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Ratings

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Daily Mail & General Trust PLC

Primary Credit Analyst:
Alex Roig, CFA, London + 44 20 7176 8599; Alex.Roig@spglobal.com

Secondary Contacts:
Alexandra Balod, London + 44 20 7176 3891; alexandra.balod@spglobal.com
Hugo Caparros, London +44 2071760855; hugo.caparros@spglobal.com

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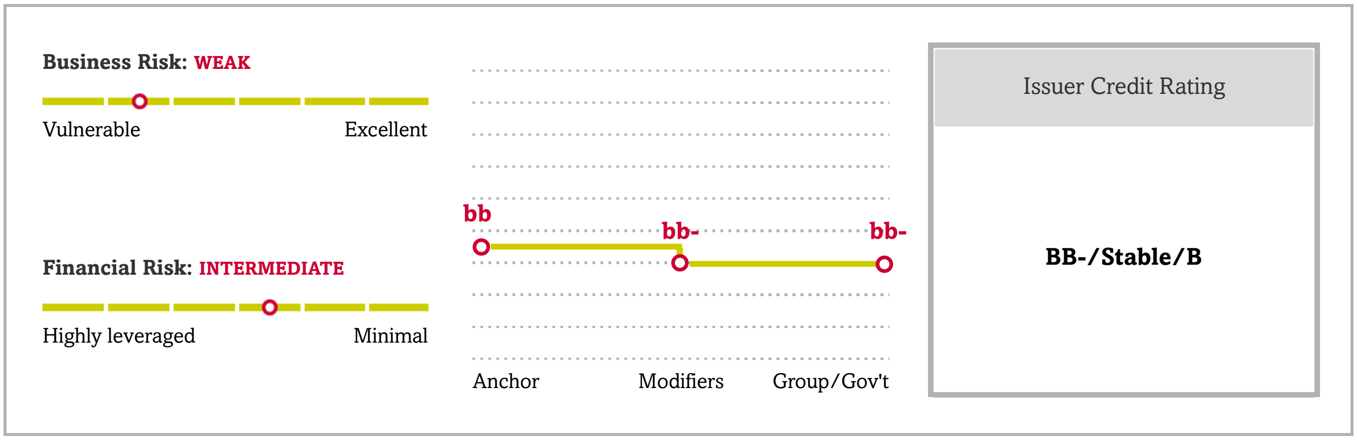
Daily Mail & General Trust PLC



Credit Highlights

Overview

Key strengths	Key risks
Strong position in the U.K. news media sector, and business diversity from presence in the property information and events markets.	High exposure to the cyclical consumer media sector, accounting for about 60% of group revenue, and volatile advertising revenue exacerbated by structurally declining print formats.
Modest levels of capital requirements supporting sound free cash flow generation.	Geographic concentration in the U.K., where a moderate recession will lead to challenging revenue and earnings prospects in the next 12 months.
Moderate leverage metrics, which we expect will return to 2.0x-2.5x in the next two years.	

2022 was a year of transition for Daily Mail & General Trust PLC (DMGT). S&P Global Ratings-adjusted leverage increased to 2.9x for the fiscal year ended Sept. 30, 2022, (FY2022) up from 2.5x in FY2021 and 2.3x in FY2020. The increase was driven partly by the group's smaller earnings base after it successfully completed a take-private transaction, largely funded with the proceeds from the disposal of its insurance risk businesses RMS in September 2021. Higher leverage was also driven by weakening profitability in the property information and consumer media divisions, owing to a combination of lower property transaction volumes (against very strong 2021 comparables) and falling advertising revenues in the second half of the fiscal year, and inflationary pressures on its cost base. A stronger-than-expected recovery in events activity--it closed FY2022 with revenues only 16% below 2019 levels--only partially offset such trends due to its relatively smaller contribution to the consolidated group.

Deteriorating macroeconomic conditions will weigh on DMGT's topline in 2023. We forecast DMGT's group revenue will decline by 2%-3% in FY2023, due to declining advertising revenue in the consumer media division and falling volumes in its property information business. In particular, we anticipate:

- Consumer media revenue (about 60% of group revenue) to shrink by 3%-5%. We anticipate shrinking advertising budgets and ongoing secular pressures on print circulation will lead to declines in newsprint revenue (including the Daily Mail and The Mail on Sunday) of 5%-10%. This could be partly offset by improving revenue from Metro, bolstered by our expectation of a continued recovery in commuter numbers.

- Property information revenue (accounting for about 20% of group revenue) to decline by 4%-6%, hit by low mortgage availability due to sharp interest rate hikes. We anticipate transaction volumes will remain low and well below recent years over the remainder of FY2023.
- Events and exhibitions (about 10% of group revenue) to retain its strong momentum with topline growth of about 15%. We believe DMGT is well positioned to capitalize on resilient demand for key events across its main industry verticals, such that revenue from its events division will approach 2019 levels this year despite the weaker macroeconomic backdrop.

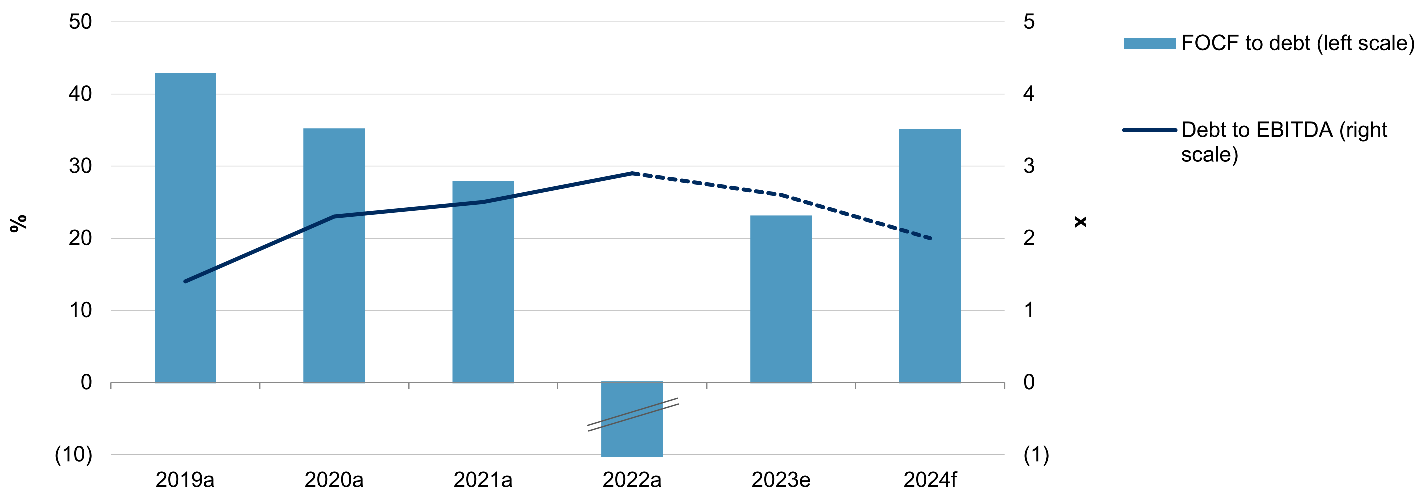
DMGT could return to topline growth in FY2024, but medium-term risks persist. We currently predict the U.K.'s recession in 2023 to be moderate with a real GDP decline of 1% in 2023, returning to 1%-2% growth thereafter. We believe this could lead to a relatively swift recovery in marketing budgets in 2024, which should support a pick-up in DMGT's advertising revenue. That said, we think the group is still vulnerable to a secular decline in newsprint circulation. DMGT's key newsprint titles (the Daily Mail and The Mail on Sunday) account for over one-half of consumer media revenues (or about one-third of group revenue), and although we anticipate the decline will be managed rather than abrupt, we anticipate this will continue to stifle the group's growth over the medium term.

Weak revenues and cost inflation will lead to subdued profitability. We forecast DMGT's adjusted EBITDA margin will remain low in FY2023 at about 8%, broadly flat versus the 8.4% achieved in FY2022. We anticipate the effect of ongoing inflation on staff wages, as well as high energy and printing costs, will pressure DMGT's cost base. Given our forecast of declining revenues, we anticipate the group will not be able to fully pass cost increases to its customers, and will rather look to offset these through cost-saving initiatives. Based on our expectation of a return to revenue growth in FY2024, we believe these cost savings will allow the group to improve its EBITDA margin to 10%-11% over the same period, thanks to a lower, more stable cost base. We do not expect margins will return to the 15%-17% range shown in 2017-2019 in the next two to three years, as the higher-margin business-to-business (B2B) segment now accounts for a comparatively smaller portion of DMGT's business mix.

We expect DMGT's financial policy will support its moderate leverage and the current rating. We expect DMGT will maintain leverage in the 2.2x-2.7x range in FY2023 and FY2024. This is supported by DMGT's financial policy, which targets leverage of below 2x, translating to about 2.5x S&P Global Ratings-adjusted debt to EBITDA. While leverage temporarily increased to 2.9x in FY2022 (from 2.5x in FY2021), we anticipate that the opportunistic bond buyback completed in November 2022 will allow DMGT to reduce S&P Global Ratings-adjusted debt to EBITDA toward 2.5x in FY2023. We also anticipate improving trading performance, moderate shareholder distributions, and no debt-funded acquisitions will lead to further deleveraging toward 2x thereafter.

Chart 1

We Forecast Improving Leverage And Free Cash Flows, Despite DMGT's Operating Challenges



a--Actual. e--Estimate. f--Forecast. FOCF--Free operating cash flow. Source: S&P Global Ratings.

Outlook

The stable outlook reflects our view that over the next 12 months DMGT will maintain adjusted leverage below 3.0x while generating free operating cash flow (FOCF) of £30 million-£50 million, despite tough trading conditions in the property information and consumer media divisions.

Downside scenario

We could lower our rating on DMGT if the group's adjusted debt to EBITDA exceeded 3.5x. This could occur if:

- The group's adjusted EBITDA declined more substantially than we forecast--for example, if there was a steep decline in consumer media earnings or if additional interest rate hikes resulted in a sharper decline in property information revenues; or
- The group followed a more aggressive financial policy than we assume under our base case--for example, if it pursued higher dividend payments or debt-funded acquisitions that led to higher leverage.

Upside scenario

We view an upgrade as remote. It would require a material increase in the group's scale and scope of operations, sustainable organic earnings growth, and a significant improvement in earnings and margins. This would need to be supported by the group's commitment and demonstrated track record of a conservative financial policy that would support stronger credit metrics compared with our base case.

Our Base-Case Scenario

Assumptions

- U.K. real GDP to contract by 1% in 2023, before rebounding to 1.3% growth in 2024. Similarly, we anticipate real consumption will decline at 1.7% in 2023 and return to 1% growth in 2024. We also forecast inflation will remain high in 2023, with consumer price index growth of 7%, before dropping to about 1% in 2024.
- DMGT's group revenue to decline by 2%-3% in FY2023 and recover by 4%-5% in FY2024.
- --Consumer media revenue to remain under pressure, declining by 3%-5%. We anticipate that improving advertising spend will lead to 3%-5% revenue growth in consumer media in FY2024, but anticipate the division's growth profile will remain subdued at 0%-2% thereafter, impacted by ongoing secular pressure on newsprint circulation.
- --Property information revenue to decline by 4%-6%. We anticipate transaction volumes will gradually recover from FY2024 onward, leading to property information revenue growth of 5%-7% annually.
- --Events and exhibitions revenue to grow at about 15%, approaching 2019 levels. We forecast events revenue will resume its steady annual growth of about 5% from FY2024 onward.
- Adjusted EBITDA margin to remain subdued at about 8% in FY2023. We expect adjusted margins will gradually improve toward 10% in 2024 as the group returns to topline growth.
- Working capital inflows per year in 2023 and 2024 of £5 million-£10 million.
- Mergers and acquisitions of £5 million-£10 million per year in 2023 and 2024 and proceeds from disposals of £10 million-£15 million in 2023.

Key metrics

Daily Mail & General Trust PLC--Key Metrics

(Mil. £)	2021a	2022a	2023f	2024f
Revenue	885.3	974	940-960	~1,000
EBITDA	106.8	81.7	70-80	~100
EBITDA margin (%)	12.1	8.4	~8	~10
Capital expenditure	-10.4	-13.5	(15-17)	(15-17)
Free operating cash flow (FOCF) after leases	51	(426)*	30-50	50-70
Dividends	55.0	1,356.40	25-27	25-27
Debt to EBITDA (x)	2.5	2.9	2.5-2.7	~2.0
FOCF to debt (%)	28	(171)*	22-25	30-35

All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast. *Includes one-off pension contributions of £431 million.

Company Description

DMGT is a U.K.-based media group operating consumer media and B2B divisions. DMGT generates revenues from two divisions:

- Consumer media (67% of revenues in FY2022), which includes the Daily Mail, The Mail on Sunday, the Metro, the i newspaper, MailOnline, and New Scientist.

- B2B, which includes property information (Landmark and Trepp brands, representing 22% of group revenue), and global B2B events and exhibitions (11% of group revenue), with a particular focus on the energy, construction, and hotel and hospitality sectors.

In FY2022, the group generated revenue from continuing operations of £974 million and S&P Global Ratings-adjusted EBITDA of £82 million. The DMGT group is fully owned by Rothermere Continuation Ltd., a Jersey-registered holding company controlled by a trust for the benefit of Viscount Rothermere and his family.

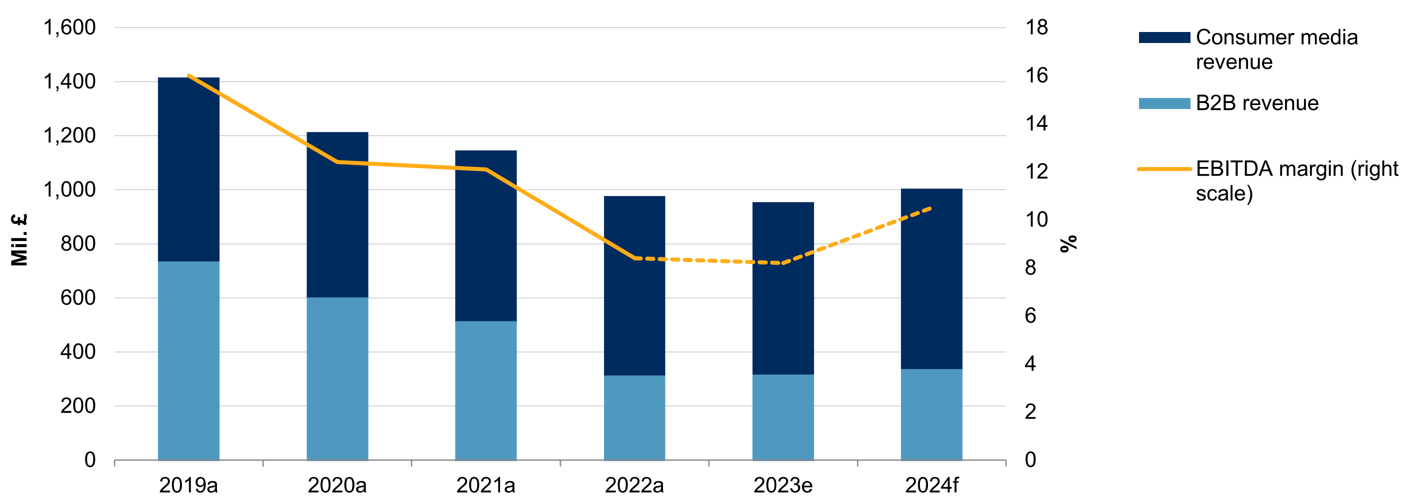
Business Risk

A flurry of disposals in its B2B segment significantly shrunk the size and scale of DMGT's business and exposed it to the cyclical and structurally challenged consumer media division, which now accounts for about two-thirds of group revenue. Consumer media revenues are largely derived from structurally declining print circulation and cyclical advertising spend, which in turn is shifting away from traditional channels (such as linear TV, print, and radio) and into digital and data-driven mediums (such as social media, paid search, and programmatic). As such, growth in DMGT's digital publications is largely offset by the ongoing decline in print volumes.

The disposals of higher-margin B2B businesses, weak revenue growth, and increasing input costs result in profitability metrics that we consider to be below-peer-average.

Chart 2

Concentration To Consumer Media Results In Weaker Growth Prospects And Lower Margins



a--Actual. e--Estimate. f--Forecast. B2B--Business-to-business. Source: S&P Global Ratings.

At the same time, DMGT's presence in B2B property information markets and events brings some diversity and stability to its earnings. Still, B2B revenue is also sensitive to macroeconomic conditions. For instance, its property information business is exposed to property transaction volumes, pressure on revenue, and subdued profitability metrics.

Similarly, revenues in DMGT's events business have been heavily disrupted as a result of the COVID-19 pandemic, and revenues in this division are yet to recover to 2019 levels. We also anticipate that, once it normalizes over the next 12-24 months, demand for events and exhibitions could be impacted by changes in business confidence and thus show some cyclicality, as seen before the pandemic.

Financial Risk

Our ratings on DMGT reflect the group's moderate leverage, with adjusted debt to EBITDA of about 2.5x. DMGT's financial debt comprises £150 million of senior unsecured notes, down from the original £200 million notional principal after the group completed an opportunistic buyback transaction in November 2022. We therefore anticipate that after a temporary spike in leverage in FY2022, adjusted debt to EBITDA will moderate toward 2.0x-2.5x over the next two years.

We also anticipate the group will return to robust free cash flow generation from FY2023. We forecast FOCF after leases of £30 million-£50 million in FY2023, improving to £50 million-£70 million in 2024. In FY2022, its FOCF was negative mainly due to a one-off £430 million pension contribution and £34 million of severance and reorganization costs, both due to the take-private transaction.

We expect DMGT's interest cover will remain strong despite rising interest rates thanks to its fixed-rate capital structure. We forecast EBITDA cash interest cover of over 6x in FY2023 and toward 9.0x in FY2024, from 4.6x in FY2022.

Financial summary

Table 1

Daily Mail & General Trust PLC--Financial Summary					
Industry sector: Publishing and printing					
	--Fiscal year ended Sept. 30--				
	2022	**2021**	**2020**	**2019**	**2018**
(Mil. £)					
Revenue	974.0	885.3	1,210.5	1,410.6	1,426.4
EBITDA	81.7	106.8	150.7	225.9	207.5
Funds from operations (FFO)	57.2	66.2	128.0	170.8	136.0
Interest expense	17.9	16.3	17.5	25.4	42.5
Cash interest paid	17.7	18.3	14.9	35.1	44.3
Cash flow from operations	(395.1)	84.8	132.8	154.4	102.4
Capital expenditure	13.5	10.4	13.7	15.9	30.4
Free operating cash flow (FOCF)	(408.6)	74.4	119.1	138.5	72.0
Dividends paid	1,356.4	55.0	54.9	275.1	81.2
Discretionary cash flow (DCF)	(1,821.1)	9.1	43.7	(139.9)	(23.5)
Cash and short-term investments	53.0	1,746.9	500.3	299.1	437.8

Table 1

Daily Mail & General Trust PLC--Financial Summary (cont.)

Industry sector: Publishing and printing					
	--Fiscal year ended Sept. 30--				
	2022	**2021**	**2020**	**2019**	**2018**
Gross available cash	53.0	1,746.9	500.3	299.1	675.1
Debt	240.1	267.5	339.6	323.6	0.0
Equity	1,000.5	3,082.1	1,146.2	774.3	1,675.4
Adjusted ratios					
Annual revenue growth (%)	10.0	(26.9)	(14.2)	(1.1)	(9.8)
EBITDA margin (%)	8.4	12.1	12.4	16.0	14.5
Return on capital (%)	(2.7)	0.7	3.9	8.4	14.6
EBITDA interest coverage (x)	4.6	6.6	8.6	8.9	4.9
FFO cash interest coverage (x)	4.2	4.6	9.6	5.9	4.1
Debt/EBITDA (x)	2.9	2.5	2.3	1.4	0.0
FFO/debt (%)	23.8	24.8	37.7	52.8	N.M.
Cash flow from operations/debt (%)	(164.6)	31.7	39.1	47.7	N.M.
FOCF/debt (%)	(170.2)	27.8	35.1	42.8	N.M.
DCF/debt (%)	(758.5)	3.4	12.9	(43.2)	N.M.

N.M.--Not meaningful

Reconciliation

Table 2

Daily Mail & General Trust PLC--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. £)

	--Fiscal year ended Sept. 30, 2022--						
Daily Mail & General Trust PLC reported amounts							
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
Reported	195.3	1,002.5	(32.0)	(87.0)	81.7	(376.5)	17.8
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	(6.8)	--	--
Cash interest paid	--	--	--	--	(17.7)	--	--
Reported lease liabilities	28.8	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	--	--	(17.8)	(17.8)	--	--	--
Capitalized development costs	--	--	(4.3)	--	--	(4.3)	(4.3)
Share-based compensation expense	--	--	58.8	--	--	--	--
Dividends received from equity investments	--	--	1.2	--	--	--	--

Table 2

Daily Mail & General Trust PLC--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. £) (cont.)

Income (expense) of unconsolidated companies	--	--	45.3	--	--	--	--
Nonoperating income (expense)	--	--	--	2.8	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	(14.3)	--
Noncontrolling interest/minority interest	--	(2.0)	--	--	--	--	--
Debt: Derivatives	16.0	--	--	--	--	--	--
EBITDA: Foreign exchange gain/(loss)	--	--	(3.8)	(3.8)	--	--	--
EBITDA: Restructuring costs	--	--	34.3	34.3	--	--	--
Depreciation and amortization: Impairment charges/(reversals)	--	--	--	9.3	--	--	--
Total adjustments	44.8	(2.0)	113.7	24.8	(24.5)	(18.6)	(4.3)

S&P Global Ratings' adjusted amounts

	Debt	Equity	EBITDA	EBIT	Funds from operations	Cash flow from operations	Capital expenditure
Adjusted	240.1	1,000.5	81.7	(62.2)	57.2	(395.1)	13.5

Liquidity

Our short-term rating on DMGT is 'B'. We assess the group's liquidity as adequate, reflecting our view that sources of liquidity will exceed uses by more than 2.5x in the 12 months from Sept. 30, 2022. Liquidity is supported by DMGT's full availability under the £200 million revolving credit facilities (RCF) and our expectation of positive funds from operations (FFO). That said, our liquidity assessment is constrained by our view that due to DMGT's small scale of operations, it would not be able to withstand low probability, high impact events without refinancing. It is also constrained by our view of its relatively weaker access to the credit markets as a privately owned company.

Principal liquidity sources

- Cash balances of about £53 million as of Sept. 30, 2022;
- Full availability under its committed £200 million credit facilities due May 2026;
- Cash FFO of £50 million-£70 million; and
- Proceeds from asset disposals of £10 million-£15 million.

Principal liquidity uses

- £46.6 million bond buyback in November 2022;
- Seasonal working capital requirements of about £25 million;
- Capital expenditure of up to £20 million; and
- Dividend distributions of £25 million-£30 million.

Covenant Analysis

Compliance expectations

We expect headroom under such covenants will remain comfortable at over 30%, over the next 12 months.

Requirements

DMGT's bank facilities contain two financial maintenance covenants: a net debt-to-EBITDA leverage covenant of 3.25x and an interest coverage covenant of 3.0x, both tested semiannually in March and September.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	G-2	**G-3**	G-4	G-5

- N/A	- N/A	- Governance structure

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Governance factors are a moderately negative consideration in our credit rating analysis of DMGT. We consider that the Rothermere family controls 100% of voting shares in the company and that the board of directors lacks sufficient independence, given only three of its eight seats are held by independent directors. This could lead to corporate decision-making that prioritizes the interests of the controlling owners over those of other stakeholders.

Issue Ratings - Recovery Analysis

Key analytical factors

- Our rating on the £200 million senior unsecured bonds due June 2027, of which £150 million remains outstanding, is 'BB-'.
- The recovery rating is '3', reflecting our expectation of meaningful recovery (50%-70%; rounded estimate: 65%) in the event of a payment default. In line with our criteria, the recovery rating on unsecured debt rated in the 'BB-' category is capped at '3'.
- We value DMGT as a going concern.
- Our hypothetical default scenario assumes a prolonged economic downturn in the U.K., higher competition, further declines in print circulation and advertising, and underperformance in the wider portfolio operations.

Simulated default assumptions

- Year of default: 2026
- Jurisdiction: U.K.
- EBITDA at emergence: £43.6 million
- Implied enterprise value multiple: 5.5x

Simplified waterfall

- Gross enterprise value at default: £240 million
- Net enterprise value after administrative costs (5%): £228 million
- Estimated senior unsecured debt*: £342 million
- Recovery rating: '3' (50%-70%; rounded estimate: 65%)

Note: All debt amounts include six months' prepetition interest.

*Includes RCF assumed to be drawn at 85%.

Ratings Score Snapshot

Issuer Credit Rating

BB-/Stable/B

Business risk: Weak

- **Country risk:** Low
- **Industry risk:** Intermediate
- **Competitive position:** Weak

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: bb

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

Business And Financial Risk Matrix

	Financial Risk Profile					
Business 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 February 7, 2023)*

Daily Mail & General Trust PLC	
Issuer Credit Rating	BB-/Stable/B
Senior Unsecured	BB-
Issuer Credit Ratings History	
21-Dec-2021	BB-/Stable/B
19-Jul-2021	BB/Watch Neg/B
17-Apr-2019	BB/Stable/B
07-Mar-2019	BB+/Watch Neg/B
21-Dec-2018	BB+/Negative/B

*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

Ratings Detail (As Of February 7, 2023)*(cont.)

debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.