Industry Top Trends Update

Media and Entertainment

Dark sequel: Pandemic survivors to face a new plot twist

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What's changed?

In first-half 2022, most companies performed strongly. Advertising outpaced GDP growth, and out-of-home (OOH) advertising and physical events recovered. Despite a worsening economic outlook, we haven't seen a pullback in advertising spending. Demand for TV and film content remains strong.

Costs are on the rise. Rising wages and talent acquisition lead to weaker margins. Broadcasters continue investing in content and direct-to-consumer (DTC) streaming.

There were several defaults in our rated portfolio. Ahead of interest rate rises, companies rushed to refinance. In cases where capital structures were unsustainable, we treated these transactions as distressed and akin to default. We could see more in the next 12-24 months for companies rated in the 'CCC' category.

What to look out for?

Weaker growth and consumer confidence. We expect lower GDP growth in 2022-2023 and think consumer confidence will dwindle as inflation persists. This could lead to a pullback in advertising (especially digital, which has shorter lead times than traditional), and lower consumer spending.

How business models adapt. The ability to raise prices will be key. In response to weaker subscriber demand, streaming platforms owners introduced free ad-supported options, but they haven't yet reduced programming budgets. There is also a lot less acquisition activity than in 2021, despite lower valuations.

Recovery in travel. As the economic outlook worsens, international travel continues to recover from pandemic lows, and we think easing of restrictions (for example in China) and more normal travel patterns into 2023 will support OOH advertising, as well as trade shows and live events.

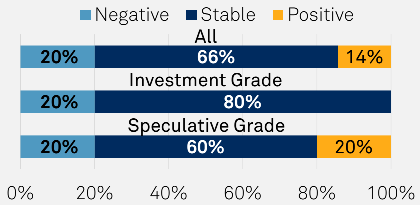
What if there's a recession?

Digital media faces a big test. Digital advertising accounts for more than 65% of the industry and continues to grow at double-digit rates thanks to shift to digital media consumption. But it will likely also react more swiftly than traditional advertising to a drop in global growth and consumer spending.

Not all subscriptions are recession-proof. Businesses that rely on B2B subscriptions (such as data, information, and analytics providers) are generally resilient to recessions. But DTC platforms will likely suffer from consumers reducing discretionary spending, which will hurt their top lines and profits.

Companies with high leverage and exposure to affected industries will suffer. Classified and price comparison platforms could be hit by a drop in demand for autos and other products affected by supply chain issues, decreased ecommerce activity, fewer property and car insurance transactions, and lack of energy tariff switching due to rapidly rising prices.

Outlook Distribution

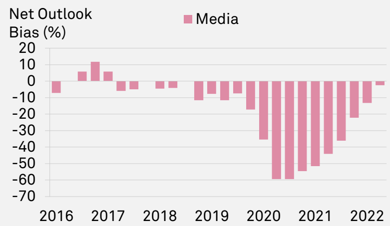


Ratings Statistics (YTD)*

	IG	SG	All
Ratings	10	25	35
Downgrades	0	2	2
Upgrades	0	2	2

Ratings data as of end-June 2022. * Year-to-date

Ratings Outlook Net Bias



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