

Interview: Peter Orton - Can he fix it?

James Curtis - 12 November 2004

Peter Orton is back at the wheel of children's entertainment company HIT, which has seen plunging profits and the ousting of its chief executive. But Orton has big ambitions, including cracking the US.

With his sober grey pinstripe suit, braces and sensible tie, Peter Orton doesn't look much like a children's entertainer. His only concession to wackiness is a pair of bright red socks, worn with delicate buckled shoes that jingle when he walks. Incongruously surrounded by huge soft toys of Bob the Builder, Thomas the Tank Engine and Barney the dinosaur, Orton looks like a banker lost in a toy shop. But Orton is far from lost. Nor is he confused by the brightly coloured and surreal world of children's entertainment. Back in daily charge of the company he founded in 1989, following last month's departure of chief executive Rob Lawes, Orton has built HIT into one of the world's most successful and powerful players in kids media.

His 35-year experience in international television distribution and co-production includes 12 years with the Children's Television Workshop, before setting up Henson International Television. It's a career that has seen Orton closely involved with two of the biggest ever kids properties, Sesame Street and The Muppet Show, and create another - Bob the Builder. Worth about £35m (placing him at number 18 in the Broadcast Rich List), the 61-year-old doesn't need to work. But, with HIT finding itself at a crucial crossroads, and without a chief executive, Orton is once again rolling up his sleeves. "It's certainly not something I'd contemplated some months ago, but it's wonderful to be back and I'm enjoying it," he admits. Enjoying now, perhaps, but events at HIT over the past few months have been a white-knuckle ride. Observers were stunned when Orton fired his popular and capable chief executive, immediately after Lawes pulled off a crucial deal in the US. HIT is to launch a digital subscription pre-school kids TV channel, in partnership with the publicly funded US broadcaster PBS, America's largest cable operator, Comcast, and Sesame Workshop (the new name for Orton's former employer, CTW) which will give it an unsurpassed opportunity in the difficult-to-crack US market. The channel will be a natural outlet for HIT's shows, helping it to further build on the popularity of Bob the Builder and Barney in the US and introduce other strong assets, such as Thomas the Tank Engine, Pingu and Angelina Ballerina. Orton calls the deal a "quantum leap" for HIT. "The channel is an incredible breakthrough for any intellectual copyright-owning company - it is the next step, which is so important, but one that is seldom ever achieved.

Historically, I'm not sure of any other indie that has ever managed to do this." Launching in September 2005, the new, as yet unnamed, channel, in which HIT has a 30% stake, is expected to have 30 million subscribers within four years. It will massively increase exposure for HIT's brands, helping it drive revenue from DVD and video sales, licensing and merchandising, as well as potential programme commissions from the new company (on which HIT will have board representation). The channel will also have a strong video-on-demand offering and HIT can make more money by taking on licensing, merchandising and DVD distribution for other programmes being shown on the channel. In all, it's a good-looking business. Orton admits, "It could become incredibly valuable - the equity we share in this new channel could be worth more than HIT is at the moment." (The company has a market capitalisation of £307m.) So, why dispense with the man who, along with HIT finance director Steve Ruffini, helped lay this golden egg? Although Lawes oversaw a 43% fall in pre-tax profits in the year ending in July, caused by the weak dollar and the decision by a major US retailer to cut shelf space devoted to kids DVDs and videos, it is unlikely that is the reason for his unceremonious exit. Orton has no clear explanation, but it seems the coincidence of Lawes' departure and the announcement of the US deal marks a new direction for HIT, as it strives to couple its creative skills with being a broadcaster and media owner. Whatever the reason, it's a direction in which Orton clearly didn't think Lawes was capable of steering in. "I worked with Rob for 14 years. He was extremely articulate and bright. He enjoyed the City and the institutions and had an excellent relationship with them. But he wasn't quite as well known in the television or licensing

industries. We felt we needed someone for the future who was able to bring some entrepreneurial skills to grow the company." Although under Lawes HIT made some smart acquisitions, particularly in 2001 when it bought Lyrick Studios (Barney the Dinosaur) and Gullane (Thomas the Tank Engine), Orton wants HIT to be known as more than just a deal-maker and merchandiser. More than anything, he wants HIT to be making more of its own programmes. He says: "The pipeline for the company - the programming coming through - is very important for the company moving forward. I think we can find a new chief executive who will be embraced by the creative community and bring a lot of programming through the pipeline." Orton admits that a visit to this year's MIPTV made him think carefully about HIT's image. "I certainly want HIT to become a creative company again. At MIP, I felt we had lost a bit of presence there.

Talking to people in the creative community there was a sense that we are only interested in our own shows and brands. That's not the case. We have to open our arms wide to embrace the creative community, for them to bring their ideas to us and help them get them made." Orton says he is looking on both sides of the Atlantic for a new chief executive and describes the ideal candidate as, "Someone with experience of running a channel, who can marshal and stimulate a creative team, and is also a smart businessman." So, CVs in the post please. HIT is taking its new guise as production company/broadcaster so seriously that it wants to launch similar channels, in partnership, outside the US. Orton confirms: "Instinctively, HIT will wish to take it outside the US. Where there's a chance, we might ... find the right partner and do it (launch a channel) all over again in different countries." Although HIT is rumoured to be considering launching a channel in the UK, Orton makes it sound unlikely. With the CBeebies free-to-air offering already having a grip on the pre-school market, it would be extremely hard for a subscription model to take off. Orton has no problem with CBeebies' position, calling it "one of the strongest pre-school digital channels in the world. In fact, it was the model we decided to take to the US when we started discussions with PBS." With HIT's shows already doing well on CBeebies, as well as on ITV, Five and Nick Junior, the company also has no obvious lack of outlets. HIT is also investigating broadcasting its shows over broadband internet, although Orton agrees technology remains a limitation. "Now broadband is too slow - but when someone works out how you can get a show through instantly, we want to be there ready." Broadband could also help HIT develop a video-on-demand (VOD) business in the UK, something Orton is keen on, having seen it work in the US. "We're looking at VOD with great interest in this country. In the US, we tested it in 10 cities with a limited VOD offering. We were concerned it might have a negative impact on our DVD and video sales, but were interested to see that in those cities with VOD, our DVD and d video sales increased." While new technology is interesting for HIT's longer term future, the immediate concern is making new shows - Orton says the company has 15 shows in development, with four going on to pilot - and also relaunching Bob the Builder. Revenues from the character fell 36% over the past year and now account for a quarter of HIT's income. With a new series in production called Build it Bob, in which Bob is tasked to build an entire town, Orton is confident Bob has a strong future. He says a fall in revenues is natural for such a mature property and draws a comparison with Barney the dinosaur. "The same thing happened to Barney. In its first year under Lyrick, it did \$300m (£161m) income and \$100m (£54m) profit. Then, sales fell away dramatically. The interesting thing about Lyrick is that it was able to build the brand back and Barney is now enormously successful in all US homes." He says Bob is following the same pattern. "It has grown very rapidly and then comes off about 35%. It's an expected trend. You just need a plan to get it back and our plan is Build it Bob." Another key part of Bob's recovery plan is the shift in the master toy licence from Hasbro to RC2. Orton says the idea is to develop Bob into the top-of-mind construction toy for kids. Orton states: "We would like Bob to become the vehicle for children to play with and enjoy construction activities, just like Thomas is for trains." As HIT tries to repeat its success with Bob, Orton is aware that kids programmes are a creative lottery. HIT had high hopes for its bedtime animation show Rubberdubbers, but, while performing respectably on television, it did not deliver in terms of merchandising and licensing. When it comes to picking a winner, Orton says no one can tell which shows have what he calls the "fairy dust" on them. "Jim Henson didn't know, Walt Disney didn't know, I certainly don't know. What you have are instincts - you put the show on and hope kids get it. If kids get it, parents will watch with them and very occasionally it will then break out of TV and become something bigger." Orton is clearly a man who enjoys risk. When he finds a chief executive, he is looking forward to spending more time on a suitable hobby for a high-roller - breeding national hunt racehorses. Ominously, given the bumpy fortunes of the show, he has named one of his horses Rubberdubber. As we say goodbye, Orton advises a bet when it runs at Exeter later that afternoon. "Worth a tenner on the nose," he winks. Lucky I didn't. It came third.

HIT AND PBS US KIDS CHANNEL LAUNCH - HIT will invest \$32m (£17m) over five years for its 30% stake in the 24-hour channel, while Comcast will invest \$43m (£23m) and take a 40% stake. Sesame Workshop and PBS will each own 15%. - Orton says the name of the channel is a "highly held secret" and will be announced in the new year. It will go live in September 2005, with more than 4,000 episodes of programmes such as Thomas & Friends and Teletubbies. - In securing the deal, HIT now has

a much closer relationship with PBS, and all three of its key brands, Bob the Builder, Thomas the Tank Engine and Barney will be showing on PBS from the start of 2005. - A report by Investec Securities estimates that the channel will break even by year three, and be making a \$45m (£24m) profit by 2015 on revenues of \$92m (£49.5m). - Investec values the new channel at £220m, with the value to HIT being £67m. In terms of subscribers, Investec says it could have 10 million in year one, levelling off at 60 million after 10 years.