S&P Global
Market Intelligence

ITV plc LSE:ITV

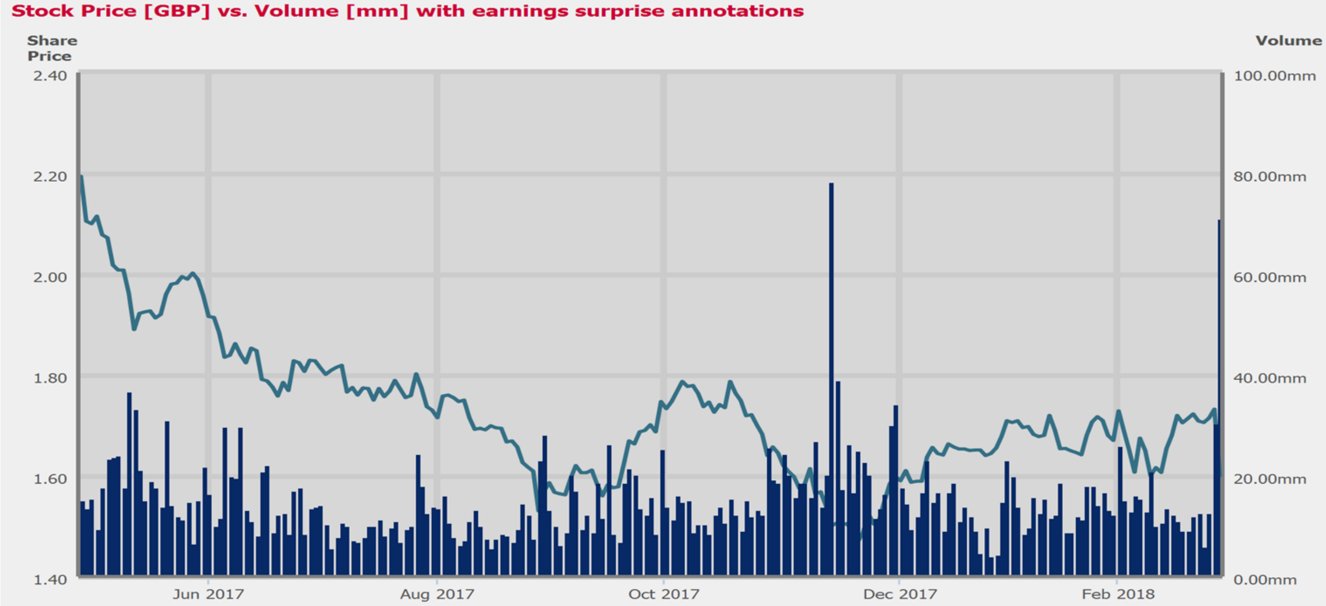
FY 2017 Earnings Call Transcripts

Wednesday, February 28, 2018 9:30 AM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2017-			-FY 2017-			-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	-	-	-	0.16	0.16	0.00	0.16
Revenue (mm)	997.00	1000.00	0.30	3076.49	3132.00	1.80	3162.34

Currency: GBP
Consensus as of Feb-28-2018 9:00 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2017	0.16	0.16	0.00 %

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EXECUTIVES

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

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Presentation

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

Good morning, everyone. Thank you for joining us on this very cold morning for ITV's 2017 Full Year Results. It's very good to be starting here as ITV's Chief Executive. I'm joined by Ian Griffiths, of course, and also members of the management board.

In a moment, as is customary, I'm told at an ITV results presentation, I will play you a show reel. This shows some of the fantastic programs ITV broadcast in 2017, which drove such a strong viewing performance onscreen and online. It also includes some of what's coming up on ITV in 2018 and the high-quality productions which ITV Studios creates, owns and distributes. Great content and driving value from that content is at the very heart of what we do. Quite simply, all platforms need brilliant programs to attract and retain audiences.

In terms of the format of this morning, after the show reel, I'll give you some of my initial thoughts and observations. It is still early days, of course, but I wanted to give you an idea of what I've been up to in my first 7 weeks and some thoughts as to why I think ITV is really well-positioned for the future.

We are currently, as I think you all know, undertaking a strategic refresh to help us highlight the opportunities for ITV and also the gaps we will need to address in light of a changing media landscape. I will share with you some of the key questions we are asking ourselves as part of that process.

Ian will then take you through the operational and financial performance for 2017 and I will then come back to give you some early insight into what lies ahead for 2018. We will then have time for your questions, although I'm sure you'll understand that we want to finish the refresh before we answer your key strategic questions. So let's play the show reel. If you are watching on the webcast incidentally, unfortunately, you won't be able to see this bit.

[Presentation]

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

So some fantastic content to look forward to there. It has clearly been in 2017 a challenging year for business generally, with continuing economic and political uncertainty, and for ITV, this has obviously impacted TV advertising spend. But despite the challenges, ITV's operational performance has actually been strong. Share of viewing was up for the second year running, a first ever for ITV. There was a significant increase in online viewing up over 30% and with good revenue growth. And the Studios business delivered significant revenue growth both in total and excluding acquisitions.

The board is proposing a full year dividend of 7.8p, up 8%, which reflects confidence in the business and the outlook for 2018. This is very much in line with our ordinary dividend policy.

So a solid foundation to build on as the media landscape continues to change and evolve rapidly with more content to watch and more ways to watch it. Traditional broadcasters are no longer our only competitors for viewers, for advertising and for quality content.

The relatively new competitors are also our customers. The strategy refresh we have kicked off will address all of this, including the need for effective and deep partnerships with advertisers, platforms and content owners to ensure they are the right partnerships for ITV and that we get paid the appropriate value for our content. We will come out of it with a clear strategy and well-defined priorities to reestablish and establish where ITV needs to be in 3 to 5 years’ time and what we need to do to face the challenges and exploit the opportunities ahead. We're undertaking a very thorough and rigorous process, and at the half year, we will share those headlines with you and then we will do a deeper dive at the Capital Markets Day in September.

I have now been, as I said, at ITV for about 7 weeks, and while I obviously still have a great deal to see and to learn, I have already visited many parts of the business and met many, many people and they're very talented people at ITV. I spent time in our offices in the U.K., of course, but also our U.S. headquarters in New York. I've been to our newsrooms in Meridian, Granada and Yorkshire where I was really struck as to how they have embraced digital technology to deliver not only award-winning news but to drive real efficiencies. I've been on the set of the U.K.'s biggest and favorite soaps, Coronation Street and Emmerdale. It's just incredible to see what goes into producing the high-volume quality content, 6 episodes of each, every single week. I've also visited some of our production companies, including Mammoth, one of our recent acquisitions, which has a phenomenal slate of dramas, including many which you just saw Victoria, Poldark, Vanity Fair, Shiver, the producers of Paul O'Grady's For The Love of Dogs, you'll be amazed how popular that program is, and Piers Morgan's Life Stories, Twofour who produced This Time Next Year and the Real Marigold Hotel, again, you saw clips of; ITV America who produces scripted reality programs such as Hell's Kitchen, Alone and Fortune & Fire; and Amsterdam-based Talpa, our format business, and of course, producer of The Voice.

I've been very much in listening mode as I want to understand what the people who know this business best think. It's also been a really good way of getting people involved in the strategy refresh and hearing their feedback and their views. Over the coming months, I have plans to visit many of our other locations in the U.K. and internationally. As you'd expect, I've also been meeting people in the industry much more widely, including Ofcom, some of our major advertisers, our partners, the government and industry bodies.

What has struck me in all of these conversations and meetings is the pride and passion ITV people have for what they do and rightly so. And also the critical role ITV plays in the wider media ecology, but also importantly, in society as a whole.

One of the reasons I joined is because of that and also because ITV is, I believe, a really strong consumer proposition and it makes fantastic content which drives mass audiences and key demographics, which are so valuable to advertisers. It has the potential to do more targeted advertising, offering advertisers the benefits of both. And that is a pretty unique position to be in, and I can say that as a former advertiser.

Live TV remains the preferred way of watching content even for younger audiences, and that really surprised me. It gives immediate scale, reach and fame for advertisers that just cannot be gained anywhere else. It also provides a safe, trusted and transparent environment in which to advertise and generates the highest return on investment of any media. Recent research by Ubiquity found that for every GBP 1 spent, TV generates over GBP 4 of profit compared to just over GBP 2 for online video and less than GBP 1 for online display. We've got copies of this research for you to takeaway if you're interested. And this is clearly something we are talking to our advertisers and media agencies about.

So while online advertising continues to grow, advertisers are beginning to challenge and actually quite vocally what some online advertising actually delivers and we are now starting to see more questions being asked about kind of unacceptable content and contextual advertising, measurability and actually indeed the trust.

The ITV Hub delivers a high-quality, trusted and measured environment for advertisers. It allows us to build direct-to-consumer relationships around our great content and our program brands, something we are just at the beginning of. But already, we have 75% of all 16 to 34-year-olds registered.

And through voting and competitions within our programs, we had over 100 million interactions last year. Just think of all that data. Another thing that has become increasingly clear to me during my first weeks at ITV is that creating and owning quality content is a real advantage and how the integrated producer broadcaster model benefits the whole of ITV.

We have a great opportunity to make content famous on our channels in the U.K. before selling it around the world. Not only does our success onscreen and online depends on having great content, but the global demand for high-quality programming remains strong as broadcasters and platform owners look for brand defining content.

Netflix and Amazon have become important buyers of our content, and it isn't all about drama, which is what you read about all the time. They're also looking at unscripted content in the U.S.

ITV Studios is now an international production business of scale. Revenues of over GBP 1.5 billion, 54% of that was generated outside the U.K. It is active in 11 countries with a library of over 45,000 hours. We have strong relationships through our global production and distribution network, and we sell content to over 200 channels globally.

So I thought I would now share with you some of the key questions we will be asking ourselves as part of the strategy refresh. We have 3 big themes in this refresh: content production, advertising and direct-to-consumer. For content, we are asking ourselves how we best position ITV Studios to meet the changing demand for content, how we prioritize ITV Studios in the key genres and geographies. Those are just a couple of the questions. For advertising we need to determine how to remain the strongest marketing platform in the U.K. and what opportunities we can capture and advance advertising solutions.

For direct-to-consumer, some of the questions we're looking at are what ITV's online proposition should be, how we create winning direct-to-consumer proposition and what is ITV's platform distribution strategy. We are also exploring questions around data, of course. Data strategy is absolutely critical. Of course, we need to ensure we have the right integrated strategy and operating model so we are also looking at skills and capabilities.

There's a lot to get our teeth into here, but everyone I have met at ITV is really energized about this refresh, and I look forward to sharing that with you when we have those outcomes.

I'm now going to hand over to Ian.

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

Thanks, Carolyn. Good morning, everyone.

2017 was always going to be an interesting year and it certainly turned out that way. Continued economic uncertainty led to the pressure on advertising and earnings, but we've seen strong revenue growth in Studios and online, which led to nonadvertising revenues being up 11%, and external revenues up 2%. And that growth, coupled with tight control of costs, has mitigated around half the impact of a 5% decline in advertising.

However, profits are down 5% to GBP 842 million, which translates to 16p of earnings. Against this uncertain backdrop, as Carolyn said, the operating performance of the business has been strong. We delivered good share of viewing growth, saw 39% growth in online viewing and in Studios, we had strong organic growth, we've more debt due to paying special dividend and tight cash managements or profit-to-cash conversion of 91%. And the board's confidence in the core business, its cash flows and our strong start to the year, both on and off screen, underpin an 8% increase in the full year dividend to 7.8p, this very much in line with our dividend policy of paying roughly half our earnings over the medium-term.

And given this year's ordinary dividend, 5 years of special dividends, leverage of 1x and a strategy refresh underway, the board has decided not to pay a special dividend this year.

Operationally, Broadcast had a strong year, growing share of viewing for the second year in a row, delivering a SOCI index over 100%; increasing share of advertising to 47.6% and continuing to grow online and pay both in terms of viewing and revenues. However, advertising was down 4.8% or GBP 81 million, and that's hard to mitigate. We had the benefit of GBP 25 million less spend on screen as it was a non-sport year and we took action on the cost base. However, profits fell to just under GBP 600 million with margins down 1% to 29%.

Within broadcast, online had a strong year with revenues up 15% and online viewing was up nearly 40%, whether measured by requests or time spent on the hub. In fact, all our viewing KPIs showed real progress. Share of viewing across the family was up 0.4 percentage points to 21.7%, with growth on the main channel and ITV2 and 4. This reflects the quality of the schedule across all our channels.

Commercially, it's important we continue to deliver scale audience and the demographics demanded by advertisers. If we do that, we'll keep our compelling advertising proposition. We delivered 99% of commercial audiences over 5 million, which is around 780 shows, roughly the same numbers as last year but without the benefit of a big sports tournament. This shows the importance of the soaps being strong and continued investment in quality drama and entertainment.

ITV2 and ITV4 performed well in delivering their target demographic, viewing from 16-34s on ITV2 was up 17% driven by Love Island and the Seth MacFarlane shows; and movies and sports delivered a 12% increase in male audiences on ITV4. And as already mentioned, hub viewing grew strongly helped by investment in new functionality such as improved personalization, recommendations and notifications.

The hub is starting to become a scale proposition, with 21 million registered viewers and we're starting to understand them better. For example, we now know that over half of our online viewing is from 16-34s. They love our content and want to watch it whenever and wherever. And the Hub delivers real incremental profit as the cost of the content are largely paid for through linear broadcast.

In 2017, we also invested in our SVOD business in the U.K. with the Hub+, Cirkus in the Nordics and Germany and BritBox in the U.S., which is now launched in Canada. BritBox is ahead of plan and has already got over 250,000 subscribers.

At the start of the year, the economic uncertainty when forecasting NAR was difficult. We planned for a challenging first half and expected things to improve as the year progressed. That's very much the way the year evolved and we're encouraged by Q4 returning to growth, and this growth looks set to continue into this year.

The category spend is clearly mixed. Tech and telco spend was strong on the back of new product launches, car revenues were positive all year, again driven by new models, and the supermarkets also spent more, though weakness in the high street meant the retail category as a whole was down 3%. FMCG advertising was weak to start, but improved as the year progressed as we saw money allocated back to TV by some of the bigger advertisers. Across Q4, we saw supermarkets, FMCG, finance cars, entertainment and telco advertising all up year-on-year.

We've maintained our investment in original content through the advertising cycle and with a healthy mix of drama, entertainment and the soaps and daytime, this quality content continues to underpin the strength of our advertising proposition.

Moving to Studios which had a strong year delivering nearly GBP 1.6 billion of revenue, 13% growth, 7% on an organic basis. There's been growth across all areas of the business. The U.K. benefiting from new dramas and producing The Voice; the U.S. growing by 28%, excluding currency with the return of Hell's Kitchen, Good Witch and our drama pilot Snowpiercer; the international business, especially France and Australia, had a strong year, driven by the production of U.K. and Talpa formats; and the growth in GE came from drama, offsetting our decline in DVD sales.

Overall, profits were, as we expected, flat year-on-year. The reason for this was that 2016 comparatives had a GBP 37 million benefit from The Voice China format sale. This is a one-off, so being flat year-on-year is a good result and shows a continuing growth from the underlying business.

Margins are down a couple of percent to 15%, primarily because there's no repeat of the high-margin format deal and as I'll show, we've got more new content, especially drama, which is coming through at a slightly lower margin.

We've talked before about the lumpiness of our Studios business and how shows move around. This means there's always churn. And last year to standstill, we had to replace over GBP 300 million of revenue. In fact, we delivered almost GBP 430 million of revenue, GBP 135 million from returning formats, entertainment and drama and GBP 293 million of new shows that all had the potential to return, which they won't, but that's the nature of this business. A healthy Studios business needs to keep investing in shows with a potential to return and travel.

We recognize that these fluctuations can make it hard to assess the underlying business. Looking back over the last few years provides a better understanding of our performance. On this basis, Studios has delivered 5% compound annual revenue growth from the core business, that's the business we had before 2012, excluding all acquisitions and currency.

Similarly, it's important we produce a decent return on the capital we invest. And the return on investment for 2017 across the portfolio of acquired companies is 13%. And we've averaged 12% return over last 3 years. On either basis, this return is well ahead of our cost of capital. Studios is a much stronger business delivering good organic growth and a positive return on capital. It's also a portfolio much more focused on drama and entertainment. And as this slide shows, we produced over 300 hours of scripted content last year. The U.K. is growing nicely with series such as Victoria, Unforgotten and Cold Feet; and we're gaining momentum in the U.S. through shows like Snowpiercer and Good Witch. The recent acquisitions of World, Tetra and Cattleya are drama teams focused on series with international appeal.

In 2017, we invested around GBP 240 million in producing scripted content, so around GBP 80 million more than last year. And this growth in returning series reflects the quality of the pipeline. The number of hours of returning drama has nearly trebled over 3 years, and we now own 19 series which is sold to over 100 countries.

Entertainment is a different model as quite often successful formats are remade in local territories. We've over 3,000 hours of entertainment being made globally, including The Voice and the Celebrity Hell's Kitchen and The Chase, and the number of hours produced is growing by over 80% in the last couple of years. We sold over 60 different formats internationally last year and now have 17 formats being made in more than 3 countries. We've chosen to invest in rights and content with the potential to return in travel. To that end, we've made good progress in building a stronger, more international Studios business.

Pulling all of the above together, the NAR decline had the biggest impact on profit, down GBP 81 million. Lower schedule costs and GBP 29 million of overhead savings in part offset this; while in Studios, the good growth from the underlying business is held back by the difficult comps. We did continue to invest in the business on the Hub, our box office trial and new creative in Studios, especially in the U.S., and the net of all this is our EBITA of GBP 842 million, down GBP 43 million or 5%.

Our associates were a loss of GBP 4 million, which includes our share of BritBox, which although ahead of plan remains loss-making. And after interest which came in at GBP 33 million and tax, an effective rate of 19%, EPS was 16p, down 6%.

On a statutory basis, EPS is down 9% or 10.2p. Exceptional items not in our adjusted numbers are GBP 154 million. The bulk of this relates to acquisition earn-outs and this has led to a charge of just under GBP 100 million mainly relating to Talpa. There's GBP 30 million of property-related costs, which are fees and asset write-offs and move costs, and there's GBP 27 million relating to a provision on The Voice of China. Our Chinese partners have defaulted on payments relating to the 2016 format deal. And even though we are pursuing them for the unpaid amounts and with credit insurance in place, the accounting standards are such we had to provide for what they owe us and we're unable to recognize any offset in recovery. We believe we have a robust position and that ultimately, there will be no material impact on ITV. Therefore, we're treating this as exceptional because in our judgment, this is going to be a timing difference between this accounting provision and future cash being received.

Moving on, the balance sheet remains robust supporting our investment-grade credit, and we continue to have good access to liquidity. Our leverage is increased to 1x net debt-to-EBITDA, primarily as a result of last year's special. Operating cash flow is over 90%, which is a real positive, not least when we invested so much in scripted projects, which had around a GBP 55 million negative impact on our working capital.

The net pension deficit is GBP 83 million. This is GBP 245 million lower than last year due to GBP 80 million of company contributions, good asset returns and updated member experience data.

We have agreed the key aspects of the tri-annual evaluation for the main section of the pension scheme and our cash contributions remain unchanged. We expect a similar result on the other sections.

And finally, some of the planning assumptions for 2018. Our schedule costs will increase to around [10 60] million because of the football World Cup, and we expect around GBP 580 million of this to be in the first half. We're also likely to see an increase in scheduled costs for 2019. This will be driven by sports, having 10 England games as part of the new schedule of matches, plus with the rugby World Cup; and we also plan to invest more in drama, ideally drama we create, own and control the rights to, benefiting from being an integrated producer broadcaster. This will impact Broadcast in 2019 but deliver future returns to Studios. These 2 investments mean the 2019 schedule costs will be around GBP 1.1 billion.

Coming back to 2018, there are some investments we're already committed to. These will impact profit by around GBP 15 million to GBP 20 million. Half of this relates to cost of occupying new London properties, plus there's initial investments in addressable advertising, our self-serve advertising trial and improved functionality for the hub such as series so far and box sets, which we'll get back following the closure of the Encore channel on Sky later this year. The Encore closure will impact our pay revenues by around GBP 20 million, though this will be offset by the continued double-digit growth in online advertising.

Tax rate is expected to be 19% and this has been reassessed in light of the U.S. tax reforms, and at this level, the rate should be sustainable for the next couple of years. As far as CapEx is concerned, there's GBP 60 million of business-as-usual CapEx and in addition, there will be around GBP 40 million of investment in our London property project, including fit out of new offices and design and initial demolition costs, all subject to the final planning approvals. There will also be around GBP 30 million of move and relocation costs as we vacate the tower. These will go through the P&L and be treated as exceptional. This project will run for several years probably to 2023 and we'll update as the project progresses and we decide on exactly how we'll procure the various space of the building.

So in summary, there's no doubt 2017 was a tough year for advertising, but all of the parts of the business have performed well both financially and operationally. And we have a really strong foundation as we plan for the future.

Thank you, and back to Carolyn.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

So on to 2018. So as Ian has indicated, we have had a great start to the year. Viewing has been really strong with the schedule including the return of Dancing on Ice, The Voice, Vera, Endeavour, Trauma, Six Nations; record viewing for our key daytime shows and the sixth episode of Coronation Street. Our Family share of viewing so far is up 7% and total viewing volumes are actually up too up 3% and online viewing is up 22%.

We are incredibly encouraged by ITV Studios' great pipeline of new and returning shows, including Unforgotten, Vanity Fair, Survival Of the Fittest, I'm A Celebrity, Poldark, those were all for ITV by the way, Poldark, Bodyguard and Shetland for BBC, Living the Dream for Sky; and internationally, Love Island, The Voice, the Chase, Big Star's Little Star and Good Witch.

We've already secured over 60% of our expected revenue for 2018, about GBP 100 million more than this time last year.

The economic outlook remains uncertain. We expect ITV Family NAR to be positive in the first half with Q1 up 1%, a continuation of the improvement we saw towards the end of 2017.

The World Cup obviously starts in June, very exciting. ITV has a great pick of games throughout the competition with 31 matches, including England's big first round match against Belgium. It drives a really valuable audience delivering mass and the hard-to-reach male demographics to advertisers, as well as strong simulcast viewing online, particularly for those 4 o'clock games where people are at their desks. We have already sold the sponsorship to 3 brands and we are currently selling advertising slots, demand for which is really strong.

Love Island returns to ITV2 this year for an extended series. It's a great example of ITV operating as an integrated producer broadcaster, but also in a very 360 way, and more of that when we do the strategy refresh. It was a big success last year, as you know, and from that, we have already sold the format to 6 countries, as you saw on the show reel.

Vanity Fair is an ambitious 7-part drama to be broadcast on ITV in 2018. It is being produced by Mammoth, which ITV acquired in 2015. It will be a glorious production, with filming already taking place in Budapest and London, with fantastic on and offscreen talent. We have maintained the rights to the initial broadcast and the online windows in the U.K., and have sold the international rights to Amazon. So there is a lot to look forward to in 2018.

We have kicked off our strategy refresh and when we report to you at the interims, we will be able to give you an update and some of the key headlines from that. And of course, we remain extremely focused on the business. As I said, lots to do and the energy and the commitment of ITV people, both creatively and commercially, will help us to deliver what is a very full agenda.

We have a solid foundation to build on, as you have seen, with a strong balance sheet, healthy cash flows. This gives ITV the flexibility to make the right strategic choices for the long-term in a competitive environment, while we still deliver sustainable returns to shareholders.
And thank you for your time this morning, and we are now very happy to take your questions.

Question and Answer

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

I think there's 1 down here.

William Henry Packer
Exane BNP Paribas, Research Division

Will Packer from Exane BNP Paribas, 3 questions, please. Firstly could you give us your view on the retransmission fee debate and where you see things. Your predecessors was pretty vocal that the pay TV players should pay material revenues to ITV. Do you share that view or are you looking for a more cooperative relationship with the pay TV companies? Secondly, thanks for sharing the data on the returns of your Studios assets. Could you disentangle the returns on the U.S. assets? There's a perception within the TV production industry that perhaps they relatively struggled. Is that fair? Any thoughts there will be helpful. And then finally, 2 positive years of viewing, very strong relative to history. Can you sustain that for a third year?

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

Okay, on what you described on retran, I mean, we believe and continue to believe that we have to be paid fairly for our content. So that hasn't changed. I think when you look at partnerships, we are very, very -- I think it's very important that we take a broad view of those partnerships and we decide which partnerships are very important to ITV going forward. And those then become partnerships and commercial agreements which are quite broad in their nature. So I would say that our position on being paid fairly for our content has not changed at all, but our approach is a much broader approach, which is ITV dealing with partners rather than just 1 element of ITV dealing with a partner. So it's constructive. On your question, I mean, I'll hand over to Ian on Studios a bit, but I would just observe on your question that there is quite a lot of noise about the U.S. business, it feels. But it's strange really, because having been to New York and had a really deep dive into ITV America, early days, I know, but I would say it's very clear what we're doing in America. ITV America, New York mainly and L.A, but mainly New York, is a production business that is just producing high-volume unscripted content for multiple channels in America. And it's doing well and it's profitable. The scripted business, which is in L.A. is, and again, I only spent 1.5 hours with the person leading that, but it's a very -- a totally different business with a totally different model. And actually, ITV has done that in a very stealthy kind of low risk way, actually. And so I've been quite surprised at how much kind of attention that gets for a relatively small part of the overall Studios portfolio. And of course, we are looking in the strategy refresh as to what we said to you about geography and about genre and both of the things are -- those things are very important, I think questions to address when it comes to scripted in America.

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

I'm not going to pick the numbers, but just a bit of context, the U.S. market has undoubtedly changed in recent times, primarily because the traditional buyers of content, the cable networks, are going through a really tough time. However, when we look at our Studios business today in the U.S., they're no longer our sole customers. We've got a much broader mix of customers, in particular, some of the SVOD and FANG group of companies who are looking for different types of content. One of the things on the slide, Queer Eye for the Straight Guy, is a reboot of the old format being sold to one of those companies, and we find that quite interesting because they're now looking -- we talked before about the demand for drama, demand for drama from Netflix and Amazon. Actually in the U.S., they're looking for a much broader range than just drama. They're looking for all types of different genre and we're well-placed to serve that. The thing about return on investment, especially the Studios companies, is how you measure it and whatever point in time you measure it, you can get all sorts of strange answers. So I'll give an example, I was talking to someone outside about this. We bought a business called High Noon, I'm just picking 1, purely at random. Within 18 months, they lost their biggest show, which happened to be Cake Boss. If you do a return on investment at that point in time on where that business is, you could get a very strange number and you could actually make some strange decisions on the back of that. If we do a return on investment on High Noon today, because it's got a great show called Fixer Upper, the return on investment looks fantastic. So you have to look at these things in the round as a portfolio and the quality of the pipeline. You've seen the accounts, there's no write-offs in the accounts, there's no concerns about the quality of the business in the accounts, and our Studios business has delivered 7% growth organically, 13% in total. The health of the business is there in the numbers and I think it's a much stronger business than it was.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

On viewing, I won't ask Kevin to answer that question because he will always take kind of -- he'll say, "but I think our...", but I think actually, we've done really, really well, and I think that's really about the quality of our content and also about developing this kind of -- the way we deal with consumers. And actually, the more we can get consumer insights, the closer we can get to our consumers, the more likely it will be that we can sustain that. And I think our aim, obviously, is to sustain that.

William Henry Packer
Exane BNP Paribas, Research Division

Just to go back to the retransmission question, in consensus numbers for '18, '19 and beyond, is there anything for retransmission fees? And if so, should they come out?

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

There's a real mix of what people have done, some people put numbers in as an estimate, other people haven't. So there's a mix in there.

Ian Richard Whittaker
Liberum Capital Limited, Research Division

It's Ian Whittaker from Redburn. Again, 3 questions. First of all, just looking at your decision not to pay a special dividend on things. I mean if you look at this business, net debt EBITDA is 1x, you are very cash flow generative, and obviously, you said over the strategic refresh that's why you're holding things back. Yet, sort of -- I mean, that sounds as though there is the potential sort of for quite significant outlays. So from the very initial views at the moment, I mean, would you think sort of the use of the cash that you will save via special dividend with more sort of internal organic investments or are you open to the potential for quite significant acquisitions moving forward? The second thing is just in terms of the video on demand revenues, sort of you talked about the strong growth that's coming through in terms of the viewers on there, but in terms of the actual revenue growth that is coming through, it's much lower. So that end -- sort of the explanation that passes being you obviously don't want to sort of put too many adverts on there for the user experience. Just wondering at what point you start to close the gap between the user growth and the actual revenue growth within that business? And then third of all, just in terms of, I guess it's more of a sort of how you sort of report numbers moving forward in terms of advertising. Your NAR was down 5 but if we include sponsorship and VOD growth, you're actually down 3 for '18. So is there a case for actually having a more integrated ad number if that's how sort of the business is moving forward? And sort of in terms of that delta between the 2, '18 you've got extra sponsorship revenues presumably from the World Cup, you've got continuous strong growth in VOD. In '18, should we sort of think about it still being the 2 percentage point difference or could there be a wider gap between NAR and the total number?

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

That would be guiding you, but anyway, let's just take it 1 at a time. On the specials, so for me, we laugh about this because when I found out that you'd had -- that there had been 5 consecutive special dividends, I kind of said well, what's special about those then? Because you know what I mean? My

background is you do a special dividend when it's unusual. It's something different, right? Now that's not being flippant. I think philosophically, I would just say my track record, Ian's track record is not to sit on cash, right? So nor is the board. The board is not going to want to sit on cash. So the most important thing here is if we have cash to give back, we will give it back in 1 way or another. We will give it back to shareholders. It is very -- that's a very important kind of thing for us. However, what we're saying here is -- I don't want to prejudge the strategy refresh. I don't want to say we're going to use what we would've had for a special dividend to do this, that and the other, because actually that will be totally prejudging what we're trying to do rigorously and thoroughly and comprehensively. And so I think when we come back to you at the half year, we will be able to be in a much better position to talk to you about that.
I think the most important thing is that we will be disciplined about the use of cash. We are not -- it is entirely about the returns we will get to shareholders. That's what we will do. But that also means we have to have a healthy and fit business for the next 5 years. We have to be competitive. And that's what we're assessing at the moment, which is how can we be competitive over the next 5 years for content, for advertising and retaining viewers in all our platforms and how do we monetize them, which I think comes really down to your question about VOD, revenue and how we drive that with the user experience, kind of interrelated with that because we've just got to make sure that we don't do something too quickly that has unintended consequences on something else. So that's partly what the strategy refresh is doing. And I'll bring Ian in at the moment but it is interesting your point about NAR and non-NAR because of course we don't -- I mean, of course, we care about any shifts, but effectively, it's -- what we really care about is the total pot and that we're getting the revenue from our advertisers and also we're getting it from other means. So I think you're right to say that over time, the integrated number will be a very -- is a more meaningful number.

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

No, I agree. I think as we look at the strategy and new priorities, the reporting needs to align with that and the same applies to capital policy. Once we're clear on that, we can come back with a view on our capital policy, which will reflect all Carolyn as just said, around we'll be very disciplined as we have been, we'll protect our investment-grade. But the capital policy needs to enable us to execute the strategy and those things all need to be aligned as does the reporting.

Ian Richard Whittaker
Liberum Capital Limited, Research Division

Just a quick follow-up question, I mean you mentioned in terms of advertisers -- some advertisers coming back in, in the second half. So is that sort of just initial steps or are you starting to see now an acceleration of advertisers saying hold on a minute in terms of online advertising there are doubts let's shift it back into TV?

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

I think it's a combination of things. So I don't think it's a very clear cut binary thing. I think there are definitely more questions about online advertising, not simply the transparency and the trust and the content. So there's a whole issue around content where your advertising is seen and advertisers did pull off Google, for instance. So there's that's 1 issue. There's a whole issue around measurability and what you are actually paying for and how much of it is driven by bots and how much is actually worth paying for. There is a big, big issue around transparency and measurability. That benefits TV. And therefore, obviously ITV within that. It benefits TV because we are so highly kind of measured. I mean, we -- you have to watch an entire ad, you have to watch it at the right speed. If you're fast forwarding, you're not counted into the numbers. The ASA highly regulates the type of advertising we can carry. So we have a very, very trusted environment and a very measurable environment. That is definitely permeating advertisers, there's no question about that. But it all takes a bit of time. I think there is a factor which is -- and this will benefit us on 1 way because we are also online, we are also doing VOD. You don't get fired as a media buyer for buying digital because if you're not buying digital people are going, "Well, you're not really keeping up," right? And I think that will start swinging back, because that isn't the way to really plan media, right? You want to plan media to be effective, and if it's not effective, then it doesn't matter what you're doing to be seen to be keeping up with the trend. So I think there are all sorts of factors. There is the other factor that just hit in 2016 and has lagged, is the fact that FMCG had input costs because of devaluation of the pound and the whole Brexit scenario that they've been dealing with and you've heard Unilever and P&G come out and say very openly that they are cutting costs. But actually where they're cutting costs from is agency fees and production budgets rather than on media spend because I think people know that you have to spend money to advertise when you're having a tough time.

There's a question up there. Oh sorry, I beg your pardon.

Laurence Davison
Deutsche Bank AG, Research Division

It's Laurie here from Deutsche. I understand you -- first question, I understand you don't want to prejudge the refresh. Just some broad questions though about the sector. Why do you think TV advertising is starting to dislocate from relatively strong macro across Europe given what you said about FMCG and the strong place for TV? Second question, when you're looking at best in class model for ITV, which other media groups or even more broadly than TNT do you look at as the right model? And then thirdly, on Studios outlook, are we on course for a rev organic growth consistent with that 5% that we saw -- that we've seen over the past 5 years?

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

Okay, those are very big questions, the first 2. I think Studios one is quite relatively easy to answer. But I think that I don't actually think there has been that much of a dislocation. I don't think the economic environment is that strong. And remember, we're driven -- our advertising is a U.K. driven advertising. The U.K. has been weak, has been the weakest in Europe, and the devaluation of the pound has affected lots and lots of companies here. And uncertainty, political and economic uncertainty, is not good for advertising because it does depress it because of consumer uncertainty. It's all linked. So actually, I don't think there has been the dislocation you've been talking about in the way you've described. Actually, that's not our -- that's not what we've seen. We've seen actually quite a big economic effect on our advertising spend because of economic uncertainty and consumer lack of confidence, actually. It's hard about the other models. I mean, I'll bring Ian in here because I think actually what's quite amazing about ITV is what an amazing -- it's a really unique model because if you think about it, we are the only free-to-air advertiser that has no safety net. I mean, Channel 4 has a safety net because it's government-owned. The BBC has the license fee it starts with GBP 3.8 billion in the bank. Sky has a hybrid model of satellite and subscription and advertising. So we are the only free-to-air model, and I think that gives us quite a lot to think about. Of course, we're going to remain free to air, but we then have to think about how we evolve our own way of looking at us going forward in 5 years, 10 years' time. So what happens in -- but I think that's an opportunity because I think there are opportunities for SVOD, for instance. There are opportunities with data and with communities of viewers that I think it gives us opportunity going forward in terms of the model.

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

The only thing I'd add to that is when you look at what's happening in the world around us, owning more of your own content being in control of more of your own content definitely feels like a strategic advantage. When you look at what everybody else is doing around us, that seems to be a really good place to be starting from. On the Studios outlook, we fully expect Studios to have another good year of revenue growth. And as Carolyn said in her script, we've got roughly 2/3 of our target revenue already secured. Now whether that's going to be 5%, 7% or 3%, we'll see how the year progresses, but we're looking like another good year of growth. The reason we don't give a specific guidance on this is things do move around quite significantly. And we mentioned this drama Snowpiercer we got coming out of the U.S. This a big project for us. TNT have commissioned it. And we're having conversations with TNT about when it's best to be scheduled and exactly how many episodes we have in the first series. And it could well be that the right thing to do for the show is for it to be broadcast on TNT in Q1 next year. Now we could rush it all out and have a conversation and say let's do it later this year and get the revenue this year, but to give the show the best chance of success and we only recognize the revenue when we deliver it to them, the right thing to do is maybe to wait. And that causes quite a lot of fluctuation in terms of things moving around in terms of 1 year to the next, but the fundamentals of the Studios business, as hopefully you heard today, right across the board both in the U.K., the U.S., the rest of the world are in really good shape and the pipeline of new shows coming through is good. And the reason we did that bit about looking back over 5 years, you've all seen the numbers over those 5 years or so. We've had years of no growth or 2% and years of 7%, like we did last year, and 9%. The average is around 5%. The market feels like it's growing around 5%, 6% and there's no reason through that cycle we shouldn't be growing at similar level.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

Lots of questions. Should we go there? And then there's just over here.

Steven Craig Thomas Liechti
Investec Bank plc, Research Division

Steve Liechti from Investec. Just on the refresh. Given the fact you've given program spend out to 2019, does that mean the refresh will have no particular implications on that program spend and you're sort of setting now your agenda there or can it change? That's the first question. And then second question, drama, have you ever actually broken out how much drama revenues are of the roughly 1.5 revenues in Studios business at a revenue level? Any thoughts in terms of the split of that going forward, I guess, for the refresh? And then last one, just quickly on IFRS 15, can you just remind us is there any effect on that particularly in the Studios business, I guess?

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

On the program spend, I mean, I think that you've seen for 2019 it's been driven really by sports and also by drama. So at the moment, that's -- the reason we put that out there is that we didn't want any surprises. We know about that now, you have to get sports rights, you get years in advance, not just kind of months in advance. So I think that's a good thing for you to see as the program spend for that year because that's what we've said. Do you want to take the drama and the revenue breakdown?

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

It's a good question, Steve, about breaking down the GBP 1.6 billion or so of Studios revenue by genre. We never presented it that way. We tend to do it geographically because that's largely how we run the business. And within those geographies is a mix of genre. We'll take that away and think about it. And then what was the other question?

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

IFRS.

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

IFRS, there is no material impact on either Broadcast or Studios from IFRS. In fact, there's no impact on the Studios business looking back historically and the opening position. There's a bit of revenue cost gross-up in Broadcast. It's immaterial, it's less than GBP 10 million and has no profit impact.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

Should we go to the back then and Maddy, if we come down here?

Julien Roch
Barclays Bank PLC, Research Division

It's Julien Roch from Barclays. I do like everybody else, not prejudging the refresh but asking questions about the refresh. So BritBox, 250,000 subscribers, but the losses within associates are only 4 million. So it looks like you've not been aggressive on marketing. As you are saying, you will roll out internationally, would it be a good idea to be aggressive on marketing to grow the business quickly but incur losses? That's my first question. The second question is on content. Once we're a couple of weeks in, do you feel that this is the right size and it's about execution or do you feel you are still subscale in content? That's my second question. And then the third question is how do you feel about the way advertising is sold in the U.K., which means 100% [filler] inventory, which is not the case in other countries, which kind of prevents you from doing a lot of media for revenues, which has been very successful for even a lot of targeted advertising? Do you feel that it's something you should change?

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

Do you want to do BritBox first?

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

Carolyn's going to smile when I answer this question.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

Here we go.

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

Because it's about marketing spend.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

I know.

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

Which we have a -- actually, Julien, it's a really good point, and Carolyn will smile when I say this, because I went over and met the BritBox team shortly after launch, and they were actually quite proud that they were performing ahead of plan in terms of subscribers and hadn't spent much on marketing. So I actually said, which you might smile, what would it have been if you had actually spent more money? And to address that, we've actually put some of our marketing team over there to work with the BBC team.
So marketing will be an important part of rolling out BritBox as we look to expand that as a direct-to-consumer proposition and not least of which as we look to see what the international roll out is having just launched in Canada. So it's not the only thing...

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

So the joke there is that I'm obviously a believer in marketing. I've had great success in marketing brands effectively and driving traffic and profitability, and we have a constant discussion about...

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

I put my Finance Director hat on occasionally.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

He puts his CFO hat on.

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

It's not the only thing in that 4 million. We have, as you may have seen during the year, we also invested in a couple of scripted businesses in the U.S. Circle of Confusion and Blumhouse TV. So they're also in that number in the associates spot.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

Yes, so on content, and obviously, Ian can come in here as well and maybe Kevin and Julia. I mean, I don't -- I think it's very interesting to talk about subscale because actually, I think it's really about the quality of your content and how many viewers you attract or how much money you get for the value of your content. So I think we're doing well on both of those things. And so -- and of course, you're competing with for viewers with big-budget productions, and I think our way of handling that is to find different ways of coproducing. So we wouldn't on our own necessarily do a very, very big thing, but we would do that in a different kind of model with somebody else. So I think Snowpiercer is a good example of that, World On Fire is a good example of that. There's just a whole -- there's a range of things that we do that are the way we fund differently. So I don't feel -- I don't think we feel that we're subscale in any way. I think we feel that our content is incredibly strong, and that we have to continue to be very strong because content is the thing that drives our viewers, and therefore, that drives everything that we do.

Julien Roch
Barclays Bank PLC, Research Division

Last question on advertising.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

Of advertising. I think it is -- your question is largely about CRR, I think isn't it.

Julien Roch
Barclays Bank PLC, Research Division

Well, CRR and share deal. So, yes, you need to remove CRR to remove share deal.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

Yes CRR, so the share deal is about CRR. I think actually the less I'll say about that in this forum the better because I think we have got CRR, and I think it can obviously be restrictive. I mean for those -- I don't know how many people are familiar with CRR, but I mean, the fact is you can reduce spend and still get your share and therefore -- and you get no penalty as a result of that whereas most media, the more volume you put in, you'll get a price advantage. But the less volume you put in, your price probably goes up. So it is different. It's a very different trading model. But I think, again, one of the things we have to look at very closely is all of the advertising proposition rather than just CRR. I think it's 1 important element of what we do, a very important element. But it is something we have to look at in the round. And of course, it doesn't just affect ITV. It affects all of TV. So more of that in the future.

Patrick Thomas Wellington
Morgan Stanley, Research Division

Patrick Wellington from Morgan Stanley, 3 questions. First one, just going back on the schedule spend. Ian, can break down the 2019 extra GBP 50 million between the accidental football element and the drama element, which might be a bit more studied. And normally one would expect then in 2020 to drop back down again. Is that going to be the case? Second thing, partly linked to this, GBP 83 million extra investment in drama, 160 to 243, can you show us how that flows through the P&L? And then thirdly, studied use of the word refresh.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

Well spotted.

Patrick Thomas Wellington
Morgan Stanley, Research Division

If I were remodeling my house I would knock it down and put a few extra walls in or whatever. If I'm refreshing, that's a bit more like a lick of paint. So generically, are you saying that they've broadly got it right and a few things need smartening up or does there need to be a bit more of structural work?

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

Just to walk you through the program spend, the schedule costs, so current year, 10 25 as we have been clear on all the way through, this is a non-sport year. 2018, we'll go up 10 55, 10 60 as we reflect the Football World Cup. 2019, we have got these 10 England games, which is a change of how the international games are being scheduled because it's got this new tournament called the League of Nations which just meant that all of the qualifying games are [constatinered] into set years. So you have a big year in 2019, we'll have 10 England games, we'll have no qualifying games in 2020, we'll have 10 England games back again in 2021. So to your point, Patrick, we will see a spike in 2019, it will fall back a bit in 2020 and will increase again in 2021. The drama spend which is we are working through, is roughly around an incremental GBP 25 million and part of that GBP 1.1 billion of 2019. So looking at it as of today, the cost in 2020 should fall back to around 10 70, 10 80-ish if it helps. And then on the studio side of things, the GBP 240 million, that's the cost of production. And it's linked directly, slightly to Steve's point about breaking out drama hours. So we made 300 hours last year of drama and the GBP 240 million is the cost of making those 300 hours. And that just goes through the accounts hitting the P&L as and when we recognize the revenue for delivering those shows. So it's all in the numbers in the round.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

So on the strategy refresh, I think if we were saying we're doing a comprehensive strategy review, it would mean that we will be looking at every single thing and we're not doing that. Because as you've just heard from the presentation today, diversifying into Studios is the right strategic decision. It is doing well, it is diversifying us. It is doing all the things it needs to do for ITV. So we're not uprooting that and saying should we revalidate -- should we relook at that? What we are doing within that is saying okay, what does the next 5 years look like for Studios? What do we need to do for the next 5 years to do this even more effectively than we have been doing? So that's why we use the word refresh because it is really about looking at the gaps. Because things have changed rather a lot in the last year. So the strategy laid out, the turnaround strategy, was a 5-year plan, and it was a very, very effective. We're now in a different world and we are going to have to compete harder for viewers and advertisers. And it's really about identifying how we do that and how we compete in the next 5 years and what we look like in 5 years' time in order to be as fit and healthy as we are today.

Richard Eary
UBS Investment Bank, Research Division

It's Richard Eary from UBS. Just 3 questions. First one, just a follow-up on Patrick's on the changing content spend. Ian you talked about GBP 25 million. Can you walk us through? Is that essentially an upgrade in terms of quality or is it increased hours and how do we think about that in terms of price versus volume? The second question, just on Studios, you talked about revenues and didn't really touch on profitability. In '17, there was obviously some benefits of some cost savings coming through. There were some benefits of some FX gains as well. How do we think about that in '18 given that you've obviously got investments coming in and you've obviously got some FX headwinds and obviously you've got probably more shows that are coming through that make you lower margin initially. And then the last question, just want to understand in terms of the statement about committed to the ordinary dividend policy. I know that you made an opening remarks, Carolyn, about special is not really special if it's 5 years. How do we think about that ordinary dividend policy as we go forward given it's sort of less than 50% today? And do we think we can walk that up to 80% or where do we go?

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

All yours.

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

Thanks, the incremental spend in the schedule for drama in 2019, which is the stuff we have to start working on now as we said quite carefully in the script, ideally we want that to come from shows that we own in and have creation and the rights to distribute globally. Because at the heart of that is giving ourselves the best chance for creating the next Broadchurch or the best Downton, a breakout hit. And actually, we're in a position to do that now because of the strength of our teams. And acquisitions like World and Mammoth have really enhanced the quality of our drama business. The internal labels that we have before are in really good shape as well. So you add those 2 together and we've got the strongest pipeline of ideas we've ever had. So it's not about cost of revenues. Actually it's just about using our schedules and see if we can turbocharge our Studios business. And as Carolyn said, acting more as an integrated producer broadcaster and that GBP 25 million is a rough net impact on the program spend in terms of shows going in, in terms of drama and the other shows have to come out, because clearly, we've got a full schedule. So you do get a saving there, so that's what's going on there. And in terms of Studio's profitability, I agree with you, Richard. There are moving parts around Studios in terms of potentially currency, potentially more scripted coming through, which initially starts at a low margin. You really get your returns on scripted when you're in series 3 and series 4 and you're selling to either the big SVOD players or into multiple territories. That's when you make your profit. But I am confident despite this headwinds that we will grow our Studios profit next year and a good way to think of Studios to some extent putting currency aside a little bit is that growth we talked about earlier, whether it's around 5%, if you think that should come through at around of 15% margin, that's a good proxy through the cycle for what our Studios business should look like. And then on the dividend policy, I'd just come back to what we said earlier around capital and how we use it. It all needs to join up. We need to have the uses of capital aligned to the strategy and it all needs to be a consistent message.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

And I think at the Capital Markets Day will be a great opportunity to look at capital policy because we will be -- the strategy refresh will have been concluded, we'll be into executing some of the strategy and we'd be able to I think, take a broader view of that then.

Richard Eary
UBS Investment Bank, Research Division

Can I ask just a follow-up on that in terms I presume your outline sort of debt parameters as well in terms of actually how you think about the business going forward and whether you think...

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

Again, that will have to be consistent. And as we've said, our credit rating is important to us, running a tight balance sheet is important to us, having a balance sheet that supports strategy is very, very important as well. So it all just needs to join up, so yes, we'll come back with the whole lot.

Matthew Bloxham

Matthew Bloxham from Bloomberg Intelligence. Just 1 question on the Studios business. How do you think about the interplay with your Broadcast business? I guess, if you give Studios free reign and it starts to commission more content for BBC, Channel 4 and that's successful, it potentially compromises your own channel advertising. So does that have free reign or is there some kind of constraint you put around the kind of content they produce for other broadcasters?

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

They have free reign actually. They are a commercial business and they have to make money out of content. That's what they were set up to do and they have to do that really well and they have to sell to whoever commissions. So they're either commissioned or they sell. And they will do that for anybody. It's up to Kevin to ensure that we get the best commissions. So if he can, so it's up to his head of drama and entertainment and factual to make sure that they are spotting the right shows. And so it's a good creative -- it's not even attention, it's just a good creative flow. I mean, that's the way it goes.

Simon Baker
Societe Generale Cross Asset Research

Simon Baker, Soc Gen, 3 questions again, please. Firstly, on FMCG spend, Ian, you said you're seeing them allocating more to TV. Is that more as a percentage of a declining pot or you're actually seeing it in absolute terms going up in the fourth quarter and possibly give an indication for the first quarter? Secondly, on ownership of Sky, Comcast's presentation centered on the strategic rationale revolving around scale benefits, distribution and content. Does the ownership of Sky, whether it's in the hands of FOX or Disney or Comcast, make a difference to you? Your peers have been arguing that they're going to be beneficiaries from scale. In my mind, that means somebody's losing out? And then thirdly, just on the restructuring chart -- sorry, on the exceptional charge guidance for 2018, of the GBP 85 million, Ian, how much is not related to acquisition accounting?

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

I'll deal with that one first because that's the easiest. GBP 85 million, roughly GBP 55 million relates to accounting and GBP 30 million relates to the property side of things, which is essentially the move costs and a bit of dual costs of having rent and rate of business for buildings. So that's how it splits down. On the FMCG side, we did see a return to growth from FMCG across Q4. That has continued into Q1, but it's slightly more mixed in Q1. Food is good, cosmetics is good, household is down. I wouldn't read too much into that because the phasing in the first half of the year around the various categories is often skewed by what their plans are for the full year, especially when you got a big event like sports. So I'd say we wouldn't extrapolate that too much.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

I think generally, it just does feel that there is an uptick overall in FMCG I feel -- it does feel better, but early days. What we're doing? Sky, Comcast. Would you want to say what you think?

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

Yes, Sky's content is interesting because they have to bid for it every 3 years, if you think of what really differentiates Sky content. I think that's an interesting place to be. And they've clearly got the content that's on Sky Atlantic, which a change of ownership of that might lead to question marks about who gets that content as well. So Comcast is a fantastic company and they run a great business as do Disney and maybe FOX. Who knows?

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

That's why I didn't answer the question. Who knows?

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

It sounds like whoever has got the biggest checkbook at the moment.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

There's a question right at the back.

Unknown Analyst

It's Steve [indiscernible] from [indiscernible]. I'll go for a couple. The second may be in a couple of parts. First, just on the sort of online digital journey that ITV is on. It feels like the Hub sort of improved but still playing catch up with rival platforms. Can you just give us some initial impressions, Carolyn, about where you think it needs to get to in terms of pay per view capabilities or is there anecdotal evidence that you had some problems around the Groves/Eubank fight in signing up customers. Digital ad insertion, whether you think you can -- where you are in the journey, whether you think you can get there organically or you need some sort of external investment to fix that potential problem. And just coming back to Comcast and Sky and possibly Disney Sky and possibly FOX Sky, can you sort of give some thoughts on regulatory issues that you might see around any or all of those deals? And also, it's obvious that most of your emerging competitors are global now or going to be part of large global media groups. How comfortable are you in ITV's position, medium, long-term as still largely a U.K. free to air broadcaster against those guys that are buttressed by global reach, global distribution, all those kinds of things?

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

Okay, I mean, look, the Hub at the moment is catch up TV. That's all it does. We've just started doing Marcella as a boxed sets, so you'll start seeing more boxed sets. That really improves the user experience. So if you've missed a series, you'll be able to catch up on the series before watching the new series. That's good for users, but it's good for ITV. I think we now have to work out what the next steps are and what we should do that will actually place us in a better position competitively but also that gets returns because you can do -- I think what we have to do is be quite careful about how we look at this rationally because I think you can be get very, very excited about doing lots of whizzy things that actually don't make money. So we've got -- we absolutely have to think about consumers and the user experience and then we've got to flow from there, and we have to say how do we monetize what we do on Hub further. So what are the other models that we can use. So I think that is what the strategy refresh will address. That is a really important part of what we're going to focus on. Box office is an experiment, it's a trial. It's probably one of the first -- that was the first big fight that we had. I think lots of lessons learned on that because consumers are vocal if they don't get what they want when they want it. And it's a very different experience for ITV to be at the sharp end of -- because viewers aren't like that. I mean, they might complain to Ofcom about something on screen, but it's much -- it takes a bit of time and then it's -- whereas with this it's much more visceral and immediate and you've got to have a way of responding to that quickly and the infrastructure to do that. And at the moment, we outsource all of that because it's too small. So it's a trial. So lots and lots of learnings for that. And we need to absorb that and then think what more do we want to do on that kind of thing. It's interesting and it's definitely another revenue stream. And it's also more data, of course, because I think that fight got, what, 350,000 subscribers? So it was actually very successful from a subscriber point of view. And remember, I mean, they'll be vocal, we have Twitter feeds about what some people didn't get but it will be a minority of people that didn't get. It's still not good but it will be a minority. And it was a problem with the platform. It was a problem with the Sky platform for a number -- for a minority of users on that platform. So just putting it in perspective, it was a good thing for us to do and it was a good experience for us to do. On the addressable and we won't do that organically. We will need to -- but it is budgeted for. So I don't want you to think we're going to have to put a lot more money into the numbers because actually we've already put aside a sum of money to actually look at this whole area of ad technology and how we can accelerate what we do in the area. Disney, FOX, Sky, what? Regulation.

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

Well, I think the regulatory position probably gets a bit clearer and cleaner with Disney stroke Comcast versus FOX. But we'll leave that to the experts to determine because it was clearly a challenge around FOX and I can't say plurality which is the word of the moment, but it's probably a bit easier with Comcast and Disney.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

Yes, and as to the global media groups, I mean, I think that we are very, very strong in our home market and we are a global media player on the content side, and I think recognized to be global on content. The most important thing we have to do, we are an advertising funded business and our advertisers are U.K. advertisers. They're trying to reach U.K. audiences. So actually, being the #1 medium in the U.K. is a formidable thing to be. And so I think ITV is in a very strong position. It's very well-positioned for the future regardless of the kind of global consolidation that is going on. I mean, global is not -- global and massive is not without its issues, i.e. it adds complexity, it adds silos, it adds -- it does add something different. ITV actually, one of the things we are really, really focused on is being agile and nimble and being able to move quite quickly over the next 5 years on things that we need to do and really focusing on the things that we do better than anybody else. And there are quite a lot of things we do better than anybody else. And again, that's an important thing that we're going to be very concentrated on. Any other questions? Another 1 over there.

Unknown Analyst

It's [indiscernible] from UBS. Just coming back to the sort of like trading so far this year, obviously, March benefits from an early Easter, which obviously means that the March numbers are up and January, February are obviously quite weak. You looked at share of viewing numbers, they seem quite positive in terms of audience numbers, but advertising conditions are actually quite weak in January, February off a very weak comp from last year. But you talk about FMCG coming back. Can you just talk us through what's the disconnect between some of those numbers?

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

I don't think there's been a fundamental change in the broader level of confidence across U.K. corporate. So I think corporates are behaving quite cautiously, quite carefully, spending money with a fair degree of rigor and balance across the board. It's different sector by sector. But as a whole, I think we're still operating in an environment with the overhang of uncertainty in it. I think what we've done is give a view across the first half of the year. We've expect the first half of the year to be strong. We don't normally go that far out. But the month-to-month numbers, I have said this probably more times than I care to remember. We shouldn't get too hung up on whether April is down or March is up. It's what does the year feel like, what does confidence feel like. And the fact we're up across the first 6 months after Q4 being up in 2018 suggests to me at least things have calmed down. And I think that's a better place from where we were 12, 18 months ago. That's a start.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

I think that's a really good way of putting it. I think that the shrillness of the noise around corporates post June 2016 for various reasons, I mean, about kind of read about what does that all mean, what does that mean to customs, what does that mean to costs, what does that -- that feels like it's the transition agreement has calmed down British business. But it hasn't solved any issues yet because we still don't know whether that transition agreement is going to be signed and also whether what that's going to contain. So there is still uncertainty, which is -- but it is definitely a calmer corporate environment.

Unknown Analyst

Just a sort of quick one, 2017 you did GBP 29 million in terms of savings. It doesn't look as though in terms of the statement there's anything for 2018 in there. Just for our numbers, should we assume 0 or sort of are there any incremental savings you could make?

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

No, embedded into how we operate is managing inflationary pressures, but we're not doing anything incremental on top of that for 2017 -- sorry, 2018. No doubt we'll be looking at, as Carolyn mentioned in her view at the start, what's the right operating model for us. And that creates an opportunity to look at things again.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board

And again, just there.

Laurence Davison
Deutsche Bank AG, Research Division

Can you just quickly confirm Ian, just on The Voice and the treatment of that as an exception on the failure to actually pay that, when do you actually expect to receive all or what's the actual cash schedule for receiving that?

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

Well, there isn't a cash schedule set out and we are pursuing very vigorously by Talent who are our partner in China, and we've got an insurance claim with the credit insurers who underwrote the original content. And we're in those conversations now, Laurie.

Laurence Davison
Deutsche Bank AG, Research Division

So it's fully underwritten?

Ian W. Griffiths
Former COO, Group Finance Director, Member of Management Board & Executive Director

The receivable is yes, fully insured.

Dame Carolyn J. McCall
Chief Executive, Director & Member of Management Board
Are there any more questions? No? Great, thank you all very much for being here.