

2023 Interim Results Presentation

Friday, 28th July 2023

Presentation

Carolyn McCall

CEO, ITV

Good morning, everyone and welcome to ITVS 2023 Interim Results Presentation. I'm here of course with Chris Kennedy, our CFO and COO, and I'm going to hand over to Chris shortly to walk you through our performance before I go through our strategic progress.

Highlights

First, a quick overview of the highlights. During the first half of 2023, we continued to execute the strategy delivering strong growth in studios and in digital revenues. This largely offset the expected decline in linear advertising as a result of the weakness in the UK advertising market. Now this is real momentum and the team remains absolutely focused on our three strategic pillars, expanding studios globally, supercharging streaming and optimising broadcast.

So briefly just touching on each. Expanding studios is a clear priority, as you all know. Unlike advertising, the content market is not cyclical, and therefore, by expanding studios, we're shifting it way from the business mix towards faster growth and less volatility.

ITV Studios continued its strong performance well ahead of the market. This reflects the strong and growing demand for ITV Studios, high quality content, the diversification of the business and the competitive advantage we hold as an integrated producer, broadcaster, and streamer.

As we supercharge streaming our second pillar, we are maximising our content assets and our investment in ITVX and Planet V to drive digital viewing and digital advertising revenue. ITVX is performing really well and we have seen a step change in all viewer metrics. The increase in the content budget we announced in 2022 is certainly yielding results. It's helped us attract new audiences to ITV with viewing by light viewers, our target audience up 93%. And with Planet V, we continue to grow our digital revenues strongly in H1 by gaining share in the rapidly growing online advertising market.

So we are very pleased with how the first eight months of ITVS have gone. There is still of course much more to roll out across ITVX and Planet V. We've said it's a launch year we're we are doing all of that to benefit users and advertisers and not just in this launch year but also beyond. We are very confident in our ability to deliver at least 750 million pounds of digital revenues by 2026.

Our final pillar is to optimise our broadcast offering and we continually look for ways to optimise this very cash generative business. The broadcast business has performed in line with our expectations with total advertising revenues down as the economic environment impacts the entire advertising market. ITV remains one of the few places for advertisers to reach valuable mass audiences and we have maintained our significant share of the top commercial broadcast TV programmes.

This strong execution gives us confidence in achieving all of our 2026 K P I targets, as our divisional management teams in studios and M&E remain totally focused on delivering their

respective priorities. ITV's total revenues were down just 1%. The second highest revenue in ITV's history. This is the first time that total ITV Studio's revenue has reached a billion pounds in H1, and digital revenues grew strongly up 24% in the first half.

At an EBITDA level. ITV Studios was ahead of last year and delivered a margin of 13%, which is within our guidance range. M&E EBITDA was substantially lower reflecting the significant decline linear advertising due to the challenging advertising environment and of course the planned investment in ITVX, which is delivering a step change in our viewer metrics. During the period, we delivered GBP 11 million of cost savings across the group. We're on track for 15 million of cost savings over the full year. Just to remind you that 2023 is the year of peak net investment in our streaming business. We expect profits to grow from here. Group margins continue to reflect our investment in the strategy but will be increasingly offset by the shift to higher margin M&E digital revenues and profitable growth in ITV Studios. The board has declared an interim dividend of 1.7 P and remains committed to paying a total dividend of at least 5 P for the full year, which we expect to grow over time.

Now I'm going to hand over to Chris to talk you through the results in more detail.

Financials

Chris Kennedy

CFO, ITV

Thanks Carolyn. Good morning, everyone. I'll start with the performance of Studios. ITV Studios continues to perform strongly. We remain focused on both growth and diversification, building on our strength and global unscripted formats, while increasing sales in the fastest growing segments of the market, local and global streaming platforms, and high-end scripted drama. Total revenues were up 8%, which was ahead of the market and includes both the benefit of our acquisition of Plimsoll Productions and a 16 million favourable foreign exchange movement.

Total organic revenue at constant currency was up 2% following a very strong 2022, which was up 15%. And we remain on track to achieve our target to grow ITV Studios organic revenue at least 5% on average per annum through to 2026. ITV studios benefits from its large portfolio of labels and strong catalogue with over 90,000 hours of content. Whilst revenues for individual labels can be impacted by the phasing of deliveries, total revenues and profits have shown steady growth over the years demonstrating the portfolio effect of scale and diversification. Revenue growth in the first half of 2022 was driven by the UK with productions including Big Beasts for Apple TV+, Scared of the Dark for Channel 4 and rivals for Disney Plus.

International revenue was down in the first half driven by phasing as planned but is expected to grow year on year at the full year. As ever, we have good visibility of future committed revenue with 89% of revenues secured for 2023 and have confidence in delivering mid-single digit revenue growth over the full year. Adjusted EBITDA was up 2% to 130 million with an adjusted EBITDA margin of 13%. While the studio's margin continues to be impacted by cost inflation in the production sector, we've mitigated this through efficiencies such as reducing our property footprint and digitising processes. Having now restored the adjusted EBITDA

margin, we intend to maintain it between 13-15%, although as previously guided, it will be at the lower end of the range in the short term.

Now onto media and entertainment. Total revenue declined 9% driven by total advertising revenue, which was down 11% as expected. We continue to make good progress in digital. Total digital revenues were up 24% ahead of our expectations. Within this, digital advertising revenues were also up 24% and subscription revenues increased by 12%. Content costs were up 7% in line with guidance reflecting the planned additional investment in ITVX, which is driving strong viewing.

And further detail on content spend can be found in the appendices. Variable costs were up 14%, mainly driven by increase in bandwidth and other streaming related costs, as well as third party commercial payaways[?]; and infrastructure and overhead costs increased by 8%, driven by people and technology investment for ITVX. To date, we have delivered 4 million pounds of cost savings within M&E. In total adjusted EBITDA was down as expected, reflecting the impact of the challenging advertising market and planned ITVS investment.

Turning to total advertising revenue. As expected, most categories were down year on year with the largest being financed, driven by online and retail banks. Publishing and broadcasting saw a decrease in spend with streaming platforms and social media sites, and entertainment and leisure saw declines from gaming, music, and film companies. Airlines and travel was one of the few categories that saw an increase in spend year on year, driven by online holiday companies and cruise ship operators. After many years of double-digit growth, e-commerce companies excluding gambling, decreased 29% in the period reflecting the difficult ad market and the reduced availability of venture capital funding.

The outlook for total advertising revenue remains challenging, but we have started to see an improvement with July forecast to be down 4% and August up 7%. It's too early to give a forecast for September, but early signs are positive and we expect to see growth in ad revenue over Q3. With a strong schedule in H2, with the Women's Football World Cup, the Rugby World Cup, exclusively on ITV and Big Brother.

Balance sheet and cashflow

Moving on to the balance sheet and cash flow. Cash conversion for the 12 months to June 23 was 88%. We expect it to be around 70-75% for the full year and for it to increase further in future years. On net debt at the end of the period was 724 million. This includes a EUR 259 million bond maturing in December, which will be refinanced. We have GBP 700 million of undrawn facilities. Net debt to adjusted EBITDA is 1.2 times. Our covenant leverage is 1.1 times and we have total liquidity of just under GBP 1 billion. The accounting surplus of our pension scheme is 235 million compared to a surplus of 192 million at the end of 2022. The next triennial valuation is underway and we aim to conclude it as quickly as possible.

I wanted to remind you of our approach to capital allocation, which remains unchanged. First, we will continue to invest in the business in line with our strategic priorities to create shareholder value. Second, we 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. And we will continue to consider value creating M&A opportunities against strict financial and strategic criteria.

As you know, we actively explored a possible acquisition of all three media. We continue to monitor the situation. As we've always said, we will return any surplus capital to shareholders.

Here's a reminder of our full year planning assumptions. Our forecast for exceptional items has increased on a P&L and cash basis reflecting the timing of costs associated with our new finance and HR system and professional fees in relation to M&A. The tax rate is slightly lower at 21% and finance costs are also expected to be slightly lower at around 25 million.

Now back to Carolyn.

Strategic Pillars

Carolyn McCall

CEO, ITV

Thanks Chris. You are familiar with our strategy and I briefly outlined how strong the progress has been against our three strategic pillars and I'm now just going to go into further detail on each of those pillars.

So let's take Studios first. We set out clear KPIs and targets of 26. And taking each in turn, organic revenue growth for Studios was up 2% reflecting the phasing of deliveries as Chris has said, and following a very strong 2022 up 15%. And average revenue growth across 22 and the first half of 23 is 8%. We remain very much on track to deliver our stated target of at least 5% average organic revenue growth per year to 2026.

On margin, Studio's margin was 13% within our 2026 target range of 13-15%, which we remain committed to. Our margin is industry leading as you know, and reflects the quality of our content, our scale and diversification, our global distribution business, and our integrated model. Our track record in delivering high-end scripted programmes and unscripted formats that travel and return makes our content highly sought after by platforms and broadcasters alike. The phasing of deliveries has meant high-end scripted hours are down versus this time last year; as Chris said, we expect this to be up over the full year based on the current delivery plan.

At the half year, we had nine global formats that were produced in three or more countries, including established formats such as The Voice and new formats such as My Mum Your Dad. Over the full year, we expect this to be broadly in line with 2022. Streamers are expected to continue driving global content spend over the median term with a focus on scripted and now also premium unscripted content. And we are of course well placed to compete for this spend given our established relationships with streamers globally and our focus on high-end drama and unscripted. Our target is for 30% of our revenues to come from streamers by 2026 and we are making very good progress on this today. 27% of this half's revenues come actually from the streamer market

So, we remain confident in the delivery of all our 2026 Studios KPI targets. The success of Studios is underpinned by our ability to attract and retain leading creative talent. In July 2022, we acquired Plimsoll Productions, a leading natural history producer, which was earnings accretive on day one. We have successfully integrated Plimsoll into ITV Studios. We've delivered cost synergies by consolidating its finished programming and format sales

into global partnerships. Plimsoll is seeing the revenue synergies of our scale and the benefits of the producer broadcaster streamer model.

Now we always talk to you about the benefits of our vertically integrated model. I just thought it would be useful to illustrate how it works in practice with the most recent example with Plimsoll.

Firstly, the integrated producer model gives M&E access to fantastic content, helping drive viewers to ITV and deliver revenue in media and entertainment. One of Plimsoll's key productions A Year on Planet Earth launched exclusively on ITVX in December and has just recently aired on ITV1. Its success on ITV and across ITV's global distribution partners has increased the monetization of the production globally being sold in over 35 territories to date. We are also leveraging our global distribution network for other Plimsoll productions such as Queer Planet and Mother Nature. Plimsoll is now in discussion with M&E on its next Natural History commissions for ITV and ITVX and we are already looking at how we can maximise the revenue from those opportunities across the whole ITV group.

Plimsoll is also co-developing new ideas with other ITV Studios labels, for example, Nightmares of Nature with Blumhouse TV in the US.

Now we have other recent very successful talent deals, as you know, and we're really delivering value on those to both studios and M&E, and that includes Quay Street Productions with Nicola Schindler, which recently delivered Noli[?] and Significant Other for ITVX and a very strong pipeline which is coming.

Supercharging streaming

Now moving on to supercharging streaming, our third pillar. After a very successful launch, ITVX is showing strong digital revenue growth and a step change in viewing metrics. It's the most popular ad funded streaming platform in the UK. We remain confident in delivering our targets, as I've already said, digital revenues to at least 750 million by 2026; and we'll do this by increasing hours and by increasing monthly active users, which we are on track to do. So, let's again, let's just take each and turn.

Total streaming hours grew strongly up 33% providing us with a growing scale of monetizable digital inventory, something we just could not have delivered with ITV hub. Advertisers need reach of audiences as well as scale. So we've got the monthly active user metrics that measures the number of unique users each month. That's up 29% year on year and up 19% since the end of 2022. Now that demonstrates we are making really huge progress on reaching more viewers with ITVX, but they're also staying and watching more. As expected, the number of subscribers for the premium tier[?] of ITVX was flat at 1.4 million compared to the year end. Now that is reflective of our focus on the ad funded service at launch and managing the migration of BritBox subscribers to ITVX Premium. We mentioned this at the full year results. We expect to return to growth in 2024 and remain on track to deliver the 2026 KPI target.

So we have said many times that 2023 is the launch year for ITVX and we continue to roll out added features in our priority areas of content, product, distribution, and marketing, in addition to our ongoing investment in data and tech across the business. ITVX now has over 22,000 hours of content, including weekly exclusives, fast and live channels, and one of the largest free film libraries in the UK.

We already have today a more intuitive user experience on ITVX, improved content curation and content rails and a new ITVX premium homepage. 100% of our exclusives are now subtitled. We continue to improve the accessibility of all our content. Our distribution rollout is nearly complete with ITVX now available on over 20 platforms reaching the vast majority of UK households. In Q1, ITVX launched on Sky Q, and this combined with stronger partnerships with both Sky and Virgin has resulted in lower PVR recorded viewing, which in turn means we are generating higher revenue overall.

As I said, the investment in ITVX has started to yield very positive results with a step change in key viewer metrics and miles[?] and streaming hours. Tiny bit more detail on all of this.

We're increasing our reach amongst light viewers, those harder to reach audiences that we are targeting who are so valuable to advertisers because they extend reach. Their viewing has almost doubled, up 93% in the first half, and streaming hours amongst 16 to 34 year olds is up 56%. Importantly, we're also seeing viewers stay on the platform for longer, which is one of our key objectives. They're exploring and discovering new content and they're contributing therefore to increased streaming hours and digital inventory. So there was a 22% increase in dwell time. 86% of those who watched an ITV exclusive went on to watch other content on the platform. So very good metrics there.

We are, of course focused on growing miles and streaming hours through our windowing strategy, increased personalization, targeted marketing, building awareness, and working closely with our distribution partners to get distributed growth. ITVX delivers the scale and breadth of audiences, which provides inventory for Planet V, our addressable advertising platform, which you know I think very well, to create and deliver targeted advertising at scale for advertisers.

As you know, Planet V is a self-serve platform allowing agencies to just streamline their approach to planning and buying. It's a key competitive advantage. It underpins our ability to compete for online video budgets, particularly platforms such as YouTube[?], and it helps us take share in this growing addressable advertising market. It's a – the market itself is estimated to be around GBP 5 billion in 2022, and you can see that on this chart. Now, while some of the advertisers within the online video market may be too small, it's what we call the long tail of online video, given the size of their campaigns, it demonstrates the opportunity we have, and it's a significant opportunity. We have one of the largest first party data sets in the UK, over 40 million registered users on ITVS today, up from 37 million at the end of 2022. Advertisers can make use of this alongside their own data and other first and third party data to create much more precise addressable campaigns through Planet V. Importantly, advertisers are prepared to pay more for this increasingly sophisticated and valuable inventory.

Broadcast

Finally, let's turn to broadcast. We've now done the very hard work of building a strong digital foundation, and we are continuously looking at ways now to optimise that position. ITV remains the best destination for advertisers in the UK to reach those mass audiences in a brand-safe, measurable, trusted environments. And in a fragmenting market, this is increasingly valuable to advertisers who do want to build and maintain their brands and gain

reach. Therefore, our performance against these KPIs is important for driving our linear advertising revenue.

In the first half, we broadly held our share of the top 1000 UK commercial broadcast TV programmes and our share of commercial viewing. Both are in excess of our 2026 KPI targets. Alongside our advertising, our linear advertising and targeted advertising, we are also able to deliver further value by offering brands those very valuable and deep creative partnerships and sponsorship.

Recent deals include nine commercial partnerships for Love Island and new sponsorship deals for Big Brother with Vinted, the Women's Football World Cup with[?] Zero and the Rugby World Cup with Jaguar Land Rover.

Our strategic focus on streaming and ITVX has driven significant growth in digital viewing, as you've seen. This has largely offset the decline in linear viewing over the first half of 2023 with total ITV viewing declining by only 1%. Now, when you look at this chart just explaining it, this is better than total broadcaster viewing, which declined by 3%. It's in line with the broader market, including viewing of streaming platforms, which was also down 1%.

So as we successfully execute the strategy, we are evolving the media and entertainment business towards the growing digital market and we're reducing the cyclicity of the business without losing sight, and this is really important, but we are not losing sight of how important the highly cash generative linear channels are.

You can also see that strategic shift on a group basis. If you look at this slide, the growth in studios and digital revenue has largely offset the decline in linear with total revenue declining just 1% in H1, even in a very tough advertising market. I wanted to remind you of a slide from our full year presentation. While mass reach will continue, as I've said, to have an important role in the advertising mix, this slide shows that with the significant strategic progress we have already made and we will continue to make by 2026, we expect around two thirds of ITV revenues to come from our growth drivers, ITV studios and M&E digital, and we expect to continue to grow the business over this period and beyond with growth in studios and digital expected to offset declines in linear.

So in summary, as you've seen, we're making significant strategic progress with very strong execution. ITV Studios remains a key growth driver and continues to outperform in an attractive market. ITVX has maintained its strong launch, enabling us to attract a broader range of viewers and advertisers. And this has been supported by our broadcast business, which despite the worst advertising recession since the global financial crisis continues to perform in line with our expectations and deliver mass reach that advertisers really value. We've done a huge amount of heavy lifting to build those strong foundations that we've needed in digital data and tech in order to compete very effectively, and we've brought in new capabilities that allows us and enables us to do that. This leaves us really optimistic for the future of the group and gives us confidence in achieving our 2026 KPI targets and creating increased value for shareholders. 2023 will be the year of peak investment, peak net investment, as we have said, and we expect profits to grow from here. Our robust balance sheet, our clear strategy, and our absolutely channelled focus and strong execution enables us to invest in the right areas to create value for our shareholders.

Chris and I are now very happy to take your questions.

Q&A

Operator: If you would like to ask a question, please press star followed by one on your telephone keypad. If for any reason you would like to remove that question, please press star followed by two. Again, to ask a question, please press star followed by one. As a reminder, if you are using a speakerphone, please remember to pick up your handsets before asking your question and please do ensure that you're unmuted locally. Our first question today comes from the line of Jamie Bass[?] from Redburn. Please go ahead, Jamie, your line is now open.

Jamie (Redburn): Yes, good morning, everyone. Just two questions from me, please. Firstly, could you give some sort of quantification of the impact you're expecting from the Rugby World Cup and whether you expect that to be significantly in September – bigger impact when you get to the latter stages of the competition in October.

And secondly, on digital advertising, this is a very minor point, but the outlook was for 20 plus percent growth in digital advertising. I think the H1 results imply Q2 was 19 point something percent. Is that a concern or is that just a rounding error? Thank you.

Carolyn McCall: Thanks very much. Look, we'll both come in on this. I mean, I think we are – we've really already seen a lot of interest in the Rugby World Cup. That will definitely help us in the advertising market. We've already got sponsor for that. So look, we will benefit from the Rugby World Cup, no question, but to actually quantify that right now, we wouldn't break that down separate to any of the other things, partly because of the way we trade. But it's definitely a very successful programming event for ITV

Chris Kennedy: And Jamie, it'll be both across September and October.

Carolyn McCall: Yeah, it's two months, yeah.

Chris Kennedy: On digital advertising. Yeah. No, it is not a concern we didn't guide on on digital advertising, but you are right, Q2 is slightly lower than Q1, but absolutely not a concern. It is going to move around quarter to quarter. I think the main thing to focus on is the really strong performance over the half up 24%, which we're really pleased with.

Jamie: Very clear. Thank you, guys.

Operator: Thank you. Our next question today comes from the line of Nizla Naza[?] from Deutsche Bank. Please go ahead, Nizla, your line is now open.

Naza (Deutsche Bank): Great, thank you. My first question is on sort of general sentiment in the market. You did mention that September is looking positive slightly as well, although it's early days. Has the tone generally improved or are advertisers also still waiting for the last minute to sort of book campaigns, some colour on how maybe things are looking towards the second half versus what you saw in H1 would be great.

And secondly, we've seen the ongoing strikes in the US among the writers and actors as well. Is there a benefit to ITV Studios as a result of this? Any potential disadvantage that you can maybe comment on? Some colour there in terms of how that affects you would be great. Thank you.

Carolyn McCall: Okay. I mean, look, I think that's you know, Q3 is definitely showing, you know, as you can see from the numbers, a more positive advertising market. I think it's very hard to have visibility on Q4. I think if you asked anybody that in any section of the ad

market, they'd say the same thing, including agencies. I think there are very positive conversations going on. They're very – there's no feeling that advertising is really not going to be okay, but it's really impossible to tell because people will say – sometimes will say, and then it might not materialise. So the good news for us I think is that there are lots of campaign conversations going on. We are talking already creatively to some organisations about Christmas campaigns. We're talking – all our sponsorship deals are sold for Q3 and Q4. So, that's positive.

So I think there's no question that there's a more – that the conversations are progressive, constructive, positive conversations. But you can see the Q3; Q3 is definitely better. All the agencies had told us Q3 was going to be better than the first half, but the visibility on Q4 is – it is just not there. So, we will know more I think in September about Q4.

On the writer's strike, we would say, look, it affects our scripted business in the US. It's not affecting it currently. So it's only the US scripted business that would be affected by this. And really, if it goes on, and we very much hope it doesn't go on, but if it does go on into the autumn of this year, then what it will do is just phase the deliveries differently, because productions will be delayed next year, so you'll see some phasing into 2025. So that will be the effect on our US scripted business.

On the converse of that, we have 90,000 hours of really great catalogue content, which really came into its own, for instance, in Covid, we were really, really – we sold a huge amount of it. Global partnerships as we call the distribution teams had a very, very good time because there was a lack of content in the market, they were going to high quality cash oil content. And that might happen. We haven't seen a huge demand for that right now over and above what we would normally see, but it is possible that there could be a benefit to us on that. But, you know, we, we are very much hoping for a swift resolution of the strike.

Chris Kennedy: And, and Nizla, if you were to speak to the studio's team, let's say, even that phasing that is manageable because as Carolyn said, it's only one part of our business. And it just really demonstrates the benefit of having a scaled, diversified studios business, because it it's one geography, it's one genre, and we're in many geographies and we're in both unscripted and scripted.

Naza: Very clear. Thank you.

Operator: Thank you. As a reminder, if you would like to ask a question, please press star, followed by one on your telephone keypad.

Carolyn McCall: I'd just like to say, look, we understand that it's a very, very busy day out there today, and so if there are questions from anybody, if they're watching this later, please, please come back to us and ask questions by email to Chris or to me or to Pippa[?] and we will respond as soon as possible. So we know it's very busy out there. We normally get many more questions than this, so just let us know. Are there any other questions?

Operator: There are no additional questions waiting at this time, so I'd like to pass the conference back over to Carolyn McCall for any closing remarks.

Carolyn McCall: Well, I've done my closing remarks actually. So thanks very much for those of you who are on. If you're watching later and you've got any questions, just let us know. Thanks a lot. Bye.

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