

Warner Bros. Discovery

Resetting the bar

Reiterate Rating: BUY | PO: 14.00 USD | Price: 8.61 USD

Resetting expectations for '24

WBD 4Q performance reflects the challenging environment as the business continues to be impacted by the secular headwinds in the linear business, a challenging advertising market and the various strikes. The combination of these factors continue to impair near-term visibility and as a result the company did not provide CY24 guidance. We believe this will lead to downward revisions, which is what drove the strong negative share price reaction (down 10%). However, longer term we continue to believe WBD retains best in class assets which should position the business to resume growth in '25 and beyond.

Near-term visibility limited but longer-term drivers remain

We continue to believe there are several potential drivers that could improve the fundamentals of WBD's business including: 1) a recovery in the ad-market, 2) stabilization of cord-cutting in linear, 3) a return of TV productions back toward pre-strike levels, 4) increasing licensing of their deep valuable library, 5) an improving film slate 6) an acceleration in Max driven in part by various international launches and 7) continued growth in the gaming business. Given the lack of near-term visibility, we are taking a more measured approach in our projections across these various factors for now but continue to view any of these drivers as potential avenues for future growth.

Lower our 1Q and CY24E estimates

We lower 1Q rev to \$9.75bn (from \$10.12bn) and adj. EBITDA to \$2.2bn (from \$2.5bn). We reduce our CY24E EBITDA to \$9.88bn (from \$10.75bn) to reflect the choppy (albeit improving) advertising market and weaker Studios performance. We maintain our CY24E FCF estimate of \$4.9bn which reflects a conversion ratio of 50%.

Reiterate Buy but lower our PO to \$14

We reiterate our Buy rating, but lower our PO to \$14 (from \$17) based on an EV/EBITDA multiple of 7x (unchanged) on our reduced CY24E estimates. We continue to believe WBD has a compelling assortment of assets and view the current valuation of ~5x CY24E EV/EBITDA as undemanding. Upcoming catalysts include: 1) a potential advertising recovery and 2) Max rollout in Latam in late 1Q and most of Europe in 2Q/3Q prior to the Summer Olympics in Paris.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.36	1.38	1.99	2.20	2.30
EPS Change (YoY)	NA	283.3%	44.2%	10.6%	4.5%
Consensus EPS (Bloomberg)			(0.41)	(0.24)	0.52
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	23.9x	6.2x	4.3x	3.9x	3.7x
EV / EBITDA*	8.3x	7.4x	7.7x	7.3x	7.2x
Free Cash Flow Yield*	15.9%	29.6%	23.5%	24.9%	26.8%

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

26 February 2024

Equity

Key Changes (US\$)

	Previous	Current
Price Obj.	17.00	14.00
2024E Rev (m)	41,237.8	40,109.0
2025E Rev (m)	42,168.3	40,868.9
2026E Rev (m)	NA	41,589.2
2024E EPS	2.24	1.99
2025E EPS	2.51	2.20
2026E EPS	NA	2.30
2024E EBITDA (m)	10,746.5	9,874.5
2025E EBITDA (m)	11,437.9	10,343.5
2026E EBITDA (m)	NA	10,492.7

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Stock Data

Price	8.61 USD
Price Objective	14.00 USD
Date Established	26-Feb-2024
Investment Opinion	C-1-9
52-Week Range	8.25 USD - 16.34 USD
Mkt Val (mn) / Shares Out (mn)	20,845 USD / 2,421.0
Free Float	90.7%
Average Daily Value (mn)	206.91 USD
BofA Ticker / Exchange	WBD / NAS
Bloomberg / Reuters	WBD US / WBD.OQ
ROE (2024E)	10.6%
Net Dbt to Eqty (Dec-2023A)	85.8%
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"](#).

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Timestamp: 26 February 2024 05:00AM EST

iQprofileSM Warner Bros. Discovery

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	NA	-1.1%	1.6%	2.5%	2.8%
Return on Equity	3.7%	7.3%	10.6%	11.4%	11.3%
Operating Margin	-11.4%	-3.7%	8.3%	12.5%	12.5%
Free Cash Flow	3,317	6,161	4,900	5,196	5,592

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	4.9x	2.2x	1.3x	1.2x	1.3x
Asset Replacement Ratio	0.1x	0.2x	0.2x	0.3x	0.3x
Tax Rate	23.3%	20.3%	104.8%	50.0%	47.8%
Net Debt-to-Equity Ratio	93.0%	85.8%	74.6%	60.5%	46.6%
Interest Cover	-2.1x	-0.7x	1.9x	3.4x	4.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	43,095	41,321	40,109	40,869	41,589
% Change	NA	-4.1%	-2.9%	1.9%	1.8%
Gross Profit	32,358	29,972	29,134	29,412	NA
% Change	NA	-7.4%	-2.8%	1.0%	NA
EBITDA	9,174	10,200	9,875	10,343	10,493
% Change	NA	11.2%	-3.2%	4.7%	1.4%
Net Interest & Other Income	(1,986)	(2,315)	(1,781)	(1,523)	(1,265)
Net Income (Adjusted)	870	3,371	4,854	5,357	5,617
% Change	NA	287.5%	44.0%	10.4%	4.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(5,359)	(3,126)	(122)	1,757	2,017
Depreciation & Amortization	7,227	7,985	5,976	4,600	4,600
Change in Working Capital	(11,063)	(10,110)	(7,334)	(7,772)	(7,620)
Deferred Taxation Charge	(2,842)	(1,675)	0	0	0
Other Adjustments, Net	16,341	14,403	7,659	8,018	8,144
Capital Expenditure	(987)	(1,316)	(1,280)	(1,408)	(1,549)
Free Cash Flow	3,317	6,161	4,900	5,196	5,592
% Change	NA	85.7%	-20.5%	6.0%	7.6%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(7,315)	(6,754)	(6,000)	(6,000)	(6,000)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	3,731	3,780	2,680	1,875	1,468
Trade Receivables	6,380	6,047	5,283	5,022	4,440
Other Current Assets	3,888	4,391	4,032	3,942	3,801
Property, Plant & Equipment	5,301	5,957	6,237	6,645	7,194
Other Non-Current Assets	114,701	102,582	98,470	95,755	93,057
Total Assets	134,001	122,757	116,701	113,239	109,959
Short-Term Debt	365	1,780	1,780	1,780	1,780
Other Current Liabilities	14,652	13,552	13,059	13,225	13,252
Long-Term Debt	48,634	41,889	35,889	29,889	23,889
Other Non-Current Liabilities	21,683	19,064	19,064	19,064	19,064
Total Liabilities	85,334	76,285	69,792	63,958	57,985
Total Equity	48,667	46,472	46,909	49,281	51,974
Total Equity & Liabilities	134,001	122,757	116,701	113,239	109,959

* For full definitions of iQmethodSM 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 24,031,332

Quarterly Earnings Estimates

	2023	2024
Q1	0.23A	0.40E
Q2	0.16A	0.38E
Q3	0.50A	0.66E
Q4	0.50A	0.56E

Exhibit 1: WBD – Variance Table

We lower CY24E revenue and adj. EBITDA

	Current Quarter						Next Year					
	Act.	New		Old			Est.	New		Old		
Fiscal Year Ends 12/31	Q4/22A	Q4/23A	Y/Y	Q4/23E	Y/Y	D	2023E	2024E	Y/Y	2024E	Y/Y	D
WBD : Actuals & BofA Estimates												
Studios												
Advertising	(\$3)	\$4	-233%	\$10	-433%	(\$6)	\$15	\$15	0%	\$21	0%	(\$6)
Distribution	\$4	(\$2)	-150%	\$4	0%	(\$6)	\$17	\$17	1%	\$23	1%	(\$6)
Content	\$3,631	\$2,933	-19%	\$3,317	-9%	(\$384)	\$11,358	\$11,711	3%	\$12,652	8%	(\$942)
Other	\$210	\$238	13%	\$169	-19%	\$69	\$802	\$765	-5%	\$695	-5%	\$70
Total Studios Revenue	\$3,842	\$3,173	-17%	\$3,500	-9%	(\$327)	\$12,192	\$12,508	3%	\$13,392	7%	(\$884)
% Chg. (YOY)	NM	-17%		-9%			NM	3%		7%		
Networks												
Advertising	\$2,226	\$1,948	-12%	\$1,981	-11%	(\$33)	\$8,342	\$7,596	-9%	\$7,863	-6%	(\$267)
Distribution	\$2,874	\$2,752	-4%	\$2,713	-6%	\$39	\$11,521	\$10,989	-5%	\$11,044	-4%	(\$55)
Content	\$307	\$261	-15%	\$200	-35%	\$61	\$1,005	\$1,019	1%	\$1,175	24%	(\$156)
Other	\$112	\$76	-32%	\$50	-56%	\$27	\$376	\$415	10%	\$331	-5%	\$85
Total Networks Revenue	\$5,519	\$5,037	-9%	\$4,944	-10%	\$93	\$21,244	\$20,020	-6%	\$20,413	-3%	(\$393)
% Chg. (YOY)	NM	-9%		-10%			NM	-6%		-3%		
DTC												
Advertising	\$123	\$186	51%	\$175	42%	\$11	\$548	\$879	60%	\$859	60%	\$20
Distribution	\$2,084	\$2,167	4%	\$2,159	4%	\$8	\$8,703	\$9,358	8%	\$9,485	9%	(\$126)
Content	\$243	\$171	-30%	\$191	-21%	(\$20)	\$886	\$886	0%	\$906	0%	(\$20)
Other	\$1	\$5	400%	\$2	100%	\$3	\$17	\$17	0%	\$14	0%	\$3
Total DTC Revenue	\$2,451	\$2,529	3%	\$2,526	3%	\$3	\$10,154	\$11,140	10%	\$11,264	11%	(\$123)
% Chg. (YOY)	NM	3%		3%			NM	10%		11%		
Corporate	\$28	\$0	NM	\$0	NM	\$0	\$0	\$0	NM	\$0	NM	\$0
Inter-segment Eliminations	(\$832)	(\$458)	-45%	(\$836)	1%	\$378	(\$2,269)	(\$3,559)	57%	(\$3,831)	45%	\$272
Total Revenue	\$11,008	\$10,281	-7%	\$10,134	-8%	\$147	\$41,321	\$40,109	-3%	\$41,238	0%	(\$1,129)
% Chg. (YOY)	NM	-7%		-8%			NM	-3%		0%		
Adj. EBITDA:												
Studios	\$768	\$543	-29%	\$710	-8%	(\$167)	\$2,183	\$2,400	10%	\$3,040	29%	(\$641)
Networks	\$2,478	\$2,208	-11%	\$2,213	-11%	(\$5)	\$9,063	\$8,275	-9%	\$8,649	-5%	(\$373)
DTC	(\$217)	(\$55)	-75%	\$48	-122%	(\$103)	\$103	\$300	192%	\$300	46%	\$0
Corporate	(\$451)	(\$314)	-30%	(\$200)	-56%	(\$114)	(\$1,242)	(\$1,101)	-11%	(\$1,243)	10%	\$142
Inter-segment Eliminations	\$25	\$89	NM	\$0	NM	\$89	\$93	\$0	NM	\$0	NM	\$0
Total adj. EBITDA	\$2,603	\$2,471	-5%	\$2,771	6%	(\$300)	\$10,200	\$9,875	-3%	\$10,747	2%	(\$872)
Operating (loss) income	(\$968)	(\$182)	NM	\$757	NM	(\$939)	(\$1,548)	\$3,340	-316%	\$4,174	-785%	(\$834)
Net (loss) available to Warner Bros. Discovery, Inc.	(\$1,408)	(\$400)	-72%	(\$222)	-84%	(\$178)	(\$3,126)	(\$122)	-96%	\$486	-116%	(\$607)
Adjustments	NM	\$1,624	NM	\$1,624	NM	\$0	NM	\$4,976	NM	\$4,976	NM	\$0
Adj. Net (loss) available to Warner Bros. Discovery, Inc.	NM	\$1,224	NM	\$1,402	NM	(\$178)	NM	\$4,854	NM	\$5,462	NM	(\$607)
Adj. Diluted EPS	\$0.20	\$0.50	150%	\$0.58	NM	-\$0.07	\$1.38	\$1.99	44%	\$2.24	NM	-\$0.25
Weighted average diluted shares outstanding	2,428	2,439	0%	2,438	NM	1	2,439	2,439	0%	2,438	NM	1
Reported Free Cash Flow	\$2,482	\$3,310	33%	\$2,549	3%	\$761	\$6,161	\$4,900	-20%	\$4,900	-9%	(\$1)

Source: BofA Global Research estimates

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Exhibit 2: WBD – Income Statement

We forecast \$9.88bn for CY24E adj. EBITDA

	2023						2024							
	2021A	2022A	Q1A	Q2A	Q3A	Q4A	2023A	Q1E	Q2E	Q3E	Q4E	2024E	2025E	2026E
WBD: Income Statement	2021.0	2022.0	2023.1	2023.2	2023.3	2023.4	2023.0	2024.1	2024.2	2024.3	2024.4	2024.0	2025.0	2026.0
Revenues:														
Studios	\$15,009	\$13,798	\$3,212	\$2,581	\$3,226	\$3,173	\$12,192	\$2,810	\$3,177	\$3,199	\$3,323	\$12,508	\$12,684	\$13,245
Networks	\$24,230	\$23,186	\$5,581	\$5,758	\$4,868	\$5,037	\$21,244	\$5,245	\$5,324	\$4,638	\$4,813	\$20,020	\$19,410	\$18,780
DTC	\$9,265	\$9,693	\$2,455	\$2,732	\$2,438	\$2,529	\$10,154	\$2,558	\$2,804	\$2,931	\$2,847	\$11,140	\$12,378	\$13,230
Corporate	\$41	\$49	-	-	-	-	-	-	-	-	-	-	-	-
Inter-segment Eliminations	(\$3,219)	(\$3,631)	(\$548)	(\$712)	(\$551)	(\$458)	(\$2,269)	(\$865)	(\$921)	(\$878)	(\$895)	(\$3,559)	(\$3,602)	(\$3,666)
Total revenue	\$45,326	\$43,095	\$10,700	\$10,359	\$9,981	\$10,281	\$41,321	\$9,748	\$10,383	\$9,891	\$10,087	\$40,109	\$40,869	\$41,589
Y/Y		-5%	-6%	-4%	2%	-7%	-4%	-9%	0%	-1%	-2%	-3%	2%	2%
Adj. EBITDA:														
Studios	\$2,645	\$2,749	\$607	\$306	\$727	\$543	\$2,183	\$450	\$488	\$847	\$613	\$2,400	\$2,611	\$3,022
Networks	\$10,987	\$10,051	\$2,293	\$2,166	\$2,396	\$2,208	\$9,063	\$2,055	\$1,978	\$2,214	\$2,028	\$8,275	\$7,845	\$7,201
DTC	(\$1,865)	(\$2,063)	\$50	(\$3)	\$111	(\$55)	\$103	(\$65)	(\$100)	\$189	\$277	\$300	\$1,000	\$1,382
Corporate	(\$1,351)	(\$1,553)	(\$355)	(\$245)	(\$328)	(\$314)	(\$1,242)	(\$275)	(\$275)	(\$275)	(\$275)	(\$1,101)	(\$1,113)	(\$1,113)
Inter-segment Eliminations	\$10	(\$10)	\$16	(\$75)	\$63	\$89.0	\$93	-	-	-	-	-	-	-
Total adj. EBITDA	\$10,426	\$9,174	\$2,611	\$2,149	\$2,969	\$2,471	\$10,200	\$2,165	\$2,091	\$2,975	\$2,643	\$9,875	\$10,343	\$10,493
Margin	23%	21%	24%	21%	30%	24%	25%	22%	20%	30%	26%	25%	25%	25%
Y/Y		-12%	10%	22%	22%	-5%	11%	-17%	-3%	0%	7%	-3%	5%	1%
(Gain) loss on disposition	\$152	\$117	\$31	\$6	\$24	\$16	\$77	-	-	-	-	-	-	-
Restructuring and other charges	\$122	\$3,667	\$95	\$146	\$269	\$75	\$585	-	-	-	-	-	-	-
Depreciation and amortization	\$8,356	\$7,227	\$2,058	\$1,914	\$1,989	\$2,024	\$7,985	\$1,494	\$1,494	\$1,494	\$1,494	\$5,976	\$4,600	\$4,600
Employee share-based compensation	\$486	\$434	\$106	\$135	\$140	\$107	\$488	\$140	\$140	\$140	\$140	\$559	\$615	\$676
Transaction, integration and facility costs	\$1,233	\$631	\$47	\$70	\$45	\$32	\$194	-	-	-	-	-	-	-
Amortization of step-up and capitalized interest for content	\$2,357	\$2,004	\$831	\$784	\$405	\$399	\$2,419	-	-	-	-	-	-	-
Operating (loss) income	(\$2,280)	(\$4,906)	(\$557)	(\$906)	\$97	(\$182)	(\$1,548)	\$532	\$457	\$1,342	\$1,009	\$3,340	\$5,129	\$5,217
Interest expense, net	(\$2,659)	(\$2,292)	(\$571)	(\$574)	(\$574)	(\$502)	(\$2,221)	(\$469)	(\$453)	(\$437)	(\$421)	(\$1,781)	(\$1,523)	(\$1,265)
Other income (expense), net	\$168	\$306	(\$110)	-	(\$55)	\$71	(\$94)	-	-	-	-	-	-	-
(Loss) before income taxes	(\$4,771)	(\$6,892)	(\$1,238)	(\$1,480)	(\$532)	(\$613)	(\$3,863)	\$62	\$4	\$904	\$588	\$1,559	\$3,606	\$3,952
Income tax benefit	\$1,212	\$1,607	\$178	\$260	\$125	\$221	\$784	(\$327)	(\$312)	(\$537)	(\$458)	(\$1,634)	(\$1,801)	(\$1,888)
Effective Tax Rate (%)	-25%	-52%	-14%	-18%	-23%	-36%	30%	-25%	-25%	-25%	-25%	-25%	-25%	-25%
Net (loss)	(\$3,559)	(\$5,285)	(\$1,060)	(\$1,220)	(\$407)	(\$392)	(\$3,079)	(\$264)	(\$308)	\$367	\$130	(\$75)	\$1,804	\$2,064
Net income attributable to noncontrolling interests	(\$191)	(\$74)	(\$9)	(\$20)	(\$10)	(\$8)	(\$47)	(\$9)	(\$20)	(\$10)	(\$8)	(\$47)	(\$47)	(\$47)
Net (loss) available to Warner Bros. Discovery, Inc.	(\$3,750)	(\$5,359)	(\$1,069)	(\$1,240)	(\$417)	(\$400)	(\$3,126)	(\$273)	(\$328)	\$357	\$122	(\$122)	\$1,757	\$2,017
Adjustments		\$6,229	\$1,624	\$1,624	\$1,624	\$1,624	\$6,497	\$1,244	\$1,244	\$1,244	\$1,244	\$4,976	\$3,600	\$3,600
Adj. Net (loss) available to Warner Bros. Discovery, Inc.		\$870	\$555	\$384	\$1,207	\$1,224	\$3,371	\$971	\$916	\$1,601	\$1,366	\$4,854	\$5,357	\$5,617
Adj. Diluted EPS		\$0.36	\$0.23	\$0.16	\$0.50	\$0.50	\$1.38	\$0.40	\$0.38	\$0.66	\$0.56	\$1.99	\$2.20	\$2.30
Weighted average diluted shares outstanding		2,428	2,432	2,437	2,438	2,439	2,439	2,439	2,439	2,439	2,439	2,439	2,439	2,439

Source: BofA Global Research estimates



Exhibit 3: WBD – FCF Statement

We forecast \$4.9bn for CY24E FCF

	2023						2024							
	2021A	2022A	Q1A	Q2A	Q3A	Q4A	2023A	Q1E	Q2E	Q3E	Q4E	2024E	2025E	2026E
WBD: Free Cash Flow & Debt	2021.0	2022.0	2023.1	2023.2	2023.3	2023.4	2023.0	2024.1	2024.2	2024.3	2024.4	2024.0	2025.0	2026.0
Reported Free Cash Flow:														
Cash provided by (used for) operating activities	\$2,798	\$4,304	(\$631)	\$2,014	\$2,516	\$3,578	\$7,477	\$1,164	\$1,360	\$1,606	\$2,050	\$6,180	\$6,604	\$7,141
Less: Purchases of property and equipment	(\$373)	(\$987)	(\$299)	(\$292)	(\$457)	(\$268)	(\$1,316)	(\$320)	(\$320)	(\$320)	(\$320)	(\$1,280)	(\$1,408)	(\$1,549)
Reported Free Cash Flow	\$2,425	\$3,317	(\$930)	\$1,722	\$2,059	\$3,310	\$6,161	\$844	\$1,040	\$1,286	\$1,730	\$4,900	\$5,196	\$5,592
FCF Conversion	23%	36%	-36%	80%	69%	134%	60%	39%	50%	43%	65%	50%	50%	53%
Reported Gross to Net Debt:														
Current portion of debt	\$339	\$365	\$3,496	\$3,001	\$1,302	\$1,780	\$1,780	\$1,780	\$1,780	\$1,780	\$1,780	\$1,780	\$1,780	\$1,780
Plus: Noncurrent portion of debt	\$14,848	\$48,911	\$45,719	\$44,276	\$43,498	\$41,889	\$41,889	\$40,389	\$38,889	\$37,389	\$35,889	\$35,889	\$29,889	\$23,889
Plus: Finance leases	\$255	\$268	\$251	\$246	\$258	\$265	\$265	\$265	\$265	\$265	\$265	\$265	\$265	\$265
Less: Cash and cash equivalents	\$3,905	\$3,930	\$2,639	\$3,077	\$2,383	\$3,780	\$3,780	\$3,124	\$2,664	\$2,450	\$2,680	\$2,680	\$1,875	\$1,468
Reported Net Debt	\$11,544	\$45,614	\$46,827	\$44,446	\$42,675	\$40,154	\$40,154	\$39,310	\$38,270	\$36,984	\$35,254	\$35,254	\$30,059	\$24,466
LTM EBITDA	\$3,817	\$9,174	\$9,404	\$9,787	\$10,332	\$10,200	\$10,200	\$9,754	\$9,696	\$9,703	\$9,875	\$9,875	\$10,343	\$10,493
LTM Leverage Ratio	3.0x	5.0x	5.0x	4.5x	4.1x	3.9x	3.9x	4.0x	3.9x	3.8x	3.6x	3.6x	2.9x	2.3x

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

Warner Bros. Discovery (WBD)

Our price objective of \$14 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
BUY				
	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
NEUTRAL				
	Charter Communications	CHTR	CHTR US	Jessica Reif Ehrlich
	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
UNDERPERFORM				
	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
RSTR				
	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

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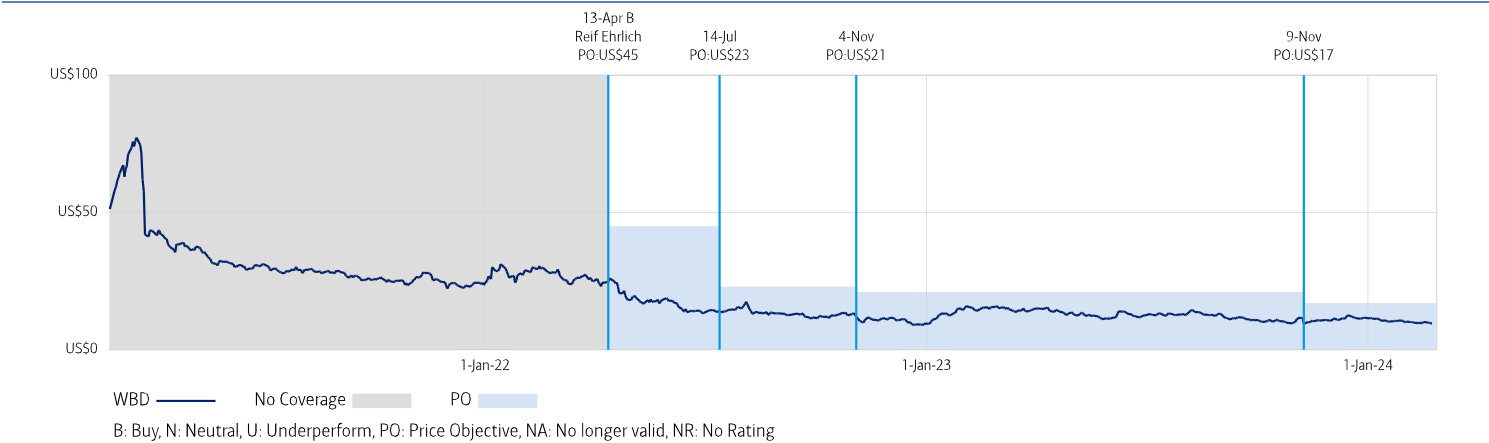
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Equity Investment Rating Distribution: Media & Entertainment Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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