AUDIOVISUAL PRODUCERS ASSOCIATION
SERIES - MOVIES - ENTERTAINMENT - DOC - ANIMATION

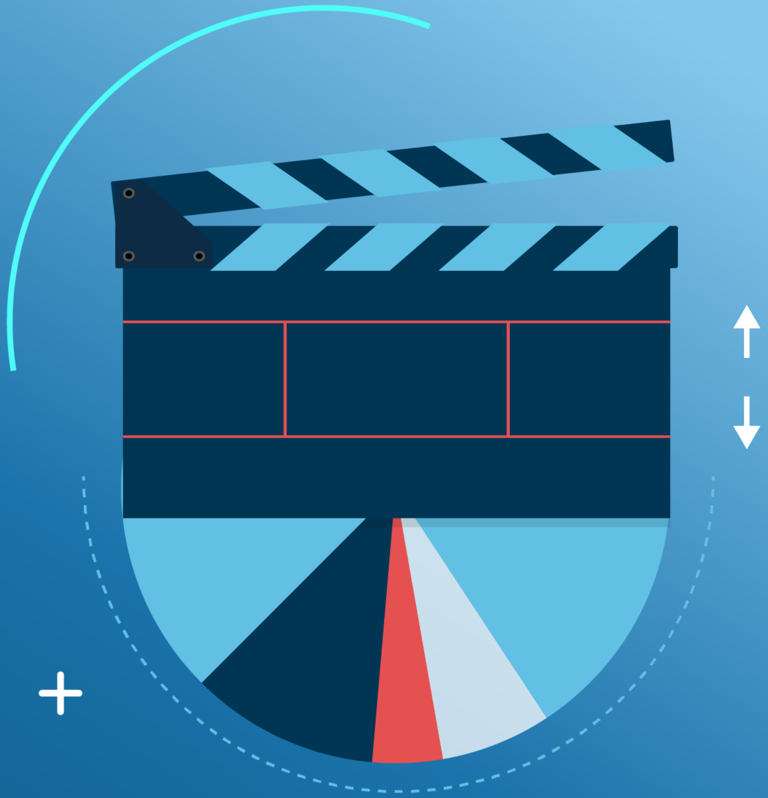
2nd Report on the Italian Audiovisual industry

MiBACT Ministero per i beni e le attività culturali e per il turismo

2020

Italian Original - 2nd Report on the Italian Audiovisual Productions

Economic values, trends, and challenges in a rapidly developing industry

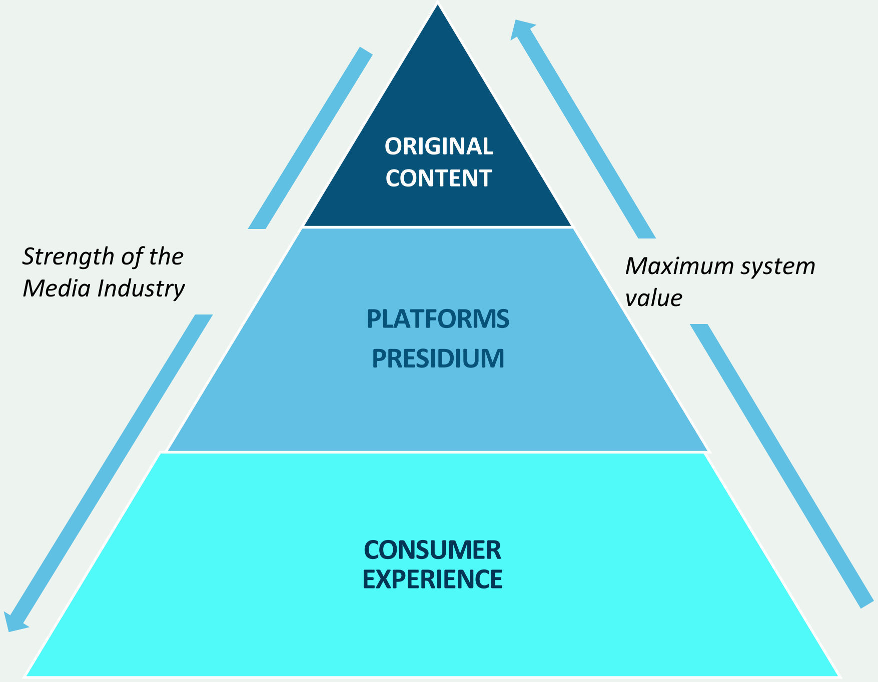


The strategic value of production

In the evolution context of the new economy of audiovisual platforms, the ability to produce original content is one of the main strategic objectives for the media sector and for the entire country.

A valuable audiovisual production -
capable of attracting different audiences within different genres and of being delivered on all platforms, also globally – **is crucial to the increasingly qualified expansion of the domestic Digital Economy.**

Without valuable **original content,** even the entire **Broadcast – Broadband** system of the **DTC** (**Direct to Consumer**) platforms might gradually weaken.

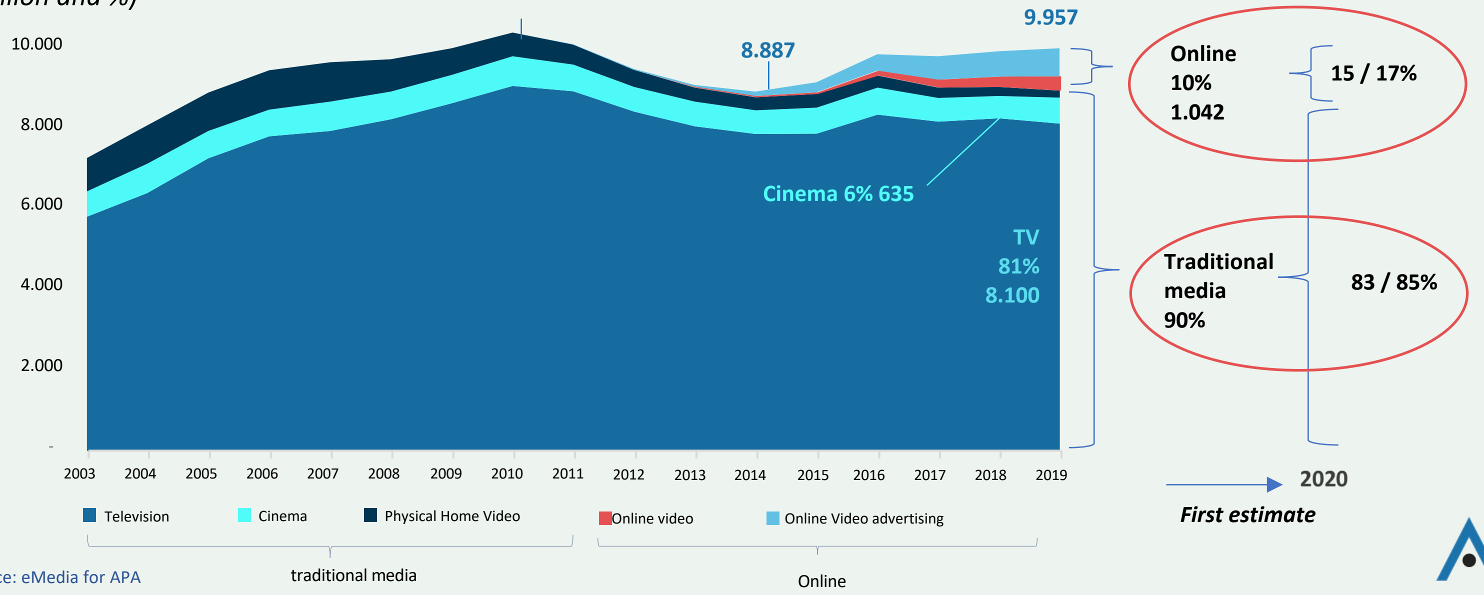


Source: eMedia for APA

The audiovisual market in Italy

Television is still the dominant medium in the audiovisual system, but the online video environment is yet in rapid growth. Over the past years, the only growing revenues have come from the VOD - OTT Internet offers. This trend has increased over 2019 and even more in 2020, also following the Covid-19 pandemic.

STRUCTURE AND EVOLUTION OF THE AUDIOVISUAL MARKET REVENUES IN ITALY 2003 – 2019
(€ million and %)



Source: eMedia for APA

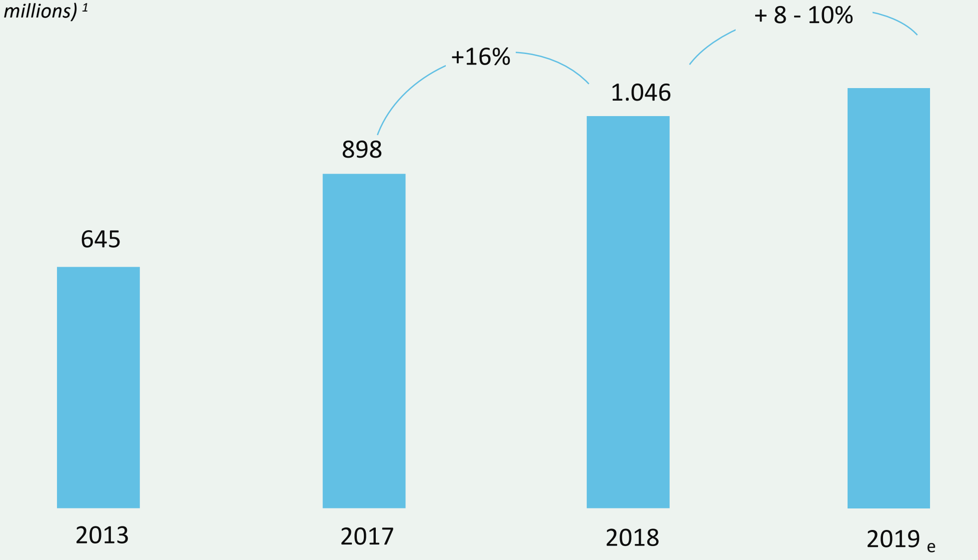
The growth of production companies

In 2019, the audiovisual production sector has upheld a significantly positive trend that can be considered a long "growth wave" despite the generally stagnant national economy. The positive trends already noted over the two-year period 2016–2017 have gained relevance and have apparently become structural in the following 2018-2019 season.

Among the noteworthy trends:

1. a growing interest on behalf of the foreign markets for Italian products;
2. the expansion of M&A activities, including cross-border;
3. the positive outcome of television tax credit as a lever for the industry's development;
4. the significant increase of content demand from VOD
5. players, well above the initial forecast.

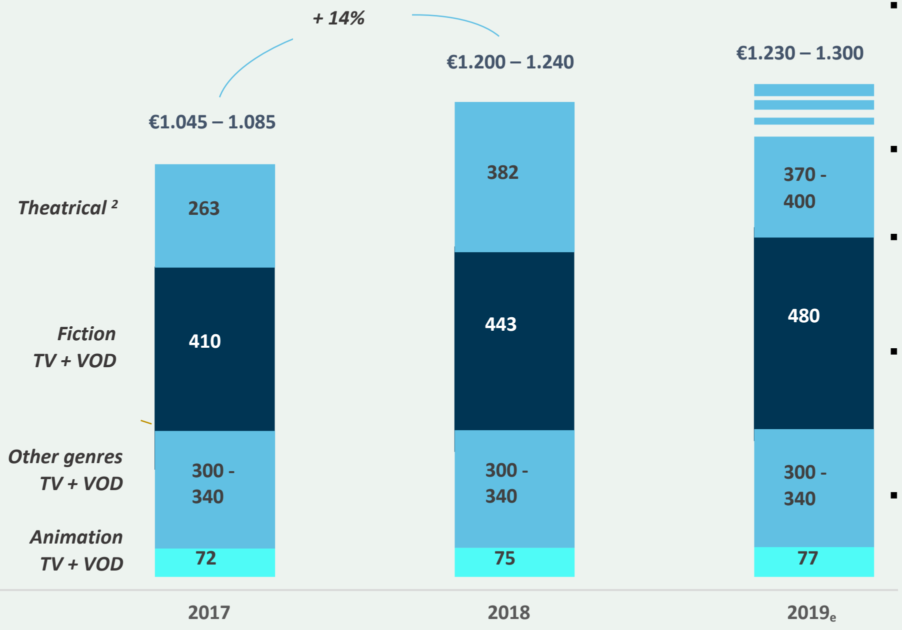
CUMULATIVE REVENUES OF THE TOP 50 THEATRICAL-VIDEO-TV PRODUCTION COMPANIES ON THE ITALIAN MARKET
(€ millions) [1]



Source: e-Media elaborations for APA on players data for 2017 and 2018; Agcom data for 2013. For 2019 the estimate is provisional, pending the publication of the financial statements of all operators.

The audiovisual production 2017-2019/1

BREAKDOWN OF THE DOMESTIC AUDIOVISUAL PRODUCTION VALUE BY MACRO-GENRES (INCLUDING CO-PRODUCTIONS) YEARS 2017 - 2018 AND FIRST ESTIMATE 2019 *(€ millions)*

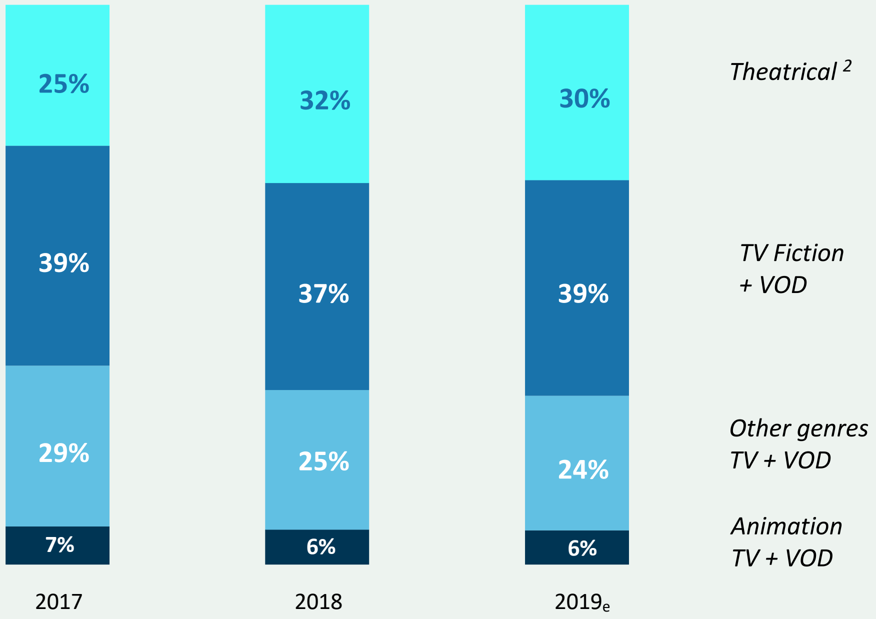


- The domestic audiovisual production (theatrical, TV and VOD products, aside from all news and sport shows) has totaled a value of approximately € 1.2 billion in 2018, recording a significant increase of approximately 14% compared to 2018.
- In 2019, the value of VOD exceeded 70 million compared to the 50 million of 2018.
- Measured by genre macro-areas, in 2018 the audiovisual production highlighted a primacy of fiction (TV movies, series, mini-series, sit-coms, soap-operas, telefilms) meant for TV and VOD platforms.
- Other television genres (entertainment programs, talk shows, documentaries, cultural and in-depth shows, etc.) and partly VOD, totaled a value between € 300 and € 340 million. Within this area, entertainment shows are the leading genre.
- Data referring to 2019 are indicative and are the result of a first estimate in absence of final data (company financial statements, Mibact theatrical data, and the total tax credit value). 2019 data are essentially based on reports of key players (producers and TV operators).

Source: eMedia for APA

The audiovisual production 2017-2019/2

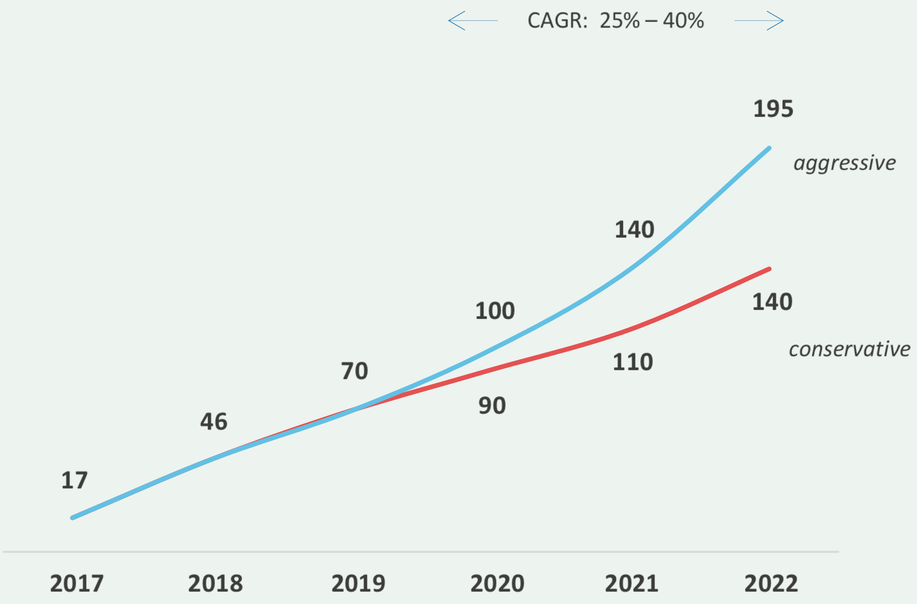
PERCENTAGE BREAKDOWN OF THE DOMESTIC AUDIOVISUAL PRODUCTION BY MACRO-GENRES (INCLUDING CO-PRODUCTIONS)
YEARS 2017 - 2018 AND FIRST ESTIMATE 2019 *(% value)*



Source: eMedia for APA

The importance of VOD operators

INVESTMENT VALUE ESTIMATE OF VOD AUDIOVISUAL PRODUCTION OPERATORS ON THE ITALIAN MARKET
(€ MILLION)



The investment of VOD operators on the Italian audiovisual production market (mainly aimed at the Fiction genre) could grow between 2020 and 2022 at an average annual rate of 25% (conservative estimate) or 40% (aggressive estimate).

The investment growth of single operators and of the number of market players will drive the overall volume of VOD spending which in 2018 represented 4% of the total and is estimated to extend somewhere between €90 and € 100 million in 2020.

Assuming an overall domestic audiovisual production value of approximately € 1,400 million, the contribution of VOD operators could stand between 9 and 13% of the total.

This is an indicative assessment also due to the strong contraction and evolution uncertainty that has affected the audiovisual media market in general as of 2020 (aside from the VOD segment.)

Source: eMedia for APA

Current Trends

1 *Increasing awareness of political decision makers regarding the cultural relevance of the domestic tv production (mainly tv fiction, documentaries, and animation) has proven to be determinant on both the domestic and international markets.*

AUDIOVISUAL TAX CREDIT

What is the tax credit development from a qualitative and quantitative point of view?

2016 — 2017 — 2018 — 2019 — 2020 — 2021 — 2022

2 *Investment growth of VOD operators (mainly Netflix - Amazon, Disney)*

BUYER/CONTENT DYNAMISM

EFFECTS OF VOD GROWTH ON BROADCASTERS' DEMAND

What is the domestic producers' role?

What is its negotiating power towards the buyer?

Source: eMedia for APA

Current Trends /2

3 A significant development of joint ventures (M&A) involving the entry of foreign capital

M&A – ALSO CROSS-BORDER

Further development of shopping and mergers

DIMENSIONAL GROWTH BY AGGREGATION

2016 — 2017 — 2018 — 2019 — 2020 — 2021 — 2022

4 increase in interest in the Italian product on foreign markets

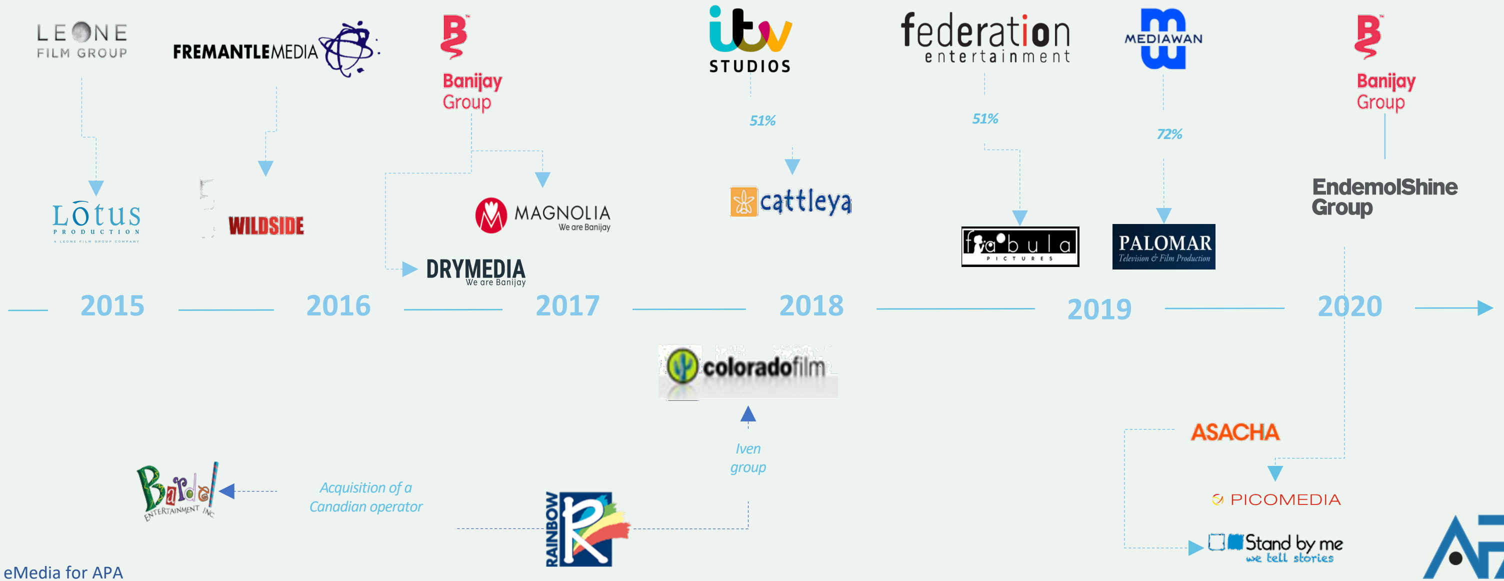
THE POTENTIAL OF EXPORT

What is the export revenues increase for domestic producers?

Source: eMedia for APA

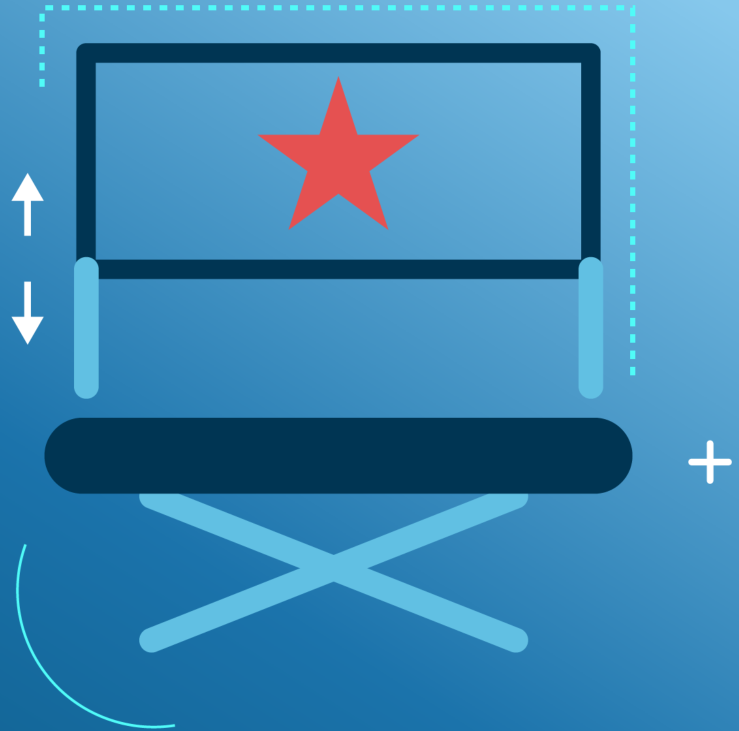
M&A Dynamism

Once again, in 2019, important M&As on the Italian market took place according to two evolution lines: the aggregation of domestic businesses and the entry of foreign groups that aim at increasingly extending their global coverage. This process might continue in niche areas of video-television production (small-scale operators) and in different genre areas where the call for content could increase to satisfy the demand coming from the long tail of new TV and VOD offers.

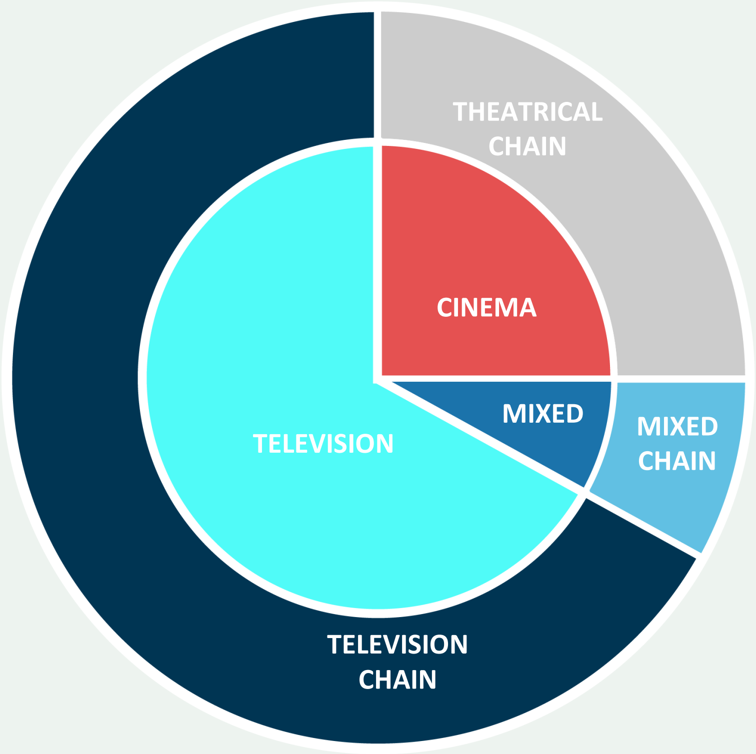


Source: eMedia for APA

The businesses in the audiovisual sector chain



Breakdown of the audiovisual chain
The industry enterprises



Source: Symbola for APA

Active companies in the audiovisual core by revenue classes

	ABSOLUTE VALUE (YEAR 2018)					
	0 - 100 K €	100 K - 500 K €	500 K - 1 M €	1 – 5 M €	+ 5M €	TOTAL
THEATRICAL, VIDEO AND TV PROGRAMS PRODUCTION	3.285	825	171	194	83	4.558
THEATRICAL, VIDEO AND TV PROGRAMS POST-PRODUCTION	793	168	50	55	9	1.075
THEATRICAL, VIDEO AND TV PROGRAMS DISTRIBUTION	106	68	24	31	22	251
EXHIBITION	288	283	70	99	29	769
TV PROGRAMMING & BROADCASTING	425	214	72	79	23	813
TOTAL AUDIOVISUAL CORE	4.897	1.558	387	458	166	7.527

Source: Symbola on Istat data for APA

122,905 individuals involved in the audiovisual activity

Source: Symbola on Istat, Inps, Ex enpals and infocamere data for APA

Trend of business registrations and terminations in 2020

Year 2020 (absolute values and variations compared to the same period of the previous year)

Absolute value - 2020								
Ateco code	Registrations				Terminations			
	I quarter	II quarter	July - August	january - February	I quarter	II quarter	July - August	january - February
5911	87	47	15	**149**	141	62	58	**261**
5912	18	12	2	**32**	11	5	5	**21**
5913	0	3	0	**3**	5	2	0	**7**
5914	2	1	3	**6**	11	3	2	**16**
6020	0	4	0	**4**	6	3	1	**10**
Audiovisual core	**107**	**67**	**20**	**194**	**174**	**75**	**66**	**315**
Total Economy	**96.629**	**57.922**	**43.236**	**197.787**	**133.140**	**44.513**	**35.676**	**213.329**

Absolute value - 2020 vs 2019								
Ateco code	Registrations				Terminations			
	I quarter	II quarter	July - August	january - February	I quarter	II quarter	July - August	january - February
5911	-20	-7	-13	**-40**	4	3	20	**27**
5912	-6	-6	-6	**-18**	-4	3	-2	**-3**
5913	0	3	0	**3**	3	0	0	**3**
5914	0	-2	3	**1**	-11	-4	-2	**-17**
6020	-3	3	0	**0**	-1	2	-4	**-3**
Audiovisual core	**-29**	**-9**	**-16**	**-54**	**-9**	**4**	**12**	**7**
Total Economy	**-17.781**	**-34.228**	**-456**	**-52.465**	**-11.703**	**-25.327**	**-1.909**	**-38.939**

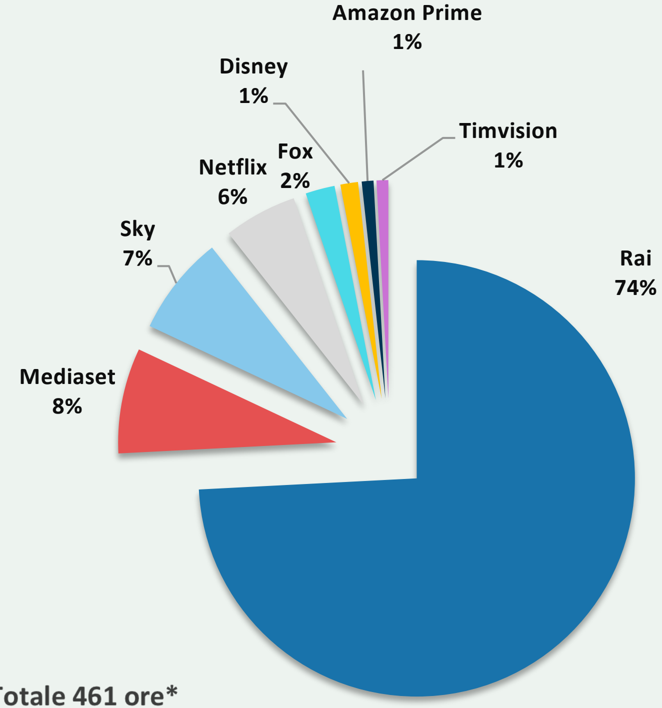
Source: Infocamere elaboration for APA

Fiction: seasonal balance 2019-2020

Fiction offer: season 2019-2020 (hour volume)

Market share (original content)

In a market where the number of buyers and the importance of newcomers such as Netflix are escalating, Rai can still be considered the absolute leader in the production of Italian ficton, as it offers three quarters of the seasonal hour volume.

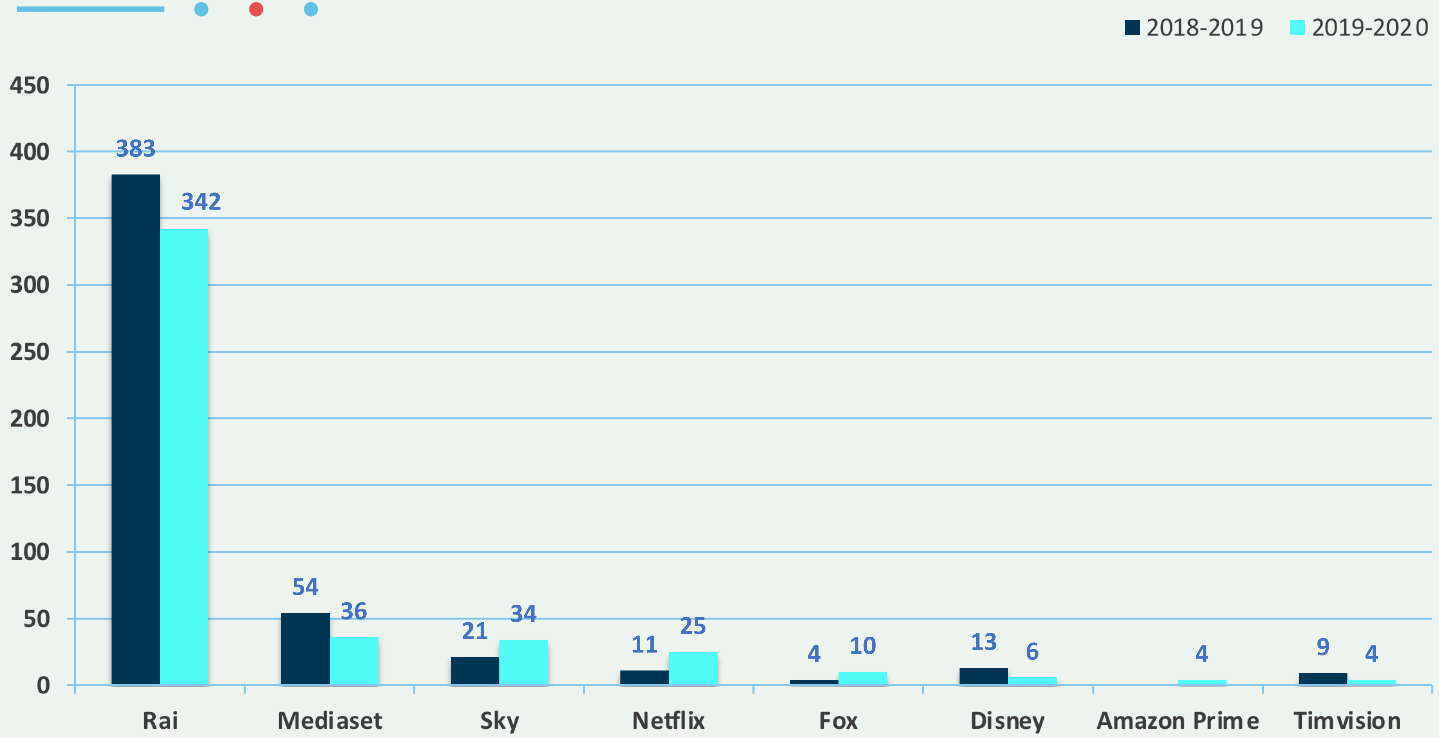


Totale 461 ore*

Source: OFI for APA

Fiction offer: season 2019-2020 (hour volume)

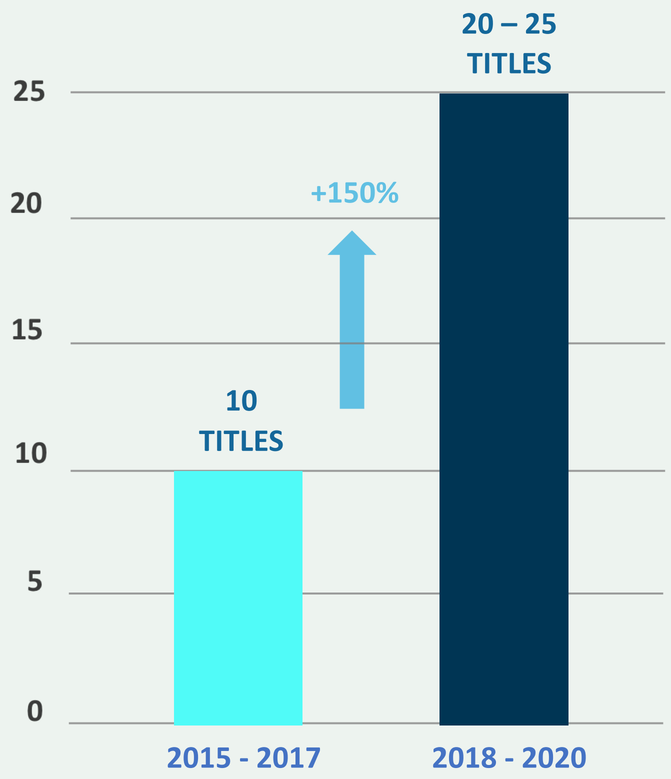
Interseasonal variation (original content)



Source: OFI for APA

Fiction: successful international products and co-productions

Titles of international serial products

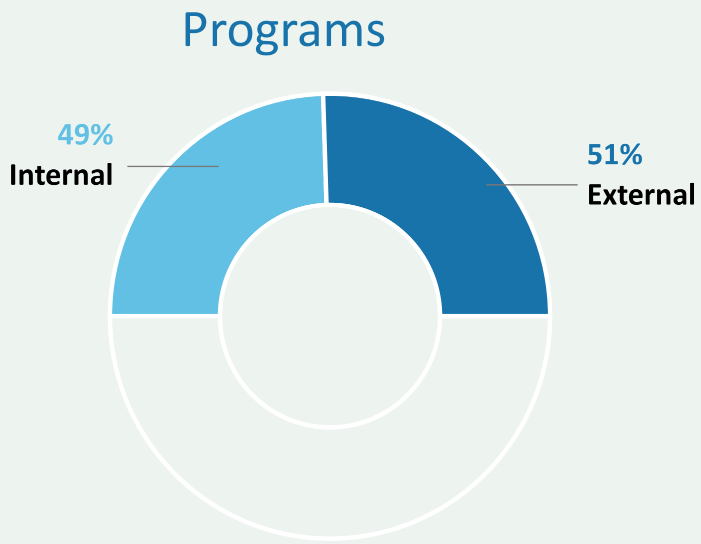


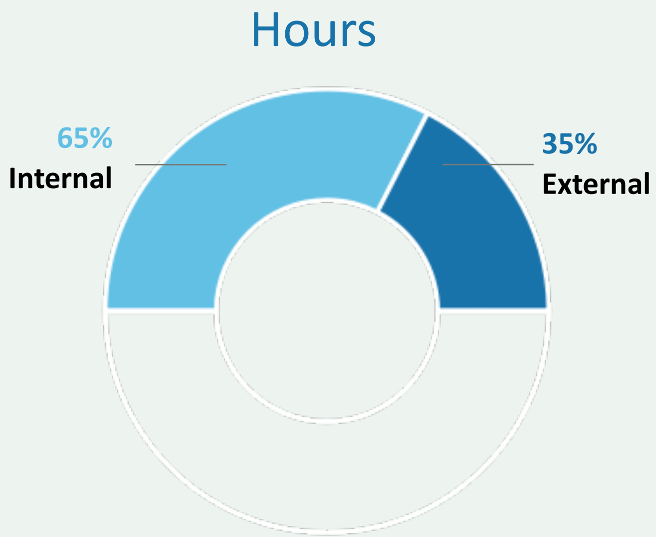
Trend.Tv- report on the italian audiovisual industry

Entertainment

Entertainment: internal and external production

On the same number of titles, the hour volume rewards internal production.
Independent productions have increased in hour volume (+2) compared to the past.



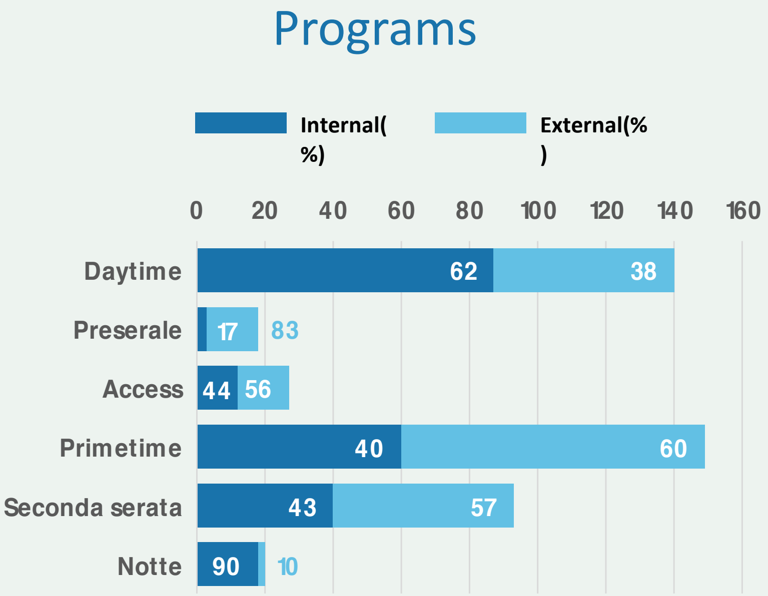


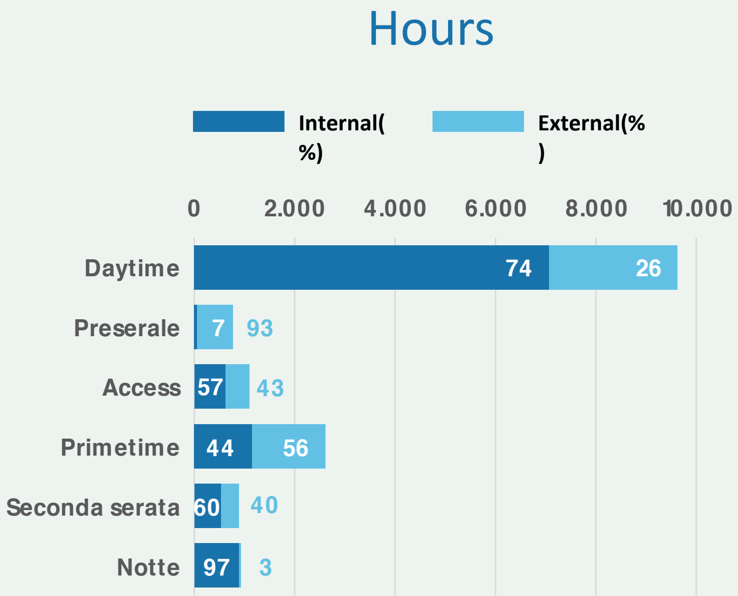
Internal production: content produced entirely by the broadcaster
External production: commissioned or co-produced with an independent production company

Source: CeRTA for APA

Time slots: internal and external productions

The role of entertainment (and independent productions) is crucial in Primetime. Daytime rewards in-house activity.





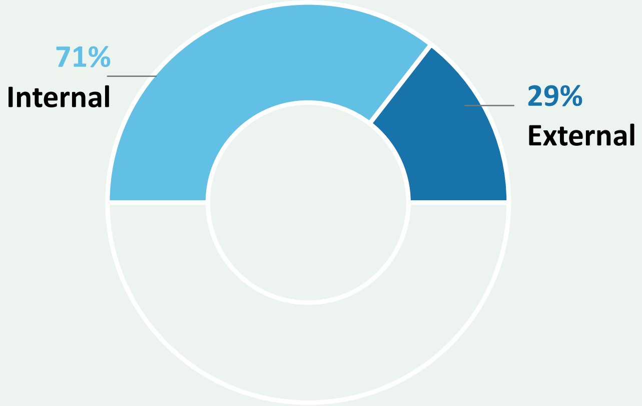
Source: CeRTA for APA

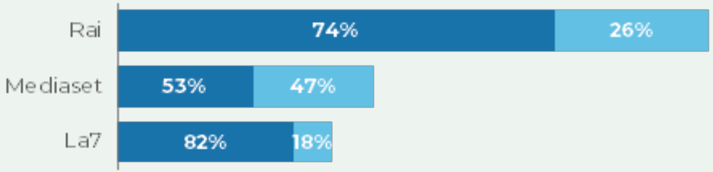
Two production models: generalist vs. multi-channel

Traditional broadcasters (Rai and La7 in particular) favor internal production, the others independent ones.

Generalist model

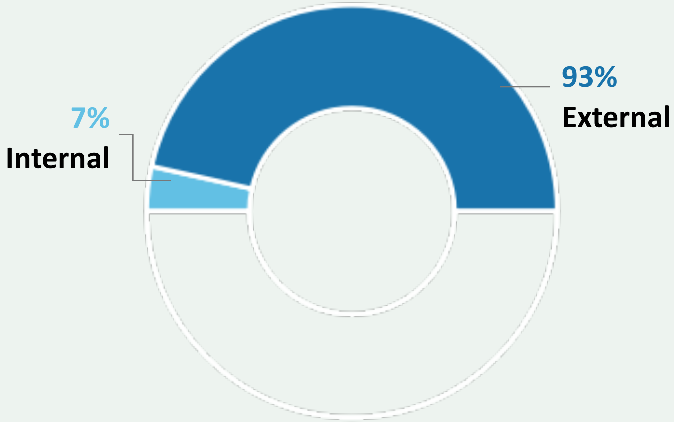
(Rai1, Rai2, Rai3, Rete4, Canale5, Italia1, La7)





Multi–channel model

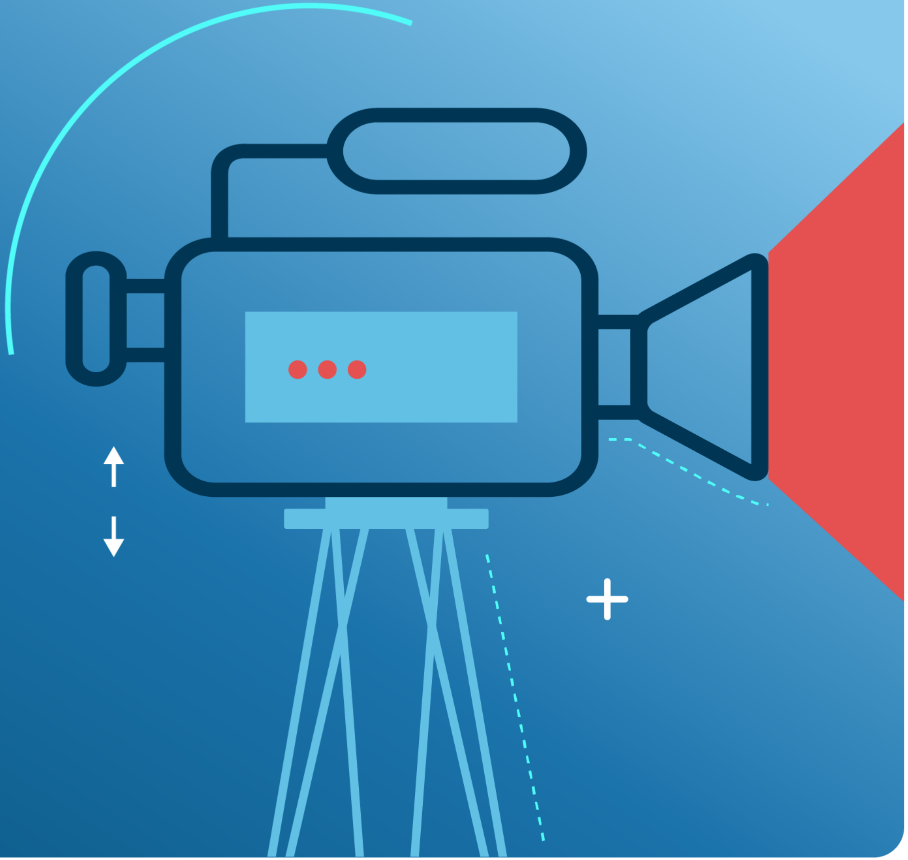
(Nove, TV8, Real Time, SKY1 etc.)



Source: CeRTA per APA

The documentary industry in Italy

Work in progress



The documentary industry in Italy:
Work in progress

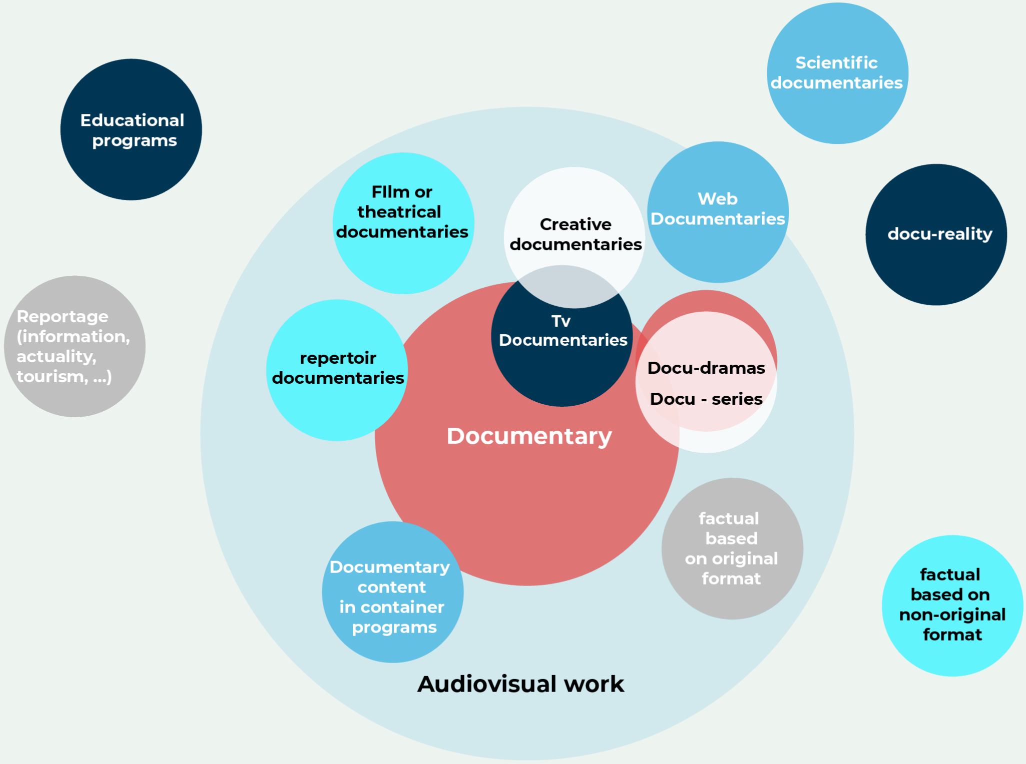
RESEARCH PROJECT AND FIRST ESTIMATES

1. **Perimeter of reference**
2. **The regulatory environment** and the market structure
3. The offer: documentary production in Italy (years 2018/2020)
4. **The demand** of documentaries in Italy (years 2018/2020)
5. Focus: international comparisons
6. Conclusion: strategic input for Buyers and Decision Makers

End of research study:
April 2021

Research promoted by APA
Realized by: Federica D'Urso (direction), Cosmin Farcas and Daniele Taurino

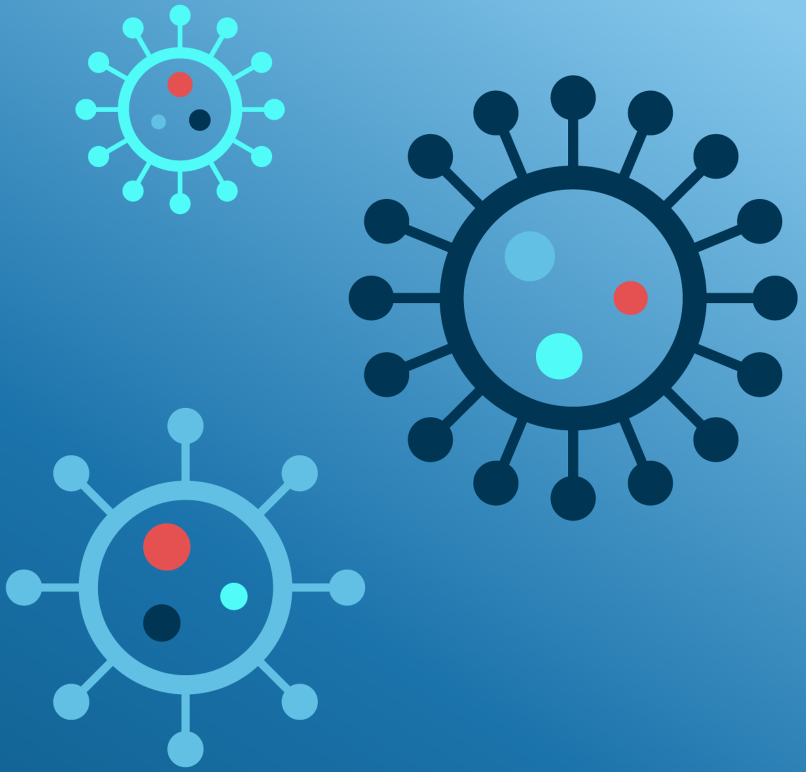
The documentary genre: the many definitions



Source: Law 220/2016 and implementing decrees; interviews with operators

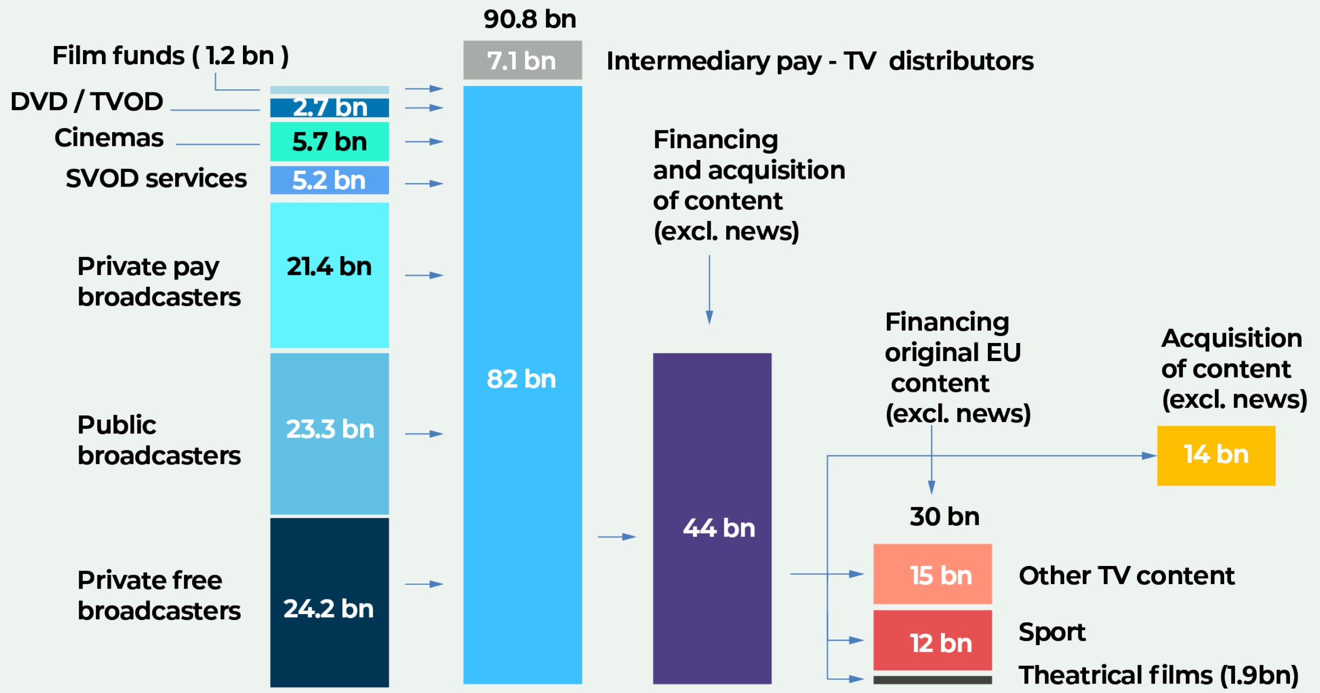
Scenario hypothesis in the Covid era

European Audiovisual Observatory



Money flow from audiovisual end-market players and film funds for the financing original European content (excluding news) – 2019.

Estimated values in EUR billion.



Source: European Audiovisual Observatory

Hypothesis for the development of AV end-market revenues in the EU in 2020 and 2021.

Segment	Overview	Revenues 2020 vs 2019	Revenues 2021 vs 2019
State budget	Immediate savings required from PSBs and Film funds in H2 2020. Austerity translates in 10% cuts in 2021.	**3%**	**-10%**
TV advertising	10% recession in 2020 leads to a 20% drop in TV advertising. 5% recession (vs. 2019) implies a 10% drop of TV advertising revenues in 2021 (vs. 2019) as advertisers primarily cut into advertising expenses.	**-20%**	**-8%**
Pay - TV subscriptions	Long-term contracts, discounts on sport packages, bundling with broadband access mitigate the impact in 2020. Economic crisis and 2020 boost of SVOD services translate in more cord-cutting and decrease in revenues.	**-5%**	**-7%**
SVOD subscriptions	SVOD growth accelerated by lockdown and continues in a context of cord-cutting.	**30%**	**60%**
Box office	Strong constraints on the cinemas' capacities, reluctance of moviegoers to go back to cinemas, additional lockdown periods, imply that close to pre-crisis box office revenues are not reached before the end of 2021.	**-70%**	**-40%**
Home video	The lock down boosts TVOD and provisionally stops the decline of home video revenues. Back to decline in 2021.	**0%**	**-5%**

Source: European Audiovisual Observatory

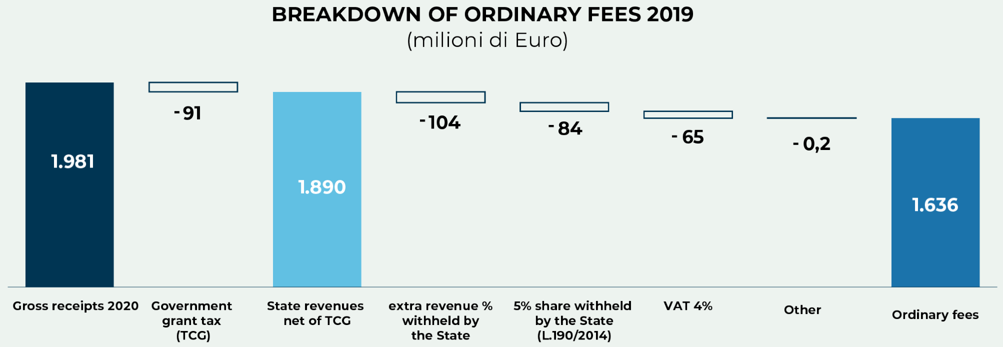
Evolution of EU end market revenues.

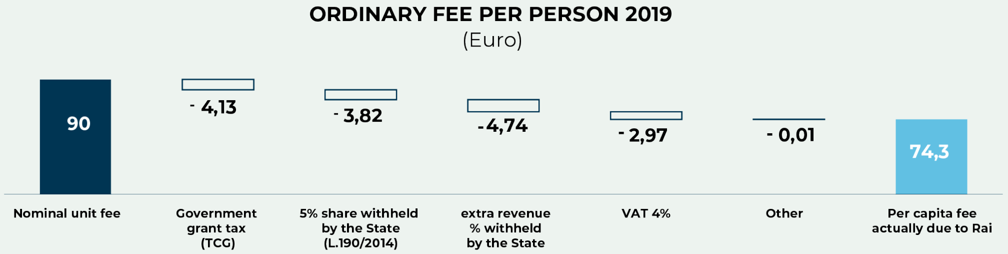
Estimated values in EUR billion.

	2015	2016	2017	2018	2019 *(est.)*	2020 *(prev.)*	2021 *(prev.)*
Public funding	21,8	22,2	22,2	22,4	21,9	21,2	19,7
TV advertising	24	25	25,8	26,3	26,8	21,4	24,7
Pay - TV subscriptions	26	26	27,3	27,9	28,5	27,1	26,5
SVOD subscriptions	1,1	1,8	2,7	4,0	5,2	6,8	8,3
Box office	6	6	5,6	5,3	5,7	1,7	3,4
Home video	3,3	3,1	2,9	2,8	2,7	2,7	2,6
Total	**81,5**	**83,9**	**86,5**	**88,7**	**90,8**	**80,9**	**85,2**

Source: European Audiovisual Observatory

Appeal to the government: abolish the levy from the Rai television license fee. Acknowledge € 180 million to Rai for cinema and audiovisual investments.





Tax credit for cinema and audiovisual

→ Extraordinary Fund for 2021

Recovery Fund

→ Identify resources to be allocated to the production and distribution of audiovisual content, cinema and media.