

BUSINESS OUTLOOK SURVEY 2021 WHAT LIES AHEAD?

EXECUTIVE SUMMARY

This survey presents a snapshot of the businesses of APA members at a unique time. We are pleased to partner with Moore Kingston Smith in creating it because it provides useful data to everyone running a production company. It is a testament to an industry that is exemplified by talent, resilience and adaptability. From the darkest days of spring 2020 when we all faced no commercials being made for the foreseeable future to today when the whole

membership has worked and, in most instances, been busy - but most remarkably is all still here - it's been quite a journey.

The bounce-back ability of the APA membership is also a testament to the advertisers and agencies they have worked with through the past 18 months, all pulling together to overcome each obstacle thrown in their path.

Steve Davies, Chief Executive, APA

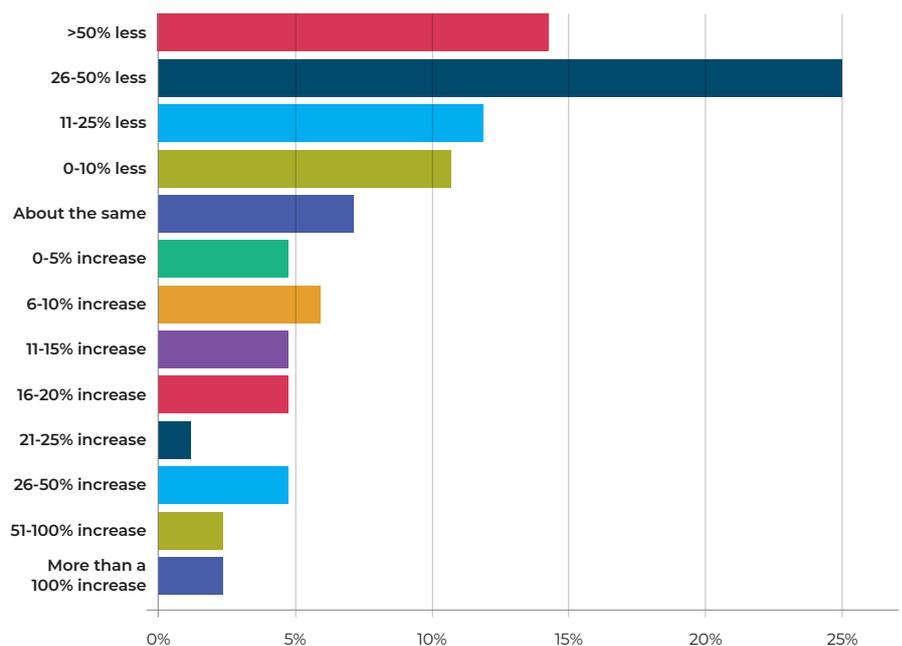
INTRODUCTION

As Covid-related restrictions gradually ease, there's a general sense in the UK that the country has made it through to 'the other side'. Production and related companies navigating the new territory have faced a barrage of unfamiliar challenges and businesses in the sector, as a result, have naturally been set back whilst being forced to find innovative alternatives. In this survey, the APA, together with media specialist accountants and advisers Moore Kingston Smith, seek to measure how the various lockdowns have impacted businesses in production - right down to the bottom line.

REVENUES: 2021 VS 2020

The pandemic has had a wide-reaching impact on the production world, including a period in 2020 where shooting could not go ahead at all. However, respondents mirrored the general national sentiment that the country is on the road to recovery, with nearly half of respondents expecting revenues in 2021 to exceed 2020.

How did the level of your 2020 revenue compare to 2019?



“68% of respondents are predicting that revenues for the calendar year 2021 will be greater than 2020.”

Just over two-thirds feel that general levels of production will return to pre-Coronavirus levels at some point in 2021.

It's no surprise at all that 2020 was a very difficult year for the industry with over 60% of companies expecting to report lower revenues than in 2019 – with 14% expecting revenues to have decreased by over 50%. Inevitably, animation work proved to be a popular option for the sector as an avenue of survival, especially during the early lockdown months. It continues to be a strong area of growth for a number of businesses in 2021 that already had the in-house animation experience and offering to clients.

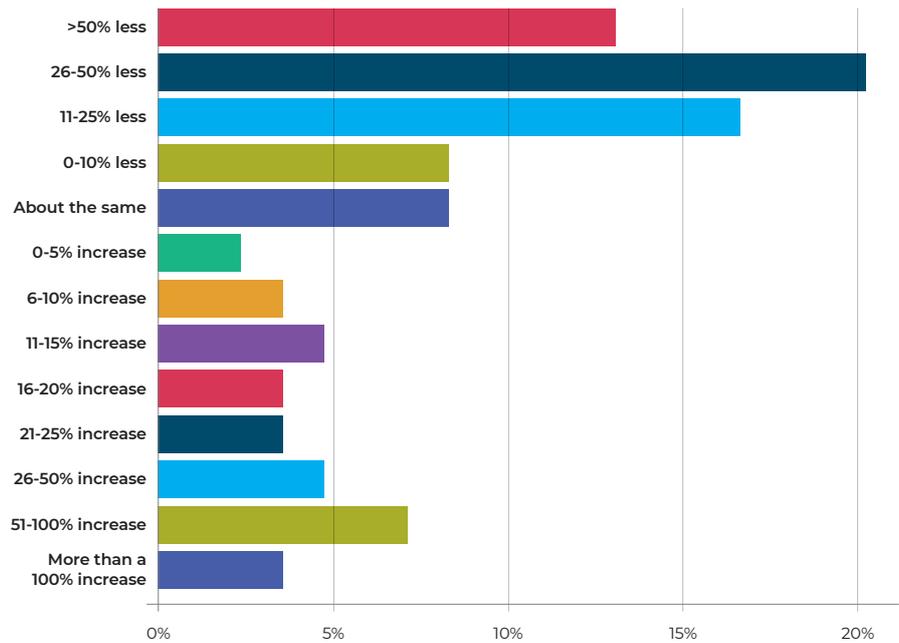
When comparing the level of revenues against the last three years, the results are very consistent, with 58% lower over this period – and 15% experiencing decreased revenues over 50%.

However, with the return of shooting in summer 2020 albeit with the accompanying challenges, there was a gradual sense that things would pick up by the end of the calendar year. A combination of jobs previously put on hold and brands wanting to increase their advertising communications has resulted in a more positive outlook for 2021. Also, there is a feeling that transparency and collaboration with clients have increased, which should bring greater confidence to the industry.

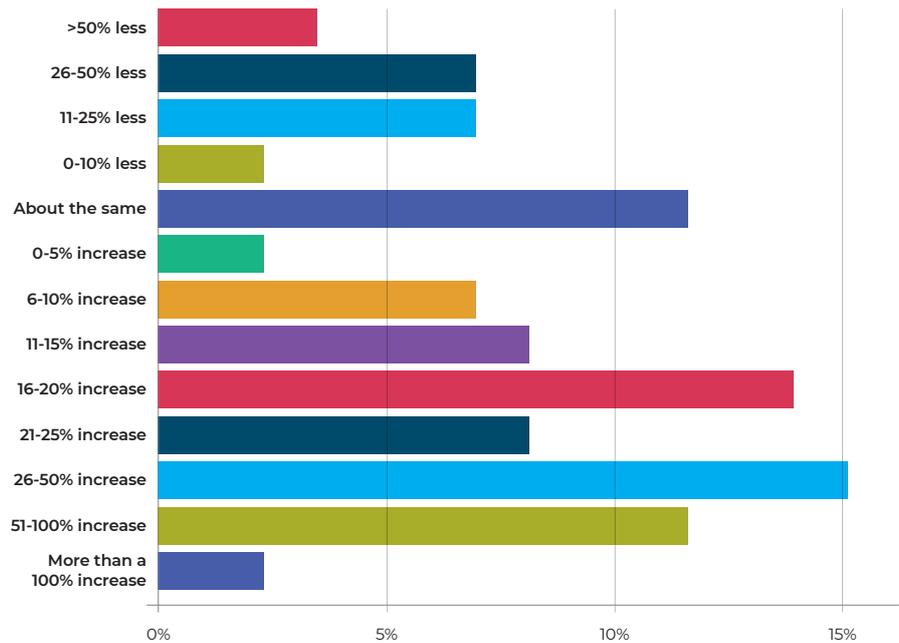
68% of respondents are predicting that revenues for the calendar year 2021 will be greater than 2020 – with 14% expecting revenues to increase by more than 50%. With the anticipation of international travel recommencing to a more normal level later in 2021, there has been a further sense of recovery, even if remote work from the US and European markets has assisted business revenues.

In a highly competitive marketplace, where clients are looking to secure discounts and generally better deals to appease their own financial requirements, it is essential for production companies to closely monitor job profitability levels. In light of the tighter regulations, i.e. making sets Coronavirus-secure and complying with new protocols, 72% of respondents feel that production costs have increased by up to 10%. 8% of respondents feel that costs have increased by more than 20%.

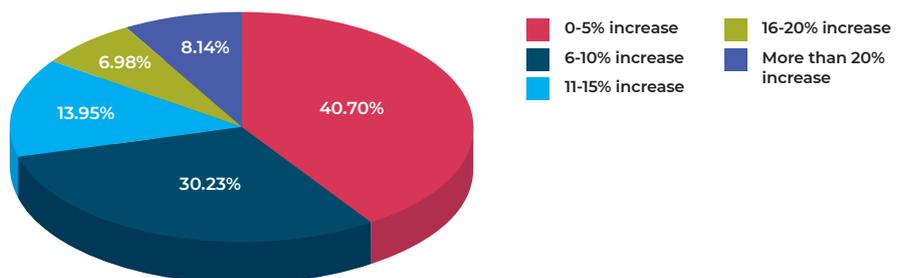
How did the level of your business in 2020 compare to your average over the last three years in revenue?



What do you predict your total revenue will be for 2021, in comparison to 2020?



How much do you think Covid procedures have added to your production costs?



GOVERNMENT SUPPORT AND CASH FLOW

The use of the government furlough scheme in 2020 was critical to the survival of many businesses nationwide. However, with only 35% of respondents still using the scheme in some capacity, this fits the trend of businesses reverting to a more normal level. With the furlough scheme extended to September 2021, this will continue to provide support to businesses still requiring it.

Another step that businesses took in 2020 was deferring various sums owed to HMRC for VAT and/or PAYE. 40% of respondents had deferred taxes to April 2021 with HMRC, which is encouraging and suggests that companies are starting to be in a more comfortable cash position. In fact, 72% of respondents confirmed that they do not see cash flow being an issue for 2021.

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RETURNING TO NORMAL?

It has been widely discussed that working life will not return to its pre-Coronavirus state, with greater flexibility, agile working and many still working from home. With high property costs, especially in central London, 10% of respondents have adopted a fully remote working environment with no plans to return to their office. A common theme to come from discussions with clients is that the lockdowns have triggered a shift in how business owners perceive remote working – they have largely found that there is little negative impact on productivity and it is therefore a trend worth continuing. However, a balance is obviously required; in such a stimulative industry, creatives are concerned that the lack of casual conversation between colleagues has removed a real source of idea generation – with one MD of a large production house estimating that this type of interaction had been reduced by 20%.

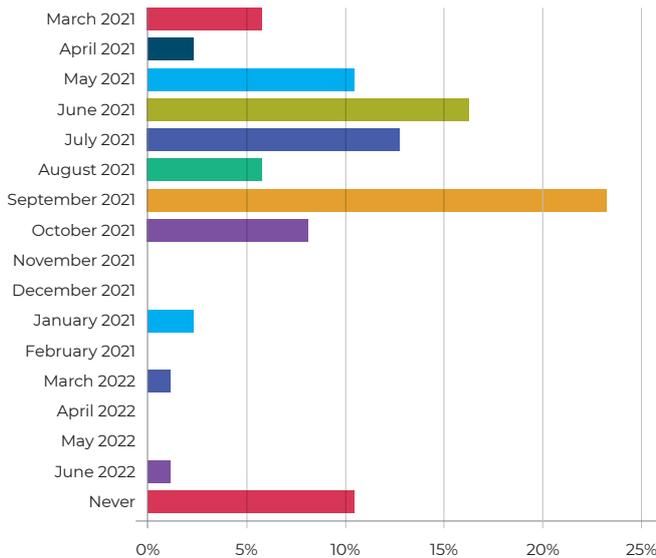
For others, June 2021 and beyond will start seeing the return of staff to the office, in some capacity. This will certainly vary depending on companies' ability to keep teams socially distanced within their office space – as businesses still need to manage the risk of positive cases which could then hinder production schedules. Some 18% of respondents had returned to the office at the time of completing the survey, with a further 58% likely to return between June and September 2021.

In terms of returning to normal production levels and billings, 26% of respondents feel that they have already returned to pre-Coronavirus levels, with a further 42% expecting to return to normal levels by the end of September. Conversely, 22% do not feel that this will be any time this year and expect normal production levels in 2022.

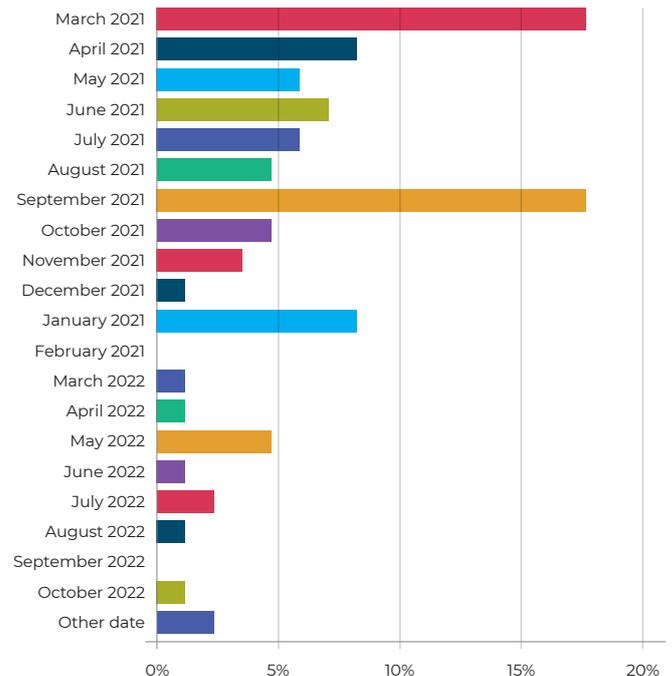
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The latest Advertising Association/WARC expenditure report forecasts UK ad-spend growing by 15.2% in 2021, which should go a long way to recovering the losses incurred in 2020. We hope that will materialise and that 2021 will be a good year for you and your business.

In what month (and year) do you think your company will have mainly returned to your office?



In what month (and year) do you expect that your company will return to normal levels of production and revenue?



CONCLUSION

Comments from APA members have alluded to a time of opportunity, enhanced by a change in clients' approach; there is a greater focus on collaboration and an increased understanding of the limitations on production. Setting aside the fundamentals of a very challenging year for the industry, Covid has

ushered in many adaptations that have proven positive and that will remain in its wake. On top of that, it has identified pressures to the bottom line that business owners can review with a different mindset – in particular, property prices and travel costs where appropriate.

With the industry largely optimistic for a strong recovery towards the end of 2021, supported by healthy pipelines and a consistent demand, an enhanced sense of normality is returning. One client sums up the general sentiment: 'It seems that the taps are slowly coming back on!'.

ABOUT MOORE KINGSTON SMITH

We are the only firm of accountants and advisers with a dedicated office of over 100 media specialists that proactively support the extensive range of needs of independent media businesses – covering TV and commercial production, film, marketing services, theatre and media tech.

We know it's not just about the numbers. As well as providing accountancy, tax and corporate finance services, over the years, by working with some of the industry's most successful companies, we have developed a deep understanding of what drives media businesses. As your trusted advisers we use this experience to work in partnership with you to help maximise your growth and profit potential. We conduct extensive research into industry performance every year with a view to understanding not just the benchmarking data, but also identifying what the best performers do to achieve exceptional results. Our well-developed structured approach to our strategic advisory services helps you effectively manage risks, build revenues, attract and engage people and identify key opportunities to improve performance and enterprise value.

All this means we are well placed to support you throughout the whole of your business lifecycle:

- **Start up and small businesses** – let our one stop shop approach take care of all your needs, including set up, company secretarial, legal, outsourcing, payroll, accounts and tax
- **Growing and mature businesses** – we can support you as your business grows with our award winning technology enabled audit approach, accounts preparation, tax compliance and advisory services such as HR and employee incentives
- **International** – we can leverage off of our membership of Moore Global – a network of accountancy and advisory firms in over 100 countries – to take the pain out of expanding into unfamiliar territories. We can co-ordinate your international audit requirements, and advise on international tax
- **Exit planning** – our media specialist award winning M&A team, with hundreds of transactions under their belt, will ensure you are well prepared for any transaction and maximise the proceeds from the value you have created within your business

We have hundreds of clients across the media sector who all benefit from our very personal partner led approach, providing the very best guidance, expertise and specialist sector insights.

We are proud to be an APA partner and to have worked so closely with the Association and its members over many years.

CONTACT US

If you would like to discuss any of the matters arising in this survey or how we can help you, please contact one of the Moore Kingston Smith team by email or phone.



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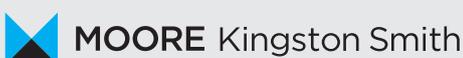


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