Media and Entertainment

Holding up to technological and macroeconomic disruption

This report does not constitute a rating action

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What's changed?

The economic downturn affected advertising less than feared. However, the impact will persist for longer. A drop in real GDP growth in the eurozone, especially in Germany and the U.K., led to weak advertising and steeper declines in TV and print advertising revenue. We still expect digital advertising to expand by 7%-9% in 2023, supporting total advertising growth, but persistent macroeconomic weakness could mute or delay a pick-up in second-half 2023. In 2024, advertising revenue will recover, boosted by sports events such as the Olympics and UEFA Euro Football Championship, but will remain sensitive to consumer confidence and inflation.

AI presents risks and opportunities. It is still too early to tell how AI will reshape media. It will require hefty investments to develop and acquire technology, so smaller players that don't already own it or that lack capacity for M&A could miss out. Over the long term, AI could enhance efficiency and reduce costs, for example, in content creation and editing. Still, wider implications for the industry, including the regulation and evolution of copyright, remain highly uncertain.

Live events and outdoor entertainment have bounced back. Pandemic restrictions are a distant memory as box office revenue, live events, trade shows, and outdoor advertising have recovered strongly. Companies that the pandemic hit most are finally emerging from bankruptcy and restructuring their debt.

What to look out for?

How traditional media adapts. Companies are expanding their digital distribution platforms to adapt to shifts in media consumption. This weakens their profits and cash flows until they reach scale. So far, most European companies haven't curbed their direct-to-consumer (DTC) and streaming plans, unlike their global peers. Some might succeed in local markets; others could end up overstretching.

Whether M&A will pick up. Low activity over the past two-to-three years reflected volatile markets, high valuations, companies' focus on recovering from the pandemic, and regulators' pushback on a few large consolidations. Now that valuations have deflated, and despite costlier funding, some issuers (especially those with investment-grade ratings and strong balance sheets) might pursue strategic acquisitions.

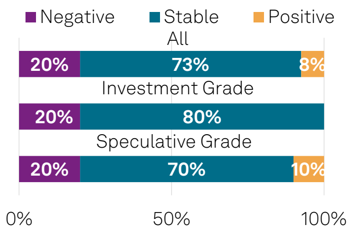
Refinancing by highly leveraged companies. A few have refinanced their capital structures well ahead of debt maturities, for example, Banijay Group SAS and InfoPro Digital B.V. Others with maturities in 2025-2026, especially the most leveraged, remain highly exposed to market conditions and will likely see a significantly higher cost of debt erode their already stretched cash flows.

What are the key risks around the baseline?

A sharper or longer economic downturn further squeezing consumer spending. Advertisers could delay investments and reduce spending if persistently high inflation hits consumer confidence, affecting second-half 2023 growth and a potential recovery in 2024. DTC distribution could also come under pressure. Continued cost inflation, especially for staff, could hinder companies' efforts to restore margins that have already decreased in 2023.

Rating Trends

Outlook Distribution

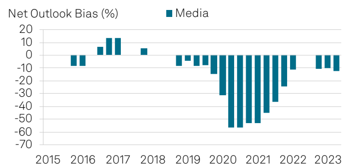


Ratings Statistics (YTD)*

	IG	SG	All
Ratings	10	30	40
Downgrades	0	1	1
Upgrades	1	4	5

Ratings data as of end-Jun 2023. * Year-to-date. Current ratings only.

Ratings Outlook Net Bias



Related Research

[InfoPro Digital Upgraded To 'B' On Strong Operating Performance, Refinancing; Proposed Notes Rated 'B'; Outlook Stable], June 7, 2023

[Tear Sheet: Universal Music Group N.V.], May 30, 2023

[Ad Agency Publicis Groupe Upgraded To 'BBB+' On Strong Operating Performance And Expected Low Leverage], May 5, 2023