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IHEARTMEDIA:
INITIAL IMPRESSIONS ON THE TSA

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iHeartMedia: Initial Impressions on the TSA

The Bottom Line™:

- The TSA is designed to extend over $4 billion of maturities by three years, and all holders of the outstanding loans and bonds will have the right to participate.
- If at least 95% of each class of iHeart's debt participates in the exchange, the TSA will implement an uptiering transaction pursuant to which all of the TLB loans, the secured bonds, and the unsecured bonds would be exchanged into new longer-dated secured debt of iHeartCommunications.
- If at least 95% of each class of iHeart's debt does not participate in the exchange, then the TSA parties, which include holders of approximately 80% of iHeart's debt, will implement a drop-down transaction involving Unrestricted Subsidiaries.
- According to the TSA presentation disclosure, only 38% of the Secured 2028s are currently supporting this transaction. If iHeart does not receive the consent of a majority of the Secured 2028s, iHeart cannot modify the covenants of the Secured 2028s Indenture, and the drop-down would have to be permitted by the existing terms of the Secured 2028s Indenture.
- The new exchange loans and secured bonds will apparently contain J. Crew Blocker language and Serta Protection, as well as additional protections designed to limit future liability management transactions.

Overview

Today, iHeartMedia, Inc. ("iHeart") filed an 8-K disclosing a comprehensive refinancing transaction via a Transaction Support Agreement (the "TSA") that contemplates two alternative transaction structures.[1] iHeart's 8-K also included a presentation providing an overview of these transactions (the "TSA Presentation").[2] The TSA is designed to extend over $4 billion of maturities by three years, and all holders of the outstanding loans and bonds will have the right to participate.

In this report, we provide our initial impressions on the TSA and these two alternative transaction structures.

Previous Research

We have published extensive research on the iHeart capital structure over the years. In particular, we have published the following recent reports on the ability of iHeart to engage in liability management exercises:

- iHeartMedia: Frequently Asked Questions on Potential Liability Management Exercises (May 2024)

[1] The TSA is included as Exhibit 10.1 to the 8-K, which is available here,
[2] The TSA presentation is included as Exhibit 99.2 to the 8-K, which is available here.

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- iHeartMedia: How Much Value Can the Company Move to Unrestricted Subsidiaries Under the Secured 2027s and the Secured 2028s? (March 2024)
- iHeartMedia: How Much Value Can the Company Move to Unrestricted Subsidiaries Under the Secured 2026s and the Senior 2027s? (March 2024)
- iHeartMedia: Frequently Asked Questions on the Capital Structure (published May 2023)

In this report, we refer to these reports as the "Previous Reports," and assume that all readers of this report have read the Previous Reports.

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 this report, we collectively refer to the Secured 2026s, the Secured 2027s, and the Secured 2028s as the "Secured Bonds," and we collectively refer to the indentures for the Secured Bonds as the "Secured Bond Indentures."

We have published full reports on each of the Secured Bonds and Unsecured Bonds, and these reports are available here.

Outstanding Loans

The Issuer is also the Borrower under a Credit Agreement dated May 1, 2019, as most recently amended by Amendment No. 4 in June 2023 (collectively, the "Credit Agreement")[7]. Our previous research on the Credit Agreement is available here. Under the Credit Agreement, as of September 30, 2024, the Company had $2.26 billion of outstanding term loans, due May 1, 2026 (collectively, the "Term Loans"). The

[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] The Credit Agreement is available here.

restrictive covenants of the Credit Agreement apply to the Company and its Restricted Subsidiaries, including the Borrower.

The Issuer is also the Borrower under an asset-based revolving credit facility (the "ABL Revolver"). At September 30, 2024, the ABL Revolver had borrowing base availability of $425.7 million, no outstanding borrowings, and $23.7 million of outstanding letters of credit. We do not address the terms of the ABL Revolver in this report.

The Term Loans are currently secured by a first lien, together with the Secured Bonds, by capital stock of the Issuer and substantially all of the assets of the Issuer and the guarantors (the "Term Loans Collateral"), other than accounts receivable and related assets (the "ABL Collateral"), which secures the ABL Revolver. The Term Loans and Secured Bonds are also secured by a junior lien on the ABL Collateral. In this report, we collectively refer to the Term Loans Collateral and the ABL Collateral as the "Collateral."

The TSA Alternative Transaction Structures

The TSA contemplates two separate alternative transaction structures, which the TSA refers to as the "Comprehensive Transaction" and the "Alternative Transaction." These exchange transactions will be launched concurrently, and the structure of the exchange will be determined by the participation levels of the outstanding loans and bonds.

The Comprehensive Transaction

- The Comprehensive Transaction will be implemented if holders of at least 95% of each tranche of existing debt participate in the exchange transactions.
- Term Loans would be exchanged into new term loans with a May 2029 maturity[8];
- The Secured 2026s would be exchanged into new 9.125% Senior Secured Notes due 2029[9],
- The Unsecured Bonds would be exchanged into new 10.875% Second Lien Senior Secured Notes due 2030[10];
- The Secured 2027s would be exchanged into new 7.75% Senior Secured Notes due 2030[11]; and
- The Secured 2028s would be exchanged into new 7% Senior Secured Notes due 2031[12]
- Proceeds/Recoveries of non-participating holders of Term Loans would be subject to a turn-over for the benefit of participating debt (this appears to function as a potential payment subordination of stub non-participating Term loan lenders);
- The liens securing each outstanding series of Secured Bonds will be released; and
- The guarantees of each outstanding series of Secured Bonds and Unsecured Bonds will be released.
- The existing Term Loans, each series of Secured Bonds, and the Unsecured Bonds will each be covenant stripped.

[8] Holders that participate by the early tender deadline would receive 5% in cash and 94% in exchange debt per face amount of term loans.
[9] Holders that participate by the early tender deadline would receive 5% in cash and 94% in exchange debt per face amount of Secured 2026s.
[10] Holders that participate by the early tender deadline would receive 79% in exchange debt per face amount of Unsecured Bonds.
[11] Holders that participate by the early tender deadline would receive 88% in exchange debt per face amount of Secured 2027s.
[12] Holders that participate by the early tender deadline would receive 79% in exchange debt per face amount of Secured 2028s.

The Alternative Transaction

- The Alternative Transaction will be implemented if holders of at least 95% of each tranche of existing debt does not participate in the exchange transactions.
- The Alternative Transaction will be structured as a drop-down transaction into Unrestricted Subsidiaries.
- The Alternative Transactions involve 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 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, 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[13];
- The Secured 2026s would be exchanged into new DD Holdco 9.125% Senior Secured Notes due 2029[14],
- The Unsecured Bonds would be exchanged into new DD Holdco 10.875% Second Lien Senior Secured Notes due 2030[15];
- The Secured 2027s would be exchanged into new DD Holdco 7.75% Senior Secured Notes due 2030[16]; and
- The Secured 2028s would be exchanged into new DD Holdco 7% Senior Secured Notes due 2031[17]
- 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.
- The Unsecured Notes would have their guarantees released.

<u>The Secured 2028s</u>

On page 3 of the TSA Presentation, iHeart discloses the various levels of support under each of its outstanding tranches of debt. According to this disclosure, only 38% of the Secured 2028s are currently

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[13] 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.
[14] 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.
[15] Holders that participate by the early tender deadline would receive 79% in exchange debt per face amount of Unsecured Bonds.
[16] 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.
[17] 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.

supporting this transaction. Accordingly, if iHeart does not receive a majority of the Secured 2028s, iHeart cannot modify the covenants of the Secured 2028s Indenture, and the Alternative Transaction would have to be permitted by the existing terms of the Secured 2028s Indenture. In other words, iHeart would have to have enough capacity under the Secured 2028s Indenture to move the transferred assets into the newly created Unrestricted Subsidiaries.

For an explanation of how much value the Secured 2028s Indenture would allow to be transferred to Unrestricted Subsidiaries, please see our March 26, 2024 report iHeartMedia: How Much Value Can the Company Move to Unrestricted Subsidiaries Under the Secured 2027s and the Secured 2028s?[18]

Initial Covenant Observations

On page 5 of the TSA Presentation, iHeart discloses expected key benefits to participants in the TSA transactions, including "restrictive covenants, including materially tighter limitations on restricted payments, permitted investments, incremental debt capacity and future liability management transactions."

Covenant Review will be publishing comprehensive research on the terms of the new debt once the structure of the transactions becomes available (i.e., the Comprehensive Transaction or the Alternative Transaction), but we provide a few initial observations in this report:

The new exchange debt will include J. Crew Blockers.

It appears that the new credit agreement to be entered into in either the Comprehensive Transaction or the Alternative Transaction will contain robust J. Crew Blocker language.[19] See *Section 7.10 – Material Assets*, which includes the following language:

> Notwithstanding any other provision in this Agreement or in any other Loan Document, no Broadcast Licenses, Broadcast Stations, FCC Authorizations or material intellectual property or other material property or asset that, in each case, is necessary at such time to the operation of the business of the Loan Parties (or Equity Interests in any Loan Party that owns any such Broadcast Licenses, Broadcast Stations, FCC Authorizations or any such material intellectual property or other material property or asset) that are, in each of the foregoing cases, owned by a Loan Party, may be transferred (whether as an Investment, Restricted Payment, Disposition or otherwise) in any respect, whether directly or indirectly or by one or more transactions (including pursuant the release of any Guaranty provided by any Guarantor), by any Loan Party to any Affiliate of the Borrower that is not a Loan Party, other than pursuant to non-exclusive royalty and/or licensing agreements made for a bona fide business purpose (and not for the purpose of effectuating any Liability Management Transaction).

An additional strength here is that changing the blocker requires 90% of lender consent, making it difficult to "undo" this protection.

In addition, it appears that each of the new first lien and second lien bonds to be entered into in the Comprehensive Transaction or the Alternative Transaction will contain this robust J. Crew Blocker language, because Exhibit 1-B to the TSA generally provides that the negative covenants of the new

[18] As the question of how much Restricted Payments and Permitted Investments capacity there may be under the Secured 2028s Indenture depends on a number of assumptions, we have not attempted to estimate this amount for purposes of this report.
[19] This is functionally similar to the J. Crew blocker applicable to some of the Company's existing debt (including its current Term Loan credit agreement). See the final paragraph of Section 7.02 in the existing Credit Agreement.

exchange bonds "will mirror the negative covenants of the new Credit Agreement…in substance." Accordingly, it appears that the new credit agreement and secured bonds will each contain J. Crew Blocker language.

The new exchange debt will include Serta Protection.

It appears that the new credit agreement to be entered into in either the Comprehensive Transaction or the Alternative Transaction will contain Serta Protection. *Section 10.01(h)* of the credit agreement provides that affected lender consent is required to effect payment subordination or lien subordination of the loans to any other debt, other than (1) debt that is expressly permitted by the credit agreement (as in effect on the closing date) to rank senior in payment or lien priority or (2) in connection with a DIP financing.[20]

Further, Section 10.07(m) provides that open market purchases (while permitted) can only be conducted "on a pro rata basis solely for cash or Refinancing Term Loans," making it difficult (if not impossible) for future non-ratable uptiering to be conducted via this mechanic.

In addition, it appears that each of the new first lien and second lien bonds to be entered into in the Comprehensive Transaction or the Alternative Transaction will contain this Serta Protection, because Exhibit 1-B to the TSA generally provides that the negative covenants of the new exchange bonds "will mirror the negative covenants of the new Credit Agreement…in substance." Accordingly, it appears that the new credit agreement and secured bonds will each contain this Serta Protection.

Additional Protections

The new credit agreements also generally reflect other tighter terms. This includes the absence of an "unrestricted subsidiary" concept as well as a so-called "double dip blocker." The double dip blocker is contained in Section 7.03 of the credit agreement and largely prohibits intercompany loans incurred by loan parties and owed to non-loan party subsidiaries from being guaranteed / secured by the loan party entities. Since "double-dip" liability management exercises largely are predicated on a pari secured intercompany loan, this prohibition essentially closes off future such transactions.

Notably, both the implementation of unrestricted subsidiary flexibility or a modification of the double dip blocker will require 90% lender consent.

Separately, the new credit agreement will also include a vote rigging blocker (also known as an "Incora blocker"). In the amendments provision itself (see Section 10.01(j) of the credit agreement), the company is prohibited from "the incurrence of additional Indebtedness under this Agreement for the primary purpose of influencing any voting threshold required under this Agreement in order to obtain consent to any transaction that would not otherwise be permitted prior to the incurrence of any such additional Indebtedness."

In addition, it appears that each of the new first lien and second lien bonds to be entered into in the Comprehensive Transaction or the Alternative Transaction will contain these additional protections, because Exhibit 1-B to the TSA generally provides that the negative covenants of the new exchange bonds "will mirror the negative covenants of the new Credit Agreement…in substance." Accordingly, it appears

[20] Additionally, Section 10.01(e) requires affected lender consent to release all or substantially all of the collateral.

that the new credit agreement and secured bonds will each contain these additional protections.

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

— *Covenant Review*

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