

Oliver & Ohlbaum Associates Ltd

# From Middlemen to Mini Majors

Prospects for global, independent  
film distribution to 2012



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**From Middlemen to Mini Majors – Prospects for global, independent film distribution to 2012**

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# Table of Contents

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Summary	4
Main Findings	5
<b>1. The Story So Far – The Global Film Related Entertainment Market</b>	<b>8</b>
Revenue By Source and National Market	8
Flow of Funds Along the Supply Chain	9
Investment Cycles and Risks Along the Supply Chain	14
Global Trade Flows	16
Recent Growth Rates and the Position in the Investment Cycle	17
<b>2. The Story So Far – Film Release Patterns and Global Retail Markets</b>	<b>19</b>
Film Release Patterns	19
The Global Theatric Market	21
The Global Home Entertainment Market	25
The Global Broadcast Market	28
<b>3. The Story So Far – The Global Production and Distribution of Films</b>	<b>35</b>
Global Film Production	35
The Distribution of Films Across the Globe	40
Terms of Trade and Flow of Funds Along the Supply Chain	43
<b>4. The Story So Far – The Global Independently Distributed Film Related Market</b>	<b>49</b>
The Size and Mix of Independent Distributor Activity	49
Independent distribution Market structure	54
Financial Performance and Success Factors	56
<b>5. Future Prospects – The Global Film Related Entertainment Market</b>	<b>59</b>
Forces for Change in the Global Filmed Entertainment Market	59
Likely Global Filmed Entertainment Revenue Growth to 2012	68
<b>6. Future Prospects – The Independent Film Related Distribution Sector</b>	<b>74</b>
Prospects for Independent Distributors in the Filmed Entertainment Market to 2012	74
Opportunities for Consolidation in Independent Film Distribution	75

## Summary

- Independent film distribution companies account for 28 per cent of the \$51 billion global film related distribution market – and almost 40 per cent of distribution income outside the USA. About two thirds of their distribution income comes from DVD/VHS rights exploitation with the remainder coming equally from theatric and TV sales.
- However, the sector – which relies on a mixed supply of US indie (e.g. New Regency), Hollywood affiliate (e.g. Miramax) and non-US independent (e.g. Pathé) films, is fragmented both within each national market and across national markets with no clear global market leaders currently able to match the major Hollywood studio distribution groups in terms of scale, reach and market clout.
- Despite this fragmentation, leading independent distributors who have managed to build some critical mass in individual, national film markets and diversify into broader based DVD activities (such as distributing leading national TV libraries) have typically enjoyed EBIT margins of 15 per cent or more and revenue growth of 4 to 6 per cent over the last 5 years.
- Generally financial returns are higher and risk levels are much lower in independent film distribution than in film production, where independent distributors – especially the larger ones – commit low levels of investment upfront, can diversify away from project specific film risk and can expand their video label activities into less project specific TV library exploitation.
- The independent film distribution sector – along with the rest of the film industry – faces a number of challenges over the next five years – not least the ending of the DVD migration boom, the development of high definition DVD, the rolling back of some significant film investment tax breaks and the roll out of full video on demand – and the new business models this heralds. However, the prospects for revenue growth, consolidation based synergies and profit enhancement are generally positive.
- The film sector as a whole is likely to grow by 2 to 3 per cent on average to 2012 but will be characterized by two distinct periods. The period up to 2009 will see relatively low revenue growth of 1 to 2 per cent a year as still early stage developments in high definition DVD and video on demand fail to offset continued declines in the core DVD markets of the developed world. There will also be a slight correction in the level of film investment growth as the sector adjusts to its lower revenue growth path from 2004 onwards and as some national tax breaks and subsidies are rolled back.
- From 2009 to 2012, however, industry revenue growth rates should pick up again to 3 to 4 per cent a year as high definition DVD and video on demand full roll out bring some dynamism back to the home entertainment and TV related markets.
- Overall, the \$14.6 billion independent film related distribution sector should see revenues grow by at least 1 to 2 per cent a year on average through the 2006 to 2012 period, but with the leading players in the process of global industry consolidation achieving higher than average revenue growth rates of 3 to 4 per cent a year – and profit margin enhancement through reduced costs, improved market share and better terms of trade with both producers and retail outlets.

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