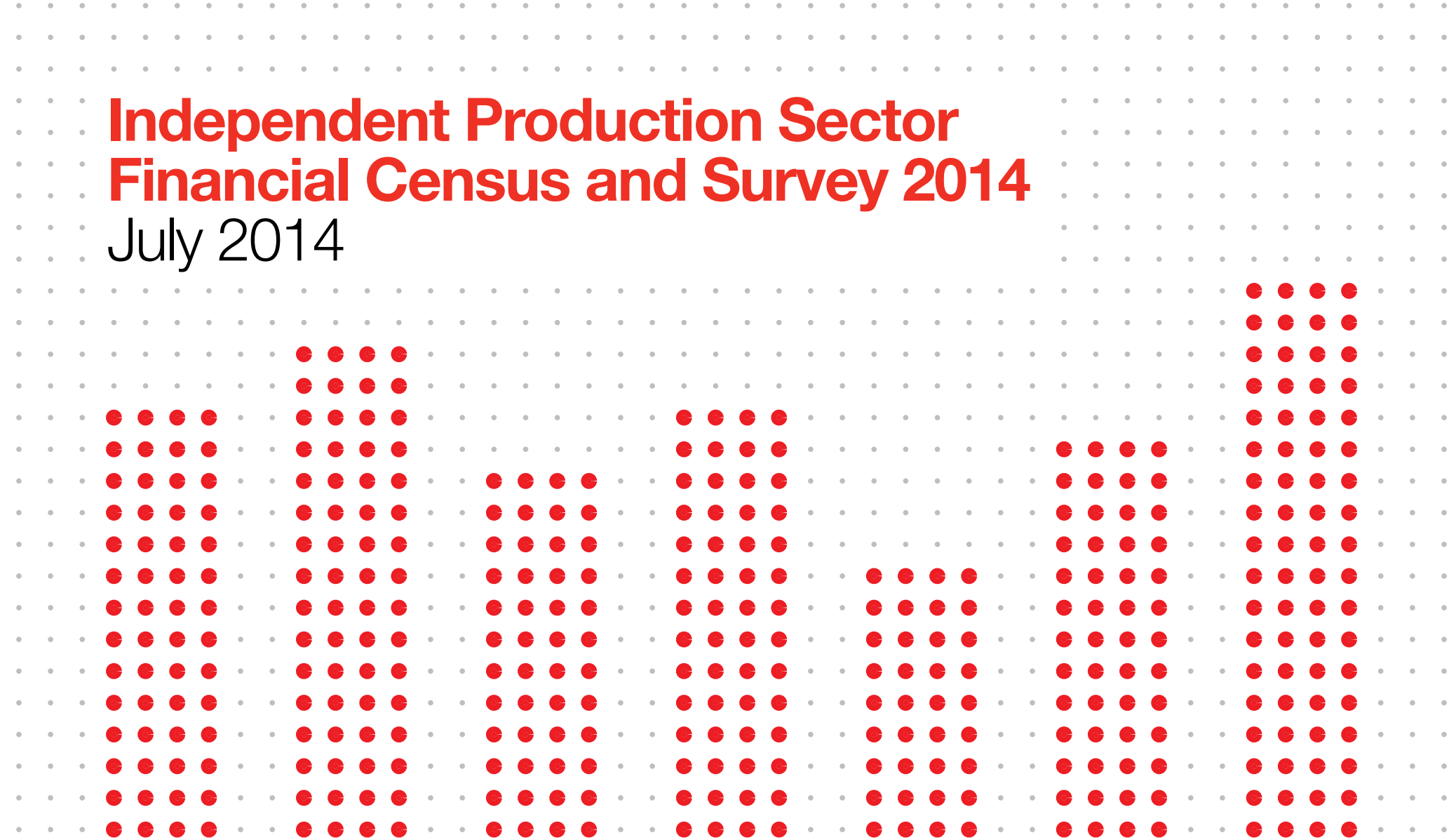


Independent Production Sector Financial Census and Survey 2014

July 2014



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Summary

2013 was another strong year for UK indies - sector revenues up 8.1% to just over £3bn



The UK independent sector is benefiting from a return to growth in UK spending on top of continued market share growth in overseas markets

Signs of a strong recovery in independent producers' revenue from UK commissioning has boosted growth, with sector revenues up by 8.1%

Revenue from primary UK commissions increased for the second consecutive year. There was continued growth in overseas activities and international sales of UK finished programmes, driving total sector income to just over an estimated £3bn

Headline rates of growth in international revenues have picked up again and the position of UK indies overseas continues to grow, helping to push the UK indie sector to a higher level of income as the UK market recovers

Despite strong growth in revenues, sector margins remain under pressure, with average net margins showing signs of recovery for the first time in three years

At £939m, international revenues grew by 12% in 2013 and account for 31% of total sector revenues

UK rights income fell for the first time in six years in 2013. There was continued, but moderate, growth in international sales of finished UK programmes, demonstrating the continuing attractiveness of UK IP in overseas markets

Overall UK-derived rights revenue fell to an estimated £303m in 2013, down from £336m in the previous year with the reduction mainly attributable to falling UK secondary rights revenues

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

The distribution of commissioning spend across different sizes of indies shifted back in favour of smaller and mid-sized indies in 2013. Channel 4 and Channel 5 were the networks increasing their proportion of spending with smaller indies

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 ninth 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 2014, with the data gathered representing the last two financial years (2012 & 2013).

Pact 2014 financial census

- The Pact financial census is now in its ninth 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 2014 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
- 60 completed responses were received, with many larger production companies reporting at a group level, and respondents within the 2014 sample totaling £1.83bn of industry turnover (up from £1.77bn in the 2013 census)
- Due to different company reporting periods, the annual census returns include financial information spanning 2012 and 2013

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Revenue growth and profitability

Summary



Revenue from primary UK commissions increased for the second consecutive year, while international income continues to drive incremental growth

The 2014 census returns show strong growth across the UK independent production sector as domestic commissioning spend has recovered for a second consecutive year through FY2012-13

The scale of recovery in commissioning spend suggests that part of the growth is driven by increased broadcaster investment from 2011 onwards coming through in the FY2012 and FY2013 results

As a consequence, our estimate for overall sector size continues to show healthy growth reaching £3.01bn in 2013.

Sector average net margins recovered slightly in 2013 but remain low relative to historical data from previous census reports

The UK independent sector recorded strong headline growth in FY2013, driven by a continued recovery in UK commissioning spend

- The overall size of the industry in 2013 reached just over £3bn for the first time, with revenues from TV contributing 92% of all sector income (broadly in line with previous years)
- The high level of sector growth was mainly driven by a continued recovery in reported UK commissioning spend and continued growth in international income
- TV-related income continued to grow across a number of sources while growth in non-TV income was driven by new media activity

Income from UK primary commissions showed continued growth in 2013 for the second consecutive year

- The effect of increased broadcaster spending on independent commissions from 2011/2012 onwards has now filtered through to the 2012 and 2013 census results with respondents reporting significant increases in UK primary commissioning revenues

International activities showed a new increase in growth with overseas income becoming increasingly significant

- Reflecting on the on-going international expansion of the UK's independent sector, revenue from rights exploitation & international activities has grown for the sixth year in succession
- Revenues from international subsidiaries and overseas commissioning grew by £95m (a 14% increase on 2012), from £670m to £765m while revenue from sales of UK programming abroad showed modest growth at 3% year on year, up from £152m to £156m

Sector average margins showed signs of recovery but remain under pressure

- Overall sector net margins across the survey responses rose for the first time in three years, up slightly from 5.0% in 2012 to 5.3% in 2013
- However, some companies have fared better. All turnover bands showed an increase in margins apart from the £25-70m turnover band which dampened total sector margin recovery

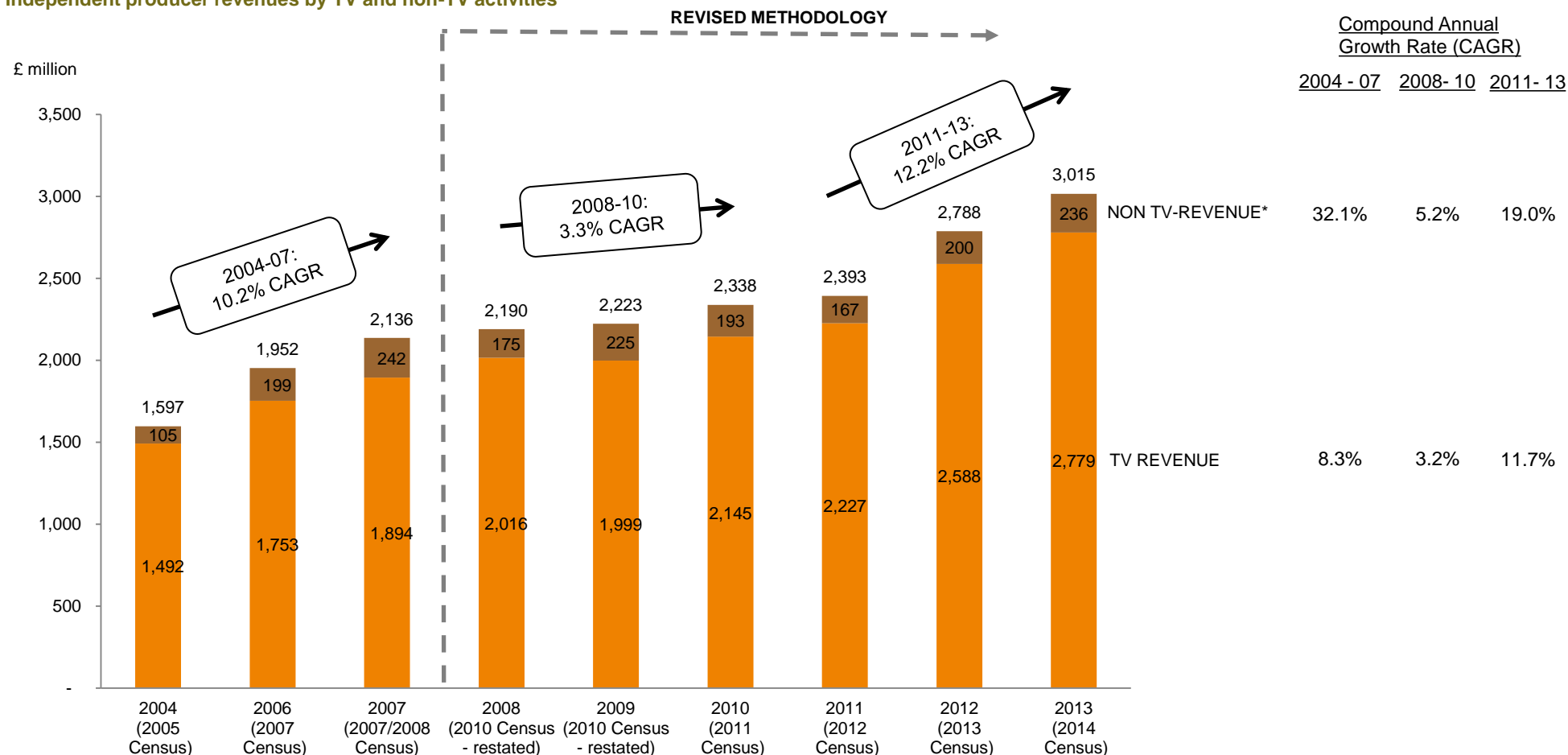
Revenue growth and profitability

A continued return to growth over the 2011-2013 period



The UK independent sector is sustaining a return to strong year on year growth post recession

Independent producer revenues by TV and non-TV activities



*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

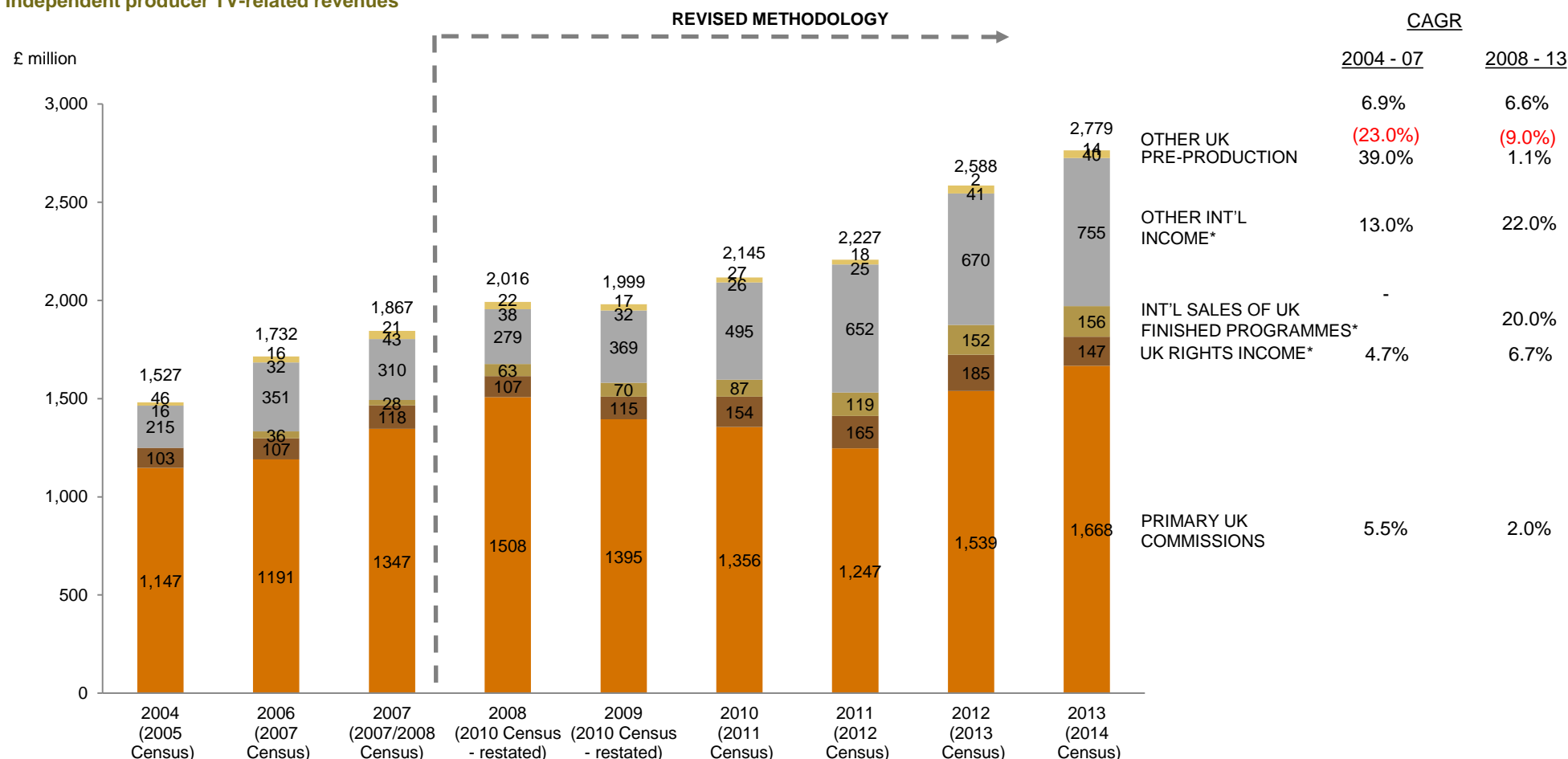
Revenue growth and profitability

UK primary commissioning revenue bounce back continues



There has been continued growth in UK primary commissions in 2013, although at a lower rate than in 2012 international revenues continue to grow . UK rights income has contracted

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

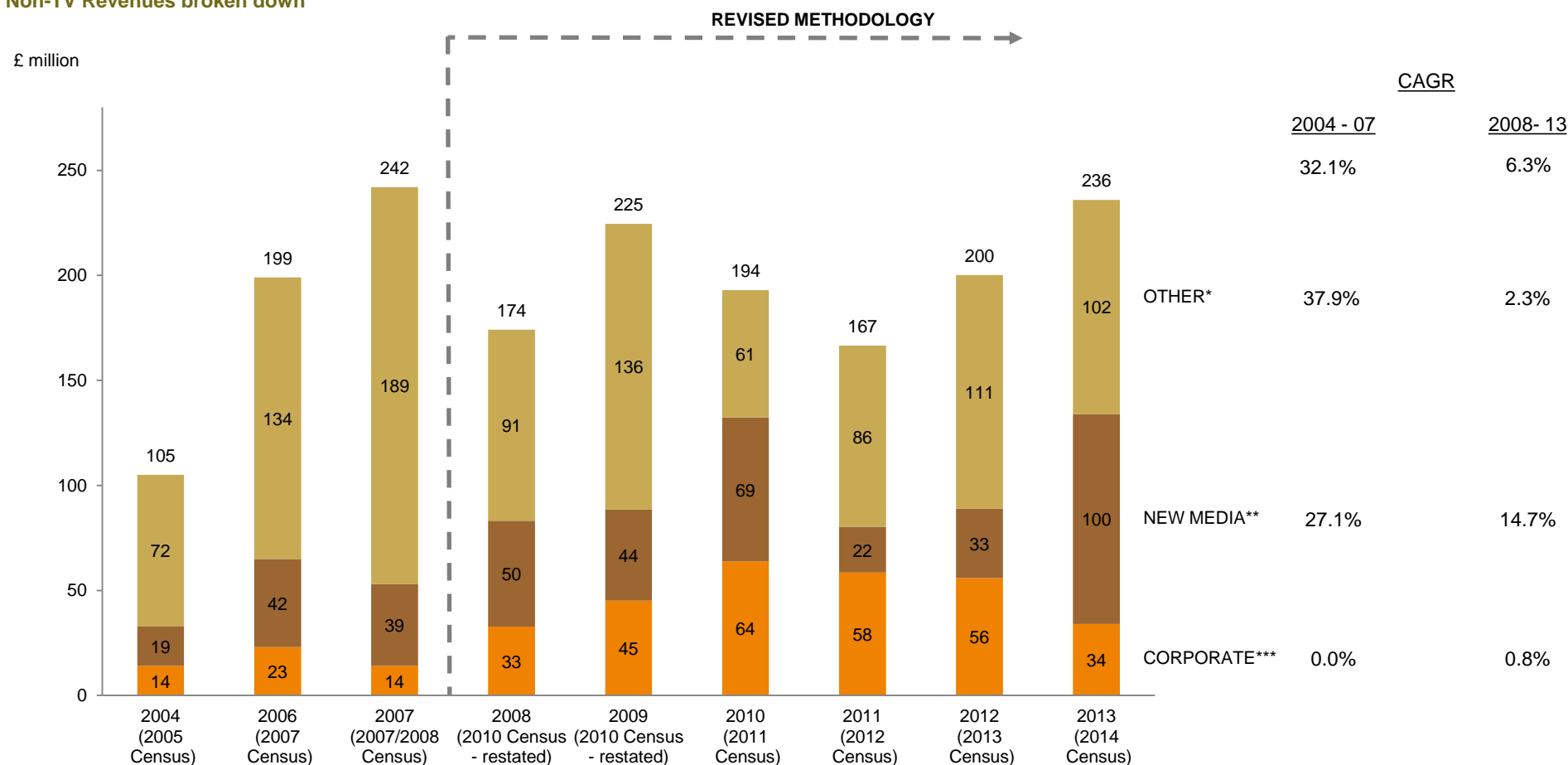
Revenue growth and profitability

Growth in non-TV activities driven by new media



Non-TV revenues showed strong signs of growth driven by new media investment in the wider UK AV industry. Activities including online publishing, talent management, promotions and PR continue to deliver significant revenues

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

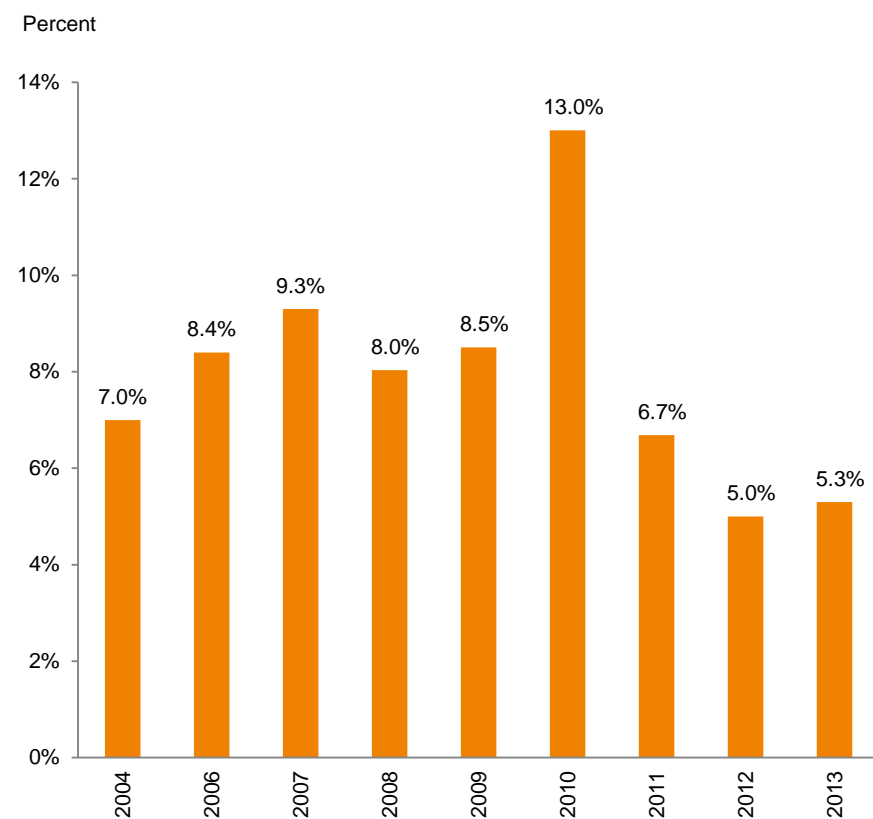
Revenue growth and profitability

Sector profitability stable overall, with some sub-segments showing strong recovery in margins

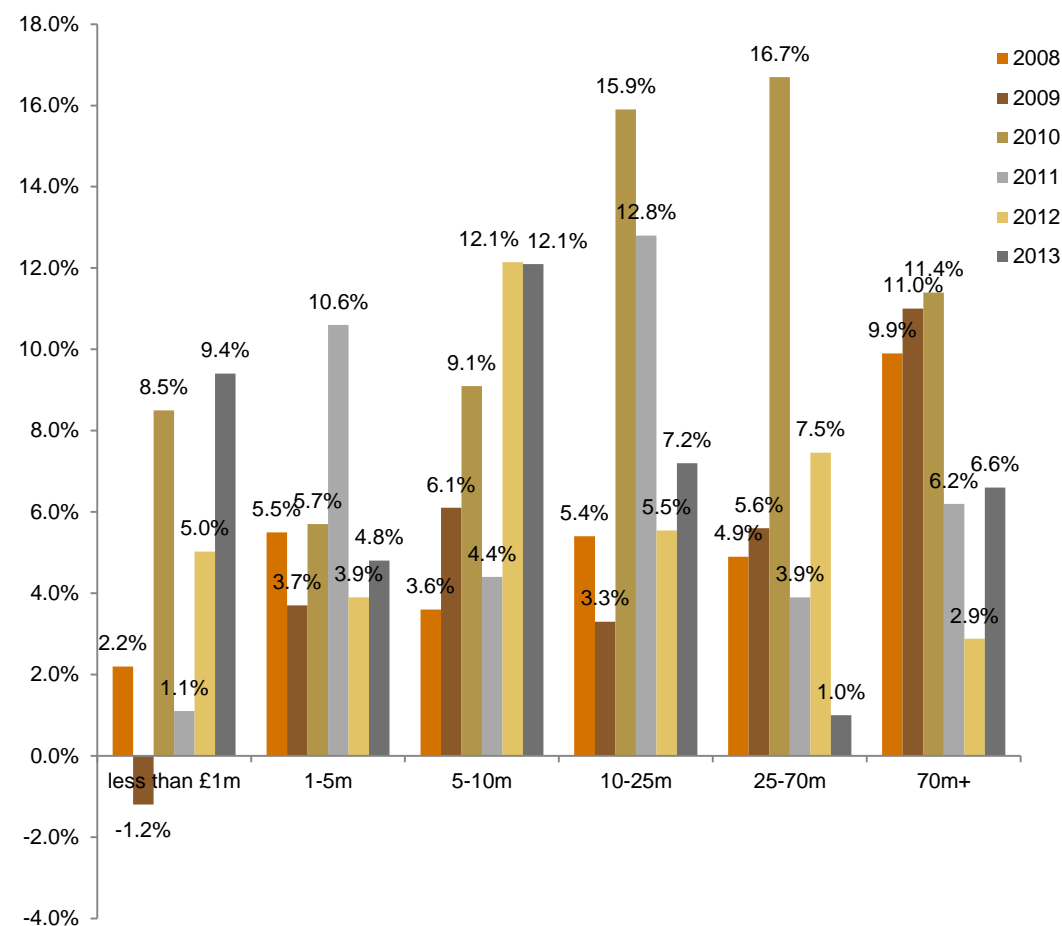


There has been strong recovery in margins for most turnover bands, although sector average net margins improved only slightly in 2013

Net margins, 2004 to 2013



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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- Reported income from UK primary commissions shows continued recovery in 2013
- Smaller and mid-sized indies increasing their share of external commissions
- Commercial PSBs favouring returning series
- Increasing emphasis on factual entertainment and drama spending

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Section 5: Sources of additional finance

UK commissioning trends

Summary



The sustained growth in UK commissioning spend in 2013 reflects increased broadcaster investment in producers accounts

The four main PSB networks continue to dominate primary commissioning. Most growth is now coming from non-network spending

Multichannel commissioning plays an important role in sector growth, with spend increasing by 59% year on year to £381m in 2013 (up on previous year on year growth of 47%)

The main beneficiaries of this growth appear to have been large indies in the £25-70m turnover bracket. At the same time there seems to have been a shift away from spending on the largest indies (£70m+) – in particular BBC share falling from 59% to 46%, Channel 5's falling from 72% to 39% and multichannel share falling from 40% to 24%

Indies reporting a strong recovery in UK commissioning spend for the second year running

- The four main terrestrial network groups (the BBC, ITV, C4 and C5 plus their spin offs) accounted for an estimated 77% of UK TV primary commissions to the independent sector. Although networks continue to be the main source of spend on commissions, this continues the downwards trend in network share of spend since 2010
- Overall, commissioning spend grew strongly, reflecting investment in schedules since 2011
- Spend on companies with a turnover greater than £70m has decreased, whereas there has been an increase in commissioning spend overall with companies with a turnover between £25-70m

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

- After last year's swing towards spending on smaller and medium sized indies (those with turnover less than £25m per annum) most broadcasters have continued this trend into 2013. Channel 4 and Channel 5 have seen an increased proportion of spending on smaller indies (i.e. less than £25m turnover), the BBC has not

While initial strong growth in the commissioning spend was mirrored across all of the main broadcaster segments in 2012, the main driver of growth in 2013 is non-network investment

- Based on the 2014 census returns, the estimated combined UK commissioning spend from the BBC and the three main commercial network groups (ITV, Channel 4, Channel 5) with independent producers was down slightly in 2013 by £13m compared to the previous year
- Within this, only Channel 4 saw an increase in spending while all other network spending reported by respondents contracted
- The expected growth in multichannel commissioning is also now being seen in the census returns, with this segment growing rapidly from £240m in 2012 to £381m in 2013
- New media spending also saw significant growth reaching £93m in 2013 up from £34m in 2012

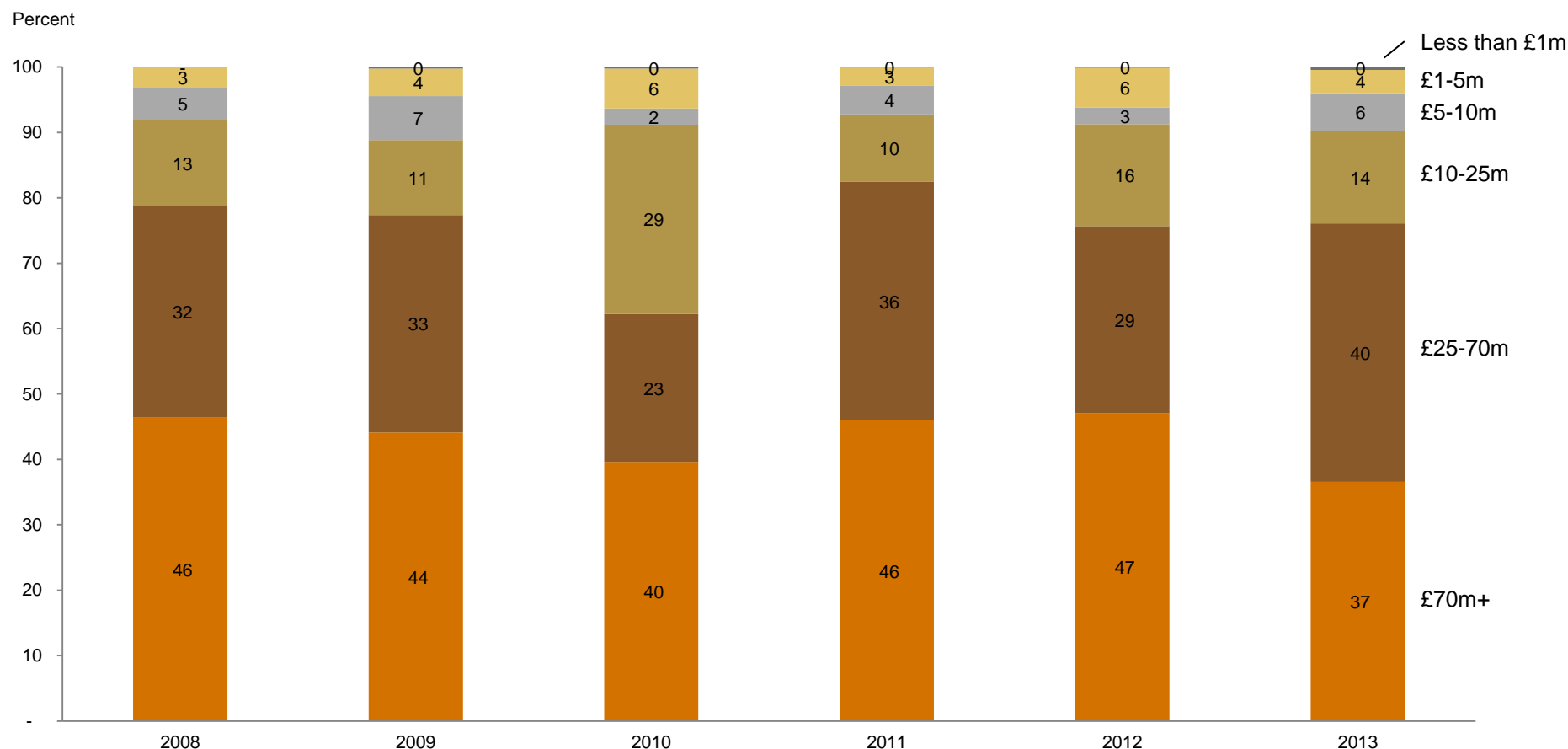
UK commissioning trends

The largest indies take a smaller share of UK commission spend



The largest indies' share of UK commission spend has declined over the last year. The indies in the £25-70m turnover bracket have gained the most from this shift in spend

Share of spend on UK externally produced primary commissions segmented by turnover band of producer, 2008 to 2013



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

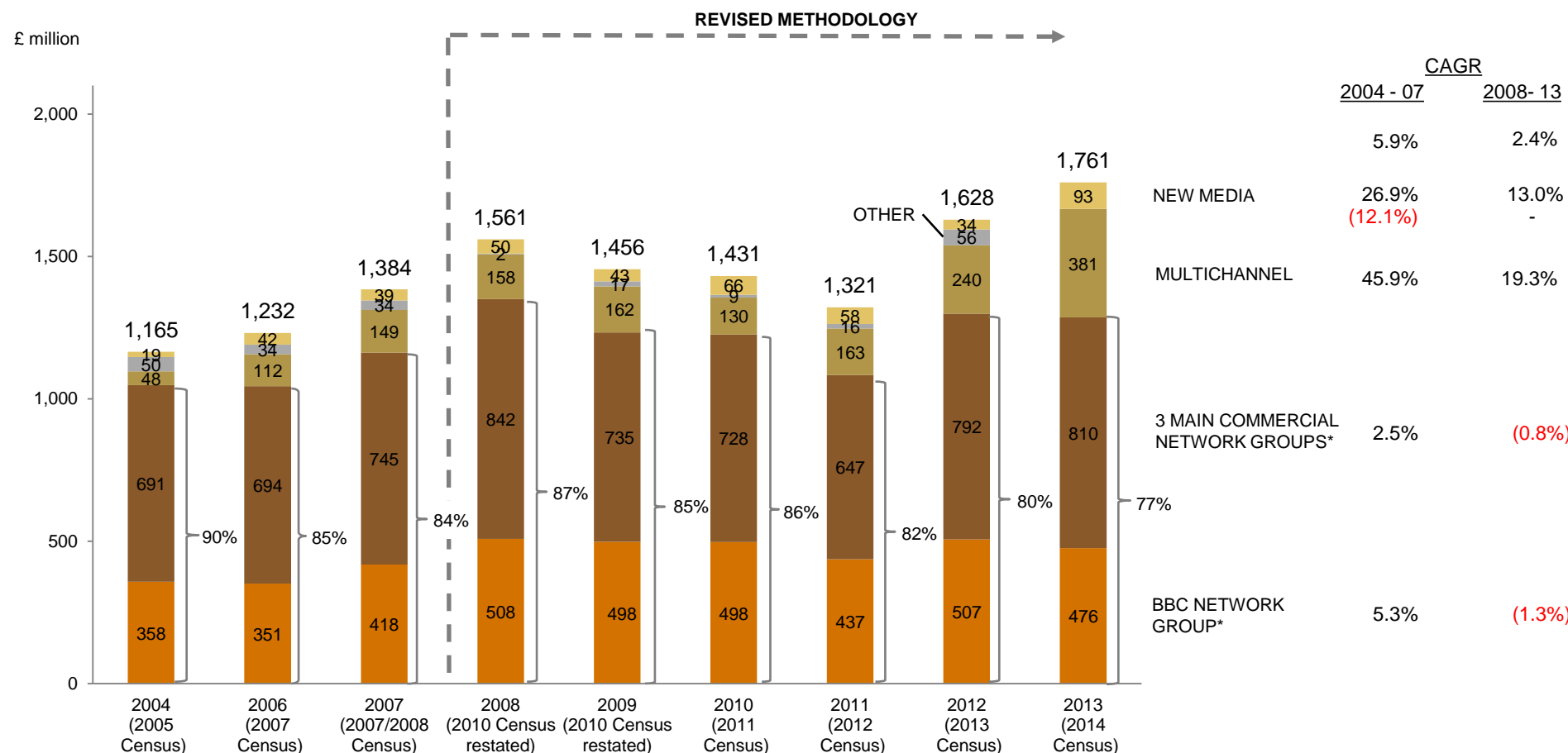
UK commissioning trends

Reported income from UK primary commissions shows continued recovery in 2013



The sector has benefited further from increased multichannel and new media investment flowing through from broadcasters following the strong recovery in PSB commissioning in 2012

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

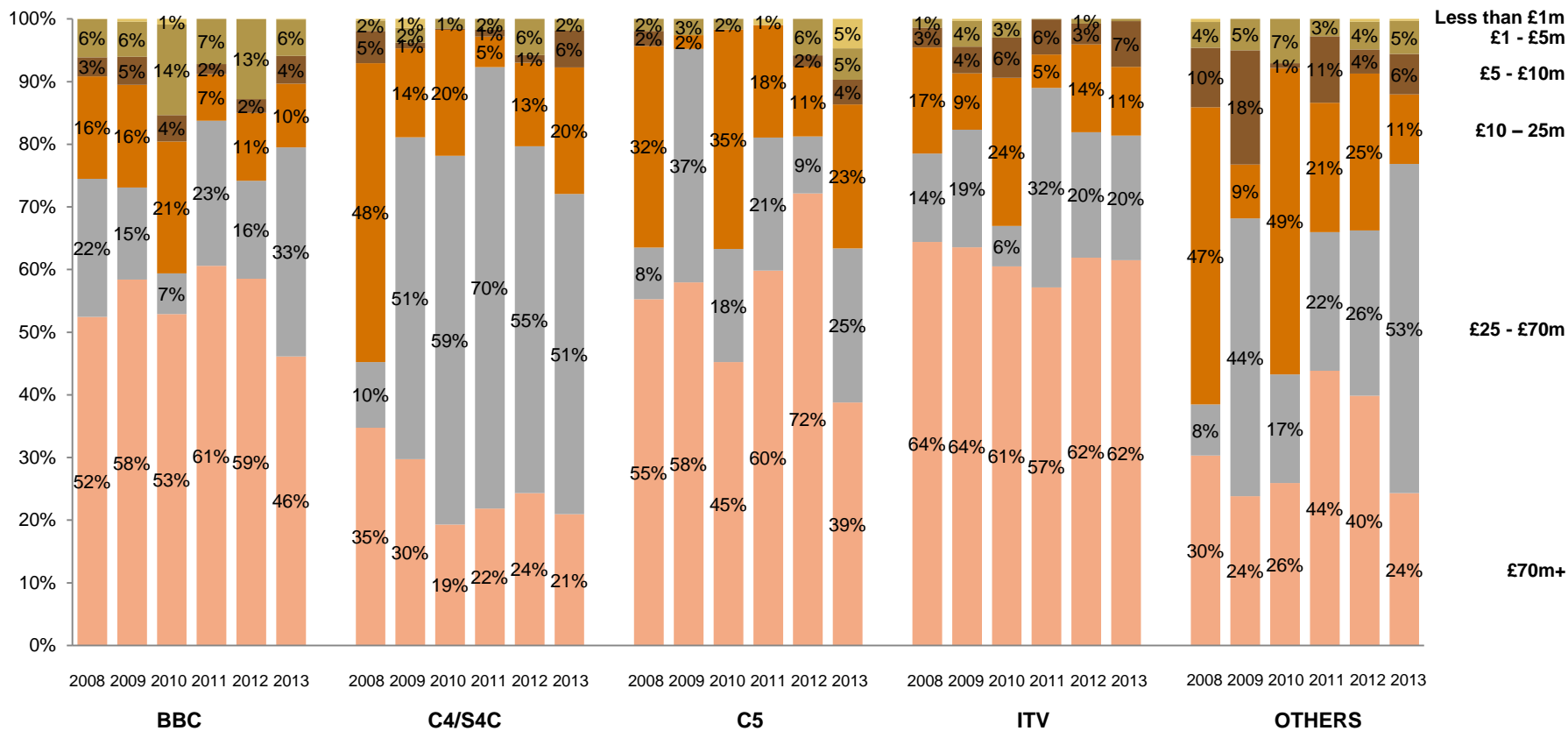
Smaller and mid-sized indies increasing their share of external commissions



Smaller and mid-sized indies (except those in the £1-5m turnover band) are the main beneficiaries of the return to growth in UK commissioning spend. All broadcasters spent less with indies in the £70m+ bracket, ITV's share of spend was stable

External commissions by UK broadcaster split by company turnover band, 2008 to 2013

% of spend on producers included in census



Source: Oliver & Ohlbaum Analysis, Pact census (2008 figures restated using returns from 2010 census)

UK commissioning trends

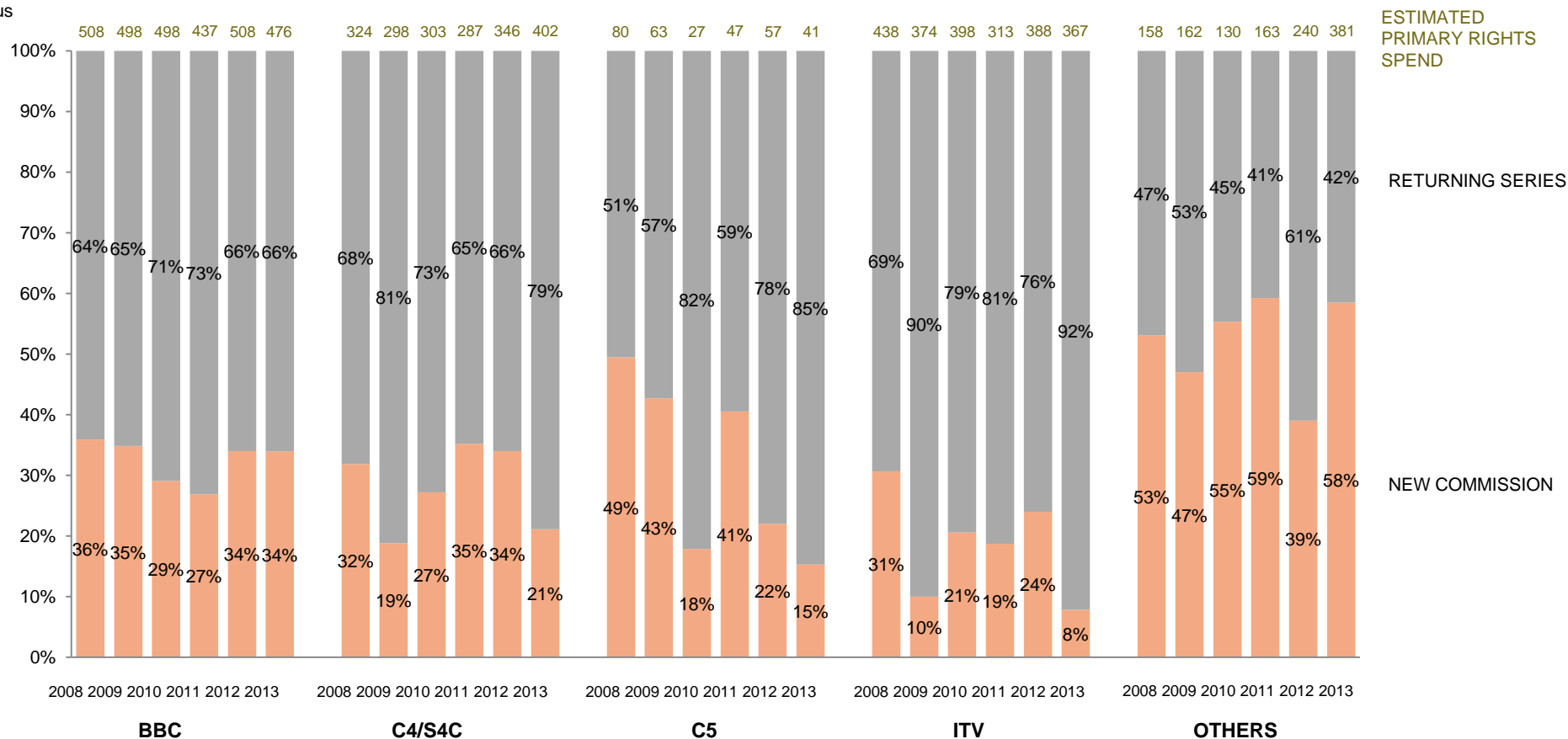
Commercial PSBs favouring returning series



The general trend for returning series has continued in 2013, although the value share of new commissions versus returning series has increased slightly this year

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

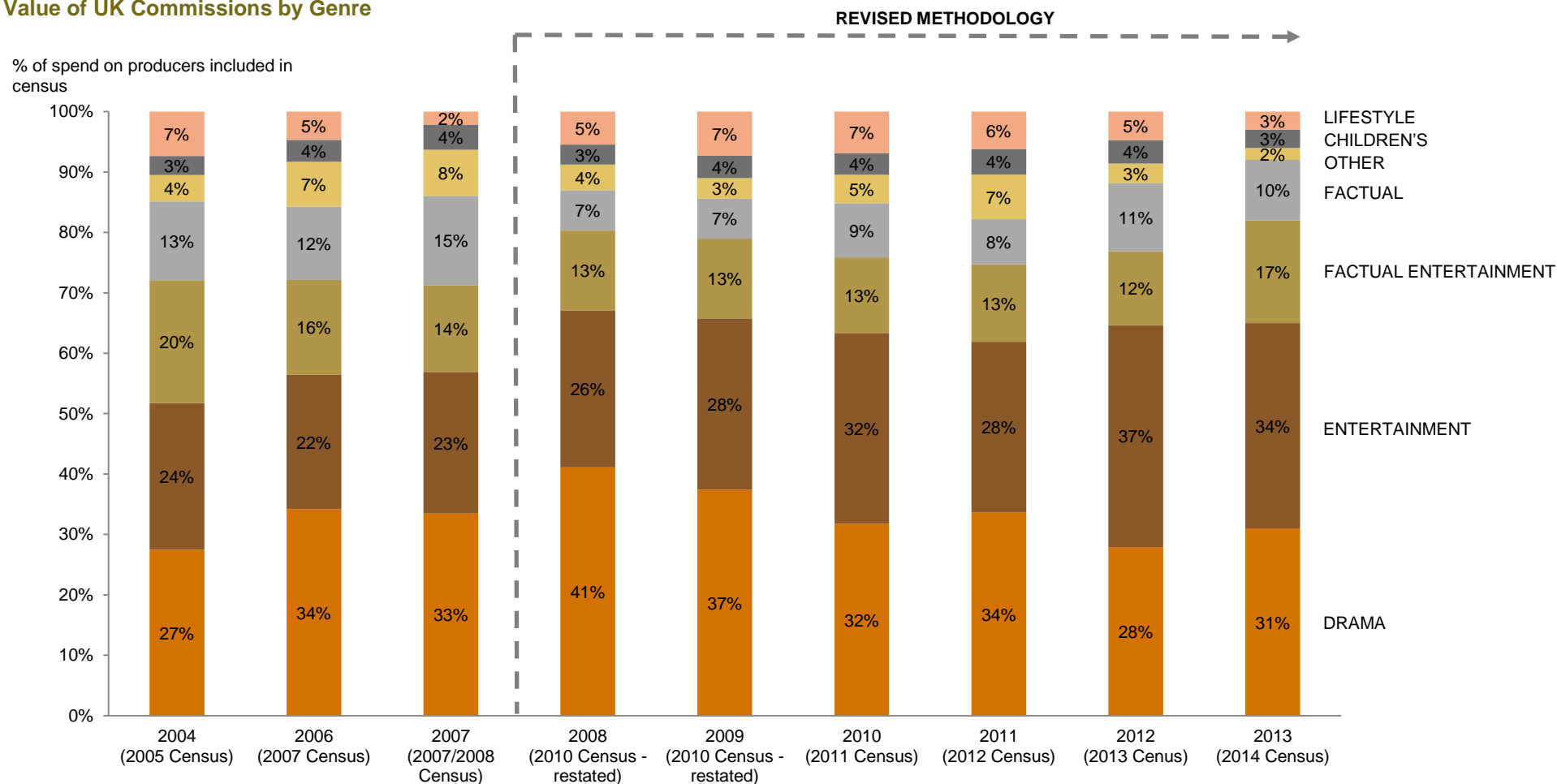
UK commissioning trends

Increasing emphasis on factual entertainment and drama spending



There has been a decline in spend on factual, entertainment, lifestyle and children's programmes while spend on factual entertainment has increased and drama has remained stable

Value of UK Commissions by Genre



Source: Oliver & Ohlbaum Analysis, Pact census

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- Section 5: Sources of additional finance

International and rights revenues

Summary



Diversification across international markets continues to provide strong returns for UK indies in commissioning and rights income, but UK secondary rights income is under significant pressure

Growth in international commissioning revenues continued in 2013, reaching an estimated £640m (up from £589m the previous year)

International sales of UK finished programmes remained steady, up slightly in 2013 reaching £156m compared to £152m in 2012

After consecutive years of growth, total rights income derived from UK content saw a decline for the first time in seven years falling to £303m in 2013, down from £336m in 2012, driven by a significant reduction in reported income from UK secondary sales

Following a slight slowdown in growth in 2012, headline revenue from international activities picked up again in 2013

- Primary international commissions (including subsidiary revenues) grew to £640m in 2013, driven by sustained success in leading overseas markets and the maturation of subsidiary acquisitions over the last few years

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

- Sale of UK finished programmes to international broadcasters slowed in 2013, but still continued to provide a source of growth for the indie sector for the sixth year in a row to reach an estimated £156m in 2013

Overall, rights revenue fell to £303m in 2013, down from £336m in the previous year

- Income from rights-related revenue streams fell for the first time in seven years
- This was mainly down to a fall in secondary UK sales
- International markets for UK rights trading have increased in importance as the revenue generated from sales of UK secondary TV rights has declined for the third year in succession

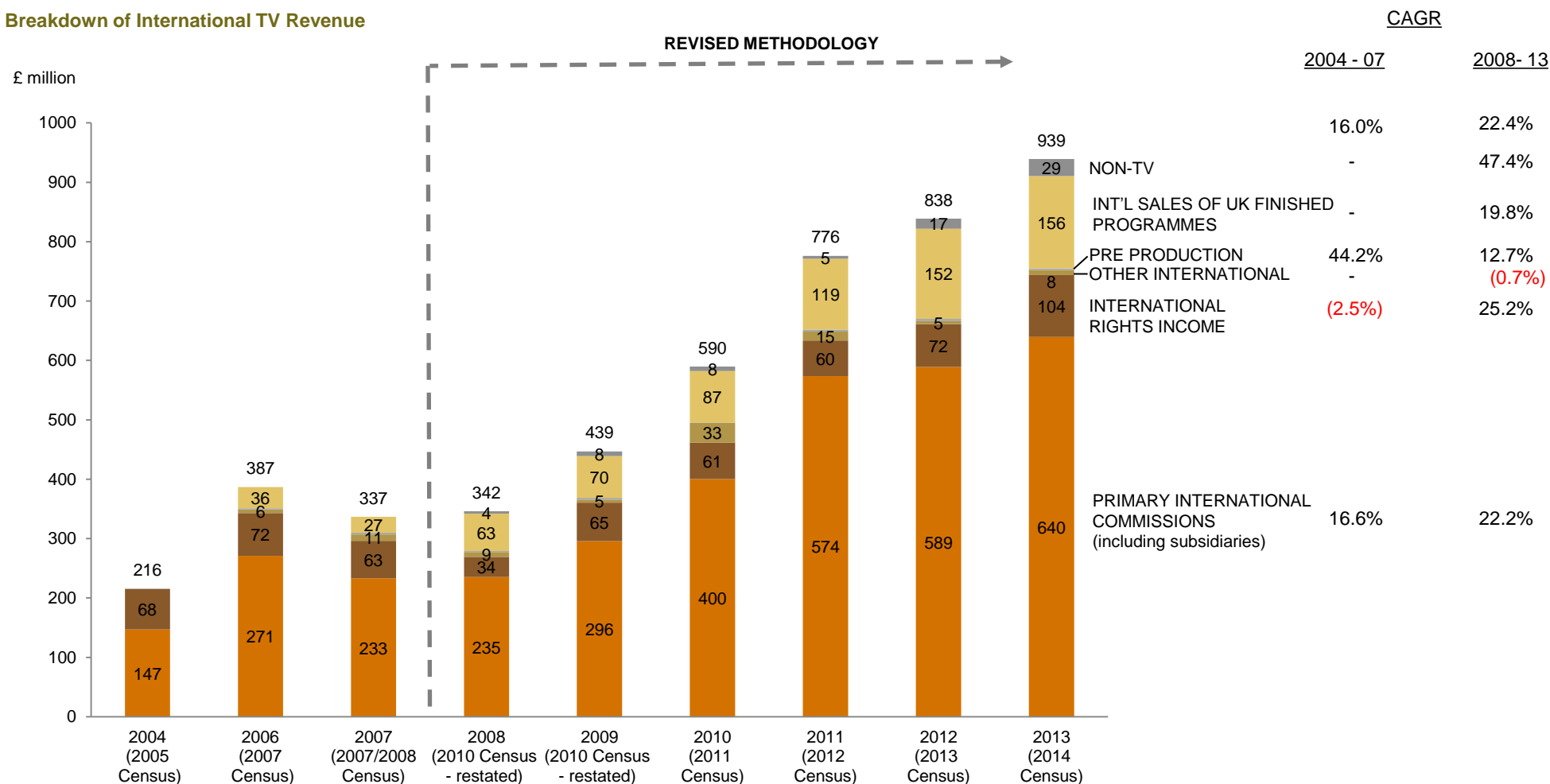
International and rights revenues

International revenues continue to be a strong source of growth



Diversification across multiple national TV markets continues to deliver strong dividends for the UK independent sector in terms of production revenues and rights growth

Breakdown of International TV Revenue



Source: Oliver & Ohlbaum analysis, Pact census

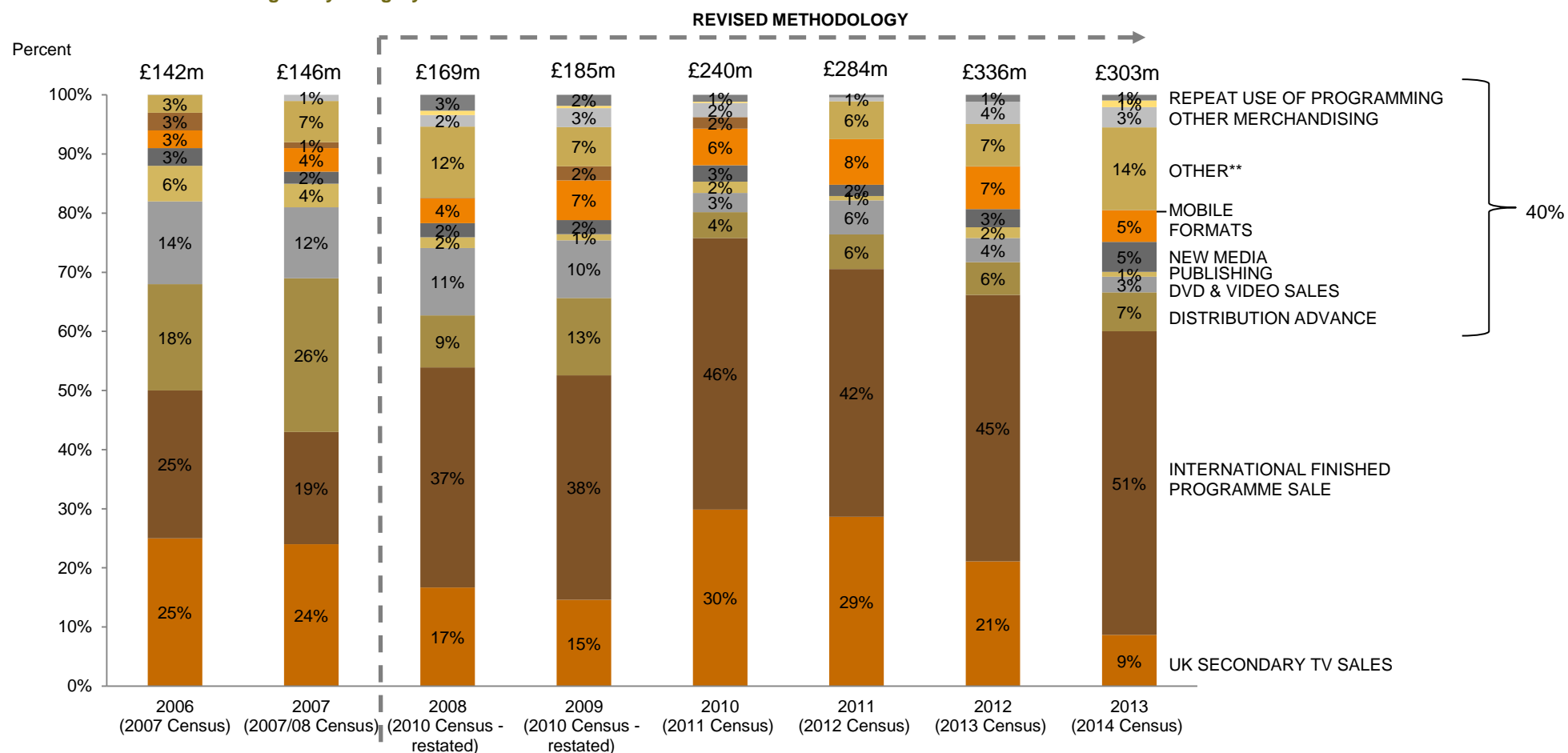
International and rights revenues

Rights income down overall, driven by a reported reduction in UK secondary sales



A reported reduction in income from UK secondary rights has offset growth in international rights trading to leave total estimated rights income c.10% lower than in 2012

Revenues from UK content rights by category between 2007 Census and 2014 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, ancillary & digital rights and cable relay

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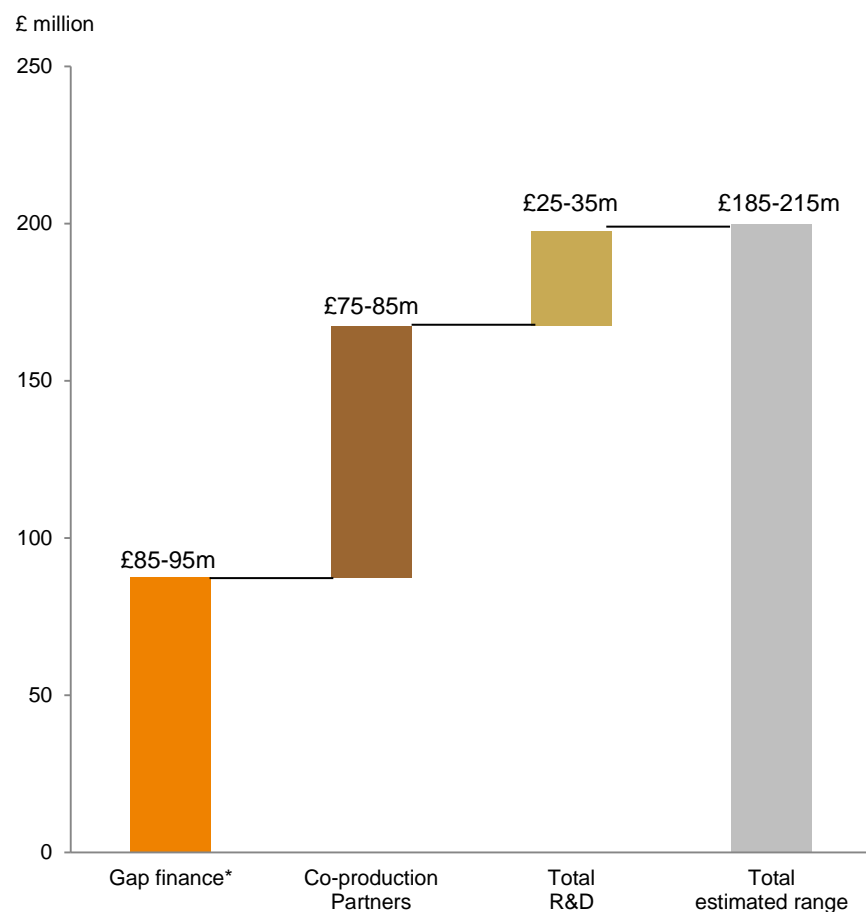
Sources of additional finance

Reported investment in production finance shows no significant year on year change

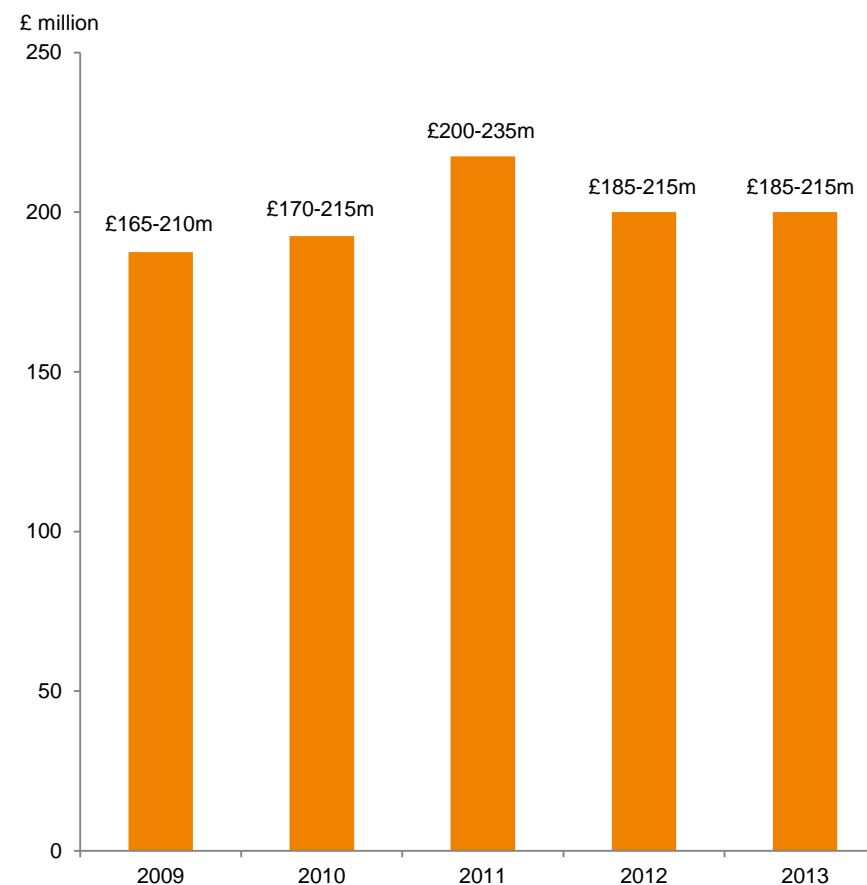


The circa £200m that indies bring into production has been sustained for another year. Indies' estimated contribution has remained stable over the last five years.

Estimated value of contribution to productions, 2013



Estimated value of contribution to productions, 2009-2013



Source: O&O analysis, Pact census and estimates

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

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