



HOULIHAN LOKEY

ENTERTAINMENT INDUSTRY

MARKET UPDATE | SUMMER 2020



Houlihan Lokey Entertainment Industry Update

Dear Friends and Partners,

While many in the United States are still under “shelter in place,” the entertainment sector showed pockets of resilience in Q2, largely driven by the demand for streaming video and music. While cord-cutting and the concurrent shift to streaming are not new themes in this sector, COVID-19 has helped accelerate and magnify several existing key trends. In the following pages, we will discuss several takeaways that we have seen from recent events:

- MVPD subscriber attrition reached all-time highs—nearly 9%YoY in Q2—as customers flocked to Netflix (which grew 27% YoY in Q2) and Disney+, along with new services that launched, such as HBO Max.
- Continuing its previous growth trajectory, Disney+ reached its five-year subscriber target in less than 12 months, adding 24 million subscribers in Q2. This is in contrast with Quibi, which has failed to find traction.
- Netflix’s model for content production and acquisition proved more resilient to COVID-19 shutdowns, as the service was able to add more than 1,300 new episodes in H1 (including shows that captured the public imagination, such as *Tiger King* and *Floor Is Lava*), nearly 800 more episodes than any competitor, and was rewarded as the only service among its peers to see frequent usage increase from Q1 to Q2.
- While limited commutes and other out-of-home activities have shifted listening habits, the streaming of both music and podcasts continued to increase in Q2, driving streaming platforms to diversify their audio offerings and explore new partnerships with labels to navigate a changing ecosystem.
- M&A and financing activity remains robust despite the broader market volatility, which is highlighted by the IPO of Warner Music Group; the merger of Eros and STX; Fox’s acquisition of Tubi; SiriusXM’s acquisition of Stitcher; CuriosityStream’s acquisition by the SPAC Software Acquisition Group.; and TV Azteca’s investment in Deezer. We expect this active M&A and financing environment to continue.

We hope you find this update to be informative and that it serves as a valuable resource to you in staying abreast of the market in these turbulent times. Given the fast-changing market in this current environment, we would be happy to discuss these developments in real time and look forward to staying in touch with you.



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Select Recent Entertainment Transactions

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

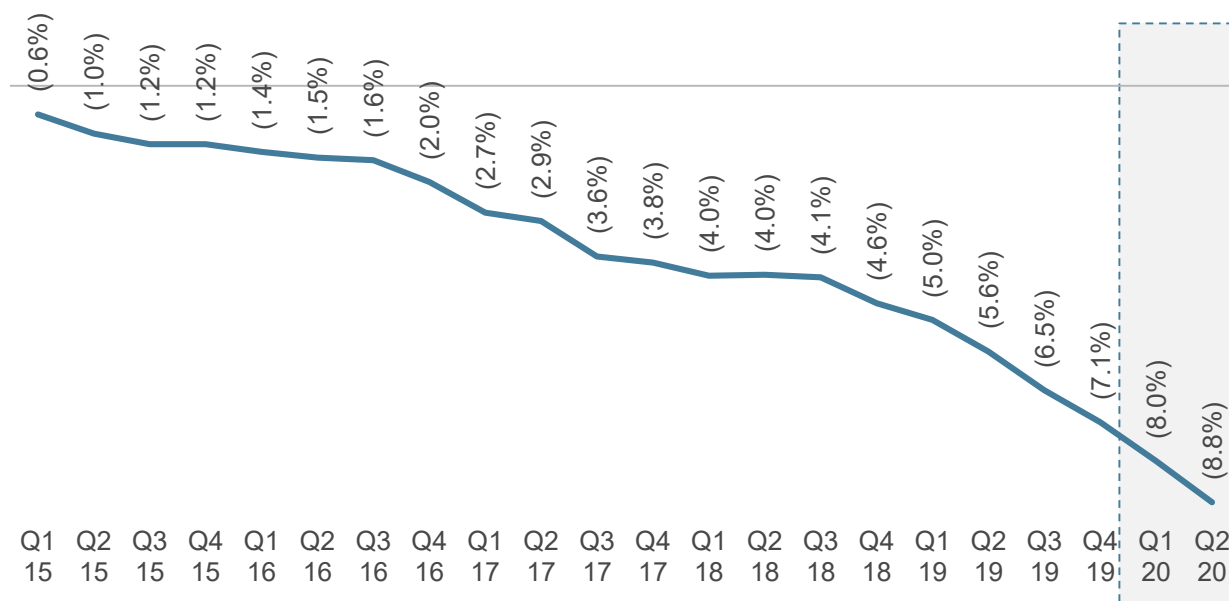
 a subsidiary of  has been acquired by  Sellside Advisor	 has been acquired by  Sellside Advisor	Cadence13 has been acquired by  Sellside Advisor	 has been acquired by  Sellside Advisor	Mediabox, LLC has acquired  and  Buyside Advisor
 and  Senior Secured Credit Facility in connection with acquisition \$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

COVID-19 Accelerating Transition From Pay TV to OTT...

There is increasing disruption of the linear ecosystem as Netflix sees a subscriber boom, and Disney+ reaches five-year target in under 12 months.

During COVID-19, MVPD Subscriber Attrition Has Increased ~300bps YoY...

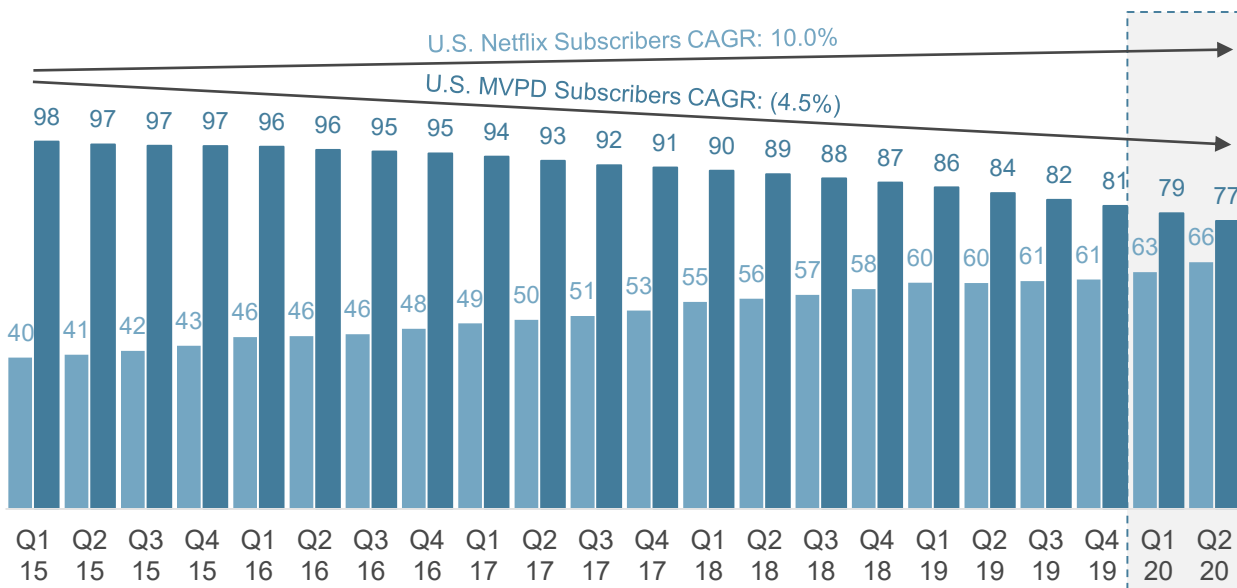
(Pay TV subscriber growth, YoY)⁽¹⁾



...With Netflix on Pace to Eclipse MVPDs For No. of Domestic Subscribers

(U.S. subscribers in millions)⁽¹⁾

■ U.S. MVPD Subscribers ■ **NETFLIX**



Sources: Wall Street research, company filings, and Houlihan Lokey estimates.

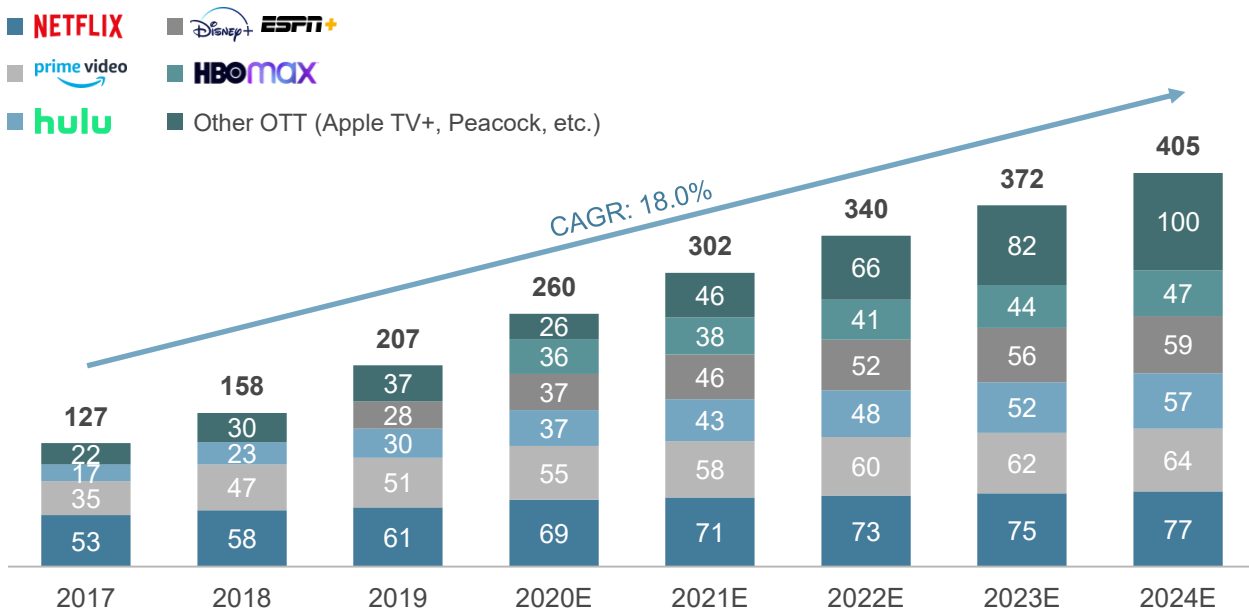
(1) Pay TV/MVPD subscribers include Atlantic Broadband Group, AT&T, Cableone, Cablevision, Charter, Comcast, Cox, DISH, DTV, Mediacom, RCN, Suddenlink, Verizon, and WOW.

...Strategics Rolling Out DTC Options to Fill This Gap

Rapid growth of SVOD subscribers is expected to continue, with AVOD expected to meaningfully accelerate in the near term.

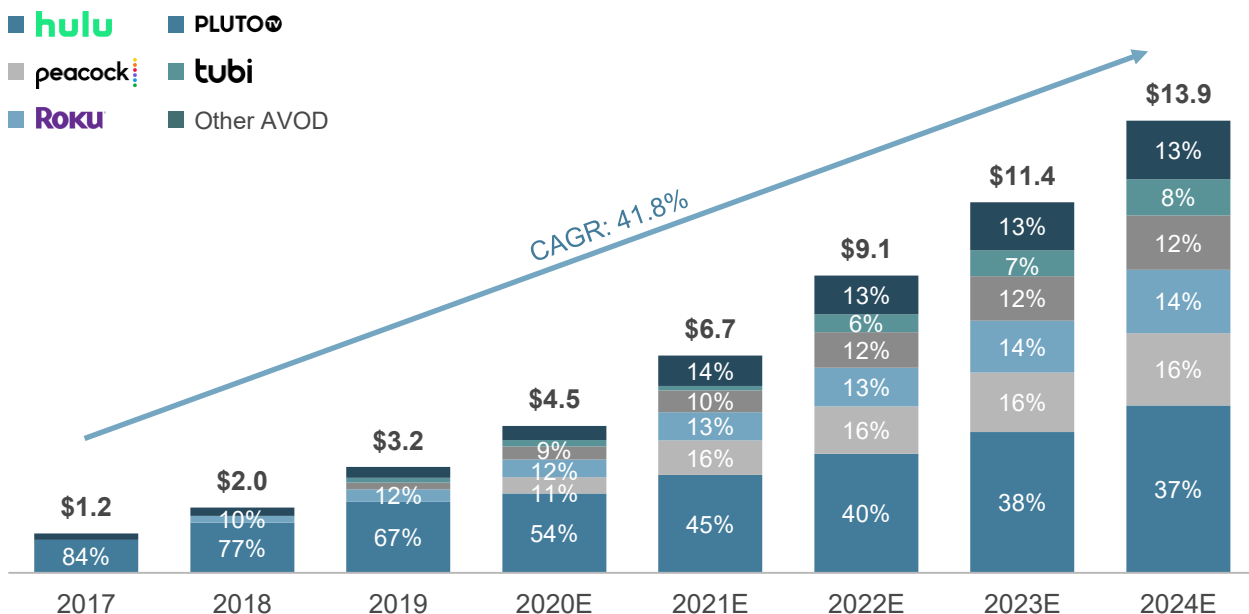
Domestic OTT Subscribers Forecasted to Reach ~400 Million by 2024

(Subscribers in millions)



...While MoffettNathanson Analysis Projects Massive Growth of AVOD⁽¹⁾

(\$ in billions)



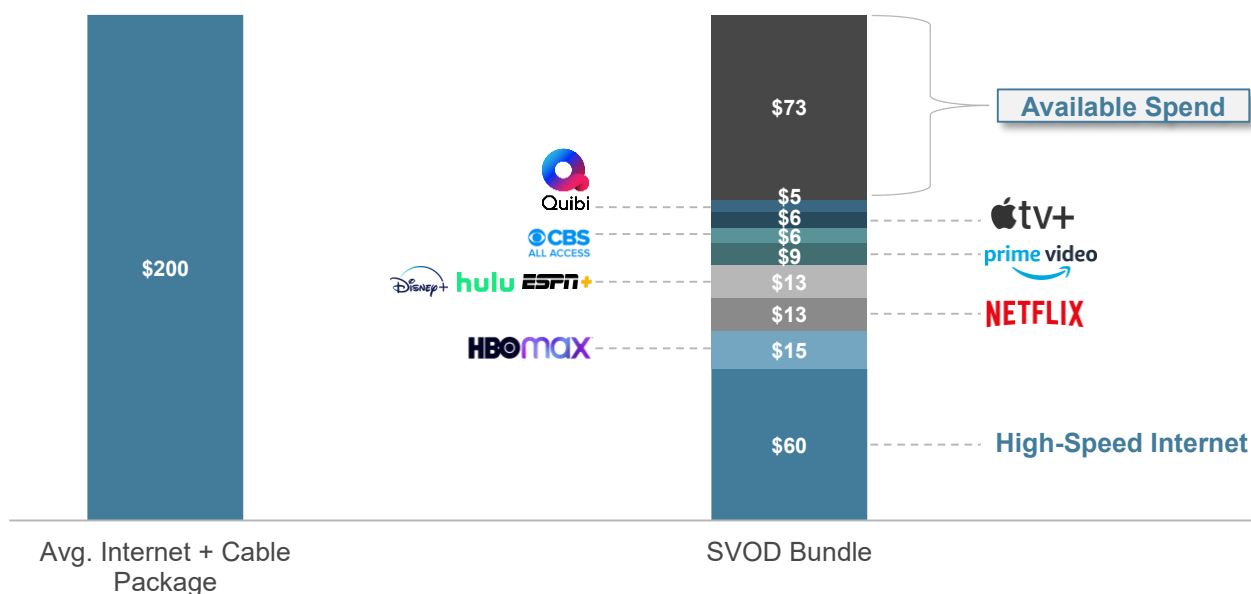
Source: Wall Street Research, Company Filings, HL Estimates.

(1) Based on MoffettNathanson, "Green Lights and Yellow Flags: Initiating Coverage of Roku at Neutral," July 2020.

Consumers Are Recreating “Bundle” via SVOD...

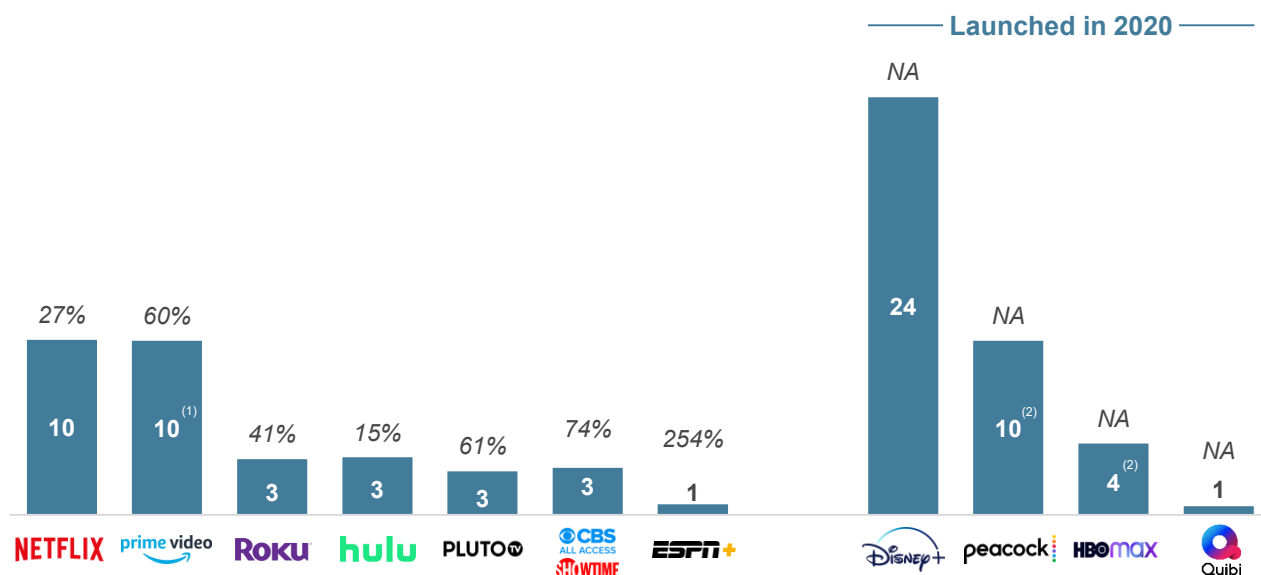
On average, consumers are subscribing à la carte to three to four OTT streaming services at a dramatically lower total price point compared to traditional cable bundles.

SVOD Value Proposition Drives Growth



Net Subscribers Adds in Q2 2020

(Global subscribers in millions, % in year-over-year subscriber increase)



Sources: DecisionData.org, company filings, Wall Street research, other publicly available information, and Houlihan Lokey estimates.

(1) Based on total Amazon Prime memberships.

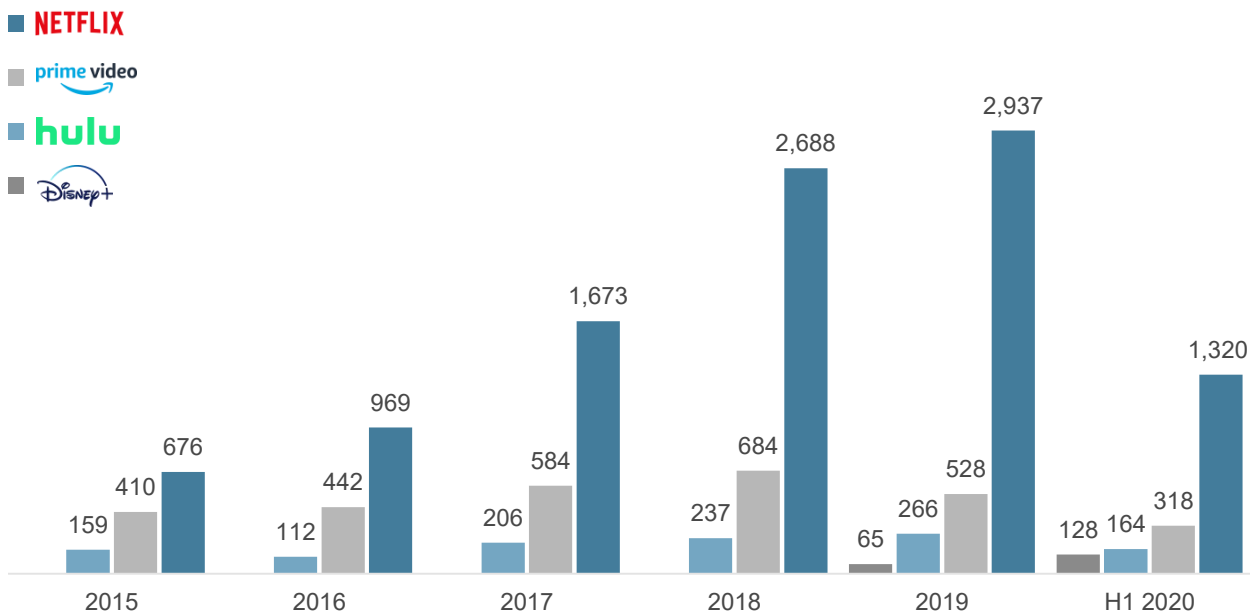
(2) Represents existing subscribers pre-launch.

...As Demand for Original Content Drives Engagement

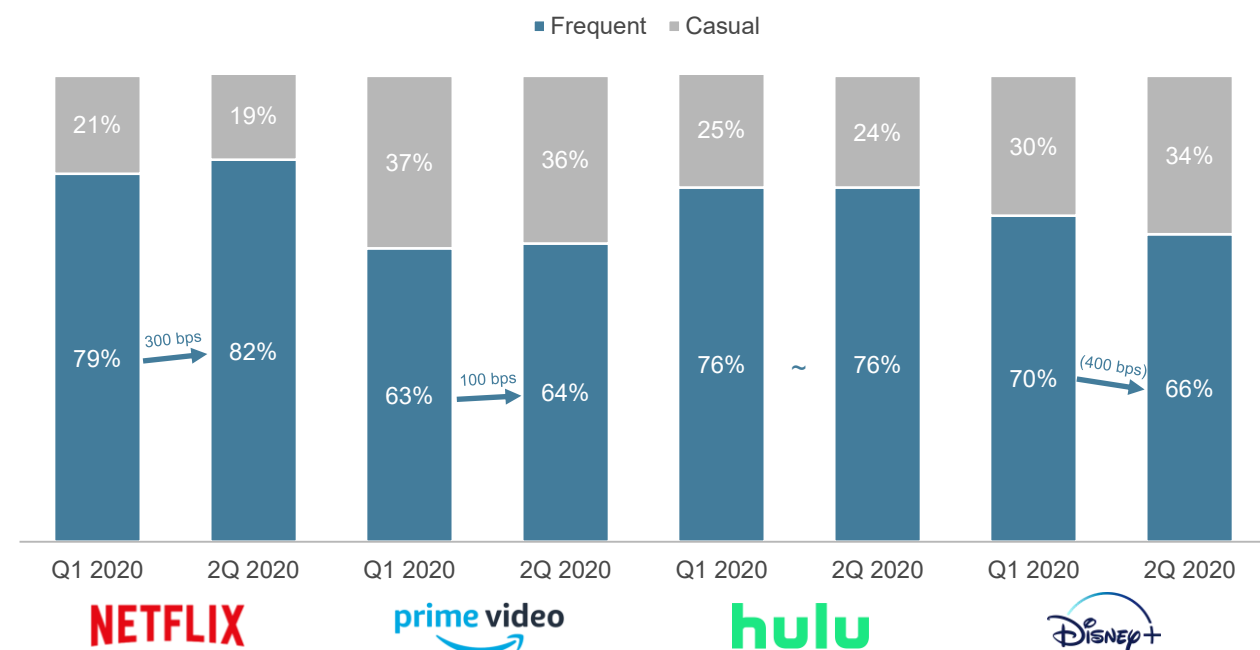
Netflix's ability to deliver new hits drove increased engagement in Q2, while Disney+ saw a decline in frequent use without new, high-profile content such as *The Mandalorian*.

MoffetNathanson Analysis of Original Content By Platform⁽¹⁾

(Original episodes in actuals)



HarrisX, MoffetNathanson Analysis of Streaming Frequency by Household⁽¹⁾



Source: Wall Street Research, Company Filings, HL Estimates.

(1) Based on MoffetNathanson, "MN Quarterly SVOD Tracker: From War to Peace?", July 2020.

While the Shutdown Has Disrupted the Broader Ecosystem

Production largely stopped in response to the lockdown but is expected to resume in September, as effects also ripple through agencies and management companies.

Production Expected to Restart in September

- Los Angeles production is at just 34% of normal levels since filming restrictions lifted in June, having received approximately 575 film permit applications from approximately 420 unique projects.
 - Most productions are in the advertising industry, but FilmLA expects reality TV production to pick up steam. In addition, FilmLA expects production in the county to remain low until scripted TV and feature production picks up, which is likely by early September.
 - Currently, all 16 of the city and county jurisdictions served by FilmLA are open to filming.
 - In FilmLA's previous update, it was reported that the industry nearly went dark in Q2—down 97.8% and logging just 194 shoot days in total. Local and state officials ordered all production to cease on March 20.
- Universal Pictures' *Jurassic World: Dominion* resumed shooting in mid-July in the U.K.
 - *Jurassic World: Dominion* was four weeks into its 20-week production when filming ceased in March as the virus swept across the globe.
 - Universal Pictures implemented new safety procedures at Pinewood Studios. The costs of these measures—which include temperature checks, coronavirus testing, and extra cleanings—will run in the \$5 million range, according to insiders.

Agency/WGA Dispute Continues, as Former Agents Launch New Ventures



Notable Agencies to Sign WGA Deal



KEY ISSUES:

- Packaging fees
- Agency affiliations with production and distribution companies
- Agencies' ability to raise film financing for independent films

"It was just announced internally at CAA and it is a bombshell. **Pete Micelli**, the former CAA television...will spearhead a **new management/production** company that will be **packed with top agent** talents. These exits are said to be amicable, an **indication of a changing landscape after the pandemic has stressed every single major agency.**" **DEADLINE** August 2020

"**WME partner Theresa Kang-Lowe exits to launch management company with apple...**Kang-Lowe has negotiated roughly half a billion dollars in compensation on behalf of those clients...Her **decision to move on comes at challenging time for the agency business at large** and her company..." **HOLLYWOOD REPORTER** August 2020

"**WME partner Phillip Sun, Macro's Charles D. King launch M88 representation firm**, with **Michael B. Jordan as Sun's first client...**Sun will depart the agency to lead the new joint venture as President and Managing Partner, and King's recently launched **Macro Management will merge its operations with the company.**" **VARIETY** August 2020

Q2 Video Sector Headlines

Recent deals highlight continued interest in direct-to-consumer and content-focused opportunities, with Netflix strength showcased during lockdown while Quibi stumbles.

Recent OTT Deal Activity

CuriosityStream™

SOFTWARE
ACQUISITION
GROUP

CuriosityStream Reverse Merger With SPAC, Software Acquisition Group

- CuriosityStream, the first streaming media company devoted to factual entertainment, is to become public company.
- Expected pro forma TEV of \$331 million.
 - 4.7x TEV/2021E revenue.
 - 7.6x TEV/2020E revenue.



STX

ENTERTAINMENT

Eros and STX Complete Merger to Trade on NYSE Under New ESXI Ticker

- Combination creates a global entertainment-content, digital-media-streaming, OTT platform.
- PF revenue of more than \$600 million for CY2019 and more than \$300 million of highly predictable aggregated future revenue from the STX film library.

Recent Commentary: Netflix vs. Quibi

"There are so many Netflix shows and movies for fans of the popular streaming service to consume, that's **one of the ways the service has become the king of the streaming field is by never letting the well run dry** — there's always something new to discover, along with old gems to find and enjoy on the service...If you wanted to, it would **take you more than 4 years to consume everything on Netflix**...on the company's most recent earnings call CEO Reed Hastings summed up the overall strategy thus, regarding volume: **'We want to have so many hits that when you come to Netflix you can just go from hit to hit to hit and never have to think about any of those other services,'** Hastings said."

BGR July 2020

"Report says **Quibi lost 92% of its earliest users after free trials expired**...The Independence Day weekend was a big one for Quibi — it was time to see how many of their earliest subscribers would convert from free users to paid subscribers...Data provided to TechCrunch by Sensor Tower estimates that around **8% of the 910,000 users who signed up for a free trial of Quibi in the app's first three days stuck with the service past the expiration of the three-month free trial period**. All in all, Sensor Tower approximates that **'a maximum of' 72,000 subscribers of that 910,000 subscriber number stuck with Quibi after their free trials expired.**"

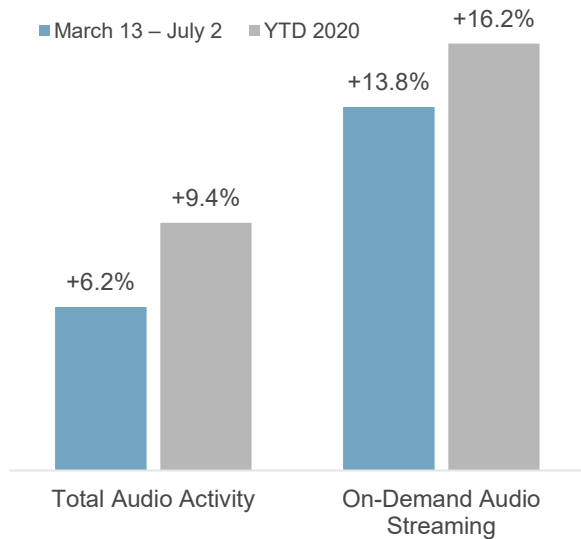
TE TechCrunch July 2020

Audio Streaming Continues Growth, Despite COVID-19...

While limited commutes and other out-of-home activity has shifted listening habits, audio streaming has continued its recent growth trajectory.

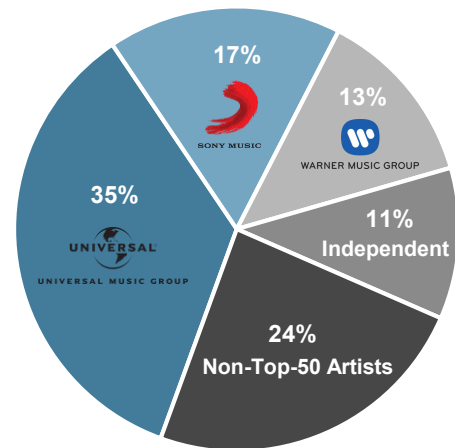
Users Are Streaming More...

Audio Consumption YTD and Post COVID-19: Mid-Year 2020 vs. Same-Period 2019



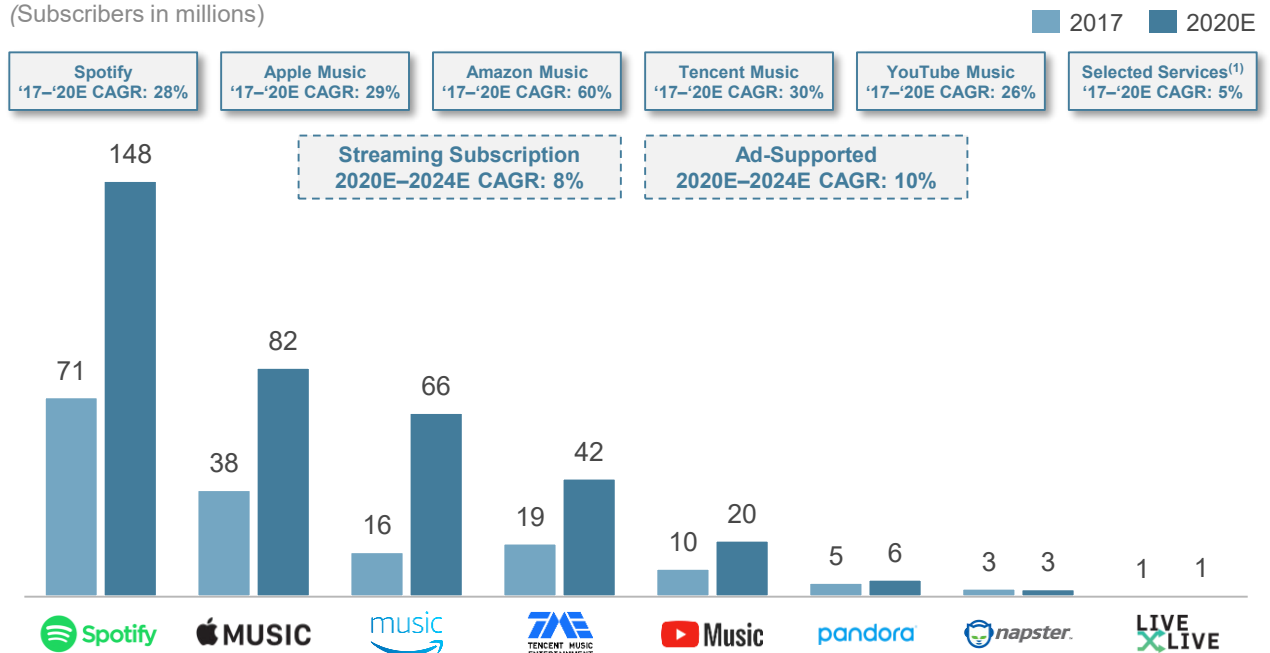
...Driven by Top Artists...

Q2 2020 Streams Generated by Top 50 Artists, Percentage of Total Streams



...With Benefits Accruing to Services With Scale

(Subscribers in millions)



Source: Wall Street research. Nielsen.

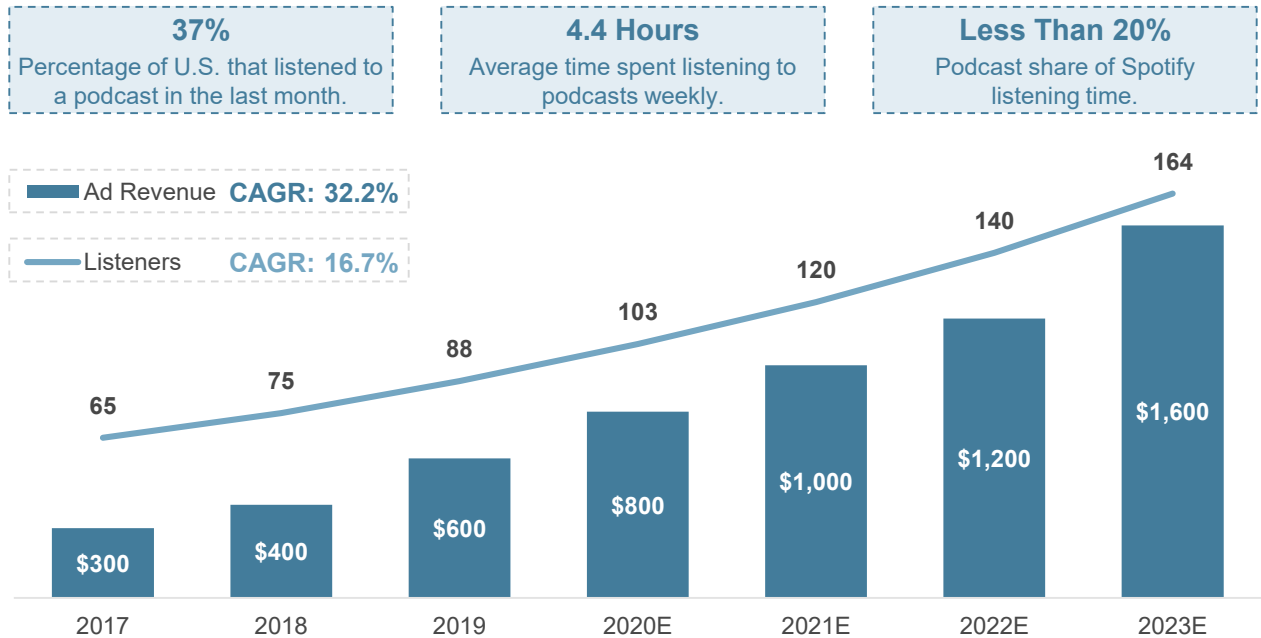
(1) Selected services includes Pandora, Rhapsody, and Slacker.

...With Podcasts Continuing to See Explosive Growth

Advertisers are shifting dollars to podcasts as the industry continues to mature and take an increasing share of audio listening time.

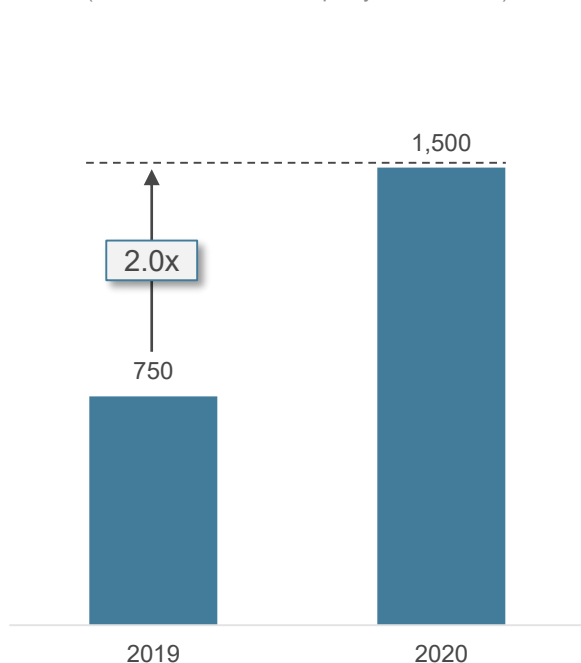
Activate Projects Podcast Ad Dollars Will Outpace Listener Growth⁽¹⁾

(Podcasting ad revenue in millions of dollars, listeners in millions)



Producers Ramping Production...

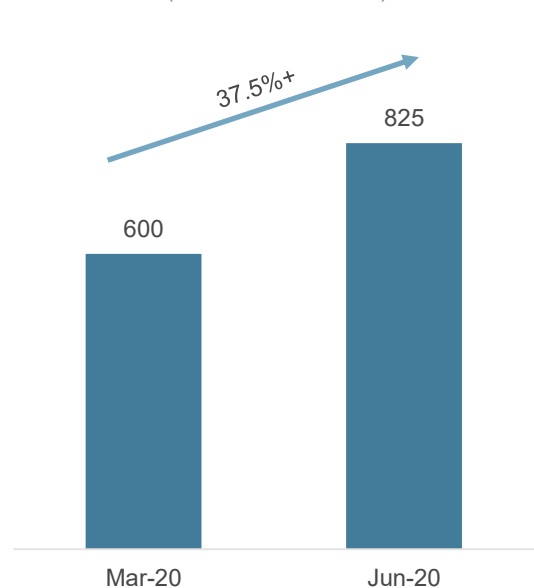
(Podcasts available on Spotify in thousands)



...To Meet Audience Demand

Monthly Podcast Downloads Dramatically Increasing During COVID-19

(Downloads in millions)



Source: Wall Street research, company filings.

(1) Based on Activate Consulting, "Activate Technology & Media Outlook 2020."

Artists Turn to Streaming With Live Events on Hold

Challenges persist, but a rebound is expected post COVID-19.

Virtual Formats Evolving as a New Form of Concert-Going



"More than **12 million players** logged in for Fortnite's concert featuring **Travis Scott**, with reviewers calling it '**stunning**' and '**spectacular**'...After it was over, Scott tweeted: 'Honestly today was **one of the most inspiring days. Love every single one of you guys**'...It all sounds like the prologue to the book Ready Player One about a **metaverse** where people play, socialize and live their lives online."

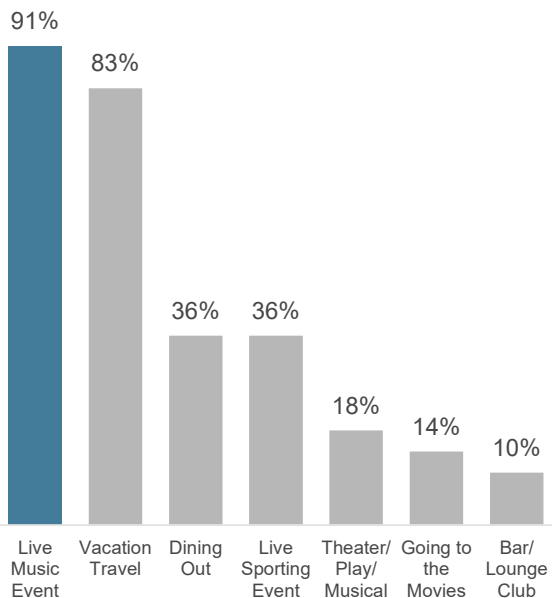
BBC April 2020

SELECT VIRTUAL CONCERTS/FESTIVALS/LIVE PERFORMANCES

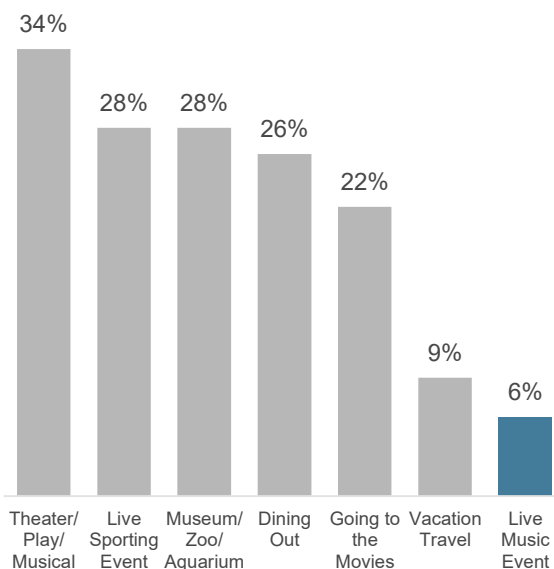
Billy Joel	David Guetta	Ellie Golding	EDC	Electric Blockaloo	John Legend
Josh Groban	Kesha	Liam Payne	Lollapalooza	Monsta X	Nelly
One Earth Live	Red Nose Day Special	Tim McGraw	Tomorrowland	Usher	Zac Brown Band

Live Expected to Return; 86% of Fans Keep Tickets for Postponed Shows

"What are your top priorities for spending money on experiences?"



"If you had to cut back on spending, where would cut first back?"



Q2 Audio Sector Headlines

While TikTok faces political uncertainty, podcasting activity continues, WMG IPOs and Deezer doubles down internationally on the Latin America market.

Recent Audio Deal Profiles



SiriusXM Buys Stitcher for up to \$325 Million in Largest Podcast Deal Yet

- Deal includes \$265M in cash and up to \$60M in future considerations and will increase SiriusXM's reach to more than 150M listeners.



WARNER MUSIC GROUP

WMG IPOs, 77M Shares Priced at \$25 per Share at a \$12.7B Market Cap

- Originally planned for February, the IPO was delayed until June, following market uncertainty and the breakout of COVID-19.



Deezer Receives a \$40M Investment From TV Azteca at a \$1.4B Valuation

- Deezer is doubling down on the Latin America audio market, with the \$1.4B valuation up 30% since its \$185M funding in August 2018.

Platforms Look to Innovate With New Tools in the Evolving Ecosystem

"Facebook [confirmed] it will begin **rolling out official music videos** across its platform in the U.S....as well as introduce a **new Music destination within Facebook Watch**...the U.S. launch is enabled by Facebook's **expanded partnerships with top labels**, including Sony Music, Universal Music Group, Warner Music Group...and other independents...its deals include the **full catalog across all major partners and a host of independents.**"

TC TechCrunch July 2020

"Spotify this morning announced a **global, multi-year licensing agreement with Universal Music Group**...The agreement **brings on Universal to Spotify's 'two-sided marketplace'**...its plan is to generate revenue not only from the service's paying subscribers and advertising, but also from the **artists and labels that pay for tools to reach those music fans...**"

TC TechCrunch July 2020

"SoundCloud is introducing a **new self-service promotional tool** for SoundCloud Premier creators called, Promote. The new tool will **allow creators to pay to boost their original tracks** to the top of listeners' feeds and mobile homepages. Creators can set their own budget and choose from a variety of **advanced targeting options** to help **drive track plays and reach more listeners.**"

MUSIC BUSINESS
WORLDWIDE November 2019

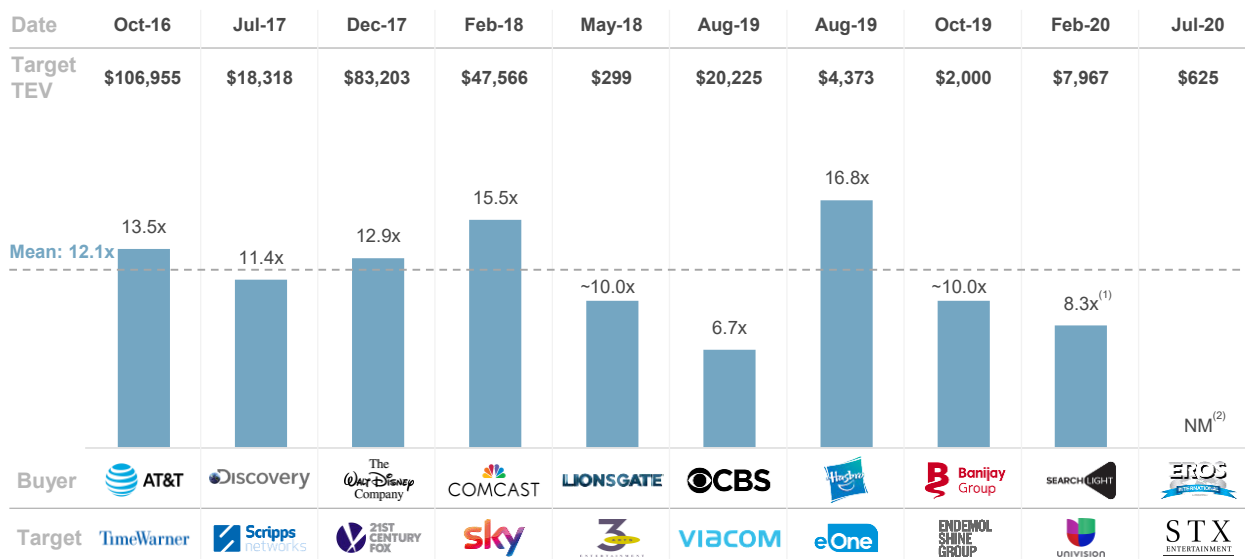
Sector M&A Activity

Content Production and Distribution and OTT Platforms

Content is still the king of driving sector M&A activity, while media companies big and small continue to inorganically acquire OTT technology, platforms, and capabilities.

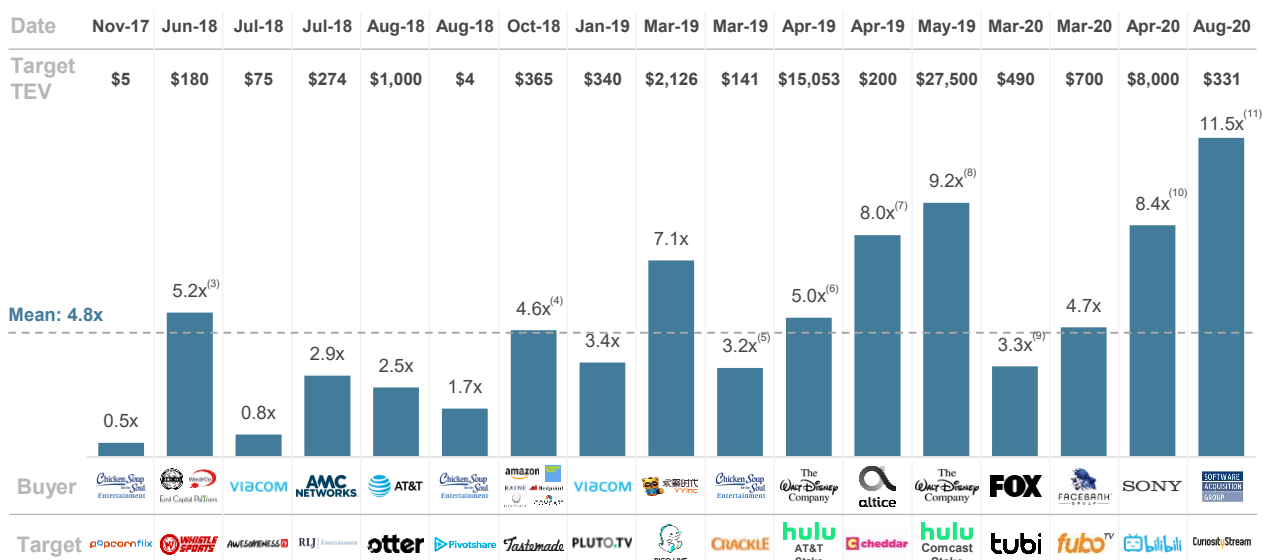
Content Production and Distribution (TEV/LTM EBITDA)

(\$ in millions)



OTT Platforms (TEV/LTM Revenue)

(\$ in millions)



Sources: Wall Street research, public filings, and other publicly available information.

(1) Based on implied equity valuation from approximately \$526 million paid for the 64% stake plus year-end 2019 net debt, and FY2019 Adj. OIBDA.

(2) TEV based on PF 50% Eros/STX ownership split, PF net debt of \$254 million, and estimated PF equity value of approximately \$1 billion.

(3) Based on Series D funding of \$28 million and pre-money valuation.

(4) Based on Series E funding of \$35 million and pre-money valuation.

(5) Based on gross purchase consideration and run-rate CY2019 revenue, per public filings.

(6) Based on acquisition of AT&T's 9.5% stake.

(7) Based on estimated 2018 revenue, per public news releases.

(8) Based on potential future payout to Comcast for its 33% stake at minimum whole-company valuation of \$27.5 billion.

(9) TEV includes \$440 million cash consideration, and \$50 million deferred consideration and unvested options; TEV/LTM revenue multiple based on Wall Street Analyst estimates.

(10) Based on a \$400 million investment in Bilibili for a 4.98% stake and Bilibili FY2019 revenue, per public filings.

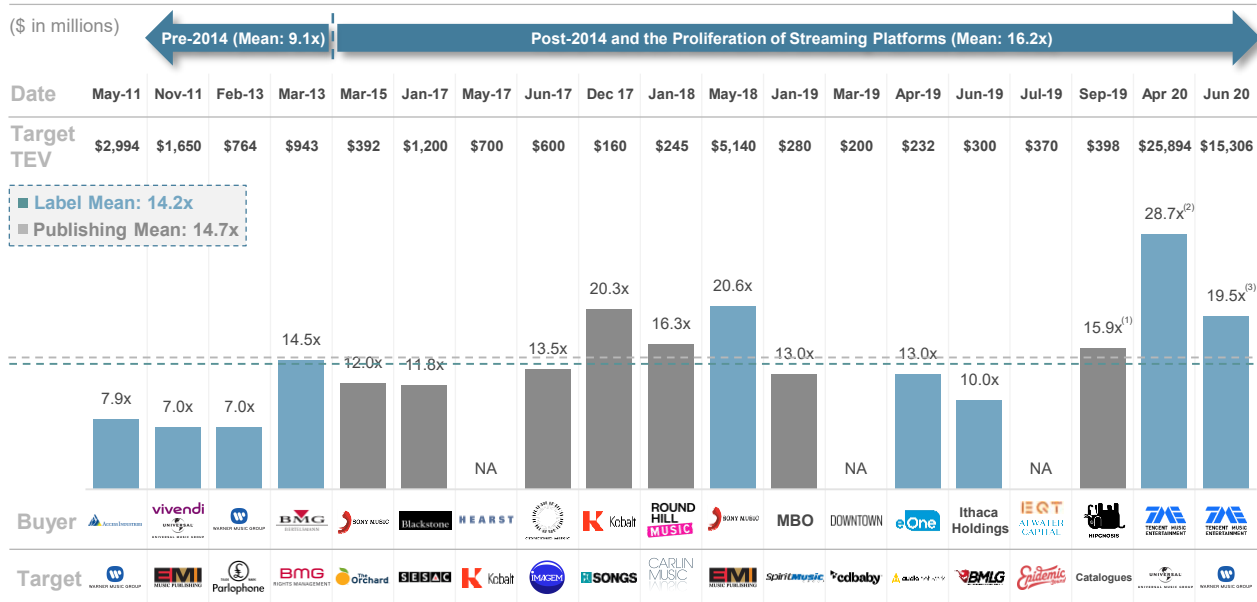
(11) Based on average 2019A–2020E revenue.

Sector M&A Activity (cont.)

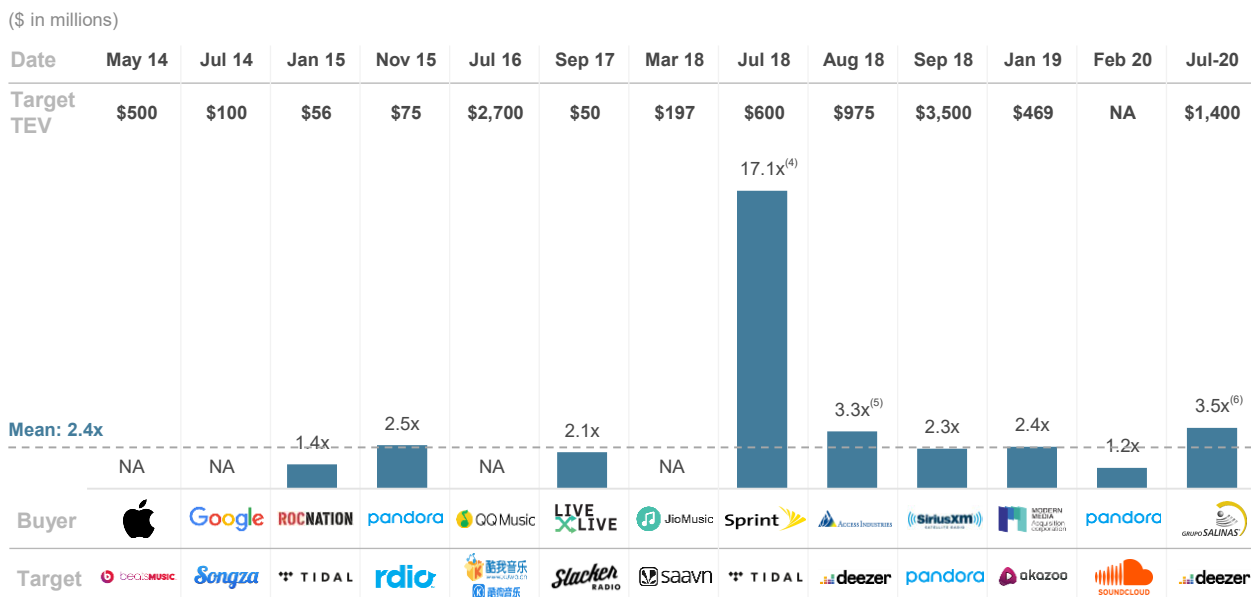
Record Labels/Music IP and Music Streaming

Streaming has increased multiples for valuable IP, with premiums paid for high-growth and prestige assets.

Record Labels/Music IP (TEV/LTM EBITDA)



Music Streaming (TEV/LTM Revenue)



Sources: Wall Street research, public filings, and other publicly available information.

(1) Based on aggregate purchase cost of catalogues as of 09/30/2019 and Wall Street Analyst consensus EBITDA margin applied to revenue generated to date as of 09/30/2019.

(2) Minority sale. TEV and multiple based on Wall Street Analyst estimates for Universal Music Group Recorded Music business.

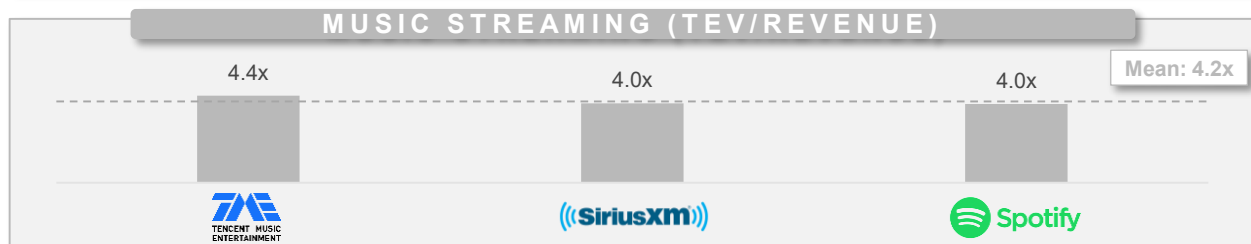
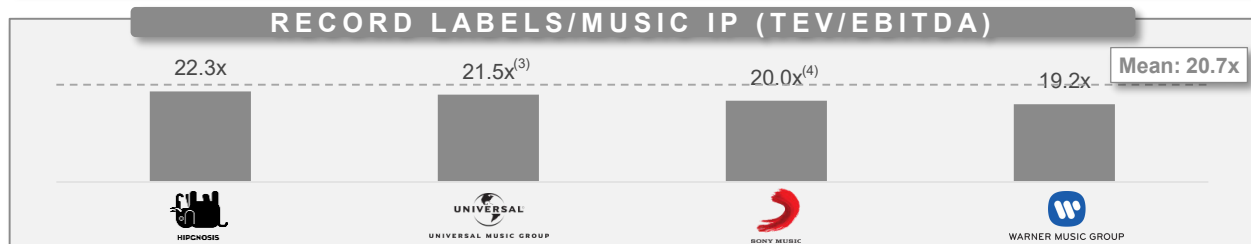
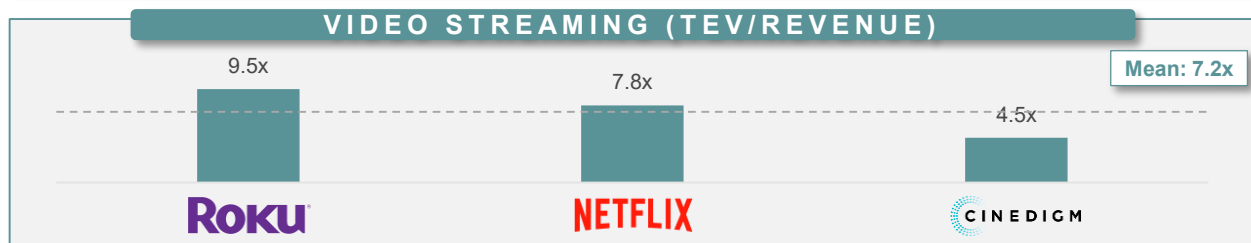
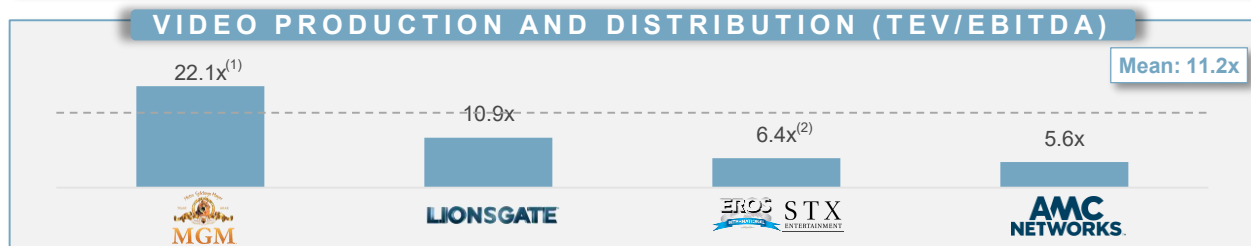
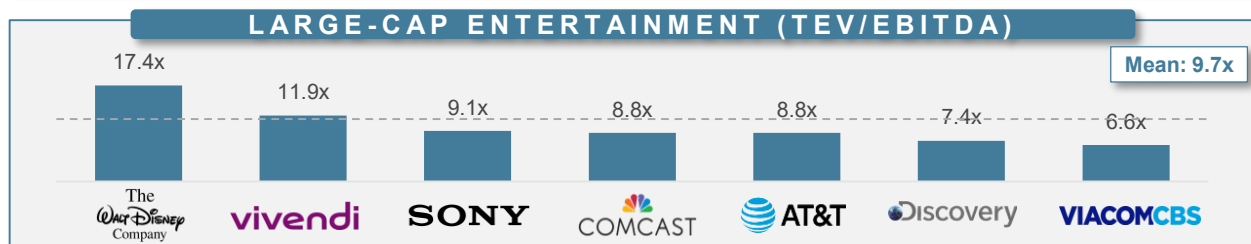
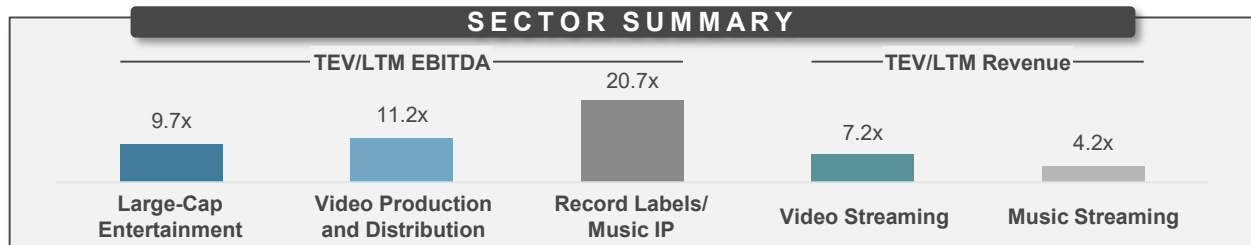
(3) Minority sale. TEV based on IPO valuation at \$25.0 per share and LTM 06/30/2020 Adj. EBITDA.

(4) Sprint-Tidal transaction has been excluded from the mean.

(5) Represents pre-money valuation.

(6) Based on implied valuation from Grupo Salinas' \$40 million investment in Deezer as well as Deezer's CY2018 revenue, per public sources.

Public Market Performance



Note: Several public companies have withdrawn or suspended their 2020E forecast in the light of uncertainty caused by COVID-19; TEV excludes capital leases.

Sources: Wall Street research, other publicly available information.

(1) Based on CY2019 EBITDA.

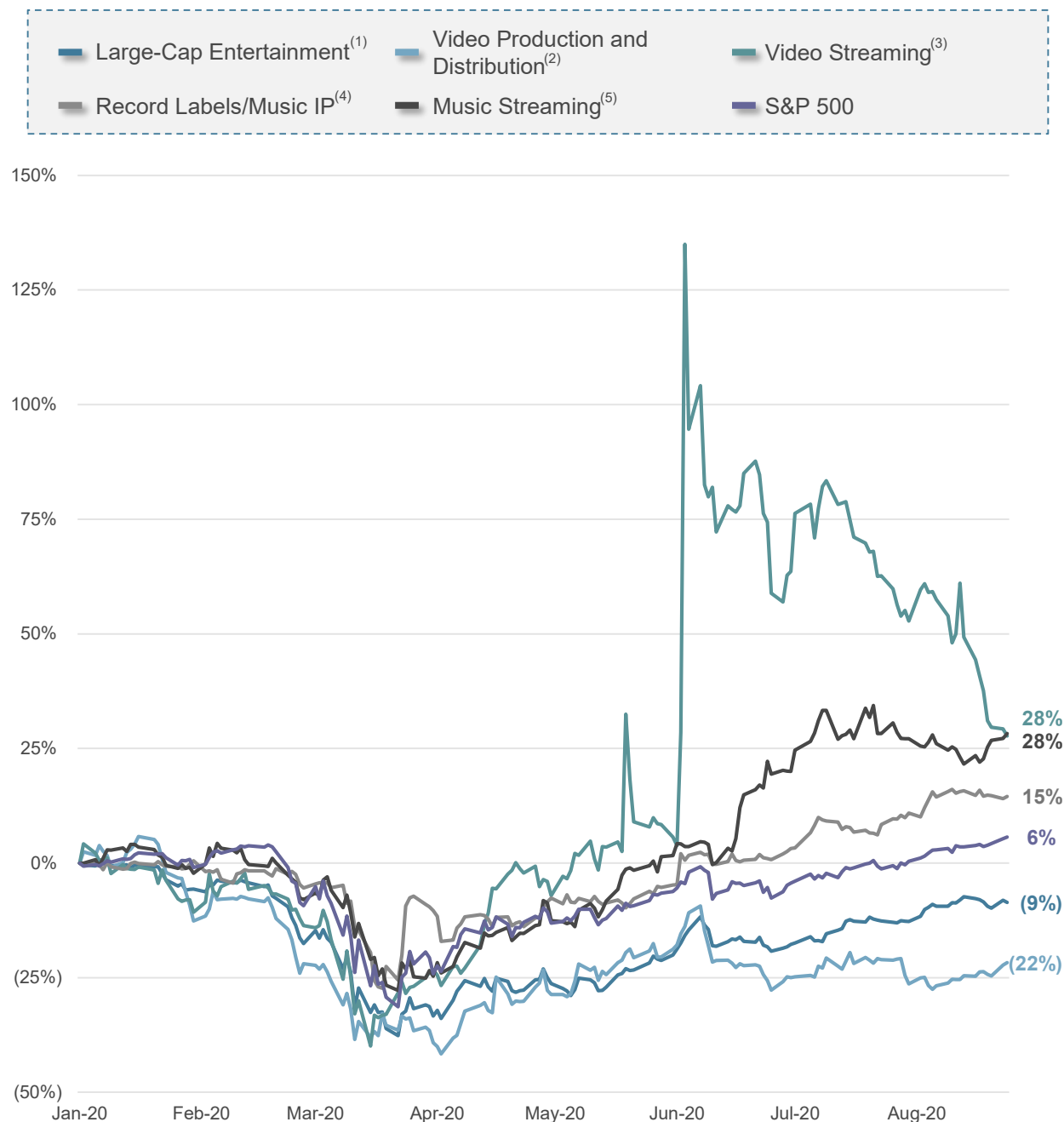
(2) Based on pro forma combined company net debt, estimated pro forma market capitalization, and company guidance for pro forma revenue and EBITDA margin, per public filings.

(3) Based on Wall Street Analyst estimates for Universal Music Group TEV and 2021E EBITDA.

(4) Based on Wall Street Analyst estimates for Sony Music Entertainment TEV and 2021E EBITDA.

Entertainment Sector Performance—YTD

Video and Music Streaming and Record Labels sub-sectors have traded above S&P 500 returns, while Large Cap Entertainment and Video Production & Distribution, with more exposure to COVID-19 related shutdowns, have been more negatively impacted.



Source: Wall Street research.

(1) Large-cap entertainment includes AT&T, Comcast, Disney, Sony, ViacomCBS, and Vivendi.

(2) Video production and distribution includes AMC Networks, Discovery, Eros International, Lionsgate, and MGM.

(3) Video streaming includes Cinedigm, Netflix, and Roku.

(4) Record label/music IP includes Hipgnosis and Warner Music Group.

(5) Music streaming includes SiriusXM, Spotify, and Tencent Music.

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 analyze, structure, negotiate, and execute the best possible solutions from both strategic and financial perspectives.

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 mid-cap 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 to 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.

- **1,500+** Employees
- **23** Offices Globally
- **\$1+ Billion** of Revenue
- **~\$4 Billion** Market Cap

Corporate Finance

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

	Advisor	Deals
1	Houlihan Lokey	184
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

Financial Restructuring

2019 Global Distressed Debt & Bankruptcy Restructuring Rankings

	Advisor	Deals
1	Houlihan Lokey	76
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

Technology, Media, and Telecom (TMT)

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

	Advisor	Deals
1	Houlihan Lokey	198⁽¹⁾
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)

No. 1 U.S. TMT Practice

**TMT Investment Bank of the Year—The Deal
Awards 2020**

Financial and Valuation Advisory

2000 to 2019 Global M&A Fairness Advisory Rankings

	Advisor	Deals
1	Houlihan Lokey	1,057
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

(1) Transaction statistics for TMT are not pro forma to reflect Houlihan Lokey's acquisition of MVP Capital on July 25, 2020.

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