

# **Independent Production Sector Market overview and update**

**Creative Strategies PACT Conference**

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**MEDIATIQUE**

## Overview

- Background on Mediatique
- Snapshot of where we were when we last addressed you!
- What has happened since?
- Market size and distribution developments
- Financial and valuation issues
- Implications for indies

## Introduction to Mediatique

- Now in its fifth year of operation, Mediatique provides research and advisory services to a range of media companies in the UK and abroad...
- ...authorised and regulated by the FSA, we also provide corporate finance services to companies in various sectors, including broadcasting, independent production and “emerging” media

### Mediatique's principals

**Janet  
Goldsmith**

- Specialises in content, advertising, “emerging” media, participation TV, with a strong operational background

**Mathew  
Horsman**

- Specialises in broadcasting (TV and radio), independent production and “emerging” media, with a strong analytical background

## What we said when we last addressed you in 2004

### Regulatory issues

- Comms Act to improve market for independents
  - Retention of the indie quota
  - Unbundling of rights along the value chain
  - Re-balancing of value-chain relationship between indies and broadcasters

### Commercial issues

- Market likely to grow further, driven by:
  - Multi-channel expansion
  - Increased terrestrial spend
- Further consolidation inevitable
- City to renew its interest in the sector
- New revenue streams likely in light of shifting consumer behaviour and technological change

**A great deal has since changed on the regulatory front...**

**Comms Act has helped the indie sector**

- TPSR outcome benefits rights owners
- New media revenue streams can be tapped
  - BUT
- Is there a risk that “cost-plus” commissions will be reduced to account for shifting power? Will big players drive down prices on volume approach to programme supply?
- Can smaller indies actually monetise rights they now have (dealing with distributors, aggregators, broadcasters, etc.)?
- Current deal subject to a review at some point; what happens thereafter?

## As well as on the commercial front...

### Expenditure and financial trends

- Total expenditure on first-run commissions by broadcasters increased from £750m in 2004 to £820m in 2005, to c£900m in 2006 and is forecast to rise to £950m in 2007
  - Despite poor NAR performance in 2006 (esp. ITV1), main broadcasters claim they are either holding budgets steady or increasing them modestly
  - BBC will report in July on first effects of the WOCC
- Consolidation has been intense: All3Media (Company, Lion, Mersey TV), IMG (Darlow Smithson, Tiger Aspect), 3i-Shine (Kudos, Princess, Firefly)
- City interest has intensified: Permira buys All3; RDF and Shed flotations

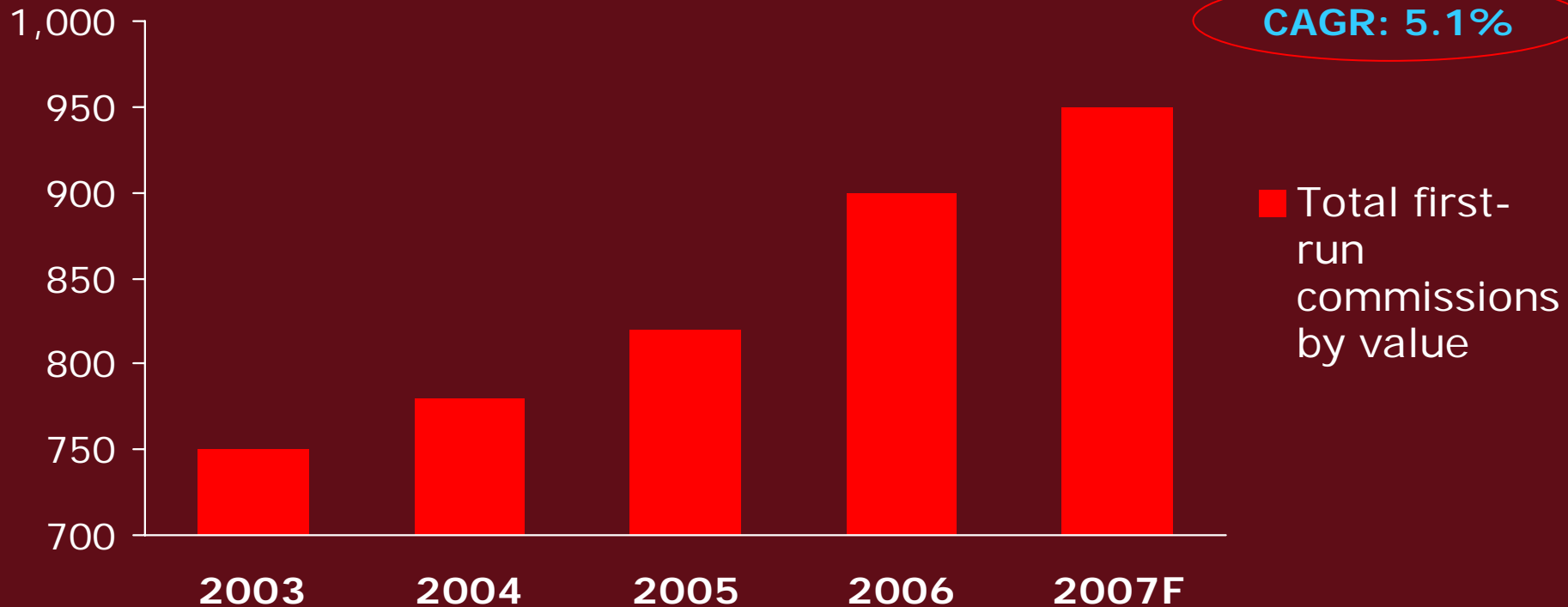
The sources of value for the indie sector are myriad

Source	Description
Commission budgets	<ul style="list-style-type: none"><li>• Main terrestrials continue to spend (although there may be risks ahead!)</li><li>• Multi-channel budgets marginally higher</li></ul>
The WOCC	<ul style="list-style-type: none"><li>• The BBC has yet to reveal the early effects on commissions under the WOCC</li></ul>
New Media	<ul style="list-style-type: none"><li>• Business models are experimental but there are early indications that indies are looking at mobile TV, the channels business, VOD, IPTV, etc. as sources of incremental value</li></ul>

# Market size and distribution developments

## Size of the first-run commissioned market

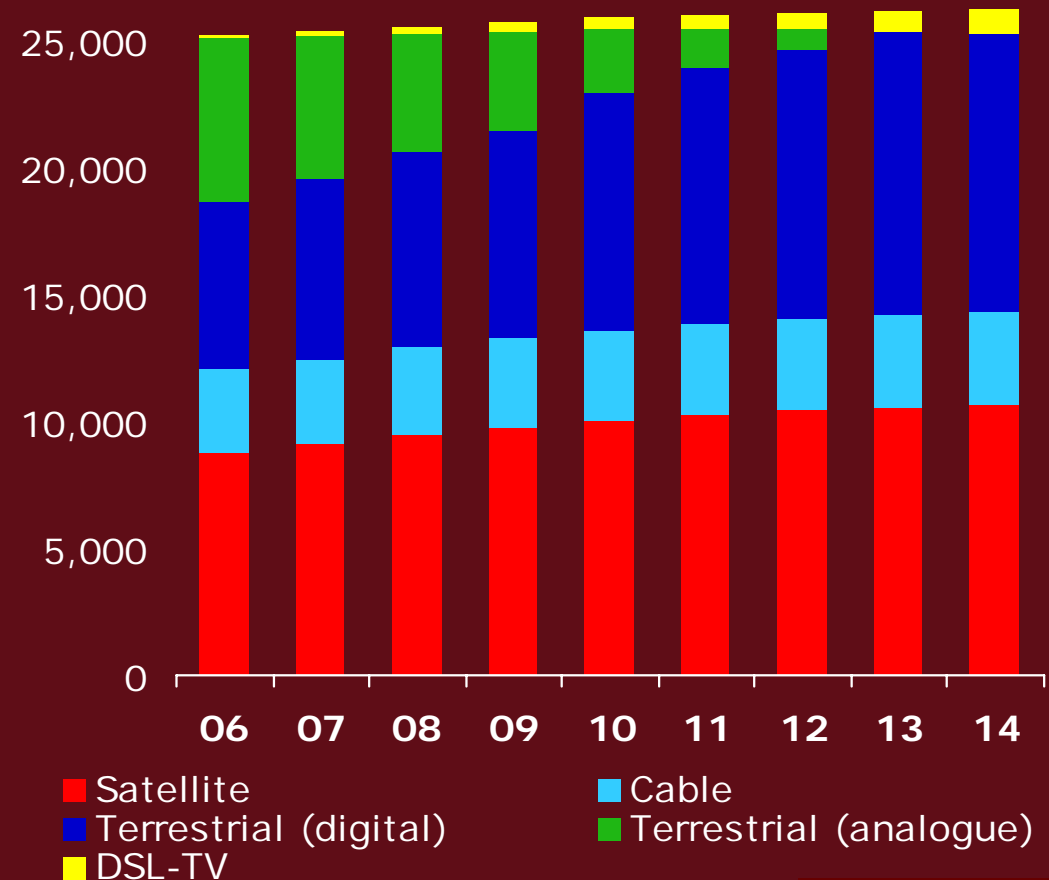
### Aggregate value of commissioned first-run programming (£m)



## Digital TV continues to grow as DSO approaches

- Sky no longer market leader from end of this year
- Freeview growing fastest of all platforms (2.4m devices added in Q4 2006)
- Cable re-launch results not yet in
- DSL (IPTV) still smallest sector by 2014

Number of homes receiving TV on main set, by platform



Freeview developments may prove the most interesting...

New spectrum release is planned, but its use is not known...

- Ofcom intends to release more DTT capacity at various points between now and 2013, the indicated date of DSO
- Terrestrials all plan additional channels, and this is likely to have a positive effect on independents
- However, alternative users (mobile companies, interactive companies, print publishers, etc.) may all bid against the terrestrials

All pay platforms set to grow in coming years, but differentially....

### Main market forecasts

#### Sky

- Sky aiming to be in 10m homes by 2010 – this is likely to include 1m broadband customers

#### Cable

- Re-launched as Virgin Media, looking to regain some modest growth, albeit current skirmish with Sky may erode early advantage of fresh re-branding

#### IPTV

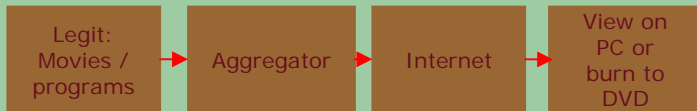
- Jury still out on BT Vision
- Homechoice / Tiscali relaunched but still tiny
- This platform has worked well in France and Italy; UK market harder to crack?

## IPTV services can be categorised into two, broad and converging models – PC and TV

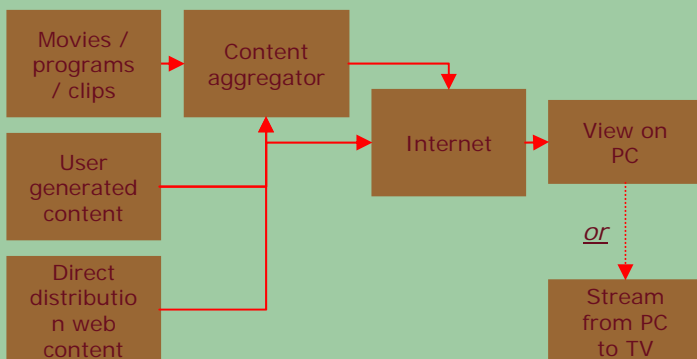
### PC model for IPTV



#### Down-load



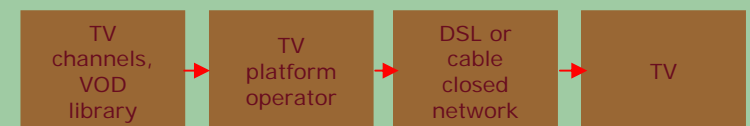
#### Stream



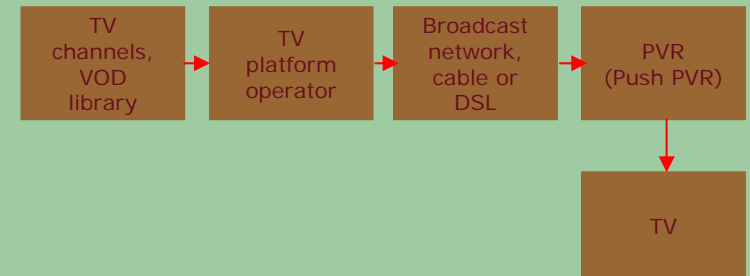
### TV model for IPTV



#### Closed



#### Device



## Lower costs of launching channels has kept market relatively buoyant...

### **Sky still leads**

- Sky is launching up to four channels a week (this includes chat, shopping, participation, etc.) – unsurprising as it operates an open-access platform in DSAT

### **Cable**

- Virgin launching its own channel of VOD/SVOD services

### **IPTV**

- Several deals done by BT Vision, including some directly with independent suppliers

## **IPTV/Mobile TV/mobile services**

- IPTV success or failure likely to reside with BT
- Mobile TV is being trialled in the UK – there are five different options being contemplated, each with a different mix of backers
- All MNOs looking at expanding mobile video services, either mobile TV or download market
- Business model more likely to be a form of advertising/sponsorship or bundled by MNO rather than separate subscription or pay-per-view
- Indies – certainly smaller ones – may well have to deal with intermediaries, aggregators or other distribution partners; will the big brands/network operators (MNOs, Yahoo!, Sky, BT), as well as the broadcasters, end up being gate-keepers after all?

# Financial Issues – M&A, consolidation and valuation

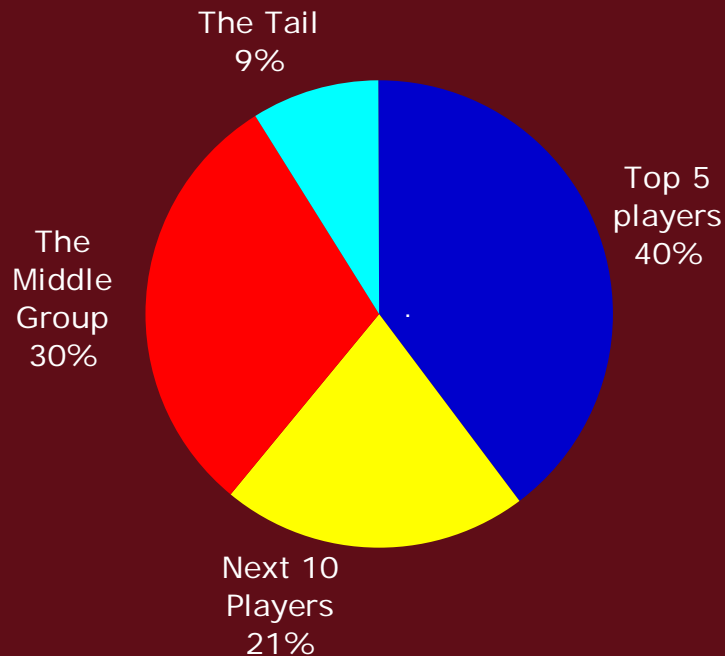
### There has been considerable activity in the space...

- Indie sector continues to be of a tri-partite structure: super indies, mid bulge and long tail
- Consolidation at the top end has driven the market, with All3, IMG and Shine leading the way
- Outcome on Endemol sale may be transforming, depending on the buyer
- Mediatique predicts further activity here, although probably in the private sphere rather than the public markets given difficult conditions on AIM
- More mid-market consolidation to follow?

If Mediatique assumptions are correct, the indie sector will look quite different in 2014 compared to 2004...

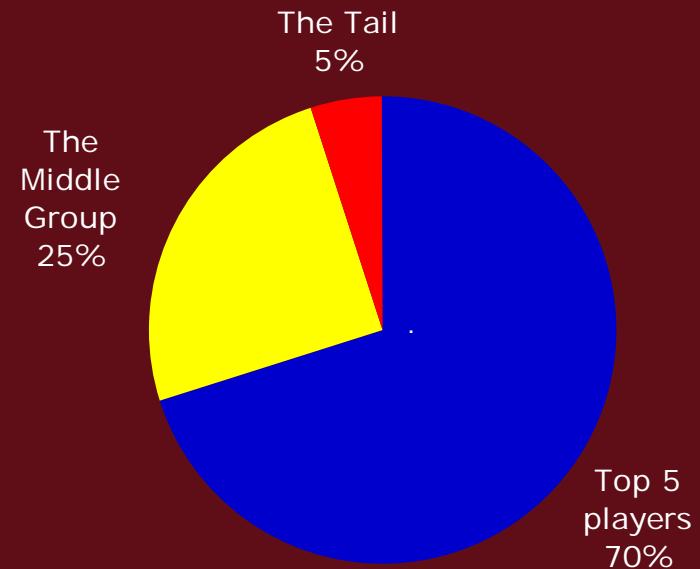
Independent market £780m  
turnover in 2004

(No. of independents: c. 800)



Independent market £1.5bn  
turnover in 2014

(No. of independents: <800)



## Overall economic performance of indies has improved in recent years...

- Margins have improved sector wide from about 6% in 2003 to about 8% today; that average hides a wide range, with Tinopolis at c4%, RDF at c10% and Shed at c16%
- This has been driven by improving prices, more leverage by big players with leading formats and some modest additional revenue streams
- This improving performance may have a positive impact on valuations, although public markets still sluggish

Mediatique has tracked recent deals and analysed public market trends...

- Average revenue multiple of recent deals = c1.4x
- Average PBT multiple of recent deals = c14.4x

## Precedent transactions provide an indication of purchase valuations

Name	Acquirer	Date	Price (£m)	Sales (£m)	PBT (£m)	Sales multiple (x)	PBT multiple (x)
<b>Ricochet</b>	Shed Productions	Nov-05	30.0	15.3	2.1	<b>2.0</b>	<b>14.3</b>
<b>Tinopolis</b>	TV Corp	Feb-06	36.4	44.0	(0.5)	<b>0.8</b>	<b>n/a</b>
<b>Tiger Aspect</b>	IMG Media	Jun-06	25.0	50.0	1.1	<b>0.5</b>	<b>22.7</b>
<b>Comedy Unit</b>	RDF Media	Aug-06	6.5	5.4	0.8	<b>1.2</b>	<b>8.4</b>
<b>Screentime Partners</b>	Shed Productions	Sep-06	3.0	1.3	(0.1)	<b>2.3</b>	<b>n/a</b>
<b>Kudos</b>	Shine	Dec-06	35.0	25.5	2.5	<b>1.4</b>	<b>14.0</b>
<b>Princess</b>	Shine	Dec-06	20.0	14.5	1.6	<b>1.4</b>	<b>12.5</b>
					<b>Average</b>	<b>1.4x</b>	<b>14.4x</b>

# Future Trends, Opportunities and Threats

## What happens next?

- Implications of the WOCC not yet clear
- Spectrum availability still not set
- New media markets remain unproven, and distribution models are in their infancy; multiple gate-keepers could erode indie upside
- Participation TV debacle notwithstanding, all content propositions will have to be tested against the ability to generate non-traditional revenues
- Consolidation will continue, putting pressure on “innovation” and smaller indies; public markets “shut” for now but City still avid about the content sector
- Audience fragmentation continues: will a “tipping point” be reached where commission budgets will be reduced? Will indies be able to deficit fund? What is the source of funding?

# The sector has seen vast improvements in the past 10 years but is not without risk

### Main opportunities

- Quota still in place and WOCC will see more spent on indies as a proportion of total spend
- New media markets are still in infancy stage; could be an important source of out-performance
- Broadcasters continue to look for strong formats with repeatable value
- Budgets remain constant or marginally higher
- Opportunities increasingly exist for direct distribution of content to the consumer

### Main threats

- Lacklustre advertising market may force major broadcasters to retrench on commissions
- New media could end up being an “under-performer”, leading to Mutually Assured Disruption!
- TPSR outcome might see licence fees set to below cost, as broadcasters cede rights to indies that the latter find they cannot monetise
- Lack of public market support for indies might erode valuations

## The implications of this analysis differs by sub-segment

### How the indie sector will be affected

#### Super indies

- Pressures to perform to City expectations; greater reliance on formats/participation; chasing margin at all costs

#### Mid-bulge

- At highest risk, as do not have the “cushion” of the big boys and need more than just a commission or two a year

#### Long tail

- Lack distribution power above all
- Happy to remain niche players? If not, need to bulk up, or sell up or shut up!

# Based on these trends, how can indies influence outcomes?

These trends suggest a battle plan!

### Formats and interactivity

- Formats to the fore; returning series; multiple revenue streams from multiple platforms (including mobile, IPTV, etc.)

### Distribution options

- Sub the super-indie level, indies suffer from lack of distribution outlets; can these be developed outside the main broadcaster groups and top-level independent groupings?

### Partnerships/ M&A opportunities

- Time to engineer partnerships with like-minded indies; out-reach to intermediaries (content aggregators); nil-premium mergers; access to third-party funding (including private equity); sale to larger group?

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