Houlihan Lokey

OUT-OF-HOME INDUSTRY IN THE COVID-19 ENVIRONMENT

MARKET UPDATE | **APRIL 2020**

Out-of-Home COVID-19 Update

While the COVID-19 pandemic has created significant disruption across the entire global markets—with almost no sector spared—the out-of-home (OOH) industry has experienced even greater turmoil, given its dependence on (by definition) being "out of the home" and, in many cases, relying on social interactions within large crowds. The OOH environment is grappling with unprecedented uncertainty, as businesses face the challenge of not only how long shelter-in-place and/or social distancing will last, but also how the general public will react to potential enduring impacts post COVID-19.

Sector Observations

Out-of-Home Entertainment

1. Since mid-February, the COVID-19 outbreak has accelerated, causing nearly complete global shutdown of all theme parks, live entertainment, location-based entertainment, movie theaters, cruises, and tours.
2. Although some Asian operations have begun to reopen (with some mixed outcomes), the shutdown persists for largely domestic operators, forcing companies to make difficult decisions around staff reductions, extending payables, negotiation rent forbearances, and seeking interest and covenant relief from creditors.
3. Additionally, ticket/attendance refunds have exacerbated the pain for many operators, creating liquidity issues as companies weigh the challenges of postponements vs. cancellations while seeking to engender customer goodwill.
4. In particular, seasonal operators, who are heavily dependent on Q2/Q3 revenue to bolster full year cash flows, are encountering scenarios in which they remain closed and unable to generate any revenue during their busiest periods.
5. Even if they are able to reopen in the relative near term, it is unclear how consumers will react upon returning to crowded experiences or shared attractions.
6. Companies have started drawing down their full revolving credit facilities, proactively negotiating with lenders, and, in many cases, seeking new financing alternatives in order to provide an "insurance" liquidity cushion; to date, markets have been highly receptive to providing new capital at attractive rates, while companies have also been able to achieve covenant relief in many cases.
7. Operationally, as well, there is reason for hope, as we believe there will be pent-up demand for differentiated and exciting offerings, as well as human interaction within live events, festivals, and conferences as the public gains comfort in the post-COVID-19 world.

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Out-of-Home COVID-19 Update (cont.)

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Sector Observations

Out-of-Home Advertising

1. As the entire advertising industry confronts significant declines in marketing spend, given that nearly all companies are impacted, OOH is dealing with the additional challenge of reduced people outside the home.

2. Not only are the more obvious OOH asset categories (such as transit, malls, and lifestyle centers) closed for the time being, but with shelter-in-place guidelines, there is also highly reduced foot traffic and cars on the road, weighing on billboards, posters, wallscapes, etc.

3. Many of the largest OOH spend categories are among those hardest hit by the pandemic (e.g., travel, entertainment, restaurants, auto); additionally, operators reliant on local ad dollars are seeing those partners unable or unwilling to spend in this environment, and it is unclear if or when such local businesses will bounce back.

4. Similar to other industries, to combat significant revenue declines, operators are being forced to scale back expenses, both in terms of trimming overhead/staff and negotiating with vendors, landlords, and lenders for extensions or reductions.

5. As companies face looming liquidity issues, they are also drawing on their revolvers, assessing incremental debt capacity, turning to existing sponsors, and/or speaking with third parties about new debt/equity/preferred capital infusions.

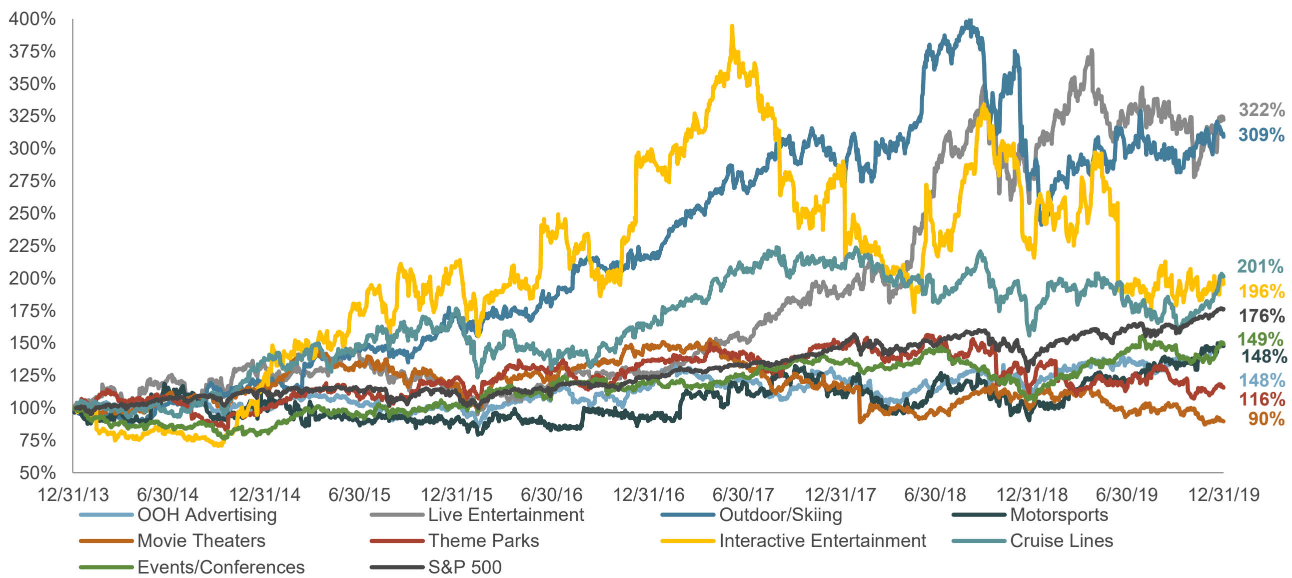
6. However, we are optimistic that the industry will recover strongly, supported by 40 consecutive quarters of revenue growth leading into the pandemic; OOH has a demonstrated track record of providing significant ROI and offers a cost-effective medium to reach a wide-ranging and/or targeted audience.

7. The industry should be furthered bolstered by the public’s desire to spend more time outside the home post COVID-19, driving more eyeballs to OOH assets; in some Asian markets, which effectively will serve as the barometer for Western markets, we are already seeing demand start to return as the world reopens.

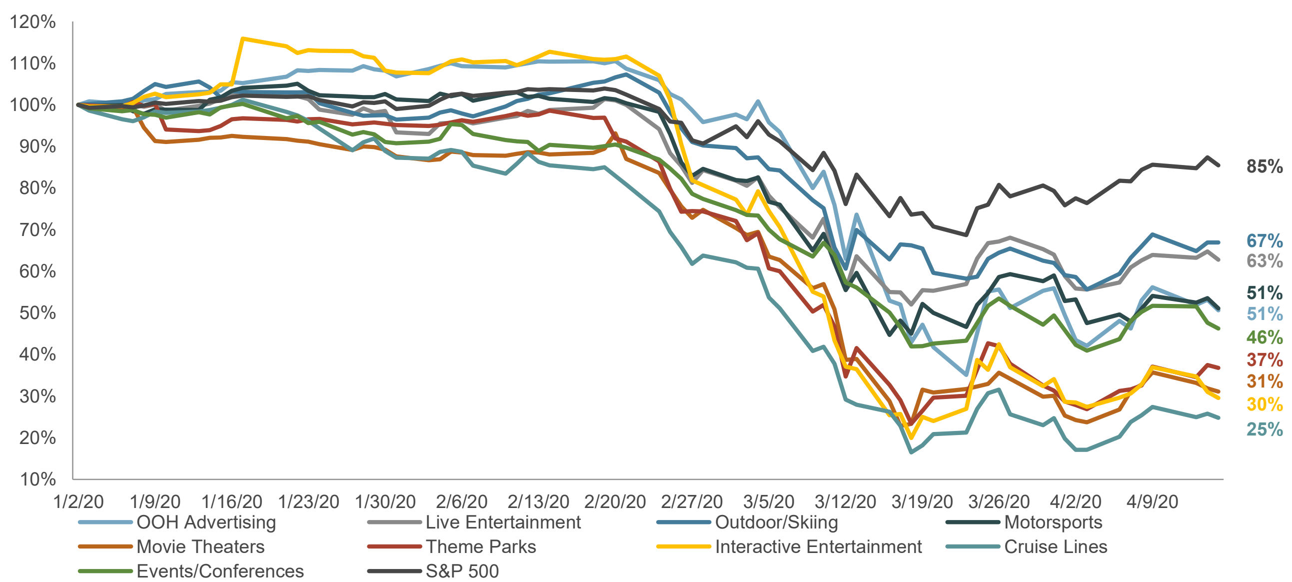
Prolonged Outperformance…Shifted Into Significant Headwinds

Public operators in most OOH sectors have enjoyed substantial success for many years, given such favorable trends as consumer preference for experiences over possessions and the inability of OOH advertising to be blocked, skipped, or plagued with fraud or viewability issues. In the COVID-19 environment, however, all OOH segments are "ground zero" and have been battered by public investors.

Comparable Companies 2015–2019 Stock Performance[1]



Comparable Companies 2020 YTD Stock Performance[2]



Source: S&P Capital IQ.
Note: Charts include selected applicable comparable companies.
(1) Pricing as of 12/31/2019.
(2) Pricing as of 4/15/2020.

Financing Markets Remain Receptive

Despite the market dislocation and general uncertainty, market participants have been constructive in effectuating liquidity solutions, while lenders have also shown a willingness to offer flexibility with regards to modifying covenants.

1. In the current market environment, rescue financing capital available to companies across the OOH landscape in the U.S. has been incredibly strong (driven by technical factors and proactive discussions with stakeholders), resulting in beneficial access to capital markets for secured financing.

   - Six Flags Entertainment Corp. (NYSE:SIX) raised $725 million at 7.00%, which was upsized from the planned $665 million and priced on the low end of talk.
   - Cedar Fair, LP (NYSE:FUN) raised $1.0 billion at 5.50%, which was upsized from the planned $875 million and priced on the low end of talk.
   - Cinemark Holdings, Inc. (NYSE:CNK) raised $250 million at 8.75%, which was on the low end of talk and in a sector that has been disproportionately challenged in recent years.
   - Carnival Corporation & plc (NYSE:CCL) raised $6.3 billion via multiple new offerings (in addition to the c. $3.0 billion of revolving credit it drew the previous month), with the demand for the senior secured notes allowing the company to upsize that offering from $3.0 billion to $4.0 billion and reduce corresponding equity dilution.

2. Meanwhile, private equity seeks to be aggressive in deploying capital in creative structures to take advantage of declining valuations, even for companies that may not have immediate need for liquidity.

   - Outfront Media Inc. (NYSE:OUT) announced a $400 million convertible preferred equity investment led by Providence Equity Partners, carrying a 7.00% coupon—payable in cash or in-kind—at the company's election.

3. In addition, many companies have been able to successfully negotiate full leverage covenant relief for an extended time period, as well as allow for future leverage calculations to be based on 2019 quarterly EBITDA figures to replace 2020 for respective periods, effectively giving these businesses significant runway to weather the current storm.

4. These deals came together following the Fed's latest QE-related initiatives in the subinvestment grade space, enticing investors to participate.

5. With all of this in mind, all companies across the OOH sector should consider pursuing a combination of these initiatives in this market. Various relief measures with creditors may be obvious, but OOH peers should also explore third-party capital, which could serve as both a moderately priced "insurance" policy and a true life raft if the market pain is prolonged.

Source: SEC Filings and LCD Comps.

Key Considerations in the COVID-19 Environment

Because the COVID-19 situation is truly unprecedented, the economic impact remains largely unknown, both in the short term and looking further out, forcing most public OOH businesses to withdraw guidance and prepare for a prolonged downside scenario. While many operators are facing a potential significant liquidity crisis, there are a number of levers to pull or alternatives to explore to preserve liquidity and establish “insurance” funds to weather the storm.

Honest Assessment of Challenges Being Faced

- It all starts with an honest assessment of issues surrounding the business; without that candid “look in the mirror” moment, companies will be ill-equipped to strategize appropriately.
- The senior leadership team (and board) needs to organize and frequently communicate about potential strategies and alternatives.
- Evaluate “the art of the possible” to adequately prepare and protect yourself for a worst-case scenario.

Scenario Modeling

- Create a number of scenarios, including the true worst-case downside to understand any potential issues around liquidity and capital needs if the shutdown environment extends for a number of months, as well as incorporating a slower ramp-up for certain businesses.
- Not only will these scenarios be helping for internal planning purposes, but this may also yield benefits with lenders who appreciate the thoughtful analysis.

Proactive Communication With Counterparties

- Overcommunication—both in terms of information and frequency—provides comfort to counterparties.
- Lenders are increasingly willing to show flexibility with covenant relief and other credit agreement amendments, in addition to providing incremental capital.
- Likewise, customers, suppliers, landlords, and other key partners will value proactive communication and talking through potential issues and solutions; most of them are undergoing their own challenges in these uncertain times.
- Key payables and rent deferrals or credits are possible in this environment—when engaging constructively and proactively.

Reduce Overhead and Expenses

- Start with the low-hanging fruit with extraneous, nonessential expenses that are “nice to have” vs. critical, particularly in a low- or no-revenue environment.
- The more difficult (but equally important) decisions will involve personnel layoffs and/or furloughs; communicate in a way to express that these are necessary decisions to ensure the long-term viability and prosperity of the business.
- Remaining personnel can also contribute via reduced cash compensation, particularly for those at the executive level with an ability to withstand the short-term pain.

Key Considerations in the COVID-19 Environment (cont.)

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Negotiate Short-Term Relief With Key Partners

- Landlords are incentivized to work on rent deferrals, forgiveness, and/or lease renegotiations with OOH entertainment concepts that draw foot traffic to malls and lifestyle centers; no real estate operators want to have vacant space in a challenging retail environment and even more so in the COVID-19 landscape.
- Given that OOH advertising operators generate incremental revenue for landlords, those real estate operators are also motivated to align interests.
- Key vendors/suppliers may also be willing to negotiate extended terms to ensure relationships remain strong and payments will ultimately be made.

Treat Customers With Kindness

- Endeavor to treat your customers in the same manner you’d like to be treated in uncertain and challenging times; we are all going through this together, and these same customers will remember your efforts fondly when the business environment returns to normal.
- It many not always be possible, but providing favorable terms, whether it be extending payment, providing credits, or offering tickets/advertising space at reduced rates, can create lasting goodwill impacts.

Consider Available Liquidity Options

- Evaluate immediately available cash sources such as revolver availability.
- Review credit agreements to understand permitted investments and basket capacity.
- Consider new third-party capital alternatives, including debt, equity, and convertible preferred securities.
- The markets continue to support an appetite for new secured financings at attractive rates, even with challenged high-yield borrowers.

Issue Credits Instead of Refunds

- Although allowing the option for cash refunds is preferable, to the extent possible, that will not always be available in the face of liquidity challenges.
- Endeavor to offer compelling alternatives to refunds, such as credits in excess of ticket prices, upgrades, lengthening season passes, or other future flexibility, to incentivize customers to remain committed when “postponing” vs. cancelling.
- OOH advertising operators can utilize assets by providing elongated advertising timeframes at reduced rates or for future payment or by donating vacant inventory to causes for the general public.

Key Considerations in the COVID-19 Environment (cont.)

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Seek Out New Revenue Streams

- Embrace the opportunity that the current environment offers by accelerating a shift or expansion into digital-centric capabilities.
- Nimble operators can create new revenue streams by launching virtual events online, hosting webinars, or packaging previously performed live content in a digital offering.
- OOH advertising businesses can allocate time and resources to improving programmatic offerings to boost occupancy rates across inventory, both now and in the future.

Opportunistically Seek to Grow/Acquire

- For those with the capacity to do so, the market dislocation can provide a compelling opportunity as others seek to simply stay afloat.
- Engaging in potential M&A discussions with attractive candidates or aggressively seeking to acquire new assets/inventory may yield positive outcomes.
- Mergers, in particular, may benefit both parties, as they combine to become a single, stronger entity without the need for a capital outlay today.

Opportunistically Optimize Capital Structure

- While the market dislocation has caused debt to trade off substantially—particularly for companies in the OOH sector—an opportunity has emerged to opportunistically capture value.
- Operators with conviction, a strong-enough balance sheet, and/or a committed sponsor can seek to repurchase debt at a discount or engage in tender offers.
- There is also an opportunity to improve liquidity and extend runway by introducing new securities, whether equity or debt; investors have shown a willing appetite to participate in new OOH offerings, despite the volatility.

Collect Insurance Claims

- For all the years companies have been paying into insurance for potential business interruption, now is the time to collect.
- Forced event cancellations, tour postponements, park closures, etc., can all trigger payment under certain policies.
- To the extent that companies own these policies and believe they are covered, insurance proceeds can help fill the liquidity hole during shutdown, although receiving payouts may come outside the critical-need period.

Preserving Liquidity and Maximizing Value

In an uncertain and volatile capital markets and business environment, there are several levers businesses and owners can pull to improve liquidity and defend against a capital shortage.

Houlihan Lokey, a leader in M&A, private capital markets, and restructuring transactions, is uniquely positioned to help clients navigate the current liquidity landscape.

If we can be helpful to you in any way, please do not hesitate to reach out to us to discuss potential strategies and alternatives to preserve your liquidity and maximize shareholder value.

Key Themes to Preserve Liquidity and Maximize Value

Liability Management

- Working with key vendors and landlords to provide extensions or reductions on payables/rent
- Navigating current covenants and working with existing lenders to secure interest relief and/or amendments to existing credit agreements
- Opportunistically managing the existing capital structure: repurchases, tenders, debt-for-debt exchanges, and/or debt-for-equity exchanges
- Utilizing available permitted investments or basket capacity under existing credit agreements
- Potentially transferring key assets or IP into unrestricted subsidiaries; arranging financing against these new subsidiaries

New/ Incremental Capital

- Convertible preferred/structured securities
- Minority equity
- PIPEs
- Holdco financing structures
- Rights offerings
- Noncore asset/subsidiary sales
- Sale-leaseback transactions

Liquidity Management

- Scenario planning and cash flow forecasting with conservative “downside” views
- Reduction in workforce via temporary layoffs/furloughs and decreased compensation for executives and remaining employees
- Cutting back nonessential expenses and overhead
- Managing working capital accounts with key customers and suppliers
- Reviewing insurance policies and preparing claims; typical coverages or clauses that may apply include business interruption/business income, contingent business interruption, event cancellation, and/or civil authority

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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

Technology, Media, and Telecom

2014-2019 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 & Telecom Transactions Under $1 Billion 2014 to 2019

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)

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Financial and Valuation Advisory

2000 to 2019 Global M&A Fairness Advisory Rankings

	Advisor	Deals
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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.

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