Corus Entertainment Inc.

Fiscal 2024 Second Quarter Earnings Conference Call

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PRESENTATION

Operator

Good morning. My name is Lara and I will be your conference operator today. At this time, I would like to welcome everyone to the Corus Entertainment Q2 2024 Analyst and Investor Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, please press star followed by the number two. Thank you. As a reminder, this call is being recorded.

I will now turn the call over to Mr. Doug Murphy, President and CEO of Corus Entertainment. Mr. Murphy, you may begin your conference.

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

Thank you, operator, and good morning, everyone. Welcome to Corus Entertainment's fiscal 2024 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 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 two. We note that forward-looking statements may be made during this call. Actual results could differ materially from forecasts, projections, or conclusions in these statements. We would 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 will 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 2024 report to shareholders and the 2023 annual report, which can be found on SEDAR+ or in the Investor Relations-Financial Reports section of our website.

I will start on slide three. We are now at the midway point of the year and we are pleased that our programming winter, if you would, is behind us and, with the change of season, a full spring schedule of new programming has arrived. On today's call, beyond the overview of our Q2 results and discussion of our outlook, we want to take a look at a broader level and talk about the audiences that have returned to primetime television, our ongoing pursuit of our video-first strategies and demand-creation efforts across all our platforms and networks, and our Fit for the Future cost reduction initiatives to streamline our operating model in support of our video-first audience strategy.

The results for the second quarter were as follows: Our consolidated revenue was $300 million for the quarter. Total consolidated segment profit was $53 million. Free cash flow was $33 million, which was up 16% over the prior year. Q2 revenue declines were partially offset by lower amortization of program rights and reduced operating expenses, which, when combined, were down $38 million or 13%.

And leverage improved to 3.62x pro forma net debt-to-segment profit at the end of the quarter as we directed free cash flow towards reduction of our term loan facility.

Over to slide four, audiences have returned to Global and notable share gains have followed. We saw a significant lift of 143% in core primetime audiences compared to the prior schedule before the new content launched. Clearly, viewers are enjoying Global's winning schedule of new and returning hit scripted shows. This rising tide lifts all boats, with Global's weekly average hours streamed on STACKTV increasing 36% and on the Global TV app they're up 95% since the premier of our spring schedule. Let's provide some more highlights from the Global launch. We have 10 of the top-20 shows on conventional television in Canada, including the number-one show and number-one drama, *9-1-1*; perennial number-one reality show, *Survivor*; number-one late night show, *Saturday Night Live*. When we break it down by Global days, Global enjoys a number-one primetime series on Monday, with *NCIS: Hawai'i*; Wednesday, *Survivor*; Thursday, *9-1-1*; Friday, *Fire Country*; and Sunday night, *CSI: Vegas*.

Moving to slide five. On our specialty channels, our great lineup has delivered 17 of the top-20 entertainment and lifestyle shows so far this season. Leading this charge is *The Curse of Oak Island* on HISTORY, which still reigns number one, followed by our Peacock exclusives on Showcase delivering strong performance with *Ted* ranked number two and *Dr. Death* ranked number five. The latest season of Hallmark's *The Way Home* is a beloved favourite of audiences, ranking at number six, and Corus Studios' own *Backyard Builds* ranks number 13 as our original content continues to drive audiences to our networks. Just a quick comment about Corus specialty networks. When we look at live versus on-demand viewing trends, our live viewing levels are similar to those delivered by sports. Our top-six specialty stations averaging 88% live versus 92% on sports specialty on English-language networks. Our research shows that, in an average week, 50% of adults 25-54 do not watch sport specialty networks, providing a compelling opportunity for marketers to diversify advertising buys beyond sports to increase their return on advertising investment working with Corus.

On to slide six. Our video-first strategy is designed to ultimately offset the declines in linear video viewing with growth in our premium digital video audiences on our streaming platforms. TV is still, by far, the best way for advertisers to reach audiences on the biggest screen in the home. Numeris introduced video audience measurement, or VAM, recently, which is providing new insights into Canadians' cross-platform viewing habits by capturing all video activity in the home. It is currently active in Ontario and Quebec with plans to roll out nationally. According to this VAM data, total TV, which includes broadcaster and broadcaster streaming services, is the largest video platform. Among adults 18-plus, total TV represented 66% of all time spent with video content within the home. At Corus, our video ecosystem attracts audiences at scale in brand safe and trustworthy environments. We have grown our presence across the total TV space with more than 25,000 hours of original content premiering every year when you include our Global News.

Our video reach in the total TV ecosystem is significant. When you combine our TV, Global TV app, STACKTV, and Pluto TV, we reached close to 30 million Canadians every month now across our traditional and streaming platforms, all in ad-supported environments. In fact, we are generating seven times more advertising impressions on premium digital video than two years ago, demonstrating the successful scaling of our streaming portfolio to become one of the largest providers of connected television advertising in Canada. As I said earlier, this rising tide of audiences returning to our spring schedule has lifted all boats. It is clear viewers will seek out great content on their preferred platform and we are seeing this play out across our video-first ecosystem.

I'll just give you a little more colour on that. STACKTV, our flagship, first-of-its-kind, hybrid streaming product with 16 of our top channels, continues to offer tremendous value to Canadians. We saw an encouraging lift in subscriptions to STACKTV emerge near the end of Q1, reaching an all-time high in recent weeks. We are encouraged by these early results driven by our returning schedule and exclusive Peacock content. The appeal of lean-back as broadcast television on STACK is evident in the fact that almost 60% of viewers view live on our channel feeds. The other, of course, view on demand, and the top 20 programs on demand are spread all across our brands. A reminder that, on the Amazon platform, we monetize this increasing on-demand viewing through dynamic ad insertion, or DAI, which continues to generate meaningful incremental advertising revenue. Our Global TV app, which offers a free streaming premium video platform and news in front of the wall for all Canadians and a deep offering of live and on-demand content for authenticated subscribers, has also seen impressive results this spring. Last month we reached a new record with over six million hours streamed on the app, driven by winning scripted content on Global and our Global News FAST channels. Pluto TV is also delivering impressive audience growth with the appeal of its free ad-supported premium video. The easy-to-use platform delivers an unmatched offering of hit shows from all eras and genres, with something for everyone to enjoy, and again, the streaming on this platform reached an all-time high in January.

So these three streaming platforms—STACKTV, Global TV app, Pluto TV app—they're the cornerstone of our video-first audience strategy to position the Company for the future as we move beyond being a television broadcaster towards becoming an aggregator of premium video across all platforms—linear, streaming, and digital—while we concurrently build our cross-platform monetization capabilities. Corus will benefit from what we expect to be an inevitable evolution in the trading market for premium long-form video advertising. An essential first step involves working to recast the advertising industry's view of video advertising from linear TV to premium video impressions. That would include linear, digital, and streaming. Premium video across all platforms is how we need to sell our audiences. With the arrival of advertising-supported video now throughout the industry, STACKTV, Global TV app, Pluto TV, and new ad layers on competing platforms, it is a *Field of Dreams* moment: A critical mass of premium video, not search or display or user-generated content, but shows made by actors, writers, and directors, delivering tried and true and trusted content that advertisers ultimately will come to given the growth the industry has built in impressions and audiences.

Over to slide seven and some comments about our outlook. While the audience performance across our networks and platforms has been promising, unfortunately, we've yet to see this benefit our revenue. At this time, we are uncertain how much of this is a lingering impact from a shift in buying patterns related to the strike or how much of it is from other ongoing distortions in the advertising market, whether it be from the economy or increased competition. What we do know is that the advertising market is just beginning to digest the impact of the return of audiences for popular scripted shows on linear television and across related platforms as we are only seven weeks into the new schedule. Generally, advertisers and agencies tend to establish their media mix and marketing plan in advance, sometimes for the trading year, and that process kicks off after our annual June upfront. Last year we had unfortunate timing with the writers' strike announced in May and the actors' strike in July. Corus has a great story to tell at this year's upfront but, in the meantime, this limited visibility has caused us to have a disappointing outlook for the quarter ahead.

Many of you always ask about some category commentary, so let me provide a few comments. There is strength in categories such as government, travel, financial services, i-gaming, and ongoing resiliency in the consumer packaged goods industry. We're experiencing weakness in telecommunications, alcoholic beverages, direct-to-consumer, and retail. And there's variability within certain categories such as automotive, where certain companies have inventory and are spending while others don't and are not. In the entertainment category, most studios are cutting costs, but when a movie hits they tend to heavy up on advertising investment. We're also seeing lots of shifts in release dates as studios jockey for position with their tent-pole releases. Interestingly, the health and beauty category has seen weakness on television as advertisers redirect what had been prior linear advertising dollars to social media and influencers online. Our focus with this audience result is on demand creation and the sales team, similar to what we're seeing in the US, is leveraging the full scale of our total digital inventory across STACK, Pluto, and Global TV app to unlock marketing investments. We are increasing our client-direct activities in addition to working with our agency partners to monetize our strong scripted schedule launch and, importantly, educate the advertising community in Canada about the scale and performance of our video assets on both our networks and our platforms.

Moving to slide eight, for the first time in as long as I can remember, we finally have a tailwind in terms of our Canadian programming expenses. To be very clear, it is both the function of, one, Corus having finally worked off the harmful decision from the CRTC for our Company to catch up on the CPE spending that was impacted during the COVID-19 pandemic production hiatus; and two, the meaningful declines in our regulated revenue these last seven quarters. The mechanics of the 30% CPE obligation calculation based on prior year's regulated revenue, compounded by a mandated catch-up of $50 million in spending from 2020, had a significantly negative impact on our financial performance. Moving forward, we will not have an outsized obligation to contend with in fiscal 2024 and we are seeing more relief in these costs in the back half of the year and ongoing. As mentioned on our Q1 call, this, combined with the cost benefit of reduced foreign program deliveries during the US strikes in the first half of the year and our ongoing Fit for the Future initiatives, will result in notable savings to offset the lower revenue.

I'll now turn it over to John, who can provide more detail on our cost control initiatives and to take you through the results for the quarter.

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

Thanks, Doug, and good morning, everyone. I'm on slide nine.

The long-awaited return of scripted content to our Global primetime schedule in mid-February marks the beginning of a path to normalization after prolonged disruptions for audiences, advertisers, advertising revenue, and programming costs. Our results were in line with our outlook for the second quarter given the ongoing challenges in the economic landscape and lower television advertising demand concurrent with the audience impact of the Hollywood strikes on our primetime schedule on Global. This, combined with lower subscription revenue, the expected decline in content revenue, and the sale of Toon Boom in Q4 last year, contributed to lower consolidated revenue of $300 million and that was a 13% decrease from the prior year.

Consolidated segment profit was $53 million for the quarter, a decrease of $6 million or 11%, and that reflects the sale of Toon Boom, which accounted for about $3 million of segment profit in the quarter last year. Lower revenue was partially offset by the benefits of our cost saving initiatives. These included the 17% decrease in amortization of program rights due to reduced Canadian programming expenditures and strike-related program supply disruptions as well as a $9 million reduction in general and administrative expenses. All told, these helped drive total expense reductions of $38 million or 13% for the quarter, as Doug mentioned.

On a sequential basis, general and administrative costs for the quarter were flat to Q1 despite incurring an additional $1 million in marketing costs to support the launch of fresh programming and there was an additional $2 million in stock-based compensation in Q2. Consolidated segment profit margins were 18% for the quarter and that's up from 17% last year. We delivered free cash flow of $33 million in the quarter and that was an increase of 16% from the prior year. Pro forma net debt-to-segment profit, which excludes Toon Boom, improved to 3.62x at the end of Q2 and that compares to 3.67x at the end of the last quarter and was consistent with the last year end. This result reflects the impact of directing a significant portion of free cash flow towards debt repayment in Q2.

Now let's turn to TV results for the second quarter and those are on slide 10. Overall, TV segment revenue was $278 million for the quarter and that was down 14%. That was mainly driven by lower TV advertising revenue, which saw a sequential improvement in the rate of decline to 12% versus 17% in Q1 and was within the expected range we outlined on the call last quarter. Subscriber revenue of $117 million for the quarter was down 5%, reflecting declines in the traditional distribution system, partially offset by higher streaming subscriber levels. When we normalize for the change in carriage by a distributor, subscriber revenue was down 2% versus the prior year.

Distribution, production, and other revenue was lower for the quarter, driven by fewer episode deliveries, reduced service work, and prior year multiyear licensing deals for Corus Studios properties, as well, of course, as the Toon Boom sale last August. Given our much needed reduction in CPE, as Doug has talked about, we would expect that our production and deliveries will be significantly declining in the quarters ahead as we focus on our video-first strategies and Fit for the Future initiatives. New platform revenue represented 12% of total television advertising and subscriber revenue, which is consistent with Q1 and the prior year quarter.

Direct cost of sales for TV was a significant 18% lower for the quarter, ahead of our expectations, driven by a 17% decrease in amortization of program rights, as mentioned earlier, which includes a $9 million reduction in Canadian programming expenditures. Amortization of film investments decreased by $3 million as our investments in new programming were reduced. TV employee costs were down 7% year over year, mainly reflecting the impact of headcount reduction initiatives. Other G&A expenses were down 16% as a result of cost efficiency measures and reduced advertising and marketing spend given the delayed program delivery schedule following the end of the Hollywood strikes.

Overall TV segment profit was down 7% in the second quarter, reflecting the contraction in advertising demand as well as lower subscription revenue and partially offset, of course, by the benefit of G&A expense savings from our extensive cost reduction initiatives and lower amortization of program rights. TV segment profit margins were 21% in the current year quarter and that compares to 20% in the prior year. Pro forma for the disposal of Toon Boom, TV segment profit was flat with margins improving to 21% from 19%.

Looking ahead to the third quarter of fiscal 2024, visibility on macroeconomic conditions has not yet improved and we are seeing lingering impacts from the lengthy disruption of advertising markets due to the strikes, which we are working to address through the demand creation initiatives. Our expectation is, for Q3, television advertising revenue declines in the 10% to 15% range compared to last year. Programming costs are expected to decline in a similar range compared to the prior year quarter.

Next, turning to our radio results, as outlined on slide 11, radio results reflect lower advertising demand with growth in services, automotive, and beverage categories more than offset by declines in the retail, government/political, telecommunications, and restaurant categories. Radio segment revenue of $21 million decreased 4% for the quarter and that was a sequential improvement over the Q1 decline of 7%. These results were mainly driven by the impact of weakness in certain of our Western markets. Radio segment profit increased to close to $1 million in the quarter and that benefit was from cost containment measures more than offsetting lower advertising demand. Radio segment profit margin was 4% in Q2 and that compares to 2% in the prior year period.

All right, over to slide 12. We made steady progress on our financial priorities in the quarter. At Feb 29, 2024 we were in compliance with all loan covenants and had a cash and cash equivalents balance of $62 million with approximately $236 million available to be drawn under the $300 million revolving credit facility. We directed $22 million of free cash flow towards repayment of our long-term loan facility in the quarter and $32 million for the year to date, advancing our deleveraging goals in a disruptive advertising and revenue environment. This midpoint in our year marks a significant shift in direction. Our visibility on programming deliveries and expense has improved. Audiences are returning to Global primetime across our platforms to engage with our strong content lineup. That said, it's early days and we will still have significant work ahead as we ramp up our demand creation initiatives backed by promising early audience results. Our unwavering focus on streamlining our operations, lowering our costs, and prioritizing deleveraging remains paramount, helping to offset lower advertising demand as we navigate this period of low visibility in the broader advertising markets. We remain focused on capturing further cost savings opportunities and diligently executing on our long-term strategic plans.

And with that, I will turn it back to Doug.

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

Thank you, John.

Finally, over to slide 13. Business conditions have been tough for television media companies around the world as the industry awaits a recovery in video advertising demand while we all streamline our operating model and transform how we monetize our impressions across linear and streaming platforms. At Corus, video-first is our audience strategy designed to eventually offset declines in linear viewing with premium video audiences on digital streaming platforms. We are excited to return to a relatively normal programming schedule that, while early in the spring season, is competitive on a share basis and bringing back viewers to our networks and our platforms. Our sales team is very focused on demand creation from our advertisers and agencies, taking our strong early results on the road. We are equally focused on achieving ongoing efficiencies as we get fit for the future, reducing our debt and improving our financial flexibility. Our progress this quarter was evident across the board, with expense reductions in programming, people, and other operating expenses totaling 13% or $38 million for the quarter and 15% or $88 million for the year to date.

Corus is focused on what we can control and, notwithstanding our ongoing revenue challenges, we are making solid progress advancing our strategies. We are doing this while waiting for the CRTC to finally implement a new regulatory regime to replace the exasperatingly sclerotic processes of the past. Corus has called for sweeping changes to Canadian broadcasting regulations for some time. Every passing year, quarter, and even month brings new reminders that our framework is broken and unsustainable. Federal broadcasting rules continue to wrongly assume that Canadian broadcasters are the only place that Canadians consume content and these assumptions now hold us back in an increasingly cross-platform environment. While the government finally got the big things right with Bill C-11 and the CRTC has taken some encouraging early steps to implement the legislation, there remains much to do. We are doing our part at Corus to plan for the future and we are making difficult decisions. Ottawa must do theirs and they must do it quickly. It is long past time for more equitable and flexible broadcasting regulations in Canada. There is not a moment to waste.

I would like to thank the entire team of Corus' people for their hard work, dedication, and commitment. And with that, I'll turn it over to you, operator, for Q&A.

Q & A

Operator

Thank you, sir. Ladies and gentlemen, we are now proceeding to our question-and-answer session. Should you have a question, please press star followed by the number one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. Should you wish to decline from the polling process, please press star followed by the number two. If you are using a speakerphone, please lift your handset before pressing any keys. One moment please for your first question.

Our first question comes from the line of Adam Shine from National Bank Financial. Please go ahead.

Adam Shine — Analyst, National Bank Financial

Thanks a lot. Good morning. Doug, can you just help us a little bit with some of the nature of the conversations you're having with the agencies and, you know, the schedule has returned. It took a bit of time. The ratings seem to be coming in, I think, generally speaking, above expectations. Is it just a complete sort of wait and see until eventually next fall or are there other structural issues we need to continue to acknowledge, one being, obviously, the streamers all going to ad models that must be sucking up some dollars and then the continuing push towards digital advertising in general. Can you speak at all to some of those conversations?

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

Yes, Adam, thank you and thank you for your question. There's two answers I'll provide. The first, as regards to linear television buying cycle, typically we have an upfront and then the industry trades on three kind of four-month seasons. And so when investments are made in marketing and [inaudible] is laid into linear buys, it tended to be based on prior share ratings. So, what we need to do as a sales team is to continue, and a programming team, we've got to continue the strong performance on audiences on our linear networks for the rest of this season so that we then kind of reset the levels to the next cycle of advertising investments on behalf of the agency. So that's like the traditional trading cycle in marketplace.

The bigger opportunity, which I described as the *Field of Dreams* moment, is that, you know, two or three years ago all of the streaming was primarily SVOD and now in Canada we have a huge amount of ad-supported premium video content on the Corus networks, on other Canadian streaming broadcasting networks, and on foreign ad-supported streaming networks. The advertising agency industry needs to catch up to the fact that there is a ton of tried-and-trusted video impressions that are now available to buy. We used to always hear, prior to the new ad layers coming into the market, we used to always hear from agencies, geez, people viewing televisions is falling. You need to give us more impressions. We want to be in and around quality content produced by actors, writers, and directors. Well, now here we are with a ton of that and the conversation with agencies is to stop looking at TV as a line item separate from digital and look at TV now redefined as video and reallocate your mix of media to recognize that you have a huge opportunity to reach audiences in Canada and move away from display, search, and social. That's the industry's challenge and that's the industry challenge around the world.

And so what we're doing is two different things, primarily, with our outreach to agencies and clients—so we're doing a lot more client direct, by the way, too—is to basically sell into our strong linear network performance. Obviously, we want more dollars sooner, but given where we are in the quarter, we thought it was prudent to be conservative in our outlook, and appropriately so, but sell into the linear success and at the same time push really hard to reallocate dollars to premium digital video, of which we now have a ton of inventory, which is a great thing. It's very much what we wanted to do with our video-first strategy, the idea ultimately being to offset declines in video audiences on linear with increases in video audiences on digital.

Adam Shine — Analyst, National Bank Financial

Thanks for that. If we think about the program amortization, which obviously is coming down just as dramatically as the TV ad sales, is there any potential timing or catch-up dynamic that could ensue in Q4 or Q4, clearly a seasonally light period, Olympics to boot, we should assume that the program amort should meaningfully decline through H2? Is that fair? No catch-up ongoing decline?

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

Yeah, I think that's right, Adam. In fact, the back half of the back half could be even a little bit better. You're right, it's an Olympic summer, which reduces deliveries and, frankly, I think as Doug alluded to, the situation with the US networks is similar, if not maybe worse in some cases, than what we're seeing in Canada. So I don't think that they would want to over deliver and overproduce. That's certainly the message we're getting and the schedules that we're seeing.

So we're still on track. I think I said in the last call that our programming amortization is going to be down about $100 million this year and that's sort of half what we call foreign or Hollywood and half Canadian. It's actually improved a little bit since then, but I think that's still a good number. So the Canadian side of it is, as I've said before, is heavier in the back half, that's just the traditional play pattern for especially new Canadian, but we're still counting on some pretty significant savings here to help.

Adam Shine — Analyst, National Bank Financial

Okay. Good. Thank you for that. I'll leave it at that. Thank you very much.

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

Thanks, Adam.

Operator

Thank you. Our next question comes from the line of Vince Valentini from TD Cowen. Please go ahead.

Vince Valentini — Analyst, TD Cowen

Thanks very much. To stick with that topic first, is the cash outlay relative to the amort, John, any reason to think there'd be any timing differences there? Or if amort's down the cash should be down too?

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

Yeah, look, I think we've talked about this a lot. I know it's frustrating to try to model. It's frustrating for us as well. I think we're in a more normalized place right now. You saw in the quarter, you know, there was a slight gap from cash to amort. I think that's probably the right place to think about it. It's probably structurally about $10 million to $20 million higher on the cash side per quarter than it is on the amortization side. We continue to get some timing things that happen where we get late invoices, double invoices, et cetera, but we'll just have to deal with those and contain them as much as we can. So I think we're in a much better place and much more predictable.

Vince Valentini — Analyst, TD Cowen

Okay. Sticking with cash, there was a positive inflow on working capital this quarter. Anything that is visible for Q3 and Q4?

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

Well, look, we've got the normal seasonality just of the revenue flows, which impacts the receivables. I'd say it was a pretty normal working capital quarter. I can't think of anything in particular, whether it was on the collection side of the cash coming in the door or the money going out the door that was particularly unusual. Our collections were fine. We always push for them to be better. And in terms of the sort of flow of disbursements, it was pretty typical. So I think it's just the seasonality effect that you're seeing.

Vince Valentini — Analyst, TD Cowen

One last minutiae question before a big picture is corporate costs up 66% at $7 million. Is that all because of the wonky stock-based comp that's non-cash?

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

Stock-based comp and short-term comp. So the short-term comp piece alone in the quarter is about $2 million and that's because we were comparing against nothing a year ago. So you'll always have those two pieces of comp that are moving around and year over year they can create these large variances that you know. That’s why I talked about sequential as well. I think it’s a little smoother from Q1 to Q2 just given we don’t have that kind of noise necessarily as we roll forward.

Vince Valentini — Analyst, TD Cowen

Q3 will be up by that same magnitude versus zero last year or does it start to normalize?

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

Well, I mean we saw a big increase in LTIP as the stock price came up in Q2, so after we reported Q1. It’s going to depend completely on that. I think that the impact year over year on some of the other things will be similar, but yeah, it’s a call on the LTIP stock-based comp piece of it.

Vince Valentini — Analyst, TD Cowen

Okay. Big picture, sorry, [inaudible], there’s nothing concrete on CRTC relief, I believe, or you would have told us. Like we’re still sitting and waiting for them to figure out what they’re going to do with the new broadcasting act and it could be another year or is there one of those other files that they talked about in November that is maybe hitting soon?

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

Well, I made my comment pointedly because we’re still waiting on a bunch of items. We’ve got two applications before the commission. The final decision on our relief application, of which a notice was issued last October, that’s still in the queue somewhere. And then as regards to the Bill C-11, we’re preparing for the second phase of the proceedings and we do expect at some point something coming out of the CRTC to address their findings on the first phase and the discussion and determination as to how the foreign-owned Internet media broadcasters will contribute to the system in an initial way. Those are two switches that need to be closed. But Vince, I would not hold my breath, but they are in the pipeline. So that’s why we’re encouraging the CRTC, who typically listens somehow on our calls, to get on with it, because the industry needs change and needs it fast.

Vince Valentini — Analyst, TD Cowen

Okay. And the last one, just asset sales, anything like brewing, working on? I did notice your CapEx was pretty high this quarter versus where we’ve seen usually. Any chance you’re prepping some assets for sale or is it just timing?

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

No, that’s just timing. We tend to be pretty back-end loaded on the CapEx and we’re trying to sort of spend the money a little more evenly through the year if we can. Q1 was quite low. Look, I think the situation on asset disposals actually relates to what you’ve asked about changing regulatory environment. It’s essentially impossible to sell regulated assets in our case.

Vince Valentini — Analyst, TD Cowen

Thank you.

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

Thanks, Vince.

Operator

Thank you. Our next question comes from the line of Aravinda Galappatthige from Canaccord. Please go ahead.

Aravinda Galappatthige — Analyst, Canaccord Genuity

Good morning. Thanks for taking my question. I just wanted to extend the conversation about programming amort and programming cost a little bit. As we look outside of sort of Q3, maybe even beyond Q4, there's obviously that lag, those deliveries are going to come in and will, obviously, sort of to push up programming costs. If you look to fiscal 2025, on the other hand, you do have some benefit from the lower revenues will kick in in terms of lower Canadian requirements. How should we think of that sort of trajectory? I'm trying to get a sense of where margins would be if ads don't recover but you still have to spend a little bit more on programming and, obviously, connected to that, the rate of de-levering that we can expect. Any comments that you can provide along those lines? I realize I'm going a little bit further out, but anything would be helpful there.

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

For sure. And that's certainly top of mind for us as well. Just in terms of the process and the timing, so our programming team is in LA this week for kind of a preview of what's to come for the May buy, so we really don't have a great sense of what Q1 or all of fiscal 2025 is looking like at this point, especially when it comes to Global. But you're right, Aravinda. I mean we saw declines in the first half on Global, mostly primetime content. I said there's that $100 million of overall reduction for the year and about a third of that was Global in the first half. So yes, we're going to have to contend with that, particularly in the first quarter, but what does that look like exactly? What's the schedule? What are the delivery numbers, et cetera, et cetera? We won't know that for another five or six weeks. And that's what we will come forward with at our virtual upfront in June. But it's just too early to tell. But yes, we hear you, like that is something that is definitely on our radar in terms of what kind of cost increase we're going to see on Global for Q1 next year.

Aravinda Galappatthige — Analyst, Canaccord Genuity

Okay. Okay. That's helpful. And then just a question on radio. I know that it was a small decline, but you did note some growth in automotive. I know that's key for the category or for radio in general. Can you just maybe talk to what you're seeing there? Is there a trend of that sort of improving further and helping the radio segment?

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

Thanks, Aravinda. Nice to hear from you. Automotive is showing pockets of strength in both radio and television and is completely dependent upon inventory. The reality of it still is that the majority of inventory is being directed to the US market still and, effectively, the Canadian market gets kind of whatever is left behind. But when the inventory does arrive in the lots, both at a local level on local radio or local television, we see investments in marketing, and at a national-wide brand level we see concurrent branding investments. The truth of it is it's that all the automotive, and the automotive sector in the US, because of this, is actually a strong sector. The category in the US is actually up quite nicely. It's one of the bright spots in the US TV advertising market. So we would expect, once inventories can get more evenly distributed across North America, that we would get more of a steady automotive category performance. And that's something obviously beyond our control, but if the US pattern was emulated in Canada, we would see that happen.

Aravinda Galappatthige — Analyst, Canaccord Genuity

Thank you so much. I'll pass the line.

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

Thank you, Aravinda.

Operator

Thank you. Our next question comes from the line of David McFadgen from Cormark. Please go ahead.

David McFadgen — Analyst, Cormark Securities

Great, thanks. A couple of questions. So I just want to follow along and dive in a bit deeper on the amortization of the TV programming rights. So, when we think about your Q1 and your Q2 of your fiscal 2023 year, or actually maybe, yeah, didn't it benefit from the fact that we had these Hollywood strikes and therefore the cost of the programming amortization should go up a fair bit given we're back to a normal cadence?

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

You're talking about the outlook we gave for Q3, David?

David McFadgen — Analyst, Cormark Securities

No. I mean I'm looking into Q1 fiscal 2025 and Q1 fiscal or Q2 fiscal 2025, yeah. So, sorry, that's where I'm looking at, just on a [inaudible] basis.

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

No, fair enough, and that was kind of the last question and I probably gave you as much as I know right now on it. But let me talk about the next quarter, because I think it's instructive and it will, it sort of sets the pace, if you want, for how this is going to go forward. So Q3, we said that programming costs are going to be down similar to TV advertising, 10% to 15%. So, on initial blush, you might say, well, yeah, but you told us you've got all your programming back and your audiences are back, so we wouldn't maybe have expected that much of a decline. But as I mentioned, there are likely fewer deliveries in the back half than we would normally see. And Canadian is really kicking in in terms of the reduction, just the way that it's typically scheduled in the back half. So while we were seeing pretty large reductions, as you know, in Q1 and Q2, there were still some reductions in Global, small kind of single-digit millions, but now there's much larger declines in Canadian. Like we're talking sort of almost 30%, 40% as we go into the back half. So that's the dynamic that's happening right now.

And then in terms of what's going to happen at the start of next year, yeah, it's going to depend on what the schedule is that we end up buying. And obviously there's a lot of work to be done on that and there's an art to getting the best possible simulcast schedule that we can and then we'll go from there. So it's just too early to really say what the first quarter or first half of next year is going to look like, but yes, the first half this year was lower because of the Global deliveries being down a lot.

David McFadgen — Analyst, Cormark Securities

Okay. And then I'm just kind of wondering, do you think that, as the economy gets better and just overall macro environment gets better, that you will have better visibility on advertising? Or no, it's probably just going to stay like this?

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

Certainly, historically, that's been the case, right? I mean when, you know, I'm not suggesting this is the way it's going to be in the future, but historically the advertising market used to grow at a point ahead of GDP. That was kind of like the old rule of thumb. It would sure be nice to have an economy growing like we're seeing south of the border in Canada. So, with the Bank of Canada starts cutting rates soon and we can get a bit of a shot in the arm on the macroeconomic backdrop, you can't help but imagine that would be helpful.

David McFadgen — Analyst, Cormark Securities

Okay. All right. Thanks, guys.

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

Thanks, David.

Operator

Thank you. Our next question comes from the line of Maher Yaghi from Scotiabank. Please go ahead.

Maher Yaghi — Analyst, Scotiabank

Thank you for taking my question. I wanted to ask you maybe a shorter-term, medium-term, and a longer-term question. The first one is on the fall season, well, July/August with the Olympics. What is your guess estimate in terms of how advertising dollars are going to be spent on linear from and how that will behave during what it looks like an important event in August and how that can be managed through your organization? So that's my shorter-term question.

The longer-term question is, you know, the dislocation we're seeing in advertising spend in Canada with digital continuing to grow year on year, when do you get to the point of maybe thinking of reducing and managing the spend on US content if the advertisers are not willing to spend dollars on your broadcast channels to change the dynamic that you're in right now?

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

So, on the Olympic question, Maher, I mean the good thing about the Olympics for us is we know when they are and we plan for it, outside of COVID of course. The Olympic impact in a quarter is probably a couple of percent year over year. The benefit to us, I guess, is that there will be less programming delivered because the other networks in the US tend to not try to program too heavily against a big Olympic footprint. So I think that's manageable and we've seen that many, many times before and we know what that is.

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

Yeah. And also, just apropos my comments, not everybody watches sports, and when they don't watch sports they watch a lot of lifestyle entertainment channels, which we have in spades. So that's just a comment there.

On the larger digital thing, I think I want to come back to my *Field of Dreams* comment, and forgive me for using that handle, but we are at a very different point in terms of the digital advertising marketplace. We have the two big platforms who have definitely benefited the last number of years in the pandemic and definitely benefited from the desire for advertisers to focus on conversion, bottom-of-the-funnel marketing, and not investing on top-of-the-funnel, reaching frequency brand marketing. That needs to and will be changing based on what we're seeing and hearing from CMOs around the country.

And the other piece of it is that the dollars now can be directed towards trusted environments with traditional, if you would, premium video content so you're not up against user-generated, not up against social. You know, TikTok is not going anywhere. Maybe in the States, but it's not going anywhere in terms of its presence in the marketplace for younger people. But the fact of the matter is, and I read your piece and I thought it was well done, but the fact of the matter is I'm of the view that we are at a bit of a tipping point, because there is so much premium digital ad-supported inventory available that's not being monetized. And agencies are going to be looking at that and saying, Geez, I need to look at my mix. And so our job as the industry, and certainly as Corus Entertainment and our sales team, is to get out there, pound the pavement, and remind the agencies that it was only a couple of short years ago where they were saying you guys need to give us more video impressions because those on linear were falling. Okay, well, here we are, we have a lot. And so the expectation and the outcome we're hoping for and working very hard to effect is that we're going to redistribute the digital media mix and now we're going to redefine TV away from TV to video and we're going to reallocate share of that advertising spend, if you follow me, Maher. So that's the job right there.

Maher Yaghi — Analyst, Scotiabank

Thank you. Thank you, Doug. And maybe the question on content cost, you know, we've seen content costs for US shows continuing to go up even though advertising revenues are declining. At what point the industry in Canada becomes rational about the long-term consequence of spending more to getting less?

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

Well, I'll take that one. So I would say a couple of comments there. First of all, our model, which we've demonstrated with Pluto and Global TV app, is that we leverage our linear networks to acquire incremental rights to build our digital video-first strategy. So it's not sort of either/or, it's an and approach. And the scale we have with the existing linear business provides us the opportunity with our partners to broaden our rights grants and deploy kind of the video-first strategy. That's the first comment I'd make.

So I don't know that it's a question of not buying US content. It's about buying it differently, being selective, and having the best programming team in the country that can help pick the winners and being very efficient on your schedule. Global's schedule is extremely efficient. We have 17.5 hours of simulcast. We have very, very smart scheduling and we don't burn any simulcasts. I think we've got one show that we can't run as simulcast. That's it. Everything else is purely simulcast. So that's another key piece. It's picking the right shows and having an efficient schedule.

The third thing I would say is our US partners will also right-size their investment in linear content investment to their business model. So, at the end of the day, the worldwide industry is experiencing this seven-quarter succession, now eight with us, of pressure, expected pressure in the next quarter, and so ultimately what's going to happen is, I think, they're going to right-size their production investments. And you're seeing that now across all the major studios. Everybody is cutting back. The days of investment in content at all costs are definitely behind our partners.

And then the last item I would say, provided that we continue our share gains, we're going to sell that into the upfront and position the business hopefully for a stronger performance in the next fiscal.

Maher Yaghi — Analyst, Scotiabank

Doug, one last question maybe on the regulatory side. When I hear comments from Ottawa about why companies are cutting news broadcast at nine o'clock and ten o'clock and eleven o'clock when nobody is watching, when very little people are watching and actually want their news coming online all the time, there seems to be very complete separation between what you guys are going through and where the regulator and where policy is sitting. And what can you do as an industry to educate or bring that to their attention more visibly to move forward with regulatory changes? You know, we can scream all we want on conference calls, but what can the industry do as a group to change the narrative in Ottawa?

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

Well, yeah, I mean we obviously are strongly advocating for news. News really, in my opinion, should be the only regulatory obligation that Canadian broadcasters have. We shouldn’t have to be required to spend money on dramas or anything else. But unfortunately, our system is rooted in the 1991 Broadcast Act, which was designed at a time when the production industry in Canada was nascent and so the oligopoly profitability of broadcasters in those days was taxed to fund the launch of the industry and it worked. So public policy delivered the expected results at that time.

Now what we have is we have obligations that are increasingly punitive on broadcast just given the competitive pressures in the market and some broadcasters are making decisions on what to do to cut costs and that’s in their right and I won’t address anybody else but Corus Entertainment. In our world, we continue to make investments in Global News. We were the first broadcaster and the only broadcaster to have 14 Global News FAST channels each housed in our local station. That’s a growing business for us. We’re fairly excited about that. But we also have to continue to work differently and find ways to be innovative. And we push Ottawa all the time on, you know, and then Bill C-18 has some promise. I’m not going to comment on other than that. But as a father, I really chafe at the fact that we have all this dis- and misinformation available to the young people who don’t watch Global News and other news providers in Canada. And it’s a significant issue. So it’s an issue for the business, it’s an issue for society and democracy, and I think it’s something that we just have to continue to advocate for. We work with the Canadian Association of Broadcasters, the CAB, to apply as much pressure as we can and all of us, when we’re in Ottawa with our various advocacy efforts, are pushing hard on making those changes. It’s not falling on deaf ears. I do believe that people recognize the importance of making those changes. But as ever, it takes some time. And that’s my comment about exasperatingly sclerotic. It’s just gotten to the point where I don’t know what more we can do is to continue to apply the pressure that we’re applying.

Maher Yaghi — Analyst, Scotiabank

Thank you, Doug.

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

Thanks, Maher.

Operator

Thank you. Our next question comes from the line of Drew McReynolds from RBC. Please go ahead.

Drew McReynolds — Analyst, RBC Capital Markets

Thanks very much. Good morning. I certainly would echo what Maher just said and thanks for your comment, Doug, on the CRTC relief. It's absolutely, I think, mindboggling for financial analysts to look at that October submission and we're still waiting. In any event, that's my two cents.

The two questions I have would be just on the harmonization of ad tech in Canada. You've done some good work on that front and obviously Bell Media has done its own work. Is there ways that can kind of come together in scale maybe that's underway or is happening? Maybe an update there would be great.

And then secondly, John, I think on the production, distribution, and other revenue line you're talking about maybe pulling back on that. If I misunderstood you, my apologies, but maybe a little bit more granularity in what the outlook is for that in the back half of this year, but more importantly into next year. Thank you.

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

Thanks, Drew. Yes, that's a good question. The harmonization of ad tech. I mean the fact of the matter is, and again, I referenced the CAB earlier, we do have a very collaborative industry working group, because we we're coming to the conclusion that if we can't get the regulatory change we need and/or it can't come soon enough, what can we do for ourselves? And the adoption of common industry segments, a number of years ago, it was a demonstration of that where four large broadcasters signed up to that definition and that covered more than 90% of audiences that were characterized as such.

We also have a situation in Canada where we have a dominant two of three broadcasters, not us, that are vertically integrated, and that provides data and we've been working with broadcasters to acquire set-top box data now for a number of years that helps to advance our automated targeting and audience segment selling. And there are ongoing conversations about ways to work together. So obviously I'm not going to provide more than that, but the broadcasters in Canada recognize that there's probably more things that we can do in support of each other and we'll continue to have those conversations.

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

So Drew, on the other TV revenue line, I think it's fair to assume that the back half looks a lot like what Q2 looked like, there's just, frankly, less production, fewer deliveries. We sold most of the Corus Studios library to a couple of US players in the past. So those properties are still in those windows and won't be up for renewal for quite some time. So it's a bit early to talk about 2025, but given what we know about regulated revenue this year, which will drive our CPE obligation next year, it's going to be down, I would suspect, next year, but I don't have any particular sort of idea of what that is right now.

I guess the other thing to point out is, despite the decline you saw in Q2, it didn't drive a whole lot of margin impact. We've talked about this before. Depending on what type of content revenue we're talking about, some comes with very nice margins, like Corus Studios, because those properties are all sort of paid for and looked after, and Nelvana can come with quite a bit of initial cost of sales just given that we're spending a lot of that money upfront for that purpose. So I guess that's sort of, again, a bit of a silver lining in that reduction in it’s not driving a big EBITDA reduction because it is generally lower margins.

Drew McReynolds — Analyst, RBC Capital Markets

Okay. That’s great. Thanks, John.

Operator

Thank you. Our next question comes from the line of Scott Fletcher from CIBC. Please go ahead.

Scott Fletcher — Analyst, CIBC Capital Markets

Hi. Good morning. Lots of good detail on the video-first strategy. I want to ask more specifically, you’ve talked about the potential impact of competition and ad-supported layers at some of the foreign streamers and domestic streamers. How do you go to market against a large streamer that has an ad-supported tier? Like what is the value prop that you’re pushing for your digital assets versus theirs? Just some colour there would be helpful.

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

The best practice that you see south of the border, I won’t name names, but there are two strong players that are achieving this, is you lead with, you sell your video and your digital together. So you basically lead with video. The first step is your digital, your growth in digital, because you’re reaching different demos than traditional linear. So you sell the combination of your premium digital video impressions with the tried-and-true linear television and you package them together. That's your value prop, which is different from just a pure streamer.

Scott Fletcher — Analyst, CIBC Capital Markets

Okay. That helps. And then one sort of just a follow up on one of your comments earlier on the call, can you just clarify that sort of the viewing level commentary you used to compare when you compared sort of the sports content to your own content? Just I might have missed the takeaway there.

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

No, no, no. Listen, I mean two things. People often forget, I was meeting, I was sitting, I had lunch with a financial services CEO recently and I was saying how, I was asking, I saw a lot of their advertisements on football and the NFL season and I said, you know, you're paying a lot of money on CPMs for that and it's very crowded when you're trying to advertise around sports. Did you realize that, on our big six networks, we have appointment viewing, like people that tune in at that time, like you would for sports, live viewing, for 90%, similar to what we see on sports.

So the first thing is that our lifestyle channels have a lot of appointment live viewing, so that's one thing that we need to remind advertisers and marketers about. And the second thing is that when you think about the specialty networks, okay, 50% of Canadians don't watch sports every week, so if you're heavying up on sports and sports alone, not only are you paying a lot, it's a highly cluttered environment and you're missing a lot of the audience you're probably wanting to reach. So that's another one of Corus' unique selling features is that we do provide a differentiated ad buy with much better efficiency given CPMs and a very effective reach and targeting.

Scott Fletcher — Analyst, CIBC Capital Markets

Okay. Thank you for that.

Operator

Thank you. There are no further questions at this time. I'd now like to turn the call back over to Mr. Murphy for final closing comments.

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

Thank you, Lara, and thank you, everybody, for your time this morning. As ever, we're available for questions and follow up. Thanks very much and have a great weekend. Bye-bye now.

Operator

Thank you. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines. Have a lovely day.