

Strategic review

This year's story is one of good underlying growth in both sales and profit. This was achieved in spite of our continued investment in channel brands and digital innovation, as well as notable external challenges such as the rising cost of content.

CHIEF FINANCIAL OFFICER'S REVIEW

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Performing well and financially sound



Suzanne Burrows
Interim Chief Financial Officer,
(January – May 2016)
BBC Worldwide

BBC Worldwide's new CFO, Tom Fussell, joined the company in May. However, given the timing of his arrival, I am presenting this year's financial review, having been interim CFO for the last quarter of the year and during the preparation of this set of accounts.

Headline results

Headline sales of £1,029.4m (2014/15: £1,001.8m) were up 2.8%, a very good achievement in a changing market. As the CEO review points out on page 08, this was equivalent to underlying growth in headline sales of 6.7% as the sale of a 49.9% interest in our US channel, BBC AMERICA, in 2014 meant the prior year's results benefited from seven months of full ownership, contributing £53.7m to headline sales (creating a year-on-year BBC AMERICA sales impact of £36.7m). The major growth drivers were healthy trading with SVOD services in a number of territories, continuing growth at our UK joint venture, UKTV, and a music licensing agreement. While the proliferation of SVOD services brought new opportunities to exploit our extensive catalogue, this growing revenue stream is also currently concentrated in a handful of dominant partners, whose commissioning and acquisition strategies remain under development.

Headline profit of £133.8m (2014/15: £138.6m) was also up 4.0% (after adjusting for a £9.9m year-on-year BBC AMERICA impact) despite a second year of investment in the transition to new channel brands. Margin erosion on content sales has continued in the year following pronounced increase in the costs of content. These costs, as a proportion of content sales, have increased by almost 10% in the past two years. A headline profit margin of 13.0% (2014/15: 13.8%) reflected this inflationary pressure, in part but not wholly mitigated through an active programme of efficiencies undertaken in the year.

2015/16 saw a marginal benefit to revenue and a small profit downside from foreign exchange movements. This was the net effect of a number of currency hedges and a weaker pound against our key currencies of the US dollar and the Euro, particularly in the key last quarter of the year.

On a geographic basis, we delivered underlying growth in headline sales in every one of our regions. A decline in headline sales on an actual basis in North America reflected the impact of BBC AMERICA described above, and in Australia and New Zealand reflected the weakening of the Australian dollar during the year. Headline profit, after again adjusting for the impact of BBC AMERICA, was up in all geographical segments, aside from Western Europe, where the business was affected by investment in new channel launches, the closure of a small number of channel feeds and its above-average exposure to increased content costs. UK profitability was boosted in part by the aforementioned music licensing agreement.

1. Headline results

£m	Headline sales		Headline profit	
	2015/16	2014/15	2015/16	2014/15
Reported result	1,029.4	1,001.8	133.8	138.6
BBC AMERICA impact ¹	-	(36.7)	-	(9.9)
Underlying result	1,029.4	965.1	133.8	128.7

¹ The overall impact differs from the separately disclosed seven months of headline sales and profit recorded in 2014/15 due to the subsequent share of BBC AMERICA profit recorded in both years and the impact of intragroup eliminations as content sales to BBC AMERICA are no longer being eliminated as an internal sale.

2. Segmental results

£m	Headline sales		Headline profit	
	2015/16	2014/15	2015/16	2014/15
United Kingdom	379.3	361.8	62.4	52.7
North America	277.9	299.9	24.2	32.9
Western Europe	168.0	160.1	21.0	27.0
Australia and New Zealand	79.1	81.9	19.2	16.3
Rest of World	137.7	116.2	5.4	5.2
Eliminations	(12.6)	(18.1)	1.6	4.5
Total	1,029.4	1,001.8	133.8	138.6

3. Results by business area

£m	Headline sales		Headline profit	
	2015/16	2014/15	2015/16	2014/15
Content Sales	384.2	324.4	68.2	62.7
Branded Services	335.7	370.5	49.7	55.4
Production & Formats	173.0	163.0	10.6	15.8
Consumer Products	179.1	197.6	6.9	3.4
Eliminations	(42.6)	(53.7)	(1.6)	1.3
Total	1,029.4	1,001.8	133.8	138.6

The business classifications have been updated during the current year to better reflect the Board's operational view of the business. The Board views the business based on four business line segments: Branded Services (includes prior year's channels business, as well as Ad Sales and BBC Store), Content Sales (includes prior year's Sales & Distribution), Production & Formats, and Consumer Products. The previously reported Other business lines have been reallocated across these four segments.



Sarah & Duck © Karrot Entertainment 2014



Adele: Live in London © BBC 2015



ORPHAN BLACK

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‘Look at me.
See me’

Orphan Black S3 © BBC Worldwide 2015

4. Statutory results

£m	2015/16	2014/15
Headline profit	133.8	138.6
Share of interest and tax of joint ventures and associates	(10.6)	(9.4)
Pension deficit reduction payment	(3.4)	(8.1)
Other specific items	(13.4)	(4.8)
Gains on disposals	1.5	115.9
Other gains and losses	(4.6)	(5.7)
Net finance expense	(2.8)	(2.7)
Profit before tax	100.5	223.8

5. Average number of employees

	2015/16	2014/15
United Kingdom	460	438
North America	360	446
Western Europe	315	324
Australia and New Zealand	179	197
Rest of World	450	424
Total	1,764	1,829

Reconciliation 2015/16 £m

133.8							
	(10.6)	(3.4)	(13.4)	1.5	(4.6)	(2.8)	100.5
Headline profit	Share of interest and tax of joint ventures and associates	Pension deficit reduction payment	Other specific items	Gains on disposals	Other gains and losses	Net finance expense	Profit before tax

While we manage our company by region, we are this year also providing our results by business area. With these changes we believe our transparency to be at least in line with the best-in-class in our sector, as set out in table 3 on page 15.

In Content Sales, growth of 18.4% speaks to a stable business in free-to-air and pay-TV, as well as the SVOD growth mentioned earlier. Headline sales in Branded Services (which includes our channels) increased 5.2% year on year, after adjusting for BBC AMERICA. Headline profit was up 10.5% on the same basis. Branded Services also includes the impact of a first full year of build and operating investment in BBC Store. In Production & Formats we delivered revenue growth of 6.1%. Profitability was affected by a greater proportion of our production income coming from lower margin scripted titles, some of which benefit from high end production tax credits (captured as a tax benefit outside of pre-tax profit). Consumer Products, which includes DVD, remains a difficult category in a market transitioning to digital product. A revenue decline of 9.4% here reflects the downward trend in that market, which also impacted profitability: at the profit level this was offset by a music licensing agreement in the UK.

Statutory results

One of the main differences between our headline results and the equivalent statutory measures relates to our investments in joint ventures and associates. We include our share of joint venture revenue – principally the results of UKTV – in headline sales. We also include the pre-tax and pre-interest results of our joint ventures and associates in headline profit, rather than our share of net profit, as included in the statutory measure. We do this because we view these investments as a fundamental part of our ongoing activities.

Headline profit also excludes a number of non-statutory 'specific items' – principally restructuring costs and other similar amounts customarily excluded from non-statutory measures – which help to provide further clarity about our underlying trading performance.

Our headline and statutory results are reconciled in table 4, left.

Specific items

Specific items are not defined under IFRS and may not be comparable to similarly titled measures used by other companies. Specific items are material items which are highlighted by virtue of their size or importance in order to enable a full understanding of our performance.

The presentation of these items is consistent with previous years.

Specific items are noted in table 4 and netted to a total of £13.4m (2014/15: £4.8m). The most significant item – reorganisation costs of £12.8m – reflects the company's efficiency programme carried out in the year. Reorganisation costs in the previous year mainly related to the relocation of our head office in London.

Corporate activity

Corporate activity in the year, in line with the content investment strategy set out on pages 12-13, focused on shareholdings in independent production companies, four in the UK, as well as a majority shareholding in the strategically important market of South Africa. We also invested further in German production vehicle Tower Productions. These investments help us to enhance our content pipeline in an increasingly competitive market while also benefiting from a greater share of the success of titles produced through these partnerships.

Employees

Average headcount in the year was 1,764, down from 1,829 in 2014/15. The reduction in heads reflects the full year impact of transferring BBC AMERICA employees to AMC Networks (AMCN) in October 2014, as well as further reductions following the efficiency programme undertaken in the year, offset by an increase for BBC Advertising and BBC Store. Employee numbers by region are detailed in table 5.

Tax

The majority of our profits arise in the UK, where we are headquartered, and our main exposures to tax arise in the UK, the USA and Australia. The group does not adopt aggressive tax planning measures.

Our total tax charge for the year was £14.9m (2014/15: £38.3m) giving an effective tax rate of 14.8% (2014/15: 17.1%). The prior year tax charge included £26.6m in respect of BBC AMERICA, including tax incurred on the proceeds of the sale. The impact of this disposal, coupled with the higher rate of tax in the USA, largely explains the overall reduction in our effective tax rate.

Our tax rate is lower than the standard UK corporate rate largely due to the inclusion of our post-tax joint venture and associate profits in pre-tax income, as well as the production tax credits we receive on our UK-based production activity.

Cash and net debt

Operating cash flow of £152.3m (2014/15: £191.0m) reflects investment in working capital, particularly for digital content sales, offset in part by working capital released from production activity and a reduction in tax paid due to lower taxable profits and timing of tax payments.

The previous year saw a cash inflow from the partial disposal of BBC AMERICA, we received the remaining deferred proceeds in the year. This allowed us again to supplement returns to our parent, albeit it to a lesser extent than last year.

Notwithstanding the boost that this transaction gave us both this year and last, our total shareholder return of £222.2m (2014/15: £226.5m), as described in the Chairman's statement, is close to last year's record. These returns primarily capture our corporate dividends and investment in BBC commissions, with the balance made up of brand licences and other smaller contributions to our parent.

Average net debt throughout the year was £77.8m (2014/15: £32.4m) and we ended the year with net debt of £122.1m (2014/15: £69.2m). Our debt facility with BBC Commercial Holdings Limited provides us with a maximum facility of £202.2m, of which the final £30.0m is conditional on an equivalent holding in cash.

Looking forward

BBC Worldwide begins the new financial year with a strong slate and future pipeline of content, with over a third of our 33-strong portfolio of owned and operated channels under new BBC brands, and well-advanced plans for direct-to-consumer digital products in a number of key markets. While we face market conditions that are changeable, with a relatively high degree of industry and consumer turbulence, these attributes nonetheless mean that we are well-equipped to continue to serve existing and new clients, audiences and partners with the premium British content on which our business has founded its success over many years.

READ MORE ABOUT HOW WE HAVE PERFORMED IN OUR FOUR GEOGRAPHICAL REGIONS