



Oliver & Ohlbaum

UK Television Production Survey

Financial Census 2019

September 2019

A report by Oliver & Ohlbaum Associates for Pact

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

Total sector revenues grew to over £3 billion for the first time

Total UK television production sector revenues have continued to rise, reaching a new high in 2018, driven largely through increases in primary commissions revenue from overseas

Total revenues within the UK television production sector grew in 2018 to over £3 billion (£3,004 million), their highest level to date. Sector growth has continued at around 3% per year since 2012.

As in recent years, international commissions continued to help drive growth in the sector. This has largely been supported by growing spend from international SVOD services, such as Netflix and Amazon Prime, with spend having nearly doubled since last year.

Domestic TV revenues also rose, growing by 3% to just under £1.9 billion in 2018.

The composition of the UK production sector remained largely the same as in previous years. There has been a small rise in the share of the largest producers (those with over £70 million turnover) in 2018, as well as in the mid range (those with a turnover between £25-70 million), mainly due to the organic growth of producers across the market causing smaller companies to move upwards into new turnover bands.

Total revenues continued to grow steadily

Sector revenues grew to over £3 billion in 2018, up over 40% since 2008

International revenues reached a new high

Revenues reached £962 million in 2018, an increase of over 90% since 2013

UK TV income grew by 3% in 2018

Domestic revenues reached just under £1.9 billion in 2018

Income from SVOD commissioning increased

Grew by 88% since 2017 to £280 million, accounting for 40% of all 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 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, 74 completed responses were received. These companies represent around 74% 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 2017 and 2018.

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

- A clarification of secondary rights sales to on-demand services

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 grew to over £3 billion in 2018
- Domestic TV revenues reached £1.88 billion, supported largely by increasing primary commissions
- As with last year, producers across the market have, in general, continued to grow organically

3. UK commissioning trends

4. International and rights revenues

Revenue growth – Summary

Continued strong growth from international revenues has been supported by rising UK revenues to help the sector break £3 billion in 2018

Total sector revenues grew by 10% in 2018, to a new high of just over £3 billion.

Reported domestic TV revenues continued to rise year-on-year in 2018, primarily driven by a growth in commissioning income.

Ever-increasing international TV revenues continued to drive significant growth in total sector revenues, largely from rising primary commissions from overseas broadcasters and digital players.

UK production sector revenues grew in 2018 to their highest ever level

- Total sector revenues increased from £2.7 billion in 2017 to over £3 billion in 2018

Domestic TV revenues increased year-on-year

- UK TV revenues increased to just under £1.9 billion in 2018, driven mainly by rising primary commissioning income from the multichannels

Growing international income driven by increasing primary commissions

- International primary commissions revenue has risen by 19% year-on-year since 2013, to £704 million in 2018

New Media activities remained core to non-TV income in 2018

- Total non-TV income rose to £159 million
- New Media activities remain the most significant source of non-TV income for UK producers, at £88 million in 2018

Key Trends – Revenue growth

Total UK production sector revenues rose to just over £3 billion in 2018, up by over 40% since 2008.

Total revenues have grown over £500 million, at a rate of 3.1% per year since 2012.

International revenues continued to grow in 2018, up to £962 million, up over 90% in the past five years. This was primarily driven by an increase in primary commissions revenues of £155 million since 2017.

Domestic TV revenues grew by 3% in 2018, to just under £1.9 billion.

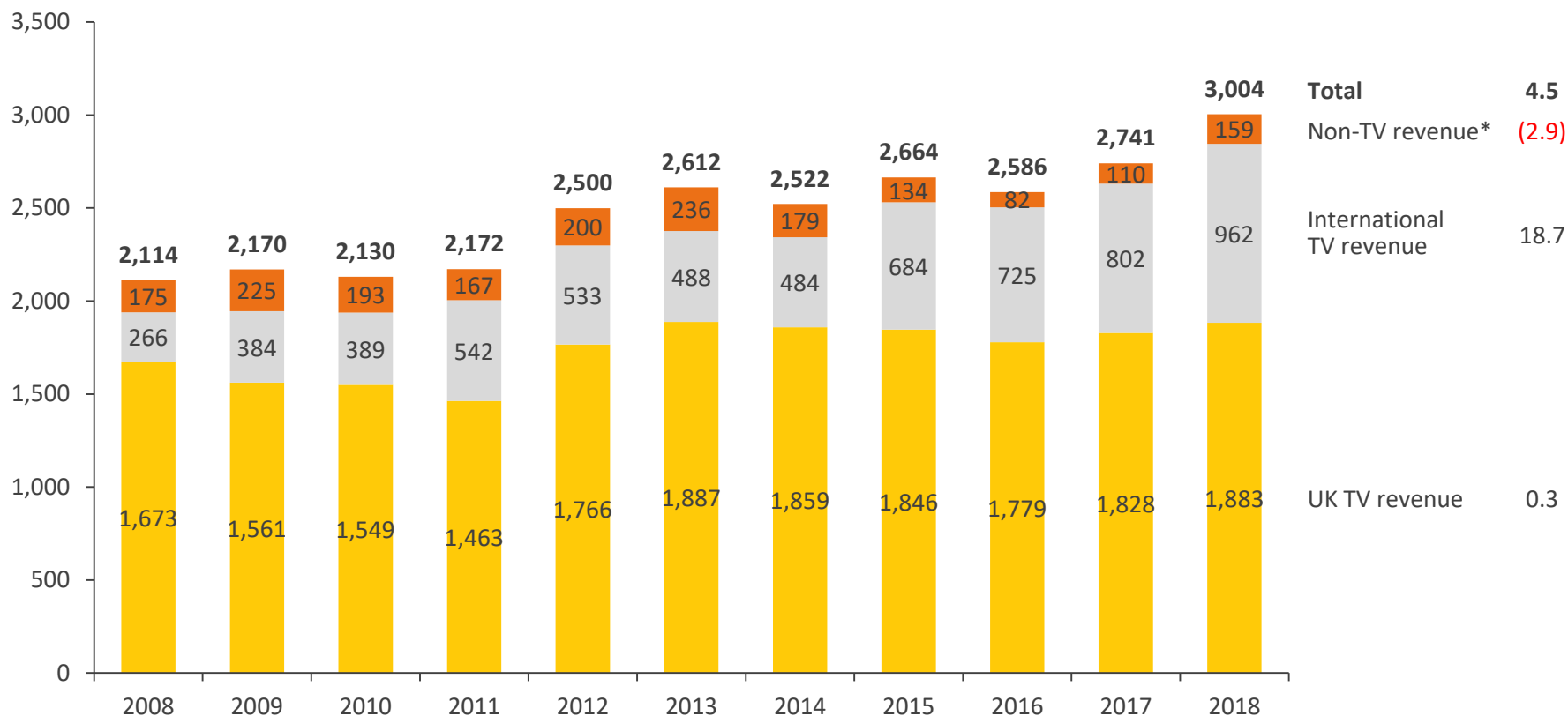
Continued organic growth of producers of all sizes across the market has, in general, led to a small increase in the prevalence of mid-large producers in the market.

Total production sector revenues grew to over £3 billion in 2018

Industry revenues continued climbing to a new high in 2018, at just over £3 billion. International TV revenues continue to drive strong growth while UK revenues also experienced an uplift

Total producer revenues, 2008 – 2018

£millions

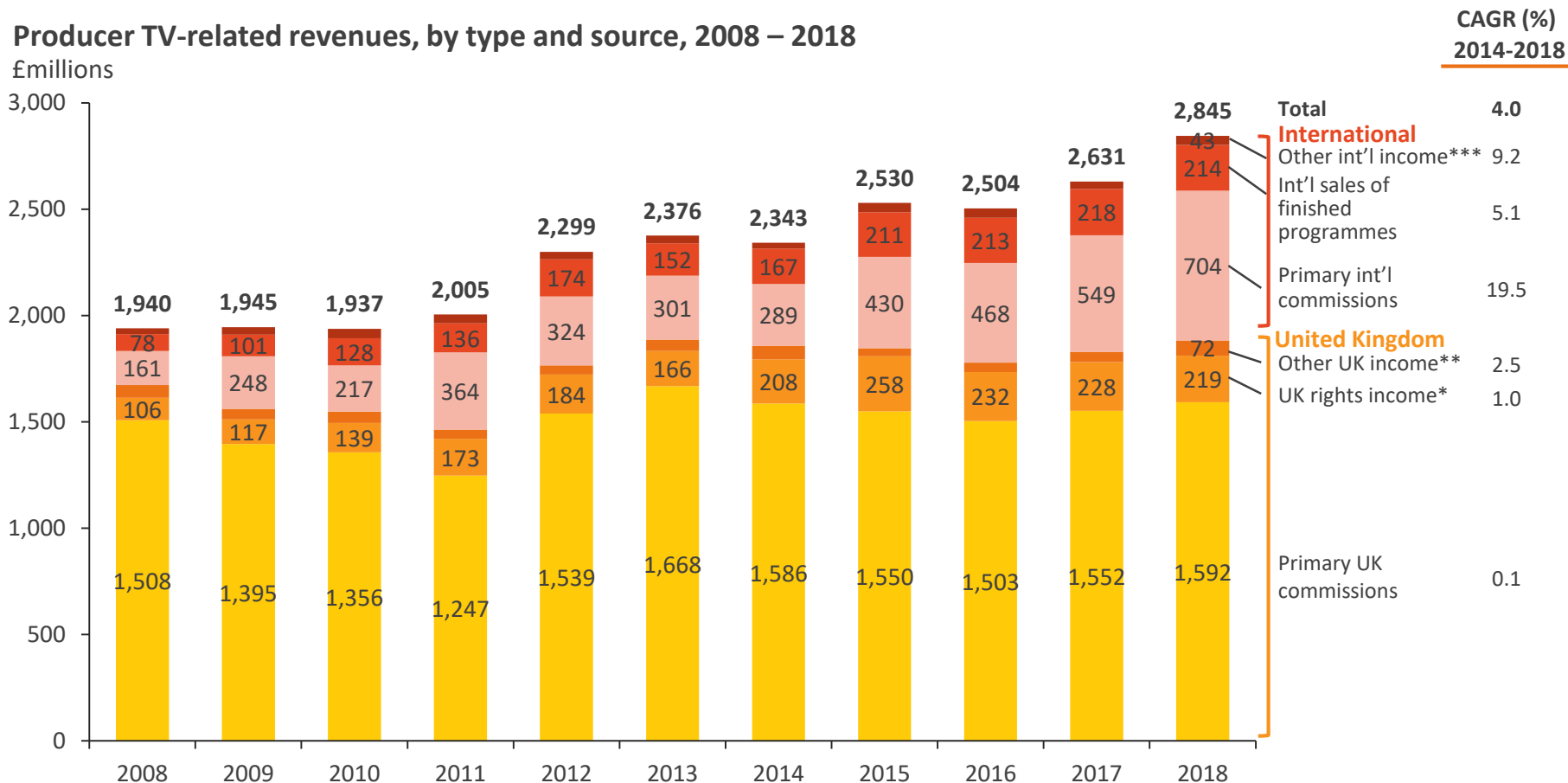


Note: *Non-TV revenue includes corporate production, new media and other non-TV activities such as online publishing, talent management, promotions, public relations and feature films, ** CAGR = Compound Annual Growth Rate, the average growth rate per year over a time period

Source: Pact UK Television Production Census 2019, Oliver & Ohlbaum analysis

International commissioning revenue remains the main driver of growth

Primary rights revenue from international commissioners continues to grow, up nearly 30% on 2017, reaching over £700 million in 2018. UK primary commissions have grown for the second consecutive year, up to nearly £1.6 billion



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 2019, Oliver & Ohlbaum analysis

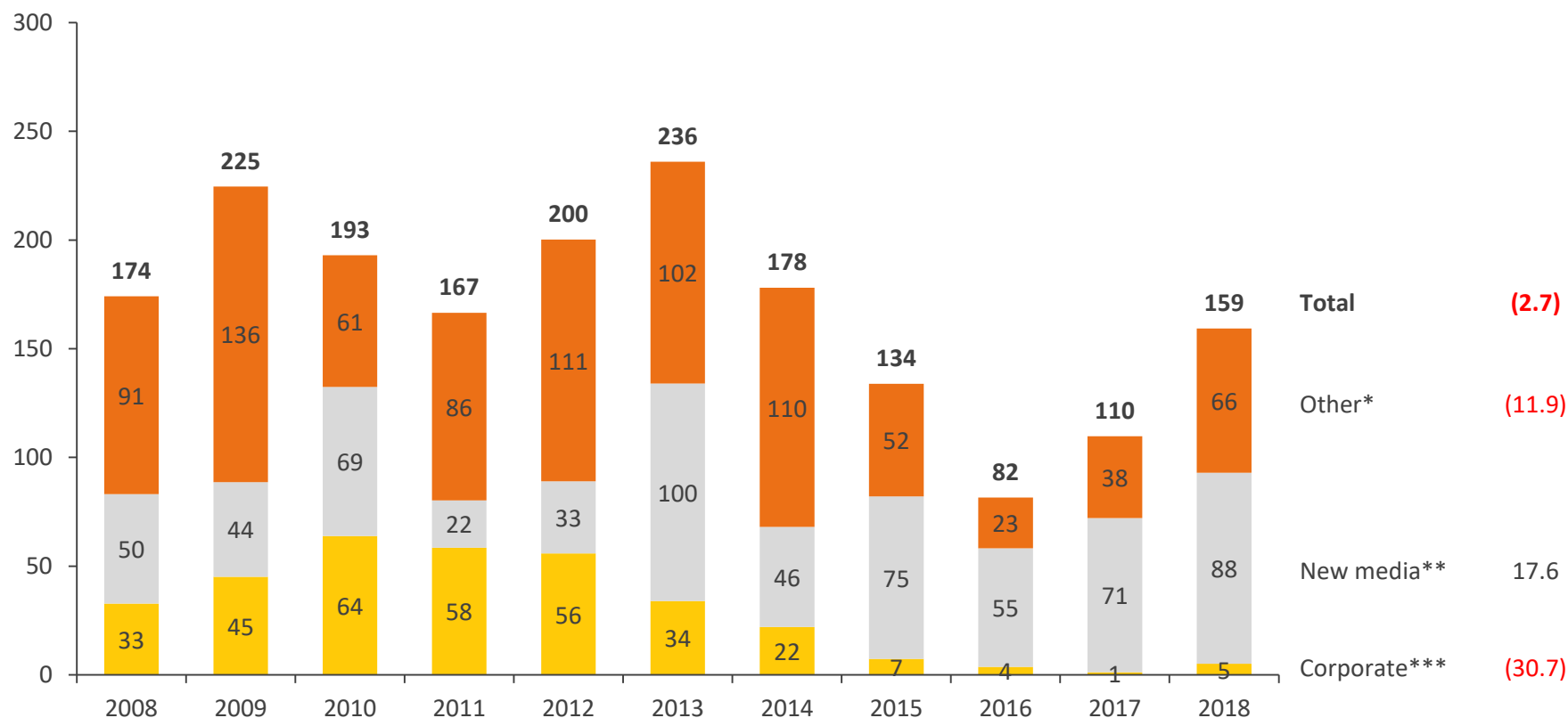
New Media remains the largest source of additional revenue for producers

Non-TV revenues increased in 2018, driven by a 77% uplift in Other* revenues. However, New Media** activities remain the most significant, accounting for nearly £90 million in revenue

Producer non-TV revenues, by type, 2008 – 2018

£millions

CAGR (%)
2014-2018



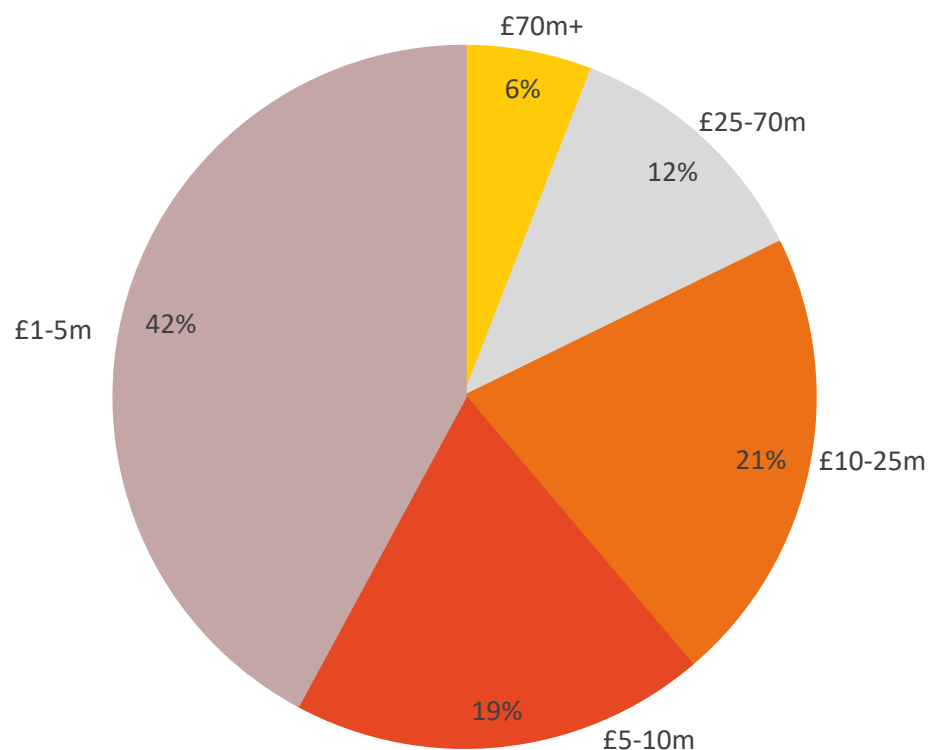
Note: *'Other' includes online publishing, talent management, promotions, public relations & feature films. **'New Media' includes websites, apps, social media & games. ***'Corporate' includes B2B, promotional & educational material and similar not produced for public television

Source: Pact UK Television Production Census 2019, Oliver & Ohlbaum analysis

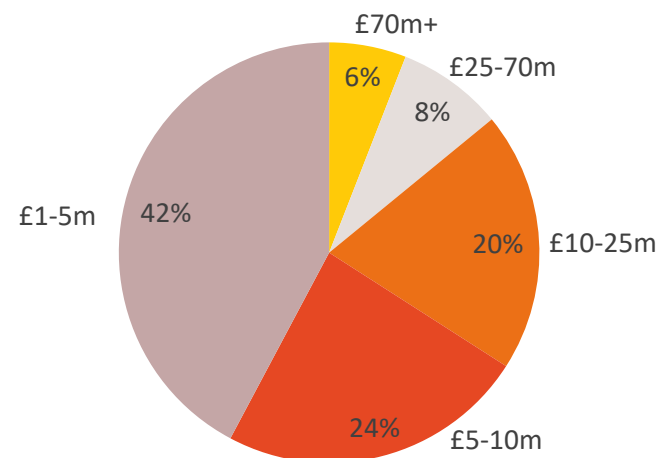
The UK independent production sector remains varied

The production sector continued to grow during 2018, resulting in some new additions to the mid-large turnover brackets. The sector remained diverse, with a large number of smaller producers

Distribution of the number of independent production companies, by turnover bracket, 2018



Distribution, 2017



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

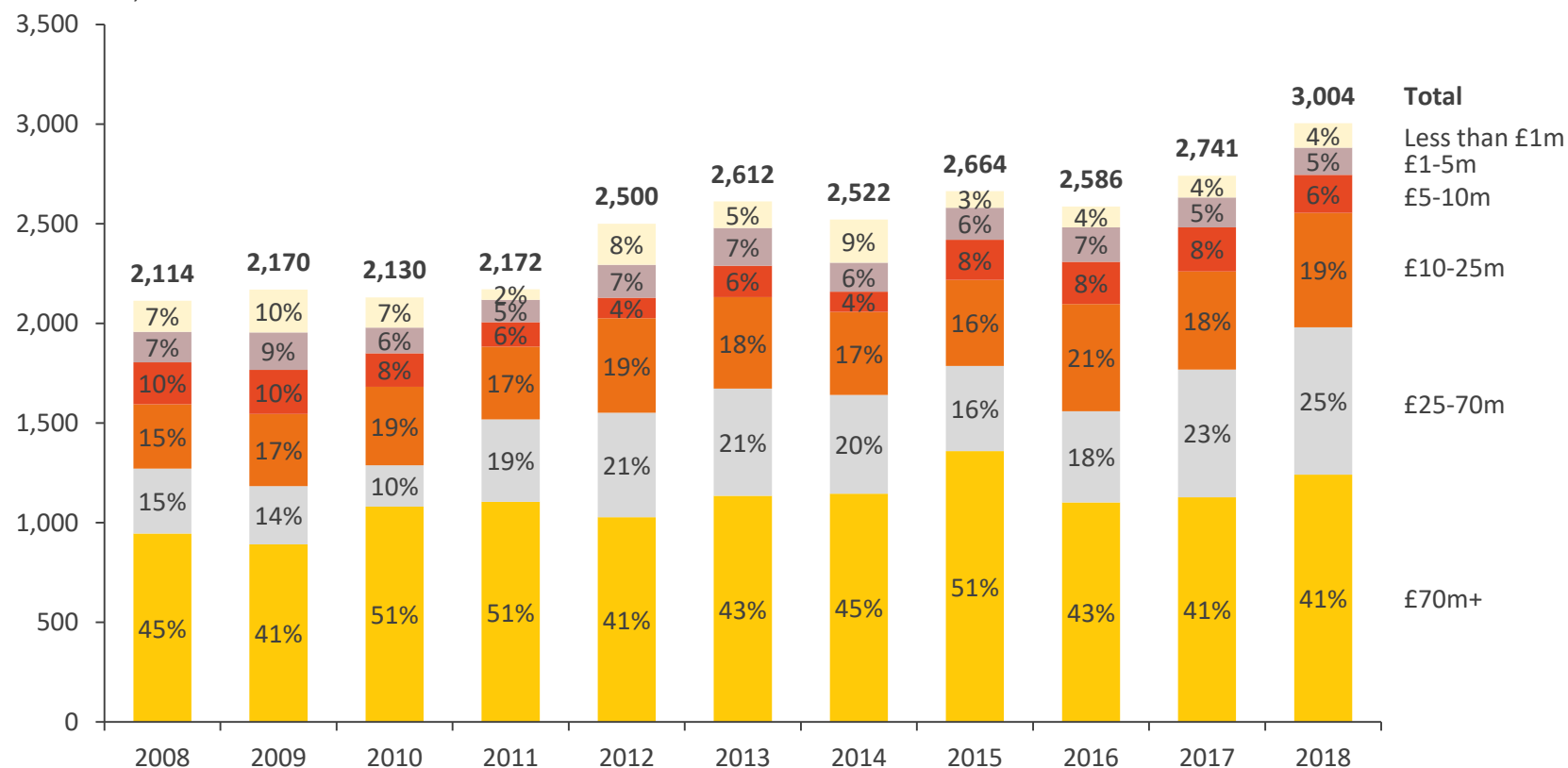
Source: Broadcast, Pact UK Television Production Census 2019, Oliver & Ohlbaum analysis

Smaller companies continue to grow in size alongside industry revenues

Increasing total sector revenues have impacted on producers of all sizes. As with last year, growth in smaller producers has seen the £25-70 million bracket widen further as companies have moved upwards into this range

Share of total producer revenues, by turnover bracket, 2008 – 2018

£millions, %



1. Summary

2. Revenue growth

3. UK commissioning trends

- Total UK commissioning revenue continued to grow in 2018, supported by increasing multichannel spend
- The BBC continues to focus more of its external spend on smaller producers than the other PSBs
- Drama's share of commissioning spend grew significantly in 2018

4. International and rights revenues

UK commissioning trends – Summary

Income from UK commissions increased to £1,592 million in 2018, the highest level in five years

In 2018, revenue from UK commissions continued to grow, rising by £40 million from 2017 to just under £1.6 billion.

The BBC continued to commission a lower share from the biggest producers, while along with ITV, commissioned a higher share on new IP compared to the other PSBs in 2018.

Growth in drama spend increased significantly, while entertainment retained the second highest share of commissioning spend.

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

- Commissioning revenue grew again in 2018, by £40 million to the highest reported industry total since 2013

Multichannel commissioning grew to over £320 million in 2018

- Growing multichannel spend, up £62 million from 2017, has compensated for shrinking PSB spending

Share of spending on new commissions continued to rise in 2018

- The BBC continues to have the largest share among the PSBs, with the gap increasing further in 2018

Drama's share of spending rose to over one-third in 2018

- After a long term decline, share of spending on drama content has continued to rise since 2016
- It is now over one-third of all external UK commissions, the highest since 2009

Key Trends – UK commissioning trends

UK commissioning revenues have continued to grow over the last three years, reaching just under £1.6 billion in 2018.

Commissioning spend from multichannels continues to grow, having more than doubled since 2008, and up £62 million from 2017.

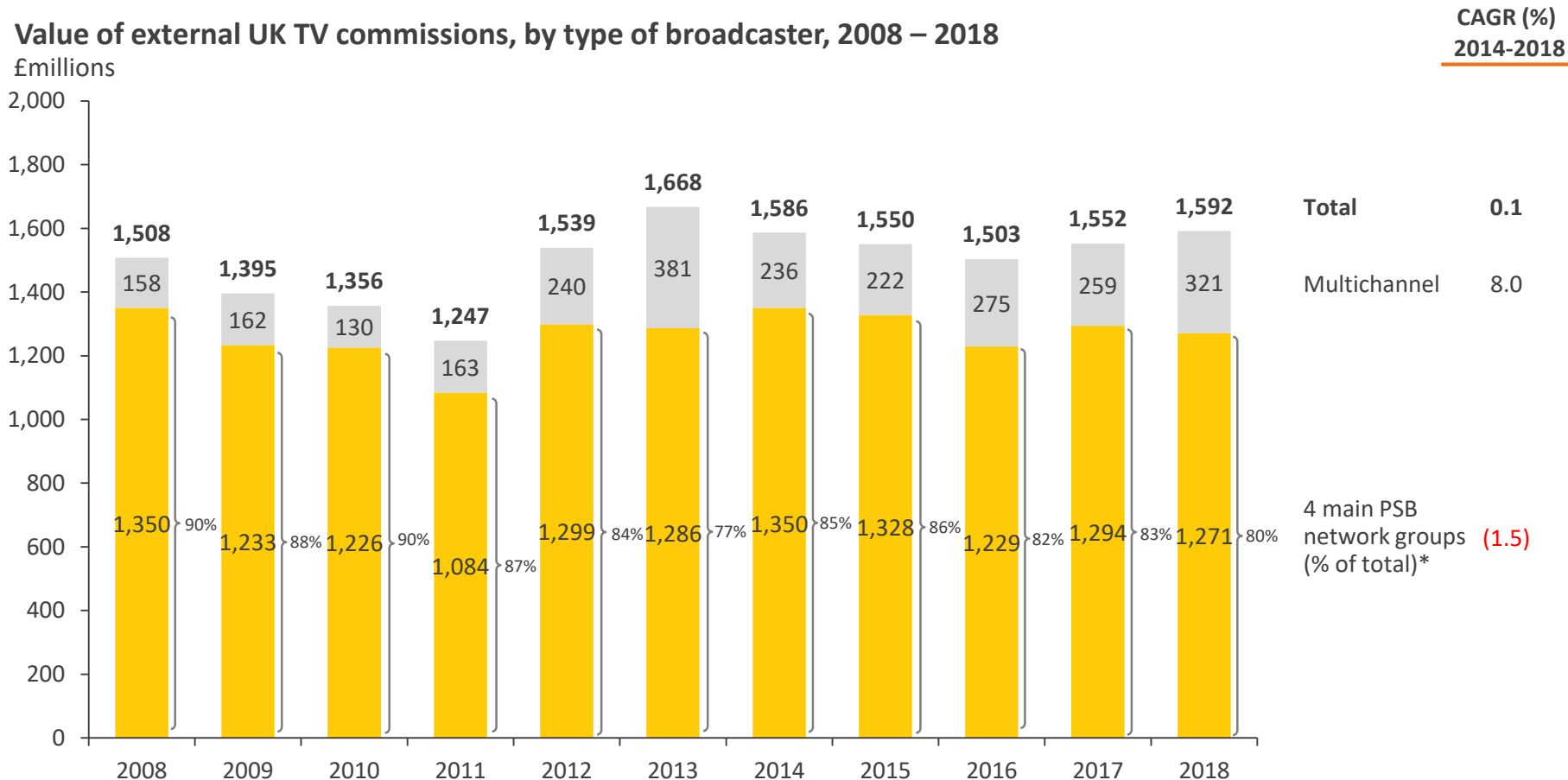
Over the past decade, the UK PSB networks have consistently accounted for more than 80% of all UK external primary commissions spend.

Following a decade of decline, drama's share of total commissioning spend has risen significantly over the past two years.

Factual entertainment and entertainment remain the next largest genres, accounting for nearly 50% of all external commissioning spend in the UK.

UK primary commissioning revenues reached nearly £1.6 billion in 2018

The spend of UK multichannels increased significantly, reaching over £300 million in 2018, compensating for the slight decline in PSB spend of £23 million since 2017



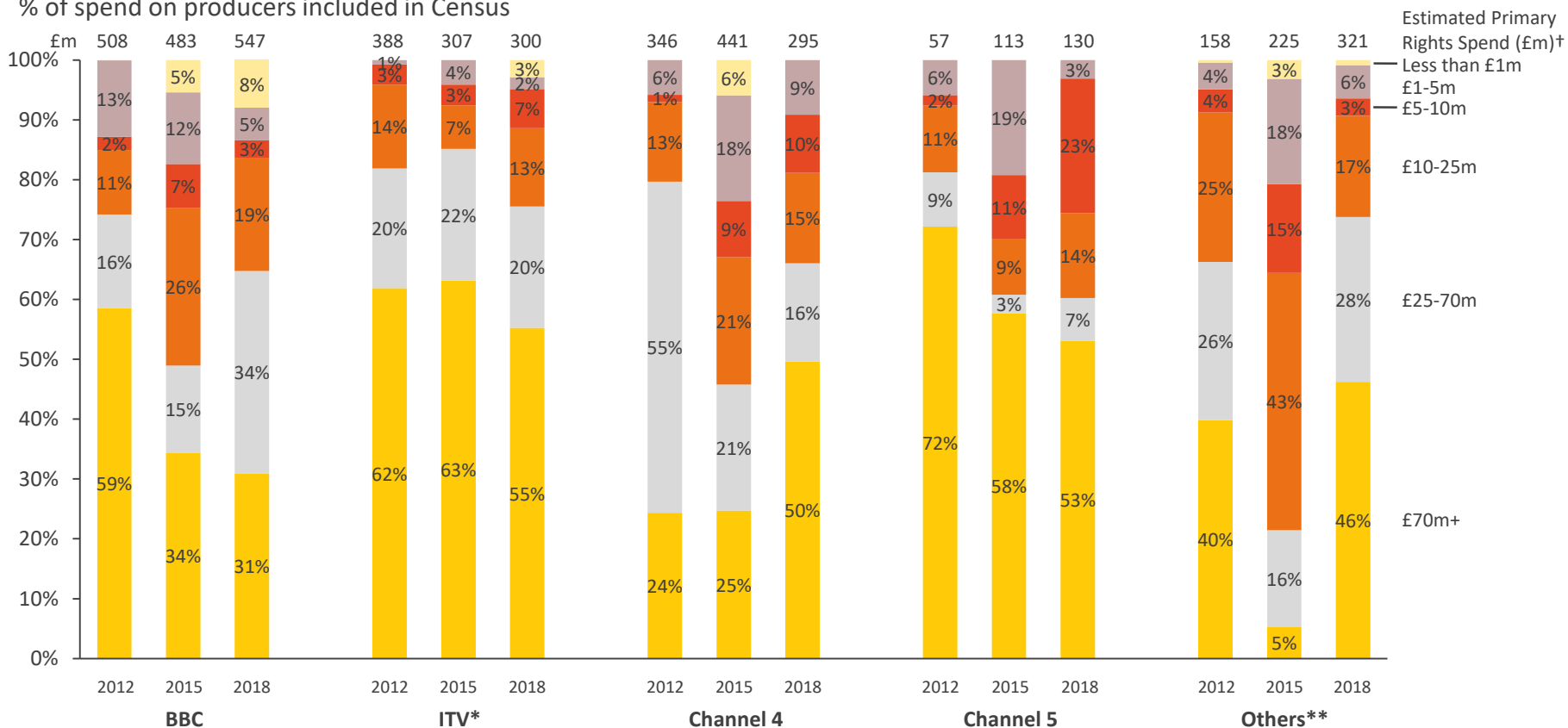
Note: *Includes the main and spin-off channels for the BBC, ITV, Channel 4 and Channel 5 network groups
 Source: Pact UK Television Production Census 2019, Oliver & Ohlbaum analysis

UK commissioning continues to support both small and large producers

The BBC continues to commission a greater proportion from smaller producers, compared with the other PSBs

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

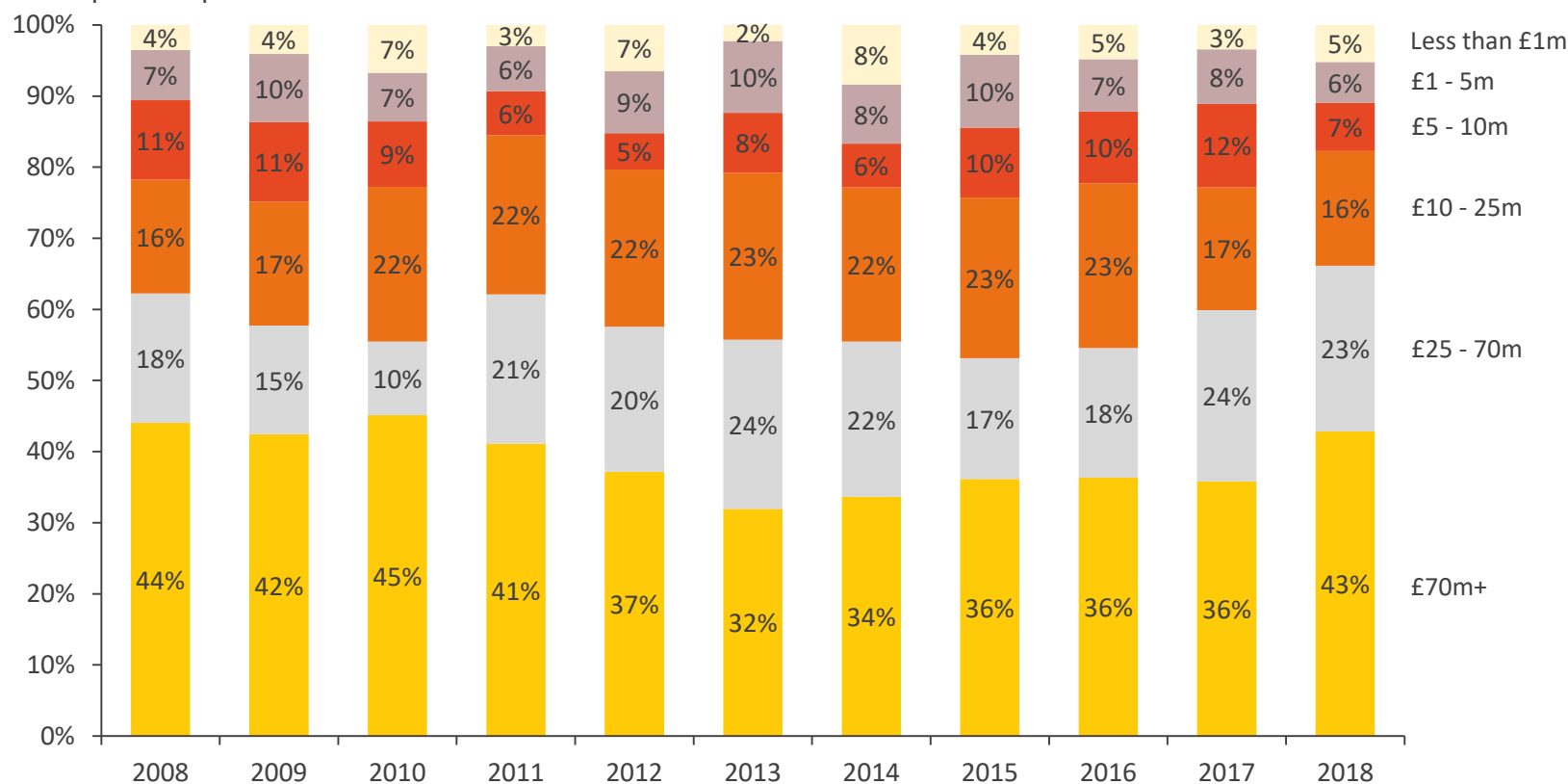
Source: Pact UK Television Production Census 2019, Oliver & Ohlbaum analysis

Smaller producers' share of commissioning spend decreased in 2018

Increasing growth, experienced by medium to large producers has driven an upturn in the commissioning spend share of producers in the £70m+ turnover band

Share of total spend on external UK produced primary commissions, by turnover band of producer, 2008 – 2018

% 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

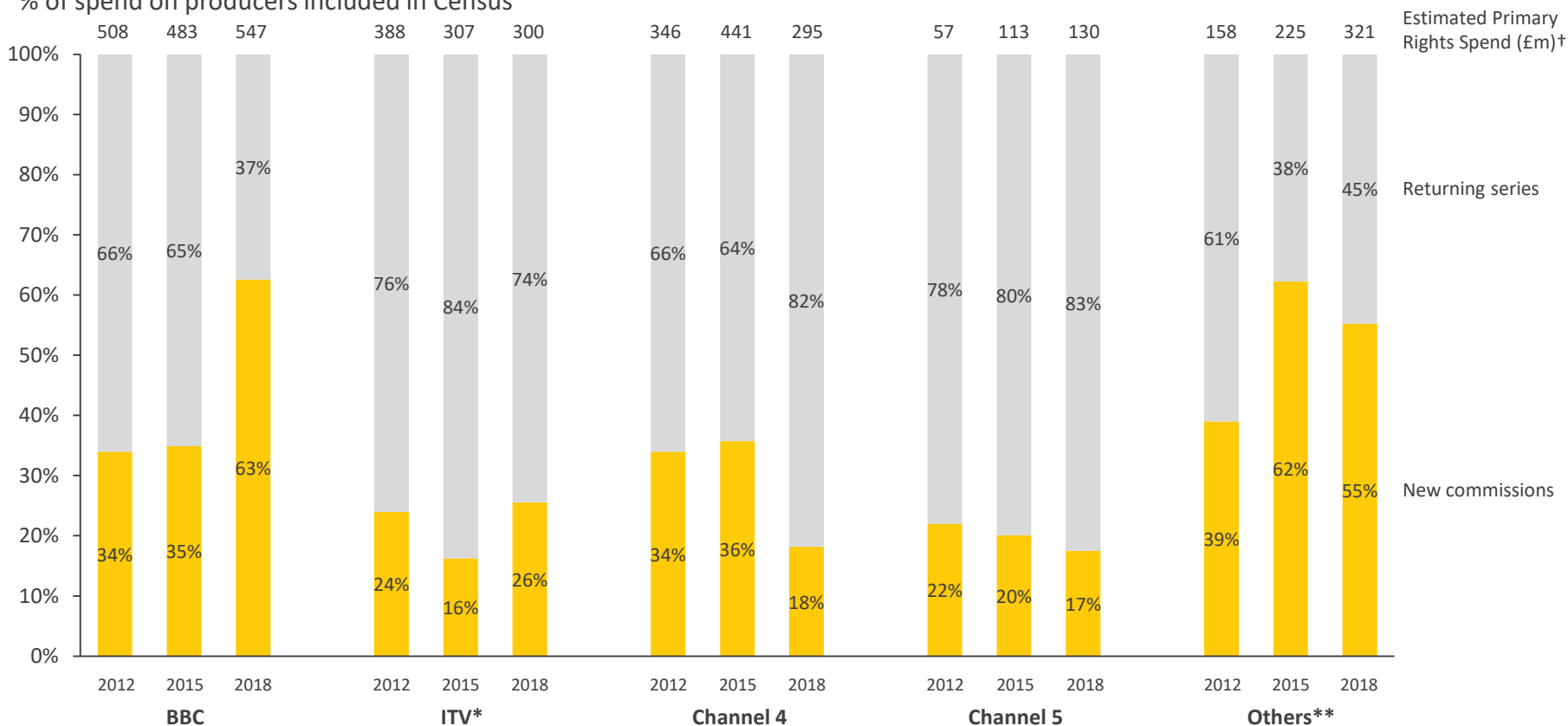
Source: Pact UK Television Production Census 2019, Oliver & Ohlbaum analysis

New IP accounts for over 40% of total UK commissioning spend

Spend on new commissions continues to grow in the UK, especially within Multichannel groups and the BBC. The BBC and ITV were the highest individual spenders on new IP in 2018

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

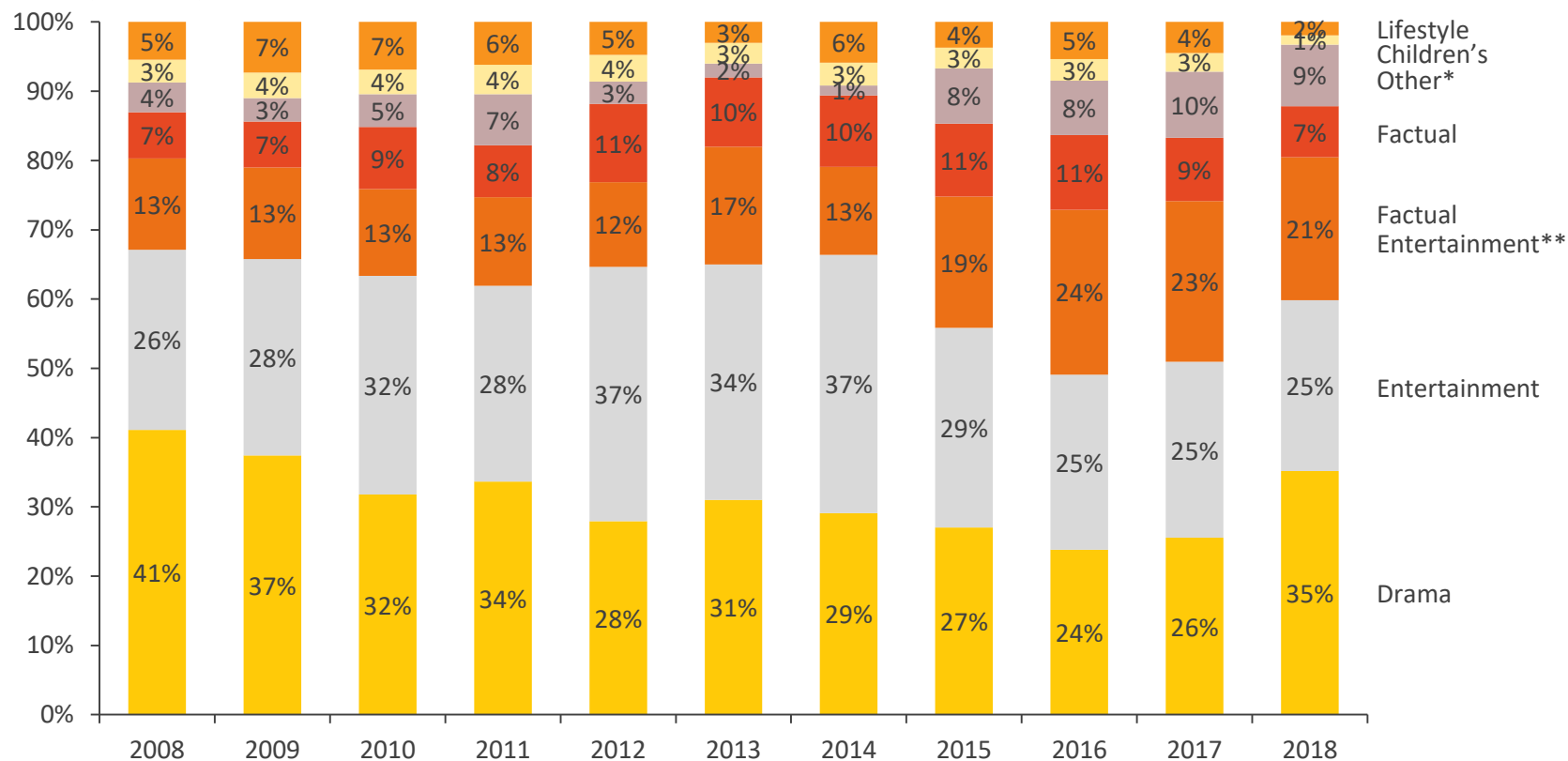
Source: Pact UK Television Production Census 2019, Oliver & Ohlbaum analysis

Drama commissioning spend grew significantly from 2017

In 2018, the market saw a shift in spending back to drama content, continuing the uplift experienced in 2017

Value of external UK commissions by genre, 2008 – 2018

% 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 2019, Oliver & Ohlbaum analysis

1. Summary

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4. International and rights revenues

- Total international TV revenues surpassed £900 million in 2018, driven by growing primary commissions
- Revenues from global on-demand services accounted for 40% of total overseas commissions revenue
- Sales of finished programming remained the largest revenue stream within TV content rights for UK producers

International and rights revenues – Summary

International commissions, particularly from digital players, remains a key growth area for the UK production sector

Total reported international revenues continued to rise, growing by 20% in 2018, to £962 million, an increase of over 90% in the last five years.

Rising international revenues continued to be driven mainly by increasing international commissions, and most significantly digital-specific commissions from on-demand services such as Netflix and Amazon Prime.

International sales of finished programmes remained a lucrative revenue stream for UK indies, despite a slight decrease since 2017.

International commissions revenues grew by 28% in 2018, to over £700 million

- Primary international commissions, which grew from £549 million in 2017 to £704 million in 2018, remained the most prominent area of growth in the UK production sector
- Revenue generated by commissions from standalone on-demand services rose to £280 million, accounting for 40% of international commissions income

The scale and mix of content rights revenues remained relatively consistent

- Total content rights revenue dipped slightly in 2018 to £476 million
- Sales of finished programming in the UK and overseas remain the most significant revenue stream within content rights

Key Trends – International and rights revenues

International revenue remains a significant revenue stream for UK producers, helping drive growth in the sector, up 15% per year since 2013.

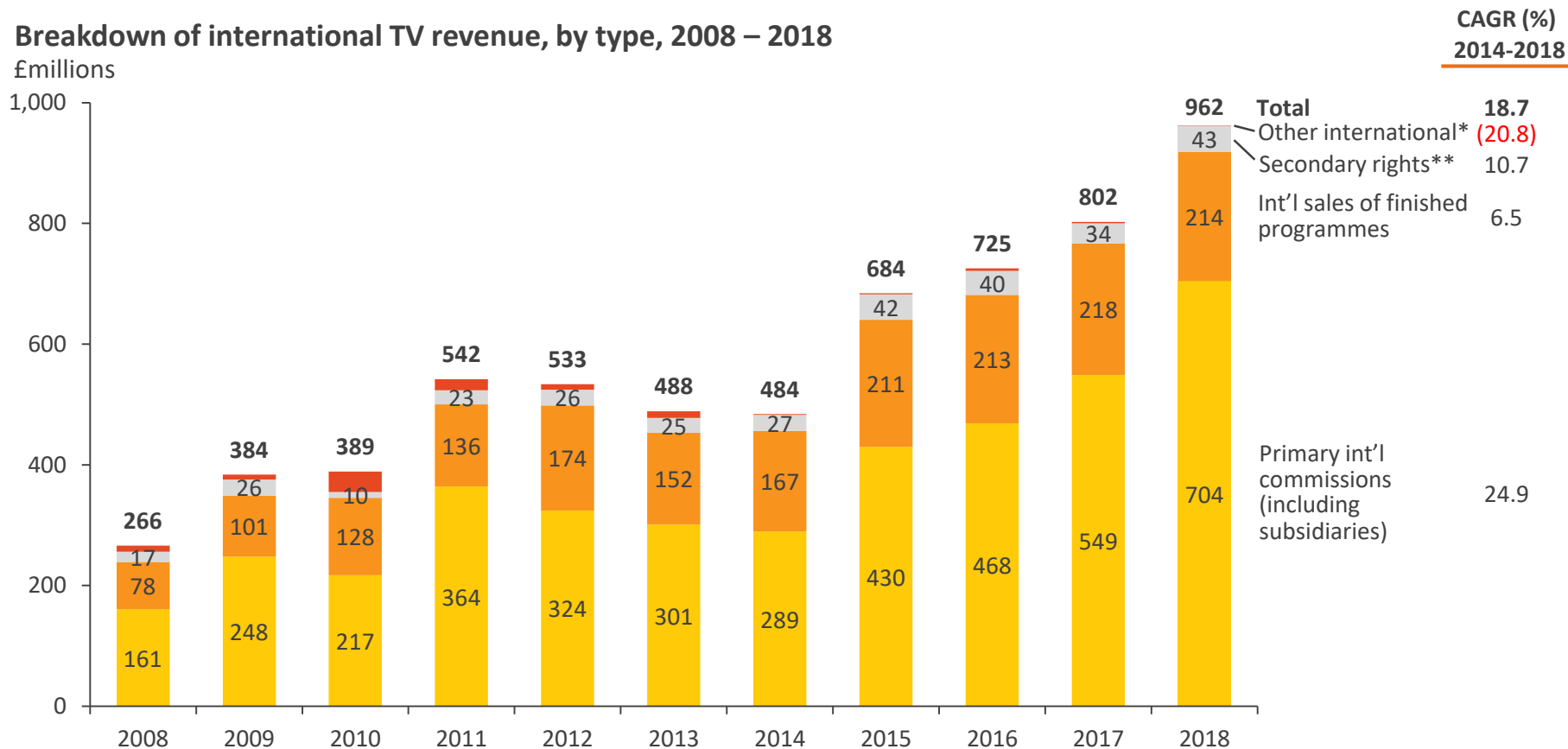
Primary commission revenues remain the core growth area, having risen 19% year-on-year since 2013.

This has largely been driven by the increasing presence of on-demand services, which now account for 14% of total domestic and international primary commissioning income.

Revenue from international sales of finished programming declined slightly from 2017 to 2018, yet still accounts for over 20% of all international revenues earned by UK production companies.

International revenues continued to grow in 2018

Growth continues to be driven primarily by international commissions, and in particular digital commissions



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

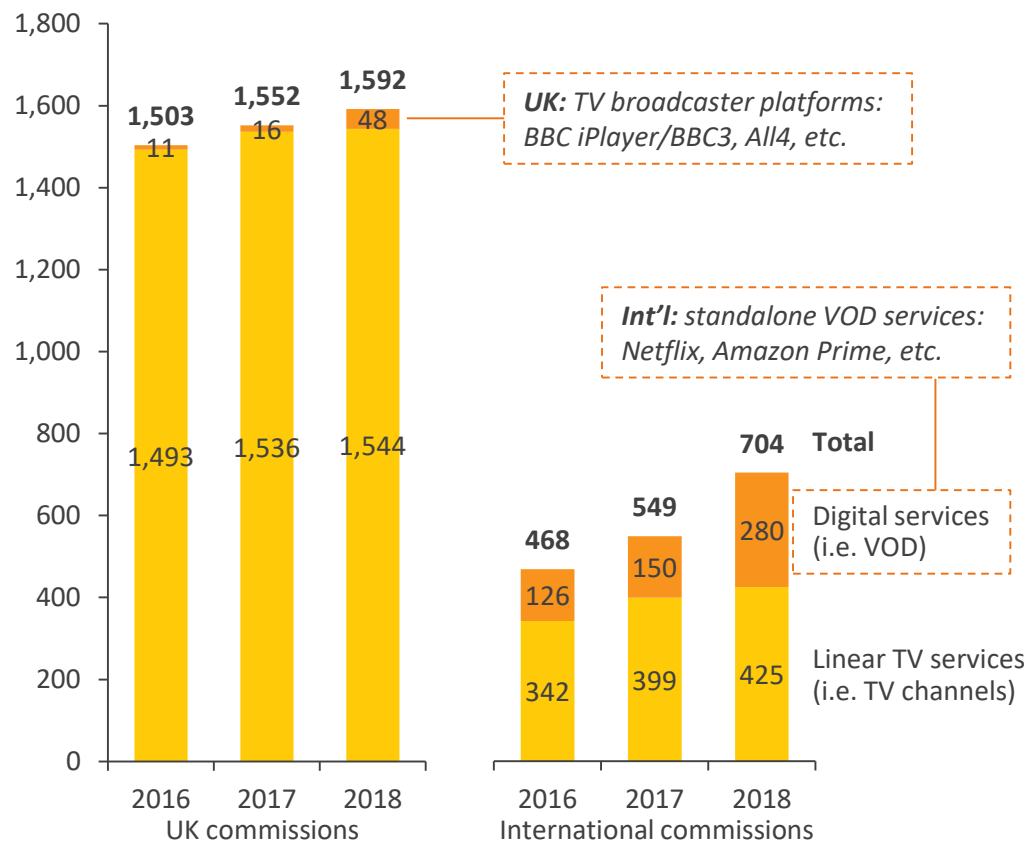
Source: Pact UK Television Production Census 2019, Oliver & Ohlbaum analysis

Commissioning revenue from on-demand services grew to £328m in 2018

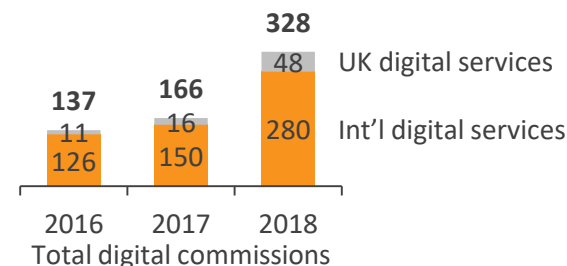
Commissions from global digital services (such as Netflix and Amazon Prime) accounted for £280 million of international primary rights revenue, a significant increase from £150 million in 2017

Primary TV rights revenue, by type, 2016 – 2018

£millions



- Commissioning revenue from programmes made for UK on-demand services (such as iPlayer, including BBC Three, or All4) grew nearly 200% to £48 million in 2018 but still only represented around 3% of total UK commissioning income
- Revenue from overseas on-demand services rose by 87% from 2017 to £280 million and accounted for 40% of total international primary commissioning revenue. As in 2017, Netflix remained the main contributor in this category
- Total revenues from digital services, both domestic & international, amounted to £328 million in 2018:



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

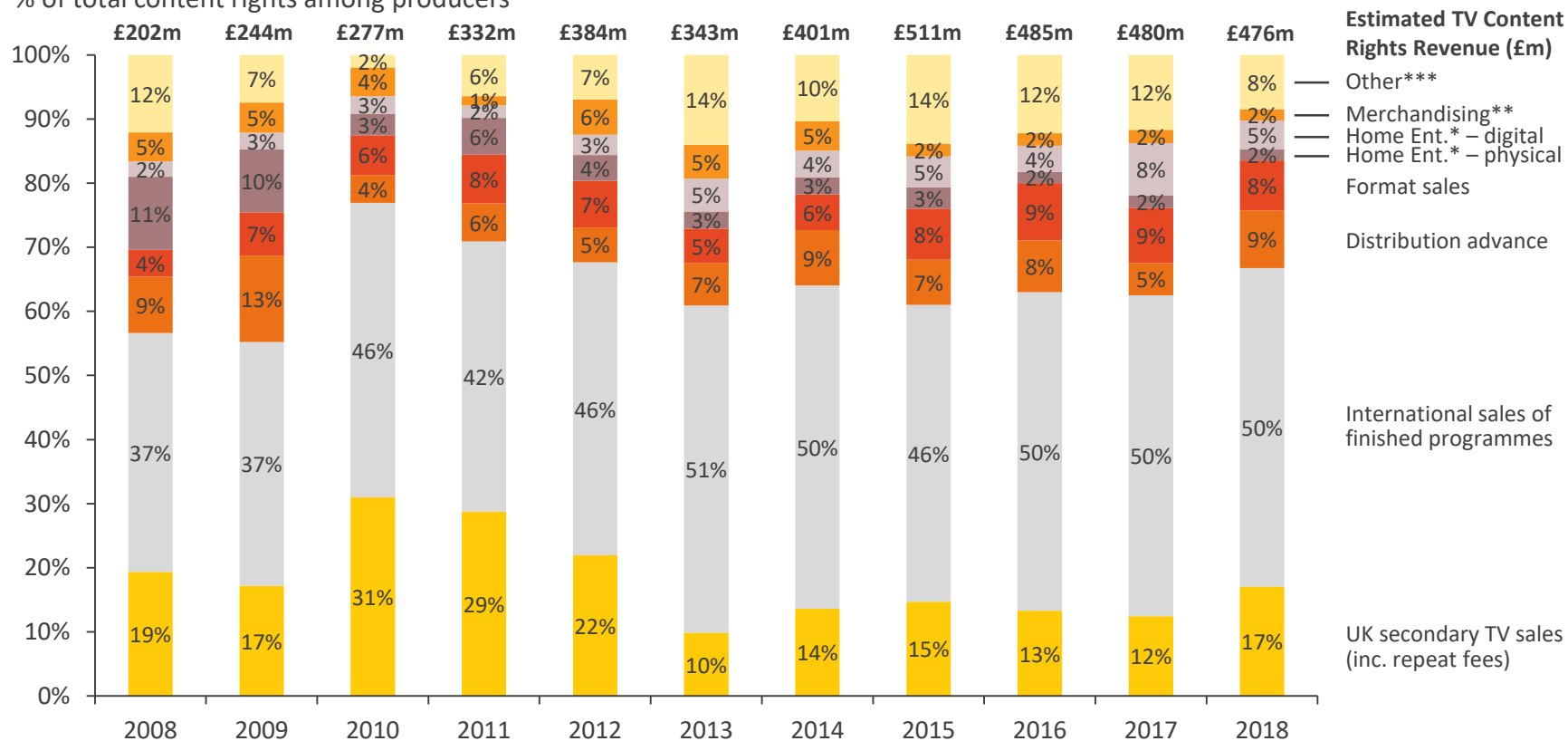
Source: Pact UK Television Production Census 2019, Oliver & Ohlbaum analysis

International programme sales remain key to secondary rights revenues

UK producers continue to generate over £400 million in revenues from a wide variety of secondary activities, including a continuation of strong performance from finished programme sales

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 2019, Oliver & Ohlbaum analysis

Oliver & Ohlbaum



www.oando.co.uk



@OliverOhlbaum



346 Kensington High Street, London, W14 8NS



+44 (0)20 7313 5900

