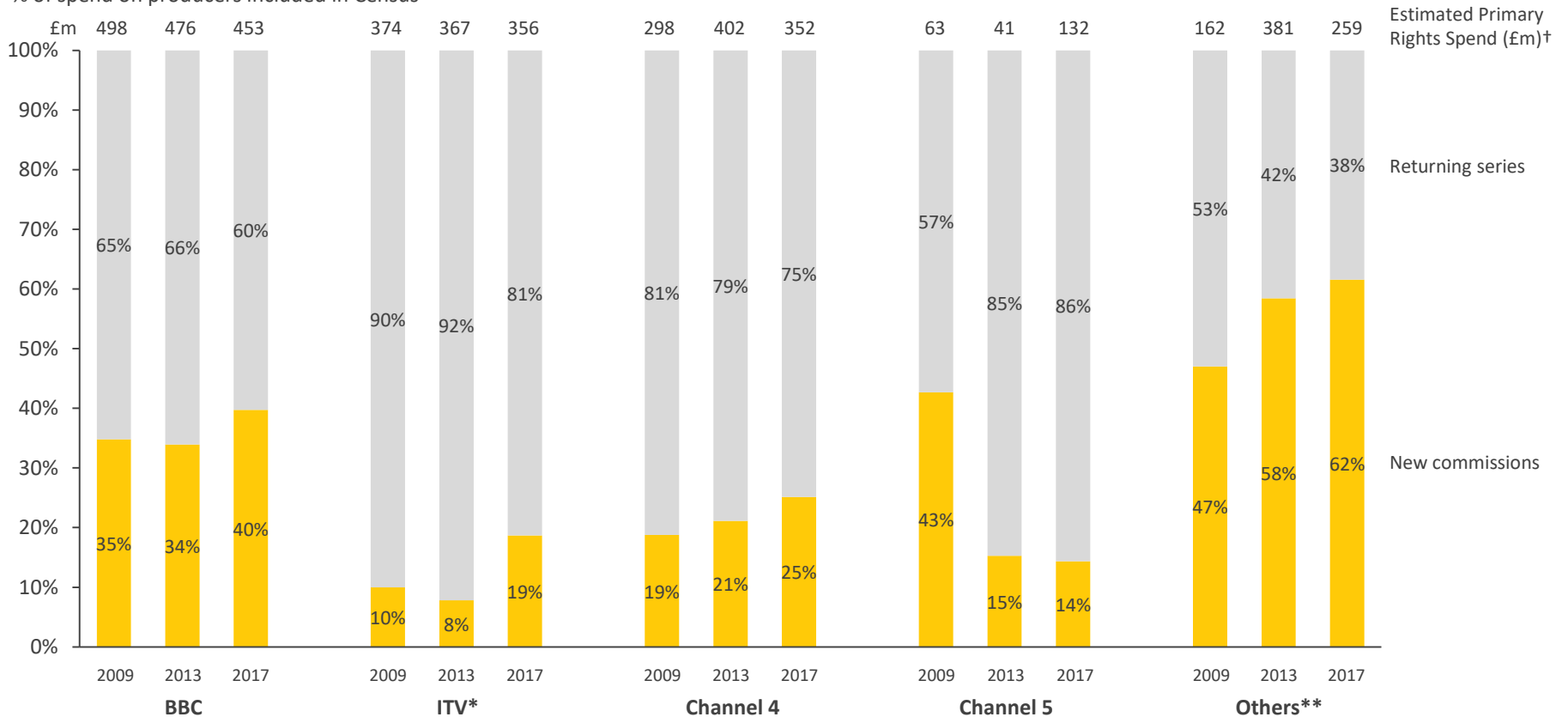
Source: Pact UK Television Production Census 2018, Oliver & Ohlbaum analysis

New IP accounts for over one-third of total UK commissioning spend

Spend on new commissions continues to grow in the UK, especially within Multichannel groups. The BBC and Channel 4 remain the highest individual spenders on new IP, though ITV has grown significantly over recent years

External UK commissions value, by broadcaster – new commissions & returning series

% of spend on producers included in Census



Note: *ITV includes STV / UTV, **Includes Sky and other multichannel groups,

†Our broadcaster spend figures may differ from those reported by the broadcasters as our numbers are estimated from a survey of producers that covers the latest financial year, rather than calendar year; there may also be timing differences between when revenues are recognised

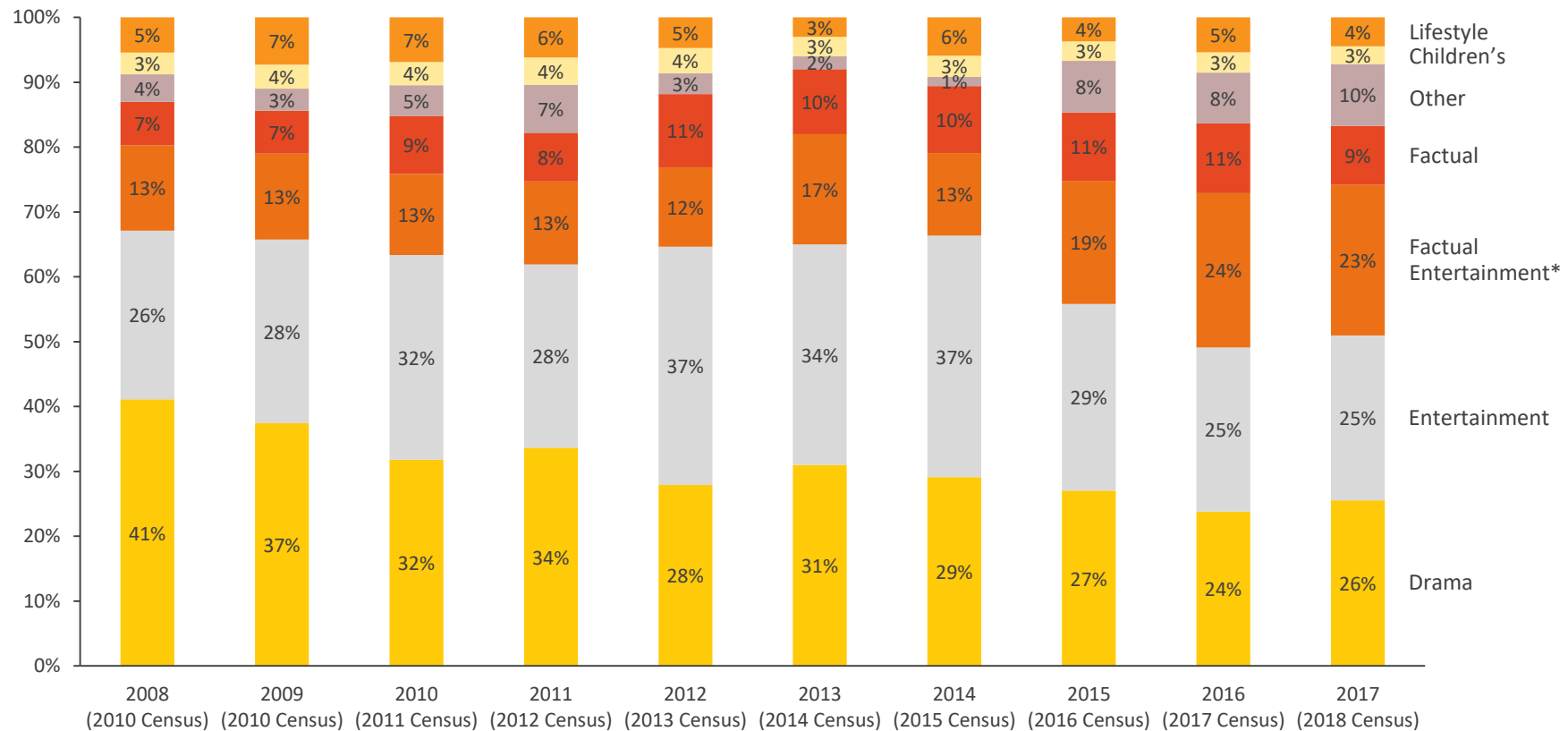
Source: Pact UK Television Production Census 2018, Oliver & Ohlbaum analysis

Spending on factual entertainment commissions has almost doubled since 2012

The shift of spending from entertainment and drama to factual entertainment, between 2014 and 2016, slowed in 2017; the share of spending on drama increased slightly after a prolonged period of decline

Value of external UK commissions by genre

% of spend on producers included in Census



Note: 'Factual entertainment' covers such programmes as showbiz/gossip, reality shows and fly on the wall documentaries

Source: Pact UK Television Production Census 2018, Oliver & Ohlbaum analysis

1. Summary

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4. International and rights revenues

- Income from overseas primary commissions surpassed £500 million for the first time in 2017
- Global on-demand services accounted for roughly one-third of overseas commissions revenue
- Sales of finished programming continued to grow steadily, accounting for one-half of all content rights income

International and rights revenues - Summary

International commissions and sales of finished programming are key areas of growth for the UK production sector

Total reported international revenues continue to rise, growing by 10.6 per cent year-on-year in 2017 and more than doubling since 2010.

Growth in international revenues have been mainly driven by international commissions, a large component of which now comes from digital on-demand services such as Netflix.

International sales of finished programmes have also performed well, increasing to £218 million in 2017. This revenue stream more than doubled between 2009 and 2015, and has since grown consistently year-on-year.

Revenue from international commissions rose to over half a billion for the first time in 2017

- Primary international commissions, which grew from £468 million in 2016 to £549 million in 2017, remained the most prominent area of growth in the UK production sector
- Revenue generated by commissions from standalone on-demand services rose to £150 million, accounting for roughly one-third of international commissions income

Both the scale and mix of content rights revenues remained consistent

- Total content rights revenue, £480 million in 2017, has stayed relatively stable over the past three years suggesting that there has been some slowdown compared to the steady growth exhibited in earlier years
- Sales of finished programming in the UK and overseas continue to represent about 60 per cent of content rights revenue. Format sales have grown to account for 9 per cent of rights revenue in comparison to the low of 5 per cent reported in 2013.

Key Trends – International and rights revenues

International revenue has become a key revenue stream and growth area for the UK production sector, having trebled by growing at a rate of 13 per cent per year since 2008.

Primary commission revenues, which have grown by 15 per cent per year since 2008, have been the main driver of growth.

This area has been supported by the emergence of on-demand services, which now account for 8 per cent of total commissioning income.

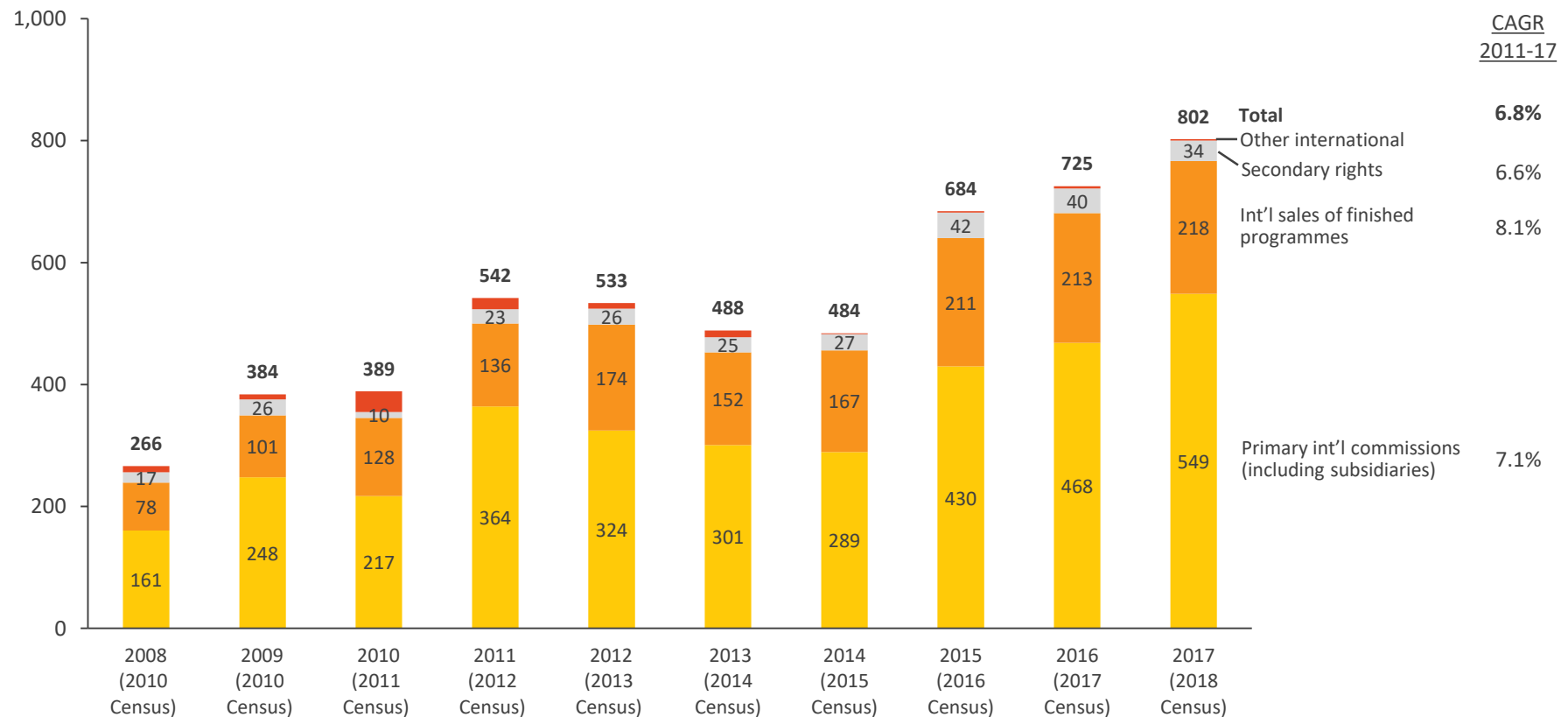
Revenue from international sales of finished programming has almost trebled since 2008 and typically accounts for nearly one-third of total international revenues earned by UK producers.

Strong growth of international revenues was maintained in 2017

Recent growth has primarily been driven by international commissions, which have more than doubled since 2010. Finished programme sales continue to be a stable area of growth following its rapid development in earlier years

Breakdown of international TV revenue, by type

£ million



Note: 'Secondary rights' – international secondary rights revenue (excluding sales of finished programmes), this mostly consists of format sales and home entertainment income; 'Other international' – international TV revenue not attributable to primary rights, secondary rights or distribution **pact.** 23

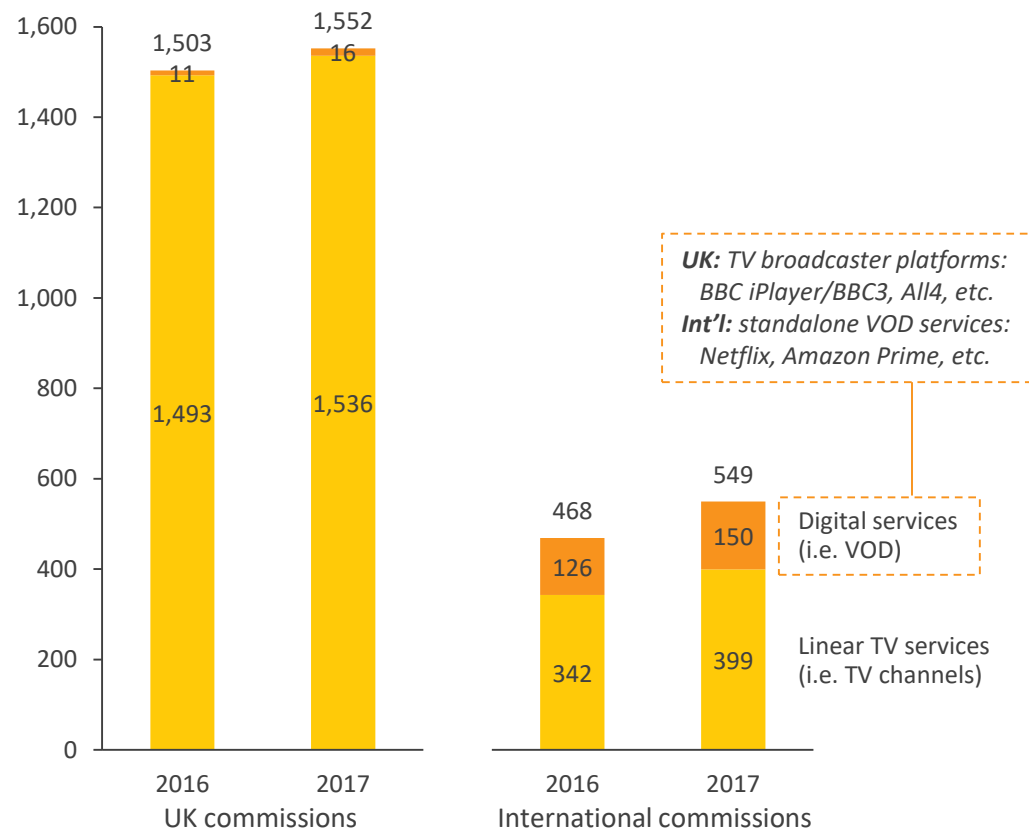
Source: Pact UK Television Production Census 2018, Oliver & Ohlbaum analysis

Commissioning revenue from on-demand services grew to £166m in 2017

Commissions from global digital services (such as Netflix, Amazon Prime and YouTube) accounted for £150m of international primary rights revenue, a significant increase from £126m last year

Primary TV rights revenue, by type

£ million



- Commissioning revenue from programmes made for UK on-demand services (such as iPlayer or All4) grew to £16 million in 2017 but still only represented about 1 per cent of total UK commissioning income.
- As per 2016, the BBC accounted for the majority of this spend (roughly two-thirds of the £16 million total in 2017) mainly due to BBC Three.
- Revenue from overseas on-demand services increased by 19 per cent year-on-year to £150 million and accounted for nearly one-third of international commissioning revenue. Netflix was the main contributor in this category in 2017 while YouTube Red entered the market, commissioning their first major UK series.

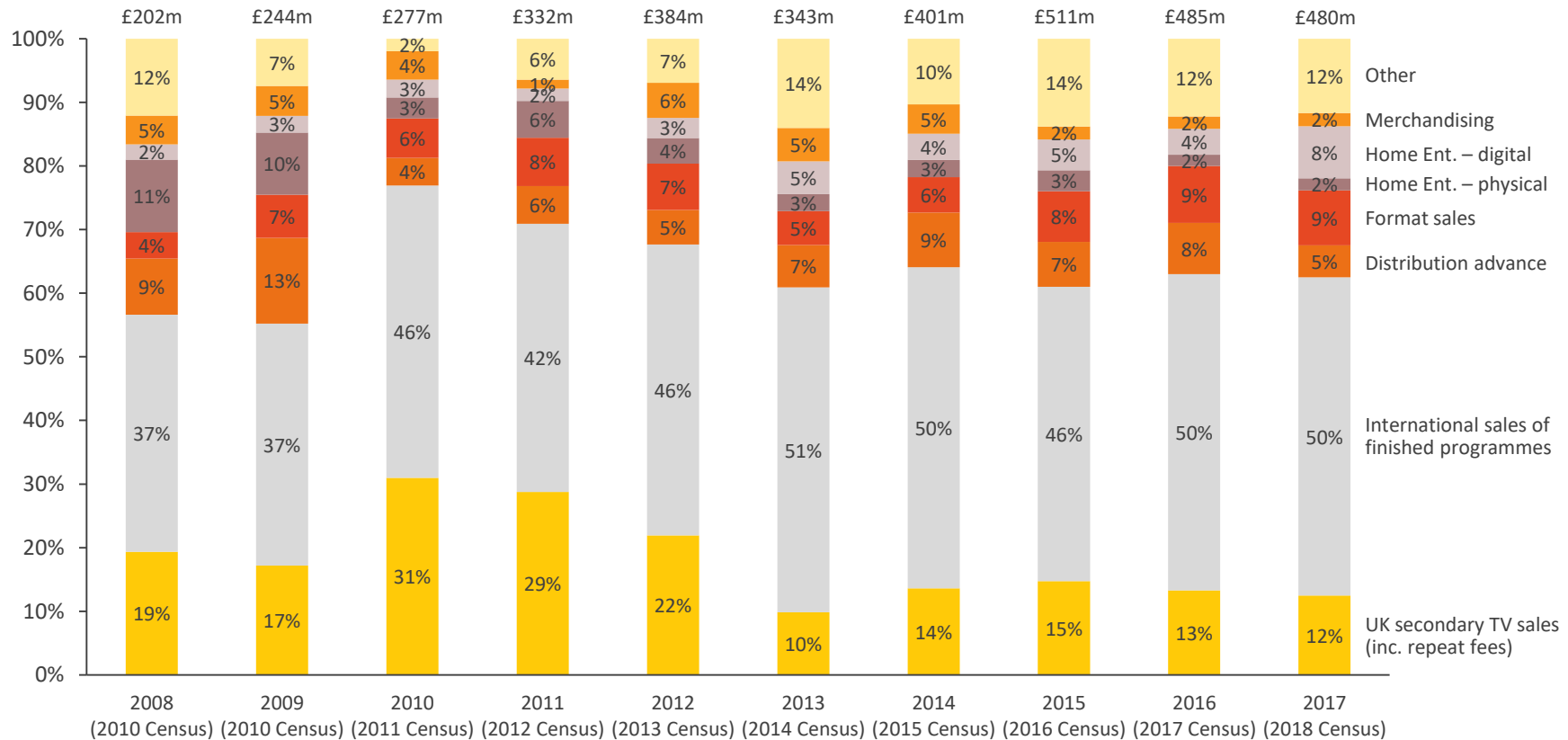
Note: Other types of digital services have also been covered but the stated examples represent the main types of service within UK and Int'l categories **pact.** 24
 Source: Pact UK Television Production Census 2018, Oliver & Ohlbaum analysis

International programme sales consistently account for one-half of rights income

On top of strongly performing programme sales, a wide range of ancillary activities continue to generate significant revenues, especially format sales and digital home entertainment income, which have both been rising steadily

Revenues from TV content rights, by category

% of total content rights among producers



Note: 'Home Ent.' – home entertainment revenues covering DVD & video (physical) and VoD rental & download-to-own (digital) ['Home Ent. – digital' was changed from 'New Media' in 2017]; 'Merchandising' – all merchandise licensing including publishing and video games; 'Other' – includes advertising, premium rate telephone services, and other activities such as music publishing, live events, gambling and ancillary rights

Source: Pact UK Television Production Census 2018, Oliver & Ohlbaum analysis

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