S&P Global
Ratings

U.S. Media And Entertainment Industry

Looking For Bright Spots Amid The Industry's Sea Of Gloom

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This report does not constitute a rating action

Key 2024 Industry Themes And Concerns

Issue	What's The Big Deal?
Streaming profitability	• Finally, streaming has a path to profitability with meaningful improvements expected in 2024. • What is the long-term margin profile for streaming? • Not every streaming service will succeed--what will companies do to survive if their service underperforms?
Advertising trends	• Overall advertising has recovered, with digital performance ad growth reaccelerating. • Legacy media advertising trends remain weak, with brand advertising still soft. How much is due to secular versus cyclical trends? • Assessing advertising trends is very difficult given limited predictability (weeks rather than months and quarters).
Content remains king	• The content bubble hasn't burst, but it is deflating. • Media companies used the guild strikes to reset content spending. Productions have resumed but spending will be lower in 2024 and will grow at a more moderate pace. • Owning the right intellectual property (IP) is still the differentiator between media companies.
Film industry	• The 2024 release slate is in disarray following writers and actors strikes. • Box office recovery is put in jeopardy by holes in release schedules as projects are delayed or cancelled. • Media companies are repairing studio models as they resume third-party licensing.
Linear TV	• Advertisers are leaving linear TV as audience ratings tumble and ad-supported streaming grows in scale. • Sports is a double-edged sword--revenue is holding up, but fixed broadcast rights fees impair cash flow and margins. • Will the Disney-Charter agreement slow down the rate of cord cutting?
Industry consolidation	• Necessary if the media industry wants to remain independent but significant challenges could prevent mergers and acquisitions (M&A). • Wide differences in perceived value is a headwind—what are linear TV networks worth? • Current U.S. regulatory regime not favorable for media consolidation.
Capital markets	• Challenged capital markets constrain M&A and financing upcoming maturities and limit capital investments. • Low-rated companies more affected by elevated interest rates because they were designed for a low interest rate environment. • Leverage versus free cash flow to debt.

2024 credit metrics

- 2024 could be the year when the sector turns the corner and improves EBITDA and cash flow.
- Achieving streaming profitability, or at least reducing losses, will be the biggest source of improved credit metrics.
- A return to new content production will normalize profitability and cash flow metrics in the back half of 2024.
- Continued weak legacy ad trends will hurt those companies without digital platforms.
- The long-term question remains, can media companies increase streaming operating metrics faster than linear TV operating metrics decline?

It Is Time To Reassess Media Business Prospects

Company	Rating	Leverage (x)	FOCF/debt(%)
Walt Disney	A-/Positive/A-2	3.1	12.3
Netflix	BBB+/Stable/--	1.2	67.5
Fox	BBB/Stable/--	1.3	33.0
Warner Bros. Discovery	BBB-/Stable/A-3	5.4	10.7
Paramount	BBB-/Stable/A-3	31.2	-3.6
AMC Networks	B+/Stable/--	8.4	2.0

Ratings as of Jan. 2, 2024. All ratios are S&P Global Ratings-adjusted. WBD FOCF includes securitization. Disney, Paramount, and WBD leverage includes programming write-downs--without those charges, leverage would be 2.7x for Disney, 5.5x for Paramount, and 4.8x for WBD. Source: S&P Global Ratings.

Rationale – Media is a weaker business than it used to be

- Streaming will require greater content investment and higher churn and have lower margins than linear TV
- Linear TV is in secular decline--Advertisers and audiences are exiting and only sports is barely keeping linear TV afloat
- The studio model is broken as captive studios sacrifice syndication/licensing revenue and independent studios give up long-term ownership for cost-plus pricing

Which media companies could be affected by a **review?**

- The entire sector or only selected companies?

Timing

- Companies are still experimenting with streaming model and pricing
- Launch of FAST and ad-supported video on demand streaming services
- Captive studios resumed licensing content to third-party streamers
- Disney needs to prove that it can achieve streaming profitability
- Content production is still feeling hung over from settled guild strikes
- Linear TV advertising--secular decline or cyclical recession?

Potential ratings impact

- Leverage threshold tightening
- Adjusted balance between key credit measures--leverage and free operating cash flow (FOCF) to debt
- Ratings actions may not be immediate--give time for companies to adjust to new leverage thresholds

Legacy Distribution Overhangs Media Sector

Business direction for media and entertainment sector (1-2 years)

	Cyclicality risk	Secular pressures	Growth opportunities	Business tailwinds/headwinds
Ad-agencies	Medium	Low	Medium	Neutral
Legacy ad-based				
Local TV	Medium	Medium	Medium	Neutral
National TV	Medium	High	Low	Negative
Outdoor	Medium	Low	Medium	Neutral
Radio	High	High	Low	Negative
Digital ad-based				
Programmatic	Medium	Low	High	Positive
Social media	Medium	Low	High	Positive
Search	Medium	Low	High	Positive
Content and distribution				
Film and TV studios	Low	Medium	High	Positive
Music publishers	Low	Low	High	Positive
Sports leagues	Low	Low	High	Positive
Video games	Low	Low	High	Positive
Video streaming	Medium	Low	High	Positive
Out of home entertainment				
Live events	High	Low	High	Positive
Movie theaters	Low	Medium	Medium	Neutral
Theme parks	High	Low	High	Positive
Media and entertainment	Medium	Medium	Medium	Neutral

Source: S&P Global Ratings.

Media is a diverse industry. Legacy distribution businesses are under secular pressure while content-creating businesses are still the key to industry sustainability.

- Advertising resumed growing by mid-2023, with digital, especially social platforms, reporting healthy ad trends.
- Advertisers are increasingly following audiences, shifting spending to digital platforms from legacy media platforms .
- Legacy ad-based platforms continue to report weak results, and we believe advertisers have permanently left legacy platforms, including national TV.
- Content remains in high demand, and consumers will continue to pay a premium for high quality content. This includes not just film and TV but also sports broadcast rights, music, and video games.
- Demand for experiential entertainment, including live events and theme parks, remains healthy overall despite risks that consumer spending may slow.

U.S. Advertising: Secular Versus Cyclical Trends

Overall U.S. advertising has turned the corner

- After a year of ad declines, advertisers have returned to digital platforms
- Legacy media platforms continue to report soft advertising trends
- Limited predictability since ad budgets are allocated monthly
- Advertising hurt by category-specific issues--technology, entertainment, and insurance

Will advertisers return to legacy linear TV?

- Advertising on linear TV hurt by writers' and actors' strikes--lack of fresh content, advertisers held back in upfront (weak pricing)
- Sports consuming linear TV ad dollars, putting pricing pressure on general entertainment
- As TV advertising pricing (cost per thousand viewers) tumble, will small advertisers save TV?

How is streaming's foray into advertising progressing?

- Audience fragmentation and lack of subscriber scale and uniqueness limits effectiveness
- Structural issues, including lack of standardization

Local advertising more resilient

- Local advertisers have fewer options to reach consumers

Where are advertisers spending their dollars?

- Retail media--Over $40 billion and growing by double digits
- Connected TVs--Still working through early-stage issues including standardization

S&P U.S. ad forecast (%)

Segment	2024e	2025e
Digital	+10.2	+8.5
Local TV*	+14.0	-13.9
Network TV§	+6.7	-11.9
Cable TV§	-4.0	-3.0
Total TV	+3.4	-8.4
Radio	+1.5	-1.5
Outdoor	+4.0	+2.8
Advertising (ex digital)	**+1.8**	**-5.9**
Total advertising	**+7.6**	**+4.3**
U.S. GDP	+1.5	+1.4

*Includes political. §Includes Olympics in 2024. e—Estimate,
Source: "U.S. Advertising Forecast Powered By Digital", Jan 02, 2024.

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Advertising Is Dead. Long Live Advertising!

Advertising remains the single best way for companies to increase revenue

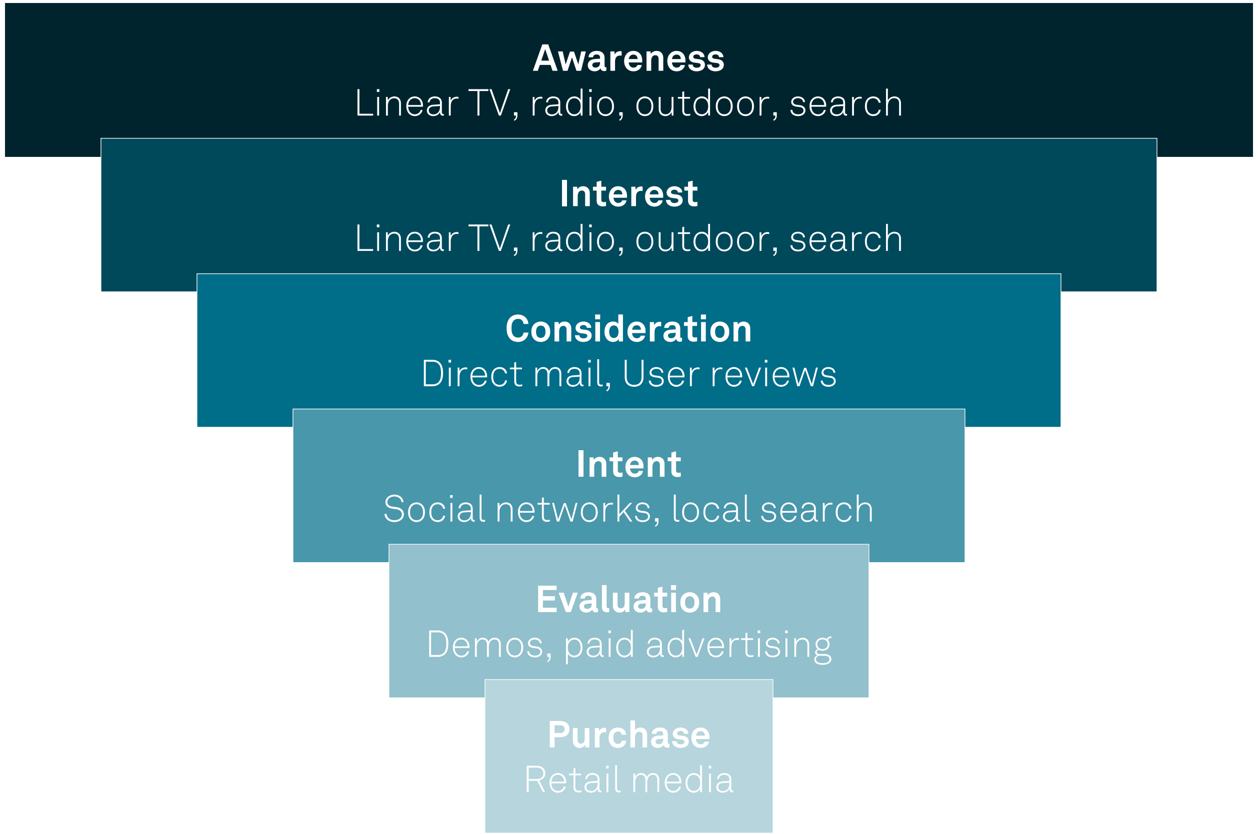
Advertisers are increasing spending and shifting dollars down funnel

- Advertisers still need brand advertising to build brand awareness
  - Television remains the best way to build brand despite shrinking audiences
- Ad pie benefitting as line between marketing and advertising has blurred
- Advertisers focused on optimizing performance advertising through middle and bottom of funnel

Digital-focused platforms capturing advertising market share

- Retail media networks (>$40 billion)
- Connected TV (including streaming)

Advertising funnel



Source: S&P Global Ratings.

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Can Media Migrate From Linear To Streaming?

Disney's groundbreaking agreement with Charter

- Charter pay-TV subs get access to ad-lite Disney+, ESPN+, and ESPN DTC (direct to consumer, when launched)
- Long-tail cable networks at risk
  - Charter drops eight of Disney's cable networks
- We believe this agreement could modestly increase Disney's revenue & EBITDA
  - Higher affiliate fees for ESPN, ABC stations, and other Disney networks
  - Revenue loss from eight niche networks dropped from the pay-TV bundle
  - With addition of Charter pay-TV subs, Disney+ and ESPN+ grow scale for advertisers

Implications for the pay-TV ecosystem

- Agreement provides seamless path to move consumers to streaming from linear TV
- Disney likely to offer similar terms to other pay-TV distributors, which will drive further scale for Disney's DTC services
- Charter will ask for similar terms from other media companies, which could put other long-tail cable networks at risk
- Opportunity for cable to play the role of video (linear TV and streaming) aggregator and differentiate itself from streaming aggregators (Roku, Amazon), direct broadcast satellite operators (no streaming), and telcos (no video)

Could this slow the pace of cord cutting?

- Modestly, but this agreement will need time to be applied across the pay-TV ecosystem

Long-tail linear networks

Company	Long-tail networks	LTM affiliate revenue ($000)	% of total revenue
Comcast (NBCUniversal)	8/20	858	0.7
Fox	0/8	0	0.0
Paramount	17/29	557	1.8
Walt Disney	7/19	1,441	1.6
Warner Bros. Discovery	15/32	928	2.2

Note: Analysis doesn't include impact to linear TV advertising. LTM—Last 12 months. Source: S&P Global estimates, S&P Global Market Intelligence (Kagan).

The Decline of Linear Television

TV subsector competitive positioning heat map

TV subsector	Risk of content substitution	Risk of reduced carriage from cord shaving or retiering	Risk of cannibalization from streaming applications	Cord-cutting rate relative to industry average
Broadcast TV networks	Low	Low	Low	Equal
Local TV stations	Low	Low	Low	Equal
Sports and news	Low	Low	Low	Moderately higher
Lifestyle	Moderate	Low	Moderate	Moderately higher
Spanish-language	Moderate	Moderate	Moderate	Higher
General entertainment	Moderate	Moderate	High	Higher
Regional sports networks	Moderate	High	High	Higher
Children	High	Moderate	High	Higher
Premium cable networks	High	High	High	Higher

Source: S&P Global Ratings.

Linear TV's decline is accelerating

- Two negative trends drive decline: audience declines and cord cutting.
- Pace of decline critical as cash flow from linear TV supports industry's subscription video on demand (SVOD) investments.
- No company immune but impact from decline will vary by TV subsector.
- Regional sports networks and premium networks already being dropped from pay-TV bundle.
- Nat'l broadcast networks and local TV stations unlikely to be dropped.
- Sports (National Football League [NFL] and college football) holding pay-TV bundle together due to limited alternatives.
- While sports networks' revenue may decline more slowly, cash flows and margins will decline faster due to fixed broadcast rights.

S&P base U.S. cord cutting

Year	Legacy (%)	Total (%)*
2021 actual	8.8	4.3
2022 actual	11.1	7.0
2023 forecast	12.4	7.1
2024 estimate	13.2	8.3

*Includes virtual operators. Source: "Cord-Cutters Worsens Raising Concerns About Future of U.S. Pay-TV Ecosystem", May 15, 2023.

Assessing Media Companies' Streaming Strategies

Company	OTT strategy	Key streaming brands	Brand strength	Content library	Owned IP	Overall cash flow	Overall position	Comments
Netflix	Broad reach (SVOD and AVOD)	Netflix	High	High to Moderate	Moderate	High	High	• Technology platform is gold standard • Not owning a studio isn't a strategic weakness, at the moment • Free cash flow positive in 2022
Walt Disney	Segmented across multiple services (SVOD and AVOD)	Disney+, Hulu, ESPN+, Star	High	High	High	Moderate	High	• Strongest IP and brands • What does Disney do with Hulu and its general entertainment content? • Flagship ESPN DTC service in 2025
Warner Bros. Discovery	Broad (SVOD and AVOD)	Max, Discovery+, Eurosport	High to Moderate	High	High	Moderate to Low	High	• Leverage Discovery's global reach • Could be very successful given Warner library and strong brands
Paramount	Tiered approach, with premium, SVOD, AVOD, and FAST	Paramount+, Pluto TV	Moderate to Low	Moderate	Moderate	Low	Moderate	• Hired gun strategy may be only way to generate cash flow • Limited financial flexibility and smaller IP/library • Broad DTC strategy hits all four quadrants
Comcast (NBCUniversal)	Hybrid/AVOD	Peacock	Moderate	Moderate	Moderate	High	Moderate	• Streaming viewed as complementary to linear TV • Global partnership strategy outside of cable/Sky footprint
Sony	Niche	Crunchyroll Pure Fix	Low	Moderate	Moderate	High	Low	• Niche strategy for key genres, incl. anime • Supplier to third-party streamers
Fox	FAST	Tubi Fox Nation	High	Low	Low	High	Low	• Streaming limited to Fox Nation and Tubi • Resisting offering sports DTC service

We believe that it's no longer too early to pick winners and losers.

Media companies are pursuing different streaming strategies that reflect their IP and content libraries.

Key factors for success include:

- Scale and subscriber growth
- Subscriber retention
- Branding and consumer awareness
- Foundational brands
- Pace of originals and size of library
- Profitability and cash flow

AVOD--Advertising-based video on demand. SVOD--Subscription video on demand. FAST--Free advertising supported streaming television. Source: S&P Global Ratings.

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Relative Global Positioning

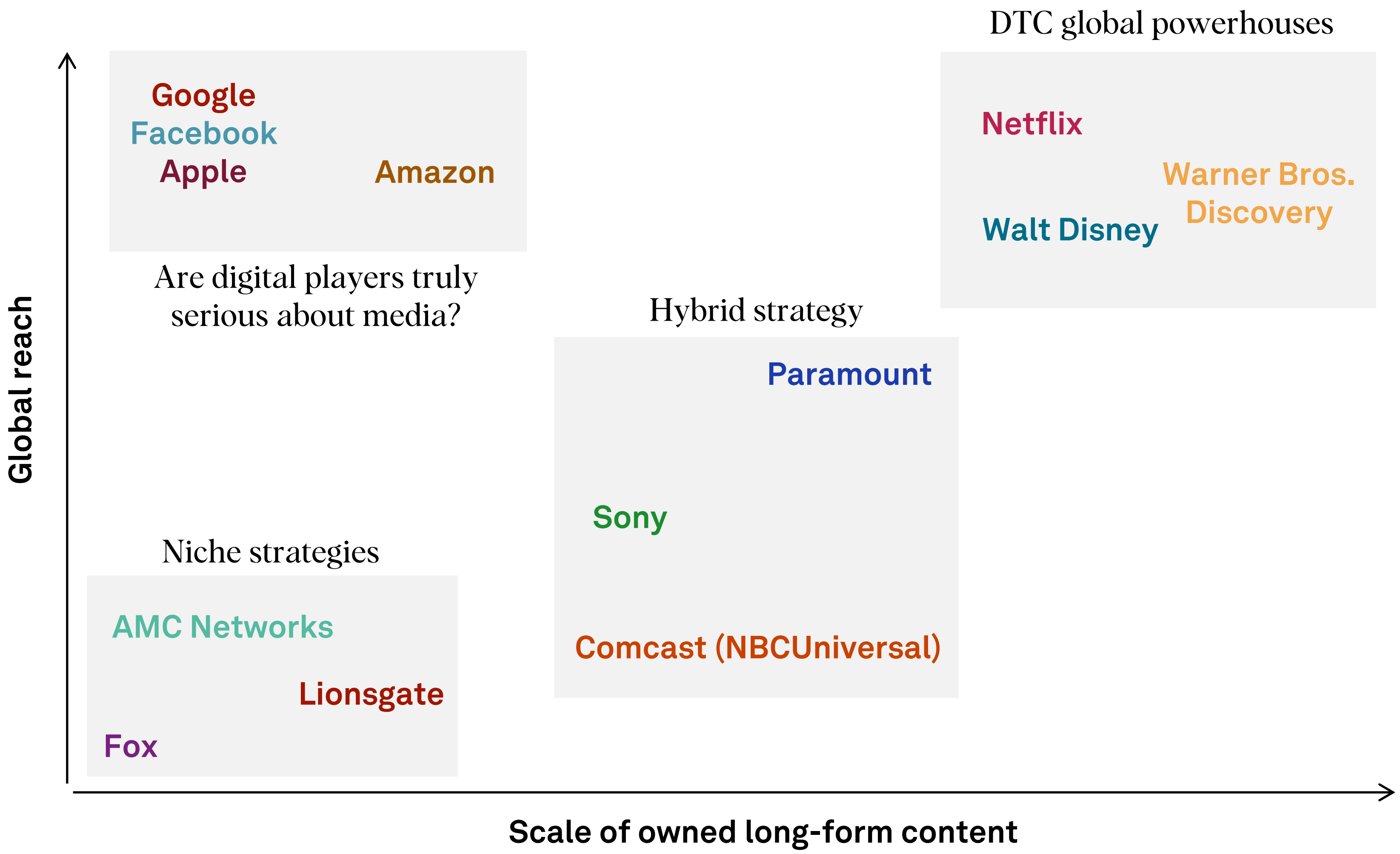


Chart not illustrated with actual data. Source: S&P Global Ratings.

General entertainment SVOD services can only achieve profitability and free cash flow with economies of scale (global reach and scaled content)

- Only **Netflix**, **Walt Disney**, and **Warner Bros. Discovery** have scale in owned content and global reach.
- **Midsize major studios pursuing** a hybrid strategy, supporting in-house streaming but also selling or licensing content to third parties.
- While the **technology companies** have global reach, they have yet to commit to building scale in content, and we are not convinced that they want media as more than a retention tool.
- **Companies with smaller content libraries** have pulled back on streaming plans as they acknowledge that niche services can't replace linear TV.

Streaming's 2024 Priorities

2024 is the year to prove streaming can be a profitable business

- Reset both sides of the equation – push ARPU growth and reset costs

From where will ARPU growth come?

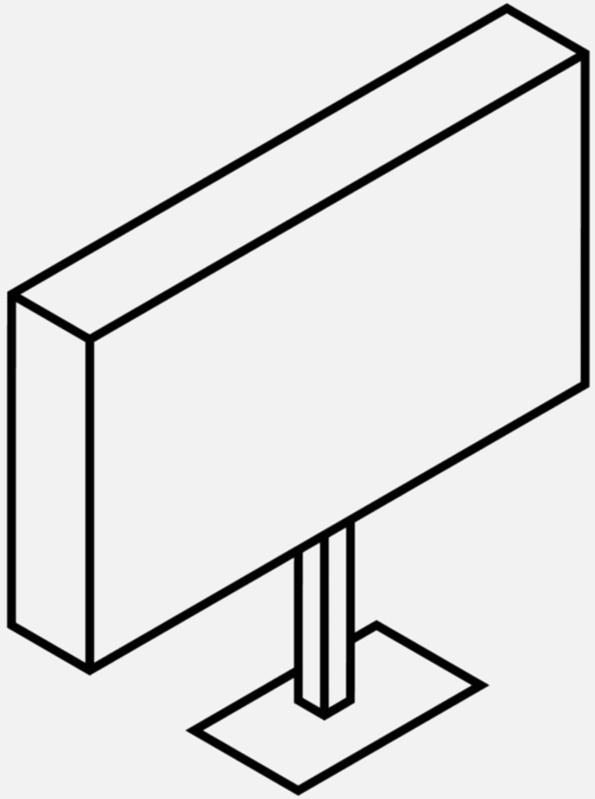
- Subscription price increases for ad-free tiers
- Advertising
- Maturity of U.S./Canada market
- What is the ultimate global total addressable market and penetration?

How will the streamers achieve free cash flow?

- Reset content spending
- Gain control of non-programming costs (marketing, technology, sales, general and administrative)
- Controlling churn is essential to reach cash flow break-even point

What kind of business is streaming?

- Streaming has lower margin and cash flow potential than legacy linear TV model
- Lack of reporting transparency and metrics makes it difficult to analyze spending
- One size doesn't fit all – SVOD vs. AVOD vs. hybrid vs. FAST
- Does streaming model have to replace legacy linear TV and studio syndication profits?



Streaming's 2024 Priorities (continued)

Streaming profitability

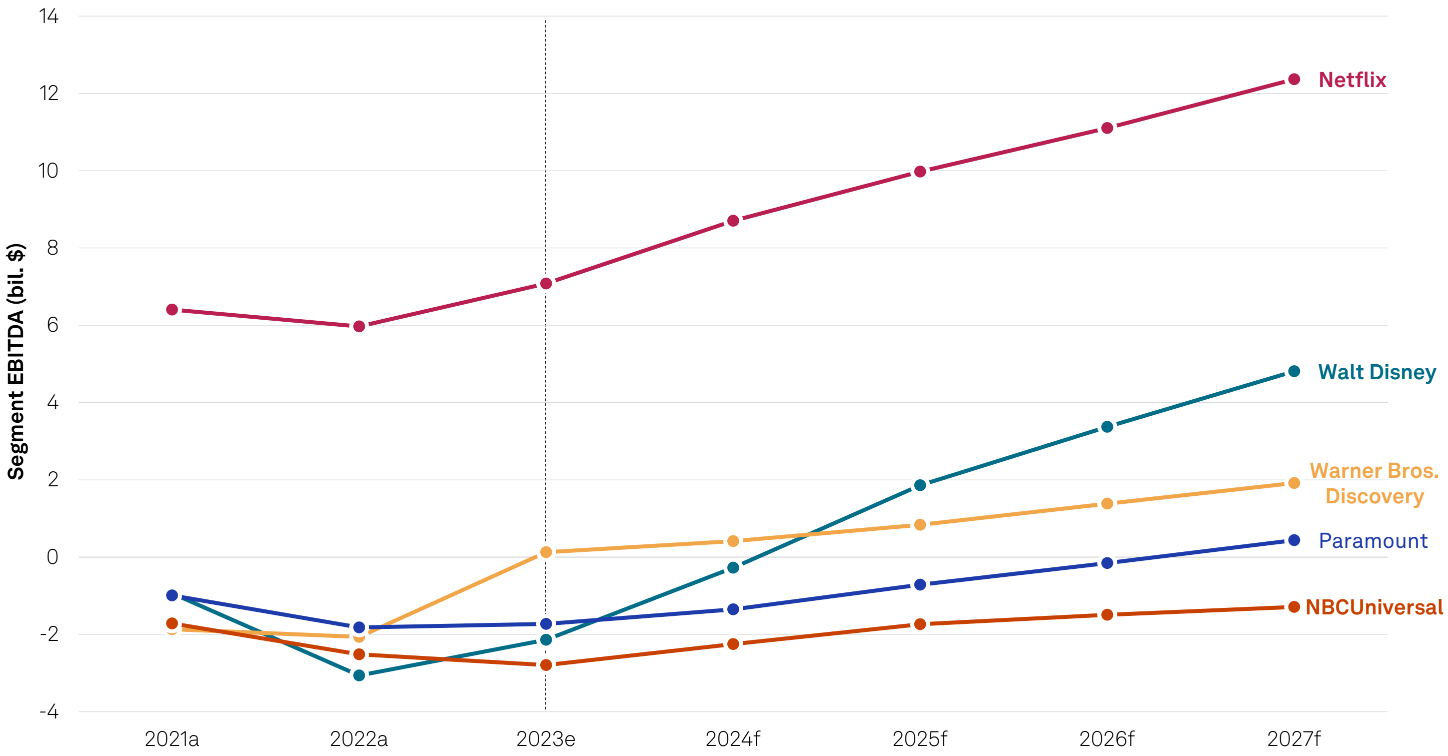
	Q4'22	Q1'23	Q2'23	Q3'23
Advertising revenue (%, year-on-year growth)				
Peacock	98.2	25.6	77.3	39.2
Warner Bros. Discovery	75.7	27.2	24.7	30.2
Paramount	4.3	14.7	21.5	18.5
Walt Disney	-8.6	-17.7	-15.3	3.8
Total	9.5	-1.1	6.6	14.9
Distribution revenue (%, year-on-year growth)				
Peacock	100.0	83.3	68.7	89.2
Warner Bros. Discovery	-0.7	-2.1	1.3	5.7
Paramount	48.3	49.9	47.5	45.8
Walt Disney	15.3	16.9	15.2	15.8
Total	15.2	16.2	16.4	18.9
Total revenue (%, year-on-year growth)				
Peacock	97.0	45.1	84.7	64.0
Warner Bros. Discovery	3.9	-2.4	13.4	5.2
Paramount	30.2	38.7	39.6	37.7
Walt Disney	11.5	10.5	9.0	12.1
Total	15.3	12.2	18.3	17.0
Programming cost (%, year-on-year growth)				
Peacock	103.4	76.0	73.6	26.3
Warner Bros. Discovery	3.8	-9.0	-5.5	-11.5
Walt Disney	34.4	16.2	9.9	-0.1
Total	31.4	13.9	10.9	-0.6

	Q4'22	Q1'23	Q2'23	Q3'23
Sales, general and administrative (%, year-on-year growth)				
Peacock	43.0	4.1	37.4	21.0
Warner Bros. Discovery	-42.9	-49.8	-13.2	-45.6
Walt Disney	-8.8	-20.4	-30.5	-28.0
Total	-17.8	-30.1	-16.7	-27.1
Total costs (%, year-on-year growth)				
Peacock	83.2	49.7	61.3	24.6
Warner Bros. Discovery	-13.6	-24.1	-7.9	-21.1
Paramount	25.2	30.8	27.5	22.8
Walt Disney	23.3	7.6	-0.5	-7.7
Total	17.7	5.2	6.8	-3.8
Revenue growth (%, less cost growth)				
Peacock	13.8	-4.5	23.4	39.5
Warner Bros. Discovery	17.5	21.7	21.2	26.4
Paramount	5.0	7.9	12.0	14.9
Walt Disney	-11.8	2.9	9.6	19.8
Total	-2.4	7.0	11.5	20.8
Year-on-year change in EBITDA				
Peacock	-419	-248	-183	49
Warner Bros. Discovery	511	704	555	745
Paramount	-73	-55	21	105
Walt Disney	-580	86	447	988
Total	-562	486	839	1,886

Source: S&P Global Ratings.

The Path To Profitability

Major streaming platforms' segment profitability



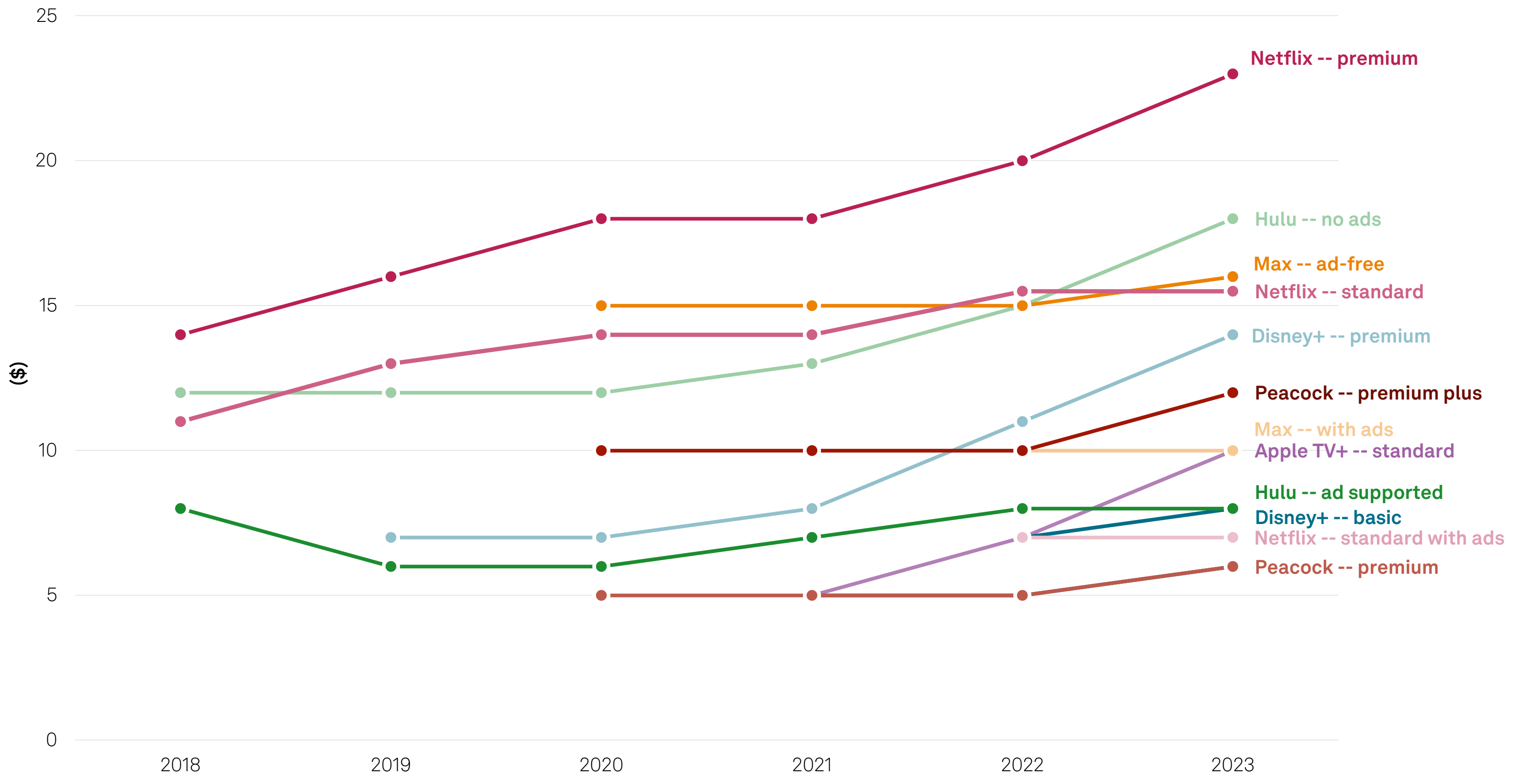
a—Actual. e—Estimate. f—Forecast. Source: S&P Global Ratings.

Can the legacy media companies continue their path toward profitability? 2022/2023 appears to be the high loss years for all four companies, with the goal of reducing losses and eventually having break-even results within their sights.

- **Netflix** has already proven that streaming can be profitable, with 20%+ margins.
- **Walt Disney** passed its inflection point at the end of 2022 and expects to reach breakeven for Disney+ in 2024.
- **Warner Bros. Discovery** includes the HBO linear network in its DTC segment, which is a headwind. Company reported $111 million of segment profitability in Q3 2023.
- **Paramount** revised its peak loss year to 2022 (from 2023) as the strikes and cost cutting lowered content spending in 2023.
- **NBCUniversal** announced peak losses were in 2023 but has yet to announce timetable to breakeven. It isn't clear what its plans are for the service.

Higher Subscription Prices Key To Profitability

Streaming's price inflation



Source: S&P Global Ratings.

Streamers are increasing prices on ad-free tiers while also expanding advertising on ad-supported tiers

- Goal is to generate a modest premium from ad-free subs.
- Ad-supported tiers serve two purposes, to reduce churn and to recapture advertising as it leaves linear TV.
- As streaming becomes more expensive ($117 per month for ad-free tier, $64 with ads), will consumers reduce the number of subscriptions?
- Can media maintain pricing discipline?

Streaming services Black Friday prices

Streaming service	Black Friday price
Hulu	$0.99 for 12 months
Hulu/Disney+	$2.99 for 12 months
Max	$2.99 for 6 months
Paramount+	$1.99 for 3 months
Paramount+ with Showtime	$3.99 for 3 months
Peacock	$1.99 for 12 months
Starz	$3.00 for 3 months

Source: S&P Global Ratings.

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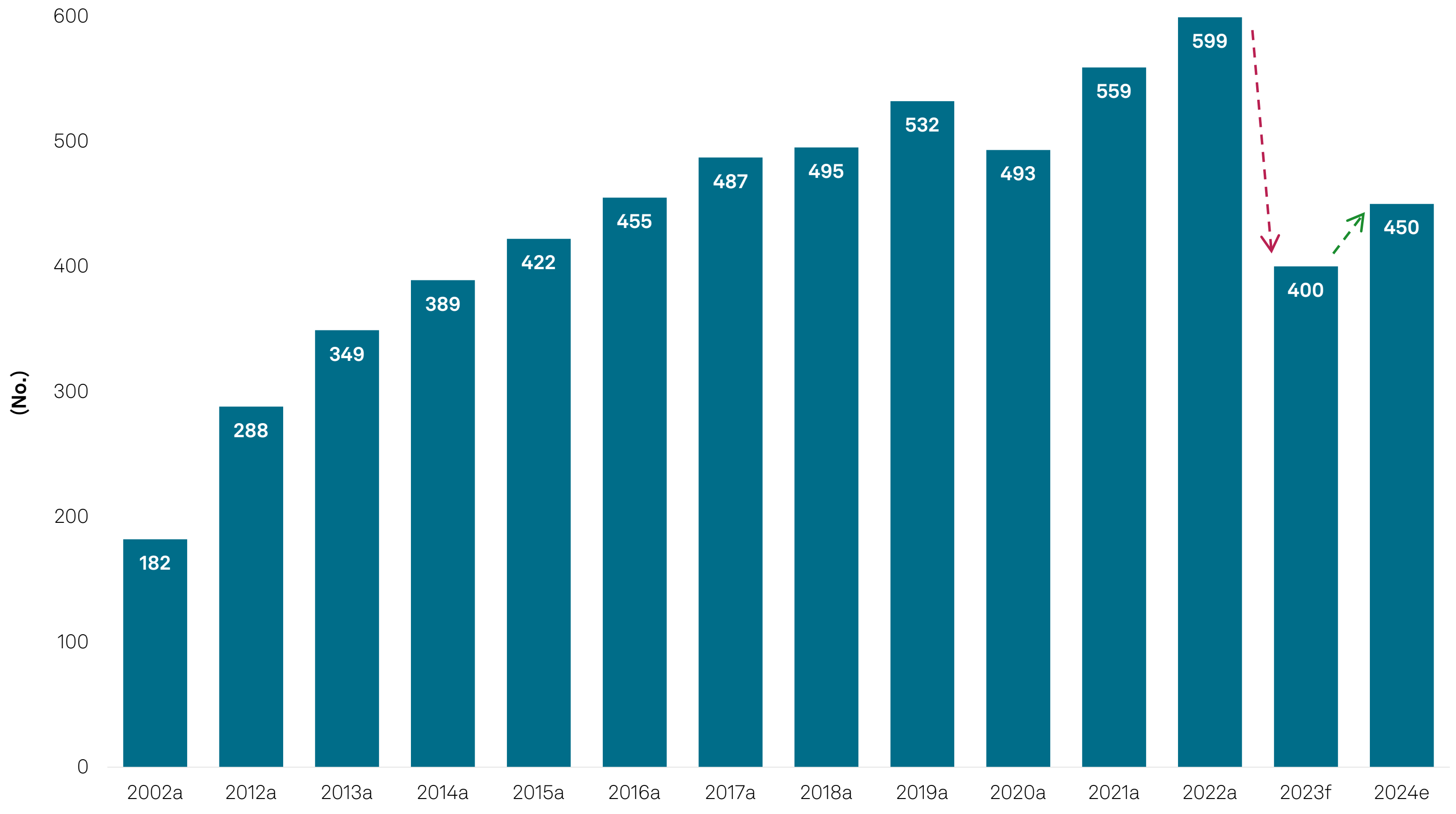
A Very Crowded U.S. Field

Streaming service	Apple TV+	Amazon Prime Video	Disney+	Hulu	Max	Netflix	Paramount+	Peacock
Parent company	**Apple**	**Amazon.com**	**Walt Disney**	**Walt Disney**	**Warner Bros. Discovery**	**Netflix**	**Paramount**	**Comcast**
Strategy	Global, limited, impactful content	Support Prime service	Global, niche	U.S. focused	Global	Global	Limited global. FAST, AVOD, SVOD	Extension of linear TV. Limited overseas
Monthly sub price	$9.99	$8.99 (Ads – Stand-alone) +$2.99 (Ad-free) $14.99 (Prime)	$7.99 (Basic) $13.99 (Premium)	$7.99 (Ads) $17.99 (Ad-free)	$9.99 (Ads) $15.99 (Ad-free) $19.99 (Ultimate)	$6.99 (Ads) $11.99 (Basic) $15.49 (Standard) $22.99 (Premium)	$5.99 (Ads) $11.99 (Ad-free)	$5.99 (Ads) $11.99 (Ad-free)
Advertising	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Available content	Original content; MLB games, MSL games	Originals, MGM, 3rd-party TV shows and movies, NFL Thursday Night, Universal pay-one window	Disney, Pixar, Marvel, 21CF, Nat Geo, and Lucasfilm content. Sony library	Disney, 20CF, FXX, originals, third party shows and movies	HBO content, Warner Bros owned and original content, Discovery+	Originals, third-party TV shows and movies, Sony pay-one	CBS, Viacom Showtime, Live sports, original content. Over 30,000 episodes and movies	NBCU content, live sports (Olympics) and news
Availability (U.S. launch)	Nov. 1, 2019 >100 countries	>200 countries	Nov. 12, 2019 50 countries by 2022; over 160 by end of 2023	U.S., Puerto Rico, and Japan	May 23, 2023 (relaunch) LATAM- fall 23 Europe- early-24 APAC- mid-24 New -fall 24	190 countries (not China)	March 4, 2021 U.S., Canada, and Australia Europe JV 2022	July 15, 2020 U.S., U.K., Italy, Germany Europe JV 2022
U.S. Mobile Service Partner	T-Mobile Verizon	N/A	Verizon	N/A	AT&T	T-Mobile	T-Mobile	N/A
Est. users (mil.)	25+	100+	146.1 (U.S. 46.0)	44.0	95.8 (U.S. 54.0) Including Discovery+	228.4 (U.S. 75.6)	60.7	28
EBITDA (B/E guidance)	N/A	N/A	2024 (U.S.)	2023	2023 (U.S.) 2024 (Global)	FCF B/E in 2022	Peak losses in 2022	Peak losses in 2023

N/A—Not available. LATAM—Latin American. APAC—Asia-Pacific. JV—Joint venture. Source: Company reports, S&P Global estimates.

The End Of The Peak TV

Estimated number of scripted original series



a—Actual. e—Estimate. f—Forecast. Source: FX Networks Research, S&P Global estimates.

2023 is the year when the content bubble finally deflated

- Streamers pivot from focus on subscriber growth to financial discipline and proving out a path to profitability
- Guild strikes allowed studios to reset spending commitments

We expect content spending will normalize in 2024

- Companies prioritizing new original content to online platforms over traditional distribution media
- Some streaming content is getting shown secondarily on television and AVOD services to drive consumer traffic to SVOD streaming platforms

How much original content is necessary for the SVOD services?

- Financial discipline and demand for path to profitability are affecting the answer to that question

Content Remains King

Despite resetting content spending, content owners and creators are still in high demand

- Strong demand from streamers for original **premium** content to drive new sub growth and for third-party library to retain subs
- Linear TV still needs library content to fill TV schedules but glut of available content to license has weakened prices

Studio economic model becoming more complex (and less favorable)

- Film model is broken
  - Will box office return to pre-pandemic levels? Fewer movies taking theatrical route and attendance
  - Straight to streaming means skipping highly profitable secondary release windows
- Evolving TV model shifting toward cost-plus model focused on streamers
  - Higher-volume, lower-margin TV production business

In-house captive studios are looking to restart licensing

- Studio were repositioned as content feeders to in-house streaming services
- Stand-alone studio financial results no longer reflect true economics of business
- The Majors, keen to improve cash flow, have begun to license library content to third-party streamers

Mid-tier and independent studios pursuing hired gun strategy

- Balance putting content on in-house streaming service and selling/licensing to third parties
- Can offset lower-margin productions for streamers with higher-margin licensing of library content

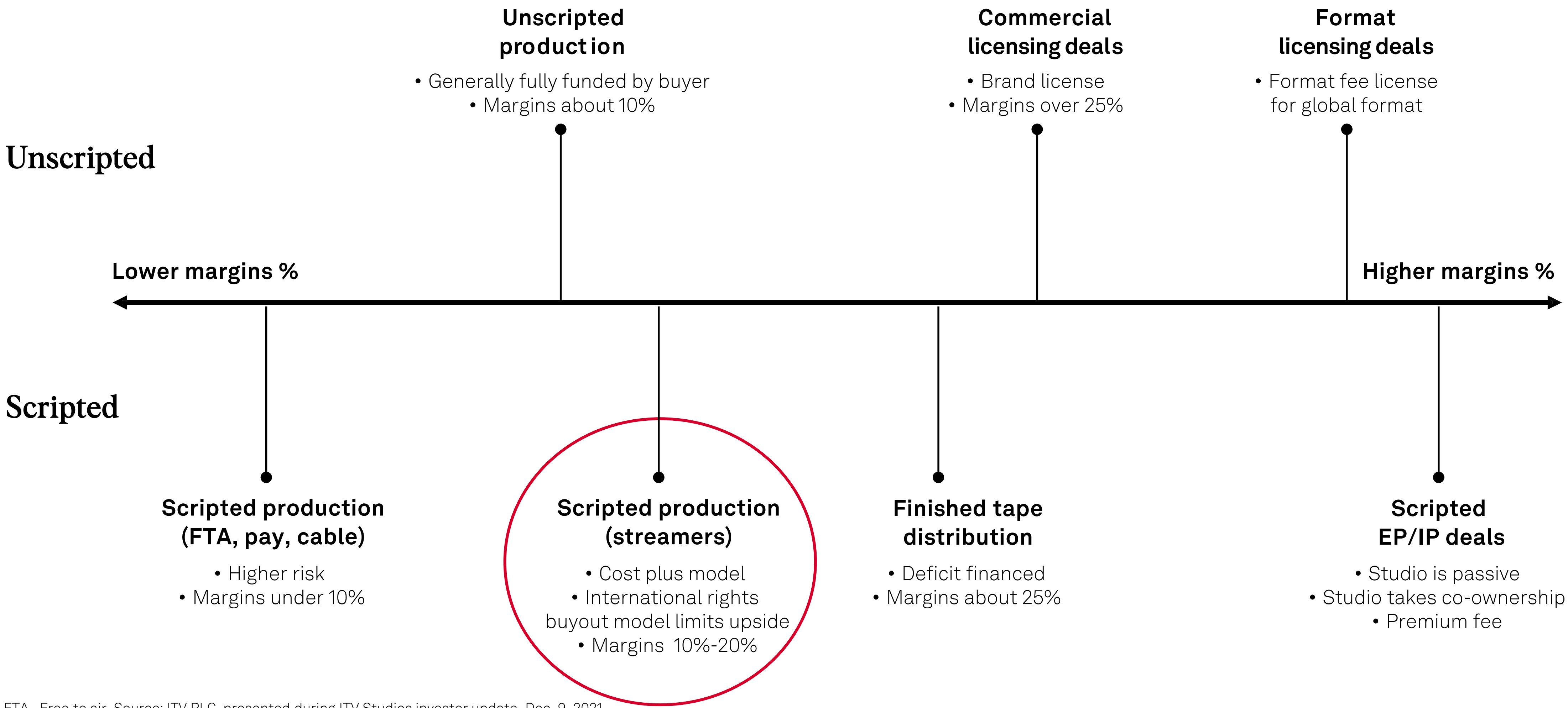
Big five studio profitability

Last 12 months as of Sept. 30, 2023

Studio	Revenue (bil. $)	EBITDA	Margin
Paramount	3.246	-56	-1.7%
Sony*	10.161	980	9.6%
Universal	11.498	1,129	9.8%
Walt Disney	9.048	173	1.9%
Warner Bros.	12.861	2,408	18.7%

*Includes media networks and streaming services. Source: Company reports.

Selling to Streamers Weaken Studio Metrics



FTA--Free to air. Source: ITV PLC, presented during ITV Studios investor update, Dec. 9, 2021.

The NFL Is Keeping Linear TV Afloat

NFL Package	Expiration date	Average annual price (bil. $)	Media partner	% included in price	2023 average viewers (%, vs. 2022)	Comments
Thursday Night	2033/2034	1.200	Amazon*	52	+25	• Big breakthrough for Amazon • Was negative cash flow for Fox and CBS/NBC
AFC Sunday	2033/2034	2.150	CBS	104	+4	• 3 Super Bowls (2024, 2028, & 2032) • Ability to create alternate game telecasts
NFC Sunday	2033/2034	2.290	FOX	100	+1	• 4 Super Bowls (2023, 2025, 2029, & 2033) • Rights to Christmas Day game
Sunday Ticket	2029/2030	2.000	YouTube TV*	33	Not measured	• 7-year deal coincides with NFL option • Residential rights only • Also avail on YouTube Primetime Channels
Sunday Night	2033/2034	2.050	NBC	116	+7	• No. 1 broadcast show on television • 3 Super Bowls (2026, 2030, & 2034) • Peacock streaming one national game (2023-2029) • Enhanced flex schedule for Sunday Night
Monday Night	2033/2034	2.720	ESPN	42	+33	• Most expensive on a per viewership basis • 2 Super Bowls (2027 & 2031) • ESPN+ stream one national game • 35% more reg season games (23 vs 17) • Selected doubleheaders on Monday (including ABC) and Saturday • Flex schedule for Monday Night

Ratings are P2+ through week 16 2023 season. Source: NFL, Company reports, Nielsen, S&P Global estimates.

New contracts expire after 2033/2034 season

- 2023 NFL ratings +10% versus 2022 (week 16)
- Super Bowl ratings (112 million viewers)--up 16% over 2021
- New players' collective bargaining agreement through 2030 season
- NFL added 17th game for 2021 season
- NBCU Peacock gets exclusive rights to one Wild Card game in 2023/2024
- NFL can terminate agreement after seven years*

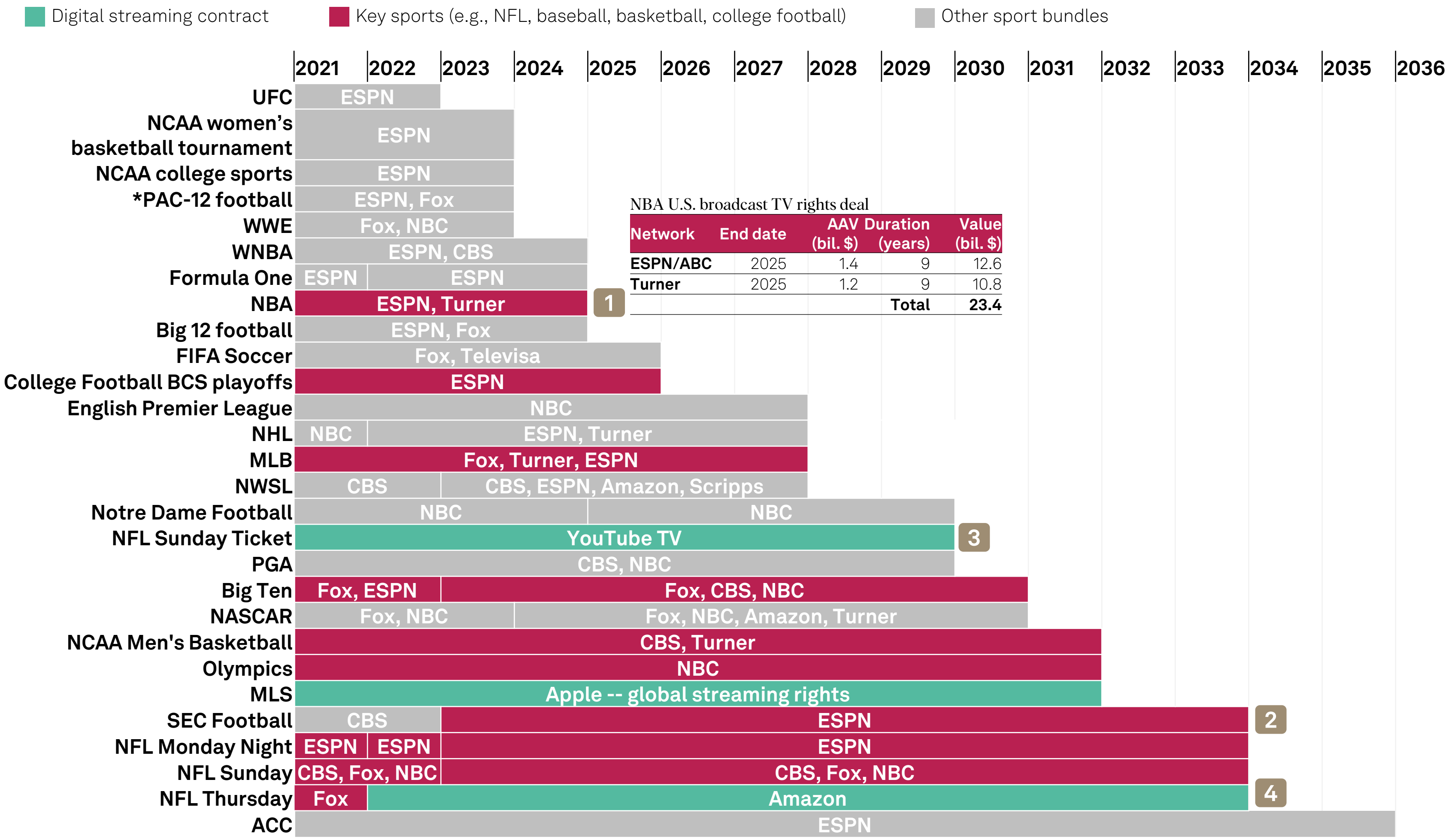
Can winners generate sufficient revenue to counter higher costs?

- Winners are better positioned to drive incremental revenue: higher carriage fees and greater share of advertising
- Streaming rights
- Additional NFL-related programming, shoulder & sports gambling

Long-term (L/T) risk

- Significantly higher average annual value (AAV) lowers EBITDA and depletes free cash flow generation
- Media companies exposed to decline of TV ecosystem but rights fees as fixed
- L/T impact to credit measures likely negative

Sports Is Holding Pay-TV Video Bundle Together



NBA U.S. broadcast TV rights deal

Network	End date	AAV (bil. $)	Duration (years)	Value (bil. $)
ESPN/ABC	2025	1.4	9	12.6
Turner	2025	1.2	9	10.8
			Total	23.4

*Ends after 2023 season. Source: Company reports, S&P Global estimates.

Sports rights will be split over more partners (broadcast and digital), which will allow leagues to generate higher fees but also temper the financial burden on legacy media companies

Media companies continue to make significant monetary commitments to sports leagues

1. NBA broadcast rights next big auction (2025)
2. Winning media companies have committed to over $100 billion in rights payments to NFL

- Sports not immune to declining audience ratings, excluding NFL +6% for 2023 season vs. 2022 season

Digital platforms make inroads in capturing sports rights from broadcast networks, including for premium sports rights

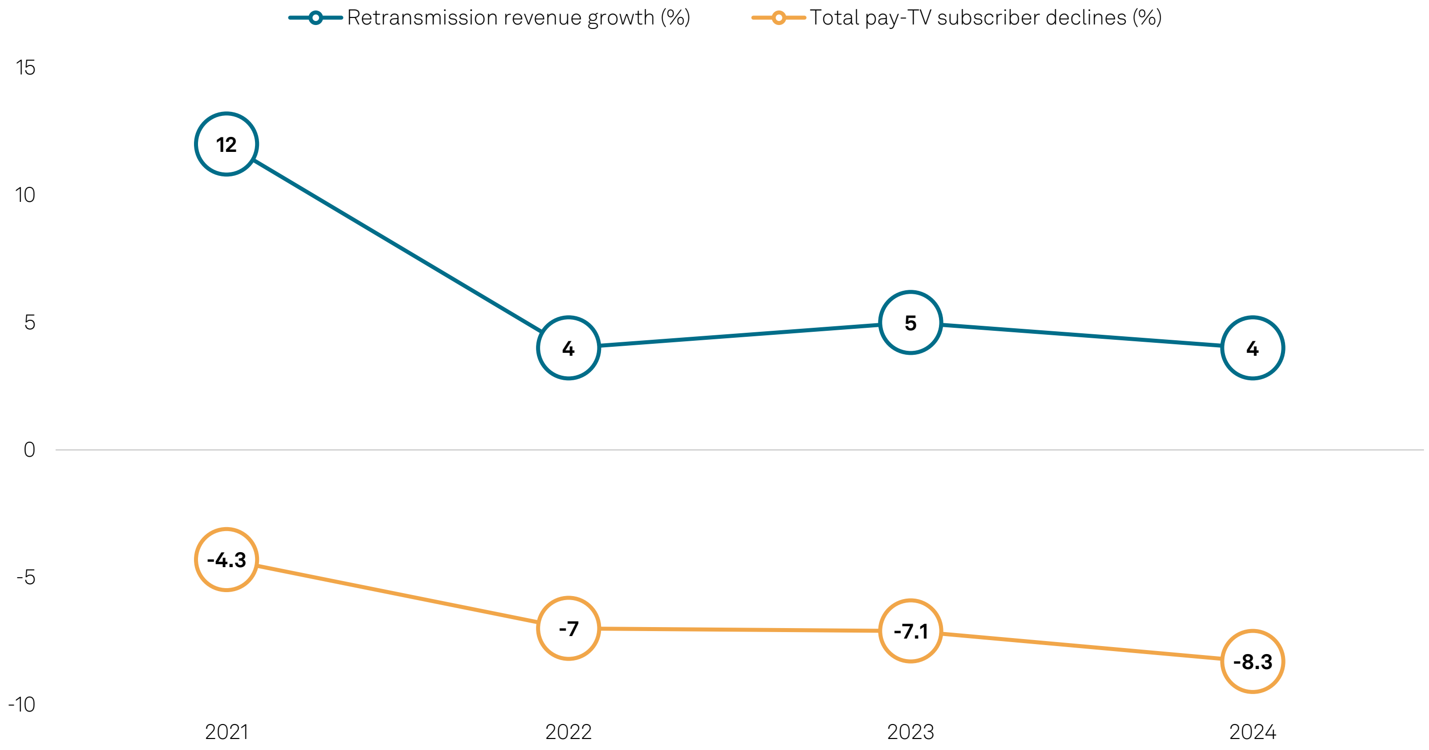
3. YouTube wins NFL Sunday Ticket rights
4. Amazon's Thursday Night Football win is a template for future sports broadcast deals

- Apple wins MLS global streaming rights
- Network TV still only distribution platform offering full national reach
- Need to gain production experience and develop stable and scalable streaming platform for live video
- Sports leagues using streaming rights to reach outside of core older male demographic

S&P Global Ratings

Rating Outlook For Local TV Is Stable For Now

Slowing retransmission growth with increasing pay-TV subscriber declines



Source: Company reports, S&P Global Ratings.

Retransmission (retrans) revenue growth is slowing but will remain a relatively stable source of cash flow.

- Annual retrans revenue will grow at a mid-single-digit percentage pace over the next two years.
- Beyond 2025, retrans revenue should eventually decline but no worse than at a low-single-digit percentage clip within the next five years.
- **To the extent that retrans revenue growth turns substantially negative, we could reassess our views on the sector.**

Political advertising will boost cash flow in 2024.

- Local TV will benefit from $4 billion in high-margin political advertising revenue from the U.S. presidential election in 2024.
- Core advertising (down low-single-digits) will largely recover in 2024 (aided by a recovery in auto advertising).

Growth opportunities limited for local TV operators

- Material M&A is unlikely given the current regulatory environment.
- Acquiring broadcast rights for local sports could increase near-term advertising revenue, but exposure to the declining pay-TV universe remains.
- ATSC 3.0 monetization is several years away and uncertain.

Ranking U.S. Media, Telecom And Cable Companies

	Rating	Business risk profile	Current LTM adjusted leverage (x)	Current LTM FOCF/debt (%)	Upgrade threshold (x)	Downgrade threshold (x)
Comcast	A-/Stable/A-2	Strong	2.6	13.0	2.00	3.00
Walt Disney	A-/Positive/A-2	Strong	3.1	12.3	2.50	3.00
Charter Communications	BB+/Stable/--	Strong	4.4	3.6	4.25	5.00
Verizon	BBB+/Stable/A-2	Strong	3.1	13.0	2.50	3.25
AT&T	BBB/Stable/A-2	Strong	3.6	14.3	3.00	3.75
T-Mobile US	BBB/Stable/A-2	Strong	3.4	14.8	3.00	3.75
Netflix	BBB+/Stable/--	Strong	1.2	67.5	2.50	3.00
Cox Enterprises	BBB/Stable/A-2	Satisfactory	2.3	8.9	2.25	3.25
Paramount Global	BBB-/Stable/A-3	Satisfactory	31.2	-3.6	3.00	3.50
Warner Bros. Discovery	BBB-/Stable/A-3	Satisfactory	5.4	10.7	3.00	3.50
Fox	BBB/Stable/--	Satisfactory	1.3	33.0	2.00	3.00

Note: Ratings as of Jan 2, 2024. Adjusted 'leverage as of Sept 30, 2023. Disney, Paramount, and WBD leverage includes programming write-downs.
See "U.S., Canadian, And European Telecom, Media, And Cable Majors Ranking: January 2022", published Jan. 10, 2022, for full ranking list. LTM—Last 12 months.
Source: S&P Global Ratings.

The U.S. media, telecom, and cable sectors all face greater competition, higher investments, and greater uncertainty.

- Cable's credit quality will remain solid overall as most companies have recalibrated their operating models to drive healthy financial performance. Still, heightened competition from fixed wire access and fiber to the home persists in a maturing broadband market that is nearing maturity.
- Media companies face an uncertain future as secular pressures eat at legacy businesses while they try to make streaming services profitable.
- While the outlook for U.S. wireline could be favorable longer term, we expect headwinds to persist in 2024, resulting in weak credit metrics at a time when companies are trying to reverse their earnings trajectory.
- Wireless operating performance continues to be solid despite mature industry conditions and increasing competition from cable while lower levels of capex bode well for FOCF generation and credit quality.

ESG Risks That Matter In Credit Ratings

Examples of ESG credit factors

Environmental factors	Social factors	Governance factors
Climate transition risks	Health and safety	Governance structure
Physical risks	Social capital	Risk management, culture, and oversight
Natural capital	Human capital	Transparency
Waste and pollution	Other social factors	Other governance factors
Other environmental factors		

Source: S&P Global Ratings.

Impacts on the Media And Entertainment Sector

Environmental factors have limited direct exposure to sector

- Video is the primary driver of internet growth because video accounts for 80% of global internet traffic (Source: CISCO)

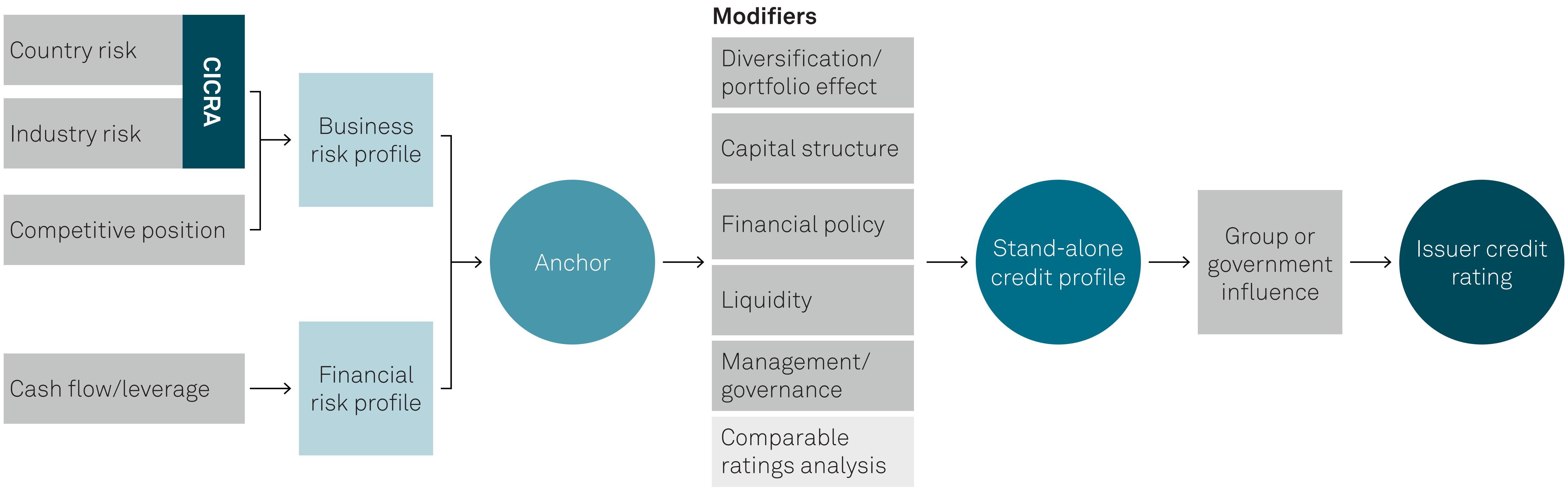
Social factors may be affected based on:

- Human capital management--working conditions, labor compensation, talent, and safety
- Employment practices--hiring, recruitment, and diversity
- Consumer behavior and brand perception
- Content--diversity and social relevance
- Cyber risks increase with DTC growth
- Health and safety risks--social and traditional media interactions with consumers
- Privacy protection of consumer data
- Community impact--media is voice of community

Governance factors are entity specific, rather than the industry as whole.

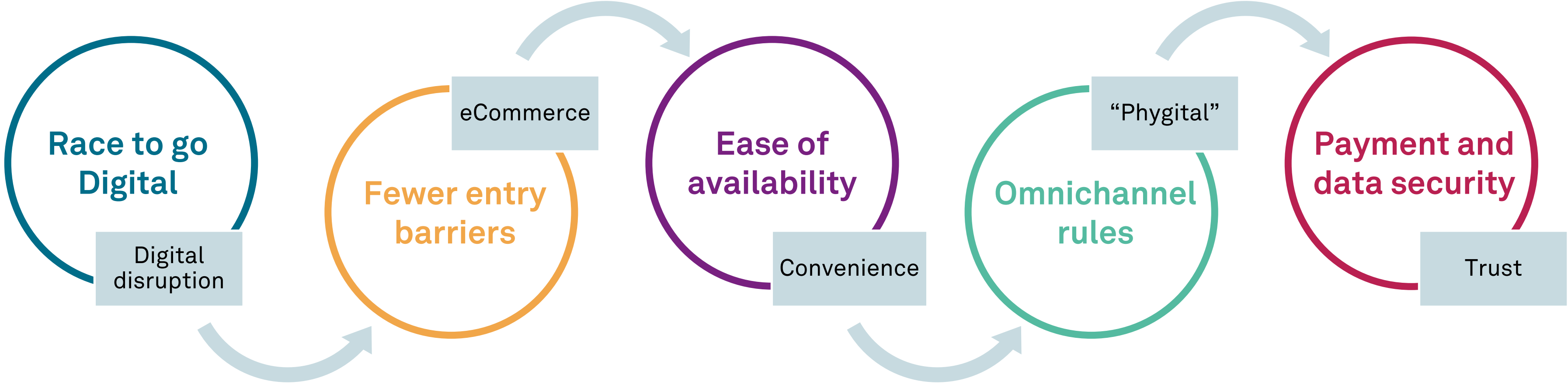
- How embedded are ESG factors in strategy and decision making
- Procedures for managing customer-related data
- Approach to managing cyber risk
- Risk management

Corporates | S&P's Corporate Criteria



CICRA—Corporate industry and country risk assessment. Source: S&P Global Ratings.

Cybersecurity and Safeguarding Data | Vital In A Digital World



- Disparate and legacy systems
- Processes not fully fit for purpose

- Newer entrants
- Brands equity - Trust amid choice

- 24x7 availability
- Interconnected value chain, automation and AI

- Brick & mortar ops & digital need to be in sync
- Outsourcing is inevitable

- Fraud/data breach is costly
- Loss of customer trust is often > Monetary fines

- With the growing digital delivery of content, especially through DTC streaming platforms, cybersecurity and safeguarding data are emerging as material social and governance risks for media companies.
- Growing obligation and responsibility to provide reliable platforms that enable secure transactions and payments and also protect consumer and personal data.

Credit Impact

- **Business risk:** Well-managed and secure systems can drive competitive advantage and operating efficiency while operations and profits can be significantly affected in the event of a cyber incident/attack.
- **Financial risk:** Ongoing need to invest (often when cash flows are pressured) is a challenge for smaller and leveraged companies. Loss of earnings, fines, and remediation operating expenditures and capex can affect financial position and liquidity.
- **Management and governance: Cyber risk resilience and incident management** speak to effectiveness of risk management, internal controls, operating efficiency, and communication of messages.

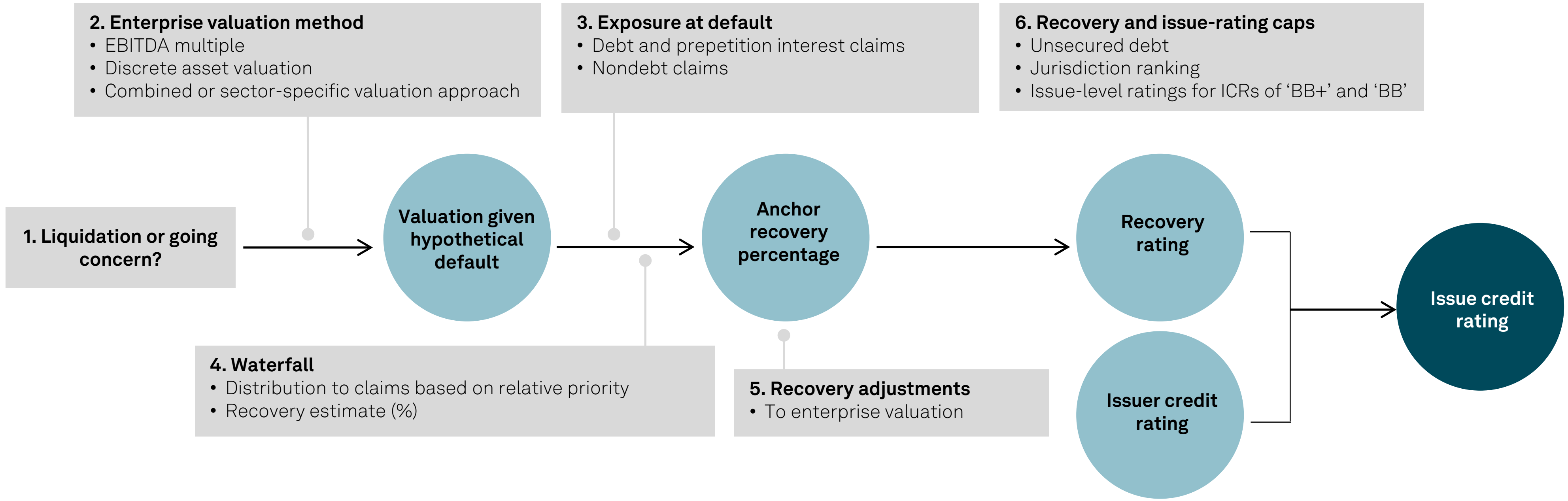
Corporates | S&P's Corporate Criteria

	--Core ratios--		--Supplementary coverage ratios--		--Supplementary payback ratios--	
	FFO/debt (%)	**Debt/EBITDA (x)**	**FFO/cash interest(x)**	**EBITDA/interest (x)**	**CFO/debt (%)**	**FOCF/debt (%)**
Minimal	60	Less than 1.5	More than 13	More than 15	More than 50	40
Modest	45-60	1.5-2	9-13	10-15	35-50	25-40
Intermediate	30-45	2-3	6-9	6-10	25-35	15-25
Significant	20-30	3-4	4-6	3-6	15-25	10-15
Aggressive	12-20	4-5	2-4	2-3	10-15	5-10
Highly leveraged	Less than 12	Greater than 5	Less than 2	Less than 2	Less than 10	Less than 5

	Financial risk profile					
Business risk profile	**1 (minimal)**	**2 (modest)**	**3 (intermediate)**	**4 (significant)**	**5 (aggressive)**	**6 (highly leveraged)**
1 (excellent)	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
2 (strong)	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
3 (satisfactory)	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
4 (fair)	bbb/bbb-	bbb-	bb+	bb	bb-	b
5 (weak)	bb+	bb+	bb	bb-	b+	b/b-
6 (vulnerable)	bb-	bb-	bb-/b+	b+	b	b-

Source: S&P Global Ratings.

Corporates | Recovery Rating Criteria For Speculative-Grade Issuers



Recovery rating	Recovery description	Greater than or equal to	Less than	Issue rating notches relative to Issue credit rating
1+	Highest expectation, full recovery	100%	N/A	+3 notches
1	Very high recovery	90%	100%	+2 notches
2	Substantial recovery	70%	90%	+1 notch
3	Meaningful recovery	50%	70%	0 notches
4	Average recovery	30%	50%	0 notches
5	Modest recovery	10%	30%	-1 notch
6	Negligible recovery	0%	10%	-2 notches

Source: S&P Global Ratings.

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