



Rating Action: **Moody's downgrades AMC Networks' CFR to B1; outlook remains negative**

16 Nov 2023

New York, November 16, 2023 – Moody's Investors Service (Moody's) downgraded AMC Networks Inc.'s (AMC Networks) corporate family rating (CFR) to B1 from Ba2, its probability of default rating (PDR) to B1-PD from Ba2-PD, and the rating on the senior secured bank credit facilities, to Ba1 from Baa2. Moody's, also downgraded the rating on AMC Networks' senior unsecured notes to B2 from Ba3. AMC Networks' SGL-1 Speculative Grade Liquidity rating is unchanged. The outlook for AMC Networks is maintained negative.

Demographics and societal trends, and financial strategy and risk management were key drivers of the rating action. Over the next two years, Moody's expects AMC Networks to face continued declining revenue and profitability. In addition, Moody's believes that there is limited visibility as to when the operating performance of AMC Networks will stabilize. The declining operating trends and the limited visibility are largely driven by secular pressures resulting from changes in viewing habits and the way entertainment is being consumed. For the past several years, AMC Networks has been experiencing declining linear subscriber trends impacting its once predictable revenue and profitability. For 2024 and 2025, Moody's projects this annual decline in linear subscribers will remain elevated in the high single digits negatively impacting domestic subscription revenue, which we project will be partially offset by growth in the company's direct to consumer (DTC) initiatives. Meanwhile, governance risk reflects financial policies that have not yet addressed a long term funding solution for the company's August 2025 debt maturities which would pressure liquidity if not refinanced. For year-end 2024, Moody's projects AMC Networks' total debt-to-EBITDA and net debt-to-EBITDA (inclusive of Moody's adjustments) will be 4.0x and 2.5x, respectively.

RATINGS RATIONALE

AMC Networks' B1 CFR reflects the secular pressures facing linear television, AMC Networks' competitive positioning, and the company's scale relative to its peer group. The television landscape is rapidly changing with continued subscriber migration from linear services to streaming platforms. This rapid migration has caused operating pressures negatively impacting revenue and profitability. In addition, Moody's rating reflects the company's risk exposure to revenue concentration largely driven by a handful of successful shows, high leverage on a gross basis, and event risks associated with the controlling stake in AMC Networks owned by the Dolan family.

The ratings benefit from solid free cash flow expected in 2024, brand recognition, proven ability to consistently deliver high quality content and ratings to targeted audiences with demographics that appeals to both advertisers and distributors, and very good near term liquidity.

Moody's expects AMC Networks to maintain very good liquidity over the next twelve to fifteen months. This is supported by around \$955 million in cash, full availability under the company's \$400 million undrawn revolving credit facility expiring in February 2026 and Moody's expectation for about \$190 million in free cash flow in 2023 and around \$250 million in 2024.

The credit facility is governed by a maximum net debt-to-operating cash flow ratio of 5.0x and a minimum operating cash flow-to-interest expense covenant of 2.5x, for which Moody's expects ample cushion over the next year. For 2023 and 2024, we expect AMC Networks to have sufficient liquidity such that it will not need to draw down its revolver to fund its operating needs and capital expenditure requirements.

AMC Networks' ESG Credit Impact Score was changed to CIS-4 from CIS-3, mainly driven by social and governance risks. CIS-4 indicates the rating is lower than it would have been if ESG risk exposures did not exist. The credit impact score reflects the ongoing secular shift of consumers from traditional linear pay-TV bundled service towards DTC

streaming. The company ability to offset the operating pressures from this shift is increasingly uncertain. From a governance perspective, financial policies have not yet addressed a long term funding solution for the company's August 2025 debt maturities, which would pressure liquidity if not refinanced.

The negative outlook reflects Moody's expectations for (i) declining revenue and profitability, (ii) limited visibility as to when the transition of the business model will result in stabilized operating performance and (iii) the potential for reduced liquidity if the 2025 maturities are not refinanced

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The ratings could be upgraded if the company successfully transitions the business model to DTC such that the overall subscriber base stabilizes and it achieves sustained organic revenue and EBITDA growth; the company maintains at least good liquidity while achieving a long term funding solution to address its 2025 debt maturities; and debt-to-EBITDA is sustained below 3.0x (including Moody's adjustments).

The ratings could be downgraded if the company's operating performance or liquidity further weakens and there is an inability to offset subscriber losses with growth in DTC without an attendant reduction in leverage; debt-to-EBITDA is sustained above 4.0x (including Moody's adjustments); or the company fails to refinance 2025 debt maturities well in advance of maturities.

Headquartered in New York, New York, AMC Networks Inc. supplies television programming to pay-TV service providers throughout the United States. The company predominantly operates five entertainment programming networks - AMC, WE tv, IFC, Sundance TV and BBC America. Revenue for the LTM 9/30/2023 was approximately \$3.0 billion.

The principal methodology used in these ratings was Media published in June 2021 and available at <https://ratings.moodys.com/rmc-documents/72920>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824.

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