



Independent Production Sector Financial Census and Survey 2013

June 2013

A report by Oliver & Ohlbaum Associates Ltd for PACT

Contents



Trends

Section 1: Summary

Section 2: Revenue growth and profitability

Section 3: UK commissioning trends

Section 4: International and rights revenues

Section 5: Sources of additional finance

Summary

Headlines from the 2013 census



Trends

A pivotal year for the UK independent sector as overseas investment continue to pay off and the UK commissioning market starts to recover strongly

Signs of a strong recovery in independent producers' revenue from UK commissioning has boosted growth in 2012, with sector revenues up by 16.5%

Revenue from primary UK commissions increased for the first time in four years. There was continued growth in overseas activities and international sales of UK finished programmes, driving total sector income to just under an estimated £2.8bn in 2012

Though headline rates of growth in international revenues has slowed, the position of UK indies overseas continues to grow, helping to push the UK indie sector to a higher level of income as the UK market recovers

Despite strong growth in revenues, sector margins remain under pressure, with average net margins falling for the second year in a row

At £838m, international revenues grew by 8% in 2012 and account for 30% of total sector revenues

UK rights income continued to grow in 2012 and there was also continued growth in international sales of finished UK programmes, demonstrating the continuing attractiveness of UK IP in overseas markets

Overall UK-derived rights revenue grew to an estimated £336m in 2012, up by 18% on the previous year and recording a sixth year of consecutive growth

The contribution of indies to programme finance has remained stable through the recession at around £200m per annum.

The distribution of commissioning spend across different sizes of indies shifted back in favour of smaller indies in 2012, particularly driven by BBC and Channel 4 commissioning

Summary

Approach and methodology



The census report is based on financial returns from PACT's membership, providing a sample-based analysis of how the financial performance of the independent production sector has evolved since 2004

The PACT financial census is now in its eighth year, providing an estimate of key trends within the UK independent production sector based on financial information provided by PACT members.

The census was conducted between March and May 2013, with the data gathered representing the last two financial years (2011 & 2012).

PACT 2013 financial census

- The PACT financial census is now in its eighth year having been conducted annually since 2004
- With the exception of 2005, when no census was taken, the PACT census has provided an annual summary of the sector's financial performance starting from 2004
- The census is based on financial returns provided by PACT members to provide a representative sample of the UK independent production sector
- Responses were up-weighted based on a segmentation of companies by turnover band
- For the 2013 census, the turnover band ranges (used in grossing up the sample responses to provide an estimate for the overall industry) have been kept consistent with the restatement methodology introduced in 2009
- 60 completed responses were received, with many larger production companies reporting at a group level, and respondents within the 2013 sample totaling £1.77bn of industry turnover (up from £1.56bn in the 2012 census)
- Due to different company reporting periods, the annual census returns include financial information spanning 2011 and 2012

Contents



Trends

Section 1: Summary

Section 2: Revenue growth and profitability

- A strong return to growth over the 2011-2012 period
- UK primary commissioning revenue has bounced back following previous declines
- Non-TV activities show little growth; New media growth may be outside of sample
- Sector profitability has fallen again, but some segments are faring better

Section 3: UK commissioning trends

Section 4: International and rights revenues

Section 5: Sources of additional finance

Revenue growth and profitability

Summary



The UK independent sector maintained headline growth in FY2012; revenue from primary UK commissions increased for the first time in four years, while international and rights income continue to drive incremental growth

The 2013 census returns show strong growth across the UK independent production sector as domestic commissioning spend has recovered strongly through FY2011-12

The scale of recovery in commissioning spend suggests that part of the growth is driven by broadcaster investment in 2011 coming through in the FY2012 results

As a consequence, our estimate for overall sector size is up significantly to £2.79bn in 2012.

Despite this strong growth, sector average net margins fell for the second year in succession, illustrating that pressure remains within the industry despite headline growth

The UK independent sector recorded strong headline growth in FY2012, driven by a recovery in UK commissioning spend

- The overall size of the industry in 2012 was just under £2.8bn, with revenues from TV contributing 93% of all sector income (in line with previous years)
- The high level of sector growth was mainly driven by a strong recovery in reported UK commissioning spend
- TV-related income continued to grow while non-TV income remained flat, suggesting that any growth in new media activity in the market is falling outside of the census sample

Income from UK primary commissions grew substantially in 2012 for the first time in four years

- The effect of increased broadcaster spending on independent commissions during 2011/2012 have now filtered through to the 2012 census results with respondents reporting significant increases in UK primary commissioning revenues
- Though broadcasters have reported spending more on commissioning and with independent producers, the most likely explanation for the scale of the increase in the 2012 returns is a lag effect in producer's financial reporting showing the returns from investments over the 2011-2012 period

Growth in international activities has slowed but sector revenues in this area continue to rise and demonstrate a sustainable position

- Reflecting the on-going international expansion of the UK's independent sector, revenue from rights exploitation & international activities has grown for the fifth year in succession
- Revenues from international subsidiaries and overseas commissioning grew by £18m (a 3% increase on 2011), from £652m to £670m while revenue from sales of UK programming abroad continued to grow strongly at 28% year on year, up from £119m to £152m

Despite headline growth, sector average margins remain under pressure

- Overall sector net margins across the survey responses fell for the second year in a row, down from 6.7% in 2011 to 5% in 2012
- However, an increase in the reported share of spend taken by smaller indies has led to a recovery in reported margins amongst those in the under £1m turnover band and in the £5m-£10m turnover band

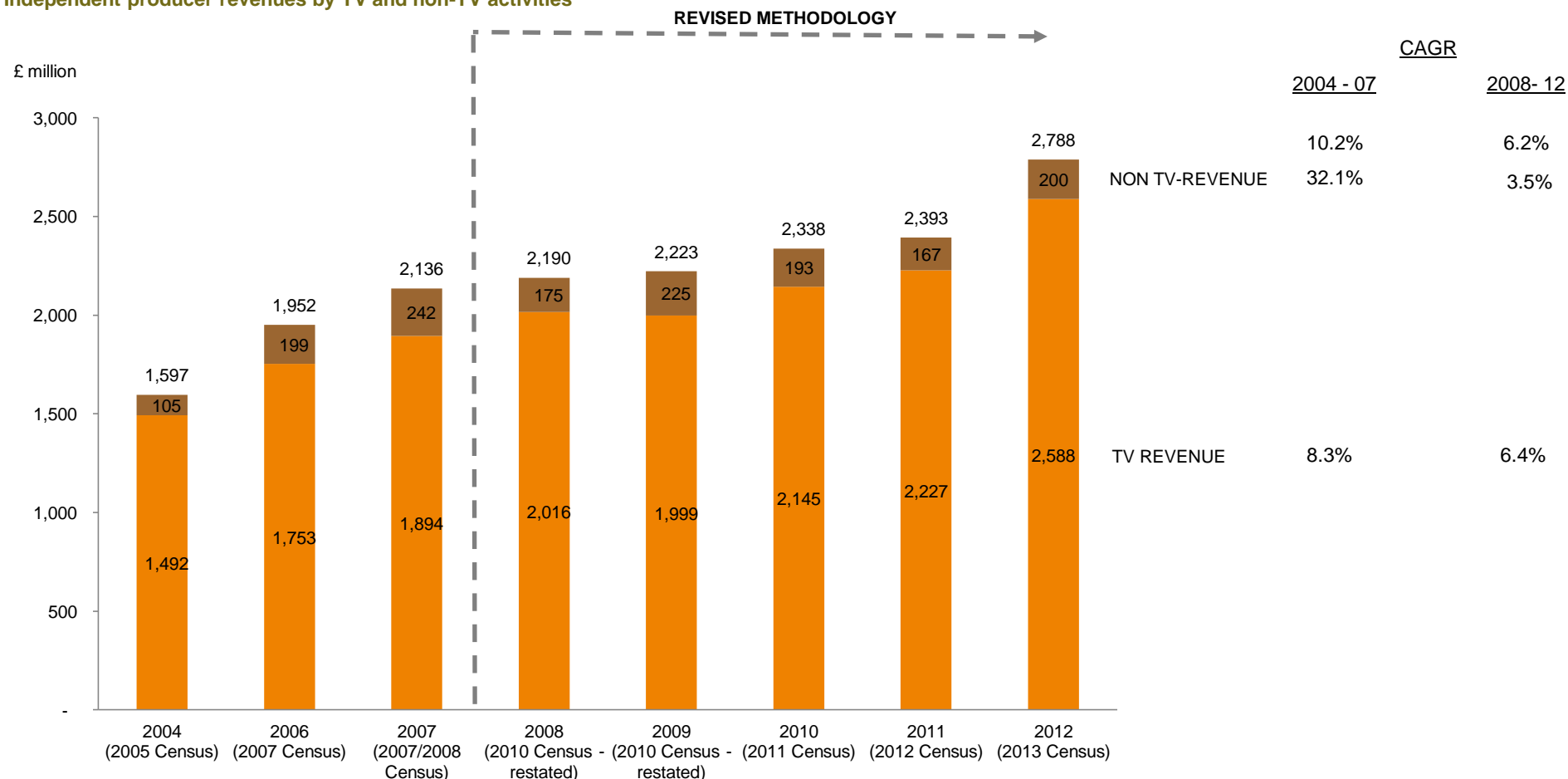
Revenue growth and profitability

A strong return to growth over the 2011-2012 period



The majority of companies in the 2013 census sample have shown strong growth in FY2011-12, resulting in a higher overall sector estimate; part of this growth may be investment in 2011 coming through in producer's financial results

Independent producer revenues by TV and non-TV activities



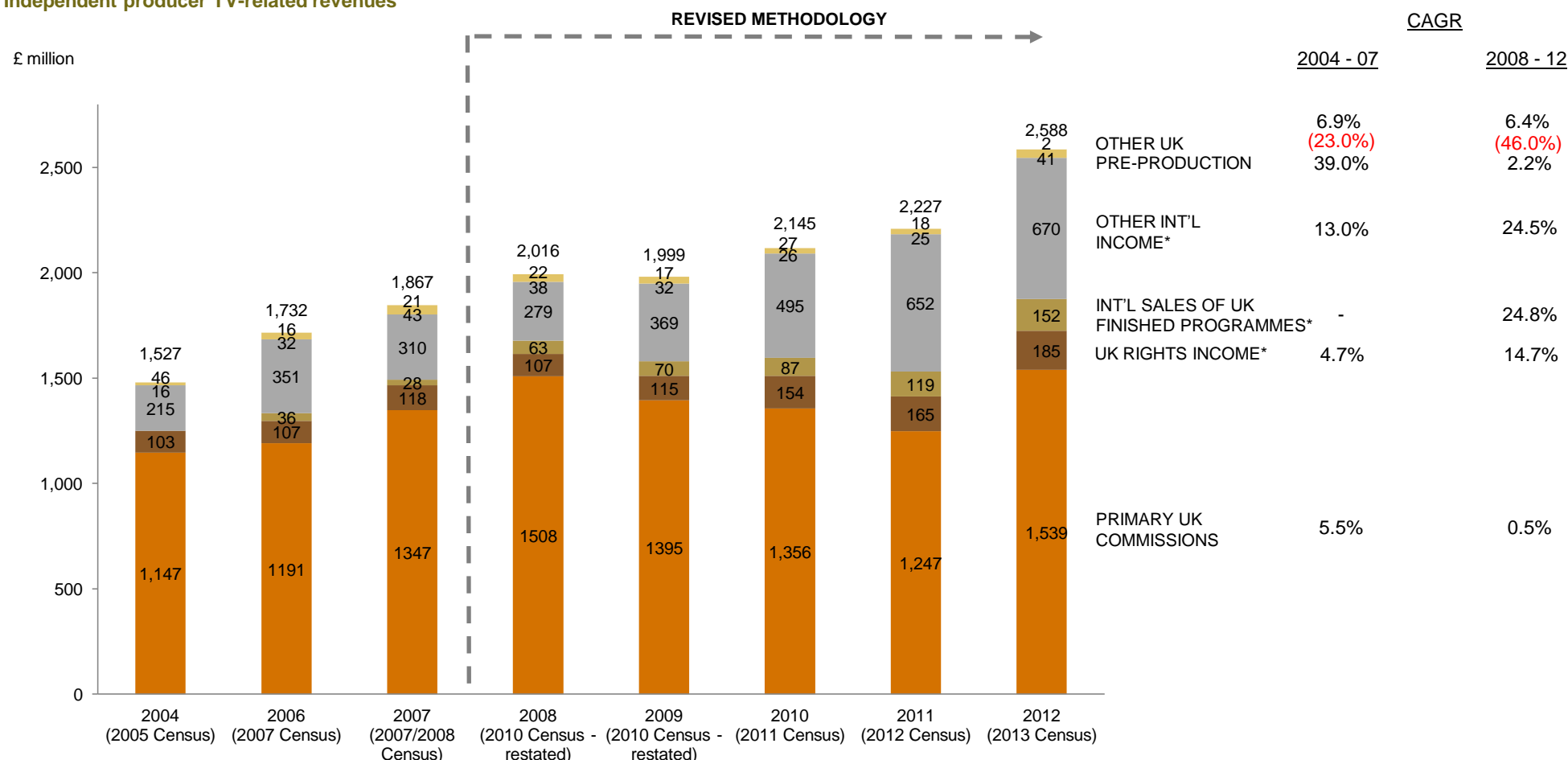
Revenue growth and profitability

UK primary commissioning revenue has bounced back following previous declines



The most significant change in 2012 has been in reported revenue from UK primary commissions; this has recovered strongly with more broadcasters spending on original output and leading commissioners having increased investment

Independent producer TV-related revenues*



*Definitions: 'Other international income' - revenue from companies overseas operations and any primary commissions received from non-UK broadcasters; 'Int'l sales of UK finished programmes' - sales of first run UK programming sold as finished product abroad; 'UK rights income' – UK secondary sales, publishing, formats, DVD sales etc.
 Source: Oliver & Ohlbaum analysis, PACT census

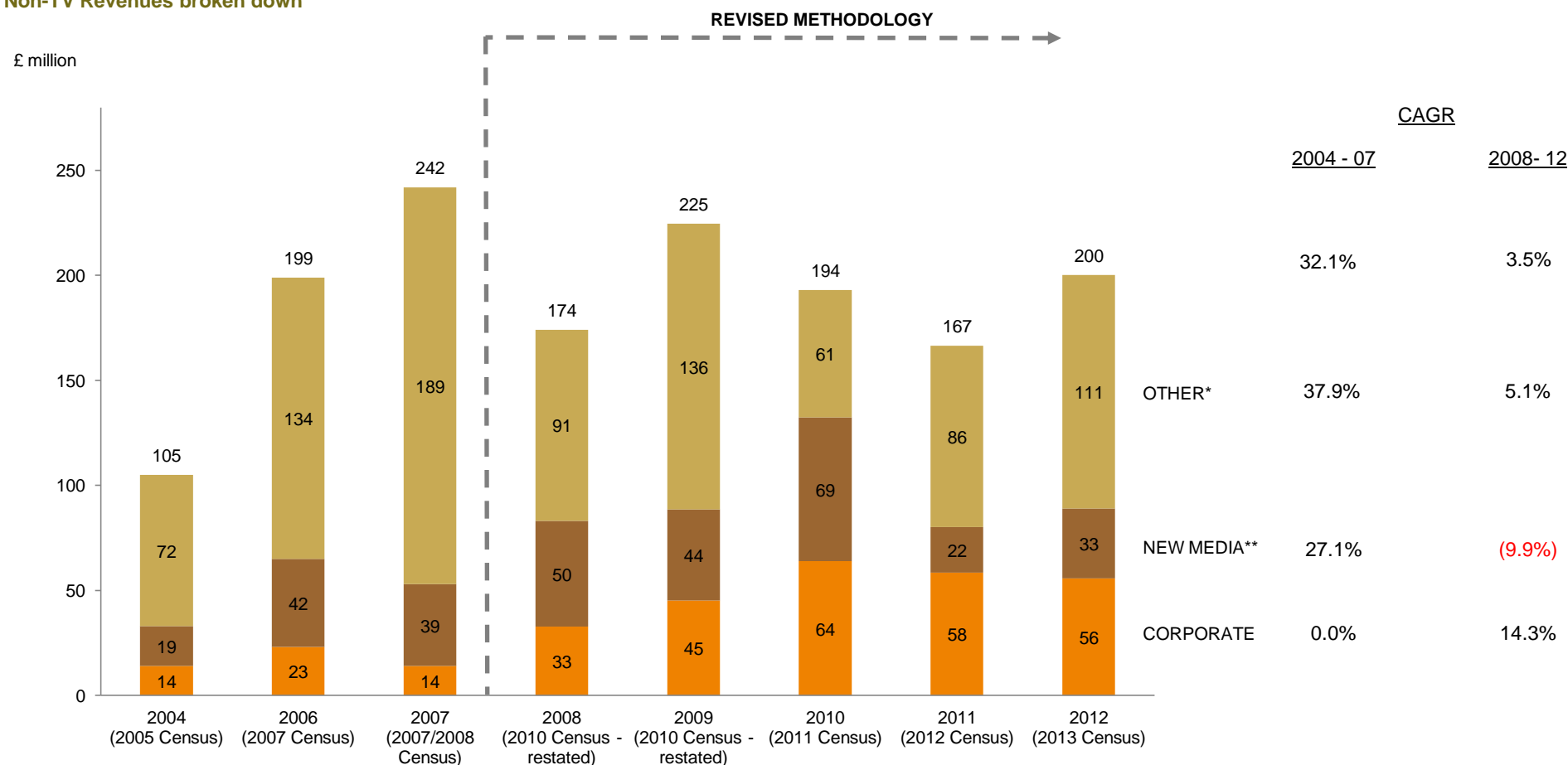
Revenue growth and profitability

Non-TV activities show little growth; New media growth may be outside of sample



Non-TV revenues have remained fairly consistent but show no signs of growth; New media investment in the UK AV industry is likely to be focused on sector specialists rather than the TV producers in the census sample

Non-TV Revenues broken down



**Other' includes online publishing, talent management, promotions, public relations & feature films. Figures are particularly sensitive to specific company performance and M&A activity. ** New Media includes websites, apps and additional content for online services
 Source: Oliver & Ohlbaum Analysis, PACT census

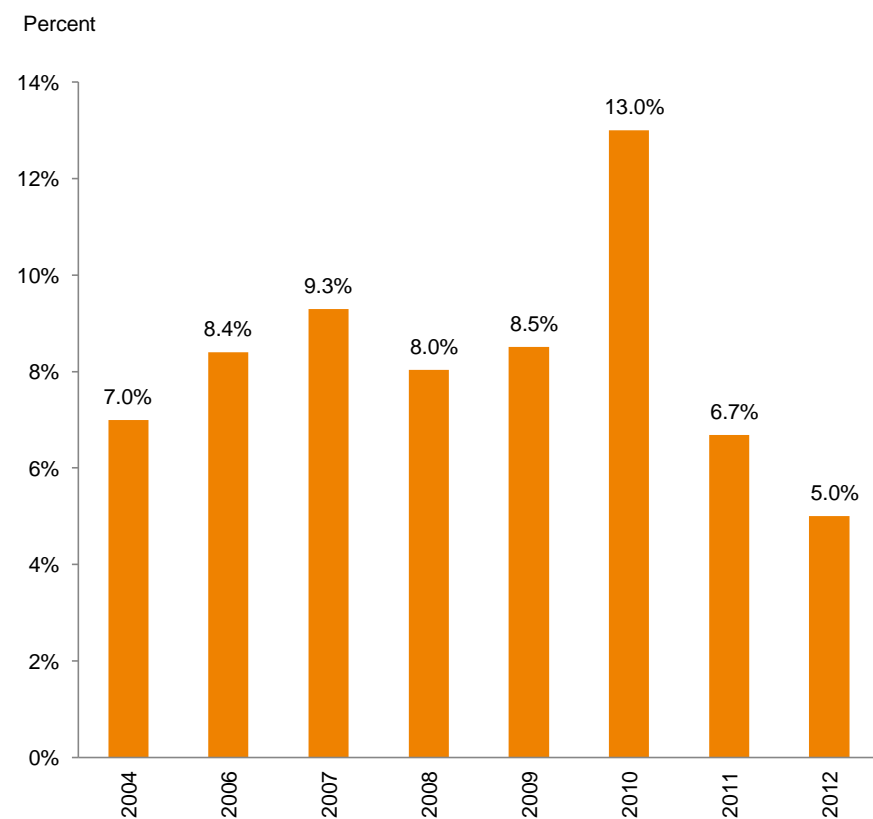
Revenue growth and profitability

Sector profitability has fallen again, but some segments are faring better

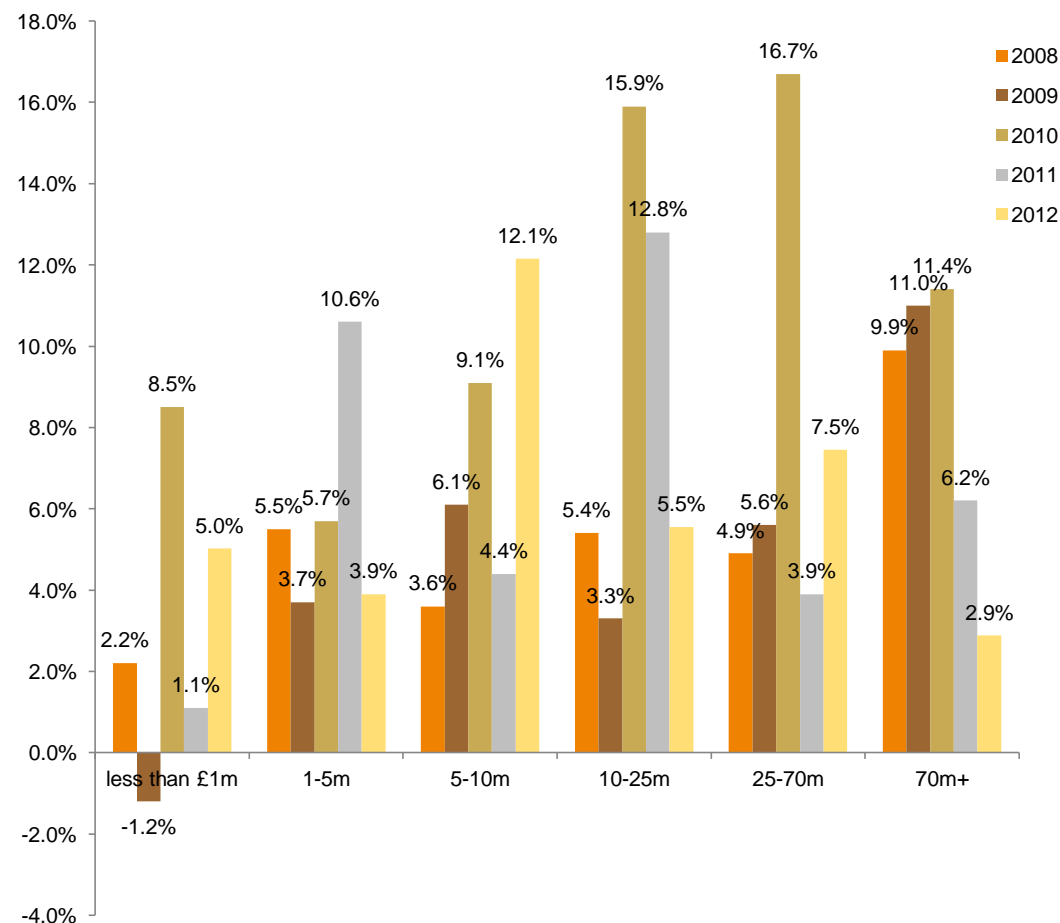


Overall sector net margins were down again year on year, however the greater share of spend taken by smaller indies has seen average margins in under £1m and £5-10m turnover bands recover

Net margins, 2004 to 2012



Distribution of industry profitability by company turnover band*



*Note: Companies in the £10-25m and £25-70m brackets have tended to be part of larger groups with greater potential for overhead sharing
Source: Oliver & Ohlbaum analysis, PACT census

Contents



Trends

Section 1: Summary

Section 2: Revenue growth and profitability

Section 3: UK commissioning trends

- Reported income from UK primary commissions recovered strongly in 2011-12
- Smaller indies now benefiting from BBC and Channel 4 investment
- Industry wide growth reported; Returns picking up investment from 2011 and 2012
- UK commissioning spend appears to include a shift towards entertainment output

Section 4: International and rights revenues

Section 5: Sources of additional finance

UK commissioning trends

Summary



After showing steady declines since 2008, reported UK commissioning spend recovered strongly in 2012, reflecting broadcaster investment through 2011 and 2012 and a broadening of the UK commissioning market

The four main networks continue to dominate primary commissioning, which returned to growth for the first time in four years

This is a lag effect of increased investment made during 2011/12 and has resulted in an estimated £307m increase in UK commissioning spend from 2011 to 2012

Multichannel commissioning now plays an important role in sector growth, with spend increasing by 47% year on year to £240m

In particular smaller indies (£1m-£5m turnover bracket) and medium sized indies (£10m-£25m turnover bracket) appear to have gained from this increase. Spending on the largest indies have remained relatively stable, while there appears to have been a move away from spending with companies in the £25-£70m bracket

Indies reporting a strong recovery in UK commissioning spend following three consecutive years of decline

- The four main terrestrial network groups (the BBC, ITV, C4 and Five plus their spin offs) accounted for an estimated 80% of UK TV primary commissions to the independent sector, down slightly from 82% in 2011
- Overall, commissioning spend grew strongly, reflecting investment in schedules across 2011 and 2012

A greater proportion of the BBC and Channel 4's commissioning spend was placed with smaller indies

- After last year's swing towards spending on larger indies (defined as having an annual turnover of £25m and above), the share of external commissioning spend placed with smaller and medium sized indies (those with turnover less than £25m per annum) grew in 2012

Strong growth in the commissioning spend across all of the main broadcaster segments, with PSB spend recovering strongly and high growth in multichannel investment

- Based on the 2013 census returns, the estimated UK commissioning spend from the BBC and the three main commercial network groups (ITV, Channel 4, Channel 5) with independent producers grew in 2012 by £215m compared to the previous year.
- Within this, the highest absolute growth came from commercial PSB groups, with census estimates showing an increase of £145m over 2011 reported figures – this level of growth would appear to include schedule investments from 2011 and 2012 and potentially reflects a lag in reporting
- The expected growth in multichannel commissioning is also now being seen in the census returns, with this segment growing from £163m in 2011 to £240m in 2012

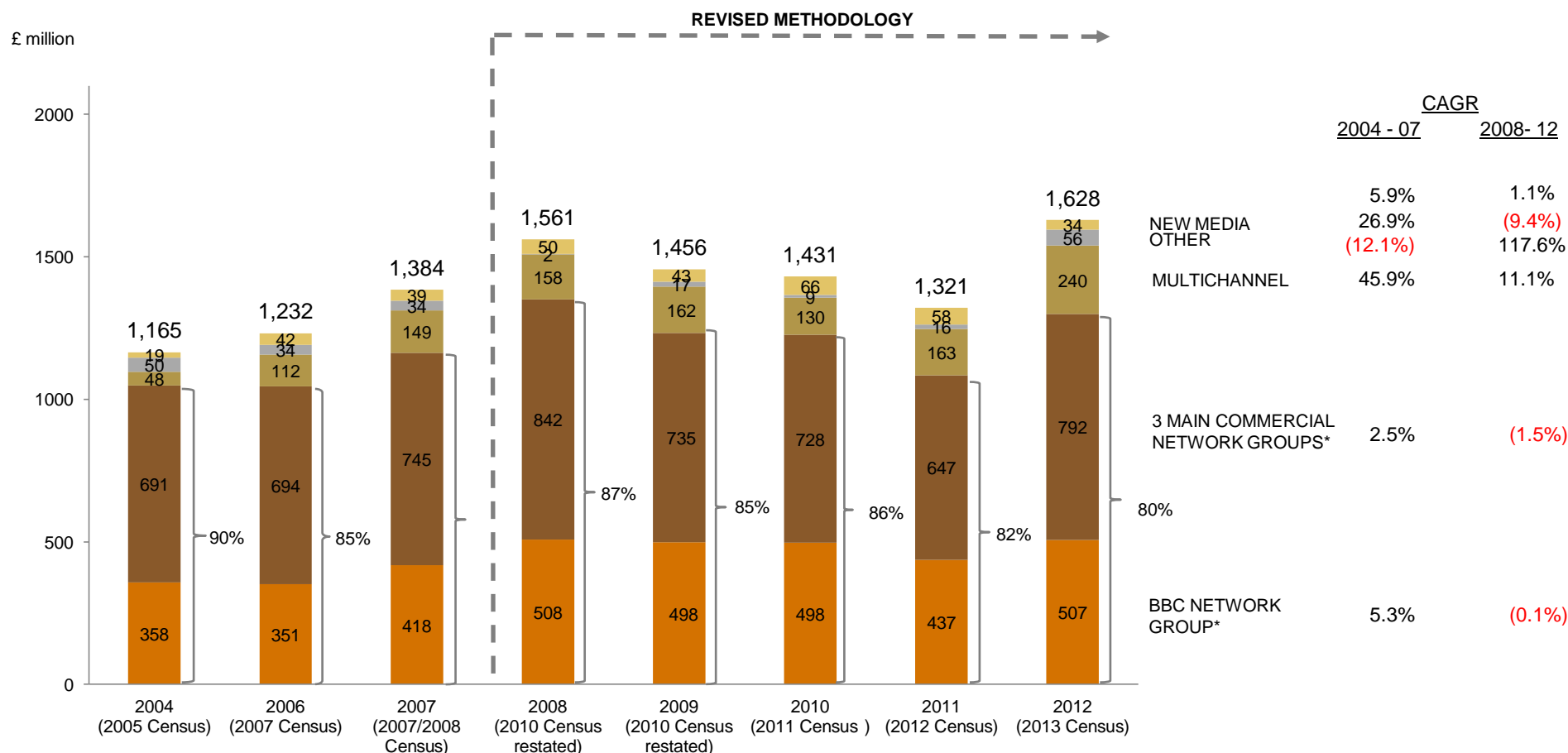
UK commissioning trends

Reported income from UK primary commissions recovered strongly in 2011-12



The sector appears to have benefited from increased multichannel investment and a strong recovery in PSB commissioning spend through FY2011-12 being picked up in the 2012 returns

Value of UK Commissions by Broadcaster (Including new media)**



* Includes spin-off channels; **Total value of commissions derived from 'Primary UK commissions' on slide 8 combined with 'New media' and 'other' revenues
 Source: Oliver & Ohlbaum analysis, PACT census

UK commissioning trends

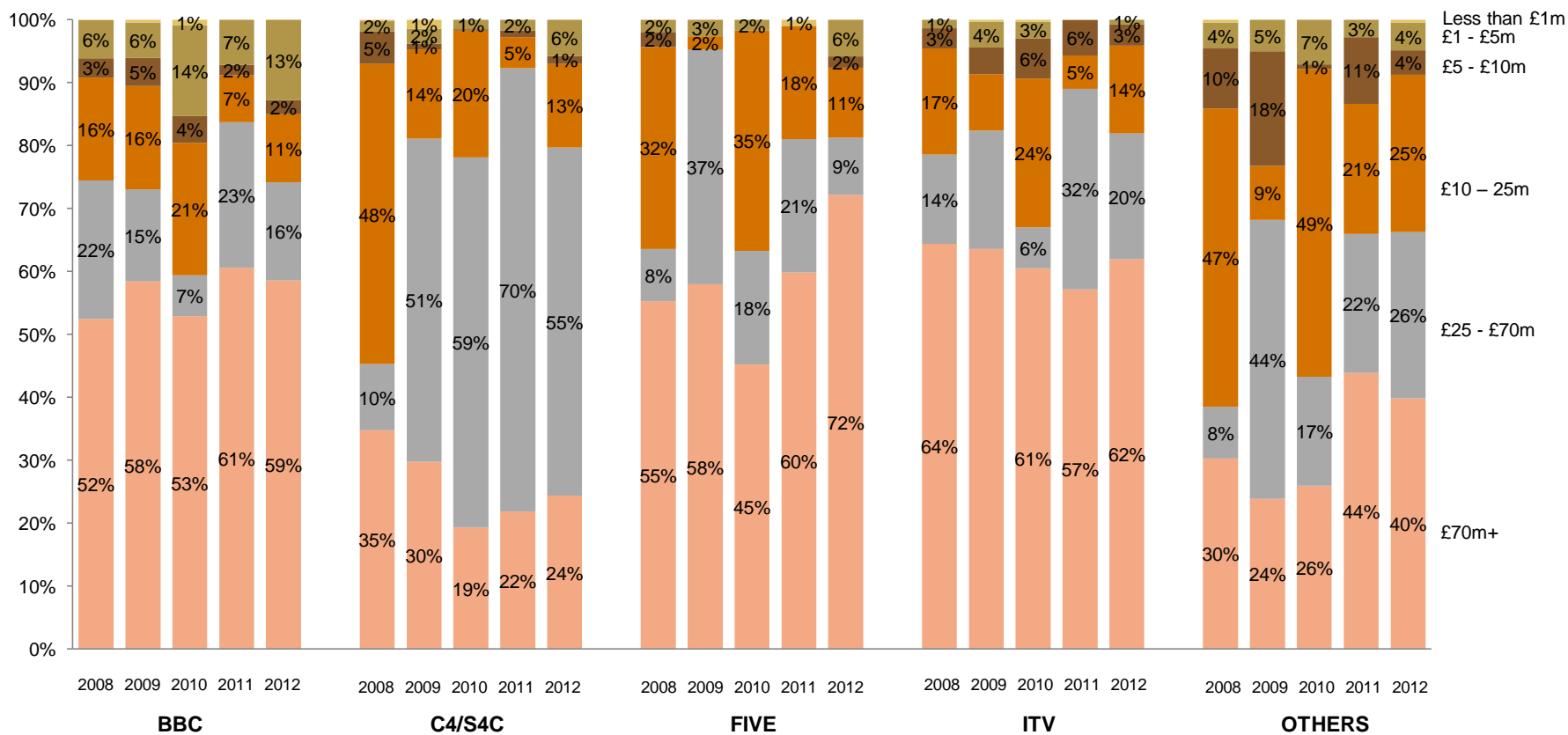
Smaller indies now benefiting from BBC and Channel 4 investment



The main shifts in commissioning appear to have been at the BBC and Channel 4 where smaller indies have increased their share of spend; the main beneficiaries at ITV appear to be those in the mid-sized £10-25m bracket

External commissions by UK broadcaster split by company turnover band, 2008 to 2012

% of spend on producers included in census



Source: Oliver & Ohlbaum Analysis, PACT census (2008 figures restated using returns from 2010 census)

UK commissioning trends

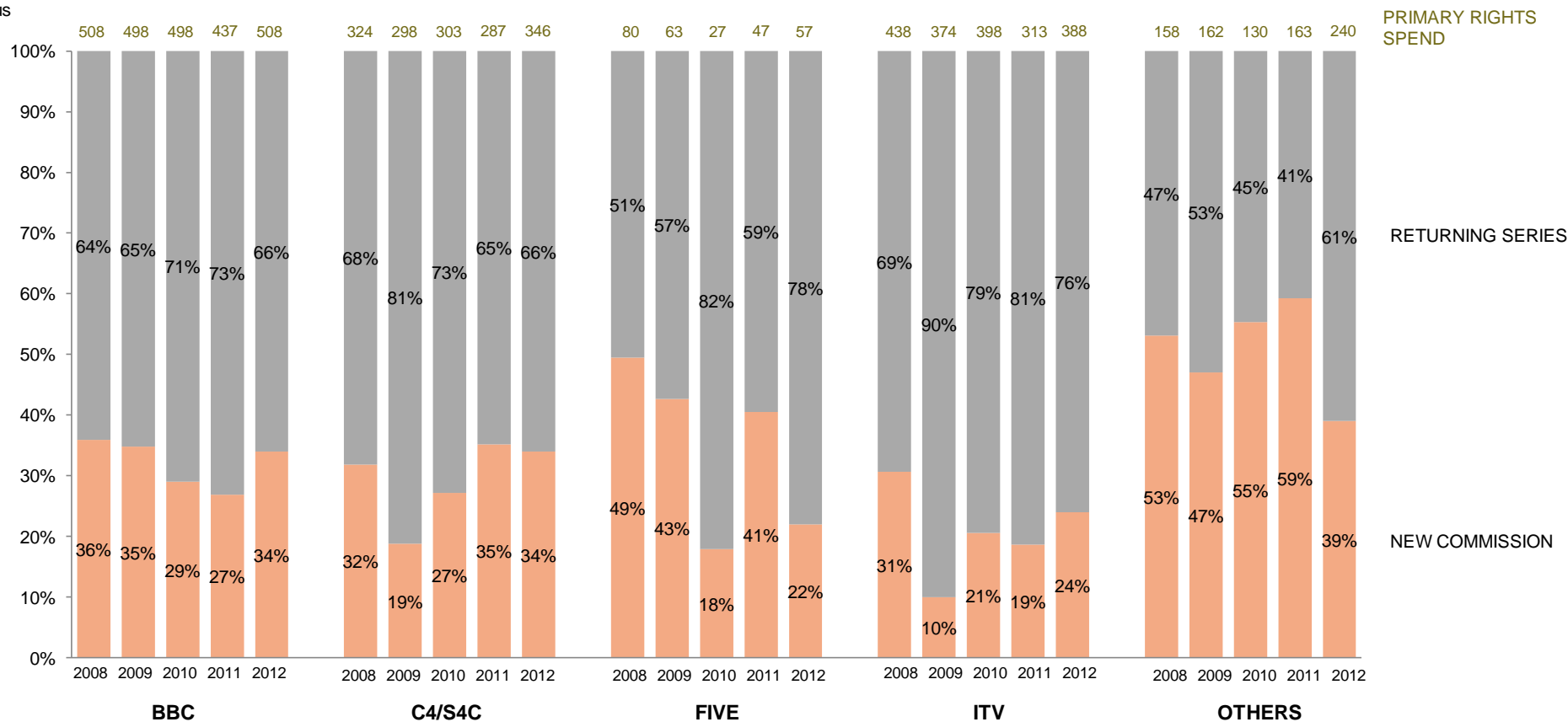
Industry wide growth reported; Returns picking up investment from 2011 and 2012



The high level of growth in commissioning spend in the sample for FY2012 is partly explained by a lag in recognising investment made by broadcasters over the 2011-12 period; A broad trend towards returning series has continued

UK Commissions Value by Broadcaster- New Commissions and Returning Series*

% of spend on producers included in census



*2008 figures restated using returns from 2010 census
 Source: Oliver & Ohlbaum Analysis, PACT census

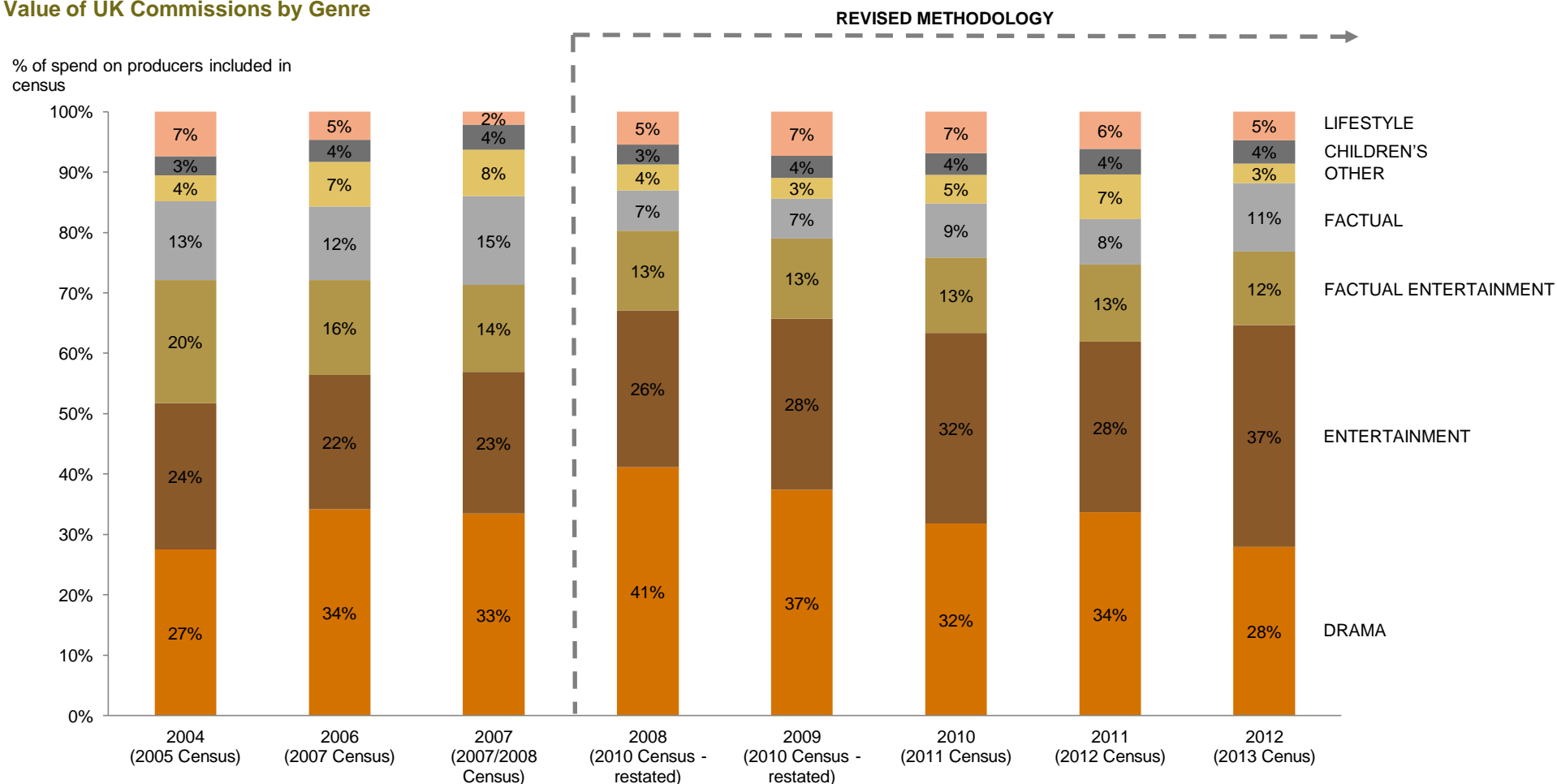
UK commissioning trends

UK commissioning spend appears to include a shift towards entertainment output



The main shift in 2012 commissioning spend has been in the balance between entertainment and drama; This may partly reflect the use of co-production models for drama production as well as increased entertainment output

Value of UK Commissions by Genre



Source: Oliver & Ohlbaum Analysis, PACT census

Contents



Trends

- Section 1: Summary
- Section 2: Revenue growth and profitability
- Section 3: UK commissioning trends
- **Section 4: International and rights revenues**
 - International growth is starting to slow, but UK indies are sustaining their position
 - Rights income has continued to grow for the sixth consecutive year
- Section 5: Sources of additional finance

International and rights revenues

Summary



Though headline growth rates for international revenues have slowed, overseas activity is now a significant and sustainable part of UK indie activities and a contributing factor to sustained UK content investment

Growth in international commissioning revenues continued in 2012, reaching an estimated £589m (up from £574m the previous year)

International sales of UK finished programmes also continued on its strong growth path in 2012, increasing by £33m year on year to reach £152m

In total, rights income derived from UK content continued its six year growth trend within the census, reaching £336m in 2012

Headline revenue growth from international activities slowed in 2012 as UK indies have consolidated their positions following a phase of high growth

- Primary international commissions (including subsidiary revenues) grew to £589m in 2012, driven by sustained success in leading overseas markets and the maturation of subsidiary acquisitions over the last few years

Rights sales into international markets continues to grow, reflecting a continuing interest and appetite for UK sourced IP

- Sale of UK finished programmes to international broadcasters has continued to provide a source growth for the indie sector, up for the fifth year in a row to reach an estimated £152m in 2012

Overall, rights revenue has grown to £336m in 2012, up from £284m in the previous year

- Income from rights-related revenue streams has continued its growth for the sixth census in a row
- International markets for UK rights trading have increased in importance as the revenue generated from sales of UK secondary TV rights has declined for the second year in succession

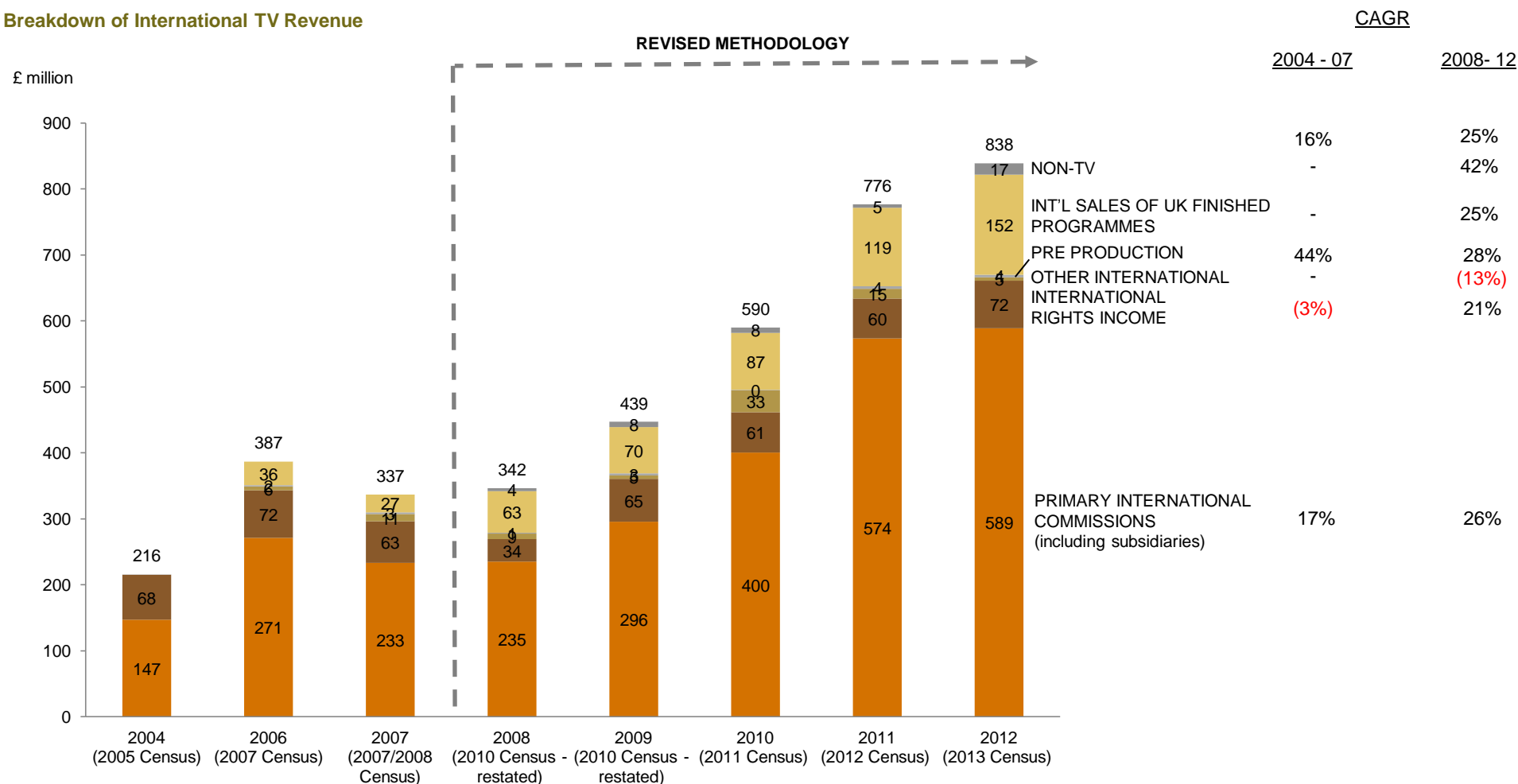
International and rights revenues

International growth is starting to slow, but UK indies are sustaining their position



The high growth in overseas income over the past five years has slowed in 2012, though UK indies have shown that their position is sustainable and can continue to deliver incremental revenue growth

Breakdown of International TV Revenue



Source: Oliver & Ohlbaum analysis, PACT census

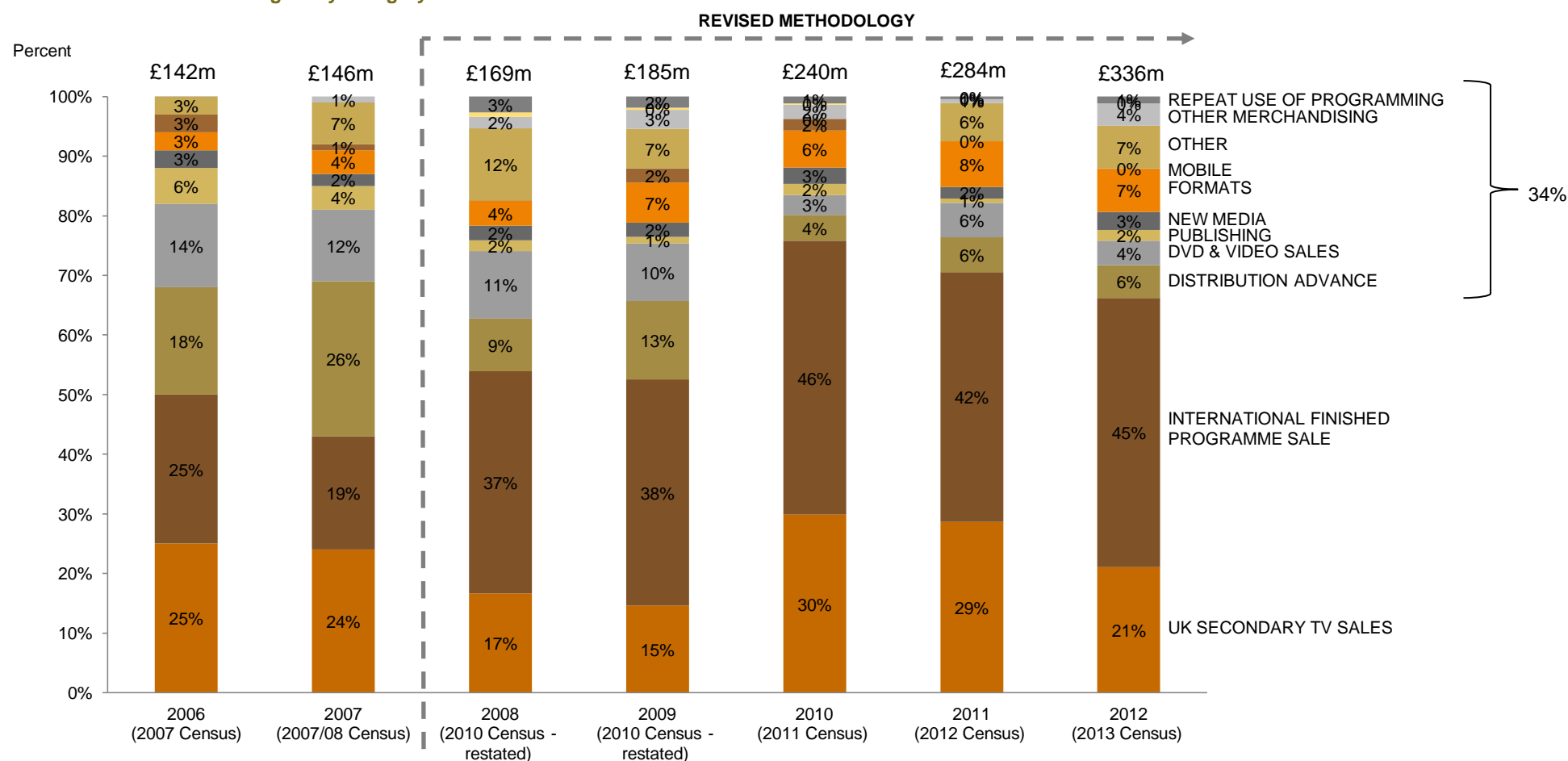
International and rights revenues

Rights income has continued to grow for the sixth consecutive year



Rights income continues to provide a source of high margin revenue growth, helping to sustain sector profitability and investment; Overseas sales becoming more important as UK secondary TV income has declined

Revenues from UK content rights by Category Between 2007 Census and 2013 Census*



*This section refers the following combined figures as detailed on slide 8 – ‘UK rights income’ and ‘Int’l sales of UK’

Source: Oliver & Ohlbaum analysis, PACT census

Contents



Trends

- Section 1: Summary
- Section 2: Revenue growth and profitability
- Section 3: UK commissioning trends
- Section 4: International and rights revenues
- Section 5: Sources of additional finance

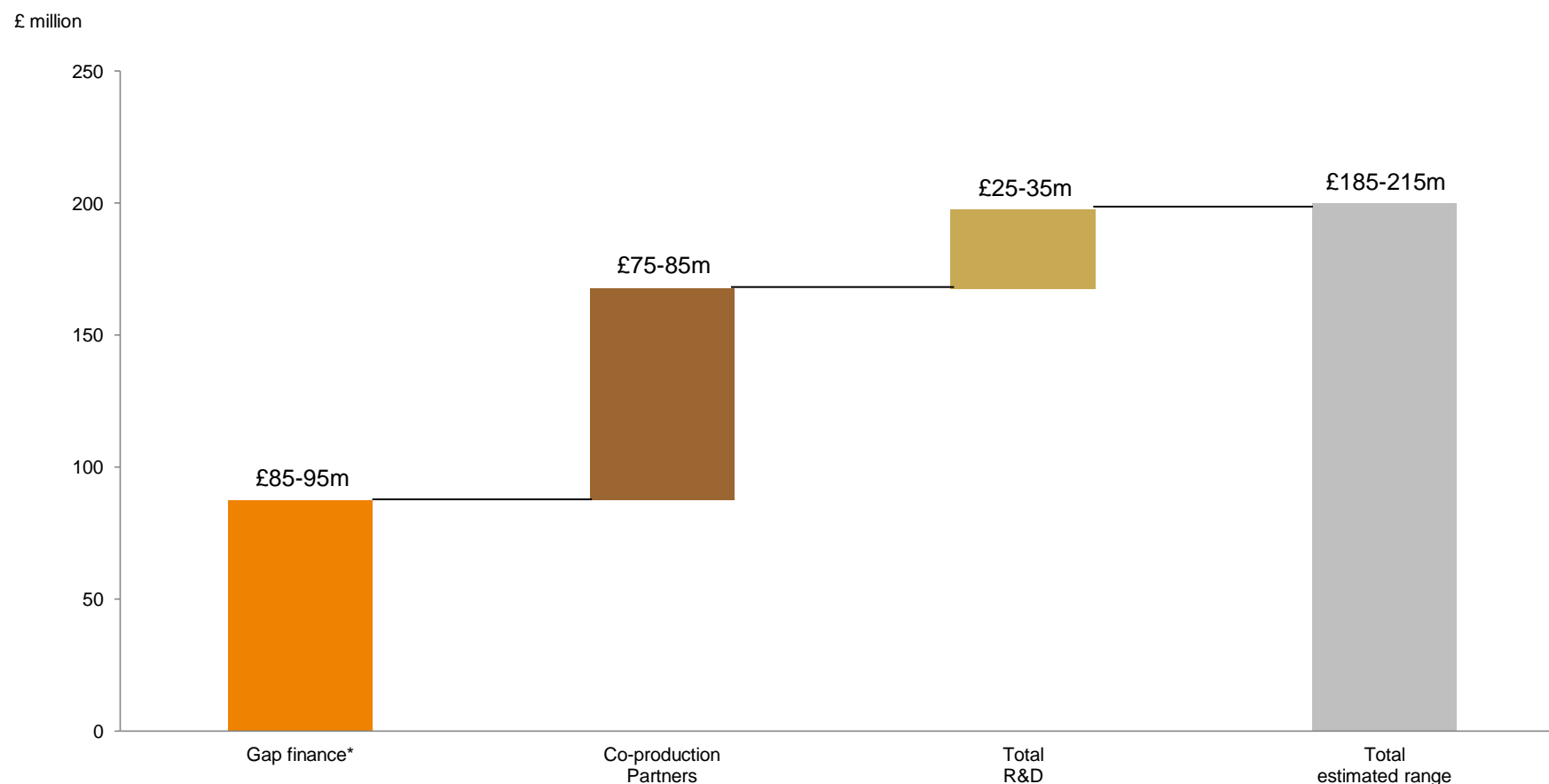
Sources of additional finance

Indie investment in content has remained stable; Co-production down, R&D up



Reported co-production finance was slightly lower in 2012 though gap finance was maintained at £80-95m and R&D spend increased; Overall Indie investment remains around £200m per annum

Estimated value of contribution to productions, 2012



Source: O&O analysis, PACT census and estimates

Notes: Gap finance is defined as where the primary commission is less than the direct costs of the programme.