

## Warner Music Group Corporation

## Momentum likely to continue into F1Q

Reiterate Rating: NEUTRAL | PO: 36.00 USD | Price: 34.55 USD

## F1QE preview: Growth in streaming and investments

We expect Warner Music's (WMG) F1Q24E results to reflect a generally improving streaming outlook on a like for like basis (ex. BMG), due to building impact of a strong release schedule in 2H FY23, easier comps, and the partial quarter impact of SPOT's recent price increase (improving subscription streaming revenue). We anticipate this will drive FY1Q Recorded Music digital streaming revenues to 9.9% y/y (vs. 9.6% in FY4Q). By segment, we forecast 11% revenue growth in Recorded music to \$1.38bn and 14% growth in Music Publishing to \$286mn. Notably, these positive top line dynamics are being counterbalanced by increased investment spending, particularly in A&R ahead of a more robust 2H release slate.

## Investing for the next decade

It was recently reported WMG CEO Robert Kyncl stated this will be "the year of the Next 10" underscoring the dynamic nature of the industry, the underlying opportunity and required investments to capitalize. We believe this will drive investment across several areas including in Artists, particularly catalogs to "smooth out" the impact of release slates, along with technology and a heavier reliance on data to improve artist and capital allocation decision. WMG hopes these investments will enable the company to exceed industry growth while improving the underlying margin and cash flow trajectory of the company. We look for the company to provide more specific details on the magnitude and progress of these investments over the next several quarters.

## We tweak F1Q and FY24 estimates

We raise our F1Q24E revenue to \$1.66bn (vs. \$1.65bn prev.) but keep our adj. OIBDA estimates of \$434mn unchanged, reflecting higher physical revenues offset by modestly lower recorded music digital streaming revenue. We raise FY24E revenue to \$6.4bn (from \$6.39bn prev) but keep our adj. OIBDA estimate of \$1.45bn unchanged.

## Reiterate Neutral and \$36 PO

We remain bullish on the longer-term growth potential in music and see several drivers including price increases at DSPs and new emerging streaming deals. This is offset by the continued (albeit moderating) headwinds in ad-supported streaming and increased investments in technology and A&R. Reiterate Neutral as in our view the risk/reward remains balanced for WMG.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.14	0.97	1.51	1.56	1.79
EPS Change (YoY)	54.1%	-14.9%	55.7%	3.3%	14.7%
Consensus EPS (Bloomberg)			1.34	1.46	1.69
DPS	0.62	0.65	0.69	0.74	0.78
Valuation (Sep)					
P/E	30.3x	35.6x	22.9x	22.1x	19.3x
Dividend Yield	1.8%	1.9%	2.0%	2.1%	2.3%
EV / EBITDA*	17.5x	16.3x	13.9x	13.5x	12.2x
Free Cash Flow Yield*	3.4%	4.0%	4.2%	4.5%	5.3%

\* 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
2024E Rev (m)	6,389.6	6,399.5
2025E Rev (m)	6,644.1	6,644.4
2026E Rev (m)	7,117.2	7,117.5
2025E EBITDA (m)	1,490.1	1,490.2

Jessica Reif Ehrlich

Research Analyst  
BofAS  
+1 646 855 2921  
jessica.reif@bofa.com

Brent Navon, CFA

Research Analyst  
BofAS  
+1 646 855 3827  
brent.navon@bofa.com

David Plaus

Research Analyst  
BofAS  
+1 646 855 1572  
david.plaus@bofa.com

## Stock Data

Price	34.55 USD
Price Objective	36.00 USD
Date Established	9-Aug-2023
Investment Opinion	B-2-7
52-Week Range	23.62 USD - 38.76 USD
Mkt Val (mn) / Shares Out (mn)	17,650 USD / 510.9
Free Float	91.8%
Average Daily Value (mn)	50.72 USD
BofA Ticker / Exchange	WMG / NAS
Bloomberg / Reuters	WMG US / WMG.OQ
ROE (2024E)	133.3%
Net Dbt to Eqty (Sep-2023A)	774.6%
ESGMeter™	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"](#).

DSP = Digital Service Provider

BMG = BMG Rights Management

A&amp;R = Artists and repertoire

# iQprofile<sup>SM</sup> Warner Music Group Corporation

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	15.6%	15.1%	17.9%	16.8%	17.1%
Return on Equity	608.5%	189.5%	133.3%	70.9%	53.0%
Operating Margin	12.1%	13.1%	18.4%	18.3%	22.1%
Free Cash Flow	607	708	749	802	931

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.9x	1.1x	1.1x	1.1x
Asset Replacement Ratio	0.5x	0.5x	0.6x	0.5x	0.5x
Tax Rate	25.0%	28.0%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	1,885.0%	774.6%	307.6%	174.0%	101.6%
Interest Cover	7.1x	7.0x	9.1x	9.3x	10.5x

## Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	5,919	6,037	6,399	6,644	7,117
% Change	11.7%	2.0%	6.0%	3.8%	7.1%
Gross Profit	2,839	2,901	3,084	3,232	3,482
% Change	10.9%	2.2%	6.3%	4.8%	7.7%
EBITDA	1,148	1,235	1,449	1,490	1,649
% Change	12.7%	7.5%	17.4%	2.8%	10.6%
Net Interest & Other Income	(145)	(382)	(210)	(210)	(211)
<b>Net Income (Adjusted)</b>	<b>551</b>	<b>433</b>	<b>774</b>	<b>804</b>	<b>923</b>
<b>% Change</b>	<b>82.1%</b>	<b>-21.4%</b>	<b>78.9%</b>	<b>3.9%</b>	<b>14.7%</b>

## Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	555	438	779	809	928
Depreciation & Amortization	263	245	200	200	200
Change in Working Capital	(81)	(53)	(172)	(180)	(171)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	5	205	72	72	73
Capital Expenditure	(135)	(127)	(130)	(100)	(100)
<b>Free Cash Flow</b>	<b>607</b>	<b>708</b>	<b>749</b>	<b>802</b>	<b>931</b>
<b>% Change</b>	<b>11.4%</b>	<b>16.6%</b>	<b>5.8%</b>	<b>7.1%</b>	<b>16.0%</b>
Share / Issue Repurchase	529	149	(20)	0	0
Cost of Dividends Paid	(318)	(335)	(357)	(379)	(401)
Change in Debt	0	0	0	5	5

## Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	584	641	875	1,219	1,668
Trade Receivables	984	1,120	911	1,015	1,224
Other Current Assets	571	641	714	772	820
Property, Plant & Equipment	415	458	516	544	571
Other Non-Current Assets	5,274	5,685	5,754	5,829	5,913
<b>Total Assets</b>	<b>7,828</b>	<b>8,545</b>	<b>8,770</b>	<b>9,379</b>	<b>10,195</b>
Short-Term Debt	0	0	0	5	5
Other Current Liabilities	3,368	3,539	3,294	3,345	3,509
Long-Term Debt	3,732	3,964	3,886	3,886	3,886
Other Non-Current Liabilities	560	612	612	612	612
<b>Total Liabilities</b>	<b>7,660</b>	<b>8,115</b>	<b>7,792</b>	<b>7,848</b>	<b>8,012</b>
<b>Total Equity</b>	<b>167</b>	<b>429</b>	<b>979</b>	<b>1,536</b>	<b>2,189</b>
<b>Total Equity &amp; Liabilities</b>	<b>7,827</b>	<b>8,544</b>	<b>8,770</b>	<b>9,384</b>	<b>10,200</b>

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

## Company Sector

Music

## Company Description

Warner Music Group (WMG) is a leading music entertainment company and owner of major record labels, including Atlantic Records, Warner Records, Elektra Records and Parlophone Records. The company's Recorded Music business is home to many of the world's most popular and influential recording artists. Warner Chappell Music, WMG's music publishing business, represents works by over 80,000 songwriters and composers with a collection of more than 1.4 million music compositions.

## Investment Rationale

We rate WMG Neutral. While we remain bullish on long-term growth potential in music & heading into FY24, we believe the risk/reward remains balanced. We believe street expectations are appropriately calibrated for a re-acceleration in streaming growth. We see several upcoming catalysts which have the potential to drive upside relative to our estimates including emerging streaming deal renewals & price increases at DSPs.

## Stock Data

Average Daily Volume 1,468,014

## Quarterly Earnings Estimates

	2023	2024
Q1	0.23A	0.48E
Q2	0.20A	0.32E
Q3	0.24A	0.33E
Q4	0.29A	0.37E

**Exhibit 1: WMG – Variance Table**

We maintain F1Q24E Adj. OIBDA of \$434mn

	Current Quarter						Current Year					
	Act.	Est.	Old				Act.	Est.	Old			
Fiscal Year Ends 09/30	F1Q23A	F1Q24E	Y/Y	F1Q24E	Y/Y	D	F2023A	F2024E	Y/Y	F2024E	Y/Y	D
<b>WMG: Actuals &amp; BofA Estimates</b>												
<b>Revenue By Type</b>												
Digital Streaming	\$780	\$857	10%	\$867	11%	(\$10)	\$3,223	\$3,524	9%	\$3,534	10%	(\$10)
Digital Downloads & Other	\$23	\$16	-30%	\$16	-30%	\$0	\$99	\$69	-30%	\$69	-30%	\$0
Physical	\$133	\$128	-4%	\$108	-19%	\$20	\$507	\$431	-15%	\$411	-19%	\$20
Artists services & expanded rights	\$206	\$207	1%	\$207	1%	\$0	\$744	\$750	1%	\$750	1%	\$0
Licensing	\$97	\$172	77%	\$172	77%	\$0	\$382	\$470	23%	\$470	23%	\$0
<b>Total Recorded Music Revenues</b>	<b>\$1,239</b>	<b>\$1,380</b>	<b>11%</b>	<b>\$1,370</b>	<b>11%</b>	<b>\$10</b>	<b>\$4,955</b>	<b>\$5,244</b>	<b>6%</b>	<b>\$5,234</b>	<b>6%</b>	<b>\$10</b>
Digital streaming	\$146	\$185	27%	\$185	27%	\$0	\$656	\$745	14%	\$745	14%	\$0
Digital downloads & other	\$3	\$2	-25%	\$2	-25%	\$0	\$13	\$9	-30%	\$9	-30%	\$0
Mechanical	\$14	\$10	-28%	\$10	-28%	\$0	\$63	\$45	-28%	\$45	-28%	\$0
Performance	\$45	\$46	2%	\$46	2%	\$0	\$173	\$176	2%	\$176	2%	\$0
Synchronization	\$39	\$40	3%	\$40	3%	\$0	\$167	\$178	6%	\$178	6%	\$0
Other	\$3	\$2	-38%	\$2	-38%	\$0	\$16	\$7	-54%	\$7	-54%	\$0
<b>Total Music Publishing Revenues</b>	<b>\$250</b>	<b>\$286</b>	<b>14%</b>	<b>\$286</b>	<b>14%</b>	<b>\$0</b>	<b>\$1,088</b>	<b>\$1,161</b>	<b>7%</b>	<b>\$1,161</b>	<b>7%</b>	<b>\$0</b>
Intersegment Eliminations	(\$1)	(\$1)	NM	(\$1)	NM	\$0	(\$6)	(\$5)	-9%	(\$5)	-9%	\$0
<b>Total Revenue</b>	<b>\$1,488</b>	<b>\$1,664</b>	<b>12%</b>	<b>\$1,654</b>	<b>11%</b>	<b>\$10</b>	<b>\$6,037</b>	<b>\$6,399</b>	<b>6%</b>	<b>\$6,390</b>	<b>6%</b>	<b>\$10</b>
<b>Adj. OIBDA By Segment</b>												
Recorded Music OIBDA	\$299	\$387	30%	\$387	30%	(\$0)	\$1,093	\$1,272	16%	\$1,272	16%	(\$0)
% Margin	24.1%	28.1%	--	28.3%	--	-0.2%	22.1%	24.2%	--	24.3%	--	0.0%
Music Publishing OIBDA	\$72	\$84	16%	\$84	16%	\$0	\$296	\$326	10%	\$326	10%	\$0
% Margin	28.8%	29.3%	--	29.3%	--	0.0%	27.2%	28.1%	--	28.1%	--	0.0%
Corporate OIBDA	(\$36)	(\$37)	3%	(\$37)	3%	\$0	(\$154)	(\$149)	-3%	(\$149)	-3%	\$0
<b>Total Adj. OIBDA</b>	<b>\$335</b>	<b>\$434</b>	<b>29%</b>	<b>\$434</b>	<b>29%</b>	<b>(\$0)</b>	<b>\$1,235</b>	<b>\$1,449</b>	<b>17%</b>	<b>\$1,449</b>	<b>17%</b>	<b>(\$0)</b>
% Margin	22.5%	26.1%	--	26.2%	--	-0.2%	20.5%	22.6%	--	22.7%	--	0.0%
<b>SEC OIBDA</b>	<b>\$349</b>	<b>\$434</b>	<b>24%</b>	<b>\$434</b>	<b>24%</b>	<b>(\$0)</b>	<b>\$1,122</b>	<b>\$1,449</b>	<b>29%</b>	<b>\$1,449</b>	<b>29%</b>	<b>(\$0)</b>
Cost of Revenue	\$720	\$862	20%	\$854	19%	\$7	\$3,136	\$3,316	6%	\$3,308	5%	\$7
SG&A Expense	\$440	\$387	-12%	\$384	-13%	\$3	\$1,867	\$1,706	-9%	\$1,703	-9%	\$3
Amortization Expense	\$63	\$50	-20%	\$50	-20%	\$0	\$245	\$200	-18%	\$200	-18%	\$0
<b>Operating Income</b>	<b>\$265</b>	<b>\$366</b>	<b>38%</b>	<b>\$366</b>	<b>38%</b>	<b>(\$0)</b>	<b>\$789</b>	<b>\$1,177</b>	<b>49%</b>	<b>\$1,177</b>	<b>49%</b>	<b>(\$0)</b>
% Margin	17.8%	22.0%		22.1%		-0.1%	13.1%	18.4%		18.4%		
<b>Adj. Net Income</b>	<b>\$110</b>	<b>\$247</b>	<b>125%</b>	<b>\$247</b>	<b>125%</b>	<b>(\$0)</b>	<b>\$552</b>	<b>\$774</b>	<b>40%</b>	<b>\$774</b>	<b>40%</b>	<b>(\$0)</b>
<b>Adj. EPS</b>	<b>\$0.23</b>	<b>\$0.48</b>	<b>109%</b>	<b>\$0.48</b>	<b>109%</b>	<b>(\$0.00)</b>	<b>\$0.97</b>	<b>\$1.51</b>	<b>56%</b>	<b>\$1.51</b>	<b>56%</b>	<b>(\$0.00)</b>
<b>Free Cash Flow</b>	<b>\$188</b>	<b>\$234</b>	<b>24%</b>	<b>\$234</b>	<b>24%</b>	<b>(\$0)</b>	<b>\$560</b>	<b>\$748</b>	<b>33%</b>	<b>\$748</b>	<b>33%</b>	<b>(\$0)</b>

Source: BofA Global Research estimates

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**Exhibit 2: WMG – Income Statement**

We maintain FY24E Adj. OIBDA of \$1,449mn

	2023						2024							
Fiscal Year Ends 09/30	FY2021A	FY2022A	Q1A	Q2A	Q3A	Q4A	FY2023A	Q1E	Q2E	Q3E	Q4E	FY2024E	FY2025E	FY2026E
Warner Music Group: Income Statement	2021	2022	2023.1	2023.2	2023.3	2023.4	2023	2024.1	2024.2	2024.3	2024.4	2024	2025	2026
Revenue By Segment														
Recorded Music	\$4,544	\$4,966	\$1,239	\$1,143	\$1,282	\$1,291	\$4,955	\$1,380	\$1,210	\$1,327	\$1,327	\$5,244	\$5,392	\$5,754
Music Publishing	\$761	\$958	\$250	\$257	\$283	\$298	\$1,088	\$286	\$277	\$287	\$311	\$1,161	\$1,258	\$1,369
Intersegment Elims.	(\$4)	(\$5)	(\$1)	(\$1)	(\$1)	(\$3)	(\$6)	(\$1)	(\$1)	(\$1)	(\$1)	(\$5)	(\$5)	(\$5)
TOTAL Revenues	\$5,301	\$5,919	\$1,488	\$1,399	\$1,564	\$1,586	\$6,037	\$1,664	\$1,486	\$1,613	\$1,637	\$6,399	\$6,644	\$7,117
% Chg. (YOY)	18.8%	11.7%	-7.8%	1.7%	9.2%	5.9%	2.0%	11.8%	6.2%	3.1%	3.2%	6.0%	3.8%	7.1%
TOTAL Gross Profit	\$2,559	\$2,841	\$727	\$677	\$714	\$742	\$2,860	\$803	\$736	\$760	\$785	\$3,084	\$3,232	\$3,482
% Margin	48.3%	48.0%	48.9%	48.4%	45.7%	46.8%	47.4%	48.2%	49.5%	47.1%	48.0%	48.2%	48.6%	48.9%
Total Adj. OIBDA Excl. 1x LTIP)	\$1,019	\$1,148	\$335	\$286	\$297	\$317	\$1,235	\$434	\$324	\$334	\$358	\$1,449	\$1,490	\$1,649
% Chg. (YOY)	28.2%	12.7%	-5.4%	4.4%	16.5%	19.4%	7.5%	29.5%	13.3%	12.4%	12.9%	17.4%	2.8%	10.6%
% Margin	19.2%	19.4%	22.5%	20.4%	19.0%	20.0%	20.5%	26.1%	21.8%	20.7%	21.9%	22.6%	22.4%	23.2%
SEC OIBDA	\$915	\$1,053	\$349	\$207	\$275	\$291	\$1,122	\$434	\$324	\$334	\$358	\$1,449	\$1,490	\$1,649
Adj. EBITDA	\$1,084	\$1,210	\$351	\$308	\$311	\$340	\$1,310	\$443	\$333	\$343	\$367	\$1,485	\$1,526	\$1,685
% Chg. (YOY)	29.5%	11.6%	-9.7%	9.2%	18.3%	23.0%	8.3%	26.0%	8.1%	10.2%	7.9%	13.4%	2.7%	10.4%
% Margin	20.5%	20.4%	23.6%	22.0%	19.9%	21.4%	21.7%	26.6%	22.4%	21.3%	22.4%	23.2%	23.0%	23.7%
Cost of Revenue	\$2,742	\$3,080	\$720	\$721	\$850	\$845	\$3,136	\$861.6	\$749.5	\$852.9	\$851.8	\$3,316	\$3,412	\$3,636
SG&A Expense	\$1,721	\$1,862	\$440	\$493	\$461	\$473	\$1,867	\$387	\$430	\$444	\$445	\$1,706	\$1,814	\$1,906
Amortization Expense	\$229	\$263	\$63	\$61	\$64	\$57	\$245	\$50.1	\$50.1	\$50.1	\$50.1	\$200	\$200	\$200
Operating Income	\$609	\$714	\$265	\$124	\$189	\$211	\$789	\$366	\$256	\$266	\$290	\$1,177	\$1,217	\$1,375
% Chg. (YOY)	-367.1%	17.2%	10.9%	-25.3%	29.5%	29.4%	10.5%	38.0%	106.4%	40.6%	37.4%	49.2%	3.4%	12.9%
Loss On Debt Extinguishment	\$24	\$0	\$0	\$0	\$4.0	\$0.0	\$4	\$0.0	\$0.0	\$0.0	\$0.0	\$0	\$0	\$0
Interest Expense, Net	\$122	\$125	\$32	\$35	\$38	\$36	\$141	\$34.5	\$34.5	\$34.5	\$34.5	\$138	\$138	\$138
Other (Income) Expense	\$9	(\$151)	\$61	\$31	(\$20.0)	(\$36.0)	\$36	\$0.0	\$0.0	\$0.0	\$0.0	\$0	\$0	\$0
Income (Loss) Before Income Taxes	\$454	\$740	\$172	\$58	\$167	\$211	\$608	\$331	\$221	\$231	\$255	\$1,039	\$1,079	\$1,237
Tax Rate	32.8%	25.0%	27.9%	36.2%	25.7%	27.5%	28%	25%	25%	25%	25%	25%	25%	25%
Income Tax Expense (Benefit)	\$149	\$185	\$48	\$21	\$43	\$58	\$170	\$83	\$55	\$58	\$64	\$260	\$270	\$309
Net Income (Loss)	\$305	\$555	\$124	\$37	\$124	\$153	\$438	\$248	\$166	\$173	\$192	\$779	\$809	\$928
Income Attributable To Noncontrolling Interest	\$3	\$4	\$2	\$3	\$2	\$2	\$5	\$1	\$1	\$1	\$1	\$5	\$5	\$5
Net Income	\$302	\$551	\$122	\$34	\$122	\$151	\$433	\$247	\$165	\$172	\$190	\$774	\$804	\$923
Adj. Net Income	\$410	\$651	\$110	\$116	\$146	\$180	\$552	\$247	\$165	\$172	\$190	\$774	\$804	\$923
% Chg. (YOY)	-163.6%	82.1%	-35%	-63%	-1%	2%	-21.4%	103%	385%	41%	26%	78.9%	3.9%	14.7%
Adj. EPS	\$0.74	\$1.14	\$0.23	\$0.20	\$0.24	\$0.29	\$0.97	\$0.48	\$0.32	\$0.33	\$0.37	\$1.51	\$1.56	\$1.79
Diluted Shares Outstanding	514	514	514	514	514	514	514	514	514	514	514	514	514	514

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH



**Exhibit 3: WMG – FCF Statement**

We forecast \$748mn in FY24 ECF

	2023						2024								
Fiscal Year Ends 09/30	FY2021A	FY2022A	Q1A	Q2A	Q3A	Q4A	FY2023A	Q1E	Q2E	Q3E	Q4E	FY2024E	FY2025E	FY2026E	
Warner Music Group: Free Cash Flow	2021	2022	2023.1	2023.2	2023.3	2023.4	2023	2024.1	2024.2	2024.3	2024.4	2024	2025	2026	
SEC OIBDA	\$915	\$1,053	\$349	\$207	\$275	\$291	\$1,122	\$434	\$324	\$334	\$358	\$1,449	\$1,490	\$1,649	
- Taxes	\$112	\$146	\$38	\$17	\$34	\$46	\$134	\$83	\$55	\$58	\$64	\$260	\$270	\$309	
- Interest	\$122	\$125	\$32	\$35	\$38	\$36	\$141	\$35	\$35	\$35	\$35	\$138	\$138	\$138	
- Working Capital, SBC & Other	\$43	\$40	\$70	\$161	\$57	(\$129)	\$160	\$50	\$100	\$50	(\$26)	\$174	\$179	\$170	
= Cash From Operations	\$638	\$742	\$209	(\$6)	\$146	\$338	\$687	\$266	\$134	\$191	\$286	\$878	\$903	\$1,031	
- Capex	\$93	\$135	\$21	\$35	\$33	\$38	\$127	\$33	\$33	\$33	\$33	\$130	\$100	\$100	
= Operating Free Cash Flow	\$545	\$607	\$188	(\$41)	\$113	\$300	\$560	\$234	\$102	\$159	\$253	\$748	\$803	\$931	
% Chg. (YOY)	44.2%	NM	97.9%	-356.3%	-11.7%	-18.5%	-7.7%	24.4%	-347.9%	40.7%	-15.6%	33.5%	7.5%	15.9%	
% of OIBDA Conversion	59.6%	57.6%	53.9%	-19.8%	41.1%	103.1%	49.9%	53.9%	31.4%	47.6%	70.7%	51.6%	53.9%	56.5%	
= FCF/S	\$1.06	\$1.18	\$0.37	(\$0.08)	\$0.22	\$0.58	\$1.09	\$0.45	\$0.20	\$0.31	\$0.49	\$1.45	\$1.56	\$1.81	
Leverage Ratios:															
Gross Debt	\$3,346	\$3,732	\$3,946	\$3,986	\$3,988	\$3,964	\$3,964	\$3,964	\$3,964	\$3,964	\$3,964	\$3,964	\$3,964	\$3,964	
Net Debt	\$2,847	\$3,148	\$3,226	\$3,385	\$3,388	\$3,323	\$3,323	\$3,218	\$3,245	\$3,215	\$3,091	\$3,089	\$2,745	\$2,296	
TTM Adj. OIBDA	\$1,019	\$1,148	\$1,129	\$1,141	\$1,183	\$1,235	\$1,235	\$1,334	\$1,372	\$1,409	\$1,449	\$1,449	\$1,490	\$1,649	
Gross Debt/OIBDA TTM	3.7x	3.5x	3.5x	3.5x	3.4x	3.2x	3.5x	3.0x	2.9x	2.8x	2.7x	2.7x	2.7x	2.4x	
Net Debt/OIBDA TTM	3.1x	3.0x	2.9x	3.0x	2.9x	2.7x	3.0x	2.4x	2.4x	2.3x	2.1x	2.1x	1.8x	1.4x	

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH



## Price objective basis & risk

### Warner Music Group Corporation (WMG)

Our \$36 price objective (PO) is based on approximately 14x CY24E OIBDA. This multiple represents an approximately 75% premium to our media and entertainment coverage universe given its better long term growth outlook.

Downside risks to our PO are that WMG loses market share to other major labels (Sony or Universal), independent labels or more artists go direct, deal structures with DSPs or artists become less favorable, and the streaming industry does not grow as quickly as anticipated.

Upside risks to our PO are that WMG gains market share, deal structures with DSPs or artists improve, leading to more favorable economics, and the streaming industry grows faster than anticipated, leading to better gross margins.

## 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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### Warner Music (WMG) Price Chart



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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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