

BROADCAST



Funding fears in spotlight

By **Max Goldbart** | 18 March 2020

Indies highlight increasingly onerous demands placed on them by broadcasters to fund shows

A clutch of leading indies have lamented the growing requirement for them to make up budget shortfalls in a significant proportion of their programmes.

Shine TV managing director Tanya Shaw, Chalkboard TV managing director Mike Benson and Brown Bob co-founder Nicki Gottlieb were among the panellists at last week's launch of the Broadcast Indie Survey 2020, which took place before the coronavirus lockdown, who said they are now frequently having to grapple to secure third-party funding to ensure commissions get over the line as broadcaster investment declines.

Karen Smith, managing director of The Hit List indie Tuesday's Child, urged commissioners to fully appreciate the impact of asking producers to secure a significant level of third-party funding.

"They think it's a great way of getting money into their budgets but don't understand what we go through," said Smith, citing the additional resource required and the dilution of back-end revenue. "To

recoup £100,000-£200,000 takes a lot of format sales.”

“We need to band together and negotiate better deals with broadcasters. We should be more bullish”

Karen Smith, Tuesday’s Child

She called on the sector to “band together and negotiate better deals”.

“If a distributor is putting in a substantial amount then perhaps broadcasters should be committing to two series to give them a better chance to recoup their money. We should be more bullish.”

The challenge of having to secure funding from a multitude of sources – rather than just one sole distributor or third party – was cited by a number of panellists.

Benson said 80% of his shows now require deficit financing, whereas previously 80% would have been fully-funded.

Zig Zag managing director Matt Graff said: “Where once we used to do one deal, now we have to do four. It is hard but the market is becoming more fine-tuned to it – most broadcasters now have people working solely in the co-pro space.”

The panellists agreed that a commission from a PSB remains preferable due to the favourable terms of trade attached, with Smith, whose Channel 4 Lego Masters format has been sold to 10 territories, describing such deals as the “holy grail”.



Strategic stance: Shine TV's Tanya Shaw says indies will be forced to go against their instincts and turn down commissions that don't make sense

"In pure business terms, you are still better off getting a large format deal from the BBC or C4," agreed Shine TV's Shaw.

"There are both really bad and really good SVoD deals out there, ranging from producer-for-hire work to Quibi's approach, which is to let indies retain their long-form rights. It's our challenge to work out where we should operate and how much of our development time should be spent on each part of the global pie."

"Sometimes we have to turn down fantastic shows because the money just doesn't add up"
Alex Fraser, Red Arrow Studios

Red Arrow Studios executive vice-president of acquisitions and content investment Alex Fraser said the issue is a double-edged sword for distributors.

“On the one hand, distributors have more opportunity [to profit] but we are shouldering more of a burden,” he said. “There are ever-more companies fighting for that pie and sometimes we have to turn down fantastic shows because the money just doesn’t add up.”

Fraser said passion projects, which tend not to offer great return on investment, are particularly exposed as Red Arrow is forced to become more ruthless in an increasingly testing environment.

Benson said he produced one-offs for little-to-no profit in Chalkboard’s early days, but as a mature business, this is no longer necessary. “They allowed us to forge relationships with commissioners but we’re at a stage where we wouldn’t need to do that any more.”

Rejecting projects

In the most extreme cases, some said that onerous deficit financing is driving them to consider turning their backs on work.

“All these extra costs hit your production budget and you have to wonder whether it’s worth it,” said Inside The Ambulance indie Brown Bob’s Gottlieb.

Shaw added: “It’s not easy to turn down commissions but you have to be strategic. It goes against every instinct but if a deal doesn’t tick any box then you have to. It’s a competitive market and we should chase the right opportunities.”

Benson described the SVoDs as “like a really edgy private members’ club that I’m not quite cool enough to get into”.

He suggested one way for indies to gain access is via co-commissions with PSBs. “The best relationships are forged in the fire of production-making,” he said.

BROWN BOB SET FOR US LAUNCH

Brown Bob co-founder Nicki Gottlieb revealed that the indie is launching in the US.

The fixed-rig specialist’s hub is being led by development producer Gillian Hourihan, who will pitch to US networks and seek collaboration opportunities from a base in New York.

Gottlieb said replicating the returnable fixed-rig factual model across the Atlantic will give the hub a unique selling point while its British roots will help in programme rights negotiations.

Zig Zag has embraced “lots of different models”, with Graff citing its co-development pact with South Korean media firm CJ E&M, alongside relationships with German and Israeli broadcasters.

ACF Investment Bank managing director Hasham Khan and Matisse co-founder Nick Curwin stressed the need for indies to aim for a “mixed ecology” to be successful.

Khan advocated production slates that span IP ownership afforded by PSB commissions, coupled with the healthy production margins offered by the SVoDs.

“IP and catalogue are more attractive than anything to investors but the caveat is the lack of margin [from PSBs].”

Curwin launched nations and regions consultancy Matisse last year with Scarlett Ewens and Edwina Silver, and has taken stakes of between 7.5% and 20% in the likes of Lambent and Matchlight.

He suggested firms draw up a pie chart of their production and development pipeline, with a large chunk reserved for returning series and smaller slices for reputational pieces or singles.

“If you want 5% of your output to be singles then they shouldn’t represent 80% of your development slate.”

He acknowledged the important role played by passion projects that won’t necessarily make profits but are good for relationships.

“Indies aren’t run by finance directors for a reason – you have to keep your eye on reputation,” he added.

Shaw said she targets at least two passion projects per year. “Shine needs to remain a place that creatives want to work. If everything was about making money, you would lose people.”

PRIVATE EQUITY COMEBACK

Private equity is “back in a big way” in the UK indie sector after a decade out of the game, according to ACF managing director Hasham Khan, who said companies of vastly differing sizes can now pick up funding.

ACF advised on UK private equity firm LDC’s move last year to take a minority stake in Plimsoll Productions, valuing the business at £80m.

Khan said “a whole host of trade players” wanted to invest in Plimsoll but they were trumped by Lloyds Bank’s private equity arm. “Private equity is back in a big way,” Khan told the Indie Survey State of the Nation panel.

Khan: funding available via private equity

“With so much interest in UK content from SVoDs, private equity has made up its mind that there is value to be had and TV producers can capture that.”

Khan added that production outfits don’t have to turn over huge profits in order to obtain investment.

ACF is currently advising on a £2.5m private-equity deal for a “break-even business” to help it launch in-house production and move beyond its IP-focused roots.

The business currently has to partner with indies to produce programming, which means it is missing out on lucrative backend revenue.