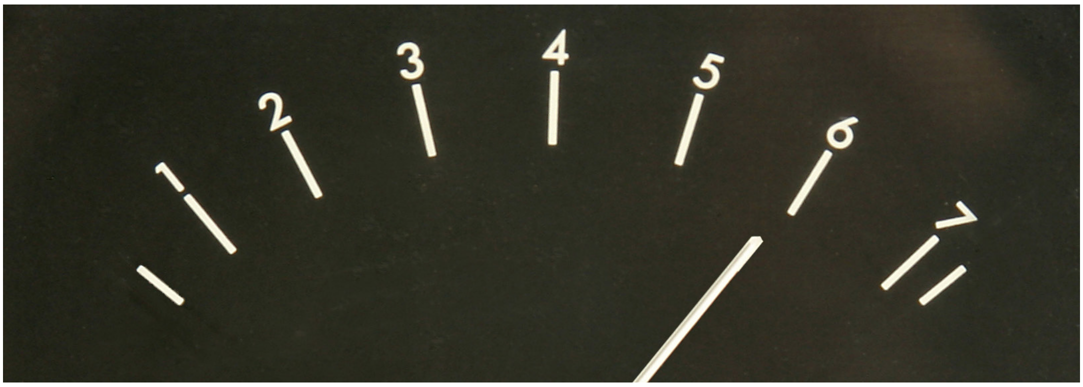
S&P Global
Ratings

Industry Top Trends 2021

Media and Entertainment

Sector Under Pressure From Secular Trends And Pandemic Fallout



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What's changed?

Sector recovery depends on a COVID-19 vaccine. Even with potential widespread availability of vaccine by mid-2021, out-of-home (OOH) sectors are unlikely to fully recover before 2022 while advertising sectors should return to growth in 2021.

The pandemic accelerates secular trends. The pace of decline of linear TV and shift of advertising to digital platforms has accelerated as a result of the pandemic.

Regulatory risk is rising. Large tech companies globally face the greatest focus on antitrust/market power in the U.S. and China. Increasing pressure to alter Section 230 of the U.S. Communications Decency Act appears to be bipartisan.

What are the key assumptions for 2021?

Global recovery. S&P Global Ratings assumes at least one COVID-19 vaccine will be widely available by mid-2021.

Advertising recovery follows economic recovery. Global recovery in advertising will be led by a return to double-digit percentage digital ad spending growth. Advertising in traditional media will return but not reach pre-pandemic performance for years.

Still only limited visibility for recovery of the OOH sector. Consumer fears about returning to larger public events will delay any return to normalcy until 2022.

What are the key risks around the baseline?

Resurgence of the pandemic. A significant increase in global COVID-19 cases leading to renewed lockdowns and delays in the development of a viable vaccine could result in economic contraction.

Rapidly changing media ecosystem. Increasing audience fragmentation, expanding streaming options, and accelerating declines in traditional linear TV will accelerate evolution to a streaming centric-media universe.

Increasing regulatory scrutiny. Regulatory pressures on social media are likely to increase costs for companies but not affect business models.

Ratings trends and outlook

Global Media and Entertainment

Chart 1

Ratings distribution by region

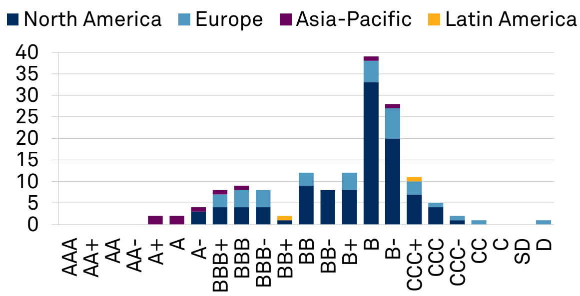


Chart 2

Ratings distribution by subsector

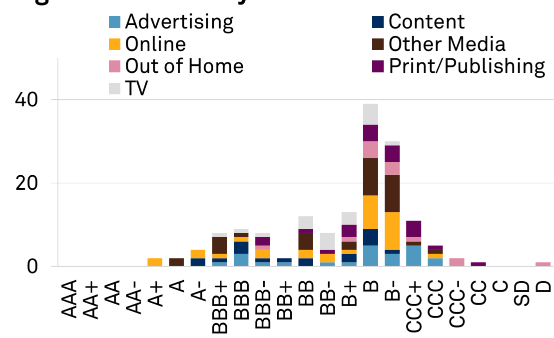


Chart 3

Ratings outlooks by region

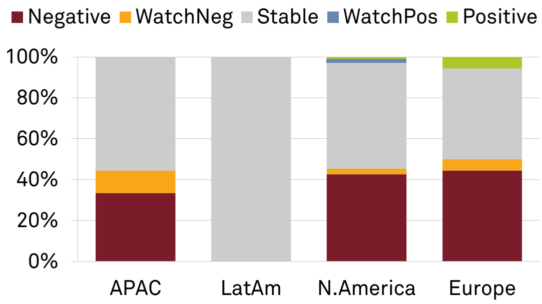


Chart 4

Ratings outlooks by subsector

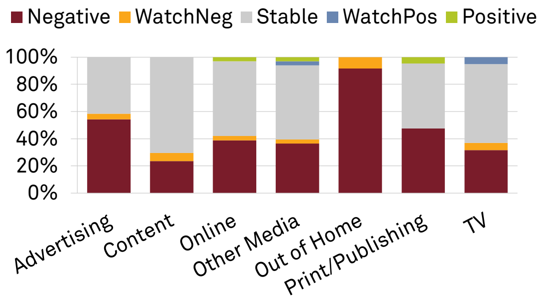


Chart 5

Ratings outlooks net bias by region

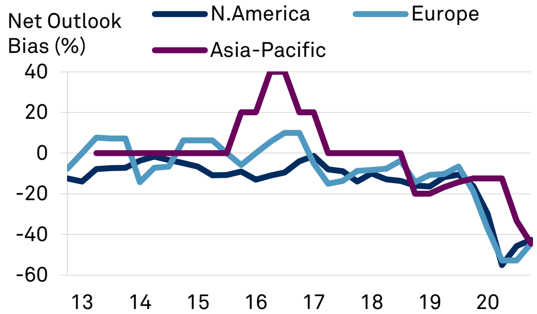


Chart 6

Ratings net outlook bias by subsector

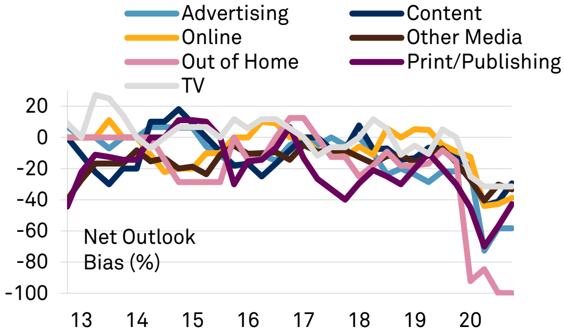


Chart 7

Ratings outlooks

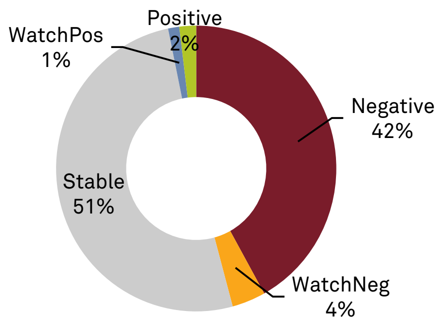
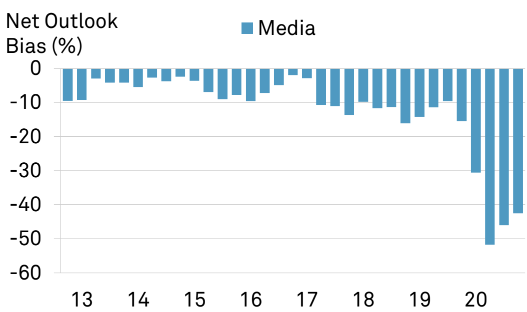


Chart 8

Ratings net outlook bias



Source: S&P Global Ratings. Ratings data measured at quarter end. Data for Q4 2020 is end October, 2020.

Shape of recovery

Table 1

Sector Outlook Heat Map

	Sensitivities And Structural Factors			Shape Of Recovery			
	COVID-19 Sensitivity	Impact If No Vaccine In 2021	Long-Term Impact On Business Risk Profile	Revenue Decline – 2021 versus 2019	EBITDA Decline – 2021 versus 2019	Revenue Recovery To 2019 Levels	Credit Metric Recovery To 2019 Levels
Data/professional publishers	Low	Low	Neutral	>=2019	>=2019	Little impact	Little impact
Video gaming	Low	Low	Positive	>=2019	>=2019	Little impact	Little impact
Music publishing	Low	Low	Neutral	>=2019	>=2019	Little impact	Little impact
Streaming services	Low	Moderate	Positive	>=2019	>=2019	Little impact	Little impact
Local TV stations	Low	Moderate	Neutral	0%-10%	0%-10%	1H 2021	Little impact
Broadcast networks	Moderate/ low	Moderate	Moderate	0%-10%	0%-10%	2021	2021
Cable TV networks	Moderate/ low	Moderate	Negative	10%-20%	10%-20%	2021	2021
Radio stations	Low	Low	Moderate	10%-20%	10%-20%	Never	2022
E-commerce (non-travel)	Moderate/ low	Low	Neutral	>=2019	>=2019	2021	2021
Ad-supported online content platforms	Moderate/ low	Moderate/ low	Positive	>=2019	>=2019	Little impact	Little impact
Ad agencies/marketing services	Moderate/ low	Moderate	Neutral	0%-10%	0%-10%	2H 2021	2021
Printing	Moderate	Moderate	Neutral	10%-20%	10%-20%	Never	2022+
Educational publishing	Moderate/ high	Moderate	Neutral	10%-20%	10%-20%	Never	Never
Magazine and newspapers	Moderate/ low	Moderate/ low	Neutral	20%-30%	30%-40%	Never	2022
Outdoor advertising	Moderate/ high	Moderate	Neutral	20%-30%	>=50%	2023	2023
Film and TV programming production	Moderate/ high	High	Neutral	10%-20%	10%-20%	2022	2022
Trade shows and conferences	High	High	Neutral	>=50%	>=50%	2023	2023
Motion picture exhibitors	High	High	Negative	>=50%	>=75%	2022	2022
E-commerce (travel)	High	High	Neutral	>=50%	>=90%	2023	2022+
Live events	High	High	Neutral	>=40%	>=40%	2022	2023
Theme parks	High	High	Neutral	>=50%	>=90%	2022+	2023

Source: S&P Global Ratings.

S&P Global Ratings believes there remains a high degree of uncertainty about the evolution of the coronavirus pandemic. Reports that at least one experimental vaccine is highly effective and might gain initial approval by the end of the year are promising, but this is merely the first step toward a return to social and economic normality; equally critical is the widespread availability of effective immunization, which could come by the middle of next year. We use this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

This report does not constitute a ratings action.

Out of Home Entertainment

Ratings trends and outlook

Government-imposed lockdowns and social-distancing measures to slow the spread of the COVID-19 virus have significantly affected the OOH entertainment sector, which includes movie exhibitors, theaters, and live events companies that manage sports events, trade shows, conferences, and concerts. Our view of the path to recovery remains at best uncertain despite the prospect of the widespread availability of a vaccine by mid-2021. We believe many OOH companies, most notably movie exhibitors and events organizers, will take longer to recover to pre-COVID-19 performance, if ever, because consumers may be reluctant to venture into public venues even after a vaccine is available and broadly distributed. And, as a result, they may not reach pre-COVID-19 credit measures until 2022 at the earliest. This is a concern because the capital structures of many cinema operators and events organizers are unsustainable without a significant change in conditions, and they may be forced to seek additional sources of liquidity or even restructure.

Our ratings bias for OOH-focused media companies remains negative with the potential for additional negative actions without improvement in the operating environment. Those most at risk are companies with riskier credit profiles (high debt, short maturities, tight covenants, depleted liquidity sources), and thus with less time on their hands to wait for business to return to normal. Hence, we expect conventional defaults and debt restructurings for a number of issuers, especially those we rate in the 'CCC' category.

Main assumptions about 2021 and beyond

1. Despite a vaccine by mid-2021, OOH won't recover until 2022.

Even with a broadly available vaccine, lingering consumer fears about returning to large public events will delay any return to normal or permanently alter sector dynamics.

2. Movie exhibitors will not recover to pre-COVID-19 revenue and cash flows until at least 2022.

Global cinema attendance will recover slowly in 2021 due to the ongoing pandemic, continued delays of film releases by major studios, and the risk of additional lockdown measures. Attendance will also remain constrained by consumers' health and safety concerns and social-distancing measures that remain until a vaccine is widely available.

3. Face-to-face conferences and trade shows are unlikely to return at scale until late 2021.

Many in person events will not restart before spring, with big international shows not returning until late 2021 (the exception being live trade shows and exhibitions in China and other parts of Asia over recent months). We expect prolonged pressure on the exhibitions industry until the pandemic is contained, social distancing and travel restrictions are largely lifted, and attendees feel safe to travel or attend big physical events.

Movie theaters will not recover to pre-pandemic attendance and operations until 2022. Cinemas in several major markets, notably North America and Europe, remain under severe capacity limitations due to reimposed government lockdown measures to curb the resurgence of COVID-19. Even without them, many cinemas have closed because of a lack of major film releases. We anticipate cinemas could reopen after these restrictions are lifted in the first quarter of 2021, and global attendance will start recovering once a vaccine is widely available. However, operating conditions will remain tough at least until 2022 due to ongoing social distancing, consumers' health and safety concerns, and risks of further delays of releases by film studios, which largely drive movie attendance and exhibitors' revenue, profits, and cash flows.

The 2021 film slate looks strong, with a glut of tentpole blockbuster releases that studios delayed since the start of the pandemic. We believe tentpole films likely won't be released until a vaccine or treatment is widely available and it's clear consumers will return to theaters en masse as studios don't want to jeopardize monetary success. As in the third and fourth quarters of 2020, some exhibitors could choose to keep their circuits closed until new tentpole films are available for release. Otherwise they would risk burning more cash while operating theaters at attendance below what would make them profitable.

We also think cinema attendance will remain constrained by consumers' health and safety concerns until there is an effective treatment or vaccine widely available, which could be mid-2021. Hence, we forecast attendance and global box office revenue will be at least 50% lower in 2021 than in 2019, and will not restore until 2022, if ever.

The events industry will be slow to return to pre-pandemic performance. It has suffered greatly in the pandemic and measures to contain it. These include restrictions on public gatherings, travel, and social distancing, as such events normally include large numbers of people in indoor spaces. We don't believe the situation will improve significantly in the near term, although some physical events returned in some parts of Asia, which has been better at controlling the pandemic. Still, we don't anticipate the return of big international face-to-face exhibitions, which require travel and hotel stays, at scale until late 2021 and still at reduced attendance (50%-60% below 2019 in terms of sales). We don't expect the industry to return to pre-pandemic levels until 2023, when travel and supporting infrastructure is largely functioning normally.

Credit metrics and financial policy

It will take until 2022 and beyond for issuers we rate to significantly improve profitability, cash flows, and credit metrics from a very weak 2020. OOH companies faced unprecedented pressures on operating performance as earnings turned negative, rapidly deteriorating credit metrics and ballooning leverage. It will likely take a long time for OOH operators, especially movie exhibitors, to improve profitability and cash flows, which were under pressure from additional costs of enhanced cleaning and health and safety measures, deferred rent payments, and higher interest costs of incremental borrowing.

Key risks or opportunities around the baseline

1. COVID-19 vaccine and immunization delayed beyond mid-2021.

The main risk remains the inability to prevent the resurgence of COVID-19 before a vaccine becomes widely available, which could lead governments to extend national lockdowns and social-distancing restrictions. A delay in the widespread rollout of a vaccine beyond our mid-2021 expectation and inability to achieve widespread immunization could lead us to lower our base-case assumptions. Equally, a quicker finalization and distribution of a vaccine could represent upside to our forecasts.

2. Secular challenges to the movie exhibition industry intensify.

Despite the impact from the pandemic, we believe theaters remain the best option to fully monetize blockbuster, tentpole films. But risk is increased that major studios could push to change the traditional theatrical release window over the medium term, especially for small to midsize titles they could release on premium video on-demand (PVOD).

3. Events industry hit hard but still viable in the long run.

Unlike movie exhibitors already undergoing secular pressures, we believe the events industry still has some aces up its sleeve. The most vulnerable segment could be conferences, which are easier to adapt to the online space or a hybrid model–partly virtual, partly physical. Even though conferences will not disappear, absolute earnings capacity will likely shrink. The hardest hit segment—physical trade shows—is more likely to return to pre-pandemic performance and resume growth, as there is still demand for the social interaction between exhibitors and customers, to see and touch products.

Shortening the theatrical release window and more releases on PVOD are likely. We believe theaters remain the best option to fully monetize big-budget films (those with expectations for global box office receipts of over $500 million), even with the increased prevalence of direct-to-consumer (DTC) platforms. This is because studios need to fully monetize their considerable investments in producing and marketing such films, which can only be done at scale. Studios in 2020 delayed large films, such as Walt Disney Co.'s "Black Widow", "Metro-Goldwyn-Mayer Studios Inc.'s "No Time to Die", and Warner Bros. Entertainment Inc.'s "Dune", instead of releasing them as PVOD rentals or placing them on streaming platforms (SVOD).

Movie exhibitors have always strongly opposed changes to the traditional 90-day theatrical release windows. However, with the industry struggling because of the pandemic, they do not have the same negotiating leverage they once had. In 2020, studios released more small and midsize titles directly through PVOD. We believe it is inevitable over the next couple of years that the theatrical release window will shrink or become more flexible. As most box office receipts occur in the first three weeks after release, we don't expect a moderately shorter or flexible window to significantly weaken theaters' competitive positions. However, box office revenues could be cannibalized if the window becomes too short and customers are more willing to wait for release in-home.

Internet/Online (E-Commerce)

Ratings trends and outlook

Ratings for online companies were relatively stable through the pandemic, with negative actions concentrated in online travel (Expedia Group Inc. downgraded to 'BBB-/Negative/--' and the outlook on 'A-' rated Booking Holdings revised to negative from stable). We expect some volatility in month-to-month travel trends over the next 6-9 months with meaningful improvement in travel volumes contingent upon availability of an effective vaccine. Most online companies benefit from an asset-light business model and variable cost model with good cash flow conversion and adequate liquidity to manage their businesses through the somewhat challenging, albeit recovering economic environment over the next six months.

Main assumptions about 2021 and beyond

1. A secular shift will continue to fuel online investments as subscription services increasingly become ubiquitous.

Change in consumer preference toward online media will continue to drive innovation and experimentation with new business models, and pressure traditional media companies to find sustainable online models and increase customer engagement globally. Indeed, most media companies—including print, radio, and television—have experimented with online models with varying success. We expect the transition will continue to disrupt traditional businesses that do not innovate to remain relevant. Further, consumers are increasingly willing to pay for subscriptions to services and products, fueling the growth of new business models.

2. Digital advertising will continue to gain share.

The ongoing secular shift will continue to drive outsize growth in digital advertising. Further, digital advertisers will continue to increasingly personalize and target advertisements by harnessing algorithms and data as consumers increase time spent on mobile and video viewership. We expect digital advertising in the U.S. will return to mid-teens percentage growth in 2021. Further, in China, users spending more money and time online, consumption-led economic growth, and rising monetization of the user base mean significant long-term growth potential for online ad spending, tempered by an already high penetration of online advertising spending.

Online services are becoming ubiquitous. Consumers are increasingly paying for online services, digital subscriptions, and utilizing online marketplaces. Social-distancing measures imposed because of the pandemic have further accelerated the shift from offline to online. We expect this trend to continue to support the growth of several rated online companies, including Match Group Inc., Buzz Finco LLC (Bumble), Surveymonkey.com, IAC/InteractiveCorp, and Angi Homeservices Inc. Further, companies such as Auction.com, Cars.com, and Red Ventures LLC whose earnings are volatile due to shutdowns, moratoriums, or a change in the economic environment are also likely to benefit from a resurgence in demand over time as they adjust their business models.

Double-digit percentage digital advertising growth is expected to continue. We expect digital ad sales will account for over half of total global ad sales by 2022, supported by a widening user base and increasing time spent online. Advertising on mobile, social media (especially using video), and podcasts represent the fastest growth areas. We expect these trends will continue to support secular growth in digital advertising, driven by advertisers reallocating spending from other channels, and the increasing adoption of digital performance-based advertising by small and midsize enterprises and online business-to-consumer companies, bringing in new dollars toward digital advertising. We expect U.S. digital advertising to increase at a mid-teens percentage rate in 2021.

In China, the rising adoption of online consumption and services—including online grocery shopping—and increasing variety of targeted advertising formats such as recommendation feeds, live streaming, and short-form video should drive online advertising spending growth in the mid-teens percentages despite its high penetration. China's online advertising spending accounts for more than 60% of the total. We expect digital advertising spending growth will recover to mid-teens percentage growth in 2021, up from low-single-digit growth in 2020 as the broader economy recovers from COVID-19.

Credit metrics and financial policy

We expect overall leverage for online companies to decrease in 2021, even as subsectors such as online travel agencies are affected by temporary disruptions from the COVID-19 pandemic. We expect all online companies to return to solid revenue growth in 2021. EBITDA growth and margin expansion will be stronger for many as a result of cost-management initiatives. We expect some companies will pursue acquisitions and special dividends on solid operating performance, which could moderately increase leverage.

Key risks or opportunities around the baseline

1. The COVID-19 pandemic poses uncertainty.

Despite a boost in the consumption of online services, a significant increase in COVID-19 cases worldwide prompting additional lockdowns and delays in scientific breakthroughs needed to effectively prevent and treat the virus could result in economic contraction and slow revenue growth for digital advertising companies as well as for certain online services companies that rely on an offline ecosystem to complete their transaction.

2. Regulatory risks are elevated.

Risks related to antitrust and content moderation on the largest online companies in the U.S., Europe, and China has increased. We expect this to keep legal and compliance related costs elevated. Online companies will likely continue to increase investments to ensure the content on their platforms meets community guidelines, complies with regional data privacy and localization rules, and tailored to jurisdictional requirements. Further, increasing antitrust scrutiny reduces the potential for the larger players to pursue meaningful M&A. Additionally, U.S./China trade tensions have resulted in more U.S. regulatory actions against Chinese internet and technology companies. We believe this will have a limited effect as most of their revenues are still concentrated in China.

3. Competition and slower spending growth pressure smaller internet platforms in China.

Competition remains intense with the large internet players—Baidu Inc., Bytedance Ltd., Alibaba Group, Tencent Holdings Ltd.—increasing online advertising revenues even as spending growth slowed significantly in 2020. As a result, revenue for smaller internet media platforms, such as Weibo, declined during the year. A recovery in 2021 could help drive a recovery, but smaller internet platforms could face an uphill battle to restore growth back to historical rates.

Competition for the largest companies is increasing. In the U.S., Alphabet Inc. and Facebook Inc. face meaningful competition from Amazon.com Inc.'s digital advertising business, which has expanded rapidly from its position as the largest online retailer globally using user search queries, its relationship with advertisers that might also be sellers on its platform, and its first party shopper data. In addition, Snap Inc. has stellar user engagement, particularly in the younger demographic, and revenue growth although it remains small compared to larger digital advertising players.

Tencent, Alibaba, Bytedance, and Baidu control a sizable share of digital advertising revenues, and their lead is expanding in China. However, China is stepping up its scrutiny of monopolistic behavior with regulators publicizing a new draft law to target anti-monopoly behavior in November. This could possibly slow expansion efforts for the large internet companies.

Content

Ratings trends and outlook

Our two-year ratings outlook for those media companies focused on content creation and ownership is increasingly negative. This view predates the COVID-19 pandemic as secular pressures on the traditional media industry from audience fragmentation and shrinking audience viewership has been expanding since Netflix Inc. launched its streaming platform. However, we believe the pandemic has accelerated the negative trends, especially as many traditional media companies focus on their own streaming platforms. For most, the DTC streaming distribution model is still in its early stages of deployment. Until these services build scale, revenue generation will lag rising spending on new content at least for the next few years. As a result, those media companies attempting the pivot will likely face declining profitability and cash flow until revenues catch up to costs. For those with scale in both content and distribution, the long-term rating outlook is positive. For companies lacking either, or the financial capabilities to build both, the ratings trajectory is strongly negative.

Main assumptions about 2021 and beyond

1. Spending on content will increase dramatically from a depressed 2020.

We expected global content spending would ramp up significantly in 2020, driven by media companies launching or expanding video streaming services. This was interrupted by the pandemic as TV and film studios were closed and projects halted. As lockdowns relaxed, media companies resumed producing most TV shows and movies. We expect content spending in 2021 to surpass 2019 spending, unless a resurgence in the pandemic leads to new lockdowns. We expect these new video streaming services will have negative cash flow for many years as content spending, along with marketing and tech costs, will surpass revenues until these new services achieve sufficient scale.

2. Decline of linear TV ecosystem will accelerate.

The decline of traditional linear TV is no longer a U.S. phenomenon, but has been accelerating worldwide the last few years. We expect the rate of decline to accelerate as a result of the global pandemic due to the halt of new content production and the availability of new DTC streaming services. In the U.S., we expect pay-TV subscribers to decline at a high-single-digit percentage annual pace, with total subscribers (excluding those who subscribe to virtual operators) declining to about 50 million by 2024.

3. New DTC service launches will continue around the world.

Besides the well-publicized launches by U.S. media companies (the rebranding of CBS All Access as Paramount+, Disney's launches of Star and Disney+ in selected international markets, and Discovery Inc.'s relaunch of its streaming platform), regional operators will also launch their own local language streaming services. We believe these services could have a greater impact on the local TV ecosystem by cannibalizing local viewing.

Scale in content and distribution is needed. Maintaining a well stocked streaming service is not cheap. It requires enough new content that appears on a regular basis to attract new subscribers and a sufficient library to keep customers interested while they wait for new content. In addition, there are significant start-up costs associated with development and maintenance of the actual platform and marketing and customer service. We believe successful general entertainment DTC streaming services will need scale in both subscribers and content to reach profitability. Until media companies reach scale, profitability and cash flows will be under increasing stress. Smaller regional content companies, in particular, are disadvantaged because they generally lack the breadth and financial resources to achieve that scale. We have already taken a number of rating actions and reassessments, including revising our business risk profile (though not lowering the rating) on AMC Networks Inc., revising our outlook on U.K. broadcaster ITV PLC to negative from stable, and revising our stand-alone credit profile for Brazil's largest media conglomerate, Globo Comunicacao e Participacoes S.A., to 'BB+' from 'BBB-'.

Credit metrics and financial policy

Credit metrics are likely to weaken for most media companies over the next few years, with pressure on EBITDA and cash flow resulting in higher leverage and weakened cash-flow-to-debt metrics. The degree will depend not only on the financial choices made by each company but also on the pace of broader secular changes in the media ecosystem, in particular the decline of the linear TV model and the evolution of the theatrical ecosystem. Most media companies depend on revenues and cash flow from these media sectors to offset depressed cash flows from their streaming initiatives.

We believe financial discipline is key to managing credit metric pressure. This manifests itself in the discipline to both control programming spending and manage shareholder expectations for share repurchases and share dividends. We expect many media companies will limit shareholder returns in favor of increased internal investments.

Key risks or opportunities around the baseline

1. Pandemic resurgence could lead to another closure of content production.

The success of any streaming service depends on adding of new content to attract new subscribers. New content production ground to a halt during the pandemic, potentially hurting subscriber growth for newly launched streaming services. At the moment, production of new television shows and movies has generally resumed globally, though that may be at risk as COVID-19 cases rise and governments consider reimposing lockdown measures.

2. Lack of DTC success will be coupled with an accelerated decline in traditional linear TV.

While more media companies attempt to make this strategic pivot to a streaming-focused world, not all will succeed. We believe niche DTC services, which have a shorter path to profitability, lack the scale to generate sufficient revenues and cash flow to make up for losses in the traditional linear TV model.

3. M&A opportunities further enhance intellectual property/content libraries.

We believe there are numerous opportunities for media companies to acquire monetizable intellectual property or film and TV libraries. However, many media companies are either focused on using their balance sheets to fund internal investments or lack balance sheet capacity to pursue these opportunities. In addition, we believe there are significant valuation gaps between buyers who may only want to purchase content libraries and sellers who still see value in their legacy TV networks.

Content will be increasingly prioritized to streaming services over traditional distribution. We expect the ongoing pivot by media companies toward a streaming-focused model will change how they prioritize distribution. We believe traditional distribution media, such as linear TV and theatrical releases, will become less strategically important. Instead, we expect to see new original content distributed first on streaming platforms and secondarily on traditional platforms. We have already seen this in the U.S. with changes to the theatrical release window, not just the shortening of that window but also with films skipping theatrical release altogether. While this will benefit the streaming model, it will help accelerate the decline in the tradition distribution model and put additional stress on revenues and cash flow.

Advertising

Ratings trends and outlook

Traditional advertising companies (TV, radio, outdoor) highly dependent on advertising revenue fared worse through the pandemic and resulting recession than digital advertising companies. Advertisers pulled back on brand spending and focused on more measurable digital performance marketing spending.

Still, our ratings on U.S. local TV broadcasters are largely unchanged due to revenue diversity that includes record 2020 political advertising and retransmission, offsetting significant core advertising declines. On the other hand, we lowered our ratings for most pure-play radio broadcasters and outdoor advertisers near the outset of the pandemic, reflecting their significant advertising exposure and our expectation that leverage and cash flow would materially weaken.

We expect TV, radio, and outdoor advertising spending will improve sequentially quarter to quarter throughout 2021. While we expect TV and outdoor advertising spending will return to pre-pandemic figures by the end of 2021, radio will have a difficult time fully recovering due to ongoing secular pressures.

Main assumptions about 2021 and beyond

1. U.S. advertising recovers to pre-pandemic performance in 2021 due to digital growth.

We expect advertising to begin recovering in earnest in 2021, and by the end of the year total ad spending will equal that of 2019. However, we credit this rapid recovery solely to digital advertising, which will return to its torrid double-digit percentage annual growth rate after a somewhat soft 2020 (only expanding 5%). Excluding digital, traditional advertising (linear TV, radio, outdoor, print) will increase just 6.9% in 2021 and recover to 85% of 2019 performance (benefitting from the Tokyo Summer Olympics, which was delayed from 2020). Within traditional media, we expect linear TV will climb back to 95% of 2019 and outdoor will recover to 90%. We expect radio will recover to 90%, then resume declining at a low-single-digit percentage rate.

2. Digital video advertising offsets continued linear TV viewership weakness.

Major media companies' investment in digital video advertising capabilities will help mitigate declining linear TV viewership and reduced audience reach. However, large advertisers looking for national reach and sensitive to experimenting with online channels due to reputational concerns continue to utilize television advertising given its significant reach, providing some stability.

3. Outdoor advertising will likely make a full recovery by 2022, though transit will significantly lag billboards.

We expect outdoor advertising will recover once an effective vaccine is widely distributed and audiences approach pre-pandemic sizes. In the meantime, we expect traditional large format U.S. billboards in smaller markets will continue to perform better than those in larger markets where coronavirus protocols and government shutdowns are most prevalent. Transit and airport advertising performance will significantly lag the recovery of billboards. We do not expect a full recovery until the population feels safe flying and using public transportation, approaching pre-pandemic ridership.

Increasing digital media consumption will shape the recovery for European media houses. During the first half of 2020, advertising demand in Europe, in particular Western Europe, sharply declined due to lockdown measures and a steep drop in economic activity and advertising spending. TV and radio advertising revenue declined 35%-50% in the second quarter versus the same period in 2019, while digital only declined 10%-15%. While advertising revenue started recovering in the third quarter, we believe demand for traditional TV and radio advertising in 2021 will remain below that of 2019.

Margins might weaken due to higher investment in content and digital offerings. Accelerating shifts in media consumption from traditional channels such as TV and radio toward digital will shape the recovery. While digital advertising demand will recover most of its losses in 2021, linear TV and radio will not likely return to pre-pandemic showings. Furthermore, broadcasters and diversified media companies will increase investments in digital and streaming services and related content, which will weigh on margins and free cash flow generation. As most rated companies are already producing content for local markets, we believe most of the efforts will need to go into information technology-related investments for platforms as well as customer acquisition measures to ramp up critical audience mass.

We also expect traditional broadcasters that significantly cut their programming spending in 2020 will invest more in content as the economic recovery and advertising spending picks up in 2021. While they may favor less capital-intensive nonscripted content, higher programming costs will likely dent margins despite higher revenues.

Credit metrics and financial policy

We expect U.S. TV broadcasters' leverage to remain relatively stable through 2021 as record political advertising revenue in 2020 offsets core advertising revenue declines. While leverage for radio and outdoor advertisers increased in 2020, we forecast radio and outdoor advertiser credit metrics will stabilize and improve as we lap the economic low point of the pandemic in the second quarter of 2021. Companies that made permanent cost reductions during the pandemic may generate pre-pandemic EBITDA before revenues recover.

Issuers that borrowed, cut dividends, or halted share repurchases to weather the uncertain impact of the pandemic will need to reestablish their financial policies as economic conditions stabilize. We expect companies that borrowed will look to reduce debt, and those that cut dividends or halted share repurchases will likely return or reinstate these plans, although they may use this as an opportunity to reassess cash flow and cash needs. Outdoor advertisers that cut dividends may retain them through 2021.

Key risks or opportunities around the baseline

1. A prolonged recession extends into 2021, and a viable vaccine gets delayed.

A significant increase in COVID-19 cases worldwide could lead to additional government-mandated lockdowns. Delays in widely disseminating an effective vaccine or treatment could stall economic recovery or bring economic contraction, leading to a slower and more uneven recovery for traditional advertisers and slow revenue growth.

2. Changing consumer behavior, including accelerated TV viewership declines and more working from home, could slow growth of traditional advertisers.

The pandemic, delays and cancellations of sporting events, and the proliferation of streaming services has helped accelerate declines in linear television viewing and advertising audiences in 2020. The decline could steepen over the next 1-2 years as consumers seek cheaper, more customizable options than the traditional cable bundle. Many have also adapted to a work-from-home lifestyle, which limits the recovery of transit advertisers. If this shift keeps ridership depressed though 2021, outdoor advertisers with exposure to transit in larger metro markets may have difficulty returning to pre-pandemic revenue by the end of 2021.

Resurging COVID-19 cases and longer lockdowns in Europe increase earnings pressure well into 2021. We see the main risks for 2021 to be resurging COVID-19 cases, continued lockdown measures, dented consumer demand, and slow economic recovery weighing on demand for traditional TV, radio, and to a lesser extent digital advertising. Increasing diversification into less cyclical businesses or a consolidation among TV broadcasters could relieve some earnings pressure for traditional outlets in the longer run. At the same time, a pick-up of acquisition activity is unlikely until companies repair their balance sheets, and it could increase rating pressure. Credit metrics of most traditional TV and radio broadcasters are already very stretched over 2020.

There could be an accelerated shift to digital advertising and on-demand viewing. While European TV broadcasters and radio stations have leading positions in their respective local markets, they are considerably smaller players in the digital space which they increasingly enter. Large global players such as Netflix, Amazon, and Apple Inc., are already present in most European markets, and new platforms are emerging. We believe this competition will make it more difficult for traditional media companies to maintain profitability. While some benefit from consumer preference for local language content, it could lead their digital offerings to hold more niche positions and limit opportunities for economies of scale.

European online classified ad platforms will recover quicker than traditional media players. They will benefit from an anticipated increase in demand for listings and digital advertising, following economic recovery in 2021. Thus, in our view, their revenues and earnings will rebound quicker than those of traditional media companies, supported by subscription-based contracts. In addition, online classified players will also benefit from a continuing shift of listings in real estate, car, and job search toward digital.

The competitive landscape will remain challenging in 2021, driven by rapidly evolving and changing technology, needs of customers and users, as well as users' preferences. Established vertical online classifieds platforms (focus on listings in one space, for example, cars only) are increasingly competing with smaller niche players and start-ups, as well as horizontal platforms, owned by large marketplaces such as Amazon, eBay Inc., or internet companies such as Google Inc. and Facebook. Better capitalized large players could invest more in marketing and development to get traction in markets of established players while smaller disruptive start-up online classified platforms could quickly adapt their models to changing customer and user preferences, gaining traction.

Related Research

- Reassessing The Pace Of Recovery For U.S. Media, Oct. 20, 2020
- Industry Top Trends Update: North America Media and Entertainment, July 26, 2020
- Strengthening Trends Underpin A Better Outlook For The U.S. Gaming Industry, July 24, 2020
- Rebooting The U.S. Media Sector In A Post COVID-19 World, June 10, 2020
- Pandemic And Recession Deal Blows To Credit Metrics Of U.S. Media And Entertainment Industry, June 10, 2020
- The COVID-19 Fallout Is Squeezing U.S. Advertising Spending More Than Expected, May 21, 2020
- S&P Global Ratings Cuts Its 2020 U.S. Advertising Forecast In The Face Of COVID-19, April 6, 2020
- COVID-19 Increases Pressure On Global Media & Entertainment Ratings, March 26, 2020
- How Does S&P Global Ratings Calculate Leverage For Major U.S. Media Companies? (2020 Update), March 5, 2020
- Amid Secular Pressures, Most U.S. Media Companies' Long-Term Prospects Have Diminished Somewhat, Feb. 19, 2020
- ESG Industry Report Card: Media And Entertainment, Feb. 11, 2020

Industry forecasts

Global Media and Entertainment

Chart 9

Revenue growth (local currency)

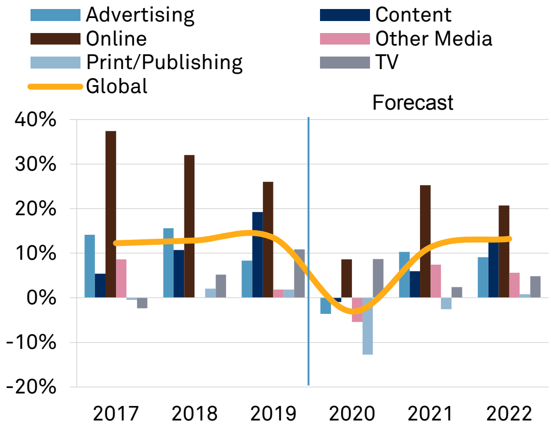


Chart 10

EBITDA margin (adjusted)

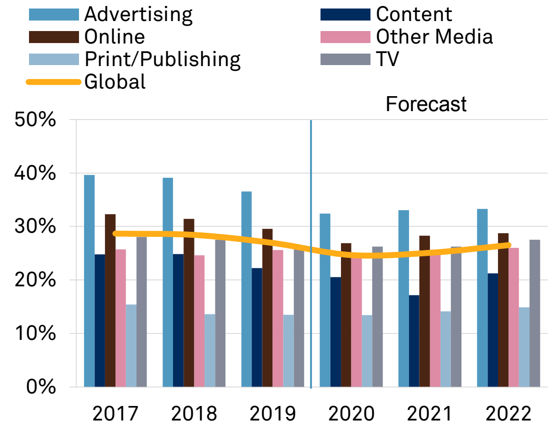


Chart 11

Debt/EBITDA (median, adjusted)

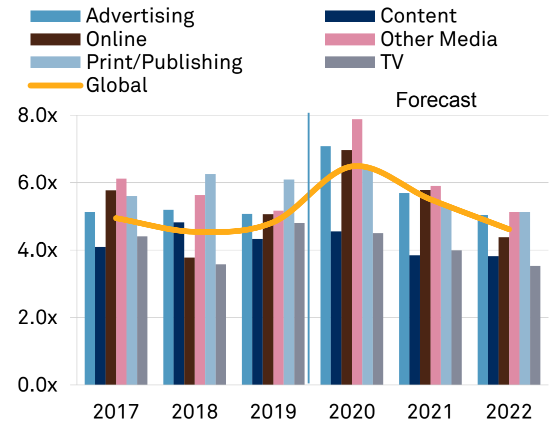
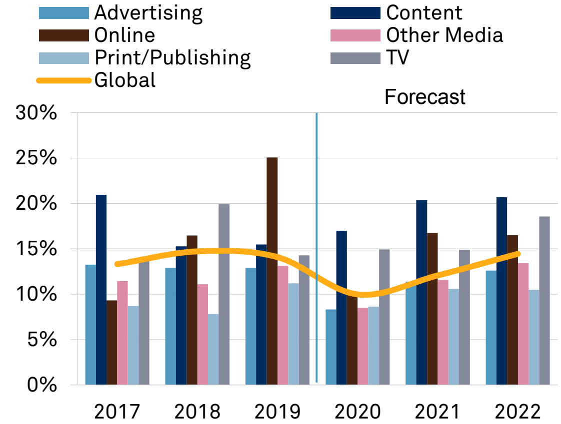


Chart 12

FFO/debt (median, adjusted)



Source: S&P Global Ratings. Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations.

Cash, debt, and returns

Global Media and Entertainment

Chart 13

Cash flow and primary uses

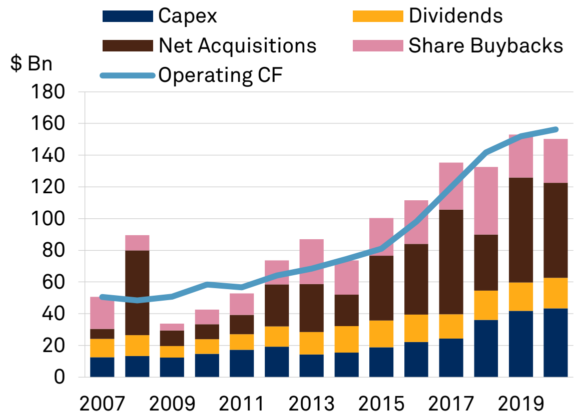


Chart 14

Return on capital employed

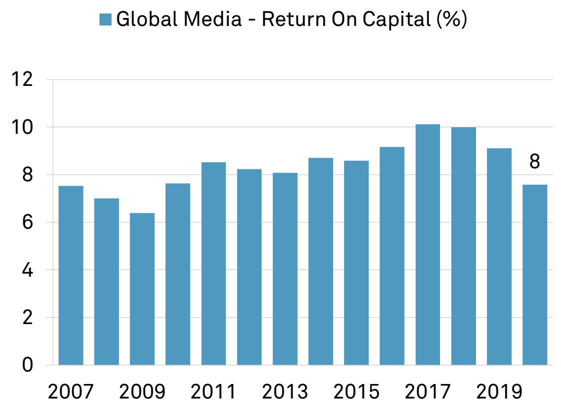


Chart 15

Fixed versus variable rate exposure

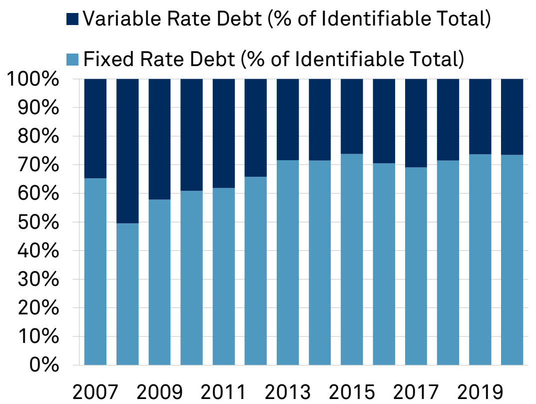


Chart 16

Long-term debt term structure

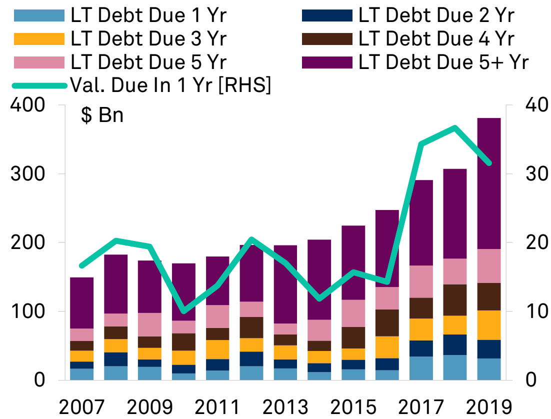


Chart 17

Cash and equivalents/total assets

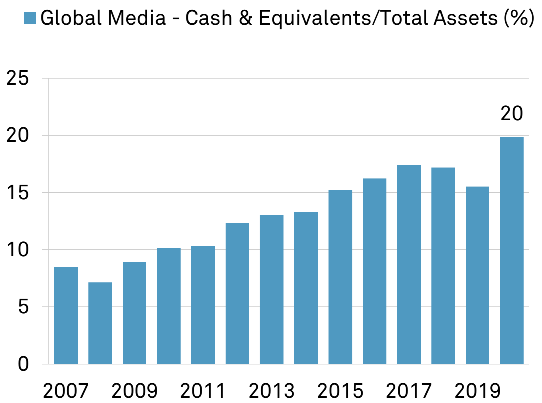
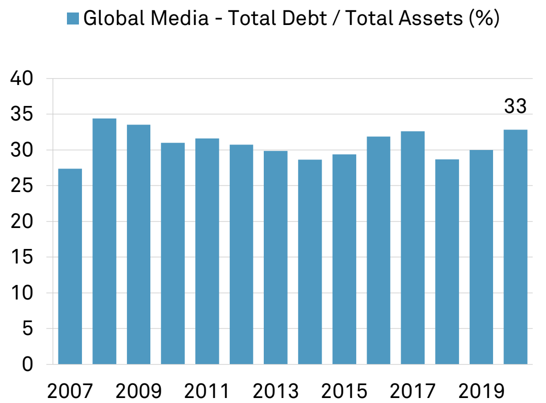


Chart 18

Total debt/total assets



Source: S&P Global Market Intelligence, S&P Global Ratings calculations. Most recent (2020) figures are using last 12 months data.

spglobal.com/ratings