

ITV PLC 2019 Interim Results

Wednesday, 24th July 2019

Transcript produced by Global Lingo
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Introduction

Carolyn McCall

Chief Executive, ITV PLC

Welcome and introductory video

Good morning everyone. Thank you so much for joining us for ITV's 2019 interim results. In a moment, Chris will present our operational and financial performance for the first half of the year. I am going to then take you through our strategic priorities, our progress, of course, in the first half and our focus for the rest of the year. We will then have time for plenty of questions. Chris and I are joined here today by some of our management team, who all of you should have met by now.

The quality of our content, as you know, is absolutely critical to our success, whether that is what we broadcast on our channels and platforms in the UK or what we sell internationally through our global Studios business. So, in usual ITV style and I can see you already smiling, here is a video of the last six months and also what you can look forward to on ITV in the coming months in the UK and internationally.

[VIDEO]

Highlights

That showcase of content is why our viewing performance remained good in H1 against tough comparatives. Our online revenues grew strongly, up 18% and ITV Studios had developed a solid pipeline of new and returning shows. We are therefore firmly on track to deliver our full year guidance: double-digit growth in online revenue and at least 5% growth in ITV Studios' total revenues at a margin of 14–16%. We also continue to implement well on cost savings. Given the macro uncertainty, we are now targeting a further £20 million of savings. We will deliver an additional £5 million this year and £15 million over 2020–2022. This brings our total target to £55–60 million of cost savings, which is equivalent to around 13% of our addressable cost base.

We will report today on progress on each area of our strategy as we continue to implement our investment plans. In the second half of the year we will launch BritBox, having recently formalised our agreement with the BBC and received positive feedback from Ofcom. We will also deliver our new programmatic addressable advertising platform.

2019 H1 group financial highlights

Our financial results, as you know, are slightly ahead of expectations, with advertising in June better than we expected, particularly driven by strong growth in VOD around *Love Island*. Total external revenues were down 7%, driven by a 5% decline in total advertising and a 6% decline in total ITV Studios revenue because of the phasing of deliveries weighted to the second half, as we have previously guided. Year on year, profits were also impacted by our essential investments and we are seeing good progress from these which I will talk you through shortly. Cash generation remains strong and reflecting this and the board's confidence in the business, we will pay an interim £0.026 dividend.

Now I am going to hand over to Chris, who will go through our financial and operating performance over the first half

Financial Review

Chris Kennedy

Chief Financial Officer, ITV PLC

Broadcast and online

Thanks Carolyn, good morning everybody. You have seen the financial headlines, so now I will take you through the results for the six months ended 30th June 2019 in more detail, starting with broadcast and online. As Carolyn has said, total advertising was down 5%, modestly ahead of the 6% we guided at Q1. Within this, the decline in spot revenues more than offset the strong growth in video on demand, which was up 18%. June performed more strongly than we had expected, with total advertising revenue down 11% against the tough comparator of last year. TAR in June last year grew 22% off the back of the World Cup and July 2018 was up by 10% versus 2017. So if you compare this year to 2017, we are actually up 9% in June and expect July to be up 4%.

You will hear both of us mention the World Cup a few times, so I wanted to give you some context as to why. While we cannot be precise about its impact on viewing and revenue, we estimate that about half of the TAR decline in H1 is due to the World Cup and ITV's total viewing is broadly flat in 2017, so clearly it creates a tough comparative.

Direct-to-consumer revenues were slightly down due to less pay-per-view boxing revenue and our competitions being impacted by the absence of *Saturday Night Takeaway*. However, over the full year, we are on track to deliver revenue growth. SDN revenue was down £2 million, driven by phasing of deal renewals in the period and other revenue was down 13% due to the closure of Encore at the end of April 2018 and lower commission from STV, which corresponds with the decline in spot advertising revenue. In total, broadcast and online revenues were down 5%.

Moving on to costs, our programme spend is weighted to the second half, driven by the Rugby World Cup in September. In the first half we increased spend on drama, as well as broadcasting two qualifiers for the Euros, which helped our viewing performance. Our guidance for the full year schedule spend remains unchanged, at about £1.1 billion. While we continue to manage costs tightly, our non-programme costs were higher due to our essential investments in marketing, data, the Hub and Hub+, increases in property costs for our new London buildings, as we have previously highlighted and increased bandwidth and rights cost as a result of our significant growth online. We have shown BritBox UK separately so that you can clearly see the net investment we are making. As the majority of the BritBox costs relate to content and marketing, they will largely come through in the second half on launch. In total, broadcast, excluding BritBox, has delivered £214 million of profit at 22% margin, which is down 17% year on year due to the decline on advertising and essential investment, which has been partly offset by the cost-saving programme.

ITV viewing

The operational highlight of the first half has been our viewing, both onscreen and online. Our objective is to deliver the audiences demanded by advertisers, both in terms of scale and targeted demographics. We continue to be the home of scaled mass audiences and just as importantly, we are delivering a targeted demographic which Carolyn will talk about later. We

have maintained our family share of viewing after three years of growth, even against tough Football World Cup comparatives and this strong performance comes across the schedule. Our daytime shows continue to grow their share of viewing, from *Good Morning Britain* to *The Chase*. We successfully aired a new range of dramas, including *Manhunt*, *Cheap*, *Cleaning Up* and *The Bay*, which were the four most-watched new dramas this year, with audiences of over 7 million. Rugby Six Nations and horse racing continue to drive key audiences.

The continuing dramas are down year on year following very strong storylines last year but they continue to be the two largest soaps on TV. It is this great content which has also driven our strong online viewing on the ITV Hub, which is up 13%. Most of this viewing is catch-up but younger viewers, particularly, are also watching via simulcast, which is up 17%. Today, 81% of all 16–35 year olds are now registered on the Hub. We have a strong schedule for the rest of the year, with dramas including *Sanderton* and *Sticks and Stones*, as well as *I'm a Celebrity*, the autumn series of *Britain's Got Talent* and *X Factor* and of course the Rugby World Cup.

Total advertising

Our viewing remains strong but the advertising market continues to be tough. The shape of the second quarter has been very much as we expected, with a strong April around Easter and a tough June against the Football World Cup last year. There is no question that the make up of TV advertisers is changing as new categories and markets are being disrupted by insurgent brands. Some categories are growing rapidly: publishers, airlines and travel and government are all spending more. The well-publicised issues with high street retailers and FMCG companies have put their budgets under pressure and they have reduced spend across all media. We are all seeing a decline in entertainment and leisure compared to the significant spend by the betting companies around the Football World Cup last year.

The key standout are the non-gaming online brands within each category, which grew their spend by 7%. These brands can see both the immediate impact of TV advertising, as well as its ability to build the brand. Carolyn will take you through how we are adapting our approach to advertisers and agencies to reflect these trends and the benefits that we are already seeing.

ITV Studios

Now onto Studios: we are confident that we will deliver at least 5% revenue growth at 14–16% margin over the full year but as we said in February, the phasing of deliveries is weighted to the second half. In the first half, total revenue was down 6% at £658 million. Organic revenues were also down 6% and total EBITA was £116 million, down 2% at a 15% margin and firmly within our target range.

Looking at revenue in a little more detail, the UK was 1% in total up, with sales to ITV up 7%, including shows such as *The Bay*, *Will Bill* and *A Confession*. Our off-ITV revenues in the UK were down, with growth of deliveries from *Golddigger* and *Shetland* offset by the absence of last year's *Bodyguard* and *Age Before Beauty*. As expected, ITV America revenues were down significantly, 47% year on year at constant currency. That is driven entirely by the absence of *The Four*. In the second half, ITV America will deliver growth year on year, with a strong

delivery slate, including the return of *Hell's Kitchen*, *Love Island US*, *Snowpiercer* and *Cowboy Bebop*.

For the full year, we are expecting ITV America revenues to be broadly flat with profits up following the reorganisation and consolidation of the US business. ITV Studios rest of the world delivered 5% revenue growth, 6% growth at constant currency. We are getting better and monetising our formats across our global network and we're growing our European drama capabilities. We agreed a number of multi-year deals for the *The Voice*, as well as production of our other formats across key territories, including *I'm a Celebrity*, *Saturday Night Takeaway* in Australia and *Dancing on Ice* in Germany. Global entertainment revenues were broadly flat, with the timing of some big deliveries weighted to H2.

In line with our strategy, scripted has strongly grown in the first half and with demand from OTT platforms it is likely to be an area of higher growth in the medium term. The Studios business does not fit neatly into quarterly reporting but we do have good visibility of our revenue for the year. Our secured pipeline for this year is £130 million more than it was last year, which underpins our confidence in the full-year outlook.

Essential investments

In July last year, we announced £40 million of essential investments for 2019 in technology, data, digital Hub and Hub+ to ensure that ITV has a strong and sustainable future and to drive our digital transformation. The programme is on track and Carolyn will take you through the detail of how we are allocating the investment and the progress we are making.

Cost savings

The investments we are making will be partly offset by cost savings. The original cost programme is on track and today we have announced we will deliver an additional £5 million for this year and a further £15 million over 2020–2022. To give you a sense of the ambition of this target, I thought it would be helpful to break down our cost base. The principle components are network programme budget, transmission and industry costs and in ITV Studios, the actual costs of making productions, which are only partly addressable. Only 15% of our cost base is fully addressable. Whilst we will go for efficiencies in all areas, for context, that £55–60 million of cost saving is equivalent to about 13% of our fully-addressable cost base. In the first half, we delivered £10 million of savings, so we are well on track to deliver the £20 million this year. The savings are coming from organisational redesign, production efficiencies, contract renewals, overheads and US property moves.

Adjusted and statutory results

In total, we generated £248 million of adjusted earnings, down 13% and £0.062 of adjusted EPS, also down 13%. First half adjusted financing costs have increased by £5 million as a result of our slightly higher debt levels, some foreign exchange and the introduction of IFRS 16. Whilst IFRS 16 has no net impact on the profit before tax, it increases our EBITA and our interest charge by £2 million in the half and it increases our gross liabilities at 30th June 2019 by £113 million, with net assets remaining largely unchanged. the tax rate has come down to 18%, which we expect to maintain over the full year. Over the medium term we now expect the rate to be between 17–18%. Statutory EPS is £0.048, which is down 9%.

Exceptional costs primarily comprise acquisition-related earn-outs and the one-off costs of delivering our cost saving programme. We have a solid balance sheet and our cash generation continues to be strong, with profit to cash conversion at 89%, despite our continued investment in the scripted business. We continue to manage the balance sheet in a way that is consistent with our commitment to investment-grade metrics. Our net debt at 30th June 2019 was £1.1 billion, with net debt to adjusted EBITDA of 1.3 times and adjusted net debt to adjusted EBITDA, which better reflects how credit agencies look at us, of 1.8 times. We have good access to liquidity, with £740 million of undrawn facilities. Finally, our pension schemes are reporting a deficit of £113 million, which is up on the full year. There is an increase in liabilities as a result of lower discount rates, which is partly offset by asset growth and our funding contributions in the half.

Solid balance sheet with healthy liquidity

So, overall, the balance sheet is in good shape. We have the flexibility to continue to invest in the business and deliver returns to shareholders. We retain our commitment to a dividend of at least £0.08 per share this year and it remains our intention to grow dividends broadly in line with earnings over the medium term.

2019 planning assumptions

Finally, I just wanted to touch on planning assumptions for the full year. The majority have not changed but, as I have said, the cost savings target has increased by £5 million to £20 million. Adjusted financing costs will increase from £35 million to £40 million, the tax rate has reduced from 19% to 18% and the CAPEX guidance has increased from £65 million to £80–85 million as a result of our investment in our addressable advertising platform.

I will now hand you back to Carolyn.

Strategic Update

Carolyn McCall

Chief Executive, ITV PLC

ITV: more than TV

Thanks Chris. As you all know, we launched a new strategy a year ago in response to the changes we are seeing within the media market. There is no doubt that the pace of change is rapid and our strategy will continue to evolve. We have now created a much stronger foundation. Our IPV model, with world-class content, deeper advertiser and customer relationships, a brand that resonates more with light viewers and sufficient financial flexibility to invest and grow.

Our priorities are clear and will ensure that ITV is the pre-eminent platform for viewers and brands in the UK by accelerating our digital transformation, a leading direct-to-consumer business in the UK and a world-class creative force in global content production.

Power of TV advertising

There continues to be a lot of commentary about changes in viewer and advertiser behaviour so we thought it was important to remind you why TV remains such a powerful advertising medium and more particularly, ITV. Viewers in the UK watch 192 minutes per day of broadcast TV set viewing. This is down 5% on the previous year. If you include all viewing,

across broadcast, SVOD and all devices, 70% of viewing is still live broadcast TV, despite the proliferation of choice. We have seen TV advertising decline, with continued economic and political uncertainty but TV advertising remains critical to marketing campaigns. 86% of all video advertising is on live linear TV. There are two key reasons for this. Number one: TV generates the highest ROI of all advertising and secondly, TV also provides a safe, trusted and transparent environment: the ads are seen in context.

Research has shown that TV delivers the highest profit return on investment of any advertising, around £4 for every £1 spent, versus £2 for online video and less than £1 for online display. TV and specifically ITV remains the only place to get immediate reach and scale. Advertisers value ITV as the home of mass, quality commercial audiences with, as you saw, 99% of all audiences over £5 million. We have maintained our share of viewing now at an 11-year high, an all-time high, very strong, given the tough comps with the World Cup last year.

16–34s are clearly watching differently but if you deliver them content they want, they will watch it. *Love Island*, which delivered the largest 16–34 audience so far this year across all channels is not the only example of this. There are many more, including *Britain's Got Talent*, *Dancing on Ice* and even *Coronation Street*, which means the ITV family is the largest family of channels for 16–34s. We also deliver the other key demographics which advertisers require. ABC1 SOV on ITV 3 is up 7%. Men on ITV 4 was down 1% due to the absence of the Football World Cup and of course we have the Rugby World Cup in the second half of the year.

So ITVs position overall is strong. There is increasing competition for eyeballs and advertisers. We know that economic uncertainty has caused advertising to decline and clearly there is a great deal of change in viewing and advertising trends. We keep this under constant review, as you would expect and are much more able now to adapt what we do in an agile way. Our strategy is designed to address the challenges and the opportunities that all of this presents. That is why we are investing in the ITV Hub and our programmatic addressable advertising capabilities to enable us to deliver highly-regarded advertising around premium VOD, as well as mass simultaneous audiences.

More than TV strategy

So, a very quick reminder of our strategy, you are familiar with this: strengthening the integrated producer broadcaster with a clear digital plan to ensure we continue to engage with viewers and advertisers in the most relevant way for them and at scale, growing the UK and global production and creating a scaled direct-to-consumer business. The unique integrated business model, with the strong linkage between the two core businesses, is a real competitive advantage. It provides Studios with a bedrock of core commissions and a formidable promotional engine for its content. It enables 360-degree monetisation of Studio's content by ITV and it secures access for great content for ITV's channels, AVOD and SVOD businesses and it protects them against above-inflation content pricing pressure.

Integrated producer broadcaster

Investment and KPIs

Let us look first at the IPB. Our plans for the IPB have five key components, which you can see here, focused on strengthening the IPB model to drive digital viewing and advertising with

our investments in the brand, in the Hub, in technology, in data and in addressable advertising.

I am going to now briefly talk through our progress against each of these and then give you our priorities for the rest of the year.

Key performance indicators

We have clear measures of success which are set out on this slide. We are largely on track to deliver our medium-term targets. ITV total viewing, as you know, was down in the first half but this is against the World Cup. If you look through two years, as Chris said, total viewing over the half was broadly flat. Brand consideration, also impacted by no Football World Cup, was down in H1 but consideration for light viewers over the first five months was up and light viewers are the key target for us.

Driving light viewers and repositioning ITV

The first part of our IPB strategy and investment is to reposition ITV as a brand, drive more light viewers and increase reach. In January we evolved the brand to be more creative and contemporary, which is now visible on ITV and on the ITV Hub. We launched our new More Than TV viewer campaign only in January this year and developed consistent off-air marketing across multiple media channels. Although very early, we are seeing a very positive response. Spontaneous consideration of ITV family amongst light viewers is up two percentage points and we have successfully launched a range of shows, including *The Bay*, *Manhunt*, *Cheat* and *Cleaning Up*, which have all delivered higher-than-average light viewer audiences.

We will, of course, continue to target light viewers with off-air marketing later this year around our autumn drama launches and of course the Rugby World Cup. With the strengthening of our data capabilities, we are also using ITV's first-party data to target digital marketing more effectively.

ITV Hub: 2019 progress and priorities

The second component of our IPB investment to drive digital delivery is ITV Hub. In the first half we have improved the user experience with cross-platform resume, trialled recommendations on iOS, enhanced the box set experience and delivered fuller access services. We have rebuilt the Hub on the Now TV app and launched the ITV Hub app on Virgin. We have seen very strong growth in our online metrics as a result of all of this: viewing up 13%, with dwell time up 5%, registered users up 17% and MAUs, monthly active users, up 37%, which is flattered by compulsory registration on the ITV Hub on connected TV. Later this year, you will see us roll out a newly-designed ITV Hub with new, user-focused features to drive greater personalisation, even higher engagement and the upsell of BritBox.

Technology

Our third area of investment in the IPB is our tech capabilities and platforms as we accelerate our digital transformation internally and externally. We are evolving and enhancing our digital video platform to deliver the Hub redesign and the launch of BritBox. We are building our new programmatic addressable advertising platform, we are using technology to automate operational processes to increase efficiency and productivity. In the first half we have already delivered the iterative improvements to the Hub user experience, BritBox is

currently in alpha testing, we have delivered a new airtime sales platform and we have also delivered a royalty-payment platform. Our priorities for H2 are obviously the launch of BritBox, the operational launch of our programmatic advertising platform and all the new developments on the Hub.

Data

Onto data, where our investment is focused on how we can use data to generate value and revenue in three key areas: viewing, consumer revenue and advertising revenue, meeting advertiser demands for highly-targeted advertising in addition to what they might do on mass reach. In the first half of the year we have built the data and insights team from scratch, we did not have one before and significantly strengthened our data skills and capabilities. We have also invested in scaling our own platform, ensuring that data is robust and compliant, while laying the foundations to enable unification of all our data sets around ITV in the future. This will give us a more complete and actionable understanding of our viewers and customers, whilst driving operational efficiencies.

On the objective of driving viewing, we are trialling our own content recommendation algorithm and on consumer revenue, the focus has been putting in place a comprehensive data framework for BritBox in particular. We are establishing our future capability around advanced advertising, prototyping and developing multiple data-science-led advertising products. So the priorities for H2 are also clear: implementing the content-recommendation algorithm and rolling out the data framework across the business.

Advertising

Onto advertising specifically: we are investing around the three key priorities we have here. We have created now the new client strategy team to enable us to build those longer, deeper relationships with our advertisers; strengthening our creative partnerships to provide original, integrated and engaging marketing campaigns, which we have already done but we have augmented; creating a scaled programmatic advertising platform around our premium VOD inventory. Of course in all three we are making good progress. By working more directly with advertisers we have brought many new digitally-native brands into TV advertising for the first time. These are shown on this chart and there are many of them: brands who can see the immediate benefits of their advertising spend and demonstrate how valuable TV is to build that. We are also working at a deeper level with established advertisers and where we have those deeper partnerships, we see an increase in their airtime spend. For example, Reckitt Benckiser sponsors *TOWIE* with Veet and the pollen report with Optrex and their sport advertising spend has grown. McDonald's has sponsored movies on our digital channel and their airtime spend has also grown. The Camelot Saturday night partnership with the draw announcement continues very successfully into 2019.

We are also increasingly creating innovative advertising solutions through our partnerships team. Two great examples of this are, firstly, M&S with *Britain's Got Talent*: a fully-integrated deal including sponsorship, product placement, *BGT* aisles in their stores, a bespoke spot ad made by ITV and social media content also generated a lot by ITV. This has worked so well for M&S that they are also sponsoring the *BGT* autumn series. Here is a quote from Sharry Cramond, who is their CMO; she talks about a 'genuine partnership', 'They take time to understand our business strategy and create world-class creative solutions.' That is

why they have come back in because we have shown, I think, them boundless creativity. So well done to Kelly's team because we are seeing more and more of those partnerships.

Secondly, on *Love Island*, we have nine commercial partners this year. We have merchandising and licencing, as well as the *Love Island* story game and the launch of the Ministry of Sound album. This has driven £8 million of incremental revenue year on year for ITV and it has been a great success for our partners, so I am just going to give you two examples because there is not enough time to do nine. I Saw It First, which is a clothing brand, have seen their sales increase by 67% and a 250,000 new customers shopping on their site since the first episode. As you can see from this quote from VOXI, which is a Vodafone brand but aimed squarely at younger consumers, it shows how TV can be so powerful for them. This is a quote from Lisa Walker and I think the things to pull out here are, '*Love Island* has been instrumental in driving growth,' which you would expect, 'The power of the show has helped us realise, as a business, that TV is still a key channel for youth-orientated brands.' The *Love Island* Instagram account has 2.9 million Instagram followers, making it, we think, the most followed Instagram account for a reality show in the world, bigger than *Keeping Up With the Kardashians*: amazing.

You will have seen this morning that next year there will be two series of *Love Island*, so you will not have to wait a whole year for the next series. We are making good progress, as I think you have gathered, on programmatic advertising too around our premium VOD inventory.

Addressable advertising

You will all remember that we signed our perpetual UK licence for the Amobee technology in April. We are now integrating the technology and investing in the skills and capabilities we need. We are currently live with one agency on the existing programmatic platform. In Q4 we will begin to roll that out to agencies of the demand-side platform, the DSP, in our new programmatic buying platform. Our aim is for all major agencies to be live in H1 next year.

This will enable advertisers, from their own terminals, to buy ITV Hub inventory seamlessly, cost efficiently and effectively, build their own audiences, add their own data and monitor their own campaigns. During the first half of next year, we will be integrating new supply-side capabilities and a data management platform within ITV to ensure that, by H2 2020, we will have a fully-programmatic, integrated and automated buy and supply-side platform. In the future, we also believe this will be an opportunity for SMEs.

Now we know that our clients are telling us that they see this as the best of both worlds, a combination of the mass simultaneous reach that can only be delivered by our linear channels, which are the only medium that can do that and highly-targeted addressable advertising at scale, around premium inventory on the ITV Hub. It does not exist anywhere else in the market and it will provide greater value and opportunities for advertisers on ITV.

Growth in UK and global production

Key performance indicators: progress in 2019

Our second big strategic focus is Studios. As you know, our aim here is to be a leading creative force in global content, driving our scripted and unscripted businesses. It is now a scaled business, one of the largest producers in Europe and one of the largest independent unscripted businesses in the world. We have good momentum in the business and our plan

for organic growth requires modest investment over the next three years. It is focused on drama and entertainment development funds to build our creative pipeline, strengthening our creative talent and building our monetisation capabilities. Demand for great content has never been stronger, both from consumers and therefore from platforms. This is a great growth opportunity for ITV. Our revenues and hours were down in the first half due to the phasing of deliveries being weighted to H2, as Chris explained. We are well on track to deliver our medium-term targets.

Some of the highlights from the first half: we have strengthened our creative talent with Patrick Spence, the award-winning producer behind programmes such as *Fortitude* and *Silent Witness* joining us from Endemol. We have increased our minority stake to take a controlling interest in Monumental, creator of *Harlots*. Our scripted revenues are up 22% and we have sold 34 formats, with ten sold to three or more countries. 54% of our revenue is from outside the UK and we are selling more to OTT platforms, with original hours commissioned up over 200%. ITV America is one of the top unscripted content providers to streaming services, with real success with *Queer Eye*, *Girls Incarcerated*, they have many other projects in development with Disney Plus, Facebook, Quibi, Apple, AT&T, Warner and Snapchat.

Strong growth in scripted

A little bit more detail on some of these things: we have seen very strong growth in scripted in the first half, particularly in the UK. We are seeing increasing demand from platforms internationally for original, long-form and secondary rights. We have a fantastic delivery schedule for H2 in the UK and internationally and that includes *Snowpiercer*, which has already been commissioned for a second series by TNT before the first one has aired. Our European scripted business continues to perform well, with strong demand from broadcasters and OTT platforms for local content with global appeal. In the second half of the year we will deliver *Profilage* and *Balthazar* for TF1 in France, *Zero Zero Zero* on Sky, Canal+ and Amazon and *Summertime* and *Carlo and Malik* in Italy.

34 different formats sold in H1

A key strength of Studios is its large portfolio of successful formats that return and travel and we are strengthening that every year. As part of the entertainment development fund, we have a number of pilot commissions in the UK to trial new formats. While we continue to sell the right to produce formats in multiple countries, we are also increasingly producing our formats for international markets locally in those markets, capturing the full margin. We have recently set up ITV Netherlands, for example, to enable us to sell and produce ITV formats locally.

Priorities for H2 2019 and 2020

So, as we look to the remainder of the year and beyond, we are clear on our priorities for Studios which are attracting and retaining great creative talent, maximising the value of our formats and IP internationally and growing our scripted business.

Direct to consumer

Investment and KPIs: progress in 2019

Our third major area of future growth, as you all know, is about the consumer. We keep saying we have now created a direct-to-consumer business. There has been good progress

here, with strong growth in Hub Plus, which has very high margins. We remain on track to deliver our medium-term targets and over the full year expect to deliver revenue growth. We have successfully rebranded the competition portal to ITV Win. We are strengthening our customer focus through investing in the right capabilities and skills. Our existing propositions in the DTC market: ITV Hub Plus, BritBox in the US and Canada are performing very well. As I said, Hub Plus subscribers have almost doubled since 2018 to over 500,000 subscribers. BritBox US and Canada has reached over 650,000 subscribers.

Number of households taking multiple SVOD subscriptions continues to grow

So, we continue to research and track the SVOD market, as you would expect. It is showing no sign of slowing down. There is a real appetite amongst British viewers for a new British streaming service in addition to their current subscriptions. BARB data shows that more households are taking multiple subscriptions. While the annual growth in homes with any SVOD service is 20%, the growth in homes with multiple services is 34%, with 5 million homes now having more than one subscription.

BritBox

BritBox will tap into this demand and will provide the largest collection of British boxsets available anywhere: the best of the past, the present and with original commissions for the future. Our research has shown that the desire for British content is high, as I said, with 44% of all online homes interested in subscribing to a new SVOD service which features British content. This increases to 54% in homes with Netflix, showing they will be complementary services. BritBox is on track to launch in Q4. Our team is working around the clock to launch the service. We have now signed an agreement, as you all know, with the BBC and beta testing will start very shortly. We also anticipate that BritBox will make its first original commission in Q3, which will be available to view on BritBox in 2020. It will be competitively priced at £5.99 per month, which is less than other streaming services. Both ITV and the BBC will support the launch of BritBox with a high-profile marketing and promotional campaign. We will also look at how best to connect viewers between BritBox, ITV Hub, iPlayer, as they search for the content they wish to view. With ITV and the BBC's commitment to BritBox, we will be building a very distinctive library of content as existing licencing agreements with other players expire.

BritBox will be an ITV-controlled entity, with an initial holding of 90% and the BBC holding 10% of the equity, with an option to increase that to 25%. We anticipate that other partners will be added to BritBox and we are continuing to speak to regulators and the wider industry about our proposals. Our expected net investment in BritBox UK remains unchanged. It will be up to £25 million in 2019 and around £40 million in 2020. You will no doubt have a lot of questions about the key drivers and these are content and customer acquisition. We will give you more details post-launch. Our objective is to create long-term value and we will do this by being disciplined while taking advantage of the opportunity to grow the service quickly.

Continuing ITV's digital transformation

So you can see that we are making good progress in digitally evolving the business, improving the platform and the user experience of the Hub and Hub Plus, the launch of BritBox, building our programmatic addressable advertising platform, common editing

platforms and studios and creating a data and insight centre of excellence with new data skills and capabilities.

Outlook

So to the outlook: in summary, we are very, very clear on what we need to do. We remain very focused on delivering our strategy and managing our costs tightly. Our strategy is focused on our digital transformation to create a stronger, more diversified and structurally sound business. ITV is an enduring cornerstone of entertainment for viewers and advertisers. The next phase of our strategy will further position ITV to take advantage of evolving viewing and advertising opportunities as we become an increasingly digital entertainment company. Economic and political uncertainty continues to affect the demand for advertising as we expected, with total ad forecast to be between -1% and +1% in Q3. We remain on track to deliver our full-year guidance: double-digit growth in online revenues and at least 5% growth in total ITV Studios revenues at a margin of 14-16%. We have a solid balance sheet, which enables us to make the right decisions to build a future-facing and robust business and deliver returns to shareholders with a commitment of at least £0.08 dividend per share for the full year.

Thanks very much for listening. We are now happy to take your questions.

Q&A

Laurie Davidson (Deutsche Bank): Hi there. The first question is, with the BBC iPlayer now able to offer 30-day catch-up, have you downgraded your expectations for BritBox revenues and/or subscribers?

The second question: this year should be really good for Studios. You have *Hell's Kitchen* deliveries back, you have the easy comps from last year, you have the *Love Island* sale, all of the new programme sales you highlighted like *Snowpiercer*. Last year you were behind your medium-term 5% guidance. Can you quantify the better than 5% for this year and what does that include for external sales?

Carolyn McCall: If I take BBC, Chris will come in on Studios. We have been discussing, as you know, how we do BritBox in the UK with the BBC for many, many months and we have known for quite some time that because of the licence fee and the value for the licence fee that they had been wanting to extend what they do on iPlayer. We have been aware of that for quite a long time so it does not really change our projections.

What is good, I think, is that it becomes very, very clear that BritBox is the second window. So it is live, it is iPlayer, it is BritBox, it does not go anywhere else: it is Hub, it is BritBox. That was not the case previously. Previously a load of programmes would go dark. No one would know when they would come back, no one would know where they would appear. I think every British consumer now knows that once its appeared on catch up, its gone live, its gone catch-up, its BritBox. That is a huge plus from a consumer point of view. Consumers would rather know that there is one place to go to get all of that content rather than be very confused by where that content is going to appear at any given time over whatever period it is. I think the way people view streaming is very, very different to the way they look at catch-up and live. That is what we have learned a lot in our research. There is no time pressure on people watching streaming, so they are quite happy to have library content that

will just sit there because they are paying for it every month and watch it whenever they want, when they have the time, when it is a rainy day. Whatever it might be, it is a very different kind of way of viewing to having to watch something live otherwise it goes out of date or having to watch catch-up in a certain window. This is not a surprise to us: put it that way.

Chris Kennedy: As to Studios, I do not think David would ever say he has an easy comp to lap. However, we have got a really good delivery slate. We are £130 million more committed revenue for the year than we had previously, which is why we have reiterated the at least 5% guidance but we are not going to go further at this point in the year.

Laurie Davidson: Sorry, just on external sales, are external sales going to grow within that? Are they consistent with the above 5%?

Chris Kennedy: Yeah, external sales will be in line.

Laurie Davidson: So above 5%.

Chris Kennedy: We are saying at least 5%, yeah.

Lisa Yang (Goldman Sachs): Good morning. My first question is on your advertising outlook. I am just wondering what underpins your confidence in this Q3 outlook. It looks like it is better than, obviously, what most people expect and what media buyers have indicated. I am just wondering: is it based on your conversations with advertisers, on the bookings, has visibility improved? That is the first question.

The second one is on BritBox. I am just wondering: how do you think about the overall envelope for programming spend in the run-rate year, supposedly next year? How much of that will be, for instance, original commissions from ITV Studios and how should we think about the internal transfer?

Carolyn McCall: Could you just repeat the first bit of that question, because I missed that, the first bit of the BritBox question?

Lisa Yang: Sure. I was just wondering if you give us more colour on the overall envelope on programming spend on Britbox.

Chris Kennedy: On programme spend.

Carolyn McCall: On BritBox programme spend?

Lisa Yang: Programme spend and how much of that you think will be coming from ITV Studios.

The last question is on ITV online advertising. We continue to see your advertising growth outperforming your online viewing growth, so I am just wondering how sustainable that is. Is it just reflective of broader CPM inflation?

Carolyn McCall: Okay. I think, on the first question, on advertising, it has been very hard to read this year on the quarters, with March being the deadline for a deal, it not happening had a knock-on to Q2. Then *Love Island* comes in and then VOD grows. So it is hard to read and I think what underpins what our outlook has been to you today is kind of what we are seeing in our numbers and also what we are hearing from our advertisers. That is why we put that into the outlook.

Chris Kennedy: We have a good view on July, which, as I said, is probably going to be around -5% this year versus +10% last year.

Carolyn McCall: It does not mean Kelly can go on holiday. It still means he has to work very, very hard for September.

Chris Kennedy: For August we have a pretty good view; September it is still early days, which is why we have quite a wide range on the September outcome but overall we are comfortable with the -1% to +1% for the quarter.

Carolyn McCall: On BritBox we have not really disclosed our programme spend. We have not really talked about a number. I think what we really have to do on BritBox is you cannot look at it on a quarter. Honestly, if you try to do that it will just be pointless; it will be meaningless because it has to build and it has to build slowly. You commission, it takes quite a long time; dramas can take anything from 18 months to two years to put on air. So we are looking at this in as agile a way as we possibly can. We have lots of commissions already in the pipeline in terms of concepts and thoughts. As I said, we will be announcing our first commission shortly.

What is quite good is we can do this with lots of different lenses. We can do it for the channels, we can do it for BritBox, so we can be very flexible, I think, about what is coming in. Reemah, do you want to talk a little bit about that.

Reemah Sakaan: Sure. I think overall, looking at the programme spend and the value of the content, we take quite a long-term view. Over the last 60 years the BBC and ITV have spent billions on programming which will be moving into BritBox. Each year, collectively, the networks spend about £3 billion on content which will be flowing into the network and then there are tens of millions of pounds that will be pursued in commissions. Collectively, all of that is landing, both as a library, things that are flowing straight off the networks and then new commissions we will be making. The shape and size of those will all be different. They are different programming and creative opportunities.

To answer your questions about Studios: BritBox is open for business for all of [inaudible]. We obviously really enjoy working with our Studios companies and it makes sense for us to do that, so they are our first port of call but really broadly, we are speaking to everyone at the moment.

Carolyn McCall: Clearly we want to get the most creative, original content for BritBox. If we can do that via ITV Studios of course we will do that but we will also be open about where those ideas come from. I think that is really important. Reemah, just incidentally, I am sure many of you have seen her at the capital markets day: she is the lead launch director for BritBox, so that is why she answered that question so well.

Online advertising: your question there is you are saying the online advertising is growing strongly and –

Lisa Yang: Faster than the online viewing growth.

Carolyn McCall: Yes but I think that is just a catch-up effect. It does demonstrate that advertisers are doing a lot of testing and learning in the online environment and therefore they are using it and they are learning all the time because it is such a kind of immediate feedback loop. However, there is a gap, that will soon plateau out, I think.

Jo Barnet Lamb (Credit Suisse): Thanks, a couple from me, please. Firstly, on CAPEX, we have a fairly substantial step up in CAPEX this year with regards investment in your addressable advertising platform. Can you help us understand beyond this year if you expect significantly elevated CAPEX levels?

Secondly, direct to consumer, we are obviously guiding to an improvement in H2. The margin on pay per view is substantially different to some of your other D2C revenues, so can you help us understand if the material improvement in H2 is that pay per view just comes back?

Chris Kennedy: On the CAPEX, we have increased the guidance. How I would characterise it is there will be elevated spend next year as well and to a much lesser extent the following year. However, as it relates to addressable, this is peak year for addressable advertising so you can expect it to come down in 2020 and then further in 2021. However, it would still be above the £55 million kind of long-run spend that we have had.

On D2C, no, we have obviously got the great performance from Hub Plus then the real downside in the first half was just not having *Saturday Night Takeaway* in the first half and the competition spend associated with that. We have a very strong schedule in the second half, so we would expect that to come back. We are not reliant on further low-margin pay per view in the second half to catch up.

Carolyn McCall: It is worth just saying, on PPV, that it is still a trial and a test for us. This is not a kind of established feature of D2C. We are still working through whether the margin is worth the effort.

Jo Barnet Lamb: Therefore that is not central to your long-term guidance in D2C?

Carolyn McCall: Definitely not.

Chris Kennedy: No.

Jo Barnet Lamb: Perfect, thank you.

Julien Roch (Barclays): Hello. On the timing of the BBC going to 25%, can you give us any indication? Is it next year, in three years, in five years? When they go to 25% will they pay you in kind or in cash? That is the first question.

You said there is quite a high likelihood of another broadcaster joining, so are we talking again joining with a 10–25% stake or would you be happy to lose majority ownership? That is the second question.

Then the third one is on addressable advertising on TV set because there was a slide about your progress on programmatic but it was all linked to the Hub. When can you replace spot on your linear programmes and is the fact that advertising is sold on a share deal basis an impediment to targeted advertising on linear? Thank you.

Carolyn McCall: So, we have a contract with the BBC under which, over the next three years, they have the option to increase their stake. It would be about cash, not in kind. Your second question is about other partners. We do not want too many partners because we want this to be as simple and as fast-moving as is possible. It is an entrepreneurial business and it needs to move quickly but we would welcome a couple of other partners. We will always have the majority shareholding of BritBox.

Your question, really, Julien is that about linear addressable, effectively?

Julien Roch: Yes, can you do it, when?

Carolyn McCall: It is nothing to do with the share deals. We would love to blame share deals for that but it is not true; it is technology. You will give me an example about Spain but actually in Spain they do it with hybrid TVs and it is still early days and they are still testing it. Penetration of hybrid TVs in this country is very, very low and therefore it has just not taken off. So, linear addressable: technologically, there is no solution. We have looked; we have looked.

There is another thing I would say about linear addressable, which is on main channel at peak time people are buying ITV because they want big audiences. It is a mass audience quality buy. Actually, complementing that by doing linear addressable on Hub is a fantastic offer for advertisers. So I think, actually, we will be in a strong position, regardless of not having the technology to be really able to do linear addressable.

Julien Roch: Thank you.

Patrick Wellington (Morgan Stanley): Hi. Carolyn, you are very careful when you talk about advertising to cite political and economic uncertainty. Yet, strangely, when I look at the forecasts of advertising agencies for UK advertising growth this year, or the IPA numbers, they all seem to suggest that UK advertising has grown 4%, 5%, 6%, really quite strong numbers. So what is the disconnect there between what is going on and what is going on at ITV? Do you think it is more, as you say, a problem about your very big categories of FMCG, retail and stuff like that?

Carolyn McCall: I think there are advertisers that are certainly pausing and not spending across the board. They tend to disproportionately affect ITV because they are the retailers and the FMCG advertisers who have always been very big spenders on TV. So there is a disproportionate effect on ITV of them spending less money overall. I think that is the first thing. I think the second thing is when you have got prolonged uncertainty, some advertising will go to mediums that are just quick media and easy, with low production costs, we do not have to make a TV ad to put on air and then run it for quite a long time to get a return on that investment, or run it for a certain period of time. I think you will see outdoor has benefited from that. I think certainly Facebook and Google have benefited from that and radio has actually benefited from that, so very tactical. When things get tough, people become much more tactical. It is not that you cannot do tactical on TV, you can be tactical on TV but you do have to create engaging advertising to do that, which means you have production costs. You can run a radio ad, record it very quickly in a recording studio and it is on air in a day. I think that effect is definitely going on. There is also, there is no question: we have talked about this before Patrick, there are viewer trends, there are advertiser trends. We are definitely competing with Facebook and Google. That is why the programmatic advertising platform on VOD inventory is so important for us, because it will allow us to start competing for, hopefully, other budgets. At the moment, our VOD advertising comes out of a TV budget, not out of the growth in online media. Your 4–5% growth is all online, outdoor, radio and all the other stuff put together. We need to become in a position where we can compete for other pots of money, not just the TV pot of money.

Patrick Wellington: If I listen to that nice Arthur Sadoun at Publicis, he says that his problem is US consumer, traditional advertising, big FMCG companies. They do not have

Brexit to worry about there but they have a similar problem. So to what extent do you think you might have a structural issue, as opposed to just a Brexit issue? Then, to ask that more positively, you have talked about your initiatives in programmatic advertising and so on; do you think we will see an uplift as we go through 2020 in VOD advertising? Will we see a noticeable difference? Will it come through in 2021? What is the sort of timing of the revenue of those initiatives?

Carolyn McCall: On the structural, I think FMCG companies and retailers are having massive structural challenges. That is making them rethink how they operate and how they protect margin. We have definitely seen that effect on our advertising. As I have said, I think there are viewer trends where we are trying to capture total viewing because viewers are viewing differently. That is why Hub is so important, that is why BritBox is so important but Hub particularly because it is an advertising platform as well as AVOD. It is very hard to disentangle, I think, the economic, the Brexit effect, from the viewer and advertising trends. Advertising is really all about the viewers, where you can deliver the audiences and what you can deliver and prove that it works, the effectiveness. TV advertising is very effective. We have talked about the pendulum swinging towards Facebook and Google because it is very measurable, it is all about clicks. We will be able to be more evidence-based in what we deliver on Hub, much more measurable. We can do that on TV but it just takes a longer time because campaigns take time to build on reach and frequency. I think it is just different. I definitely think there is an economic effect on our advertising. You can see that because NAR went down in 2016 and has gone down every year since. Before 2016, when there were still streaming services, there was still Facebook and Google, everything that exists today existed then, we had six years of NAR growth from 2010 onwards. So I think there is definitely a Brexit effect. However, part of the strategy is to address the way we can compete with Facebook and Google. It has to be.

Patrick Wellington: And the timing of AVOD revenue upturn?

Chris Kennedy: I think you have two countering trends. Programmatic will definitely help VOD in 2020 and 2021, so that will raise growth rates. However, obviously you have the law of big numbers coming into play as well, so that as VOD becomes bigger as a percentage of ad revenue then the percentage growth in it will slow, so you have those two trends.

Richard Eary (UBS): Hi, just a follow-up on the online side. I think historically you gave some stats about how much online viewing was as a percentage of total hours. I do not know whether you can give us a number for the first half. Within those online viewing numbers, how much of that is targeted today and given, obviously, the launch of Amobee and programmatic going forward, how much do you think will be targeted as we step through the next 12–18 months?

Carolyn McCall: Kelly, do you want to talk about how much is targeted today, the manual nature of what we have done and how it is going to be automated? Just to say: Kelly is our Managing Director of Commercial, for those who do not know.

Kelly Williams: In terms of the amount of inventory that is targeted, about 75% of our inventory is targeted today. Amobee is a bit more than targeting. We have had targeting for a little while and that is growing. What Amobee is going to do is automate that targeting. We would expect, over the next 18 months, for that 75% to start moving towards 100%. Our

ambition is to get every agency onboard with Amobee during 2020. Once we have done that, the vast majority of our inventory will be addressable and automated.

Carolyn McCall: Currently it is all manual, so it is extremely difficult to do.

Richard Eary: Can I just ask, Kelly, in terms of the yields between targeted and non-targeted –

Kelly Williams: Yeah.

Richard Eary: – what is the differential?

Kelly Williams: For non-targeted we kind of have a flat CPM, which is broadly about £28. Then, for targeting, it depends on what you are targeting so we have premiums above that depending on how sophisticated the target becomes. So the minimum yield would be another 10% above that and then it could be more, depending on the sophistication of the targeting.

Richard Eary: Thanks.

Laurie Davidson: On SDN, the licence for the Freeview multiplexes expires in either 2021 or 2022.

Carolyn McCall: 2022.

Laurie Davidson: After that, are you going to have to pay to renew the SDN licence? Would you potentially sell it if that licence were revoked and how does that fit into your contract renewal with Ofcom and your licence costs?

Carolyn McCall: We are in conversations, we will continue to be in conversations. We have run that licence for 15 years extremely successfully, so it is too early, really, to give you any information about that. We are on it, we are talking to Ofcom and we are talking to everyone relevant on SDN.

Laurie Davidson: Is there a potential cost item, though, that comes in from that when you have to renew that contract and pay for the –

Carolyn McCall: Not at the moment.

Chris Kennedy: It is too early. As Carolyn said, I think that the testament is we have run it very, very successfully for 15 years, so it puts us in a good position to renew or extend.

Carolyn McCall: If there are no more questions, thank you all very much indeed, thanks for coming.

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