



Date: December 8, 2020

Entercom P/B: 0.25

Company Ticker: ETM

Sector P/B: 1.6

Sector: Communications

Market Price: \$2.84

Industry: Broadcast

Estimated Fair Price: \$3.25

Recommendation: Hold

Company Summary:

Entercom Communications Corp. is a leading audio and entertainment company engaging over 170 million consumers each month through its iconic broadcast brands, expansive digital platform, premium podcast network and live events and experiences. With presence in every major U.S. market, and accessible on every device, Entercom delivers the industry's most compelling live and on-demand content and experiences from voices and influencers its communities trust and love.

The company's robust portfolio of assets and integrated solutions offer advertisers today's most engaged audiences through targeted reach, brand amplification and local activation—all at national scale. Entercom is the unrivaled leader in local radio sports and news and the #1 creator of live, original local audio content in the U.S.

Industry Outlook:

In March, many companies cut back on advertising expenditure which negatively impacted this industry. As the economy has begun to recovery, many companies are returning to normal advertising expenditure. Although competition is expected to be strong, advertising expenditure is expected to grow 5.8% annualized of the next five years. Radio will likely continue to remain valuable for advertisers as a broad-based marketing platform in a fragmented media landscape.

Earnings Forecast:

	CY 2017A	CY 2018A	CY 2019A	CY 2020E	CY 2021E	CY 2022E	CY 2023E	CY 2024E
Revenue	\$ 592,884,000	\$ 1,462,567,000	\$ 1,489,929,000	\$ 1,065,299,235.00	\$ 1,278,359,082.00	\$ 1,323,101,649.87	\$ 1,369,410,207.62	\$ 1,417,339,564.88
COGS	(443,512,000)	(1,099,278,000)	(1,086,617,000)	(884,198,365)	(997,120,084)	(1,032,019,287)	(1,068,139,962)	(1,105,524,861)
Gross Profit	\$ 149,372,000	\$ 363,289,000	\$ 403,312,000	\$ 181,100,869.95	\$ 281,238,998.04	\$ 291,082,362.97	\$ 301,270,245.68	\$ 311,814,704.27
SG&A	(63,405,000)	(113,780,000)	(129,635,000)	(106,529,924)	(115,796,142)	(119,849,007)	(124,043,722)	(128,385,252)
Impairment Loss	(952,000)	(493,988,000)	(545,457,000)	(17,021,000)	0	0	0	0
Other Operating Expenses	(72,431,000)	(21,140,000)	(9,077,000)	(10,652,992)	(12,783,591)	(13,231,016)	(13,694,102)	(14,173,396)
Operating Income	\$ 12,584,000	\$ (265,619,000)	\$ (280,857,000)	\$ 46,896,954	\$ 152,659,265	\$ 158,002,340	\$ 163,532,421	\$ 169,256,056
Interest Expense	(32,521,000)	(101,121,000)	(100,103,000)	(100,103,000)	(100,103,000)	(100,103,000)	(100,103,000)	(100,103,000)
Other Income (Expenses)	(4,135,000)	0	(2,046,000)	(10,301,000)	(10,301,000)	(10,301,000)	(10,301,000)	(10,301,000)
Pre-Tax Income	\$ (24,072,000)	\$ (366,740,000)	\$ (383,006,000)	\$ (63,507,046)	\$ 42,255,265	\$ 47,598,340	\$ 53,128,421	\$ 58,852,056
Taxes	257,085,000	4,153,000	(37,206,000)	-	(8,662,329)	(9,757,660)	(10,891,326)	(12,064,672)
NI to the company from Continuing Operations	\$ 233,013,000	\$ (362,587,000)	\$ (420,212,000)	\$ (63,507,046)	\$ 33,592,936	\$ 37,840,680	\$ 42,237,095	\$ 46,787,385
Preferred stock dividend	(2,015,000)	0	0	0	0	0	0	0
NI to the shareholders from Continuing Operations	\$ 230,998,000	\$ (362,587,000)	\$ (420,212,000)	\$ (63,507,046)	\$ 33,592,936	\$ 37,840,680	\$ 42,237,095	\$ 46,787,385
Income from discontinued operations	836,000	1,152,000	0	0	0	0	0	0
Net Income	\$ 231,834,000	\$ (361,435,000)	\$ (420,212,000)	\$ (63,507,046)	\$ 33,592,936	\$ 37,840,680	\$ 42,237,095	\$ 46,787,385
Basic Shares	51,392,899	138,069,608	136,967,455	136,967,455	136,967,455	136,967,455	136,967,455	136,967,455
Diluted Shares	52,885,156	138,069,608	136,967,455	136,967,455	136,967,455	136,967,455	136,967,455	136,967,455
Basic EPS	\$ 4.51	\$ (2.62)	\$ (3.07)	\$ (0.46)	\$ 0.25	\$ 0.28	\$ 0.31	\$ 0.34
Diluted EPS	\$ 4.38	\$ (2.62)	\$ (3.07)	\$ (0.46)	\$ 0.25	\$ 0.28	\$ 0.31	\$ 0.34

Notes on Historical Financials:

Revenue: Revenue decreased due to decrease in advertising expenditure during the economic slowdown. Additionally, the suspension of the NHL, NBA, and MLB contributed to declines in revenue.

Other Operating expenses: The company saw a decrease in operating expenses due to decreases in fees associated with sports events and a proactive response to the pandemic that included decreases in salaries and terminations.

Impairment losses: In Q4 2019 the company completed its annual impairment test and determined that the company's goodwill attributable to the broadcast reporting unit was less than its carry value and recorded a \$537mm impairment on goodwill. The company recorded another impairment charge of 4.1mm in 2020 related to broadcasting licenses.

Notes on forecasted assumptions:

We expect total revenues to decrease by 28.5% in 2020 due to decrease in advertising expenditure and suspension of live sports. In 2021, we expect a large bounce back in revenue primarily due to live events being played and steady increases in advertising. Gross margin is expected to shrink in 2020 but as live events come back in 2021 we expect in to start to trend toward pre-pandemic levels. We used a growth rate of 3.5% to show steady growth for the company in the future.

Valuation:

Valuation	3 months				
	CY 2020E	CY 2021E	CY 2022E	CY 2023E	CY 2024E
Year					
Net Income	(13,368,476.83)	33,592,935.93	37,840,679.99	42,237,095.09	46,787,384.72
Plus D&A	12,555,000.00	51,134,363.28	52,924,065.99	54,776,408.30	56,693,582.60
Less Capex	(6,875,000.00)	(30,000,000.00)	(30,000,000.00)	(30,000,000.00)	(30,000,000.00)
Less Change in NWC	78,605,581.24	(33,590,422.45)	(7,013,854.44)	(7,259,339.35)	(7,513,416.23)
Plus Change in Debt Balance	(10,732,750.00)	(42,931,000.00)	(42,931,000.00)	(42,931,000.00)	(42,931,000.00)
FCFE	60,184,354.41	(21,794,123.24)	10,819,891.54	16,823,164.05	23,036,551.09
PV of FCFE	59,034,063.49	(19,789,497.26)	9,094,829.33	13,090,481.25	16,593,640.61
Terminal Value	509,110,782.95				
Sum of Discounted FCFE	78,023,517.42				
Discounted Terminal Value	366,721,621.15				
Equity Value	444,745,138.57				
Shares Outstanding	136,967,455				
Target Share Price	3.25				
Recommendation	Hold				

The 2020E shows 3 months of financials that we expect in Q4 with all the other years being 12 month periods. Depreciation was calculated as 4% of sales and Capex was found from guidance from the company. Using a long term growth rate of 3.5% and discount rate of 8.02%, the target share price is \$3.25. With the current price of \$1.90, we recommend a hold on the stock.

Sensitivity Analysis

Sensitivity Analysis		Short Term Growth Rate		
		15%	20%	25%
Discount Rate	3.25			
	7.5%	2.52	3.67	4.81
	8.0%	2.25	3.26	4.28
	8.5%	2.04	2.94	3.85

The table shows the target stock price based on the discount rate and short term growth rate of the company. With a current price of \$1.9 we believe that even with a hit to the short term growth rate this stock is still slightly undervalued and our recommendation is to hold the stock.

Conclusion:

We recommend holding our position in Entercom due to the bounce back in advertising expenditure and return of live sporting events.