

Oliver & Ohlbaum

Trends in TV Production

Ofcom, December 2015



O&O

1. Summary
2. What were the original aims of intervention?
3. The UK production market
4. How many companies are active in the market?
5. How easy is it to enter?
6. Production sector revenue and flow of funds
7. Production sector consolidation
8. Quotas
9. Regionality
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Summary – the questions asked

This pack aims to confirm (or dispel) many of the widely held beliefs about the UK television production sector. Among the questions it seeks to answer are:

- What is the intervention (regulation of the sector) meant to do?
- How has commissioning developed over time?
- How has the number of producers changed over time?
- Is it harder to get into the market?
- How do terms of trade work?
- How has the sector grown?
- What has consolidation looked like?
- How do quotas work?
- How does the sector operate regionally?

Summary – caveats

This report was produced for Ofcom by Oliver & Ohlbaum Associates Ltd (“O&O”).

The views expressed in this report are those of O&O and do not necessarily represent the views of Ofcom.

While care has been taken to represent numbers in this report as accurately as possible based on available sources there may be inaccuracies and they may not correspond with Ofcom’s view of the market and cannot be taken as officially representative of Ofcom data.

Summary - data sources used

- Oliver & Ohlbaum Producer Database, 2006-2015
 - BARB data supplied by Attentional and further coded by O&O to include production companies and their status as qualifying or no-qualifying producers, plus their respective turnover bands. The database includes the main PSB channels, but not portfolio channels
- Ofcom Broadcaster Returns, 1998-2014
- Broadcast Now Survey, 2009-2015
- Pact Census, Oliver & Ohlbaum Analysis, 2010-2015
 - Census carried out by O&O on the independent production sector, returns include company revenues.
- Broadcaster input
 - Data from PSBs on their spend and hours of output

Summary - definitions

For the purpose of this report we have segmented and categorised the UK production sector as follows:

**Focus of this report,
hereafter referred to as
UK production and UK
producers unless
specifically stated**

Qualifying independent

True independent producers

Future non-qualifying producer

Recently purchased independent producers that will become part of a broadcaster related group after the sample year (e.g. All3Media, Endemol, TwoFour all purchased in 2015)

Non-qualifying producer

Previously independent producers now part of a broadcaster related group (e.g. Shed and Shine)

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. For practical reasons, we do not take this lag effect into account but apply a non-qualifying status in the year of ownership change

In-house

Output produced by any of the PSBs for broadcast on their own network

External broadcaster

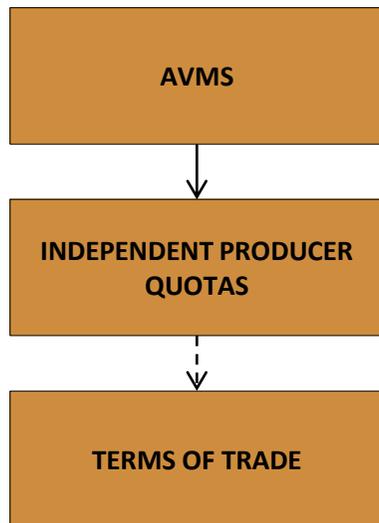
Output produced by a producer related to any of the PSBs or Sky for another broadcaster

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What were the original aims of intervention? – 3 areas of focus

The UK independent quota had 3 main areas of focus

INTERVENTIONS



- 50% European works
- 10% independent producer
- “Adequate” recent works

- Definition of qualifying producer (not owned by broadcasters)
- 25% of PSB output must be independent producers

- Agreed revenue split / rights retention for independent producers
- But agreed – not imposed

The stated aim of the UK independent production quota was threefold:

Promote cultural diversity and to open up the production system to new energies and voices

Stimulate the growth of small and medium-sized enterprises, promoting creativity and fostering new talent

Tackle combined forces of buyer concentration and vertical integration within the UK programme supply market

What were the original aims of intervention? – post hoc rationalisation

There have also been a number of post-hoc rationalisations for intervention

Creativity

Independent producer sector can be more creative – or at least provides more ideas to choose from

Diversity

The range available from the independent sector is much more than available in house, no matter how well intentioned

Efficiency

Without legacy costs and with an incentive to watch every piece of expenditure, the independent sector is more efficient

Industrial Policy

The UK has become the worlds second largest TV exporter, driven by the independent sector

Abuse of market power

Integrated producer – broadcasters favour their in house operations (even if more expensive / less creative)

“Let a thousand flowers bloom”

Most independents are start up businesses; most of the sector are SMEs

Sustaining PSB ecosystem

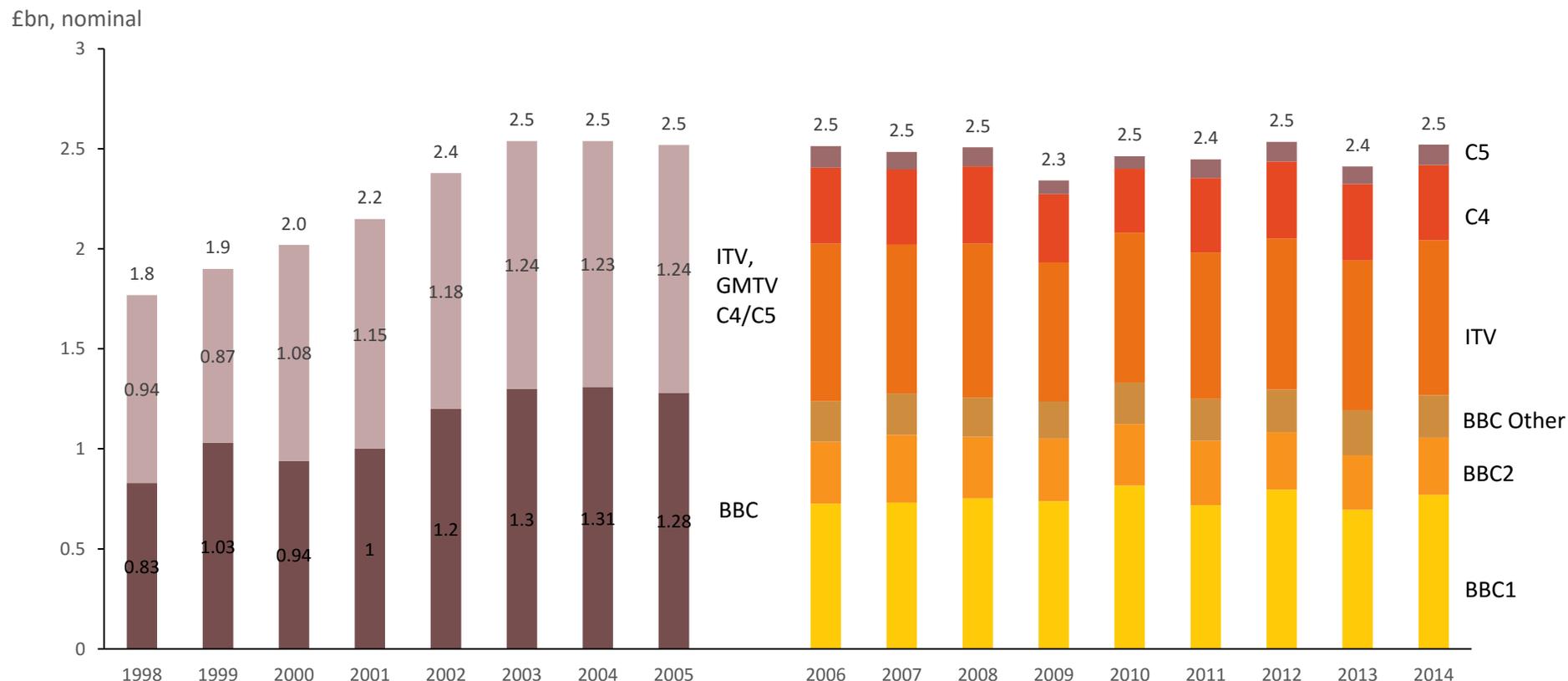
The UK ecology is a fragile one; independents have taken some of the funding burden from PSBs with deficits etc

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The UK production market - UK programme investment

There has been no growth in total UK commissioning spend for over a decade (and in real terms the market has contracted)

UK PSB first-run commissioning spend* by source, 1998 - 2014



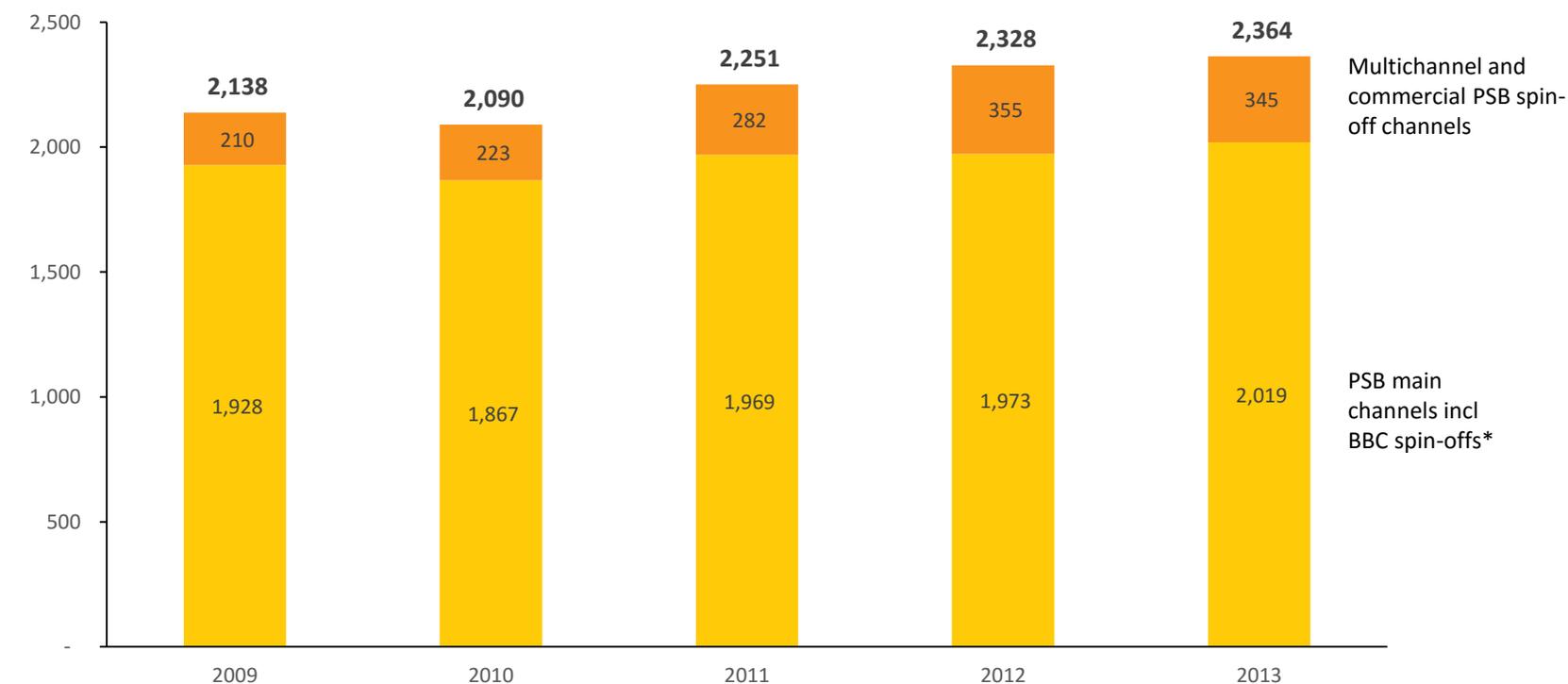
BBC Other contains BBC spin-offs (BBC Three, BBC Four, CBBC, CBeebies, News 24 and BBC Parliament)

The UK production market – PSB spend share of total UK market

Main area of growth has been from multichannel spend, although there are signs of multichannel spend slowing. PSBs still remain the main source of UK commissioning

PSB* first-run origination spend 2009-2013 (excluding sport)

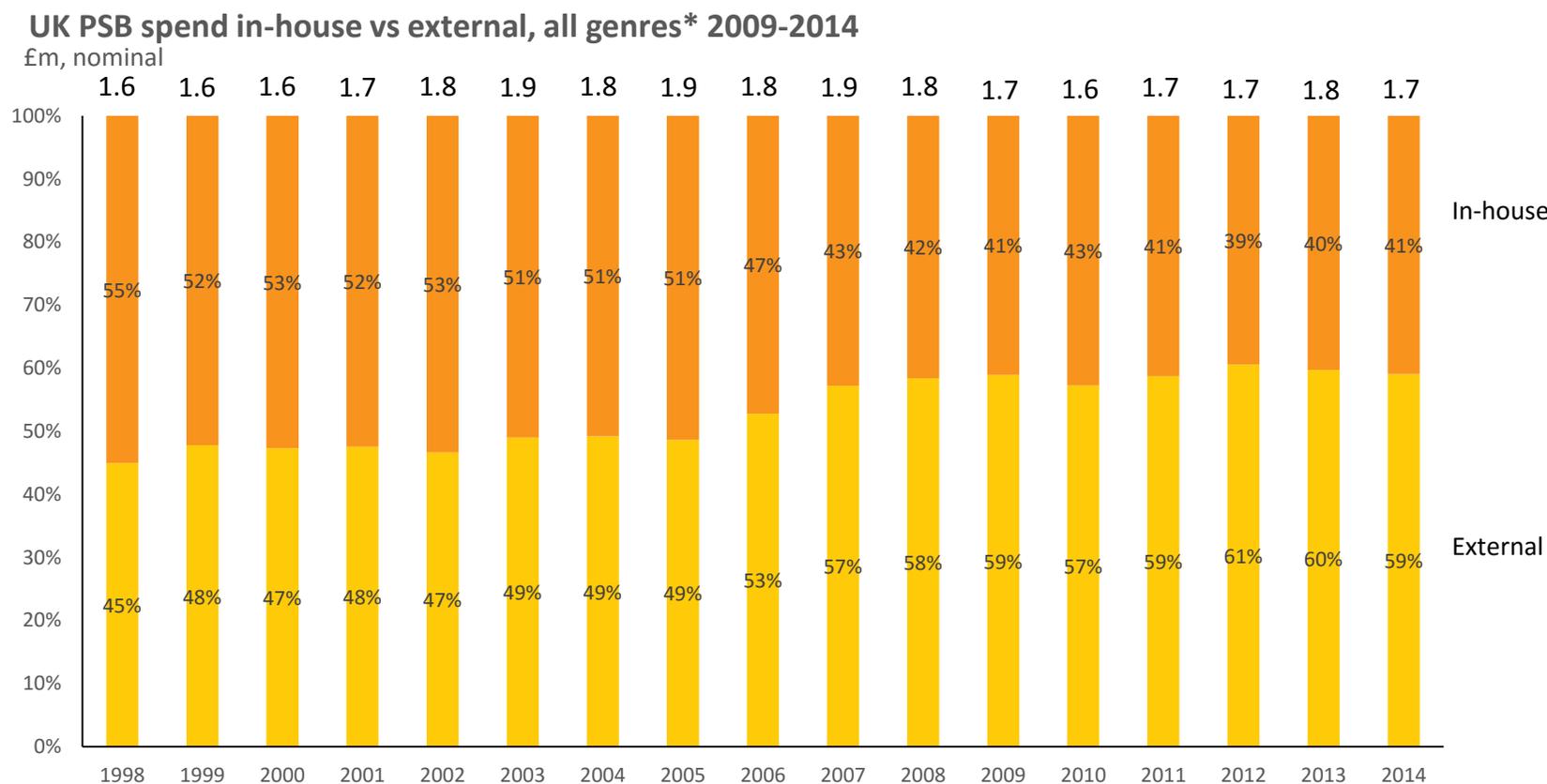
£m, nominal



*PSB networks and BBC spin-offs (BBC Three, BBC Four, CBBC, CBeebies, News 24 and BBC Parliament)

The UK production market – PSB commissioning spend by genre

Spend (excluding news, sport and feature films) has seen a shift away from in-house to external spend, although external spend has remained flat for the past decade



*Excluding sport, news and feature film. 'Genre' refers to the Ofcom Genre given in the Broadcaster Returns

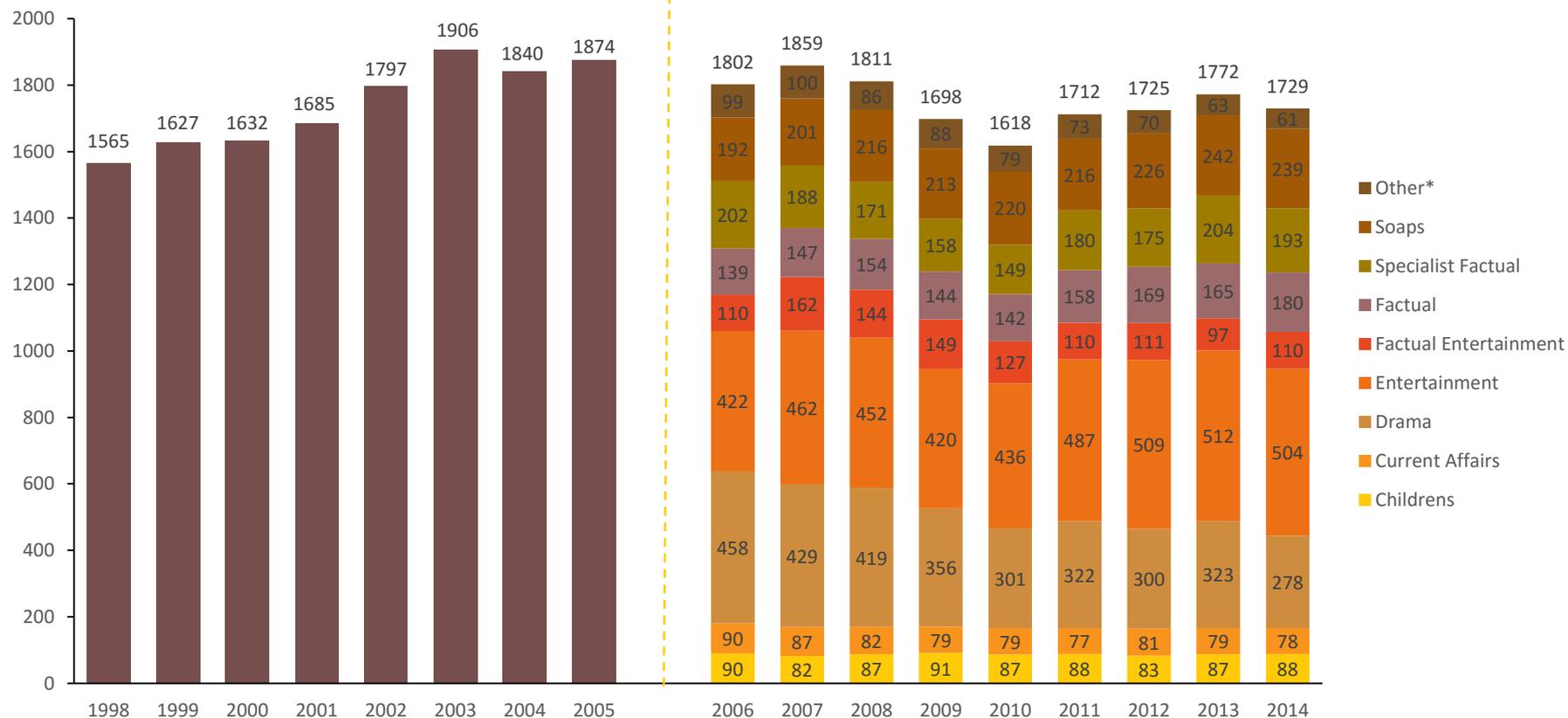
Source: Oliver & Ohlbaum analysis, Broadcaster Returns

The UK production market – PSB commissioning spend by genre

There has been a shift into entertainment, comedy and (specialist) factual at the expense of drama and factual entertainment since 2006

UK PSB spend on Ofcom genres excluding news, sport and feature films

£m, nominal

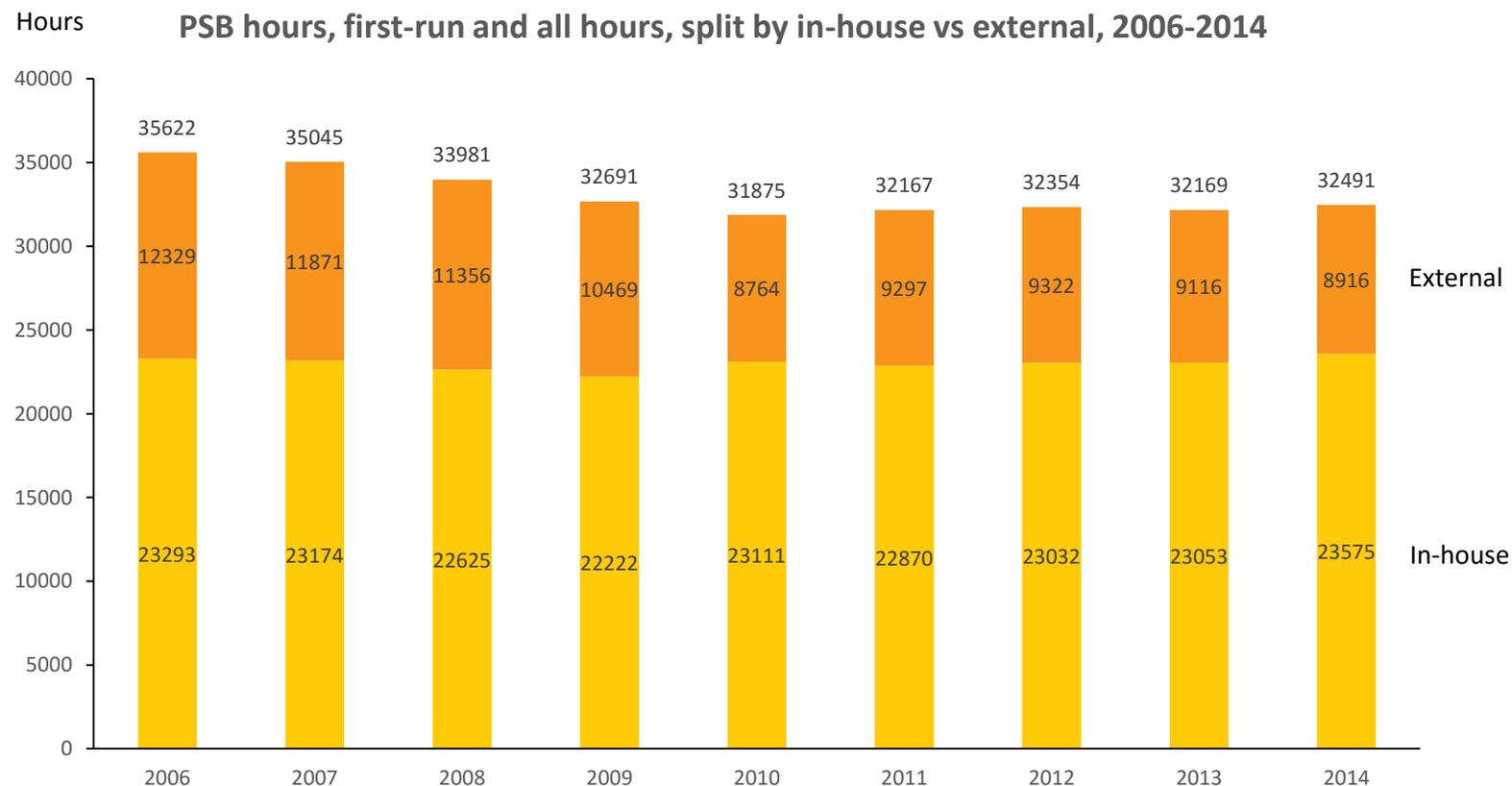


There are differences in the Broadcaster Returns reporting – for example, there is no Entertainment genre prior to 2006, likewise there is only one genre for Factual prior to 2006

*Other consists of Religion, Arts and Classical and Education after 2006
 Source: Oliver and Ohlbaum analysis, Broadcaster Returns

The UK production market – PSB commissioning hours

The split between in-house and external commissioning hours has remained largely stable.



Including sport, news and feature films

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How many companies are active in the market? – data sources

The number of production companies in the market varies according to source. ONS data does not provide sufficient granularity, and not all production companies are members of Pact

Number of television production companies by source, 2014

	ONS Annual Business Survey Data* (2013)	Pact Membership	O&O database
Group level*	N/A	411	259
Individual count**	6490	456	334
Details	ONS data groups production companies under the SIC Code 'Television programme production activity'. The data will also for example, include sole trader companies set up by individual freelancers in the industry	PACT numbers will include those companies that are active but may not have won a commission on the PSB channels. Not every active production company is a Pact member	O&O Database includes those producers who have won a commission on the PSB channels (excluding the BBC portfolio channels). It cannot account for companies who are economically active but have not won a commission between 2006 and 2014 (2007 data unavailable)

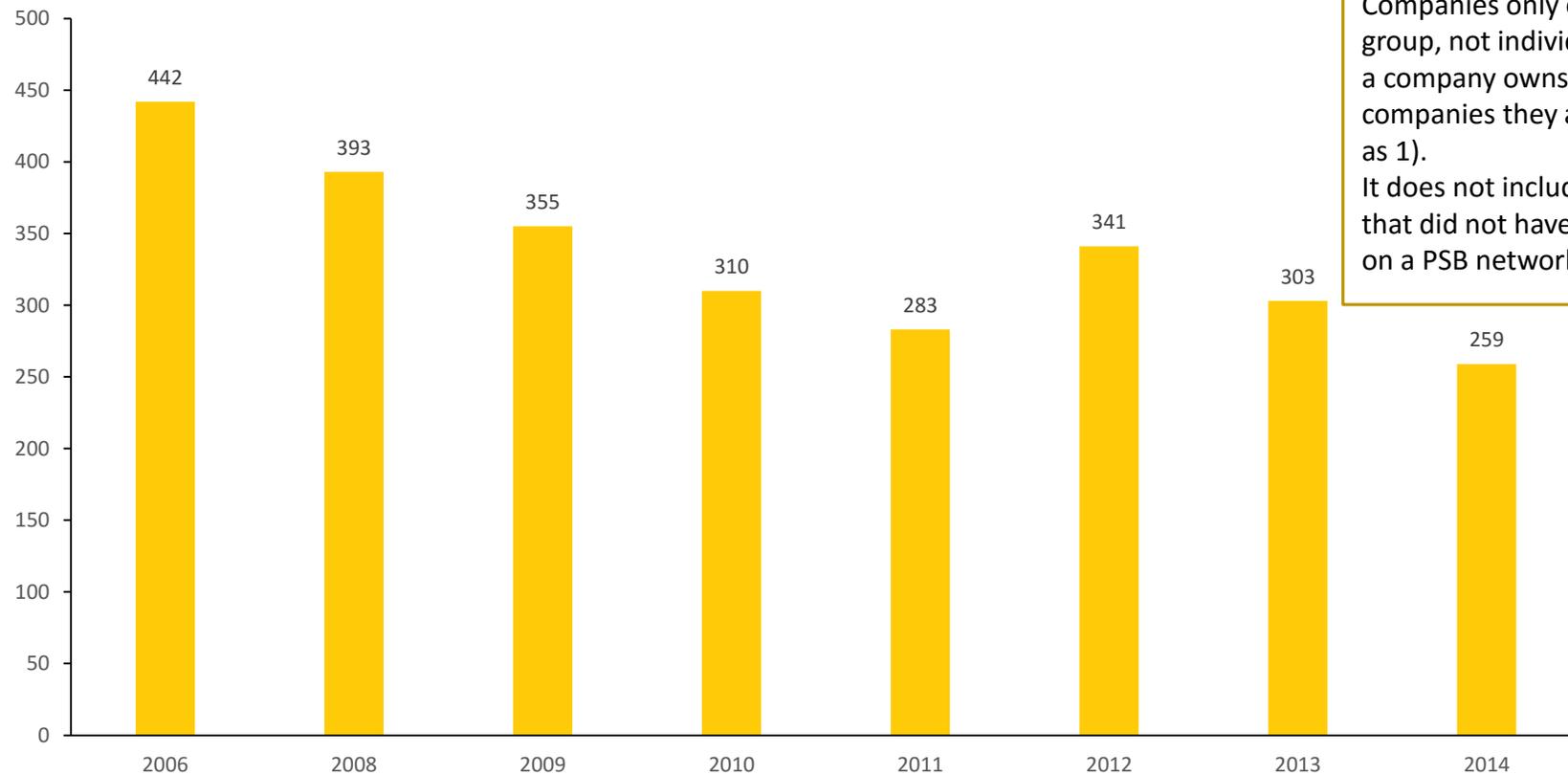
*Production companies consolidated within groups are only counted at group level

** Individual count, companies within groups are counted individually

How many companies are active in the market? – number of PSB producers

With consolidation in the external production market there are now fewer individual producers active in the market. There are likely more companies active that do not win commissions in any single year, but this number is harder to quantify

Number of active PSB producers* (excl portfolio channels) – 2006-2014, all genres



Companies only counted at group, not individual, level (i.e. if a company owns 1 or 5 companies they are only counted as 1).
It does not include companies that did not have a commission on a PSB network in the year

*Active refers to producers that had at least one commission on a PSB network in the year. Production companies consolidated within groups are only counted at group, not individual, level

How many companies are active in the market? – number of PSB producers

From 2012-2014, 581 companies had a commission on the PSB channels. O&O database is not able to distinguish between companies that are economically active, but have not won a commission.

c.50

Net impact of consolidation - number of producer brands falling within consolidated groups in 2006 was c.25, by 2014, the number of brands falling under consolidated group had risen to c.75. Excluding the impact of organic growth in new producer brands from within groups and acquired brands failing to have a programme on screen with a main PSB network in 2014 – the net impact of consolidation over the period is linked to c.50 producer brands*

581

Number of companies between 2012 and 2014 who won a commission on the PSB channels (excluding PSB spin-offs).

259

Number of active independent production companies in 2014 at group level.

334

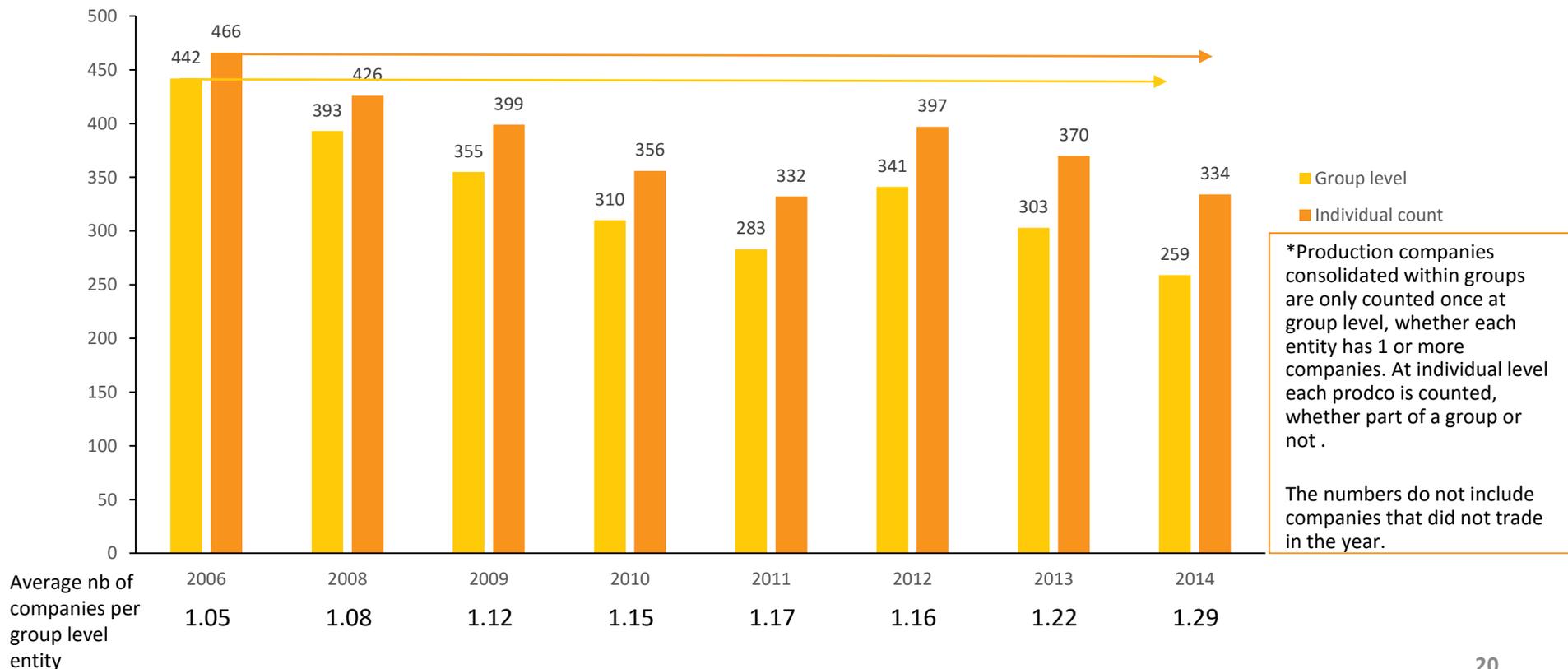
Number of active independent production companies in 2014 counted individually.

*Note here that this is not the same as 50 companies, as some of the acquisitions have been groups that own multiple brands

How many companies are active in the market? – number of PSB producers

The decline in number of producers is less significant when group consolidation is taken into account. It is not possible to say how much of the decline is down to fewer producers in the market, or PSBs choosing less suppliers

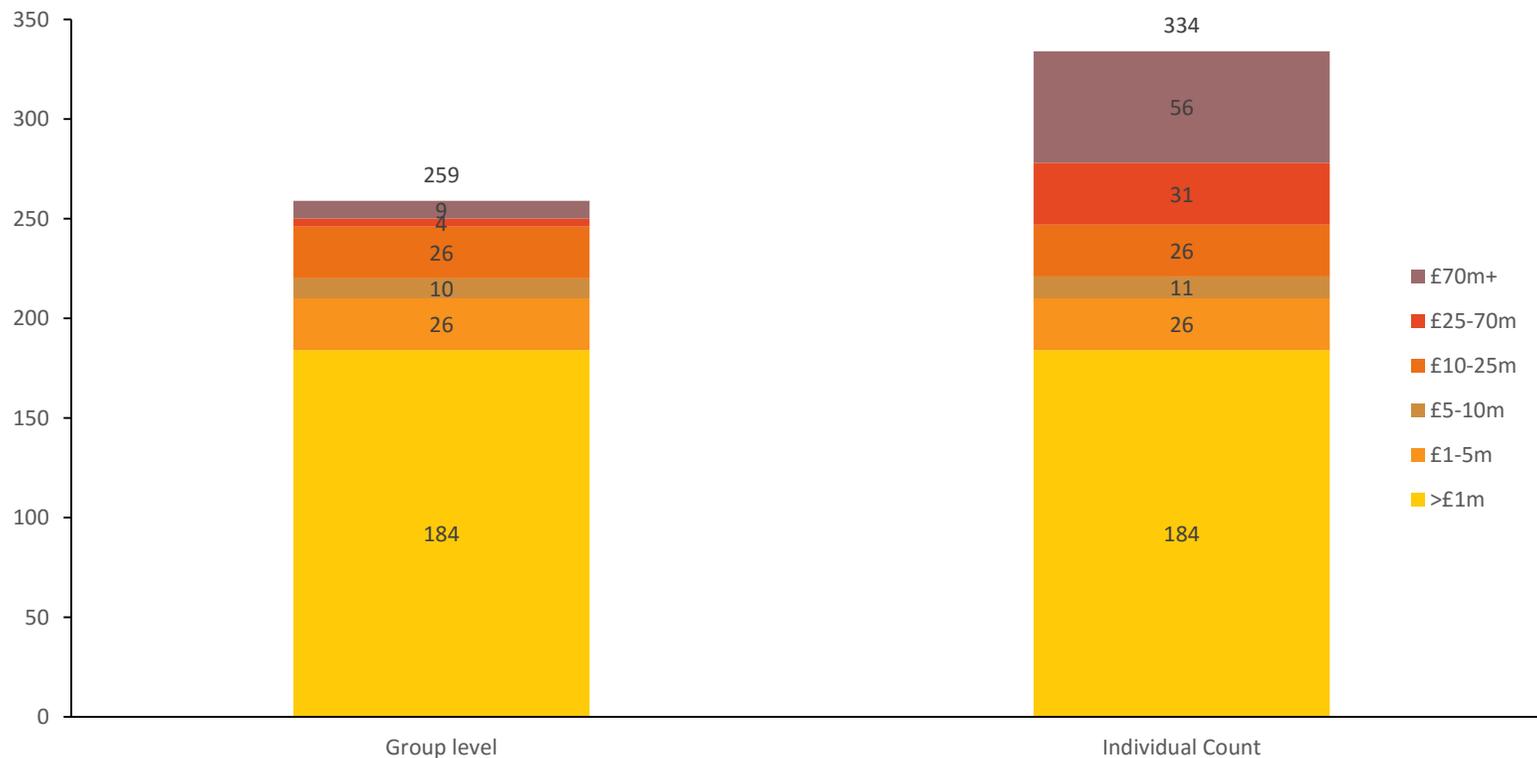
Number of active PSB producers* (excl portfolio channels) – 2006-2014, all genres, group level vs individual count



How many companies are active in the market? – number of PSB producers

The actual number of production companies active in 2014 is greater when consolidation at group level is disregarded. The greatest amount of consolidation is seen in companies with more than £25m in turnover

Number of producers*, all genres, both at group level and individual count, by turnover band, 2014

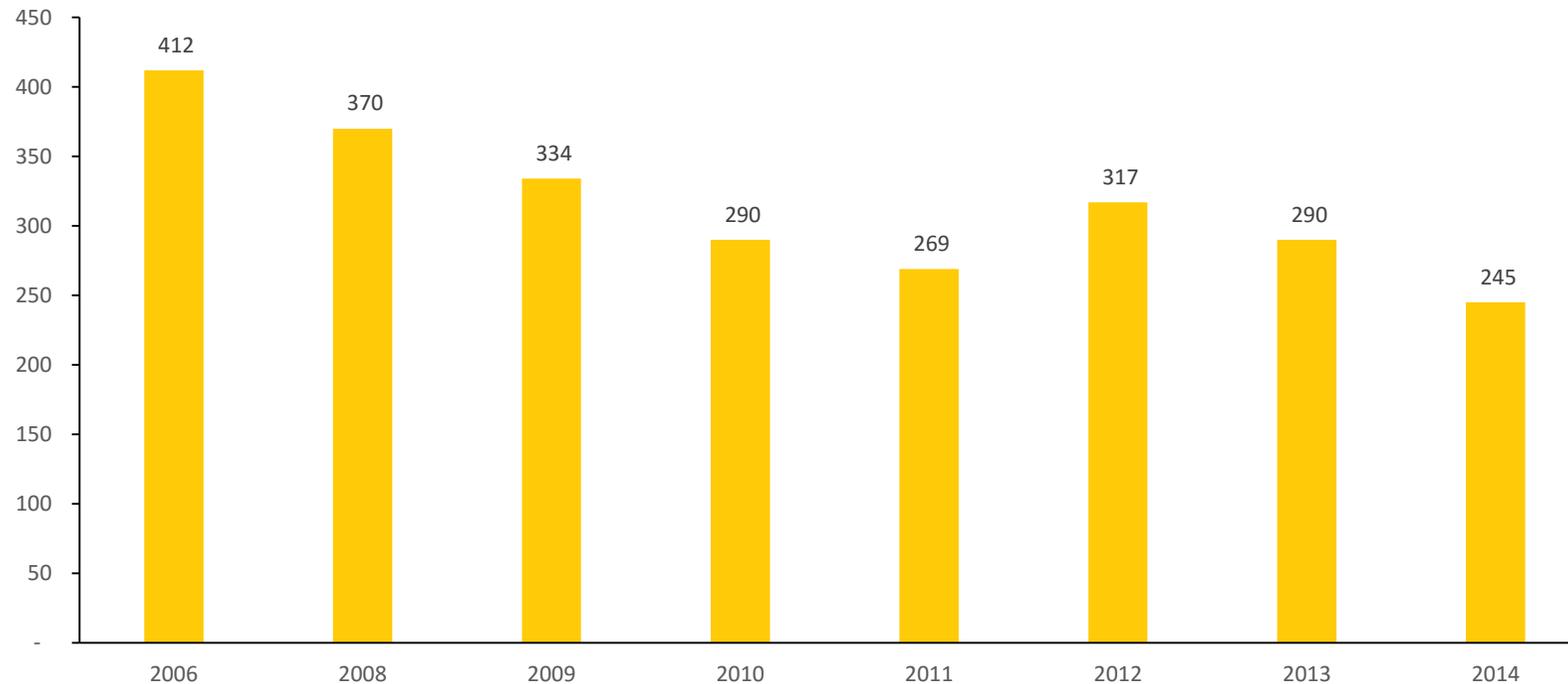


*Producers includes qualifying, non-qualifying and future non-qualifying external producers. Excludes in-house and PSB/Sky owned producers

How many companies are active in the market? – number of PSB producers

The picture is similar when disregarding news, sport, film and 'other' genres, where the majority of external producers are active

Number of active PSB producers* (excl portfolio channels) – 2006-2014, excluding news, sport, film and 'other' genres

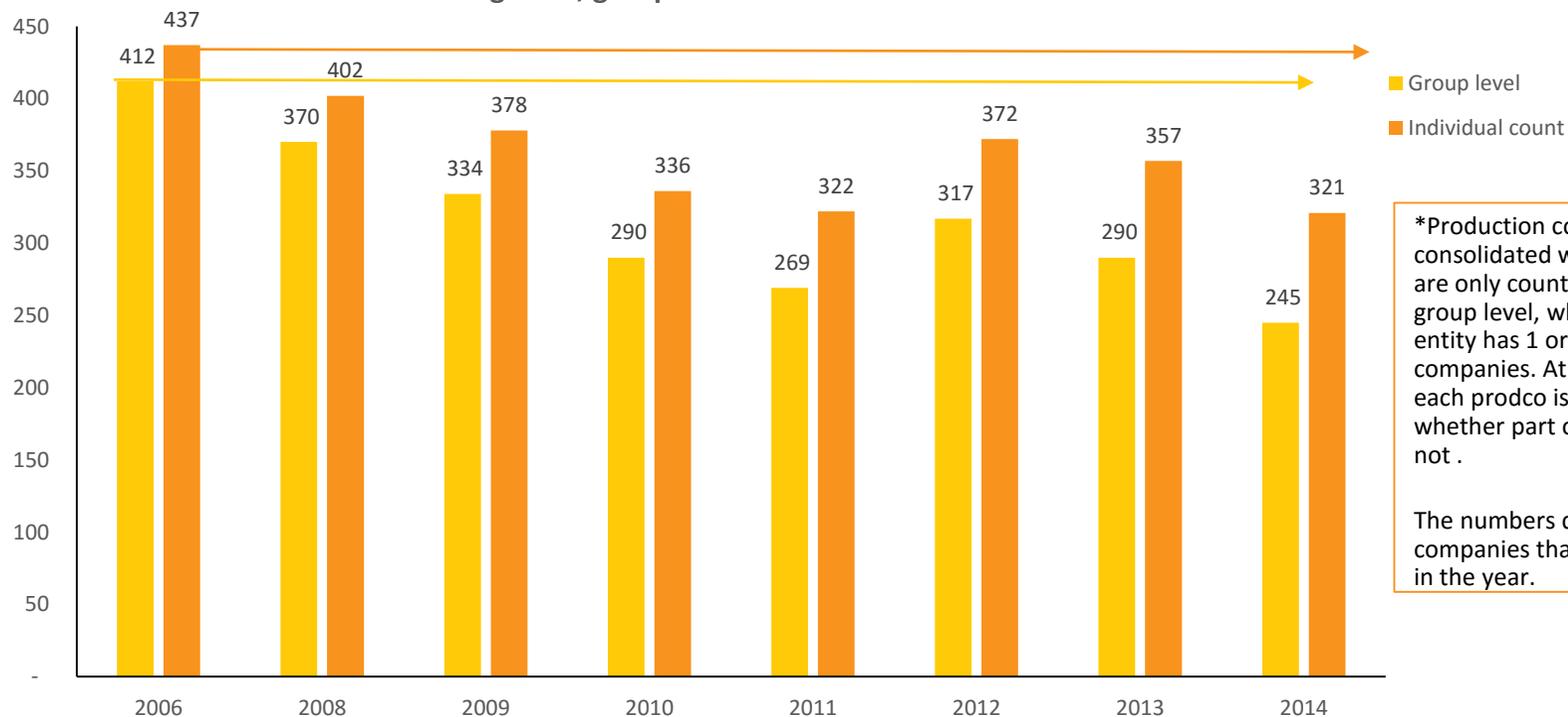


*Production companies consolidated within groups are only counted at group, not individual, level

How many active companies in the market – number of PSB producers

The decline in number of producers is also less significant when group consolidation is taken into account

Number of active PSB producers* (excl portfolio channels) – 2006-2014, excluding news, sport, film and 'other' genres, group level vs individual count



*Production companies consolidated within groups are only counted once at group level, whether each entity has 1 or more companies. At individual level each prodco is counted, whether part of a group or not.

The numbers do not include companies that did not trade in the year.

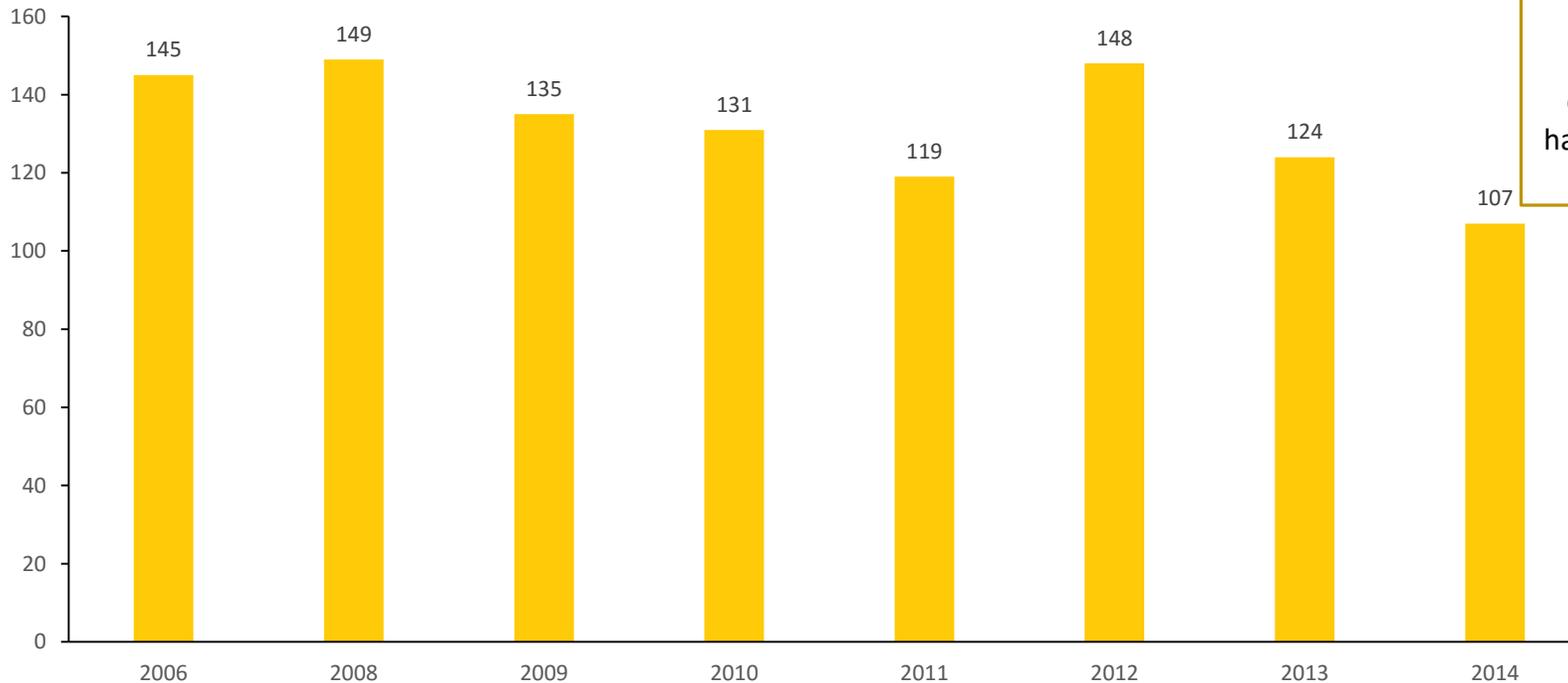
Average nb of companies per group level entity

1.06 1.09 1.13 1.16 1.20 1.17 1.23 1.31

How many companies are active in the market? – number of PSB producers - BBC

The number of production companies used by the BBC has declined from 145 to 107 since 2014

Number of active PSB producers* (excl portfolio channels) – 2006-2014, excluding news, sport, film and 'other' genres - BBC



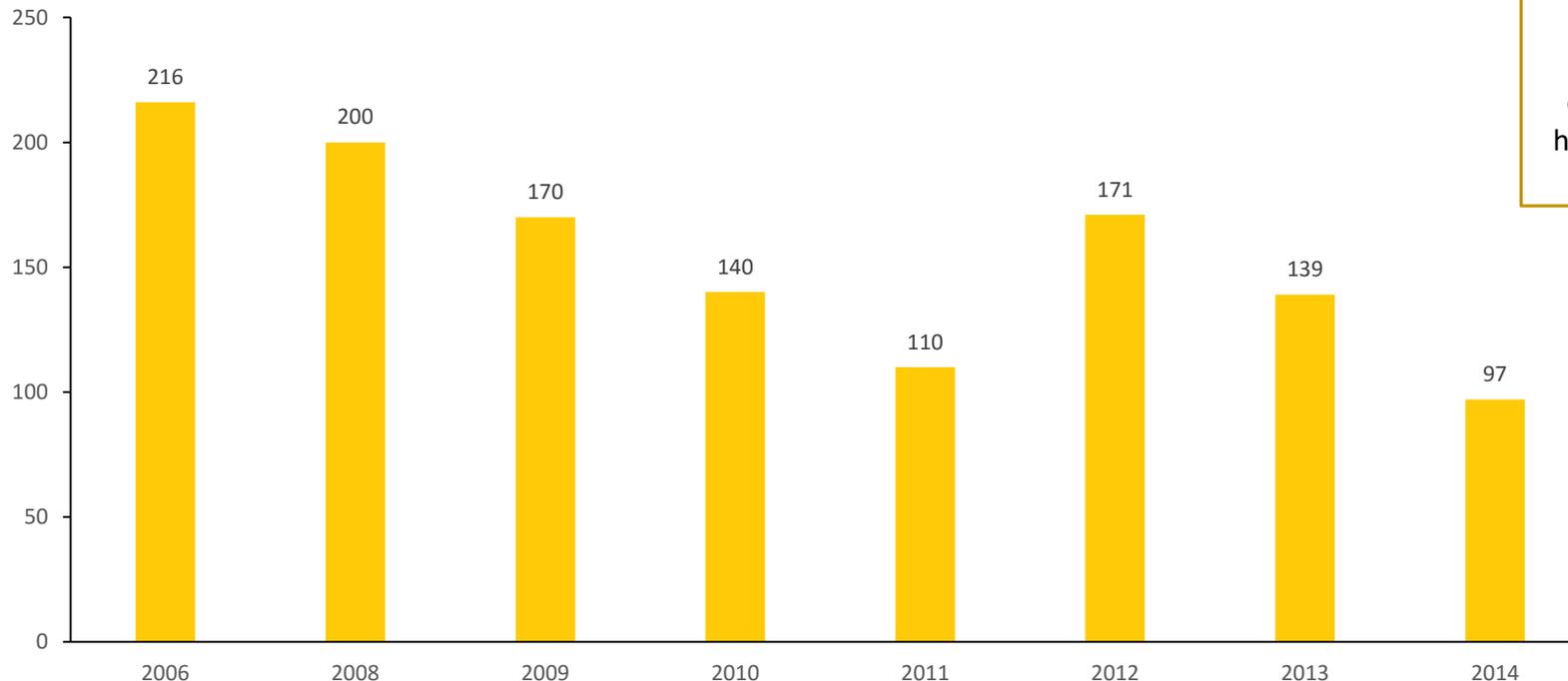
Companies only counted at group, not individual, level (i.e. if a group owns 5 companies they are only counted as 1).
It does not include companies that did not have a commission on BBC networks in the year

*Production companies consolidated within groups are only counted at group, not individual, level

How many companies are active in the market? – number of PSB producers – C4

C4 – the channel historically showing most diversity in the number of producer used – has seen the number of supplying producers halve since 2006

Number of active PSB producers* (excl portfolio channels) – 2006-2014, excluding news, sport, film and 'other' genres – C4



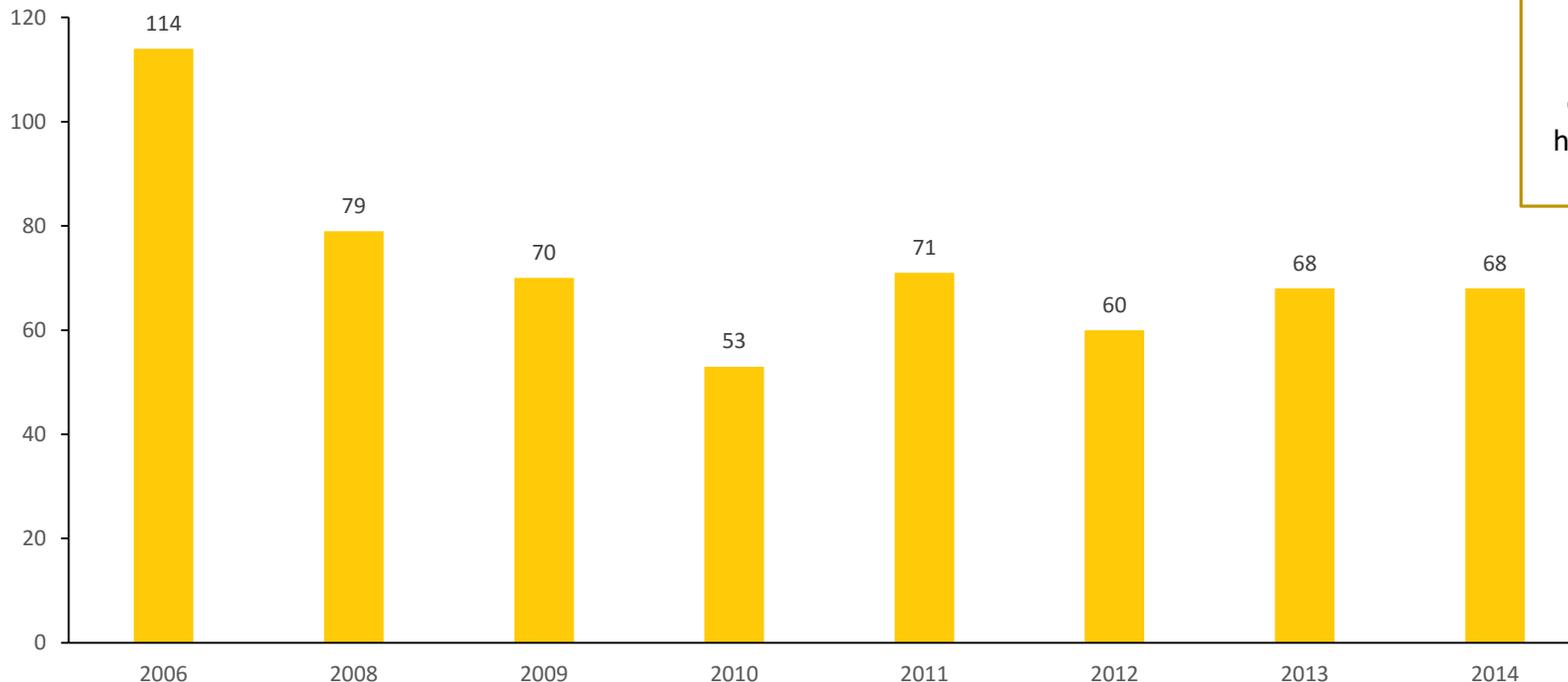
Companies only counted at group, not individual, level (i.e. if a group owns 5 companies they are only counted as 1).
It does not include companies that did not have a commission on C4 in the year

*Production companies consolidated within groups are only counted at group, not individual, level

How many companies are active in the market? – number of PSB producers – C5

C5's use of producers has remained fairly stable since an initial drop around 2006/07

Number of active PSB producers* (excl portfolio channels) – 2006-2014, excluding news, sport, film and 'other' genres – C5



Companies only counted at group, not individual, level (i.e. if a group owns 5 companies they are only counted as 1).
It does not include companies that did not have a commission on C5 in the year

*Production companies consolidated within groups are only counted at group, not individual, level

How many active companies in the market – number of producers – C4

The decline on C4 is less significant when taking group consolidation into account. The analysis does not show producers used on C4's spin-off channels, which may be part of the explanation of the decline on the network

Number of active PSB producers* (excl portfolio channels) – 2006-2014, excluding news, sport, film and 'other' genres, group level vs individual count, Channel 4 only



Average nb of companies per group level entity

1.06

1.10

1.15

1.21

1.25

1.20

1.29

1.44

How many companies are active in the market? - number of producers used

There has been a reduction in the number of individual companies. Some as an effect of consolidation, some as an effect of reduction in genre output on PSB main networks such as Children's

Ofcom Genre	2006	2008	2009	2010	2011	2012	2013	2014
Children's	70	42	54	45	32	28	24	16
Current Affairs	45	45	31	39	9	40	43	45
Drama	46	46	39	39	31	75	68	37
Entertainment	119	105	95	93	67	93	57	58
Factual Entertainment	42	63	65	58	45	56	51	45
Factual	180	171	142	119	124	126	138	110
Arts & Classical	49	26	25	9	5	19	7	8
Religion	18	15	14	3	2	6	5	4
Education	24	8	6	1	1	0	0	0

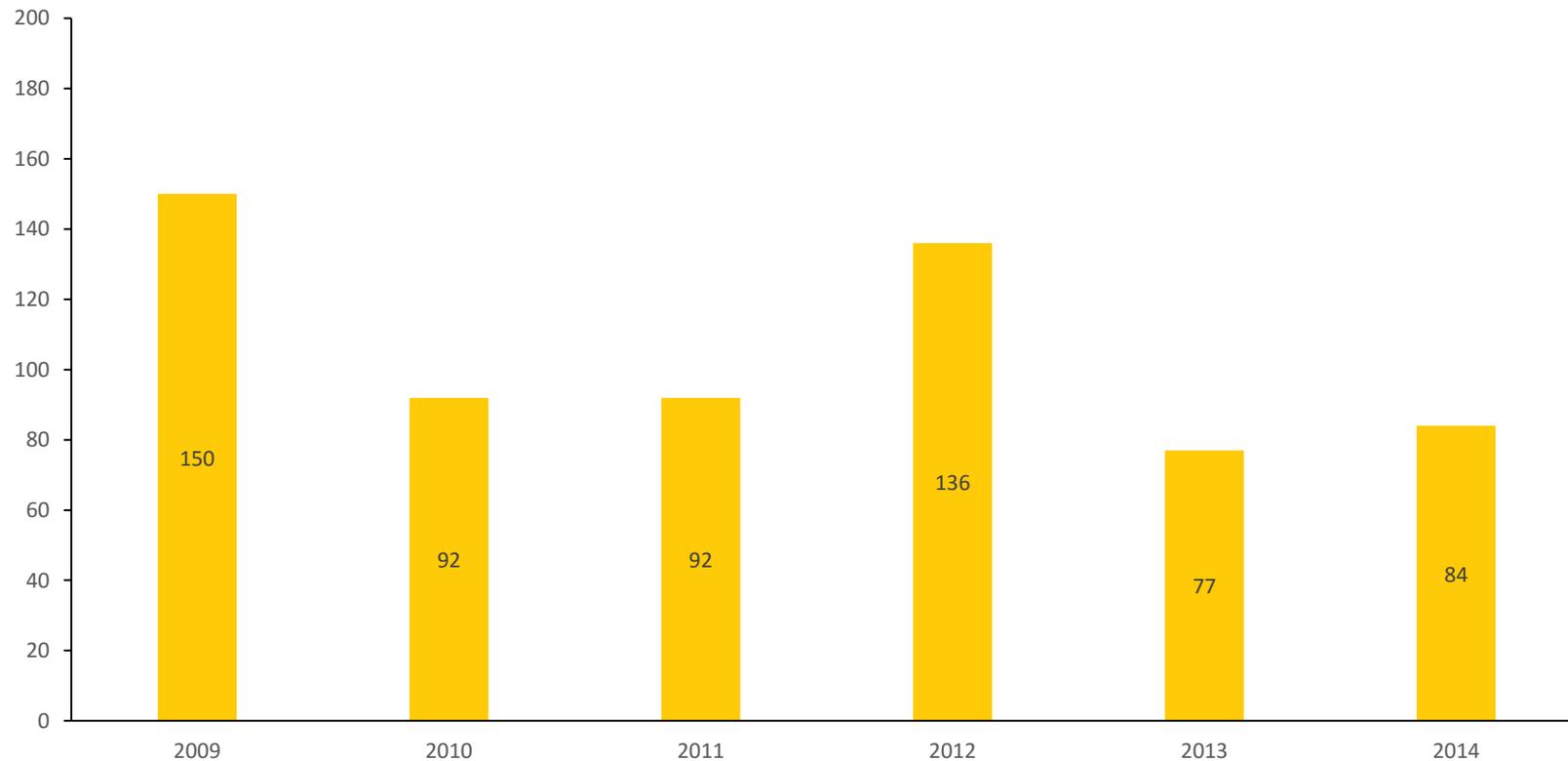
The number of companies is higher than in previous slides due to double counting of companies active in more than one genre

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How easy is it to enter? – new market entries over time

The levels of new entries shows that entry into the market is relatively easy, although survival maybe less so. The level of new entries appears to be cyclical, but new entries have remained abundant

Number of new* market entries – 2009 – 2014*

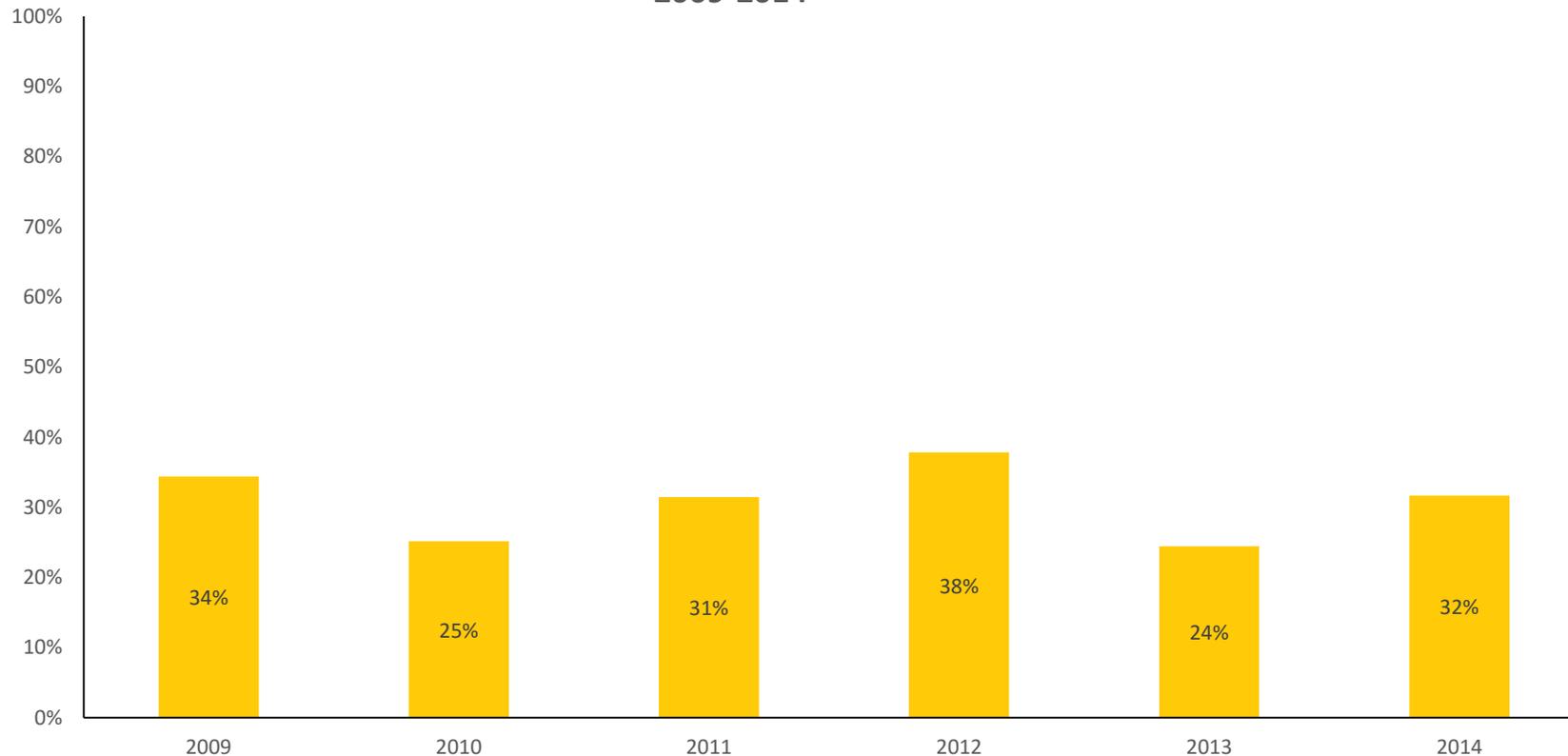


*New refers to companies that have not been active in any previous year

How easy is it to enter? – new market entries over time

On average, new entries represent between a quarter and a third of total external producers in any one year across all genres

New* entries as % of total producers in the market, including news, sport, film and 'other' genre, 2009-2014



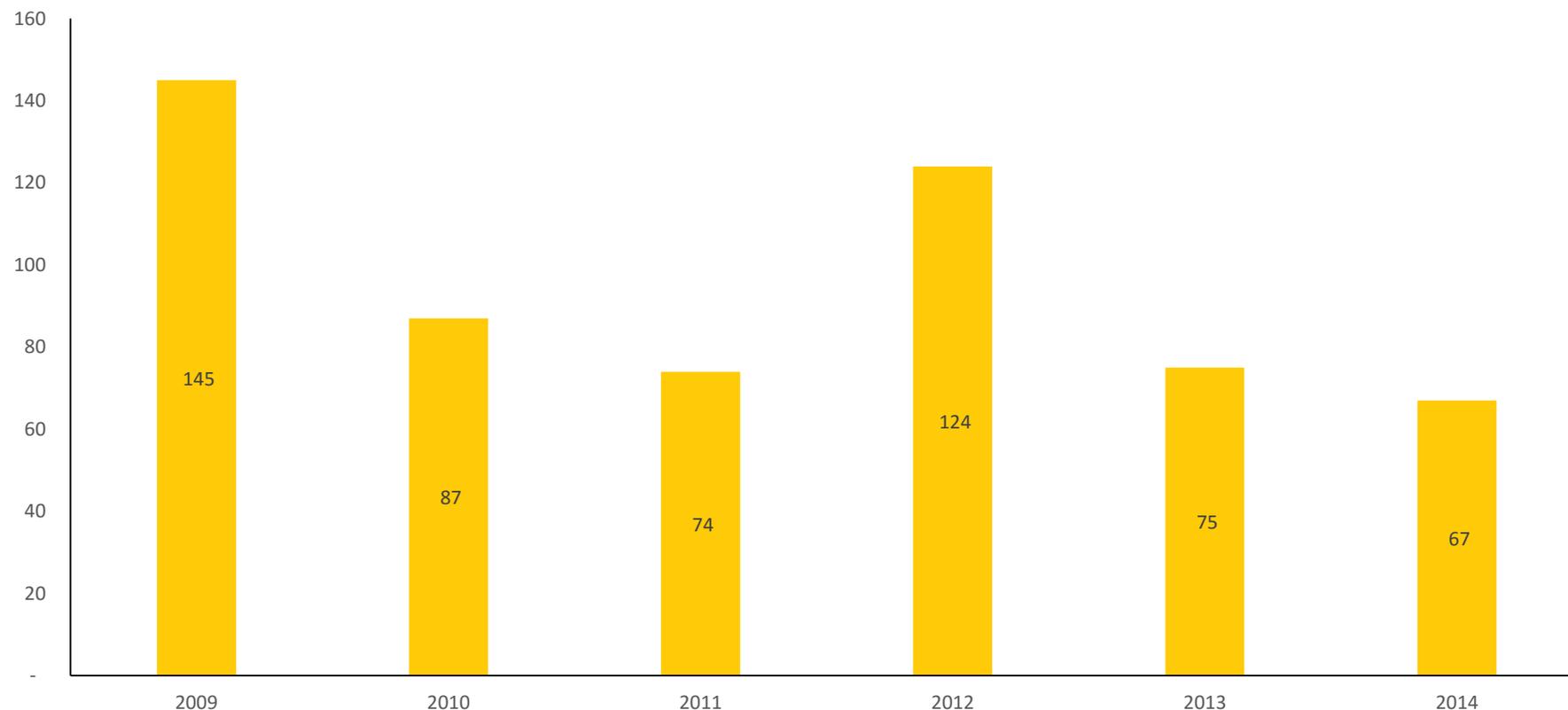
*New refers to companies that have not been active in any previous year

Source: Attentional, Oliver & Ohlbaum analysis

How easy is it to enter? – new market entries over time

Excluding news, sport, film and 'other' genres the picture remains similar, where external producers are more likely to be active

Number of new* market entries – 2009 – 2014, excluding news, sport, film and 'other' genre



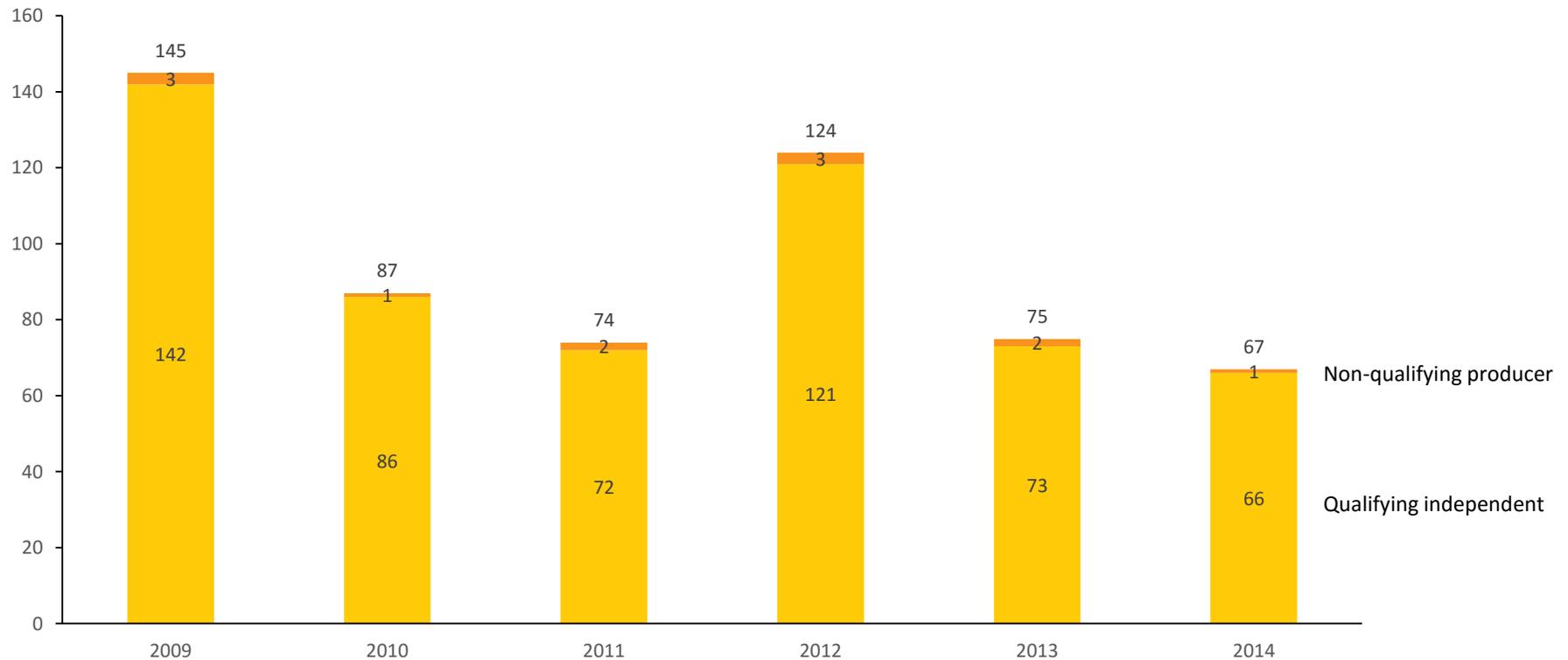
*New refers to companies that have not been active in any previous year

Source: Attentional, Oliver & Ohlbaum analysis

How easy is it to enter? – new market entries over time – qualifying and non-qualifying producers

The majority of new entries are true Independent producers

Number of new* market entries – 2009 – 2014, excluding news, sport, film and ‘other’ genre, split by qualifying and non-qualifying producer



How easy is it to enter? – new market entries over time

Of the 84 entrants into the market in 2014, we have identified that 17 consisted of new producers created by established industry figures. This is only partial analysis based on readily available information.

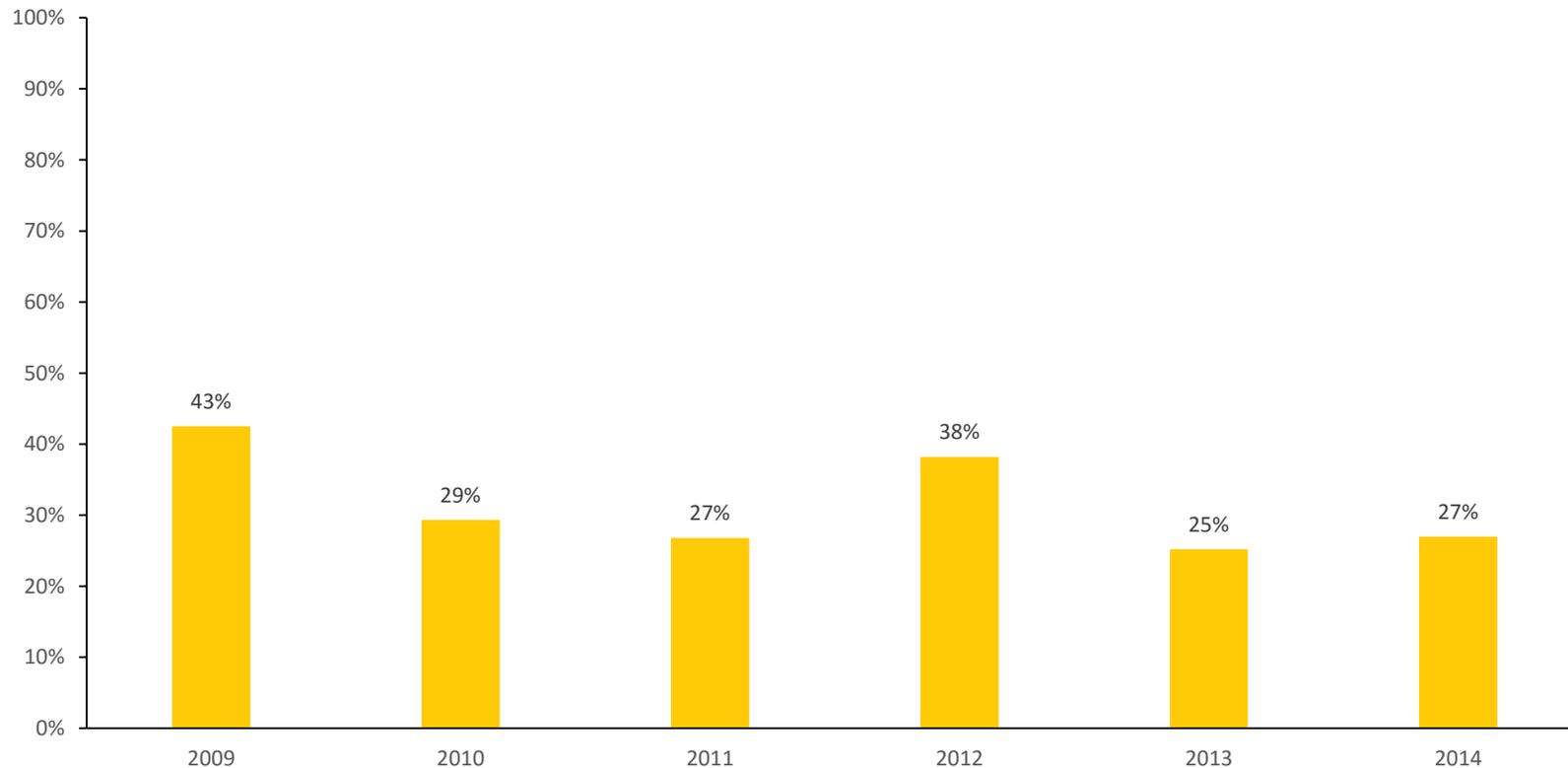
New entry*	Founders
Aenon	Adam Kemp (BBC in-house commissioning editor)
Alaska TV	Paul Sommers (Tiger Aspect), Chris Fouracre (At It), Ian Lamarra (Tiger Aspect, Mentorn, IWC Media)
Aurora Media	Lawrence Duffy (Endemol, IMG)
Big Mountain	Jane Kelly (BBC, Executive Producer)
Drama Republic	Greg Brenman (Tiger Aspect), Roanna Benn (Tiger Aspect)
Greedy Media	Justin Lennox-Bradley (Endemol), Rob Tavernier (CD:UK)
Hungry Bear	Dan Baldwin (Talkback), Juliet Denison (Talkback)
Impossible Factual	Paul Wooding (Mentorn, Impossible), Jonathan Drake (Impossible)
King Bert	Jo Sargent (BBC, production), David Walliams, Miranda Hart
Knickerbockerglory TV	Jonathan Stadlen (Pulse Films, RDF Media, 19 Entertainment)
Lee Sorrell Media	Lee Sorrell (ITV, Head of Current Affairs)
Lovesport	Co-venture between ITV Sport controller Tony Pastor and Love Productions
Over the Top	Simon Cowell's Syco Entertainment spin-off
Peachtree Films	Andrew Abbott (Matchlight), Craig Collinson (IWC, Mentorn)
Plimsoll Productions	Grant Mansfield (Zodiak USA)
Tuesday's Child	Karen Smith (Shine, Endemol)
Voltage TV	Sanjay Singhal (Dragonfly Film)

*New refers to companies that have not been active in any previous year

How easy is it to enter? – new entries over time – qualifying producers

The proportion of new entries that are qualifying independent producers is roughly a quarter in most years with the odd peaks

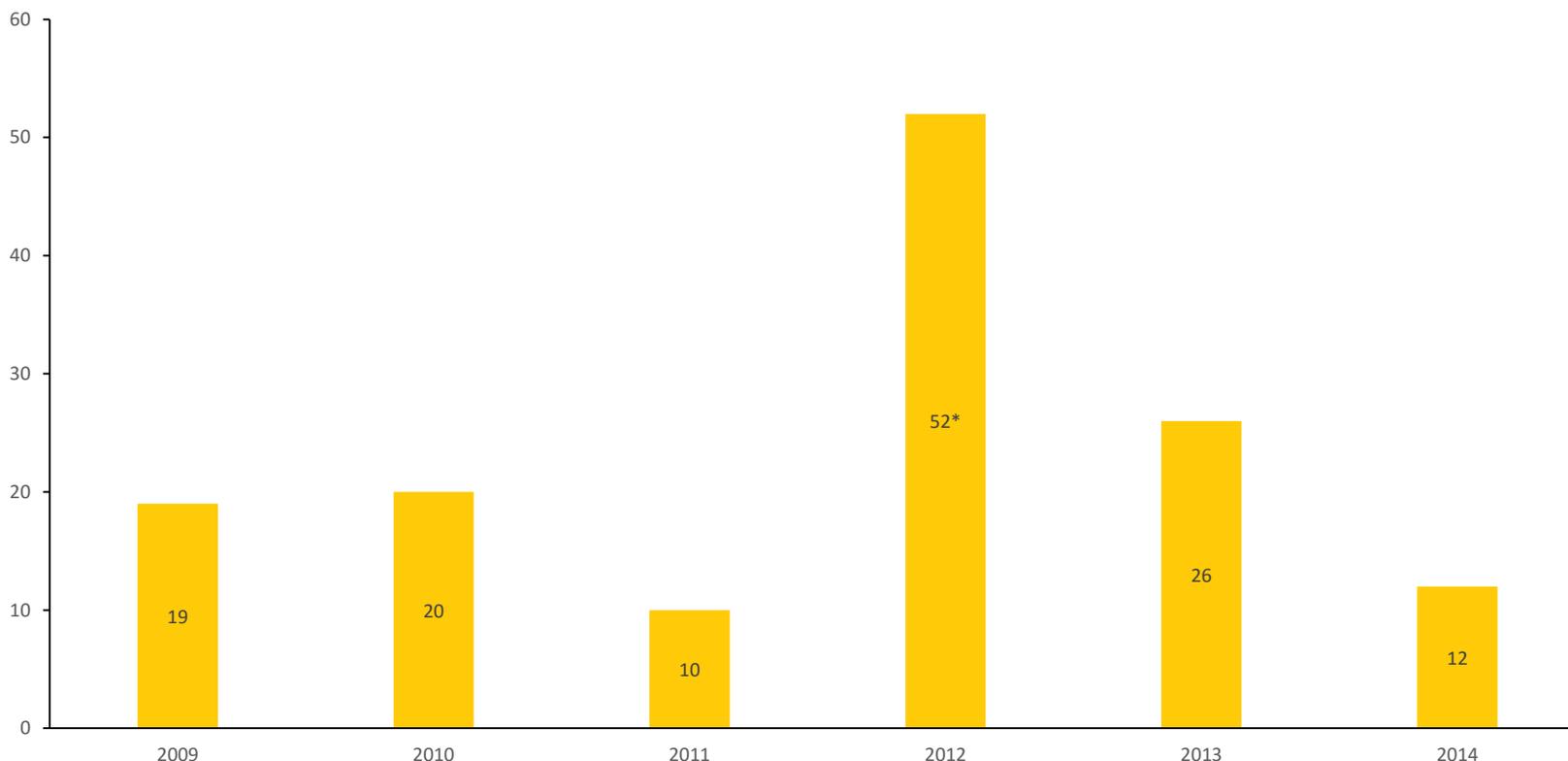
New entries by qualifying producers as a share of total producers in the market 2009 – 2014, excluding news, sport, film and 'other' genre



How easy is it to enter? – new entries by genre- Drama

There are fewer externally produced slot opportunities in drama, which is also reflected in the number of new entries in the market (apart from a surge in 2012)

Number of new* market entries – Drama, 2009-2014



*New refers to companies that have not been active in any previous year.

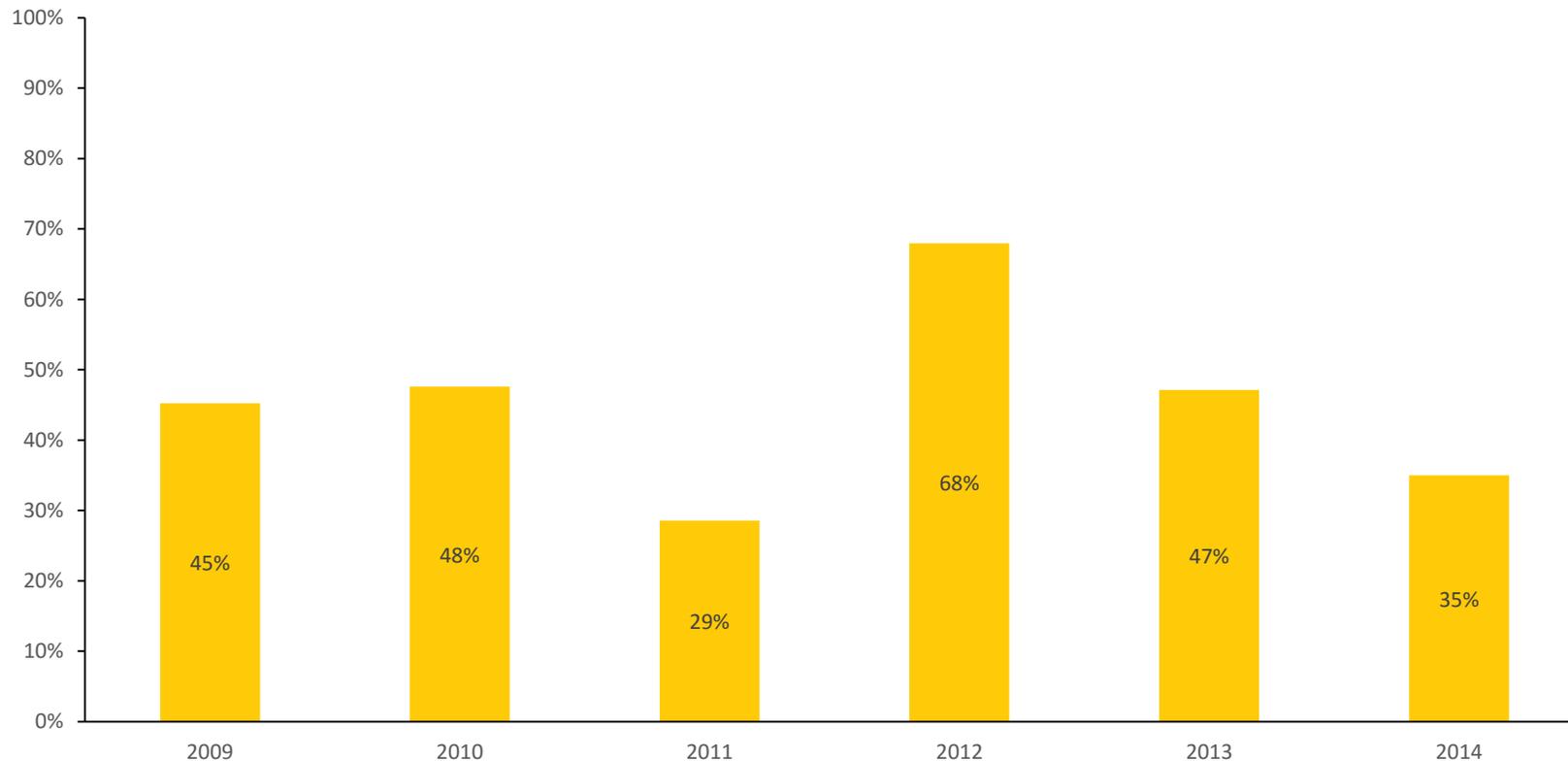
**For 2012, the large number of new entries can be attributed to Channel 4's launch of 'Random Acts', showcasing 260 specially-commissioned three-minute films. At least 29 of the new entries were featured as part of this strand.

Source: Attentional, Oliver & Ohlbaum analysis

How easy is it to enter? – share of new entries by genre - Drama

Fewer opportunities available for external producers in drama is also reflected in the share of new entries out of total active producers. The proportion is relatively high, but out of a limited number of companies

New* entries as % of total producers in the market – Drama, 2008-2014



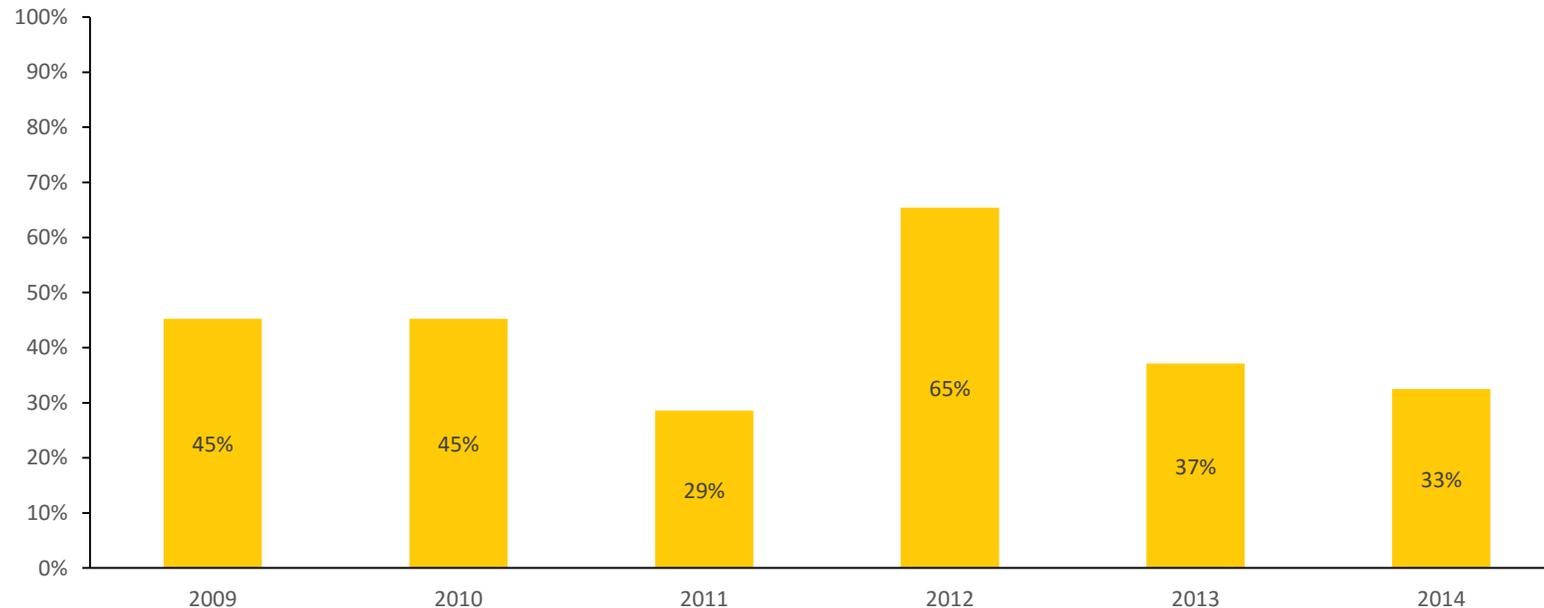
*New refers to companies that have not been active in any previous year

Source: Attentional, Oliver & Ohlbaum analysis

How easy is it to enter? – share of new entries by qualifying producers- Drama

Around a third of all new entries within drama are qualifying producers. It appears this proportion may have fallen slightly since 2008/09

New* entries by qualifying producers as % of total producers in the market –
Drama, 2009-2014

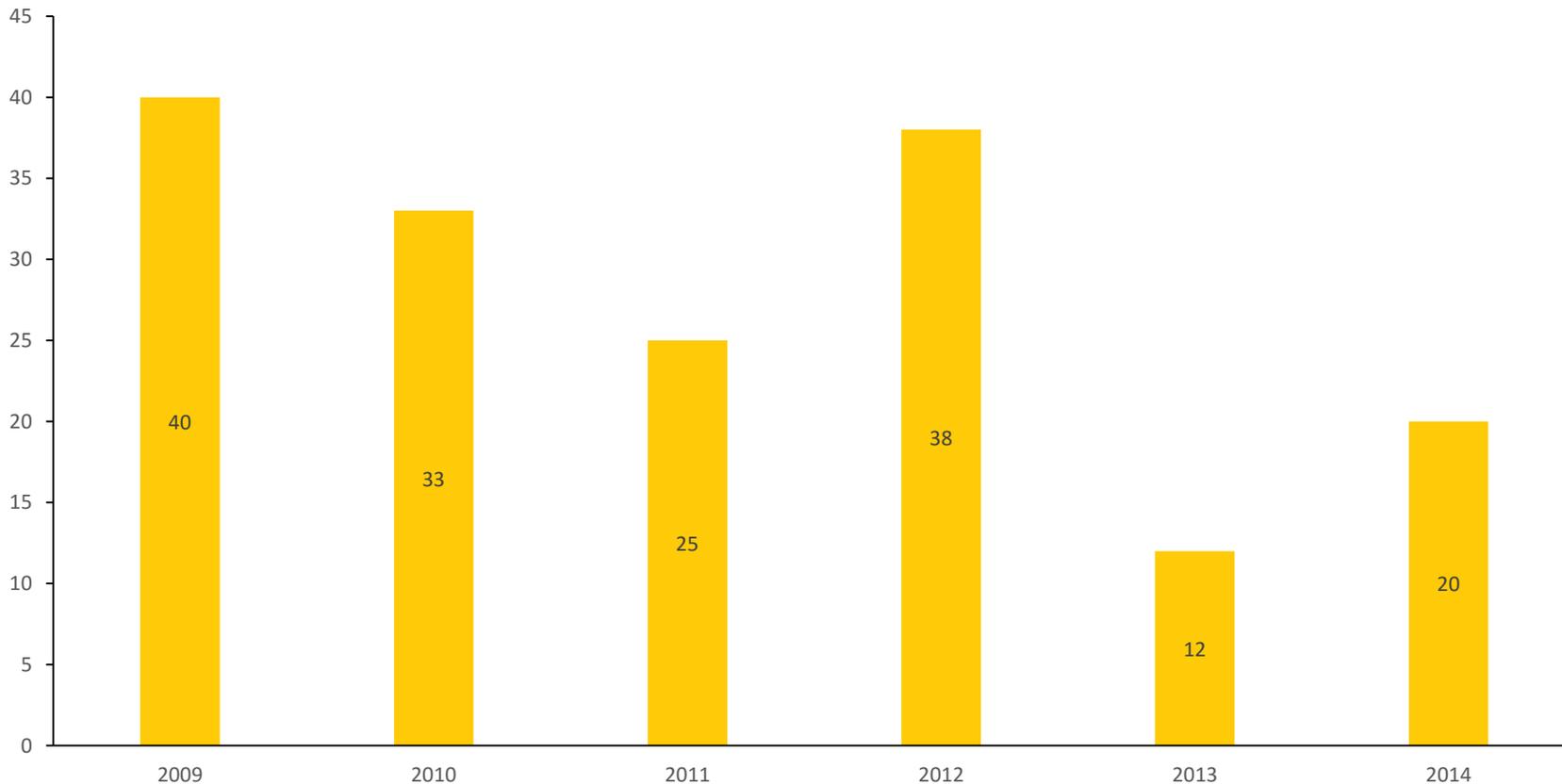


*New refers to companies that have not been active in any previous year

How easy is it to enter? – new market entries over time - Entertainment

There has been more opportunity for external production in entertainment, although new market entries have slowed

Number of new* market entries – Entertainment, 2008-2014



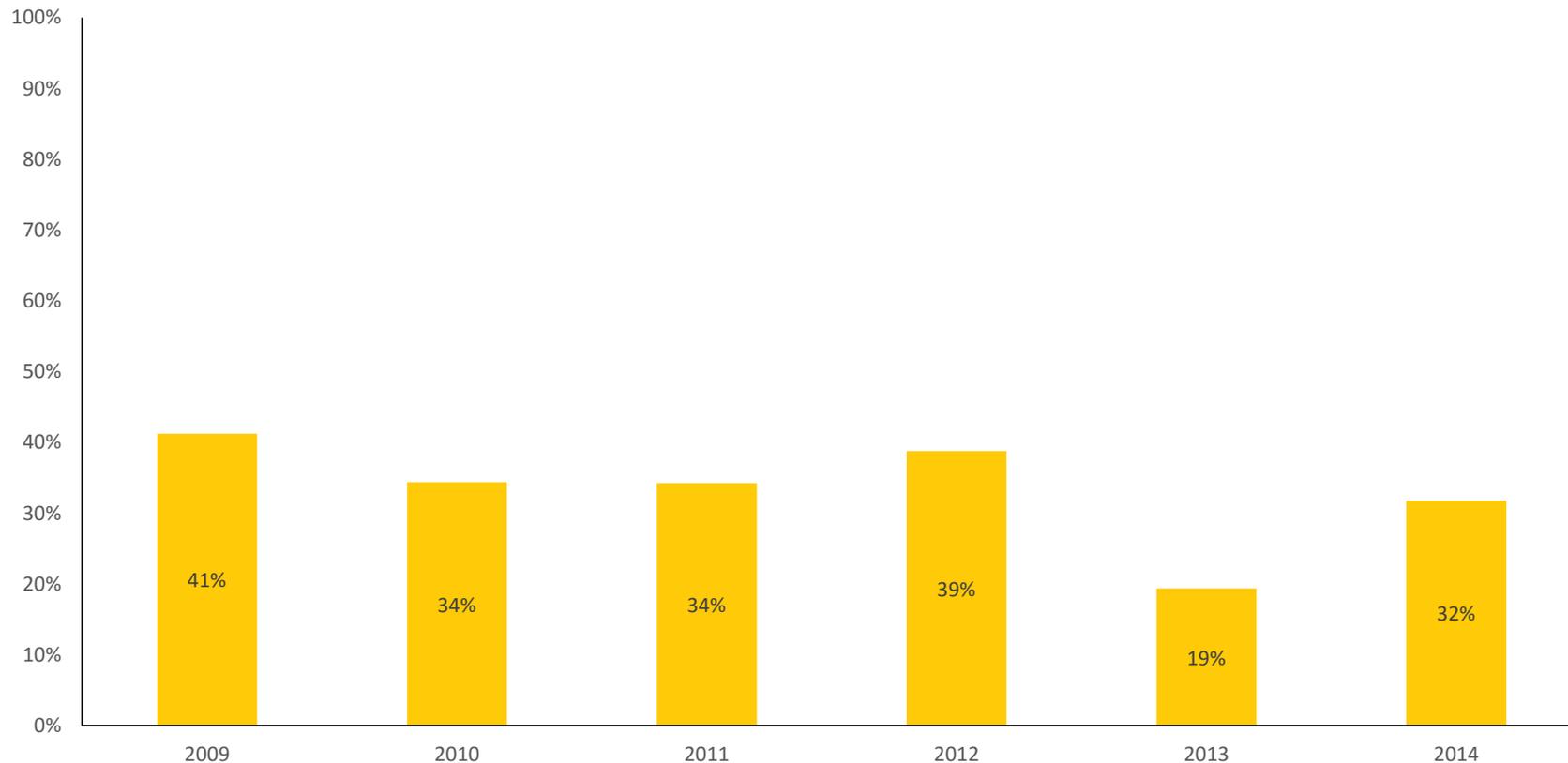
*New refers to companies that have not been active in any previous year

Source: Attentional, Oliver & Ohlbaum analysis

How easy is it to enter? – share of new entries by genre - Entertainment

The share of new entries within entertainment has stayed consistent at around a third of all active producers

New* entries as % of total producers in the market – Entertainment, 2008-2014



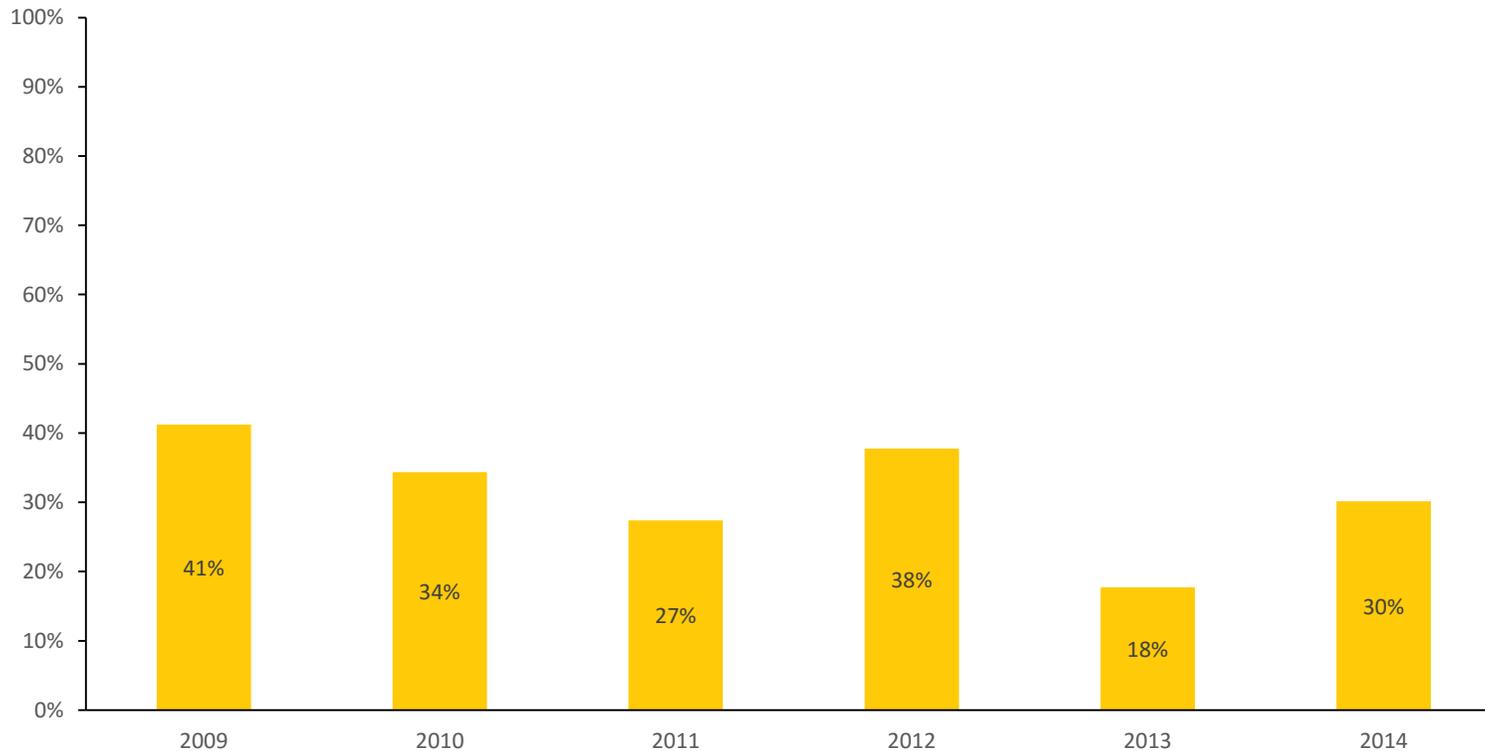
*New refers to companies that have not active in any previous year

Source: Attentional, Oliver & Ohlbaum analysis

How easy is it to enter? – share of new entries by qualifying producers- Entertainment

The proportion of qualifying producers of all new entries in entertainment also appears to have declined somewhat

New* entries by qualifying producers as % of total producers in the market – Entertainment, 2009-2014



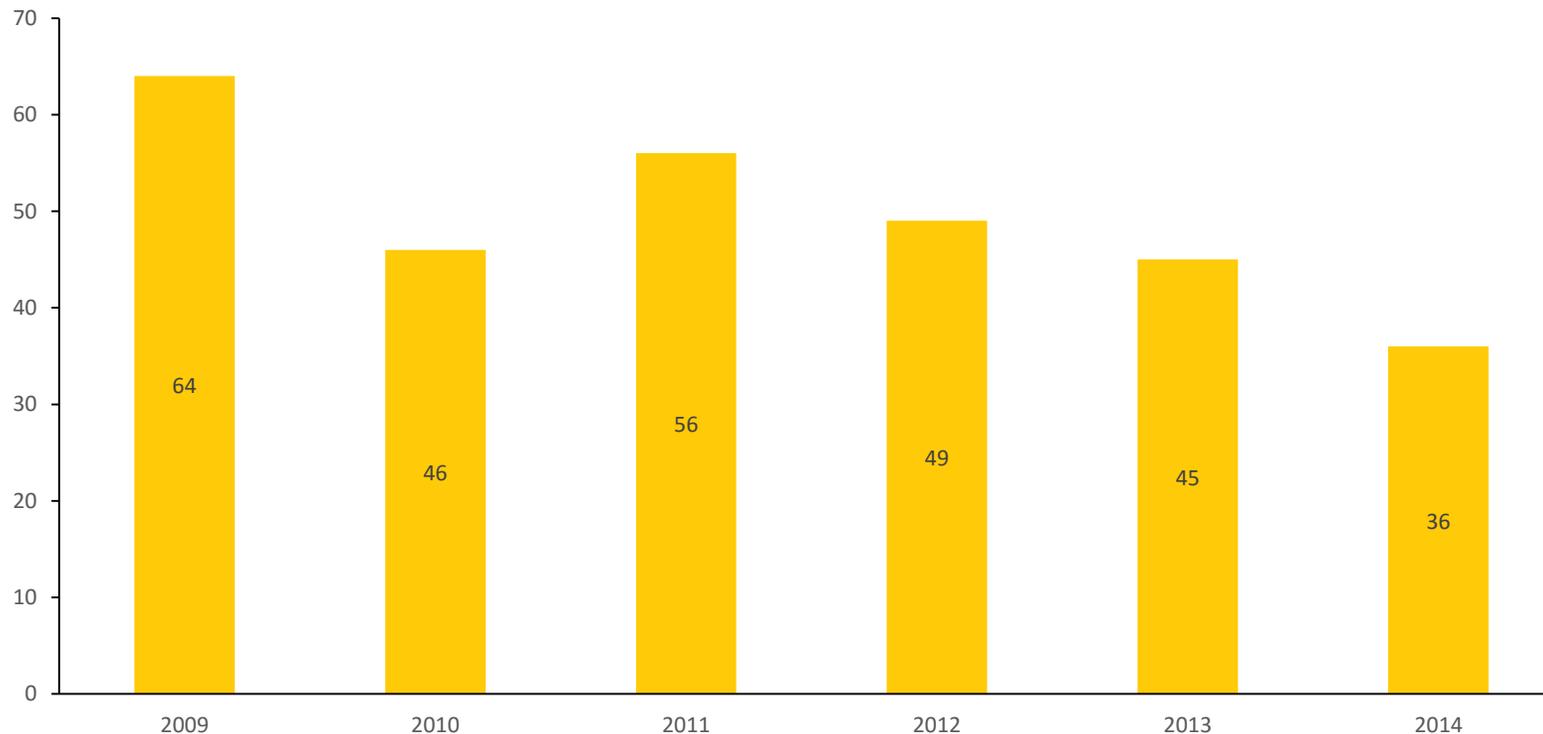
*New refers to companies that have not active in any previous year

Source: Attentional, Oliver & Ohlbaum analysis

How easy is it to enter? – share of new entries by genre - Factual

New market entries in factual have remained relatively high, although not as significant as around 2008/09

Number of new* market entries – Factual, 2008-2014



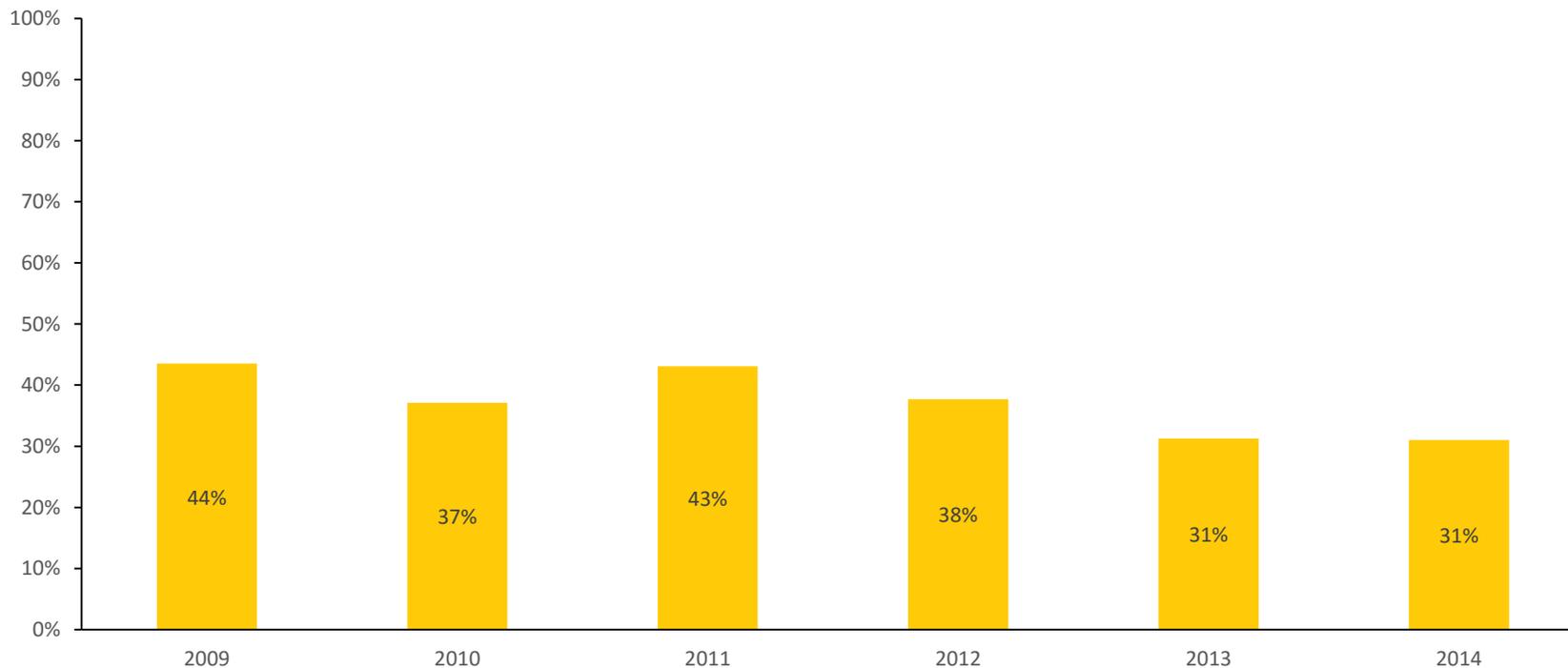
*New refers to companies that have not active in any previous year

Source: Attentional, Oliver & Ohlbaum analysis

How easy is it to enter? – share of new entries by genre - Factual

The share of new entries within factual is similar to entertainment with around a third of all active producers being new entrants

New* entries as % of total producers in the market – Factual, 2009-2014



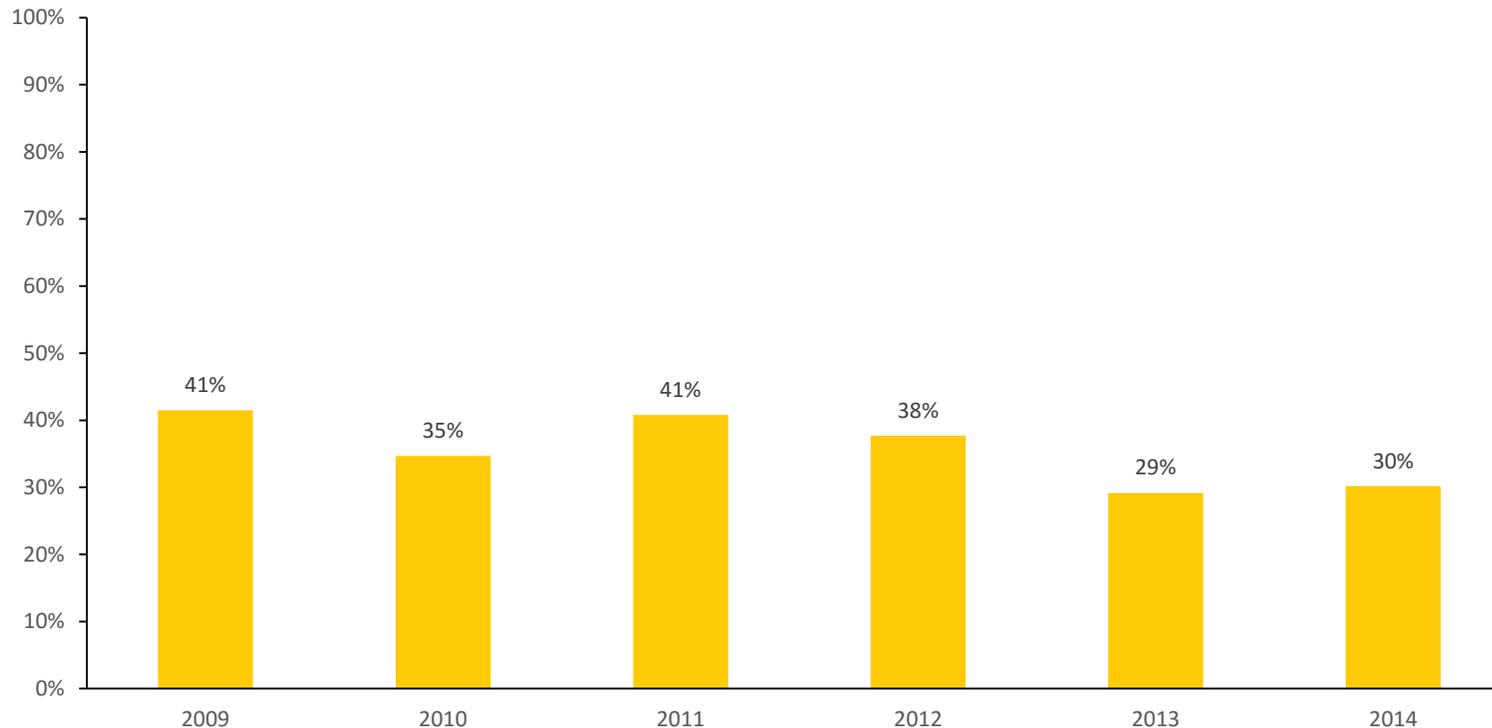
*New refers to companies that have not been active in any previous year

Source: Attentional, Oliver & Ohlbaum analysis

How easy is it to enter? – share of new entries by qualifying producers- Factual

Also in factual there appears to have been a decline in new entries from qualifying producers

New* entries by qualifying producers as % of total producers in the market – Factual, 2009-2014



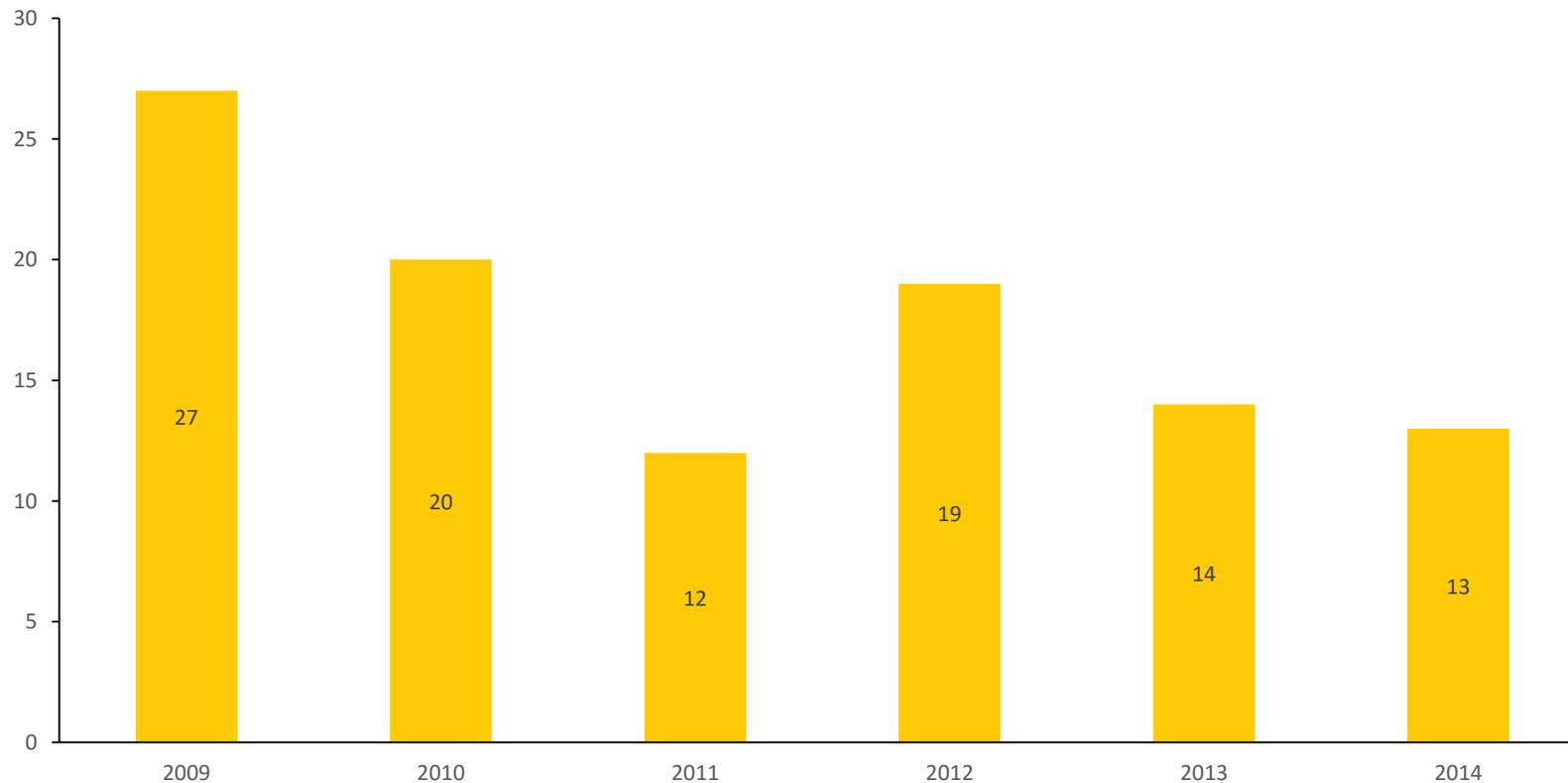
*New refers to companies that have not been active in any previous year

Source: Attentional, Oliver & Ohlbaum analysis

How easy is it to enter? – share of new entries by genre – Factual Entertainment

New market entry in factual entertainment remains consistently high

Number of new* market entries – Factual Entertainment, 2009-2014



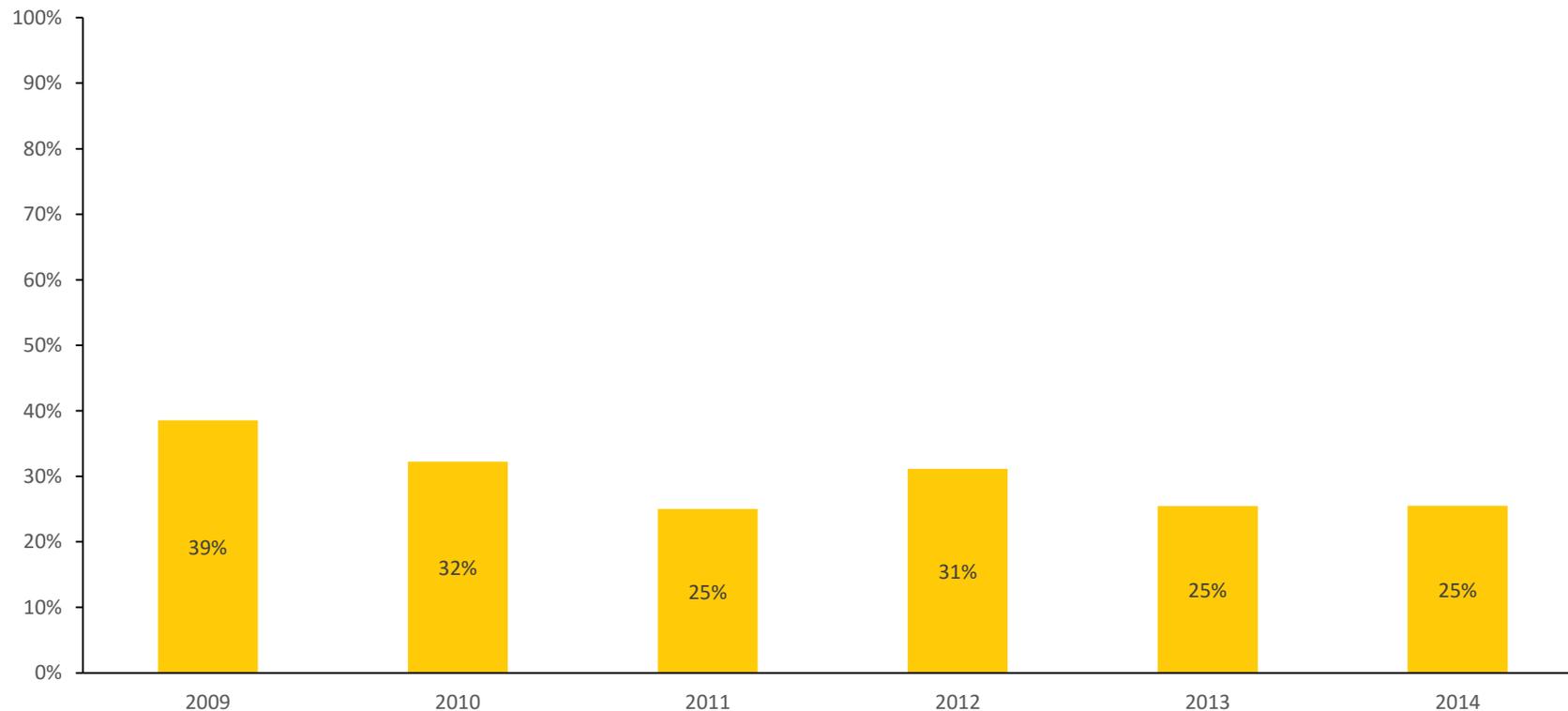
*New refers to companies that have not been active in any previous year

Source: Attentional, Oliver & Ohlbaum analysis

How easy is it to enter? – share of new entries by genre – Factual Entertainment

The share of new entries in factual entertainment is high, showing a high rate of entry, but possibly also short longevity of producers within this genre

New* entries as % of total producers in the market – Factual Entertainment, 2009-2014



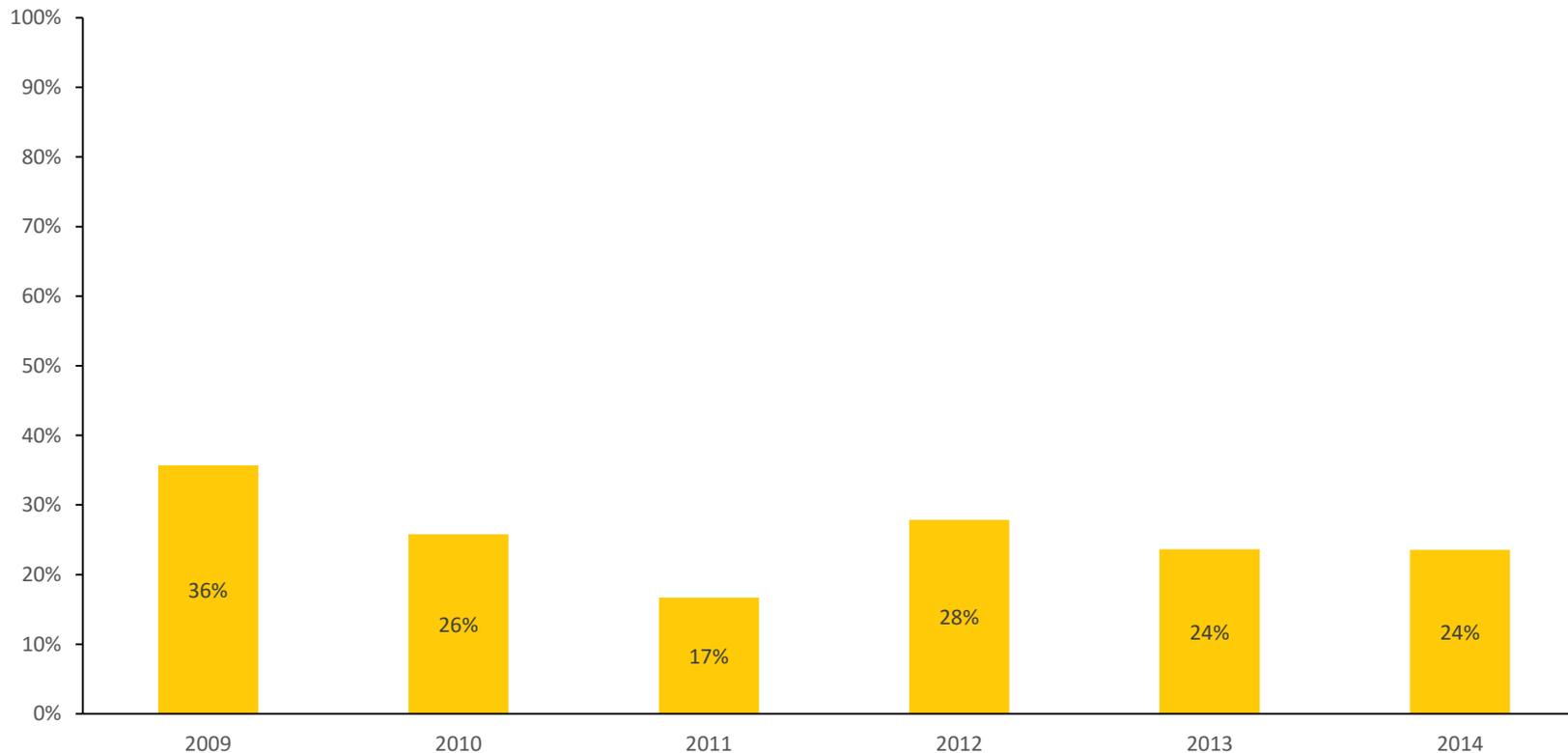
*New refers to companies that have not been active in any previous year

Source: Attentional, Oliver & Ohlbaum analysis

How easy is it to enter? – share of new entries by qualifying producers– Fact Ent

Factual entertainment appears to have remained a more steady proportion of new entries from qualifying independents – roughly revolving around a quarter of all new producers

New* entries by qualifying producers as % of total producers in the market – Factual Entertainment, 2009-2014

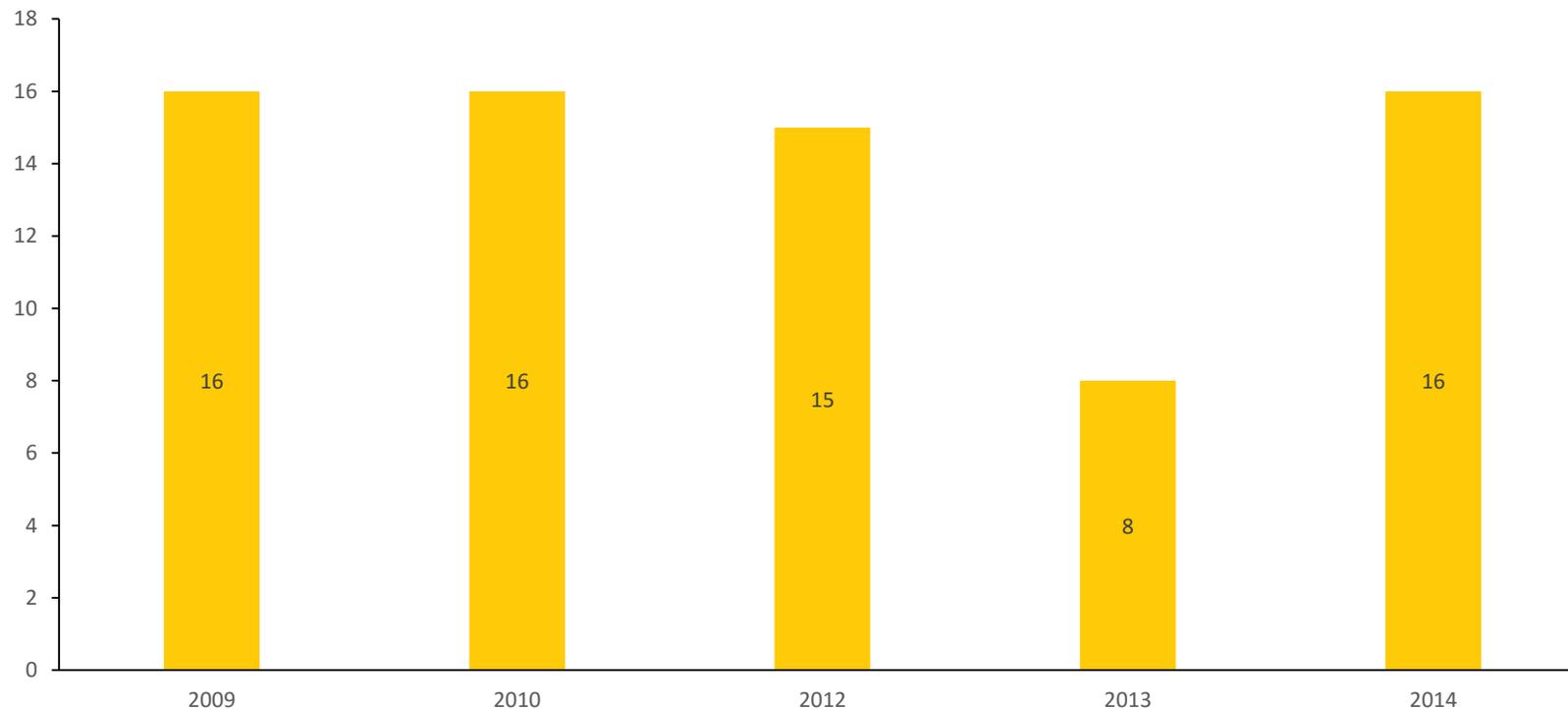


*New refers to companies that have not been active in any previous year

Source: Attentional, Oliver & Ohlbaum analysis

How easy is it to enter? – share of new entries by genre – Current Affairs

Number of new* market entries – Current Affairs, 2009-2014**

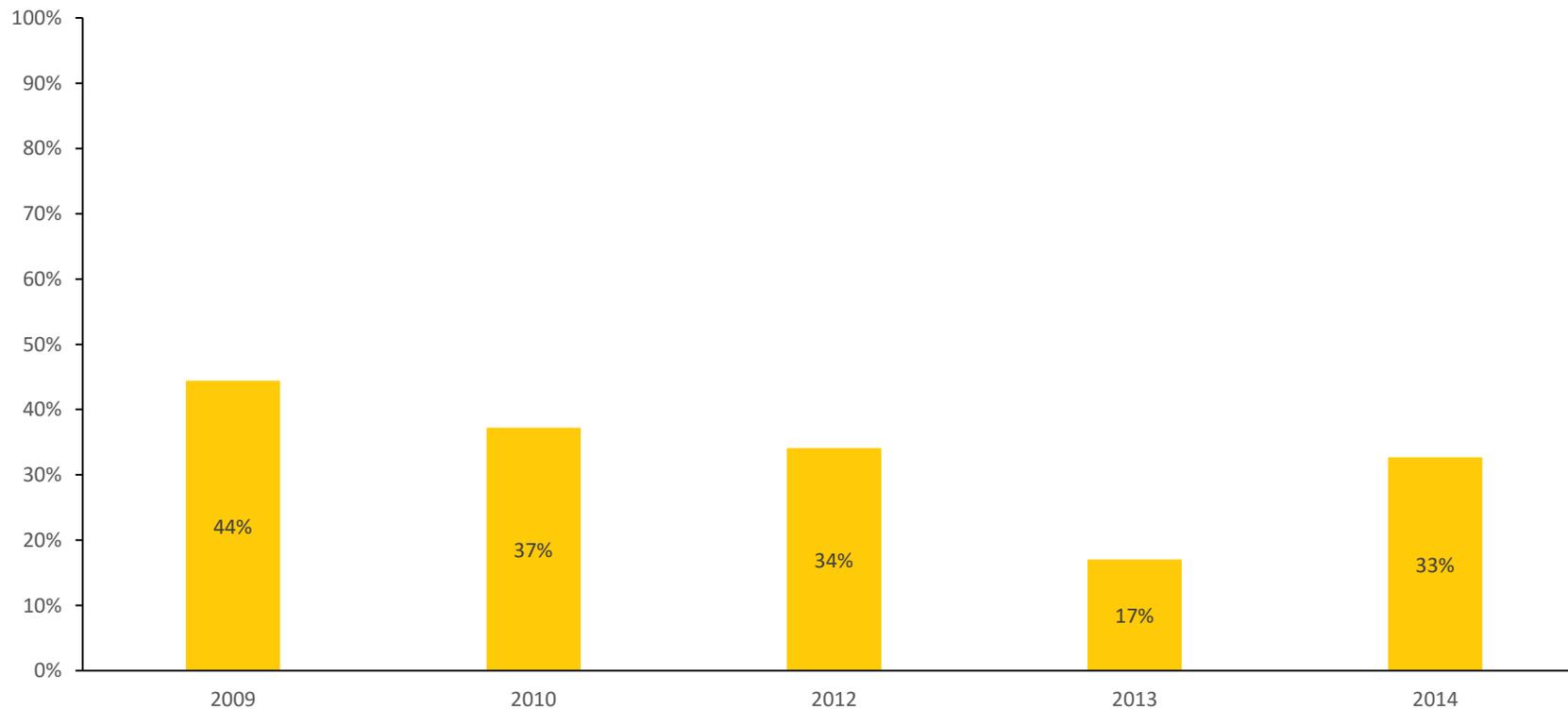


*New refers to companies that have not been active in any previous year **2011 is unavailable due to a lack of accurate data

Source: Attentional, Oliver & Ohlbaum analysis

How easy is it to enter? – share of new entries by genre – Current Affairs

New* entries as % of total producers in the market – Current Affairs, 2009-2014**

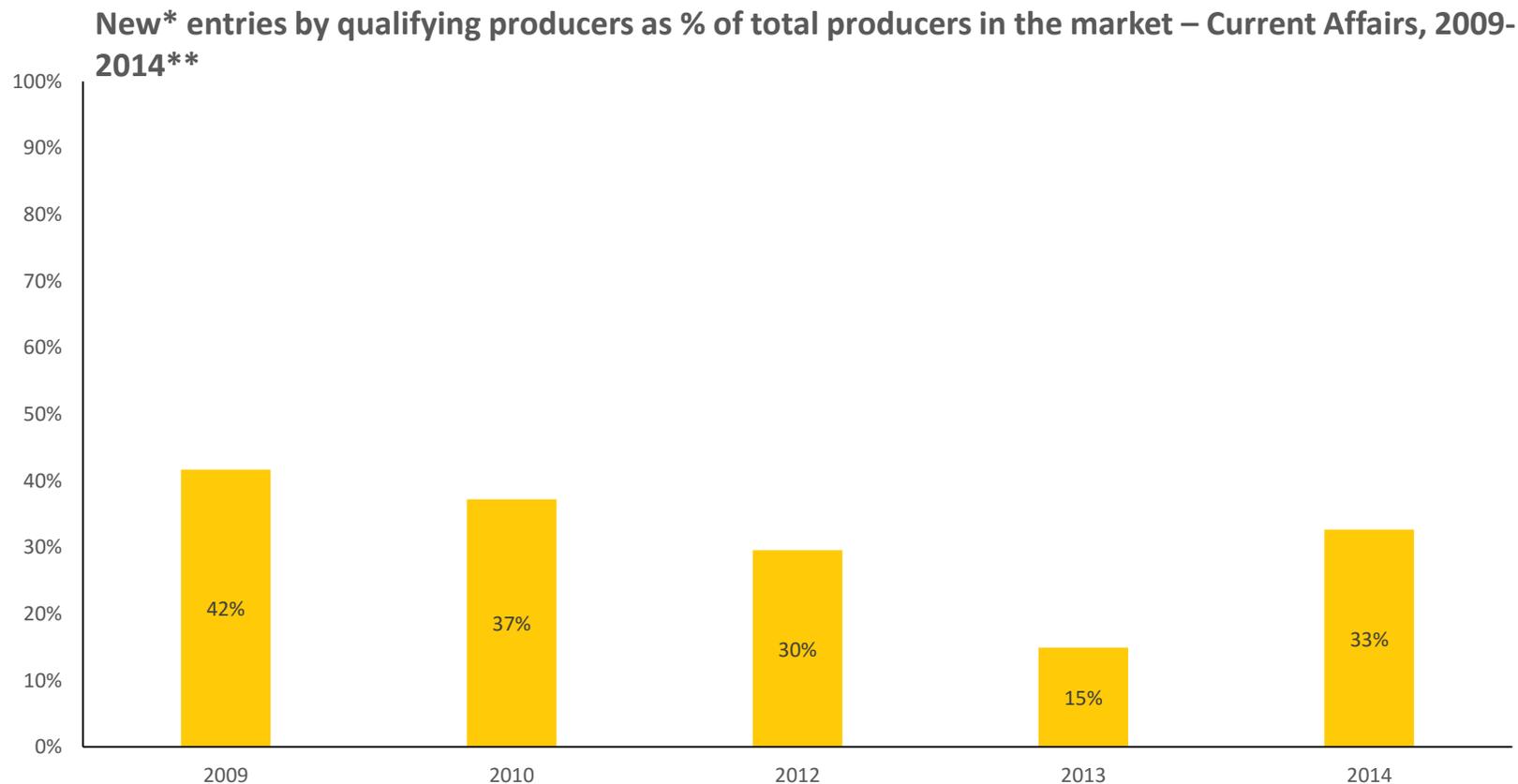


*New refers to companies that have not been active in any previous year **2011 is unavailable due to a lack of accurate data

Source: Attentional, Oliver & Ohlbaum analysis

How easy is it to enter? – share of new entries by qualifying producers– Current Affairs

The picture for current affairs looks less steady. The proportion of qualifying producers of all new entrants appears to have declined, with a possible rebound in 2014



*New refers to companies that have not been active in any previous year **2011 is unavailable due to a lack of accurate data

Source: Attentional, Oliver & Ohlbaum analysis

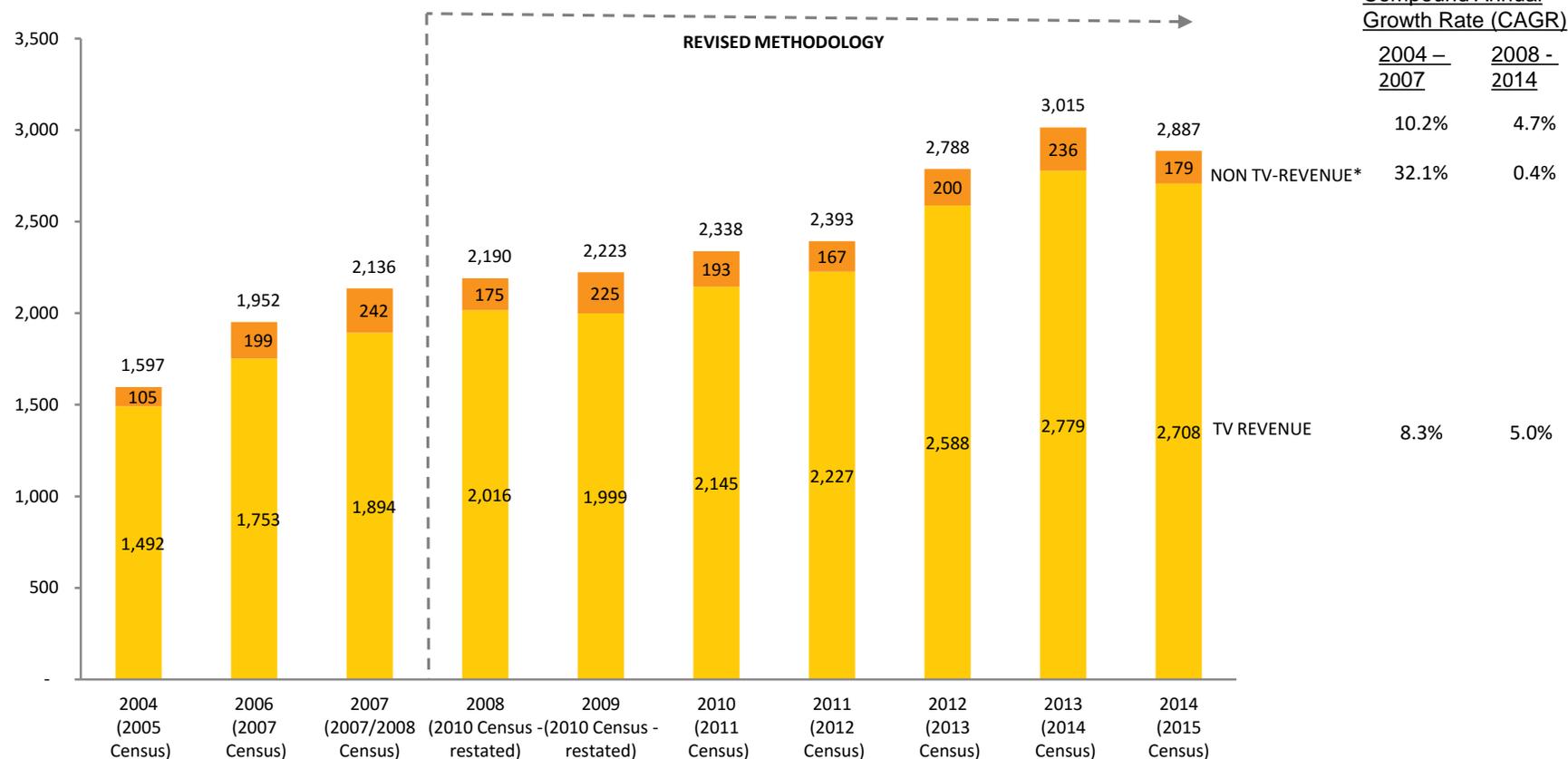
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 8. Quotas
 9. Regionality
 10. Historical context of the US market

Production sector revenue and flow of funds – producer revenue

After a decade of strong growth production sector revenues appear to have started levelling off

Independent producer revenues by TV and non-TV activities

£ million



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

Source: Oliver & Ohlbaum analysis, Pact census

Production sector revenue and flow of funds - production revenue by source

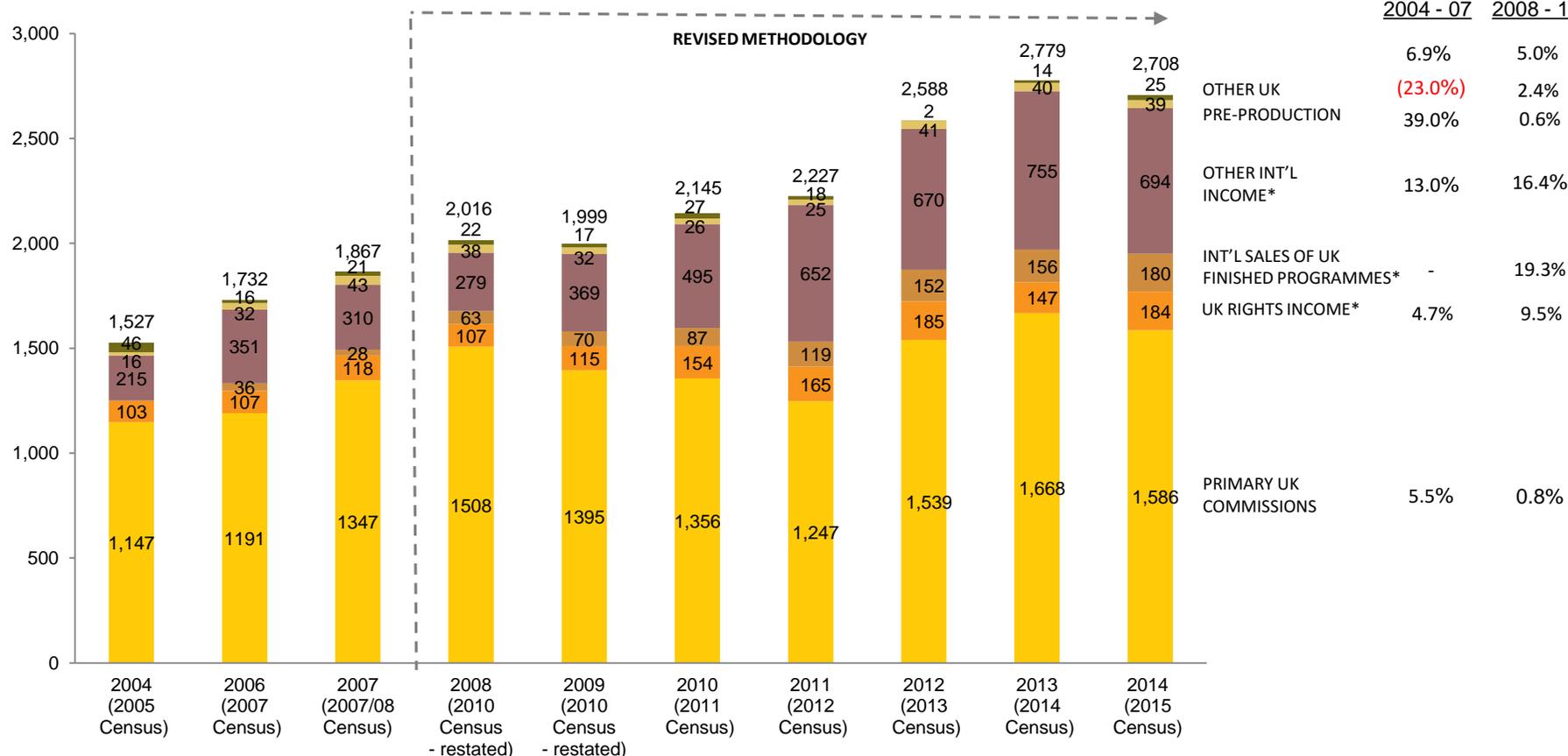
Producers have become increasingly reliant on other sources of revenue outside the primary commissioning window

Independent producer TV-related revenues*

£ million

CAGR

2004 - 07 2008 - 14

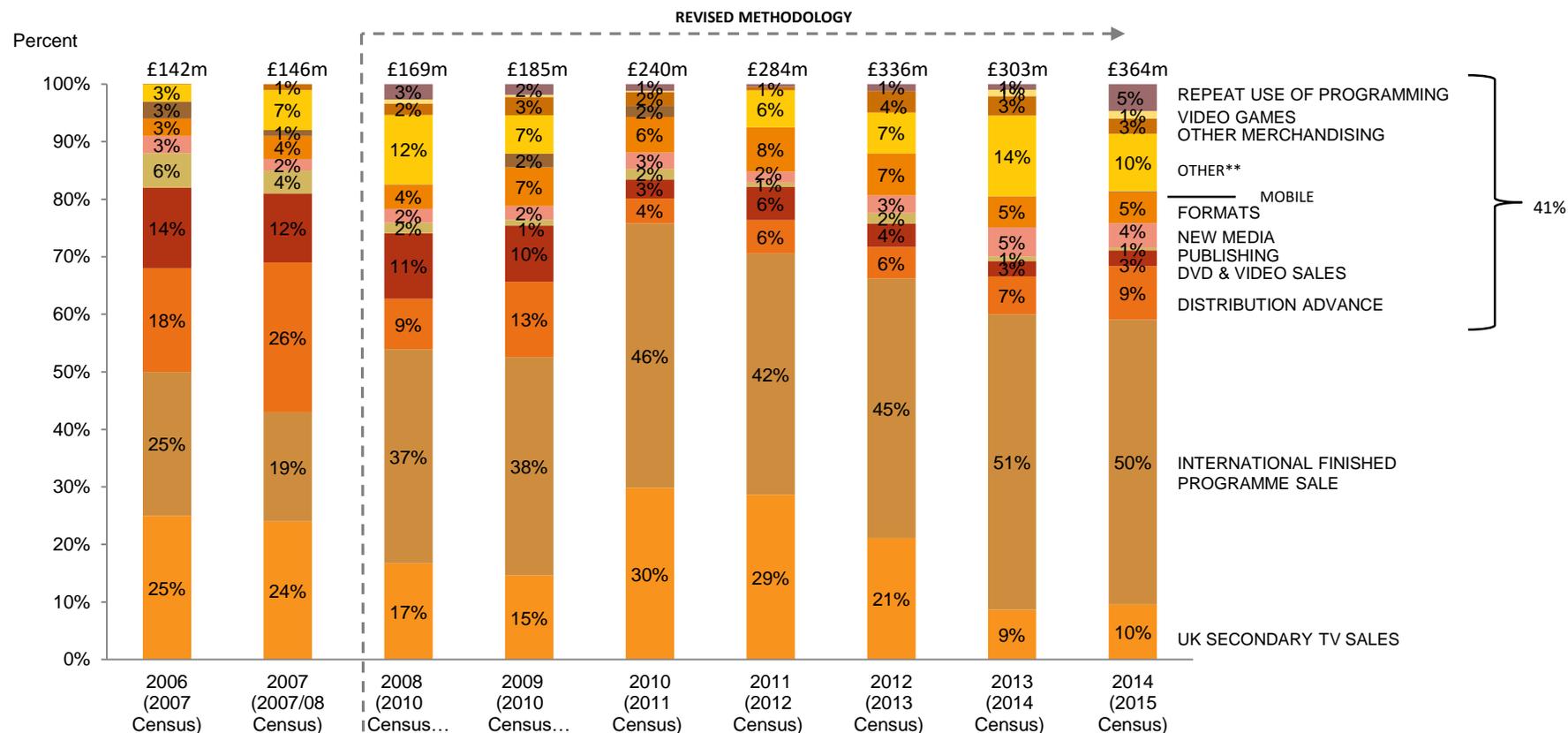


*Definitions: 'Other international income' - revenue from companies' overseas operations and any primary commissions received from non-UK broadcasters; 'Int'l sales of UK finished programmes' - sales of first run UK programming sold as finished product abroad; 'UK rights income' - UK secondary sales,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

Production sector revenue and flow of funds – revenue by window

There has been some recovery in UK secondary TV rights, but other ancillary and international rights are increasingly important. International finished programme sales show continued growth

Revenues from UK content rights by category between 2007 Census and 2015 Census*



* Combined figures for 'UK rights income' and 'Int'l sales of UK finished programmes sales' ** 'Other' includes advertising, PRTS, and other activities such as music publishing, live events, gambling, product integration and ancillary & digital rights

Production sector revenue and flow of funds - description of Terms of Trade

Between PSB commissioners and qualifying independent producers, terms of trade defines:

- The scope of rights, duration, extended use payments (e.g. catch-up) and revenue sharing arrangements between both parties in the primary licence window
- The revenue sharing obligations for trade in the associated programme rights across secondary windows

Both commissioning broadcaster and original producer share in the revenues associated with the exploitation of programme rights in secondary rights markets

The terms are regularly re-negotiated, allowing both sides to adapt their commercial arrangements to changing industry and market conditions

The terms of trade are negotiated separately with each PSB group, leading to a situation where detailed terms may vary by commissioning group

Production sector revenue and flow of funds – revenue under Terms of Trade



Production sector revenue and flow of funds – wider effects of Terms of Trade

There are a number of general views on the wider potential effects of Terms of Trade that may be difficult to categorically prove or dispel

Terms of trade and quotas together support a trading environment where:

- Producers have greater certainty on the long-term control that they will have over the exploitation of programme IP (increasing broadcaster capture of the returns on IP is controlled)
- Terms are standardised across a large part of the industry, leading to efficiency benefits and limiting commissioners' scope to divide and rule

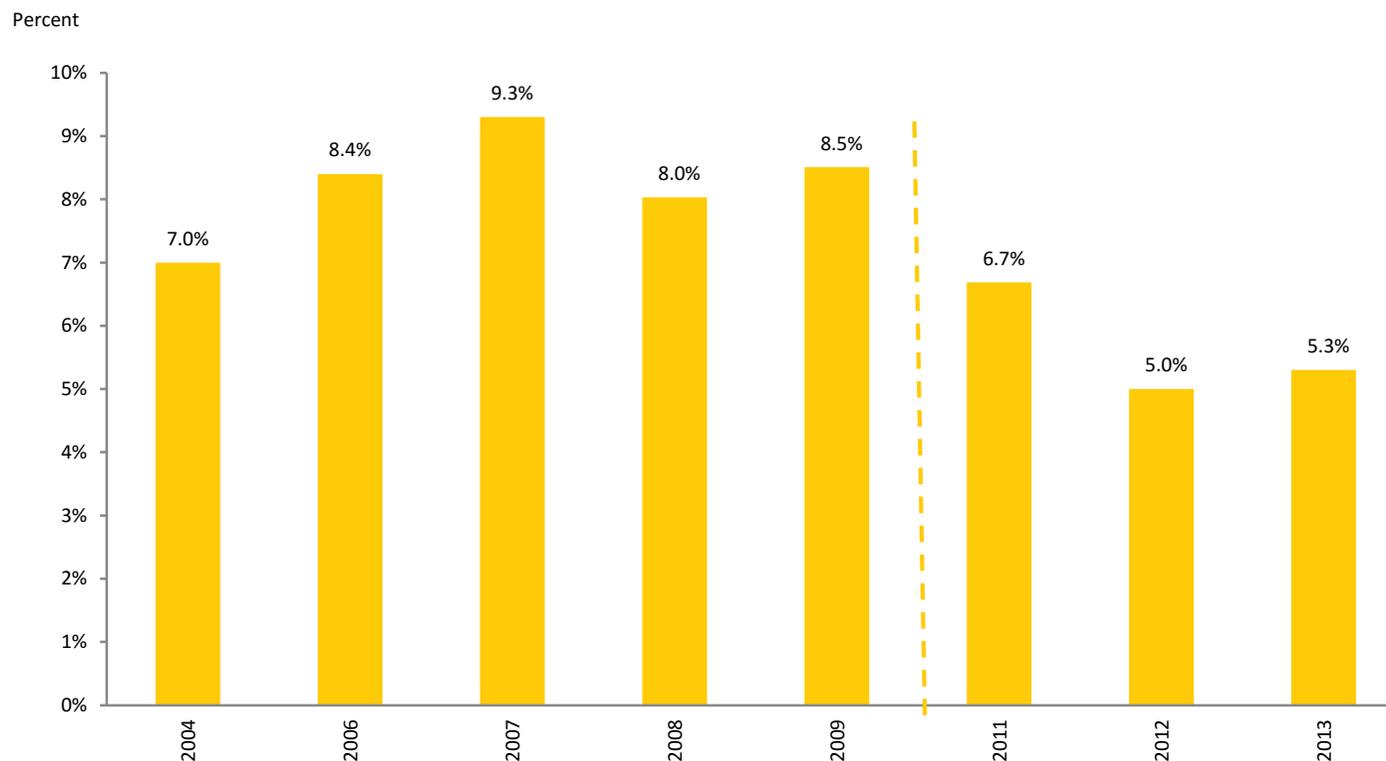
Benefits for the UK commissioning ecosystem may include:

- Certainty on long-term control of rights enables producers to attract external investment capital – both for corporate growth initiatives and new content funding (e.g. gap finance)
- Supports clear market incentives to maximise the cash flow around UK commissioned works – i.e. giving control over clearly defined secondary window rights to producers limits the scope for broadcasters to lock up value by rights warehousing or withholding for their own ventures (which might not be cash flow maximising)
- Incentives and external capital underpinned production industry growth at a time when UK primary commissioning declined – the level of UK commissioning activity is now supported by independent sector revenues won overseas
- Success has helped the sector to grow exports significantly and the 'open' market structure helps to sustain diversity of supply

Production sector revenue and flow of funds – sector profitability

The production sector has experienced increasing pressure on profitability in the last few years. There are no signs of producers making super normal margins

Net margins, 2004 to 2013*

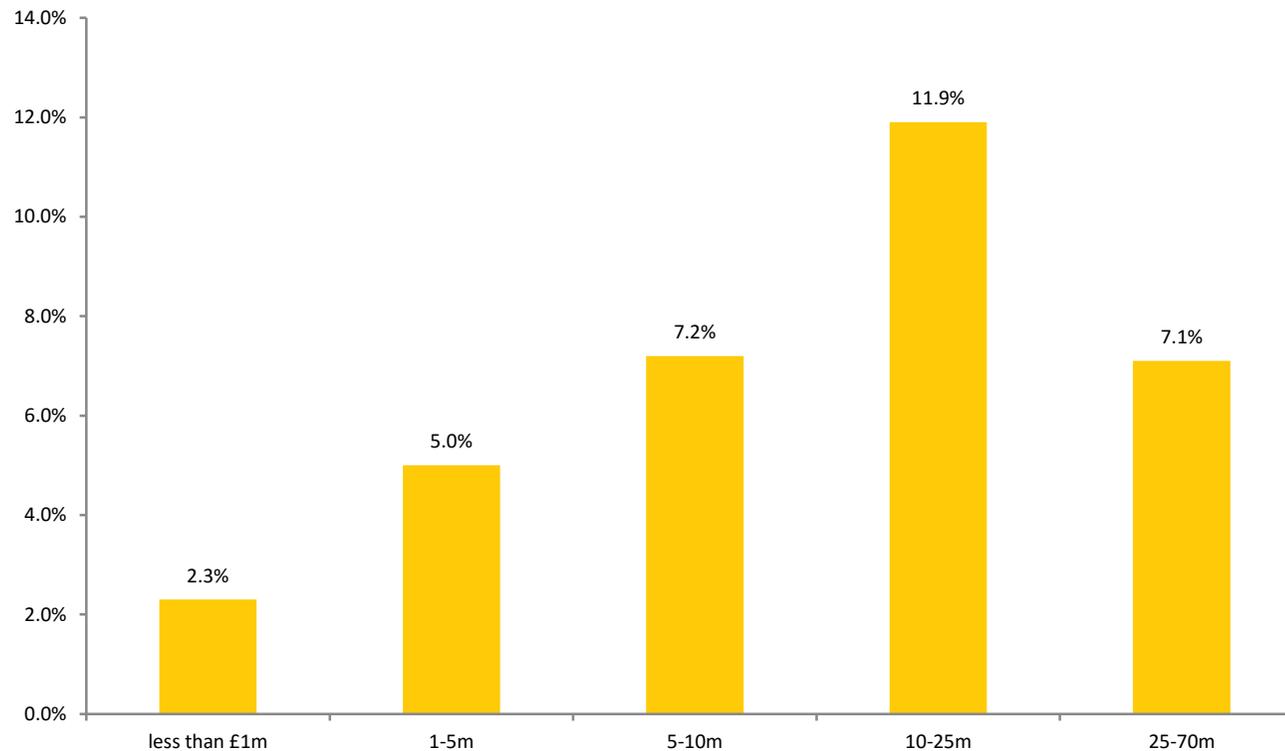


*Excludes 2010 as data appears not to be coherent with overall trend. No data published for 2014

Production sector revenue and flow of funds – profitability of smaller producers

The smallest production companies tend to be the lowest margin businesses. Larger producers tend to perform better, some due to being part of groups with potential for overhead sharing

Producer net margins by turnover band, 2014*



*Excludes 2010 as data appears not to be coherent with overall trend. Excludes £70m+ TO bands as no data available for 2014

Note: Companies in the £10-25m and £25-70m brackets have tended to be part of larger groups with greater potential for overhead sharing

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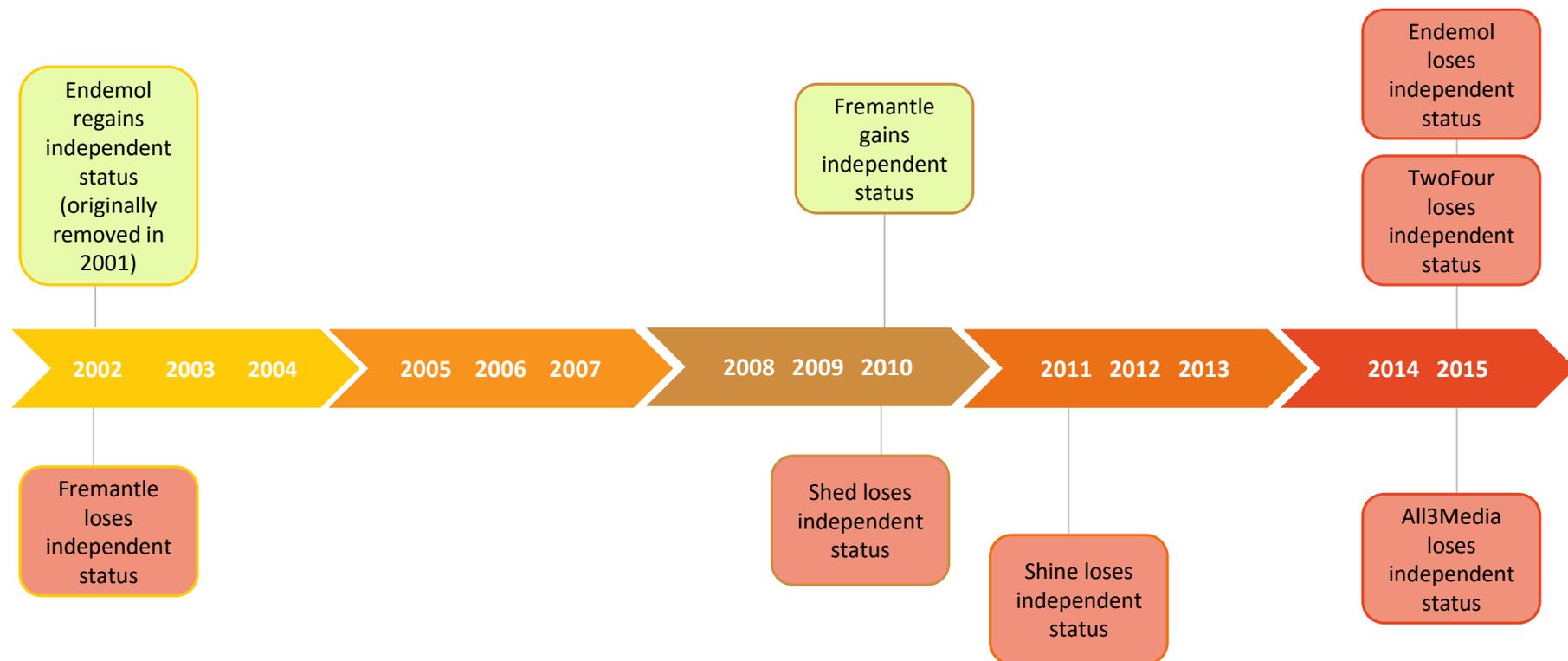
Production sector consolidation – evolution of business models

Six phases of production sector development - we're now well into phase six...

External Capital	Original phase of investment in independent production companies – backing management with good ideas
Consolidation	Mergers between producers, often PE backed
IP Development	Focus on formats / exports – exploiting owned IP
Globalisation (Go West)	Purchase of overseas production companies – typically US (also AUS, EU) to create IP development / exploitation networks
Consolidation 2 – Vertical Integration	Ownership by integrated producer / broadcaster groups
Filling in the gaps	Backing individuals / small companies. Often with stakes, not ownership

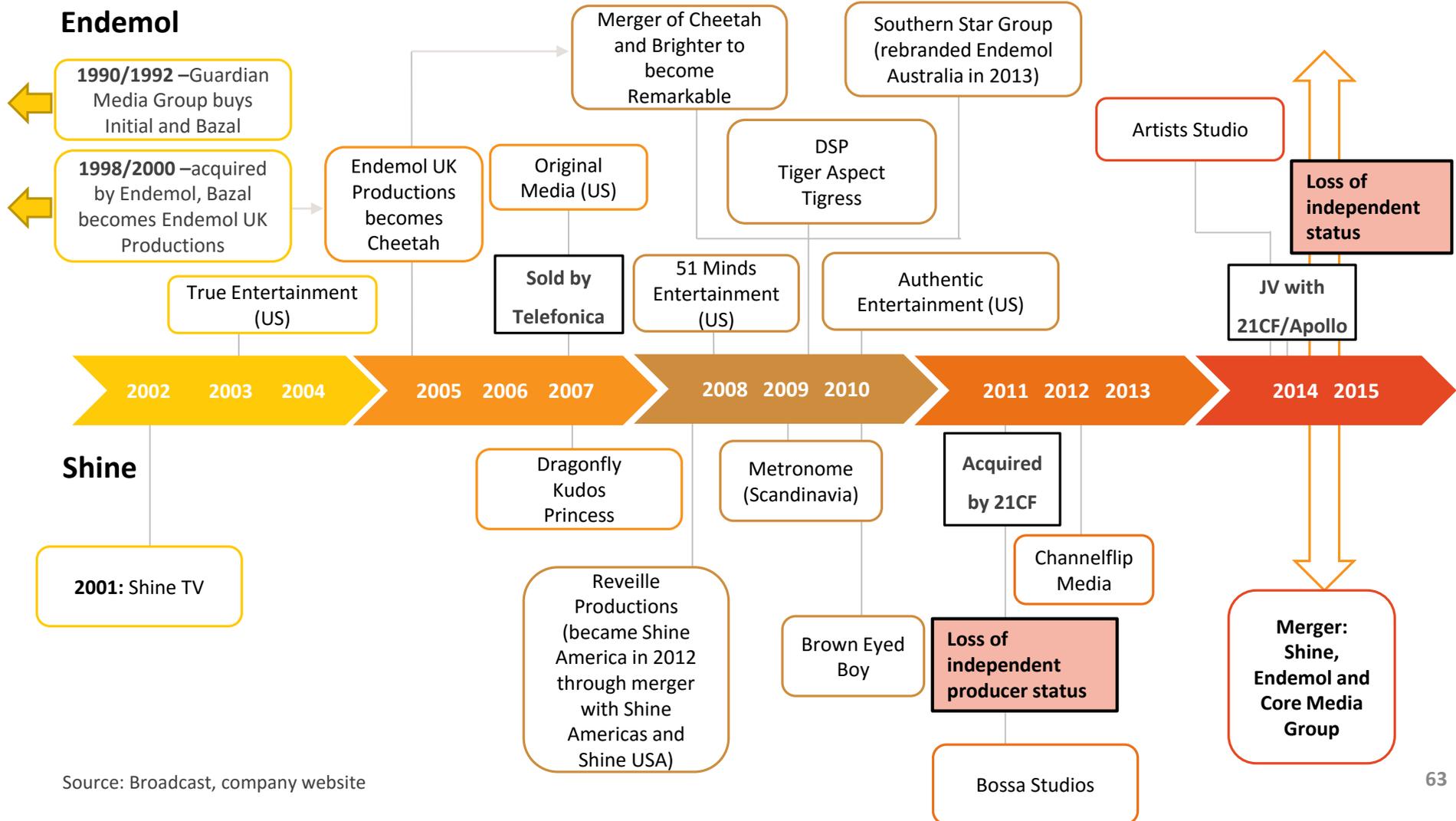
Production sector consolidation – independent status over time

In recent years there has been a spate of large production consolidators losing their independent status.



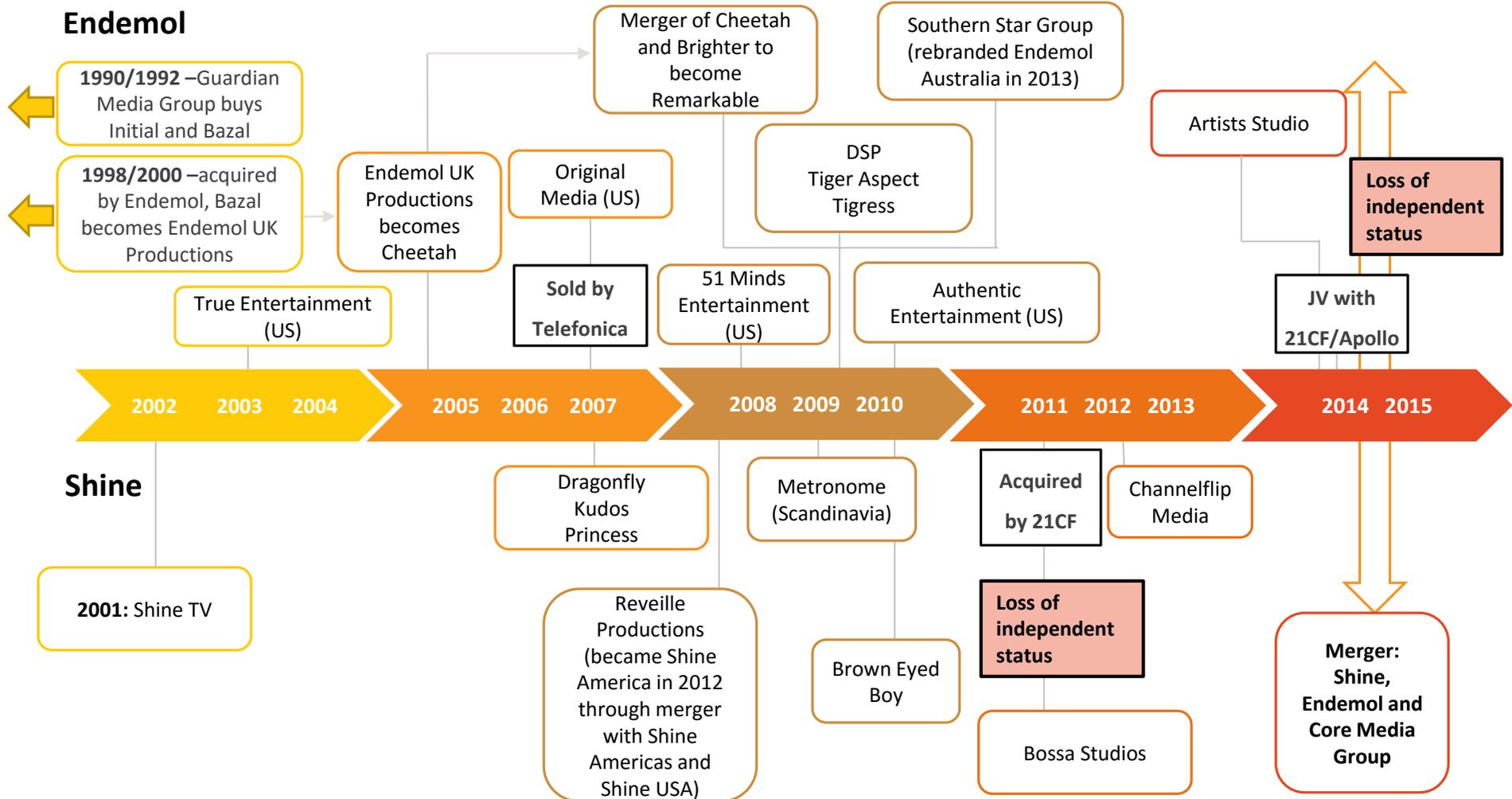
Production sector consolidation – timeline of consolidation - Endemol

Endemol Shine - Acquisitions of UK production companies and key international deals



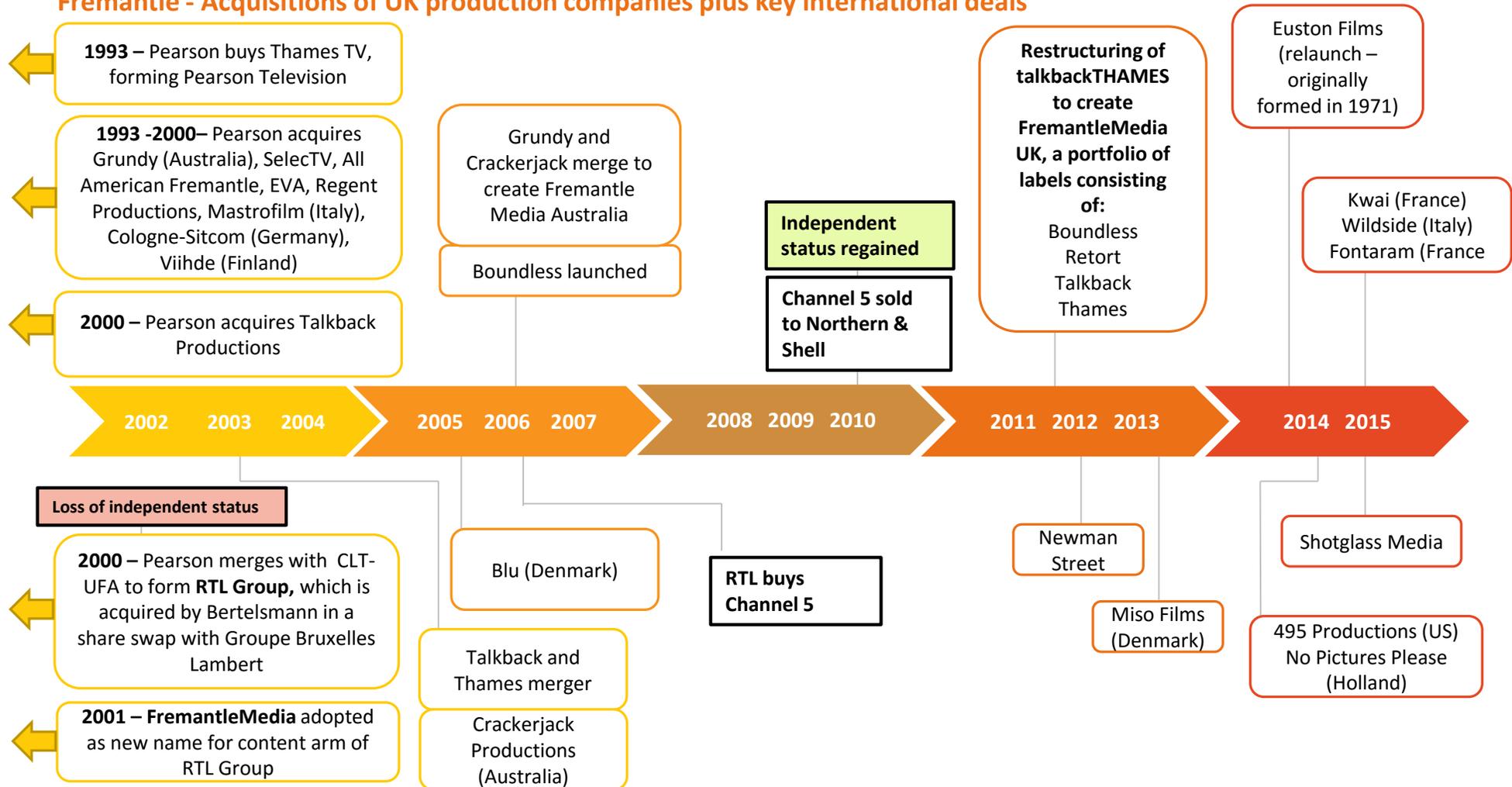
Production sector consolidation – timeline of consolidation - Endemol

Endemol Shine - Acquisitions of UK production companies and key international deals



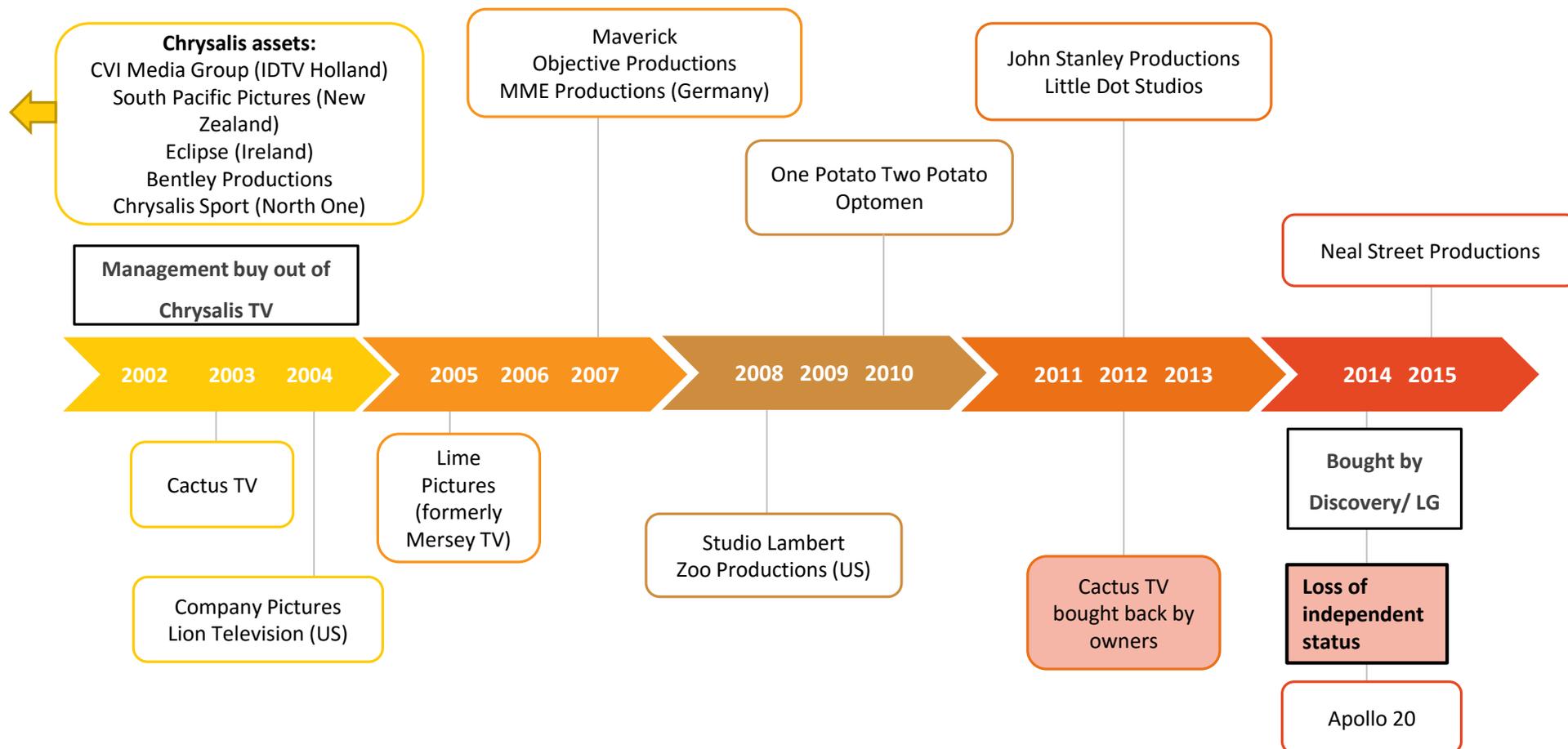
Production sector consolidation – timeline of consolidation - Fremantle

Fremantle - Acquisitions of UK production companies plus key international deals



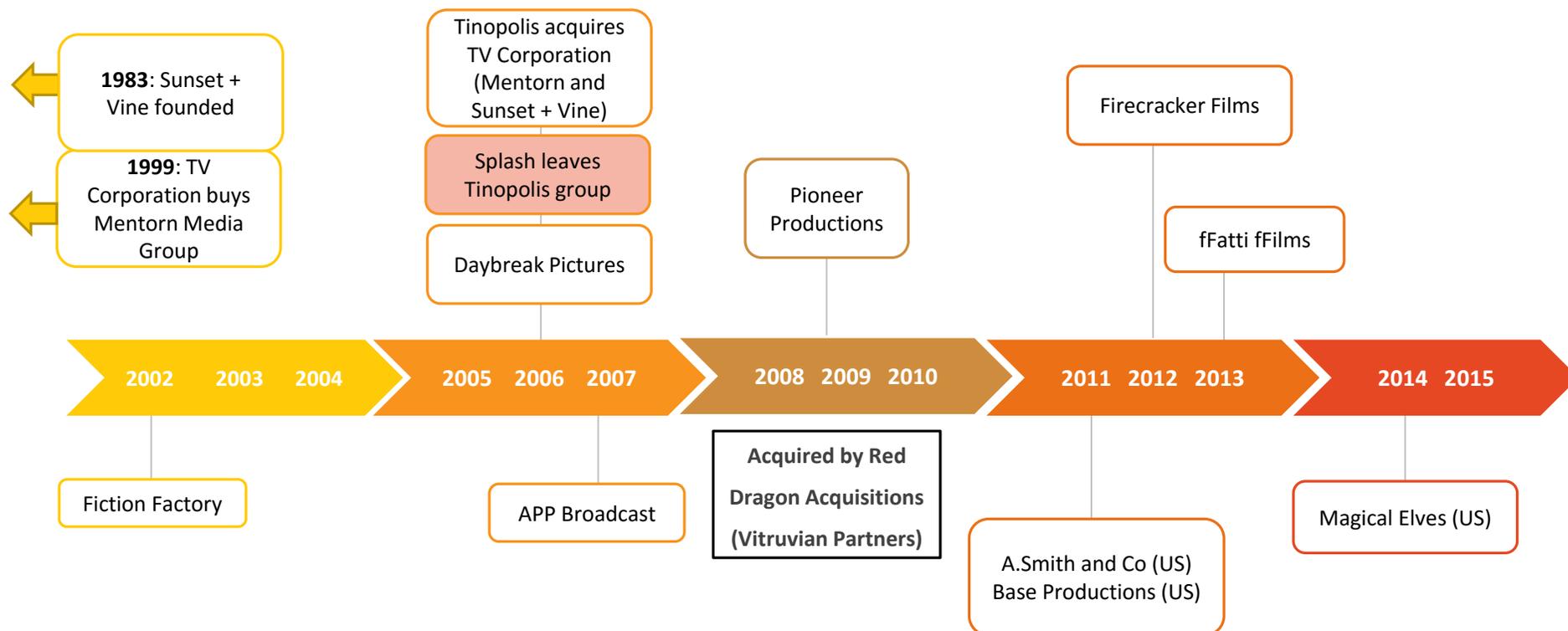
Production sector consolidation – timeline of consolidation – All3Media

All3Media - Acquisitions of UK production companies and key international deals



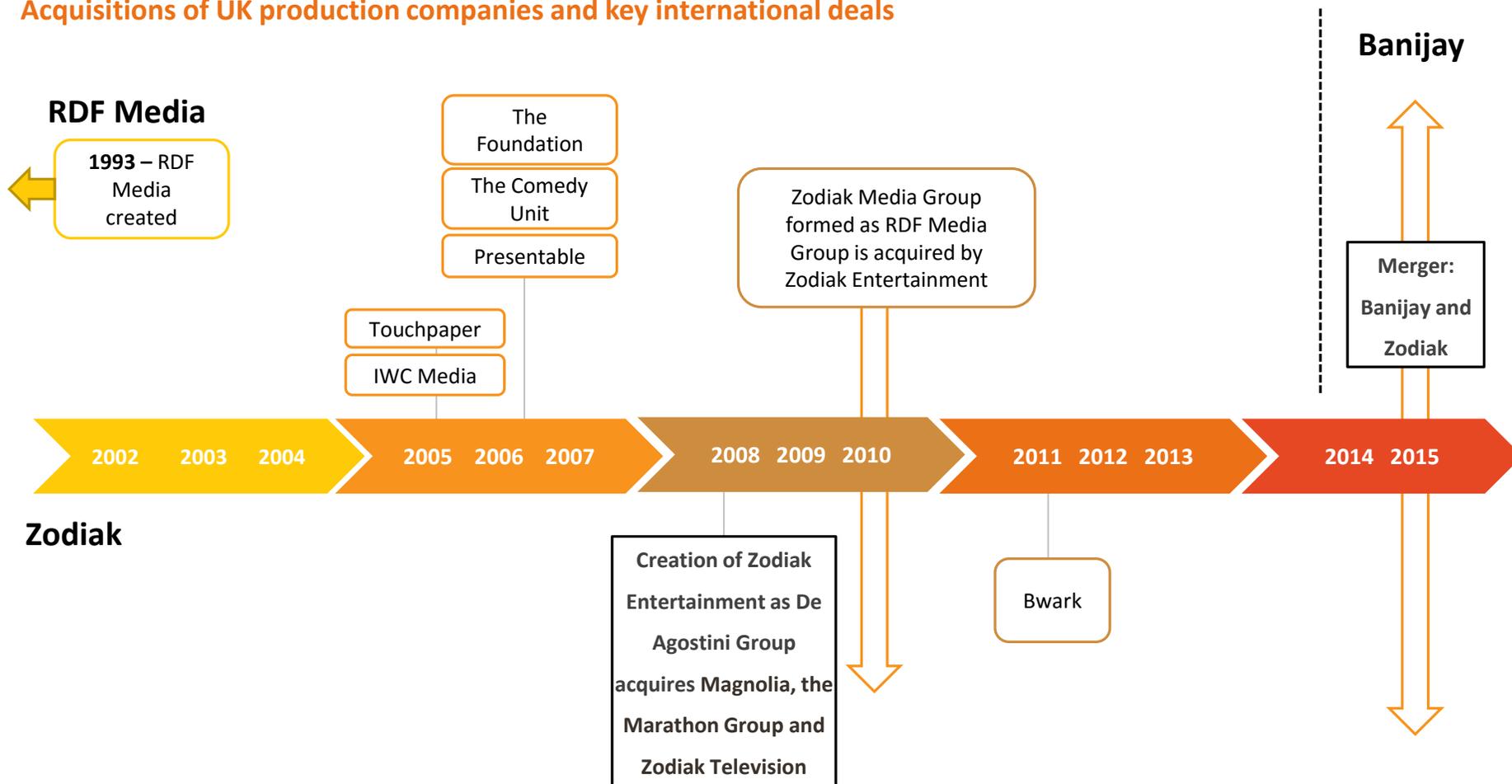
Production sector consolidation – timeline of consolidation - Tinopolis

Acquisitions of UK production companies and key international deals



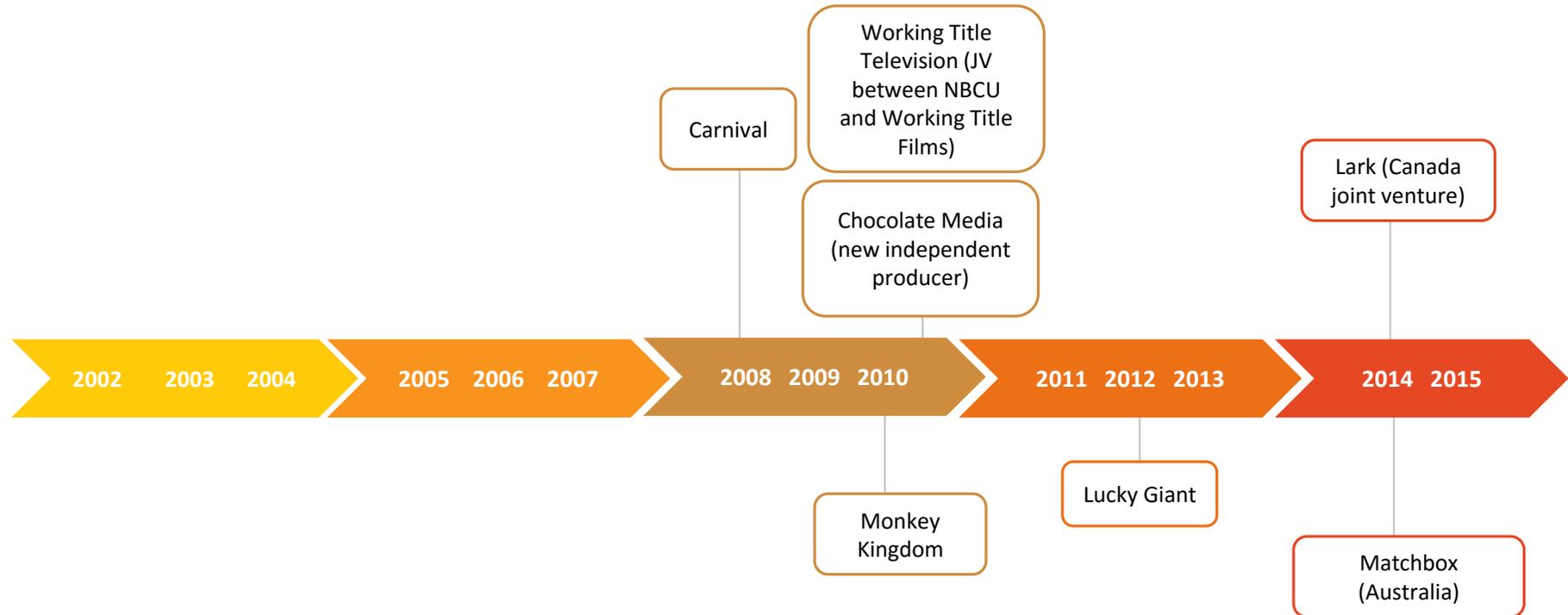
Production sector consolidation – timeline of consolidation – Zodiak Media

Acquisitions of UK production companies and key international deals



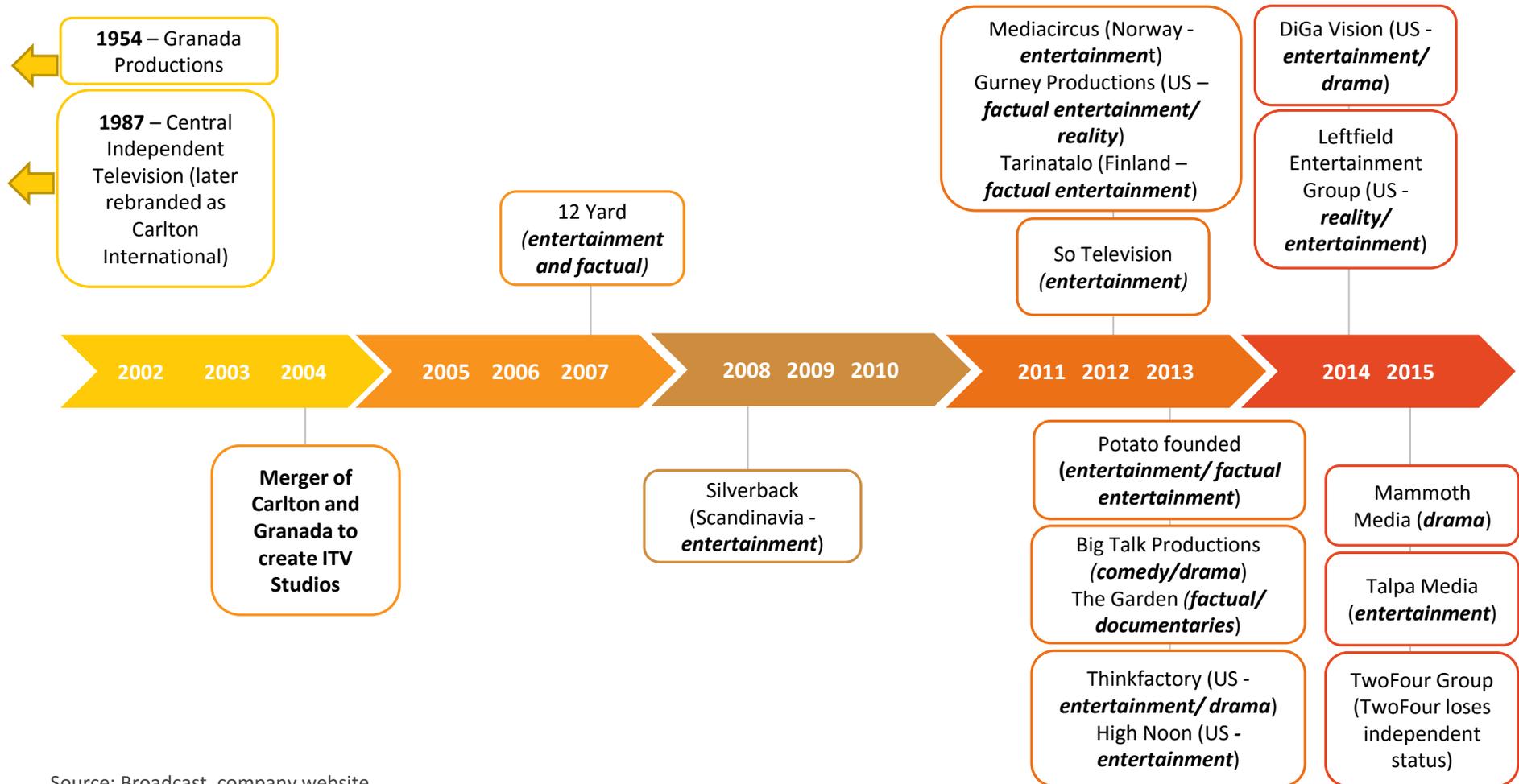
Production sector consolidation – timeline of consolidation – NBCUniversal

Acquisitions of UK production companies and key international deals



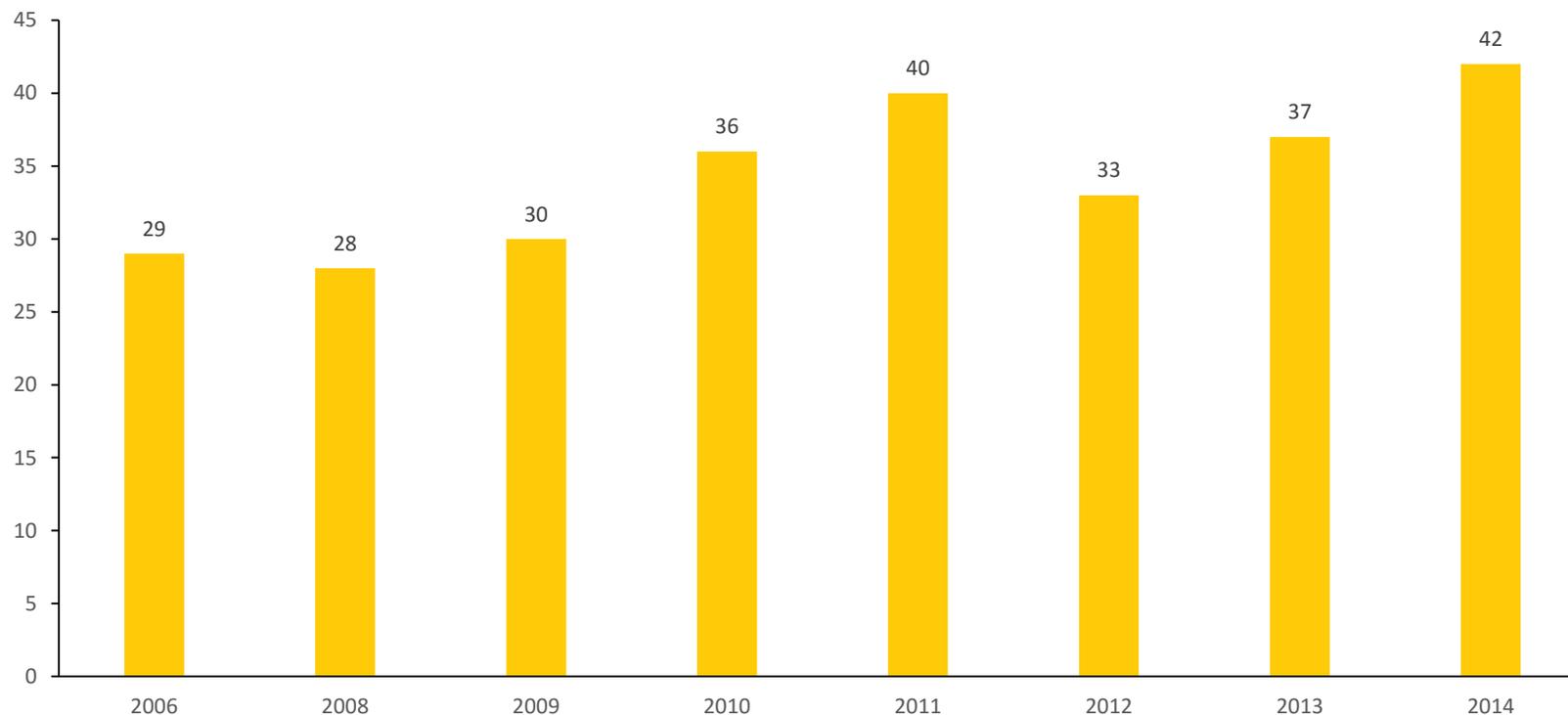
Production sector consolidation – timeline of consolidation – ITV Studios

Acquisitions of UK production companies and key international deals



Production sector consolidation – average hours per producer

Average hours per producer*, 2006-2014

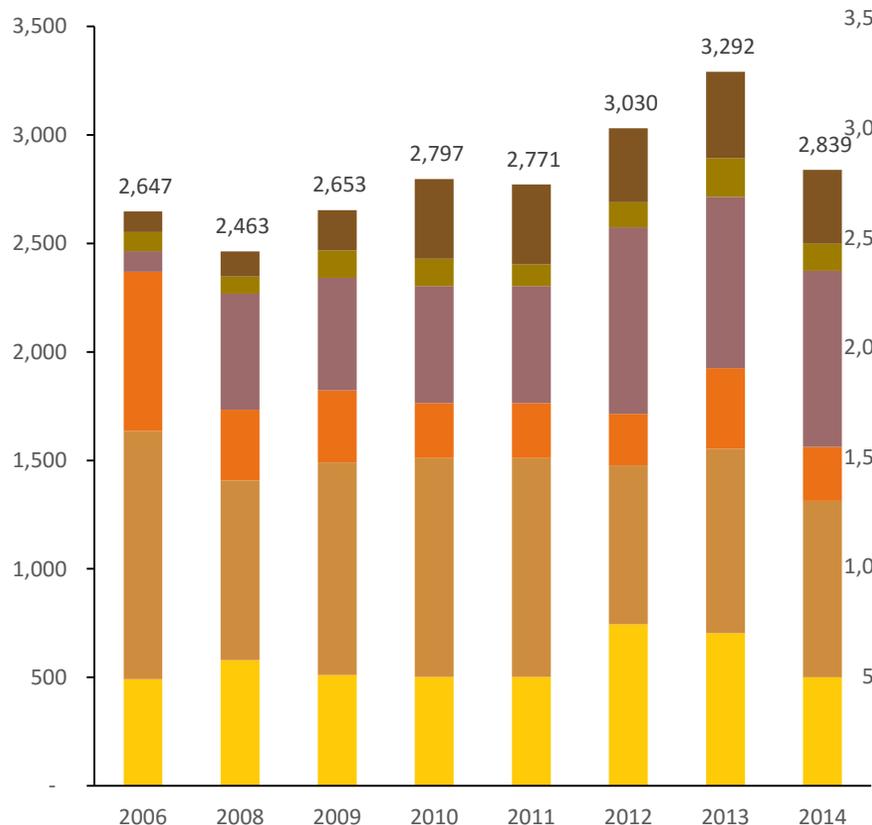


* Total hours on PSB channels excluding sport, films, and 'other' genres divided by number of active producers

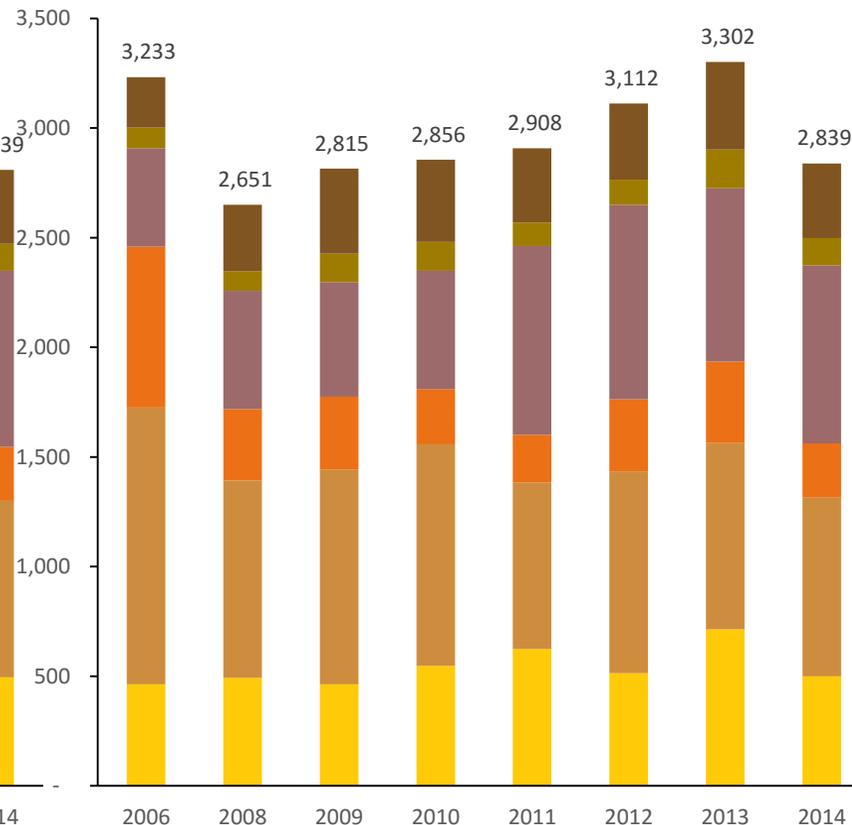
Production sector consolidation – number of producers used

Despite consolidation in the production market, the largest producer groups have not been able to grow the number of hours through consolidation

First run commissioning hours – Large producer groups vs other producers – Actual*



First run commissioning hours – Large producer groups vs other producers – Backwards**



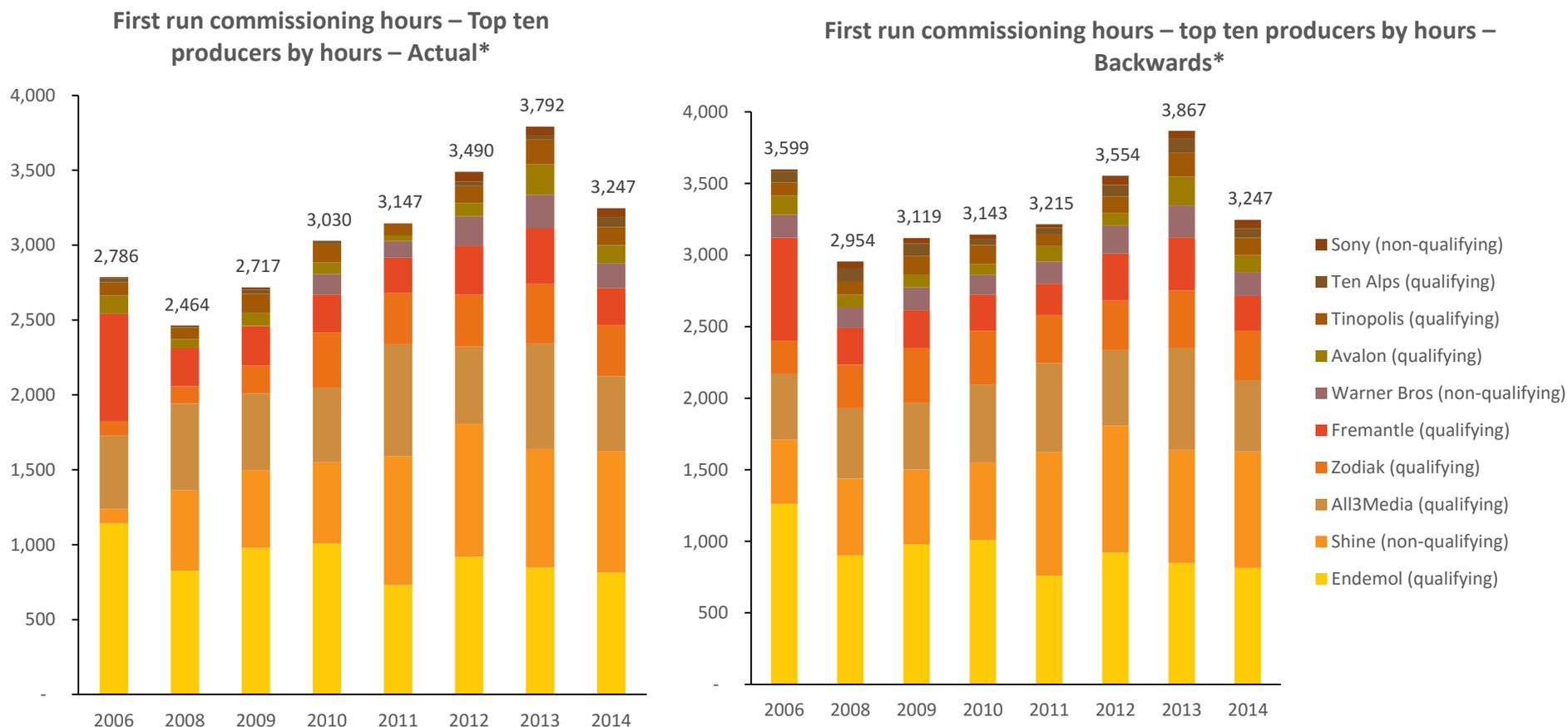
- Zodiac
- Tinopolis
- Shine
- Fremantle
- Endemol
- All3Media

*Actual refers to the commissioning hours of the group as it existed in that year

** Backwards consists of the commissioning hours if the group owned the companies it does in 2014 in that year

Production sector consolidation – number of producers used

The picture is similar for the top 10 producers by output



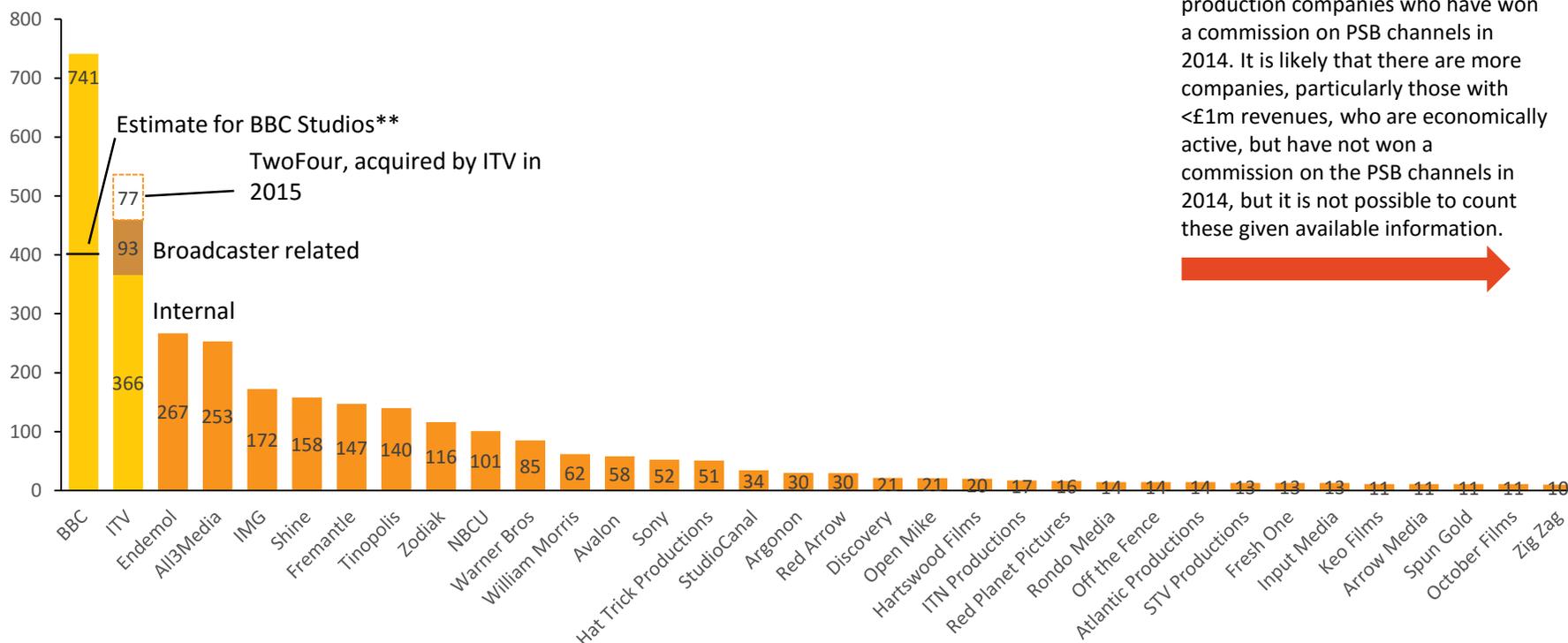
*Actual refers to the commissioning hours of the group as it existed in that year

** Backwards consists of the commissioning hours if the group owned the companies it does in 2014 in that year

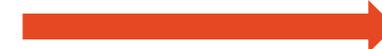
Production sector consolidation – Production revenues – 2014

The external production market was worth an estimated £2.9bn in 2014. ITV was the main source of external broadcaster related production worth £93m to ITV

2014 UK production company revenues*



Estimated approx. 225 independent production companies who have won a commission on PSB channels in 2014. It is likely that there are more companies, particularly those with <£1m revenues, who are economically active, but have not won a commission on the PSB channels in 2014, but it is not possible to count these given available information.

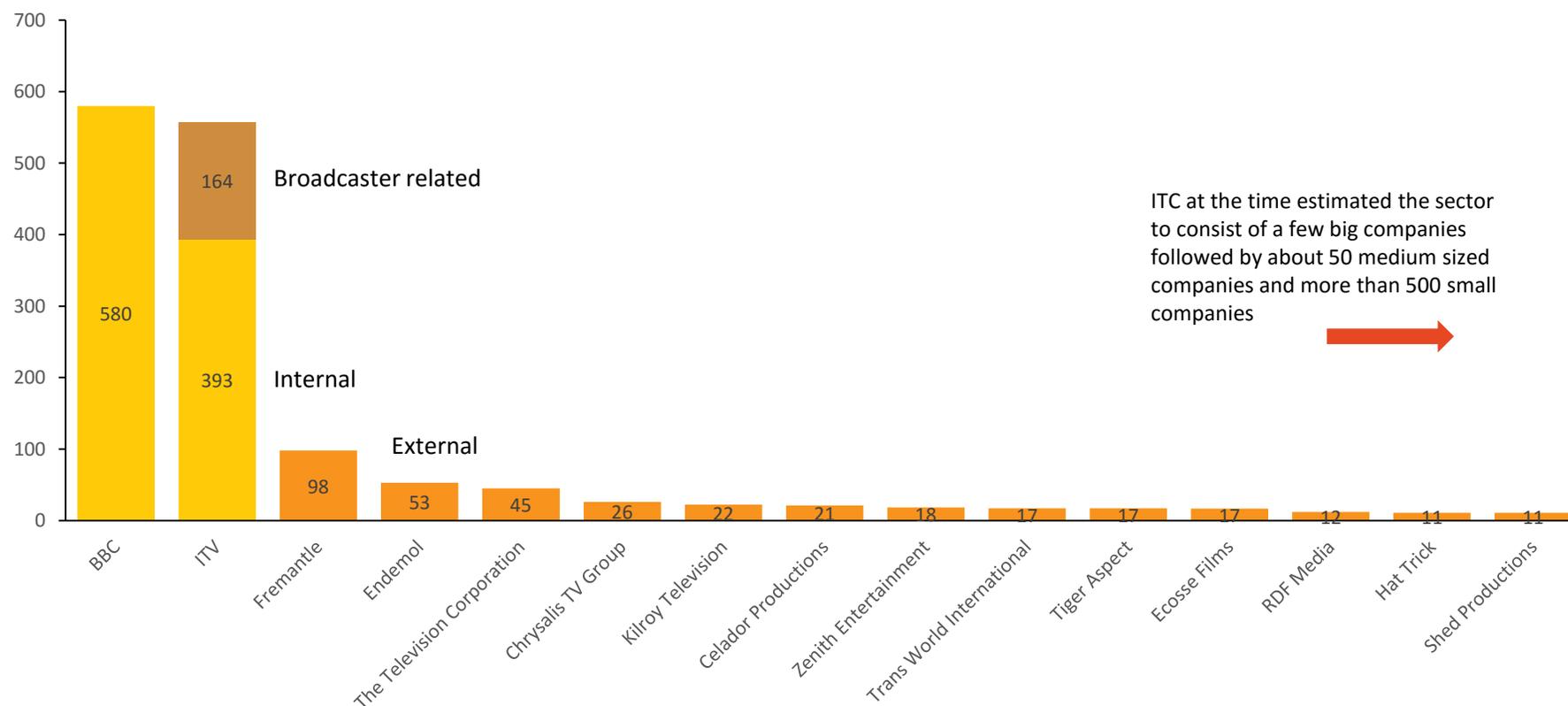


*UK revenue, but including overseas revenues from UK rights exploitation. Some revenue numbers may include additional activities such as distribution and formats not strictly UK derived. Endemol includes revenue from Endemol Worldwide Distribution, part of this revenue may result from the distribution of non-UK produced IP. Ownership status as of 2014, some companies changed hands in 2015, e.g. TwoFour bought by ITV. BBC and ITV Studios are commissioning spend. **Estimate for value of proposed externalisation, currently included in in-house spend
 Source: Annual reports, Broadcast Now Survey 2015

Production sector consolidation – Production revenues - 2001

The external production market was worth an estimated £756m in 2001. ITV was the main source of external broadcaster related spend at £164m

2001 UK production company revenues*

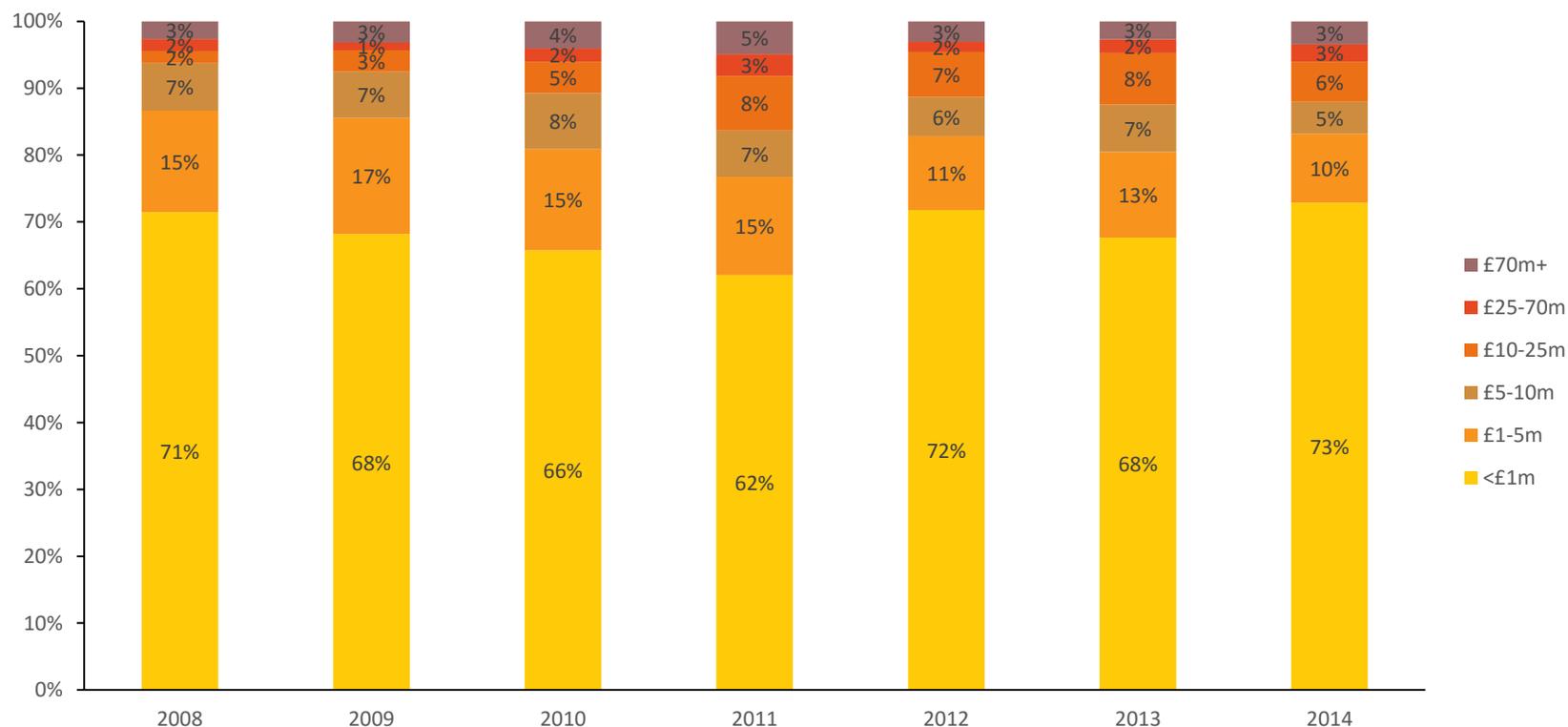


*UK revenue, but including overseas revenues from UK rights exploitation.
BBC and ITV Studios is commissioning spend

Production sector consolidation - proportion of companies by turnover band

The largest companies only account for a small share and number (when counted at group level) of the overall market

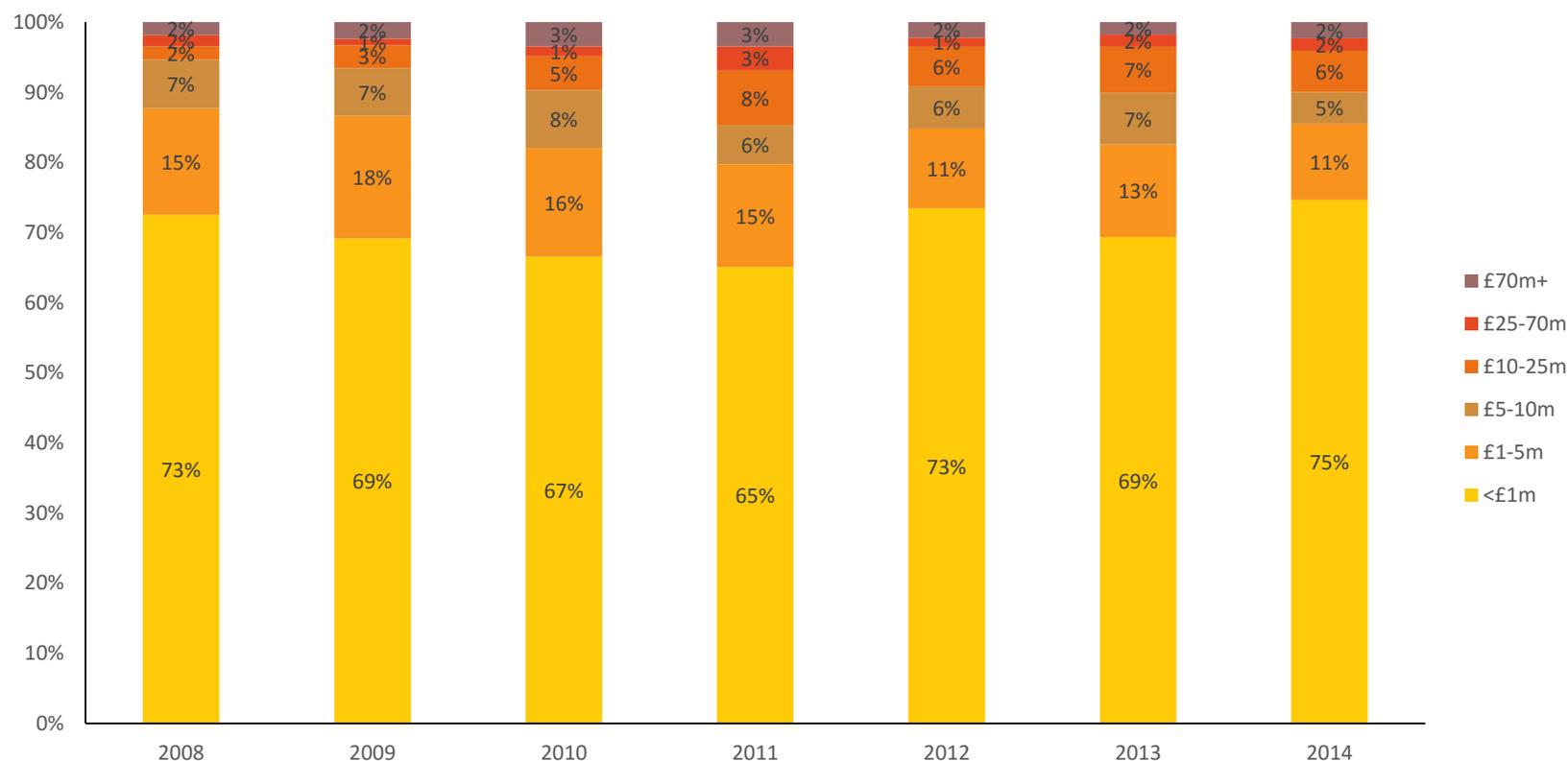
Distribution of producers companies by turnover band – 2008-2014



Production sector consolidation – qualifying producer companies by turnover band

The distribution of qualifying producers is slightly skewed towards smaller companies

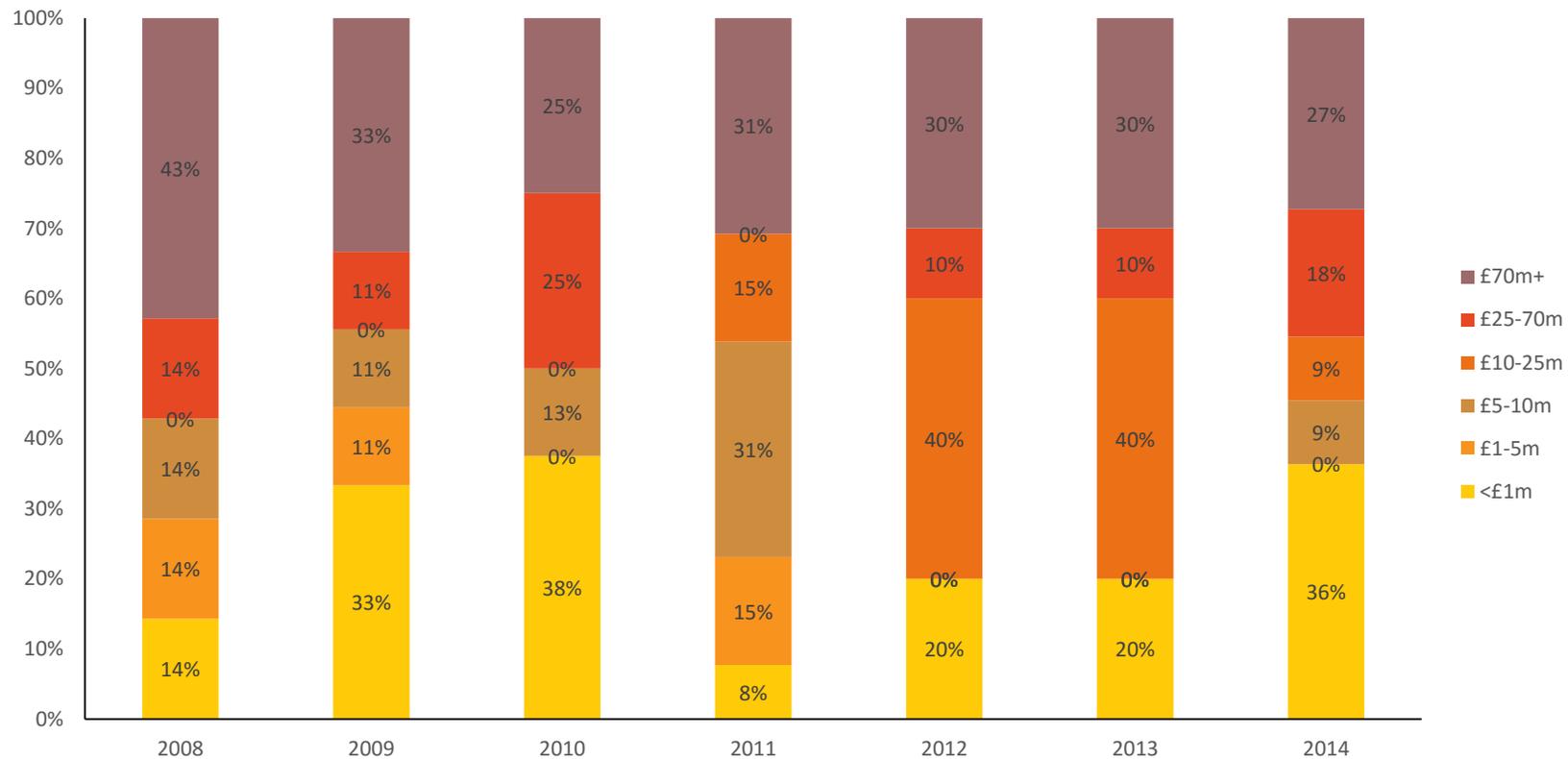
Distribution of qualifying producer companies by turnover band – 2008-2014



Production sector consolidation - non-qualifying producers by turnover band

Non-qualifying producers are mainly skewed towards larger companies,

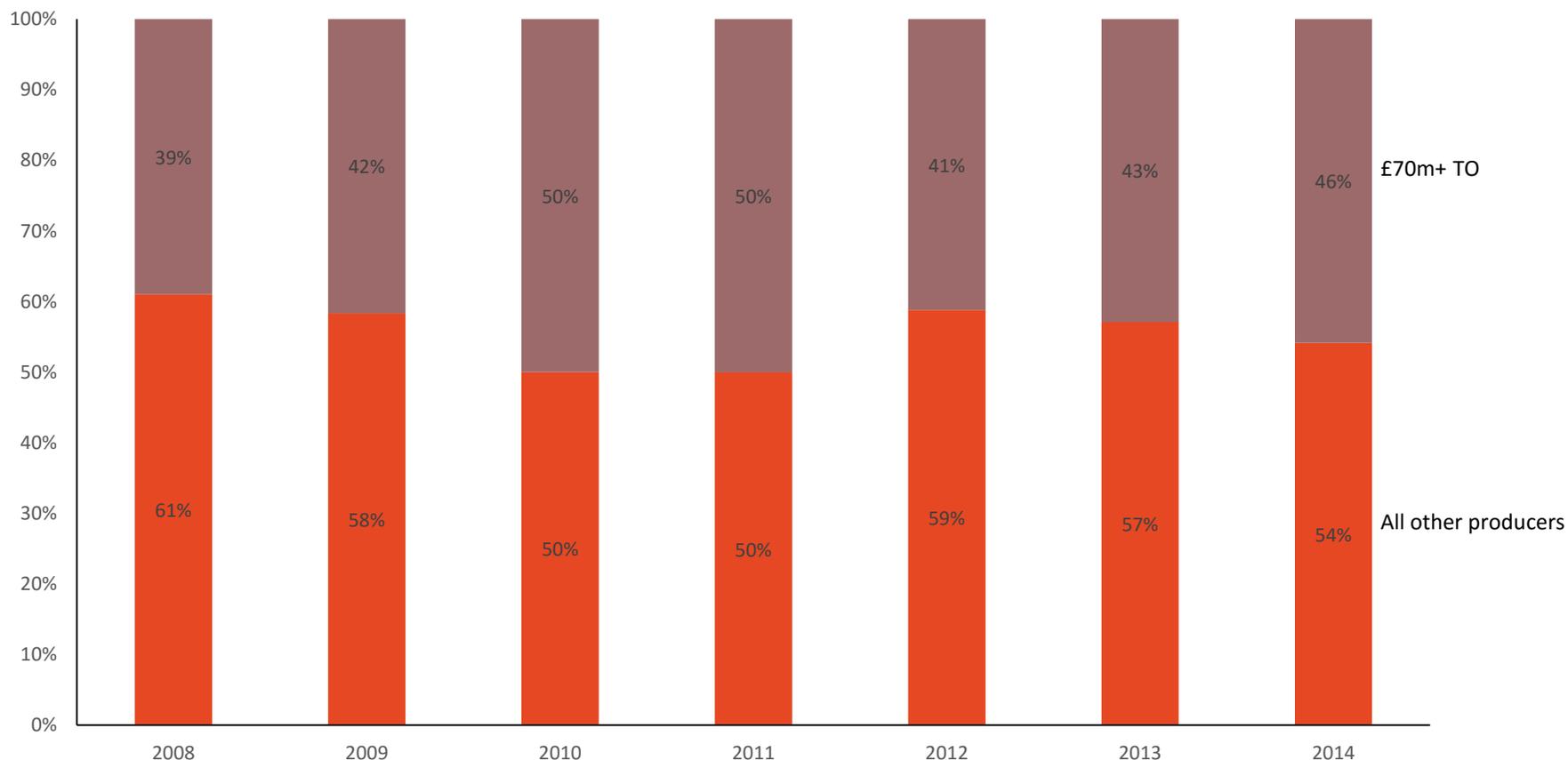
Distribution of non-qualifying producers by turnover band – 2008-2014



Production sector consolidation – largest producers’ share of market revenues

The largest producers (those with more than £70m in turnover) initially increased their share of revenues, however their share has since dropped back down. This may in part be explained by a greater reliance on overseas activities

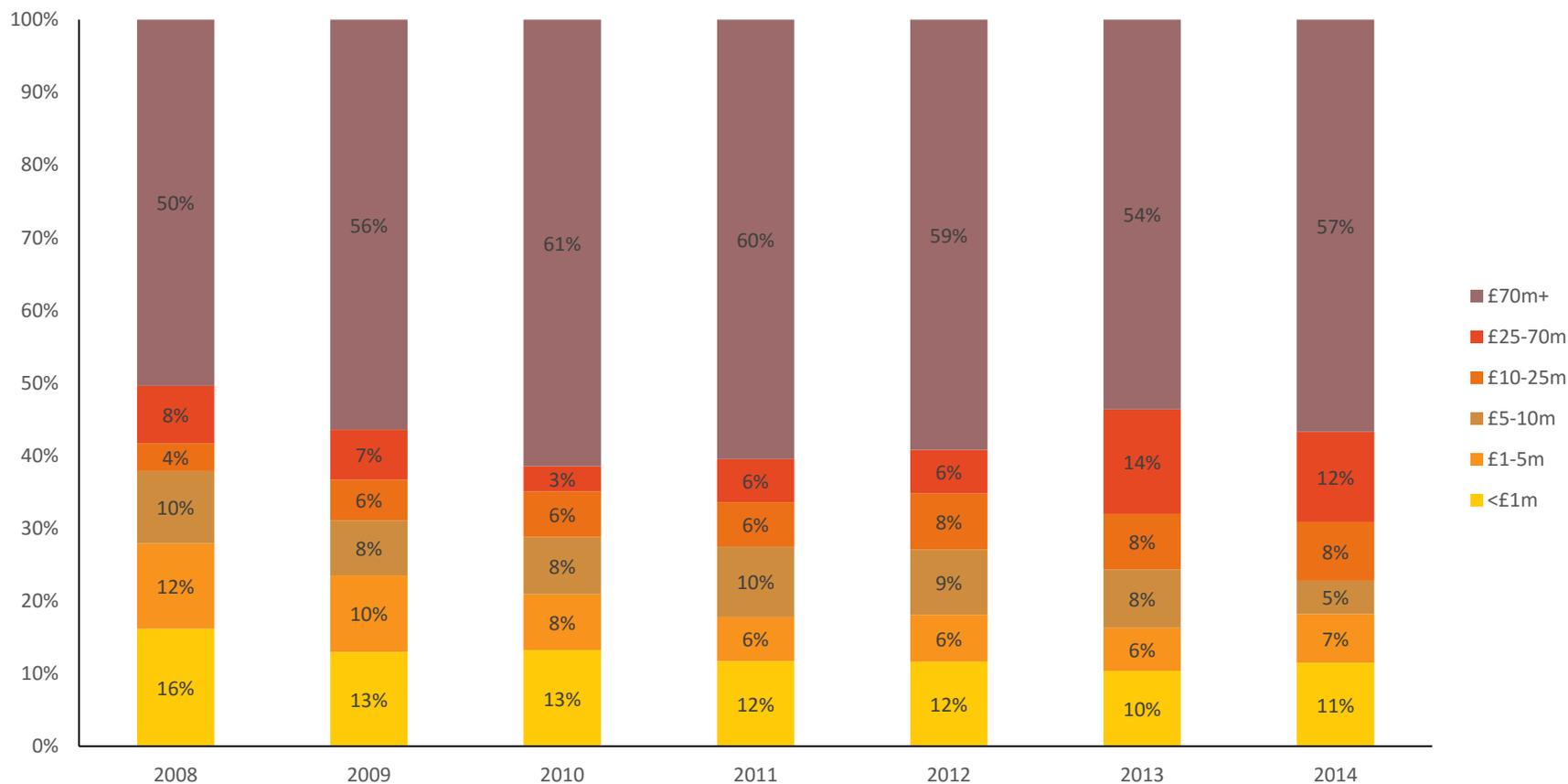
Largest producers’ (£70m+ TO) share of UK production sector revenues – 2008-2014



Production sector consolidation – number of producers used

The largest producers have however been able to take a larger share of a shrinking output market through consolidation. There has been a reduction in the proportionate output of the smallest producers used by PSBs

Share of first-run hours by turnover band – 2008-2014*



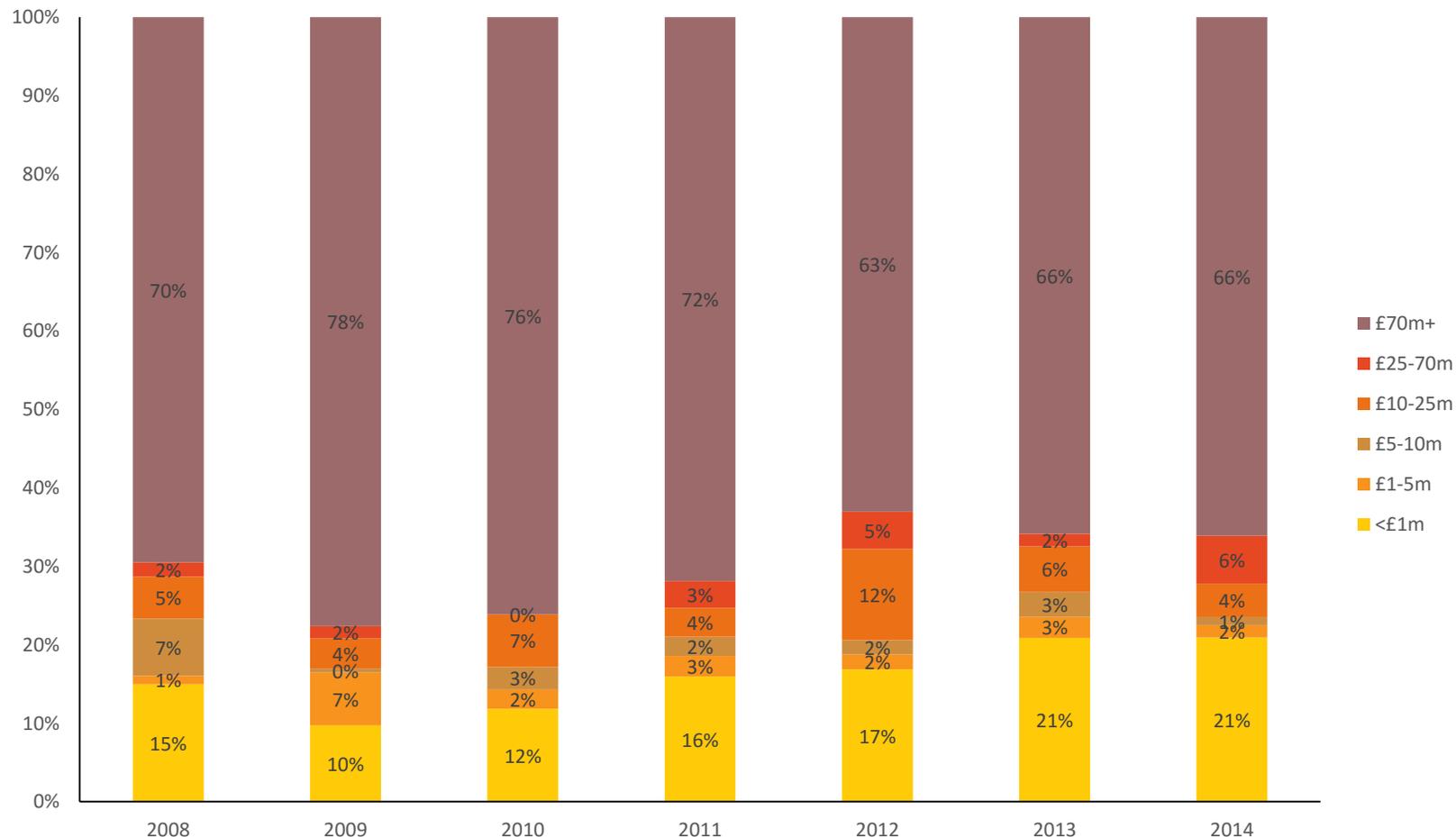
*Excluding news, sport, film and 'other'

Source: Attentional, Oliver & Ohlbaum analysis

Production sector consolidation – number of producers used - Drama

Smaller producers have had more success gaining ground on the largest producers within drama

Share of first-run hours by turnover band - Drama

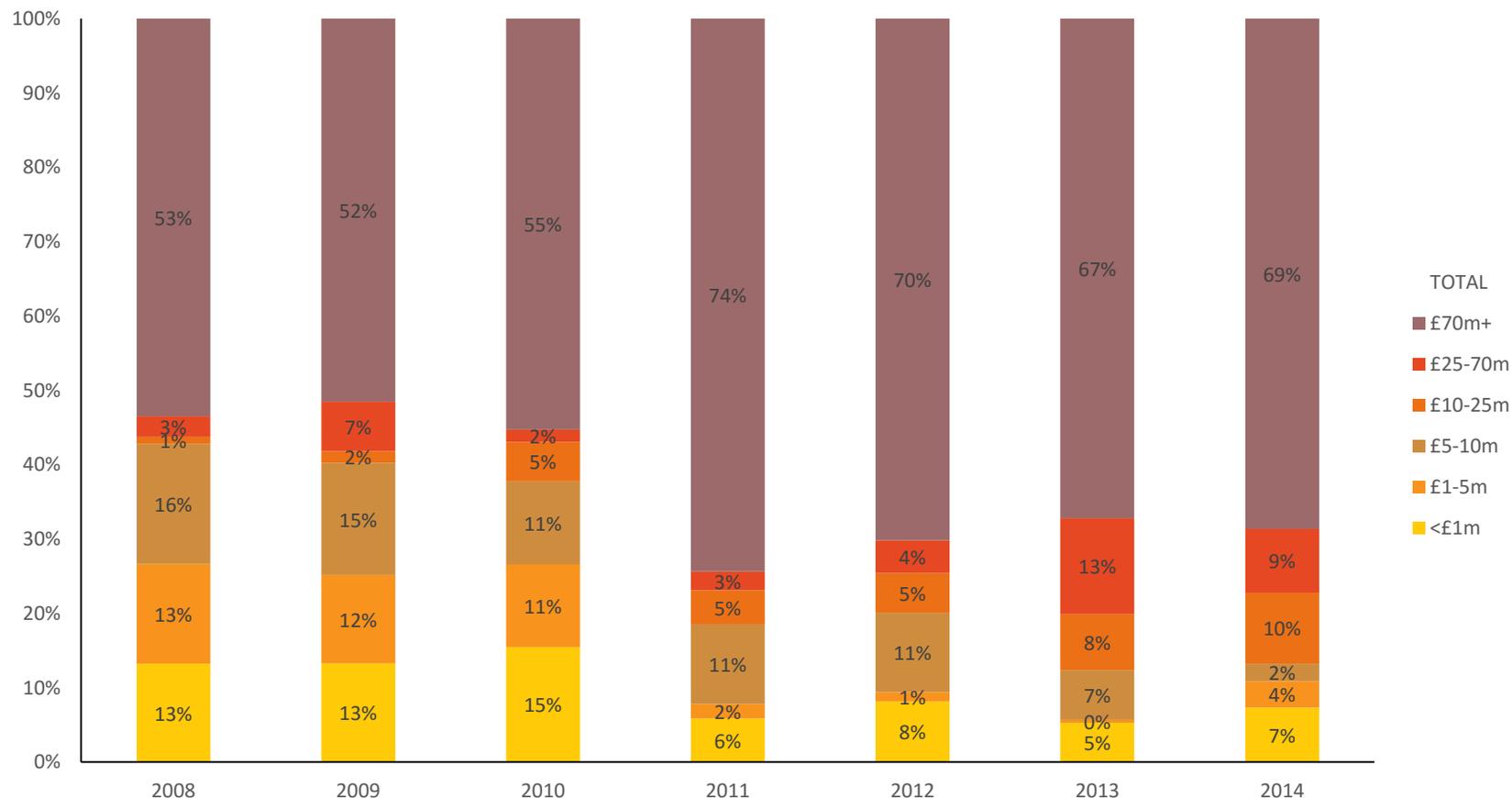


Source: Attentional, Oliver & Ohlbaum analysis

Production sector consolidation – number of producers used - Entertainment

The largest producers have got a stronghold on entertainment

Share of first-run hours by turnover band - Entertainment

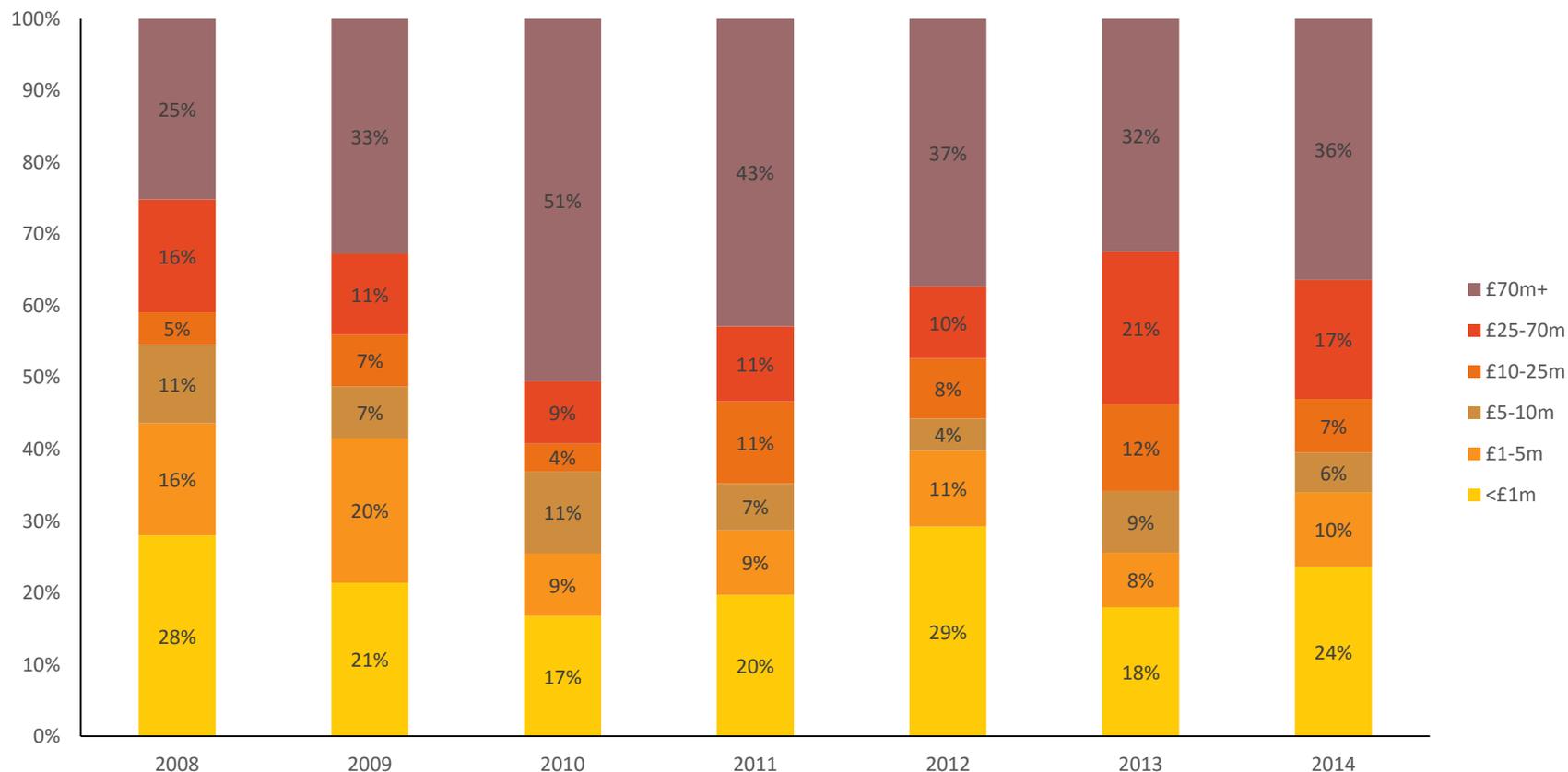


Source: Attentional, Oliver & Ohlbaum analysis

Production sector consolidation – number of producers used - Factual

Factual shows a much more diverse picture with more opportunity for companies across all turnover brackets

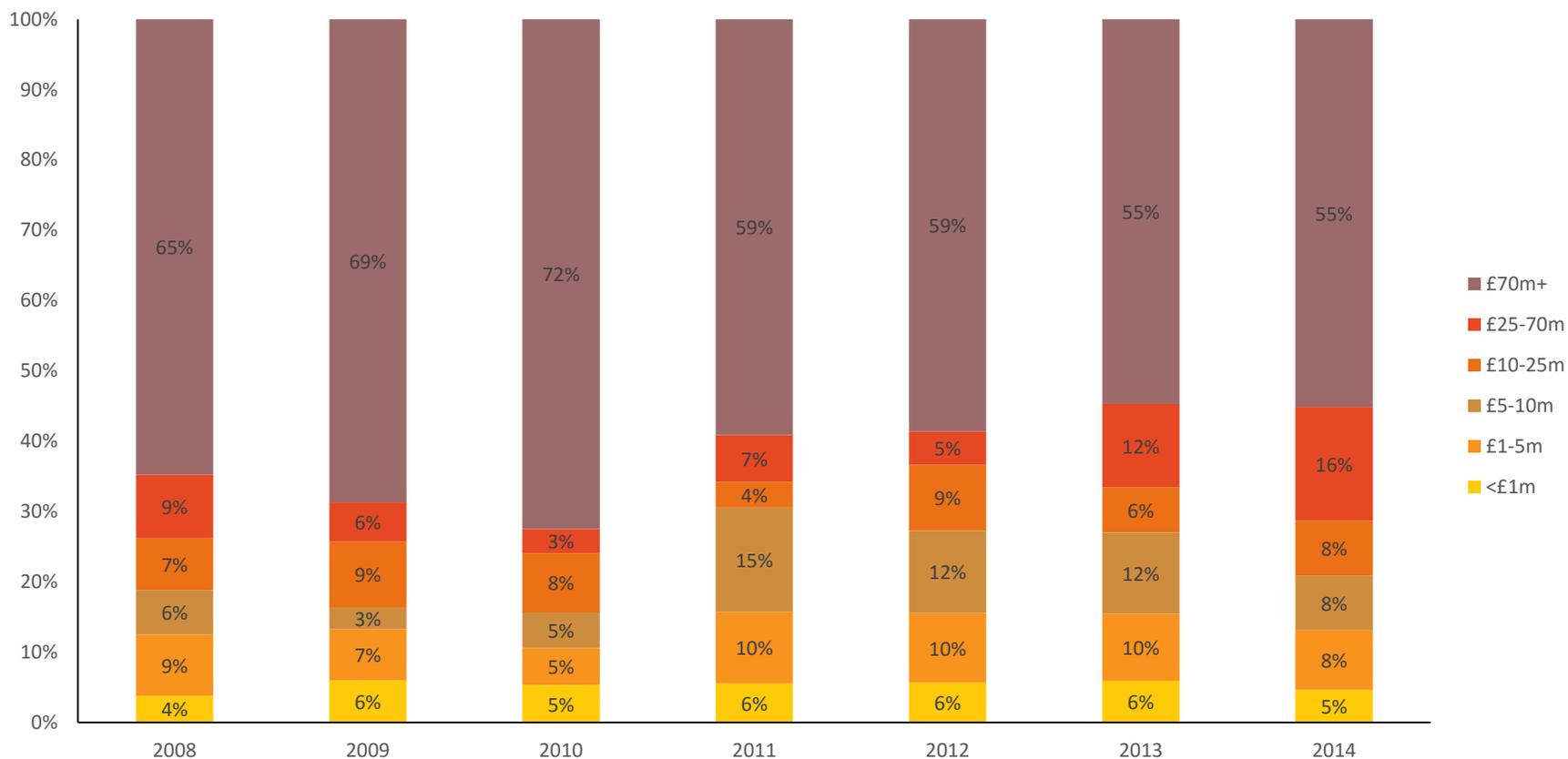
Share of first-run hours by turnover band - Factual



Production sector consolidation – number of producers used – Fact Ent

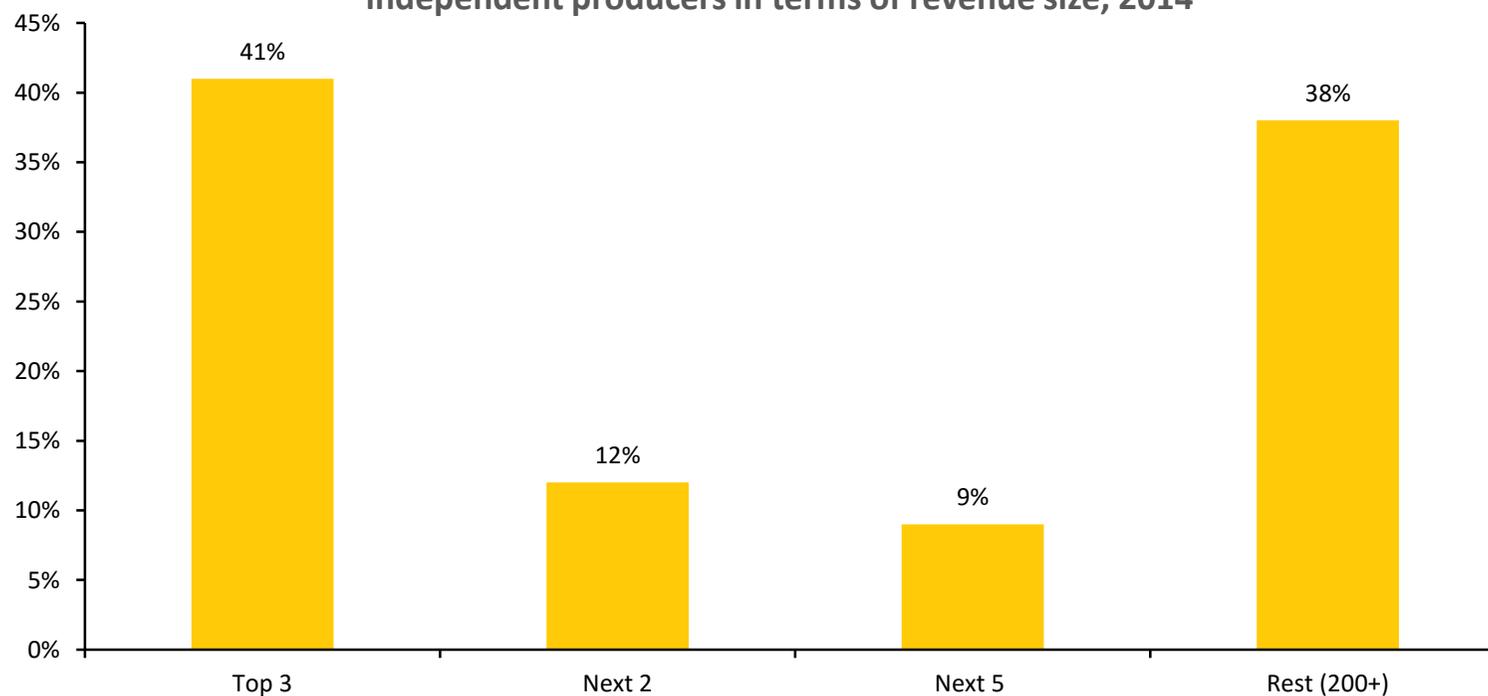
Factual entertainment has become less concentrated on the biggest players

Share of first-run hours by turnover band – Factual Entertainment



Production consolidation – qualifying producer commissions

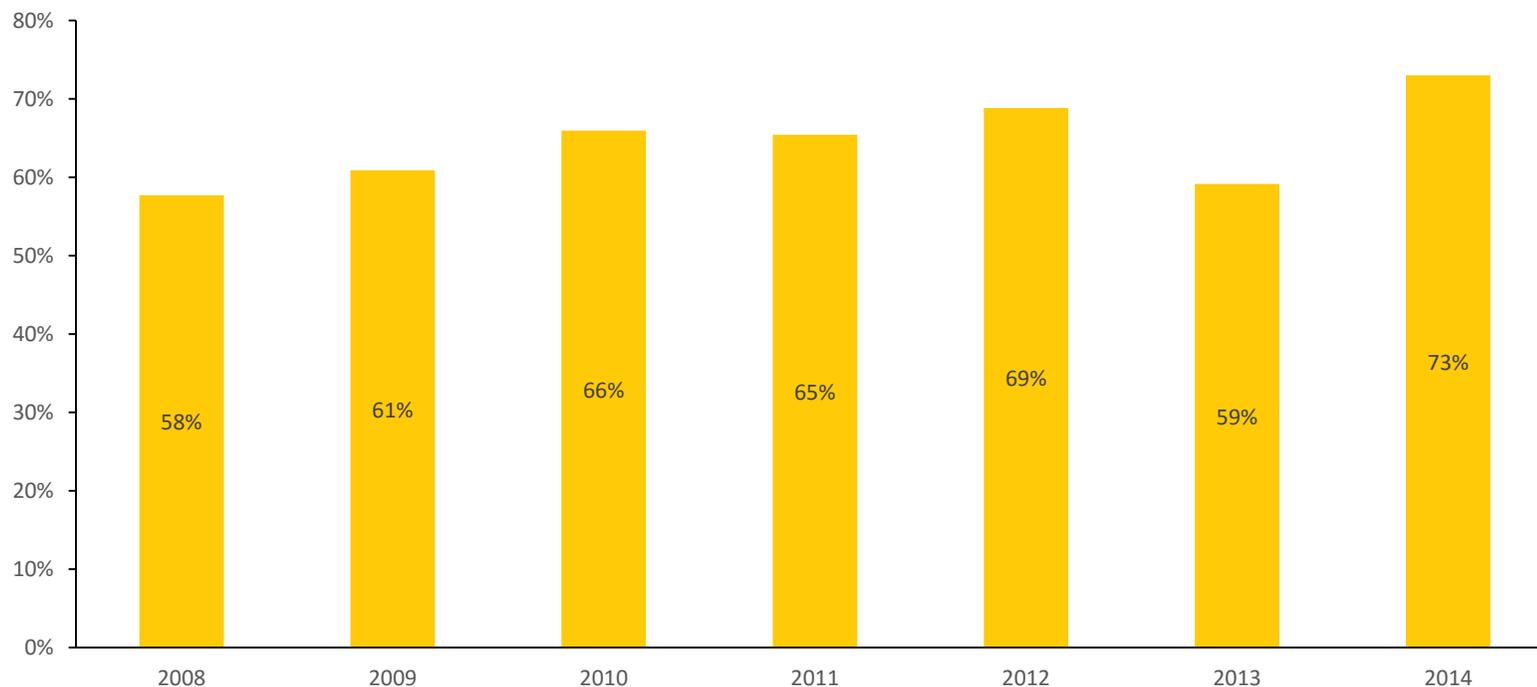
Share of qualifying producer commission output hours accounted for by the top qualifying independent producers in terms of revenue size, 2014



Production consolidation – qualifying producer commissions

The level of output accounted for by the top 20 producers has become more concentrated

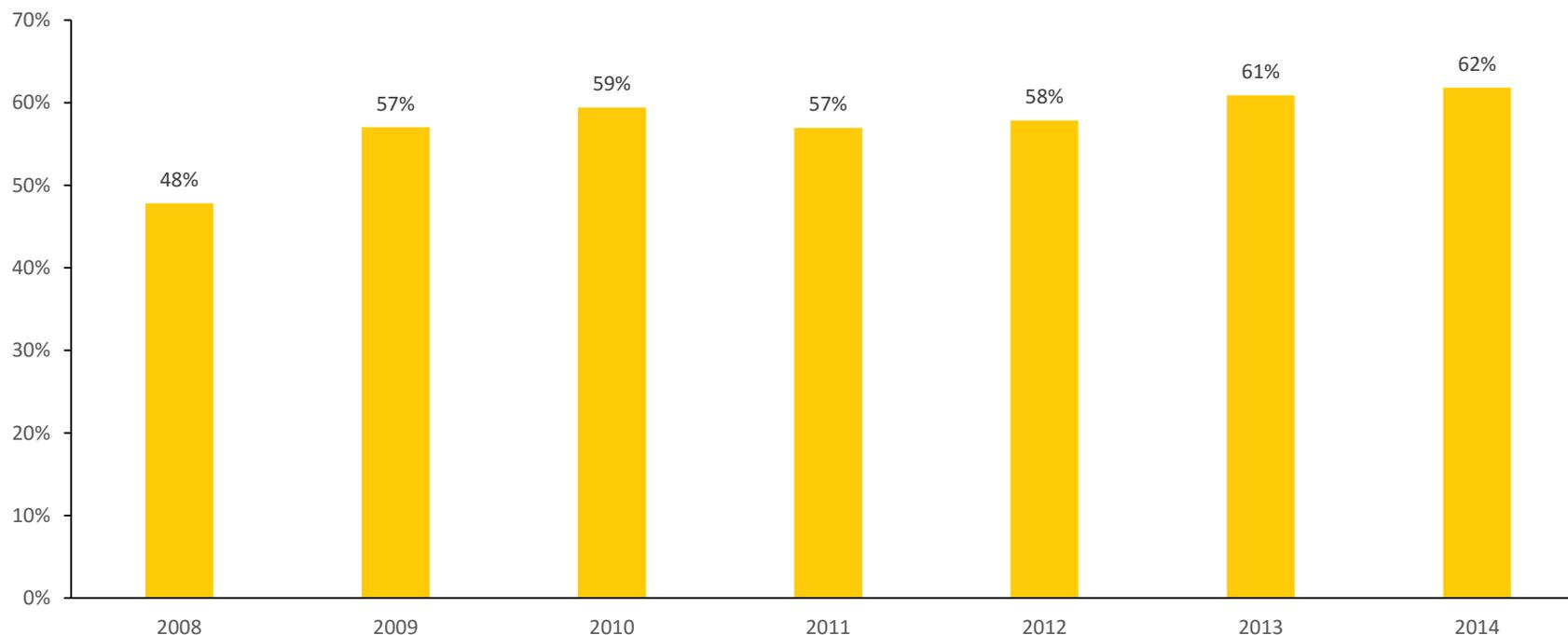
Share of all commissioning hours by top 20 producers in terms of revenue size, 2008-2014



Production consolidation – qualifying producer commissions

The picture is similar for the top 10 qualifying producers, although it appears to have levelled off somewhat

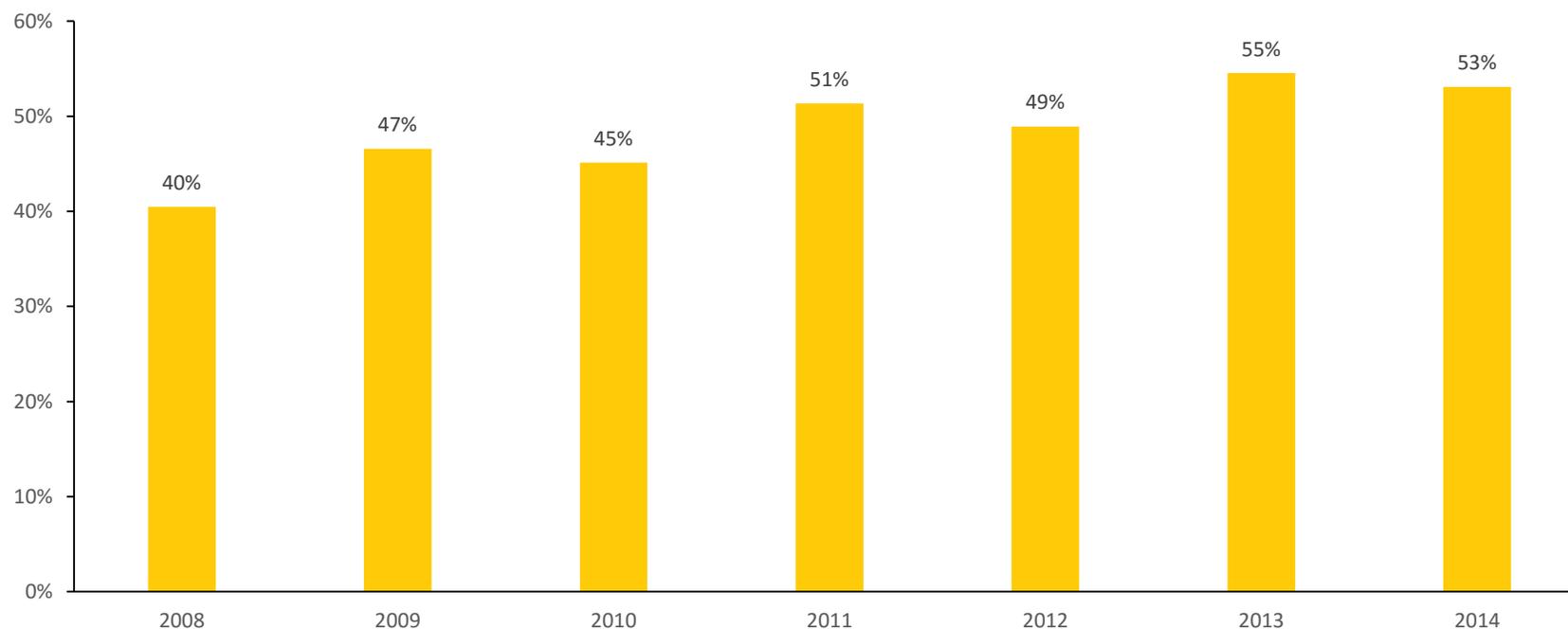
Share of qualifying producer commission output hours accounted for by the top 10 qualifying producers in terms of revenue size



Production consolidation – qualifying producer commissions

After an initial surge until 2011, the share of output accounted for by the top 5 qualifying producers has started levelling off

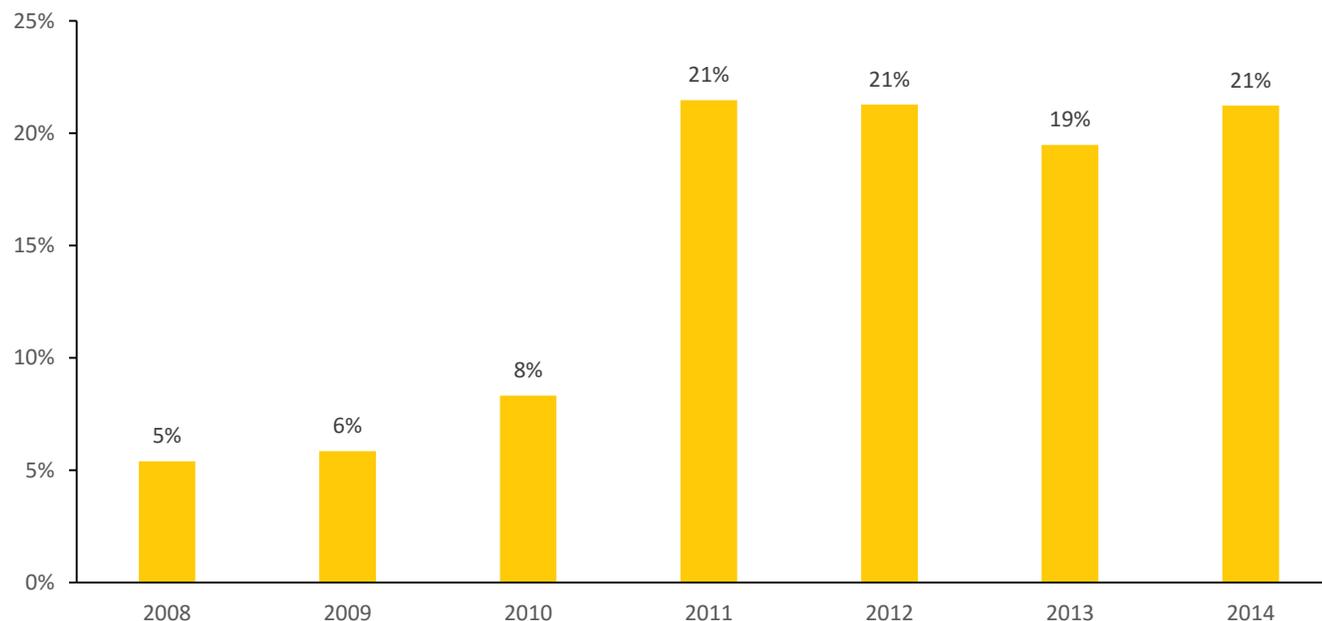
Share of qualifying producer commission output hours accounted for by the top 5 qualifying producers in terms of revenue size



Production consolidation – non-qualifying producer commissions

The share of output taken by the top 5 non-qualifying producer experienced a large increase when Shine lost its producer status. The share has remained level since

Share of total commissions by top 5 non-qualifying producers by revenue size, 2008-2014

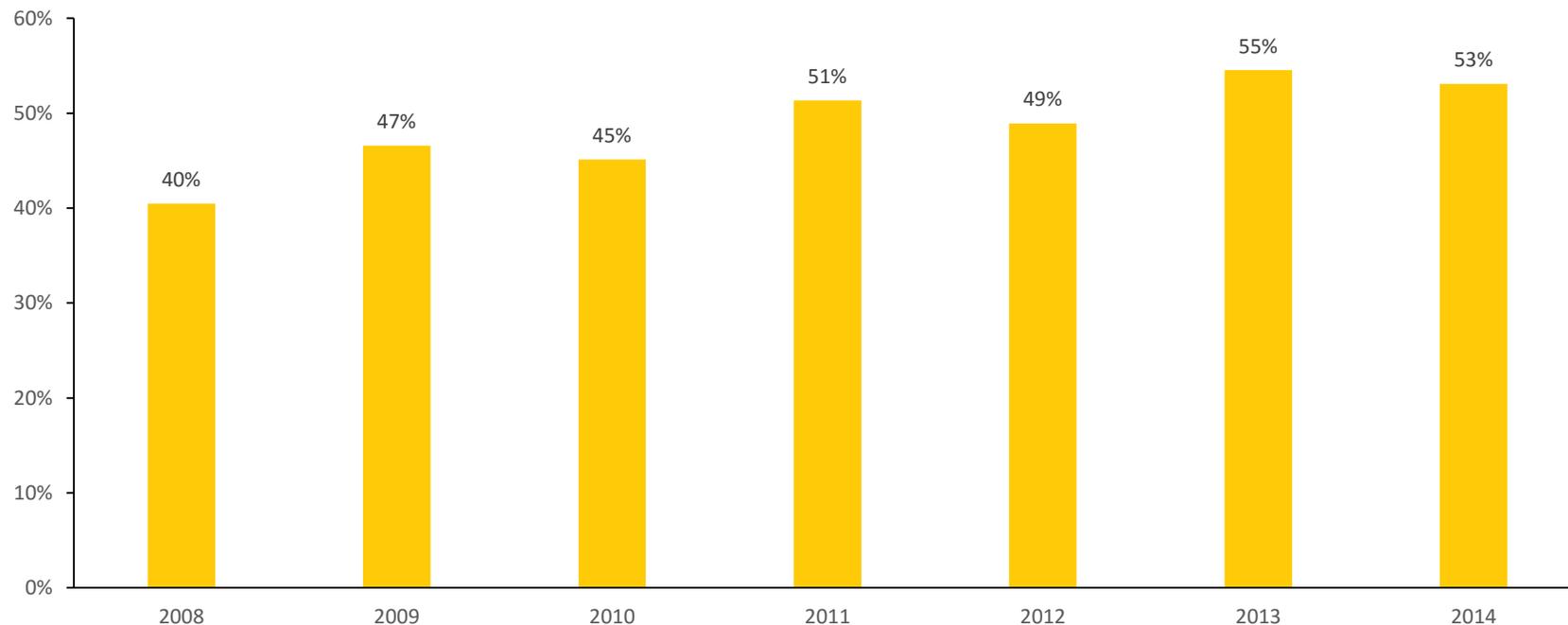


Large increase in 2011 can largely be attributed to Shine losing its independent status

Production consolidation – qualifying producer commissions

The top 5 qualifying producers are also taking a larger share of output 5tahn in 2008

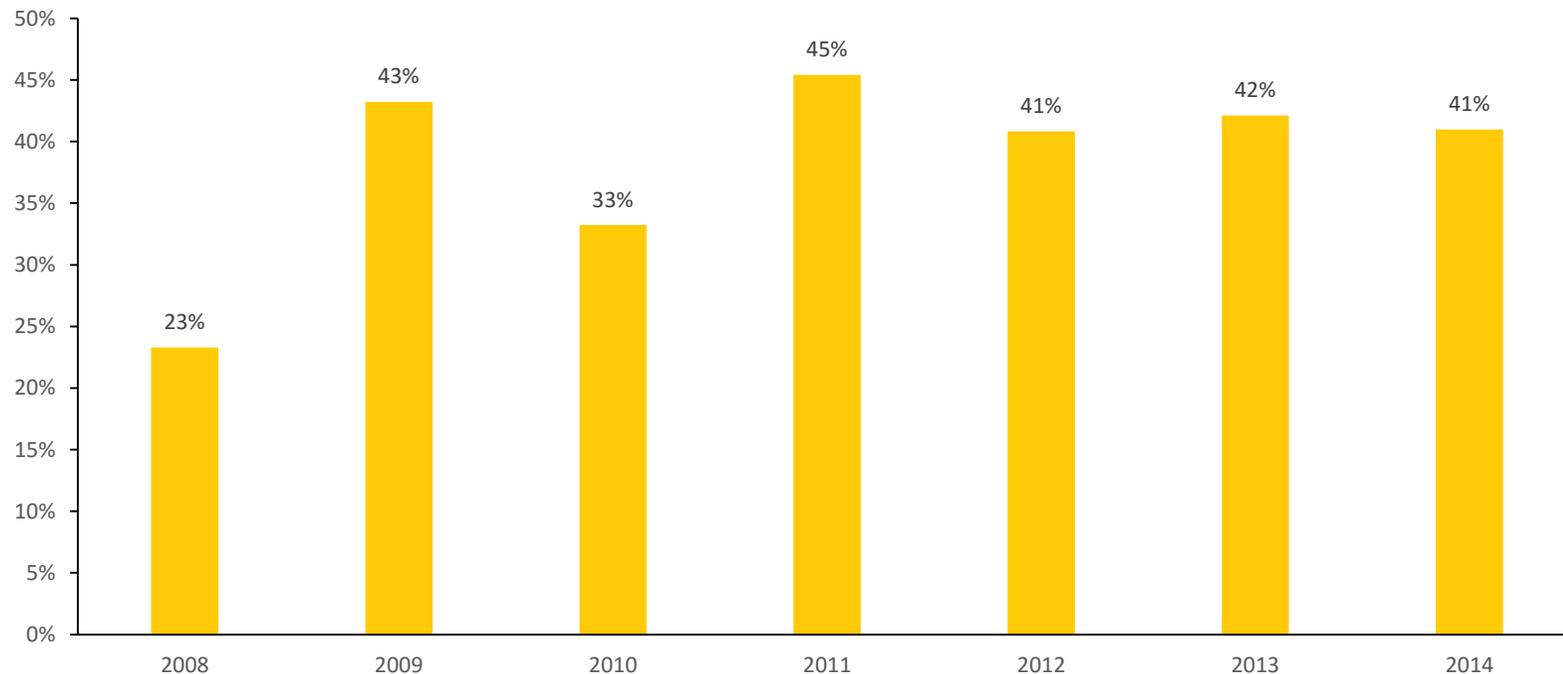
Share of qualifying producer commission output hours accounted for by the top 5 qualifying producers in terms of revenue size



Production consolidation – qualifying producer commissions

The output of the top 3 qualifying producers appear to have plateaued

Share of qualifying producer commission output hours accounted for by the top 3 qualifying producers in terms of revenue size



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Quotas - Introduction

Quota definition

The producer quota is 25% of qualifying output.

For ease of analysis we have strictly excluded news and sport from our database analysis of output.

The analysis excludes BBC digital channels.

There are no quotas at genre level. The analysis undertaken at genre level should therefore not be seen as equating to quota requirements, but merely serve as an extra layer of granularity to investigate the use of producer output

Qualifying definitions applied

Non-qualifying producer

Previously independent producers now part of a broadcaster related group (Shed, Shine, NBCU, Sony etc, but excluding PSB network and Sky related)

Future non-qualifying producer

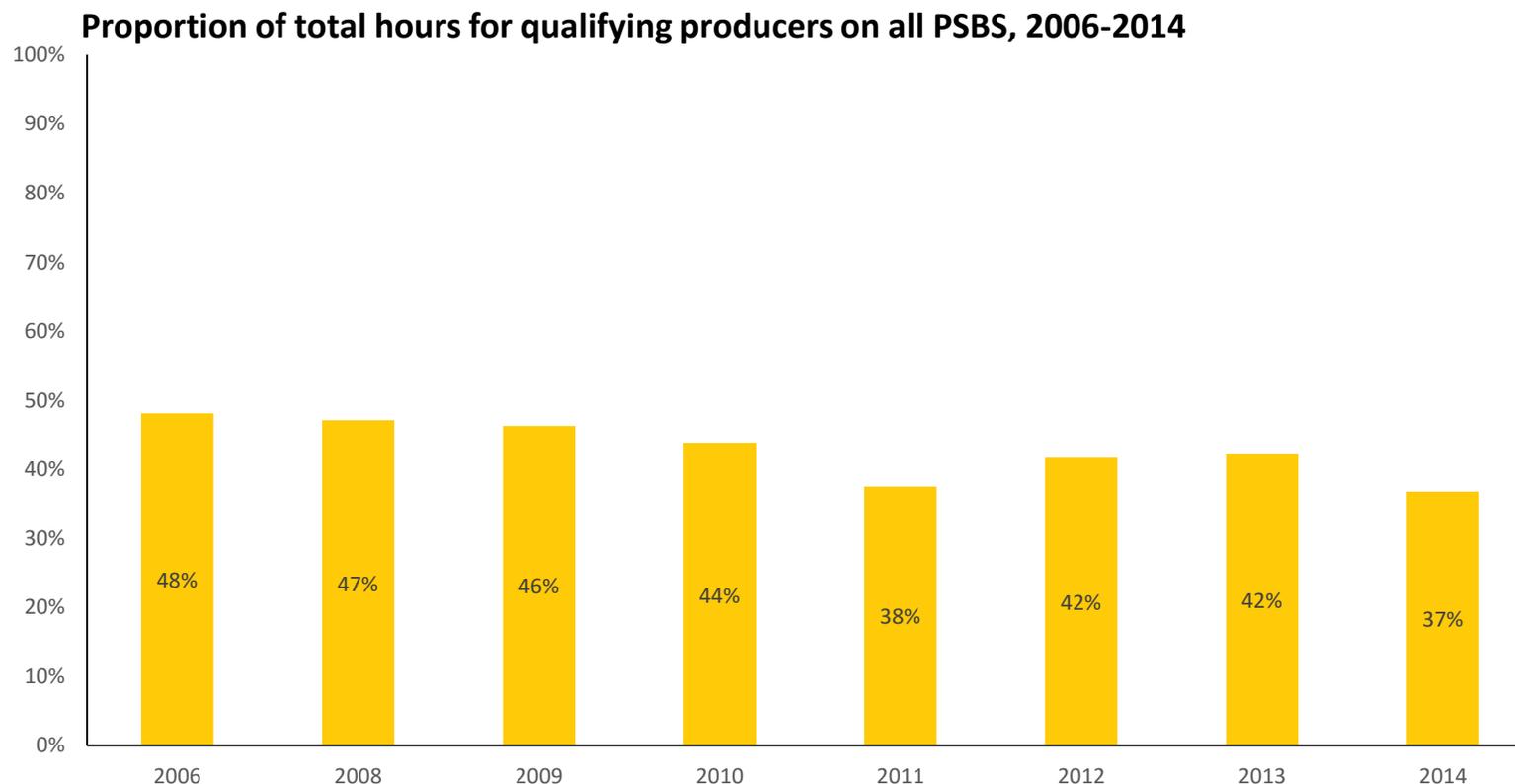
Recently purchased independent producer that will become part of a broadcaster related group (All3Media, Endemol)

External broadcaster

Output produced by a broadcaster related production house for another broadcaster (PSB network and Sky related producers only, both in-house and acquired prodcos)

Quotas – Proportion of hours for qualifying producers on all PSBs

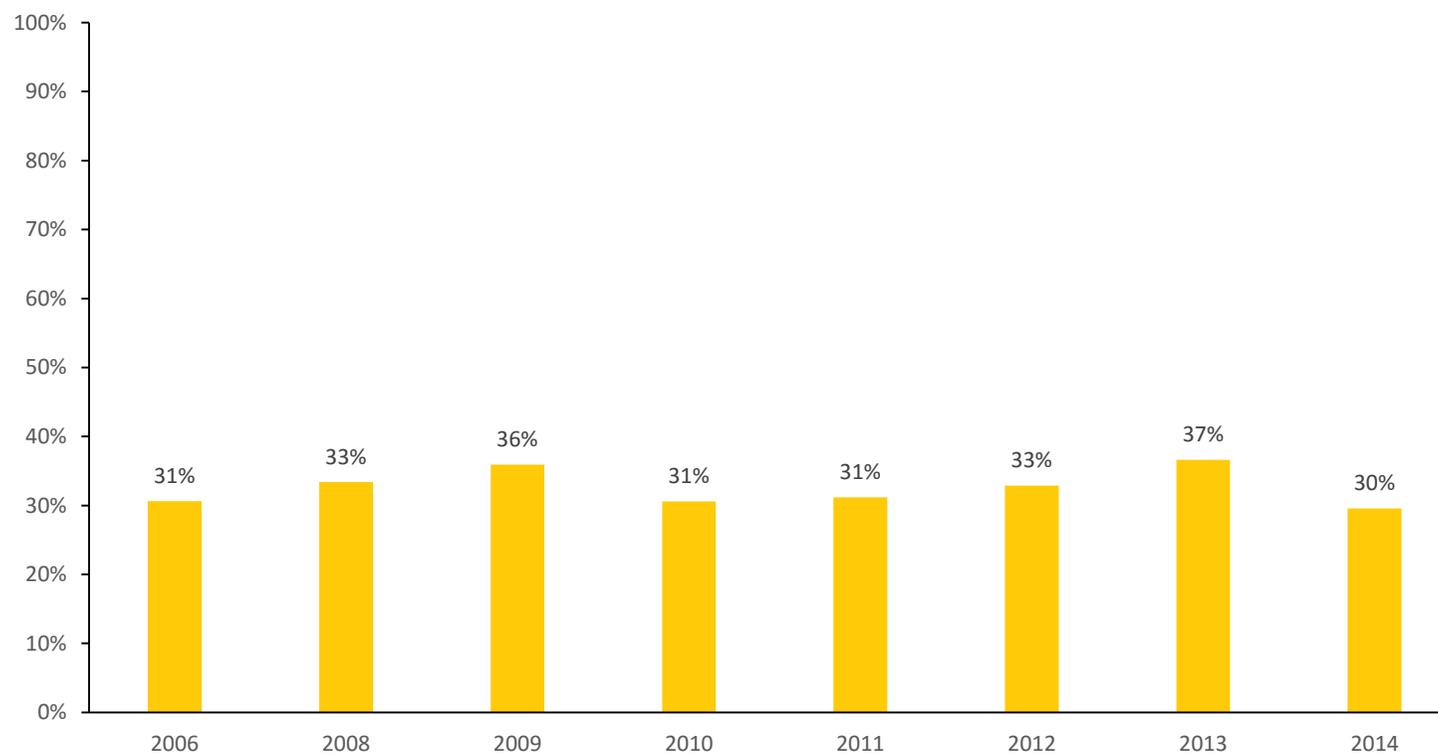
The proportion of qualifying producer hours has declined across the PSBs



Quotas – Proportion of hours for qualifying producers on BBC

Qualifying output across the BBC networks has remained fairly static

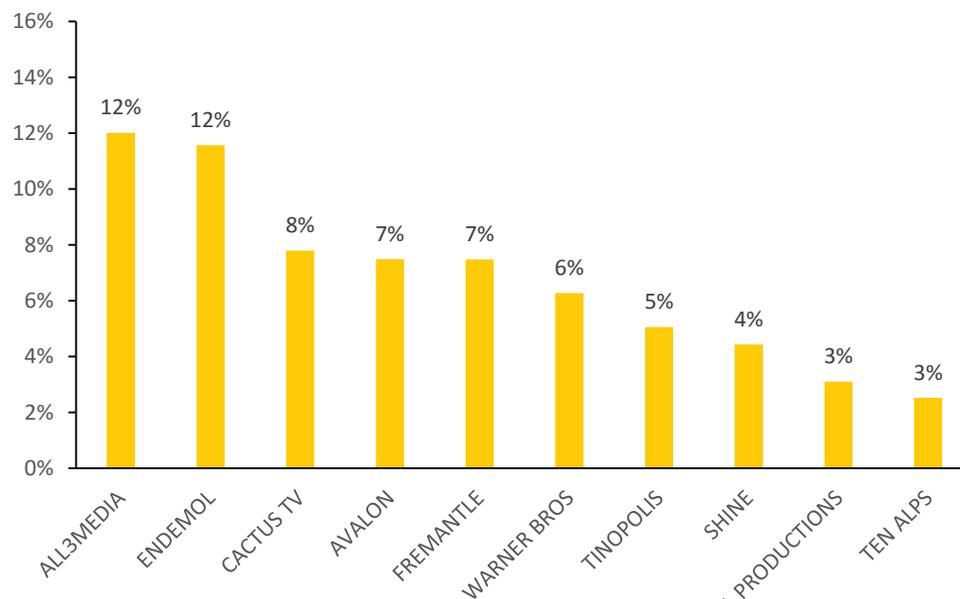
Proportion of hours for qualifying producers for BBC, 2006-2014



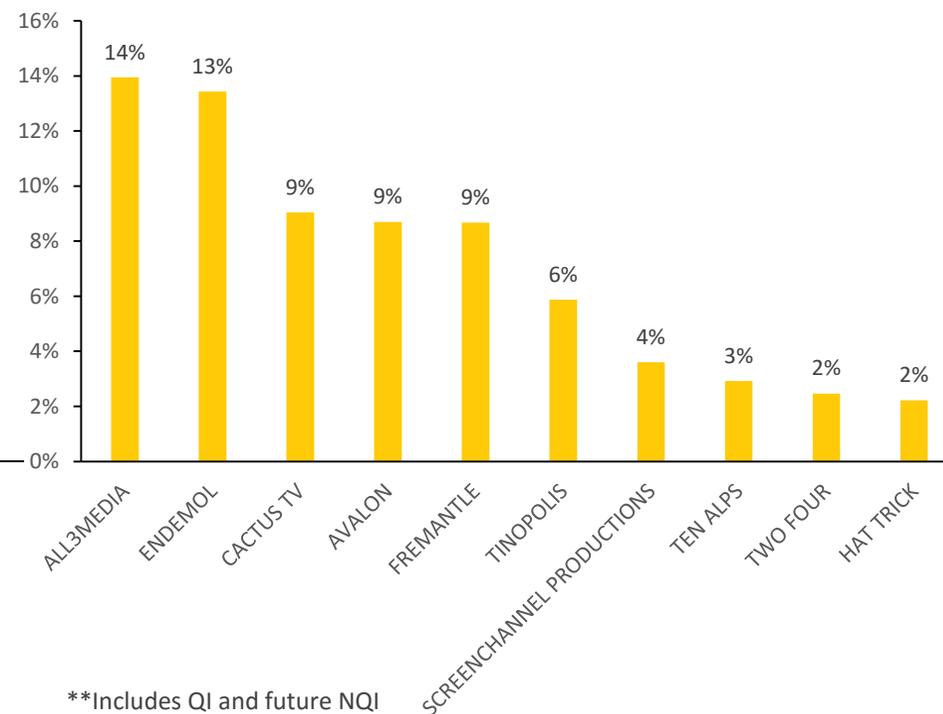
Quotas – First-run external commissioning hours by top ten producers - BBC

The BBC is less reliant on any single supplier than any of the other PSBs. Three of the top 10 qualifying producers supplying the BBC are losing their independent producer status in 2015 (A3M, Endemol, TwoFour)

Share of first-run external commissioning hours by top ten producers* (by hours) – 2014 BBC



Share of first-run external commissioning hours by top ten qualifying producers** (by hours) – 2014 BBC



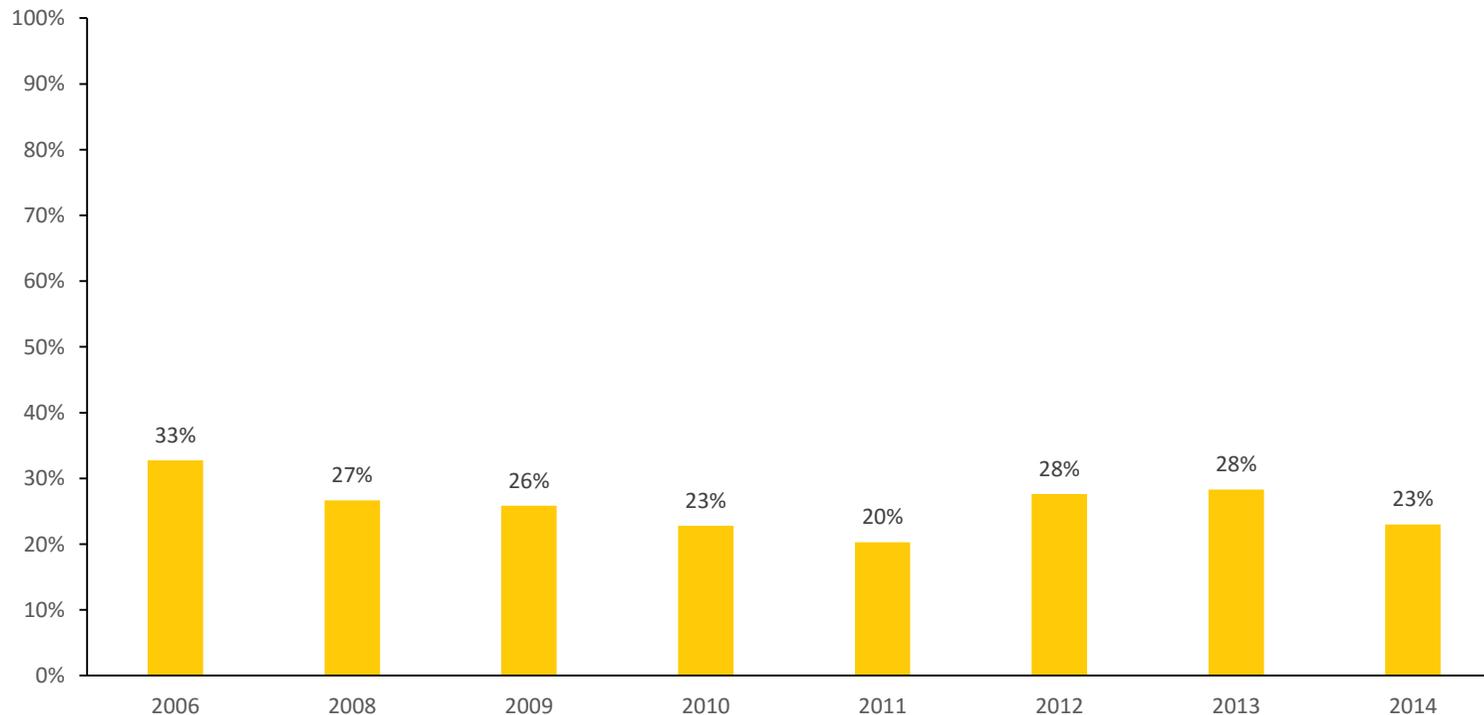
*Includes QI, NQI and future NQIs

**Includes QI and future NQI

Quotas – Proportion of hours for qualifying producers on ITV

ITV has seen a slight drop in the proportion of qualifying independent producer output

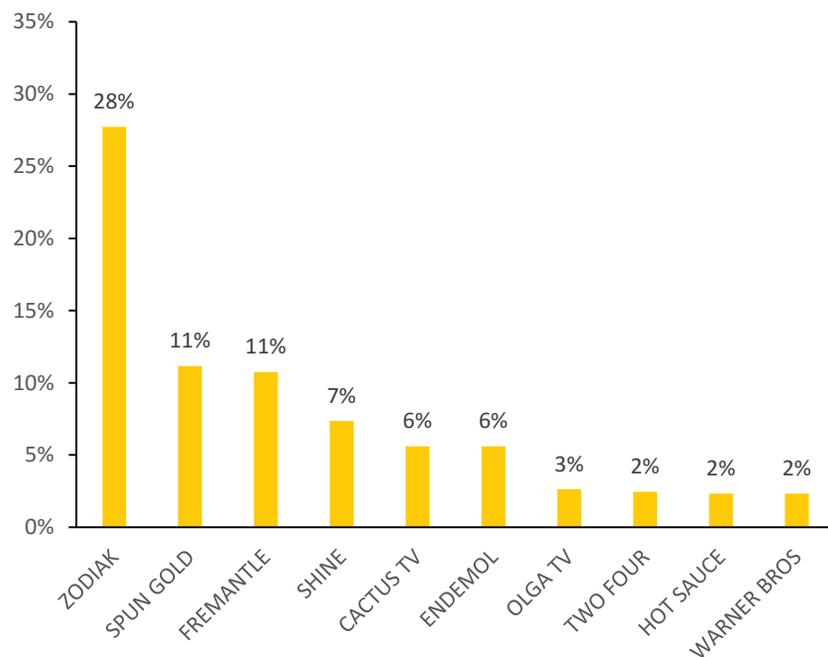
Proportion of hours for qualifying producers for ITV, 2006-2014



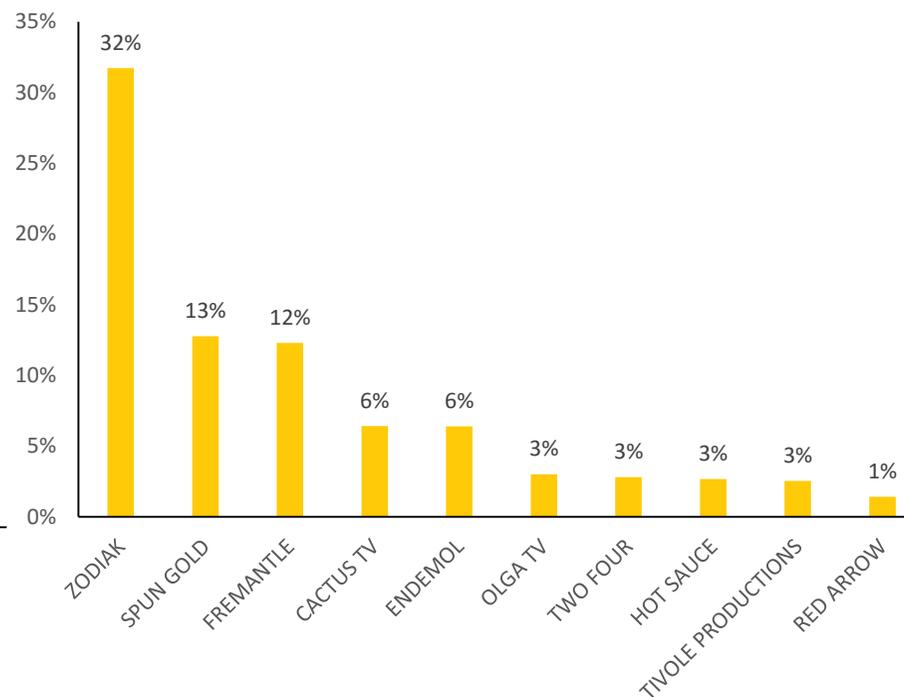
Quotas – First-run external commissioning hours by top ten producers - ITV

ITV is very reliant on Zodiak programmes. ITV is less affected by suppliers about to lose their independent producer status. Endemol is not a major single supplier and TwoFour is becoming part of ITV

Share of first-run external commissioning hours by top ten producers (by hours) – 2014 ITV



Share of first run external commissioning hours by top ten qualifying producers (by hours) – 2014 ITV



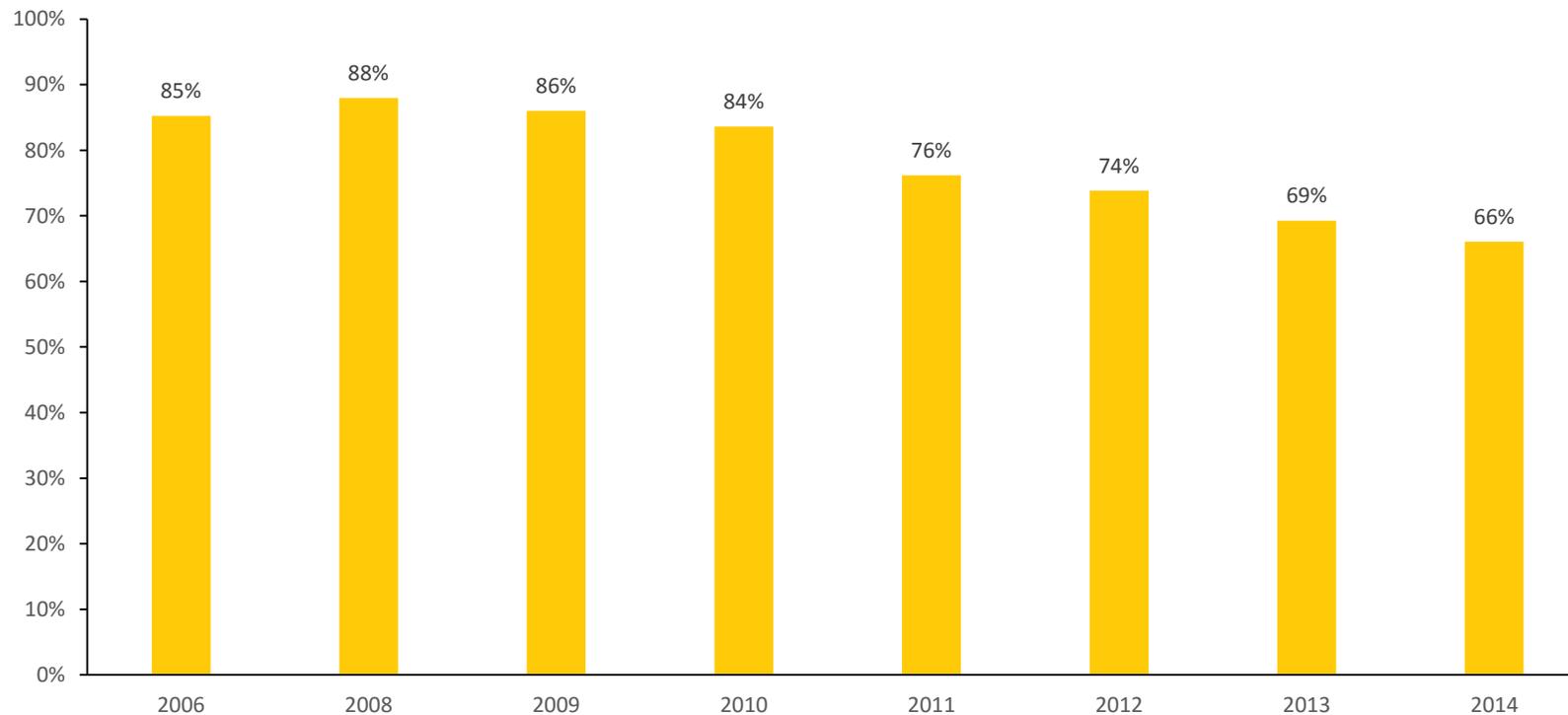
*Includes QI, NQI and future NQIs

**Includes QI and future NQI

Quotas – Proportion of hours for qualifying producers on Channel 4

The proportion of qualifying producer output has fallen significantly

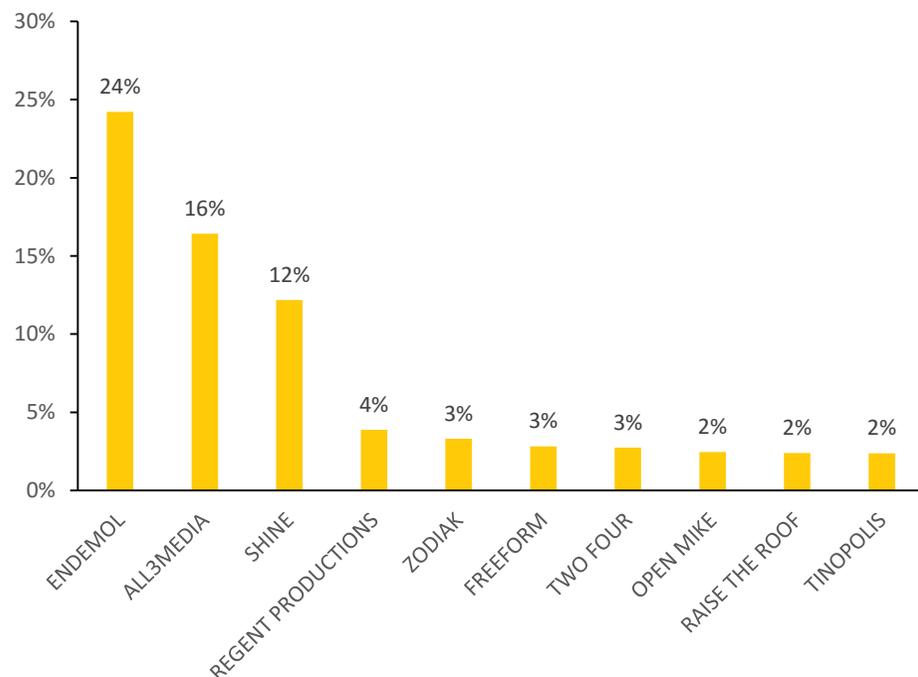
Proportion of hours by qualifying producers for C4, 2006-2014



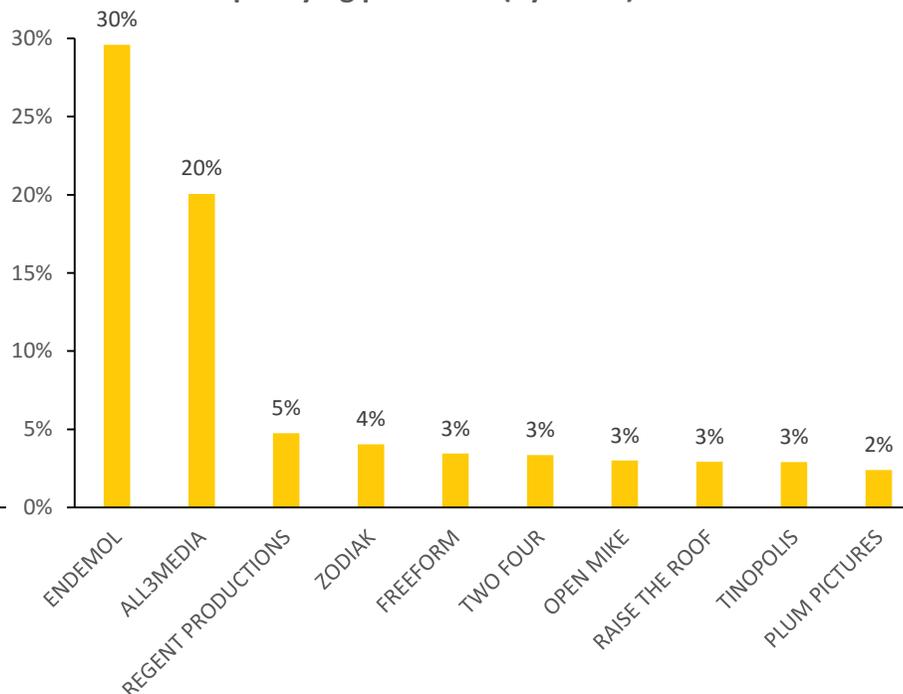
Quotas – First-run external commissioning hours by top ten producers – C4

C4 takes a lot of programming from Endemol and A3M, both of which are losing their independent producer status in 2015

Share of first-run external commissioning hours by top ten producers (by hours) – 2014 C4



Share of first-run external commissioning hours by top ten qualifying producers (by hours) – 2014 C4



*Includes QI, NQI and future NQIs

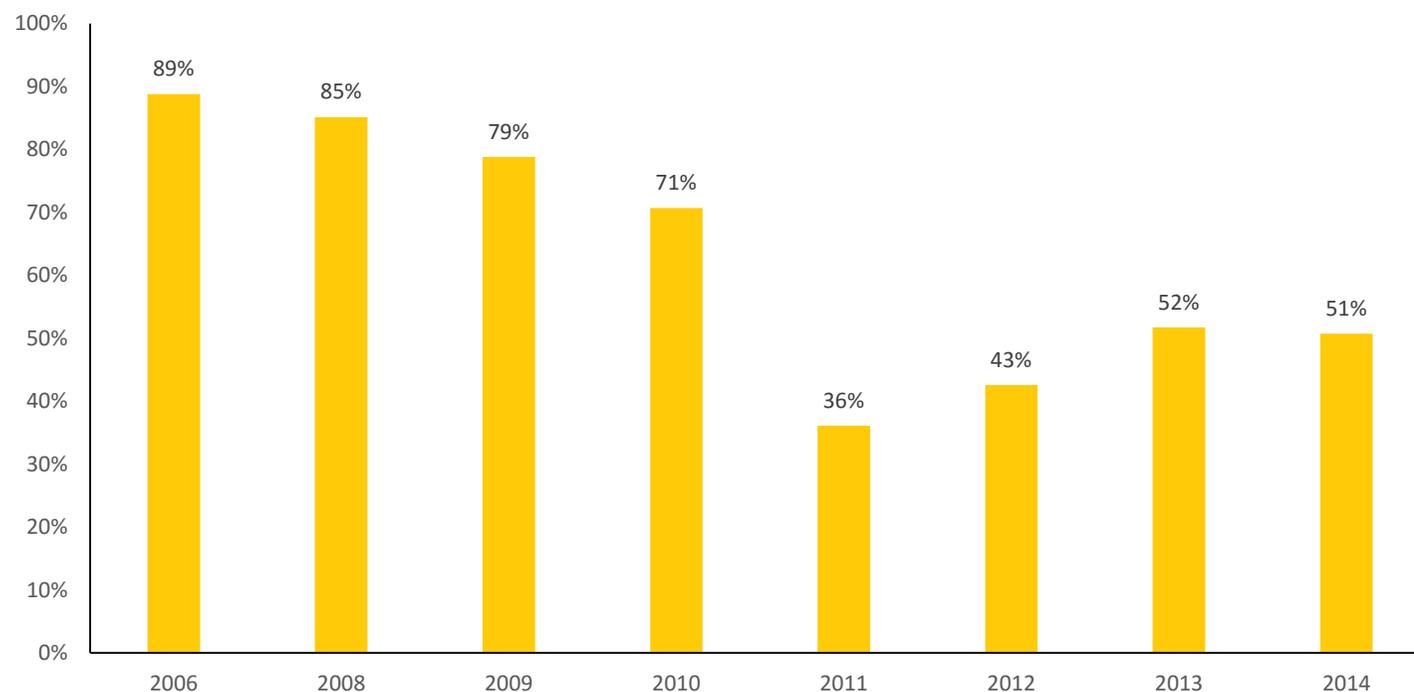
**Includes QI and future NQI

Source: Attentional, Oliver and Ohlbaum analysis

Quotas – Proportion of hours for qualifying producers on Channel 5

The proportion of qualifying independent producer hours has also fallen significantly on C5 although there has been some rebound

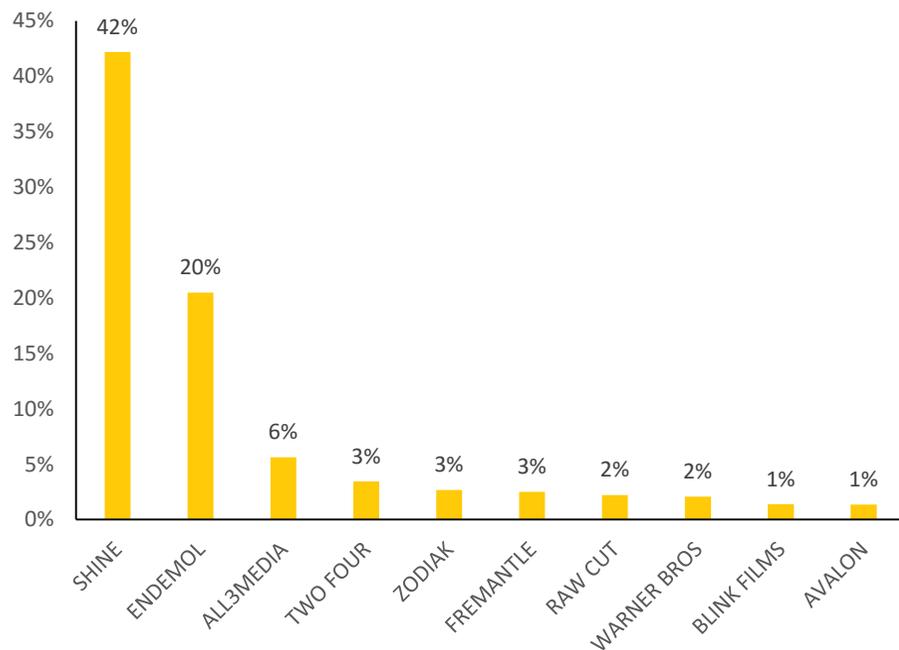
Proportion of hours by qualifying producers for Channel 5 – 2006 - 2014



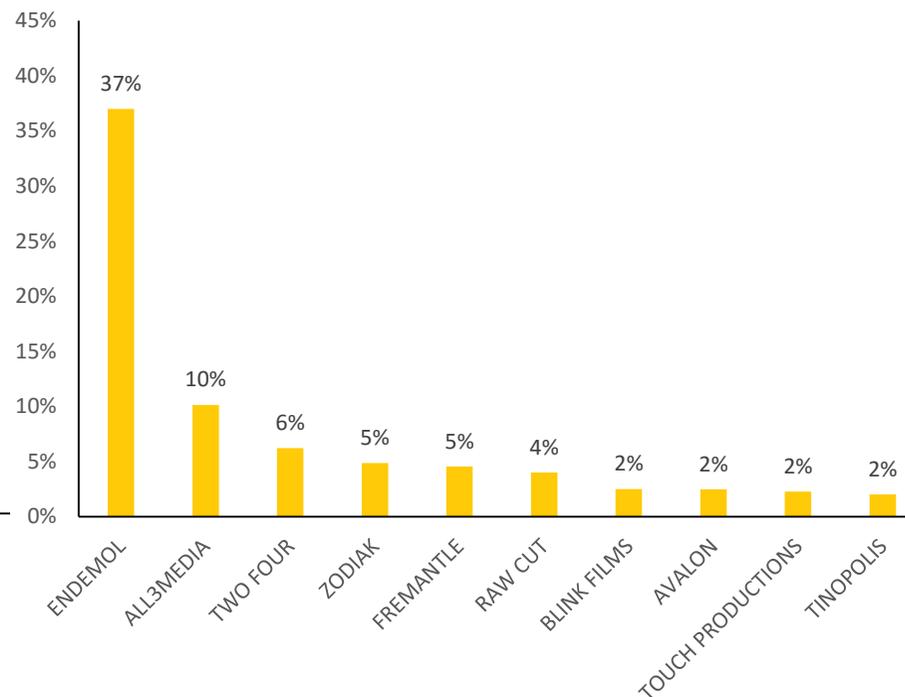
Quotas – First-run external commissioning hours by top ten producers – C5

A large proportion of external output on C5 comes from a non-qualifying supplier (Shine) and its 3 largest independent producer suppliers are losing their independent producer status in 2015

Share of first-run external commissioning hours by top ten producers (by hours) – 2014 C5



Share of first-run external commissioning hours by top ten qualifying producers (by hours) – 2014 C5



*Includes QI, NQI and future NQIs

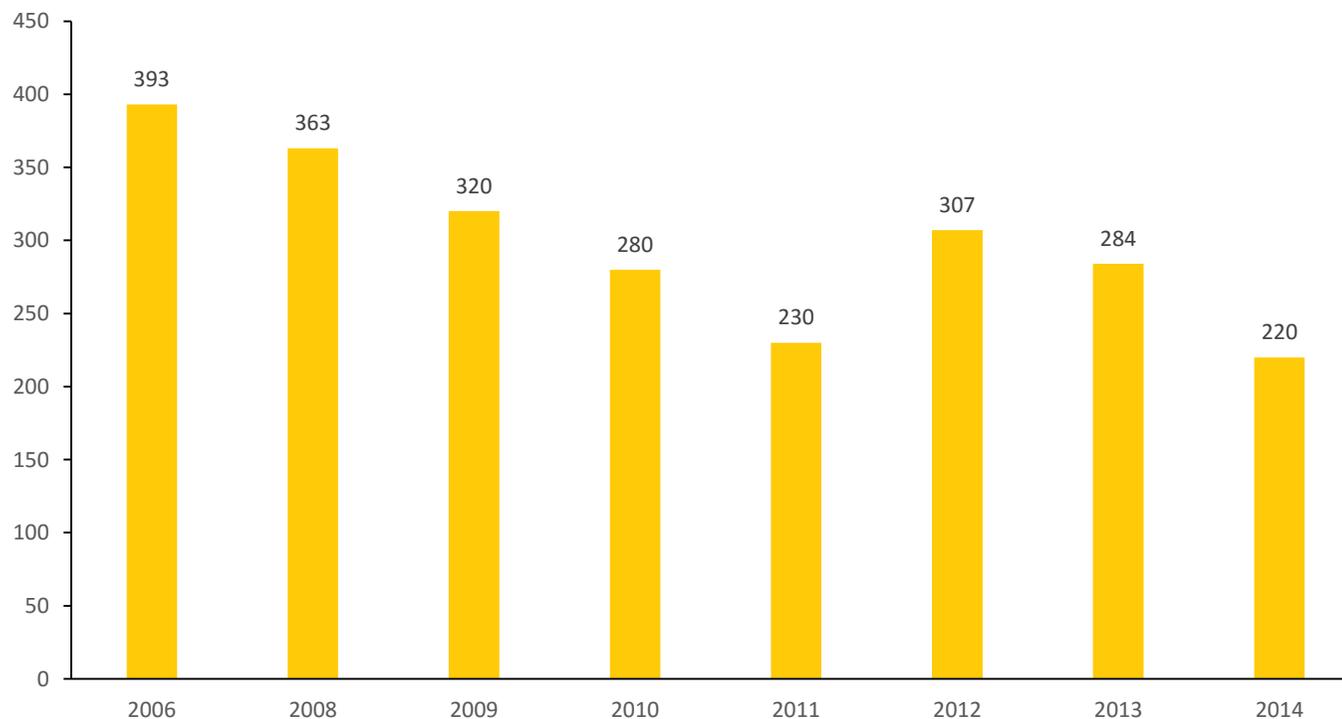
**Includes QI and future NQI

Source: Attentional, Oliver and Ohlbaum analysis

Quotas – number of qualifying producers in the market

The number of active qualifying producers has fallen since 2006

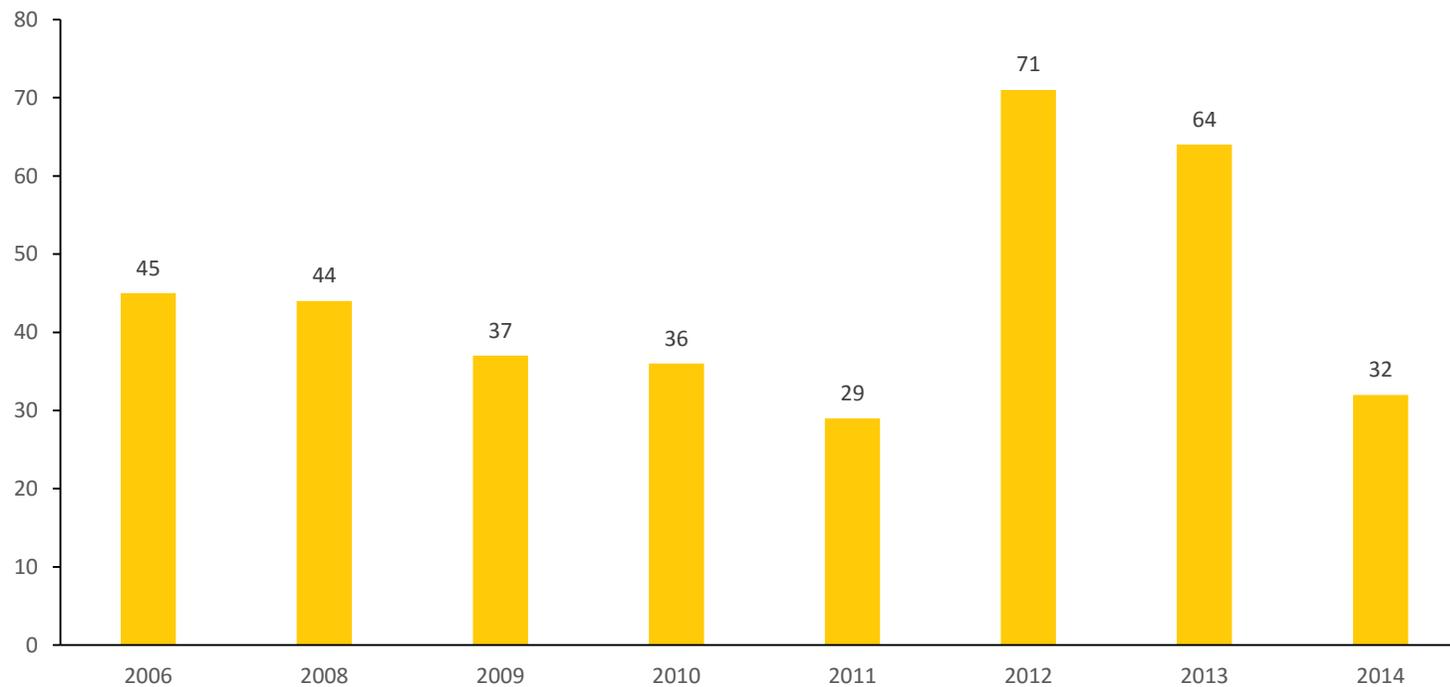
Number of active qualifying producers in the market, 2006-2014



Quotas – number of qualifying producers - Drama

There was a boost in 2012 with new drama such as *Call the Midwife*, *Scott & Bailey* and *Endeavour*

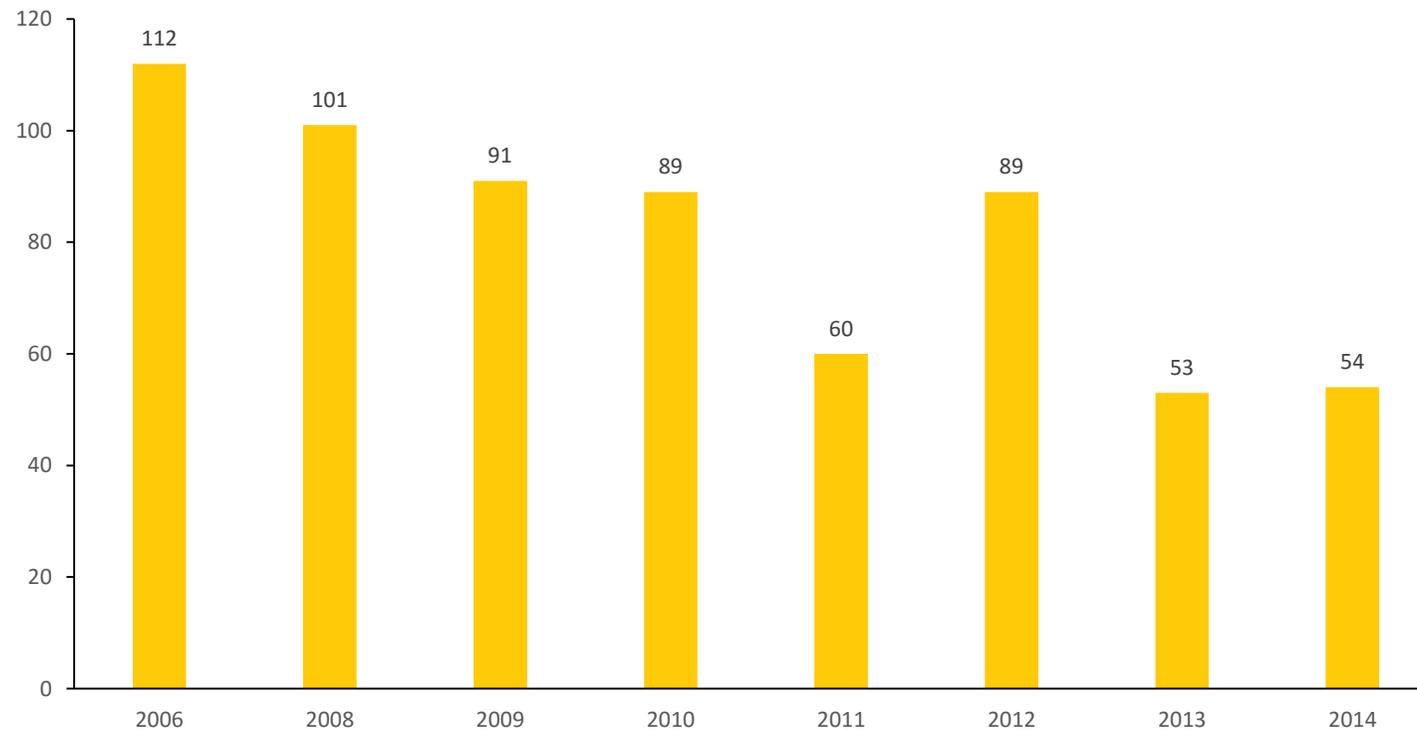
Number of active qualifying producers in the market - Drama



Quotas – number of qualifying producers - Entertainment

The number of qualifying producers in entertainment has fallen

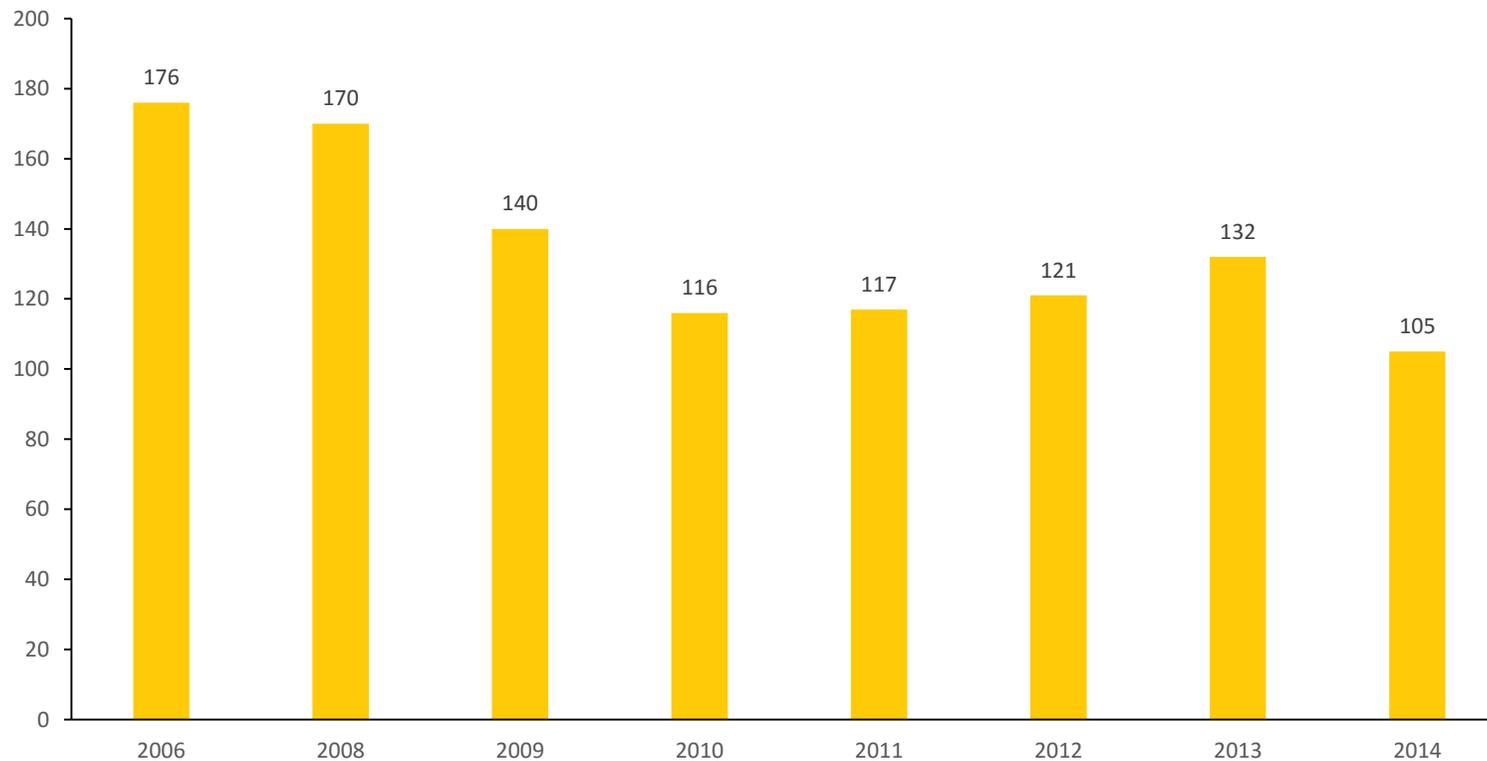
Number of active qualifying producers in the market - Entertainment



Quotas – number of qualifying producers - Factual

Factual has also seen significant declines in the number of qualifying producers

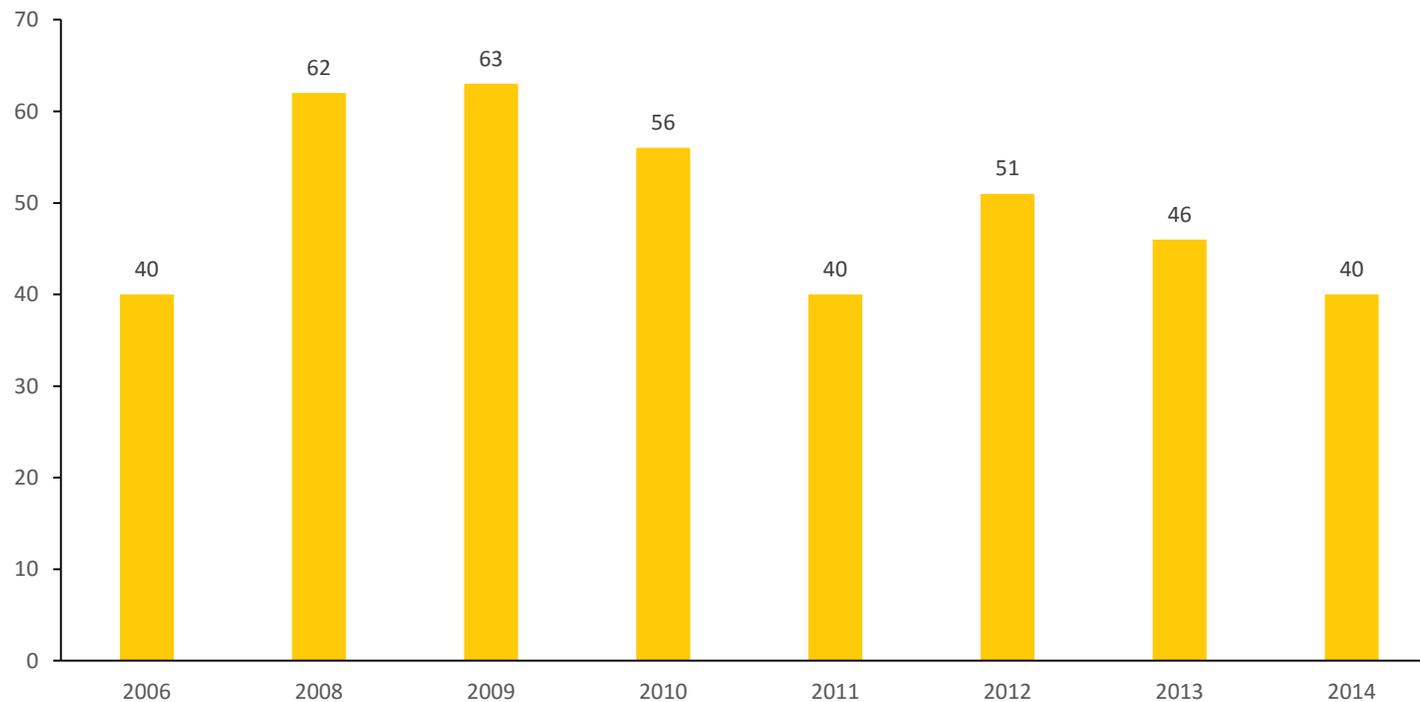
Number of active qualifying producers in the market - Factual



Quotas – number of qualifying producers – Factual Entertainment

There are also fewer qualifying producers in factual entertainment

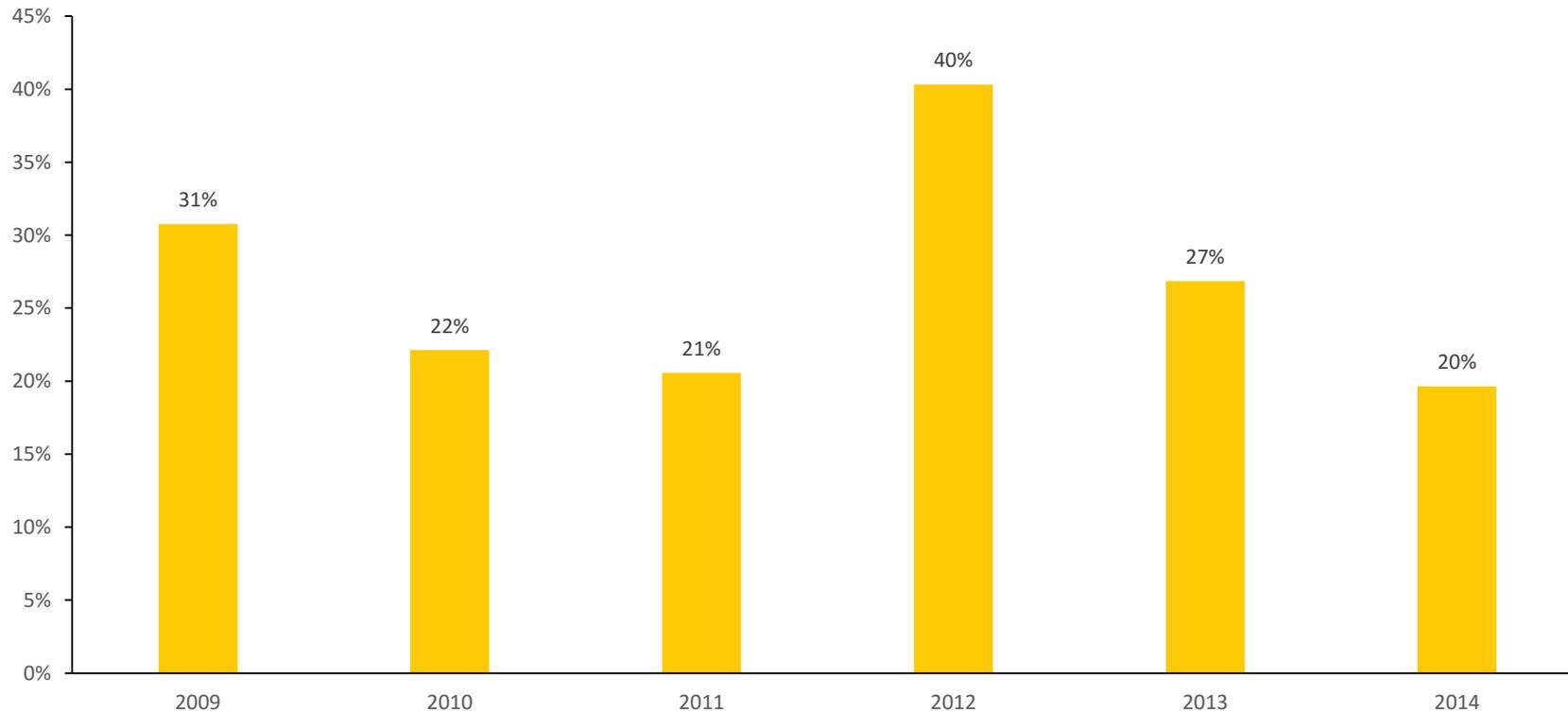
Number of active qualifying producers in the market – Factual Entertainment



Quotas – new entries by qualifying producers

On average, about a third of all qualifying producers are new entries

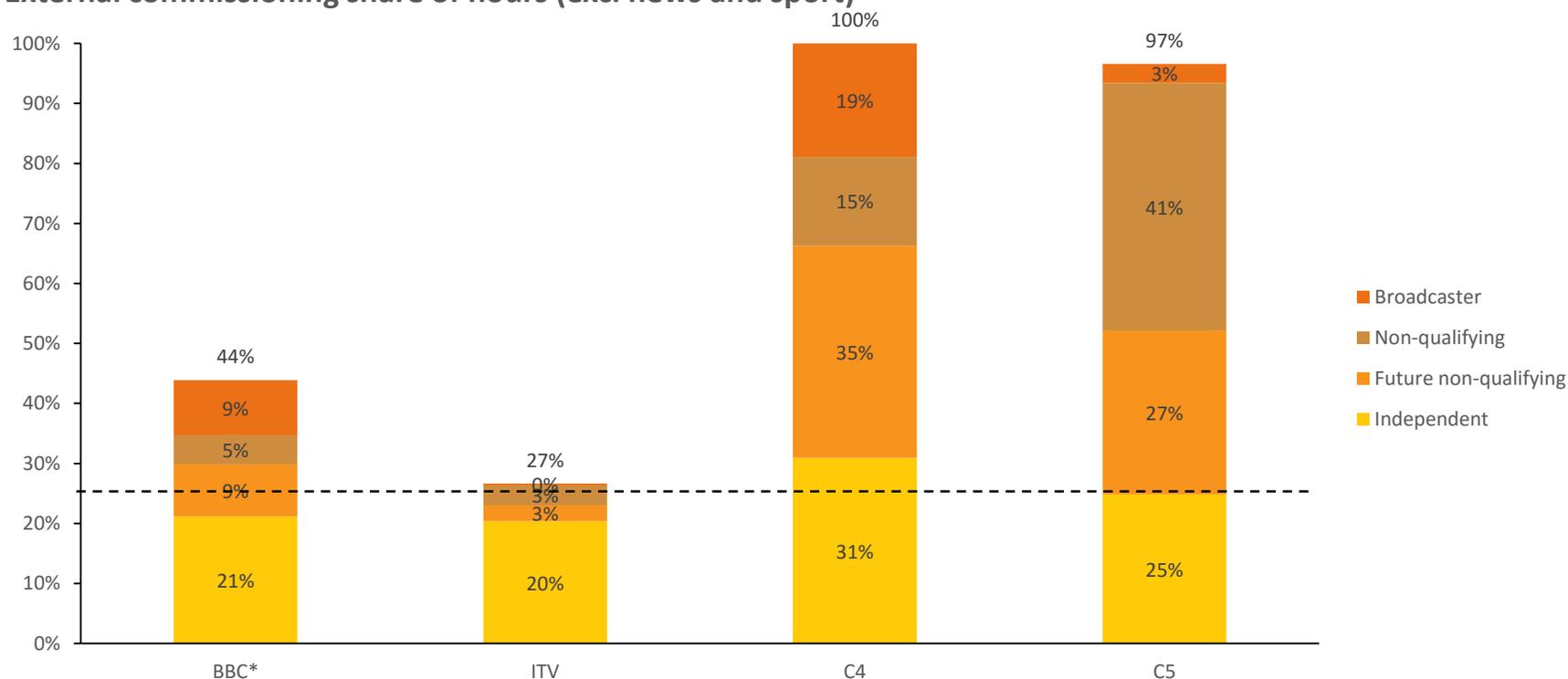
New entries by qualifying producers as a % of total producers in the market – all genres



Quotas – PSB quota performance 2014

Only C4 and C5 (just) are currently meeting their quota requirements using true producers. The future non-qualifying producers losing their status will likely be a cause of concern for the BBC and ITV in particular

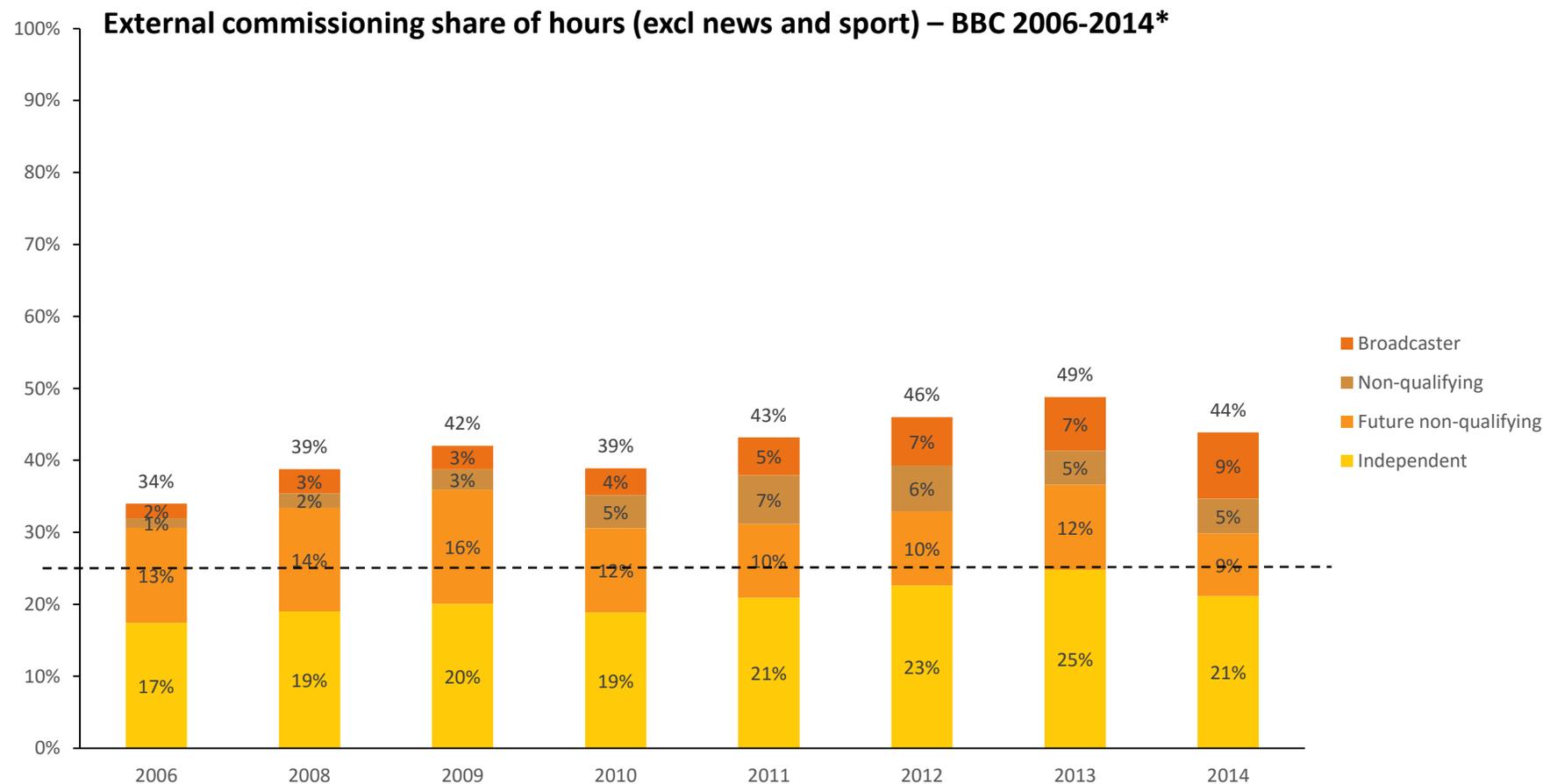
External commissioning share of hours (excl news and sport)*



*Excludes portfolio channels, excludes some overnight programming
 Future NQI includes A3M, Endemol, TwoFour

Quotas – PSB quota performance over time – BBC

The BBC is currently only meeting its independent producer quota through the use of producers that are about to lose their independent producer status



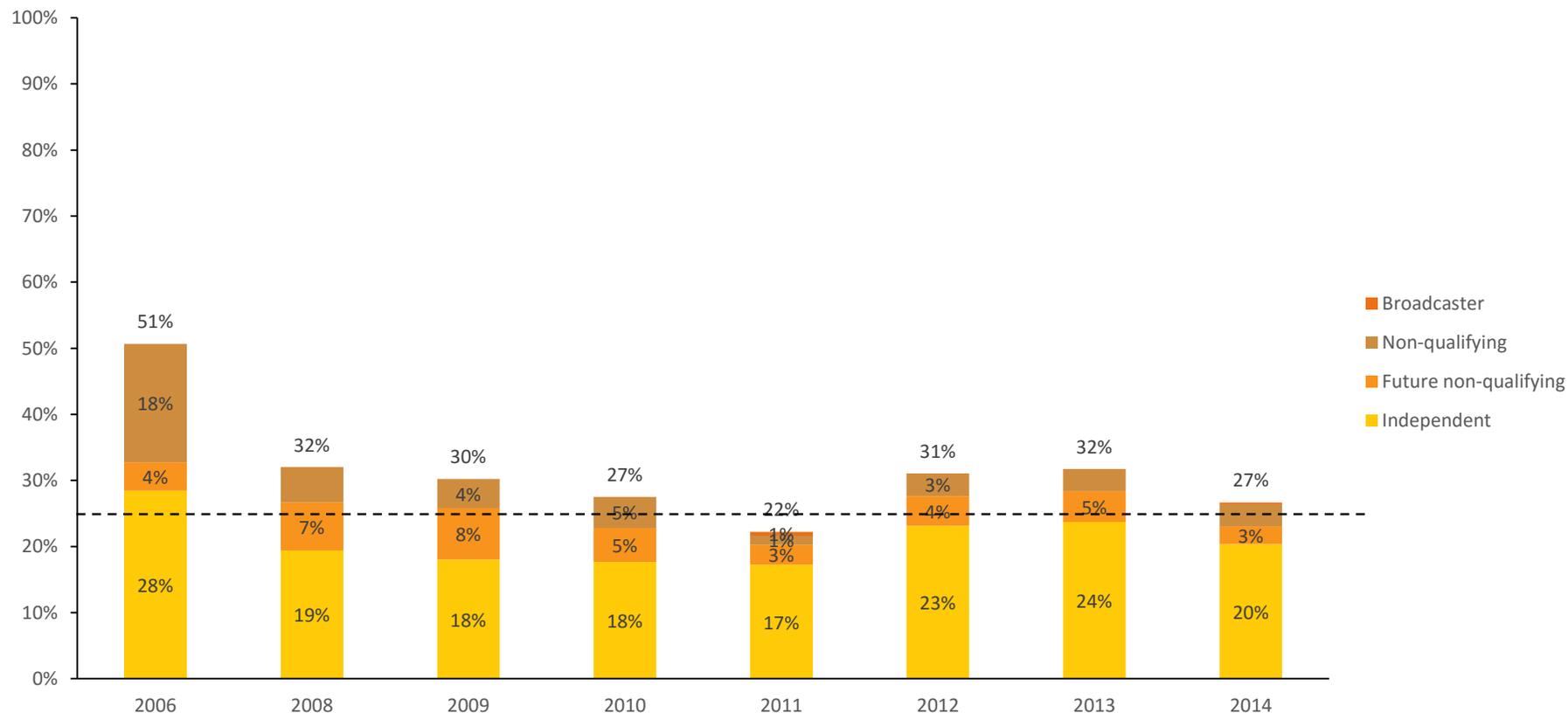
*Excludes BBC portfolio channels

Source: Attentional, Oliver & Ohlbaum analysis

Quotas – PSB quota performance over time - ITV

ITV has been consistently close to failing its quota commitments and may only be compliant in 2014 due to commissioning time lag in producers losing their status

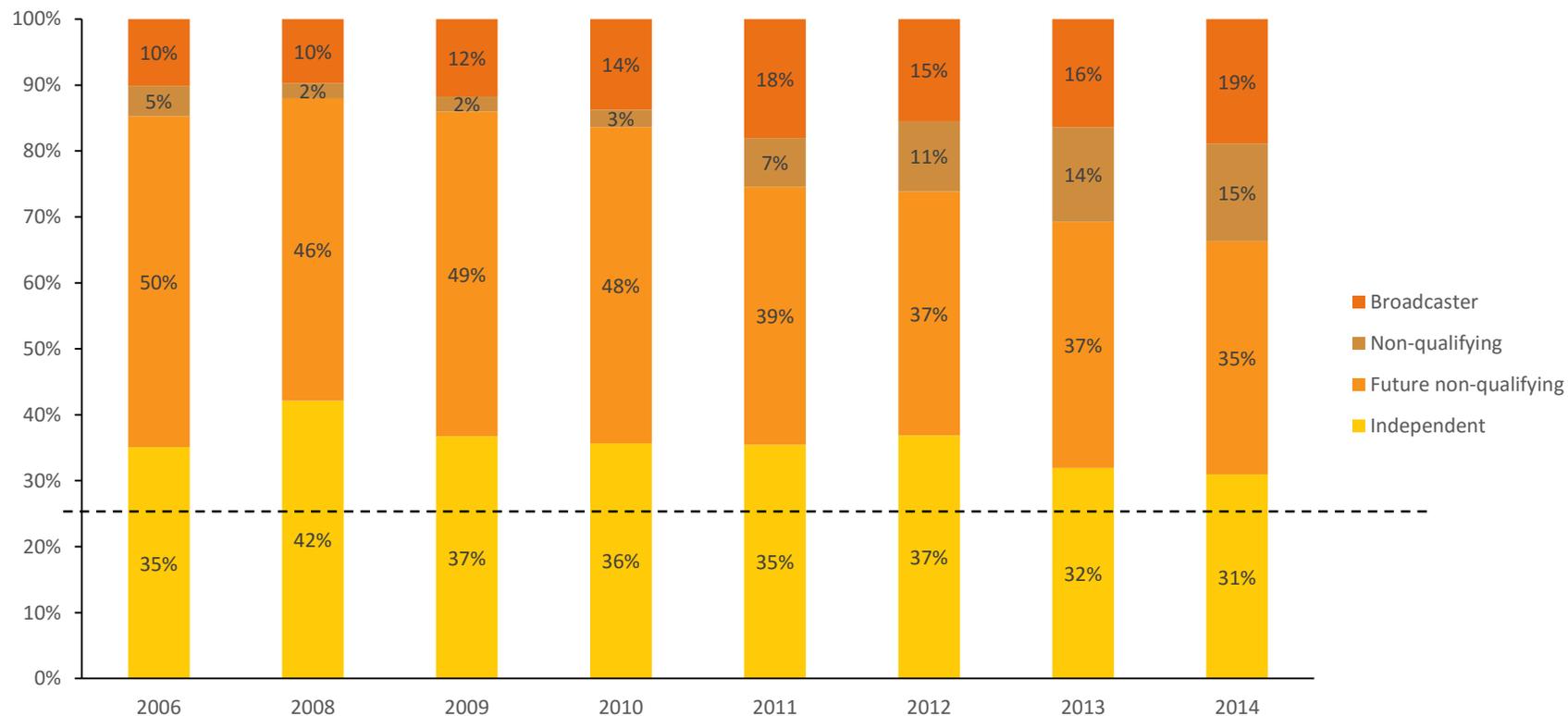
External commissioning share of hours (excl news and sport) – ITV 2006-2014



Quotas – PSB quota performance over time – C4

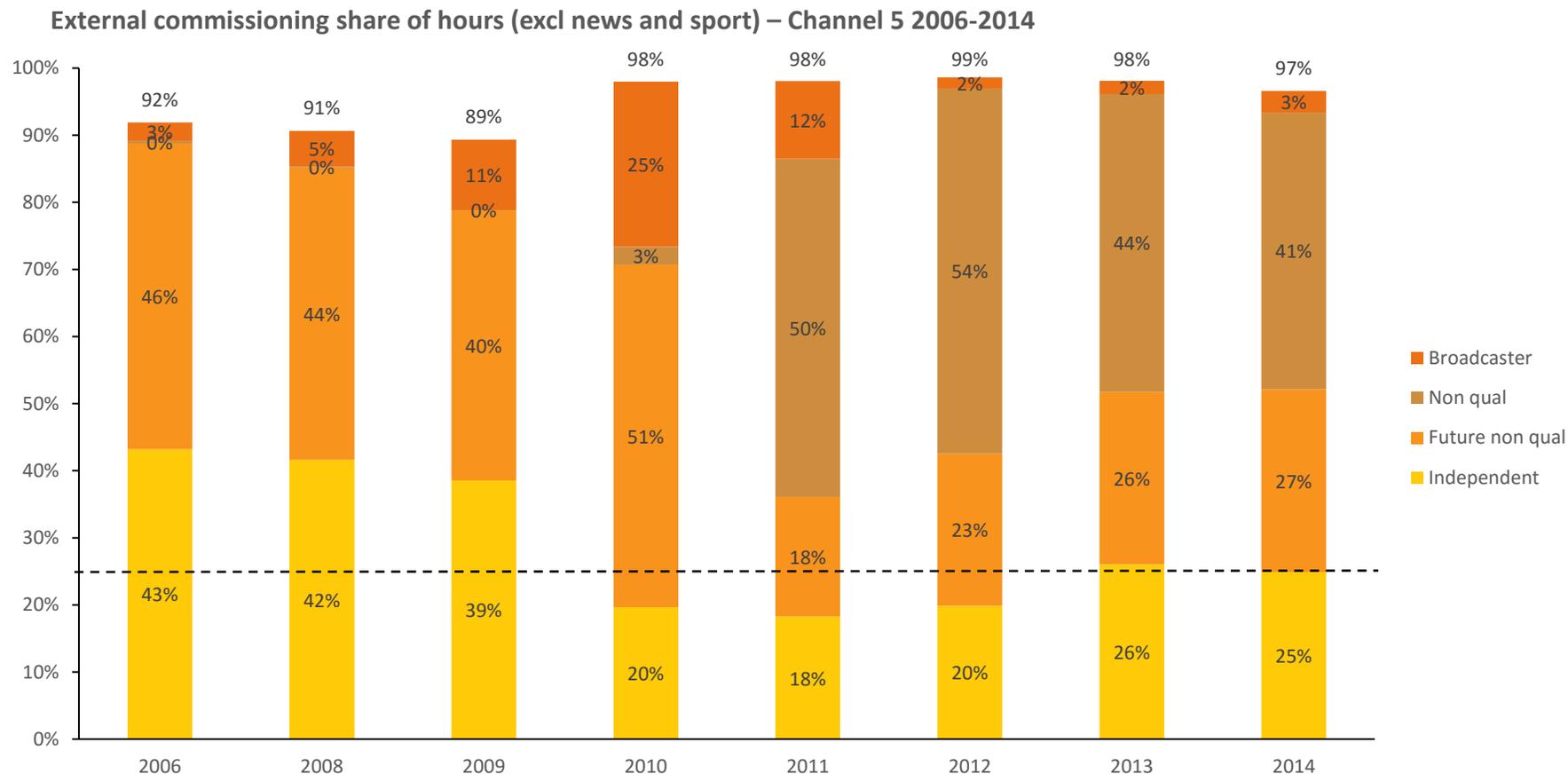
As a publisher broadcaster C4 uses a high level of external commissions. However, the level of true producers has diminished

External commissioning share of hours (excl news and sport) – Channel 4 2006-2014



Quotas – PSB quota performance over time – C5

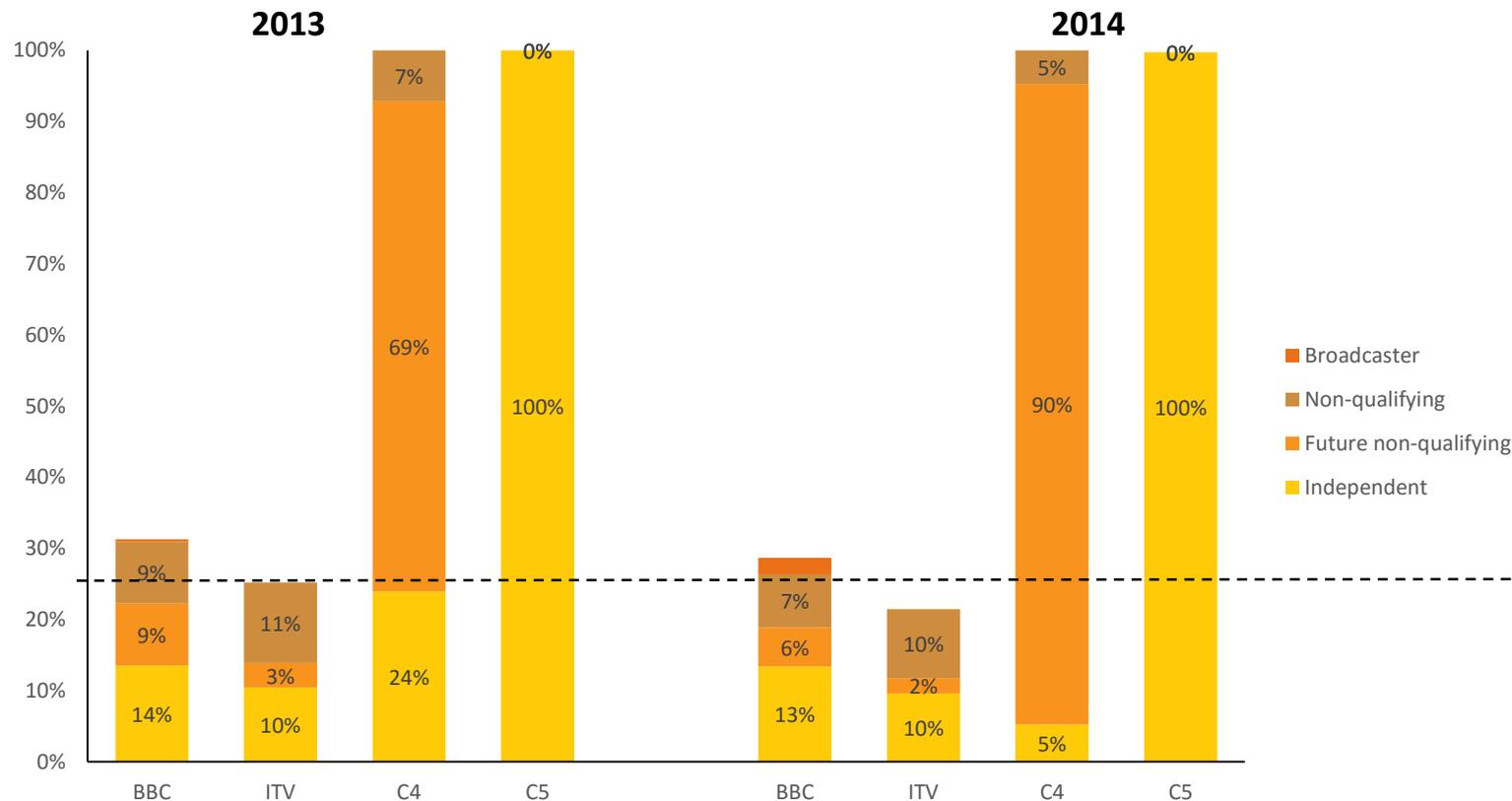
C5 will also be struggling to meet its independent producer quota when the next wave of producers lose their status



Quotas – PSB Quota Performance by genre - Drama

Only C4 and C5 are currently above the total average quota requirement in drama

External commissioning share of hours- Drama*

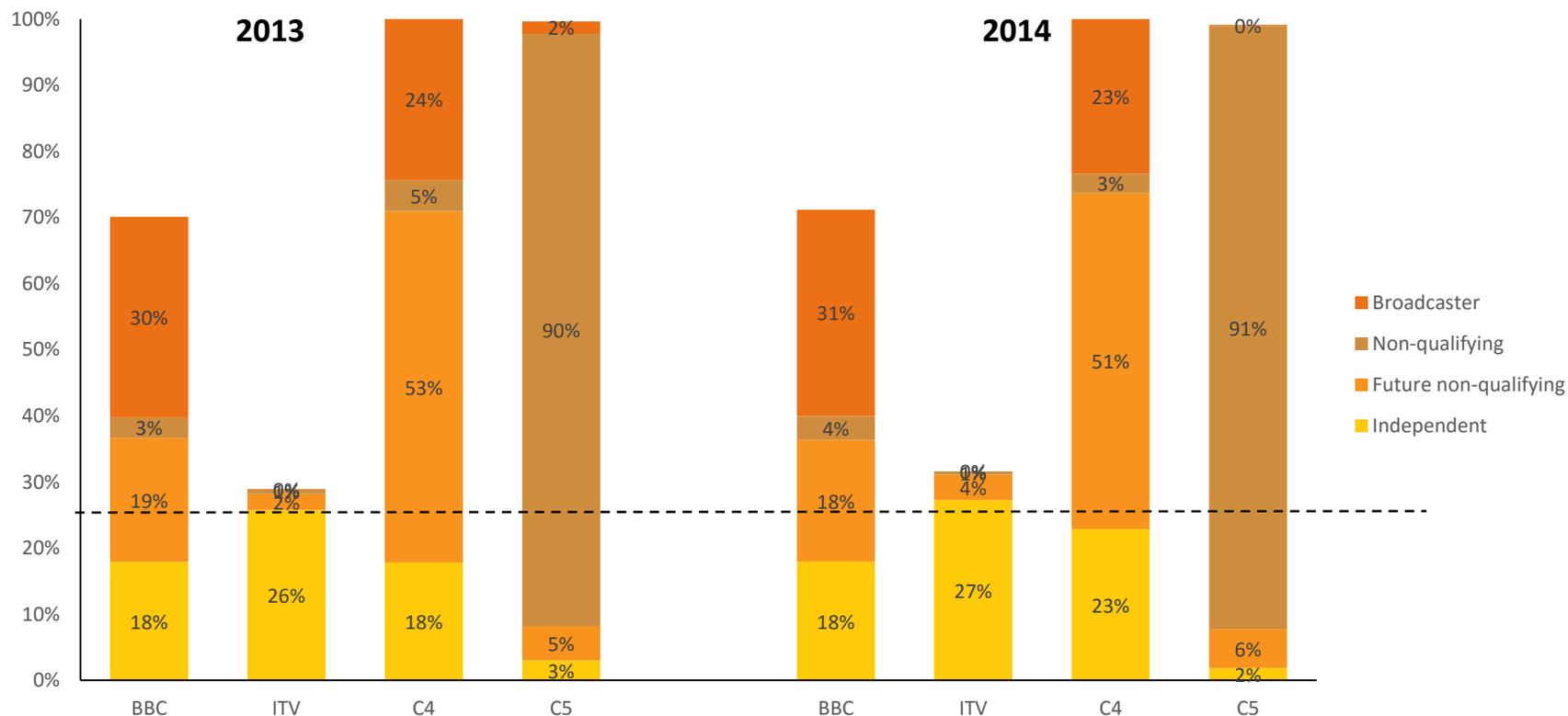


*Drama includes soaps

Quotas – PSB Quota Performance by genre - Entertainment

All PSBs apart from C5 perform within the average quota in entertainment. producers about to lose their status will pose an issue for most

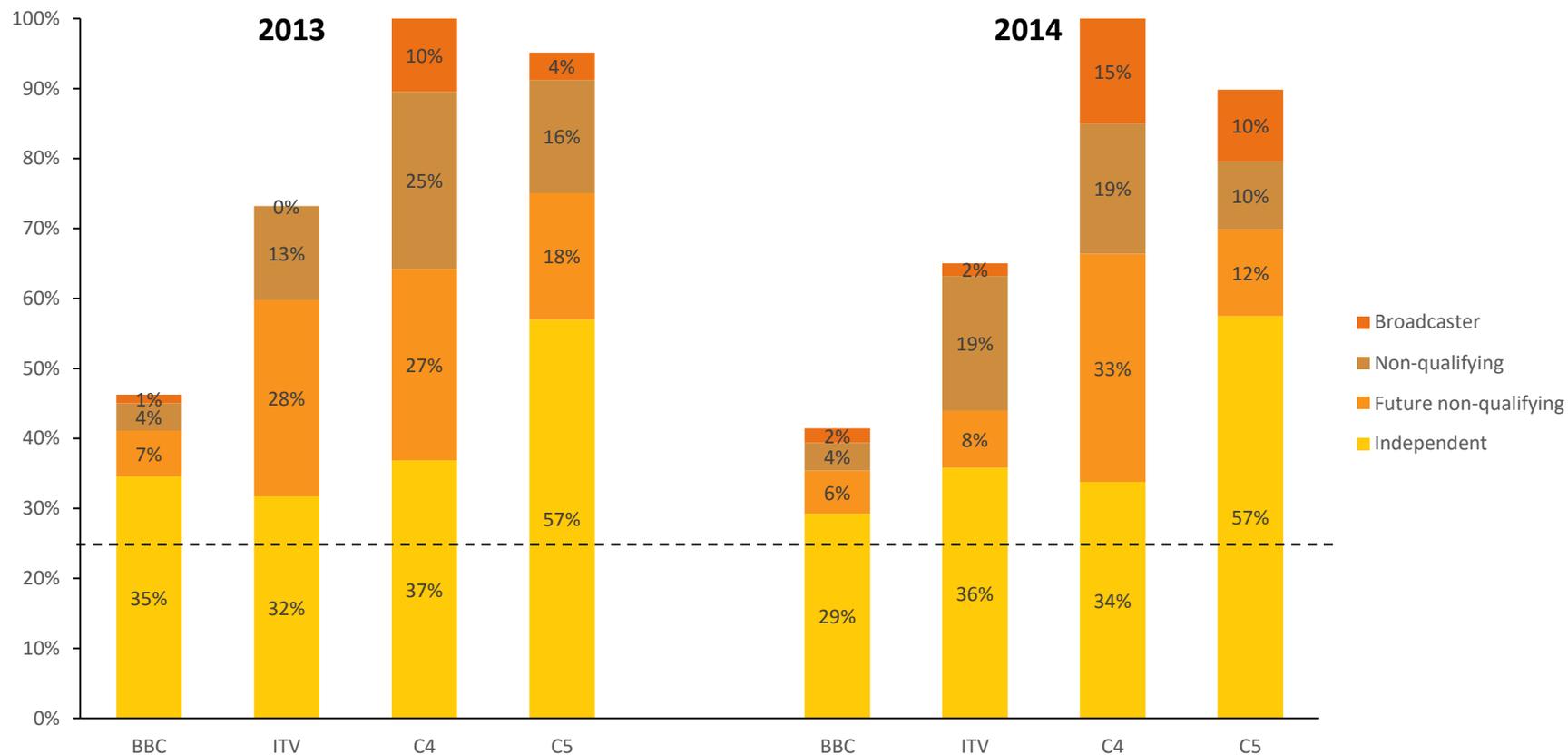
External commissioning share of hours- Entertainment



Quotas – PSB Quota Performance by genre - Factual

All PSBs perform comfortably in factual

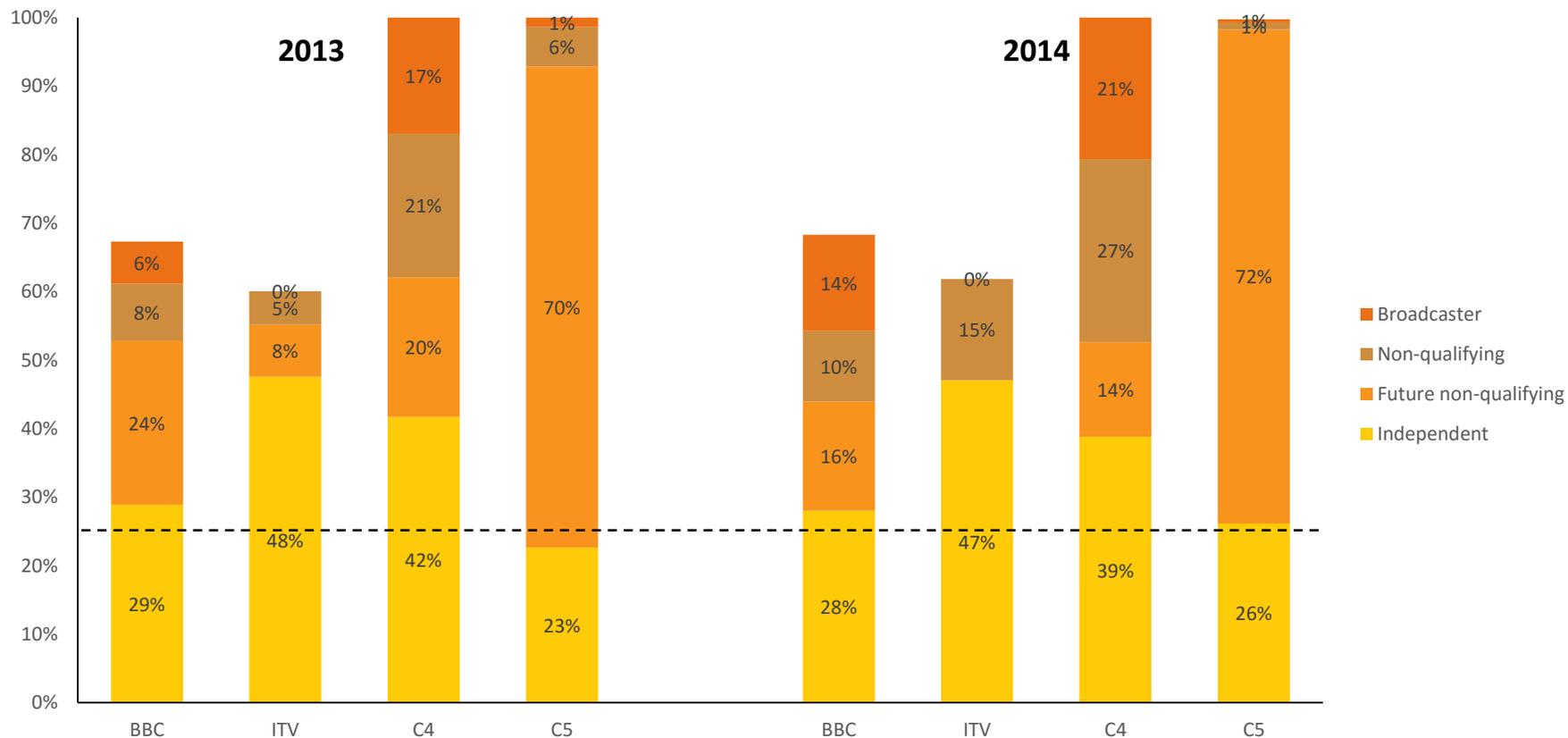
External commissioning share of hours- Factual



Quotas – PSB Quota Performance by genre – Factual Ent

PSBs also perform well in factual entertainment, although with C5 borderline on producers about to lose their status

External commissioning share of hours– Factual Entertainment



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 8. Quotas
 9. Regionality
 10. Historical context of the US market

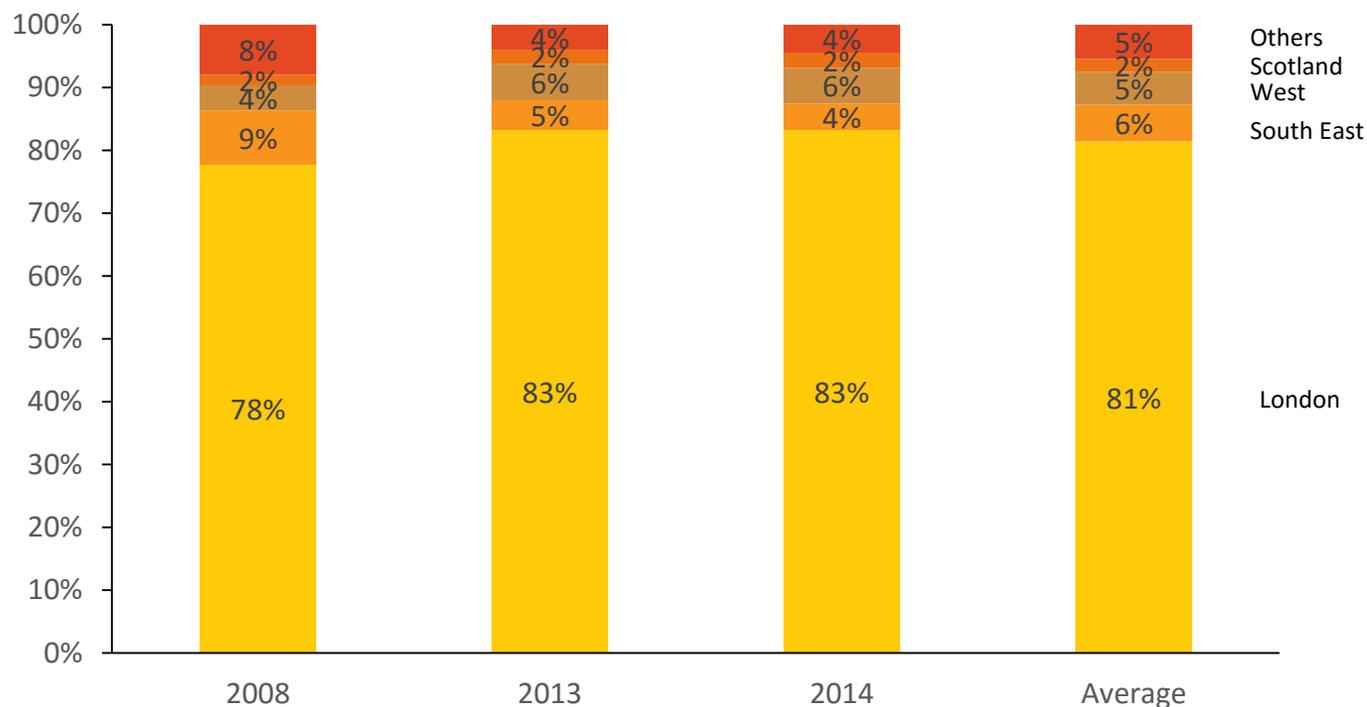
Regionality - introduction

- Ofcom is obliged by section 263 of the Communications Act 2003 to include conditions in the licences of commercial public service broadcasters to comply with obligations as to independent production, regional production, original production, and regional programming. There are similar obligations in the Agreement between the Government and the BBC ('the BBC Agreement').
- The regional requirements to a large extent focus on production being outside the M25, although further requirements exist to ensure a suitable range of regional programmes. Productions need to fulfil a number of criteria in terms of spend and location of production and staff to qualify as regional
- The regional requirements under the PSB licences relate to spend rather than output and apply to all production, not just independent producer/external
- The charts in this section relate to output of externally produced content across the PSBs and is not directly comparable to the PSB licence requirements. Regions in the analysis are based on ITV regions and the location base of the production company. It does not necessarily reflect the location of actual production

Regionality – output by region of producer

Share of output is dominated by companies located in London and the South East. Other regions are often very reliant on single programme strands - such as 'Trisha' made in Anglia in 2008 now no longer in production

Producer hours share by region* – 2008, 2013, 2014



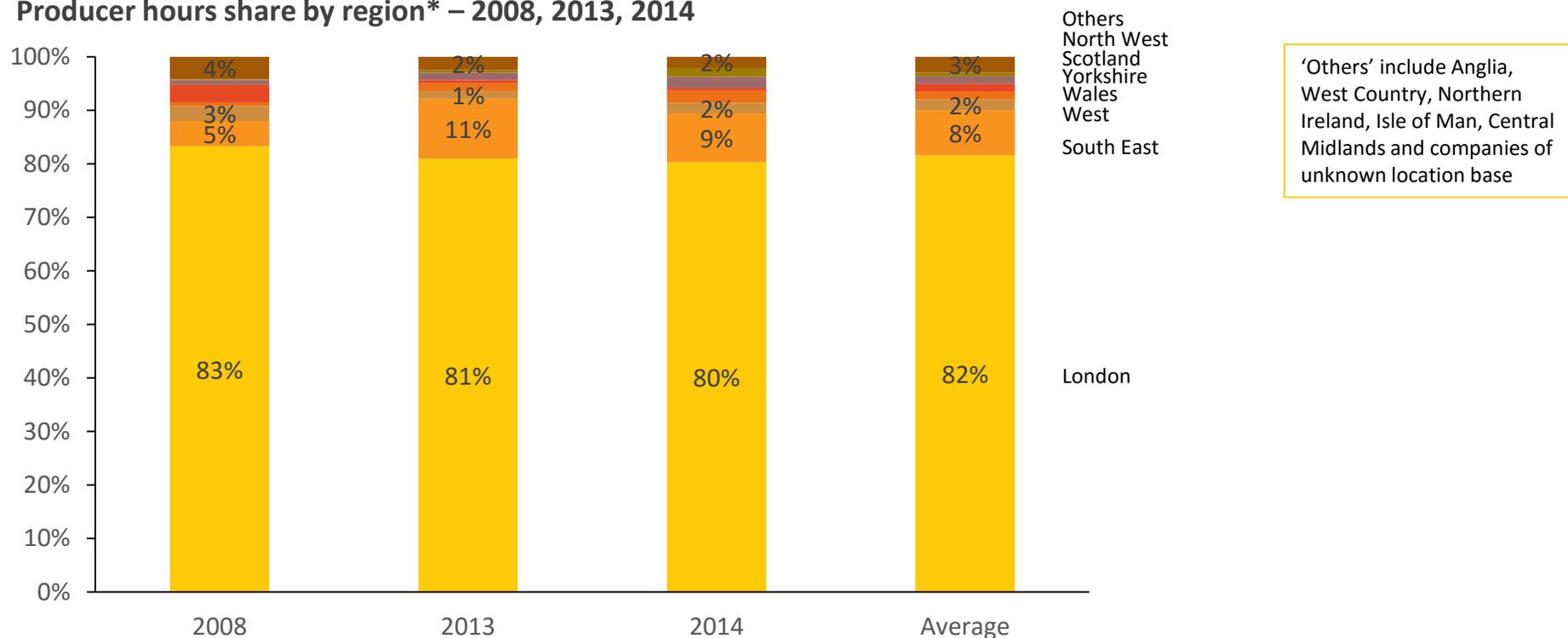
'Others' include Anglia, Wales, Yorkshire, North West, West Country, Northern Ireland, Central Midlands, North East, Isle of Man, South West and companies of unknown location base

*based on ITV region and location base of production company. It does not necessarily reflect location of actual production

Regionality – output by region of producer - BBC

The BBC is heavily skewed towards output produced in London and the South East. Other regional output tends to swap between regions, notably out of Yorkshire and Anglia into Scotland and the North West

Producer hours share by region* – 2008, 2013, 2014

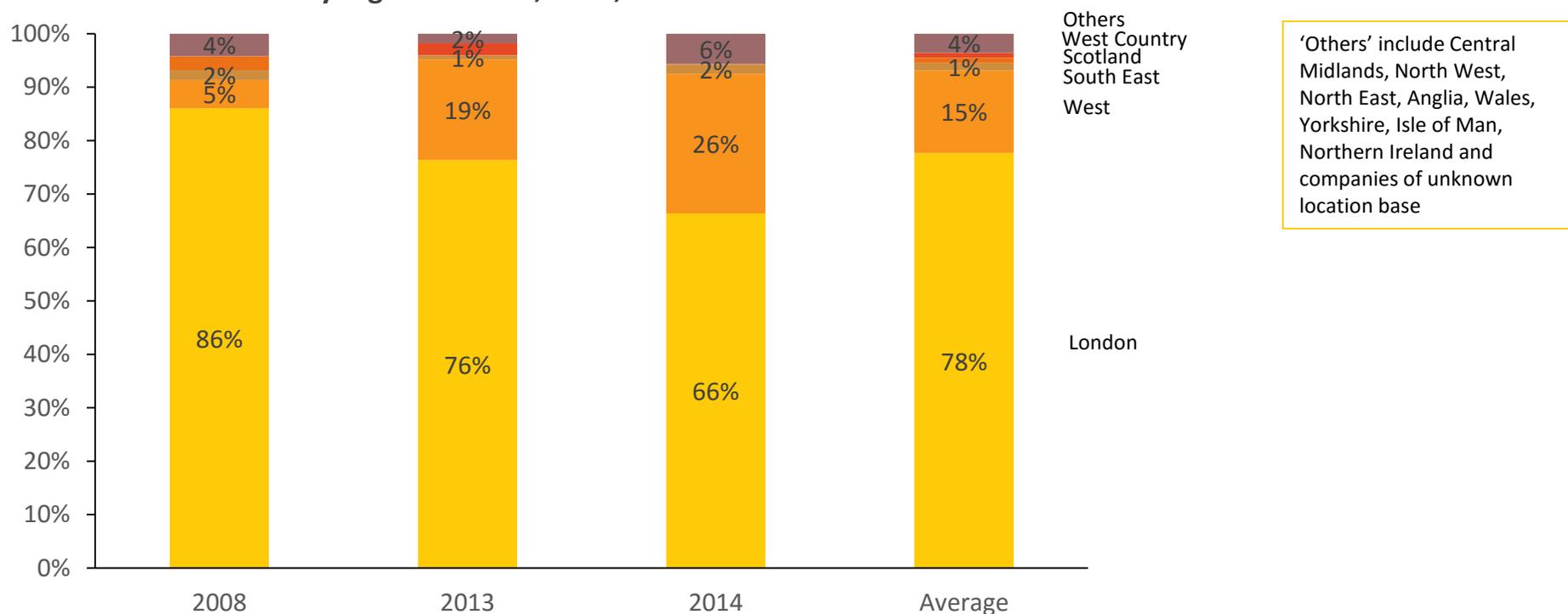


*based on ITV region and location base of production company. It does not necessarily reflect location of actual production

Regionality – output by region of producer - ITV

ITV is the most non-London/South East centric PSB in terms of location of output produced. Production has increasingly been moving out of London and into the West region. Production outside these regions is minimal

Producer hours share by region* – 2008, 2013, 2014

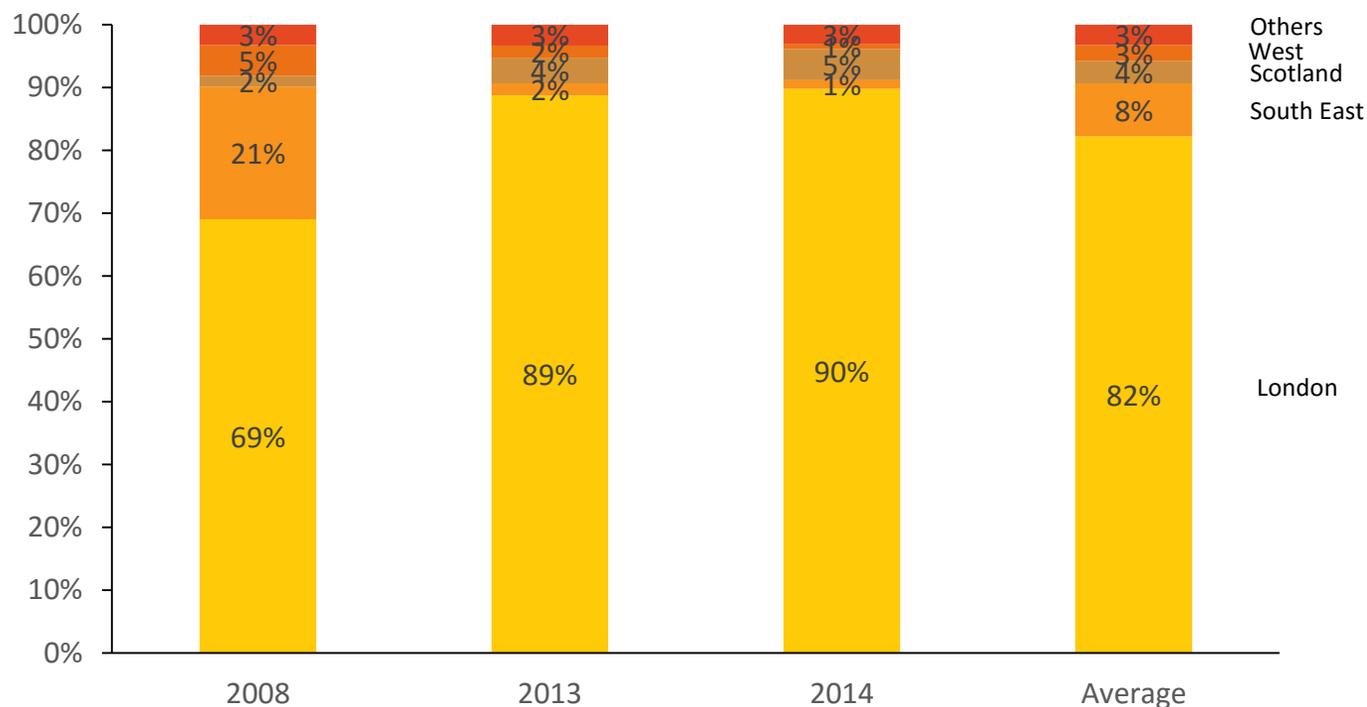


*based on ITV region and location base of production company. It does not necessarily reflect location of actual production

Regionality – producer output by region of producer - C4

C4 has become increasingly heavily skewed towards London with production moving out of the South East. There has been some increase in Scotland at the expense of West. The use of other regions is very minimal

Producer hours share by region* – 2008, 2013, 2014



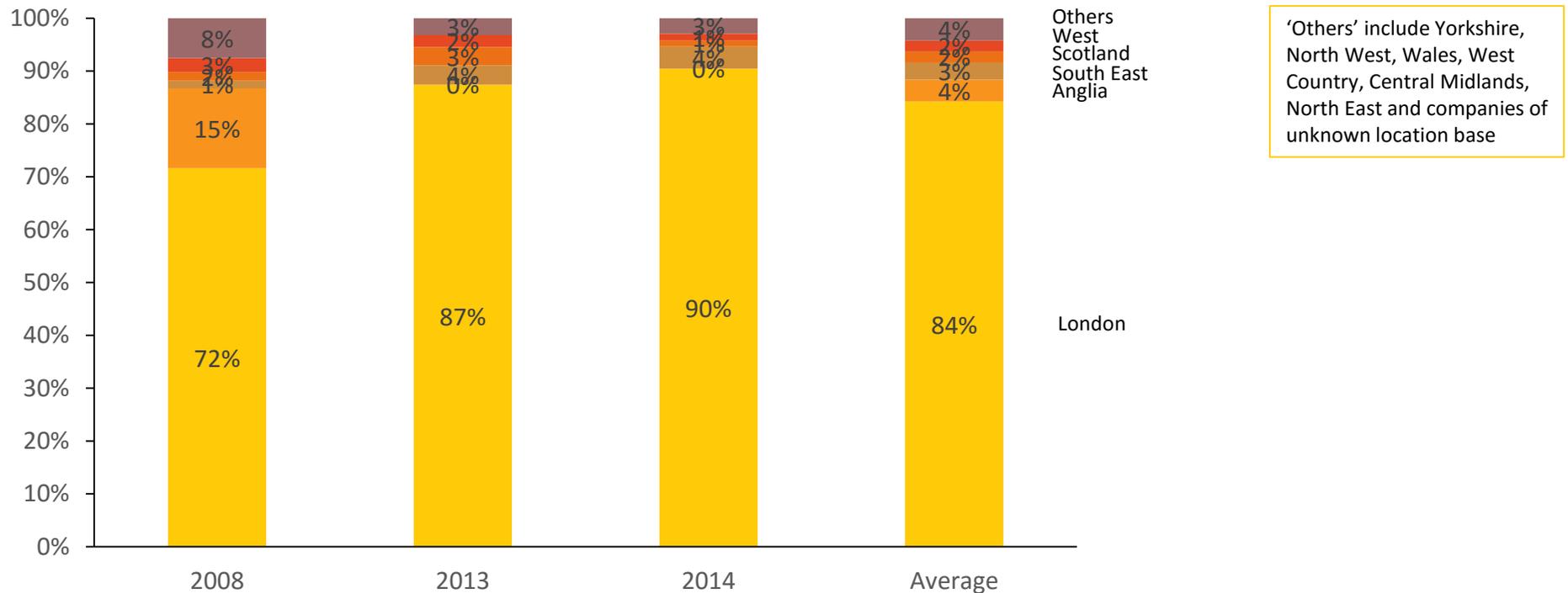
'Others' include Wales, North West, Anglia, Yorkshire, Northern Ireland, Central Midlands, North East, West Country and companies of unknown location base

*based on ITV region and location base of production company. It does not necessarily reflect location of actual production

Regionality – output by region of producer - C5

C5 has also become increasingly London skewed with production moving out of Anglia with 'Trisha' no longer in production. There has been some increase in South East with other regions showing minor in- and decreases

Producer hours share by region* – 2008, 2013, 2014



*based on ITV region and location base of production company. It does not necessarily reflect location of actual production

Regionality – number of producers by region – 2008-2014

The total number of producers has reduced with the biggest impact seen in London. Other regions have stayed more constant

Number of producers by region* – 2008, 2013, 2014

Year	London	South East	West	Scotland	North-West	Wales	N Ireland	Yorkshire	Anglia	Central Midlands	West Country	North East	Isle of Man	Unknown	Total
2008	223	24	19	9	7	6	4	6	9	5	6	6	2	50	376
2013	191	20	14	12	6	13	2	4	2	2	7			29	301
2014	151	20	13	12	11	10	5	3	1	1	1			27	255

**based on ITV region and location base of production company. It does not necessarily reflect location of actual production. Number of companies will be greater than previous analysis due to double counting of groups active in more than one region*

Regionality – output by New Entries by region and PSB

The distribution of output produced by new entries is more diverse than the average output by region. There is still a heavy skew on London and South East, in particular for C4. ITV gets the most output from outside London/S East

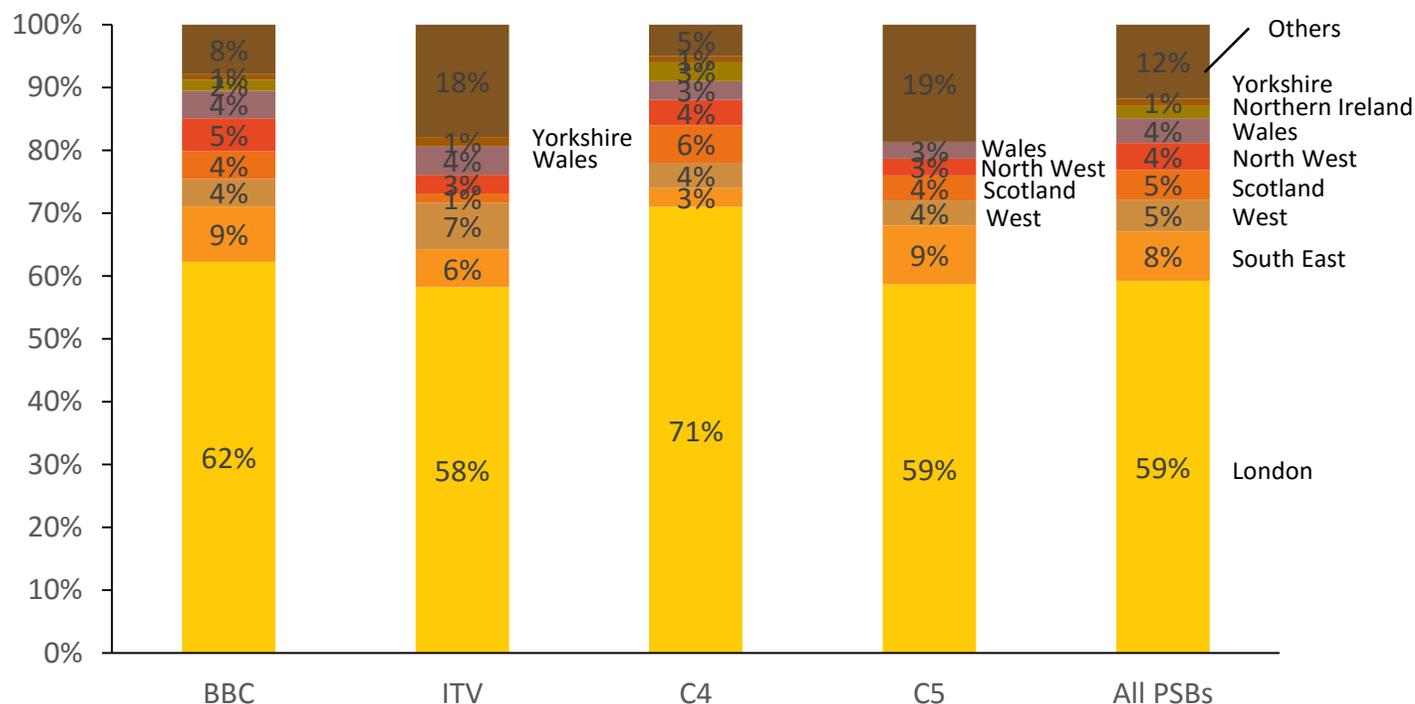
New hours share by region* – 2014



Regionality – number of producers by region and PSB

The distribution of number of producer by region is also skewed towards London, although not as much as output by region, indicating that London based producers take a larger share of commissioned hours on PSBs

Share of number of producers by region* – 2014



'Others' include Anglia, Central Midlands, West Country and companies of unknown location base

*based on ITV region and location base of production company. It does not necessarily reflect location of actual production.

Regionality – number of producers by region and PSB

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Number of producers by region* – 2014



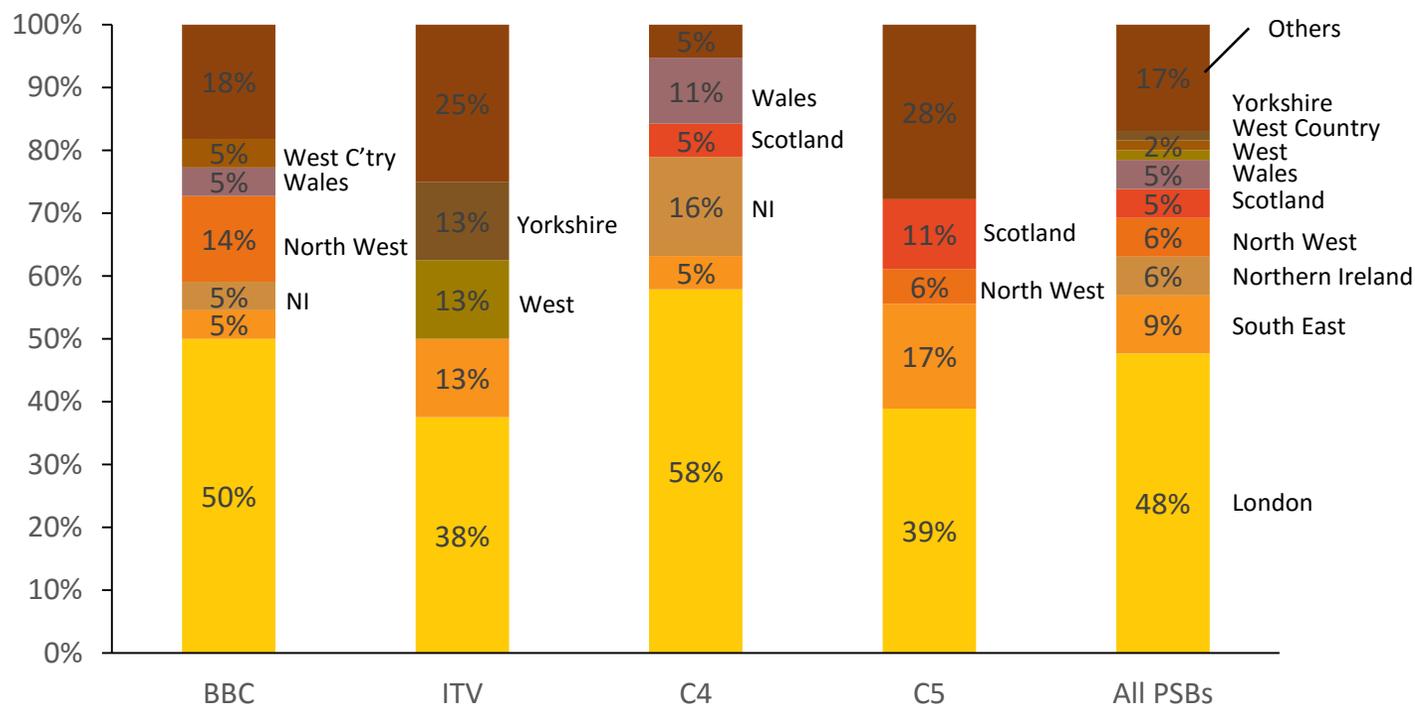
'Others' include Anglia, Central Midlands, West Country and companies of unknown location base

*based on ITV region and location base of production company. It does not necessarily reflect location of actual production. Numbers are greater than previous analysis due to companies active across several PSBs and groups active in more than one region

Regionality – number of New Entry producers by region and PSB

The distribution of the number of new entries is more diverse. Skew is not disproportionate to the share of output taken by region, apart from C4 where London based producers appear to take a disproportionately large share of output

Share of number of new entry producers by region* – 2014



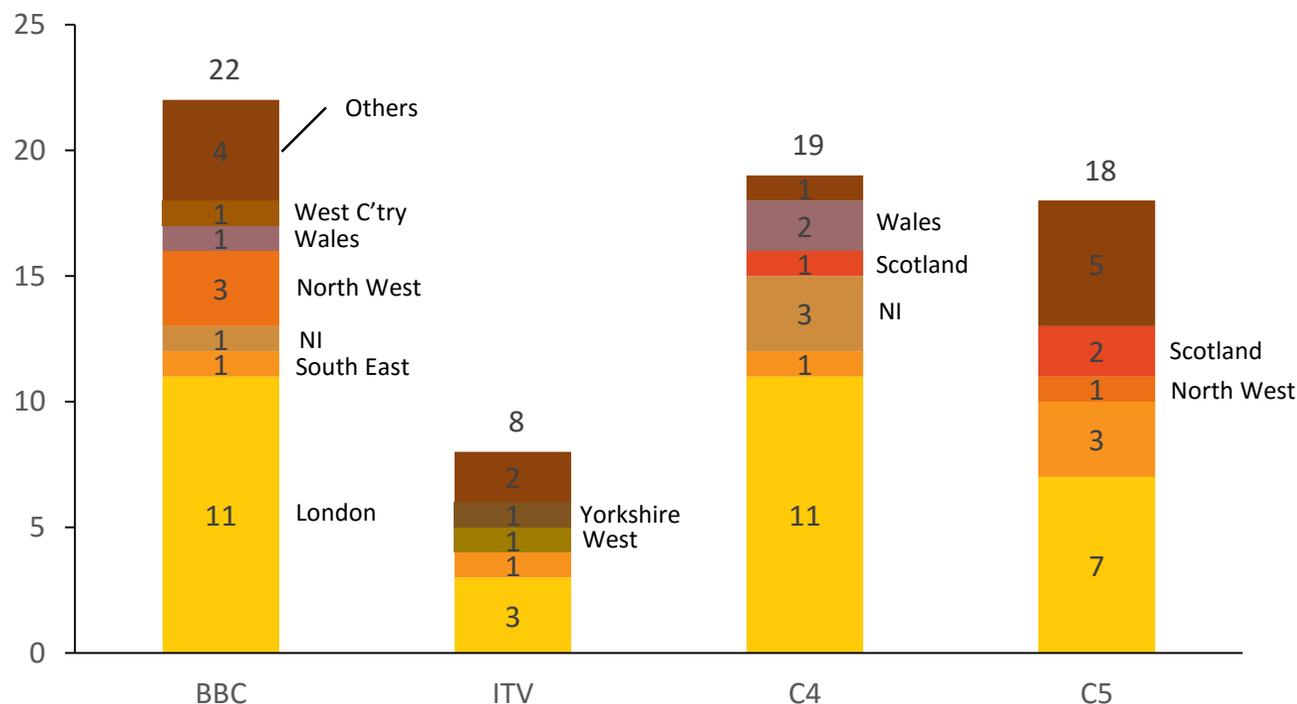
'Others' include companies of unknown location base

*based on ITV region and location base of production company. It does not necessarily reflect location of actual production

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Share of number of new entry producers by region* – 2014



'Others' include companies of unknown location base

*based on ITV region and location base of production company. It does not necessarily reflect location of actual production

Regionality – number of producers by location – large producer groups vs others

London and the South East are the biggest hubs for producers of all sizes. The smaller producers provide the biggest total source of individual production supply choice outside London and the South East

Number of companies by region – large producers groups* versus other producers - 2014

	London	South East	West	Scotland	North-West	Wales	N Ireland	Yorkshire	Anglia	Central Midlands	West Country	Unknown	Total
Large prodco groups	9	5	2	1		2							19
Others	142	15	11	11	11	8	5	3	1	1	1	27	236
Total	151	20	13	12	11	10	5	3	1	1	1	27	255

*A3M, Fremantle, Endemol, Shine, Warner Bros, Zodiak, NBCU, Tinopolis, Avalon.

Companies counted at group level. Where a group is active in more than one region, each region is counted. If a group has more than one company in a region it is only counted once.

**based on ITV region and location base of production company. It does not necessarily reflect location of actual production*

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Historical context of the US market - Financial Interest and Syndication Rules

- The “FinSyn” rules were adopted in 1970 to limit network control over television programming with the aim to foster diversity of programming through the development of diverse programming sources, restricting the ability of the three established networks (ABC, CBS, and NBC) to own and syndicate television programming. The concern was that networks would use their dominance to exercise monopsony power in programme acquisition under terms unfavourable to the producers and monopoly power in programme distribution, withholding or warehousing programmes from independent stations. Networks could still produce their own programming – by 1989 4 hours per night, with restrictions eliminated by 1990.
- The “FinSyn” rules were abolished in 1993 after it was deemed that networks no longer held a dominant market position. Networks had experienced a decline in viewing share, mainly attributable to other viewing options with the emergence of Fox network, independent stations and cable networks.
- There has been some critique of the “FinSyn” rules that they undermined the small independent producers as they were unable to afford the deficit financing required and that this in turn drove Hollywood studios into a stronghold in the main primetime network genres – drama and sitcoms – with high syndication potential. Smaller independents were polarised towards inexpensive genres such as talk and game shows.
- Since the abolishment of “FinSyn” there has been increased vertical integration in the market across broadcasting, production and distribution. Fox was the first to emerge as a major producer and network followed, by two new network launches (UPN, WB) and Disney’s purchase of ABC.

Historical context of the US market – the use of external suppliers

- After a big push into content ownership among the broadcast networks in the early 2000's there was a wave of non-affiliated studio output on the networks (The Big Bang Theory, Modern Family). However, the 2015/16 season has seen a return to in-house production.
- In the previous season, ABC picked up 8 new scripted series from ABC Studios and 4 from external suppliers. In the current season all new and returning drama is produced by ABC Studios. All but two comedies, (Dr. Ken, developed/co-produced by Sony TV, and Uncle Buck, developed/co-produced by Universal TV), are fully owned by ABC.
- Last year, Fox picked up four scripted series from sister studio 20th Century Fox TV and three from outside studios. This year, it ordered eight new shows from 20th CF TV, including one co-production, comedy Grandfathered, which originated at ABC Studios, and one series owned by an outside studio, Warner Bros. TV drama Lucifer.
- NBC's new schedule features nine owned new scripted series (including one co-production, drama Game Of Silence, originally developed by Sony TV) and two outside dramas, Warner Bros. TV's Blindspot and Sony TV's The Player. All new NBC comedies are fully owned by the network.
- Last year, CBS had six owned, including one co-production, Sony's The McCarthys, and two external, WBTV drama Stalker and Sony's Battle Creek. In-house is slightly down this season with four new series from CBS TV Studios (including two co-productions with ABC Studios, Code Black and Criminal Minds: Beyond Borders) and three from outside, Warner Bros.' Supergirl and Rush Hour and 20th CF TV's Life In Pieces.

Historical context of the US market – vertical integration and supply relationships

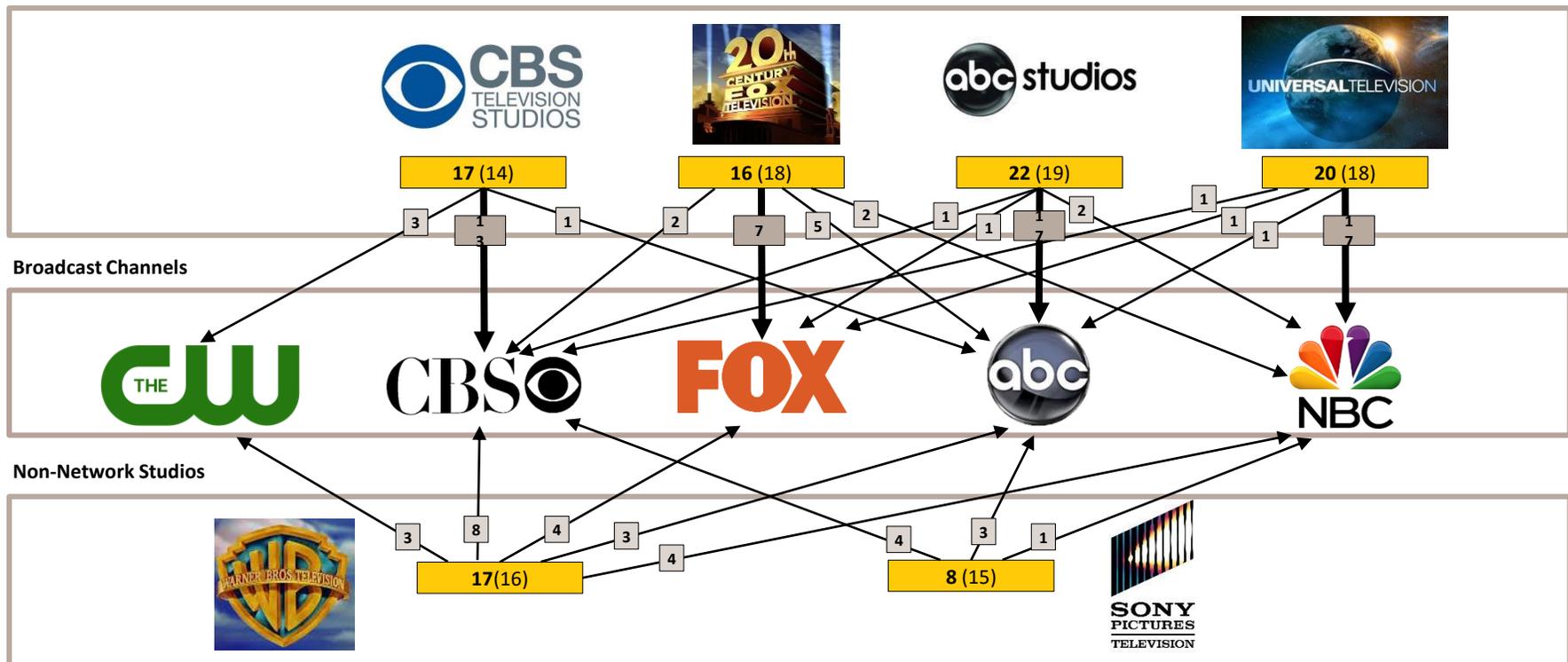
Despite the vertical integration, studio groups are increasingly supplying “off-net” commissions to broadcasters other than the network that owns them

Series supply, US pilot season 2014

Network-Owned Studios

Key:

Number of series pilots 2014 (No. in 2013)



Note 1

Series counts include pilots which were not taken up as well as commissioned series, and co-productions are counted against **both** producing studios, where applicable

Note 2:

Does not include any studio supplying fewer than 5 series to broadcasters

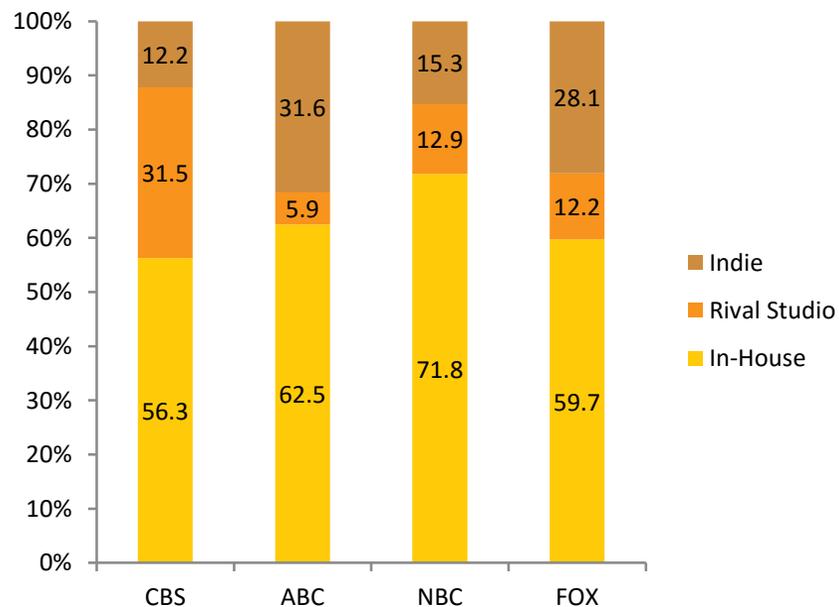
Source:

The Hollywood Reporter, Oliver & Ohlbaum analysis

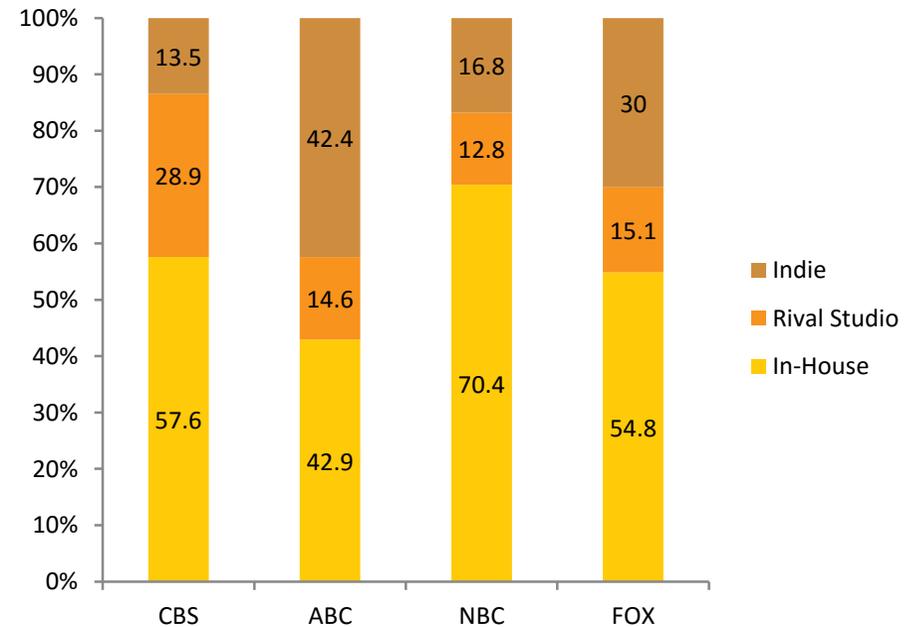
Historical context of the US market – US network source of production

There has been a rise in using 3rd party content suppliers. Rival studios mainly supply drama and comedy, producers mainly reality, e.g. 'Dancing with the Stars' produced by BBCW. CBS made this shift much earlier with C.S.I. (WB).

Source of Production in 2006: Breakdown in % terms



Source of Production in 2011: Breakdown in % terms

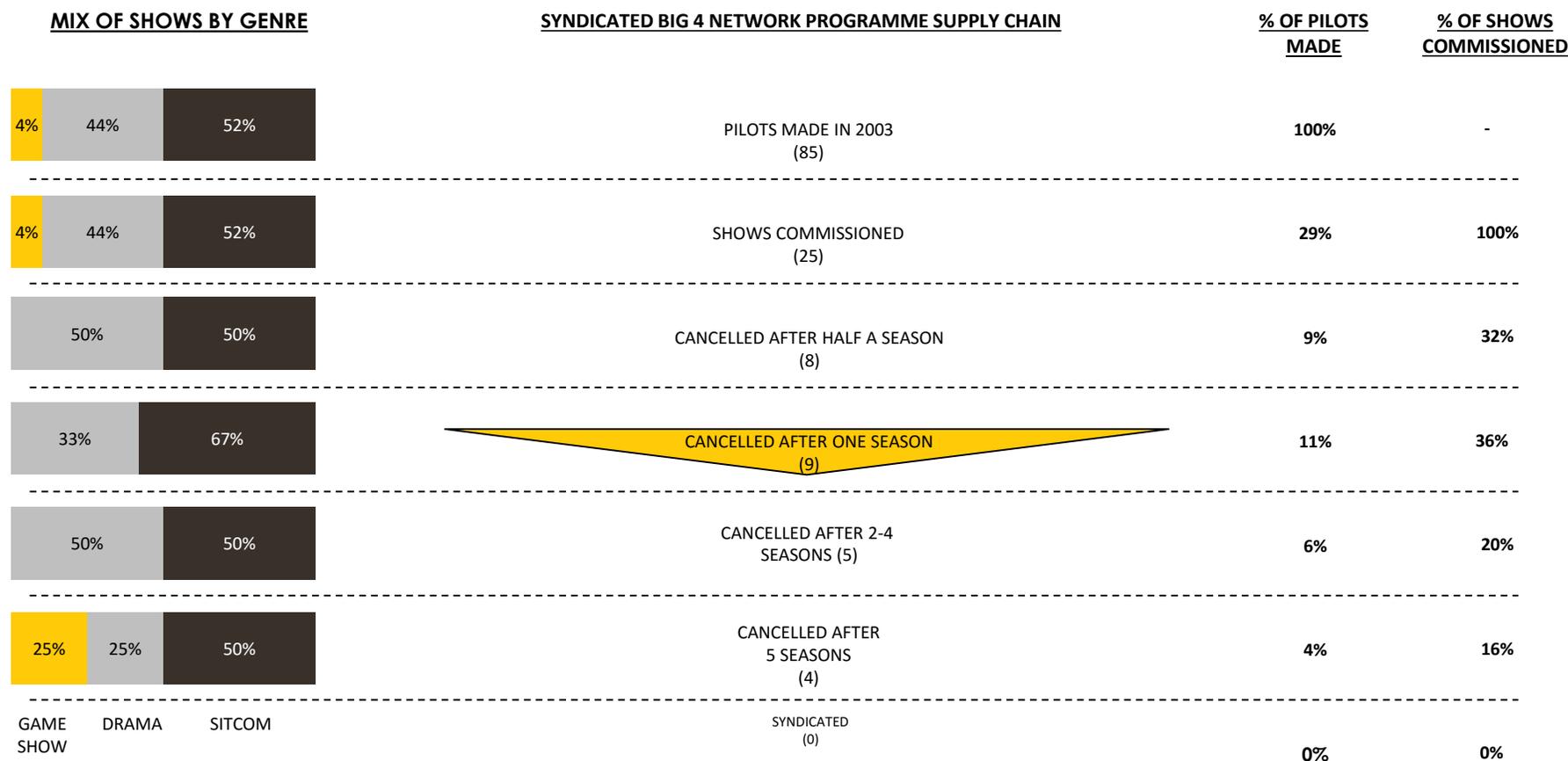


Historical context of the US market – reasoning driving content ownership

- It is probably too early to tell whether the recent increase in in-house supply is set to continue. However, a number reasons have been cited as the motivation behind such a move.
- Owning content has become more crucial with the increasing means of distribution. With broadcast television's 80% failure ratio, network's in-house studios are taking on a big deficit-financing burden by striving to own most of their new series.
- Ad revenue from a show alone is no longer enough to sustain a network's profit margin. Netflix reportedly is paying Sony \$2 million an episode for The Blacklist and about \$1 million per episode apiece to Fox/20th TV's New Girl and CBS/CBS TV Studios' upcoming Zoo. By owning shows such as Zoo, Under The Dome, The Good Wife and Elementary, CBS has been able to create a new windowing strategy for Dome and Zoo that made them profitable before they premiered, and cable/SVOD deals for Elementary and The Good Wife that cumulatively netted around \$3 million and \$2 million an episode, respectively. The Simpsons has generated \$1 billion in off-network/SVOD for Fox since launch.

Historical context of the US market – hit rates of US content

Hit rates in broadcast network programme production are extremely low. For instance, in 2003, the big 4 networks commissioned 25 new series (equating to 29% of the pilots they financed). Over two thirds of these new commissions were cancelled after one season



Historical context of the US market – the long tail earn out of US content

The size of the potential in syndication markets enables broadcasters to keep production budgets high and deficits large...but only a very small proportion of shows will make it to season 5 and fewer still into syndication markets

Economics of a hit scripted comedy show (Friends 1993-2008)

