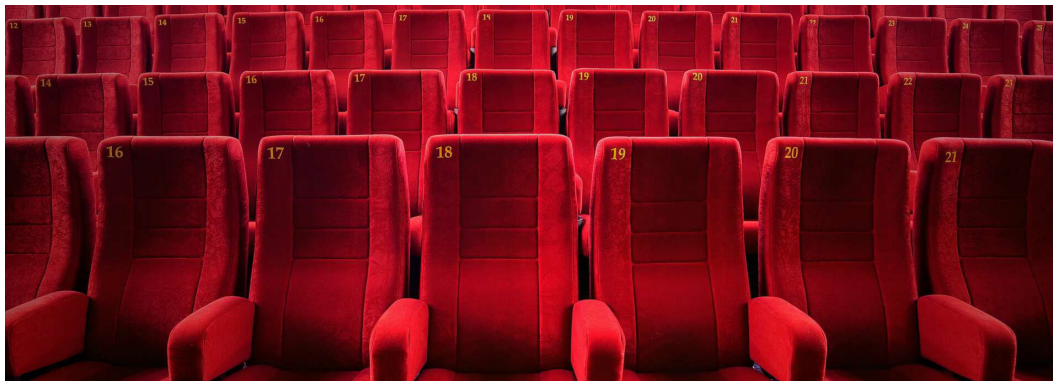


Media and Entertainment

Looking for bright spots amid the industry's sea of gloom

January 9, 2024

This report does not constitute a rating action.



What's changed?

Content bubble pops. The recently settled writers and actors strikes allow the industry to reevaluate content spending. Streamers lift profitability, but demand drops for content creators.

Secular advertising trends. We believe secular pressures, more than macroeconomic cyclical trends, are driving continued soft advertising spending on legacy media, including linear TV.

Higher for longer. Persistently high interest rates put refinancing pressure on lower-rated companies with near-term maturities. Many can't survive with higher interest burdens.

What are the key assumptions for 2024?

Consumer balance sheets weaken. Consumer spending on discretionary media may weaken as COVID-19 pandemic-aided savings are depleted. Streaming subscriber growth may suffer.

Muted advertising improvement in the second half. For legacy media sectors dependent on advertising, we expect improving trends. U.S. political advertising will reach records.

Normalizing content spending. Content spending returns following the end of the Hollywood strikes, but with fewer dollars and projects. It will still take six months to ramp up to normal.

What are the key risks around the baseline?

Accelerating secular trends in the media ecosystem. Worsening declines in linear TV and continued soft advertising could weaken media companies' credit metrics.

Streaming reaching profitability. Some streamers may become profitable in 2024. Is there a place for those media companies with weaker streaming prospects?

Macroeconomic weakness/geopolitical shocks. While not in our base case, a macroeconomic recession or geopolitical shocks could hurt consumer discretionary spending.

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Ratings Trends: Media and Entertainment

Chart 1
Ratings distribution by region

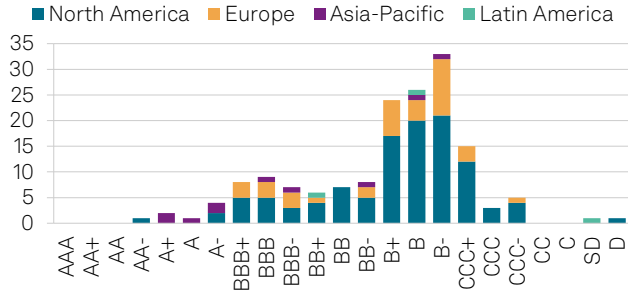


Chart 2
Ratings distribution by subsector

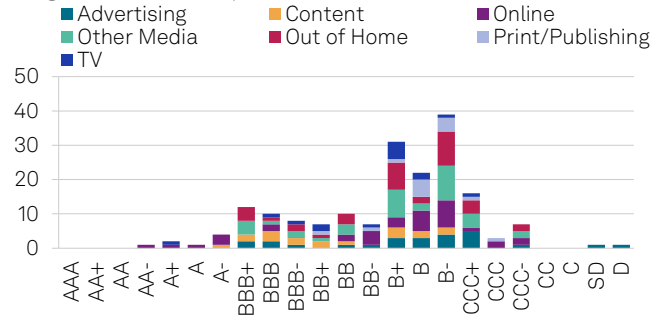


Chart 3
Ratings outlooks by region

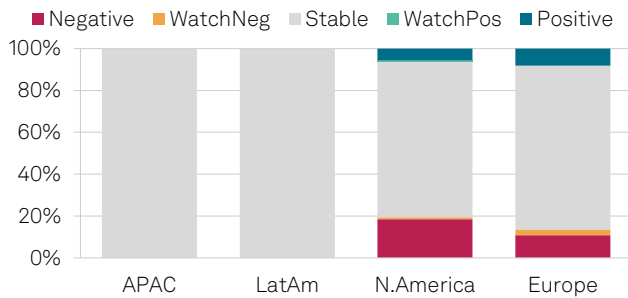


Chart 4
Ratings outlooks by subsector

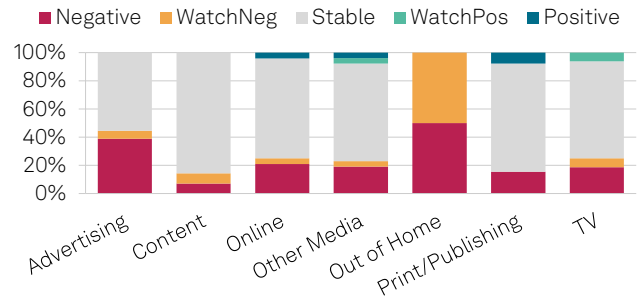


Chart 5
Ratings outlook net bias by region

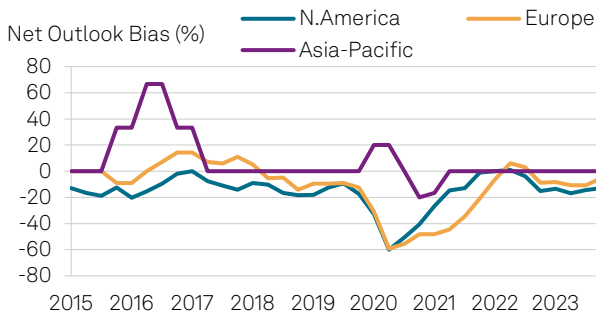


Chart 6
Ratings net outlook bias by subsector

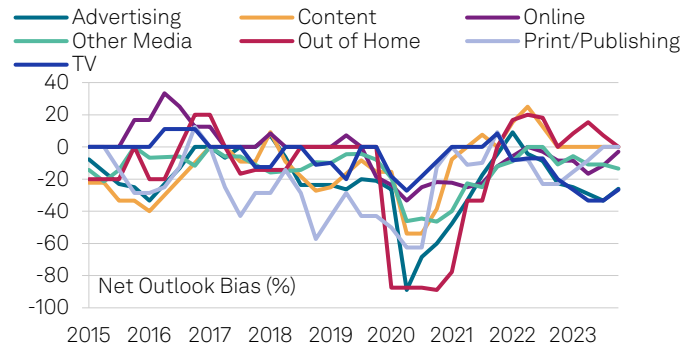


Chart 7
Ratings outlooks

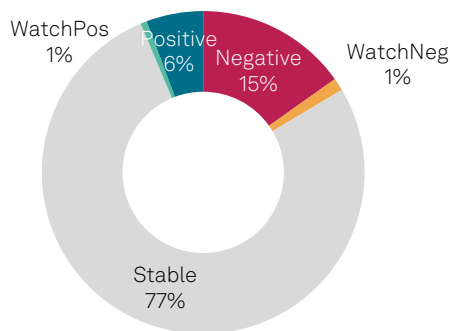
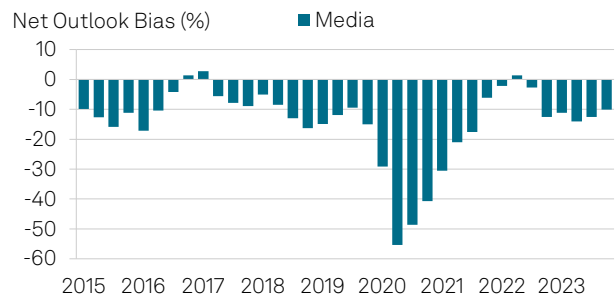


Chart 8
Ratings net outlook bias



Source: S&P Global Ratings. Ratings data measured at quarter-end.

Industry Outlook: Media and Entertainment

Ratings trends and outlook

Our two-year forecast for the global media and entertainment sector remains negatively biased. Since the start of the COVID-19 pandemic in 2020, the global media and entertainment industry has faced intensifying secular pressures. The pandemic affected consumer behavior, accelerating secular trends that were percolating prior to the global shutdown. These trends all pointed to greater dependence on digital platforms and digital distribution as audiences in key media markets around the world defected from linear TV to streaming, global box office suffered because audiences expected films would be released to streaming, and advertisers moved more of their ad budgets away from legacy media to digital platforms that offer superior audience targeting opportunities. Since the world emerged from the pandemic in 2021, the industry has struggled to remake itself and meet changing consumer behavior.

Many companies launched their own streaming services, constrained in-house captive studios to exclusively support them, and struggled to stem the decline of their linear TV networks. The decline of the still highly profitable linear TV ecosystem has been most painful because of oversize profits, which parent media companies used to finance film and TV studio productions, global expansion and investments, and share repurchases. Thus, media companies' revenue growth has been tepid, EBITDA declined, and free cash flow and credit metrics weakened.

We believe 2024 could be the year when the media sector begins to turn the corner and improves EBITDA and cash flow. Streaming losses should lessen, improving on a trend that began in 2023, and two streaming services--Warner Bros. Discovery Inc. (WBD)'s Max and The Walt Disney Co.'s Disney+--could turn sustainably profitable. As content production returns to normal following settlement of the 2023 Hollywood writers and actors strikes, film studios can do what they're supposed to do: make movies and TV shows.

After a year of weak global advertising due to geopolitical events and fears over a macroeconomic recession, we believe advertisers resumed spending in the second half of 2023. This recovery, however, has been limited to digitally focused media platforms, including search, streaming, social media, digital commerce, retail media networks, and connected TVs. Spending on legacy media (TV, radio, and print) remains weak. We expect these trends to continue into 2024, with only modest improvement in advertising on legacy media platforms starting in the second half. Linear TV, in particular, will benefit from the Paris Summer Olympics, the Union of European Football Associations' Euro Football Championship, and, in the U.S., advertising for a presidential election year.

Reassessing media's ratings and thresholds. As the industry navigates secular struggles, we are concerned that it isn't as strong as it has historically been. In particular, the streaming business may require more content investments and therefore be less profitable than the linear TV it is replacing. The studio business no longer has its previous earnings potential because content is no longer monetized across multiple third-party platforms globally. And legacy companies are losing advertising revenues to digital platforms. Diversified media companies can recapture a portion of this as they build scale with their streaming businesses, but pure-play digital media companies will benefit more. These issues could have negative ratings implications for legacy media companies. We plan to reevaluate our view versus other corporate sectors in 2024 and could adjust leverage thresholds and ratings for the industry or specific companies that we believe are more vulnerable or worse-positioned to adapt.

Although historically among key credit metrics we have primarily relied on leverage (i.e., debt to EBITDA), others are becoming increasingly important in our analysis. In particular, the secular

changes affecting media will likely permanently weaken cash flow. Thus, we could more often rely on free operating cash flow to debt in our ratings and outlooks.

Credit metrics and financial policy

We expect credit metrics will modestly improve in 2024 for global diversified media companies. Over the last two years, these companies have heavily invested in new original content as they launch streaming services, which has weakened credit metrics. As they now shift their focus to reaching profitability and improving cash flow, we expect modest EBITDA improvement as streaming EBITDA losses should improve faster than declines in linear TV. We expect companies to apply excess free cash flow to debt reduction. Still, many still have credit metrics above our ratings thresholds. How we address our ratings on these companies, by maintaining or lowering ratings, will depend on both their ability and pace to return to credit metrics appropriate for the ratings. A key driver to credit measure improvement is whether they increase streaming profitability faster than linear TV cash flow degrades.

We are watching the long-term impact of higher interest rates on the credit quality of lower-rated companies. We believe rates, for at least the next several years, will likely remain higher than the historic lows of the last decade. Thus, our ratings outlook for media issuers rated in the 'B' category and lower remains challenged. Refinancing and elevated financing costs will remain risks. Many media companies have addressed capital structure issues and extended maturities in 2023, but a high volume of maturities in 2025-2026 remain. This is particularly concerning in the U.S., where two-thirds of issuers have ratings in the 'B' and 'CCC' categories.

Key risks or opportunities around the baseline

1. Can streaming profitability approach that of linear TV?

Linear TV was very profitable, and we are uncertain if streaming can replace linear TV's earnings. While we expect streaming losses to improve significantly in 2024, it may be too early in streaming's development to speculate on long-term profitability. Besides Netflix Inc., no other media company has yet sustained streaming profitability.

2. Does media consolidation finally happen?

It has stalled over the past year as companies revise their streaming ambitions and deleverage their balance sheets. While there are many positive reasons for further consolidation, we believe regulatory concerns, access to capital, sizable differences in perceived valuation, and cultural issues will limit significant mergers and acquisitions (M&A) in 2024.

3. Artificial intelligence (AI) presents both opportunities and risks to media companies.

AI will likely unlock material workflow efficiencies, in particular reducing time and cost to create content. The new contracts that settled the strikes attempted to place AI guidelines in film and TV production. We expect ad agencies to adopt AI to better deliver creative campaigns. However, for companies that operate a largely cost-plus model, this could lead to lower per-campaign creative revenue. AI regulation will also evolve, potentially limiting its immediate effects on ad-dependent media companies.

4. Continued privacy and regulation changes could limit targeted advertising opportunities.

Further tightening of privacy regulation and privacy-preserving measures could limit the ability to target users and measure results of ad campaigns, affecting digital advertising revenue. This could weaken the credit strength of advertising companies that fail to adapt longer term.

Significant M&A are challenging even though consolidation is needed for the media industry to remain independent. The digitalization of content delivery, driven in part by the launch of captive media businesses by global tech companies, has turned a regionally centric media industry to global and has exposed those legacy media companies that don't have scale to global competition. Consolidation would appear to be a solution to the problem of scale. However, it has been minimal over the past 18 months as companies have focused on deleveraging their balance sheets after several years of heavy investments in streaming.

We believe significant M&A will be challenging to pull off in 2024 for several reasons. First, regulators have taken a negative view on the scale of the global technology companies and have sought to block most transactions involving media and technology companies. Second, as one would expect among a people-driven industry, cultural compatibility remains a key consideration for the media sector. Third, we believe a significant valuation gap remains between what potential acquirers are willing to pay and what potential targets think they're worth, especially for legacy linear TV assets. Finally, balance sheets remain stretched among both potential acquirers and targets, limiting debt-financed deals and making targets expensive versus public market multiples.

Prospects for industry consolidation in Europe, the Middle East, and Africa (EMEA), especially in linear TV broadcasting, remain uncertain. We believe obtaining approvals from regulatory and competition authorities could be challenging, given that so far regulators have ruled against regional consolidation in France. Unlike in the U.S., we believe synergies in content acquisition and cross-country operating costs would likely be limited, reducing the attractiveness of cross border transactions.

Adoption of AI by legacy media companies will be gradual rather than abrupt as the technology evolves and is subject to regulatory and legal risks. Despite AI dominating news headlines for most of 2023, it has yet to materially shift media companies' business strategies or financial and credit metrics. Over the near term, we expect media companies to use AI to improve workflow efficiencies by reducing time and costs to create content. Film and TV studios are likely to use AI to start development of scripts. Global ad agencies have quickly adopted AI to better deliver creative campaigns. Over the long term, we believe technological disruption, including the adoption of generative AI, will likely enhance ad agencies' service offerings and market positions. They already own some technology and experience in this area and will continue to invest. This positions them well to advise and educate clients on AI's application and related regulatory, legal, and compliance considerations.

Elevated regulatory risks could hamper digital advertising growth and put pressure on our ratings on ad companies. Privacy regulation and consumer preferences continue to change toward higher privacy and less trackable data available for targeting digital advertising. Changes in privacy measures require companies to constantly adapt their business models and how they collect customer data. This makes access to first-party data especially important and requires investment in data assets and technologies. Inability to remain competitive could lead to downgrades in our ratings and negative revisions in outlooks, especially on smaller and less diversified media companies.

Outlook For Content

Ratings trends and outlooks

Our rating outlook trend for media companies focused on creating and owning film and TV content is neutral. Original long-form video content (film and TV) remains the lifeblood of the entertainment industry. The old adage about media, "content is king", remains as true today as when media magnate Sumner Redstone said it years ago. The Hollywood writers and actors strikes constrained short-term growth prospects for the content ecosystem as many projects were delayed or abandoned. The strikes lasted several months, but their effects will linger well into 2024 and beyond. Disrupted, delayed, or cancelled products have left holes in global film release slates and streamers' programming schedules. While content production should return to normal by the second half of 2024, film and TV release schedules won't be repaired until 2025.

Content also includes non-film and non-TV creators, such as music publishers, video game developers, and sports leagues and teams. Our rating outlooks for these sectors is positive. Music continues to have strong industry tailwinds that support our forecast for the sector. Monetization of music is improving as music streaming services such as Spotify, Amazon.com, and Apple Inc. raise prices and music publishers strike deals with social media platforms that open new monetization avenues. Premium video-game publishers continue to have solid engagement and demand, supported by strong intellectual property (IP). While challenges persist in mobile gaming, which historically had been the fastest expanding video game segment, games with stronger IP and a track record of success are more immune to these trends. Sports operators such as NASCAR and TKO Group Holdings Inc., which owns both Ultimate Fighting Championship and World Wrestling Entertainment, continue to garner steep increases in TV broadcast rights. Sports remains the only genre without precipitous viewership declines on linear TV.

Main assumptions about 2024 and beyond

1. The content bubble hasn't burst, but it is deflating.

The runaway train of increasing content spending to fuel streaming growth has slowed as media companies pivot from subscriber growth at all costs to achieving profitability by rationalizing content spending. This is further cemented by the strikes that halted or delayed content production and gave film and TV production studios the opportunity to further rethink projects and reduce content production plans.

2. Film and TV production returns to normal by mid-2024.

In the meantime, as everyone tries to ramp up production, it could be chaos as projects fight over sound stage time, crews and equipment, and talent.

Media companies reassess their content strategies. Over the past few years, they dove headfirst into building their streaming platforms, and an explosion of spending on new content was a key part of their growth strategy. Entering 2023, the companies reassessed this strategy and began scaling back content spending. We expect that to continue to moderate into 2024 as studios pivot their focus toward improving profitability and cash flow, and are more discerning in both how much they spend and what type of content they produce. Several studios have reduced spending guidance, including Disney's \$25 billion on content in 2024 as opposed to its previous guidance of \$29 billion. Additionally, studios are reassessing exclusivity for content as many, during the streaming subscriber craze, had stopped licensing content to third-party companies.

These studios are now more willing to license library content to competitors. This change has two benefits to the studios: It improves profitability and cash flow, and it can widen the appeal of the licensed content. Warner Bros. Discovery did recently with nonexclusive licensing deals for HBO and DC Comics content for Netflix. We expect the studios to continue to tinker with their content and licensing strategies as they optimize their streaming platforms and drive profitability.

Media companies have begun repairing their studio model. This business used to generate solid cash flow from the licensing of library content to third parties. With the launch of in-house streaming services, this stream mostly disappeared from the large captive studios. However, many have moved back to a hybrid model that includes both content made exclusively for in-house streaming and third-party licensing. This should restore some profitability and cash flow.

Key risks or opportunities around the baseline

1. As streamers cut content budgets, independent studios' bottom lines could be pressured.

Independent film and TV studios have benefitted the last few years as media companies spent persistently to build out their nascent streaming platforms. With the pivot toward profitability, that spending pipeline has slowed. In addition, captive global studios have reembraced a model that again includes a third-party licensing component. This has increased supply, pressuring the value of content. We believe this will turn up pressure on smaller, independent studios' bottom lines, which already faced the scarcity of talent, crews, and studio space.

2. The cost of sports TV broadcast rights increases and increases.

Sports leagues and networks are the prime beneficiaries of linear TV's dependence on sports programming. They also are willing to sign main broadcast deals with linear TV, as opposed to streaming services that could offer significantly more money, because of linear TV's broad reach. We expect TV networks to continue to win major broadcast rights with secondary packages being awarded to pure-play digital companies. Upcoming sports broadcast rights renewals that could significantly increase fees include the National Basketball Association domestic market and NCAA college football playoffs.

3. Opportunities are there to consolidate film and TV studios, especially outside the U.S.

M&A could help smaller studios get much-needed scale and increase efficiency, but we do not expect many deals as balance sheets are already stretched. The regulatory environment in the U.S. is less favorable for larger players, particularly tech companies, to make acquisitions. We believe there are more acquisition opportunities within the European studio ecosystem as even larger European studios are far smaller than those buried within global diversified media companies. However, we are skeptical that many transactions will be completed due to tough financing conditions and difficulty agreeing on valuations.

Outlook For Content Distribution

Ratings trends and outlook

Our rating outlooks for those media companies engaged in distributing content, which includes linear TV, movie exhibitors, and direct-to-consumer video streaming services, is negatively biased, especially for those media companies that own linear TV. This media segment continues to face significant secular pressures as digitalization (i.e., the internet) changes the way content is distributed. Our outlooks for U.S. national TV and streaming, which face the brunt of these changes, is solidly negative while we are neutral on local TV broadcasters because they have yet to experience the same pressures on operating and financial metrics. These secular changes will eventually affect linear TV across the world, and our country-specific views reflect that varied pace. For example, it may be gradual for some markets (such as France and Germany, where there are strong local language programming options). Conversely, many English language markets, including the U.K. and Australia, are not far behind the U.S. in terms of competitive pressures from streaming services. We believe the Hollywood strikes were opportunities for the media sector, and in particular their streaming businesses, to rethink programming spending plans and accelerate their path to profitability.

Main assumptions about 2024 and beyond

1. Streaming losses will meaningfully improve.

After years of elevated investments in building their streaming services, we believe 2023 marked the peak of losses for the major global streaming services. We expect several will turn profitable in 2024. The path to profitability will be fueled by both average revenue per user (ARPU) growth, through price increases and advertising, and reduced content and marketing spending. We would not be surprised if smaller players that lack content and library scale and the ability to absorb losses to continue investing in streaming abandon their ambitions. European linear broadcasters will likely continue investing in streaming in the near term as they face less fierce competition than their U.S. peers and still have capacity.

2. Pressure to the linear TV model continues unabated.

While the greatest stresses are in the U.S., pressure on the global linear television ecosystem is intensifying as audiences leave to digital platforms and advertising remains weak. We expect U.S. pay-TV subscriber declines to remain steady at about 8% in 2024, with subscribers to legacy multichannel video programming distributor services declining at over 13%, somewhat tempered by virtual pay-TV subscribers expanding 4.5%. Overall pay-TV penetration in the U.S. will decline to about 50%. This will not affect all media companies uniformly. Ironically, those with greater exposure to sports may be better positioned to retain revenues, but the high fixed costs for sports rights fees means that margins and cash flow may decline faster.

3. The global box office was on the path to recovery before the Hollywood strikes.

They hurt the 2023 nascent global box office recovery and disrupted the theatrical release schedule. We don't expect the box office to resume increasing until 2025 as many films originally scheduled for release in 2024 have been delayed to 2025, leaving holes in the 2024 film slate. As a result, cinema operators' metrics remain under pressure as these companies still bear very high debt and cash interest burdens.

Finally, streaming has a path to profitability. Every major streaming platform turned the corner in 2023, and we expect meaningful improvements in 2024, with several achieving modest profitability by the end of the year. This will come as ARPU significantly expands due to price increases enacted throughout 2023 and higher advertising revenue through ad-supported tiers. We think streaming services have additional room to continue raising prices. Consumers are accustomed to modest annual price increases like Netflix has done at regular intervals for many years. Additionally, even as streamers raise prices, they provide lower-priced, ad-supported tiers that can retain subscribers who are less willing to pay more without meaningfully increasing churn, which should reduce subscriber acquisition costs. We also expect cost discipline to further aid in reducing streaming losses. Media companies have pared back content and marketing spending and are much further along in launching in global markets, which have significant upfront investment costs that affect profitability.

It remains an open question as to what the long-term margin profile will be for streaming and whether its cash flow can replace that of linear TV. Netflix has achieved 20% margins through global scale and efficient content spending and monetization. Could legacy media companies achieve, or even exceed, these margins? Netflix has avoided high-priced sports rights while media companies can monetize content costs across both streaming and linear TV platforms.

Companies that lack scale and sufficient resources to invest in streaming will continue to scale back growth ambitions, especially in the U.S., where competition is fierce and linear viewing is rapidly declining due to cord cutting. AMC Networks and Lionsgate/Starz already took such actions, and we expect others to follow over the next few years. Our outlooks on such players are increasingly negative because we think they will struggle to retain audiences and remain competitive over the medium term. Growth over time in their streaming revenue is unlikely to offset declines in the linear TV business.

Media companies in Europe continue building out local streaming platforms. Netflix, Amazon, and Disney dominate most of these subscription video-on-demand markets. Local broadcasters still have relatively few subscribers compared with global platforms, but are expanding their streaming presence and building strategies around local content offering. European broadcasters lack scale and financial resources compared with global powerhouses and need to carefully balance programming investment against reducing profits and cash flow. At the same time, many benefit from owning integrated production studios that help them produce and acquire original content and build broader libraries that underpin their streaming offerings. Similar to global platforms, they tend to have multiple pricing tiers ranging from free ad-supported to premium paid. In the near term, in our view digital advertising revenue from streaming will surpass subscription revenue, but it should help broadcasters offset the decline from linear TV advertising.

In the U.K., ITV PLC continues to invest in platform development and original content in ITVX, which in the second quarter of 2023 reached 12.5 million monthly active users and 1.4 million subscribers. We think this investment will weigh on ITV's margins in 2024. In Germany, Bertelsmann SE & Co. KGaA is investing in RTL+, a broad bundled service that provides access to on-demand video, music, magazines, and audiobooks and to Videoland, which surpassed 6 million subscribers in 2023. We don't expect it will become profitable within the next 12-24 months. CME Media Enterprises Ltd.'s streaming service Voyo competes very successfully against global platforms in the Czech Republic because of its focus on local content. Some smaller local streaming-oriented players that lack this advantage scaled back their expansions and restructured operations in the face of declining advertising markets and high competition. Global players such as WBD have also curbed their investment in local content and streaming expansion, exiting several European markets.

Linear TV is still bleeding viewers. The ecosystem, especially in the U.S., continues to face secular challenges. We anticipate that profitability and cash flow will further degrade. We forecast that U.S. pay-TV subscriber declines will remain in the 8% area in 2024, resulting in a low-single-digit percentage annual decline in affiliate revenues, and that viewership will decline at the current teens percentage rate, resulting in a low- to mid-single-digit decline in advertising revenues. TV has been supported by sports programming historically available exclusively on linear TV, but more media companies are also putting it on their streaming platforms, which could exacerbate linear TV's decline. Recently Disney—owner of ESPN, the leading sports-focused network in the U.S.—said it expects to launch an ESPN streaming service in 2025 that would have the same content as its linear TV network, which could further accelerate the decline of linear TV.

Can sports save U.S. national TV? Sports has been a major support to the linear ecosystem and is one of the few bright spots for viewership and advertising. If more sports and viewership shift to digital over time, we would expect advertising to follow. This finally seems to be the case for general entertainment advertising, which has declined double-digit percentages in 2023. However, premium sports programming can be found on alternative distribution media (e.g., both NBC and Paramount make their NFL broadcasts available on their streaming platforms and TV networks, Amazon has the rights to the NFL's Thursday night game, and Alphabet's YouTube has the NFL's Sunday Ticket package). Linear TV networks use sports to better protect their top lines so they can garner bigger affiliate fee increases and capture a greater share of advertising spending. However, networks incur higher programming costs that are likely to increase even as revenues come under greater pressure. Conversely, advertising and affiliate fee revenues are increasingly weaker for linear TV networks without sports, but they have a greater ability to control programming costs. Thus, we expect greater margins and cash flow degradation for those with significant exposure to sports, and weaker revenues and cash flow for those lacking sports.

U.S. local TV is performing well, but secular clouds are forming. The near-term forecast on local TV broadcasters in the U.S. is less negative than nationally focused TV network and cable network companies due to relatively low content spending needs and fewer near-term pressures on key revenue streams, in particular retransmission revenue. Local TV broadcasters are not immune to the rising pay-TV subscriber declines affecting nationally focused media companies. Over the last few years, local broadcasters have more than countered these declines by increasing retransmission fees by double-digit percentages, exceeding pay-TV subscriber declines. But we believe this will be more difficult as broadcast networks prioritize content for their streaming platforms, weakening the programming on their broadcast networks and the ability to command sufficient price increases to offset increasing subscriber churn.

Still, we expect retransmission revenue will remain stable for the next few years as live news and sports remain must-have content. Recognizing that network content is becoming less exclusive, the local TV broadcasters are also trying to shore up additional content. Many have acquired sports rights over the last year, particularly local teams looking for greater reach amid the collapse of regional sports networks.

The secular changes in linear TV affect broadcasters across the world. In some EMEA markets, for example France and Germany, regulation and strong local language programming support linear viewership and broadcasters' competitive standing against global media platforms. Conversely, many English language markets, including the U.K. and Australia, are not far behind the U.S. in audience declines and competitive pressures from streaming services. EMEA broadcasters continue building out their streaming services, which will weigh on margins in the next two to three years, but in our view, they still have capacity to invest.

Strikes set back the global box office recovery; what does 2024's revised film slate look like?

For cinema exhibitors, the Hollywood strikes couldn't have come at a worse time. They wrecked

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the film theatrical release slate for the second half of 2023 and into 2024, setting back the domestic box office recovery that had accelerated with the summer releases of WBD's "Barbie" and Comcast Corp.'s "Oppenheimer". As a result, the box office will remain well below pre-pandemic levels in 2023, with admissions about 30% below 2019 figures. Higher ticket prices and strong spending per patron on concessions, which remain well above 2019, will partly offset this.

The theatrical releases of some completed big budget films (such as WBD's "Dune: Part Two") were delayed into 2024 because actors were prevented from publicizing their films. Partially completed films (such as Walt Disney's "Deadpool 3") didn't hit their original release dates. Also, new projects couldn't get started, so their release dates were pushed out into 2025 and beyond. We therefore expect limited improvement in the global box office in 2024, hampered by fewer film releases. That said, we anticipate continued ticket price inflation, mostly through increasing adoption of dynamic pricing strategies, and resilient concession spending. We also believe cinemas will remain the main channel for blockbuster film releases and don't expect near-term changes to theatrical windows.

For cinema operators, we believe credit metric improvement will be limited. Revenue growth will mainly come from higher ticket prices and concession spending. Still, persistently higher costs (especially related to staff and energy), which originally rose in 2022, and high interest costs will depress profitability and cash flow. AMC Entertainment Holdings Inc., Cineworld Group PLC, and Vue Entertainment International Ltd. all made progress in fixing their balance sheets, but the lackluster second-half box office results in 2023 pressured those repaired balance sheets, leaving the companies susceptible to a weak 2024 box office. If admissions don't pick up or there is further disruption to release schedules, lower-rated operators risk free cash flow deficits continuing into 2024 and eroding their liquidity.

Brazil's Globo continues to advance its successful online platform Globo. In Latin America, diversified media company Globo Comunicacao e Participacoes S.A. continued to advance its digital transformation, seeking to adapt to audiences that are increasingly inclined to streaming platforms and online channels. The main strategy in that direction is the expansion of the online platform Globoplay, through which it has sought to connect the media and content segments via new business and technology partnerships. New partners include Xandr Inc., a technology company focused on advertising, curation, and data management, to improve marketing in digital platforms and TelevisaUnivision for the distribution of international content in Globo's platforms, reaching a broader market for proprietary content. Even though the company does not publicly disclose much information about the platform's performance, the subscriber base has been increasing steadily over the last few years, 10%-12% each of the last few quarters.

Key risks or opportunities around the baseline

1. Streaming profitability may be structurally lower than that of legacy TV.

U.S. linear TV was very profitable, generating margins in excess of 40% for unscripted networks. It is unclear if streaming will ever replace the linear TV's earnings. Still, streaming is early in its development. Besides Netflix, no other major streaming service has yet achieved profitability.

2. The Disney/Charter deal may provide a blueprint that makes TV bundles more attractive.

The September distribution agreement is a first step in blending the linear TV and streaming ecosystems and could be a positive for the ecosystem. It brings more value to the consumer through high-quality streaming content and rationalizes costs by eliminating long-tailed TV networks. We believe this could become a template for others and help alleviate pay-TV churn.

3. Streamers could finally benefit from sports rights ownership.

For several years, streaming platforms have acquired broadcast rights for sports leagues (e.g., Alphabet's YouTube TV won the NFL's Sunday Ticket package, Amazon won the NFL's Thursday night game, and DAZN outbid Sky for Italy's Serie A's domestic broadcast package). But in most cases, these wins remain opportunistic. It's unclear whether they can sustainably monetize these rights. However, as they snap up more sports rights in competition with linear TV networks and broadcasters, these wins could accelerate the decline in linear TV and help growth in streaming subscribers.

Scale is key for streaming profitability. Netflix has reached more than 20% margins largely due to its global reach (close to 250 million subscribers) and cost discipline, which allows it to keep cost growth below revenue growth. While the remaining streamers since the end of 2022 are controlling costs far better, they have yet to achieve the same global scale, a key component of improving margin. Disney is the furthest along with 112 million Disney+ core subscribers (150 million including Hotstar), while Max is at 95 million) and Paramount+ at 63 million. These companies' ability to continue increasing ARPU while still building out their global scales and subscriber bases will be instrumental in sustainably building profitable businesses that can offset the secular challenges in linear TV.

The Disney/Charter agreement deal could give linear TV model a boost. We believe this landmark agreement has broad ramifications for the media sector. Pay-TV is still the largest cash flow stream for media companies, and they have sought to preserve it even as they build out their streaming services. By bundling direct-to-consumer services into the pay-TV bundle, this agreement may add life to the bundle for two reasons: Consumers may now feel there's value in continuing to subscribe, and the deal may also smooth the transition from pay-TV to streaming because of greater subscriber scale. This will help media companies better migrate advertisers from linear TV to ad-light streaming and accelerate profitability.

We also believe it could slow the migration of traditional pay-TV subscribers to virtual pay-TV alternatives or over-the-air viewing. We believe the subscriber economics for local broadcasters are better from traditional pay-TV providers than from virtual providers. At the same time, we believe the amount and stability of cash flow from retransmission revenue are materially better than the advertising revenue generated from over-the-air viewing. While we believe there still could be blackouts from time to time between pay-TV distributors and local TV broadcasters, both this agreement and the Nexstar Media Inc./DirecTV distribution deal support our view that broadcast television, which includes news and sports, continues to be must-have programming.

Outlook For Advertising

Ratings trends and outlook

We expect our ratings on most advertising-dependent companies to remain stable in 2024 despite our anticipation that real global economic growth will remain weak for the next two years. Our ratings outlook primarily reflects these key points:

- Slow economic growth in key advertising geographies, including the U.S. and Western Europe in 2024 and 2025.
- Better-than-GDP growth in global advertising spending. This includes modestly improved advertising in legacy media, such as linear TV and radio, but not until the second half of 2024.
- Increasing divergence in advertising trends for digital media platforms, such as connected TV, social media, e-commerce, and retail media networks, which will accelerate in 2024, versus legacy media platforms such as linear TV, radio, and print, where advertising will continue to decline due to worsening structural trends. We don't expect a recovery in either linear TV or print to pre-pandemic advertising.
- Global diversified media companies' exposure to the pressures on linear TV advertising. But they also benefit from growth in digital advertising on their proprietary streaming platforms.

We took several rating actions over the last 18 months as advertising revenues for legacy media weakened and thus far failed to recover. We both lowered ratings and revised outlooks on most advertising-dependent media companies. In particular, we lowered our ratings on U.S. radio companies whose advertising revenues continue to decline and on digital programmatic advertisers with significant exposure to economically challenged verticals, including mortgage refinancing, insurance, and retail.

We expect credit metrics of ad-based companies will gradually strengthen in 2024, especially if, as we expect, advertising on legacy media improves in the second half. In the U.S., companies that earn political advertising revenue will benefit from the presidential election. We assume most companies will remain focused on controlling costs, and so we expect slower growth in wages (which accounts for about 65% of operating costs) as inflation gradually eases. Improving cost efficiency due to technological advancements and completion of restructuring and cost-saving programs should also allow them to invest in tech and data capabilities without materially weighing on profits.

Global ad agency holding groups could increase their top lines above GDP, but remain exposed to macroeconomic risks. We believe this business model remains relevant in the rapidly evolving media universe. Over the past several years, agencies have refocused and rationalized their business portfolio mix, increasing data and tech capabilities and expanding into faster-expanding market segments such as e-commerce, sponsorships, experiences, and public relations. Additionally, the digital advertising ecosystem has become much more complicated, with numerous advertising options requiring more tailored approaches or creative and more frequent targeted campaigns, and increased demand for measurable outcomes. This complexity has benefitted ad agencies because most advertisers lack the staff, expertise, data, and analytical capabilities to navigate this new advertising ecosystem.

Large investment-grade ad holding groups generally have good rating headroom for organic investments, potential M&A, or shareholder returns. Companies have been doing sizable share buybacks in 2023, but could scale this back in 2024 if macroeconomic conditions soften to avoid a material weakening in credit metrics. We expect companies will remain very selective with large M&A and don't assume acquisitions will materially pick up at least until the second half because macroeconomic conditions might remain volatile and cost of capital remain high.

Main assumptions about 2024 and beyond

1. Legacy advertising trends will remain weak into 2024.

We expect U.S. GDP to increase 1.5% in 2024, U.K. GDP to increase 0.4%, and eurozone GDP to increase 0.8% as tightened monetary conditions dampen consumer and business demand. Advertising trends are highly correlated with consumer spending, which is broadly the largest component of GDP (two-thirds in the U.S.).

2. Legacy advertising trends will remain weak into 2024.

S&P Global economists expect prolonged, slow economic growth in key advertising markets (U.S., U.K., and Germany). We expect consumer spending to weaken and, as a result, do not see an improvement in legacy ad spending until at least the second half. However, the impact on the various advertising media will vary greatly, as advertising on digital will continue to expand at high-single-digit percentages and outdoor platforms at mid-single-digit percentages. We expect core legacy linear TV advertising, which excludes the 2024 Summer Olympics in Paris and U.S. election spending, will continue to modestly decline, while radio advertising will be relatively flat after steep declines in 2023.

3. Digital advertising remains the growth engine for the advertising ecosystem.

We forecast global digital advertising revenue will increase at a high-single-digit percentage rate in 2024, reflecting stabilizing global macroeconomic growth, albeit modestly slower than in 2023. Digital was the first ad sector to slow in 2022 and the first to recover starting early in 2023. Digital video and retail media networks will be the fastest expanding subsegments as both benefit from the continued shift to online shopping, digital video consumption, and connected TV and better demographic targeting provided by video on demand viewing.

4. Performance-based advertising will continue to outperform brand advertising.

Companies have pulled back more on brand advertising over the last year and increasingly shifted their ad spending toward performance-based advertising as they look to use advertising budgets more efficiently. These campaigns are more data-driven and likely to result in a customer response. Similarly, national advertising has been more challenged over the last year while local advertising has performed better due its greater focus on direct response.

The impact on advertising from weak economic conditions will vary widely by medium.

Advertising formats already facing secular pressures, such as network television, cable television, radio, and print, will likely incrementally decline over the long term as advertisers reassess the efficacy of these formats given the continued audience declines. Meanwhile, we expect digital advertising will increase significantly faster than GDP in 2024 and continue to drive total nominal advertising growth. We expect performance-based digital advertising, retail media, social media, connected TV, and video advertising will outperform slow growth in programmatic advertising (which is more commoditized and more cyclical).

Media and entertainment companies in China face another challenging year in 2024, following an uneven recovery in 2023.

Chinese consumers are likely to remain cautious as consumer confidence is muted, particularly as concerns that the property sector downturn could continue to weigh on the economy. Therefore, China's online advertising spending is likely to increase in the mid-single-digit percentages in 2024 as advertisers are reticent to spend amid tepid demand for discretionary consumer goods. Some online platforms such as Tencent Holdings Ltd.'s short-form video platform, WeChat Channels, will benefit from increasing advertising load to monetize an expanding user base and activity. This may result in advertising share losses for some online

social media platforms, particularly those with a greater proportion of image- or text-based content and more heavily reliant on brand advertising.

The secular shift of advertising away from traditional media will continue. We think much of the current weak advertising trends for legacy media, including linear TV, is not due to macroeconomics but to secular changes. Advertisers are finally abandoning linear TV. While audiences have been leaving linear TV in key markets such as the U.S. for quite some time, advertisers have been slower to follow because the available impressions and unique viewers on all ad-based streaming services remain too small to make buying on streaming platforms efficient. In addition, ad-based streaming services still must solve several major structural issues, especially a lack of industry standards (audience measurement, buying, etc.) between the streaming services, before advertisers more fully embrace advertising on streaming.

However, as new free ad-supported channels and ad-supported tiers of global online streaming platforms create more ad inventory, they could further dilute linear TV advertising pricing and shift ad dollars away from linear TV. In 2023, the declines in TV advertising in Europe were less pronounced compared with U.S. networks, but markets with weaker economic growth, in particular Germany, were hit hard. In 2024, we expect TV advertising revenue will recover, but similar to the U.S. remain below 2021-2022 levels. We believe broadcasters will continue diversifying operations into content production, distribution, and streaming.

We believe print advertising will continue to decline, reflecting a weaker economy and continued structural shift to digital media consumption. Outdoor advertising growth will remain sluggish from weak economic growth but continue to benefit from continued expansion of digital outdoor formats that now account for more than 30% of their revenue and the ongoing recovery of mobility. Global out-of-home operators such as JCDecaux Group will especially benefit from a recovery in international travel, including an expected rebound in mobility in, to, and from China compared with depressed 2023.

Online classified platforms' exposure to advertising remains modest, with digital (mostly programmatic) advertising below 30% of total revenue. In 2024, we expect faster growth in digital advertising will benefit these businesses, complementing their subscription revenue from listing packages with professional clients and offsetting some macroeconomic pressure.

We expect advertising spending by the technology sector to start recovering in 2024 after a temporary decline in 2023 that followed weaker operating results and a cost-cutting focus. This could particularly benefit those ad agencies, such as WPP PLC and The Interpublic Group of Companies Inc., that have higher exposure to tech clients. Ad agencies having the strongest offering in data analytics and targeting, such as Publicis Groupe S.A., should continue to achieve above-average growth rates even in the low-growth macroeconomic environment. Agencies will also capture the rapid growth in retail media. Omnicom Group Inc. recently made its largest ever acquisition, a digital commerce business to scale up its presence in retail media.

Key risks or opportunities around the baseline

1. Lower economic growth could stall any improvement in legacy advertising.

Advertising spending is highly dependent on key periodic macroeconomic indicators (GDP, consumer spending, employment, etc.). Persistently high inflation and higher interest rates for longer could more quickly deplete consumer savings, weaken consumer discretionary spending, and delay an improvement in legacy advertising spending.

2. We expect little visibility into forward advertising trends.

Digital (now making up over 70% of global advertising) and radio advertising are characterized by short lead times. This has been exacerbated by advertisers' caution in committing to spending because they are concerned about macroeconomic weakness. The uncertainty has extended to the U.S. TV sector, which faced both uncertainty with the macroeconomic forecast and Hollywood strikes. As a result, advertisers were reluctant to make early commitments in the 2023/2024 U.S. TV season upfront (for non-sports ad inventory), instead looking to delay commitments in the scatter market.

3. Privacy and regulation changes continue.

Further tightening of privacy regulation and privacy-preserving measures implemented by the largest tech platforms could limit the ability of ad companies to target users and measure results of ad campaigns, thus affecting digital advertising revenue. This could weaken the credit strength of advertising companies that fail to adapt over the longer term.

Elevated regulatory risks could hamper digital advertising growth and put pressure on our ratings on ad companies. Privacy regulation and consumer preferences are changing toward more privacy and less trackable data for targeting digital advertising. Changes in privacy measures require ad companies to constantly adapt their business models and change ways in which they collect customer information. This makes access to first-party data especially important and requires investment in data assets and technologies. Inability to remain competitive could lead to downgrades or negative outlook revisions, especially on smaller and less diversified companies. For example, Alphabet said that it will turn off third-party cookies on Google in the second half of 2024.

Related Research

- [SLIDES: U.S. Media And Entertainment Industry: Key 2024 Themes And Concerns](#), Jan. 3, 2024
- [U.S. Advertising Forecast Powered By Digital](#), Jan. 2, 2024
- [The Ratings View](#), Nov. 29, 2023
- [Bertelsmann SE & Co. KGaA](#), Nov. 28, 2023
- [That's All, Folks: Key Takeaways From Media And Entertainment Q3 Earnings](#), Nov. 22, 2023
- [Credit FAQ: Increasing Static Around U.S. Broadcast Radio's Recovery Prospects](#), Nov. 14, 2023
- [Credit FAQ: Disney vs. Charter: Broader Implications For Pay-TV](#), Sept. 29, 2023
- [S4 Capital Downgraded To 'B+' From 'BB-' On Weaker Growth Outlook And Profitability; Outlook Stable](#), Sept. 26, 2023
- [Warner Bros. Discovery Inc. 's Leverage Is Modestly Higher Following New Forecast](#), Sept. 1, 2023
- [Netflix Inc. Upgraded To 'BBB+' On Improving Margins And Strong Cash Flow; Outlook Stable](#), Aug. 2, 2023
- [The Walt Disney Co. Ratings Affirmed Amid Strategic Uncertainties; Outlook Remains Positive](#), July 31, 2023
- [Industry Top Trends Update | North America: Media and Entertainment](#), July 18, 2023
- [Second-Half 2023 Media Outlook: Secular Challenges Magnified By An Ad Recession](#), July 10, 2023
- [Gauging The Business Risks Of Local U.S. TV Broadcasters \(2023 Update\)](#), June 21, 2023
- [Paramount Global Downgraded To 'BBB-' On Expectation For Continued Elevated Leverage; Outlook Stable](#), March 29, 2023
- [Credit FAQ: Calculating Leverage For Large U.S. Media Companies \(2023 Update\)](#), March 13, 2023
- [Credit FAQ: The Ripple Effects Of Diamond Sports Group's Potential Default](#), Feb. 15, 2023
- [Assessing The Impact Of Higher Interest Rates On U.S. Media And Entertainment Companies Rated 'B-'](#), Jan. 9, 2023
- [Media Industry Implications From Our Rating Action On AMC Networks Inc.](#), Dec. 22, 2022

Industry Forecasts: Media and Entertainment

Chart 9
Revenue growth (local currency)

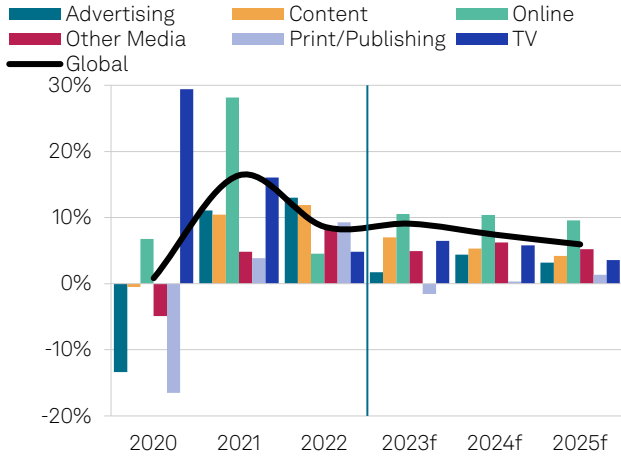


Chart 10
EBITDA margin (adjusted)

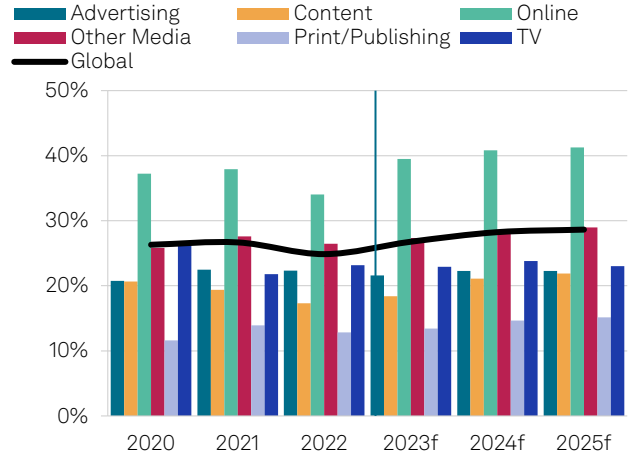


Chart 11
Debt / EBITDA (median, adjusted)

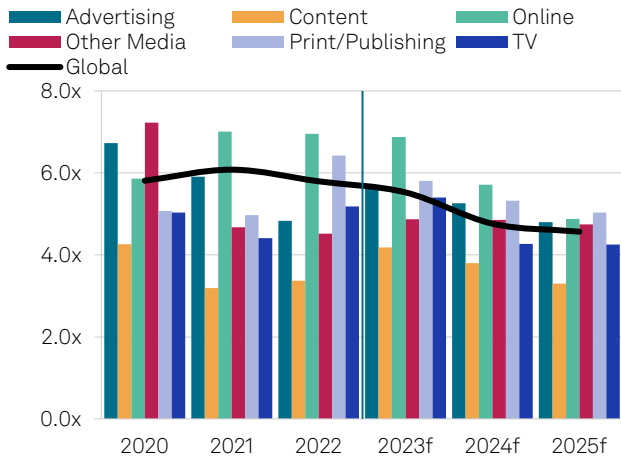
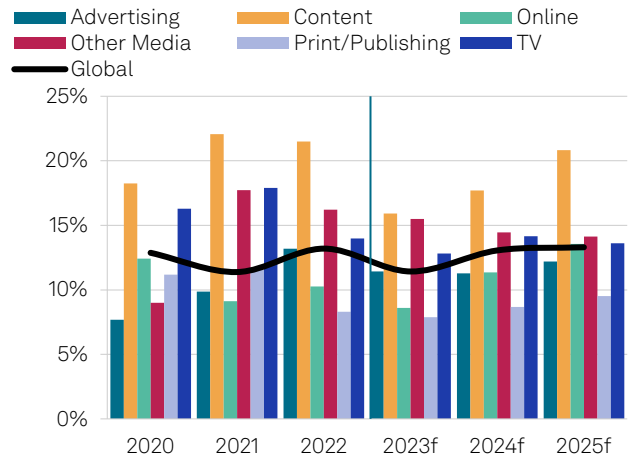


Chart 12
FFO / Debt (median, adjusted)



Source: S&P Global Ratings. f = Forecast.
Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations.

Cash, Debt, And Returns: Media and Entertainment

Chart 13

Cash flow and primary uses

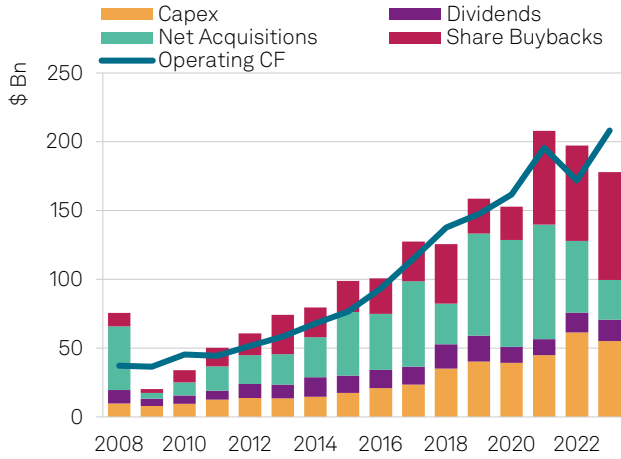


Chart 14

Return on capital employed

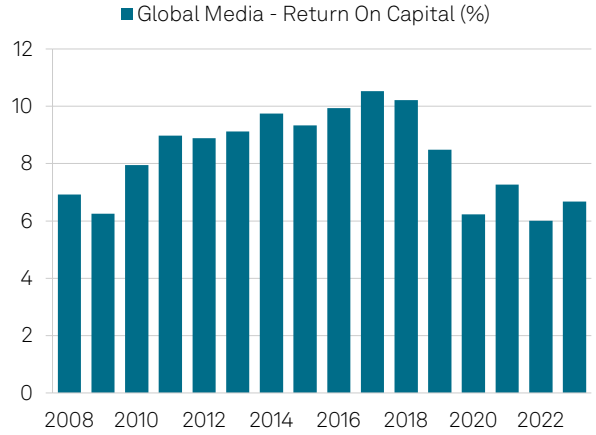


Chart 15

Fixed- versus variable-rate exposure

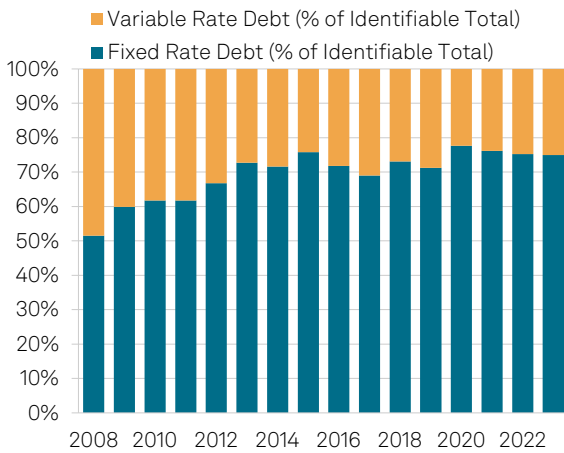


Chart 16

Long-term debt term structure

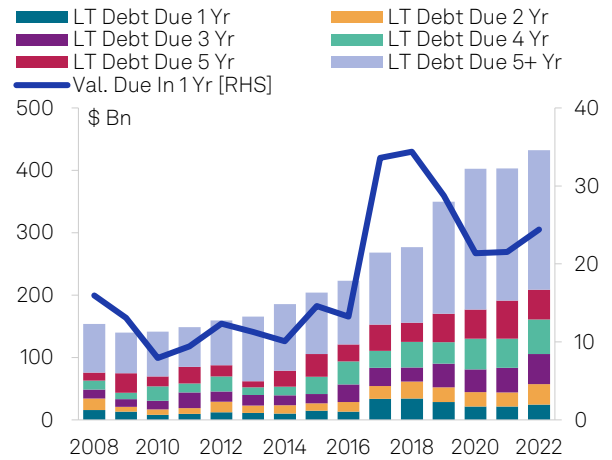


Chart 17

Cash and equivalents / Total assets

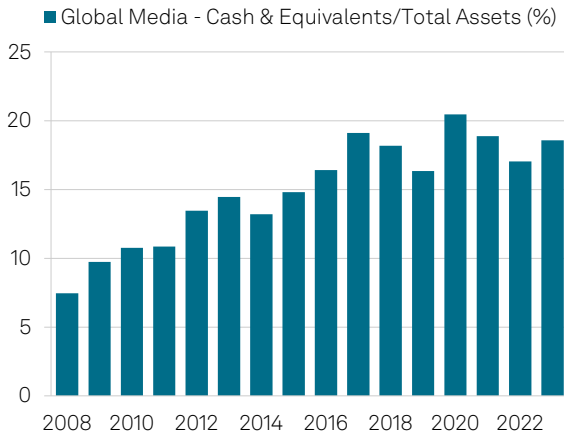
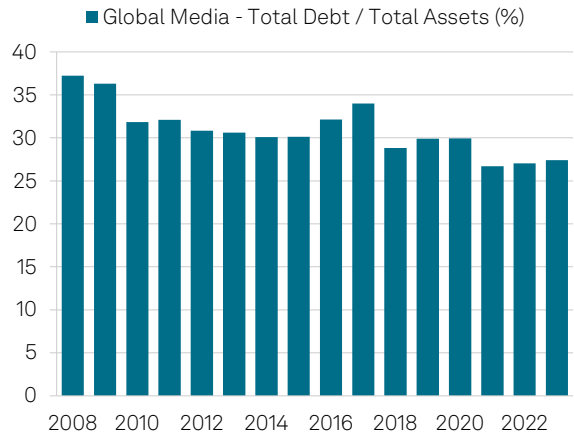


Chart 18

Total debt / Total assets



Source: S&P Capital IQ, S&P Global Ratings calculations. Most recent (2023) figures use the last 12 months' data.

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