

ITV plc 2022 Interim Results

Thursday, 28th July 2022

Introduction and Highlights

Carolyn McCall

CEO, ITV plc

Welcome

Good morning, and thank you for joining us for ITV's 2022 Interim Results. In a moment, Chris will take you through our operational and financial performance. I will then share an update on our strategic ambitions, especially around why we are positioned to win and deliver attractive returns from ITVX. We will then have time for questions.

Before I touch on the highlights of our results, I wanted to share a short tape. This demonstrates the quality of our global content slate, the brilliant programmes we show on our screens and what is coming up particularly for ITVX. Please play the tape.

[Video]

Highlights – delivering Phase Two of More Than TV strategy

We recorded a strong performance across the business in the first half of 2022. Both our Studios and Media and Entertainment divisions performed better than we expected at the beginning of the year with ITV Studios rebounding faster and TAR and streaming delivering stronger growth.

Total ITV Studios revenue grew ahead of the market and with growth across all divisions. ITVX is on track to launch in Q4, as we remain fully focused on delivering the digital acceleration that we set out at our full year results.

Reflecting our robust balance sheet and strong cash flows, the Board has declared an interim dividend of 1.7p, and remains committed to paying a total dividend of at least 5p for the full year, which, we, of course, intend to grow over time.

H1 2022 Group Performance: Strong revenue growth

These charts demonstrate the continued growth in our business. Total external revenues were up 8% in the first half and up 14% compared to 2019. Total ITV Studios revenue was up 16% and up 22% compared to 2019.

Total advertising revenue was up 5% year-on-year as previously guided. Within this, digital advertising revenue continues to grow strongly, up 20% in the first half.

H1 2022 Group Performance: underlying profit growth offset by increased investment

Group adjusted EBITDA was down 3% with underlying profit growth offset by £20 million of investment in M&E in preparation for the launch of ITVX, in line with our guidance. ITV Studios profits grew significantly, up 31% year-on-year. Cash generation remains strong, driven by good revenue growth and a continued focus on working capital management.

I am going to now hand you over to Chris to go through our operational and financial performance in more detail.

Financial and Operating Review

Chris Kennedy
CFO, ITV plc

ITV Studios

Strong financial performance in the first half of 2022

Thanks, Carolyn. Good morning, everyone. I will start with Studios. ITV Studios delivered an impressive performance with a strong slate of deliveries as we continue to focus on growing and further diversifying by genre, by geography and by customer.

Total revenues were up 16% with good growth across all businesses, but particularly from the UK and global formats and distribution. The UK saw growth both on and off ITV network with significant drama deliveries, including Grace, Shetland and Noughts + Crosses, some of which had been delayed from 2021.

Global Formats and Distribution had a strong first half, demonstrating the value of our 90,000 hour library, our growing scripted catalogue and increasing global demand for our popular non-scripted formats. Adjusted EBITDA was up 31% to £124 million, with an adjusted EBITDA margin of 13%.

The increased margin year-on-year is helped by £3 million of cost savings and fewer costs associated with COVID protocols. We are on track to exceed 2019 revenues in 2022 and to grow total Studios revenue by at least 5% per annum on average to 2026, which is ahead of the market.

We are also on track to deliver EBITDA margin of between 13-15% over the full year in 2023 and thereafter. But as previously guided, we are seeing production cost inflation still expect to be at the lower end of that range in the shorter term. To mitigate the inflation, we are looking at our property footprint, using technology and data to drive cost and revenue efficiencies, taking further steps to digitise our production processes and using cloud and remote editing more routinely.

H1 2022 ITV Studios KPIs

High-end scripted hours were up 60 to 133, driven by dramas such as the Outlaws in the UK, Petra in Italy and another season of Snowpiercer in the US. We now have more scripted hours in production in the US than ever before.

The number of formats sold in three or more countries increased to nine, including I Love My Country, Let Love Rule and The Voice. And the percentage of total revenues from streaming platforms increased by 3 percentage points to 19% with deliveries such as Physical for Apple Plus and Murder in Provence for BritBox.

Media & Entertainment (M&E)

Turning to Media & Entertainment. Total revenue grew by 4%. Within this, total advertising revenue was up 5%, as expected, in spite of the tough Q2 comparators. We continue to make good progress in digital. Total digital revenues were up 22%, with 20% growth in digital advertising and a 44% increase in subscription revenue. Both BritBox UK and Hub+ showing healthy growth.

As previously guided, SDN's revenue was under pressure this year, down 24% as older contracts were renewed at the new lower market price for DTT capacity. We expect this to continue into next year as further contracts are renewed.

Partnership and other revenue decreased by 6%, and this was driven by lower revenue from competitions against tough comparators in 2021, and also reflects weakening UK consumer confidence. Content costs were up 11%, with the return of key shows disrupted last year by COVID and increased investment in content to drive live audiences and younger, harder-to-reach viewers. As previously guided, we expect content costs over the full year to be £1.23 billion.

Variable costs were down 3%, mainly driven by lower payaways because of lower competition revenue, partly offset by an increase in commercial payaways and bandwidth costs in line with increased viewing. Infrastructure and overhead costs increased by 10%, mainly as a result of our investments.

In total, we invested £20 million in the half, largely in data and tech ahead of the launch of ITVX. This was partly funded by our continued cost saving programme, which delivered £8 million of savings in the half. We are on track to deliver a total of £17 million savings over the full year across the business. And therefore, we would have delivered £100 million of cost savings since 2019 in line with our targets.

So in total, adjusted EBITDA was down 16% despite underlying growth due to investments in content, data and technology in line with the strategy.

As expected, total advertising revenue comparatives are tough in Q3 against the Euros last year, and we are mindful of the macroeconomic and geopolitical uncertainty. July is forecast to be down 9%, which is, in fact, better than we were expecting. And August is forecast to be down 18%, in line with our expectations at the start of the year. Both months are better than the comparable period in 2019 pre-COVID.

It is too early to give a detailed forecast for September, but for the nine months to the end of September, year-on-year TAR growth is expected to be broadly flat. Compared to 2019, the nine months are anticipated to be up around 8%.

ITV Total Advertising Revenue

Looking at TAR in a little more detail. The categories with the largest year-on-year movements are as expected:

- Airlines and travel are up 117%, following travel restrictions last year;
- Cars and car dealers are down as a result of supply chain issues; and
- Governments and charities are down off the back of COVID-related spend last year.

Overall, as you can see, H1 is up 5% year-on-year.

E-commerce companies, excluding gambling, decreased 12% in the period. Within this category, the largest decline was from food delivery brands, who spent heavily in 2021, in Q1 to take advantage of the lockdown and in Q2 during the Euros. In addition, we have also seen a significant reduction in spend by energy comparison websites for obvious reasons. This was partly offset by growth in online travel brands.

H1 2022 M&E KPIs

On to the M&E KPIs. We have already covered digital revenues. In terms of streaming, viewing on our own services and Amazon was up 21%, with a strong schedule of drama, entertainment and sports and the huge success of Love Island, which is having its biggest ever series on the Hub. This was offset by lower viewing on other streaming services such as Sky and Virgin, where we have taken the strategic decision to reduce the availability of pre-transmission drama drops and box sets, where we cannot serve and monetise dynamic advertising.

In total, streaming hours were up 6%. Monthly active users were flat at 9.7 million against the tough comparisons of Oprah with Meghan and Harry and the Euros last year. Total UK subscriptions were up 16% compared to 31st December, ahead of our plan and driven by a strong slate of originals. This includes 778,000 BritBox UK subscribers.

Over the full year, we expect there may be some short-term disruption to subscriptions as we transition into ITVX.

Turning to broadcast. We have continued to deliver those large audiences, which are so valuable to advertisers with 94% of the top 1,000 commercial programmes up 1 percentage point. We have also grown our share of commercial viewing, up marginally to 33.7%.

Continued growth in BritBox International

BritBox International continues to see strong growth in its subscriber base and is ahead of plan with 2.7 million subscribers, up from 2.4 million in December. This is against a very competitive backdrop with other streaming services seeing a decline in subs. BritBox is now available in eight countries, most recently successfully launched in the Nordics.

We see an increasing opportunity for BritBox International as a complementary niche product alongside the global streaming giants. By 2030, we expect to have attracted 10 million to 12 million subscribers for BritBox internationally outside of the UK.

H1 2022 Adjusted and Statutory Results

Turning to adjusted and statutory results. Adjusted EBITDA decreased by 3% to £318 million. Adjusted financing costs were down £7 million, largely due to higher returns on gilts and deposits. Over the full year, we continue to expect financing costs to be around £36 million.

Our adjusted tax rate was 19%. And over the full year, we expect the tax rate to remain around the same level.

In the medium term, our adjusted tax rate will move to around 25%, in line with increases in UK corporation tax. Adjusted EPS increased by 2% to 6p due to lower financing costs, and is marginally behind EPS in 2019 of 6.2p. Statutory EPS rose to 4.8p from 2.4p, reflecting significantly lower exceptional items in the period with the final payment for Talpa having been made last year.

There were £31 million of exceptional items in the half, which largely relate to digital transformation costs and our move to White City, both of which will drive a permanent ongoing reduction in our cost base. And over the full year, we expect exceptional costs to be around £60 million.

Robust balance sheet and strong cash flow generation

Looking at the balance sheet:

- Our cash conversion was up 81%;
- We expect to maintain profit to cash conversion at around 80% over the medium term;
- Our net debt at the end of the period was £615 million;
- Net debt to adjusted EBITDA is 0.7 times;
- Our covenant leverage is 0.6 times; and
- We have total liquidity of over £1.35 billion.

The accounting surplus of our pension scheme is £352 million compared to an £8 million deficit at the end of 2021. In June, we agreed the triennial actuarial valuation of £252 million at net deficit as at 31st December 2019, which is almost halved from £489 million at 1st January 2017.

In addition, we extended and amended the SDN pension funding partnership. We have made a one-off payment this year of £80 million relating to the SDN partnership, but we will see total funding contributions coming down significantly over the next few years.

Disciplined capital allocation framework

Here is a reminder of our approach to capital allocation.

- Our first priority is investing in the business in line with our strategic priorities to create shareholder value.
- Second, we will continue to manage our balance sheet consistent with our commitment to investment grade metrics over the medium term.
- Third, we want to sustain a regular dividend, which will grow over time.
- We will continue to consider value-creating M&A opportunities against strict financial and strategic criteria as we have with the acquisition of Plimsoll.
- Finally, any surplus capital will be returned to shareholders.

Full year 2022 – Use of Cash

This year, we have a number of draws on our cash, the dividend, pension contributions, including both the one-off payment relating to the SDN partnership and regular contributions and the acquisition of Plimsoll.

In addition, the 2022 £335 million Eurobond matures in September this year. We will redeem it using available cash in order to reduce gross cash and gross debt, which will improve the efficiency of the balance sheet and strengthen our credit metrics.

2022 Planning Assumptions – Unchanged

Our full year planning assumptions are based on our current best view and are unchanged.

And lastly, a quick word on inflation. Given the nature of our cost base, I do not expect a material increase in costs this year. For 2023, we will look to mitigate inflationary pressures as much as we can.

And now back to Carolyn.

Strategic Progress

Carolyn McCall

CEO, ITV plc

Our Strategic Vision

Thanks, Chris. We are very focused on digital acceleration and clear that our vision is to be a leader in UK streaming and an expanding global force in content.

Digital Acceleration: Phase Two of More Than TV Strategy

As you know, we have evolved our three strategic pillars to reflect this:

- Expanding Studios globally and growing revenues faster than the market;
- Supercharging streaming with a strong digital-first content strategy and user experience, resulting in a compelling free consumer proposition; and
- Third, optimising broadcast by continuing to attract unrivalled mass simultaneous audiences.

Digital transformation is a critical enabler of our strategy

Before I talk about what we are focused on in each of these pillars, I want to start with digital transformation as this is a critical enabler of all the elements of our strategy. We are digitally transforming both our internal ways of working and what we do for our viewers and customers. This includes the ways in which we use data, our central services systems, our content supply and rights management processes, for example.

M&E is driving our viewer-led digital acceleration with the launch of ITVX, while Planet V puts us in a strong position to capitalise on data-driven growth for our advertising customers. We are also developing our linear addressable capabilities, which we will deliver through the Planet V platform.

In addition, the Studios Innovation Hub is streamlining the way our production teams store and share information on a day-to-day basis, as well as embedding innovative ways of working, such as cloud-based editing, virtual sets to help us deliver our programmes faster and more cost efficiently. Returning to our strategic pillars and taking each in turn.

Expand Studios Globally: ITV Studios Strategy, KPIs and Targets

First, Studios. We have made really significant progress in growing ITV Studios globally, and we are continuing to build from a position of strength.

We are laser-focused on our strategic priorities and have set out clear measures of success for our Studios business by 2026, which are:

- First, growing our scripted business to 400 hours;
- Second, bring our global formats business with 20 formats sold in three or more countries; and

- Third, further diversifying our customer base with 25% of total revenues coming from streamers.

These ambitions will drive revenue growth of at least 5% per annum on average, and we expect the Studios business to deliver a 13-15% margin range from 2023.

ITV Studios – delivering consistent revenue growth

Our strategy is already delivering strong results. As you can see on this chart, ITV Studios' revenue has delivered consistent growth to-date, growing at 6% CAGR between 2015 and 2022. And the margin will be at the 13-15% range in 2023.

Scaled, Diversified and Global Studios Business

The resilience of our Studios business stems from being scaled, diversified and global. As you know, we are the number one commercial producer in the UK, one of the largest producers in Europe, and one of the largest independent producers in the US. We have over 60 labels now across 13 countries, and we are a top three producer in the majority of the countries in which we operate.

Broad Customer Base

Now as you can see on the following charts, we are not reliant on any one customer or type of customer. Excluding M&E, no customer represents more than 5% of Studios revenue, and we are increasingly diversified by customer type.

Diversified by geography and by genre

ITV Studios generated close to 60% of its total revenues internationally. And in terms of genre, scripted revenues now account for nearly 30% of total revenue, and this will continue to grow.

A strong scripted slate

So now let us turn to our shows. They are the foundation, of course, on which everything else Studios is built. So we have a strong global scripted slate from Noughts + Crosses in the UK to 10 Year Old Tom in the USA, and Baby Fever from our International division.

Growing global unscripted formats

We also have a growing list of global unscripted formats such as Love Island, Let Love Rule, I'm a Celebrity, which are being produced in multiple countries.

Continuing to attract and retain leading talent

We continue to attract and retain leading talent, most recently with the acquisition of Plimsoll Productions, the largest independent producer of natural history programmes in the world. Plimsoll are behind high value productions, such as Giant World for Apple+, Hostile Planet for Disney and the upcoming A Year on Planet Earth for ITV, Tencent in China, FOX Nation in the US and ARD Group in Germany.

With Plimsoll Productions, we can capitalise on the growing demand for natural history and factual programming and further strengthen our relationship with streamers whilst leveraging our unique integrated model to increase viewing across our linear and ITVM platforms.

Earlier this month, we announced that the very highly regarded drama producer and TV exec, Ben Stephenson, previously Head of TV at Bad Robot productions will join ITV Studios to set up a new transatlantic drama label.

We are also seeing an impressive slate of new commissions coming from our recent talent deals such as Night in Paradise from Windlight Pictures, the Starzplay, and Nolly from Quay Street Productions for ITV.

ITV Studios KPIs: On track to deliver 2026 targets

Now Chris talked you through our KPIs. We remain on track to achieve the KPIs that we have set out by 2026, and we are confident in our growth trajectory over the next five years. So let us now turn to the other two strategic pillars.

M&E Strategy

As you know, our M&E strategy is to supercharge streaming and optimise our broadcast business, driving digital viewing and revenues, while continuing to deliver mass audiences which are so valuable to advertisers.

With the launch of ITVX, we have set ourselves clear targets over the next five years to deliver at least £750 million of digital revenue. We are confident about achieving this. And we will do that:

- By bringing more viewers to our service, doubling our monthly active users to 20 million;
- Enticing those views to spend more on our platform, doubling our total streaming consumption to two billion hours; and
- With a compelling premium tier, we will double our total UK subscriptions to 2.5 million.

Cutting edge customer proposition, free to view

ITVX is, as you know, a free streaming service funded by advertising. It will supercharge our streaming proposition and represents a significant step change from ITV Hub. ITV Hub, which will disappear as a brand was predominantly a legacy catch-up service with less than 2,000 hours of content prior to 2021.

By the time ITVX launches, we will have at least 15,000 hours of streaming content available, and this includes 9,000 hours full free to viewers with a premium tier offering an additional 6,000 hours of content, all in all, 15,000 hours without ads.

So for all viewers accessing ITVX for free, there will be weekly exclusive premier drops, the dramas on our linear channels will be made available in full on ITVX as soon as the first episode has aired. We will have the UK's largest free film library and hundreds of hours of bingeable acquired box sets. There will also be 20 new free, always on, FAST channels that are built around different content themes. And of course, all our linear channels are available on ITVX.

It will have data at its core, harnessing the power of data and analytics to help viewers find their favourite shows. So we will be moving from what was a legacy catch-up service with limited capabilities to a fresh new platform with a huge amount of new content, dynamic user experience and advanced functionality.

ITVX on track to launch in Q4 2022 – progress to date

Now, as you also know, we continue to strengthen, test and evolve our streaming offer ahead of ITVX's Q4 launch. We now have 7,500 of these 9,000 content hours available for streaming. This is up from 4,000 hours at the end of last year and includes the majority of scripted programmes available in full at the same time as initial broadcast.

It has already helped to drive record levels of streaming with 814 million streams on ITV Hub in H1. That's up 8%. Product developments include rolling out new features such as:

- Start again;
- Search improvements to improve accuracy;
- Increase personalisation, such as onward journey recommendations; and
- Design enhancements.

We also continue to work successfully with distribution partners to ensure that ITVX will be widely available, and we are on track to be in over 90% of streaming households at launch.

Our progress is underpinned by the evolution of our data capabilities, which ensures that we can target harder to reach viewers, allow continuous testing and deeply understand the viewer journey, which is, of course, for the benefit of customers.

ITVX will deliver value to viewers and advertisers

ITVX will fulfil advertisers' appetites for both targeted advertising using our very extensive first-party data, which is one of the top three largest data sets in the UK, and for mass simultaneous reach through our linear channels. This is a powerful combination, which has been welcomed by advertisers.

ITVX will deliver a step change in the volume and value of ad inventory

So ITVX responds to both viewer needs and to advertisers' needs, and it creates value. ITVX will enable us to increase reach and significantly increase our inventory. With Planet V, we will use our scale, data capabilities and first-party data to sell targeted solutions and higher value data-driven inventory. And all of this leaves us confident about being able to double our digital revenues to at least £750 million without diminishing our strong position in linear advertising.

ITV's competitive strengths in the ad market

And why are we confident about this? We are confident we can do this because of ITV's significant competitive strengths.

First, we will be able to offer our advertising clients the best of both worlds, enabling them to grow their brand through the unparalleled mass simultaneous audiences we generate whilst extending this with the incremental reach and a targeted offering on ITVX.

Second, our broad range of content, driving live appointment to view and streaming viewing massive dramas, shiny floor entertainment, live sports, exclusive content. Our content is not only very popular but would also be the right content for our target audiences, all powered by significant content investment over the next five years. So ITVX will be a fantastic platform for viewers and advertisers, which we will continually evolve.

And we have an incredibly experienced team in commercial, who have a very strong track record. With the launch of ITVX and the continuous development of innovation in Planet V, we believe we are very well positioned. This has been recognised in conversations with many of our long-standing advertising clients.

Industry developments further reinforce confidence in ITV's Strategy

Now as you also all know, ITV is an advertising-led integrated producer broadcaster. Recent developments such as streamers introducing an advertising tier and moving production in-house, further reinforces actually our confidence in the ITV strategy.

Global streamers are entering the advertising market. There are lots of unknowns around their proposition. But what we do know is that while they are introducing ad light tiers, they will remain subscription led. As you would expect, we have gathered external agency and advertiser views to complement our own, and we see the risk associated with streamers entering the ad market as relatively low.

Their ad inventory will not have the scale of ITVX. They remain subscription-led, as I said, and therefore, audiences will be comparatively small and their ad load will be lower than VVOD by a long margin as it is ad-light, not a free proposition. And as I have just said, ITV will be able to offer our advertising clients something, no streamer will be able to, and our competitive strength gives us real advantage.

In addition, our analysis suggest that that proposition will not take material amounts of money from linear TV, and instead will drive the existing trend of money being drawn into the TV market away from some traditional media as advertisers are increasingly consolidating their spend fewer, more effective advertising mediums and partners. I would also add that in a tightening economy, having a free ad-led proposition is beneficial.

Secondly, Planet V. It is now an established programmatic advertising platform, the second largest in the UK, and that positions us strongly in the ad market.

And finally, we are really pleased to see, both in the recent White Paper and in the Queen's speech that the government has set out their intention to reform the legal and regulatory framework and to update the Communications Act of 2003 to ensure that PSPs, including ITV have prominence, inclusion and fair value for both live and on-demand content on all the major connected platforms, where audiences expect to find it.

M&E KPIs: On track to deliver our 2026 targets

Therefore, we believe we are in a strong position and firmly on track to deliver the ambitions we set out by 2026.

Digital revenues will grow to at least £750m by 2026

Growing our digital revenues will be a key measure of success, and I wanted to provide you with more detail on how it is made up and will grow.

In 2021, our digital revenue amounted to £347 million, which comprises £293 million of digital advertising revenue, which includes ad revenues from Hub, digital sponsorship, linear addressable advertising and YouTube. £42 million of subscription revenue and £12 million other revenue, which is largely made up of revenues from ITV Win and third-party distribution partners.

To deliver £750 million, we would expect to see CAGR growth in the mid-teens for digital advertising as we increase our share of the broadcast digital advertising market to be more in line with our share of the linear market, in the mid-20s for subscription revenues and in the mid-single digits for other revenues.

Our digital revenue target represents a minimum threshold, as we have said, and we are confident in delivering more. We have set out some sensitivity analysis here on this chart, which demonstrates that if we delivered high-teen CAGR for digital advertising, we would grow our digital revenues to £850 million by 2026.

Multiple drivers of digital revenue growth

As you know, targeted inventory is much more valuable to advertisers, and we can drive further value from:

- Growth in audience volume and reach;
- Expansion of the streaming advertising market;
- Further innovations in ad products;
- Our advanced data capabilities, increasing dwell time and informing content decisions;
- Driving more non-TV advertisers to our platforms; and
- CPM inflation.

Delivering attractive returns to shareholders

I would also like to go into a little bit more detail on what these sensitivities mean for net ITVX investment and associated returns. There is a slide in the appendix, which is a reminder of our investment profile, which will be offset by growing incremental revenues from 2023. As we said previously, the incremental revenues of ITVX will cover incremental costs by 2026, as we deliver around £750 million of digital revenues.

Net investment from 2022 to 2026 will be around £350 million. That equates to less than 10% of our total content spend over that period.

If we were to achieve higher digital revenues by 2026, the inflection point when revenue covers the cost comes in 2025 or even 2024, and net investment is significantly lower. Beyond 2026, we expect digital revenues to continue to grow strongly off a scaled base, therefore, delivering strong operational gearing and a highly attractive return on investment.

ITV's unique integrated-producer broadcaster model strongly positions the group to successfully deliver Phase Two of its More Than TV strategy

In addition to our relentless focus on delivery, ITV's unique integrated-producer broadcaster model strongly positions the Group. Our Studios business is able to take advantage of a sustainable base of core commissions with ITV serving as a promotional engine for its world-class content. And in addition, and very importantly, it helps attract industry-leading talent.

It benefits M&E through access to world-class content and multiple monetisation opportunities, including bringing brands into programmes, creating more integrated advertising opportunities.

While Studios and M&E transact at arm's length, the IPB model also provides some mitigation against content price inflation. This provides ITV with a unique competitive advantage in both

broadcasting and content production, delivering strategic and financial benefits and ultimately creating value for ITV shareholders.

Outlook

In summary, with our integrated producer broadcaster model, strong growth from our scaled and diversified global Studios business alongside the launch of ITVX in Q4 and continued strength in delivering valuable mass audiences, ITV is well-positioned to deliver Phase 2 of the More than TV strategy.

In terms of short-term advertising outlook, we are very mindful of the UK macroeconomic factors and geopolitical uncertainty and tough Q3 TAR comparators. However, to-date, we have not seen a material impact, and we expect TAR to be broadly flat for the nine months to the end of September compared to the same period in 2021. Q4 TAR will benefit from the FIFA World Cup.

Thank you very much for your time. And now we are very happy to take your questions. Details of how to ask a question via the conference call facility is in our announcement this morning.

Q&A

Omar Sheikh (Morgan Stanley): I am going to kick off, if I may, with a couple of questions on ITVX. First of all, on the marketing budget that you are planning to invest ahead and around the launch, can you just talk about how you are planning to size the marketing campaign? How you are planning to drive viewers to the [inaudible] and how you are going to promote the content perhaps on your linear channels?

And then secondly, just want to clarify what you are saying and thinking about advertising on Netflix? Are you saying that Netflix advertising and advertising tier on the Netflix platform is going to be incremental overall to online advertising or TV advertising revenue in the UK? Just want to clarify what you are thinking there. And essentially, do you assume that that is going to be a competitive product or not really for the launch of ITVX?

And then finally, on slide 51, you talked about the total net investment in ITVX. I mean, I suppose most people would look at the total investment in ITVX to include the shared content costs. What would you say is a net investment when you include that as well?

Carolyn McCall: Okay. Thanks, Omar. Just on the marketing budget, we have increased the marketing budget, and that is all within our numbers per year for obvious reasons because of ITVX. The way we would look at this is that we will make sure everyone knows that ITVX has launched. But we do not see Q4 the launch. There is no particular day. It will be a build-up over a period of time, and it will be continuous.

So we will want a continuous drip of communication all the way through because we have got these weekly drops, and we want people to come in and come in not only for those weekly drops. One of our key objectives is dwell time, and we want people to stay, to browse, to stay. And with 9,000 hours of content, you can do that because there is something for everybody in that 9,000 hours, whereas in the past, we had 1,000 to 2,000 hours on Hub, which just did not allow people to browse. And that is why it was not a destination as ITVX is. It was just a catch-up service. This is much more.

So we have to communicate some key brand messages about this being a destination about it being a modern having some acquisitional content. So there will be some American content, some quite young content, some comedy, which we have not been able to do in the past. So there is a real difference in ITVX that we are going to have to communicate. So that is a long way of saying that is how we will be driving viewers. And there will be a combination. Obviously, we will be using ITV because when you look at that 23 million main streamers audience, which we have identified and we have talked to you about before, that 23 million are people who view ITV, but there is an element of them that just do not view it regularly.

And so we want to communicate with those infrequent ITV viewers. And ITV is a good platform to do that as well as capturing another proportion of those main streamers. We will also do highly targeted advertising to people because the beauty, I think, of X. And as you know, we are building Hub into X over the months. And at the moment, we have got 6,500 hours and improved functionality already on Hub, and we have data on Hub.

So we are gleaning a huge amount of information about what people like on Hub. We will use that to target content to them that we know they will like.

So I am not going to give you a number on marketing specifically, because at the moment, that is really about next year. There will be a launch campaign, but it would not be quite as you predict it to be in terms of a great big bang above the line. I mean you would not fail to notice it, but it is not going to be a traditional launch campaign in that respect. I hope that is okay on marketing, but let me know if it is not.

Netflix, I would say that we do not know. Obviously, our objective again there is that it will be incremental, so that they will expand the market. And that is the upside of Netflix coming in, because they could expand the TV market. And they could take from digital. So we do not know any of that yet because they have not been completely clear about what that proposition is.

We know that Microsoft is going to be doing the bulk of their selling. So I do not know. It would be great if it was incremental, obviously, and that would be our objective. We will be talking to advertisers about that, because they will do something that is different, very, very different to what we do. It is a very different sell. So it will be interesting to see.

ITVX, I think was the net investment question?

Chris Kennedy: Yeah. So Omar, the numbers in the pack are the incremental investment and the incremental revenue associated with it. And that is how we have looked at that ITVX investment. If you recall, we did a very detailed bottom-up study of what content we needed to drive the incremental viewing to drive that incremental revenue and then costed it up. So that is where the investment costs come from.

Clearly, X will also benefit from the linear programming budget. But in terms of the investment decision itself, that was all incremental revenue and incremental costs.

Tom Singlehurst (Citi): I had a couple of questions on Studios. The first one was just to get a sense of, in a way how the model works and deals with inflation. I mean, obviously, there is inflation in costs, which you guys have been dealing with for some time and probably some additional costs from overheads still working through the system. But how is it impacting the outlook for revenues? Is it effectively a cost-plus model, so you should be able

to pass on some of the inflationary pressures through to revenue? That was the first question.

And then secondly, you made a very clear point of emphasising the benefit of integrated producer broadcast model, which is well made. I mean it is something I agree with, but I suppose it does not appear to be recognised by the market more broadly. And I was just wondering whether there is anything else you can do to show the value of the Studios business. I mean, would it be massively inconvenient for you to consider selling a minority of the business to create a reference point like valuation or something like that? Any thoughts or comments on that would be much appreciated.

Chris Kennedy: Yeah, Tom, on the inflation. I mean, there is an element of the portfolio that is cost-plus. And the first thing to say is we are seeing inflation in production costs. In a way, the good news is that is driven by the unprecedented demand for content at the moment. So that is driving a bit of inflation. As you would expect, the Studios team are really focused on it.

There are some cost-plus models which they can pass on with that. Even when it is not a cost-plus, they will always have a conversation with the commissioner in an attempt to pass on or part of the inflation. Sometimes they can do that, sometimes they cannot.

And then what they do if they cannot is they will look at how they might achieve the same creative output but in a different way so that they can meet the commission's budget. And they also look at efficiency in ways of working, and Carolyn talked about remote editing, cloud editing and so on. So there is a number of levers they can pull.

I think the one thing is that we have reiterated we will be in the 13-15% range next year because we know we have got a great team who focus on that as one of their KPIs.

Carolyn McCall: And actually, got the pipeline to have on the side. On the IPB, I mean I think you are absolutely right. I really do not think we are recognised, not only for the value of the Studios business but actually for the strength and resilience, and actually how much cash the broadcast business throws off and how it is modernising, and how much progress has been made there.

But I think that we obviously look at a variety of options. And Tom, I think I cannot say anything more about that. But I mean, other than to say it is absolutely the correct view and that the Board talks about it and thinks about how we can recognise that value from how do we do that most effectively. So that is on the radar very much for us.

Julien Roch (Barclays): Well, first of all, thank you very much for breaking out digital revenue. We now can map it to your account and having digital advertising is great progress. And also thank you for fleshing out the 2026 target. It is now very, very clear. But my question is on linear analogue advertising because that still is the biggest part of your business. So if you had to venture a best guess for annual decline, that would be great. That is my first question.

And then the second one on pension contribution. Chris said that your actuarial deficit went down. You also paid a bit this year. And the total funding contribution would come down significantly. So could you give us the funding for the next couple of years on the exit rate? That is my second question.

Chris Kennedy: Yes. So Julien, on linear advertising, we do not guide more than we can see into the future. But the whole thesis around ITVX is based on the fact that linear audiences will continue to decline much more slowly than many of the bears would say. But it is very clear that linear C7 consolidated weekly viewing has declined steadily at the 2-3% over the last five years and the five years before that.

Carolyn McCall: But actually, the revenue has grown.

Chris Kennedy: And yes, to-date the media inflation compensates for that. So there is a scenario where NAA[?] could be flat. But I think the exciting thing about ITVX is it opens up so much more inventory for us, and that inventory is capable either of being used to extend reach in a mass reach campaign or it can be used for targeting. So inherently, it is more valuable to us and to advertisers. So that is why we have one content budget and a single commercial team selling both sides of the coin.

Carolyn McCall: Pension.

Chris Kennedy: Pension. I can give you the numbers. This year, including the £80 million of catch-up on SDN, it is £137 million. That then comes down to £62 million the following year and £67 million after that. And then post that period, it starts to decline very, very rapidly, indeed. So the last really big contribution is in 2024. And by 2026 onwards, it is just the amortisation of the SDN scheme. And of course, we have the pleasure of starting the next triennial valuation in a couple of months' time.

Julien Roch: So in 2026, how much is just the amortisation of SDN?

Chris Kennedy: £17 million.

Lisa Yang (Goldman Sachs): A few questions, please. I think firstly, Carolyn, you mentioned you have not seen any impact yet from a weaker macro environment. So I am just wondering what is driving the 18% decline in August. Is that just driven by particularly tough comps because obviously it does not look like all these big multi advertisers, so just wondering why it is down so much? That is the first question.

The second one is, obviously, you mentioned for the resilience of the ITV business and how that has changed not really well commoditised by the market. I am just wondering how you're thinking about –

Carolyn McCall: Could you just speak a bit slow because we are just struggling to hear your question.

Lisa Yang: Okay. So the second question is, how do ITV perform in a potential recession? I mean I think you mentioned earlier, the business has changed, become more resilient. So just wondering your thoughts around that. And what could you do to potentially mitigate the [inaudible] I think around your ITVX investment. I think you talked about pretty exciting investment next year. So I am just wondering if the macro really deteriorates whether there is any flexibility in terms of maybe shifting the investments to [inaudible]. That is the second question.

And thirdly, just wondering like what you expect the potential of the scope of impact of recent CMA review on the spot production site to be? I am not sure like how impactful, how meaningful that could be? So any colour would be appreciated.

Carolyn McCall: I am hoping I got all your questions, but do say if I have not answered any of them, and Chris will come in.

On the macro environment, what we are saying is that there was nothing that we saw so far, that we have seen so far that was away from our expectations of what we would do. So the August number, we were expecting that and we actually said that, because it is comparing a very buoyant period last year. So we have always said Q2 comps were going to be very difficult.

So the Q2 decline in ad revenue was not a surprise. It was what we had predicted, what we had estimated. It is also our lightest month really of the year. So it is off a very low base.

Chris Kennedy: And to put in context, August we are saying is up 5% versus the equivalent in 2019. So you can see it really is just driven by that comparator. And that comparator is because Love Island shifted later because we had the Euros last year. So we had the benefit of Love Island in the beginning of August.

Carolyn McCall: Yeah. So that is August. I think you have asked about a recession and what may and may not. I think the thing to say is that if we saw some slowdown and as I have said, every company is going to be doing a range of scenarios looking at that because the macro news is not brilliant in terms of cost of living and so on. We have said we have not seen anything in the numbers yet.

But I think that advertising is obviously correlated to GDP. We are a UK business. And so therefore, that has not changed. And what I would say is that the COVID, the pandemic period is evidence that we will move very fast on cost, if we need to, that we will invest and protect the strategic areas that we have to invest in because that is what we did, and that has really paid off for us, as you can see in our numbers today.

And I would say that we emerged from the pandemic a much stronger, more resilient business than when we entered because of the actions that we took and how we took them. So I think that is something that is important. And actually, we have obviously looked back on the recessions. One of the things that comes through loud and clear is that the snapback or the bounce back for advertising, particularly for TV, is very, very strong. And COVID again demonstrated that.

I mean, that is one of the reasons the comps are so tough, Q2 and Q3 is that as COVID restrictions were lifted last year, the band[?] of advertising was incredibly strong. So we need to always have that in mind as we are going through any slowdown environment.

I think you asked specifically about investments in ITVX, and the major investment in ITVX really is content. And what we would say is that for us, it would be only a short-term lever. It is an obvious thing because you do not think it is going to be damaging. But actually, in the medium to long term, it would be very damaging to be cutting content spend because we know that content is what not only drives viewers but keep viewers. It retains viewers. And that is incredibly important for ITVX.

So if we had to, it would be a short-term lever, and we did that in COVID, we deferred. We postponed. Did not come completely out, but it was just a deferment of budget. So I would say that would only be a short-term lever that we would pull. So that is on recession.

I think your third question was about the CMA, which I think is pretty well publicised that there is a sector-wide inquiry, investigation. It is about freelance rates in sport. It is, as I said, a cross-sector, involves other broadcasters as well as ITV. And we are working well with the CMA at the moment. Of course, we are fully cooperating, and we have no other information on that yet.

Nizla Naizer (Deutsche Bank): I have three questions. The first is on the macro conditions going into the second half. Is there anything that could potentially change your view on the timing of ITVX or the investments going into it? And related to that, I mean, you have now had experience investing so far in 2022 on ITVX. Do you think the incremental content investment that you flagged for next year, which is, I believe, around £160 million? Is that sufficient based on the trajectory that you are hoping to gain and the experience you have had thus far? Some colour there would be great.

Secondly, on Q4. You have a clear advantage of screening the World Cup matches during that quarter. Have you had conversations with your advertising clients already on the potential advertising that they would want to get around the event? Some colour there would be great.

And lastly, in the Studios business. I mean, there has been all this talk about subscribers moving away from streaming platforms just to cut costs or rationalising their own amount of subscriptions that they pay for, etc. Is there a risk that there would be a cooling of demand? Or is that something that you have factored in? Or are you still seeing such solid demand that the percent growth that you are talking about is still very likely? Some colour there would be great.

Carolyn McCall: Okay. Chris, if you take the first two, ITVX investment in H2, incremental investment sufficient. And I will take Q4.

Chris Kennedy: Yeah. I mean, we fully intend to launch ITVX in Q4, and that has not changed. As Carolyn said, we will invest through the cycle. I think it is very important that we do that to grow ITV in the medium term.

And the £160 million, is it sufficient? I mean, from everything we have seen, as I said earlier, we went through a really detailed bottom-up view. You will have seen that viewing on our owned and operated and Amazon, that the viewing of Hub and BritBox is up 21% year-on-year. So that is still growing really strongly. And that £160 million is on top of what we are spending on linear. So you have got the weight of all the linear content, including the World Cup that will drive people to act, plus what we call the digital first, which is what the £160 million is there for to broaden out the offering on ITVX over and above what we have got on linear. So yeah, we maintain the same view, really.

Carolyn McCall: Yeah. I think just remember, what is brilliant is having a one content budget, a proportion of which, as Chris says, is digital first. But it is a £1.35 billion budget now across everything that we do. And that gives Kevin and the commissioning team a lot of flexibility as to how to optimise that spend as and where it will make the most return. So that is a big shift, which we made about 18 months ago, and it is working really well.

On the World Cup, yes, very exciting. I think viewers cannot wait. So we expect that to be big. And yes, of course, Kelly and his team are talking to all advertising clients every day

about the World Cup, huge amount of interest, as you imagine. And we expect it to be a very, very strong month for ITV as a result. So lots of excitement from clients and they have done road shows and all other things, talking about the World Cup.

Your third or fourth question was this moving away from streaming and subscriptions coming off and that highly publicised Netflix subscriptions coming off, etc. Just remember that we are launching ITVX. It is a free service to viewers. It is ad funded. And so our business is about subscription being a premium. It is 10% of our revenue roughly, 10% to 12%. Will remain 10% to 12% of our revenue going forward.

BritBox is actually backing the trend, and I think that is because it is a very niche service. It is unreplicable in any other platform or it is particularly British content and appeals to a very specific audience. And if I give you those figures, we have got over 3.6 million global subscribers for BritBox, about precisely 733,000 subscribers in the UK, which is up 45%. And BritBox International is 2.4 million, which is up over 50%.

So the aim there is to get to 10 million to 12 million by 2030, which we think is very doable because it is launched in South Africa. It is launched in the Nordics, and it has done very well. But it is a niche product. It is not a global, massive driving a particular kind of streaming service.

So the really important thing to bear in mind is ITVX is free to viewers. And if you want to watch it ad-free, you can go into the premium tier and get BritBox and ad-free ITVX content and pay for that. But it is only a small portion of overall. So I think it derisks us quite significantly from that.

Richard Eary (UBS): Can I just have two housekeeping questions? Chris, just on Plimsoll, can you give us a feeling in terms of impact on second half? I know in the press release, you talked about EBITDA. But whether you can talk about revenues and EBITDA for second half this year and full year next year? That would be great.

And then the second thing, if you would go to the cost line item ex content in the Media & Entertainment business, given the puts and takes that are moving around, can you give us a full year expectation on that number? That would be great.

Chris Kennedy: So on Plimsoll, Richard, broadly speaking, it is about £35 million of revenue and £5 million of EBITDA this year that it adds to the P&L. We closed the deal on 1st July. So that is a half year impact. So that gives you pointers of the orders of magnitude on an annual basis as well.

And then the cost ex content, I think you are thinking about compared to consensus at the half year. We think it is really a phasing issue. So broadly speaking, we believe consensus is in the right place for the full year.

Richard Eary: That number [inaudible], is that correct?

Chris Kennedy: I did not catch that.

Richard Eary: I said that number for basically other cost ex content is [inaudible] 590, is that correct?

Chris Kennedy: Yeah. 590, 600, Yes.

Sarah Simon (Berenberg): I have got two questions. First one, you have given us streaming hours, but can you give us an idea of total hours of ITV content consumption and how that compares to last year?

And then the second one was you have obviously increased massively the amount of content on Hub. And year-on-year, it is close to 4 times, and obviously, it is a big step-up versus year end. Are you happy with an 8% growth in terms of streaming hours, because it is obviously not massive. And if you are at 7,500 hours now, and you are going to 9,000, the increment is not that huge. And if you are not going to do a massive marketing campaign, I am just wondering how easy it will be to deliver the KPIs that you are talking about?

Carolyn McCall: Take the second question first. It is about 6,000, 6,500 hours at the moment. It is going to go up to 9,000. We have not promoted that in any major way. So we are just preparing for ITVM and just building Hub. So we have not done any event marketing or above the line promotion, any of that, other than what we would normally do for main channel or ITV2. And I think that we are not worried about the KPI. I mean we are always worried about everything. But I mean, we are not anxious about achieving the KPIs. We think we can do that.

Chris Kennedy: I was just going to say, Sarah. I think what you may have missed is the streaming hours were up 6%, but what I said earlier was that really is a game of two halves. The viewing hours on our platforms are up 20% in the half. The reason the overall streaming hours are only up 6% is that until recently, we had a series of box sets and box set drops at transmission on some of the big pay platforms. And that was viewing that we could not monetise because we could not dynamically insert those ads.

So we chose to take that content down. And then when ITVM is launched, all of that content will be available and it will be monetisable. So we will get the benefit of that later.

Carolyn McCall: So there was a deliberate hit. So we consciously did that because we wanted to get the advertising revenue potential of that. But we are not worried. Of course, there is going to be marketing spend around the launch. What I am trying to say is we have to market in a different way because ITVM is on all the time. It is not like it comes and then the program goes. It is going to be on for a long time. So we need to make sure that we launch it really well and that we make sure everyone knows that it is very different to what we were doing on Hub, but then we have to continue to promote what we are doing every single week and every single month. That is kind of what I meant about marketing.

I think the next question was about ITV. I know you have done that. And I have done the Hub increase. I think we have answered them.

Sarah Simon: It was about total hours, including linear.

Chris Kennedy: Yeah. That is not one of our KPIs, but we can follow up with you with the KPIs of streaming hours.

Matthew Walker (Credit Suisse): A couple of questions. The first one is on Studios. Do you feel like you are being a little conservative, 16% growth in the first half, over 13% margin. Can you maybe talk us through the phasing impacts there in Studios, if there is any? And what to expect for the full year?

And then I think there is also an investigation into advertising slot timings. Can you say anything about what you expect from that? Are there any benefits or not to come out of that, do you think?

Carolyn McCall: I do not think we are being conservative about Studios. I think we are just being pragmatic and realistic, I think that we are doing very well. I think the numbers are looking very good on Studios, and we would expect that to continue for the year.

Honestly, I do not think it is not interested to be conservative. I think we have said we are going to exceed market growth. We are going to get back to 13% margin range, 13% to 15%. Obviously, we are trying to get over 13%, but it is brilliant to be back in that range again. So I mean, if there is anything else you would like to know about Studios in terms of how we have got to where we have got to, we are very happy to talk to you about that offline.

I think what you are referring to is the Ofcom looking at this, something about advertising minutes. I think that is what you are referring to. Ofcom is doing that as part of their Channel 3 and Channel 5 licenses. So they are doing a review of all of that. And I think what they are doing is looking at the fact that commercial PSBs take less minutes than others who are unregulated and whether that is something they want to equalise.

So it is in their hands at the moment. They are working on that at the moment. And obviously, if it went in our favour, that would be good.

It just leaves us to say thanks very much. Thanks for joining the presentation. Thanks for all your questions. And we look forward to seeing you all very soon.

[END OF TRANSCRIPT]