Industry Top Trends Update

Media and Entertainment

Recovery amid an accelerating shift to digital

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What's changed?

Most media companies are on track for recovery, thanks to the macroeconomic rebound, easing of COVID-19-related restrictions, and release of pent-up consumer demand. Subscription-based businesses, such as online service providers and data publishers, showed resilience in 2020 and steady organic growth in 2021. Some investment-grade issuers even strengthened their balance sheets during the pandemic, thanks to cost savings and lower shareholder returns.

The negative rating bias has reduced. Most companies are on course to restore credit metrics by 2022. We think liquidity and default risks have abated since 2020, even for issuers with high debt or tight liquidity and covenant headroom. Outlooks in the out-of-home (OOH) sector remain negative though, since operations only recently resumed and recovery may be bumpy.

Mergers and acquisitions (M&A) are on the rise, due to the media landscapes' fragmentation and the race to acquire and put out content. Similar to the U.S., we expect consolidation in Europe. This is supported by the recent merger announcement from France's top broadcasters TF1 and M6.

How is recovery taking shape?

Advertising is bouncing back. Revenue and earnings of ad agencies, TV broadcasters, as well as print and digital publishers will see strong recovery in 2021-2022. Total advertising revenue may reach 2019 levels in 2021 on the back of GDP growth, higher ad spending by corporations, rapid growth in digital advertising, and resumed sports events. Print and outdoor advertising will recover later in 2022.

Revenue in the OOH sector remains well below pre-pandemic levels. Cinemas have reopened, and sports events, concerts, trade shows and conferences are resuming, albeit at reduced capacity. We think the sector's recovery will gain pace in second-half 2021, but that revenue and earnings will reach 2019 levels only in 2022 and restoring credit metrics could take even longer.

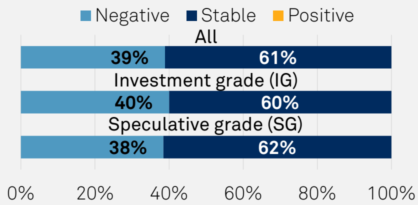
What are the key risks around the baseline?

Resurgence of the pandemic. A surge in COVID-19 cases could result in heightened restrictions and delay recovery, especially in the OOH sector. Some businesses may be unable to sustain or refinance existing capital structures.

Pressure on margins, especially in 2022. This could come from cost inflation from enhanced health and safety measures, rising wages, and competition for talent, for example in the advertising or content production industries.

Longer-term secular trends and a changing media ecosystem. Increasing audience fragmentation, expanding streaming options, and accelerating declines in traditional linear TV and print media will speed up the evolution to a streaming-centric and more digital media universe.

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	10	27	37
Downgrades	0	1	1
Upgrades	0	2	2

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Media And Entertainment	
Estimated recovery to 2019 credit metrics	2022
Potential negative long-term industry disruption	Yes

2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
10%-15%	25%-40%	5%-10%

2021 Estimates Versus 2019	
Revenue decline	EBITDA decline
0%-10%	0%-10%

Latest Related Research

- All3 Media Parent DLG Acquisitions Outlook Revised To Stable On Production Recovery; 'B' Rating Affirmed, June 28, 2021
- Springer Nature Outlook Revised To Stable Following A Solid Operating Performance; 'B+' Rating Affirmed, June 24, 2021