

Market Forces are Creating a Balanced European AV Ecosystem – And it is Booming

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Table of contents

Summary	01
Our findings	03
The demand for content is stronger than ever	04
Traditional players have adapted to seize the opportunities of digital	05
Traditional broadcasters and SVOD providers are innovating in content delivery technology	05
Traditional TV revenues are broadly stable or growing	06
In the new ecosystem, traditional FTA broadcasters and global SVOD play distinct and complementary roles	07
As a result of competition, content spend is rising	08
There is significant demand for this content in other markets	09
European feature film budgets are fairly steady and box office admissions are starting to recover	10
Covid-19 had a significant impact on the AV sector, but it is bouncing back	10
The European production sector is diverse and profitable	11
The European production sector remains diverse	12
There are good levels of profitability across different production company sizes and ownership structures	15
Several factors support a greater variety in deal terms, which allows producers to build portfolio businesses	16
The future of the European AV sector is bright	18
If this is the 'golden age of content', what does this mean for regulation?	21
New European works rules have either recently been transposed or discussions are still on-going — and it is too early to say how they might affect the market trends we have outlined	22
There are several reasons why some territories have decided against introducing additional regulation	22
In such a fast-changing market, changing regulation has potential adverse effects	24
The European AV sector is reaching a new equilibrium — and it is booming	25
Annex	26

Summary

The media landscape has shifted over the last ten years and digitalisation has brought important changes in the European audiovisual (AV) sector. There has been a growing supply of AV services from European broadcasters as well as from new entrant European and global video on-demand (VOD) providers. Increased connectivity and investment in content delivery technology by AV companies has enabled consumers to choose whether to watch on a TV set or on the move – any time and on a range of devices.

Summary (cont.)

Policy makers across Europe are responding to these changes, assessing the optimum industrial policy and media regulation framework to promote the European AV sector in the digital age.

The Audiovisual Media Services Directive (AVMSD) was revised in 2018, with the aim of providing for a 'level playing field' between TV broadcasters and on-demand services including in relation to European works quotas and financial obligations¹. Although transposition was due by September 2020, many territories only adopted the relevant instruments during 2021 and some in 2022, following pandemic-related delays. Many discussions on any financial obligations implementation are still ongoing. The European Regulators Group for Audiovisual Media Services (ERGA) decided to continue its work on the 'consistent implementation and enforcement of the AVMSD framework' in 2022, noting the limited number of national transpositions in 2021².

The Commission has also adopted the Media and Audiovisual Action Plan to support the recovery and transformation of the media and audiovisual sector following the pandemic, bringing together a range of actions on finance and investment, skills and industry cooperation. Actions are being implemented during 2021 and 2022.

Although the Directive's implementation and wider EU actions to support the media sector are ongoing, and the European Commission's *ex post* evaluation of the AVMS Directive is not due until 2026, there are some voices suggesting potential policy areas for review and a growing number of Member States are considering new or additional investment obligations and levies. For these reasons, in this paper we look at European AV media market trends and ask whether the current AV ecosystem requires new regulatory interventions.

To answer this question, the paper focuses on a sample of territories across the EU single market: France, Germany, Italy, Spain and Sweden, and also considers the UK. Drawing on desk research, analysis of third-party datasets³, and O&O's in-house knowledge and experience of the European AV sector, we consider:

- 1 Trends in demand from buyers of content**
- 2 Trends in supply from producers of content**
- 3 The future evolution of the AV sector**
- 4 Implications of these trends from a policy perspective**

¹2016, Commission Staff Working Document Impact Assessment, accompanying the document Proposal for a Directive of the European Parliament and of the Council amending Directive 2010/13/EU on the coordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the provision of audiovisual media services in view of changing market realities

² ERGA Work Programme for 2022, Subgroup 1 – Consistent implementation and enforcement of the AVMSD framework

³ See the appendix for a full list of sources analysed to produce this paper

Our findings

The paper finds that market forces in Europe are creating an equilibrium of local, regional, and global content and services.

On the buyer side, demand for content is strong. Across our comparator countries, traditional TV players have seized the opportunities of digital, traditional TV revenues are broadly stable or growing, total content investment is rising, and there is significant demand for European content in other markets. In film, box office revenues are starting to recover from the pandemic.

These conditions have created more opportunities to produce and distribute content than ever before. In addition to innovating with VOD services, broadcasters and SVOD (Subscription Video On Demand) providers have invested in content delivery technology such as Content Delivery Networks (CDNs) and developed distribution partnerships with pay TV platforms and Internet Service Providers (ISPs).

On the supplier side, there is a vibrant mix of large and small producers, with high levels of European ownership among the leading companies by revenue, and good levels of profitability across independent production companies of all sizes. This mix supports production sector resilience and creative renewal. Competition for content across different investor types helps to drive flexibility and variety of financing and IP (Intellectual Property) terms.

Looking ahead over the period 2022-2026, across the six comparator countries, total content spend by both Free To Air (FTA) and pay broadcasters is forecast to rise overall (though with some variation across countries), while SVOD investment is expected to grow substantially⁴, driving the overall upwards trend and suggesting that SVOD spend is additive. Meanwhile, the development of new distribution avenues coupled with increased competition helps to contribute to further evolution in deal terms between commissioners and producers. A vibrant sector allows producers to build portfolios of projects across commissioner types, with different deals to balance funding and legal security and the possibility of scoring a 'hit'.

Considering these findings, it is not clear that new regulations around local content investment are needed to achieve the stated policy ambition of a resilient European AV sector in the digital age. It is too early to judge the effect that the new AVMSD rules and their national implementation may have on the market and, looking across different territories in Europe, stricter local content regulation is not a clear indicator of better outcomes in terms of content investment. Investment levels are strong in countries with no or few additional requirements such as Germany, Sweden, the UK and Spain. It is also important to consider the potential for unintended consequences; requiring additional spend in a market may increase cost inflation and shortages in production resources, affecting the ability of all content providers to offer new European works.

⁴ Ampere Analysis - see Figure 10 below

01

Demand for content is stronger than ever

Digitalisation is bringing important changes to the European AV sector. Consumers are migrating steadily from broadcast TV viewing to linear online and on-demand consumption, particularly younger audiences. TV advertising revenues are broadly stable and broadcasters are innovating in ad tech. And there has been a growing supply of AV services – for example, the EAO shows that on average, Europeans had access to 99 VOD services, including 27 SVOD services, in their countries in June 2022⁵.

As the EAO notes, changes in viewing behaviour towards online viewing ‘have prompted TV broadcasters to adapt’. With the heightened competition for audiences⁶, having the right content is vital – this is driving competition for European creative talent and production resources, as well as increased demand for European licensed content.

⁵ MAVISE database, EU-27 plus the UK, including free VOD, transaction VOD (TVOD), subscription VOD (SVOD), and VOD N/A MAVISE categories

⁶ EAO, ‘Yearbook 2020/21, Key trends’

Traditional players have adapted to seize the opportunities of digital

Europe's FTA broadcasters were leaders in launching VOD services, with France's *TF1Vision* launching in 2005, Sweden's *SVT Play* in 2006, or Spain's *RTVE a la carta* in 2008. Meanwhile Europe's pay TV providers created Over-The-Top (OTT) access to their pay packages and new VOD services as 'pay lite', giving consumers greater flexibility (Orange, Movistar, Sky). This innovation played a major role in introducing consumers to online and on-demand TV viewing, arguably creating a market for subsequent entrants.

Following the arrival and growth of global SVOD services from 2015, Europe's traditional TV players have continued to innovate – both in terms of content and functionality. To develop their players from 'TV catch-up services' to destinations in their own right, broadcasters have increased investment in VOD-first commissions and catalogue content. Some have also launched targeted VOD services, such

as for young audiences. France's *Benshi* (2016) is an independent SVOD service featuring arthouse films for children; TF1's *TFOU Max* (2007) focuses on major children's cartoon brands; and Germany's *Kixi* (2011) specialises in educational films, series, cartoons and documentaries from small independent producers as well as larger Studios. We've also seen content and distribution partnerships such as the *Joyn* platform (2019) from ProSiebenSat.1 and Discovery in Germany, or RTL's video and music streaming app *RTL+ Musik* (2022) in partnership with Deezer. This bundles TV, news, film, speech audio and music. A regional European VOD offer is *Viaplay* (2011), now available across the Nordics, Baltics and Poland, and expected to launch in the UK, Netherlands, Germany and Austria as well as Canada and the US in 2022 and 2023.

Traditional broadcasters and SVOD providers are innovating in content delivery technology

Traditional broadcasters and SVOD providers are also innovating in terms of content delivery, investing in technology solutions to improve the efficiency of media delivery online. This includes investing in own and third-party Content Delivery Networks (CDNs), which save on bandwidth costs for ISPs and reduce congestion; and in efficient content packaging and encoding to provide quality video at lower bit rates. Netflix has invested in its own Open Connect CDN⁷ and the Walt Disney Company is supporting the development of open cache technology⁸. In relation to 5G, content providers are investing in standardisation work. The European Broadcasting Union has developed technical requirements and carried out trials to inform 3GPP⁹.

Content providers are also developing distribution partnerships with pay TV platforms and ISPs. For example, Viaplay has partnered with Swedish ISP Bredband2, as well as T-Mobile Netherlands and the cable company Vector in Poland. Netflix has partnered with Telefónica, Vodafone and Orange amongst others.

This level of innovation, supported by increased competitiveness, has maintained the relevance and importance of Europe's traditional FTA and pay TV segments in the digital age. They are commissioners and buyers of market-specific content in particular, meaning that a newly balanced European AV ecosystem is emerging.

⁷ Netflix response to Ofcom's 'Call for evidence: Net neutrality review', 2021

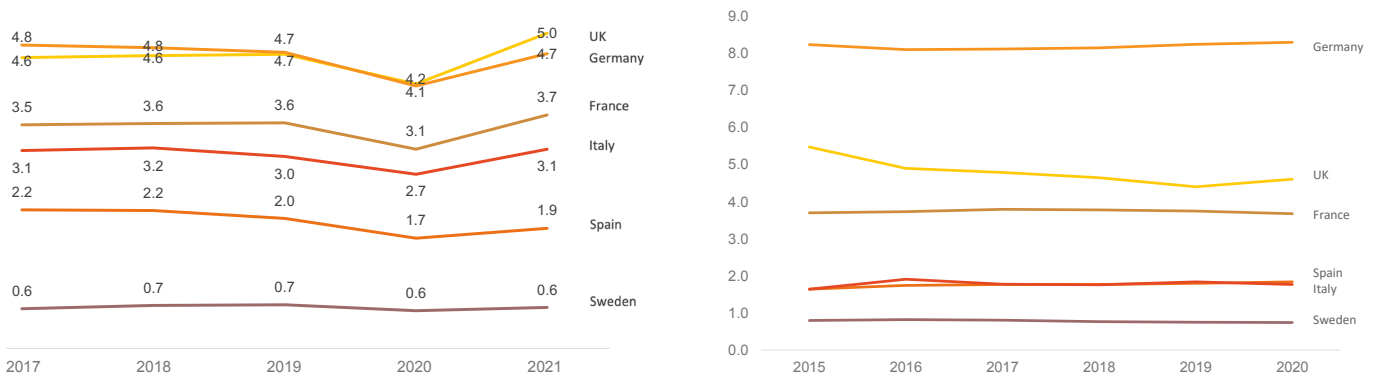
⁸ LightReading, 'Disney gets behind open cache tech for streaming', 2020

⁹ 3GPP is the global standardization organisation of mobile telecommunication technologies. EBU, 'Trials Tests and Projects Relating to 4G/5G Broadcast supported by European PSB, Technical Report', 2022

Traditional TV revenues are broadly stable or growing

As shown in Figure 1 below, FTA broadcaster ad revenues dipped in 2020 due to the pandemic but are bouncing back in most markets. Meanwhile, public funding, especially of PSBs, is broadly stable, although certain countries like the UK have seen reductions, and the funding model and level is under debate in various countries including France¹⁰.

Figure 1: TV advertising revenues 2017-2021 (€ billion) and TV public funding 2015-2020 (€ billion)

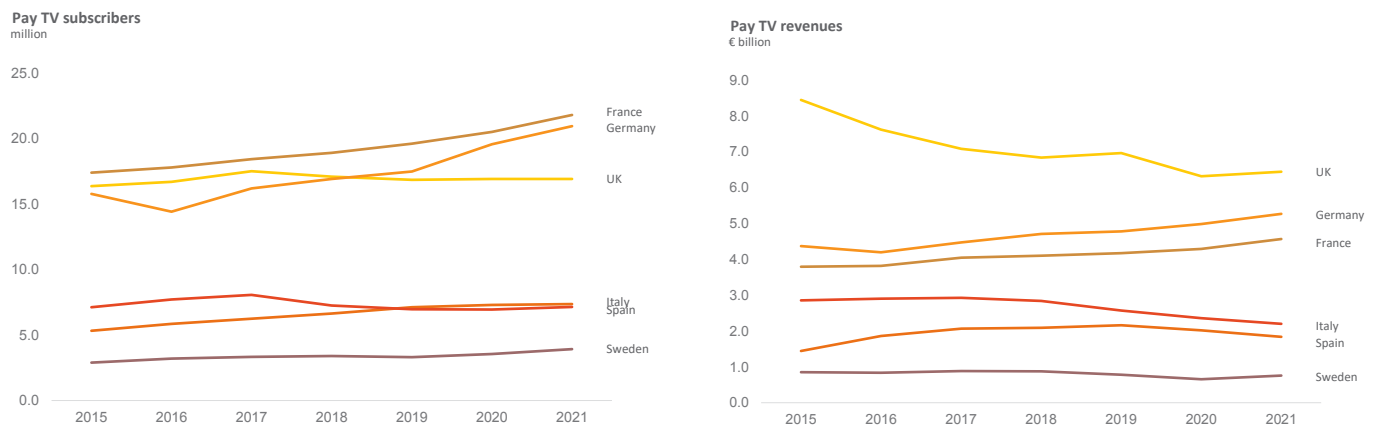


Source: PwC Global Entertainment & Media Outlook 2022-2026, www.pwc.com/outlook

Source: OBS

The pay TV segment has steady growth in subscribers over time, even in countries with traditionally low pay TV penetration like Spain, as services have sought to innovate in response to competition. While revenues have been more challenged in a couple of markets, they are growing or stabilising overall (Figure 2).

Figure 2: Pay TV subscribers (million) and revenues (€ billion), France, Germany, Italy, Spain, Sweden and the UK, 2015-2021



Source: Dataxis

Source: Dataxis

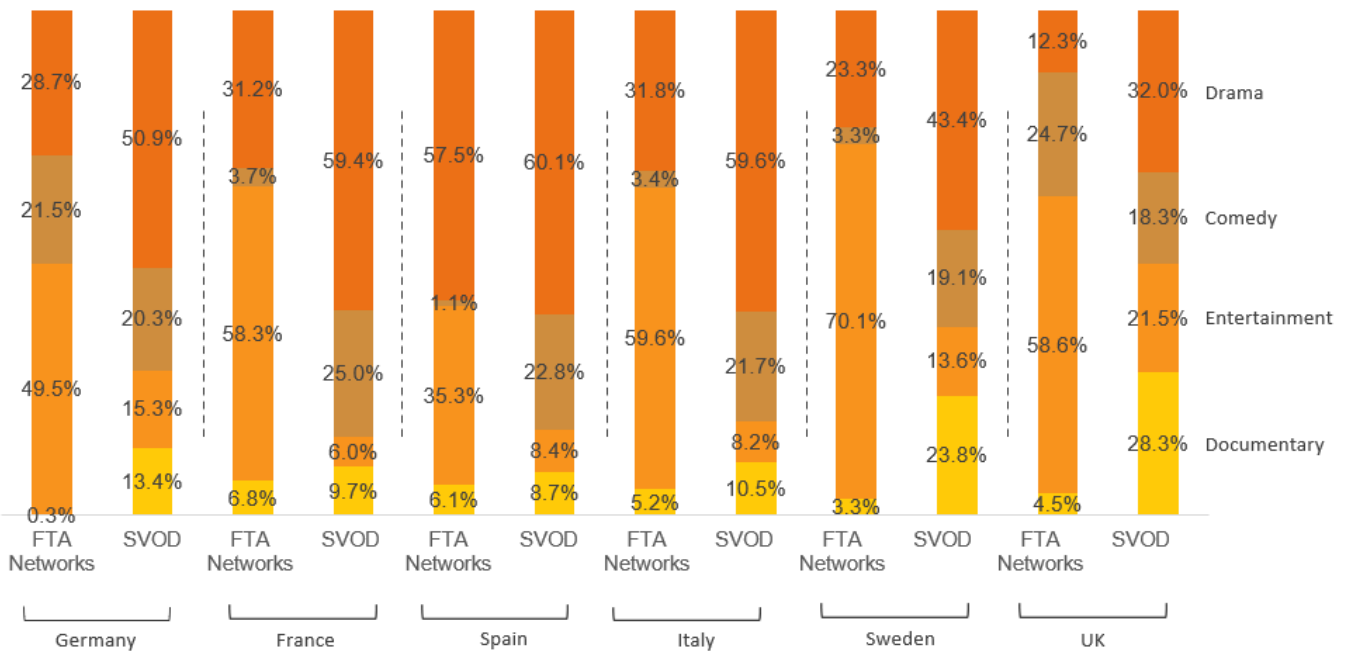
¹⁰ May 2022, Suppression de la redevance télé dès 2022, Direction de l'information légale et administrative, Premier ministre

In the new ecosystem, traditional FTA broadcasters and global SVOD play distinct and complementary roles

Traditional broadcasters and global SVOD providers play complementary roles when investing in content and serving audiences. To assess this, we examined the makeup of top channel schedules during a representative sample of weeks across major EU AV markets. We chose 2019 to exclude any pandemic-specific effects in 2020/21. We can see that national FTA broadcasters offer audiences access to quality local programming across a broad range of genres and budgets, including news, live events, and films and TV programmes with culturally specific approaches.

Pay TV providers have often increased investment in locally relevant genres, while also seeking to compete with major national broadcasters and global SVOD providers in high-end drama. Meanwhile, global SVOD services have brought increased choice, providing access to an expansive range of international programmes, especially in high-end drama and factual, in addition to local commissions and library content to engage with local consumers in a focused set of genres. Figure 3 compares the genres of available content from FTA networks and SVOD services across our selected territories.

Figure 3: TV content hours by genre, FTA networks compared to SVOD, 2019, France, Germany, Italy, Spain, Sweden and the UK (%)



Source: O&O analysis on schedule for major European FTA networks, Ampere

As a result of competition, content spend is rising

As can be seen in Figure 4 below, there is increasing total content spend across our comparator markets, primarily driven by SVOD providers. This suggests that SVOD spend is additive. Prior to the disruption caused by Covid-19 in 2020, since SVOD entry in 2015, investment from Free to Air broadcasters has been broadly stable or rising, increasing at 2.0 per cent CAGR through 2015 to 2018. SVOD content investment has grown rapidly in this period, with spend growing at 142.6 per cent CAGR through 2015 to 2018.

Figure 4: Growth in total content spent by company type across France, Germany, Italy, Spain, Sweden and the UK (CAGR), 2005-2021 (excl. news and sport)

	2005-2014	2015-2018	2019-2021
Free to Air	1.3%	2.0%	(2.0%)
Pay TV	1.6%	6.6%	5.3%
SVOD	n/a	142.6%	33.7%
Total	1.4%	7.3%	5.3%

*Note: Combines spend for France, Germany, Italy, Spain, Sweden, UK. Excludes news and sports spend
Source: Ampere, Oliver & Ohlbaum analysis*

We can see that global SVOD is making a meaningful contribution to investment in local content across Europe in response to competition for audiences. For example, Netflix has moved from commissioning and making content out of Los Angeles eight years ago to working entirely with European producers across the region to produce local (European) content. Combined with continuing strong investment by national broadcasters, this investment means there is significant demand for European producers to produce for both a local and a global audience, allowing them to develop a portfolio of complementary projects for an expanded range of commissioners.

There is significant demand for this content in other markets

The content being made is enjoying export success, showcasing European cultural and linguistic diversity across the region and further afield.

Focusing on hours of drama, Figure 5 below illustrates how there is significant demand for European programme exports originating from Germany, France, Italy, Spain and Sweden. This is without including international co-productions or global SVOD (as commissioners or distributors), as these can be assumed to have multi-territory or even global distribution.

It is likely that 2020 and 2021 were affected by the Covid-19 pandemic, as buyers focused more on

domestic content during that period. Exports were previously growing at a combined CAGR of 26.5% in 2015-2019, across our comparator countries.

Looking across all genres, an average of 36 per cent of productions originating from our comparator countries were exported in 2011-2021¹¹. Not all local content is well-suited to export markets due to some content being highly locally specific or time sensitive (including programming like quizzes, soaps and some factual), which is logical considering the different business model and genre-focus of European broadcasters, for example.

Figure 5: Hours of fiction exported, Compound Annual Growth Rates (%), France, Germany, Italy, Spain, Sweden 2015-2021

	2015-2019	2019-2021
Germany	88.6%	(50.9%)
France	24.1%	(36.0%)
Spain	9.8%	(25.0%)
Italy	14.9%	14.3%
Sweden	18.3%	(4.0%)

*Note: Excludes global platforms and international co productions. UK excluded as number of Fiction exports is significantly larger than other countries
Source: Leading management consultancy and Oliver & Ohlbaum analysis of NoTa data supplied by Glance*

¹¹ Leading management consultancy analysis of NoTa data, commissioned by Netflix. Dataset includes Factual, Entertainment and Fiction genres across television

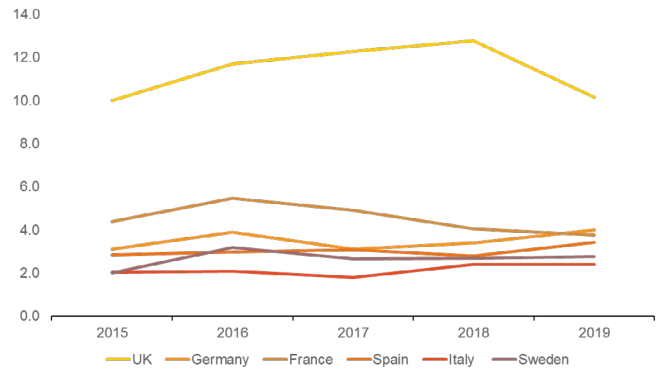
European feature film budgets are fairly steady and box office admissions are starting to recover

As observed by the EAO, European fiction films continue to rely to a large extent on direct public funding, especially in smaller markets with less access to pre-sales as a source of finance, while producer and broadcaster investments are also significant. Figure 6 shows how from 2015 to 2019, chosen to exclude the impact of the pandemic, feature film budgets were steady or rising in most of our sample European markets. The UK's upward trend faced a correction in 2019, and France saw average budgets decline from 2016 while remaining above Italy, Spain and Sweden by 2019/20.

In addition, the EAO reports that average EU (including UK) film production volume continued a long-standing growth trend in 2019, propelled by rising numbers of cross-border co-productions and feature documentaries¹². We discuss below how VOD providers are contributing investment to European film through commissioning, licensing and new distribution routes.

We are also seeing innovation in VOD services showcasing film. Consumers are benefitting from an

Figure 6: Feature film budgets (€ billion, 2015-2019), France, Germany, Italy, Spain, Sweden and the UK



Note: ES includes minority co-prods; UK includes co-production; DE, IT, SE: Fiction films only; FR: French initiative films only
Sources: OBS, Oliver & Ohlbaum analysis

array of European mainstream and niche film services, from Croatia's *Pickbox NOW* to *UniversCiné* Belgium, to Italy's *CHILI*, Spain's *Filmin* and Franco-German *Sooner*. As well as streaming, global VOD services offer a varied catalogue for rental and purchase (TVOD). Taking the main country of production, our sample territories had over 300,000 'film presences' on VOD services across the EU-27 in August 2020¹³. VOD services are taking local European films to audiences across the region, and beyond.

Covid-19 had a significant impact on the AV sector, but it is bouncing back

The early stages of the pandemic brought a rapid decline in income for many broadcasters, primarily due to a decline in ad spending; in some cases this led to reduced programme budgets to preserve profits or reserves. At the same time, production was severely hampered and insurance policies often did not cover, or adequately cover, the disruption, leading to a need for policy intervention. Cinemas were especially badly affected due to required closures and many planned feature film releases were delayed, while some Studios experimented with releases in-home via premium TVOD as well as some streaming.

It is striking to consider how this situation subsequently rebalanced across broadcasters and VOD providers, with all players benefitting from the ability to renew commissioning and production activity. Theatrical box office recovery is running later due to social distancing measures and possible hesitancy among some audiences, but admissions and Gross Box Office revenues (GBO) were already up by 31 per cent and 38 per cent respectively in 2021 compared to a year earlier¹³.

Demand for AV content and services is strong and investment in content is booming in our comparator countries, indicating that this is a 'golden age of content'.

¹² EAO, 'Focus 2020, World Film Market Trends'

¹³ EAO, 'Limited recovery of theatrical markets in the EU and the UK in 2021 – cinema attendance up by 31.5% year on year', May 2022

02

The European production sector is diverse and profitable

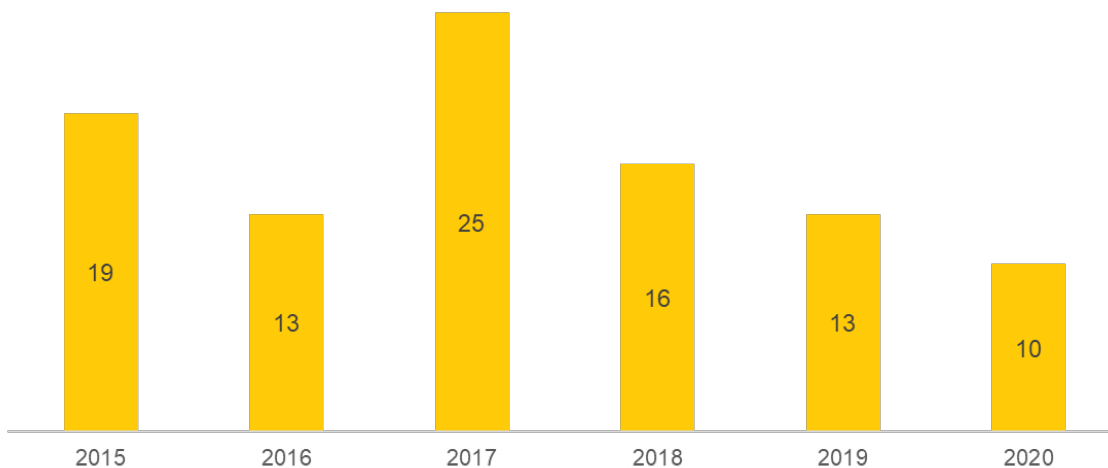
As the number of content providers and competition for audiences increase, Europe's producers are benefitting from competition for content, with new opportunities to produce and distribute their work – locally, across Europe, and beyond.

In this section we discuss how the European production sector remains diverse and profitable, with a mix of large and small European producers. Large producers are able to benefit from economies of scale, increase their pan-European presence and compete internationally. Meanwhile, smaller companies entering the market support 'creative renewal' in the sector. Lastly, we discuss how competition for content helps to drive variety in deal terms between commissioners and producers, allowing producers to build portfolio businesses and balance risk and reward.

The European production sector remains diverse

There has been consolidation and vertical integration in the European production sector, with several large European producers emerging. Figure 7 illustrates the extent of this consolidation, with mergers with European producers peaking in 2017. This is part of a dynamic cycle, where producers enter and grow, in some cases then splitting off to form a new start-up and begin the cycle again.

Figure 7: Number of production company mergers where the target company was European, 2015-2020

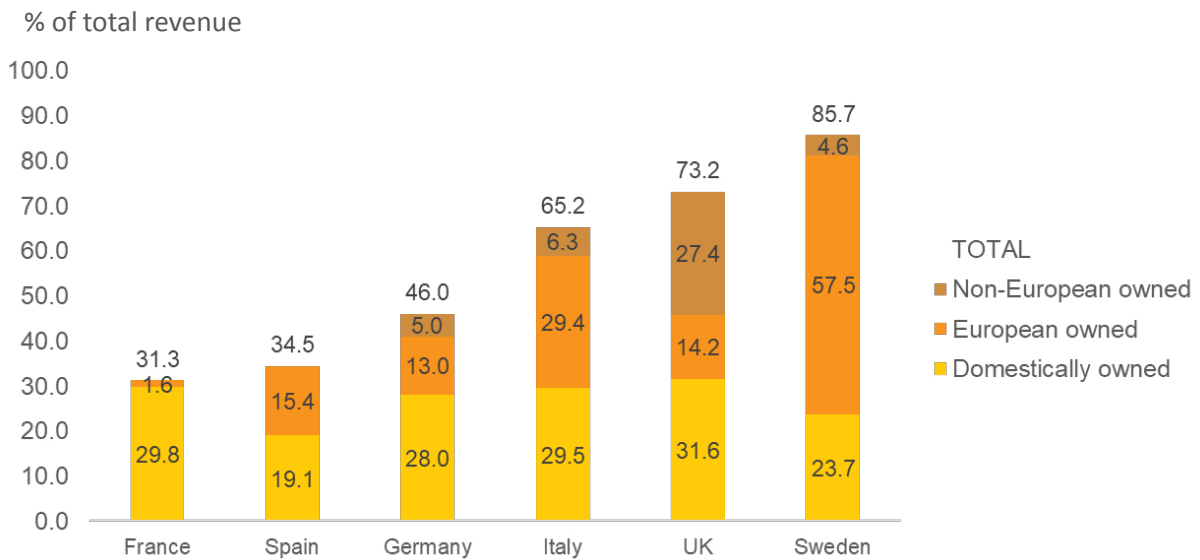


Note: Non exhaustive. Countries included are: Belgium, Denmark, Finland, France, Germany, Italy, Spain, Netherlands, Poland, Slovenia, Spain and Sweden
Source: Netflix analysis of OMDIA data. Not for reproduction without permission

As part of a competitive European sector, national producers need to grow and partner. In recent years we've seen France's Mediawan (*Call my agent!*) acquiring Spain's Good Mood (*Deudas*); France's Federation Entertainment (*The Bureau*) building a pan-EU network of independent producers; Newen (TF1) acquiring Germany's Flare Film (*Everything will change*); and Fremantle, part of RTL Group, acquiring 12 production labels based across the Nordics from NENT Studios (*The Farm*).

As shown in Figure 8, the top 10 producers by revenues in our comparator territories are mostly under domestic ownership or other European ownership.

Figure 8: Revenues generated by the top 10 producers by ownership nationality, France, Spain, Germany, Italy, UK and Sweden, 2019



Source: Leading management consultancy analysis, commissioned by Netflix

At the other end of the scale, a ‘long tail’ of small independent producers also exists. For example, a 2022 report for the French Senate found that the production sector was performing very well overall, noting an increase in the total number of producers to 4,500, with 31 per cent of sector revenues generated by the 4,300 smallest producers¹⁴. The UK sector has fewer companies overall (c395) with a more equal spread across different sizes by turnover band. Considering UK independent producers with over £1 million annual turnover, O&O’s annual financial census

of the sector for producer association Pact finds that 38 per cent have £1 - £5 million annual turnover, while 19 per cent have £5 - £10 million. In addition, O&O estimates there are around c260 small producers with an annual turnover of less than £1 million¹⁵. Beyond our comparator countries, evidence from Denmark also shows a high number of production companies considering overall market size, with market entry over time – there were 395 production companies in TV and Film of various sizes in 2019, a number that has grown from 312 in 2016¹⁶.

¹⁴ N° 593, Senate Session 2021-2022, Report produced on behalf of the committee inquiry to identify the factors that have allowed or could lead to media concentration in France and to assess the impact of concentration in a democracy (Rapport fait au nom de la commission d’enquête afin de mettre en lumière les processus ayant permis ou pouvant aboutir à une concentration dans les médias en France et d’évaluer l’impact de cette concentration dans une démocratie)

¹⁵ Oliver & Ohlbaum Associates for Pact, UK Television Production Survey, Financial Census 2021

¹⁶ Producent Foreningen, Danske Indholdsproducenter 2021

Looking at feature films in particular, a plurality of TVOD and SVOD services has brought increased opportunities for European producers and broadcasters to generate revenues from licensing films. This includes new buyers for the rights to distribution windows post-theatrical release – increasing the potential funding sources to green light a production – as well as new feature film commissioners. The latter may be especially important considering the current reliance on public funding for European film and limited access to pre-buys, since SVOD services are sometimes able to fully fund production, which we'll return to below. Of the 85,700 unique films in European VOD catalogues, c46 per cent were from the EU-27 and 'other European' countries including the UK, Switzerland and Norway,

while 35 per cent were from the US and 19 per cent from Rest of World. In the EU-27, France and Germany contributed over 20 per cent of titles and were followed by Italy, Spain and Sweden in the top 6 countries of origin¹⁷.

This is true of both mainstream and niche European films, for example the Spanish franchise *Padre no hay más que uno* was acquired for distribution on Prime Video following theatrical release; Italian film *The Hand of God* from Paolo Sorrentino was available for streaming on Netflix following limited theatrical release.

Creative partnerships are also being developed across Europe, with both broadcasters and talent. One example was Netflix and Mediaset's commitment to jointly produce seven Italian-language feature films to be made by prominent Italian indies such as Indigo Film (*The Great Beauty*), or Lucky Red (*On my Skin*). Importantly, SVOD investment is giving European producers and talent a new flexibility to move across feature film and high-end TV, according to the creative ambitions for a certain project. For example, director, screenwriter and composer Alejandro Amenábar made the drama series *La Fortuna*, on Movistar+ Spain; Susanne Bier directed the drama *The Undoing* on HBO.

Meanwhile, The Creatives has seen producers join forces to create films and high-end drama, bringing together France's Haut et Court and the Netherlands' Lemming film (co-producers on Yorgos Lanthimos's *The Lobster*), with Versus Production in Belgium (*Lost Bullet*), German group Razor Film (*Quo Vadis, Aida?*), Norway's Maipo Film (*State of Happiness*), France's Unité (*Mythomaniac*), the UK's Good Chaos (Ruben Ostlund's *Triangle of Sadness*), Germany's Komplizen Film (*Skylines*) and Israel's Spiro Films and Masha Productions in the US.

¹⁷EAO, 'Film and TV content in TVOD and SVOD catalogues, 2021 Edition', 2021

There are good levels of profitability across different production company sizes and ownership structures

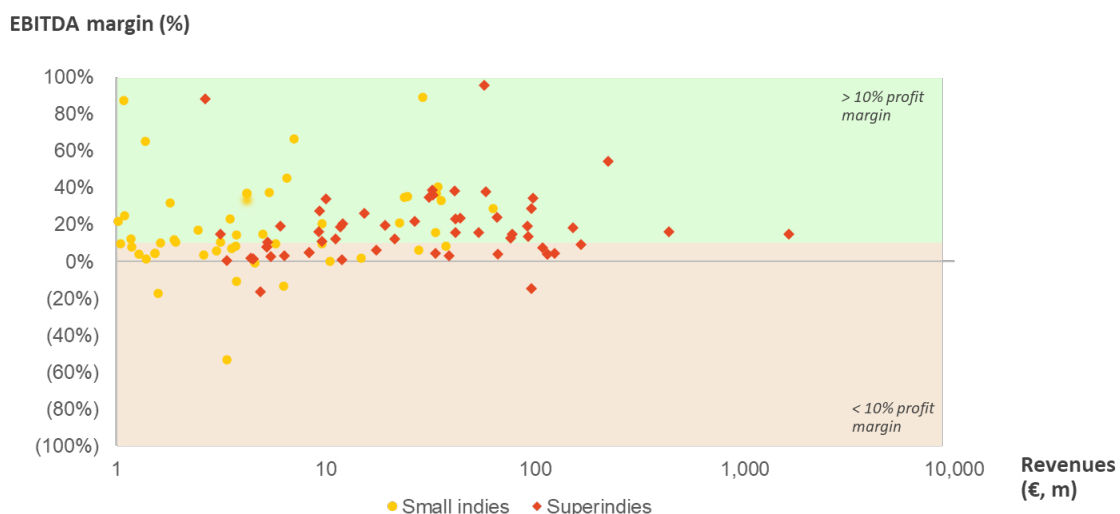
Partnering and consolidation among producers brings economies of scale, supporting risk management and profit consistency as well as allowing producers to seize market opportunities such as pairing content with distribution, or increasing their pan-European presence. This can improve the strength and resilience of European groups. In 2020, RTL Group produced content in 14 European countries, Banijay in 12, and Vivendi and ITV in seven¹⁸. At the same time, the ability of smaller companies to enter the market and operate profitably supports ‘creative renewal’ in the sector, ensuring that there is a flow of new producers bringing fresh ideas and approaches. For example, larger producers and media groups, including broadcaster in-house studios, refresh their innovation levels by acquiring smaller producers or equity stakes.

Figure 9 shows how both small independent producers and ‘super-indies’ in our comparator territories have good levels of profitability. The majority are above 10 per cent and others have a median average of 4 per cent. This is an average of

margins on commissions and on licensing activities. Profit margins naturally vary among producers, which is linked to factors such as business model and appetite for risk, and different genre focus and specialisms. For productions involving deficit financing¹⁹, returns can be unpredictable as producers take the risk that the benefits from a few ‘hits’ will compensate for the ‘misses’. Regarding genres, for example, producers of established multiple episode entertainment formats such as quizzes can film several programmes in one day in a low-risk activity that doesn’t tie up capital and generates a lower but certain margin. Natural history producers are few and highly specialised, investing in new technology and filming techniques and filming for years over multiple locations, tying up capital. These can achieve a higher margin in return.

The fact that the sector is characterised by a steady flow of creative renewal, for example as seen in France, Spain²⁰ and Denmark where new producers have entered the sector, indicates that the available margins are healthy and attractive.

Figure 9: Production companies, EBITDA margin (%), and Revenues (€, m), 2017 – 2019 (average)



*Note: Based on a sample of companies in Spain, Italy, Sweden and France; selection of companies included in the chart has been driven by data availability
Source: Leading management consultancy analysis of ORBIS and other company data, commissioned by Netflix*

¹⁸ EAO, ‘Yearbook 2021/2022 – Key trends’

¹⁹ Where the commissioner does not cover the full cost of the production and this is made up by the producer, which seeks to cover this through secondary rights revenues

²⁰ See “Total number of active film production companies, 2005 - 2020”, ICAA

Several factors support a greater variety in deal terms, which allows producers to build portfolio businesses

Competition for ideas and production resources across different types of content investor are some of the factors supporting greater flexibility and variety of financing and IP terms, as these are some of the variables that buyers can use to close a deal with a producer. Other factors are also important, such as a shared creative vision for the project, preferred working approaches and relationships, the development stage, potential for renewals and derivatives, and the need for support in-kind (e.g. programme R&D and business development).

The ‘fully-financed’ model tends to receive attention in policy debates. Here the commissioner pays the producer upfront to cover all the production costs plus the producer’s fee (‘cost+’), taking all legal and financial responsibility and risk for the project, and retaining the IP rights in exchange. This has a long history in Europe, including between national broadcasters and producers for TV content. However, there is a broad range of other models, including co-production, co-financing or licensing; the choice for any project will depend on the commissioner, the project, respective appetites for risk and, of course, the level of competition amongst buyers. At the Locarno Film Festival StepIN think tank on the state of the independent film industry, Head of Endor Productions, Carlo Dusi, was reported as

noting that the global SVOD model ‘has really now developed into a much more flexible approach’, with providers open ‘to look at ways in which to acquire or co-commission against multiple territories, taking licences instead of ownership in perpetuity [and] sharing rights and revenues in more flexible ways’²¹ Writing in the Financial Times, Alex Barker noted that Netflix has been adapting its commissioning template: ‘flexibility is the order of the day’ with ‘a more open conversation about rights’ as competition has grown, including ‘introducing creative incentives in contracts to reward producers of successful shows’²².

Except for the ‘fully financed’ model, the producer is generally responsible for assembling sources of funding in exchange for rights across windows and territories. This might also involve deficit financing the project, where the producer itself takes on some of the financial risk in exchange for retaining a greater share of the IP rights. Retaining IP ownership is valuable where a work is a commercial success and the related IP can be further commercialised and/or licensed. TV and film have always offered unpredictable returns, and producers need to balance their risk and hope that the returns on the ‘hits’ cover the costs of the ‘misses’.

²¹ 5 August 2022, ‘U.S. Streamers and Studios More Flexible in Engaging With European Producers’ – Locarno StepIN Takeaways, Nick Vivarelli, Variety

²² 1 September 2022, ‘Netflix is starting to look more like traditional TV’, Alex Barker, The Financial Times

In practical terms, this means that a broad range of interrelationships exist between content buyers and producers, and buyers play a variety of roles. For example, European broadcasters may partner to co-produce content; as well as intra-Nordic co-productions, the region's public service broadcasters have long partnered with e.g. Germany (Bron/Broen, *The Killing*, *Before we Die*), France (*Ride Upon the Storm*), and Spain (*The Paradise*)²³. SVOD services may partner with local European broadcasters to co-produce content. Spain's PSB RTVE has established a partnership with Prime Video, including drama *Boundless*, a co-production with Spain's Mono Films and Kilima Media. SVOD services are also entering into licensing arrangements with a broad range of producers as they bring older content to new audiences in-country as well as creating new opportunities for producers to access audiences outside their territory. The Danish PSB, DR, and Netflix partnered to make the three original series of *Borgen* available globally on the service. These appeared in the Netflix top 10 most popular TV series in Denmark while the new series 4 of *Borgen* (also fruit of the partnership) was being broadcast on DR1 in its primary window²⁴.

SVOD have also picked up recent series that otherwise might not be renewed, increasing budgets and showcasing them across Europe. High-profile Netflix examples include *The Bonfire of Destiny*, France while Prime Video examples include *Ripper Street*, UK. This allows European broadcasters and producers to reinvest in new works. In fact, acquisitions represent a much larger share of content on major SVOD services, with SVOD catalogues across Europe typically comprising four times as much acquired content as original content in terms of minutage²⁵.

Ultimately, contractual flexibility to enter into a variety of deal types enables producers to build up a portfolio of projects across different commissioners, genres and/or budget ranges and balance those that provide greater financial certainty with those that provide potentially higher rewards, and a route to build a catalogue of IP. This allows indies to cash flow production and invest in R&D – creating new film, programme and format ideas.

²³ EAO, European high-end fiction series, state of play and trends

²⁴ The latest season of *Borgen* launched on DR1 on 13 February 2022 and the three previous seasons featured in Netflix's top 10 most popular TV series in Denmark over the following two weeks

²⁵ O&O analysis of Ampere data (using an average of Disney+, Amazon Prime Video and Netflix's catalogues across France, Germany, Italy, Spain, Sweden and the UK, in 2021). Acquired content defined as the amount spent on licensing all content that is not sports content

03

The future of the European AV sector is bright

Considering the trends described in this paper, how might the European AV sector evolve in the coming years?

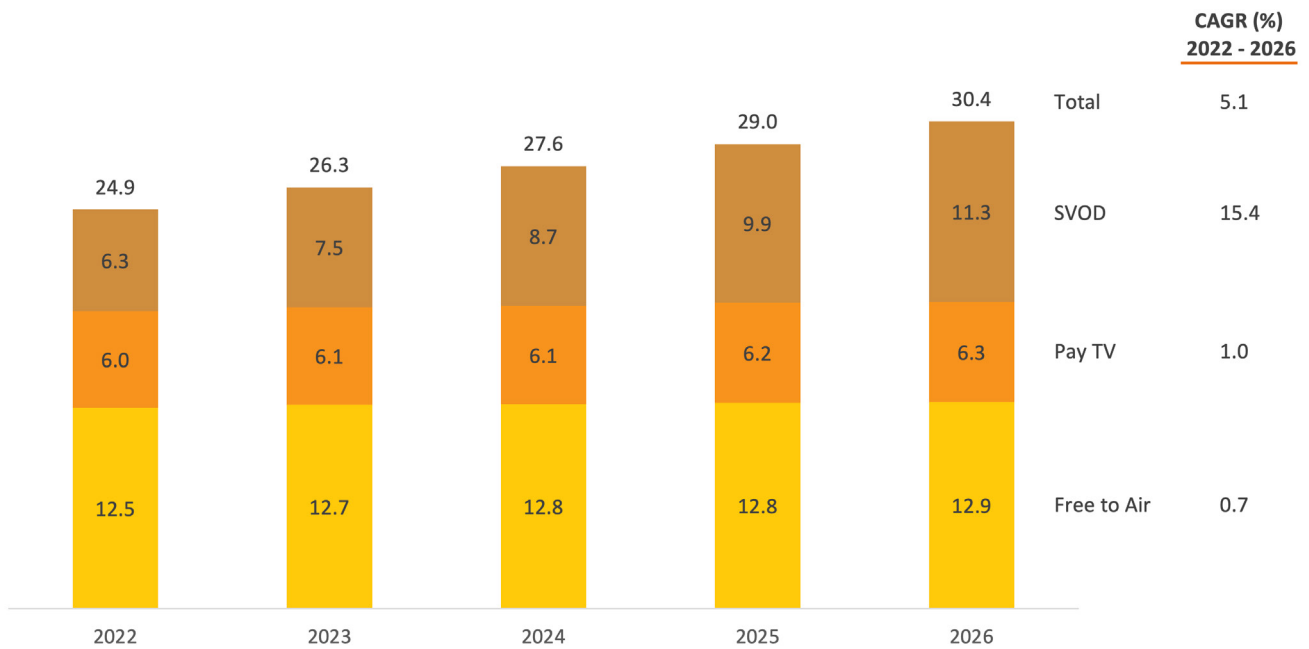
TV advertising revenues are forecast to remain stable or gently rise across our comparator territories, with average annual growth rates of up to 1 per cent from 2022 to 2026²⁶. Similarly, pay TV subscriptions and revenues are forecast to increase or remain stable across the majority of our comparator countries. Subscriptions are forecast to increase at a CAGR of between 0.4 – 4.3 per cent, with growth in pay TV revenues in Germany, France, Spain and Sweden. In the UK and Italy, pay TV subscription revenues are set for minor declines (between -0.5 and -3.3 per cent CAGRs respectively)²⁷.

As seen in Figure 10, total content spend in our comparator countries is forecast to rise to 2026, with FTA and pay broadcasters and SVOD all contributing. Spend by FTA and pay broadcasters is projected to grow steadily, with spend rising at c1 per cent CAGR

across the board. SVOD investment is expected to grow substantially, at 15.4 per cent CAGR through 2022 to 2026. This forecast is driven by market factors such as reported company spend and activity, sector trends (e.g. mergers), and wider financial indicators²⁸.

Pressures from cost inflation and production resource shortages underline the importance of investing in skills and the talent pipeline in the coming years²⁹, both through industry initiatives and industrial policy. In France, Netflix has formed partnerships with French schools and creative associations including Gobelins, La Fémis and La CinéFabrique, a film school which aims to foster a new generation of talent. In Spain, an axis of the Audiovisual Hub of Europe Plan is dedicated to public sector support for the promotion of talent and development of human capital³⁰.

Figure 10: Forecasted total content spend by company type across France, Germany, Italy, Spain, Sweden and the UK (€ billion), 2022-2026 (excl. news and sport)

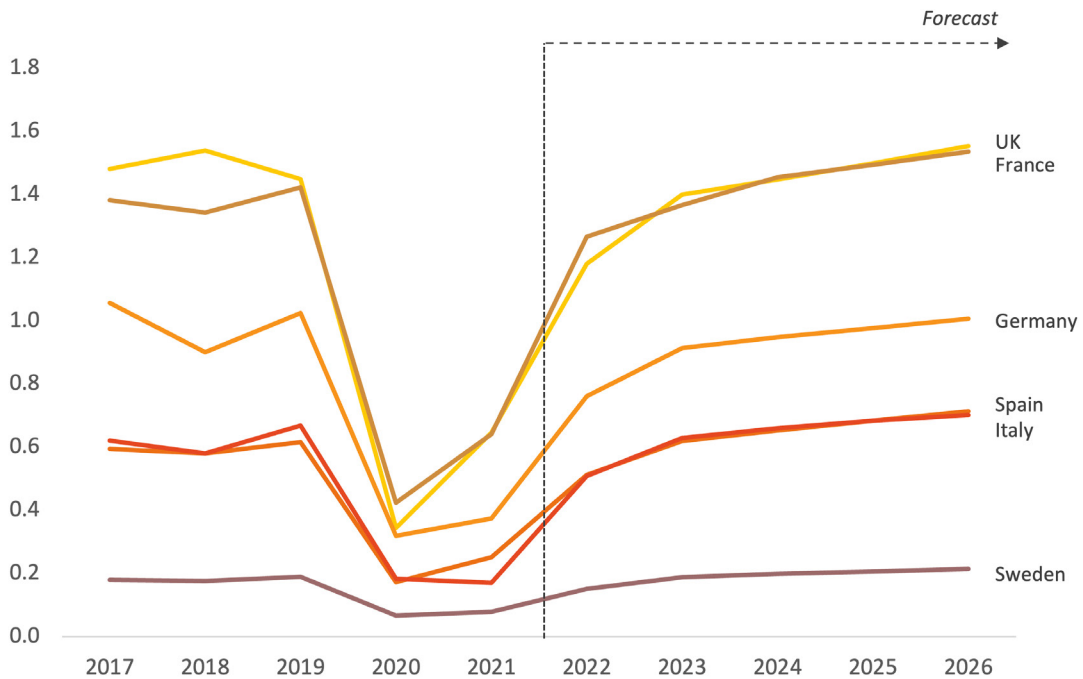


Combines France, Germany, Italy, Spain, Sweden, UK. Excludes news and sports spend, Forecasts are in current prices are in line with other third party sources
 Source: Ampere, Oliver & Ohlbaum analysis

²⁶ PwC Global Media & Entertainment Outlook 2022-2026
²⁷ Dataxis
²⁸ Ampere Analysis - see Figure 10 above. Forecasts are in current prices
²⁹ For example, see the BFI Skills Review 2022 for the UK
³⁰ Spain Audiovisual Hub of Europe, Plan to Boost the Audiovisual Sector, 2021

Focusing on feature film, while box office revenues are recovering over a slightly longer timeframe, they are projected to reach pre-pandemic levels in major European countries during 2022/23³¹ (Figure 11).

Figure 11: Cinema box office revenues (€ billion 2017-2026F), France, Germany, Italy, Spain, Sweden and the UK



Source: PwC Global Entertainment & Media Outlook 2022-2026 www.pwc.com/outlook

Meanwhile, considering the future evolution of the production sector, the development of new avenues for distribution and strong competition for audiences can further contribute to the evolution of deal terms between commissioners and producers over time, assuming there is contractual freedom.

Although there is some potential market turbulence ahead linked to the wider economic climate, fundamentally the European AV sector is dynamic and growing.

³¹ PwC Global Entertainment & Media Outlook 2022-2026

04

If this is the ‘golden age of content’, what does this mean for regulation?

European consumers have never had such a wide range of AV services and content to choose from. As we have seen, the resulting competition for audiences is creating new opportunities for Europe’s independent producers and creatives. Looking ahead, over the period 2022 to 2026, spend by FTA and pay broadcasters is projected to grow steadily, rising at c1 per cent CAGR across the board. SVOD investment is expected to grow substantially, at 15.4 per cent CAGR through 2022 to 2026³². Given policy ambitions to secure a resilient European AV sector in the digital age – including the production sector – what might this mean for media regulation? In particular, does the current AV ecosystem require media policy intervention to secure local content?

³² See Figure 10. Ampere and Oliver & Ohlbaum analysis

New European works rules have either recently been transposed or discussions are still on-going – and it is too early to say how they might affect the market trends we have outlined

Many European countries have chosen to support the AV ecosystem through industrial policy including fiscal incentives, focused on incentivising and promoting investment in content as well as in the wider AV ecosystem, such as skills programmes and studio infrastructure as part of a hub. Of course, another type of public intervention is regulation, focused on, for example, requiring certain levels of investment as a condition of doing business in a country. Since EU Member States have been transposing the 2018 revision of the AVMS Directive, it is worth pausing on this point for a moment.

This framework introduces a new European works exhibition requirement for VOD services (30 per cent of catalogues), alongside the previous requirements

for at least 50 per cent of qualifying linear schedules to feature European works, and 10 per cent of works to come from independent producers. Member States may choose to go beyond these levels.

Importantly, while the AVMSD transposition deadline was in September 2020, many territories only adopted the relevant instruments during 2021 and some in 2022, following pandemic-related delays. In a number of territories, discussions on potential financial obligations detached from AVMSD implementation are ongoing. This means that the broadcaster and VOD trends in content investment discussed above happened without these regulatory changes taking effect, and it is still very early to say what impact any of these new rules might have on future investment.

There are several reasons why some territories have decided against introducing additional regulation

Returning to our focus territories, we can compare market trends in countries that historically favour a high level of local content regulation, such as France and Italy, with those that have less regulation such as Sweden and Germany. Looking across different territories in Europe, stricter local content regulation is not in itself a clear indicator of better outcomes in terms of content investment. In fact, investment

levels are also strong in countries with no or few additional requirements beyond the AVMSD, including Sweden, Germany, the UK and Spain. Producer margins are also an indicator of the strength of the sector. For example in Sweden average margins by production company size are 3-9 per cent, in Spain they are between 12-19 per cent, and in Italy they range from 9-33 per cent³³.

³³ Average EBITDA margins from 2017-2019, based on a sample of companies where financial information is available. May not be representative of all production companies

Figure 12: Comparison of selected health metrics in Sweden, Germany, UK, Spain, Italy and France

		Sweden	Germany	UK	Spain	Italy	France	
Selected metrics on sector health	Content Spend*	Content Spend as % of GDP	0.16%	0.16%	0.26%	0.15%	0.12%	0.18%
		Content spend: '16-'20 CAGR	+5.8%	+1.5%	+1.5%	+7.2%	-7.2%	+0.3%
		Content spend: '21-'25 CAGR	+8.9%	+5.5%	+5.0%	+12.3%	+2.9%	+5.7%
		TV channel spend: '21-'25 CAGR	+6.6%	+1.8%	-0.3%	-0.5%	-1.6%	+3.8%
	Exports	Content Export Success	Medium	Low	High	Medium	Low	Low
	Revenues	Average revenue / producer	€3.8m	€3.8m	€10.6m	€2.9m	€1.9m	€1.1m

Key: Low performance Medium performance High performance

*Content spend excludes spend on News and Sport. Relative performance ranked on a metric-by-metric basis
 Sources: Ampere, NoTa data supplied by Glance, Orbis, World Bank, Oliver & Ohlbaum analysis, Ofcom, Leading management consultancy analysis, commissioned by Netflix.

As a general observation, regulatory intervention comes with risks that need to be balanced against expected benefits, as highlighted by the European Commission’s Better Regulation: Guidelines and Toolkit³⁴. Even where any new requirements are set below current investment levels, they may divert resources into compliance and monitoring, and they might alter the overall business environment and attractiveness of a territory seeking inward investment. This is because regulatory change can affect legal certainty around investment, and the perception of a territory as globally competitive.

Ultimately, it will be important to weigh up the real-world impacts that a given local content requirement could have under a territory’s own specific market circumstances. For example, some territories have decided against introducing additional requirements to avoid contributing to content cost inflation or to avoid applying additional pressure to domestic production resources. Other reasons include the ability to attract greater inward investment, which can complement and help grow the local AV sector, as is the case in Spain, Sweden, the UK, the Czech Republic and the Baltics.

³⁴ Better regulation: guidelines and toolbox | European Commission (europa.eu)

Looking beyond Europe, the South Korean film industry has developed significantly over the past twenty years, which has been attributed to a policy focus on 'indirect subsidies' that facilitate and attract investment by meeting the basic infrastructure demands of the whole film business, such as studios and skills (in preference to 'direct subsidies' to individual film projects)³⁵. Average annual growth of the film and TV industry has been estimated at c11 per cent in 2011–2015³⁶. By 2021, South Korea was among the leading ten film markets in the world by box office revenue³⁷. South Korean films and high-end drama are enjoying major export successes,

including multiple Oscar-winner *Parasite* and global hit series *Squid Game*. In Australia, the government considered introducing a mandatory local content investment quota for SVOD; it now proposes instead annual transparency and reporting requirements on all investments made, with a quota only imposed for companies that fail to comply with reporting or systematically underinvest. In their responses to the government's initial consultation, the Australian commercial broadcaster association FreeTV and the PSB, the ABC, had highlighted the risks of increasing pressure on already scarce production facilities and production cost inflation³⁸.

In such a fast-changing market, changing regulation has potential adverse effects

Before adjusting regulation it is important to consider future market trends and whether interventions will be necessary, proportionate and effective considering the environment in three to five years' time, in line with the Better Regulation principles. The overall European AV sector is highly competitive and fast moving, with consumer habits changing during and following the pandemic; new VOD services entering as Studios pivot their businesses to digital; SVOD services innovating (e.g. with AVOD tiers) as they compete for audiences; European broadcasters looking to partner and further develop their own – sometimes multi-territory – VOD services; and all AV services looking to adapt post-pandemic, also considering the wider economic and geopolitical climate with inflation and the potential for a recession.

Irrespective of future trends, when assessing policy around IP rights it is worth considering whether and how intervention to limit or exclude certain deal structures might affect the financial viability, overall budget, or quality and creative ambition of some projects (on the basis that investment levels are related to the rights obtained). Also, whether this could reduce the opportunities for smaller producers or new entrants to build their business and reputations, or have their work showcased across Europe and internationally. And then any wider effects on the overall health and resilience of the European AV sector, given the important role of 'creative renewal' – which is supported by the ability of small players to enter the market and thrive.

³⁵ Messerlin, Sciences Po Paris, 'Building Consistent Policies on Subsidies in the Film Industry, Institutions and Instruments in France and Korea', *Kritika Kultura* 32 (2019): 375–396

³⁶ Oxford Economics, *The economic contribution of the film and television industries in South Korea*

³⁷ Statista

³⁸ Submission by Free TV Australia, *Media Reform Green Paper 2021*; ABC Response to the Government's *Media Reform Green Paper, 2021*; See also 'Supporting Local Content Investment: International Approaches to VOD Services' a report for the ABC and Free TV Australia prepared by Oliver & Ohlbaum Associates Ltd.

The European AV sector is reaching a new equilibrium - and it is booming

In conclusion, the European AV sector is reaching a new equilibrium of local, regional and global content and services, with high levels of investment in content and services that can benefit European players along the value chain, European consumers, and the profile of European culture and languages across the region and internationally.

On the buyer side, demand for content is strong, with total content investment rising and significant demand for European content in other markets. In film, box office revenues are starting to recover. These conditions have created more opportunities to produce and distribute content than ever before.

On the supplier side, there is a mix of large and small producers with good levels of profitability, and high levels of European ownership among leading companies. This mix supports production sector resilience and creative renewal, while growing competition for content across different investor types can drive flexibility and variety of financing and IP terms.

We expect content investment to continue to rise across all players to 2026, with SVOD growing substantially³⁹. The development of new distribution avenues may contribute to further evolution in deal terms between commissioners and producers. A vibrant sector allows producers to build portfolios of projects across commissioner types, with different deals to balance funding and legal security and the possibility of scoring a 'hit'.

Considering these findings, it is not clear that new regulations around local content investment are needed to achieve the stated policy ambition of a resilient European AV sector in the digital age. It is too early to evaluate the effect that the new AVMSD rules and their national implementation may have on the market and, looking across different territories in Europe, stricter local content regulation is not a clear indicator of better outcomes in terms of content investment. Investment levels are also strong in countries with no or few additional requirements such as Germany, Sweden, the UK and Spain. It is also important to consider the potential for unintended consequences; requiring additional spend in a market may increase cost inflation and shortages in production resources, affecting the ability of all content providers to offer new European works.

³⁹ Ampere Analysis - see Figure 10 above

Annex

Sources analysed in this paper

Sources	Description
Desk research	Collection and examination of data from publicly available, online sources e.g. press reports and company records
PwC GEMO	Revenue data from PwC's <i>Global Entertainment & Media Outlook</i> report
OBS	Market data from the European Audiovisual Observatory's Yearbook and other published reports
Dataxis	Pay TV revenues and subscriptions data from the Dataxis platform
Ampere Analysis	Market by market historic and forecasted content spend data (with news and sports spend excluded in this report)
NoTa	Data detailing all new TV & video content broadcast by market, used to track hours of exported programming
Orbis	Company information data, including company revenues and profits
World Bank	Global development data with key macroeconomic indicators e.g. GDP and population sizes
Omdia	Global data and research with broad coverage of TMT sector – used in this report to track M&A activity

**News spend excluded from Ampere Analysis content spend by Oliver & Ohlbaum. This was achieved by using broadcaster annual reports, regulatory reports and previous Oliver & Ohlbaum work to estimate news spend in each of our comparator countries across the relevant time span, which was then deducted from Ampere numbers*



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