Oliver & Ohlbaum

UK Television Production Survey

Financial Census 2020

August 2020

A report by Oliver & Ohlbaum Associates for Pact

Contents

pact.

Total sector revenues continued to grow, reaching £3.3 billion in 2019

Total UK television production sector revenues have continued to rise, reaching a new high in 2019, driven largely through increases in primary commissions revenue from overseas

Total UK television production sector revenues experienced a third consecutive year of growth, rising to more than £3.3 billion (£3,330 million) in 2019. Growth in overall sector revenues has continued at just over 4% per year since 2012.

An ever-developing international market for UK content has underpinned sector growth in recent years. As demand for UK content has grown, international revenues have continued to increase, breaking £1 billion in 2019. This growth has largely been driven through increasing international commissioning revenues which reached a new high of £988 million.

Domestic TV revenues continued to grow in 2019, nearing £1.7 billion, bolstered by increased spending on commissions from both the PSB networks and multichannel groups.

Total revenues continued to grow steadily

Sector revenues grew to over £3,330 million in 2019

International revenues broke £1 billion in 2019

The sector's fastest growing revenue stream reached revenues of £1,251 million

UK TV income reached a new high

Domestic TV revenues rose to £1,943 million in 2019

Overseas commissioning revenue grew by 40%

Primary commissioning revenues from international players grew to £988 million in 2019

Introduction

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

The Pact Census 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, 72 completed responses were received. These companies represent around 80% 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 follow 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 survey.

Due to different company reporting periods, the annual Census returns include financial information spanning 2018 and 2019.

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.

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Revenue growth – Summary

Building on a strong financial performance in 2018, the UK television production sector continued to grow in 2019, with total revenues reaching £3.3 billion. International revenues remained the highest growth area for UK producers

The sector has experienced continued growth in total revenues since 2016, reaching £3.3 billion in 2019 after an 11% rise from the previous year.

International TV revenues were once again the main growth driver, growing by 30% in 2019, while total domestic TV revenues grew at 3%.

Much of the overall sector growth was due to rising primary commissions revenues, both in the UK and overseas.

Overall commissioning revenues grew by 16% in 2019 to nearly £2.7 billion

- Commissioning revenues accounted for 84% of all sector revenues

International revenues rose by 30% in 2019, surpassing £1 billion

- Primary international commissions revenues were the main growth driver, increasing by 40% on 2018

Domestic TV revenues experienced modest growth in 2019

- Total UK TV revenues surpassed £1.9 billion in 2019, a 3% increase on 2018, driven by rising primary commissions revenue

Outside of TV activities, new media remained producers' most important revenue stream

- New media activities accounted for over 60% of total non-TV income in 2019

Key Trends – Revenue growth

Total UK production sector revenues increased by more than 30% over the past five years, reaching £3.3 billion in 2019. A developing international market for UK content has helped foster this rapid growth.

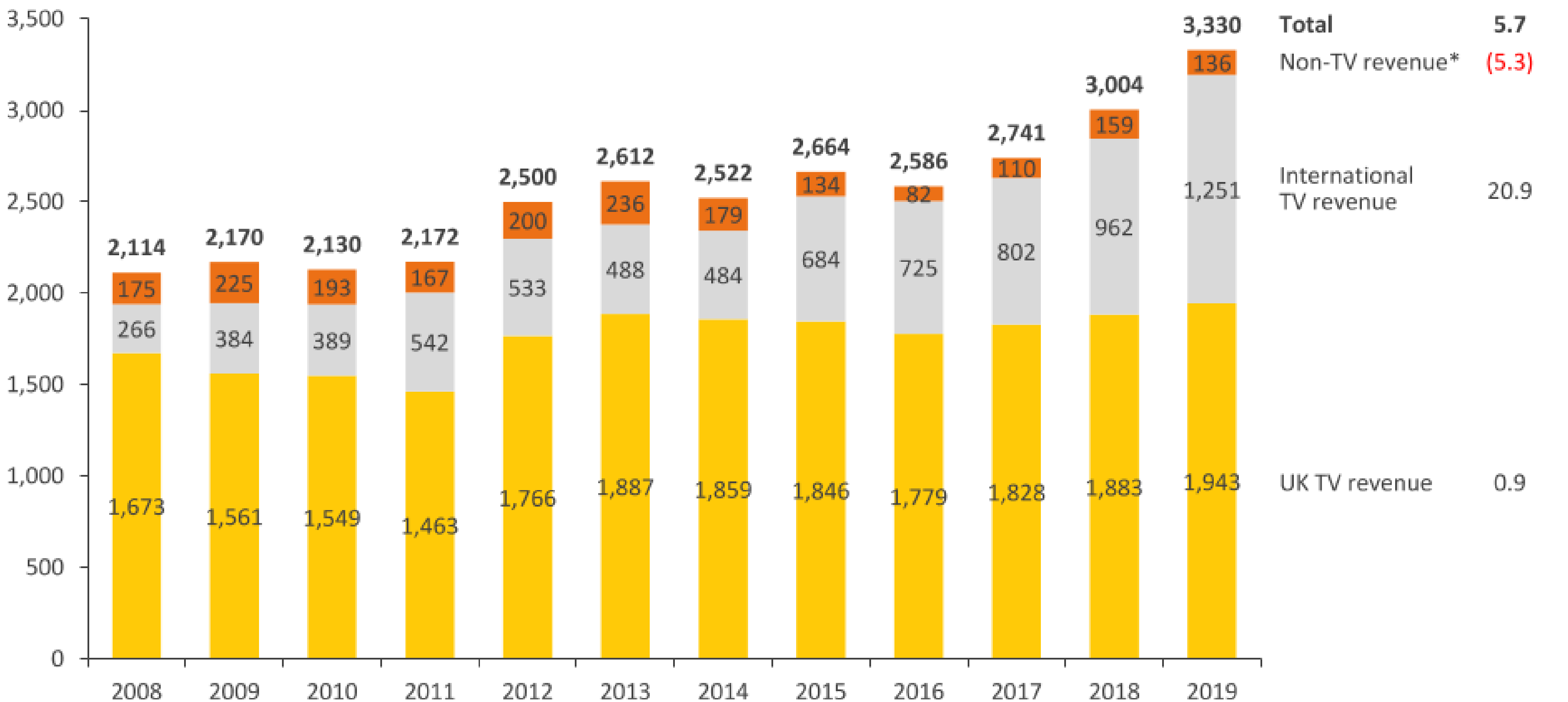
International revenues have skyrocketed in recent years, as the global demand for UK content has grown, exceeding £1 billion in 2019, accounting for 38% of total UK production sector revenues.

Domestic TV revenues maintained steady growth for a third consecutive year, passing £1.9 billion in 2019.

Total sector revenues reached £3.3 billion in 2019

Total revenues grew over 10% on 2018, driven largely by a strong performance in international markets

Total producer revenues, 2008 – 2019
£millions



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, ** CAGR = Compound Annual Growth Rate, the average growth rate per year over a time period

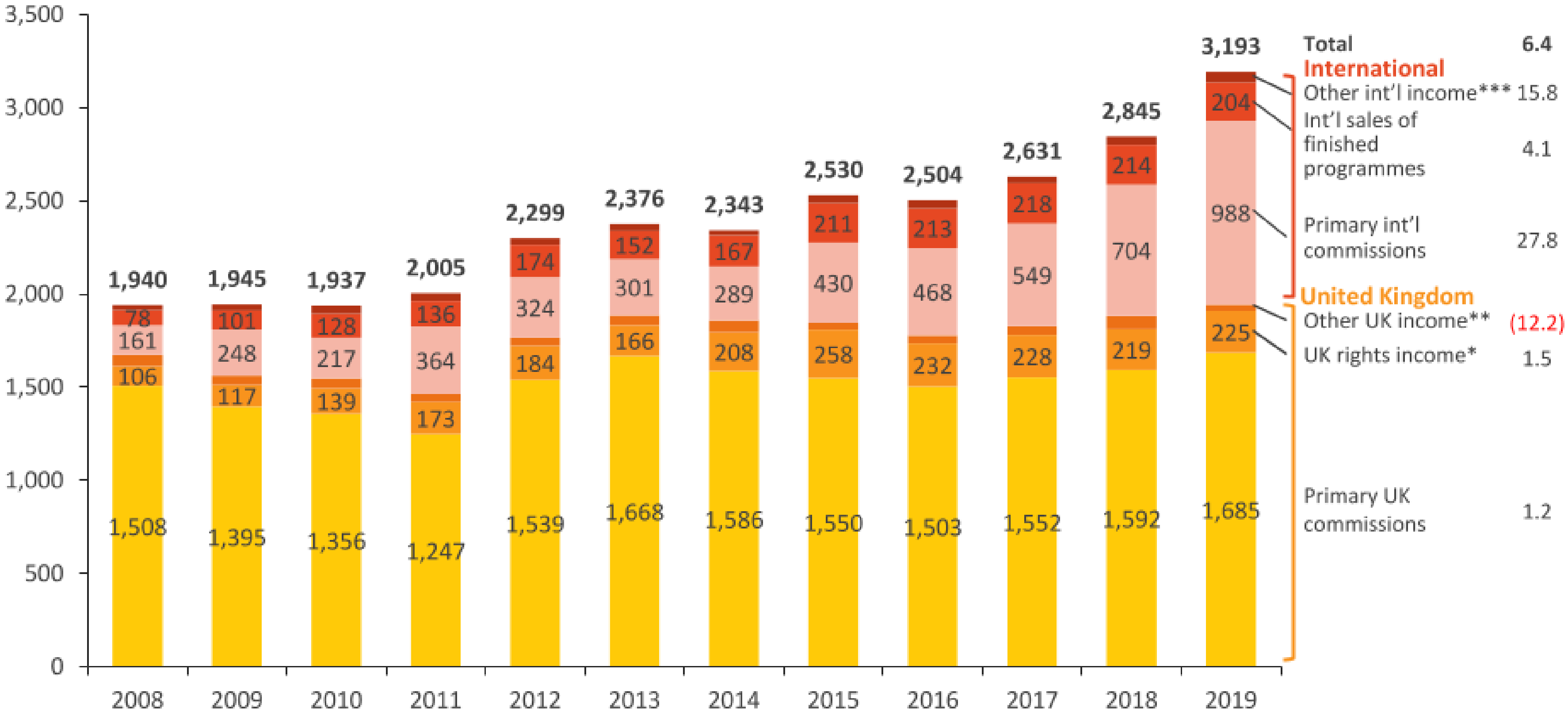
Source: Pact UK Television Production Census 2020, Oliver & Ohlbaum analysis

Strong TV revenue growth continues, driven largely by international commissions

Total primary commissions revenue from international markets continues to be the main source of revenue growth for the sector, up 40% since 2018. UK primary commissions continued to grow, reaching nearly £1.7 billion

Producer TV-related revenues, by type and source, 2008 – 2019

£millions

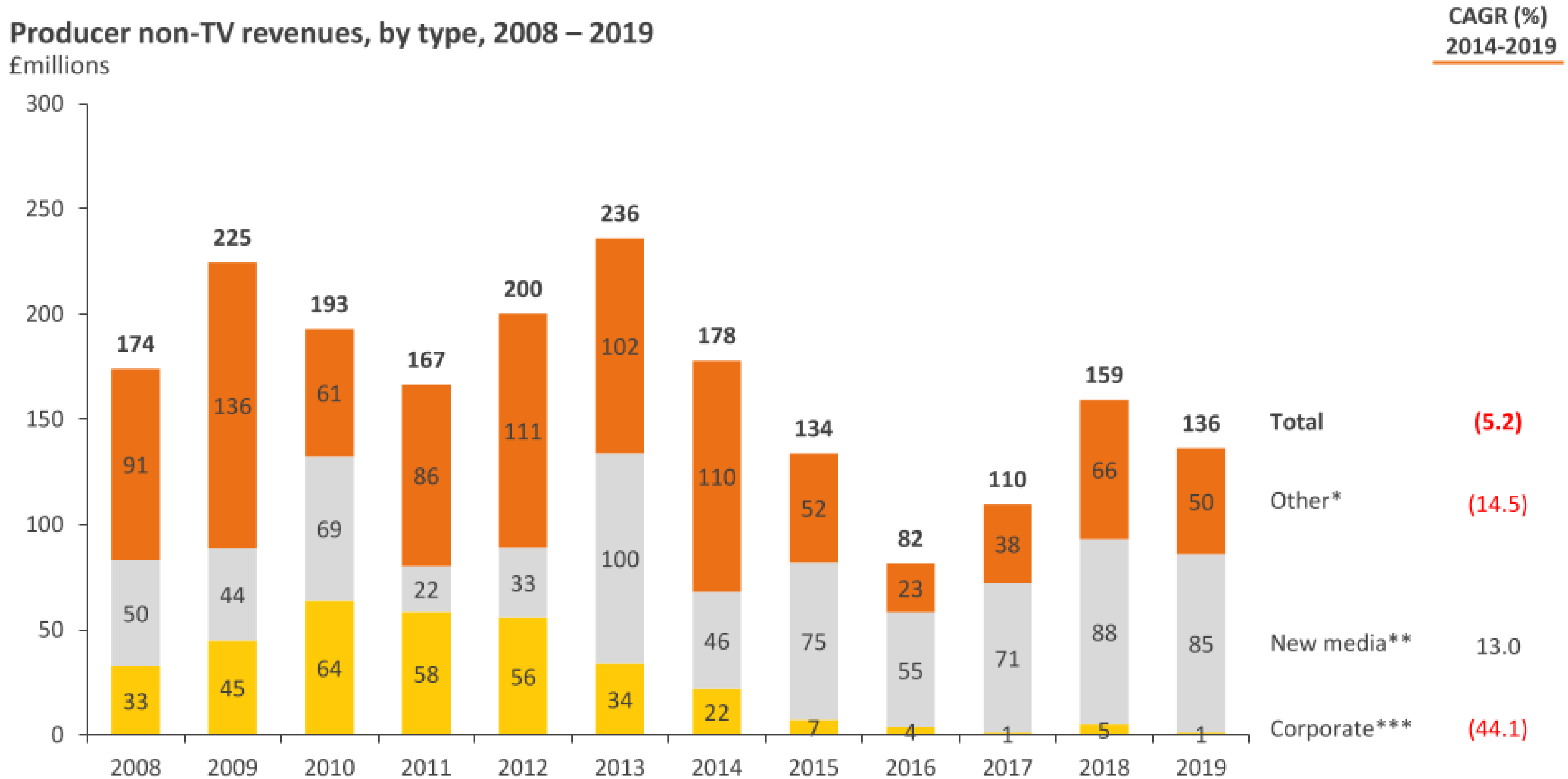


Note: *'UK rights income' – UK secondary sales, merchandising, formats, home entertainment etc.; **'Other UK income' – pre-production and other TV-related revenue; ***'Other int'l income' – international rights (excl. finished programme sales), pre-production & other TV-related revenue

Source: Pact UK Television Production Census 2020, Oliver & Ohlbaum analysis

Producers source the largest portion of additional revenue from new media

While producers' overall non-TV revenues reverted to decline in 2019, revenue derived from new media activities maintained its strong position



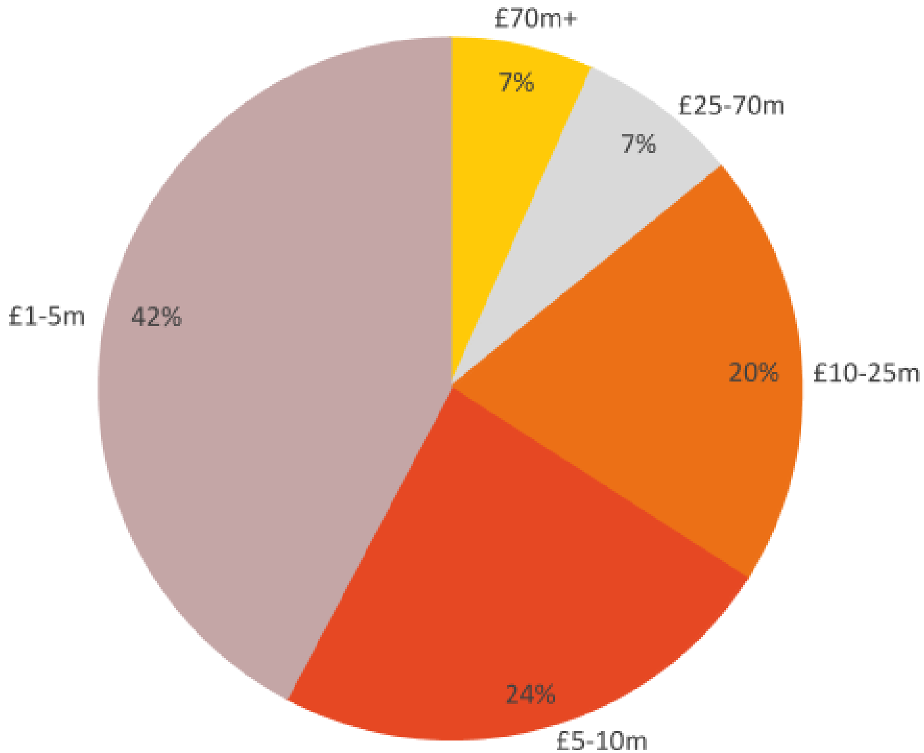
Note: *'Other' includes online publishing, talent management, promotions, public relations & feature films. **'New Media' includes websites, apps, social media & games. ***'Corporate' includes B2B, promotional & educational material and similar not produced for public television

Source: Pact UK Television Production Census 2020, Oliver & Ohlbaum analysis

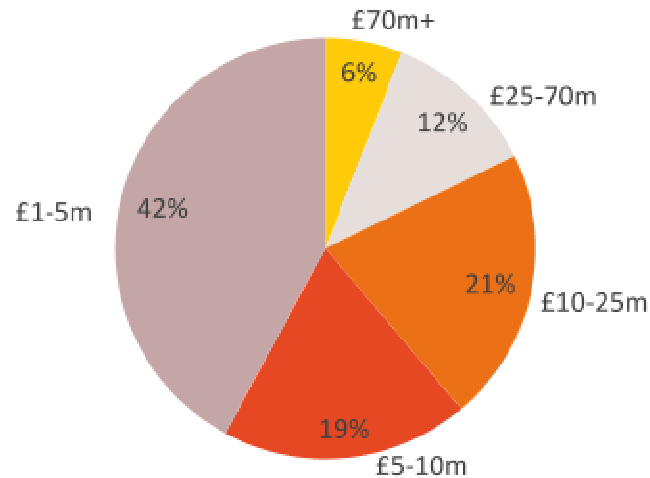
The UK independent production sector remains varied

Medium-sized producers grew most in number in 2019, with smaller producers continuing to make up the bulk of the UK sector

Distribution of the number of independent production companies, by turnover bracket, 2019



Distribution, 2018



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*

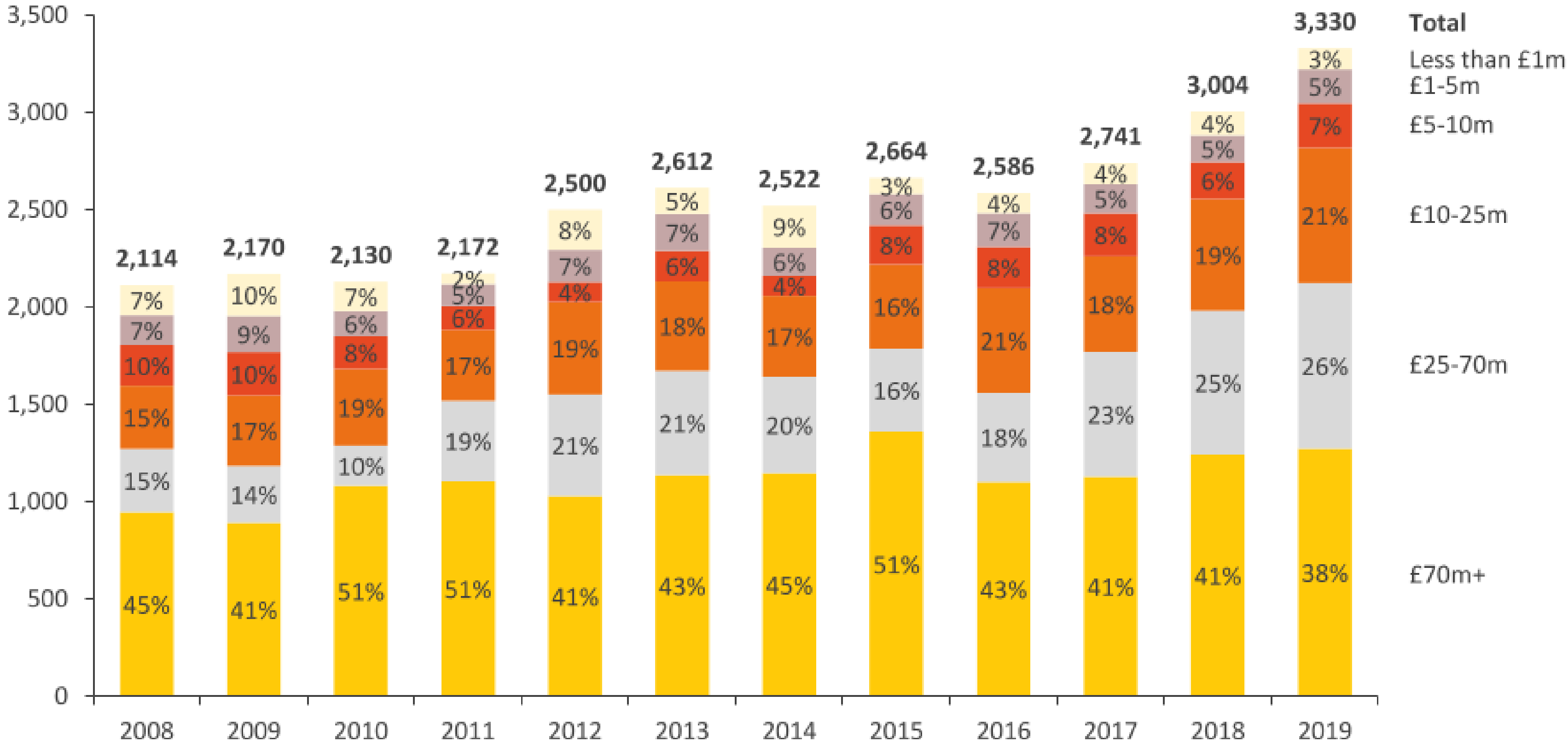
Source: *Broadcast, Pact UK Television Production Census 2020, Oliver & Ohlbaum analysis*

Medium-sized producers experienced most growth in 2019

Companies falling in the sector's middle turnover brackets experienced the most growth from 2018, accounting for just over half of all sector revenues in 2019

Share of total producer revenues, by turnover bracket, 2008 – 2019

£millions, %



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total	2,114	2,170	2,130	2,172	2,500	2,612	2,522	2,664	2,586	2,741	3,004	3,330
Less than £1m	7%	10%	7%	2%	8%	5%	9%	3%	4%	4%	4%	3%
£1-5m	7%	9%	6%	5%	7%	7%	6%	6%	7%	5%	5%	5%
£5-10m	10%	10%	8%	6%	4%	6%	4%	8%	8%	8%	6%	7%
£10-25m	15%	17%	19%	17%	19%	18%	17%	16%	21%	18%	19%	21%
£25-70m	15%	14%	10%	19%	21%	21%	20%	16%	18%	23%	25%	26%
£70m+	45%	41%	51%	51%	41%	43%	45%	51%	43%	41%	41%	38%

Source: Pact UK Television Production Census 2020, Oliver & Ohlbaum analysis

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UK commissioning trends – Summary

UK commissioning revenues reached £1,685 million in 2019, with the majority of this revenue coming from the four PSB network groups

Total UK commissioning revenues grew by 6% in 2019, pushing past £1.6 billion for the first time since 2013.

Much of this revenue is still derived from the UK's four PSB network groups, while multichannel groups continued to increase their share of total UK commissioning spend.

New commissions amounted to nearly £700 million in revenue in 2019, with the BBC accounting for the highest share of this spend.

Spending on drama and entertainment content continued to increase in 2019.

PSB commissioning spend returned to growth in 2019, reaching almost £1.3 billion

- Spending sourced from PSBs stabilised in 2019, rising back to 2017 levels

Commissioning spend from multichannel groups increased by 21% in 2019

- This growing spend from non-PSBs has helped drive growth in overall commissioning spend

New IP accounts for 41% of total UK primary commissioning spend

- The BBC remains the largest individual commissioner of new content in the UK

Spend on drama commissions rose once again in 2019

- Drama content accounted for 40% of all UK primary commissioning spend in 2019
- Both entertainment and factual content saw an increase in commissioning spend, together accounting for 37% of the market

Key Trends – UK commissioning trends

Total UK commissioning revenues experienced a third consecutive year of growth, up by £93 million on the previous year and up over 12% since dipping in 2016.

Commissioning spend from multichannel groups rose again, reaching £390 million in 2019, up £69 million on 2018.

Changes in the makeup of UK primary commissioning revenue in 2019 were most visible among production companies with an annual turnover between £10-25 million who have increased their share to 23%.

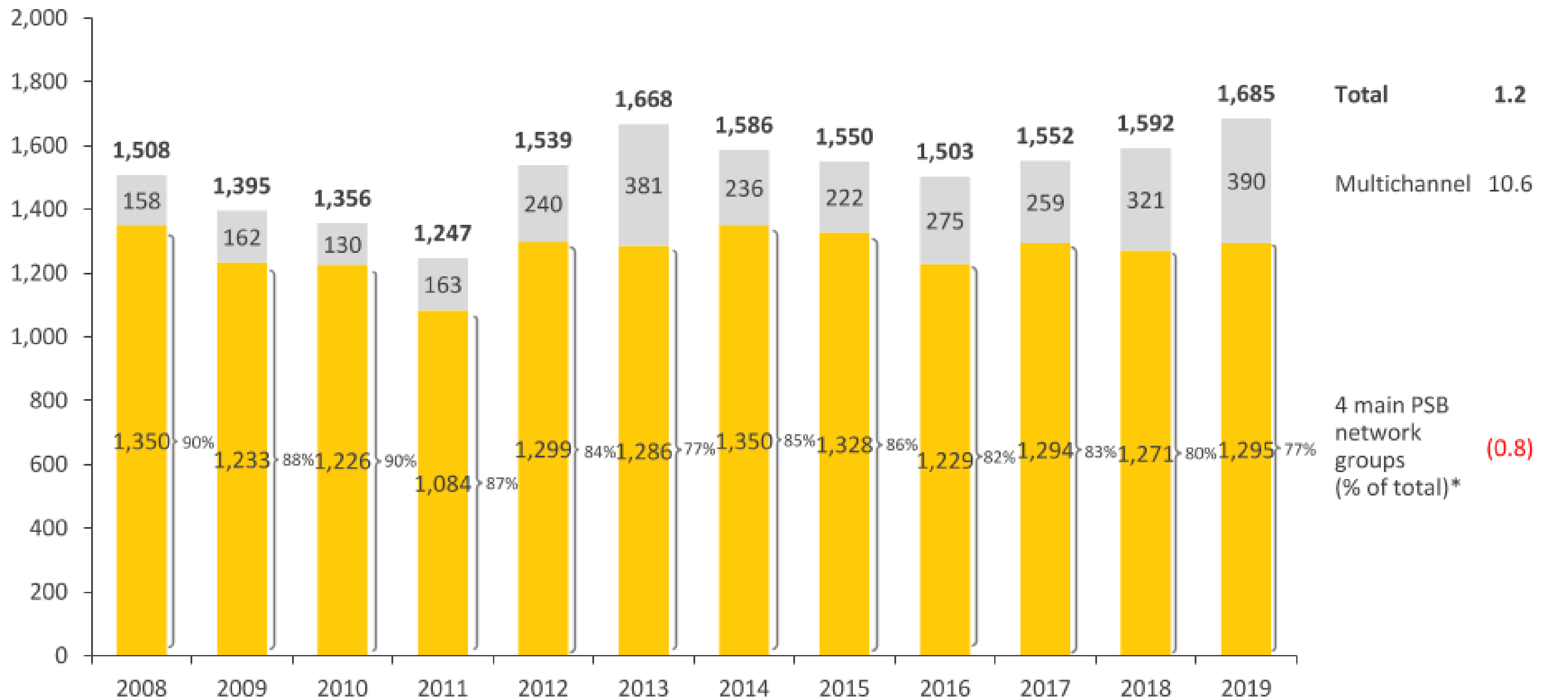
Increasing demand for drama content in the UK has helped drive growth in the sector, with the genre accounting for 40% of all UK primary commissioning spend in 2019.

Growing multichannel helped UK primary commissions reach near £1.7bn in 2019

Multichannel spending on external producers continued to drive growth in UK primary commissioning, reaching almost £400 million in 2019, while PSB spending returned to growth after a decline in 2018

Value of external UK TV commissions, by type of broadcaster, 2008 – 2019

£millions



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

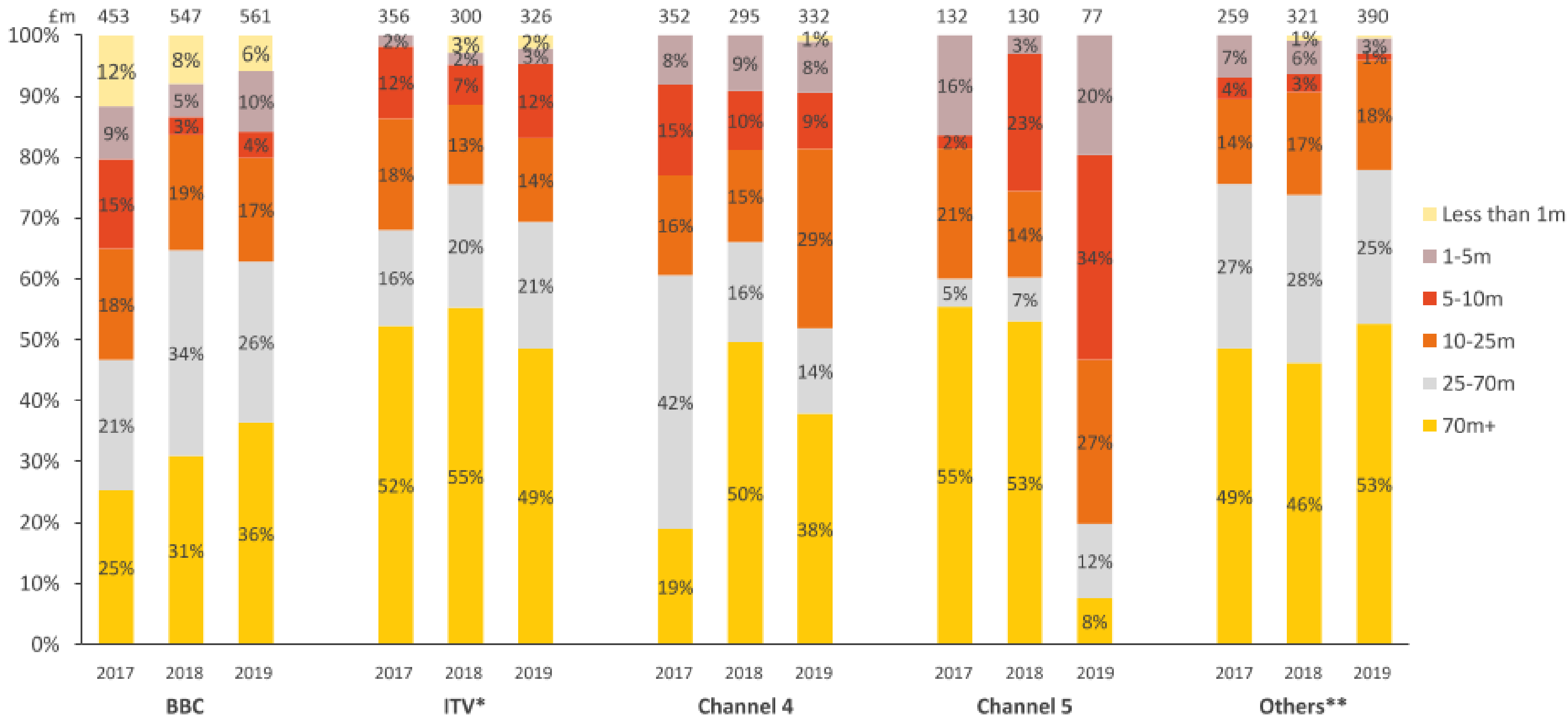
Source: *Pact UK Television Production Census 2020, Oliver & Ohlbaum analysis*

UK commissioning continues to support both small and large producers

Among the PSB networks, Channel 5 held the highest share of commissioning with smaller producers

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

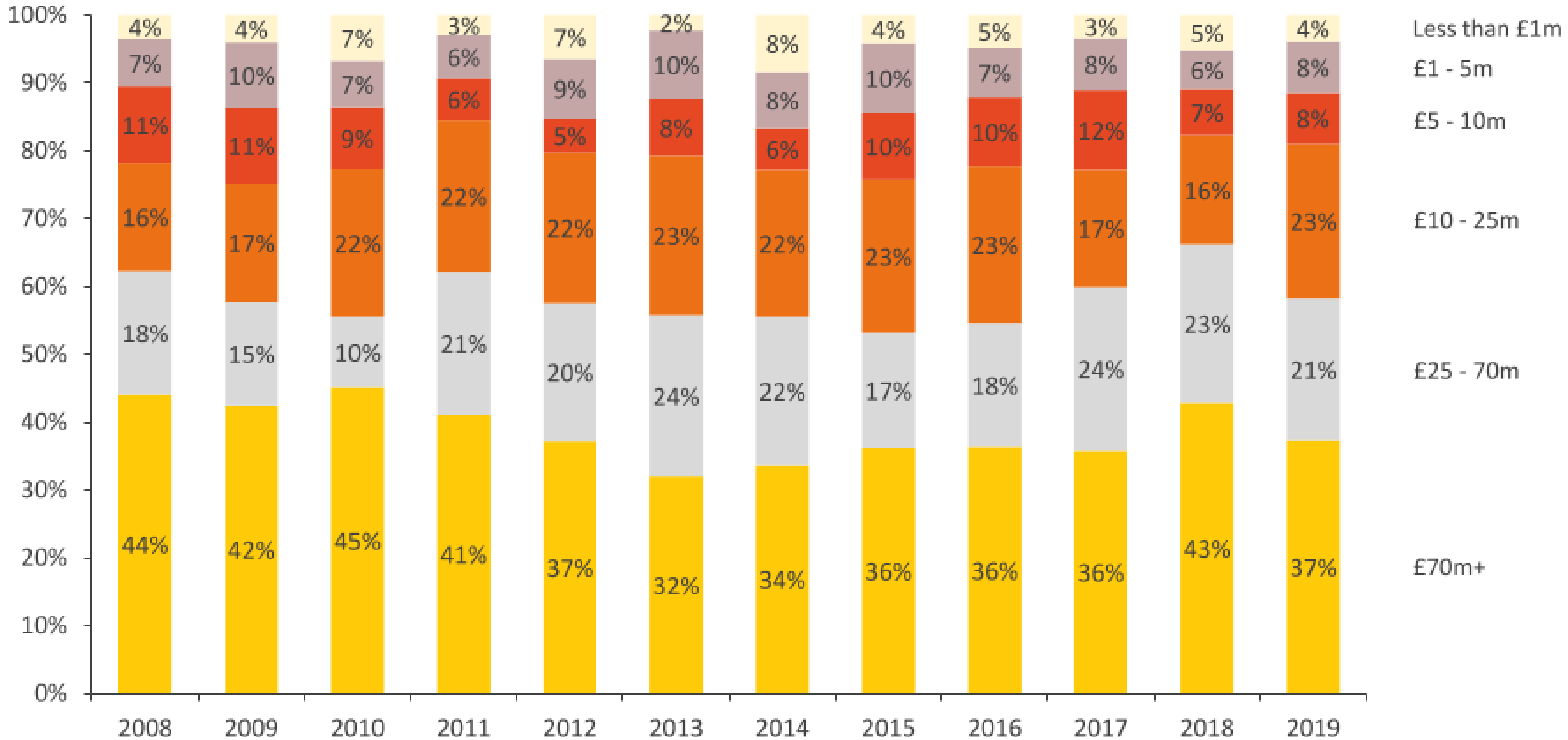
Source: Pact UK Television Production Census 2020, Oliver & Ohlbaum analysis

Medium-sized producers increased their share of commissioning spend in 2019

Producers with a turnover between £5-£25 million increased their share of commissioning spend significantly in 2019, whilst the largest producers still accounted for nearly 40% of all UK primary commissioning revenues

Share of total spend on external UK produced primary commissions, by turnover band of producer, 2008 – 2019

% of spend on producers included in Census



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

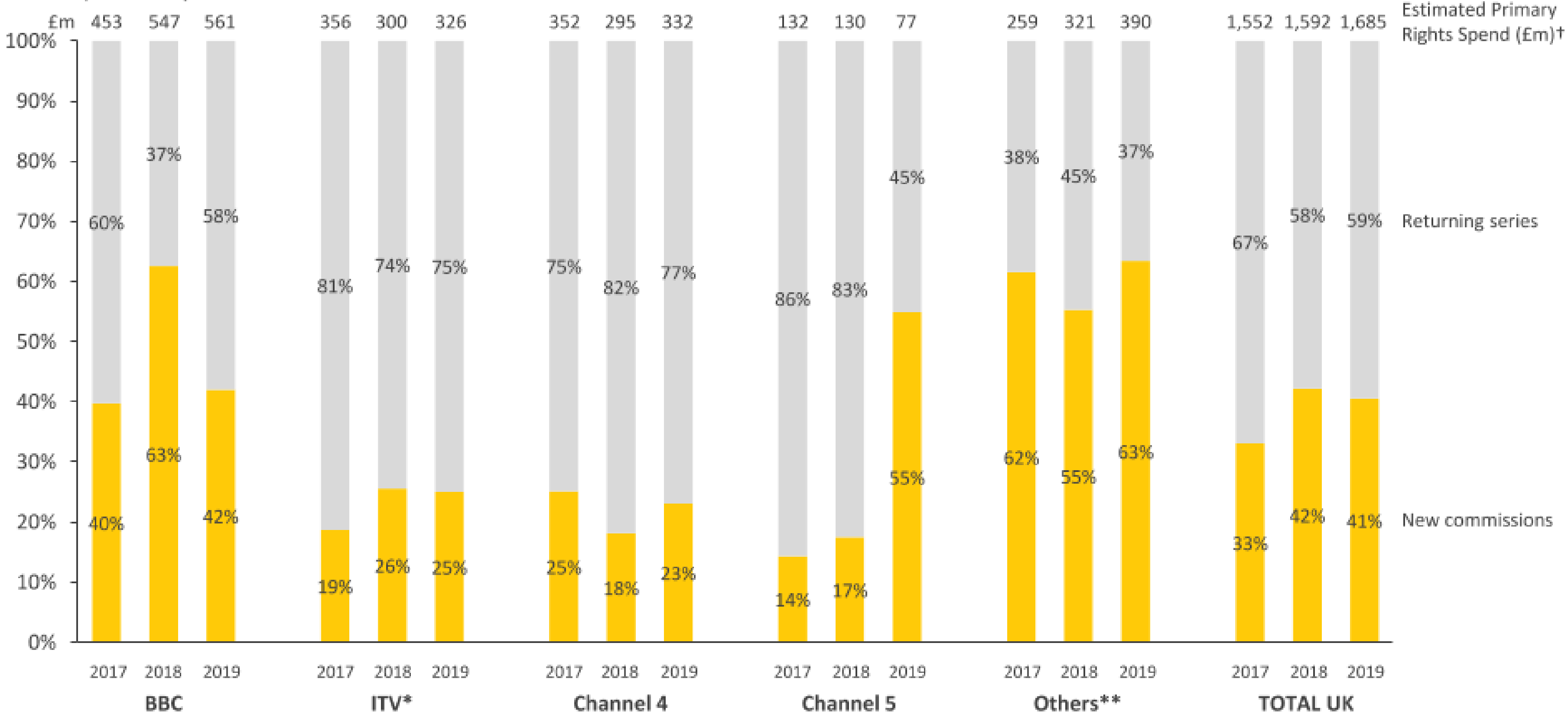
Source: Pact UK Television Production Census 2020, Oliver & Ohlbaum analysis

New IP accounts for 41% of total UK commissioning spend

The BBC was by far the highest spending commissioner of new IP, accounting for over one-third of all spend on new commissions in 2019

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

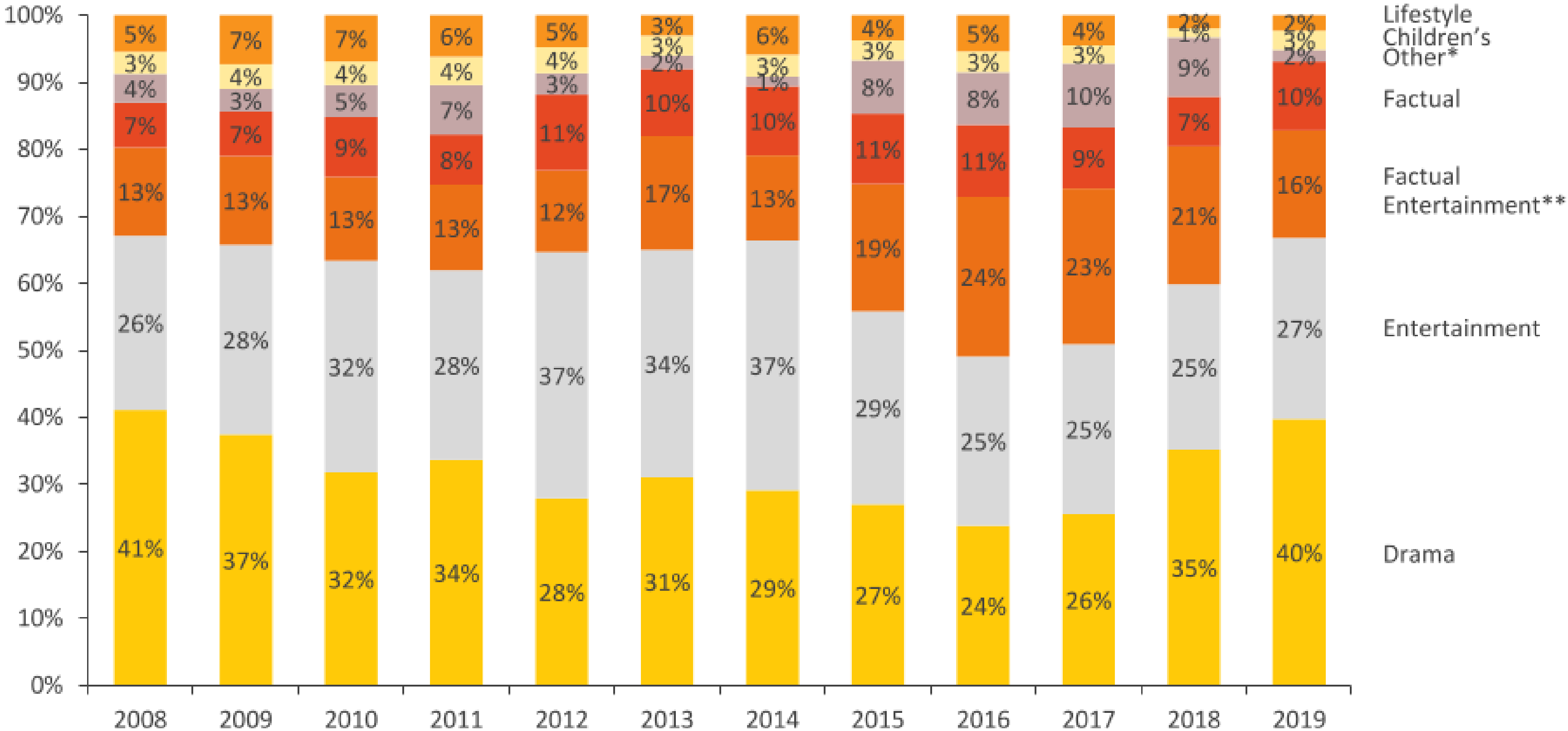
Source: Pact UK Television Production Census 2020, Oliver & Ohlbaum analysis

Drama commissioning spend continued to grow in 2019

The UK commissioning market's split of genres remained broadly consistent with 2018, with minor shifts in drama and factual entertainment

Value of external UK commissions by genre, 2008 – 2019

% of spend on producers included in Census



Note: *'Other' includes Arts & Classical music, Education, News & Current Affairs, Religion, Special Events and Sport programming

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

Source: Pact UK Television Production Census 2020, Oliver & Ohlbaum analysis

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- Total international TV revenues surpassed £1 billion in 2019
- Primary international commission revenues grew by 40%, reaching £988 million
- Sales of finished programming remained the largest revenue stream within TV content rights for UK producers

International and rights revenues – Summary

International commissions by traditional broadcasters helped fuel another year of impressive growth in 2019

Total international revenues continued an impressive upwards trajectory, up by 30% in 2019, reaching over £1 billion. Over the last five years, international revenues have boomed, increasing by 158%.

The rise in international revenues can largely be attributed to growing primary commissions, with a 53% year-on-year increase in revenues from international linear broadcasters the main impetus behind this.

Overall additional international revenues grew slightly in 2019, despite a small decline in international sales of finished programmes.

Total international revenues reached £1.25 billion, driven by growing commissions

- Primary international commissions grew by 40% in 2019, to £988 million, remaining one of the fastest growing revenue streams for UK producers
- Commissions from international linear TV services rose by £226 million, accounting for the majority of growth. Whilst revenue generated by commissions from standalone on-demand services such as Netflix and Amazon Prime grew again, reaching £337m

Secondary rights revenue exploitation remained stable in 2019

- Total sector additional rights revenue grew slightly in 2019 to £487 million
- Despite a slight decline in 2019, international sales of finished programming remain the most significant revenue stream within UK producers' secondary rights
- Distribution advances accounted for a much greater proportion of secondary rights revenue this year, an indication of growing confidence in UK producers amongst the international broadcast community

Key Trends – International and rights revenues

Revenues sourced from international markets remains a core revenue stream for the UK production sector. Five years ago, in 2014, international revenue accounted for just 19% of total producer revenue, whereas in 2019, it accounted for 38%.

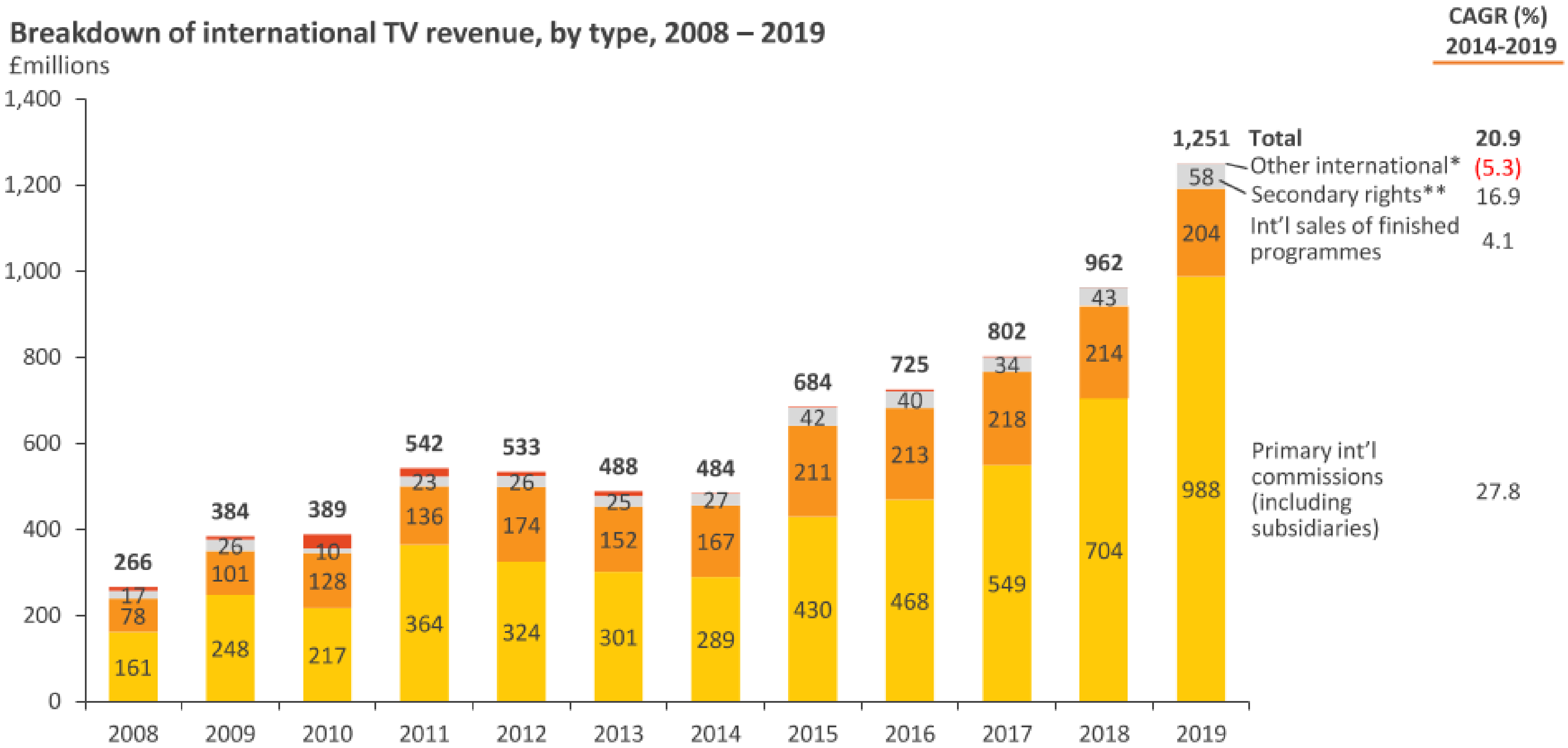
Primary commissioning revenues were still the fastest growing segment of international revenues, rising 28% year-on-year since 2014.

The proliferation of and increasing spending power of on-demand services, coupled with an increasing appetite for UK content, has helped foster this revenue growth in recent years.

Amongst secondary rights revenue, the international sale of finished programming remained key to UK producers in 2019. This revenue stream accounted for nearly half of all secondary rights revenues and over 16% of all international revenues.

Total international TV revenues reached over £1 billion in 2019

Total revenues grew by 30% from 2018, driven largely by increasing primary commissions revenues from international broadcasters and platforms

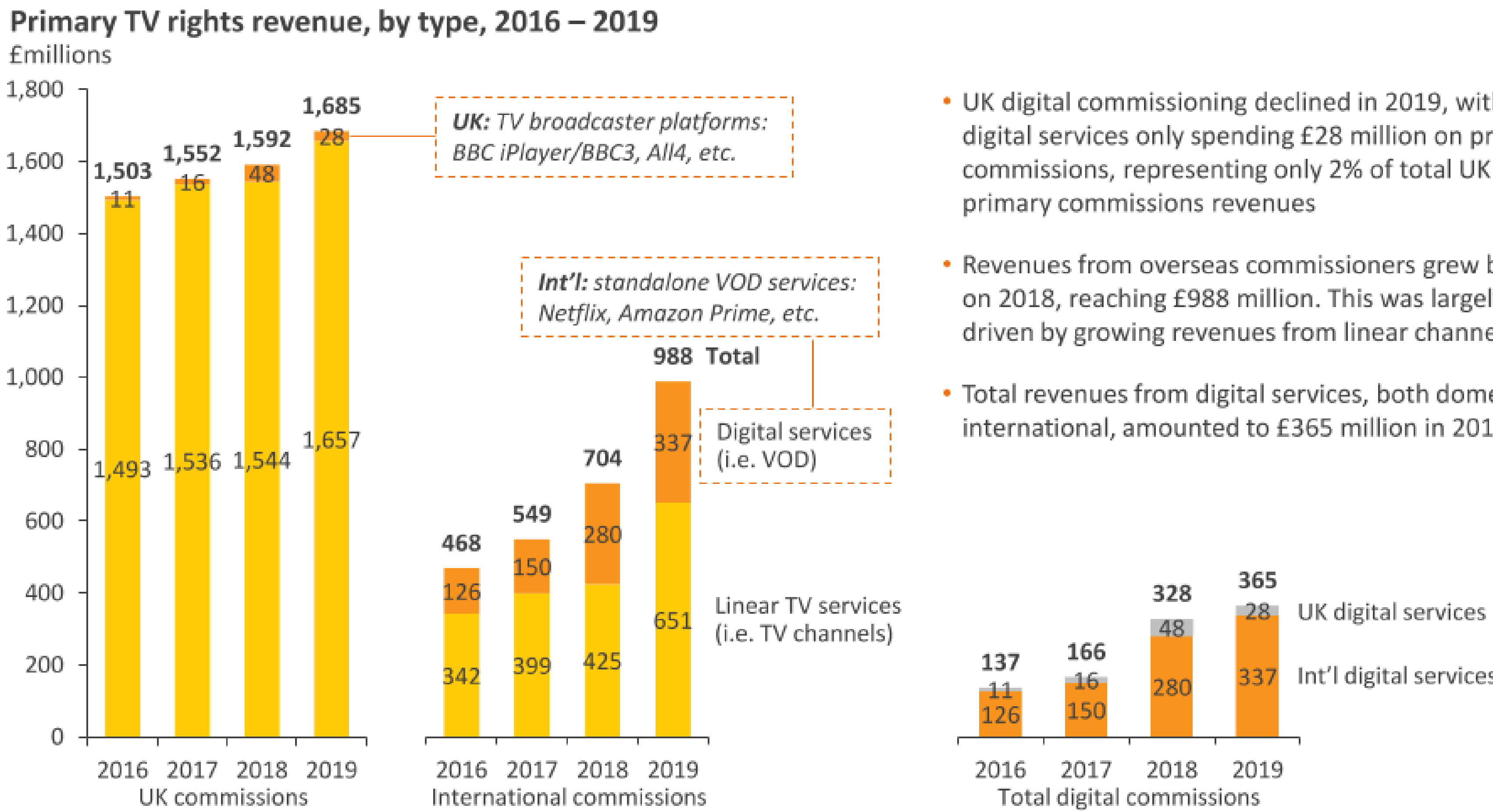


Note: *'Other international' – international TV revenue not attributable to primary rights, secondary rights or distribution
**'Secondary rights' – international secondary rights revenue (excluding sales of finished programmes), this mostly consists of format sales and home entertainment income

Source: Pact UK Television Production Census 2020, Oliver & Ohlbaum analysis

International commissioning revenues grew to almost £1 billion in 2019

International broadcasters commissioned over £650 million of primary rights from UK producers in 2019, with digital streaming services spending another £337 million on primary commissions from the UK



- UK digital commissioning declined in 2019, with digital services only spending £28 million on primary commissions, representing only 2% of total UK primary commissions revenues
- Revenues from overseas commissioners grew by 40% on 2018, reaching £988 million. This was largely driven by growing revenues from linear channels
- Total revenues from digital services, both domestic & international, amounted to £365 million in 2019

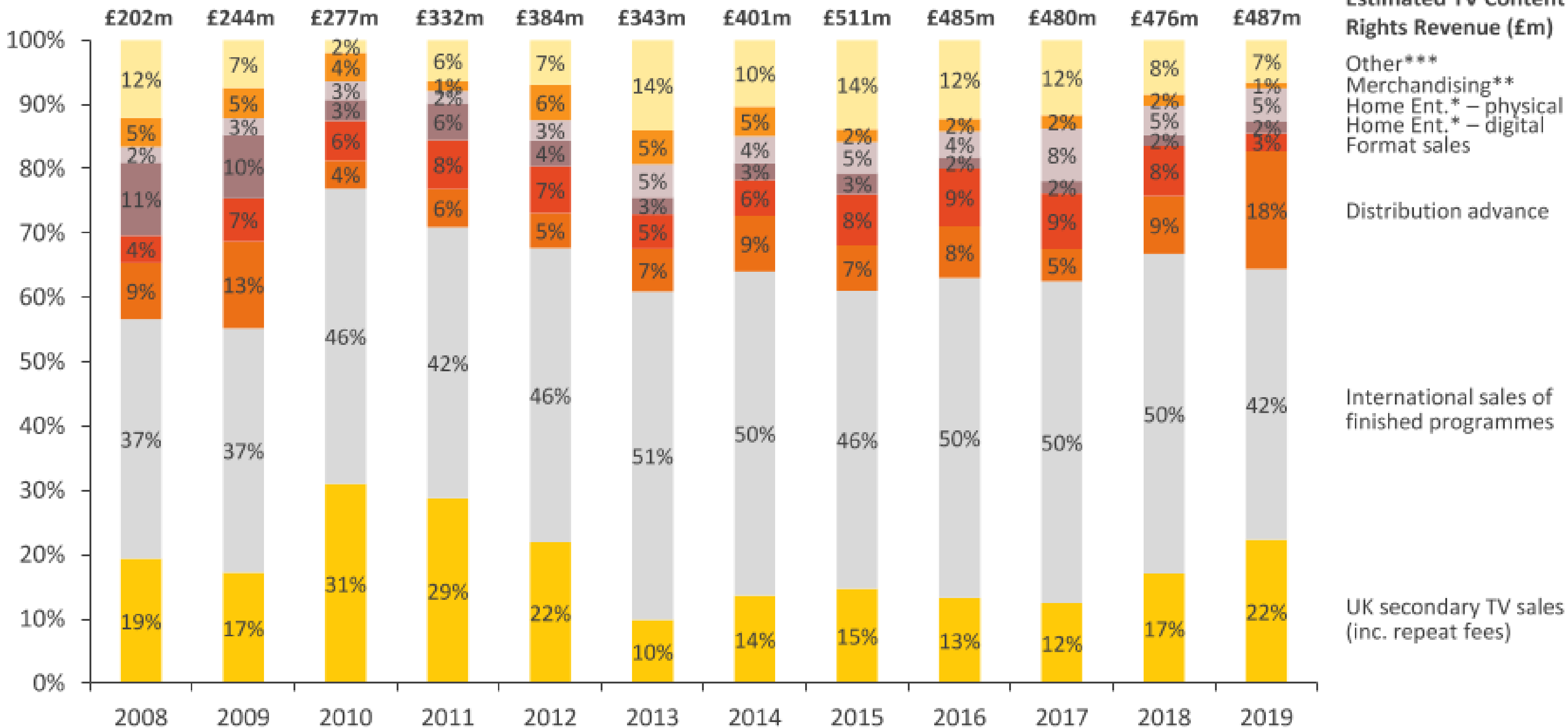
Note: *Other types of digital services have also been covered but the stated examples represent the main types of service within UK and Int'l categories*
Source: *Pact UK Television Production Census 2020, Oliver & Ohlbaum analysis*

Secondary rights revenues remained high at £487 million in 2019

Total secondary rights revenues grew slightly in 2019, reaching £487 million, with UK producers continuing to leverage their strong IP and content libraries both domestically and internationally

Revenues from TV content rights, by category

% of total content rights among producers



Note: *'Home Ent.' – home entertainment revenues covering DVD & video (physical) & VoD rental & download-to-own (digital); **'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 & ancillary rights

Source: *Pact UK Television Production Census 2020, Oliver & Ohlbaum analysis*

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