ESG Research

ESG Materiality Map

Media And Entertainment

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Social factors, such as privacy protection, employment practices and working conditions are more material for the sector.

This report does not constitute a rating action

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ESG Materiality Map
Media And Entertainment

In line with the research report "Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors," published on May 18, 2022, S&P Global Ratings is publishing research on the ESG materiality map for the media and entertainment sector. We provide an illustration of our current view of the relative materiality of certain environmental and social (E&S) factors, from both the stakeholder and credit perspectives, for the sector. The materiality map does not represent any new analytical approach to the treatment of E&S factors in our credit ratings. See our ESG criteria for more information on how we incorporate the impact of ESG credit factors into our credit ratings analysis.

Media And Entertainment Sector

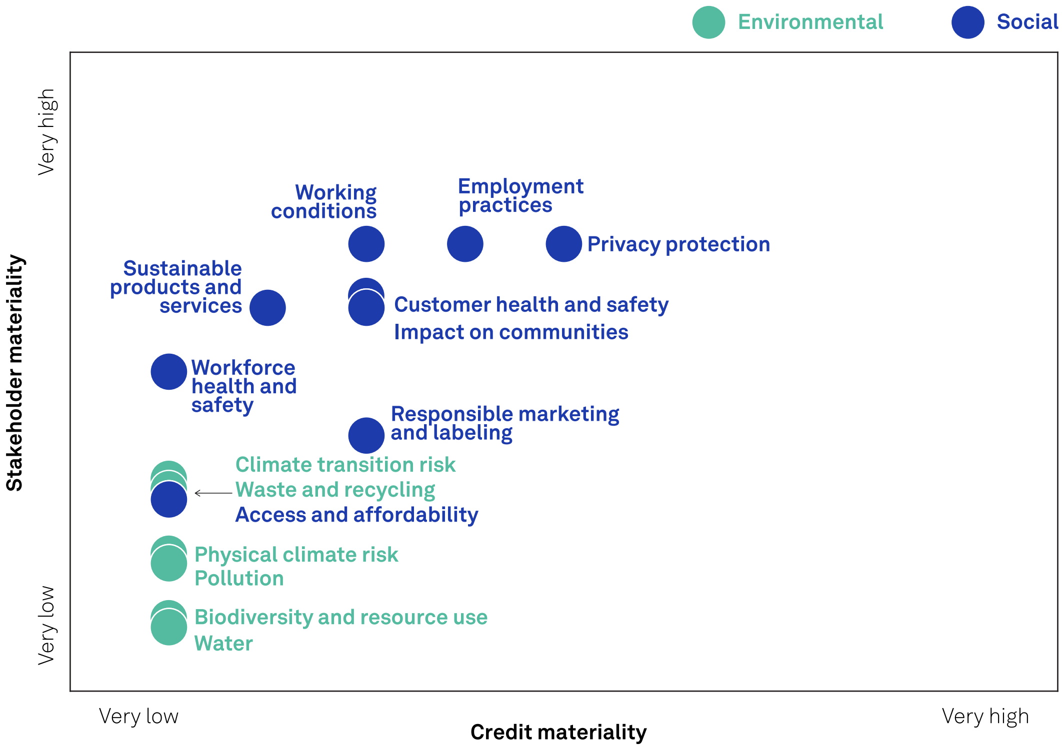
The media and entertainment sector is broad and includes primarily television broadcasters, over the top players (such as streaming platforms), production studios, advertising and talent agencies, as well as social media platforms.

Key Takeaways

- Environmental factors are generally not material for companies operating in the media and entertainment sector, while social factors are more material. Given the sector's potential influence on various stakeholders in society and its highly visible nature, social factors tend to be more material for stakeholders.
- Privacy protection is the most material factor for the sector, from both a stakeholder and credit perspective. Mishandling or lack of customer data protection could have negative social consequences on users on the company's reputation, operating performance, and could lead to significant fines.
- Working conditions and employment practices are more material for stakeholders, particularly when negative internal events and workplace culture disruptions are made public. Sustainable product and services, customer health and services, and impact on communities are material for stakeholders due to the potential influence of the content distributed among regional and sometimes global audiences. Existing regulation governing content and distribution, limit materiality for credit.

See materiality map on the following page.

ESG Materiality Map For The Media And Entertainment Sector



The materiality map provides an illustration at a point in time, of our findings on the relative materiality of certain environmental and social (E&S) factors, from both the stakeholder and credit perspectives, for the sector. It does not represent any new analytical approach to the treatment of E&S factors in our credit ratings. See our ESG Criteria for more information on how we incorporate the impact of ESG credit factors into our credit ratings analysis. Source: S&P Global Ratings.

How To Read The ESG Materiality Map

The stakeholder materiality (Y axis) reflects our assessment of the relative level of impacts and dependencies of the sector on the environment, society, and economy.

The credit materiality (X axis) reflects our assessment of the relative level of potential and actual credit impact for the sector. The credit implications for the factors positioned on the left side to the middle of the X-axis would be more limited and absorbable. On the right side, there is higher potential for these implications to be more disruptive. We assess credit implications for an entity based on its individual characteristics.

Assessing E&S factors' materiality: We consider both the likelihood of the impact from a given factor, as well as the magnitude of the impact. The materiality of the factors varies depending on the perspective (stakeholder or credit) as well as the evolving and dynamic interactions between these two dimensions.

The main areas of the map:

- The upper-right quadrant displays the most material, on a relative basis, E&S factors identified for the sector from both a stakeholder and credit perspective.
- The upper-left quadrant presents factors that are more material from a stakeholder than credit perspective. These factors have the potential to become more material from a credit perspective.
- The bottom-left quadrant shows factors that are less material for both stakeholders and credit. Their materiality may evolve over time and this dynamic may not be linear.

Examples Of Material Factors

Below we provide the rationale of some of the material factors to illustrate the above findings.

Privacy protection

Privacy protection is highly material for stakeholders and material for credit, albeit less so. Many companies in the media and entertainment sector use and store sensitive customer data, such as personal information, credit card details, or content consumption history. From a stakeholder perspective, intended (commercialization of personal data without consent or understanding from customers) or unintended personal data leakage into the public domain could have significant consequences for customers. Data can be mishandled, causing reputational or financial harm. The sector has thus far contained or prevented extensive damage from cyberattacks and the financial impact of any such events has been limited. However, such breaches could harm companies' reputations and customers' trust, negatively affecting credit metrics, including revenues, market position, governance, and overall financial risk. In addition, there could be onerous penalties, fines, lawsuits, and increased regulatory oversight. When a single company incurs a large data leakage due to cyber-attacks for example, we expect all companies within the sector will take proactive measures to safeguard sensitive data on their various platforms, which is likely to affect profitability levels at least marginally.

Employment practices

Employment practices is highly material for stakeholders, and less material for credit, Certain segments of the media and entertainment sector frequently use temporary contracts and rely on freelancers, who may not benefit from standard employment benefits or protections, may be subject to long working hours or involuntary overtime, and may not be paid competitive wages. From a stakeholder perspective, such practices are material because they can exacerbate existing workforce inequalities and create dynamics that leave workers vulnerable to abuse or exploitation. These practices may also make it difficult to attract and retain workers. Losing key creative talents could significantly affect a company's ability to generate attractive content. This may be why some key personnel in the sector can be treated differently (including receiving a significantly higher compensation or benefitting from more tolerance for unacceptable behavior such as harassment), leading to further inequalities among the workforce. Finally, ensuring diversity and inclusion, both for off-screen and on-screen workers (the latter being more publicly visible) has not always been a priority in the sector. While less material for credit, these factors have a larger impact on issuers that rely on skilled talent and labor, such as movie and television studios, live event producers, talent agencies, and advertising agencies. In the near term, initiatives to improve diversity, equity, and inclusion (DEI) may entail higher costs. However, we believe mismanagement and the lack of fair and adequate hiring and retention initiatives could also drive up the costs for finding the right talents. The sector has been able to mitigate the credit impact of these challenges through business diversification, but more public attention on these issues may increase materiality going forward.

Working conditions

Working conditions is a highly material factor for stakeholders, while credit materiality relatively lower. In many ways related to the employment practices factor, working conditions in the sector can become a highly material stakeholder factor when workforce dynamics and inequalities lead to harassment (including sexual harassment) and other forms of worker exploitation, such as excessive overtime and sub-minimum wage earnings. As is well documented in the media, workers in the sector have been exposed to a toxic culture and sexual harassment in the workplace. From a stakeholder perspective, such events occurring without employee protections

in place (often stemming from the use of freelance or contract workers) can have devastating consequences on the affected individuals. From a credit materiality standpoint, these events and other issues related to worker exploitation, could have wider repercussions beyond the individuals affected as information is made public (such as with the #metoo movement or sexual harassment allegations on highly visible producers, actors, or news presenters). This could cause viewership and ad revenue impacts and potentially lead to direct legal exposure for entities. To date, however, risks such as sexual harassment claims have had a somewhat less material impact on credit than the risk it presents to stakeholders due to the ability of companies in the sector to mitigate the financial impact of these events through business diversification and their ability to use the legal system to mitigate claims.

Sustainable products and services, Customer health and safety, Impact on communities

The materiality of the sustainable products, customer health and safety, and impact on communities factors are closely interrelated in this sector. These factors are more material for stakeholders than for credit. From a stakeholder perspective, the content distributed via video games, social media, streaming platforms, or traditional broadcasters could influence certain social behaviors. It may also be used to influence mass opinion (for example. political polarization, cyber bullying)., There could be negative consequences for users, including damage to mental health, a rise in violence, increased suicide rates, in particular, but not only, for young people, with negative spillovers into the broader community. Regulations on content (for example, limiting violence on screen, restricting younger audience access to certain types of movies, or prohibiting on-screen advertising of potentially harmful products like branded spirits advertising in some Western European countries) exist to protect the viewers. However, such restrictions are increasingly more difficult to apply due to the fragmentation of content distribution. In addition, we acknowledge that many other factors can influence social behaviors and that it is difficult to establish a systematic and direct link between media and entertainment companies and social behaviors. In our view, credit risk stemming from the media sector's impact on customers and communities is most often stems from controversial content or business activity that results in reduced audience size, lost advertising revenue, or regulatory backlash. While difficult to quantify, we believe that in extreme cases these controversial events could affect specific companies' market positions, reduce revenues due to consumer backlash, and even result in regulatory penalties or increased oversight. This risk factor tends to be limited to certain subsectors and therefore its credit impact is limited on a sector level.

What is our approach to research on the ESG materiality map?

Referring to the research report "Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors," published on May 18, 2022, this research is built on the ESG materiality concept that considers ESG issues as material when they could affect stakeholders, potentially leading to material direct or indirect credit impact on entities. It considers that all businesses, through their activities and interactions, impact and depend, directly or indirectly, on stakeholders such as the environment (natural capital), society (human and social capital), and economy (financial capital). Using this ESG materiality concept, S&P Global Ratings has worked toward identifying a common, global, cross-sector set of E&S factors that we believe are material to stakeholders, and either are already, or have the potential to become, credit material for entities. The materiality map we propose provides an illustration at a point in time, of our findings on the relative materiality of those factors, from both the stakeholder and credit perspectives.

How does the sector ESG materiality map relate to credit ratings or ESG evaluations?

The sector materiality map is a visual representation of the factors that we consider impactful to the sector from a stakeholder and credit perspective for the purposes of this research. It does not represent any new analytical approach to the E&S factors in our credit ratings.

The relative materiality of the factors indicated on the materiality maps may inform the E&S Risk Atlas scores and the weights of the E&S factors used in ESG evaluations.

They may also inform our discussions with issuers on those factors' existing or potential credit materiality.

Related Research

- Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors, May 18, 2022
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- ESG Evaluation Analytical Approach, Dec. 15, 2020