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FINAL TRANSCRIPT

Corus Entertainment Inc.

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PRESENTATION

Doug Murphy — President and Chief Executive Officer, Corus Entertainment Inc.

Good morning, everyone. Welcome to Corus Entertainment's fiscal 2023 second quarter earnings call. I'm Doug Murphy, and joining me this morning is John Gossling, Executive Vice President and Chief Financial Officer.

Before I read the cautionary statement, I'd like to remind everyone that we have slides to accompany today's call. You can find them on them on our website at www.corusent.com under the Investor Relations, Events and Presentations section.

Now let's move to the standard cautionary statement found on Slide 2. We note that forward-looking statements may be made during this call. Actual results could differ materially from forecast projections or conclusions in these statements.

We'd like to remind those on our call today, in addition to disclosing results in accordance with IFRS, Corus also provides supplementary non-IFRS or non-GAAP measures as a method of evaluating the Company's performance and to provide a better understanding of how management views the Company's performance. Today, we'll be referring to certain non-GAAP measures in our remarks.

Additional information on these non-GAAP financial measures, the Company's reported results, and factors and assumptions related to forward-looking information can be found in Corus' second quarter 2023 report to shareholders and the 2022 annual report, which can be found on SEDAR, or in the Investor Relations Financial Reports section of our website.

I will now start on Slide 3 and provide our latest observations on the macroeconomic environment and its impact on Corus, as well as a few financial highlights from the second quarter results.

Our results this quarter reinforced that we are in an advertising recession. We are not alone, as evidenced by recent comments from media and entertainment companies the world over, experiencing weak advertising demand and revenues. There remains limited visibility and much volatility across all advertising categories, some of which we believe remain pandemic-related, while other emerging trends could portend a larger macroeconomic contraction, given restrictive monetary policy from central banks to combat inflationary pressures in goods and services.

Let me provide some further colour for you.

Similar to last quarter, almost all product and service categories showed declines, as advertisers continued to hold, reduce, or cut spending compared to the year prior.

There were some exceptions, however, with ongoing advertising strength in iGaming—gambling—some strength in consumer packaged goods advertising, as well as recent improvements in travel-related advertising.

Households who are facing higher food and mortgage costs are pulling back on discretionary spending at home, with notable declines in durable goods such as furniture and electronics, as well as reductions in home renovations, all of which are impacting those advertising categories.

Now some supply chains are opening up, such as automotive, with US advertising forecasts from media intelligence firm, MAGNA, highlighting an expected 10 percent increase in car sales for calendar 2023, as the benefits of more inventory flow to more auto dealer marketing investments.

And finally, we're all aware of the persistent desire of workers for remote and flexible working arrangements, meaning that days in the office remain well below pre-pandemic levels, which has affected certain categories such as beauty and fashion, with retailers witnessing the closure of Nordstroms in Canada.

So as expected, we experienced sequential improvement in Q2, with a decline of 8 percent in television advertising revenue, compared to an 11 percent decrease in Q1 and a 14 percent decrease in Q4.

Currently, the Company expects its year-over-year television advertising revenue in the third quarter will be relatively consistent with the year-over-year performance in the first quarter of fiscal 2023.

Our consolidated revenue of $344 million, was down 5 percent for the second quarter, resulting from lower television advertising and subscriber revenues. These revenue declines, when combined with higher amortization of program rights, resulted in lower total segment profit of $59 million for the quarter, with free cash flow of $28 million.

Over to Slide 4. This is a particularly challenging year for our business as we are contending with declines in advertising revenues while, at the same time, experiencing an increase in programming costs. We are investing to ensure the long-term viability of our traditional channels business, while simultaneously pursuing streaming opportunities in the growing premium digital video marketplace. A successful renewal, extension and broadening of the rights acquired through our content supply agreements are foundational to this growth strategy.

We are working our way through the additional $50 million in mandated Canadian programming expenditures, which was originally delayed by public health measures that resulted in COVID-19-related production shutdowns in 2020.

This unfortunate decision by our regulator is having a significant impact on our financial performance this year and last. As we turn the corner on fiscal ’23 this summer and enter into fiscal ’24, we will begin to put this additional annual $20 million expense behind us.

Our enterprise-wide cost review is in motion, the goal of which is to streamline our operating model and obtain lasting run rate cost savings beyond our programming investments, while balancing our near-term realities with long-term value creation as we execute our strategic plan. Each and every expense line item is under scrutiny as we seek to improve our operating margins and/or redirect those savings to marketing investments to support our streaming portfolio platforms and channel networks.

Advertising is a cyclical business and, at some point in the quarters ahead, we expect a rebound in advertising demand and revenue. And we will enter this rebound with a streamlined cost structure and significant reductions in our CPE spending.

Moving to Slide 5. I want to take a moment and share with you what I believe is the go-forward business model for the big US studio majors who provide Corus with our leading supply of content.

Our partners, as you are all aware, are also streamlining and reinventing their operating models. What is emerging is what I refer to as the four-corners-of-the-box model, a smart, sustainable strategy for our US studio majors that gives us confidence in Corus' strategic plan and long-term business model. Allow me to explain.

The first corner is investing in more content, more television, more films, more franchises. Content production budgets at these US studio majors are at record levels as everyone actively engages in the content arms race.

Second, they recognize the importance of protecting their core channel businesses. All the US studio majors have massive owned and operated linear channels businesses around the world that generate significant revenue, earnings and free cash flow.

Third, they have built streaming products that are distinct but also similar to their channels businesses, such that linear subscribers can stack the direct-to-consumer product on top of their channel subscriptions, while also providing a compelling worldwide streaming value proposition.

As an important side note, I'm certain we have all noticed that the US studio majors now have a shared recent focus on the profitability of these streaming services, as opposed to a subscriber growth-at-all-costs mindset.

In the fourth corner is that the US studio majors want to support their very profitable content licensing businesses around the world. The success that Corus has had in recent years to extend the term and, simultaneously, broaden the rights grants from our US studio majors, to enable our pursuit of premium digital video opportunities, underscores that content supply remains secure.

As I've said before, it is not a winner-take-all model. It is not either/or, if/and, and the smart management of the four corners is now the consensus winning approach of our US studio major partners and proof of the long-term sustainability of our business model in Canada.

Over to Slide 6. We see significant opportunity ahead with a large and growing total addressable premium video advertising market. We are expanding our premium digital video business with additional platforms and content offerings as we, in parallel, invest in cross-platform monetization capabilities and marketing. Corus is pursuing a partner-led, capital-light streaming strategy. We do not need to invest billions of dollars in the production of content; rather, we can access what we need from the content licensing market as described a moment ago in the four corners model.

Our leading portfolio of streaming platforms in Canada include STACKTV, The Global TV App, our Global News over-the-top apps, TELETOON+ and now, Pluto TV. This highly complementary portfolio addresses SVOD, AVOD, and FAST channel market segments and appeals to premium video subscribers, cord-cutters, cord-nevers, and advertisers that want to reach them.

We are actively pursuing new distribution partners to support the continued growth of these services. Let me spotlight a few notable recent developments.

We have taken a significant recent step to optimize our Kids portfolio. Our long lived heritage network, TELETOON, was rebranded as Cartoon Network on linear channels platforms and STACKTV. As part of an additional channel rebrand, Corus introduced a new kids' television channel from our partners at Warner Bros. Discovery with the debut of Boomerang.

The TELETOON brand remains alive and well as TELETOON+, available on Amazon Prime Video and Bell platforms, and is now Canada's leading kids SVOD streaming service. Made possible by our multiyear all-rights deal with Warner Bros. Studio and Cartoon Network, viewers can stream popular series like Teen Titans Go!, Looney Toons cartoons, Scooby-Doo, Batwheels, and Bugs Bunny Builders.

A year-and-a-half ago, STACKTV launched dynamic ad insertion on video on demand, in partnership with Amazon Prime Video. This popular offering for advertisers has become a significant revenue contributor to our digital advertising portfolio and has really taken off in fiscal '23.

The Global TV App is a first-of-its-kind, TV-everywhere product designed to amplify the viewing experience for cable subscribers with live and on-demand access to our most popular networks and brands anytime, anywhere, in one app. With the recent additions of Magnolia Network Canada, also from Warner Bros. Discovery, and Lifetime, from our partners A+E Networks, the Global TV App now provides 11 channels for authenticated subscribers in Canada.

And for those who like free, we introduced an all-new free play section featuring free 24/7 access to fan favourite series and movies such as Big Brother Canada, Rookie Blue, and the Good Witch, which has meaningfully improved the value proposition.

And finally, Pluto TV, now available in Canada. With the most robust content launch from Paramount Global, and a channel lineup that pairs with content from Corus Entertainment's original Canadian content, Pluto TV is off to a great start. Pluto TV advertising inventory is now broadly available to all advertisers, following an exclusive and successful launch window with select advertising partners.

Moving to Slide 7. We've been priming the pump at Nelvana, and this is evident in our second quarter as deliveries ramp up. Our strong partnerships and investments in coproduction frameworks highlight the international appeal of Nelvana's creative capabilities.

In 2021, greenlights for two exciting properties were announced as part of Nelvana's coproduction framework with Nickelodeon, Hamsters of Hamsterdale and Zokie of Planet Ruby. These shows are now in the delivery stage, contributing significantly to our results this quarter and expected to premier on Treehouse and globally on Nick later this year.

We have deepened our coproduction partnership with Mattel, following the successful debut of Thomas & Friends, an animated kids' series based on the beloved Thomas the Tank Engine brand. Production is now in progress on subsequent seasons of this popular show. And in addition, in February, Mattel announced it will relaunch the iconic Barney franchise with a brand-new, 3D-animated series coproduced with Nelvana.

At Corus, we are also focused on leveraging our owned IP through the Corus Advantage, where we use our Canadian programming expenditures to create content for our networks and for sale internationally.

This past January, Nelvana announced the greenlight and start of production on its new 3D-animated series, Millie Magnificent, inspired by the best-selling Kids Can Press book by Ashley Spires, and Nelvana's award-winning short film, The Most Magnificent Thing.

Corus Studios continues to grow its distribution output with over 200 hours of content sold during the second quarter. Inclusive of 18 titles across the lifestyle, factual, and scripted space, Corus Studios' recent sales reflect the appeal of the breadth and multi-season depth of our production slate and catalog. We are especially excited about the sale of The Love Club to Hallmark in the US, opening the door to an expanded two-way strategic content partnership for both Canadians and worldwide audiences.

As Corus Studios looks ahead to Q3, we're excited to bring new and highly anticipated titles to buyers, including Pamela Anderson's new food-focused series, Pamela's Cooking With Love; the competition renovation series, Renovation Resort, starring both Bryan Baeumler and Scott McGillivray; and Bryan Baeumler's new series, Bryan's All In.

As operators of the streaming platforms look to balance their production investments with more cost-effective content acquisitions, this is a perfect setup for our own content ambitions at Corus. Our growing slate of content in production and for sale will benefit from this demand in the international marketplace.

With that, I will now turn it over to John to discuss our Q2 results.

John Gossling — Executive Vice President and Chief Financial Officer, Corus Entertainment Inc.

Thanks, Doug, and good morning, everyone. I'm starting on Slide 8.

We experienced a sequential improvement in the rate of TV advertising revenue decline within the challenging advertising environment that Doug described, as well as lower subscriber revenue. And that was partially offset by positive results from our content business, which contributed to consolidated revenue of $344 million in our second quarter, and that represents a 5 percent decrease from the prior year.

Consolidated segment profit was $59 million for the quarter, and that reflects the lower TV advertising and subscriber revenues, coupled with increased programming costs and marketing investments for our streaming services. Consolidated segment profit margins were 17 percent for the quarter.

Consolidated net loss attributable to shareholders for the quarter was $0.08 per share, and we delivered free cash flow of $28 million in the quarter.

Net debt-to-segment profit was 3.59 times at February 28, 2023, compared to 3.02 times at the end of last fiscal year, and that reflects the impact of our lower segment profit.

Now let’s turn to our TV results for the second quarter, and that’s on Slide 9.

So TV advertising revenue declined 8 percent in the quarter. Subscriber revenue was 7 percent lower compared to last year.

And as a reminder, in Q2 of last year, we did benefit from approximately $6 million of retroactive adjustments from the renewal of distribution agreements. When you adjust for this, subscriber revenue would have been down 2 percent, with streaming subscriber growth from expanded distribution partially acting to offset declines within the traditional linear distribution system.

We should also highlight that, in our third quarter last year, we had a retroactive adjustment of approximately $2.5 million from the renewal of a distribution agreement.

Distribution, production, and other revenue delivered impressive growth of 28 percent for the quarter, and that was driven by content deliveries at both Nelvana and Corus Studios, as well as the addition of Aircraft Pictures in February of last year.

The positive momentum we have in new platform revenue, increased adoption of optimized advertising, and sales of our slate of original content underscores the progress we are making to diversify our revenue and position Corus for longer term growth opportunities.

Direct cost of sales was up 8 percent for the quarter, and that was driven mainly by a 7 percent increase in amortization of program rights, which resulted from the investments in US studio output deals, an increase in original programming deliveries compared to last year, which was the Olympic quarter, and higher Canadian spend this quarter.

On a full year basis, we continue to anticipate that programming costs will grow mid-single digits, with approximately one-third of this driven by the CRTC’s catch-up decision.

TV G&A expenses were consistent with the prior-year quarter. And in the current quarter, G&A mainly reflects the increase in marketing investments to promote our streaming services, and higher development costs in our content business. That was offset by lower compensation costs.

General and admin costs are down across all categories, other than investments we are making in marketing and content development. So if we exclude these two items, TV G&A costs are down approximately 5 percent in Q2.

Overall, TV segment profit was down significantly in the second quarter, primarily as a result of the contraction in advertising demand and the reduced subscriber revenue, as well as the higher amortization of program rights and film investments. TV segment profit margins were 20 percent in the current-year quarter, and that compares to 27 percent last year.

Now moving on to Slide 10. Despite the impact of the challenging advertising environment, we continue to see encouraging growth in our new platform and optimized advertising revenues. New platform revenue was $34 million or 12 percent of total TV advertising and subscriber revenue in the second quarter, and that was up 4 percent from the prior-year quarter. The continued growth reflects a disciplined execution of our strategic plan, as we benefit from expanded content rights deployed across our streaming services to drive audiences and incremental advertising impressions.

As a reminder, this metric demonstrates some seasonality from quarter to quarter, due to the higher linear advertising revenue mix in Q1 and Q3 compared to the lower-demand quarters of Q2 and Q4.

Optimized advertising revenue was up significantly in Q2 at 52 percent or $88 million of total television advertising revenue for the quarter. This is an increase of 14 percent or $10 million from the prior-year quarter, as more advertisers explore the benefits of our targeted and automated advertising solutions.

And let’s turn to our radio results, which are outlined on Slide 11. Radio did benefit from resiliency in key advertising categories in the quarter, including travel and entertainment, but was offset by softness in professional services, communications, and home products. Radio segment revenue increased 1 percent for the quarter as a result of stronger local and podcasting revenues, and that was partially offset by the impact of broader macroeconomic conditions on national sales. Radio segment profit increased slightly in the quarter, benefitting from this revenue growth.

Right. Over to Slide 12. We exited the second quarter with $58 million of cash and cash equivalents and $241 million available to be drawn under our revolving credit facility. In the second quarter, we renegotiated the covenants under our bank credit facility to address the persistent headwinds in the current economic environment.

We made a prudent decision to take proactive steps which provide additional flexibility under our credit facility. We also reduced our dividend in March, recognizing that an attractive dividend remains important to our shareholders.

As we continue to make strategic investments in the business to drive future growth, the redeployment of capital from dividends is expected to be redirected to debt repayment.

We declared a quarterly dividend of $0.03 per Class B share, which was paid on March 31, 2023, and took the opportunity to realign the dividend payment schedule to reduce the gap between the declaration and payment dates.

The fourth quarter dividend is scheduled for its regular review, in conjunction with the release of our Q3 results and, subject to board approval, would be payable in August.

As Doug noted, we have and continue to take serious cost-reduction measures, which will be captured over the next several quarters. While we navigate the ebbs and flows of this low-visibility environment, our foremost priority is to advance our strategic plan and priorities, as we aim to maximize our revenues and carefully manage our expenses and cash.

We are very confident in our team's ability to streamline our costs and optimize our assets, while de-levering our balance sheet and providing an attractive return to our shareholders.

And with that, I'll turn it back to Doug.

Doug Murphy

Thank you, John. Moving on to Slide 13.

While we do not know the depth nor the duration of this advertising recession, and/or whether a larger macroeconomic contraction awaits the Canadian economy, we are confident in our company and in our plan.

This team has successfully managed through a pandemic, keeping our people safe, laddering out our balance sheet, revising our capital allocation priorities, launching our streaming portfolio, and building our cross-platform monetization capabilities, as we advance our strategic plan and its priorities.

Fiscal ’23 is an especially challenging year for Corus as we contend with the double whammy of an advertising recession and the unexpected decision by the CRTC requiring us to catch up the production spending in hiatus during the COVID-induced shutdowns. As I’ve said many times, both of these pressures will pass. What are headwinds today will become tailwinds in time.

We are, as noted, conducting a thorough review of our operating model, asset base, and cost structure. And once complete, this will result in a streamlined operating model well positioned for the years ahead.

What we are doing to navigate the current environment is not at the expense of our strategic plan. We are making smart decisions as an independent company with a clear direction. We know exactly where we’re going with a well-articulated plan, expansive relationships with all the US studio majors, and the best talent in the business.

We are also, at long last, on the cusp of some much-needed regulatory changes in our industry. Bill C-11 gets the big things right and has reached the final stages of the legislative process. While we do not know all the details of future broadcasting regulations, we know this bill will make modern and equitable rules more attainable.

We urge the CRTC to move very quickly to implement the new legislation after it passes, including by revisiting obligations on Canadian licensees. Establishing new rules for foreign players and recalibrating existing rules on Canadian players will be necessary to truly level the playing field, the outcome of which is at the heart of this legislation.

While we await the new regulatory regime, we are being very prudent stewards of capital. We are prioritizing paying down our debt while investing in the business to create future growth opportunities even during this downturn.

We are purposefully moving from being a television broadcaster to a multiplatform video aggregator, delivering content everywhere our audiences are, and standing up the ability to monetize our inventory of advertising impressions across all platforms.

And we are building an affiliated studio business, through which we will direct future required Canadian content spending, to serve our networks and platforms in Canada and grow our content licensing revenues the world over.

I'd like to take a moment and thank our team across Corus and the country. And with that, I'll turn it back to you, Operator.

Q&A

Operator

Gentlemen, thank you. And to our phone audience, at this time, if you would like to ask a question, please press *, and 1 on your telephone keypad. Pressing *, and 1 will place your line into a queue, and we ask that if you're joining today on a speakerphone, please return to your handset prior to pressing *, and 1 to be certain that your signal does reach our equipment. Once again, ladies and gentlemen, that is *, and 1 if you would like to ask a question. And if you find your question has been asked, you can remove yourself from the queue with *, and 2.

We'll move forward, and we'll hear first from Vince Valentini at TD Securities.

Vince Valentini — TD Securities

Thanks, there, much. One first question is on these content deals that you've extended with many of your partners. Do you have visibility and certainty on inflation in what you're going to have to pay for that content in years two, three, or beyond for any multiyear deals? I'm just wondering if this is like a one-time step up, and then you flatline. Or do you know that next year and the year after, it's actually going to be even more expensive because of all the new digital rights and security (phon) you have?

Doug Murphy

Thanks, Vince. Yeah. We have visibility on all of the years, and they kind of all vary. In certain instances, there was kind of a year one increase and then flatline for the subsequent years. In other cases, they're the same increase year over year. So the pricing is kind of a deal-by-deal negotiation. And we're very—we have very good visibility to it, so that's helpful.

And then, accordingly, we are able to then plan for the premium digital video revenues that would attach to those new rights we're acquiring. Less visibility was accorded to the CPE decision, of course. That came out of left field, and we had to kind of recalibrate to accommodate that.

Vince Valentini

Yeah. Nope. For sure. I understand that wouldn't, Doug. Thanks.

Doug Murphy

Yeah.

Vince Valentini

So I wanted to ask that first because then I want to—hopefully, this isn't that tricky of a question, John, that you can try to give us some framework on. But what I'm thinking of is your—if we take the uncertainty in predicting revenues totally out of the equation, just assume one year from now, in the second quarter of 2024, your TV segment revenue is exactly the same as it was this quarter.

What would EBITDA look like, given the cost cutting you're already doing on your own G&A, the better flow through on the CRTC catch-up stuff, offset maybe, slightly, by second year inflators on the US content deals? I mean, your segment profit's way down this quarter. Your margins are way below what we normally would see. I'm just wondering how much visibility you have that—take revenue out of the equation. I mean do you see segment profit up 10 percent or 15 percent in this quarter next year, if you can keep revenue flat?

John Gossling

I don't have enough visibility. I think there's quite a few variables in Q1. Although, I think as you're getting at, it'll be an easier comp, clearly, given that this is our third quarter of a pretty tough outcome.

So I think there's a couple of things that are hard to predict. One is sort of the cadence of deliveries, of especially prime time programming in the fall. That's completely unknown at this point. That particular sort of buy activity will be happening in the next month, so we'll have a better view of that coming up.

And I'd say, beyond advertising revenue, subscriber and the content business are pretty big contributors. And I don't know that we have a good handle on timing of content deliveries at this point for Q1. I mean we would have, certainly, a view, but it can change quite a bit between now and then.

So I guess a short way—or a short answer is, I'm not really that certain right now. There's just a lot of moving pieces. But, yeah, we would certainly think that ad revenue should be able to stable. But there's a lot to happen between now and then, including the fall schedule.

Vince Valentini

Yeah.

Doug Murphy

I'll give you a different—I'll give you an answer that's similar, but maybe a little different. I think we can expect Canadian programming to obviously—with the CPE catch-up behind us, that's a tailwind which we valued at nearing $20 million the last couple years.

And then the foreign programming, we have a very clear line of sight. So to the extent at which the revenue remains same, you can sort of intuit through there that we're trying to get to a spot with streamlined margins, given our cost activity, both on working through the CPE piece and our non-US programming line items.

Vince Valentini

Okay. Fair enough. One last one from me and I'll pass the line, is just the subscriber revenue. Two questions, I guess. One, I get you on the Q3 retro item from last year that we need to make sure we factor into our models. But is there anything coming this year on the positive side of that? I know it's lumpy; it happens from time to time. Are there any renewals that could hit in Q3 or Q4?

And just maybe just unpack the minus 2 percent a bit more is. Is that just simply what it is of linear declines are accelerating a little bit, so the revenue you're getting from STACK and other streaming sources is not quite offsetting the decline rate anymore?

John Gossling

Yeah. I think that's right, Vince. So the linear decline isn't accelerating, but the STACK and other streaming subscriber revenues has flattened quite a bit, just given that the growth flattens going back now into Q3 of last year. So I think you've got that right.

In terms of anything in the pipeline, look, there's always renewals in the pipeline. So there's a potential for some big ones in the back half of the year, but they're very hard to predict exactly when they’re going to happen. So as much as we’d like to see those done for certainty and other reasons, they may or may not happen in the back half—

Vince Valentini

Sorry. If they didn’t happen in the back half, then, John, it’d happen at some point. It just could be—it’s just timing? Or maybe it slips into next year?

John Gossling

Yeah.

Vince Valentini

Okay. Gotcha.

John Gossling

Yeah.

Doug Murphy

Yep. And just some more colour on STACK. So STACK, over the last few quarters has kind of—sort of its trajectory has kind of flattened out. And so the year-over-year comps, as John rightly notes, has been kind of less meaningful as a contributor to the overall sum of traditional paid TV subs and STACK subs.

That said, we still have our target of 1 million subs on STACK. We’ve greatly improved the value proposition with the addition of the Disney channels and Lifetime in recent months. And most recently, we have had a very aggressive marketing campaign in market, and we’ve seen some renewed positive momentum with, obviously, a modest trend change back up to the right, in a good direction with our STACKTV marketing campaign. And the launch of that campaign with the spring schedule, with shows like Survivor, which has been another great season, Big Brother Canada, and Bel-Air has been helpful.

So we have 400 hours of Peacock programming that lives on STACK, and that continues to distinguish and differentiate that service. So we're still really working hard on getting that business back to a more steady, growing profile.

Vince Valentini

Thank you.

Doug Murphy

You're welcome. Thanks, Vince.

Operator

Our next question today comes from Scotiabank and the line of Maher Yaghi. Please go ahead.

Maher Yaghi — Scotiabank

Yes. Thank you for taking my question, guys. Doug, I wanted to ask you. You indicated today for Q3 that you expect the year-on-year growth to be similar to Q1. But are there any signs that you're seeing that we could begin to see improvement in the year-on-year growth decline, let's say, in Q4? Or early next year? Just trying to see—we're kind of hitting this low, minus 10 percent, year on year, but are there signals that give you hope that the decline of minus 10 percent might get better for Q4?

And this is something hard for us to get a view on and, maybe, you can help us. Of the 10 percent decline in advertising that you expect in Q3, approximately, how much of it is related directly to general ad spending decline versus maybe market share shifts that are happening between broadcasters getting different allocations of the dollars that are in the market for advertising?

I have a follow-up question, but I'll leave it there for now.

Doug Murphy

Okay. Those are two very good questions. So let me take the second one first, and I'll try to give you some colour. So yeah, the media mix question, like what's happening in terms of the share of TV versus share of digital versus share of outdoor, that remains still very much a sort of very fluid dynamic based on campaign ROI calculations. I'm of the view—and it will remain to be seen in the coming quarters—but I'm of the view that with the advent of ad layers on premium video platforms, not just Pluto or Global TV, but also Disney+, Netflix, Discovery, that we are going to see a shift of dollars out of other digital, user-generated platforms back onto tried and trusted, long-form premium video content.

Advertisers have been asking us for more impressions à la typical linear television for years now, and it's only been the last 18 to 24 months that all of us—and that's why I took particular time today to describe my four corners model and our shared alignment with US studio majors as to how they're pursuing monetizing their video now—is that we think that, that should bode well in the coming years for a reallocation of the digital media mix back to premium long-form video, away from social, away from user-generated content. So that's just one thematic, personal perspective.

As regards to the visibility, as I say, it's very limited. If you think about it, it's very logical. I mentioned that we're all dealing with a younger generation wanting to work from home. The health and beauty category is down massive, year over year. There's a bit of an uptick last year in advertising because folks are coming back. But now, people have realized that they'd rather stay at their home.

Retail is also down, certainly in Canada, and that's showing up in our category. Given the 450 basis points increase in interest rates, financial services and mortgage advertising is down. That's another category. Government is down. So we're just in a situation where, as I said, we think it is still primarily pandemic-related as a behavioural or supply chain-affected.

And the question that we worry about and, hence, the limited visibility comment, is whether there's a further macroeconomic speed bump to hit the Canadian economy. Canadian economy seems to be holding in there pretty well thus far, labour market's good, but that could be covering up some changes in—there's things going on beneath the surface.

So we're purposefully not being very predictive on the outlook, other than to say it's kind of quarter to quarter, with limited visibility. And we're managing our expenses to offset the advertising decline to the best of our ability, but not at the expense of continuing to push hard on our strategic plan.

Maher Yaghi

Okay. Okay. That's fair. And my last question is on the subscriber revenue, and this also has very little visibility for us here to get the info on. As the BDU operators continue to struggle with declining video subscriptions on their end, are you seeing any pressure on the rate cards that could be coming up for renewal with some of these BDUs, that could add pressure on your subscription revenues, going forward?

John Gossling

Yeah. I think that's normal course, Maher. That's not a new thing. That's what our content and distribution team deals with all the time, so. I think, if you look at the track record, we've been pretty successful in those negotiations. But yes, there's definitely a decline happening. And as I said to Vince, it's not accelerating at this point. And so, what we need to do is we need to get STACK and our other streaming products reinvigorated to provide some growth to offset that.

Doug Murphy

Yeah. I'll add—

Maher Yaghi

So—

Doug Murphy

—some more colour. The truth of it is that we've been working hard ever since we bought Shaw Media to optimize our channel portfolio with strong brands, and we just upgraded, for example, with the swap—TELETOON rebrand and Cartoon Network and the old Cartoon Network rebrand to Boomerang.

So we continue to improve the value proposition that we bring to the BDUs. We're very clever and work hard to ensure that our services that get all the audiences are getting appropriate share of subscriber revenue. In most of the cases, the share of audience we get is not the share of overall country-wide revenue, and that's—we look to correct that imbalance. Of course, sports is over-delivering in terms of its cost in the system. So we work hard at that.

We're generally able to get inflation on our renegotiations. We usually have to do some portfolio negotiations, i.e., reducing services. So we've gone from, at the time of acquisition, from 45 channels, now down to 33, I believe is the current count. And then, I think we've done probably 8 or 10 rebrands in that time.

So we appreciate that we are both—we're in the business with our partners and distributors to provide compelling entertainment to our subscribers, and we work hard to make sure we attract the appropriate audiences and then, in turn, that we negotiate the appropriate wholesale revenues.

Maher Yaghi

Okay. Thank you.

Doug Murphy

Sure. Thank you.

Operator

Our next question today comes from Adam Shine at National Bank Financial. Please go ahead, sir. Your line is open.

Adam Shine — National Bank Financial

Thanks a lot. Good morning. So, John, first question for you and then one for Doug.

John, just you highlighted again the mid-single-digit increase in the context of program spend. Could you just highlight again the sort of H1 versus H2, just to emphasize—again, I think that the spending has incrementally skewed to the first half of the year. Can you give any incremental colour around that?

John Gossling

Yep. So you're right; we're running a little hotter than that through the first half, there's no question. And I think that probably caught some a little short with their Q2 estimates. So I would say the back half, to achieve that mid-single-digits type of number, the back half has to be lower.

So there's a couple competing things there. One is Canadian tends to be higher in the back half, and it will be—as we've talked about, the $20 million and the $50 million catch-up. So the first half has been a little lighter on Canadian, so the second half's going to be heavier.

But then, of course, that means that the, what we call foreign or the US programming, should be lighter, particularly in the back half of the second half. So Q4, we would think that the US would be lower. So we're still okay with that; that's why I repeated it. But it is going to skew a little lighter towards the end of the second half.

Adam Shine

Okay. And then just for Doug, this is a more difficult question. We're two weeks away from the writers' deadline in terms of their contract with the US studios, and the venom is starting to percolate, and prospect of a strike hopefully gets averted, but there is that prospect that it could arise. And then it's a subject of duration in terms of implications for deliveries going into, I guess, the fall.

Anything that you can talk to around this issue? Obviously, scripts are being stockpiled to allow for some production activity, heading into the spring and summer. But any way you characterize what could happen?

Doug Murphy

Well, it's a good question. It looks like, I would've said a couple months ago, 50/50. It looks like there might be higher odds of something happening. Obviously, there needs to be—for the creators, there needs to be an appropriate economic model for how they participate in streaming economics. So there is a problem to be solved there between the various stakeholder groups, which we acknowledge.

And you're right. The studios have been proactive because it's not our collective first rodeo here, and doing things like—quarters ago, early renewals on multi-season shows that are working and funding writers' rooms in advance, stockpiling unscripted content. And that was one of my comments is that our unscripted content continues to be extremely well received the world over. And it's very likely not dissimilar to what happened during the pandemic when people couldn't get content, and we had a nice uptick in our sales of Corus Studios' product. We'll be in a good spot to take advantage of any demand changes in that regard.

And the other piece out—people are sort of delaying their first-run originals, and they're looking to use more repeats. And because the ad economy's kind of soft right now, you don't have to use your first-run content because the demand for your supply of inventory's not as much.

So I think we've all been adjusting the last number of quarters for the potentiality of some interruption. But I think the general consensus is that there should be a resolution in relatively short order.

It’s in everybody’s self-interests. We don’t want a protracted writers’ strike. It’s not good for people viewing television.

But the other comment I’d make is, we’re kind of now all in the same boat with the streaming businesses and the broadcasters, if you want to delineate it that way. And so there’s, I think, pretty good alignment around the fact that a protracted shutdown is not helpful for anybody, if that helps you.

Adam Shine

Right. Yeah. Okay. We’ll leave it at that. I guess the context would be—in the context of a low advertising environment, there is the prospect that lighter deliveries and/or cheaper deliveries could help some of the costs, at least in the Q1, debatably. Beyond that, it’s more of a wait-and-see. And as you said, hopefully, it’s not a repeat of the 100-day strike of a decade-plus ago. Right?

John Gossling

And the other, more recent example we had of that, Adam, was our Q1 ’21, which was the fall—

Adam Shine

Pandemic.

John Gossling

—first fall from COVID. Right?

Adam Shine

That’s right. Yeah.

John Gossling

We got very few deliveries on Global that quarter.

Adam Shine

Perfect. Okay. Thanks for that.

John Gossling

Thanks.

Doug Murphy

You're welcome. Thank you.

Operator

Moving on, we'll hear next from Aravinda Galappatthige at Canaccord Genuity.

Aravinda Galappatthige — Canaccord Genuity

Good morning. Thanks for taking my questions. I just wanted to go back to the programming inflation point, John, that you were kind of talking about. Can you maybe attack the cost side more holistically on the television segment? I mean, we obviously saw the programming inflation for Television as kind of a high single digit and I think it was in the first half, but your TV OpEx was up roughly 5 percent over Q1 and Q2 (phon).

And given some of the moving parts you've talked about, do you see the prospect of that 5 percent potentially being flat? Would you consider some of your cost reduction initiatives and obviously the lower US spend, is that something that is achievable even with those moving parts?

John Gossling

Sorry, Aravinda. It was pretty hard to follow you there. You were kind of breaking up. When you were saying, to be flat, you're talking about the G&A costs?

Aravinda Galappatthige

Yeah. Total TV OpEx, right? Because what I'm referring to is total TV OpEx was 5 percent inflation both in Q1 and Q2. I'm just wondering whether, with the step down in—or the moderation in programming inflation, and some of your cost-reduction initiatives, whether that 5 percent can potentially go to zero in the second half.

John Gossling

Yeah. I'd say, again, given the comments on the programming, kind of the flattening out being towards the back half of the second quarter, I think that would then translate into what you're suggesting. And as well, I think we'll have better momentum on other G&A in the fourth quarter, some for sure in Q3 and then more in Q4. So I think it's going to be a little bit more back-end loaded on that total concept. And Q3, we should—we're working hard for Q3 to be down as well.

Doug Murphy

And in the coming years, to have a sustainable improvement in the basic cost structure. That's the key piece here, is that we're making smart and necessary investments in US programming. Some of that's front-end loaded, to the question from Vince, over the multiyear deals; that stabilizes, so that then, we're making marketing investments which are key to get into revenue growth on STACKTV with our 1 million sub target still within reach. And that's key to get the revenue picture.

Pluto is sort of a rev-share model and looks very promising, and we're just early days there as we kind of scale the impressions, just really over-delivered on impressions. And then you add to that the CPE piece which, in your modelling, is relatively straightforward when you think about what we've now shared with you in terms of 20–20–10 over last year, this year, and next. And then you work through the revenue declines of this year, which is going to take pressure off of the spending next year.

So what is acutely painful this year becomes relatively helpful next on the CPE profile. So the sum of the parts is continue to push on the digital video growth opportunity whilst, at the same time, managing through the Canadian programming spending, excepting (phon) the modest investment increases in US, and then looking for ways to take costs out of the non-programming and non-marketing parts of the business.

And that's while we also ensure, cross platform monetization momentum, because that's critical, right? You see it in our metrics, 52 percent on optimized advertising revenues. It's essential that we're able to monetize every impression, whether that's linear, nonlinear, on-demand, streaming, seamlessly, and that's part of the bigger, longer-term picture.

John Gossling

Sorry, Aravinda. Just to come back to your questions. I think the challenge of that total TV spend in Q3 is going to be the Canadian that Doug just talked about. There's a big slug of Canadian in Q3 that's going to push the programming costs higher. But certainly, we're aiming for G&A to be down in every—across the board, in total, for the back half. So once again, to Q4, with some of that Canadian pressure not with us, then I can see what you're suggesting.

Aravinda Galappatthige

Okay. Okay. That's helpful. And then, John, just connected to that, I know it's different this year in terms of the actual cash spend on programming, is that last year in the first half, amortization was running ahead of cash, and (unintelligible) the opposite. To what extent should we expect that to perhaps offset in the back half of the year? Just to kind of make sure that we're kind of generally landing in the right zone with respect to—

John Gossling

Yeah.

Aravinda Galappatthige

—cash flow.

John Gossling

Yeah. Look, it's certainly been a big change in that relationship in the first half that the cash is up a lot more than normal. I think that's, again, a function of what happened last year, where things were quite slow out of the gate. I think we're through that now. I think there was a lot of catch-up that was happening on late billings; we talked about this in the last call. The back half of the year should return to normal, would be what I would expect.

Aravinda Galappatthige

Okay. Okay. Thank you. I'll pass the line.

John Gossling

Thanks, Aravinda.

Doug Murphy

Okay. Thanks.

Operator

And once again, to our phone audience joining today, that is *, and 1 if you would like to ask a question. Please go ahead.

Next, we'll hear from Drew McReynolds at RBC Capital Markets.

Drew McReynolds — RBC Capital Markets

Yeah. Thanks very much. Good morning. First for you, John, and my apologies. I think this was probably answered, but just in terms of modelling kind of the content delivery side within TV for the back half of 2023. Presumably, you're still expecting some decent year-over-year growth, although versus our forecast, Q2 certainly was quite strong. So just wondering how we model that one.

John Gossling

Yeah. Good question, Drew. So yes, we see a very strong back half. Now Nelvana's got a lot in the pipeline. Corus Studios is comping against some pretty big numbers last year with the Hulu deal, but I think Nelvana will more than compensate for that in the back half.

Drew McReynolds

Okay. Super. And just one follow-up for me. It's more of a bigger picture one, maybe start with you, Doug, on the upfront markets in Canada. Like obviously, not ideal timing here, given all the uncertainty out there. So just what are your thoughts in terms of like, number one, how important are the upfronts for Corus relative to what it's previously been? And then, second, is that a concern that all of these kind of commitments are being done at a point in time where there's probably going to be the least visibility here in the cycle?

Doug Murphy

Well, I'd prefer to be going into the upfronts with a more robust economic backdrop, obviously.

Drew McReynolds

Sure.

Doug Murphy

Yet our team right now is in Los Angeles and we're in deep discussions with our content partners as to what the premiere schedule's going to look like in the fall and in mid-season and through the spring. We really like our key partnerships on conventional, and we continue to have more of the top shows in the top 20 in both specialty and on conventional than any other broadcaster, when you exclude sports. And that lifestyle and entertainment positioning is attractive to a lot of advertisers. Especially, when you look at the CPMs compared to what sports is attracting, which is relatively expensive by comparison.

So, I like our competitive shape. If we start seeing some categories coming back—I mean, I did mention the report by MAGNA in the US, which is—and I was reading somewhere that the average person's car is almost 13 years of age. And yes, leasing costs are up, but people are—that's a huge category. Automotive is one of the biggest categories out there, and we'd like to see something come back in the coming future. So maybe, that category steps up as part of their relationships with their advertising agency for the upfronts.

Interestingly, you're probably noting that the entertainment category—I'm talking, so box office—and yesterday, you might have seen Warner Bros. Discovery was announcing their new streaming product. And their CEO is very specific about the importance of box office results. And that's, by the way, a signal to the writers' strike discussion I just had with Adam, is that the economics now—this is like—people are realizing that the windowing strategy is fundamental to running a smart studio major company. And you've seen that across all of the windows, linear, streaming, in theatre, and et cetera. So that category, I expect to see coming back.

So I think, the way I'm thinking about it is, and our sales team is, we're working the categories hard and then understanding how the categories fit within the five major advertising and holding companies. And we don't do an upfront like the way the US does. We have corporate deals we do with the major agency groups, and those are kicked off with the upfront but, typically, are concluded by the end of our fiscal. And so the setup is a little bit different.

But yeah. It's a softer environment to go into an upfront, but it's not our first time; we've gone through this before, so we have a game plan that we're going to execute. And the good news is we have a lot of premium video digital inventory now that we didn't have only a couple years ago, so we can offer more impressions going into the selling season.

Drew McReynolds

That’s great. Great colour. Thank you.

Doug Murphy

Thank you, Drew.

Operator

Scott Fletcher at CIBC, please go ahead. Your question is next.

Scott Fletcher — CIBC

Good morning and thanks for taking the question. I wanted to ask a question about the sales and marketing spending and how you’re looking at that strategically because, obviously, so much of your strategy depends on driving more eyeballs to the streaming platform and the digital platforms. So when you’re talking about increasing that sales and marketing spend, is there a different strategic approach to how you’re allocating those dollars? Or is it sort of a matter more of putting more money into what you’ve already been doing in the past? Just curious on the strategic approach on sales and marketing.

Doug Murphy

Well, the first thing we’re trying to do, right, our principal focus right now is trying to be sort of strategically ambidextrous, and we’re looking at cost everywhere. And we’re hoping to, in the net of it, take out as much cost as we can, redirect some of those savings to marketing, but be net to the good while we’re going through this soft revenue environment. So that’s sort of like the quarter-to-quarter approach.

But we are spending quite a bit of time, Scott, trying to understand what’s the optimal intersection of marketing investment and return. This is the classic attribution model that all our advertisers speak to us about: how much advertising do we want to invest beyond our own network footprint. And we are getting smarter and smarter as each quarter goes by.

And I referenced the recent STACKTV advertising campaign; if you haven't seen it, you can find it out there. It's very compelling, really speaks to the features and benefits of the service, the fact that it's got 16 linear channels, full on-demand stacks, and a better value than what is being paid for, typically, within the forced-channels packaging bundles in Canada. And I think that's a winning offering.

So as we continue to get smarter about the cost of acquisition and the ROI on these investments, we'll get more comfortable with ramping up the spend. And especially, we're going to try to time that with the debut of fresh content, which is kind of a key part of the acquisition math. But we're not forgetting about the need to continue to be very diligent on expense control.

So we're playing that game at the moment. And once we begin to see either more demonstrable effect of our investments that drives definitive growth, then we'll probably amp that up, and/or when the outlook begins to firm, that'll give us some more conviction to invest more on the STACK marketing, if that helps.

Scott Fletcher

Okay. Thanks. I'll pass the line with that.

Doug Murphy

Scott.

Operator

And, ladies and gentlemen, that was our final question for the conference today. Mr. Murphy, I'll turn it back over to you for any additional or closing remarks that you have.

Doug Murphy

Thank you, Jim (phon), and thank you, everyone. I see we're right on the hour, so that was 60 minutes well spent. We're always available for any follow-up questions, so please feel free to reach out. And thank you for your time and have a great day. Enjoy the beautiful weather. Take care.

Operator

Ladies and gentlemen, this does conclude today's teleconference, and we thank you all for your participation. You may now disconnect. And as Doug had said, we hope you enjoy your day.