

## Give me please a clear picture: Getty Images

I will not revisit the latest developments surrounding Getty Images Holdings, the U.S.-based creator and distributor of visual content, including images, videos, and audio collections. Getty Images operates a comprehensive visual content library and licensing marketplace, serving companies and individual customers. As we have learned in recent days, Getty Images' board has decided to terminate the proposed merger with its peer Shutterstock, a transaction that was announced at the beginning of 2025. What is already beyond dispute, however, is that the collapse of the deal has materially changed the company's capital structure outlook.

I will not go into the reasons behind the board's decision here.

I am writing about Getty because it presents an interesting valuation case.

This is the second time I write about credits whose fate and recovery values are tied to "binary external events" (the previous one was LYCRA Company). My view is that this is perfectly acceptable, provided credit portfolio managers can accurately assess the underlying probabilities, explain them to their investors, justify the rationale behind their portfolio allocations, and are willing to bear the consequences or to get the reward of their investment decisions.

With the merger now abandoned—a transaction that, while operationally challenging to execute, would have been meaningful from a liquidity and cash flow perspective—Getty Images has appointed financial advisors to evaluate potential strategic alternatives or solutions for its highly leveraged balance sheet. This is an implicit acknowledgment that the company's current capital structure is becoming increasingly difficult to sustain under prevailing operating conditions. Put simply, Getty Images faces a potential liquidity challenge. The rating agencies reacted swiftly. At the beginning of 2025, the name was rated Ba3/BB-, a solid rating in the leveraged credit universe. Following the recent termination of the merger, however, the company's credit ratings have been downgraded to the CCC category, effectively moving the issuer into distressed territory. In just 16 months, Getty Images has fallen from Ba3/BB- to CCC—a remarkable deterioration in credit quality (maybe excessive, and we can easily question the previous assigned credit ratings). The company's equity performance tells a similar story. Since 2021, Getty's shares have significantly underperformed, reflecting investors' growing concerns about the long-term sustainability of the business model and core segments well before the usual credit questions surrounding the capital structure became dominant.

Stock investors do not appreciate a tepid growth rate and a low return on invested capital. Credit investors, on their side, emphasize the cash generation. In the long run the two views should converge as the substantial cost of debt servicing potentially limit future strategic investments and growth initiatives. In the short term, however, we can observe a few exceptions.

The deterioration in Getty Images' credit profile—the Q1 earning results fell short of expectations and they followed a soft trend started some quarters ago—should not have come as a surprise. Investors with longer memories will recall the borrower's February 2025 refinancing, when Getty Images was compelled to refinance its debt at exceptionally wide spreads—a clear indication that creditors were already demanding a substantial premium for the perceived increase in risk (my involvement in the name started in February 2024 when in a positive credit environment the company decided to withdrawn from primary market a loan refinancing transaction due to investors pushback).

At the beginning of last year, Getty's management presented the 2025 transaction refinancing as evidence of company's "strong financial foundation" and emphasized the benefits of a simplified maturity profile. Somewhat optimistic, because in retrospect, those assurances sit uneasily alongside the subsequent deterioration in both the company's operating performance and its credit metrics.

By the second half of 2025, the warning signs had become increasingly difficult to ignore. Gross leverage remained persistently high, EBITDA-to-cash conversion weakened, and free cash flow generation was insufficient to support any meaningful deleveraging. Meanwhile, rising borrowing costs compressed interest coverage and steadily eroded the company's financial flexibility. Collectively, these trends pointed to a balance sheet that was becoming progressively more constrained. At the same time, the rapid emergence of generative AI transformed what had initially been viewed as a technological risk into a strategic one. Investors and analysts increasingly questioned the resilience of Getty's business model, the durability of its competitive position, and its long-term pricing power in a market where AI-generated content threatens to reshape the economics of visual media. Although Getty retains valuable proprietary content, established customer relationships, and strong licensing capabilities, the market began assigning greater weight to the possibility that these advantages could gradually erode, especially in a negative economic cycle.

Against this backdrop, the proposed merger with Shutterstock represented more than a conventional consolidation within the industry. Beyond the anticipated cost synergies, the transaction offered a credible path toward strengthening cash generation, improving operating leverage, and mitigating some of the structural pressures facing the business. It also held the potential to support a more sustainable capital structure. Its termination therefore removed a key pillar of the credit investment case, leaving Getty to confront its operational and financial challenges on a standalone basis.

The balance-sheet pressures were further compounded by litigation concerning alleged breaches of contractual obligations under the 2022 warrant agreement. While these proceedings were not the principal cause of the company's credit deterioration, they introduced an important additional source of uncertainty and reinforced investor concerns over execution risk, liquidity, and the possibility of future contingent liabilities.

Individually, none of the issues just mentioned would necessarily have been decisive. Taken together, however, they materially weakened market confidence and accelerated the reassessment of Getty's creditworthiness.

Against this deteriorating fundamental backdrop, the behavior of Getty's debt instruments presents one of the most interesting features of the capital structure. While operating performance, leverage metrics and liquidity expectations progressively weakened, the company's euro-denominated Term Loan B continued to trade for an extended period in the 92-93 context. From a fundamental credit perspective, those levels appear increasingly difficult to reconcile with the issuer's deteriorating credit profile.

In retrospect, the first meaningful market signal had already emerged during the October 2025 refinancing. The new USD secured issuance priced at a yield of approximately 10.5%, materially wider than initial market expectations, indicating that more focused fixed-income investors were demanding a substantially higher risk premium to compensate for increasing leverage, weakening free cash flow generation and a more uncertain refinancing profile. The subsequent offer of unsecured 2028 notes at a yield of approximately 14%, launched as a (short) refinancing of the 9,75% SUNs maturing in 2027, further reinforced that message. The new unsecured note yield, in my opinion, was no longer pricing a "conventional leveraged issuer". Shutterstock provided an irrevocable waiver for a closing condition in the merger agreement: this condition required Getty Images to refinance its existing term loans and senior notes and to extend maturities to at least February 19, 2028. This is what Getty Images did with the 14% SUNs.

The European syndicated loan market, however, remained more positive (Europe was positive even in 2024 despite the ringing alarm bells, the red flags, and the warnings arriving from American investors). Technical factors largely dominated price discovery. CLOs continued to represent the marginal buyers of Getty's Term Loan B and, for many vehicles, a floating-rate instrument offering Euribor +600 basis points with a relatively short weighted-average life, generated an attractive carry profile relative to similarly rated leveraged loans. Portfolio reinvestment requirements (WAL test), WARF optimization, OC test dynamics and the persistent search for spread continued to support the demand despite the risks. My assessment is that a trading level in the low-80s would have been substantially more consistent with the company's fundamental enterprise value and expected recovery analysis. In other words, the European loan appeared to trade at a higher price than fair value because the technical bid overwhelmed the bottom-up credit analysis. Interestingly, concerns surrounding artificial intelligence arguably

became a second-order issue. While AI undoubtedly altered the long-term competitive landscape for visual content providers, the more immediate question for creditors was whether the existing capital structure remained financeable under a materially weaker cash flow trajectory.

Today the more challenging analytical exercise is therefore not determining whether Getty requires deleveraging, but rather estimating the sustainable capital structure capable of supporting the business through the cycle. That assessment ultimately depends on normalized free cash flows, the company's ability to stabilize EBITDA and its margin, the appropriate cost of capital following any restructuring, and the recoverable value attributable to a business whose principal assets are largely intangible. Based on my assumptions for normalized cash generation, higher funding costs and the requirement that the post-transaction capital structure remain broadly free cash flow neutral or positive, Getty appears to require approximately 1.2x-1.5x of leverage reduction before its balance sheet can be considered sustainable. How that deleveraging is ultimately allocated across the capital structure—whether through discounted debt exchanges, maturity extensions, debt-for-equity conversions, PIKs—remains highly uncertain. The range of potential outcomes remains unusually wide, reflecting both the uncertainty surrounding enterprise value (Getty Images is a leader in its sector) and the considerable optionality embedded within the existing capital structure.

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