Industry Top Trends Update

Media and Entertainment

Pandemic in the rearview mirror, secular trends in focus

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What's changed?

Rating activity is skewing positive. The U.S. economy's recovery has accelerated, supported by government stimulus, and widespread vaccination, allowing markets to reopen. Positive rating actions have exceeded negative actions by 3:1.

Out-of-home (OOH) entertainment is starting to show signs of recovery. Live events, theme parks, film and TV studios, and movie exhibitors are continuing to ramp up operations as government-imposed capacity restrictions ease, although revenues will not likely return to pre-pandemic levels before 2022 at the earliest.

M&A activity has picked up. Companies are bolstering content offerings to increase subscribers on their owned streaming services. Pending transactions include Discovery/WarnerMedia, Amazon/MGM, and Univision/Televisa's media assets.

Secular trends are front and center. As the direct impact from the pandemic recedes, focus has returned to pre-pandemic concerns, including worsening decline in linear TV, faster shifts in advertising, ongoing elevated spending on content, and increased competition among streaming services.

How is recovery taking shape?

OOH entertainment is recovering fast. Demand at OOH venues is strong as governments and local municipalities relax/end restrictions. Concerns about a COVID resurgence/new variants are not affecting consumer behavior significantly.

Advertising-dependent sectors rebound. We've seen 8.8% growth in ad spending in 2021, although recovery is uneven across sectors. Digital advertising growth remains robust. TV and billboard advertising should return to 2019 levels in 2021. Radio and transit advertising will take longer to recover.

Credit metrics are recovering; ratings may not. While revenues could generally return to 2019 levels by 2022, secular trends unleashed/accelerated by the pandemic may delay rating recoveries for many companies, especially those that borrowed to bolster liquidity while generating little to no cash flow.

What are the key risks around the baseline?

A slowdown in economic growth. A third COVID wave that leads to an economic pullback would hurt recovery of advertising-dependent sectors.

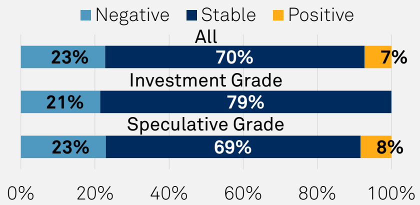
Accelerating secular trends. Fragmenting audiences and shifts in advertising toward digital platforms may accelerate, increasing pressures on legacy media.

Debt repayment is not prioritized. Companies with elevated leverage prioritize cash balances toward investments, acquisitions, or shareholder returns rather than debt repayment, delaying the return to pre-pandemic credit measures.

Latest Related Research

- The Post-Pandemic Recovery Will Be Coming Soon To A U.S. Movie Theater Near You, April 29, 2021
- 2021 Advertising Trends Are Nicely Up, With Some Sectors Lagging, April 12, 2021
- Here's What The U.S. Media And Entertainment Sector Has In Store For 2021, Jan. 6, 2021

Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	14	96	110
Downgrades	0	4	4
Upgrades	0	12	12

Ratings data as of end-June, 2021

COVID-19 Heat Map

Ad Supported Media	
Estimated Recovery To 2019 Credit Metrics	1H 2021
Potential Negative Long-Term Industry Disruption	--

2020 v. 2019		
Revenue Decline	**EBITDA Decline**	**Incremental Borrowings**
10% to 15%	15% to 25%	5% to 10%

2021 Estimates v. 2019	
Revenue Decline	**EBITDA Decline**
0% to 10%	0% to 10%

Out-of-Home Entertainment	
Estimated Recovery To 2019 Credit Metrics	2023
Potential Negative Long-Term Industry Disruption	Yes

2020 v. 2019		
Revenue Decline	**EBITDA Decline**	**Incremental Borrowings**
>50%	>60%	>25%

2021 Estimates v. 2019	
Revenue Decline	**EBITDA Decline**
40% to 50%	>50%