

Assessing the impact of a change of ownership of Channel 4: Updated Analysis

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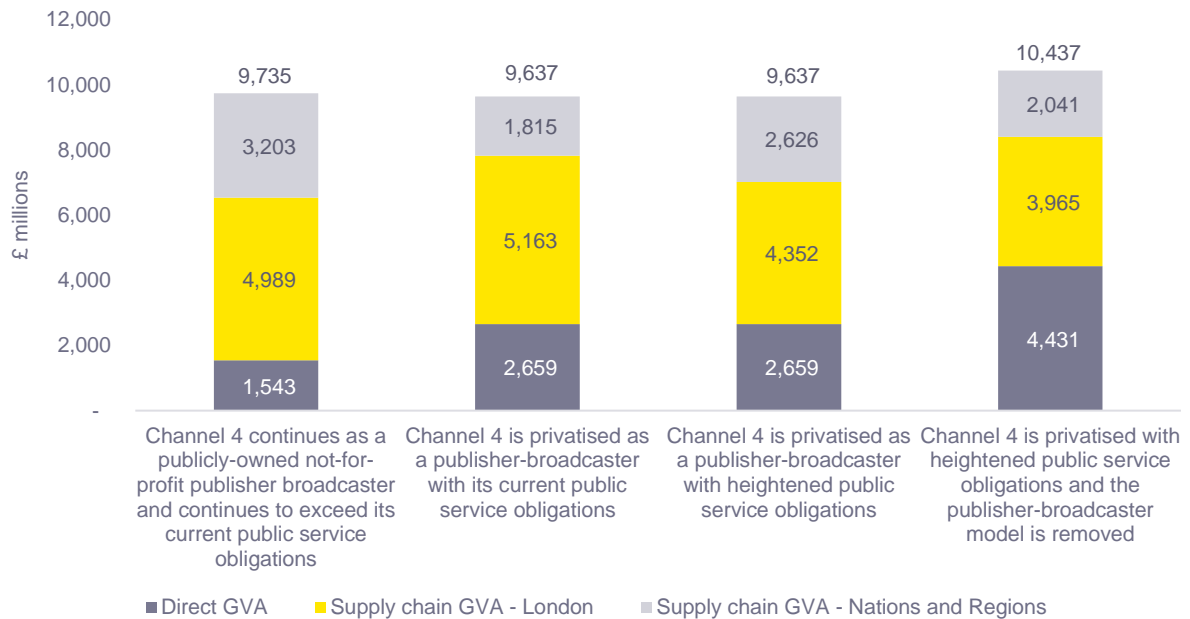
2. Assessing the impact of a change of ownership of Channel 4: Updated analysis

In September 2021, Channel 4 published our report *Assessing the impact of a change of ownership of Channel 4*.¹ This report set out our forward-looking analysis of the present value² of Channel 4's economic contribution over a ten-year period under its current ownership structure and under three possible outcomes of privatisation. Our analysis took as its starting point Channel 4's internal three-year plan for the period 2022-2024.

Since the publication of our report in September 2021, Channel 4 has updated a number of key assumptions underpinning its internal three-year plan to reflect market performance that was better than expected. To ensure consistency, we have updated our analysis to reflect Channel 4's updated internal base plan and applied a methodology consistent with our September 2021 approach. These forecasts have been prepared by Channel 4's management. The updated assumptions underpinning market performance apply for a scenario where Channel remains in public ownership as well as under the three possible outcomes of privatisation considered in our 2021 report. These different scenarios are summarised in Figure 1.1 of our [September 2021 report](#).

Based on our updated analysis, the present value of GVA generated by Channel 4 over a 10-year period under all four of the different outcomes we consider is higher compared to the analysis set out in our September 2021 report. Under a scenario where Channel 4 continues as a publicly-owned, no-for-profit broadcaster, its contribution the direct GVA is higher in our updated analysis compared to the analysis set out in our September 2021 report, due to a higher operating surplus as a result of better-than-expected market performance. In practice, as a not-for-profit broadcaster, Channel 4 would expect to reinvest a material proportion of this higher surplus, thereby decreasing its direct contribution to GVA and increasing its contribution to GVA through its supply chain. Figure 1.1 and Figure 1.2 summarise the results of our updated analysis.

Figure 2.1 Summary of our analysis of the present value of GVA generated by Channel 4 over a 10-year period, based on updated base plan

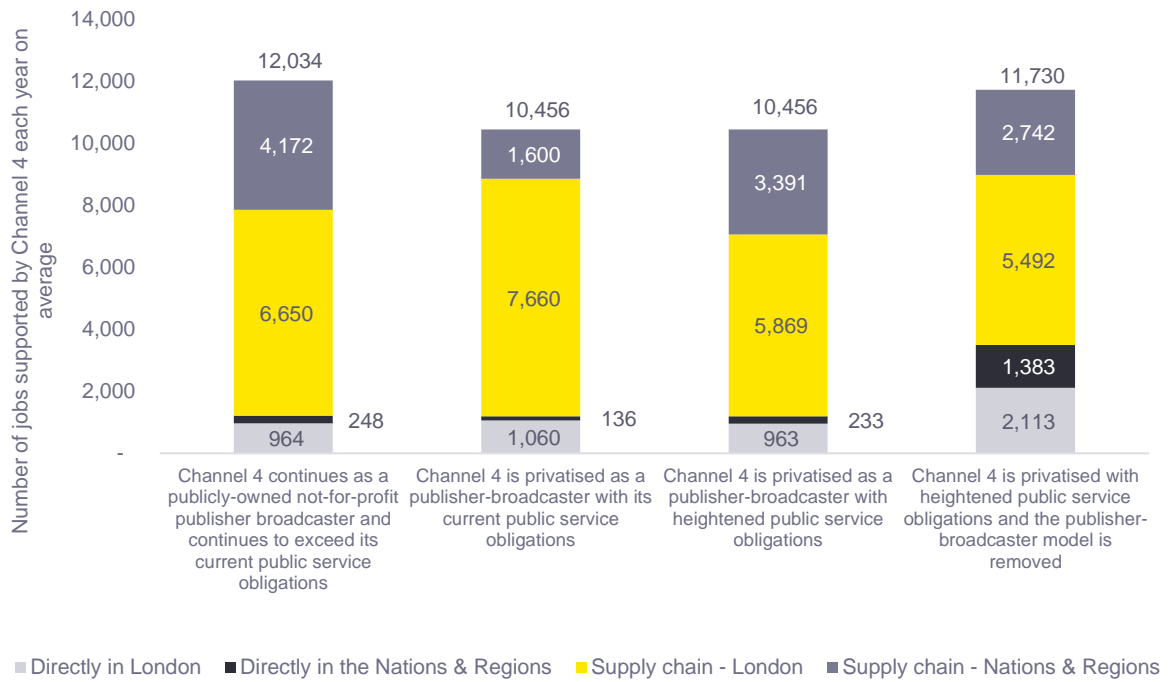


¹ <https://assets-corporate.channel4.com/flysystem/s3/2021-09/September%202021%20-%20EY%20-%20Assessing%20the%20impact%20of%20a%20change%20of%20ownership%20of%20Channel%204%20-%20FINAL.pdf>

² A social discount rate has been applied to estimate the present value of Channel 4's future contribution to GVA.

For this analysis, we have assumed that the direct impact on jobs supported by Channel 4 remains consistent with our September 2021 report. This reflects Channel 4 management’s expectation that headcount will not vary from the original base plan.

Figure 2.2 Summary of our analysis of the average number of jobs supported by Channel 4 each year,³ based on updated base plan⁴



For a comparison with our previous analysis, please see Figures 1.2 and 1.3 within the [September 2021 report](#).

³ We refer to Full Time Equivalent employees (FTEs) supported as jobs supported.

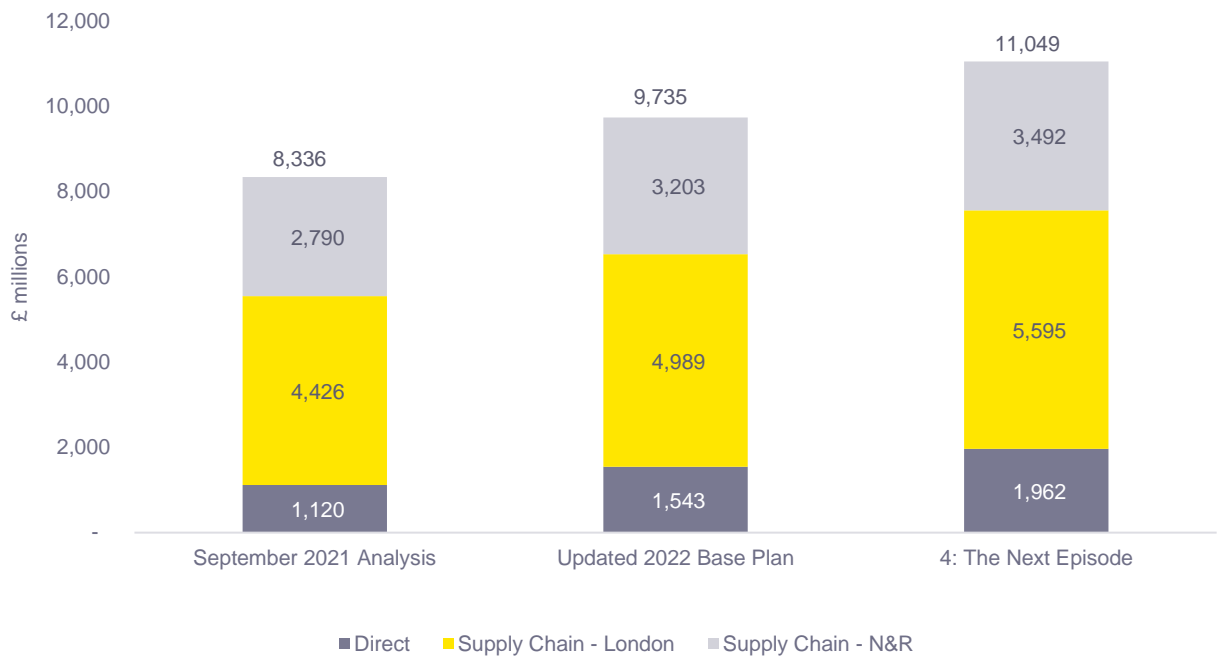
⁴ Channel 4 does not expect to directly employ more people under this scenario for improved market performance and therefore its direct contribution to employment remains the same as in our September 2021.

3. Assessing the impact of further strategic initiatives

Additionally, Channel 4 has identified a number of strategic initiatives to strengthen its public service contribution, referred to by Channel 4 as *4: The Next Episode*. The impact of these further strategic initiatives are not reflected in the updated analysis within section 2 of this report.

We have based our analysis on Channel 4’s estimates of the additional revenue generated by these strategic initiatives and its estimates of its additional spend with UK-based suppliers.⁵ EY have not prepared these forecasts and have used financial forecasts developed by Channel 4’s management within our analysis. Based on these assumptions, we estimate that Channel 4’s contribution to UK GVA following the implementation of these strategic initiatives would be 33% higher than set out in our September 2021 report and 13% higher than the updated 2022 base plan. The analysis also suggests that these strategic initiatives would increase Channel 4’s contribution to the Nations and Regions (26% higher than the impact set out in our September 2021 report and 11% higher than the updated 2022 base plan).

Figure 3.1 Summary of our analysis of the present value of GVA generated by Channel 4 over a 10-year period, based on our analysis of the further strategic initiatives



The analysis suggests that the strategic initiatives would also have a positive impact on the number of jobs that are supported by Channel 4 throughout the supply chain, with an estimated 2,500 more jobs being supported compared to the September 2021 analysis and 1,250 more jobs than the updated 2022 base plan. We have not considered the impact on jobs directly supported by Channel 4 from these initiatives as Channel 4 management continues to develop its headcount assumptions. We would, however, expect an increase in the number of jobs supported directly by Channel 4.

⁵ Our analysis estimates Channel 4’s economic contribution in the UK. As such, we have considered only Channel 4 spend with UK-suppliers associated with these strategic initiatives. Included within the strategic initiatives is a proposal to develop a fund to bring private capital into Channel 4 for the first time to allow Channel 4 to acquire and commission high-value content. In practice, the impact of this fund would be higher as it would also include spend from third parties contributing to the fund.

Figure 3.2 Summary of our analysis of the number of jobs supported by Channel 4 throughout its supply chain based on our analysis of the further strategic initiatives

