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DIGITAL MEDIA CLUSTER

Television · Broadcasting · Video · Film · eSports · Digital Media

Locate, startup & finance your media venture

Strategic Directions
for the Isle of Man

PRESENTED BY
Dr Richard K Arning,

PRESENTED ON
December 2017

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Executive Summary

Disruption in TV and exponential growth in video

Linear Television is a highly profitable, cash-generative, globally expanding and mature industry. The rise of ‘non-linear TV’ or ‘Video On Demand’ (VOD) or ‘Over-The-Top’ (OTT) is driven by changing viewing habits, massive investments into ‘original content’, leveraging global reach by streaming, advances into broadband infrastructures and regulatory enforced opening of previously geo-blocked/licensed markets. New forms of content and end user devices have entered the markets, like social media television for millennials or virtual reality. The ultra-fast changing value chain is creating numerous opportunities, new jobs and new companies in content production, tech, monetisation, consulting and advertisement. The Isle of Man can capture this fundamental opportunity for new entrants in the Digital Media Space

Financing & Taxation

‘Tax Rebates’, which are effectively grants, are a race to the bottom for the competing jurisdictions in production of film / high-end-TV (drama, documentary, comedy), animation, kids-TV and video-gaming. Other TV genres are not subsidized, neither do businesses engaged in distribution, broadcasting or OTT benefit. They are taxed with standard corporate tax rates. This creates opportunities for the Isle of Man to attract fast growth, highly-profitable Media ventures rather than film

Growth Opportunities for the Isle of Man

- Unique offshore value proposition without competition in Europe
- Building on the Island’s TV/video industry and the heritage in film, attracting job generating ventures - instead of risky film financing
- Skills synergies with eGaming, video gaming, animation and ICT
- Video as the most data-intense form of data can leverage on the Island’s ICT infrastructure including the new teleport
- Potential regulatory advantages to be explored as VOD/OTT regulation (e.g. for the likes of Netflix) is in its infancy
- Unlike Offshore-Finance and eGaming the TV & video industry is generally positively perceived, creating a positive branding

The Isle of Media Ltd. has already proven its capability to generate a ‘Deal Flow” of interested ventures. Numerous new jobs are achievable

Recommendations

- Embrace current disruptive opportunities of a Digital Media boom
- Focus on players and projects in the new areas of OTT, distri-bution, tech etc., building on the synergies with eGaming and FinTech and position the Island as a finance hub for this new sector
- Provide sustainable funding for further marketing and operate a jobs and TV/video oriented Media Fund under lean management
- Create an integrated digital social media/NGO approach to local TV
- Explore opportunities and private investments tools in Digital Media

Contents

1. Markets

a. Trends: Disruptive new players in boom sector

Social Shift

#TheNewBlack 'TV is the New Film' for actors and producers in high end drama; binge watching; 'TV Oscars' coming

#Millenials User generated content; short formats; eSports; mobile viewing; vertical formats

#Demographics change and more viewing

#SocialMedia platforms like Youtube, Facebook, Twitter offering live events or even classic broadcast channels streaming packages

#CordCutting #VOD replacing PayTV; service bundling by users; skinny bundles

#GigabitSociety (FTTH) overcoming bandwidth bottleneck, enabling VOD for everybody and 4k/HDR

New Business Models

#HybridNetworks e.g. bundles with eCommerce or broadband

#PeakContent flooding the screens fueled by VC and equity

#OrginalContent as USP for platforms and broadcasters

#ShortformContent viral videos and memes

#BrandedContent Retailer: live events or personal shopping

#NicheInterests reaching economy of scale by global OTT

#Middleman (distributors, studios) taken out by platforms

Tech

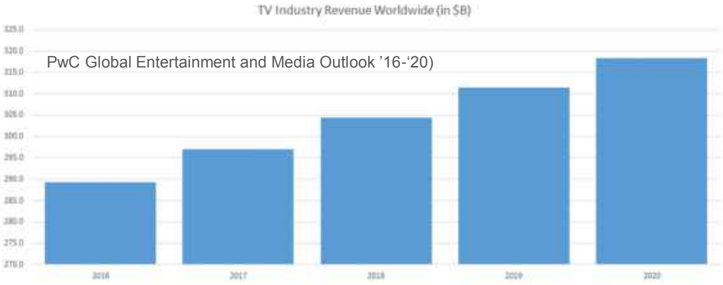
#UHD #4k #HDR becoming mainstream in sport, shopping, fashion, high-end-documentary… **#8k** looms

#VR #AR #360 as complementary content and experience

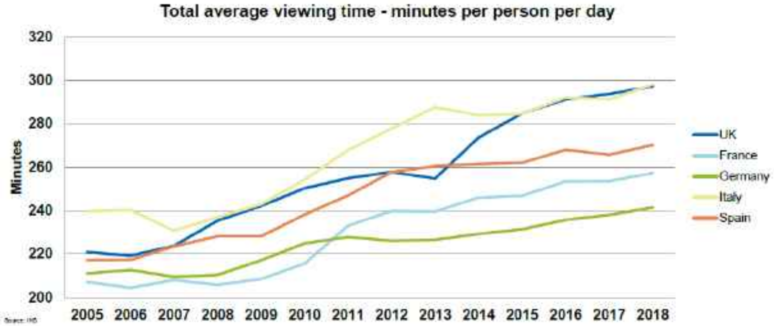
#Cloud for DVR, playout services and video archives

b. Global TV and Video Markets

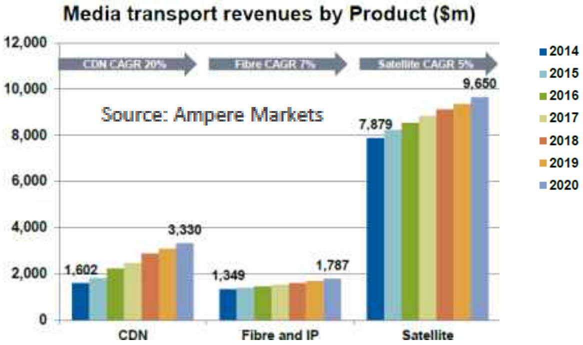
Revenues Rise in TV industry



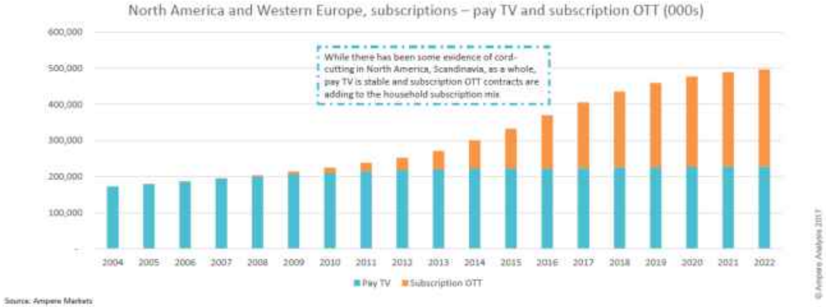
Longer TV viewing



Growth in transmission service revenues



Rise of OTT



c. Global Film Markets

Box Office Ticket Sales flat / declining

- Long-term stagnation in the number of global tickets sold. Admissions totaled 1.32 billion last year, flat compared with 2015, and down from 1.4 billion a decade ago
- Challenge to lure younger audiences who have more entertainment options in the home

Box Office Revenues flat, China disappointing

- Leveling off at the global box office underscored sluggish movie ticket sales in countries outside the United States and Canada. Foreign box office totaled $27.2 billion in 2016, down from $27.3 billion in 2015
- China fell 1% to $6.6 billion in 2016, in U.S. dollars

Monetisation by linear and non-linear TV

- The importance of box office revenues is diminishing for film (down to ca. 10%). Some films directly start online

→ But more important for an Isle of Man Digital Media strategy than the global block buster driven cinema business is the small-medium budget and UK (Indie Film) situation

UK Indie Film Crisis (from Screendaily)

- ‘The State Of The UK Independent Film Sector’ study recently completed for UK producers’ association PACT was that 78% of the UK producers contacted for the report have had to defer some or all of their fees since 2007. Given they were unlikely to have had much of a share of the ‘backend’ from the profits of their films, this means that, in certain circumstances, they are working for virtually nothing
- The international market value for independent UK films has suffered a decline of an estimated 50% since 2007. The report puts this down to digital disruption, increased competition for audiences and the squeeze caused by the global financial crisis of 2007. It concludes the present financial model is “broken”
- With 25% UK tax relief the sector struggles to compete with other English-speaking countries like Canada and Australia
- Most UK sales agents acknowledge the international market value for UK films has dropped and point out they too are suffering as a result. “The answer to falling international revenues isn’t simply to replace them with something else, it is to address those international markets and get better at selling to them,” suggests Charlie Bloye, chief executive of Film Export UK

→ Still Indie Film fuels the skill pipeline and has avantgarde value

d. Competition by other Jurisdictions & Clusters

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The New Studio arms race, a random overview:

- Manchester/Salford: £1bn to double size for more TV studios as well as shops, offices, a 330-bed hotel and 1,400 new homes
- Pinewood: £250m expansion by adding 100,000 sq m of new facilities, including twelve large stages with supporting workshops, production offices and infrastructure
- Edinburgh/Straiton: New 'Pentland Studios', £250m for 1,600 jobs by purpose-built studio complex, six sound stages up to 70ft tall at the 106-acre site, 2 Hollywood-style backlots, a 180-room hotel, a 50,000sq ft creative industries hub, 50,000 sq ft of workshop space and a film academy
- London: Plans to build London's largest studio in Dagenham
- Liverpool: New 'Pinewood of the North' £35m for 350 jobs
- Belfast: Adding 'New Harbour Studios' with £20m for 120,000 sq ft of studios, workshops and offices on 8 acres
- Dublin: €20m for 'New Bay Studios' on 20 acres
- Chongqing: £1.6bn plans for China's largest studio

→ Create #NorthernPowerhouse cooperation with studios in Liverpool, Salford-Manchester and Yorkshire

Tax Rebates & Offshore Competition

- UK Film production (theatrical release): max cash credit 20/16 percent of UK expenses (depending if budget above/below £20m)
- UK TV producers, broadcasters, distributors: No tax credits
- UK S/EIS tax reliefs for investors
- Ireland: Capped tax reliefs for film investors plus 32% cash credit on the lower of eligible expenses, 80% total costs, €70m
- Canada: foreign producers tax credits from 32% to 70% of eligible labour, plus tax incentives on local spend from 20% to 30%. Extra regional tax incentives for visual effects and animation
- Channel Islands: Rather inactive 'Creative Industries Guernsey', failure to create something similar in Jersey. No Media Fund
- Malta: Film shooting location strategy plus attracting Media Funds. Up to 27% cash rebate, for co-productions up to 32%. Newly launched fund for feature films up to 120,000€. Studios, film and TV industry existing. Some smaller funds for creative industry. 35% corp.tax but tax refunds to non-resident-shareholders result in <5%
- Abu Dhabi Freeport: 30% cash-back rebates, no tax, but censorship
- US Virgin Islands: Up to 17% transferable tax rebate, 29% cash refunds. Up to 90% tax relief for relocating companies
- South Africa: Foreign productions receive up 20% cash rebate and up 25% if including local post production

e. Brexit

Background Information

- The EU Audio Visual Media Services Directive (AVMSD) regulates mass media whether television broadcasting or on-demand
- The AVMSD applies the 'Country of Origin* Principle' which means that broadcasters just need one regulatory approval of the most relevant EU member state ('Passporting')
- The Isle of Man as being outside the EU cannot provide the necessary EU member state regulatory approval for an EU satellite channel operated from the Island. This is different for an Isle of Man based web TV channel, streaming into EU territory
- Regulatory restrictions e.g. for advertising result largely from national regulation than the less specific AVMSD, creating a regulatory competition of jurisdictions
- EU funding is currently provided for UK content and ventures
- EU broadcasting and film talent can work currently in the UK

Scenarios

- EU funds for content and ventures might not/only partially be replaced in the UK but are negligible (£40m in 14/15) compared to billions of commercial funding. Impact is on small indie artists only
- Unlike the current UK situation with the EU's AVMSD applied or the similar EEA arrangement (e.g. Norway), the other role models for a post Brexit Britain are: the Customs Union model (e.g. Turkey), the Free Trade Agreement (e.g. Canada) and the WTO model, all applying the 'Country of Destination Principle'. Without the EU 'Passporting Rights' from the AVMSD the UK might lose several channels currently operating from the UK. Especially Ireland and the Netherlands might benefit. But also the Isle of Man would have no regulatory disadvantage any more compared to UK
- As a positive Brexit outcome the UK, being lifted from EU state-aid restrictions to subsidise content with local connection only, could further boost its content industry already fuelled by US investments

→ **The outcome of state level Brexit negotiations as well as the market reactions are not known.**

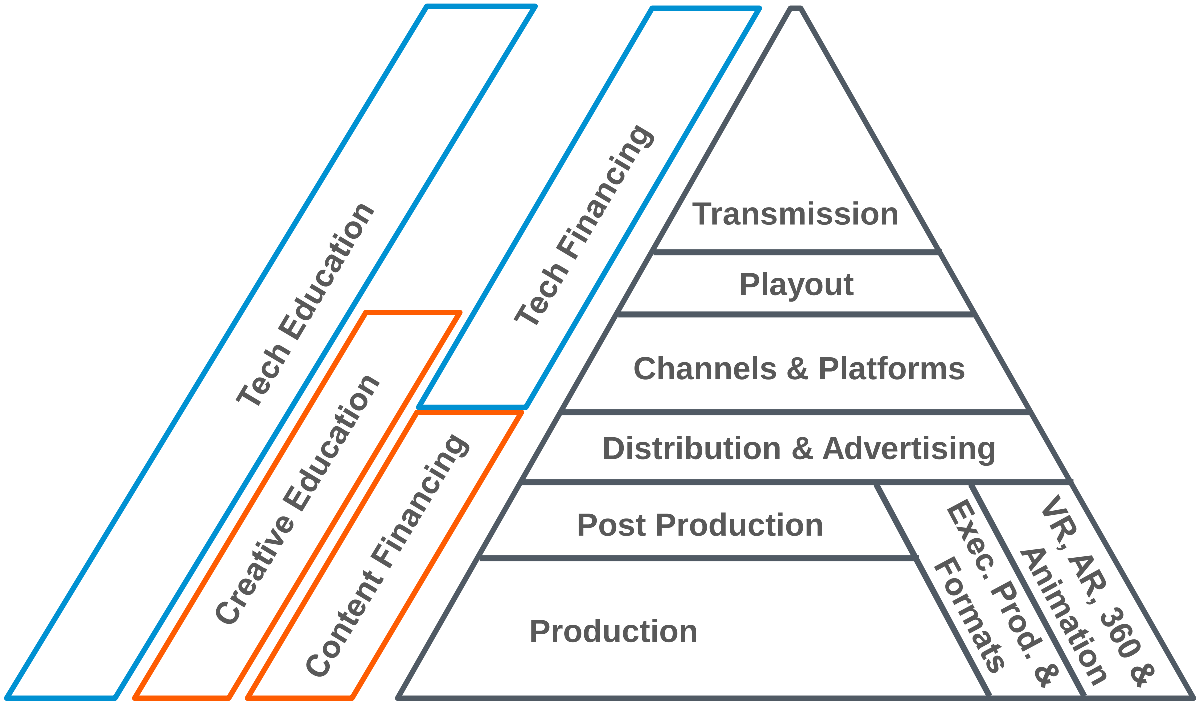
*Criteria Ranking; Location of Headquarter. Editorial Decisions, Staff, Satellite Uplink, Satellite Capacity…

2. Isle of Man Ecosystem

a. Financial Assistance & Taxation

Tax	Grants	Sovereign Equity & Loans	Digital Media Fund	Private Equity
Isle of Man Government Corporate Tax 0% Cap. Gains Tax 0%	Isle of Man Government Up to 40% grant managed by Department of Economic Development	Isle of Man Government SPARK Impact £ 50 million Enterprise Development Fund managed by SPARK Impact	Isle of Man Government Isle of Man Government Digital Media Fund for content related ventures	BRIDGE Manx Angel Network
Income Tax: • 0-20% capped at £125 k, • 'Key Employee Concession': 3-year tax concession for non-Manx income	Funding: • Building • Plant & machinery • Marketing • First year expenses • Training	Available Private Co-Investments	Flexible investment across gap, participation, lending	Family Offices, HNWIs, Funds, Corp. Investors, S/EIS

b. The Isle of Man Cluster – Building the Supply Chain



The Tech Side

- Television, Displays, Set-Top-Boxes
- Satellite, Cable, Terrestrial, Antennas
- Telcos, Data Centres, CDNs, MSOs
- Encryption, Encoding, Ingest, Sync
- Measurement, Metadata
- Profiling, Targeted Ads
- Recommendation Engines
- App Developments and App Platforms
- Video Middleware
- Video & Image Processing
- Capturing: Cameras, Recording…
- Production Studios, Broadcast Studios

b. The Isle of Man Cluster – Existing Supply Chain

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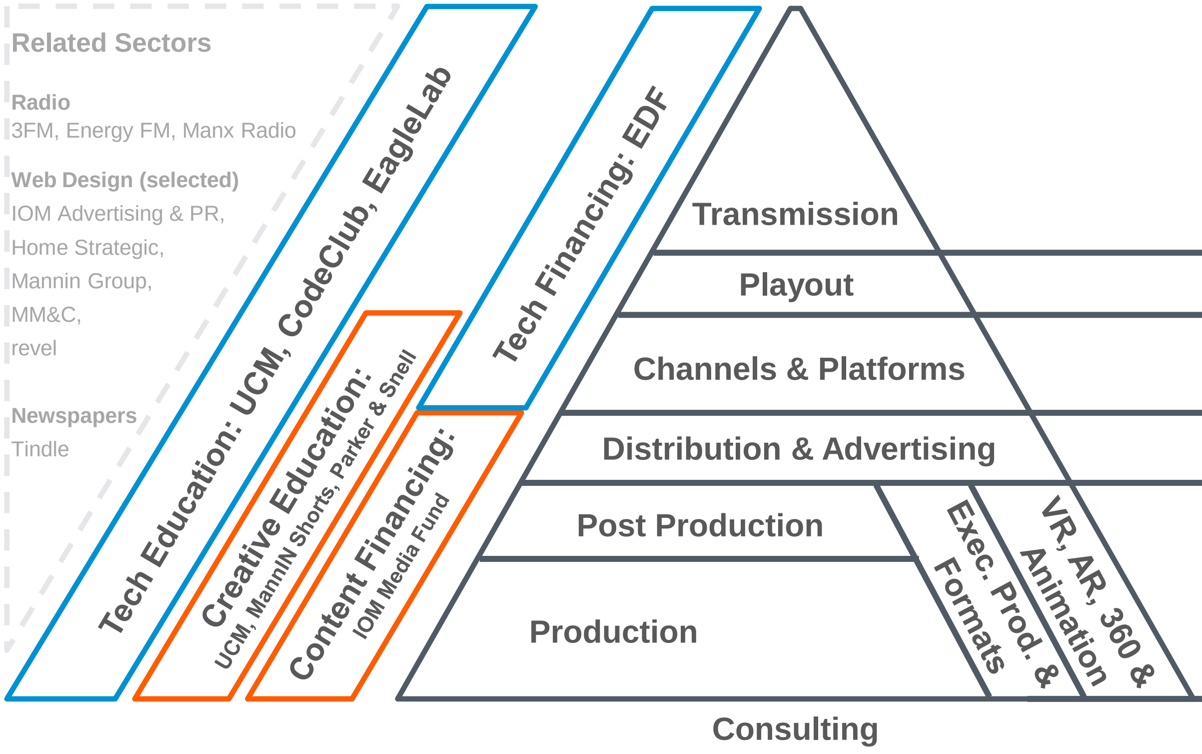


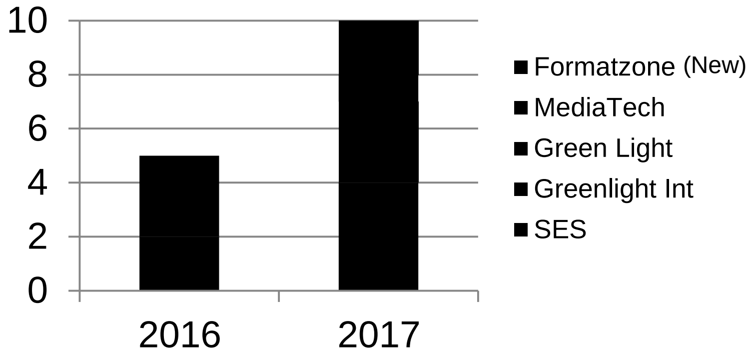
IOM Enterprises

- SES
- Continent8, Domicilium, Manx Telecom, Netcetera, Sure, Wi-Manx
- (Offer of Sohonet to invest in PoP and connect to 400 Media ventures for virtual collaboration)
- - (MX1)
- Export: -
- Local content: Arts Council, BBC IOM, CultureVannin, ITV IOM, lovelygreens, mt.tv
- Beckmann Visual, Duke Marketing, Greenlight International, Heroes & Friends, Mediatech Advertising
- Bloom Creative, Blue Olive, Cooil Creatives, Cool Edit Prod., DAM Prod., Duke Marketing, FormatZone, GreenlightTV, LovelyGreens, Mannimation, Parker & Snell, Your Movie Crew
- Island Media Studios, Manx Radio Sound Stage
- Beckmann Visual, Isis Digital, grq consulting

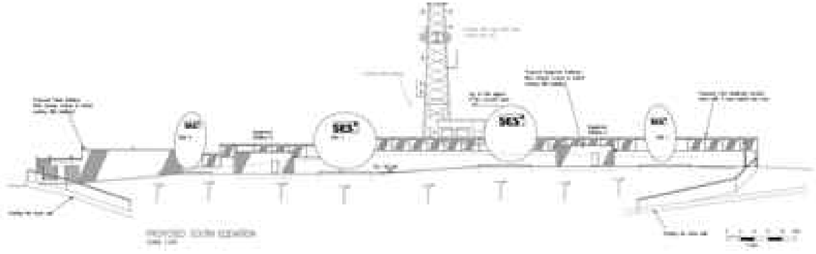
b. The Isle of Man Cluster – Existing Players

Jobs related to Video, Broadcasting, Film (Isle of Media mapping)*		Incl. Peripheral
BBC		
Beckmann Visual Publishing		
Bloom Creative		
Blue Olive Productions		
Communications Commission		
Connect Media		
Cooil Creative		
Cool Edit		
DAM Productions		
Department of Economic Development		
Duke Marketing Ltd.		
ExIsle Casting and Film Facility Agency		
Friends and Heroes		
Green Light		
Greenlight International		
grq consulting ltd		
Island Media Studios		
ITV		
Mannimation		
Manx Radio		
Mediatech Advertising		
Parker and Snell		
PMC Television		
SES Satellite Leasing		
University College Isle of Man		
	66	**86**

Headcount Growth in FTEs



Multi-million investment into SES Teleport Phase I



 • Figures by Isle of Media mapping still exclude actors, freelancers and non-export oriented jobs in TV installation, cinema operation etc.

b. The Isle of Man Cluster – The Starting Point

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Location used / featured

- Isle of Man featured in TV or films
- No financial involvement by IOMG
- Good for marketing the Island
- Examples from TV:
    - Isle of Man in Mare TV, NDR (G)
    - The Queen's Isles, Arte (G, F)
    - Cyclefest, Bikechannel (UK)
    - Julia Walks, BBC
    - BBC Crimewatch
    - British Cycling Championships, Eurosport (UK)

Paid Marketing by DfE

- TV advertisements
- Videos on Social Media

Film & Financing

- Investments into films for theatrical release at the box office are **speculative**
- Markets the Island directly by photo-shooting or by bringing over film stars
- Very active cultural scene of filmmakers especially with Isle of Man Film Festival
- Sound film and acting oriented education offerings and local talent base

→ Not jobs creation related
→ Previously offered Isle of Man equity financing of film production cannot compete with 'cash-back film jurisdictions' like UK, Ireland, Canada

Video /TV Production & Distribution

- Real Business: Sustainable jobs & revenues
- Growing incumbent sector, older than Isle of Man Film sector
- Up to 100% spend on Island
- Isle of Man USP with zero corporate tax, zero capital gains tax, low income tax while fully taxed on-shore
- Available financing by Digital Media Fund for 'Content' and Enterprise Development Fund for 'Tech' and 'Channels/Distributors'
- Sector promoted by Isle of Media

→ TV is a sustainable, profitable business
→ Large audience reach for marketing the Island as a place for tourism, living and business

c. SWOT Analysis Isle of Man Cluster

Strengths

- Isle of Man tax & financial support regime competitive in television on the level of broadcasting, distribution and content (excl. high-end drama, kids…)
- Strong synergies with existing Island's skillset in production and video distribution as well as ICT sector and motorsports
- Digital Media Education established; available local talent base of Creatives
- Positive sector brand
- Nucleus and growing sector existing to build upon
- Isle of Media as PPP, driven by industry, supported by Government
- Deal flow pipeline growing; excellent traction in Island visits by media ventures

Weaknesses

- Extreme low unemployment (< 1%); recruitment from outside necessary especially for ICT and management related positions
- No major broadcaster, studio, or Digital company as catalyst like in Salford
- Exit taxation on off-shoring valuable assets and companies (→ focus on new ventures and corporate functions)
- Withholding tax levies and the effort to mitigate; lack of tax treaties
- Slightly higher costs of living & travel
- No "Soho-Feeling" on "The Rock" (but high living quality)

Opportunities

- Position as the only European Offshore Digital Media hub including financing for high-growth, high-profit ventures
- Attract Crowdfunding Platform, further funds & cooperate with existing funds
- Transform the Island's 'brick-and-mortar' DVD exporters into online offerings
- Build a new generation template for local TV
- Private investor plans for studios, post-production and Digital Media Education
- Leverage on telecommunication infrastructure including local teleport
- Midterm: liaise with #NorthernPowerhouse and Salford Media City
- Work with the related sectors of ICT, eGaming/eSports and Cultural Industries within the re-branded 'Department for Enterprise' and its Agencies

Threats

- Potential Brexit impact: on immigration rules, TV channel passporting, EU-Co-Production Treaty
- EU Single Digital Market legislation potentially threatening leading UK creative industries by abandoning national licensing
- Eventual future studio overcapacities in UK & Ireland

3. Strategic Recommendations

a. Embrace Change & Boom: 1001 Opportunities

Content Production

Content remains key! Whether it plays to the strengths of the location e.g. as scenery, by its Celtic-Viking culture, in motorsports or to the tax advantages outside the subsidised genres like drama & kids there are plenty of USPs

Broadcasters, Platforms, Social Media, Ads

Endless opportunities building on eGaming and the existing video industry. The new Isle of Man teleport adds to the Island's telecoms and data centre infrastructure. On top of attracting new channels and platforms the monetisation of existing video libraries on the Island via OTT can give a boost for incumbent IOM companies

Tech

So far an almost untapped field in the Isle of Media marketing and a rapidly expanding sector. With dedicated events, e.g. IBC Startup Forum, a targeted marketing is possible, subject to available resources

b. How to organise: Public Private Partnership

Strategy

'Digital Media', even if focused on video & television, bears a complexity which requires several experts from different backgrounds to derive a holistic sector strategy for the Island. Different monetisation and distribution strategies for different genres, new technologies, cloud service strategies and pricing benchmarks, international tax laws and film and TV funding, …it is on industry to structure the way forward

Marketing & PR

Off-Island marketing is key to success. Road shows, networking on trade shows and individually targeted approaches are as important as social media is. But it still comes down to personal contact networks and the seniority brought to the table. This is why executives of the industry and big corporate brand names are mandatory. A permanent presence in London is necessary and offered by Isle of Media as well. We recommend a single lead in PR & marketing for Isle of Media

Business Development

From marketing to develop a concrete 'lead' for a venture to setup business on the Island, this takes persistence and is work intense. Financing, tax, facilities, staffing questions… need to be answered, the Island 'show-cased'. Isle of Media provides the legwork for clients

Financing

Expertise from industry is not just needed to evaluate applications for financial assistance or venture capital. Also to identify and engage private funds industry can help. Attracting a Crowdfunding Platform for TV content production could provide a major boost

Networking & Association

Without an industry association, the existing Island's media sector lacked a networking platform and PR voice. Isle of Media was set up to fulfil those roles, to create a dialogue between the various stakeholders on joint opportunities and to bring together the flourishing commercial side of TV & video and the film community. Government's re-branded 'Department for Enterprise' provide the opportunity to build closer links to related sectors like ICT and eGaming/eSports

Governance

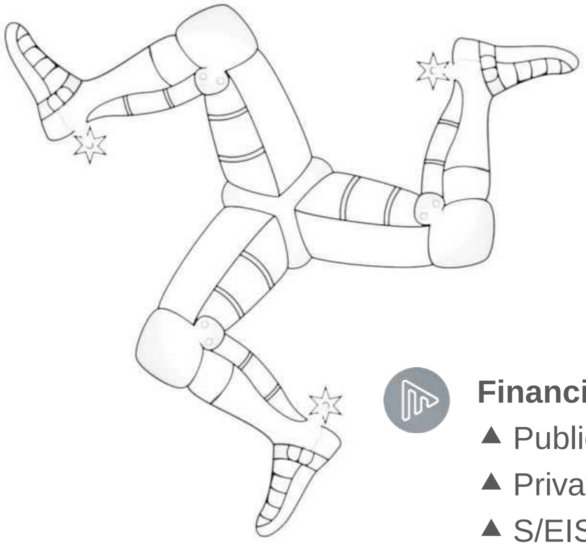
Directors of the Board are from the Island's sector largest companies SES, Greenlight and Duke. An advisory board provides:

- Independence: largely based off-Island and international expertise
- Strategic guidance
- Tactical reach to enlarge client network
- Seniority reference

c. Where to Focus on: Three Areas

Enterprises targeted

- Which Sectors: TV, incl. film for TV, video games and eSports
- What Genres: Shows, news, documentary, animation
- Where from: UK, Ireland, South Africa, foreign channels for UK
- What's marketed: Business, tourism, motorsports



Social & Education

- Language, heritage
- Art & Events
- Education and training in Digital Media
- New local TV template

Financing

- Public Digital Media Fund
- Private Funds, VCs, Angels
- S/EIS Funding from UK
- Crowdfunding
- Private investors for studios, post-production and training

d. More than the Social Part: Isle of Man TV Station

Today's Situation

Isle of Man Coverage On-Island

↓ There is little video news coverage. Manx Telecom-sponsored mt.tv web platform tries its best to achieve nearly one news item per day, but being far away from any comprehensive coverage. Complementary, Culture Vannin and others produce great videos about culture, heritage and social life, but only irregularly and largely subsidised by government. Nothing of the above hits the TV screens or achieves a significant number of households, even the TT coverage by ITV4 is unavailable on Freeview locally.

↑ Private Social Media is very active including vlogging and streaming and Manx Radio plans to have webcams in the news rooms.

Isle of Man Coverage Off-Island

↓ The BBC Isle of Man team with three journalists barely produces news items being broadcasted by BBC North West, and equally fails to produce any comprehensive coverage on web or Social Media. ITV with one local journalist lists a few videos in the first 180 days of 2017 on the webpage but similarly does not achieve coverage on TV.

↑ DED contracts marketing spots in UK TV stations

Four Options with regard to a National Television Station

1. Non-commercial - Do nothing: A diverse set of players active on web and on social media produces some video available online
2. Non-commercial online push: Extra subsidies for Culture Vannin and others to produce more online-video and this more regularly
3. Semi-commercial - Standalone TV channel: This model remains difficult in a small advertisement market. It would require subsidies. As news only and only on web it has previously failed
4. Commercial Isle of Man TV as core of a UK network programme: The Isle of Man as an own nation is 'content rich'. Importantly, much of this content could be broadcasted and monetised in a UK TV network as well. This would relate to on-island produced shows, culture, language and business programming, creating a marketing tool for the Island. Embedded in a UK local TV network, an Isle of Man channel could benefit from the operation's scale in network programming, central administration and UK sales. Also technology costs and content turn-around costs have come down. Embracing NGO and private video content creators and Social Media can create a new approach to local TV. To reach local residents and secure advertising sales, a TV station has to get into the living room and kitchen TVs and cannot (yet) be purely web based.

Invitation for discussion:

This strategy document is intended to stay ‘in working progress’.

Isle of Media invites all stakeholders to comment, correct, criticise and contribute!

We are looking forward to hear from you!

info@isleofmedia.org

Annex: Isle of Media Limited

Isle of Media Limited

Board of Directors

Comprising the largest Broadcast Media related IOM companies the appointed Directors are:

- Dr. Richard K. Arning, Chairman (Director Satellite Leasing)
- Dave Beynon (Director Green Light)
- Peter Duke (Managing Director Duke Marketing)

Advisory Board

- Catriona Logan (Director of Celtic Media Festival, Glasgow)
- Chris Sharp (former Chief Programming Officer AMC Networks. London)
- Dr. Frank Hoffmann (Chief Strategy Officer MX1, Munich)
- Mark Rowland (Chairman C21, CEO Formatzone, London)
- Simon Kelly (Director Dixcart Management, Isle of Man)
- Simon Nicholas (Director, KPMG LLC, Isle of Man)

Objectives

- 1 To act as a 'Business Development Agency' to support the development and growth of the Isle of Man's 'Digital Media Sector' involved in the television and video value chain:
- 1.1 from content and format production for all types of television and video formats including also film, games, animation, virtual and augmented reality,
- 1.2 content aggregation,
- 1.3 content management,
- 1.4 commercial, electronic and physical distribution in all forms like for instance licensing, broadcasting, streaming, Video On Demand, DVD sales,
- 1.5 display, financing, incubating, consulting and promotion of video and television,
- 1.6 and related activities,

  by the means of for instance but not limited to:
- 1.7 on- and off-Island marketing,
- 1.8 education,
- 1.9 consulting,
- 1.10 participation in definition of public sector policy and
- 1.11 general participative and advisory activities which support the development of the sector and its revenue, taxation and employment capabilities;
- 2. to act as an 'Association' for the representation and benefit of the Company's membership and the wider Isle of Man economy and society.

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Marketing: Major Events Schedule

Marketing 2016

Sept IBC Amsterdam

Sept Jurby IOM

Nov Century Club Soho

Marketing 2017

April MipTV Cannes

May Celtic Media Festival IOM

CelticMedia Festival

September Century Club Soho

October MipCom Cannes

Other

IOM AfterWork Network

TT Zero Media guests

Prolific North Manchester

ISLEXPO
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