



The UK Children's TV Market

**A Report for Ofcom
by Oliver & Ohlbaum Associates Ltd**

11th June 2007

SCOPE

- Oliver & Ohlbaum has been asked by Ofcom to assist with their review of the future of Children's TV programming
- O&O's work covers 3 main areas. The 1st report covers 2 of these:
 - A financial picture of the UK Children's TV market
 - Broadcasters revenues
 - Broadcaster expenditure
 - Producer primary commissioning revenues
 - Producer secondary revenues
 - Producer expenditure
 - Profiles of the main producers
 - Case studies of property funding
 - Prospects for the UK Children's TV sector
 - Potential scenarios and their outcomes
 - International comparisons forms a separate report

While the information provided here is believed to be accurate, O&O makes no warranty or representation as to the accuracy or completeness of such information. We have not been asked to verify the accuracy of any information supplied to us.

SCOPE: sources

CHANNELS INCLUDED IN THIS STUDY

PSBS

BBC 1
BBC 2
CBeebies
CBBC

Distinctions (Particularly expenditure)
between BBC channels are arbitrary and
the BBC has been considered as a single
entity throughout

ITV 1
Channel 4
five

MULTICHANNEL

CITV
five life
Boomerang
Cartoon Network Nick Replay
Cartoon Network +1 Nickledeon
Cartoon Network Too
Discovery kids
Disney channel Pop
Disney channel +1 Tiny Pop
Jetix

Jetix +1
Nick Jr
Nick Jr 2
NickToons
Playhouse Disney
Toonami

INTERVIEWS

Broadcasters

BBC Children's
Nickelodeon

Producers

HIT Entertainment
Spellbound
Novel Entertainment
Feel Good fiction
PACT

Licensors

The Licensing Company (TLC)

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EXECUTIVE SUMMARY

- At around £340m the UK children's TV market is significant by international standards – yet in the context of the wider UK TV industry, the sector is relatively small. However, children's TV has a cultural resonance in the UK beyond the simple size of the market
- Broadcasters receive revenue from each of the three main sources of TV income – licence fee, advertising and subscription. Of these, the licence fee is the largest and has grown in importance as the other two have come under pressure: advertising has suffered from a fall in audience and subscription revenues have come under pressure as satellite and cable have renegotiated carriage contracts. In total, we estimate broadcaster revenues to be £268m - £126m from licence fee, £90m from subscription and £51m from advertising
- UK broadcasters spend just under £150m a year on children's content. Around £110m of this is on originations. Of this over 90% is spent by the PSBs – and the vast majority comes from the BBC, which at £63m accounts for nearly two thirds of all UK children's originations
- In addition to commissioning income, producers receive around £70m from other sources – programmes sales, home entertainment and licensed consumer products (publishing, toys, clothing etc). This figure represents only that revenue due as a licence fee to the original rights holder. Other parties in the value chain – licensing agents, distributors, publishers, manufacturers – also take a revenue. We have not considered this to be part of the core TV core business – through producers and broadcasters occasionally establish subsidiaries to expand into these areas of the value chain
- The economic model of children's programming differs significantly by genre: factual drama and entertainment have limited international or secondary revenue potential and have to be fully funded by the broadcaster. The success of animation (and particularly preschool) in generating additional revenues has led to an entirely different model: primary commissioners only contribute around 25% of production cost, leaving producers to obtain the rest from a mix of programme sales and licensing deals. However, some producers in this area avoid commissioning entirely-relying on programme sales to fund production and hence keeping all exploitation rights

EXECUTIVE SUMMARY

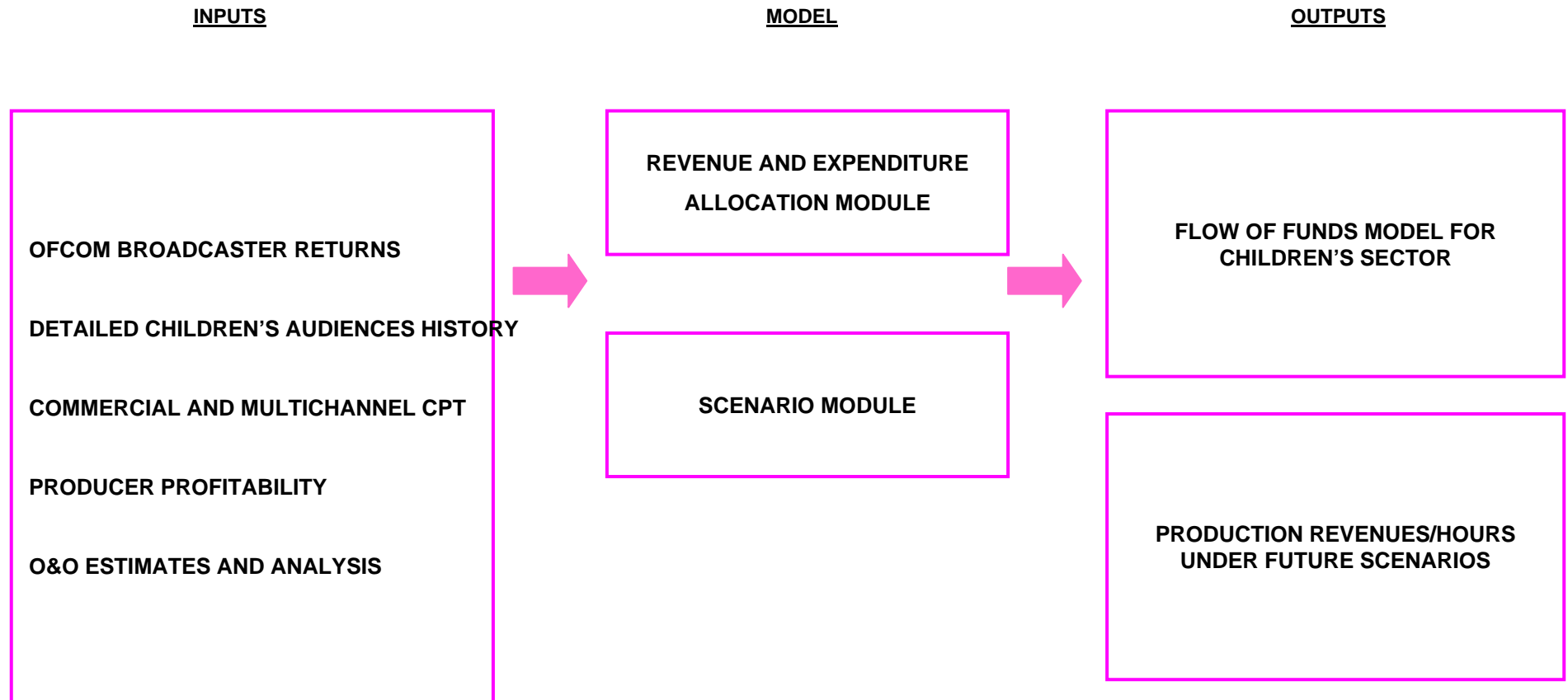
- The children's production market is still very fragmented – the majority of producers have revenue of less than £1m, and focus on one or possibly two properties consolidation has been occurring and this is likely to continue.
- The market is likely to consolidate around BBC in house production, a small number of children's specialists and children's divisions of larger independent production houses.
- The data in this report do not reflect the impact of two recent changes likely to have significant implications for the industry:
 - ITV has essentially stopped children's broadcasting
 - The full impact of the ban on HFSS advertising has yet to be felt.
- Each of these is likely to reduce the revenue available to the industry. We consider the ITV impact as one of our fixed scenarios.

EXECUTIVE SUMMARY – prospects

- The UK Children's sector is at a critical juncture.
 - The loss of ITV originations will significantly reduce the size of the market – particularly in live action series
 - Multichannels have come under increasing pressure in both advertising and subscription revenue.
 - Five is concentrating on pre-school and Channel 4 has ceased broadcasting children's output.
- The result will be a commissioning market focused on the BBC with less than £20m coming from other sources – multichannel and five. In particular, the market for UK factual and drama strands will be solely with the BBC.
- In recent years there has been some effort to change the local audience focus of UK commissioning and to produce drama more suited to the international markets. However, the driving force behind this has been the BBC – whose commissions of Roman Mysteries and MI-High have sold well overseas.
- Secondary revenue is not a panacea. All the producers we spoke to were very clear that licensed product should be viewed as a bonus, not built into any business plan. Only truly exceptional, once in a generation properties, develop a revenue stream to rival Thomas or Bob the Builder.

EXECUTIVE SUMMARY

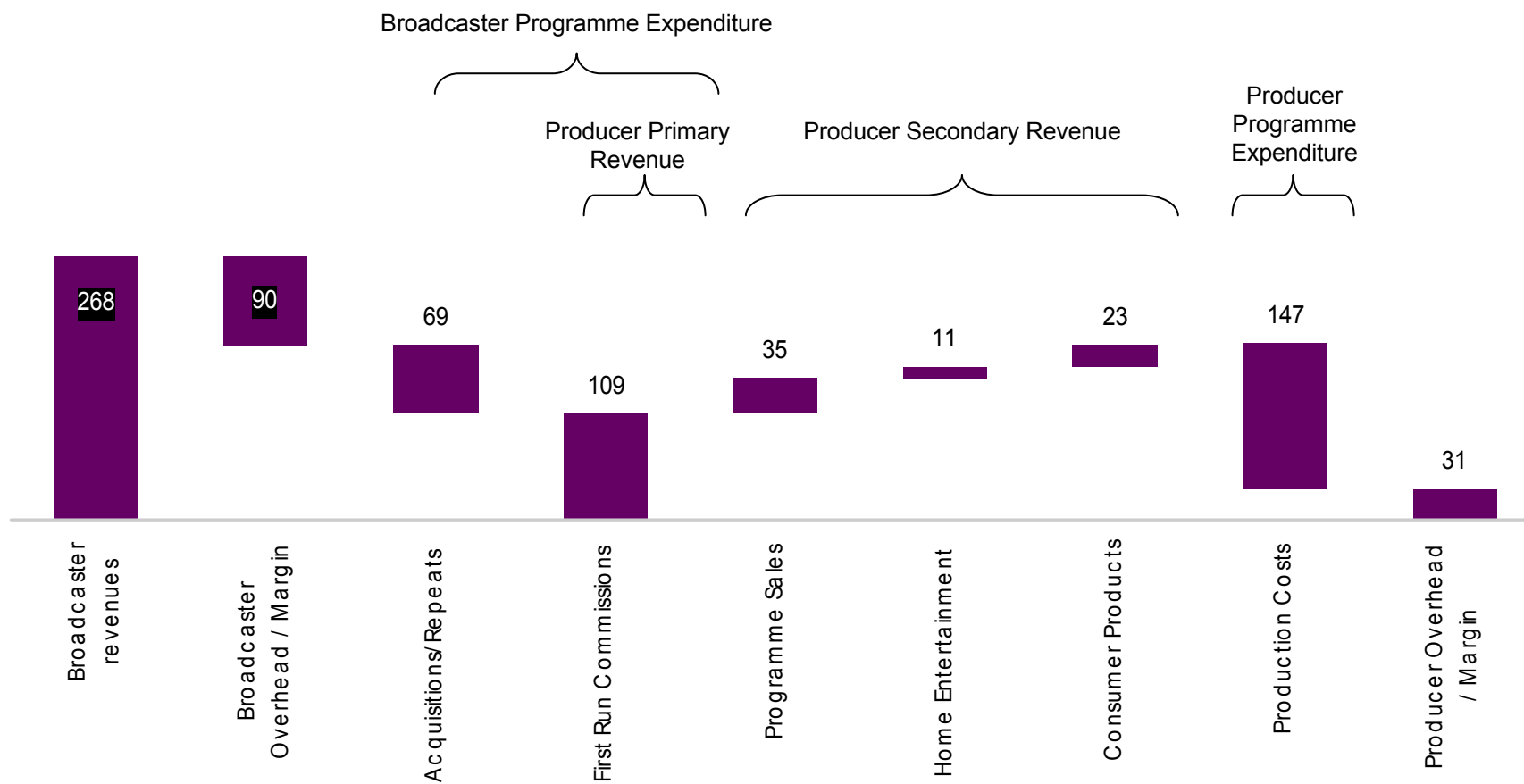
...the O&O children's sector model consolidates information from a number of sources to produce a picture of the economics of the whole sector...



EXECUTIVE SUMMARY – children's TV value chain

...we estimate that total revenue to the UK children's TV industry is approximately £340m...

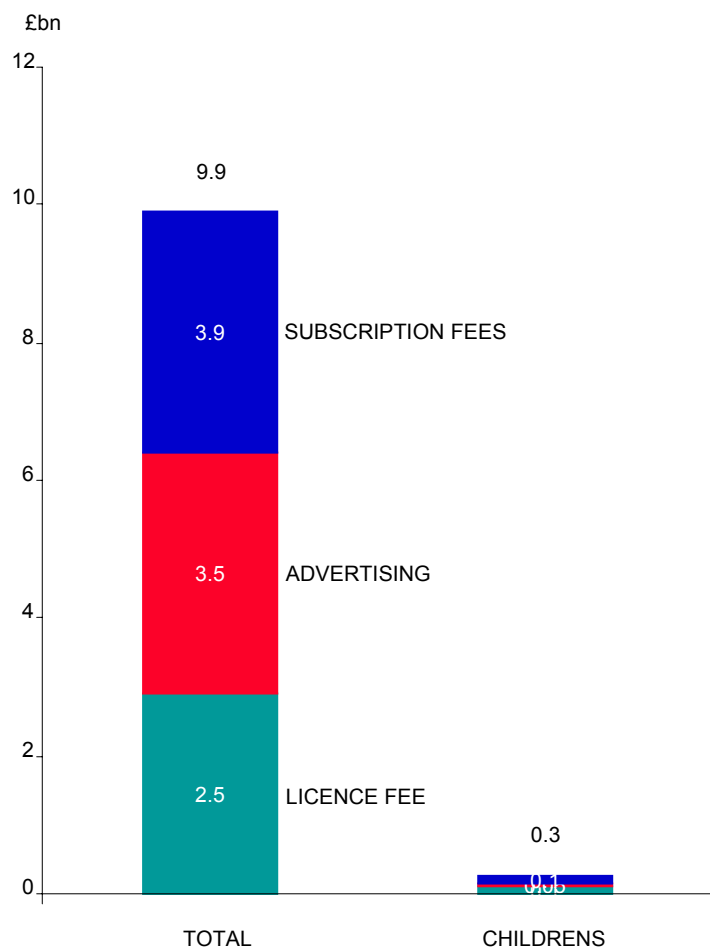
CHILDREN'S TV VALUE CHAIN (2006)



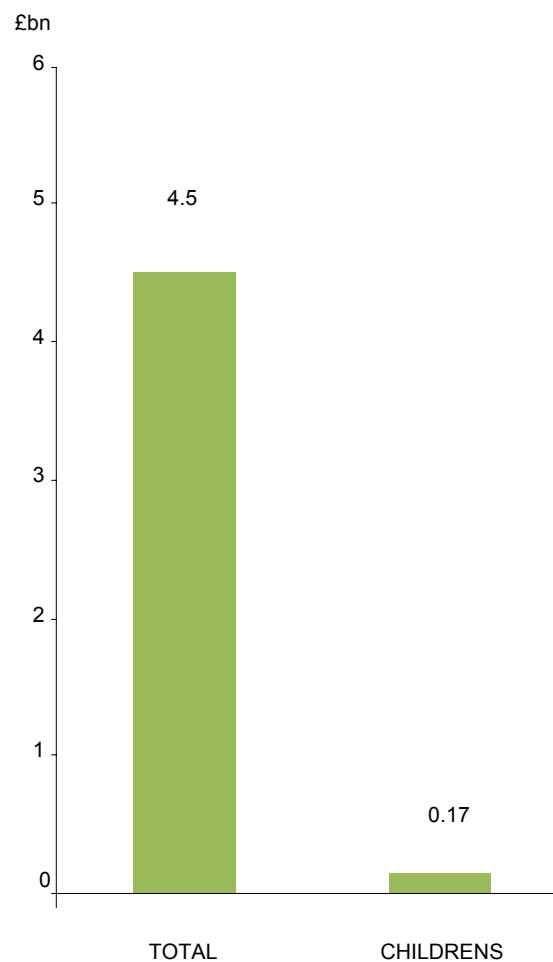
EXECUTIVE SUMMARY – the children’s market in context

...the UK children’s TV market, while significant, forms only a small part of the UK TV sector...

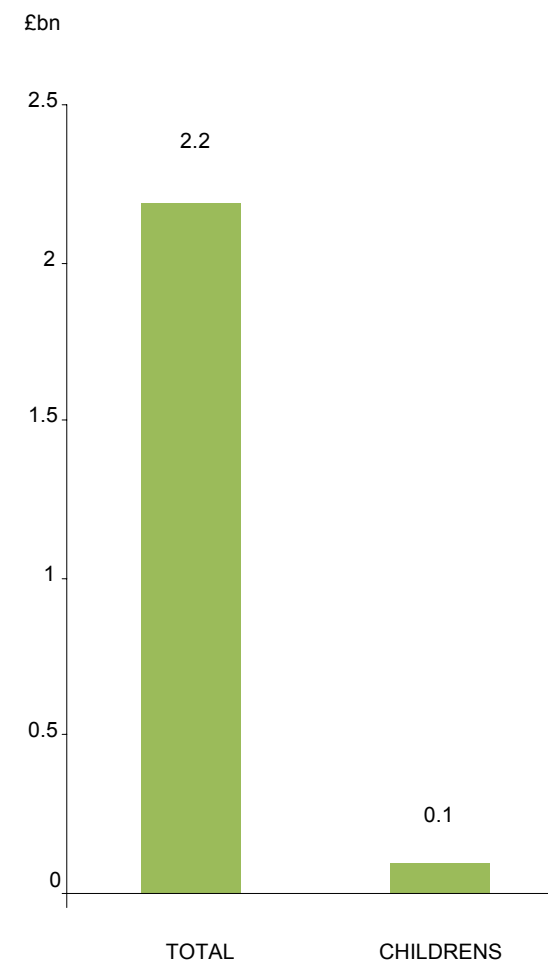
**TELEVISION MARKET REVENUES
(2006)**



PROGRAMMING SPEND (2006)



ORIGINATIONS SPEND (2006)



Note; data is 2006 (E)

Sources: OBS, PWC, Zenith, BTDA, O&O analysis

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ECONOMICS OF CHILDREN'S PROGRAMMING – broadcaster revenue – summary

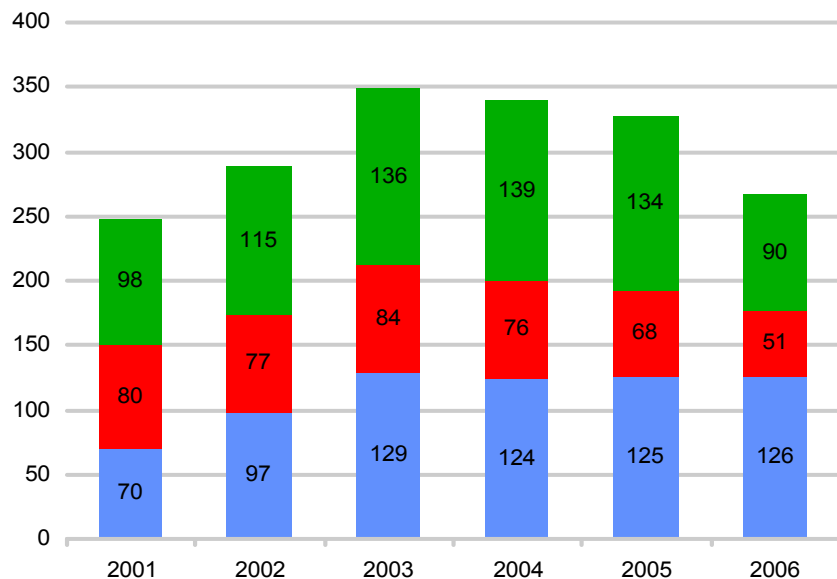
- We estimate that broadcasters receive £268m in revenue from children's programming. Revenue comes from three sources- the licence fee, advertising and subscription fees.
- Of this, £126m represents the licence fee allocation to BBC Children's and S4C. This has grown over time as a result of:
 - Changes in BBC accounting policy allocating overhead, distribution and other costs to relevant departments
 - More importantly, the launch of two dedicated children's channels – CBeebies and CBBC
- Around £51m comes from advertising – the majority to multichannel. This has fallen sharply over recent years – driven primarily by a loss of audience to children's programming on ITV1, which historically had both high audiences and high CPTs
- Subscription fees have also come under downward pressure as the platforms (both BSkyB and a newly-unified cable) have exerted more power in negotiations. We estimate subscriptions to be £90m, a reduction of some 40% from their 2004 high.
- Allocating revenues by genre is difficult and of limited use but using audience as a proxy we observe that animation (where acquisitions dominate) performs relatively poorly and the live action genres (factual, drama and entertainment) perform relatively well, in terms of audience hours generated by each broadcast hour

ECONOMICS OF CHILDRENS PROGRAMMING – broadcaster revenues – methodology

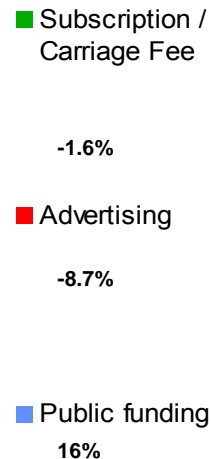
- Broadcaster revenue forms the first module of O&O's model of the children's sector. It covers three main revenue streams:
- Licence fee revenue: based on overall income to the BBC Children's department (excluding education), supplied by BBC Children's, and total programme budget for S4C
- Advertising: calculated as follows
 - Dedicated children's channels: Broadcasters' returns to Ofcom give full NAR data for 2004, 2005 and for some channels for 2006. Audience performance is then used to give estimates of impacts over the whole time period, allowing implied CPTs for 04/05/06 to be calculated. Other years' CPTs are then calculated using development of multichannel CPT over the relevant time frame, and grossed up to estimated channel NAR using audience performance/impacts.
 - 2006 is thus a mixture of actuals and estimates based on multichannel CPT development and audience performance. The channels for which we have results show a drop in excess of our estimates – suggesting we may have been conservative
 - Commercial PSBs: Ofcom broadcaster returns do not specify Children's separately, so NAR estimated calculated using audience performance and O&O estimated channel off-peak CPT
 - Estimates of NAR then cross checked with certain commercial channels for ballpark accuracy
- Subscription revenue: (only applies to DCCs). Actuals for 2004/05/06 from Ofcom returns; other years estimated using BSkyB's external 3rd party channel cost as the underlying driver.
- Secondary revenue (that which accrues to the broadcaster in its role as broadcaster, not as agent or producer): broadcasters have confirmed that this revenue stream is minimal and thus we have not modelled it.

ECONOMICS OF CHILDRENS PROGRAMMING – broadcaster revenues

BROADCASTER PRIMARY REVENUES FROM CHILDREN'S PROGRAMMING (£m)



CAGR %
2001-2006

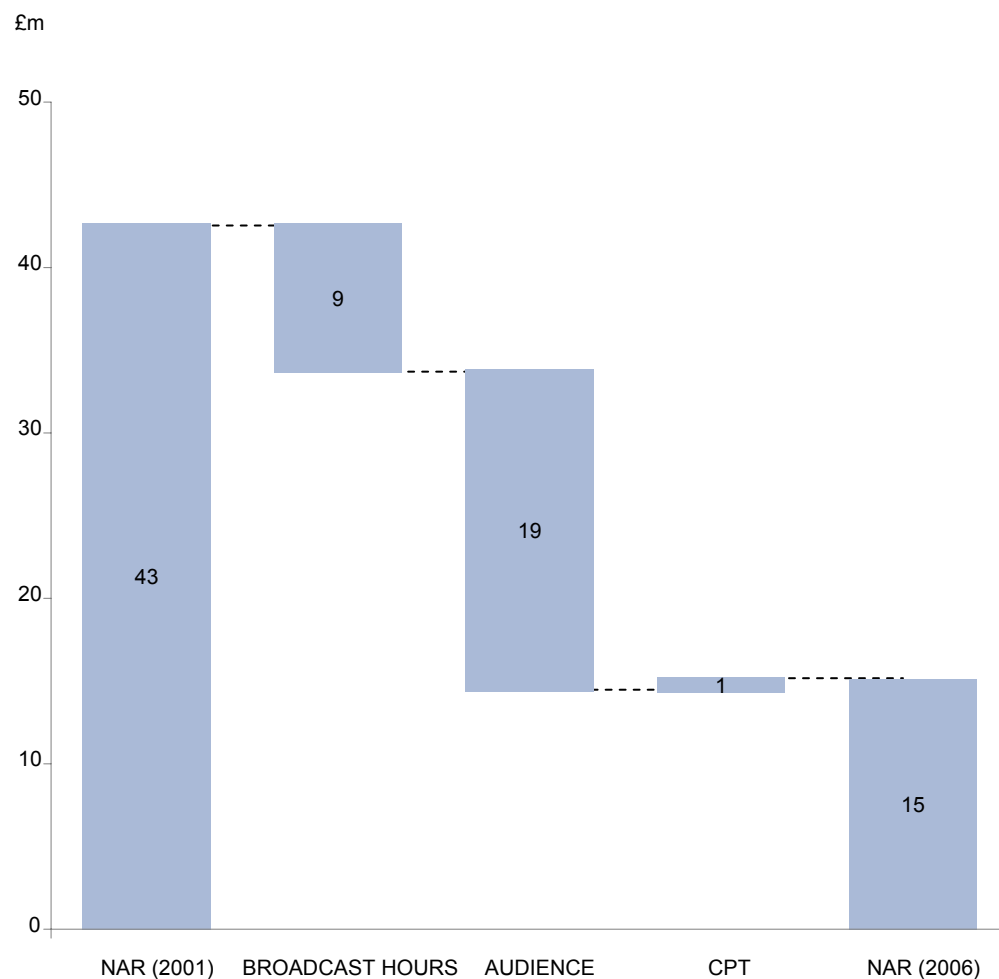


- Public funding of children's TV has increased at 16% per annum over the last 6 years
 - Some of this increase is due to accounting changes in the BBC, but the majority is to fund the expansion of children's output into multichannel (CBBC and CBeebies)
- Advertising revenue has fallen by just under 9% per annum, driven mainly by a fall in audience (discussed in more detail later)
 - After a period of steady growth in subscriber fees, 2006 saw a decline – driven mainly by pressure from platforms (also discussed later)
- Broadcasters may also occasionally receive a small share of secondary revenues (merchandising, DVD sales etc.)
 - PACT terms of trade give primary commissioners a 15% share of downstream revenues – but in children's this is insignificant (the two genres with any real secondary revenue – pre-school and animation are typically less than fully funded by primary commissioners and hence subject to different terms)
 - Broadcasters (and producers) state that this revenue is minimal

ECONOMICS OF CHILDREN'S PROGRAMMING – broadcaster revenues

...the decline in network NAR between 2001 and 2006 has been driven by loss of audience and to a lesser extent by a reduction in output...

COMMERCIAL PSB NETWORK CHILDREN'S NAR CHANGE (2001-2006)

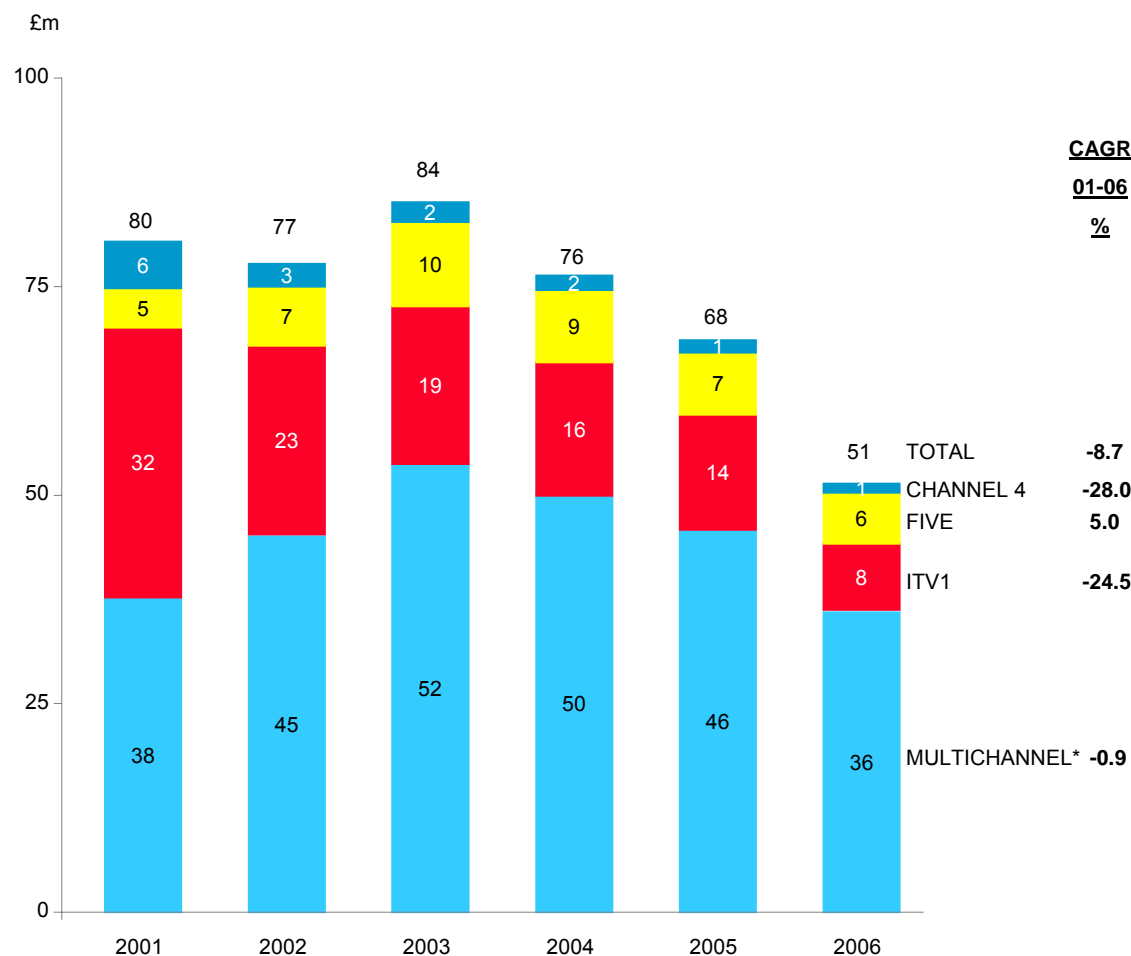


- In 2001, we estimate commercial NAR from children's programmes was £43m, falling to £15m in 2006
- By 2006, children's hours had fallen by 20% on network TV – from 2,600 hours to 2,050
- Between them ITV1 and Channel 4 showed 800 fewer hours of children's TV between 2001 and 2006
- Five increased its output by 30% to 1,100 hours
- The average audience for network TV children's programmes more than halved between 2001 and 2006, from 400,000 to 170,000 viewers
- Average CPT grew by about 1.3% per annum
- The combination of those factors results in a 65% fall in NAR over the period
- This assumes that demand was elastic – i.e. revenue left the market with a loss of impacts

ECONOMICS OF CHILDREN'S PROGRAMMING – broadcaster revenues

...net advertising revenue fell by 25% in 2006, driven by a 33% reduction in network NAR due to fewer programme hours, lower audiences and lower CPT. Dedicated children's channel NAR fell by 20%...

NET ADVERTISING REVENUE FROM CHILDREN'S PROGRAMMING

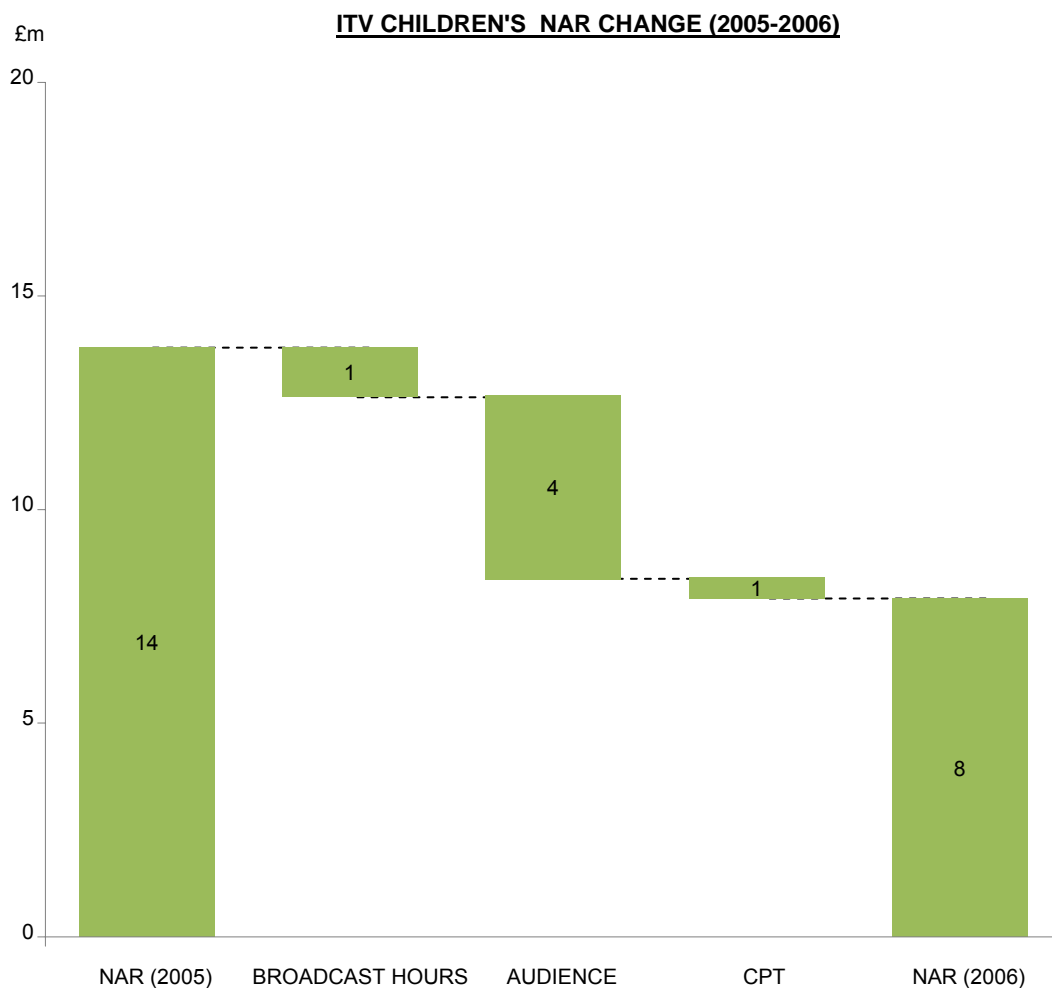


- Multichannel NAR has stayed broadly flat over the period
- A vast increase in output hours (nearly fourfold) has been broadly matched by a reduction in average audiences
- CPTs have fallen in recent years, but their impact is margined – audiences are the main driver marginal
- Note that there are no commercials on the Disney group of channels and hence no advertising revenue

* Includes network spin-offs

ECONOMICS OF CHILDREN'S PROGRAMMING – broadcaster revenues

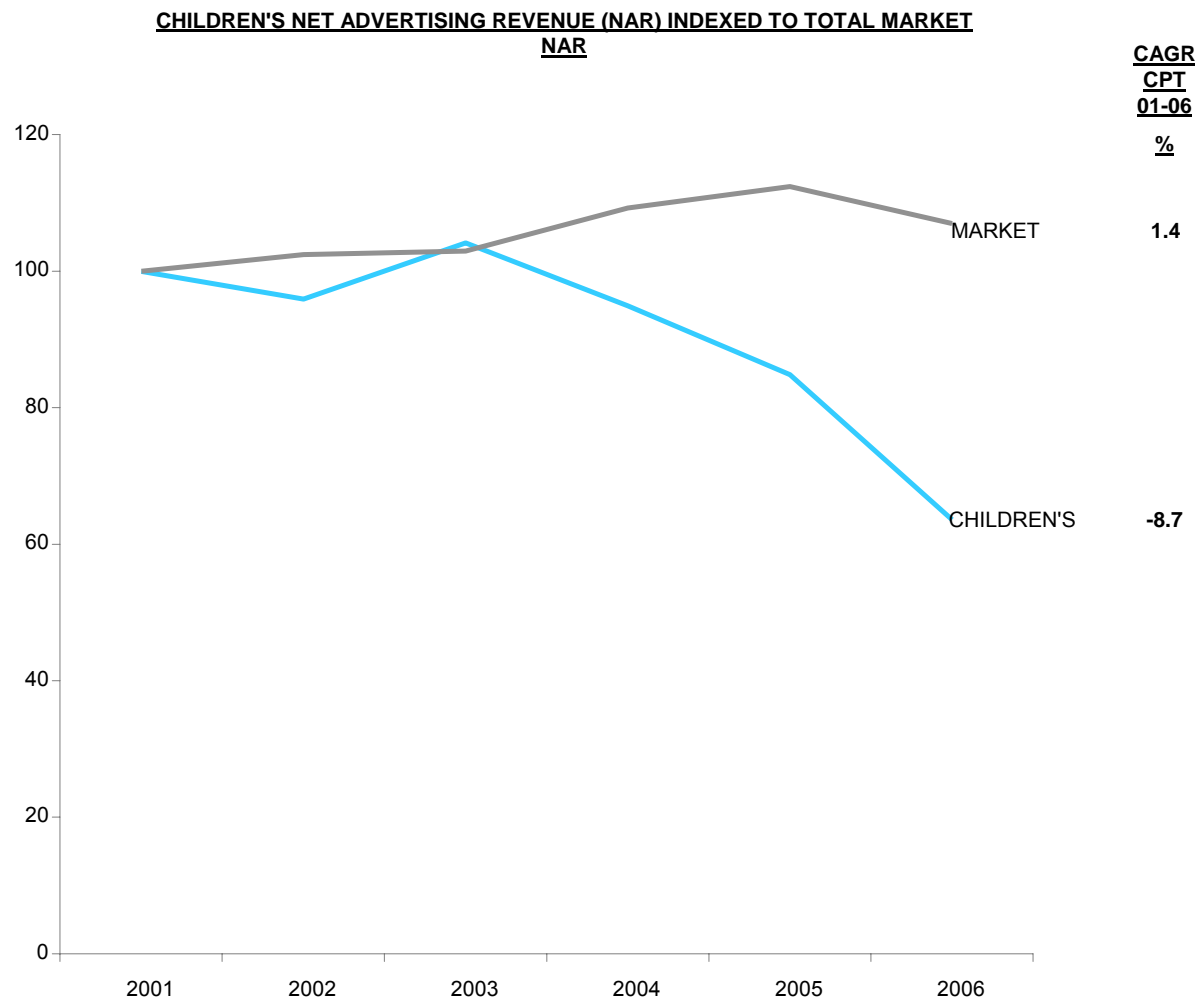
...and ITV1's change in the last year is driven by a near halving of audience hours...



	2005	2006	CHANGE
BROADCAST HOURS	667	611	-8%
AVE AUDIENCE (000)	492	324	-34%
AUDIENCE HOURS IN HRS	328,192	197,839	-40%
CPT (OFF-PEAK) £	3.53	3.36	-5%
NAR £m	14	8	-43%

ECONOMICS OF CHILDREN'S PROGRAMMING – broadcaster revenues

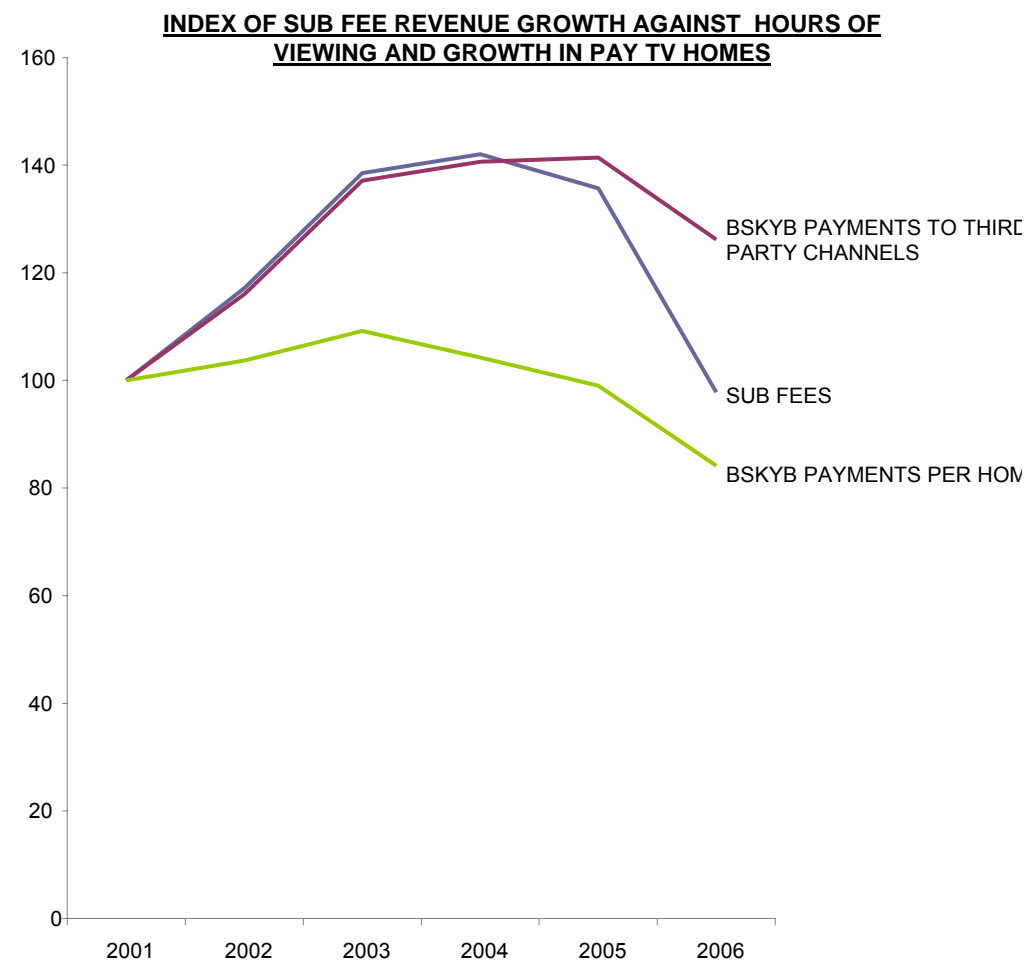
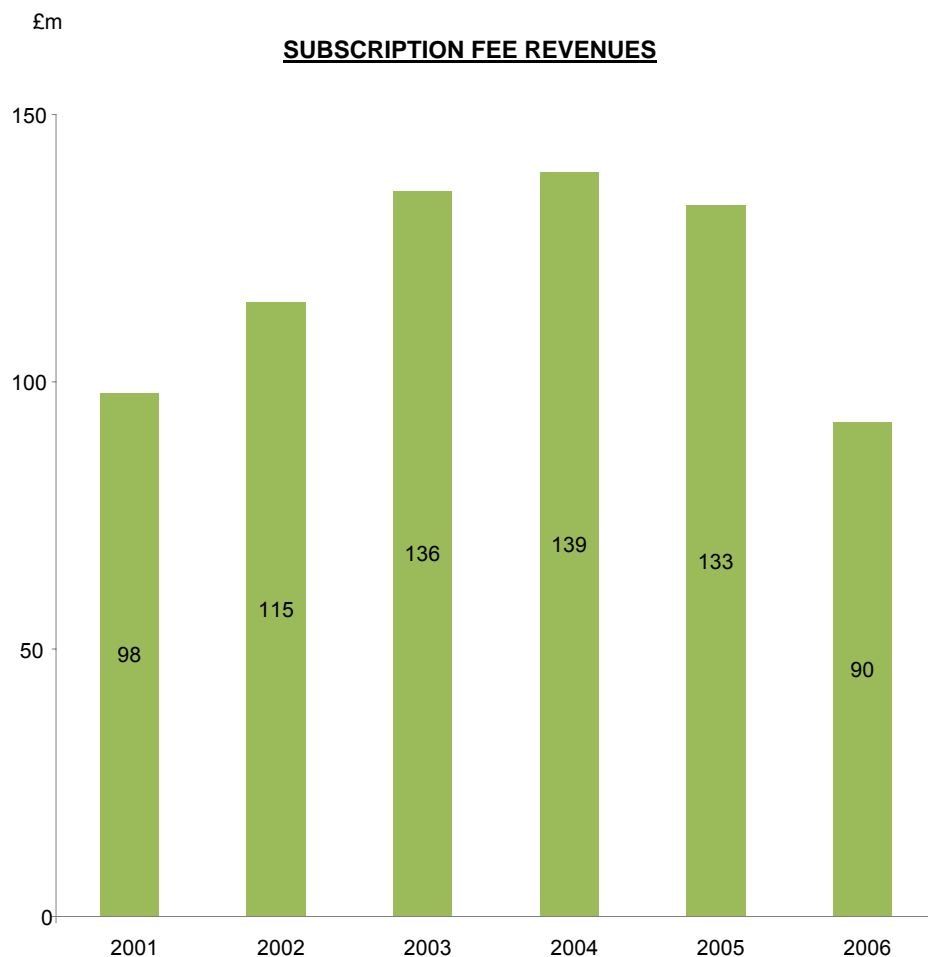
...the decline in NAR from children's programming has been steeper than the overall decline in the TV NAR and began earlier...



- The fall off in NAR is driven mainly by a fall in audiences
 - Cartoon Network and Boomerang were particularly badly affected in 2006, with audiences sharply down
- Other channels that held up well in audience terms include Disney – but these channels do not take advertising
- Although the HFSS advertising ban does not cover this period, some revenue may have left the market in advance of this as advertisers wish to be seen to comply with the new regulation

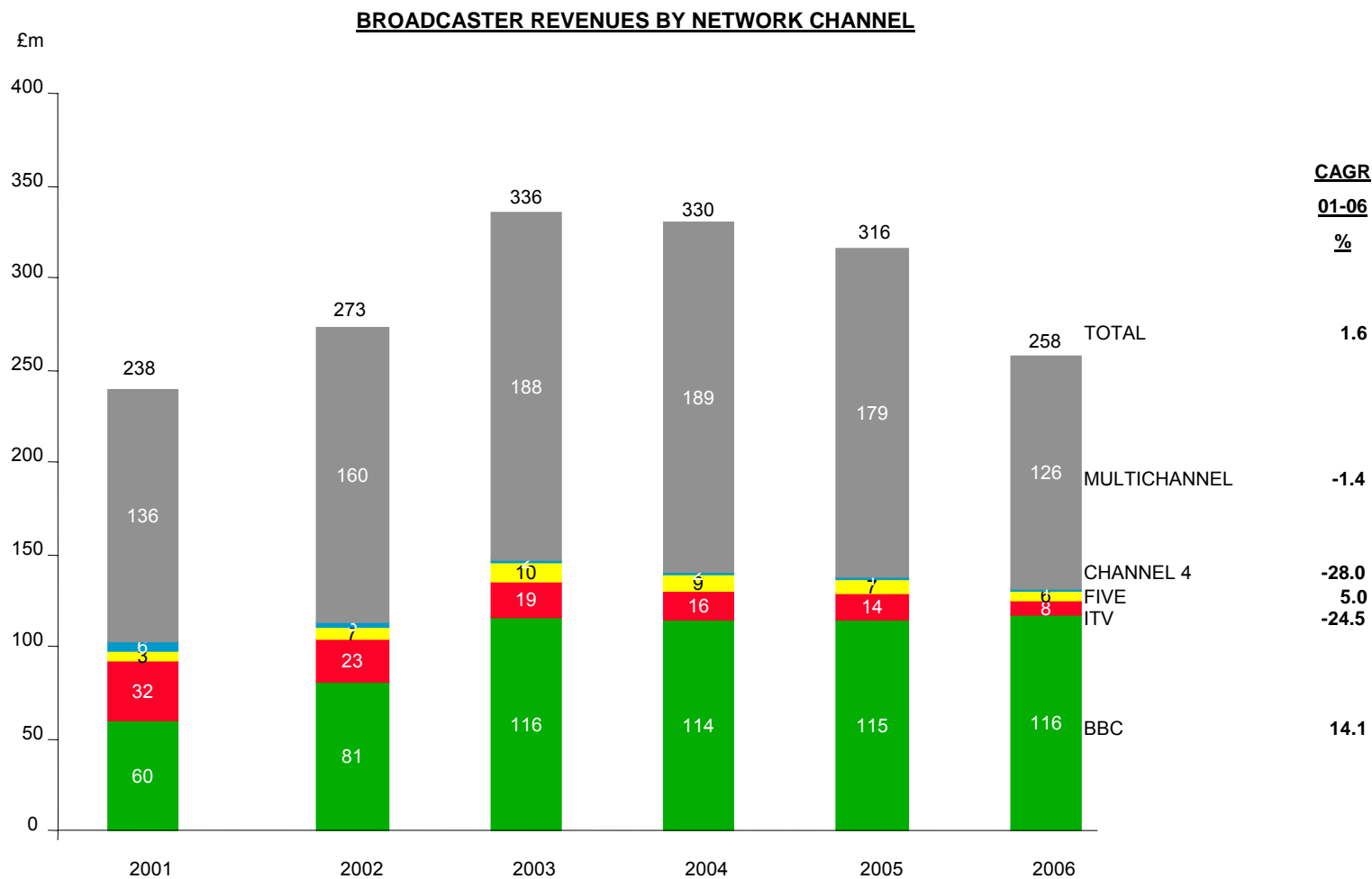
ECONOMICS OF CHILDREN'S PROGRAMMING – broadcaster revenues

...after a period of growth (driven mainly by increased penetration), subscription fees fell sharply in 2006 as the new carriage contracts began to take effect (the most recent round of negotiations has seen substantial reductions – which are likely to continue through 2007)...



ECONOMICS OF CHILDREN'S PROGRAMMING – broadcaster revenues

...growth in the children's market has been underpinned by the BBC – driven by expansion into multichannel

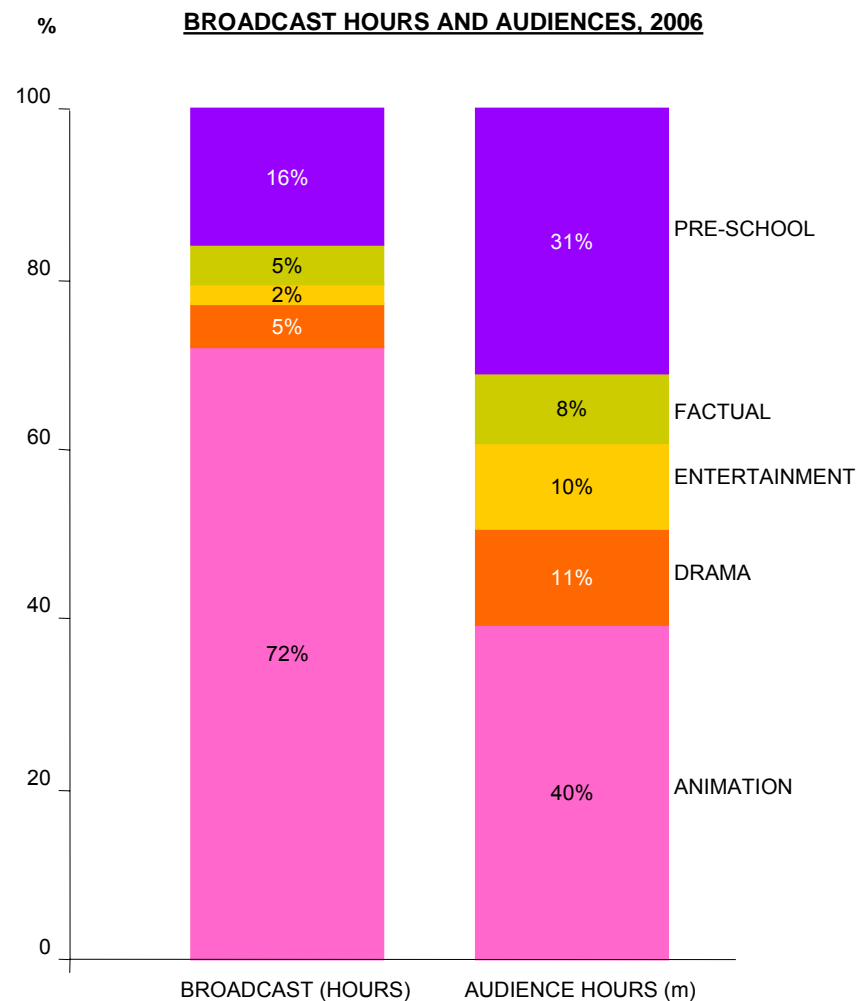
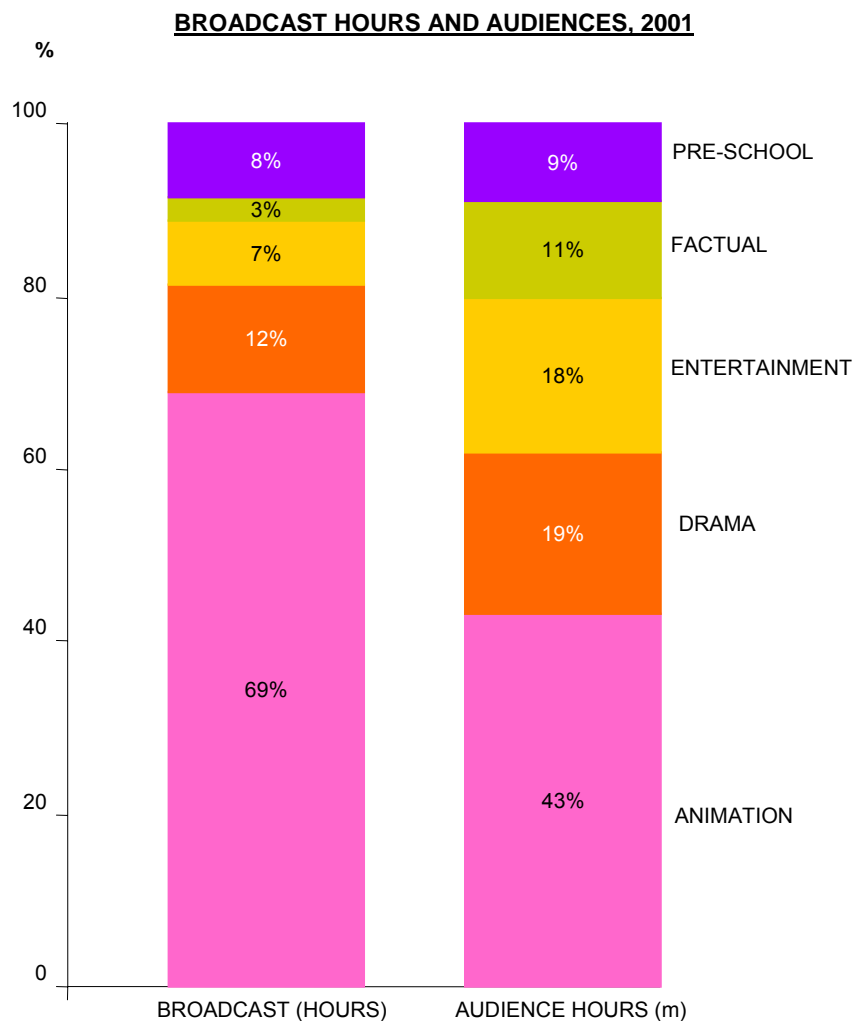


* Includes commercial network spin-offs

Sources: Ofcom, BBC, O&O analysis

ECONOMICS OF CHILDREN'S PROGRAMMING – broadcaster revenues

...animation accounts for most hours but least audience share, with the live action genres delivering more than their share of hours. Preschool has improved its relative performance dramatically...



Note: excludes 'miscellaneous' genre classification

Sources: BARB, O&O analysis

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ECONOMICS OF CHILDRENS PROGRAMMING – broadcaster expenditure – summary

- We estimate broadcaster's programming expenditure to be £178m. Of this, £109m is originations and £40m acquisitions. Repeat fees represent £29m.
- Almost half this - £72m – is spent by the BBC. The dominance of the BBC in the market is even more stark in originations, where nearly two thirds - £63m – of the market is supplied by the corporation
- There has been a significant decrease in BBC origination expenditure in recent years but a substantial proportion of this is due to timing of commissioning expenditure rather than an underlying reduction. The programming mix has remained broadly consistent, with live action accounting for 90% of expenditure – but there has been a sharp fall in entertainment
- The commercial PSB situation is more stark, with an 11% annual reduction over the last three years. (note that this still includes ITV expenditure, which will fall substantially this year). Within this, both factual and entertainment genres have suffered disproportionately
- We estimate multichannel expenditure to be £40m and of this originations to be £11m. Originations tend to be dominated by the large channels – Nickelodeon and Disney – with the smaller channels relying almost exclusively on acquisitions

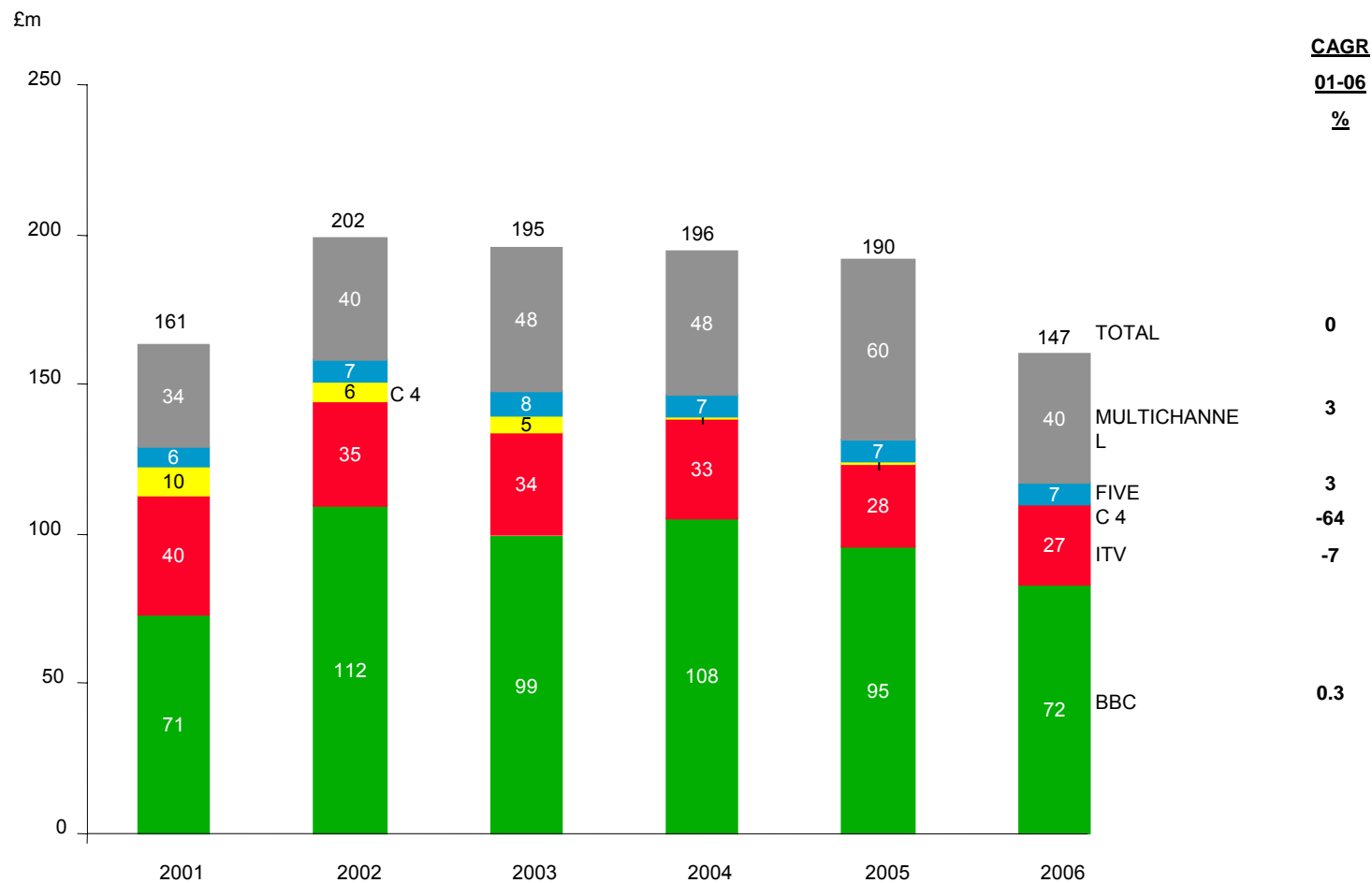
ECONOMICS OF CHILDRENS PROGRAMMING – broadcaster expenditure – methodology

- We have modelled broadcaster expenditure using a similar methodology to revenue
- BBC expenditure has been supplied by BBC Vision to Ofcom and checked with BBC Children's
- Commercial PSB information has been supplied through the Ofcom broadcaster returns
- Multichannel expenditure has also been supplied by Ofcom, but only for 2004/05/06. Other years' expenditure has been prorated from the individual channel data based on revenue development

ECONOMICS OF CHILDREN'S PROGRAMMING – broadcaster expenditure

...after a period of stability, 2006 saw a sharp decline in programming expenditure...

PROGRAMMING EXPENDITURE BY NETWORK CHANNEL



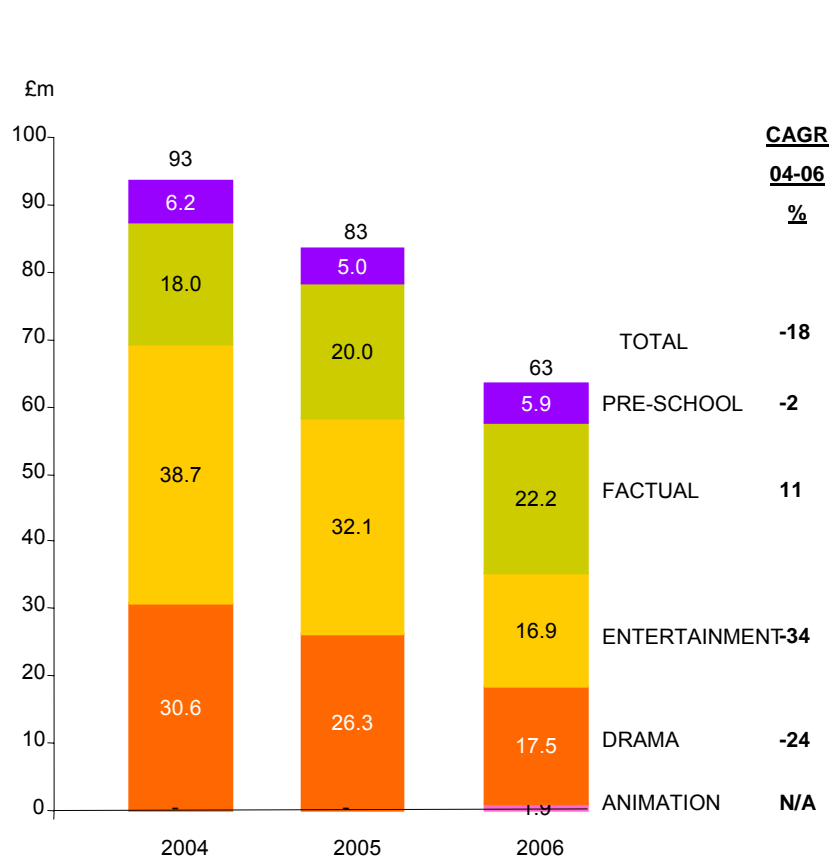
Notes: data is nominal

Sources: Ofcom, BBC, O&O analysis

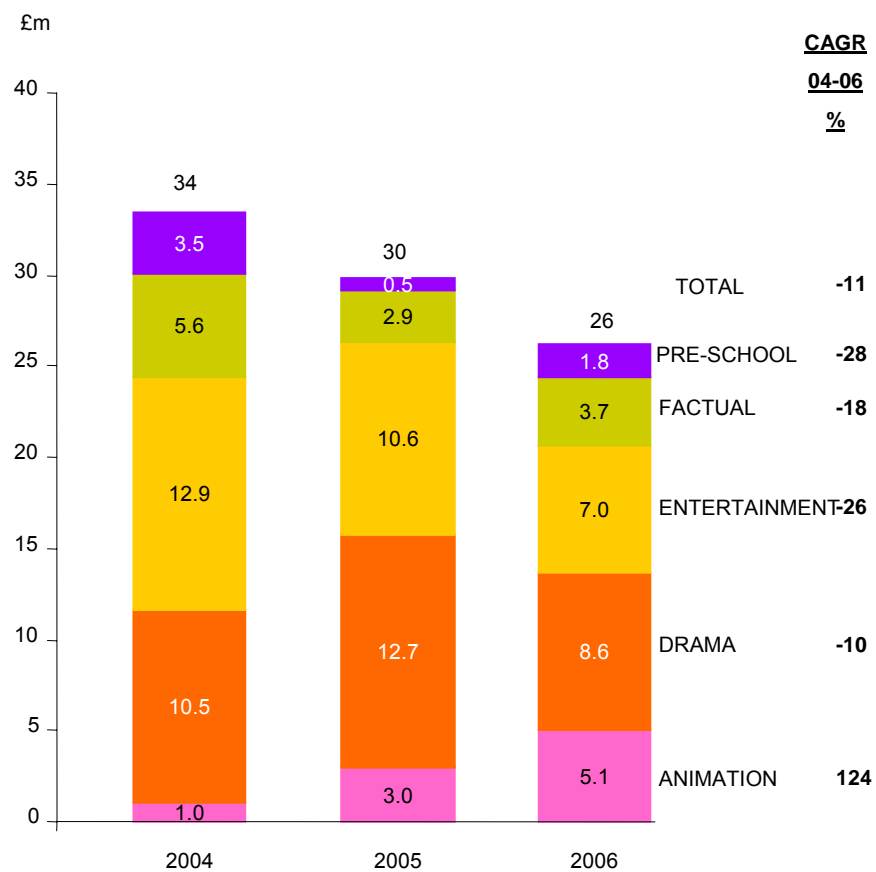
ECONOMICS OF CHILDREN'S PROGRAMMING – broadcaster expenditure

...the BBC has seen a significant reduction in expenditure, principally in entertainment and drama; the commercial PSBs have seen a substantial reduction in live action genres...we have been told that the BBC is due to timing of commissioning rather than absolute reductions...

BBC EXPENDITURE BY GENRE (ORIGINATIONS ONLY)



COMMERCIAL PSB EXPENDITURE BY GENRE (ORIGINATIONS ONLY)



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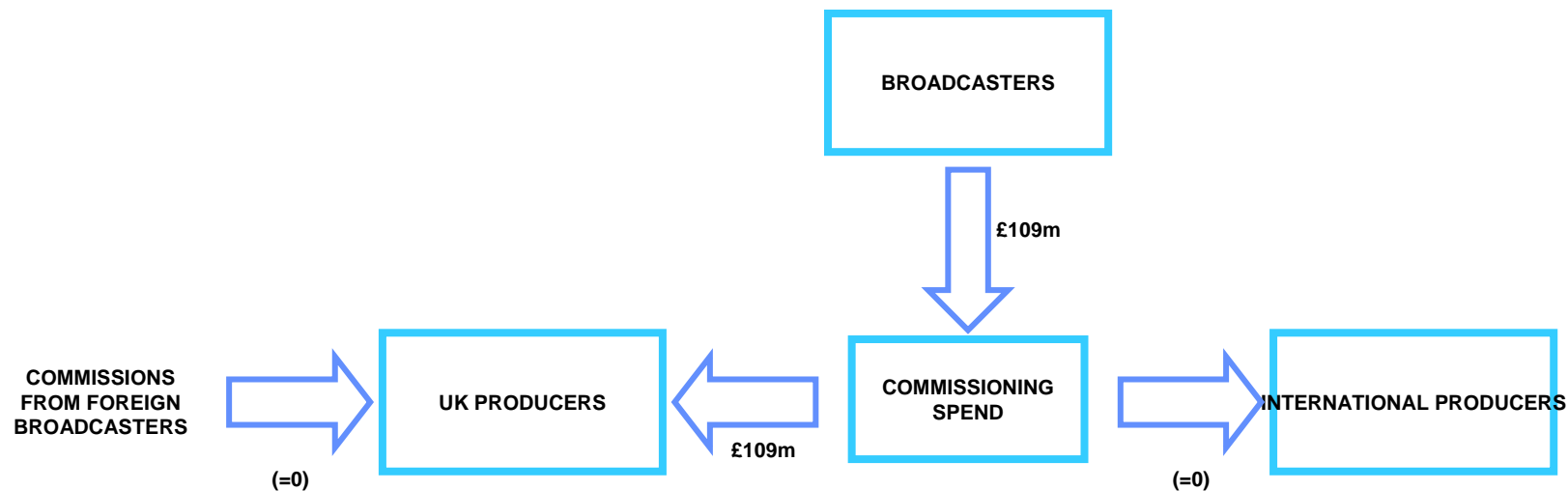
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ECONOMICS OF CHILDREN'S PROGRAMMING – producer primary commissioning revenues – summary

- We estimate UK producers' primary commissioning revenue to be £109m (note this includes broadcasters in-house production). PSBs (including commercial) account for £99m of this.
- Of this, live action dominates
 - The largest genre is drama, with £26m of commissioning
 - Factual and entertainment have only slightly smaller levels of expenditure.
- Primary commissioning is almost exclusively national. UK broadcasters do not commission overseas, and UK producers almost never receive commissions from foreign broadcasters.

ECONOMICS OF CHILDREN'S PROGRAMMING – producer primary commissioning revenues - methodology

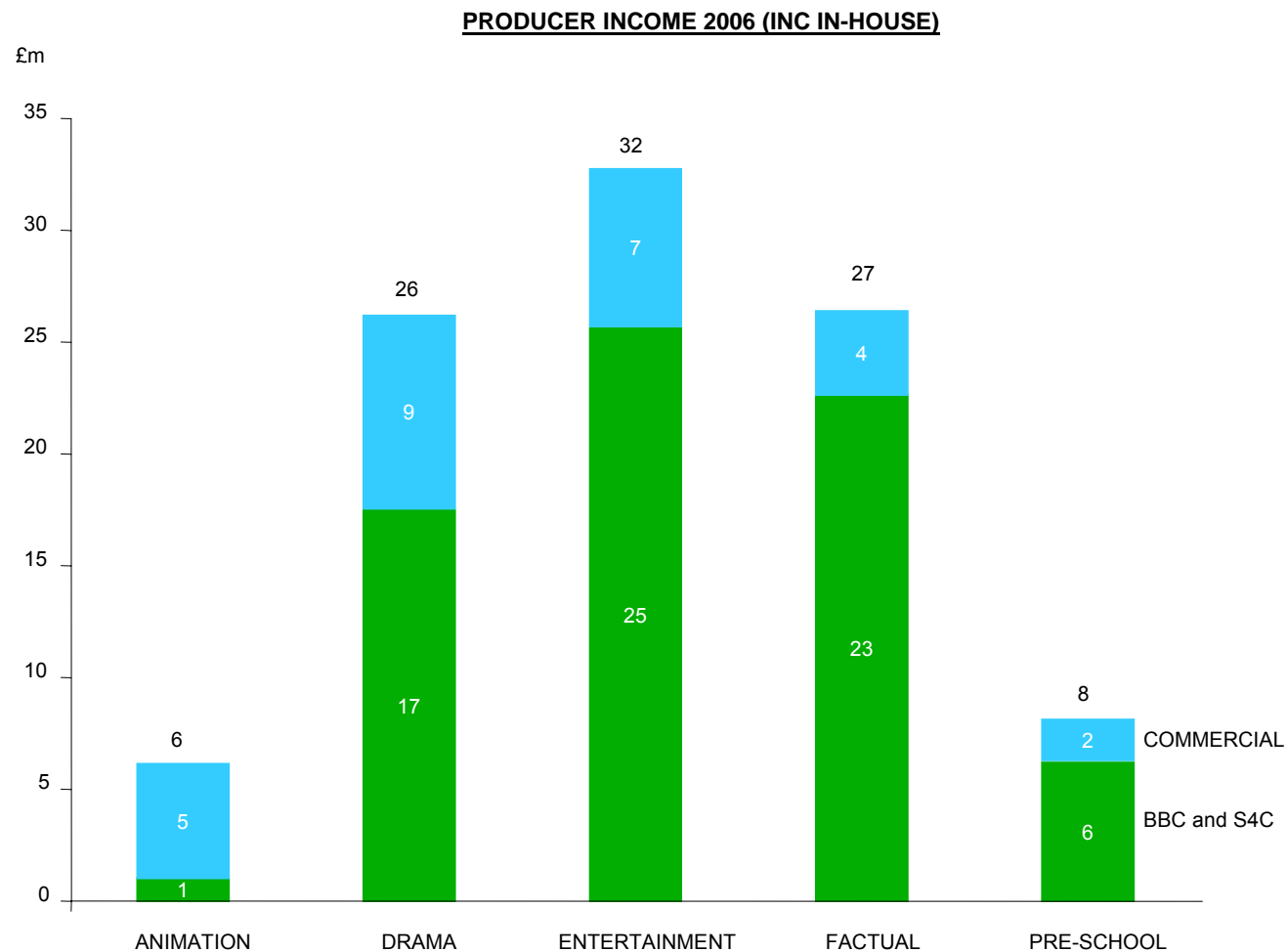
- A simplified model of the commissioning market would look like:



- When considering only Primary Commissioning revenues (i.e. not co-production or pre sale revenues), then essentially the UK production sector commissioning income = UK broadcasters commissioning expenditure
 - UK broadcasters do not place primary commissions overseas
 - UK producers do not receive primary commissions from abroad (we were told of only one example – when ABC Australia put an animation series out to open tender – but this is very much the exception)

ECONOMICS OF CHILDREN'S PROGRAMMING – producer primary commissioning revenues

...networks spent about £90m on primary commissioning in 2006, with drama, factual and entertainment the majority of expenditure...dedicated children's channels added £11m of spending on original commissions...



Note: does not include £11m estimated multichannel commissions spend (not categorised by genre)

Sources: Broadcaster returns to Ofcom, O&O analysis

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ECONOMICS OF CHILDRENS PROGRAMMING – producer secondary revenues – summary

- At around £80 million, secondary revenue provides an important revenue stream for children’s producers.
- However, not all children’s product generates secondary revenues – animation and preschool (and particularly the latter) dominate
 - We estimate that these two genres account for nearly 90% of secondary revenue
- Live action genres have historically been very poor at generating secondary revenue
 - Product is very tailored to the home market, which gives cultural resonance and audience appeal, but limits international sales potential
 - There is limited scope for tie in products a small element of publishing and occasional home entertainment sales being the only two real areas for exploitation.
- This leads to differences in the commissioner model; live action has to be fully funded by the broadcaster (and is thus expensive), but the potential for downstream revenue means that broadcasters will only fund around 25% of animation and preschool, leaving producers to fund the rest through programme and license sales.
 - Product can be easily reversioned and normally contains fewer cultural ‘triggers’, making international sales possible
 - There are many consumer product tie ins, from generic plush product, to those properties which fit traditional play patterns such as Thomas and Bob the Builder.

ECONOMICS OF CHILDREN'S PROGRAMMING – producer secondary revenues – methodology

- Producers obtain secondary revenues from several sources
 - Programme pre-sales
 - Sales of programmes pre-production; allow the producer to build sufficient funding to commence production
 - Programme sales
 - Sales that take place after the programme has been produced
 - Home entertainment
 - VHS/DVD sales of TV episodes and specials
 - Licensed merchandise/consumer products
 - Toys, publishing and other merchandise
 - New media (including video on demand)
 - Exploitation of new channels; while many children's programmes have begun to use other media, revenue streams are still insignificant
- Solid figures for the size of each of these markets do not exist. We have built up the funding picture from a number of sources
 - Typical funding structures of children's TV properties
 - Financial results of broadcasters and producers
 - Market data from public sources and previous case work
 - Conversations with industry participants
- The market data presented is thus an estimate. For this reason we have only attempted to do this for the latest financial year
- We have made one simplifying assumption: for those properties (very few in number) that have become international toy brands, we have not included international license sales, as this would distort the market picture of typical TV activity. We estimate that this would add c. £70m to these figures

ECONOMICS OF CHILDREN'S PROGRAMMING – producer secondary revenues – methodology

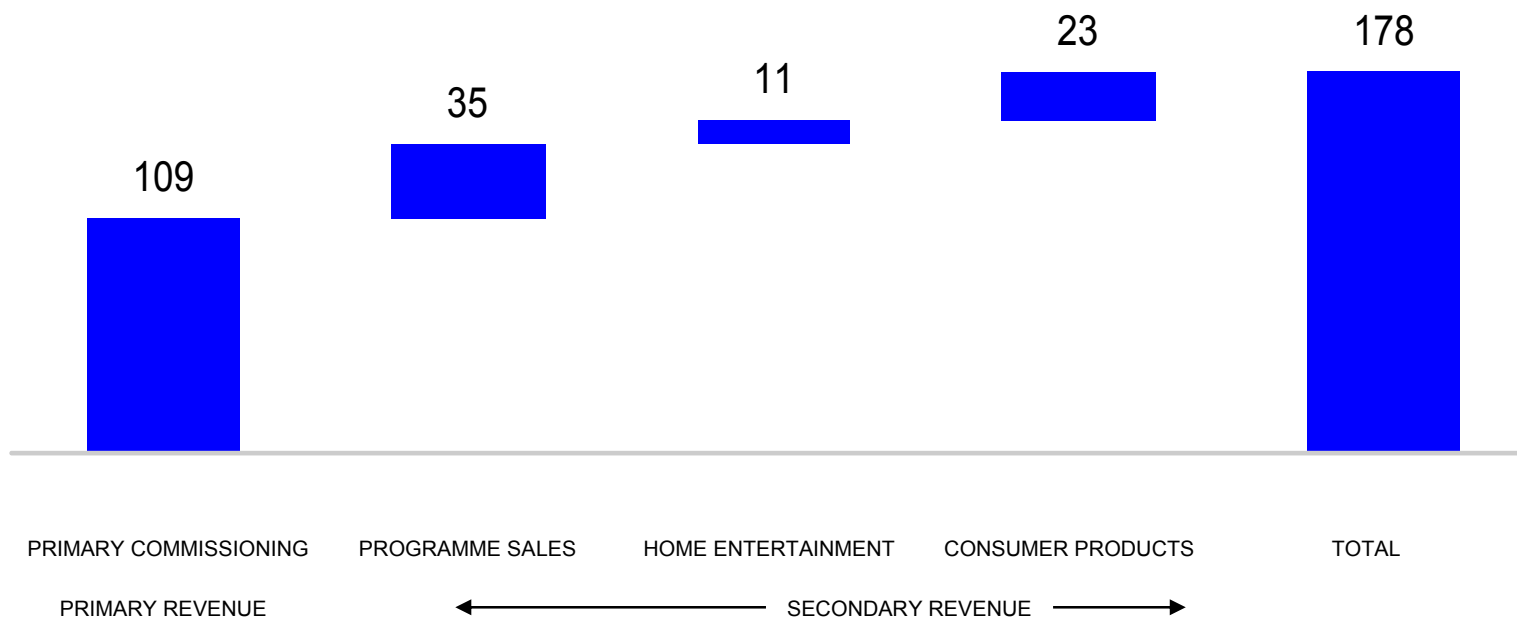
...secondary revenues have been estimated from the following matrix, which produces results triangulated with other market data...

% OF TOTAL REVENUE	ORIGINATIONS SPEND	PROGRAMME SALES	HOME ENTERTAINMENT	CONSUMER PRODUCTS	NEW MEDIA
ANIMATION	25%	50%	15%	20%	0%
DRAMA	110%	5%	2%	2%	0%
ENTERTAINMENT	110%	5%	2%	2%	0%
FACTUAL	110%	5%	2%	2%	0%
PRE-SCHOOL	25%	50%	50%	50%	0%

ECONOMICS OF CHILDREN'S PROGRAMMING – producer secondary revenues

...secondary revenues increase income to producers by 60%...

PRODUCER PRIMARY AND SECONDARY REVENUES (2006)



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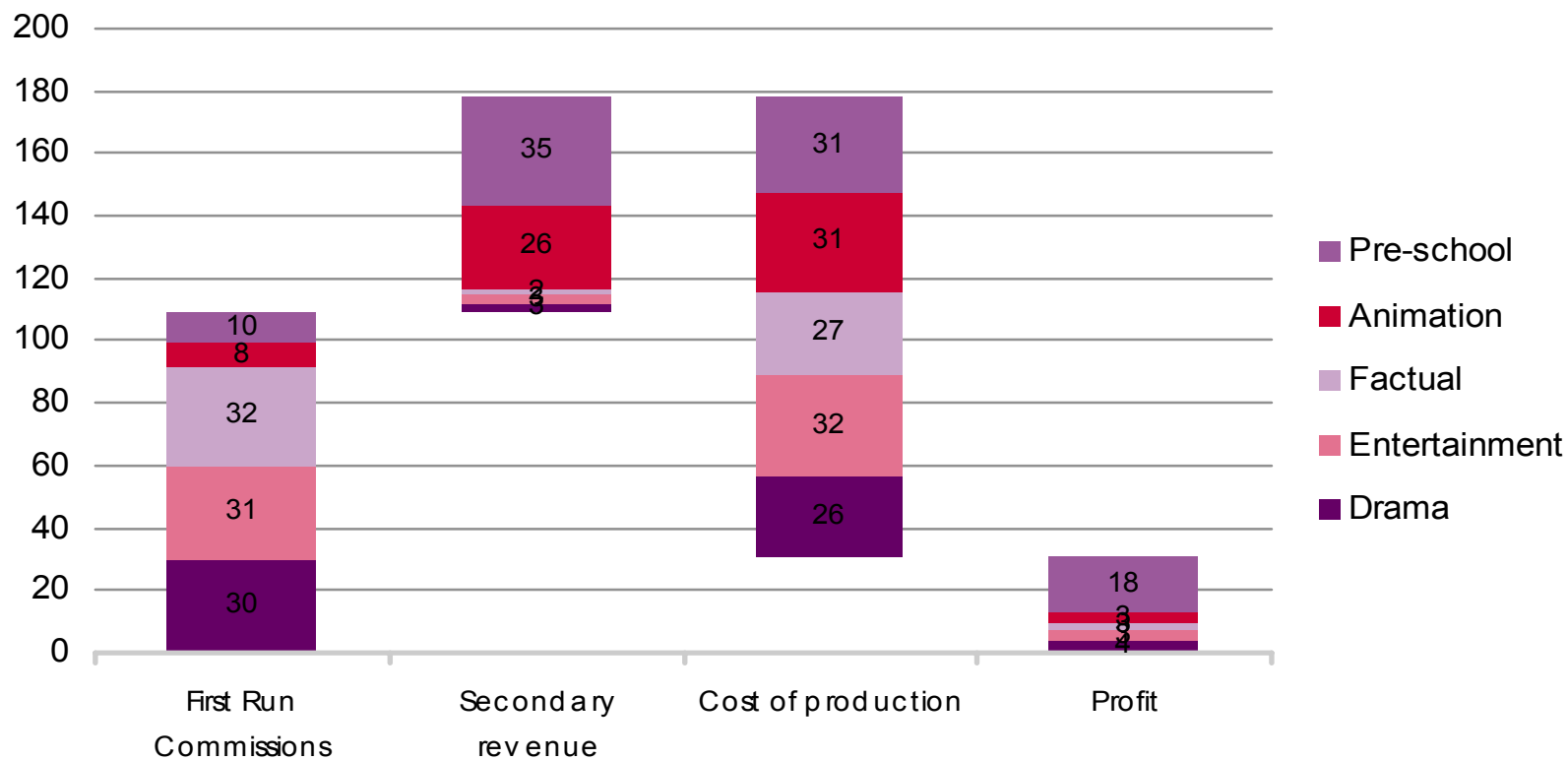
ECONOMICS OF CHILDREN'S PROGRAMMING – producer secondary expenditure revenues – summary

- The differing funding structures and the scope for secondary revenue means that producers expenditure is more than primary commissioning income – we estimate that producers spend £157m compared to the £109m of primary income
- However, the £80m of secondary revenue put the sector back into profit
- This structure differs by genre – live action commissioning income covers production costs, whereas animation and pre-school rely on secondary revenue to produce a profit

ECONOMICS OF CHILDREN'S PROGRAMMING – producer expenditure

...the nature of animation and preschool genres means they depend on secondary revenues to make them profitable

PRODUCER EXPENDITURE AND SECONDARY REVENUE (2006)



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 - BROADCASTER EXPENDITURE

 - PRODUCER PRIMARY COMMISSIONING REVENUES

 - PRODUCER SECONDARY REVENUES

 - PRODUCER EXPENDITURE

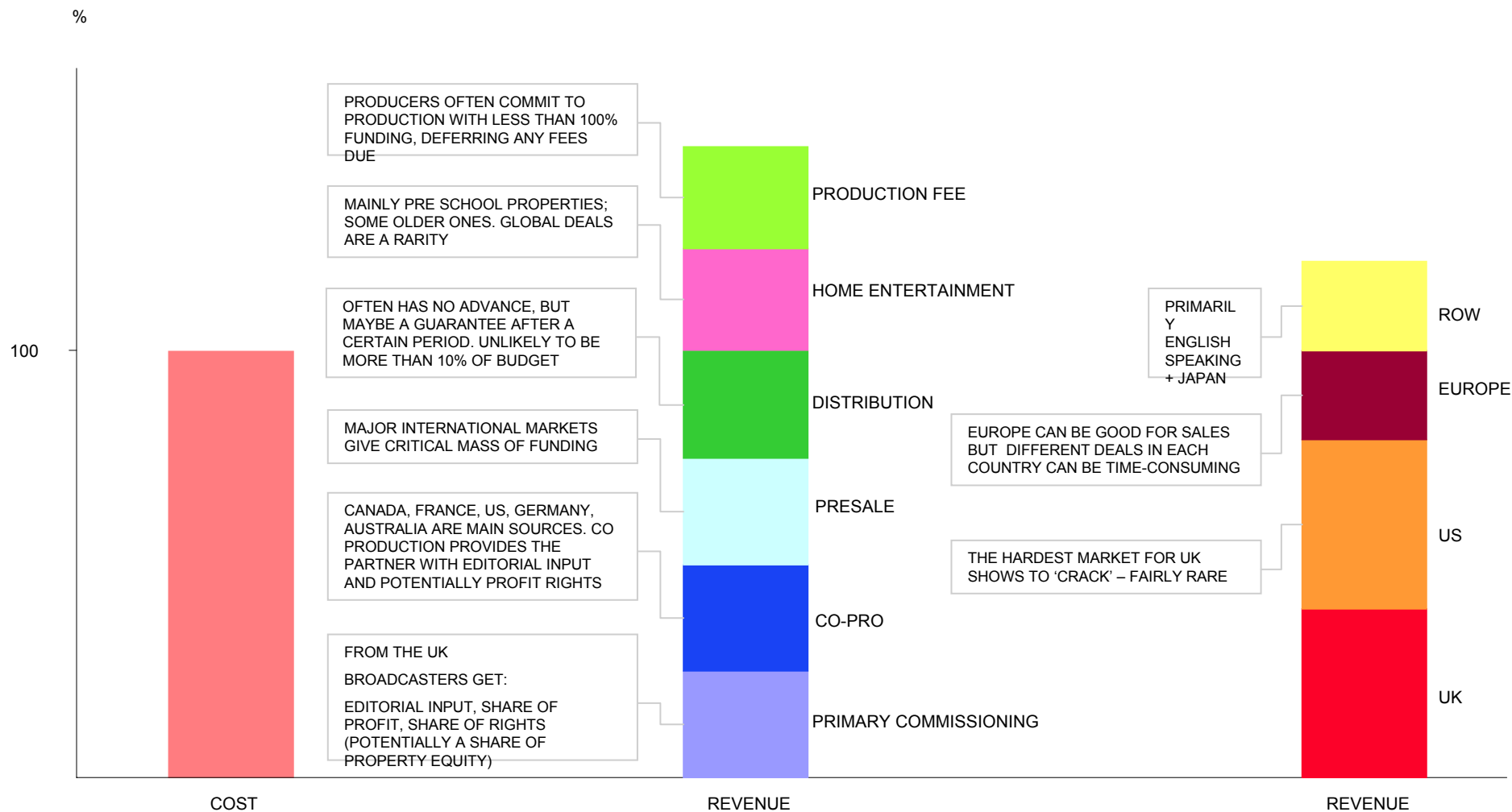
- THE UK CHILDREN'S PROGRAMMING MARKET

- SCENARIOS FOR THE FUTURE

CASE STUDIES

...funding structures for children's programming can be complex, with many issues to be considered...

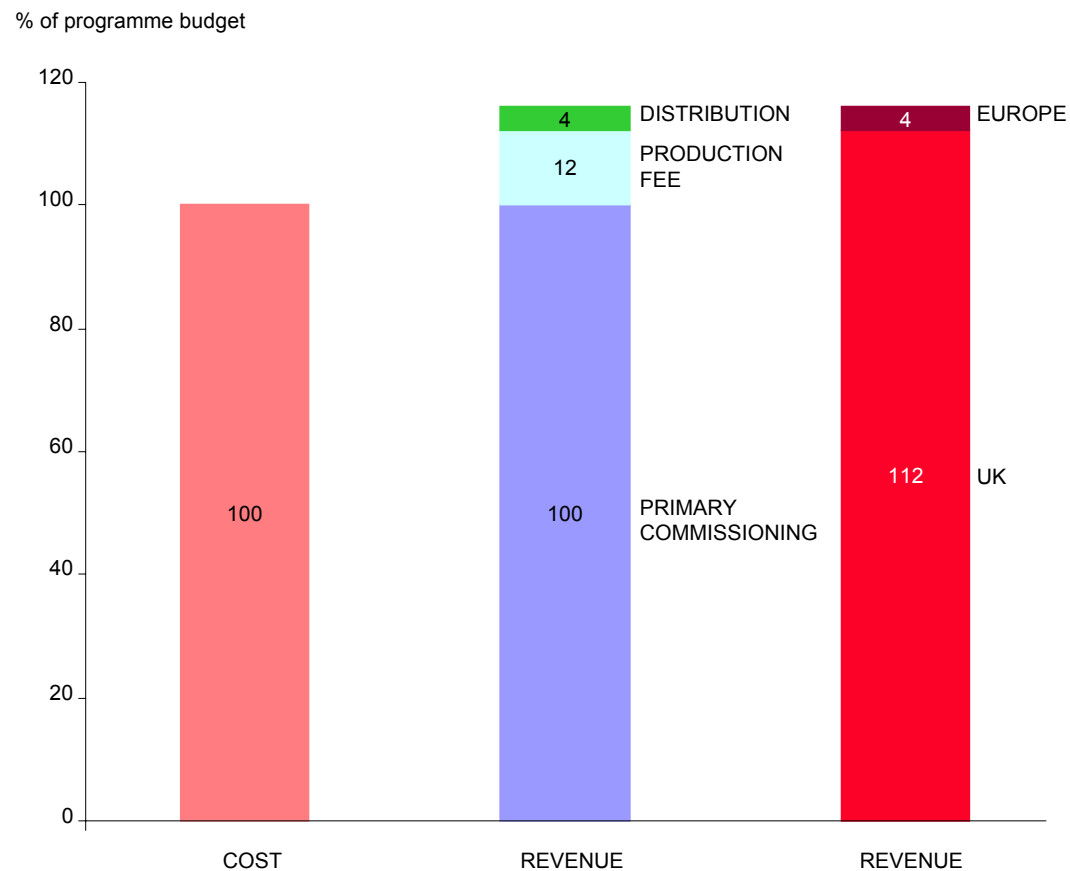
CASE STUDY – SOURCES OF REVENUE



CASE STUDY – UK drama

...live action is typically fully funded by the commissioning broadcaster...

CASE STUDY: UK LIVE ACTION DRAMA



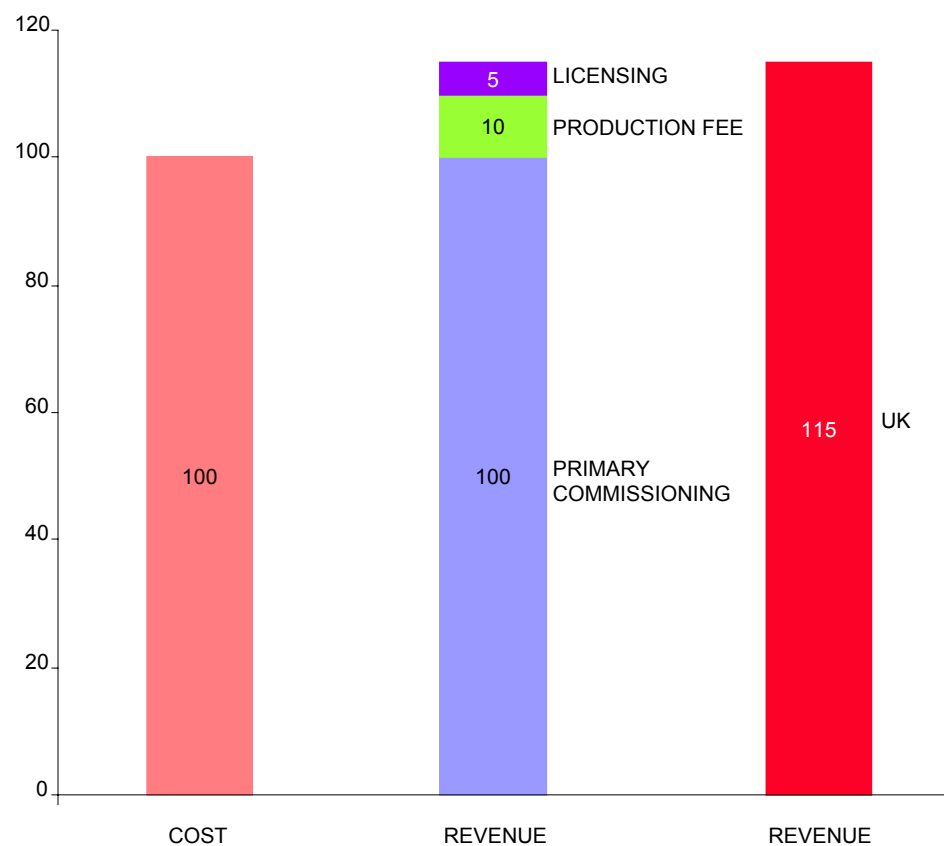
- Drama typically has:
 - Very little international sales potential (co-pro/pre sales or programme sales)
 - Very little consumer products/HE revenue
- In this case the series was only commissioned in two short runs, limiting further the potential for international sales (which typically require 26 episodes as a minimum)
- The commissioning element covers the production cost – the producer also received a production fee/contribution to overheads

CASE STUDY – live action factual

...live action factual has a similar funding structure - fully funded by the broadcaster...

CASE STUDY: UK LIVE ACTION FACTUAL

% of programme budget

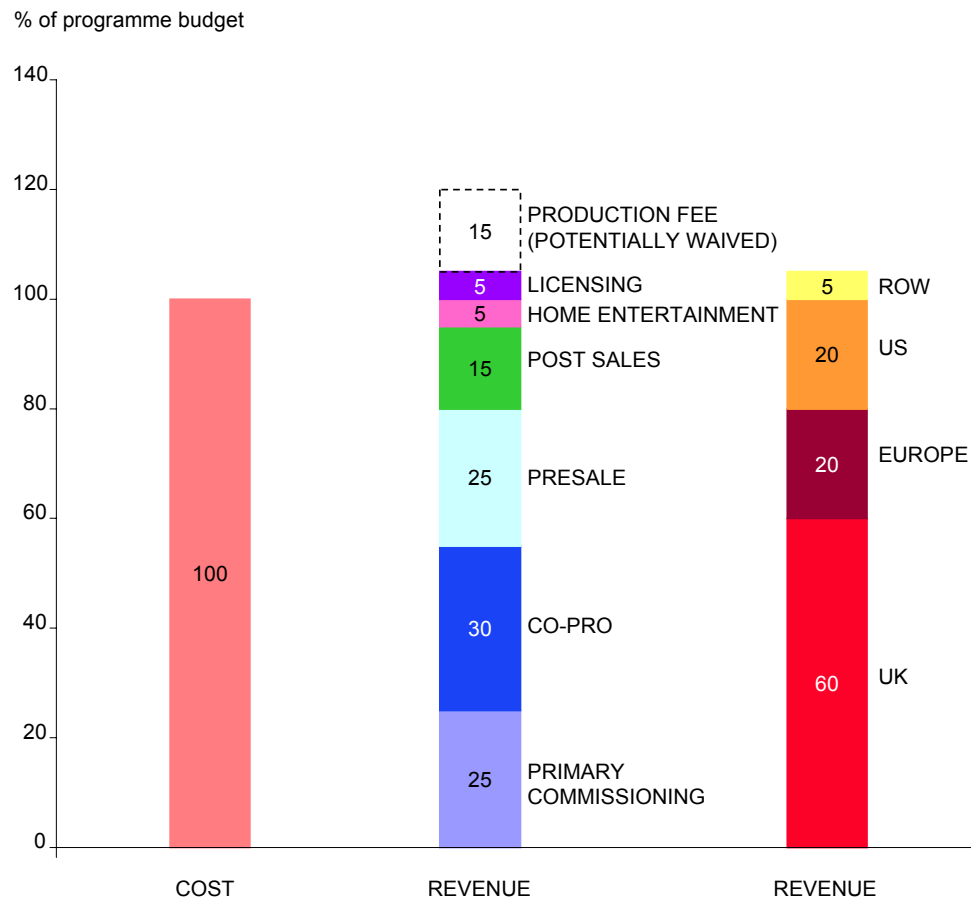


- Limited international markets for factual childrens programming means that this source of funding is unavailable and the primary commission has to fund the entire cost of production
- In this case there was an element of licensed merchandise which provided an additional revenue stream – this is typically not the case

CASE STUDY – UK animation

...animation has a far more complex financial structure...

CASE STUDY: UK ANIMATION



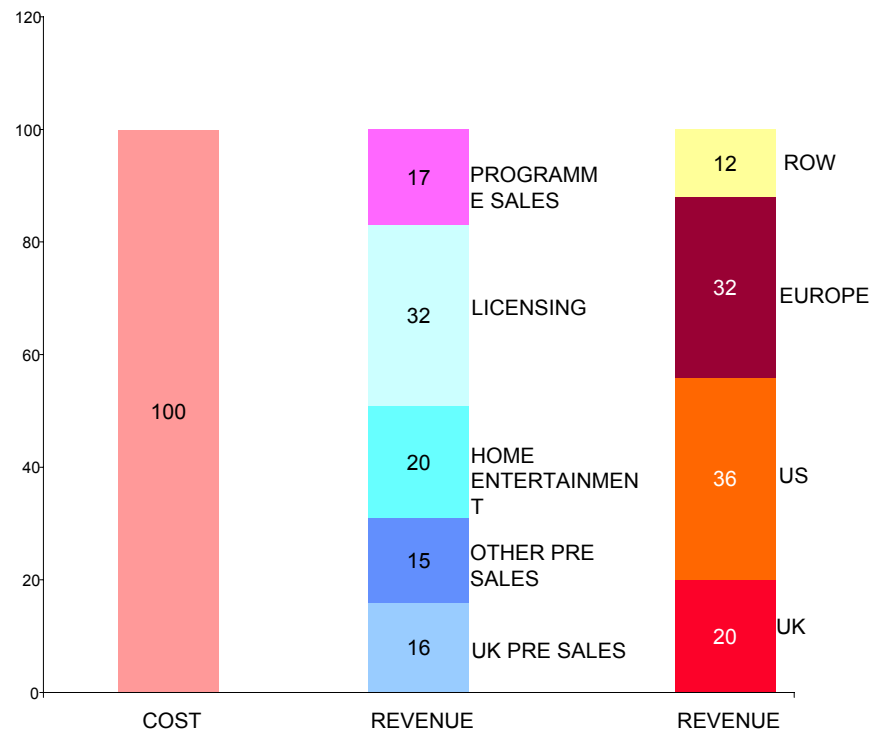
- UK broadcasters have an 'unwritten rule' that they will only fund 20-30% (typically 25%) of an animation or preschool property
- Producers then have to obtain the remaining revenue from a wide range of sources
 - International co-production partners
 - Pre sales
 - Sales of finished product
 - Home entertainment (including, hopefully, advances and guarantees)
 - Licensing of publishing and merchandising rights
- Often, the need to get the programme into production forces the producer to waive or defer the production fee in the hope of recouping this on a successful series

CASE STUDY – UK preschool

...pre-school has a similarly complex structure, but licensing and home entertainment deals contribute a bigger share of revenue...

CASE STUDY: UK PRE SCHOOL

% of programme budget



- The Pre school funding model has a complex structure, with producers having to build up revenue from many sources
- In this case primary commissioning was replaced by pre sales – allowing the producer to retain all rights
- Home entertainment and licensing contributed a substantial part of the revenue mix – and a large proportion was in the form of an advance, which helped secure production (note that the market has changed in recent years and such advances are now very rare, and possibly non-existent)
- While produced in the UK, the property only generated 20% of revenue from its home territory – a global network of customers supply the majority

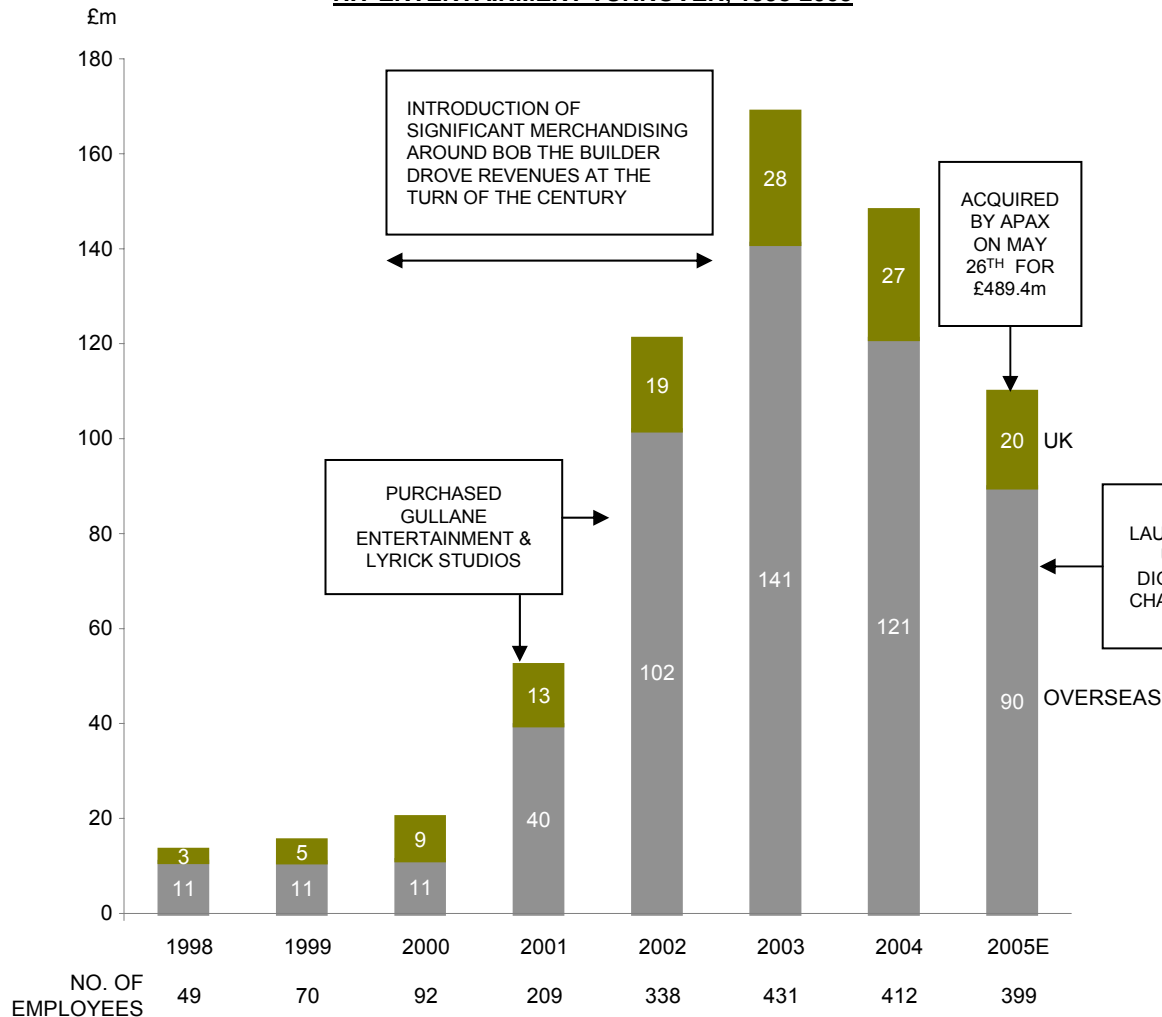
THE UK CHILDREN'S MARKET – terms of trade

- Terms of trade for children's programming are based on the standard PACT terms with each broadcaster (this varies slightly between broadcaster). Children's terms of trade differ in two main areas:
 - Hold backs are much longer: typically five years rather than six months of broadcaster exclusivity
 - Increased repeats: live action typically allows for five repeats; preschool and animation unlimited repeats
- The terms of trade are currently being renegotiated, but children's will not be materially altered – no specific children's discussions have taken place
- Terms of trade vary between broadcasters, but only in line with the overall terms of trade –there are no special opt out for children's programming.
 - The main difference between broadcasters is in the length of any new media 'catch-up' window – 7 days for the BBC, 30 days for Channel 4

PRODUCER PROFILE – HiT Entertainment

...HiT was established in 1989 and has since grown steadily to become a global force in the production, distribution and licensing of children's programming...growth has been driven by the acquisitions of Gullane Entertainment (the owner of rights to Thomas the Tank Engine and Fireman Sam) and the Lyrick Corporation (owners of the rights to Barney)...

HIT ENTERTAINMENT TURNOVER, 1998-2005



Source: Amadeus, press, companies, O&O analysis

PROFILE

- Lines of business span TV and video production (studios in the UK and US), publishing, consumer products licensing, HE and live events
- Operations in UK, US, Japan and Canada
- Starting to establish a significant US presence following launch of a 24 hour kid's digital channel and VoD service in the US in 2005. Channel is a joint venture with Comcast, PSB and Sesame Workshop
- Only around 18% of Hit's revenue is from the UK

KEY PROPERTIES

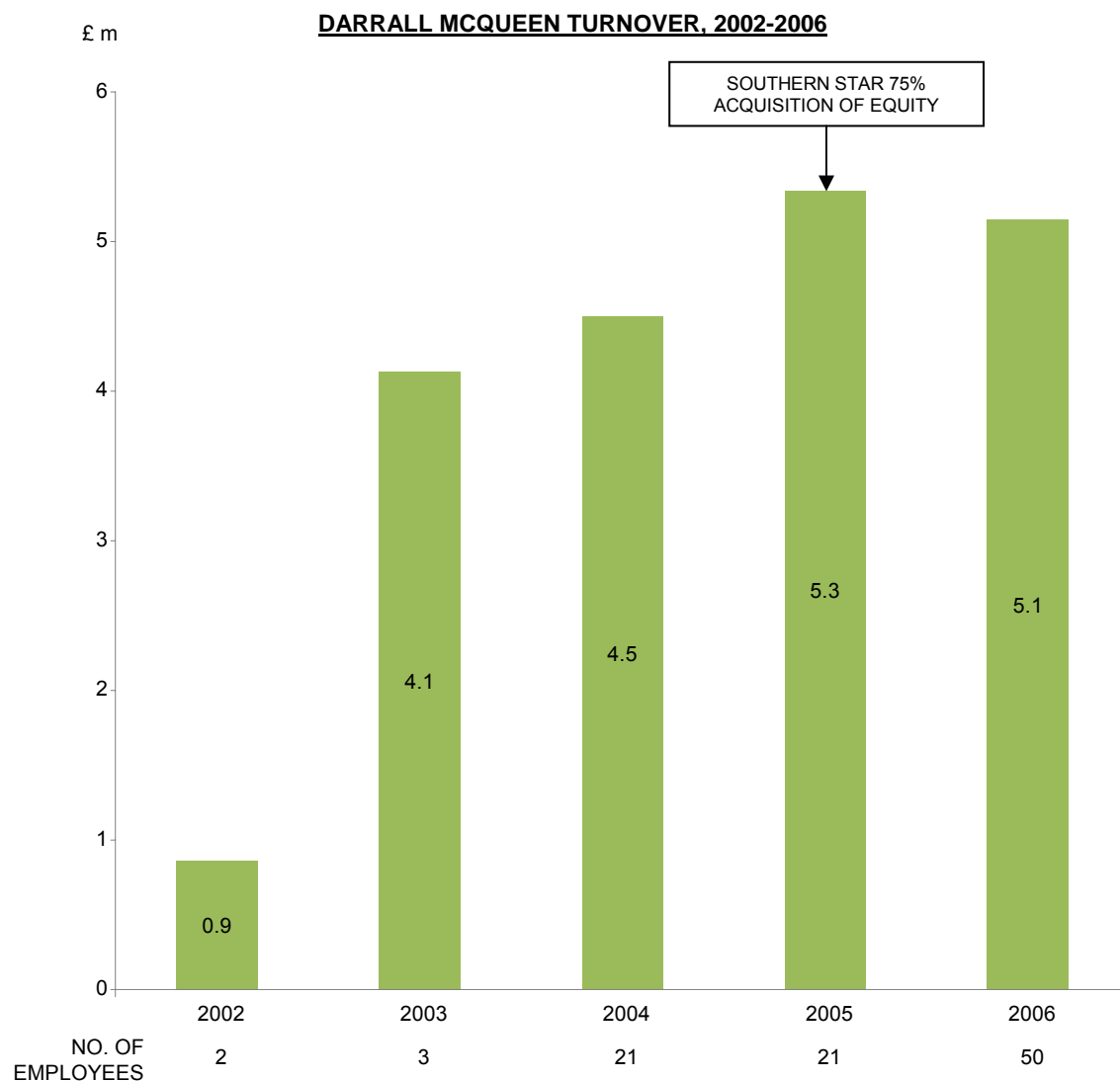
- Catalogue of >1,000 hours of children's programming
- Sells programming to over 120 countries worldwide
- Key titles:
 - Bob The Builder
 - Thomas and Friends
 - Barney and Friends
 - The Wiggles

STRATEGY

- Follows a 'big brand' programming model
- Relies on very little commissioning from broadcasters
- Made >£35m from toys, games and other licensed products in 6 month period ending January 2005, approximately 70% of total revenue

PRODUCER PROFILE – Darrall Macqueen

...in contrast Darrall Macqueen relies almost entirely on broadcaster commissions (specifically from the BBC) and no reported overseas revenue...



PROFILE

- 2nd largest specialist supplier of original children's programming in the UK
- Southern Star Entertainment UK (part of Australia's largest independent television production and distribution group) acquired a 75% equity in 2005
- Two founding members, Mandy Darrall and Billy Macqueen remained directors and retain a 25% joint interest

KEY PROPERTIES

- 129 hours of television in 2006
- BBC
 - Smile
 - U Get Me
- ITV
 - Feel the Fear
 - Play the Game

STRATEGY

- Specialises in interactive programming that integrates across TV, web and mobile
- Merchandising revenue is small currently however, as multiplatform programming increases brand awareness, Darrall Macqueen may be able to realise higher secondary revenues
- Target to expand into other genres and markets following Southern Star acquisition

PRODUCER PROFILE – Joella Productions

...following a similar business model to HiT Entertainment, the recently established Joella Productions is relying on significant merchandising revenues to fund Underground Ernie...



Total expenditure on show reportedly £4m

PROFIL E

- Formed by John Deery and Sid Rainey to develop and produce children's animation with an educational element built into storylines

KEY PROPERTIES

- Educative pre-school CG1 animation

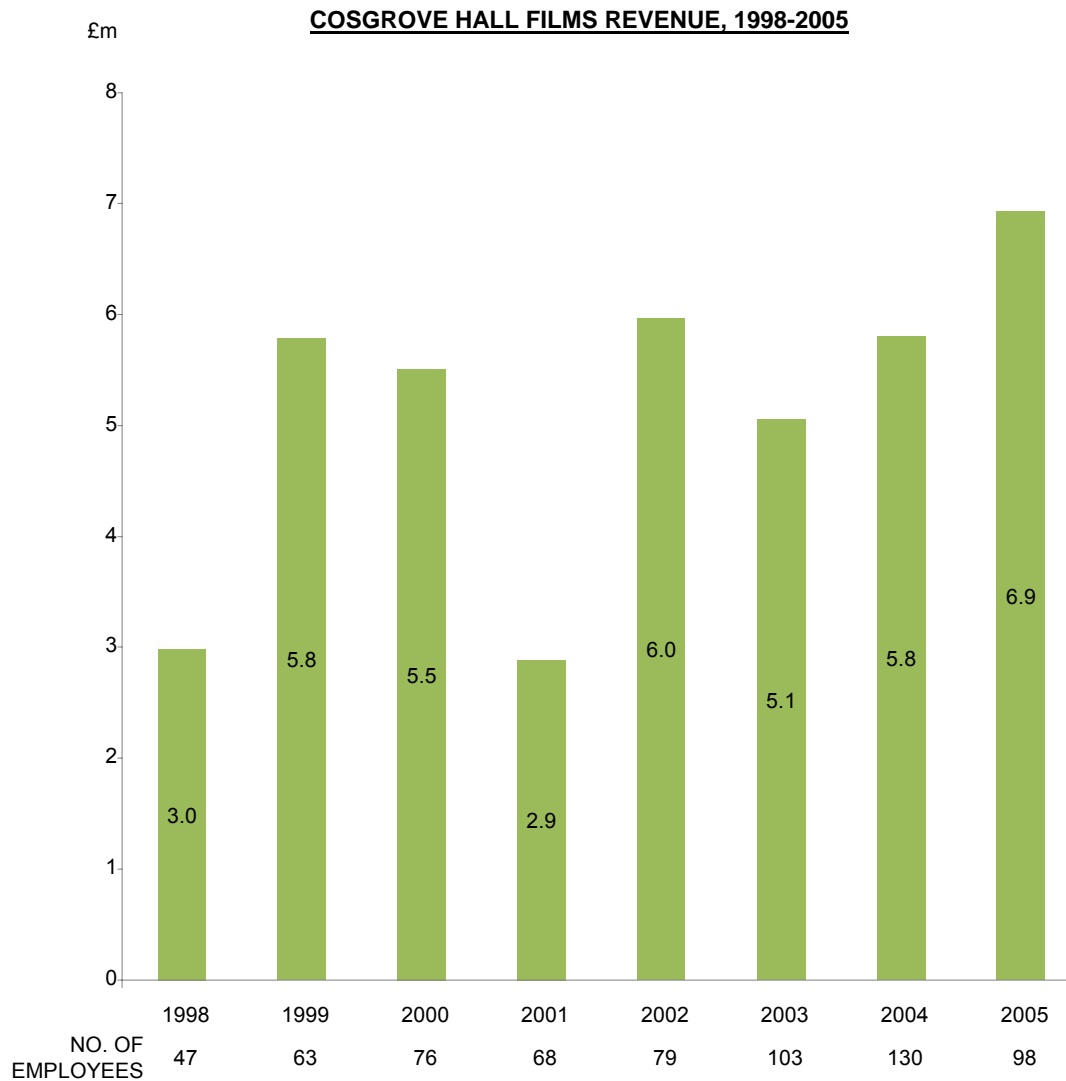
— Underground Ernie

STRATEG Y

- Intention to finance majority of production with merchandising
- Partnerships with brand manager DKPM and Halsall International for licensing and merchandising
- In the early stages of expanding its core business to develop drama projects as well as high-concept entertainment and comedy shows for television

PRODUCER PROFILE – Cosgrove Hall Films

...unlike HiT and Joella, Cosgrove produce animation that is less easily exploited for merchandise and therefore they tend to rely on broadcaster commissions...



PROFIL E

- Launched in 1976, has developed into one of Europe's leading animation houses
- Strong relationship with the BBC
 - Created first animated web cast

KEY PROPERTIES

- Animated children's TV classics
 - Dangermouse
 - Wind in the Willows
 - Roald Dahl's BFG
 - Count Duckula

STRATEG Y

- Moving back to animating their own intellectual properties following internal restructuring
- Potential to generate more secondary revenue from their key properties and new productions
- Starting to produce programming for all platforms

PRODUCER PROFILE – Ragdoll Productions

...launched in 1984 by Anne Wood, Ragdoll came to prominence through the internationally successful pre-school show, Teletubbies and has developed a significant merchandising and licensing business around its big brands...



PROFIL

E

- Reputation for producing innovative, high quality and educational children's programmes from Pob, to the Teletubbies, to their most recent production In The Night Garden
- Programming on US, PBS networks from 1995
- Opened Ragdoll office in New York in 2002
- Now has deals with broadcasters TLC and Discovery Kids

KEY

PROPERTIES

- Teletubbies (1997): sold in 120 countries and translated into 41 languages
- Brum (1988): has now reached 41 countries and profile countries to rise
- Rosie and Jim (1990): first children's TV characters to sell >1m videos
- Boohbah (2003): shown in over 20 countries worldwide
- In the Night Garden (2007): 100 half hour programmes shot in high definition in a real woodland setting . Is reported to have cost in excess of £15m

STRATEG

Y

- Has realised significant merchandising revenues globally around its properties
- Looking to re-open a Ragdoll shop stocking a catalogue of programme related merchandise to complement e-shop
- To ensure financial stability have always endeavoured to have at least two series in production at the same time
- Continues to build on its major brands internationally

Note: No financials are available

Source: Companies

PRODUCER PROFILE – BBC (in house)

...the BBC is the largest producer of...



PROFIL

E

- Produced 550 hours of children's content last year
- Production centres in London, Glasgow (and through NHU, Bristol)
- C.400 employees (inc some head office)

KEY

PROPERTIES

- Key Genres: Drama, Entertainment, Factual, News, Some Animation and pre-school
- Blue Peter
- News round
- Balamory
- Raven
- etc

STRATEG

Y

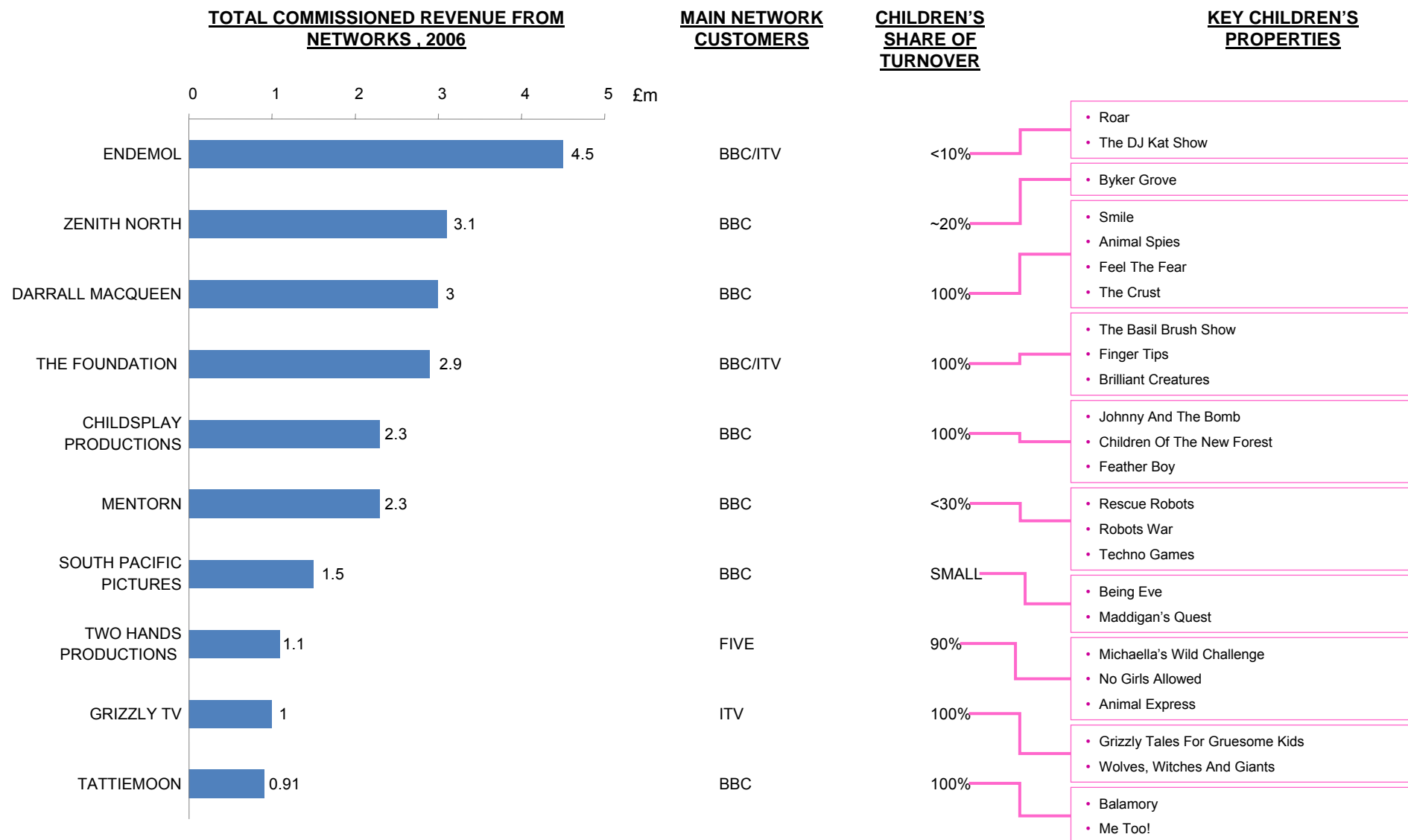
- With an additional 25% of commissioning now competitive under WoCc, strategy is to increase market focus and cost efficiency of in house departments.

Note: No financials are available

Source: Companies

PRODUCER PROFILES – network commissioning

...of the top commissioned producers in 2006, the majority were children's specialists...



Source: OFCOM, Companies

PRODUCER PROFILES – specialist children’s producers

...children's specialists employ a range of funding models, from the almost fully merchandised funded Chapman Entertainment to Tattiemoon who rely on commissions to fund their production...

COMPANY	LAUNCH DATE	TURNOVER (£m)	HISTORY	KEY PROPERTIES	COMMENT/OTHER ACTIVITIES
THE FOUNTAIN	1994	4.0	<ul style="list-style-type: none"> Expert producer of children's programming and family entertainment. Acquired by RDF in August 2006 	<ul style="list-style-type: none"> Ministry of Mayhem, The Basil Brush Show, Finders Keepers, Eureka TV 	<p>Acquisition extended RDF's content capacity into children's programming</p> <p>No reports yet mapping out how Foundation will develop as part of RDF</p> <p>Significant merchandising potential - relationship with Entertainment Rights for Basil Brush</p>
COLLINGWOOD O'HARE	1998	-	<ul style="list-style-type: none"> Earned an international reputation for high quality animated series, specials and TV features 	<ul style="list-style-type: none"> The Magic Key, Oscar's Orchestra, Animal Stories, Eddy & The Bear, Dennis & Gnasher 	<p>Have produced a number of award winning series for children</p> <p>Merchandising activity is limited to books centred around their key properties</p>
CHAPMAN ENTERTAINMENT	2001	-	<ul style="list-style-type: none"> Company was created to exploit the IP rights of Chapman and interested 3rd parties 	<ul style="list-style-type: none"> Fifi and The Flowertots, Roary the Racing Car 	<p>Focused on merchandising as a way to fund their programming</p> <p>- Estimates that it had to generate approximately £1.5m in merchandise to fund 10 minutes of Fifi and The Flowertots</p>
SPELLBOUND ENTERTAINMENT*	2001	-	<ul style="list-style-type: none"> Privately owned independent production and IP management company based in central London. Has quickly developed relationships with international distributors and broadcasters 	<ul style="list-style-type: none"> The Koala Brothers 	<p>Koala Brothers was commissioned by CBBC and has since been sold to the Disney channel in the US, Super RTL (Germany) and ABC (Australia)</p> <p>Has strategic partnerships with licensing agents in the Nordic region, Germany, UK, US and Australia</p> <p>High potential merchandising revenue from show</p>
NOVEL ENTERTAINMENT	2001	2.8	<ul style="list-style-type: none"> Initially a number of Novel's commissions came from the BBC however have developed relationships with other broadcasters 	<ul style="list-style-type: none"> Fimbles, Horrid Henry, Ping and Pong 	<p>Horrid Henry has grown into quite a brand name while Fimbles and Roly Mo have high potential to realise merchandising revenues and other ancillary revenues through stage shows etc.</p> <p>Novel will continue to develop children's characters with potential for high ancillary revenues as they rely less on broadcaster commissions</p>
GRIZZLY TV	2004	-	<ul style="list-style-type: none"> A recent joint venture between UK based cartoon houses Honeycomb Animation and Elephant Productions 	<ul style="list-style-type: none"> 'Grizzly Tales for Gruesome Kids', 'Wolves, Witches and Giants', 'the Crystal Eye' 	<p>Grizzly TV has been concentrated on the UK market producing mainly 11 minute and 22 minute animation for children</p> <p>Currently looking for opportunities abroad</p>
TATTIEMOON	2005	-	<ul style="list-style-type: none"> One of Scotland's newest independent production companies. Focussed on pre-school television programmes 	<ul style="list-style-type: none"> Balamory, Me Too! 	<p>Producing a further series and a radio series of Me Too!</p> <p>Some pre-school merchandising around both its main programmes</p>
MILLIMAGES*		34.6	<ul style="list-style-type: none"> French producer of animation and feature films with UK distribution arm, Millimages UK 	<ul style="list-style-type: none"> The Way Things Work, Pigeon Boy, Jasper The Penguin, Lola & Virginia 	<p>Is a video publisher and manages the exploitation of ancillary and licensed rights derived from its properties.</p> <p>UK arm also represents a number of third parties in the UK</p>
CHILDSPLAY*TELEVISION/PRODUCTIONS*		-	<ul style="list-style-type: none"> Close relationship with the BBC kid's department that has developed over time 	<ul style="list-style-type: none"> Feather Boy, Stig In The Dump, Johnny The Bomb 	<p>High level of promotion around Johnny The Bomb home entertainment and merchandise</p>

PRODUCER PROFILES – other non-specialist children’s producers

...the larger producers commitment to children’s programming varies significantly from Endemol & Kudos whose main competencies are adult formats and drama respectively, to Zenith and Two Hands who have a number of children’s drama and live action properties...

COMPANY	LAUNCH DATE	TURNOVER (£m)*	HISTORY	KEY PROPERTIES	COMMENT/OTHER ACTIVITIES
MENTORN	1985	-	<ul style="list-style-type: none"> Award winning drama, current affairs, factual and entertainment programming from its studios in London, Oxford and Glasgow 	<ul style="list-style-type: none"> Rescue Robots, Robots War, Techno Games 	<p>Has produced a number of critically acclaimed adult dramas and factual programmes with significant overseas success</p> <p>Yet to invest large sums in children’s programming</p> <p>Has presence in US market through titles such as Challenge America and America’s Worst Driver</p>
SOUTH PACIFIC PICTURES	1987	-	<ul style="list-style-type: none"> New Zealand based company which produces drama series, mini-series, telemovies and feature films for the domestic market and international market 	<ul style="list-style-type: none"> Being Eve, Maddigan’s Quest 	<p>Owned by CEO John Daniel Barnett and All3Media</p> <p>Strong focus on feature films and produced the internationally acclaimed Whale Rider</p> <p>Involved in a number of joint ventures with a number of international producers</p> <p>Children’s programming is a minor part of their business</p>
TIGER ASPECT	1988	46.5	<ul style="list-style-type: none"> Merged with Aspect Film & TV in '93. Has since moved into Film production 	<ul style="list-style-type: none"> Mr Bean, Bosom Pals, Star and Charlie & Lola 	<p>Develops and reversion programmes/formats for international broadcasters and producers in US, Australia and Europe</p> <p>Childrens is not its focus although had recent success on Cbeebies with Charlie and Lola</p> <p>Merchandising Activity is limited to DVDs mainly and some kids around Charlie and Lola</p>
KUDOS PRODUCTIONS	1992	-	<ul style="list-style-type: none"> Known for adult programming that tackles edgy subject matter 	<ul style="list-style-type: none"> M.I. High - children’s spin off of Spooks 	<p>Only recently moved into childrens and no evidence of plans to produce any other children’s drama</p>
ENDEMOL	1994	1,311	<ul style="list-style-type: none"> Based in Netherlands. Renowned for its formatted programming such as Big Brother and Deal or No Deal 	<ul style="list-style-type: none"> Roar, The DJ Kat Show, Bel’s Boys 	<p>Telefonica announced in March it would sell 75% of Endemol</p> <p>No commentary on its interest in childrens</p>
TALENT TV	1996	5.42	<ul style="list-style-type: none"> Concentrates mainly on interactive TV such as Test the Nation and Viewer of the Year however has had some recent success in childrens 	<ul style="list-style-type: none"> Best of Friends, Skatoony 	<p>Carried out a strategic review in 2006 and is focussing more closely on its more profitable activities and reducing its costs</p> <p>Looking to the US and areas of new media to boost profitability</p>
FEEL GOOD FICTION	1996	-	<ul style="list-style-type: none"> Originally made a number of dramas for the BBC, many of which received BAFTA nominations. Now receives commissions from a number of broadcasters 	<ul style="list-style-type: none"> My Life as a Popat 	<p>Has only recently moved into TV through its children’s comedy drama, My Life as Popat which focuses on the upbringing of a 13-year old Indian boy living in Harrow</p>
TWO HANDS PRODUCTIONS	2001	-	<ul style="list-style-type: none"> Focussed on programming centred around wildlife and some urban documentaries 	<ul style="list-style-type: none"> Michaella’s Wild Challenge, No Girls Allowed, Animal Express 	<p>Variety of programming with children’s aimed mainly at the teen market</p>
ZENITH ENTERTAINMENT	-	17.5	<ul style="list-style-type: none"> Famed for the teen drama hit Byker Grove, Zenith recently ran into financial difficulties and has gone into administration 	<ul style="list-style-type: none"> Byker Grove, CD:UK, The Ghost Hunter, The Famous Five, King Arthur’s Disasters 	<p>Kids IP company, Coolabi has recently signed a deal to take on Zenith’s kids properties including all the drama created for the BBC</p> <p>King Arthur’s disaster has sold particularly well internationally</p> <p>Box TV has acquired a number of other drama properties</p> <p>Sold Blaze TV subsidiary to a US buyer</p> <p>Was forced into administration following a 'reduction in the general commissioning of programmes, specifically in the drama sector'</p>