



# **The Downturn and the Implications for the European TV Content Market**

Presentation by Mark Oliver, Chief Executive, Oliver & Ohlbaum Associates Ltd

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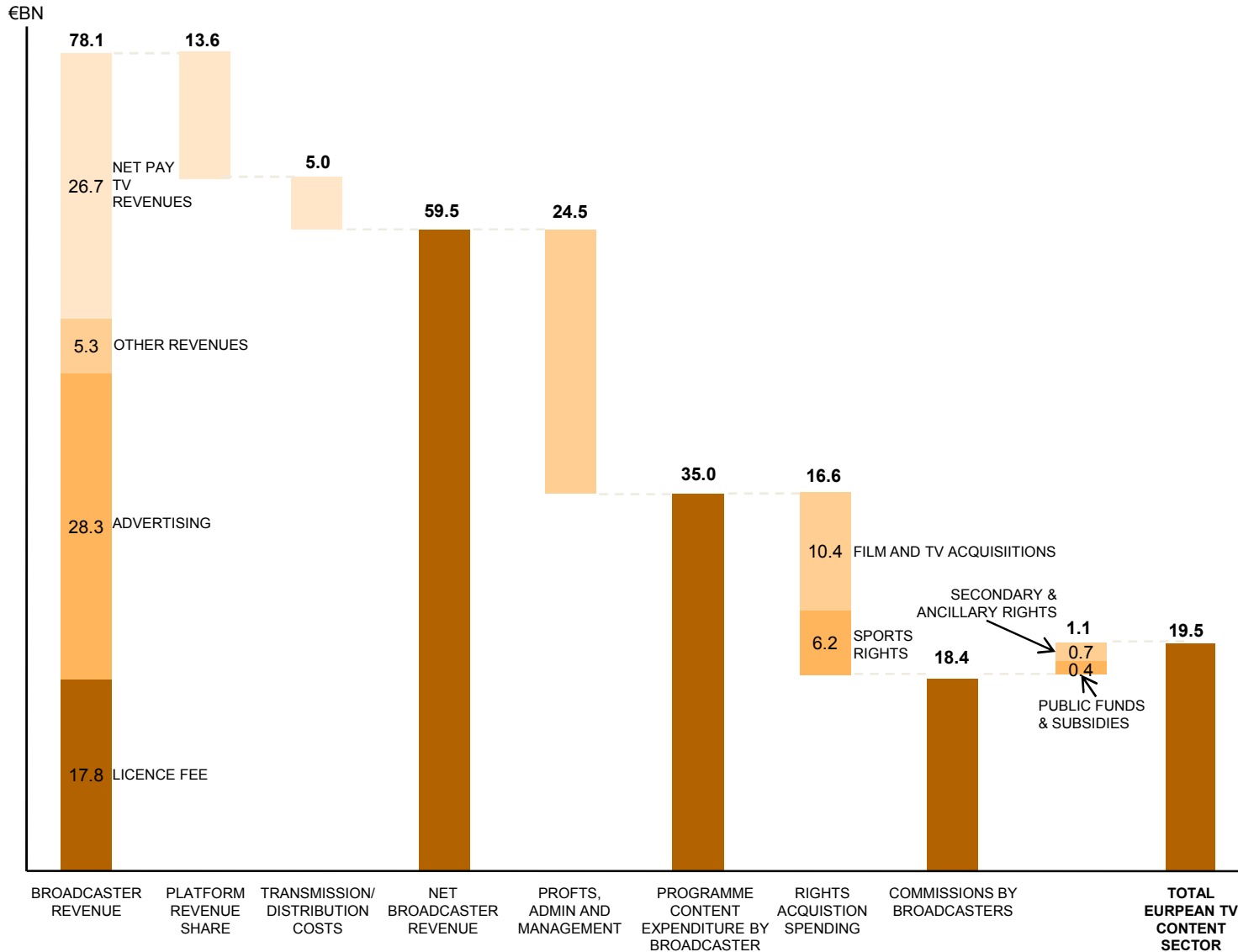
- The European TV Content Market in 2007/08
  - Structural Challenges to TV Broadcasting in Europe
  - The Size and Duration of the Downturn, Extent of Recovery
  - Likely Impact on European Content Spend and Broadcaster Behaviour to 2013

# THE EUROPEAN CONTENT MARKET IN 2007/08

The flow of funds through to TV content



...the €78.1 billion European TV sector supports a €19.5 billion European TV content sector...



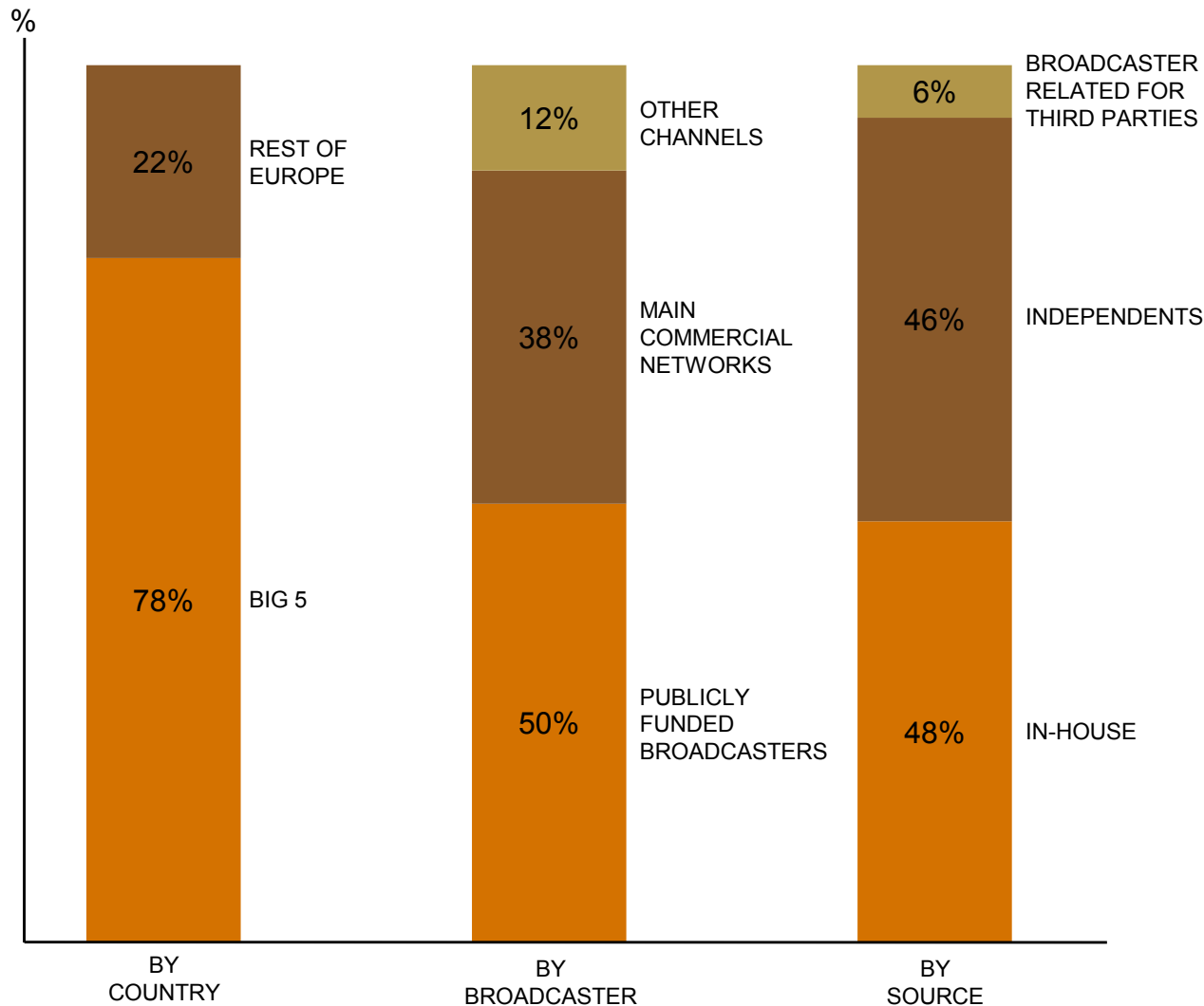
- European broadcasters spend €35 billion on all content
- 55% of content spend is on commissioned output
- Over 90% of European TV content producer revenue comes from broadcaster commissions

# THE EUROPEAN CONTENT MARKET IN 2007/08

## Pattern of demand



...the European TV sector is dominated by the big 5 territories, heavily depends on spending by the main networks and is more or less equally split between in-house and external commissions...



- Within the Big 5, UK and Germany are the two largest markets (about €4billion each)
- Publicly funded broadcasters account for half of the demand for European TV content
- External production is used more by commercial networks (c65% of spend) than publicly funded channels (c30% of spend)

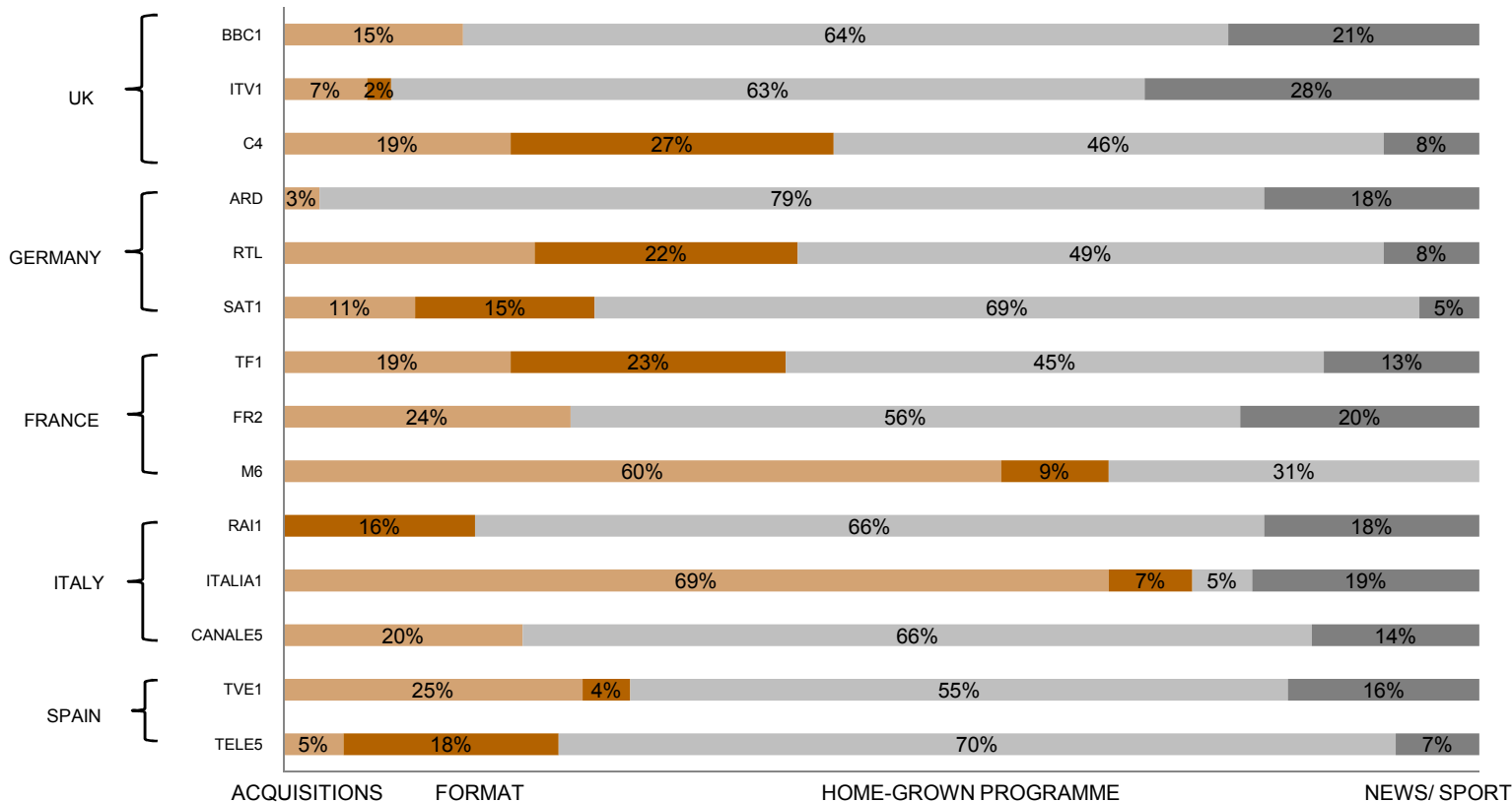
# THE EUROPEAN CONTENT MARKET IN 2007/08

## Contributions to primetime schedules



...programme formats and acquisitions make a significant contribution to primetime schedules, but home grown programming IP (other than news and sport) is still the most significant source of output on the main networks...

Proportion of peak time schedules by programme type, 2007/08



- Use of acquisitions by network varies widely across Europe
- Formats now make a significant contribution, but still room for growth
- Home grown output still dominates majority of networks

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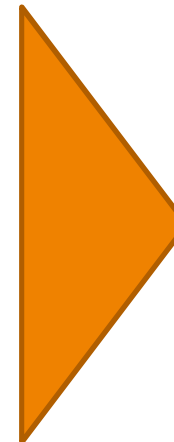
# STRUCTURAL CHALLENGES TO TV BROADCASTING IN EUROPE

Forces for change



...Commercial networks are beginning to face 4 structural pressures gradually reducing the profitability of their business...

1) MACRO SHIFT	<ul style="list-style-type: none"><li>• TO “INTENTION BASED” ADVERTISING FROM DISPLAY ADVERTISING WITH RISE OF INTERNET</li><li>• WITHIN DISPLAY, COMPETITION FROM THE INTERNET</li></ul>
2) FRAGMENTATION	<ul style="list-style-type: none"><li>• GETTING HARDER TO REACH AUDIENCES IN ONE SHOT</li><li>• LOSING SHARE AND REACH TO THEMATIC CHANNELS AND ON DEMAND SERVICES</li><li>• PVR REDUCING IMPACT OF SPOT AD</li></ul>
3) DISINTERMEDIATION	<ul style="list-style-type: none"><li>• ON DEMAND PLATFORMS USE OF AD INSERTION</li><li>• ADVERTISERS SEEKING DIRECT CONTACT WITH VIEWERS THROUGH SPONSORSHIP AND PRODUCT ENDORSEMENT/PLACEMENT</li></ul>
4) RISING COMPETITIVE INTENSITY	<ul style="list-style-type: none"><li>• SEVERAL MARKETS MOVING FROM “COMFORTABLE DUOPOLY” TO “INTENSE RIVALRY” (e.g. UK AND SPAIN)</li></ul>



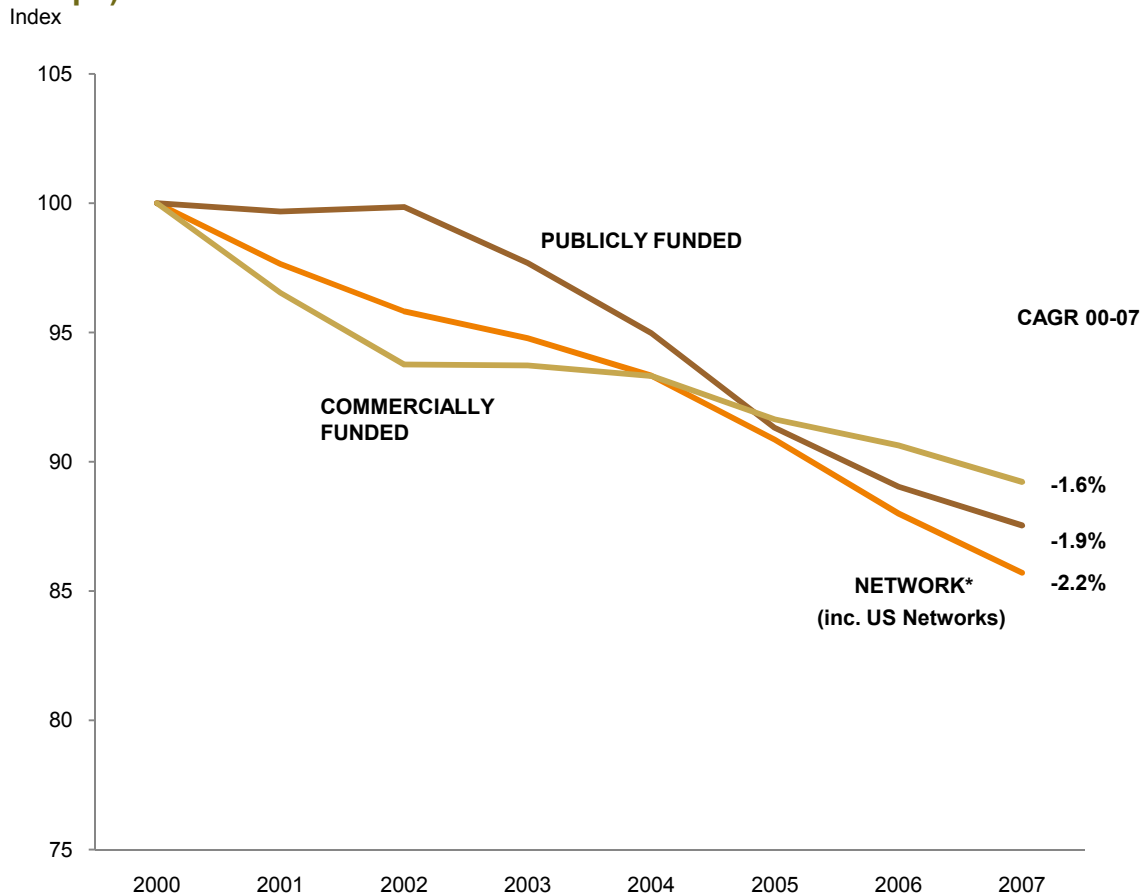
**30% to 35%  
margin business  
becoming a 15%  
to 20% margin  
business**

# STRUCTURAL CHALLENGES TO TV BROADCASTING IN EUROPE

Network audience share falling due to multichannel take-up growth



## Audience share of TV networks indexed to 2000 share, 2000-2007 (US & Western Europe)



- Publicly funded networks staved off share decline at first
- Network share decline most pronounced in Spain, UK and US
- Less pronounced in countries which have always had high penetration of multichannel TV e.g. Germany

Source: Oliver & Ohlbaum, Eurodata, BARB, Kagan





\*Includes US network decline hence is lower than commercial and publicly funded networks

# STRUCTURAL CHALLENGES TO TV BROADCASTING IN EUROPE

## Sources of resistance to pressure



...the impact of structural changes on commercial networks has been dampened so far by some significant forces of resistance...but these are all weakening...and publicly funded networks are not immune to pressure...

EFFECTS	DETAIL	FUTURE IMPACT
<b>RISING CPM PREMIUM</b>	<ul style="list-style-type: none"> <li>• Average premium to market price +23% since 2000</li> <li>• Less pronounced in UK due to CRR</li> </ul>	
<b>PRIVILEGED ACCESS TO 'LIMITED CHOICE' MULTICHANNEL SYSTEMS</b>	<ul style="list-style-type: none"> <li>• Must carry on cable relay systems</li> <li>• Significant allocation of DTT capacity</li> <li>• 'Limited choice' multichannel TV grew from 35% to 52% of European TV homes from 2002 to 2006</li> </ul>	
<b>LAUNCH OF SPIN OFF CHANNELS</b>	<ul style="list-style-type: none"> <li>• Networks have introduced between 7 and 21 new channels across each of the developed European countries</li> <li>• Often have access to DTT, protecting share of high reach slots for advertisers</li> </ul>	
<b>LICENCE FEE INCREASE</b>	<ul style="list-style-type: none"> <li>• Government have permitted licence fee income increases in line with GDP so PSBs can expand into new channels and new media</li> </ul>	

\* See appendix for more detail  
Source: Oliver & Ohlbaum

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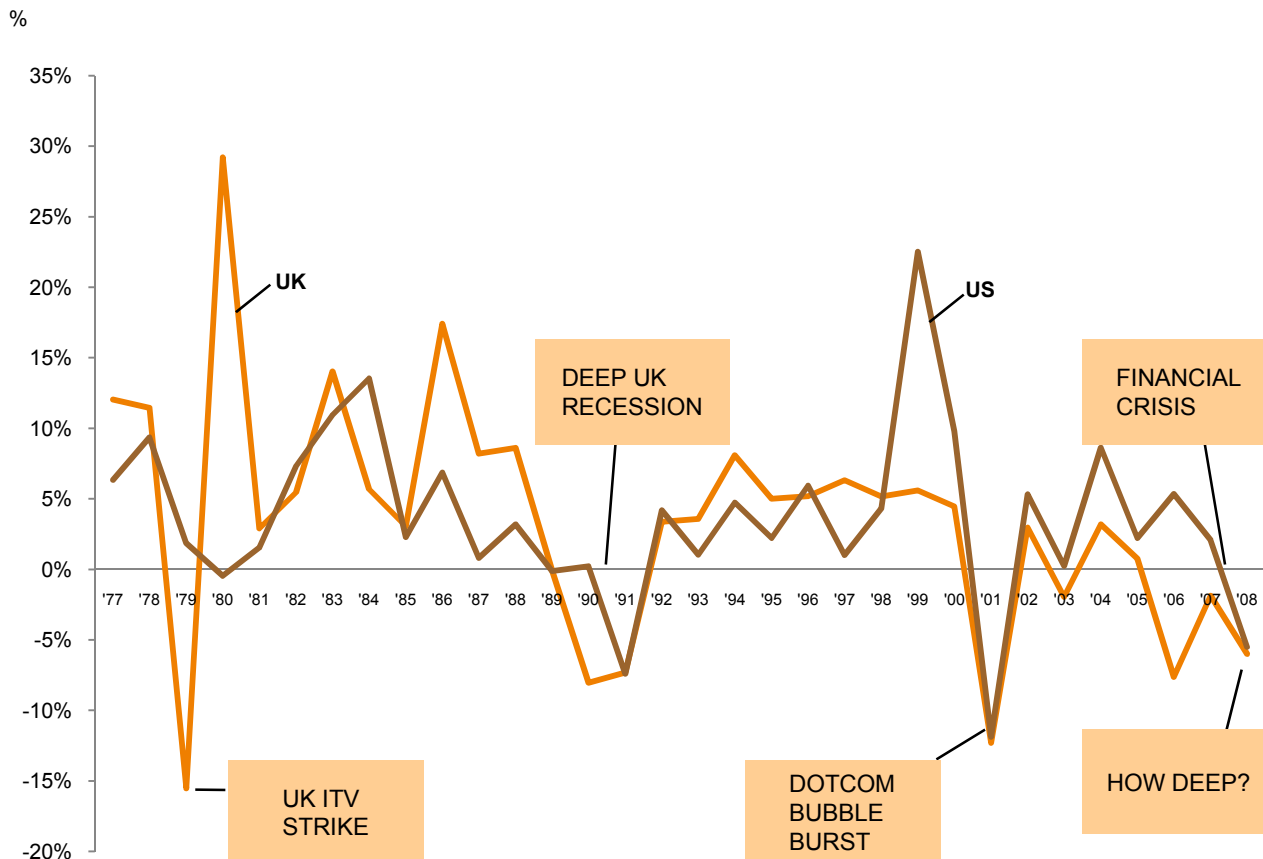
# THE DOWNTURN AND RECOVERY

## TV cycles



...TV advertising has always been cyclical...

TV advertising real growth rates in US and UK, 1977-2008



- Tends to be a downturn every 7 to 10 years
- TV advertising is highly cyclical and rate of decline is greater than GDP during a downturn
- Decline can be deeper and more prolonged than GDP depending on macro factors

# THE DOWNTURN AND RECOVERY

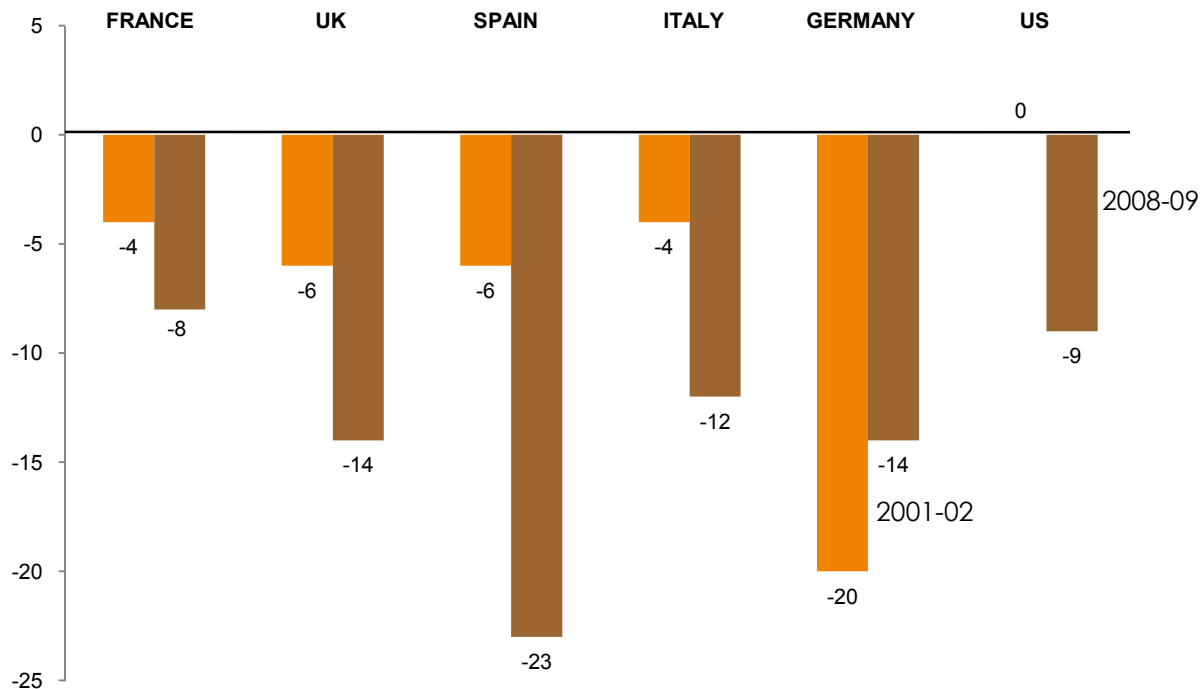
## TV Ad Spend: Decline in 2009



...this TV advertising downturn is likely to be much worse than dotcom fall out in 2001/02...

### TV Ad Spend market growth/decline forecasts 2001-02/2008-09

% decrease  
actual/projected



- During the dotcom bubble burst, TV ad revenues fell between 4 per cent and 6 per cent across major markets other than the US\*
- Depth of recession will be greater and markedly different for each nation, but will be much greater than 2001/02
- Depth of recession means that broadcasters investment in content is threatened – can't absorb 20% fall in revenues on 15% to 20 % margins

Source: Broker Reports

\*Much deeper in Germany due to Kirsch Media collapse

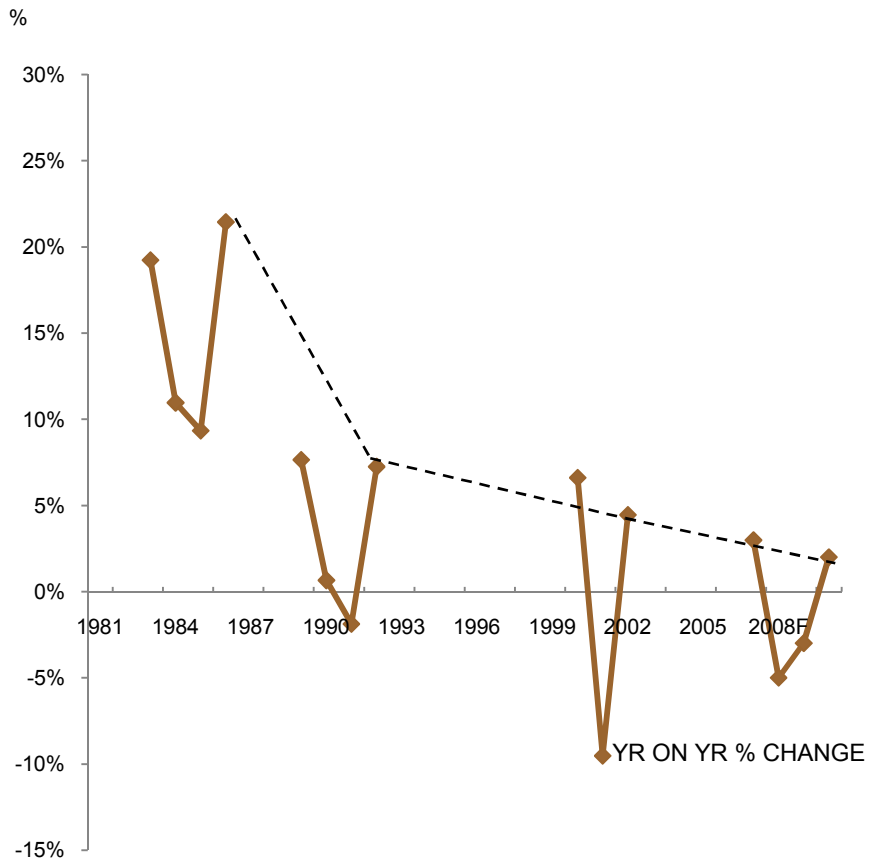
# THE DOWNTURN AND RECOVERY

Recovery from each previous recession has been successfully more muted

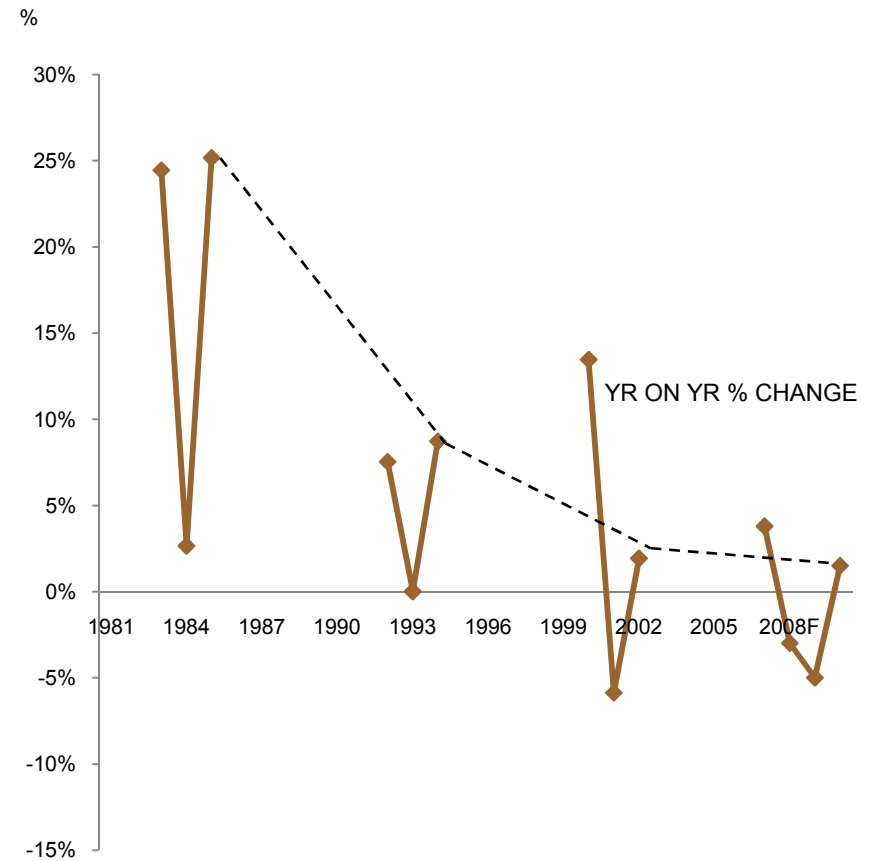


...perhaps more worrying, structural changes have meant recovery from each recession is weakening...

### UK TV Adspend in last 3 year downturns, 1981 – 2011F



### France TV Adspend in last 3 year downturns, 1981 – 2011F



# THE DOWNTURN AND RECOVERY

European TV unlikely to bounce back quickly



...overall a deep recession and slow recovery is likely to leave TV networks with lower revenues for a significant period...

## Europe TV Market Revenue Scenarios – nominal terms

	BEST CASE	WORST CASE
TV Ad Recession 2010 vs 2007	-10%	-16%
Long term TV ad growth rate beyond 2010	+4%p.a.	+2%p.a.
Network TV Ad growth beyond 2010	+3%p.a.	0%
Licence fee growth beyond 2010	3%p.a.	1%p.a.

- Significant recession
- Lower long term TV ad growth
- Fragmentation continues and pricing power reduces
- Licence income growth stalls due to political resistance
- Could take 8 years for network revenue to recover to 2008 levels in nominal terms

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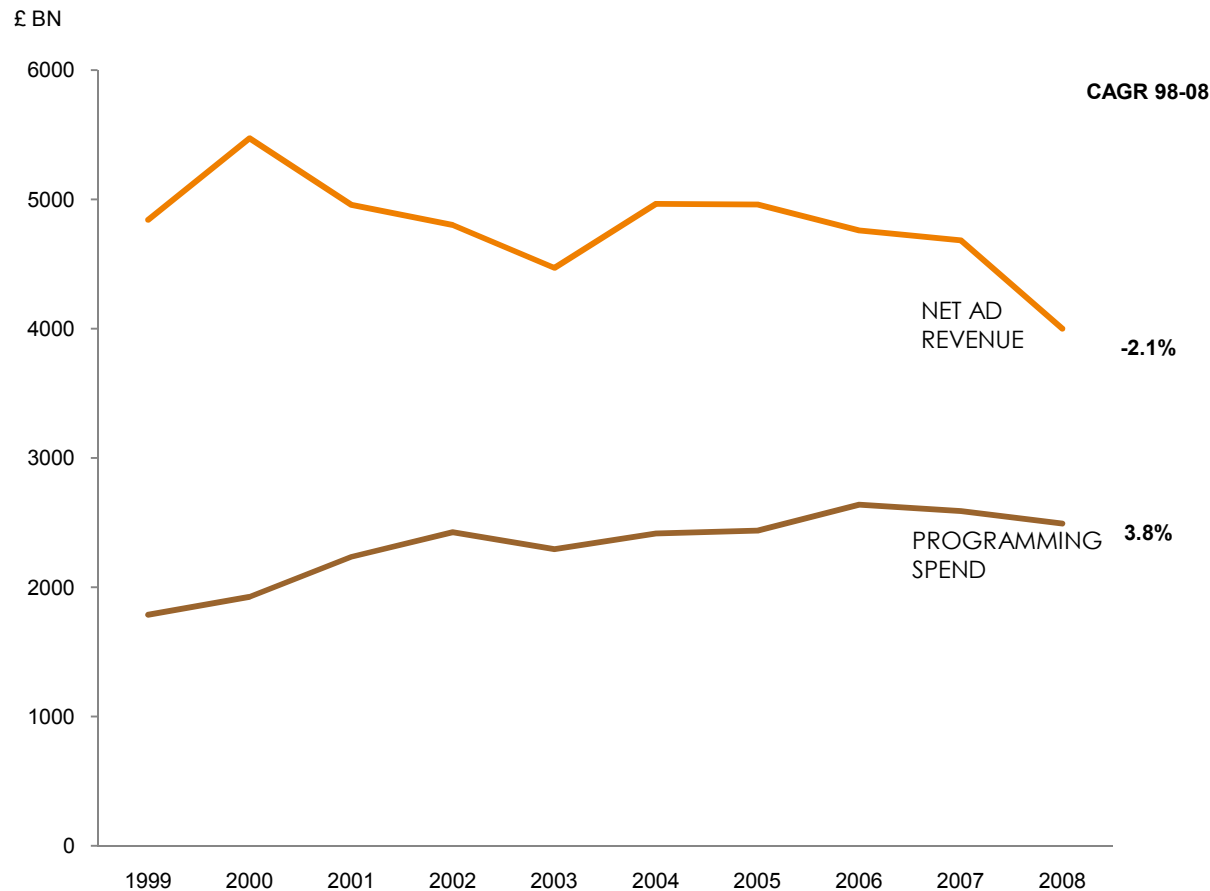
# IMPACT ON CONTENT SPEND

## Programme spend in recession



...Europe's leading commercial broadcasters have traditionally made only modest programme spend cutbacks in a recession...

### Aggregate advertising revenue and content spend for TF1, A3 and ITV1, 1999-2008



- Programming spend reductions often only 20% to 30% of revenue decline
- Programming spending held up quite well in 2008
- Programme spend has grown faster than revenue over the last 10 years due to increasing competition

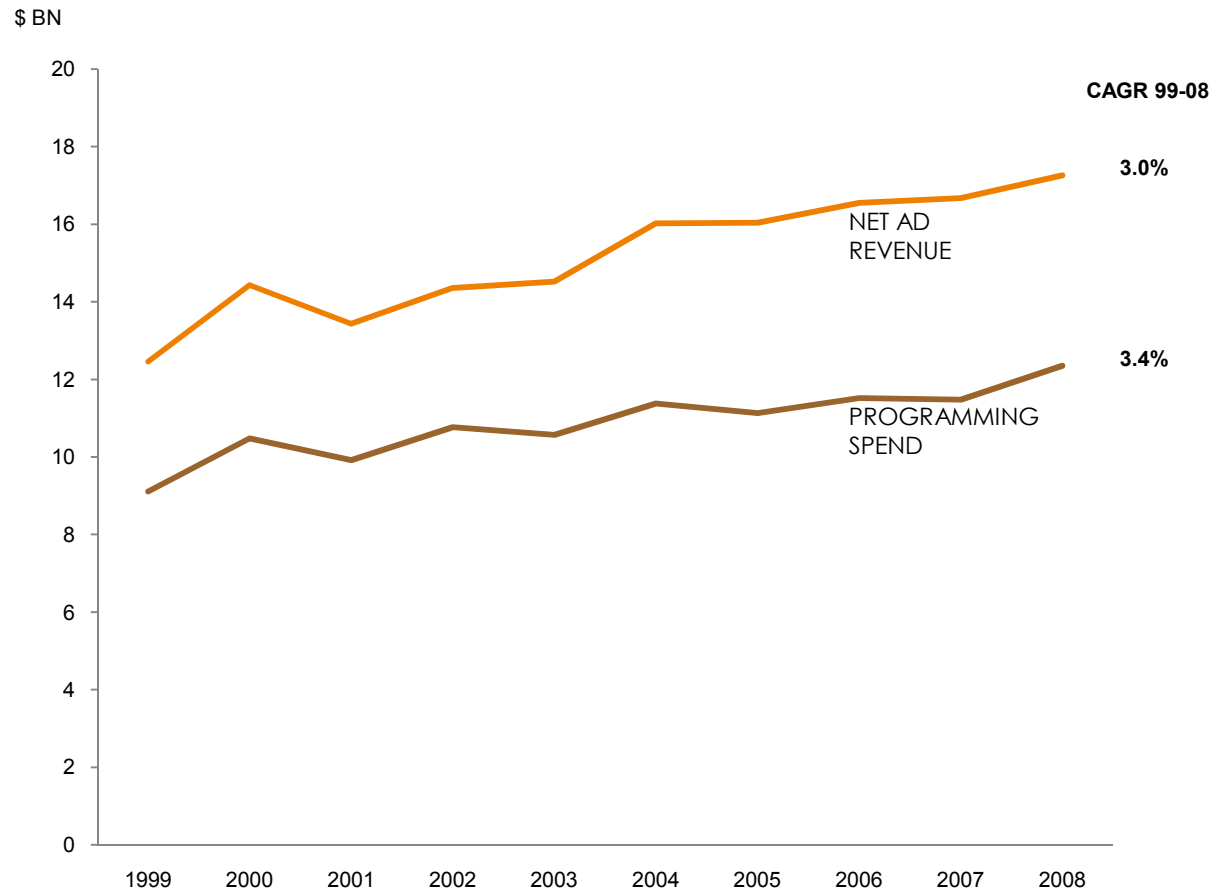
# IMPACT ON CONTENT SPEND

US programme market has resisted downturns



...US networks only made small cutbacks in last recession...

Total US Network Revenues and Programming Spend, 2001-2008



- Through the dotcom bubble, network programming spend fell but by less than revenue
- Programming spend has grown marginally faster than net advertising revenue over the last 10 years

# BROADCASTER BEHAVIOUR

Likely programme spend response 2008 to 2013



...depth of recession PLUS structural factors likely to dampen any recovery and force broadcasters to consider significant changes to their level and mix of programme spend...

	2008 to 2010	2010 to 2013
NEW COMMISSIONING	<ul style="list-style-type: none"> <li>• Overall spend down 5% to 10%</li> <li>• Move to more deficit funding models</li> <li>• Extending strong titles</li> <li>• Access for new titles limited</li> <li>• Drama hardest hit</li> </ul>	<ul style="list-style-type: none"> <li>• Flat spend</li> <li>• New titles access improves</li> <li>• Drama does not recover its position</li> </ul>
SECONDARY RIGHTS	<ul style="list-style-type: none"> <li>• Greater repeats of domestic programming</li> <li>• Lower prices per hour for top acquisitions and sports rights, but volume growth – flat spend overall</li> </ul>	<ul style="list-style-type: none"> <li>• Repeat rate reduces</li> <li>• Top acquisition prices recover but not to 2006/07 levels</li> </ul>
FORMATS	<ul style="list-style-type: none"> <li>• Continued growth for established global hits up to 2008</li> <li>• Increasing share of schedule</li> </ul>	<ul style="list-style-type: none"> <li>• Terms of trade polarise</li> <li>• Getting a format launched gets more expensive for producers</li> <li>• But rewards for success increase</li> </ul>

# BROADCASTER BEHAVIOUR

Some longer term effects



...over the next 5 years there are likely to be some fundamental changes in market structure and business models...brought about by the downturn and structural change...

BROAD RESPONSE STRATEGY	DETAIL	IMPLICATION FOR PROGRAMMING
<b>CONSOLIDATION</b>	<ul style="list-style-type: none"> <li>• Merger of major networks</li> <li>• Partnerships and cooperation</li> </ul>	<ul style="list-style-type: none"> <li>• Risk of significant reduction in joint budgets</li> <li>• Increasing buyer power</li> </ul>
<b>POLARISATION</b>	<ul style="list-style-type: none"> <li>• Focus on fewer strands and genres</li> <li>• Cutting out loss making genres</li> <li>• Cut out risky areas of programming development</li> </ul>	<ul style="list-style-type: none"> <li>• Continued trend towards formats</li> <li>• Less opportunities to launch new strands</li> </ul>
<b>VERTICAL INTEGRATION</b>	<ul style="list-style-type: none"> <li>• Reintegrating into content to secure margins and access higher growth international markets</li> <li>• Attempt to align with platforms to avoid disintermediation</li> <li>• Direct access to talent</li> </ul>	<ul style="list-style-type: none"> <li>• Trend to use more indies may slow /reverse</li> </ul>
<b>DE-RISKING</b>	<ul style="list-style-type: none"> <li>• Move to deficit funding or all rights for full funding</li> </ul>	<ul style="list-style-type: none"> <li>• Risks of production/distribution increase</li> </ul>

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## SUMMARY

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### 2008 to 2010

- Next 2 years likely to see largest reduction in new commission spend across Europe (and USA) since commercial TV was launched in most of Europe in mid 80s
- Shift from drama to entertainment and reality
- Programme acquisition market will suffer less, although top acquisition prices per hour will fall by 10% to 20%, there will be volume growth at all levels leaving the market flat overall for next 2 to 3 years
- European distributor rights revenue will continue to grow but at <5% per year, with volume increases and flat prices overall
- Established formats should go from strength to strength
- Deficit funding of new commissions will become more widespread

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## SUMMARY

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### 2010 to 2013

- No bounce back of commission spend, or recovery in high end drama
- Distribution/rights revenues recover to >5% growth rates with new on demand and Web 2.0 platform growth
- New business models prevail for content owners - deficit funding, advertiser funding, on-demand revenue sharing etc.
- Risk profile of content sector changes – more “winner takes all” profile
- Strengthening access to US market becomes essential for any producers with rapid growth ambition