ITV 2024 Interim Results

Thursday, 25th July 2024

Introduction & Highlights

Carolyn McCall

CEO, ITV

Welcome

Good morning, everyone. Welcome to ITV's 2024 Interim Results. I am here with Chris Kennedy, our CFO and COO, who you all know. I will hand over to Chris shortly to walk you through our financial and operational performance. But first, let me start with a very quick overview.

Continued strong strategic execution in H1; good improvement in EBITA

We have had a really good start to 2024, delivering a strong financial, operational and creative performance. We have achieved a 40% increase in Group adjusted EBITA, and we continue to make significant strategic progress across ITV as we execute our strategy.

ITV Studios has performed well against the expected backdrop of deferments due to the strikes and slower FTA commissions, as we have previously guided. Despite this, ITV Studios is forecast to deliver record profits over the full year.

Now as you all know, we have talked about this before, 2023 was the year of peak net investment in ITVX, and the results of that are clear with strong growth both in digital revenues and also in viewing in the half. We have made really strong progress in improving efficiency and simplifying our ways of working right across the company.

We are on course to deliver the £40 million of cost savings in 2024 that we recently guided. Now if you put that all together, we are really confident of growing profits from hereon in and are on track to deliver our 2026 KPI targets.

I would like to thank everyone at ITV who has contributed to both our performance this year and for all the progress that we have made over the last few years. It has been a really tough year for people within ITV with the impact and uncertainty of our restructuring and efficiency programme. And I would like to now thank them all for their professionalism and their commitment.

Strong H1 2024 Group Financial Performance

This slide that I have just put up demonstrates the Group's financial performance, where you see that total external revenue was down just 2% with ITV Studios affected, as I said, by the short-term factors we have already mentioned.

M&E revenues were up strongly, driven by 12% growth in Digital revenues and better than expected linear performance. The significant growth in Group adjusted EBITA was driven by the operational gearing of M&E, a higher margin in ITV Studios helped by higher margin catalogue sales, and of course, the delivered cost savings.

In line with our dividend policy, the Board has declared an interim dividend of 1.7p.

On track to deliver 2026 KPI targets; good H1 performance

This table of our KPI shows the excellent progress we have made to-date, which puts us either on track or ahead of our 2026 targets. I did just want to say a few words on subscribers where the performance is as we expected. We have always described ITVX since its launch as an ad-funded proposition with subscribers bringing in a relatively small but welcome amount of additional profit and revenue.

As we look ahead to delivering at least £750 million of digital revenue by 2026, it is clear that the best returns will come from prioritising our focus on investment on the ad-funded model rather than chasing a subscriber target, which would result in a weaker ROI.

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

Financial & Operating Review

Chris Kennedy

CFO, ITV

ITV Studios

Good growth in adjusted EBITA

Thanks, Carolyn. Good morning, everyone. I will start with the performance of Studios.

Studios' profit increased year-on-year despite the expected decline in revenue. Significantly higher catalogue sales, partly offset the lower production revenues, as broadcasters and streamers manage their programme budgets. The high mix of these higher margin catalogue sales, combined with cost savings, resulted in an increase in profits.

UK revenues were down against a tough comp. There were a number of high value deliveries to streamers in 2023, and revenues have also been impacted by fewer ITVX premiers and the absence in 2024 of The Voice Kids and I am a Celebrity, Get Me Out of Here! South Africa.

US revenues reflect, as expected, the impact of the 2023 writers' and actors' strike. This was compounded by the phasing of large scripted deliveries to the streamers in H1 of last year, such as Physical for Apple TV. Unscripted deliveries in this year, such as Love Island Games for Peacock, offset some of this decline.

International revenues were also down due to lower demand from free-to-air broadcasters in Europe, who have been holding back spending until there is more certainty in the ad market. We are now starting to have more positive conversations.

Global partnership revenues were up 9% with strong growth in catalogue sales, leveraging the breadth and depth of our extensive high quality catalogue of over 90,000 hours, as customers turn to acquired content to compensate for lower commissioning.

Studios' adjusted EBITA grew 5% with a margin of 15.7%. This reflects the revenue mix along with £9 million of cost savings delivered in the period. And as I explained at the full year, Studios' EBITA increasingly benefits from the legislative change in UK production tax credits. £3 million of the EBITA improvement in the first half is as a result of the change.

The effect is to increase our EBITA, adjusted EBITA, adjusted EBITA margin, profit before tax and tax expenses, but it leaves our profit after tax unchanged. Over the full year, we expect the benefit from this change to be around £10 million, which is likely to increase in 2025 as the current year includes a mix of the old and the new regimes.

Looking to the full year, even before accounting for the change in UK production tax credits, ITV Studios is expected to deliver record profits. Full year margin will be lower than H1, reflecting the relatively lower mix of catalogue sales in the second half, but will be within our 13% to 15% guidance range.

Previous guidance was for broadly flat full year revenues as a result of the US actors' and writers' strikes and a more challenging free-to-air market. We now expect revenues to be down low single digits, but our full year profit expectations remain unchanged. This is due to a small number of key productions being contracted as executive productions rather than co-productions. This has no in-year profit effect, but it does mean we recognise less in in-year revenues.

Deliveries will be weighted to Q4, with Q3 revenue expected to be down a similar percentage to H1.

Media & Entertainment

Strong advertising growth and significant improvement in profitability

On to M&E. Total revenue increased by 7% with total advertising revenue increasing by 10%, ahead of expectations. We saw strong viewing across our broadcast channels and ITVX with:

- A very successful Euros;
- A year-on-year increase in viewing of Love Island; and
- A continuing strong drama performance.

Digital advertising revenue was up 17% with all ITVX viewing metrics remaining strong.

Of course, this performance benefits from the Euros, but underlying performance is also strong. The ad market is firm, and our investments in Planet V and ITVX is continuing to drive high double-digit growth in digital advertising revenue.

Overall, digital revenues were up 12% to £244 million, and we are on track to deliver at least £750 million of annual digital revenues by 2026.

Non-advertising revenues were down, as expected. And this revenue performance has resulted in a 230% increase in adjusted EBITA, demonstrating the high operational gearing of M&E as we maintain cost discipline.

Content costs have increased only marginally despite the bulk of the cost of the Euros falling in the first half. And infrastructure and overhead costs have actually declined as inflation was more than offset by £14 million of cost savings. On the other hand, variable costs were up 15% due to our planned increase in marketing to drive viewing and revenue.

Looking forward, we expect Q3 total ad revenue to be broadly flat. And as a reminder, Q3 2023 included the Rugby World Cup. And whilst Q3 2024 includes a few Euros matches, the overall benefit of the Rugby World Cup was higher.

Key Balance Sheet Metrics

Robust Balance Sheet – Profit to Cash conversion reflects increase in Working Capital

Moving on to the balance sheet and cash flow.

Cash conversion was 73% on a rolling 12-month basis, reflecting a significant increase in working capital in H1 with higher levels of production activity in the US following the end of the strikes. Our net debt at the end of the period was £515 million, and this includes the proceeds of the disposal of BritBox International, which are being used to fund the share buyback. If you exclude the net proceeds designated for the buyback, net debt is £697 million.

We continue to maintain a robust balance sheet with a net debt to adjusted EBITDA of 0.9 times. In order to reprofile and extend the maturity of our debt, we have issued a €500 million Eurobond with a maturity in June 2032 on attractive terms. The proceeds of the bond issue were used to repay a £230 million term loan and to retire €240 million of the €600 million Eurobond due in 2026.

In addition, we have £900 million of undrawn committed facilities, £300 million of which matures in June 2026. We will complete an extension of the maturity of this facility before the end of this financial year.

Our accounting surplus on the pension scheme is £225 million. And having recently concluded the latest triennial valuation, we expect no further pension contributions while the scheme is in surplus, except a minimal payment relating to a legacy asset-backed scheme. This removes a significant historic drag on free cash flow.

Finally, we have agreed nonbinding heads of terms to resolve a very long-running historical pensions dispute. Should the dispute be resolved in line with the agreement, we would make a one-off cash payment of around £25 million into the ITV Pension Scheme in 2025.

Disciplined capital allocation framework

You will be familiar with our capital allocation framework, which remains unchanged.

Shareholder returns

In line with our policy, the Board has proposed an interim dividend of 1.7p and remains committed to paying a full year dividend of 5p per share. The share buyback, which was announced at full year results, is progressing well. As of 30th June, we have bought back £53 million of stock.

Cost saving programme on track

I am really pleased with the progress we have made on our cost saving programmes. In the first half, they delivered £23 million, and they are well on track to deliver £40 million of incremental in-year savings in 2024, as previously guided. At the same time, we now expect the one-off cost this year of delivering those savings to be around £30 million, which is £20 million lower than our previous guidance.

2024 planning assumptions – largely unchanged

And finally, here is a reminder of our planning assumptions. The only changes relate to tax, where we expect a slightly higher adjusted effective tax rate at around 26% versus our previous guidance of 25%, both this year and over the medium term. And exceptional items, which are now expected to be around £65 million, down from £90 million, mainly due to lower restructuring costs. This increases free cash flow this year by around £25 million.

Now, back to Carolyn.

Strategic Update

Carolyn McCall

CEO, ITV

Strategic Execution

Phase Two of More Than TV strategy

Thanks, Chris. As you know, our strategic vision is to be a leader in UK advertiser-funded streaming and an expanding global force in content.

Our strategy has three key pillars:

- Expand Studios;
- Supercharge Streaming; and
- Optimise Broadcast.

As you can see on this slide, each has a purposeful objective, which gives our teams a clear focus and against which they are consistently delivering. This is supported by being a vertically integrated producer, broadcaster and streamer which benefits both businesses. For Studios, it provides a base of core commissions, a platform to make content famous and, critically, it really does help attract and retain talent which is so key to our business and to any creative business.

For M&E, it gives access to world-class content for ITV's channels and ITVX, and facilitates deeper and more creative and productive partnerships with advertisers.

Expand Studios

So let us turn to our first strategic pillar, Expand Studios.

The global content market is large. It remains attractive. It has got hundreds and hundreds of platforms and broadcasters. They all need a range of quality content to succeed. So we anticipate growth in all of the key segments in which we operate, including premium scripted content, unscripted formats and catalogue sales, due to the continued strong demand from streamers in these areas, and we expect to continue to outperform the market.

ITV Studios has a strong track record in the key growing segments of the market

We do have a strong track record, as you know. And as you can see on this slide, over the last six years, in each of these segments, we have grown significantly faster than the market. The titles which sit within these categories demonstrate the creative and commercial strength of ITV's labels.

Fool Me Once was one of Netflix's top 10 most watched English language programmes. This was produced by Quay Street, one of our recent talent deals. Squid Game: The Challenge, which everyone has heard about, also for Netflix, was one of their most watched unscripted original productions.

Now we know British drama sell extremely well around the world. And of course, a great example of this is Endeavour, which ran for nine series, and we sell that to 195 countries.

Our catalogue library has over 90,000 hours, and the revenue stream from these library sales has grown over the last year as budgets have tightened, especially with the FTAs. For broadcasters and platforms, it is a lower cost method of filling a schedule or strengthening and extending their range of content, and it is a really high margin opportunity for us.

The global scale and diversity of content and customer base puts ITV Studios in a strong position to continue to take market share. We continuously manage our portfolio of labels, as you know, to attract and retain talent. And we have just acquired 51% of scripted production business, Hartswood, makers of Sherlock, and most recently on ITV, Douglas Is Cancelled. We have also sold our investment in Blumhouse TV in the US for $60 million.

Strong creative pipeline with good demand for content, particularly from the streamers

Slide 19 here shows our exciting creative pipeline across scripted and unscripted and for a broad range of customers. The fantastic shows we have delivered to streamers have solidified our relationships with them and it has built a strong track record, as I said. We now have development deals in place with each of them.

Supercharge Streaming

And now on to the second pillar of our strategy, Supercharge Streaming, where our aim is to drive digital viewing through ITVX and digital revenue through Planet V.

Strong H1; ITVX is building an engaged and sustainable audience with investment on plan

So you have seen we have had a great first half for ITVX. We continue to build an engaged and sustainable audience. Our key viewing metrics here show strong growth with streaming hours up 15% and monthly active users up 17%.

What is impressive about these numbers is that both of these are compared to ITVX's really strong launch last year where we had significant investment for quite a period of time. We are now the number one commercial broadcaster video-on-demand platform, and we are attracting harder to reach audiences which drive reach, which is so important for advertisers.

Streaming hours amongst 25 to 54s was up 29%, and for men was up 37%. And this point about engagement is a really important one. Our audiences are more engaged, watching for longer with streaming hours per viewer up 5%. We have seen a positive impact from our recs engine or recommendation engine, which we launched at the end of last year. 30% of users are going on to watch additional content recommended to them on the platform, and that is in line with expectations and it does indicate a successful implementation of that.

So we can see also the power of our dramas to retain audiences. 93% of those who watched Mr Bates vs The Post Office on ITVX went on to watch other programmes. That is an amazing stat. Our approach to having one content budget across linear and ITVX has, as you can see, proved to be really effective enabling us to have a flexible windowing strategy to drive the most value out of our disciplined content investment.

Continuing to drive ITVX viewing and revenues by further enhancing ITVX within current investment plan

The team are leveraging our increasing data and analytics capability to continue to drive that reach and the inventory on ITVX by further enhancing our product, our content, distribution, marketing, monetisation. And of course, we continue to test and learn. For example, improving the discoverability of ITVX, one method we are using is creating additional links on homepages that bring users directly to ITVX from the main screens of their devices, which is already proving successful in driving MAUs.

We have also increased our marketing investment, developing a more responsive approach, putting more weight behind our biggest trending shows, which has worked well, increasing our spontaneous consideration.

In addition, we have launched recently something called ITV Insiders, which is a strategy bringing together over 100 of the most talented social media content creators that gives them unique access to ITV, to its brand, its talent, to its content, that drives engagement because it puts our programmes at the heart of millions of social conversations. It has only just launched. It is already established itself as a really effective marketing channel to increase MAUs and streaming hours.

Planet V has transformed the way ITV interacts with advertisers

Now turning to Planet V, ITV's leading addressable advertising platform and the second largest programmatic video advertising platform in the UK after Google. Thank you to those who have already watched our recent commercial webinar. If you have not, I really urge you to do so because it demonstrates how Planet V has been critical to the success of ITVX. The link at the bottom of this slide here will just take you there, and it does not take very long.

The platform has over 2,000 users in the UK, who have access to data from over 40 million ITVX registered users. We augment this with third-party data sources, which we have talked about to you before, Tesco Dunnhumby, Boots Advantage Card. That creates over 20,000 targeted options which delivers precise one-to-one communication.

Because we wholly own Planet V, we keep 100% of the revenue. A few stats again to illustrate its impact. From 2021 to 2023, we have grown our digital advertising revenues by over £140 million. And in 2023, we also outperformed the digital display market. To-date, over £1 billion of revenues have been booked through Planet V. We offer increasingly sophisticated and valuable ad inventory, which advertisers are prepared to pay more for. Over the last two years, for instance, we have delivered double-digit growth in our CPMs.

Planet V also allows ITV to compete for online video budgets, particularly platforms such as YouTube, and take share in this, what is, obviously, a large and growing addressable advertising market.

Optimise Broadcast

Now to our third pillar, which is to Optimise Broadcast.

Maintain strength in delivering mass

ITV has the unique ability to deliver live mass simultaneous audiences, which are so valuable to advertisers through:

- Live sport;
- Big entertainment shows, which are usually stripped; and
- Popular dramas.

The average live match audience across the 25 games of the Euros was 6.5 million, including the England semifinal, which peaked at over 20 million.

Mr Bates delivered a live audience of around four million an episode across the series. Love Island delivered a peak live audience of 2.2 million for the first episode, which was up year-on-year. And another example is The 1% Club, which has grown its audience over the last three series and had a peak live audience of over four million.

Now many of these programmes also deliver harder to reach target audiences at scale. For example, over nine million of those who watched the England semifinal were men. So in total, ITV reaches, on average, 46 million people every single month, which demonstrates ITV's scale and market-leading position in the UK.

Commercial proposition

ITV has three powerful commercial propositions which makes ITV highly competitive

What sets us apart from our competitors and ensures that ITV remains highly compelling in a competitive ad market is our unique combination of three powerful commercial propositions, all of which is in a brand safe and trusted environment.

Kathryn Swarbrick, General Manager and SVP for adidas Northern Europe, has put it much better than I could ever put it. With mass reach, she says, the highest quality of content environments, ability to target via addressable VOD and great creative sport, ITV has been and is a vital partner in our business achieving our goals. I think they will be winning quite a lot of awards for that ad for the Euros.

Demonstrating the effectiveness of that advertising and all advertising with ITV is also key to growing revenues. Over the last two years, we have built a range of measurement tools to measure the outcomes and effectiveness of working with ITV. I know this has been welcomed by the industry and by clients, and this is an important ongoing programme. There is further detail on this in the commercial seminar.

Summary

So in summary, we would like to leave you with these six key messages. We have transformed ITV over the last five years, and our strong performance demonstrates that we have adapted to the rapid changes within our industry.

We have the technology, the data and the capability across ITV to be nimble, and we will continue to adapt to inevitable further change.

Our restructuring and efficiency programme is well organised and disciplined, gives us the confidence that we will deliver significant annual cost savings. Our creative output, both commissioned and ITV Studios, goes from strength to strength. And our windowing strategy has meant that we are really optimising our content spend.

ITV is in a solid position with:

- A leading global Studios business;
- A high growth streaming service; and
- A cash-generative linear business.

And finally, our balance sheet is strong. Going forward, we expect to grow profits and deliver healthy returns to shareholders.

Thank you. Now we would like to take your questions.

Q&A

Tom Singlehurst (Citi): First question. ITVX performance, obviously, very strong across the board in the first half. I know in the past, you have said that quarter-by-quarter, we should not necessarily expect a linear relationship between the viewing and advertising revenue. I suppose, though, the question I wanted to ask is whether the 2Q and 1H performance is specifically skewed by sports and whether that is a bit more directly monetisable. And therefore, in the second half, if without any big events should we expect to drop off in ITVX viewing and ITVX monetisation? That is the first question.

The second question was on ITV Studios. The point you made about catalogue sales, very well made. It is clearly useful for the margin. But I was just wondering whether the strong near-term growth there is a sign that broadcasters are becoming more cautious. Any insights on that would be useful.

And then the final one, perhaps for Chris. I think you referenced the sale of a US studio for $60 million. Obviously, earlier in the year, we had the sale of BritBox, where the valuation also surprised. Can you just talk about the scale of non-core investments and whether there is a systematic plan to monetise them? That would be great.

Carolyn McCall: Great. A whole range of questions there, Tom. Good morning. I think just remember on sports, I will bring Chris in here, obviously. But I think just remember on sports, we are absolutely committed to live sport and we are in the enviable position, I think, as a commercial PSB that we get listed events.

So actually, on a fairly regular basis, we get sport and we expect to get big audiences for those big national moments. But I think we also know that drama drives a lot of ITVX viewing, as does stripped reality. So you might get a spike for a game or two or three, the big games get the really big audiences.

The average games for the Euros, if you average it out over the 25 games that we broadcast, it was about 6.4 million per ep. And that compares really with a strong drama or like BGT or I am A Celebrity will all do higher than that. So I think what I am saying is live sport is extremely important. It does give us this massive spike. It brings us a lot of ad revenue. But from a viewing perspective, it averages out to being the same really as a very strong drama or a very strong reality show.

Chris Kennedy: I think you are right, Tom, just in terms of do not get too fixated on the quarterly performance, just look at the trend. Because certainly, Q3, you have got the Olympics, which will be delivering a lot of viewing for the competitors. So we are really pleased with the performance of X. And especially as Carolyn said, it is comparing to that launch period where we had a really great slate of content going on it and a lot of marketing behind it.

Carolyn McCall: And then on your ITV Studios question, I think the key thing here is that what catalogue sales has done is offset any of the cyclical ad revenue market issues that were across Europe for broadcasters. And so it is very high margin, as you know, and it is a great offset. And it shows, I think how diversified we are within the Studios group itself. So whether it is genre, by geography, customer, whether it is catalogue versus scripted or unscripted, it is a very diversified group. And so it can take on things like this. And that is why the performance of Studios has been so strong despite, we are saying record profits for the year, it is despite a more difficult backdrop than we have had before because of the strikes and the FTA slowdown of advertising revenue. I would say the indications forward looking, would be having spoken to a few of the European broadcasters, they are definitely seeing improvement in their economies. And therefore, the ad markets are definitely improving in the markets that I deal or we deal with.

And certainly, if the UK has anything to go by, then the underlying ad market is very firm here at the moment and it is up year-on-year.

So if you took the Euros out of that, the market was already up 3% on average compared to last year. So I think it is probably too early to say how FTAs are going to respond to that in Europe, but I think there is definitely a more positive picture on the ad market.

Chris Kennedy: Then, Tom, your final question was around Blumhouse. We do not have a big portfolio of non-core assets. And both BritBox and Blumhouse, we seized an opportunity to get a great price for the assets.

Nizla Naizer (Deutsche Bank): I have a couple of questions from my end. Firstly, on the Q3 TAR outlet being flat. Could you confirm again, does that also include a negative impact of the Olympics being shown elsewhere, or has that historically not had too much of an impact on your viewing trends, etc.? Some colour on maybe the underlying drivers of that outlook would be great.

Secondly, in the Studios business, the change in the contract structure that you mentioned when it comes to production, what brought that on? And is that an advantage to have to have these negotiations? Could you give us some colour as to why you decided to go down that path? That would be great.

Carolyn McCall: Okay. So just on the Olympics, obviously, it is a big event and it is on the BBC. So it will affect viewing, I think, at that period of time. August is usually a very quiet month for viewing because a lot of people go on holiday anyway. So actually, August is a quiet month generally. The Olympics will obviously boost BBC's viewing figures. But it is really interesting to me that a lot of advertisers do Olympics campaigns, so they are actually doing a copy that is all about the Olympics.

And so actually, what we have seen is that we have had some quite high profile Olympic campaigns that we will be running on ITV, whether it is National Lottery, whether it is Aldi, whether it is NatWest, Toyota, P&G, British Gas. Discovery is actually doing quite a lot of advertising on ITV about the Olympics.

So we actually see possibly a benefit from advertising on the Olympics because, obviously, we are a commercial broadcaster, we take advertising, obviously, and the BBC do not. So it is something to do with viewing, but not so much for revenue.

Chris Kennedy: Yes. And then on the Studios contract structures, maybe just help if I give you the layman's version of the different structures. So full productions, which are most of our business, that is where we have the ultimate and complete responsibility for the financing, the producing, the delivery of the show. And that means we recognise all of the revenue.

We often choose to share that risk with a co-producer, and that can either be a client or another studio, in which case, we recognise the share of revenue that relates to how much risk we are taking.

Then you have got the executive productions where we are paid a fee by the client for the IP and the executive production. There, we recognise only the fee, none of the production revenue.

This is not new. The Studios team do this every day. And they will make the right commercial decision for ITV Studios in those negotiations. And it just happens in this case that they have gone with an executive producer deal, which minimises the risk.

Carolyn McCall: I think the only reason it is come up at all, because we have been doing this for many, many years. So what Chris describes is just the way everybody works in the industry. Everyone has a choice as to how they produce. And we do it for multiple reasons. And as Chris says, Julian and the team will make a decision for the business, which is the best economic decision for the business, does not affect profit. So it is an accounting thing.

But I think it has come up this year because it is one big show that we are ep-ing. So that is the only reason that is come up in a half. And usually, it would not even be noticeable.

Ed Young (Morgan Stanley): I have got two, please. First of all, you referenced a better tone of conversation with some of the free-to-play players. I wonder if you could perhaps give a little bit more colour on that. Is that geographically broad based, or are there particular pockets where that is stronger?

Then second of all, you mentioned that, obviously, we are now through the peak net investment for ITVX, but you have also referenced there is further improvements coming in a whole range of areas on the platform in H2. So wondering if you could perhaps give a little bit more colour in terms of what has being driven through in H2 and what we can expect from that?

Carolyn McCall: Sure. I think really, when I referenced that, it is broadcasters that are operating in France or Germany or Spain, actually. So that is where we have been chatting to them just generally.

I think there is no question, if you look at just the numbers that the ad market has improved right across Europe in every market. So it is just getting a bit of colour behind that, and it is more positive, no question.

Chris Kennedy: That will take time to work through.

Carolyn McCall: Yes, it will. There will be a lag. Yes, definitely. There will be a lag because commissioning decisions and then actual commissions coming to screen, there is a time lag. So there will be a bit of a lag on that, for sure.

Chris Kennedy: And then just on ITVX improvements, I mean when we talked about the investments we were making, we talked about an incremental £20 million in non-content and then £160 million of content. You will have seen from our guidance actually that because of all the learnings we took from launch, we have been able to bring that content guidance down by £75 million and deliver the viewing audiences that we wanted.

And then that step-up in cost we said was a permanent step-up. So we have really got £20 million to continue to improve the functions and features of the platform. So that includes the recommendation engine, the distribution, the deep linking that Carolyn talked about in her presentation.

So that budget is there to continually evolve the product as well as, obviously, the investment in marketing, which is really helping to drive viewing.

And over time, the brand and the consideration will increase just because more people are going there. They realise the breadth of content, they realise that ITVX has got films on it, for instance, and the big depth of acquired content we have got now.

Mary-Anne Sixsmith (UBS): Just two questions from me. The first was on just subscriber numbers in H1. It looks as though they have fallen 36%. So I just wanted to ask what the main drivers were behind the decline there?

Carolyn McCall: I am so sorry, I think there is something wrong with the line. Neither of us heard the first question. Do you think you could just repeat that?

Mary-Anne Sixsmith: Yes, of course. Let me go again. Great. So my first question was just on the subscriber numbers in H1 falling 36%. So I just wanted to check what the drivers were behind the decline?

And then the second question is just on some of the comments made on Planet V and off the back of the commercial webinar. I am just wondering if we could get some more colour on how you are setting the pricing here in relation to the expense of targeting. They are my two questions.

Carolyn McCall: Okay. On subs, we said actually in the last two announcements we have made or updates we have done to the market that we were making the subscription offer a better user experience. So we were migrating all of BritBox subscribers to ITVX Premium subscribers. That was quite a migration. And we expected there to be some falloff on subscriber numbers. That is one of the drivers.

The other one is that we have taken BritBox off Amazon. And again, that was deliberate because the BritBox brand is within the ITVX Premium brand and could be quite confusing to consumers to see it only on one platform. That is also another driver. But I think the most important thing strategically is that we have focused all our money and all our effort into ad-funded ITVX. So everything that we have done in terms of a content partnership or acquisitions or how we do it has all been about ad funded.

And the reason for that is because we know we will get much better return from that than we would be chasing a subscriber target, which is meaningless because you would be acquiring subscribers. So you would be doing deals just for the subscriber target where we would not be getting a very good return, in fact, if any at all. So we focused on that.

And remember, our most important target really when we are looking at revenue other than all the linear metrics, is digital revenue of £750 million by 2026. That is what we are aiming for. And we know that the way to do that in a most responsible and disciplined way is by really focusing on ad-funded streaming.

Chris Kennedy: I think, Mary-Anne, the final thing I would add is that you asked the 36% fall, all of that is down to the cleaning up of the viewer offer that Carolyn talked about. So it is a one-off reset. Actually, churn on premium is really low.

Carolyn McCall: Really low, because we now really, really understand the data on ITVX and we have got loads of it a year and a bit on. And so what we do is we upsell to only the people that are not very valuable because they are so light in terms of coming into ITVX, that they are more valuable to us as a subscriber than as a person that we can sell advertising to. So we are much, much more kind of sophisticated about how we promote the upsell.

Chris Kennedy: And then your second question was around pricing on Planet V, I think. The way we do it is we have got a floor price and then advertisers choose to add on extra targeting and functionality to their sale and they pay more for that. And the commercial team have been really good at adding new products, working with agencies to identify products that advertisers find really valuable.

And through that, we have been able to raise the CPM, the cost per 1,000 by double-digit since last year.

Carolyn McCall: Just to say thank you very much for joining us. I know it is a very, very busy day for results out there. Big thanks from the ITV team to all of you. Bye for now.

[END OF TRANSCRIPT]