



Independent Production Sector Financial Census and Survey 2011

August 2011

A report by Oliver & Ohlbaum Associates Ltd for PACT

Contents



Trends

Section 1: Summary

Section 2: Revenue growth and profitability

Section 3: UK commissioning trends

Section 4: International and rights revenues

Section 5: Sources of additional finance

Summary

Headlines from the 2011 census



Trends

The UK independent production sector returned to growth in 2010, with international and rights income driving a recovery in revenues following the recession

Overall revenue to the UK independent production sector returned to growth in 2010. Though primary UK commissions to the independent sector remained broadly flat, growth in revenues from overseas activity and UK rights income enabled overall sector growth to £2.3bn.

Growth in international revenues has been partly due to further acquisition activity starting to be reflected in company accounts in 2010. This is reflected mainly in the 'other international income' category where primary international commissions received by UK indies and their subsidiaries grew to £495m (from £369m the previous year).

At £590m, international revenues grew by 34% in 2010 and now account for 25% of total sector revenues.

UK rights exploitation revenue also grew in 2010, driven by a combination of increases in UK secondary revenues and in the sale of UK finished programmes overseas. Together, finished programme sales overall grew by 30% to £241m in 2010.

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

Overall sector profitability appears to have recovered strongly in 2010 as rights income at higher margins continues to grow, international operations expand and the signalled cost cutting through the recession yields productivity benefits

Summary

Approach and methodology



This year's report is based on the financial census returns from PACT's membership, providing a view on how the financial performance of the independent production sector has evolved since 2004

The PACT financial census is now in its sixth 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 2011, with the data gathered representing the last two financial years (2009 & 2010).

A separate policy survey was not conducted in 2010.

PACT 2010 financial census

- The PACT financial census is now in its sixth year having been conducted annually since 2005
- Previous periods covered by the census are for the financial years 2004, 2006, 2007, 2008 and 2009
- 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 2011 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
- 45 completed responses were received representing 113 companies (up from 83 in the 2010 Census) and £1.41bn of industry turnover (down slightly from £1.45bn last year)

Contents



Trends

Section 1: Summary

Section 2: Revenue growth and profitability

- Industry grew in 2010; a return to growth in TV revenues
- Continued growth in international and rights income offsets declining UK commissions
- Non-TV revenues show no sustained growth; continue to hold at c. £200m
- Industry profitability recovers post recession; benefits from cost cutting and consolidation

Section 3: UK commissioning trends

Section 4: International and rights revenues

Section 5: Sources of additional finance

Revenue growth and profitability

Summary



The UK independent sector returned to growth in FY2010 with international and rights income continuing to be the main drivers of expansion against flat UK commissioning revenues

The 2011 census returns suggest that the independent production sector returned to growth in FY2010, generating sector revenues of £2.3bn.

UK commissioning revenues to the independent sector have been broadly flat, with growth driven from international activities and UK secondary sales.

Overall sector profitability appears to have recovered strongly in 2010 following the cost cutting that independent producers signalled in last year's census.

Headline sector revenue returned to growth in 2010 compared with the previous year

- The overall size of the industry in 2010 was just over £2.3bn, with revenues from TV contributing 92% of all sector income (up from 90% in 2009)
- Headline sector growth was 5% between 2009 and 2010 signalling a strong performance as the UK broadcast industry emerges from the recession
- TV-related income returned to growth while non TV activities have fallen in value compared with 2009

Continued small decline in UK primary commissioning revenues following falls in 2009

- UK commercial broadcasters signalled cuts to their programming budgets in 2009 as the market reacted to the advertising downturn
- The lasting effects of these cuts can be seen in the 2010 responses, reflecting a weak first half performance followed by reported stronger commissioning activity in the second half of FY2010
- As a result of this mixed UK trading environment during 2010, revenue from UK primary commissions fell overall by a further £39m in 2010 following a c.£100m reduction in the previous year

International & rights revenue offsets decline in UK primary commissions

- Reflecting the on-going international expansion of the UK's independent sector, revenue from rights exploitation & international activities both continued to grow significantly in 2010
- Revenues from international subsidiaries and overseas commissioning grew by £126m (over 34%), from £369m to £495m while revenue from sales of UK programming abroad grew 24% from £70m to £87m

Sector average margins have recovered strongly following cost cutting through the recession

- Overall sector net margins across the survey responses grew from 8.5% in 2009 to 13% in 2010
- The strong reported recovery in margins may partly reflect cost cutting (signalled strongly in the 2010 policy survey) and on-going sector consolidation (resulting in overhead efficiencies)

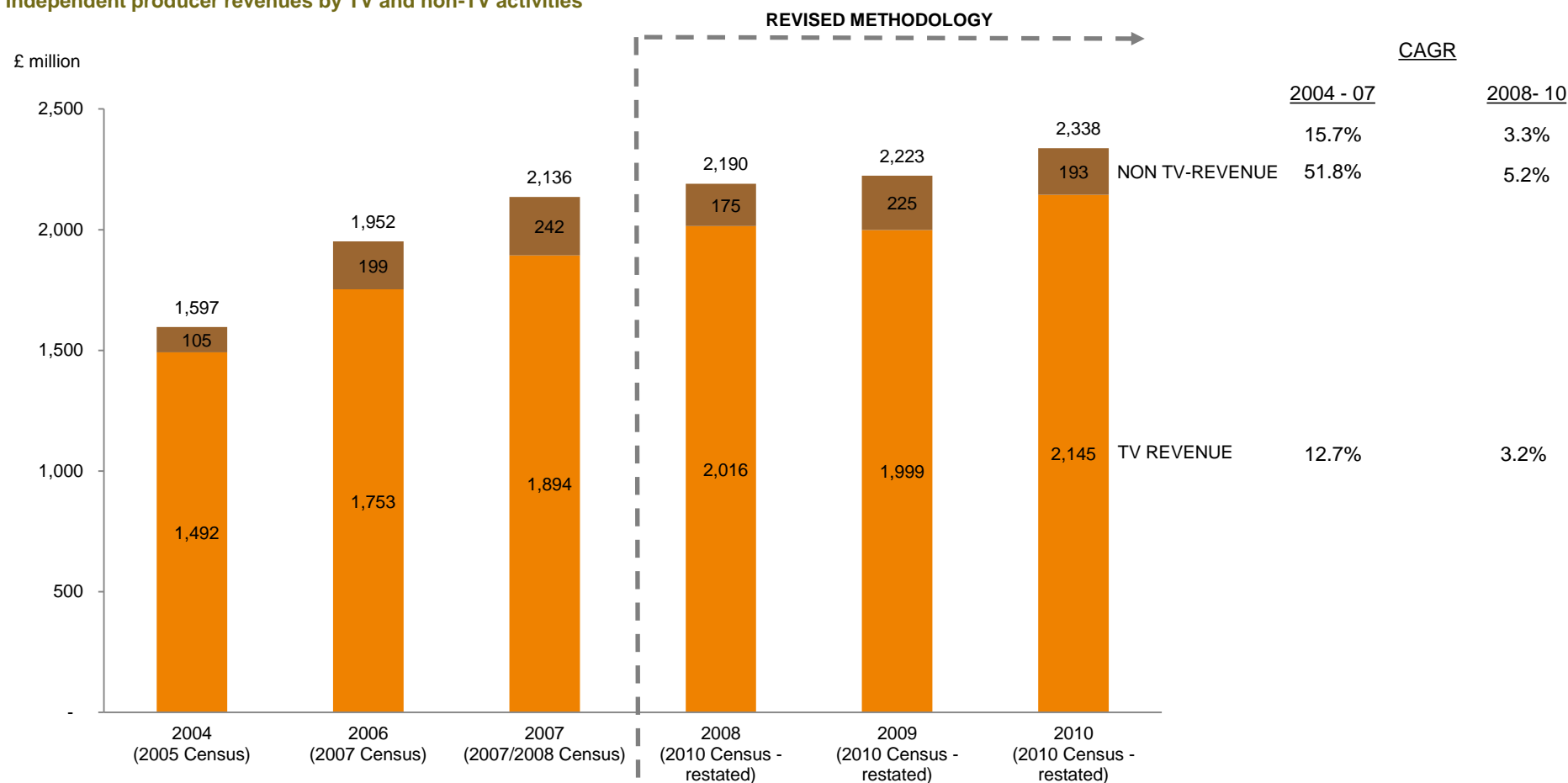
Revenue growth and profitability

Industry grew in 2010; a return to growth in TV revenues



The UK independent production sector has continued to grow in 2010, with an increase of c. £115m. This is due to a return to growth in TV revenue more than compensating for a reduction in non-TV revenues

Independent producer revenues by TV and non-TV activities



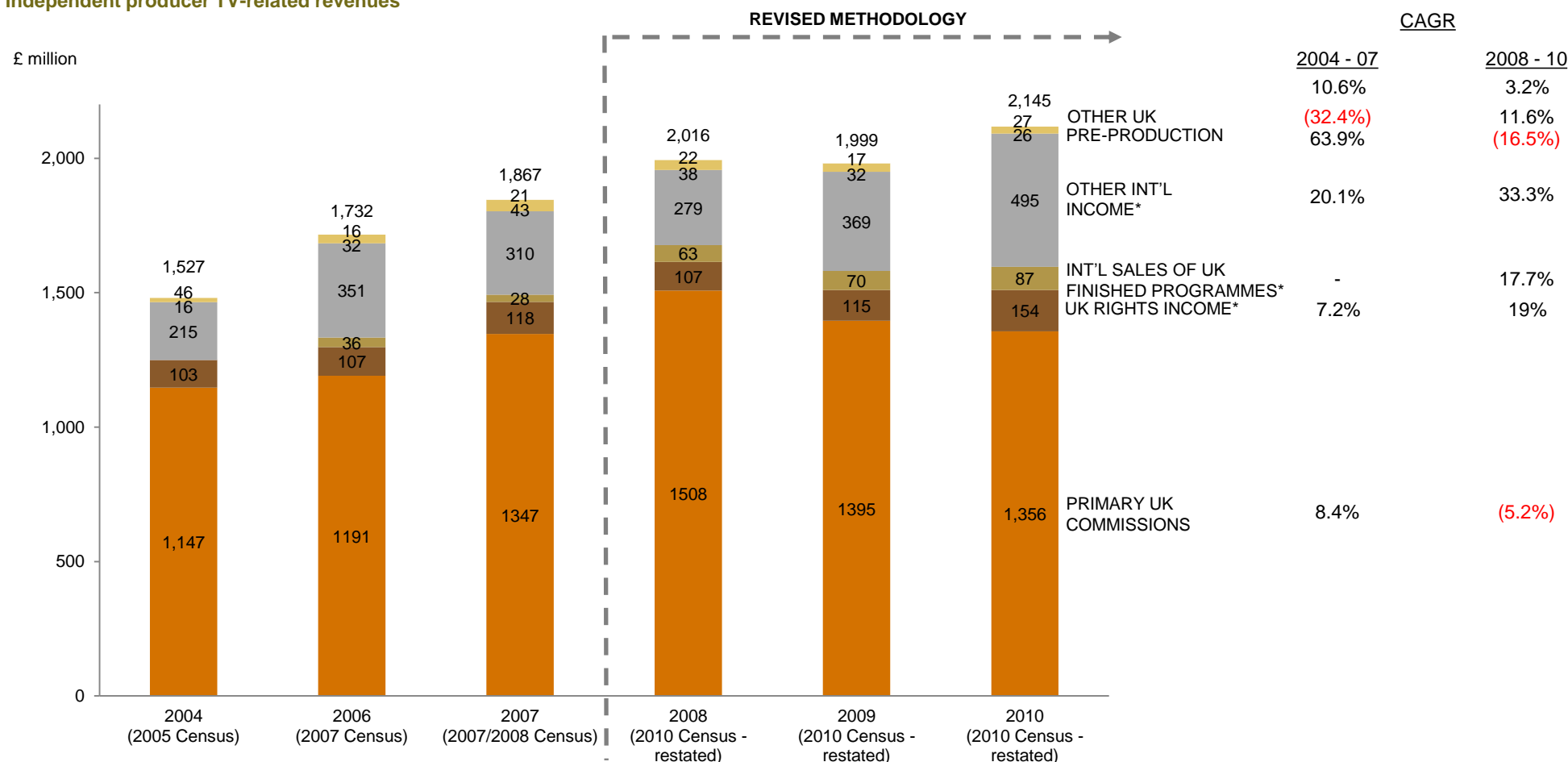
Revenue growth and profitability

Continued growth in international income offsets declining UK commissions



The fall in income from UK primary commissions has slowed in comparison to the previous year which, combined with continued strong growth in international and secondary rights income, has led to an increase of c. £146m in TV revenues

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

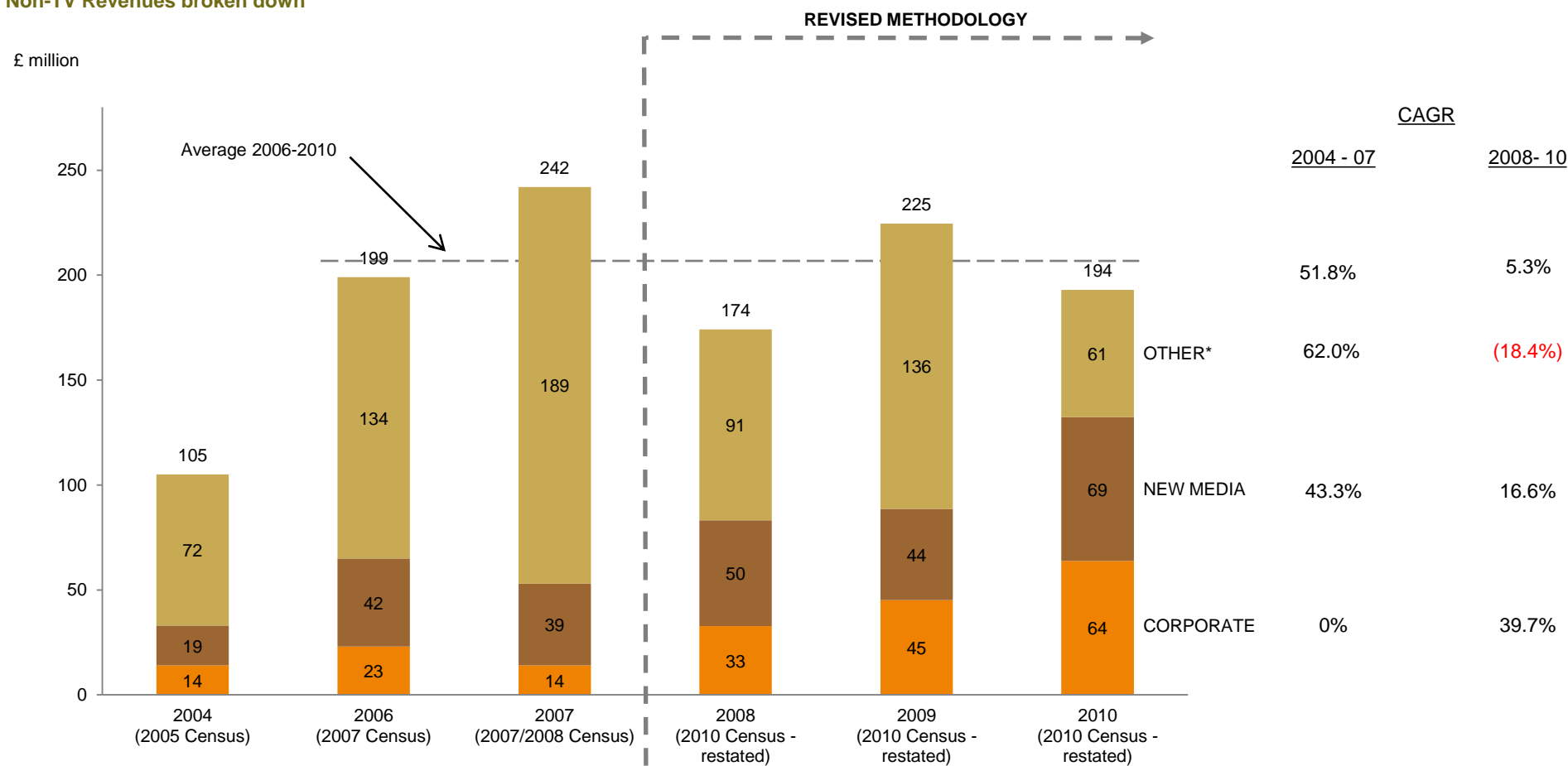
Revenue growth and profitability

Non-TV revenues show no sustained growth; continue to hold at c. £200m



While corporate and new media activities have grown, a substantial reduction in other non-TV revenues has led to an overall reduction in income from activities outside of TV production and associated rights

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

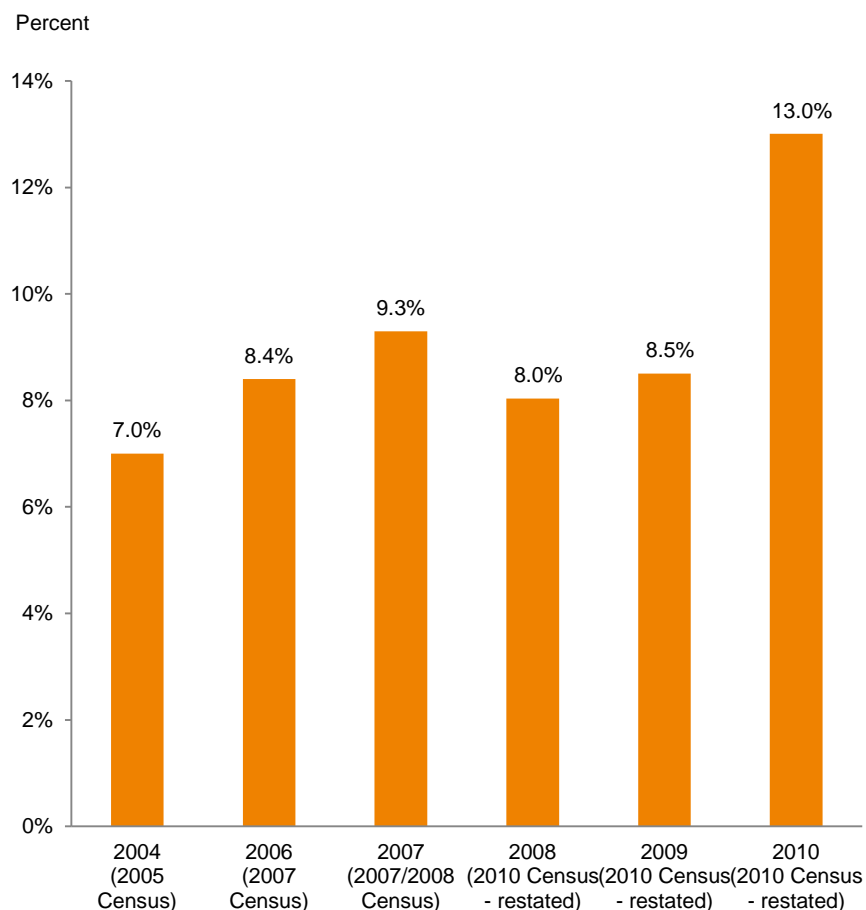
Revenue growth and profitability

Industry profitability recovers post recession; benefits from cost cutting and consolidation

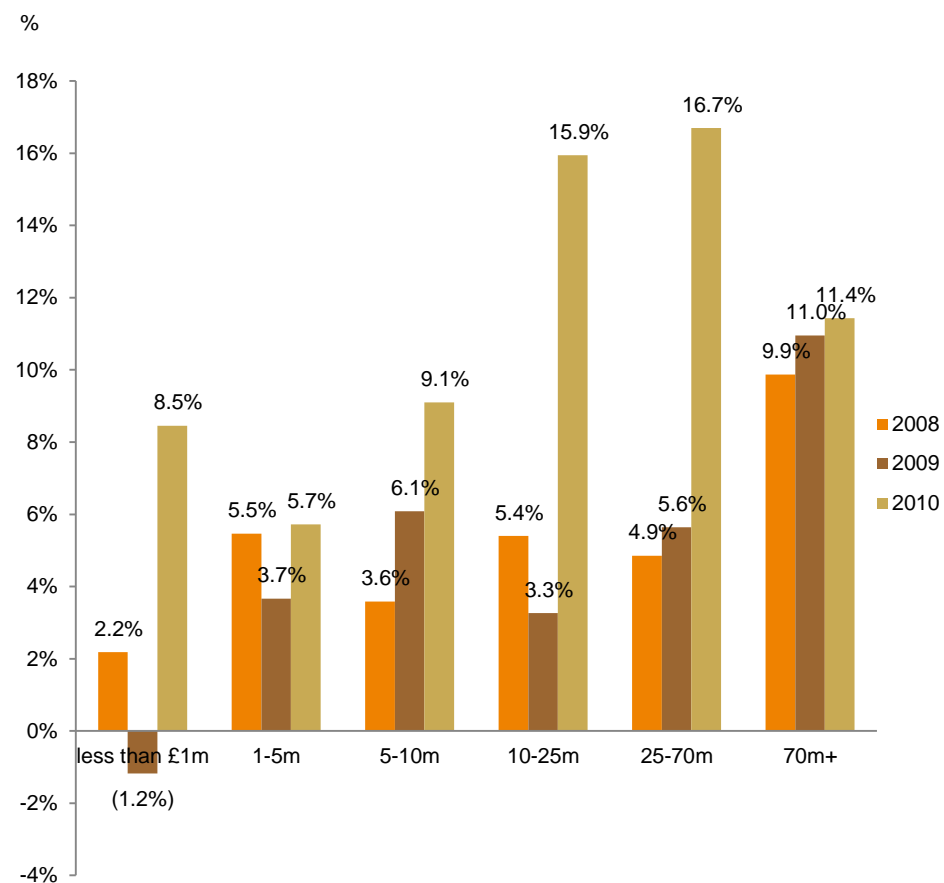


Overall industry margins have recovered strongly, benefiting from a mixture of cost cutting and consolidation activity which appears to have yielded margin benefits all industry segments

Net margins, 2004 to 2010



Distribution of industry profitability by company turnover band*



*Note: Companies in the £10-25m and £25-70m brackets have tended to be part of larger groups with greater potential for overhead sharing

Source: Oliver & Ohlbaum analysis, PACT census

Contents



Trends

Section 1: Summary

Section 2: Revenue growth and profitability

Section 3: UK commissioning trends

- Commissioning spend stable after a large reduction in 2009; no return to growth yet
- Network commissioning spend shifting away from the largest indies
- Spend on new commissions recovering at commercial broadcasters; BBC falls further
- Drama spending falls, placing it equal with entertainment commissioning in 2010

Section 4: International and rights revenues

Section 5: Sources of additional finance

UK commissioning trends

Summary



UK commissioning spend via independent producers stabilised in 2010 following a c.£100m fall in 2009; main network groups have maintained their spending levels while multichannel commissioning appears to have fallen further

The four main networks continue to dominate primary commissioning and have maintained spend broadly flat compared with 2009.

This represents a continuation of the lower commissioning levels seen in 2009, when c.£100m was removed from commissions to the independent sector.

The share of spend with the largest indies (£70m+) appears to have fallen in 2010. However, it should be noted that some groups have reported on an individual company basis, so this reduction does not apply equally to all groups in this segment.

Four main networks' share of total commissioning spend stabilised in 2010 following reductions in 2009

- The four main terrestrial network groups (the BBC, ITV, C4 and Five plus their spin offs) accounted for an estimated 86% of UK TV primary commissions to the independent sector, up slightly on 2009
- Within this BBC spend was flat year on year while spending from the commercial broadcasters fell only slightly to £728m in 2010 (a year on year change within the margin of error of the survey)

Commissioning spend with the largest indies appears to have come under pressure in 2010

- The share of external commissioning spend placed with medium to large indies (defined as having turnover of over £25m per annum) fell in 2010, representing c.53% of BBC commissioning spend and 45% at ITV (down in both bases from 58% in 2009)
- The change in share of commissioning spend amongst the largest indies may reflect a rebalancing following the increased share of this segment during the recession in 2009

Spend on new commissions with independent producers recovered at C4 and ITV

- ITV and C4's commissioning of new series from the independent sector started to recover in 2010 following substantial reductions in the previous year
- By contrast, the BBC's spend on new commissions from indies appears to have continued its trend of a slow year on year on year decline

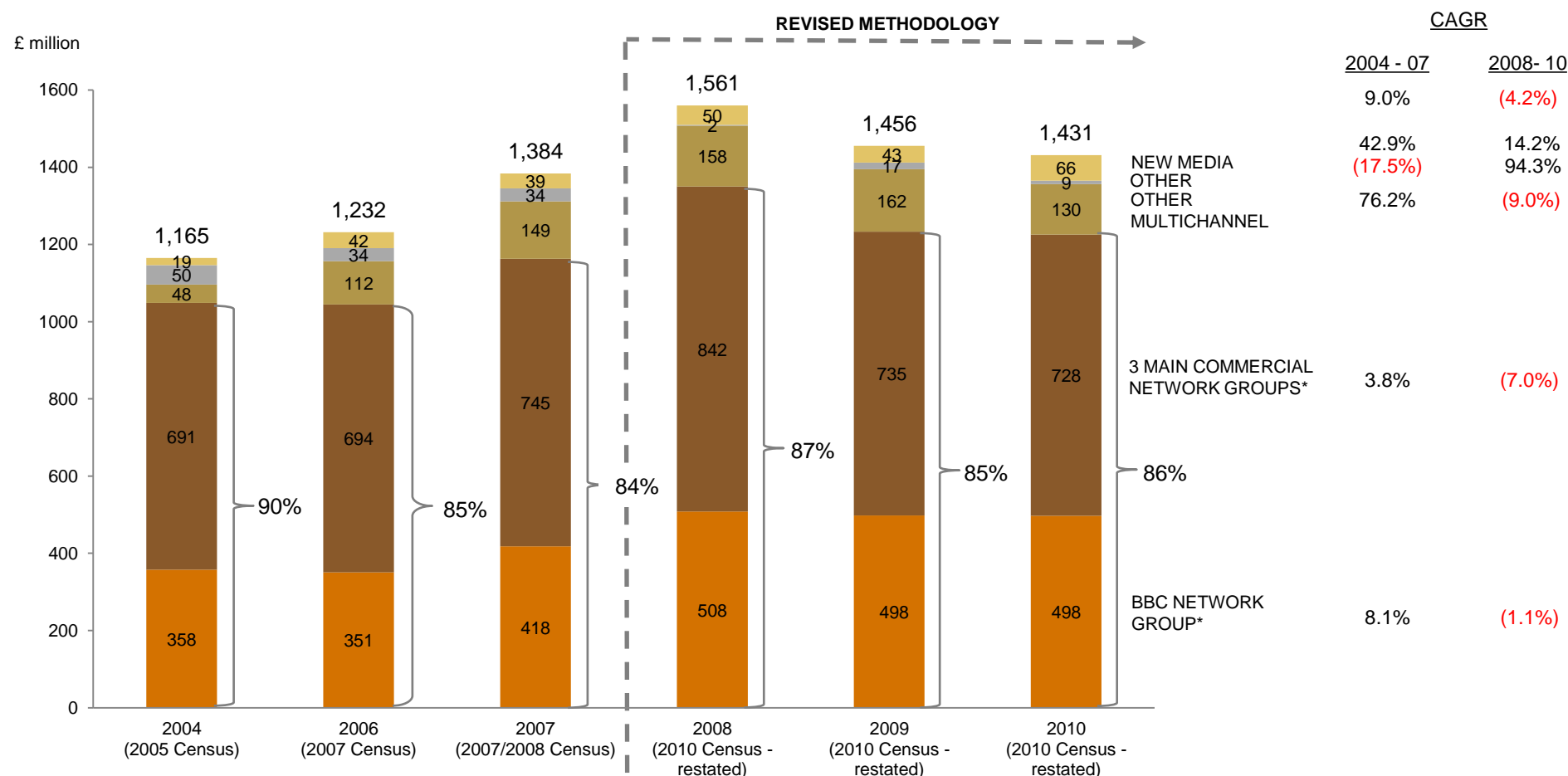
UK commissioning trends

Commissioning spend stable after a large reduction in 2009; no return to growth yet



Following last year's reduction, commissioning spend by the three main commercial network groups has remained flat in 2010. Overall there has been a small decline, led mainly by a reduction in other multichannel spend

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

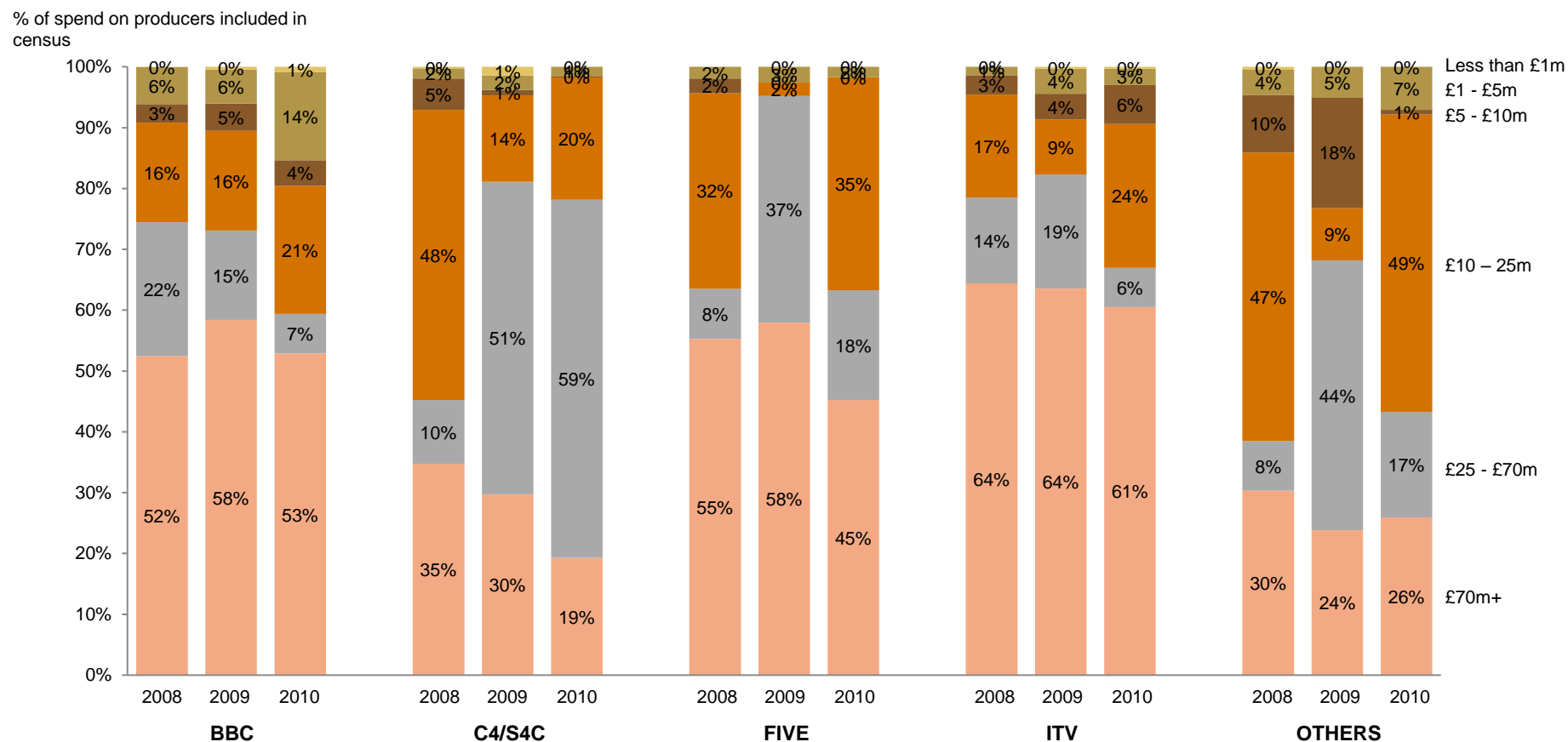
UK commissioning trends

Network commissioning spend shifting away from the largest indies



Networks have seen substantial increases in the proportion of their external commissioning spend going to indies with annual turnover between £10m and £25m. This has come largely at the expense of larger indies*

External commissions by UK broadcaster split by company turnover band, 2008 to 2010



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

UK commissioning trends

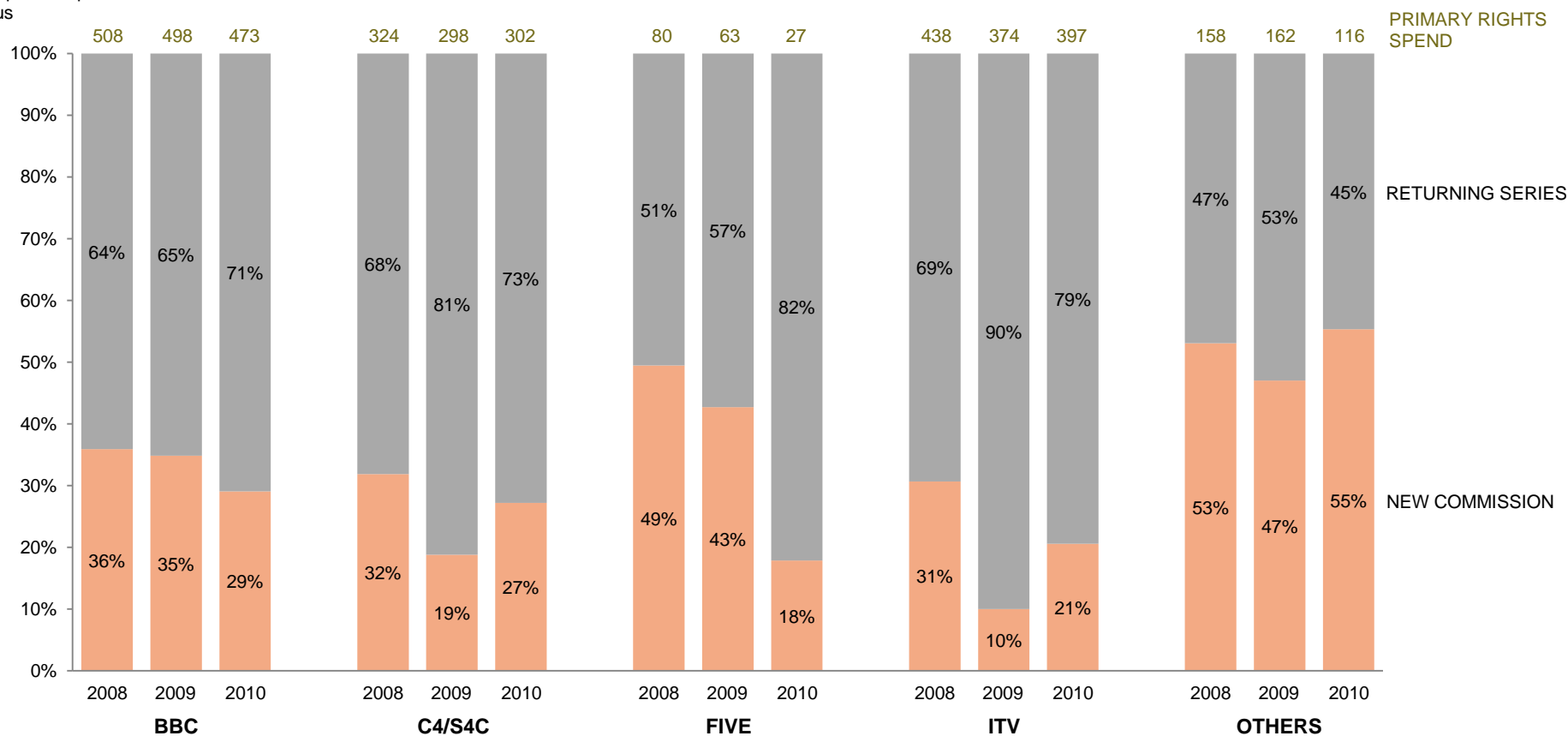
Spend on new commissions recovering at commercial broadcasters; BBC falls further



While C4 and ITV have increased their investment in new commissions (as a proportion of spend), Five's spending on new commissions appear to have fallen significantly

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

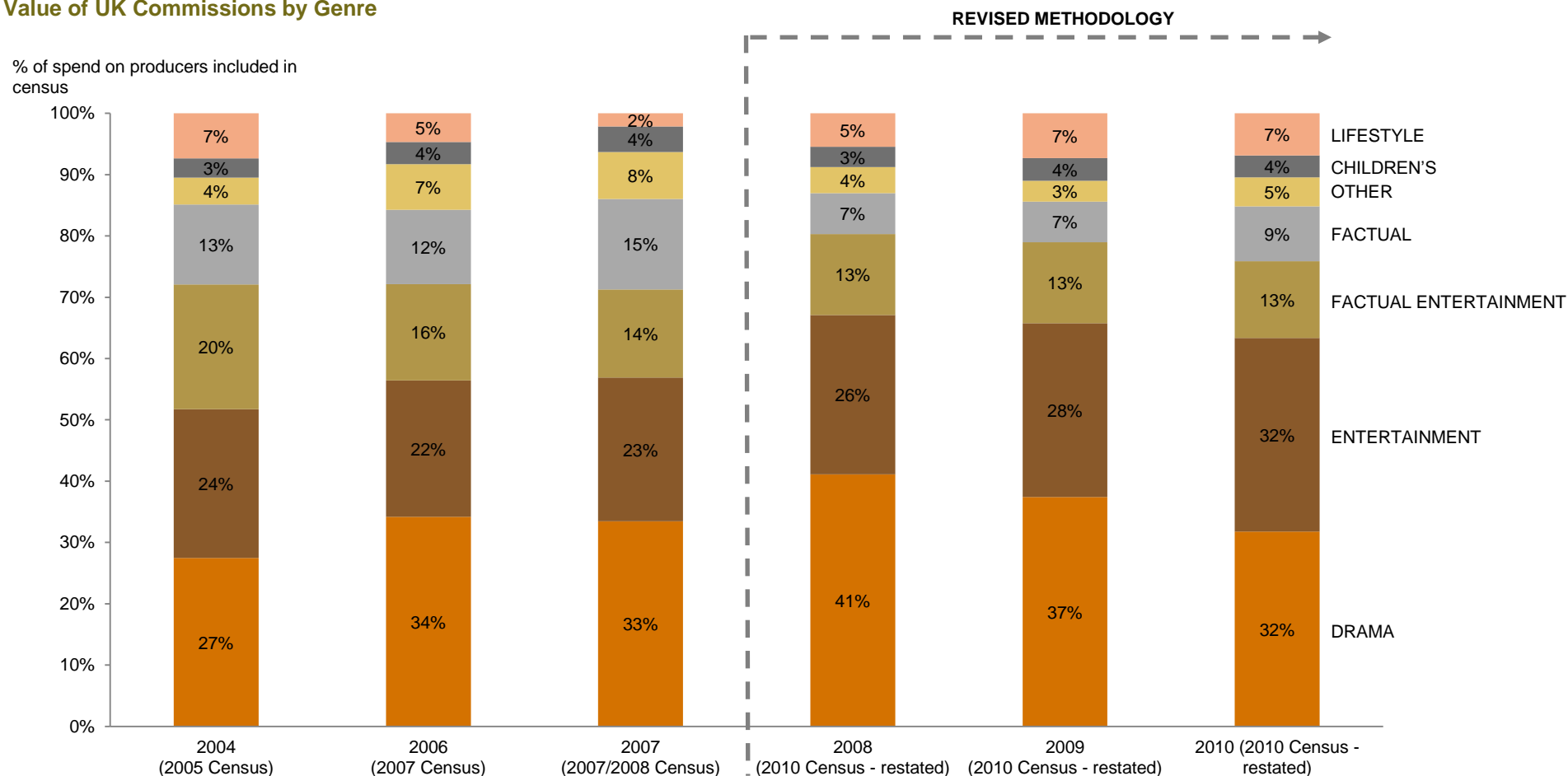
UK commissioning trends

Drama spending falls, placing it equal with entertainment commissioning in 2010



Drama has fallen from 37% to 32% of total spend. Spend has grown in factual and entertainment, with entertainment now, for the first time, matching that spent on drama

Value of UK Commissions by Genre



Source: Oliver & Ohlbaum Analysis, PACT census

Contents



Trends

- Section 1: Summary
- Section 2: Revenue growth and profitability
- Section 3: UK commissioning trends
- **Section 4: International and rights revenues**
 - International commissioning remains a significant source of growth
 - Rights income grows for the fifth consecutive year; driven by finished programmes
- Section 5: Sources of additional finance

International and rights revenues

Summary



The main growth drivers for the independent production sector remain the on-going success in winning international commissions and in selling programme rights around the world

International commission revenues grew to an estimated £400m in the 2010 census results, driven by acquisition activity coming through into financial returns and on-going success in winning international commissions through overseas subsidiaries

International sales of UK finished programmes has also continued to grow, with total estimated sales of £87m in 2010

Overall rights income has grown significantly in 2010 to reach c.£240m across UK and international markets

Revenues from international activities continue to grow strongly

- Primary international commissions (including subsidiary revenues) grew to £400m in 2010, driven by further overseas activity and some acquisitions from the last 18-24 months appearing in the census figures for the first time

International sales of finished programmes has also grown strongly

- Sale of UK finished programmes to international broadcasters has been a further source of growth in overseas markets, up £17m in 2010 to an estimated £87m

Overall, rights revenue has grown to £240m in 2010, up from £185m 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 76% of the total rights income to indies in the 2010 census (compared with 53% in 2009)

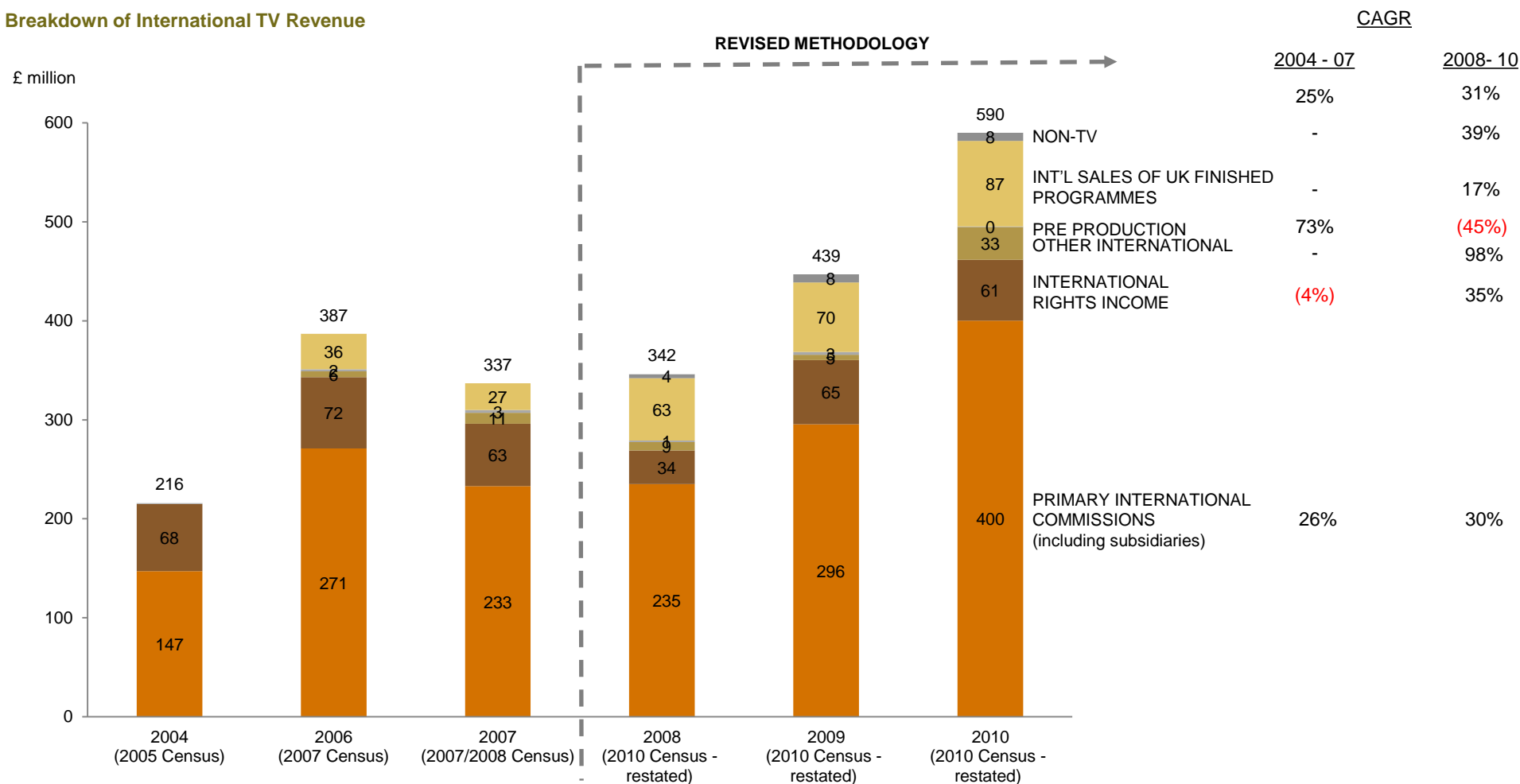
International and rights revenues

International commissioning remains a significant source of growth



An increase in the number of overseas subsidiaries has driven strong growth in international commissions and sales of finished programming. This has led to an increase in international TV revenue of £151m in the year

Breakdown of International TV Revenue



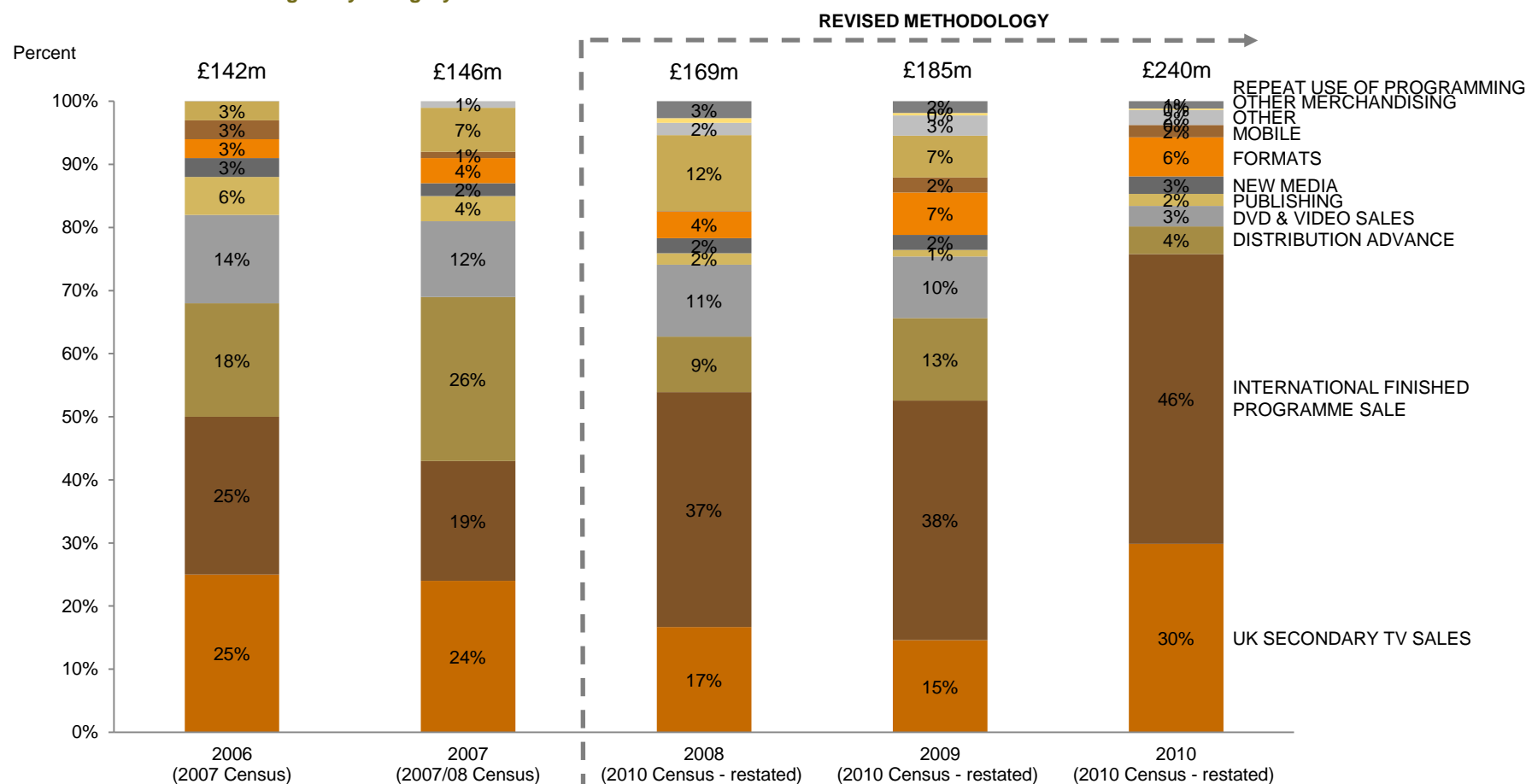
International and rights revenues

Rights income grows for the fifth consecutive year; driven by finished programmes



2010 saw a substantial increase in the contribution of secondary TV sales to rights revenues. Formats and international finished programme sales together now account for over 50% of all rights income

Revenues from UK content rights by Category Between 2005 Census and 2011 Census*



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

Source: Oliver & Ohlbaum analysis, PACT census

Contents



Trends

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

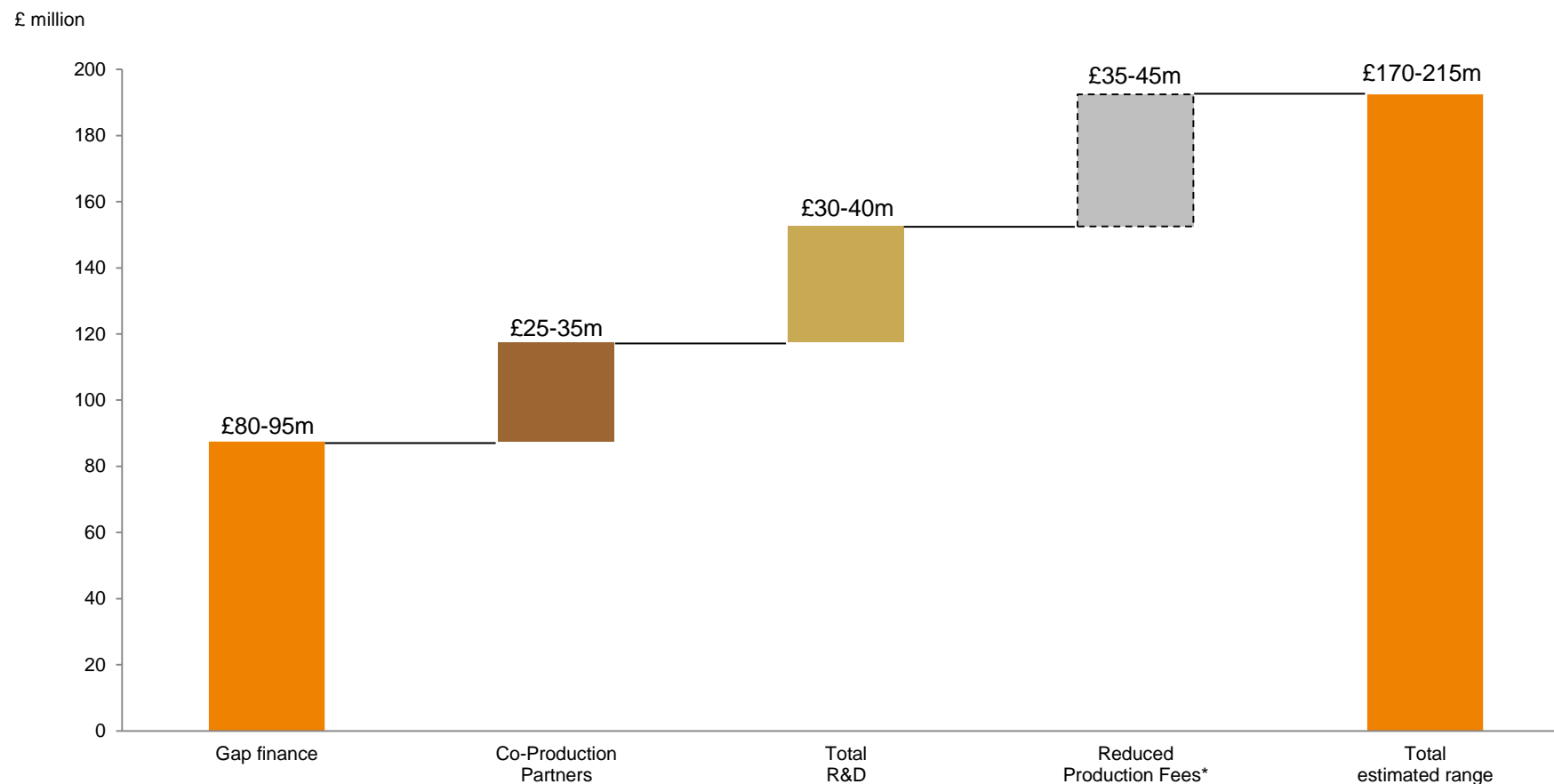
Sources of additional finance

Indie's contribution to finance is stable at around £200m



The incremental contribution to productions in 2010 from the Indie sector was an estimated £200m, with a small decrease in co-production balanced by an increase in R&D and gap finance

Estimated value of contribution to productions, 2009



Notes: Gap finance is defined as where the primary commission is less than the direct costs of the programme.
 Reduced production fees data not available – estimate based on previous survey.

Source: O&O analysis, PACT census and estimates