



HOULIHAN LOKEY

LOCAL MEDIA MARKETING INDUSTRY

MARKET UPDATE | SPRING 2020



Local Media Marketing Market Update: COVID-19

The outbreak of COVID-19 has resulted in a global health emergency and has sent financial markets into a frenzy. Houlihan Lokey presents an assessment of the virus's impact on the local media marketing industry below.

Market Update

Over the last three months, COVID-19 has globally sent shockwaves 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 dislocation that could continue in the near term. Substantial disruption to business operations has occurred across all sectors of the economy, including the local media marketing industry. The general outlook of the local media marketing industry is varied, and uncertainty is likely to persist until the duration and overall impact of COVID-19 can be determined. However, there are key trends in the space that warrant attention:

- 1 The importance of SMBs to the U.S. economy, employment, and large advertising platforms has been clearly evidenced by the significant monetary support offered by the federal government and private businesses, such as Google. With the passage of an additional \$484 billion of support, the federal government has made \$766 billion available to small businesses, the vast majority of which is likely to be forgiven. Further, Google is providing \$340 million of ad credits to SMBs worldwide while Facebook has offered \$100 million in cash grants and ad credits to SMBs.
- 2 The COVID-19 pandemic is likely to accelerate the shift from traditional mediums to digital channels as local businesses seek to stay in touch with consumers who are staying home, either as a result of stay-at-home measures or out of caution. Despite significant increases in media consumption, this has been to the benefit of digital channels as traditional channels such as OOH are distinctly impacted from the lack of consumer interaction while linear television is increasingly losing out to OTT and a spate of streaming services, particularly as live sports have been canceled or indefinitely postponed.
- 3 The dramatic change in local businesses' operating environment provides an opportunity for SMBs to build or improve their online presence and map out advertising strategies. As business slows for most local companies, business owners have a resource that is usually not afforded to them: time. A lack of time and resources is one of the primary reasons SMBs let marketing fall by the wayside, so the current pandemic offers a rare opportunity to focus on such "secondary" tasks.

At this point, it is impossible for us to predict how long the outbreak and shutdown will last, as well as the lingering effects on businesses, the economy, and the credit and M&A markets. While it is beginning to look like the pandemic is slowing and conditions are improving, we will continue to monitor this rapidly evolving situation and its impact on the local media marketing industry. We look forward to staying in touch with you.



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Local Marketing and Media Services Franchise

 <p>Miami Assets</p> <p>have been acquired by</p>  <p>Sellside Advisor</p>	 <p>has successfully separated from and settled a \$1.03bn intercompany note in connection with the Chapter 11 Plan of Reorganization of iHeartMedia, Inc.</p> <p>Special Committee Advisor</p>	 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>Sellside Advisor</p>	 <p>has been acquired by</p>  <p>Sellside Advisor</p>
 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>\$475,600,000</p> <p>Financial Advisor</p>	 <p>First Lien Term Loan Second Lien Term Loan Refinancing</p> <p>\$75,000,000</p> <p>Exclusive Placement Agent</p>	 <p>has completed the restructuring of its €1,158m financial debt through a court approved amendment of its accelerated financial safeguard plan</p> <p>Creditors Committee Advisor</p>	 <p>has completed a recapitalization transaction</p> <p>1st Lien Noteholder Advisor</p>
 <p>has confirmed a "pre-packaged" Chapter 11 Plan of Reorganization, restructuring approximately \$2.4 billion of debt</p> <p>Bank Group Advisor</p>	 <p>and</p>  <p>have separated into two publicly traded companies through a spin-off transaction</p> <p>Financial Opinion</p>	 <p>has sold</p> <p>Juice FM</p> <p>to</p> <p>Global Radio</p> <p>Sellside Advisor*</p>	 <p>Series E Convertible Preferred Stock</p> <p>Led by:</p>  <p>With participation from existing investors:</p> <p>Apex Venture Partners, SSM Partners, Origin Ventures, River Cities Capital Funds, and I2A Fund</p> <p>\$30,000,000</p> <p>Placement Agent</p>
 <p>a portfolio company of</p>  <p>Senior Secured Term Loan Refinancing</p> <p>Lead Financial Advisor</p>	 <p>has sold</p>  <p>to</p>  <p>Sellside Advisor</p>	 <p>has exchanged stations with</p>  <p>Financial Opinion</p>	 <p>has been acquired by its Senior Lenders through a UK Scheme of Arrangement involving a comprehensive restructuring of its c. £2.2 billion of Senior Facilities and Pension Plan Liabilities</p> <p>Creditors Committee Advisor</p>
 <p>has completed a Pre-Packaged Chapter 11 Plan of Reorganization</p> <p>Company Advisor</p>	 <p>has sold</p>  <p>to</p> <p>Sinclair Broadcast Group</p> <p>Oct. 2013 \$115.35 million</p> <p>Sellside Advisor</p>	 <p>has been acquired by</p>  <p>\$270,000,000</p> <p>Sellside Advisor</p>	 <p>a subsidiary of</p>  <p>has been acquired by</p> <p>Journal Communications</p> <p>Sellside Advisor</p>

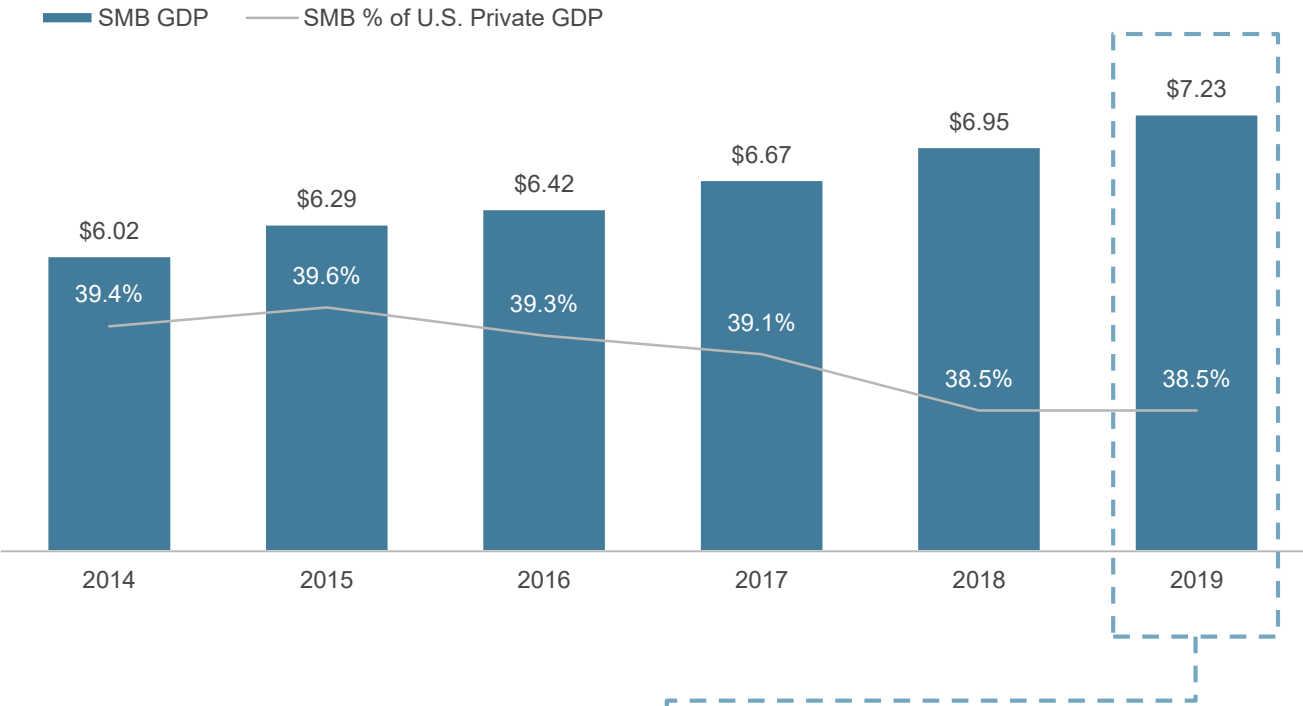
Tombstones included herein represent transactions closed from 2012 forward.

*Selected transactions were executed by Houlihan Lokey professionals while at other firms acquired by Houlihan Lokey or by professionals from a Houlihan Lokey joint venture company

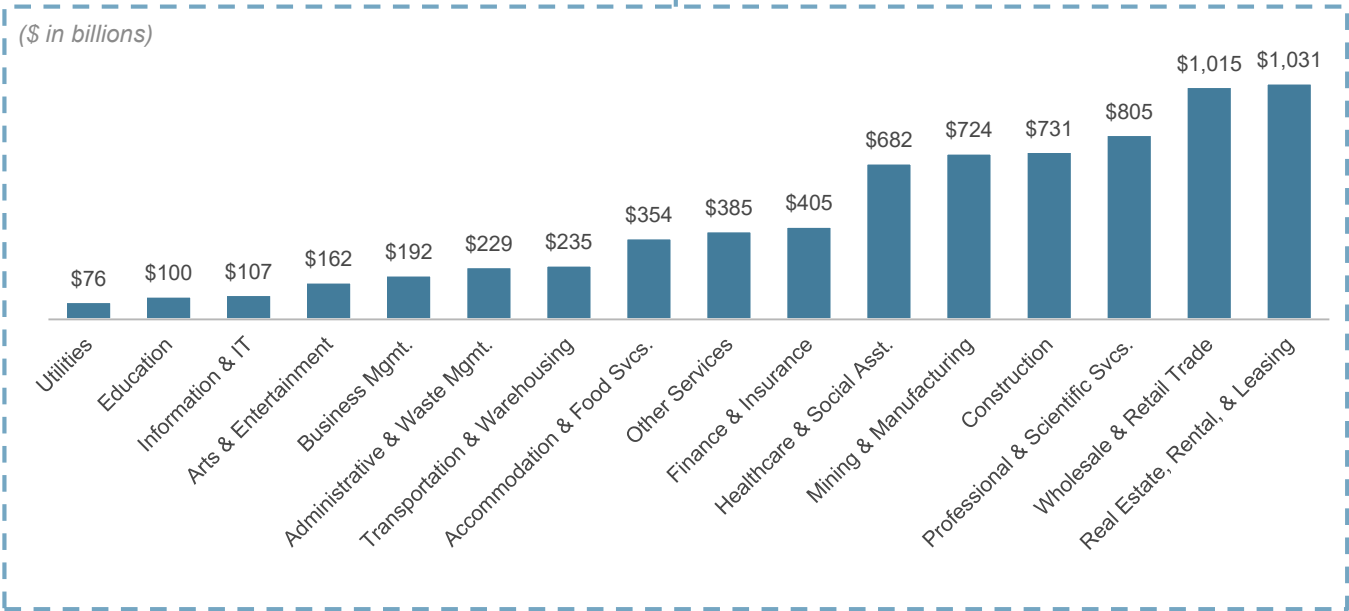
SMBs Constitute Significant Portion of Economic Output

SMBs are critical to the U.S. economy and demonstrate local consumer demand, which is driven largely by local advertising.

(\$ in trillions)



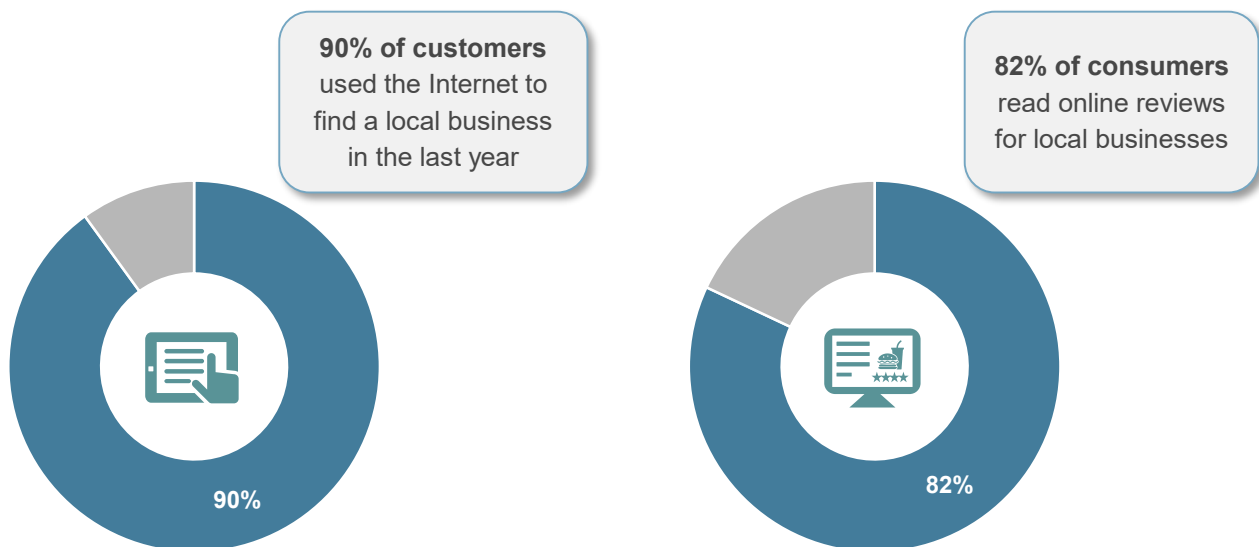
(\$ in billions)



The SMB Digital Marketing Quandary

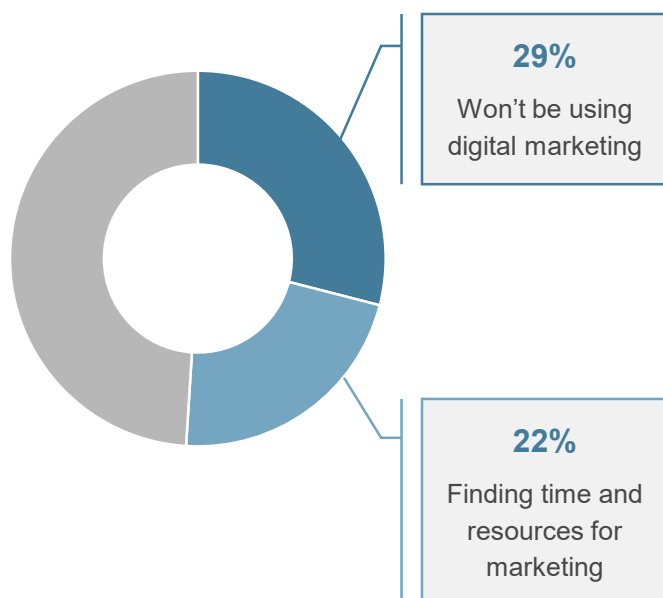
Customers rely on the Internet to find SMBs, but SMBs have difficulty navigating the complex world of digital marketing.

Customers Rely Heavily on the Internet to Find SMBs



But SMBs Consider Digital Marketing Challenging...

When SMB owners are asked what their biggest challenge is:



...as They Face Many Difficulties Effectuating Digital Marketing

- Lack marketing expertise or a dedicated marketing team.
- Have limited success with self-managed digital marketing.
- Are unsure of which marketing solutions will best reach their customers.
- Are overwhelmed by marketing across multiple channels.
- Miss out on key innovations and changes in the marketing landscape.
- Require third-party input for graphic design and copywriting.
- Lack tools and/or knowledge to evaluate the results of marketing campaigns.

Digital Driving a Proliferation of Advertising Channels

Traditional Channels

TELEVISION



RADIO



OOH



PRINT



Digital Channels

SEARCH



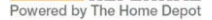
RATINGS AND REVIEWS



RESERVATIONS AND DELIVERY



MARKETPLACES



SOCIAL



DEALS



PLATFORM DIGITAL MARKETING SOLUTIONS

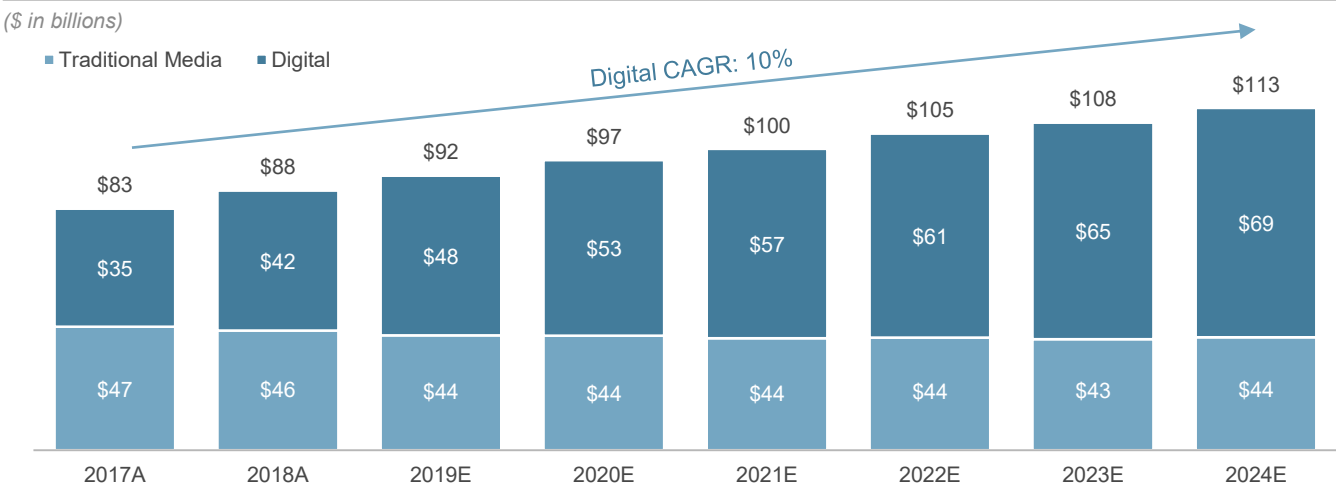


Strong Growth Expected From Local Digital Advertising Prior to COVID-19

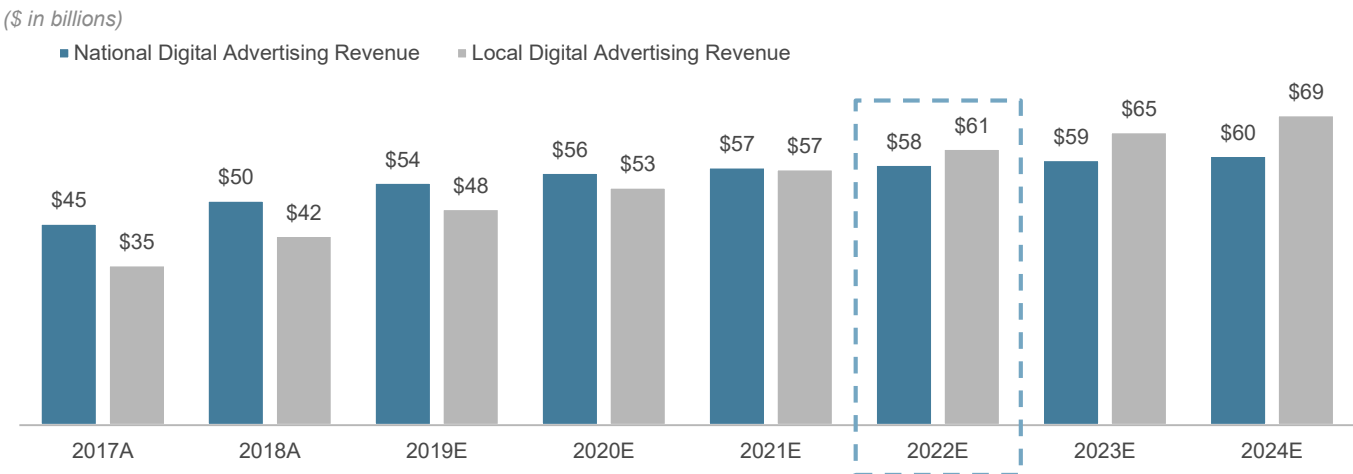
Before the COVID-19 pandemic, local digital advertising was expected to see robust growth, outpacing traditional local mediums and national digital advertising.

- While large advertisers can afford to reduce advertising budgets when times are challenging, local SMBs rely on marketing, which is increasingly digital (in both up and down markets) to acquire customers and drive business; cutting advertising can materially impact viability for SMBs.
- SMBs need to distinguish themselves from the competition in positive cycles and rely on marketing to stay front of mind during down cycles.
- The COVID-19 pandemic is likely to accelerate this development as SMBs focus on digital channels to reach customers who are required to stay home.
- Broad geographic presence and local market focus help well-diversified providers mitigate exposure to regional shocks or other idiosyncratic risks.

Digital Driving Local Advertising Market



Local Digital Ad Revenue Will Soon Exceed National



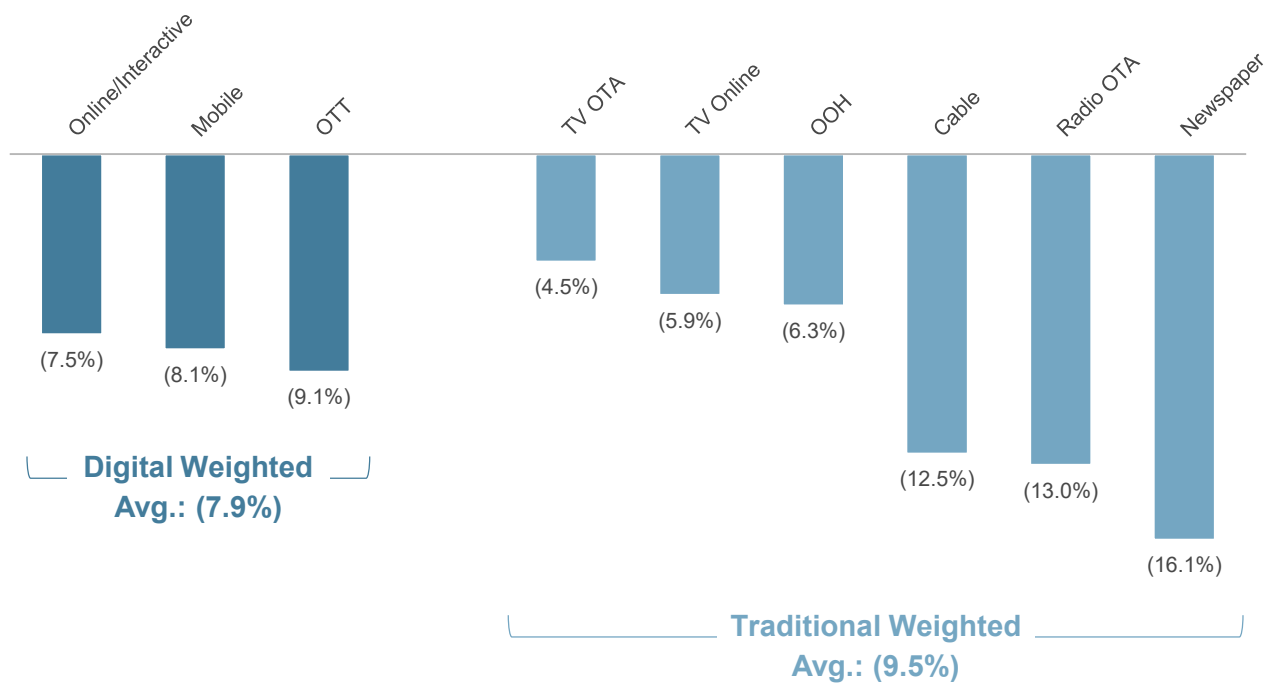
COVID-19 Expected to Have Greater Effect on Traditional Mediums

Local advertising forecasts have been revised down as a result of the pandemic, with 2020 spend expected to be 11% lower than forecasted earlier in the year, but not all mediums will be equally impacted.

- The impact of the COVID-19 pandemic is yet to be fully known, but is expected to more negatively impact traditional advertising channels vs. digital advertising channels.
- Across traditional mediums, television is expected to fare the best as consumers stay tuned into local news for updates while political advertising will continue to buoy revenue.
 - Cable forecasts, on the other hand, have declined by double digits, driven in large part by the cancelation of live sports.
 - Ongoing trends in radio and print newspapers should accelerate as consumers engage even less frequently with those mediums.
- Digital advertising is not immune to the crisis but is expected to fare better as consumers stay home and spend time online and streaming.
 - The decline in OTT forecasts point to the nascent stage of that channel and advertisers' uncertainty about the efficacy of reaching consumers.
 - Nonetheless, the robust solutions of digital service providers and ability to more effectively target customers on digital channels should drive a quicker rebound from the COVID-19 downturn.

Traditional Mediums Expected to See Largest Declines From COVID-19













(% change in from pre-COVID-19 to post-COVID-19 2020 forecast)



Rationalized Competitive Environment

Technology and consolidation have spurred a shift in local market media services and capabilities that are still underway.

- Media is in the midst of a wave of change and transition as all forms of advertising shift to digital.
- Traditional media companies are adjusting to technological innovations and alternative services that have reduced their reach to customers.
- Local businesses are faced with a constantly evolving, overwhelming, and often confusing ecosystem where traditional media companies and digital-first services are adapting their capabilities in order to secure ad dollars.

Historical Local Market Players		Key Evolutionary Trends	
	CABLE COMPANIES		Increased focus on OTT services and capabilities
	RADIO BROADCASTERS		Adapting to streaming music environment
	TV BROADCASTERS		Consolidation among TV stations
	YELLOW PAGE COMPANIES		Pivoting to one-stop digital marketing solutions
	NEWSPAPERS		Newspapers moving behind paywalls, cutting back days of week
	LOCAL MAGAZINES		Digital giants (Google, Facebook) well-capitalized to tackle space

Questions and Considerations

Volatile market conditions have created many questions for businesses. Our 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 while private market issuances are open, but on a case-by-case basis. However, the Fed's extremely accommodative stance has enabled some troubled issuers to successfully issue new debt, refinance existing debt, or adjust covenant testing (e.g., testing off of 2019 EBITDA).

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 local media marketing 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. Our 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 analyze, structure, negotiate, and execute the best possible solutions from both strategic and a 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 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 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
- **22** Locations Globally
- **~\$1 Billion** of Revenue
- **~\$3 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 M&A Advisor All U.S. Transactions

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

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

	Advisor	Deals
1	Houlihan Lokey	198
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 Technology, Media, Entertainment, and
Telecom Transactions Under \$1 Billion 2014 to
2019

33 Completed Transactions in 2019

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

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