

Tear Sheet:

Bertelsmann SE & Co. KGaA

June 11, 2024

We believe Bertelsmann SE & Co KGaA has comfortable leeway for funding growth initiatives under the 'BBB' rating. As Bertelsmann continues to invest in digital content distribution and adapts to structural challenges that its linear broadcasting business is facing, we forecast leverage will remain substantially below the company's medium-term guidance of maximum group-adjusted leverage up to 2.5x, equivalent to S&P Global Ratings-adjusted debt to EBITDA of 2.0x-2.5x. We forecast the company's adjusted debt to EBITDA of about 1.6x for 2024-2025, slightly below our 2.0x upgrade trigger. Our forecast considers that Bertelsmann's revenue and profits will return to growth from 2025 following recent asset disposals, and its free operating cash flow will gradually increase in 2024-2025 due to sound profitability and a normalized working capital cycle. Our view that Bertelsmann's leverage could temporarily increase above 2.0x constrains our 'BBB' rating on the company. Bertelsmann plans to invest €5 billion-€7 billion across its business segments by 2026 in organic business growth and mergers and acquisitions (M&A).

We forecast Bertelsmann will benefit from robust growth in music and book publishing, education, business services, and a gradual recovery in its broadcasting business in 2024-2025. We expect the company's reported organic revenue growth will reach 2%-4% in 2024-2025. We anticipate a recovery of RTL Group's revenue and profits, and further growth in 2025 due to gradually improving macroeconomic conditions and consumer confidence, and a strong pick-up in TV advertising revenue at RTL in 2024 after a material decline in 2023. Bertelsmann posted positive organic growth of 3.6% in first-quarter 2024, underpinned by continuing positive performance. Specifically, its TV business RTL Group reported a rebound in growth of almost 3% (year on year) with 10% growth in its TV advertising operations despite volatile macroeconomic conditions and geopolitical risks. At the same time, the structural decline of linear TV operations--including advertising budgets moving from broadcast TV to digital and shrinking linear TV audiences--will be ongoing. We expect Bertelsmann will continue to focus on developing other revenue streams within RTL, such as content production Fremantle and streaming operations under the RTL+ brand. In our view, a sound demand for content in 2024 and delivery skewed towards the second half of 2024 will drive Fremantle's performance. We expect RTL's streaming operations to expand very fast in 2024-2025, but from a low base, by adding new subscribers (5.2 million as of year-end 2023), with a target of 9 million subscribers by 2026. That said, we don't expect these operations to break even before 2026. Music publisher BMG and Bertelsmann's education segment will continue to benefit from strong industry fundamentals, improved market positions and full year contribution of recent acquisitions in education. Also, book publishing division Penguin Random House (PRH), and

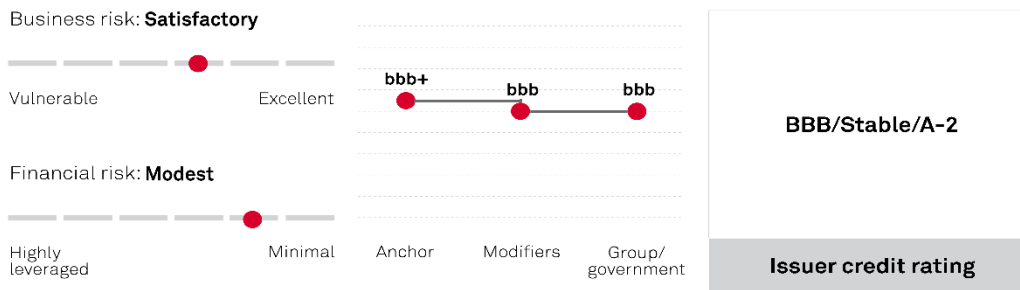
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Arvato Group outsourcing service provider, will benefit from recent acquisitions and organic growth.

Ratings Score Snapshot



Recent Research

- Bertelsmann SE & Co. KGaA: Bulletin, Dec. 19, 2023
- Bertelsmann SE & Co. KGaA: Full Analysis, Nov. 28, 2023

Company Description

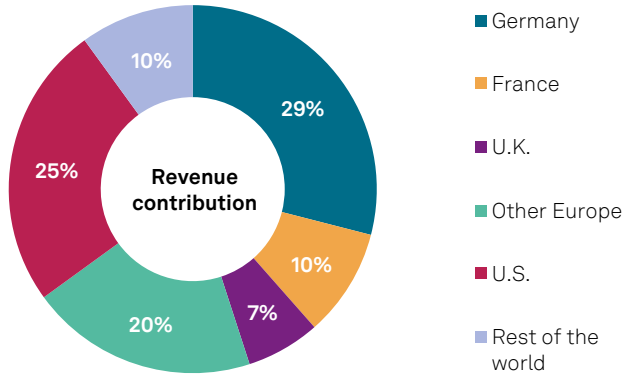
Germany-based Bertelsmann is a diversified global media company with about €20.2 billion reported revenue and €2.6 billion adjusted EBITDA in 2023. It operates through several business segments, including a 76.3% stake in broadcaster RTL Group that has merged with magazine publisher Gruner + Jahr, book publisher PRH, music publisher BMG, media-related and outsourcing services Arvato Group, Bertelsmann Marketing Services (formerly Bertelsmann Printing Group), Bertelsmann Education Group, and Bertelsmann Investments.

Bertelsmann is a privately held partnership limited by shares and ultimately controlled by the Mohn family. Four foundations (Bertelsmann Stiftung, Reinhard Mohn Stiftung, BVG-Familienstiftung, and BVG-Stiftung) indirectly hold 80.9% of Bertelsmann, with the remaining 19.1% held indirectly by the Mohn family.

Bertelsmann agreed to sell its Dutch TV business RTL Nederland for €1.1 billion in December 2023. The deal is likely to close by mid-2024 when the company receives all regulatory approvals.

Bertelsmann SE & Co. KGaA - geographic diversity

As of Dec. 31, 2023

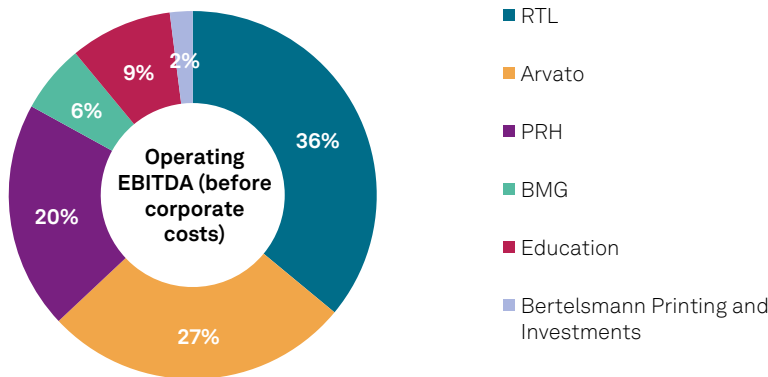


Source: S&P Global Ratings.

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Bertelsmann SE & Co. KGaA - business diversity

As of Dec. 31, 2023



Source: S&P Global Ratings.

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Outlook

The stable outlook reflects our view that, over the next 24 months, Bertelsmann will achieve sound operating performance, with adjusted EBITDA margins of 13.0%-15.0%, and adjusted leverage well below 2.5x. This incorporates our assumption that the company will invest in growth, and shareholder distributions. While we forecast adjusted leverage will remain below 2.0x over the next two years, we believe the company's current financial policy allows for higher leverage than our base-case scenario, for example for a large M&A transaction.

Downside scenario

We could lower our rating if Bertelsmann's adjusted leverage increases above 3.0x, for example, if:

- Its organic revenue growth and profitability weaken due to weaker macroeconomic conditions or an inability to adjust its business to intensifying structural challenges; or
- It pursues large debt-funded acquisitions, increases investments or shareholder remuneration materially beyond our base case.

Upside scenario

We could increase our rating on Bertelsmann if it performs in line with our base-case and absorbs ramp-up costs associated with its streaming businesses, such that it maintains solid adjusted EBITDA margins and cash flow, and commits to a financial policy that would, in our view, support adjusted leverage sustainably below 2.0x.

Key Metrics

Bertelsmann SE & Co. KGaA--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f	2026f
Revenue	17,289	18,696	19,977	19,811	18,399	18,662	19,353
EBITDA	2,608	2,906	2,752	2,560	2,641	2,776	2,982
Less: Cash interest paid	(278)	(229)	(324)	(318)	(327)	(299)	(281)
Less: Cash taxes paid	(214)	(807)	(339)	(331)	(345)	(386)	(425)
Funds from operations (FFO)	2,116	1,870	2,089	1,911	1,969	2,091	2,275
Capital expenditure (capex)	627	778	955	835	846	857	899
Free operating cash flow (FOCF)	2,096	782	53	742	831	938	1,067
Dividends	30	430	513	496	400	450	500
Share repurchases (reported)	736	--	187	139	--	--	--
Discretionary cash flow (DCF)	1,330	352	(647)	107	431	488	567
Debt	4,744	3,238	4,802	4,684	4,109	4,444	4,697
Interest expense (reported)	196	175	230	290	327	298	281
Capex (reported)	663	809	1,036	897	908	919	961
Adjusted ratios							
Debt/EBITDA (x)	1.8	1.1	1.7	1.8	1.6	1.6	1.6
FFO/debt (%)	44.6	57.8	43.5	40.8	47.9	47.1	48.4
FOCF/debt (%)	44.2	24.2	1.1	15.8	20.2	21.1	22.7
DCF/debt (%)	28.0	10.9	(13.5)	2.3	10.5	11.0	12.1
EBITDA margin (%)	15.1	15.5	13.8	12.9	14.4	14.9	15.4

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.

Financial Summary

Bertelsmann SE & Co. KGaA--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	17,673	18,023	17,289	18,696	19,977	19,811
EBITDA	2,524	2,615	2,608	2,906	2,752	2,560
Funds from operations (FFO)	1,738	1,951	2,116	1,870	2,089	1,911
Interest expense	201	172	200	175	246	305
Cash interest paid	252	240	278	229	324	318
Operating cash flow (OCF)	1,446	1,833	2,723	1,560	1,009	1,577
Capital expenditure	575	594	627	778	955	835
Free operating cash flow (FOCF)	871	1,239	2,096	782	53	742
Discretionary cash flow (DCF)	256	776	1,330	352	(647)	107
Cash and short-term investments	1,398	1,629	4,564	4,673	3,208	2,821
Gross available cash	1,398	1,629	4,564	4,673	3,208	2,821
Debt	6,652	6,080	4,744	3,238	4,802	4,684
Common equity	10,463	11,070	11,350	14,199	14,775	14,866
Adjusted ratios						
EBITDA margin (%)	14.3	14.5	15.1	15.5	13.8	12.9
Return on capital (%)	9.0	9.7	9.9	12.3	9.1	7.3
EBITDA interest coverage (x)	12.6	15.2	13.1	16.6	11.2	8.4
FFO cash interest coverage (x)	7.9	9.1	8.6	9.2	7.4	7.0
Debt/EBITDA (x)	2.6	2.3	1.8	1.1	1.7	1.8
FFO/debt (%)	26.1	32.1	44.6	57.8	43.5	40.8
OCF/debt (%)	21.7	30.2	57.4	48.2	21.0	33.7
FOCF/debt (%)	13.1	20.4	44.2	24.2	1.1	15.8
DCF/debt (%)	3.9	12.8	28.0	10.9	(13.5)	2.3

Peer Comparison

Bertelsmann SE & Co. KGaA--Peer Comparisons

	Bertelsmann SE & Co. KGaA	Fox Corp.	Universal Music Group N.V.	ITV PLC	RELX PLC
Foreign currency issuer credit rating	BBB/Stable/A-2	BBB/Stable/--	BBB+/Stable/A-2	BBB-/Stable/A-3	BBB+/Stable/A-2
Local currency issuer credit rating	BBB/Stable/A-2	BBB/Stable/--	BBB+/Stable/A-2	BBB-/Stable/A-3	BBB+/Stable/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-06-30	2023-12-31	2023-12-31	2023-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	19,811	13,660	11,108	4,176	10,557
EBITDA	2,560	2,970	2,332	588	3,438

Bertelsmann SE & Co. KGaA--Peer Comparisons

Funds from operations (FFO)	1,911	2,395	1,848	492	2,374
Interest	305	367	118	71	348
Cash interest paid	318	351	91	59	350
Operating cash flow (OCF)	1,577	1,761	1,801	447	2,339
Capital expenditure	835	327	299	81	35
Free operating cash flow (FOCF)	742	1,434	1,502	366	2,305
Discretionary cash flow (DCF)	107	(672)	571	134	97
Cash and short-term investments	2,821	3,913	413	392	179
Gross available cash	2,821	4,723	413	392	179
Debt	4,684	3,055	2,532	716	7,517
Equity	14,866	9,567	2,983	2,107	3,963
EBITDA margin (%)	12.9	21.7	21.0	14.1	32.6
Return on capital (%)	7.3	20.0	26.6	14.5	25.2
EBITDA interest coverage (x)	8.4	8.1	19.8	8.2	9.9
FFO cash interest coverage (x)	7.0	7.8	21.3	9.4	7.8
Debt/EBITDA (x)	1.8	1.0	1.1	1.2	2.2
FFO/debt (%)	40.8	78.4	73.0	68.8	31.6
OCF/debt (%)	33.7	57.6	71.1	62.5	31.1
FOCF/debt (%)	15.8	46.9	59.3	51.2	30.7
DCF/debt (%)	2.3	(22.0)	22.6	18.7	1.3

Environmental, Social, And Governance

Environmental, social and governance factors have an overall neutral influence on our credit rating analysis of Bertelsmann. We factor in management's good track record of strategic planning and execution, including effective monitoring and managing of social risks that media companies are facing.

Rating Component Scores

Foreign currency issuer credit rating	BBB/Stable/A-2
Local currency issuer credit rating	BBB/Stable/A-2
Business risk	Satisfactory
Country risk	Very Low
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk	Modest
Cash flow/leverage	Modest
Anchor	bbb+
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Negative (-1 notch)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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