



HOULIHAN LOKEY

# ENTERTAINMENT INDUSTRY

MARKET UPDATE | SPRING 2020



# Houlihan Lokey Entertainment Industry Update

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Dear Clients and Friends,

In recent weeks, COVID-19 (better known as coronavirus) has globally sent shock waves through markets and captured the attention of the world. Since mid-February, the outbreak has accelerated and infections have become widespread, resulting in significant market volatility that is expected to continue for the foreseeable future. Substantial disruption to business operations has occurred and all sectors of the economy have been impacted, including the entertainment industry.

At this point, it is impossible for us to know how long the outbreak and shutdown will last or the lingering effects on businesses, the economy, and the credit and M&A markets, but we believe that once business resumes, the entertainment industry will continue to see high levels of activity as companies respond to the impacts of COVID-19. We have included industry insights and select recent transaction announcements to help you stay ahead in this dynamic and constantly evolving sector. Driven by rapidly growing levels of cord cutting and evolving business models, 2019 saw significant M&A activity (such as the merger of Viacom and CBS) and continued investment in original content. We expect activity to remain high for the foreseeable future as the sector continues its evolution and the key players refine their strategic goals.

We understand the anxiety created by these uncertain times, and we are here to share our perspective based on our real-time conversations with industry executives and our comprehensive views on the markets—M&A, public equities, and credit. We will continue to monitor this rapidly evolving situation and look forward to staying in touch.

Regards,



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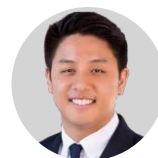
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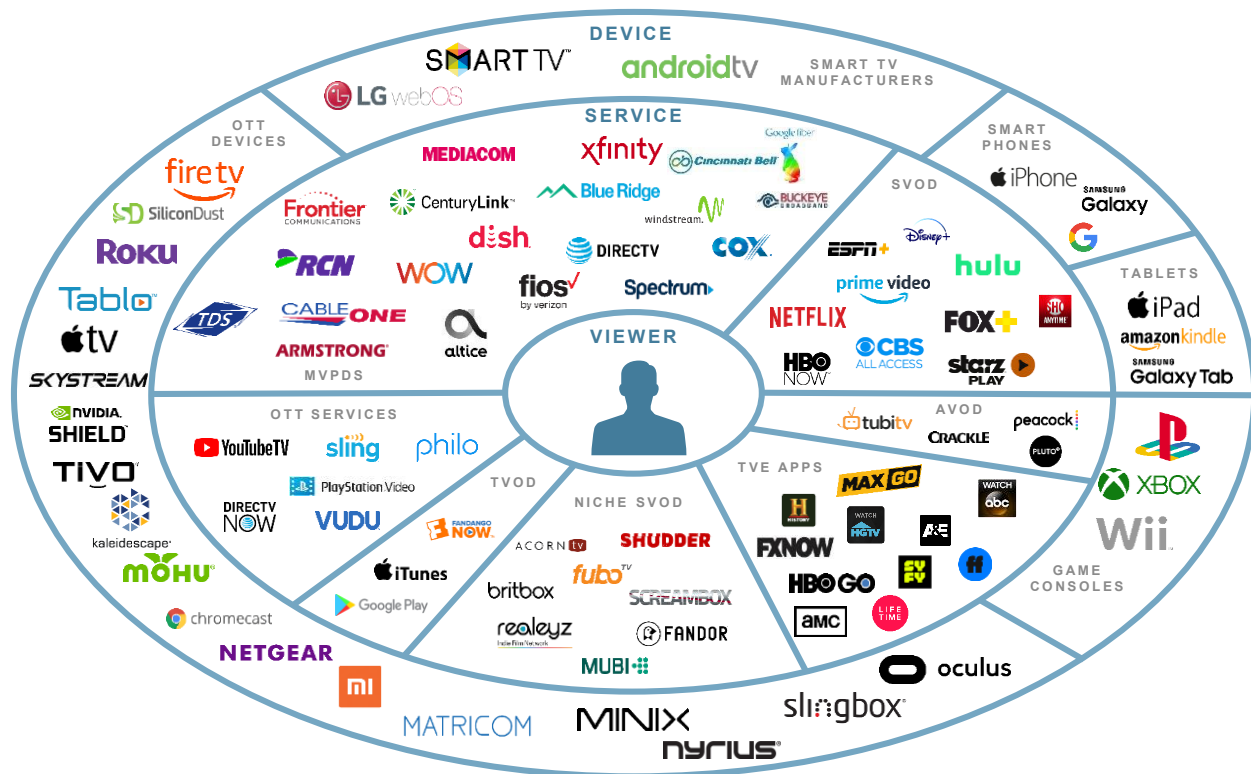
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# Select Recent Entertainment Transactions

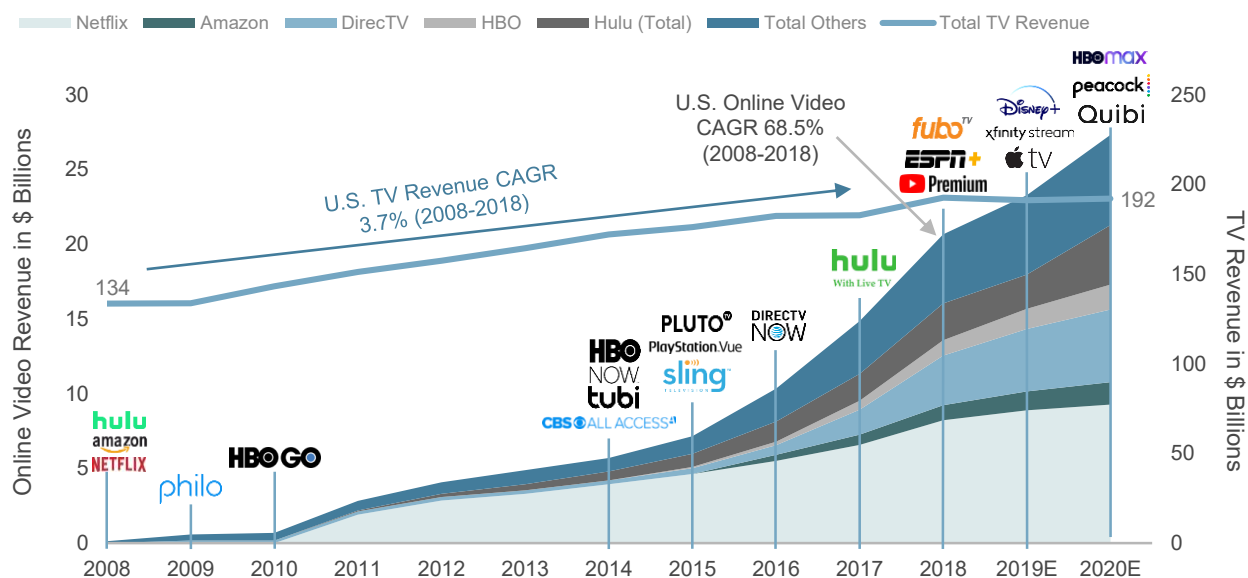
Houlihan Lokey's professionals have unparalleled experience in advising media and entertainment companies.

 a subsidiary of  has been acquired by  Sellside Advisor	 has been acquired by  Sellside Advisor	Cadence13 has been acquired by  Sellside Advisor	 has been acquired by  Sellside Advisor	Mediabox, LLC has acquired  and  Buyside Advisor
 and  Senior Secured Credit Facility in connection with acquisition \$55,000,000 Exclusive Placement Agent	 has been acquired by  Sellside Advisor	 has successfully completed the spin-off of  Houlihan Lokey provided financial opinions to the Board of Directors of both Twenty-First Century Fox and Fox Corporation. Financial Opinion	 a subsidiary of  has been acquired by  Sellside Advisor	 has been acquired by  Sellside Advisor
 THE WEINSTEIN COMPANY has sold substantially all its assets through a \$363 asset sale Secured Lender Advisor	 has been acquired by  Sellside Advisor	 has completed a financing for MACRO Content Fund I, LLC Financial Advisor	 has received a minority investment from  Series C Financing Financial Advisor	 CORE MEDIA GROUP has completed a "pre-arranged" Chapter 11 Plan of Reorganization First Lien Group Advisor
 has confirmed a Chapter 11 Plan of Reorganization, restructuring approximately \$450 million of debt Second Lien Noteholder Advisor	 has confirmed a Chapter 11 Plan of Reorganization Company Advisor	 Valuation of a film library for collateral lending purposes in connection with Sound Point Capital Management's acquisition of Relativity Media.  Collateral Valuation	 Accelerated Global Content, LLC Valuation opinion in connection with strategic initiatives following AGC's launch Financial Opinion	 Provided financial advisory services and a valuation opinion in connection with the purchase of Tribune Media's 5% interest in Chicago Entertainment Ventures, LLC Financial Opinion

# Increased Access for Consumers Is Disrupting Traditional Models



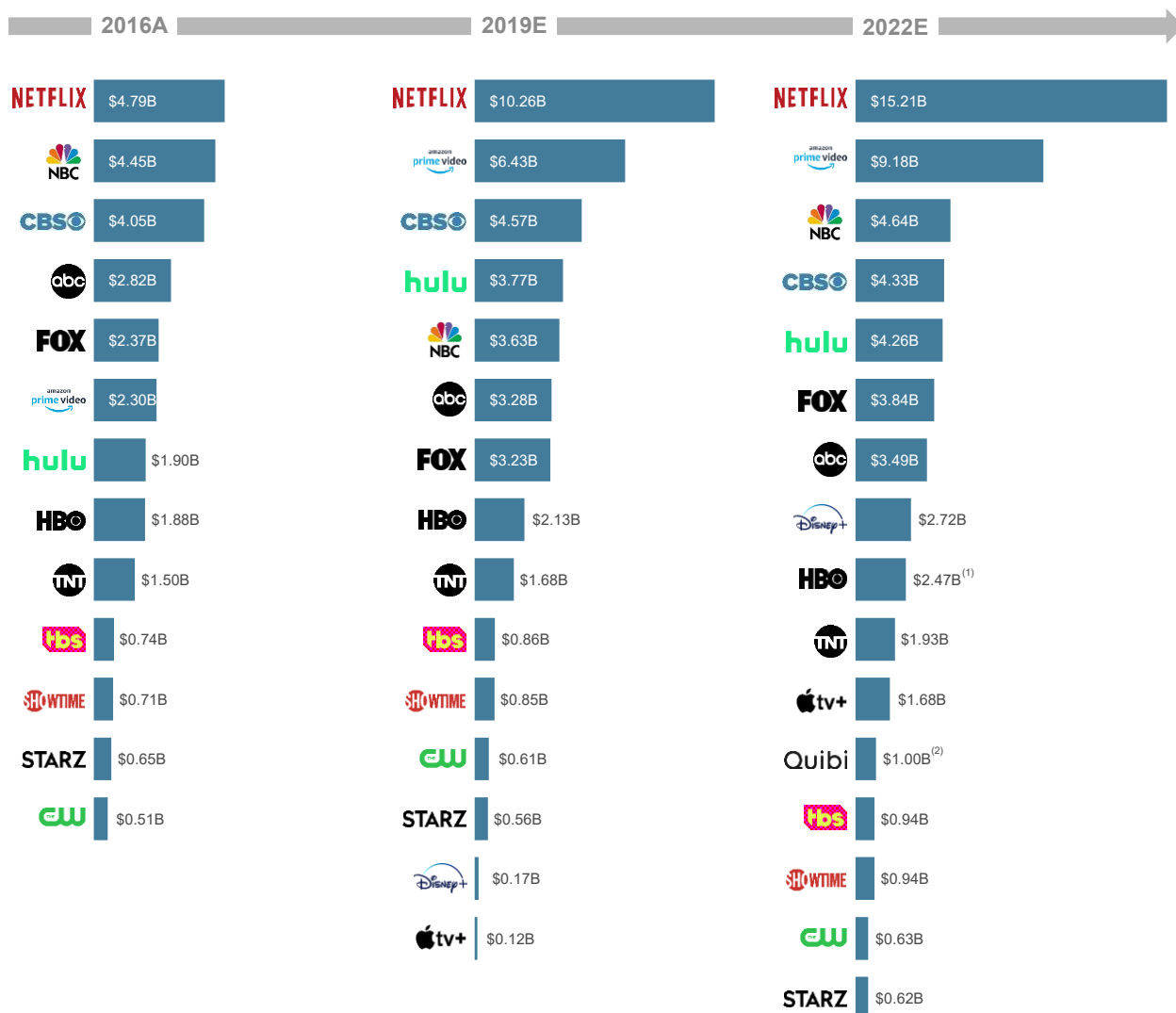
## ...Creating an Inflection Point Between OTT and Linear



Sources: Fiercvideo, Broadband Media Intelligence Service (Video Providers)—2018.  
 Online TV refers to SVOD revenue and AVOD revenue; TV revenue refers to all pay TV revenue.  
 Subscription—defined as an active account to a subscription service (excluding free trials).

# Competition Drives Content Spend to Record Levels

The opportunity to go direct-to-consumer (DTC) is driving content spend as services look to have more and better content to attract and retain viewers and subscribers.



## Total Content Spend for Selected Companies



Note: figures are representative of programming amortization expense for selected companies.

Source: SNL Kagan, Company Investor Presentations, Vulture.











(1) 2022E projected content spend for HBO based on legacy HBO and not inclusive of incremental content spend on HBO Max. Per Company filings, HBO Max is expected to incur \$3.0 billion of incremental domestic expenses for customer acquisition and programming (31 Max Originals versus 38 HBO Originals expected for 2020; 50 Max Originals versus 38 HBO Originals expected for 2021).

(2) 2022E projected content spend for Quibi based on expected total cash spend on content during its first year.

# DTC Gold Rush Is Just Beginning...With Go-to-Market Debate Not Yet Settled

Current subscription video on demand (SVOD) landscape will likely evolve through consolidation and the development of advertisement-based video on demand (AVOD).

SVOD							
DTC Service	NETFLIX	Apple tv+	hulu	Disney+	DAZN	ESPN+	VIACOM CBS ALL ACCESS
Monthly Pricing	\$8.99–\$15.99	\$4.99	\$5.99–\$11.99	\$6.99	\$19.99	\$4.99	\$5.99–\$9.99
Estimated Subscribers/Users	167 Million	34 Million	32 Million	29 Million	8 Million	7 Million	5 Million

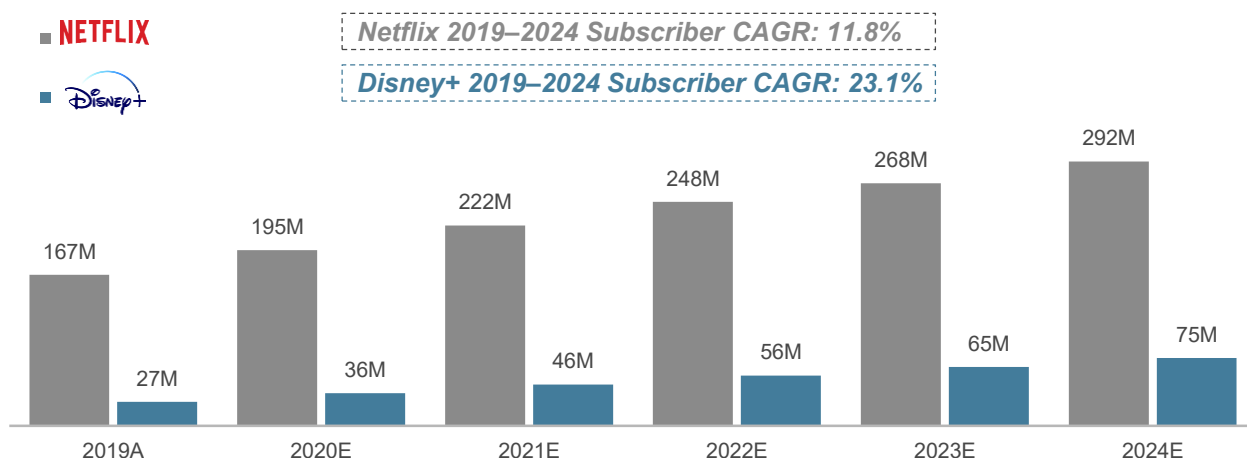
Niche SVOD					SVOD Service Bundling		
DTC Service	 AT&T  crunchyroll	 WWE NETWORK	 britbox	 ACORN TV	 prime video	 YouTube Premium	 hulu  Disney+  ESPN+
Monthly Pricing	\$7.99	\$9.99	\$6.99	\$5.99	\$8.99	\$11.99	\$12.99
Estimated Subscribers/ Users	2 Million	2 Million	1 Million	1 Million	150 Million	20 Million	NA

	Premium Network			Soon to Launch				AVOD		
	<div>DTC Service</div>	<div>AT&amp;T HBO NOW</div>	<div>STARZ</div>	<div>viacomCBS SHOWTIME</div>	<div>Quibi</div>	<div>AT&amp;T HBO max</div>	<div>COMCAST peacock</div>	<div>viacomCBS House of Brands</div>	<div>viacomCBS PLUTO TV</div>	<div>FOX tubi</div>
Monthly Pricing	\$14.99	\$8.99	\$10.99	\$4.99–\$7.99	\$14.99	Free–\$9.99	TBA	Free	Free	
Estimated Subscribers/ Users	10 Million	6 Million	5 Million	To Launch April 2020	To Launch May 2020	To Launch July 2020	Launch TBA	20 Million	25 Million	

# Netflix vs. Disney: Competitors or Complements?

Too soon to tell if this market is winner-take-all, or if multiple services can co-exist.

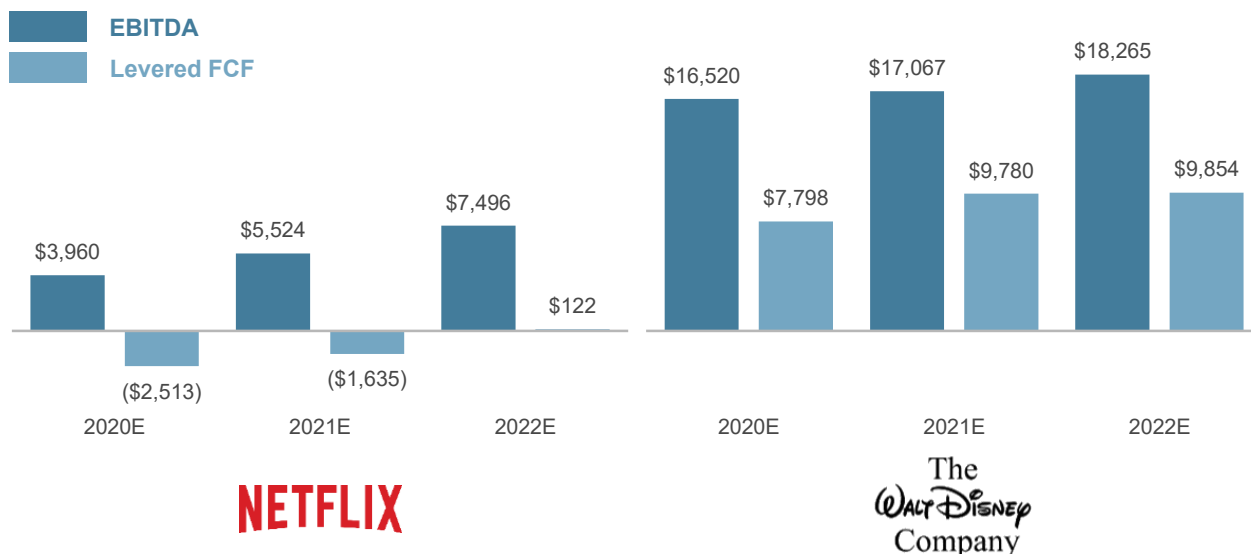
## Netflix and Disney+ Subscriber Estimates<sup>(1)</sup>



- Disney+ has rapidly gained market share and seen great initial success, yet will need to maintain momentum to compete with Netflix's first-mover advantage
- Netflix may be nearing maturity in the U.S. market and will rely on overseas penetration to drive future subscriber growth

## Netflix and Disney Trading Perspectives

(\$ in millions, rounded)



Sources: MoffettNathanson, Public Filings, Wall Street Research.

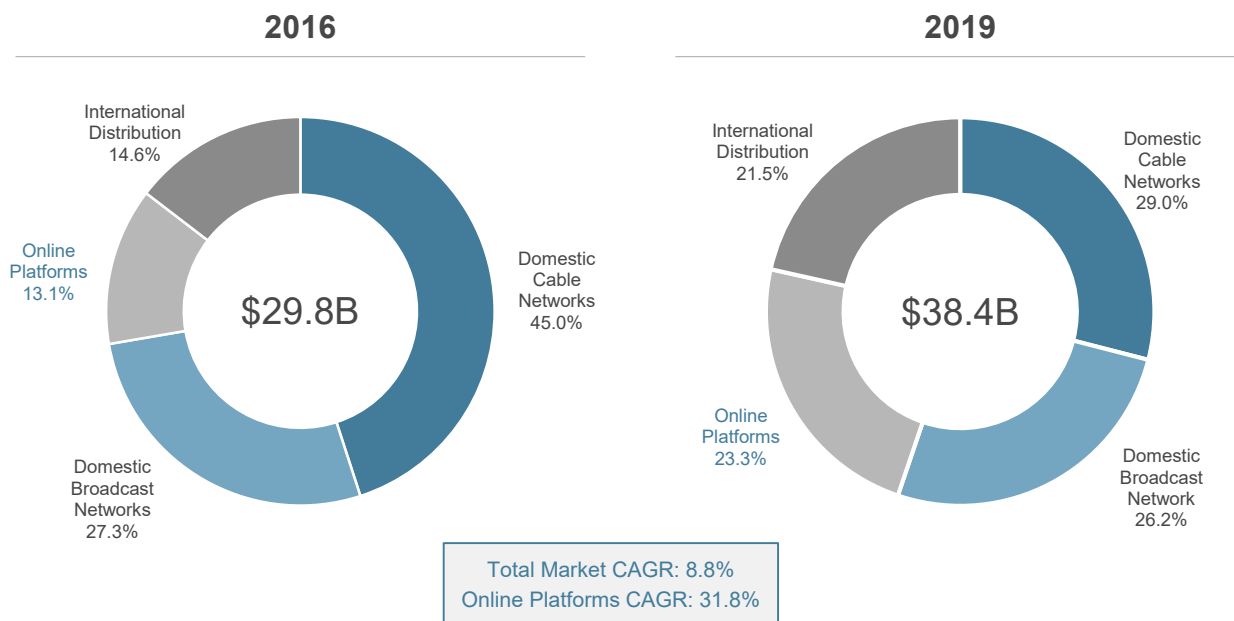
Note: Figures represent estimated total cash content spend divided by total year-end app subscribers.

(1) Disney+ subscriber estimates based on mid-point of Company guidance. Netflix subscriber estimates based on Wall Street Analyst consensus.

# OTT Is Fueling TV Growth

The TV industry continues to grow at a consistent clip, largely supported by an increased investment in content spend for online TV series with many new entrants.

## U.S. Television Production Segmentation<sup>(1)</sup>



- The television industry has continued to benefit from the insatiable demand for quality content from broadcasters and streaming services
- The number of programs on the market is on the rise as the number of channels through which to broadcast them has grown significantly with the advent of online streaming
- Domestic cable networks are the largest market segment for TV producers, but their share has gradually contracted as more consumers substitute their cable options with streaming content
- Number of original scripted TV series has more than doubled over the past decade, from 266 in 2011 to 532 in 2019<sup>(2)</sup>

Sources: MoffettNathanson, Public Filings, Wall Street Research.

Note: Figures represent estimated total cash content spend divided by total year-end app subscribers.

(1) Disney+ subscriber estimates based on mid-point of Company guidance. Netflix subscriber estimates based on Wall Street Analyst consensus.

(2) Source: FX Networks.

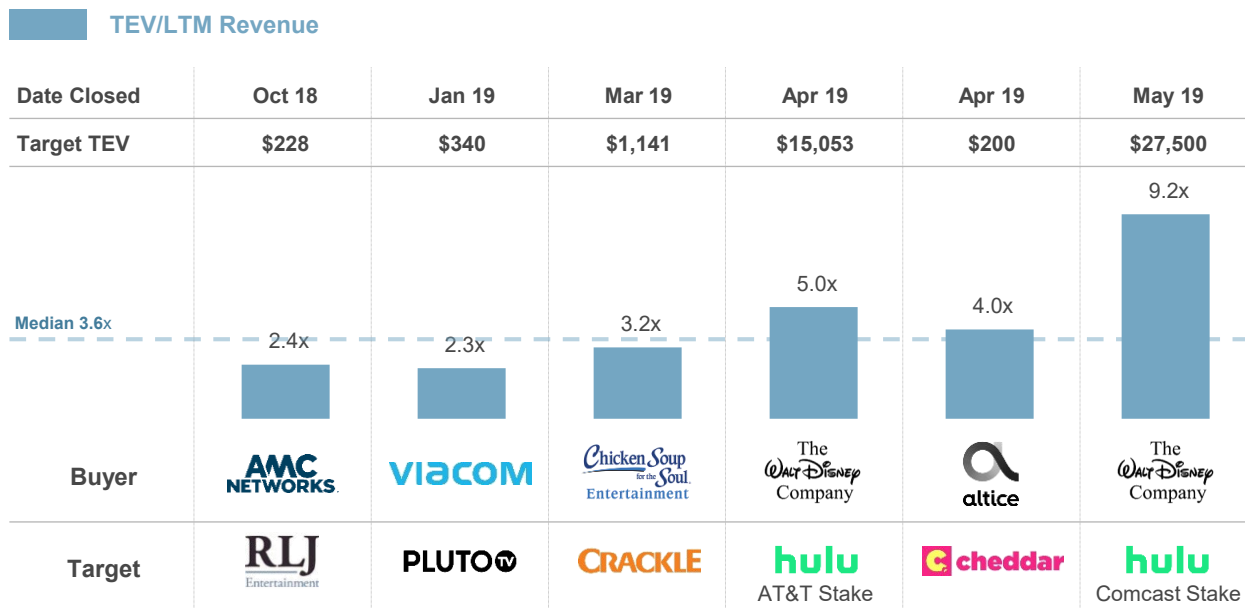


# Sector M&A Activity

Public market sentiment in credit and equities could become a more significant driver of value in the next 24 months.

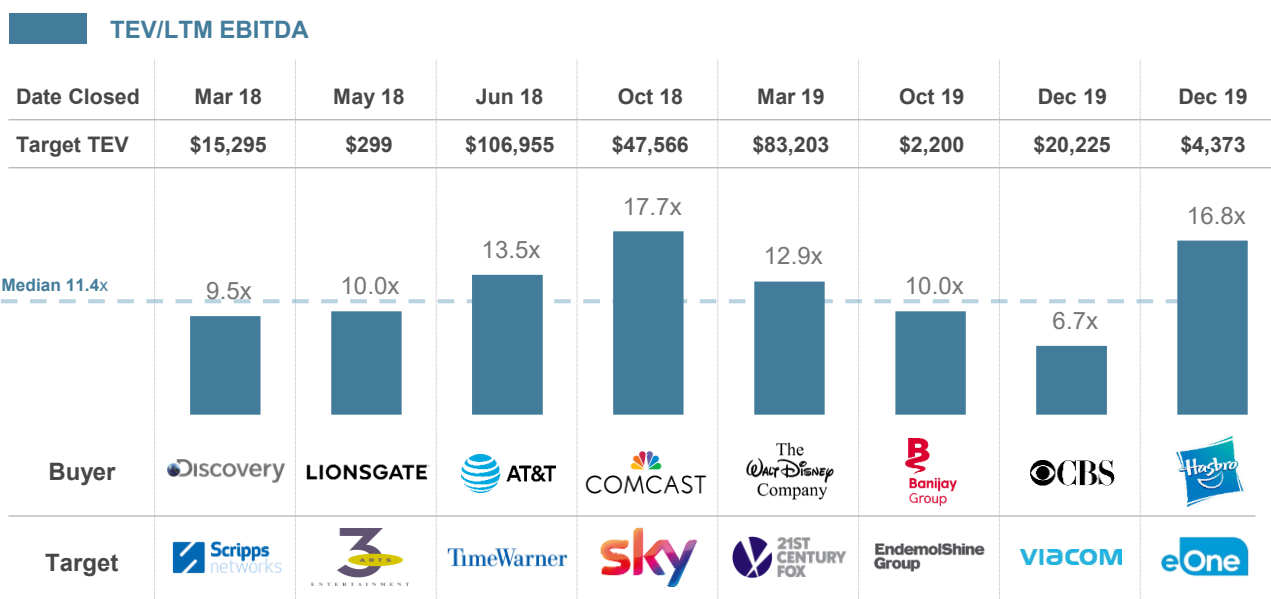
## OTT Platforms

(\$ in millions)



## Content Production and Distribution

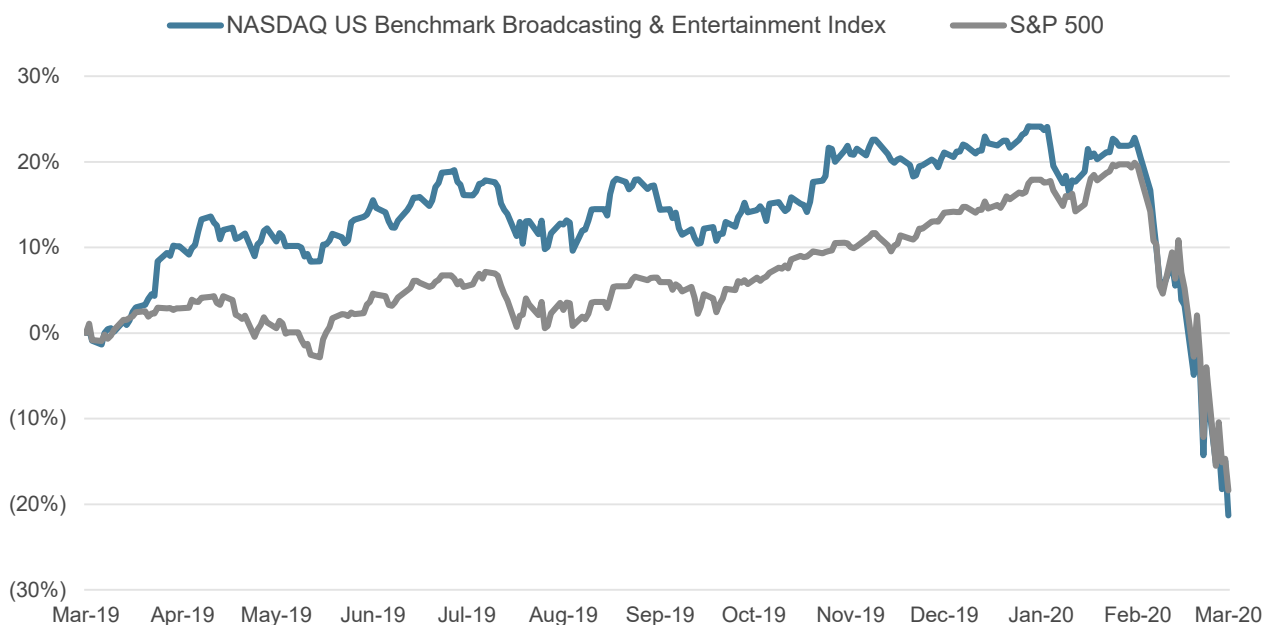
(\$ in millions)



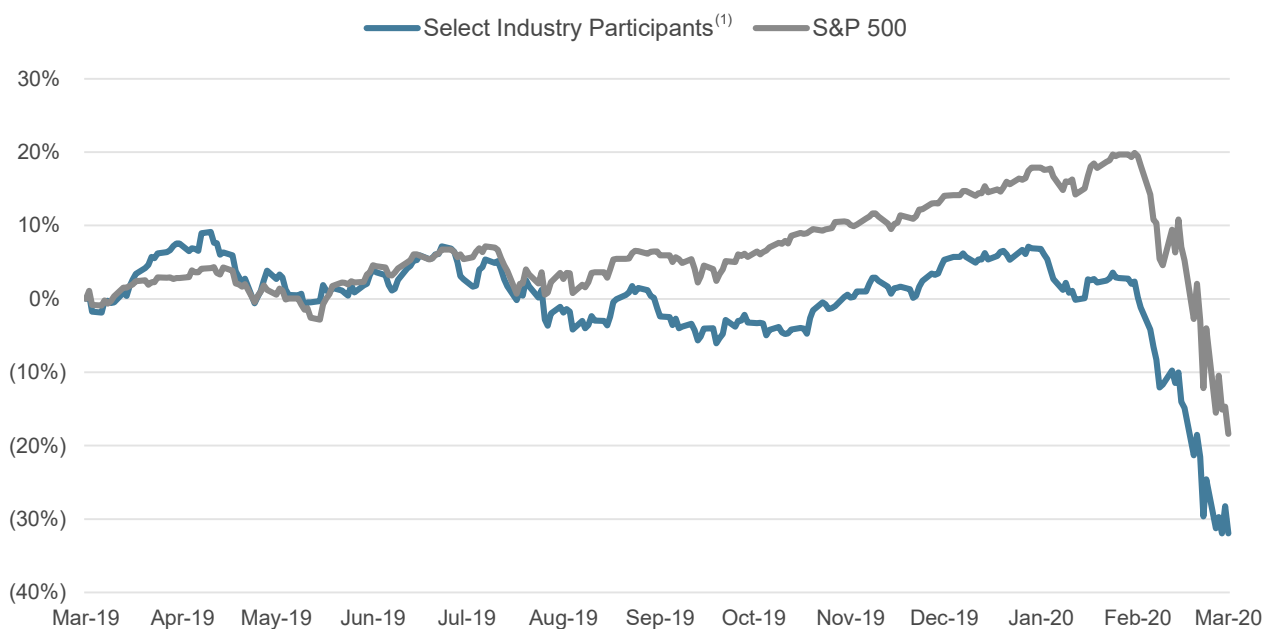
# Entertainment Sector Performance – Past 12 Months

Entertainment sector industry participants have yielded a wide range of stock price performance over the past 12 months.

## Overall Sector Performance



## Select Industry Participants Average Stock Price Performance



Sources: S&P Capital IQ, Public Filings, and Other Publicly Available Information.

Note: The NASDAQ US Broadcasting & Entertainment Index includes securities in the US Large Cap Index that are classified in the Broadcasting & Entertainment Subsector.

(1) Select Industry Participants represents average indexed stock price performance of AMC Networks, Comcast, Discovery, Disney, ITV, Lionsgate, Netflix, Sony, ViacomCBS, and Vivendi.

# Questions and Considerations

Volatile market conditions have created many questions for businesses. Houlihan Lokey's significant product and end-market expertise positions us to help review a variety of strategic alternatives.

*How have the syndicated loan markets been affected by COVID-19?*

Syndicated loan markets sold off to 90% of par and new issuances have slowed to a trickle. Private market issuances are open but on a case-by-case basis. Lenders are willing to provide financing but are starting to seek higher yields and more structure on terms (i.e., covenants and definitions).

*Can/Should I refinance my existing capital structure? What about other options, such as a dividend recapitalization?*

Due to current market volatility, opportunistic refinancing transactions have been shelved as issuers and underwriters opt to wait to understand how the financial performance will be impacted and for stable markets. Despite recent outflows, market liquidity remains stable and opportunities to refinance will be available once volatility cools down.

*What should I do if my covenants are tightening or my lenders are being difficult?*

There are a number of alternative capital providers willing to engage in refinancing discussions. Please reach out to us directly to discuss your particular situation.

*What should I do if I'm considering a sale?*

Our relationships in the entertainment industry along with Wall Street's best private equity coverage group gives us unmatched, real-time insights into current buyer sentiment and potential diligence and other concerns related to COVID-19 that directly inform our ability to construct a sale process roadmap to maximize value.

*What should I do if I'm considering an acquisition?*

As companies analyze inorganic growth opportunities, it's important to understand risks to target businesses posed by COVID-19, in addition to understanding the ideal structure for a potential acquisition. Now is a great opportunity to accelerate M&A dialogue. Houlihan Lokey's substantial buy-side expertise and leading Capital Markets Group positions us to provide guidance and capital in the current environment.

*Do I need to discuss COVID-19 as it relates to due diligence in a sale or financing process?*

Yes. COVID-19 is part of the world we now live in. It is crucial to have a clear description of COVID-19 protocols in place, a plan of attack to ensure employees are safe, and an understanding of potential business impacts from COVID-19 moving forward.

# How Houlihan Lokey Can Help

Our firm is extremely well-equipped to help our clients navigate uncertain times. We respond quickly to challenging situations and are constantly helping clients to analyze, structure, negotiate, and execute the best possible solutions from both a strategic and a financial perspective

## What We Offer

- 1

Corporate Finance

Mergers and Acquisitions

Capital Markets

Private Funds Advisory

Board Advisory Services
- 2

Financial Restructuring

Company Advisory

Financial Restructuring

Distressed M&A

Liability Management

Creditor Advisory
- 3

Financial and Valuation Advisory

Portfolio Valuation and Fund Advisory

Transaction Opinions

Corporate Valuation Advisory Services

Transaction Advisory Services

Real Estate Valuation and Advisory

Dispute Resolution Consulting

### Corporate Finance

We are widely recognized as a leading M&A advisor to the middle market and have long-standing relationships with capital providers, including commercial banks and other senior credit providers, insurance funds, asset managers, and mezzanine fund investors. Few other investment banks maintain the breadth of relationships and capital markets intelligence that we do.

### Financial Restructuring

We have the largest restructuring practice of any global investment bank. Since 1988, we have advised on more than 1,000 restructuring transactions (with aggregate debt claims in excess of \$2.5 trillion). We served as an advisor in 12 of the largest 15 bankruptcies from 2000–2019.

### Financial and Valuation Advisory

For nearly four decades, we have established ourselves as one of the largest financial and valuation advisory firms. Our transaction expertise and leadership in the field of valuation helps inspire confidence in financial executives, boards of directors, special committees, investors, and business owners we serve.

## Why We're Different

- ✓

Dominant in Special Situations and Restructuring
- ✓

Significant Experience With Financing Markets
- ✓

Senior-Level Commitment and Dedication
- ✓

Deep, Industry-Specific Expertise
- ✓

Superior Work Product/Technical Abilities
- ✓

Creativity, Imagination, Tenacity, and Positivity



Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank.

- **1,300+** Employees
- **23** Offices Globally
- **~\$1 Billion** of Revenue
- **~\$3 Billion** Market Cap

## Corporate Finance

### 2019 M&A Advisory Rankings All U.S. Transactions

	Advisor	Deals
1	<b>Houlihan Lokey</b>	<b>184</b>
2	Goldman Sachs & Co	167
3	JP Morgan	141
4	Morgan Stanley	122
5	Evercore Partners	112

Source: Refinitiv (formerly known as Thomson Reuters)

**No. 1** U.S. M&A Advisor

**Top 10** Global M&A Advisor

**Leading** Capital Markets Advisor

## TMT

### 2014-2019 M&A Advisory Rankings U.S. Technology, Media, Entertainment & Telecom Transactions Under \$1 Billion

	Advisor	Deals
1	<b>Houlihan Lokey</b>	<b>198</b>
2	Goldman Sachs & Co	162
3	Raymond James Financial Inc	155
4	Morgan Stanley	154
5	Evercore Partners	144

Source: Refinitiv (formerly known as Thomson Reuters)

## Financial Restructuring

### 2019 Global Distressed Debt & Bankruptcy Restructuring Rankings

	Advisor	Deals
1	<b>Houlihan Lokey</b>	<b>76</b>
2	PJT Partners Inc	43
3	Moelis & Co	36
4	Lazard	29
5	AlixPartners	19

Source: Refinitiv (formerly known as Thomson Reuters)

**No. 1** Global Restructuring Advisor

**1,000+** Transactions Completed Valued at More Than \$2.5 Trillion Collectively

## Financial and Valuation Advisory

### 2000 to 2019 Global M&A Fairness Advisory Rankings

	Advisor	Deals
1	<b>Houlihan Lokey</b>	<b>1,057</b>
2	JP Morgan	929
3	Duff & Phelps	734
4	Morgan Stanley	621
5	Bank of America Merrill Lynch	612

Refinitiv (formerly known as Thomson Reuters). Announced or completed transactions.

**No. 1** Global M&A Fairness Opinion Advisor Over the Past 20 Years

**1,000+** Annual Valuation Engagements

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