# ITV plc Full Year Results 2021

Thursday, 3rd March 2022

# Introduction and Highlights

Carolyn McCall

*Chief Executive, ITV plc*

**Welcome**

Good morning and thank you for joining us for ITV's 2021 Full Year Results. In a moment Chris will take you through our operational and financial performance. I will then share our strategy and ambitions for ITV's digital acceleration, phase two of our More Than TV strategy and we will of course have plenty of time for questions. At 10.15 the M&E team will take you through our Media & Entertainment strategy, specifically how we are supercharging streaming, which will be followed by a live Q&A session. I very much hope you will be able to join us for that as well.

Before I touch on the highlights of our results I wanted to share a short tape which demonstrates the fantastic content we have shown on our screens, on your screens and also programmes we have produced for other broadcasters and platform owners globally. Please play the tape.

*Tape*

*'They've done it. And that's what it needs. Up and down the country. And welcome to the* Love Island *live final. Something's not right. Cheeky never made it home. This is who I am. Two zero six nine, no further intel, suspect is believed to be armed and dangerous. Go get'em tiger. Here we go. [Inaudible 01.46] was a British citizen and she's dead. No, she's a missing person. Dead. We're at war, Amanda. This is nae about solving crime. It's about eradicating scum from the face of the earth. Once contaminated it can destroy everything. Bloody hell Bruce, it's going to take ages.'*

As always a brilliant reel from ITV.

**Highlights**

*2021 Strong Group Financial Performance*

Our financial performance in 2021 was outstanding. We achieved record revenues and very strong earnings. Total ITV Studios revenue was up 28% with growth across all divisions. Total advertising revenue was up 24% year-on-year, the highest in ITV's history. We saw strong AVOD performance with revenue up 41% compared to 2020 and up 65% compared to 2019. Adjusted EPS was up 40%. Reflecting the strong cash flows and confidence in the business, the Board has proposed a dividend of 3.3 pence for the full year, as previously guided. This is based on two-thirds of the notional full-year dividend of 5 pence. Looking ahead the Board is committed to a dividend of at least 5 pence per annum which we intend to grow over time.

**2021 Strong Group Financial Performance**

*Revenue*

These charts demonstrate the significant recovery in 2021 with many of our revenue lines above or close to 2019 levels. Total external revenues were up 24% in 2021 driven by record-breaking advertising revenues and strong growth in Studios, up 4% compared to 2019. ITV Studios revenues were down only about 2% compared to 2019 on a constant currency basis.

*Profit and Cash*

Profits have also seen a significant recovery since 2019 driven by revenue performance and tight cost control. Year-on-year adjusted EBITA was up 42% compared to 2020 and up 12% compared to 2019. Cash generation remains strong in 2021 driven by record advertising revenues and a focus on working capital management.

**ITV's ambitions outlined at 2018 Capital Markets Day**

In the summer of 2018 we set out our More Than TV strategy, as many of you will remember. Our ambition for ITV was to be the pre-eminent integrated producer broadcaster in the UK, a world-class creative force in global content production and to build a leading direct-to-consumer business in the UK. We set out to position our brand in a way that was more modern and digital, alongside creating a sustainable, cash generative and growing business. I am really pleased to say that we have delivered on each of those ambitions.

It was also essential of course that we built capabilities in data, analytics and technology to deliver that ambition. We have made good progress on this and in a short space of time. We continue to build our capabilities in these areas. We have successfully executed phase one of the strategy in spite of the disruption caused by the pandemic over the last two years, partly by continuing to invest in the strategic priorities that we know would allow us to deliver on our ambition.

**Successful execution of Phase One of the Strategy**

*Digital foundations – Delivered Phase One of More Than TV strategy*

Let me take you through that progress in a little more detail because it has laid the foundations for our confidence in the timing for digital acceleration. ITV is now the largest ad-funded premium streaming service in Europe, having driven strong growth in digital viewing and digital advertising since 2018. We also now have an established and growing SVOD business in the UK and internationally with more than 3.6 million subscribers globally. We have 1.2 million subscribers in the UK through BritBox UK and Hub+ and BritBox International continues to grow strongly as we roll it out to more countries.

In advertising today we offer the best of both worlds with our leading market position in mass simultaneous reach, which is so valued by advertisers, and the development of addressable advertising through Planet V, [inaudible 06.10] safe and measurable environment. Planet V is now the second-largest programmatic video advertising platform in the UK after Google with over 1,000 users and growing.

Moving on to data and analytics, this is an area where we had little or no capability in 2018 and today we have a Chief Data & AI Officer who is making good progress in building a team of about 115 data analysts and scientists by the end of this year with capability embedded in each area of the business so that we can extract the right value, whether that is advertising revenue or efficiency gains. It has already become a centre of excellence within the company. Our data strategy is clear and understood by all elements of the business.

On technology we have increased our inhouse capability by doubling headcount to 300 over the past year to enable the rapid delivery of our digital output. In ITV Studios we have set out to further scale and diversify our world-class studios business. We are now a key scaled player in the global content market. We are diversified by geography, by genre and by customer base. We are in a position of strength to take advantage of the growing demand for quality content.

Over the last three years it has been absolutely key to tightly manage our cash and our costs and we remain on track to deliver £100 million of cost savings by the end of 2022 which has funded our investments to-date to support our strategic priorities.

**Delivering long-term value for shareholders**

*Digital Acceleration – Delivering Phase Two of More Than TV strategy*

From this track record of delivery and the success of Hub, Hub+, BritBox and Planet V we see a clear opportunity to supercharge streaming. By doing that we will more than double digital revenues by 2026 to at least £750 million. We have the experience and capability needed. We are confident that we are well placed to achieve it and that now is the right time. At the heart of this will be ITVX, the first integrated AVOD/SVOD streaming platform in the UK with a digital-first content strategy. This will enable ITV to double digital viewing, double monthly active users and double subscribers. We have seen a growing demand from viewers for streaming content and from advertisers wanting premium addressable inventory. ITVX will deliver both of these things at scale.

This will require significant content investment in our digital-first strategy of £20 million in 2022 and £160 million in 2023, funded by our strong balance sheet and cash flows. We are confident that by 2026 the incremental annual revenue of ITVX will cover the annual incremental investment cost. Today we are also announcing a further £50 million of permanent cost savings in 2026 and beyond, which will start to be delivered in 2023. Now of course you are going to hear much more about ITVX from me and the Media & Entertainment team but I will now hand over to Chris to go through our operational and financial performance in more detail.

## Financial and Operating Review

Chris Kennedy

*Chief Operating Officer and Chief Finance Officer, ITV plc*

**ITV Studios**

*Strong financial performance despite continuing COVID-19 challenges*

Good morning everyone. We will start with the performance of Studios. ITV Studios maintained its good momentum into the second half of the year with a strong slate of deliveries as we continued to focus on growing and further diversifying by genre, by geography and by customer. Despite COVID-19 challenges the majority of productions continued throughout 2021 with demand for both quality original commissions and library content remaining strong.

There is a lot of information on this slide so I will highlight just a few points. Total revenues were up 28% with good growth across all businesses but particularly from the UK and the US. Both businesses benefitted from a number of significant deliveries in the second half including *I am a Celebrity* and *The Outlaws* in the UK and *Snowpiercer* and *Rat in the Kitchen* in the US. Global Formats & Distribution also had a good year with strong demand for our content library of over 90,000 hours and our catalogue of almost 300 formats. Adjusted EBITA was up 41% to £215 million with an adjusted EBITA margin of 12% impacted by ongoing COVID protocols.

**2021 ITV Studios KPIs**

Turning to the KPIs we remain on track to exceed 2019 revenues in 2022 and to grow total Studios revenue by at least 5% per annum on average to 2026. We also remain committed to returning to margins in the range of 13-15% by 2023. High-end scripted hours were up 56% driven by new dramas such as *Vigil* in the UK and another season of *Snowpiercer* in the US. The number of formats sold in three or more countries increased to 15 including *Let Love Rule, The Voice Generations* and *Beat the Chasers*. The percentage of total revenues from streaming platforms increased by three percentage points to 13% with deliveries such as *Physical* for Apple+, season two of *Summertime* for Netflix and *Ten Year Old Tom* for HBO Max.

**Media & Entertainment (M&E)**

*Total advertising revenue was the highest in ITV's history, up 24%*

You will see a new P&L format for Media & Entertainment. We now disclose total advertising revenue, total UK subscription revenues, SDN and partnerships & other revenue. This last category includes revenue from platforms such as Sky and Virgin Media, competitions revenue, third party commission and commercial revenue from our creative partnerships. In addition BritBox content spend which was previously included within variable costs is now combined with our network schedule costs to give a single content budget across our platforms. A full reconciliation of the old and new format can be found in the appendices.

We have also introduced a new KPI, digital revenue, which will measure the success of our digital-first strategy. Digital revenue is the sum of VOD-related advertising partnership and sponsorship, digital innovation and subscriptions. In 2021 it was £347 million. As Carolyn said, we saw a strong recovery in the ad market with total ad revenue up 24%, reaching the highest in ITV's history. Within this VOD advertising revenue has been strong, up 41% and this exceptional performance was partly driven by the rebound in the economy but also the quality of our schedule, continued demand for TV advertising, the unrivalled audiences that we deliver for advertisers and the relative weakness of cinema, outdoor and print media.

Subscription revenue is up over 50% driven by the growth in both BritBox UK and Hub+. As expected SDNs revenue was under pressure this year, down 4% as older contracts were renewed at the new lower market price for DTT capacity. WE expect this pressure to increase over the next few years as further contracts are renewed. Partnerships and other revenue increased by 2%. Within this third party NAR commission increased, partly offset by a decrease in competitions revenue which had been exceptionally strong in 2020 due to the lockdown.

Content costs were up 18%, in line with guidance with a return to a more normal schedule and the Euros. Variable costs were up 10%, largely driven by increased marketing which was abnormally low in 2020. Infrastructure and overhead costs increased by 9% due to planned investments of £11 million in ITV Hub, Hub+, data and technology, along with the accrual of staff bonuses which were cancelled in 2020. We continue with our strong cost saving programme delivering £30 million of savings in the year, £27 million of which are permanent.

Net investment in BritBox was £48 million with venture losses of £61 million, in line with expectations. In future BritBox will be integrated into ITVX. Adjusted EBITA including BritBox UK was up 42% to £598 million with a 26% margin. Turning to 2022 the advertising momentum has continued into this year with total advertising revenue in Q1 expected to be up around 16%. It is early days for April but we expect it to be up around 10% against tougher comparators and therefore the four months to April to be up around 14%.

**ITV Total Advertising Revenue**

Looking at 2021 TAR in a little more detail, retail and entertainment & leisure categories have been particularly strong due to both the return of advertisers who had virtually stopped advertising last year and others attracted by the significant audiences around the Euros. Whilst up 43% year-on-year, airlines & travel spend did not return to 2019 levels due to ongoing travel restrictions and uncertainty. Government, charities & other is the only category where spend declined in the year, largely due to the high level of spend in 2020. E-commerce companies excluding gambling continue to increase their spend with TAR up 28% across the full year, continuing a multi-year double-digit growth trend.

**ITV Viewing**

Turning to viewing we had a strong schedule of drama, entertainment and sport in 2021. ITV had three of the top-five biggest new dramas on TV. Series two of *The Masked Singer* was ITV's biggest entertainment series, averaging a 34% share and the Euros semi-final match between England and Denmark achieved the biggest-ever peak for a football match on a single channel with 27.6 million viewers. Our share of viewing for the ITV family remained broadly flat in the year withing which ITV main channel achieved its third-biggest share of viewing in a decade. Total ITV viewing was down 9% compared to 2020, a year in which viewing rose sharply due to the pandemic, and this is slightly better than the market where total TV viewing declined 10%. Total registered users grew 6% to 34.7 million.

As we enter phase two of our strategy we will focus on the KPIs that measure how we are both maximising our viewing across AVOD and SVOD and optimising our broadcast business. Starting with AVOD and SVOD KPIs due to the strong slate of new dramas, the return of key entertainment shows and live sport, total streaming hours were up 22% and monthly active users were up 19% to 9.6 million. Total subscribers were up 33% with growth across both BritBox UK and ITV Hub+. Turning to broadcast our focus will remain on driving the large audiences which are so valuable to advertisers and maintaining our share of broadcast viewing. In 2021 we delivered 93% of the top 1000 commercial programmes and maintained our share of commercial viewing at 33%.

**BritBox UK and BritBox International**

BritBox UK and BritBox International remain a key part of our strategy. We now have 3.1 million BritBox subscribers globally. BritBox UK which will become an integral part of ITVX ended the year with over 733,000 subscribers, ahead of plan and churn has halved since launch. Subscribers enjoyed five new and exclusive originals in 2021, including *Secrets of the Krays* and *Crime*, and we will be launching eight new originals in the first half of 2022, including *Secrets of the Spies* and *Why Didn't They Ask Evans*?

We continue to roll out BritBox International which is seeing strong growth in its subscriber base, currently at more than 2.4 million. It is now available in four countries, most recently launching in South Africa and we will launch in the Nordics in the first half of 2022. As the global pool of streaming subscribers grows so does the opportunity for BritBox. By 2030 we expect to have attracted 10-12 million subscribers for BritBox internationally outside of the UK.

**2021 Adjusted and Statutory Results**

Onto adjusted and statutory results. Adjusted EBITA increased by 42% to £813 million and adjusted EPS increased by 40% to 15.3 pence. This compares to 13.9 pence in 2019. Adjusted finance costs were down £5 million year-on-year reflecting the lower levels of net debt in the year and they are expected to be around the same level in 2022. Our adjusted tax rate was 20%. In 2022 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 the increases with UK corporation tax. Statutory EPS rose from 7.1 pence to 9.4 pence.

**Total Exceptional Items**

Exceptional items totalled £206 million in 2021 which includes the final payment in respect to Talpa. Restructuring and property costs of £16 million relate to significant business transformation projects and the London offices moving to a single site in White City in 2022. Pension costs are an estimate of the settlement of Box Clever case. We had a £16 million onerous contract provision as a result of clearing a second satellite transponder and a £22 million provision for employment taxes. We expect exceptional costs to come down significantly in 2022 to around £60 million which will 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.

**Robust Balance Sheet and strong cash flow generation**

Looking at the balance sheet our cash conversion was stronger than we expected at 80% driven by the record advertising revenues and tight working capital management. This was partly offset by the unwinding of the Studios working capital benefits in 2020 and the deferral of 2020 VAT payments to the first half of 2021. We expect to maintain profit to cash conversion at around 80%. Net debt at the end of the period was £414 million. Net debt to adjusted EBITDA is 0.5x. Our covenant leverage is 0.3x and we have total liquidity of £1.5 billion. The accounting deficit of our pension scheme is £8 million. We continue to reduce the volatility of the pension obligations through a combination of inflation and longevity hedging and the cash matching of investments in future liabilities. We expect to agree the triennial actuarial valuation as at 1st January 2020 shortly and will agree a new funding contribution plan based on that. We do not expect the funding profile to materially change. We are also looking to replace the existing SDN asset-backed scheme with a similar arrangement.

**2022 Planning Assumptions**

*P&L*

Finally 2022 planning assumptions, which are based on our current best view. I have talked through most of the P&L assumptions and we come on later to give more detail about the specific investments relating to ITVX. The investment of £10 million in our digital innovations is focused on attracting talent and creating content and advertising opportunities, targeting 16 to 34-year-olds as well as revenue generation through initiatives such as Planet V, addressable advertising and our Studio 55 incubator. These investments will break even in 2023.

*Cash*

In terms of cash for 2022 capex for the full year will be around £70 million. The cash cost of exceptionals is expected to be around £50 million relating to digital transformation costs, accrued earnouts and our property strategy. Finally the Board is committed to a dividend of at least 5 pence in 2022 which we expect to grow over time. I will now hand you back to Carolyn.

## Strategic Highlights

Carolyn McCall

*Chief Executive, ITV plc*

**Our Strategic Vision**

I talked earlier about our focus on digital acceleration and we are clear that our vision is to be a leader in UK streaming and an expanding global force in content. We have refined our three key strategic pillars to reflect this.

**Digital Acceleration**

*Phase Two of our More Than TV strategy*

Expanding studios globally and growing revenues faster than the market, supercharging streaming fundamentally shifting the focus of the business to think digital first and optimising broadcast by continuing to attract unrivalled mass simultaneous audiences.

Being an integrated producer of broadcaster, as you know, gives us clear strategic competitive advantage. It provides ITV Studios with a base of core commissions and a significant promotional engine for its content. It enables cross-promotion and 360-degree monetisation of this across all our business models. It secures access to great content for ITV’s channels, AVOD and SVOD businesses. Very importantly, it helps us attract and retain talent, which is of course absolutely critical in a creative business.

I am going to take each pillar in turn starting with supercharging streaming.

**Changing viewer habits**

*A significant addressable market*

We all know viewers’ behaviours are changing just as our own behaviours are changing with what we watch. We have to ensure we have a flexible business model to take advantage of this and which can evolve as viewer and advertiser habits change. We will have a single scale destination for watching content whenever and however our audiences choose, free and pay, which will create the inventory our advertisers want. We have undertaken extensive research with viewers and subscribers and this is what they are telling us. Viewers do want flexibility to watch whenever it suit them free and/or pay in a seamless consolidated experience. While they are looking for choice viewers also like the lean back experience of always-on, FAST channels which are growing rapidly in the US. They really, really value watching sport, entertainment and news live as the nation’s conversation revolves around what we show on screen.

Our in-depth segmental research shows that there is a sizeable addressable market for this consumer proposition, 23 million viewers approximately and we already have a relationship with these viewers but we aim to increase their frequency of visits and time spent on our streaming service to really deepen that relationship. We will use our deep datasets to engage and attract what we are calling mainstreamers to ITVX and of course Rufus is going to talk to you about this in much more detail later on in the M&E seminar.

**Evolving advertising market**

*Advertisers want data-driven addressability as well as mass simultaneous reach*

Alongside changes in viewer habits we are also seeing evolving needs from our advertisers, as you would expect. Our strength in live TV as the UK's largest commercial broadcaster with the ability to reach millions of households at the same time remains a unique selling point for advertisers. Advertisers also increasingly want highly valuable addressability and data insights. With ITVX we will continue to be the clients' first choice, bringing them the most value and allowing them to create and measure the most effective ad campaigns across all platforms.

**ITVX – introducing Britain's first new streaming service**

ITVX will launch in Q4 of this year. It consolidates our digital offering, as I have said, into one integrated AVOD/SVOD platform, the first of its kind in the UK. It will be Britain's freshest new streaming service. We will have a digital first content strategy and we will be making significant additional content investment, as I said, driving exciting new leading edge content.

ITVX as a brand, represents the familiarity, trust and quality of one of the best-loved brands in the UK but also has many things you would not expect from ITV. That is where the X comes in. Our brand research indicates that the X intrigues consumers giving them a sense of excitement and freshness. ITVX will be AVOD-led with a compelling SVOD proposition.

This is fantastic for viewers. It will provide a simplified and seamless consumer experience with 1,000s of hours of free content made up of both library and original exclusive content. ITVX will offer something for everyone. It will always be changing with more new free content dropping weekly than any other British streamer. The SVOD tier is targeted at viewers who want a premium offering and includes all of the free content ad-free as well as original content from BritBox UK and our future SVOD content partners.

**ITVX**

*The first integrated AVOD/SVOD platform in the UK*

It is also fantastic for advertisers. ITVX will fulfil advertisers' appetite for data-driven targeted advertising and mass simultaneous reach. We will have one content budget, as Chris said, across broadcast and streaming which gives us flexibility in our windowing strategy and enables us to extend the life cycle of our content to maximise its value and our revenues across linear, AVOD and SVOD.

Data will of course be key to optimising our windowing strategy and our marketing spend. It will enable us to upsell SVOD to the right viewers as well at the right time. Our data-led view and model, data analytics capabilities and the use of higher value data-driven pricing models will drive long-term value for ITV.

**ITVX – Digital First Content Strategy**

*What is changing?*

Given the significant content investment in streaming what is changing? I am going to give you a very brief overview now because Ro, our Director of Content will give you much more colour on the fantastic new content we will deliver to viewers at the Investor Seminar. Our digital first strategy represents a significant change in our content offering. By the time ITVX launches we will have more than 15,000 hours of streaming content available free and to pay. Today Hub has 4,000 hours. We will offer weekly VOD exclusive premiers, delivering on our aim of being Britain's freshest new streaming service. Brand new exclusive series will drop every week, content which has not been seen anywhere else in the UK and content which can only be seen on ITVX.

There will be 20 new free ad-supported streaming TV channels, always-on FAST channels that are build dynamically around different content themes, harnessing the power of data and analytics to help viewers find their favourite shows. In addition, all the drama and comedy that we run on our linear channels will be made available to viewers all in one go on ITVX as soon as the first episode has aired. This sits at the very heart of our digital first approach.

In addition to all of that our AVOD offering will also include hundreds of hours of bingeable acquired boxsets and feature films from major studio partners and iconic ITV boxsets from the UK. ITVX's premium tier will include BritBox's 6,000 hours of British content and in addition this tier will also include ITVX originals, future streaming partners and all of ITVX's content ad-free. That means that current BritBox subscribers will have access to all of those 15,000 hours which is a great benefit for BritBox subscribers because they will get all that ad-free. ITVX clearly provides a significant opportunity for us to upsell seamlessly to free to pay in a single customer experience.

To enable BritBox's integration into ITVX to give ITV greater control over BritBox UK the BBC has ceased to be a shareholder in BritBox UK. The BBC continues as a strong partner for BritBox UK and BritBox International and we have agreed a new long-term content supply deal with them to the end of their charter. All PSB partners are committed to BritBox UK which offers consumers a large library of the majority of PSB British content in one place from the past and from the recent past.

**ITVX will deliver valuable audiences for advertisers**

ITVX will deliver addressable advertising and harder-to-reach demographics at a scale not available before, as I said, in a brand safe environment. Campaigns will be tracked, measured and optimised. Furthermore ITV Ad Labs, the new home for all our digital innovation, will drive further value for advertisers which Kelly will tell you more about later.

**ITV is uniquely well-placed to successfully deliver this as largest premium AVOD service in Europe**

We are confident that this is the right strategy and that this is the right time for us to accelerate digitally. The reason for this is we now have a strong track record of delivery and we have a depth of understanding of VOD viewers. We have a highly-recognised brand and cross-promotional reach. We have established data capabilities to drive viewing and revenues. We have existing deep advertiser relationships and Planet V puts us in a really strong position to capitalise on data-driven advertising growth. Finally, as an IPB, an integrated producer broadcaster, with a successful studios business we have a strategic advantage, as I said. ITV Studios will be pivotal in delivering new streaming content to ITVX.

**Delivering long-term growth and value for shareholders**

*2026 Media & Entertainment KPIs and Ambitions*

Now turning to our broadcast division, despite the ongoing narrative around evolving viewing trends and a shift to digital viewing, our broadcast business continues to consistently deliver unrivalled commercial audiences. In 2021 93% of the top 1,000 commercial broadcast TV programmes were on ITV, whilst ITV main channels share of viewing was the third-biggest share of viewing in a decade. Every single part of the schedule is profitable. Our evolved strategy will provide us with flexibility in how we window our content to optimise our USP as the largest commercial PSB in the UK whilst supercharging our streaming platform.

We have set ourselves stretching targets over the next five years. As I have mentioned before, we absolutely see an opportunity here to more than double our digital M&E revenues by 2026. We will do that by bringing more viewers to our service and doubling our monthly active users to 20 million by enticing those viewers to spend more time on our platform which we are destination. We plan to double our total streaming consumption to two billion hours. By providing a compelling SVOD offering we intend to double our UK subscriber base to 2.5 million. Alongside this we will of course ensure that we continue to deliver mass simultaneous audiences and maintain our share of commercial viewing.

**ITV Studios – Our Strategy and 2026 Ambition**

Finally let us go to the third and last pillar of our strategy to expand Studios globally and grow faster than the content market. As you heard at our recent Investors Seminar, we are confident in our growth trajectory over the next five years. We are building from a position of real strength globally based on our assets and significant progress to-date, as I talked about earlier. We produce now in 13 countries and in the majority of those markets we are one of the top-three international producer groups. In the UK we are the biggest. We have strong relationships with all the key buyers. We have a catalogue of over 90,000 hours. We have 285 formats globally.

We are operating, as you know, in a growth market and strategically pivoting to the key drivers of that growth, in particular streamers and scripted. We continue to expand our global formats business aided by a world-class commercial arm. We offer a very strong creative culture that provides a real competitive edge in attracting and retaining the industry's best creative talent. We are laser-focused on our strategic priorities. We have set out really clear measures for success for our Studios business around growing our scripted business, growing our global formats business and further diversifying our customer base. I am now going to just hand you back to Chris to go through our plan for investments and cost savings as well as our capital allocation framework in more detail.

# Investments, Cost Savings and Capital Allocation

Chris Kennedy

*Chief Operating Officer and Chief Finance Officer, ITV plc*

## Disciplined approach to content investment

> *Confident that incremental annual revenue will cover incremental annual investment in ITVX in 2026*

To deliver this digital acceleration we have announced further investments across content, data and technology funded by our strong cash flows and partly offset by a new programme of cost savings. We are confident that by 2026 incremental annual revenue will cover incremental content and non-content investment in ITVX. Let us start with content.

The increase in spend and the move to a single content budget across linear, AVOD and SVOD follows rigorous analysis of both the current and the incremental spend. It reflects both the confidence we have in providing compelling content for our viewers and advertisers, as well as the inflation we are seeing in both commissioning and in acquiring content. One content budget across all platforms allows us complete flexibility to allocate and calibrate our investment to maximise viewing and revenues.

Our previous guidance for 2022 content investment was £1.16 billion which now increases by £20 million for additional content for ITVX. The remaining difference between that guidance and the £1.23 billion total content budget is not a further increase in content spend. It is the reclassification of planned BritBox UK content costs from variable cost, reflecting the move to a single content budget. In 2023 we expect to invest £160 million in content for ITVX which is partly offset by a reduction in main channel commissions. In total we expect to spend £1.35 billion, a net increase of £120 million compared to 2022 and for total content spend to continue at around that level going forward.

## Non-content investment

> *Additional cost savings in 2026 fund ongoing investments and variable streaming costs and transition costs are one-off in 2022/23*

Now moving on to non-content investment. Data, technology and streaming costs will increase by £25 million in 2022 and remain at that level in 2023. We expect the variable costs of streaming to continue to rise thereafter as viewing and content hours increase. In addition there will also be one-off costs relating to the launch of ITVX of £20 million in 2022 and £10 million in 2023.

## Continued delivery of 2019 cost savings programme; additional cost savings announced

We continue to manage our costs tightly and remain on track to deliver £100 million of annualised permanent overhead cost savings over the four years to the end of 2022. To-date we have achieved £83 million of permanent savings and today we have announced additional permanent savings of a further £50 million by 2026 which we will deliver from continued reductions in broadcast supply chain costs, overheads, property rationalisation and further innovation in our ITV Studios. These will start from 2023 but will be back-end weighted. These permanent savings will fully offset the increase in variable streaming costs.

**Disciplined capital allocation framework**

Finally I want to set out our approach to capital allocation. Our first priority is investing in the business in line with our strategic priorities to create shareholder value, as we have set out today. Second, we will continue to manage our financial metrics, consistent with our commitment to investment grade metrics over the medium-term. Third we want to sustain a regular dividend which will grow over the medium-term. We will continue to consider value-creating M&A opportunities against strict financial and strategic criteria. Finally, any surplus capital will be returned to shareholders. I will now hand you back to Carolyn.

## Summary

Carolyn McCall

*Chief Executive, ITV plc*

**Creating long-term value for shareholders**

In summary it has required a relentless focus on delivery to execute phase one of the strategy and now we are in a strong position to take advantage of the opportunities of evolving viewing and advertising trends and growing demand for quality content globally. With the launch of ITVX in Q4 and strong growth in ITV Studios we are confident that we will become a leader in UK streaming and an expanding global force in content. Our strong balance sheet and cash flows enable us to invest in this strategy which we believe will build a more valuable digital, media and entertainment company and deliver returns to our shareholders. Thank you very much for your time and we will happily take your questions now.

## Q&A

**Julien Roch (Barclays):** Good morning, thank you for taking the question. I know Carolyn you just said to focus on numbers and not your new strategy but I have a lot of questions this morning on ITVX. You said it would be an AVOD-led service with a compelling SVOD position, combining ITV Hub, ITV Hub+ and BritBox into free and premium content offering. Will Hub and BritBox brand disappear for one ITVX with two tiers, free and pay, or will you have several brands? If several brands, which one? I think there is still a bit of confusion there. My second question is, can we get the split of the £1,957 million of TAR between linear and on demand? AVOD is up 41% but we do not know the base. I note you chose not to discuss this as a KPI. Do you have it as you report annual growth for the past several years and I think it would be very useful to have this? Lastly, how much will a pure online advertiser add revenue in full year 2021 and how much did they grow by? I do not see that on page 14. Thank you.

**Carolyn McCall:** Okay, just on the brand point, I think it is really, really important just to clarify for you that the brand is ITVX and ITV Hub and Hub+ are no longer brands that we will be promoting. They will not exist when ITVX launches at the end of this year. BritBox will still continue very much to exist. The brand of BritBox will be in the ITVX premium tier with all of the ad-free content that goes onto the ad-funded ITVX service, as well as any other content partnerships that we do for SVOD only. Is that clearer Julien?

**Julien Roch:** Yes, so in a sense you are merger Hub+ with BritBox and instead of having three offers you only will have two. ITVX free and BritBox pay. Is that correct?

**Carolyn McCall:** No. No it will be ITVX free and ITVX premium. Within ITVX premium you will have BritBox, all the other ad-free content that goes on ITVX. You will get it ad-free on premium and any other SVOD content partners that we have will sit in the ITVX premium tier.

**Julien Roch:** Okay.

**Chris Kennedy:** What we have announced today is that our measure for digital progress is going to be total digital revenue. That is a combination of AVOD, subscriptions, partnership & sponsorship, which is digital only, and a few other digital-only revenue streams. We think that is the best measure rather than just focusing on AVOD because this is an integrated AVOD and SVOD proposition. We will manage it as a single proposition with a single revenue and that will be the digital revenue. Digital revenue in 2021 was £347 million and we are saying that we want to take that to £750 million by 2026.

Sorry, I did not follow the third question completely.

**Julien Roch:** On page 14 you give the breakdown of your advertising by industry or categories and you do not have a category for pure online advertisers which other broadcasters say is growing like weeds and is now an important part of advertising. I wanted to know how much it was.

**Chris Kennedy:** You are right, I would not use the phrase growing like a weed but it is growing strongly. It was up 28% in 2021 and that is off the back of double-digit growth for several years now. That is excluding the gambling grounds.

**Julien Roch:** How much is it of revenue?

**Carolyn McCall:** Did you hear the +28% year-on-year? Where did we lose you?

**Julien Roch:** Yes. Yes.

**Carolyn McCall:** You heard that. The we said we actually do not break down pure online brands out of the advertising categories. We have never done that.

**Julien Roch:** Okay, alright, thank you.

**Joe Barnet Lamb (Credit Suisse):** Hi Carolyn, hi Chris, three from me. Firstly just interested with the broader economic backdrop, the looming cost of living crisis coupled with Ukraine conflict obviously very early there. Interested in any comment that you have from that perspective looking forward. Secondly, Studios margin for FY21 was comparatively weak versus my expectations at least. You have guided that it will be back in the 13-15% range. If you were to normalise for the COVID margin headwinds, where would margin be? I am trying to understand how much of the weaker margin is COVID-related versus anything that is blend-related. Then thirdly SDN was meaningfully weak in FY21 driven by the ending of those fixed terms and reverting to market prices. You pointed to that pressure increasing. Can you help us understand how meaningful a headwind that could be for SDN and for how long? Perhaps if you were to normalise all pricing today, what would the run rate revenues be? Thank you very much.

**Carolyn McCall:** Okay, if I just talk about the economic background, I think we have obviously seen a bounce back post-COVID. That is pretty clear in our numbers but I think it is actually much more than a bounce back for ITV. I do think there is a lot of self-help in there. Planet V coming into its own, us really deepening partnerships, many more partnerships across the board, sponsorship deals that are not just putting the brand on a programme but going much deeper than that. Of course data and analytics, the way we are using that now in a very, very different way to 3-4 years ago. I think there has been a bounce back. At the moment we are seeing no affect from the geopolitical, none at all, and we are continuing to see advertisers wanting to ensure that they are getting people back into stores but also shopping online. There is pent-up demand and I think advertisers are wanting to take advantage of that. The areas that economically and because of logistics and various other things that are not as buoyant are airlines for obvious reasons and travel. That has not recovered to 2019 levels but we would have expected without the tragic events in Ukraine that that would have bounced back harder this year. I think probably we will see some aspects of travel come back this year but not others. Then car manufacturers simply because they cannot get the parts so we would anticipate when that log-jam is over that we would start seeing more car manufacturers back on TV. We obviously monitor this very closely but at the moment the advertising market is strong.

The cost of living is a very good question. I think that because we are ad-funded and free TV lots and lots of people are staying home quite a lot to watch TV. They have got used to doing that so even subscription services you would say that that is relatively low cost for families compared to a night out at the cinema or a night out eating out or whatever. I think that our view is we are being very realistic about our subscriptions growth going forward. As we have said, this is an AVOD-led proposition and has got compelling SVOD content for people who want BritBox, British content all in one place and ad-free content from the rest of ITVX. Actually I think we have been very realistic about that because actually we know that about 66% of households have got 2+ subscriptions and BritBox is already a strong part of that mix.

Does that answer the economic question? I hope it does. I will hand over to Chris for the Studios margin.

**Chris Kennedy:** Studios margin Joe I would pretty much say all of the under trend rate margin impact is due to COVID and that will continue to a certain extent next year as well. COVID protocols are still in place. Obviously Studios are doing a brilliant job of managing that and hopefully they will ease over time but who knows? Also you have got that long lead on if GD has co-funded a production that will have been some time ago, based on a budget some time ago and those shows will be delivering into 2023 as well. Underlying absolutely I would say I have not done the forensic maths because you cannot but underlying we would be in that 13-15% range this year.

Then on SDN we are down £3 million in revenue. That pretty much all translates to the bottom line between 2020 and 2021 and this has been a long-term trend. As you know, the unit price of DTT capacity is going down over time and we have some long-term contracts that will be renewed. We can offset that by increasing capacity, reselling and so on. We have done that quite successfully. I cannot give you an end state run rate because that really depends on how demand for DTT capacity transpires over the next 5-6 years. However, you can continue to see that single-digit revenue decline in your modelling is the way to look at it.

**Joe Barnet Lamb:** Excellent, thank you both very much.

**Lisa Yang (Goldman Sachs):** Good morning, thanks for taking my questions. I have a few. Firstly I was wondering what is driving that [inaudible 51.39] investment into digital now. Why now? Is it due to competition or you have seen change in customer behaviour post-COVID? I am wondering what is driving the magnitude of these investments and why now? How is that going to translate into maybe management incentives or operational KPIs? How are you going to be measuring against this target? The second question is on the ad market. Obviously advertising has been extremely strong and [inaudible 52.13] in Q1. How much of that was inflation versus volume led and how do you this inflation versus volume evolving throughout the rest of the year? [Inaudible 52.23] like inflation has been very, very high so I am wondering if that business is stable. The third question is on the new digital revenue. You are saying the revenues will offset investments by 2026 but how should we think about the longer-term margin profiles of the digital revenue, the £750 million you talked about? What is the sort of margin we should expect versus your existing broadcast margin? Thank you.

**Carolyn McCall:** Okay, if I start with the first thing, why now? The answer is pretty clear. We are in the best position to do this now. We have spent the last three years delivering on our digital milestones, improving ITV Hub significantly, really, really understanding subscription and driving subscription through BritBox and Hub+. Understanding viewers on VOD, Planet V which three years ago we did not even have. We now have over 1,000 clients and advertisers using Planet V and growing. We are linked into all the big agency groups. We are now in a position where we really understand what viewers are looking for and we are in a very strong position. We have developed our digital capabilities so in data and analytics three years ago we had nothing. Today we have a strong team with a CDO who you will hear from later. We will have about 100 people who really understand data science/AI by the end of this year. Our tech team has grown from about 100-150 to 300 in order to have the capability to deliver all the output on digital. We are confident that this is the right time. We also really understand what content works on streaming and what content works on subscriptions. We have now got two years, three years of experience of dealing with all of this and we are doing it from a position of strength. We have a strong balance sheet. We have built that back up post-COVID and it is very important to us to give returns to shareholders. We believe by doing this now we will be returning value to shareholders completely. We will be building a more valuable company in the medium-term, not even in the long-term. In the medium-term. That is why now.

I think you were talking about inflation versus volume, that was the question.

**Chris Kennedy:** Lisa, as you know, we are regulated so station average price is an outcome of demand and availability. Yes, advertisers have seen inflation but they have seen ad inflation across the market generally and other forms of video advertising have also inflated. Despite that inflation when you look at it TV is still by far and away the best ROI. It is proven to work. I think Kelly did a great job in the back-end of last year in the Commercial Seminar explaining why advertisers come back to TV again and again. There is inflation in the market but we still think we are the best ROI medium if you want a video campaign and it is proving to work. Going back to Julien's earlier question around online brands, there is a reason those brands use TV as heavily as they do. It is because they see both the immediate impact of performance as well as the long-term brand building capability.

**Carolyn McCall:** Just one thing to add to that is that unlike many other media owners, TV has a set amount of minutage and so in terms of volume the volume is the volume on ITV1, if that makes sense.

**Chris Kennedy:** Yes. Then just in terms of margin digital versus linear, the dynamics are the same. We have got a fixed cost of the platform. In linear you have got the fixed cost of distribution. In digital you have got the fixed cost of the platform. There are some variable costs but they are relatively minor. Then every incremental ad dollar is incremental profit. It is highly operationally geared and that is why Carolyn said earlier we are building a really valuable business. Having the ability to do both mass reach and programmatic on a single platform, extending reach in a mass reach campaign or doing targeted if that is what advertisers want. It is an incredibly valuable proposition. As I said, the more inventory we add, the more viewings we get, that doubling of MAUs, all of that incremental ad revenue is incremental profit.

**Aamir Shaikh (Morgan Stanley):** Hi everyone, I am just going to sneak in three quick ones on ITVX. I will keep them strategic. First of all Carolyn I do not know whether you want to share how much of the incremental investment you were making into ITVX is going to be only viewable on the platform and how much exclusive content will [inaudible 57.59] take up? Then I guess related to that, are there any commitments on ITV Studios supply into ITVX that is any different from what you currently have? That is the first question. Secondly, thinking about what the revenue mix of ITVX might be long-term once you have built the business post-2026? It is obviously going to be predominantly advertising-funded but can you give us a sense of 70-80% advertising? Is it 40%? What is the revenue mix that we should think about? Then finally are you thinking about any potential international opportunities for ITVX once you have built [inaudible 58.43]?

**Carolyn McCall:** Okay. Let me answer the question on content. You will hear lots more about this in the seminar so I am going to be brief in this response. The best way to think about this is that the incremental investment that we have announced today will be digital first investments. That means it will go on ITVX, not on linear. Therefore when Kevin talks later and Ro talks later about the 52 original weekly drops, so premiers, that will go every single week on ITVX, that will only be available on ITVX, not on linear, not on any other channel, not on any other streamer. It will only be available on ITVX ad-free on the premium tier if you want but ad-funded for anyone who wants to come into ITVX. That is one of those things. FAST channels will also be on ITVX ad-funded and they will go into far more detail about this further into today. I am going to leave it at that.

On Studios it is a very good question. Obviously being an integrated producer broadcaster gives us a great advantage here and what we have said is that as an absolute floor the Studios labels, of which there are 60 in our Group, will get about 50% of these commissions. It is a minimum of 50% for ITV Studios so there is an obvious Group benefit to ITVX as well. Revenue mix, are you going to hazard a guess on this? It is obviously not a guess.

**Chris Kennedy:** No, it is not. What we have said is we aim to double subscribers and to double viewing which is a good proxy for AVOD revenue as well. We are sort of assuming that the mix is broadly the same and if you look at 2021 we had revenue of £42 million which is slightly over 10% of total digital. That should give you a flavour for the weight of advertising versus subscriber.

**Carolyn McCall:** On the international opportunities, we see ITVX as very much about Britain. This is us as a very large national player. This is how we are going to be a leading UK streamer. It is about the UK. Our international ambitions are all about our joint venture with the BBC, BritBox International, which is doing very, very well as you have heard and is rolling out into many more markets as we speak. Nordics to come. That is where we will focus our attention internationally.

On that note, I am going to stop questions now, give you all a break for 15 minutes and thank you very much for those questions. If there are any other outstanding questions of course you can ask Chris and I these at the M&E Seminar. We will all be regrouping in 15 minutes so you see you very shortly.

[END OF TRANSCRIPT]