



Independent Production Sector Financial Census and Survey 2015

July 2015

A report by Oliver & Ohlbaum Associates Ltd for Pact



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Summary

The UK indie sector experienced a first decline in 2014 since Census began



The UK indie sector experienced a decline for the first time in a decade. However some of this can be attributed to changes in the sample. 2013 may also have been an outlier year with 2014 estimates closer to previous trends

The UK indie sector contracted for the first time since the Census began in 2004. This was driven by a drop in primary commissions and international revenues, with total sector revenues declining by 4.2% totalling just under an estimated £2.9bn. It should however be noted that a change in the sample from 2013 to 2014 slightly overstates this decline.

UK primary commissions were down from £1,761m in 2013 to £1,633m in 2014. though some of this year on year change may be attributable to an over-estimate of 2013 multichannel spending.

Overall international revenues also fell (from £939m to £891m), although international sales of finished UK programmes remained strong at £180m and total UK rights income grew from £303m to £364m.

Smaller indies (those in turnover brackets up to £10m) and mid-sized indies (those in turnover brackets between £10m and £70m) continued to take a greater share of spending on external commissions. Smaller indies, (mainly those in the £1-5m turnover bracket), benefitted particularly from increased proportions of spend by the BBC, C5 and multichannels.

There was a higher proportion of new commissions reported in 2014. The networks all showed an increase, while multichannel showed a decline. The multichannel proportion of spend on new commissions still remains comparatively high at 36%.

Non-TV revenues decreased driven by a decline in new media and corporate activities. New media revenues reported are volatile and most of these activities tend to lie with specialised companies outside of or spun-off from the traditional production companies.

There was a significant increase in indies' estimated contribution to production finance.

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 tenth 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 2015, with the data gathered representing the last two financial years (2013 & 2014).

Pact 2015 financial Census

- The Pact financial Census is now in its tenth year having been conducted annually for all but one year 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 2015 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.
- 67 completed responses were received, with many larger production companies reporting at a group level, and respondents within the 2015 sample totaling £1.75bn of industry turnover, which is of similar magnitude to the 2013 Census, but down from the £1.83bn in the 2014 Census.
- Due to different company reporting periods, the annual census returns include financial information spanning 2013 and 2014.

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- The decline in TV revenues was due to UK primary commissions and international revenues
- Non-TV activities declined due to new media and corporate

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Revenue growth and profitability

Summary



Total sector revenues fell in 2014 driven by a fall in UK primary commissions and international revenues

The UK independent sector contracted for the first time since Census was launched, following a drop in primary commissions and international revenues, although a change in this year's sample slightly overstates this decline.

There has been a decrease in UK primary commissions in 2014. Overall international revenues have contracted, although international sales of finished programmes remain strong and UK rights income has recovered.

Non-TV revenues decreased significantly reaching a lower level than in 2012. This was mainly due to new media activities. Revenues from corporate activities continued to decline.

It should be noted that 2013 may have been an unusual peak with 2014 numbers more in line with trends up until 2012

The UK independent sector recorded a first decline since Census began

- The overall size of the industry in 2014 fell just below £2.9bn. The proportion of revenues derived from TV contributed 94% of all sector income, slightly up from last year.
- The fall in revenues was mainly driven by a fall in UK primary commissions and international revenues.
- There are signs that 2013 may have been an exceptional peak, with 2014 numbers being more in line with the trend up until 2012. Next year's Census will allow us to conclude more on this trend.

Income from UK primary commissions fell in 2013 after two years of consecutive growth

- Multichannel has helped drive growth in the UK commissioning market in the past few years. The scale of the difference in estimated UK multichannel commissioning spend between 2013 and 2014 is thought to be at least partly attributable to the 2013 Census estimate being unusually high.

International activities showed a fall in revenues, but overseas income remains important

- After six years of successive growth international revenues experienced a decline. Overall international revenues have contracted although international sales of finished programmes have increased. UK rights income has recovered after last year's decline
- However, some of the decline in international revenues is down to a change in the Census sample. If this was corrected for, the overall international revenues would show only a small decline or be stable at best.

Non-TV revenues decreased

- Non-TV revenues decreased sharply reaching a lower level than in 2012. New media revenues reported are volatile, most of these activities tend to lie with specialised companies outside of or spun-off from the traditional production companies

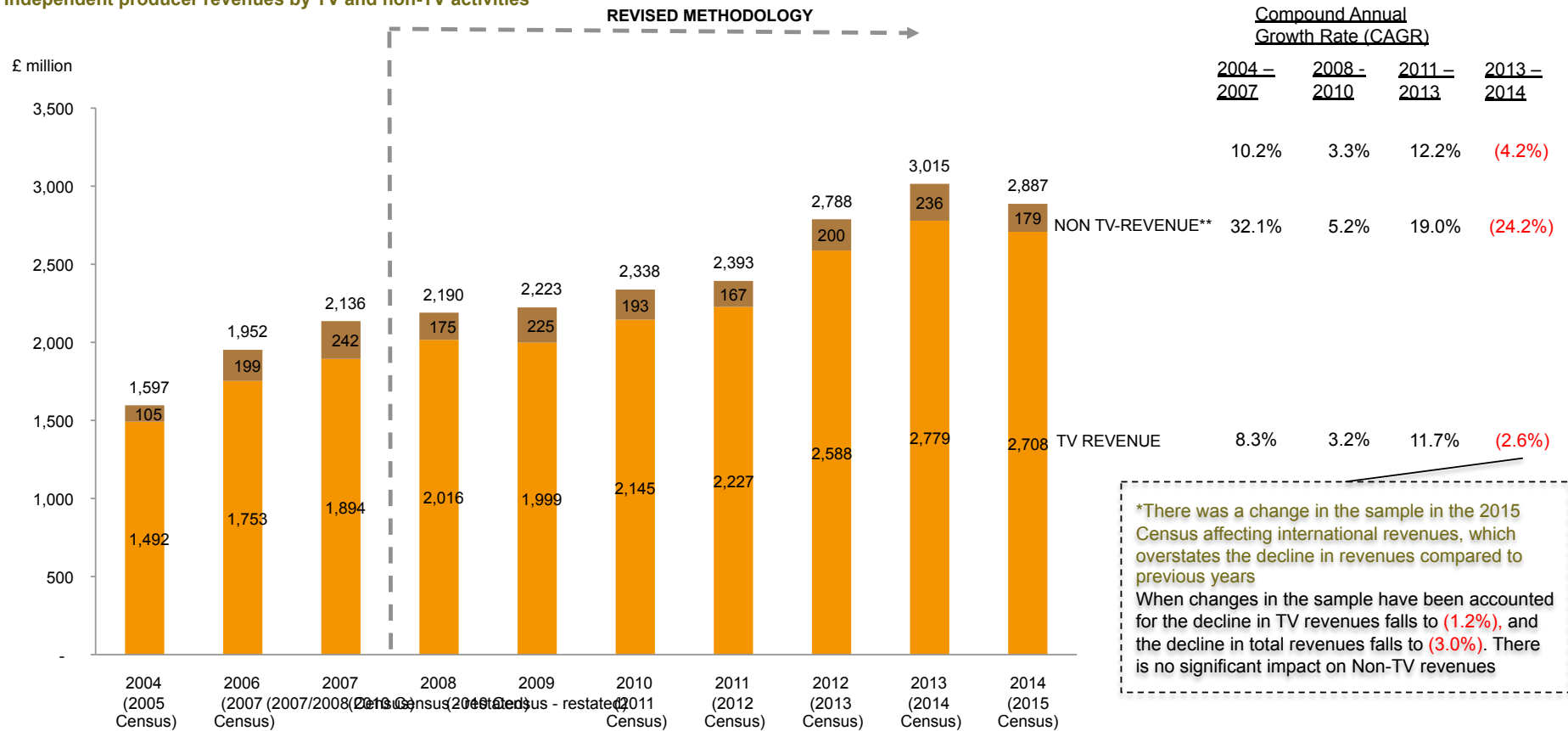
Revenue growth

After a decade of continued growth the market contracted slightly in 2014



The UK independent sector contracted for the first time since Census was launched, following a drop in primary commissions and international revenues, although a change in this year's sample slightly overstates this decline

Independent producer revenues by TV and non-TV activities*



*There was a change in the sample in the 2015 Census affecting international revenues, which overstates the decline in revenues compared to previous years
 When changes in the sample have been accounted for the decline in TV revenues falls to (1.2%), and the decline in total revenues falls to (3.0%). There is no significant impact on Non-TV revenues

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

Source: Oliver & Ohlbaum analysis, Pact census

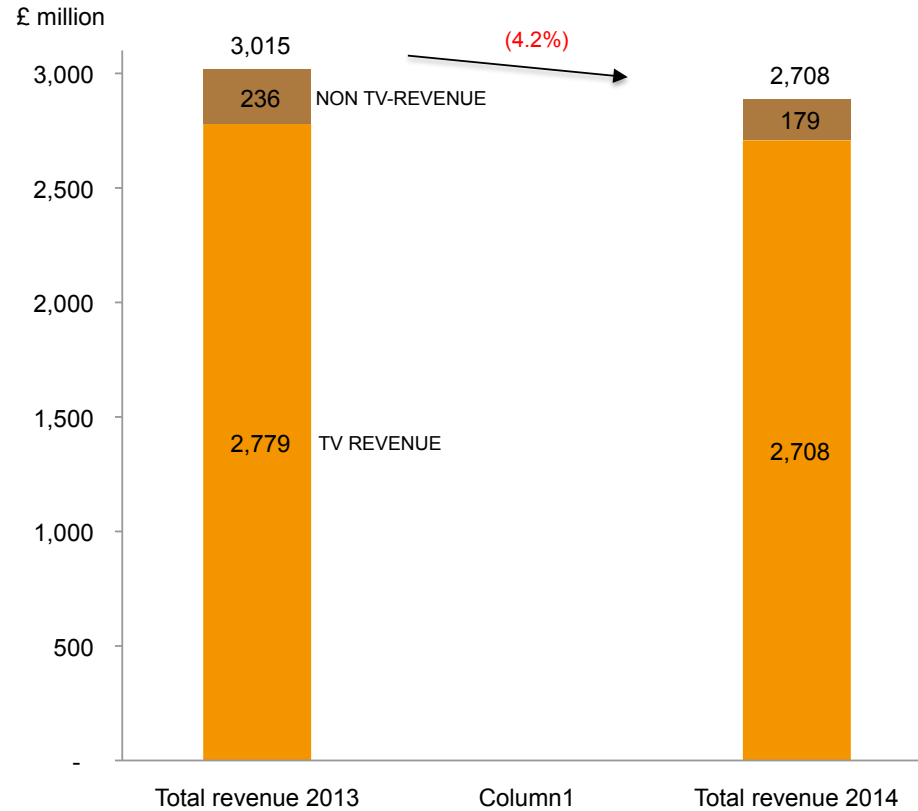
Revenue growth

There are a number of factors impacting reported market contraction



The change in the sample and differences in estimates for UK multichannel commissions* accounted for the majority of the decline. Non-TV also reported important declines. Increased commercial PSB commissions and UK rights revenue boosted the sector

Estimated impact of factors on decline between 2013 and 2014



The 4.2% change is made up of:

DECREASE SINCE 2013		INCREASE SINCE 2013	
Sample change	- £61m	UK rights	+ £61m
UK primary commissions	- £82m	All other**	+ £12m
Non-TV	- £58m		

**Includes the balance of all other revenues not already specifically listed. These have shown minor decreases or increases all having a smaller impact on total sector revenues.

Source: Pact census, Oliver & Ohlbaum analysis

* Note: 2013 Census estimates for multichannel commissioning may be high due to the sample skewing towards more large budget multichannel commissioning projects and low in 2014 due to the shift of spend into international production projects

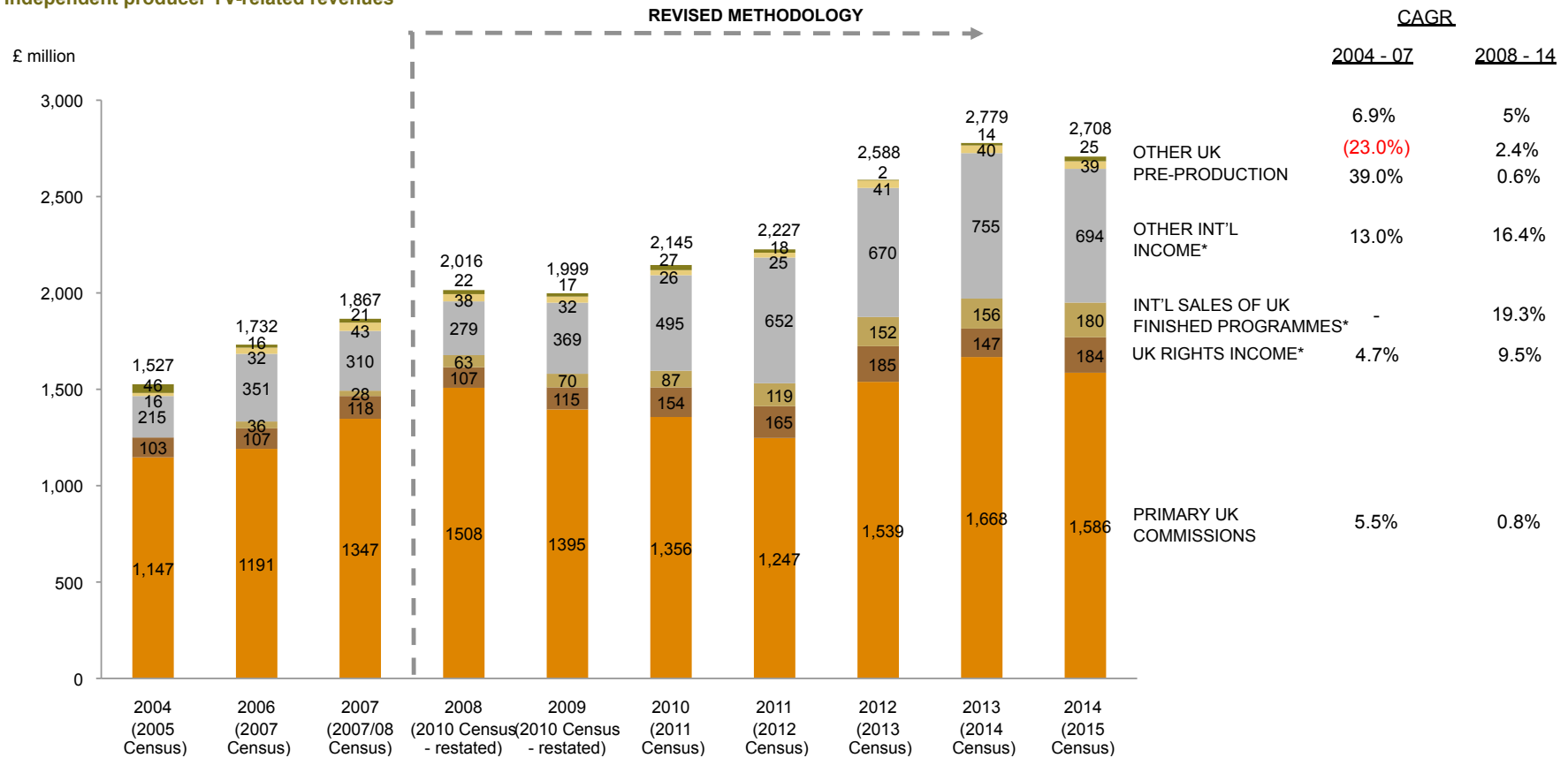
Revenue growth

The decline in TV revenues was due to UK primary commissions and international



There has been a decrease in estimated UK primary commissions in 2014. Overall international revenues have contracted although international sales of finished programmes have increased. UK rights income has recovered from 2013

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.

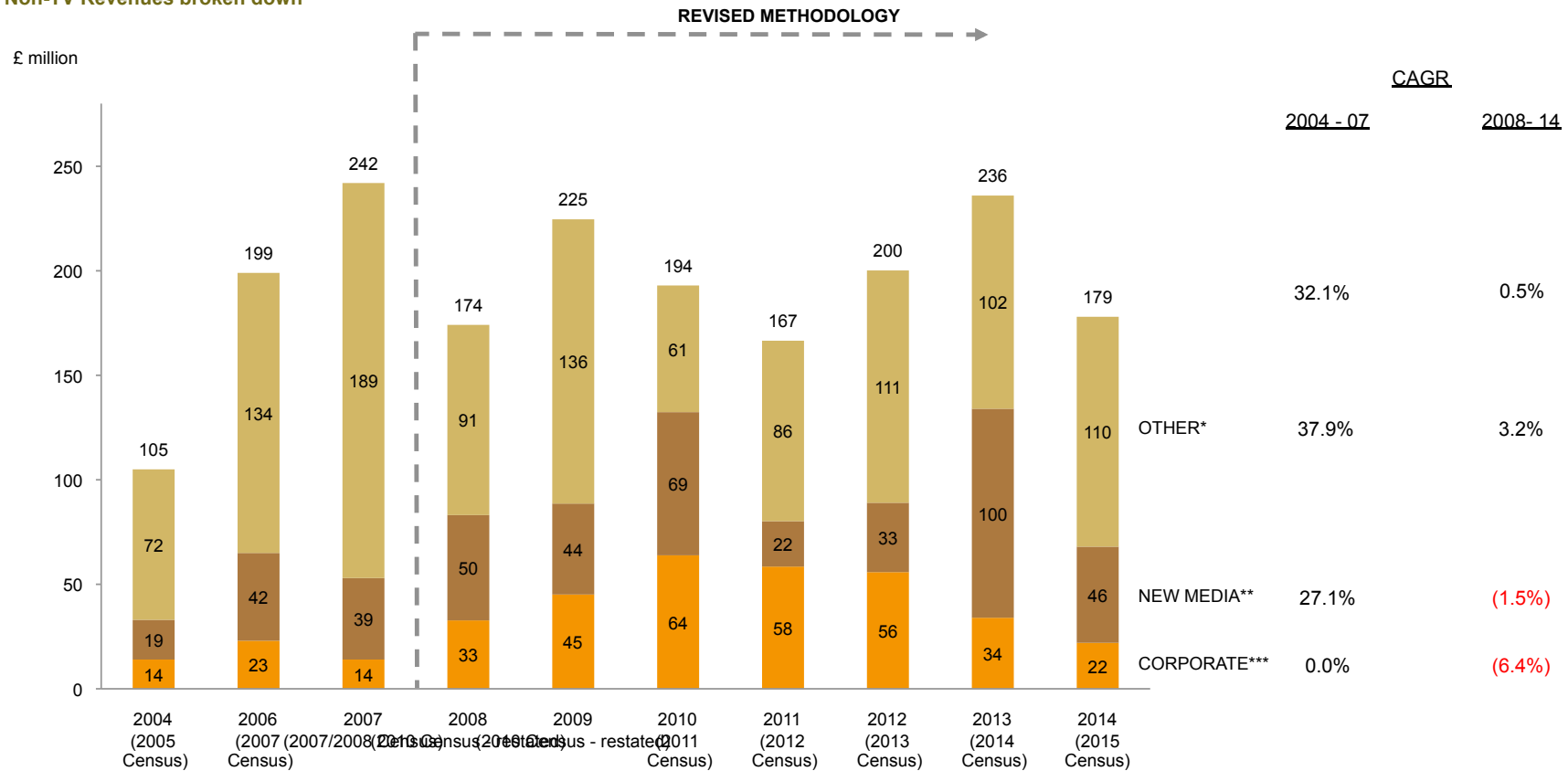
Revenue growth

Non-TV activities declined due to new media and corporate



Non-TV revenues decreased sharply reaching a lower level than in 2012. New media revenues reported are volatile, most of these activities tend to lie with specialised companies outside of or spun-off from the traditional production companies

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 * 'Corporate' includes B2B, promotional and educational material and similar not produced for public television
 Source: Oliver & Ohlbaum Analysis, Pact census

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- There has been some consolidation of mid-tier indies
- Reported income from UK primary commissions fell in 2014
- Smaller and mid-sized indies continue to increase their share of external commissions
- There was a higher proportion of new series in 2014
- Investment in children's content remains low

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UK commissioning trends

Summary



Reported income from UK primary commissions fell in 2014. The smaller indies continued to take a greater share of external commissioning

The largest indies' share (£70m+ turnover) of UK external commissioning spend has declined over the last two years. The indies gaining most in the last year from this shift in spend have been the medium and smaller sized indies.

After three years of strong consecutive growth, estimated multichannel commissioning spend fell in 2014. The scale of the apparent drop in multichannel spend is at least partly due to an abnormally high estimate in 2013.

Overall commissioning spend fell from £1,761 in 2013 to £1,633m.

The four main PSB networks continue to dominate primary commissioning. After a number of years of falling share of total commissioning spend they regained share levels (83%) closer to those of 2009/10.

A greater proportion of spending is placed with smaller and mid-sized indies

- Smaller and mid-sized indies continue to grow their share of the external commissioning market. The indies gaining most in the last year from this shift in spend have been the medium and smaller sized indies in the £10-25m and £1-5m turnover brackets.
- The BBC, C5 and multichannels all spent a larger proportion with smaller indies, in particular those in the £1-5m turnover bracket. Only Channel 4 saw an increased proportion of spending with the largest indies taking share from mid-sized indies.

Indies reported an overall decline (7%) in UK commissioning spend

- The four main terrestrial network groups (the BBC, ITV, C4 and C5 plus their spin offs) accounted for an estimated 83% of UK TV primary commissions to the independent sector. This sees network share of spend returning towards 2009/10 levels after a number of years of decreasing share. Growth in PSB spend was driven by the commercial PSBs.
- The reported UK external commissioning spend by multichannel broadcasters fell significantly in 2014. This may be the result of money being spent elsewhere (e.g. on international co-productions) rather than an overall reduction in originated spend. It should also be noted that spend reported in 2013 may have been exceptionally high and that 2014 is more in line with the pre 2013 trends.

There was a higher proportion of new commissions in 2014

- The networks commissioned a higher proportion of new commissions in 2014, with some showing significant increases. The BBC has the highest proportion of new commissions versus returning series. ITV has a low proportion of new commissions compared to the other broadcasters.
- Multichannels had a growing proportion of returning series commissioned in 2014, although the proportion of new series still remains comparatively high at 36%.

Investment in children's content remains low and there was a continued shift into entertainment

- There has been an increased focus on entertainment programming and away from other genres for a number of years. Investment in children's programming remains low despite the tax credit for animation being in its second year.

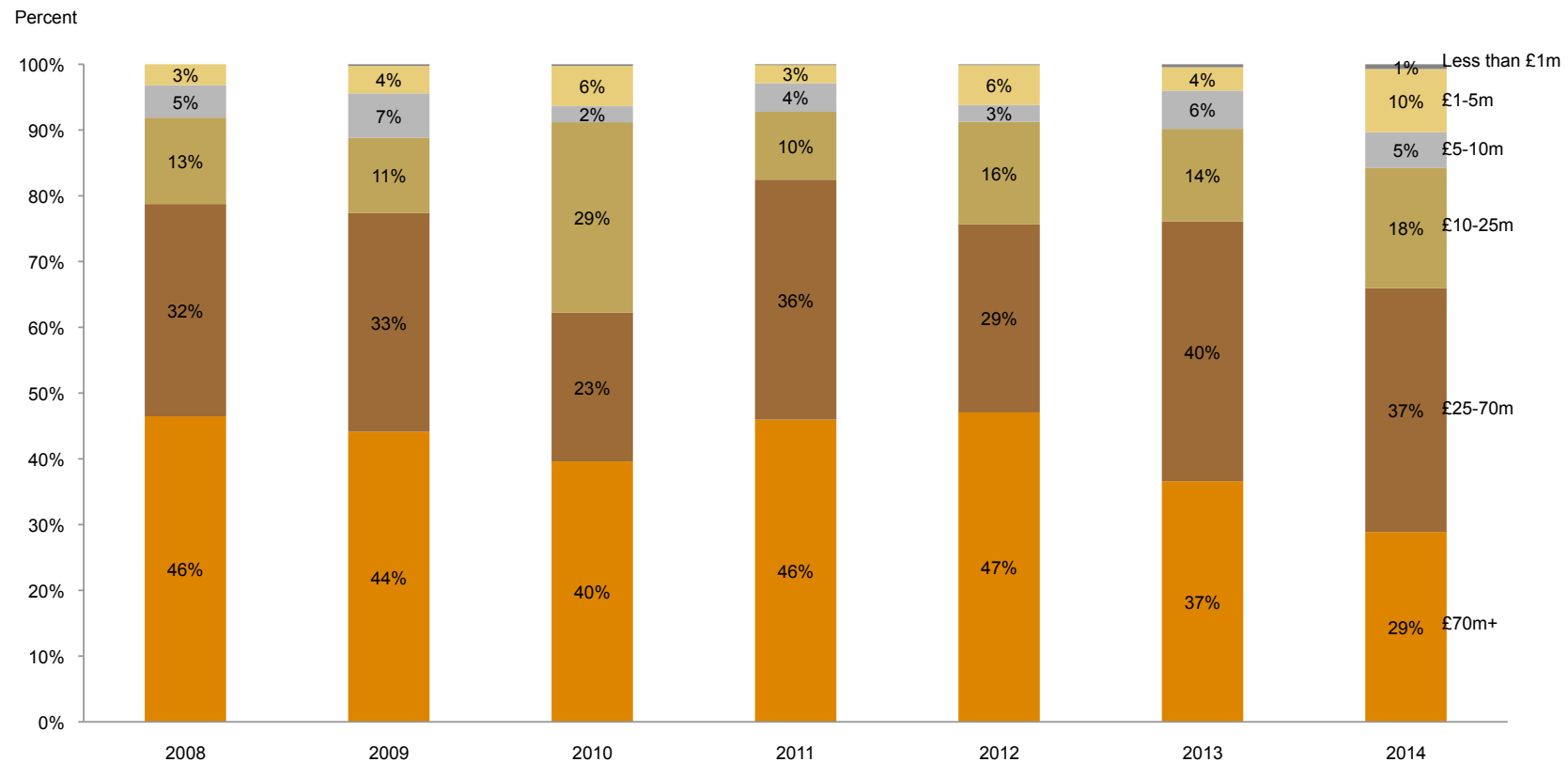
UK commissioning trends

The largest indies continue to take a smaller share of UK commission spend



The largest indies' share of UK commission spend has declined over the last two years. The indies gaining most in the last year from this shift in spend have been the medium and smaller indies (£10-25m and £1-5m turnover brackets)

Share of spend on UK externally produced primary commissions segmented by turnover band of producer, 2008 to 2014



Note: *Primary commissions expenditure data excludes all expenditure on news and sports programmes and rights but includes expenditure on all regional and nations and regions programmes

Source: Ofcom Communications Reports, BARB, Company reports, O&O / Pact Census, Oliver & Ohlbaum analysis

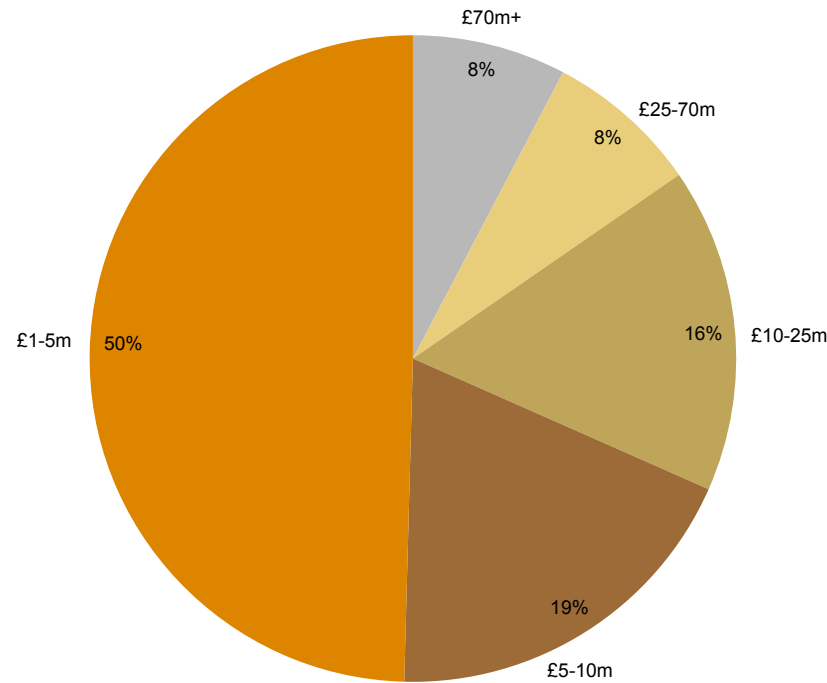
UK commissioning trends

The indie sector remains diverse



Although the indie sector has experienced consolidation over the years the industry still remains diverse. The sector represents a wide choice of companies across turnover size brackets

Distribution of number of indie companies by turnover brackets –2014



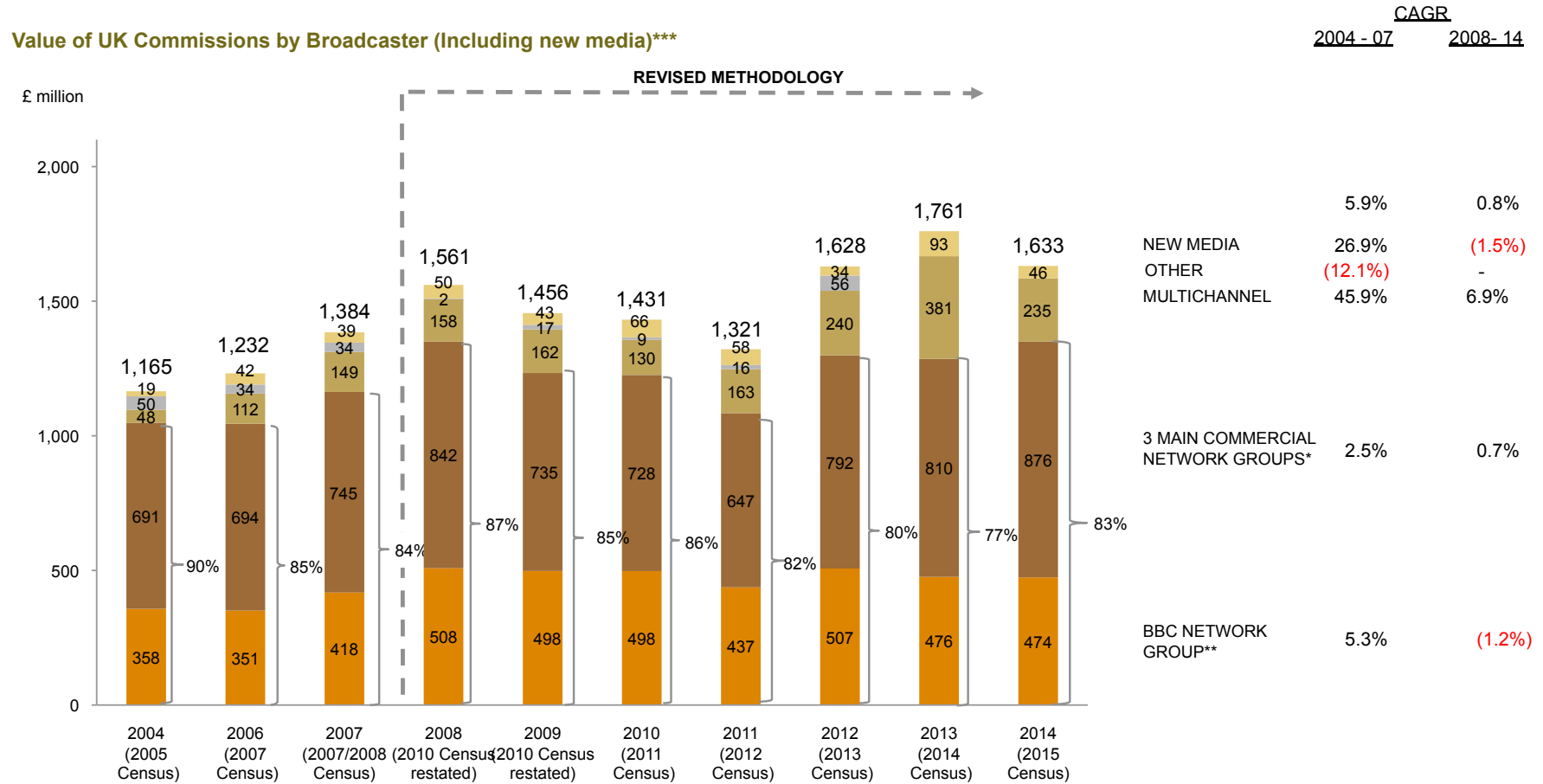
*Based on 119 groups and individual companies. Individual companies belonging to a larger group are only counted as part of the group. In addition to the companies above, based on analysis from Broadcast we estimate there are circa 500 small producers with a turnover of less than £1m

UK commissioning trends

Reported income from UK primary commissions fell in 2014



Some of the apparent decline in multichannel spending in 2014 may be partly due to an overstatement of 2013 spend*
 There was an increase in commissions from the main networks and their proportion of investment grew



*2013 Census estimates for multichannel commissioning may be high due to the sample skewing towards more large budget multichannel commissioning projects and low in 2014 due to the shift of spend into international production projects; ** 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

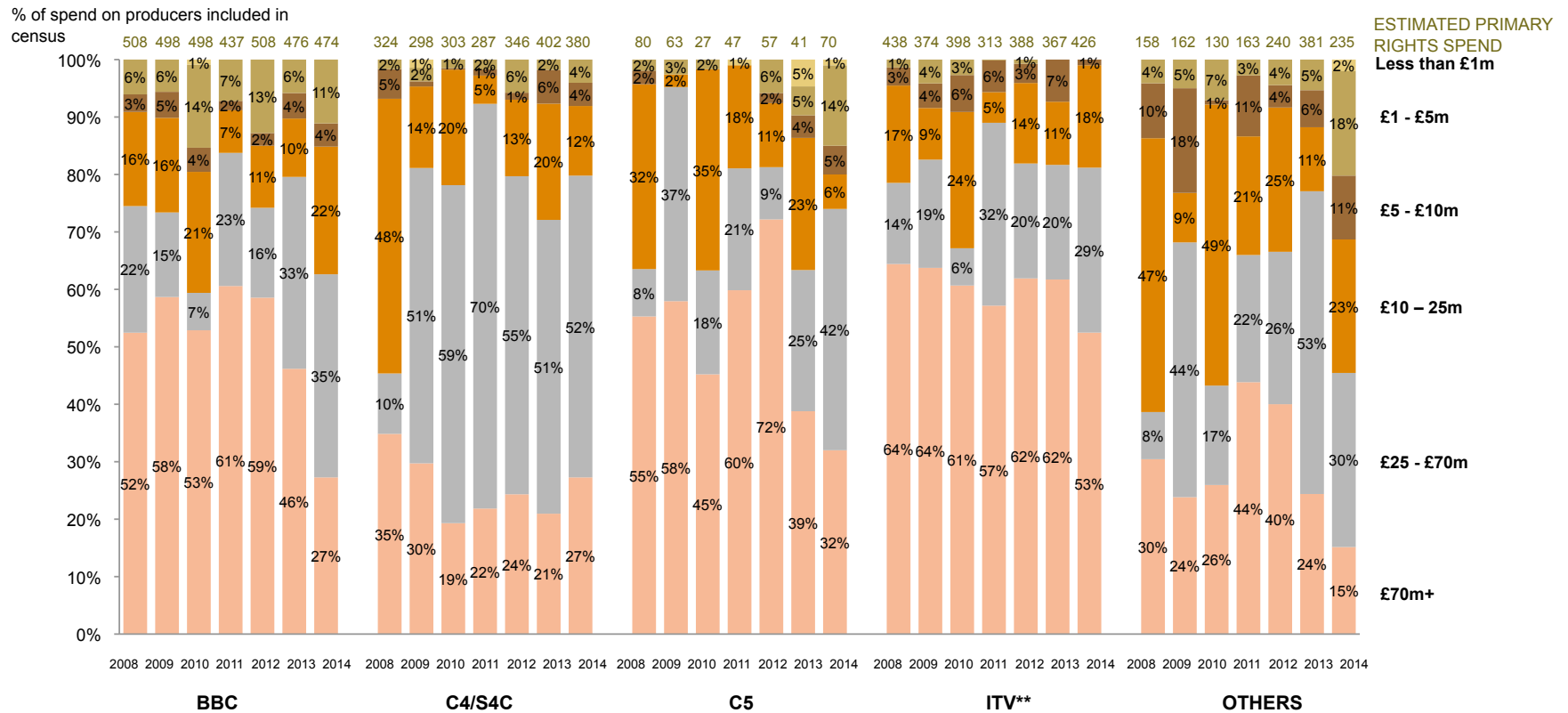
UK commissioning trends

Smaller and mid-sized indies continue to increase their share of external commissions



Smaller and mid-sized indies continue to grow their share of the external commissioning market. Smaller indies, particularly those in the £1-5m turnover bracket, benefitted from increased proportions on the BBC, C5 and multichannels

External commissions by UK broadcaster split by company turnover band, 2008 to 2014*



*2008 figures restated using returns from 2010 census
 **ITV includes STV/UTV
 Source: Oliver & Ohlbaum Analysis, Pact census

UK commissioning trends

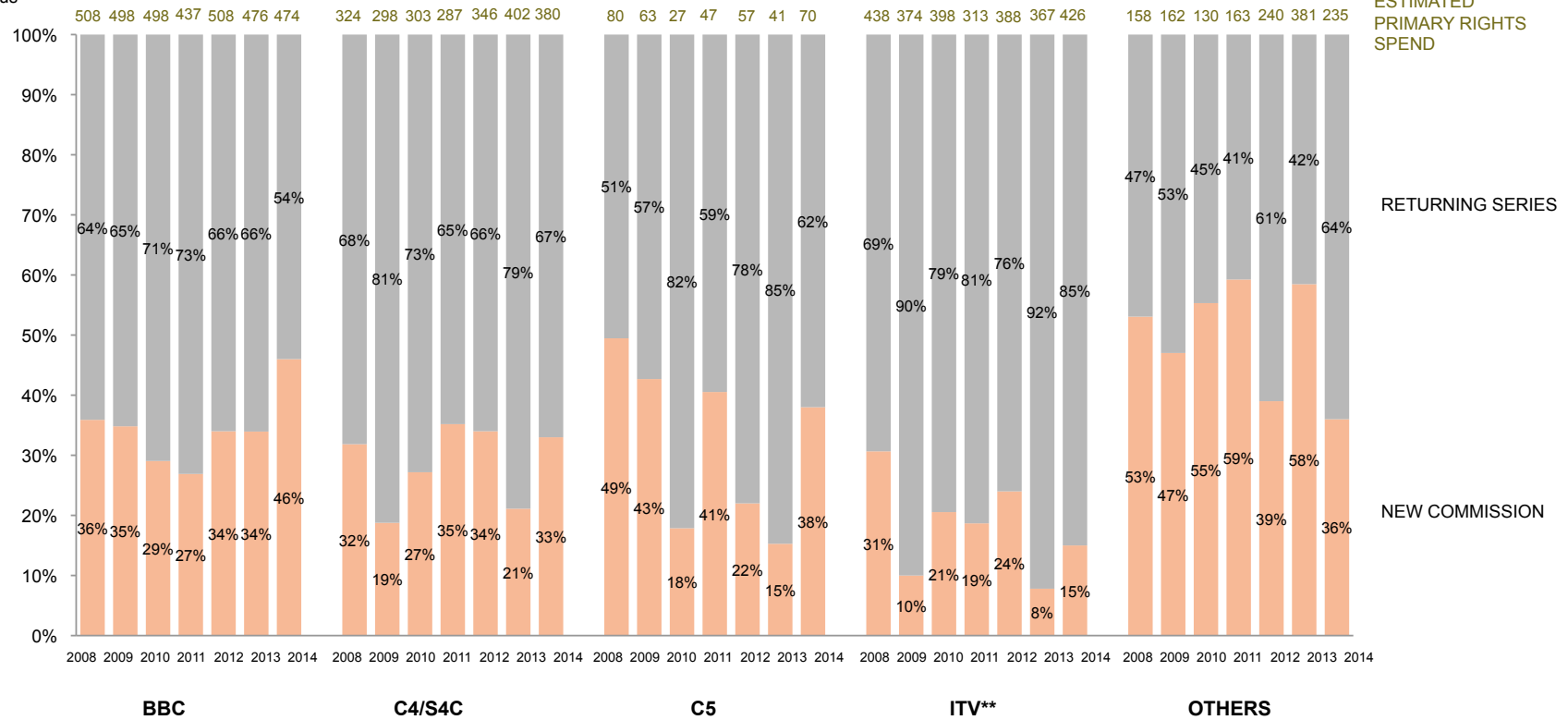
There was a higher proportion of new series in 2014



The networks commissioned a higher proportion of new commissions in 2014. Multichannels saw an increase in the proportion of returning series

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
 **ITV includes STV/UTV
 Source: Oliver & Ohlbaum Analysis, Pact census

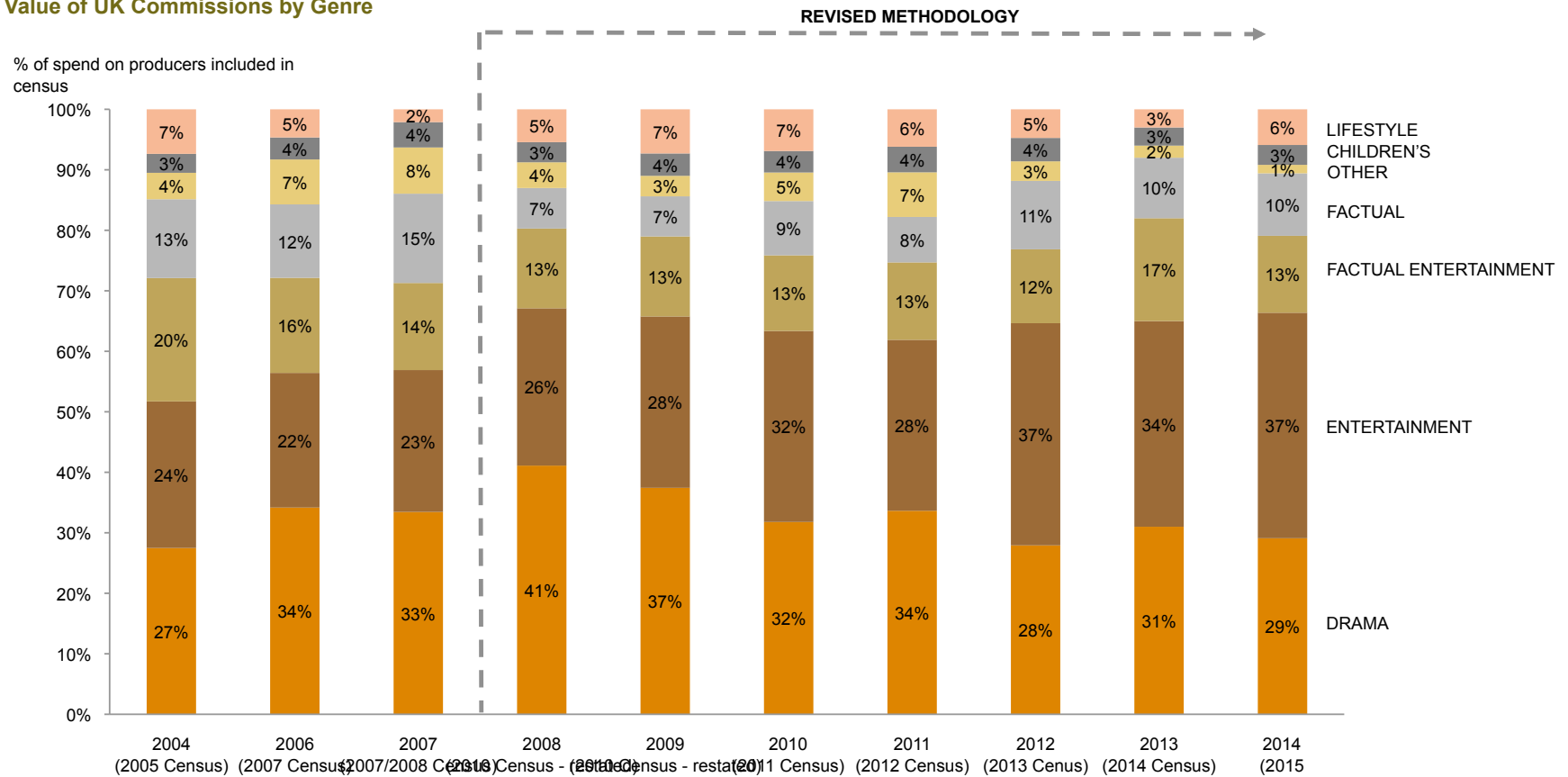
UK commissioning trends

Investment in children's content remains low



There has been an increased focus on entertainment programming and away from other genres for a number of years. Investment in children's programming remains low despite the tax credit for animation being in its second year

Value of UK Commissions by Genre



Source: Oliver & Ohlbaum Analysis, Pact census

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International and rights revenues

Summary



UK secondary rights income recovered in the last year, while international revenues experienced a small decline

International commissioning revenues experienced their first decline since 2007, falling from £640m in 2013 to £599m in 2014.

International rights income and non-TV revenues were both down slightly on 2013 at £93m (from £104m) and £17m (from 29m) respectively.

International sales of UK finished programmes showed strong growth at 15% year on year, growing from £156m to £180m.

Total rights income derived from UK content returned to growth with a 20% increase on 2013 reaching £364m (£303m in 2013). There were increases among most categories including distribution advances, UK secondary sales and repeat use of programming.

Total revenue from international activities declined 5% in 2014

- Total decline in international revenue is partly explained by a change in our sample from 2013. Although even when taking this change into account there was a small decline.
- Primary international commissions (including subsidiary revenues) fell by 6% to £599m in 2014. Other international rights income fell by 10% (at £93m in 2014).

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

- Sale of UK finished programmes to international broadcasters has shown continued growth since 2008. There was strong growth in 2014 with revenues increasing by 15% year on year.

UK content rights revenue returned to growth in 2014 from £303m in 2013 to £364m

- After last year's fall in income from rights-related revenue streams, this year revenues returned to their pre 2013 growth path
- There were increases among most categories including secondary UK sales and repeat use of programming
- International sales of UK finished programmes continue to form the largest part of the revenue mix

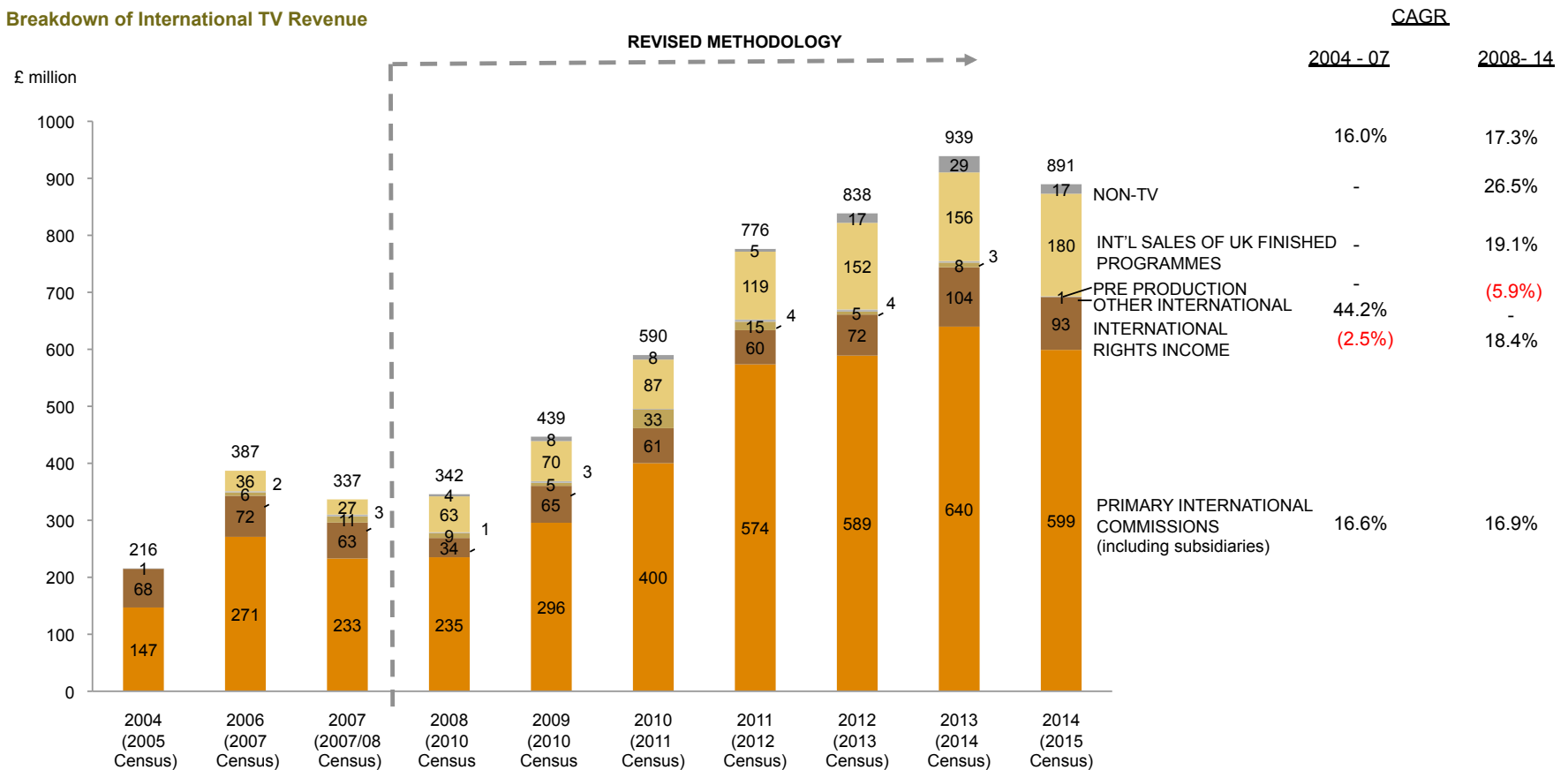
International and rights revenues

International revenues declined for the first time since 2006



Diversification across multiple national markets continues to be an important source of revenue for the UK independent sector, although total revenues were down for the first time in almost a decade mainly due to lower commissioning spend

Breakdown of International TV Revenue



Source: Oliver & Ohlbaum analysis, Pact census

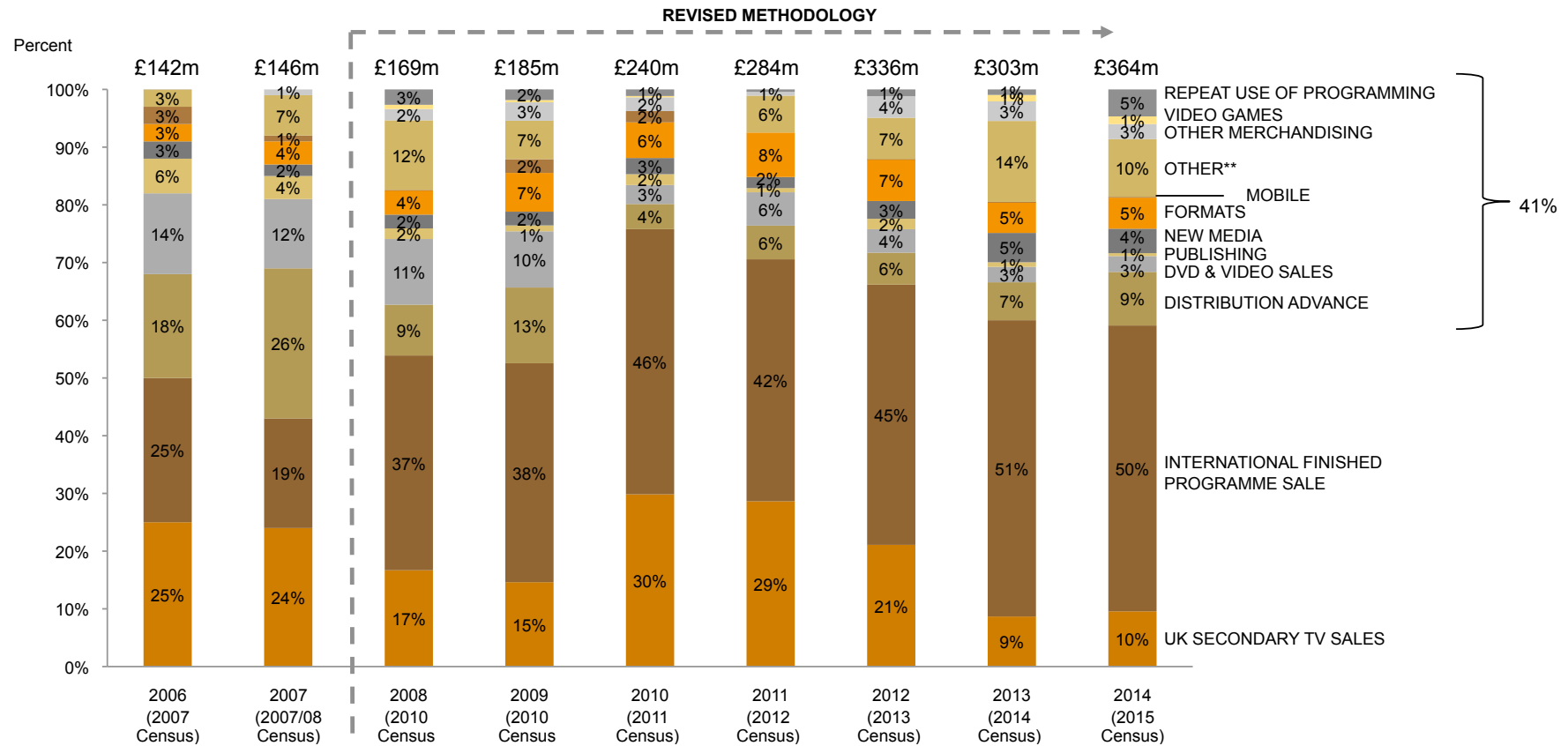
International and rights revenues

Rights income bounces back



Rights income increased in 2014. There has been some recovery in UK secondary TV rights and international finished programme sales showed continued growth

Revenues from UK content rights by category between 2007 Census and 2015 Census*



*This section refers to the following combined figures as detailed on slide 8 – ‘UK rights income’ and ‘Int’l sales of UK finished programmes sales’ ** ‘Other’ includes advertising, PRTS, and other activities such as music publishing, live events, gambling, product integration and ancillary & digital rights
 Source: Oliver & Ohlbaum analysis, Pact census

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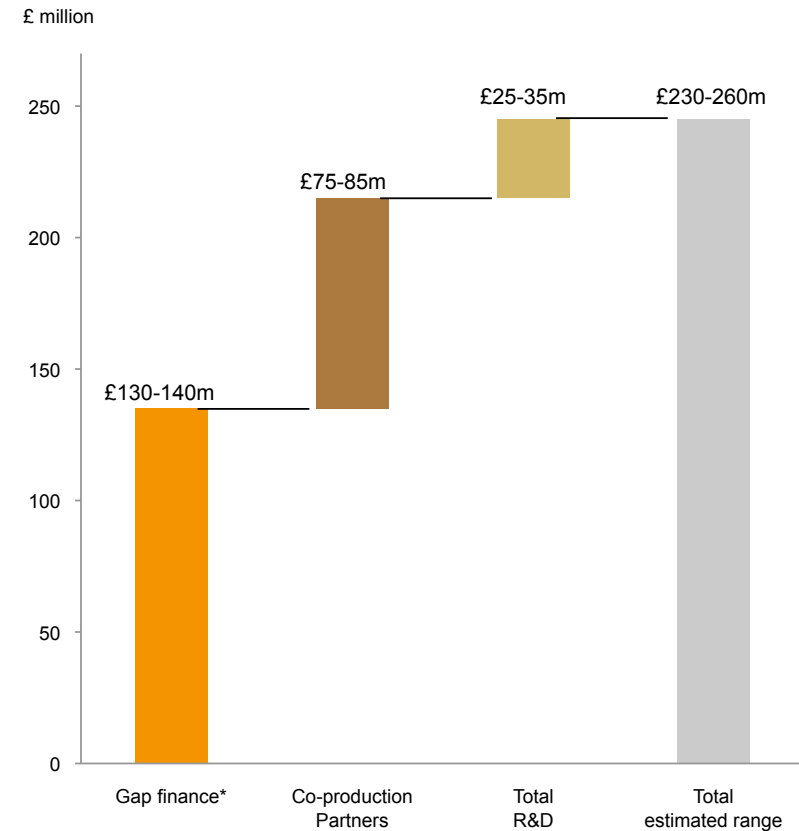
Sources of additional finance

Reported investment in production finance shows a year on year increase

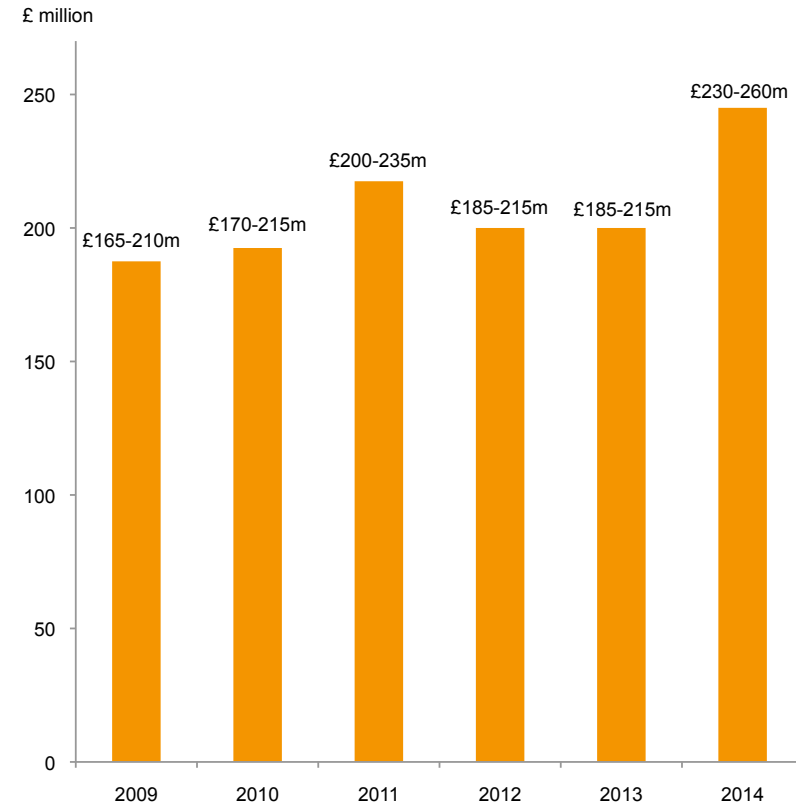


There was a significant increase in indies' estimated contribution to production finance. This is mainly driven by a reported increase in gap financing whereas co-production and R&D contribution have remained largely stable year on year

Estimated value of contribution to productions, 2014



Estimated value of contribution to productions, 2009-2014



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

Source: Oliver & Ohlbaum analysis, Pact census and estimates