

Townsquare Media Inc. (TSQ)

NYSE:TSQ

Analyst: Tom Kaczmarek

Sector: Broadcasting

BUY

Price Target: \$17.51

Key Statistics as of 5/1/2015

Market Price: \$13.66
 Industry: Broadcasting
 Market Cap: \$237.3M
 52-Week Range: \$9.93 - \$14.35
 Beta: 0.78

Thesis Points:

- Continued growth in niche market
- Diversifying revenue stream
- Management team understands broadcast finance
- Favorable debt refinancing

Company Overview:

Townsquare Media was created in 2010 as a result of the bankruptcy of Regent Broadcasting, and since then has grown to own over 300 stations and reaches over 78 MM unique monthly users. The assets of the bankrupted Regent were purchased by Oaktree Capital Management, which culminated the assets with Gap Broadcasting to create Townsquare Media. Through 2013, Townsquare aggressively acquired many websites from the shutdown of AOL Music as well as 53 stations from Cumulus Media (CMLS) for a total of \$238 MM. Originally a privately held company, Townsquare held an IPO of \$144 MM in July of 2014 in order to repay debt from these acquisitions. Growth and refinancing opportunities over the next twelve months will allow for continued meaningful growth, a more secure capital structure, and stability which is currently questioned by the market.

Source	Target Price	Recommendation
Siena	\$17.51	BUY
Bloomberg	\$15.79	BUY
Capital IQ	\$16.00	BUY
Yahoo Finance	\$15.79	BUY



Thesis

TSQ recently became publicly traded, with hopes to capitalize on the company's growth opportunities. The firm was created through the sale of small and mid-sized radio stations from several players in the market. Under the support of Oaktree Capital Management LLC., the company has grown rapidly in the past 4 years. Following the company's public offering, the firm's highly-levered capital structure raised concern from investors. Unlike many highly-levered peers, TSQ has not only the growth potential but also the management to restructure these debts in an effective manner. Many growth opportunities will become present for the company over the next twelve months, and the firm's increasingly diversifying revenue model will provide additional stability to growth. For these reasons, a BUY is recommended for TSQ with a target price of \$17.51.

Niche Market

Townsquare Media Group (TSQ) specializes in original broadcasting content in small and medium sized markets across America. The group currently holds over 300 stations in 66 markets, and reaches approximately 78 million Americans monthly. In 65 of 66 of the markets TSQ is present, they are the #1 or #2 player in the market, signifying the strategic growth of the firm in smaller markets. Smaller markets hold numerous competitive advantages for Townsquare Media, primarily: a consistency in local ad revenue, easily traceable markets, and less competition. Smaller markets are generally less competitive as large competitors refocus towards a national approach and online streaming, creating generic content which is less personal and less relatable. It is extremely easy for TSQ to monitor progress in these smaller markets due to the services offered by Nielsen (NLSN) in the broadcasting industry. Recent efforts by the rating company have shown the benefit of local radio ads, especially to smaller businesses. While competitors like Pandora also target localized ads, the company's scale limits their local markets to very large cities in order to generate material revenue.

Almost all of Townsquare's stations are strategically positioned near four year college campuses and military installations, which has assisted in the growing popularity

of the company's growing live events segment. These live events have proven to be profitable and have improved customer loyalty.

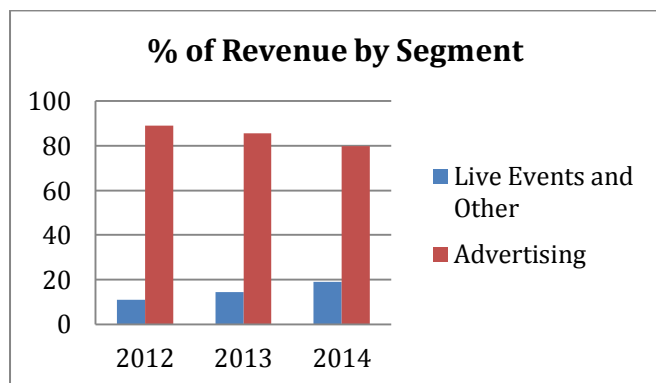
TSQ has created a business model which has been well-received by customers, and has the ability to scale this operation. As competitors like iHeart Media (IHRT) plan to sell-off smaller markets in order to focus on other offerings, Townsquare is in an ideal position to benefit from industry changes. Although consumers have adapted to streaming services rapidly, this has not impacted average listening hours significantly for terrestrial radio. The average American is still exposed to 2 hours of broadcasting per day, demonstrating that the future of radio may not be a winner-take-all market place.

Although growth for the company comes both organically and inorganically, gross profit margin is not expected to grow materially. While broadcasting companies can typically expect to return 12% per-year, interest expense and debt repayment have drained profits from many publicly traded broadcasting companies. TSQ will be able to manage and mitigate their \$539.7 MM in debt through a highly skilled management team and utilization of a strong tax shield. The company currently holds a tax shield for their intangibles, which was \$62 MM for the past year. The company does not plan on being a material taxpayer until 2018, supporting long-term growth through advantageous acquisitions in the past two years. The company's WACC is currently 11.06%, and plans for improvement will be the strongest driver of profitability.

Diversifying Revenue Stream

Unlike many terrestrial broadcasting companies, Townsquare has been extremely successful at creating a diversified revenue stream to reduce seasonality and economic threats. While 81% of revenue is generated from advertising, currently 30% of revenue in the segment is derived from non-spot advertisements. These non-spot advertisements are obtained through TSQ's success at creating a holistic local entertainment service offering. 19% of the company's revenue is now generated through a combination of live events and other entertainment. Townsquare hosted over 500 local events in the past year, representing 11% of total revenue. Surprisingly, of TSQ's 500 annual events, only

17% are music based events. The other 83% of events are community gatherings such as: beer festivals, 5k fun runs, cooking shows, and other unique but profitable endeavors. TSQ utilizes the localized business model to provide unique events to specific areas, a strategy not imposed by any other competitor of the same or larger scale. 9% of the firm's capital expenditures from the last year was invested into live events, with hopes to create several annual events, self-promoted by the company's local stations.



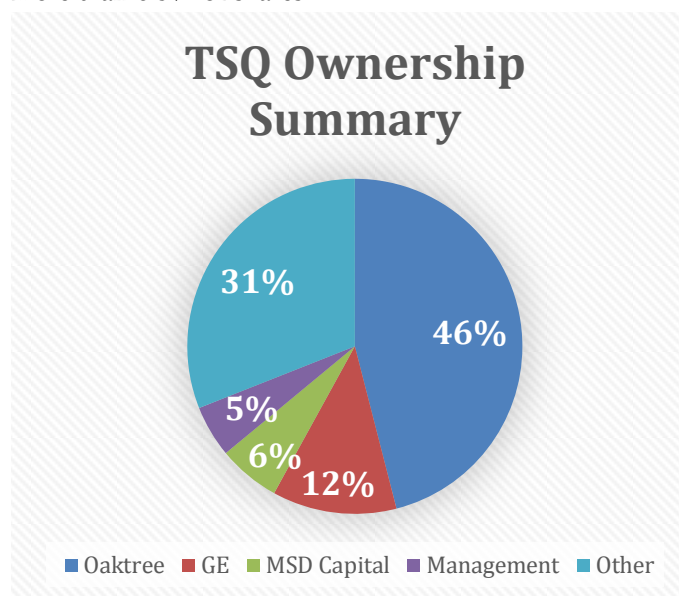
Management

One of TSQ's greatest strengths lies in the company's management team and their track record for balancing leverage. Before his time at TSQ, EVP of Live Events Dhruv Prasad was the Vice President of Thomas H Lee Partners, the firm which joined with Bain Capital to host the leveraged buyout of Clear Channel Broadcasting (now iHeart Media). The takeover of IHRT proved to be profitable for Lee Partners, even though the firm had to assist in the management of debt which exceeded 9x the company's EBITDA. While the IHRT takeover levered the company significantly and hindered growth opportunities, Lee Partners and Bain Capital benefitted as primary issuers of the company's mountain of new debt. While TSQ's assets were also collected as a result of distressed assets, the management team sees much more development opportunities within TSQ. In addition to Prasad's financial background, Both the current CEO and CFO of TSQ have been working together for almost two decades. Steven Price (CEO) and Stuart Rosenstein (CFO) have worked side-by-side in the same role at PriCellular Corp until the firm's 1998 buyout for \$1.4 B. Following the buyout, both Price (CEO) and Rosenstein (CFO) co-founded FiveWire Inc. (Previously named Livewire Ventures) with EVP of M&A Alex Berkett and Prasad. FiveWire Inc. currently serves as Townsquare's investment vehicle, providing

revolving credit to the firm. Given this team's extensive history together, and their track record for successfully creating financially-backed firms, this leadership team demonstrates many key features of secure and trustworthy management which holds personal stake in the company's prosperity.

Ownership

Similarly to many competitors, and as a direct result of the nature of the broadcasting industry, TSQ's ownership is highly held by capital firms. Oaktree Capital owns 46% of Class A shares outstanding, a result of the company's acquisition of many of the assets that are now TSQ. Additionally, 12% of shares are held by General Electric (GE) through GE Capital. Management also holds a strong stake of the company's equity, currently 5% of shares outstanding. Other shares are held primarily by investment advisors, none of which control more than 6.5% of shares.



While there are currently only 9.5M shares outstanding, this figure reflects Class A shares. There are also 3 M Class B shares (10x voting rights) owned by Oaktree and the management team. There are 4.9 M class C shares (no voting rights) which are owned by MSD and GE. This distribution demonstrates the ownership power held primarily by Oaktree Capital and the company's management team. Upon weighting these shares, Oaktree Capital and management combine to hold over 80% of voting rights in the firm, with Oaktree possessing 58.2% of voting power. Given the strong stakes that both management and Oaktree have in the firm, there is reason to believe that the skilled management team which has been successful in highly-

leveraged firms in the past will be able to continue this track record, given a strong competitive advantage and access to an adequate financing pool to continue inorganic growth.

Executive compensation is primarily through stock based compensation and through performance based bonuses. The average executive before the IPO was rewarded less than 40% of total compensation in salary. With management now possessing over 5% of shares, and strong compensation bonuses based on performance, this experienced team holds a more important stake than ever in the future of TSQ.

Competition

The terrestrial broadcasting industry has experienced considerable consolidation and reallocation following the recent economic recession. With companies like Clear Channel Broadcasting being vulnerable to a leveraged buyout, and Regent Broadcasting filing bankruptcy, there is considerable risk related to the steep leverage incurred by firms in the industry. In order to create resilience to economic downturns, many companies tried to adopt nationally syndicated material which would assist in reducing costs. Other competitors have chosen to focus primarily on the development of streaming services, ignoring the smaller markets of terrestrial radio. Townsquare has chosen to diversify their holdings, expanding into online publications, live events, online streaming, and through geographic expansion. Some direct competitors of TSQ include:

- iHeart Media Inc. (IHRT)
- Sinclair Broadcasting (SBGI)
- Cumulus Media (CMLS)
- Entercom Comm. (ETM)
- Beasley Broadcasting (BBGI)

While larger competitors aim to capitalize from the growing streaming market, Townsquare has managed to continue growth by capitalizing from local ad revenue. Pandora has attempted to enter the local ad revenue market, but in order for this approach to be material Pandora has targeted large markets exclusively. The future of the broadcasting industry is not a winner-takes-all market, and for the foreseeable future TSQ is positioned to possess control of mid-sized markets. TSQ has found considerable success in this approach through monetization. Townsquare boasts \$30 in revenue per

audience member, in comparison to an average \$24 for iHeart, Entercom, and Cumulus. Given that these competitors are primarily terrestrial providers, it demonstrates Townsquare's ability to capitalize on overlooked local advertisements and live event offerings.

While TSQ currently generates nearly 20% of revenue from activities other than advertising, competitors are much less diversified. While BBGI, ETM, and CMLS generate 100% of revenue through radio stations, SBGI and IHRT are both over 90% dependent upon advertising revenue. TSQ's competitive advantage is beginning to become evident to investors. Short interest is declining, down to 1.7% of float, and a short interest ratio of 3.5, down .36 over the past month. Near-term restructuring opportunities will allow the company to lower the double digit cost of capital, and reach profitability before the expected date of late 2017.

Summary

Townsquare Media has found a successful niche between nation-wide generic content and locally stationed broadcasting. By creating a product which connects individuals with their communities not only on-the-air but also at the company's self-promoted live events, Townsquare has been able to out-monetize their terrestrial peers. The company has an experienced management team which has worked together for several years, but is also still able to be innovative in the field. While many companies in the industry over-lever or create substantial risk related to economic down-turns, TSQ has done an exceptional job diversifying. The long-term stability of TSQ will become evident over the course of the next twelve months, refinancing of debt will lower the firm's WACC, and continued growth in the live events segment will increase top-line growth. For these reasons, a BUY is recommended for TSQ>

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Townsquare Media, Inc.		TSQ	Analyst Tom Kaczmarek	Current Price \$13.51	Intrinsic Value \$8.96	Target Value \$17.51	Divident Yield 0%	Target Return 1-yr Return: 29.6%	BULLISH				
General Info		Peers		Market Cap.	Management								
Sector	Consumer Discretionary	Entercor Communications Corp.		\$451.44	Professional								
Industry	Media	iHeartMedia, Inc.		\$597.07	Title		Comp. FY2012	Comp. FY2013	Comp. FY2014				
Last Guidance	Mar-16-2015	Cumulus Media Inc.		\$531.88	Price, Steven		\$949,907	\$1,069,744	\$1,056,370				
Next earnings date	5/7/2015	Sinclair Broadcast Group, Inc.		\$2,918.26	Rosenstein, Stuart		\$851,532	\$969,744	\$6,045,482				
Market Data		Beasley Broadcast Group Inc.		\$112.74	Wilson, Bill		\$1,126,514	\$1,132,697	\$3,675,091				
Enterprise value	\$752.99				Lie, Linda		\$0	\$0	\$0				
Market Capitalization	\$237.33				Downes, Larry		\$0	\$0	\$0				
Daily volume	0.03				Berkett, Alex		\$0	\$0	\$0				
Shares outstanding	17.37				Historical Median Performance								
Diluted shares outstanding	12.01				TSQ	Peers	Industry	All U.S. firms					
% shares held by institutions	42.19%				Growth	10.3%	4.2%	6.9%	7.4%				
% shares held by insiders	5.61%				ROE	5.6%	-2.8%	7.6%	9.9%				
Short interest	0.75%				Net Profit Margin	5.5%	3.5%	6.5%	6.9%				
Days to cover short interest	3.60				Revenue/Common Equity	1.03	-0.81	1.17	1.45				
52 week high	\$14.35				Excess Cash/Rev.	N/A	8.5%	13.5%	12.9%				
52-week low	\$10.08				Total Cash /Rev.	6.5%	8.5%	12.3%	15.2%				
5y Beta	0.00				Unlevered Beta	0.36	1.02	1.02	0.95				
6-month volatility	28.20%				TEW/REV	2.0x	3.2x	3.1x	2.5x				
					TEW/EBITA	6.0x	17.8x	11.9x	13.1x				
					PE (normalized and diluted EF	11.2x	3.6x	19.2x	23.5x				
					P/BV	0.6x	0.5x	2.1x	2.2x				
					Non-GAAP Adjustments in estimates computations								
					Operating Leases Capitalizati	100%	Straightline	10 years					
					R&D Exp. Capitalization	100%	Straightline	10 years					
					Expl./Drilling Exp. Capitalizati	0%	N/A	N/A					
					SG&A Capitalization	0%	N/A	N/A					
					Forecast								
					Period	Rev. Growth	Adj. Op. Cost/Rev	Common Equity	Net Margin	ROE	Ke		
					LTM	39.2%	64.4%	\$364.68	5%	5.6%	16.5%		
					NTM	8.1%	65.1%	\$403.17	12%	13.4%	69.6%		
					NTM+1	8.1%	65.7%	\$440.20	12%	13.4%	200.0%		
					NTM+2	6.5%	66.4%	\$469.49	12%	13.1%	8.3%		
					NTM+3	7.0%	67.0%	\$501.52	13%	13.3%	19.1%		
					NTM+4	7.3%	67.7%	\$536.53	13%	13.5%	19.6%		
					NTM+5	8.3%	68.4%	\$575.71	13%	13.8%	51.8%		
					NTM+6	6.0%	69.0%	\$616.08	13%	13.6%	16.7%		
					NTM+7	5.5%	69.7%	\$657.81	13%	13.2%	18.7%		
					NTM+8	5.0%	70.3%	\$700.49	12%	12.9%	9.3%		
					Continuing Period	4.5%	71.0%	\$728.51	5%	10.0%	9.4%		
					Valuation								
					Period	Common Equity x (ROE-Ke)	Total Debt	Senior non-interest bearing clai	Shares Outstanding	Pricing Model			
					LTM	\$0.00	\$539.68	\$26.61	17.37	DCF (Weight = 30%)	Relative (Weight = Distress (Weight = Weighted Average Price P		
					NTM	\$20.00	\$539.68	\$27.52	17.37	\$13.92	\$16.42	\$0.00	\$9.92
					NTM+1	-\$103.25	\$539.68	\$28.75	17.37	\$9.07	\$38.35	\$0.00	\$16.14
					NTM+2	-\$117.61	\$539.68	\$29.89	17.37	\$3.63	\$42.21	\$0.00	\$15.86
					NTM+3	\$22.48	\$539.68	\$31.46	17.37	\$13.12	\$45.13	\$0.00	\$19.73
					NTM+4	-\$126.93	\$539.68	\$33.37	17.37	\$16.53	\$48.44	\$0.00	\$21.91
					NTM+5	-\$138.64	\$539.68	\$35.86	17.37	\$6.29	\$52.07	\$0.00	\$20.11
					NTM+6	-\$91.91	\$539.68	\$37.84	17.37	\$18.52	\$56.40	\$0.00	\$25.29
					NTM+7	-\$4.78	\$539.68	\$39.86	17.37	\$26.89	\$59.98	\$0.00	\$29.06
					NTM+8	\$2.09	\$539.68	\$41.85	17.37	\$18.69	\$63.53	\$0.00	\$27.84
					Continuing Value	-\$220.87				\$27.01	\$66.98	\$0.00	\$31.54
					Monte Carlo Simulation Assumptions						Monte Carlo Simulation Results		
					Base	Stdev	Min	Max	Distribution	Intrinsic Value			
					0	10%	N/A	N/A	Normal	Mean est.	\$9.92	\$16.14	
					0	10%	N/A	N/A	Normal	σ(ε)	\$0.32	\$0.25	
					6%	N/A	5%	7%	Triangular	σ(ε) adjusted price	\$8.96	\$15.39	
					4%	N/A	3%	10%	Triangular	Current Price	\$13.51		
											Analysts' median est.	\$15.79	

