S&P Global Ratings

# Media and Entertainment

## Still trying to navigate secular pressures

**This report does not constitute a rating action.**

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### What's changed?

**Diverging trends for advertising.** Overall advertising growth has returned as the macroeconomic landscape normalizes. Digital advertising, in particular, has stormed back to low-teens percentage growth. Still, legacy media, especially TV, continues to bleed advertising as secular challenges show no signs of abating.

**Content is coming back but at lower levels.** The dual Hollywood strikes stopped content production for much of 2023, and it has gradually resumed. But the streamers rationalized their content pipelines during the strikes, so while spending growth will return it will be lower overall.

**Bifurcated capital markets don't help those in need.** Capital markets are easily accessible for higher rated issuers with lower leverage, healthy cash flow, and a solid business plan. Meanwhile companies rated 'B' and lower, especially the local TV broadcasters with high leverage and weak competitive positioning, face significant challenges in refinancing upcoming maturities.

### What to look out for?

**The ability to grow streaming advertising.** Successful media companies will be those that can deliver sustained net advertising growth (digital and linear TV). Streaming services don't have enough advertising-tier subscribers to deliver scaled audiences to advertisers, except Amazon, who moved all Prime subscribers to an ad-tier.

**Is the Paramount/Skydance merger a harbinger for more M&A?** Mergers and acquisitions have been muted this decade despite the belief that scale is a key differentiator. The Paramount/Skydance merger could open the M&A spigot, though an unfriendly regulatory environment and skeptical capital markets could limit such activity.

**A streaming profitability inflection point.** Legacy media companies have made strides in improving streaming profitability recently by increasing prices, adding advertising, and reassessing content spending. These actions have stanched losses and could lead some companies to sustained profitability as early as this year.

### What are the key risks around the baseline?

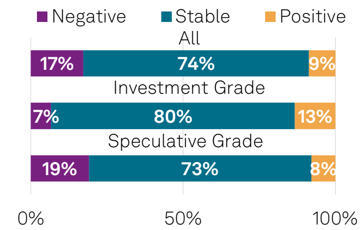
**Secular trends for legacy media worsen.** Legacy media remains dependent on the deteriorating linear TV ecosystem. Faster deterioration and worsening pay-TV subscriber declines could weaken legacy media companies' credit metrics.

**Domestic streaming has matured.** Subscriber growth has slowed as the video streaming providers have increased prices and cut content budgets. While this is helping profitability in the near term, sustainable subscriber and ARPU (average revenue per user) growth are needed to offset declines in linear TV.

**Macroeconomic weakness/geopolitical shocks.** While not in our base case, an economic recession or geopolitical shock could hurt consumer spending and advertising. Sticky inflation and higher interest rates for longer could also weaken consumer discretionary spending, especially for media.

## Rating Trends

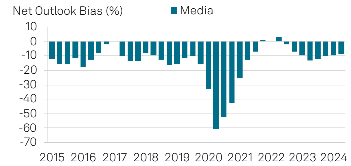
### Outlook Distribution




### Ratings Statistics (YTD)*

| | IG | SG | All |
|---|---|---|---|
| Ratings | 15 | 89 | 104 |
| Downgrades | 0 | 6 | 6 |
| Upgrades | 1 | 11 | 12 |

### Ratings Outlook Net Bias




### Sector Forecasts (Median)

| 2024 | IG | SG |
|---|---|---|
| Revenue growth (Y/Y%) | 5.3 | 4.7 |
| EBITDA growth (Y/Y%) | 9.7 | 11.6 |
| EBITDA margin (%) | 24.3 | 22.8 |
| Capex growth (Y/Y%) | 14.8 | 0.3 |
| Debt/EBITDA (x) | 1.4 | 5.3 |
| FFO/Debt (%) | 50.4 | 8.8 |
| FOCF/Debt (%) | 49.0 | 6.2 |

All data as of end-June 2024.
* Year-to-date. Current ratings only.

## Related Research

Sports Rights: The Jump Ball In The Streaming Ecosystem, June 18, 2024

Outlooks Diverge For U.S. Local TV Broadcasters As Industry Faces Secular Challenges, April 15, 2024

U.S. Speculative-Grade Media Outlook 2024: A Mixed Story, Feb 2, 2024