# ITV set for continued growth after another strong year

**Full year results for the year ended 31 December 2014**

## Another year of strong revenue growth in all parts of the business

- Total external revenue up 8% to £2,590 million (2013: £2,389 million)
- 6% growth in Net Advertising Revenue to £1,629 million (2013: £1,542 million)
- Online, Pay & Interactive revenue up 30% to £153 million (2013: £118 million)
- ITV Studios revenue up 9% to £933 million (2013: £857 million)

## Fifth consecutive year of double digit profit growth

- EBITA before exceptional items up 18%, to £730 million (2013: £620 million)
- Broadcast & Online EBITA up 17% to £568 million (2013: £487 million)
- ITV Studios EBITA up 22% to £162 million (2013: £133 million)
- Adjusted PBT up 23% to £712 million (2013: £581 million)
- Adjusted EPS up 23% to 13.8p (2013: 11.2p)

## Delivering value from investment in quality content — ITV Studios, on screen and online

- Non-NAR revenue up £116m, or 10%, to £1,327 million (2013: £1,211 million) – now 45% of total revenue
- ITV Studios is now a global player of scale with 3 further international acquisitions in 2014
- Online, Pay & Interactive revenue is a growing and profitable part of the business
- Broadcast launched our first new channels in almost a decade
- ITV Family SOV was down 5%, after 4% growth 2013, and this remains a key area of focus for 2015
- Continued strong growth in video on demand, up 26%

## Confident in delivering further strong growth in 2015

- Expect another strong performance in 2015 with continued revenue growth in all parts of the business
- NAR expected to be up 11% in Q1 and up 4-7% in April and we expect to outperform the market again over the full year
- Online, Pay & Interactive revenue will continue to grow strongly
- ITV Studios again expected to deliver around £100 million revenue growth on a constant currency basis in 2015 with a return to good organic growth

## Clear opportunities for further investment while increasing shareholder returns

- Reflecting our confidence in the ongoing growth and cash generation of the business, the Board is proposing a final dividend of 3.3p per share, giving a full year dividend of 4.7p per share, up 34%
- The Board is proposing a £250m special dividend of 6.25p per share

Adam Crozier, ITV Chief Executive, said:

ITV delivered another strong performance in 2014 as we continue to rebalance the business, drive new revenue streams and invest in our future growth. All parts of the business are progressing well with Group external revenue up 8% to £2.6 billion, and for the fifth year in a row we achieved double digit profit growth, up 18% to £730 million. Across ITV we maintained our emphasis on cash generation, cost control and improving margins as we continued to strengthen ITV creatively, commercially and financially.

Non advertising revenue rose 10% to £1.3 billion, driven by a 30% increase in Online, Pay & Interactive, and by our continuing investment in quality content and creative talent in ITV Studios globally.

ITV Studios performed well, with revenue up 9% to £933 million, primarily from our acquisitions, and profit up 22% to £162 million. ITV Studios is now well established as a global business, with international production revenue up 24% and almost half its total revenue coming from outside the UK. It is the largest unscripted independent production company in the US following the acquisition during the year of Leftfield Entertainment and DiGa Vision, which join our expanding family of production companies. Both in the UK and the US we remain fully focused on growing our capability in high quality drama and we're beginning to build a presence in digital content through investments in Indigenous Media, Believe Entertainment and Zealot Networks.

Our Broadcast business had a strong year with profit up 17% to £568 million and advertising revenue up 6% to £1,629 million, well ahead of the TV advertising market and our strongest outperformance of the market for five years. We launched our first new channels in almost a decade - ITV Encore, our first pay only channel, and ITVBe, a free-to-air channel focusing on a young female audience.

While our share of viewing on linear TV was down in 2014, we are firmly focused on improving viewing this year. Up and coming new dramas include Jekyll & Hyde, Home Fires, Arthur & George, The Trials of Jimmy Rose, The Forgotten and Safe House as well as the return of Doc Martin, Prey, Downton Abbey and Vera. Thunderbirds Are Go is back on our screens this spring – and we have the exclusive rights to the Rugby World Cup which takes place in the UK this autumn.

An increasingly important, profitable and high margin part of our business is Online, Pay & Interactive. In 2014 our video on demand viewing was up 26% as we further improved the quality and distribution of ITV Player, which is available on more platforms than ever before, most recently Windows Phone 8 and Amazon Kindle Fire. ITV is well placed to take advantage of the growth in viewing on connected TVs, including through our investments in YouView, Freeview Play and Freesat.

For 2015 we're confident of further good revenue growth in all parts of ITV. In ITV Studios we'll again see upside from our acquired businesses as well as a return to good organic growth as we continue to invest in creative talent and content. In our Broadcast business, Online, Pay & Interactive will deliver another strong performance and we expect again to outperform the TV advertising market.

Reflecting our confidence in the ongoing growth and cash generation of the business, the Board has committed to grow the full year ordinary dividend by at least 20% per annum for three years to 2016, by when we will achieve a dividend cover of between 2.0 and 2.5 times adjusted earnings per share. In line with this policy, the Board is proposing a final dividend for 2014 of 3.3p, which equates to a full year dividend of 4.7p (2013: 3.5p), up 34%.

ITV is now a more balanced business with strong underlying cash flows. As we enter the next phase of our strategy we continue to see investment opportunities to grow the business and enhance shareholder value but at the same time the Board recognises the importance of maintaining capital discipline and balance sheet efficiency. Therefore it is appropriate over time to increase our balance sheet leverage gradually while retaining the flexibility to continue to invest.

In line with this approach, the Board is proposing a £250 million return to shareholders by way of a special dividend of 6.25p.

ITV is now a high growth business with increasing emphasis on international content creation and distribution, and is demonstrably much stronger, both creatively and financially, than when we set out on our five year plan. We remain firmly focused on our strategy and look forward to this year and beyond with enthusiasm and confidence.

## Full year results

| Twelve months ended 31 December (£ million) | 2014 | 2013 | Change £m | Change % |
|---|---|---|---|---|
| Broadcast & Online revenue | 2,023 | 1,896 | 127 | 7 |
| ITV Studios revenue | 933 | 857 | 76 | 9 |
| **Total revenue** | **2,956** | **2,753** | **203** | **7** |
| Internal supply | (366) | (364) | (2) | 1 |
| **Group external revenue** | **2,590** | **2,389** | **201** | **8** |
| Broadcast & Online EBITA | 568 | 487 | 81 | 17 |
| ITV Studios EBITA | 162 | 133 | 29 | 22 |
| **EBITA before exceptional items** | **730** | **620** | **110** | **18** |
| **EBITA margin** | **28%** | **26%** | | |
| **Adjusted profit before tax** | **712** | **581** | **131** | **23** |
| **Adjusted profit after tax** | **561** | **445** | **116** | **26** |
| **Adjusted earning per share (EPS)** | **13.8p** | **11.2p** | **2.6p** | **23** |
| **Dividend per share** | **4.7p** | **3.5p** | **1.2p** | **34** |

Adjusted profit before tax and adjusted EPS remove the effect of exceptional items. These include acquisition related costs, impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing cost adjustments, restructuring costs and other tax adjustments.

The profit before tax and EPS from the Consolidated Income Statement are as follows:

| Twelve months ended 31 December (£ million) | 2014 | 2013 | Change £m | Change % |
|---|---|---|---|---|
| **Profit before tax** | **605** | 435 | 170 | 39 |
| **EPS** | **11.6p** | 8.3p | 3.3p | 40 |
| **Diluted EPS** | **11.5p** | 8.1p | 3.4p | 42 |

## Financial performance

We have delivered another strong performance in 2014, with revenue growth in all parts of the business. Together with our relentless focus on cash and costs, we are reporting our fifth consecutive year of double digit profit growth and end the year with a strong balance sheet providing the flexibility to invest for further growth in 2015 and beyond.

Total ITV revenue increased 7% in 2014 to £2,956 million (2013: £2,753 million), with external revenue up 8% at £2,590 million (2013: £2,389 million). This reflects 6% growth in net advertising revenue (NAR) and another year of double digit growth in non-NAR, up 10% to £1,327 million (2013: £1,211 million) as we further rebalanced the business. Non-NAR now accounts for 45% (2013: 44%) of total revenue.

Together with our higher margin new revenue streams and disciplined cost control we delivered 18% growth in EBITA to £730 million (2013: £620 million), corresponding to an improved EBITA margin of 28% (2013: 26%). Overall, adjusted EPS was up 23% to 13.8p (2013: 11.2p).

## Broadcast & Online

Broadcast & Online delivered another strong performance with revenue up £127 million to £2,023 million (2013: £1,896 million) driven by 6% growth in NAR and continued strong growth in Online, Pay & Interactive revenue.

The advertising market showed continued improvement in 2014 with good growth across the major advertising categories. We increased our share of broadcast to 45.9% (2013: 45.4%) and delivered our strongest outperformance of the UK advertising market in five years, based on our estimate of the pure spot market. Advertising growth was geared towards the second quarter with increased spend around the World Cup and, while we expect to outperform the advertising market again in 2015 there will be fluctuations across the year driven by major events such as the Rugby World Cup and the timing of Easter.

ITV Family SOV declined 5% in 2014, following a strong year in 2013 when we were up 4%. This largely reflects a 4% decline in the ITV main channel SOV. Although benefitting from the World Cup in June, the main channel delivered a lower audience share against strong competition from the BBC. ITV2 also contributed to the decline, partly as a result of more competition from new UK digital channels in the year, but also due to our repositioning of the channel to provide more targeted audiences for our advertisers through the launch of ITVBe. We remain focused on improving viewing performance, both on screen and online.

Online, Pay & Interactive revenue increased 30% in 2014 to £153 million (2013: £118 million) as we further improved the quality, reliability and distribution of ITV Player, now available on over 20 platforms. We also continued to develop our pay services, renewing a number of deals in 2014, as well as launching our first pay only channel, ITV Encore.

Schedule costs were up £35 million year on year to £1,018 million (2013: £983 million) as a result of the World Cup and also increased programming spend relating to our new channels. Other Broadcast & Online costs increased modestly, up 2% year on year to £437 million (2013: £426 million), due to marketing costs around our new channels as well as online investment. We continue to manage our overheads tightly to mitigate inflationary pressures and to fund continued investment in the business.

Overall, reflecting the strong growth in higher margin Online and Pay revenue, as well as good growth in our highly geared advertising revenue, Broadcast & Online EBITA was up 17% at £568 million (2013: £487 million) while the Broadcast & Online EBITA margin increased 2% to 28%.

## ITV Studios

In 2014 we again delivered strong revenue growth in ITV Studios as we continue to build scale in attractive content markets. Total revenue increased 9% to £933 million (2013: £857 million) reflecting our purchase of Leftfield Entertainment and growth in international production and distribution as we become a more global business. Excluding our current and prior year acquisitions as well as foreign exchange movements, organic revenue was up 1%. A decline in the UK, due to the proportion of the ITV Broadcast programme budget allocated to the World Cup reducing the available spend on other programme genres including drama and entertainment, was offset by growth from our international production companies and Global Entertainment.

We completed three acquisitions in 2014, further growing our portfolio of global production companies. In February 2014 we acquired 100% of United Production, a Danish producer of entertainment and reality programmes, and a 51% controlling interest in DiGa, a US independent producer of reality and scripted programming. There is a put and call option to buy the remainder of DiGa over three to six years, with the total amount payable linked to the performance of the company over that period. In May 2014 we made the acquisition of Leftfield Entertainment, a high margin US production company. We made an initial cash payment of $360 million for 80% of Leftfield, with further potential payments dependent upon Leftfield's continued delivery of significant profit growth. There are put and call options in place to buy the remaining 20% of Leftfield over three to five years. This acquisition, our largest to date, represents a major step forward in our strategy as we grow an international content business of scale.

Overall ITV Studios EBITA increased 22% to £162 million (2013: £133 million) and its EBITA margin increased by 1% to 17%, benefitting from a higher margin revenue mix as a result of our acquisitions, as well as production efficiencies in the year.

## Adjusted EPS

Adjusted profit before tax, after financing costs, was up 23% at £712 million (2013: £581 million). Adjusted financing costs reduced £18 million in the year to £7 million (2013: £25 million) benefitting from the redemption of the 2016 convertible bond outstanding in 2013 and the repurchase of the remaining tranche of the 2019 bilateral loan in January 2014.

The total tax charge for 2014 was £132 million (2013: £105 million), corresponding to an effective tax rate on adjusted profit before tax of £712 million of 21% (2013: 23%), which is broadly in line with the standard corporation tax rate of 21.5% (2013: 23.3%).

Overall, adjusted profit after tax was up 26% at £561 million (2013: £445 million). After non-controlling interests of £7 million (2013: £4 million), adjusted EPS was 13.8p (2013: 11.2p), up 23%. The weighted average number of shares increased 2% to 4,002 million (2013: 3,929 million) largely due to the issue of shares following the convertible bond redemption in 2013. Diluted adjusted EPS in 2014 was 13.7p (2013: 10.8p) reflecting a weighted average diluted number of shares of 4,040 million (2013: 4,111 million).

## Basic EPS

After adjustments for exceptional items including acquisition related costs, impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing cost adjustments and other tax adjustments, basic EPS increased 40% to 11.6p (2013: 8.3p).

## Balance sheet and cash flow

ITV maintained its strong cash generation and tight management of working capital balances in the year, generating £665 million (2013: £604 million) of operational cash from £730 million (2013: £620 million) of EBITA before exceptional items. This equates to a strong profit to cash ratio of 91%. Our underlying cash generation after payments for interest paid, cash tax and pension funding also remained strong in the year. Free cash flow was up 10% at £478 million (2013: £433 million), slightly lower than the profit growth in the year as a result of our investments in scripted drama.

Overall, after dividends, acquisitions and debt repayments we ended the year with net cash of £41 million, compared to net debt of £201 million at 30 June 2014 and £164 million net cash at 31 December 2013. Our cash generation was weighted towards the second half of 2014 due to the timing of our pension funding contribution, debt buybacks and acquisition of Leftfield, all of which took place in the first half.

We also look at an adjusted measure of net debt, taking into consideration all of our financial commitments. At 31 December 2014, adjusted net debt was broadly in line with the prior year at £765 million (31 December 2013: £792 million) reflecting a reduction in the pension deficit under IAS 19 and lower undiscounted operating lease commitments which mainly relate to broadcast transmission contracts and property.

In 2014 we again bought back debt to improve our balance sheet efficiency further, repurchasing the remaining tranche of the 2019 bilateral loan.

We also entered into a number of new financing facilities. We obtained a committed £525 million Revolving Credit Facility provided by a number of core relationship banks in the year and also entered into a new £175 million bilateral financing facility and agreed a new £75 million invoice discounting facility, both free of financial covenants. As at 31 December 2014 all three facilities were undrawn.

As we enter the next phase of our strategy this financial flexibility and our continued strong free cash flow will enable us to invest in opportunities to grow the business and enhance shareholder value.

Going forward our objective is to run an efficient balance sheet, and to balance investment for further growth with attractive returns to shareholders. Therefore we will, over time, look to increase our balance sheet leverage. We believe that maintaining leverage below 1.5× net debt to EBITDA (before exceptionals) will optimise our cost of capital, allow us to sustain our progressive dividend policy and enable us to retain flexibility to continue to invest for further growth.

## Pension

The aggregate IAS 19 deficit of the defined benefit schemes at 31 December 2014 was £346 million (31 December 2013: £445 million) reflecting pension funding contributions in March and April of £91 million. An increase in the pension liabilities, as a result of a fall in the discount rate used to measure liabilities, was offset by asset outperformance, primarily gilts and swaps.

## 2015 planning assumptions

- Total network programme budget is expected to be around £1,040 million reflecting our two new channels
- Adjusted interest is expected to be at the same level as 2014 as a result of the impact of debt buybacks
- Effective tax rate is expected to be 21%, consistent with 2014
- Capex is expected to remain around £40–£45 million annually
- Profit to cash conversion is expected to be around 85% due to investment in scripted content
- Pension deficit funding will not exceed contributions made in 2014

## Outlook for 2015

We expect to deliver another strong performance in 2015 with continued revenue growth across all parts of the business.

The television advertising outlook remains positive. ITV Family NAR is expected to be up 11% in in Q1 and 4-7% in April and we expect to outperform our estimate of the television advertising market again over the full year. We remain focused on improving SOV and we are increasing investment in our programme schedule in 2015 to support a full year of our new channels as well as overall viewing performance.

Online, Pay & Interactive revenue will continue to grow strongly as we further improve the distribution of our content, capitalising on the growing demand for VOD. We will continue to invest in ITV Player and look to grow the level of interaction and engagement with our viewers through competitions, voting and social media while at the same time exploring new pay services, such as ITV Encore.

In 2015 we expect ITV Studios again to deliver around £100 million of revenue growth on a constant currency basis, with a return to good organic growth supported by a full year of the acquisitions we completed in 2014. We will start to see the benefit of our investment in scripted content and we will look to continue to develop our creative pipeline through further investment in creative talent and content.

Notes to editors

1. Unless otherwise stated, all financial figures refer to the twelve month period ended 31 December 2014, with growth compared to the same period in 2013.

2. Group external revenue

| Twelve months ended 31 December (£ million) | **2014** | 2013 | Change £m | Change % |
|---|---|---|---|---|
| ITV Family NAR | **1,629** | 1,542 | 87 | 6 |
| Non-NAR | **1,327** | 1,211 | 116 | 10 |
| Internal supply | **(366)** | (364) | (2) | 1 |
| **Group external revenue** | **2,590** | 2,389 | 201 | 8 |

3. ITV Family NAR was up 14% in January and up 13% in February. We expect it to be up 8% in March, with Q1 up 11% and April to be up 4-7%. This revenue is pure NAR, excluding the benefit of sponsorship revenue and video on demand.

   Figures for ITV plc and TV market NAR are based on ITV estimates and current forecasts.

4. Broadcast & Online performance indicators

| Twelve months ended 31 December | **2014** | 2013 | % |
|---|---|---|---|
| **ITV Family SOV** | **22.0%** | 23.1% | (5) |
| **ITV SOV** | **15.6%** | 16.2% | (4) |
| **ITV Family SOCI** | **36.2%** | 38.3% | (5) |
| **ITV SOCI** | **25.0%** | 26.5% | (6) |
| **ITV adult impacts** | **220m** | 240m | (8) |
| **Total long form video requests (all platforms)** | **726m** | 577m | 26 |

   SOV data based on BARB/AdvantEdge data and Share of Commercial Impacts (SOCI) data based on BARB/DDS data. SOV data is for individuals and SOCI data is for adults. ITV Family includes: ITV, ITV2, ITV3, ITV4, ITV Encore, ITVBe, CITV, ITV Breakfast, CITV Breakfast and associated "HD" and "+1" channels. Total long form video requests across all platforms are based on data from ComScore Digital Analytix, Virgin, BT, iTunes, Amazon Prime Instant Video, Netflix, Sky, 3UK and Hospedia and include simulcast.

5. ITV Studios revenue summary

| Twelve months ended 31 December (£ million) | **2014** | 2013 | Change | Change % | Organic* % |
|---|---|---|---|---|---|
| Studios UK | **459** | 456 | 3 | 1 | (4) |
| Studios US | **235** | 175 | 60 | 34 | 5 |
| Studios RoW | **95** | 91 | 4 | 4 | 7 |
| Global Entertainment | **144** | 135 | 9 | 7 | 10 |
| **Total Studios revenue** | **933** | 857 | 76 | 9 | 1 |

   * At constant currencies and excluding revenue from 2013 and 2014 acquisitions

6. As we grow our international business, foreign exchange movements increasingly impact our reported performance. Total ITV Studios revenue, including acquisitions, would have been £22 million higher and EBITA £5 million higher on a constant currency basis. Our definition of constant currency assumes exchange rates remain consistent with 2013.

7. The final dividend and special dividend for 2014 will be paid on 29 May 2015. The ex dividend date is 30 April 2015 and the record date is 1 May 2015.

8. This announcement contains certain statements that are or may be forward looking with respect to the financial condition, results or operations and business of ITV. By their nature forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward looking statements. These factors include, but are not limited to (i) a major deterioration in the current outlook for UK advertising and consumer demand, (ii) significant change in regulation or legislation, (iii) failure to identify and obtain, or significant loss of, optimal programme rights, and (iv) the loss or failure of transmission facilities or core systems and (v) a significant change in demand for global content.

   Undue reliance should not be placed on forward looking statements which speak only as of the date of this document. The Group accepts no obligation to revise publicly or update these forward looking statements or adjust them to future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.

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