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Drowning in debt: TMT sector braces for wave of Chapter 11 filings

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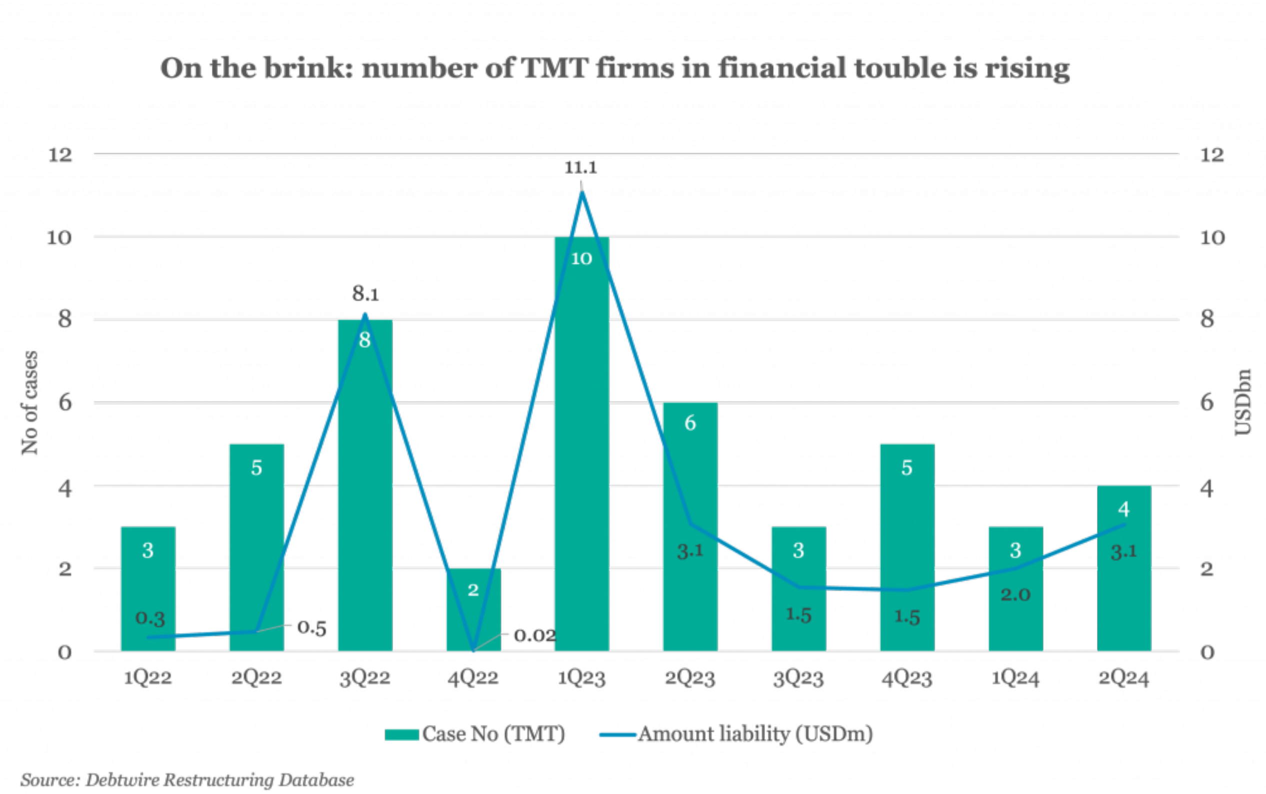

Signs emerged last week in the US of difficult times ahead, as 10 companies filed for Chapter 11 bankruptcy protection, including four in the technology, media and telecoms (TMT) sector. The activity marked a step up from 1Q24, which saw three Chapter 11 filings by other TMT operators. Concerningly, the large number of firms currently accumulating in the distressed universe suggests the TMT sector is set for a spike in restructuring cases this year, as many companies face up to the need to address their looming debt maturities in 2025.

Over the past two years, the highest number of Chapter 11 applications in a quarter by TMT firms came in 1Q23, when 10 filed for protection, with combined debt exceeding USD 11bn. Of this amount, USD 9bn was attributed to broadcaster Diamond Sports Group, which failed to refinance its 2026 maturities and defaulted on USD 140m of interest payments in January 2023. The company is seeking to pare back USD 8bn?8.5bn of its funded debt.

TMT companies traditionally have had significant operating expenses, particularly targeted towards the maintenance and expansion of network and infrastructure. In addition, the industry has been a heavy consumer of energy resources, which is why many companies lately have been hit hard by soaring energy costs. Previously, firms were able to pass on any additional costs to customers; however, since the pandemic, broadcasters have started losing audience numbers to internet search engines and social media, and this looks set to continue well into 2024. Already-tight revenue streams have been hit even harder by rampant inflation – a key source of income for broadcasting companies is advertising, which has been one of the main budget cuts to engineer cost-savings, as inflation bites all sectors. Combined, these factors have contributed to rising stress levels across the TMT sector.

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