census

independent production census 2007/08

KPMG

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pact.

KPMG LLP (UK)

KPMG LLP, a UK limited liability partnership, operates from 22 offices across the UK with nearly 11,000 partners and staff. The UK firm recorded a turnover of £1.6 billion in the year ended September 2007. KPMG is a global network of professional firms providing Audit, Tax, and Advisory services. We operate in 148 countries and have more than 113,000 professionals working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative. KPMG International provides no client services.

Bank of Ireland Corporate Banking

Bank of Ireland Corporate Banking has a dedicated Technology, Media and Telecoms Team, headed up by Bill Greaves, representing the most experienced team of corporate media bankers in the UK. Their remit is the provision of debt facilities, including working capital, contract discounting, asset finance (especially Intellectual Property Assets) and term lending (including both corporate and leveraged transactions) to the whole of the media sector, which includes publishing, marketing services, radio, TV broadcasting and production, music, technology and telecoms, games publishing and ancillary services, in the UK, Europe and the US. The team also specialises in providing finance for structured tax products in the film finance market.

Bank of Ireland has an established representative office in Los Angeles to facilitate the provision of short-term structured film and television production finance facilities to production companies and in April 2007 established a media team operating in Stamford, Connecticut. The team offers senior and mezzanine financing to media companies in the publishing, information services, broadcasting, out-of-home, cable television and digital media sectors and has a specific focus on transactions in the mid-market space.

Bank of Ireland Group is the leading provider of financial services products in the Republic of Ireland and has a significant and growing presence in the UK market. It employs c.16,000 staff, has assets of EUR 200 billion and generated pre-tax profits of EUR 1.09 billion in the half-year ended 30 September 2007.

Pact

Pact is the UK trade association that represents the commercial interests of independent feature film, television, animation and interactive media companies. Pact is the largest representative group of screen-based content producers in the UK and the largest trade association in the film, television and interactive media sectors.

census

We are delighted to present the third annual Independent Production Census, which is fast becoming the most reliable source of information on the progress of the industry.

Our aim has been to create a document which demonstrates the success of the industry by providing a detailed economic and financial analysis of the sector and its performance; thereby showing its contribution to the economy. By building on this data year-on-year we can then also provide evidence of the sustainability of the industry, and the profit margins which continue to increase significantly. This substantial contribution to the economy only strengthens our position with Government and paves the way for continued support and investment for UK production companies.

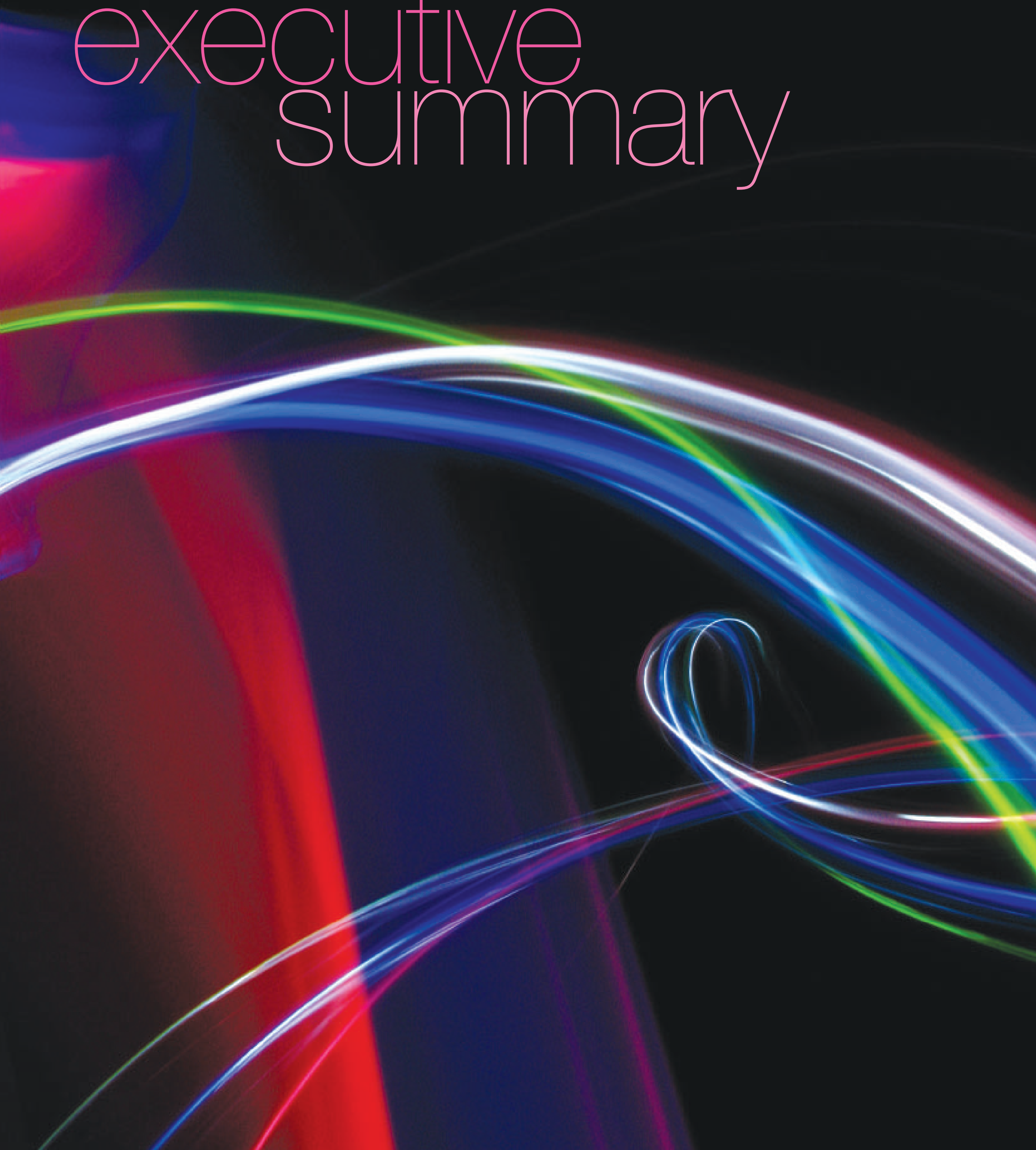
As anticipated, this year's report, the 2007/08 Census, shows a healthy industry that continues to grow considerably, and now generates combined revenues of £2.14bn, up from £1.95bn last year. By analysing the combined data from the last three years we can track this growth and illustrate the viability of the industry as it goes from strength to strength.

It has been an exciting year, with the emerging markets and change in distribution platforms paving the way for growth in other areas, such as New Media. We look forward to charting the progress of these developments in the industry in future reports.

I am very grateful for the continued support of our sponsors, KPMG LLP (UK) and Bank of Ireland Corporate Banking, both for their financial contribution and for their invaluable sector knowledge and expertise. I would also like to extend my thanks to Digital-i who collated and analysed the data and put together the report, as well as all the companies who took part in the survey without whom the Census would not be possible.

John McVay, Chief Executive, Pact.

executive summary



The independent production sector continues to grow, from £1.06bn in 2005 to £1.95bn in 2007, and now reaching £2.14bn.

UK broadcasters are fuelling indies' growth, with spending up by £156m.

International sales contributed significantly, totalling £310m, of which 84% were to the US.

Multichannel revenues, including the terrestrial extensions, continue to grow, now contributing £240m.

This is the latest Census of the UK independent production sector. It examines the health of the sector and reports on the growth, profitability and consolidation of the companies. It analyses critical success factors and considers the investment opportunities.

The analysis in this report is based on responses from 153 companies which represented 76% of the industry revenue. Data was collected between September and November 2007. Companies supplied data for their most recent financial year; in the majority of cases (78%) this was for a year ending between January 2007 and December 2007.

Profile of the Sector

This is the 2007/08 Census of the UK independent production sector. Since the 2007 Census, the independent production sector has grown by 9.4%. In the 2007/8 Census, total revenue for the sector is reported at £2.14bn. Since the 2005 Census the sector has generated a compound annual growth rate (CAGR) of 15.6%. Overall, independent production companies are returning ever greater operating profits (from an average of 6% in the 2005 Census, growing to 9.3%).

The major players in the sector are five large media groups; All3Media, IMG, Freemantle, Hit Entertainment and Endemol, each with turnover greater than £100m. Together they generated 43% of the sector's revenue this year as well as £156m of growth. There has also been strong growth among companies with revenues of £50-100m, of which acquisitions accounted for 45% of this growth. Companies with revenues of £5-10m are continuing to return lower than average profit margins and growth. This is most pronounced amongst those which are independently rather than group-owned (returning margins of 1.2% against the industry average of 9.3%).

Revenue Sources

Most of the growth in the sector has come from increased commissions from UK broadcasters (up by £156m), primarily BBC, ITV and multichannel[1]. Non-TV work has increased to 11% of all revenues while new media has fallen slightly from £42m to £39m, although the overall trend is still up.

International revenues contributed £310m, mostly in primary commissions from the USA. The most successful international genres were factual (48%), factual entertainment (24%) and entertainment (18%). Companies in the £20-50m revenue band were particularly strong internationally.

Drama productions continued to generate the greatest proportion of industry revenues (33%), followed by entertainment, which has increased to 23% of all productions. However, factual and children's programmes dominated the portfolios of small companies.

The BBC continues to offer the most competitive market for independent producers, followed by multichannel and Five. 40% of Five's commissions and 48% of multichannel commissions were awarded to companies with turnover less than £10m. ITV significantly increased the entertainment programmes it commissioned from the independent sector (up by £81m since the 2007 Census) while the BBC increased its spend on drama by £55m.

Investment Opportunities

Within the last few years, amidst regulatory and business changes, the number of partly-financed concepts and productions has increased by around 50%. This has left independent production companies with an increased need for finance, in order to develop concepts for sale and to create programmes in which they retain an increasing proportion of the rights. The majority of gap finance (33%) is provided by the directors/owners of the production companies. However, banks and distributors have also played a major part (20% and 23% respectively).

1 In this report, multichannel excludes the terrestrial extension channels (e.g. BBC3, More4) unless otherwise stated.

Average debt finance has doubled to £3.4m.

Consolidation gathered pace, with the top 10 companies now generating 60% of industry revenue compared to 55% reported in the 2007 Census.

Group-owned companies generated 66% of the industry's revenues and created 87% of its growth.

Current Financing and Ownership

The independent production sector has taken an increased interest in debt finance, particularly those companies in the £1-5m turnover band. The average amount of debt finance that was raised more than doubled from £1.5m reported in the 2007 Census to £3.4m in the 2007/8 Census.

In the same period, grant awards have fallen from an average of £84k to £54k. However, production companies expressed the hope of raising an average of £439k by this means.

Whilst in the 2007 Census 7.2% of respondents reported raising equity finance with an average value of £1.07m, in the 2007/8 Census, just 4% succeed in raising equity finance, with an average value of just £150k.

Amongst the large media groups, there is evidence of newfound interest in the UK production sector by European holding companies.

Critical Success Factors

Profitability and growth is generally strong for those independent production companies with revenue below £5m, and again for those with revenues greater than £20m; this pattern was analysed in the 2007 Census. In the 2007/8 Census, the critical success factors for smaller production companies are examined, as are the effects of group ownership.

Of the small production companies, the top ten growth businesses worked mainly for the BBC, but despite the growth of multichannel, they did very little multichannel work. The ten most profitable production companies focused on working with 25% fewer broadcasters and specialised in fewer genres. They generated 69% of their revenues from returning series, compared with their peers who averaged 52%.

Since the 2007 Census, multichannel commissions have grown from 16.7% to 17.8% of all UK commissions. Multichannel revenues reached £240m, with £90m coming from the terrestrial extensions. Companies with turnover less than £10m won 48% of multichannel commissions (compared with their overall revenue share of 26%). However, the average value of commissions from multichannel is currently smaller than that from terrestrial broadcasters.

Rights exploitation accounted for 9.4% of UK television revenue and 20% of international revenue. Distribution accounts for over a quarter of all secondary income.

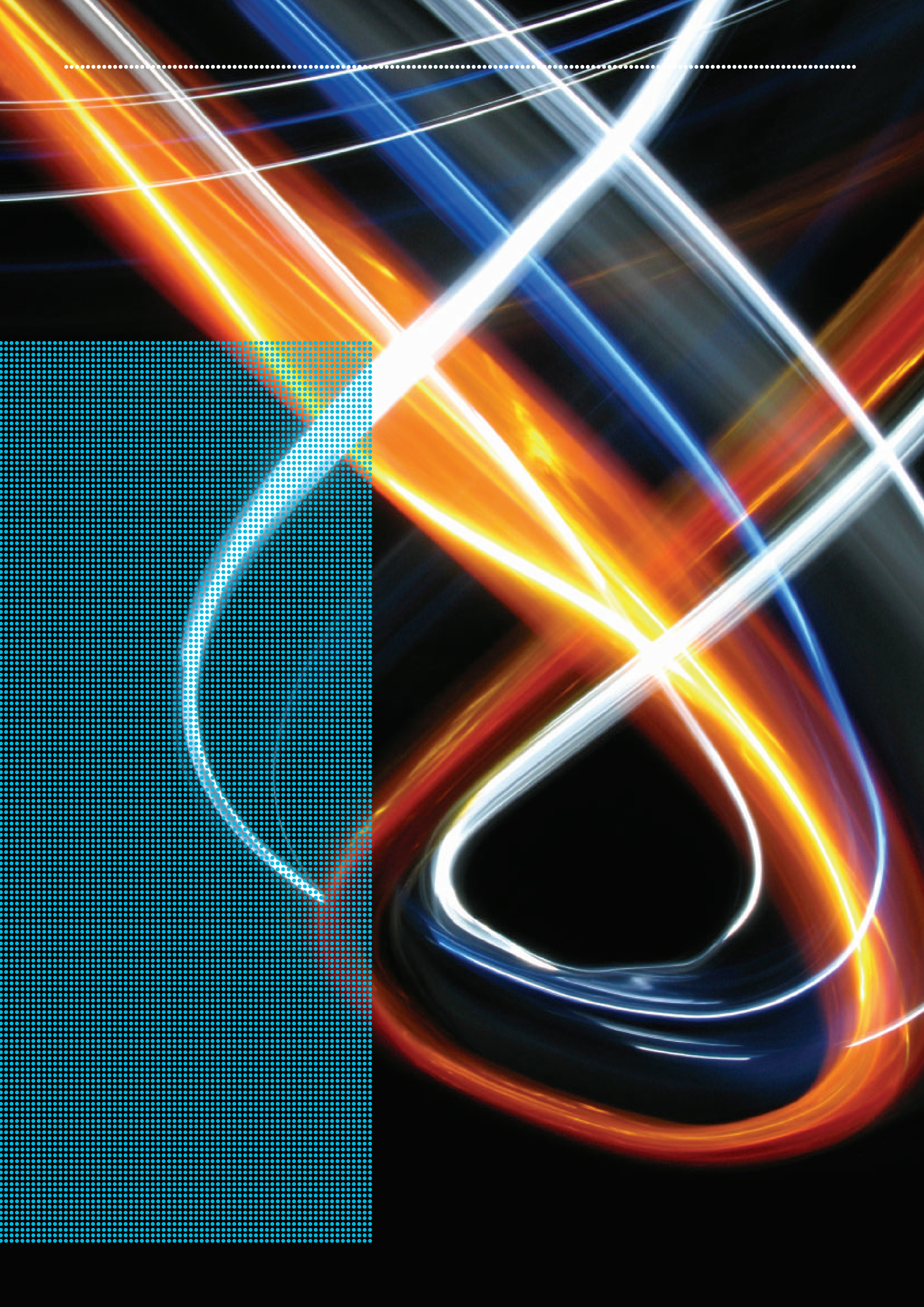
Larger companies have been more successful in securing revenues from returning series (73% of revenues against 26% by the smallest companies). Nearly three quarters of drama commissions came from returning series, while for factual the figure was less than a quarter. ITV and Channel 4 relied more on returning series for their output (68% and 67% respectively) while multichannel broadcasters commissioned 50% of new productions.

The Effects of Group Ownership

Group-owned companies are now generating around 66% of the industry's revenue and are responsible for the majority of the industry's growth (87%).

In almost all areas, the group-owned companies are delivering greater profits than the rest of the independent production industry (overall 10% against 6%) and, with an average annual growth rate of 15% between the 2007 Census and the 2007/08 Census, have increased in size three times faster than the rest of the industry. This is particularly pronounced amongst companies with turnover of £10-20m and even more so at £5-10m. Comments collected from media group executives suggest that this is due in part to efficiencies of unbroken production runs and the ability to pool specialist resources.

introduction



the independent production census 2007/08

is a survey of UK independent production companies and it provides in-depth analysis into specific trends and areas of growth within the sector. The findings of this report are based on information provided by senior executives at independent production companies, operating in television, interactive, film, children's and animation.

The data was gathered by means of an electronic questionnaire which captured financial statistics including turnover, profitability and programme revenues. Data was collected between September and November 2007 for each company's most recent financial year. In the majority of cases (78%) this was for a year ending between January 2007 and December 2007, so providing a retrospective view of the industry's progress.

This is the third annual industry report to be published by Pact, the UK's trade association for the independent production community. It is the second year the report has been sponsored by KPMG LLP (UK) and Bank of Ireland Corporate Banking.

The 2005 Census

The data for the 2005 Census was collected between May and July 2005 and the report was published by Ofcom in September 2005 ("Television Production Sector Review - A survey of TV programme production in the UK").

The 2007 Census

The data for the 2007 Census was collected between September and November 2006 and reported mainly on financial data for the period January 2006 to December 2006. The report was published by Pact in April 2007 ("2007 Independent Production Census").

The companies surveyed

The Census canvassed companies which are known to be involved in the production of television, film, animation, interactive and children's programming. This list was obtained from a combination of Pact membership records and the proprietary Digital-i database, which is kept up to date from a variety of sources, including trade journals and market reports.

There are 800+ independent production companies of varying sizes in the UK. In addition to the natural growth in the sector there has been ongoing consolidation, resulting in a small group of companies with significantly higher than average turnover - typically over £100m. Several are listed on the Alternative Investment Market (AIM) and others, such as the media company Entertainment Rights plc, have a full stock market listing. Others have secured sizeable equity finance from large funds or private equity companies.[2]

The 2007/08 Census generated the highest level of response from across the industry, capturing 76% of estimated industry revenue, from 153 company responses. Of this, 89% of production companies with turnover greater than £20m contributed their data, as did 59% of those with turnover between £1m and £20m. The greater majority of non-participants were companies with turnover less than £1m.

In this report, group-owned companies are mostly treated as separate entities. This provides the most meaningful analysis when considering, for example, how different genres are being produced. However, there are times when each group in its entirety provides a more useful basis for comparison, including trends in profitability. In either case, the revenue of the individual company or of the group as a whole is used to determine the applicable revenue band, allowing for meaningful analysis against peers. Each method of analysis is clearly indicated in all charts and analysis. Chart 01 seeks to clarify what is meant by "small", "medium" and "large" when referring to individual companies and groups.

Census findings in previous years

There have been some notable shifts in the findings of the Census over the last three years.

The primary findings of the 2005 Census were:

- Independent production companies as a whole were in a fragile but improving state.
- Respondents felt the new terms of trade were valuable, but there was not yet any evidence of their impact.
- Most production companies' profitability depended on retention of rights, as primary production generated very little profit margin.
- The main terrestrial broadcasters were the most significant buyers.
- The size of the industry was estimated to be £1.6bn.

The primary findings of the 2007 Census were:

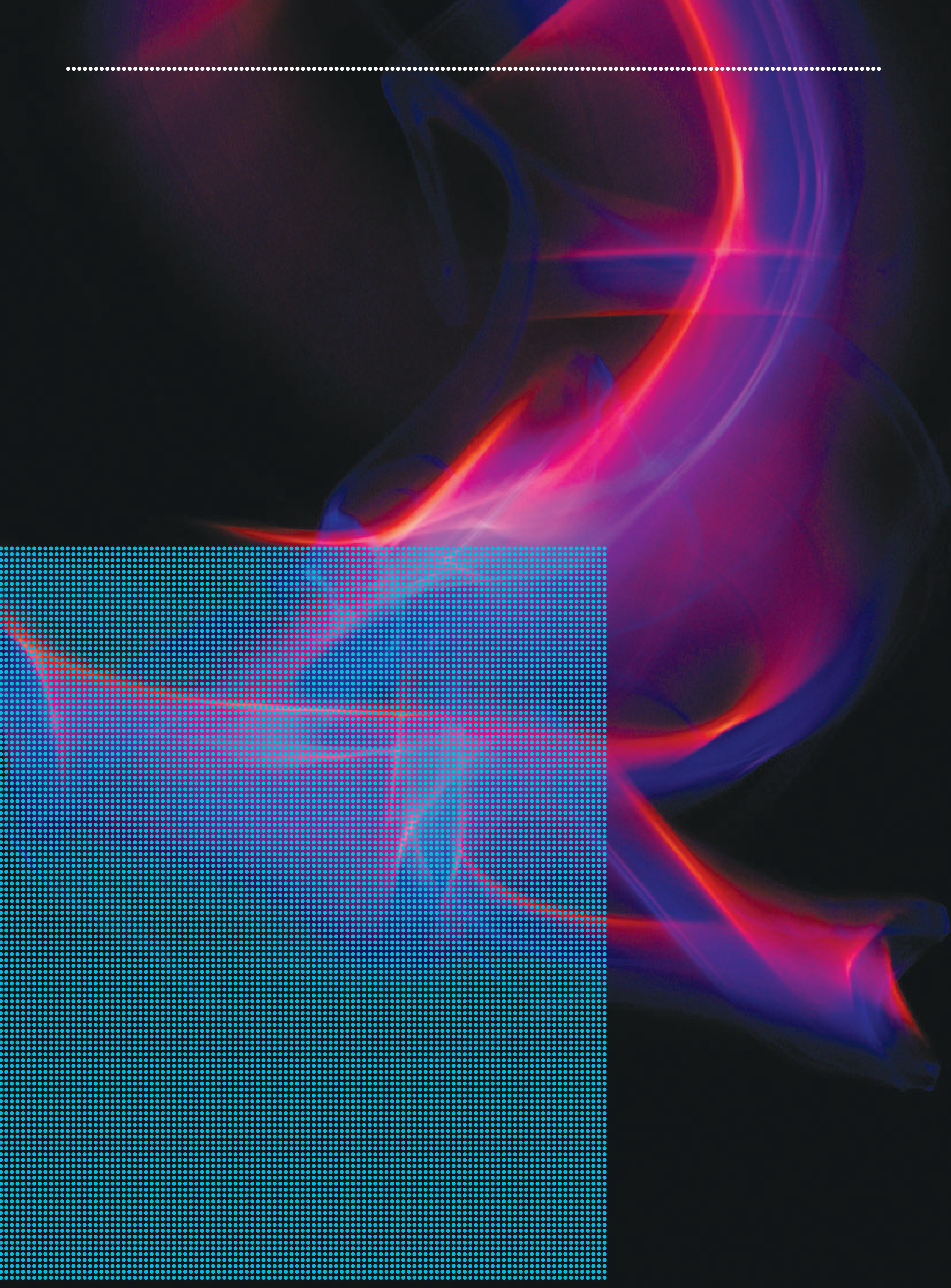
- Over the preceding year, total industry revenues had increased by 17.4% to £1.88bn (these figures were adjusted after the 2007/08 Census to a growth of 22.1% and total industry revenue of £1.95bn). Almost 50% of this growth had come from international commissions, mainly factual and factual entertainment for the USA.
- The top five companies were generating 41% of all industry revenues. At least half of this came from drama productions. These companies were averaging profit margins of 8.8%.
- Medium sized companies (with revenues between £5m and £10m) were achieving margins of just 3.5%.
- The established terrestrial broadcasters remained the best source of business for independent production companies. Multichannel commissions were shown to be a rapidly growing source of revenue (up from 4.2% to 9.4% of the industry).
- 36% of independent production companies stated that they had raised or planned to raise finance.
- 70% of production company executives expressed a high level of confidence in the future. However, many did raise concerns about broadcasters' falling budgets.

2 For example, August Equity has a Shareholding in Hat Trick Productions, while Permira Funds acquired All3Media from Bridgepoint Capital in July 2006.

01. Clarification of what is meant by "small", "medium" and "large" when referring to individual companies and groups.

Type of Company	Typical Turnover < 1m	1-5m	5-10m	10-20m	20-50m	50m +
Small	●	●				
Midsize and growing		●	●	●		
Mid/large and stable				●	●	
Groups					●	●

profile of the sector



The top five groups generated 43% of industry revenues.

The majority of growth came from companies with revenue over £50m.

TV production revenues are up from £1.75bn to £1.89bn.

Non-TV work has more than doubled over the last three years.

Commissions from UK broadcasters have grown from £1.14bn in the 2005 Census to £1.35bn in the 2007/08 Census.

The companies

The businesses working in the independent production sector can vary significantly in their size, structure, aims and output. They vary from small businesses, generating an income for one or two individuals, up to media groups listed on the AIM or publicly quoted on the Stock Exchange, which are delivering double-digit profit margins and consistently strong growth.

The continuing pattern of consolidation and strong organic growth is increasing the market share of the largest companies, so that the five largest now represent 43% of all industry revenues. However, there are also over 700 small independent production companies active in the industry.

Industry Growth

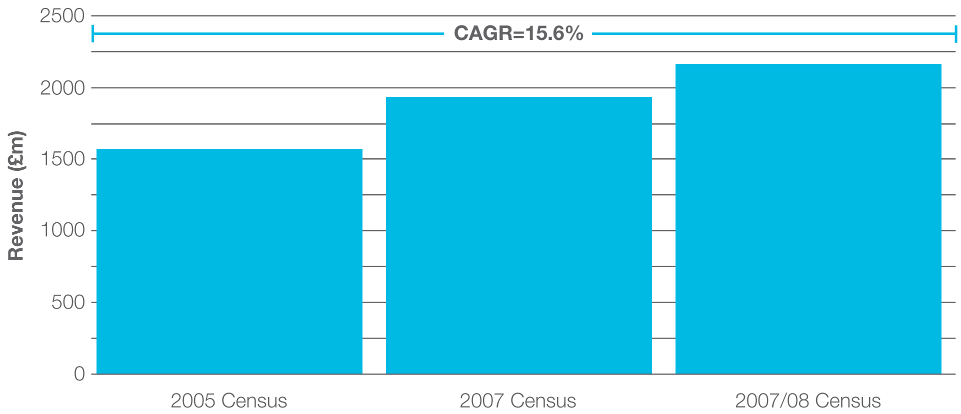
The UK independent production sector has experienced another year of strong growth. Overall industry revenues have increased by £184m to £2.14bn – up by 9.4% from the 2007 Census. As the chart below shows, since the 2005 Census compound annual growth rate (CAGR) has been 15.6%. Chart 02

Companies across all turnover bands have achieved growth, although the greatest increases are amongst those with revenues of more than £50m, which achieved growth of £117m, contributing 55% of overall industry growth. The next most significant growth has occurred amongst companies with revenues between £10m and £20m, contributing 13.4% (£28m) of industry growth.

Much of this growth has come from TV revenues, which have risen to £1.89bn. This is an increase of 7.4% from the 2007 Census. While international commissions dropped slightly, UK commissions have increased substantially (up by £156m). This was fuelled largely by increased commissioning by ITV, BBC and multichannel broadcasters.

Growth is also being generated by activities other than programme-making to the extent that such activities now account for 11% of all industry revenue (actual growth £42m). The majority of this is accounted for by rights sales, research, post production, consultancy and studio income and while new media experienced minimal growth (revenue is down slightly since the 2007 Census), the overall trend is still up (overall growth of £20m since 2005).

02. Independent Production Sector Growth between 2005 Census and 2007/08 Census Source: Digital-i/Pact/Broadcast/Mediatique/Ofcom



International sales accounted for £310m of industry revenues.

Drama leads the industry, with 33% of all productions. The most dedicated producers of drama are companies with revenue of £20-50m.

The BBC provides the most competitive market for indies, while multichannel is making strong advances.

Profitability

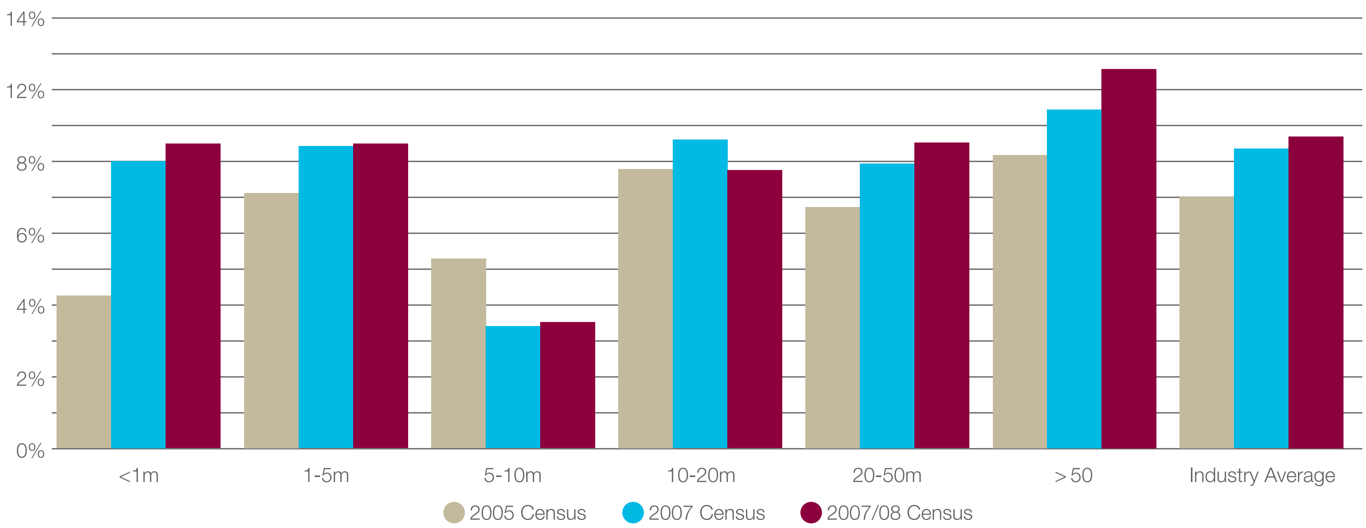
Alongside industry growth, described in the previous section, independent production companies overall are returning good profit margins (average 9.3%).

However, as the chart below shows, profitability is not consistent across the different revenue bands. Overall, companies in the £5-10m revenue band are still returning, on average, lower profit margins (at 3.6%) than the rest of the industry, while those in the £10-20m band are failing to sustain profit margins, with the most recent results falling below the figures in the last two Censuses (7.8% this year compared to 8.7% and 7.9% in the 2007 and 2005 Censuses, respectively). Chart 03

Amongst the companies with revenues between £5-10m there are significant differences between those which are part of a group and those which are not. Group owned companies are averaging profit margins of 10.3% whereas their counterparts are returning 1.2%.

There is a great deal of variation in profits amongst the smaller companies. In the <1m turnover band, profit margins vary between -15% and 40%. In contrast, those with revenues over £50m have profits between 5% and 20%.

03. Profit Margins by Turnover Bands at Individual Company Level Source: Digital-i/Pact/Broadcast



Impact of Groups and Consolidation

Consolidation has continued in the industry since the 2007 Census, but with different patterns emerging from those previously reported.

The largest companies (with revenues over £100m) have made fewer acquisitions than reported in the 2007 Census and have now generated over 80% of their growth organically.

Amongst companies in the £50-100m band, nearly half of the growth (45%) is accounted for by acquisitions of smaller companies.

Chart 04 shows the principal deals which have occurred since the 2007 Census.

The top five largest independent production companies now represent 43% of all industry revenue, up from 41% reported in the 2007 Census. This represents growth of £156m which, unlike last year's increases, was due in the majority to organic growth. Chart 05

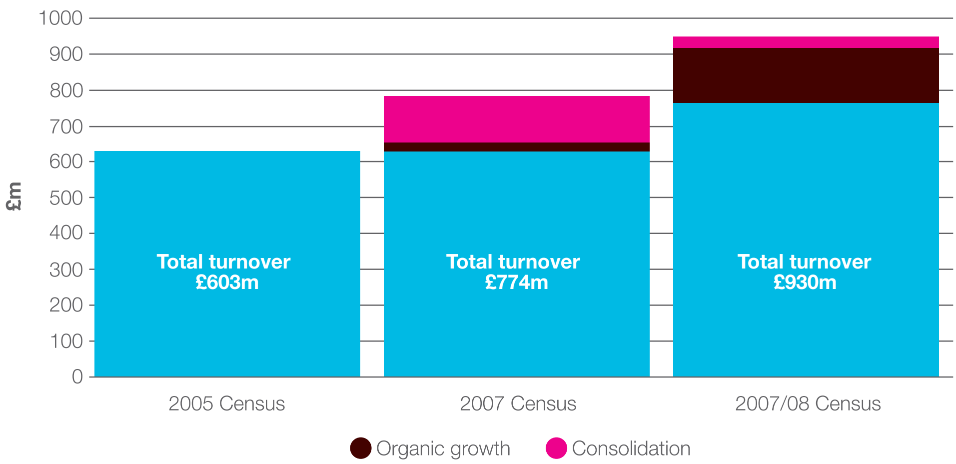
London and the Regions

The majority of independent production companies are based in London (62%). Those companies based outside London tend to be smaller; around half of the companies with revenue less than £5m are based outside London, whilst almost 85% of companies with revenue greater than £10m are based in London.

04. Principal deals which have occurred since the 2007 Census

Holding Company	Production Company	Acquisitions since 2007 Census
The Zodiak Television Group	Diverse Production UK and US	October 2006
Shine Group	Firefly Film and Television Production	December 2006
Shine Group	Kudos	December 2006
Shine Group	Princess Productions	December 2006
Two Way Traffic	Celador International	December 2006
Mediaset, de Mol and Goldman Sachs	Endemol	May 2007
All 3 Media	MME Moviement	March 2007
All 3 Media	Maverick Television	June 2007
DCD Media	Prospect Pictures	July 2007
DCD Media	September Films	July 2007
DCD Media	West Park Pictures	July 2007
Eyeworks	At It Production	July 2007
All 3 Media	Objective Production	August 2007
The Zodiak Television Group	Bullseye TV	August 2007
Shed Productions Plc	Twenty Twenty Television	September 2007
Shed Productions Plc	Wall to Wall	November 2007
ITV	12 Yard	December 2007

05. Consolidation and Organic Growth of Top 5 companies Source: Digital-i/Pact/Broadcast/Ofcom



Revenue Sources

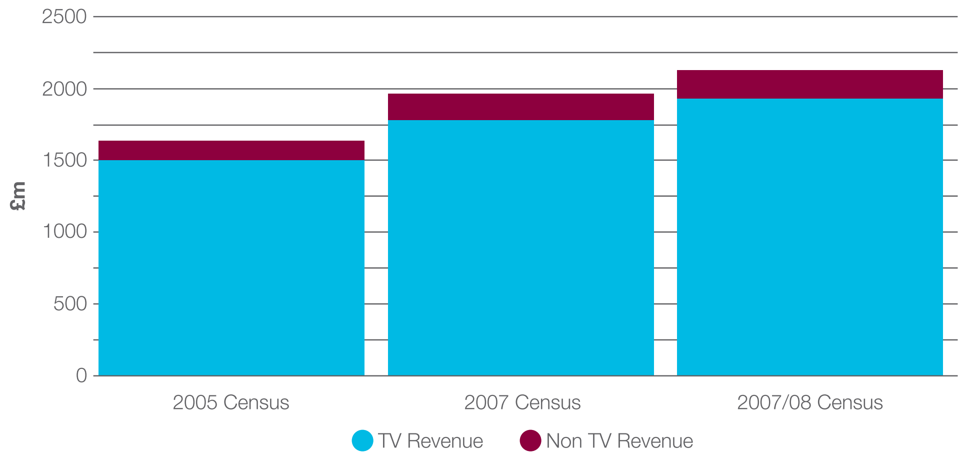
The independent production sector is now generating more revenue from TV production, with revenues growing consistently year-on-year. Total revenue for the sector grew from £1.75bn reported in the 2007 Census to £1.89bn reported in the 2007/08 Census.

Non-TV activities are also growing and are contributing a larger proportion of revenues than in previous years. As the chart below shows, non-TV work accounted for £105m (7% of revenue) in the 2005 Census, £199m (10%) in the 2007 Census and £242m (11%) in the 2007/8 Census. Chart 06

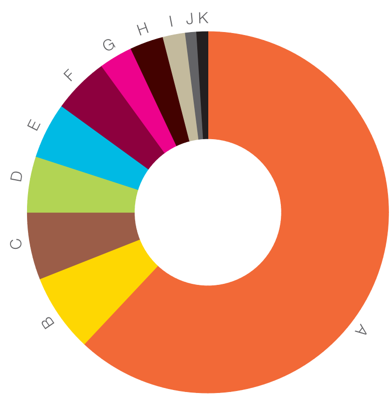
The biggest increase in non-TV revenue has come from a combination of rights sales, research, post production, consulting and studio income. New Media is discussed in the next section.

75% of companies reported working at least some of the time in London and most out-of-London companies (at least 80% in each area) worked on some of their productions in the nations and regions. Chart 07

06. Sector Revenue Broken Down by TV and Non-TV Activities Source: Digital-i/Pact/Ofcom



07. Regional Base of Companies Source: Digital-i/Pact



A	London - Inside M25	62%
B	South	07%
C	Scotland	06%
D	North West	05%
E	South West	05%
F	Wales	05%
G	Midlands	03%
H	N.Ireland	03%
I	Anglia/East	02%
J	Yorkshire	01%
K	North East	01%

Primary, Secondary and Additional Rights.

Primary commissions remain by far the greatest source of revenue for the UK independent production sector. They are also growing faster and more consistently year-on-year than secondary or additional rights.

As Chart 08 shows, primary commissions increased from £1.14bn in the 2005 Census to £1.35bn in the 2007/8 Census. Over the same period, preproduction increased from £15m to £43m and additional TV (defined as the sum of secondary and additional rights) increased from £103m to £146m.

While primary commissions have grown consistently since the 2005 Census, growth in additional TV slowed since the 2007 Census.

Commissions from UK broadcasters have increased significantly, by £156m since the 2007 Census. As Chart 09 shows, much of the increase has come from ITV and BBC, although multichannel commissions have also increased.

However, when considering growth in commissioning over the last three Censuses, multichannel has exhibited stronger year-on-year growth, whereas BBC and ITV have delivered a greater increase in commissioning between the 2007 and 2007/8 Censuses.

Since the 2005 Census, commissioning by Channel 4 and Five have both exhibited negative growth.

The most notable increases in commissioning have been in:

- entertainment from ITV (increased by £81m since 2007 Census).
- drama from the BBC (increased by £55m since 2007 Census; mainly awarded to larger companies).
- factual from the BBC (increased by £26m since 2007 Census; mainly awarded to smaller companies).
- factual from multichannel broadcasters (increased by £15m since 2007 Census; mainly awarded to smaller companies).

New Media

New Media revenues have not increased since the 2007 Census. As the chart shows, following a doubling of reported revenues between the 2005 Census and the 2007 Census (from £19m to £42m), New Media revenues have now fallen slightly to £39m. Chart 10

International

At £310m, international sales remain a significant part of the independent production companies' revenues.

As shown in Chart 11, a large proportion of this business (75%) is primary TV rights – where a UK independent production company is commissioned to create a programme by an international broadcaster.

Additional rights form a lesser part of overseas revenues (20%).

The greater majority of international sales (84%) are to the US. There is no clear pattern or leader amongst the other countries which commissioned productions or bought secondary rights from the UK independent sector.

As illustrated in Chart 12, the most common commissions to UK independent production companies from US broadcasters are in the genres of factual (48%), factual entertainment (24%) and entertainment (18%).

Comment on New Media

pact.

The overall trend as captured within the Census over the last three years within the New Media sector is one of strong growth. New Media income in 2005/6 was just £18m and in 2007/8 was £39m. This shows an overall growth of 211%.

Although this year's total is 11% down on last year this could be due to a range of factors, and we expect the picture to become clearer over the coming months as the opportunities on new platforms offer content producers new ways to engage audiences and new outlets for their content. How fast they can adapt, who has the necessary skills and ultimately who pays will become clearer through 2008.

Future Opportunities
Multiplatform commissioning

BBC Vision introduced their new multiplatform commissioning strategy in late 2007, which meant television and interactive projects for multiple platforms were commissioned through a single process. Pact's recently agreed New Media Rights Framework (which gives producers ownership rights over their content), increased budgets for Vision and Learning, which are expected to rise by c.£30million over the next 3 years, and a re-structuring to bbc.co.uk will contribute to unparalleled opportunities at the BBC for Interactive producers in the future.

Commissioning moving from television to online

Channel 4 Education is commissioning television and interactive producers to work, often on co-productions, on new commissions for 2008 and form part of a £6m educational budget for 14- to 19-year-olds. This is a major shift in strategy and funding, involving the channel dropping much of its TV programming in favour of online projects. Channel 4 Education is also embarking on a multiplatform commissioning strategy in 2008.

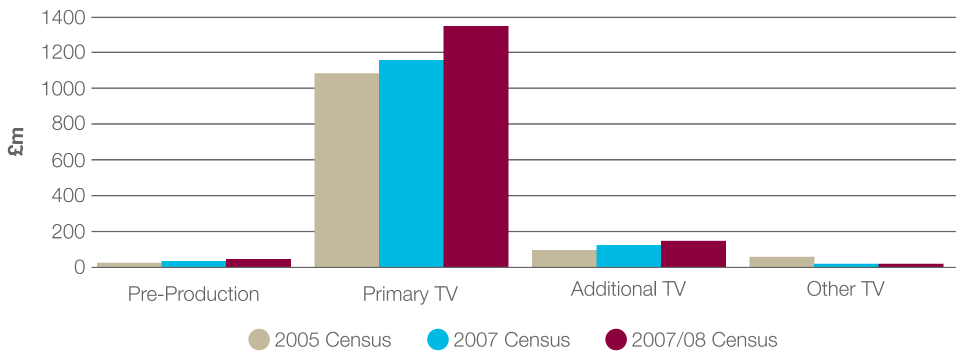
The new commissions

As consumers migrate online and advertisers follow, ISPs, brands and website owners are increasingly becoming involved in commissioning new forms of interactive content. Influential sites like Bebo have recently commissioned producers like Endemol to make an online reality series following the success of previous online dramas, for example, the ad supported KateModern, the UK spin-off of Lonelygirl 15.

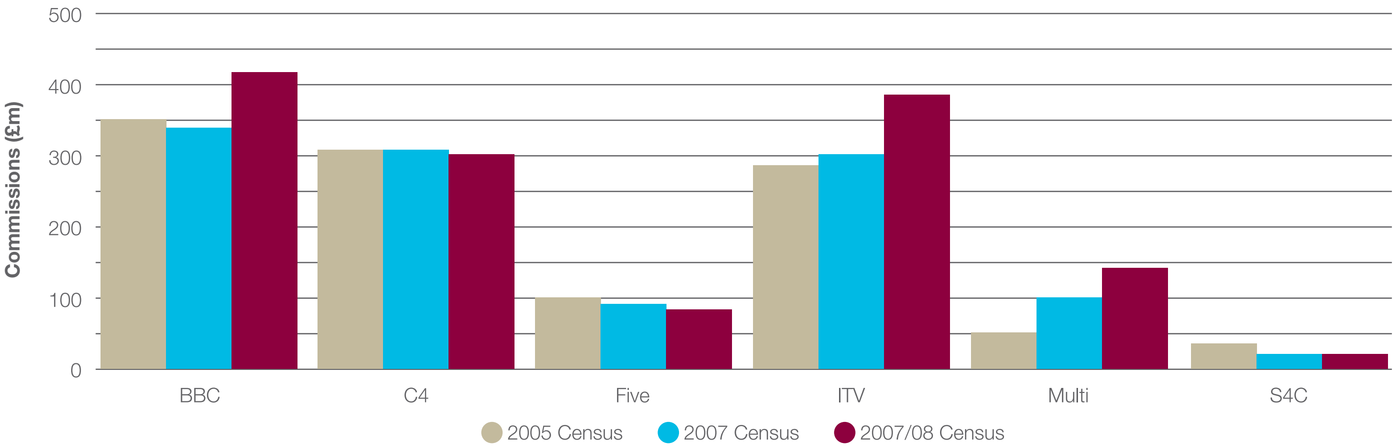
There is an emerging pattern of television companies forming formal and informal strategic alliances with interactive companies to utilise their skills and knowledge, reduce risks and take advantage of the new opportunities within this rapidly convergent marketplace.

The fact that audiences are now able to "pull" their chosen drama or comedy on demand, on their terms, on their device of choice, means producers can no longer produce, transmit and sit back. This non-linear world asks important questions of television producers and their ability to adapt to an increasingly interactive world.

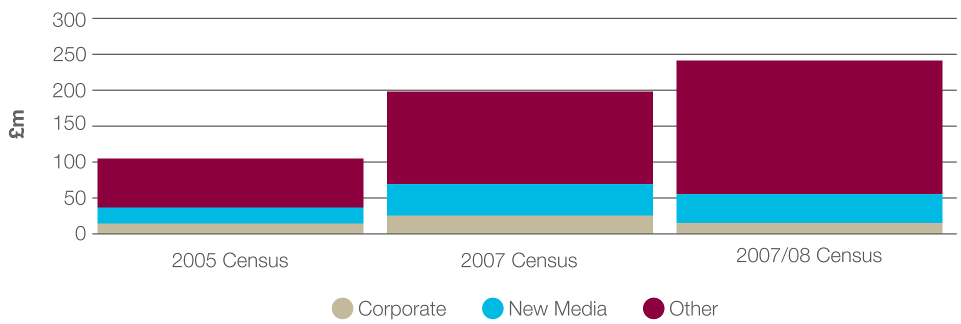
08. Breakdown of UK TV Value Source: Digital-i/Pact



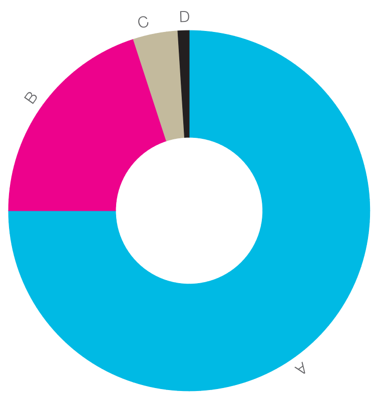
09. Value of UK Commissions by Broadcaster (including terrestrial extensions) Source: Digital-i/Pact



10. Breakdown of Non TV Revenue Source: Digital-i/Pact/Ofcom



11. Breakdown of Overseas Revenue 2007/2008 Census

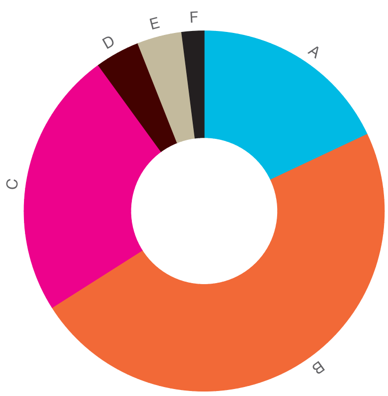


A	Primary	75%
B	Additional TV	20%
C	Other TV	04%
D	Pre-Production	01%

Both chart sources: Digital-i/Pact

12. US Commissions by Production Genre 2007/2008 Census

A	Entertainment	18%
B	Factual	48%
C	Factual Entertainment	24%
D	Lifestyle	04%
E	Other	04%
F	Drama	02%



Commissioning Patterns

The Census over the last two years has shown that the international opportunity is being seized by independent production companies of all sizes although, as the chart below shows, it is not consistent across the sector. The smallest companies (revenue <1m) are generating international and UK revenues in the same proportion as the industry average, whilst those in revenue bands £1-5m and £5-10m are contributing a lesser proportion of international revenues compared to their share of the UK market. Chart 13

Since the 2007 Census, the value of international primary commissions was reported to have fallen by around £38m (from £271m to £233m).

The most recent figures for international primary TV revenues remain significantly higher than those reported in the 2005 Census (from £147m to £233m). Chart 14

Since the 2007 Census, there have been noticeable shifts in the genres produced by the UK independent sector.

As illustrated in Chart 15, commissions of factual programmes have increased from 12.1% to 14.8%, drawing slightly ahead of factual entertainment.

Factual entertainment as a genre has fallen, from 20.4% in the 2005 Census to 15.7% in the 2007 Census and further to 14.4% in the 2007/8 Census.

Commissions reported in the 2007/8 Census from the hobbies/leisure genre have also fallen sharply, to less than a third of the share of the market they reported in the 2005 Census (from 7.4% to 2.1%).

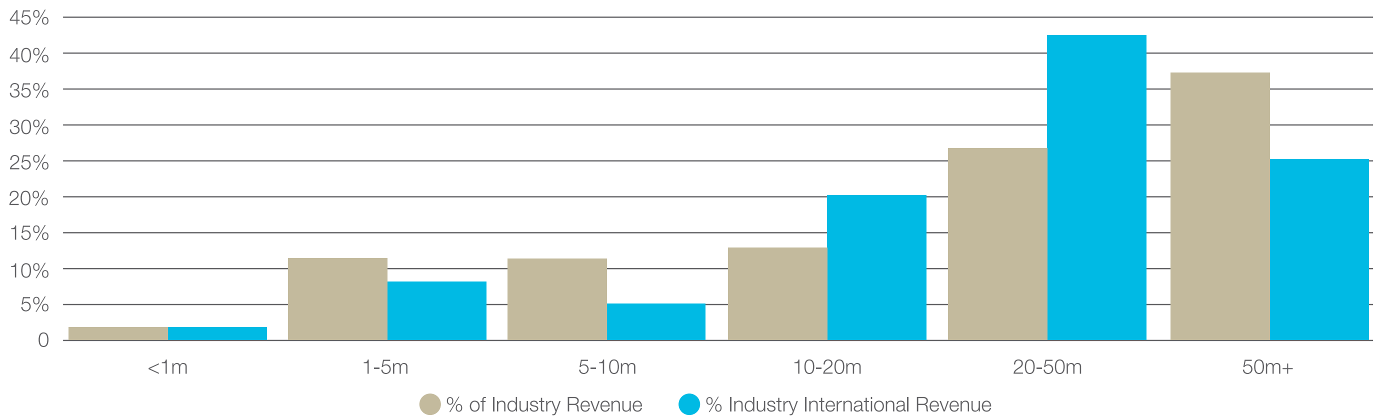
However, drama remains by far the most commissioned genre, accounting for 33% of all independent productions. Entertainment also ranked highly with a market share of 23% that remains largely unchanged since the 2005 Census.

Genres and Production Companies

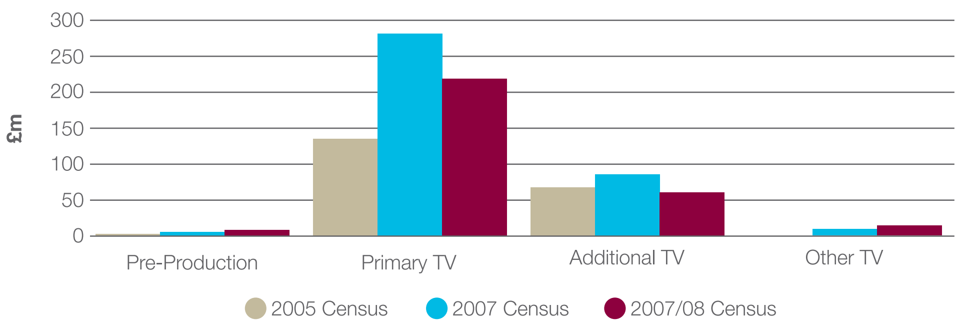
There are substantial differences in the genres produced by large and small companies, as illustrated in Chart 16.

- The smallest independent production companies (with revenue below £1m) do most of their work in children's (28%) and factual (43%).
- Companies in the £1-5m and £5-10m revenue bands are producing a mix of programmes from a variety of genres, including factual, factual entertainment, entertainment, drama and hobbies.
- Companies with revenue of £10-20m are specialising in entertainment (46%), factual (30%) and factual entertainment (21%). Whilst there was a large proportion of drama reported in the 2007 Census, there was almost none in the 2007/8 Census. This was caused in part by businesses withdrawing from the genre and partly due to drama producers' successes shifting them into a higher revenue band.

13. Contribution to Overall International Revenue by Company Turnover Band 2007/2008 Census Source: Digital-i/Pact



14. Breakdown of International TV Value Source: Digital-i/Pact



- Companies with revenues of £20-50m are producing more drama than anything else (accounting for more than 60% of their total output).
- The largest companies have somewhat more varied portfolios, although entertainment (39%) and drama (27%) dominate.

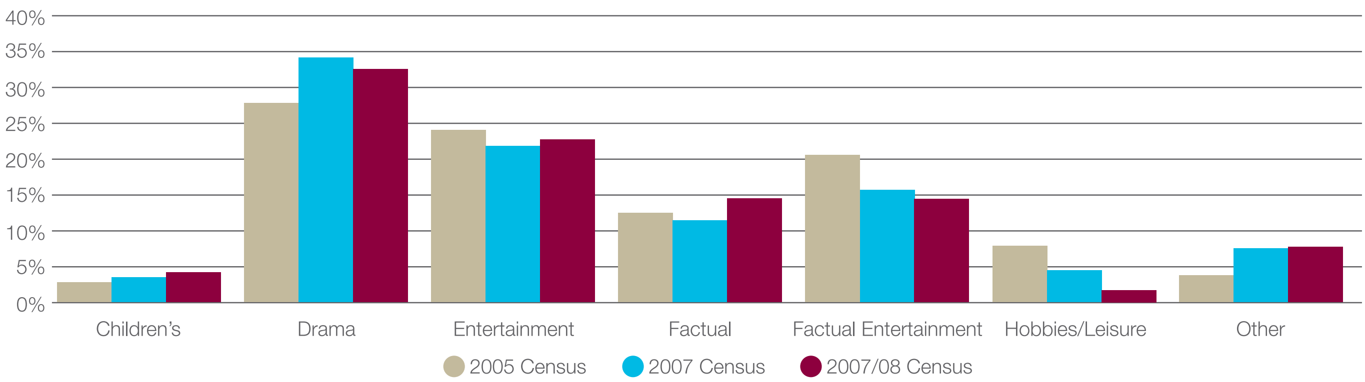
Producers' Perceptions

Production companies were again asked for their views on the genres offering the best opportunities. Their responses varied to those reported in the 2007 Census.

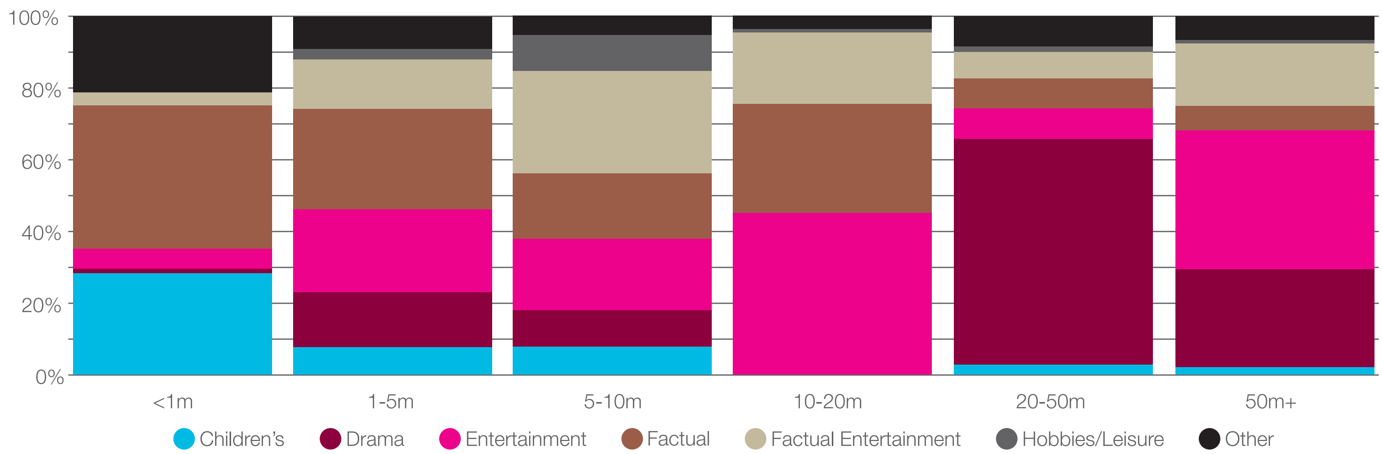
Whereas in the 2007 Census more than 30% of producers felt that entertainment offered the best opportunities, in the 2007/08 Census only 15% agreed. Drama is also less popular than last year, (falling from 28% to 20% of the votes).

Factual entertainment is now the most favoured genre, and more than 20% of producers view it as the most promising genre. Factual programming also seems to be in the ascendant, with double the number of producers rating it as the most promising genre compared to the 2007 Census (from 9% to 18% of the votes). Chart 17

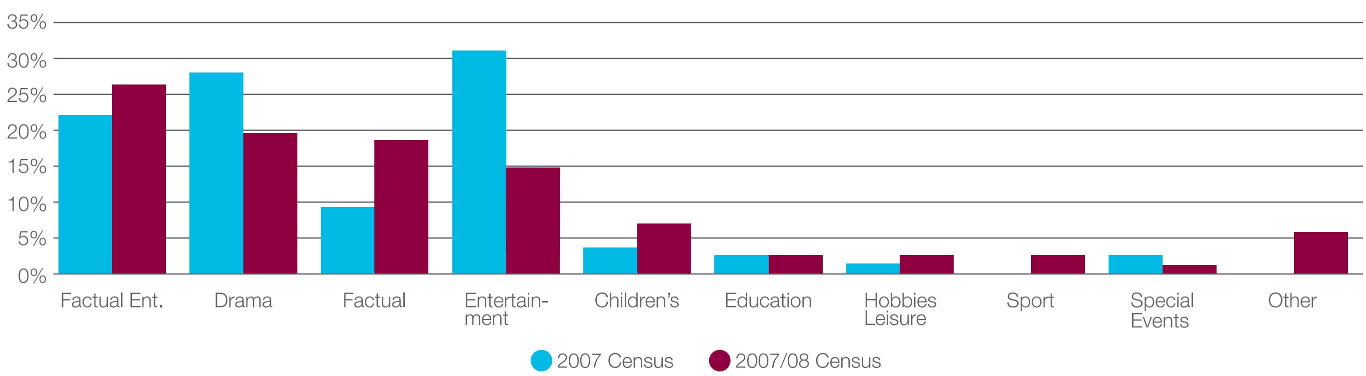
15. Distribution of Commissions by Genre Source: Digital-i/Pact



16. Production Value Broken Down by Major Genre Groups by Company Turnover Bands 2007/08 Census Source: Digital-i/Pact



17. Votes for the Best Genre Opportunities Source: Digital-i/Pact



Working with broadcasters

Number of Broadcast Clients

Although independent production companies are now creating programmes for 50 different channels in the UK, the number of *broadcasters* with whom each production company works is relatively low.

The larger production companies seem to be working successfully with greater numbers of broadcast clients. However, as the chart below shows, the average number has fallen from 8, as reported in the 2007 Census, to 6.2 in the 2007/8 Census.

There has been a similar rationalisation across the sector, except amongst those companies in the £5-10m revenue band which are working with an average of 3.4 broadcasters, compared to 3 reported in the 2007 Census. Chart 18

Commissioning Different Genres

For independent production companies pitching a concept or focusing their business on a particular genre, the different broadcasters present radically different prospects.

As illustrated in Chart 19, the most extreme examples are in children's commissions, where the BBC accounted for 61%. The next largest share of commissioning in children's was ITV with 16%. Similarly, the single largest commissioner of factual entertainment was Channel 4 (48%).

However, this picture of commissioning patterns has not been consistent year-on-year. The biggest changes at the broadcasters, from the perspective of genres commissioned since the 2007 Census, were:

- **Drama on Five** – 35% of their commissioning was drama; now this genre has fallen to just 2% of their commissions.
- **Drama on ITV** – 65% of ITV's commissioning was drama; now this genre has fallen to 51% of their commissions.
- **Factual Entertainment on Multichannel** – 33% of the commissions from these channels were factual entertainment; now this genre accounts for just 16%
- **Entertainment on ITV** – just 18% of ITV's commissions were entertainment; now they have increased to 35%
- **Entertainment and Factual Entertainment on Five** – around 38% of Five's commissions were entertainment or factual entertainment; now the total has increased to 60%.

18. Average No of Broadcasters Source: Digital-i/Pact

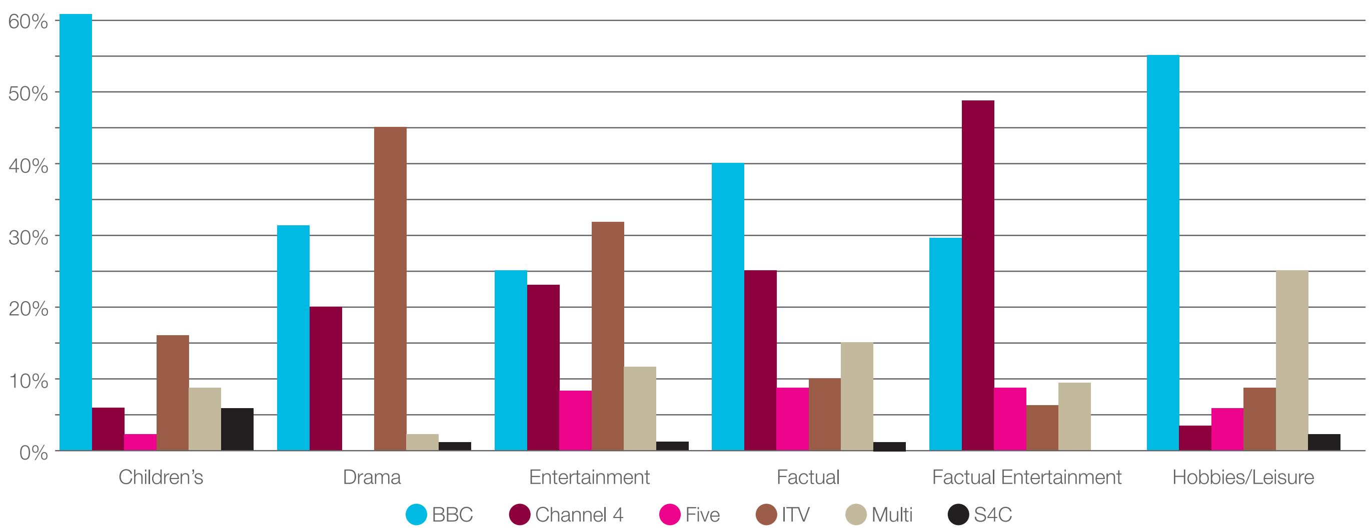
Opportunities for Smaller Producers

For smaller independent production companies, the prospects of securing a commission are very different across the various broadcasters.

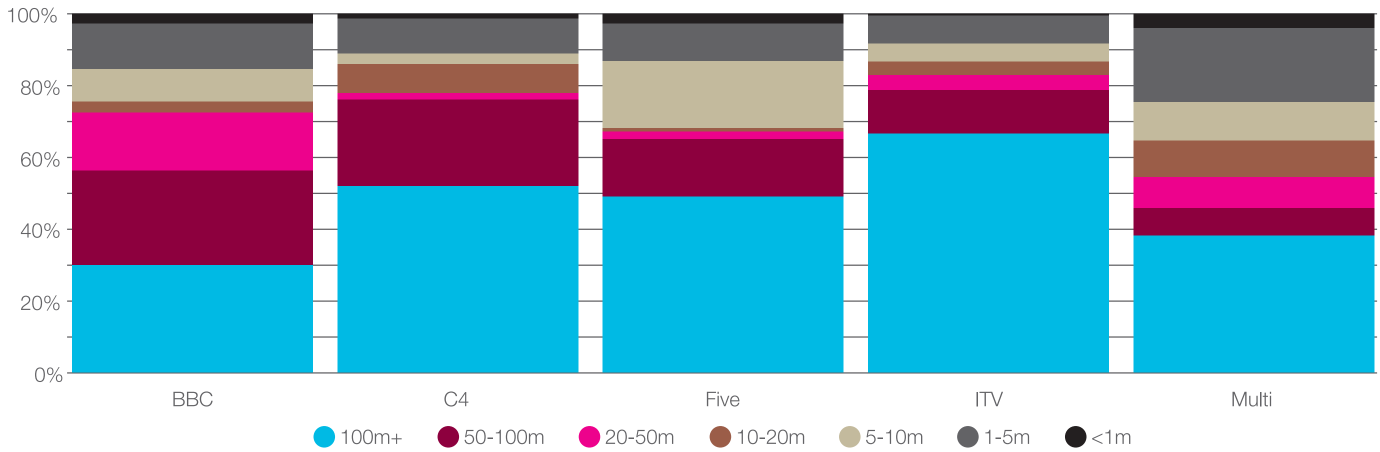
At one extreme, 32% of Five's commissions and 35% of multichannel commissions are from companies with turnover less than £10m.

At the other end of the scale, only 14% of ITV's commissions and 13% of Channel 4's commissions go to companies with turnover of less than £10m. Figures reported in the 2007/8 Census indicate that these broadcasters are awarding a greater proportion of large contracts, to bigger production companies. Chart 20

19. Commissioning Patterns by Broadcasters 2007/08 Census Source: Digital-i/Pact



20. External Commissions by UK Broadcaster split by Group Turnover Band 2007/08 Census Source: Digital-i/Pact



Broadcasters as Competitive Markets

Another way of considering the overall potential and odds of success when approaching a particular broadcaster is to consider each as a distinct market and to examine the competitiveness of that market.

HHI is an internationally recognised way of measuring the competitiveness or, conversely, concentration of any market. A value of 1000 or less indicates a good, competitive market, while a score of 1800 or above points to a highly concentrated one.

This analysis is considering groups as single entities. This means that a broadcaster which works with three companies owned by a single group is counted as working with just that one group. As a consequence, the consolidation which has taken place within the industry will tend to increase the concentration reported for each broadcaster, compared with the figures in the 2007 Census.

Within this context, the BBC continues to offer the most competitive market for independent producers, although its HHI concentration has increased since the 2007 Census. In the same period, multichannel has made significant progress and now offers the second most competitive market, followed by a greatly-improved Five.

However, the market provided by Channel 4 is now considered to be moderately concentrated, while ITV has an HHI score indicating a highly concentrated market. Chart 21

21. Source: Digital-i/Pact

	BBC	Channel 4	Five	ITV	Multichannel
HHI 2007/08 Census	649	1239	944	1805	802
HH1 2007 Census	482	779	1306	1745	1011

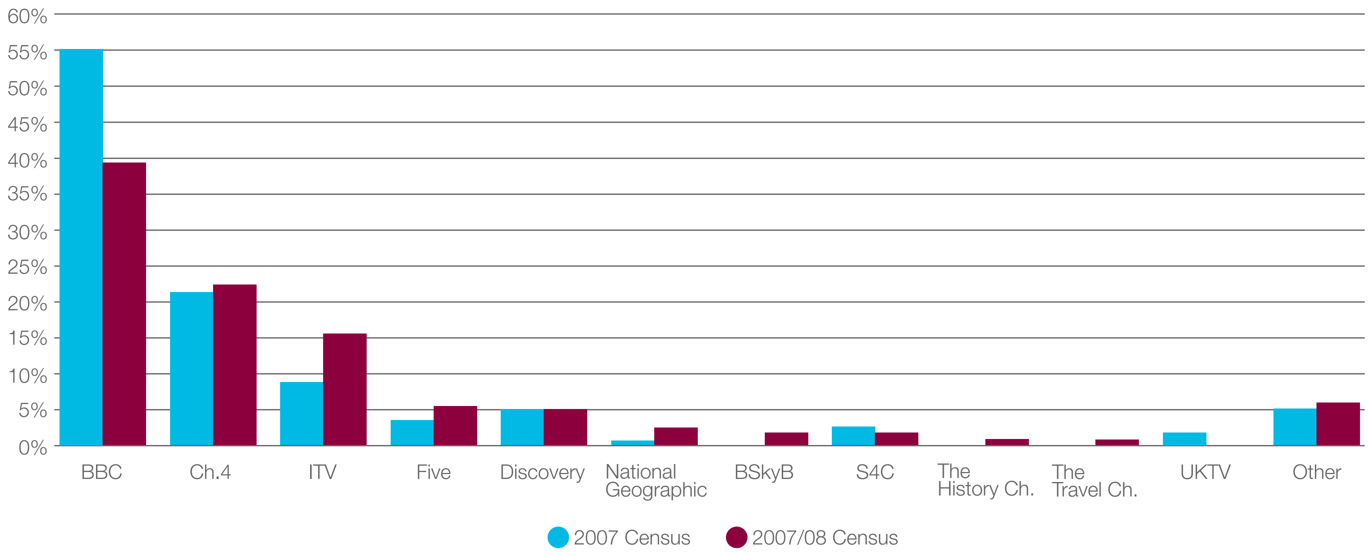
Producers' Perceptions

Independent production companies were again asked for their views on the broadcasters offering the best opportunities. Their responses were very similar to those reported in the 2007 Census.

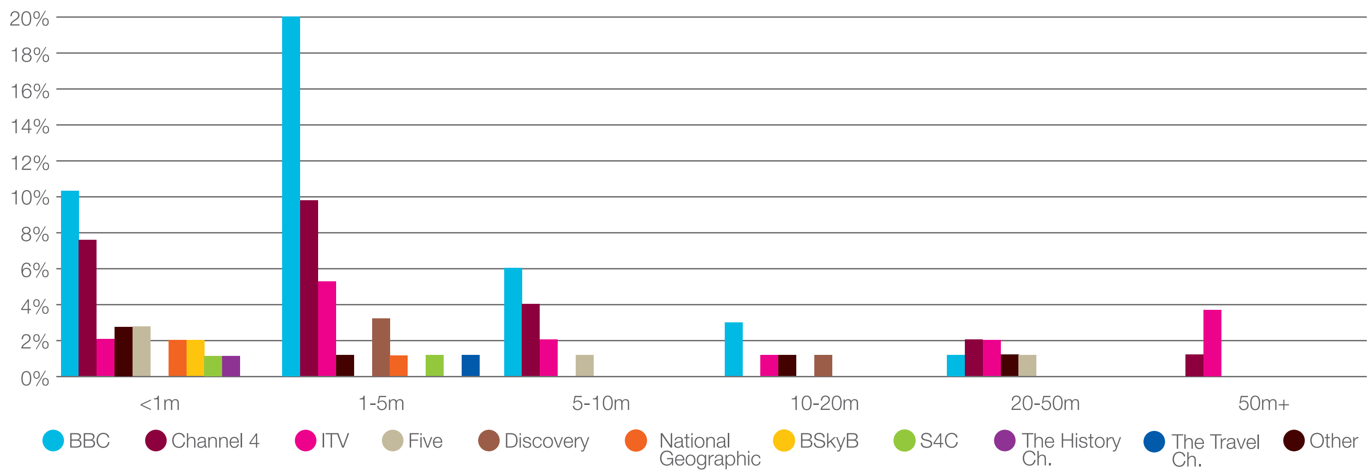
However, the BBC, whilst remaining the firm favourite, has lost favour with a notable proportion of producers. Whereas in the 2007 Census more than half of all producers perceived that the BBC offered the best opportunities, this has now fallen to less than 40%. Nonetheless, the next most popular broadcaster, Channel 4, received only half as many votes as the BBC. ITV and Five have improved significantly in producers' perceptions, with ITV up from 8% to over 15%. Chart 22

When the 'preferred broadcaster' votes are broken down according to the size of the independent production company, clear patterns emerge. As shown in the chart below, small companies (with revenues under £5m) predominantly voted for BBC or Channel 4, whereas the largest companies (with revenue over £50m) favoured ITV. Chart 23

22. Votes for Broadcaster Opportunities Source: Digital-i/Pact



23. Best Broadcaster Votes by Company Turnover Band 2007/08 Census Source: Digital-i/Pact



investment opportunities

As wholly-financed productions decline, indies have a greater need for finance.

Gap finance comes from many sources; the single largest is from company directors.

Gap finance was required in the largest quantities for factual entertainment productions.

Privately-owned companies are investing more in R&D than media groups.

Fewer companies raised debt finance than in previous years, but the average amount increased.

'Soft' public finance seems ever more attractive but limited in availability and amount.

European holding companies are showing increased interest in UK acquisitions.

Demand for Finance

The independent production sector has traditionally received most of its funding direct from the broadcasters as part of the commissioning deal. However, within the last few years, amidst regulatory and business changes, the number of wholly-financed concepts and productions has declined. This has left independent production companies with an increased need for finance, in order to develop concepts for sale and to create programmes in which they retain an increasing proportion of the rights. This need for finance is explored in the following section.

Development Funding

Development funding, to cover the cost of creating a concept to pitch to broadcasters, has remained fairly static over the last three years, with around £25m being invested from external sources and from companies' own funds.

The split between internal and external funding had remained fairly static, between the 2005 Census and the 2007 Census but the 2007/08 Census showed a reduction of internal funding as a proportion of the whole. Chart 24

Comment on Gap (Deficit) Financing

Bank of Ireland Corporate Banking

Raising finance or seeking investment has long been one of the day to day challenges facing independent production companies and, as with any other kind of business, is required in order to facilitate growth.

In 2007, the independent film production sector saw the introduction of the UK tax credit (yielding a maximum of c.16% to producers) which has only partially offset the withdrawal from the market of GAAP schemes (previously offering upwards of 30% of a film's budget). We have seen examples whereby hedge funds or private equity investment into independent film production has to a large extent replaced the need for traditional gap finance, albeit at a higher cost of finance. Film production volumes in the UK generally decreased during 2007, principally as a result of the initial uncertainty over the tax credit and the weak US Dollar which acted as a deterrent to inward investment from the US into the UK, thus reducing the attractiveness of co-productions.

With a general trend of rising production costs and broadcasters' own financial pressures, gap or deficit financing remains a common theme amongst the majority of independent television producers.

The 2007/8 Census again provides evidence that the production of fully-funded programming has further declined, resulting in an increased need for producers to seek alternative means of finance.

During the past 12 months, we have evidenced a variety of ways in which companies have sought financially to close production budgets ranging from traditional bank gap financing for feature films to private equity, or 'business angel' investment. Consolidation has continued apace and we anticipate that enlarged groups will make greater use of general corporate debt facilities to fund deficit positions.

Whilst the Census confirms that TV co-production structures remain a relatively small part of the commissioning profile, we expect this trend to reverse during 2008. We have seen many examples of UK companies utilising treaties with other territories to access finance such as local tax credits, as well as benefiting from the international licence fee.

Distribution companies appear to be playing an even more prominent role. This 2007/08 Census confirms that distribution finance was the second most popular means of gap finance and we expect to see the take-up of this source of finance increase.

As confirmed by this Census, it has been noticeably more difficult for companies to raise external equity, and whilst the current credit climate may result in a slowdown, we believe that the sector as a whole will remain attractive to external investors driven by the growth of new digital channels and cross-platform opportunities.

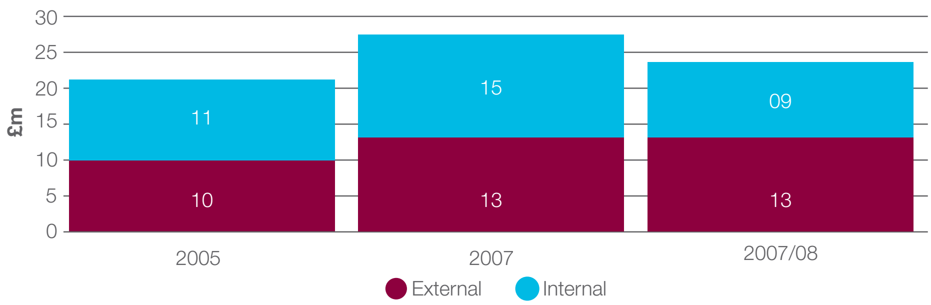
Gap Finance

An increasing number of commissions fall short of providing all the funds required for production. Although the gap is often relatively small, it can vary enormously, from under 1% to 100% of the budget. This can raise significant challenges for smaller production companies. Chart 25

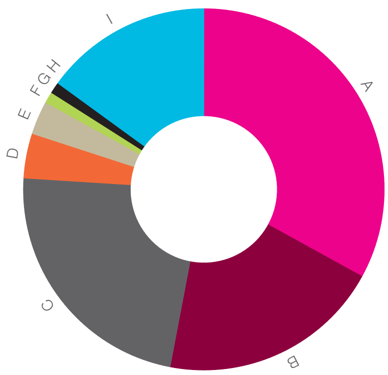
The majority of gap finance (33% of the total) is reportedly provided by the directors/owners of the production companies. However, banks and distributors also play a major part (contributing 20% and 23% respectively).

In the 2007/08 Census the sources of finance for different genres varied quite considerably. This may be explained by the size of production companies most active in different genres. The largest amounts of gap finance were required for factual entertainment (over £400k reported) followed by children's, factual and drama. Chart 26

24. Total Reported Development Funding 2005, 2007 & 2007/08 Source: Digital-i/Pact/Ofcom

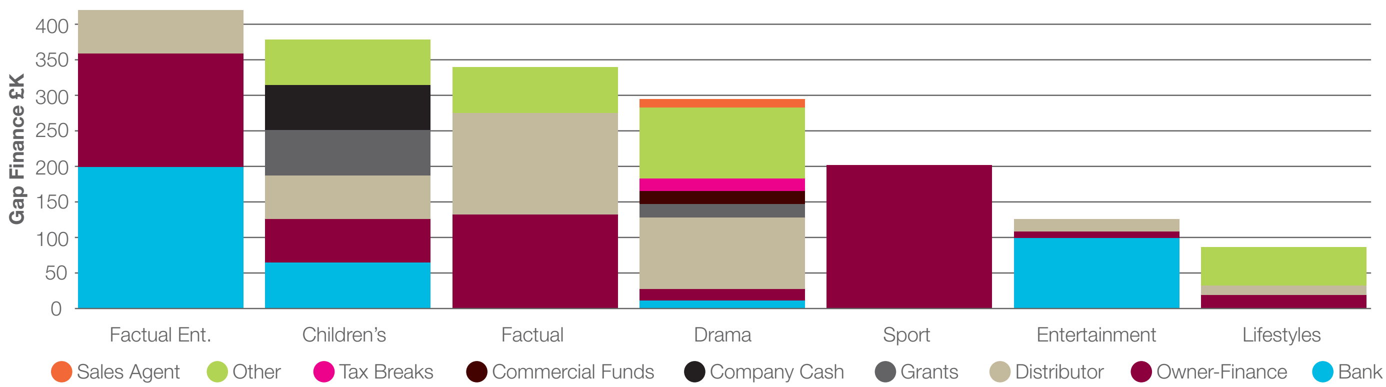


25. Gap Finance by Source (£K, % Total) 2007/08 Source: Digital-i/Pact



A	Owner-Finance	33%
B	Bank	20%
C	Distributor	23%
D	Grants	04%
E	Company Cash	03%
F	Commercial Funds	01%
G	Tax Breaks	01%
H	Sales Agent	00%
I	Other	15%

26. Sources of Gap Finance by Genre 2007/08 Source: Digital-i/Pact



TV Co-Production

Co-production, where the cost of creating a programme is shared by additional UK or international broadcasters, remains a relatively small part of the commissioning landscape, at £38m of reported UK finance out of commissioning budgets of £82m. This is down slightly from last year's reported figure of £44m.

Of all the co-productions reported in the last two years' Censuses, factual programmes account for nearly half, followed by entertainment which accounts for a further third.

Drama, which was the second most significant genre in co-production last year, is now forming a much smaller part of the co-production business (down to 13% from 29%). This may be explained by the tremendous revenue growth experienced by mid-sized drama producers over the last year or so. Chart 27

Research and Development Budgets

Research and development plays a significant part for many independent production companies, with smaller companies, on the whole, investing the greatest proportion of turnover.

However, the responses to the 2007/08 Census revealed that, on average, group-owned companies in the £1-5m and £5-10m revenue brackets are investing significantly less in R&D than their privately-owned counterparts.

Current Financing & Ownership

Equity Finance

Since the 2007 Census, the realities and expectations of raising equity finance have been adjusted significantly downwards.

Where a year ago, 7.2% of respondents reported raising equity finance with an average amount of £1.07m, this year's Census shows just 4% having raised equity finance, averaging just £150k.

This is due in part to the number of companies who actually sought to raise equity finance. Whereas the 2007 Census reported that 21.5% expected to raise equity finance, in fact only 9% of independent production companies actually tried. Chart 28

Debt Finance

In contrast to the situation with equity finance, the independent production sector has taken an increased interest in debt finance, particularly those companies in the £1-5m turnover band.

Although a slightly smaller proportion of companies were successful in raising debt finance (17% last year, falling to 14% this year), the average amount more than doubled (£1.5m last year, rising to £3.4m this year). Chart 29

'Soft' Public Finance

Independent production companies remain unduly optimistic about raising 'soft' public finance. The number of companies hoping to raise finance in this way has increased significantly since last year (from 26% of respondents to 35%), despite the number of grants apparently falling.

Based on past form, the amounts that they hope to raise are also becoming ever more unrealistic; despite the average grant falling from £84k in 2006 to £54k this year, the average amount that independent production companies are hoping to raise is £439k. The greatest interest and apparent success in raising soft public finance comes from smaller companies. Chart 30

Comment on Consolidation

KPMG

2007 will be remembered as the year that the pace of consolidation in the UK independent production sector noticeably quickened. The numbers of completed transactions in the sector speak for themselves as numerous independent producers were bought out by larger, better funded corporate acquirers. These acquirers, comprising both UK and international groups, have been highly active with a number acquiring more than one independent producer.

Sector acquisitions over the review period were undertaken for a number of reasons typically strategic or financial. Whilst one corporate acquirer stated its motivation as being to broaden its offering to the broadcasters another acquired an independent production company to facilitate its move upstream from distribution into production. There is also continued evidence of international production groups seeking UK platforms for their businesses.

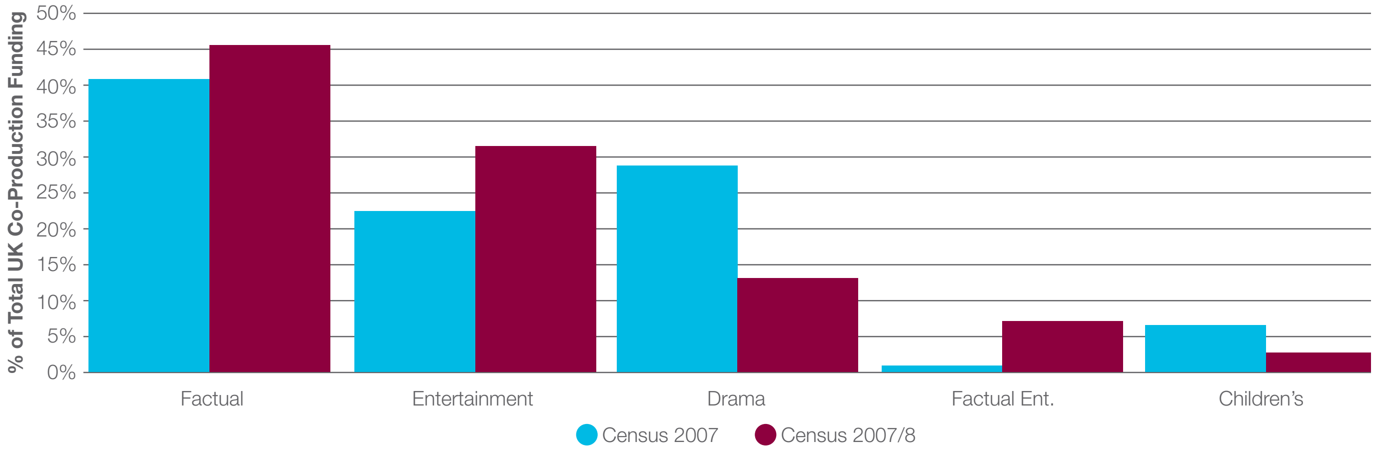
There has been a strong underlying financial rationale for each of the acquisitions - focused on both revenue generation and cost savings. Indeed, with the larger corporate acquirers already running their own scalable back office functions, there has been considerable scope to remove cost following integration.

Many transactions are structured as earn outs, with a significant element of consideration receivable by the vendors based on the delivery of future financial performance. This has ensured that there is every motivation for owner-managers of acquired companies to deliver to planned growth targets.

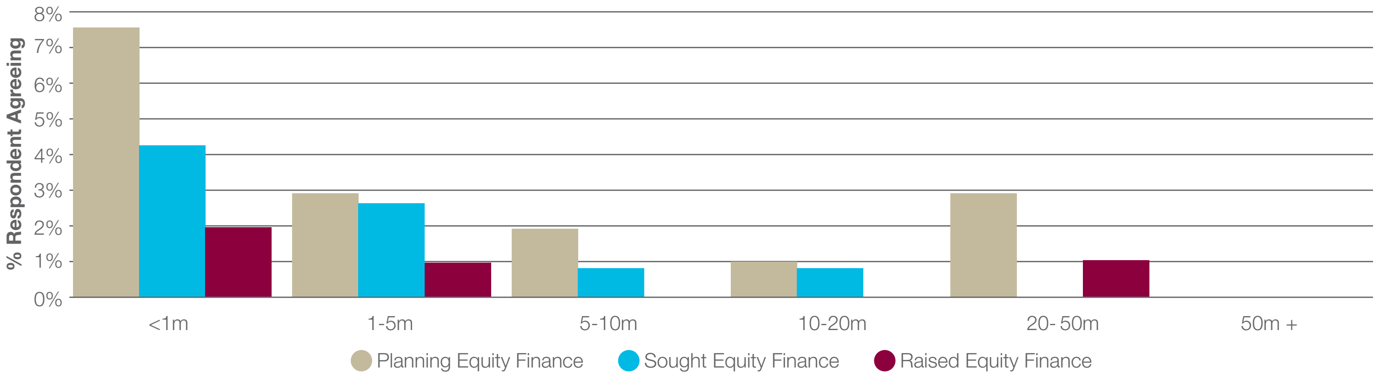
We believe that the current volatility in the global capital markets as a result of the so called "credit crunch" will have a knock-on effect on mergers and acquisitions in the UK independent production sector. Debt and equity acquisition finance is becoming harder to raise, which is expected to slow the pace of sector consolidation at least in the short term.

Our longer term outlook is that the logic for continued consolidation remains unquestionable, albeit there may be some time lag before the pace of mergers and acquisitions activity is fully restored.

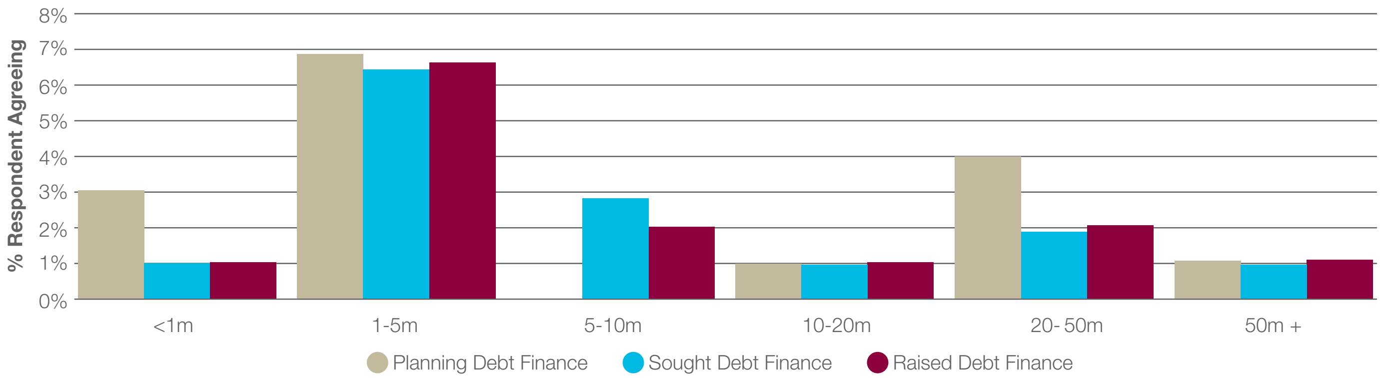
27. Proportions of Co-Production Finance by Genre 2007 & 2007/08 Source: Digital-i/Pact



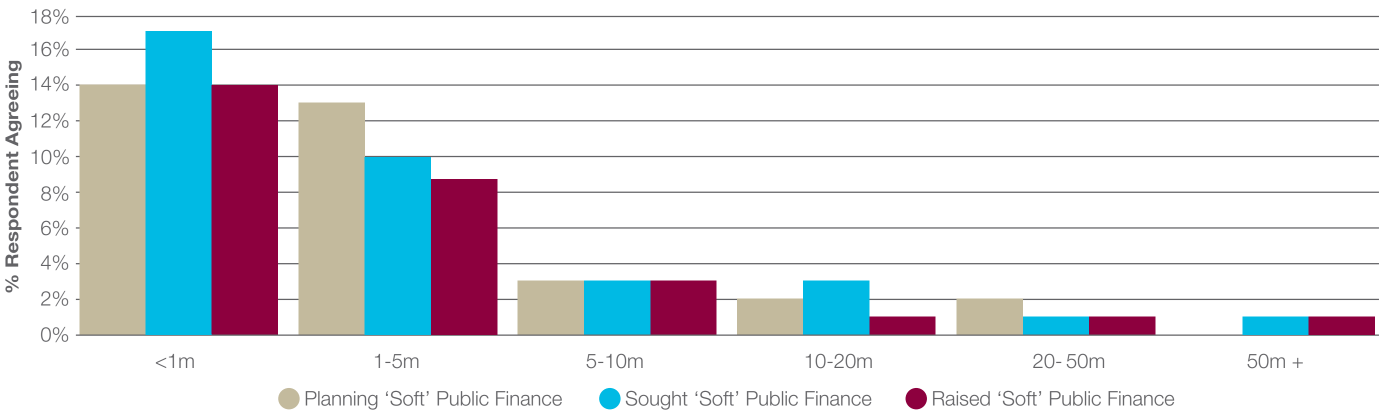
28. Equity Finance by Company Turnover Band 2007/08 Source: Digital-i/Pact



29. Debt Finance by Company Turnover Band 2007/08 Source: Digital-i/Pact



30. Soft Public Finance by Company Turnover Band 2007/08 Source: Digital-i/Pact



Group Ownership

Where independent production companies are owned by a media group, their details are below.

One of the big changes in ownership since last year has been the growing interest of European holding companies in the UK production sector. Over the last twelve months, Two Way Traffic of The Netherlands, Eyeworks of The Netherlands, Zodiak of Sweden and Mediaset of Italy have all acquired UK production companies. This represents a promising new source of investment.

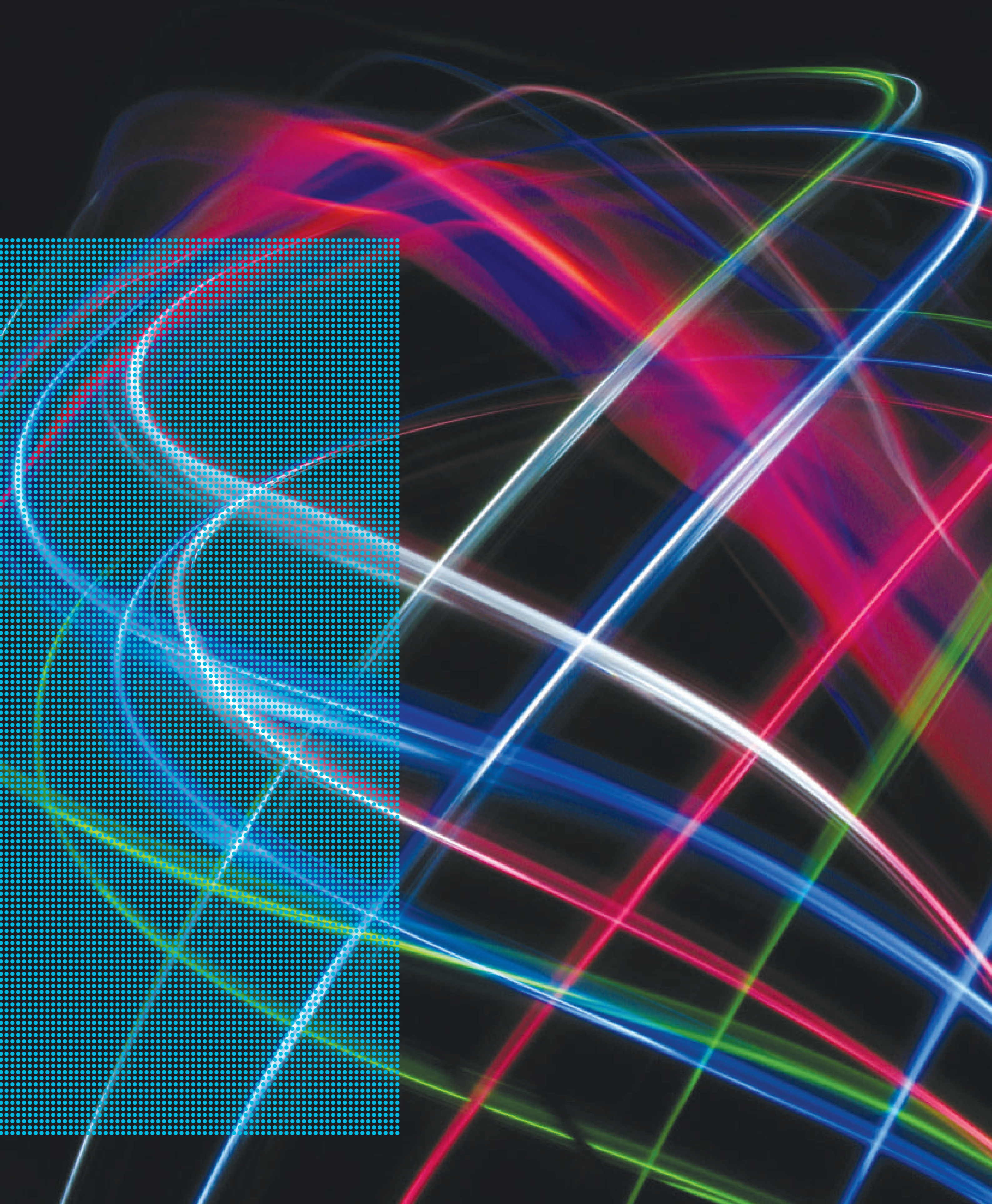
In recent times, however, only one UK media group has acquired a European production company. Chart 31

31.

Holding Company	Production Company	Acquisitions since 2005 Census	Acquisitions since 2007 Census
	All 3 Media International Limited		
	ARG TV		
	Bentley Productions		
	Cactus Films (London)		
	Company Pictures		
All 3 Media	IDTV		
	Lime Pictures Ltd	June 2005	
	Lion Television		
	Maverick Television		June 2007
	MME Moviement		March 2007
	North One Television		
	Objective Productions		August 2007
	South Pacific Pictures		
	Box TV		
	Done and Dusted		
DCD Media	Iambic Productions		
	Prospect Pictures		July 2007
	September Films		July 2007
	West Park Pictures		July 2007
Eyeworks	At It Productions		July 2007
	Freemantle Media		
Freemantle Media (RTL Group)	Grundy Productions		
	Regent Productions		
	Talkback Thames		
Hat Trick Holdings Ltd	Hat Trick Productions		
	Guinness World Records		
Hit Entertainment	Gullane Entertainment		
	Hit Entertainment		
	Hit USA Productions		
	Darlow Smithson Productions	June 2006	
IMG	Tiger Aspect Productions	June 2006	
	Tigress Productions	June 2006	
	TWI -- Trans World International (UK)		
ITV Productions	12 Yard Productions		December 2007

Holding Company	Production Company	Acquisitions since 2005 Census	Acquisitions since 2007 Census
Mediaset, de Mol Goldman Sachs	Endemol		May 2007
RDF Media Group plc	Touchpaper Television	August 2005	
	IWC Media	December 2005	
	Radar TV	December 2005	
	RDF International		
	RDF Media		
	The Comedy Unit	August 2006	
	The Foundation TV Productions	August 2006	
	Outright Distribution	September 2006	
Shed Productions plc	Ricochet	November 2005	
	Shed Productions		
	Twenty Twenty Television		September 2007
	Wall to Wall		November 2007
	Firefly Film and Television Productions		December 2006
Shine Group	Kudos		January 2007
	Princess Productions		March 2007
	Shine		
	Carnival (Films & Theatre)		
Southern Star Group	Darrall Macqueen	October 2005	
	Oxford Scientific Films		
	Blakeway/3BM		
Ten Alps Broadcast	Brook Lapping		
	Production Co		November 2007
	Ten Alps TV		
	Broadcasters Oy Finland		
	Bullseye TV		August 2007
	Diverse Production UK and US		October 2006
	Fifth Element Sweden		
	Jarowskij Finland		
The Zodiak Television Group	Jarowskij Norway		
	Jarowskij Sweden		
	Look Entertainment A/S Denmark		
	Mastiff Media A/S Denmark		
	Mastiff Media Poland		
	MTV Mastiff AB Sweden and MTV Mastiff AS Norway		
	TeleAllians Russia		
	Yellow Bird		
	YS Films Ukraine		
	APP Broadcast		June 2007
	Folio	January 2006	
	Mentorn	January 2006	
Tinopolis	Music Box	January 2006	
	Sunset and Vine Productions	January 2006	
	Tinopolis		
	Venner TV	January 2006	
	Video Arts Group		May 2007
Two Way Traffic	Celador International		December 2006

critical success factors



Multichannel is commissioning ever more: now 11.1% of all commissions.

Companies with revenue of £1-5m have almost doubled their share of multichannel commissions (now 24%).

Distribution deals have increased strongly and are the largest contributor of rights revenues (26%).

Whilst companies of most sizes have increased their profit margins since the 2007 Census, companies in the £5-10m revenue band have experienced a substantial decline (from 3.0% to 1.2%). During the same period, the industry average increased from 8.4% to 9.3%. Chart 32

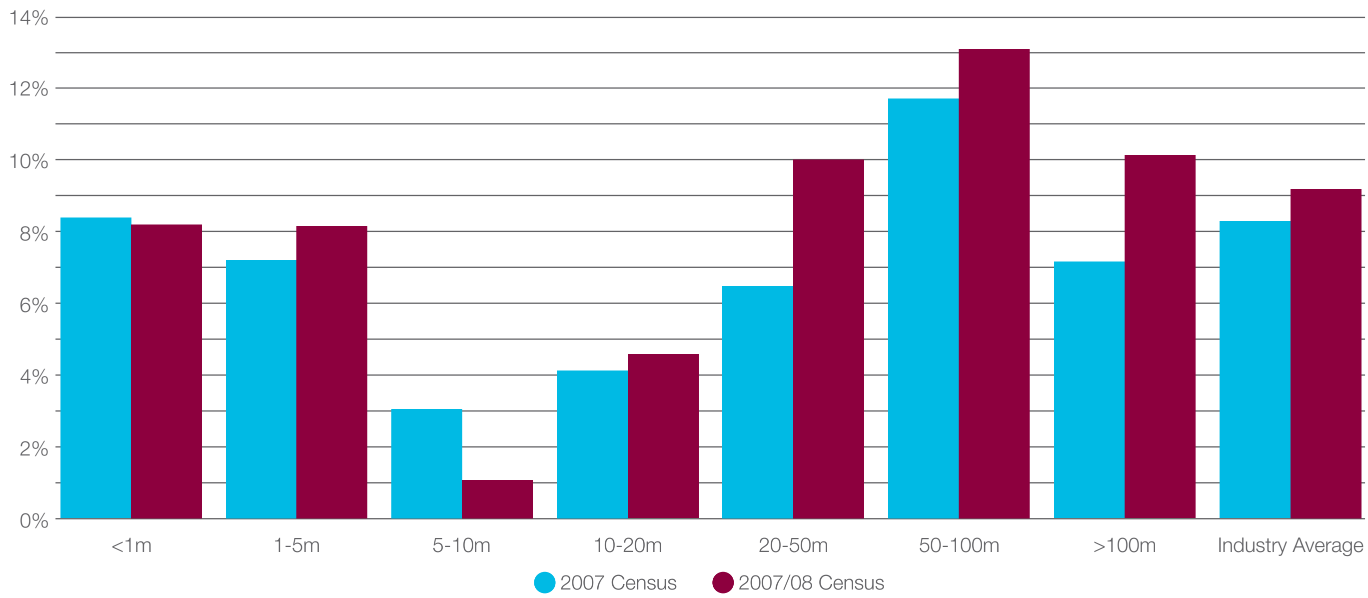
Multichannel

Since the 2007 Census there has been substantial growth in the proportion of commissions coming from multichannel broadcasters. During this time, multichannel commissions, including the terrestrial extensions, have grown from 16.7% to 17.8% of all commissions. This represents £240m of commissions: £90m from terrestrial extensions (e.g. BBC3, More4) and £150m from other multichannel broadcasters. Chart 33

Of these multichannel commissions, 89% came from just four broadcasters: BSkyB (5 channels), Discovery (7 channels), Virgin Media (4 channels) and UKTV (9 channels).

However, the value of commissions from multichannel broadcasters is currently smaller than that from terrestrial broadcasters, for example, BBC entertainment commissions averaged £224k per hour but multichannel commissions in the same genre averaged only £28k per hour. Fragmentation may also be driving down margins, due to the cost of pitching to so many more commissioners (excluding terrestrial digital, ten broadcasters comprising of 31 channels commissioned programmes from the Independent Producers). Commissions from multichannel broadcasters are increasingly being awarded to smaller production companies. As Chart 34 shows, companies with £1-5m turnover almost doubled their share of multichannel commissions since the 2007 Census (from 13% to 24%), principally at the expense of companies in the £20-50m turnover bands which reduced their share from 44% to 27%.

32. Profit Margins by Turnover Bands at Group Level Source: Digital-i/Pact/Ofcom



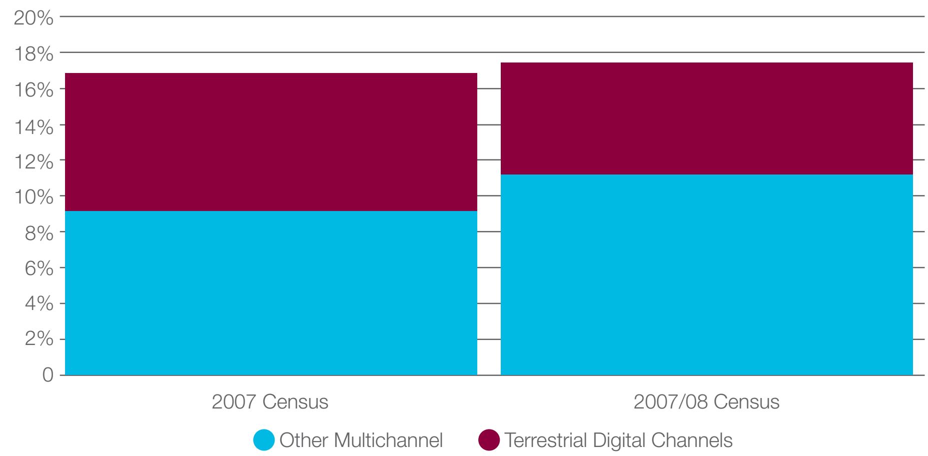
ITV and Channel 4 commissions are predominantly returning series (68%) whereas 50% of multichannel commissions are new programmes.

Group-owned companies now generate 66% of the industry's revenues and created 87% of its growth.

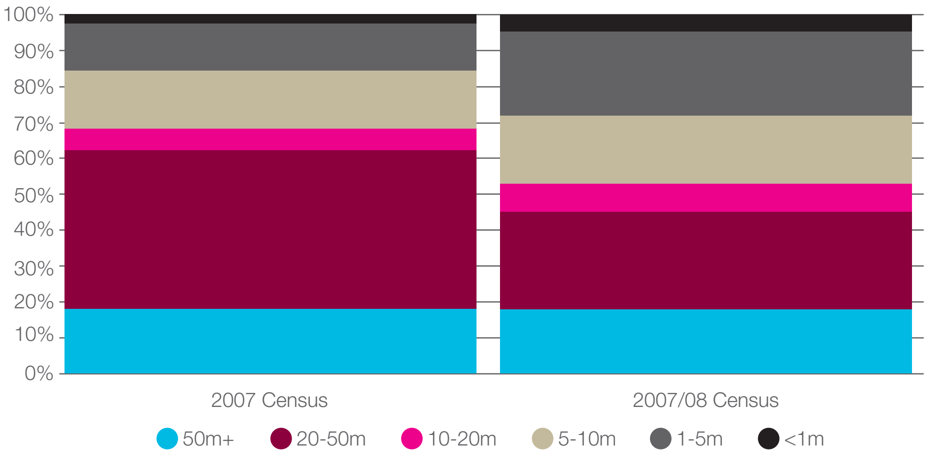
The top ten companies (growth and profitability) did the majority of their work for the BBC.

Collectively, companies with less than £10m turnover received almost half of all multichannel commissions last year (48%). This is in contrast to the overall industry commissions they received of 26%. Similarly, companies which are not part of a group took 37% of multichannel commissions in contrast to their overall share of commissions of 34%.

33. Growth in Multichannel Commissions Source: Digital-i/Pact



34. Multichannel Commisions by Company Turnover Band Source: Digital-i/Pact



Rights Exploitation

Since the 2007 Census, rights exploitation has accounted for 9.4% of all UK television revenue and 20% of all overseas television revenue.

However, some independent production companies are significantly better at leveraging this opportunity than others.

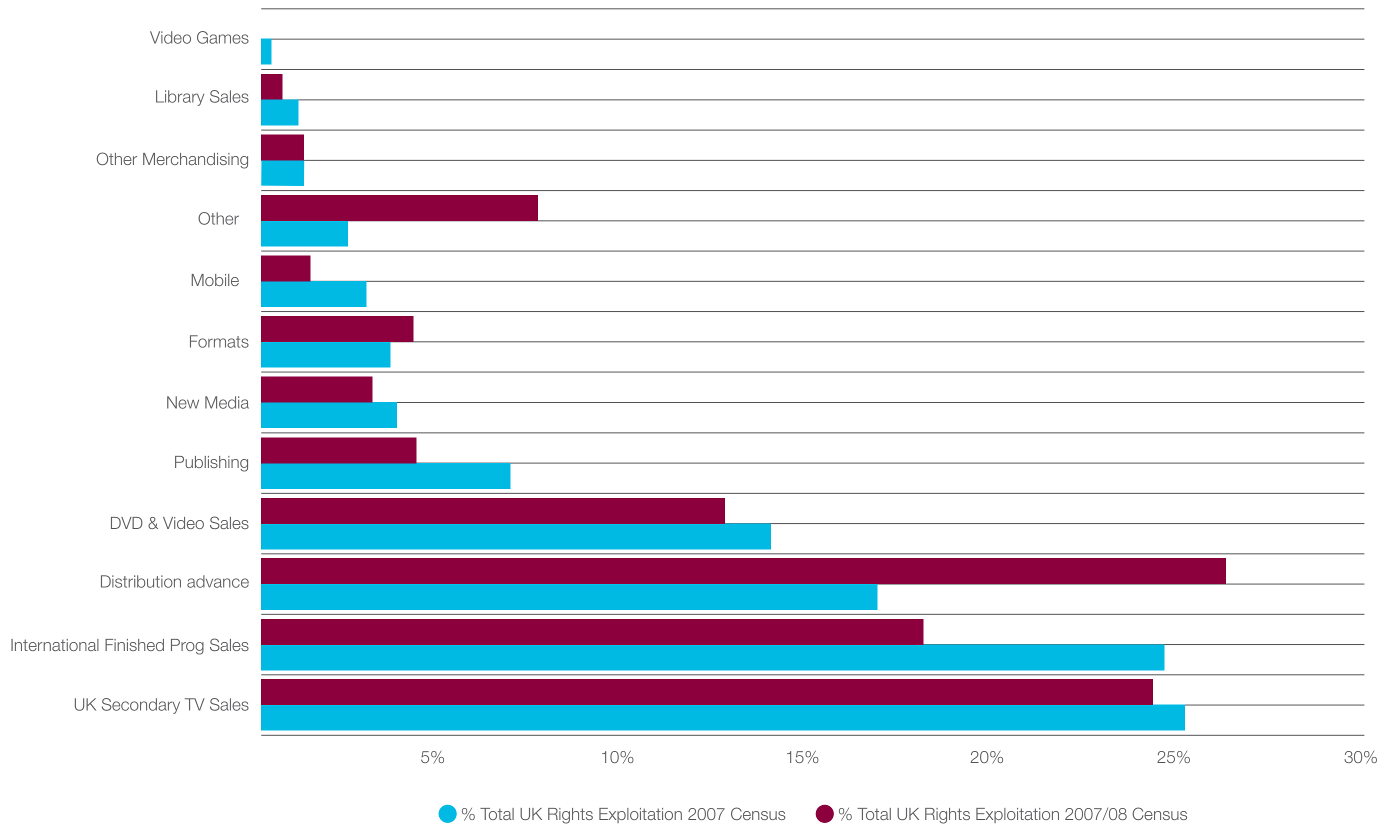
The most significant area of growth and the largest contributor to rights revenues is from distribution deals (26% of all rights revenues). Equally significant, but practically unchanged since last year are secondary TV sales to UK broadcasters. DVD and video sales account for about 12% of all rights revenues.

International sales of finished UK programmes have also fallen quite considerably, from 25% to 19% of all rights exploitation. Chart 35

Rights Exploitation by Size of Company

Companies in the £50-100m revenue band (with group-owned companies being counted as single entities) showed themselves to be substantially better at exploiting media rights than average (contributing 33% of UK rights revenues against 19% of all industry revenues). Conversely, companies in the £10-20m band fell below average

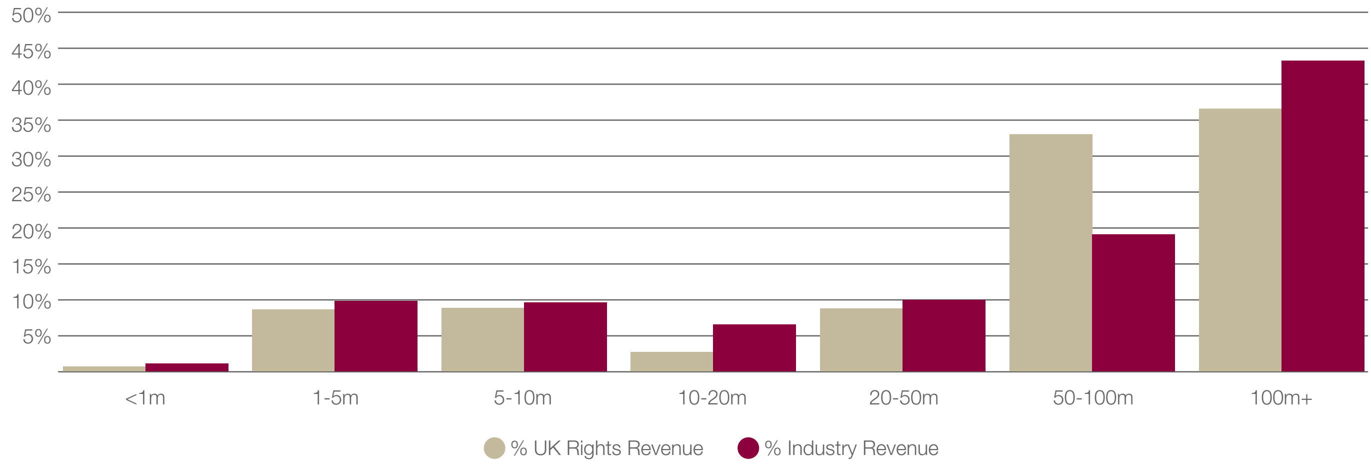
35. UK Rights Exploitation by Category Source: Digital-i/Pact



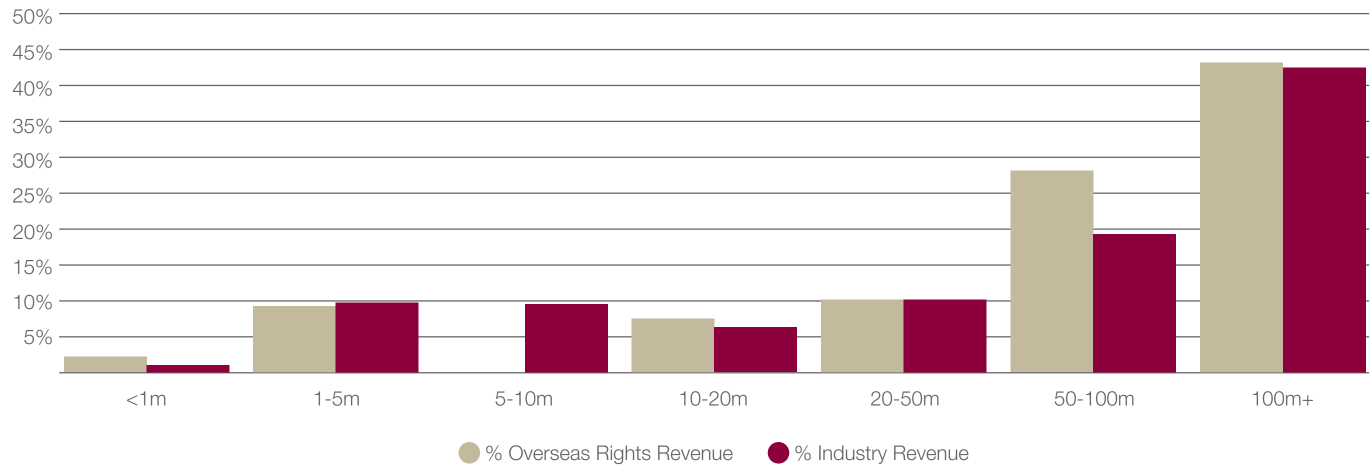
in this regard (3.9% of UK rights against 6.8% of all industry revenues). This is consistent with the fact that many of the companies in the £50-100m band are part of a group. Chart 36

The picture is similar when considering overseas rights exploitation. Again, companies in the £50-100m revenue band were ahead on overseas rights exploitation (27% of overseas rights revenues against 19% of all industry revenues), whilst companies in the £5-10m band generated next to no revenue from rights overseas. Chart 37

36. UK Rights Exploitation by Size of Group Company Source: Digital-i/Pact



37. Overseas Rights Exploitation by Size of Group Company Source: Digital-i/Pact



Returning Series

For many companies, returning series provide a large proportion of revenues. Across the industry as a whole, 64% of production revenues come from returning series. The most profitable of the small companies have a significantly higher proportion of returning series than their less successful counterparts. This is explored further in a later section: 'Learning from the best small companies'.

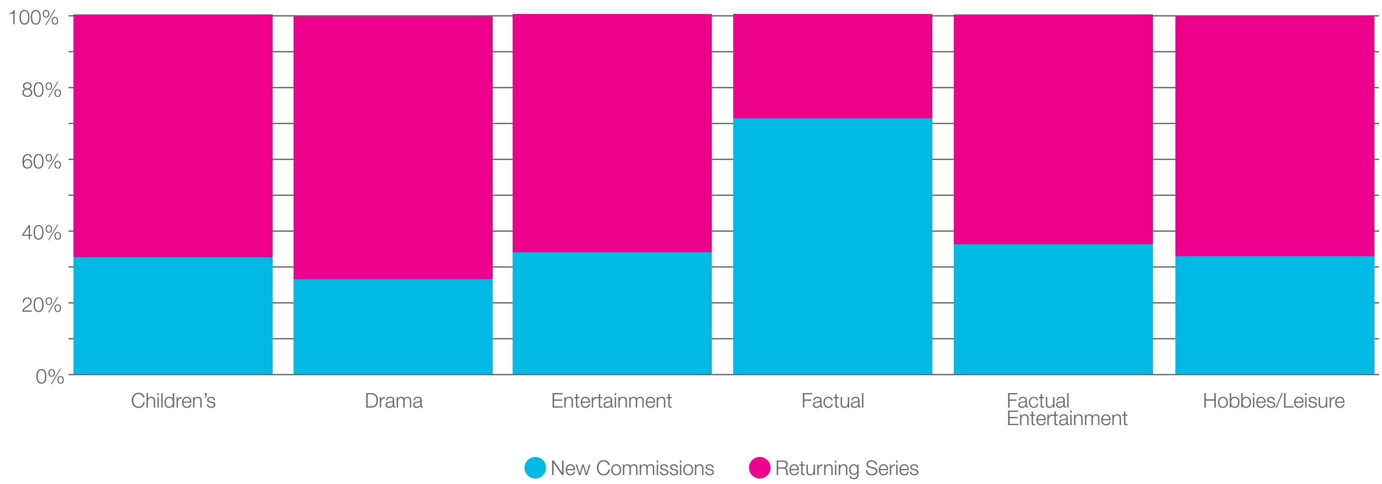
The Most-Returning Genres

Some genres seem better suited than others to returning series. For example, nearly three quarters (74%) of all drama revenues come from returning series. Conversely, for factual programmes the figure is less than a third (29%). Chart 38

Broadcasters

UK broadcasters are, broadly speaking, alike when it comes to commissioning returning series. However the multichannel broadcasters have been commissioning a greater proportion of new programmes (50%), while ITV and Channel 4 have relied more on returning series for their output (68% and 67% respectively). Chart 39

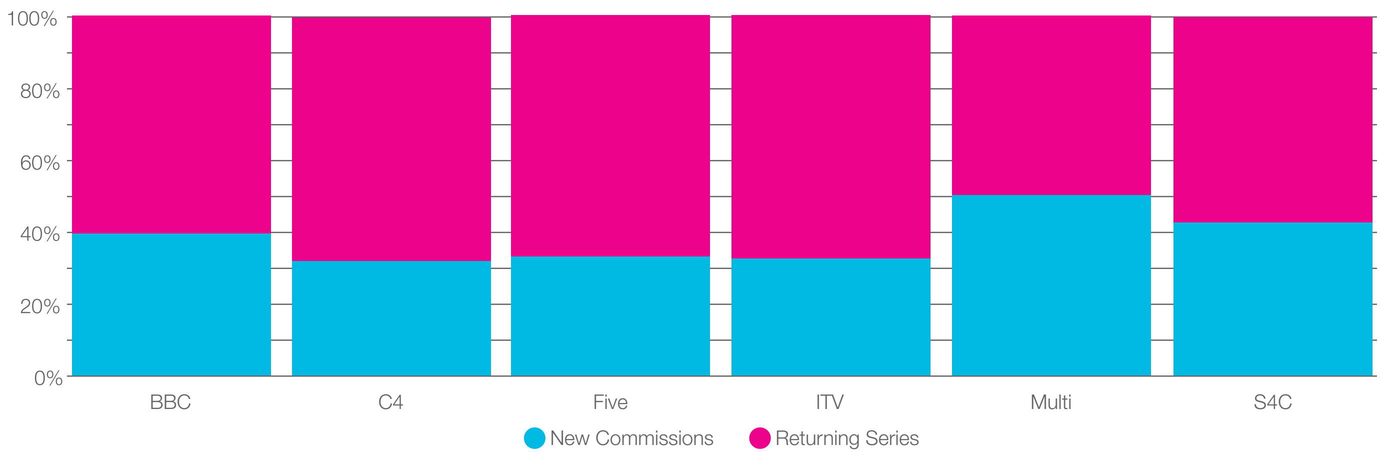
38. UK Commissions by Genre - New Commissions and Returning Series Source: Digital-i/Pact



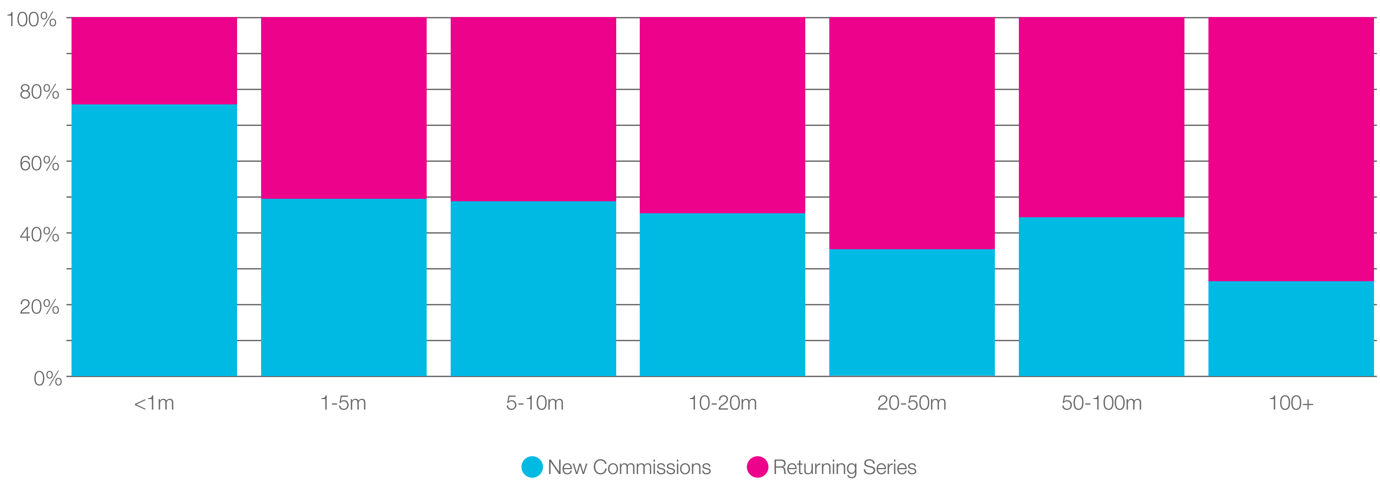
Size of Company

When considering media groups and their constituent members as a single entity, it becomes clear that the larger companies are more successful in securing returning series; 73% of their work is coming from returning series. The smallest companies, on the other hand, are securing an average of just 26% of their production revenues from returning series. This is likely to be explained in part by the fact that the smallest companies are most active in factual, the genre least likely to attract returning series. Chart 40

39. UK Commissions by Broadcaster - New Commissions and Returning Series Source: Digital-i/Pact



40. UK Commissions by Group Company Size - New Commissions and Returning Series Source: Digital-i/Pact



The Effects of Group Ownership

The Groups' Predominance

Group-owned companies are now generating around 66% of the industry's revenue and are responsible for the majority of the industry's growth (87%).

Groups and Profitability

For those companies that are part of a group, this ownership arrangement seems to be working very well. In almost all areas, the group-owned companies are delivering greater profits than the rest of the industry (overall 10% against 6%). This is particularly pronounced amongst companies with turnover of £10-20m and even more so at £5-10m. Chart 41

With a growth rate since the 2007 Census of 15%, group-owned companies are also increasing in size more than three times faster than the rest of the industry.

Rights Exploitation

As Chart 42 shows, media groups and their constituent companies are generating a slightly higher proportion of the industry's rights revenues in relation to their overall revenue contribution.

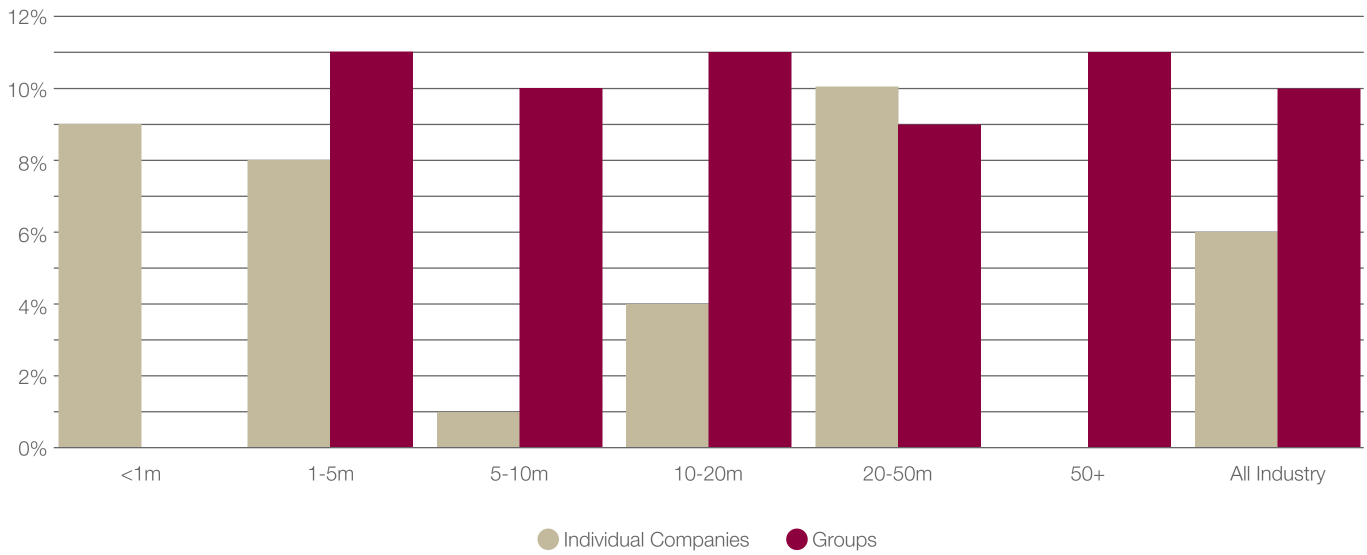
Because media groups have the advantage of in-house rights subsidiaries, they might be expected to have a natural advantage in exploiting rights. However, the small difference in rights exploitation observed in the 2007/08 Census may be explained by the fact that these rights subsidiaries are also acting for third-party production companies.

Further Insight

To investigate why the performance of mid-size group companies continues to far outstrip their peers, the opinions of producers from the £5-10m and £10-20m band were sought. Their insight included:

- Resourcing: When a company reaches this size, it typically requires more in-depth expertise than can be delivered by the multi-skilled owner-manager common to smaller businesses. Once the business takes on legal staff, dedicated managers and other domain experts – or starts using consultants in their place – it requires substantially more sales to cover the extra costs.

41. Profit Margins for Group and Individual companies 2007/08 Census Source: Digital-i/Pact



- Revenue smoothing: Across a group, the ups and downs of sales and production become less significant, as underutilised production staff can be usefully employed elsewhere. The group gains tremendous efficiency because it is, in effect, running productions continuously.

- Market strength: The focus and negotiating strength of the groups is giving them an advantage over smaller companies in many instances.

Strategic Approaches

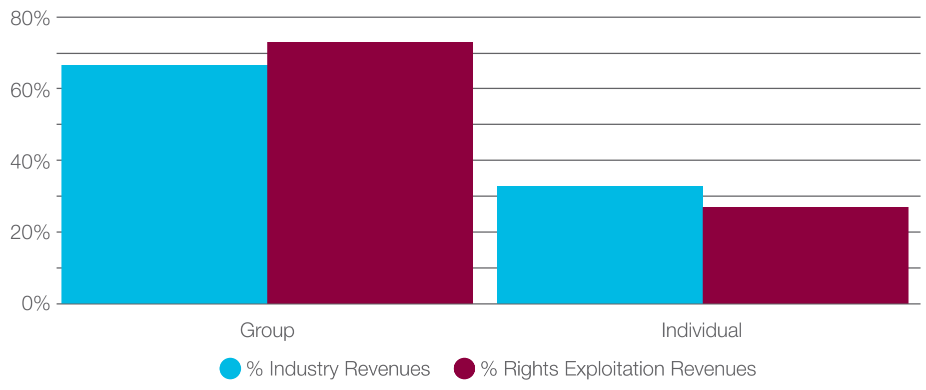
On the basis of these opinions and the findings of all three Censuses, it would appear that mid-sized companies need to consider different strategies to achieve profitable growth:

- Consolidate to gain the benefits of economies of scale: This approach is, however, dependent on finding a suitable partner or having sufficient growth potential to attract a serious buyer.

- Raise finance: The figures suggest that larger production companies can thrive, if they grow beyond the plateau. However, a strong business case would be needed to attract the kind of funding required to achieve that volume of growth.

- Expand through outward investment: Some successful companies are choosing not to expand their own business, but instead to invest in setting up new, autonomous companies which are focused on different genres (e.g. Zodiak-owned Diverse Productions' investment in three new Indies to branch out of its trademark factual and into entertainment, lifestyle and drama).

42. Rights Exploitation by Group and Individual Companies Source: Digital-i/Pact



Learning from the Best Small Companies

In order to provide meaningful analysis of successful small companies, the top ten most profitable and the top ten growth companies with revenues between £1m and £15m were examined. Within this revenue bracket, the large fluctuations at the bottom of the market were avoided, while companies which exhibited the characteristics of larger businesses were also eliminated.

There was very little overlap between the most profitable and the top growth companies – only one business featured in both lists.

Broadcast Clients

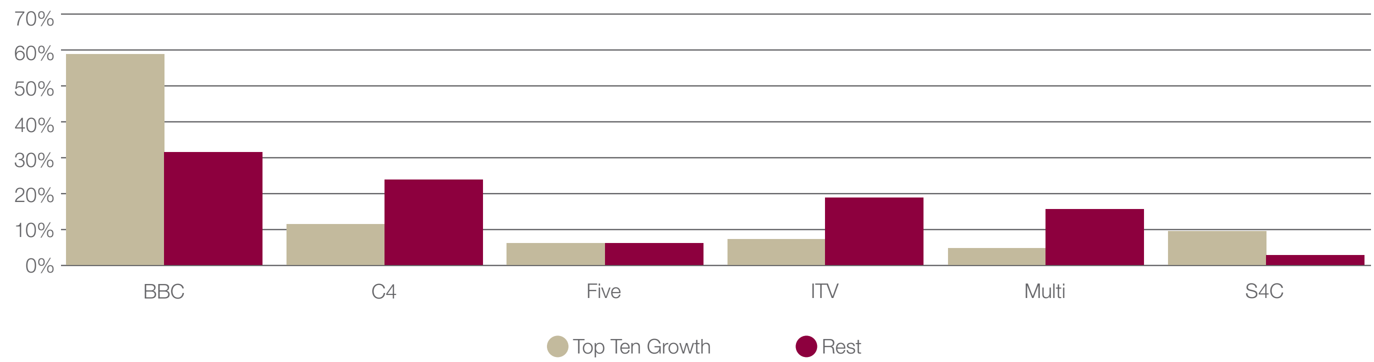
Analysis shows that different broadcasters offer different prospects for growth and, to a lesser extent, more profitable productions.

The top ten growth companies did the majority of their work for the BBC – nearly double the proportion of the rest of the market (59% against 31%). They did substantially less work than their counterparts for Channel 4 (11% against 24%).

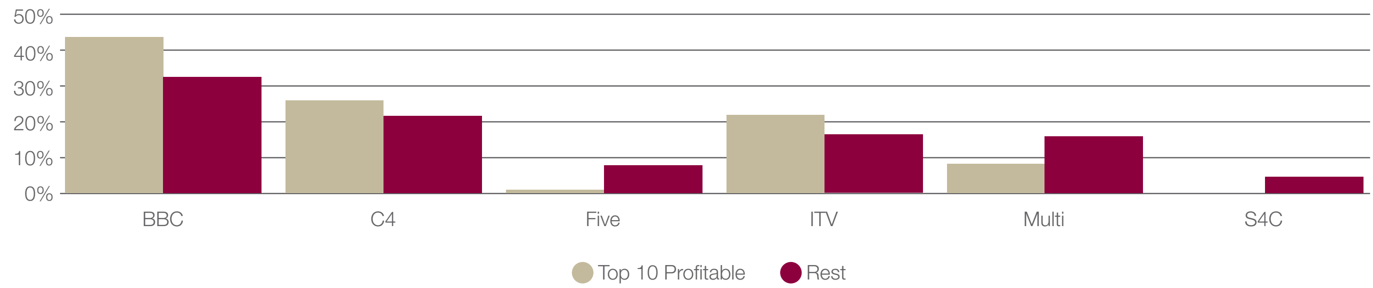
The most profitable companies did more of their work for the BBC than anyone else, but to a less pronounced extent than the top growth companies (43% against 31%).

Despite the growth in multichannel, discussed previously in this chapter, both groups did far less work with multichannel than their counterparts (Top growth companies: 5.8%; Top profitable companies: 7.8%; Others: 16%). Chart 43/44

43. Working with Broadcasters - Top Ten Growth Companies Source: Digital-i/Pact



44. Working with Broadcasters - Top Ten Profitable Companies Source: Digital-i/Pact



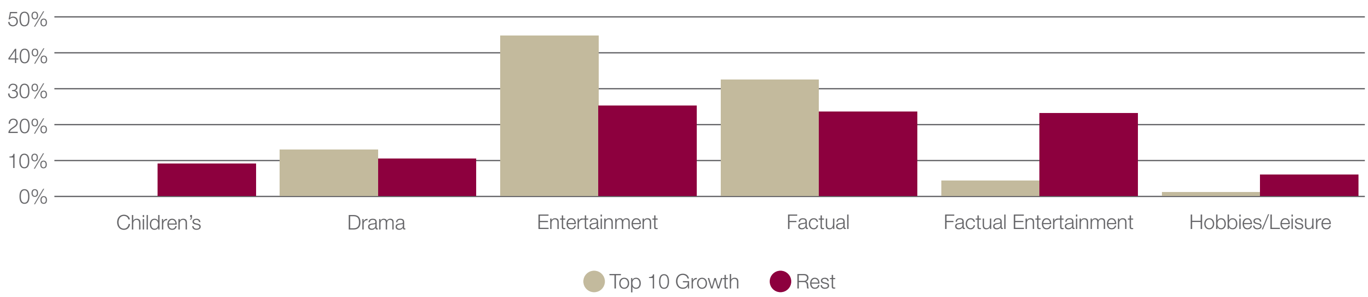
Genres

There are marked differences in the genres produced by small companies as a whole and by the most profitable and fastest growing companies.

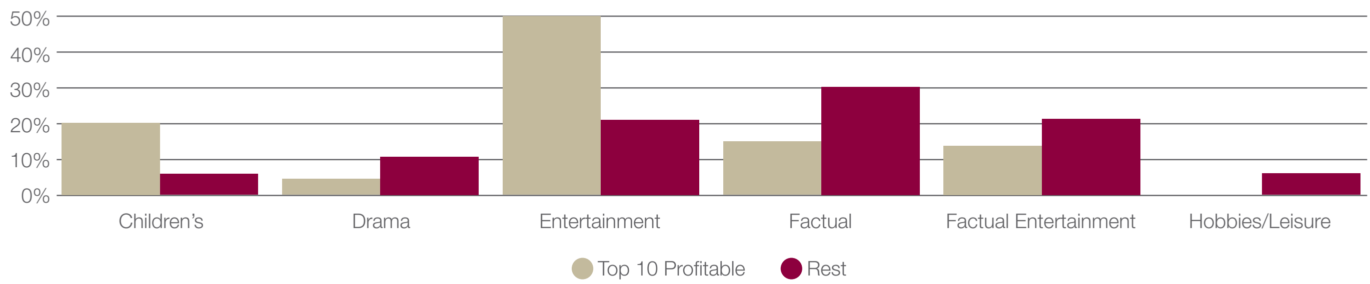
The fastest growing companies created more than double the proportion of entertainment (44% against 25%) and in marked contrast to the rest of the industry, next to no factual entertainment (4% against 23%).

Similarly, the most profitable companies created more than double the amount of entertainment (50% of their output) compared to the rest of the industry. However they added a notably higher proportion of children's programmes to their portfolio (20% against 4.6%), whilst producing significantly less factual programming than the rest of the industry (14% against 29%). Chart 45/46

45. Commissioning Pattern - Top Ten Growth Companies Source: Digital-i/Pact



46. Commissioning Pattern - Top Ten Profitable Companies Source: Digital-i/Pact



Focus

As reported in the 2007 Census, success seems strongly linked to focus. Whilst the top ten growth companies worked in approximately the same number of genres as their counterparts (average 2.5) they worked with fewer broadcasters (2.4 against 2.9). The figures were almost identical for the most profitable companies. Chart 47/48

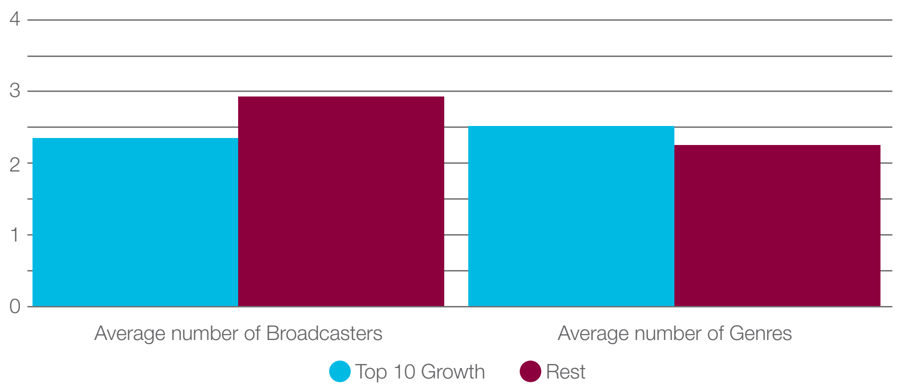
Returning Series

The top ten most profitable small production companies derive more than two thirds of their income (69%) from returning series, while their counterparts are averaging just over a half (52%).

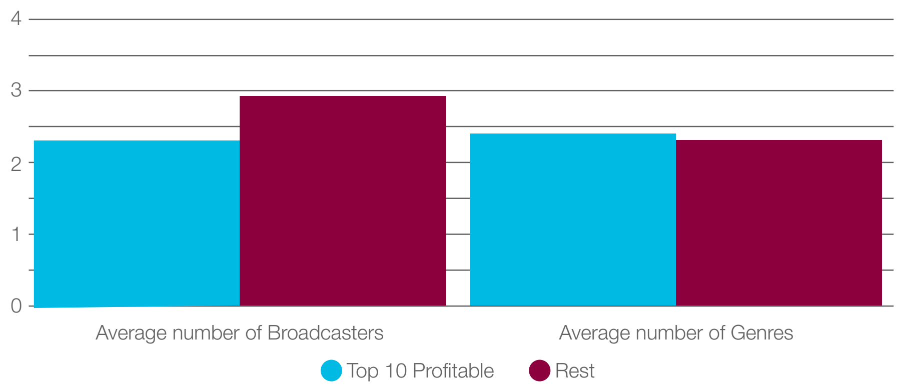
This trend is less noticeable amongst the top ten growth companies, which are averaging 59% of revenue from returning series, as opposed to 52% among their counterparts.

This may be determined in part by the genres in which each production company specialises, and the inherent suitability of those genres for return series. Chart 49/50

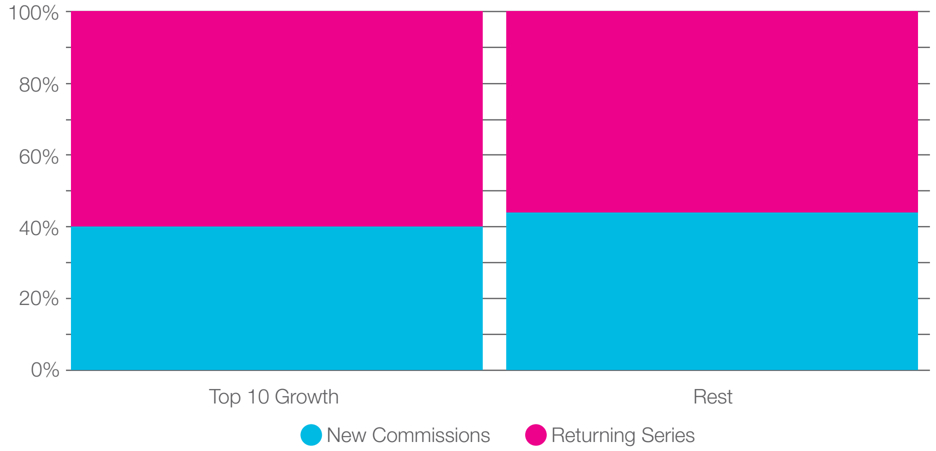
47. Average Number of Broadcaster Clients and Genres of Production - Top Ten Growth Companies Source: Digital-i/Pact



48. Average Number of Broadcaster Clients and Genres of Production - Top Ten Profitable Companies Source: Digital-i/Pact



49. Returning Series and New Commissions - Top Ten Growth Companies Source: Digital-i/Pact



50. Returning Series and New Commissions - Top Ten Profitable Companies Source: Digital-i/Pact

notes

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Digital-i helps independent production companies to pitch to the most receptive audiences with greater credibility. They also help broadcasters to model and optimise programme schedules, promotions and advertising placements.

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