

# BBC COMMERCIAL SERVICES: FACTS AND FIGURES

BBC CHARTER REVIEW: BURNS SEMINAR

SEPTEMBER 2004

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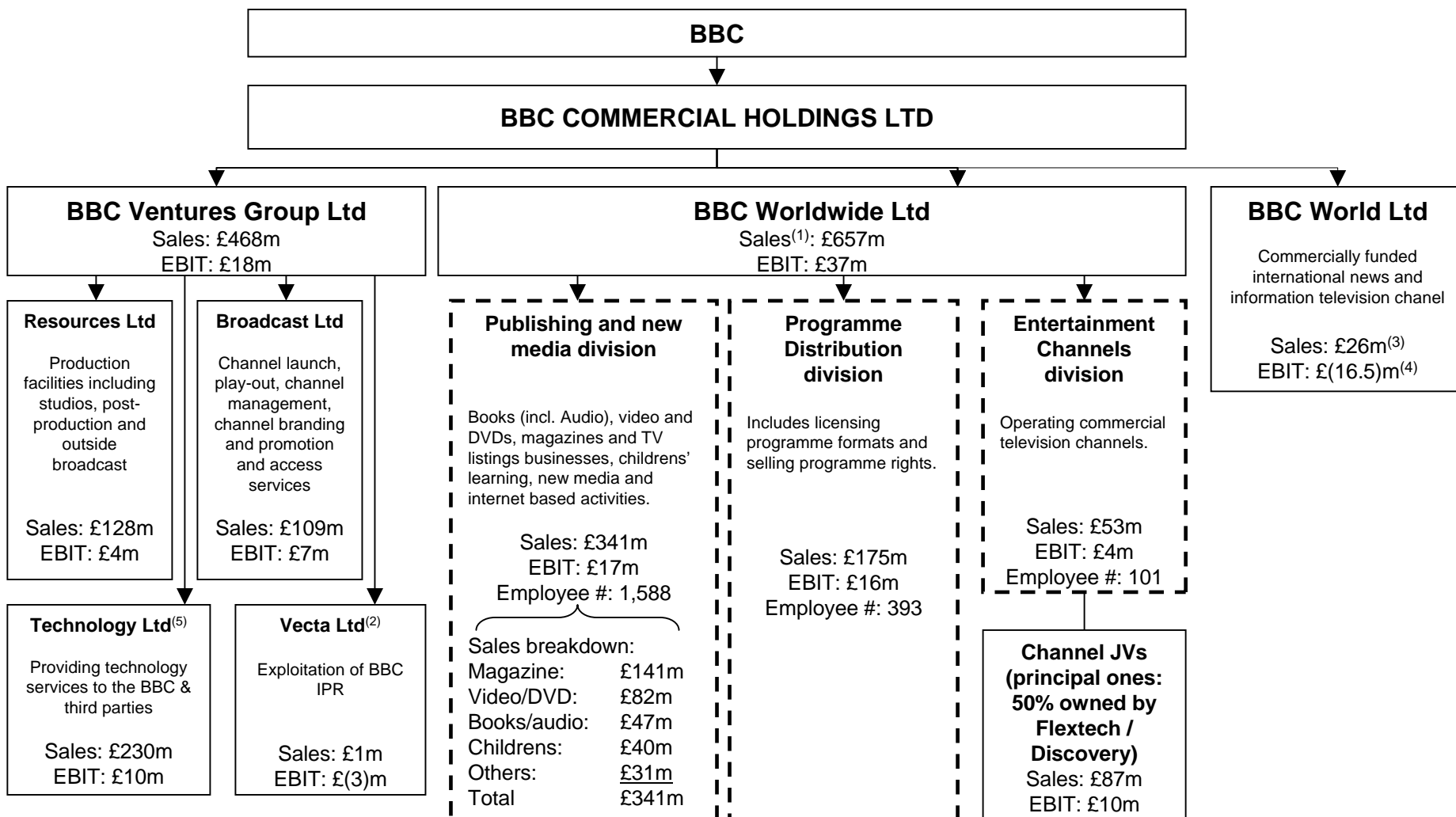
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# Introduction

- The purpose of this presentation is to describe the BBC's commercial activities and their performance, and to provide some background information about the markets in which they operate.
- The scope of this paper extends to those activities carried out within the BBC's commercial subsidiary, BBC Commercial Holdings Limited, which represent the vast majority of the BBC's commercial income. It does not include the smaller scale commercial activities undertaken within the BBC such as BBC Research Central.
- The information within this document is derived from public sources and is therefore limited in scope.
- A glossary of the basic financial terms used in this paper is appended.

# Scope of the BBC's commercial activities: figures

The BBC is active in a number of commercial markets. The structure and range of principal activities, together with key financial data is described in the organisation chart below.



Note: (1) Includes £87m of share of JVs; (2) The BBC announced the closure of Vecta in July 2004; (3) Sales figure estimated from 2003/04 BBC Annual Report - total commercial revenue of £1,151m less sales from BBC Ventures plus BBC Worldwide (£1,125m); (4) Source: Directly quoted in the 2003/04 BBC Annual Report; All figures refer to year ending 31 March 2004 and all holdings are 100% except where stated. All boxes under BBC Commercial Holdings represented limited companies except the dotted boxes under BBC Worldwide, which are operating divisions of BBC Worldwide; (5) Subject to approval by the Secretary of State for DCMS, Technology will be sold to Siemens Business Services.

# Scope of BBC's commercial activities: description (1)

- The BBC has always had some commercial activities. The *Radio Times* has been published since the 1920s and many of the BBC's divisions have been involved in some trading at the margin when spare capacity has been available. Over the years, however, the BBC has increasingly incorporated parts of the organisation where it felt that:
  - the prospects for trading with third parties were good and could be improved by the greater flexibility that incorporation offers;
  - incorporation seemed likely to result in cost savings for the BBC;
  - incorporation offered greater transparency in demonstrating fair trading by the BBC; and
  - incorporation would lead to greater financial flexibility and clearer separation from licence fee funding.
- The BBC today runs a number of commercial businesses across a wide range of areas. Much of its commercial activity is derived from its public services (television, radio and online content) and includes videos, DVDs, books, and magazines and other publications.
- Some of the BBC's commercial activities, however, cover a wider spectrum than those related to just its programmes and services, and might not be quite so familiar to many licence-fee payers. For example, BBC Worldwide has recently concluded an agreement to establish a joint-venture with the magazine division of the *Times of India* (subject to the approval of the Indian Government). The BBC publishes a women's magazine – *Eve* – and, through subsidiaries, titles like *World of Cross Stitch* and *Your Hair*.
- As set out in the consultation document *The Review of the BBC's Royal Charter*, the boundary of the BBC's commercial services, and the relation of its products to its public services, are important questions for Charter review.
- This section has been prepared on the basis of information supplied by the BBC, and information in the public domain.

## Scope of BBC's commercial activities: description (2)

The large majority of the BBC's commercial activities are run through **BBC Commercial Holdings**, a wholly owned subsidiary of the BBC which was formed following the Secretary of State's approval on 12 July 2002. The company's purpose is to:

- ensure that all key decision making and performance monitoring is brought together under the auspices of a single board;
- provide an umbrella for all commercial dealings;
- co-ordinate and manage borrowing by the BBC's commercial subsidiaries (under the £350 million commercial borrowing limit that was agreed at the time of the approval) by providing a legal entity to hold the BBC's commercial debt and allowing for cross-collateral borrowing, which allows the BBC's commercial subsidiaries to achieve greater financial flexibility and to borrow more efficiently; and
- to provide flexibility for the future development and coordination of the BBC's commercial strategy.

BBC Commercial Holdings in turn owns three subsidiaries: BBC Ventures Group, BBC Worldwide and BBC World Ltd (which runs the international news channel).

The following two pages contain further background of the activities of BBC Ventures Group and BBC Worldwide.

# Scope of BBC's commercial activities: description (3)

## **BBC Worldwide**

- **BBC Worldwide** was incorporated in 1979 as "BBC Enterprises Ltd", BBC Enterprises having been a division of the BBC since 1960. BBC Enterprises Ltd changed its name to BBC Worldwide Limited on 1 January 1995. BBC Worldwide has a wide ambit – its latest approval from the Secretary of State of 23 February 2001 describes its ambit as being "to pursue commercial activities with the BBC's Commercial Policy Guidelines" - and its business divisions include licensing programme formats, selling programme rights, publishing books, magazines, videos, DVDs and CD-Roms, and operating commercial television channels. Much of Worldwide's business is done through joint ventures (eg the UKTV channels in the UK are part of a joint venture with Flextech and Worldwide also has a major joint venture with Discovery). In 2003-4, BBC Worldwide had sales of £657 million and returned £141 million in cash to the BBC (see description of "BBC cashflow" later).

## **BBC Ventures Group Limited**

BBC Ventures Group Limited was set up following the Secretary of State's approval on 12<sup>th</sup> July 2002. It includes the following subsidiaries:

- **BBC Resources** was incorporated in 1998 following the Secretary of State's approval of 16 June that year. The company supplies production facilities including studios, post-production and outside broadcast facilities. Previously some spare capacity within the then public service BBC Resources Directorate had been made available commercially but the Corporation took the view that, while BBC Resources remains primarily involved in trading excess facility capacity and is therefore expected to maintain the BBC as its major customer, incorporation would allow the business to grow while increasing transparency and avoiding putting licence fee funds at risk. In 2003-4 BBC Resources has revenues of £128 million and generated £7 million in cash for the BBC.
- **BBC Technology** was incorporated in 2001 following the Secretary of State's approval of 27 February that year. The aim was to create an entity out of the Corporation's Technology Division which would deliver savings to the BBC, through market driven efficiencies, and profits from doing business with third parties. It has now been agreed by the Governors, however, that the company should be sold since, although BBC Technology has more than delivered the targeted savings for the BBC, the Corporation believes that the market can deliver a much higher level of savings, and that a third party technology provider will be better placed to take the necessary risks and make investments in the rapidly changing technology market. In 2003-4 BBC Technology achieved revenues of £230 million and had generated savings of £25 million p.a. since incorporation, but it was a net consumer of cash and resulted in an outflow of £11 million that year due to the need for significant new investment.

# Scope of BBC's commercial activities: description (4)

- **BBC Broadcast** was incorporated in 2002 following the Secretary of State's approval of 22 January that year. Again BBC Broadcast expects the BBC to remain its major customer but the company offers a range of services including channel launches, play-out and channel management, channel branding and promotion and access services such as subtitling. In 2003-4 BBC Broadcast generated revenues of £109 million, cumulative savings to the BBC of £2 million and £15 million in cashflow for the BBC.
- **BBC Vecta** (formerly Kingswood Warren Ventures Ltd) was launched in 2003 to exploit innovations based on the BBC's technical IPR but its performance has been disappointing, delivering revenues of only £1 million and a net outflow of cash of £4 million. The announcement to close BBC Vecta was made in late July 2004 as part of the BBC's internal Commercial Services review.

## Other, less significant, commercial activities

- **BBC Research Central** offers a research and loan service accessing the BBC's multi-media archive: TV footage, images, audio material, press cuttings, and other information. This collection spans over 70 years and can be accessed via a team of researchers. The commercial team totals 12 and is separate from the main body of Information & Archive's internal BBC provided services. This service was originally provided by BBC Worldwide but Information & Archives assumed responsibility in 1999.
- **BBC International Unit** provides production and technical assistance for broadcasters worldwide, focusing on host broadcaster co-ordination at sport, news and music events, organising a package of services including on-site liaison, satellite distribution of multilaterals and unilaterals, facilities ranging from commentary positions to full outside broadcast facilities and an international control room. The unit offers its services to any broadcaster or event organiser needing a host broadcaster operation, e.g. EBU members, other international broadcasters.
- **BBC Training and Development** fulfils its role as a source of technical and craft skills training for the UK broadcasting industry by making its portfolio available to the external market on a commercial basis. The use of training resources for external commercial activities are closely controlled, being made available to external clients on those occasions where a lower internal demand results in spare capacity, which is then fully occupied through the external sales process. External commercial activity is directly resourced by two posts - an External Development Executive and External Development Advisor, the costs of which are covered through external revenues.

# Summary of BBC Worldwide's historic financial performance

## BBC Worldwide

(Year ending March, £m)

	2000/01	2001/02	2002/03*	2003/04
<b>BBC WORLDWIDE</b>				
<b><u>Revenues</u></b>				
Publishing and new media	300.2	331.7	338.0	341.2
Programme distribution	150.0	172.3	168.8	175.3
Entertainment channels	41.7	46.3	53.2	53.4
Discontinued operations	27.7	27.9	18.5	-
Share of JVs	67.6	81.6	79.5	87.3
<b>Total revenues</b>	<b>587.2</b>	<b>659.8</b>	<b>658.0</b>	<b>657.2</b>
<i>Growth</i>	14.3%	12.4%	(0.3%)	(0.1%)
<b><u>EBIT**</u></b>				
Publishing and new media	15.3	10.4	23.1	16.9
Programme distribution	16.7	23.7	17.7	16.2
Entertainment channels	1.6	1.6	2.7	3.6
Discontinued operations	(27.1)	(25.0)	(9.6)	-
<b>Total EBIT</b>	<b>6.5</b>	<b>10.7</b>	<b>33.9</b>	<b>36.7</b>
<i>EBIT margin</i>	1.1%	1.6%	5.2%	5.6%

\* 2002/03 numbers restated for adoption of FRS 17

\*\* = EBIT including share of JV operating profit before exceptionals

## Major Business Segments

(Year ending March, £m)

	2000/01	2001/02	2002/03	2003/04
<b><u>Publishing and new media</u></b>				
Revenue	300.2	331.7	338.0	341.2
<i>Revenue growth</i>		10.5%	1.9%	0.9%
EBIT	15.3	10.4	23.1	16.9
<i>EBIT margin</i>	5.1%	3.1%	6.8%	5.0%
Employees	1,407	1,548	1,564	1,588
Revenue per employee (£)	213,362	214,276	216,113	214,861
<b><u>Programme distribution</u></b>				
Revenue	150.0	172.3	168.8	175.3
<i>Revenue growth</i>		14.9%	(2.0%)	3.9%
EBIT	16.7	23.7	17.7	16.2
<i>EBIT margin</i>	11.1%	13.8%	10.5%	9.2%
Employees	281	341	397	393
Revenue per employee (£)	533,808	505,279	425,189	446,056
<b><u>Entertainment channels</u></b>				
Revenue	41.7	46.3	53.2	53.4
<i>Revenue growth</i>		11%	14.9%	0.4%
EBIT	1.6	1.6	2.7	3.6
<i>EBIT margin</i>	3.8%	3.5%	5.1%	6.7%
Employees	90	104	96	101
Revenue per employee (£)	463,333	445,192	554,167	528,713

# “BBC cashflow”

“BBC cashflow” is a BBC-specific term and is a non-statutory measure. It attempts to present cash generated by BBC Worldwide which is available for use by the BBC. The table below shows Headline “BBC cashflow” for 1999/00 to 2003/04.

	£m	1999/00	2000/01	2001/02	2002/03		£m	2003/04
Investment in BBC programmes		79	76	81	83	Investment in BBC programmes		89
Cash co-production		3	2	5	7	Cash co-production		6
Payment to BBC Rights Archive		5	7	7	8	Payment to BBC Rights Archive		10
Interest paid to BBC		2	2	2	1			-
Cash generated/(consumed), net of asset purchases (1)		-16	3	23	30	Cash movements, net of asset purchases		36
<b>SUSTAINABLE BBC CASHFLOW</b>		<b>73</b>	<b>90</b>	<b>118</b>	<b>N/A</b> <sup>(2)</sup>	<b>SUSTAINABLE BBC CASHFLOW</b>		<b>N/A</b> <sup>(2)</sup>
Purchase of subsidiaries/businesses		-	-1	-10	-	Purchase of subsidiaries/businesses		N/A
External funding		16	-	10	-2	External funding		N/A
Exceptional items		-	7	-3	-4	Exceptional items		N/A
Working capital		-7	-	-9	-	Working capital		N/A
<b>HEADLINE BBC CASHFLOW</b>		<b>82</b>	<b>96</b>	<b>106</b>	<b>123</b>	<b>HEADLINE BBC CASHFLOW</b>		<b>141</b>

Source: BBC Worldwide Annual Reports

(1): excluding £14.2 million cash proceeds from the sale of BBC World to BBC Commercial Holdings Limited, (2): Sustainable BBC cashflow not shown in accounts from 2002/03 onwards

## Commentary:

- Investment in BBC programmes: BBC Worldwide is the default provider of choice for the BBC when it is seeking co-production funds. The Worldwide business model is similar to that of a third party programme distributor in that it pays the BBC for the right to exploit ancillary rights;
- Payment to the BBC Rights Archive: like any third party, BBC Worldwide pays the BBC for use of its intellectual property;
- Cash movements, net of asset purchases (or in 2003/04, cash movements net of asset purchases): this appears to be the closest proxy for a more conventional measure of cashflow, ie a cash-based return on capital arising from BBC Worldwide’s commercial activities and paid back to the BBC.

# Peer Group analysis (1)

- Peer Group analysis for BBC Commercial Holdings is limited by two principal factors:
  - Segmental information for the discrete business lines within Worldwide (book publishing, magazines etc) is based on publicly available information;
  - Limited and/or inappropriate comparable quoted companies for Ventures.
- It has therefore only been possible to compare the performance of BBC Worldwide's publishing and new media division with companies within the sub-segments (books, magazines and children's licensing) that comprise it. Clearly profitability within these subsegments of the BBC Worldwide businesses may vary considerably.
- Comparisons within the Ventures Groups are of extremely limited utility, given the nature of the Ventures operations (the main customer of which is overwhelmingly the BBC itself), and the limited information available for the peer group, and have therefore been excluded from this analysis.

# Peer Group Analysis (2): Books and Magazines

	Revenue (£m)			Revenue Growth (in original currency)		EBITDA Margin <sup>(2)</sup>			EBIT Margin			EBIT Margin 3-yr av.
	2000/1	2001/2	2002/3	2001/2	2002/3	2000/1	2001/2	2002/3	2000/1	2001/2	2002/3	
<b>BBC - BOOKS AND MAGAZINES</b>												
Dec year end (calendarised for comparison)												
Publishing and New Media	324	336	340	3.7%	1.2%	NA	NA	11.0%	3.6%	4.9%	5.1%	4.5%
<b>Books</b>												
Pearson - Penguin division	820	838	840	2.2%	0.2%	NA	NA	NA	7.3%	8.2%	8.3%	8.0%
NewsCorp - Book Publishing / HarperCollins division	697	708	796	2.1%	(6.6%)	NA	NA	NA	10.8%	11.1%	11.8%	11.3%
Bloomsbury	61	68	83	11.2%	22.2%	14.3%	15.4%	18.0%	12.9%	12.9%	15.5%	13.8%
Bertelsmann - Random House division	1,290	1,295	1,237	(5.7%)	(11.7%)	NA	NA	NA	1.6%	5.0%	4.2%	3.6%
WH Smith - Publishing division	133	140	150	5.0%	7.1%	NA	NA	NA	12.8%	13.6%	13.3%	13.2%
Chyralis - Books division	27	33	29	23.1%	(12.3%)	9.7%	6.9%	(4.0%)	NA	NA	NA	NA
Average				6.3%	(0.2%)	12.0%	11.2%	7.0%	9.1%	10.2%	10.6%	10.0%
Median				3.6%	(3.2%)	12.0%	11.2%	7.0%	10.8%	11.1%	11.8%	11.3%
<b>Magazines</b>												
EMAP - Consumer Media and EMAP France division:	574	609	662	6.0%	8.8%	NA	NA	NA	10.9%	10.9%	12.5%	11.4%
IPC	363	NA	NA	NA	NA	23.2%	NA	NA	20.9%	NA	NA	20.9%
Future Network	174	165	183	(5.1%)	10.5%	(3.8%)	13.2%	13.1%	NA	6.1%	5.2%	5.7%
Highbury House	100	94	108	(6.8%)	15.4%	12.8%	14.0%	10.9%	9.6%	10.0%	8.0%	9.2%
Natmags	129	134	NA	3.7%	NA	8.9%	11.2%	NA	6.5%	9.2%	NA	7.9%
Conde Nast	105	117	NA	10.9%	NA	17.3%	9.6%	NA	15.4%	7.6%	NA	11.5%
Average				1.7%	11.6%	11.7%	12.0%	12.0%	12.7%	8.8%	8.5%	11.1%
Median				3.7%	10.5%	12.8%	12.2%	12.0%	10.9%	9.2%	8.0%	10.3%
<b>Children's Licensing, Merchandising and Intellectual Property</b>												
Hit Entertainment	81	141	137	74.2%	(2.7%)	22.5%	26.3%	30.5%	14.0%	16.2%	15.6%	15.3%
Chorion	10	9	19	(5.7%)	100.3%	45.2%	19.4%	24.7%	39.3%	7.4%	18.7%	21.8%
Average				34.2%	48.8%	33.8%	22.8%	27.6%	26.6%	11.8%	17.2%	18.5%
Median				34.2%	48.8%	33.8%	22.8%	27.6%	26.6%	11.8%	17.2%	18.5%

Note:

(1) All financials have been calendarised to December year-end and converted to £ for comparative purpose.

(2) BBC Publishing and New Media EBITDA margin based on March year-end results.

(3) EBIT margin for Future Network was (74.7%) in 2001 due to the exceptionally high amortisation and impairment charge for the year. This has been omitted in the calculation of the sector average.

# Peer Group analysis (3) - books and consumer magazines

## Books:

Total UK book sales in 2003 amounted to £3.5 billion, of which around £2.4 billion was consumer book sales. Consumer spending on books has grown between 4% and 6% per annum in recent years (source: the Booksellers Association).

The table below shows market share of the top 9 publishing houses in the UK. This shows the BBC has a 2.1% market share. However, for the market sub-sectors in which it competes (eg non-fiction, childrens' books), the BBC will have a greater market share.

### UK Book Publishing Groups - retail market share (2003)

Publisher	Market share
Bertlesmann (Random House - Transworld)	13.0%
Pearson (Dorling Kindersley - Pearson Education - Penguin)	12.9%
News Corporation (HarperCollins)	8.6%
WH Smith (Hodder Headline - John Murray)	7.0%
Bloomsbury	4.5%
Hachette (Orion - Octopus - Weidenfeld & Nicholson)	4.1%
Holtzbrinck (Pan Macmillan - Palgrave)	4.1%
Time Warner	3.0%
BBC	2.1%
<b>TOTAL</b>	<b>59%</b>

Source: Booksellers Association/Nielsen BookScan, February 2004

## Magazines:

As the table below shows, BBC Magazines is #3 in the UK market, with its principal rivals IPC and EMAP. The Radio Times is a market leader in the TV listings market, with other BBC Worldwide publications building on TV programme formats, including BBC Gardeners' World, BBC Homes and Antiques, BBC Wildlife, BBC History Magazine, BBC Good Homes, BBC Good Food and Top Gear. Recent launches include Poptart and It's Hot.

### Approximation of Top 10 Consumer Publishers

Consumer Publisher	Approx Share of Consumer Market
1 IPC Media Ltd*	20.6%
2 EMAP	12.3%
<b>3 BBC Worldwide***</b>	<b>10.8%</b>
4 H Bauer Publishing	9.6%
5 The National Magazine Company Ltd	7.7%
6 Conde Nast Publications Ltd	3.4%
7 Hachette Filipacchi (UK) Ltd	3.0%
8 Saga Group Ltd	3.0%
9 Northern & Shell	2.7%
10 Dennis Publishing Ltd	2.5%
<b>Top 10 Total</b>	<b>75.6%</b>

Source: ABC / BBC.

# Glossary

- Revenue: Sales.
- EBITDA: Earnings before interest, tax, depreciation and amortisation. A measure of profit.
- EBIT: Earning before interest and tax. A measure of profit, occasionally known as PBIT (profit before interest and tax) or operating profit.
- EBITDA/EBIT margin: EBITDA/EBIT expressed as a percentage of revenues. The key measures of profitability, particularly the EBIT margin.
- Cashflow: A cost-based measure of profit, ie one that omits the consideration of non-cash costs to the business (such as depreciation). “BBC cashflow” is a different measure to the statutory definition and attempts to present cash generated by BBC Worldwide available for use by the BBC.
- JV: joint venture. An undertaking with a business partner, often, though not always, 50:50.