



Oliver & Ohlbaum

UK Television Production Survey

Financial Census 2017

September 2017

A report by Oliver & Ohlbaum Associates Ltd for Pact

1. Summary
2. Revenue growth
3. UK commissioning trends
4. International and rights revenues
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TV production sector revenues have remained broadly stable

The UK television production sector has exhibited a broadly flat trend in overall revenues, with continued strong growth in international revenues going some way to compensate for declining UK revenues

International revenues experienced strong growth in 2016. International sales of UK finished programmes remain constant, while revenue from international primary commissions rose from £430 million in 2015 to £468 million in 2016, driven largely by commissions from digital services.

This growth largely offset a decline in domestic revenues during 2016. This fall was mostly attributable to UK primary commissions revenue which decreased from £1,550 million in 2015 to £1,503 million in 2016.

Overall UK television production sector revenues fell slightly from 2015 to 2016 but remain over £2.5 billion; total revenues have still exhibited a positive annual growth rate of 3.3 per cent since 2010. This is based on actual and estimated producer returns excluding wholly public service broadcaster (PSB) owned production companies.

Regional activity in 2016 was similar to that identified last year: around a third of direct employment and spend on primary commissions were based out of London. 69 per cent of total production budgets were spent in London.

International commissions and rights drive growth

Overseas TV revenues grew by 5.3 per cent year-on-year

Standalone SVOD services dominate total digital spend

This category made up 92 per cent of total digital primary commission spend

Overall revenues remain stable

Despite a decline of £78m on 2015 total revenues, there has been a 3.3 per cent CAGR (compound annual growth rate) since 2010

In the UK, over a third of primary commissions are made outside London

The North-West and Scotland remain the main hubs

Introduction

The Census report is based on financial returns from a broad cross-section of active UK production companies

The Pact Census, now in its twelfth year, is an annual report detailing the characteristics and evolution of the television production landscape within the UK.

By collating yearly market data, the Census provides a unique opportunity to understand the underlying trends shaping the UK television production industry.

Benefits of the Pact Census:

- The survey is completed by a broad cross-section of the UK production sector
- The data collected during the survey is granular, enabling a detailed picture of developing trading trends
- A consistent approach over the last decade enables the identification of long-term industry trends

Financial survey of Pact members

The Pact Census is conducted through a detailed financial survey of Pact members. Pact currently represents the majority of production companies active in the UK market.

The survey captures detailed information about the past two financial years. This data is then aggregated and used as the basis to estimate the overall size of the market and specific sub-segments of activity.

This year, 90 completed responses were received. These companies represent around 67 per cent of the total industry turnover.

Scope of the Pact Census

The Pact Census defines the 'UK production sector' as TV and film production companies in the UK excluding those companies wholly owned by PSBs. All references to producers and the production sector within this report follows this definition.

Methodology

We scale survey data up to market totals based on the number of producers within distinct turnover bands. We have made some changes to reflect market conditions and changes to the way some of our participants report revenues

Turnover band ranges are used to gross up sample responses to provide estimates for the overall industry. Responses are placed into turnover bands, then totals within each band are scaled up based on known market composition (i.e. number of producers by turnover band).

Every year, new companies return our financial survey thus changing the make-up of our sample; this can cause slight variations in our year-on-year market values. These small variations average out over time so trends viewed over multiple years of the Census show a clearer picture of the production sector than single year-on-year fluctuations. We draw attention to differences between consecutive years where they appear to be significant. Otherwise, we focus on the broader trends from 2010 onwards.

Due to different company reporting periods, the annual Census returns include financial information spanning 2015 and 2016.

Restatement of historical figures

The completeness of the Census is subject to the level of disclosure provided by participants. Variations between participants in the level of disclosure provided, mean that international revenues are reported to varying degrees. We reflect those that are disclosed in our figures.

This year we have restated historical figures to account for reduced reporting of international revenues from overseas subsidiaries, by some participants. This change of approach from last year (when we estimated the value) reduces overall coverage of reported international revenues, but ensures we can provide a like-for-like comparison in future years. Further minor adjustments have also been made to other areas to address past methodological differences.

Reclassification of 'new media' revenues

In the 2017 Census we also adjusted our definition of 'new media' revenues. We have made this change due to the growing number of original commissions being produced for online TV services, such as Netflix, Amazon Prime and BBC iPlayer.

'New media' previously covered any digital content that was not originally a TV or video commission, including: commissions for digital platforms, website design, apps and social media. For the 2017 Census, we have categorised commissions for digital platforms – from traditional broadcasters or standalone digital services (e.g. Netflix) – as a category within 'primary TV commissions' rather than 'new media'. We have restated our figures from prior years to align with this new definition.

Glossary

TV channels

- PSBs – public service broadcasters (BBC, ITV, Channel 4, Channel 5)
- Multi-channels – other linear channels (Sky portfolio etc)

Video on demand (VOD)

- SVOD – subscription video on demand e.g. Netflix
- TVOD – transaction video on demand e.g. Google Play

Standalone digital service

- SVOD or TVOD that is not owned by a traditional broadcaster and does not sit alongside existing TV channels, e.g. Netflix, Amazon Prime

Linear TV commission

- A production commissioned primarily for broadcast on traditional TV channels

Digital commission

- A production commissioned primarily for distribution on digital platforms (e.g. VOD services)

Out of London

- Includes programmes produced in any region except London (i.e. programmes produced in the nations & regions)

Primary commissions / Primary TV rights

- Production of new programmes which have been commissioned by broadcasters, this involves the sale of primary rights which typically include:
 - Exclusive right to broadcast the programme in the UK for a period of five years
 - The option to repeat transmission of the programme for an agreed fee
 - Option to renew these exclusive licences, for a fee, for a further two years
 - Exclusive licence to simulcast or make available on-demand over the internet
 - ‘Holdback’ on the sale of secondary rights to other UK broadcasters during the period of exclusive licence
- ‘UK commissions’ are produced for UK broadcasters or channels whereas ‘International commissions’ refers to commissions from non-UK broadcasters

Secondary TV rights

- Exploitation of other distribution rights that are not contained in primary rights, this can include:
 - Licence to broadcast the programme on a channel other than the one commissioning the programme
 - Sale and distribution of the programme outside of the UK
 - Sale of the programme format outside of the UK
 - Use of the programme for consumer products e.g. DVD, merchandising, etc.

Pre-production

- Includes external development funding, public funding, distribution advance (prior to production) and advertiser funding (including sponsorship)

Digital rights

- Income derived from the sale or licensing of TV properties owned by distributors for DTO, DTR, VOD, streaming, IPTV, EST and mobile usage

1. Summary

2. Revenue growth

- Total industry revenues have been broadly stable since 2010
- International revenues have grown rapidly over the past two years
- Domestic revenues, most notably primary commissions, have been slowly decreasing since 2013

3. UK commissioning trends

4. International and rights revenues

5. Out of London

Revenue growth - Summary

UK production sector revenues have remained stable over the last six years, while international TV revenues have continued to grow

Overall revenues of the UK production sector fell by 2.9 per cent between 2015 and 2016, but have exhibited a CAGR of 3.3 per cent since 2010.

While domestic revenues decreased slightly in 2016, international sales of UK finished programmes remained stable. This led to a growth of 5.3 per cent in overall international revenues between 2015 and 2016.

Non-TV revenues remain volatile but appear to be declining due to a drop in 'other' revenue. 'New media' revenues, now only including non-TV digital activities, appear to be relatively consistent over recent years.

The UK production sector remained broadly stable in 2016

- The overall size of the industry in 2016 was just over £2.5 billion
- The dip in revenues was primarily caused by falling non-TV and primary UK commissioning revenues

Domestic revenues continue to fall steadily

- Primary UK commissioning spend fell from £1.55 billion in 2015 to £1.50 billion in 2016
- UK rights income also fell, from £193 million to £168 million

International activities showed an increase in revenues and overseas income remains important

- International revenues have maintained steady growth, exhibiting a CAGR of 13.2 per cent between 2010 and 2016

Non-TV revenues have fallen

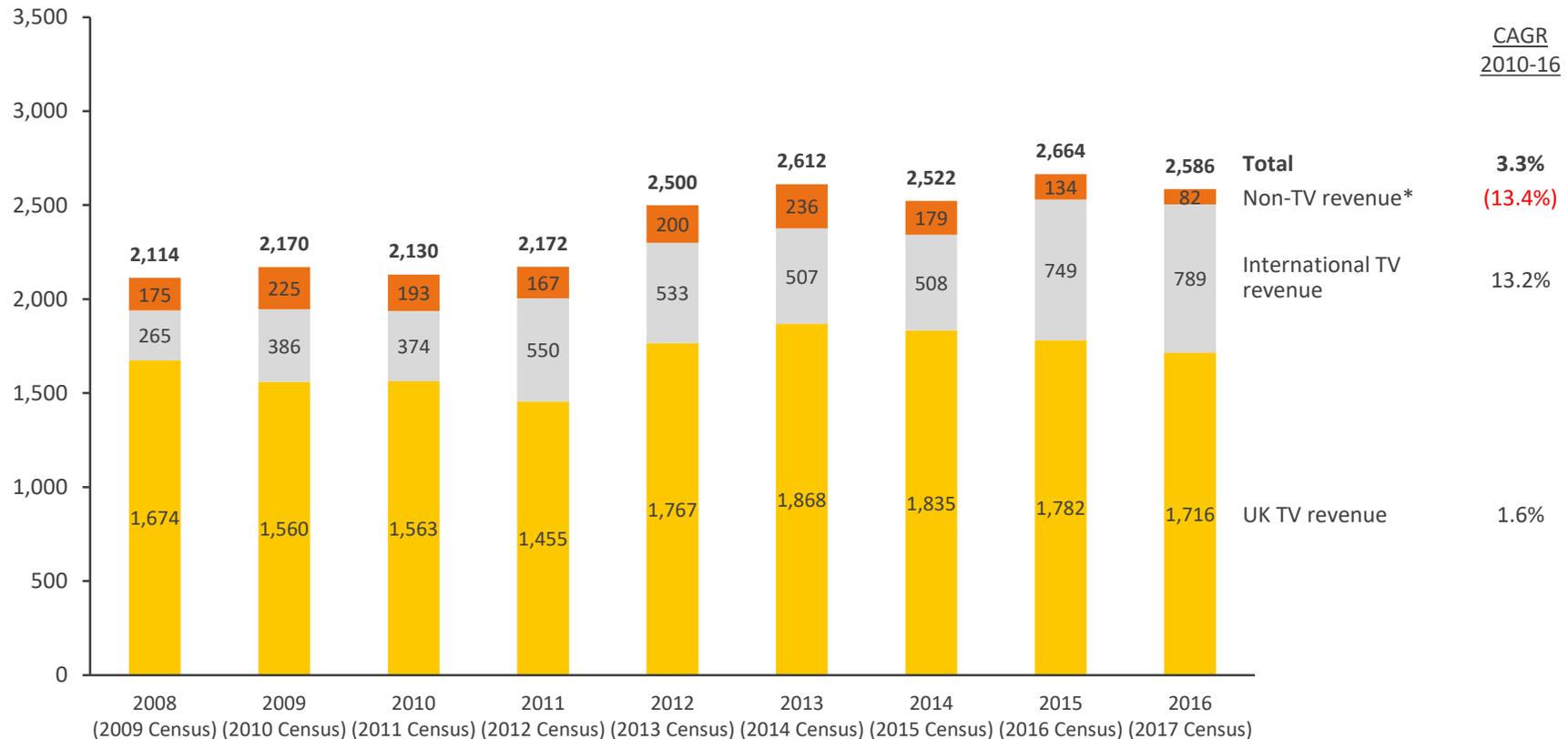
- Total non-TV revenues fell from £134 million in 2015 to £82 million in 2016; this continued fall has been primarily driven by decreasing 'other' revenues, which includes film, radio and publishing revenues

Total revenues remain stable at just over £2.5 billion in 2016

International revenues have experienced the strongest growth, with a CAGR of 13.2 per cent since 2010

Total Producer revenues (incl. non-TV activities)

£ million



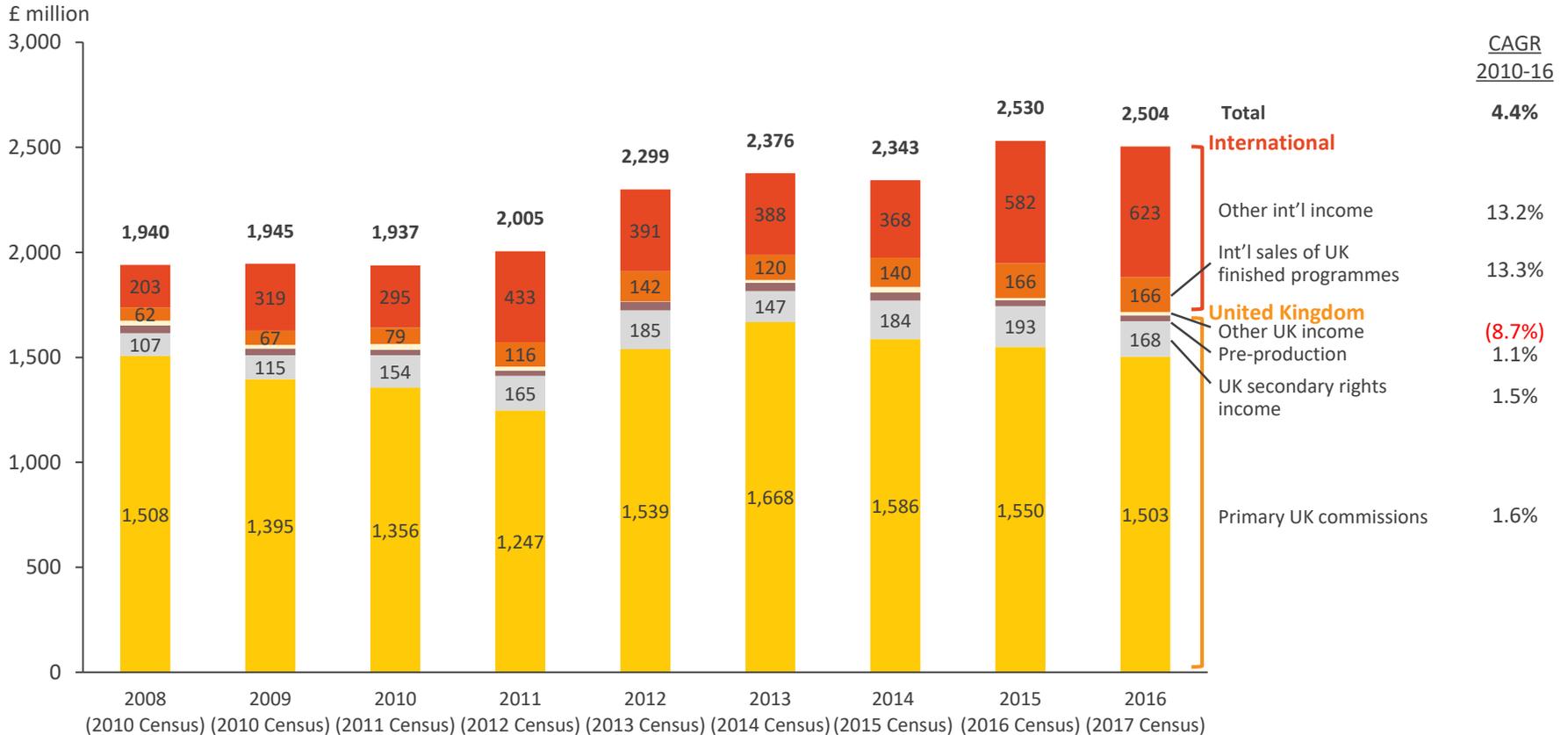
Note: *Non-TV revenue includes corporate production, new media and other non-TV activities such as online publishing, talent management, promotions, public relations and feature films

Source: Pact UK Television Production Census 2017, Oliver & Ohlbaum analysis

TV revenues continue to grow steadily

Strong growth in international rights revenues are partially offsetting a decline in domestic revenues

Producer TV-related revenues, by type and source



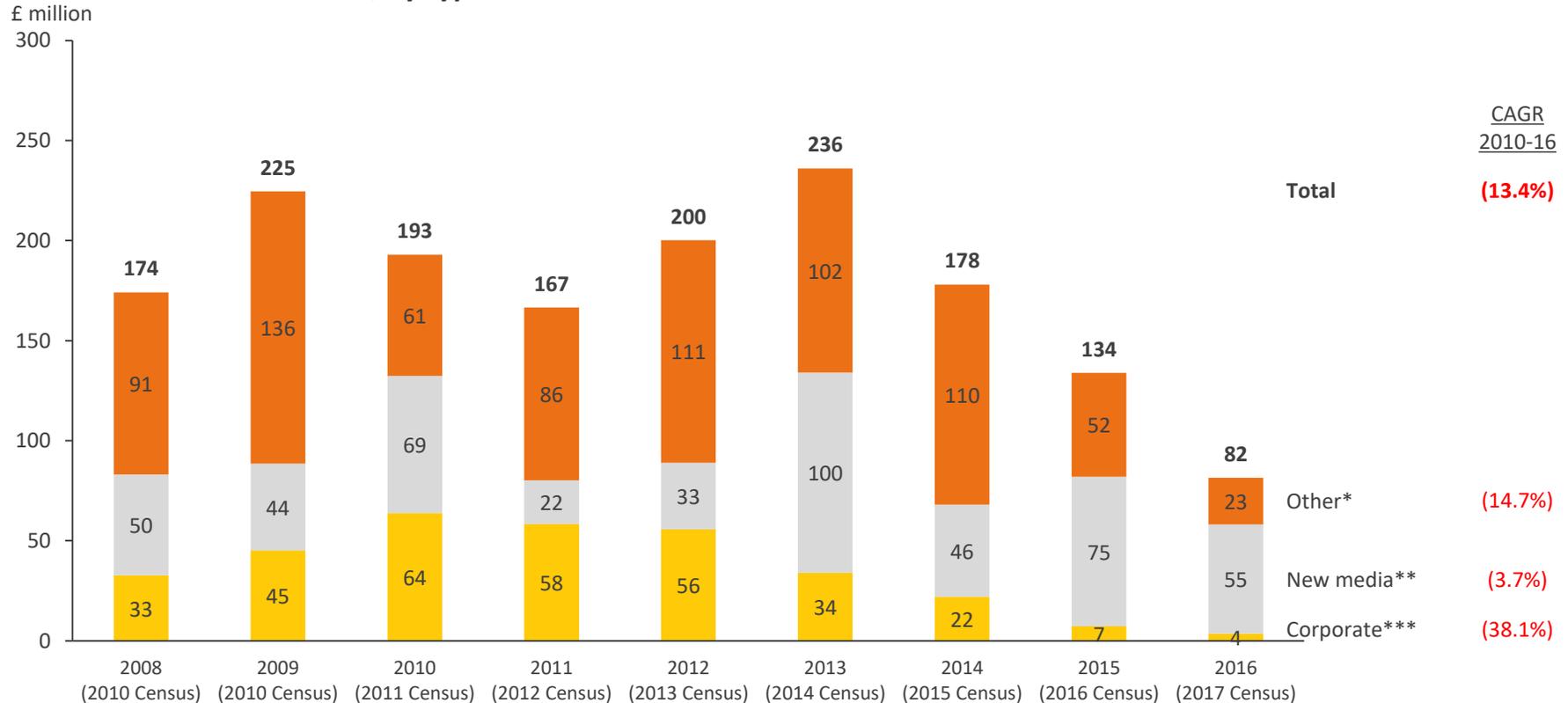
Note: International revenue numbers from past years have been restated to reflect recent changes in methodology; this has affected the reporting of revenues from international subsidiaries of UK producers
 'Other UK income' – UK TV revenue not attributable to pre-production, primary rights, secondary rights or distribution; 'Int'l sales of UK finished programmes' – sales of first-run UK programming sold as finished product abroad; 'Other int'l income' – primary commissions received from non-UK broadcasters, revenue from companies' overseas operations and other international secondary rights

Source: Pact UK Television Production Census 2017, Oliver & Ohlbaum analysis

Non-TV revenues have experienced a sharp decline in recent years

Total non-TV revenues declined between 2015 and 2016 due to a fall in revenues across all categories

Producer non-TV revenues, by type



Note: **'Other' includes online publishing, talent management, promotions, public relations and feature films. Figures are particularly sensitive to specific company performance and M&A activity. ***'New Media' includes websites, apps, social media and games. In 2017 the definition of 'new media' changed to reflect the rise in non-linear productions (see slide 4 for definition). This may account for the decline in revenues in 2016. ****'Corporate' includes B2B, promotional and educational material and similar not produced for public television

Source: Pact UK Television Production Census 2017, Oliver & Ohlbaum analysis

1. Summary

2. Revenue growth

3. UK commissioning trends

- Commissioning spend from PSBs has fallen slightly but spend from multi-channels is growing
- The BBC is the broadcaster with the highest share of its commissioning spend on smaller producers
- Spend on factual entertainment programming continues to grow

4. International and rights revenues

5. Out of London

UK commissioning trends - Summary

Reported revenue from UK commissioning fell in 2016, in part due to a decline in value of PSB commissions. Nevertheless, the value of UK commissions has grown 1.5 per cent a year since 2010

UK commissioning spend fell in 2016 to £1.5 billion, the lowest since 2011. PSBs remain the main source of commissioning spend despite falling year-on-year (their share of total UK commissioning revenues fell to 82 per cent). In contrast, spend from multi-channels grew. The fall in PSB spend this year is greater than expected from the trend emerging in previous years. This may however be due to the nature of Census data, as this year's returns may happen to have received less PSB spend.

Of the PSBs, the BBC allocates the most spend to smaller producers. Channel 4's proportion of spend on smaller producers decreased from 33 per cent in 2015 to 22 per cent. The prominence of prime-time entertainment formats on ITV and Channel 5 output continues to lead them to working proportionately more with larger producers.

PSBs accounted for 91.8 per cent of the UK spend on commissions for digital platforms (e.g. BBC3, BBC iPlayer, All4, etc.). The BBC was responsible for three-quarters of this spend due to the prominence of BBC3.

Commissioning spend reported by producers fell versus 2016

- The four main terrestrial networks (the BBC, ITV, Channel 4 and Channel 5 plus their spin-offs) accounted for an estimated 82 per cent of UK primary commission spend within the production sector, slightly down on last year
- Multi-channel commissioning spend increased from £222 million to £275 million

The BBC commissioned the highest proportion from smaller producers

- The BBC was reported to commission the largest proportion (38 per cent) of its spend on smaller producers (turnover of less than £10 million)
- ITV commissioned the highest proportion from larger producers (£70 million+), at 57 per cent
- Although over half of Channel 5's commissioning spend was with the largest producers, its spend on smaller producers was second only to the BBC

The proportion of new commissions remains highest amongst the multi-channel groups

- 61 per cent of multi-channel commissions were reported as new commissions
- Of the PSBs, the BBC and Channel 4 have the highest proportion of spend on new commissions, at one-third of their total spend

Factual entertainment continues to grow

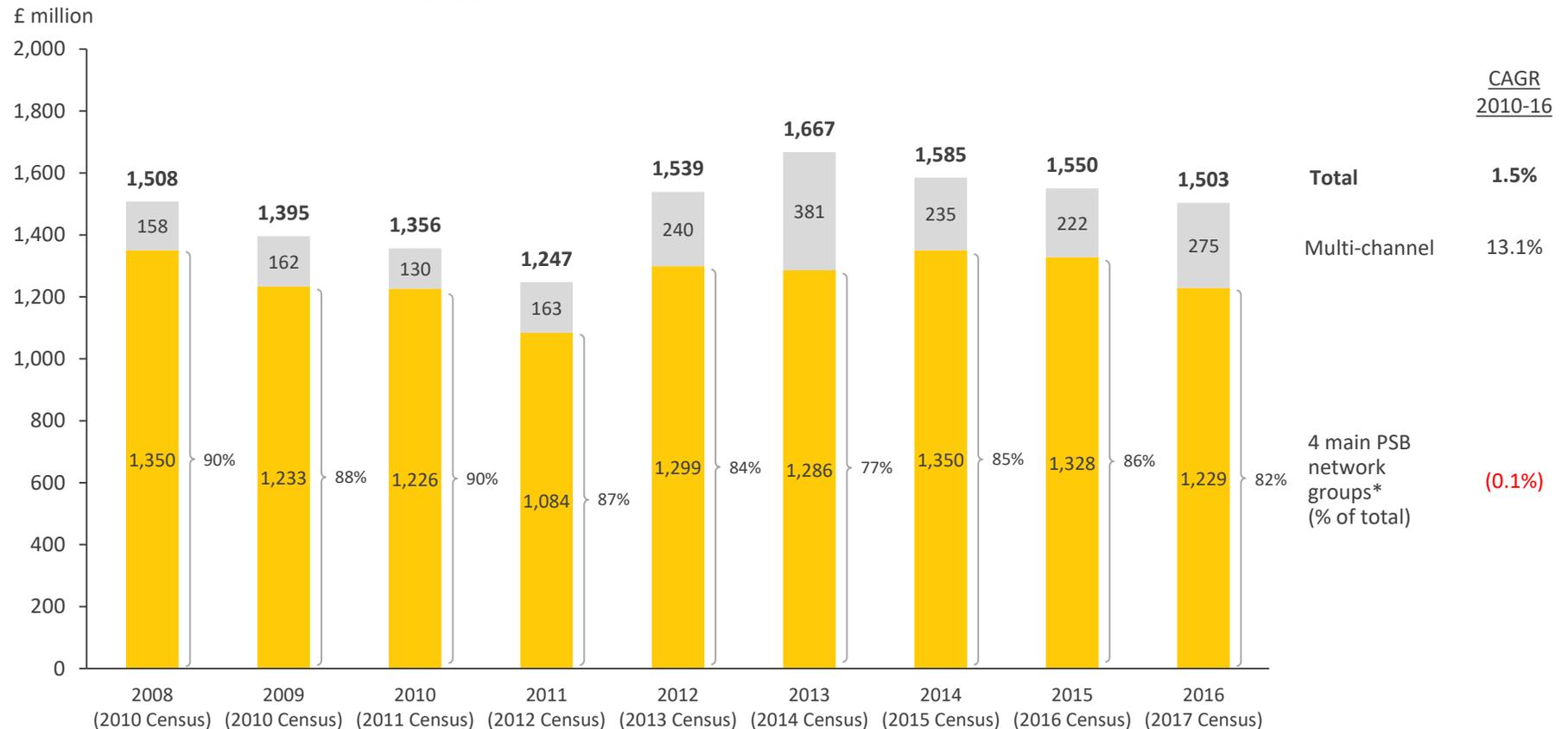
- The continued growth of the proportion of spend on factual entertainment comes at the expense of drama and entertainment
- The proportion of spend on lifestyle, children's and factual content remained the same as in 2015

3. UK commissioning trends

Total UK TV commissioning revenue continues to fall steadily

Primary rights revenue from PSBs fell year-on-year after four years of relative stability

Value of UK TV commissions, by type of broadcaster



Note: *Includes the main and spin-off channels for the BBC, ITV, Channel 4 and Channel 5 network groups

Source: Pact UK Television Production Census 2017, Oliver & Ohlbaum analysis

UK commissioning continues to supports small producers

Of the PSBs, the BBC spent the highest proportion of its external commissioning budget on smaller producers (with a turnover of less than £10m). Over half of ITV's and Channel 5's spend was allocated to the largest producers

Share of external commissioning spend, by UK broadcaster, by company turnover band, 2016

% of spend on producers included in Census



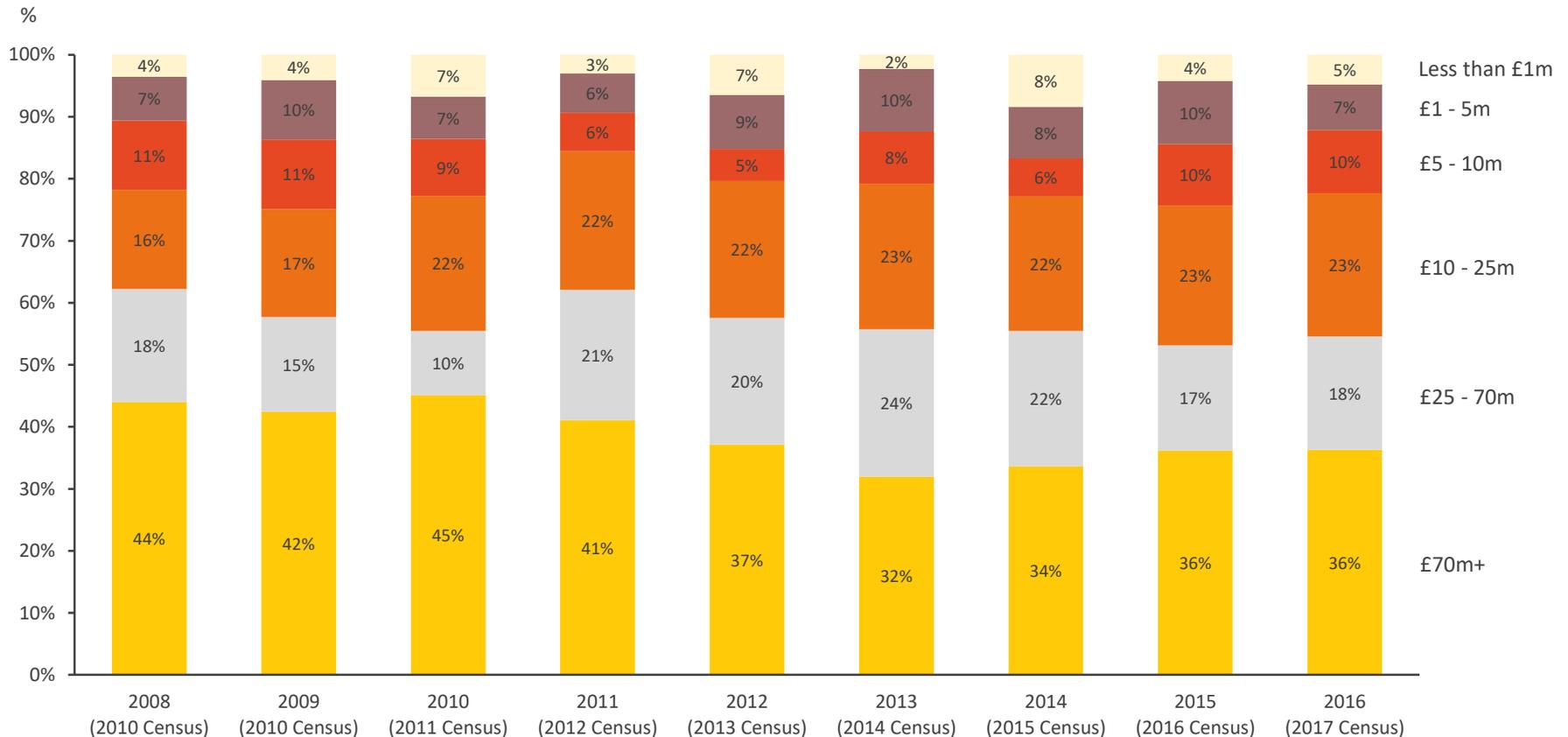
Note: *ITV includes STV / UTV, **Includes Sky and other multi-channel groups, †Our broadcaster spend figures may differ from those reported by the broadcasters as our numbers are estimated from a survey of producers that covers the latest financial year, rather than calendar year; there may also be timing differences between when revenues are recognised

Source: Pact UK Television Production Census 2017, Oliver & Ohlbaum analysis

Share of UK commissioning across the market has remained stable

The share of commissioning spend across producers of different sizes has remained broadly the same over the last decade

Share of total spend on UK produced primary commissions, by turnover band of producer



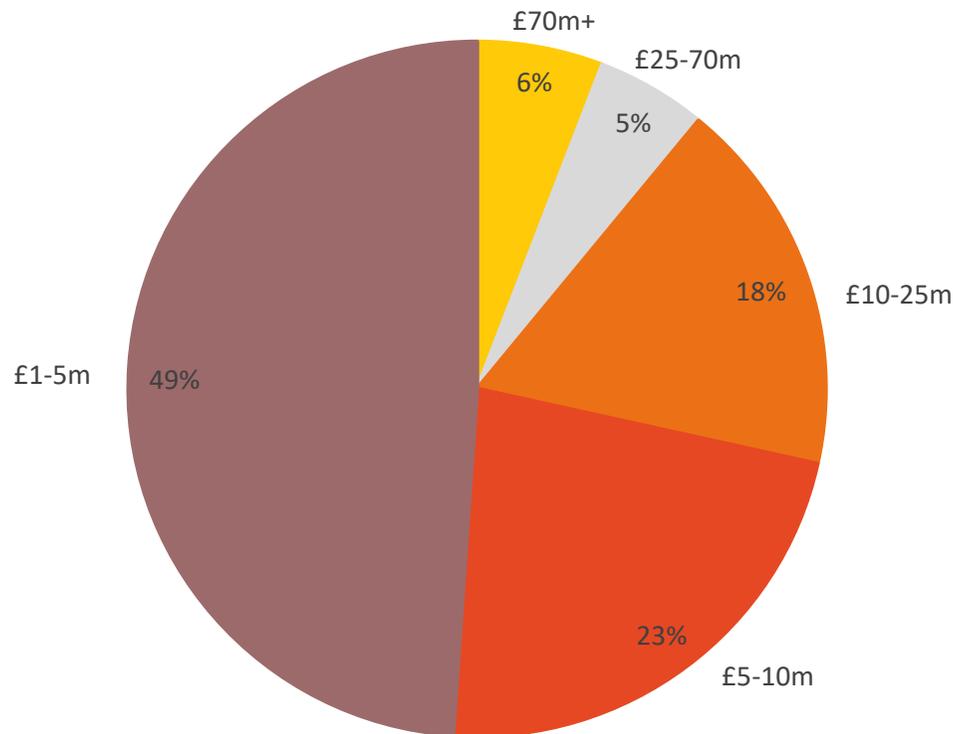
Note: Results are calculated at market size, based on Census returns, and are subject to sample change effects in each year

Source: Pact UK Television Production Census 2017, Oliver & Ohlbaum analysis

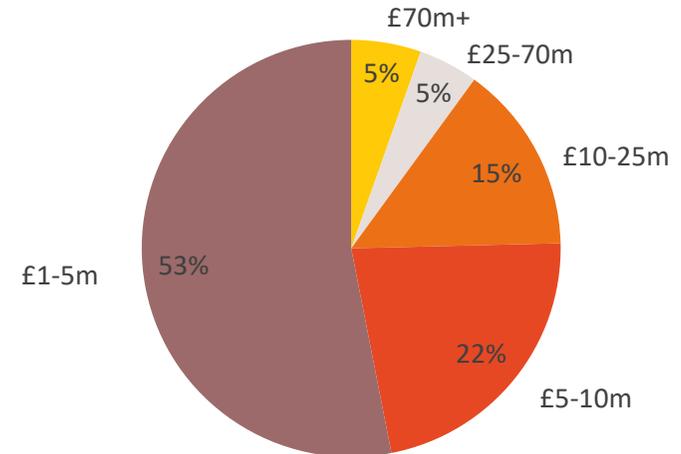
The production sector has a diverse range of companies

There has been a slight increase in the sector share of mid-sized producers (£5-25m annual turnover) since last year but the sector remains diverse with a large number of smaller producers and relatively few large producers

Distribution of the number of independent production companies, by turnover bracket, 2016



Distribution, 2015



Note: Results are based on 137 groups and individual companies. Individual companies belonging to a larger group are only counted as part of the group. In addition to the companies above, based on analysis from Broadcast, we estimate there are circa 300 small producers with an annual turnover of less than £1m

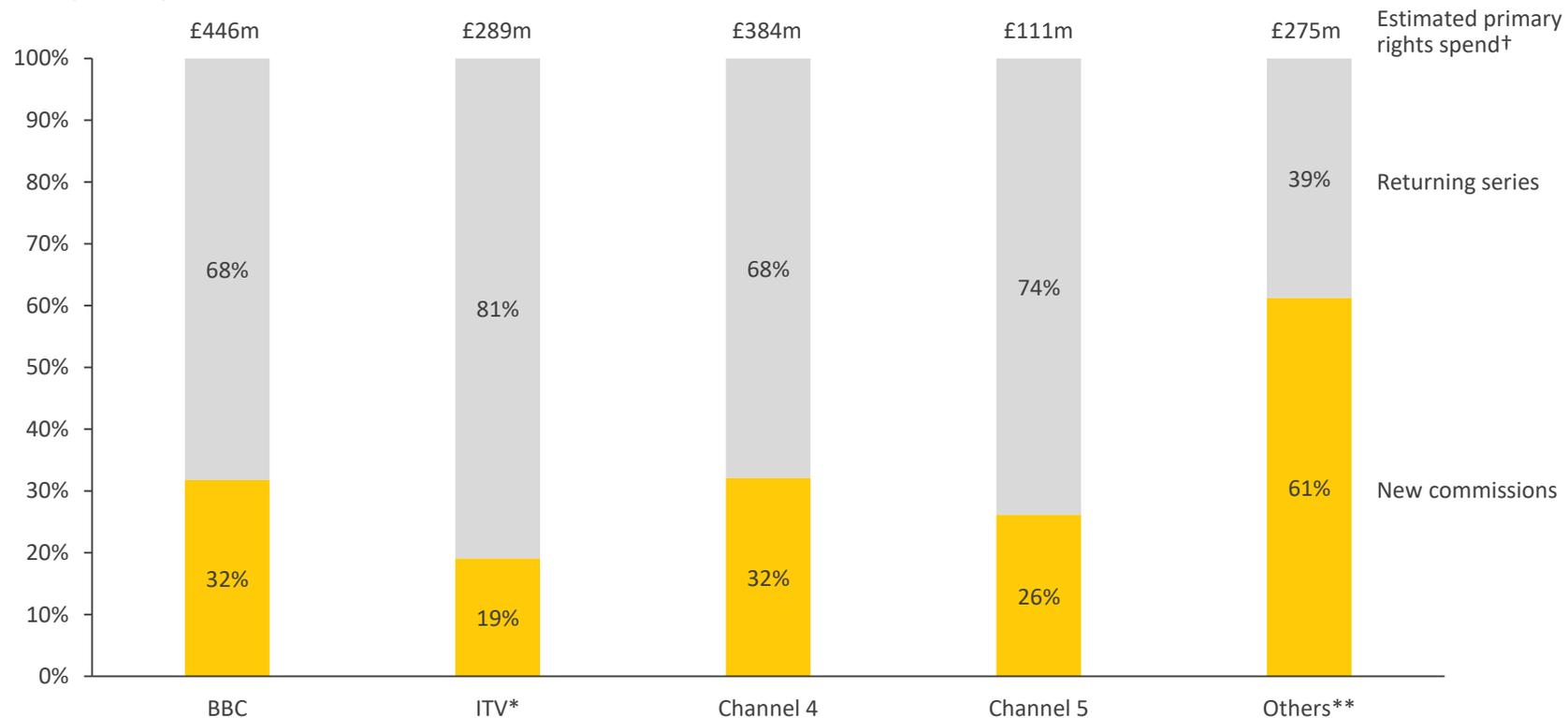
Source: Broadcast, Pact UK Television Production Census 2017, Oliver & Ohlbaum analysis

Just over one-third of UK commissioning spend is on new IP

As per previous years, multi-channel groups place the highest proportion of spend on new commissions while BBC & Channel 4 spend more on new IP overall

UK commissions value, by broadcaster – new commissions & returning series, 2016

% of spend on producers included in Census



Note: *ITV includes STV / UTV, **Includes Sky and other multi-channel groups, †Our broadcaster spend figures may differ from those reported by the broadcasters as our numbers are estimated from a survey of producers that covers the latest financial year, rather than calendar year; there may also be timing differences between when revenues are recognised

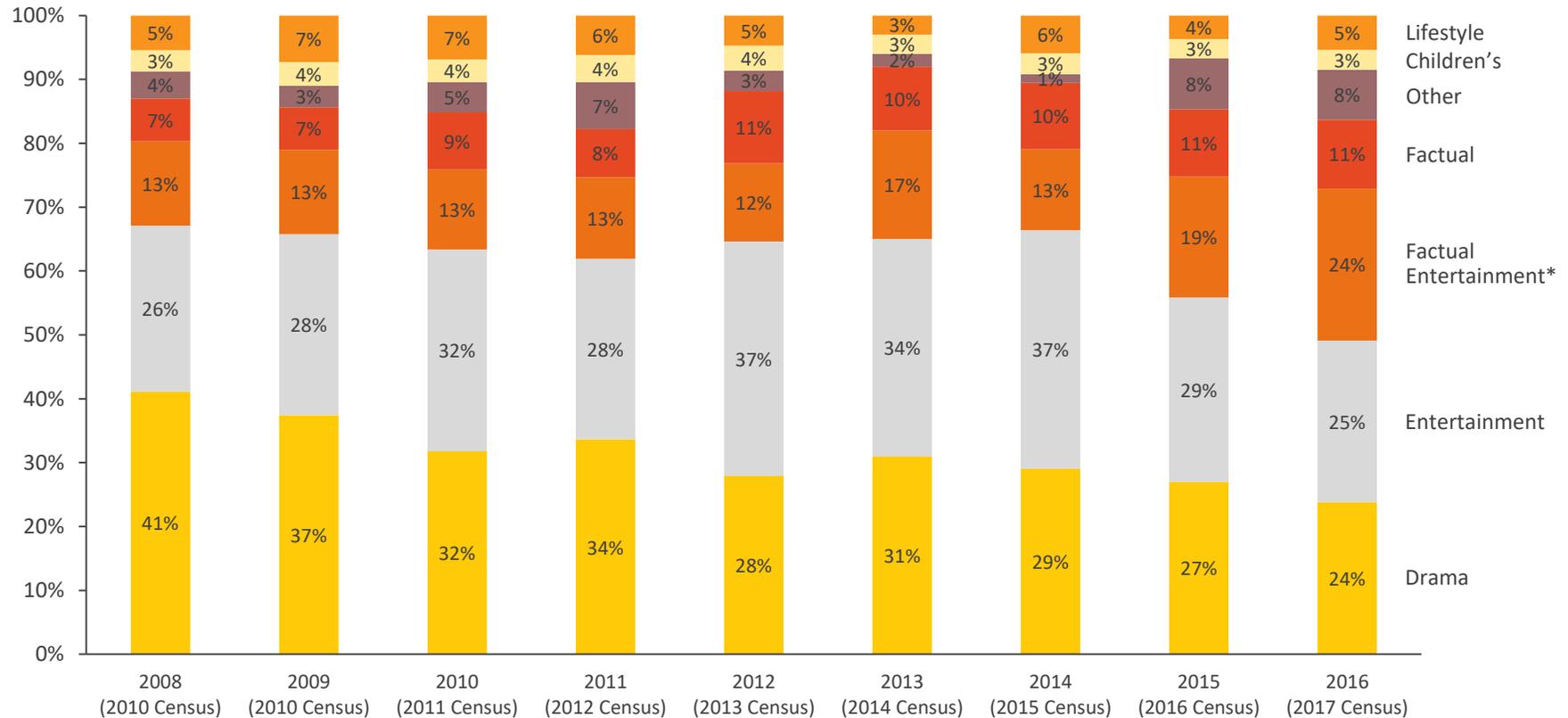
Source: Pact UK Television Production Census 2017, Oliver & Ohlbaum analysis

Continued shift of spending from entertainment & drama to factual entertainment

The proportion of spend on factual entertainment has continued to grow at the expense of drama and entertainment, while the share of spend on factual, children's, lifestyle and 'other' genres has remained constant

Value of UK commissions by genre

% of spend on producers included in Census



Note: 'Factual entertainment' covers such programmes as showbiz/gossip, reality shows and fly on the wall documentaries

Source: Pact UK Television Production Census 2017, Oliver & Ohlbaum analysis

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- Total revenue from international activities continued its strong growth in 2016
- Revenues from primary international commissions grew by 9.0 per cent between 2015 and 2016
- International and UK contents rights remained stable

5. Out of London

International and rights revenues - Summary

International activities continue to be an important source of revenue for UK producers

Reported international revenues from overseas commissions continued to grow in 2016. Total international revenue grew by 5.3 per cent year-on-year.

International sales of UK finished programmes, and international rights income, remained flat between 2015 and 2016. Revenues from primary international commissions grew by nine per cent during the same period.

Total revenue from international activities continued to grow

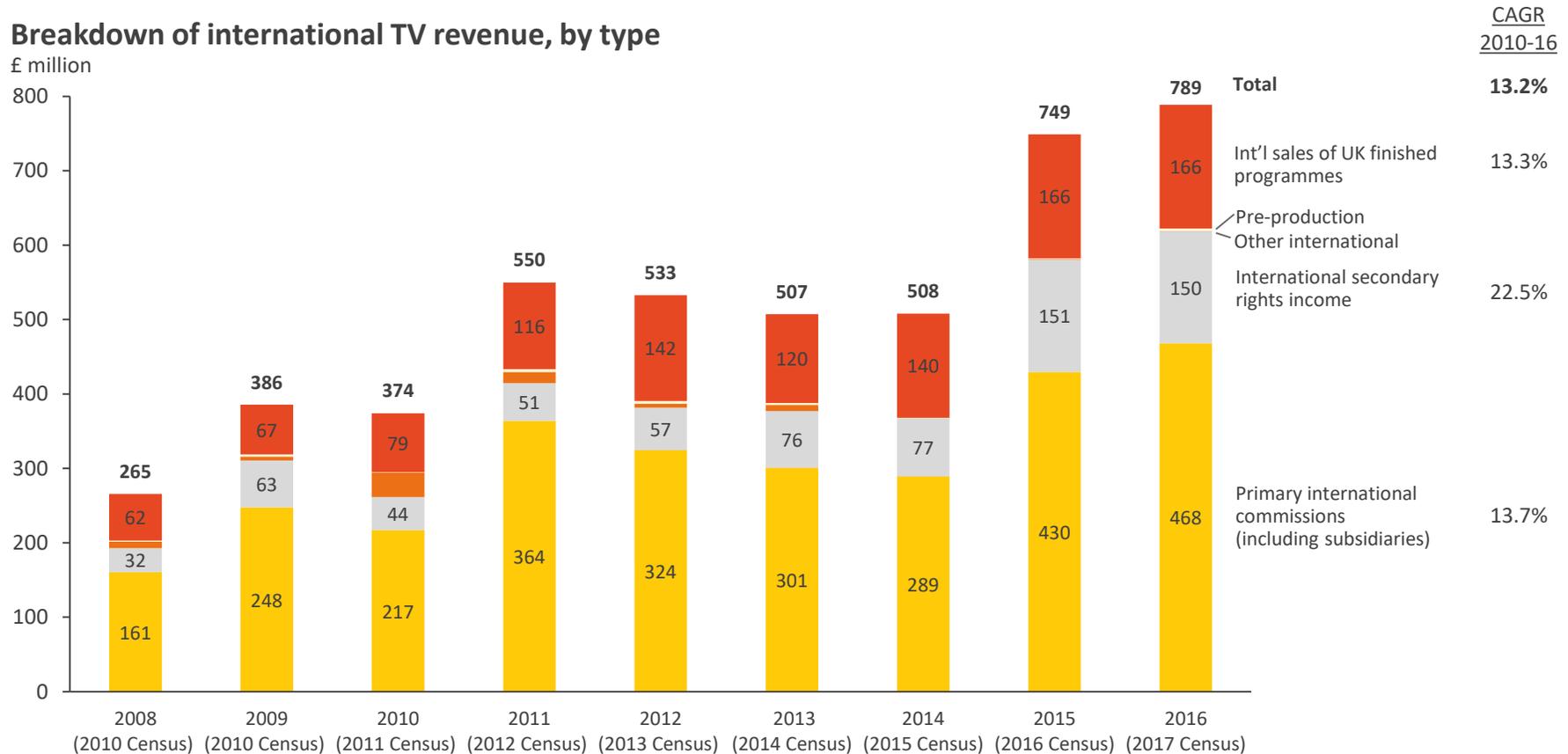
- The revenue category experiencing the strongest growth was primary international commissions, which grew from £430 million in 2015 to £468 million
- This was driven by commissions from standalone digital services, which spent £126 million

UK content rights revenues remained stable

- UK content rights remained stable at £335 million, compared with £334 million in 2015
- There was an increase of four per cent in the proportion of UK content rights revenues from international finished programme sales. This was in line with an overall historic growth trend, following a decline between 2014 and 2015

International TV revenues continue to grow strongly following 2014 slow down

International revenues grew in 2016 largely due to increased primary commissions revenue from global VOD services. Secondary rights revenue remained high due to continued international interest in UK programmes and formats



Note: International revenue numbers from past years have been restated to reflect recent changes in methodology; this has affected the reporting of revenues from international subsidiaries of UK producers

'Other international' – international TV revenue not attributable to pre-production, primary rights, secondary rights or distribution

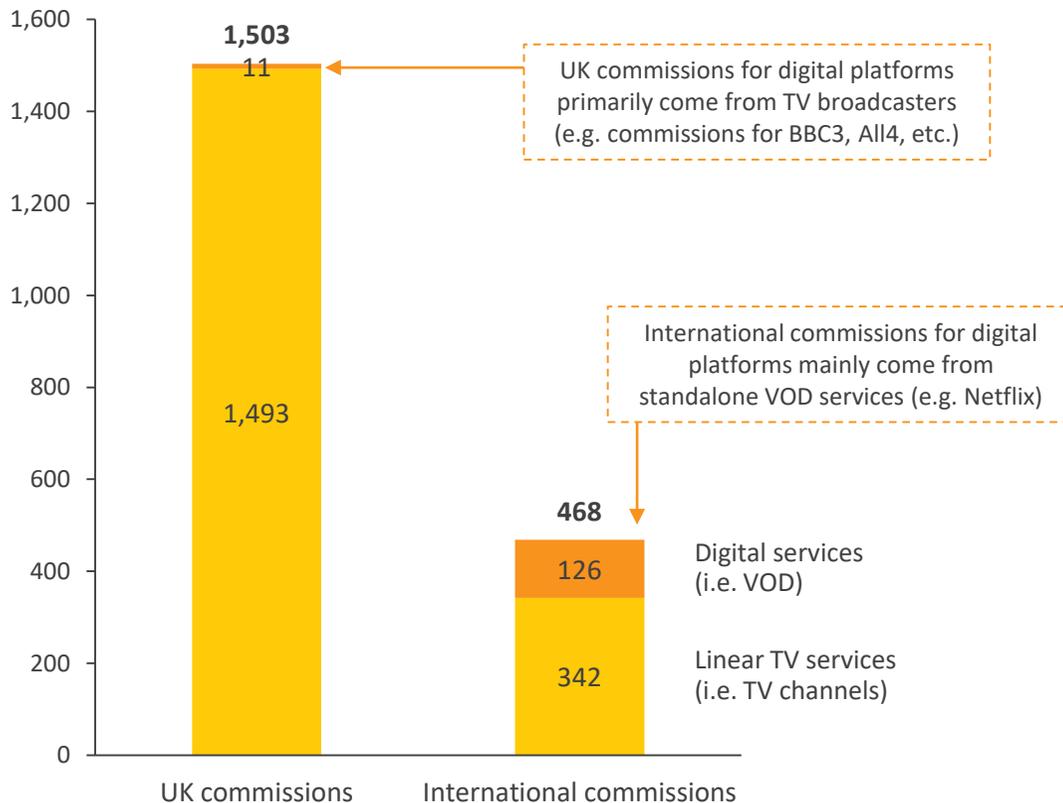
Source: Pact UK Television Production Census 2017, Oliver & Ohlbaum analysis

UK/international primary TV rights revenues are driven by different formats

Traditional linear TV still accounts for the vast majority of UK primary rights revenue; however, commissions from global digital services are driving growth in the total value of international primary commissions

Primary TV rights revenue, by type, 2016

£ million



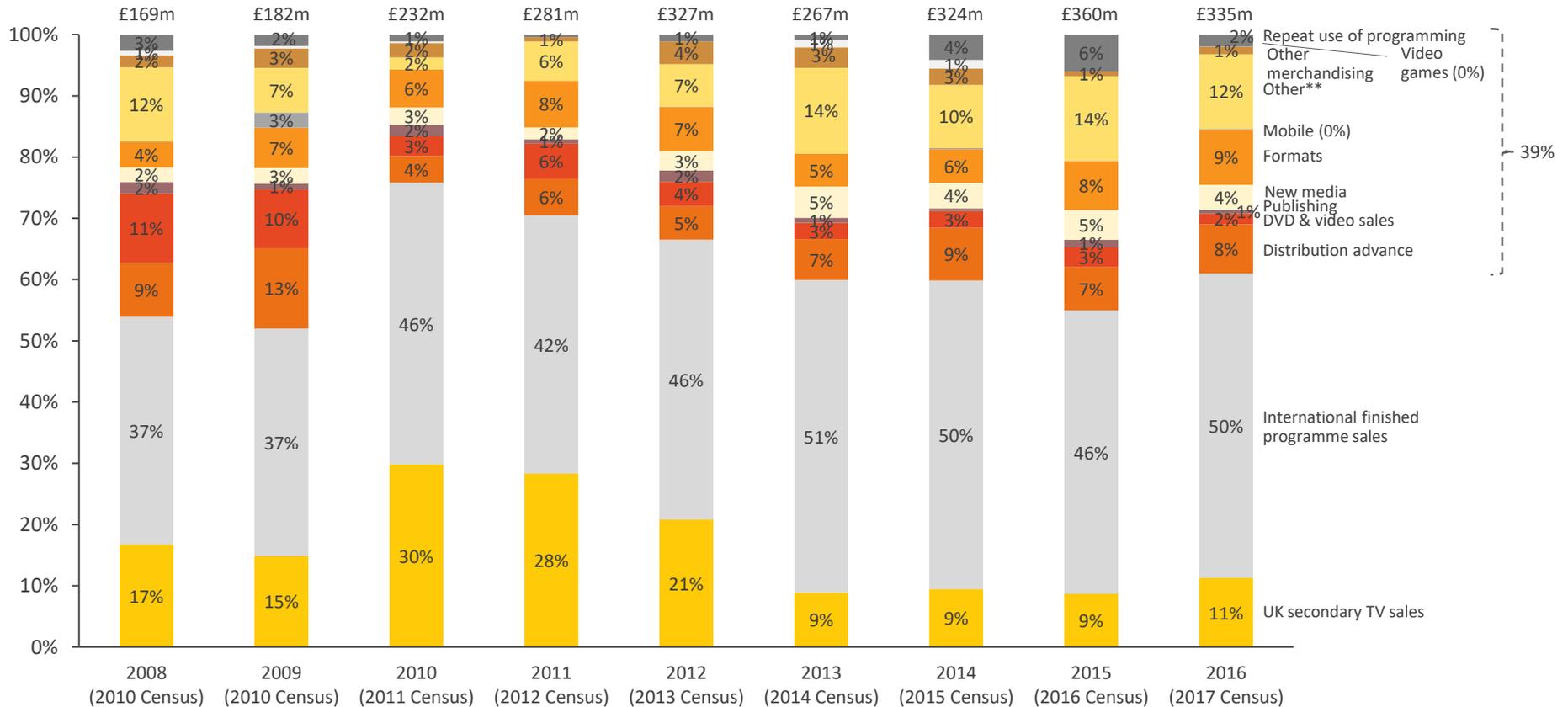
- Only a very small amount of UK commissioning spend goes towards programmes made for digital services. BBC3 is the largest service in terms of investment (the BBC accounted for 75 per cent of UK digital commissioning spend); All4 is the second largest
- Commissioning spend from digital services, coming mostly from global SVOD services, accounts for over one quarter of primary rights revenue from international sources. Almost all of the commissioning spend from these services went to large producers (£70m+ turnover)
- Primary rights revenue from international digital services increased from £62.8 million in 2015 to £126 million in 2016

Some signs of slow-down in finished programme sales; other areas remain strong

The biggest decline in share of revenues from UK content rights was seen in repeats, while the share of international finished programme sales recovered to the historic trend after last year's decline

Revenues from UK content rights, by category*

% of total content rights among producers



Note: *This section refers to the following combined figures as detailed on slide 9 – 'UK rights income' & 'Int'l sales of UK finished programmes sales'.
 **'Other' includes advertising, PRTS, and other activities such as music publishing, live events, gambling and ancillary & digital rights

Source: Pact UK Television Production Census 2017, Oliver & Ohlbaum analysis

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5. Out of London
 - About one-third of commissioning and production spend is spent outside of London
 - Nations & Regions account for 35 per cent of the total workforce employed by UK producers
 - BBC and ITV spent about one-third of their primary commissioning spend on programmes produced outside of London

Out of London - Summary

Over one-third of direct employment and UK commissioning spend reported within this year's Census sample was placed outside of London

Productions in the London area accounted for 66 per cent of UK primary commissioning spend. This is a five per cent increase since the 2016 Census.

This means that just over one-third of UK commissioning spend is shared across the nations & regions. Scotland and North West England take the most significant share, accounting for 20 per cent of regional spend.

Demonstrating a similar pattern to revenue from UK commissions, full-time direct employment by UK producers outside of London stood at 35 per cent – a two per cent decline on last year.

63 per cent total of production budgets were spent inside London.

Out of London accounts for over 30 per cent of UK productions' spending

- 37 per cent of production budgets that were spent in the UK, were spent outside of London

The BBC and C4 make significant use of out of London production

- Nearly 60 per cent of C4's primary commission spend was spent on productions based outside of London
- Over one-third of the value of the BBC's and ITV's primary commissions were outside of London

Out of London accounts for over one-third of the sector's workforce

- 35 per cent of the workforce employed by producers are located outside London
- Scotland and North West England have retained the largest share of regional employment, together accounting for around 20 per cent of employment by UK producers. South West England is also well represented, at seven per cent

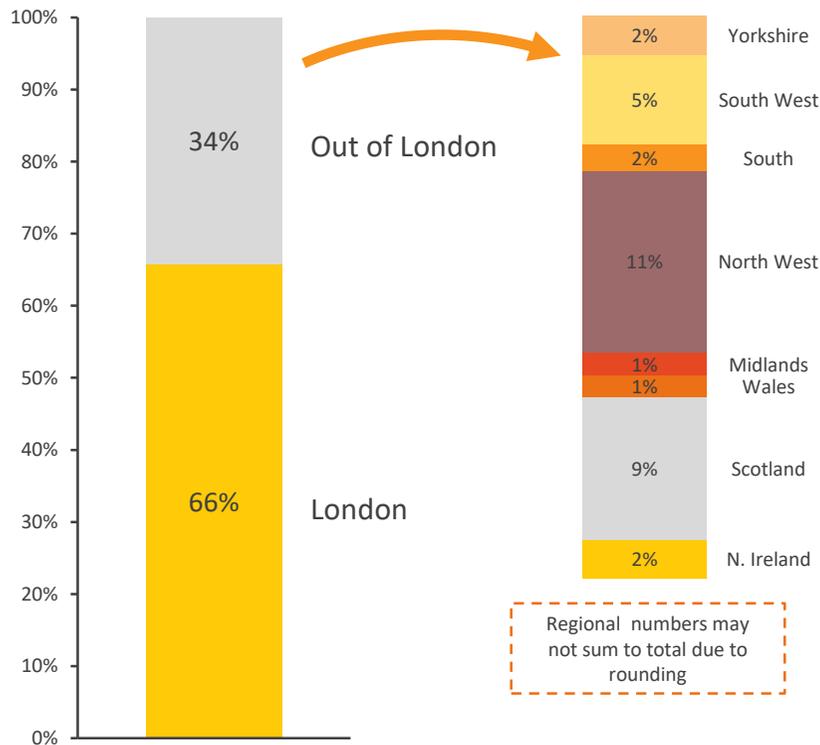
Over one-third of spend and employment was situated outside of London

Over one-third of primary commissioning revenue is located outside London; Scotland and the North West are the two largest regional hubs. 68 per cent of production budgets are spent inside London

Primary commission value by region of production, 2016

% of primary commissions spend amongst producers included in the census

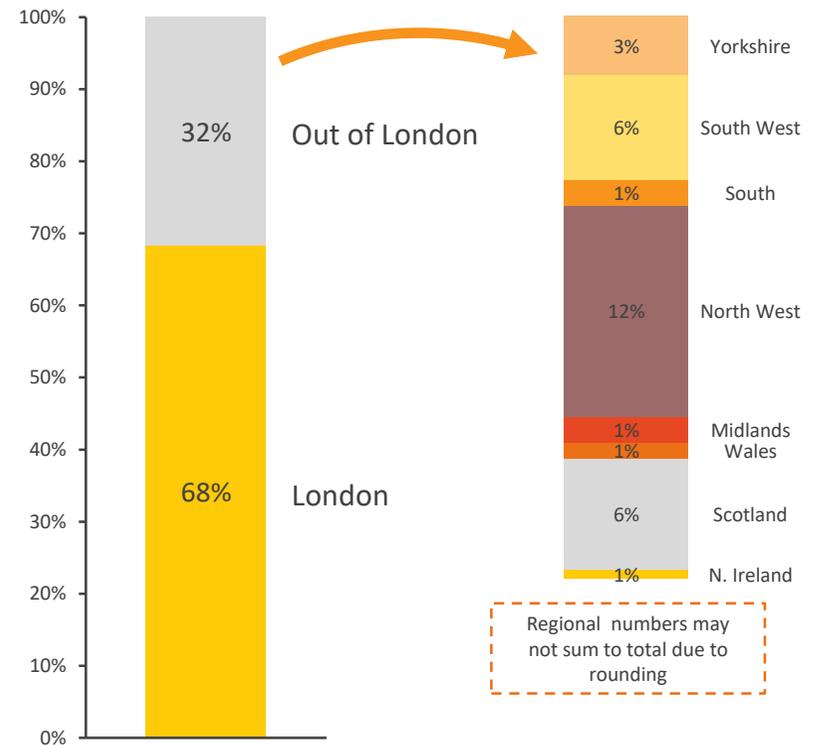
Total primary rights for UK productions = £1,688 million



Production budget by region of production, 2016

% of production budget (UK) spend amongst producers included in the census

Total budgets for UK productions = £2,015 million



Note: North East England and Anglia, both at 0%, are not visible on the graphs above. Overseas productions have been excluded from these graphs
Fewer respondents provided production budget information so our sample is not consistent between these two graphs

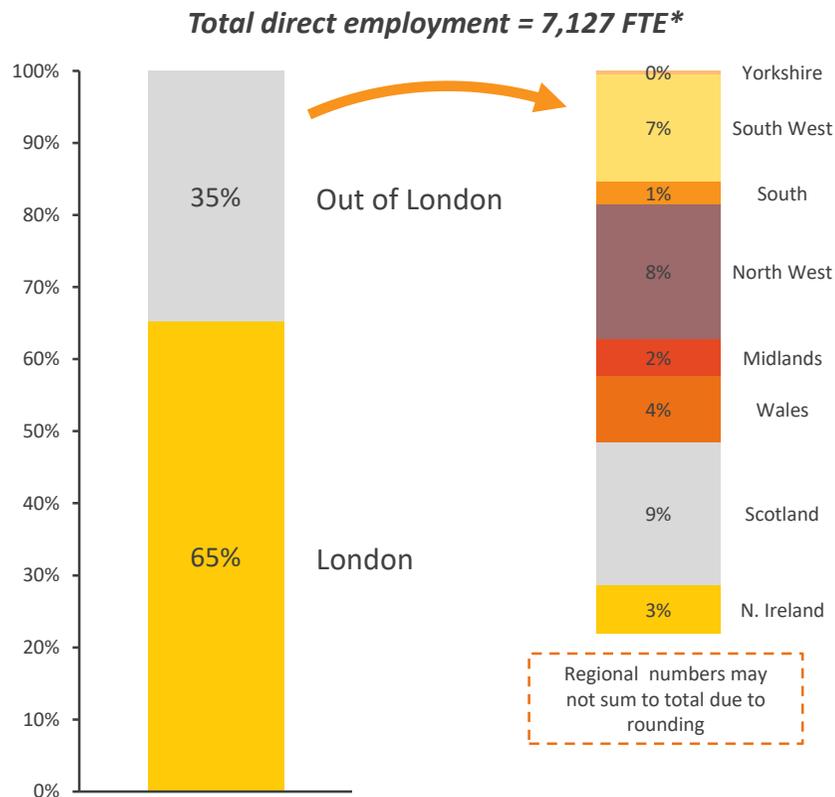
Source: Pact UK Television Production Census 2017, Oliver & Ohlbaum analysis

One-third of employment was situated outside London

Employment follows a similar regional split to the value of primary commissions, with Scotland and North West England taking the highest regional shares

Employment by region, 2016

% of direct, full-time equivalent employment within producers included in the census



- Roughly one-third of direct production-related employment is created by producers based in the nations and regions; this is very similar to the split for primary commissions and production budgets
- Scotland, the North West and the South West are the largest regional production hubs. Northern Ireland and Wales also have sizeable production employment.

Note: North East England and Anglia, both at 0%, are not visible on the graph above
 Full-time equivalent (FTE) represents the equivalent number of full-time employees. The total shows the average employment over the year.
 Direct employment does not include freelance workers

Source: Pact UK Television Production Census 2017, Oliver & Ohlbaum analysis

Oliver & Ohlbaum



www.oando.co.uk



@OliverOhlbaum



346 Kensington High Street, London, W14 8NS



+44 (0)20 7313 5900

