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Body

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Presentation

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OPERATOR: Ladies and gentlemen, thank you for standing by and welcome to the iHeartMedia, Inc. fourth quarter earnings conference call. (Operator Instructions) I would now like to hand the conference over to your speaker today, Kareem Chin, Head of Investor Relations. Please go ahead.

KAREEM CHIN, SENIOR VP & HEAD OF IR, IHEARTMEDIA, INC.: Good afternoon, everyone. Thank you for taking the time to join us on our fourth quarter 2019 earnings call. Joining me for today's discussion are Bob Pittman, our Chairman and CEO; and Rich Bressler, our President, COO and CFO. Please note that in addition to our press release, we have an accompanying investor presentation that you can follow along with our remarks.

Before we begin, let me quickly cover the safe harbor on Slide 2. During this call, we will make forward-looking statements, including projections or estimates about the future performance of the company. These estimates are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ, and these risks and uncertainties are discussed in more detail in our filings with the SEC.

During this call, we will refer to certain non-GAAP financial measures. Reconciliation between our GAAP and non-GAAP financial measures can be found in our earnings release or in the presentation available on our website.

And now I'll turn the call over to Bob.

ROBERT W. PITTMAN, CHAIRMAN & CEO, IHEARTMEDIA, INC.: Thanks, Kareem, and good afternoon, everybody. Thank you for joining our fourth quarter 2019 earnings conference call. We delivered strong results in the fourth quarter to cap off what was a transformative 2019, which included emerging from bankruptcy and listing on the NASDAQ Global Select Market, and we're looking forward to an even more successful 2020.

Before we get into our results, I'd like to provide a brief recap of some of our key accomplishments in 2019 that helped to solidify iHeart's position as the #1 audio company in the U.S. First, we have continued to leverage our leadership position through the unique multi-platform array of assets to drive outperformance of the broadcast sector and to capitalize on an environment in which audio has never been hotter. iHeartRadio stations are #1 in audience in more markets than the second and third largest broadcast radio operators combined. That's also true in the top 50 markets as well. And we continued to outperform the broadcast radio market in 2019 in terms of revenue by over 350 basis points in the measured markets. And in terms of digital streaming, the gap is even wider. iHeart has a 5x audience lead over the #2 commercial broadcast radio company. iHeart also remains at the forefront of the audio revolution through our tremendous growth and leadership in the fast-growing podcast space where we are the #1 commercial podcast publisher, more than 2x the size of the next largest commercial podcaster in terms of downloads. And according to Podtrac, no other commercial radio broadcast company is even in the top 10 podcast publishers.

We're also the fastest-growing major podcast publishers measured by unique monthly podcast audience growth, and our content spans all the major genres. Like radio, podcasting provides companionship to the listener through intimate relationships developed with our podcast host. It's not surprising that advertisers are seeing real impact from a medium that is driven by the power of its host and host-read ads. That linkage between radio and podcasting is a major part of our dramatic growth in podcasting as we use the power of our huge reach radio platform to promote and create demand for our podcast. This unique synergistic relationship illustrates the complementary interplay between podcasting and traditional radio and is a key driver of our growing podcast margins, which are already accretive to our overall business.

We are also differentiated in terms of our unparalleled social media reach. With approximately 215 million fans and followers on social media, we have the most social media reach among competing audio brands. And our 20,000 live events, including our 8 tentpole events, have the highest awareness among live music events, giving us yet another avenue for advertisers and fans to come into the iHeart ecosystem.

Our live events and sponsorships business continues to grow throughout the year, including in the fourth quarter, driven by the success of tentpole events like the iHeartRadio Jingle Ball Tour where 12 million fans tuned in to watch and listen, and the iHeartRadio Fiesta Latina, which generated 5.7 billion social media impressions. That's nearly double the number of social media impressions of Billboard's Latin Music Awards.

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Radio's unparalleled reach and engagement, in contrast to declines in ad-supported TV, is beginning to drive a shifting of media mix from other sectors toward audio. And as the leading audio company in the U.S., we have benefited and will continue to benefit from that trend.

As Rich and I have said before, our #1 priority is to drive value for our shareholders. We feel good about the results that we've delivered in the first 3 quarters since our emergence from bankruptcy, and we're starting to see some of our efforts reflected in the attention that we're getting from the investor community. And while the results we posted in 2019 gives us a solid platform to build from in 2020, we still have plenty of room for growth ahead of us.

One of the tools that we have at our disposal to help drive shareholder value is proactive and opportunistic management of our capital structure. Since August, we've completed 3 debt financing transactions to reduce our interest expense and to continue to maximize our free cash flow. For iHeart, 2019 was defined by focused execution against our strategic priorities of maintaining by far the largest audience in audio and improving our monetization of it by, first and foremost, modernizing our sales approach using analytics and attribution, developing and beginning to use consumer data in the same way that the digital giants are pioneered. That has allowed us to begin to tap into the TV and digital advertising pools and grow new revenue opportunities through digital, podcasting and sponsorships. And we made great progress against these initiatives in the fourth quarter, where we delivered strong results, even against our most challenging political comp quarter.

On a reported basis, our fourth quarter revenue was flat, driven by year-over-year comparisons to the prior year quarter when over half of our political revenue from 2018 was recognized. Excluding the impact of political revenue, total company revenue grew 4.3% and was driven by growth across every single one of our business lines. This growth was underpinned by the stability of our traditional business lines and the continued growth in digital, including podcasting, which was up 33.6% year-over-year.

Adjusted EBITDA declined slightly by 0.6% in the quarter on a reported basis, due primarily to the decline in the political revenue, which is our highest-margin revenue stream, as well as because of revenue mix. We also continue to generate significant free cash flow of approximately \$176 million in the fourth quarter to bring our end-of-year cash balance to \$400.3 million, which was slightly above the high end of our guidance. Rich will discuss our financial performance and our 2020 guidance in detail with a focus on the expected impact of political revenue, given that this is a presidential election year, as well as other factors that will impact us in 2020.

But first, I'd like to address one of the most important initiatives which iHeart has undertaken since our emergence from bankruptcy. We are modernizing iHeart to take advantage of the significant investments we've made in new technologies to build a modern infrastructure that provides better quality, newer products and delivers new cost efficiencies. This modernization is essential to being a major player in today's digitally-focused media world. It sets us apart from the traditional media players, and it builds upon the strong momentum of 2019 and adds to our competitiveness, our effectiveness and our efficiency with our major constituencies. To be clear, this represents an important element for building shareholder value as well as overall competitiveness of our company today and in the future.

Our decision to invest in modernization is, at its core, a reimagining of what a true multi-platform media company looks like today, including using technology and AI to improve the quality of the decisions we make and the experience we provide for our consumers, enabling us to be better and more robust partners for our advertisers and providing unique resources to help our employees be as efficient and as effective as possible, helping them reach their full potential.

We believe this is essential to our future. Importantly, our investments in modernization are expected to deliver meaningful cost savings of approximately \$100 million on a run rate basis by second half of 2021. Some of the key operational changes that are being made as part of these initiatives will be: a new organizational structure for our markets group that maximizes the performance of each of our markets using our one-of-a-kind scale on multiple platforms; our leadership in audio and technology; and finally, our expertise and extensive experience in consumers and monetization, data and artificial intelligence. We've also created centers of excellence, which will consolidate functional areas of expertise in specific locations to deliver the best possible products and services for the entire

company, assuring consistent and high quality across every single market in which we operate. These centers of excellence were made possible by the \$0.5 billion investment we made in technology and building out our core infrastructure, and it allows us to provide services from anywhere in the company for the benefit of anywhere else in the company, meaning that distance is no longer a barrier.

The recently announced digital services and digital innovation center in Nashville is our most recent example of a center of excellence. And if you will remember, as we were coming out of bankruptcy, we explained that we have modernization efforts ahead of us to improve efficiency and quality. We believe that reallocating capital toward our modernization initiatives is a prudent decision that will improve our quality, enable the creation of new products and services, improve the experience of our employees, increase our margins, drive growth and create value for all of our shareholders. We couldn't be more excited about where iHeart stands today, and we're well positioned to drive our company forward by continuing to be thought leaders, innovators and operational pioneers in the audio space. We appreciate that we have a leading position and unparalleled reach across multiple platforms in the audio world, and we intend to utilize those advantages.

And last, before I hand it over to Rich to discuss the financials, I wanted to touch upon a topic that's been in the news, the coronavirus. Since we operate in the U.S., our exposure to it is limited to this market. And although we continue to monitor it, we've not seen an impact on our business.

And with that, I'd like to turn it over to Rich to discuss our financial performance. Rich?

RICHARD J. BRESSLER, PRESIDENT, COO, CFO & DIRECTOR, IHEARTMEDIA, INC.: Thanks, Bob, and good afternoon, everyone.

As Bob said, we are pleased with our strong financial performance in the fourth quarter and for the full year, which reflects the stability in our traditional radio business and profitable growth in our digital and sponsorship revenue streams.

Let's turn to our fourth quarter results, starting on Slide 8 of our investor deck. On a reported basis, revenue was flat year-over-year, and adjusted EBITDA declined slightly by 0.6%. Comparisons to the prior year quarter were impacted by political revenue, the majority of which was recognized in the fourth quarter of 2018. Excluding the impact of political, our revenue grew by 4.3% and was driven by growth across all our revenue streams. Direct operating expenses increased 15%, driven by a noncash onetime charge related to music license fees and costs related to our growing podcasting and other digital revenues. The noncash music license fee charge was approximately \$31 million, the vast majority of which is related to prior years. On a run rate basis, the impact of this increase in fees is not material.

SG&A expenses decreased 1.3%, driven primarily by lower commissions as a result of our revenue mix and lower bad debt expense. The decrease in SG&A expenses was partially offset by a higher third-party digital vendor fees driven by the increase in our digital revenues. Corporate expenses decreased \$1.3 million during the quarter as a result of lower employee benefits, partially offset by share-based compensation expense, which increased \$5.8 million as a result of our new equity compensation plan.

Operating income decreased by 36.5%, due primarily to higher depreciation and amortization expense as a result of fresh start accounting and the aforementioned impact of the onetime noncash updated estimate to music license fee expenses.

Turning to Slide 10, you will see a breakdown of the performance of each of our revenue streams in the fourth quarter. On a reported basis, Broadcast revenue declined 2.7% due to the impact of political revenue, while Networks increased by 2.2%. Excluding the impact of political revenue, Broadcast revenue grew by 0.8%. Together with Networks, these represent our traditional radio businesses, which remain stable and grew at around 1%, excluding the impact of political revenue. Digital revenue growth remained robust at 33.6% year-over-year and was primarily driven by podcasting as well as other digital revenues.

Sponsorships grew by 5.3%, driven by growth in revenue related to our live events.

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On a reported basis, Audio & Media Services declined 19.9% year-over-year due to the impact of political revenue at Cats, and in particular, the political revenue decline in Cats TV, which was more pronounced relative to radio. Excluding political revenue, Audio & Media Services increased by 4.5% year-over-year.

Turning back to our consolidated results on Slide 15 and looking at the items below the line. Interest expense increased \$95.1 million compared to the prior year quarter as a result of the interest incurred on our new debt issued upon our emergence from Chapter 11. As you may recall, interest expense recorded on our pre-petition debt while we were in bankruptcy was 0. We generated robust operating cash flow of \$205.4 million and robust free cash flow of \$175.7 million, which was lower than the prior year, driven primarily by the fact that during the bankruptcy period, we only paid cash interest of \$1.2 million in the fourth quarter of 2018. Operating and free cash flow generated during the quarter resulted in a cash balance of \$400.3 million at December 31, 2019, slightly exceeding the high end of our guidance of \$375 million to \$400 million. The continued momentum that we saw in our fourth quarter results translate into strong full year results that you can see on Slide 9.

On a full year basis, reported revenue grew 2% year-over-year and 4.2%, excluding the impact of political revenue. The primary drivers of growth were Digital and Networks, which grew by 32.2% and 5.6%, respectively. Podcasting was the primary driver of our Digital revenue growth, while growth in our Networks business was driven by both our Total Traffic & Weather network and our Premiere network. Broadcast revenue declined by 1.4% on a reported basis and grew 0.3% excluding the impact of political revenue. Audio & Media Services declined 10.4% on a reported basis and increased 3.2% excluding the impact of political revenue. Sponsorship revenue increased by 4.4% year-over-year. On a full year basis, all of our revenue streams grew year-over-year, excluding the impact of political revenue.

Operating income decreased 26.6%, due primarily to higher depreciation and amortization expense as a result of fresh start accounting, higher noncash impairment charges, share-based compensation expense and the impact of music license fee expenses related to prior years. Adjusted EBITDA for the full year grew year-over-year by 2.5% to slightly over \$1 billion with margins increasing from 27.2% from 27% despite comparisons to a political year and spending part of the year in bankruptcy.

Importantly, our strong full year results enable us to achieve our guidance across all key metrics, giving us great momentum going to 2020.

On Slide 7, you can see the progress we have made to reposition our capital structure since May 2019. When we emerged from Chapter 11, our net debt was over \$5.7 billion, and our leverage was at 5.8x. One of the most important levers that we have in driving shareholder value is aggressive, opportunistic management of our balance sheet. And in just 9 months, we have successfully completed 3 debt transactions that have reduced our weighted average cost of debt from 7.1% to 6%, resulting in run rate annualized interest expense savings of approximately \$40 million compared to the expected annualized cash interest payments based on the terms of our term loan facility upon emergence from bankruptcy.

During that same time frame, we reduced our leverage from 5.8 to 5.4x through our strong free cash flow generation. As of December 31, 2019, our net debt was approximately \$5.4 billion, and we are confident in our ability to further reduce leverage by the end of this year, which brings us to our outlook for 2020.

If you turn to Slide 4, you will see a summary of our guidance against key metrics. In terms of our consolidated revenue, we expect to deliver growth in the mid-single digits. This will be driven by a robust political ad environment that is underpinned by growth in our traditional radio business as well as continued growth in our digital businesses, driven by podcasting. This strong revenue growth, particularly the impact from political, which is our highest-margin business, in combination with the operating leverage we are seeing as digital grows, is expected to drive adjusted EBITDA growth in the high single-digit range, and we are projecting adjusted EBITDA margins in the 28% to 29% range. Given the benefits of our modernization initiatives, we feel highly confident in our ability to deliver against that expectation.

In 2020, we remain focused on driving free cash flow to delever our balance sheet. Some of the key variables that impact this are the modernization investments, becoming a full cash taxpayer and the interest expense savings that

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we discussed earlier. Our capital expenditures in 2020 will be between \$155 million to \$175 million, which will be weighted to the back half of the year. The expected year-over-year increase of approximately \$40 million to \$50 million is primarily related to the modernization efforts with respect to optimizing our real estate footprint. This increase in capital expenditures, together with the cash restructuring charges of approximately \$45 million to \$55 million we will incur in 2020 will total approximately \$85 million to \$105 million and will deliver approximately \$100 million in annual run rate cost savings by the second half of 2021. We expect to achieve approximately 50% of our annual run rate cost savings during 2020, which will be partially offset by some of the incremental operating expenses in our first full year out of bankruptcy.

The incremental investments related to our modernization initiatives, nonrecurring in nature, and the efficiencies they will create, will drive significant return on investment, enhancing our long-term and sustainable growth along with margin improvement. We expect the majority of our investments to fall in 2020.

For the full year 2020, we expect to generate free cash flow of \$300 million to \$330 million. Excluding the impact of investments from our modernization initiatives, our free cash flow forecast was approximately \$100 million higher, implying a normalized range of \$400 million to \$430 million. In terms of our leverage, we expect to be well into the 4s by the end of 2020, on track to reaching our eventual goal of 4x.

Last, we know that liquidity in our stock is an important issue for our investors. I would like to give a quick status update about the Petition for Declaratory Ruling that we filed regarding foreign ownership at the FCC. As you may know, our current equity structure consists of our listed Class A common stock and also our Class B common stock and special warrants and was designed to comply with the statutory prohibition on broadcast companies having foreign ownership above 25%. The FCC petition for declaratory ruling was filed to simplify this capital structure and enhance the liquidity of our Class A common stock by facilitating the conversion of the special warrants. We created a key hurdle in the process Tuesday when the FCC issued a notice seeking public comment on the petition.

In closing, Bob and I are pleased with the progress that iHeart has made in 2019. We have delivered against our financial targets and made significant improvements to our capital structure, while positioning the company for its next stage of growth through our investments in modernization. These investments will enable us to continue to leverage technology to improve our quality and effectiveness and drive efficiencies in our business to capitalize on the opportunities in the audio sector.

In 2020, our #1 priority is to create value for our shareholders through execution against our financial target and capitalizing on the momentum that we are building in our business.

We thank you for joining our call today, and we'd like to open it up for Q&A.

Questions and Answers

OPERATOR: (Operator Instructions) Your first question comes from Jessica Reif Ehrlich from Bank of America Merrill Lynch.

JESSICA JEAN REIF EHRLICH, MD IN EQUITY RESEARCH, BOFA MERRILL LYNCH, RESEARCH DIVISION: A couple of things. On the podcasting, which is such a big driver of digital growth, could you talk about your build versus buy strategy? And how do you think you're monetizing that business now? Are you as efficient as you can be?

RICHARD J. BRESSLER: Jess, it's Rich. Thanks for the question. Just before we jump and answer that, what we want to do, Bob and I, right up front, apologize to everybody for starting the call a couple of minutes late. Apologize for the materials not being available earlier. It was a technical glitch, but we respect and understand the importance of getting everyone the materials earlier, and again, we apologize for that.

ROBERT W. PITTMAN: And Jessica, I think as it relates to the podcast business, as you know, we had a podcast business at iHeart. And we purchased Stuff Media, which is HowStuffWorks and Stuff You Should Know and that array of podcast, and acquired the management team with that as well. And that became iHeart Podcast Network.

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When we acquired it, I think we had roughly -- a little over 5 million monthly users. They have a little less than, added up, I think it was about 11 million. Today, we have more than double that. So the growth on top of that has been tremendous. That's not only come from growth of users of existing podcast, but we've developed a lot of new IP. And we are constantly adding new IP to it. And as we monetize it, again, we are profitable. We have a margin which is accretive to the company margin.

And there are 2 vectors of growth for us in that. One is the podcasting pie is growing. I think most estimates for 2020 are about double 2019, so we see that. And we also think the second vector is we think we increase our share of that as well. And I think we're on track to do that.

RICHARD J. BRESSLER: Hey, Jess, it's Rich here. The only 2 things I would add to that when Bob talked about accretive margin. It's interesting when you listen to what -- just other players out there, whether they're broadcasters or other people in the audio space, talk about aspirationally getting to be profitable on podcasting. And it's not a material number yet to our overall \$1 billion-plus EBITDA number, but it is growing. It is getting more significant and is accretive to margins.

The second data point, which is strategic -- if you look at the recent acquisitions that are out there, and recently, Spotify has got about \$600 million of acquisitions since they started, and you try and get a fix on from a valuation standpoint, the marketplace seems to be about \$6 a download or thereabout. If you look at the numbers that Bob just spoke, our most recent downloads according to Podtrac, third-party download service, is about 100 -- I'm sorry, third-party service that measures podcasting, similar to Nielsen, for those of you that are not familiar with it, we had about 177 million downloads, which would put our valuation well over \$1.2 billion, \$1.3 billion just for the podcasting business alone. So that's just a data point about the value that we are creating for our shareholders.

JESSICA JEAN REIF EHRLICH: That's very helpful. Thank you for saying that about the numbers not being out because it was a little bit difficult. Just 2 quick follow-ups. You guys spoke pretty quickly about the restructuring and the cost savings. Can you just go through the key areas of savings? And it's all cost. I mean there's no benefit on the revenue side, is there? And then the last thing for me is the timing of the liquidity event, which is such a big deal. How long does it take to get through the process, the public comment period and when you can actually see a benefit?

RICHARD J. BRESSLER: Sure. So let me start with the first question, Jess. On the cost savings, the cost savings which we talked about, again, just to reiterate what we said in the script and for the benefit just because we didn't have the press release out there, we expect to get about \$100 million on run rate by the second half of 2021. We expect in year to achieve about \$50 million of that. And just to kind of set it up from a numbers standpoint, think about it that we're going to spend about \$100 million in total between things like efficiencies, taking advantage of AI technologies, some things in real estate and things like you'd obviously expect along the lines of severance agreements. Then we're also going to have about \$50 million in capital expenditures. So we're spending \$100 million in total. The bulk of that savings is going to be within 2020 and within the guidance we gave you. And then we said -- and then we get about a 1-year payback by the time you get to the middle of 2021. So I think a pretty good kind of overall return.

ROBERT W. PITTMAN: And I think, again, I don't want to lose the main point of it. The main point of it is we're modernizing a company that did business another way because it's been around so long to catch up to the way business is done today. It's how our employees work.

And behind it is pretty simple, that rote tasks are better done by machines. It's easier. It frees our people up to do what they do best, which is thinking, analysis, contact with other people. And it provides great efficiency, allows us to move faster and to be more responsive. It also allows us to make better decision-making. We have about -- and I'll give you an example. We have about 3,500 data end points of information each week on music selection. There's no human brain that can absorb all that. But artificial intelligence can, and we've developed that over the past couple of years and are beginning to use more and more of artificial intelligence to make decisions, but it frees those people up who are doing a lot of rote work involved with that to do the other side of their job in programming, which is to make our stations as creative as they can be, tie into the community more, promotions, imaging, et

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cetera. So it's a big picture thing that has some very good financial outcomes as well. But the reason we're doing it is we're taking the company into the future, and we're playing catch up on it.

RICHARD J. BRESSLER: And by the way, last thing, and then I'll go to your last question on the FCC and liquidity, it does make it a more contemporary place, just a great working environment for our employees. And also acknowledging that these were very hard decisions that we had to make, and we were very thoughtful about it.

Just in terms of thinking, just when you asked about the FCC, and you talked about liquidity, and we've talked about this, you and I before, I would think about 2020 as being an important year, as key catalyst for the company to improve liquidity. And it's really twofold. One is what we talked about in the opening remarks with respect to the FCC. That's a 30-day -- and again, let me just say right up front, we're dealing with the government. And I think all of you that know Bob and I over the years, dealing with the government and court processes, we never predict timing on the outcome. But you have to start with step one. This was an important first step in clearing that hurdle. So it's now on for public comment, which I think is about a 30-day period of time.

Then you go to a second piece, which is what they call looking at Team Telecom, which is a representative of the executive branch of the government without going too much into the details [and the sorts it's] making. We suspect that will be a multi-month period of time also. But it's really good that we got through this period of time, and a number of people have been asking us that for the last few months.

The second piece of liquidity milestones in 2020 is what we talked about also upfront, is hitting the milestones for our leverage ratios. We continue to be on track. The end of 2019, we put our guidance at \$375 million to \$400 million. We're actually at \$400.3 million, which we're very proud of. So we slightly exceeded that guidance. We'll get well into the 4s as we go through -- towards the second half of 2020, and we've talked about a target ratio of 4, and we're totally on track to hit that as we get to the middle -- to the second half of 2021. So I feel very good about taking the steps to create liquidity in the stock, which we know is critically important.

OPERATOR: Your next question comes from Steven Cahall with Wells Fargo.

STEVEN LEE CAHALL, SENIOR ANALYST, WELLS FARGO SECURITIES, LLC, RESEARCH DIVISION: Maybe first, Bob, I was wondering with the mid-single-digit revenue guidance in 2020, could you give us a sense of what you think core broadcast radio revenue growth is going to be within that? And kind of tied into that, I'm wondering how many of your top advertising clients are now buying both terrestrial and digital and especially maybe how many of those are buying both terrestrial along with podcast ad inventory? And then I got a follow-up for Rich.

ROBERT W. PITTMAN: Sure. Let me hit the second part of that, and I'll let Rich hit the first part. I think in terms of the advertisers buying multi-platforms, we're seeing more and more of it. I would say that most of the digital advertisers are probably also buying broadcast. The numbers would tell you most of the broadcast advertisers are not necessarily buying digital, but that's a growth area for us. But what's interesting about podcasting and digital is we've had a number of advertisers who've come to us for that who didn't think they wanted to buy broadcast radio and have wound up buying it as well.

And we've also had people coming even on our events as just an event advertiser and have moved back into broadcast advertising. And as we've talked before, having these multi-platforms, not only great for touching the consumer in more spots but -- and giving the advertiser more opportunities to touch a consumer in more places, but it's also a way to bring advertisers in who thought they weren't interested in broadcast radio. And broadcast radio, for us, has this huge reach, reach 91% of Americans every month and makes us the leading media company in terms of reach in America. So we've got this powerful asset. If we can bring people in, we can prove the power of it.

RICHARD J. BRESSLER: And then just going -- and picking up and just going back to the first part of the question. So if you think about the component pieces that drive our mid-single-digit revenue growth on a consolidated basis, when you look at our -- when you think about it, it's like our traditional radio business, our broadcast and our network business, together will grow like, let's say, low to mid-single digits. Broadcast will see some benefit from political, as we all know, but just as a reminder to all of us, it's one pool of inventory. So the biggest benefit on political is that it really kind of tightens the inventory and builds up demand. Digital, which the last 3 quarters now

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that we reported this one, has been over 30% revenue growth. We're thinking about digital as we did to be kind of in the mid-20s -- or I'm sorry, over 20s, just to be clear, over 20s, driven by podcasting and digital products.

Sponsorship should continue kind of in the mid-single-digit revenue growth. And Audio & Media Services should grow in the low to mid-teens, driven by the political revenue impact. And as a reminder, Audio & Media Services, which -- obviously, the biggest part of that is Cats, also benefits greatly on the political side, from the TV revenue piece, which will, again, disproportionately benefit compared to radio in a political year.

STEVEN LEE CAHALL: And if memory serves me correctly, that's pretty much all organic for Digital in '20, is that correct? So that's more than 20% essentially organic?

RICHARD J. BRESSLER: Yes, I would say the bulk of that is organic. The biggest piece of that is organic, yes.

STEVEN LEE CAHALL: Great. And then just on free cash flow...

RICHARD J. BRESSLER: It's about 100%. I would say 100%, sorry, I think, yes, 100%.

STEVEN LEE CAHALL: Okay. Great. And then just on free cash flow. So you're going to do low 300s this year. If I'm just thinking about '21 already. I know you lose some political, maybe like \$70 million, but then you've got all these modernization benefits and I'm guessing the cost to achieve step down. So I'm assuming you're going to -- we should kind of think about like a 4 handle for free cash flow, other things being equal, in 2021 and beyond, and all that's going to go to debt for now?

RICHARD J. BRESSLER: Yes. Let me say, so we're not giving any guidance for 2021. We've given an overall leverage direction if you think about 2021. But I'm just kind of back to take the opportunity for first principles. This is a great free cash flow business. What I would say is we don't see any of those dynamics changing, low capital expenditures, low working capital overall, great fixed cost base that drops things like on broadcast and network, 80-plus percent incremental margins to the business; digital, incremental 50-plus percent margin overall to the business. We've articulated the profitability and the growth in podcasting. We're going to continue to aggressively manage the balance sheet, like you've seen us do in the last 9 months. So we don't see that financial characteristic changing at all, without giving you an exact number.

OPERATOR: Your next question comes from Sebastiano Petti with JPMorgan.

SEBASTIANO CARMINE PETTI, ANALYST, JP MORGAN CHASE & CO, RESEARCH DIVISION: Just circling back to the podcasting questions earlier from Jessica. Just how do you think you could perhaps get better appreciation from that from The Street, just given some of the revenue and perhaps download multiples that you cited earlier, maybe more disclosure? And in line with that. Can you maybe give us a direction or some sort of color on how we should be thinking about podcasting as a percentage of overall revenue within Digital?

RICHARD J. BRESSLER: Well, let's take maybe -- set up the question, let's take maybe the second part first, which I think might be helpful. So Bob talked about the categories before, so we don't -- as you know, and goes to your question, we don't break it out separately. So think -- I would think about it this way. The overall podcasting U.S. revenue pie in the United States this year, the estimates are, again, all third-party ranges, but there are probably \$400 million to \$420 million, \$430 million. There's ranges out there for next year that go from, I think, \$800 million, \$850 million that, I think, Pricewaterhouse has, to like \$1 billion that Forrester has out there. So if you look at the overall piece of the pie out there, that's the pool that we're playing in.

And then as Bob mentioned, there's really 2 vectors in terms of how we're going to grow our advertising revenue. One is we were just going to increase, the easy one, in the overall share of the advertising dollars that are out there for the pod -- for the overall growth that I just articulated. And two, because particularly the historical nature of podcasting, it's historically been more of a DR business, direct response advertising business. As this become much more mainstream from a consumer habit and everything we know what's happening with listening habits, more mainstream advertisers are coming in. People like Procter & Gamble, which we've talked about, which was our biggest advertiser last year. And other -- T-Mobile is in now. And so we're going to continue to take a bigger and

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bigger share of that pie of the total U.S. dollar advertising pie. Where today, if you look at the broadcast, radio broadcast advertising pie, we're getting 20% or north of 20%. We're not getting our fair share yet on podcasting, but yet, we continue to increase every year -- and that will accelerate. So think about, again, the pools of money, 2 vectors, overall pool going up, and we continue to increase our fair share. And on the disclosure.

ROBERT W. PITTMAN: Let me just add. I think also on the podcast, you need to think a little bit, too, about the unique structure we have for podcasting. Because we have this incredible megaphone called broadcast radio that reaches 91% of Americans, we can promote these podcasts. Maybe \$100 million of free advertising a year cost us nothing because it's unsold inventory. But to replicate it, if you were a third party, you'd have to spend \$100 million. So that gives us one cost advantage.

The second is in terms of production, remember, we're in the audio production business. So this is an incremental cost. We don't have to go set up all these production costs that other companies do that are in the third-party business or that's their only line of business. And we also have shared IP across our platforms as well. And because we have such a big footprint in radio and such a big content creation there, I suspect there's no one that comes close to us in terms of content creation in radio, and we're able to take that and put it into the podcast pipeline as well.

You also get, to a certain point, a flywheel effect, that once we are this big and have this kind of leadership, you look at the kind of lead we have over the second-largest commercial podcaster, you begin to see that people who want to do a podcast, what do they want more than anything else? To have a successful podcast. If they're taking a share of revenue as a payment, the more revenue you can generate, the more money they can make and who stands the chance of generating the most revenue? Logic would tell you, we would.

So again, we're beginning to feel that flywheel effect of people coming to us. We get first look. We get to put these together. And as we have success, the people we have success with want to do more with us, and we've seen that kind of expansion. We saw Jake Brennan, who brought us Disgraceland and had it on another platform before he came to iHeart, had something like a couple of hundred thousand downloads a month. He put it on iHeart and went to over 2 million downloads a month. And of course, from that, we've now come out with yet another podcast from Jake, and there'll be more coming. So that gives us an advantage on the cost side and the creation side and the marketing and advertising. And when you think about margins, why do we have such great margins when others are talking about hopefully getting to profitability? I think those are some of the driving reasons as well as the monetization issues that Rich talked about.

RICHARD J. BRESSLER: And probably just on your last question, in terms of disclosure, very fair question. We're constantly challenging ourselves and welcome all feedback on that. Understanding and very much appreciating more disclosure, from everybody on this call's standpoint, less disclosure. And that's why we gave the download numbers, and we'll continue to challenge ourselves and just -- the only other side there, as Bob talked about, kind of the way we run the business, the business being integrated in terms of the company competitive advantage. So we just need to think through all those points. But again, everybody -- we're not the experts on this, all your feedback is welcome.

SEBASTIANO CARMINE PETTI: And one quick follow-up. In the past, you've talked about looking more at advertising effectiveness over CPMs, Broadcast revenue was strong in the quarter. Anything you could perhaps give us in terms of what you're seeing on that front in terms of perhaps feedback from clients as well as maybe trends in the quarter?

ROBERT W. PITTMAN: Yes. Interesting. I think when you look at developing revenue, you have 2 issues: are people trying it, and is it effective for them? Our biggest problem in growth or our biggest constraint in growth is just getting more people to try it. I would say we've had a stellar results in terms of if they try it, showing that it gets results they expect. I think you're also seeing with TV, the decline in TV audience, coupled with the fact that because there's a scarcity of TV inventory, has basically pushed prices up. Once upon a time, radio and TV were about the same CPM. Today, TV is probably 3x the CPM of radio. Maybe in this political year, it will go to 4x. And

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when you consider that of the TV audience, according to Nielsen, about 40% is a light TV viewer, radio fills in 90% of those light TV viewers whereas online video only does 50%. The facts are stacked on our side.

I think our biggest issue that we work against, and time will cure it, but the biggest issue is just the inertia of habit. There was a habit built for TV in an era in which TV had the big reach before the subscription services took a lot of the scripted programming off of advertiser-supported TV and moved that over to streaming services. So for us, we are making -- and we're pleased with the progress we're making. There's a lot more we can make and should make, and again, the facts are on our side. And if I had a problem, I'd rather our problem being getting people to try it, not the problem of delivering once they try it.

OPERATOR: Your next question comes from Zack Silver with B. Riley FBR.

ZACHARY ALAN SILVER, ASSOCIATE, B. RILEY FBR, INC., RESEARCH DIVISION: Okay. Great. The first one is just back to the 2020 revenue guidance for up mid-single digits. I just was curious as to whether that includes any contribution from some of the newer initiatives around the self-service product that you guys have been developing and have recently rolled out. And if not, can you just give us an update on when we should see a revenue contribution from that?

RICHARD J. BRESSLER: Yes. Well, let me take that, Zack. It's Rich. Thanks for the question. No. There's really self-serve, just to remind everybody, we've just started to roll out mostly in beta. Not fully rolled out. It's rolled out in a handful of limited markets out there. What we know is that when you look at -- we have 60,000 clients. Facebook has 6 million to 8 million clients, sorry. Facebook and Google, over half of their revenue is self-serve. So we think we've identified the right opportunity. But just to be clear and to manage and set expectations, I think you've heard Bob and I say this many, many times before, this rollout is going to be -- this is a consumer-adopted technology. It's going to be slower than a B2B-adopted technology. And clearly, the revenue is going to be insignificant this year. And it's not going to be material for at least a number of years out there. And we'll keep everybody updated on it. So we're excited about it, but at the same point in time, realistically, you shouldn't be building anything into your models for this year, just to be clear.

ZACHARY ALAN SILVER: Okay. And then a follow-up. When we think about the modernization initiatives, are there any risks that go along with that and potentially diluting local brands and talent from some of the cost-cutting? On the flip side of that, and you're talking about how the modernized structure allows you to kind of move faster, make things more streamlined. We have a cost/benefit number out there that you've given us. But how should we think about potentially some of the revenue benefits from the more streamlined structure?

ROBERT W. PITTMAN: Yes. Let me hit the first part of it is, no, we don't think the quality goes down. We think it goes up. We've got today, and we've had some great examples of it, Ryan Seacrest actually does his morning show in L.A. from New York 4 days a week after he gets off the air on TV. All of his teammates are in L.A., and he's in New York. They operate on a unified basis, and the ratings are great. We've seen that time and time again that what we want to do is get the best programming we can into the marketplace. And we've looked very carefully at our stations and where we have leadership positions and iconic personalities, we've not made changes there. That's working fine. Where we think we could get better quality or we could get more leverage out of great talent we have, we've tried to find those opportunities. And I think we're encouraged by the results we've seen. We did not just start this. It's been going on for a while.

I think there are other aspects of it, too, where we're getting a lot of leverage. Again, when you start thinking about selecting music on a weekly basis for all of our radio stations and building the music logs, that's a lot of work. And now that we have so much data, one of the problems is absorbing the data. So beginning to use AI to help us with that and -- I think improves the music quite a bit and to free our programmers up from having to do rote work every day of music logs and getting automation to do some of that, and technology frees them up to do the other parts which make a radio station great, which is tying into the local community, building in local content, making -- imaging the radio stations, the promotions that work there, working with the talent wherever the talent is. Again, the wonderful thing about technology is just like long-distance calls. Distance is no longer an issue in our business

either, and we're able to project the best talent we have to any location anywhere, anytime. We think that's a substantial advantage for us.

RICHARD J. BRESSLER: Yes. And one of the ways that, as -- we've talked about this both in the prepared remarks, and Bob and I have been talking about now, one of the ways, I think, when you think about all of these initiatives and the effect of -- from an operating standpoint and as you think about building out all of -- everybody's models and projections, I think the comfort level that it should give you because of driving -- the efficiencies we're driving into the business. And I talked a little bit at length before about the efficiency of our business model, economic model even before we do these efficiencies and think about it, that this -- these efficiencies just make us a more efficient company going forward with the one objective in terms of this audience, which is to drive our stock price out there. And I think this just gives everybody a higher comfort level in achieving all of our guidance that we put out there.

ROBERT W. PITTMAN: I think, and I just want to leave you with one point. As Rich and I spend a lot of our time saying, if we started this company today with these assets, how would you build the operation of the company? And I think technology has changed substantially in the past 10 years, 20 years, and I suspect it will change in the next 10. And what's important for us is to be vigilant, to be making the technology investments and understand what's going on and we're not above copying people. So if we see somebody else has a better idea of how to operate using technology, we want to adopt that as well. We want to be -- continue to be looking in the windshield and not be obsessing with the rearview mirror.

OPERATOR: (Operator Instructions) And your next question comes from Jim Goss of Barrington Research.

JAMES CHARLES GOSS, MD, BARRINGTON RESEARCH ASSOCIATES, INC., RESEARCH DIVISION: To the extent that companionship that radio offers usually often implies localism, do you think the fact that some of these technology initiatives get away from that in a way that would harm your audience levels? Or do you think that really doesn't matter to as many people as we might think?

ROBERT W. PITTMAN: I think it matters a lot, and companionship is very important. And I think the #1 goal we have in our talent is to get people who really do feel like your friend on the radio. And our #1 job of our program is just to make sure the talent, no matter where we're using them from, is integrated into the local community and talking about things that are relevant and interesting to the people. We have, over the years, taken some of our great talent Elvis Duran, The Breakfast Club, Bobby Bones, Ryan Seacrest, and put them on multiple stations because we find that they can integrate themselves into the community and their -- the quality they provide is a ratings enhancer and enhances that companionship relationship with the consumer. So we continue to do that. And we have a lot of other great talent in this company, whose names you may not recognize but are equally as powerful in the communities they're in. And our job is to continue to look for that and continue to serve the community. To the listeners, it is local, it will be local, it will continue to be local. And that's probably the most important relationship to have.

JAMES CHARLES GOSS: Okay. Well, a couple of other things. To the -- are you able to monetize your live events? Or are they entirely promotional and brand building?

ROBERT W. PITTMAN: No, we do monetize them. They're very important in terms of being an opportunity for us to build out sponsorship relationships with our partners. We're able to tap into another pool of revenue, which is sort of the sponsorship revenue. They also wind up being very important to building social for not only us, but for our partners as well. In the old days of sponsorship, people have said, I had 12,000 people come by my booth. Today, they go, we had 100 million social impressions from that event for our product or for our products. And so we and the advertisers use these events for that. It's also -- as you say, it's also a great promotional vehicle for us, but yes, they are moneymakers. We do look for them to be that. And we also look for it as a way to bring in certain advertisers who have not been advertisers with our company, who we can attract through these big, massive, well-known events and bring them into our world. They see how we operate. They see the benefits, and we can get them excited about some of the other opportunities we can work with them on.

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RICHARD J. BRESSLER: One of the interesting things, maybe just to build upon that, is we always talk about multi-platform. And again, for everybody on the phone, we need to break down revenues, whether it's broadcast or network or digital or events. But at the end of the day, that's the reason it's so important, and we are the only ones, broadcast, radio, television, whatever, to have a multi-platform approach to the marketplace. So we really don't care what platform people come in. As Bob just said, we talked about sponsorship. But that example could be used for any platform to come in and experience the medium and then become major advertisers with us.

JAMES CHARLES GOSS: Okay. And maybe lastly, political. Have you given a scale of what your political can be this year in this contentious year? And a lot of it, I imagine, is -- does not involve displacement given the number of radio ad spots you have to fill. But is there any displacement element? And does it affect pricing at all?

ROBERT W. PITTMAN: There is some displacement. And it depends upon the radio station probably as to how much of that. And we do see in political years that it puts a positive pressure on pricing. The TV industry sees it a lot. The radio industry sees it some, and we'll see some benefit. So part of the political, it does use displaced inventory. But overall, it also puts a nice positive pressure on pricing. So we see the benefit in 2 ways.

OPERATOR: There are no further questions at this time. I'll turn the call back over to the presenters.

RICHARD J. BRESSLER: Well, on behalf of the company, it's Rich and Bob and Kareem, we thank everybody. We apologize again for the glitch upfront. We welcome not just these questions, but obviously, on an ongoing basis, any suggestions how we can continue to improve our communication with all of you. Thanks very much.

ROBERT W. PITTMAN: Thanks.

OPERATOR: This concludes today's conference call. Thank you for joining. You may now disconnect.

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