



Live Nation (“LYV”)

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Quick Comments

- Quite a lot is covered in this slide deck, some of which you may find unnecessary or not helpful for you. I try to provide as much information to the story as possible.
- I have a preference for understanding “why” a business is the way it is, and oftentimes this gives some insight as to if/how it could change in the future
- There will likely be plenty of overlap, as the “story” is told from different angles, and also providing enough information as to why the business runs the way it does
- If you have any comments or questions, please reach out
- This is not a recommendation to act – buy or sell – LYV stock. Most of this information is an in-depth overview of the business and industry.

Brief Overview

- Live Nation (LYV) is the world's leading vertically integrated live entertainment business, HQ in Beverly Hill, California
 - Connecting over 580m fans across concerts and Ticketmaster ticketing platform
 - ~100m fans attend LYV concerts, of which about 40% did so at LYV venues
 - 40,000 live events (75% North America)
 - Manage more than 500 artists
 - Promote shows or tours for over 5,000 artists globally
 - Operates in 41 countries
- Formed over the last ~25 years to create a flywheel effect and scale as it grows [*note: But does it actually do this?*]
- *At the heart of the business, Live Nation does concerts, but the economics of LYV depends on how integrated they are in handling each concert, such as venue management, promoting, ticketing, hospitality, and sponsorship*
- Given how dependent LYV is on live entertainment, and most of all, live music events, their business has been tremendously negatively impacted by COVID-19, which has all but stopped live music events globally since Q1 2020.
- **“Bull” argument:** The end game for LYV is to be a flexible, pure-play, vertically integrated powerhouse in the live entertainment and concert space, to which LYV will partake in the economics of every aspect of the show.
- **“Bear” argument:** Company does not screen for investors as cheap, needed to add plenty of liquidity due to COVID, tremendous uncertainty around the next few years for global concerts, aggressive accounting, only average ROIC.

Stock Overview

Live Nation (LYV) 11/27/2020

Stock Price	\$ 67.00
Shares Outstanding	212594
Market Cap	\$ 14,243,798
Cash (LYV only)	\$ 951
ST Debt	\$ 50,789
LT Debt	\$ 4,849,274
NC Interests	\$ 286,987
Enterprise Value	\$ 19,429,897
2019 EBITDA - MCx - NCI	\$ 510,463
EV-to-#	38.1 x
2019 FCFE	\$ 339,611
Market Cap-to-#	41.9 x





Industry Ins-and-Outs

Industry Terms

The live music business operates under an ecosystem where multiple parties work together to put on a show:

- **Concert promoter**: organizes the events, often taking care of everything from booking the artists, securing venues, setting ticket prices, and marketing the show. The primary key for a promoter is being able to secure both the artist that people would want to see as well as finding an attractive venue, and doing both in an economical manner (which is tough).
- **Venues**: the location that the music event is held at. It is important for the venue to be accessible and desirable for all parties involved in order for fans to attend and pay a fair price, for there to be ancillary opportunities to generate revenues (food, merchandise, parking, hospitality, etc.). The venue is also responsible for hiring ticketing companies to handle events.
- **Artist**: The musician / performer. In essence, they hold a lot of the power, especially if they are a highly popular artist. They can demand more of the economics.
- **Talent agents / managers**: negotiate artists fees on their behalf

Concert Event - Parties Involved

Consumer

Artist

Venue

Ticketing

Promoter

Manager

LIVE NATION



Concert Event - Capital Deployed / Financial Risk

Consumer	Pays only for the concert ticket, average price ~ \$90 in 2019. Discretionary choice to purchase merchandise, food, drinks, or any upgrades.
Artist	Depends on the artist what gets reimbursed / covered. Often times the artist/manager covers travel, insurance, accommodations, production. However, many artists get upfront guarantees from promoters that the artist uses to cover these costs plus a hefty profit. Financial risk = fairly low
Venue	The location the artist performs at. Initial cost is building out an adequate facility large enough to hosts the events the venue desires to host (capacity). Most venues being built now are international, and most U.S. venues are investing in upgrades / renovations. This financial risk can depend on the relationship with the promoter, who may share in the cost.
Ticketing	Most of the costs are R&D, SG&A in terms of building out the technology, systems, training people, hiring people with any expansion, and investments in fraud / security.
Promoter	The promoter will partner with an artist and venue, being the middleman. The promoter guarantees large upfront payments to the artists (which help cover their cost of touring) and is on the hook for any potential losses due to inadequate number of ticket sales. Financial risk is high, margins are low, returns (on average) are scattered.
Manager	The manager works on behalf of the artist to find a suitable promoter and venue. Standard management fees are 15-20% of revenues the artist earns. Having a good manager ensures the artist maximizes revenues, but the financial risk is low.

LYV Business Model - Overview

- With the exception of the larger industry players like AEG and LYV, the venue and promoter business is fragmented globally.
- Being a successful promoter is relationship-and-marketing – driven. The company must be able to find an attractive venue based on the artist, as well as a ticketing company that can handle the ticketing complexity.
- A “poor” concert experience for the consumer would look like:
 - The venue was inconvenient or uncomfortable, or not large enough for the artist performing
 - The ticketing was done poorly, such that people did not get tickets, ticket prices were too high, the security of the tickets was inadequate leaving people purchasing fake tickets on the secondary market
- Part of the key to a successful concert is all parties involved are working together, seamlessly
- Historically, with each party being independent of the others, it created friction, at times issues, and the economics shared made for some parties dissatisfied
- Live Nation’s business model is predicated on being **vertically integrated** such that the primary parties involved in running a concert work together, and through scale, they can accept lower margin in one segment (*concerts / promoting*) by paying higher guarantees to the artists (*which ensures more artists want to work with them*), which ensures other aspects of the business that earn healthier margins and returns can leverage the business that the originator – being the promoter – brings in.
- *“Live Nation typically locks up much of the best talent by offering generous advances to artists and giving them a huge percentage of the ticket revenue from the door. Why? Because it can afford to. It has so many other related revenue streams on which to draw: sponsorships for the tour, concessions at venues, and, most of all, ticket fees.” (NY Times, 2018)*

LYV Business Model - Overview

The Many Ways Live Nation Makes Money

Live Nation is the world's largest concert promoter. But since its merger with Ticketmaster in 2010, it has become much more than that, with a "flywheel" business model that takes in a diverse set of revenue streams.



Concerts

The core of Live Nation's business, but the segment with its lowest profit margins. As the promoter, Live Nation takes the primary financial risk for a show, while most of the money from the face value of a ticket goes to the artist.



Venues

Owning or managing a concert venue lets the company collect money from parking, food and V.I.P. packages. How much? Last year Live Nation reported \$24 in "ancillary revenue per fan" at its amphitheaters — up nearly 20 percent in two years.



Ticketing

While most of the face value of a ticket goes to the performers, the fees added to it are a coveted profit center. Ticketmaster, venues and sometimes promoters share in this income. In recent years, Live Nation has also entered the secondary market, competing with StubHub and others to collect additional fees whenever a ticket is resold.



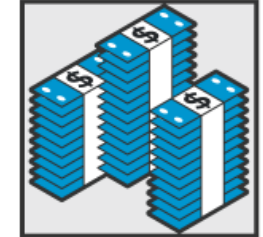
Sponsorship

Live Nation's scale — 86 million people around the world attend its concerts each year, the company says — makes it attractive to advertisers, who pay to reach its customers at a venue or on a tour or on websites like Ticketmaster.com.



Artist Management

Live Nation has built a division of executives who manage the careers of more than 500 artists, including U2, Madonna, Miley Cyrus, Britney Spears and Lil Wayne.



Other Deals

For a handful of superstar acts, like U2 and Madonna, Live Nation has made long-term touring deals. And with Jay-Z, the company has a multifaceted joint-venture, Roc Nation.

Concert Event - Margins

Consumer	n/a
Artist	n/a
Venue	<i>Low single digit %.</i> The margins for venues depend and vary heavily based on circumstances. At a minimum the venue generates revenues from selling parking, food, and beverages. Partnering with a reputable promoter helps get the venue schedule filled with events. The venue often shares in any service / ticketing fees generated on tickets sold to the event.
Ticketing	<i>~15% or so.</i> Most of the costs are R&D, SG&A in terms of building out the technology, systems, training people, hiring people with any expansion, and investments in fraud / security.
Promoter	<i>Minimal to, at times, negative %.</i> The promoter will partner with an artist and venue, being the middleman. The promoter guarantees large upfront payments to the artists (which help cover their cost of touring) and is on the hook for any potential losses due to inadequate number of ticket sales. Financial risk is high, margins are low, returns on average are scattered.
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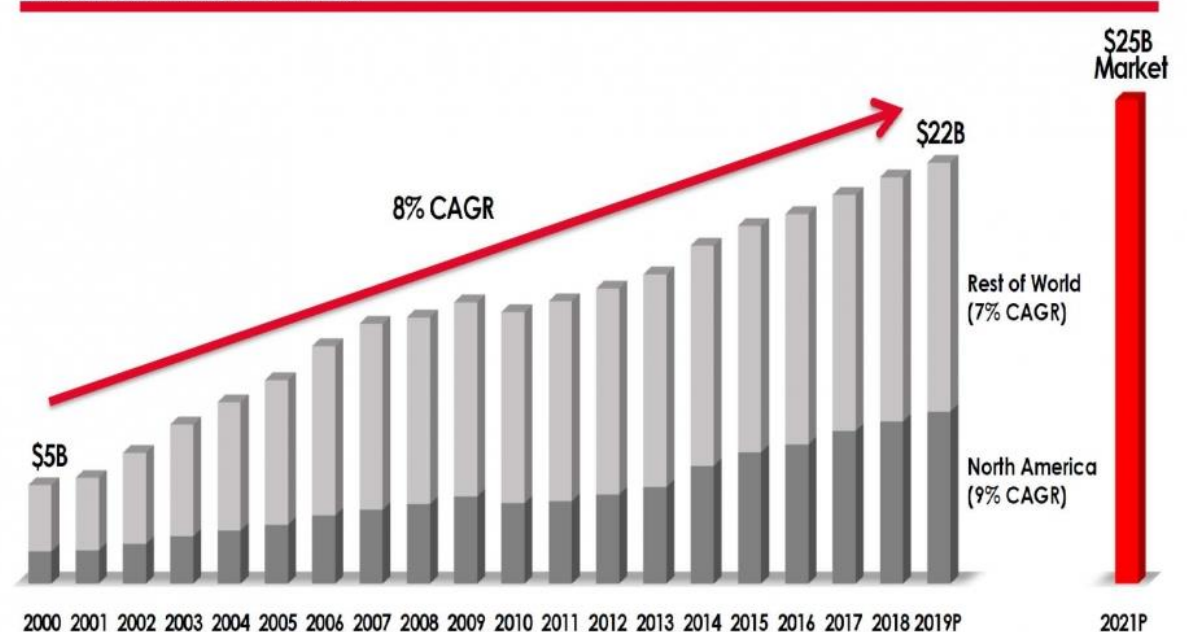
The Concert Business

- The music industry has evolved over the last ~40 years
- Artists used to go on tour (concerts) to attract fans to purchase their albums. With the rise of piracy in the late 1990s/ early 2000s, record sales plummeted and will likely never recover. Purchasing a full album is a thing of the past; instead, consumers prefer paying a monthly subscription fee to stream music on-demand from providers such as Spotify, Apple, and Amazon.
- Streaming royalties do not compensate the musicians enough compared to what record sales used to; in order to generate business, artists now are focused much more on creating songs (either singles, hit tracks with collabs, or popular songs from the album) to drive consumers to see them in concert
- Prior to COVID, concert ticket revenue on a global scale was an estimated \$22bn in 2019, growing 8% CAGR since 2000. Fortunately for LYV, who has a larger presence in North America, this geography grew faster than internationally, at 9% CAGR over that time period.

Concert Market Tailwinds

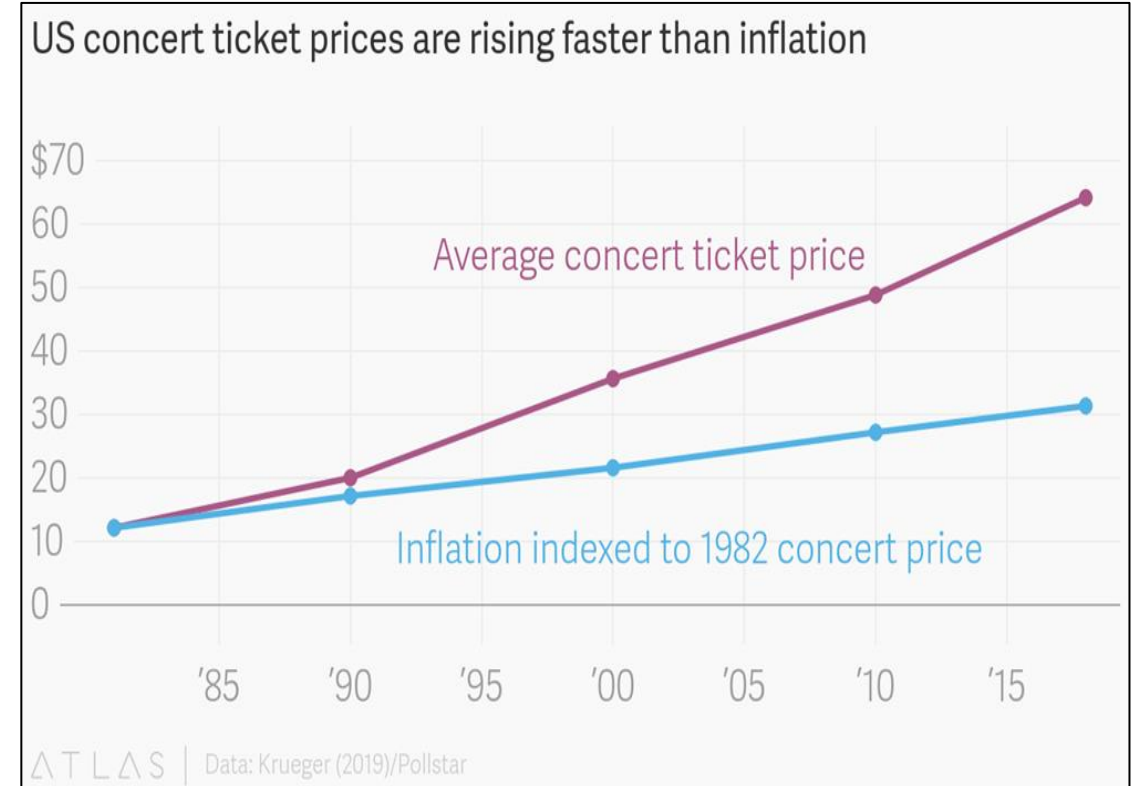
LIVE NATION

Global concert ticket revenue



Concerts (source: Rockonomics)

- Many artists used to treat concerts and touring as a loss leader, a way to gain popularity and hone their skills while promoting record sales
- Their goal had been to sell enough records to score another, more lucrative record contract
- Concert ticket prices were kept artificially low, below what fans were willing to pay, to gain a loyal fan base and promote album sales
- ...this has now flipped.
- The average price of a concert ticket has increased by > 400% from 1981 to 2018, much faster than the 160% rise in CPI



2019, Pollstar

Concerts (Rockonomics)

- The reason that concert prices have soared is that file sharing (piracy) has greatly cut into the royalties that musicians earn from album sales
- Consolidation in the record industry, after several lean years, further threatens artists' recording income
- Concerts are now viewed as a primary profit center, and digital recordings are a means of promoting concerts
- While streaming has brought revived growth to the music industry, the economics are not adequately shared with the musicians. A typical song earns royalties around \$2,000 - \$3,000 per million plays.
- David Bowie: *"Music itself is going to become like running water or electricity....You'd better be prepared for doing a lot of touring because that's really the only unique situation that's going to be left....but on the other hand it doesn't matter if you think it's exciting or not; it's what's going to happen."*

End of Preview

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