

# Warner Music Group Corporation

## Continued streaming momentum

Reiterate Rating: NEUTRAL | PO: 36.00 USD | Price: 35.29 USD

### F1Q results: Continued acceleration in digital streaming

Warner Music Group reported F1Q24 results which beat our revenue and OIBDA expectations. All-in, total F1Q24 revenue increased 17.5% y/y (15.9% ex. FX) to \$1,748mn (vs. \$1,664mn est.) and adj. OIBDA increased 34.6% to \$451mn (vs. \$434mn est.). Key drivers included: (1) Recorded Music revenue increased 16.6% (15.1% ex. FX) to \$1,445mn (vs. \$1,380mn est.), (2) Music Publishing revenue growth of +21.6% (19.7% ex. FX) to \$304mn (vs. \$286mn est.) and (3) and adj. OIBDA margins of 25.8% (vs. 26.1% est.). Notably, OIBDA was positively impacted by the \$67mn impact of a Licensing Extension and the \$10 million impact of a Digital License Renewal. Normalized Recorded Music streaming revenue increased 12.0% (11.4% ex. FX). Normalized streaming revenue reflects growth in subscription of 12.8% (12.0% ex. FX) and growth in ad-supported of 10%, which includes the impact of the TikTok renewal executed in 4Q23.

### Solid streaming growth

WMG's normalized F1Q recorded streaming constant currency growth of 11.4% was solid driven by normalized subscription streaming constant currency growth of 12% and ad-supported growth of 10%. Subscription growth was aided by SPOT's recent price increases (in subscription) and the new TikTok deal renewal (in ad-supported). Encouragingly, there appears to be better visibility in ad-supported as improvements in underlying trends at YouTube typically have a lagging impact on revenue for the labels. This coupled with a healthy release slate in the 2H should continue to buoy streaming growth in the coming quarters.

### Increase FY24 revenue and adj. OIBDA estimates

Following the F1Q beat, we increase our FY24E revenue and adj. OIBDA to \$6,446mn (from \$6,399mn prev.) and \$1,469mn (from \$1,449mn prev.). Our FY24 adj. OIBDA estimate contemplates ~100bps of organic margin expansion (ex. BMG, the Licensing Extension and the Digital License Renewal) in line with company guidance. We raise FY24 FCF to \$782mn (from \$748mn prev.).

### 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 increased investments in technology and A&R. Reiterate Neutral.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.14	0.97	1.31	1.60	1.83
EPS Change (YoY)	54.1%	-14.9%	35.1%	22.1%	14.4%
Consensus EPS (Bloomberg)			1.31	1.45	1.67
DPS	0.62	0.66	0.69	0.73	0.78
Valuation (Sep)					
P/E	31.0x	36.4x	26.9x	22.1x	19.3x
Dividend Yield	1.8%	1.9%	2.0%	2.1%	2.2%
EV / EBITDA*	17.8x	16.6x	13.9x	13.5x	12.2x
Free Cash Flow Yield*	3.4%	3.1%	4.1%	4.6%	5.3%

\* For full definitions of *IQmethod™* measures, see page 7.

09 February 2024

#### Equity

##### Key Changes

(US\$)	Previous	Current
2024E Rev (m)	6,399.5	6,446.1
2025E Rev (m)	6,644.4	6,702.7
2026E Rev (m)	7,117.5	7,177.5
2024E EPS	1.51	1.31
2025E EPS	1.56	1.60
2026E EPS	1.79	1.83
2024E EBITDA (m)	1,449.4	1,469.1
2025E EBITDA (m)	1,490.2	1,517.0
2026E EBITDA (m)	1,648.6	1,679.3

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#### Stock Data

Price	35.29 USD
Price Objective	36.00 USD
Date Established	9-Aug-2023
Investment Opinion	B-2-7
52-Week Range	23.62 USD - 38.05 USD
Mrkt Val (mn) / Shares Out (mn)	18,028 USD / 510.9
Free Float	92.4%
Average Daily Value (mn)	44.52 USD
BofA Ticker / Exchange	WMG / NAS
Bloomberg / Reuters	WMG US / WMGOQ
ROE (2024E)	127.8%
Net Dbt to Eqty (Sep-2023A)	774.6%
ESGMeter™	High

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Timestamp: 09 February 2024 05:00AM EST

# 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%	17.7%	17.1%	17.3%
Return on Equity	608.5%	189.5%	127.8%	78.6%	56.4%
Operating Margin	12.1%	13.1%	17.7%	18.6%	22.4%
Free Cash Flow	607	560	735	820	949

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.6x	1.3x	1.1x	1.1x
Asset Replacement Ratio	0.5x	0.5x	0.6x	0.5x	0.5x
Tax Rate	25.0%	28.0%	25.6%	25.0%	25.0%
Net Debt-to-Equity Ratio	1,885.0%	774.6%	349.7%	186.9%	105.7%
Interest Cover	7.1x	7.0x	8.8x	9.2x	10.4x

## Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	5,919	6,037	6,446	6,703	7,177
% Change	11.7%	2.0%	6.8%	4.0%	7.1%
Gross Profit	2,839	2,901	3,140	3,272	3,524
% Change	10.9%	2.2%	8.2%	4.2%	7.7%
EBITDA	1,148	1,235	1,469	1,517	1,679
% Change	12.7%	7.5%	19.0%	3.3%	10.7%
Net Interest & Other Income	(145)	(382)	(289)	(215)	(216)
<b>Net Income (Adjusted)</b>	<b>551</b>	<b>433</b>	<b>679</b>	<b>821</b>	<b>942</b>
<b>% Change</b>	<b>82.1%</b>	<b>-21.4%</b>	<b>56.9%</b>	<b>20.9%</b>	<b>14.8%</b>

## Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	555	438	717	826	947
Depreciation & Amortization	263	245	217	200	200
Change in Working Capital	(87)	(119)	(169)	(179)	(172)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	11	123	96	72	73
Capital Expenditure	(135)	(127)	(127)	(100)	(100)
<b>Free Cash Flow</b>	<b>607</b>	<b>560</b>	<b>735</b>	<b>820</b>	<b>949</b>
<b>% Change</b>	<b>11.4%</b>	<b>-7.7%</b>	<b>31.2%</b>	<b>11.7%</b>	<b>15.7%</b>
Share / Issue Repurchase	529	152	(16)	0	0
Cost of Dividends Paid	(318)	(340)	(356)	(377)	(400)
Change in Debt	0	0	0	5	5

## Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	584	641	926	1,289	1,759
Trade Receivables	984	1,120	917	1,024	1,235
Other Current Assets	571	641	718	777	825
Property, Plant & Equipment	415	458	488	516	543
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>8,804</b>	<b>9,436</b>	<b>10,274</b>
Short-Term Debt	0	0	0	5	5
Other Current Liabilities	3,368	3,539	3,307	3,364	3,528
Long-Term Debt	3,732	3,964	4,004	4,004	4,004
Other Non-Current Liabilities	560	612	612	612	612
<b>Total Liabilities</b>	<b>7,660</b>	<b>8,115</b>	<b>7,923</b>	<b>7,985</b>	<b>8,149</b>
<b>Total Equity</b>	<b>167</b>	<b>429</b>	<b>880</b>	<b>1,455</b>	<b>2,129</b>
<b>Total Equity &amp; Liabilities</b>	<b>7,827</b>	<b>8,544</b>	<b>8,804</b>	<b>9,441</b>	<b>10,279</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 1,362,487

## Quarterly Earnings Estimates

	2023	2024
Q1	0.23A	0.30A
Q2	0.20A	0.30E
Q3	0.24A	0.34E
Q4	0.29A	0.37E

**Exhibit 1: WMG – Variance Table**

WMG beat our F1Q24 revenue and adj. OIBDA estimates

	Current Quarter						Current Year					
	Act.	Act.	Old				Act.	Est.	Old			
Fiscal Year Ends 09/30	F1Q23A	F1Q24A	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	\$887	14%	\$857	10%	\$30	\$3,223	\$3,561	10%	\$3,524	9%	\$37
Digital Downloads & Other	\$23	\$21	-9%	\$16	-30%	\$5	\$99	\$74	-25%	\$69	-30%	\$5
Physical	\$133	\$154	16%	\$128	-4%	\$26	\$507	\$457	-10%	\$431	-15%	\$26
Artists services & expanded rights	\$206	\$204	-1%	\$207	1%	(\$3)	\$744	\$702	-6%	\$750	1%	(\$48)
Licensing	\$97	\$179	85%	\$172	77%	\$7	\$382	\$477	25%	\$470	23%	\$7
<b>Total Recorded Music Revenues</b>	<b>\$1,239</b>	<b>\$1,445</b>	<b>17%</b>	<b>\$1,380</b>	<b>11%</b>	<b>\$65</b>	<b>\$4,955</b>	<b>\$5,272</b>	<b>6%</b>	<b>\$5,244</b>	<b>6%</b>	<b>\$28</b>
Digital streaming	\$146	\$193	32%	\$185	27%	\$8	\$656	\$753	15%	\$745	14%	\$8
Digital downloads & other	\$3	\$3	0%	\$2	-25%	\$1	\$13	\$10	-25%	\$9	-30%	\$1
Mechanical	\$14	\$15	7%	\$10	-28%	\$5	\$63	\$50	-20%	\$45	-28%	\$5
Performance	\$45	\$51	13%	\$46	2%	\$5	\$173	\$181	5%	\$176	2%	\$5
Synchronization	\$39	\$39	0%	\$40	3%	(\$1)	\$167	\$177	6%	\$178	6%	(\$1)
Other	\$3	\$3	0%	\$2	-38%	\$1	\$16	\$9	-47%	\$7	-54%	\$1
<b>Total Music Publishing Revenues</b>	<b>\$250</b>	<b>\$304</b>	<b>22%</b>	<b>\$286</b>	<b>14%</b>	<b>\$18</b>	<b>\$1,088</b>	<b>\$1,179</b>	<b>8%</b>	<b>\$1,161</b>	<b>7%</b>	<b>\$18</b>
Intersegment Eliminations	(\$1)	(\$1)	NM	(\$1)	NM	\$0	(\$6)	(\$5)	-15%	(\$5)	-9%	\$0
<b>Total Revenue</b>	<b>\$1,488</b>	<b>\$1,748</b>	<b>17%</b>	<b>\$1,664</b>	<b>12%</b>	<b>\$84</b>	<b>\$6,037</b>	<b>\$6,446</b>	<b>7%</b>	<b>\$6,399</b>	<b>6%</b>	<b>\$47</b>
<b>Adj. OIBDA By Segment</b>												
Recorded Music OIBDA	\$299	\$412	38%	\$387	30%	\$25	\$1,093	\$1,305	19%	\$1,272	16%	\$33
% Margin	24.1%	28.5%	--	28.1%	--	0.5%	22.1%	24.8%	--	24.2%	--	0.5%
Music Publishing OIBDA	\$72	\$86	20%	\$84	16%	\$3	\$296	\$328	11%	\$326	10%	\$2
% Margin	28.8%	28.4%	--	29.3%	--	-0.9%	27.2%	27.8%	--	28.1%	--	-0.3%
Corporate OIBDA	(\$36)	(\$47)	31%	(\$37)	3%	(\$10)	(\$154)	(\$164)	6%	(\$149)	-3%	(\$15)
<b>Total Adj. OIBDA</b>	<b>\$335</b>	<b>\$451</b>	<b>35%</b>	<b>\$434</b>	<b>29%</b>	<b>\$18</b>	<b>\$1,235</b>	<b>\$1,469</b>	<b>19%</b>	<b>\$1,449</b>	<b>17%</b>	<b>\$20</b>
% Margin	22.5%	25.8%	--	26.1%	--	-0.2%	20.5%	22.8%	--	22.6%	--	0.1%
<b>SEC OIBDA</b>	<b>\$349</b>	<b>\$451</b>	<b>29%</b>	<b>\$434</b>	<b>24%</b>	<b>\$18</b>	<b>\$1,122</b>	<b>\$1,469</b>	<b>31%</b>	<b>\$1,449</b>	<b>29%</b>	<b>\$20</b>
Cost of Revenue	\$720	\$880	22%	\$862	20%	\$18	\$3,136	\$3,307	5%	\$3,316	6%	(\$9)
SG&A Expense	\$440	\$476	8%	\$387	-12%	\$89	\$1,867	\$1,784	-4%	\$1,706	-9%	\$78
Amortization Expense	\$63	\$55	-13%	\$50	-20%	\$5	\$245	\$217	-12%	\$200	-18%	\$16
<b>Operating Income</b>	<b>\$265</b>	<b>\$354</b>	<b>34%</b>	<b>\$366</b>	<b>38%</b>	<b>(\$12)</b>	<b>\$789</b>	<b>\$1,156</b>	<b>47%</b>	<b>\$1,177</b>	<b>49%</b>	<b>(\$21)</b>
% Margin	17.8%	20.3%		22.0%		-1.7%	13.1%	17.9%		18.4%		
<b>Adj. Net Income</b>	<b>\$110</b>	<b>\$193</b>	<b>75%</b>	<b>\$247</b>	<b>125%</b>	<b>(\$54)</b>	<b>\$552</b>	<b>\$713</b>	<b>29%</b>	<b>\$774</b>	<b>40%</b>	<b>(\$61)</b>
<b>Adj. EPS</b>	<b>\$0.23</b>	<b>\$0.30</b>	<b>30%</b>	<b>\$0.48</b>	<b>109%</b>	<b>(\$0.18)</b>	<b>\$0.97</b>	<b>\$1.31</b>	<b>36%</b>	<b>\$1.51</b>	<b>56%</b>	<b>(\$0.19)</b>
<b>Free Cash Flow</b>	<b>\$188</b>	<b>\$264</b>	<b>40%</b>	<b>\$234</b>	<b>24%</b>	<b>\$30</b>	<b>\$560</b>	<b>\$782</b>	<b>40%</b>	<b>\$748</b>	<b>33%</b>	<b>\$34</b>

Source: BofA Global Research estimates

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**Exhibit 2: WMG – Income Statement**

We forecast \$1.47bn in FY24 adj. OIBDA

	2023							2024						
Fiscal Year Ends 09/30	FY2021A	FY2022A	Q1A	Q2A	Q3A	Q4A	FY2023A	Q1A	Q2E	Q3E	Q4E	FY2024E	FY2025E	FY2026E
<b>Warner Music Group: Income Statement</b>	2021	2022	2023.1	2023.2	2023.3	2023.4	2023	2024.1	2024.2	2024.3	2024.4	2024	2025	2026
<b>Revenue By Segment</b>														
Recorded Music	\$4,544	\$4,966	\$1,239	\$1,143	\$1,282	\$1,291	\$4,955	\$1,445	\$1,202	\$1,314	\$1,311	\$5,272	\$5,433	\$5,796
Music Publishing	\$761	\$958	\$250	\$257	\$283	\$298	\$1,088	\$304	\$277	\$287	\$311	\$1,179	\$1,275	\$1,387
Intersegment Elims.	(\$4)	(\$5)	(\$1)	(\$1)	(\$1)	(\$3)	(\$6)	(\$1)	(\$1)	(\$1)	(\$1)	(\$5)	(\$5)	(\$5)
<b>TOTAL Revenues</b>	<b>\$5,301</b>	<b>\$5,919</b>	<b>\$1,488</b>	<b>\$1,399</b>	<b>\$1,564</b>	<b>\$1,586</b>	<b>\$6,037</b>	<b>\$1,748</b>	<b>\$1,478</b>	<b>\$1,600</b>	<b>\$1,620</b>	<b>\$6,446</b>	<b>\$6,703</b>	<b>\$7,177</b>
% Chg. (YOY)	18.8%	11.7%	-7.8%	1.7%	9.2%	5.9%	2.0%	17.5%	5.6%	2.3%	2.2%	6.8%	4.0%	7.1%
<b>TOTAL Gross Profit</b>	<b>\$2,559</b>	<b>\$2,841</b>	<b>\$727</b>	<b>\$677</b>	<b>\$714</b>	<b>\$742</b>	<b>\$2,860</b>	<b>\$868</b>	<b>\$733</b>	<b>\$758</b>	<b>\$780</b>	<b>\$3,140</b>	<b>\$3,272</b>	<b>\$3,524</b>
% Margin	48.3%	48.0%	48.9%	48.4%	45.7%	46.8%	47.4%	49.7%	49.6%	47.4%	48.2%	48.7%	48.8%	49.1%
<b>Total Adj. OIBDA Excl. 1x LTIP)</b>	<b>\$1,019</b>	<b>\$1,148</b>	<b>\$335</b>	<b>\$286</b>	<b>\$297</b>	<b>\$317</b>	<b>\$1,235</b>	<b>\$451</b>	<b>\$315</b>	<b>\$340</b>	<b>\$363</b>	<b>\$1,469</b>	<b>\$1,517</b>	<b>\$1,679</b>
% Chg. (YOY)	28.2%	12.7%	-5.4%	4.4%	16.5%	19.4%	7.5%	34.7%	10.0%	14.4%	14.6%	19.0%	3.3%	10.7%
% Margin	19.2%	19.4%	22.5%	20.4%	19.0%	20.0%	20.5%	25.8%	21.3%	21.2%	22.4%	22.8%	22.6%	23.4%
<b>SEC OIBDA</b>	<b>\$915</b>	<b>\$1,053</b>	<b>\$349</b>	<b>\$207</b>	<b>\$275</b>	<b>\$291</b>	<b>\$1,122</b>	<b>\$451</b>	<b>\$315</b>	<b>\$340</b>	<b>\$363</b>	<b>\$1,469</b>	<b>\$1,517</b>	<b>\$1,679</b>
Cost of Revenue	\$2,742	\$3,080	\$720	\$721	\$850	\$845	\$3,136	\$880.0	\$744.3	\$842.4	\$839.9	\$3,307	\$3,430	\$3,654
SG&A Expense	\$1,721	\$1,862	\$440	\$493	\$461	\$473	\$1,867	\$476	\$437	\$436	\$435	\$1,784	\$1,828	\$1,918
Amortization Expense	\$229	\$263	\$63	\$61	\$64	\$57	\$245	\$55.0	\$53.9	\$53.9	\$53.9	\$217	\$200	\$200
<b>Operating Income</b>	<b>\$609</b>	<b>\$714</b>	<b>\$265</b>	<b>\$124</b>	<b>\$189</b>	<b>\$211</b>	<b>\$789</b>	<b>\$354</b>	<b>\$243</b>	<b>\$268</b>	<b>\$292</b>	<b>\$1,156</b>	<b>\$1,244</b>	<b>\$1,406</b>
% Chg. (YOY)	-367.1%	17.2%	10.9%	-25.3%	29.5%	29.4%	10.5%	33.6%	95.8%	41.7%	38.2%	46.5%	7.6%	13.0%
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	\$39.0	\$34.5	\$34.5	\$34.5	\$143	\$143	\$143
Other (Income) Expense	\$9	(\$151)	\$61	\$31	(\$20.0)	(\$36.0)	\$36	\$50.0	\$0.0	\$0.0	\$0.0	\$50	\$0	\$0
Income (Loss) Before Income Taxes	\$454	\$740	\$172	\$58	\$167	\$211	\$608	\$265	\$208	\$233	\$257	\$964	\$1,102	\$1,263
Tax Rate	32.8%	25.0%	27.9%	36.2%	25.7%	27.5%	28%	27.2%	25%	25%	25%	26%	25%	25%
Income Tax Expense (Benefit)	\$149	\$185	\$48	\$21	\$43	\$58	\$170	\$72	\$52	\$58	\$64	\$247	\$275	\$316
Net Income (Loss)	\$305	\$555	\$124	\$37	\$124	\$153	\$438	\$193	\$156	\$175	\$193	\$717	\$826	\$947
Income Attributable To Noncontrolling Interest	\$3	\$4	\$2	\$3	\$2	\$2	\$5	\$34	\$1	\$1	\$1	\$38	\$5	\$5
Net Income	\$302	\$551	\$122	\$34	\$122	\$151	\$433	\$159	\$155	\$174	\$192	\$679	\$821	\$942
<b>Adj. Net Income</b>	<b>\$410</b>	<b>\$651</b>	<b>\$110</b>	<b>\$116</b>	<b>\$146</b>	<b>\$180</b>	<b>\$552</b>	<b>\$193</b>	<b>\$155</b>	<b>\$174</b>	<b>\$192</b>	<b>\$713</b>	<b>\$821</b>	<b>\$942</b>
% Chg. (YOY)	-163.6%	82.1%	-35%	-63%	-1%	2%	-21.4%	30%	356%	42%	27%	56.9%	20.9%	14.8%
<b>Adj. EPS</b>	<b>\$0.74</b>	<b>\$1.14</b>	<b>\$0.23</b>	<b>\$0.20</b>	<b>\$0.24</b>	<b>\$0.29</b>	<b>\$0.97</b>	<b>\$0.30</b>	<b>\$0.30</b>	<b>\$0.34</b>	<b>\$0.37</b>	<b>\$1.31</b>	<b>\$1.60</b>	<b>\$1.83</b>
Diluted Shares Outstanding	514	514	514	514	514	514	514	514	514	514	514	514	514	514

Source: BofA Global Research estimates

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**Exhibit 3: WMG – FCF Statement**

We forecast \$782mn in FY24 FCF

	2023						2024							
Fiscal Year Ends 09/30	FY2021A	FY2022A	Q1A	Q2A	Q3A	Q4A	FY2023A	Q1A	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	\$451	\$315	\$340	\$363	\$1,469	\$1,517	\$1,679
- Taxes	\$112	\$146	\$38	\$17	\$34	\$46	\$134	\$72	\$52	\$58	\$64	\$247	\$275	\$316
- Interest	\$122	\$125	\$32	\$35	\$38	\$36	\$141	\$39	\$35	\$35	\$35	\$143	\$143	\$143
- Working Capital, SBC & Other	\$43	\$40	\$70	\$161	\$57	(\$129)	\$160	\$47	\$100	\$50	(\$26)	\$171	\$179	\$170
<b>= Cash From Operations</b>	<b>\$638</b>	<b>\$742</b>	<b>\$209</b>	<b>(\$6)</b>	<b>\$146</b>	<b>\$338</b>	<b>\$687</b>	<b>\$293</b>	<b>\$128</b>	<b>\$197</b>	<b>\$291</b>	<b>\$908</b>	<b>\$920</b>	<b>\$1,051</b>
- Capex	\$93	\$135	\$21	\$35	\$33	\$38	\$127	\$29	\$33	\$33	\$33	\$127	\$100	\$100
<b>= Operating Free Cash Flow</b>	<b>\$545</b>	<b>\$607</b>	<b>\$188</b>	<b>(\$41)</b>	<b>\$113</b>	<b>\$300</b>	<b>\$560</b>	<b>\$264</b>	<b>\$96</b>	<b>\$164</b>	<b>\$258</b>	<b>\$782</b>	<b>\$820</b>	<b>\$951</b>
% Chg. (YOY)	44.2%	NM	97.9%	-356.3%	-11.7%	-18.5%	-7.7%	40.4%	-333.0%	45.4%	-14.0%	39.6%	4.9%	16.0%
% of OIBDA Conversion	59.6%	57.6%	53.9%	-19.8%	41.1%	103.1%	49.9%	58.5%	30.4%	48.4%	71.0%	53.2%	54.1%	56.6%
<b>= FCF/S</b>	<b>\$1.06</b>	<b>\$1.18</b>	<b>\$0.37</b>	<b>(\$0.08)</b>	<b>\$0.22</b>	<b>\$0.58</b>	<b>\$1.09</b>	<b>\$0.51</b>	<b>\$0.19</b>	<b>\$0.32</b>	<b>\$0.50</b>	<b>\$1.52</b>	<b>\$1.59</b>	<b>\$1.85</b>
Leverage Ratios:														
Gross Debt	\$3,346	\$3,732	\$3,946	\$3,986	\$3,988	\$3,964	\$3,964	\$4,004	\$4,004	\$4,004	\$4,004	\$4,004	\$4,004	\$4,004
Net Debt	\$2,847	\$3,148	\$3,226	\$3,385	\$3,388	\$3,323	\$3,323	\$3,250	\$3,254	\$3,189	\$3,031	\$3,078	\$2,715	\$2,245
TTM Adj. OIBDA	\$1,019	\$1,148	\$1,129	\$1,141	\$1,183	\$1,235	\$1,235	\$1,351	\$1,380	\$1,423	\$1,469	\$1,469	\$1,517	\$1,679
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	2.6x	2.4x
Net Debt/OIBDA TTM	3.1x	3.0x	2.9x	3.0x	2.9x	2.7x	3.0x	2.4x	2.4x	2.2x	2.1x	2.1x	1.8x	1.3x

Source: BofA Global Research estimates

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## 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>				
	Fox Corporation	FOXA	FOXA US	Jessica Reif Ehrlich
	Fox Corporation	FOX	FOX US	Jessica Reif Ehrlich
	Sphere Entertainment Co.	SPHR	SPHR US	Peter Henderson
	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
	Sirius XM Holdings Inc	SIRI	SIRI 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

### 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

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### 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

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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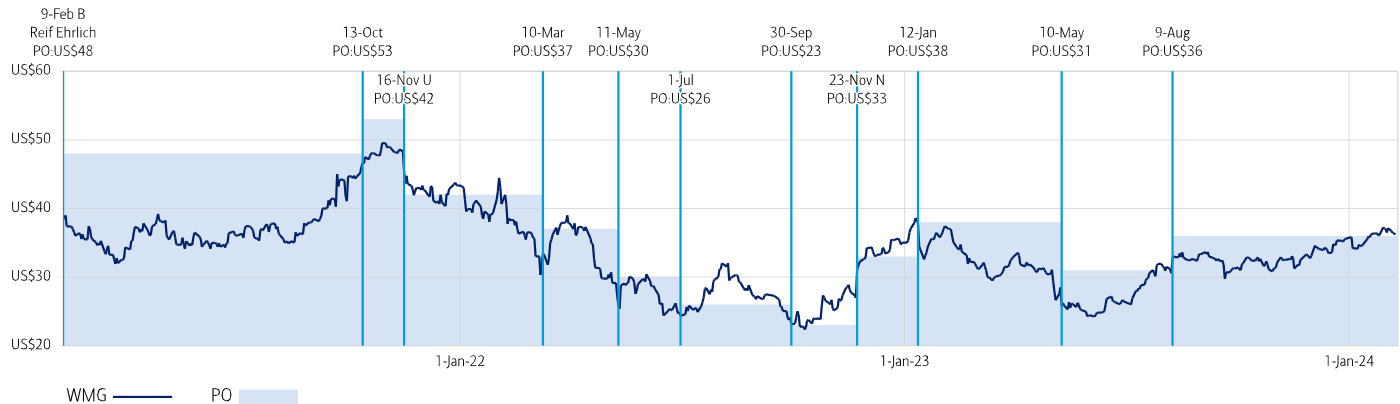
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## Important Disclosures

### 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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