

# C-19 Market Reactions and Forecasts in AV, Digital Signage and Advertising

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# Agenda

## Section

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# PJ SOLOMON Firm and Approach

We are an independently operated investment bank with proprietary access to research, financial capabilities and international coverage available through our parent company Natixis

- Founded in 1989
- We advise on mergers, acquisitions, divestitures, restructurings, recapitalizations, capital markets solutions and activism defense across a range of industries
- Our principal shareholder, Natixis, is part of Groupe BPCE, a top European and global bank



**110+** EMPLOYEES    **22** MANAGING DIRECTORS    **80+** INVESTMENT BANKERS    **8** SENIOR ADVISORS

**21,000+** EMPLOYEES    **38+** COUNTRIES    **€500B+** TOTAL ASSETS

a) LTM as of November 30, 2019.  
 b) 49% owned by partners of PJ SOLOMON.

# PJ SOLOMON Media & Tech Services

## Overview and areas of focus

We advise clients in the following areas:

### Advertising / Marketing Services

- Ad Tech
- Classic Out of Home (OOH) Media and Advertising
- Digital OOH
- Marketing Technology
- Point of Care Media
- Smart Cities / Urban Infrastructure
- Sports / Stadium Marketing
- Transit Media

### Global Retail Tech / In-Store Media

- Digital Signage and Interactive Displays
- E-Commerce Tech
- In-Venue Media and Tech
- Kiosk Solutions
- On-Premise Music
- Payments
- Retail Analytics

### Professional Audiovisual / Event Tech

- AV Integration
- Audio / Audio Equipment
- Content Distribution and Media
- Conferencing / Collaboration
- Digital Signage
- Event Production
- Meeting Rooms
- Learning
- Security / Surveillance
- Simulation and Visualization

# Advertising / Retail Tech / Professional Audiovisual Market Update

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# COVID-19 Challenges

## Short vs. Long-Term Recession?

- Uncertainty around how quickly the economy will recover

## COVID-Specific Media Impact

- There will be a slowdown in advertising spend as firms cut back on marketing budgets
- Though media relating to digital signage typically weathers recessions well, it will be more adversely impacted by social distancing and other measures decreasing time spent out of home (“OOH”)
  - Local advertising has been particularly hit due to the closure of most small businesses and will take longer to ramp back up vs. national ad spend
- We expect OOH-specific negative effects will last until the virus is under control, and we remain positive on OOH media in the long-term

# COVID-19 Challenges (Continued)

COVID-19 has caused many challenges in the AV industry, causing event cancellations and industry adaptation

## Live Events Cancellations

- Many AV professionals have been furloughed, laid off or had their hours drastically cut
- Live in-person events around the globe are on hold

## Live Events Adaptation / Evolution

- Live events have had the opportunity to try more virtual options for engaging with larger audiences
- Shift to online content, allowing people to stay connected
- Outpouring of support and resources for displaced event technicians and staff

## Greater AV Industry Impact

- Business is slowing across the board in the AV Industry, with a large majority of AV providers (integrators, designers, manufacturers, distributors, service providers) reporting declining sales and revenues
  - Over 40% of AV providers say that they have been affected by supply chain disruptions
  - Over 30% of AV providers have reduced staff
- Providers say that new work has almost disappeared, so companies are utilizing the time to finish projects that were already in production prior to COVID-19

# Digital Signage's Role in Flattening the COVID-19 Curve

As society is looking for innovative solutions to curb the COVID-19 pandemic, many within the AV industry are considering ways digital signage could help flatten the curve

## Potential Digital Signage Uses

- Digital signage has always been a key tool in information sharing, and the technology can be used to keep people safe and updated
- Cities and communities could use digital signage to share emergency messaging
- Emergency health care centers, such as drive-in testing facilities, could utilize signage to increase awareness
- Integrators are currently working with houses of worship to offer drive-in services, creating an alternative to in-person gatherings
- Grocery stores are placing digital signage around stores to inform people of adjusted hours, shipment delivery status, emergency alerts and updates



# Digital Signage COVID-19 Solutions

New public safety enhancing digital signage solutions such as digital signage hand solution dispensers are helping fight COVID-19 and keeping people safe

## Digital Signage Hand Solution Dispensers

- By installing advanced hand sanitizer stations, employers can help stop the spread of the infection and improve hygiene
- Dispenser management solution monitors hand sanitizer usage and sends refill alerts
- Digital signage CMS can be used to remotely update the display with important public health messaging or content
- Provides opportunity for business owners to combine traditional digital signage with hygiene enhancement machines
- Specialist market is expanding rapidly with governments mandating hygiene technology measures
- Presents incremental growth opportunity for digital signage channel



# Digital Signage COVID-19 Solutions (Continued)

Digital signage developers have created kiosks and tablets to scan for high temperatures and flag people with fever

## Temperature Checking Kiosks / Tablets

- Leading integrator Diversified has developed kiosks and tablets to test human temperatures
- Provides initial layer of screening protection by detecting anyone with a high temperature from three feet away within one second
- Available as either a freestanding or wall-mounted kiosk, leverages infrared temperature sensors and advanced algorithms to calculate heat signatures
- Helps reassure people of the health and safety of everyone around them, promoting safety
- Visual temperature readings not only help keep people safe but also lessen mental and emotional burden of those inside



# InstaScan Body Temperature Scanning

## InstaScan

- InstaScan, an Esprit digital solution, is a product being used to instantly check the body temperature of personnel or patrons ensuring safe and efficient access control
  - Uses high-performance hardware and camera software to provide instant, accurate results
  - Can store over 30,000 faces for fast facial recognition
- Multiple models allow technology to be integrated seamlessly into existing systems
  - Countertop model allows scans for hotel check-in desks, office lobbies and other reception areas
  - Gate model can be used to integrate into existing security gate passages
  - Wall-mounted model can be integrated into access systems to check employees while clocking in and out of work



**Hospitality**  
For safe monitoring and checking on guests



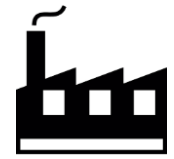
**Retail**  
Back of house, ensuring employees are fit and safe to work



**HR**  
Checking all staff entering their place of employment



**Hospitals**  
Entry to buildings or ICU areas



**Factory**  
Confirming all staff are fit to work before starting their shift



**Entertainment**  
Checking customers are safe and well to socialize



**Gyms**  
Checking users on entry assuring guest safety



**Schools**  
Checking children are safe to attend schools

# Audiovisual Industry Consolidation Pre-Virus

There will be further consolidation and opportunities post slowdown



- In February 2020, Diversified acquired Sensory Technologies, further consolidating the audiovisual industry
- Offers strategic expansion of the company's footprint in the Midwest and Northeast regions
- Adds 170 employees to Diversified's global team

- In February 2020, AVI-SPL merged to form the AV industry's largest worldwide entity
  - Two leading digital workplace service providers will combine under the AVI-SPL name
  - Marlin Equity Partners will be the majority shareholder
- Will deliver comprehensive technology management and sustainable support solutions to enhance the end-user experience

**Believe combining strengths of businesses will help Diversified continue to grow full service offerings**

**Believe unification of teams, as well as local / global resources, will drive significant value to customers**

## Other Recent Mergers and Acquisitions



**AV industry consolidation and M&A was on the rise with major acquisition activity prior to the virus slowdown**

# OOH Media Advantages

While all of OOH media will be impacted by COVID-19, certain industry-specific OOH networks could be impacted less

## OOH Advertising Advantages

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- Unparalleled ability to aggregate an audience in an era of audience fragmentation
- Top tech brands, which are less impacted by COVID-19, allocate 13% of their media budgets to OOH advertising on average, compared to the 6% average share of total global ad spend
- Technology advances and increasing digitization have enabled DOOH networks to begin to quantify ROI for marketers, with results suggesting great value, especially given the industry's lower CPMs than comparable mediums

## OOH Networks Likely to be Impacted Less

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### Point of Care

- Reaching healthcare practitioners continues to be difficult and point of care networks and advertising is the optimal medium to reach these critical touchpoints

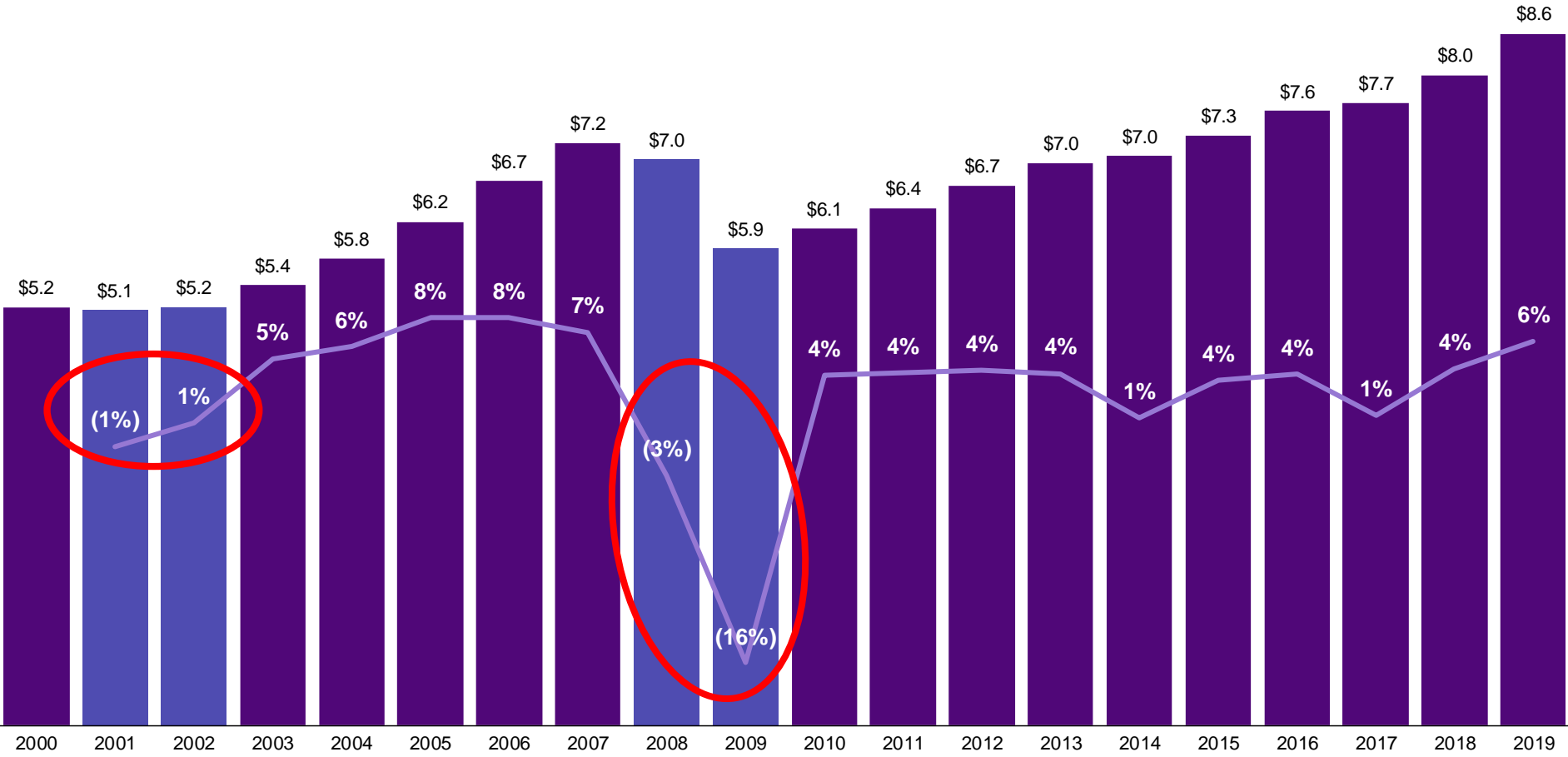
### Grocery / Convenience / Drug Store

- Continued need for essentials drives grocery store / pharmacy traffic

# 2000 – 2019 Total U.S. OOH Ad Spending

(\$ in Billions)

■ Denotes U.S. recession



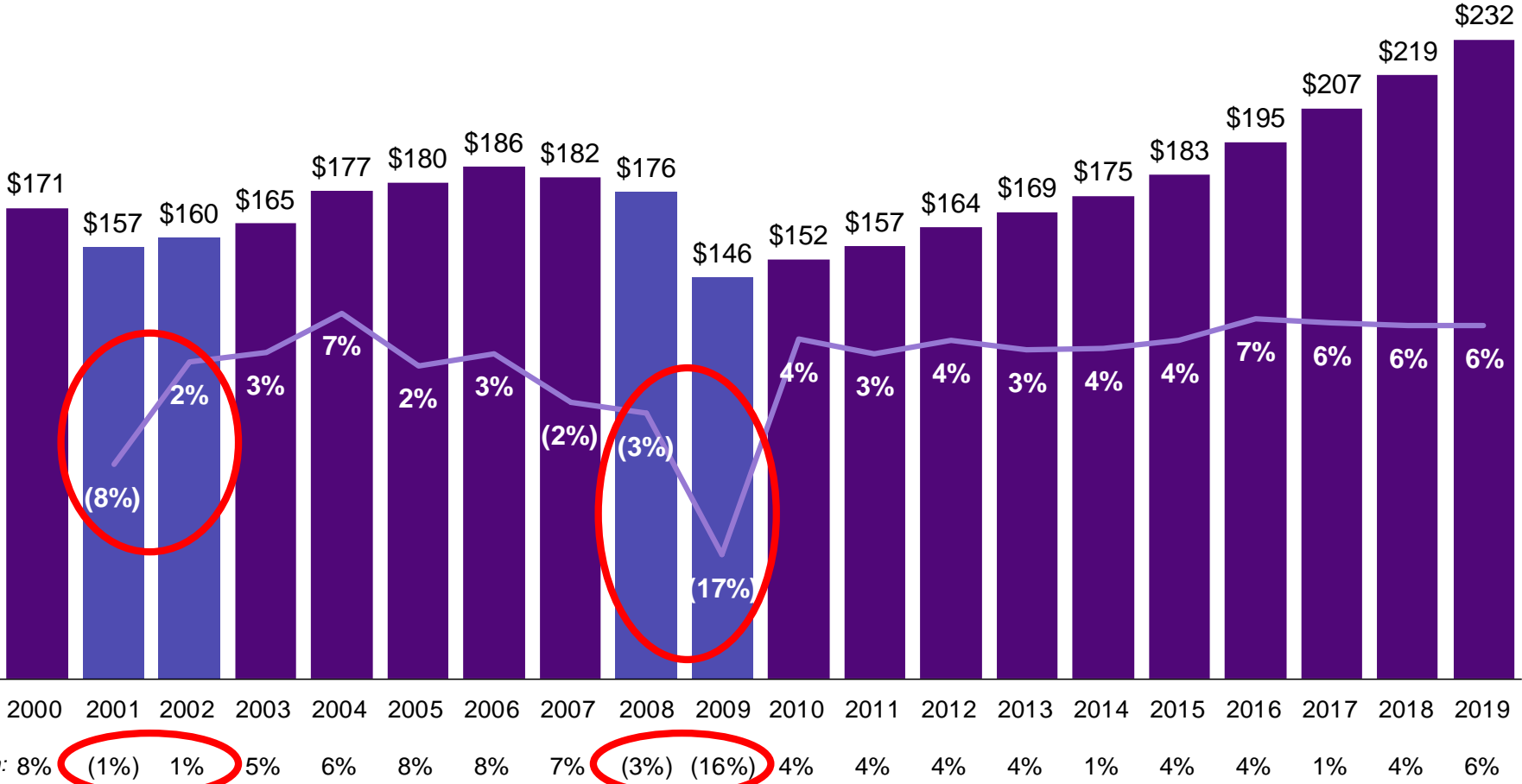
Source: Wall Street Research.

# 2000 – 2019 Total U.S. Media Ad Spending

- Includes TV, digital, print (e.g., newspapers, magazines), radio, out of home advertising and directories

(\$ in Billions)

■ Denotes U.S. recession



**OOH has declined less in past recessions than other ad mediums**

Source: eMarketer.

# Public Company Response

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# AV Public Company Response to COVID-19



- Since the start of the COVID-19 outbreak in January in China, Barco has set up a global response team to monitor and support operations on a daily basis
- Have strengthened hygiene measures throughout the organization and enacted business travel restrictions
- Have been able to keep its global production operational
- Production in China has revamped and is now above 90% capacity utilization
- Have organized production in Europe to match regulatory requirements
- For Belgium site, part time economic unemployment measures are being implemented and have been announced
- On April 22, 2020, Barco announced Q1 earnings
  - Sales decreased 2.9% to €235.7 million over Q1 2019
  - Reported a 7.2% decrease in orders over last year at constant currencies



- Daktronics first created COVID-19 response teams to manage local and global response activities
- Have enhanced or implemented robust health, safety and cleaning protocols across the organization
- Recently suspended Ireland and Minnesota production facilities for 2 weeks
- China production facility briefly closed but has since resumed operations
- Board of Directors voted to suspend stock repurchases and suspend dividends for the foreseeable future
- Taking proactive steps to solidify financial position and mitigate any adverse consequences
  - Preserving liquidity by drawing down existing line of credit and pursuing other sources of financing
  - Reducing investments in capital assets
  - Reducing executive pay and board member compensation
  - Instituting initiatives to reduce other costs of business
- As of February 1, 2020, Daktronics had \$40.3M in cash and cash equivalents



- Poly, formerly known as Plantronics, is taking steps to protect the health and safety of employees, stakeholders and the communities they serve
- Products and services have seen increase in demand since pandemic outbreak
- On April 15, 2020, Poly provided a business performance update for Q4 2020, which ended March 28, 2020
  - In Q4, product portfolio saw an increase in demand, driven primarily by enterprise headsets
  - As of March 28, 2020, Poly had ~6 weeks of backlog
  - Increase in demand caused channel inventories to decline in the quarter
- Poly also provided a financial update for Q4 2020
  - Poly now expects GAAP revenues for Q4 2020 to be in the range of \$395 million to \$405 million, compared to its prior range of \$354 million to \$394 million
  - As of March 28, 2020, total cash and short-term investments was ~\$226 million
  - To further preserve financial flexibility, Poly's Board of Directors has authorized the suspension of its quarterly dividend, which will save ~\$25 million

# OOH Public Company Response to COVID-19



- Announced on March 25<sup>th</sup> that it had drawn down \$150mm available under its revolving credit facility
  - Opted to make a cautionary drawdown to further preserve financial flexibility
- On March 30, Clear Channel announced it had agreed to tender to sell its 50.9% investment in Clear Media for \$253mm, as part of Ever Harmonic's acquisition of Clear Media
  - Ever Harmonic Global Limited is owned by a consortium of investors including Han Zi Jing (CEO and executive director of Clear Media) and JCDecaux Innovate Limited
- With the \$150mm in proceeds from the revolver as well as the net proceeds from the Clear Media deal, Clear Channel's cash position would have been ~\$733mm
- Pro forma for the Clear Media transaction, the first lien leverage ratio would be ~4.9x, which is well below the maximum 7.60x under the terms of Clear Channel's senior secured credit facilities



- Announced on March 25<sup>th</sup> the withdrawal of its 2019 dividend proposal in order to strengthen its liquidity and balance sheet as well as its financial flexibility
  - Had previously recommended a dividend of €0.58 per share
  - ~€120mm total dividend
- Implementing additional measures to mitigate the negative impact of the crisis, including but not limited to:
  - Cutting discretionary spend and capital expenditures
  - Reducing employee hours
  - Introduction of voluntary salary reduction
- Welcoming early decision from some airports, cities and transport authorities around the world to aid concessionaires including:
  - The suspension of the minimal annual guarantee payments
  - Adjustment of base rent calculations and/or the revenue share percentage
- On March 31, JCDecaux announced it would acquire a minority stake in Clear Media Limited as part of a consortium of investors, funding 23% of the investment



- Lamar has withdrawn its full-year financial guidance
- Lowered expected 2020 capital expenditures from \$130mm to \$58mm
- Drew down \$535MM on revolver
  - Have \$490mm in cash on hand, following revolver drawdown and payment of dividend
  - ~\$112 million remaining availability under the revolver
  - Total leverage ratio of 3.5x net debt-to-EBITDA, as defined under the credit facility

Public OOH companies are taking steps to increase liquidity during the slowdown through capital markets and operational initiatives

# OOH Public Company Response to COVID-19 (Continued)



- Have not announced details on response to the COVID-19 outbreak
- National CineMedia as of December 26, 2019
  - Had \$213.3mm in total liquidity, including:
    - \$132.4mm available for borrowing under its revolving senior credit facility<sup>(a)</sup>
    - Cash, cash equivalents and marketable securities of \$80.9mm
  - Total net leverage was 4.0x<sup>(b)</sup>
    - Well below consolidated net total leverage maintenance of 6.25x
  - Consolidated net senior secured leverage ratio of 3.0x
    - Below covenant of 4.5x

- On March 24<sup>th</sup>, provided update on state of the business as previously published market expectations are no longer applicable
  - No material debt
  - Strong balance sheet with net cash of approximately £20m
  - Adequate liquidity despite circumstances
- Group is in discussion with lenders to further bolster liquidity position
- Has moved quickly to mitigate the impact of the crisis, taking steps including:
  - Cutting all discretionary spend
  - Reducing employee hours
  - Approaching suppliers and landlords
- Announced that in order to protect jobs, Ocean's Netherlands and UK businesses are reducing the staff working week starting April 1<sup>st</sup>
  - Introducing voluntary unpaid leave in some areas
  - Staff have been asked to work from home
- Continue to consolidate operations in Ocean Nordics, with the integration of AdCityMedia being fast tracked

a) NCM LLC's total capacity under the revolving credit facility was, subject to certain conditions, \$171.4mm as of December 26, 2019.

b) Leverage was 4.0x trailing four quarters adjusted OIBDA.

# OOH Public Company Response to COVID-19 (Continued)



- On March 26<sup>th</sup>, announced it would undergo a fully underwritten equity raising round of A\$167mm at an offer price of A\$0.53 per share
  - 20% discount to the theoretical ex-rights price (TERP11) of A\$0.66
  - 37% discount to the closing price of A\$0.84 on March 19, 2020
  - At the A\$0.53 issue price, the company will be issuing ~315mm new shares,
    - ~240mm shares outstanding today
  - HMI Capital, a large shareholder, committed to sub-underwriting up to A\$17.7mm, which would increase its stake to between 19% - 25%
- Brendon Cook, who had announced his departure from oOh!media after 30 years, has agreed to stay on as CEO through the crisis
- Have identified a number of cost-saving initiatives including:
  - Savings of up to A\$30mm in operational expenditures and fixed rent expenses
  - Reduction of capital expenditures down from A\$60mm - A\$70mm to between A\$25mm - A\$35mm
  - Renegotiated debt arrangements to increase leverage covenants

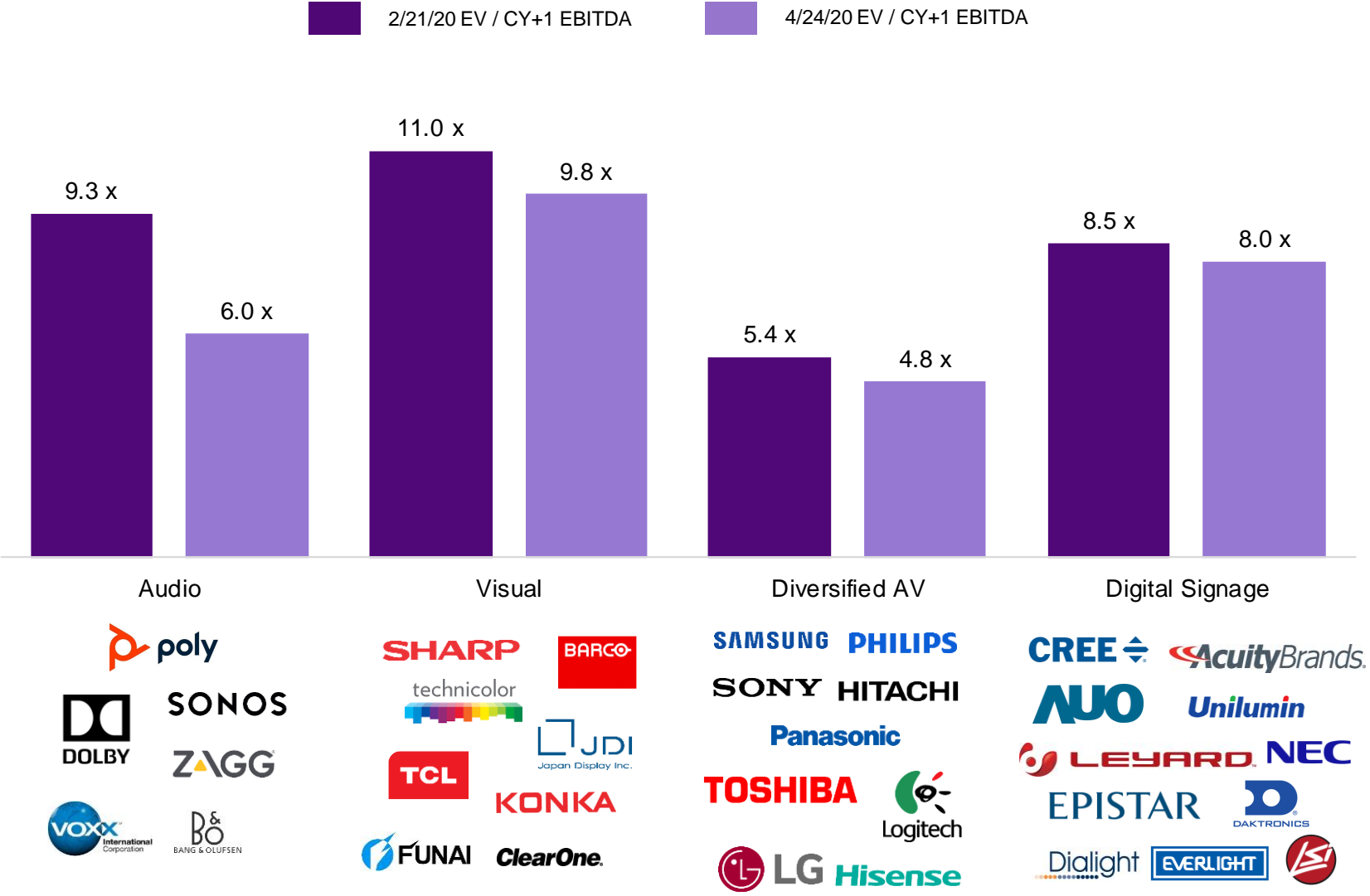
- Announced on March 25<sup>th</sup> that it had drawn the balance of its \$500mm revolving credit facility
- As of December 31, 2019 had cash on hand of \$59.1mm
- Equipment deployment in transit franchises has been suspended
- Announced maintenance capital expenditures will be curtailed from original plans
  - Discretionary growth capital expenditures for digital billboard conversions will be deferred
- Tuck-in acquisition activity has been put on hold
- Having constructive conversations with transit franchise partners regarding potential options
- Negotiating certain billboard ground leases, including those with clauses that allow for reduced rent in light of a reduction in advertising value
- In addition to a headcount freeze, taking steps to reduce posting, maintenance and SG&A expenses
- Withdrew FY2020 AFFO guidance
- In April 2020 OUTFRONT Media announced a \$400 million convertible preferred equity investment by Providence Equity and Ares

# Public Market Response

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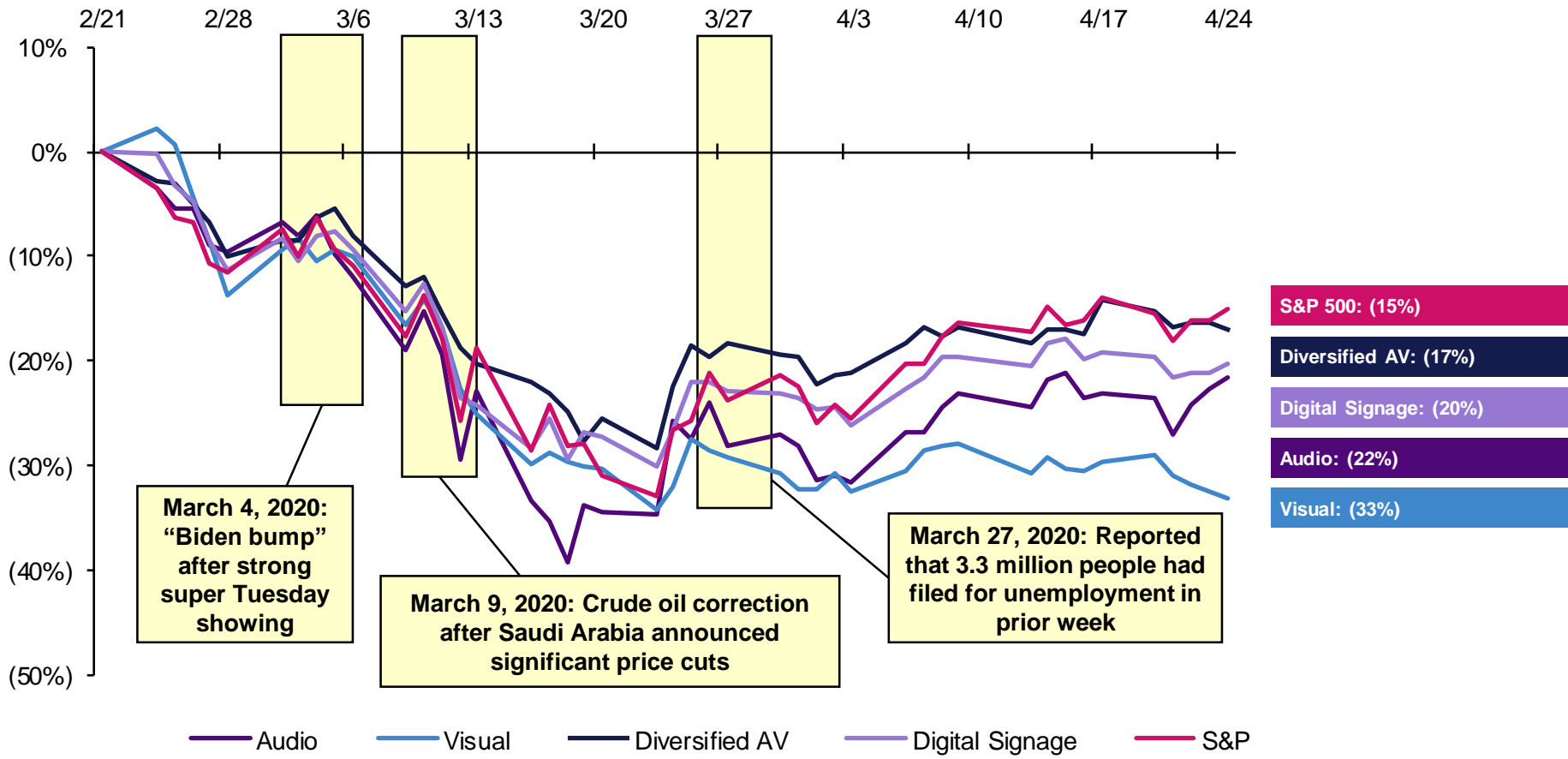
# AV Industry EV / CY+1 EBITDA



Source: Capital IQ from February 21, 2020 – April 24, 2020.

# AV Industries Indexed Market Performance

Since February 21, 2020, market values of various AV-related industries have declined, with sector indexes losing between 15% to 35% of their capitalization



Note: Represents changes in total sector market capitalizations.

Source: Capital IQ from February 21, 2020 – April 24, 2020.

Audio includes: Dolby Laboratories, Poly, Sonos, Bang & Olufsen, ZAGG and VOXX International.

Visual includes: TCL Technology Group, Sharp Corporation, Barco, Konka, Japan Display, Technicolor, Funai Electric, ClearOne.

Diversified AV includes: Samsung, Sony, Koninklijk Philips, Hitachi, Panasonic, Toshiba, LG Electronics, Logitech and Hisense Visual Technology.

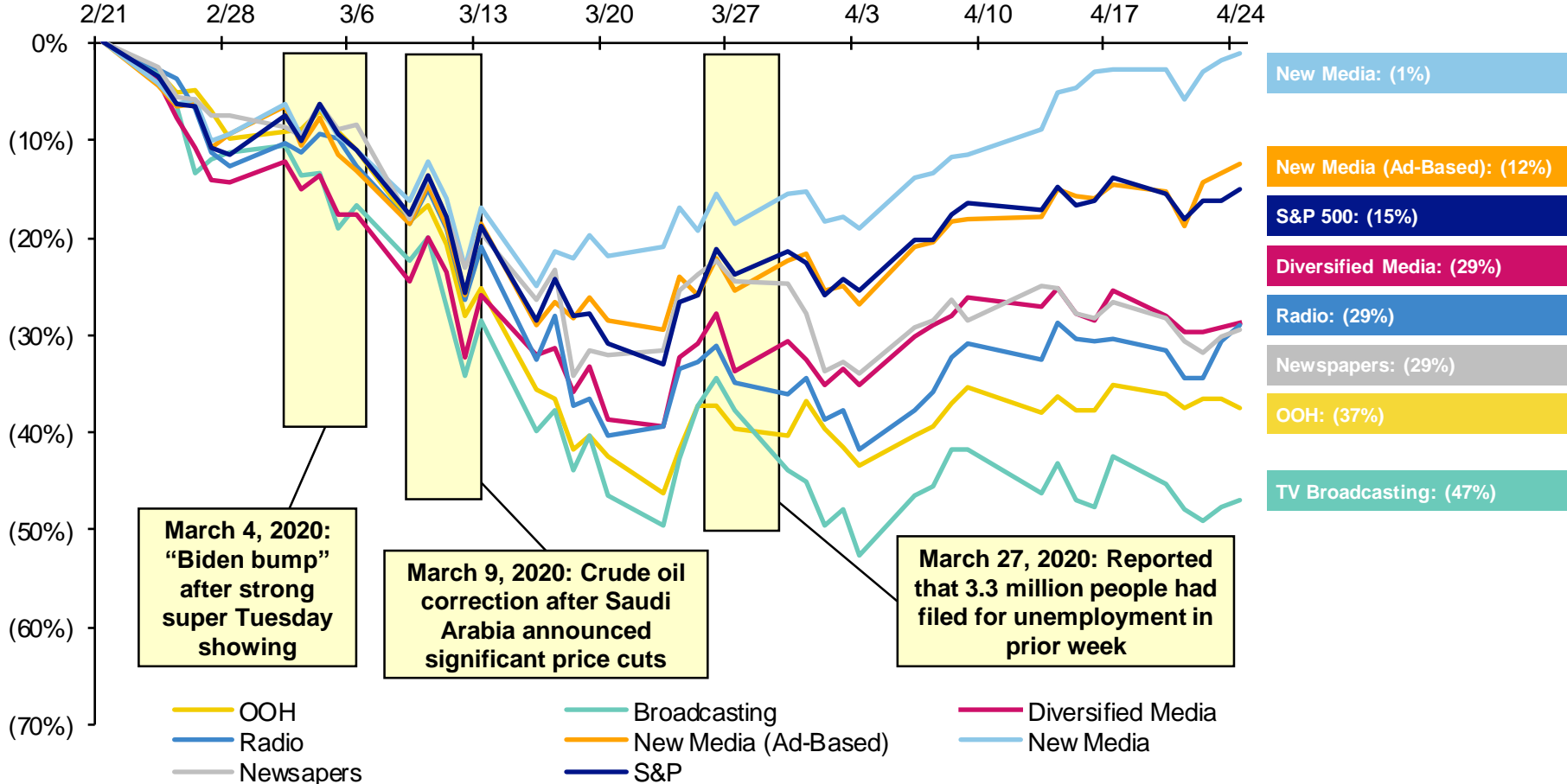
Digital Signage includes: NEC Corporation, Cree, Acuity Brands, AU Optronics, Leyard, Unilumin, EPISTAR, Everlight, Daktronics, Dialight and LSI Industries.

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# OOH and Comparable Industry Indexed Market Performance

Since February 21, 2020, market values of OOH and comparable industries have significantly declined, with sector indexes losing up to 50% of their capitalization

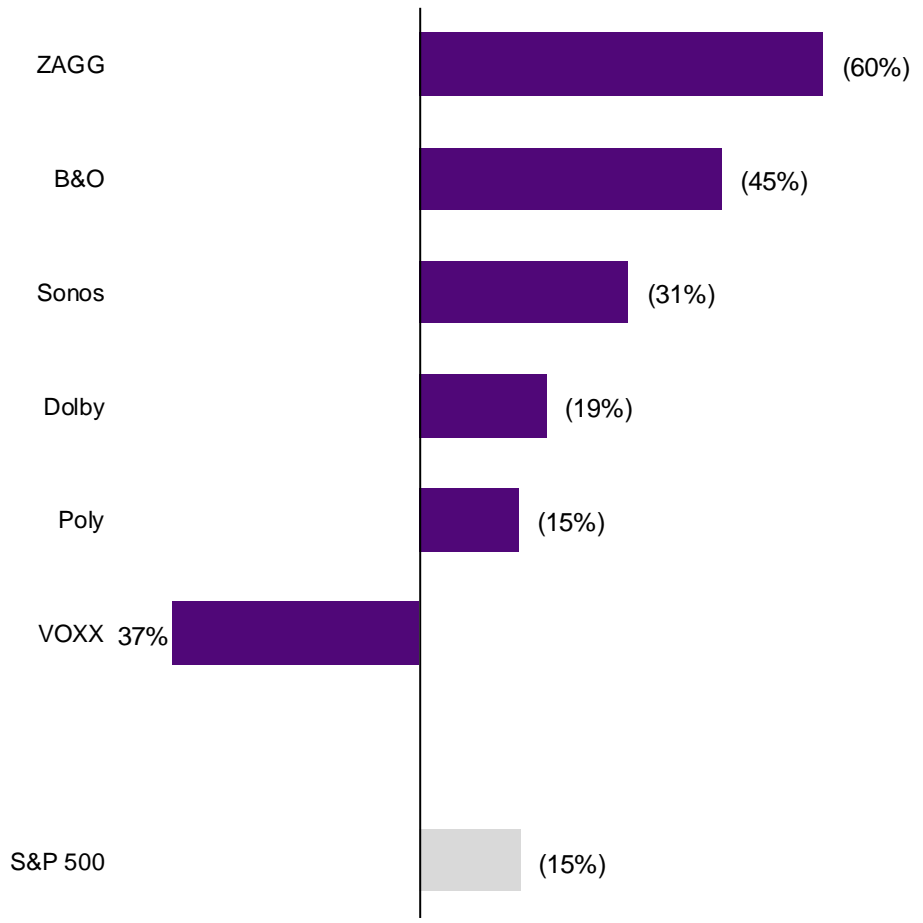


Note: Represents changes in total sector market capitalizations.  
 Source: Capital IQ from February 21, 2020 – April 24, 2020.  
 OOH includes: Clear Channel, JCDecaux, Lamar Advertising, OUTFRONT Media, Ströer, APG|SSGA, Ocean Outdoor and Focus Media.  
 Broadcasting includes: Entravision, Gray Television, Nexstar Media, Sinclair Broadcast, TEGNA and E.W. Scripps.  
 Diversified Media includes: ViacomCBS, Comcast, Walt Disney Company, Fox and News Corporation.  
 Radio includes: Beasley, Emmis, Entercom, iHeartMedia, Saga, Salem, Sirius XM, Cumulus and Townsquare.  
 Newspapers includes: Gannett, New York Times and Tribune Publishing.  
 New Media includes: Alphabet, Amazon, Facebook, Netflix, Snap, Twitter, Yelp, Spotify, Match Group and IAC/InterActiveCorp.  
 New Media (Ad-Based) includes: Alphabet, Facebook, Snap, Twitter, Yelp.

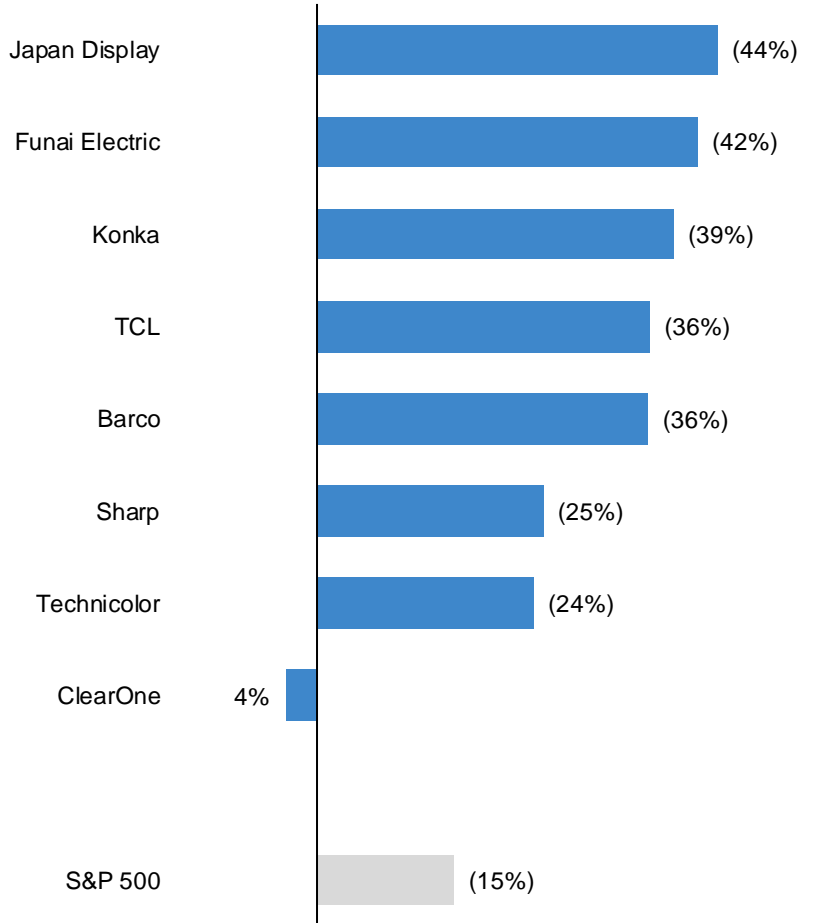


# Change in Stock Price Decrease from February 21, 2020 – April 24, 2020

## Audio Companies Change in Stock Price



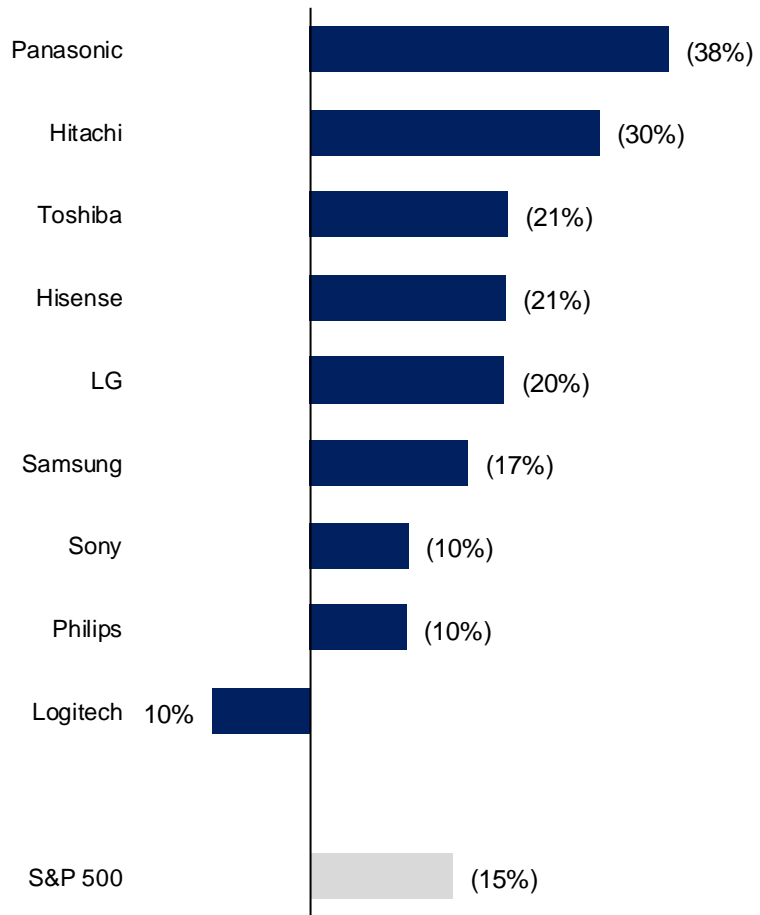
## Visual Companies Change in Stock Price



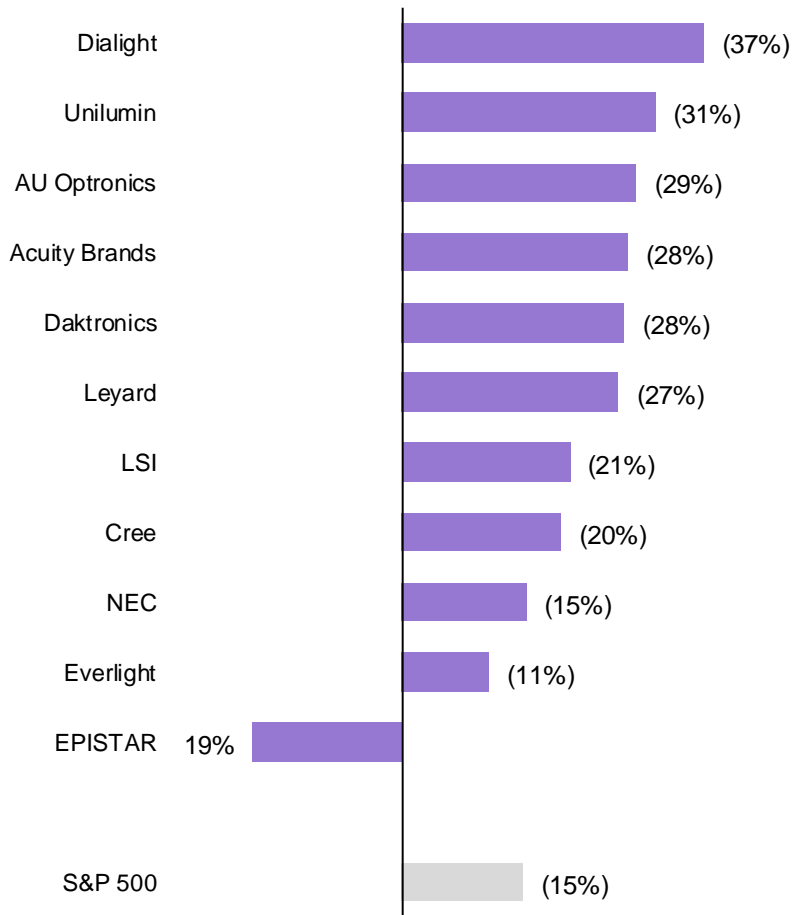
Source: Capital IQ from February 21, 2020 – April 24, 2020.

# Change in Stock Price Decrease from February 21, 2020 – April 24, 2020

## Diversified AV Companies Change in Stock Price



## Digital Signage Companies Change in Stock Price



Source: Capital IQ from February 21, 2020 – April 24, 2020.

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