S&P Global
Ratings

Industry Top Trends 2022

Media and Entertainment

Advertising Remains Robust While The World Focuses On Streaming

This report does not constitute a ratings action

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What's changed?

Streamers find it's not all rapid growth. COVID-induced production delays of new, original content have hurt new subscriber growth in recent quarters. To quote Jeff Hirsch (the president and CEO of Starz): "Streaming is very hard."

The pandemic accelerated secular trends. The shift to direct-to-consumer (DTC) content delivery and the decline of linear TV accelerated in 2021.

Advertising roars back. The global recovery in advertising has outpaced our previous expectations. In particular, advertising in traditional media has already, if not in 2022, reached pre-pandemic levels.

What are the key assumptions for 2022?

Global recovery. We assume global GDP will grow 4.2% in 2022, with 3.9% growth in the U.S., 4.4% in Europe, 1.9% in Latin America, and 5.1% in Asia-Pacific.

Economic recovery driving strong advertising. Global advertising will grow well ahead of GDP, led by continued double-digit percent digital ad spending growth.

Major U.S. media companies will spend over $100 billion on content just in 2022. This record spending is driven by media and tech companies' frenetic need to fuel growth in their video streaming services.

What are the key risks around the baseline?

Sharper macroeconomic slowdown. A sharp slowdown, high inflation, rapidly rising interest rates, or prolonged supply chain and production disruptions could hurt advertising spending.

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.

Resurgence of the pandemic. Production of new TV shows and movies has resumed globally, though that may be at risk as COVID cases rise again and studios consider pausing filming.

Ratings trends and outlook

Global Media and Entertainment

Chart 1

Ratings distribution by region

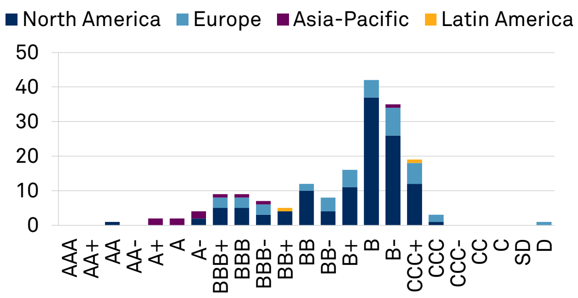


Chart 2

Ratings distribution by subsector

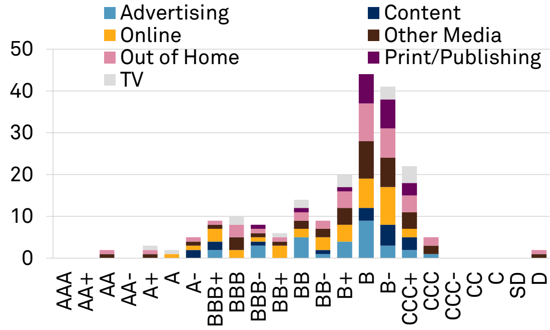


Chart 3

Ratings outlooks by region

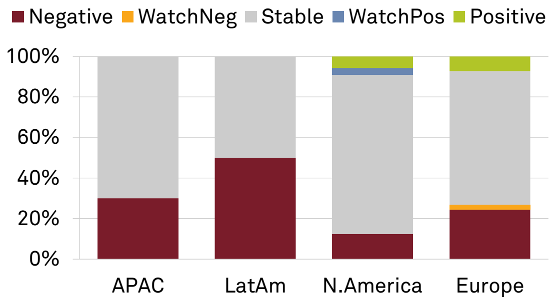


Chart 4

Ratings outlooks by subsector

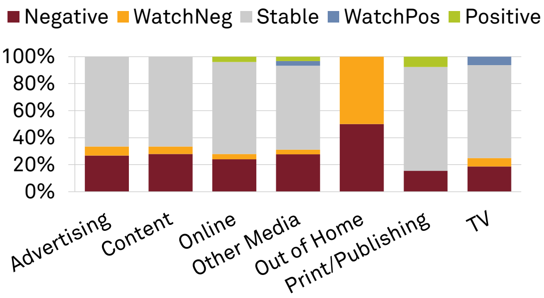


Chart 5

Ratings outlooks net bias by region

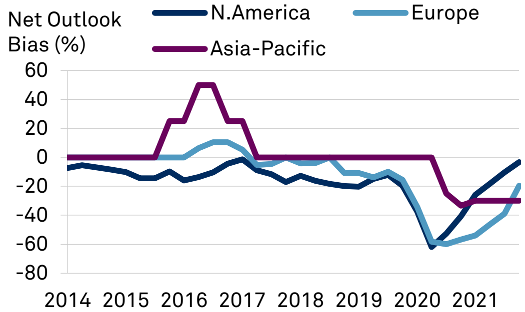


Chart 6

Ratings net outlook bias by subsector

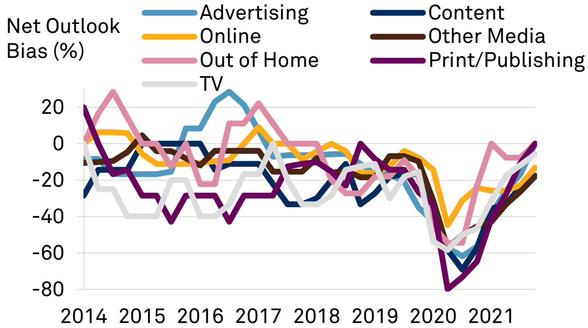


Chart 7

Ratings outlooks

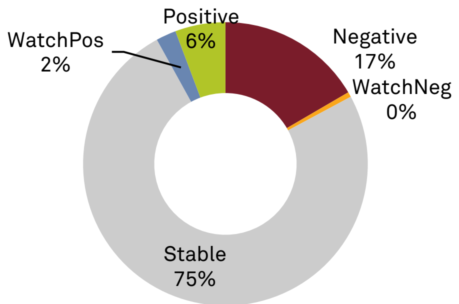
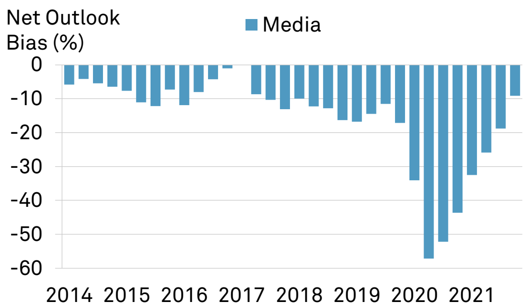


Chart 8

Ratings net outlook bias



Source: S&P Global Ratings. Ratings data measured at quarter end.

Content

Ratings trends and outlook

Our two-year ratings outlook for media companies focused on owning and creating film and TV content is biased negatively. We believe operating and credit metrics for rated film and TV studios will weaken over the next few years before improving over the long term. The economic model for studios is undergoing seismic changes, despite the fact that, by any standard, we are in a golden age of film and TV content creation. Media companies are green-lighting record numbers of new, original TV shows and movies for their DTC video streaming services. Both media companies and financial investors are pouring in money to not only finance these projects but also to acquire both intellectual property (IP) and smaller production studios. In addition, library content is in high demand from both streamers and TV broadcast networks, which is driving up both the cost to license content and the price to acquire library portfolios. This oversized demand for new and library content should result in record revenues for film and TV studios, small independent production companies, and others involved in creating film and TV content, including talent (actors, directors, writers, etc.), production crews, and independent production facilities (such as Pinewood Studios).

The motion picture financial model is broken. The theatrical release window has been permanently broken by streaming services. Consumers have increasingly shown a preference to watch movies in the comfort of their homes. While this trend predated 2020, the pandemic shuttered most theaters during that year, accelerating the trend. As a result, non-blockbuster movies, such as dramas and comedies, are increasingly skipping the theatrical release window and being sold directly to streaming services. This has changed the long-term profitability calculus of the movie industry; most movies don’t reach profitability from the theatrical release window. For those that ultimately become profitable, it's generally achieved through the secondary release windows, such as pay-per-view (PPV), pay-one (such as HBO), home entertainment (such as DVD sales), and licensing to domestic cable and broadcast TV and international TV networks. These highly profitable secondary windows are still profitable, but film studios with in-house streaming services are increasingly selling directly to those services and skipping the secondary release windows.

For television, the economic model is moving to a lower-margin volume-driven business. Selling new original content to streaming services, which has become the predominant customer for TV content, is less attractive financially than the traditional content monetization model. This is true whether the studio owns the IP (and can get the content back when the licensing agreement expires) or the steaming service owns the content (and just needs a studio with production capabilities to make the show). In the first case, the studio may, at best, recoup the cost of the show during the first two seasons. In the second, the studio is paid a fixed percent profit above costs (so called “cost plus” model).

As a result of changes to the studio model, studio margins and cash flows will be under pressure for the next few years. The impact on operating metrics will depend on each studio’s business/content mix (that is, how much content is made for or sold to third parties versus sold to in-house streaming services). Operating metrics for fully captive studios, such as those within The Walt Disney Co., will become irrelevant because they have basically become cost centers as content is increasingly sold to in-house streaming services. Captive studios with hybrid models, such as ViacomCBS’ Paramount Pictures studio and Comcast’s Universal Pictures studio, which continue to sell or license some content to third parties, will still experience significant margin and cash flow erosion. Finally, independent studios that don’t have their own in-house streaming services (such as Sony’s Sony Pictures studio), will likely experience modest margin and cash flow erosion, depending on their content mix (film, TV) and ability to continue to monetize library content.

Main assumptions about 2022 and beyond

1. Spending on film and TV content will increase dramatically from depressed 2020/2021 levels

We expect record levels of spending on film and TV content in 2022 and 2023, driven by media and tech companies' frenetic need to fuel growth of their video streaming services. We anticipate the major global media companies will spend over $100 billion on content just in 2022.

2. Margins and cash flow will weaken even as revenues grow

The studio TV economic model is undergoing seismic changes. Selling new content to streaming services is a less attractive model for studios than the legacy broadcast TV model, but studios have to do it. In addition, the studio film model is broken, because both the theatrical window is impaired and those movies that end up in being sold to in-house streaming services are skipping the highly profitable secondary release windows. As a result, studio margins and cash flow will weaken unless pricing and payment dynamics change.

3. Content bubble

Yes, this is a bubble. How, or when, this bubble deflates is unclear. Streaming services depend on new content to grow their subscriber base. The current pace of spending is unsustainable and will only decline if the number of streaming services shrinks through consolidation or failures, resulting in less of a dogfight for new subscribers.

Content is king. Content has never been more important than it is today or will be for the next few years. As media and tech companies worldwide roll out or grow their DTC video streaming services, it's been clear that the only way to attract new subscribers, and retain existing ones, is through content--new original content to bring in new subscribers and library content to entertain those customers between new shows and keep them from churning off the service. As a result, demand for all content has reached epic levels. The pandemic hurt new content production in 2020 and the first half of 2021 as filming was shut down. Film and TV production has since resumed, though with some fits and starts as COVID cases continue to pause some productions. We expect the number of projects to significantly increase in 2022 and to remain at these higher levels for at least the next two years.

And it's costing a king's ransom. At the same time, the cost of individual projects continues to skyrocket. Some of these cost increases can be attributed to the trend for higher-quality, more complex productions (like HBO's "Game of Thrones"), some to big salary increases for key talent, including synthetic participation and residual payments regardless of a project's success, some to the intense demand for IP, scripts, future projects, and completed works--which has led to bidding wars between the streaming services--and the rest to a shortage of production crews, limited production facilities, and ongoing COVID considerations such as safety and cleaning.

Why 2022 is important. This year will be the first full year of the new streaming media ecosystem. The last normal content production year was 2019. However, of the legacy media companies, only Disney had launched its streaming service, albeit in November 2019. HBO Max and Peacock launched in 2020 during the pandemic, while Discovery+ and Paramount+ launched in 2021. Only in 2022 will all the major streamers be fully operational. Thus, 2022 will be the first time that we can truly assess each company's potential.

Credit metrics and financial policy

As of result of these changes in the studio model, credit metrics will likely weaken for most studios over the next few years, with pressure on EBITDA and cash flow resulting in higher leverage and weakened cash flow-to-debt metrics. The impact on operating metrics will depend on each studio's business/content mix. Operating metrics for fully captive studios will become irrelevant and those with hybrid models that continue to sell or license some content to third parties will still experience significant margin and cash flow erosion. Independent studios will also likely experience modest margin and cash flow erosion, depending on their content mix and ability to continue to monetize library content.

Key risks or opportunities around the baseline

1. Some streaming services shut down or consolidate, leading to lower content spending

While every media company around the world is attempting to make the strategic pivot to a streaming world, not all will succeed. We believe the consumer market cannot support all the streaming services currently available and some will eventually shut down or consolidate. This could result in less demand for original content and a repricing for both new content and content libraries.

2. M&A opportunities further enhance production capabilities, IP, and content libraries

Many opportunities exist for media companies and financial investors to acquire IP or film and TV content libraries. However, most media companies are either focused on using their balance sheets to fund internal investments or lack balance sheet capacity to pursue such opportunities.

3. New COVID outbreaks could delay new content production

The success of any streaming service depends on adding new content to attract new subscribers and retain existing ones. Most new content production ground to a halt during the pandemic, which depressed new subscriber growth in 2021. Production of new TV shows and movies has resumed globally, though that may be at risk as COVID cases rise again and studios consider pausing filming until cases decline.

Captive studios are now cost centers. This pivot to a streaming ecosystem has fundamentally changed the role of in-house, captive movie studios within global media companies. While their role as primary content creators remains unchanged, the objective of these studios is no longer to maximize their own returns. The in-house studios have less of a say in how their content is distributed, be it by theatrical release (for film), through an in-house streaming service, or sold to third parties. While Walt Disney is the only media company to officially organize its operations around this strategy, other media companies are taking a similar approach. These changes not only reduce studio revenue and profitability but also obscure financial transparency into studio performance, making comparisons to historical financial performance impossible.

The hunt for monetizable IP and content drives valuations to elevated levels. The pursuit of IP and content is not a new phenomenon but increased in intensity with Disney's 2019 acquisition of portions of Twenty-First Century Fox and Banijay's 2020 purchase of Endemol Shine. In the past year, the pace of acquisitions of smaller, independent production studios and unaffiliated film/TV libraries has accelerated in both number and valuation. This includes Amazon's pending acquisition of Metro-Goldwyn-Mayer (for $8.6 billion) and Candle Media's buying spree. Backed by Blackstone and run by two former Walt Disney executives, Candle Media has been acquiring stakes in small independent media companies including Hello Sunshine, Moonbug Entertainment, Faraway Road Productions, and Westbrook. Most of these recent transactions have been done by tech companies and financial buyers. The traditional media companies have, for the most part, sat out as they are either using their balance sheets to fund internal investments or lack balance sheet capacity to pursue such opportunities.

And this acquisition spree doesn't apply to just television and film. Audio podcasts and music libraries are selling for record prices as both music companies and financial sponsors pay top dollar. Notable transactions include Bruce Springsteen, who sold the rights to his music catalog to Sony for over $500 million, and Bob Dylan who sold his entire publishing catalog to Universal for $400 million.

Distribution

Ratings trends and outlook

The media landscape continues to evolve, with media companies choosing different strategies based on their market positioning, asset composition, and global scale. Our outlook for those diversified media companies with global streaming ambitions is increasingly negative due to the large-scale investments needed to acquire global content and build the necessary global streaming infrastructure. While the pandemic accelerated new subscriber growth for the streaming industry, the robust gains have begun to moderate, necessitating increased content investment to recharge subscriber growth. Over the long-term we do see the potential for the “winners” of the streaming wars to be in a stronger position, but the road will likely be bumpy and expensive.

The outlook for media companies that aren’t building a global streaming service is more mixed, but generally negative. We believe the decline of the U.S. linear TV sector is inevitable, but the pace of that decline will vary based on genre. In our view, broadcast networks and local TV broadcasters will be the least impacted, whereas general entertainment cable networks, premium cable networks, and regional sports networks (RSNs) will be the most impacted.

Our near-term outlook for movie exhibitors that raised sufficient liquidity through 2021 is positive as the worst effects of the pandemic are abating. Our outlooks on Vue and Cineworld remain negative as both companies did not raise as much liquidity in 2021 as their U.S. peers. Movie exhibitors have fared the worst of all media sectors during the pandemic, and it will take time for credit metrics to improve. However, in 2022 we expect the film slate to be strong and many of the large studios to release their largest blockbusters exclusively in theaters, as opposed to the experimentation around day and date release on their streaming services or straight to premium video on demand (PVOD) that we saw in 2021.

Main assumptions about 2022 and beyond

1. Media companies will accelerate investments in streaming growth

Global content spending, particularly for streaming services, began to ramp up significantly in the second half of 2021 as the effects the pandemic on content creation receded. While streaming subscriber growth was very strong in 2020 and early 2021, it started to moderate significantly for most of 2021 and we expect streaming services to try to accelerate subscriber growth through aggressive investment in original content. We expect near-term credit and operating metrics to be pressured as the increased content spending affects margins and cash flow.

2. Linear television’s decline will not affect media companies equally

The decline of linear TV continues as viewing keeps shifting toward streaming and media companies allocate an increasing percentage of content investments away from the linear model. While we expect the overall linear subscriber base to decline by about 6% annually, the overall impact on the linear ecosystem has not been uniform. We expect the shrinking of the pay-TV bundle in the U.S. to sharply weaken the position of premium cable networks and RSNs, especially as more of that content shifts to streaming alternatives and weakens those networks' bargaining power with linear pay-TV distributors. Conversely, broadcast networks and local TV broadcasters are better positioned and we expect them to remain key components of all pay-TV bundles due to their large stable of news and broadly syndicated sports, which enable pricing power despite the declining subscriber universe.

3. The strong 2022 film slate should propel the box office closer to pre-pandemic levels

The box office rebounded modestly in 2021, reaching about 40% of 2019 levels domestically. Sony's "Spider-Man: No Way Home" was the first movie since the start of the pandemic to gross over $1 billion and indicates that consumer demand to watch premium film content in the theater is still strong. The 2022 film slate is robust, as many blockbusters that were supposed to be released over the past 12-18 months were postponed. The box office should also benefit from studios shifting their strategies to experiment less with direct-to-PVOD releases or day and date releases in theaters and on streaming. We expect these factors to help the domestic and global box office rebound this year to about 80% of 2019 levels.

The race to achieve global scale continues. Large media companies are all-in on scaling their streaming businesses globally and are spending heavily to achieve a scaled platform. The benefits of a globally scaled streaming service have been made evident by Netflix, which saw its margin and cash flow profile improve as its business scaled, and now expects to generate positive cash flow in 2022 and beyond (which caused us to raise our rating to 'BBB' in 2021). However, achieving the required level of scale is not cheap and we expect media companies with global ambitions to spend heavily on content, marketing, and global infrastructure and to pursue acquisitions or partnerships to accelerate the process (for example, Discovery's proposed acquisition of Warner Media from AT&T and the European joint venture between ViacomCBS and Comcast). Until global streaming services reach global scale, their profitability and cash flows will be under increasing stress.

Credit metrics and financial policy

Credit metrics will likely weaken for large media companies with global streaming ambitions over the next two to three years, with pressure on EBITDA and cash flow resulting in higher leverage and weakened cash flow-to-debt metrics as they invest in achieving scale. The degree will depend not only on each company's financial choices but on the pace of broader secular changes in the media ecosystem, especially the decline of the linear TV model. Most media companies depend on revenues and cash flow from these legacy media sectors to offset depressed cash flows from their streaming initiatives. We believe financial discipline is key to managing credit metrics. 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. Building a globally scaled streaming service will require ever-increasing content investment

It is not yet clear that recently launched streaming services will eventually experience strong operating leverage on their investments. As competition increases and media companies compete for streaming subscribers, there is a significant risk that content spending growth to attract and retain subscribers will continue unabated and that the new normal will be lower EBITDA and cash flow than the linear TV model, which would harm credit metrics and ratings.

2. Sports rights shifting toward streaming services could accelerate linear television's decline

The linear TV universe has been declining at a 4%-6% rate for the past several years, but it has generally been manageable for media companies as new revenue models from streaming supplement the declining linear revenue. This could drastically worsen if more sports broadcast rights shift toward streaming. While the broadcast networks have secured the rights to key premium sports, like the NFL, for the next several years, many broadcasters are now also putting premium sports on their streaming services in addition to broadcast television. This is increasingly the case in Europe where companies like DAZN Group now control broadcast rights for several European football leagues. If this shift creates added incentives for consumers to "cut the cord" of linear TV, it could hasten linear subscriber declines, which would especially affect media companies with modest streaming revenue that could offset the declines.

3. The pandemic could throw a wrench in Hollywood's best-laid plans

The one constant is that the pandemic is unpredictable. At several points over the past two years it seemed like the worst was behind us, only for things to get worse again. This uncertainty has hammered the movie exhibition sector the hardest as film studios have been hesitant to release blockbusters into a market where box office revenue could be affected. While it seems that most countries are coming to grips with living with COVID-19, this uncertainty creates tail risk for the industry.

Cheaper, ad-supported plans will become more prevalent. The rise of Netflix and its no-advertising model initially seemed to be the future of streaming as many of the post-Netflix streaming launches eschewed advertising. However, as various players have entered streaming and strategies have evolved, advertising has become an extremely important monetization method. The strong digital video ad market has allowed several players to roll out lower priced, ad-supported plans that result in higher monetization than their ad-free services. We forecast this trend to continue and for digital video advertising to continue to grow at a very strong double-digit percent rate for the next several years and to be an important aspect of media companies' streaming strategies going forward.

Advertising

Ratings trends and outlook

Our ratings outlook for most advertising companies (ad agencies, TV broadcasters, radio) is stable, reflecting our expectation for continued organic revenue growth, the prudent financial policies of U.S. TV broadcasters, and broadly stable credit metrics in 2022. Our stable ratings outlook for the rated radio companies reflects ongoing elevated leverage due to the prolonged recovery in radio advertising from the pandemic, offset by sufficient liquidity and long-term debt maturities. Most advertising-focused media subsectors strongly recovered in 2021, and we estimate total global advertising spending surpassed 2019 levels by more than 15%. Most ad-focused media companies outperformed our 2021 revenue and EBITDA expectations on the back of a strong macroeconomic recovery and cost savings achieved during the pandemic. As a result, we raised our ratings on several U.S. local TV broadcasters (some of which benefitted from strong political advertising in 2020 and reduced merger and acquisition [M&A] activity due to regulation) and one U.S. outdoor advertiser, and revised our outlooks to stable from negative on several ad holding agency groups and EMEA-based TV broadcasters.

We expect very strong digital advertising growth to continue in 2022-2023 and support total advertising growth. At the same time, we expect pressure on margins for TV broadcasters and radio from the need to invest in digital and content, and due to secular challenges. Global outdoor advertising and radio revenues remained below pre-pandemic levels in 2021 but will continue recovering, which will likely improve leverage for outdoor and radio companies in 2022. In the U.S., outdoor advertising has recovered more strongly than in Europe as billboards returned to 2019 advertising levels by third-quarter 2021. At the same time, these subsectors remain sensitive to new waves of COVID infections and are unlikely to fully recover until 2023.

Main assumptions about 2022 and beyond

1. Digital will continue driving advertising growth

We expect global advertising spending to continue growing above real GDP rates in the low-teens percent range in 2022, mainly driven by high-teens percent growth in digital advertising. We expect growth will level off somewhat from the very strong 20% achieved in 2021, which benefited from a sharp macroeconomic recovery and 30% growth in digital accelerated by increasing consumer preference for on-demand and online content and from strong formation of small businesses that primarily use digital advertising. Excluding digital, traditional advertising (linear TV, radio, print) will increase by high-single-digits in 2022, with stronger growth in outdoor and cinema ads. In the U.S. we expect total advertising will increase 5%-7% in 2021 (excluding political and Olympics ads). We expect linear TV will fully recover to pre-pandemic levels in the first half of 2022. Radio should recover to about 85% of 2019 levels by the end of 2022, but then decline at a low-single-digit percent annual rate in 2023 and beyond. Outdoor advertising could take until the end of 2023 to recover fully due to still-reduced mobility in international and mass transit.

2. Declining linear TV viewership will hurt TV advertising

Linear TV advertising held up in 2021 better than we had expected as large advertisers increased spending to strengthen their brands and market share in the rapidly recovering macroeconomic environment. We have also seen lower rates of cord-cutting in the U.S. than we had forecast, and costs per impression (CPMs) increased. TV advertising still provides the broadest audience reach and a safe and reliable content environment. In 2021, large, fast-moving consumer goods producers, technology and digital businesses, e-commerce providers, and sports betting companies increased their spending on TV ads, largely offsetting weaker spending by the travel and auto industries. We expect that in 2022 U.S. local TV broadcasters will be aided by midterm political ads and solid growth in CPMs. However, over the medium term, traditional TV advertising will continue facing secular challenges and declining viewership due to fierce competition with SVOD platforms and narrowing reach, potentially leading to lower CPMs and weaker operating performance. In EMEA we also expect TV viewing to decline, although more slowly, and could see more consolidation in response to competition with global players and from secular shifts.

3. Outdoor advertising is recovering but will take until 2023 to reach pre-pandemic levels

We expect outdoor advertising will continue recovering in 2022 despite the recent omicron spike and COVID-related restrictions that will slow first-quarter growth in regions where they had been re-introduced. In our view, every new wave of infections has had less effect on mobility and outdoor audiences, and outdoor advertisers have efficiently adjusted their costs (mainly rents), which will help them more easily absorb temporary audience shortfalls. At the same time, urban, mass transit, and airport advertising may not return to pre-pandemic levels at least until the end of 2023 globally due to potential permanent shifts in mobility and passenger traffic induced by the pandemic, such as the shift to virtual working and less business-related travel.

Digital advertising will continue to expand rapidly, reaching about 65% of total global advertising in 2022. We expect the explosive 30% growth in digital advertising in 2021 to level off toward a still very robust 20% in 2022, and to continue driving total advertising growth. This reflects audiences increasingly consuming content online, growing small and medium businesses largely relying on digital advertising (such as social media, especially using video), and demand for higher measurability and targeting by advertisers. Ad agency holding groups and smaller players will continue investing in digital and tech capabilities and strengthening their presence in e-commerce. In our view, evolving privacy requirements and changes to how companies collect and utilize user data (for example, changes to iOS privacy settings and the retirement of cookies that Google plans by end of 2023) will have a limited effect on overall digital advertising growth. Advertising companies have proven able to adapt to these changes, introduce new ways of engaging customers and collecting first-party data, and applying hybrid approaches in using third-party data. We also expect more M&A that will enhance their first-party data ownership.

Ad agency holding groups remain relevant in digital markets and will grow their top line parallel with or slightly above GDP despite competition. In 2021, all four rated global ad holding groups (WPP, Omnicom, Publicis, and IPG) achieved higher organic revenue growth rates and margins than we initially expected due to a rapid rebound in the global economy and advertising spending, especially by large consumer brands. Ad holding groups' competitive advantage has moved to connecting and leveraging their data, technology, and talents. The increasing complexity of the digital advertising universe and technologies involved in planning and measuring digital ad campaigns provide opportunities for ad holding groups to protect their market positions against in-housing and new market entrants such as consulting companies that don't have the right capabilities. Predominantly digital-oriented marketing agencies, such as Stagwell and S4 Capital PLC, are rapidly increasing their market share and revenue by double-digit rates organically and via M&A. However, in our view they still lack scale in the very competitive and fragmented ad industry to significantly disrupt the operating performance of large and well-established ad holding groups and win large contracts from them.

The need to invest in digital and rising content costs will pressure margins. In response to ongoing audience fragmentation and shifts in media consumption from traditional channels toward digital, diversified media companies and EMEA broadcasters and national U.S. networks will need to continue investing heavily in their digital and streaming capabilities and in customer acquisition to maintain audience reach. With the rapid expansion and launch of new SVOD services, content is becoming ever more expensive, which will weigh on broadcasters' margins and free cash flow generation. In EMEA, traditional TV broadcasters have maintained their market positions against global streaming platforms (mainly Netflix and Amazon Prime) better than the U.S., but we expect competition will increase in 2022, with multiple new launches (HBO Max, Paramount+, and SkyShowtime) and further expansion of Disney+. We also think SVOD providers will invest more in local content, making them more compelling for local audiences. Lastly, we expect the rise in personnel costs, fueled by inflation and high competition for qualified talent, to pressure margins of ad agency holding groups.

Credit metrics and financial policy

We expect leverage at ad holding groups, EMEA broadcasters, and national U.S. broadcast networks to remain broadly stable or rise modestly in 2022, reflecting softer margins, continued M&A activity, and resumed shareholder remuneration.

Ad agency holding groups and smaller digital advertisers will likely continue acquiring digital, tech, and software assets. Ad holding groups that benefited from strong cash generation and deleveraging in 2021 have reinstated dividends and share buybacks, which will likely modestly increase their adjusted leverage in 2022.

Leverage of EMEA TV broadcasters and U.S. national TV networks will also likely increase following slower revenue growth and reducing profits due to the need to invest more in content. We also think consolidation between TV broadcasters in EMEA will continue. If the pending merger between Television Francaise 1 and M6 is successful, this could set a precedent for other markets in Europe. Local U.S. TV broadcasters, radio, and outdoor advertisers should all see margins expand due to the ongoing recovery and operating leverage of the business, and leverage should improve in 2022.

In Latam, we expect the Brazilian TV broadcaster Globo to continue with low leverage and strong liquidity in 2022, while gradually recover margins with increasing monetization of streaming platform. Competition in the sector will remain high, but Globo has been able to increase clients base through content development and partnership with global streaming platforms entering the domestic market.

Key risks or opportunities around the baseline

1. Changing behavior patterns could accelerate the decline in traditional advertising and delay recovery in outdoor

Accelerated audience fragmentation and shift to digital media consumption could lead to steeper declines in linear TV viewing and print media. It could also require EMEA and broadcasters and national U.S. TV networks, diversified media groups, and online platforms to invest more than we currently expect in content and new customer acquisition to maintain their audience reach, leading to lower profits and cash flows. Global outdoor advertising audiences, especially in international and urban mass transit, may take a long time to fully recover if shifts toward work-from-home and reduced business travel prove to be permanent.

2. A sharper macroeconomic slowdown could hamper advertising growth

Advertising spending is strongly correlated with macroeconomic conditions and consumer confidence. We currently expect global real GDP growth will slow to 4.2% in 2022 from 5.7% in 2021. If there is a sharper slowdown, continued high inflation, a more rapid rise in interest rates or prolonged supply chain and production disruptions, we could see a more pronounced slowdown in global growth and hence in advertising revenue.

3. We don’t view potential further waves of the pandemic as a major risk for advertising

In our view, most advertising-dependent companies have adapted well to the challenges of the pandemic and demonstrated the ability to rapidly adjust their costs and financial policies to preserve balance sheets and liquidity. We have also observed that each subsequent wave of the pandemic had less of a direct negative effect on advertising, even outdoor, which is most sensitive to social-distancing and travel restrictions. Hence, we believe that any new variants like omicron would only temporarily hamper growth in advertising and won't likely materially disrupt the path for recovery in outdoor.

Consumer behavior post-pandemic will be crucial for ad subsectors that face secular challenges. We already incorporate the shift to digital in media consumption and in advertising spending that accelerated during the pandemic in our base case for the sector. However, if we see secular trends accelerating even further, traditional players such as TV broadcasters, print media publishers, and radio companies may be unable to adapt and lose competitive standing and audiences more quickly, and their credit metrics could deteriorate more substantially than we expect. For example, higher investment in local language content by global streaming services could lead to a more rapid decline in TV viewing in EMEA, where broadcasters benefit from leading positions in their respective local markets despite their smaller scale.

A sharper slowdown in global GDP growth and higher inflation could constrain advertising spending. Higher inflation and input costs could constrain advertising budgets of corporations, leading to weaker ad spending in 2022. To date, supply chain issues in industries such as autos, technology, and consumer products had a modest negative impact on ad spending and were largely offset by stronger spending in other industries such as Internet companies and, in the U.S., sports betting. However, if supply bottlenecks persist through 2022, this could eventually hurt ad agency and broadcasters’ revenues.

Related Research

- U.S., Canadian, And European Telecom, Media, And Cable Majors Ranking: January 2022, Jan. 10, 2022
- ESG Credit Indicators Report Card: Media And Entertainment, Dec. 7, 2021
- U.S. Linear TV's Decline Won't Affect Media Companies Equally, Oct. 12, 2021
- U.S. Media And Entertainment Industry Check-In, Sept. 1, 2021
- Rebooting The U.S. Media Sector: Double-Digit Advertising Growth Can Thank Digital, Sept. 1, 2021
- Industry Top Trends Update: Media and Entertainment North America, July 15, 2021
- Industry Top Trends Update: Media and Entertainment EMEA, July 15, 2021
- Despite The Pandemic, There Are Good Signs Ahead For U.S. Outdoor Advertising, July 8, 2021
- The Global Music Industry Is On Track To Hit A New High Note When It Comes To Revenue Growth, June 16, 2021
- Consequences Of And Lessons Learned From The AT&T-WarnerMedia-Discovery Transaction, May 25, 2021
- The Post-Pandemic Recovery Will Be Coming Soon To A U.S. Movie Theater Near You, April 29, 2021
- How The Decline In The U.S. Television Ecosystem Could Squeeze Credit Ratings, April 22, 2021
- Gauging The Business Risks Of Local U.S. TV Broadcasters, April 15, 2021
- Rebooting The U.S. Media Sector: 2021 Advertising Trends Are Nicely Up, With Some Sectors Lagging, April 12, 2021
- New NFL Broadcast Contracts Are Credit Neutral Today, But Raise Long-Term Concerns, March 23,2021
- Calculating Leverage For Large U.S. Media Companies (2021 Update), March 17, 2021
- The U.S. Broadcast Radio Sector's Recovery Is Now Set To Drag Into 2022, March 4, 2021
- Here's What The U.S. Media And Entertainment Sector Has In Store For 2021, Jan. 6, 2021

Industry forecasts

Global Media and Entertainment

Chart 9

Revenue growth (local currency)

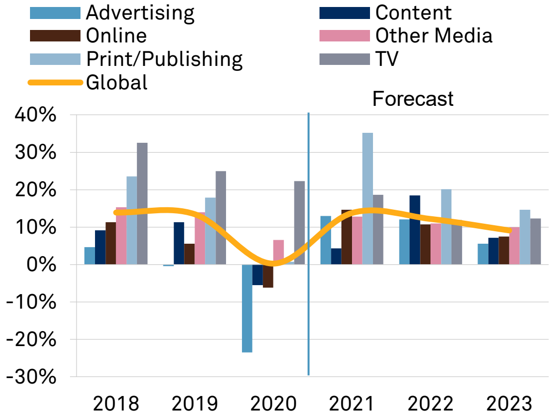


Chart 10

EBITDA margin (adjusted)

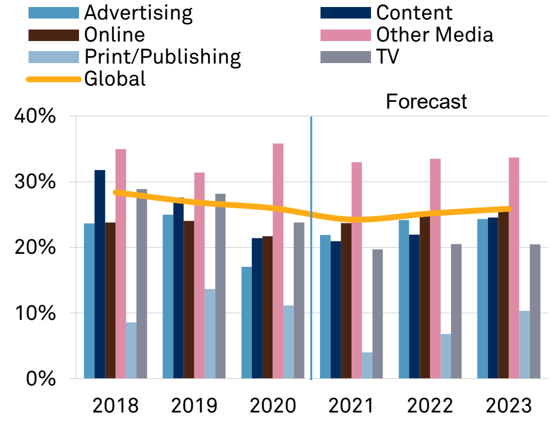


Chart 11

Debt/EBITDA (median, adjusted)

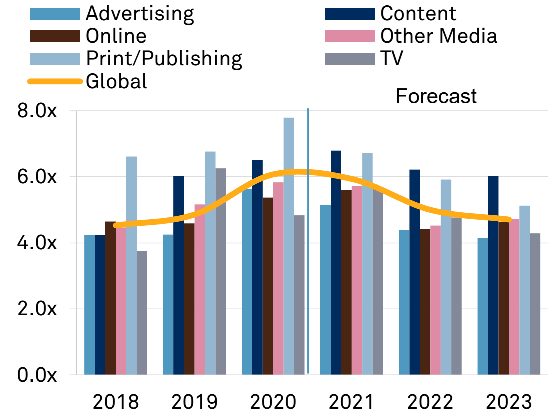
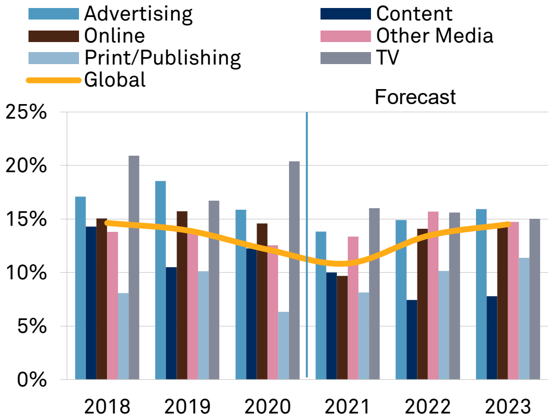


Chart 12

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

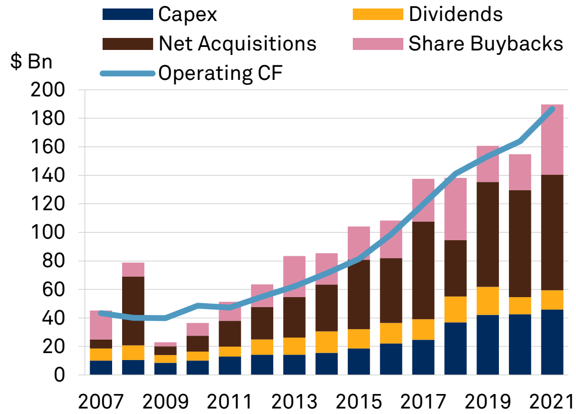


Chart 14

Return on capital employed

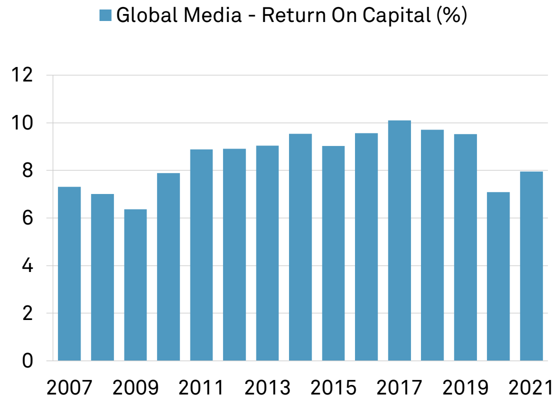


Chart 15

Fixed versus variable rate exposure

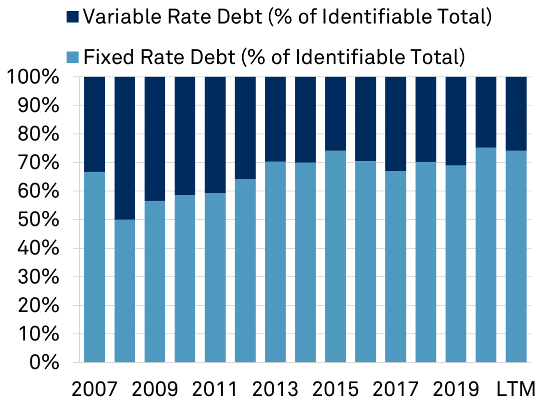


Chart 16

Long-term debt term structure

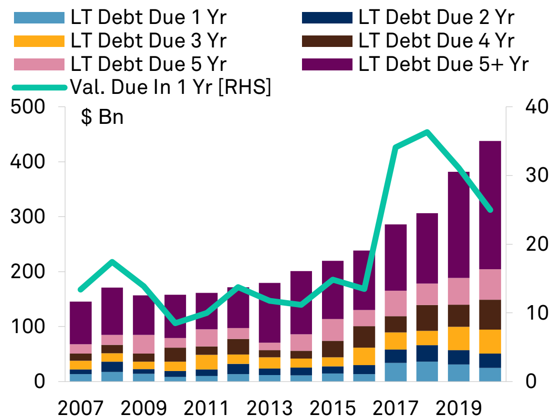


Chart 17

Cash and equivalents/total assets

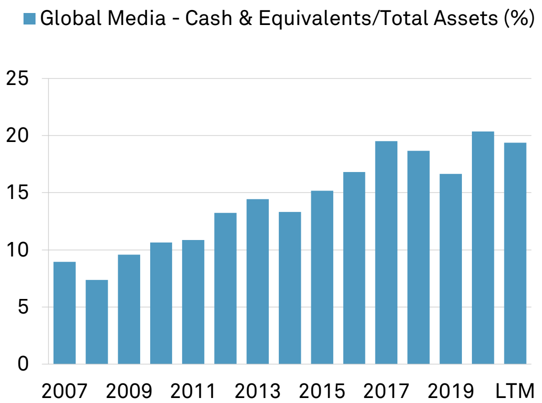
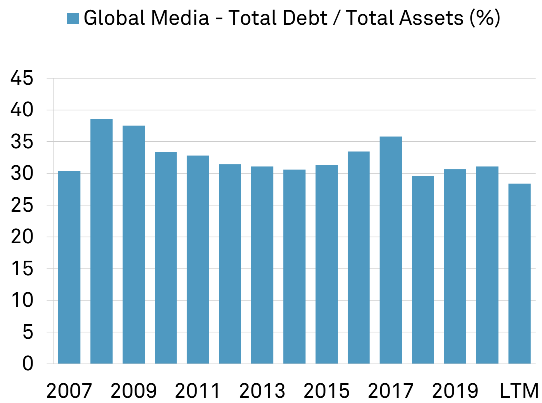


Chart 18

Total debt/total assets



Source: S&P Global Market Intelligence, S&P Global Ratings calculations. Most recent (2021) figures are using last 12 months data.

spglobal.com/ratings