

Tear Sheet:

Bertelsmann SE & Co. KGaA

June 15, 2023

Bertelsmann has ample financial flexibility and leeway for funding growth initiatives under the 'BBB' rating. We forecast adjusted debt to EBITDA of 1.5x-1.6x for 2023-2024, slightly below our upgrade threshold of 2x. Our leverage forecast considers that Bertelsmann's free operating cash flow (FOCF) will bounce back in 2023 versus 2022, reflecting expected sound profitability and a reversal of annual working capital needs. The expected leverage remains below the group's medium-term guidance of up to 2.5x (equivalent to 2.3x-2.5x with our adjusted leverage), and we understand its financial policy allows it to increase leverage beyond 2x, which constrains our rating on the group at 'BBB'. The group has not committed to a stricter financial policy that would assume maintaining lower leverage. In addition, Bertelsmann plans sizable investments by 2025, and we assume it will continue investments in organic growth and acquisitions. We believe this could constrain cash flow and deleveraging sustainably below 2.0x in the next 12-18 months.

The sale of Bertelsmann's minority stake in the customer experience company Majorel will provide even more financial flexibility. The sale of the 39.5% shareholding in Majorel to French corporate Teleperformance will be neutral for our view of Bertelsmann's business strength. In 2022, Majorel accounted for about 10% of the group's revenue. We consider that Bertelsmann remains a well-diversified media, business services, and education group with an international presence. The disposal will also bolster Bertelsmann's financial flexibility through almost €1.2 billion of gross disposal proceeds. The sale is subject to regulatory approval and will most likely close by end-2023 and we expect the company to deconsolidate Majorel.

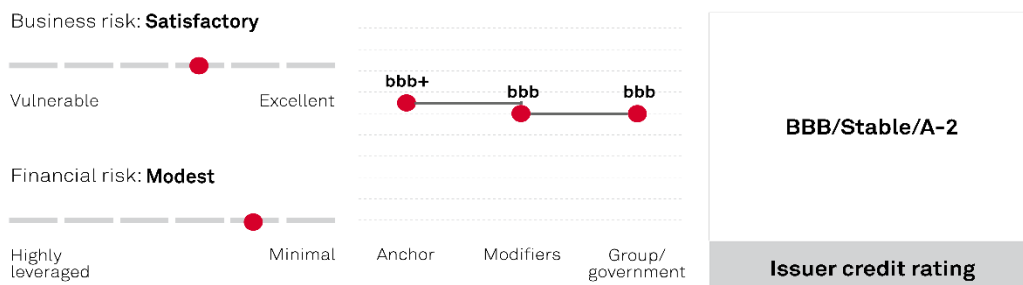
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Ratings Score Snapshot



Recent Research

- Industry Top Trends 2023: Media and Entertainment, Jan. 23, 2023
- Bertelsmann SE & Co. KGaA: Full Analysis, Oct. 4, 2022

Company Description

Germany-based Bertelsmann is a diversified global media group with about €20 billion of revenue and €2.7 billion adjusted EBITDA in 2022. It operates through several business units, 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 generated almost 70% of its reported revenues in Europe, where two single countries Germany and France contributed 30% and 10% respectively, about 24% in the U.S., and 9% in the rest of the world. Largest contributors to the company's determined adjusted operating EBITDA were RTL with 40% share, followed by Arvato and PRH with 26% and 20%, respectively.

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

Outlook

The stable outlook reflects S&P Global Ratings' view that, over the next 24 months, Bertelsmann will achieve sound operating performance, maintain adjusted EBITDA margins of 13.5%-15.0%, and adjusted leverage below 2.5x. This incorporates our assumption that the group will invest in growth and shareholder distributions. While we forecast S&P Global Ratings-adjusted leverage will remain below 2x over the next two years, the rating and outlook consider that the group's current financial policy allows for higher leverage compared with our base case, for example for a large M&A transaction.

Downside scenario

We could lower the rating if Bertelsmann's adjusted leverage increases above 3x, 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 what we incorporate in our base case.

Upside scenario

We could upgrade 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 flows, and commits to a financial policy that would, in our view, support S&P Global Ratings-adjusted leverage sustainably below 2x.

Key Metrics

Bertelsmann--Key Metrics*

Mil. \$	2021a	2022a	2023e§	2024f	2025f
Revenue	18,696	19,977	~19,850	~18,900	~19,700
EBITDA	2,906	2,752	~2,750	~2,750	~3,050
EBITDA margin (%)	15.5	13.8	~14.0	~14.5	~15.0
Capital expenditure	(778)	(955)	~ (950)	~ (700)	~ (700)
Changes in working capital	(68)	(988)	~ (200)	~ (200)	~ (200)
Acquisitions, net of disposals	581	93	~260	~ (130)	~ (450)
Dividends	(410)	(513)	~ (520)	~ (520)	~ (520)
Reported free operating cash flow (FOCF) after lease payments	481	(244)	~650	~900	~1,110
Debt to EBITDA (x)	1.1	1.7	~1.6	~1.5	~1.3
FOCF to debt (%)	24.2	1.1	~22	~30	~36
DCF to debt (%)	10.9	(13.5)	~10	~17	~23

*All figures adjusted by S&P Global Ratings. § Includes nine months contribution of Majorel. a--Actual. e--Estimate. f--Forecast. FOCF--Free operating cash flow. DCF--Discretionary cash flow.

Financial Summary

Bertelsmann SE & Co. KGaA--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	17,190	17,673	18,023	17,289	18,696	19,977
EBITDA	2,635	2,524	2,615	2,608	2,906	2,752
Funds from operations (FFO)	1,971	1,738	1,951	2,116	1,870	2,089
Interest expense	198	201	172	200	175	246
Cash interest paid	230	252	240	278	229	324
Operating cash flow (OCF)	1,622	1,446	1,833	2,723	1,560	1,009
Capital expenditure	647	575	594	627	778	955
Free operating cash flow (FOCF)	975	871	1,239	2,096	782	53
Discretionary cash flow (DCF)	(625)	256	776	1,330	352	(647)

Bertelsmann SE & Co. KGaA--Financial Summary

Cash and short-term investments	1,440	1,398	1,629	4,564	4,673	3,208
Gross available cash	1,440	1,398	1,629	4,564	4,673	3,208
Debt	6,202	6,652	6,080	4,744	3,238	4,802
Common equity	9,744	10,463	11,070	11,350	14,199	14,775
Adjusted ratios						
EBITDA margin (%)	15.3	14.3	14.5	15.1	15.5	13.8
Return on capital (%)	10.8	9.0	9.7	9.9	12.3	9.1
EBITDA interest coverage (x)	13.3	12.6	15.2	13.1	16.6	11.2
FFO cash interest coverage (x)	9.6	7.9	9.1	8.6	9.2	7.4
Debt/EBITDA (x)	2.4	2.6	2.3	1.8	1.1	1.7
FFO/debt (%)	31.8	26.1	32.1	44.6	57.8	43.5
OCF/debt (%)	26.2	21.7	30.2	57.4	48.2	21.0
FOCF/debt (%)	15.7	13.1	20.4	44.2	24.2	1.1
DCF/debt (%)	(10.1)	3.9	12.8	28.0	10.9	(13.5)

Peer Comparison**Bertelsmann SE & Co. KGaA--Peer Comparisons**

	Bertelsmann SE & Co. KGaA	ITV PLC	Universal Music Group N.V.	RELX PLC	Fox Corp.
Foreign currency issuer credit rating	BBB/Stable/A-2	BBB-/Stable/A-3	BBB/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/--
Local currency issuer credit rating	BBB/Stable/A-2	BBB-/Stable/A-3	BBB/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31	2022-06-30
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	19,977	4,203	10,340	9,643	13,368
EBITDA	2,752	856	2,105	3,037	3,044
Funds from operations (FFO)	2,089	731	1,806	2,288	2,463
Interest	246	43	73	211	375
Cash interest paid	324	63	44	191	381
Operating cash flow (OCF)	1,009	343	1,691	2,290	1,925
Capital expenditure	955	88	452	38	294
Free operating cash flow (FOCF)	53	255	1,239	2,252	1,631
Discretionary cash flow (DCF)	(647)	25	439	513	381
Cash and short-term investments	3,208	392	439	377	4,974
Gross available cash	3,208	392	439	377	5,391
Debt	4,802	779	2,727	7,531	2,355

Bertelsmann SE & Co. KGaA--Peer Comparisons

Equity	14,775	2,115	2,352	4,232	10,882
EBITDA margin (%)	13.8	20.4	20.4	31.5	22.8
Return on capital (%)	9.1	25.9	32.3	22.5	18.8
EBITDA interest coverage (x)	11.2	20.0	28.8	14.4	8.1
FFO cash interest coverage (x)	7.4	12.6	42.0	13.0	7.5
Debt/EBITDA (x)	1.7	0.9	1.3	2.5	0.8
FFO/debt (%)	43.5	93.7	66.2	30.4	104.6
OCF/debt (%)	21.0	44.0	62.0	30.4	81.7
FOCF/debt (%)	1.1	32.7	45.4	29.9	69.2
DCF/debt (%)	(13.5)	3.2	16.1	6.8	16.2

Bertelsmann SE & Co. KGaA--Peer Comparisons

	Bertelsmann SE & Co. KGaA	Paramount Global
Foreign currency issuer credit rating	BBB-/Stable/A-2	BBB-/Stable/A-3
Local currency issuer credit rating	BBB-/Stable/A-2	BBB-/Stable/A-3
Period	Annual	Annual
Period ending	2022-12-31	2022-12-31
Mil.	EUR	EUR
Revenue	19,977	28,214
EBITDA	2,752	3,215
Funds from operations (FFO)	2,089	2,236
Interest	246	932
Cash interest paid	324	922
Operating cash flow (OCF)	1,009	155
Capital expenditure	955	335
Free operating cash flow (FOCF)	53	(180)
Discretionary cash flow (DCF)	(647)	(854)
Cash and short-term investments	3,208	2,699
Gross available cash	3,208	2,699
Debt	4,802	14,126
Equity	14,775	22,860
EBITDA margin (%)	13.8	11.4
Return on capital (%)	9.1	6.3
EBITDA interest coverage (x)	11.2	3.4
FFO cash interest coverage (x)	7.4	3.4
Debt/EBITDA (x)	1.7	4.4
FFO/debt (%)	43.5	15.8
OCF/debt (%)	21.0	1.1
FOCF/debt (%)	1.1	(1.3)

Bertelsmann SE & Co. KGaA--Peer Comparisons

DCF/debt (%)	(13.5)	(6.0)
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Environmental, Social, And Governance

ESG Credit Indicators



ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

ESG 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	Satisfactory (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, Nov. 19, 2013
- 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, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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