Date: March 17, 2019

From: L.E.K. Consulting LLC

Subject: Analysis of Economic Impact of Eliminating Front-End Packaging Fees

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Overview

This memo provides a summary of the economic impact on talent for the elimination of front-end packaging fees on non-commissioned television shows for the 2017-18 season

Summary of Findings

1. All Talent Perspective

    a. For the 2017-18 television season, talent (including writers, directors, producers and actors) on packaged shows generated at least $1.1 billion in non-commissioned front-end earnings (see Exhibits 1 and 3). This figure likely understates the total amount given that agency accounting systems may not have full purview of all non-commissioned client earnings.

    b. These clients would thus need to pay at least $111 million in commissions on current earnings if packaging fees were eliminated (at the standard 10% agency commission) (see Exhibit 1).

    c. The agencies generated an estimated $120 million in front-end packaging fees for the same period. This figure is believed to be accurate given that agencies have clear visibility into their own packaging fees.

    d. The studios would have to pass-through all those fees to talent in order for talent to approach break even (see Exhibits 2 and 3). Note that this 100% pass-through scenario assumes that no money is diverted to other purposes (studio profit, VFX, location costs, etc.), and all saved packaging fees are given directly to talent.

    e. In the scenario that no front-end packaging fees are passed-through from studios to talent, talent would receive $111 million less (see Exhibit 1).

f. In the event that all packaging fees are passed-through to talent, talent would pay $111 million in commissions on current earnings and an extra approximately $12 million (on new earnings from the pass-through), leaving a deficit of $2-3 million.

g. In summary, if packaging fees are eliminated and non-commissioned talent earnings become commissionable, talent will be at a deficit if 100% of packaging fees are passed-through to talent. This deficit increases linearly as the pass through amount decreases from 100% to 0%.

2. Writer Perspective

a. Looking at writers alone (including writer-producers), our analysis indicates that these clients generated at least $493 million in non-commissioned front-end earnings (see Exhibits 1 and 3) for their services rendered on these same 2017-18 packaged shows (approximately 44% of total client non-commissioned earnings). Again, this figure likely understates the total amount given that agency accounting systems may not have full purview of all non-commissioned client (including writer) earnings.

b. Using the same economics, writers would need to pay at least $49 million in commissions on current earnings (see Exhibit 1). This $49 million includes commissions on other fees – such as producing fees – that writers are earning during the season.

c. If one assumes that writers would receive a pro rata share of any agency fees that are passed-through, one would have to assume that the studios would pass-through all of those fees in order for writers to approach break even (see Exhibits 2 and 3). Note that this 100% pass-through scenario assumes that no money is diverted to other purposes (studio profit, VFX, location costs, etc.), and all saved packaging fees are given directly to talent.

d. In the event that no front-end packaging fees are passed-through from studios to writers, writers would receive approximately $49 million less. Similarly, the amount at risk for actors is approximately $42M, and the amount at risk for directors is approximately $4-5M (see Exhibit 1).

e. In the event that all packaging fees are passed-through (and writers receive a pro rata share), writers (including writer-producers) would pay approximately $49 million in commissions on current earnings and an extra approximately $5 million (on new earnings from the pass-through), leaving a deficit of approximately $1-2 million. Similarly, as shown in Exhibits 2 and 3 below, actors and directors on packaged shows would be worse off even with 100% pass through.

L.E.K.

In summary, if packaging fees are eliminated and non-commissioned talent earnings become commissionable, writers will be at a deficit if 100% of packaging fees are passed through to talent. This deficit increases linearly as the pass through amount decreases from 100% to 0%.

<u>Exhibit 1: Effect of Elimination of Packaging Fees on Front-End Earnings for Writers and Other Talent Assuming No Studio Pass-Through</u>

	All Talent on Packaged Shows	Writers on Packaged Shows	Actors on Packaged Shows	Directors on Packaged Shows
Total 2017-18 non-commissioned earnings:	**~$1,111M**	**~$493M**	**~$419**	**~$46M**
	x	x	x	x
Agency commission:	10%	10%	10%	10%
	=	=	=	=
Implied new commissions paid by talent:	(~$111M)	(~$49M)	(~$42M)	(~$4-5M)

<u>Exhibit 2: Effect of Elimination of Packaging Fees on Front-End Earnings for Writers and Other Talent Assuming 100% Studio Pass-Through</u>

	All Talent on Packaged Shows	Writers on Packaged Shows	Actors on Packaged Shows	Directors on Packaged Shows
Difference vs. current non-commissioned earnings:	(~$2-3M)	(~$1-2M)	(~$1-2M)	(~$0-1M)

See Exhibit 3 below for calculations

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Exhibit 3: Calculation for Effect of Elimination of Packaging Fees on Front-End Earnings for Writers and Other Talent Assuming 100% Studio Pass-Through

	All Talent on Packaged Shows	Writers on Packaged Shows	Actors on Packaged Shows	Directors on Packaged Shows
Total 2017-18 non-commissioned earnings:	**~$1,111M**	**~$493M**	**~$419M**	**~$46M**
	+	+	+	+
"Available" agency packaging fees in 100% pass-through scenario:	~$120M	~$120M	~$120M	~$120M
	x	x	x	x
Share of packaging fees assumed to accrue to each client category:	~100%	~44%	~38%	~4%
	=	=	=	=
Implied incremental earnings for each client category:	~$120M	~$53M	~$45M	~$5M
	=	=	=	=
Implied 2017-18 gross earnings assuming 100% pass-through:	**~$1,231M**	**~$547M**	**~$464M**	**~$51M**
	x	x	x	x
Agency commissions (10%):	90%	90%	90%	90%
	=	=	=	=
Implied 2017-18 net earnings assuming 100% pass-through:	**~$1,108M**	**~$492M**	**~$418M**	**~$46M**
Difference vs. current non-commissioned earnings	(~$2-3M)	(~$1-2M)	(~$1-2M)	(~$0-1M)

Notes on Data and Analysis

1. This report has been prepared by L.E.K. Consulting LLC ("L.E.K.") in connection with counsel for the Association of Talent Agents ("ATA") to create a relevant fact base and analysis to support discussions between the ATA and the Writer's Guild of America (the "Project"). The defined term "L.E.K." shall mean L.E.K. and its affiliates, and each of their former, current or future owners, partners, members, directors, managers, officers, directors, employees, attorneys and agents and the successors and assigns of the foregoing persons.

2. L.E.K. reserves the right to amend, supplement or replace this report at any time. No one reviewing the contents of this report shall rely on any oral communications by L.E.K. employees or representatives with respect to the Project, and the opinions, projections, estimates and conclusions of L.E.K. are solely those set forth in and qualified by this report. L.E.K. is not and shall not be responsible for any decisions made by any reader of this report.

3. This report is based on information available at the time this report was prepared and on certain assumptions, including, but not limited to, assumptions regarding future events, developments and uncertainties and contains "forward-looking statements" (statements that may include, without limitation, statements about projected revenues, earnings, market opportunities, strategies, competition, and at times may be identified by the use of words such as "may", "could", "should", "would", "project", "believe", "anticipate", "expect", "plan", "estimate", "forecast", "potential", "intend", "continue" and variations of these words or comparable words).

4. L.E.K. is not able to predict future events, developments and uncertainties. Consequently, any of the forward-looking statements contained in this report may prove to be incorrect or incomplete, and actual results could differ materially from those projected or estimated in this report. L.E.K. undertakes no obligation to update any forward-looking statements for revisions or changes after the date of this report and L.E.K. makes no representation or warranty that any of the projections or estimates in this report will be realized. Nothing contained herein is, or should be relied upon as, a promise or representation as to the future.

5. This analysis includes data for a <u>single year</u> of packaged shows for agencies representing the <u>vast majority</u> of packaged scripted projects, representative of the 2017-18 television season. We analyzed all data provided by these agencies. All data was anonymized and aggregated before analysis to preserve confidentiality. To ensure comparability among agencies, we made adjustments to account for any differences between agencies for reporting periods.

6. Non-commissioned client earnings include all front-end earnings (as provided by the agencies) that might otherwise be commissioned, as available (e.g., script fee, episode fee, producer fee).

7. The agencies provided a “client category” for each of their clients (e.g., Writer, Director, Producer); any adjustments made for consistency across datasets were confirmed by each agency, as needed.

    a. For agencies that were able to split-out billings for clients who held multiple roles on a given season (e.g., Actor, Writer, Producer), we attributed those earnings to each respective “client category” based on those splits.

    b. For the agencies that could not split-out these billings, we used the primary “client category” based on feedback from the agencies (e.g., category that is likely responsible for the highest share of earnings).

8. All available agency front-end packaging fees for the 2017-18 season are included in the analysis. However, agency accounting systems have known gaps in their data for client earnings since some client earnings bypass agency accounting systems and go directly to the client, manager, or accountant. Put another way, these systems do not give agencies a full census of talent or writer non-commissioned earnings. Thus, our census of amounts paid to talent, including writers, likely understates non-commissioned earnings. If packaging fees were eliminated, this understatement would lead to talent and writers paying more commissions than our estimates above, and would make the differences larger. We did not apply a scale-up factor to account for these understatements.

9. Additionally, the estimates cited in this analysis for front-end non-commissioned earnings on packaged shows for the 2017-18 television season may not match other third-party analysis including WGA data because of dataset differences, adjustments for comparability between agency reporting periods, differing agency definitions of account line items given for the analysis, categorization labeling for key talent, understatement of earnings at risk due to ancillary talent income not tracked by agency accounting systems, and other factors.