S&P Global
Ratings

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Bertelsmann SE & Co. KGaA

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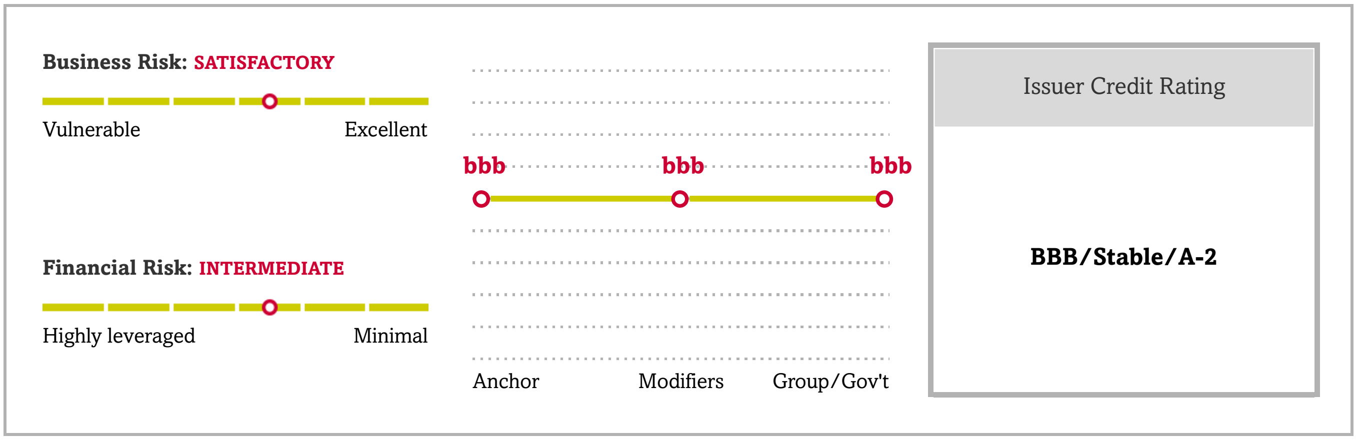
Bertelsmann SE & Co. KGaA



Credit Highlights

Overview

Key strengths	Key risks
Diversified operations across various media segments (broadcasting, publishing, printing, and a small-but-growing operation in education) and business services industries.	Particularly high exposure to economic cycles in advertising (23% of the group's revenues at year-end 2019).
Strong, established market positions in its main markets in Europe and North America.	Exposure to structural changes in the media sector, including a shift of media consumption towards digital channels.
Track record of adapting businesses to industry trends and proven ability to execute cost saving initiatives during stress situations, like the recession.	Modest profitability compared with that of peers in the media sector in light of lower operating margins and its competitive business services business.
S&P Global Ratings-adjusted leverage metrics of 2.5x-2.7x in 2021 expected, solidly positioned for the rating category.	Likely absorption of most of the group's internal cash flow on capital expenditures (capex) and bolt-on acquisitions.
Clearly articulated public financial policy and strong commitment to keep the company's adjusted leverage not higher than 2.5x, supporting credit metric predictability.	Potential for further acquisitions to build and diversify the business, likely preventing material deleveraging.

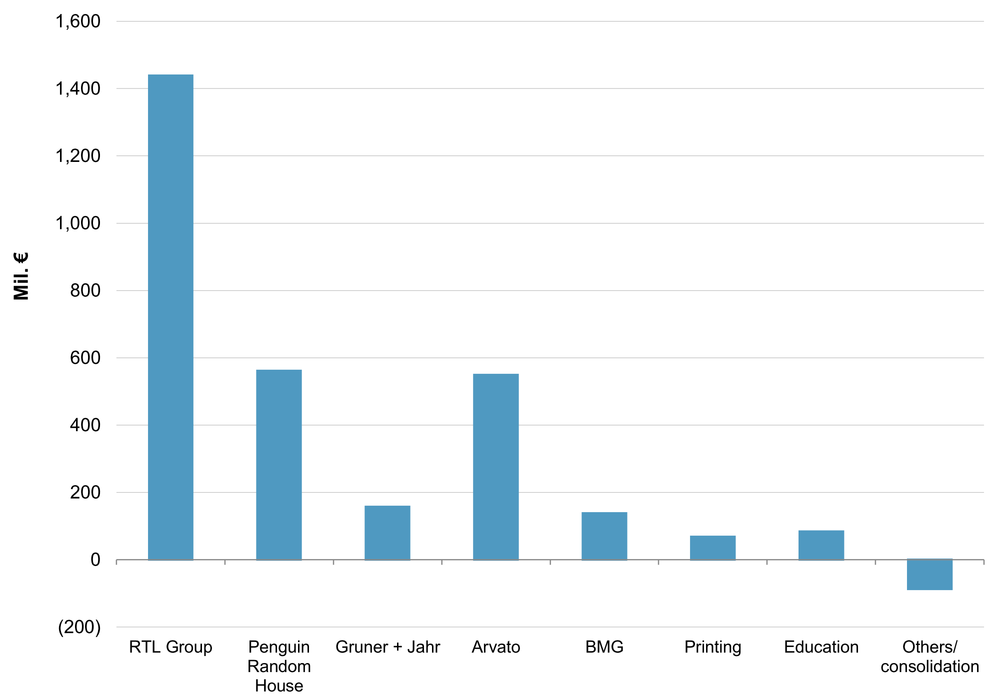
The recession is weighing on advertising income and structural changes and redirecting media consumption toward digital mediums, which clouds our earnings visibility. Customers are shifting away from traditional channels such as TV broadcasting, magazine, or radio, toward digital and on-demand offerings. This is leading to an increased need for investment in new platforms, streaming services, and related content for traditional media businesses, further constraining such businesses' earnings generation. We believe these changing trends will affect Bertelsmann SE & Co. KGaA's TV broadcasting (RTL), magazine (Grunner + Jahr), and printing businesses, which represented about 55% of the group's 2019 EBITDA. In addition, dented demand for advertising during the pandemic-induced recession is weighing on earnings. We expect that a full recovery in earnings to prepandemic levels will likely not happen before 2022, consistent with our general macroeconomic assumptions.

Bertelsmann is well positioned among its European media peers to make necessary investment in the group, such as the recently announced acquisition of Simon and Schuster (S&S). We acknowledge Bertelsmann's track record in adapting its media businesses in response to ongoing secular changes in the media industry. Combined with the group's financial flexibility, we believe that Bertelsmann is well positioned among European peers in making this investment to enhance the business. In this respect, we view the announced acquisition of S&S, the no. 4 U.S. publishing house, from Viacom CBS as a way to strengthen Bertelsmann's content business and an attempt to further diversify away from more cyclical advertising revenue. Viacom CBS's publishing segment generated revenue of about US$814 million in 2019 and we see it as complementing Bertelsmann's Penguin Random House (PRH) publishing business.

Despite releveraging for the S&S acquisition, the rating remains supported by strong cost reduction, cash preservation, rebounding advertising demand from summer 2020, and the recent dividend cut for 2020. The group has demonstrated its ability to reduce costs and preserve cash during the pandemic-induced recession. Reduced costs offset about half of the sales decline at RTL, and along with nonrecurring tax and working capital effects, the company improved its free operating cash flow (FOCF) after lease payments. In addition, during the summer 2020 with contained pandemic related cases in Europe, the advertising demand bounced back from the very depressed levels of spring. With expected additional asset disposals and dividend suspension for 2020, we forecast that the company will likely maintain leverage reach 2.5x-2.7x in 2021 pro forma the announced acquisition of S&S.

Chart 1

Bertelsmann's Adjusted Operating EBITDA Per Segment In 2019



Source: S&P Global Ratings, Bertelsmann annual report 2019.

Outlook: Stable

The stable outlook reflects our expectation of a continuous recovery in European advertising demand over the remainder of 2020, following the severe deterioration in spring. It further reflects our view of Bertelsmann's proven ability to preserve cash and adhere to its leverage targets even in times of stress; and our anticipation of earnings growth in the group's publishing, music, and outsourcing-service divisions. The outlook also reflects our expectation of solid credit metrics, with S&P Global Ratings-adjusted debt to EBITDA of 2.3x-2.7x in 2021 and 2022 despite the S&S acquisition, and adjusted FOCF to debt of 14%-18% over the same period.

Downside scenario

We could lower the rating over the next 24 months if

- Recovery in the group's earnings from depressed levels in first-half 2020 faltered, for example if the recession worsened or operating pressures due to the secular digitalization accelerated, resulting in S&P Global Ratings-adjusted debt to EBITDA trending above 3.0x; or
- Unforeseen large debt-funded acquisitions, investments in the group's repositioning, or shareholder remunerations, also resulting in adjusted leverage above 3.0x.

Upside scenario

We could upgrade Bertelsmann if:

- Sales and earnings recovered more quickly and strongly than we expect over the next 24 months. This would require ramp-up costs associated with the streaming businesses to have a lesser impact on Bertelsmann's earnings and cash flows than expected, and its S&P Global Ratings-adjusted EBITDA margins to materially improve; and
- The company's S&P Global Ratings-adjusted debt to EBITDA fell sustainably below 2x, supported by a financial policy commitment, merger-and-acquisition activity, and shareholder remunerations consistent with these metrics.

Our Base-Case Scenario

Assumptions

- Our forecast that eurozone real GDP will contract about 7.2% in 2020, growing about 4.8% in 2021; and U.S. real GDP will decline about 3.9% in 2020, rebounding about 4.2% in 2021.
- Group revenue decline of 7%-8% in 2020, and growth of 6%-8% in 2021, compared with growth of 2% in 2019, which reflects this year's declining advertising revenue from TV broadcasting, printing, and magazine business, mainly given the weak economy and other pandemic-related effects. This is pro forma the S&S acquisition in 2021.
- S&P Global Ratings-adjusted EBITDA margin of 14%-15% in 2020 and 2021, compared with 14.5% in 2019, with margins supported by cost savings amid the sales decline.
- Annual working capital outflow of €50 million-€150 million from 2021, following an inflow of up to €100 million in

2020.

- Annual capex of €550 million-€650 million in 2020 and 2021, with flexibility to temporarily reduce this.
- No material dividend payments in 2020 following the recent cancellation, and an about €400 million payment annually from 2021, with flexibility to reduce.
- Asset disposals of about €1.0 billion over 2020 and 2021 constituting mainly real estate, such as the sale of an office building in Munich to Allianz and the sale of a majority stake in Arvato Financial Solution's risk management divisions.
- €650 million in acquisitions for a 25% stake in PRH in 2020 and €1.8 billion pertaining to the purchase of the S&S acquisition in 2021, and our assumption of annual bolt-on acquisitions of about €250 million otherwise.

Key Metrics

Bertelsmann SE & Co. KGaA--Key Metrics

	--Fiscal year ended Dec. 31--				
	2018a	**2019a**	**2020e**	**2021f**	**2022f**
(Mil. €)					
Revenue	17,673	18,023	16,000-17,000	17,000-18,000	17,000-18,000
Revenue growth (%)	2.8	2.0	(7.0)-(8.0)	5.0-10.0	0-2.0
EBITDA	2,523.9	2,614.9	2,350-2,450	2,550-2,750	2,700-2,800
EBITDA margin (%)	14.3	14.5	13.5-14.5	14-15	14-15
Funds from operations (FFO)	1,738	1,951	2,100-2,200	1,950-2,150	2,050-2,250
Capital expenditure	575	594	550-600	~650	~650
Free operating cash flow (FOCF)	871	1,239	1,300-1,400	1,000-1,100	1,000-1,200
Dividends	556	463	~50	400-450	400-450
Debt	6,652	6,080	5,000-5,100	6,700-7,000	6,600-6,900
Debt to EBITDA (x)	2.6	2.3	2.1-2.2	2.5-2.7	2.3-2.6
FFO to debt (%)	26	32	40-44	28-32	30-35
FOCF to debt (%)	13	20	24-28	12-17	15-20

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Base-case projections

Contracting economies in Europe and the U.S will likely weigh on Bertelsmann's earnings over the next two years. We expect advertising marketing spending over the next years will fall short of our expectations because of the pandemic-induced recession in Europe. The Bertelsmann group still generated 20%-25% of revenue from advertising in 2019. However, we expect that, despite an about 9% decrease in group sales in first-half 2020 compared with the same period the previous year, and a 22% drop in EBITDA because of lockdowns and the associated recession, earnings will stabilize. This is, to a large extent, thanks to an ongoing recovery in advertising spending from very distressed levels in spring 2020.

We believe business diversification will help offset stronger earnings pressure in the coming years. While Bertelsmann's acquisition strategy over the past years has prevented the company from deleveraging, it has supported the group's diversification away from advertising-dependent revenue streams. The company also invested and successfully repositioned previously challenged business segments, and we expect that the group will be more resilient to macroeconomic changes and likely show earnings growth over the next few years. In particular, we expect the music, education, outsourcing services, and publishing businesses (together generating about 45% of group revenue in 2019) will support growth.

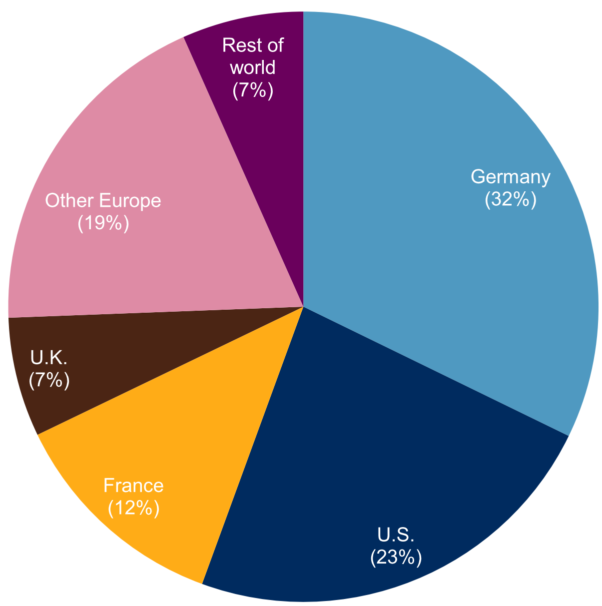
Possible disposals and the dividend cut this year will contain financial leverage despite challenged earnings and acquisitions. Our expectation of asset disposals in 2020 and 2021 as well as the dividend suspension in 2020 will support cash flows by at least €1.4 billion over the two years. This will contain the increase in financial leverage despite payments for acquisitions of €2.3 billion-€2.5 billion over these two years.

Company Description

Germany-based Bertelsmann is a diversified global media group with €18.0 billion of revenue and €2.6 billion EBITDA in 2019. The group has a number of distinct business units (see chart 2), including broadcaster RTL, book publisher PRH, magazine publisher Gruner + Jahr, music publisher BMG, media-related and outsourcing services Arvato, Bertelsmann Printing Group, Bertelsmann Education Group, and Bertelsmann Investments.

Chart 2

Bertelsmann SE & Co KGaA--Revenue Breakdown In 2019



Source: S&P Global Ratings.

Peer Comparison

Table 1

Bertelsmann SE & Co. KGaA--Peer Comparison

Industry Sector: Miscellaneous Media And Entertainment

	Bertelsmann SE & Co. KGaA	ITV PLC	Vivendi S.A.	ViacomCBS Inc.	Omnicom Group Inc.	Comcast Corp.	Walt Disney Co. (The)
Ratings as of Dec. 8, 2020	BBB/Stable/A-2	BBB-/Negative/A-3	BBB/Negative/A-2	BBB/Negative/A-2	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Negative/A-2
	--Fiscal year ended Dec. 31, 2019--						--Fiscal year ended Sept. 28, 2019--
(Mil. €)							
Revenue	18,023.0	3,904.1	15,898.0	24,783.9	13,325.6	97,080.5	63,542.3
EBITDA	2,614.9	887.5	2,246.0	4,797.8	2,445.3	32,216.7	16,482.9
Funds from operations (FFO)	1,951.2	660.9	1,905.3	3,362.9	1,851.2	25,393.1	6,555.1
Interest expense	171.8	94.4	139.7	959.1	278.7	4,477.2	1,566.0
Cash interest paid	239.8	99.1	57.7	902.0	272.5	3,944.3	1,471.0
Cash flow from operations	1,833.3	558.2	1,328.3	1,377.5	1,884.1	23,725.9	5,797.0
Capital expenditure	594.0	80.3	413.0	314.6	91.1	12,069.3	4,250.8
Free operating cash flow (FOCF)	1,239.3	478.0	915.3	1,062.9	1,793.1	11,656.5	1,546.3
Discretionary cash flow (DCF)	776.0	93.2	(2,434.7)	432.0	659.7	7,601.9	(1,097.9)
Cash and short-term investments	1,629.0	290.3	2,377.0	563.2	3,840.1	4,901.2	4,948.6
Debt	6,080.0	1,619.1	2,377.0	19,333.4	2,885.4	95,055.4	53,866.8
Equity	11,070.0	1,036.2	7,102.0	21,695.6	3,006.4	74,741.9	85,754.3
Adjusted ratios							
EBITDA margin (%)	14.5	22.7	14.1	19.4	18.4	33.2	25.9
Return on capital (%)	9.7	26.7	7.0	17.6	34.3	11.2	11.6
EBITDA interest coverage (x)	15.2	9.4	16.1	5.0	8.8	7.2	10.5
FFO cash interest coverage (x)	9.1	7.7	34.0	4.7	7.8	7.4	5.5
Debt/EBITDA (x)	2.3	1.8	3.2	4.0	1.2	3.0	3.3
FFO/debt (%)	32.1	40.8	26.8	17.4	64.2	26.7	12.2

Table 1

Bertelsmann SE & Co. KGaA--Peer Comparison (cont.)

Industry Sector: Miscellaneous Media And Entertainment

	Bertelsmann SE & Co. KGaA	ITV PLC	Vivendi S.A.	ViacomCBS Inc.	Omnicom Group Inc.	Comcast Corp.	Walt Disney Co. (The)
Cash flow from operations/debt (%)	30.2	34.5	18.7	7.1	65.3	25.0	10.8
FOCF/debt (%)	20.4	29.5	12.9	5.5	62.1	12.3	2.9
DCF/debt (%)	12.8	5.8	(34.3)	2.2	22.9	8.0	(2.0)

We believe that Bertelsmann does not yet have the scale of peers such as Comcast Corp. or The Walt Disney Co., whose business risk profile we view as stronger, although we understand that the group's reach is increasing thanks to its multiple-platform strategy, including multiple channels on YouTube, where most online videos are viewed. But because these focus more on media-related activities (while Bertelsmann also has operations in business services and online education, for example), they tend to have a greater segment specific reach.

Compared to European media peers, we believe that Bertelsmann greatly benefits from its diversification in different segments and geographically into North America, in light of PRH being the largest publisher in the English language. However, given the lower-margin business services and outsourcing segment, we see Bertelsmann, with relatively low profitability compared with peers, and with globally leading market positions in the respective segments such as Omnicom or ViacomCBS.

Business Risk: Satisfactory

Bertelsmann benefits from its strong market positions, brands recognition, and diversified media portfolio, with presence in multiple media and services segments across various countries and subsectors.

Bertelsmann's business units operate in different markets with limited overlap and we view it as one of the most diversified among the media companies we rate. We view this degree of diversity as positive for the stability of the group's quality of earnings and, ultimately, its credit ratios.

Bertelsmann holds strong market positions in its main markets of operation. In particular, it is the No. 1 entertainment network in Europe through RTL's TV channels and radio stations and a leading player in content production through RTL's FremantleMedia production arm. In addition, PRH is the world's leading publishing company, and Gruner + Jahr is a prominent European magazine and periodical publisher. Furthermore, Arvato holds top positions across a variety of business services and most notably in the strongly growing e-commerce outsourcing solutions segment, while BMG holds the No. 4 position in the music publishing market worldwide and leadership in producing German music content.

However, these supportive factors are partially offset by Bertelsmann's exposure to the media sector's cyclical nature and ongoing structural changes.

The structural shift away from traditional media consumption patterns to predominantly online, user-directed, and often segmented media consumption habits across multiple devices and delivery channels means that we expect that Bertelsmann will continue to invest in digital technologies to maintain its relevance and market positions. This includes increasing its presence in the online video segment (where it is now a leading player in Europe but where monetization of users remains a challenge, as it does for most industry players) and in digital and programmatic advertising (including the ongoing creation of a global and independent monetization platform for broadcasters and video-on-demand services).

Moreover, the proliferation of devices, such as smartphones and tablets, on top of traditional TV, has led to increased media consumption, but also increased media choices. The latter has resulted in higher competition among industry players and the greater strategic importance of content. We believe that, in the context of increasing demand for high quality content, FremantleMedia is well positioned and has a strong pipeline of scripted and unscripted shows. However, we believe that attracting and retaining creative talent, as well as producing high-quality content to meet the expectations of an ever-more demanding audience, could ultimately weigh on FremantleMedia's margins.

Financial Risk: Intermediate

We expect Bertelsmann to maintain S&P Global Ratings-adjusted debt-to-EBITDA ratio of close to 2.5x, in line with the financial policy commitment, although leverage can also temporarily become lower as in our base-case projections for 2020, which excludes any further, occasional larger acquisitions. It also reflects an FOCF-to-debt ratio of 15%-20%.

We forecast that internal cash flow will continue to be absorbed primarily by investment in organic growth and to a moderate extent of bolt-on acquisitions every year and from next year on also on dividends again. Considering the group's private ownership and therefore its reduced access to equity funding, we believe that Bertelsmann has constrained financial flexibility. However, material real estate and other liquid assets can contain leverage in weaker years, and Bertelsmann's strong standing in debt capital markets as a frequent issuer of bonds is a credit strength.

Financial summary

Table 2

Bertelsmann SE & Co. KGaA--Financial Summary					
Industry Sector: Miscellaneous Media And Entertainment					
	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015**
(Mil. €)					
Revenue	18,023.0	17,673.0	17,190.0	16,950.0	17,141.0
EBITDA	2,614.9	2,523.9	2,635.4	2,562.7	2,406.0
Funds from operations (FFO)	1,951.2	1,737.8	1,971.2	2,073.6	1,909.9
EBIT	1,661.0	1,492.3	1,766.5	1,816.4	1,665.4
Interest expense	171.8	201.1	198.2	211.1	249.1
Cash interest paid	239.8	252.1	230.2	255.1	210.1
Working capital changes	(34)	(178)	(225)	(175)	(201)
Cash flow from operations	1,833.3	1,446.4	1,622.3	1,923.4	1,622.9
Capital expenditure	594.0	575.0	647.0	638.0	590.0

Table 2

Bertelsmann SE & Co. KGaA--Financial Summary (cont.)

Industry Sector: Miscellaneous Media And Entertainment

	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015**
Free operating cash flow (FOCF)	1,239.3	871.4	975.3	1,285.4	1,032.9
Dividends paid	463.3	556.3	943.3	588.3	650.3
Discretionary cash flow (DCF)	776.0	256.2	(625.0)	679.1	374.6
Cash and short-term investments	1,629.0	1,398.0	1,440.0	1,373.0	1,310.0
Gross available cash	1,629.0	1,398.0	1,440.0	1,373.0	1,310.0
Debt	6,080.0	6,652.2	6,201.9	6,282.8	5,910.2
Preferred stock	625.0	625.0	625.0	625.0	625.0
Equity	11,070.0	10,463.0	9,744.0	10,520.0	10,059.0
Adjusted ratios					
Annual revenue growth (%)	2.0	2.8	1.4	(1.1)	2.8
EBITDA margin (%)	14.5	14.3	15.3	15.1	14.0
EBIT margin (%)	9.2	8.4	10.3	10.7	9.7
Return on capital (%)	9.7	9.0	10.8	11.1	10.8
EBITDA interest coverage (x)	15.2	12.6	13.3	12.1	9.7
EBITDA cash interest coverage (x)	10.9	10.0	11.4	10.0	11.5
FFO cash interest coverage (x)	9.1	7.9	9.6	9.1	10.1
Debt/EBITDA (x)	2.3	2.6	2.4	2.5	2.5
FFO/debt (%)	32.1	26.1	31.8	33.0	32.3
Cash flow from operations/debt (%)	30.2	21.7	26.2	30.6	27.5
FOCF/debt (%)	20.4	13.1	15.7	20.5	17.5
DCF/debt (%)	12.8	3.9	(10.1)	10.8	6.3
Debt/debt and equity (%)	35.5	38.9	38.9	37.4	37.0
Debt service coverage (x)	15.2	12.6	13.3	12.1	9.7

Reconciliation

Table 3

Bertelsmann SE & Co. KGaA--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2019--								
Bertelsmann SE & Co. KGaA reported amounts (mil. €)									
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Dividends**	**Capital expenditure**
	5,413.0	8,854.0	2,876.0	1,825.0	160.0	2,614.9	2,090.0	443.0	636.0
S&P Global Ratings' adjustments									
Cash taxes paid	--	--	--	--	--	(424.0)	--	--	--
Cash interest paid	--	--	--	--	--	(260.0)	--	--	--
Reported lease liabilities	1,392.0	--	--	--	--	--	--	--	--

Table 3

Bertelsmann SE & Co. KGaA--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)

Intermediate hybrids reported as debt	(625.0)	625.0	--	--	(20.3)	20.3	20.3	20.3	--
Postretirement benefit obligations/deferred compensation	1,352.0	--	(10.0)	(10.0)	32.0	--	--	--	--
Accessible cash and liquid investments	(1,479.0)	--	--	--	--	--	--	--	--
Capitalized development costs	--	--	(42.0)	11.0	--	--	(42.0)	--	(42.0)
Share-based compensation expense	--	--	7.9	--	--	--	--	--	--
Dividends received from equity investments	--	--	85.0	--	--	--	--	--	--
Income (expense) of unconsolidated companies	--	--	(124.0)	--	--	--	--	--	--
Nonoperating income (expense)	--	--	--	13.0	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(235.0)	--	--
Noncontrolling interest/minority interest	--	1,591.0	--	--	--	--	--	--	--
Debt: Contingent considerations	3.0	--	--	--	--	--	--	--	--
Debt: Put options on minority stakes	24.0	--	--	--	--	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	(3.0)	(3.0)	--	--	--	--	--
EBITDA: Valuation gains (losses)	--	--	(143.0)	(143.0)	--	--	--	--	--
EBITDA: Business divestments	--	--	(90.0)	(90.0)	--	--	--	--	--
EBITDA: Other	--	--	58.0	58.0	--	--	--	--	--
Total adjustments	667.0	2,216.0	(261.1)	(164.0)	11.8	(663.8)	(256.8)	20.3	(42.0)
S&P Global Ratings' adjusted amounts									
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditure**
Adjusted	6,080.0	11,070.0	2,614.9	1,661.0	171.8	1,951.2	1,833.3	463.3	594.0

PP&E--Property, plant, and equipment.

Liquidity: Strong

We view Bertelsmann's liquidity as strong because we expect sources of liquidity will exceed uses by about 1.7x over the next 12 months. The group benefits from sufficient committed credit facilities, a large cash balance, and our expectation of continued positive free cash flow generation. We also consider that Bertelsmann has a strong relationship with banks and high standing in the credit markets, as indicated by the recent benchmark notes issue amid currently stressed capital markets, and given the revolving credit facility (RCF) has no financial covenant.

Principal Liquidity Sources	Principal Liquidity Uses
• Unrestricted cash on balance of €4.7 billion as of June 30, 2020 • €1.2 billion RCF due in 2024, with an unused amount of €500 million as of June 30, 2020 • Our forecast of cash funds from operations of €1.4 billion-€1.5 billion • €250 million of bond issuance completed in the second half of 2020 • €400 million-€450 million of publicly confirmed asset disposals	• Short-term debt maturities of about €1.0 billion • Seasonal and structural working capital outflow of up to €200 million peak intra-year outflow • Capex of €600 million-€650 million • Dividends of about €400 million in 2021 • Contracted acquisitions of about €1.8 billion in 2021

Debt maturities

- 2020: €100 million
- 2021: €500 million
- 2022: €1 billion
- 2023: None
- 2024: €550 million
- Thereafter: €5 billion (including all hybrid capital)

Environmental, Social, And Governance

Social risks are typically associated with media companies that produce or disseminate content. Bertelsmann distributes content through its broadcasting, publishing and magazine divisions, which forms the basis of the majority of its sales.

Bertelsmann's management has shown a good track record of strategic planning and execution including effective monitoring and managing of social risks. The management team has been stable, with significant industry expertise. As an example, Thomas Rabe, the group CEO since 2012, was previously CFO of RTL Group for six years and CFO of Bertelsmann for another six years. We believe that being a private group with long-term oriented family ownership reduces the pressure on Bertelsmann's short-term operations as well as shareholder returns, compared with its publicly listed peers.

Issue Ratings - Subordination Risk Analysis

Capital structure

Almost all debt of the group is at the Bertelsmann SE & Co. KGaA level, is unsecured, and ranks pari passu. The only exception is the group's €1.3 billion hybrid capital, which is subordinated to the unsecured debt, but is also issued at parent level.

Analytical conclusions

There is no structural or contractual subordination and we therefore rate the senior unsecured debt at 'BBB', the same level as our issuer credit rating on Bertelsmann. The hybrid capital is rated 'BB+', two notches below our issuer credit rating, due to:

- Its subordination in the capital structure; and
- The payment flexibility, reflecting that the deferral of interest on the notes is optional.

Ratings Score Snapshot

Issuer Credit Rating

BBB/Stable/A-2

Business risk: Satisfactory

- **Country risk:** Very low
- **Industry risk:** Intermediate
- **Competitive position:** Satisfactory

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: bbb

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Bulletin: Bertelsmann's Simon & Schuster Acquisition Is In Line With Its Established Strategy, Nov. 26, 2020

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	**bbb/bbb-**	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of December 14, 2020)*

Bertelsmann SE & Co. KGaA	
Issuer Credit Rating	BBB/Stable/A-2
Junior Subordinated	BB+
Senior Unsecured	BBB
Issuer Credit Ratings History	
14-Oct-2020	BBB/Stable/A-2
27-Mar-2020	BBB+/Negative/A-2
23-May-2011	BBB+/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.