

Live Nation (LYV) Investment Memo

Financial Dashboard

LYV

Dashboard Summary

\$M, unless otherwise stated

TRADING STATISTICS	7-Jul
Share price (\$)	\$23.36
Shares outstanding (M)	202.3
Market cap	4,725.7
Net debt	1,758.8
Minority interest / Other	484.4
Enterprise value	6,000.1

FCF VALUATION	Base	Upside	Downside
FCF/share 2017	\$1.50	\$1.73	\$1.14
FCF Yield	6.5%	6.0%	9.0%
Implied price (\$)	\$23.00	\$28.78	\$12.64
Premium/(Discount)	(1.5%)	23.2%	(45.9%)
Probability	50.0%	25.0%	25.0%

Weighted average price (\$)	\$21.86
Premium/(Discount)	-6.4%

EBITDA VALUATION	Base	Upside	Downside
EBITDA 2017	708.3	745.2	653.8
EV/EBITDA	9.0x	10.0x	7.5x
EV	6,374.4	7,452.1	4,903.9
Net Debt (2017)	1,425.3	1,136.2	1,444.4
Market Cap	4,949.1	6,315.9	3,459.5
TSO (\$M)	202.3	202.3	202.3
Implied price (\$)	24.46	31.22	17.10
Premium/(Discount)	4.7%	33.6%	(26.8%)

BASE CASE FINANCIALS / METRICS	2011	2012	2013	2014	2015	Projected		
						2016E	2017E	2018E
Revenue	5,384.0	5,819.0	6,478.5	6,867.0	7,245.8	7,717.1	8,134.0	8,219.3
Consensus						7,670.0	8,020.0	8,380.0
EBITDA	377.3	422.1	476.7	515.7	544.5	632.3	708.3	717.8
Consensus						629.0	683.0	759.0
EPS (\$)	(\$0.45)	(\$0.87)	(\$0.22)	(\$0.44)	(\$0.16)	\$0.34	\$0.60	\$0.65
Free Cash Flow	28.3	243.3	282.6	137.1	157.6	279.8	303.8	296.9
FCF/share (\$)	\$0.15	\$1.29	\$1.44	\$0.66	\$0.77	\$1.38	\$1.50	\$1.46
Revenue growth		8.1%	11.3%	6.0%	5.5%	6.5%	5.4%	1.0%
EBITDA margin	7.0%	7.3%	7.4%	7.5%	7.5%	8.2%	8.7%	8.7%
EPS growth		91.4%	-74.5%	99.4%	-64.0%	-311.9%	79.6%	6.9%
FCF growth		759.3%	16.2%	-51.5%	14.9%	77.5%	8.6%	-2.3%
EV/EBITDA					11.0x	9.5x	8.5x	8.4x
P/EPs					-147.2x	69.5x	38.7x	36.2x
FCF yield					3.3%	5.9%	6.4%	6.2%
Net Debt	1,370.7	1,400.2	1,364.2	1,569.1	1,642.3	1,554.7	1,425.3	1,266.3
Net Debt / EBITDA	3.6x	3.3x	2.9x	3.0x	3.0x	2.5x	2.0x	1.8x
ROIC %	7.4%	8.6%	9.2%	9.4%	9.4%	10.8%	12.3%	12.5%

Executive Summary

Live Nation operates the dominant global fully-integrated live music platform. The company was spun off from ClearChannel in 2005 and is best thought of as a media business similar to Netflix, except the “content” is live music or the artists themselves. LYV hosted 20 of the 25 biggest tours globally in 2015 and promotes over 25,000 events in 42 countries, or 70 events every single day. LYV also owns and operates 167 venues, making them the largest venue owner in the US. Additionally, they manage over 250 artists and are the largest artist management company in the world. The business is highly seasonal with ~75% of AOI (LYV’s version of operating income) in 2Q and 3Q.

Investment Highlights

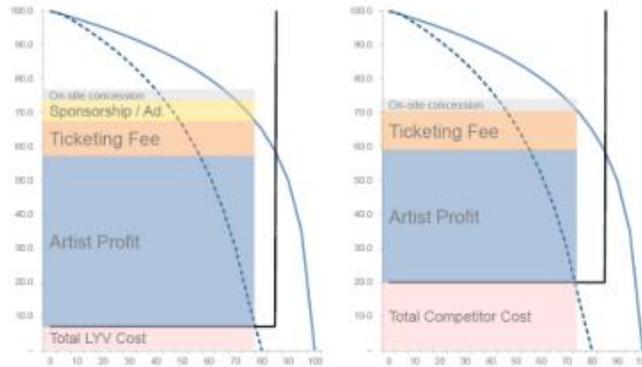
- **LYV is a wide-moat business operating a classic “distributor” model, giving them leverage on both suppliers and customers from purchasing power and returns from scale.** Live Nation has evolved into a near-monopoly and the four segments combined possess both supply and demand-side economies of scale.
- **The company presents itself as a “flywheel” similar to Amazon as users grow on all sides of the platform and the moat widens.** Content is king and LYV is willing to break even on 65-70% of their revenue (“Concerts” segment) in order to pay highest dollar for talent. This leads to more fans, more ticket sales, and more ads/sponsoring – this higher-margin revenue helps them leverage their fixed costs, generate cash, and use this to attract more content in a virtuous circle. However, ROIC is only in the high single-digits/low double-digits as much of the economic profit accrues to the “content” – the artists themselves.
- **LYV benefits from secular tailwinds in consumers spending more on “experiences” along with advertisers looking to reach millennials via advertising at festivals.** Ticket volume is driven by population growth and economic conditions and the firm has continued to expand their international presence (currently ~35% of revenue).
- **The stock offers poor risk/reward at current prices given cyclicality - a 7% levered forward FCF yield on three turns of net debt.**

Business Overview – How does LYV make money?

- The firm is vertically integrated and operates in four segments which all work in tandem to protect and grow the firm’s moat.

1. Concerts (FY15: 68% of revenue, 10% of EBITDA, 1.2% AOI margin):

- This segment acts as a loss-leader for the firm. They accept close to zero margin on average and by aggressively outbidding competition, cede all economics to the artist in a push to attract talent and offer the highest guaranteed comp. For marquee artists, LYV will offer over 100% of the gross and lose money on the transaction.
- After locking up the artist to an exclusive deal, LYV generates profit via their other three segments. This makes it extremely difficult for new entrants to attack LYV’s business model as few have the same auxiliary high-margin revenue streams. Below is a sample illustration on how LYV’s economies of scale and sponsorship/ad revenue leads to lower costs and thus allow them to pay artists more than competitors.



- This segment (Concerts) has been roughly break-even since 2010 and will remain that way as the business model revolves on constantly acquiring new talent. The amount they pay artists is the largest expense in LYV’s cost structure and could weigh on margins if top-line growth stagnates.

2. Ticketing (FY15: 22% of revenue, 58% of EBITDA, 21% AOI margin):

- This segment is the legacy Ticketmaster business which any concert-goer is familiar with (and usually not a fan of). The business holds dominant market position and possesses a powerful cost advantage by being magnitudes larger than competitors. These savings have been reinvested in the business, and few other platforms, if any, can withstand the amount of volume that Ticketmaster handles at peak.
- Ticketmaster is the largest primary ticketing company in the country and judiciously uses their monopolistic position to hike fees low-to-mid single digits annually. Competitors such as Ticketfly have taken notice and are looking to undercut their historically fat margins although there have yet to be any visible signs of share loss.
- LYV has also recently begun pushing into the \$8bn secondary market in an attempt to steal share from StubHub.



- The ticketing segment’s EBITDA margins have been flat-to-down since 2010 despite annual price hikes, which raises the question of how much inherent operating leverage exists in the segment.

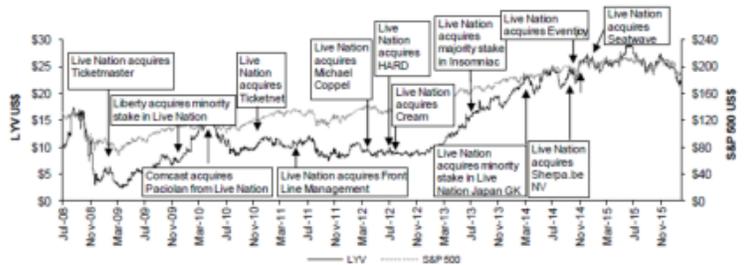
3. **Sponsorship + Ads (6% of revenue, 38% of EBITDA – 69% AOI margin):**
 - This segment is a key driver of profitability for the firm and extremely high margin. LYV has over 60 million fans and 130 million names in their Ticketmaster database which is valuable data for advertisers, especially those looking to reach a younger audience. LYV also sells sponsorship opportunities at venues and festivals.
 - For LYV, this segment has the longest runway for growth. Advertisers like Snapchat have recently begun using geofencing in targeting ads directly to customers at specific venues. This is “advertising gold” given that concert-goers are younger, have some discretionary income and often are at festivals for days on end - thus captive.
 - LYV is underpenetrated here and will continue to take market share. They have 16% share of music ad spend (\$330m in sponsorship revenue / ~\$2B in music advertising) which should grow at HSD - faster than the industry.
4. **Artist Nation (6% of revenue, 8% of EBITDA - 11% margin):**
 - This segment is LYV’s artist-management division and acts as an agent, earning a cut of their merchandise and endorsement deals. While not a big growth driver for the business, it is an essential element of the flywheel as it locks in customers and boosts switching costs. This segment has muted growth and stable-but-thin margins.

Key Investment Factors and Risks

1. What is LYV’s organic growth opportunity from here and have margins topped out?

- LYV has historically grown via M&A and disaggregating revenue contribution + acquisition ROIC is difficult due to lack of disclosure, making it difficult to assess management’s capital allocation abilities.

Fig 11 Acquisitions have played a major role in Live Nation’s evolution



- The company has benefitted from nearly a decade of outsized volume growth as a result of these acquisitions. The roll-up strategy works for this industry as many local shows have poor monetization, an outsourced venue, and no sponsorship. A handful of LYV’s acquisitions were also made to fend off competitors like Insomniac or HARD.
- **Low-hanging fruit may have been picked:** This growth was buoyed by the “EDM” craze which appears closer to the end than the beginning. The genre has become commoditized with new festivals popping up regularly. Star DJ’s have realized their net worth and the cost of hosting a festival has become uneconomic – just ask Robert Sillerman of SFX.
 - i. In the absence of event volume growth, this business shouldn’t grow much in excess of inflation along with whatever increase in ARPU/price hikes LYV can push through.
- LYV states they get close to 15% acquisition ROIC but this is hard to verify, and in the absence of a “target-rich” environment LYV could start destroying value with poor acquisitions that don’t return the firm’s cost of capital. The international opportunity is real but requires up-front capex, weighing on near-term FCF late in a cyclical expansion.
- **In sum, forecasting mid-single digit volume growth is reasonable, but not conservative.** Without that, the stock is unlikely to compound above high-single digits sans margin and/or multiple expansion.

2. The TAM is growing, but how much of the incremental growth will be captured by the artists?

- **The top of the value chain still belongs to the real monopolist – the artists themselves.** They capture most of the economics and it shows up in LYV’s financials, with stable 7.5% consolidated EBITDA margins and 10-11% ROIC.
- **While LYV has levers to pull in order to boost profitability (secondary ticketing, pushing price, sponsorship/ads, M&A) it appears equally likely that artists will continue demanding higher fees, offsetting any margin expansion.**
 - i. Somewhat akin to Pandora, businesses in the music industry are realizing their model can’t scale. Power is shifting to the “talent” (artists/agents) who recognize that the Flywheel grinds to a halt without them – and because of their increasing demands, any revenue growth is matched by proportional cost growth.

3. What is the impact of technology?

- o The answer is anyone's guess but net net, unlikely to be favorable to an entrenched monopoly like LYV.
 - i. **Social media** (Snapchat, Instagram, Twitter) should be a positive and works in LYV's favor as artists are able to reach fans in ways they weren't able to ten years ago. The counterpoint is that this gives artists more leverage and potentially other monetization avenues besides going on tour.
 - ii. **Similar arguments (both for and against) can be made for the influence of Spotify, Pandora** and other subscription streaming-radio services on LYV's business. Both companies have begun sponsoring their own concerts and looking to eat away at LYV's market share.
 - iii. **The potential for Ticketmaster disintermediation is a clear negative.** Similar to GRUB, Ticketmaster is hated by captive customers (fans) and while barriers to entry are high, the technology becomes easier to replicate and more likely to be disintermediated as time passes. A deep-pocketed competitor could run this business at 15% margin instead of 20% and turn a healthy profit, which could then be used to attack other areas of LYV's value chain (i.e. artist management, venue ownership). Pandora's \$450m acquisition of Ticketfly is the most recent example of a competitor looking to steal share from Ticketmaster.

4. What happens to this business model in a cyclical downturn?

- o **While the secular long-term tailwinds behind LYV are undeniable, their business is highly discretionary and dependent on growth in consumer spending.** In the financial crisis, legacy LYV (SFX) GAAP EBIT margins declined 700 bps y/y in 2008 followed by a 7% drop in North American attendance in 2009.

Figure 3. Legacy Live Nation (SFX) Revenues and EBITDA '01 to '09 (\$ millions; millions; percent)

	2001	2002	2003	2004	2005*	2006	2007	2008	2009	CAGR '01 to '09
Revenue	2,544	2,473	2,708	2,806	2,937	3,201	3,635	4,085	4,181	6.4%
- Operating expenses	2,435	2,314	2,536	2,683	2,885	3,091	3,522	3,973	4,066	6.6%
= EBITDA	109	160	171	123	51	110	114	113	115	0.6%
- Goodw ill impairment	-	-	-	-	-	-	-	270	9	nm
- D&A	299	65	63	64	65	114	107	140	158	nm
= EBIT	(190)	95	108	59	(13)	(3)	6	(297)	(52)	nm
memo: EBITDA margin	4%	6%	6%	4%	2%	3%	3%	3%	3%	
memo: EBIT margin	-7%	4%	4%	2%	0%	0%	0%	-7%	-1%	
										CAGR '04 to '09
North American attendance (mil)	nd	nd	nd	23.8	22.4	24.7	29.6	33.0	30.6	5.1%
Global attendance (mil)	nd	nd	nd	nd	nd	nd	46.44	52.11	52.15	nm

Source: Citi Research; Company reports

- o **The risk today lies in how the business has evolved since then.** Sponsorship and advertising comprised 30% of AOI in 2010 and is close to 40% today, essentially making the business even more pro-cyclical.
 - i. **At 70% margin, advertisers pulling back on spend would be devastating to LYV's bottom line: a 15% y/y decline in FY16 ad revenue results in close to \$50m of lost EBITDA, or \$2.50/share in equity value at 10x.**
 - o Revenue shortfalls in other segments are more forgiving but the cost structure has a fair amount of fixed components: multi-year deals with artists and venues plus Concert/Ticketing overhead.
 - o The firm has successfully raised price in excess of inflation for years and could help offset lower sales, but pricing power inevitably has its limits.
5. **Valuation:** While the stock is fairly priced at \$23, risk/reward is skewed to the downside given LYV's inherent cyclicity.

FCF VALUATION	Base	Upside	Downside
FCF/share 2017	\$1.50	\$1.73	\$1.14
FCF Yield	6.5%	6.0%	9.0%
Implied price (\$)	\$23.00	\$28.78	\$12.64
Premium/(Discount)	(1.5%)	23.2%	(45.9%)
Probability	50.0%	25.0%	25.0%
Weighted average price (\$)		\$21.86	
Premium/(Discount)		-6.4%	

Base Case Model

LYV (Live Nation)

Earnings Model

FY End: 12/31
\$ in millions

12/31/2010 12/31/2011 12/31/2012 12/31/2013 12/31/2014 12/31/2015 12/31/2016 12/31/2017 12/31/2018

Summary Financials

Total # of Events	21,090	22,251	21,938	22,852	22,801	25,519	27,114	27,935	28,273
y/y growth %		5.5%	(1.4%)	4.2%	(0.2%)	11.9%	6.3%	3.0%	1.2%
Total # of Fans (k)	47,262	44,277	49,994	59,536	58,578	63,457	66,853	69,901	70,187
y/y growth %		(6.3%)	12.9%	19.1%	(1.6%)	8.3%	5.4%	4.6%	0.4%
Total # of Tickets Sold w/ Fees (k)	120,258	141,367	147,732	148,852	153,744	160,476	168,470	174,436	179,336
y/y growth %		17.6%	4.5%	0.8%	3.3%	4.4%	5.0%	3.5%	2.8%

REVENUE

Concerts	3,438	3,506	3,870	4,517	4,727	4,965	5,278	5,560	5,573
Ticketing	1,040	1,311	1,374	1,408	1,557	1,640	1,769	1,866	1,925
Artist Nation	362	393	400	353	389	434	450	475	477
Sponsorship & Advertisement	162	231	248	285	300	334	358	378	390
Other & Elimination	62	(57)	(73)	(84)	(107)	(127)	(138)	(144)	(146)
Total Revenue	5,064	5,384	5,819	6,479	6,867	7,246	7,717	8,134	8,219
y/y growth %		6.3%	8.1%	11.3%	6.0%	5.5%	6.5%	5.4%	1.0%

AOI

Concerts	15	30	31	60	51	62	84	112	111
Ticketing	231	279	295	298	326	346	387	420	431
Artist Nation	47	47	38	32	48	33	37	41	38
Sponsorship & Advertisement	108	165	176	195	213	230	251	268	278
Other & Elimination	(38)	(84)	(80)	(80)	(83)	(92)	(91)	(97)	(103)
Total AOI	363	438	459	505	555	578	668	745	755
(-) Corporate SBC	(27)	(20)	(23)	(16)	(18)	(17)	(18)	(19)	(20)
(-) SBC	(34)	(41)	(14)	(12)	(21)	(17)	(17)	(17)	(18)
Total EBITDA	302	377	422	477	516	545	632	708	718
% margin	6.0%	7.0%	7.3%	7.4%	7.5%	7.5%	8.2%	8.7%	8.7%

FREE CASH FLOW

Operating Cash Flow	158	136	367	417	277	300	448	491	486
(-) Capex	(76)	(107)	(124)	(135)	(140)	(143)	(169)	(187)	(189)
Free Cash Flow	83	28	243	283	137	158	280	304	297
FCF/Share	\$0.50	\$0.15	\$1.29	\$1.44	\$0.66	\$0.77	\$1.38	\$1.50	\$1.46

Revenue Drivers

LYV

Revenue Drivers

SM, unless otherwise stated

Scenario Toggle:

1

	2012	2013	2014	2015	2016E	1Q17E	2Q17E	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E
Concerts													
NA Event Growth y/y %	(3.8%)	4.3%	2.3%	5.7%	0.4%	–	(0.1%)	(0.2%)	(0.3%)	(0.5%)	(0.7%)	(0.9%)	(1.1%)
1. Base						–	(0.1%)	(0.2%)	(0.3%)	(0.5%)	(0.7%)	(0.9%)	(1.1%)
2. Bull						2.0%	1.9%	1.8%	1.7%	1.5%	1.3%	1.1%	0.9%
3. Bear						(3.0%)	(3.1%)	(3.2%)	(3.3%)	(3.5%)	(3.7%)	(3.9%)	(4.1%)
Int'l Event Growth y/y %	4.1%	3.9%	(5.7%)	26.4%	17.6%	10.0%	9.0%	8.0%	7.0%	6.0%	5.0%	4.0%	3.0%
1. Base						10.0%	9.0%	8.0%	7.0%	6.0%	5.0%	4.0%	3.0%
2. Bull						12.0%	11.0%	10.0%	9.0%	8.0%	7.0%	6.0%	5.0%
3. Bear						6.0%	5.0%	4.0%	3.0%	2.0%	1.0%	–	(1.0%)
NA Fan Growth y/y %	16.0%	18.5%	5.5%	9.1%	0.2%	–	–	–	–	(1.0%)	(1.0%)	(1.0%)	(1.0%)
1. Base						–	–	–	–	(1.0%)	(1.0%)	(1.0%)	(1.0%)
2. Bull						2.0%	2.0%	2.0%	2.0%	1.0%	1.0%	1.0%	1.0%
3. Bear						(3.0%)	(3.0%)	(3.0%)	(3.0%)	(4.0%)	(4.0%)	(4.0%)	(4.0%)
Int'l Fan Growth y/y %	7.7%	20.2%	(14.1%)	6.6%	16.8%	5.0%	4.9%	4.8%	4.7%	–	(0.1%)	(0.2%)	(0.3%)
1. Base						5.0%	4.9%	4.8%	4.7%	–	(0.1%)	(0.2%)	(0.3%)
2. Bull						7.0%	6.9%	6.8%	6.7%	2.0%	1.9%	1.8%	1.7%
3. Bear						–	(0.1%)	(0.2%)	(0.3%)	(3.0%)	(3.1%)	(3.2%)	(3.3%)
Concert ASP y/y %	(2.5%)	(2.4%)	6.3%	2.2%	1.2%	1.0%	0.9%	0.8%	0.7%	–	(0.1%)	(0.2%)	(0.3%)
1. Base						1.0%	0.9%	0.8%	0.7%	–	(0.1%)	(0.2%)	(0.3%)
2. Bull						3.0%	2.9%	2.8%	2.7%	2.0%	1.9%	1.8%	1.7%
3. Bear						(1.0%)	(1.1%)	(1.2%)	(1.3%)	(2.0%)	(2.1%)	(2.2%)	(2.3%)
Ticketing													
Tickets Sold y/y %	4.5%	0.8%	3.3%	4.4%	5.0%	2.0%	1.9%	1.8%	1.7%	2.6%	2.5%	2.4%	2.3%
1. Base						2.0%	1.9%	1.8%	1.7%	2.6%	2.5%	2.4%	2.3%
2. Bull						3.0%	2.9%	2.8%	2.7%	3.6%	3.5%	3.4%	3.3%
3. Bear						(2.0%)	(2.1%)	(2.2%)	(2.3%)	(1.4%)	(1.5%)	(1.6%)	(1.7%)
Ticket ASP y/y %	0.3%	1.7%	7.3%	5.7%	4.7%	2.5%	2.4%	2.2%	2.1%	1.0%	0.9%	0.7%	0.6%
1. Base						2.5%	2.4%	2.2%	2.1%	1.0%	0.9%	0.7%	0.6%
2. Bull						3.5%	3.4%	3.2%	3.1%	2.9%	2.8%	2.6%	2.5%
3. Bear						1.5%	1.4%	1.2%	1.1%	0.9%	0.8%	0.6%	0.5%
Sponsorship & Ads													
Revenue per Event y/y %	7.5%	14.8%	5.5%	11.2%	7.2%	3.0%	2.9%	2.7%	2.6%	2.4%	2.3%	2.1%	2.0%
1. Base						3.0%	2.9%	2.7%	2.6%	2.4%	2.3%	2.1%	2.0%
2. Bull						5.5%	5.4%	5.2%	5.1%	4.9%	4.8%	4.6%	4.5%
3. Bear						1.0%	0.9%	0.7%	0.5%	0.4%	0.2%	0.1%	(0.1%)