The evolution of the TV content production sector

A discussion document

Prepared for Ofcom by Oliver & Ohlbaum Associates Ltd

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Introduction
Definitions and caveats

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 productions 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
The evolution of the UK TV content production sector

Appendix
- Main trends in originated output
- The UK external sector
- Terms of Trade
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**

<table>
<thead>
<tr>
<th>Year</th>
<th>£ million</th>
<th>CAGR 2004 - 07</th>
<th>CAGR 2008 - 13</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004 (Census)</td>
<td>1,147</td>
<td>5.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>2005 (Census)</td>
<td>1,527</td>
<td>6.9%</td>
<td>6.6%</td>
</tr>
<tr>
<td>2006 (Census)</td>
<td>1,732</td>
<td>23.0%</td>
<td>(9.0%)</td>
</tr>
<tr>
<td>2007 (Census)</td>
<td>1,867</td>
<td>39.0%</td>
<td>1.1%</td>
</tr>
<tr>
<td>2008 (Census)</td>
<td>2,016</td>
<td>2.0%</td>
<td>22.0%</td>
</tr>
<tr>
<td>2009 (Census)</td>
<td>2,145</td>
<td>4.7%</td>
<td>6.7%</td>
</tr>
<tr>
<td>2010 (Census)</td>
<td>2,227</td>
<td>4.7%</td>
<td>6.7%</td>
</tr>
<tr>
<td>2011 (Census)</td>
<td>2,588</td>
<td>4.7%</td>
<td>6.7%</td>
</tr>
<tr>
<td>2012 (Census)</td>
<td>2,779</td>
<td>4.7%</td>
<td>6.7%</td>
</tr>
<tr>
<td>2013 (Census)</td>
<td>2,779</td>
<td>4.7%</td>
<td>6.7%</td>
</tr>
<tr>
<td>2014 (Census)</td>
<td>2,779</td>
<td>4.7%</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

*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
The evolution of the UK TV content production sector

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.

Index (1998 = 100)

Source: BTDA / TRP / UKTI / PACT, Oliver & Ohlbaum analysis
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

Source: Broadcast Magazine, Oliver & Ohlbaum analysis
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”

Programmes made within 2 years of being commissioned retain indie status if an indie prodco loses its qualifying status

Source: Oliver & Ohlbaum analysis

*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

Indie revenues by turnover band – share of revenue and number of companies - 2013

Source: Broadcast Magazine, Oliver & Ohlbaum analysis
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
The evolution of the UK TV content production sector

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

Source: Pact census, Oliver & Ohlbaum analysis
The evolution of the UK TV content production sector

Indie sector profitability has seen some recovery, but remains challenging

Sector average net margins improved only slightly in 2013

Source: Pact census, Oliver & Ohlbaum analysis
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- Terms of Trade
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

Source: Ofcom broadcaster returns, COBA, O&O analysis
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

Source: BARB, Ofcom, Oliver & Ohlbaum analysis

* 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
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.
The TV content production sector

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

Source: BARB (Attentional), Oliver & Ohlbaum analysis
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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*

- 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

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

Source: BARB (Attentional), Oliver & Ohlbaum analysis
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

Source: BARB (Attentional), Oliver & Ohlbaum analysis
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

Source: BARB (Attentional), Oliver & Ohlbaum analysis
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.

Source: BARB (Attentional), Oliver & Ohlbaum analysis
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.

Source: BARB, Oliver & Ohlbaum analysis
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**

- **Endemol (2006)**
  - Drama: 38%
  - Factual: 51%
  - Entertainment: 26%
  - Current Affairs: 2%
  - Other: 7%

- **Endemol (2013)**
  - Drama: 29%
  - Factual: 13%
  - Entertainment: 26%
  - Current Affairs: 12%
  - Other: 2%

- **Fremantle (2006)**
  - Factual Entertainment: 26%
  - Drama: 3%
  - Factual: 7%
  - Current Affairs: 2%
  - Other: 2%

- **Fremantle (2013)**
  - Factual Entertainment: 26%
  - Drama: 20%
  - Factual: 7%
  - Current Affairs: 4%
  - Other: 3%

**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

Note: Genre mix on 5 main PSB networks only
Source: BARB (Attentional), Oliver & Ohlbaum analysis
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

Patterns of genre output 2006-2013

<table>
<thead>
<tr>
<th>Genre</th>
<th>Shed 2006</th>
<th>Shed 2013</th>
<th>Shine 2006</th>
<th>Shine 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drama</td>
<td>53%</td>
<td>45%</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>Factual</td>
<td>17%</td>
<td>18%</td>
<td>61%</td>
<td>60%</td>
</tr>
<tr>
<td>Entertainment</td>
<td>3%</td>
<td>14%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Current Affairs</td>
<td>0%</td>
<td>0%</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>Children’s</td>
<td>4%</td>
<td>8%</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
<td>23%</td>
<td>3%</td>
<td>30%</td>
</tr>
</tbody>
</table>

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.

Management buy out of Chrysalis TV

- 2002: Bentley Productions
- 2003: North One
- 2004: Cactus TV
- 2005: Company Pictures
- 2006: Lion Television
- 2007: Lime Pictures
- 2008: Maverick
- 2009: Objective Productions
- 2010: Zoo Productions
- 2011: Studio Lambert
- 2012: One Potato Two Potato
- 2013: Optomen
- 2014: Purchased by Discovery / LG

Cactus TV

John Stanley Productions
Little dot studios
Apollo 20
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

Initial Zeppotron

Cheetah

DSP
Remarkable Television
Tiger Aspect
Tigress

Purchased by 21 CF / Apollo

Artists Studio
The UK external sector
Shine – Key deals over time

**Organic creation**
- 2002: Shine TV
- 2003: Shine North
- 2004: Kudos, Princess Productions
- 2006: Dragonfly

**Purchased by 21CF**
- 2011: Brown Eyed Boy
- 2012: Bossa Studios
- 2013: Channel Flip
- 2014: Purchased by 21CF
The UK external sector
Warner Bros. Television Productions UK (formerly Shed) – Key deals over time

**Organic creation**
- 2002: Shed Productions
- 2003: Watershed
- 2004: Yalli Productions
- 2005: Shed Media Scotland

**Purchased by Time Warner**
- 2010
- 2011
- 2012
- 2013
- 2014

- Ricochet
- Wall to Wall
- Twenty Twenty Television
- Studio Lambert
- Renegade
The UK external sector
Zodiak – Key deals over time

IWC Media
Touchpaper Television

The Foundation

Bullseye Productions

Lucky Day Productions
Red House

RDF Television
The Comedy Unit
Presentable Productions

Bwark Productions
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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

Source: Pact census, Oliver & Ohlbaum analysis
Terms of Trade
Windows and platforms collapsing

1st TX in originating country

UK commissions

US Imports

Primary licence commercial holdback (typically 2 years, can be longer)
- DTO (from TX+7; May be TX+1 in some cases)
- DVD release (tends to be seasonally driven)
- SVoD release (moving earlier)
- UK secondary release (UKTV)

1st Pay window (moving to 12 months exclusive)
- DTO (from 1st run series end)
- DVD release (tends to be seasonally driven)
- SVoD release (moving earlier)

Sky use threat of side-loading from DVR to secure more VoD rights, otherwise can use this to limit SVoD window value

FTA or 2nd pay TV window