

Warner Bros. Discovery, Inc. Series A

US Satellite*

Recommended since 13.03.2023

13.03.2023



Country	US	Market capitalization (bn)	USD	34,5	Perf. since reco. (%)	
Sector	Media	Free float	91,0%	Warner Bros. Discovery, Inc. Series A	0,0	
Factset	WBD-US	Closing price	USD	14,35	Sector	0,0
ISIN	US9344231041	ESG Risk score*	#N/A	#N/A		



Profile

Warner Bros Discovery is a global media company formed from the recent merger of WarnerMedia and Discovery Inc. The company creates and distributes a differentiated portfolio of content, brands and franchises in television, movies, streaming and games. Iconic brands and franchises include Warner Bros. Pictures Group, Warner Bros. Television Group, DC, HBO, HBO Max, Discovery Channel, Discovery+, CNN, HGTV, Food Network, TBS, TLC, OWN, Warner Bros.

Strengths/opportunities

- Broad portfolio of intellectual property assets and strong brand recognition
- Merger synergies (strategy, growth and costs)
- Faster than expected growth and profitability of DTC subscribers

Weaknesses/threats

- Further deterioration of the TV Linear segment (number of subscribers or advertising)
- Industry competition (Netflix, Disney, Paramount, Prime, etc.)

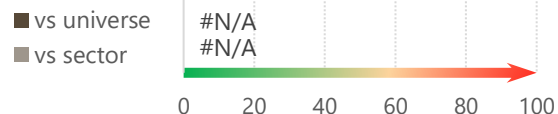
Investment case

- The merger between Warner Bros and Discovery brings together two major media companies with distinct strengths and capabilities. Warner Bros. has a long history of producing hit movies and series, while Discovery has expertise in non-fiction programming and a strong presence in international markets. For potential synergies from the merger, the company is targeting a broader audience with the launch of the combined HBO Max and Discovery+ service in the US as well as entry into new regions such as Latin America in 2023 and EMEA & APAC in 2024.
- In addition, the media landscape is constantly evolving with the rise of platforms, the decline of Linear TV as well as ever increasing production costs. The management is ready to deliver in this environment (especially on IP quality content) and is still conservative on key figures: cost synergy of \$5 billion (of which \$4 billion will be realized in 2024), 2023e EBITDA of c. \$11 billion (including FCF conversion from 33% to 50%) as well as reduced leverage (Net Debt/EBITDA < 4x in 2023 and 2.5-3x in 2024).
- We are positive on the stock given its attractive valuation with significant potential for multiple expansion as EBITDA (CAGR 10% for 2023-2025) and FCF (CAGR 27% for 2023-2025) increase. The merger therefore offers significant synergies and strategic opportunities that are not yet appreciated by the market.

Valuation

The stock trades at an EV/EBITDA 2023e ratio of 6.9x and an EV/Sales ratio of 1.8x, at a discount to its peers. Reduced leverage, content portfolio and expansion in DTC will support the stock.

ESG risk vs. universe & sector (percentile)*



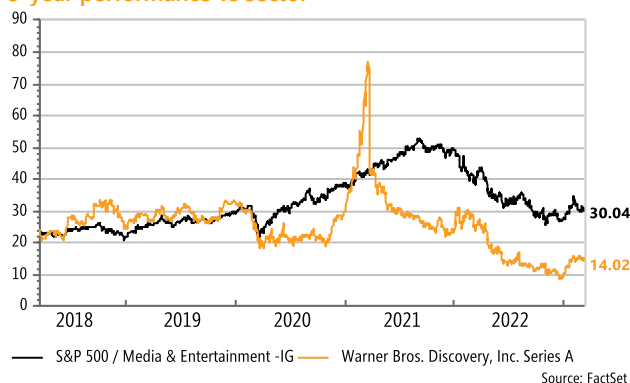
USD	12/2022	12/2023e	12/2024e
Sales revenue (mio)	33 817	43 978	46 016
Sales growth	177,5%	30,0%	4,6%
EBIT adjusted (mio)	-2 326	1 187	3 409
% of sales	-6,9%	2,7%	7,4%
Net income (mio)	-7 371	-1 133	2 292
Net income growth	-821,2%	-84,6%	-302,2%
FCF/Sales	9,8%	10,6%	14,1%
Net debt/Ebitda	10,0x	3,6x	2,8x
Dividend yield	0,0%	0,0%	0,0%
PE	#N/A	#N/A	29,5x
P/BV	0,5x	0,7x	0,7x

Factset estimates

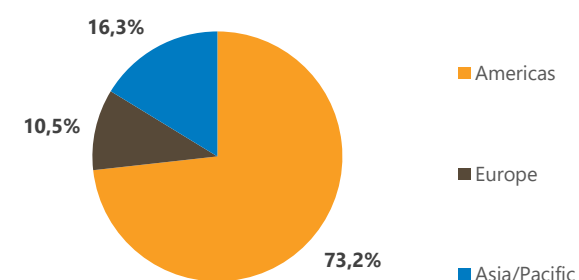
ESG - risks and key points

- No ESG controversy.
- New plan being developed on ESG opportunities to be proposed in 2023.

5-year performance vs sector



Sales breakdown - 12/2022



*: see overleaf

Source: Factset, Sustainabilitycs

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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