

Strength in 2016/17 was driven by our broad range of businesses and franchises, our clear strategy and focus, and our stronger cash flow.

CHIEF FINANCIAL OFFICER'S REVIEW

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Financially robust in changing markets



Tom Fussell
Chief Financial Officer

A handwritten signature in black ink that reads "Tom Fussell". The signature is written in a cursive, slightly slanted style.



I'm delighted to present the CFO Review at the end of my first year with BBC Worldwide, which has been a good year for the business. It is a pleasure to return to the BBC, where I previously spent 10 years, and I am excited by the prospects for the business.

Headline results

Headline sales of £1,059.9m (2015/16: £1,029.4m) were up 3.0%, with strong growth in our Content Sales and Branded Services (including UKTV) business lines. This was particularly pleasing given market pressure on our consumer products business, which also had a prior year benefit from a music catalogue sale, and in Production & Formats from the end of North America-produced *Da Vinci's Demons* in 2015/16.

We manage our business on a geographic basis, through the major regions represented in Table 1. On this basis we delivered sales growth in three of our four regions, aided by a weaker pound, with Global Markets notably strong, while North America reflects the lower level of production activity noted above.

Headline profit of £157.3m (2015/16: £133.8m) was up by 17.6%, with strong growth in all four of our regions, and reflects both organic growth and the broad portfolio of our business lines, geographies and brands.



ICE TOWN

'I came here looking for adventure'

The major growth drivers were our Content Sales and Branded Services business areas. Branded Services showed sales growth of 5.6% and headline profit growth of 45.5%, driven by both our UKTV and BBC AMERICA partnerships performing strongly, along with our owned and operated channels. During the year a decision to move to a content sales-led strategy in Latin America resulted in the closure of the majority of our local channels business there.

We maintained our position as global market leader outside the US studios in Content Sales, with strong revenue growth at 9.9%. Lower profit growth reflects the increasing costs of content. We continued to see the shift in our customer base towards video-on-demand services (SVOD) and some pressure on our linear TV sales customers.

Across our Productions & Formats businesses we saw both sales and profit decline in the year, following the completion of *Da Vinci's Demons* in our North America business last year. However, *Dancing with the Stars* continued to be our strongest performing brand in this business line, with series 23 and 24 both rating well.

Our Consumer Products business declined year-on-year, driven by both market decline within DVD and also as a result of the non-recurring music catalogue sale in the UK during 2015/16.

1. Segmental results

£m	Headline sales		Headline profit	
	2016/17	2015/16	2016/17	2015/16
United Kingdom	381.3	379.3	66.6	62.4
Global Markets	331.4	305.7	42.6	26.4
North America	273.8	277.9	27.3	24.2
Australia and New Zealand	79.5	79.1	21.1	19.2
Eliminations	(6.1)	(12.6)	(0.3)	1.6
Total	1,059.9	1,029.4	157.3	133.8

2. Results by business area

£m	Headline sales		Headline profit	
	2016/17	2015/16	2016/17	2015/16
Content sales	422.4	384.2	68.8	68.2
Branded services	354.6	335.7	72.3	49.7
Production & Formats	164.3	173.0	8.2	10.6
Consumer products	146.0	179.1	4.1	6.9
Eliminations	(27.4)	(42.6)	3.9	(1.6)
Total	1,059.9	1,029.4	157.3	133.8

3. Statutory results

£m	2016/17	2015/16
Headline profit	157.3	133.8
Share of interest and tax of joint ventures and associates	(11.1)	(10.6)
Other specific items	(97.3)	(16.8)
Gains on disposals	7.7	1.5
Other gains and losses	0.5	(4.6)
Net finance expense	(2.6)	(2.8)
Profit before tax	54.5	100.5

4. Reconciliation of Free cash flow

£m	2016/17	2015/16
Cash generated from operations	106.2	59.1
Purchases of property, plant and equipment, and other intangible assets	(15.4)	(21.0)
Free cash flow	90.8	38.1
Investing activities	(20.0)	25.4
Tax and interest	(13.9)	(11.3)
Dividends paid to parent	(89.3)	(105.5)
Dividends paid to non-controlling interest	(0.2)	-
Foreign exchange translation gains	0.5	0.5
Increase in net debt	(32.1)	(52.8)





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2016/17 saw significant fluctuations in foreign currencies. As our principal business activity involves the export of content which is predominantly purchased in pounds, we benefited from sterling's overall movements and in particular the movement against the US dollar. Our largest overseas trading businesses (North America and Australia and New Zealand) were in line with or ahead of their prior year performance in local currency. During 2016/17 we saw exchange rate benefits of £14.9m within headline profit.

Statutory results

Our headline and statutory results are reconciled in Table 3, left.

Specific items

Specific items totalled £97.3m (2015/16: £16.8m). The most significant items are described below, being content amortisation estimates, impairment of BBC Store and closure of channels in Latin America.

BBC Worldwide makes investments in content (both from BBC Studios and independent producers), with distribution rights having a carrying value of £210.3m as of 31 March 2016. In line with our accounting policy, BBC Worldwide's amortisation profiles for distribution rights are reviewed every three years, with a review conducted on 31 March 2017. Over the three years since the last review there have been significant changes in our industry, with the growth of recent entrants to the TV market, particularly SVOD services. This has resulted in content sales being achieved at a faster rate than historically, both through the acquisition of new customers and in meeting the need of customers for longer licensing periods.

To reflect this new market reality, our investment cost amortisation profile needs to match this new sales pattern, with a higher weighting to the early years of the sales lifecycle. This results in a charge of £67.9m in the year. This is a non-cash accounting charge, and has no impact on BBC Worldwide's returns to the BBC. The charge does not reflect content investment performance, which in management's view is best judged through headline profit.

A £12.5m charge within specific items relates to the impairment of BBC Store in full.

As a result of the closure of some of our Latin American operated channels, certain one-off costs were incurred, including the impairment of assets and redundancy costs.

Corporate activity

During 2016/17 we continued to make strategic investments in British independent production companies where we believe there is a good fit with BBC Worldwide, and where our backing can help secure access to premium content for distribution and help to drive growth in our invested companies. Our investments included taking an equity stake in Expectation Entertainment and increasing our stakes in Baby Cow and Lookout Point, as detailed on page 12.

During the year we made a number of small disposals and a dilution of ownership in BritBox North America to AMCN.

Employees

Average headcount in the year was 1,712, down from 1,764 in 2015/16, as we continued to look for efficiency savings, particularly in support areas. We did see some increases as a result of having a full year of consolidation for our Rapid Blue subsidiary, acquired in March 2016, and with the recognition of Baby Cow as a subsidiary from April 2016.

Tax

Our total tax charge for the year was £14.1m (2015/16: £14.9m) giving an effective tax rate of 25.7% (2015/16: 14.8%). Our tax rate is higher than the Standard UK Corporation Tax rate due to the high proportion of profits earned overseas in higher tax regions.

Cash and net debt

An increased focus on working capital management has helped free cash flow to increase by 138.3% to £90.8m as shown in Table 4. The strong operating cash flow improvement of £47.1m to £106.2m has meant that post tax, the dividend of £89.3m has been funded in full from operating cash flow with the increase of net debt funding investment activity.

A significant financial metric is the level of returns to our shareholder. In 2016/17 these totalled £210.5m (2015/16: £222.2m). When £15.0m of returns related to the partial disposal of BBC AMERICA are removed from the prior year numbers, this level of returns represents a record year for organically generated returns.

Closing net debt was £154.2m (2015/16: £122.1m). Our debt facility with BBC Commercial Holdings Limited was renewed on 31 March 2017 and provides us with a maximum net facility of £205.0m.

Auditors

Following the signing of the new BBC Charter, the statutory auditor for BBC Worldwide will be the National Audit Office (NAO) for 2017/18. I would like to thank Ernst & Young LLP for its significant contribution to BBC Worldwide and welcome the NAO as our incoming statutory auditor.

Looking forward

BBC Worldwide enters the new financial year in a strong position to benefit from the continuing change in the markets we operate in. We have seen the benefit of increasing efforts on our cash conversion this year. This will continue with the focus on sustainable long term returns for our shareholder and a strong return on capital.

Read more about how we have performed in our four geographical regions