



# Independent Production Sector Financial Census and Survey 2012

June 2012

A report by Oliver & Ohlbaum Associates Ltd for PACT

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## Summary

### Headlines from the 2012 census



Trends

#### **The UK independent production sector grew by 2.3% in 2011 with strong growth in international activities and UK rights income compensating for further declines in UK primary commissions**

Overall revenue to the UK independent production sector grew slightly (2.3%) in 2011, though the revenue mix within the sector continues to change. Revenue from primary UK commissions decreased for the fourth year in succession, but remains outweighed by growth in overseas activity and rights income, driving total sector income to just under an estimated £2.4bn in 2011

Growth in international revenues in 2011 is underpinned by strong export activity and growth in winning overseas commissions, including more co-production finance for new projects.

At £776m, international revenues grew by 31% in 2011 and now account for 32% of total sector revenues.

UK rights exploitation revenue also continued to grow in 2011, driven by a combination of increases in UK secondary revenues and in the sale of UK finished programmes overseas. UK-derived rights revenue grew to an estimated £284m in 2011, up by 18% on the previous year

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

However, sector profitability appears to have weakened considerably following the encouraging signs of recovery seen in 2010, with declining net margins reports across the most of the analysed industry turnover segments.

# 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 seventh 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 April and June 2012, with the data gathered representing the last two financial years (2010 & 2011).

### **PACT 2012 financial census**

- The PACT financial census is now in its seventh year having been conducted annually since 2005
- With the exception of 2005, when no census was taken, the PACT census provides 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 2012 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
- 41 completed responses were received, with many larger production companies reporting at a group level, and respondents within the 2012 sample totaling £1.56bn of industry turnover (up from £1.41bn in the 2011 Census)

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- International revenues increasingly important as UK income declines further
- Non-TV revenues declined for the second year in succession
- Industry profitability remains under pressure despite signs of recovery in 2010

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# Revenue growth and profitability

## Summary



### The UK independent sector maintained headline growth in FY2011; International and rights income continue to be the main drivers of expansion while cuts in UK commissioning spend appear to be coming through more strongly

The 2012 census returns suggest that the independent production sector maintained headline growth in FY2011, generating sector revenues of £2.4bn (up 2.3% year on year).

According to the aggregate of census responses in 2012, UK commissioning revenues to the independent sector have fallen significantly as cuts start to filter through the industry

Despite encouraging signs of margin recovery in 2010, average profitability has fallen in 2011 across most of the industry segments analysed.

#### The UK independent sector recorded headline growth in FY2011, though revenues were up only 2.3% year on year

- The overall size of the industry in 2011 was just under £2.4bn, with revenues from TV contributing 93% of all sector income (up from 92% in 2010)
- Headline sector growth was 2.3% between 2010 and 2011 illustrating a robust performance in the face of a challenging economic environment
- TV-related income continued to grow while non-TV income shrank for the second year in a row

#### Income from UK primary commissions fell substantially in 2011 as cuts filter through the industry

- The effects of broadcaster budget cuts can be seen in the 2011 responses, with respondents reporting significant reductions in UK primary commissioning revenues
- As a result of the reported reductions in UK primary commissioning income, our estimate for the sector as a whole is that income from this source fell by £109m in FY2011 (8% down on the previous year)

#### International activities grow strongly to offset reductions in UK commissioning revenue

- Reflecting the on-going international expansion of the UK's independent sector, revenue from rights exploitation & international activities grew significantly for the fourth year in succession
- Revenues from international subsidiaries and overseas commissioning grew by £157m (c. 32%), from £495m to £652m while revenue from sales of UK programming abroad grew 36% from £87m to £119m

#### Sector average margins have come under renewed pressure

- Overall sector net margins across the survey responses fell from 13% in 2010 to 6.7% in 2011
- With the exception of companies in the £1m to £5m turnover band, net margins fell across all industry segments, illustrating the financial pressures which remain through the economic downturn and costs of sustaining growth

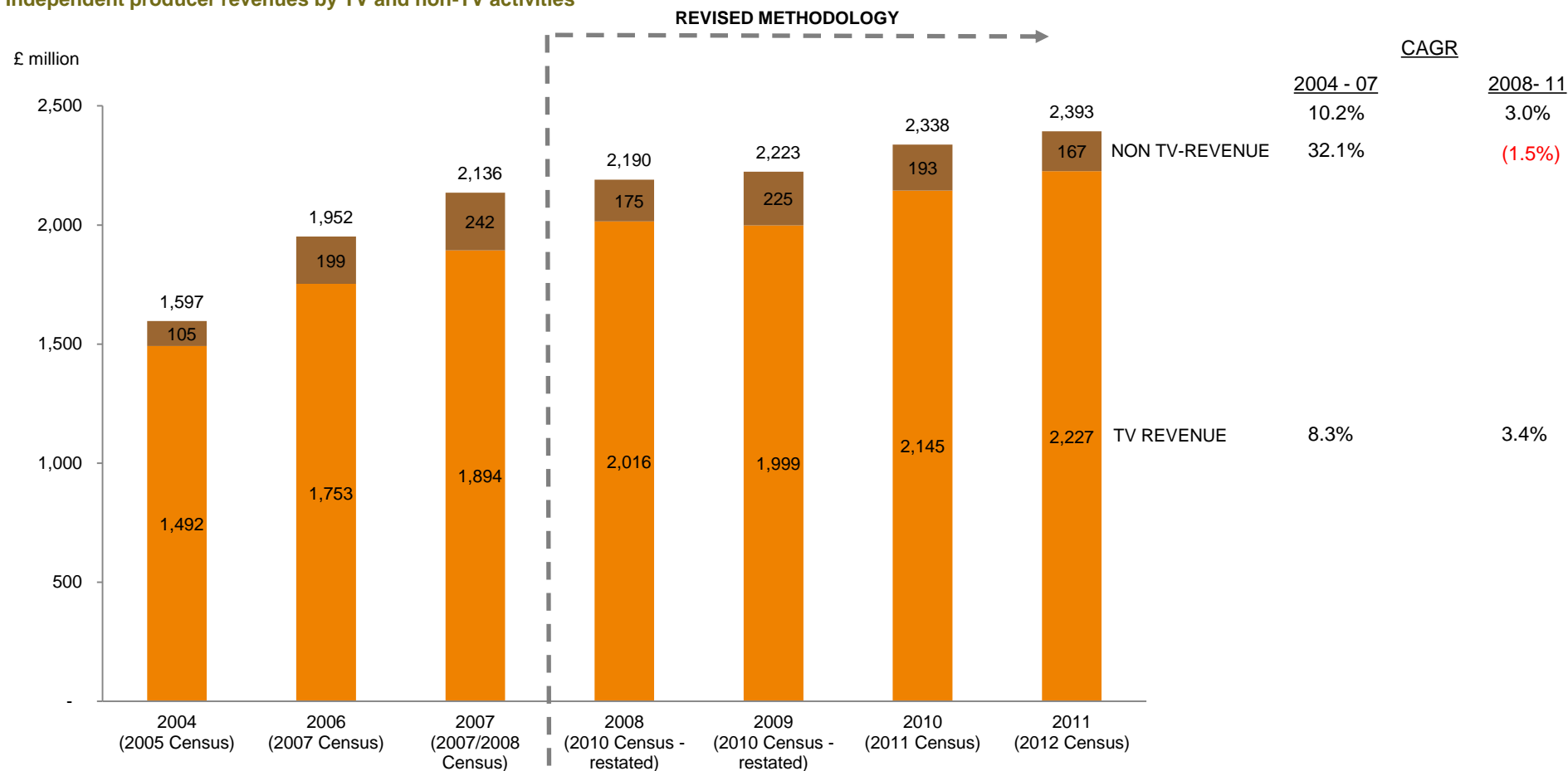
# Revenue growth and profitability

Industry continued its growth in 2011 overall, though non-TV revenues continue to fall



**Though the industry overall has continued to grow in 2011, headline growth has slowed to 2.3% in the most recent year and non-TV revenues continued their year on year decline since 2009**

Independent producer revenues by TV and non-TV activities



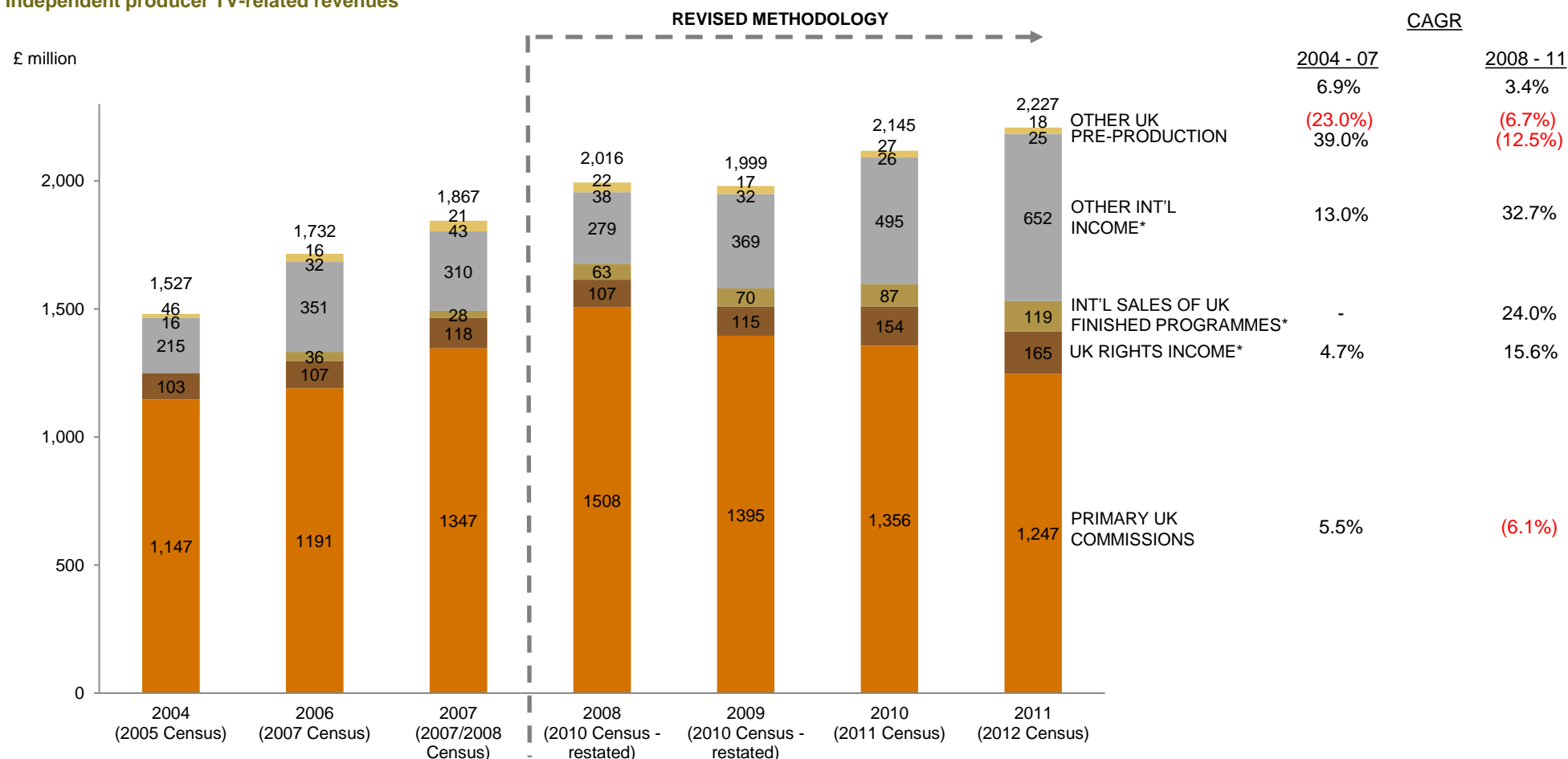
# Revenue growth and profitability

International revenues increasingly important as UK income declines further



The now established trend in falling UK primary commissioning revenue for the independent sector continues to be compensated for by strong growth in international revenues and UK rights outside the primary broadcast license

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



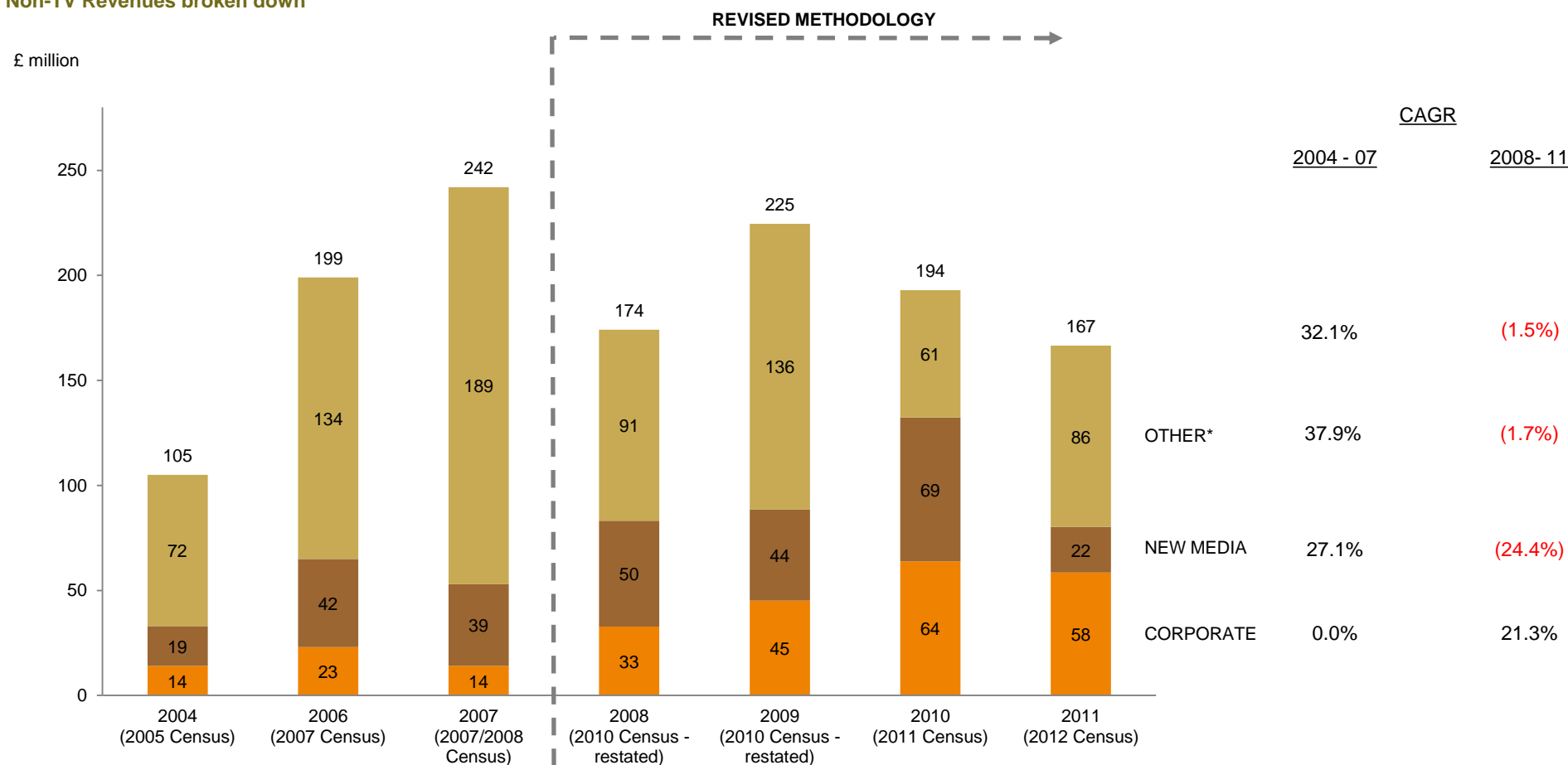
# Revenue growth and profitability

Non-TV revenues declined for the second year in succession



**Though non-TV revenues are small overall (and therefore sensitive to sample changes in the census year on year), the overall trend is one of further decline in 2011**

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.

Source: Oliver & Ohlbaum Analysis, PACT census

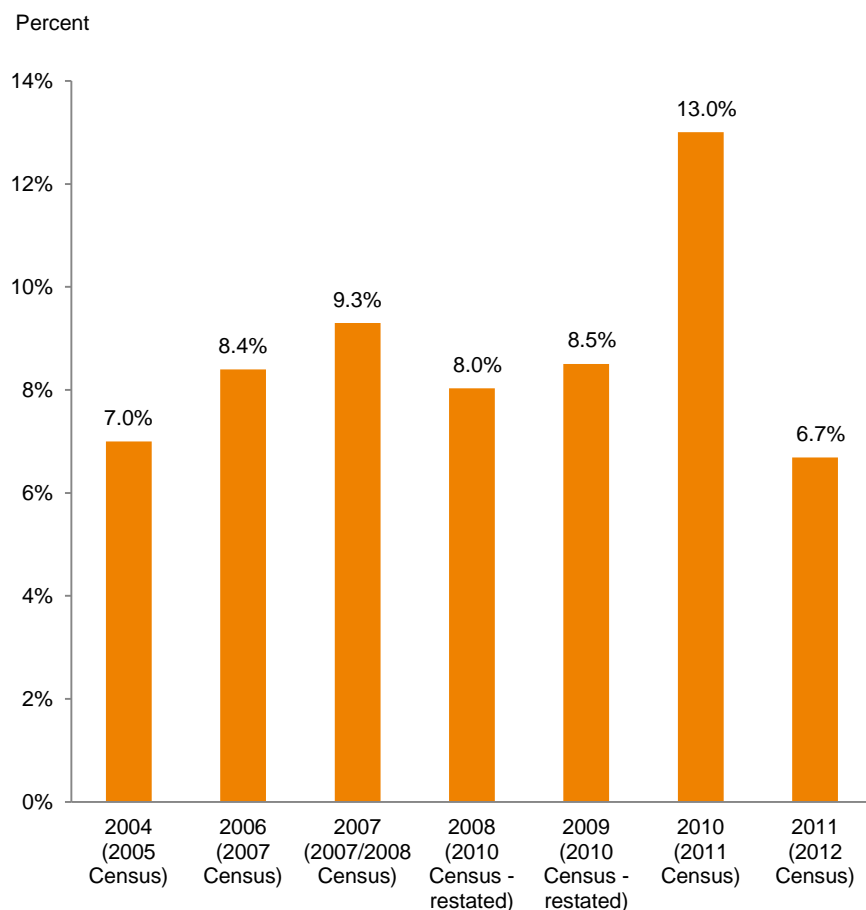
# Revenue growth and profitability

Industry profitability remains under pressure despite signs of recovery in 2010

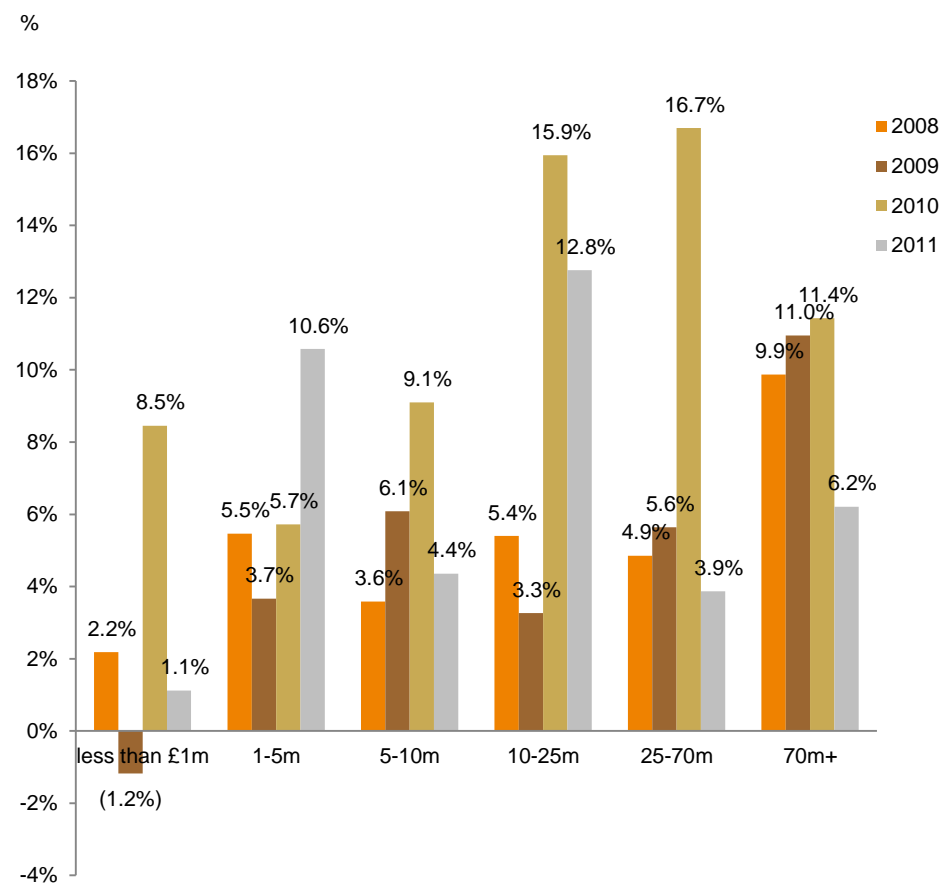


**While industry margins appeared to have recovered in 2010, the 2011 census data suggests that profitability remains under pressure at an industry level and across each turnover band segment**

Net margins, 2004 to 2011



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

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- Network commissioning spend shifting back to larger indie groups
- Significant reductions reported in commissioning spend from the BBC and ITV
- Spend by genre has remained fairly consistent year on year, but overall spend is down

Section 4: International and rights revenues

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# UK commissioning trends

## Summary



Trends

### UK commissioning spend via independent producers fell substantially in 2011, down £110m from the previous year; the main reductions appear driven by a much lower reported level of indie commissioning spend from ITV

The four main networks continue to dominate primary commissioning but overall spend has declined significantly since 2010.

This decline may represent an on-going flow through of cuts in spending instigated by broadcasters in 2009/10 and has resulted in an estimated £110m reduction in UK commissioning spend from 2010 to 2011

The distribution of commissioning spend among indies of different size appears to have swung strongly back in favour of larger indies and indie groups, with all broadcaster categories showing increasing proportion of spend with indies with over £25m per annum turnover

#### Four main networks' share of total commissioning spend fell significantly in 2011

- The four main terrestrial network groups (the BBC, ITV, C4 and Five plus their spin offs) accounted for an estimated 82% of UK TV primary commissions to the independent sector, down from 86% in 2010

#### Commissioning spend has swung back in favour of larger indies and indie groups

- The share of external commissioning spend placed with medium to large indies (defined as having turnover of over £25m per annum) grew substantially in 2011 following a reduction the previous year
- The change in share of commissioning spend in favour of the largest indies may reflect the growth of some producers pushing them into the larger turnover bracket as well as larger groups winning more new business

#### Reduction in commissioning spend estimate driven by a decline in reported commissioning revenues from the BBC and the leading three commercial network groups

- Based on the 2012 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 fell in 2011 by £142m compared to the previous year
- Within this, the most notable reported reductions in commissioning spend with indies came from the BBC and ITV, down 13% and 21% respectively year on year
- Against this trend on leading networks, multichannel spend on UK commissioning increased year on year from £130m in 2010 to £163m in 2011, recovering to pre-recession levels

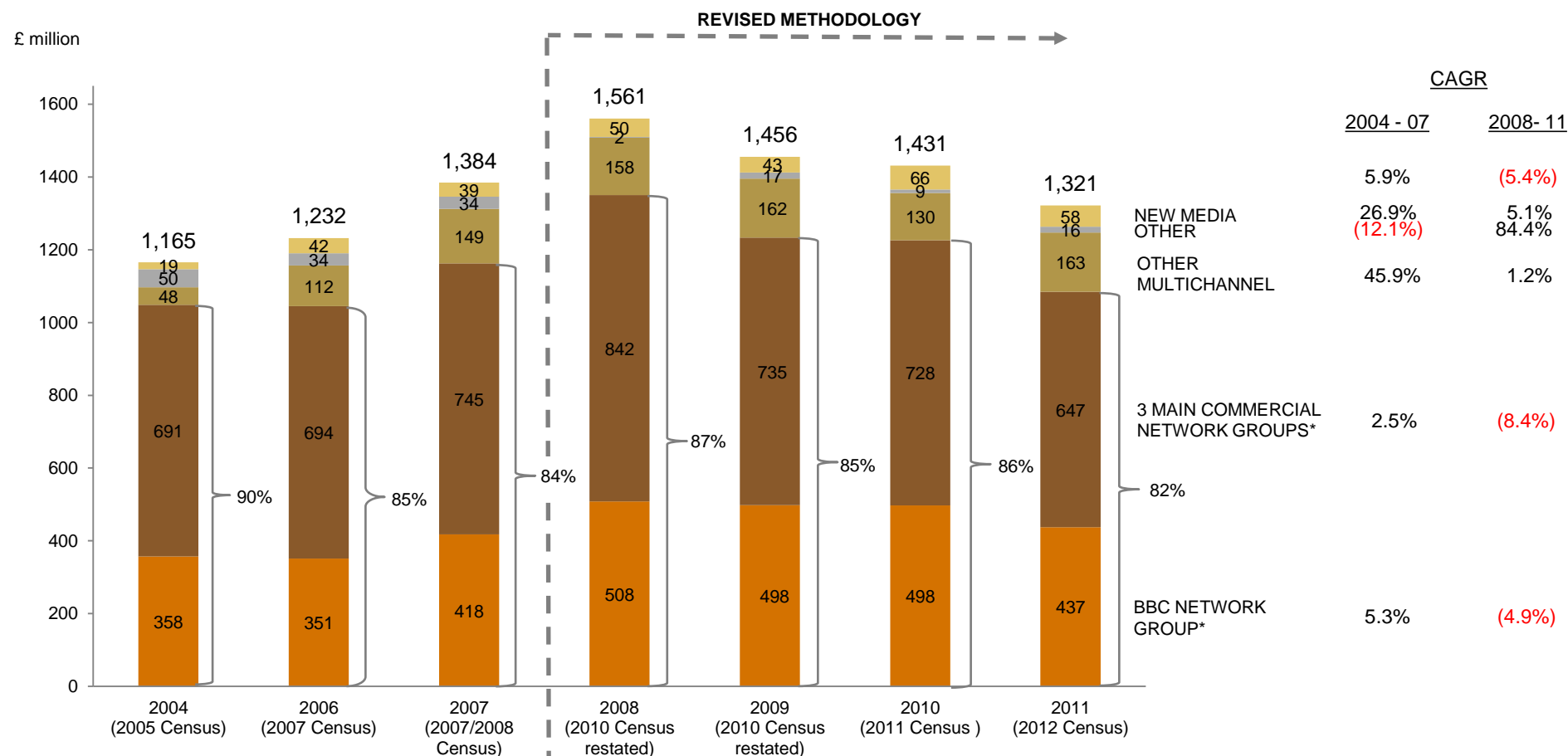
# UK commissioning trends

A continuing trend of reductions in commissioning spend from commercial PSBs



Commissioning spend shows a significant reduction in 2011, continuing the trend from 2008; Commercial PSBs show the greatest reduction though BBC spend has also declined; Growth in multichannel commissioning cannot fully compensate

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

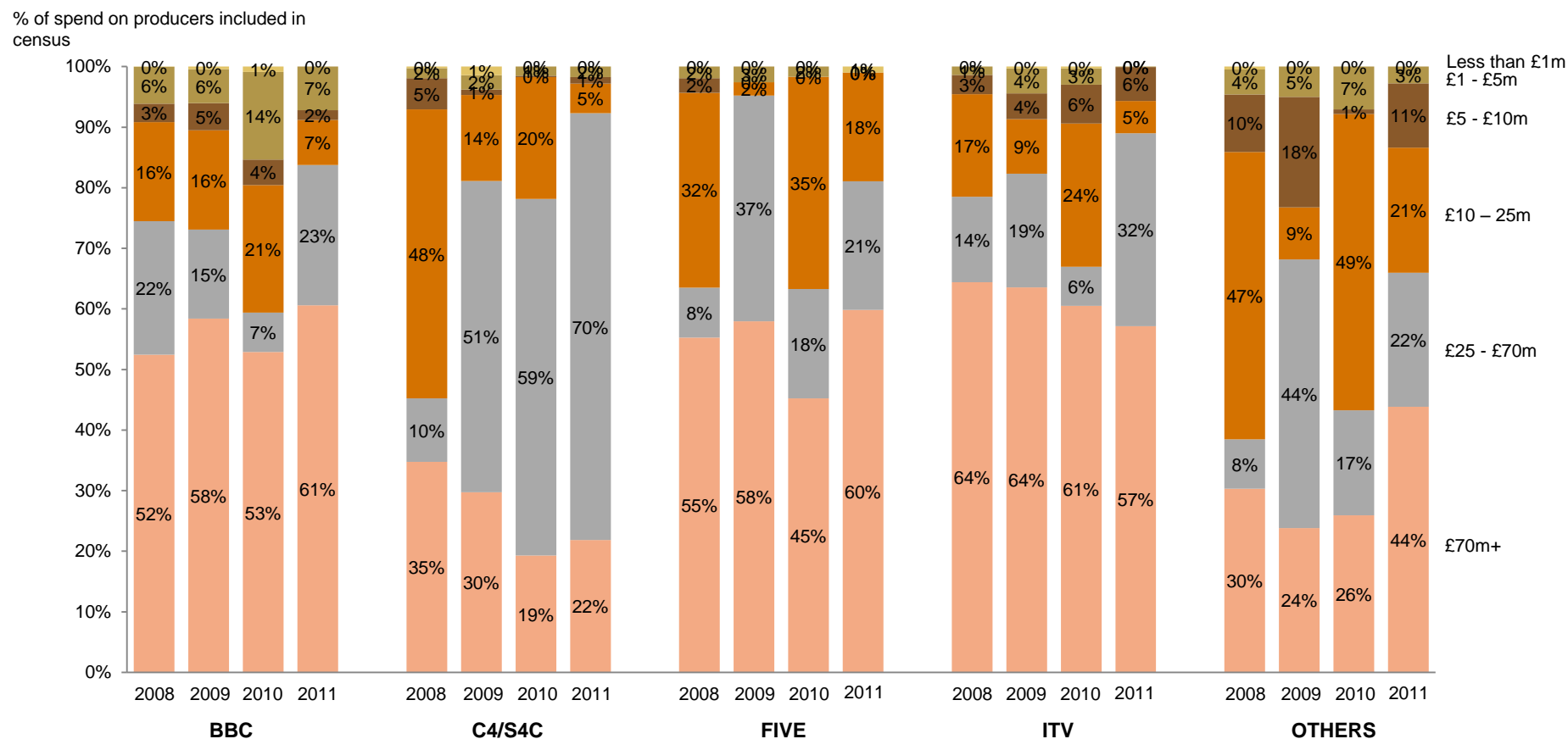
# UK commissioning trends

## Network commissioning spend shifting back to larger indie groups



**In 2011, UK commissioning appears to have swung back in favour of larger (i.e. over £25m turnover) indies and indie groups; Smaller indies attracted a lower share of spend across all broadcaster categories\***

External commissions by UK broadcaster split by company turnover band, 2008 to 2011



\*Note: This may partly reflect differences in reporting from large indies, some of whom report as individual companies.  
 Source: Oliver & Ohlbaum Analysis, PACT census (2008 figures restated using returns from 2010 census )

# UK commissioning trends

Significant reductions reported in commissioning spend from the BBC and ITV



Based on the 2011 census returns, indies have seen the greatest reduction in commissioning spend at the BBC and ITV with new commissioning also falling as a proportion of spend from those broadcasters

## 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

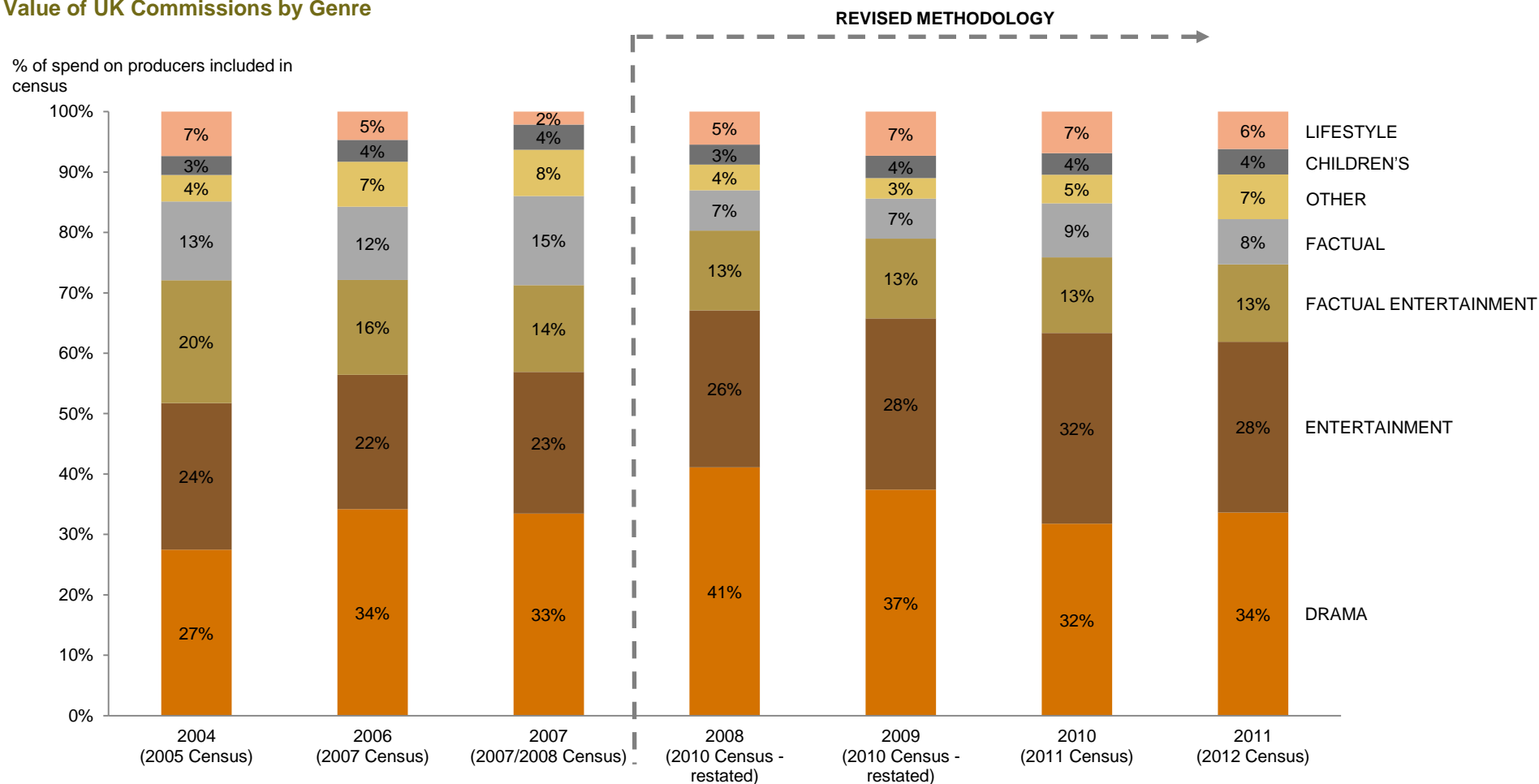
# UK commissioning trends

Spend by genre has remained fairly consistent year on year, but overall spend is down



There has been little change in the genre mix of UK commissions to independent producers in the last year, partly reflecting the slightly higher proportion of spend on returning series

Value of UK Commissions by Genre



Source: Oliver & Ohlbaum Analysis, PACT census



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# International and rights revenues

## Summary



**With UK commissioning spend under significant pressure, indie sector growth has once again been underpinned by strong international expansion and rights trade**

International commission revenues grew substantially in 2011, reaching an estimated £574m (up from £400m the previous year) and driven by on-going expansion in overseas subsidiary activities and increased co-production activity

International sales of UK finished programmes also continued on its strong growth path in 2011, increasing by £32m year on year to reach £119m

In total, rights income derived from UK content continued its five year growth trend within the census, reaching £284m in 2011

**Revenues from international activities continue to grow strongly and are now supporting sector growth overall**

- Primary international commissions (including subsidiary revenues) grew to £574m in 2011, driven by increasing success in leading overseas markets and the maturation of subsidiary acquisitions over the last few years

**International sales of finished programmes has also grown strongly, showing the strong demand for UK originated content**

- Sale of UK finished programmes to international broadcasters has continued to provide a source growth for the indie sector, up for the fourth year in a row to reach an estimated £119m in 2011

**Overall, rights revenue has grown to £284m in 2011, up from £249m in the previous year**

- Income from rights-related revenue streams has continued its growth for the fifth census in a row
- UK secondary TV sales and international sales of finished programmes represented a combined 71% of the total rights income to indies in the 2011 census, down slightly compared with 56% in 2010, illustrating the importance in growth across different types of rights, notably formats and DVD sales

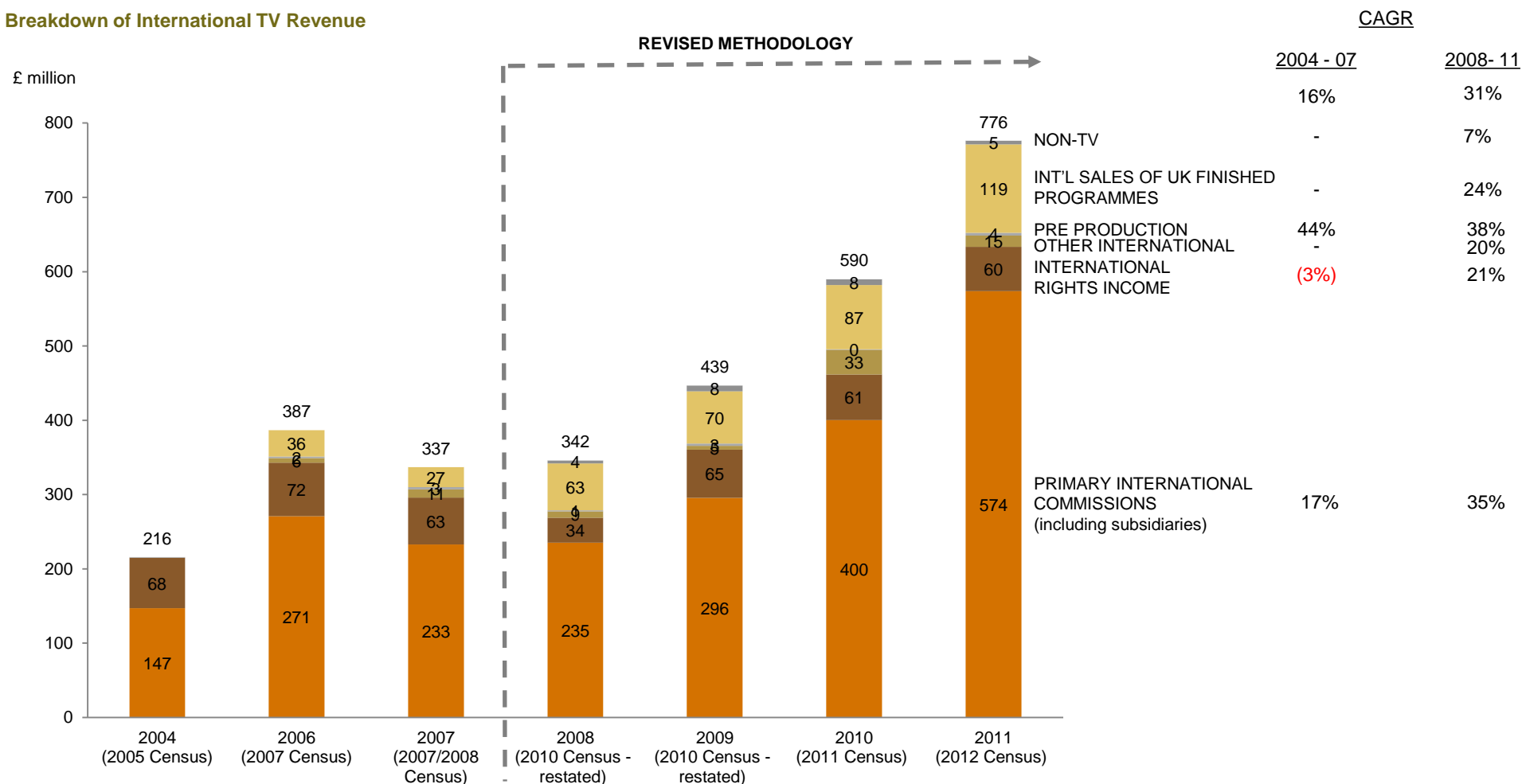
# International and rights revenues

International revenues have grown strongly for another year; up to £776m



**Investment in overseas growth appears to be generating strong revenue growth for UK-based independent producers; Primary international commissions and sales of UK programmes overseas have grown strongly in 2011**

Breakdown of International TV Revenue



Source: Oliver & Ohlbaum analysis, PACT census

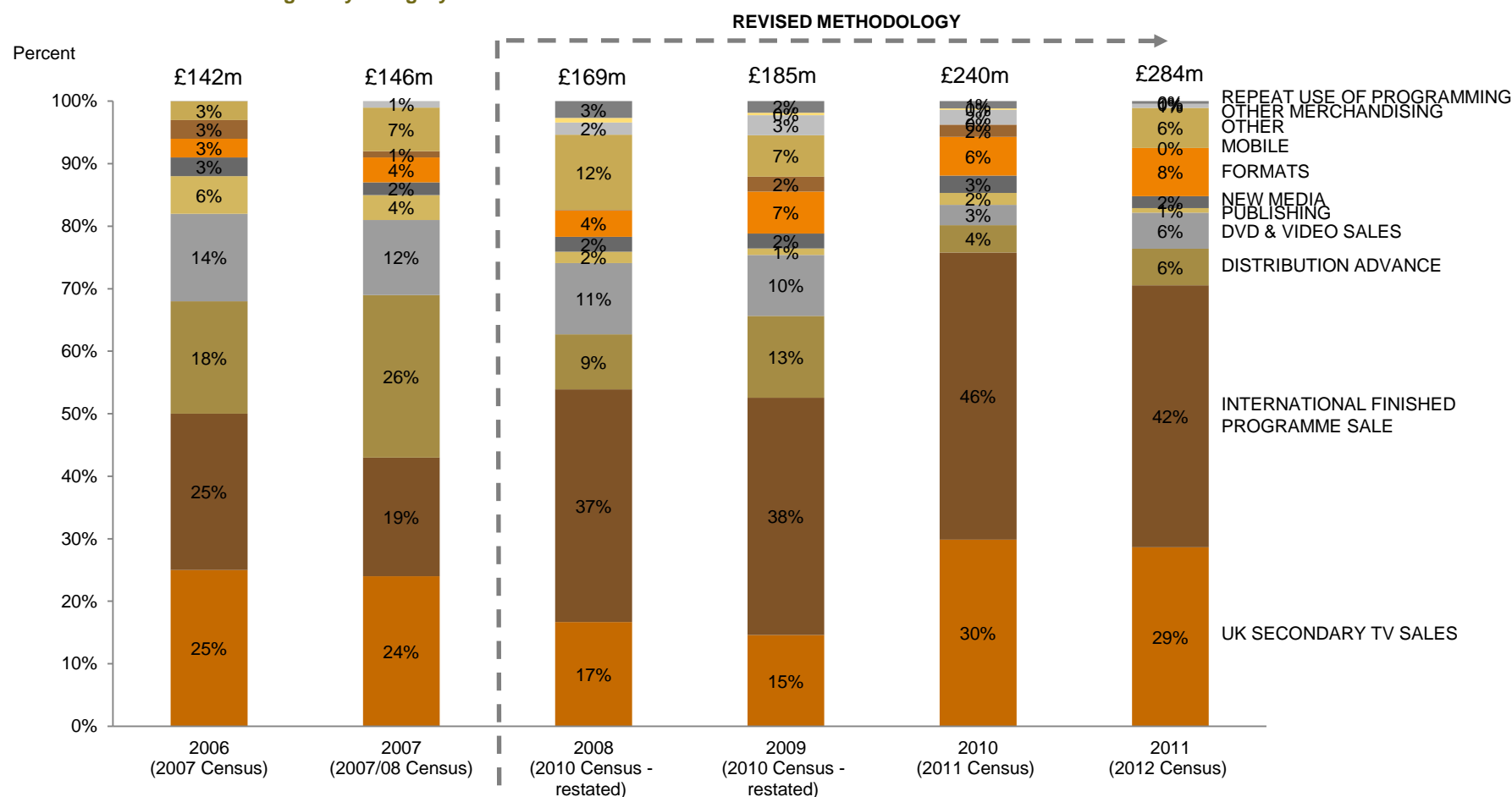
# International and rights revenues

UK content rights income grows for the sixth consecutive year, now £284m



Rights income from UK content produced by the independent sector grew for the sixth consecutive year with growth in all major categories of rights exploitation

Revenues from UK content rights by Category Between 2005 Census and 2012 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

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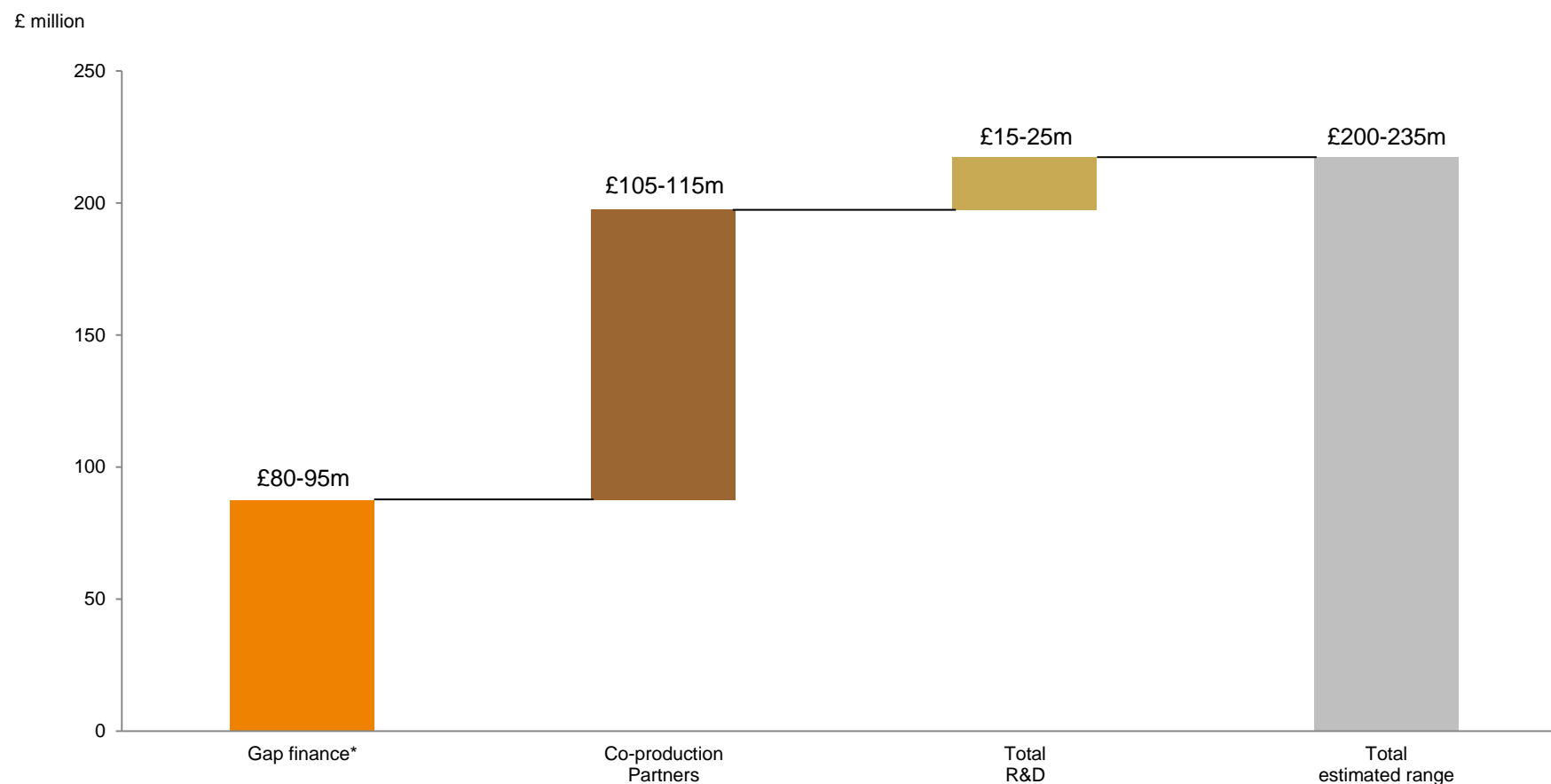
## Sources of additional finance

Large increase in use of co-production finance from previous years



**Reported co-production finance in 2011 increased substantially, reflecting the tighter UK commissioning market and on-going expansion overseas; R&D spend was down while gap finance remained steady from 2010 levels**

Estimated value of contribution to productions, 2011



Notes: Gap finance is defined as where the primary commission is less than the direct costs of the programme.  
No effect from reduced production fees reported in 2011 census

Source: O&O analysis, PACT census and estimates