

Industry Update — December 19, 2024

Media & Entertainment**Audio****TV Broadcasting****Advertising**

MEDIA—The 2025 Oracle

Dare We Say We're Optimistic?

Our Call

Our top ideas for '25 are SPOT (Top Pick - monetization), DIS (Growth - under-owned), FOXA (Value - streaming), TGNA (M&A) and SIRI (Underweight - ex-growth). This is the best we've felt about the broader space since '21.

Our '25 stock ideas. SPOT is our Top Pick on incremental margins + monetization. We like DIS (Growth) + FOXA (Value) as we think incremental sports streaming subs will surprise to the upside. We think WBD M&A hype is overdone due to debt complexities, and PARA is dead money til the merger closes. NFLX is a compounder but w/ fewer '25 catalysts. B'cast dereg = TGNA. We like OUT in Ad Services & LGF for Event Driven. Our Underweights are SIRI (ex-growth), AMCX (cord cutting) and GTN (leverage).

'25 Entertainment themes. 1.) We think CMCSA's cable SpinCo offers merger options for WBD/AMCX/Starz, which could result in a \$20bn equity roll-up. 2.) '25 sees DTC fortunes continuing to improve as legacy Media stays in its lanes w/ streaming focused on CLV. 3.) We're v. bullish on sports in streaming via ESPN Flagship + FOXA moves, and think YE'25 streaming subs will be 3mm (+ increased cord cutting). 4.) AVOD grows but w/ flattish CPMs, and linear is structurally troubled. 5.) DBO of \$10bn.

'25 Audio themes. 1.) We think SPOT's 4Q24E Premium incremental margins are implied at ~70%, indicating upside to '25 margin ests. We see Label dynamics as constructive w/ Super Fan + cash deployment as catalysts in '25 & better ads monetization from '26. 2.) We think Labels need to re-accel rev growth w/ a shift to wholesale terms. Lots of changes underway for '25, and we're neutral on UMG/WMG. 3.) SIRI remains pressured with sub declines due to competition, and valuation is a concern to us.

'25 Broadcast themes. 1.) We think the new FCC will pursue much-needed B'cast deregulation, which could incl. eliminating the ownership cap. We like TGNA on M&A (new \$23 target). 2.) NXST is also a value-enhancing consolidator due to its scale (closed Tribune trading at ~\$100/sh). 3.) Retrans revs. are slowing, but we think reverse will shift towards variable rates. 4.) Core is flattish for '25. 5.) Political ads face concerns on rising cycle spend vs. B'cast losing share to CTV.

'25 Ad Services themes. 1.) US ad spend is healthy for '25 on rising biz confidence: +8% y/y ex-political. OOH is steady at +5% y/y. 2.) Agency sector organic growth is penciling out to 2-3% for '25, implying GDP-esque (real, not nominal). 3.) We think Pharma spend, which is an investor concern, is 1.5%-3.0% of IPG/OMC net rev. so limited risk. 4.) Net/net, we're neutral on IPG/OMC on the deal + integration time. 5.) We prefer OUT in Ad Services, and note its nat'l ad outperformance vs. LAMR.

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Media Outlook 2025

Dare we say we're optimistic?

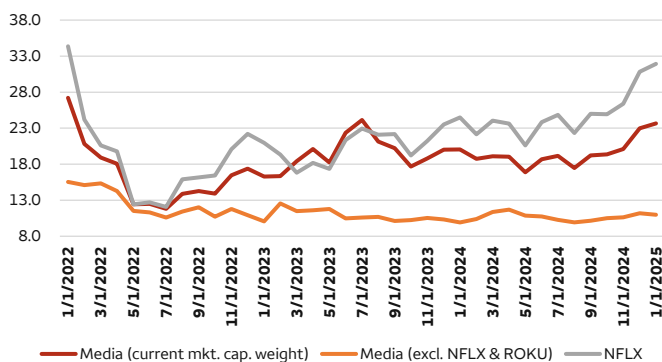
Media is in a more constructive place heading into 2025. Linear risks to ad and affiliate revenue have not abated, but we see meaningful strategic improvement in DTC performance. Sports is moving into streaming from ESPN and likely FOXA, unlocking new market potential. We expect M&A will support valuations in TV Broadcast, WBD and possibly LGF, at least for a time. We think Media sentiment really began the most recent downturn in early '22 as DTC fundamentals faltered alongside traditional fundamentals, and the trends listed above mean this is the best we've felt about potential outperformance since then. We believe the ad market is also solid incl. OOH, and Spotify and the Music Labels are on constructive business terms.

Finally, we think the long-term winners incl. SPOT, NFLX and DIS increasingly have the winds at their backs, so it's just up to execution vs. earnings expectations.

A note on our price targets

Many of our stocks—including some of our top ideas—have run into year-end, participating in a market rally that reflects some idiosyncratic stock elements + post-election deregulation/pro-business optimism + likely some 'melt up.' Rather than chase valuations here, we highlight the names we like, why we like them and the catalysts that we see supporting our Top Ideas for outperformance. We think the market could remain somewhat volatile into early'25, and we'll be in Q4'24 earnings season within weeks.

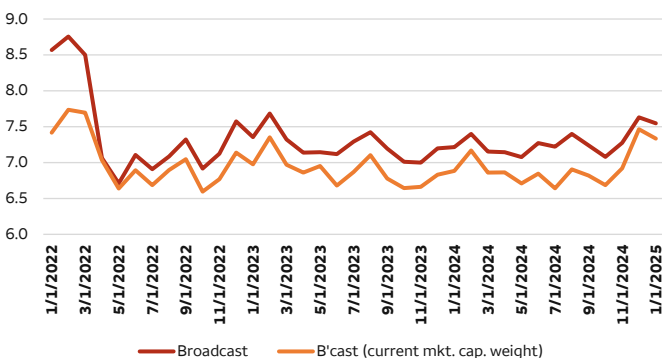
Exhibit 1 - Media EV/EBITDA (1-year Forward)



Source: FactSet, WFS, LLC

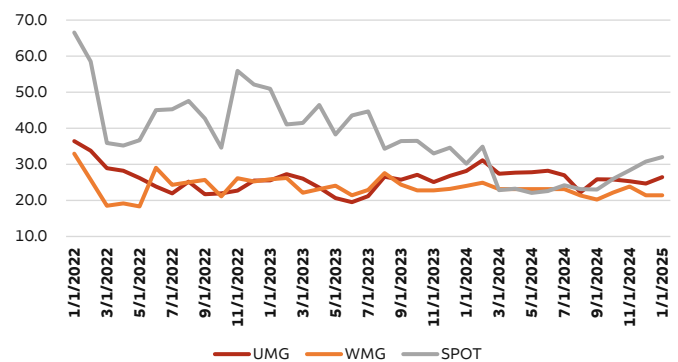
Media incl. AMCX, DIS, FOXA, LGF.B, NFLX, PARA, ROKU, WBD

Exhibit 3 - Broadcast EV/EBITDA (2-year Fwd. Avg.)



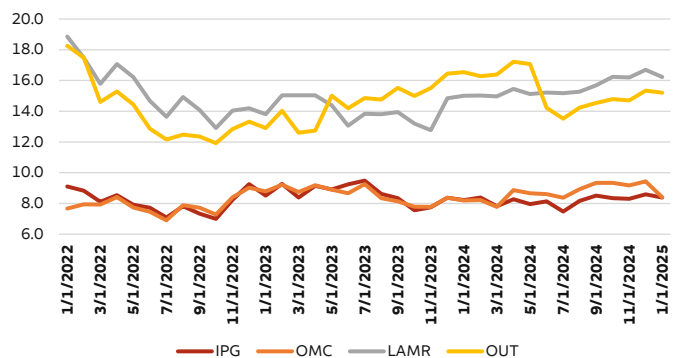
Source: FactSet, WFS, LLC

Exhibit 2 - Audio P/FCF (1-year Forward)



Source: FactSet, WFS, LLC

Exhibit 4 - Ad Services EV/EBITDA (1-year Forward)



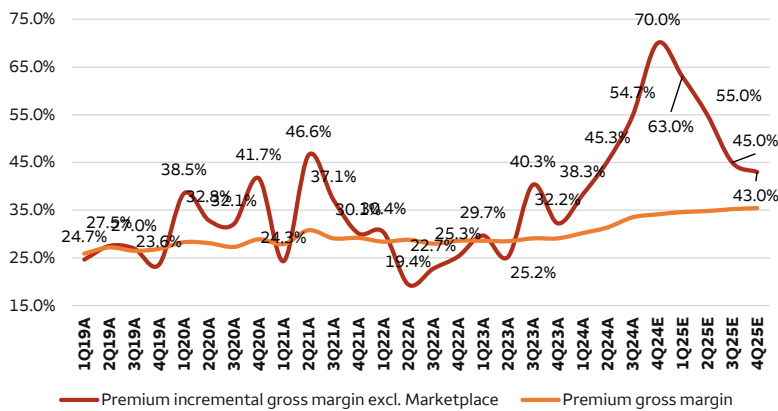
Source: FactSet, WFS, LLC

Best Stock Ideas

SPOT is our Top Pick

- Thesis:** SPOT has gone from a price taker of Music Labels' royalty terms to a price maker as the largest DSP, biggest Label partner and critical platform for the Labels to accel revenue growth. We think the Labels are looking to expand monetization, which could include moves to wholesale pricing models, super fan monetization and stronger monetization of ad-supported subscribers as conversion to Premium decels. On our recent LA bus tour, we walked out of the [UMG meeting thinking '25 will see superfan + wholesale structures, and '26 will see incremental ad monetization](#). The interdependence between SPOT and Labels means new opp'ties will provide benefits to both sides, which means more margin opp'ty for SPOT. We remain bullish on margin + valuation upside. Finally, we note the massive incremental margin ramp in '24 incl. implied for Q4, which sets up well into continued margin progression in 2025. Our ests. are ahead of Street on both incremental margins and new monetization schemes.
- Catalysts:** We see a super fan tier announcement as the biggest H1'25 catalyst. We also think SPOT will soon announce a capital return program as we est. >€5.5bn in cash on the balance sheet by year-end. Finally, we calculate 3Q'24 Premium incremental gross margins excl. Marketplace of 55% with H2'24 implied at 62%. We assume incremental margins naturally decel in '25, but also think there could be scope for outperformance on new tiers + the cont'd expansion of the audiobooks tier. We're above consensus as we think '26+ will see incremental monetization, such as sub fees on ad-supported in mature markets.
- Share return potential:** We think ~30x EV/EBITDA is the correct valuation for SPOT given the potential valuation unlock discussed above. That's \$520/sh using CY26E estimates and ~\$640/sh on '27.
- Risks:** While we see paths to incremental monetization, esp. charging ad-supported subs a small subscription fee in mature markets, Premium price increases remain a major feature of SPOT's 20% average annual revenue growth target. Price increases will always be subject to competitive considerations. Should Apple Music or Amazon Music move away from price hikes, it could present some rev growth challenges for SPOT.
- The key chart:** SPOT's premium incremental gross margins (excl. Marketplace) have accel'd throughout '24. While we conservatively estimate deceleration in '25, we think the trend shows SPOT's improved position + upside to out-year gross and op margins.

Exhibit 5 - SPOT Premium Incremental & Gross Margin, Incl. '25 Estimates



Source: Company reports, WFS, LLC estimates

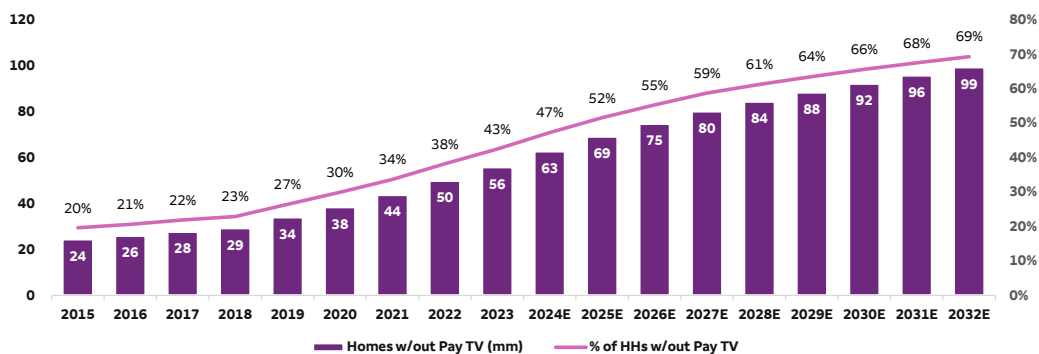
FOXA is the biggest beneficiary of sports moving into streaming

- Thesis:** Recall that DIS, FOXA and WBD were set to launch the Venu sports network streaming service in the fall of '24, before an injunction shut down its prospects. We think that, like us, FOXA sees that there's a huge revenue opportunity for its sports networks in streaming. As of YE'24/'25, we est. 70mm/65mm pay TV bundle subs vs. 63mm/69mm households outside of the bundle. At YE'24, we est. ~40mm domestic Peacock/Paramount+ subs each, implying a pretty big market for sports streaming interest outside of the bundle. We think that FOXA can get ~\$10/mo for its sports nets in streaming vs. ~\$7/mo for all of its nets (incl. Fox News) inside the bundle. So,

by getting its sports nets into streaming, which we think it will announce in H1'25, FOXA will benefit from incremental subs and cord cutters going to streaming. We think potential distribution partners incl. Amazon Channels, YouTube, Roku and Apple based on our recent checks. We believe FOXA also has a strong balance sheet, upside to estimates and sports betting assets to limit downside risks.

- **Catalysts:** We think the biggest catalyst is an announcement as to how FOXA will move its sports nets into streaming. This may come with a streaming sub outlook. We also see upside to estimates as FY24A AOIBDA came in +7% above consensus as of F4Q23 results (up from \$2.7bn as of Aug'23 vs. \$2.9bn as reported). Finally, we think the FanDuel option could continue to accrete its in-the-money value (and FLTR shares have increased too).
- **Share return potential:** We think sports in streaming could be [double-digit accretive to EBITDA](#) in 1-2 years. We like FOXA as a 15-20% total returns stock, but with limited downside risk due to valuation, the strong balance sheet and M&A optionality.
- **Risks:** Fox News is still coming off of a tough news cycle upswing, and sports into streaming is up for debate. Investors generally do not share our enthusiasm for the sports streaming TAM.
- **The key chart:** We est. that by '26 sports streaming initiatives (e.g., ESPN Flagship + FOXA) could have ~11mm subs—mostly incremental and at a higher ARPU vs. the pay TV bundle.

Exhibit 6 - Households Without Pay TV



Source: Company reports, Wells Fargo Securities, LLC estimates

DIS has the most ways to win

- **Thesis:** We think F4Q'24 results were a game-changer. FY25 and longer-term guidance provide much-needed visibility to Media's most complicated stock. While the Experiences outlook will also be subject to macro uncertainties, we also see conservatism in the DTC OI guide for FY25 (+~\$600mm y/y in OI excl. hotstar on ~+\$2bn in revenue) and Entertainment overall (esp. if the film slate performs well). We think the Sports OI guides for FY25 and FY26 reflect Flagship launch costs in FY25 and then OI growth from FY26, incl. a full year of new NBA rights. Overall, DTC is growing, and we expect will soon exceed Linear in OI, CSLO is growing on strong content, Sports grows from FY26 and Experiences has macro risk but cruise ship capacity growth means OI likely grows for the next several years on higher capacity. This means to us DIS's +HSD/+LDD EPS CAGR outlook is achievable, as is divi growth.
- **Catalysts:** We think upside to estimates is the key DIS catalyst. We see CSLO and DTC as the biggest potential sources. Experiences also has easier cost comps (labor + cruise) in FH2, though faces competition from Epic Universe's opening in FH1.
- **Share return potential:** We view DIS as a mid-20xs fwd. P/E company. This year is implied at nearly mid-\$5/sh in Adj. EPS, so >\$6/sh in FY26 and flirting with ~\$7/sh by FY27. 23x FY25/FY26/FY27 implies \$/sh of \$116/\$142/\$157. We think beats/raises should drive DIS towards \$140/sh based on FY26/27 discounted.
- **Risks:** DIS has the most ways to win, but its complexity means more risks too. Experiences is the biggest unknown, and demand trends could diverge from the macro picture that management has assumed in guidance. Domestic Parks remain 36% of total FY25 company segment OI pre corp. costs, and ex-cruise it's still 31%. ESPN Flagship launch is also a FY25 drag, as is competition from CMCSA in Orlando. Studio performance is highly unpredictable.
- **The key chart:** DIS is trading on low/mid-20xs FY24A P/E. We think there's upside to EPS from DTC, CSLO and Cruises—this implies DIS could trade to ~\$140 on upward estimate revisions.

Exhibit 7 - DIS - Prospective Adj. EPS and \$/sh Valuation

	FY24A	FY25E	FY26E	FY27E	FY28E
Price	\$113	\$113	\$113	\$113	\$113
/ Adj. EPS	\$5.05	\$5.46	\$6.25	\$6.88	\$7.52
= P/E	22.4	20.7	18.1	16.4	15.0
Adj. EPS	\$5.05	\$5.46	\$6.25	\$6.88	\$7.52
Note: % y/y growth	33.8%	7.9%	14.6%	10.0%	9.3%
X P/E	22.4	22.4	22.4	22.4	22.4
= Potential price	\$113	\$122	\$140	\$154	\$168
Discounted (7% WACC)	\$113	\$114	\$122	\$126	\$128
Prospective Adj. EPS	\$5.05	\$5.56	\$6.48	\$7.26	\$8.08
Note: % y/y growth	33.8%	9.9%	16.6%	12.0%	11.3%
X P/E	22.4	22.4	22.4	22.4	22.4
= Potential price	\$113	\$124	\$145	\$162	\$181
Discounted (7% WACC)	\$113	\$116	\$127	\$132	\$138

Source: Bloomberg, WFS, LLC estimates

WBD: the right moves, but M&A optimism may be overdone

- Thesis:** We remain Equal Weight on WBD as we think trends are improving, but M&A optimism is also potentially overdone. On operations, linear distribution has been derisked à la CMCSA/CHTR. DTC is accelerating nicely on all KPIs. Studios is a slower recovery to prior levels. Strategically, WBD has announced a re-segmentation to Linear vs. DTC/Studios, and we think this has investors excited that it could separate, thereby increasing the likelihood of DTC/Studios being acquired. We think this will take considerable time since WBD needs to delever with FCF, cannot spin Linear levered (or it's worthless) and bondholders will need to spend a lot of time with management working through potential structures. PE could be a buyer, but only at savvy multiples of <4x EV/EBITDA and/or w/ equity in RemainCo. We think DTC/Studios is now implied ~14x EV/EBITDA, which is a punchy multiple that likely contemplates M&A. We are therefore loathe to chase WBD at these levels and think any potential deal/separation is much more likely in '26 vs '25.
- Catalysts:** 1.) Networks' earnings pressures, esp. w/ no NBA in H2, higher cord cutting from sports in streaming and a weak national ad market for linear nets; 2.) DTC profit upgrades with a revaluation; 3.) Studios performance; and 4.) M&A headlines.
- Share return potential:** We think WBD is around fair value as the current price implies ~12x EV/EBITDA for DTC/Studios assuming modest leverage and 4x EV/EBITDA for Linear. While there could be upside to a potential takeout multiple, we think it needs to be discounted for the time to get a deal done (while debt reduction and structuring take place) and the probability that no deal arises.
- Risks:** As a levered equity with multiple businesses, WBD faces above average risks from cord cutting, asset revaluation, M&A, content hit risk, etc. The 2+-year share price range since the merger is >\$20/sh back in '22 to <\$7/sh at the low point in '24.
- The key chart:** We think a Linear spin needs to be at low leverage to afford future opportunities (such as merging w/ CMCSA's cable nets spin). That leaves Studios/DTC quite levered, and expensive. CMCSA paid 15x EV/EBITDA for Sky though, and such a Studio/DTC valuation implies \$13/sh pro-forma for a separation incl. the takeout multiple.

Exhibit 8 - WBD Separation Valuation - Pro-Forma & Upside Case

\$mm	WF CY25E Estimates	Currently implied		Upside case	
		Linear PE deal	Studio & DTC	Linear PE deal	Studio & DTC
Networks	7,350	7,350	-	7,350	-
+ Studios	1,945		1,945	-	1,945
+ DTC	1,396		1,396	-	1,396
+ Corp/other	(1,193)	(656)	(537)	(656)	(537)
= Adj. EBITDA	9,498	6,694	2,804	6,694	2,804
X EV/EBITDA	6.1	3.0	13.6	3.0	15.0
= EV	58,228	20,082	38,136	20,082	42,062
- Debt/other (YE'25)	30,194	13,388	16,806	13,388	16,806
Note: ND/EBITDA	3.2	2.0	6.0	2.0	6.0
= Equity value	28,035	6,694	21,330	6,694	25,256
/ diluted shares (mm)	2,470	2,470	2,470	2,470	2,470
= \$/share	\$11.35	\$2.71	\$8.64	\$2.71	\$10.23
		Pro-forma	\$11.35	Pro-forma	\$12.94
		Upside	0.0%	Upside	14.0%

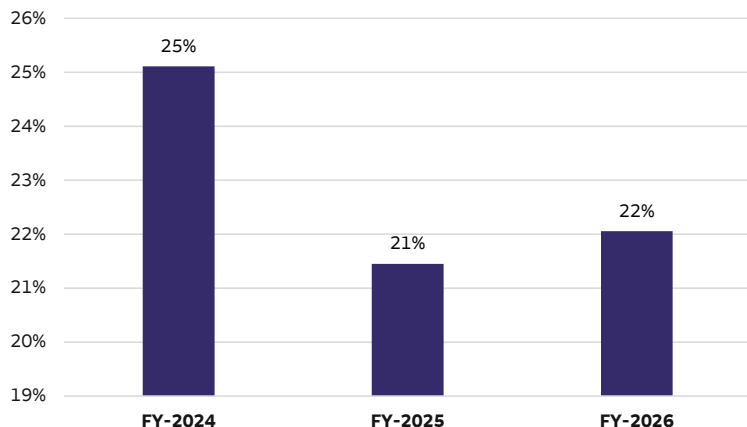
Source: Bloomberg, WFS, LLC estimates

Priced as of close on 12/17/24

NFLX - less alpha, wind at their back

- **Thesis:** NFLX has gained significant share of viewing at 8-9% of US TV time, and that's without sports or news. The Tyson fight + Christmas Day games indicate a new runway for Netflix to slowly but deliberately build into live events and sports. WWE *Smackdown* is the next step from Jan'25, and we think it generated \$150-\$200mm annually in domestic ad revenue for FOXA (NFLX's rights are more global, and we think ~\$500mm p.a.). Future live opportunities could include concerts (Beyonce on Xmas Day), award shows, talk shows, PPV-style UFC events, etc. In general, we think NFLX will look for large audience events vs. regular season sports rights 'tonnage.' We think investors are willing to underwrite less annual margin expansion on investments that continue to gain viewership share, while leveraging NFLX's global advantage in audience reach. Finally, '25 is a year of growth and improvement, but less vs. '24 as NFLX comps paid sharing + invests in the ad tier.
- **Catalysts:** NFLX typically exceeds its full-year targets, especially on OI (and EPS as a result). However, we think management is cautioning investors that '24 outperformance was an anomaly. We think NFLX's '25 catalysts are earnings, incremental live announcements and achieving Ad ARM = Subscription ARM (likely late in '25).
- **Share return potential:** Annual EPS estimates moved up by 20%+ this year, while NFLX shares are up 89% vs. SPX +23%. This significant multiple expansion is unlikely to continue, but 30x P/E is potentially the new multiple as NFLX extends its lead over the competition. We think the buy-side is now willing to underwrite >\$30/sh in EPS at >30x P/E.
- **Risks:** We think downside risk is limited, which is a key reason NFLX is so well-owned. Ad ARPU is potentially the biggest risk as NFLX continues to invest to try to get Ad-supported ARM in-line to ahead of Ad-free ARM. The Ad rollout has thus far been below expectations, while '25 could have fewer offsets.
- **The key chart:** In 2023 and 2024, NFLX has consistently delivered upside to EPS throughout the year. We think investors view the current CY25E/CY26E consensus P/E multiple of 38x/32x as maintainable given scope for upward revisions + competitive prowess.

Exhibit 9 - NFLX - Consensus Change to Forward EPS Estimates, 1 Jan'24 - Current



Source: Visible Alpha, WFS, LLC

TV Broadcast - deregulation & TGNA as the best consolidation play

- **Thesis:** The incoming Trump administration and Trump-pick Brendan Carr heading the FCC is likely to usher in deregulation and consolidation for TV Broadcast. Standard General valued TGNA at 7.6x EV/EBITDA and \$24/sh in its prior acquisition offer in 2022, which was accepted by TGNA's board but failed due to challenges presented by the then-Democratically controlled FCC. We think M&A could come back quickly, and the cap would change longer-term. Cost of capital is now higher, so we trim a prospective takeout EV/EBITDA valuation by ~10%. But, TGNA has generated cash since, and retired both shares and debt. 7.5x EV/EBITDA = \$23/sh, our new price target.
- **Catalysts:** A Republican-controlled FCC will likely be making overtures that support Broadcast consolidation early next year. We think M&A headlines could come near-term. Key peers like NXST have publicly called for an elimination of the ownership cap, with the implication that there is no political support for current Broadcast regulations.
- **Share return potential:** Our new PT equates to +13% upside, and if there are multiple bidders it could go higher. We also conducted a DCF of TGNA, which implies \$20/sh incl. no buyer synergies.
- **Risks:** If no deal emerges for TGNA, it could become a buyer or a merger partner with other station groups.
- **The key chart:** Standard General offered \$24/sh for TGNA in Feb'22 - 7.6x EV/EBITDA. While we think M&A valuations could be modestly lower in the future B'cast consolidation cycle, TGNA also has fewer shares and less debt. 7.5x EV/EBITDA = \$23/sh.

Exhibit 10 - TGNA's PT vs TGNA's PT during the SG deal

	Feb'22 SG deal	New PT
Price per share	\$24.00	\$23.00
X Diluted shares (mm) NTM	224	159
= Equity value	\$5,368	\$3,613
+ Net debt (NTM)	2,964	2,252
= EV	\$8,332	\$5,865
/ WF est. 2-year EBITDA	1,093	782
= EV/EBITDA multiple	7.6x	7.5x
Note: est. 2-year FCF	692	482
Note: P/FCF multiple	7.8x	9.8x

Source: Company reports, FactSet, Wells Fargo Securities, LLC estimates

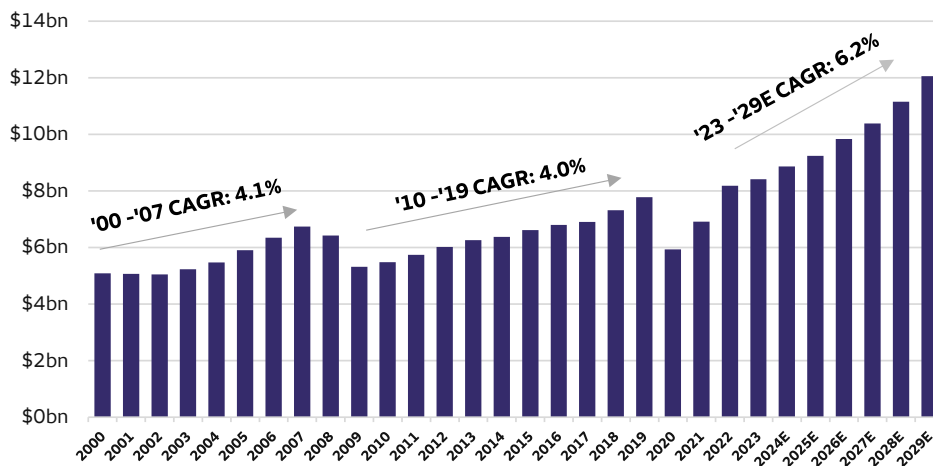
Ad Services - choppiest waters; prefer OUT

- **Thesis:** OMC performed well in '24, and the OMC/IPG pair trade was about as good as it gets for Agencies until the surprise [OMC/IPG merger](#). We expect the deal will keep these two rangebound. Heading into '25, there is still some uncertainty on consumer spending due to inflation, pharma spend (~5% of the ad market) on the new administration and the impact of tariffs on brand/retail marketing. By contrast, OOH remains a longer-term ad share gainer, has no meaningful pharma

exposure and GroupM estimates steady +5% growth in OOH in both '24 and '25. Digital expansion, tech spend and M&E recovery support growth. Our Overweight play in Ad Services is OUT on national better than feared + MTA + valuation. We note that OMC and IPG are now connected stocks since IPG shares will convert to OMC.

- **Catalysts:** We think OUT will disproportionately benefit from a rebound in Media & Entertainment advertising in '25 due to its heavier skew towards NYC/LA. We also expect the rebound in M&E to have the knock-on impact of supporting +HSD Transit growth next year (~60% of Transit revs are NYC/LA). Continued strength in Transit should remove a key overhang for the stock. While our expected +4% total revenue growth for '25 is in line with peers, it's more impressive when considering the ~1.5pt headwind from the MTA billboard contract roll-off. Excluding this, our OUT growth estimate would lead the group.
- **Share return potential:** Our \$22 price target (+33% total return incl. dividend) implies 12.5x our 2025E EBITDA (~2.5x discount to LAMR). Strong growth next year should help the stock begin to close the valuation gap to LAMR (currently ~3.5x).
- **Risks:** OUT recently announced the planned retirement of its current CEO, which was a surprise to the market. While we don't view the departure as thesis changing, investors tend to favor stability. The CEO search and subsequent investor education to whomever that person ultimately is may act as an overhang.
- **The key chart:**

Exhibit 11 - Total U.S. OOH Ad Revenue
Historical + Projection



Source: GroupM

Event Driven: LGF spin potential

- **Thesis:** LGF stock has been range-bound. The spin transaction has been a longtime coming, and Studios performance has been lackluster in calendar 2H'24. We think this has resulted in investor fatigue about a value-creating transaction. But, the deal is now near close—expected in Jan'25 along with the A/B share collapse. Studios and Starz have completed their debt refinancings. Next month, LGF's 87% of shares in LION will be distributed to shareholders and remaining LGF will be Starz. LION's market cap is currently +\$200mm vs LGF's, implying Starz at -\$200mm in equity value or just 2x EV/EBITDA.
- **Catalysts:** We see the spin as the catalyst. Post-spin, we think LGF/Starz will be valued ~4x or ~\$1/sh (with a 15:1 reverse stock split thereafter). At 10x, LION is implied at ~\$8/sh. The transaction will provide the clarity for revaluation.
- **Share return potential:** 10x for LION + 4x for Starz = \$9/sh (+22% upside). Some SPAC/PIPE investors have valued LION at 11x, and Starz is arguably a premium asset to AMCX since it's 70% digital, stable in terms of subs and should deleverage quickly. 11x LION + 5x Starz = \$10/sh. Finally, an activist is looking to join the board is advocating for M&A (Anson Funds Management).
- **Risks:** Studios needs to put up theatrical hits, extend the value of franchises like *John Wick* and improve success at Television to justify a rerating or blue sky takeout valuation, in our view. Studio

execution has been lacking. We think Starz faces a steadier outlook, but is in a low multiple business given risk from bigger competitors in prestige direct-to-consumer.

- **The key chart:** The table below shows the value unlock of the Studio/Starz separation. Starz is currently implied at 2x EV/EBITDA, and we think it'll trade at 4-5x post-spin. The transaction thus represents >30% equity upside.

Exhibit 12 - LION vs Starz vs LGF Valuations

\$mm	Current			At Spin		
	LION	Starz	LGF	LION	Starz	LGF
EBITDA	394	200	594	394	200	594
X EV/EBITDA	10.6	1.8	7.6	10.6	4.5	8.5
= EV	4,167	351	4,518	4,167	900	5,067
- Debt/min.	2,091	600	2,691	2,091	600	2,691
= Equity value	2,076	(249)	1,827	2,076	300	2,376
/ shares (mm)	247	247	247	247	247	247
= \$/sh	\$8.40	-\$1.01	\$7.40	\$8.40	\$1.21	\$9.62
					Upside	30.0%

Source: Bloomberg, WFS, LLC estimates

PARA isn't interesting til after the tender

- **Thesis:** At \$11/sh, we think PARA is implied at ~\$7/sh after the \$15/sh tender offer for the Bs, assuming most shareholders participate fully. This is 5.5x our pro-forma CY25E EV/EBITDA using the deal deck's outlook and the new cap structure. This compares to 6.3x for WBD—the closest peer—following WBD's separation announcement. However, it's tough to know what's implied from the tender. Skydance/RedBird will also be new managers, taking over an asset that has been under-managed for a long time in our view. Strategic moves may take time to bear fruit, and we think PARA estimates face above-average volatility that will result in a valuation discount. Finally, PARA will have no M&A premium given new ownership, so it should trade at a discount to WBD.
- **Catalysts:** After the tender offer, PARA will be trading at a price more indicative of the market's pro-forma outlook. We believe this is the time to revisit. We also expect greater estimate/business detail post-merger as management re-engages with the Street.
- **Share return potential:** Our \$11/sh price target is based on \$7/sh fair value and the \$15/sh tender. There's more upside on WBD's multiple, but we think a lot has to happen on execution before that's the case.
- **Risks:** We think new management taking over in '25 creates both upside and downside risks. Downside could come in the form of missing estimates, which are both stale and more volatile given the reduced communication during the merger process. Upside could come in the form of asset sales, Paramount+ licensing or integration deals or FCF generation above expectations.
- **Key chart:** We think PARA is trading at a discount to WBD while at valuation parity there's upside. But, we think inefficiency from the tender offer + uncertainty around the new strategy makes it a wait-and-see story.

Exhibit 13 - PARA Estimated Share Price Implications

\$mm except per share	Current valuation	WBD comp	% upside
B share price	\$10.68	\$12.14	14%
B price post-\$15 tender	\$6.36	\$9.28	46%
X PF shares	1088	1088	
= PF market cap	6,920	10,093	
+ PF net debt	10,751	10,751	
= PF EV	17,671	20,844	
/ Deal deck CY25 EBITDA	3,400	3,400	
= EV/EBITDA	5.2	6.1	

Source: Company reports, Bloomberg, WFS, LLC estimates

Priced as of close on 12/18/24

IMAX as the way to play the box office ramp

- **Thesis:** We see consumers and studios alike pushing the theatrical experience to just that: an experience. This “premiumization” of movie-going will focus on tentpoles for franchise IP and should continue to drive IMAX market share upwards as a percentage of the box office. Combined with a strong slate ahead and the most international exposure, we’re bullish on the outlook for installs.
- **Catalysts:** Key drivers for overperformance on market share + installs center around the number of Filmed For Imax (FFI) films. For '25, the slate is filled w Filmed For IMAX (FFI) films (14 vs. prior record of 7 in '21) incl every IMAX release from May-Nov. We think the # of films that are FFI is flying under the radar as such typically over-index by ~26% vs. films not filmed w/ IMAX cameras. We also expect improved performance from China including a steadier cadence of local language films.
- **Share return potential:** We think ~10x EV/EBITDA is the correct valuation for IMAX given two-year avg revenue growth in the HSD range and AEBITDA growth in the LSD levels + margin expanding from mid-30s to high-30s to low-40s. That's \$31/sh when using our CY26E estimates and 24% upside from current levels.
- **Risks:** China's unpredictability—at 47% of installs and a similar percentage of the backlog, we believe the China box office + the growth of installs in China is key to IMAX's stock.
- **Key chart:** The 2025 slate should see a big y/y improvement in wide releases, and we think the China local language schedule is stronger.

Exhibit 14 - Dated Wide Releases Breakdown by Major Studios (as of 4Q of prior year)

	2025	2024	Y/Y %
Walt Disney	13	7	86%
Universal	20	16	25%
Paramount	9	8	13%
Warner Bros.	17	12	42%
Sony	16	13	23%
Lionsgate	10	9	11%
Amazon/MGM	5	2	150%
Total	90	67	34%
Total WR	101	78	29%
% of total	89.1%	85.9%	+321 bps

Source: The Numbers, Wells Fargo Securities, LLC estimates

Underweights: SIRI, AMCX, GTN

- **Thesis:** We think [SIRI is ex-growth](#), which we expect will create downside to valuation implying a stock in the mid/high-teens in \$/sh, so significant downside. Our new PT is \$16/sh and we est. declining self-pay net adds in perpetuity. We think AMCX's AOI guide is a major risk and revenue will come under renewed pressure from cord cutting when sports rights from ESPN and FOXA hit streaming by H2'25. If Media's secular trends remain under pressure, we think AMCX faces further EV/EBITDA derating risk despite its currently strong FCF. We think GTN has limited scope for Broadcast consolidation due to leverage >5.5x, is more likely a buyer than seller regardless and has limited cash available to equity in the medium term.
- **Catalysts:** SIRI—downside to subscriber estimates. AMCX—AOI guide and potential for estimate cuts as cord cutting picks up = multiple degradation. GTN—limited tolerance for estimate reductions given elevated leverage + potential for further M&A.
- **Share return potential (CY25E/26E).** SIRI -34%, AMCX -18%, GTN -26%. We note we also rate ATUS and CABO in Cable at Underweight.
- **Risks:** SIRI is repositioning to focus on in-car, and could re-accel self-pay net adds. AMCX is cash generative, and could see licensing upside from TWD. GTN could find accretive Broadcast merger opportunities (note: in March 2020, Reuters reported that GTN could be seeking a deal with TGNA).
- **Key charts:** Further derating represents meaningful downside to these stock using our CY25/26 EBITDA estimates.

Exhibit 15 - SIRI Downside Sensitivity Analysis

SIRI Underweight view			
<i>\$mm except per share</i>	CY24E	CY25E	CY26E
Self-pay net adds	(306.9)	(302.1)	(338.5)
Adj. EBITDA	2,703	2,604	2,664
FCF	981	1,152	1,355
Downside sensitivity			
EV/EBITDA	5.5	5.5	5.5
X EBITDA	2,703	2,604	2,664
= EV	14,869	14,321	14,650
- CY25E net debt	8,935	8,935	8,935
= Equity value	5,934	5,386	5,715
/ Diluted shares (mm)	339.0	339.0	339.0
\$/share	\$17.50	\$15.89	\$16.86
% upside/downside	-18.6%	-26.1%	-21.6%
Note: P/FCF	6.0	4.7	4.2
Note: Net leverage	3.3	3.4	3.4

Source: Bloomberg, WFS, LLC estimates

Priced as of close on 12/18/24

Exhibit 16 - AMCX Downside Sensitivity

AMCX Underweight view			
<i>\$mm except per share</i>	CY24E	CY25E	CY26E
Revenue	2,425	2,303	2,246
AOI	560	489	446
FCF	295	243	199
Downside sensitivity			
EV/EBITDA	3.5	3.5	3.5
X EBITDA	560	489	446
= EV	1,960	1,710	1,561
- CY25E net debt	1,159	1,159	1,159
= Equity value	801	551	403
/ Diluted shares (mm)	50.3	50.3	50.3
\$/share	\$15.91	\$10.94	\$8.00
% upside/downside	70.5%	17.3%	-14.3%
Note: P/FCF	2.7	2.3	2.0
Note: Net leverage	2.1	2.4	2.6

Source: Bloomberg, WFS, LLC estimates

Priced as of close on 12/18/24

Exhibit 17 - GTN Downside Sensitivity

GTN Underweight view		
<i>\$mm except per share</i>	'24/'25	'25/'26
Revenue	3,424	3,413
EBITDA	933	910
FCF	244	266
Downside sensitivity		
EV/EBITDA	6.2	6.2
X EBITDA	933	910
= EV	5,785	5,642
- CY25E net debt	5,368	5,368
= Equity value	417	274
/ Diluted shares (mm)	99.6	99.6
\$/share	\$4.19	\$2.75
% upside/downside	28.0%	-15.9%
Note: P/FCF	1.7	1.0
Note: Net leverage	5.8	5.9

Source: Bloomberg, WFS, LLC estimates

Priced as of close on 12/18/24

Media/Entertainment 2025

Entertainment Theme #1: Legacy Cable Roll-Up

CMCSA announced on Nov. 20 that it's officially spinning off its linear nets in a tax-free transaction, after hinting the idea ~3 weeks earlier on its earnings call. SpinCo generated ~\$7bn in TTM revenue, and we think EBITDA of ~\$2.1bn incl. ~\$250mm of dissynergies. We est. SpinCo nets are ~\$5/mo in affiliate fees, or ~6% of MVPD programming fees.

SpinCo will incl. MSNBC, CNBC, USA, Oxygen, E!, Syfy and Golf Channel. It'll also incl. digital assets Fandango, Rotten Tomatoes, GolfNow and Sports Engine. Key assets not being spun off are NBC (incl. TV stations), Telemundo, and Bravo. Keeping NBC/Telemundo highlights the importance of sports rights to Peacock, and we think Bravo has solid overlap too.

We expect RemainCo to rerate modestly, and SpinCo to be worth ~\$1.50-\$2/sh assuming 1x net leverage at 4x EV/EBITDA = +L/MSD % share price accretion for CMCSA. We think this is justified as we est. the cable nets are declining at ~10% CAGR (in line with peer assets), implying SpinCo will improve CMCSA's EBITDA CAGR by ~80bps to 3.6%. We think CMCSA may move quickly to move SpinCo to 'assets held for sale' in order to get its financials/outlook restated to the higher growth level of RemainCo.

Exhibit 18 - Legacy Cable Spin Pro Forma Estimates

<i>\$mm except per share CY24E WF estimates</i>	Current CMCSA	Legacy Cable Spin Co.	CMCSA Remain Co.	Combined Companies	% accretion
Connectivity & Platforms	80,710		80,710	80,710	
Legacy cable nets	8,400	7,000	1,400	8,400	
NBC	6,000		6,000	6,000	
Peacock	5,040		5,040	5,040	
Int'l networks	4,292		4,292	4,292	
Other	4,538		4,538	4,538	
Media	28,269		28,269	28,269	
All other C&E	16,284		16,284	16,284	
Content & Experiences	44,553		44,553	44,553	
Corp/overheads	(2,544)		(2,544)	(2,544)	
Total revenue	122,720	7,000	115,720	122,720	0.0%
Connectivity & Platforms	32,824		32,824	32,824	
Legacy cable nets	2,677	2,380	297	2,677	
NBC	600		600	600	
Peacock	(1,880)		(1,880)	(1,880)	
Int'l networks	858		858	858	
Other	908		908	908	
Media	3,163		3,163	3,163	
All other C&E	3,183		3,183	3,183	
Content & Experiences	6,346		6,346	6,346	
Corp/overheads	(1,329)	(250)	(1,079)	(1,329)	
Total Adj. EBITDA	37,842	2,130	35,712	37,842	0.0%
X EV/EBITDA multiple	6.7	4.0	7.1	6.9	2.4%
= Enterprise value	255,000	8,520	252,679	261,199	2.4%
- CY24E net debt	90,208	2,130	88,078	90,208	0.0%
Note: net leverage ratio	2.4	1.0	2.5	2.4	0.0%
= Equity value	164,792	6,390	164,602	170,992	3.8%
/ diluted shares	4,225	4,225	4,225	4,225	
= \$/sh (approx. as of 12/17)	\$39.00	\$1.51	\$38.95	\$40.47	3.8%

Source: Wells Fargo Securities, LLC estimates

SpinCo is a positive for CMCSA, but not a game-changer. We think the bigger implication from the transaction is the precedent + opportunities it might set for WBD and PARA, and whether SpinCo could act as a consolidator of other networks to improve scale.

We think AMCX and LGF's Starz are near-term merger candidates to build scale as they have low leverage and relatively unique prestige dramas that could be seen as complimentary to the mostly non-fiction content of the CMCSA nets. We don't see DIS divesting Linear as those networks represent the core content that's on streaming. PARA and WBD have the biggest linear portfolios,

but the challenge is their debt, and we don't think CMCSA SpinCo shareholders want leverage. Too much debt on a levered asset risks erasing the equity value. PARA/WBD will need to find structures to spin their linear profit centers w/out over-leveraging their potential RemainCos. We contemplate structures below.

WBD could look to spin or sell linear, but it's much more difficult than initial optimism might be implying

WBD announced that it's reorganizing into 2 operating units: streaming & studios and global linear networks. Studios/streaming will focus on growth, while linear will prioritize cash flow generation. WBD's release says that the new structure will “increase optionality” to “pursue further value creation opportunities for both divisions in an evolving media landscape.” We think this is step 1 to future potential strategic M&A.

Following the announcement, Puck News has [reported](#) that it wouldn't be surprised if linear had its own boat (i.e. we think spun off) with a large quantum of debt, which could incl. an investment from PE. Puck thinks big PE shops have already started to kick the tires on this. Puck thinks WBD could follow a similar playbook as AT&T, which offloaded DirecTV to TPG. Puck's 'for instance' example includes PE buying ~30% of linear nets, which would allow WBD to deconsolidate the biz. Another scenario is spinning the linear nets on their own.

On the news, WBD shares closed up +15% (vs S&P -1%) on Dec. 12. WBD's bonds faded as well, implying a higher probability of a spin. However, we think a spin/sale of Linear would be much more challenging than this initial optimism is considering. First, PE buying Linear would be a big check. It's a declining asset and at 4x our CY25E EBITDA of \$6.7bn, PE would be paying \$27bn. We think that's unrealistic, and PE invested in DTV at 3x-4x. Given how fast Media is changing, we think a savvy PE buyer would look to offload this asset at closer to 2-3x, and certainly wouldn't accept net leverage above the purchase multiple.

Second, we think bondholders would need a lot of coaxing and that's another reason that Linear won't travel with a ton of WBD debt. Rather, we think by YE'25, WBD will have delevered Linear further via FCF and may be able to structure 2x leverage at Linear via refinancings at improved terms (e.g., higher coupons, shorter tenors).

This means that WBD RemainCo of Studio/DTC is currently implied at 14x EV/EBITDA assuming Linear could be divested (spun or sold) at 3x with 2x leverage. There is reason to be optimistic that Studios/DTC could be valuable as both a stand-alone and takeout vehicle. But, even using CMCSA's 15x multiple on Sky, it implies to us that much of the M&A potential for WBD is already priced in. We're therefore loath to chase it here as we think a lot has to happen prior to monetization of a separation structure.

Exhibit 19 - WBD Separation Valuation - Pro-Forma & Upside Case

\$mm	WF CY25E Estimates	Currently implied		Upside case	
		Linear PE deal	Studio & DTC	Linear PE deal	Studio & DTC
Networks	7,350	7,350	-	7,350	-
+ Studios	1,945		1,945	-	1,945
+ DTC	1,396		1,396	-	1,396
+ Corp/other	(1,193)	(656)	(537)	(656)	(537)
= Adj. EBITDA	9,498	6,694	2,804	6,694	2,804
X EV/EBITDA	6.1	3.0	13.6	3.0	15.0
= EV	58,228	20,082	38,136	20,082	42,062
- Debt/other (YE'25)	30,194	13,388	16,806	13,388	16,806
Note: ND/EBITDA	3.2	2.0	6.0	2.0	6.0
= Equity value	28,035	6,694	21,330	6,694	25,256
/ diluted shares (mm)	2,470	2,470	2,470	2,470	2,470
= \$/share	\$11.35	\$2.71	\$8.64	\$2.71	\$10.23
		Pro-forma	\$11.35	Pro-forma	\$12.94
		Upside	0.0%	Upside	14.0%

Source: Bloomberg, WFS, LLC estimates

Priced as of close on 12/17/24

We do not think that PARA will be participating in potential cable nets divestitures as quickly as WBD might. For one, we don't think PARA is looking to part w/ CBS or key content centers that sit w/in its

cable nets. DIS kept ABC after its strategic review of linear and CMCSA is keeping NBC too. We think broadcast nets are strategic assets for sports distribution incl. reach convos with leagues.

Second, with Skydance taking over following the expected 1H'25 merger close, we think it'll take time before strategic asset changes are underway. BET/VH1 may still be divested, but it's less clear that a broader portfolio incl. MTV, Comedy Central and Nickelodeon is under strategic review.

Finally, looking at the roll-up potential there is something there. A CMCSA SpinCo + WBD SpinCo—structured each as RMTs—could likely merge tax-free to shareholders. Deals with AMCX and Starz could also be all-stock mergers. The resulting entity might have ~\$18/mo in affiliate fees, which is closer in scale to DIS (though of course lacking major sports). Leverage would be modest at <2x, and at 4x EV/EBITDA the Cable Roll-Up might have ~\$9.5bn in EBITDA and ~\$20bn equity value. WBD's equity is worth \$29bn today and PARA is at \$8bn.

Exhibit 20 - Cable Network Roll-Up - Prospective Valuation

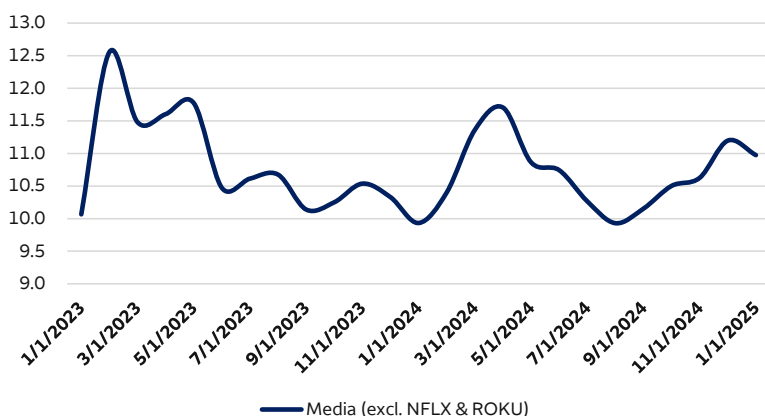
	CMCSA SpinCo	WBD SpinCo	AMCX	LGF Starz	Total Roll-up
US aff. fees, \$/mo	\$5	\$12	\$1	Add-on	\$18
CY25E EBITDA	2,130	6,694	489	200	9,512
X EV/EBITDA	4.0	4.0	4.0	4.0	4.0
= EV	8,520	26,775	1,954	800	38,049
- Debt	2,130	13,388	1,159	600	17,277
Note: ND/EBITDA	1.0	2.0	2.4	3.0	1.8
= Equity value	6,390	13,388	795	200	20,773

Source: WFS, LLC estimates

Entertainment Theme #2: Expect DTC Profits to Continue to Outperform

DTC sector profits have improved throughout '24 across traditional Media peers, and we expect the trend to cont. in '25+. Better DTC profits have dual benefits as estimates move higher + investors are willing to underwrite growthier multiples for the assets. Part of the industry fear of valuing traditional Media on a SOTP basis was the lingering notion that streaming would never turn into a meaningfully profitable business. This thinking is being challenged now, and we believe traditional Media has rerated YTD as a result.

Exhibit 21 - Traditional Media EV/EBITDA (FY+2)



Source: FactSet, WFS, LLC

Comprised of AMCX, DIS, FOXA, PARA, WBD

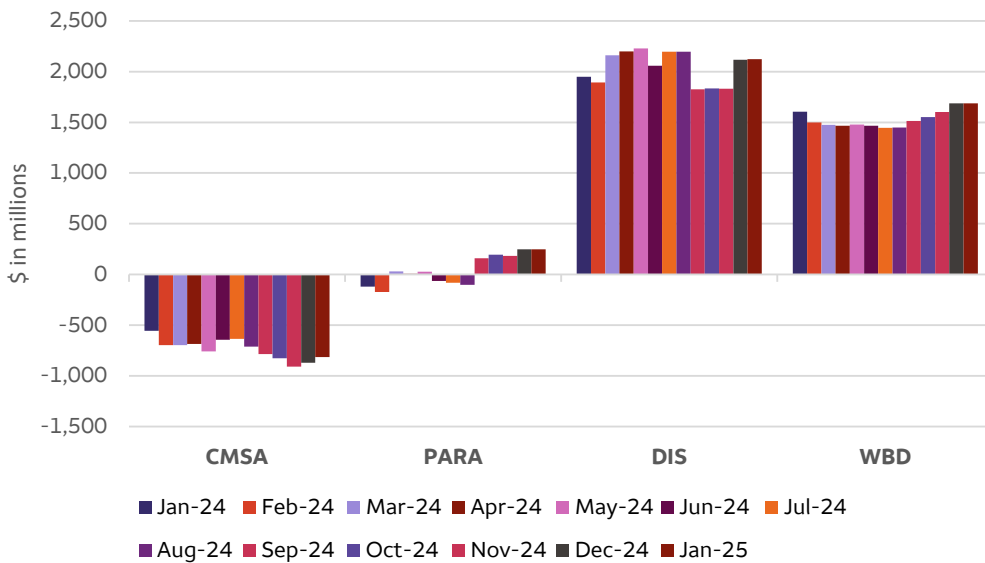
We think much of today's improved outlook on streaming profitability was incepted during the writers strikes, which started May '23 and lasted through late-Sept. '23. Not much new content was being supplied to DTC services and yet by our estimates combined domestic streaming subs for DIS, WBD, PARA, and CMCSA still grew throughout Q3-Q4 w/ total net adds of +4mm and +5mm, respectively. We think Media companies quickly came to the conclusion that less is more. Broadcast scripted content started to return in early '24 with shows like *Abbot Elementary*, but the pace of content cost

growth never returned to pre-strike levels. Not only did content spend get reigned in, but so did G&A and marketing spend (we think to a big degree). The heavy pullback in marketing spend has weighed on ROKU's platform revenue growth.

We call the combined efforts/discipline of the DTC services as 'staying in their lanes' as they stopped chasing the streaming market overall, instead focusing on retaining existing subs and driving higher customer lifetime value.

It took several quarters before the fruits of the labor started to show up in estimates. The big sentiment shift occurred sometime during summer '24, in our view. PARA FY26 DTC OIBDA consensus estimates improved from -\$102mm in Aug. '24 to +\$249mm at present. DIS FY26 OI expectations are currently +16% higher vs. Sept. '24 and WBD's are also +16% higher. Only CMCSA's FY26 DTC estimates are ~unch. at -\$816mm vs. summer. We think this is largely due to CMCSA adding new costs as it outbid WBD for NBA rights w/ undefined revenue. Though we think CMCSA will exceed these tempered expectations as it grows subs and has more pricing power driven by sports. We think it'll also pull back on general ent. spend around the edges.

Exhibit 22 - FY26 Consensus DTC Profit Estimates at Various Dates



Source: Visible Alpha

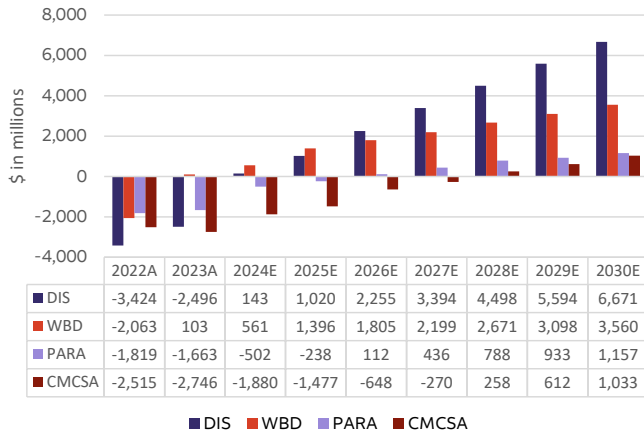
The exhibits below showcase how traditional Media DTC peers are expanding profits/margins and to what extent. For example, we think DIS will hit \$3bn+ in DTC OI by FY27E and drive a 14% margin excl. Hulu + Live TV. Recall DIS guidance is for 10% DTC margins excl. Hulu Live in FY26. Our ests. could prove to be conservative as the benefits of password sharing are not yet clear for DIS + it still has a solid runway for price increases, in our view. There's a lot of price elasticity in its subscriber base w/ its content geared towards kids/family/sports.

Subscribers are no longer being chased at all costs. PARA and WBD are still striking hard bundle deals. These subs come w/ low ARPU, but also w/ low SAC. The result is profit accretion, and we think why WBD has been able to reach DTC profitability in several international markets despite not much duration since launches.

Overall, we expect DTC revenue for the 4 traditional Media peers (i.e. DIS, CMCSA, PARA, and WBD) to grow double digits through at least FY26. Meanwhile, we project total costs incl. content, tech, marketing, and overhead to grow just +L/MSD % in each year through FY30. To drive the point home on operating leverage: we expect cumulative FY26 DTC revenue for these peers to be +59% higher vs. FY22 vs. costs up just +16% over the same course. This drives our total DTC profit estimates for these peers of \$3.5bn in FY26 vs. -\$10bn of losses in FY22.

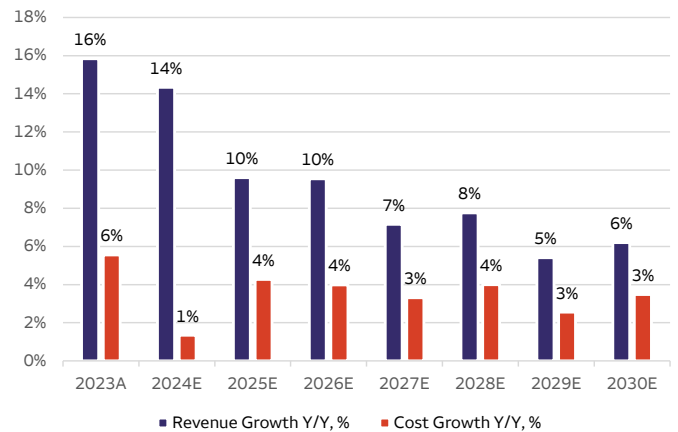
Lastly, we think drivers of future positive est. revisions will come from bigger platform integrations (i.e., DTC app aggregation). We think these convos are in the works as PARA's S-4 disclosed that it was contemplating going back to a licensing strategy internationally.

Exhibit 23 - Traditional Media DTC Profit Expectations



Source: Company reports, Wells Fargo Securities, LLC estimates

Exhibit 24 - DIS, CMCSA, WBD, & PARA Total DTC Revenue/Cost Growth



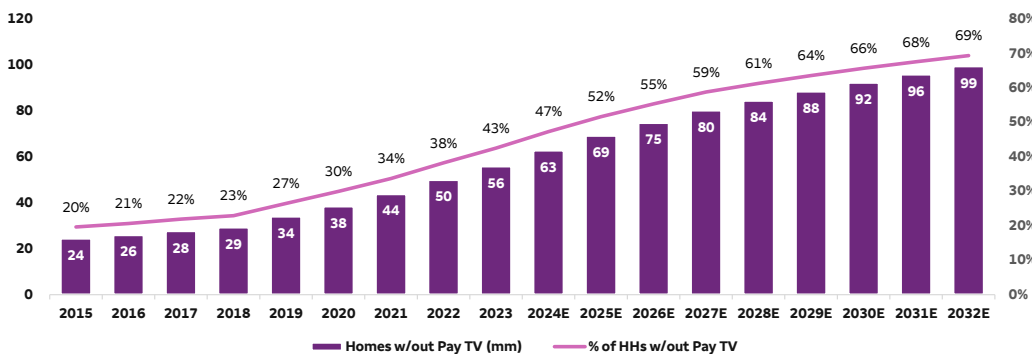
Source: Company reports, Wells Fargo Securities, LLC estimates

Key Entertainment Theme #3: More Sports in Streaming

We're bullish on the market size and monetization potential of sports in streaming. Our overly simplistic bull case is that it's mostly incremental and provides another distribution mechanism of monetizing sports rights. We also think investors generally take the view that all sports fans are in the bundle, i.e. the incremental streaming opportunity is insignificant.

Broadband penetration in the US outpaces any other service except for mobile phones, so there's no real physical limitation to reach from sports rights moving more aggressively into streaming. All sports in streaming would provide access to the roughly 65mm households (and growing) that have either already cut the cord or never had pay TV to begin with. We think it's unreasonable to suggest that none of these households are interested in sports. These consumers present a big market opportunity for ESPN DTC and FOXA, in our view.

Exhibit 25 - Households Without Pay TV



Source: Company reports, Wells Fargo Securities, LLC estimates

ESPN Flagship brings 35%-40% of sports viewership to DTC

Next year will go down as the year when the majority (and possibly all) of sports will be available on streaming, culminating with the launch of ESPN Flagship in fall '25. We think the long-anticipated launch of ESPN DTC will effectively make 85% of US sports rights available via streaming. This lone wolf without an announced sports DTC strategy is FOXA, but we think it has options that it'll pursue (which we explore later).

DIS brings to market 35%-40% of sports viewership based on its internal metrics. Our US sports rights database draws similar conclusions. We think DIS owns roughly a third of major US sports rights when excl. *Sunday Ticket*, which is effectively a redistribution package for out of market NFL games.

Below we examine how large the opportunity for sports in streaming is, and the potential industry ramifications (on both linear and streaming) of moving all sports to à la carte offerings. We later consider potential implications if FOXA were to begin DTC distribution of its sports rights.

Exhibit 26 - Major U.S. Sports Rights Distributors

\$mm	CY25E						Rights TOTAL	% of total					
	NFL	CFB	NBA	MarMad	MLB	NHL		NFL	CFB	NBA	MarMad	MLB	NHL
CMCSA	1,607	341	1,975	-	-	-	3,923	18%	12%	35%	0%	0%	0%
DIS	2,579	1,457	2,050	-	551	399	7,037	29%	50%	36%	0%	29%	64%
FOXA	1,855	722	-	-	730	-	3,307	21%	25%	0%	0%	39%	0%
PARA	1,678	372	-	463	-	-	2,513	19%	13%	0%	50%	0%	0%
WBD	-	50	-	463	507	226	1,246	0%	2%	0%	50%	27%	36%
NFLX	155	-	-	-	-	-	155	2%	0%	0%	0%	0%	0%
ROKU	-	-	-	-	10	-	10	0%	0%	0%	0%	1%	0%
Media Companies	7,875	2,942	4,025	925	1,798	625	18,191	88%	100%	71%	100%	96%	100%
AAPL	-	-	-	-	84	-	84	0%	0%	0%	0%	4%	0%
AMZN	1,041	-	1,615	-	-	-	2,656	12%	0%	29%	0%	0%	0%
Tech Companies	1,041	-	1,615	-	84	-	2,740	12%	0%	29%	0%	4%	0%
Total national rights, excl. RSN/ST	8,916	2,942	5,640	925	1,882	625	20,931	100%	100%	100%	100%	100%	100%
GOOGL - Resi Sunday Ticket	1,893	-	-	-	-	-	1,893	17%	0%	0%	0%	0%	0%
DTV - Comm'l Sunday Ticket	178	-	-	-	-	-	178	2%	0%	0%	0%	0%	0%
Total rights	10,986	2,942	5,640	925	1,882	625	23,001	100%	100%	100%	100%	100%	100%
Peacock (CMCSA)	1,607	341	1,975	-	-	-	3,923	18%	12%	35%	0%	0%	0%
Paramount+ (PARA)	1,678	372	-	463	-	-	2,513	19%	13%	0%	50%	0%	0%
Netflix (NFLX)	155	-	-	-	-	-	155	2%	0%	0%	0%	0%	0%
Max (WBD)	-	50	-	463	507	226	1,246	0%	2%	0%	50%	27%	36%
Roku (ROKU)	-	-	-	-	10	-	10	0%	0%	0%	0%	1%	0%
Amazon Prime (AMZN)	1,041	-	1,615	-	-	-	2,656	12%	0%	29%	0%	0%	0%
Apple TV+ (AAPL)	-	-	-	-	84	-	84	0%	0%	0%	0%	4%	0%
DTC sports rights, current	4,481	763	3,590	925	601	226	10,587	50%	26%	64%	100%	32%	36%
ESPN Flagship	2,579	1,457	2,050	-	551	399	7,037	29%	50%	36%	0%	29%	64%
DTC Sports YE'25E	7,060	2,220	5,640	925	1,152	625	17,624	79%	75%	100%	100%	61%	100%

Source: Company reports, Puck News, Sports Business Journal, Wells Fargo Securities, LLC estimates

Sizing the market opportunity for ESPN Flagship

We think recent NFL data from NBCU and Peacock offer some guideposts on the level of incremental (i.e., outside of pay TV) subs that Peacock has attracted. CMCSA's NBCU reported that 29.2mm viewers watched the NFL *Kickoff Game*, and 22.7mm viewed the first week of *Sunday Night Football* across all of its platforms. Peacock average minute viewers were 4.6mm for the NFL *Kickoff Game* and 2.8mm for Week 1 of *Sunday Night Football*, implying pay TV viewership of 24.6mm and 19.9mm, respectively. This implies 14% of CMCSA's NFL viewership is streaming.

Average pay TV viewers across the 2 games were 22.3mm which represents 32% penetration of the ~70mm pay TV subscribers. Average Peacock viewers were 3.7mm and implies penetration of 11% based on average Q2/Q3 Peacock subs of ~34mm. The ~4mm subs watching NFL on Peacock are incremental to linear, in our view. We think hybrid subs w/ pay TV prefer watching on linear.

Importantly, the ~4mm subs referenced is just from the NFL and doesn't capture Peacock's other sports properties, notably the English Premier League, WWE, some Big Ten, Olympics, Golf, and eventually the NBA next year.

Exhibit 27 - Peacock, Implied Sports Households

	Pay TV	Peacock	Total
NFL Kickoff Game, Viewers, mm	24.6	4.6	29.2
<i>% of total viewers</i>	<i>84%</i>	<i>16%</i>	
SNF Week 1, Viewers, mm	19.9	2.8	22.7
<i>% of total viewers</i>	<i>88%</i>	<i>12%</i>	
Subscribers, mm	70.0	34.0	104.0
Average NFL viewers	22.3	3.7	26.0
<i>Viewership penetration</i>	<i>32%</i>	<i>11%</i>	<i>25%</i>
Sports households, mm	50.0	8.3	58.3
<i>Viewership penetration</i>	<i>45%</i>	<i>45%</i>	<i>45%</i>
<i>% of subscribers</i>	<i>71%</i>	<i>24%</i>	<i>56%</i>

Source: Company reports, Wells Fargo Securities, LLC estimates

Another way of interpreting the data is by leveraging our work on the number of sports households within linear (i.e., pay TV) bundles. We think there are about 50mm sports HHs that have pay TV, implying NFL's linear penetration in the US at 45%. If we assume similar penetration on streaming, which essentially captures all other sports fans excl. NFL, it implies 8mm sports subscribers on Peacock. This suggests that Peacock's sports rights have 14% penetration of the ~60mm cord cutter/never households.

What can also be inferred is that roughly a fourth of Peacock's subscribers are interested in sports. Considering that CMCSA owns ~\$5bn of US sports rights (incl. Olympics) and w/ DIS's portfolio being ~2x the size at ~\$10bn, we think the incremental subscriber opportunity for DIS sports in streaming is >8mm. Grossing up CMCSA's sports rights vs. DIS by ~2x, we think there might be close to 15mm subs outside of pay TV (roughly a fourth of cord cutters/never) that are interested in sports DTC.

ESPN Flagship market size incl. impact on pay TV

Below, we est. the potential impact on pay TV subs resultant of the Flagship launch and how many of the existing cord cutter households we expect the service to capture. We think ESPN DTC could reach 12mm subs by 2027 and 17mm by 2030, which is similar to our prior assumptions for Venu. The vast majority of potential Flagship subs sit outside of pay TV, and will be mostly incremental, in our view. We est. Flagship will have an additional -1.5% impact on cord cutting p.a. implying ~2mm pay TV subs will cut the cord in favor of ESPN DTC by 2027 and ~4mm by 2030.

Exhibit 28 - ESPN Flagship Est. TAM and Subscribers

	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<u>Current Estimates</u>								
US households, mm	131.5	132.8	134.0	135.0	136.4	137.7	139.1	140.5
Pay TV HHs, mm	75.6	70.0	65.0	60.6	56.6	53.9	51.2	48.8
Subscriber losses, mm	-5.2	-5.6	-5.1	-4.4	-3.9	-2.8	-2.6	-2.5
Cord cutting, %	-6.5%	-7.4%	-7.2%	-6.8%	-6.5%	-4.9%	-4.8%	-4.9%
<u>ESPN Flagship impact</u>								
Pay TV HHs, mm	75.6	70.0	64.7	59.3	54.6	51.1	47.9	44.8
Subscriber losses, %	-6.5%	-7.4%	-7.2%	-6.8%	-6.5%	-4.9%	-4.8%	-4.9%
<u>ESPN Flagship impact</u>	<u>0.0%</u>	<u>0.0%</u>	<u>-0.4%</u>	<u>-1.5%</u>	<u>-1.5%</u>	<u>-1.5%</u>	<u>-1.5%</u>	<u>-1.5%</u>
Subscriber losses, total, %	-6.5%	-7.4%	-7.6%	-8.3%	-8.0%	-6.4%	-6.3%	-6.4%
ESPN DTC subs from Pay TV, mm	0.0	0.0	0.3	1.2	2.0	2.7	3.4	3.9
Net adds from Pay TV, mm		0.0	0.3	1.0	0.8	0.7	0.6	0.6
Cord Cutters/Nevers, mm	55.9	62.8	69.0	74.5	79.7	83.9	87.9	91.7
Peacock, NFL subscribers, mm	3.4	4.2	5.0	5.4	5.8	6.0	6.3	6.5
ESPN rights portfolio vs CMCSA	<u>2.2</u>	<u>2.2</u>	<u>2.2</u>	<u>2.2</u>	<u>2.2</u>	<u>2.2</u>	<u>2.2</u>	<u>2.2</u>
ESPN Flagship TAM outside Pay TV, mm		9.3	10.9	11.9	12.8	13.3	13.8	14.2
% captured		<u>0%</u>	<u>25%</u>	<u>65%</u>	<u>80%</u>	<u>85%</u>	<u>90%</u>	<u>90%</u>
ESPN DTC subs, existing cord cutters, mm		0.0	2.7	7.7	10.2	11.3	12.4	12.8
Subs from Pay TV	0.0	0.0	0.3	1.2	2.0	2.7	3.4	3.9
Existing cord cutter sign ups	<u>0.0</u>	<u>0.0</u>	<u>2.7</u>	<u>7.7</u>	<u>10.2</u>	<u>11.3</u>	<u>12.4</u>	<u>12.8</u>
ESPN Flagship subs, mm	0.0	0.0	3.0	8.9	12.3	14.0	15.8	16.8
ESPN Flagship net adds, mm		0.0	3.0	5.9	3.4	1.8	1.7	1.0

Source: Company reports, Wells Fargo Securities, LLC estimates

ESPN Flagship impact on ESPN Domestic revenue

We then used our Flagship sub estimates to reconstruct a model for ESPN Domestic revenue. We think ESPN Flagship will launch with a price point of \$22.99/mo as we don't think DIS wants to premiumize the offering. We think pricing might have been higher if Venu were to launch, but now that's uncertain after the preliminary injunction. We expect DIS to promote annual plans for Flagship to limit churn associated with end-of-seasons (e.g., after NFL concludes in winter). This will be key to the revenue algo, in our view. Below we show an illustrative example of what DIS's ESPN Domestic revenue could look like if Flagship were to reach mid-teens million subs by the end of the decade. We think there could be +M/HSD % upside to our published revenue estimates if Flagship hits this scale. Our assumptions include:

1. No add'l linear sub losses, our model already assumes out-year cord cutting of -10%;
2. ESPN Flagship launches at \$22.99/mo;
3. Flagship hits 11mm avg. subs by FY27E w/ ~80% being incremental;
4. Est. Flagship Ad ARPU/sub/mo = linear at ~\$5/mo in FY26;
5. Only assuming incr. ad revenue from Flagship subs outside pay TV;
6. Expect ESPN+ revenue to be fully absorbed by Flagship by FY27E

Exhibit 29 - ESPN Domestic Revenue incl. Flagship

ESPN Domestic incl. Flagship Impact	FY23A	FY24A	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Affiliate fees - Domestic ESPN, \$mm	9,267	9,131	8,879	8,613	8,182	7,773	7,384	7,015
Pay TV subs, average mm	78.2	72.8	67.5	62.8	58.6	55.2	52.6	50.0
Sports affiliate fee/mo/sub, \$	\$9.88	\$10.45	\$10.96	\$11.44	\$11.64	\$11.72	\$11.71	\$11.69
ESPN Flagship, average subs, mm	0.0	0.0	1.5	6.0	10.6	13.2	14.9	16.3
ARPU/mo/sub, \$	\$0.00	\$0.00	\$22.99	\$25.29	\$27.82	\$30.60	\$33.66	\$37.03
ESPN Flagship distro revenue, \$mm	0	0	34	1,806	3,537	4,831	6,020	7,225
Linear Ad ARPU/mo, \$mm	\$3.64	\$4.31	\$4.92	\$5.19	\$6.58	\$6.29	\$6.81	\$7.38
ESPN Flagship subs, excl. from Pay TV, mm	0.0	0.0	1.4	5.2	9.0	10.8	11.8	12.6
Advertising ESPN Flagship, \$mm	0	0	7	325	709	813	968	1,116
Subscription fees, ESPN+	1,517	1,650	1,777	1,866	1,959	2,057	2,160	2,268
Absorbed by ESPN Flagship	0%	0%	0%	50%	100%	100%	100%	100%
Subscription fees, ESPN+, \$mm	1,517	1,650	1,777	933	0	0	0	0
Advertising, ESPN Linear, \$mm	3,413	3,763	3,986	3,907	4,627	4,168	4,296	4,427
Other, \$mm	748	795	910	910	910	910	910	910
ESPN, Domestic Revenue, \$mm	14,945	15,339	15,593	16,494	17,965	18,495	19,578	20,693
Y/Y, \$		394	254	901	1,471	530	1,083	1,115
Y/Y, %		2.6%	1.7%	5.8%	8.9%	3.0%	5.9%	5.7%
ESPN, Domestic Revenue, \$mm (Published est)			15,571	16,227	17,492	17,509	18,094	18,736
Potential upside vs published model, %			0.1%	1.6%	2.7%	5.6%	8.2%	10.4%

Source: Company reports, Wells Fargo Securities, LLC estimates

As can be seen, there's a lot of potential upside to ESPN Domestic OI estimates if our out-of-consensus view is correct that sports in streaming has a big and incremental TAM. Our upside revenue potential incl. Flagship is ~\$500mm higher in FY27E and ~\$1bn higher in FY28E vs. our published estimates. These revenues come w/ very high incremental margins as there's virtually no additional cost from Flagship (i.e., sports rights are fixed). The only incremental costs we expect are tech and marketing, which we guesstimate at \$250mm in FY26 (DIS said it wouldn't be material, and keep it mind it owns a lot of streaming tech via BamTech and Disney+/Hulu).

The difference between our potential upside ESPN Domestic OI estimates incl. Flagship vs. our published ests. are ~\$200mm in FY27E and \$1.1bn in FY29E. We don't think DIS would run Flagship this hard, and would likely cap the incremental upside and look to reinvest the incremental profits in more sports rights, tech, and/or marketing. Assuming DIS capped Flagship OI upside at an illustrative 10% above our published OI ests. in any given year, we think it could result in an extra \$2bn of investment capacity by FY30E.

Exhibit 30 - ESPN Domestic P&L Incl. Flagship

	FY23A	FY24A	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
ESPN, Domestic Revenue, \$mm	14,945	15,339	15,593	16,494	17,965	18,495	19,578	20,693
Y/Y, \$		394	254	901	1,471	530	1,083	1,115
Y/Y, %		2.6%	1.7%	5.8%	8.9%	3.0%	5.9%	5.7%
Programming and Production	-10,221	-10,435	-10,957	-11,485	-12,545	-12,447	-12,945	-13,462
Y/Y, \$		-214	-522	-529	-1,059	98	-498	-518
Y/Y, %		2.1%	5.0%	4.8%	9.2%	-0.8%	4.0%	4.0%
Other Operating Expense	-630	-682	-688	-709	-730	-752	-775	-798
Y/Y, \$		-51	-7	-21	-21	-22	-23	-23
Y/Y, %		8.1%	1.0%	3.0%	3.0%	3.0%	3.0%	3.0%
SG&A	-1,149	-1,132	-1,060	-1,137	-1,166	-1,195	-1,225	-1,255
Y/Y, \$		17	73	-78	-28	-29	-30	-31
Y/Y, %		-1.4%	-6.4%	7.3%	2.5%	2.5%	2.5%	2.5%
ESPN Flagship - SG&A/Other	0	0	-50	-250	-300	-350	-400	-450
Y/Y, \$		0	-50	-200	-50	-50	-50	-50
Y/Y, %		NA	NA	NA	20.0%	16.7%	14.3%	12.5%
Depreciation & amortization	-64	-34	-40	-41	-45	-45	-46	-48
ESPN Dom. OI incl. Flagship (Upside), \$mm	2,881	3,056	2,798	2,870	3,179	3,706	4,188	4,679
Margin, %	19.3%	19.9%	17.9%	17.4%	17.7%	20.0%	21.4%	22.6%
Upside vs current OI est. %	0.0%	0.0%	0.8%	0.6%	5.8%	20.7%	34.9%	47.5%
ESPN Domestic OI, Published est., \$mm	2,881	3,056	2,776	2,853	3,006	3,070	3,103	3,172
Upside capped at 10%	0.0%	0.0%	0.8%	0.6%	5.8%	10.0%	10.0%	10.0%
DTC upside capped @ 10% vs current, \$mm	2,881	3,056	2,798	2,870	3,179	3,377	3,414	3,490
ESPN Dom. OI incl. Flagship (Upside), \$mm	2,881	3,056	2,798	2,870	3,179	3,706	4,188	4,679
<u>DTC upside capped @ 10% vs current, \$mm</u>	<u>-2,881</u>	<u>-3,056</u>	<u>-2,798</u>	<u>-2,870</u>	<u>-3,179</u>	<u>-3,377</u>	<u>-3,414</u>	<u>-3,490</u>
Incr. Investment Capacity	0	0	0	0	0	329	774	1,190
Cumm. Incr. Investment Capacity	0	0	0	0	0	329	1,103	2,293

Source: Company reports, Wells Fargo Securities, LLC estimates

Estimates are illustrative and assume Flagship hits ~15mm subs

While we think Flagship revenues will drive very high incremental margins, we think it's worthwhile to construct a standalone P&L for the service since it'll absorb its portion of ESPN rights costs. We assume the amount of sports content amortized on Flagship will be commensurate to the amount that Flagship contributes to ESPN's total domestic distribution revenue. For example, we est. Flagship will account for 26% of ESPN's domestic distro in FY27E and used that as the amortization ratio to get to ~\$3bn in rights amort. Including the modest incremental SG&A, we think Flagship will generate ~\$200mm of OI in FY26E. Recall DIS's guidance is for Sports OI to increase +LSD% in FY26. Our illustrative OI incl. Flagship implies is +3% y/y growth vs. our published model. Our out-year model includes Flagship could be operating at a mid-teens % margin by FY27E and low-20% in FY29E.

Exhibit 31 - ESPN Flagship Illustrative P&L

ESPN Flagship P&L	FY23A	FY24A	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
ESPN Flagship distro revenue, \$mm	0	0	34	1,806	3,537	4,831	6,020	7,225
Advertising ESPN Flagship, \$mm	0	0	7	325	709	813	968	1,116
Revenue, \$mm	0	0	41	2,131	4,246	5,644	6,988	8,341
Y/Y, \$		0	41	2,090	2,115	1,398	1,345	1,353
Y/Y, %		NA	NA	5094.2%	99.3%	32.9%	23.8%	19.4%
ESPN Domestic Programming & Production	-10,221	-10,435	-10,957	-11,485	-12,545	-12,447	-12,945	-13,462
ESPN Flagship % of distro revenue	0%	0%	0%	15%	26%	33%	39%	44%
ESPN Flagship Programming & Production	0	0	-35	-1,689	-3,244	-4,101	-5,007	-5,892
ESPN Flagship - SG&A/Other (incremental)	0	0	-50	-250	-300	-350	-400	-450
Depreciation & amortization	0	0	0	-6	-12	-15	-18	-21
ESPN Flagship DTC Operating Income, \$mm	0	0	-44	186	690	1,178	1,564	1,978
Margin, %	NA	NA	-107.9%	8.7%	16.3%	20.9%	22.4%	23.7%

Source: Company reports, Wells Fargo Securities, LLC estimates

Considerations for FOX Sports in Streaming

Lastly, we think FOXA is also in the bunker strategizing its sports DTC strategy. In all circumstances, we think FOXA's considerations start with a capital light model. After observing the capital intensive DTC startup launches from its peers, we don't think FOXA is contemplating its own launch. Upfront SAC w/ low revenue visibility is a model that's too onerous for FOXA's conservative pallet, in our view.

We think FOXA is interested in alternate distribution mechanisms but not at the expense of diminishing its brand. What we mean is that we don't think FOX is simply willing to license its content, and for it to be repackaged and sold by another aggregator/distributor or even publisher (i.e., ESPN). We think FOX branding is important to the mgmt team. Structures that we think could bring FOX over the line incl. big tech such as AMZN expanding on its Amazon Channels offering. YouTube distributes *Sunday Ticket*, and this is another model for FOX Sports. ROKU and Apple TV+ are also neutral streaming distributors.

We expect FOXA to announce a sports streaming strategy in calendar 1H'25, and it's a key reason we remain bullish on the name.

Eventually, we think ESPN Flagship could incl. a branded FOX tile, similar to how ESPN exists on Disney + today. We think sports streaming aggregation will benefit the consumer experience, churn and monetization, but sports rights frienemies will take time to coalesce rights.

FOX currently generates \$7/mo/sub within pay TV bundles (excl. reverse comp from affiliates), and we think pricing would be well above that for the consideration to have merit. Fox News is a strategic asset after all. If FOXA were to take this approach, virtually 100% of sports would be available in streaming, and certainly the ones w/ the highest viewership incl. NFL, college football, NBA, NHL, and MLB.

At \$10/mo+, and incl. some take-rate from a streaming distribution partner like Amazon or YouTube (though we think the take rate would be well below the often-quoted 30% given the strategic benefits to all of Fox Sports), Fox Sports in streaming would offer the same benefits as ESPN Flagship. We see millions of potential incremental subs at high ARPU/margins, and limited impact on the bundle at this price.

Entertainment Theme #4 - Higher AVOD Monetization & Core/Linear Ads Still Challenged

We expect increased AVOD monetization in '25 driven by 3 key themes:

1. More subs on ad-supported tiers;
2. Increased fill rates/sell out; slightly offset by;
3. Flat to declining CTV CPMs.

Cont. industry shift to ad-supported tiers

Consumers showed signs of pivoting to lower priced ad tiers in '24, and we expect the trend to cont. in '25. Most DTC companies raised prices this past year as there's been a big emphasis on generating profits driven by pricing growth and cost efficiency following the writers strikes in late '23. Cumulative pricing of the top 6 DTC services is currently ~\$94/mo for the ad free plans, which is 1.8x higher when compared to ad tier plans at ~\$53/mo. We expect this ratio to hold, if not increase slightly, as advertising monetization improves in '25.

Price/value ratio of ad plans is increasing in lockstep as there are no differences in content between plans. NFLX will deliver and estimated \$2.4bn of content value (i.e., amortization) in '25 for each subscription dollar it charges for its ad plan in the US vs. \$1.1bn on ad free. Disney+, Max, Peacock, and Paramount+ will deliver on average \$628mm of content for each ad-tier subscription dollar vs. \$377mm for ad free. It's worth noting that actual content value on traditional Media DTC services is likely higher as a high percentage of theatrical titles are amortized at their respective studios segments, but drive solid DTC engagement/monetization.

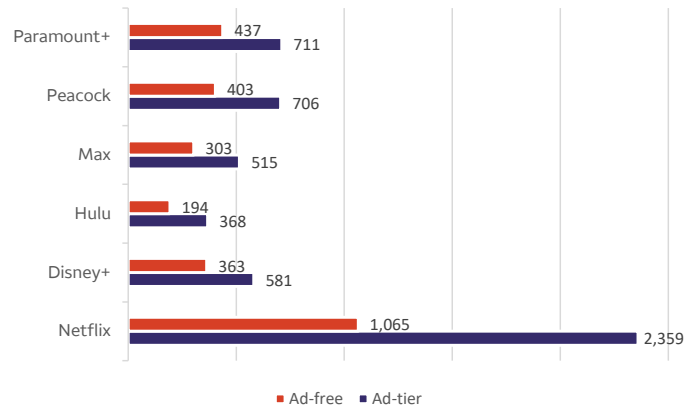
Lastly, we expect the ongoing password sharing crackdowns to drive gross subscriber additions with a skew to ad-supported. We think the remaining cohort of password sharers is more price inelastic. DIS expects password sharing to gain momentum in FY25 w/ each quarter being incrementally stronger. We expect a big focus on password sharing for bundled domestic Disney+ subs, which we think comprise nearly half of domestic subscribers. Max says it started "gentle" messaging in mid-Dec. We think each incremental sub has very high incremental margins (i.e., ~70%). This is a big driver of future DTC profitability.

Exhibit 32 - US Streaming Prices Per Month



Source: Company reports
DTC prices as of 12/18/24

Exhibit 33 - Content Amortization per US Subscription Price/Mo, \$mm



Source: Company reports, Wells Fargo Securities, LLC estimates
Based on DTC prices as of 12/18/24

Of the top 6 DTC services (i.e., Netflix, Disney+, Hulu, Peacock, Max, and Paramount+), we est. 151mm or ~50% of domestic subscribers to be on ad-supported plans at the end of '25 vs. 133mm or 45% at the end of '24 and 90mm or 35% at the end of '23. We est. 20mm or 23% of NFLX's domestic subs to be on its ad tier by the end of '25 vs. 17% in '24 and just 5% in '23. We think NFLX's global ad-based MAUs will hit 100mm in '25 vs. ~72mm at YE '24 (NFLX disclosed 70mm in mid-Nov.). On our recent Bus Tour, our NFLX meeting focused on '25 as being a major investment/growth year for advertising capabilities.

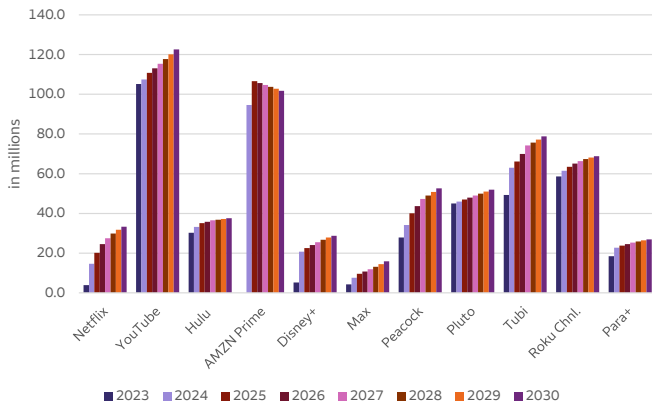
Our current model for Disney+ only anticipates +2mm domestic ad-supported net adds in '25. Though we expect this forecast to move up as password sharing benefits crystalize and gain momentum each quarter throughout FY25. DIS disclosed that 37% of domestic subs are on ad-supported plans (which we think includes ~9mm CHTR wholesale subs). We est. 23mm or ~40% of subs on the ad plan by YE '25 vs. just 11% in '23. We think DIS has some of the best technology for monetizing AVOD, so it has added incentive to push subs to the ad supported tiers. ESPN Flagship should extend this strategy given the attractiveness of live sports ads.

Max by our estimates will end '24 with 25% of its domestic subs on the ad tier, and we expect +500bps of expansion in '25 to 30%. This translates to 10mm domestic ad supported subs by YE '25.

Importantly, we strip out HBO linear and discovery+ subs from WBD's reported domestic DTC subs. Our est. implies ~30mm Max DTC subs in '24.

Lastly, we don't expect meaningful shifts in Hulu's sub mix with roughly 70% already on the ad tier. We also think Peacock skews heavily to ad-supported plans, as high as 80% of subs. Peacock was initially free for Xfinity subs, and we think a high % of migrating subs opted for the ad tier. We also think Peacock subs over-index to sports (e.g., *Sunday Night Football*, EPL, and WWE), which run ads alongside the content, regardless of tier. We think Paramount+ has ~60% of subs on the ad-tier.

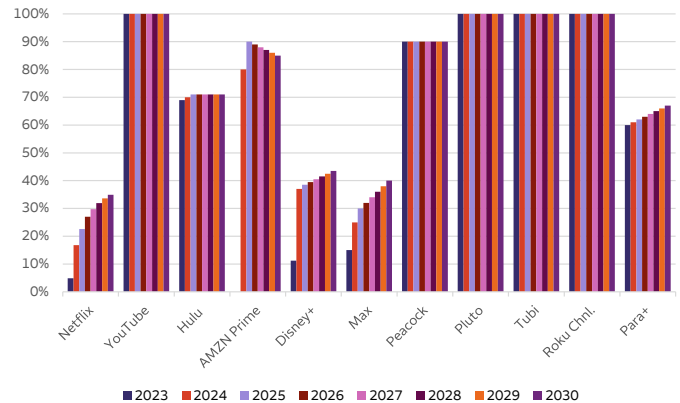
Exhibit 34 - U.S. Ad-Supported Subs/MAUs



Source: Company reports, Wells Fargo Securities, LLC estimates

In millions, all periods are estimates, YT is excl. YT Premium

Exhibit 35 - Percentage of U.S. Subscribers/MAUs on Ad-Supported Tier



Source: Company reports, Wells Fargo Securities, LLC estimates

All periods are estimates, YT is excl. YT Premium

Fill rates to increase

We think CTV sell through rates will be higher in '25 as peers chase Hulu's industry-leading fill rates of ~80%. Eyeballs are increasingly shifting to CTV, and now it's all about filling the growing ad inventory. We estimate overall hours streamed in the US are on pace to increase +10% in '24 to 210bn hours. We forecast +7% growth in '25 to 224bn hours driven by flat TV engagement at ~5 hours per day per household, and conservatively est. +200bps share gains by streaming. For reference, the latest Nielsen data from The Gauge through Oct. shows that streaming increased market share by +390bps y/y in Oct. '24.

Of the top 6 streamers we cover (i.e., Netflix, Disney+, Hulu, Max, Peacock, and Paramount+), we expect overall streaming hours to increase +7% in '25, while we est. ad-supported viewing on these services to increase roughly 2x that pace w/ more subs on ad tiers. Higher monetizable impressions are the direct result, which we expect to increase +22% in 2025 to 463bn vs. ~20% growth in 2024. The well-known issue throughout '24 has been filling the growing inventory supply within CTV.

Numerous companies have announced programmatic partnerships w/ DSPs like TTD, Google and Magnite. We think '25 is positioned much stronger as '24 laid the foundation with numerous DSP integrations. At the upfronts in May, Netflix announced that it was expanding its DSP relationships beyond MSFT's Xandr, by adding The Trade Desk and DV360. DIS announced integrations w/ both partners back in Mar. '24 and ROKU announced on its Q2 call that it would integrate TTD's UID 2.0. TTD had some access to ROKU inventory before that, but we don't think in meaningful volume. The biggest publishers are now plugged into the biggest DSPs. We think marketers will be able to reach campaign objectives w/ less DSPs as more supply is available. Benefits incl. centralized campaign measurement w/ consistent reporting, cost efficiency for advertisers (i.e., tech fees/service charges), better audience targeting w/ unified data utilization, and frequency capping. We expect the better consolidation of 1P and 3P data to improve audience segmentation and accuracy.

Exhibit 36 - US Streaming Advertising Summary, 2025E

	Netflix	YouTube	Hulu SVOD	AMZN Prime	Disney+	Max	Peacock	Pluto	Tubi	Roku Chnl.	Paramount+
TV time spent/month/HH (bn)	540.6	540.6	540.6	540.6	540.6	540.6	540.6	540.6	540.6	540.6	540.6
x Share of TV	8.3%	10.4%	2.9%	3.3%	2.2%	1.4%	1.5%	0.8%	1.9%	1.5%	1.1%
= Streaming hrs/mo./HH (bn)	44.9	56.2	15.7	17.8	11.6	7.3	8.0	4.4	10.1	8.4	6.2
÷ Domestic subs, average, mm	88.2	109.1	48.4	118.4	57.3	31.0	41.3	46.5	64.6	62.5	37.8
÷ Days	365.0	365.0	365.0	365.0	365.0	365.0	365.0	365.0	365.0	365.0	365.0
x Minutes per hour	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0
x 1000	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
= Streaming mins/day/HH	83.7	84.7	53.2	24.7	33.4	38.8	31.9	15.5	25.6	22.0	26.9
÷ Minutes per hour	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0
÷ Advertising minutes per hour	4.0	10.2	7.6	3.3	4.4	4.7	5.4	14.1	5.2	8.2	8.2
÷ Ad spots per minute	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
= Ad impressions/day/HH	13.0	33.1	15.5	3.1	5.6	7.0	6.5	8.4	5.1	6.9	8.4
x Ad-supported subs, average, mm	17.4	109.1	34.1	100.6	21.6	8.6	37.1	46.5	64.6	62.5	23.2
x Days	365.0	365.0	365.0	365.0	365.0	365.0	365.0	365.0	365.0	365.0	365.0
= Ad impressions/year, mm	82,334.8	1,319,330.8	192,602.9	114,715.6	44,507.2	21,950.5	88,702.1	142,252.0	120,252.7	156,720.5	71,475.4
x Sellout	60%	80%	80%	70%	75%	75%	80%	65%	65%	60%	75%
= Filled ad impressions/year, mm	49,400.9	1,055,464.6	154,082.3	80,300.9	33,380.4	16,462.9	70,961.7	92,463.8	78,164.3	94,032.3	53,606.6
÷ Advertising revenue, \$mm	1,056.6	10,076.9	2,687.2	1,400.0	919.2	526.3	2,381.4	1,384.9	998.4	1,412.1	948.0
x Cost per mille (1000)	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
= Implied CPM, \$	\$21.4	\$9.5	\$17.4	\$17.4	\$27.5	\$32.0	\$33.6	\$15.0	\$12.8	\$15.0	\$17.7

Source: Nielsen, Company reports, Wells Fargo Securities, LLC estimates

Above we incl. our advertising matrix for '25 w/ expected sell out rates for various services. As noted earlier, we think Hulu has best-in-class sell through at ~80% driven by ad-supported subscriber scale + early-mover advantages. ROKU has vocally said its fill rate is <50%, and we expect partnerships like with TTD to increase its fill rate to 60%. We expect Max, Peacock, Disney+, and Paramount+ to reach sell out rates of 75% or higher. Companies are ultimately solving for revenue growth, and we see fill rates as a key part of that. Though we think this might come at the expense of potentially declining CPMs.

Flat to declining CTV CPMs driven by growing impressions

Earlier this year we predicted that the growth in advertising inventory would outpace demand and lead to industry-wide CPM compressions for both linear and CTV ecosystems. The growth in impressions came from streaming, incl. traditional Media companies (e.g., Hulu, Disney+, Paramount+, Peacock, Max), FAST (e.g., Pluto, Tubi) and from emerging platforms (e.g., YouTube as a brand advertiser), which offset well-known linear impression declines. Another deflationary contributor to pricing we expected was AMZN, which shifted its subscriber base to ad-supported plans (unless opted out for \$3/mo).

Both of these trends largely played out based on company disclosure and 3P data. DIS disclosed in its 10-K that DTC CPMs were down -12% in FY24. Further, AdAge data tracks DTC CPMs, which shows average pricing down -21% in '24 to ~\$26 vs. ~\$32 in '23.

Exhibit 37 - Streaming CPMs 2024 vs 2023

DTC Service	CPM		
	2024	2023	% Change
Disney+	\$29.04	\$38.68	-25%
Hulu	23.59	27.74	-15%
Max	32.26	38.28	-16%
Netflix	37.02	54.78	-32%
Paramount+	26.23	30.99	-15%
Peacock	26.02	29.03	-10%
Pluto TV	14.72	19.08	-23%
Prime Video	24.27	NA	NA
Tubi	17.95	20.87	-14%
Average	\$25.68	\$32.43	-21%

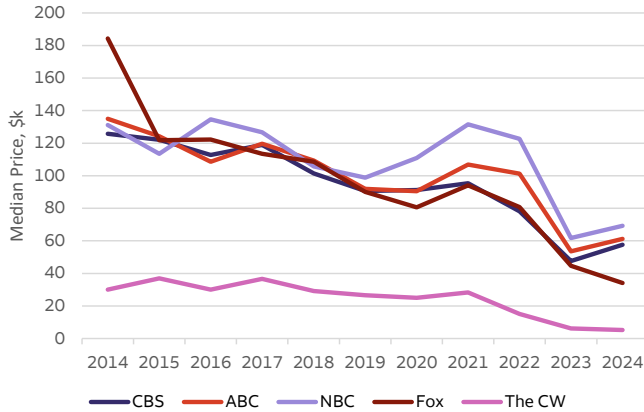
Source: AdAge, Wells Fargo Securities, LLC estimates

We think flat to down CTV CPMs will once again be a function in '25. Combined TV (i.e., linear and streaming) impressions are set to grow again in '25 w/ new inventory from streamers + YouTube. Higher fill rates are increasingly in focus, and companies are solving for revenue vs. CPM. More volume coupled with higher sell out will inherently have negative implications on pricing, in our view. For

example, we think NFLX's push to get Standard w/ ads ARM equivalent to Standard ad-free is mostly about fill-rate vs. CPM.

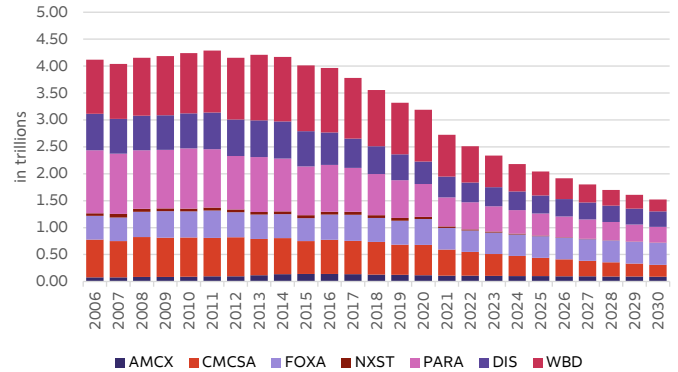
We expect flat/down CTV pricing and cont. declines in linear pricing excl. sports. Median linear TV ad unit prices are down -56% over the past decade to ~\$58k, while the average ad unit cost during *Sunday Night Football* has increased +61% over the same course to \$1mm. These are the bifurcating linear trends we expect to continue: growing sports CPMs (driven by content scarcity) and declines for all other inventory. As cord cutting paces -7%-8% p.a. (and potentially higher when ESPN launches Flagship in Fall '25), we est. cumulative linear ad impressions (i.e., sports + general ent.) to decline faster than sub losses.

Exhibit 38 - TV Ad Prices 2014 to 2024



Source: AdAge

Exhibit 39 - U.S. Linear TV Advertising Impressions by Company



Source: Nielsen, SNL Kagan, Wells Fargo Securities, LLC estimates

All periods are estimates

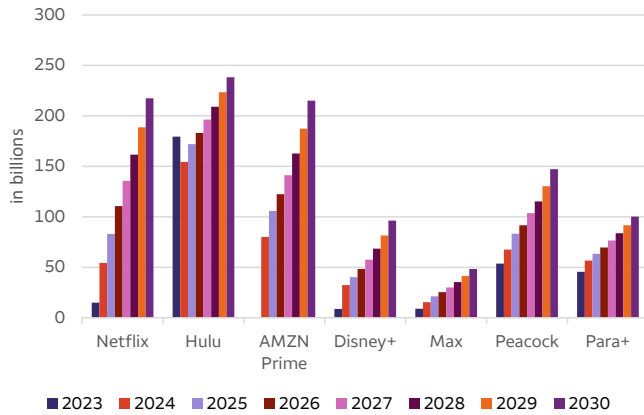
We think CTV/digital CPMs will cont. to be pressured in '25 after declining roughly -20% in '24. This is despite the industry comping the influx of new ads that hit the market in early '24 when Amazon Prime Video, which accounts for ~10% of streaming time, switched its users to ad-supported plans. Ad-supported subscriber growth was prominent across services in '24 with ad tier subs increasing nearly 50% to 133mm. We expect further growth of +14% in '25.

Much of the industry compression in DTC CPMs were concentrated to premium AVOD platforms (e.g., Netflix, Disney+). We think not only did the new inventory pressure pricing, but AMZN CPMs started at ~\$30 and below what premium AVOD transacted at. Importantly, we don't think platforms with <\$15 CPMs, notably YouTube and FAST services such as Pluto, Tubi, and The Roku Channel, were impacted by premium supply outpacing demand. We think these services offered advertisers differentiated campaign objectives vs. premium AVOD (e.g., broader scale, lower engagement, no sports). We think '25 could bring industry-wide pricing pressure as TRC focuses on fill rates and YouTube continues to take share.

eMarketer published its CPM forecast for Q1/Q2 2025 and expects CPMs to be stable. We think the output nature of CPMs is a risk to this notion. We think the growing supply of premium impressions is a risk factor to pricing. We define premium impressions as linear sports + premium AVOD incl. Netflix, Max, Disney+, Hulu, Amazon Prime, Paramount+, and Peacock. Our definition excludes FAST services that typically have lower engagement.

We est. 15% of linear impressions are sports, which amounts to ~351bn per year. This is supported by iSpot data saying that Q4 sports impressions are typically ~19% of total, and it's when all leagues are in-season excl. MLB. While we expect cumulative CTV ad impressions to increase by 278bn to 2.2tn or +14% y/y, we est. 569bn will be premium AVOD in 2025, which we forecast to be up +24% y/y. This is driven by NFLX impressions growing +52%, Max + 38%, AMZN Prime +32%, and Disney+ +25%. We project these total premium impressions (i.e., premium AVOD + sports) to increase by +13% to 920bn and account for 22% of total TV impressions in '25.

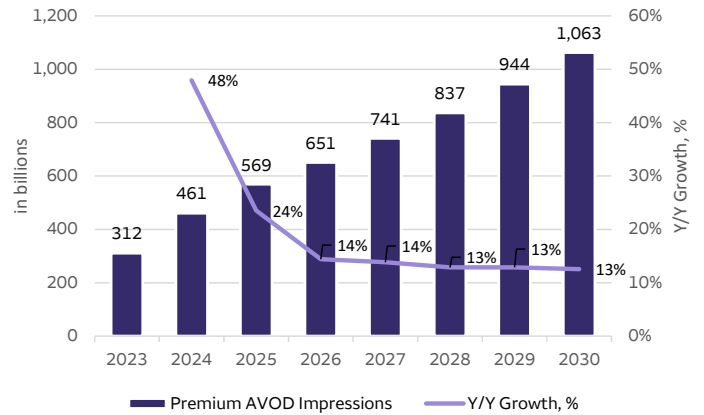
Exhibit 40 - Premium AVOD Impressions



Source: Company reports, Nielsen, Wells Fargo Securities, LLC estimates
 Premium AVOD defined as Netflix, Hulu, Amazon Prime, Disney+ Max, Peacock, and Paramount+; all periods are estimates

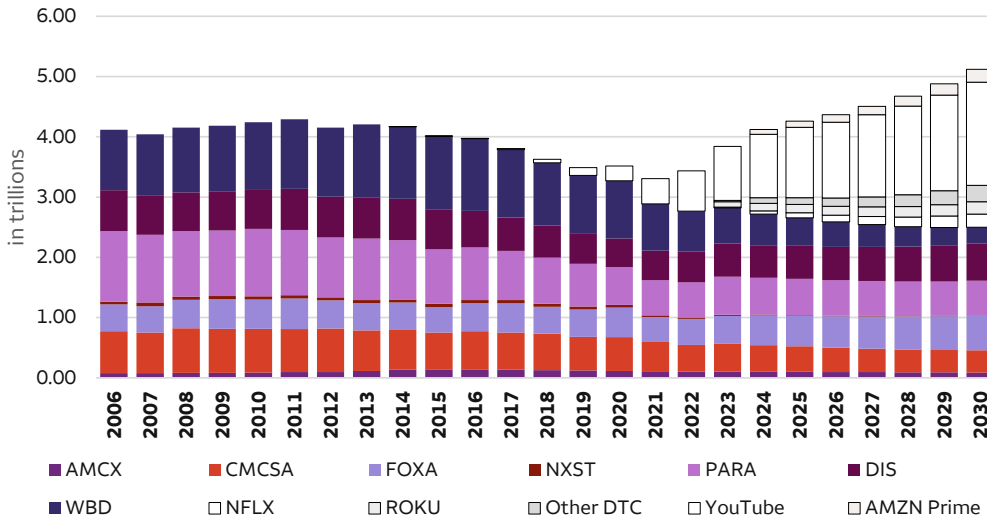
Extrapolating streaming engagement hours, a measured mix toward more ad-supported subs, and increasing ad-load per hour, we think overall TV ad impressions will reach 4.1tn in 2024 and are set to hit 4.3tn in 2025. This illustrates the cont. overarching theme into '25: TV impressions are growing healthily and price is the output mechanism that we expect to be most impacted. The prior peak for TV impressions was in 2011 (i.e., peak TV when US pay TV subs hovered around 100mm). We est. '25 impressions will match 2011 and cont. to grow thereafter. Drivers of cont. impression growth incl. CTV seeing higher sell out ratios, YouTube taking share (high ad load), and DTC services increasing ad load per hour (much like linear TV monetization unfolded).

Exhibit 41 - Premium AVOD Impressions incl. Y/Y Growth



Source: Company reports, Nielsen, Wells Fargo Securities, LLC estimates
 Premium AVOD defined as Netflix, Hulu, Amazon Prime, Disney+ Max, Peacock, and Paramount+; all periods are estimates

Exhibit 42 - U.S. TV Advertising Impressions by Company



Source: Nielsen, SNL Kagan, Wells Fargo Securities, LLC estimates
 All periods are estimates

Core network ads remain structurally challenged

Finally, our models imply that Media's core networks ads will be down -7.4% y/y in '25E vs. -10% in '24E. The trend has been down each year since '22, and we expect this to continue going forward as viewership of linear continues to decline, linear sports ads hold share and ad spend ex-sports follows the eyeballs into streaming. In other words, growth in AVOD ad spend is coming at the expense of

linear. We est. that while '25 Media linear networks ads will decline from ~\$23bn in '24E to ~\$21.3bn in '25E, AVOD will increase from \$10.9bn to \$13.3bn (around \$500mm of the increase is NFLX).

Exhibit 43 - Wells Fargo Advertising Estimates

\$mm	2021A	2022A	2023A	2024E	2025E	2026E	2022A	2023A	2024E	2025E	2026E
Media Networks											
AMCX	845	789	633	564	536	525	-6.7%	-19.7%	-10.9%	-5.0%	-2.0%
CMCSA	8,553	8,266	7,245	6,624	6,292	5,978	-3.4%	-12.4%	-8.6%	-5.0%	-5.0%
DIS	-	3,616	2,904	2,687	2,376	2,212	-	-19.7%	-7.5%	-11.6%	-6.9%
FOXA	1,467	1,409	1,329	1,318	1,261	1,312	-4.0%	-5.7%	-0.8%	-4.3%	4.1%
PARA	9,605	9,175	6,973	6,249	5,874	5,521	-4.5%	-24.0%	-10.4%	-6.0%	-6.0%
WBD	8,107	7,691	6,403	5,517	4,923	4,547	-5.1%	-16.8%	-13.8%	-10.8%	-7.7%
Total Domestic Networks ads	28,577	30,945	25,486	22,958	21,262	20,095	8.3%	-17.6%	-9.9%	-7.4%	-5.5%
TV Broadcast Core											
GTN	1,514	1,496	1,508	1,450	1,480	1,462	-1.2%	0.8%	-3.8%	2.0%	-1.2%
NXST	1,762	1,692	1,566	1,518	1,520	1,474	-4.0%	-7.4%	-3.1%	0.1%	-3.0%
SBGi	1,139	1,201	1,163	1,195	1,162	1,165	5.4%	-3.1%	2.7%	-2.7%	0.3%
SSP	647	625	597	536	554	537	-3.4%	-4.5%	-10.2%	3.4%	-3.0%
TGNA	1,166	1,079	1,076	1,014	1,002	991	-7.4%	-0.3%	-5.8%	-1.2%	-1.1%
Total Core Domestic Broadcast ads	6,228	6,093	5,910	5,714	5,718	5,630	-2.2%	-3.0%	-3.3%	0.1%	-1.5%
TV Broadcast Political											
GTN	60	515	79	498	79	468	758.3%	-84.7%	530.4%	-84.1%	492.6%
NXST	45	506	66	491	72	491	1018.6%	-86.9%	643.9%	-85.3%	581.9%
SBGi	33	331	44	406	45	335	903.0%	-86.7%	820.6%	-88.9%	644.7%
SSP	23	199	33	343	33	208	774.8%	-83.4%	940.7%	-90.4%	533.3%
TGNA	61	341	46	375	60	338	463.1%	-86.6%	718.8%	-84.1%	466.8%
Total Political Broadcast ads	221	1,891	268	2,113	288	1,840	754.0%	-85.8%	688.8%	-86.3%	537.9%
Cable											
CMCSA	4,507	4,397	3,947	3,710	3,963	3,454	-2.4%	-10.2%	-6.0%	6.8%	-12.9%
CHTR	1,594	1,583	1,551	1,489	1,453	1,417	-0.7%	-2.0%	-4.0%	-2.5%	-2.5%
ATUS	551	520	448	491	431	462	-5.5%	-14.0%	9.7%	-12.4%	7.2%
Hulu + Live	249	279	296	320	333	356	12.1%	6.3%	8.0%	4.0%	7.0%
Total Domestic Cable	6,901	6,779	6,243	6,011	6,179	5,688	-1.8%	-7.9%	-3.7%	2.8%	-8.0%
Total TV linear ads	41,926	45,709	37,907	36,795	33,447	33,253	9.0%	-17.1%	-2.9%	-9.1%	-0.6%
Total TV linear ads excl. Broadcast Political	41,705	43,817	37,639	34,682	33,159	31,413	5.1%	-14.1%	-7.9%	-4.4%	-5.3%
Domestic streaming ads											
CMCSA - Peacock	386	1,034	1,448	2,076	2,381	2,973	167.9%	40.1%	43.3%	14.7%	24.9%
DIS - DTC domestic	2,952	2,713	2,658	3,090	3,854	4,349	-8.1%	-2.0%	16.3%	24.7%	12.9%
FOXA - Tubi	515	664	862	1,009	1,099	1,207	29.0%	29.7%	17.1%	9.0%	9.8%
NFLX - domestic	-	2	96	503	1,057	1,502	-	5097.4%	425.8%	110.0%	42.2%
PARA - DTC	179	316	401	604	711	782	76.2%	27.0%	50.6%	17.8%	10.0%
ROKU - TRC	1,784	2,061	2,395	2,766	3,105	3,501	15.5%	16.2%	15.5%	12.2%	12.8%
WBD - DTC	180	407	548	862	1,074	1,235	126.1%	34.6%	57.3%	24.6%	15.0%
Total DTC Domestic streaming ads	5,997	7,197	8,408	10,910	13,280	15,550	20.0%	16.8%	29.8%	21.7%	17.1%
Total TV ads	47,923	52,906	46,315	47,704	46,728	48,803	10.4%	-12.5%	3.0%	-2.0%	4.4%
Total TV ads excl. Broadcast Political	47,702	51,014	46,047	45,592	46,439	46,963	6.9%	-9.7%	-1.0%	1.9%	1.1%
OOH											
BOC (Billboards)	31	39	43	45	47	50	24.6%	9.4%	4.9%	5.0%	5.0%
CCO (Americas + Airports)	1,174	1,362	1,412	1,501	1,550	1,638	16.0%	3.7%	6.2%	3.3%	5.7%
OUT	1,382	1,663	1,707	1,790	1,860	1,942	20.3%	2.7%	4.8%	3.9%	4.4%
LAMR	1,787	2,032	2,111	2,210	2,288	2,396	13.7%	3.9%	4.7%	3.5%	4.7%
Total Domestic OOH	4,375	5,096	5,273	5,545	5,746	6,026	16.5%	3.5%	5.2%	3.6%	4.9%
Ad Agencies											
IPG	5,778	6,144	6,089	6,151	5,861	5,841	6.3%	-0.9%	1.0%	-4.7%	-0.3%
OMC	7,770	7,873	7,561	7,904	8,458	8,796	1.3%	-4.0%	4.5%	7.0%	4.0%
STGW	1,896	2,205	2,091	2,269	2,320	2,443	16.3%	-5.2%	8.5%	2.3%	5.3%
Total Domestic Ad Agencies	15,444	16,222	15,742	16,324	16,639	17,080	5.0%	-3.0%	3.7%	1.9%	2.6%
Total Ad Agencies (global)	19,819	21,318	21,015	21,869	22,385	23,105	7.6%	-1.4%	4.1%	2.4%	3.2%
Total Wells Fargo models - US ad revenues	67,742	74,224	67,330	69,574	69,113	71,908	9.6%	-9.3%	3.3%	-0.7%	4.0%
Total Wells Fargo models - US ad revs. ex. political	67,521	72,333	67,063	67,461	68,824	70,068	7.1%	-7.3%	0.6%	2.0%	1.8%

Source: WFS, LLC estimates

Entertainment Theme #5: Domestic Box Office at \$10bn or +16% Y/Y

'25 box office outlook methodology: To properly account for the knowns and unknowns, we split our analysis in three sections: 1) predictions for films that are currently scheduled for wide release next year; 2) forecasting how much of the box office will come from specialty and limited releases; and 3) estimate how much of the 2025 box office will be generated by films that are currently not scheduled yet and/or films that will be taken off the schedule.

Scheduled Wide Releases - 2025

To better illustrate the size and impact of the CY'25 content slate, we put together a box office model that includes all the wide release films that will come to market during that time period by studio and outlet type. Then we proceeded to estimate the total domestic by film using the following criteria. First, we started by using estimates from Hollywood Stock Exchange (HSE), which provides information on what the market believes each film will make domestically in its first four weeks of wide release at the box office. Second, we proceeded to use a multiplier of 1.15x against the HSE values for each movie to account for the total box office receipts in addition to the initial four weeks. On average, movies generate around 85% of their total box office receipts during the first four weeks, thus the rationale for our 1.15x multiplier. Lastly, we evaluate the HSE estimates based on five factors and make our final adjustments: 1) the performance of similar films in recent years; 2) the current state of theatrical market; 3) adjustments for specific genres; 4) potential breakout hits; and 5) the relative size of the market compared to pre-pandemic levels.

Based on the assumptions above, our CY25 estimate for currently announced wide release films is \$7.8bn. Based on our model, the top 5 films include Avatar: Fire and Ash, Jurassic World Rebirth, Superman: Legacy, Disney's Snow White, and Captain America: Brave New World. Other films that could also make a run for the top spot in 2025 and potential breakout include Wicked: Part 2, Mission: Impossible 8, and How to Train Your Dragon. Lastly, dark horse candidates that have notable buzz include: David, 28 Years Later, Freakier Friday, Mercy, and F1. In total, we estimate that 16 films will exceed \$150mm in DBO receipts + 6 additional films that are expected to generate \$100-150mm. So far, we have 101 dated wide releases for 2025 and have good visibility to another 15 based on scheduled slots reserved by the major studios. Our \$7.8bn estimate on 101 (or \$77mm/film) dated films compares to our initial 2024 estimate that we made back in December 2023 of \$6.5bn on 78 dated films (or \$83mm/film). Notably, our initial estimates last year came out a few weeks later than this year, and we do continue to expect additional films to be dated over the next few weeks/months.

Specialty & Limited Releases - 2025

The second variable of our estimates includes our forecast of specialty and limited releases, i.e., films that play in fewer than 1,000 theaters. This segment of the market has been traditionally dominated by indie films and typically accounts for 3-5% of the total domestic box office for any given year. Post-pandemic, this segment of the market has changed significantly, with foreign films now dominating the space + alternative content in other instances. For 2025, we expect specialty and limited releases to be slightly below the lower end of the historical range at 2.2%, or \$220mm. Our lower estimate accounts for impacts from an underlying shift toward event films for specific crowds (e.g., Indian, Chinese audiences, or faith-based groups, etc.). For perspective, specialty and limited releases totaled \$241mm in '24 and \$221mm in '23.

Unannounced Films - 2025

For the final piece of our analysis, we look at how to estimate currently unannounced films that will be eventually announced for the 2025 slate. For this speculative analysis, our best indicator is how things played out in '23, which is a better comp than '24 given the production disruptions from the strikes. Through November 2023, studios had announced dates for 74 wide releases in '23 (and 71 in '24) vs. 101 this year. Since then, another 59 movies for 2023 release were announced (mostly during 2023). Examples of such films include Taylor Swift: The Eras Tour, Sound of Freedom, Five Nights at Freddy's, and AIR, among others. In total, these 59 films accounted for an estimated \$1.47bn in box office receipts. For 2025, we expect a similar contribution from currently unannounced films with a few assumptions that include: 1) most of the announcements will come later in the year (mostly Q3 and Q4); and 2) additional announcements will come in prime dates (April-August and October-December) and during times when the release slate looks a bit light.

2025 Domestic Box Office Estimates

When putting it all together, we arrive at a CY25 domestic box office estimate of \$10bn or +16% y/y and -12% below 2019 levels. Our numbers account for \$7.9bn in currently dated wide release films, \$425mm from grosses of holdover films that were released in late '24, \$1.47bn in currently unannounced wide releases films + \$220mm of box office coming from specialty & limited releases.

More detail, incl. our film-by-film, can be found [here](#).

Exhibit 44 - 2025 Domestic Box Office Estimates Breakdown & Y/Y Comparison

Period	Dated Wide-Releases	Undated Wide-Releases	Limited/ Spec	Undated + Limited/Spec	2025 DBO	2024E DBO	Y/Y % Change
Q1	1,869	0	85.5	86	1,954	1,609	21.5%
Q2	2,196	458	61	519	2,715	1,946	39.5%
Q3	1,971	585	37	622	2,592	2,665	-2.7%
Q4	2,279	425	37	462	2,741	2,430	12.8%
Total	8,314	1,468	220	1,688	10,003	8,650	15.6%
<i>% of total</i>	<i>83%</i>	<i>15%</i>	<i>2%</i>	<i>17%</i>	<i>100%</i>		

Source: The Numbers, HSE, Wells Fargo Securities, LLC estimate

Audio 2025

Overview

- **Positive:** SPOT—rich catalyst path ahead for '25 and beyond + lots of margin runway
- **Neutral:** Music Labels (UMG and WMG)—Tough comps in 1H + ad-supported challenges; need DSP price hikes + structural changes to ecosystem for revenue to re-accelerate
- **Negative:** SIRI—lack of key catalyst + worsening auto trends and no improvements to conversion/net adds trends; tough competitive environment

Audio Theme #1: SPOT is our Top Pick—strong incremental margins + additional monetization

SPOT has gone from a price taker of Music Labels' royalty terms to a price maker as the largest DSP, biggest Label partner and critical platform for the Labels to accelerate revenue growth. We think the Labels are looking to improve monetization, which could include changes to the wholesale pricing model, super fan monetization and better monetize its ad-supported subscribers as conversion to Premium decelerates. The interdependence between SPOT and Labels means a natural evolution of the streaming ecosystem that should provide benefits to both sides, which means more margin opportunities for SPOT.

We remain bullish on margin + valuation upside and like the catalyst path ahead.

SPOT's Incremental Margins Are Accelerating

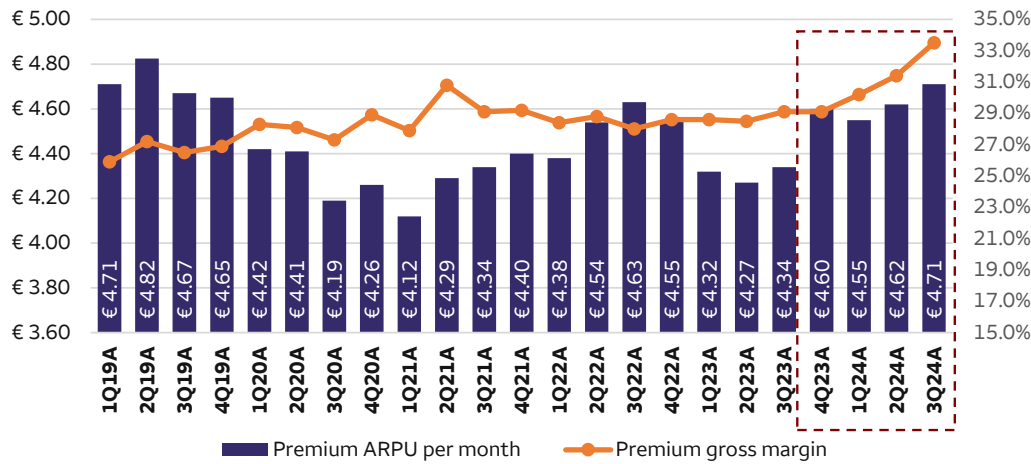
Spotify is clearly a business in transition. Over the last year, SPOT has announced two major price increases, added audiobooks to its Premium tier and is increasingly offering Premium with additional product options, incl. Music-standalone, Audiobooks stand-alone and perhaps in the future HiFi or what was recently dubbed by UMG as Music Pro (and likely each of these within the various account types of Individual, Duo and Family). Additionally, late last year SPOT announced a change to its royalty structure that should see ~\$1bn of additional royalty pool value going to the major Music Labels over the next ~5 years as Spotify makes it harder for noise and smaller artists to earn out of the royalty pool. In total, SPOT is reshaping its consumer relationship and its Label relationships. We think these shifts = upside opportunities longer-term.

Each of these changes likely has margin implications. We think, for example, that audiobooks have lower costs of goods sold (COGS) per listening hour than music given that they're consumption driven (vs. rev share in music). However, that's only comparable if looking at the margin of a Music-standalone subscriber vs. an Audiobooks-standalone subscriber (and SPOT does not provide this disclosure). We think the vast majority of Premium subs have the combined music+audiobooks tier(s), so comparing the audiobooks margin to the music margin must incl. some speculative allocation of Premium ARPU to audiobooks vs. music.

There is no clear way to take SPOT's new product offerings and directly dissect their impact on Premium gross margins. What is more clear is that SPOT announced its first major market price increase last year, and since then ARPU has been increasing, while Premium gross margins have also started to grind higher.

The implication is that tiers and pricing maneuvers have positive Premium gross margin implications. The debate is how long the upside lasts, and where margins can ultimately go.

Exhibit 45 - SPOT Premium ARPU & Premium Gross Margin



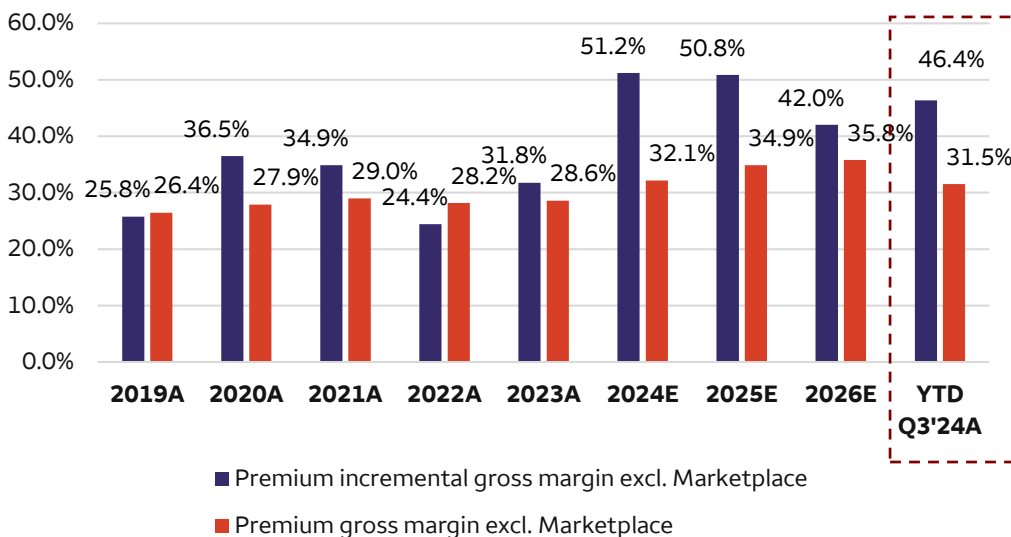
Source: Company reports, WFS, LLC

Incl. impact of currency

There is a lot of debate about what is driving SPOT's Premium gross margins higher. Some of it is simple operating leverage as not all of Premium COGS are variable costs, though by far the biggest Premium COG—music royalties—certainly is variable to subscription revenue. What is clear is that if we excl. our estimates for the 2-sided Marketplace (which we est. at ~50% gross margin contribution within Premium rev./gross profit), it appears that SPOT's incremental Premium gross margins have been accelerating quite strongly on a YTD basis through 3Q'24, just after the effect of the price increases + concurrent roll-out of audiobooks.

As can be seen below, SPOT's Premium incremental gross margin for 1H'24A is ~46% vs. its gross margin of 31.5%. The YTD Q3'24 Premium incremental gross margin excl. Marketplace compares to '23A incremental margin of 32%.

Exhibit 46 - SPOT Premium Gross Margins + Premium Incremental Gross Margins (Excl. Marketplace)



Source: Company reports, WFS, LLC

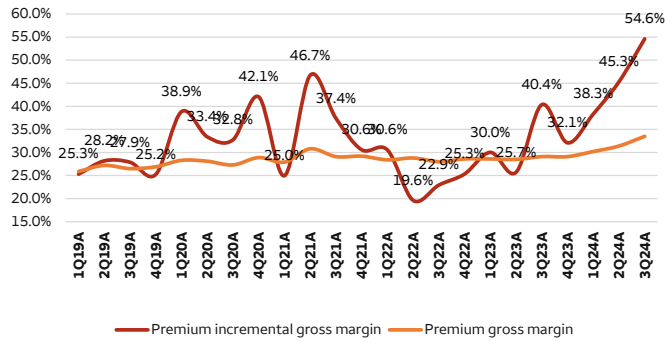
2022 adjusted for charge of Car Thing

The acceleration in the Premium incremental gross margin can also be seen below on a quarterly basis, which helps visualize the improving trend. From 3Q23 to 3Q24, the incremental Premium gross

margin has averaged 42% (excl. Marketplace) vs. SPOT's average Premium gross margin of 30% (incl. Marketplace).

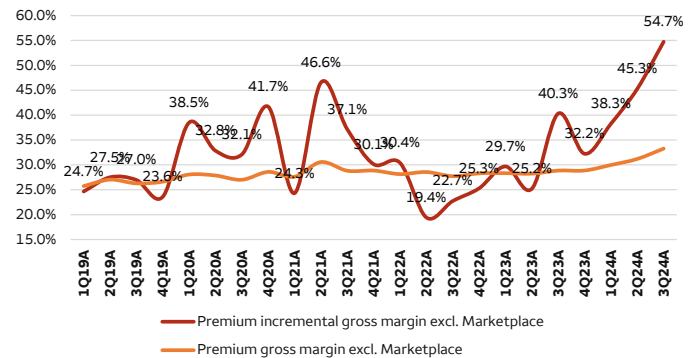
We think the key consideration for SPOT is where incremental Premium gross margins can go from here, what's driving the acceleration and what it means for estimates and ultimately SPOT's valuation ahead.

Exhibit 47 - SPOT Premium Gross Margin + Premium Incremental Gross Margin



Source: Company reports, WFS, LLC
2Q22 adjusted for charge of Car Thing

Exhibit 48 - SPOT Premium Gross Margin + Premium Incremental Gross Margin, Both Excl. Estimated Impact of 2-Sided Marketplace



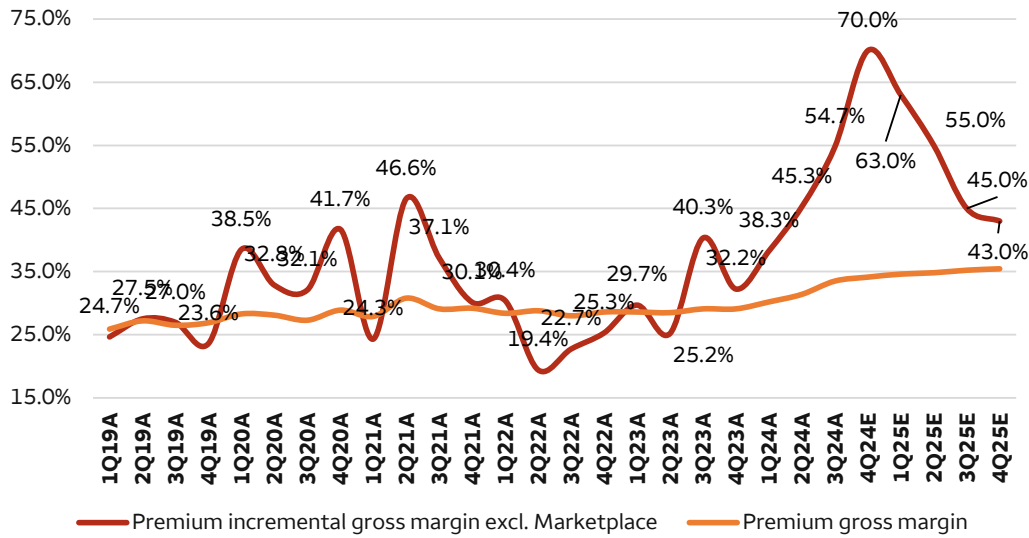
Source: Company reports, WFS, LLC estimates
2Q22 adjusted for charge of Car Thing

Implications for 2025 Premium Gross Margins

We think the key next consideration is what the 2024 incremental margin analysis implies for 2025. Premium incremental margins could be 62% in H2'24, which would imply 52% for FY'24. Is there any reason to think they'll decelerate materially in 2025? We assume that they will begin to decelerate as SPOT sees rising costs of audiobooks on higher customer utilization + may engage in revised terms with Labels (e.g., we think UMG is up for renewal sometime in late 2025).

Our best guess for now is that SPOT will maintain strong incremental margins in H1'25 of around 62%, and they'll decelerate through the year with 2H incremental margins of 44%. We note that these are conservative estimates based on the industry dynamics we discuss above. Our quarterly Premium incremental margins excl. Marketplace are shown below.

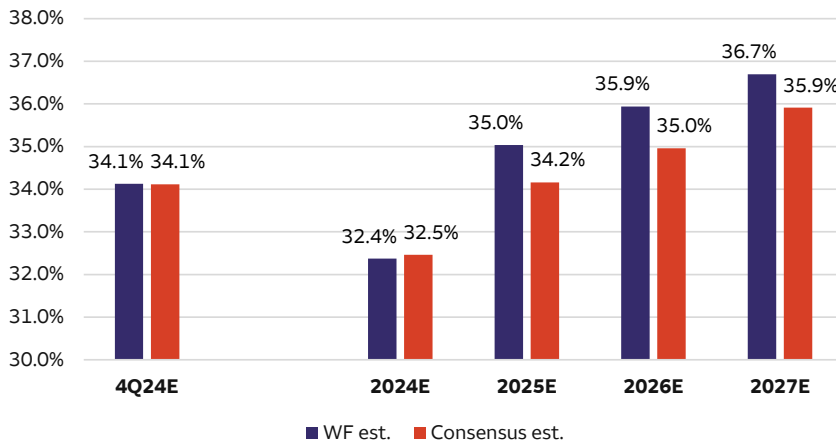
Exhibit 49 - SPOT Premium Incremental & Gross Margin, Incl. '25 Estimates



Source: Company reports, WFS, LLC estimates

We also assume 40%+ incremental Premium gross margins excl. Marketplace on a go-forward basis, reflecting the new industry dynamics incl. Label interdependence and higher margins on Audiobooks vs. Music. Rolling this through our model (and assuming continued growth in Marketplace at 50% gross margins) results in 2024E Premium gross margin estimates near Street but with significant upside potential to consensus in 2025E and 2026E. This of course means considerably more gross profit earnings, and high operating leverage on opex means above-Street operating margins.

Exhibit 50 - SPOT Premium Gross Margins - Wells Fargo Est. vs Consensus



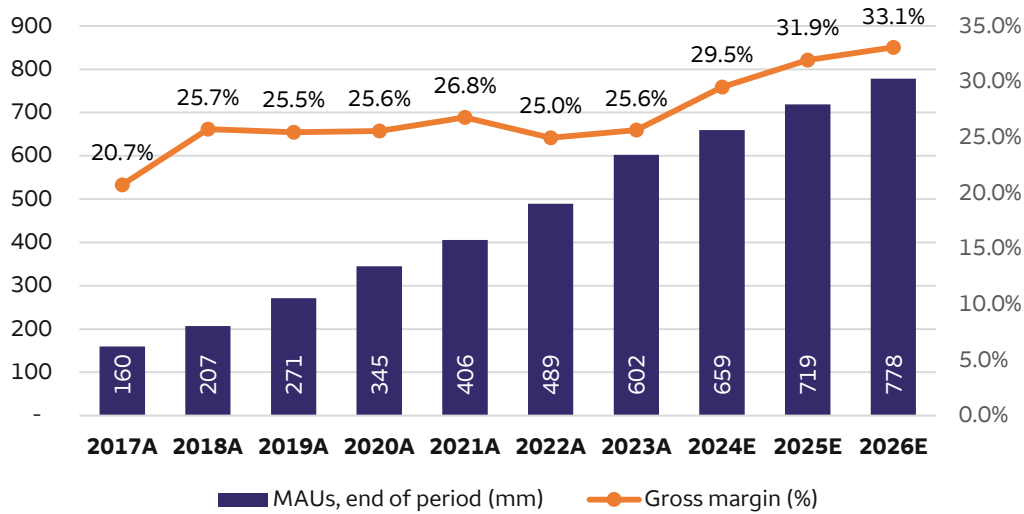
Source: FactSet, WFS, LLC estimates

Evolving dynamics between SPOT & Music Labels

The delicate power balance between the DSPs and the music labels has evolved over time. Prior to SPOT's IPO, and in the years immediately following, we think SPOT and its investors were fairly content to show low/no profits while adding scale through subs/MAUs. The Labels also supported this strategy and likely received favorable terms that added up to ~65%+ of SPOT's Premium revenue as royalties.

We think trading terms began to shift in 2021-22. We believe this was primarily due to 2 factors: 1) Wall Street was increasingly focused on SPOT's ability to drive profits, not just subs; and 2) SPOT had achieved industry-leading scale.

Exhibit 51 - SPOT MAU & Gross Margin



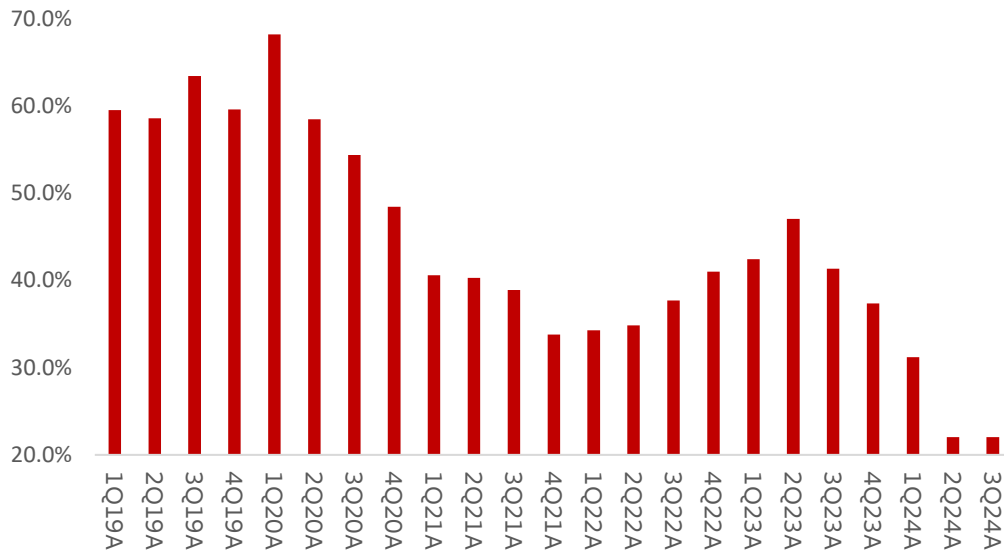
Source: Company reports, WFS, LLC estimates

The key driver for SPOT's success vs. its competitors is its constant focus on product innovation, features and improvements to its UI that delivers the best service to consumers. As a result, we estimate that SPOT accounts for more than 1/3 of major label's revenues (and growing). With a growing reliance on SPOT to continue to drive industry growth, it appears that the power balance has shifted over to SPOT more recently. In addition to sub growth, labels now also rely on DSPs for price hikes, roll-outs of additional tiers and other features such as HiFi to improve monetization of its paid subscriber base. With different platforms having their own priorities and geographic footprints, some of these initiatives could take longer to deploy across the industry.

As a result, we think Labels are currently discussing internally how to align priorities across DSP partners to improve monetization. In some instances, even a wholesale pricing approach (vs. current rev share model)—similar to the sports rights model—has been discussed. In fact, WMG's Kyncl discussed this topic earlier this year, and UMG also touched on it at its CMD more recently. For more on this, see Music Label section below.

Another area of focus for both SPOT and the labels, in our view, is the growing monetization gap between ad-supported and paid subscription users. With paid subscription approaching full saturation among US HHs and other western EU countries, we think an ongoing discussion is how to better monetize the huge ad-supported base. Historically, the idea of using a free music tier for DSPs has hinged on converting those users to paying subs over time. SPOT has been extremely successful in doing this with conversion rates of ~60% in 2019-2020. However, conversion rates have dipped to ~40% in 2021-2023 and have fallen further to 27% in 1H'24 with 2Q and 3Q posting its lowest conversion rate in our data set at 22%. While the free tier continues to attract billions of users monthly and accounts for >80% of global music listeners, it only accounts for <30% of global streaming revs. The industry's inability to better monetize this category highlights the growing price gap between free and paid subscription and also a growing opportunity to capitalize on this cohort — especially in mature markets. SPOT has also indicated that it now sees Ad-supported as potentially an attractive stand-alone monetization tier, vs. its prior view of Ad-supported as a driver of conversion to Premium subscribers.

Exhibit 52 - SPOT MAU to Subscriber Conversion Rate - 4Q Lag 2019-3Q'24



Source: Company reports, Wells Fargo Securities, LLC

The Prospect of Subscription Fees on Ad-Supported

As discussed above, we think another significant potential profit and margin driver for SPOT is the prospect of charging a modest subscription fee for the Ad-supported tier, similar to NFLX. This move would be reserved for mature markets where purchasing power parity tends to be higher and churn tends to be lower. This would primarily be the US, Canada, Western Europe and Northern Europe. We think this is a key consideration between SPOT and its Label Partners. However, we think this might be more of a '26 event. That said, we think '25 discussions will lay the foundation for how to address this growing issue.

We think a fee on ad-supported subs could roll out to 100% of SPOT's reported North America region MAUs (18% of MAUs as of 3Q24A), which we think is US + Canada (note: Mexico is classified within LatAm). For SPOT's Europe region (28% of MAUs), we think the move could affect around 47% based on a roll-out that's similar to the current market for audiobooks. We derive 47% of Europe based on current population estimates by the UN + our estimates for markets to be included in the scheme (indicated below with an "X").

Exhibit 53 - European Region - Population by Country + Inclusion in Potential Subscription Fee on Ad-Supported

Country	UN Est. (mm)	Incl.	% EUR
Germany	83.3	X	13%
United Kingdom	67.7	X	11%
France	64.8	X	10%
Italy	58.9		9%
Spain	47.5		8%
Poland	41.0		6%
Ukraine	33.3		5%
Romania	19.9		3%
Kazakhstan	19.6		3%
Netherlands	17.6	X	3%
Belgium	11.7	X	2%
Sweden	10.6	X	2%
Czech Republic	10.5		2%
Azerbaijan	10.4		2%
Greece	10.3		2%
Portugal	10.2		2%
Hungary	9.6		2%
Belarus	9.5		2%
Austria	9.0	X	1%
Switzerland	8.8	X	1%
Serbia	7.1		1%
Bulgaria	6.7		1%
Denmark	5.9	X	1%
Slovakia	5.8		1%
Finland	5.5	X	1%
Norway	5.5	X	1%
Ireland	5.1	X	1%
All other	35.7		6%
Total Europe	631.6	295.4	47%

Source: UN, WFS, LLC estimates

Adding these together implies ~31% of MAUs could be impacted. On a revenue-weighted basis, this could be much higher since these are mature, i.e., higher ARPU, markets.

Exhibit 54 - SPOT MAUs by Region + % Ad Subscription Fee Applied

	%	# mm	% Ad fee	# mm fee
North America	18%	112	100%	112
LatAm	22%	136	0%	-
Europe	28%	174	47%	82
RoW	33%	203	0%	-
Total	100%	626	31%	194

Source: Company reports, WFS, LLC estimates

MAUs as of 2Q24A

We then assume that this pricing scheme begins rolling out from 1Q26E, with 20% of the mature market TAM for Ad-supported subs impacted at €1/mo in 1Q26E, ramping to 50% by 4Q26E and 100% by 4Q27E.

The contribution to Ad-supported revenue is potentially significant. In 2026, we est. ~€700mm in incremental Ad-supported revenue from rolling out a token subscription fee in a minority of mature markets. By '27E, this is nearly ~€1.5bn in incremental revenue.

We also assume that SPOT will pay typical subscription-based royalties on these Ad-supported fees. We've assumed Ad-supported subscription revenue contributes to gross profit at the same margin as Premium revenue. We think this is in the ballpark, and reflects the joint desires of SPOT and its Label partners to roll this new revenue model out equitably.

Exhibit 55 - SPOT - Ad-Supported Subscription Scheme - Impact To Revenue & Gross Profit

EUR mm or as indicated	1Q26E	2Q26E	3Q26E	4Q26E	2026E	1Q27E	2Q27E	3Q27E	4Q27E	2027E
Ad-supported MAUs (avg.), mm	457.5	463.3	470.9	482.6	471.1	492.1	497.5	505.1	516.8	504.8
X % "mature" markets	31.0%	31.0%	31.0%	31.0%	31%	31.0%	31.0%	31.0%	31.0%	31%
= Ad-supported MAUs, mature mkts., mm	141.8	143.6	146.0	149.6	146.1	152.5	154.2	156.6	160.2	156.5
X % mature market MAUs rolled out	20.0%	40.0%	50.0%	50.0%	44%	60.0%	70.0%	80.0%	100.0%	81%
X Ad-supported subscrip. EUR/mo	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
X months in period	3	3	3	3	12	3	3	3	3	12
= Ad-supported subscription rev.	85	172	219	224	701	275	324	376	481	1,455
Ad-supported ad revenue	447	543	602	654	2,245	507	617	682	741	2,546
+ Ad-supported subscription revenue	85	172	219	224	701	275	324	376	481	1,455
Ad-supported revenue	532	715	821	878	2,946	782	940	1,058	1,221	4,001
Ad-supported subscription revenue	85	172	219	224	701	275	324	376	481	1,455
- Ad-supported subscription COGS	55	111	140	143	450	175	206	238	304	923
= Ad-supported subscr. gross profit	30	61	79	81	251	100	118	138	177	532
% Ad-supported subscription gross margin	35.4%	35.6%	35.9%	36.1%	35.8%	36.3%	36.4%	36.7%	36.8%	36.6%

Source: Wells Fargo Securities, LLC estimates

The effect on our estimates is that our 2026E Ad-supported revenue is now +23% vs. consensus at €2.9bn due to the incremental ~€700mm for subscription fees. Our '26E Ad-supported gross profit is +47% vs. consensus. Our total SPOT gross profit is +8% vs. Street.

Finally, the inclusion of a subscription fee on Ad-supported plans could negatively impact MAUs. Currently, Spotify may not require a credit card or payment for Ad-supported, so the addition of the fee could lead to churn incl. for bad debt. However, in '26/'27 our Ad-supported MAU growth is only ~8% p.a., most of which is outside of mature markets. And, we think our €1/mo estimate is on the low side. As a result, we think our revenue and gross profit estimates for fees on Ad-supported are extremely conservative even if there is some negative impact on churn. As a result, our 2026/27 Ad subs are -2%/-5% below Street at 489mm/523mm.

Exhibit 56 - SPOT's Near-Term Catalysts

SPOT's Key Catalyst Path for '25 & Beyond	Timing
1) Announcement of supremium tier or Music Pro	1H'25
2) Changes to the wholesale pricing model with music labels	2H'25
3) Regular price increases across the board in most major markets	4Q'25
4) Improved monetization of ad-supported tier that likely will include charging a modest fee	2026
5) Capital allocation with cash/investments >€6bn	1H'25
6) Continued innovation and unannounced products coming to market — the timing/form is TBD, but we expect incremental monetization to come.	2025-26

Source: Wells Fargo Securities, LLC estimates

Valuation & Price Target

SPOT has moved a lot in a relatively short amount of time: +152% YTD vs. the SPX +28%. However, we think SPOT is still relatively under-owned because of the sharpness of the sentiment and margin inflection. We still see plenty of scope for margin expansion and higher profitability. Our Ad-supported subscription forecasts are out-of-consensus, and could prove extremely conservative at just €1/mo. Wholesale pricing arrangements with the Music Labels are extremely complicated and will take time, but could see SPOT gain operating leverage over the longer-term.

We value SPOT on 28x CY26E EV/EBITDA, which is SPOT's CY26E y/y EBITDA growth of 30% reflected as a multiple and then discounted back 1-year. This equates to \$520/sh including SPOT's entirety of accrued liabilities (unpaid royalties). Notably, if we use the same multiple on CY'27E estimates our valuation would equate ~\$640/sh. Additional optionality incl. the prospects for future capital deployment as SPOT will likely end '24 with ~€6bn in cash.

We see additional upside to SPOT as the market sees incremental earnings upside catalysts, and rolls forward the valuation framework.

Exhibit 57 - SPOT Value Per Share Outlook

	CY26E	CY27E	CY28E
Target EV/EBITDA	30.0	30.0	30.0
Multiple after discounting	28.0	26.4	24.7
X Est. EBITDA	3,429	4,311	5,143
= Target EV (EUR)	96,013	113,671	127,125
- Net debt / (cash) - accrued liabilities, end CY24E (EUR)	(2,759)	(2,759)	(2,759)
- Minority interests (EUR)	-	-	-
+ Other assets (EUR)	1,689	1,689	1,689
= Equity value (EUR)	100,460	118,119	131,573
X USD/EUR exchange rate	1.05	1.05	1.05
= Equity value (USD)	105,483	124,025	138,151
÷ dil. shares O/S, mm (CY24E)	207	207	207
= Value per share (USD - SPOT trading currency)	\$509	\$598	\$666

Source: Bloomberg, WFS, LLC estimates

EUR million

Audio Theme #2: Labels in need of changes for revenue to re-accelerate—neutral on UMG and WMG

The music label space remains a bit challenged by decelerating subscription streaming growth due to slowing growth in mature markets and ad-supported headwinds that include a challenging macro for traditional advertising, slower than expected growth on emerging platforms, and the recent expiration of the Meta music video license that will continue to pressure UMG's and WMG's revenue growth for the next few quarters.

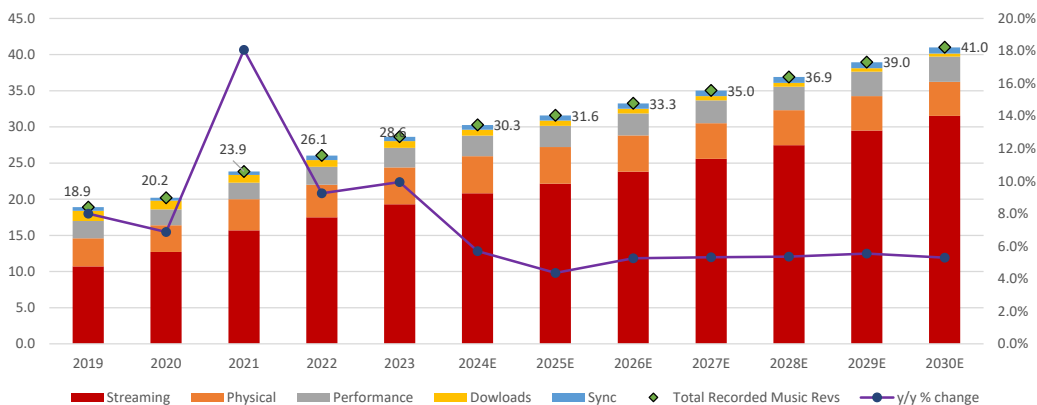
While we continue to see healthy underlying growth trends, we believe the industry needs to do more for growth to re-accelerate. We believe Labels need to enact structural changes to wholesale pricing and ads monetization for shares to regain momentum in '25.

Streaming Growth Re-Acceleration Likely a 2H'25 Story

We expect the global streaming music to grow at ~7-8% in '25 and at a high-single-digit rate over the next 5-7 years driven by sub growth mainly from emerging markets, and improved monetization of music, which includes a sustained cycle of price increases from DSPs, better customer segmentation and a re-accel of ad-supported growth. For '25, we expect 1H to grow at a 6-7% y/y pace driven by 3-4% ad-supported growth and 7% y/y paid subscription growth reflecting tougher y/y comps in 1Q and continued ad-supported challenges. We expect subscription/ad-supported growth to improve in the back half of the year to 6%/8% driven by DSP price hikes + recovery in ad market begins to take shape.

Below, we outline our Industry Model for Global Recorded Music.

Exhibit 58 - Global Recorded Music Revenues by Category 2019-2030E (in bn \$)



Source: IFPI, Wells Fargo Securities, LLC estimates

Exhibit 59 - Music Labels US Distribution Market Share - Overall On-Demand Audio Streaming

Distributor/Label	Industry Overall - On-Demand Audio Streaming														
	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24
WMG	19.98%	19.63%	19.30%	19.36%	19.50%	19.16%	19.07%	18.58%	18.64%	18.83%	18.98%	18.30%	18.26%	18.35%	18.92%
Warner Records	5.97%	6.07%	5.97%	5.45%	5.82%	6.07%	6.24%	6.10%	6.15%	6.43%	6.58%	6.59%	6.52%	6.66%	6.93%
Atlantic Records	10.10%	9.98%	9.68%	9.84%	10.06%	9.71%	9.26%	8.77%	8.71%	8.62%	8.64%	7.97%	7.89%	7.79%	7.97%
ADA	3.24%	3.03%	3.05%	2.94%	2.87%	2.59%	2.66%	2.65%	2.60%	2.49%	2.43%	2.32%	2.26%	2.33%	2.71%
Others	0.67%	0.55%	0.60%	1.13%	0.74%	0.79%	0.93%	1.06%	1.19%	1.29%	1.32%	1.42%	1.59%	1.57%	1.29%
SME	25.80%	26.01%	26.66%	27.12%	26.34%	27.26%	27.79%	28.22%	28.25%	27.79%	27.69%	28.23%	27.66%	27.97%	27.79%
RCA Records	4.94%	4.97%	5.19%	4.93%	4.99%	5.19%	5.34%	5.62%	5.60%	5.15%	5.04%	5.46%	5.28%	5.10%	5.10%
Columbia Records	6.52%	6.69%	6.87%	7.18%	6.65%	6.95%	6.89%	6.69%	6.39%	5.87%	5.90%	6.15%	5.71%	5.92%	5.77%
Epic Records	2.47%	2.50%	2.34%	2.21%	2.44%	2.83%	2.74%	2.58%	2.67%	2.51%	2.75%	2.56%	2.82%	2.76%	2.56%
SME Nashville	1.92%	2.01%	2.06%	1.76%	1.87%	2.10%	2.12%	1.95%	2.03%	2.25%	2.14%	1.90%	1.94%	2.07%	2.17%
Sony Music Latin	1.19%	1.35%	1.50%	1.48%	1.43%	1.39%	1.42%	1.51%	1.67%	1.73%	1.73%	1.76%	1.80%	1.83%	1.85%
The Orchard	5.34%	5.44%	5.59%	5.43%	5.70%	6.30%	6.54%	6.97%	7.39%	7.76%	7.66%	7.65%	7.49%	7.39%	7.42%
UMG	39.11%	39.22%	38.79%	37.83%	37.81%	37.55%	38.68%	38.16%	38.68%	38.69%	38.99%	38.44%	38.30%	38.17%	
Interscope/Geffen/A&M	10.70%	10.95%	10.05%	9.76%	9.85%	9.84%	9.60%	9.51%	9.52%	9.43%	9.64%	9.77%	9.92%	9.95%	10.09%
Def Jam Recordings	2.43%	2.40%	2.56%	2.29%	2.34%	2.30%	2.11%	2.09%	2.10%	1.96%	1.92%	2.00%	2.09%	1.84%	1.83%
Republic Records	8.73%	8.12%	8.67%	8.14%	8.01%	8.20%	8.27%	9.05%	9.05%	9.37%	9.55%	9.89%	9.74%	10.12%	9.85%
Big Machine Label Group	1.00%	1.07%	1.04%	0.93%	0.87%	0.94%	0.97%	0.90%	0.92%	1.16%	1.14%	0.96%	0.88%	0.84%	0.79%
Roc Nation	0.39%	0.73%	0.59%	0.53%	0.57%	0.54%	0.51%	0.49%	0.56%	0.50%	0.46%	0.44%	0.46%	0.39%	0.37%
UMG Nashville	1.83%	2.03%	1.96%	1.84%	1.72%	1.84%	1.91%	1.80%	1.72%	1.89%	1.87%	1.79%	1.78%	1.87%	1.79%
Capitol Music Group	6.76%	6.66%	6.58%	6.59%	5.76%	6.21%	6.24%	7.10%	6.68%	6.75%	6.60%	6.73%	6.15%	5.70%	5.76%
Univ Latin Entertainment	1.54%	1.69%	1.73%	1.69%	1.74%	1.83%	1.89%	1.84%	1.98%	2.04%	2.03%	1.96%	2.03%	2.05%	2.05%
Disney Music Group	1.41%	1.33%	1.32%	1.26%	1.84%	1.52%	1.46%	1.33%	1.37%	1.31%	1.24%	1.19%	1.24%	1.20%	1.29%
Concord Music Group	1.41%	1.43%	1.45%	1.61%	1.49%	1.50%	1.57%	1.67%	1.51%	1.49%	1.50%	1.61%	1.52%	1.63%	1.60%
Universal Music Enterprises	0.55%	0.53%	0.53%	0.63%	0.54%	0.57%	0.60%	0.63%	0.59%	0.54%	0.53%	0.55%	0.54%	0.53%	0.54%
Ingrooves	1.92%	1.93%	1.96%	1.97%	1.98%	2.04%	1.96%	1.82%	1.73%	1.80%	1.78%	1.68%	1.68%	1.74%	1.80%
Indies/Other	15.11%	15.14%	15.25%	15.70%	16.64%	15.77%	15.59%	14.52%	15.21%	14.70%	14.87%	14.80%	15.63%	15.38%	14.79%
Total Industry	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Luminate, Wells Fargo Securities, LLC

Exhibit 60 - Music Industry Rev Growth Expects - 2024-2030E

Global Recorded Music Revs	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	CAGR 24-30E
Paid-streaming	8.0	9.3	11.4	12.6	14.0	15.4	16.5	17.7	19.1	20.5	22.2	23.8	7.5%
Ad-supported streaming	2.7	3.3	4.2	4.9	5.3	5.4	5.6	6.1	6.5	6.9	7.3	7.7	6.2%
Streaming	10.7	12.7	15.7	17.5	19.3	20.8	22.1	23.8	25.6	27.5	29.5	31.5	7.2%
Physical	3.9	3.7	4.3	4.5	5.1	5.2	5.1	5.0	4.9	4.8	4.8	4.7	-1.5%
Performance	2.4	2.2	2.3	2.5	2.7	2.8	2.9	3.0	3.1	3.3	3.4	3.5	3.6%
Downloads	1.4	1.2	1.1	0.9	0.9	0.8	0.7	0.7	0.6	0.5	0.5	0.4	-10.2%
Sync	0.5	0.4	0.5	0.6	0.6	0.7	0.7	0.8	0.8	0.8	0.8	0.9	4.6%
Total Recorded Music Revs	18.9	20.2	23.9	26.1	28.6	30.3	31.6	33.3	35.0	36.9	39.0	41.0	5.2%
y/y % change	8.0%	6.9%	18.1%	9.3%	9.9%	5.7%	4.4%	5.3%	5.3%	5.4%	5.6%	5.3%	
Paid Subs Breakdown													
Subs, BP	255	341	443	523	589	667	700	742	787	834	884	933	
Net Adds	86	102	80	66	78	33	42	45	47	50	49	47	
Subs, EP	341	443	523	589	667	700	742	787	834	884	933	979	5.6%
y/y % change	33.7%	29.9%	18.1%	12.6%	13.2%	5.0%	6.0%	6.0%	6.0%	6.0%	5.5%	5.0%	
Average subs	298	392	483	556	628	684	721	765	811	859	908	956	6.2%
Paid Subscription ARPU													
ARPU - Annual	\$26.83	\$23.81	\$23.60	\$22.66	\$22.31	\$22.53	\$22.87	\$23.21	\$23.56	\$23.91	\$24.39	\$24.88	1.6%
ARPU - monthly	\$2.24	\$1.98	\$1.97	\$1.89	\$1.86	\$1.88	\$1.91	\$1.93	\$1.96	\$1.99	\$2.03	\$2.07	
ARPU - y/y % growth	-14.2%	-11.3%	-0.9%	-4.0%	-1.5%	1.0%	1.5%	1.5%	1.5%	1.5%	2.0%	2.0%	
Recorded Music - YoY % Growth	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	
Paid-streaming	18.7%	16.7%	22.2%	10.5%	11.2%	10.0%	7.1%	7.6%	7.6%	7.6%	7.9%	7.3%	
Ad-supported streaming	34.3%	22.6%	26.7%	16.1%	8.8%	2.0%	4.5%	7.5%	7.0%	6.5%	6.0%	5.5%	
Total Recorded Music Revs	8.0%	6.9%	18.1%	9.3%	9.9%	5.7%	4.4%	5.3%	5.3%	5.4%	5.6%	5.3%	

Source: IFPI, Wells Fargo Securities, LLC estimates

Recorded music in USD billions, Subs in millions, ARPU in \$/mo

Changes Needed for Music Label Shares to Re-Rate—DSP Price Hikes and/or Changes to Wholesale Pricing Model

With subscription growth decelerating from LDD in prior years to HSD in '25, we believe music labels need for DSPs to return to a more consistent cadence of price increases—namely platforms that haven't implemented broad price hikes in a few years including Apple Music, YouTube Music, and Amazon Music. In addition, another round of SPOT price hikes + an introduction of its supremum tier—Music Pro—would be welcomed by the Labels and a must for subscription growth to re-accelerate and shares to re-rate. Lastly, if DSPs don't move to push pricing higher, we would expect labels to enact change to the current structure of their wholesale pricing model with DSPs. For '25, we expect SPOT to launch its Music Pro supremum tier—likely in 1H'25 given how long this product feature has been in the works. In addition, we don't expect other platforms to raise pricing given the growing gap between the field and SPOT. As a result, we expect Music Labels to begin to push changes to their wholesale pricing contracts with DSPs that include annual escalators—potentially a 2H'25 event.

There are several ways that music labels could approach the change in the pricing models, but we think charging DSPs a per subscriber fee makes the most sense. Recall, earlier this year WMG's Kyncl discussed the potential for the industry to shift to a cable fee model that instead would have labels getting paid per subscriber. He also noted that given the importance of catalog vs. new releases—labels could have DSP subscriptions that are for new releases only and if DSPs want the entirety of their music repertoire they could end up paying extra for the catalog. Kyncl emphasized the

importance of not accepting the status quo and continuing to innovate and look for other ways to better monetize their product.

Exhibit 61 - Revenue Share Model vs. Per User Minimum Model - Illustrative Example

Revenue Share Model					
SPOT Price	\$10.99	New SPOT Price	\$ 12.50	SPOT Price Hike	14%
RM Rev share	52%	RM Rev share	52%		
Labels Take	\$5.71	Labels Take	\$6.50		
MP Rev Share	15.2%	MP Rev Share	15.2%		
Labels take	\$ 1.67	Labels take	\$ 1.90		
SPOT Take	\$3.60	SPOT Take	\$4.10		
SPOT GM	33%	SPOT GM	33%		
Per User Minimums - Wholesale Pricing Model					
SPOT Price	\$10.99	New SPOT Price	\$ 12.50	SPOT Price Hike	14%
Per User Minimums	\$5.71	Per User Minimums	\$ 6.11	Labels Escalator	7%
MP Rev Share	15.2%	MP Rev Share	15.2%		
Labels take	\$ 1.67	Labels take	\$ 1.90		
SPOT Take	\$3.61	SPOT Take	\$4.49		
SPOT GM	33%	SPOT GM	36%		

Source: Wells Fargo Securities, LLC

We think raising its per subscriber minimums makes a lot of sense—especially since current contracts already have this in their model as floors to limit DSPs from giving up their product for free. These contracts were mostly done in the early days when the industry's incentive was to grow MAUs, thus, the rationale was to set per user minimums to limit DSPs from giving its product for free. However, the current floors are well below the current ARPU, thus, not impacting payouts. More recently, UMG also made comments at its Capital Markets Day and on its latest 3Q'25 earnings call re: wholesale pricing levers. It noted that all companies have the right to set what is appropriate commercial terms for the usage of its repertoire/IP and that UMG will do that. UMG management believes that it has reached a moment in time to get appropriate compensation (both UMG and its artists) for the value that it's delivering to the DSPs as it shifts to what it calls Streaming 2.0.

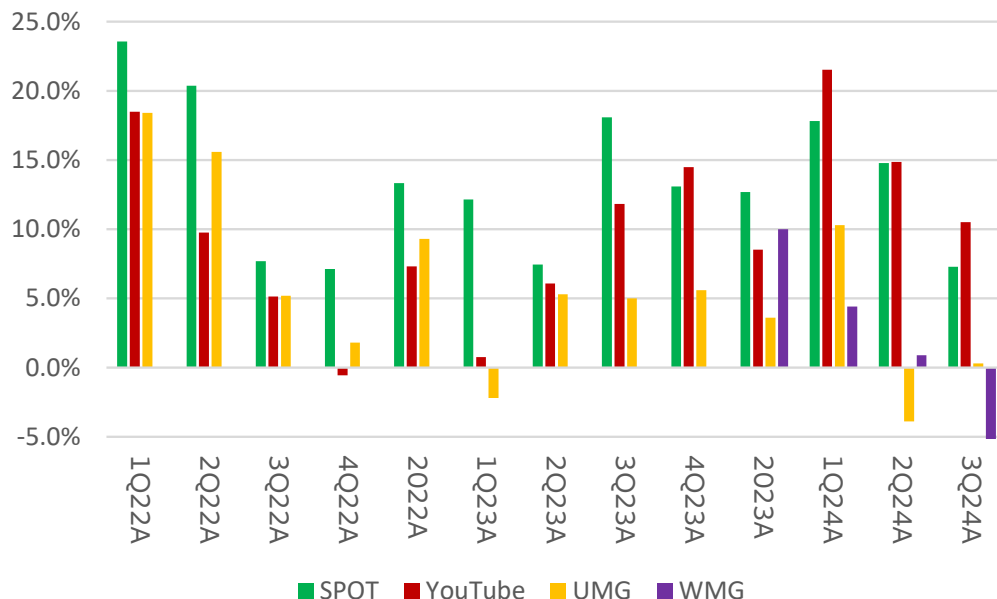
We expect labels and DSPs to discuss the changes to their payout models at the next round of negotiations (or even sooner), which we believe for SPOT and UMG is sometime in late '25. As always, there's a give and take from both parties to align interests and accommodate concessions. From SPOT's perspective, a new wholesale pricing model that includes per subscriber fees with annual escalators could have a margin benefit given potential for operating leverage with price hikes. This would certainly align incentives w/ music labels to drive pricing higher and provide a certain level of operating leverage, but could also add a level of risk to the model given potential for increased churn.

Ad-Supported Streaming Growth Likely to Remain Pressured

Similarly to subscription revenue growth, ad-supported streaming growth—both traditional and emerging—has decelerated in recent quarters. The slowdown has been mainly attributed to a challenging macro + an expiring Meta license for streaming music videos that wasn't renewed. While there remains near-term pressure from the Meta license expiration, expectations also came down for the out years.

We think the combination of the tougher macro + a slower than expected benefit from emerging platforms has pushed streaming revenue growth estimates lower. That said, when compared to SPOT and YouTube, WMG and UMG's ad-supported revenue growth underperformance has widened over the past two years, going from 80% of the SPOT/YT average to only 20-30% in 1H'24 (see Exhibit 62). We understand that other DSPs are not performing to similar levels than that of SPOT and YT, but, in our view, the key issue that Music Labels need to address going forward is what can they do to re-accelerate streaming revenue growth to show investors that they do have control over their own key KPIs.

Exhibit 62 - UMG and WMG RM Advertising Revenue Growth (ex-FX) vs. SPOT and YT Ad Revenue Growth - 2022-3Q'24



Source: Company reports, Wells Fargo Securities, LLC

With paid subscription approaching full saturation among US HHs and other western EU countries, we think Music Labels need to reconsider if fully licensing its catalog to SPOT and YT for a free tier is in their best interest. As we discussed above, we think changes to the ad-supported tier need to occur by either way of charging a fee to users, creating several tiers that drive better segmentation (e.g., free trial tier, radio-like tier, and paid ad-supported tier), or increasing ad-loads in countries with robust ad markets that 1) will encourage free users to convert to paying subs; or 2) better monetize ad subs. This dynamic is not going to get resolved quickly as Labels need to work with DSPs to agree on a solution. While we think ad-supported growth will modestly improve in 2H vs. 1H, we don't think the structural trends will see a meaningful improvement in '25.

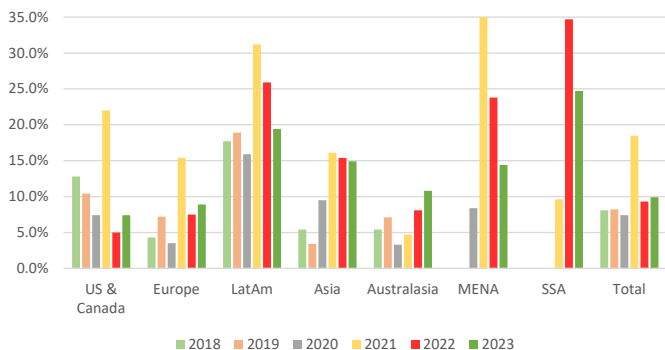
We Expect Labels to Expand Their Independent Distribution Arms

We expect the majors to respond to this market share dilution threat and to continue to cast a wider net to increase their breadth of their independent artist and label distro business. For instance, UMG has been clear about prioritizing its Virgin Music Group along with its frontline record groups. In fact, earlier this week, UMG announced the acquisition of Downtown Music for \$775mm (in cash). We estimate Downtown Music revenues at around \$900mm and AEBITDA of ~\$40mm, implying a TTM multiple of 18-19x, which we expect to be in the low-teens range post-synergies. Downtown oversees popular platforms like CD Baby and FUGA and represents high-profile artists. The company has been shifting focus in recent years from owning copyrights to providing services for copyright holders. Over the past five years, Downtown has been on a services-focused M&A spree. In 2019, it acquired AVL Digital Group, which includes services for independent artists like distribution platform CD Baby. This was followed by the acquisition of FUGA, a B2B tech and services company, in 2020, and Curve in 2023. More recently, Downtown's newly established Royalties & Financial Services division introduced Curve Royalty Services following its acquisition of royalty processing platform Curve in January 2023. We think Downtown Music now positions UMG's Virgin as the #2 player in the space after The Orchard and tied with Believe. The acquisition's primary goal was to enhance Virgin's artist services business and enhance its tools to better serve indie artists and therefore improve its ability to sign more indie artist. We expect further bolt-ons like this to occur in '25 as UMG continues to bolster its presence in international markets.

We expect WMG to further prioritize ADA, while continuing to invest in Level Music—the only open to all self-upload/DIY distro platform available among the major labels. Lastly, we expect SME to continue to push its relationships with independent artists through The Orchard and AWAL + its Santa Anna—

a subsidiary of Alamo Records which SME has a majority stake. Notably, SME's The Orchard illustrates the growing strategic importance of this label to its overall market share impact. Since 2019 to Q3'23, The Orchard's market share has more than doubled from 3.5% to 7.3% mainly driven by the success of artists like Bad Bunny and RAYE. This compares to SME's frontline labels Columbia at 6.2% and RCA at 5.1%. The Orchard and the other labels mentioned above essentially offer artists the ability to join a major label, while staying signed to an independent label. In other words, internal label services like The Orchard/Others allow superstar-level artists to access the resources of a major frontline label including financing, marketing, digital, radio, PR, and others without having to sign a traditional recording contract.

Exhibit 63 - Global Recorded Music Revenue Growth by Region 2018-2023



Source: IFPI, Wells Fargo Securities, LLC

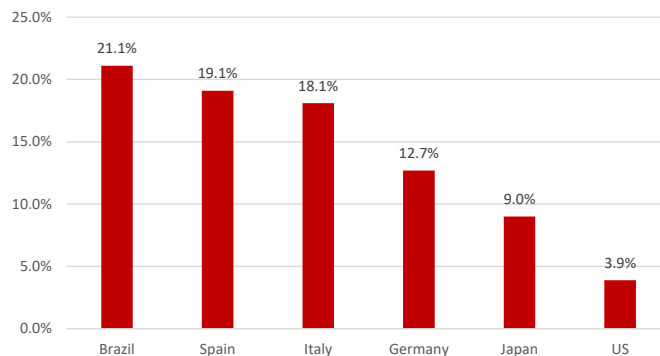
Outside the US, growth remains strong with most regions growing north of 15%—especially in LatAm, Asia and MENA. Of the few countries that have released mid-year recorded music industry stats, the US so far has the lowest growth rate by far. For instance, Brazil's Pro Musica just reported that 1H'24 recorded music revs grew y/y by 21% a substantial acceleration from 13.4% y/y growth in '23. Within that figure, subscription streaming was up 28.4%, while ad supported grew by 6.6%. Spain also posted strong growth figures at 19.1% y/y growth, while Italy's music streaming revenues grew by 18.1%. The world's second and fourth largest music markets—Japan and Germany—also had revenue growth well above the US at 9% and 12.7% y/y, respectively. Overall, the five non-US markets grew on average by 16% y/y during 1H'24 vs. the US at 3.9%.

We believe both UMG and WMG need to deploy an aggressive M&A strategy globally coupled with a focus on driving its distribution arm along with JV partnerships in fast growing emerging markets to capture future growth. UMG's and WMG's market share in emerging markets is well below the US and certain western EU markets. Another interesting trend occurring within Europe is the glocalisation of music streaming—especially across all the major markets including Germany, UK, Italy and Spain. In fact, in Europe's top ten markets, over half of the top ten artists are local acts leading the charts within each country. Music fans in individual EU countries are increasingly streaming local artists, which is likely diluting the major music companies' ability to dominate streaming charts across Europe, while also driving market share dilution and boosting local labels such as France's Believe and Sweden's Amuse. As such, we expect UMG and WMG to boost its local presence in Europe through M&A given the fragmented nature of the market.

Audio Theme #3: SIRI to remain under pressure

We think SIRI is ex-growth, which will likely create downside to valuation. Our bear case implies a stock in the mid/high-teens in \$/sh (downside case of 5-6x EV/EBITDA based on comps, incl. AMCX), so significant downside. In fact, last week SIRI outlined a shift in strategy + provided its '25 financial outlook. Notably, after nearly 24 months of investing in streaming, SIRI now plans to focus incrementally on its in-car product and manage the business with a smaller funnel as it was not seeing the necessary volume lift needed on the lower ARPU/churnier digital product. As a result, the app will now focus on enhancing in-car engagement + accessing IP-centric autos (e.g., Tesla). We think management has concluded that streaming-only economics are unattractive.

Exhibit 64 - Audio Streaming Growth for Selected Markets - H1'24 Y/Y%



Source: RIAA, RIAJ, BVMI, Pro-Musica Brazil, Promusicae, FIMI, Wells Fargo Securities, LLC

While SIRI reiterated its '24 guidance (rev./EBITDA/FCF of ~\$8.675bn/~\$2.7bn/~\$1bn), it provided its initial '25 guidance of ~\$8.5bn/~\$2.6bn/~\$1.15bn, which was modestly below expects or -3%/-3%/-15% vs. consensus and -3%/-3%/-3% vs. our estimates. In addition, mgmt provided a '27 FCF target for \$1.5bn or -6% vs. our \$1.6bn est.

Exhibit 65 - SIRI Initial FY'25 Guidance

	FY'25 Guidance				
	SIRI - Initial	Street Est.	% Change	WF Est.	% Change
Self-paid net adds	N/A	46	N/A	111	N/A
Revs	8,500	8,744	-3%	8,737	-3%
EBITDA	2,600	2,689	-3%	2,682	-3%
EBITDA margin	30.6%	30.8%	-16 bps	30.7%	-11 bps
FCF	1,150	1,353	-15%	1,186	-3%

Source: Company reports, FactSet, Wells Fargo Securities, LLC estimates

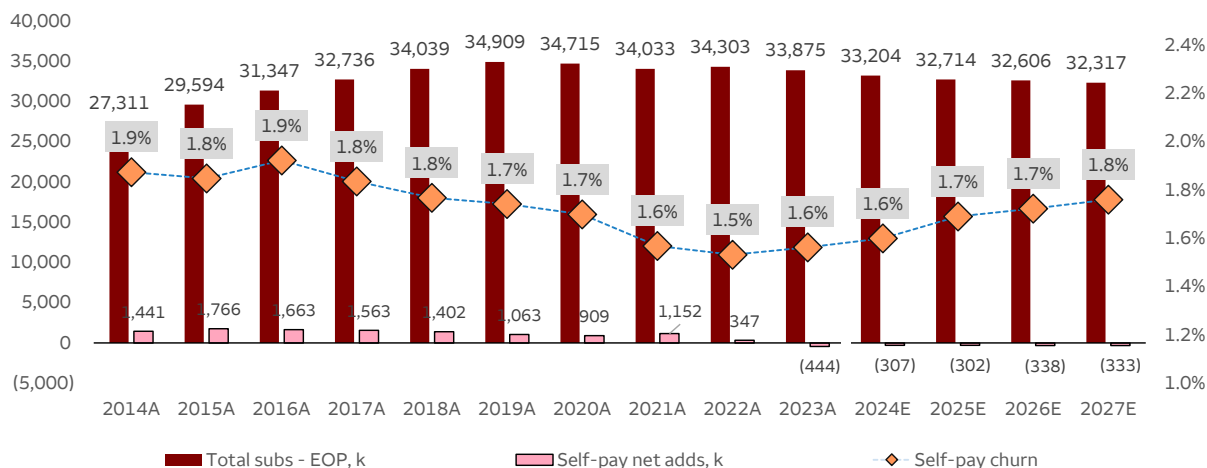
The '25 rev. guidance is -2%/y. We think SXM ads are scaling and a continued focus, but subscription ARPU is likely flat/down driven by tier mix, streaming-only, continued ramp in promos and limited price hikes. Our total SXM ARPU est. is -1% y/y, and we est. Pandora revs. -2% y/y (MAUs + political comp). Taken against the '25 rev. guide, our ests. imply subs might be down y/y in '25, or self-pay net adds of ~-300k vs. Street's +46k.

We think the sub trajectory is a major factor. We think SIRI has demographic challenges as its core base skews older, while most new car buyers skew younger. We think this will manifest in gradual degradation to self-pay trial conversion from ~30% today to ~28% within a few years. We also expect self-pay churn to modestly tick up over time driven by deactivations of existing, mostly younger subs (e.g., <50 years old) to digital alternatives.

Combined, this renders our self-pay net adds negative in perpetuity at ~-300k p.a.

With younger cohorts gravitating towards digital streaming apps like SPOT and Apple Music, we think SIRI's TAM will continue to shrink over time given its core demos age out. We expect any uptick in churn would mean valuation degradation as SIRI has traditionally exhibited exceptional monthly churn below 2%.

Exhibit 67 - SiriusXM Subscribers & Churn



Source: Company reports, Wells Fargo Securities, LLC estimates

Add it all up, and we think: 1.) streaming outside the car is tough with well established and sizable competitors; 2.) in-car subs remain valuable, but there is natural sub pressure (e.g., aging demos = shrinking TAM) + limited pricing power; and 3.) mgmt's focus will therefore be efficiency and cash. I.e., SIRI may be an ex-growth stock but with a strong cash profile. Peers like Cable and TV B'cast trade on 6-7x EV/EBITDA vs. SIRI currently >7x. AMCX, fully ex growth, trades on 4-4.5x. We think pay TV satellite providers have been valued even lower due to their declining subscriber bases.

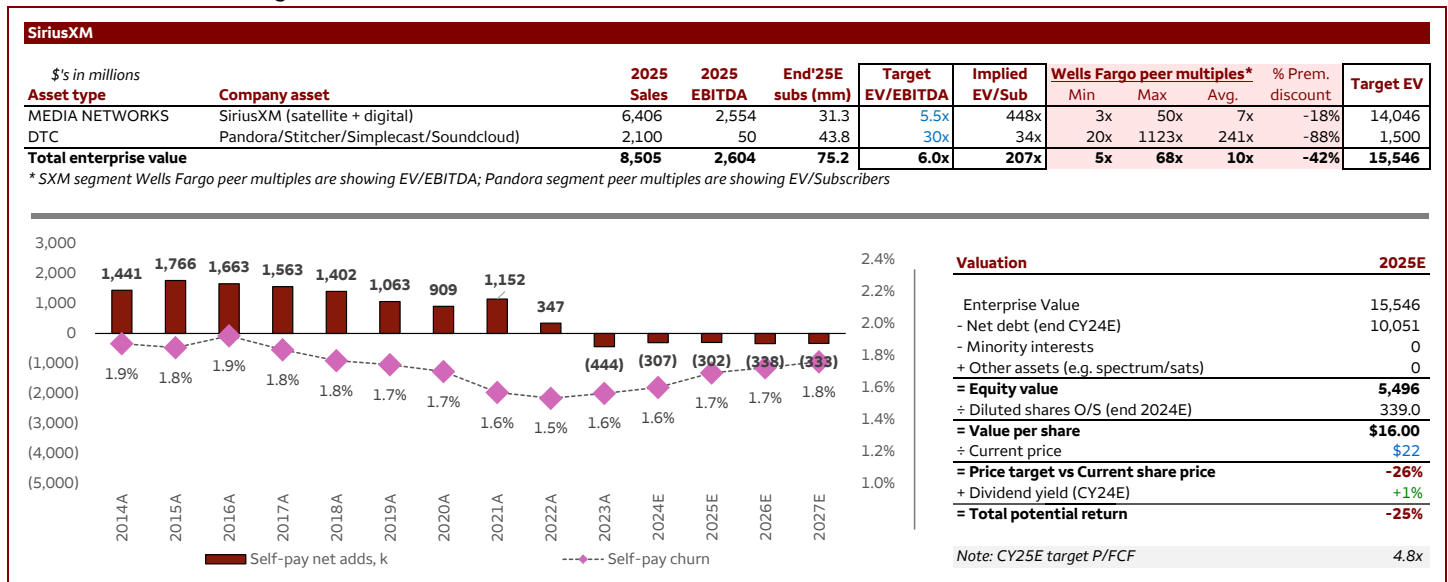
Exhibit 66 - SIRI's Implied '25 Self Pay Net Adds Based on Mgmt Guidance

	2024E	2025E	Y/Y %
SXM ARPU	\$ 15.09	\$ 15.00	-1%
Pandora Revenue	2,133	2,100	-2%
Implied Self Paid Net Adds	(307)	(302)	2%
SIRI Revenue	8,688	8,505	-2%

Source: Company Reports, Wells Fargo Securities, LLC estimates

After lowering our estimates on the new guidance, we value SIRI on a blended 6.0x EV/EBITDA, which is consistent with valuations for Cable names like CMCSA and CHTR where net adds are also challenged (and, broadband is arguably facing fewer secular headwinds than satellite radio). 6.0x our 2025E EBITDA = \$15.6bn EV and implies \$16/sh based on 339mm shares. Our target is 5x CY25E P/FCF, comparable to TV Broadcasters like NXST. We think bulls on SIRI are playing for a long-term FCF to equity story + spectrum, and bears are focused on near-term pressures.

Exhibit 68 - SIRI Price Target Derivation



Source: Company reports, FacSet, Wells Fargo Securities, LLC estimates

Broadcast 2025

Broadcast Theme #1: Deregulation = TGNA upgrade

Brendan Carr will be the next FCC Chair for the Trump administration. As a current commissioner, his elevation will be swift and doesn't require a Congressional process, so he should ascend as soon as Trump is in office. The FCC commission sets the agenda. While Broadcast will not be the only area of focus, Carr states that he is looking to improve media ownership limitations, which we think refers to the household cap and duopoly restrictions. During Carr's CNBC interview, he said that the commission will back the local Broadcasters even if that's in conflict with the Big 4 Networks.

The current duopoly rules limit a Broadcaster from owning more than one of the top Big 4 stations in a DMA except by FCC waiver. The new FCC could change things through its QDR and/or rules-making process (takes ~18mos). We think that things could change more quickly as the duopoly rule is currently being challenged in the A Circuit. This conservative-leaning court may eliminate the rule altogether, though the DoJ would still look at duopolies case-by-case with any eye towards market power.

The prior FCC chairman, Ajit Pai (2017-2021), looked to raise the cap, but the Republican commissioners couldn't agree that the FCC had the authority. We think that this Republican FCC will be aligned on a cap raise, perhaps either 2x the current (so to 78%), or no cap at all. At issue is exactly what authority rests w/ the FCC vs Congress, so a policy cap raise would likely be challenged. This could be the intent as it would shed legal light on the issue and help the FCC get a raise into Congressional channels. We think Carr's preferred approach will be legislation to eliminate the cap, which also reduces legal uncertainty around implementation. We're less sure how long this would take.

We've received lots of questions about whether the Trump administration could reclaim broadcast spectrum as Elon Musk has suggested. Legally, this is tough and would either become a legal battle, or require compensation like the prior broadcast spectrum auction. There's also concern that a political FCC could take away licenses in reaction to editorial/news content (e.g. CBS). In practice, this would be hard given First Amendment considerations. Carr said that the FCC will be looking to get its spectrum authority renewed, and that Broadcasters will be held to their mandate to serve the public interest.

We expect Carr to offer most of what Broadcast could want (except maybe vMVPDs, which our expert doesn't think will be a topic). Duopolies could be an immediate opp'ty as swaps could mean 2x Big 4s in a market, thereby reducing the cost to produce news + adding scale in ad sales. Swaps also reduce reach under the cap by exiting a market to double-up elsewhere. Though, we think duopolies would only be allowed outside of large DMAs (say outside the top 50 or top 100).

The ownership cap raise is a bigger paradigm shift with many potential combos depending on where it lands.

Since Brendan Carr has been a strong advocate for the Broadcasters, we expect deregulation to move quickly within his term and for Carr to make incremental changes within his first six months. As mentioned above, we expect Carr to raise the ownership cap to 2x the current (so to 78%), or no cap at all. We illustrated the potential merger and acquisition combos in Exhibit 69. We assumed that the duopoly rule still remains.

We assume NXST, GTN and CMG/Apollo would be acquirers based on past events and activities. We expect TGNA, SSP and SBGI to be more willing to be sellers in whole or part of their companies based on past events and recent statements. We included Hearst and Allen Media as sellers too within our M&A combos chart. We also show each group's household reach w/ and w/out the UHF discount.

We think that a CMG/Apollo + TGNA merger would reach 38% of households with the UHF discount or 46% without the UHF discount. We think the merger would reach 60.7mm HHs with five TV stations or 8.2mm households being divested. We also think that a NXST + SBGI combo would reach 102mm HHs, and would reach ~49% with the UHF and ~81% without the UHF discount. We think that 48 TV stations will be divested or 27mm HHs.

We think there will be incremental duopoly opportunity and station swaps that the Broadcasters will actively engage in, although forecasting specific market opportunities is tough.

Exhibit 69 - Broadcasters + Potential M&A HHs Reach % w + w/o UHF Discount

Companies	HH reach in mm	% reach w/out UHF	% reach w/ UHF	HHs in mm	# of overlapping stations	Overlapping big 4 reach (mm)	% reach w/out UHF	% reach w/ UHF
NXST	82.1	65.2%	39.0%	125.9				
GTN	48.1	38.5%	25.0%	124.8				
SBGI	48.1	37.5%	24.0%	128.4				
TGNA	51.8	39.0%	30.0%	132.9				
SSP	93.9	71.1%	38.0%	132.0				
Allen	6.7	5.4%	5.4%	125.0				
Hearst	25.5	20.4%	20.4%	125.0				
CMG/Apollo	14.0	11.2%	11.2%	125.0				
NXST + SBGI	101.8	80.6%	48.9%		48	26.7	20.8%	13.3%
NXST + TGNA	103.1	81.0%	51.2%		30	25.2	19.0%	14.6%
NXST + SSP	120.1	93.4%	54.4%		21	18.0	13.7%	7.3%
NXST + Allen	85.0	67.5%	41.3%		10	3.3	3%	3%
NXST + Hearst	91.5	72.7%	46.5%		21	8.0	6.4%	6.4%
GTN + SSP	95.3	74.3%	43.5%		14	31.3	23.7%	12.7%
GTN + TGNA	79.0	61.8%	42.9%		25	20.8	15.7%	12.1%
GTN + SBGI	76.5	60.6%	39.2%		34	18.7	14.6%	9.3%
GTN + Allen	49.4	39.5%	26.0%		13	4.9	4.0%	4.0%
GTN + Hearst	63.3	50.7%	37.2%		11	8.0	6.4%	6.4%
CMG + Apollo + TGNA	60.7	46.4%	38.3%		5	8.2	6.2%	4.7%
CMG + Apollo + SBGI	62.2	48.7%	35.2%		2	1.7	1.3%	0.9%
CMG + Apollo + SSP	95.8	73.2%	44.3%		6	9.9	7.5%	4.0%
CMG + Apollo + Hearst	29.0	23.2%	23.2%		4	10.6	8.5%	8.5%

Source: Company reports, SNL Kagan, Wells Fargo Securities, LLC estimates

TGNA is the way to play deregulation

Overall, we think TGNA is the most attractive and scaled station owner for deregulation and consolidation since it does not have a controlling shareholder, and is currently below the ownership cap with the UHF discount. TGNA's management has not commented on M&A. From early'22 until May'23, TGNA had agreed to an acquisition by Standard General, with financing from Apollo/Cox Media. The deal fell apart after a lengthy FCC review and the expiration of financing.

After NXST, TGNA has the largest scale among the broadcasters. As a result, we estimate that TGNA commands retrans rates of ~\$4.61/sub/mo, vs NXST, GTN and SBGI at \$6.29, \$5.04 and \$5.08, respectively. Recall, during Broadcast M&A, the station buyers are able to reset the acquired asset's retrans rates up to the buyer's level for near-instant synergy. We think both public and private Broadcasters would see TGNA as attractive in terms of reach, station footprint and retrans upside. TGNA also acquired Premion that is supposed to materialize starting in 2026E. Most importantly, TGNA has the lowest net leverage in the Broadcast universe at 2.9x.

Recall, Standard General and Apollo teamed up to acquire TGNA with a ~\$22/sh bid back in September 2021. Then, Standard General and TGNA entered into an agreement, which Standard General valued TGNA at ~\$24/sh or \$8.6bn, including debt. The potential deal implied a ~7.6x multiple on our '22/'23 estimates. Back in February 2022, TGNA had ~224mm shares and \$2.96bn in net debt. Our two-year forward EBITDA and FCF estimates were \$1.09bn and \$692mm, respectively.

In May 2023, the Standard General and Tegna deal officially collapsed as a key financial deadline expired. TGNA was entitled to a termination fee of \$136mm from SG. After the deal collapsed, TGNA started reconnecting back with the Street. Today, shares are down to 170mm due to multiple ASRs and TGNA's new capital allocation strategy. We estimate that TGNA's 24E net debt will be \$2.64bn. We est. '25/'26 avg. EBITDA and FCF of \$758mm/\$457mm. Broadcast fundamentals are challenged and with the higher cost of capital, today, a buyer might pay ~10% less on EV/EBITDA on 7.5x. That would still imply a value of \$20/sh.

We're upgrading TGNA to Overweight from Equal Weight, and we're moving our price target to \$23/sh, which bakes in a premium from M&A potential. Our price target of \$23/sh is +31% vs. TGNA's current price. Nonetheless, TGNA has stable net retrans due to being majority variable reverse comp, and Premion is a differentiating asset. We value TGNA on a 7.5x EV/EBITDA multiple and 9.0x P/FCF

multiple, which implies a premium compared to the average broadcast P/FCF of 4.6x. Our premium is based on the M&A potential.

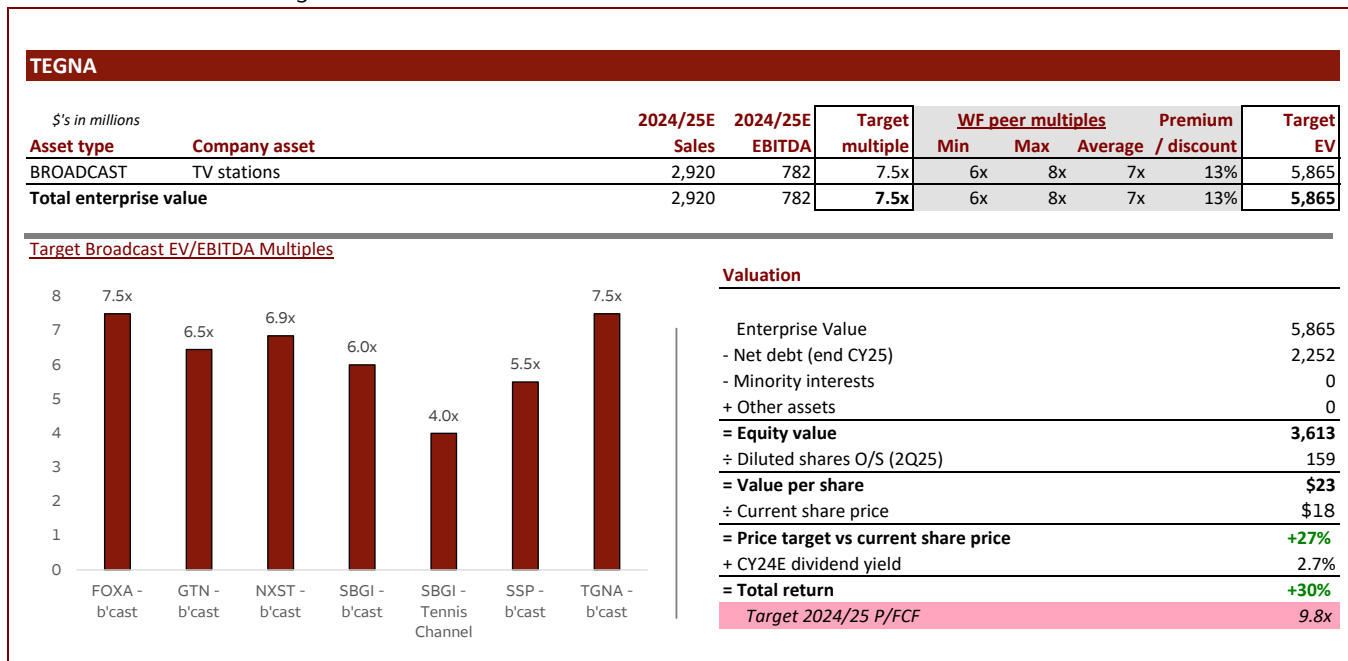
Exhibit 70 - TGNA's PT vs TGNA's PT during the SG deal

	Feb'22 SG deal	New PT
Price per share	\$24.00	\$23.00
X Diluted shares (mm) NTM	224	159
= Equity value	\$5,368	\$3,613
+ Net debt (NTM)	2,964	2,252
= EV	\$8,332	\$5,865
/ WF est. 2-year EBITDA	1,093	782
= EV/EBITDA multiple	7.6x	7.5x
Note: est. 2-year FCF	692	482
Note: P/FCF multiple	7.8x	9.8x

Source: Company reports, FactSet, Wells Fargo Securities, LLC estimates

Additionally, we provide an illustrative discounted cash flow analysis/valuation for TGNA. We estimate that a 10-year UFCF grows at a CAGR based on ~ -1.2% revenue CAGR, and ~ -2.1% EBITDA CAGR with a ~ -2% unlevered FCF CAGR. We provide a sensitivity in our DCF to the terminal multiple and the WACC. At a 5.7% WACC our DCF implies our new price target of \$20/sh. Our DCF does not bake in any buyer synergies.

Exhibit 71 - TGNA Price Target



Source: Source: Company reports, FactSet, Wells Fargo Securities, LLC estimates

Exhibit 72 - TGNA Illustrative DCF Valuation

FY	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	Avg '33/'34E	CAGR
DCF year	-2	-1	0	1	2	3	4	5	6	7	8	9	10	Terminal	Yr. 1-10
millions (\$mm)															
Revenue	3,279	2,911	3,101	2,738	2,983	2,647	2,920	2,583	2,869	2,531	2,812	2,481	2,755		
% 2y/2y growth	11.6%	-2.7%	-5.4%	-5.9%	-3.8%	-3.3%	-2.1%	-2.4%	-1.7%	-2.0%	-2.0%	-2.0%	-2.0%		
Avg 2yr Revenue	3,135	3,095	3,006	2,920	2,861	2,815	2,783	2,752	2,726	2,700	2,672	2,646	2,618	2,618	-1.2%
% y/y growth	5.8%	-1.3%	-2.9%	-2.9%	-2.0%	-1.6%	-1.1%	-1.1%	-0.9%	-0.9%	-1.1%	-0.9%	-1.1%		
+ Opex	(2,147)	(2,169)	(2,171)	(2,105)	(2,101)	(2,046)	(2,083)	(2,013)	(2,066)	(1,979)	(2,033)	(1,945)	(1,928)	(1,937)	
% 2y/2y growth	12.2%	6.1%	1.1%	-2.9%	-3.2%	-2.8%	-0.8%	-1.6%	-0.8%	-1.6%	-0.8%	-1.6%	-0.8%		
= EBITDA	1,132	742	930	634	882	601	837	570	803	553	779	536	756		
% 2y/2y growth	10.5%	-21.7%	-17.8%	-14.6%	-5.2%	-5.2%	-5.2%	-5.2%	-4.0%	-3.0%	-3.0%	-3.0%	-3.0%		
% EBITDA margin	34.5%	25.5%	30.0%	23.1%	29.6%	22.7%	28.6%	22.1%	28.0%	21.8%	27.7%	21.6%	27.4%		
= Avg 2yr EBITDA	1,040	937	836	782	758	741	719	703	686	678	666	657	646	646	-2.1%
% y/y growth	5.5%	-9.9%	-10.8%	-6.5%	-3.1%	-2.2%	-3.1%	-2.2%	-2.4%	-1.2%	-1.8%	-1.2%	-1.8%		
+ Stock-based comp.	(49)	(24)	(32)	(32)	(35)	(24)	(33)	(23)	(32)	(22)	(31)	(21)	(30)	(26)	
% of EBITDA	4%	3%	3%	5%	4%	4%	4%	4%	4%	4%	4%	4%	4%		
+ Cash taxes	(171)	(124)	(160)	(158)	(171)	(117)	(162)	(111)	(156)	(107)	(151)	(104)	(147)	(125)	
% Cash taxes % of EBITDA	15%	17%	17%	25%	19%	19%	19%	19%	19%	19%	19%	19%	19%		
- Working capital	20	6	4	-	-	-	-	-	-	-	-	-	-	-	
= Unlevered FCF	932	599	742	444	676	460	641	436	615	423	597	410	579	495	
= Avg 2yr Unlevered FCF	754	765	671	593	560	568	550	538	526	519	510	503	495		-2.0%
% y/y growth	-11.0%	1.5%	-12.4%	-11.6%	-5.6%	1.5%	-3.1%	-2.2%	-2.4%	-1.2%	-1.8%	-1.2%	-1.8%		

WACC (per FactSet) **5.7%**

Present value, UFCF yrs. 1-10	3,950
+ Present value, Terminal UFCF	1,747
Note: Terminal multiple applied	6.5x
= DCF enterprise value	5,697
- Net debt / (cash)	(2,443)
+ Other assets	0
= Equity value	3,254
÷ dil. shares O/S, mm (CY24E)	162.6
= Value per share (USD)	\$20

WACC	Sensitivity Analysis - Terminal Multiple & WACC				
	4.5x	5.5x	6.5x	7.5x	8.5x
5.0%	\$18	\$19	\$21	\$22	\$24
6.0%	\$16	\$18	\$20	\$21	\$23
7.0%	\$15	\$17	\$19	\$20	\$22
8.0%	\$14	\$16	\$18	\$19	\$21
9.0%	\$13	\$15	\$17	\$18	\$20

Source: FactSet, Wells Fargo Securities, LLC estimates

Broadcast Theme #2: NXST has been the strongest consolidator

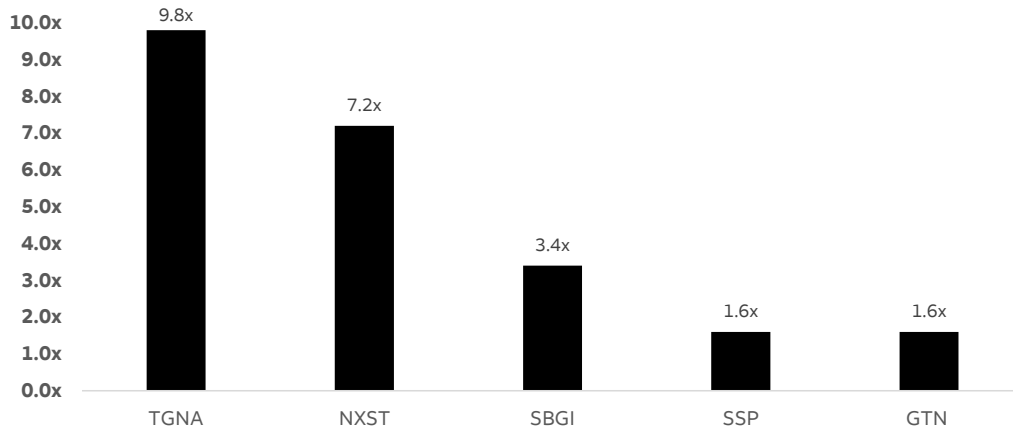
NXST still stands out as a historically good consolidator, which is reflected in our high target P/FCF multiple. We value NXST at 7.2x P/FCF vs. its peers, TGNA (M&A premium), SBGI, GTN and SSP at 9.8x, 3.4x, 1.6x and 1.6x, respectively. We think the P/FCF is a better multiple to value the Broadcasters since most of them are highly levered.

NXST has the largest scale, which commands the highest retrans and net retrans rates. NXST's retrans rates also benefit from packing its local stations, NewsNation, the CW O&Os and the CW Big 4 Networks during its MVPDs negotiations. We think that NXST will end 2024 with retrans revenue of \$2.93bn, +8%/y and net retrans of \$1.52bn, +13% y/y. We estimate that NXST's 2025E retrans and net retrans will be \$3.0bn, +2% y/y and \$1.54bn, +2% y/y. NXST will renew its 55% of subs in the back half of 2025E, which will elevate its 2026E retrans and net retrans.

We think the share of total political ad dollars flowing to Broadcast is starting to shrink as more content flows to streaming. Despite the shrinking pie, we think NXST draws in the highest political ad dollars behind GTN compared to its peers. NXST's political map is another reason why we favor NXST. NXST expects to bring in ~\$491mm in political dollars in 2024E vs. GTN with ~\$495mm - \$500mm political ad revenue. NXST is well positioned in larger markets, where political ad dollars are indexed to.

Furthermore, NXST has unique assets, including the CW and NewsNation, that differentiates itself vs. its peers. These assets are able to capture political ad dollars that are flowing to digital. Furthermore, the CW acts like a smaller TV Network and collects reverse comp and owns its own O&Os. NewsNation has grown its primetime viewers by +88% vs. 2021. We think its attracting more advertisers due to its neutral political views.

Exhibit 73 - Target P/FCF Multiples



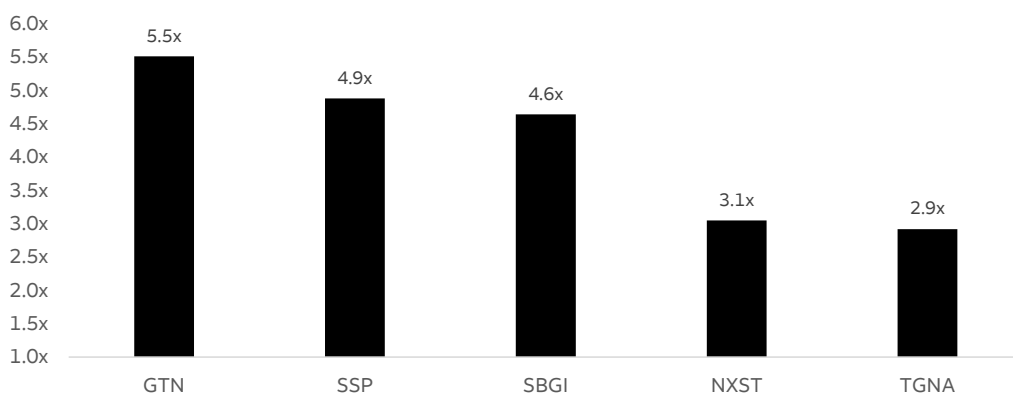
Source: Wells Fargo Securities, LLC estimates

Most importantly, we prefer NXST over the other Broadcasters because it has a low net leverage at 3.26x vs. its peers, and we expect it to hit 3.05x by the end of the year. Despite, TGNA's estimated YE 2024 net leverage of 2.9x, NXST's scale + leverage makes it more attractive. While the rest of Broadcasters have an average net leverage ratio of 5.0x. We think that GTN will end the year with the highest with 5.5x, followed by SSP with 4.9x and SBGI with 4.6x. We expect investors want these Broadcasters to divest to healthy leverage levels. For instance, SSP experienced a sell-off when it announced that its Bounce potential buyer backed out because investors were expecting SSP to use its proceeds to delever.

NXST also has a favorable capital allocation plan established. We expect NXST to allocate ~47% of its '24E FCF to share repurchases and ~20% to dividends and ~29% of to pay down debt. Overall, we think that NXST is the most derisked stock in Broadcast and has the highest '25E and '26E growth and visibility on net retrans.

We note that NXST did the Tribune acquisition at <\$100/sh, so it's +60%+ over those 5 years despite tough industry fundamentals.

Exhibit 74 - YE Net leverage estimates



Source: Wells Fargo Securities, LLC estimates

Challenged fundamentals are the reason deregulation is needed

Despite, our bullishness for the incoming Republican FCC, the Broadcast fundamentals are still challenged. That is why we believe the Broadcasters will lean more towards consolidation if the opportunity is available.

For instance, both core and political advertising is at risk for the broadcasters, and we will further explain those pressures in later sections in the note. First, most Broadcasters missed their external and internal political guidance, except SSP. SBGI preannounced a 3Q + 2024E political ad revenue guide of

\$140mm - 145mm and \$442-469mm, but missed their guides by coming in at \$138mm for 3Q and now expects '24E political ad revenue to be \$385-410mm.

NXST guided to low-mid teens% of total political Broadcast ad dollars allocated towards Broadcast, but now expects to receive low-teens% of total Broadcast political ad dollars. We expect that the Broadcasters will see less political ad revenue during the 2025 political cycle vs. 2023, and the 2026 cycle will receive less vs. 2024 and 2022. We think the Broadcast political ad share will inevitably change as the voting demographics skews younger and more content moves to digital outlets.

Second, advertisers are moving away from linear and moving towards other media outlets. We saw linear TV ads start decelerating beginning in 2022. We think linear TV advertising excluding sports are down -DD% y/y in '24, and we think national TV ads will remain challenged into 2025.

Third, retrans is being challenged with both sub attrition and lowered step ups. We estimate that 2025's sub attrition has slowed down to -7.2% y/y vs. our prior expectations of -7.7% y/y. Though that is positive for broadcast, cord cutting is still at a very high level. This high level of cord cutting is pressuring retrans revenues, and we think there could be a reacceleration in cord cutting starting at the end of 2025 as ESPN+ DTC launches.

Our cord cutting estimates include vMVPDs. Though vMVPDs boost pay TV subs, they do dilute retrans economics. We expect vMVPDs to continue growing as subs cut linear cords. For example, YouTube reported that its sports consumption increased by +30% y/y in 2024, and we expect its sports content consumption to continue to increase in 2025. We think that YouTube's consumption increase was due to YouTubeTV and *Sunday Ticket*. Hulu + Live has been consistently increasing its subs as consumers cut their linear subscriptions.

We estimate that 2025E and 2026E industry retrans revenue growth will be +1% y/y and +3% y/y. We think that retrans revenue will hit negative by 2028. We think analyzing retrans revenue growth without NXST reflects the underlying trends in the retrans ecosystem. We estimate that 2025E and 2026E retrans revenue growth will be +flat % y/y without NXST, and retrans revenue growth would have already hit negative in 2024.

As cord cutting increases, we expect the Broadcasters to push for reverse comp to move to variable vs. fixed. We think that FOXA and CBS have more fixed reverse comp fees and ABC and NBC have more variable fees. We think the recent and upcoming Big 4 renewals might start implementing better reverse comp for the affiliates. We think that a healthy relationship with Networks and affiliates is beneficial for the entire retrans ecosystem.

Broadcast Theme #3: Retrans is slowing

Retrans and net retrans are both experiencing slowdowns in growth. We think the slowdowns are being influenced by cord cutting, smaller rate increases and an increase in the mix shift of virtual MVPDs. Notably, at our '24 NAB conference, one management team indicated they believe there's ~1 more retrans rate cycle ahead. We think that the rate of cord cutting is outpacing the average annual traditional and virtual rate increases. For instance, our retrans tracker indicates that the highest linear rates reside at NXST and GTN at ~\$5.67/sub/mo and ~\$4.74/sub/mo, respectively. Overall, we estimate that total retrans revenue will grow by +1% in 2025E and hit negative growth starting in 2028E as cord cutting outpaces retrans growth. We estimate that the 2022-2027 net retrans CAGR will be +2%.

Our Media view of sports into streaming could also prove negative for retrans potential longer-term as more subs shift to streaming-centric viewership models.

Exhibit 75 - Wells Fargo Retrans Tracker - \$mm Revenue

	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E	CAGR: '22-'27
Revenue - \$mm										
NXST										
Trad'l Big 4	2,219	2,154	2,330	2,301	2,457	2,439	2,217	2,147	1,947	1.9%
Virtual/Streaming	301	312	338	366	394	422	447	475	504	7.0%
CW O&O	6	25	34	53	69	91	120	159	209	72.4%
CW rev. comp.	-	50	56	97	137	192	270	379	518	
News Nation	-	184	181	178	176	173	168	164	159	#DIV/0!
Other	(6)	-	(5)	-	-	-	-	-	-	
Total	2,519	2,726	2,934	2,995	3,233	3,317	3,222	3,324	3,338	5.7%
GTN										
Trad'l Big 4	1,332	1,360	1,292	1,252	1,259	1,232	1,228	1,231	1,172	-1.5%
Virtual/Streaming	164	172	188	201	214	227	241	256	271	6.7%
Other	-	-	-	-	-	-	-	-	-	
Total	1,496	1,532	1,480	1,453	1,473	1,459	1,469	1,487	1,443	-0.5%
TGNA										
Trad'l Big 4	1,360	1,376	1,232	1,203	1,159	1,093	1,038	1,005	957	-4.3%
Virtual/Streaming	170	176	191	207	221	235	249	265	281	6.7%
Other	-	-	22	-	-	-	-	-	-	
Total	1,530	1,553	1,445	1,410	1,380	1,328	1,287	1,269	1,238	-2.8%
SBGI										
Trad'l Big 4	1,349	1,294	1,323	1,338	1,257	1,275	1,273	1,189	1,156	-1.1%
Virtual/Streaming	181	197	215	230	244	259	275	292	310	7.4%
Other	-	-	-	-	-	-	-	-	-	
Total	1,530	1,491	1,538	1,568	1,502	1,534	1,548	1,481	1,466	0.1%
SSP										
Trad'l Big 4	536	623	621	626	708	711	666	659	602	5.8%
Virtual/Streaming	119	130	142	153	162	172	183	194	206	7.7%
Other	-	-	-	-	-	-	-	-	-	
Total	655	752	763	779	871	883	849	853	808	6.2%
5 Broadcasters										
Trad'l Big 4	6,796	6,807	6,798	6,718	6,840	6,750	6,422	6,230	5,835	-0.1%
Virtual/Streaming	935	987	1,074	1,157	1,236	1,315	1,396	1,481	1,572	7.1%
Other	-	260	289	328	382	457	558	702	886	
Total revenue	7,731	8,054	8,161	8,203	8,458	8,522	8,376	8,414	8,293	2.0%
% y/y		4%	1%	1%	3%	1%	-2%	0%	-1%	

Source: Company reports, Wells Fargo Securities, LLC estimates

Number in red is also our estimate.

Nonetheless, Broadcasters still generate the majority of their EBITDA from net retrans. As the top line becomes compressed, we are seeing a slowdown in the industry's net retrans. As a result, many Broadcasters are advocating and fighting for their reverse comp fees to be more variable vs fixed. Notably, GTN (CBS's largest affiliate) is renewing with CBS and FOXA in summer '25E, and GTN expressed that it is pushing for more fixed pricing. We do expect reverse comp to get easier in the future.

Overall, we expect '25E net retrans growth to be -1% y/y, and that growth will bounce back in 2026E with SSP and NXST renewing most of their MVPD subs at the end of 2025 and in 2026. We think net retrans will hit negative growth again in 2028. We estimate that the 2022-2027 net retrans CAGR will be +2.9%.

Exhibit 76 - Wells Fargo Retrans Tracker - \$mm Net Revenue

	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E	CAGR: '22-'27
Net retrans - \$mm										
NXST	1,199	1,341	1,516	1,540	1,736	1,819	1,742	1,861	1,892	8.7%
% of revenue	47.6%	49.2%	51.7%	51.4%	53.7%	54.8%	54.1%	56.0%	56.7%	+722 bps
GTN	593	596	548	521	540	528	538	555	509	-2.3%
% of revenue	39.6%	38.9%	37.1%	35.8%	36.7%	36.2%	36.6%	37.3%	35.3%	-348 bps
TGNA	936	949	925	892	870	836	808	802	785	-2.2%
% of revenue	61.2%	61.2%	64.0%	63.3%	63.0%	63.0%	62.7%	63.2%	63.4%	+178 bps
SBI	586	513	540	552	479	496	492	436	428	-3.3%
% of revenue	38.3%	34.4%	35.1%	35.2%	31.9%	32.3%	31.8%	29.4%	29.2%	-602 bps
SSP	217	304	311	310	397	406	366	363	311	13.4%
% of revenue	33.0%	40.4%	40.7%	39.8%	45.7%	46.0%	43.1%	42.6%	38.5%	+1,290 bps
5 Broadcasters	3,532	3,703	3,840	3,815	4,022	4,084	3,946	4,018	3,925	2.9%
% of revenue	45.7%	46.0%	47.1%	46.5%	47.6%	47.9%	47.1%	47.8%	47.3%	+224 bps
% y/y		5%	4%	-1%	5%	2%	-3%	2%	-2%	

Source: Company reports, Wells Fargo Securities, LLC estimates

We think the 2025E and 2026E industry retrans and net retrans revenue is fueled by annual escalators, and these Broadcast, MVPD, vMVPDs and Big 4 renewals below:

Some notable 2025E Big 4 renewals are GTN's renewals with CBS and FOXA in summer 2025 and TGNA's renewal with FOX.

Exhibit 77 - Media + Broadcast + MVPDs/vMVPDs Renewals

Past Deals						
Current Deal/Announced Deal						
Expected Renewal						
Estimated Renewal						
Wells Fargo Renewals Database	2021	2022	2023	2024E	2025E	2026E
Media Companies/MVPDs						
DIS	CMCSA, YTTV, DTV	DISH	CHTR, VZ, fuboTV, ATUS	DTV, VZ, YTTV, DISH,	DISH	CHTR, VZ, fuboTV, ATUS
FOX	CMCSA	VZ, DTV	DISH, Hulu + L	DISH, Hulu + Live, CHTR	VZ, DTV	DISH, Hulu + L, CMCSA
PARA	CHTR, VZ, ATUS, Hulu + L	CMCSA	fuboTV, COX, DISH	CMCSA, CHTR, ATUS, Hulu + L		fuboTV, COX, DISH, VZ
WBD	ATUS, Hulu + L, DISH	CMCSA, YTTV, DTV	fuboTV, COX, VZ	CMCSA, CHTR	YTTV, DTV	fuboTV, COX, VZ
AMCX	YTTV	CMCSA	CMCSA	DISH, YTTV, CHTR	CMCSA	
Wells Fargo Renewals Database	2021	2022	2023	2024E	2025E	2026E
Broadcasters/Big 4 + The CW						
SBI	CBS	ABC, NBC, FOX	CW, CBS	FOX, NBC		ABC, FOX, CW, CBS
TGNA	NBC	CBS, FOX	ABC	NBC		ABC
GTN	CBS	ABC, FOX	CW, NBC, CBS	ABC	FOX, FOXA	CW, NBC
SSP	NBC, CBS, CW			NBC, CW		CBS, ABC, FOX
NXST	NBC	CBS, ABC	FOX	NBC, CBS		FOX, ABC
Wells Fargo Renewals Database	2021	2022	2023	2024E	2025E	2026E
Broadcasters/MVPDs/vMVPDs						
SBI	DISH, VZ, COX	CHTR	YTTV, Hulu + L	NCTC, VZ, CHTR, DISH, DTV, CMCSA		YTTV, Hulu + L
TGNA		DISH, VZ	CMCSA, DTV	NCTC	DISH, VZ	CMCSA, DTV
GTN			DISH	CHTR		DISH
SSP		DTV	CMCSA, CHTR, YTTV	DISH	DTV	CMCSA, CHTR, YTTV
NXST		VZ, CMCSA	DISH, CHTR, DTV, YTTV, Hulu + L, COX	fuboTV	VZ, CMCSA	DISH, CHTR, DTV, YTTV, Hulu+, COX

Source: Company Reports, Wells Fargo Securities, LLC

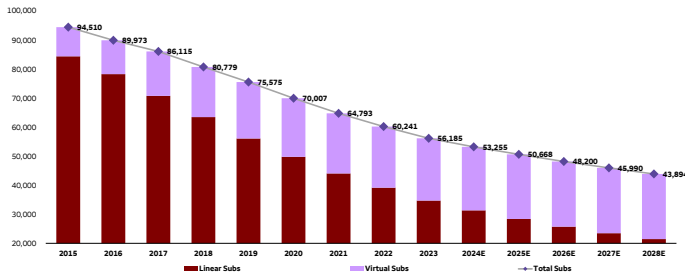
We suspect that cord cutting is outpacing traditional and virtual retrans rate increases. We think cord cutting pacing to be -7.4% y/y and -7.2% y/y in '24E and '25E, which is incrementally better than our prior '25E estimate of -7.7% y/y. Many of our Broadcasters + FOXA have indicated the sub attrition has slowed down, however we do not think cord cutting has slowed down enough to not offset retrans increases.

We expect that our cord cutting estimates have improved for a few reasons. First, the improvement that 3Q24 saw could represent a structural slowing as a natural level of pay TV subs is eventually reached. Second, MVPD are increasingly recutting their carriage deals with streaming add-ons at no additional consumer cost. MVPDs including, CHTR, DirecTV and Comcast, are acting most aggressively to improve the value of video packages for consumers.

Also vMVPD subs are rising as linear subs continue to cut the cord. We think that vMVPDs now encompass ~28% of the pay TV universe and will encompass ~32% in 2025E and ~35% in 2026. We expect vMVPD subs to surpass linear subs by 2032E. We also expect the majority of sports programming will be available on streaming by then too.

vMVPD pricing is starting to rise too. YouTube TV announced that pricing on its base package will increase from \$73/mo to \$83/mo (+14%), beginning January 13. Customers on promotional rates will not see an impact until their deal period ends. In the vMVPD universe, video pricing is now as follows: DirecTV Stream \$87/mo, Hulu + Live TV \$83/mo (incl. Disney Bundle) and Fubo \$80/mo (no RSN package).

Exhibit 78 - US Pay TV Subscribers (k)

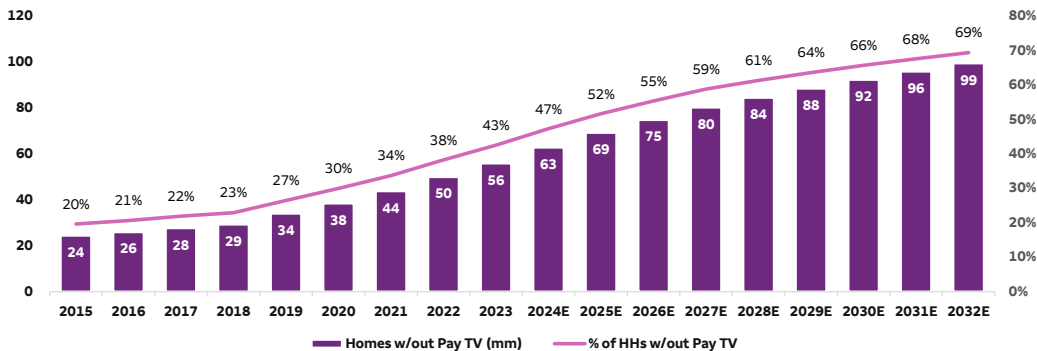


Source: Company reports, Visible Alpha, Wells Fargo Securities, LLC estimates

The launch of ESPN+ will mean that a third of live sports rights will be on streaming. If FOXA is able to partner with another Media company to put its content on DTC, that would imply that ~50% of live sports will be available online. We also expect FOXA to announce a sports streaming partnership by 2H25 with either Amazon, YouTube, Apple or Roku. Notably, the Tyson-Paul fight averaged 108mm globally viewers on NFLX and drove 1.43mm new US sign-ups for NFLX. We think this is prime example of how sports to streaming threatens broadcast and drives cord cutting.

We also expect consumers to engage in more sports features, including sports betting, fantasy leagues, stats and reporting, that would further accelerate cord cutting. Notably, other exclusive linear content is moving to streaming as the 2025 Oscars will be live-streamed on Hulu for the first time. We think cord-cutters and cord-nevers make up 47% of total US households and will hit 52% by 2025E.

Exhibit 80 - Households Without Pay TV



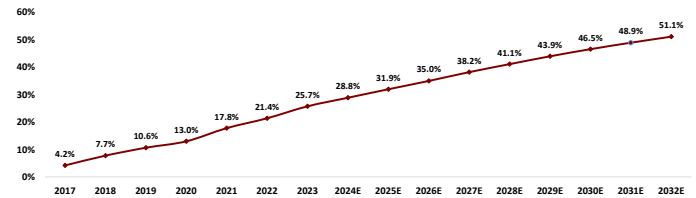
Source: Company reports, Wells Fargo Securities, LLC estimates

Broadcast Theme #4: Core ads are flattish

Our Broadcast models imply that core ads in 1H25 will be down -1% y/y on average across the peer group. We think this decline is mostly influenced by the weak national ad market. We have seen the national ad market declining for the past two years and worsen recently due to political displacement. We think that the national ad market is currently pacing -LDD% at the end of 2024E, but will have easier 2024 comps in 2025. We think the Broadcast national ad market weakness is in-line with the pressures that the national media companies are seeing.

For instance, TGNA's + NXST's core ads and SSP's Networks division are more indexed to larger markets and display the behavior of the national ad market. We estimate that NXST's and TGNA's average 1H25E core ads will be -2% y/y and -4% y/y. While SSP Networks 2H25E revenue will be -2% y/y despite an easy 2024 comp. The consistent weakness in the national ad market could imply that large

Exhibit 79 - % of vMVPDs in the Pay TV Universe



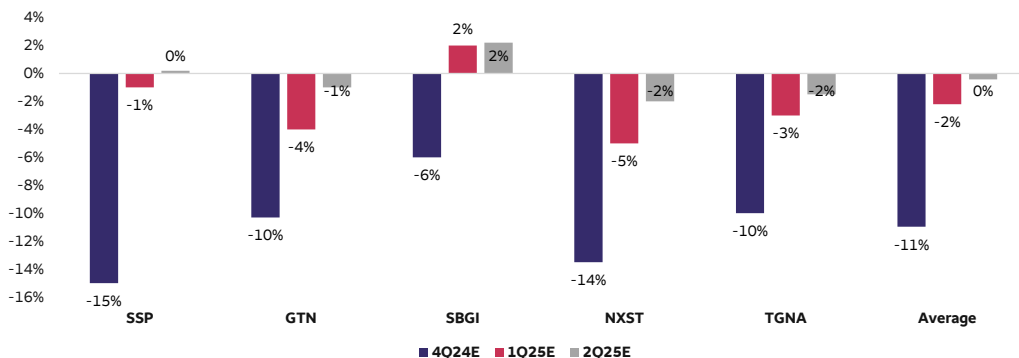
Source: Company reports, Visible Alpha, Wells Fargo Securities, LLC estimates

advertisers are spending their advertising dollars away from linear and towards other outlets, including CTV, Digital and OOH. This is similar to what we're seeing in Entertainment network ad trends as dollars migrate to digital.

The national ad pressure has resulted in some Broadcasters reducing their workforce and focus on tightly managing expenses. SSP announced that it shut down Scripps News, its 24/7 national broadcast channel, on November 15th due to national ad challenges, but will remain on streaming and digital platforms. SSP laid off ~200 employees and ~50 employees will remain in support of their local news and digital content. SSP guided to +400-600bps margin improvement in '25E as management tightly manages expenses. NXST reduced its CW headcount by ~ two dozen employees across its scripted and PR divisions. NXST plans to cut 2% of its workforce within its broadcasting and sales division.

We think investors are concerned with the Pharma implications on Broadcast. Even though, we think a ban on Pharma ads on TV is not likely, Pharma leans more towards national vs. local. We think Pharma is ~10% of Broadcast's inventory meaning a ban would further pressure the Broadcaster more exposed to the national ad market.

Exhibit 81 - Broadcast - Core Advertising Growth Estimates



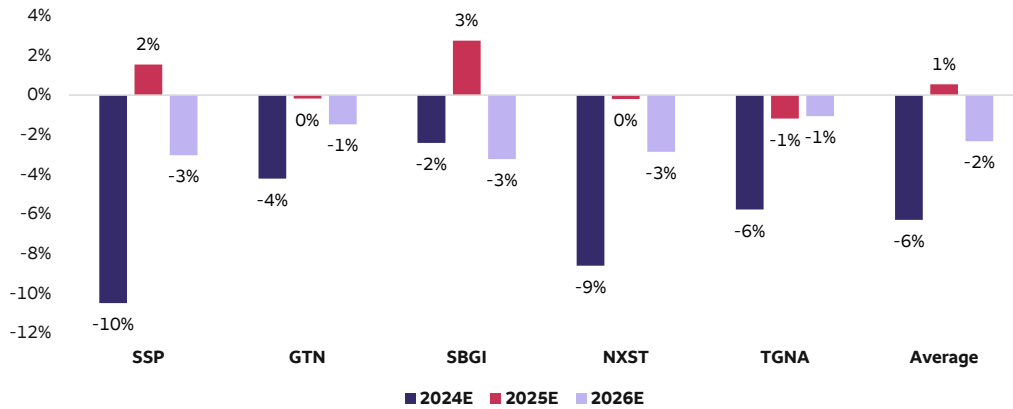
Source: Company reports, Wells Fargo Securities, LLC estimates

Nonetheless, we think that the local ad market is starting to see signs of weakness into 4Q, excluding political crowd out. The consistent commentary is that Auto is pressured as OEMs have reported a slowdown in deliveries + shipments, and there is high inventory. Recall, Auto is one of the major categories for the Broadcasters.

However, some Broadcasters have signaled that they are seeing greenshoots in the local ad market even in Auto. We think that Home Improvement, Services and Retail will remain resilient. We expect some recovery in the local market in December and into 2025E. We think that the local ad market will be down -LSD to flat % y/y into 2025E and for 2H25E. We estimate that SBGI's, SSP's and GTN's 2H25E core ads will be +2% y/y, flat% y/y and -3% y/y, respectively. SBGI credits its strong core ad growth to its effective and improved sales force.

Overall, we estimate average '25E and '26E Broadcast core ads to be +1% and -2%.

Exhibit 82 - Broadcast - Core Advertising Growth Annual Estimates



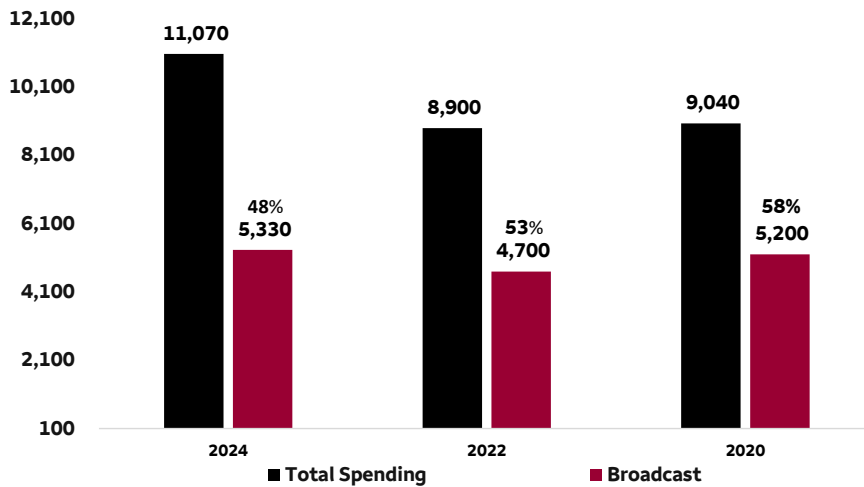
Source: Company reports, Wells Fargo Securities, LLC estimates

Broadcast Theme #5: Political sees bigger cycles, but lower Broadcast share

AdImpact reported that 2024 political cycle hit a record political ad spend of \$11.1bn vs. \$9bn in 2020 and \$8.9bn in 2022. The 2024 political ad cycle was up +22% vs. 2020 and +24% vs. 2022. AdImpact states that Broadcast brought in \$5.33bn vs. \$5.2bn in 2020 and \$4.7bn in 2022. Broadcast's '24E political ad spend was up + 2% vs. 2020 and +13% vs. 2022. 2024E is the first year that Broadcast's share of political ad dollars fell below ~50%. We expect Broadcast to continue to lose political share as CTV becomes a share gainer. CTV saw an +8% increase in political share vs. 2022.

This brings up the question: Is Broadcast's share of political ad dollars at risk? Broadcast has proven to be the most effective media outlet that can change the sentiment of viewers. However, we do think the share of Broadcast will continue to shrink as the average voting age begins to drop and Connected TV and streaming become market gainers.

Exhibit 83 - Total/Broadcast Political Ad Spend (\$mm) + Broadcast Share (%)



Source: AdImpact, Wells Fargo Securities, LLC

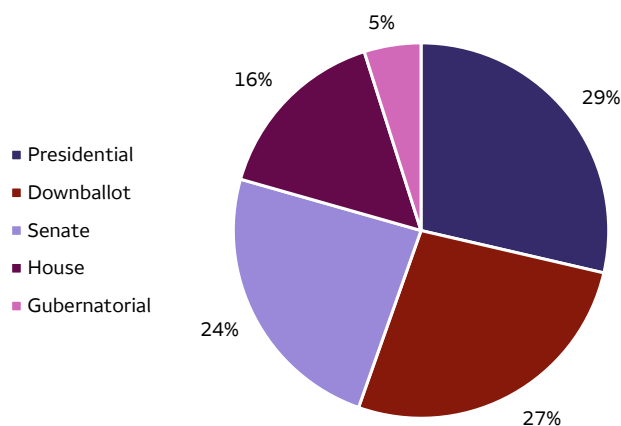
Furthermore, the Presidential election spent the most on political ad dollars with \$3.1bn, followed by Downballot spending \$2.9bn, The Senate with \$2.6bn, The House with \$1.7bn and Gubernatorial came in last with \$530mm. The Harris campaign spent the most on the presidential race with ~\$545mm, followed by the Future Forward USA with \$475mm and the Trump campaign with \$386mm. The Harris campaign spent the most of digital ads in history, though it is unclear if future campaigns will follow in the same behavior. Since evidence has shown that social media is effective in fundraising,

which is reflected in the Harris campaign that has achieved high levels of fundraising despite the late start in the race.

Political ad dollars were heavily concentrated in key battleground markets. Philadelphia brought in the most political ad dollars with \$476mm across all media outlets, followed by Detroit with \$378mm. Phoenix came in third with \$336mm. We think that the Broadcasters that are positioned in key battleground states will attract more political ad dollars. If the new FCC allows Big 4 duopolies in market, then we expect that the Broadcasters will push to have stations concentrated across the swing states, including Pennsylvania, Georgia, Michigan and North Carolina.

Political dollars are vital for the Broadcasters as they tend to pay down more debt during the political cycle due to the increase in their cash flows. We think strong political ad revenues are very important to the highly levered names: SSP, GTN and SBGI. Strong political revenue also benefits the Broadcasters during refinancing talks.

Exhibit 84 - 2024E Spending Categories



Source: AdImpact, Wells Fargo Securities, LLC

Review of local sports deals

Sports and live sports are the most important content for the Broadcasters. We think consumers still have linear subscriptions mostly due to sports, and partially due to news. The Broadcasters were very aggressive with obtaining sports rights deals in 2023 and in the beginning of 2024, which was reflected in 1Q24 core advertising revenues. We think local sports rights deals were not topical in 2024 since investors and the Broadcasters were more focused on the 2024 political cycle. We expect the Broadcasters to focus their efforts on local sports deals again in 2025E as more sports content moves to streaming. We think that the Broadcasters want to provide more premium and exclusive content to their consumers.

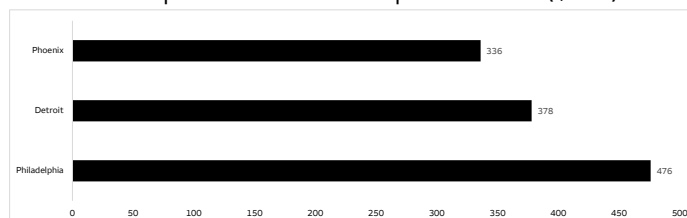
For example, NXST has increased its sports portfolio through CW Sports this year including sport rights to the NASCAR Xfinity Series, LIV Golf, ACC College basketball, LA Clippers, and WWE. Recall, the CW had minimal sports programming in prior years. We expect the new sports programming to appeal to the CW's new demographic and help it break even by 2026 per guidance.

SSP has captured market share in TV viewing time with ION. According to Nielsen, SSP encompassed ~2% of total viewing time in November 2024, ahead of ROKU, Hallmark and AMCX. We think that the WNBA on ION has increased SSP's sports opportunity. ION games can compete with Big 4 national program timing.

We think SBGI's Tennis Channel has major risk for '25E. Tennis Channel lost the French Open rights to WBD, and we think that it was the most premium content on Tennis Channel. We expect there to be a dip in advertising revenue in 2Q25 without the French Open rights. However, SBGI has launched Tennis Channel DTC, and we expect SBGI to search for more sports deals for Tennis Channel in '25E.

We think that TGNA and GTN have acquired local sports rights deals that will be slightly accretive in 2025E. TGNA expanded its broadcast distribution deal with the Dallas Mavericks in 2024. TGNA

Exhibit 85 - Top 2024E Political Ad Spend markets (\$mm)



Source: AdImpact

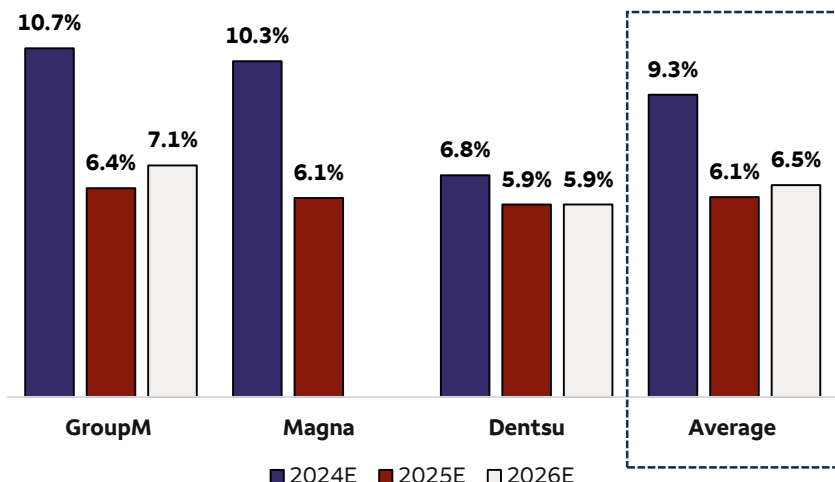
partnered with the Seattle Krakens and Indiana Fever. While GTN has entered into a number local sports deals, including with the Chicago Sports Network, New Orleans Pelicans, Missouri Valley Conference, and Palmetoo Sports. We expect to see some of these deals materialized into core ad growth in '25E.

Advertising Services 2025

Ad Services Theme #1: Solid ad growth in '25 driven by rising business confidence

Consensus amongst the forecasting groups within the large agencies has global ad spend growing +6.1% y/y in 2025, following +9.3% y/y growth in 2024 (inclusive of political). Global growth is expected to continue to be driven by gains in digital (search, social, retail media) and gains in OOH.

Exhibit 86 - Global Ad Forecast '24-26



Source: GroupM, Magna, Dentsu

Globally, GroupM sees digital advertising growing +DD y/y in '25. The next best growth category is OOH (which may come as a surprise), with +7% y/y growth. TV, Print and Audio are all expected to donate share in 2025.

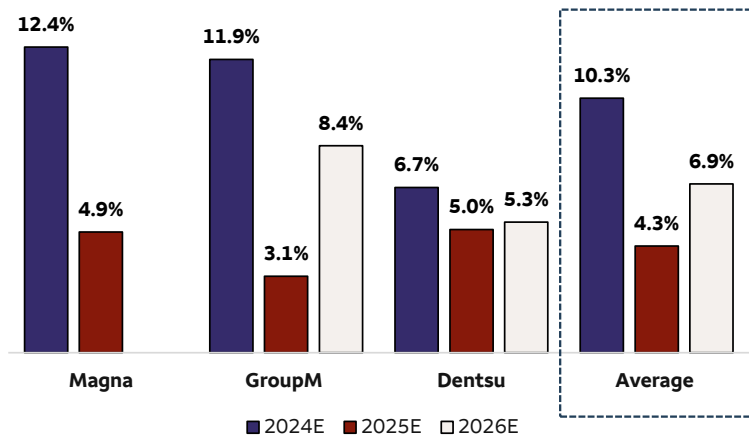
Exhibit 87 - Global Ad Spend Breakdown

Global Ad Spend (\$bn)	2024E	2025E	2026E
Total (ex. political)	\$ 1,037bn	\$ 1,116bn	\$ 1,186bn
y/y growth	9.5%	7.7%	6.3%
Digital	740	813	878
y/y growth	12.4%	10.0%	7.9%
% share	71.3%	72.9%	74.0%
TV	166	169	173
y/y growth	3.3%	1.9%	2.2%
% share	16.0%	15.2%	14.6%
Print	50	48	47
y/y growth	-4.5%	-3.0%	-2.9%
% share	4.8%	4.3%	3.9%
Audio	27	27	27
y/y growth	0.2%	0.3%	-0.1%
% share	2.6%	2.4%	2.3%
Outdoor	52	56	60
y/y growth	10.5%	7.1%	6.4%
% share	5.1%	5.0%	5.0%

Source: GroupM

Domestically, consensus for U.S. ad growth for '25E is +4.3% y/y (includes political), compared to the +10.3% y/y in '24E.

Exhibit 88 - U.S. Ad Forecast '24-26



Source: GroupM, Magna, Dentsu

The more granular forecast data shows the expected makeup of growth next year. GroupM sees U.S. ad spend growing +7.0% y/y in '25 (excl. political), versus +9.0% y/y in '24. Looking at the major media categories more specifically, strength in digital pure play is expected to continue, driven by retail media (+18.3% y/y), search (+11.2% y/y), and flow of spend from China-based advertisers (e.g. Temu). Digital is expected to account for ~74% of all ad spend next year. OOH is the only category outside of Digital projected to grow y/y in '25 (+4.6% y/y). Television, Print, and Audio are all expected to decline next year, as digital extensions within each (e.g. CTV and streaming audio) are unable to offset legacy declines. Linear TV is projected down -8.6% y/y (excl. political) in '25. Share of total ad spend is expected to fall to 16% for TV, 4% for Print, 3% for Audio, while OOH maintains share at ~2%.

We note the TV forecast of \$66bn vs. ~\$46bn from our models in exhibit 43.

Exhibit 89 - U.S. Ad Spend Breakdown

U.S. Ad Spend (\$bn)	2024E	2025E	2026E
Total (ex. political)	\$379bn	\$406bn	\$432bn
y/y growth	9.0%	7.0%	6.4%
Digital	273	300	327
y/y growth	13.0%	9.9%	8.9%
% share	72.1%	74.1%	75.8%
TV	66	66	66
y/y growth	1.1%	-0.5%	-0.1%
% share	17.4%	16.2%	15.2%
Print	17	16	15
y/y growth	-6.8%	-3.4%	-4.9%
% share	4.4%	4.0%	3.6%
Audio	14	14	13
y/y growth	-2.0%	-1.1%	-2.2%
% share	3.6%	3.3%	3.1%
Outdoor	9	9	10
y/y growth	5.0%	4.6%	6.0%
% share	2.3%	2.3%	2.3%

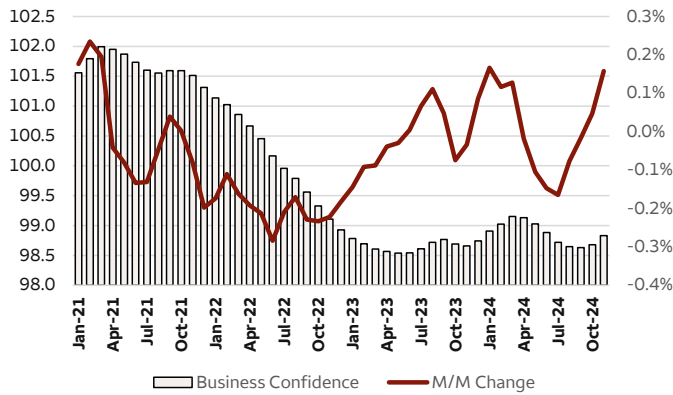
Source: GroupM

The underlying factors driving a strong advertising outlook can be attributed to the macroeconomic environment. Post-election, the combination of rate cuts (though not as quickly as originally expected) & potential lower corporate taxes have firmly shifted the narrative to a soft landing. Despite strong economic growth over the last few years, it has felt that the business environment has been looking around the corner to see when recession would take hold. In our checks, it seems like this is no longer the case, as corporates now have a positive bias towards the forward outlook.

We can see this show up in the OECD gauge for business confidence. After peaking in April of '21, business confidence was in a steady downward trajectory before bottoming in April '23. Through '24,

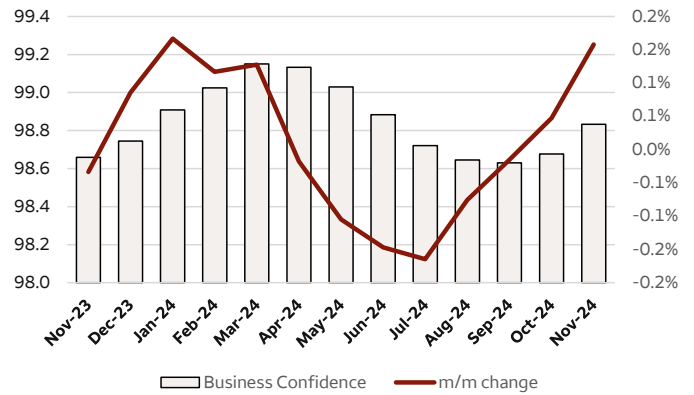
confidence has declined from March to August - though saw a notable uptick in October & November, which we believe stems from the Fed beginning its easing cycle and enthusiasm around the then likely outcome of the election. In other words, it seems like all systems are go into '25. We'd note potential tariffs could add some uncertainty to the outlook by spurring inflation and causing the Fed to pause rate cuts. As of now, this feels less likely.

Exhibit 90 - U.S. Business Confidence Jan '21 - Nov '24



Source: OECD

Exhibit 91 - U.S. Business Confidence Nov '23 - Nov '24



Source: OECD

Ad Services Theme #2: Agencies growing ~real GDP (not nominal)

Despite what has been resilient global/domestic growth environment, the Ad Agencies will likely see organic growth in-line with real GDP as opposed to nominal GDP or the growth of the advertising market as a whole. Based on our/consensus estimates for the peer set, weighted average global organic growth is expected to come in at +3.1%/+2.9% in '24E/'25E - which is relatively in-line with expected real GDP growth of +3.2%/+3.2%. We've seen a fair amount of share shift over the last two years, causing some peers to outperform or underperform the average. With large changes afoot in the industry, we see better opportunities elsewhere in our coverage.

Exhibit 92 - Ad Agency Organic Growth + Real & Nominal GDP Growth

	2018A	2019A	2020A	2021A	2022A	2023A	2024E	2025E
Global								
Interpublic	5.5%	3.3%	-4.8%	11.9%	7.0%	-0.1%	0.8%	-1.5%
Omnicom	2.6%	2.8%	-11.1%	10.2%	9.4%	4.1%	5.2%	4.7%
Stagwell				18.0%	12.1%	-4.4%	3.2%	5.0%
WPP	-0.4%	-1.6%	-7.3%	13.3%	6.9%	0.9%	-0.4%	1.5%
Publicis	0.1%	-2.3%	-6.3%	10.0%	10.1%	6.3%	5.6%	4.7%
Weighted avg.	1.8%	0.0%	-7.9%	12.0%	7.9%	2.7%	3.1%	2.9%
Domestic/N.America								
Interpublic	5.1%	1.9%	-2.9%	10.9%	6.6%	-1.1%	0.8%	-2.0%
Omnicom	0.7%	2.7%	-10.1%	8.1%	8.7%	2.6%	5.8%	4.6%
WPP	-4.2%	-5.7%	-5.8%	9.4%	6.6%	-2.7%	0.2%	1.5%
Publicis	0.5%	-3.5%	-2.4%	9.7%	9.9%	4.9%	4.7%	4.0%
Weighted avg.	0.7%	-0.9%	-5.9%	9.6%	8.0%	1.4%	3.3%	2.4%
Global GDP growth								
Real	3.6%	2.8%	-2.8%	6.3%	3.5%	3.1%	3.2%	3.2%
Nominal	4.9%	4.0%	-2.2%	10.2%	12.3%	9.8%	9.0%	7.5%
US GDP growth								
Real	2.9%	2.3%	-2.8%	5.9%	2.1%	2.5%	2.8%	2.6%
Nominal	5.4%	4.1%	-1.5%	10.7%	9.2%	6.5%	5.6%	4.0%

Source: Company reports, FactSet, IMF, CBO, Wells Fargo Securities, LLC estimates

Ad Services Theme #3: Pharma is not a huge concern

One potential headwind for agencies would be a ban on pharmaceutical advertising. The appointment of Robert F Kennedy Jr. to the cabinet post of health secretary introduced risk that a ban on Pharma ads could be introduced. According to Kantar, Pharma companies spend ~\$20bn annually on advertising DTC drug ads domestically (~5% of total U.S. ad spend). In fact, the U.S. is one of only two countries that allow advertising for branded drugs (New Zealand is the other), so there's precedent globally.

This is not the first time restrictions on Pharma ads has come up. In 2007, Congress unsuccessfully introduced a bill banning advertising for new drugs. Generally, many legal experts have viewed the possibility of a ban taking effect as unlikely, on the grounds of violating The First Amendment right to commercial speech. It's also unclear whether RFK would even have the authority to do so in his new position.

While we view a total ban as unlikely (we think this is consensus amongst the industry), RFK could approach the situation by adding regulatory hurdles that burden Pharma companies trying to advertise. It is also unclear whether RFK is only looking to go after TV advertisements. In that case, ad dollars that flow out of linear TV would find their way to other mediums. OOH could stand to benefit, as the medium has recently made inroads with the ad category. Agencies make money on the creative, media strategy and the media placement and only the last of these would likely be impacted.

In terms of potential impact, OMC & IPG have a combined 19% Pharma & Healthcare revenue weighting (STGW has no exposure). Though, we don't view this as the ultimate risk as the agencies perform a host of other functions for Pharma companies outside media buying. Assuming OMC/IPG combined have a ~1/3rd share of Pharma media spend, implies ~\$6.6bn in gross media spend to the entity. Assuming a 5-10% fee on gross implies ~\$330mm-\$660mm in net revenue, or 1.5%-3.0% of our FY25E total net revenue est for combined OMC/IPG. In the event of a ad ban, we'd expect Pharma companies to reallocate spend to other functions (e.g. PR), which would further mitigate the potential downside risk.

Ad Services Theme #4: Neutral on OMC/IPG given merger timing

We can see the strategic merits of the OMC/IPG merger, especially in scalable aspects of the industry incl. media buying, retail media and tech investments incl. AI. There could also be revenue enhancements from combining best-of capabilities across creative, media and other disciplines. Looking out 5 years, we think OMC/IPG will be a stronger business than the two separately today, and the new entity could become an industry leader in many facets.

But, 5 years is a long time. In the interim, 2025 will incl. weaker growth at IPG, lots of mechanics to close the deal, potential talent attrition and client churn. On this latter point, while management has downplayed client conflict, we think competitors will use the opportunity to try to take share, while clients might use the opportunity to gain better terms. We therefore assume there will be a dissynergy in revenue to be netted against the \$750mm in cost savings.

While we do see accretion ahead, and view OMC as cheap on our pro-forma CY26E EPS, we think the deal needs to close and the new, stronger company needs to take shape before investors are willing to step back in.

Exhibit 93 - Estimated OMC + IPG EPS Accretion/Dilution

<i>(\$mm or as stated)</i>	2025E	2026E	2027E
Non-GAAP Net income			
OMC	1,669	1,739	1,806
IPG	1,019	1,045	1,080
Synergies (less est. disynergy & tax)	97	268	511
Combined	2,786	3,052	3,396
Shares outstanding (mm)			
OMC	196.6	194.2	191.7
IPG	129.6	129.6	129.6
Combined	326.2	323.8	321.3
Non-GAAP EPS			
OMC	\$ 5.12	\$ 5.37	\$ 5.62
IPG	\$ 3.12	\$ 3.23	\$ 3.36
Synergies (less est. disynergy & tax)	\$ 0.30	\$ 0.83	\$ 1.59
Combined	\$ 8.54	\$ 9.42	\$ 10.57
Accretion/Dilution			
	1%	5%	12%

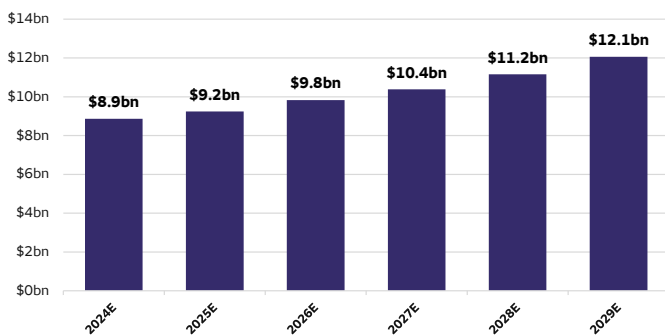
Source: Wells Fargo Securities, LLC estimates

OMC performed well in '24, and the OMC/IPG pair trade outperformed until the surprise [OMC/IPG merger](#). The deal will likely keep these two rangebound. STGW is most levered to Digital Transformation which has started to show signs of a bounce back and could lead to strong growth in '25, though the company has an inconsistent record of execution.

Ad Services Theme #5: Prefer OUT

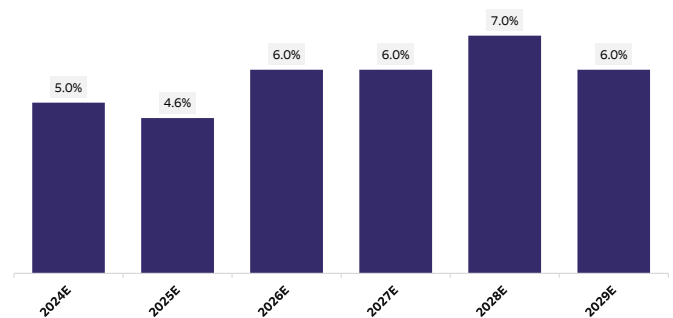
Our [outlook](#) on OOH into '25 remains positive, as we see tailwinds emerging into the new year. Despite a soft national ad market in '24, largely driven by the Media & Entertainment vertical, total OOH ads are expected to have grown ~5% y/y. In '25, GroupM is forecasting OOH growth of +4.2% y/y (+4.6% excl. political), propelled by strong growth in digital OOH as programmatic expands. DOOH is expected to continue as one of the fastest growing verticals in advertising, along with the likes of CTV, Retail Media and Podcasts. GroupM has DOOH growth of +14%/+13% in '24E/25E.

Exhibit 94 - Total U.S. OOH Ad Revenue



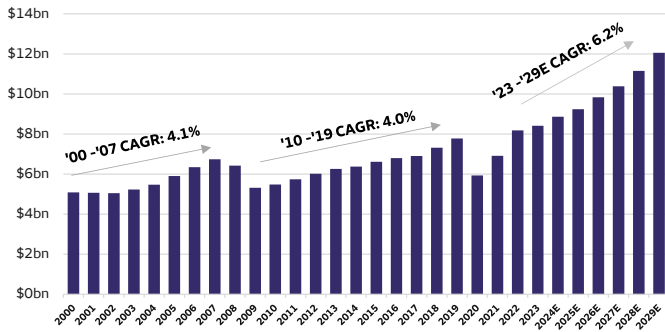
Source: GroupM

Exhibit 95 - Total U.S. OOH Ad Revenue Growth (Excl. Political)



Source: GroupM

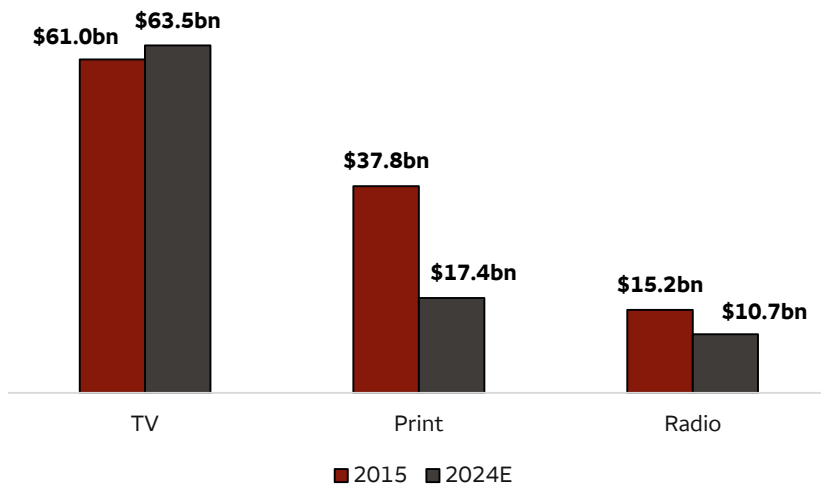
Exhibit 96 - Total U.S. OOH Ad Revenue
Historical + Projection



Source: GroupM

With overall ad market strength in '25, we think OOH could be a beneficiary of both the rising tide, and also share gains. TV budgets remain the largest opportunity, as the TV ad market is ~7x the size of OOH. Though, we expect this takes work to get large agencies/advertisers on board. In the meantime, we expect OOH to take share from other legacy mediums (newspapers & radio) that still represent > \$25bn of ad spend.

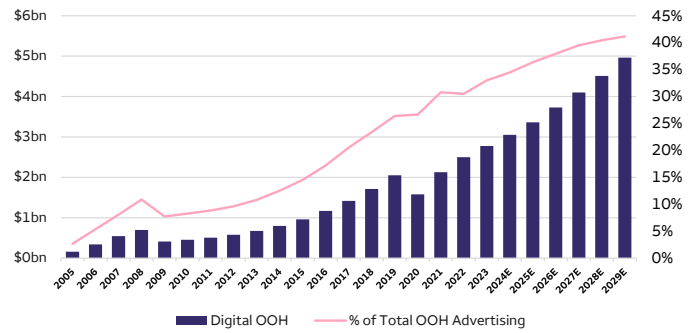
Exhibit 98 - Advertising Spend on Legacy Mediums
(Excl. Political)



Source: GroupM, SNL Kagan; SNL FINANCIAL LC CONTAINS COPYRIGHTED AND TRADE SECRET MATERIAL DISTRIBUTED UNDER LICENSE FROM SNL. FOR RECIPIENT'S USE ONLY

Across our three covered OOH companies, we expect headline growth in '25 to be relatively similar at ~4%. Though, we think it's important to think through the makeup of growth. We believe growth next year will be led by National ads, which were still subdued through much of '24. Particularly, we think the rebound in the Media & Entertainment vertical that we've been expecting in 2H24 will actually materialize in '25, on the back of a strong film slate and consistent TV releases. M&E could also benefit from additional sports moving into streaming - with the upcoming Netflix Christmas Day NFL games, WWE on Netflix beginning in January, and the launch of Flagship.

Exhibit 97 - Digital OOH Growth + % of Total OOH Market



Source: GroupM

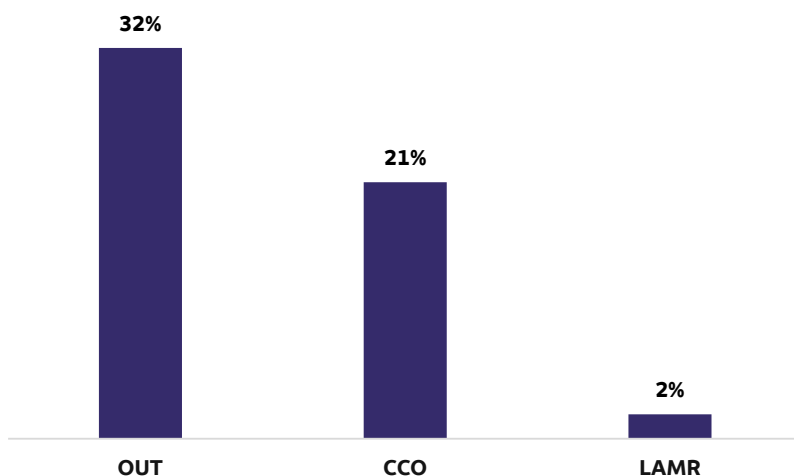
Exhibit 99 - OOH Comps

	2021A	2022A	2023A	2024E	2025E	2026E	'23-26E CAGR
Total U.S. Revenue (\$mm)							
Lamar	1,709	1,952	2,029	2,126	2,202	2,308	4.4%
Outfront	1,382	1,674	1,722	1,791	1,862	1,944	4.1%
Clear Channel	1,174	1,362	1,412	1,505	1,570	1,638	5.1%
Total U.S. Transit & Other Revenue (\$mm)							
Lamar	96	138	151	164	167	172	4.5%
Outfront	266	365	353	381	409	432	7.0%
Clear Channel	160	256	312	359	372	387	7.5%
Total U.S. Revenue Growth							
Lamar	15.0%	14.2%	3.9%	4.8%	3.6%	4.8%	
Outfront	20.3%	21.1%	2.9%	4.0%	4.0%	4.4%	
Clear Channel	20.1%	16.0%	3.7%	6.5%	4.4%	4.3%	
Weighted avg.	18.1%	17.0%	3.5%	5.0%	3.9%	4.5%	
Total U.S. Transit & Other Growth							
Lamar	15.7%	44.2%	9.3%	8.7%	2.0%	3.0%	
Outfront	19.6%	37.3%	-3.4%	8.1%	7.4%	5.6%	
Clear Channel	17.2%	59.9%	21.5%	15.1%	3.8%	4.0%	
Weighted avg.	17.4%	46.2%	8.4%	10.3%	4.3%	4.1%	
Industry (\$mm)							
Total OOH	6,915	8,185	8,412	8,864	9,239	9,831	5.3%
Total Digital OOH	2,130	2,498	2,776	3,055	3,360	3,730	10.3%

Source: Company reports, GroupM, SNL Kagan, Wells Fargo Securities, LLC estimates

We believe OUT disproportionately benefits from M&E given its weighting towards LA and NYC. As shown below, OUT's revenue weighting of LA/NYC is 32% compared to 21% and 2% at CCO/LAMR. While these aren't the only markets where films and TV shows are advertised, we think a large percentage of ad dollars are concentrated here.

Exhibit 100 - NYC & LA as a % of Total Revenue (FY23)



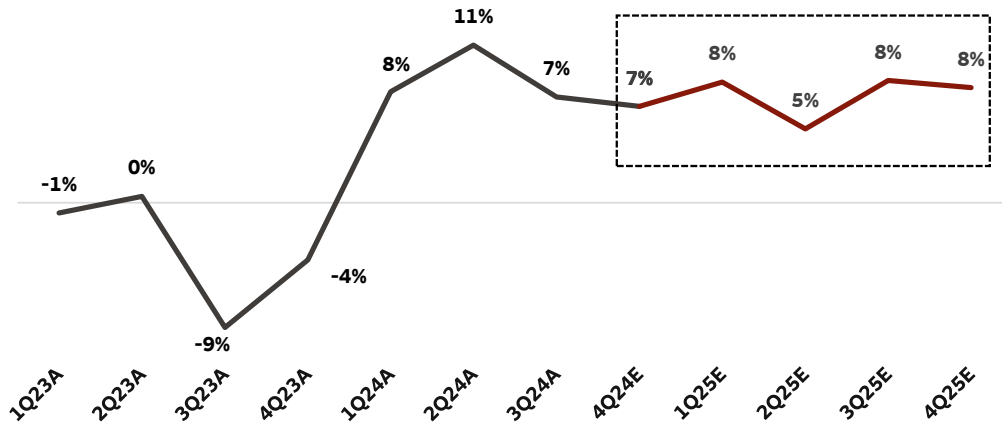
Source: Company reports

CCO % of America revenue

Additionally, with ~60% of OUT Transit revenues generated from LA/NYC, we expect the rebound in M&E to have the knock-on impact of supporting +HSD Transit growth next year. OUT is also expanding programmatic to transit systems outside the MTA next year, which should serve as a tailwind.

Programmatic revenues grew 3x y/y in Q3, and we see a sustained ramp as additional assets are brought online in '25. Programmatic buying gives advertisers the ability to purchase audience-based packages, with flexible terms on a self-service basis (the same way they purchase other digital ad inventory is purchased). And, with ~4mm people using the MTA system daily on average, and many more in Transit systems across the county, there is a lot of audience to sell. In short, we see a reversal of fortunes. Public transit & national have been areas of weakness in parts of the last few years, but we see those as key areas of strength in '25.

Exhibit 101 - OUT U.S. Media Transit & Other Revenue Growth



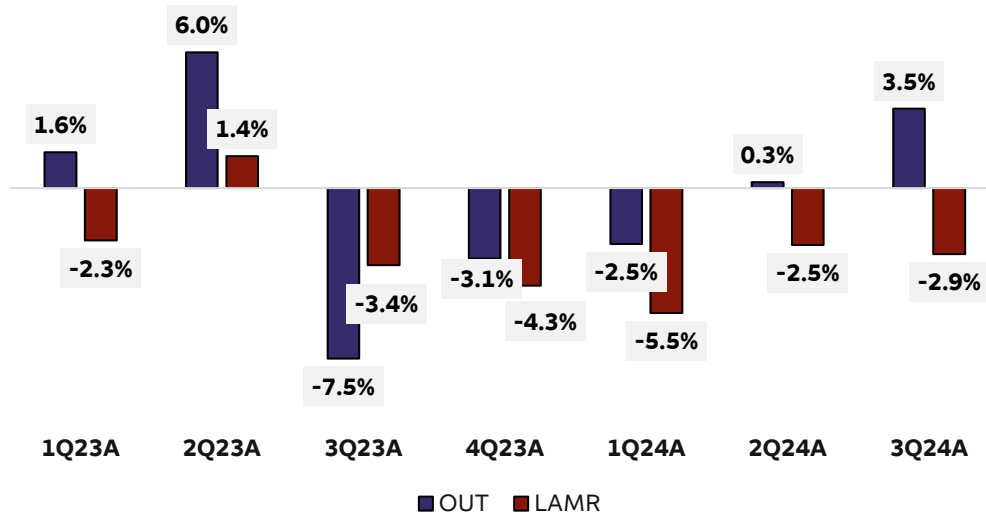
Source: Company reports, Wells Fargo Securities, LLC estimates

A question we have for '25 is whether the divergence in national growth between OUT/LAMR will persist. While local growth remains strong at LAMR (+MSD in '24E), national performance has lagged peers. 2H24 national advertising at LAMR is likely down -LSD y/y, versus +LSD at OUT. The former, saw +LSD growth in 3Q24 (and expects to grow in Q4), while the latter saw -LSD declines in 3Q24 (and is not calling for a bounce back in Q4).

So what do we think is going on, and is it structural? In our checks, we've picked up that all legacy advertising mediums have had difficulties driving meaningful levels of engagement with the large ad agencies. As the reach of radio and TV broadcasters continues to decline, focus has shifted to digital. OOH has gotten caught up in the crossfire, despite not facing structural headwinds. We expect now, more than ever, location is a key hook for large national agencies/brands. In other words, we think eyeballs in the biggest DMAs (e.g. Times Square or Sunset Drive) are where larger national ad dollars are concentrating, at the expense of locations deeper into OOH footprints. With LAMR having a diverse footprint that skews to smaller cities/towns, we think this dynamic could be behind the weakness in national. If this were the case, we'd view it as a structural disadvantage.

The jury is still out, but it's a topic we'll be keeping an eye on next year. Programmatic helps potential footprint challenges, as it introduces new national advertisers to the mix, but it still requires a pull on education/awareness. To date, strong programmatic growth (all national) has not been enough to offset weakness in other parts of the national book at LAMR. National only accounts for ~20% of total revenue at LAMR, which helps to mitigate some downside risk. Still, national could serve as a ~1pt headwind to total revenue growth next year, if we assume its flat y/y.

Exhibit 102 - National Advertising Growth y/y



Source: Company reports

Our \$22 OUT price target (+33% total return incl. dividend) implies 12.5x our 2025E EBITDA (~2.5x discount to LAMR). Strong growth next year should help the stock begin to close the valuation gap to LAMR (currently ~3.5x), which historically was closer to ~1x.

Exhibit 103 - OUT Price Target

Outfront Media									
\$'s in millions except per share data									
Asset type	Company asset	2025E Sales	2025E EBITDA*	Target multiple	WF peer multiples			Premium / discount	Target EV
					Low	High	Avg.		
Advertising services	Billboard	1,451	487	12.5x	12.5x	15.0x	13.3x	-6%	6,082
Advertising services	Transit and other	409	3	6.5x	6.5x	12.5x	9.3x	-30%	21
TOTAL		1,860	490	12.5x	11.4x	14.7x	12.8x	-3%	6,103

*includes allocated corporate expenses

Source: FactSet

Valuation

Enterprise value	6,103
- Net debt (YE24)	2,486
- Preferred stock	0
- Minority interests	15
- Est. MTA cash flow deficit '25E	0
= Equity Value	3,602
/ Diluted shares (YE24)	167
= Price target (rounded)	\$22.00
/ Current share price	\$17.54
= Implied upside	25%
+ Dividend yield	8%
= Potential total return	33%

Source: FactSet, Wells Fargo Securities, LLC estimates

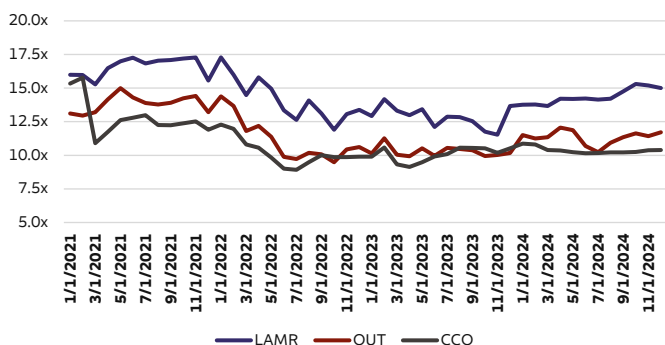
Exhibit 104 - '25 Summary

	WFSe '25 Rev Growth	Cons. '25 Rev Growth	Wells Fargo Explanation
CCO*	+4.4%	+5.1%	<ul style="list-style-type: none"> Airports growth is exiting Q4 at ~2%, and we believe '25 is likely closer to ~4% (cons. +6%) ~1.5% benefit in '25 from MTA billboard contract (hurts margin) <ul style="list-style-type: none"> Manageable political comp
OUT	+4.0%	+4.0%	<ul style="list-style-type: none"> ~1.5% headwind from MTA billboard contract (benefits margin) <ul style="list-style-type: none"> Manageable political comp
LAMR	+3.6%	+5.1%	<ul style="list-style-type: none"> ~1% political headwind in '25 National growth headwind could be structural (potential ~1pt headwind) <ul style="list-style-type: none"> Growth likely benefits from increased acquisition spend, offsetting potential weaker core

Source: Wells Fargo Securities, LLC estimates, Visible Alpha

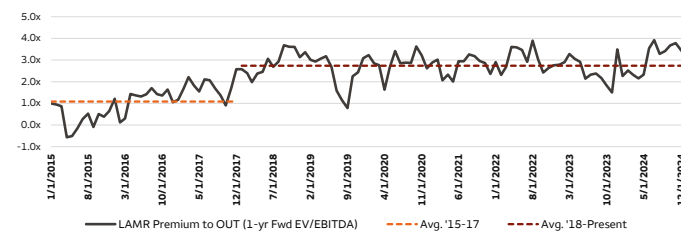
*America + Airports

Exhibit 105 - 1-yr Fwd EV/EBITDA Valuations



Source: FactSet

Exhibit 106 - LAMR Premium to OUT (1-yr Fwd EV/EBITDA)



Source: FactSet

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