

Media & Entertainment
EMEA
Special Report

European Media - Liquidity Update

Analysts

Alex Griffiths
+44 20 7417 4207
alex.griffiths@fitchratings.com

Michael Dunning
+44 20 7417 6343
michael.dunning@fitchratings.com

Apostolos Bantis
+44 20 682 7416
apostolos.bantis@fitchratings.com

Bulent Akgul
+90 212 279 1065
bulent.akgul@fitchratings.com

Related Research

- [Corporate Liquidity Study – EMEA and Asia Pacific](#) – Special Report dated 18 August 2008
- [European Media Outlook 2008 – Stable but with downside risks](#) – Special Report dated 11 January 2008
- [Bertelsmann AG](#) – Credit Analysis dated 10 June 2008
- [Daily Mail and General Trust Plc](#) – Credit Analysis dated 29 February 2008
- [ITV plc](#) – Credit Analysis dated 12 May 2008
- [Reed Elsevier PLC](#) – Credit Update dated 21 May 2008
- [Seat Pagine Gialle S.p.A.](#) – Credit Analysis dated 30 April 2008
- [WPP Group plc](#) – Credit Analysis dated 15 August 2007

Background and Conclusions

It has become increasingly clear over the summer of 2008 that the readiness of banks to provide new loans to corporate borrowers has diminished. This, combined with considerably higher spreads on corporate bonds compared with those before the current economic slowdown, and infrequent windows of opportunity to launch such bonds, has brought short-term liquidity into sharper focus.

Fitch Ratings published in August 2008 a cross-sector report on corporate liquidity (*Corporate Liquidity Study - EMEA and Asia-Pacific*), and found that the corporate sector overall, in western Europe at least, is relatively well-placed to weather a period of limited, or prohibitively expensive, access to the capital markets – though certain sectors, such as housebuilders, face more challenges.

This report focuses on the EMEA media sector, assessing the short-term liquidity risk. The primary conclusions are as follows:

- Investment-grade media issuers still retain relatively strong liquidity profiles; with significant committed back-up facilities, typically syndicated with numerous banks.
- The liquidity profiles of sub-investment-grade corporates typically reflect the higher credit risk associated with these entities. This can be a symptom of either a leveraged financing structure (Seat Pagine Gialle S.p.A. ('BB-'/Outlook Negative)) or a geography where short-term funding is more the norm (Hurriyet Gazetecilik ve Matbaacilik A.S. (Hurriyet, 'BB'/Stable)).
- While liquidity up to 2009 is generally adequate, the back-up facilities of four rated media companies expire in 2010-2011. Fitch has so far not seen evidence of rated European media issuers being unable to renew their credit lines, but in the event of a prolonged downturn this remains a possibility. Reed Elsevier PLC (Reed, 'A-'/Stable), due to the recent acquisition of Choicepoint, sees the first stage (USD2bn) of its acquisition funding due in March 2010. Fitch expects this to be largely refinanced by the sale of the non-exhibition parts of its Business Information division, which is ongoing.
- Free cash flow (FCF) generation remains strong in most cases, with the exceptions being either leveraged or emerging market credits. Of the remaining issuers, those reliant on advertising revenues are likely to see their FCF most badly affected by a downturn. The four investment-grade issuers identified as having a significant reliance on the advertising market (ITV, WPP, DMGT and Bertelsmann) all have very solid liquidity profiles, which mitigates the short-term risks.

Detailed Findings

2008-09 Maturities and Facilities

The graph in *Appendix 1* measures short-term liquidity as of 31 December 2007 (or the group's last year-end) in the form of cash and undrawn committed bank facilities, and compares this with maturities until the end of 2009 (or two years from the latest year-end). Where debt has been issued or term debt has matured, the figures have been adjusted – other than this, except as noted on the graph, no further adjustments have been made.

In most instances, the available facilities exceed imminent maturities by some margin. A number of names require particular consideration:

- **Seat Pagine Gialle** – Seat is one of the issuers in this peer group to show a liquidity deficit. This is unsurprising given its status as one of two leveraged credits, and the only one with a more traditional leveraged loan package. This sees debt repayments increasing throughout the loan's life, and makes Seat reliant on FCF generation to service its debt. Seat has historically generated significant FCF (EUR185m pre-dividends in FY07), and this has allowed it to make significant debt prepayments. A key consideration for the future of the rating is Seat's forecasts for 2009, which are due to be announced in late-2008. These will provide more information on the group's ability to meet both its financial covenants and debt repayments in 2009. For more details on this, see Fitch's credit analysis dated 30 April 2008.
- **Hurriyet** – the Turkish Newspaper group is the other credit reliant on cash flow to pay down debt, but also has a cash position of USD169m. In combination, these should be adequate to cover financial obligations until 2010. The FCF amounted to USD30.4m in 2007, and 2008 FCF should be sufficient to cover short-term financial debt of USD42m in the following year. The more short-term nature of Hurriyet's financing is typical of a Turkish issuer, but the company has extended its average debt maturity to 2.5 years after the Trader Media East (TME) acquisition in 2007. Fitch also takes comfort from potential support from its parent, Dogan Yayin Holding AS (DYH, 'BB-' /Stable), both in terms of negotiating support in extending bank debt as it falls due (USD307m due in 2008-2010 including supplier loans) and, if necessary, direct liquidity support. DYH has provided guarantees for Hurriyet debt related to the TME acquisition.
- **Reed Elsevier** – on 19 September 2008, Reed completed the acquisition of Choicepoint for USD4.1bn, which was financed by a two- to three-year bank facility. USD2bn of this expires in March 2010, with the remaining USD2.2bn in March 2011. As of late-September 2008, the group was in the process of auctioning Reed Business Information (RBI), the proceeds from which are due to be used to pay down part of this facility. Fitch expects the remainder to be either repaid out of FCF or refinanced in the bond markets. The key liquidity risk here is that the RBI sale fails for some reason, leaving Reed reliant on FCF or the bond markets to meet the March 2010 maturity. As Fitch's highest-rated European media issuer – one which has already issued in 2008 and which continues to have access to the Commercial Paper (CP) market – Fitch would expect this to be possible over an 18-month timescale. The group's back-up USD3bn revolving credit facility (RCF) also expires in March 2010, further adding to potential pressure in that year. Reed's approximately GBP700m (USD1.4bn) pre-dividend FCF gives it further options, if necessary. Fitch will continue to monitor this situation as it develops, but would expect Reed to take action sooner rather than later in the event the RBI sale falls through.
- **Fitch had previously highlighted Daily Mail and General Trust Plc's (DMGT, 'BBB' /Negative) bank maturities in 2008 and 2009.** On 25 September 2008, DMGT announced it had successfully extended its bank facilities for between three and five years. This represents the resolution of what Fitch had viewed as a short-term risk to the group. The group also disclosed that the pricing on the new loan was higher than the previous deal.
- **ITV Plc ('BBB-' /Outlook Negative)** – while ITV's liquidity is healthy, Fitch notes that of the GBP650m of facilities available to it, GBP450m is subject to leverage and coverage covenants. As discussed at length in Fitch's report dated 12 May 2008, ITV's operational gearing means that its leverage is likely to significantly increase in an advertising downturn, potentially threatening the 3.75x leverage covenant – though a very severe downturn would be required for this to happen.

Following refinancing in H108, however, which put in place GBP200m of further facilities which do not have financial covenants, and a bond issue of GBP110m, ITV will not need to access the capital markets in the immediate future even if its GBP450m bank facility becomes unavailable.

Bank Facilities

Western-European investment-grade corporates typically rely on a variety of funding sources, with significant undrawn committed bank lines forming an important part in assessing a group's liquidity situation.

In Europe, these loans are typically syndicated, limiting the exposure to the failure of any one financial institution. While these facilities are usually made available over a three- to five-year period, many become due for renegotiation in the next few years.

Media Peer Group - Committed Bank Facilities At Latest Year End^c

(EURm)	Total Committed Bank Facility	Maturity Date	Undrawn Amount
Bertelsmann	1,200	2011	1,200
British Sky Broadcasting	1,260	July 2010	1,260
DMGT ^b	491	2011-13	310
ITV plc	567	July 2011	567
Reed Elsevier ^a	2,110	March 2010	2,050
Seat Pagine Gialle	90	2012	90
The Nielsen Company	484	2012	484
Vivendi	6,231	2011-2013	6,231
Wolters Kluwer	1,000	2011	304
WPP Group	1,127	2012	673
Hurriyet	-	-	-
Dogan Yayin Holdings	-	-	-

^a Excludes acquisition financing - see above

^b Facility amounts as at 30 September 2007. Assumed refinanced as per statement of 25 September 2008

^c Vivendi at 30 June 2008

Source: Companies/Fitch analysis

Two names stand out with facilities that expire in 2010 – Reed and British Sky Broadcasting Group plc (BSkyB, 'BBB'/Stable). Reed is discussed above. Sky's GBP1bn back-up facilities, undrawn at 30 June 2008, expire in July 2010 (i.e. in the company's FY11). The next term maturity is in 2015, which Fitch sees as lessening the pressure on this refinancing.

2010 Maturities

If this report's analysis is extended to take account of maturities in calendar year 2010, and remove facilities which expire in that year (as is done in *Appendix 2*), the liquidity situation remains relatively robust for most issuers. Of the two outlying investment-grade issuers, Reed's circumstances are discussed above, and arise wholly from its acquisition of Choicepoint earlier in 2008. Sky is also discussed above. For the profiles of the non-investment-grade issuers, with the exception of Nielsen, the need to generate FCF – or refinance – is clear.

Free Cash Flow Generation

Strong cash generation remains a characteristic of most media companies, and this is demonstrated at a pre-dividend FCF level by the majority of Fitch's portfolio of issuers.

Media - 2010 Debt Maturities

(EURm)	2010 Maturities
Bertelsmann	820
British Sky Broadcasting	-
DMGT	-
ITV plc	-
Reed Elsevier ^a	1,710
Seat Pagine Gialle	232
The Nielsen Company	438
Vivendi	1,447
Wolters Kluwer	12
WPP Group	-
Hurriyet	92
Dogan Yayin Holdings	15

^a Includes acquisition financing
Source: Fitch

Two businesses displaying negative pre-dividend FCF are:

- The Nielsen Company, B.V. (Nielsen, 'B'/Stable). Nielsen was subject to an LBO in 2006, and part of this structure is designed to limit FCF – at least in the early years of the buyout. The risks associated with this strategy are encapsulated in the 'B' rating.
- DYH's consolidated FCF in 2007 was negative due to high working capital requirements, higher cash taxes due to a business divestment, and higher-than-expected capex due to new business ventures, but it is expected to considerably improve in 2008. DYH's ('BB-') ratings reflect only short-term dividend flows from small operating companies such as Dogan Gazetecilik and Dogan Burda (DB). The main operating subsidiary, Hurriyet, did not pay dividends in 2007 due to the TME transaction, and Fitch understands that the company may resume a dividend payout by 2010 at the earliest, as Hurriyet concentrates on reducing its own leverage. DYH's average debt maturity is long term, mostly related to the TME acquisition and its broadcasting assets under Dogan TV, but cash in hand of USD656.7m at June 2008 limits exposure to refinancing risk and interest rate fluctuations, respectively.

Media - Pre-Dividend Free Cash Flow FY07

(EURm)	Pre-Dividend Free Cash Flow	Pre-Dividend Free Cash Flow Margin (% of revenue)
Bertelsmann	611	3.3
British Sky Broadcasting	476	7.6
DMGT	265	9.4
ITV plc	174	6.6
Reed Elsevier	874	15.1
Seat Pagine Gialle	185	12.7
The Nielsen Company	(18)	(0.1)
Vivendi	3,532	16.3
Wolters Kluwer	405	11.9
WPP Group	908	14.7
Hurriyet	23	4.6
Dogan Yayin Holdings	(100)	(6.8)

Source: Fitch

A risk to this FCF remains the vulnerability of these businesses to short-term swings in the advertising market, which will follow GDP growth. This poses an obvious risk going into a period of recession. The key rated issuers at risk from these factors are:

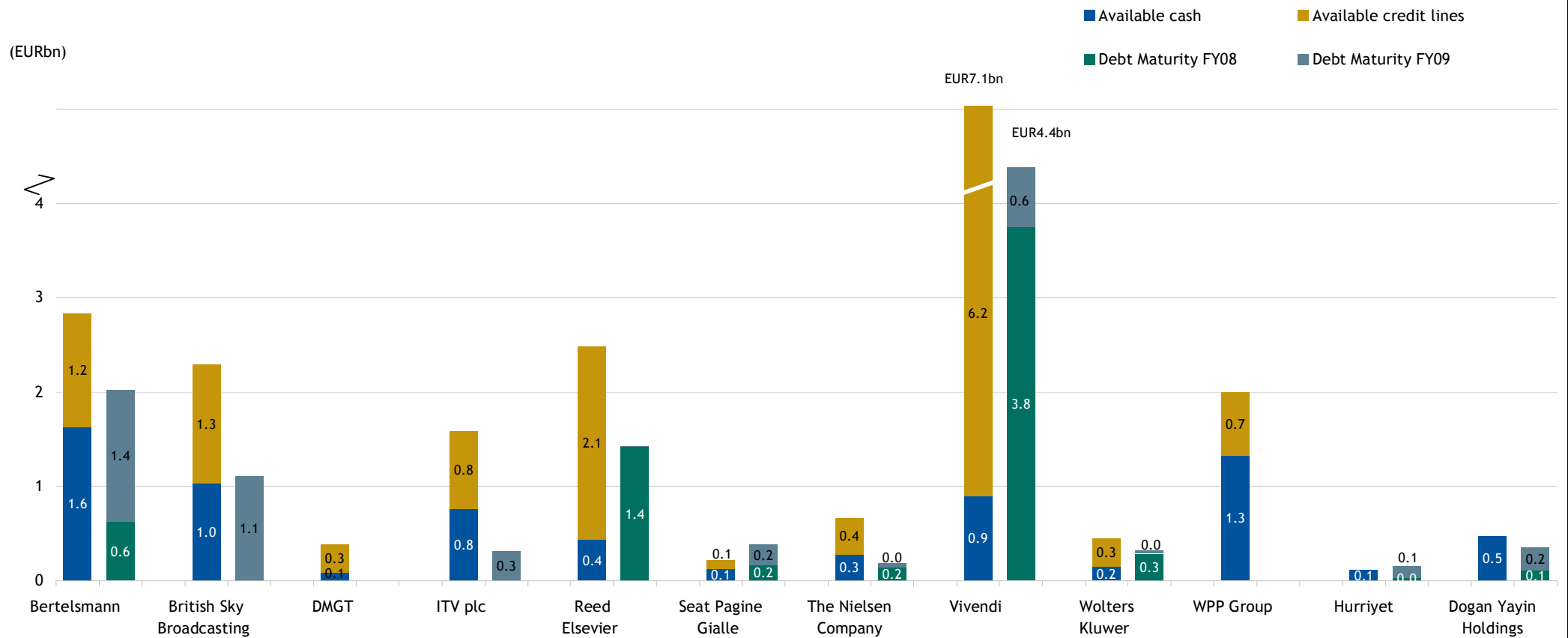
- ITV – Fitch estimates that 72% of ITV's revenue comes from advertising, and a largely fixed-cost base makes FCF very vulnerable to movements in the ad market.
- WPP Group plc (WPP, 'BBB+' / Rating Watch Negative) – all of WPP's revenue is tied to the advertising market, even if advertising spend is not a direct revenue source as at other media companies. Fitch would expect the 46% of WPP's business related to advertising and media investment management to be impacted fairly directly by a fall in advertising, with the remaining 54% exposed to less cyclical industries such as market research. WPP has shown itself capable of severely cutting its cost base (principally employees) in past downturns, and this should mitigate any negative impacts. WPP will also benefit from geographical diversity – while ad markets in western European and the US are forecast to stagnate at best through 2008-09, consensus is that emerging markets will grow.
- DMGT (47% ad funded) – diversification away from ad-funded media, principally newspapers, will mitigate the effect of an ad downturn at DMGT. Newspaper groups' costs also include a significant variable cost element, which will further mitigate any potential decline.

- Bertelsmann AG ('BBB+' / Stable), through its subsidiaries RTL Group and Gruner & Jahr, also has some exposure to advertising revenue, which Fitch estimates at 24%. The high level of diversity at the group should limit the direct impact on FCF of an ad downturn, however.

The operational gearing of these groups is discussed in Fitch's latest credit analysis on each of them, a link to which can be found on the front page of this report. All have reasonably strong liquidity profiles, which should allow them to navigate short-term falls in FCF.

Appendix I

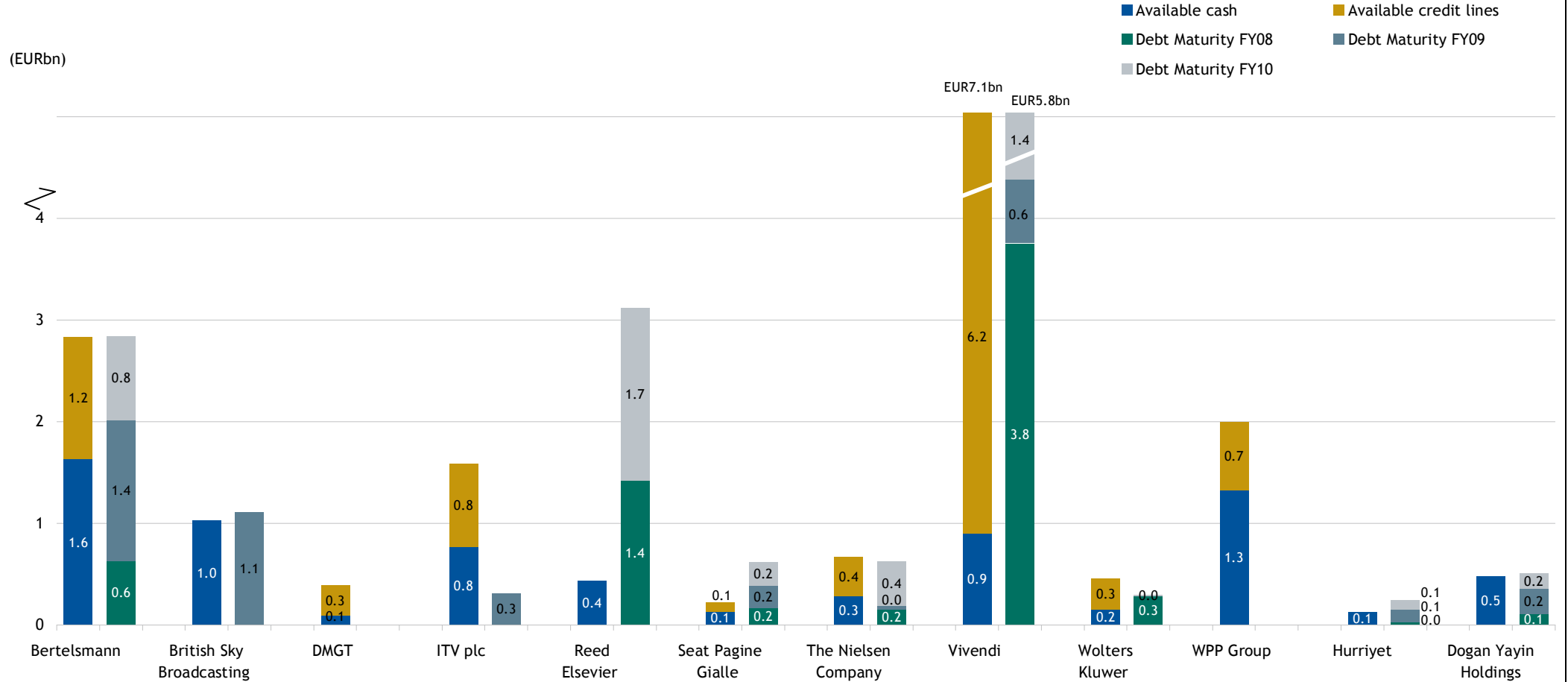
Liquidity - Fitch TMT EMEA Media Portfolio — to 2009



Source: Companies' latest annual reports, Bloomberg, Fitch analysis; Vivendi as at HY08, Hurriyet and DYH as of 31 May 2008; Reed cash adjusted for Harcourt divestiture/share buyback.

Appendix II

Liquidity - Fitch TMT EMEA Media Portfolio – to 2010



Source: Companies' latest annual reports, Bloomberg, Fitch analysis; Vivendi as at HY08, Hurriyet and DYH as of 31 May 2008; Reed cash adjusted for Harcourt divestiture/share buyback.

Copyright © 2008 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. All of the information contained herein is based on information obtained from issuers, other obligors, underwriters, and other sources which Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of any such information. As a result, the information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed, suspended, or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.