

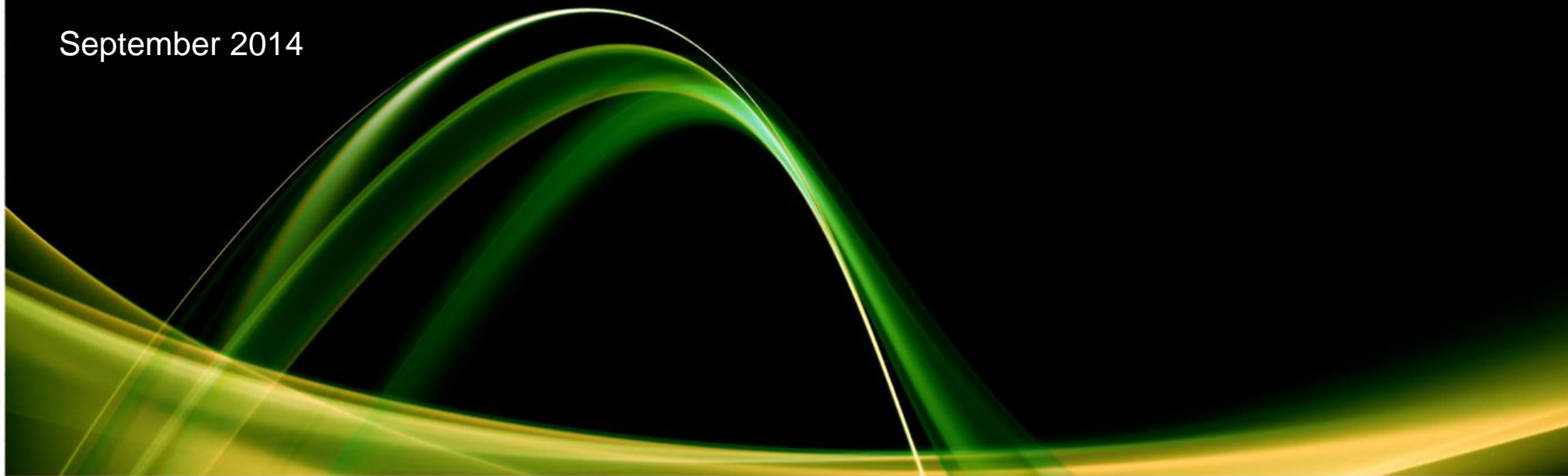


The evolution of the TV content production sector

A discussion document

Prepared for Ofcom by Oliver & Ohlbaum Associates Ltd

September 2014



Introduction

Definitions and caveats



Advisory

Data on the UK external and UK independent production sector

The data on the UK indie production sector includes data for non-qualifying independents, i.e. previously independent production groups who are now owned by broadcasters (such as Shed, Shine and Carnival). This is to maintain consistency between data sources over time and the available breakdown of data from public sources.

The indie data does not include external production by traditional broadcaster production units for other broadcasters (such as ITV Studios, BBC Production)

The report uses the following definitions and distinctions for external content production:

External production

Output produced both by indies and by a broadcaster related production house for another broadcaster (NBCU, Sony, Discovery, ITV etc)

Non-qualifying independent

Previously independent super indie production groups now part of a broadcaster related group (Shed and Shine)

Future non-qualifying independent

Recently purchased super indie production groups that will now be part of a broadcaster related group (All3Media, Endemol)

Programmes made within 2 years of being commissioned retain independent status if an independent production company loses its qualifying status after commissioning has taken place

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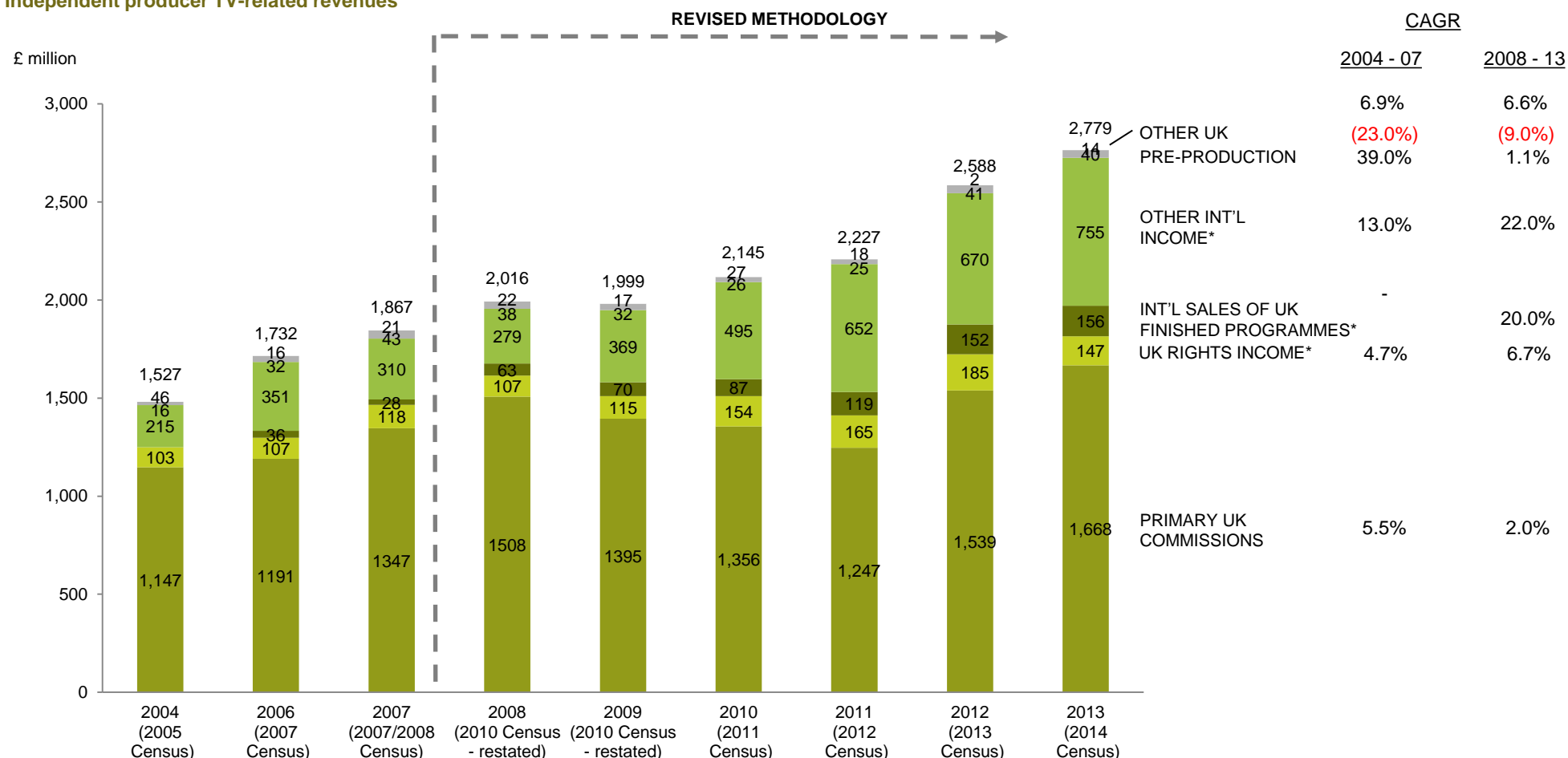
The evolution of the UK TV content production sector

The independent sector has experienced a significant increase in revenues



The UK indie sector showed strong growth up until 2008. The recession put pressure on UK commissioning budgets with indies relying on international revenues. UK commissioning bounce back in 2012 boosted total sector income

Independent producer TV-related revenues*



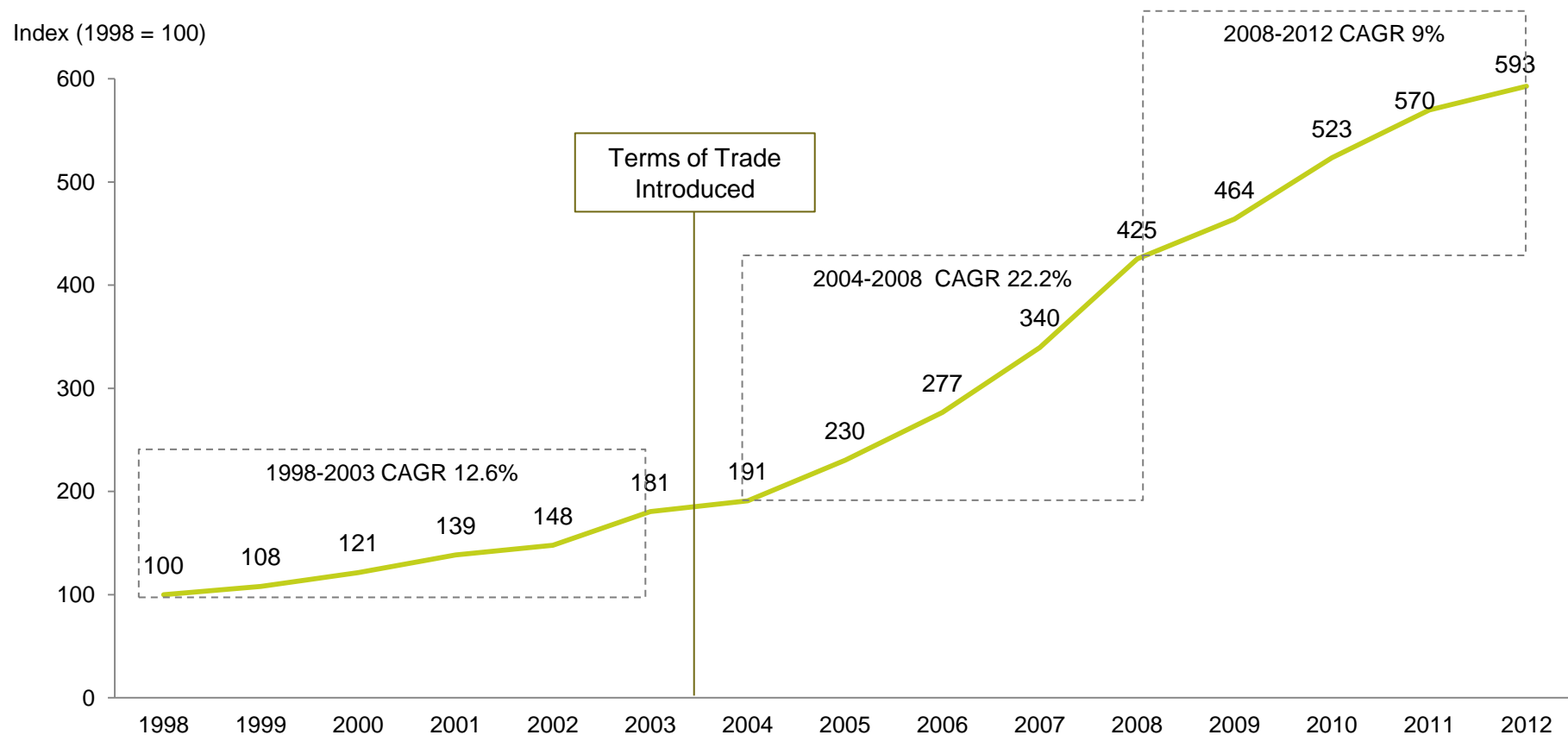
*Definitions: 'Other international income' - revenue from companies overseas operations and any primary commissions received from non-UK broadcasters; 'Int'l sales of UK finished programmes' - sales of first run UK programming sold as finished product abroad; 'UK rights income' - UK secondary sales, publishing, formats, DVD sales etc.
 Source: Oliver & Ohlbaum analysis, Pact census

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TV exports have seen significant growth



Following the introduction of Terms of Trade there was an initial significant boost to TV exports followed by healthy growth in more recent years.

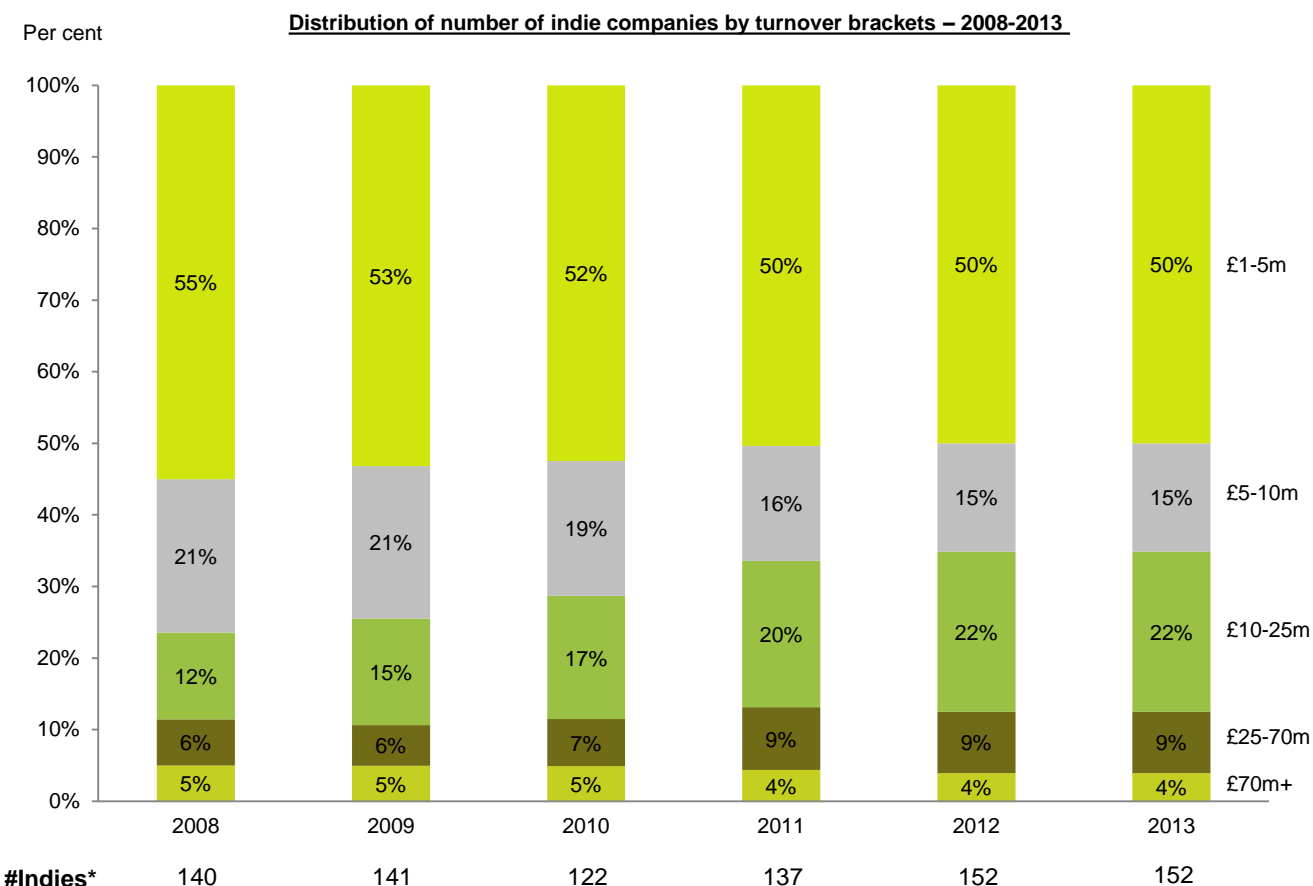


The evolution of the UK TV content production sector

There has been some consolidation of mid-tier indies



There was some consolidation into mid-tier indies up until 2010/11. The distribution of companies has remained stable in more recent years



- Some consolidation of smaller companies into mid tier
- Small amount of consolidation at top end of the sector

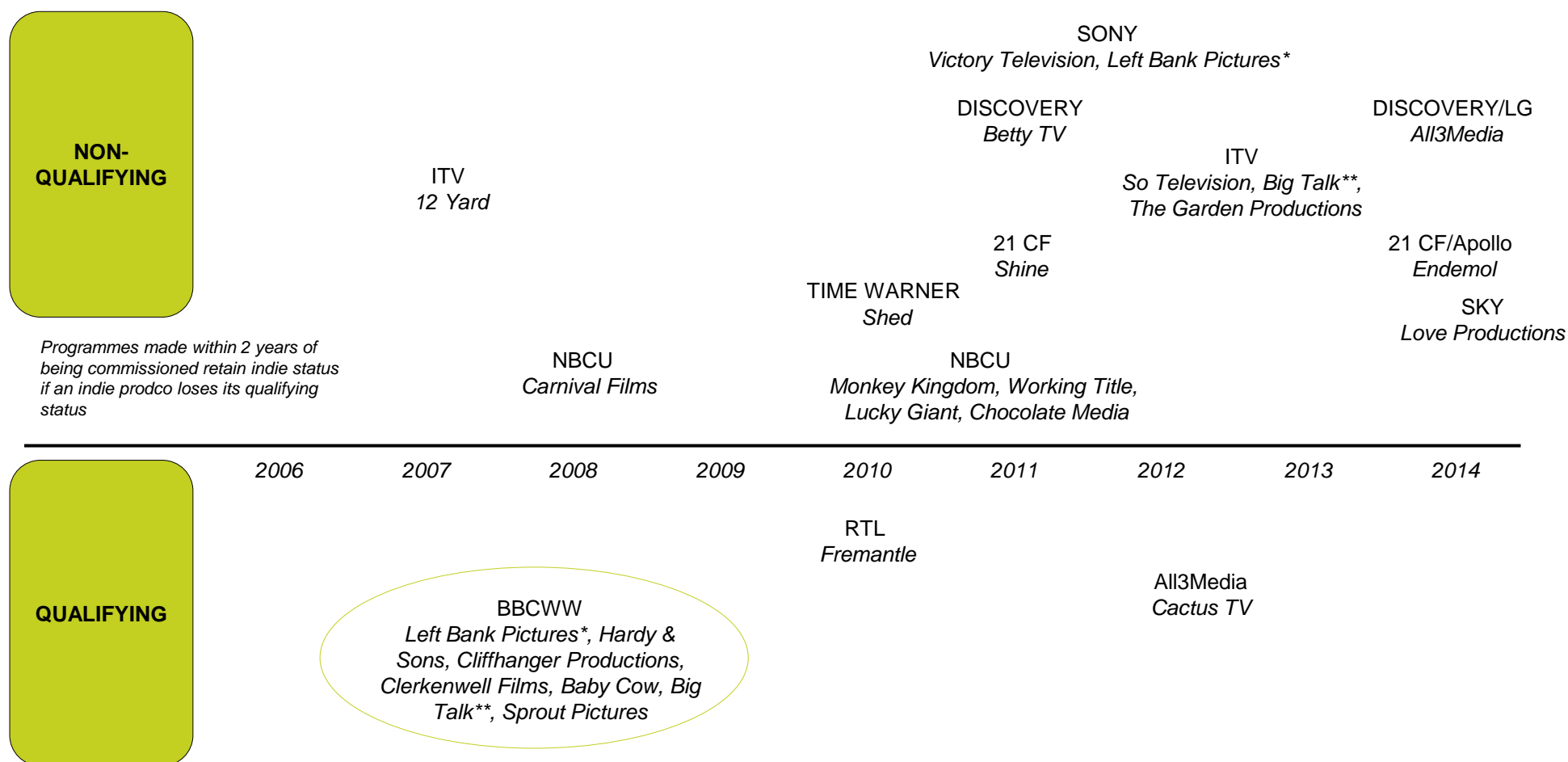
*In addition to the companies above, we estimate there are circa 500 small prodcos with a turnover of less than £1m

The evolution of the UK TV content production sector

The sector has attracted external investment, now consolidated in trade buyers



There has been a much higher concentration into non-qualifying ownership than vice versa. Prior to 2008 most consolidation did not affect indie status as this was indies buying other indies, creating the so called “super indies”



*BBCWW retains a smaller minority share in Left Bank Pictures after it was sold to Sony

**BBCWW sold stake in Big Talk 2013 when purchased by ITV

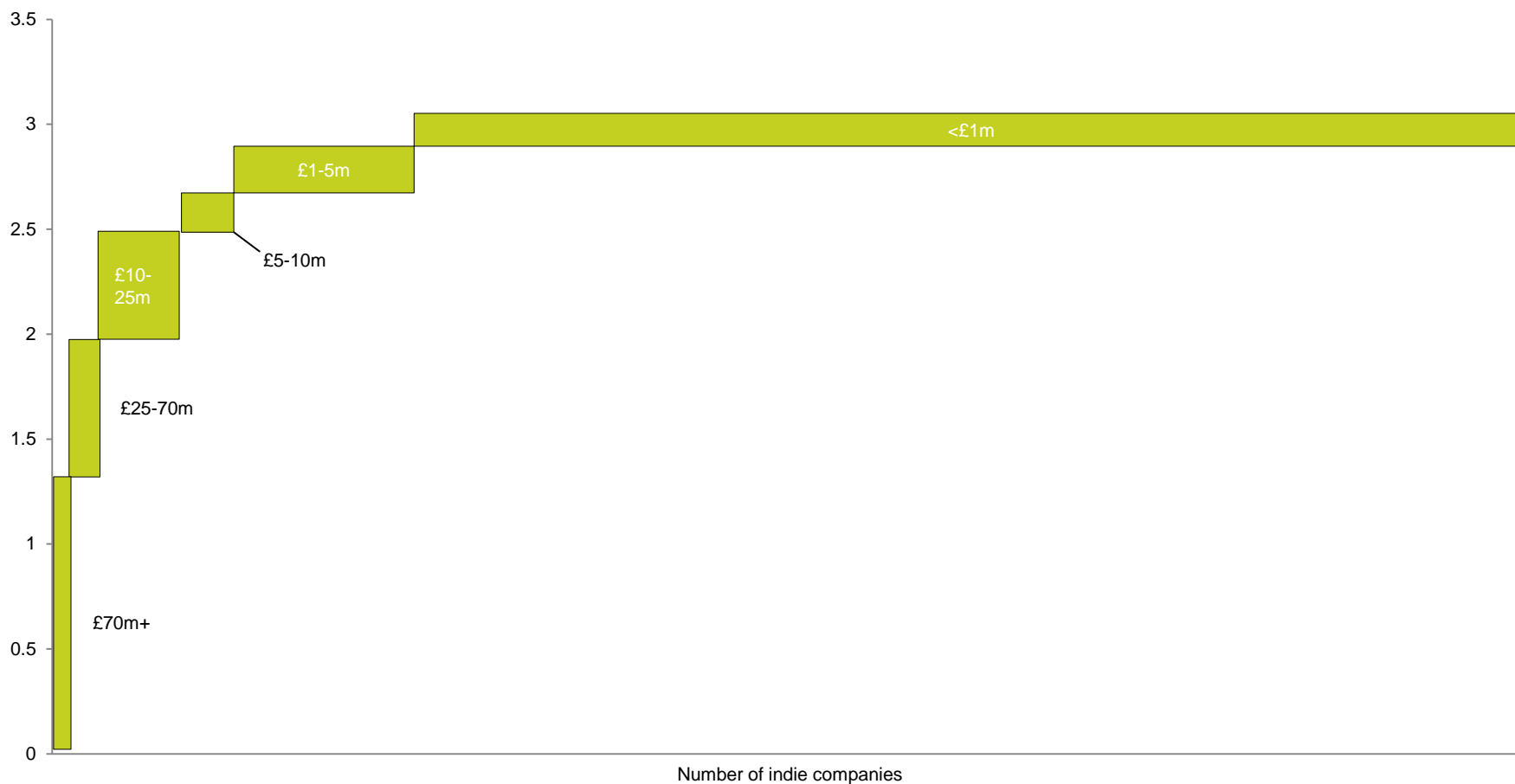
The evolution of the UK TV content production sector

Revenue is concentrated among the biggest indies



The top 6 indie production companies represent almost 45% of total revenues

Total indie revenue £bn **Indie revenues by turnover band – share of revenue and number of companies - 2013**



The evolution of the UK TV content production sector

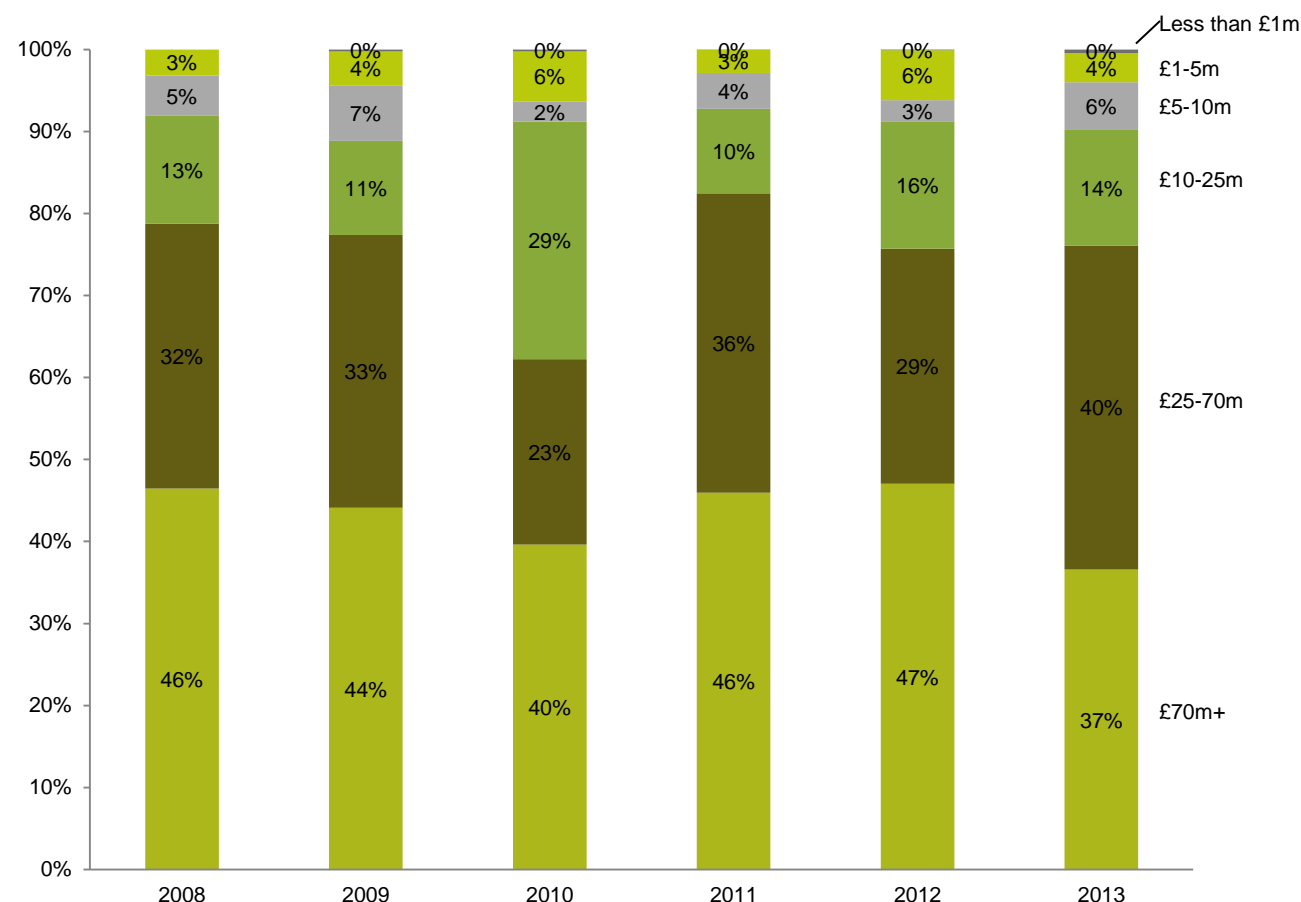
Increased share of UK commission spend, smaller indies are claiming more share



The largest indies' share of UK commission spend has declined over the last year, i.e. the so called "super indies" with more than £70m in turnover. The indies in the £25-70m turnover bracket have gained the most from this shift in spend

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

Percent



Note: *Primary commissions expenditure data excludes all expenditure on news and sports programmes and rights but includes expenditure on all regional and nations and regions programmes

Source: Ofcom Communications Reports, BARB, Company reports, O&O / Pact Census, Oliver & Ohlbaum analysis

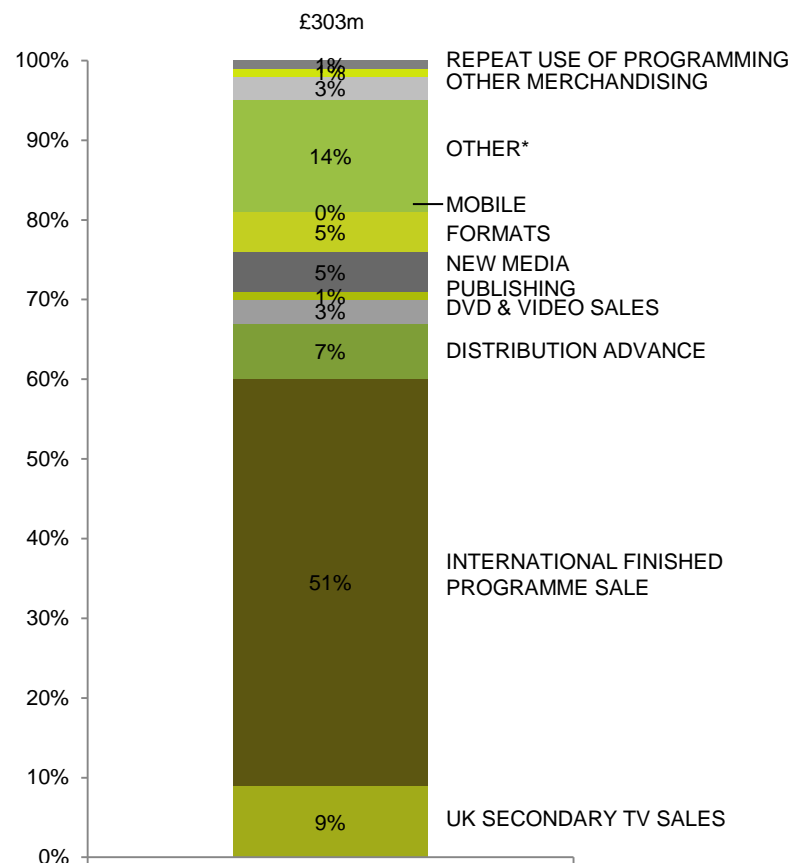
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Indies have been able to generate secondary revenues on rights retained

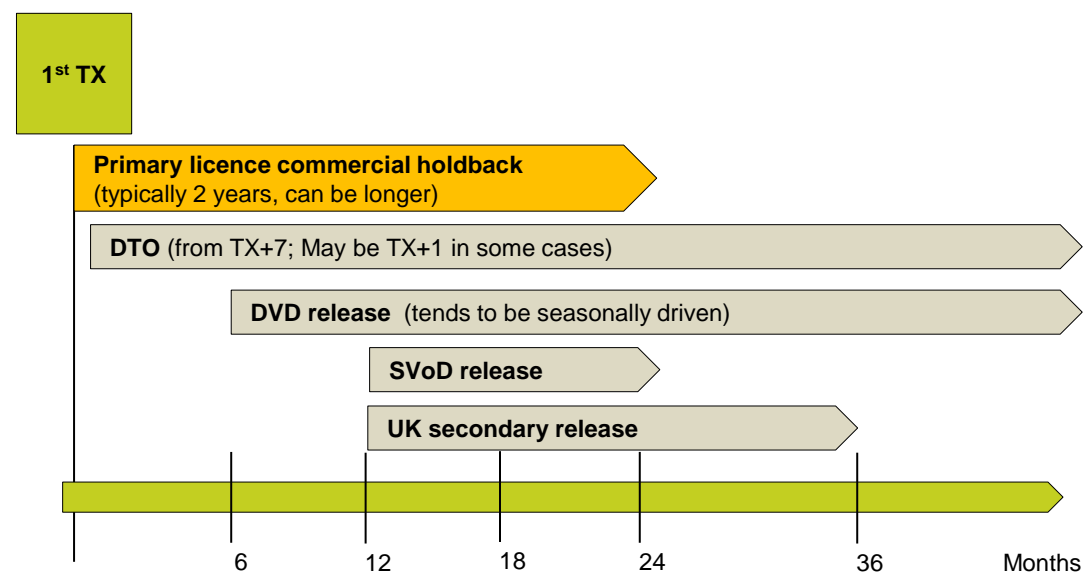


Indies (including currently qualifying indies and current and future non-qualifying indies) generate approximately £300m in content rights from UK commissions.

Indie revenues from UK content rights by category - 2013



Illustrative revenue windows for UK content rights



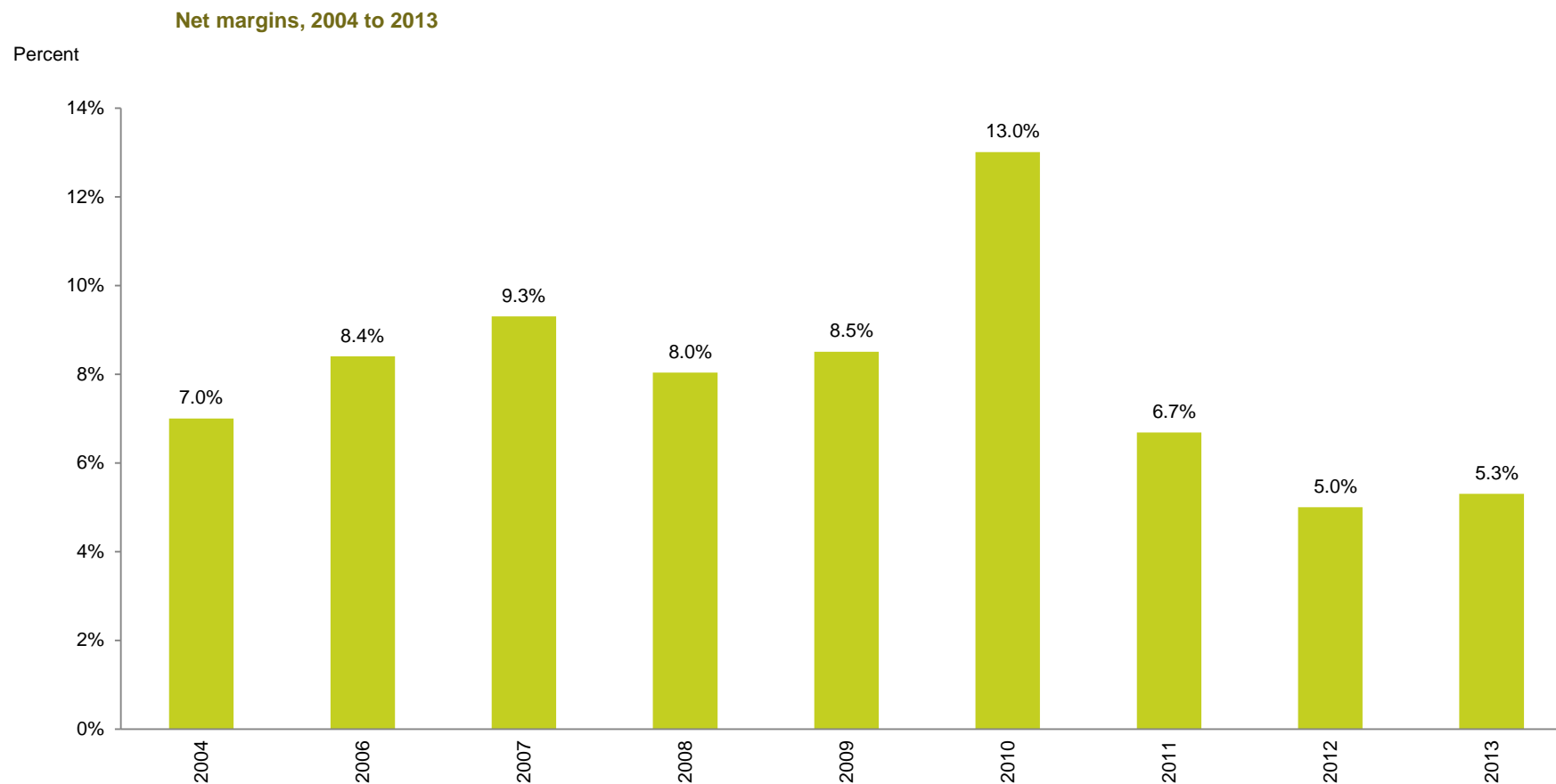
* 'Other' includes advertising, PRTS, and other activities such as music publishing, live events, gambling, product integration, ancillary & digital rights and cable relay

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Indie sector profitability has seen some recovery, but remains challenging



Sector average net margins improved only slightly in 2013



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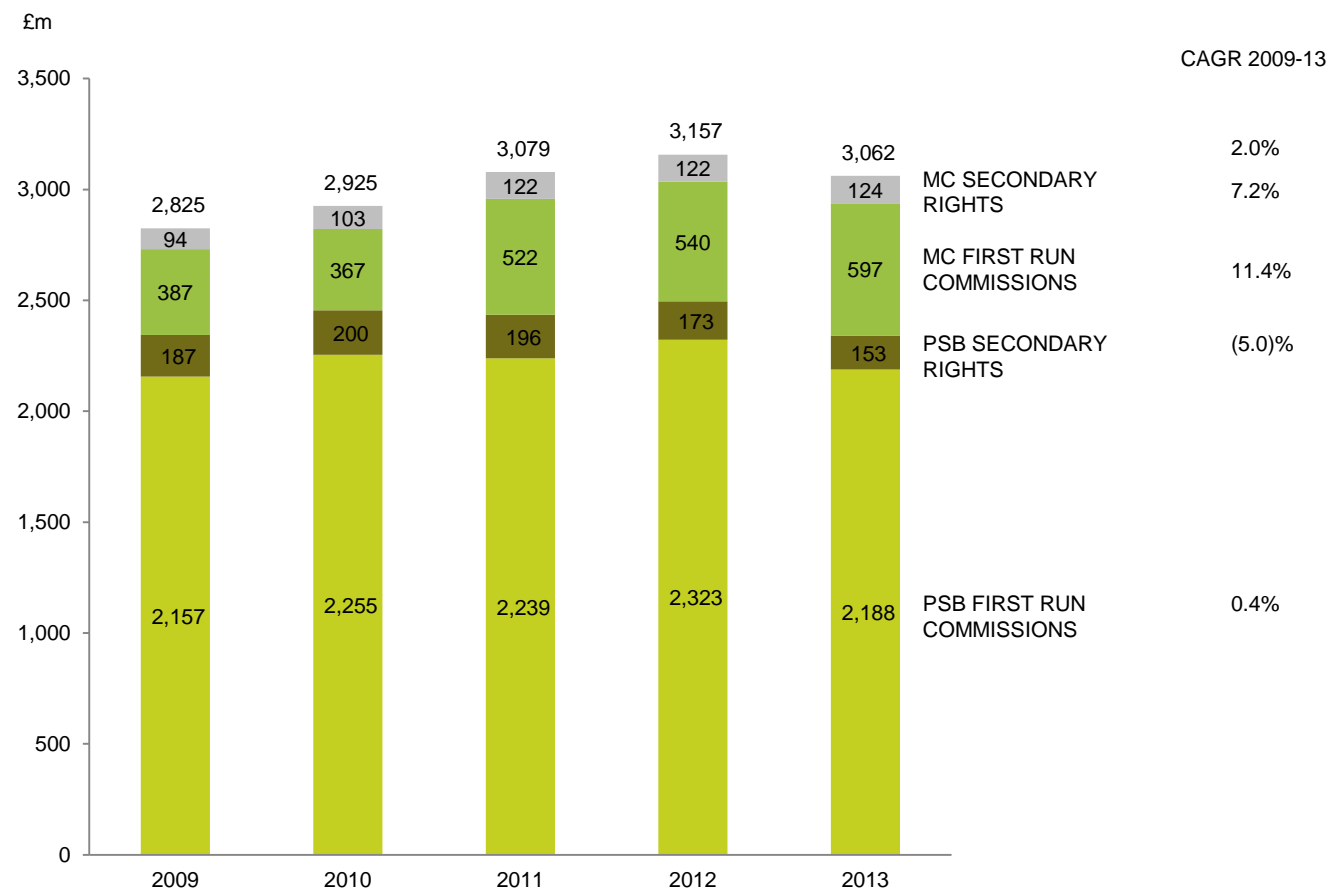
Trends in originated output

Growth in spend on UK content has been modest in recent years



There has only been modest growth in spending on UK content since 2009. This growth has been on the back of increased multichannel spend on UK content rather than PSB spend, although PSBs remain the main spenders

Spend (incl news and sport*) on UK content by main PSB networks and multichannels – 2009-2013



* Sport excludes rights for multichannels, includes rights for PSBs

Trends in originated output

PSB spend on content has been cut back



PSBs have been cutting back on programme spending across the board

Content spend by main PSB networks (incl news and sport)– 2008-2013



Source: Ofcom broadcaster returns

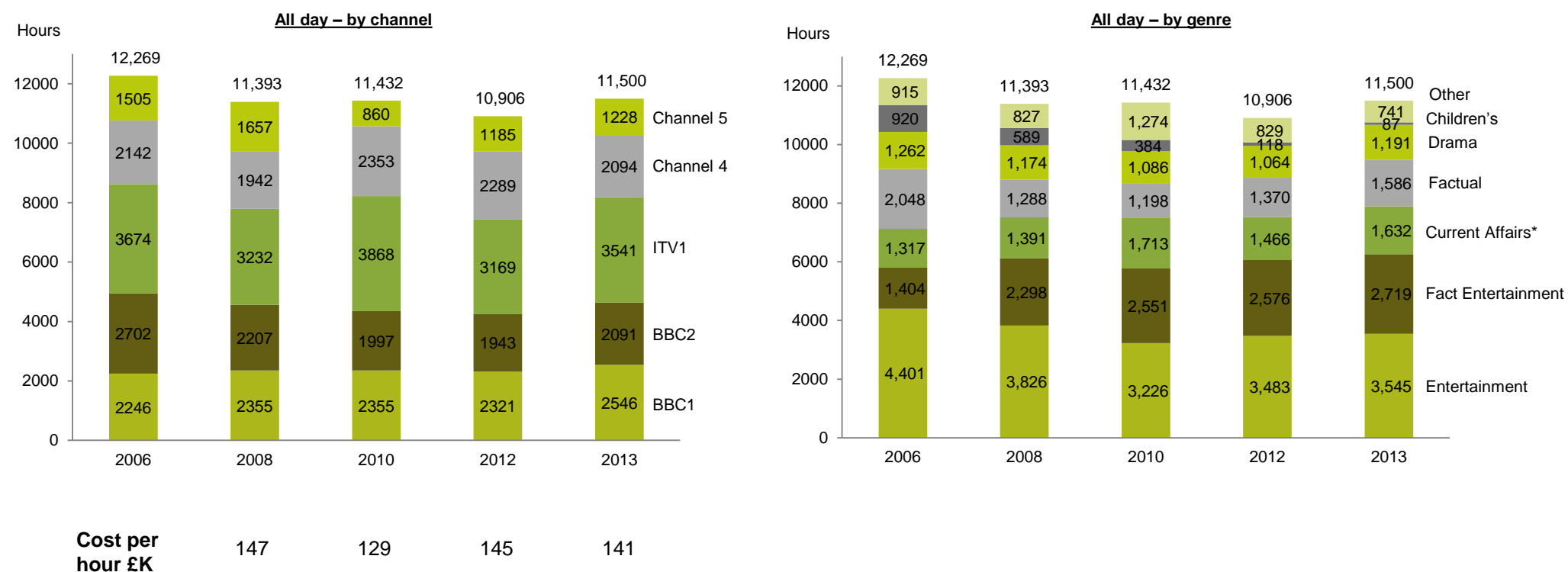
Trends in originated output

Total originated first run output has decreased



First run output hours have also declined although with some recovery over the last year. Genre focus has changed in favour of factual entertainment and factual. The cost per hour has been largely static apart from a dip in 2010

First run origination hours (excl news and sport), 2006-2013



* The Increase in Current Affairs output in non-peak 2013 is mainly down to programmes such as *Cowboy Trap*, *The Sheriffs are Coming* and *Don't Get Done Get Dom* on the BBC

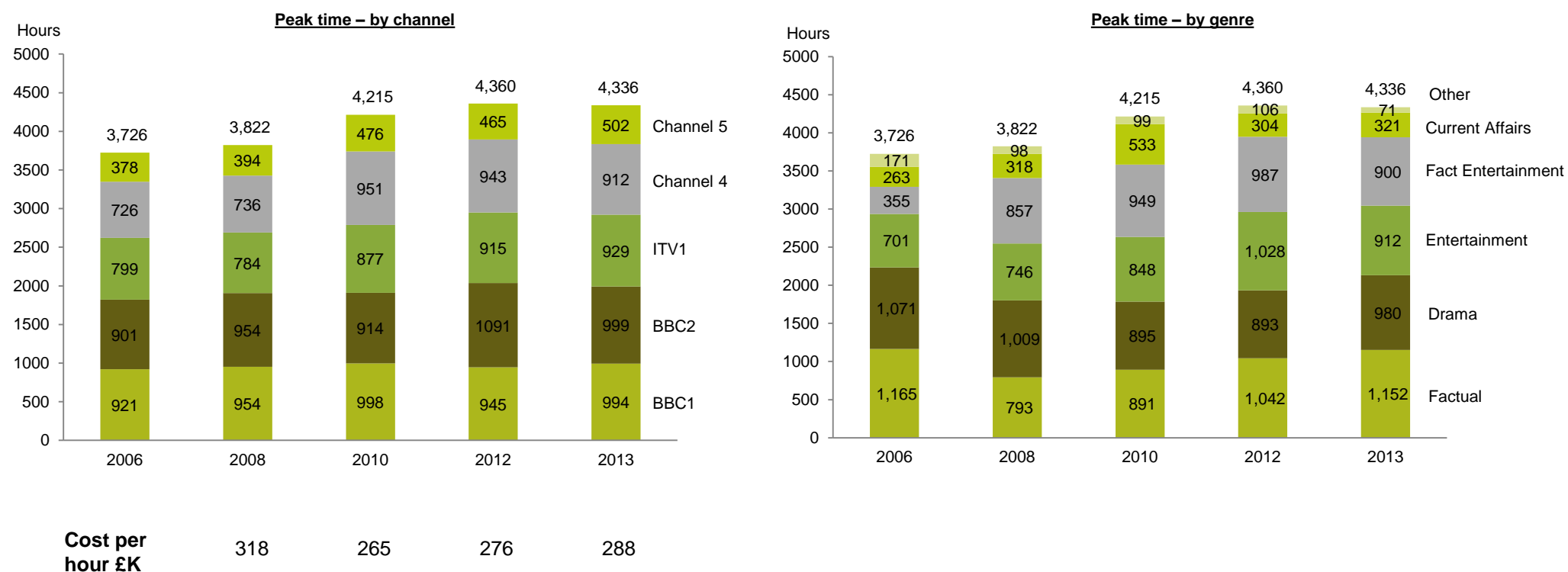
Trends in originated output

Peak time originated first run output has grown



There has been an increase in first run originated peak time output. The genre focus has shifted in favour of Factual programmes. Cost per hour is showing signs of recovery

First run origination hours (excl news and sport), 2006-2013



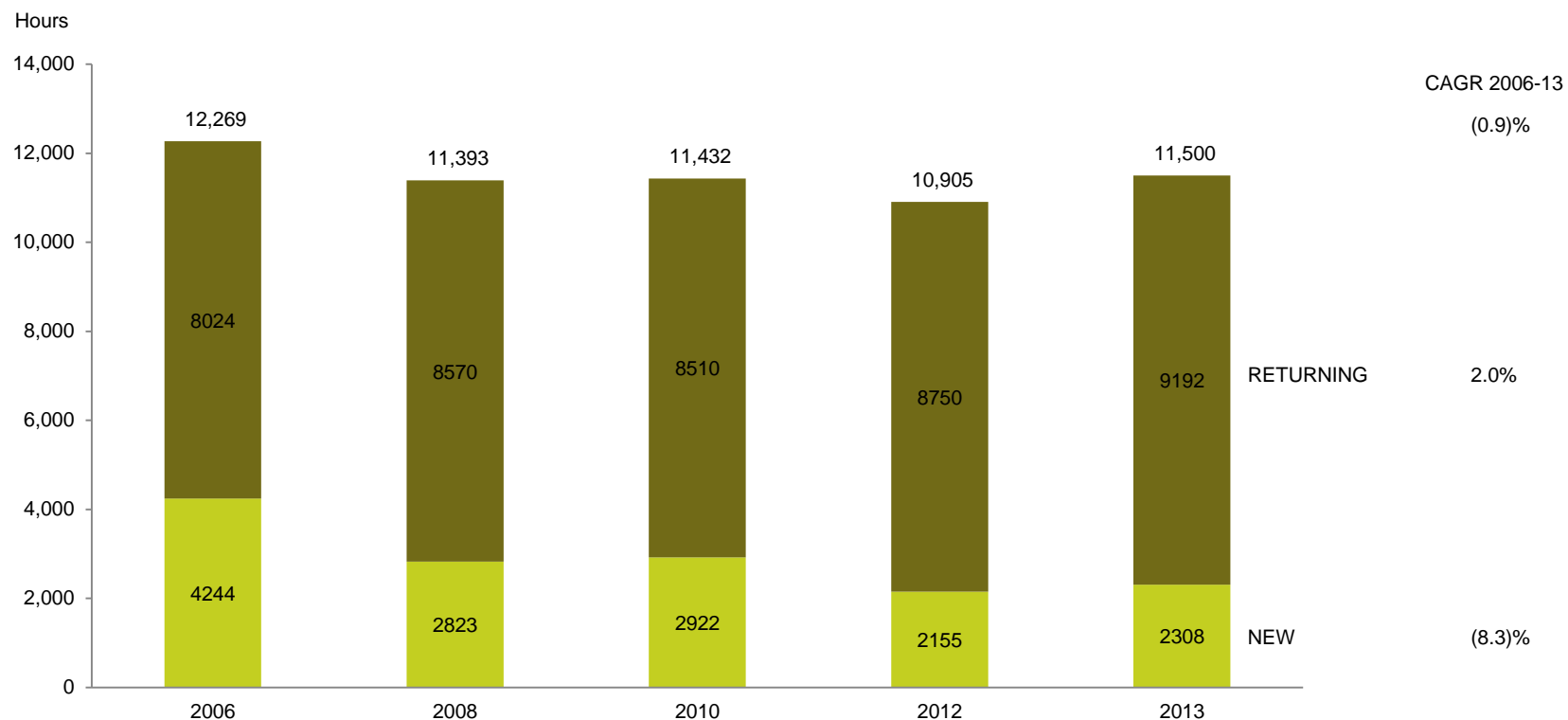
Trends in originated output

The share of new versus returning commissions has declined



The volume of new commissions has declined at an annual rate of 8.3% since 2006 with a slight recovery in 2013. Returning commissions have continued to grow over the period

UK: New versus returning commissions (excl news and sport), first run output hours on main PSB networks



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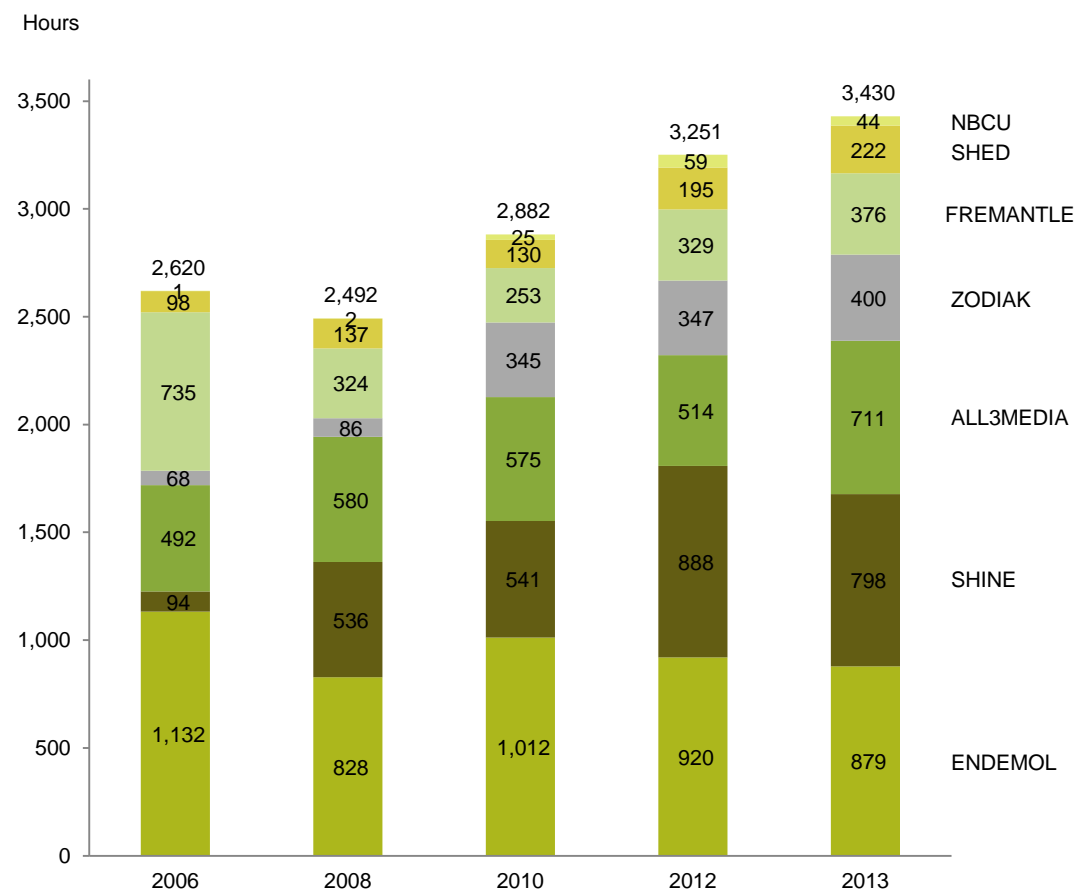
The UK external sector

The major independent producers have recovered their output hours on PSBs



Following a drop between 2006 and 2009, the major independent producer groups have recovered their volume of first run origination output on the main UK networks

UK: First run output hours on main PSB networks by independent producer group*



*Measured according to prodcos that were part of the groups in each respective year

- Endemol and Fremantle have both seen a decline in programming output on the main UK networks since 2006
- All3Media made good recovery in 2013. It lost significant hours in 2012 with the sell back of Cactus TV to its founders
- Shed, Shine, Zodiak and NBCUniversal have all improved their position, albeit coming from a lower base
- Shine's big increase in hours from 2010 to 2011 was due to the commissioning of chat/current affairs shows *Live with Gabby*, *The Vanessa Show* and *The Wright Stuff Extra*, although it experienced a drop in 2013

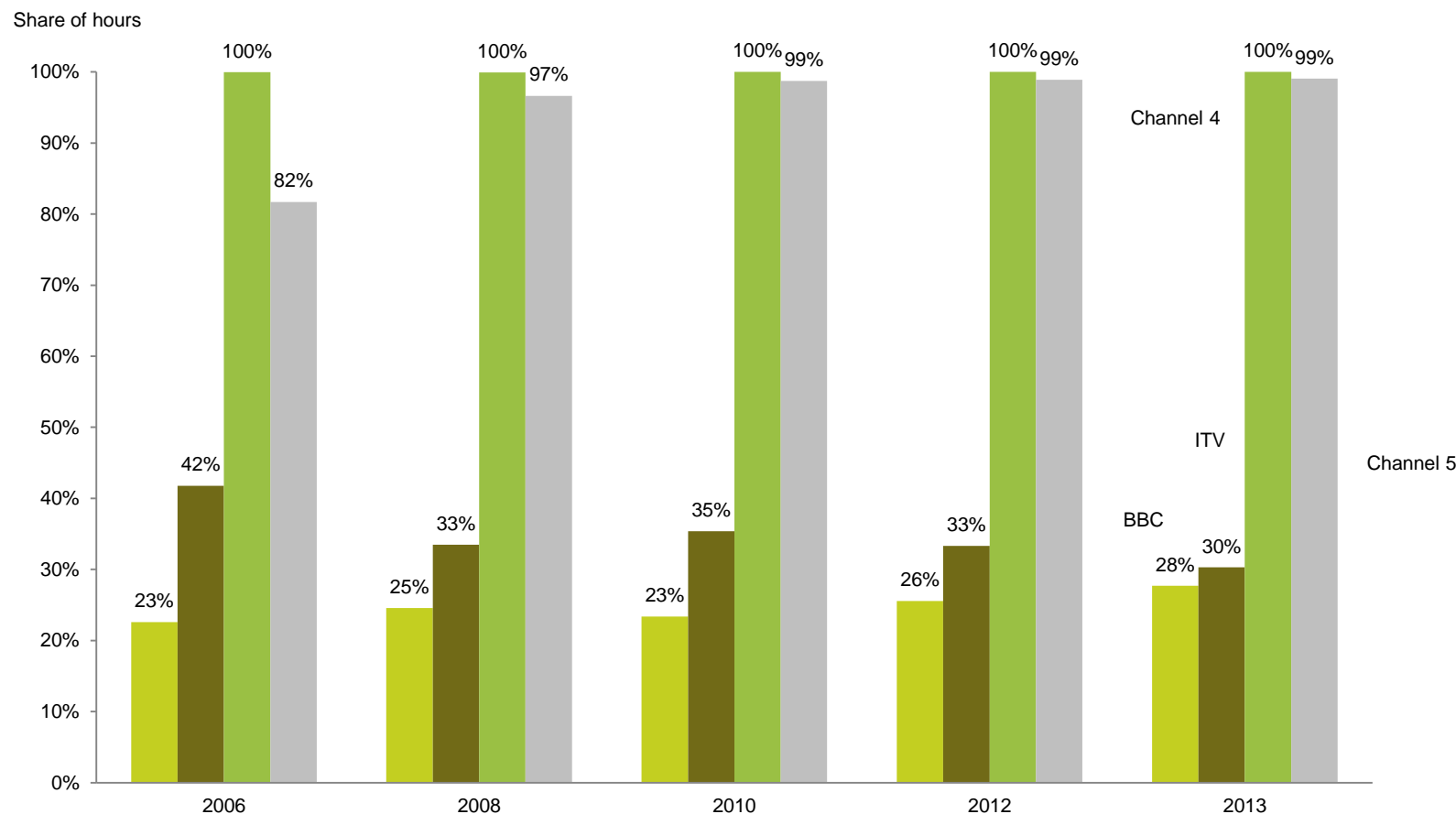
The UK external sector

There has been some movement in the use of external commissions by networks



External hours on the BBC have increased slightly, while there has been a decrease in external hours on ITV. Channel 4 and Channel 5 have remained largely unchanged in recent years

External commissioning share of all hours - 2006 to 2013



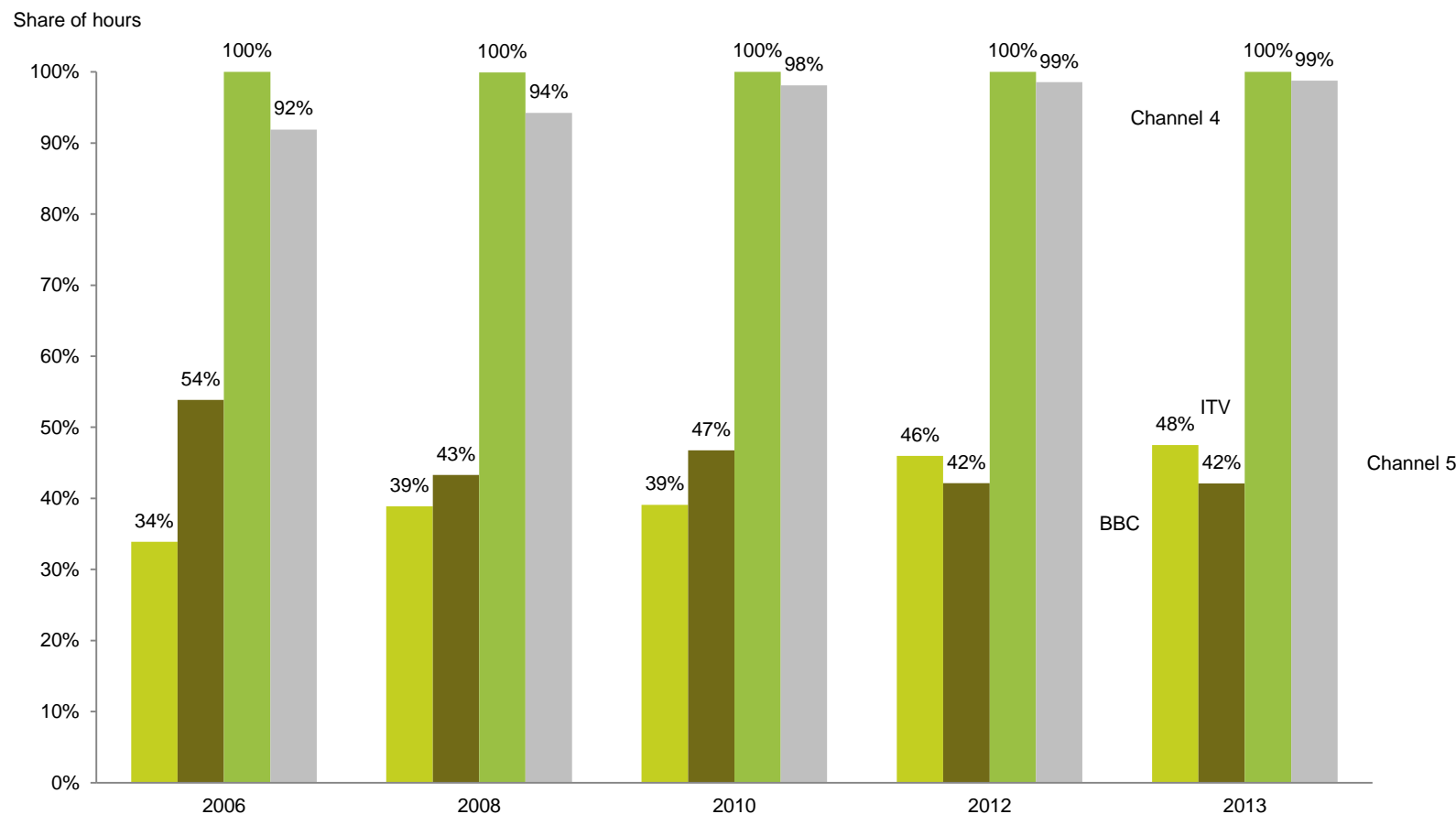
The UK external sector

The use of external commissions by networks – excl news and sport



The trend remains when looking at qualifying hours, excluding news and sport

External commissioning share of hours (excl news and sport) - 2006 to 2013



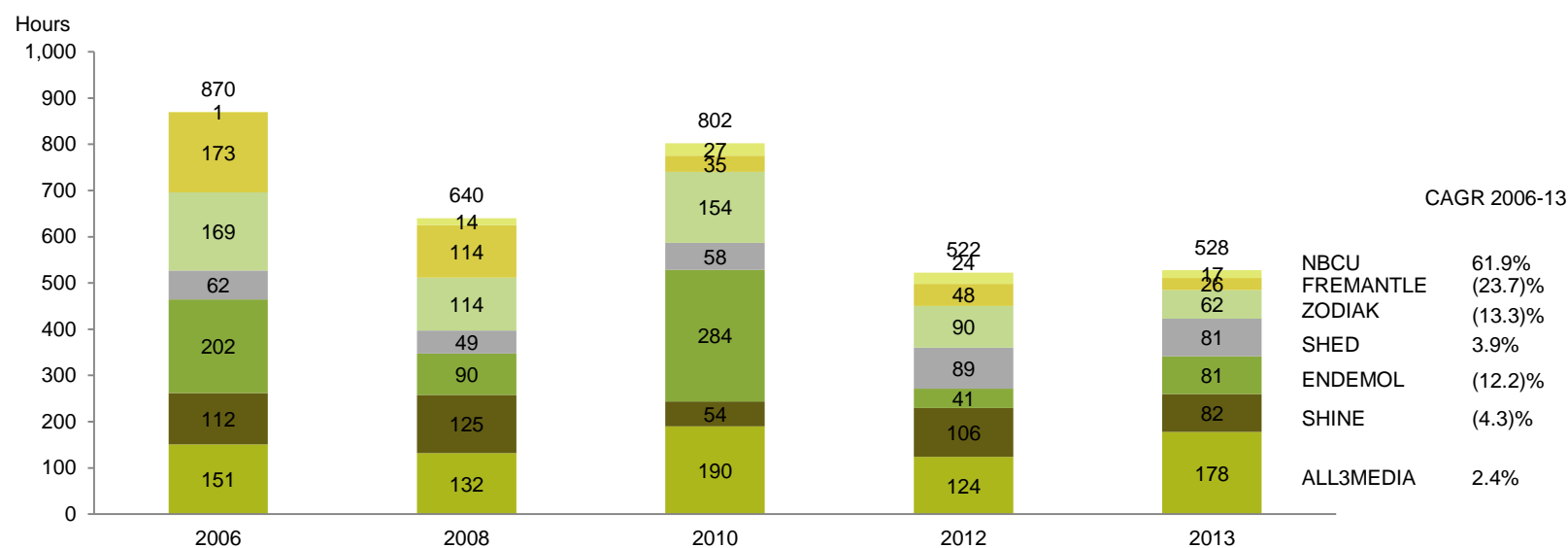
The UK external sector

The share of new commissions by the major independent producers has fallen



The major independents have seen their share of new commissions fall significantly since 2006 (with the exception of NBCUniversal). Shed and All3Media have remained more stable

UK: New commissions, first run output hours on main PSB networks by independent producer group



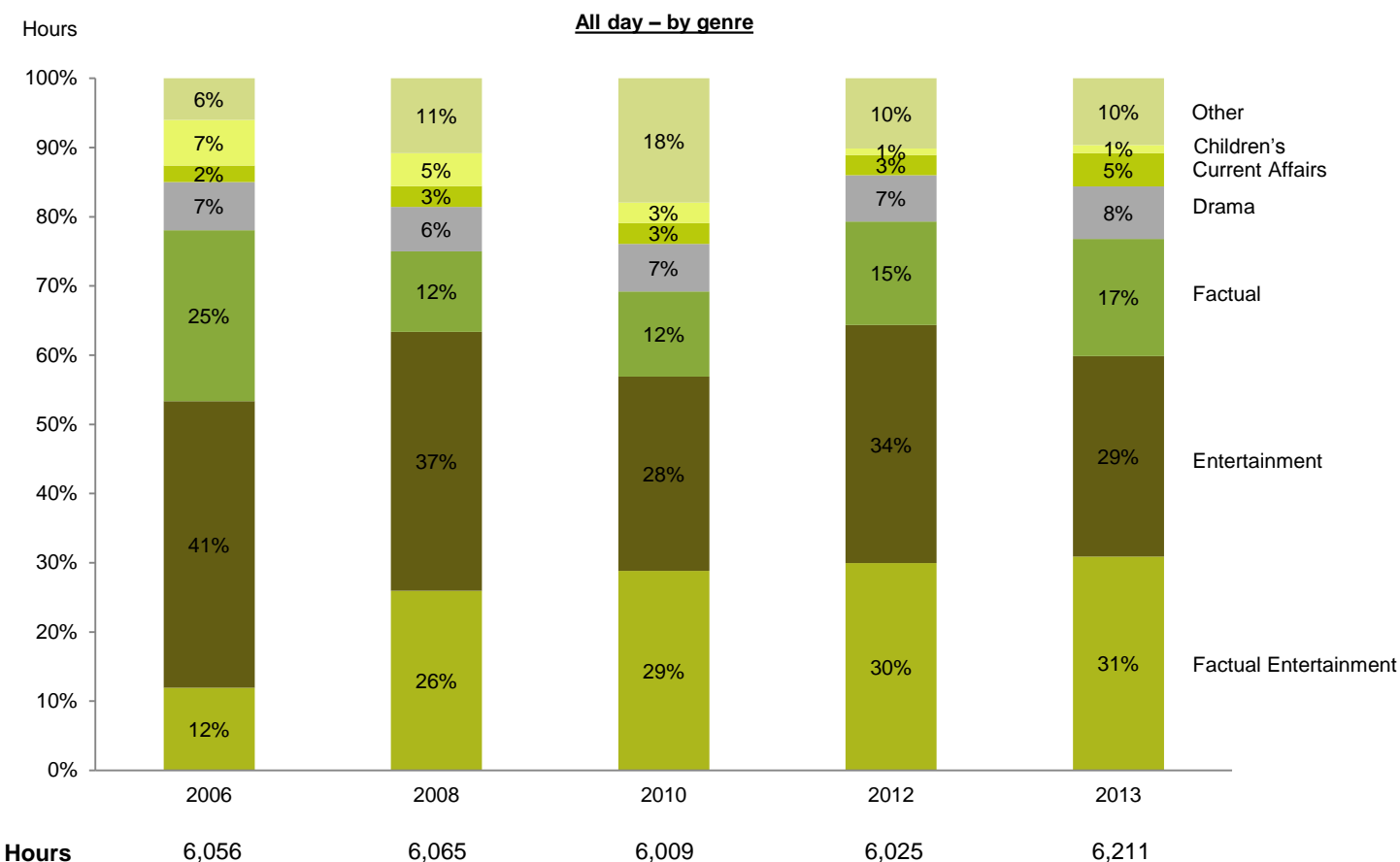
- Fremantle, Zodiak and Endemol have seen the biggest drop in new commissions from the main networks. All other major indie groups have performed better than the market average growth.
- All3Media has recovered somewhat in 2013 and continues to be the biggest single supplier of new indie output. The market share of the next four groups has evened out in the last few years.

The UK external sector

Genre specialisms of independent producers – a move out of entertainment



There has been a move out of entertainment and into factual entertainment specialism among indie producers. Factual has regained some ground in recent years



The increase in "other" in 2010 is largely down to an increase of Nightscreen programming and "The Zone – Netplay / QVC" on ITV

The UK external sector

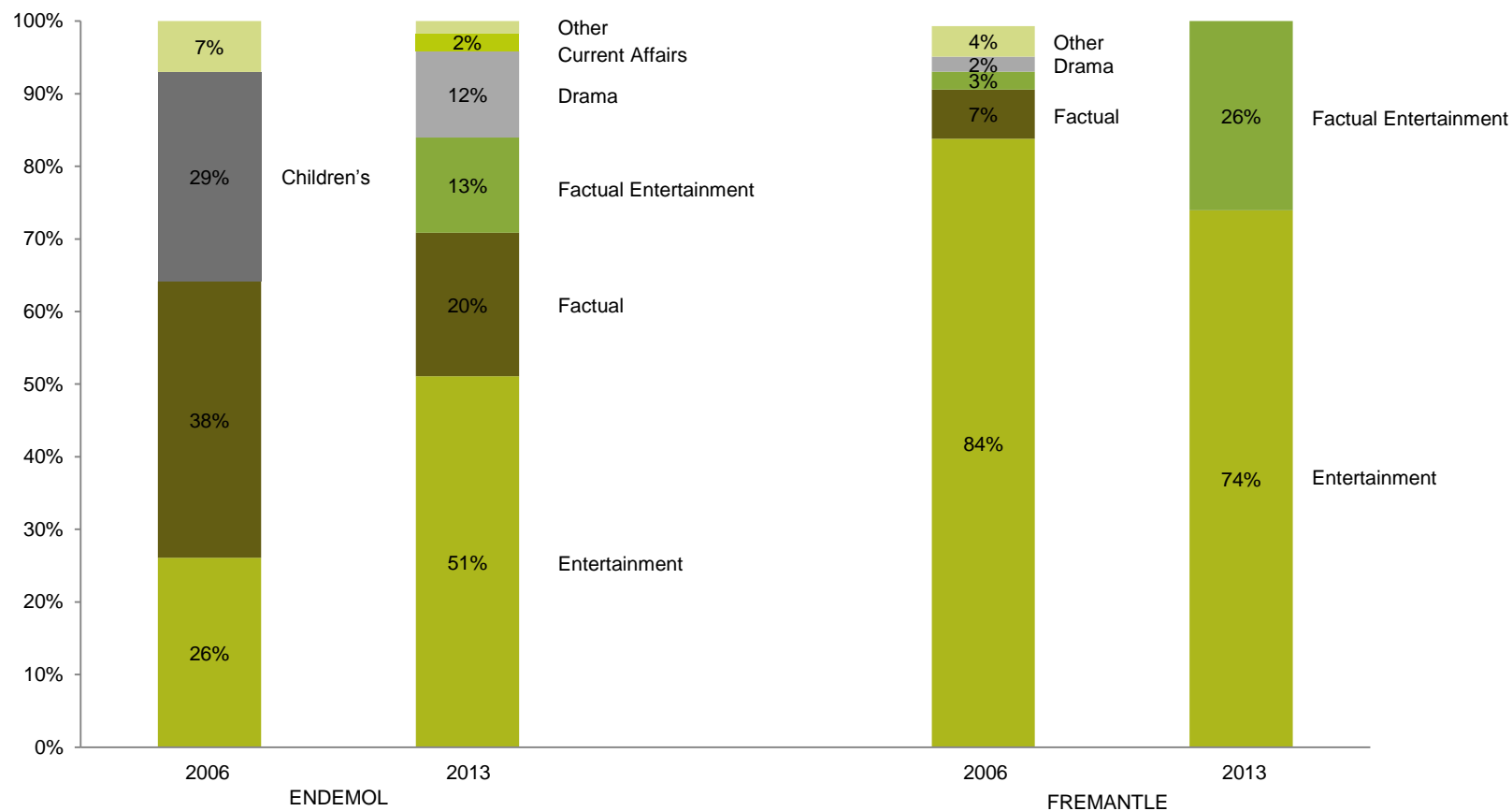
Genre specialisms of major independent producer groups (i)



Since 2006, Endemol has seen it return to predominantly having entertainment shows commissioned (mostly Big Brother), whilst Fremantle has diversified away from entertainment towards factual entertainment

Major independent producers: Genre mix*, 2006 versus 2013: Endemol and Fremantle

Share of hours



Note: Genre mix on 5 main PSB networks only

Source: BARB (Attentional), Oliver & Ohlbaum analysis

The UK external sector

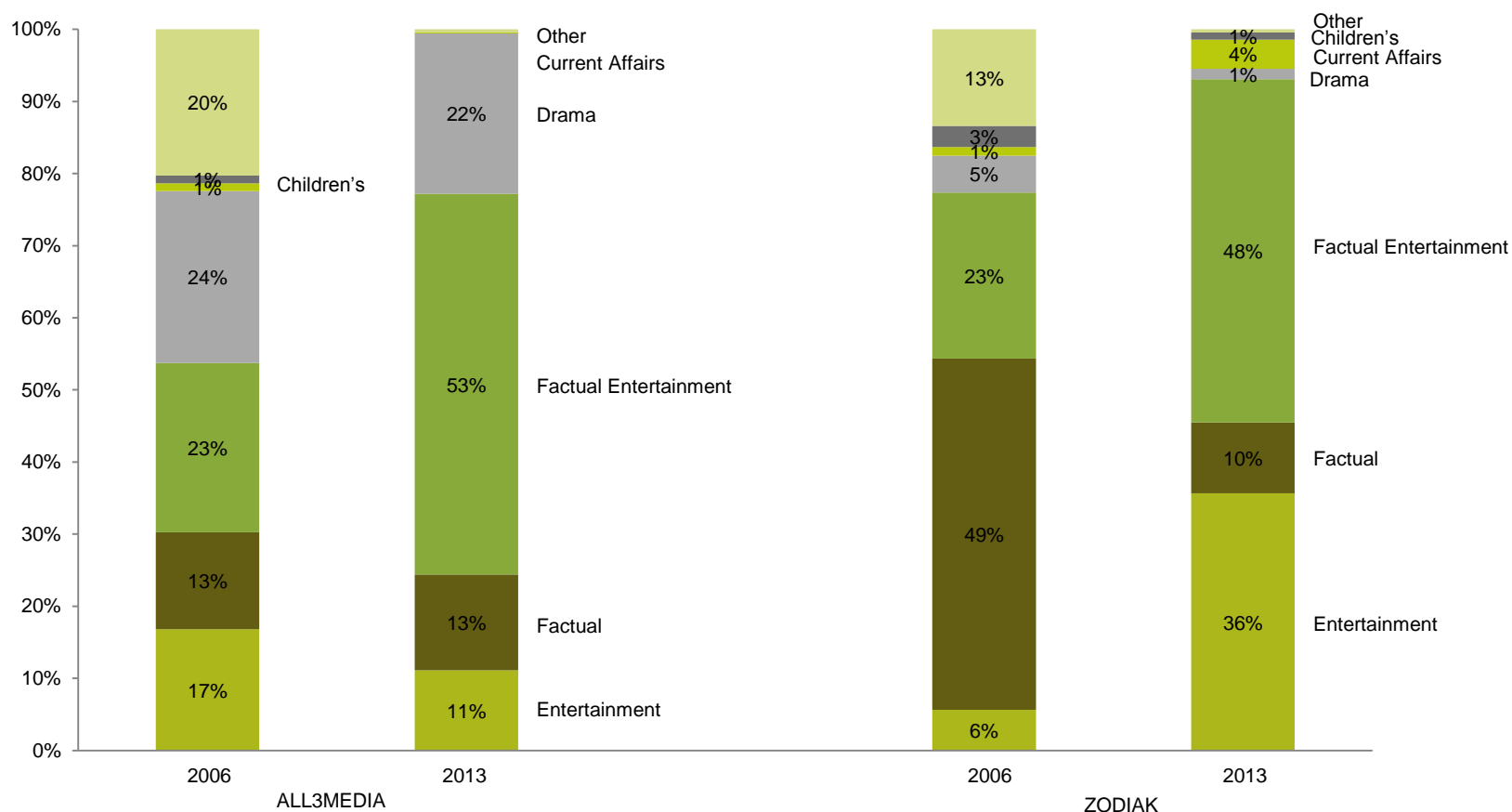
Genre specialisms of major independent producer groups (ii)



All3Media and Zodiak have both had more hobby and leisure output commissioned, moving away from entertainment, factual and drama, and in All3Media's case sport

Major independent producers: Genre mix*, 2006 versus 2013: All3Media and Zodiak

Share of hours



Note: Genre mix on 5 main PSB networks only

Source: BARB (Attentional), Oliver & Ohlbaum analysis

The UK external sector

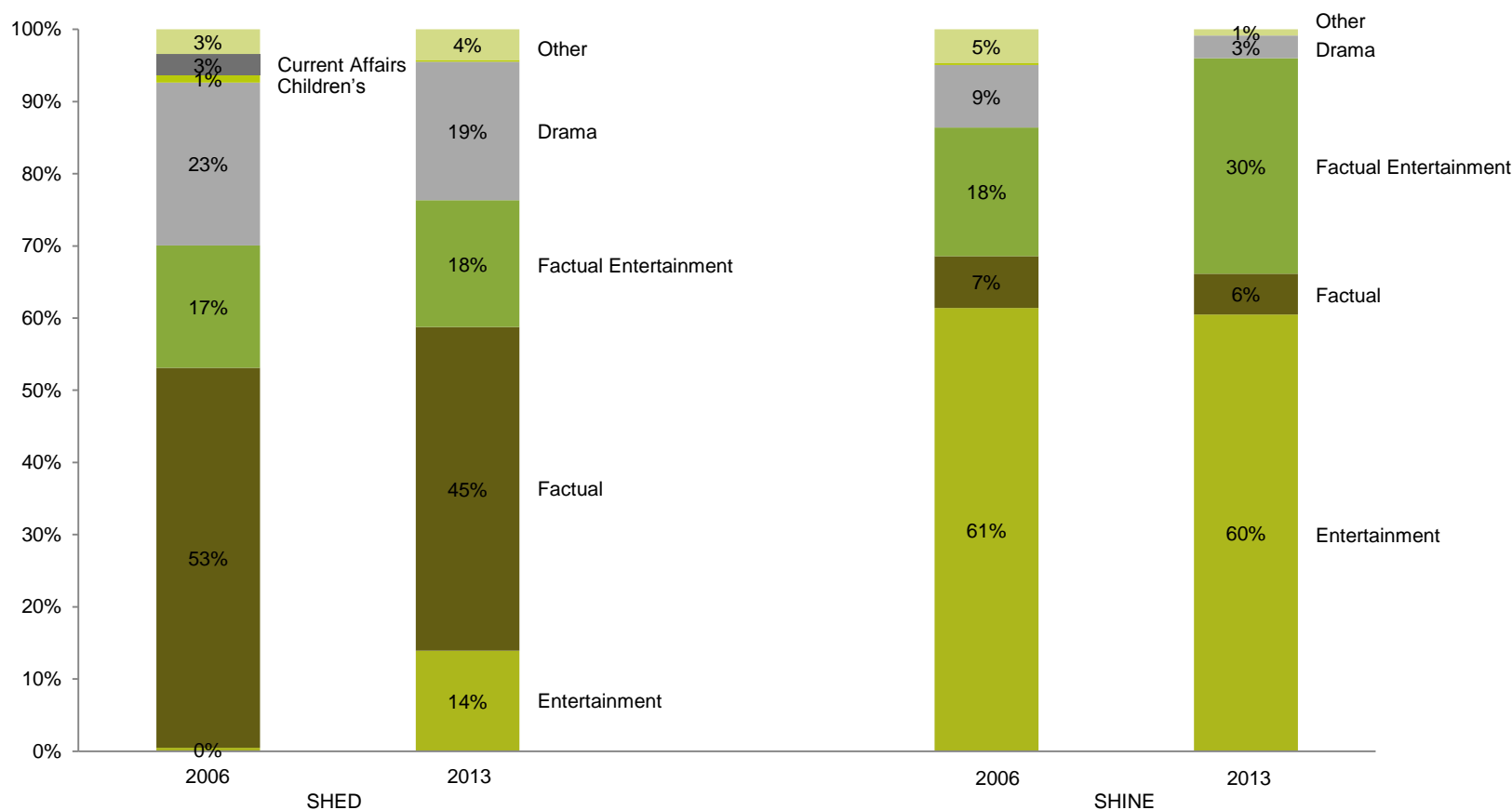
Genre specialisms of major independent producer groups (iii)



Shed is still mainly focussed on factual programming, whilst Shine has seen most commissions coming from its entertainment strands. Both have seen a drop in drama output

Major independent producers: Genre mix*, 2006 versus 2013: Shed and Shine

Share of hours



Note: Genre mix on 5 main PSB networks only

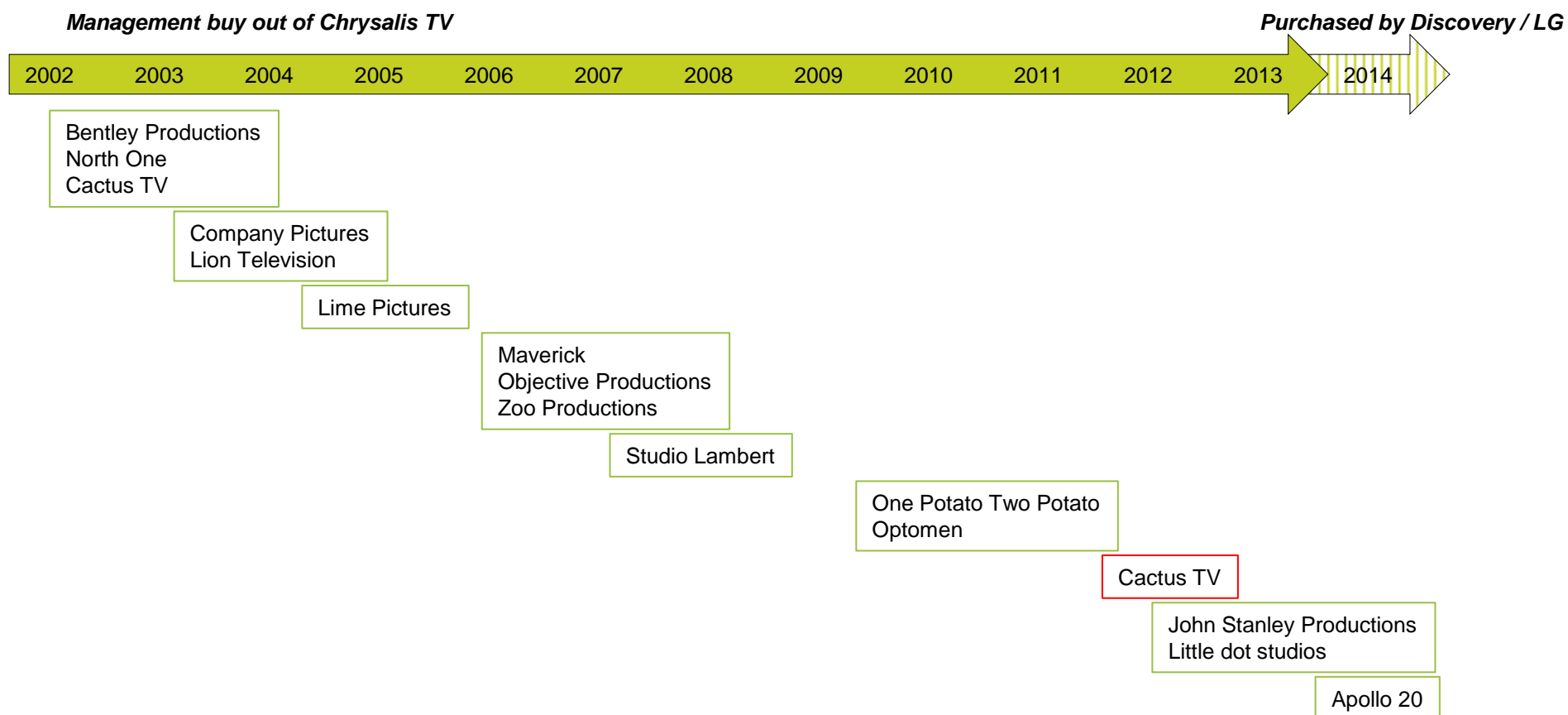
Source: BARB (Attentional), Oliver & Ohlbaum analysis

The UK external sector

All3Media – Key deals over time



Over the longer term, qualifying status has only been affected by broadcaster / studio deals in recent years. Prior to this was the creation of the “super-indies” (indies buying other indies) which did not affect indie status

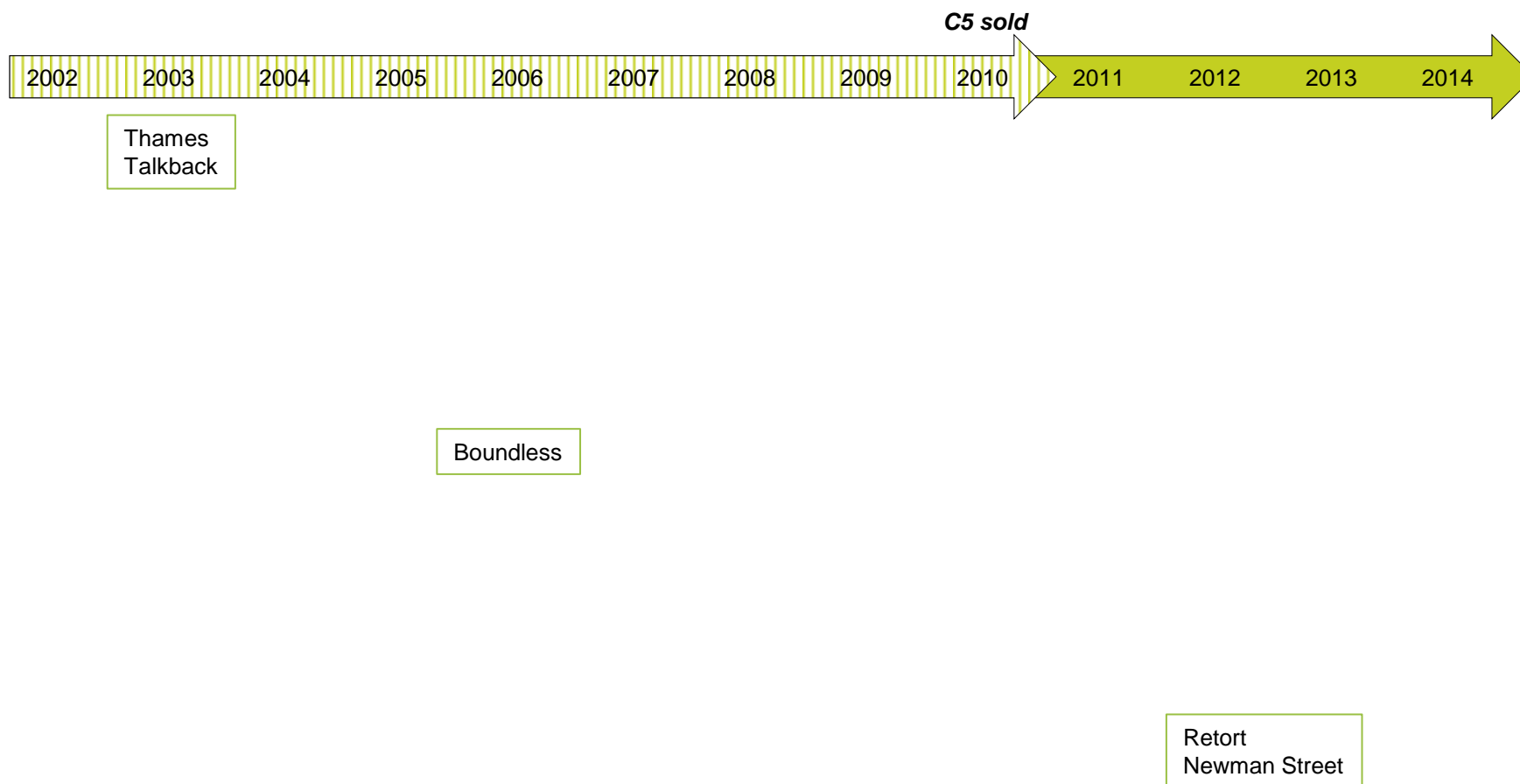


The UK external sector

Fremantle – Key deals over time

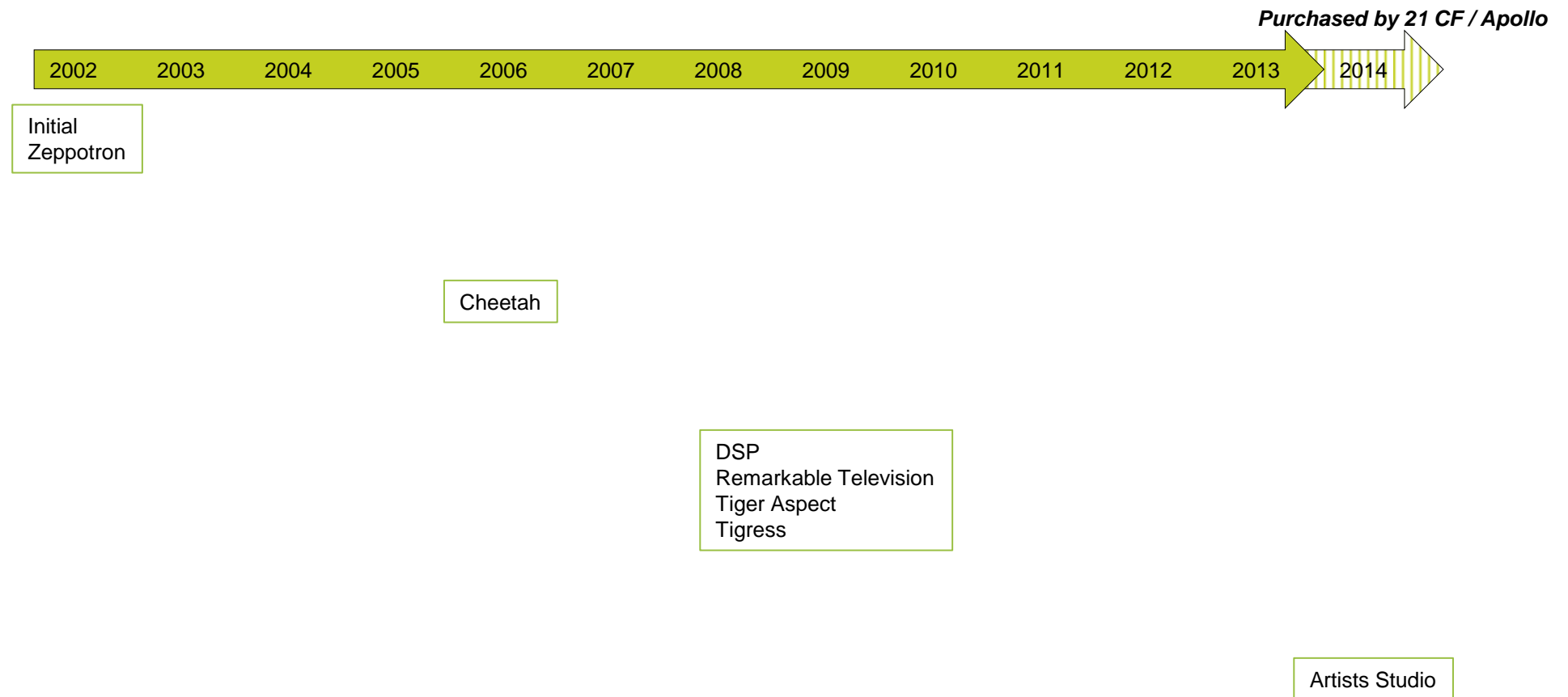


The sale of Channel 5 has marked the only significant event of a non-qualifying production group becoming a qualifying indie



The UK external sector

Endemol – Key deals over time

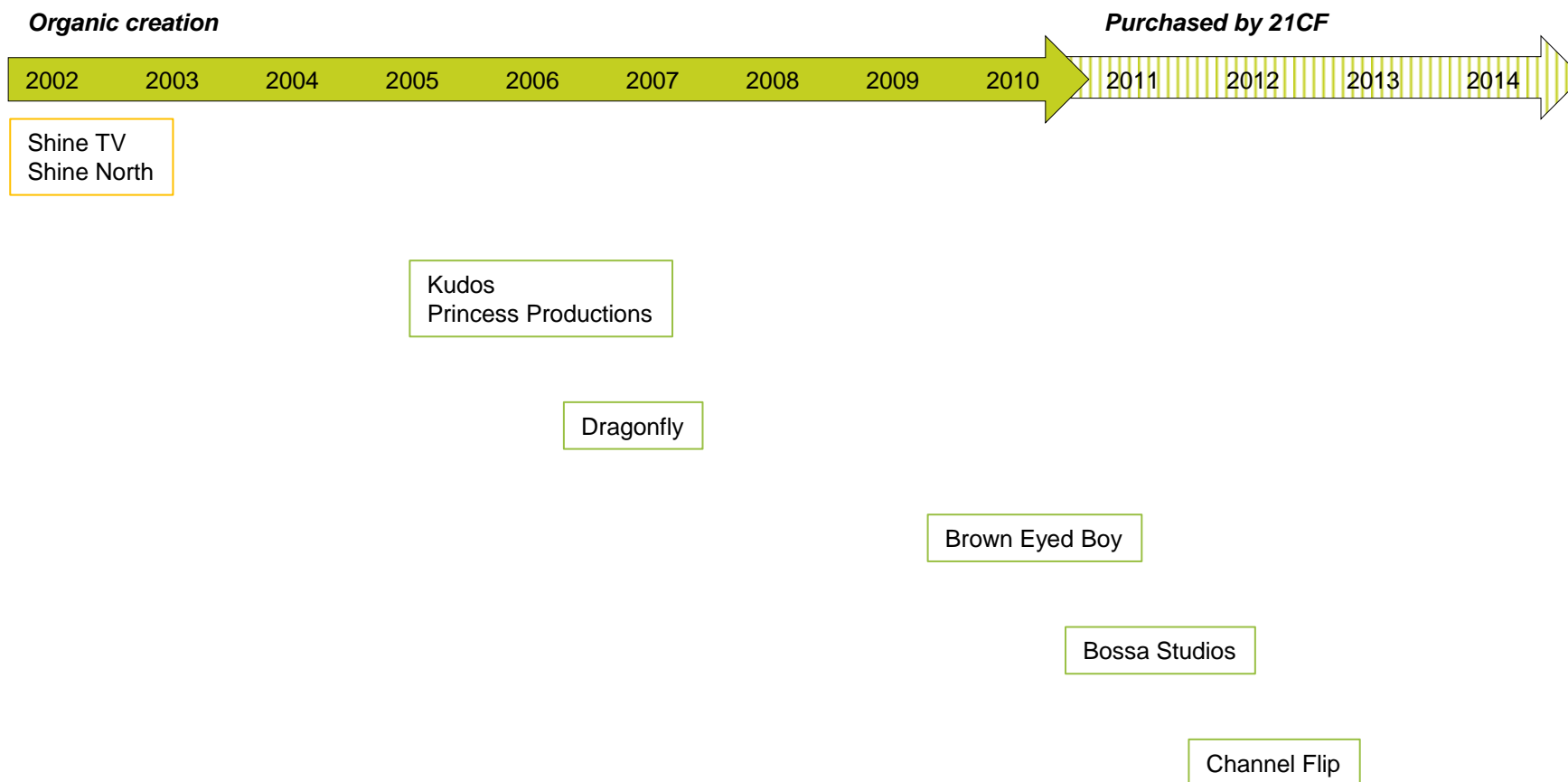


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Shine – Key deals over time

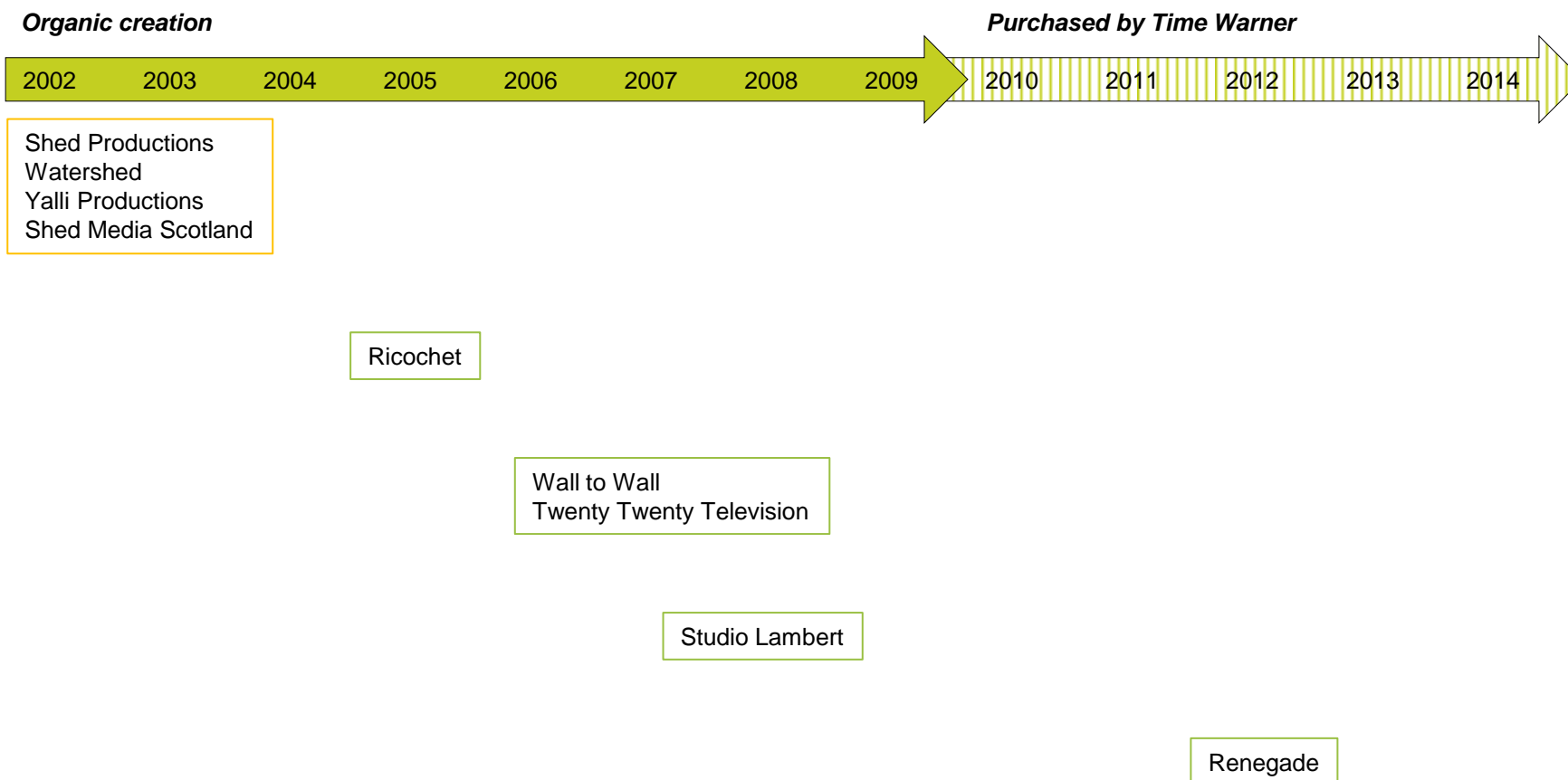


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The UK external sector

Warner Bros. Television Productions UK (formerly Shed) – Key deals over time

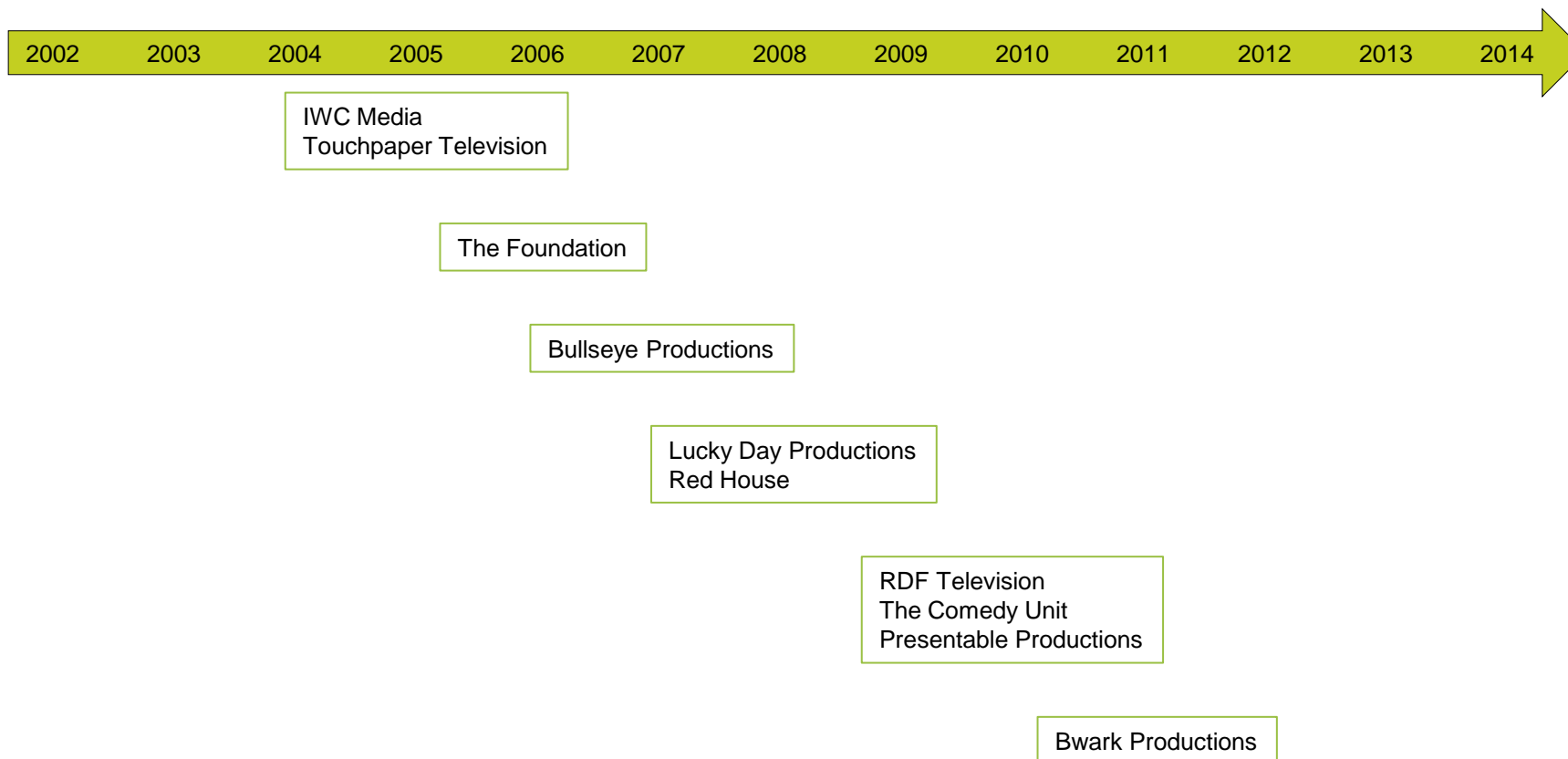


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Zodiak – Key deals over time



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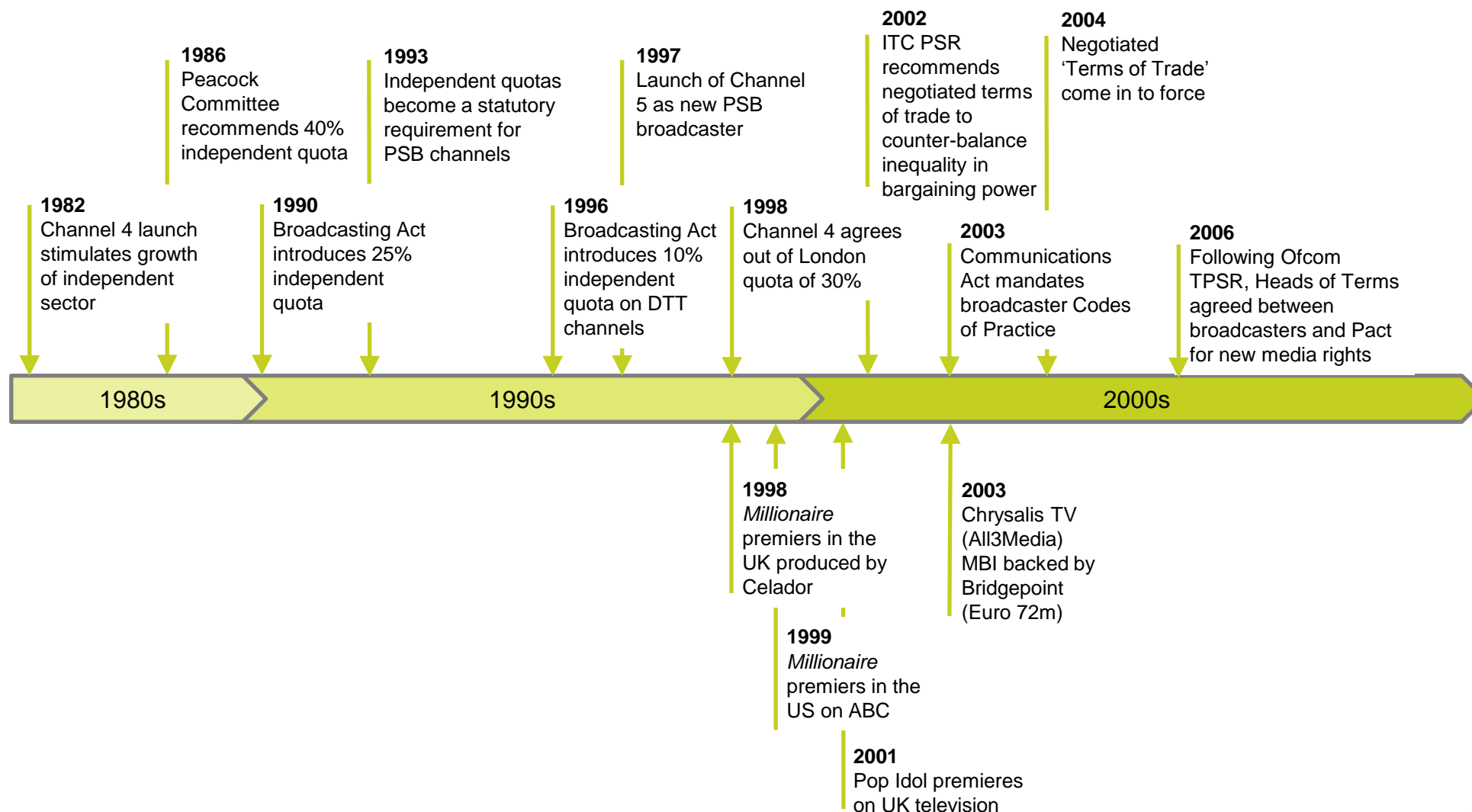
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Terms of Trade

Timeline of key events in the run up to Terms of Trade



Prior to ToT the indie sector was highly fragmented and was highly dependent on the main PSB network groups. There was little scope to negotiate on production fees or take strong positions in rights against which to build up an asset base



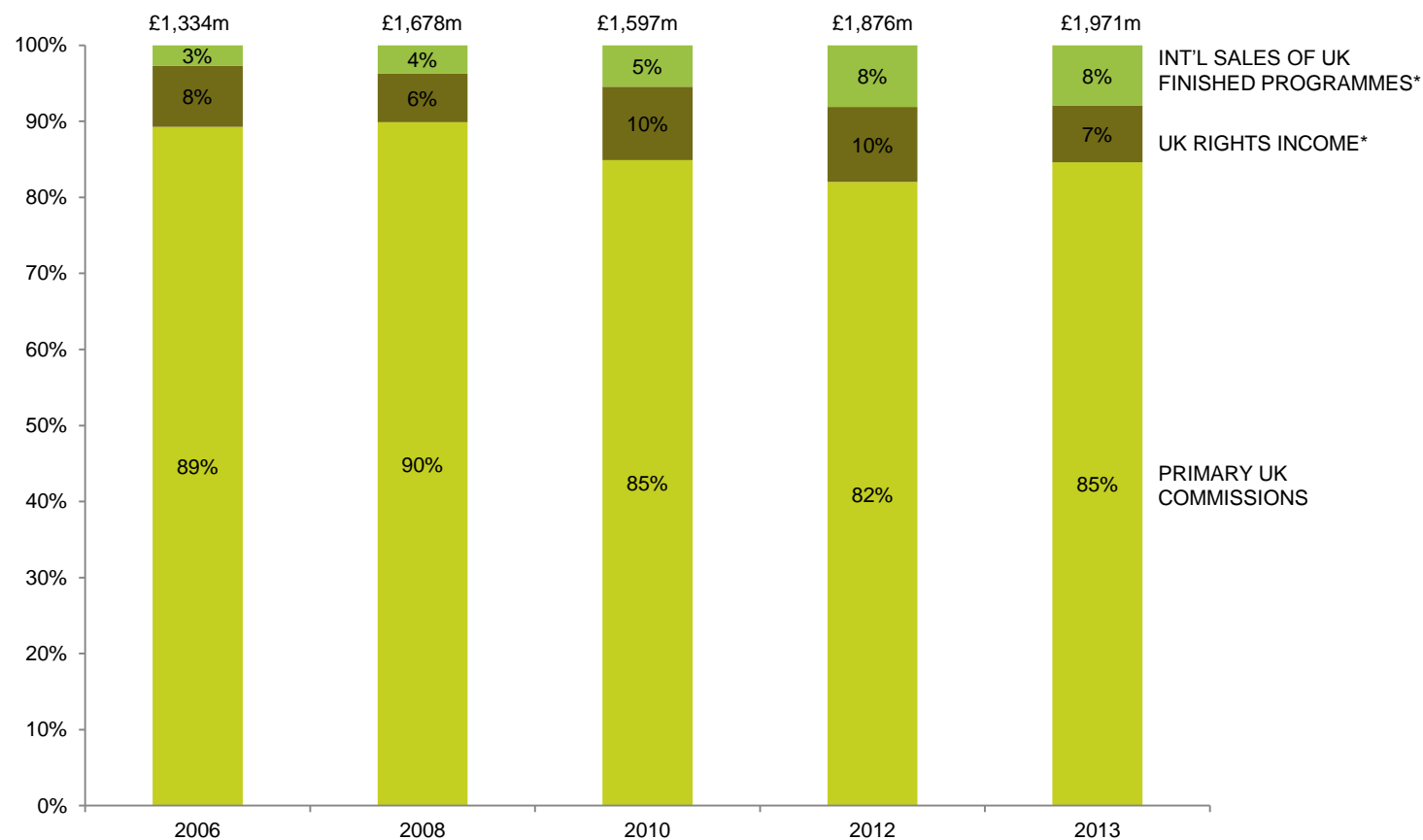
Terms of Trade

Revenue covered by Terms of Trade by window



Primary UK commissions continue to constitute the main source of revenue covered by Terms of Trade, although international sales are now as important as UK secondary rights income

Indie revenues by window covered by Terms of Trade – 2006-2013



*

Terms of Trade

Windows and platforms collapsing

