

# Warner Bros. Discovery

## Turning the page to '24

Reiterate Rating: BUY | PO: 17.00 USD | Price: 11.04 USD

### 4Q preview: Managing through a challenging macro

We anticipate WBD's 4Q results to largely reflect recent trends. The macro environment continues to be choppy with advertising remaining under pressure, while studio results are still adversely impacted by the various talent strikes and a challenging Box Office. Conversely, FCF generation should be robust which will help boost the company's deleveraging plans. Our 4QE revenue is now \$10.1bn (vs. \$10.6bn prev.) and our 4QE adj. EBITDA is now \$2.77bn (vs. \$3.02bn prev.). Key revenue drivers include: (1) Studio revenue growth of -9% (vs. +2% prev.) reflecting disappointing results at the box office for some films along with the prolonged impacts of the strikes, (2) at Networks, we forecast a 10% decline (unchanged) reflecting the continuation of the challenging advertising environment and (3) DTC revenue growth of +3% (vs. +7% previously) reflecting the impacted of a lower content output in the quarter on net adds.

### Turning the page to '24

2023 was a challenging year for the media industry, WBD included, as it grappled with accelerating secular headwinds in linear television, cyclical headwinds in advertising and the impact of various talent strikes on content production. The resolution of the various strikes (alongside the resumption of production), a hopefully better ad market, DTC launches in several international markets and continued FCF generation/delevering position the company for a more favorable 2024. In addition, we anticipate the two-year anniversary of WBD's RMT (Reverse Morris Trust) transaction in April coupled with media reports surrounding forthcoming industry consolidation to be a positive driver of investor sentiment in 2024.

### Lower our CY23E adj. EBITDA

We lower our CY23E adj. EBITDA forecast to \$10.5bn (from \$10.7bn) to reflect lower Studios and Networks, however we increase our CY23E FCF to \$5.4bn (from \$5.3bn) to reflect continued working capital improvements. We keep our CY24E adj. EBITDA estimate of \$10.7bn unchanged.

### Reiterate Buy and \$17 PO

We reiterate our Buy rating and \$17 PO. We continue to believe WBD has a compelling assortment of assets and view the current valuation of ~6x CY24E EV/EBITDA as undemanding. Upcoming catalysts include: 1) incremental merger related synergies; 2) Max rollout in Latam with rest of the world in 2024.

Estimates (Dec) (US\$)	2021	2022A	2023E	2024E	2025E
EPS	NA	0.36	1.46	2.24	2.51
EPS Change (YoY)	NA	NA	305.6%	53.4%	12.1%
Consensus EPS (Bloomberg)			(1.07)	(0.18)	0.36
DPS	NA	0	0	0	0
<b>Valuation (Dec)</b>					
P/E	NA	30.7x	7.6x	4.9x	4.4x
EV / EBITDA*	NA	9.5x	8.3x	8.1x	7.6x
Free Cash Flow Yield*	NA	12.4%	20.2%	18.3%	20.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 7.

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10 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
2023E Rev (m)	41,687.7	41,173.8
2024E Rev (m)	42,081.6	41,237.8
2025E Rev (m)	43,036.0	42,168.3
2023E EPS	1.53	1.46
2023E EBITDA (m)	10,744.2	10,499.8
2024E EBITDA (m)	10,746.7	10,746.5
2025E EBITDA (m)	11,437.6	11,437.9

#### Jessica Reif Ehrlich

Research Analyst  
BofAS  
+1 646 855 2921  
[jessica.reif@bofa.com](mailto:jessica.reif@bofa.com)

#### Brent Navon, CFA

Research Analyst  
BofAS  
+1 646 855 3827  
[brent.navon@bofa.com](mailto:brent.navon@bofa.com)

#### Peter Henderson

Research Analyst  
BofAS  
+1 646 855 4564  
[peter2.henderson@bofa.com](mailto:peter2.henderson@bofa.com)

#### David Plaus

Research Analyst  
BofAS  
+1 646 855 1572  
[david.plaus@bofa.com](mailto:david.plaus@bofa.com)

### Stock Data

Price	11.04 USD
Price Objective	17.00 USD
Date Established	9-Nov-2023
Investment Opinion	C-1-9
52-Week Range	9.27 USD - 16.34 USD
Mrkt Val (mn) / Shares Out (mn)	26,728 USD / 2,421.0
Free Float	90.7%
Average Daily Value (mn)	258.31 USD
BofA Ticker / Exchange	WBD / NAS
Bloomberg / Reuters	WBD US / WBD.OQ
ROE (2023E)	7.7%
Net Dbt to Eqty (Dec-2022A)	93.0%
ESGMeter <sup>TM</sup>	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

# iQprofile<sup>SM</sup> Warner Bros. Discovery

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021	2022A	2023E	2024E	2025E
Return on Capital Employed	NA	NA	-0.5%	2.0%	3.3%
Return on Equity	NA	3.7%	7.7%	12.0%	12.9%
Operating Margin	NA	-11.4%	-1.5%	10.1%	14.7%
Free Cash Flow	NA	3,317	5,400	4,900	5,561

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021	2022A	2023E	2024E	2025E
Cash Realization Ratio	NA	4.9x	1.9x	1.1x	1.1x
Asset Replacement Ratio	NA	0.1x	0.2x	0.2x	0.3x
Tax Rate	NA	23.3%	3.0%	77.1%	44.3%
Net Debt-to-Equity Ratio	NA	93.0%	86.6%	74.2%	58.4%
Interest Cover	NA	-2.1x	-0.3x	2.3x	4.0x

## Income Statement Data (Dec)

(US\$ Millions)	2021	2022A	2023E	2024E	2025E
Sales	NA	43,095	41,174	41,238	42,168
% Change	NA	NA	-4.5%	0.2%	2.3%
Gross Profit	NA	32,358	29,550	29,249	29,455
% Change	NA	NA	-8.7%	-1.0%	0.7%
EBITDA	NA	9,174	10,500	10,747	11,438
% Change	NA	NA	14.5%	2.3%	6.4%
Net Interest & Other Income	NA	(1,986)	(2,366)	(1,787)	(1,529)
<b>Net Income (Adjusted)</b>	<b>NA</b>	<b>870</b>	<b>3,549</b>	<b>5,462</b>	<b>6,129</b>
<b>% Change</b>	<b>NA</b>	<b>NA</b>	<b>308.0%</b>	<b>53.9%</b>	<b>12.2%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	NA	(5,359)	(2,948)	486	2,529
Depreciation & Amortization	NA	7,227	7,835	5,976	4,600
Change in Working Capital	NA	(11,063)	(9,064)	(7,280)	(7,578)
Deferred Taxation Charge	NA	(2,842)	(1,402)	0	0
Other Adjustments, Net	NA	16,341	12,484	7,039	7,462
Capital Expenditure	NA	(987)	(1,505)	(1,320)	(1,452)
<b>Free Cash Flow</b>	<b>NA</b>	<b>3,317</b>	<b>5,400</b>	<b>4,900</b>	<b>5,561</b>
<b>% Change</b>	<b>NA</b>	<b>NA</b>	<b>62.8%</b>	<b>-9.3%</b>	<b>13.5%</b>
Share / Issue Repurchase	NA	0	0	0	0
Cost of Dividends Paid	NA	0	0	0	0
Change in Debt	NA	(7,315)	(6,562)	(6,000)	(6,000)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021	2022A	2023E	2024E	2025E
Cash & Equivalents	NA	3,731	3,932	2,832	2,393
Trade Receivables	NA	6,380	5,816	6,018	6,273
Other Current Assets	NA	3,888	3,439	3,517	3,421
Property, Plant & Equipment	NA	5,301	6,017	6,337	6,789
Other Non-Current Assets	NA	114,701	103,685	99,541	96,793
<b>Total Assets</b>	<b>NA</b>	<b>134,001</b>	<b>122,889</b>	<b>118,246</b>	<b>115,669</b>
Short-Term Debt	NA	365	1,302	1,302	1,302
Other Current Liabilities	NA	14,652	13,508	13,782	14,021
Long-Term Debt	NA	48,634	42,498	36,498	30,498
Other Non-Current Liabilities	NA	21,683	19,521	19,521	19,521
<b>Total Liabilities</b>	<b>NA</b>	<b>85,334</b>	<b>76,829</b>	<b>71,103</b>	<b>65,342</b>
<b>Total Equity</b>	<b>NA</b>	<b>48,667</b>	<b>46,060</b>	<b>47,142</b>	<b>50,327</b>
<b>Total Equity &amp; Liabilities</b>	<b>NA</b>	<b>134,001</b>	<b>122,889</b>	<b>118,246</b>	<b>115,669</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## Company Sector

Entertainment

## Company Description

WBD is a leading global media company. Its portfolio includes highly complementary assets, including best-in-class film and TV studios (Warner Bros.) in addition to other entertainment assets such as HBO/HBO Max, CNN, Turner Sports, TNT, and a deep library (e.g., Cartoon Network, DC Comics) as well as key networks such as Discovery Channel, Food Network, Eurosport (International network), and TLC.

## Investment Rationale

We view the risk/reward of WBD favorably as we believe it:

(1) will have a leading DTC offering with the depth and breadth in content and asset mix to provide a broad appeal to consumers globally, (2) has the scale to invest in original content to compete with media and FAANG peers, (3) potentially will be able to realize cost synergy upside from the company's current target, and (4) has significant potential revenue synergies from increased scale (i.e., advertising, distribution, etc.).

## Stock Data

Average Daily Volume 23,397,936

## Quarterly Earnings Estimates

	2022	2023
Q1	0.23A	0.23A
Q2	0.06A	0.16A
Q3	0.04A	0.50A
Q4	0.20A	0.58E

**Exhibit 1: WBD – Variance Tab**

We lower 4Q adj. EBITDA to \$2.77bn

	Current Quarter						Current Year					
	Act.	New	Old				Act.	New	Old			
	Q4/22A	Q4/23E	Y/Y	Q4/23E	Y/Y	D	2022A	2023E	Y/Y	2023E	Y/Y	D
<i>Fiscal Year Ends 12/31</i>												
<b>WBD : Actuals &amp; BofA Estimates</b>												
<b>Studios</b>												
Advertising	(\$3)	\$10	-433%	\$10	-433%	\$0	\$24	\$21	-13%	\$21	-13%	\$0
Distribution	\$4	\$4	0%	\$4	0%	\$0	\$18	\$23	28%	\$23	28%	\$0
Content	\$3,631	\$3,317	-9%	\$3,740	3%	(\$423)	\$13,054	\$11,742	-10%	\$12,165	-7%	(\$423)
Other	\$210	\$169	-19%	\$169	-19%	\$0	\$702	\$733	4%	\$733	4%	\$0
<b>Total Studios Revenue</b>	<b>\$3,842</b>	<b>\$3,500</b>	<b>-9%</b>	<b>\$3,923</b>	<b>2%</b>	<b>(\$423)</b>	<b>\$13,798</b>	<b>\$12,519</b>	<b>-9%</b>	<b>\$12,942</b>	<b>-6%</b>	<b>(\$423)</b>
% Chg. (YOY)	NM	-9%		2%			NM	-9%		-6%		
<b>Networks</b>												
Advertising	\$2,226	\$1,981	-11%	\$1,981	-11%	\$0	\$9,604	\$8,375	-13%	\$8,375	-13%	\$0
Distribution	\$2,874	\$2,713	-6%	\$2,713	-6%	\$0	\$11,942	\$11,482	-4%	\$11,482	-4%	\$0
Content	\$307	\$200	-35%	\$200	-35%	\$0	\$1,340	\$944	-30%	\$944	-30%	\$0
Other	\$112	\$50	-56%	\$50	-56%	\$0	\$300	\$350	17%	\$350	17%	\$0
<b>Total Networks Revenue</b>	<b>\$5,519</b>	<b>\$4,944</b>	<b>-10%</b>	<b>\$4,944</b>	<b>-10%</b>	<b>\$0</b>	<b>\$23,186</b>	<b>\$21,151</b>	<b>-9%</b>	<b>\$21,151</b>	<b>-9%</b>	<b>\$0</b>
% Chg. (YOY)	NM	-10%		-10%			NM	-9%		-9%		
<b>DTC</b>												
Advertising	\$123	\$175	42%	\$157	27%	\$18	\$407	\$537	32%	\$519	27%	\$18
Distribution	\$2,084	\$2,159	4%	\$2,269	9%	(\$111)	\$8,521	\$8,695	2%	\$8,805	3%	(\$111)
Content	\$243	\$191	-21%	\$191	-21%	\$0	\$752	\$906	20%	\$906	20%	\$0
Other	\$1	\$2	100%	\$2	100%	\$0	\$13	\$14	8%	\$14	8%	\$0
<b>Total DTC Revenue</b>	<b>\$2,451</b>	<b>\$2,526</b>	<b>3%</b>	<b>\$2,619</b>	<b>7%</b>	<b>(\$93)</b>	<b>\$9,693</b>	<b>\$10,151</b>	<b>5%</b>	<b>\$10,244</b>	<b>6%</b>	<b>(\$93)</b>
% Chg. (YOY)	NM	3%		7%			NM	5%		6%		
Corporate	\$28	\$0	NM	\$0	NM	\$0	\$49	\$0	-100%	\$0	-100%	\$0
Inter-segment Eliminations	(\$832)	(\$836)	1%	(\$838)	1%	\$2	(\$3,631)	(\$2,647)	-27%	(\$2,649)	-27%	\$2
<b>Total Revenue</b>	<b>\$11,008</b>	<b>\$10,134</b>	<b>-8%</b>	<b>\$10,648</b>	<b>-3%</b>	<b>(\$514)</b>	<b>\$43,095</b>	<b>\$41,174</b>	<b>-4%</b>	<b>\$41,688</b>	<b>-3%</b>	<b>(\$514)</b>
% Chg. (YOY)	NM	-8%		-3%			NM	-4%		-3%		
<b>Adj. EBITDA:</b>												
Studios	\$768	\$710	-8%	\$892	16%	(\$182)	\$2,749	\$2,350	-15%	\$2,532	-8%	(\$182)
Networks	\$2,478	\$2,213	-11%	\$2,275	-8%	(\$62)	\$10,051	\$9,068	-10%	\$9,130	-9%	(\$62)
DTC	(\$217)	\$48	-122%	\$48	-122%	(\$0)	(\$2,063)	\$206	-110%	\$206	-110%	(\$0)
Corporate	(\$451)	(\$200)	-56%	(\$200)	-56%	\$0	(\$1,553)	(\$1,128)	-27%	(\$1,128)	-27%	\$0
Inter-segment Eliminations	\$25	\$0	NM	\$0	NM	\$0	(\$10)	\$4	NM	\$4	NM	\$0
<b>Total adj. EBITDA</b>	<b>\$2,603</b>	<b>\$2,771</b>	<b>6%</b>	<b>\$3,015</b>	<b>16%</b>	<b>(\$244)</b>	<b>\$9,174</b>	<b>\$10,500</b>	<b>14%</b>	<b>\$10,744</b>	<b>17%</b>	<b>(\$244)</b>
<b>Operating (loss) income</b>	<b>(\$968)</b>	<b>\$757</b>	<b>NM</b>	<b>\$1,001</b>	<b>NM</b>	<b>(\$244)</b>	<b>(\$4,906)</b>	<b>(\$609)</b>	<b>-88%</b>	<b>(\$365)</b>	<b>-93%</b>	<b>(\$244)</b>
<b>Net (loss) available to Warner Bros. Discovery, Inc.</b>	<b>(\$1,408)</b>	<b>(\$222)</b>	<b>-84%</b>	<b>(\$39)</b>	<b>-97%</b>	<b>(\$183)</b>	<b>(\$5,359)</b>	<b>(\$2,948)</b>	<b>-45%</b>	<b>(\$2,765)</b>	<b>-48%</b>	<b>(\$183)</b>
Adjustments	NM	\$1,624	NM	\$1,624	NM	\$0	NM	\$6,497	NM	\$6,497	NM	\$0
<b>Adj. Net (loss) available to Warner Bros. Discovery, Inc.</b>	<b>NM</b>	<b>\$1,402</b>	<b>NM</b>	<b>\$1,586</b>	<b>NM</b>	<b>(\$183)</b>	<b>NM</b>	<b>\$3,549</b>	<b>NM</b>	<b>\$3,732</b>	<b>NM</b>	<b>(\$183)</b>
<b>Adj. Diluted EPS</b>	<b>NM</b>	<b>\$0.58</b>	<b>NM</b>	<b>\$0.65</b>	<b>NM</b>	<b>-\$0.08</b>	<b>NM</b>	<b>\$1.46</b>	<b>NM</b>	<b>\$1.53</b>	<b>NM</b>	<b>-\$0.08</b>
Weighted average diluted shares outstanding	NM	2,438	NM	2,438	NM	0	NM	2,438	NM	2,438	NM	0
<b>Reported Free Cash Flow</b>	<b>\$2,482</b>	<b>\$2,549</b>	<b>3%</b>	<b>\$2,449</b>	<b>-1%</b>	<b>\$100</b>	<b>\$3,317</b>	<b>\$5,400</b>	<b>63%</b>	<b>\$5,300</b>	<b>60%</b>	<b>\$100</b>

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

**Exhibit 2: WBD – Income Statement**

We forecast \$10.5bn in CY23E adj. EBITDA

	2022					2023							
	2021A	Q1A	Q2A	Q3A	Q4A	2022A	Q1A	Q2A	Q3A	Q4E	2023E	2024E	2025E
WBD: Income Statement	2021.0	2022.1	2022.2	2022.3	2022.4	2022.0	2023.1	2023.2	2023.3	2023.4	2023.0	2024.0	2025.0
Revenues:													
Studios	\$15,009	\$3,504	\$3,364	\$3,088	\$3,842	\$13,798	\$3,212	\$2,581	\$3,226	\$3,500	\$12,519	\$13,392	\$13,392
Networks	\$24,230	\$6,332	\$6,121	\$5,214	\$5,519	\$23,186	\$5,581	\$5,758	\$4,868	\$4,944	\$21,151	\$20,413	\$19,943
DTC	\$9,265	\$2,515	\$2,410	\$2,317	\$2,451	\$9,693	\$2,455	\$2,732	\$2,438	\$2,526	\$10,151	\$11,264	\$12,750
Corporate	\$41	\$16	\$16	(\$11)	\$28	\$49	—	—	—	—	—	—	—
Inter-segment Eliminations	(\$3,219)	(\$926)	(\$1,088)	(\$785)	(\$832)	(\$3,631)	(\$548)	(\$712)	(\$551)	(\$836)	(\$2,647)	(\$3,831)	(\$3,917)
Total revenue	\$45,326	\$11,441	\$10,823	\$9,823	\$11,008	\$43,095	\$10,700	\$10,359	\$9,981	\$10,134	\$41,174	\$41,238	\$42,168
Y/Y		7%	-3%	-11%	-11%	-5%	-6%	-4%	2%	-8%	-4%	0%	2%
Adj. EBITDA:													
Studios	\$2,645	\$810	\$409	\$762	\$768	\$2,749	\$607	\$306	\$727	\$710	\$2,350	\$3,040	\$3,077
Networks	\$10,987	\$2,586	\$2,357	\$2,630	\$2,478	\$10,051	\$2,293	\$2,166	\$2,396	\$2,213	\$9,068	\$8,649	\$8,361
DTC	(\$1,865)	(\$654)	(\$558)	(\$634)	(\$217)	(\$2,063)	\$50	(\$3)	\$111	\$48	\$206	\$300	\$1,276
Corporate	(\$1,351)	(\$357)	(\$405)	(\$340)	(\$451)	(\$1,553)	(\$355)	(\$245)	(\$328)	(\$200)	(\$1,128)	(\$1,243)	(\$1,276)
Inter-segment Eliminations	\$10	(\$4)	(\$37)	\$6	\$25	(\$10)	\$16	(\$75)	\$63	—	\$4	—	—
Total adj. EBITDA	\$10,426	\$2,381	\$1,766	\$2,424	\$2,603	\$9,174	\$2,611	\$2,149	\$2,969	\$2,771	\$10,500	\$10,747	\$11,438
Margin	23%	21%	16%	25%	24%	21%	24%	21%	30%	27%	26%	26%	27%
Y/Y		-5%	-29%	-9%	-5%	-12%	10%	22%	22%	6%	14%	2%	6%
(Gain) loss on disposition	\$152	—	\$4	\$43	\$70	\$117	\$31	\$6	\$24	—	\$61	—	—
Restructuring and other charges	\$122	\$4	\$944	\$1,521	\$1,198	\$3,667	\$95	\$146	\$269	—	\$510	—	—
Depreciation and amortization	\$8,356	\$1,942	\$1,846	\$1,768	\$1,671	\$7,227	\$2,058	\$1,914	\$1,989	\$1,874	\$7,835	\$5,976	\$4,600
Employee share-based compensation	\$486	\$113	\$115	\$113	\$93	\$434	\$106	\$135	\$140	\$140	\$521	\$597	\$656
Transaction, integration and facility costs	\$1,233	\$305	\$201	\$59	\$66	\$631	\$47	\$70	\$45	—	\$162	—	—
Amortization of step-up and capitalized interest for content	\$2,357	\$357	\$757	\$417	\$473	\$2,004	\$831	\$784	\$405	—	\$2,020	—	—
Operating (loss) income	(\$2,280)	(\$340)	(\$2,101)	(\$1,497)	(\$968)	(\$4,906)	(\$557)	(\$906)	\$97	\$757	(\$609)	\$4,174	\$6,182
Interest expense, net	(\$2,659)	(\$598)	(\$565)	(\$568)	(\$561)	(\$2,292)	(\$571)	(\$574)	(\$574)	(\$482)	(\$2,201)	(\$1,787)	(\$1,529)
Other income (expense), net	\$168	\$577	(\$76)	(\$106)	(\$89)	\$306	(\$110)	—	(\$55)	—	(\$165)	—	—
(Loss) before income taxes	(\$4,771)	(\$361)	(\$2,742)	(\$2,171)	(\$1,618)	(\$6,892)	(\$1,238)	(\$1,480)	(\$532)	\$275	(\$2,975)	\$2,387	\$4,653
Income tax benefit	\$1,212	\$81	\$896	\$398	\$232	\$1,607	\$178	\$260	\$125	(\$475)	\$88	(\$1,841)	(\$2,063)
Effective Tax Rate (%)	-25%	-22%	-33%	-18%	-14%	-52%	-14%	-18%	-23%	-25%	3%	-25%	-25%
Net (loss)	(\$3,559)	(\$280)	(\$1,846)	(\$1,773)	(\$1,386)	(\$5,285)	(\$1,060)	(\$1,220)	(\$407)	(\$200)	(\$2,887)	\$547	\$2,590
Net income attributable to noncontrolling interests	(\$191)	(\$19)	(\$11)	(\$22)	(\$22)	(\$74)	(\$9)	(\$20)	(\$10)	(\$22)	(\$61)	(\$61)	(\$61)
Net (loss) available to Warner Bros. Discovery, Inc.	(\$3,750)	(\$299)	(\$1,857)	(\$1,795)	(\$1,408)	(\$5,359)	(\$1,069)	(\$1,240)	(\$417)	(\$222)	(\$2,948)	\$486	\$2,529
Adjustments		\$435	\$2,004	\$1,895	\$1,895	\$6,229	\$1,624	\$1,624	\$1,624	\$1,624	\$6,497	\$4,976	\$3,600
Adj. Net (loss) available to Warner Bros. Discovery, Inc.		\$136	\$147	\$100	\$487	\$870	\$555	\$384	\$1,207	\$1,402	\$3,549	\$5,462	\$6,129
Adj. Diluted EPS		\$0.23	\$0.06	\$0.04	\$0.20	\$0.36	\$0.23	\$0.16	\$0.50	\$0.58	\$1.46	\$2.24	\$2.51
Weighted average diluted shares outstanding		600	2,286	2,428	2,428	2,428	2,432	2,437	2,438	2,438	2,438	2,438	2,438

Source: BofA Global Research estimates

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**Exhibit 3: WBD – FCF Statement**

We raise our CY23E FCF forecast to \$5.4bn

	2022					2023							
	2021A	Q1A	Q2A	Q3A	Q4A	2022A	Q1A	Q2A	Q3A	Q4E	2023E	2024E	2025E
WBD: Free Cash Flow & Debt	2021.0	2022.1	2022.2	2022.3	2022.4	2022.0	2023.1	2023.2	2023.3	2023.4	2023.0	2024.0	2025.0
Reported Free Cash Flow:													
Cash provided by (used for) operating activities	\$2,798	\$323	\$1,011	\$124	\$2,846	\$4,304	(\$631)	\$2,014	\$2,516	\$3,006	\$6,905	\$6,220	\$7,013
Less: Purchases of property and equipment	(\$373)	(\$85)	(\$222)	(\$316)	(\$364)	(\$987)	(\$299)	(\$292)	(\$457)	(\$457)	(\$1,505)	(\$1,320)	(\$1,452)
Reported Free Cash Flow	\$2,425	\$238	\$789	(\$192)	\$2,482	\$3,317	(\$930)	\$1,722	\$2,059	\$2,549	\$5,400	\$4,900	\$5,561
FCF Conversion	23%	10%	45%	-8%	95%	36%	-36%	80%	69%	92%	51%	46%	49%
Reported Gross to Net Debt:													
Current portion of debt	\$339	\$794	\$1,097	\$1,257	\$365	\$365	\$3,496	\$3,001	\$1,302	\$1,302	\$1,302	\$1,302	\$1,302
Plus: Noncurrent portion of debt	\$14,848	\$14,030	\$51,662	\$48,887	\$48,911	\$48,911	\$45,719	\$44,276	\$43,498	\$42,498	\$42,498	\$36,498	\$30,498
Plus: Finance leases	\$255	\$249	\$284	\$268	\$268	\$268	\$251	\$246	\$258	\$258	\$258	\$258	\$258
Less: Cash and cash equivalents	\$3,905	\$4,165	\$3,896	\$2,513	\$3,930	\$3,930	\$2,639	\$3,077	\$2,383	\$3,932	\$3,932	\$2,832	\$2,393
Reported Net Debt	\$11,544	\$10,910	\$49,147	\$47,899	\$45,614	\$45,614	\$46,827	\$44,446	\$42,675	\$40,126	\$40,126	\$35,226	\$29,665
LTM EBITDA	\$3,817	\$4,007	\$9,556	\$9,312	\$9,174	\$9,174	\$9,404	\$9,787	\$10,332	\$10,500	\$10,500	\$10,747	\$11,438
LTM Leverage Ratio	3.0x	2.7x	5.1x	5.1x	5.0x	5.0x	5.0x	4.5x	4.1x	3.8x	3.8x	3.3x	2.6x

Source: BofA Global Research estimates

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DTC: direct to consumer



## Price objective basis & risk

### Warner Bros. Discovery (WBD)

Our price objective of \$17 is based on 7x our consolidated CY24E pro forma EV/EBITDA multiple, in line with peers historical multiples due to a similar growth profile.

Downside risks to our price objective are greater than expected merger integration issues, including management turnover, an inability to scale DTC assets with a deceleration in subscriber growth and increase in churn due to a rise in streaming competition from well-capitalized media and tech companies, advertising market declines, a downturn in ratings at its key networks, and an acceleration in Pay TV subscriber declines.

## Analyst Certification

I, Jessica Reif Ehrlich, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Cable, Entertainment and Satellite Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Comcast Corp	CMCSA	CMCSA US	Jessica Reif Ehrlich
	Endeavor Group Holdings, Inc.	EDR	EDR US	Jessica Reif Ehrlich
	Madison Square Garden Entertainment	MSGE	MSGE US	Peter Henderson
	Netflix, Inc.	NFLX	NFLX US	Jessica Reif Ehrlich
	Spotify Technology	SPOT	SPOT US	Jessica Reif Ehrlich
	Walt Disney Co.	DIS	DIS US	Jessica Reif Ehrlich
	Warner Bros. Discovery	WBD	WBD US	Jessica Reif Ehrlich
<b>NEUTRAL</b>				
	Charter Communications	CHTR	CHTR US	Jessica Reif Ehrlich
	Fox Corporation	FOXA	FOXA US	Jessica Reif Ehrlich
	Fox Corporation	FOX	FOX US	Jessica Reif Ehrlich
	Sirius XM Radio Inc	SIRI	SIRI US	Jessica Reif Ehrlich
	Warner Music Group Corporation	WMG	WMG US	Jessica Reif Ehrlich
<b>UNDERPERFORM</b>				
	Altice USA, Inc.	ATUS	ATUS US	Jessica Reif Ehrlich
	iHeartMedia, Inc.	IHRT	IHRT US	Jessica Reif Ehrlich
	Paramount Global	PARA	PARA US	Jessica Reif Ehrlich
<b>RSTR</b>				
	Liberty SiriusXM Group	LSXMA	LSXMA US	Jessica Reif Ehrlich
	Liberty SiriusXM Group	LSXMK	LSXMK US	Jessica Reif Ehrlich

## **IQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### **Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### **Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

### **Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

### **Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### **Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### **Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### **Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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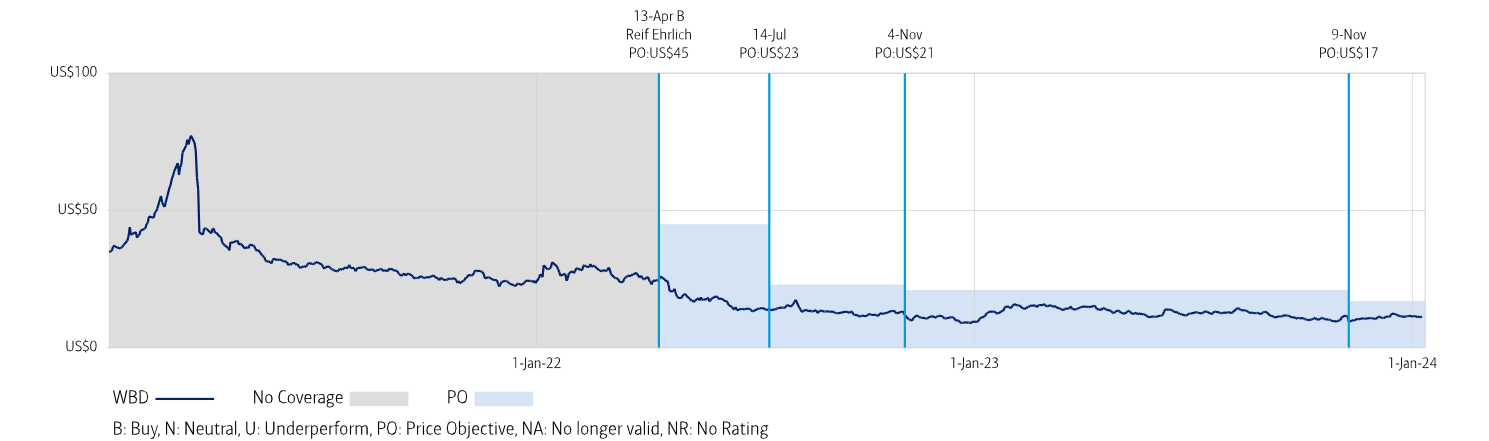
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The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Media & Entertainment Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	35	53.85%	Buy	15	42.86%
Hold	15	23.08%	Hold	8	53.33%
Sell	15	23.08%	Sell	7	46.67%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Underperform	N/A	≥ 20%

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