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IHEARTMEDIA: A CLOSER LOOK AT THE SECURED 2028S

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iHeartMedia: A Closer Look at the Secured 2028s

The Bottom Line™:

- Yesterday, iHeart launched exchange offers for each series of its outstanding bonds and term loans pursuant to a November 6, 2024 Transaction Support Agreement.
- In the press release announcing the exchange offers, iHeart disclosed that as of November 14, 2024, holders representing approximately 40.9% of the Secured 2028s have agreed to tender and provide consent with respect to the Secured 2028s.
- The indenture for the Secured 2028s requires the consent of at least a majority in principal amount of that series of bonds to amend most terms.
- If the indenture for the Secured 2028s is not amended, the drop-down transaction described in the TSA would need to fit within with the existing covenants for those bonds.
- Based on an aggressive read of the "Consolidated Total Leverage Ratio" definition and several assumptions, iHeart currently could have enough Restricted Payments capacity and Permitted Investments capacity to consummate the drop-down transaction.
- In particular, language in the "Consolidated Total Leverage Ratio" definition of the indenture for the Secured 2028s provides that intercompany debt is disregarded when calculating this Ratio. Under an aggressive read of that language, the estimated $3.3 billion intercompany loan that will be owed to the Unrestricted Subsidiary drop down entity could arguably not be included in this Ratio calculation.
- This aggressive interpretation would apparently open up several additional Ratio-based avenues for consummating the drop-down transaction under the indenture for the Secured 2028s.

Overview

Yesterday, iHeartMedia, Inc. ("iHeart") filed an 8-K (the "8-K") disclosing that is has launched exchange offers for each series of its outstanding bonds and loans, pursuant to a Transaction Support Agreement (the "TSA") that contemplates two alternative transaction structures.[1]

On November 7, we published iHeartMedia: Initial Impressions on the TSA, where we explained the two alternative transaction structures. We refer to this report as the "Previous Report", and assume that all readers of this report have read the Previous Report.

In today's 8-K, the Company disclosed that as of November 14, 2024, holders representing approximately 40.9% of the Secured 2028s have agreed to participate and tender and provide consent with respect to the Secured 2028s. Accordingly, in this report we are only focusing on the drop-down transaction structure, because the Company does not currently have the TSA support necessary to implement the

[1] The TSA is included as Exhibit 10.1 to the November 7, 2024 8-K, which is available here.

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comprehensive uptiering transaction.[2] We refer to this drop-down transaction structure as the "Drop-Down Transaction."

Previous Research

We have published extensive research on the iHeart capital structure over the years (including five separate reports on liability management exercise considerations in the last 18 months), and our research is available here.

Outstanding Bonds

iHeart currently has four series of high yield bonds outstanding in its capital structure. Each of these bonds were issued by the Company's subsidiary iHeartCommunications, Inc. (the "Issuer") and guaranteed by the Issuer's direct parent, iHeartMedia Capital I, LLC (the "Company"). These bonds are also guaranteed by all of the Issuer's subsidiaries that guarantee the Issuer's term loans. The restrictive covenants of these bonds apply to the Company and its Restricted Subsidiaries, including the Issuer.

At September 30, 2024, the Issuer had the following bonds outstanding:

- $800 million of 6.375% Senior Secured Notes due 2026 (the "Secured 2026s"), which were issued under a May 1, 2019 Indenture (the "Secured 2026s Indenture")[3];
- $916 million of 8.375% Senior Unsecured Notes due 2027 (the "Unsecured Bonds"), which were issued under a May 1, 2019 Indenture (the "Unsecured Bonds Indenture")[4];
- $750 million of 5.25% Senior Secured Notes due 2027 (the "Secured 2027s"), which were issued under an August 7, 2019 Indenture (the "Secured 2027s Indenture")[5]; and
- $500 million of 4.75% Senior Secured Notes due 2028 (the "Secured 2028s"), which were issued under a November 22, 2019 Indenture (the "Secured 2028s Indenture")[6].

In the 8-K, iHeart disclosed that it has the support of in excess of 80% of each series of its outstanding bonds, other than the Secured 2028s. Accordingly, in this report we are only focusing on the terms of the covenants of the Secured 2028s Indenture.[7]

As only 40.9% of the Secured 2028s have agreed to support the TSA as of November 14, 2024, iHeart currently does not have the consents necessary to amend the covenants for the Secured 2028s Indenture. Accordingly, assuming current participation levels, the Drop-Down Transaction would have to be permitted by the existing terms of the Secured 2028s Indenture.

In addition, in this report we also refer to the Issuer, pro forma for the Drop-Down Transaction, as "Remainco."

[2] For more details on the comprehensive uptiering transaction, please see the Previous Report.
[3] The Secured 2026s Indenture is available here.
[4] The Unsecured Bonds Indenture is available here.
[5] The Secured 2027s Indenture is available here.
[6] The Secured 2028s Indenture is available here.
[7] Similarly, the 8-K discloses that over 95% in aggregate principal amount of its outstanding term loans have agreed to tender and provide consent, and accordingly we do not address the term loans further in this report.

Details of the Proposed Drop-Down Transaction

The TSA disclosed the following aspects of the Drop-Down Transaction:[8]

- The Drop-Down Transaction will be implemented if holders of at least 95% of each tranche of existing debt does not participate in the exchange transactions.
- The Drop-Down Transaction will be structured as a Drop-Down transaction into Unrestricted Subsidiaries.
- The Drop-Down Transaction involves the creation of an Unrestricted Subsidiary, IH Media + Entertainment I, LLC, an Unrestricted Subsidiary ("DD Holdco"). DD Holdco, in turn, will hold the equity of an additional Unrestricted Subsidiary, IH Media + Entertainment II, LLC ("DDCo").
- The following assets (which we collectively refer to as the "Drop-Down Assets") will be transferred into Unrestricted Subsidiaries, and will ultimately held by DDCo:
  - 100% of the equity of Katz Media Group, Inc. ("Katz"),
  - 100% of the equity of entities comprising the Unified, Voxnest, Triton Digital, Unified, and Jelli businesses ("Ad Tech"), and
  - 100% of the equity of iHM Licenses LLC (which holds the FCC Licenses).
- These entities will no longer guarantee the existing iHeart debt, and any pledges of such entities and liens granted by such entities to secure the existing iHeart debt, shall automatically be released.
- In addition, iHeartMedia + Entertainment, Inc. will issue a secured intercompany loan to DD Holdco in an amount to be determined, and this intercompany loan will be pledged to secure all of the exchange debt at DD Holdco.
- The Term Loans would be exchanged into new DD Holdco term loans with a May 2029 maturity[9].
- The Secured 2026s would be exchanged into new DD Holdco 9.125% Senior Secured Notes due 2029.[10]
- The Unsecured Bonds would be exchanged into new DD Holdco 10.875% Second Lien Senior Secured Notes due 2030[11].
- The Secured 2027s would be exchanged into new DD Holdco 7.75% Senior Secured Notes due 2030[12].
- The Secured 2028s would be exchanged into new DD Holdco 7% Senior Secured Notes due 2031.[13]
- The existing secured debt would retain their liens and guarantees, but this would be subject to turn-over for the benefit of the intercompany loan. However, this depends on participation of at least 50.1% of the Secured 2028s, which the issuer currently does not have.
- The Unsecured Notes would have their guarantees released.

CreditSights' Initial Impressions of the Drop-Down Transaction Assets

In assessing the flexibility of iHeart to structure the Drop-Down Transaction, it's necessary to make several assumptions.

- First, what is the estimated fair market value of the Drop-Down Assets?

[8] The TSA is included as Exhibit 10.1 to the November 7, 2024 8-K, which is available here,
[9] Holders that participate by the early tender deadline would receive 5% in cash and 93.5% in exchange debt per face amount of term loans. Holders would also receive a nominal amount of debt issued by the Issuer.
[10] Holders that participate by the early tender deadline would receive 5% in cash and 93.5% in exchange debt per face amount of Secured 2026s. Holders would also receive a nominal amount of debt issued by the Issuer.
[11] Holders that participate by the early tender deadline would receive 79% in exchange debt per face amount of Unsecured Bonds.
[12] Holders that participate by the early tender deadline would receive 87.5% in exchange debt per face amount of Secured 2027s. Holders would also receive a nominal amount of debt issued by the Issuer.
[13] Holders that participate by the early tender deadline would receive 78.5% in exchange debt per face amount of Secured 2028s. Holders would also receive a nominal amount of debt issued by the Issuer.

- Second, what is the estimated LTM EBITDA of Remainco, pro forma for the Drop-Down Transaction?

- Finally, how much debt is estimated to be outstanding at Remainco, pro forma for the Drop-Down Transaction?

According to our sister company CreditSights, the estimated fair market value of the Drop-Down Assets is in the range of **roughly $1.8 billion to $2 billion**. For purposes of our analysis in this report, we've assumed a fair market value of the Drop-Down Assets at $1.8 billion.

Further, CreditSights estimates that the Drop-Down Assets represent roughly $150 million of LTM EBITDA, and that Remainco would have roughly $600 million of LTM EBITDA pro forma for the Drop-Down Transaction. Notably, the Drop-Down Assets include certain assets, specifically the FCC Licenses and Ad Tech, that are not cash flowing on a standalone basis but are critical for operations.

Finally, based on the participation levels disclosed in the 8-K, CreditSights estimates that Remainco will have in the range of $836 million of total debt outstanding (with all but $43.1 million of that debt being secured), and the secured intercompany loan to DD Holdco would be in the range of $3.3 billion, resulting in total debt of approximately $4.1 billion at Remainco, pro forma for the Drop-Down Transaction, nearly all of which would be secured.

The Secured 2028s Indenture will need to provide enough Restricted Payments and Permitted Investments capacity to consummate the Drop-Down Transaction.

In order to transfer the Drop-Down Assets into Unrestricted Subsidiaries, the Secured 2028s Indenture provides that the Company must have Restricted Payments and/or Permitted Investments capacity at least equal to the fair market value of the Drop-Down Assets at the time of transfer to the Unrestricted Subsidiaries.[14] This fair market value is determined in good faith by the Company, and for purposes of this report, we've estimated a fair market value of the Drop-Down Assets at $1.8 billion.

The main sources of Restricted Payments and Permitted Investments capacity under the Secured 2028s Indenture are as follows:

- The Restricted Payments basket build provision for the Secured 2028s Indenture generally builds based on 100% of Consolidated EBITDA less 1.4x Fixed Charges, in each case, from April 1, 2019 and other customary components. Although estimating Restricted Payments basket build capacity is always tricky because only the Company would have all of the information required to accurately calculate basket build-up capacity due to the various contractual addbacks to the "Consolidated EBITDA" definition, we roughly estimate that the Company has in the range **of $1.5 billion** of Restricted Payments basket build capacity under the Consolidated EBITDA component as of September 30, 2024. However, the Company can only access this basket build capacity if it can meet either a 2x Fixed Charge Coverage Ratio[15] or a 6.25x Consolidated Total Leverage Ratio, pro forma.[16]

- The general Restricted Payments basket for the Secured 2028s Indenture allows capacity to the greater of $300 million and 3.5% of Total Assets (an estimated $202.3 million at September 30, 2024).

[14] See clause (2) of the second paragraph of the "Investment" definition of the Secured 2028s Indenture.
[15] We estimate that Remainco's Fixed Charge Coverage Ratio would be in the range of 1.5x pro forma for the Drop-Down Transaction, and so Remainco would not be able to access Restricted Payments basket build based on compliance with that Ratio. Accordingly, Remainco would need to meet the pro forma 6.25x Consolidated Total Leverage Ratio in order to access any Restricted Payments basket build capacity to consummate the Drop-Down Transaction.
[16] See Section 3.2(a) of the Secured 2028s Indenture.

- The leverage-based Restricted Payments carveout of the Secured 2028s Indenture allows any Restricted Payment to a 4.75x Consolidated Total Leverage Ratio.
- The general Permitted Investments basket for the Secured 2028s Indenture provides capacity to the greater of $400 million and 40% of LTM EBITDA (an estimated $240 million at September 30, 2024).
- The Permitted Investments basket for investments in joint ventures and Unrestricted Subsidiaries for the Secured 2028s Indenture provides capacity to the greater of $200 million and 2.5% of Total Assets (an estimated $144.5 million at September 30, 2024).
- The Permitted Investments basket for investments in a Similar Business for the Secured 2028s Indenture provides capacity to the greater of $170 million and 2.5% of Total Assets (an estimated $144.5 million at September 30, 2024).
- The leverage-based Permitted Investments carveout of the Secured 2028s Indenture allows any Permitted Investment to a 5x Consolidated Total Leverage Ratio.

As we explained in our March 26, 2024 report iHeartMedia: How Much Value Can the Company Move to Unrestricted Subsidiaries Under the Secured 2027s and the Secured 2028s?, if the Company cannot meet the requisite ratio to access Restricted Payments basket build or the leverage based Restricted Payments or Permitted Investments carveouts, then the Company would be limited to its fixed amount baskets, which cumulatively total **$1.07 billion**, assuming that the Company has not already used this capacity. Of course, this is significantly below the $1.8 billion estimated fair market value of the Drop-Down Assets, and so it appears that in order to consummate this transaction, the Company would need to access basket build and/or the leverage-based Restricted Payments carveout or leverage-based Permitted Investments carveout.

An aggressive interpretation of the “Consolidated Total Leverage Ratio” definition of the Secured 2028s Indenture will apparently permit the Company to ignore the intercompany loan when calculating that ratio.

The “Consolidated Total Leverage Ratio” definition of the Secured 2028s Indenture generally measures the ratio of Consolidated Total Indebtedness to Consolidated EBITDA. The definition of “Consolidated Total Indebtedness” references debt for borrowed money of the Company and Restricted Subsidiaries, but specifically excludes “Indebtedness with respect to Cash Management Services ***and intercompany Indebtedness***” [emphasis ours].

Critically, “intercompany Indebtedness” is not defined for the Secured 2028s Indenture. Intercompany debt is sometimes defined in credit documents as only debt between credit parties, but used without definition, it arguably could include debt of restricted group entities owed to Unrestricted Subsidiaries.

If the Company were required to count the secured intercompany loan in calculating the Consolidated Total Leverage Ratio, the Company would have in the range of $4.1 billion of total debt at Remainco, pro forma for the Drop-Down Transaction, and Remainco would have approximately $600 million in LTM EBITDA. Accordingly, total actual leverage would presumably be in the range of 6.8x.

However, if the Company is permitted to disregard the estimated $3.3 billion of secured intercompany loan owed to the Unrestricted Subsidiary, then it appears that Remainco would have approximately $836 million of total debt outstanding, and Remainco would have approximately $600 million in LTM EBITDA. This aggressive interpretation would technically result in a Consolidated Total Leverage Ratio[17] of less than 1.5x, which would obviously be badly distorted by virtue of the exclusion of the secured intercompany loan.

If the Company's Consolidated Total Leverage Ratio was in the range of 1.5x, this would open up numerous avenues for enhanced Restricted Payments and Permitted Investments capacity:

- As noted earlier, the Company can fully draw any available capacity under Restricted Payments basket build if it can meet either a 2x Fixed Charge Coverage Ratio[18] or a 6.25x Consolidated Leverage Ratio, which it would be able to do if the secured intercompany loan is disregarded. Accordingly, in that scenario, the Company would be able access in the range of **$1.5 billion** of Restricted Payments basket build capacity under the Consolidated EBITDA component as of September 30, 2024.

- Separately, the leverage-based Restricted Payments carveout of the Secured 2028s Indenture allows any Restricted Payment to a 4.75x Consolidated Total Leverage Ratio, which the Company would be able to meet if the secured intercompany loan is disregarded.

- Further, the leverage-based Permitted Investments carveout of the Secured 2028s Indenture allows any Permitted Investment to a 5x Consolidated Total Leverage Ratio, which the Company would be able to meet if the secured intercompany loan is disregarded.

Accordingly, by virtue of the language in the "Consolidated Total Leverage Ratio" definition that arguably could allow the Company to ignore over $3 billion of secured intercompany loans to Unrestricted Subsidiaries, the Company would be able to invest the Drop-Down Assets in Unrestricted Subsidiaries if it disregards the secured intercompany loan, whether by accessing Restricted Payments basket build, leverage-ratio based carveouts, fixed amount baskets, or some combination of the three.

We will continue to closely monitor this situation and are planning to publish further research as additional details become available.

— *Covenant Review*

[17] It is unclear how much unrestricted cash would be on hand at Remainco, pro forma for the Drop-Down Transaction, and any such unrestricted cash would be netted against the amount of outstanding debt pursuant to the "Consolidated Total Leverage Ratio" definition.

[18] We estimate that Remainco's Fixed Charge Coverage Ratio would be in the range of 1.5x pro forma for the Drop-Down Transaction, and so Remainco would not be able to access Restricted Payments basket build based on compliance with that Ratio.

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