Interim Results

Wednesday, 28th July 2021

Transcript produced by Global Lingo
London – 020 7870 7100
www.global-lingo.com

Overview

Dame Carolyn J. McCall

Chief Executive

Good morning, everyone. Thank you for joining us for our interim 2021 Q&A. I am joined here of course today by Chris Kennedy to answer your questions with me. I hope many of you have already had a chance to watch our webcast. But I thought for those of you who had not, I just give you a quick overview before we start questions. And I really apologise to those people who have actually seen the whole presentation. It is a bit repetitive, but I will try and keep that quick.

So ITV delivered a really strong performance in H1 as we continue to manage and mitigate the challenges presented by COVID. Total external revenue to remind you was up 27%, EPS more than double to 5.9p. This does reflect the innovation and agility of our Studios teams. And they have shown that by keeping productions running. The strong recovery in the ad market up, 29% compared to 2020. Within that, AVOD revenues were up 55%. And actually, if we look through two years to 2019, TAR was up 2% over H1.

Our tight control of course delivering £21 million of savings in H1; 15 million of those are permanent. And also the progress we are making in delivering our strategic priorities. We set our more than TV strategy, as you remember in July 2018, and we have completed the first phase of this, delivering our key priorities across our four pillars of value.

First, Studios: it is now a world class international production and distribution company, and one of the largest independent producers globally. Second, our linear broadcast channels, which have maintained their unique ability to drive live mass audiences in a trusted environment. And they play a critical part in the majority of marketing campaigns. Third, streaming, where ITV Hub is capturing the shift to online viewing and the strong demand for online advertising. The rollout of Planet V provides advertisers with targeted advertising in a brand safe environment. And finally direct to consumer where our number of subscriptions is growing strongly as we monetise our Best of British content in the UK, and internationally.

We do emerge stronger from the pandemic but of course there remain risks associated with it. While the majority of our programmes remain in production, we expect there to be continued challenges affecting drama, shows with audiences and multilocation filming. Advertising comparatives will get tougher in H2 with demand for advertising remains strong. July is expected to be up 68%; August up 17% to 20%. It is too early to give a range for September given the current uncertainty, but we expect it to be positive.

Our financial position is robust. We are confident about the future, and the Board recognises the importance of the dividend for ITV shareholders. Assuming the economy continues to recover, the Board intends to resume the dividend with a notional 5p full year dividend. Given the current uncertainty the Board will not pay an interim dividend but intends to propose a final dividend of 3.3p for the full year 2021. That is based on two thirds of the notional full year dividend.

The Board intends to grow the ordinary dividend over time, whilst balancing further investment behind our strategy and our commitment to investment grade metrics. As I said in the presentation, we are now entering the next phase of our strategy and we are really looking forward to discussing this with you in much more detail. We will hold two investor seminars in the autumn to do deeper dives into ITV Studios, and into Media and Entertainment as a division. I will now hand over to you for questions. If you would like to ask a question, please use the conference call facility, the details of which are in our announcement this morning, and the operator will open up your line. Thank you.

Q&A

Jo Barnet Lamb (Credit Suisse): Morning team. It is Joe from Credit Suisse. A couple of questions around Studios and one on advertising if I may.

So firstly with regards your comment on some pull forward of Studios revenues in H1; are you able to quantify or give any colour on the scale of that benefit? Secondly, a higher level question around COVID recovery and Studios. You speak about the substantial majority of your programmes being back in production, but clearly COVID is still having an impact on the speed with which you can film and the costs associated. Can you talk a little bit about freedom day on the 19th July, the pingdemic and their impact on Studios; and more broadly, what needs to happen to get Studios truly back to pre-pandemic levels?

And then certainly and finally on advertising, there have clearly been significant distortions around advertising over the last year to say the least. When you think about the two-year stack into Q4 based on your conversations with advertisers, whilst growth may moderate, do you see any reason why that should reverse? Any colour you can give around that would be great. Thank you.

Carolyn McCall: Okay, thanks, Joe. I am going to try that in reverse order, if that is alright, and get Chris in to the first question you asked on Studios. But I will do that last, if that is all right with you.

I think on the advertising market, look, it is a really strong rebound, and it is definitely across all categories; the only category would be travel and kind of tourism, where you are not seeing a rebound at all and that is for obvious reasons. And so you are right about some distortion, because, obviously, there has been distortion, but actually, the distortion is that everybody virtually was down, except online retailers through COVID. So I am not sure that it is a distortion. It is just a complete stopping, really, of doing advertising activity over a lockdown where people were not able to go out and buy, and they could only really buy products online.

So I think actually, when you look at it over two years, the fact that we have grown the advertising when we look through to 2019, that is incredibly positive. That is a really fantastic signal, I think, for the future. And I think there are a number of factors with this: there is pent up demand; there is the need, I think, to encourage footfall into physical spaces and so that is, combined with advertising online presences, important.

I think that actually, because nothing has actually completely resumed normality in terms of going back to 2019, the media have been much, much more effective than TV. So if you are an outdoor company, or your radio or your cinema, people are not out and about. And so there has definitely been a positive flip for us. But I also think advertisers have really, really had to think about what they are doing and how they are spending their money. I think they have always done that. But I think they have revalued it TV a bit in that mix.

Because what you can do now in TV, with ITV, is you have that mass reach, brand safe environment, and the emotional messaging that you can get across, the tone of that messaging, really, you cannot do that in any other medium. And so people realise how important that emotional connection with their customers or their potential customers are.

And then of course, with Planet V, you have programmatic, personalised targeted advertising; 90% now is self-serve. It is a formidable tool for them to use in addition to it. And I think that re-evaluation of what you can now get from TV is also a factor, which is, I think, standing us in very good stead and will stand us in very good stead for the future.

I hope I have answered your question on advertising. Would you add anything to that?

Chris Kennedy: No, just I suppose just in terms of, as the competitors unwind, it is worth noting that Q4 saw growth in both 2019 and 2020. So comparisons do definitely get tougher as we go into the end of the year.

Carolyn McCall: Yes. And then on the COVID, recovery, and Studios, you are right, I think to ask those kind of more granular questions about what needs to happen. I think the one thing to really bear in mind about Studios is, it is not a UK business. It is a UK-plus highly global business. So whether that is Europe, Western Europe in particular, where we are very strong, or America, there are all sorts of regulations, and they differ by market. So we are tracking those; we are watching and monitoring that.

And of course, of course, what is being called the 'pingdemic' is just one more hurdle that we have to navigate in production. So I think you are right to talk about the fact that it is not easy to produce shows; it is certainly difficult to produce multilocation dramas with travel restrictions as they are. We have to think very hard about where we have live audiences and our entertainment shows, which sometimes really benefit from having a live audience. And our plan on that is to take that case by case and to look at the venue to look at the situation, to look at the show itself to look at what we can do. And obviously we will do it in a very safe way. But we will bring back live audiences, but it will be case by case by show in the first instance.

So all sorts of things and there are costs associated with producing all programmes in a pandemic dynamic. And that is an industry wide issue. It is not a specific ITV issue. And that, of course, makes the margin a real focus because it is something we know we want to grow, to build, but it is going to take time to do that because the pandemic is not over. And every country is dealing with it differently. All the regulations are different.

Carolyn McCall: Do you want to say anything else?

Chris Kennedy: No, nothing?

Carolyn McCall: Do you want to take that Studios ball forward?

Chris Kennedy: Yes, in terms of the revenue that that is pulled forward, we have always said that the Studios revenue is lumpy, because it depends on the delivery of programmes. And we are really pleased with the first half. But it was flattered by some of the early delivery, particularly US dramas, and then a couple of licences in global formats and distribution. So in terms of how much, what we have said, is that we do not expect the outlook for the Studios business to change. So Joe, you can probably do the addition and subtraction on that.

Jo Barnet Lamb: Excellent. Thank you, Karen. Thank you, Chris. Okay.

Julien Roch (Barclays): Good morning. It is Julien Roch with Barclays. Good morning, Carolyn; good morning Chris. My first question on Britbox: subscribers in the UK went from 500 to 555. We have an idea of revenue for the first half, or at least ARPU; I assume there are some promotions in there. So ARPU is likely to be lower than £5.99 less 20% VAT.

Second question is, can we have an idea of how much of either full year 2020 or full year 2021 external revenues in Studios comes from a VOD platform? You said in the release it would double this year, which is great, but we do not know the starting or the ending point. And last question is, lots of exceptional this year, both income statement and cash flow statement [inaudible] COVID. So it is an exceptional year for exceptionals. But what level of exceptional next year on a normal year can we expect going forward?

Carolyn McCall: You take this.

Chris Kennedy: Okay. Yes. On exceptions, Julien, you are right. It is an exceptional year. And you will see particularly acquisition related exceptionals coming down dramatically in future years. So I would expect, we have not given guidance, but it will be in the low 10s of millions going forward.

Carolyn McCall: Do you want to take the external revenues and OTT?

Chris Kennedy: Yes. External revenues on OTT? As you know, we have never broken out OTT revenues externally. And things are blurring because, particularly as networks start to launch their own streaming services, if we are getting a commission, a bit like ITV, we are starting to look at one content budget. We use it everywhere, we will use it on linear, we will use it on subscription, we will use it on ad funded video on demand. And increasingly, our customers are doing that as well. So it is actually quite difficult to give you a number because we do not know the end destination. We know the customer, obviously.

Carolyn McCall: Yes. What I will say on that before the next question is just to say that I suppose we are still targeting to double our revenues. And I know that does not give you specifics in terms of the numbers, but I think you see the intention and the direction of travel. So doubling our revenues from streamers. And just to give you some context around that, a third of ITV America, Studios scripted revenue from OTT. So a third of it on scripted is already coming from OTTs in America. And I think that that should give you a touch point. And that has grown 60% since 2017. So that just gives you, hopefully, some touch points on OTT. But Chris's points are very valid about the market itself and how we are viewing it.

Chris Kennedy: And I think it is fair to say we are really pleased with the engagement we are getting with the OTTs. And we feel that we are getting our fair share of that content market. And it is a fast-growing market as well.

Carolyn McCall: Never fair share; we are always striving for more, always striving for more, and we have strategies in place in every market to do more with the OTTs. On BritBox. I think I am not sure what the question was. 'Will we be on plan?', I think it is, Julian; was that your question? Will we continue to remain on plan?

Julien Roch: No, no. No, that was not the question. The question is, can we have an idea of revenue for the first half or an idea of ARPU? Because we know the subscriber at the end of

2020 and at the end of the first half, but I assume ARPU is likely to be lower than £5.99 less 20% of VAT, becase there must be some promotion.

Chris Kennedy: We do not disclose it. It is still relatively low, because we have only just – most of the early subscriber base is what we call 'owned and operated'. So it is direct with ITV although we are now expanding distribution, and particularly with Amazon channels, but that is a very recent, a recent developer agreement. Yes.

Julien Roche: Thank you.

Adrien de St Hilaire (Bank of America): Good morning, everyone. Thanks for taking the questions. I have a few please. First of all, if I look at the scheduled costs in the first half of 21, so you did £522 million. Maybe the best comparison we can find historically, is the first half of 2018 when it was like £567. Again, so why is there a £40 million difference? And why would we see a big pickup in the second half? That is that is my first question.

The second question relates, again, to BritBox. So you have added about 50,000 subscriptions in the first half. Can we get a broad sense of your expectations for the full year? Should we see an acceleration in net ads in the second half? And then if I look at the Q2 trend in advertising and the Q3 trends, there is a nice acceleration on the two year stack. Can you give us some reasons behind this acceleration? Thank you very much indeed.

Carolyn McCall: Okay, do you want to go?

Chris Kennedy: I was just going to say, yes, on schedule. So this year, there has been a few delayed dramas, and also we didn't have *Britain's Got Talent*, which depressed it slightly. And the Euros. Also the number, we know that the Euros jumped over into July as well. So that is why it is relatively lower. And obviously, you have the difference between the Soccer World Cup and Euros as well, because we had the Soccer World Cup in 2018. And we were guiding to the £1.1 billion for the full year. So we do not expect that to change. So that would be on schedule.

Carolyn McCall: I will take the BritBox question now. So I think just looking at it in the broader context, we expect to grow BritBox subscriptions, of course; we are on plan, as I said to Julien, and the plan relies on it continuing to grow. One of the things we really, really do not want to do is chase growth, just because we are doing a market update, because that drives incredibly bad behaviour in a business. And so we are very mindful of that. So our intention is to continue to grow subs on BritBox UK, to continue to have that trajectory, and we will do that in a number of different ways.

One of the things we have said, and I think you may have picked up on, is we are now looking at our NPB as kind of one content budget. So instead of having all these divisions where you have this spend, that spend, and another spend, we are actually saying, what we will look at is our windowing strategy across all our platforms, and we will optimise where we believe it is best for viewers and therefore for return. And that is quite a big step and quite a big shift, and we will talk to you about that in more detail at the investor seminars. But it is a really important step forward because it means that we will continue to be doing originals in BritBox.

And I would just say on the original issue, that originals come in all kinds of shapes and sizes, you can repackage some fantastic content, like the *Doctor Who* classics. That counts as an original, because you packaged it in a certain way, you might have added a bit of new material to top and tail it and you have marketed it as an event. And you get a fantastic kind of return for that. You also have things like *The Beast Must Die*. And we did *The Craze* and we have three or four things coming up, we have another *Spitting Image* coming up.

So it is a combination of how you use it. But also we have been trialling and testing how we do drama drops on Hub, how we might do something on BritBox, then on Hub, then on linear. So it is just the windowing strategy is going to become even more critical going forward. Because the ambition here is to optimise what we do across all of our platforms.

Interesting thing on BritBox is that as its matures, the churn has actually gone down and in June, we have shown the lowest churn in the history of BritBox was actually in June this year. So as it is maturing, the churn is reducing, which is good news. And I think that that that kind of gives you quite broad context. I hope I have I have tried to answer your question in the broadest sense.

On the advertising, I think you said Q2, Q3 trends; do you see these accelerating? I think I do not see them accelerating at all. I think we have had a massive rebound. And as I said earlier, I think it is about pent-up demand. And I think it is because everybody is now in the UK and it is only a UK ad market for us. People are going out and about they are going into shops and there is there is just a huge amount of activity out there.

And actually a lot of advertisers are trying to encourage that activities. They are trying to get people back to food and drink, to venues, to gigs to whatever it might be, to shops. So I do not see an acceleration of that advertising trend. And actually, as we have said, I think that the last quarter is a very tough comp on last year.

Adrien de St Hilaire: Absolutely. Carolyn, if I could just squeeze in one more question, if I may. So the performance financially is very commendable. There are a couple of KPIs which are somewhat heading south like brand consideration, total viewing; is that something which worries you and, in your view, may require some additional investments at some points?

Carolyn McCall: What was the first one? Oh, brand consideration. I think the brand consideration one is something we monitor incredibly closely and we are not unduly worried about brand consideration because, actually, quite a lot of the qualitative feedback we get on the on the ITV brand is very positive. But there are things that we are, not rethinking, but reshaping, in how we message and how we position. And you will see a lot more of that going forward.

But we are not unduly worried. I think the ITV brand remains as strong, is a strong positioned brand; people know what it stands for and what it is. I think there is an issue there, depending on the demographic you are looking at on brand consideration. And that is one of the reasons we are now shifting into the next phase of our strategy, and what we do about that.

I think on total viewing, it was going to be difficult. This H1, we knew it was going to be difficult to on total viewing, because last H1 was right in the eye of the storm of lockdown. I mean, everybody was at home, no one could go out, it was a legal requirement to stay at home. So all viewing went up. That is, I think, a difficult comparator and lots of viewing is going to come down including streamers. I mean, there has been a real slowdown in streaming subscriptions year on year as a result of not being in lockdown this year, compared to last year. But you also have to, we have to, and we really recognise that the way people are viewing has shifted. And so it is not just about linear, it is also about all other devices, and it is the consolidated seven days that we look out all the time.

I will give you a very good example of this with *Love Island*, which is that, if you read the media, broadly, you would think, 'Oh my god, what's happened to *Love Island*? It is tanking.' It could not be further from the truth. The overnights is we get the rating the next day for people who have watched it at 21.00 are around 2 million. But the consolidated viewing for *Love Island* is 4.2 million and has peaked at 4.5, 4.6, 4.7. We are really, really pleased with that.

So that just shows you that the kind of shifts in viewings – so the total viewing there is actually very strong and the market does not always look at that. They are still quite geared up to the overnights because everyone gets the overnights. Does that make sense?

Adrien de Saint Hilaire: It makes a lot of sense. Thank you very much, Carolyn, for the detailed answer.

Patrick Wellington (Morgan Stanley): Morning everybody. A couple of things. Firstly, I am two weeks behind on *Love Island*. So do not tell me what Hugo is up to.

Carolyn McCall: Casa Amor!

Patrick Wellington: Secondly, just on the dividend, you are going to pay 5p. Are you going to pay five p in 2022? Or is that a medium-term target? Next question: you did your deal recently with Sky. We have talked in the past about payments from Sky to ITV. Have you seen an increase in those Sky payments as part of this new deal? Can you give us some sort of idea?

And then a sort of joint question on a number of items, which is, you have high fat sugar salt regulation coming in at the start of 2023. But as you say, you have a sympathetic white paper about public service broadcasters and the future of public service broadcasting. Do you see a sort of quid pro quo where the watershed might come in on junk food, but you are, for instance, allowed to buy Channel 4? And another billion of advertising in Channel 4. Do you think you'd be allowed to own Channel 4? And have you considered it? And what do you think the reaction of the regulator would be?

Carolyn McCall: Okay.

Chris Kennedy: Shall I start with dividend?

Carolyn McCall: Yes. Yes.

Chris Kennedy: So Patrick, the 5p is a floor, so we intend to grow it over time, but that is the level we know we can sustain. And, and then grow over time. And, we are going to pay a final based on that 5p. So we will pay two thirds of the 5p for 2021 and then 2022, obviously, we will make the decision on the level of dividend later. But it will not be less than 5p.

Carolyn McCall: On Sky, what we would say is that we are very pleased. I think if you talk to Sky, if you talk to ITV, both parties would say we are very happy with how we have worked together on this new agreement. We are very aligned about what we want on the platform.

It is very viewer-centric; it is also very advertising-centric. We will be on Sky Q in 2022, by the end of 2022, that gives us even more opportunities. And we get the extra inventory for Hub. Almost immediately, as soon as Hub goes onto the platform, we will start getting extra ad inventory, so they are all very, very positive.

So I think you should just see the Sky deal. We cannot really go into much commercial detail; for obvious reasons, it is sensitive, but it is a really good deal. We are working well with them. We intend to continue to do that.

On the joint questions, I will just take some of them. And then chip in. On HFSS, you are absolutely right. I mean, we do not know the detail of that yet, except to say that it is 2023 now, January 2023. I think loosely still, because although it has been stated there will be a pre-21.00 ban and an online ban, the way that online ban is implemented is yet to be decided or, kind of worked out if you like. And so until that happens, we will not know.

And the other thing we are now working, we are talking to GCMS in particular about what exactly is included and what is not. So it is too early to go into what does that actually mean for ITV. And obviously, as you would expect, we are scenario planning and we are looking at mitigations every which way we can.

The quid pro quo: I do not think the government see it like that. Although what I have been very encouraged by is that the government and DCMS have really got the issues; i.e., that the world has completely changed since 2003 and that the value of PSB is enormous to Britain and that something has to be done to update that 2003 Broadcasting Act.

Just to be clear, it is Ofcom that has come out with the PSB paper where they completely recognised the criticality of prominence, and inclusion of PSBs on platforms. We await to see what they say more on fair value, which is something that we believe very strongly has to be taken into account, where you know, if you cannot do a commercial deal with a platform because they have undue dominance, then Ofcom should be able to intervene in that. But that is a little bit less clear, I think.

The government's white paper will be coming out towards the end of this year. So autumn, we hope, this year. And I think they are also quite clear on the things Ofcom has talked about. And we look forward to seeing what else they say.

On Channel 4, Patrick, you wouldn't expect me to say anything about that. I mean, we would never speculate, we would not comment on something like that. The only thing I will say is that we believe that PSB remit of Channel 4 is important to the PSB ecology, and that we feel that has to be preserved and maintained going forward, whatever the government decide to do, and it is a government decision, this.

Patrick Wellington: Carolyn, you have probably seen TF1 and M6 are being allowed to merge and they are going to have 70% of advertising share in France. I mean, is there any reason why a combined ITV Channel 4 couldn't exist in the future on the same basis?

Carolyn McCall: Well, in this country, as you well know, it is a CMA issue. And all I would say on that is that the ad market in the UK has changed beyond belief over the last 15 years, and particularly over the last ten years. And you know, we find ourselves competing with a whole new set of competition in the ad market, Facebook and Google being the obvious examples, but also Snap, Twitter. You know, they all carry advertising. It is all digital advertising. And it all comes from the advertisers that use TV and cinema and poster. So I think the ad market has shifted fundamentally. And that has to be recognised.

Patrick Wellington: Great, thanks very much.

Richard Eary (UBS): Good morning, everyone. Patrick has stolen a little bit my thunder on Sky and PSB. But I still have a couple of questions. The first one, just is on Talpa. Chris, obviously, the exceptional costs have gone up to 310 from 190. Can you just maybe just elaborate what happened with Talpa? And so why those costs have gone up? I presume that should be positive given that Talpa should be performing better. That is the first question.

The second question just goes on [inaudible] I think an earlier question on Studios and you saying you do not expect the outlook to change. Can you just confirm that you are actually happy, then, with where consensus sits for the full year?

And maybe the last question just on cost savings. It looks as though cost savings targets have not changed but I did not know whether there is scope for that to change as we go into 2022, 2023, depending on how things change.

Chris Kennedy: Yes. So starting with Talpa, you are right. It was a performance based final payment on the earnout. And obviously, it has performed well, which is why it is triggering the earnout. We did say it was would be uncertain in the annual report, and we gave a range and this outcome is within the range that we guided then. And obviously this is the last payment now and it goes out in August. And as I said earlier, then acquisition related exceptionals are going to come down dramatically going forward. So that is Talpa.

Studios, yes, we are happy with full year consensus. So we wouldn't be expecting that to move very much.

And then on cost. Yes, we have reiterated the £30 million. We have also talked about £8 million of temporary savings this year, just because we are still working in lockdown, so that that reduces office costs and T&E and so on. Looking further forward, I mean, we have our £100 million target to 2022. But we will not stop there because it is right that we continue to look at the cost base, and we have already started a desktop exercise to look at what savings we could achieve beyond 2022.

And by looking forward on a multiyear basis, you can start to look at structural changes. So in particular, in the traditional broadcast supply chain, those are typically long-term contracts; a lot of those are coming up for renewal or extension in the coming years. And we think that there is more to come on the cost front, particularly in the supply chain. And clearly that then frees up money for us to invest in the new forms of streaming and so on, but also to deliver to the bottom line.

Richard Eary: Can I just ask one follow up? Working capital in the first half was obviously negative; I presume that was due to, obviously, the ramp up in studio productions? Where do we think that lands full year? I may have missed that in terms of some of the presentations.

Chris Kennedy: Yes, and also in the first half, we had the £75 million of VAT that deferred from 2020 being paid. And what we have said is that for the full year we will have 30% cash conversion. And when you look at 2020 and 2021 together, that will be at the 80-85% long run cash conversion rate. Because as you said last year, we had a significant working capital benefit.

Richard Eary: Okay. Thanks, I will do the numbers.

Matti Littunen (Bernstein): Thank you. Good morning. The first question on ITV Hub. So as you extend the catch up window on that service and add more box sets, do you have any colour on how the total catalogue hours on that service are trending or better yet, any numbers?

And then the second one on the deal with Sky: should we see this as completely separate from the conversations around getting BritBox to have a direct carriage on Sky Q? And on the other hand, the PSB debate you were talking about, where you have been sort of on different sides of the conversation with Sky previously. So should we see those as entirely separate or does this deal maybe make it easier to find common ground with Sky on those other two things? Thank you.

Carolyn McCall: Great question on Sky. I will let Chris comment on the BritBox side of that.

I mean, I think what I would say, is that on the one of the things that we were able to resolve within our overall and very broad agreement with Sky is some of the issues that we had voiced before about PBRing, etc. So we certainly have found a way through that. And that is encompassed in this agreement. So it is a real step forward.

Chris Kennedy: Yes, and on BritBox we are having really constructive conversations; there are some technical issues there, but you know, watch this space.

Carolyn McCall: And then on the Hub, I think you are saying we are putting more hours on Hub and give you some colour on that. I honestly think that is too early to say, I think we are still in – you are right, we have increased the window to a year. We are building up the volume on Hub, which we really do need to do to make it a destination, rather than just a catch-up service. So we are still, I would say, on the pathway of building it into a destination. It is not a complete destination yet.

So the change of hours like the one-month window to the 12-month window, and actually trialling a whole load of other things, putting on more box sets and stuff, is we are constantly monitoring that, seeing what effects it has on Hub, seeing what effects it has on ITV 1 or 2, and then also see what effects it has on BritBox. And we are balancing all of that on a kind of almost weekly basis. And it is too early, I think, to come up with anything definitive about trending. You would expect obviously, that the more hours Hub has, the more boxsets Hub has, the more viewers Hub gets. And that is what's materialised: Hub is up 6%, monthly active users are up.

So viewings up, monthly active users are up, and dwell time is up by about 4%. So all of those trends are going in the right direction for Hub. And I would say that our strategic vision is very much about having an AVOD led strategy. We are a market leader. We are the market leader in advertising in this country, we need to continue to remain a leader in advertising. And AVOD is a very, very important part of that. So we are developing all of that, but it requires Hub to have content, to have volume of content, and to have fresh content on occasion.

We also want to have a compelling SVOD service. And we are clever, I think, in the way that we are doing that on BritBox. But as I said to somebody else, that is evolving, and we will iterate and we will continue to test and trial. So that gives you some colour, I hope, although it probably does not give you as much as you would want on definitive trends.

Matti Littunen: That is very helpful. Thank you both.

Nizla Naizer (Deutsche Bank): Great, thank you. I have three questions from my end. The first is a comment on your release, where you have mentioned that during the H1 period, the revenue from online brands is up 37%. I am just curious to understand with the easing of lockdown measures that you are seeing starting July, has that decreased? Or is the momentum still strong? And how much of revenue do these online brands now contribute to in the advertising pie?

The second question is on Q3: could you remind us how big is September typically for ITV compared to July and August? And how did these three months do last year in Q3? And my last question is on your leverage targeted: with the increase in Talpa [?] you are mentioning that the leverage would go up 2.9 times. Do you have a leverage target that you have specified for dependency reminders, and as a part of that target, would you consider M&A? Could you remind us what your M&A objectives might be in the future? Thank you.

Chris Kennedy: Okay.

Carolyn McCall: Okay, how do you want to do this?

Chris Kennedy: Well, let's start with online brands. Yes, you are right: really pleased with the 37% growth in H1 and momentum has continued into H2. I think it is a combination of both those online brands being very vibrant and relevant during lockdown. But also, it is thanks to the work that the Commercial team have done to educate online brands, give them proof points, attract new brands to TV. And it has been a really powerful piece of work that they have done.

Carolyn McCall: So we have had a number of initiatives to particularly attract online brands to TV. And so we run webinars, because quite a lot of nascent online brands think TV is too expensive for them. And therefore, there is a bit of education to be done. And then quite a lot of work on the effectiveness of TV, which can really, really boost them. And so we have done a lot of work; Commercial team have done a lot of work on really nurturing that.

So I think Chris is right, there is natural momentum from online brands. But we have really, really, worked very hard to ensure that we are attracting them, and actually getting them to experiment with us, even when they are not thinking about TV. And revenue online?

Chris Kennedy: So Q3. Last year, July was down 23%. August was then up 3%, and then September was down 2%, so we sort of came out of lockdown. So the last bit of lockdown impact was in July last year. And typically September is around 40% of our revenue if you look back to a normal year, sort of 2019. But July has been exceptionally strong this year. So we are not expecting September to be as much as 40% of Q3.

And what we have said is, it is very early because we do not have any late booking fees. So advertisers are taking advantage of that. And I think that is also helping brands to come to TV because they can book VOD later. And not having the booking fee on linear is also helping them to manage their campaigns. So we do not have as much visibility on September. But what we said is, we are positive. So if you assumed September was flat, we would still have a very positive Q3 result.

Carolyn McCall: Leverage.

Chris Kennedy: Leverage. We say investment grade metrics; one of the key is the leverage. And the rating agencies look at it differently from our reported number. But broadly speaking, one and a half times unadjusted leverage is equivalent to the cusp of investment grade. So we would like to keep it below 1.5.

Carolyn McCall: And then you ended by saying, 'Where are you on M&A?' I think our answer to that would be that we are very focused on the strategy, as you can tell; we have so much to still do, even though we are past phase one, we have delivered a lot in phase one, phase two is actually acceleration. It is about pace, it is about speed, it is about ways of working, it is about digital transformation, there is a huge amount still to do. So we are very focused on that.

And I think our definite preference is organic growth. So when you look at Studios, where we have made, in the past most of our acquisitions, we would say that actually doing that organically by backing talent, instead of buying companies has been incredibly effective for us over the last couple of years. So when you look at some of the things that we have done, with, Nicholas Shinlough, Patrick Spence, Dominic Treadwell-Collins, or there is a whole list of names I could give you where we back them, rather than buy the companies they have been in, or they founded. That organic strategy is what I see us doing more of, continuing to do more of.

Nizla Naizer: Great, very helpful. Thank you.

Steve Liechti (Numis): Morning, guys. Can you just have a thought about next year, 2022? Given the revenue performance in TAR in this year – and it is all sort of up and down on this in the last two years – do you think, sitting where you are right now and what you see, that revenue from TAR next year will increase year on year on 2021? And if you do or do not want to say anything about that, do you just want to go through the moving parts that might get us to a logical answer on that, that you see where you are now? Thanks

Carolyn McCall: I mean, look, obviously, we would not be able to say anything about that now, because that would be guidance. And actually we are not capable of giving you that guidance, even if we could, because I think it is too hard to see through at the moment. And so I think the moving parts question is a much better question in a way for us to try and answer because so much of what the advertising market is about his confidence. It is about consumer confidence and therefore advertiser confidence, and it is about the economy.

And so it is going to be very dependent on the economic recovery that we are seeing, and continued GDP growth, that that is the single biggest determinant really, to this advertising market. And we are we would say we are optimistic, cautiously optimistic about that. But we talked about earlier on, the pandemic is here, it is here to stay for some time, what is that going to mean in terms of businesses? Are businesses going to be able to continue to function properly? Are they going to be able to be efficient on their costs going forward, take out some of those quite high COVID-related costs? All of those things are the moving parts;

are they going to continue to be able to do manufacturing? You know, when people have to isolate if they have been in the vicinity and the whole ping thing.

There is just a number of things, travel restrictions, you know, how far are they going to be lifted? Are we going to have access to passports, are there going to be travel corridors? Those are the moving parts. It is all about getting the economy into a sustained, positive, confident level. That is the biggest determinant, I think, for the ad market.

Steve Liechti: Great, thanks.

Carolyn McCall: Okay. I think that is the end of your questions. And I just want to thank you from all of the ITV team for joining us this morning, and we look forward to seeing you all soon. Bye for now.

[END OF TRANSCRIPT]