

Media and Entertainment

Faster, higher, stronger: All bets are on the second half

This report does not constitute a rating action.

What's changed?

Advertising revenue, including on TV, is recovering. Advertising growth is robust on the back of a soft macroeconomic landing and reducing inflation. We expect tech companies' ad spending to recover from the second half of 2024, supporting the performance of agencies that rely more heavily on this sector. Linear TV advertising is recovering in the U.K., Germany, and France (after declines in 2023); expanding in Central and Eastern Europe; and declining sharply in the U.S.

Content production is returning to a normal cycle. Hollywood strikes and budget cuts by streamers in 2023 caused delays in production activity; however, production has resumed and demand for content, especially local content, remains robust. This should allow the largest independent producers to increase their revenue by 3%-5% in 2024. Global streaming platforms invest in nonscripted and selected high-quality scripted productions, especially in local non-English languages. In May 2024, RedBird IMI acquired All3Media (which remains an independent producer), while Mediawan increased its scale by merging with Germany-based Leonine.

What to look out for?

Winners and losers in the AI race. Many companies are already implementing AI in their products, which allows them to reduce operating and production costs (ad agencies in creative pitches; content producers in distribution, postproduction, and visual effects; and scientific and data publishers in content editing). Some have reached licensing agreements with tech companies and unlocked additional revenue streams (such as Axel Springer, Informa). However, we are monitoring the potential risks from AI of increased competition and disruption to media companies' business models, especially for content publishers.

Whether the box office picks up. Cinema operators bear high debt and cash interest burdens and rely on the box office to recover in the second half of 2024 and bounce back in 2025 following a light film slate and a lack of blockbuster releases.

If large mergers and acquisitions (M&A) pick up. Many companies have recently strengthened their balance sheets and have capacity to invest inorganically, but we have seen a limited number of large M&A deals. We think regulatory and competition concerns will constrain consolidation. Businesses that were acquired by private equity sponsors five to seven years ago could also see IPOs and spin offs now that they have fully recovered from the COVID-19 pandemic and have largely completed business turnarounds and cost cutting.

What are the key risks around the baseline?

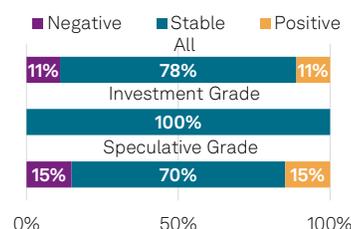
More restrictive regulation around privacy and AI could hamper growth. In May 2024, the EU passed the AI Act that imposes strict regulation on high-risk AI systems and general-purpose AI models. We think large, diversified companies are well placed to adapt to stringent regulation. Smaller companies could struggle to adjust their business models and remain competitive and may lack the resources needed (financial and employee skills) to address regulatory requirements.

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Rating Trends

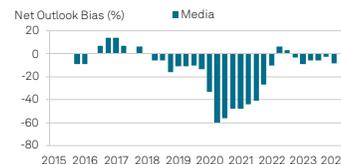
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	9	27	36
Downgrades	0	0	0
Upgrades	2	5	7

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	1.4	4.3
EBITDA growth (Y/Y%)	4.7	8.8
EBITDA margin (%)	21.8	18.9
Capex growth (Y/Y%)	4.6	10.4
Debt/EBITDA (x)	2.0	5.9
FFO/Debt (%)	37.6	9.1
FOCF/Debt (%)	30.2	5.8

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

Related Research

[Research Update: Mediawan Holding SAS Assigned Preliminary 'B' Rating; Outlook Stable; Proposed Debt Assigned Preliminary 'B' Rating, June 4, 2024](#)

[Research Update: Universal Music Group BV Upgraded To 'BBB+' On Robust Business Performance And Low Leverage; Outlook Stable, May 29, 2024](#)

[Research Update: JCDecaux SE Outlook Revised To Stable On Improving Credit Metrics And Travel Recovery; 'BBB-' Ratings Affirmed, May 23, 2024](#)