CQS New City Equity

November 2019

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CQS

CQS New City Equity

"We look to invest in a small number of corporate stars which deliver exceptional products and services to their clients. These companies have developed a constant flow of innovation that empowers their customers and generates significant pricing power. We are not interested in brands or trends but in long term leaders in specific industries. These companies are the innovation compounders."

Raphael Pitoun

ESG[5]
LUXFLAG Label

Over the past century, 50 listed stocks generated 40% of the wealth creation in the US stock market.

Based on Do stocks outperform Treasury bills? Univ. of Arizona, 2018

- *CQS is a multi-strategy asset manager founded by Sir Michael Hintze in 1999 with USD18.6bn in AuM[6]*
- *CQS New City Equity, 100% owned by CQS, aims at developing differentiated and highly active equity products*
- *CQS and CQS New City Equity share a common culture of fundamental research to create an edge and generate alpha*

It is now broadly documented that a few listed equities deliver the bulk of the stock market's performance. The objective of the CQS New City Global Equity strategy is to identify these exceptional companies and construct a highly concentrated portfolio for the long term.

The team implements a forensic research process with a particular focus on strategy, innovation and ESG matters that feed directly into the long term valuation framework. The ambition is to achieve double-digit return over the cycle and embrace the new language for equity investment.

Investment Philosophy

- We invest in companies that have delivered exceptional products and services that empower their customers and generate significant pricing power and economic moat.
- Such companies have consistently produced a flow of recurring innovation – and sustainable profits derived from the intrinsic value the company brings to the customer – not from an opaque value chain or a regulatory window. *One dollar of profit is not equal to another.*
- These innovation compounders, with sufficient growth potential, can only be found in specific industries supported by highly diversified secular tailwinds. Typically, they hold a market leading position.
- To consistently commercialise their innovation, companies must have a clear business mission, appropriate corporate governance and incentives that specifically encourage innovation from the ground.
- The targeted return, aligned with these companies' long term earnings growth, is 12-15% across the cycle.

Investment Process

- Step 1 – Quantitative screening based on track record, growth, cash flow metrics and leverage
- Step 2 – Qualitative assessment and production of a comprehensive Strategic Report for each new company
- Step 3 – Valuation centred around the projection of long term cash flows with a focus on economic rather than accounting profit
- The forensic analysis of ESG criteria is embedded in the deep dive research process on each company

Investment Team

- Raphael Pitoun – 20 years equities experience
- Previously co-Head of Research at BNP Exane and then CIO and Portfolio Manager at Seilern Investment
- Portfolio manager of Stryx World Growth and Stryx America (AuM of c. USD0.9bn[1])
- Expertise in identification and investment in exceptional companies in developed markets
- Team completed by young and disciplined equity analysts

Track Record

- Raphael Pitoun – AAA-rated Citywire[2]
- Under his management, both Stryx funds outperformed their benchmarks by an average 6-7% per annum[3]
- Multiple awards incl. Sauren Global Awards 2019; Citywire US Equity fund 2018; Lipper US fund 2018
- Stryx World fund ranked #3 out of 1,304 global equity funds and Stryx America fund #2 out of 3,361 US equity funds during Raphael's management[4]
- Limited exposure to FANGs and large diversification in terms of source and concentration of returns

Products, How to know more and Contact

- The strategy can be developed through UCITS-compliant funds and segregated accounts
- The team currently manages two strategies: the global strategy focusses primarily on the USA, Europe and Japan and the North American strategy focusses exclusively on the USA and Canada
- The *Research and Valuation Methodology* and *ESG Policy* documents are available on request
- A sample of a *Strategic Report* on one of our holdings – Live Nation – can also be provided
- For further information, please contact the team at newcityequity@cqsm.com

Notes: [1]AuM number sourced on Bloomberg as at 31 May 2018, the date of Raphael Pitoun's departure. [2]Citywire, May 2018; the rating refers to Raphael's work at Seilern Investment [3]Bloomberg, July 2014-May 2018; [4]eVestment, peer group 'All Global Equity' and 'All US Equity' respectively, July 2014-May 2018; [5]The LuxFlag label applies to the CQS New City Global Equity Strategy; [6]Source: CQS, Estimated 1 November 2019

CQS New City Equity

CQS New City Global Equity Strategy
CQS New City North American Equity Strategy

November 2019

Signatory of:

PRI Principles for Responsible Investment

SBai Standards Board for Alternative Investments SIGNATORY Feb '19

Raphael Pitoun

Portfolio Manager,
CQS New City Equity

“We look to invest in a small number of corporate stars which deliver a constant flow of innovation, empowering their customers and generating significant pricing power.

We are not interested in brands or trends, but in long term leaders in specific industries. The companies that we select are the innovation compounders.”

Defining the Innovation Compounders

Track record of Innovation

We invest in companies that have delivered exceptional products and services that empower their customers and generates significant pricing power and economic moat.

Healthy Profits

Typically such companies produce a flow of recurring innovation ensuring their profits are derived from the intrinsic value the company brings to the customer – not from an opaque value chain or a regulatory window. One dollar of profit is not equal to another.

Thematic Growth Drivers

Innovation compounders with sufficient growth potential can only be found in specific industries supported by highly diversified secular tailwinds. They normally hold a market leading position.

Culture of Innovation

To make innovation predictable, companies must have a clear business mission, appropriate corporate governance and incentives that specifically encourage innovation from the ground.

CQS, for illustrative purposes.

Types of Innovation Compounders

Innovation Hub

Companies which manage to incubate innovation at scale by leveraging on their client knowledge, distribution skills and logistics to sell recurring innovation products and services.

xylem

Innovation Monopoly

‘Small giants’ – these companies account for the vast majority of research and development spending and innovation flow in their respective niche markets.

IDEXX LABORATORIES

Innovation Enabler

Companies which help their clients to innovate – for example, simulation software or IT specialised consulting.

ANSYS

Value Chain Disruptor

Companies which approach their market differently – the innovation is in the business model.

LIVE NATION

CQS, for illustrative purposes.

Research Process and Portfolio

Research Driven > **Valuation Conscious** > **Concentrated** > **ESG Friendly**

Research Driven

6-12 months research process before initiation.

Writing of a detailed Strategic Report for each new company.

Approach similar to private equity.

Valuation Conscious

Evaluating the long term growth and margin potential.

Accounting profits can be misleading when the company is in investment mode.

Long term cashflow based valuation.

Concentrated

> *Over the past century, 50 listed stocks represented 40% of the wealth creation in the US market.*[1]

50 exceptional companies covered in Top50 List.

20 to maximum 25 holdings in the portfolio.

ESG Friendly

Integration of ESG along the investment process – expertise sitting within the team.

In-depth ESG analysis for each company – no reliance on external ratings.

LUXFLAG Label ESG[2]

Source: CQS analysis as at October 2019. [1]Do stocks outperform Treasury bills? Study by the University of Arizona, 2018. [2]The LuxFlag label applies to the CQS New City Global Equity Strategy.

Returns and Fund Behaviour

Continued Resilience

We insist upon companies with a long track record so that we can analyse their ability to manage downturns or industry disruptions.

With low levels of debt, our target companies can invest against
the cycle and emerge stronger than before.

Differentiated Portfolio

We tend to ignore companies whose economic moat is derived from brands and marketing spend.

We exclude most of the typical quality growth companies, such as the FANGs or consumer staples.

Target Returns[1]

We anticipate target returns of **12-15% over a full cycle**.

These returns are aligned with the expected cash flow growth of the portfolio companies.

Source: CQS as at 31 October 2019. [1]Target returns are estimated and gross of anticipated fees, expenses and income reinvested. A client's return will be reduced by these fees and other expenses incurred by the management of the fund. They are based on long-term performance projections of the investment strategy and market conditions at the time of modelling and are therefore subject to change. There is no guarantee that any target return can be achieved. Investors should not place any reliance on such target return in deciding whether to invest in the Fund. Target returns are for illustrative purposes only.

Agenda

CQS | New City Equity

Portfolio Manager Profile

Raphael Pitoun

20 **years experience as an equities specialist**

Previously, Chief Investment Officer and Portfolio Manager at Seilern Investment Management (from July 14 to May 18).

- Stryx World Growth; AUM USD722m[2]; investing in global equities
- Stryx America; AUM USD165m[2]; investing in US equities

Annualised Fund performance[2]

	1 year[1,3]	3 years[1,3]	Full Management Period[1,4]
Stryx World Growth Fund	**19.8%**	**14.0%**	**13.8%**
MSCI World TR	11.6%	7.6%	6.8%
Difference	8.3%	6.4%	7.0%
Stryx America Fund	**22.2%**	**17.3%**	**17.3%**
S&P 500 TR	14.4%	11.0%	10.8%
Difference	7.8%	6.3%	6.5%

AAA	★★★★★	★★★★★	#3	#2
Former Citywire manager rating[5]	Former rating with Lipper fund rating[5]	Former Morningstar fund rating[5]	Out of 1,304 funds in terms of returns for Stryx World Growth[6]	Out of 3,361 funds in terms of returns for Stryx America[6]

[1]The performance of the Stryx World Growth share class I USD (ISIN IE00B5ST2S55) Fund and the Stryx America Fund share class I USD (ISIN IE00B1ZBRP88) (the "Funds") over the period does not give any indication of the potential performance of the CQS New City Global Equity Strategy or the CQS New City North America Equity Strategy, but is included here as a matter of public record. This presentation includes historic returns and past performance is not a reliable indicator of future results. The value of investments can go down as well as up. [2]Morningstar, May 2018. [3]1 year covers June 2017 to May 2018 and 3 year covers June 2015 to May 2018. [4]The period during which Raphael Pitoun was the Portfolio Manager for the Funds (the "Full Management Period"). [5]Ratings for Raphael Pitoun, Stryx World Growth and Stryx America obtained or maintained during Full Management Period, Source: Citywire, Morningstar, Lipper, May 2018. [6]eVestment for the Full Management Period, peer group 'All Global Equity' for Stryx World Growth and 'All US Equity' for Stryx America

CQS New City Equity Organisation

Independence on investments | Shared research intelligence | Operational integration

Sir Michael Hintze (SIO)

Xavier Rolet (CEO)

Sir Michael Peat (Executive Chairman)

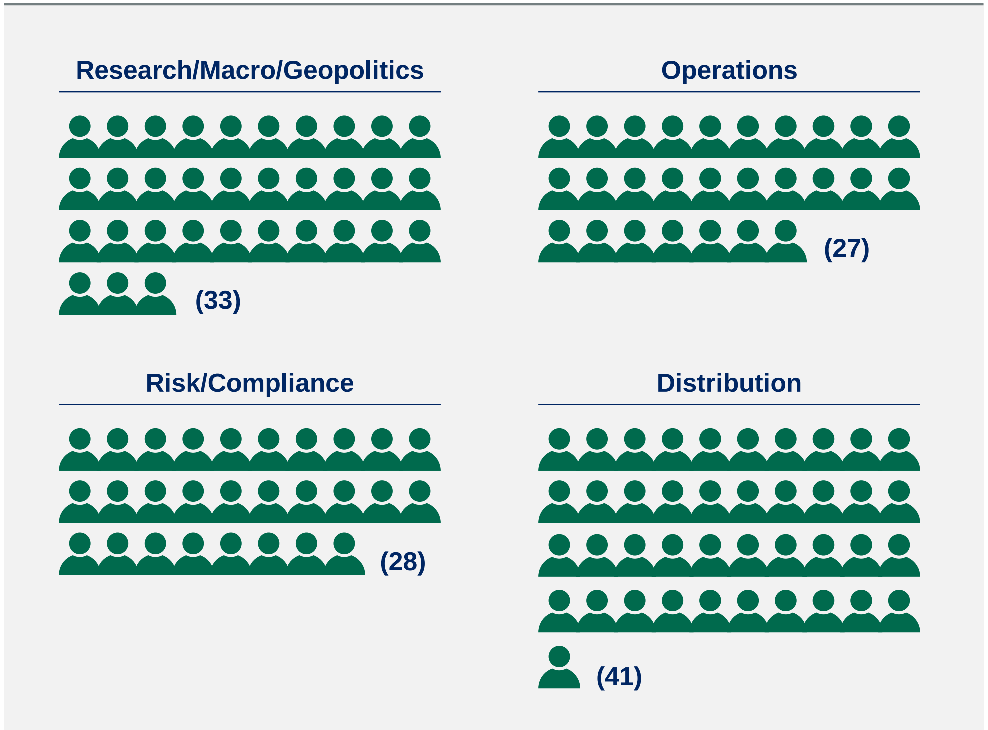
CQS New City Equity (Equity Business of CQS)

Raphael Pitoun (Portfolio Manager)

Jos Trusted (CEO)

Philip Gottschalk (Research)

Daniel Eliahu (Research)



1999
Founded

CQS
$18.6bn
AUM

280 Staff
Across London,
New York,
Hong Kong

Headquartered in London
with a footprint in New York and
Hong Kong & Sydney

We adopt a fundamental,
research-driven approach
across the capital structure

Multi-strategy Asset Management
in both **Traditional**
and **Hedge Fund** structures

Supported by a team of 80+
investment focused staff
including specialist instrument level
research, as well as geographic,
sectoral and geopolitical expertise

Source: CQS estimated as at 1 November 2019.

CQS

Investment Process

Investment Process – Overview

01 | Quantitative Screening

Based on sector, balance sheet, track record, gross margin

Every 6 months alternatively in the US and non US markets

02 | Deep Dive and Initiation

Further exclusion based on qualitative aspects

Strategic report of c.50 pages for each company selected for the Top50 List

03 | Coverage and Portfolio Construction

Continued scrutiny and engagement with companies

Portfolio management based on valuation, cyclicality and liquidity

Universe
c. 3,000 companies[1]
(OECD, market cap >$3bn)

Long List
c. 500 companies[1]
(Turnover <2%)

Top50 List
c. 50 companies[1]
(Turnover <5%)

Portfolio
c. 20-25 positions
(15-25% turnover)

Source: CQS, October 2019. For illustrative purposes. [1]The approximate numbers quoted for the Investment Universe, Long List and Top50 List apply to the Global Equity Strategy, for the North America Strategy the corresponding numbers will be lower.

Investment Process – Step 1

01 Quantitative Screening > **02** Deep Dive and Initiation > **03** Coverage and Portfolio Construction

Size

Minimum USD3bn (or USD2bn for early identification)

Geography

Global Equity Strategy: The OECD[1], primarily the US, Europe and Japan.

North American Equity Strategy: The US and Canada.

Sector

We exclude energy, banks, insurance, real estate, mining, telco's, utilities and companies with significant exposure to weapons, tobacco, alcohol and gambling.

Fundamentals

Balance sheet	Maximum 2x net debt / EBITDA for non-cyclical, highly cash generative businesses
Track record	Minimum 5 years of listing, continued sales growth and high compounded EPS growth
Gross margin	Minimum 30% ex pass through

Source: CQS, October 2019. For illustrative purposes. [1]Organisation for Economic Cooperation and Development.

Investment Process – Step 2

01 Quantitative Screening > **02** Deep Dive and Initiation > **03** Coverage and Portfolio Construction

- Will this company remain in our Top50 List for 10 years+?
- What makes this company innovative?
- How predictable is the business model?
- Is the financial reporting of high quality and transparency?
- Is the company technologically prepared for the future?
- What are the major ESG risks?

Initiation with a Detailed Strategic Report

Source: CQS, October 2019. For illustrative purposes.

Investment Process – Step 3

01 Quantitative Screening > 02 Deep Dive and Initiation > 03 Coverage and Portfolio Construction

Coverage

- **Monitoring**: position inside the Top50 List challenged by constant scrutiny
- **Research**: industry conferences, field trips and investor days
- **Engagement**: 200+ company contacts a year, regular interaction and systematic voting

Portfolio Construction

- **Valuation**, cyclicality, liquidity main criteria
- **Position sizing** initially at 3% to 4%, standard 4% to 6% and maximum 10%
- **Portfolio bias** towards quality stocks in falling markets and growth stocks in constructive markets
- No sector cap, but **diversification of the thematic growth drivers**

Source: CQS, October 2019. For illustrative purposes.

Valuation

Does it Make Sense?

rightmove

Facebook

Main asset	User Base
Valuation	Zero

Rightmove

ROCE 2016	14,256%
ROCE 2017	2,565%

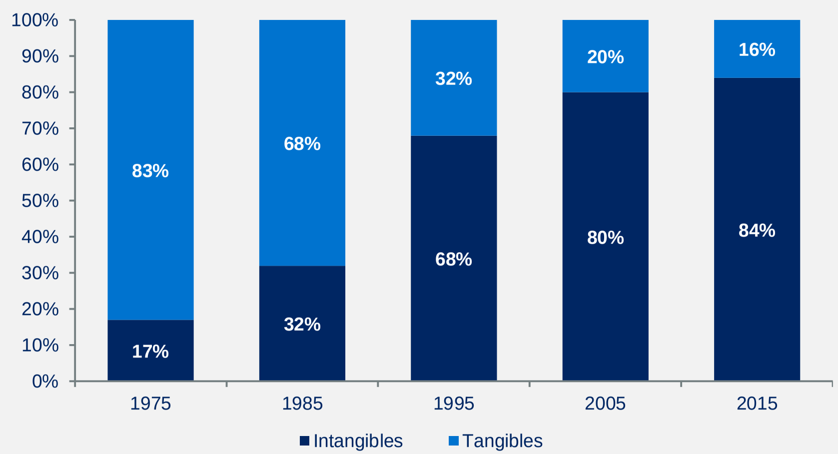
> *My investors don't understand the accounting, nor do they care.*

CFO of a large public US company[1]

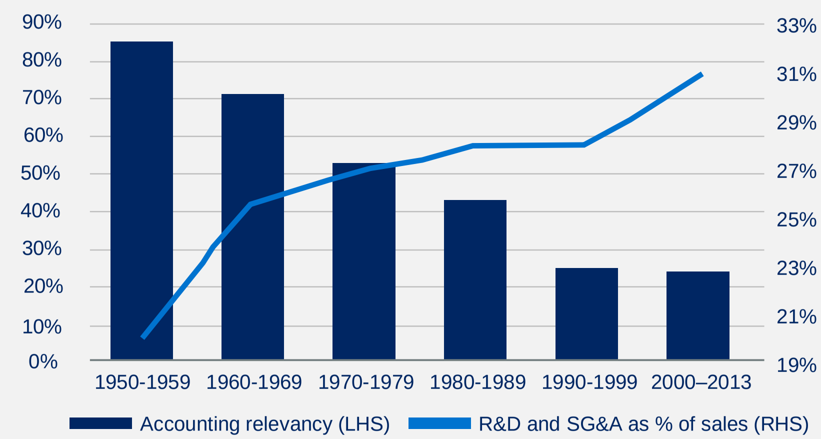
Source: CQS October 2019. For illustrative purposes. [1]Quoted by Baruc Lev in "The Deteriorating Usefulness of Financial Report Information and How to Reverse It", December 2017

Taking Stock of a Transformed Corporate World

Today, intangibles explain the bulk of market capitalisations…



Earnings and book value are increasingly uncorrelated from share prices…[1]



…but intangibles are either reflected poorly or not at all in the P&L and balance sheet.

…meaning that classic valuation metrics are outdated

Source: CQS October 2019, For illustrative purposes. Charts and accompanying text sourced from Lev and Gu, 2016; [1]As measured by the concept of accounting relevancy which is defined as the R^2 of regressions of market values on earnings and book values of companies entering the public market in successive decades (for the full methodology, see Lev and Gu, 2016)

Top50 Companies Shared Characteristics

Average Revenue Growth

6–8%

High Quality Accounts & Transparent Reporting

Average Year of Creation

1950’s

Top50

List of exceptional companies

Average Earnings Growth

12–15%

Cash Conversion[1]

90–120%

ESG Integrated

Source: CQS. October 2019. For illustrative purposes. [1]Measured as Free cash flow / net profit The above are targets regarding future investments and circumstances that are forward looking in nature and constitute subjective targets based on CQS’ intentions. They should not be relied upon as they involve inherent risk and uncertainties beyond CQS’ control.

Adapting Valuation to the New Paradigm

R estate the company accounts to clarify the top down cashflow generation

E valuate the intangible assets of the company, even if unaccounted for in the books

T ake a long term view that reflects the sustainability of the business model

U nderstand the cyclical, structural and ESG risks to derive a meaningful cost of capital

R ecalibrate the portfolio with valuation as the primary factor

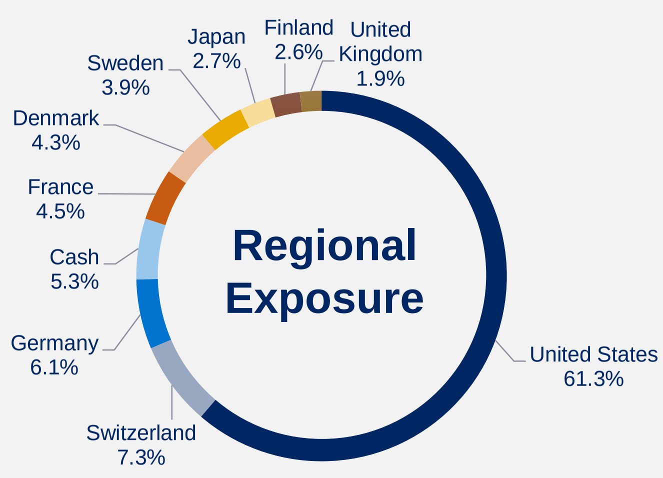
N ever rely solely on P/E multiples or relative peer multiples

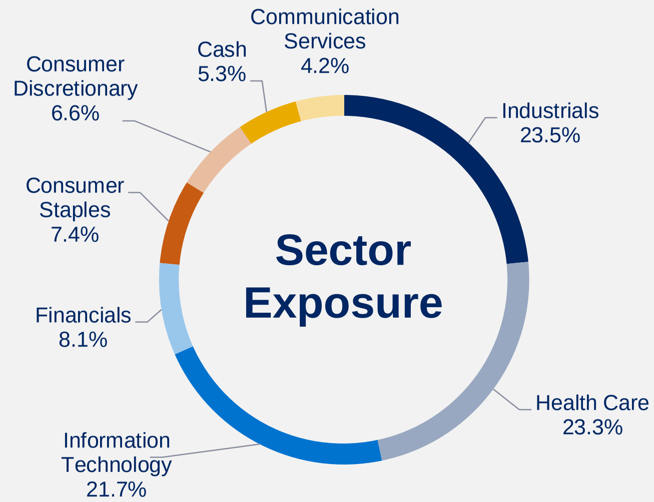
S ensitivity-check the valuation output for what could go wrong

Source: CQS October 2019. For illustrative purposes.

Portfolio Characteristics

Portfolio Summary – Global Equity Strategy





Liquidity

- Average market cap of portfolio companies: $66bn
- Differentiated expertise in the $10 – 40bn range

Top 5 Holdings

Abbott Labs	Healthcare
CME Group	Financials
Mastercard	Financials
Straumann	Healthcare
Xylem	Industrials

Source: CQS and Bloomberg as at 31 October 2019. Actual allocations at month-end. There is no guarantee that the Fund will invest in this way at all or do so in the same manner as set forth in this presentation. Figures may not sum to 100 due to rounding. Past performance may not be a reliable guide to future performance. The value of investments can go down as well as up. Please read the important legal notice at the end of this presentation.

Approach to Strategy Construction

Concentrated portfolio of stocks

20-25

Flexibility of 5 to 50 positions for mandates

Expected low turnover per annum

20-30%

Limited

relative draw downs expected

Target returns[1] p.a. over a full cycle

12%-15%

Volatility relative to the market

In line

Active money

Close to 100%

Expected tracking error

4-5%

Derivatives or leverage

None

Information is for illustrative purposes only and is subject to change without notice. Please see the important information at the end of this presentation. [1]Target returns are estimated and gross of anticipated fees, expenses and income reinvested. A client's return will be reduced by these fees and other expenses incurred by the management of the fund. They are based on long-term performance projections of the investment strategy and market conditions at the time of modelling and are therefore subject to change. There is no guarantee that any target return can be achieved. Investors should not place any reliance on such target return in deciding whether to invest in the Fund. Target returns are for illustrative purposes only.

Resilience in a Downturn

We believe the following to be key attributes of the companies in our Top50 List

Track Record	Balance Sheet	Revenues	Post Crisis	Liquidity	End Markets	Governance
Resilient business model in stressed mode, e.g. during the GFC.[1]	No refinancing risk allowing continued operation despite closed capital and debt markets for extended periods.	Strong proportion of recurring revenues.	Ability to consolidate the market as weak players exit or are acquired at sensible prices.	High liquidity stocks are the first to be sold, but across the full downturn, they offer a high level of protection.	Strong diversification in terms of geographies, industries and end markets.	Countercyclical investment policy in line with the long term strategy.
High	High	High	High	High	High	Neutral

Contribution to Resilience Low Neutral High

Source: CQS analysis, July 2019. [1]GFC stands for the Global Financial Crisis that followed the default of Lehman Brothers.

Environmental, Social and Governance

ESG Integration Along the Investment Process

01 | Quantitative Screening

Exclusion of highly polluting sectors incl. utilities, mining, oil & gas…

Exclusion of companies with significant exposure to weapons, tobacco, alcohol and gambling.

CO_2 intensity of portfolio expected to be 70-90% below benchmark.

02 | Deep Dive and Initiation

ESG risks and opportunities analysed as part of the strategic review.

Research focussed on internal organisation, stakeholder relationships and governance.

Objective to assess client centricity, employee incentivisation and innovation capabilities.

03 | Coverage and Portfolio Construction

ESG embedded in valuation through cost of capital.

Commitment to engage with the company in a constructive manner.

Systematic voting with case-by-case analysis of each proposal.

Our concentrated strategy allows us to allocate significant time and resources to produce thorough ESG analysis for each portfolio company.

Source: CQS as at October 2019. For illustrative purposes.

The Numbers

Fund Terms

Investment Manager	CQS (UK) LLP
Structure	UCITS
Share Classes	EUR, GBP, USD, CHF
Management Fee	**A:** 1.50% p.a. **I:** 0.75% p.a. **F:** 0.35% p.a. **S:** 0.50% p.a.
Subscriptions	Daily by 1pm Dublin time
Redemptions/Withdrawals	Daily by 1pm Dublin time
Minimum Investment	**A:** €35,000 or currency equivalent
	I: €1m or currency equivalent
	F: €1m or currency equivalent
	S: €30m or currency equivalent
Administrator	State Street
Depository	State Street
Auditor	Ernst & Young, 30 June fiscal year-end
Investor Reporting	Daily NAV
	Monthly Investor Report
	Annual Audited Financial Statements
	Unaudited Interim Financial Statements

Please refer to Offering documentation for full terms. These terms are indicative only and may be subject to change.

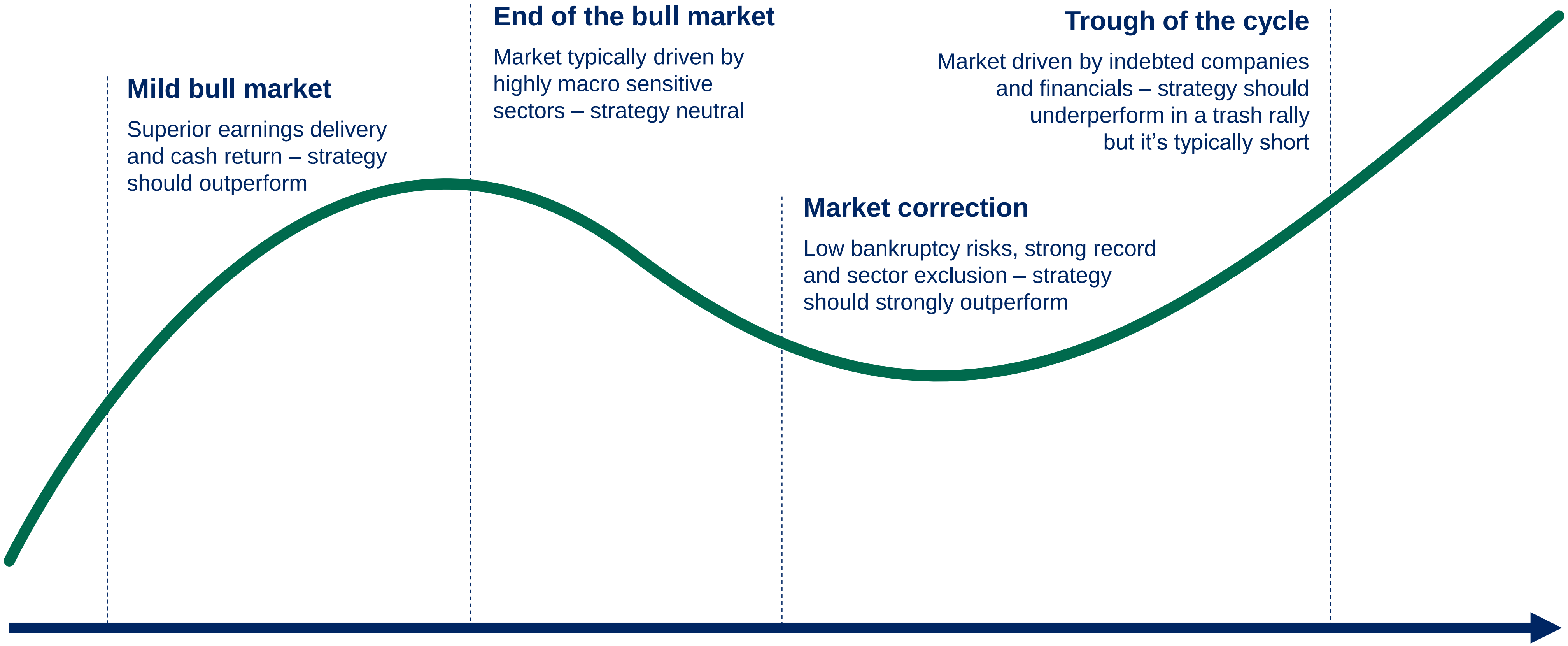
Performance Summary – Global Equity Strategy

Share Class	1 Mth Return (%)	3 Mth Return (%)	6 Mth Return (%)	12 Mth Return (%)	YTD Return* (%)	NAV/Share
F USD Unhedged	2.98	2.20			6.27	106.267
MSCI World TR USD[1]	2.54	2.58			6.33*	-
F EUR	2.70	1.48			4.83	104.830
F EUR Unhedged	0.65	1.51			6.84	106.839
F GBP Unhedged	-2.15	-3.97			6.80	106.802
F GBP[2]	2.78	1.63			-0.03	99.969
I USD	2.94	2.07			6.02	106.022
I EUR	2.66	1.38			4.64	104.642
I EUR Unhedged	0.62	1.41			6.65	106.652
I GBP	2.74	1.49			5.01	105.015
I GBP Unhedged	-2.19	-4.10			6.56	106.558

Source: CQS as at 31 October 2019. *YTD returns, including MSCI, shown since CQS New City Global Equity Fund's inception 9 May 2019. [1]The MSCI World Index is a broad-based global equity index that represents large and mid-cap equity performance across 23 developed market countries. It covers approximately 85% of the free-float adjusted market capitalisation in each country and does not offer exposure to emerging markets. The Fund may have since exited some/all of the positions detailed in the above commentary. All market data sourced from Bloomberg.[2]F GBP share class launched 17 July 2019. This presentation includes historic returns and past performance is not a reliable indicator of future results. The value of investments can go down as well as up.

Appendix

Behaviour Across the Cycle



Across the cycle, the investment objective is to deliver a performance similar to the long term earnings growth of the portfolio companies i.e. 12–15%[1]

Source: CQS, July 2019. [1]Target returns are estimated and gross of anticipated fees, expenses and income reinvested. A client's return will be reduced by these fees and other expenses incurred by the management of the fund. They are based on long-term performance projections of the investment strategy and market conditions at the time of modelling and are therefore subject to change. There is no guarantee that any target return can be achieved. Investors should not place any reliance on such target return in deciding whether to invest in the Fund. Target returns are for illustrative purposes only.

ESG Case Study: **Xylem**

Background

Xylem contributes to solve water issues across the cycle, from drinking water delivery to waste water treatment, by making water safer, affordable and more accessible for people around the world.

Forbes includes Xylem in its ‘Just 100’ list for making a significant economic and social impact through its core business strategy.

We attribute the company the highest ESG rating on our scale.

Environmental considerations

Water is an existential question for human life. Less than 1% of the total water available on earth is fresh water, and these supplies are under threat due to factors such as the draining of aquifers, increased pollution, the effects of climate change.

The water infrastructure in many countries is old and water loss frequent. In the US, for instance, Xylem estimates that 1/6 of volumes are lost to theft, leak, inaccurate readings.

Xylem’s core business contributes to a better management across the water cycle, for instance through smart sensors that allow for timely detection of water loss.

Social considerations

We assess the relationship between the company and its clients to be mutually beneficial. The business model falls into the category of dual mandate, i.e. Xylem helps their clients improve their offering and revenues and at the same time cut operational and regulatory costs. Xylem’s positioning is that of a premium player with innovative products and pricing power on the back of strong R&D efforts.

Xylem has c.17,000 employees. Glassdoor reviews suggest an average rating for Xylem. There are hints of a white collar / blue collar conflict which are not uncommon for industrial companies. Xylem conducts both large-scale surveys and small pulse surveys in its various business units and geographic markets, which is best practice.

Governance considerations

We assess the management track record as strong. CEO Patrick Decker has been in office since 2014, and after a year of readjustment, has led the company to a path of accelerated growth and expanding margins. The executive compensation is high, but not excessive.

We consider Xylem’s financial reporting to be transparent and of high quality. The company provides a lot of financial and operating detail. The sustainability report shows various ESG-initiatives.

The board of directors strikes us as close to best in practice. It is almost entirely independent from the CEO, with fully independent audit and nomination committees The review of past shareholder votes does not reveal any tension.

CQS, for illustrative purposes.

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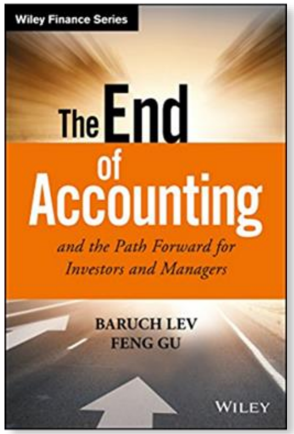
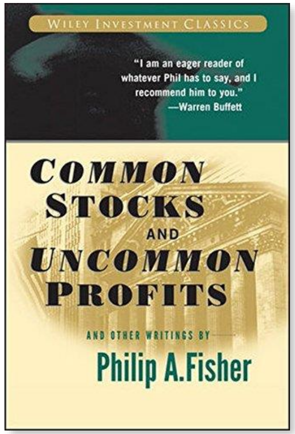
Bibliography

Books

The End of Accounting and the Path Forward for Investors and Managers
Baruch Lev and Feng Gu, 2016

Common Stocks and Uncommon Profits
Philip Fisher, 2003





Recent Studies

Embankment Project for Inclusive Capitalism
Think Tank, 2018
https://www.epic-value.com/#report

Superstars: the Dynamics of Firms
McKinsey Global Institute, 2018
https://www.mckinsey.com

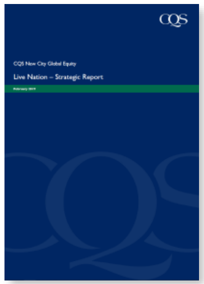
Do Stocks Outperform Treasury Bills?
Study by the University of Arizona, 2018
http://csinvesting.org

Our Documents

Research and Valuation Methodology
CQS New City Equity

Strategic Report on Rollins
CQS New City Equity

ESG Policy
CQS New City Equity



CQS, for illustrative purposes.

CQS New City Global Equity

Research and Valuation Methodology

2019

This document sets out general guidelines for conducting research for a company considered for investment. It was last updated in October 2019.

Investment Philosophy

Our Ideal Company

What we learnt at school is that for a specific, potentially random reason, a company may be able to temporarily increase its return on capital employed (ROCE) above its cost of capital (WACC). Over time, the law of declining returns teaches that economic rents will attract new competition that results in price competition and ultimately a decline in the industry's profit pool, including the incumbent's profits.

This simplistic view however fails to explain the long-term structural changes that affect the competitive landscape. Research studies have shown that value creation on the stock market is concentrated in a small pool of exceptional companies.

Some of these are young companies, which benefited from a first mover advantage in completely new markets. Investing in these businesses in their early days of existence is often a risky bet, not only because it is close to impossible to pick the future winner among numerous candidates, but also because such first mover advantage is often short-lived and based on access to capital. This is especially true in a context of cheap money.

In contrast, many of these exceptional companies are actually not very young. They can take their roots as early as decades ago. They have managed to make their way through economic cycles, game-changing innovations and constant pressure by competitive forces. Among these, again, many will fail in the future: the past is not a warrant for future performance.

But some very rare companies will continue to strive over the long term, and it is these companies that we are after. Their competitive advantage is not solely based on first mover advantage or access to capital or marketing. It is based on a more solid and sustainable ground, which is deeply rooted in the corporate culture and allows them to adapt to the waves of innovation. They manage to build barriers to entry, such as a favourable industry configuration, high switching costs, astute marketing strategies or a network effect that is difficult to replicate. These companies manage to develop a sustainable profit growth trajectory. In a world, which is increasingly driven by the value of intangibles, they also often generate extremely high returns on capital.

The Key Pillars of our Strategic Analysis

The investment strategy focusses on companies, which demonstrate the best combination of quality, growth and predictability. All research should be conducted from the angle of these three key pillars.

- **Quality:** beyond the purely financial aspects of quality, such as a healthy balance sheet and good track record of improving profitability, it is of utmost importance to understand and evaluate how a company is organised and positioned. In our view, future success will depend in particular on management quality, alignment of interest between all stakeholders to maximise human capital and the efficient use of information and communication technology.
- **Growth:** we are looking for companies, which offer growth prospects for the long term, thanks to both growing market size and growing market share. Organic growth is preferred. Research should not solely concentrate on the revenue

potential over the coming years arising from the current line of products and services offered. In contrast, attention should be paid first and foremost to a company's ability to adapt to changing market conditions in order to create future revenue opportunities. Inert companies are vowed to fail. Successful companies prepare the future by smart investments in R&D and product development even though they weigh on short term cash flow generation.

- **Predictability:** a company's growth scenario is predictable if it does not show excessive sensitivity to macro-events, regulation, politics or commodity prices. Gross margins should be sufficiently healthy to avoid severe bumps in profits, while the top-line should be shielded against competitive pressure by pricing power, barriers to entry and a large portion of recurring revenues. The risk of cost escalation and disruption of the supply chain should be weak. We aim to build a portfolio, which will outperform over the long term irrespective of the overall economy while featuring sub-average risk. Long-term earnings growth shall be the main driver of share price performance.

Types of business models

The business model of our ideal companies generally features one or more of the following structural characteristics:

- **They fulfil a dual mandate.** Dual mandate companies deliver a range of products and/or services, which benefit clients in complementary ways. The first leg of the mandate is to enable cost cutting, improve efficiency and ultimately free financial resources. The second leg of the mandate is to help the very client boost innovation, launch new products and invest in technologies. It requires the company's internal organisation to be set up with this duality in mind, by fostering a coordinated approach to sales and customer service.

- **Their offering is highly differentiated**, providing a shield from direct competition. They bring a significant advantage to the client in terms of productivity, cost of maintenance, reliability, after sale service or overall results and quality versus competing firms. Most companies in that category heavily invest in R&D in order to maintain market leadership and drive pricing power. They are focused on specific applications where they capitalise on their size, access to customers and market feedback to remain on top of client needs as well as to identify white space products. This category excludes companies whose growth is fuelled primarily by branding or fashion trends, whose sustainability is questionable.

- **It is a platform business**, whose growth is stimulated by a virtuous network effect. Potential challengers would need to develop a differentiated offering, spend significant amounts to incentivize switching to the new platform and, most often, compete on pricing. This category excludes companies whose past success is based purely on brand, marketing spending or installed base, which can be replicated with capital over time. The objective is to find companies, which combine additional and hard-to-replicate competitive advantages, such as specific technical expertise or a privileged place in the industry value chain.

- **They complete non-core but mission critical tasks**, which clients prefer to outsource due to the high level of expertise or scale required to execute them efficiently. Most companies in this category represent a small share of their clients' overall cost base and are active in relatively small markets. They intervene at critical moments within the clients' value-chain insofar as they carry a high cost of failure. These companies can attract an important pricing power if they deliver an added-value and efficient service to their clients and be exposed to a weak level of competition given the small size of the profit pool. They often deliver moderate but highly predictable growth.

Where we differ from the market

Identifying the best companies in the world requires a thorough deep-dive analysis into the stock and the market. We expect this process to take between 3-12 months, on average. We aim to acquire a level of knowledge of the company that goes beyond that of the average investor.

We believe our analysis is particularly thorough in three essential areas:

- **Market and product dynamics:** which factors drive the distribution of market shares within a given industry? What are the key competitive advantages and barriers to entry? What are the customer needs?
- **Organisation:** how is a company organised in order to maintain a competitive advantage over the long term? How good is management, and is a succession plan in place? How are incentives channelled through the operational hierarchy? What level of importance does the company attribute to environmental, social and governance (ESG) considerations? Is the technological setup prepared for the future?
- **Risk:** are there any weaknesses within the organisation that could cause a company to derail from its growth trajectory? How does a company react to external shocks such as the collapse of Lehman Brothers, the European debt crisis or the Brexit referendum? Can the company be disrupted?

Contrary to the vast majority of market participants, our approach underpins a genuinely long-term view. Most investors have a forecasting horizon of 3 months to 2 years, in line with sell-side analysts. After that, some progressive "return to the norm" is expected, be it in terms of ROCE, exit-multiple, terminal sales or inflation forecasts. Given how the standard financial models are built, the market perception of value is driven mainly by a short-term view on financial outlook. No differentiating view is taken on the long-term evolution of the company.

While we acknowledge that forecasting uncertainty increases disproportionately with the time horizon under consideration, we disagree with the assumption that all companies return to a market average in the medium term.

In our approach, the best companies in the world do not only justify a valuation premium today, but also in 10 years from now. We do not expect multiples to return mechanically to a presumed average, and we can accept valuation levels that one might consider high. This is where the alpha opportunity lies.

We also developed a proprietary valuation method, which is described in the last part of the document.

We target returns in line with the long-term earnings growth of our invested companies of around 12-15% per year, on a non-benchmarked basis.

Research Process

Stock Selection Process

Our pool of investable companies counts around 50 companies ("Top50 List"). In order for a company to be added to this list, we will proceed in the following order:

- **Screening:** verify that the company fulfils the criteria with respect to growth, balance sheet, profitability, sector and geography.
- **Red Flags:** verify that the company presents an acceptable risk profile, a sound business model and a good quality management.

- **Go-ahead:** discuss the opportunity internally and decide on whether further research is useful.
- **Deep-dive:** analyse the company in detail, including from a financial and ESG perspective; research may be terminated at any time upon internal discussion if it becomes clear that the company does not qualify for our Top50 List.
- **Valuation:** as one of the last steps, the company is valued based on our internal growth scenario; a company may be added to the Top50 List without entering the portfolio if the current share price is not sufficiently attractive.

For each company entering the Top50 List, a strategic report lays out the investment case and suitability for our investment strategy.

Illustrative structure of a strategic report

A strategic report should be around 50 pages long. Notwithstanding that each company is unique and requires a unique approach, it should contain the following elements:

- **Executive summary:** one page summarizing the investment case.
- **History:** review of the corporate history insofar as it provides insight on the current DNA of a company; a dedicated section in the appendix is recommended.
- **Customer needs:** analysis of customer feedback in order to derive the customer's decision-making process.
- **Competitive dynamics:** study of the market's value chain, the competitive landscape and growth drivers.
- **Company positioning:** analysis of the company's business model notably in relation to product design and quality, pricing power, marketing strategy and distribution network in order to deduce the company's competitive advantages.
- **Barriers to entry:** assessment of the factors shielding a company and/or industry from new competition.
- **Internal organisation:** analysis of management organisation, human capital, HR processes including compensation, quality control, technology (in particular information and communication technology) and R&D.
- **ESG:** appreciation of how a company takes into account non-financial criteria into its strategy and actions and how harmoniously it integrates within its ecosystem; particular focus on governance, including board composition and independence, quality of accounts and alignment of interests with shareholders. Environmental and Social issues are also considered to varying degrees depending on the company.
- **Risks:** detailed examination of the main sources of risk, the degree to which they are managed by the company and the potential scenarios once they materialise.
- **Financial analysis:** analysis of long-term track record with a particular focus on growth, cost management, balance sheet and resilience to external shocks and moments of crisis.
- **Forecasts:** building of a growth scenario highlighting ongoing corporate initiatives, scalability and predictability of forecasts and relative stance vs. market consensus.
- **Valuation:** focus on fundamental, DCF-based valuation verified against long-term comparable valuation methods.

Stock Monitoring Process

Once a company is in the Top50 List, it is monitored by the lead analyst as follows:

- **Daily monitoring:** stock-driving news are shared with the team during the morning meeting; valuable research notes should be read; share price performance is monitored daily.
- **Results and events:** financial models are updated as soon as possible after the publication of results; where appropriate, a postview is shared internally; investor days should be attended whenever possible.
- **Company contacts:** every analyst is responsible for maintaining an open communication channel with the company.
- **Ongoing fundamental research:** the validity of the investment scenario is verified on a continuous basis; short update reports may be written at any time; it is recommended to establish contacts with industry experts and attend relevant industry conferences.

Sources of information

The following provides an indicative list of the sources of information used to conduct investment research:

- **Company reports:** regulatory reports, presentations, event transcripts, press releases, sustainability reports.
- **Press:** articles published in the main newspapers and magazines.
- **Sell-side research reports:** initiation reports by recognised sell-side houses and updates following major up- or downgrades.
- **ESG data provider:** key ESG metrics and redacted reports.
- **Industry experts (grey sources):** interviews with industry experts and information at industry conferences.
- **Competitors:** information provided by other players in the market, albeit with less scrutiny than for the stock covered.
- **360° feedback:** information provided by all stakeholders, including notably employees, clients, suppliers, trade associations and regulatory authorities
- **Market analysis:** polls, surveys, reports by consultants or academic studies with the aim to investigate the industry value chain from start-up to public companies.

Team Organisation

The common thread running through the investment team is the strong conviction for the fund's investment philosophy. Team members share a common intellectual curiosity and an investigative approach. Decision processes are clearly defined in a collegial atmosphere with a demonstrated sell-side discipline.

Great importance is attached to the complementarity of skills within the team in terms of industry knowledge, technical and financial knowhow, language skills and business development. Each team member has a specific area of responsibility and expertise.

As a rule, analysts spend c.70% of their time on the monitoring of the stocks in the Top50 List and c.30% on the generation of new ideas. This includes in particular significant time allocated to company contacts, site visits, conferences and other relevant networking or field trips.

Team members are encouraged to invest personally in the fund. The promoter of the strategy, Raphael Pitoun, has its entire savings invested in the strategy.

Financial Analysis & Valuation

This section provides general guidelines of financial analysis. It illustrates how the investment philosophy described earlier is transposed onto the company level.

The guidelines should not be understood to be complete, compulsory or meaningful in all individual cases. For example, the return on capital employed (ROCE) is of little use for many companies whose value derives primarily from intangibles not properly accounted for. This can be the case, for example, when investments in intangibles are expensed instead of being capitalising over the years during which the corresponding revenues are generated; or when the price-to-book ratio of an intangible is very high, as in the case of successful brands whose value exceeds by far the costs of their trademark. In these cases, ROCE can be meaninglessly high.

Usual Adjustments to Reported Financials

The following adjustments have the objective to create a consistent approach towards financial analysis. This will allow to more accurately compare companies within the Top50 List and calculate consistent aggregate portfolio metrics.

- **EBITDA** should be adjusted for non-recurring and non-cash items, where relevant and possible. For example, EBITDA should not include earnings from associates accounted for under the equity method, book gains on disposals, non-cash provisions or exceptional cost items. Where relevant and feasible, historical EBITDA and earnings should also be adjusted for investments in intangibles that were expensed through the P&L (e.g. R&D expenses).
- **Cash flows from operating activities** are rearranged to reflect the direct method of accounting, i.e. from EBITDA down to operating cash flow (instead of calculating it up starting from net income). Structural differences between EBITDA and the recalculated cash EBITDA require scrutiny as they may reflect questionable reporting practices.
- **Free cash flow (FCF)** is calculated as if the company were unlevered, which means that FCF is higher by post-tax interest payments compared to the reported operating cash flow. Moreover, net acquisitions are deducted from FCF in the same way as capital expenditures.
- **Capital employed (CE)** is calculated as the sum of working capital requirement (WCR), fixed operating assets and, if applicable, capitalised expenses in intangibles. Financial and other assets are not included, but if valuable considered in the EV-Equity Bridge. Capital employed should be calculated both pre- and post-goodwill.
- **Return on Capital Employed (ROCE)** is calculated as net operating profit after tax (NOPAT) divided by CE, where CE is taken by default at the beginning of the period. ROCE pre-goodwill calculates the hypothetical return generated by the company if it had built up all assets organically. ROCE post-goodwill reflects the return generated by the funds actually deployed by the company.
- **Net debt (ND)** shall include all interest-bearing debt (straight debt, capital leases, convertibles…) and all excess cash. Non-financial liabilities, such as provisions, shall be accounted for in a separate line in the bridge between Enterprise Value (EV) and Equity.

Financial Analysis: Areas of Focus

Unless an exception is justified, financial analysis should cover in detail the following points:

- **Revenue recognition:** what are the accounting principles underpinning revenue recognition? What are the client payment terms? Are there deferred revenues or non-cash items affecting revenues?
- **Nature of revenues:** what is the breakdown of organic and acquisition-led growth? What is the proportion of recurring revenues, and how are recurring revenues defined for this company?
- **Operating leverage:** what is the estimated breakdown of fixed and variable costs? How far is the company from its break-even? How will margins evolve in different growth scenarios?
- **Capex breakdown:** what is the breakdown of growth and maintenance capex? Are some expenses disguised investments and would better be capitalised?
- **Cash conversion:** does the P&L reflect the company's cash flow generation? In case of discrepancies, how are they explained?
- **Incentive plans:** are there significant share-based or option-based compensation plans that are not reflected at their true cost in the accounts and need readjusting?
- **Balance sheet:** are there any hidden valuable assets, liabilities or contingencies that are not truthfully reflected in the accounts?
- **Changes in reporting:** does the company change its reported key performance indicators (KPIs) and/or accounting principles more frequently than necessary? Does it raise the suspicion of cherry picking disclosure requirements?

Forecasting Methodology

Our explicit forecasting period shall be 10 years to reflect the long-term horizon of our investment approach. As our strategy is based on a company-specific view on growth and value creation, we use a common set of consensus or market data for macro-economic assumptions like inflation, GDP growth or foreign exchange rates.

Revenue growth trends shall be broken down based on meaningful (KPIs) such as number of clients, average basket size, proportion of premium customers, organic sales, etc. Revenue growth trends should be benchmarked against historical and expected market growth. Where possible, the implicit market share evolution should be considered.

Cost forecasts should be modelled with the objective of granularity and efficiency. A breakdown based on fixed and variable costs should be considered.

Cost of capital

We apply a proprietary methodology to derive the cost of capital in line with the following formula:

$$Cost\ of\ capital = Riskfree\ Rate + Country\ Risk\ Premium + Market\ Risk\ Premium$$

- **The risk free rate** is the yield-to-maturity of the 10-year government bond of the country of reporting currency less the country default spread. If the thus determined risk-free rate is below the US$ denominated risk-free rate in real terms, we will, conservatively, use the latter, with a minimum of zero.
- **The country risk premium** represents an additional risk premium if the company is exposed to foreign, higher-risk countries or regions. Depending on data availability, it can be measured by the difference in the respective same-currency government bond yields, credit default swaps, or sovereign ratings. It is applied pro-rata to the weight of that country or region in the company's operations, as measured by the geographical breakdown of revenues, operating profit or assets. Conservatively, it is only added if positive.
- **The market risk premium** is based on a qualitative assessment of the company's risk profile relative to the market. Indeed, we refrain from using historical betas, as these appear excessively volatile depending on the methodology used in terms of reference period, frequency and benchmark index.

Our qualitative assessment rates each company on several criteria, which reflect the quality and predictability of its business model. As a result, our valuation methodology is directly linked to our strategic analysis described earlier. The criteria are listed below:

- **Cash flow stability** reflects the sensitivity of the company's cash flows to changes in volumes and price. It is measured, among others, by the proportion of recurring revenues, margin levels, capital intensity and leverage. Companies with long-term contracts, strong pricing power and high EBITDA margins as well as no debt will warrant a better rating.
- **Competitive risk** reflects the risk of increasing competitive tension or even disruption of the market by new challengers. High barriers to entry combined with superior product and service quality justify a better rating.
- **Solidity of the value chain:** the company's operations should feature low dependency on any single third party. In particular, the clients and suppliers should be diversified and the risk of regulatory intervention low.
- **ESG:** the exposure to material environmental, social and governance risks can impede the long-term sustainability in earnings and result in significant financial damage. As a result, a company which is strongly positioned in terms of ESG should warrant a lower cost of capital.

Each rating varies from 1 (low risk) to 4 (risk in line with the market) or above (higher risk than the market on average). A company with the lowest market risk premium has in our view a risk profile not far from that of the corresponding government bond.

The average rating is then used to calculate the market risk premium added to the company's cost of capital, in line with the following formula:

$$Market\ Risk\ Premium = \frac{\sum_1^4 rating}{4} \times average\ mature\ market\ risk\ premium$$

The average mature market risk premium is calculated in line with the methodology developed by A. Damodaran at NYU Stern. It is equal to the return implied by the current level of the S&P 500 given the constituents' trailing last-12-month dividends and share buybacks and expected consensus growth rates.

Our methodology assumes that the capital structure of a company does not impact the cost of capital in accordance with the Modigliani–Miller theorem. This choice has a limited impact on the Top50 List, as the leverage ratio of our target companies is low.

Valuation

Given the specificities of our investment strategy, many commonly used valuation methods may not prove meaningful or difficult to implement in practice. For example, dividend discount models are not suitable for growth companies, which invest a large part of their earnings rather than distributing it to shareholders. We view the lack of dividends as positive as long as the additional investments create value for shareholders, which we believe to be the case for our target companies – or such company would not be in the Top50 List.

Similarly, multiples valuations such as price-to-book (P/B) or price-to-earnings (P/E) may be flawed by accounting conventions. Brands, patents, a large audience, even if non-paying, can become key to the fair value of many companies, but they are not considered in the accounts, except when they are acquired. As a result, P/B ratios may be very high and not comparable between similar companies with a different approach to acquisitions. At the same time, the correlation between earnings per share and share price has collapsed in the era of technology. Earnings are often weighed down by expenses, which are actually investments in intangibles, resulting in short term decline in profitability which mechanically ends when the investments are realised.

We rely on at least two valuation methodologies for each company. The primary focus is on discounted cash flow analysis (DCF) of the company's enterprise value (EV). If possible, a Sum-of-the-Parts valuation is preferred. The second valuation methodology consists of long-term valuation multiples relative to market benchmarks. The purpose is to verify to what extent a potential valuation premium will fade over the next say five years.

DCF Methodology

The DCF shall use the explicit forecasting period of 10 years, followed by 20-year normalisation period.

For those companies for which the ROCE is a meaningful KPI, we will apply a linearly fading ROCE valuation where FCF is derived from the following formula:

$$FCF = NOPAT - change\ in\ CE = CE \times (ROCE - growth_{CE})$$

At the end of the fading ROCE period:

- Growth in CE shall be equal to the expected long-term GDP growth;
- ROCE shall be equal to WACC;
- The terminal value (TV) shall be equal to CE, which is also equal to a growing perpetuity of the last year's cash flow discounted at the WACC.

For those companies for which CE is structurally understated due to the failure of accounts to properly account for intangibles, we will define normative assumptions for all components of FCF, including sales growth, EBITDA margin and maintenance capex. We will implement a linear decline of all growth numbers to the long-term growth rate, on which a normative operating and tax margin is applied to derive net operating profit after taxes. The TV will be based on a growing perpetuity applied to the normative FCF.

EV-Equity Bridge

The EV-Equity Bridge shall comprise all valuable assets and liabilities, which are not already considered at the EV level:

- **On the asset side,** this may refer to financial assets which are not operating by nature, i.e. which are not included in CE. If a market value for these assets cannot be established with reasonable certainty, a flat 40% discount to the book value is recommended.
- **On the liability side,** this may refer to all future cash-outflows, which come on top of the cash-outflows already included in the FCF forecasts. If a market value for these liabilities cannot be established with reasonable certainty, no discount to the book value is recommended.

Relative valuation multiples

It is likely that our DCF valuation offers substantial upside to the company's traded share price. This is attributable to our growth scenario, which we assume to prolong beyond the short-term horizon the market is willing to discount today. While we accept that current trading multiples may imply a substantial premium to the market, we verify our valuation against relative benchmarks:

- Are implied long-term valuation multiples unreasonably high versus market benchmarks or our average Top50 List?
- Are implied long-term valuation multiples significantly above the historical range for that specific company?

These verifications serve as reality checks but need to be considered on a case-by-case basis. As explained earlier, we do not expect the best companies to revert to a market or historical average within a short period of time.

It should also be noted that companies can be added to the Top50 List without immediately entering the portfolio, if the current valuation levels suggest a better entry point at a future point in time.

CQS New City Global Equity

ESG Policy

2019

I. Introduction

The mission of the CQS New City Equity Strategy (the "Strategy") is to manage investments with integrity, prudence, and skill and seek to meet or exceed the financial objectives of its clients over the long term. This ESG Policy will be reviewed at least once a year with the aim of continuous improvement and integration of lessons learnt. This document was last updated in January 2019.

The investment management team (the "Managers") and the strategy attach great importance to both financial and non-financial criteria. It is the Managers' strong conviction that a company's performance is driven in the long term by its ability to adapt to changing market conditions and act in concord with all stakeholders. While this ability is very complex, it can be measured in part by the company's predisposition to environmental, social and governance ("ESG") considerations:

- **Environmental considerations** have grown in importance over the past decades in a context of depletion of fossil fuels, ongoing climate change, stricter environmental regulation and increased public awareness. Successful companies often manage operational and reputational risks and capitalize on opportunities created by the shift towards a more sustainable economy. Environmental investment criteria include air and water emissions, recycling and waste reduction, use of clean and renewable energy, climate change initiatives, policies and practices to minimise the environmental footprint, and transparent disclosure and reporting.
- **Social considerations** are founded on the realisation that a company's long-term success often depends on how it organises and manages relationships with internal and external stakeholders, most notably employees, suppliers and clients. Workplace criteria include diversity, occupational health and safety, employee relations and human rights; product integrity criteria include product health, safety and quality, consumer rights and protections and marketing practices; community criteria include supplier standards, supply chain management, fair trade and activities in sensitive countries.
- **Governance considerations** focus on a company's ability to align the interests of managers with those of shareholders over the long term. Governance criteria cover areas such as concentration of power, transparency and accountability, board structure, executive compensation, shareholder rights, corruption, bribery and fraud, and policies regarding takeover defences and political spending. The strategy attaches particular importance to corporate governance, insofar as it is the cornerstone of a successful organisation, and an enabler of a meaningful environmental and social policy.

II. Sector Considerations

The relative importance of environmental, social and governance criteria varies greatly across industries and business models. The Managers adapt the scrutiny they apply to the different criteria depending on the specific situation of each company.

As part of the investment philosophy, the following sectors are excluded from investment:

- Energy;
- Banking & Insurance;
- Real Estate;
- Mining & Mineral Products;

- Telecommunications;
- Utilities.

This tends to limit the importance of environmental considerations compared to the market on average.

In addition, the Strategy will not invest in companies, which derive a significant proportion of revenues (>15%) from:

- The production or sale or promotion of weapons and armour;
- The production or sale or promotion of tobacco products;
- The production or sale or promotion of alcohol;
- The provision or promotion of gambling.

All exclusions are primarily justified by considerations around market dynamics, earnings predictability and risk-adjusted returns over the long term.

III. ESG Incorporation into Investment Process

Material ESG issues represent a potential source of risks and hence can affect returns of an investment, especially when the investment horizon is long. Within the CQS New City Equity Strategy, ESG factors are incorporated into the entire investment process, including screening, research and monitoring.

ESG data is provided by a recognised external independent organisation specialising in environmental, social and governance research, and complemented by internal data collection and analysis. At the time of writing, the external provider is MSCI ESG.

In some cases, where it is deemed useful and resource-efficient, external ESG ratings may be used as reference to complement our own research when assessing a company's suitability as an investment. These ratings may relate to the overall company, a specific area (E, S or G) or a precise indicator within a specific area. However, given the variety of approaches and criteria of ESG rating agencies, and their as yet unproven prediction power, the Strategy does not impose automatic exclusions based on external sources.

More generally, the Managers recognise that, to date, academic research is inconclusive on whether ESG indicators lead to greater shareholder returns. However, this does not preclude the existence of a long term causality that may fail to be measured due to methodological and data disclosure issues.

Given the highly concentrated portfolio and in-depth, bottom-up research strategy, the Managers are able to go beyond a mechanical incorporation of third-party ESG ratings. Their highly qualitative approach towards ESG aims at taking into account the specificities of each company, and will generally include the following outputs:

- **A dedicated, redacted section in each initiation report** covering the key ESG issues of a company. This section analyses in detail governance issues including quality of accounts and reporting, structure and diversity of the board and its committees as well as executive remuneration. Environmental and social issues are also covered to a degree of importance depending on the company.

- **A review of the controversies affecting the stock.** While these are often backward looking, they reflect upon the company's ability to react to ESG-related issues and provide valuable insight into the company's governance practices.
- **Monitoring of the stocks** in our Top50 List[1]. If a material ESG-related incident affects a stock in this list, the matter will be discussed internally, and, depending on its severity, an internal memo may be produced.

It should be noted that an ESG incident or third party rating downgrade does not necessarily trigger divestment of a stock. Once invested, the Strategy will always first evaluate the possibility of engaging with the company in order to solve any issue (cf. section VI).

IV. ESG Mindset

The Managers commit to adopt an integrated ESG mindset. They will encourage involvement, initiative and education of all investment team members. This includes:

- Formal training on ESG, which can be provided both internally and externally;
- Reading of academic research and production of internal memos to disseminate the findings within the team;
- Attending conferences and round-tables focussing on ESG-related matters;
- Providing input to academic research;
- Speaking publicly at events and conferences to promote responsible investment.

V. Engaging with Companies

As a shareholder, the Managers consider themselves responsible for actively contributing to the long term performance of the investee companies.

This implies not only exercising shareholder rights (proxy voting), but also engaging with investee companies whenever areas of improvement are identified, with respect to ESG or else.

The Managers will seek a constructive dialogue with the investee company but are ready to engage in the following ways when dialogue fails:

- Expressing concerns to corporate representatives or non-executive directors, either directly or in a shareholders' meeting;
- Expressing concerns collectively with other investors;
- Speaking at general meetings; and
- Exit or threat to exit from the investment as a last resort.

[1] The Top50 List is a pool of c. 50 companies from which the portfolio is constructed.

Shareholder responsibility does not depend on the absolute or relative ownership in the investee company. However, in concord with the fiduciary duty towards clients, any engagement with investee companies will take into consideration resources and expected benefits. Importantly, the investment strategy is not that of an activist shareholder but, in contrast, focusses on companies where effective governance and a high-quality management are already in place.

VI. Proxy Voting

The Managers seek to vote shares held and make informed and independent voting decisions, applying due care, diligence and judgement across the entire portfolio in the interests of their clients.

All shareholder resolutions will be reviewed and voted on a case-by-case basis. The Managers will systematically vote on all resolutions in investee companies which represent more than 2% of the strategy's market value, including:

- Employee/director remuneration;
- Appointment of directors;
- Auditor appointment and independence;
- Changes to capital structures that may affect shareholder value;
- Voting rights among shareholders;
- Significant issues that concern social or environmental matters;
- Resolutions proposed by shareholders rather than by the Board.

If a resolution carries a potentially controversial element, specific research may be required and discussed internally. Such research may include specialised third-party research to provide an independent view on certain proxy items.

In exercising its voting discretion, the Managers will consider the following factors:

- The nature of the issue;
- The advantage which may result from exercising voting rights including whether it will advance investment objectives;
- Possible actions which may be taken instead or on top of exercising voting rights, such as engaging with the investee company (cf. section V);
- Other legal and ethical considerations, such as whether there may be any actual or potential conflict of interest in exercising voting rights.

In exercising its voting discretion, the Managers will generally apply the following principles:

- Support resolutions that improve protection of minority shareholders;
- Support resolutions that improve board diversity and independence to a reasonable level;
- Support resolutions that improve reporting accuracy and transparency;
- Support resolutions that foster the company's commitment towards ESG, provided they make economic and financial sense;

- Support resolutions that align management and shareholder interests over the long term, in particular with respect to executive remuneration;
- Vote against resolutions that serve as deterrents against a hostile takeover;
- Vote against resolutions if such resolutions are regarded as inconsistent with good corporate governance practices.

The Board of Directors of
the Luxembourg Finance Labelling Agency
(LuxFLAG)

hereby grants

the LuxFLAG ESG Label

for the period starting on **01 July 2019** and ending on **30 June 2020**

to the

CQS New City Global Equity

ESG

LUXFLAG

Sachin S Vankalas
General Manager

Luxembourg, 01 July 2019

Xylem – ESG Analysis

15 May 2019

The company is a leading global water technology company. It has products at various stages of the water cycle, including notably delivery of drinking water, test and treatment solutions and wastewater management.

1. Internal Rating

Based on our analysis, we give Xylem an internal rating of 1, which is the highest rating on our scale[1]. While we do not claim that Xylem is entirely flawless or riskfree in terms of long term ESG risks, there is one overwhelming feature that makes Xylem attractive from an ESG perspective: they are in the water business, contributing to solve water issues across the cycle, from drinking water delivery to waste water treatment, while contributing to limit water loss in between. This is also recognised independently, by MSCI which gives it a triple-A rating and by Forbes, which included the company in the 2018 'Just 100' list: a ranking of 100 companies that have made a significant economic and social impact through their core business strategy. Xylem do this by making water safer, affordable and more accessible for people around the world. Notable initiatives include the use of local products and resources, leadership acts and communicates with integrity as well as use of natural resources efficiently and reduction of waste. We note that beyond the nature of their activity, which also makes this stock attractive for thematic ESG funds for instance, the company's organisation shows in our view good governance, strong policies and overall a good alignment of interest with its clients, public authorities, suppliers, regulators, and other stakeholders.

2. Environmental considerations

Water is a topic at the edge between social and environmental: environmental because we pollute it, and social because access to drinking water is an existential question for human life. Less than 1% of the total water available on earth is fresh water, and these supplies are under threat due to factors such as the draining of aquifers, increased pollution and the effects of climate change.

Xylem's core business contributes to a better management across the water cycle. This is by far the most important ESG aspect of Xylem.

Water is a key issue not only in developing countries where water is often scarce, but also in developed markets like the US. We can take the example of Miami, where rising climate change and human failure could jeopardise the delicate balance on which rests the city's drinking water supply. This balance is the Biscayne Acquifer, without which the city "could become uninhabitable"[2]. In 2014 a storage tank in West Virginia leaked methylcyclohexane methanol, a chemical used to process coal, into the Elk River just upstream from Charleston's water intake centre. The spill rendered the city's water undrinkable, leaving 300,000 people with no water for days. But rising sea levels, mining activity and the use of widespread use of sceptic

[1] A rating of 4 corresponds to market average;
[2] Christopher Flavelle, Miami Will Be Underwater Soon. Its Drinking Water Could Go First, Bloomberg, 29 August 2018

As at 15 May 2019, CQS has a position in the company which may increase or decrease over time as part of its wider investment strategy.

tanks in Miami make the problem structural. It is estimated that $13.5bn in capex for infrastructure projects is needed for Miami alone. As at 15 May 2019, CQS has a position in the company which may increase or decrease over time as part of its wider investment strategy.

On top, there is a political will across the board for saving water or, at least, limiting spoiling. The water infrastructure in many countries is old and water loss frequent. In the US, for instance, Xylem estimates that 1/6 of volumes are lost (theft, leak, inaccurate readings) between the treatment plant and the end costumer. In developing countries, this "non-revenue water" can reach 60% of volumes. This represents an enormous opportunity for growth.

We believe regulation is likely to become stricter. While for a long time innovation was limited (a pump was a pump for most of the past century), today, Xylem's products are getting smart: equipped with sensors, they allow for monitoring, problem detection and timely repair. It is a dynamic marketplace which embraces the ESG-trend.

Xylem invests c.4% of sales in R&D. This is in our view an appropriatelevel given the industry. The number does not account for capitalised software representing another 2%. R&D is an important pillar of Xylem's strategy, as continuous innovation is essential to remain ahead of competition. Xylem has technology centres close to manufacturing sites and several global technical centres and local development teams. Sometimes, R&D is implemented in partnership with the client, and sometimes also with academic institutions, start-up accelerators and capitalist organisations. We believe this constitutes a network that is not easily replicable and contributes to the company's moat.

In the past, Xylem published a vitality index, but this metric has no hard definition (when does a product become a new product?) and was easily manipulated. In 2018, Xylem did not seem publish the vitality index anymore, but this could potentially be published together with the 2018 sustainability report. In 2017, the vitality index stood at 24%. In the same year, the average efficiency of Xylem's product lines was 61.4%, up 2.8% since the 2012 base year. This is important as even small gains in efficiency can have a big impact when considered over the product's lifetime.

Key Environmental Indicators

	Unit	2011	2012	2013	2014	2015	2016	2017	2018
Total GHG Emissions	**000 t**	**97**	**72**	**81**	**82**	**78**	**75**	**91**	
- per $m of revenues	*t/$m*	*25.6*	*18.9*	*21.1*	*20.9*	*21.3*	*19.9*	*19.2*	
Total energy consumption	**GWh**	**207**	**264**	**284**	**298**	**295**	**281**	**326**	
- per $m of revenues	*MWh/$m*	*54.4*	*69.6*	*73.9*	*76.0*	*80.7*	*74.5*	*69.2*	
Total water use	**ml**	**439**	**399**	**438**	**410**	**427**	**385**	**430**	
- per $m of revenues	*000l/$m*	*115.4*	*105.2*	*114.1*	*104.7*	*116.8*	*102.1*	*91.4*	
Total waste	**000 t**	**10**	**7**	**54**	**61**	**34**	**32**	**27**	
- per $m of revenues	*t/$m*	*2.5*	*1.7*	*14.0*	*15.7*	*9.3*	*8.5*	*5.8*	
Number of spills	**#**			**2**	**1**	**3**	**3**	**16**	
Number of fines	**#**				**1**	**1**	**-**	**-**	
R&D / sales	**%**	**2.63%**	**2.80%**	**2.71%**	**2.66%**	**2.60%**	**2.92%**	**3.82%**	**3.63%**

It should be noted that methodological changes were made up to 2014 which blur the comparison base. Xylem's targets are expressed with a view on the reference year 2014. R&D spending is considered an environmental indicator as a key focus of R&D is to make Xylem's products more efficient from an energy efficiency perspective while adding value added features that help the client save resources.

In terms of waste management, Xylem has implemented its EMS Eco-Efficiency Easy Tool across all operations with ISO 14001 certification at more than 40% of facilities. From 2014-2017, the company reduced its VOC (11.7% CAGR of sales) and non-hazardous waste intensities (10.8% CAGR of sales). By 2019, the company has targeted a 20% reduction in waste sent to landfill compared with a 2014 baseline. This contributes to limit Xylem's exposure to environmental liabilities.

3. Social Considerations

Water is an existential question for life in general, and one that will likely not get solved with easy fixes or a disruptive technology in the coming decades. One of the five key pillars of Xylem's long term strategy is to "create social value in everything [they] do." This is the right approach, in our view, in order to make sure that Xylem is harmoniously embedded into the broader eco-system in which it operates.

There are few arguments against investing in water (with the notable exception of affordability). As a result, it is easy for water companies to build a good social image simply by advertising the nature of their activity. However, in the long term, we believe this is not enough: Xylem's competitive edge is that the company's mission is credibly oriented towards the greater benefit it provides to the communities which it works for.

Clients / end-users

Demand for fresh water is rising rapidly due to population growth, industrial expansion, and increased agricultural development, with consumption estimated to double every 20 years. By 2025, more than 30% of the world's population is expected to live in areas without adequate water supply. In addition, water is also required for industrial and agricultural purposes.

Xylem's clients are almost exclusively large B2B clients, but are not always the end user (utilities represent 50% of revenues). The rest are industrial clients (c.35%), commercial clients (c.10%) and residential (c.5%). Due to the increasingly high tech nature of the product, the relationship between Xylem and its clients becomes increasingly intertwined, as on top of the product itself, clients require the expertise of Xylem (consulting, training, etc.).

We assess the relationship between the company and its clients to be sustainable and mutually beneficial. Indeed, Xylem helps its clients to reduce operational costs. When it comes to regulated utilities, there is often also a regulatory incentive to drive efficiency (which is generally shared with the end-user at some point in time). The business model falls into the category of dual mandate, which means that they help their clients improve their offering and revenues and at the same time cut operational and regulatory costs. Xylem's positioning is that of a premium player with innovative products and pricing power.

We view the high exposure to utilities cautiously. While the secular growth trends are there, and a broad consensus exists to recognise the need for significant investment, water is also a political topic, and water affordability is another social issue that needs consideration. We cannot exclude that investments are delayed due to political pressure, or lack of budget. This can weigh on short term earnings. But there is also upside risk insofar as infrastructure programs to stimulate demand can occur. Finally, we judge the client base to be overall sufficiently diversified, both with respect to individual counterparties (no customer represents more than 10% of revenues) and geographic exposure.

MSCI ESG highlights a relatively high risk of corruption, which we attribute to the nature of the business. This said, we believe the risks that this becomes a widespread issue for Xylem is low, not least because of the company's high to the US and Europe. The company has an anti-corruption program with strong supplier monitoring and a dedicated ethics oversight function. There is an ethics hotline and calls do come in, yielding 60 substantiated cases in 2017, which were all claimed to be resolved by the company (no details provided though).

Regulators

There is a fundamental trend towards more complexity linked to the fact that water contains more and more contaminants. There is also a trend towards increased safety and efficiency. Both support the trend towards stricter regulation. This means more demand for Xylem's offering.

Xylem is also directly subjected to regulation, notably related to the discharge of pollutants and the management and disposal of hazardous waste. We do not have any reason to believe that Xylem would treat these issues irresponsibly, or that control processes in place would be insufficient. If an environmental incident were nevertheless to occur, there is in our view a high likelihood for this to be an isolated incident and not a systematic failure of the internal governance. Looking at environmental liabilities related to clean-ups from past operations, they are negligible based on company estimates ($4m).

Suppliers

Xylem's supplies include raw materials and other parts and components used in the products: motors, fabricated parts, castings, bearings, seals, batteries, PCBs and electronic components, as well as steel, brass, nickel, copper, aluminium and plastics. Xylem has 12,000 suppliers with a total order volume of c.$2.5bn.

We believe there is a moderate level of supply risk in a context of limited available information on the topic. Xylem buys blanket and through scheduled purchases, and also keeps some level of inventory. It also claims that there have been no raw material shortages in the past several years and that it has existing alternate sources of supply, or sources that are readily available.

Xylem claims to conduct supplier audits: an in depth initial audit for new suppliers and follow up audits, including random audits, in order to verify that suppliers comply with the high standards in terms of sustainability of Xylem itself. We understand Xylem is at an early stage of rolling out these audits, and have little information to judge how substantial they are, or if it is just a questionnaire to be filled out by the supplier. This is a topic for further clarification.

Employees

Xylem has c.17,000 employees, of which c.1/3 is located in the US, of which c.1/7 is unionised. We are not aware of any controversies around employees.

Looking at Glassdoor, reviews suggest an average rating for Xylem as employer. On the one hand it seems that there are good benefits, a good work life balance, a good working atmosphere and challenging work. On the other, there seems to be a management problem, as most complain about a lack of leadership and management and criticise a certain disconnect between management and local teams. There are hints of a white collar / blue collar conflict which are not uncommon for industrial companies, and which we do not put on equal footing with the ideal of a fun and joy environment hyped in some tech companies. But it is definitely something the company should work on.

Also, Xylem conducts both large-scale surveys and small pulse surveys in its various business units and geographic markets to receive employee feedback. In 2017, a global survey was conducted that reportedly yielded participation rate of 85%. Unfortunately, there are no quantitative results published, and what is disclosed seems more like an HR sales pitch than a balanced reflection. We do not attribute much importance to this survey, but note that the mere fact that surveys are conducted is good practice and might contribute to improve things over the longer term.

Key Social Indicators

	Unit	2011	2012	2013	2014	2015	2016	2017
Lost time incident rate	(medical + lost work day cases x 200,000/number of hours worked)	1.55	1.48	1.69	1.51	1.20	0.93	0.94
Injury severity	(lost work days x 200,000/number of hours worked)	17.8	12.8	22.8	18.7	18.7	18.2	13.6
Average # of employees	#	12,100	12,600	12,600	12,500	12,600	14,350	16,100

4. Governance Considerations

Management

Xylem's CEO Patrick Decker has been in office since 2014, and after a year of readjustment, has led the company to a path of accelerated growth and expanding margins. It was also during his tenure that Xylem has reviewed their ESG reporting and targets. Moreover, we saw a net increase in R&D spending since 2016: before that, the R&D / sales ratio oscillated between 2.5-3.0%, while over the past two years it stood at 3.5-4.0%. We view this as a signal for an increased focus on the long term horizon of Xylem's strategy.

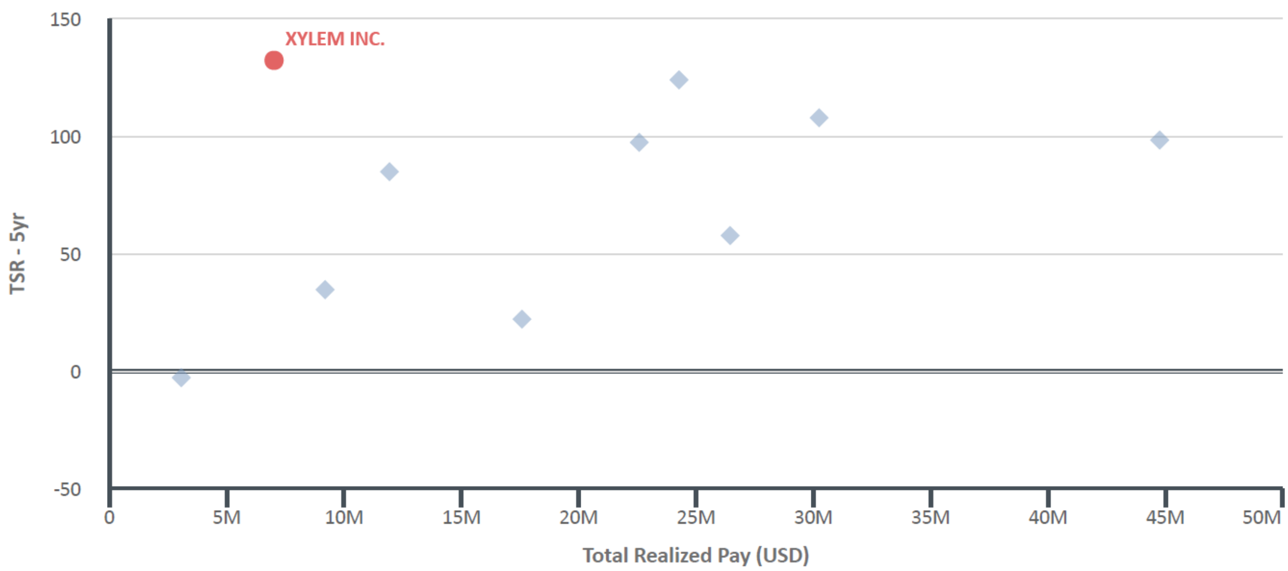
The CFO has changed two times since 2011. Mark Rajkowski assumed the position in 2016.

We view the management track record as good, albeit a bit short.

In $m	2011	2012	2013	2014	2015	2016	2017	2018
Total executive compensation	**13.7**	**12.2**	**14.8**	**17.7**	**15.1**	**15.5**	**17.4**	**16.4**
- o/w salaries and bonuses	1.3	2.7	3.3	3.3	3.3	3.2	3.6	3.1
- o/w other	12.4	9.5	11.5	14.4	11.8	12.3	13.8	13.3
- # of execs	3	5	7	7	7	6	6	5
Total CEO compensation	**8.8**	**6.2**	**6.5**	**8.9**	**7.0**	**7.4**	**7.7**	**8.3**
- o/w salaries and bonuses	0.7	0.9	1.3	1.2	1.0	1.0	1.0	1.0
- o/w other	8.1	5.3	5.2	7.6	6.0	6.4	6.7	7.3
AGM Say on Pay Support Level	96.9%	92.3%	98.2%	96.2%	96.7%	94.5%	94.2%	94.2%

The executive compensation is high, but does not seem excessive for US standards, or even in Xylem's peer group. When considering the total shareholder return the company generated (as one indicator of merit), Xylem's CEO is actually paid relatively little, as shown in the chart below.

CEO Total realized pay versus pay peer group



Transparency

We consider Xylem's financial reporting to be transparent and of high quality. The company provides a lot of detail on the different business segments, including additional revenue breakdowns for each segment, both by application and geography, and also provides organic growth numbers on top of reported ones. These are useful for understanding the business trends. We feel the management is overall transparent and engages openly with the investor community.

Xylem also publishes a sustainability report which shows some ESG-related initiatives in various fields: partnerships with non-profit organisations, donations for natural disaster support (but only $1.5m), employees are encouraged to do voluntary work, employee inclusion programmes, sponsoring of events, talent development, etc. None of these are game changing, in our view. Moreover, Xylem has quantitative targets in terms of GHG emissions (-20% in 2014-19), reduction in water intensity (-25%) and reduction in landfill waste (-20%). These targets are better than nothing, but do not appear to be excessively ambitious either.

M&A track record

Xylem's has in our view a strong track record in acquisitions , which is also a reflection of its high quality management. They have spent a cumulative of $3.7bn in acquisitions over the past 10 years (only acquisitions that we consider as non-transformative). We particularly like the acquisition of Sensus for $1.7bn in 2016. It is a strategic acquisition that broadened the company's skill set in a key growth area: solutions to enhance communications and efficiency, safety and resource preservation, most notably smart meters. Despite the track record, we are aware that the number of small acquisitions can create some stress in terms of integration. Isolated employee reviews suggest that this process sometimes lacks focus and could be improved – something to watch closely going forward.

Board of Directors

Name	M/F	Age	Tenure (Years)	Boards	Independent of Mgmt	Independent of Other Interests	Management Link/ Designation Reason
Curtis Crawford Ph.D.	M	71	7	3	Yes	Yes	
Jeanne Beliveau-Dunn	F	59	1	2	Yes	Yes	
Jerome Peribere	M	64	6	2	Yes	Yes	
Jorge Gomez $	M	51	< 1		Yes	Yes	
Markos Tambakeras COB I	M	68	7	1	Yes	Yes	
Patrick Decker CEO I	**M**	**54**	**5**	**1**	**No**	**Yes**	**Executive**
Robert Friel $	M	63	6	3	Yes	Yes	
Sten Jakobsson I	M	70	7	2	Yes	Yes	
Steven Loranger I	M	67	7	2	No	Yes	Former executive
Surya Mohapatra Ph.D.	M	69	7	2	Yes	Yes	
Victoria Harker $	F	54	7	2	Yes	Yes	
	F	# >= 70	# >= 15 yrs	# >= 4			
Total (of 11)	2	2	0	0	9	11	
Percentage	18.2%	18.2%	0%	0%	81.8%	100%	

The board of directors strikes us as close to best in practice. It is almost entirely independent from the CEO, with the notable exception of Steven Loranger, by virtue of him being a former executive. In this instance, we do not consider this to be a red flag. In contrast, we believe his industry knowledge is valuable to the board. Moreover, we consider that the pool of competencies on the board is diverse and strong. We believe there will be some rejuvenation of the board in the coming years, which we would see as positive.

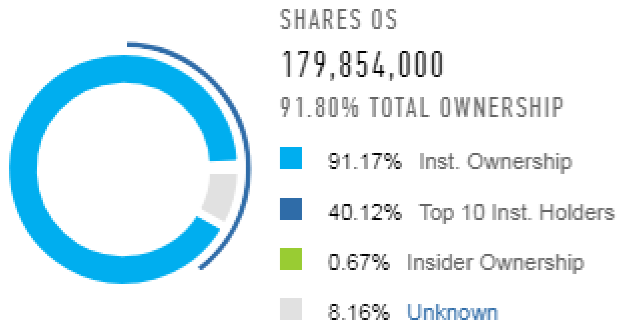
The audit, nomination and compensation committees are composed to 100% by declared independent directors, and have been so over many years. Steven Loranger, who is requalified as dependent by MSCI ESG, sits on the compensation committee.

The auditor report is disclosed and did not show any emphasis of matter over the past years.

Shareholders

The review of past shareholder votes does not reveal any tension. All management proposals, including director nomination and executive compensation, received approval rates >90% over the past years.

Xylem Ownership Structure



Key Governance Indicators

	Unit	2011	2012	2013	2014	2015	2016	2017	2018
Size of the Board	#	9	10	10	11	10	10	10	10
# Employee Representatives on Board	#	-	-	-	-	-	-	-	-
% Non Exec Dir on Board	%	8	9	9	10	9	9	9	9
# Independent Directors	#	7	8	9	10	9	9	9	9
# Women on Board	#	2	2	1	1	1	1	2	2
# Executives / Company Mgrs	#	10	10	8	8	9	10	9	10
# Female Executives	#	3	2	2	2	1	1	1	1
% Independent Dir on Audit Cmte	%	100	100	100	100	100	100	100	100
% Independent Dir on Comp Cmte	%	100	100	100	100	100	100	100	100
% of Ind Directors on Nomination Committee	%	100	100	na	na	100	100	100	100

5. Our view vs. MSCI

In February 2019, Xylem was upgraded by one notch to AAA. MSCI grants the AAA rating only to 6% of the industry peers.

MSCI justifies the upgrade by decreased risk of environmental liabilities through reduced intensities of waste and Volatile Organic Compounds, along with an increased focus on R&D and new product sales. We do not see anything new in there.

The 5 key criteria underpinning the MSCI rating are:

- Opportunities in clean tech: top quartile
- Toxic emissions and waste: second best quartile
- Labor Management: second best quartile
- Corporate Governance: top quartile
- Corruption & instability: top quartile

Our analysis shows alignment across the board, although for us the two single most important criteria are 1/ the positive impact on the environment to which Xylem contributes indirectly through their products and 2/ the corporate governance, which strikes us as best in class.

As at 15 May 2019, CQS has a position in the company which may increase or decrease over time as part of its wider investment strategy.

6. Controversies and legal proceedings

We are not aware of any controversies or major legal proceedings that could have a material impact. In 2017, Xylem had zero environmental notices of non-compliance or fines, but experienced a small number of minor spills.

Appendix I – Employee Reviews

Found 373 reviews

Sort: Popular

3.3 Rating Trends

58% Recommend to a Friend

79% Approve of CEO

Patrick K. Decker
115 Ratings

Your trust is our top concern, so companies can't alter or remove reviews.

Pros

"Great work life balance, great coworkers, and challenging work" (in 22 reviews)

"Good benefits and PTO for employees" (in 22 reviews)

Cons

"Upper management is out of touch with daily operations" (in 19 reviews)

"At times the work / life balance can get a little skewed" (in 11 reviews)

Oct 6, 2017 Helpful (3)

"No respect for employees"

Former Employee - Anonymous Employee

Doesn't Recommend | Neutral Outlook | No Opinion of CEO

I worked at Xylem full-time for more than 20 years

Pros

My boss who i reported to was great. That's the only pro I can think off.

Cons

Senior management in the US do not respect the work-life balance, they expect you to work until midnight and weekends when feel like it, long hours, while they do not show up in the office until midday because they had an appointment with a personal trainer, or had to take the car to the garage, etc. I have been to the US a few times, to meet with management and they didn't show up in the office at all. You can't trust...

Show More

Advice to Management

Fire management and employ people that care about the employees instead of useless people, that fires you at the smallest mistake you make. Complaints to the ombudsman and HQ management were completely ignored, not even acknowledged emails sent to them. You are loosing so many talented people. Employees are the most valuable assets in a company, and management at Xylem has no respect for their employees.

Helpful (3)

"Abc"

Current Employee - Staff Engineer in Pune

I have been working at Xylem part-time for more than a year

Pros

Flexible life style and timings, work from home

Cons

Management is not supportive, there is some kind of hierierchy

Helpful

Sep 22, 2018

"great company, good opportunities"

Current Employee - Sales in London, England

Recommends | Neutral Outlook | Approves of CEO

I have been working at Xylem full-time for more than 4 years

Pros

good large company with many benefits

Cons

lack of open communication down to front line staff some staff feel disconnect between management and local teams

Helpful

Apr 13, 2017 Helpful (2)

"Difficult uncertain times"

Current Employee - Nottingham in Nottingham, England

Doesn't Recommend | Negative Outlook

I have been working at Xylem full-time

Pros

There are a good bunch of hard working people still left at Xylem that still strive to do their job to the best they possibly can. Pay scales in all departments are reasonable. Good benefits, health care, pension as well as others.

Cons

Constant uncertainty due to continued restructuring of the business. There's no feel of one Xylem, it feels like each department operates independently and it feels like a battle to work with certain departments.

Advice to Management

Invest in your good staff while you still can, let them know their hard work and ethics are appreciated and recognised before you loose any more of them. Growth from acquisitions,may be beneficial on the the balance sheet but forward planning is needed. What are you aiming for in none monetary terms to keep the day to day of the business running smoothly, intergration or assimilation? The company has become so disjointed...

Show More

Helpful (2)

CQS New City Global Equity

Live Nation – Strategic Report

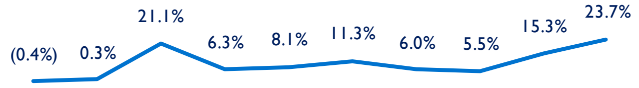
February 2019

This document is for Illustrative Purposes Only. It is proprietary, private and confidential to CQS.

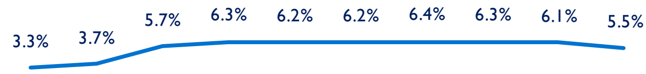
Live Nation **February 2019**

Sector	Consumer Services
Listing	NYSE
Market cap (USDbn)	11.2
EV/EBITDA 19e	20x
P/E 19e	69x
Net debt/EBITDA 19e	1.5x
EBITDA margin 19e	6.5%
10-year TSR	26%

Revenue Growth 2008-17



EBITDA Margin 2008-17



Sales	CAGR 2012-17	12.2%
Adj. EPS	CAGR 2012-17	n.a.

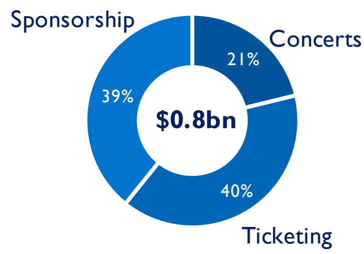
Business Description

Live Nation Entertainment is the worldwide leader in live entertainment. It is vertically integrated enjoying strong positions along the entire value chain :

- 30,000 live events with close to 100m attendees
- 500+ artists managed
- 222 venues owned, operated or invested in (2nd largest worldwide)
- 500m+ tickets sold via Ticketmaster (world leader), acquired in 2010

The company was listed in 2005 following the spin-off by Clear Channel. It has since been led with great success by CEO Michael Rapino. Through its 35% stake, Liberty Media is Live Nation's largest shareholder.

EBITDA 2019e



Research Matrix

Growth

- Secular demand growth related to the growing appetite for the real-life experience
- International expansion (64% of fans still in North America)
- Acquisition of smaller, local players to drive consolidation
- Opportunity to optimise pricing in industry where prices are intentionally underpriced
- Opportunity to improve sponsorship revenues and onsite spending thanks to digitalisation and data analytics

Competitive advantage

- Ability to offer a global package and best economics to artists is a unique selling point in a fragmented industry
- Flexibility to offer artists the most attractive financial deal
- Access to a dense network of operated venues and strong negotiation position vis-à-vis third party venue operators
- Large database and data analytics technology underpins great credibility with sponsors and advertisers

Quality

- Stable supply of artists who make much more money from touring than from records and streaming
- Management with excellent track record in people-driven industry
- Demand elasticity is reduced by the fact that primary tickets are intentionally underpriced
- Vertical integration with strong positions along the value chain that put together represent a strong barrier to entry

ESG

- **E:** not material for Live Nation
- **S:** challenge to manage large workforce (30,000 at peak times), but no material risks in sight ; excellent positioning in the live entertainment eco-system
- **G:** suboptimal governance with key person risk associated to CEO Michael Rapino who was awarded a USD70m compensation in 2017; entrenched board; acceptable quality of account; no material controversies

Key Risks

There are many risks associated to the investment case of Live Nation which put this company at the top end of what we can accept. We can mention here balance sheet, key person risk with respect to its CEO and the artists that the company represents, economic cyclicality, relationships with the controlling shareholder Liberty Media as well as some regulatory risks, in particular with respect to the ticketing business. We consider these risks as minor ones in light of the secular growth potential and excellent competitive positioning.

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Executive Summary

The growth of 'being there': in the experience economy, live events have taken centre stage as fans overwhelmingly choose to spend more money on concerts and festivals over material goods. According to our research, Live Nation is a great opportunity to take advantage of this structural and growing trend.

A Live Nation concert every 16 minutes

Source: Live Nation

The company has six businesses:

- Promoters of live music concerts with 86 million fans across 29,500 events and over 4,000 artists in 2017;
- Owner, operator and booking rights for 222 venues across the world including 169 in the USA;
- Artist management with 125 managers providing services to 500 artists;
- Largest music advertising network for corporate brands;
- Production of music-related videos and, more recently, of movies with music content;
- Ticketmaster which provides ticket sales, ticket resale services, marketing and distribution for 12,000 clients worldwide across arenas, festivals, concert promoters, sports franchises and leagues, colleges, sports teams, performing art venues, museums and theatres.

The strategy of Live Nation has been articulated around four major axis. The first objective is to expand the concert platform: delivering more shows, growing the fan base and increasing ticket sales by penetrating new markets and increasing sales in existing markets. The second objective is to grow revenue per show by improving the experience, optimising the ticket pricing and growing the onsite fan monetisation through better products and services. Third, the goal is to scale up the ticketing business by increasing the volumes of tickets sold through new sales channels and also developing the secondary tickets business sold through a trusted environment for fan ticket exchanges. Finally, the objective is to grow sponsorship and advertising partnerships by increasing the share of global music sponsorship.

In order to achieve the company's objectives, Live Nation capitalises on several strengths. The company is by far the worldwide leader in the industry with 25% market share and the largest database of fans with 580 million documented profiles. It also has relationships with hundreds of emerging as well as super star artists; 4000 artists globally and 500 directly managed by the company. Ticketmaster is the largest ticketing business in the world and develop powerful websites. Finally, Live Nation has the best distribution network with 36 offices worldwide and 222 venues across 12 countries making. It also has a large market share of the growing festival market. In terms of sponsorship, Live Nation has a team of 400 people dealing with 900 sponsors both through national and local agreements.

Behind these figures, we think that the success of Live Nation rely on two primary competitive advantages. The first one is the creation of an efficient ecosystem. Live Nation is the only provider in the world which can offer artists a comprehensive package of services going from career management to promotion and ticket services. The fact that Live Nation is good (and still improving) at monetising events, notably through sponsorship and onsite revenue, directly irrigates their second competitive advantage. Live Nation is famous in the show business to be the most generous by far with artists. They keep only 10% of concert revenues and for super stars, it might even be less than that. They are also keener than their competitors to take risks and work under guaranteed contracts with artists. They can do that only because they have a diverse distribution platform and sometimes operate and own venues which drastically cut production costs.

Concert, Live Nation's main business in terms of revenues, is not particularly profitable. The rest of the business, onsite revenue, sponsorship and ticketing, are the main drivers in terms of EBIT and cash. In terms of growth, Live Nation have plenty of ways to develop the business. The secular drivers, the high dependency of artists' revenues on concerts and the globalisation of the music business, are strong and sustainable in our view. The company will also grow thanks to Live Nation's specific actions: growth in onsite revenues, ticket pricing which has been historically, ticketing services where Live Nation could appear as a transparent and artist-friendly platform. Also Live Nation continues to grow its concert platform through acquisitions of local businesses as well as the construction of venues to close gaps in certain cities.

The business is not without risks. First, the company benefited from a good economic backdrop over the last few years. Ticket pricing went up by around 5% every year but we have no evidence that pricing will not reverse in less favourable economic times. The second risk is around regulation. Local promoters and competitors of Live Nation keep complaining about the so-called predatory behaviour of Live Nation. The best example, as highlighted in a recent article in the New York Times and which made a lot of noise, is the accusation that Live Nation pressure venues to impose Ticketmaster if those venues want to be part of the large tours organised by Live Nation. Third, in our view, we think Live Nation might be a bit slow to develop their businesses in emerging markets. For years, they said that it was a strategic priority to make acquisitions in Latin America and Africa but the results have been mediocre. Last but not least, the corporate governance is not ideal. The legendary CEO of Live Nation, Michael Rapino, has a high remuneration by any standard and the relationship with the key shareholder of Live Nation, Liberty Media, is not always aligned with minority holders.

CEO Michael Rapino

Live Nation's Legendary CEO Michael Rapino with Rihanna
Source: imdb.com

None of these risks are large enough for us and we think that Live Nation deserves to be part of our investible Universe of exceptional companies.

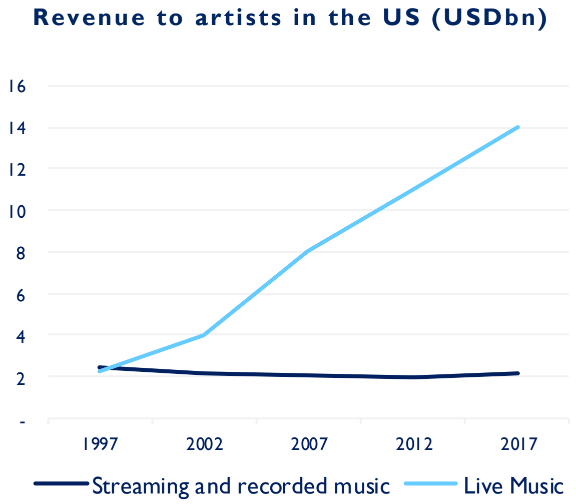
Market Overview

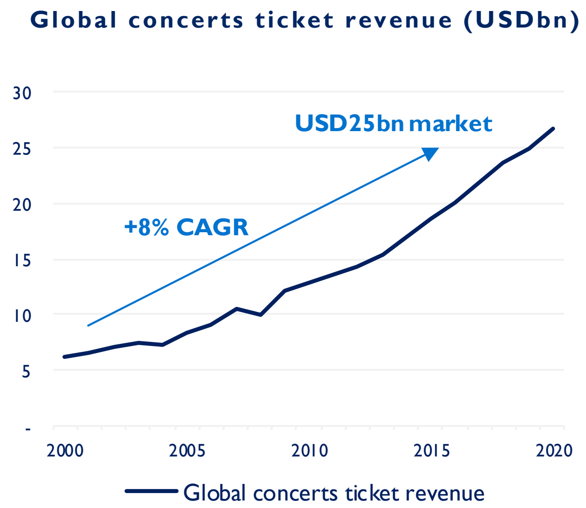
It is notorious that the sources of artists' revenues have massively changed over the last twenty years. With the collapse of music physical sales and the emergence of streaming platforms (with unfavourable business models for artists), artists' revenues are now largely depending on tours.

U2, the 2017 artist making the most money, made virtually all of it through touring

Source: Billboard's 2018 Money Makers: 50 Highest-Paid Musicians

The necessity for artists to tour in order to generate revenues combined with the great appetite coming from consumers for live events has generated an explosion in the growth of the concert business. Looking at the US market, the total personal consumption expenditures generated a compounded growth of 4% from 2012 to 2017. On their side, the US concert ticket sales grew by 11% in the same period. This is a tremendous growth that very few other consumer categories can match especially as it comes both from pricing and volumes. We estimate that pricing and volume represent each half of the growth for the last few years. In the world, the growth in concert ticket revenue has been around 8% per year over the last two decades.





Source: Pollstar, PWC, RIAA, Live Nation

From the point of view of the user, or the *'fan'*, live concerts are in growing demand. As CEO Michael Rapino put i:

> *"It makes the big moments in life, you remember bringing your first date. [...] The average customer goes to two shows a year – they are magic moments for them. [...] They can't watch that on a DVD at home or stream it on Youtube."*

Interview with Charlie Rose, 2017

We identify three secular drivers supporting demand for live entertainment:

- **Growing appetite for real-life experience:** in an increasingly digitalised world, live entertainment constitutes a way back to the roots. It is a unique way for people to connect with their stars. This does not mean that live concerts are going against digitalisation – in contrast, the whole experience gets enhanced by digital features such as mobile tickets or online onsite ordering. But in a certain way, live entertainment can be seen as a play on a trend that is more forward looking than digitalisation itself.

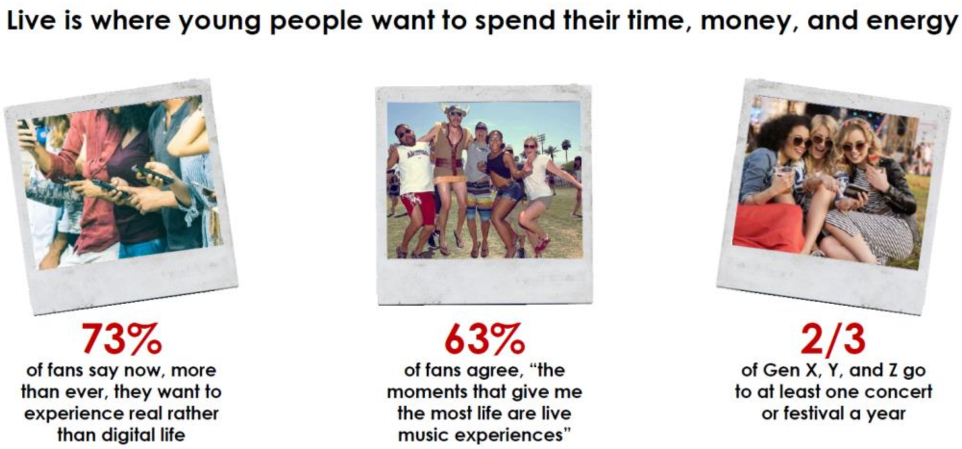
- **Social differentiation:** in every human society, people strive to differentiate themselves from the others. In the old days, owning a collection of certain CDs could have been such a differentiating factor. But today, with unlimited streaming for everyone, this does not work anymore. As with everything, value is driven by rareness. Attending a concert, buying the ticket, physically going there is reserved to a few and offers more room for chat with friends or colleagues than having listened to a particular song on Youtube.

- **Globalisation:** in today's world, where fame can spread from a small local town in a remote country to the entire world within no time thanks to Spotify and co., the potential reach of any artist has become global. There is a tremendous and yet underutilised reservoir of opportunities for touring, as the industry has historically focussed on North America and Europe. As Michael Rapino put it, "demand is global. For some stars, the demand is far exceeding their capacity to ever play"[1]. As a reflection of this trend, Live Nation's international fanbase has outgrown the North American one. In 2016, international fans represented 31% of the total, but in the following year contributed 60% of the growth. In one single

[1] Interview with Charlie Rose, 2017

year, Live Nation added 9m international fans, so many that they alone would make of Live Nation a leading player in the worldwide live entertainment industry.

Fan demand is growing



Source: Live Nation research

Industry Value Chain

- To initiate live music events or tours, **booking agents** contract with artists to represent them for defined periods. Booking agents then contact promoters. **Artist managers** are also booking agents, but with an enlarged scope. Live Nation currently manages over 500 artists. This is a diversified base, but still a riskier business. The artist manager negotiates on behalf of the artist and is paid a fee, generally as a percentage of the artist's earnings.
- **Promoters** contract with booking agents or directly with artists to arrange tours and events. Promoters earn revenue primarily from the sale of tickets. Artists are paid by the promoter under one of several different formulas, which includes fixed guarantees and/or a percentage of ticket sales or event profits. Live Nation offers a competitive financial package, paying the artist c.90% of ticket sales and has the unique advantage of being able to provide a global deal in which risks for the artists are substantially reduced. Guaranteed payments also mean that promoters assume the risk of unprofitable events. Live Nation organised 30k events in 2017. Promoters, in conjunction with artists, managers and booking agents, set ticket prices and advertise events. Promoters market events, sell tickets, rent or otherwise provide venues and arrange for local production services, such as stages and equipment.
- The actual **ticketing services** are delegated to ticketing companies like Live Nation's TicketMaster. These charge a fee on top of the face value of the ticket in exchange for selling tickets primarily through online and mobile channels but also through phone, outlet and box office channels. Ticketing companies will contract with venues and/or promoters to sell

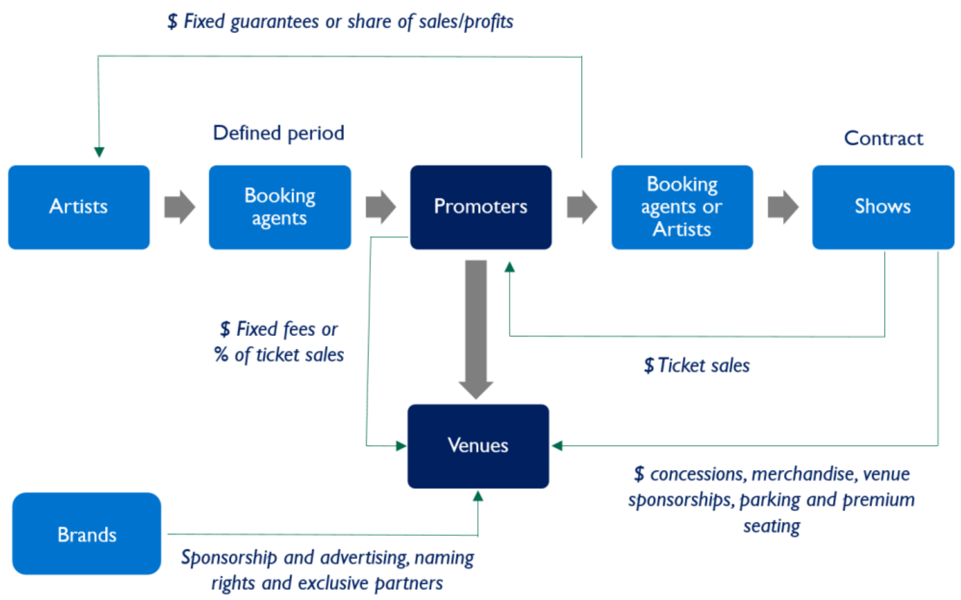
tickets to events over a period of time, generally three to five years. The ticketing company receives the cash for the ticket sales and related service charges at the time the ticket is sold and periodically remits these receipts to the venue and/or promoter after deducting its fee. Importantly, a large proportion of tickets (20-60%) is non-fee-bearing, as tickets are also sold in the venue's local box office or reserved for the artist or other intermediaries.

- **Venue operators** typically contract with promoters to have their venues rented for specific events on specific dates and receive fixed fees or percentages of ticket sales as rental income. In addition, venue operators provide services such as concessions, parking, security, ushering and ticket-taking, and receive some or all of the revenue from concessions, merchandise, venue sponsorships, parking and premium seating. The security aspect is very important, as accidents and even terror attacks can occur.
- Events, tours and venues are often **sponsored**. This typically includes venue naming rights, onsite venue signage, online advertisements and exclusive partner rights in various categories such as credit card, beverage, hotel and telecommunications, and may include event pre-sales and onsite product activation.

For music tours, two to nine months typically elapse between initially booking artists and the first performances.

The following chart shows the economic flows of a concert. Promoters and venues are at the core of the system. Live Nation have a preferred position in both.

Economic flows of a typical concert



Source: CQS research team

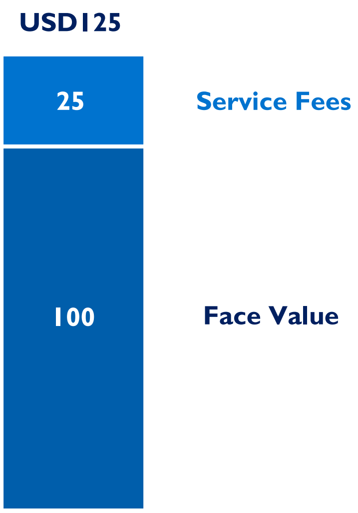
Importantly, there are different types of contracts between artists and promoters. Under guaranteed contracts, the promoter takes the risk of unprofitable shows but may renegotiate lower guarantees or cancel events to reduce losses. The promoters can also reduce the risk of losses by offsetting low profitability events with more profitable events by entering into global or national touring agreements. Some other contracts are not guaranteed and the promoter can adjust the volume of shows depending on the demand and its own profitability requirements. Thanks to their size, **Live Nation have**

the potential to guarantee favourable contracts to artists. We will discuss that later on but the financial commitments are reasonable as their maturity is short term on average.

In parallel, the promoters pay fees to the venue operator. These fees could be fixed or a percentage of ticket sales. The promoters negotiate sponsorship and advertising opportunities, naming rights as well as exclusive partnership with brands. For super stars, the tour might be sponsored by one or two international brands hence the promoter pays back part of the sponsorship amount to each specific venue. Finally, the onsite revenues are pocketed by the promoters and then partially refunded to the venues depending on specific arrangements. We better understand here why it makes sense for Live Nation to develop, own, lease or operate their own venues: **They can capture a larger share of the pie and maximise the revenue pool** through their expertise in onsite monetisation and ticketing services.

Looking at it from the point of view of the final client, a typical ticket price breaks down as follows[2] :

Illustrative ticket price breakdown



Service fees are charged by the ticketing company and come on top of face value. If the venue is operated by a third party, the revenue is booked upon sale and 100% go to the ticketing segment. If the venue is operated by Live Nation, the revenue is deferred until the event takes place and shared between the concerts and Ticketing

The face value is what appears on the ticket itself. On average 90% go to the artist, with the most famous ones likely exceeding this percentage. The aggregate face value of tickets is what represents the largest chunk of the revenues in the concert segment. Additional revenues not flowing through the tickets are: artist management, onsite spending and sponsorship. Live Nation's abilty to generate revenues independent of the ticket face value explains why Live Nation manages to offer artists the best financial deal.

Source: CQS research team

Ticket prices vary greatly depending on the artist, type of event and location. As a reference point, dividing the gross transaction value in the Live Nation's ticketing segment by the total number of fee-bearing and non-fee bearing tickets yields an average price of USD60.2 for 2017.

[2] Please note that all numbers are for illustrative purpose of the main economic dynamics rather than precise calculations.

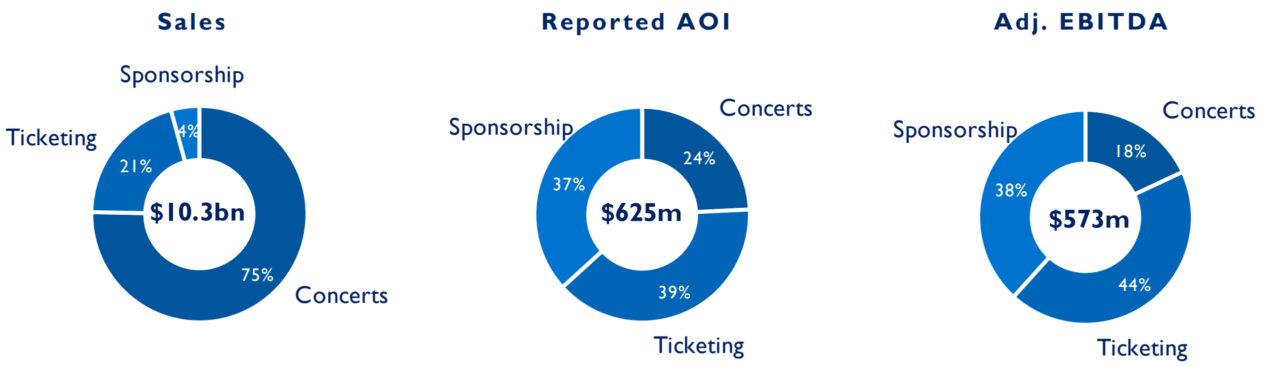
Business Profile and Positioning

Business Lines

The business split of Live Nation is the following (many company's observers regret that the main business of Live Nation, Concerts, is not highly profitable; given the strength of the company's overall business model, we think this is irrelevant). Numbers are for 2017.

- The **Concerts** division includes promotion of music events, the operation and management of music venues, festivals and creation of associated content and provision of management and other services to artists. This division makes 76.3% of total revenue. Margins of promotions is very dependent on artists' fee and production services expenses. Venue margins are generally higher and has a more direct relationship with revenues. For festivals, the payment to artists is generally a fixed guaranteed creating a lot of leverage at the margin level.
- **Sponsorship and Advertising** maintains a salesforce that creates relationships with sponsors at the local, national or global level. The sponsorship can be offline and online. This business represents 4.3% of sales and is highly profitable.
- **Ticketing** is an agency business that sells tickets for events and retains a fee or service charge. Online, apps, ticket outlets and call centres represent 60%, 33%, 5% and 2% of primary tickets. This division represents 20% of total revenue. 206 million tickets were sold with a fee in 2017 and an additional 292 million tickets were sold using Ticketmaster systems including through season seat packages, venue clients' box offices and other channels where no fee is paid. The total gross transaction value is USD30bn. Assuming a proportional split between fee-bearing and non-fee bearing tickets, the average margin per ticket sold is 17%[3]. Agreements with venue clients in North America and Australia typically grant the right to sell the tickets for all events presented. In other countries, contracts grant the rights to sell tickets for all events presented by a given promoter at any venue unless the venue is covered by an existing exclusive agreement with the ticketing business or another ticketing service provider. A substantial portion of the tickets are kept by the venue or the promoter for agents' venues etc… and the amount of tickets with fees vary greatly for any given client and from year to year. Also, Live Nation has a ticket resale services where they earn a fee. This is a new and interesting business.

Breakdown by Segment, 2017



Source: Live Nation, CQS research team; AOI refers to reported Adjusted Operating Income; Adj. EBITDA refers to a CQS adjusted metric; both metrics will be discussed in a later section

[3] This is calculated by dividing the ticket segment revenues over the gross transaction value of fee bearing tickets, which we estimate based on the number of fee-bearing tickets.

Please find below a summary of the sources of revenue and main cost items for the different business segments of Live Nation.

Concerts	Sponsorhip and Advertising	Ticketing
	Business description	
Global promotion of events, operation and management of music venues, production of music festivals, creation of associated content and provision of services to artists	Marketing programs with local, national and international advertisers	Agency business which sells tickets for events and retains a fee. Some tickets are fee bearing and others are non-fee bearing but use the technology of TicketMaster
	Main Figures	
29,500 events with 4,000 artists in 2017, 86m fans, of which 64% in North America, 500 artists under management, 97 festivals organised, 222 venues owned, operated or invested in	900 advertisers in 2017	206m fee bearing tickets and 292m no fee tickets in 2017, total gross transaction value of USD30bn, 3m fans using Verified Fan Scheme
	Revenue	
Promoter: sale of tickets	Onsite and venue branding	Primary ticketing
Venue operator: sale of concessions, parking, premium seating, rental income, venue sponsorships	Online marketing programs	Secondary ticketing (10% of division's revenue)
Festival promoter: sale of tickets, concessions, camping fees, sponsorships	Bespoke events	
	Costs	
Promoter: artist remuneration (90% of revenue), production services and venue rent when venue not owned by LN	Salesforce of 500 people	Technology (high Capex)
Venue operator: security, insurance and production services		Salesforce
Festival promoter: artists fees, venue rental when not owned and other costs		

Source: CQS research team

In terms of costs, the business is also most interesting. Most of the costs take place in the Concert division (roughly 75%) and these costs are highly flexible. In this division, 80% of the costs are flexible and depend on the organisation of events. The company has a workforce of around 30,000 during the high season (spring/summer) but the number of full time employees is only around 9,000 people. The rest of the costs are split between sponsorship and ticketing. In sponsorship, a highly profitable division (4% of revenues and 30% of profit), the main cost line is the salesforce of around 500 people in charge of dealing with advertisers. Part of the remuneration is also variable and contract-dependent. Last, the ticketing division also has a large portion of variable fees including credit card fees, telecoms and data communication as well as data centre management and commissions paid to intermediaries. This division also has some high capex (USD105m in 2017, mainly technology related) in order to constantly upgrade the Ticketmaster platform. These investments are amortised.

Pure production costs amount to around USD6bn a year. A couple of years ago, M. Rapino explained that lights and sounds only cost USD1.5bn a year and that it was largely outsourced at this stage. A business review was under way to rationalise the spending. More fundamentally, this huge spending for production a year combined with the guaranteed contracts paid to artists explains the difficulty to compete Live Nation away. Also, even if we do not claim here that the business model of Live Nation would be protected in a recession, our estimates of the fixed costs show that the P&L might be more resilient than investors predict when the cycle turns.

Cost breakdown per division (USDbn)

	Concert	Sponsorship	Ticketing
Revenue	**7.9**	**0.4**	**2.1**
Direct Operating Expenses	**6.6** USD6bn in content production (including artists fees, rent expense for events in third party venues, salaries and wages related to seasonal employment) + USD0.4bn in advertising expenses	**0.1**	**1.2** Credit card fees, telecoms and data communication costs, call centres, commissions paid on tickets distributed through independent sales outlets, ticket stock and shipping, revenue sharing with venues if owned or operated by Live Nation[4]
S, G & A	**1.1** Full time employees, fixed rent, travel, legal expenses and consulting	**0.1** Mostly 500 salespeople, fixed rent, travel, legal expenses and consulting	**0.7** Full time employees, fixed rent, travel, legal expenses and consulting
Comment	Very high level of variable costs	High percentage of full time employees but remuneration partly bonus based	Very high technology costs, capex of USD0.1m per year

Source: CQS research team

Competitive Positioning

The competitors of Live Nation are AEG, Dainty group, Another Planet Entertainment, Jam Productions, IMP and Livestyle. In terms of venues, the large competitors are Anschutz Entertainment Group (AEG), the Madison Square Garden company (MSG) and the Nederlander Organisation. In terms of ticketing, the competitors are tickets.com, AXS, Paciolan, CTS Eventim, Eventbrite, eTix, Ticketfly and SeatGeek. The resellers competitors are Stubhub, Vividseats, Ticketnetwork and Seatgeek.

[4] If the live event for which a ticket is to be hosted at a third party venue, service fees on ticket sales are not shared.

AEG's facilities management division is merging with SMG

In February 2019, it was announced that AEG's and MSG's facilities management divisions would merge under the brand ASM Global, with both AEG and the owner of MSG, Canadian private equity firm Onex, retaining a 50% stake. The new entity will offer services including the physical management of venues and more specialized programs in operations, guest services, ticketing, booking, sales and marketing. ASM will operate more than 310 venues across five continents, of which 240 come from MSG.

While the merger included only the facilities management arm, not the ownership of the venue, it is still an announcement with **potentially structural implications for the competitive landscape**. We view this rather as a defensive move and a recognition that both need to join forces to keep up with Live Nation. We also note that in 2012, the Anschutz Corporation announced its intent to sell AEG and its holdings. The company has retained financial advisors Blackstone Advisory Partners to assist in the process, but there were some concerns related to the developoment of a football stadium in Downtown Los Angeles. Six months later, Anschutz announced AEG is no longer for sale and that he is changing CEO.

Source: Wikipedia, LA Times

We will not spend time describing all competitors individually as they are not in direct competition with the ecosystem of business model but only with some of the divisions but at this stage it might be good to explain to what extent Live Nation is different from its competitors.

Let's take the example of the announced tour of a US artist called Jon Bellion. He is the kind of emerging artists which is successful with millennials and certainly has the choice to organise a tour with different promoters. His manager is a very small independent company. The tour of Bellion will include 38 venues in the US and Canada. The capacity of these venues is between 2,500 and 8,000 seats. Looking at the details of the tour, Live Nation will organise the shows in 18 venues which are operated by the company. The ticketing for the whole tour is also fully organised by Live Nation. Undoubtedly if the demand is high for the artist, it would be a very profitable tour for both the artist and Live Nation. With an average capacity of 5000 seats, an occupancy of 90% and an average price ticket of USD90, the artist might make around USD14m and Live Nation USD1.4m for the promotion side. On the ticketing side, Live Nation usually charges around 25% which makes a marginal profit of around USD2m. In the venues operated by Live Nation, it is possible to expect a marginal profit of around USD15 per fan generating a profit of USD1.4m. The sponsorship and advertising revenues are impossible to estimate. The measurable profit contribution of this tour might be estimated to around USD5m according to our rough calculation.

Marginal profit associated to the tour of Jon Bellion

USDm	Marginal profit
Concert promotion	1.4
Ticketing	2
Onsite spending	1.4
Total	4.8
Sponsorship and Advertising	?

Source: CQS research team

Tour of Jon Bellion

City	Venue	Operated by	Ticketing
Philadelphia	The Met	Live Nation	Live Nation
Washington DC	MGM National harbor	MGM	Live Nation
Raleigh	The Red Hat Amphitheater	Live Nation	Live Nation
Charlotte	Charlotte Metro Credit Union Amphitheater	Live Nation	Live Nation
Atlanta	State Bank Amphitheather Chastain Park	City	Live Nation
Orlando	CFE Arena	Comcast	Live Nation
Miami	Bayfront Park Amphitheater	Trust	Live Nation
St Augustine	St Augustine Amphitheater	City	Live Nation
Nashville	Ascend Amphitheater	Live Nation	Live Nation
Iriving	The Pavilion at Toyota Music Factory	Live Nation	Live Nation
Houston	Revention Music Center	Live Nation	Live Nation
Austin	HEB Center	City	Live Nation
Albuquerque	Villa Hispana Pavilion Expo NM	City	Live Nation
Phoenix	Comerica Theatre	Live Nation	Live Nation
Las Vegas	House of Blues	Live Nation	Live Nation
San Diego	Cal Coast Credit Union Open Air Theatre	University	Live Nation
Los Angeles	The Greek Theatre	SMG	Live Nation
San Fransisco	The Masonic	Live Nation	Live Nation
Seattle	WaMu Theatre	City	Live Nation
Vancouver	Queen Elizabeth Theatre	City	Live Nation
Portland	Theater of the Clous at Moda Centre	AEG	Live Nation
Salt Lake City	USANA Amphitheatre	Live Nation	Live Nation
Denver	Fillmore Auditorium	Live Nation	Live Nation
Lincoln	Pinewood Bowl Theatre	SMG	Live Nation
Kansas City	Uptown Theatre	City	Live Nation
Chicago	Huntington Bank Pavilion Northerly Island	Live Nation	Live Nation
Minneapolis	The Armory	Live Nation	Live Nation
Detroit	Meadow Brook Amphitheatre	University	Live Nation
Cincinnati	PNC Pavilion Riverbend Music Centre	City	Live Nation

Indianapolis	Farm Bureau Insurance Lawn White River State Park	Live Nation	Live Nation
Cleveland	Jacobs Pavilion Nautica	Live Nation	Live Nation
Boston	Blue Hills Bank Pavilion	Live Nation	Live Nation
Uncasville	Mohegan Sun Arena	Casino	Live Nation
Wantagh	Northwell Health Jones Beach Theatre	Live Nation	Live Nation
Baltimore	MECU Pavilion	Live Nation	Live Nation

Source: CQS research team

Strategy

The live business remains a **buoyant market.** The pie is growing and has room to grow for a long time as European markets, Eastern Europe, Asia, South America get professionalised and more and more bands go there. At the same time, demand from fans for more shows has been steadily growing. Between the demand of artists for more tours and the internationalisation of artists, the third driver is the development of technology.

The obsession of Live Nation for the last five years has been to **internationalise tours.** For twenty years, tours were only taking place in North America and Europe. But over the last five years, organising concerts in South Africa or Colombia for Rihanna is also a very profitable money and is as profitable as a concert in Boston, as explained by the management of Live Nation. The company's unique selling point is its ability to offer a global package, while previously, stars would have had to take the risk of working with various local promoters if they wished to tour internationally.

Part of the strategy of Live Nation is **to execute on horizontal integration on top of vertical integration**. For example, instead of contracting with a local promoter in Philippines, Live Nation aim to organise shows themselves in this kind of emerging markets. They would hence get the rebates, benefit from the sponsorships and use the internal ticketing services. That's the reason why Live Nation has 100 offices in 40 countries. The business model is thus similar to a classic retail expansion model.

There are actually very few businesses in the world which can expand this way with no difficult regulatory framework, no particular ownership issue and no important capex to deploy. The fact that there are very few competitors in the space make the business really **unique.** There is more competition in the ticketing market as we will see later on but for most of the others services, the competition is actually mild. Most other players make money out of the 10% promotion fees without capitalising on other revenues. They are thus limited in their ability to attract artists. Today, Live Nation has a 25% market share of the global tour market but less than 5% in Latin America and Asia (for example Live Nation organised just three shows in India in 2018).

The other reality of the live concert market is that there is **a large stock of unsold inventory.** Live Nation have a concert vacancy of around 20%, which means 23 million tickets worth zero at midnight. 85% of concerts are not sold out. It improved from 30% five years ago but still represents a large opportunity. The issue remains the absence of awareness of concerts. 40% of fans do not know that their favourite artists have a concert tonight in their own towns, according to a survey. Promoters have a lots of unsold seats. Selling 250 more tickets to every concert Live Nation promotes would represent an additional AOI of around USD60m for the company. Combined with that, and at the other end of the spectrum, a small number of concerts generate a very intense secondary market. Live Nation estimates that for their own share USD1bn (USD3.5bn for the industry as a whole according to the company) could have been captured if the primary ticket market was priced in fairly. The company itself recognises that there is no perfect pricing model. We will come back on that later on.

One of the other key traits of Live Nation is the strategy **to concentrate on the company's core business**. This is helpful to quote here Michael Rapino saying 'I think one of the smartest things we've done for 10 years is have a very small to-do list and a big don't-do list'. We note the fact that Rapino accepted a board membership with Sirius whose controlling shareholder is also Liberty Global. The company kept reassuring on that front and maintains the core business strategy. As discussed later on in the corporate governance, it is unclear whether a deal with other entities of Liberty Global would be beneficial to the minority shareholders of Live Nation.

Why are concerts so exciting?

The business answer to that question was brought in a recent study published in 2018. Even if we take it with a pinch of salt (the study was financed by Live Nation), the conclusions are interesting to consider and have important implications for the industry, especially for sponsorship opportunities.

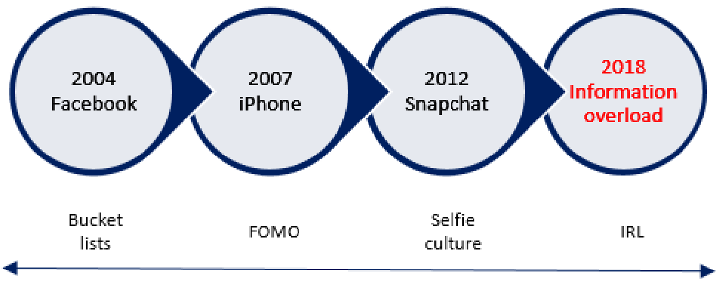
The growth in live experience comes from what the study calls the **sensation deprivation**. Inundated with information and constantly distracted, consumers are increasingly looking for device-less and human centred experiences. Live concert is part of a drive back towards real rather digital life. An increasing number of people recognise the importance of the physical world to their quality of life and are recalibrating their lives with more intention. Among different kind of experiences, live concerts seem to be the ones that bring the most emotional intensity compared to live sporting events, videogames or streaming music.

The study mandated scientific researchers to look at the physical response to attending a concert. Live music has the power to increase the sweat secretion from glands and accelerate the creation of 'bonding hormone' oxytocin. Importantly, the live concert experience is part of a long journey. 59% of fans plan a pre or post event get together, 65% make a purchase specifically for the event and 68% share the concert experience on social media. This is particularly true for festivals where the organisation sometimes gathers dozens of different fans.

Business-wise, **the audience is qualitatively excellent for sponsors**. While demographics frontiers (gender, age or social) are increasingly blurred and confused, music brings together an attractive population. They are 29% more affluent, 333% more likely to be highly connected as micro influencers (more than 1000 followers on Instagram or Twitter) than the average population. They are also important consumers and 53% more likely to make large-ticket purchases.

Combined with the quality of the audience, **concert goers are also more receptive to brands**. It looks like the audience is more open to associate a brand sponsoring a concert with positive attributes such as 'understanding modern culture' or 'a brand for people like me'. When global audiences are experiencing high emotional intensity, 63% are more likely to connect with brands. By tapping into the live music audience, a brand's message can extend reach beyond the fan at the experience and tap into the social halo of fan's network

Marketing pitch for brands



Source: Live Nation, CQS research team

Quality and Growth Drivers

Concert Segment

Festivals

One growth area among the Concert division is Festivals. Europe has been leading the market and the development really started in the USA at the turn of the last decade. Today Live Nation owns around 105 festivals.

The interest in the business lies on the intellectual property associated to it. Live Nation owns the brand, sells the tickets and develops sponsorship opportunities around it. It is a great business and higher margins than a typical concert because of all the food, beverage, parking, accommodation and ancillary revenues associated to it. Some festivals now develop a combination of live music and specialised food to attract a more diversified client base.

In North America, until 2015, Live Nation was a bit of a laggard but started to catch up thanks to the acquisition of Insomniac (400 000 tickets in Vegas) and they also seeded some small festivals throughout America notably Made In America with Jay-Z and a large sponsorship with Budweiser but it looks like they are very cautious on that and targets festivals with 30,000+. These are the most profitable ones.

Largest festivals in the world

	Country	Visitors (M)		Owned by Live Nation
Donauinselfest	Austria	3.1	Free	
Mawazine	Morocco	2.7	Local initiative	
Summerfest	USA	0.8	Low cost	
Woodstock	Poland	0.8	Free	
Rock in Rio	Brazil	0.7	Every second year	Yes
Coachella	USA	0.6	USD100m revenue in 2016	
Sziget	Hungary	0.5	International music	
Essence	USA	0.5	Afro American music	
New Orleans Jazz	USA	0.4	Oldest festival in the world	
Electric Daisy	USA	0.4	Largest EDC festival	Yes

Source: Various websites

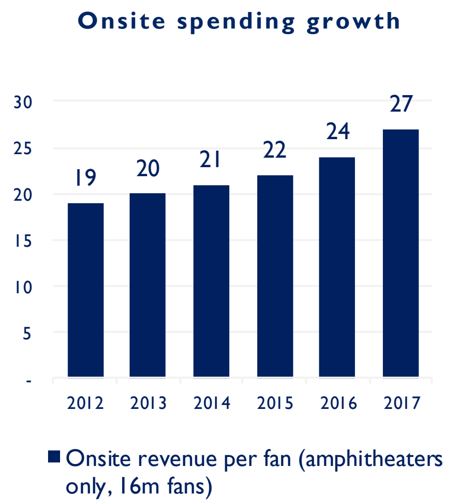
Even if market participants are admittedly very focused on that, festivals should represent only a small portion of the live music business. As mentioned above, there are big and highly profitable festivals but overall the barriers to entry are high. Many people try to launch their own projects but most of them fail.

The clientele is young which is attractive to the sponsors and it is an essential part of a portfolio to develop advertising opportunities. It also targets some specific demographics for example country music which is much bigger than rock and roll and pop music in the US. Electronic is very important in that space and Live Nation is the US leader but again it should be put into proportion as it represents around 3 million tickets out of a total of around 9 million for festivals and 100 million sold for concerts.

Onsite spending

Finally, the growth and the profitability of the Concert business has been dependent on the on-site spending per head. Historically the spending for concerts has been limited for structural reasons. Often there is no break during a concert and the size of the venues limit the ability of fans to spend on food and beverage. The management of Live Nation put a very strong focus on that side of the business and achieved some results, as shown in the chart on the right.

The on-site spending per cap was limited to USD 15-20 which is far below what is achieved for other events notably the National Football League and also at Disneyworld. The objective at the time was to reach the 30-35USD range in different steps. The first objective was to increase the spending by USD5 on a fan basis of 30 million people attending Live Nation's proprietary events, e.g. owned venues and festivals.



The adopted strategy was centred around the following:

- The installation of Wi-Fi access in most venues run by Live Nation. This was accelerated after the signing of a group level agreement with Cisco in 2014. This was a very profitable investment as Live Nation developed sponsorship opportunities directly on the group's app and significantly increased fans' engagement.
- The company also insisted on the upgrade of the offering switching from a product range focused on beer to more sophisticated cocktails and types of wines. In terms of internal distribution, the app enables the organisation of lane and to pre order on line. Food and beverage is a USD300m business in the venues of Live Nation; historically they have been largely outsourced but depending on the situation Live Nation wishes to exploit more of them.
- The above specially applies to amphitheatres which represents a large part of the tickets sold in Live Nation owned venues (15m) but the management also developed a strategy for theatres and clubs where moving is obviously more complicated. For this type of venues, the objective is to develop different kind of services, such as VIP and bottle services in order to develop on-site. On the other side, the company is very focused on festivals which are most adequate to develop on site revenues through the addition of restaurants and gastronomic events inside the festivals. The range of onsite spending is admittedly large ranging from USD10 to USD50 (for example BottleRock festival) but the potential is high as fans usually sleep on site and cross selling is easier to materialise than in amphitheatres.

- A reshuffling of the management team in charge of the on-site with the hiring of staff coming from Disney as well as the NFL. The general managers of each venue now reports to a specific person in terms of onsite hospitality in order to optimise the offer across the buildings.

Pricing

In terms of pricing, the company has no target but managed to work on different levers to improve the pricing environment:

- The on-boarding of the ticketing business through the acquisition of Ticketmaster enables to refine the offer and propose new alternatives in terms of seating.
- The other lever is to work with artists to fine-tune the offer. In the secondary market, many tickets are sold at a very high premium to facial prices. Recently, the company estimated that there is still USD1bn of revenues that are going to 'scalpers' (brokers and resale websites) every year.

Pricing is actually a key determinant for the business. First, this represents more services revenues for Ticketmaster, second it helps to leverage the concert opportunity and third it motivates artists to tour more.

The basic ingredient to explain the success of Live Nation in Concert is linked to the combination of two elements. First the typical revenues of an artist are now highly dependent on touring and concerts as explained above. Second, Live Nation has a strategy to pay artists more than the average promoter. Usually, Live Nation keeps a cut of only 10% versus 20% to 30% for the company's competitors. Here we see the moat of Live Nation. Thanks to on site revenues, the ownership of venues and the ticket business, Live Nation manages to create an ecosystem which is unique in the live business.

Only Live Nation can afford to take this kind of risk on this highly leveraged business of concert promotion. Combined with the financial deal guaranteed to artists, Live Nation is one of the only competitors, along AEG, to provide such a depth in terms of venues and geographies. Beyond the global network of Live Nation one of the company's key other attribute is the density of its venue network in North America which still generates a high level of profit for the firm. Concert is a local business and Live Nation keeps analysing local opportunities. For example, in 2014, they opened a 15,000-seat amphitheatre in Nashville which generated a huge success with half a million tickets sold in the first year, hence creating a quasi-monopoly in this area.

Emerging market growth

For the long term, the largest reservoir of growth is mainly in emerging markets. Given the development of the music industry, the internationalisation of artists create opportunities to enlarge the number of countries toured by singers. Today Live Nation is in 40 countries but at different levels. For example there are markets where there is just a partnership agreement with a couple of venues; in some others only the ticketing business is really active. Among the countries where there is a large potential, Live Nation insists on Mexico, South America and Asia. The company looked in details at potential acquisition opportunities in those regions but rather unsuccessfully at this stage. The slowness to develop in emerging markets is not a huge issue at the moment as management focused on North America and Western Europe where there was a lot of potential to uncover. It might become a problem if the company does not accelerate from now on. Most artists for example consider Latin America as a go to for their world tour sometimes representing 15 out of their 100 or so dates and, especially in Brazil with *Time For Fun*, there are definitely serious competitors in the space.

Economic cyclicality

The other concern for the concert business is to analyse to what extent it will resist downward pressure on consumption or a fully fletched recession. As a discretionary, leisure spending representing a non-negligible budget item for the average fan, some might wonder whether demand would fall sharply in an economic downturn.

We believe this fear may be overdone. First, we note that in 2007-2009, Live Nation's sales were flattish. Second, as ticket pricing is often made at a discount to the market value (cf. section on pricing), there is a significant buffer before demand elasticity kicks in. Third, concerts are an emotional moment for the fan – it is not the same as postponing the purchase of a new refrigerator or laptop.

This said, we note one potential area of weakness in case of a downturn, which is premium packages. Pricing has increased 5-10% a year over the last few years and 75% of amphitheatres now offer some platinum offers; this kind of premiumisation can greatly suffer if fans want to save money.

Artist diversification

While this would bite into margins, we believe the impact would be less severe than what the market may discount. To finish this part on a positive note as we believe that concert and promotion in the context of Live Nation are a great business to be in, one of the key dynamics has been the diversification in terms of artists able to generate high-grossing tours. In the past, the fortunes of Live Nation were very much tied to whether Madonna, U2 or Coldplay wanted to tour and when they did it was a USD200m to USD400m windfall but now there is a bunch of artists who can fulfil stadiums and they are very diversified in terms of content for example in country or electro music. Some artists unheard of five years ago can now sell out 30 shows in 10000+ arenas. This is definitely a very important point as it diversifies the sources of revenues and balances the bargaining power between large artists and promoters. On average, 5 to 7 of the biggest artists for Live Nation are relatively new artists.

Top 25 tours in 2017

Rank	Artist	Gross proceeds (USDm)	Average ticket price
1	U2	316	116
2	Guns N' Roses	382	109
3	Coldplay	238	97
4	Bruno Mars	200	97
5	Metallica	153	97
6	Depeche Mode	141	78
7	Paul McCartney	132	146
8	Ed Sheeran	124	81
9	The Rolling Stones	120	159
10	Garth Brooks	101	70
11	Celine Dion	101	148
12	Justin Bieber	94	89
13	Roger Waters	92	122
14	Lady Gaga	86	116
15	Billy Joel	82	115
16	The Weeknd	80	81
17	Tim McGraw	79	85
18	Red Hot Chili Peppers	73	83
19	Ariana Grande	66	76
20	Tom Petty & The Heartbreakers	65	93
21	Sting	64	84
22	Green Day	64	57
23	Elton John	64	93
24	Neil Diamond	63	101
25	Robbie Williams	62	109

Source: Pollstar

Venues

Live Nation has also continued to develop its own venues as part of the vertical integration strategy. The opportunity here is to grow the ecosystem (the flywheel as Live Nation calls it in its corporate language).

In the below table, the number of venues owned, operated or leased by Live Nation are detailed.

Venue	Capacity	Event type	Owned	Leased	Ope-rated	Exclusive booking rights	Equity interest	Total
Stadium	>30,000	Primarily sports	-	-	-	1	-	1
Amphitheater	5,000 - 30,000	Outdoor music	10	32	7	13	-	62
Arena	5,000 - 20,000	Sport and high end music, indoor	1	5	2	2	1	11
Theater	1,000 - 6,500	Primarily music, low cost	7	38	9	17	2	73
Club	<1,000	Branded, incl. restaurant	3	17	1	12	1	34
House of Blues	1,000 - 2,000	Very high ARPU	2	9	-	-	-	11
Festival Site *	Varies		5	2	-	23	-	30
Total venues in operation			28	103	19	68	4	222
Venues currently under construction			-	4	-	-	-	4
Venues not currently in operation			1	2	-	-	-	3
Total venues in operation by location:								
North America			19	81	15	51	3	169
International			9	22	4	17	1	53

Source: Live Nation

Most of the venues are leased or operated and, talking to the company, we understand that management pays attention not to change much the capital intensity of the business. That being said, the coverage in the USA is a real trump for Live Nation and they can develop domestic tours for artists with limited need to partner with other venues, making the business highly profitable. Today, concerts taking place in the venues of Live Nation represent roughly 20% of the tickets sold, according to our understanding.

One of the growth drivers is driven by House of Blues and clubs which fit well in small towns and/or for emerging artists. The development of these venues is greatly helped at the moment by the demise of city centre malls that landlords are eager to revitalise with concert halls and include as core tenant. These House of Blues are both very profitable and provide a useful platform to launch young artists. According to company's estimates, the theatre/House of blues business represent a yearly EBITDA of around USD40m.

At the other end of the spectrum, a lot of cities do not have amphitheatres, for example cities like Boston or Toronto. Research shows that fans prefer to see international stars outdoor in order to dance and have fun.

Evolution in the number of venues – per type

	2014	2017	Growth
Stadium	1	1	0
Amphitheatre	52	62	10
Arena	10	11	1
Theatre	53	71	18
Club	27	34	7
House of Blues	12	11	-1
Festival Site	3	30	27
Total Venues	158	222	64
North America	136	169	33
International	22	53	31

Source: Live Nation, CQS research team

The table above shows the growth in the number of venues of Live Nation. Importantly, this growth does not reflect a rising capital intensity, as out of 64 increase in venues in 2014-17, those with exclusive booking rights account for 27, while the leased ones represent 25. There were only 4 new owned venues during that period.

Bottom line, Live Nation has developed a fantastic business model:

- **Top artists:** even if they mostly perform in stadiums where Live Nation is absent, these artists generate a huge amount of ticketing revenues and the concerts are mostly sold out. Also Live Nation can find an advertising partner for the tour. We looked at the recent tour of Shakira. Among the 35 dates of her 2017/2018 in Europe and the US, none of the venues owned or operated by Live Nation was used but the tour generated USD75m in box office and was sponsored by the Japanese internet company Ratuken on three continents. If only two thirds of the tickets were fee bearing and Rakuten paid around USD10m for the sponsorship, it would mean a revenue windfall of around USD25m for Live Nation net of artist fees.
- **Newly established stars:** these artists perform in arenas and amphitheatres where Live Nation can use its own venues and optimise revenues and tickets. The typical Jon Bellon example we discussed earlier in a previous chapter.
- **Emerging stars:** mainly touring in clubs, theaters and House of Blues venues operated by Live Nation. These concerts generate very high onsite revenues as they are often combined with dinners.

Artist management

Artist management is a conglomerate of around 20 management companies which takes over the career development of artists.

This is primarily a people business whereby artists outsource the management of their careers to a team or one single individual inside Artist Nation. The most senior people in the division enjoy high salaries (>USD1m) as they bring to the table relationships with lucrative artists.

The objective is to generate synergies in terms of tours, tickets and sponsorship opportunities and the division reports directly to the CEO in order to maximise the efficiency and also handle a management-heavy business. Definitely, the relationships Michael Rapino enjoys with many senior managers is important to the business and might explain part of his remuneration (see more about that in the ESG section).

The portfolio of artists has a high level of rotation but expanded from 250 to 500 artists overall. Also the business has now a lot of organic growth embedded in it. It is rather a venture capital business where one artist can compensate for the investment losses of others. In itself the business is not scalable but useful as it is highly complementary with the other divisions of Live Nation. The number of shows organised with artists under contract has experienced a continued and strong growth. Also, this is great selling angle when convincing artists to tour with Live Nation that some tier 1 artists are actually managed as well. Live Nation manages Rihanna, U2, Madonna or Miley Cyrus among others.

In 2014, some businesses were taken out from the division as they were considered non-core. These businesses include VIP business, merchandise business, graphic. The objective is to enable them to grow and they were attached to the Concert business. Last year, Artist Nation was included into the Concert business.

From our standpoint, the management business is not a highly qualitative business as the contract practises are not standardised nor transparent and the division has a certain level of key man risks. That said, the ambition of Live Nation has always been limited and it makes great sense in combination with the rest of the business.

Advertising and Sponsorship

Advertising and sponsorship are an integral piece of the ecosystem of Live Nation and the company's most profitable division. It also has large room to grow further in the future.

The top down view is the following. According to industry's estimates, the sponsorship market for live concert events is around USD4bn (compared to USD17bn for sport events) and grows at around 5% a year. Live Nation generates around USD300m in revenue in that division which does not represent the company's market share in the live business. Live Nation has a portfolio of 900 sponsors including top 50 sponsors which spend more than USD5m per year.

One of the key competitive advantages of Live Nation is the excellent knowledge of the audience. They know at least the gender, the age, the address and the musical taste of every fan. This helps immensely to attract advertisers especially as concerts are an opportunity to reach an audience which is opened to connect with brands as discussed in a section above. Live Nation can attract Jeep as a sponsor for country music where the average fan lives in suburbs. Live Nation has scientists dedicated to analyse those data and make them relevant for business development. Today, Live Nation has a data base of 200m people and 400m when expanding the focal to Ticketmaster; another element of the virtuous business circle of Live

Nation is the development of the data base growth. What is true for the size of the database is also important for the geographical development of the company as global advertisers, which are the most profitable, increasingly ask about the global platform development of Live Nation.

We will discuss the production business of Live Nation in another section but at this stage it is worth mentioning that the company has started to develop an online sponsorship business through a partnership with Vice Media. The ambition is to develop a one-to-one communication between the concert goer and the advertiser in different ways. For example, some interesting partnerships have been created between Live Nation and Starwood or Hertz for example where buying a ticket enables to get a room or a car upgrade. Live Nation seems to be in year one of these potential developments. Today, traditional sponsorship represents two third of the business while online represents the rest.

As for the promotion or ticketing business, the past success, and we think the future success, of Live Nation is based on the professionalization of the advertising business. Live Nation hired 400 professionals and is positioned as a real media company able to deal with top brand managers and top 50 advertisers. Again here Live Nation has no real competitor in that space.

Live Nation believes that advertising and sponsorship will be the largest contributor to AOI growth in the coming years and double the amount of generated profit. The objective is to reach a 70% operating margin.

Ticketing

Companies that provide ticketing services on the primary ticket typically charge fees to the buyer that are added to the ticket's listed price and can vary considerably. A single ticket can have multiple fees, commonly including a service fee, a per-order processing fee and a facility fee charged by the venue. Venues usually have an exclusive contract with a single ticketing company and typically negotiate fees for all events at the venue though in some cases they do so by category or event. Ticketing companies and venues usually share fee revenue and in some cases the venue receives the majority of the fee revenue. Ticketing is thus a more complex business than it looks like as ticketing companies do not have a set fee schedule and amounts and types of fees vary among venues.

First of all, one needs to differentiate between fee-bearing GTV (gross ticketing value) and non-fee bearing GTV. The non-fee bearing ticketing is the static part of the business, for example season ticket or other kind of tickets sold in the entourage of the artist or the promoter, which do not bear fees. This might represent a huge proportion of the tickets managed by Ticketmaster. Typically, when Ticketmaster gets a contract with a venue or for a tour, a large portion of the tickets are not bearing fees; they might represent between 10% and 65% of the available seats for popular concerts. This helps to explain why the fees charged on fee-bearing tickets are so high (around 27%) and we will come back on that later on when we discuss antitrust issue.

The second distinction to make is between the Ticketmaster brought in by the Concert business of Live Nation and third-party clients. Over the last few years, the bulk of the growth of Ticketmaster came from the growth in the Concert business but not only. Ticketmaster managed to sign important contracts with sport leagues and for other kind of non-music events. All in all, Ticketmaster manages the ticketing for around 100 000 events a year including around 25 000 for Live Nation.

The third distinction is between the primary and the secondary ticket business. Historically Ticketmaster was a primary business but developed over the last few years a secondary business which now represents around 10% of Ticketmaster's

GTV. This secondary business attracts higher fees than the primary business (around 31% versus 27%) but also much more controversy. Ticketmaster has a 30% market share in music primary ticketing (total market size of USD20bn). The global resale market (music and non-music) is around USD12bn and Ticketmaster has a 20% market share.

Ticketmaster capitalises on specific assets:

- It is the only global ticketing platform. The company is the leading player in the world in primary tickets. In secondary, Ticketmaster has a number 2 position in the US and number 1 position in many European markets. From an artist point of view, this is the most established platform and it is a one-stop-shop for tours taking place on several continents.
- The company has a database of around 500 million fans. Ticketmaster has a history of purchases for each fan and knows specific demographics including where people live and can suggest the best events for each fan. Our impression is that data mining is still at its infancy for Ticketmaster but that the recent hires of scientists will help to really capitalise on this incredible asset. Ticketmaster now can advertise directly to the 90 million Rihanna fans through the database and activate them. This is very high margin business especially for events organised by Live Nation.

In terms of profitability, Ticketmaster is potentially a highly scalable business even if now the company experiences a period of high investments. The intention has been and remain to develop new tools to make the platform more attractive. For example, a tool was implemented three years ago and enables fans to precisely see the view from the seats among other innovations. Also the company launched Ticketmaster + which enables ticket buyers to see where each available seat is in a stadium both unsold one and those up for resale. This was a smart move as it enabled the real launch of the secondary market for Ticketmaster as well as the increase in conversion rate for primary. Typically, ticket buyers were given the opportunity to buy a primary ticket at USD99 and a secondary ticket at USD199 thus increasing the 'feel good' factor to buy the primary ticket even if it is slightly overpriced. According to the company it generated around USD1bn in revenue (we understand GTV not fees). The margin profile of primary and secondary are similar. The back office has also been entirely revamped and an adaptable platform is now available for opening new countries. This single platform enables to quickly open a business in a new market and adapt to the local VAT, currency and regulatory environments.

In terms of acquisitions, Ticketmaster typically buys local platforms which are core to its business. Historically he bought market leaders in Spain, France or Scandinavia. The purchase of MLK in Germany enabled Ticketmaster to get a critical size to launch a local ticketing business as well. On top of that, Ticketmaster diversified its business through the purchase of alternative ticketing platforms. The best exemple is EventJoy which is a competitor of EventBrite in the do it yourself business or Front Gate which is especially dedicated to festivals, the point being that Ticketmaster is sometimes too sophisticated for some events.

The other growth area is the switch to mobile. Some of Ticketmaster's clients have now entirely switched to mobile, such as the NFL. 100% of NFL stadiums use mobile ticketing and the take up is massive with 97% of fans entering using mobile tickets at NFL game. This is most helpful to develop engagement with fans as mobile enables easy identification and interaction. There is still a huge leeway as around 40% of ticket sales are on mobile overall today and the switch to mobile, contrary to other business models, occur at no extra costs for Ticketmaster.

Finally, Ticketmaster regularly opens new markets. The business models in most countries are very similar but the start-up costs weigh and the company needs to build scale in each of them. Also most of these new markets are in emerging countries where the value of each ticket is relatively lower than in developed markets hence generating lower fees for Ticketmaster.

This is the kind of development to accept to continue the globalisation of the business. We note however that contrary to its competitors Ticketmaster benefits from the formidable competitive advantage of its ecosystem to limit these start-up costs. This is also true to get or renew contracts with important league sports. For example, Live Nation has the NFL contract on the league side but there is strong pressure from individual teams to continue to deal with Live Nation as the latter promotes and organises a lot of shows and concerts in the NFL stadiums during the off season.

The competition has largely been centred around local players in primary and Stubhub, a subsidiary of eBay, in secondary. Stubhub is by far the market leader in the US but has been surprisingly slow to develop abroad and, as mentioned above, Ticketmaster manages to get the all-important top spot in many European countries and in Australia. Over the last three years, Ticketmaster has started to grow faster than Stubhub with low double digit growth versus mid-single digit growth for Stubhub.

The first controversy around ticketing is on secondary and covers a real issue. The secondary business is worth USD8bn a year in music and an unquantified part of it is an organised business where brokers buy primary in bulk to sell it at the premium to fans. This withdraws roughly USD2bn from artists' hands per year. Some commercial and regulatory actions have been taken in order to limit the 'scalps'. Regarding the commercial actions, Live Nation launched the 'Verified by Fans' tool which identifies the real fans of an artist looking at its browsing history, interactions with the artist and past concert history. The real fans are then offered tickets in priority. The Verified by Fan tool only represents around 4m tickets (out of the 100m sold by Live Nation and 500m sold by Ticketmaster) but combines many interesting characteristics. First, it prevents brokers to buy tickets and limits the secondary market to smaller quantities. For artists that use Verified by Fans, such as Taylor Swift, the percentage of secondary tickets has dropped from 30% to 3 to 4%. Second, the artist is positively perceived by fans as real fans can get access to the primary price in priority and be rewarded for their loyalty. One of the negatives is that the 'sold out' and the positive perception associated to it, which is really important for artist ('s ego), is now more difficult to achieve. Tickets are progressively sold to fans in different layers and pricing is adjusted according to demand until the last day of the concert. Price realisation is getting much better but volume risks are taken.

The second controversy is around the accusations of competitors and venues regarding the dominance of Live Nation. A recent article in the New York Times (in appendix) More recently, the FTC opened a workshop to discuss various practises regarding speculative sales of tickets (tickets that do not exist), fraudulent advertising ('almost sold out') and use of bots. In our understand Live Nation does not participate in these practises and we feel pretty comfortable about the outcome of the workshop.

Amazon and Ticketmaster

Early in 2017 it was reported that Amazon looked to challenge Ticketmaster and was in talks with US venue owners. Amazon had already launched a ticketing service called Amazon Tickets in the U.K in 2015 . Prior to attempting to build its own version of Ticketmaster, Amazon considered partnering with Ticketmaster, but discussions have stalled over who would control customer data. Amazon reportedly was also exploring a potential secondary ticket market service that would compete with StubHub and SeatGeek. It would take a lot for Amazon to loosen Ticketmaster's grip on the ticketing industry, but there is certainly opportunity if the company can address customer pain points like Ticketmaster's fees and convince arena operators or league owners that it can provide a better service.

It is important to note that **Live Nation is not a company Amazon can simply out-price or beat through efficiency**; in 2018, its Ticketmaster unit generated USD30bn in sales globally, delivering 500m tickets in 28 countries through an intricate web of exclusive deals with venues and artists it manages and promotes. The companies also have fundamentally different needs. Amazon wants to shop tickets to the best shows to its customers, while Live Nation wants to help hawking tickets to shows that do not sell out immediately, incrementally moving the needle on the estimated 40-50% of industry inventory that would otherwise go unsold. Amazon seemed to be reluctant to share purchasing data and contact information about its estimated 110m Prime subscribers, who outnumber the 86 million fans that attended Live Nation events worldwide in 2018.

Surprisingly (or not), in early 2018, Amazon announced that they are shutting down Amazon tickets. Amazon has been rumoured to re-enter the ticketing business via Alexa, Amazon's AI assistant, to make searching for and finding tickets a much easier process. This outcome of events seems to strengthen Live Nation's vertical integration moat around ticketing.

For Amazon an ideal product fit is one that regularly touches consumers on a large scale thus reinforcing Prime's value proposition, and consumption of complementary products and services, which result in a possible improvement in customer retention. Within this framework the payoff in pursuing primary ticketing seems questionable. Do ticket purchases materially improve Amazon Music's recommendation engine? Would "loss leading" on tickets drive meaningful inflection in sign-ups and engagement with Prime or Amazon Music? Would these benefits justify what is sure to be a costly and protracted battle with a determined Live Nation? Its seems not after Amazon shut down its ticketing business last year.

Source: CQS research team

Acquisitions

One of the ways for Live Nation to grow is acquisitions, mainly in the Concert segment**.** The business is local and there are hundreds of promoters with a high market share in a small perimeter. Over the last five years, according to what the company disclosed, Live Nation bought on average 5 promoters every year. Once integrated, they reinforce the global offer of Live Nation and the appeal of the product. Also there are immediate synergies in terms of ticketing and sponsorship. It is rare that Live Nation buy large companies as there is a scarcity of targets. One of the counter-examples is MLK (Marek Lieberberg Konzertagentur) which is the market leader in Germany. It was purchased by Live Nation in 2015. It was a big deal for Live Nation as Germany is the second largest market after the UK and Live Nation didn't have until then a grip on the ticket business which is largely dominated by Viagogo. In emerging markets, Live Nation has planned for a long time to make acquisitions in Latin America notably Mexico and Brazil a la MLK but it has proven to be a failure at this stage. Only small acquisitions were achieved.

In the following table, please find a recap of all the acquisitions realised by Live Nation over the last ten years. Most of them were in the concert business with the purchase of small promoters. Unfortunately, Live Nation does not disclose all its acquisitions. The trade press regularly mentions acquisitions which are not advertised by Live Nation. The consequence of that is that it is particularly difficult to quantify the growth coming from acquisitions rather than from organic growth. We will discuss that in the ESG section later on.

Main acquisitions of Live Nation over the last ten years

Segment	Geography	Date	Target	Business description	Key metrics
Concert	Latam	Dec-18	Majority stake in DF Entertainment	Independent concert promoters in Argentina	0.5m tickets in 2018
Concert	US	Jun-18	Majority stake in Red Mountain Entertainment	Concert and festival promoter in US Southeastern	Exclusive venues in two cities
Concert	US	May-18	Majority stake in ScoreMore Shows	Independent concert and festival promoters in the country mainly in Texas	200 shows per year and 3 midsize festivals
Concert	Latam	May-18	Stake in Rock in Rio	2nd highest grossing festival in the world with 0.7m fans	Festivals in Rio and Lisbon alternatively, 1bn viewers on broadcast
Ticketing	US	Jan-18	Certain assets of Songkick	Ticketing commerce platform, anti-scalping algorithm and patent portfolio	
Concert	US	Jan-18	Majority interest in Frank Productions	Independent concert promoter in the US	70 employees and half a dozen of midsize venues
Concert	US	Dec-17	Interest in the Bank of New Hampshire pavilion		9000 seat venue in New Hampshire
Concert	US	Oct-17	United Concerts	Leading local promoter in Salt Lake City	170 live events a year and a range venues throught Utah
Concert	Europe	Nov-16	Majority stake in Sweden Rock festival	Six festivals in Sweden mainly rock	0.1m visitors in 2018
Concert	Africa	Feb-16	Controlling interest in Big Concerts	Leading concert promoter in South Africa	100 shows a year approximately in three or four cities
Concert	Europe	Aug-15	Joint Venture with Marek Lieberberg	n5 promoter in the world and leader in DACH	2 million fans and 700 shows a year
Concert	US	Apr-15	Controlling interest in Bonnarroo	One of the largest festivals in the world, based in the US	Mix of emerging and established artists during four days
Concert	US	Dec-14	Controlling stake in C3 Presents	Concert and festival promoter in the US	1700 concerts annually and owner of the Lollapalooza festival, 1.5m fans a year

Ticketing		Sep-14	Eventjoy	mobile based, DIY ticketing platform	
Concert	Asia	Sep-14	Partnership with MMI	Leading concert promoter in the Philippines	
Concert	Asia	Apr-14	Minority interest in Live Nation Japan		
Concert	Asia	Jan-14	Joint venture with B'In Music to form Live Nation Taiwan	B'In is one of the leading concert promoters locally	
Concert	Asia	Nov-13	Joint Venture with Parallel Contemporary	JV in charge of developing sponsorship business in Asia	
Concert	US	Oct-13	Voodoo Music and Arts	Music festival in New Orleans	
Concert	Europe	Jun-13	Majority stake in BDG Music Group	Baltic region's largest promotion company	0.5m tickets approx.
Concert	Asia	May-13	Joint Venture with Lushington	Partnership to develop concerts in HK and Singapore	0.5m tickets approx.
Concert	US	Jun-12	Hard Events	Leading concert and festival operator in electronic music	Many festivals in the US
Concert	US	May-12	Cream Holdings	Leader in electronic music entertainment and Creamfields music festvals	0.5m tickets approx.
Concert	Asia	Apr-12	Michael Coppel	Leading promoter in Australia and New Zealand	around 1m tickets approx.
Concert	Asia	Feb-12	Joint Venture with Creativeman to form Live Nation Japan	Mix of local concerts and Festivals in Japan	
Data		Dec-11	BigChampagne Media Measurement	Tech company for collecting and analysing media metrics	
Concert	US	Feb-11	Remaning shares in Front Line Management Group	One of the world biggest artist management companies	
Ticketing	Europe	Feb-11	Servi Caixa	Largest ticket company in Spain	Previously owned by La Caixa
Ticketing	Europe	Nov-10	Ticketnet	Second largest ticket retailer in France	
Ticketing	World	Feb-09	Ticketmaster	Worldwide leader in ticket retailing for USD2.5bn	
Concert	Europe	Jul-08	Main Square Festival	Festival producer in France and Belgium	

Source: Live Nation, CQS research team

New business opportunities

In 2014, Live Nation announced with fanfare a partnership with Yahoo to broadcast concerts. Yahoo is in charge of underwriting the cost to deliver the content and shoot it and Live Nation, through the promotion of concerts, has already done his part. The objective was to co-sell the advertising units and share the revenues once Yahoo has recovered its cost basis. The content is owned by both for the first broadcast and then is reverted to the artist after a certain time period. The artist does not get anything except the right to utilise the content down the road. The revenues are integrated in the advertising and promotion division but has never been singled out and our perception is that the venture has never been highly successful or meaningful. We understand, when talking to management, that the content was then rather used as a marketing tool to promote concerts. Michael Rapino kept saying that around 30% of tickets are unsold and that watching a concert video helps the booking. We do not think that the business model is dead anyway. Live Nation has a huge catalogue of events, festivals and the cost of videoing them decreased immensely over the last few years. In the past, as artists were making money by selling DVDs, they were very demanding in terms of the technicalities of the video and shooting one show could cost north of USD1m. Combined with that, many concerts are bootlegged and the artist earns nothing on that. It would not be surprising that other types of partnerships emerge perhaps with Netflix which offer a more advantageous business model and a unique viewer platform (some documentaries have been already broadcast on this platform). More recently, Live Nation launched a partnership with Hulu to develop Virtual Reality. Again, at this stage, the objective is to increase the awareness of concerts rather than generate revenues.

In parallel, Live Nation has launched new initiatives in terms of original production. A documentary on Puff Daddy has been partly financed by Live Nation and is exclusive to Apple Music. Another one has been produced on Eagles of Death for HBO. The objective is to develop online conversation regarding artists and tours and to improve the awareness of the concerts. The second objective is around sponsorship and the co-production of content is particularly valuable for high margin sponsors such as Samsung in order to develop the conversation with the audience offsite.

More recently, Live Nation pushed further into film and movies. The company financed one quarter of the USD40m budget of the movie ‘A Star is Born’ co-starring Lady Gaga and Bradley Cooper. The movie has been a huge success grossing around USD150m. Live Nation explained that the media division has made money on every film it’s done and delivers higher returns than the concert division. The Media division is part of the Artist Division which was recently absorbed in the Advertising and Promotion division. The company also organised the tour for the latest book of Michelle Obama which was a huge success.

The movie business is a notoriously dangerous one and we appreciate the caution of the management on that regard despite recent successes. Michael Rapino said recently ‘We don’t believe we’re Spielberg overnight but we have credible relationships with artists and cheap capital to finance smart bets with them’.

Apart from production, Live Nation has also started to develop a merchandising offer with some targeted artists and designers. We do not expect this business to become significant. It generated a goodwill impairment last year of around USD20m.

Recap of the Growth Opportunities

In a rather bullish way, the management of Live Nation detailed the profit growth opportunities for the coming years. On one hand, this is good to have quantitative and detailed explanations from the company regarding growth prospects. It is often the sign that there is a plan behind these advertised targets. On the other hand, we find some of these targets a bit aggressive or at least dependent on the economic cycle.

AOI growth opportunities detailed by management

Objective	Rationale	AOI impact (USDm)	Likelihood
+35m fans (concerts)	Expanding from the current base of 90m and 25% market share through more concerts internationally	+100	It would require an acceleration in terms of acquisitions notably in emerging markets
+35m fans (ticketing)	Adding fans will increase Ticketmaster revenues	+125	Depend on the acquisition stream and the ability to penetrate new markets
+35m fans (sponsors)	Increasing sponsorship opportunities	+125	Will also depend on the cycle
Optimise pricing	LN estimates that artists loose USD1bn a year due to suboptimal practises. Verified by fan tools help to optimise the pricing	+100	It might be a very progressive path as big anomalies have been corrected and the ramp up of Verified looks slow
Onsite spending: +USD8 per fan	The current USD27 is still miles away from the US open or the NFL (USD35) or Disneyland (USD45)	+75	LN has built a good track record even if we can imagine that the low hanging fruits have been rewarded first. The development of festivals will help
Capture 30% market share in international ticketing	There are a number of countries where Ticketmaster is not present (Japan, Korea, Brazil..) and some other countries are still in start-up mode	+50	Each country is different and it might take a long time to penetrate some of them
+25% in number of strategic sponsors	Strategic sponsors spend more and through longer term contracts	+50	Will also depend on the cycle
Total AOI opportunity		**+625**	
AOI 2017		**+735**	

Source: Live Nation, CQS research team

ESG

This section is based on internal research and as well as on research provided by MSCI ESG. For the past three years, MSCI has rated Live Nation at a stable BB. Currently, 23% of peers have a lower and 52% a higher rating. The main reasons for the rating (and our view) are summarised below:

Area of concern for MSCI ESG	Our view
Lack of an independent Chairman	We believe the board is of high quality and sufficiently independent, even though with a long average high tenure. It is normal that Liberty Media is represented, and recent nomination of two female independent directors underpins a trend in the right direction.
Related party transactions	They constitute a source of risk but overall revenues from related parties exceed by far expenses incurred with related parties, which is reassuring
Weak human capital management practices	We base our analysis mainly on employee reviews, which confirm that the company is average with respect to HR policies, remuneration and employee satisfaction.

Source: MSCI ESG, CQS research team

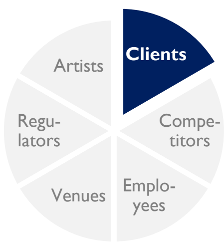
Environmental considerations

We do not consider any environmental risks as material for Live Nation.[5]

Social considerations

Live Nation regularly receives negative media coverage, in particular with respect to its ticketing business. It would be "despised" by two out of the three most important stakeholders in the company's eco-system: clients and artists. The third one is venues, the actual decision-makers, for which the company's services seem to work rather well (or otherwise, more would switch). We will also analyse risks related to employees and competitors and regulatory risks.

Clients



The main allegation is for "ripping off" the final user, something to which artists, too, are very sensitive. Topping up a ticket's face value by 20-30% for service fees with a perceived nil marginal cost can fuel anger, especially as the context for fans is very emotional. Take a highly priced tickets and a small problem or misunderstanding that puts service delivery below expectations, and you have the perfect cocktail for rage against the ticket seller. This can result in very aggressive negative reviews that tend to outshine the less spectacular but more numerous ones. On the US Appstore, the average rating is 4.7/5 based on 729k reviews, while the US Google Play Store shows 4.0/5 for 47k ratings[6]. Independent review sites, notably Yelp and ConsumerAffairs, feature 1-2 star ratings only, but based on a few hundred

[5] MSCI ESG views carbon emissions as a key indicator; however, this is in our view for lack of a better alternative, as MSCI's methodology requires at least one environmental key metric.

[6] Note that reviews are based on the last mobile version released only, hence the numbers are generally far below the total number of mobile users.

reviewers only[7]. This is not statistically representative. The UK site ticketmaster.co.uk achieves a good 4-star rating on Trustpilot based on 6.2k reviews.

Online reviews can be actively managed by companies, so they should be considered carefully. Notwithstanding, our assessment does not corroborate the image of a company "hated" by the client as often depicted in the media. For illustrative purposes, we have assembled a few reviews in the appendix. The summary findings are the following:

- A good share of reviews mentions high levels of fees, which are perceived to be levied out of a monopoly position without any value add. A lot of it is psychological, but it does not help Live Nation's image anyway.
- The company seems to struggle with customer service request volumes, or decides to reply only selectively; waiting queues on the hotline can be very long. This is frustrating, but at the same time, given how emotional users can be, there is an obvious trade-off to avoid spending long time with dissatisfied customers on the phone.
- With various seating areas, check-in, service and cancellation options, the ticket landscape can be complex. And poses a communication challenge to TicketMaster. The key takeaway is that the company needs to strike a balance between too generous a customer service with dissatisfied clients while also incentivising them not to play the system.
- A few cases of fraud reported on the credit card following use of Ticketmaster UK – hopefully an exception.
- The automated communication seems to work pretty well – users appreciate to receive event reminders and updates in schedule or production changes.
- Technical problems happen, such as getting thrown out of the page, jumping back to a wrong date, not receiving confirmation emails. For an IT platform with very challenging peak times (when millions of users try to buy tickets at the same time of release), this is unavoidable. The limited negative feedback regarding technical problems is actually very positive, underpinning the robustness of the system compared to smaller, more fragile competitors. If despite it all, technical problems occur while the customer service is slow in reacting, a negative review is likely as users want to channel their emotions.
- People complain about not being able to purchase the tickets they want or being offered horrendous prices. It is likely that people buy inflated resale tickets thinking that they buy primary tickets from TicketMaster, which affects TicketMaster's reputation negatively.
- Some reviewers claim that the mobile version is easier to use than the website. This can explain part of the rating differential between appstores and generic online reviews. Given that the app can also serve as paperless ticket, mobile-first is the right strategic priority.

Overall, once establishing the prerequisite that a ticket seller cannot have a clean sheet in terms of reviews, the actual reviews for TicketMaster are supportive to the investment case.

Regarding the often criticised fee levels, it is important to establish whether there is a counterpart to the fees in terms of value added. This is not to convince the customers that their criticism is unjustified, but it is important to assess the sustainability of the business, as companies selling thin air are likely to be taken out by competitors selling thin air for slightly

[7] There are generally several TicketMaster but several local ones which are rated individually at the discretion of reviewers. This makes it difficult to get a holistic view for TicketMaster. Also, reviews are averaged from last year only.

less. For TicketMaster, this value added comprises most importantly a seamless booking process and user experience during the event, as well as some level of customer service. While these cannot be accurately measured, our review suggests that relative to competitors, the TicketMaster platform is highly user friendly and reliable even at peak times of traffic. To achieve this, significant investments and running costs are required. Live Nation acquired TicketMaster in 2010 for $0.8bn and has since then invested another $0.7bn in capex. This stands against cumulated NOPAT of $2.1bn. While this is higher than what was spent (and it is healthy for a business to want to make more), we do not share the conclusion expressed by some client reviews that the fees pay for nothing.

We do come to the conclusion though that the communication strategy in the ticketing business can be improved. As regulation imposes transparency on fees raised, we believe it would be useful to focus on what is offered in return rather than communicating defensively / not at all. Moreover, the practice of having a loss-making concert business next to a highly cash-generative ticketing business is questionable from this point of view.

Finally, we also note that the high resale prices of some tickets, which can trade at a multiple of their face value, shows that the primary prices are often below their market value. Until a fair distribution of tickets to the actual fans can be guaranteed, selling primary tickets at too low a price simply results in a transfer of economic value from the music and entertainment industry to ticket traders and scalpers.

Other client related risks relate to:

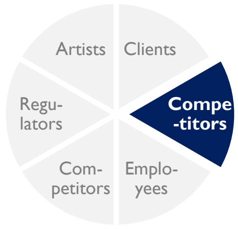
- **Client litigation related to security failure:** there are, from time to time, claims of personal injury and wrongful death relating to accidents at its venues. For example, in October 2017, a mass shooting occurred at a festival in Las Vegas, resulting in 450 victims filing multiple lawsuits for negligence against the promoters. In May 2017, Live Nation organised the Arian Grande concert in May 2017 in Manchester, where a terrorist bombing killed 22 people. In 2016, a college student died at an allegedly overcrowded and dangerous music festival, and in 2017, a technician died after the stage collapsed before the concert. It should be noted that security falls into the responsibility of the venue owner, not the promoter, which limits Live Nation's exposure to its role less prominent role as venue operator. We are not aware of any past litigation with a material impact on the company.

- **Client litigation related to ticketing:** there is a residual risk that resale platforms are held liable for resold tickets at inflated prices. For example, a class action was filed Canada in September 2018 on behalf of Canadian ticket buyers seeking CAD250m in damages. Live Nation could also be held liable for drip pricing practices, a deceptive practice through which pricing is increased during the purchase process. In response, TicketMaster has already agreed to shut two resale sites (GetMeIn and Seatwave).

- **Privacy and data security risk:** as a B2C IT platform, Live Nation is naturally exposed to risks of security breaches and the loss of personal data. Some client reviews, for instance, mention that their payment card was fraudulently used following a purchase at TicketMaster, while there is also at least one reported case of security breach and loss of customer data at one of the company's a third party vendors in the UK. Overall, we believe the platform is built on best practices in terms of IT-security, and do not expect material consequences.

- **Counterparty risk:** inexistent as the customer base is highly diversified and tickets are paid for in advance.

Competitors

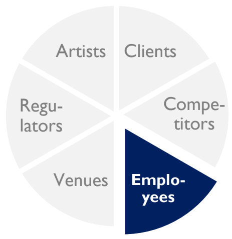


Live Nation is the world market leader in live events, attracting the envy and legal suits from competitors or consumer associations. Beyond competitive risks, the main ESG risk lies in allegations of anti-competitive behaviour and abuse of dominant market position, which can have a material impact on the company. For example, although not a court conviction, Live Nation reached a settlement with Songkick in 2017 resulting in a lump-sum payment of $110m.

In November 2018, the New York Times reported that the U.S. Department of Justice was investigating allegations of anti-competitive business practices indulged by Live Nation following. According to complaints by competitors, the company would use its alleged control over concert tours to influence concert venues into forging contracts with Ticketmaster, its subsidiary. Live Nation also reportedly told concert venues in various US states that they would stand to lose concert shows managed by it if they did not use Ticketmaster for ticketing of concerts.

In the UK, the Association of Independent Festivals has urged the competition watchdog to investigate Live Nation's dominance of the UK music industry, warning that the summer festival scene is suffering.

Employees



We understand from our discussion with the company that questions regarding employees and HR are rare on behalf of investors. Overall, while we recognise that most of the jobs do not require specific training or skills, the business of live events is labour intensive with significant client exposure for most job types. As a result, we consider HR considerations as highly important.

The structure of the company's work force is threefold:

- **Part-time and seasonal employees:** at peak times, the company can employ up to 30,000 people to run the live music venues and festivals. Salaries are often close to minimum wage.
- **Full-time employees:** at the end of 2017, the company had c. 8,800 full-time employees, of which c. 5,700 in North America. These presumably benefit better pay and benefits. For example, Live Nation provides support for degree programs and certifications only to permanent employees, excluding part-time and contractors. Also, the group's benefits plan including medical, vision, dental, accidental death, etc. is "generally available to all full-time employees in the United States"[8]
- **Key people:** at the top level, the entertainment business is a people's business, where relationships are the most valuable assets. This may explain – at least in part – Michael Rapino's $70m compensation package.

The company maintains a 401(k) Savings Plan for all U.S.-based employees. Positively, part-time, seasonal and temporary employees that are at least 21 years of age are eligible to participate in the plan upon completing one year of service and a minimum of 1,000 hours of service. The company matches 50% of the employee's first 5% of pay contributed to the plan.

[8] Live Nation Proxy Statement p.38

We have looked at online employee reviews for Live Nation and competitors[9]. Contrary to expectations, reviews from part-time and seasonal workers were available. The feedback is surprisingly balanced and consensual, with the following key takeaways:

- Several reviews regret that there are limited growth opportunities, including even for full time employees; we believe the HR department is fairly passive and unorganised.
- The pay can be very low (below market, according to many reviews) and the work stressful; however, we do not see anything that would strike us as unusual for a company mainly employing a young, unskilled work force; on the positive side, many reviewers underline a laid-back atmosphere with friendly co-workers and the possibility to enjoy live music events while working.
- While the overall approval rate for the CEO is 84%, many reviews complain about their more direct management and lack of leadership and organisation; in our view, this reflects poorly on the HR department's ability to organise the human capital vertical.

Comparing reviews with competitors is difficult in the case of Live Nation due to the large variety of different jobs and the lack of truly comparable competitors, but we believe it is fair to qualify Live Nation as average:

- The average rating is 3.5 (out of 5) for Live Nation Entertainment and 3.7 for TicketMaster, with respectively 63% and 73% willing to recommend the company as an employer to their friends;
- Best-in-class are clearly Eventbrite (average rating of 4.5 with 89% willing to recommend the company to a friend) and SeatGeek (average rating of 4.8 with 95% willing to recommend to a friend). Songkick and IMP also have strong ratings (4.2 for both), albeit based on less than 50 reviews;
- Worst-in-class are Life Style (average rating of 2.3 with only 15% willing to recommend to a friend) and StubHub (average rating of 2.8, with 37% willing to recommend to a friend and a low 37% CEO approval rate);
- It is also noteworthy that larger competitors (as measured by the number of reviews, with the notable exception of Eventbrite) tend to rate similar to Live Nation. In particular, AEG and Madison Square Garden rate both 3.4, while Vivid Seats achieves 3.3 out of 5.

[9] It should be noted that online reviews can be subject to biases and manipulation, so they should always be interpreted carefully.

Regarding remuneration, the data may be of limited statistical relevance, but seems to confirm the impression that we got from the qualitative reviews, i.e. that the pay is below market. We gathered a few yard stick comparisons:

Job Title	Live Nation	Ticket-Master	StubHub	AEG	Eventbrite	MSG
Usher ($/h)	9			14		14
Box Office Manager ($k/y)	46					
Marketing Manager ($k/y)	60	66		56	81	57
Director ($k/y)	134	123	193	89		123
Software Engineer ($k/y)	104	97	110		103	
Senior Software Engineer ($k/y)	104	125	140		135	

Live Nation does not seem to excel through superior remuneration, which also means that they do not have to pay a premium to attract people to work for them. This is contrary to StubHub, which has overall a weak rating despite one of the highest remuneration levels. However, Eventbrite, which is highly rated by employees, also offers superior pay. For Live Nation, the key takeaway is that they are mainly average.

While MSCI ESG rates the company sub-average in terms of human capital development, a conclusion that we do not entirely refute, we note that there are some positive elements as well. For example, CEO Michael Rapino commented in an interview on an original and effective HR program:

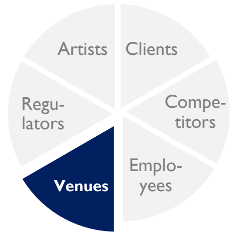
> *"So on this phone call with our employees, I said, 'We spend a lot of money, we do a lot of things with benefits, the one thing we have to do is make sure we take care of our own and if there's any employee in this company that's got a real dire problem, we're going to take care of them. 'Email me. Call me.' We're going to set up this program. So we set this up four years ago. It's called Taking Care of Our Own. I didn't know how powerful it was going to be." Rapino said he received 400 emails after that initial town hall call and invitation for feedback. "I responded to all of them."*

Sanmaritanmag, May 2017

In addition, there is a crowdfunding platform where Live Nation employees can help each other, and which has raised c$300k to date.

In terms of controversies, beyond an isolated press report on class action for unpaid wages, overtime, non-provision of meals and rest breaks in California in January 2018, and a lawsuit for alleged negligence resulting in the death of a drum technician following the collapse of the stage, which we view as isolated, non-material cases, we are not aware of systematic risks of employee litigation.

Venues



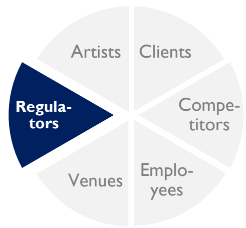
Live entertainment is a local business, and as such, venues play an important role in the broader eco-system. In particular, they decide which shows to host and which ticketing company to engage.

While Live Nation owns and operates a significant number of venues themselves, the majority of shows is organised in third party venues. In this commercial relationship, Live Nation has an important advantage, which is their size. Live Nation can supply a venue with enough artists to be filled for the whole year. Many local venue operators gain by partnering with Live Nation to increase the utilisation rate of their facility, even though part of this value creation is transferred back to Live Nation, including through the use of TicketMaster.

As in any business relationship, the question is how the economic value is split between the different parties. As explained in the section on competitors, there are some allegations that Live Nation were indulging in anti-competitive behaviour, forcing venues to use TicketMaster or forego valuable shows.

We believe there is sufficient alignment of interest and mutual benefit that we would not see a systematic risk with respect to venue operators.

Regulators



Live Nation's is affected by a large number of regulations, none of which are specifically targeted at its operations or are likely to have a material impact. These include notably:

- Privacy laws and protection of personal or sensitive information;
- Primary ticketing and ticket resale service regulations;
- Licensing, permitting and zoning, including noise ordinances;
- Safety requirements;
- Regulations for food and alcoholic beverages;
- Working conditions, labour, minimum wage and hour, citizenship and employment laws;
- Marketing regulations;

Live Nation's most controversial activity is without a doubt the ticketing business, especially the resale ticketing business, which is heavily mediatised for allowing ticket brokers and scalpers to "rip off" the end consumer.

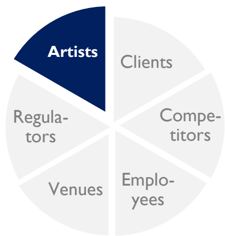
The very existence of the ticketing resale market is due to its unique constellation: artists intentionally underprice primary tickets in an effort to build their brand with the client. They often do not want to be associated with high ticket prices. As a result, primary tickets are bought by brokers in high volumes shortly after release, in order to be immediately resold at a much higher price. In many cases, brokers use bots to buy many tickets in a very short time. The use of bots is illegal in many countries, but difficult to control. Ticket resale platforms benefit from this through the fees they levy on the transaction.

All this creates negative press, which in turn, we expect to result in more stringent regulation in the short to medium term. We believe Live Nation is in a good position to benefit from this:

- First of all, for Live Nation as a vertical integrated business, the fees generated on the secondary market are only a piece of the puzzle. All the gains made by brokers and scalpers are, in effect, money lost by the industry and the fan. Shifting revenues from the secondary market to the primary is, for Live Nation, less material than for a pure play ticket resale platform.

- Second, Live Nation could become the white knight in the ticket resale market by adopting good practices, limiting price inflation and safeguarding the interest of the genuine fan, even if they cannot make it to a concert. Live Nation has worked towards being able to play this role, including through the closure of two resale sites (Seatwave and GetMeIn) and the launch, in 2017, of the Verified Fan program, which ensures that more tickets get into the hands of bona fide fans. Interestingly, when discussing with-UK based anti-ticket touting association, we felt that Live Nation was not at all in the spotlight, compared to Viagogo and, to a lesser extent, Stubhub. Becoming the white knight in the industry would have a negative impact on fees per transaction, but could largely compensated by an increase in volumes from other competitors that fall out of grace.

Artists



Artists are the most important component of the Live Entertainment eco-system. In the old days, record labels had huge power as they were very large in size and could decide over which artist to give a chance and put under contract. Basically, artists were successful only if they had the backing of a record label.

This has all changed with the internet piracy followed by streaming. Today, record labels are "just" a distribution channel and lost their status as main revenue driver.

Examples of US-based 2017 revenues

Artist	Total revenues ($m)	o/w from touring ($m)
U2	54.4	52.0
Garth Brooks	52.2	46.7
Metallica	43.2	30.7
Bruno Mars	40.7	33.9
Ed Sheeran	31.3	19.9

Source: Billboard's 50 Highest-Paid Musicians

Within the broader eco-system, artists come out as the big winners of that evolution, followed by Live Nation. As CEO Michael Rapino put it:

> *"We went public 12 years ago. Nobody cared about us 12 years ago. For thirty years, the business was about the record, and Napster and streaming and CDs and consumption around the record business and the news media. And the promoter was, you know, you toured to sell records and then Napster came along and the digital download came along and all of the sudden you toured to make money"*

Interview with Charlie Rose, 2017

Live Nation positions itself as working first and foremost for the artist. What they offer the artists is attractive, and to a large extent unique:

- Access to a global network of venues and expertise to organise tours at a global scale;
- Expertise in ticket pricing – which will improve further when the full data analytics potential of digital tickets is exploited;
- Risk reduction: we believe artists are risk averse when it comes to touring; the only alternative to Live Nation is the riskier strategy of using various local promoters to organise a tour.
- A better financial deal: Live Nation shares 90% with the artist, versus 80% for most competitors, helped by the fact that the ticketing business generates a profit at the same time. Also, Live Nation has a greater strength in securing sponsorship.

We believe the relationship between artists and Live Nation are symbiotic, which is positive in our view, as the artists are the strongest stakeholder in the live entertainment business. The main risks that we identify relate to accidents or scandals surrounding the artists themselves, the former at least can be insured against. Contrary to ten years ago, the artist base is well diversified, so we do not see individual artists as a major source of risk.

Governance

The objective of this section is to establish whether the balance of power within the company is such that there is a good reason to believe that the company will be run in the best interests of all shareholders. A balanced governance system comes along with transparency, high quality accounts and an accessible management.

Governance highlights as communicated by the company

What We Do:

- ✓ Chairman of the Board not a member of management
- ✓ 9 of 12 directors independent (and only one, our Chief Executive Officer, is a member of management)
- ✓ Annual election of all members of our board of directors (see Proposal 1)
- ✓ Majority voting standard for uncontested director elections
- ✓ Director resignation policy for directors who fail to receive a majority of votes for re-election
- ✓ Annual advisory vote to ratify independent auditor (see Proposal 2)
- ✓ Robust stock ownership guidelines
- ✓ Regular board self-assessments at both individual and group levels
- ✓ Committee members (other than Executive Committee) are all independent

What We Don't Do:

- ✗ No repricing of underwater stock options without stockholder approval
- ✗ No hedging of company securities per company policy
- ✗ No pledging of company securities without preapproval per company policy
- ✗ No former employees serve as directors

Source: Live Nation Proxy Statement 2018

Management

Name	Position	Awarded pay	Tenure (years)[10]	Comment
Michael Rapino	CEO	$70.6m	13	Pay is meant to cover future 5 years
Kathy Willard	CFO	$5.5m	12	
Brian Capo	Chief Accounting Officer	$0.5m	11	
Joe Berchtold	President	$28.8m	5	
Michael Rowles	General Counsel	$3.4m	5	

We believe the management of Live Nation is of high quality, with an excellent track record and a strong expertise in the particular world of live entertainment. We believe that M. Rapino is an excellent sales person and networker, and this to an extent that makes us believe there is a high degree of key person risk associated to him. Positively, nothing points to the imminent need for succession planning.

As shown in the table above, Live Nation's executives are very well compensated. The compensation committee justifies this by the importance of individual reputation and relationships in the live entertainment industry.

While we buy this argument to some extent, the CEO's is still very high, both on an absolute and relative basis. In 2017, M. Rapino was awarded a compensation package of $71m. According to our understanding, this is not recurring and should be materially lower over the next five years. We suspect the main reason to grant all these shares "upfront" may be fiscal and related to the entry in force of a $1m cap on executive compensation for the purpose of corporate tax-deductibility[11].

CEO compensation 2017

In USDm	Awarded	Realised
Salary	2.4	2.4
Other fixed	0.1	0.1
Cash performance bonus	6.8	6.8
Additional bonus	1.0	1.0
Stock Options	1.7	19.4
Stock Awards	58.6	1.2
Total	**70.6**	**30.8**

[10] Tenure since employed by Live Nation, all positions

[11] The limit is not new, but an exemption existed for performance based shares until 1st January 2018. Performance based shares represented the bulk of the 2017 award.

Source: MSCI ESG

Positively, the vesting of performance based stocks is tied to "the attainment of aggressive performance stock price targets"[12], Despite this, we are tempted to question the rationale for such a high package, especially as the executives of Liberty Media who sit on Live Nation's board (G. Maffei and M. Carleton) receive only a fraction of this amount in their capacity as Liberty Media executives ($20m and $5m respectively). We recognise that Live Nation's success has been built by M. Rapino over the past close to 15 years, and that live entertainment is a people's business when it comes to secure artists for touring. But we do not believe it is necessary to pay that much to retain him (or acquire someone with a similarly attractive profile) and hence are sceptical that his compensation is in the best interest of shareholders.

It is also surprising that when a new employment agreement was negotiated between M. Rapino and Live Nation in 2017, on top of simply receiving the pro-rata bonus for 10 months until November 2017, M. Rapino received an extra $1m guaranteed cash bonus. What for?

In 2017, the stock awards of 58.6m include c.20k restricted shares granted in March 2017 (fully vested by March 2019), 289k restricted shares granted in December 2017 and 700,000 performance shares, also granted in December. Importantly, the performance share are a target number with the actual number ranging between 0 and 250%, based on aggressive targets on which we have no detail.

The criticism against the high remuneration for M. Rapino also holds true for J. Berchtold with a package of $29m.

In case of termination of contract for the following reasons: termination without cause by the company, termination without good reason by the executive, death, disability or change in control (with a double trigger clause), executives receive generous severance payments and equity awards, amounting to $94-117m for M. Rapino and $45-49m for J. Berchtold. This, too, seems to us excessive, especially as it cannot even be justified by key person risk.

Our critical view on Live Nation's compensation philosophy is not shared by a majority of shareholders. At the 2017 AGM, over 89% of votes cast approved of the compensation policy.

[12] Live Nation Proxy Statement 2018 p.29

Beyond the level of remuneration, the company highlights the following features of its executive compensation practices:

Executive Compensation Practices

What We Do:

- ✓ Performance criteria in place with aggressive targets for the vesting of grants to the CEO, tied to the board-approved budget for restricted stock grants and to stock price growth for performance shares
- ✓ Majority of compensation "at-risk"
- ✓ Robust CEO and named executive officer stock ownership guidelines: Stock ownership guidelines of 5x base salary for the CEO and 2.5x base salary for other named executive officers
- ✓ Strong Hedging Policy that prohibits directors and executive officers from engaging in all hedging transactions in company securities
- ✓ Strong Pledging Preapproval Policy that requires prior approval for all pledging activities in company securities by directors and executive officers

What We <u>Don't</u> Do:

- × No guaranteed annual bonuses for named executive officers; all annual bonus opportunities are based on achievement of aggressive performance targets
- × No annual minimum or automatic increases to base salary for CEO and other named executive officers
- × No automatic annual restricted stock grants to CEO and other named executive officers
- × No "single trigger" change of control severance provisions; CEO and other named executive officers all have a "double trigger" provision
- × No excise tax gross-up payments for any named executive officer
- × No cash severance payments in excess of two times annual base salary plus bonus for CEO

Source: Live Nation Proxy Statement 2018

Board of Directors

Name	Age	Tenure	Votes against	Indepen-dence[13]	Awarded Pay	Comment
Ariel Emanuel	57	11	15.5%	No	$253k	Expertise in entertainment and artist representation
Dana Walden	53	< 1	0.3%	Yes	-	Expertise in Media (TV)
Gregory Maffei	57	7	34.7%	No	$393k	COB, overboarded[14], Liberty Media director, industry and finance expert
James Iovine	65	4	14.4%	Yes	$244k	Co-founder of Beats, expertise in music industry
James Kahan	70	11	15.1%	No	$265k	Former AT&T executive overseeing $300bn in M&A
Jeffrey Hinson	63	13	15.3%	No	$283k	Expertise in radio, entertainment tech and audience insights
Mark Carleton	57	8	16.7%	Yes	$244k	Liberty Media director, industry and finance expertise; has received 64% votes against for directorship at Barnes & Noble
Mark Shapiro	48	10	17.6%	No	$259k	Overboarded, expertise in sports, fashion and media
Michael Rapino	52	13	14.4%	No	$71m	CEO and director since 2005; also sits on the board of Sirius
Ping Fu	59	< 1	0.3%	Yes	-	Software and media expertise; a "futurist in technology trends"
Randall Mays	52	13	20.0%	No	$262k	Director with same tenure as Michael Rapino; President of private investment company
Robert Enloe	79	12	19.0%	No	$274k	Technology and finance expertise
Total	**17% > 70 years+ age**	**58% > 10 years+ tenure**		**67% inde-pendent**		

Source: MSCI ESG

There are several important comments to make with respect to the board:

- The skillset strikes us as diverse and complimentary but built rationally to cover various aspects of the live entertainment business.
- Board Committees:
  - **Audit Committee (J. Kahan, J. Hinson, P. Fu):** the committee is reportedly fully independent, although we reclassified two of the three members as dependent due to the length of their tenure exceeding 10 years; given that freshly elected and independent director P. Fu has also become a member this year, we see account-related risks as

[13] Based on our assessment, which requalifies members with a long tenure (>10 years) as dependent
[14] Currently serving on 4 boards or more

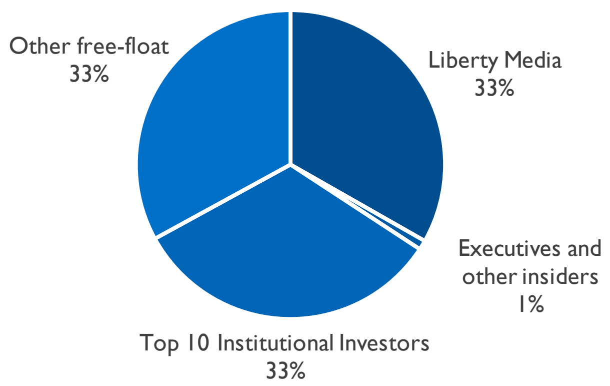
limited; importantly, we are not aware of any accounting issues or conflicts raised by the company's auditors, which have been Ernst and Young for a number of years.

- **Nomination Committee (A. Emanuel, Randall Mays):** we reclassified both directors as dependent due to long tenure; we would welcome a fresh face on this committee.
- **Pay Committee (J. Iovine, M. Shapiro, R. Enloe):** while all members are reportedly independent, we reclassified two as dependent due to their tenure exceeding 10 years; the only truly independent member (J. Iovine) is very wealthy and already 65 years old; we consider the composition of the pay committee to be suboptimal, in particular in the light of the very high remuneration awarded to the M. Rapino and J. Berchtold. We also note that that the compensation setting process for named executive officers other than M. Rapino relies among others on the "input from our Chief Executive Officer", which is likely to favour compensation inflation; an independent outside compensation consultant was engaged to advise on the form and structure of the terms for the new employment contract with M. Rapino signed in late 2017, although without conducting a formal benchmarking or peer analysis.
- **Executive Committee (G. Maffei, R. Mays, M. Rapino):** the purpose of the committee is to be a conduit between management and the board; it did not take any formal action in 2017.

- There are two flagged directors, i.e. who were previously sitting on boards of companies that filed for bankruptcy; however, given the relatively high bankruptcy rate in the media industry, this is not a red flag in our view:
  - Mr. Emanuel served on the board of Source Interlink Companies, which filed for Chapter 11 bankruptcy protection in May 2009.
  - Mr. Shapiro served on the board of Six Flags, which filed for Chapter 11 bankruptcy protection in June 2009.
- The level of remuneration for directors is high, but not outright excessive;
- The average tenure of nine years is high; combined with a long-standing CEO, who has been there longer than almost all the directors, one might wonder whether the board could be an effective counterpart in case of a crisis; this adds to key person risk associated with M. Rapino;
- Most directors, including M. Rapino, face a significant portion of shareholders voting against them:
  - The record is held by Liberty Media executive G. Maffei with 35% of votes against, which translates into c. half of all votes excl. Liberty Media's vote;
  - Part of the dissent can relate to categorical votes, i.e. based on age, tenure, under-representation of female directors, …; the fact that the two freshly elected (female) directors received shareholder support of >99% supports this idea and shows a trend in the right direction
- While we find it normal for a major shareholder (Liberty Media) to be represented on the board, we do not believe putting that a Chairman who is executive in another company and sitting on the board of ten other companies is the best choice;
- There are some cross-holdings with Sirius, the radio arm of Liberty Media: G. Maffei, M. Carleton and M. Rapino are all sitting on the board of directors. One might speculate over whether deals involving Sirius and Live Nation may be structured at the detriment of the other Live Nation shareholders.

Ownership

Ownership breakdown[15]



Source: FactSet

Live Nation – Liberty Media Stockholder Agreement

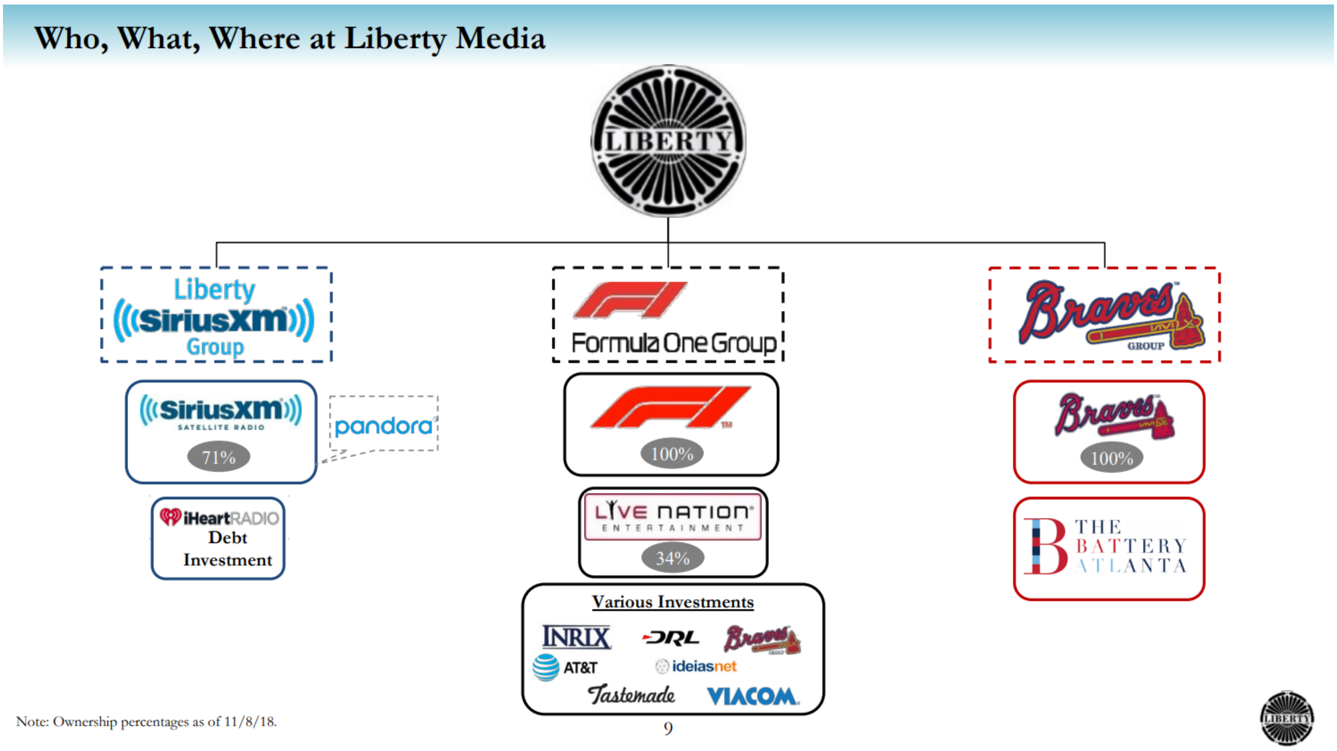
Based on the Stockholder Agreement between Liberty Media and Live Nation agreed in 2009 in the context of the merger with TicketMaster, Liberty shall have the right to nominate up to two Liberty Directors; provided that one of such is qualified as an independent director. We view this as acceptable and appropriate given Liberty Media's 33% stake in Live Nation.

We are not aware of any provisions in the agreement that would represent a major source of governance risk.

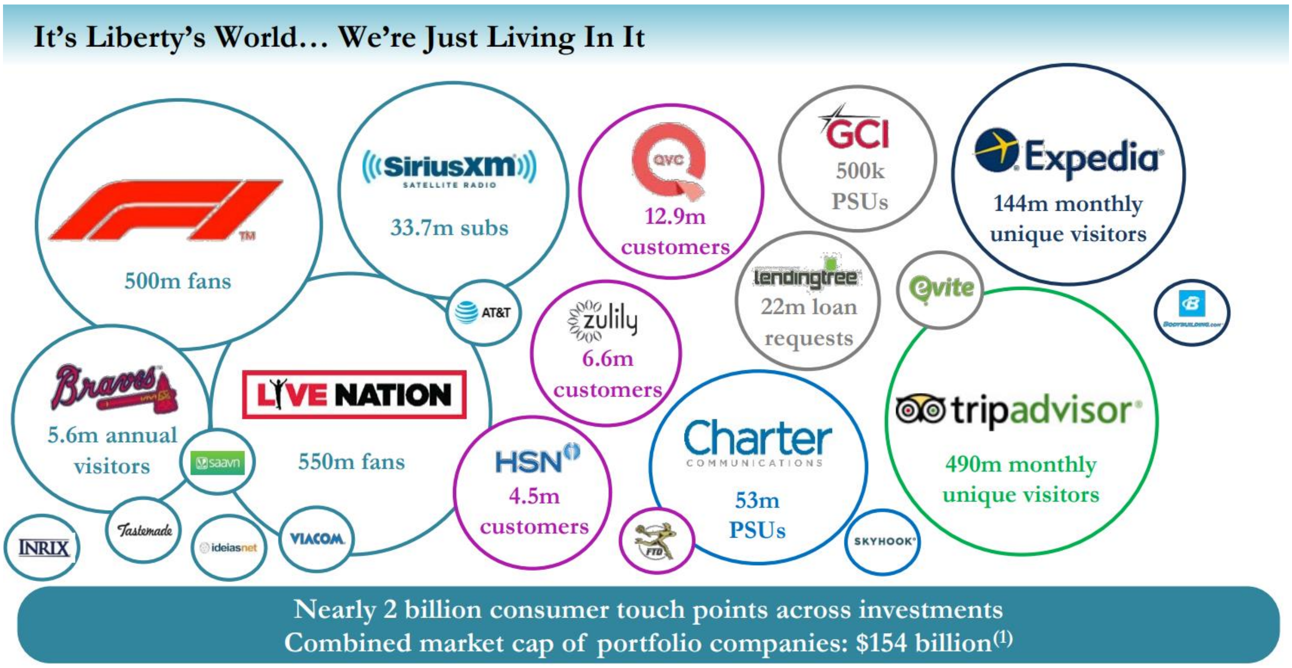
The agreement also contains a restriction for Liberty Media to control more than 35% of voting rights. While this should limit the extent of a speculative premium, it does not exclude the possibility altogether. In particular, given Live Nation's strong performance and position on the market, there is a strategic rationale for Liberty Media to increase their exposure.

[15] This does not include exercisable stock options, which, if exercised, would result in 5.19% of shares being held by executives and directors

Liberty Media's Group Structure



Liberty Media's Most Important Investments



Source: Investor presentation of Liberty Media, November 2018

Related party transactions

There is a heightened risk that Live Nation engages in transactions at the detriment of some of its shareholders. The company discloses the following related party transactions:

- **Liberty Media:** leasing a venue from and provides ticketing services to a sports franchise owned by Liberty Media; purchasing advertising from Sirius
- **Legends:** M. Rapino became director of Legends Hospitality Holding, which provides concession services to Live Nation's amphitheatres. [Insert answer from company IR]
- **Senior Management:** based on a vague wording in its 10k document, Live Nation conducts transactions, primarily related to ticketing, with companies in which senior management has an interest;
- **Equity Method Investees:** in a similar vague wording, Live Nation discloses conducting business with equity accounted companies relating to venue rentals and ticketing services, but importantly, discloses associated numbers (revenues of $2.8m and expenses of $1.8m)

While it is impossible for us to judge whether related party transactions are carried out in the best interest of all shareholders (and we highlight the risk that there are not always), we also note that there are overall significantly higher revenues than costs associated with related parties ($136m of revenues vs. $14m of expenses). This does not necessarily mean that these revenues are generated at market value, but at least, we can exclude a cash drain to the benefit of related parties.

Poison pill

Against good industry practice, Live Nation has an active poison pill, which is the case for only 2% of companies in the United States.

The percentage threshold required to trigger the pill is 15%. Its final expiration date is December 21, 2020. The poison pill was not approved by shareholders.

Majority requirements

Against good industry practice, Live Nation has some restrictive majority requirements for changing provisions. In particular, 80% approval is required to amend key provisions of the Articles of Association, e.g. Annual Meetings, Committees, vacancies, conflicts of interests, stockholder action and others. This gives a de facto veto to Liberty Media even if they reduce their stake significantly.

In line with industry practice, a 51%-approval is required for a merger.

Employee ownership plans

The company does not have specific widespread programs to incentivise employee ownership of the company. The Board expects that all directors acquire shares with a market value of at least $225k and that the CEO in particular holds shares worth 5x his annual base salary of $2.4m. While this is good industry practice, the amounts at stake are in our view too low to represent a strong incentive for M. Rapino.

Financial Analysis and Quality of Reporting

The overall quality of accounts is satisfactory as there has been no restatement or history of doubts regarding the company's accounts or the accounts of its main acquisition Ticketmaster. This said, the accounts feature company specific complexities that require increased due diligence.

Below we go into detail on the main areas of Live Nation's financial and operational investor communication that we consider worthwhile to comment.

Segment Reporting

The segmentation of the company's results is satisfactory. The company provides a detailed P&L until the EBIT level for Concerts, Sponsorship, Ticketing and Corporate. We even believe that this segmentation is more granular than it should be, as we view the company's integrated business model as more than the sum of its parts. For example, the ticketing business derives part of its value from the stable flow of business coming through the concert division, while the ability to attract artists for touring also relies on the company's network of venues. This intertwining is also reflected in the financial reporting, as the USD200m operating income includes a negative USD150m of eliminations and other items.

In USDm	2010	2011	2012	2013	2014	2015	2016	2017
Concerts	3,888	4,044	4,270	4,870	5,116	5,383	6,284	7,892
Ticketing	1,040	1,191	1,374	1,408	1,557	1,640	1,828	2,144
Sponsorship & Advertising	162	180	248	285	300	334	378	445
Other / corporate / eliminations	(26)	(30)	(73)	(84)	(107)	(111)	(134)	(144)
Total sales	**5,064**	**5,384**	**5,819**	**6,479**	**6,867**	**7,246**	**8,355**	**10,337**
Concerts	62	77	69	92	99	95	149	185
Ticketing	234	279	295	298	326	346	365	298
Sponsorship & Advertising	142	165	176	195	213	230	248	281
Other / corporate / eliminations	(75)	(84)	(81)	(80)	(83)	(93)	(122)	(138)
Adjusted Operating Income (AOI)	363	438	459	505	555	578	640	625
Concerts	(141)	(130)	(201)	(51)	(213)	(133)	(63)	(94)
Ticketing	69	113	123	102	117	158	174	91
Sponsorship & Advertising	141	164	174	192	208	218	228	251
Other / corporate / eliminations	(132)	(129)	(118)	(102)	(105)	(112)	(144)	(157)
Total Operating Income	**(64)**	**18**	**(22)**	**140**	**7**	**131**	**195**	**91**

Source: Live Nation

The pertinence of how the operating income is broken down by segment is questionable. It shows a very high profit ratio for Ticketing and Sponsorship but a low profitability for Concerts while this division is at the core of the company's business model. We would encourage the company to look at that segmentation in order to improve communication. Many investors stop their investigation on Live Nation when they realise the low company's profitability in Concerts which is considered the company's core business and the largest contributor to revenues. In terms of change in the company's segmentation, the company included Artist Nation (the artist management business) in the Concert division; this development makes sense as Artist Nation is fuelling tours and the business of Concerts. The complexity is that the Concert business now includes very diverse sub businesses such as beer concessions, concert promotion and artist fees.

Organic Growth vs. Acquisitions

The company is not particularly transparent in terms of breaking down by organic growth and acquisitions. The habit is to publish press releases for some transactions but not all. The ones which are not formally advertised are often found in trade press. The company does not publish organic growth data and the revenue development is a mix of pricing, volume and acquisitions that investors cannot precisely identify. The company does not communicate acquisition prices or the precise equity interest (most acquisitions strongly incentivise the previous owners to continue and develop the business). It is possible to find a total paid for acquisitions in the annual report but this amount includes earn out paid for previous acquisitions which make the analysis difficult. Positively, since 2016, the company reports at least the constant currency growth allowing to carve out forex impacts.

Adjusted Operating Income

This is the NON-GAAP metric used by Live Nation to monitor its business development. This is calculated as operating income before acquisition expenses (including transaction costs, changes in the fair value of accrued acquisition-related contingent consideration obligations, and acquisition-related severance and compensation), depreciation and amortization (including goodwill impairment), loss (gain) on disposal of operating assets and certain stock-based compensation expense.

In USDm	2010	2011	2012	2013	2014	2015	2016	2017
Reported operating income	(64)	18	(22)	140	7	131	195	91
- Stock based compensation	62	61	37	28	39	33	33	43
- Loss (gain) on disposal of operating assets	0	1	(1)	(38)	(4)	1	0	(1)
- D&A (excl. impairments)	254	281	288	285	272	311	319	352
- Amortisation of non-recoupable ticketing contract advances	24	38	48	74	79	87	85	83
- Impairments	44	24	94	11	152	-	-	20
- Acquisition expense	43	15	15	6	10	15	9	36
AOI	**363**	**438**	**459**	**505**	**555**	**578**	**640**	**625**

Source: Live Nation

The usage of this AOI metric is not particularly shocking to us for three reasons:

- First there is a clear reconciliation of AOI to Operating Income for each division.
- Second, even if the difference between AOI and Operating Income is significant, it corresponds to where the company's development stands today in terms of management incentives, depreciation and amortisation (still elevated capex in ticketing and venue development) as well as acquisition expenses.
- Third, Live Nation develops a relatively significant property business which generates some one-off gains and losses on sale of properties.

Reassuringly, it is worth noting that the settlement of a litigation for USD110m in 2017 was not restated from the AOI which shows a positive attitude towards transparency with investors[16].

However, we make the following adjustments as we do believe that a few things are slightly intriguing when it comes to AOI calculation:

– In 2018, a new revenue recognition guidance became effective which resulted in some costs being accounted for as reduction of revenues rather than as costs. The net effect on operating income was strictly zero, but part of the costs was previously included in D&A, which contributed to increase AOI. This refers to the amortisation of non-recoupable ticketing contract advances, which *"are fixed additional incentives occasionally paid by the Company to certain clients to secure the contract and are normally amortized over the life of the contract"*. The associated cash outflow went through working capital / prepaid expenses together with numerous other items and was therefore somewhat hidden from the investor eye. This was in our view bad accounting practice as it hindered the analysis of an event's profitability. Basically, a proper analysis of the segment's profitability requires to view AOI after the specific cash-outflows related to these upfront capex-like payments, which was impossible as not separately disclosed. Now, all this was should have ended with the adoption of the new accounting standard on revenue recognition. Surprisingly, Live Nation chose to continue to adjust AOI for amortisation of non-recoupable ticketing contract advances, although these are directly deducted from revenue and hence do not even visibly flow through the company's P&L. Our adjusted EBITDA considers this amortisation as if it were a cash item.

Adjusting AOI for the amortisation of non-recoupable ticketing contract advances

In USDm	2010	2011	2012	2013	2014	2015	2016	2017
Amortisation of non-recoupable ticketing contract advances	24	38	48	74	79	87	85	83
Adjusted AOI margin (%)	20.2%	20.2%	17.9%	15.9%	15.8%	15.8%	15.3%	15.1%

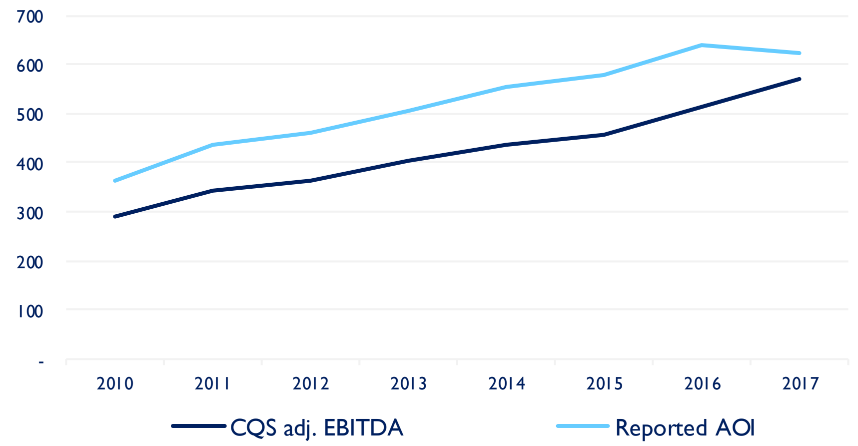
Source: Live Nation

[16] However, somehat boldly, the metric on which executive compensation is calculated was indeed adjusted by the $110m settlement.

– While a minor issue, acquisition related expenses which are added back to AOI are slightly obscure. In 2017, they represented $36m or 30% of the net acquisitions that were recognised in the cashflow statement of that year. They include transaction costs, changes in the fair value of accrued acquisition-related contingent consideration obligations, and acquisition-related severance and compensation, without more detailed disclosure. Moreover, there are acquisition related expenses every single year, and acquisitions are an integral growth driver for the company. As a result, we consider them as recurring.

– We adjust for some one-off items, e.g. the $110m settlement with Songkick, which explains why the difference between adj. EBITDA and AOI has narrowed in 2017.

Adj. EBITDA vs. AOI

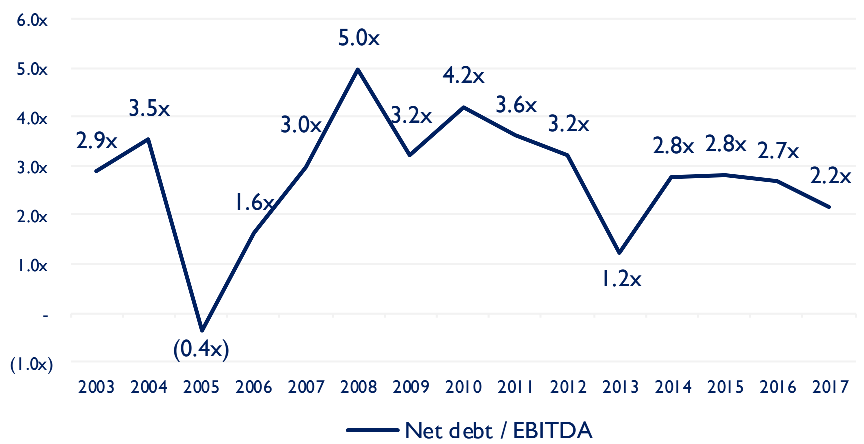


Source: Live Nation, CQS research team

Financial Debt

Live Nation has always had recourse to financial debt as a source of funding, including for acquisitions.

Net debt / EBITDA



Source: CQS research team. Cash excludes c.USD0.8bn of received that includes the face value of tickets sold on behalf of our ticketing clients and their share of service charges.

Importantly, we expect a strong reduction of net indebtedness over the coming years, with net debt / EBITDA below our threshold of 2x as soon as this year.

As at the end of September 2018, Live Nation had the following debt instruments:

	Q3 2017	Q3 2018
Term loan A	176	162
Term loan B	963	956
4.875% Senior Notes due 2024	575	575
5.625% Senior Notes due 2026	-	300
5.375% Senior Notes due 2022	250	250
2.5% Convertible Senior Notes due 2023	-	550
2.5% Convertible Senior Notes due 2019	275	29
Other long-term debt	99	93
Total principal amount	**2,338**	**2,914**
Less unamortized discounts and debt issuance costs	(38)	(100)
Total debt, net of unamortized discounts and debt issuance costs	**2,300**	**2,814**
Less: current portion	348	82
Total long-term debt, net of unamortized discounts and debt issuance costs	**1,952**	**2,732**

Source: Live Nation

In 2018, the company issued new debt consisting of USD300m of 5.625% senior notes due 2026 and USD550m of 2.5% convertible senior notes. The gross proceeds of USD850m were used for the repurchase of the existing convertible notes which approached maturity, and being in the money, were repurchased at a premium of USD90m to face value. The remaining USD493m of gross proceeds were declared to be for general corporate purposes, which is intriguing, as we do not see the immediate need for it. It might be a sign for a larger acquisition to accelerate international expansion and/or investments in the capital intensive venue network. In both cases, this could be supportive for growth. If as a result net debt / EBITDA were to structurally exceed our threshold of 2.0x, we would reconsider any equity investment in the stock.

Other Debt-like Items and Contingent Commitments

We recognise the effort here in terms of transparency as the company discloses future liabilities in a rather investor-friendly way. A table details the rental liabilities as well as the various commitments to artists in a clear fashion. Also, the company makes clear that part of the cash held by the company is actually a float which is owed to venues in the context of the ticketing activity[17]. Given the recurring and significant nature of this float, it could have made sense to work on a specific net debt metric for Live Nation which excludes the cash held for third parties. We would also encourage the company to explain how this cash is invested.

[17] Our net debt calculation reallocates this cash to working capital.

The table below lists contingent and debt-like commitments that are not already included in financial debt. Not all of them affect our valuation. In particular we consider the minimum payments under leases and other contracts to be paid in exchange for the services for which the initial payment was destined, e.g. we expect Live Nation to use the venues for which they contracted leases to good effect.

Other debt-like or potentially debt-like items

In USDm	2017
Liability accrued in relation to deferred purchase consideration for acquisitions	116
Contingent obligations related to acquisitions, which are recorded at fair value in the accounts.	70
Minimum rental commitments under non-cancelable operating lease agreements	2,624
Minimum payments under non-cancelable contracts	2,220
Minimum capex commitments	60

Source: Live Nation

Minorities

Live Nation has two types of minorities:

- *'Straight'* non-controlling interests represented USD237m on Live Nation's 2017 balance sheet;
- Redeemable non-controlling interests represented USD245m on Live Nation's 2017 balance sheet.

Redeemable minority interests refer to put arrangements where the holders of the non-controlling interests can require the Company to repurchase their shares at some point in the future. The redemption amounts for these puts are either at a fixed amount, at fair value at the time of exercise or a variable amount based on a formula linked to earnings. The balances are reflected in the Company's balance sheets outside of permanent equity. The decrease during the current year is primarily due to the acquisition of the remaining interest in a festival and concert promoter business located in the United States upon the exercise of the related put in December 2017.

The accounting related to redeemable non-controlling interests is unusual and complex, but transparently disclosed. In particular, the company shows below its statement of operations a reconciliation of net income to account for the accretion of redeemable non-controlling interests to derive a net income *'available'* to common stockholders of Live Nation.

Reconciliation to available net income

In USDm	2015	2016	2017
Reported net income	(33)	3	(6)
Accretion of redeemable non-controlling interests	(33)	(50)	(92)
Net loss available to common stockholders of Live Nation	**(66)**	**(47)**	**(98)**

Source: Live Nation

In addition to the above, minorities also impact reported net income through the more traditional line of net income attributable to non-controlling interests. The breakdown of this line shows that redeemable minorities are loss-making, while straight minorities are highly profitable.

Minorities' contribution in the P&L

In USDm	2010	2011	2012	2013	2014	2015	2016	2017
Net income attributable to 'straight' minorities	21	18	3	17	5	25	23	21
Net income attributable to redeemable minorities	(1)	(5)	(2)	(9)	(18)	(8)	(6)	(7)
Total consolidated net income attributable to minorities	**20**	**13**	**1**	**7**	**(14)**	**17**	**17**	**14**

Source: Live Nation

Despite being loss-making, the redeemable minorities have a positive value which Live Nation discloses transparently as *'the company's estimate of redemption amounts for puts that are redeemable at fixed or determinable prices'* in the notes to its consolidated financial statements, giving it a total value of USD277m, to which we add the USD77m accretion on which the company has guided for 2018. This shows that there is hidden value sitting with minorities that does not properly show up at first glance.

Capex

One of the good points is the fact that Live Nation publishes the details of its capital expenditures per division but also splitting them between maintenance and development capex. This is really helpful to understand the underlying returns of each division but also to stress test the cash flow of Live Nation and assess what the balance sheet would be if the management decides to cut investment.

Seasonality

The company's earnings generation is heavily geared towards the summer months, when most events take place. While this is not a problem, it creates significant fluctuations within the year on the P&L and cashflow statement, which render the quarterly financial analysis more difficult.

Quarterly Financials

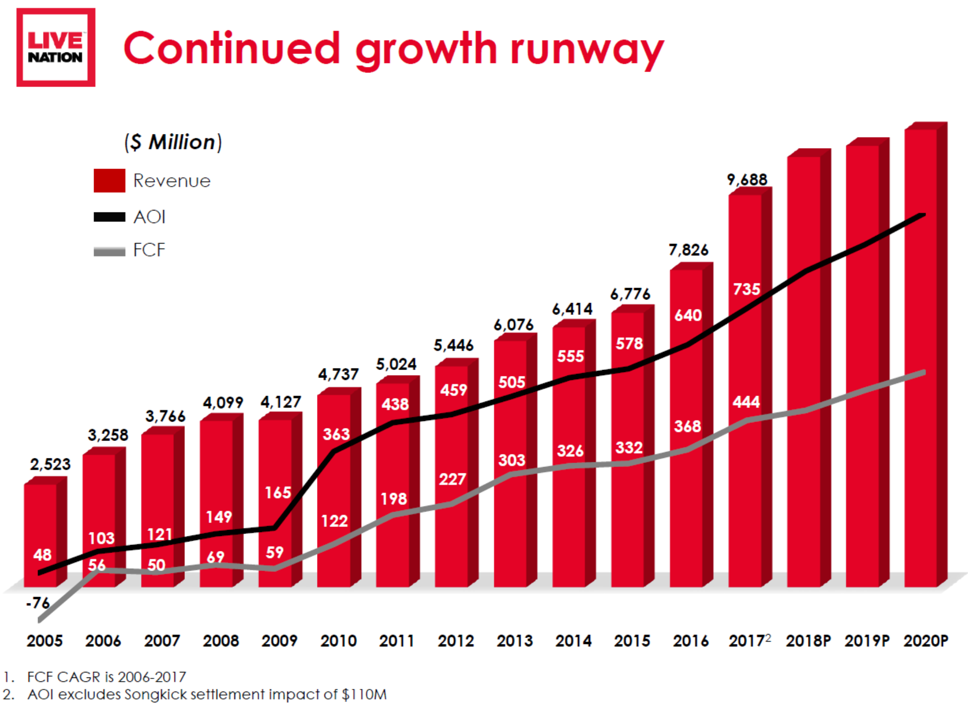
In USDm	Q1 17	Q2 17	Q3 17	Q4 17
Revenues	1,413	2,819	3,559	2,546
Operating income	(21)	113	201	(202)

Source: Live Nation

Guidance

The company does not communicate regularly on established metrics to communicate guidance. From time to time, the management discloses elements from its business plan, including financial or operating metrics, such as sales or the number of fans, or particular items of the P&L such as the AOI for a particular division. Finally, the company communicates on different quantitative AOI improvement targets linked to specific projects such as onsite revenue, paperless tickets; it is nevertheless impossible to follow the progress on these objectives from an external perspective. Conceptually, the fact that the company does not communicate clear long term guidance is not an issue in itself. The music business has been moving rapidly and it is understandable that management do not want to be the hostage of a guidance.

Chart showing company forecasts until 2020



Source: company business plan as outlined at Liberty Media Investor Day in November 18. We read sales 2020e as USD11.3bn and AOI 2020e at USD995m.

Dilutive Elements

There is ongoing dilution of shareholders which is poorly reflected in the financial statements. This is not however attributable to Live Nation, but to the accounting rules more generally.

The biggest contributor to dilution is stock based compensation. Since the acquisition of Ticketmaster in 2010, Live Nation issued in total 22.1m shares as stock based compensation, representing more than 10% of outstanding shares. These have a market value of USD1.2bn. However, during that same time only USD0.3bn were recognised as stock based compensation and USD0.2bn were actually cashed in by the company upon the exercise of stock options. There is nothing wrong with this discrepancy, as accounting rules provide that stock based compensation be recognised at fair value at the grant date and progressively released to the P&L upon vesting. As a result, when share prices rise, the dilution will be stronger than what is ever recognised in the financial accounts. As we still see significant upside to the share price, we expect this mechanism to continue and adjust our enterprise value accordingly.

Importantly, the company excludes these potentially dilutive securities from its calculation of fully diluted EPS on the ground that they are anti-dilutive, i.e. the positive impact of lower costs more than offsets the negative impact of a higher number of shares in the calculation of EPS[18]. We have no reason to question this calculation, but note, as per the reasoning in the previous paragraph, that dilution has still occurred. The table below shows all potentially dilutive securities.

Securities excluded from the calculation of diluted EPS

	2010	2011	2012	2013	2014	2015	2016	2017
Stock options	20	21	25	17	17	16	16	14
Unvested restricted or deferred stocks	4	4	3	2	1	1	1	4
Warrants	1	1	1	-	-	-	-	-
Conversion of convertibles	8	8	8	8	8	8	8	8
Total	33	34	37	27	26	25	25	26
Weighted number of shares outstanding	164	182	187	194	199	201	202	205
- as %	20%	19%	20%	14%	13%	12%	13%	13%

Source: Live Nation, FactSet

The convertibles mentioned above refer to a 2.5% convertible senior note due in 2019, which was repurchased before conversion with a repurchase premium of USD90m through the issuance of a new 2.5% convertible senior note with a face value of USD550m. The conversion rate implies a strike price of USD per share, so the convertibles are currently out of money. Should the price increase beyond USD68, as we expect, we would expect the company to repurchase the convertibles again rather than having existing shareholders diluted.

[18] In its latest quarterly report, the company produced a diluted number of shares which included stock options, restricted stock and convertible senior notes. This might reflect a change of accounting treatment which we wait to be confirmed at FY 18 results

Reporting Consistency on Executive Compensation

While the reported AOI 2017 figure did not adjust for the $110m legal settlement, the same metric used for executive compensation did, resulting in a 104% match of executive performance targets and at least full payment of cash bonuses. This is inconsistent. If shareholders lose money, the executives should not remain unaffected. More generally speaking, there should be consistency in metrics used for financial reporting and executive compensation.

Cash conversion

In USDm	2010	2011	2012	2013	2014	2015	2016	2017
Consolidated net income	(204)	(70)	(162)	(36)	(110)	(49)	20	8
FCF	609	36	204	313	(50)	77	167	279

Source: CQS research team

Free cashflow is calculated as funds from operations less changes in working capital, capex, acquisitions and plus proceeds sales. The main factor explaining why FCF is above net income include is the fact that capex has been below D&A, as the latter includes the amortisation of non-recoupable ticketing contract advances and impairments.

Valuation

We believe that Live Nation has a very strong position in the live entertainment market, which itself is supported by secular growth drivers. We believe this can translate into a fantastic growth story for the years to come, and a multiplication of the company's share price from current levels.

We recognise that the company is at the limit of what is acceptable for us in certain identified areas, but we believe this is more than offset by the attractiveness of the business model.

From a conceptual point of view, what makes Live Nation so valuable are the following intangible assets:

- **Relationships with a diversified pool of high quality artists** that are the backbone of fan enthusiasm; thanks to this, Live Nation is able to supply concerts for any single venue to be full year-long, if they wanted to; this puts Live Nation in a great position vis-à-vis venue operators.
- **Executives with excellent relationships in the industry**, as witnessed by the company's excellent track record; live entertainment is to a large extent a people's business.
- **A strong position along the entire industry value chain**; we believe the company is worth more than the sum of its parts.
- **A large database of fans who are receptive** to branding and sponsorship as they are caught in a favourable emotional setting: a live concert of an artist they like; this database is further enhanced in value through the company's development of data analytics technology, which aims to better understand the fan and maximise monetisation, including through on-site spending, premium packaging, etc.

- **A strong pricing power** as the company is by nature in a monopoly position for a given artist and concert, and hence also the only supplier of sponsorship opportunities and in full control of onsite food and drinks.
- **A high-quality ticketing platform**, which we understand requires significant technological know-how when required to master peak traffic of millions of users at the same time; there are numerous examples of smaller competitors crashing when the platform cannot cope with traffic for high profile events.
- **The best international footprint**, which gives it a strong advantage over competitors when it comes to selling a global package to risk-averse artists

These assets are very hard to replicate, especially if combined, and importantly, cannot be so purely with capital. It is the ensemble of size, reputation, footprint, track record and vertical integration that underpins the strong moat of the company in the live entertainment industry.

Regarding the risks that could affect valuation in the short to medium term, we note the following:

- Live Entertainment is a people's business and as such exposed to unpredictable personal events of key executives and artists.
- The ticketing industry is likely to change due to *'bad guys'* – scalpers, secondary ticketing platforms – *'ripping off the fan'*. While Live Nation is a in a pole position to emerge as a white knight from the turmoil, new regulation and/or new entrants may blur the company's financial outlook.
- Even though the prospect of a buyout of Live Nation by Liberty Media at a fair premium is possible, we cannot exclude possible deals in which minority shareholders are disadvantaged.

In line with our research methodology, we assess the risk profile on a qualitative basis to derive cost of capital.

Detail of quality rating used for beta calculation

Criterion	Comment	Rating
Cashflow stability	On the one hand, the earnings profile features high seasonality (with negative operating income in Q1 and Q4) and it is by nature a discretionary spending on which users can save easily. This said, we believe that the market will be surprised by earnings resilience in the case of an economic downturn. Indeed, the absolute need for stars to tour creates downside protection, while the fact that ticket prices are often priced below market value represents a buffer of inelasticity to price movements.	4
Competitive risk	As the world leader with significant scale effects and a long advance over its competitors, Live Nation is in a fantastic competitive position. This said, we recognise that clients in entertainment industry can be irrational, moody and fashion-driven.	3
Solidity of value chain	Live Nation has managed to create a harmonious ensemble of business lines along the most attractive parts of the industry value chain.	1
ESG	The company is not exposed to major environmental or social risks, but its governance, in particular executive compensation and board composition, could be improved.	4
Average rating		**2.3**

Appendix I – Financials

Key metrics	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Sales growth		3.6%	4.7%	25.7%	13.4%	(0.4%)	0.3%	21.1%	6.3%	8.1%	11.3%	6.0%	5.5%	15.3%	23.7%	2.6%	9.7%	8.8%	8.7%	8.6%	8.7%	8.7%	7.8%
EPS growth		(56.5%)	n.m.	(97.9%)	n.m.	n.m.	(36.0%)	(23.6%)	(64.7%)	74.8%	(88.6%)	n.m.	n.m.	n.m.	n.m.	56.4%	33.9%	34.7%	25.1%	20.8%	22.2%	22.8%	19.9%
Capex / sales	2.6%	2.6%	3.2%	1.8%	3.9%	6.1%	2.2%	1.5%	2.0%	2.4%	2.1%	2.1%	2.0%	2.2%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
EBITDA margin	6.3%	4.6%	4.2%	5.4%	3.8%	3.3%	3.7%	5.7%	6.3%	6.2%	6.2%	6.4%	6.3%	6.1%	5.5%	6.3%	6.5%	6.8%	7.0%	7.2%	7.5%	7.8%	8.2%
EBIT margin	4.0%	2.3%	2.0%	1.9%	1.0%	0.0%	0.0%	0.7%	1.1%	1.3%	1.8%	2.4%	2.0%	2.3%	2.1%	2.9%	3.2%	3.6%	3.9%	4.2%	4.5%	4.9%	5.3%
ROCE incl. goodwill		8.4%	20.8%	n.m.	n.m.	0.0%	0.1%	3.2%	1.5%	3.2%	30.6%	8.3%	n.m.	2.8%	37.4%	8.5%	10.1%	11.8%	13.3%	14.7%	16.3%	18.4%	20.3%
Sales/employee		1,700.7	932.3	997.7	919.8	886.6	929.1	937.7	822.0	849.5	893.6	897.6	928.9	1,044.4	1,209.1								
Net debt / EBITDA	2.9x	3.5x	(0.4x)	1.6x	3.0x	5.0x	3.2x	4.2x	3.6x	3.2x	1.2x	2.8x	2.8x	2.7x	2.2x	1.8x	1.5x	1.2x	0.9x	0.6x	0.3x	0.0x	(0.3x)
Average market cap	-	-	0.9	0.9	1.5	1.1	0.5	0.7	2.0	1.6	1.8	3.9	5.3	5.0	5.4								
Employees	-	1.7	3.2	3.7	4.6	4.7	4.5	5.4	6.6	6.9	7.3	7.7	7.8	8.0	8.6								

P&L	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Sales	2,708	2,806	2,937	3,692	4,185	4,167	4,181	5,064	5,384	5,819	6,479	6,867	7,246	8,355	10,337	10,606	11,635	12,654	13,752	14,941	16,234	17,642	19,019
COGS	(2,507)	(2,645)	(2,767)	(2,982)	(3,334)	(3,324)	(3,352)	(3,664)	(3,828)	(4,199)	(4,754)	(4,999)	(5,283)	(6,168)	(7,832)	(7,840)	(8,628)	(9,408)	(10,258)	(11,183)	(12,193)	(13,293)	(14,364)
SG&A	(31)	(31)	(46)	(511)	(693)	(707)	(676)	(1,111)	(1,215)	(1,257)	(1,321)	(1,431)	(1,506)	(1,674)	(1,933)	(2,094)	(2,250)	(2,383)	(2,526)	(2,680)	(2,828)	(2,968)	(3,094)
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA	**170**	**129**	**123**	**198**	**158**	**136**	**154**	**289**	**342**	**363**	**403**	**436**	**457**	**514**	**573**	**672**	**757**	**863**	**968**	**1,077**	**1,214**	**1,381**	**1,562**
D&A	(63)	(64)	(65)	(128)	(117)	(136)	(152)	(254)	(281)	(288)	(285)	(272)	(311)	(319)	(352)	(366)	(383)	(404)	(427)	(452)	(481)	(512)	(546)
EBIT	**107**	**65**	**59**	**70**	**41**	**1**	**1**	**35**	**61**	**75**	**118**	**165**	**146**	**195**	**220**	**306**	**374**	**459**	**541**	**625**	**733**	**869**	**1,015**
Interest Expense	(44)	(31)	(52)	(37)	(62)	(63)	(58)	(112)	(120)	(124)	(112)	(106)	(103)	(107)	(107)	(112)	(118)	(118)	(116)	(111)	(106)	(100)	(93)
Non operating items	7	(5)	(3)	19	66	9	5	8	(3)	3	26	(4)	(24)	(8)	7	-	-	-	-	-	-	-	-
Unusual items	-	-	(67)	(46)	(10)	(284)	(65)	(125)	(42)	(97)	(48)	(159)	(14)	(31)	(131)	-	-	-	-	-	-	-	-
Pretax Income	**72**	**32**	**(64)**	**18**	**40**	**(335)**	**(115)**	**(189)**	**(97)**	**(132)**	**(5)**	**(100)**	**6**	**48**	**(9)**	**194**	**256**	**342**	**426**	**514**	**627**	**769**	**922**
Income Taxes	(11)	(4)	(61)	(37)	(44)	16	(11)	(15)	26	(30)	(31)	(5)	(22)	(28)	(39)	(53)	(71)	(95)	(120)	(145)	(179)	(221)	(267)
Equity accounted companies	1	3	(0)	11	5	2	2	5	8	10	10	4	2	(1)	1	1	1	2	2	2	2	2	2
Group Net Income	**60**	**28**	**(125)**	**(19)**	**(4)**	**(319)**	**(126)**	**(204)**	**(70)**	**(162)**	**(36)**	**(110)**	**(49)**	**20**	**8**	**142**	**187**	**248**	**308**	**370**	**450**	**550**	**658**
Minorities	(3)	(3)	(5)	(12)	(8)	(1)	(10)	(20)	(13)	(1)	(7)	14	(17)	(17)	(14)	(16)	(18)	(21)	(24)	(28)	(32)	(37)	(42)
Net Income	**57**	**25**	**(131)**	**(31)**	**(12)**	**(320)**	**(136)**	**(224)**	**(83)**	**(163)**	**(43)**	**(96)**	**(66)**	**3**	**(6)**	**126**	**168**	**227**	**284**	**343**	**418**	**514**	**616**

Cashflow statement	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
EBITDA	170	129	123	198	158	136	154	289	342	363	403	436	457	514	573	672	757	863	968	1,077	1,214	1,381	1,562
Non-cash items	(58)	(44)	(118)	(40)	36	51	14	41	96	61	109	112	121	129	53	45	47	49	52	55	57	60	63
Cash EBITDA	**112**	**85**	**5**	**158**	**194**	**187**	**167**	**330**	**438**	**424**	**512**	**548**	**578**	**642**	**626**	**717**	**804**	**912**	**1,020**	**1,132**	**1,271**	**1,441**	**1,625**
Interests, taxes and other	(3)	(3)	(22)	(56)	(78)	(83)	(86)	(140)	(145)	(106)	(132)	(131)	(137)	(127)	(132)	(165)	(189)	(213)	(235)	(257)	(285)	(321)	(360)
Changes in Working Capital	29	37	31	(85)	(50)	(150)	(18)	(25)	(148)	58	51	(140)	(141)	82	129	-	-	-	-	-	-	-	-
Net Operating Cash Flow	**139**	**120**	**14**	**17**	**66**	**(46)**	**62**	**164**	**145**	**376**	**431**	**277**	**300**	**597**	**623**	**551**	**615**	**699**	**785**	**875**	**986**	**1,120**	**1,265**
Capex	(70)	(73)	(93)	(66)	(164)	(252)	(92)	(77)	(110)	(138)	(135)	(143)	(142)	(180)	(249)	(256)	(281)	(305)	(332)	(360)	(392)	(426)	(459)
Stock compensation adjustment	-	-	-	-	(29)	(35)	(17)	(62)	(61)	(37)	(28)	(39)	(33)	(33)	(43)	(45)	(47)	(49)	(52)	(55)	(57)	(60)	(63)
Adding back: post tax interests	2	2	3	23	37	39	34	58	70	70	56	58	60	63	57	81	85	85	83	80	76	71	66
Acquisitions and disposals	(5)	(10)	(8)	(316)	8	179	157	525	(8)	(67)	(11)	(203)	(108)	(281)	(109)	(200)	(210)	(221)	(232)	(243)	(255)	(268)	(281)
Free cash flow (FCF)	**66**	**38**	**(84)**	**(342)**	**(82)**	**(115)**	**144**	**609**	**36**	**204**	**313**	**(50)**	**77**	**167**	**279**	**132**	**163**	**209**	**253**	**297**	**358**	**438**	**528**
Dividends paid (excl. minorities)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share repurchases	-	-	(18)	(25)	-	(29)	(6)	(42)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Balance Sheet	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
WCR	(250)	(298)	(334)	(332)	(386)	(290)	(237)	(333)	(344)	(464)	(1,140)	(546)	(526)	(672)	(1,139)	(1,139)	(1,139)	(1,139)	(1,139)	(1,139)	(1,139)	(1,139)	(1,139)
PP&E	782	793	809	876	915	888	750	737	720	722	707	695	731	752	886	982	1,085	1,193	1,306	1,427	1,556	1,694	1,839
Intangibles ex goodwill	16	15	12	73	383	514	471	1,372	1,251	1,102	1,053	1,052	1,147	1,181	1,098	1,092	1,097	1,111	1,134	1,165	1,202	1,246	1,295
Goodwill	127	45	137	423	472	205	205	1,226	1,258	1,358	1,467	1,479	1,604	1,747	1,755	1,755	1,755	1,755	1,755	1,755	1,755	1,755	1,755
Adj. capital employed	**675**	**555**	**624**	**1,041**	**1,384**	**1,318**	**1,188**	**3,003**	**2,885**	**2,717**	**2,088**	**2,681**	**2,956**	**3,007**	**2,600**	**2,689**	**2,797**	**2,919**	**3,056**	**3,207**	**3,373**	**3,555**	**3,749**
Non operating assets, net	55	153	63	114	148	198	168	37	96	97	135	297	186	213	475	476	478	479	481	483	485	487	490
Total Capital Employed	**730**	**708**	**687**	**1,155**	**1,532**	**1,515**	**1,356**	**3,040**	**2,981**	**2,814**	**2,222**	**2,978**	**3,142**	**3,221**	**3,075**	**3,166**	**3,275**	**3,399**	**3,537**	**3,690**	**3,858**	**4,042**	**4,239**
Shareholder equity	188	157	677	679	907	662	692	1,364	1,461	1,355	1,409	1,297	1,237	1,126	1,181	1,307	1,475	1,702	1,986	2,328	2,747	3,261	3,877
Minorities	4	4	26	76	62	62	73	245	164	195	242	356	474	571	482	490	499	509	521	535	551	569	591
Total equity	**192**	**161**	**703**	**755**	**969**	**724**	**765**	**1,609**	**1,625**	**1,551**	**1,651**	**1,653**	**1,711**	**1,697**	**1,663**	**1,797**	**1,974**	**2,211**	**2,507**	**2,863**	**3,298**	**3,830**	**4,467**
Net financial debt	490	458	(47)	322	472	679	496	1,216	1,235	1,169	486	1,213	1,289	1,374	1,237	1,195	1,126	1,013	856	652	386	38	(403)
Provisions and other	47	89	31	79	91	113	95	215	121	94	85	112	142	150	174	174	174	174	174	174	174	174	174
Total capital invested	**730**	**708**	**687**	**1,155**	**1,532**	**1,515**	**1,356**	**3,040**	**2,981**	**2,814**	**2,222**	**2,978**	**3,142**	**3,221**	**3,075**	**3,166**	**3,275**	**3,399**	**3,537**	**3,690**	**3,858**	**4,042**	**4,239**

Appendix 2 – Press Controversy on Ticketing

Live Nation Rules Music Ticketing, Some Say With Threats

Source: New York Times – 1st April 2018

Live Nation promotes 30,000 concerts around the world each year, including recent tours by artists like Jay-Z and Janet Jackson, in which it played a role.

In 2010, when the Justice Department allowed the two most dominant companies in the live music business — Live Nation and Ticketmaster — to merge, many greeted the news with dread.

Live Nation was already the world's biggest concert promoter. Ticketmaster had for years been the leading ticket provider. Critics warned that the merger would create an industry monolith, one capable of crippling competitors in the ticketing business.

Federal officials tried to reassure the skeptics. They pointed to a consent decree, or legal settlement, they had negotiated as part of the merger approval. Its terms were strict, they said: It would boost competition and block monopolistic behavior by the new, larger Live Nation.

"There will be enough air and sunlight in this space for strong competitors to take root, grow and thrive," said the country's top antitrust regulator, Assistant Attorney General Christine A. Varney. And she went further, suggesting that reduced ticket service fees, even lower ticket prices, might be on the horizon.

Eight years after the merger, the ticketing business is still dominated by Live Nation and its operations extend into nearly every aspect of the concert world.

Ticket prices are at record highs. Service fees are far from reduced. And Ticketmaster, part of the Live Nation empire, still tickets 80 of the top 100 arenas in the country. No other company has more than a handful. No competitor has risen to challenge its pre-eminence.

Now Department of Justice officials are looking into serious accusations about Live Nation's behavior in the marketplace.

They have been reviewing complaints that Live Nation, which manages 500 artists, including U2 and Miley Cyrus, has used its control over concert tours to pressure venues into contracting with its subsidiary, Ticketmaster. The company's chief competitor, AEG, has told the officials that venues it manages that serve Atlanta; Las Vegas; Minneapolis; Salt Lake City; Louisville, Ky.; and Oakland, Calif., were told they would lose valuable shows if Ticketmaster was not used as a vendor, a possible violation of antitrust law.

In the Atlanta case, the complaint stems from a 2013 tour by the band Matchbox Twenty. Live Nation bypassed the Gwinnett Center, a popular arena outside the city, for another venue in town.

Gwinnett's booking director, Dan Markham, worried his venue was being punished, according to emails he wrote at the time. The center had just replaced Ticketmaster with a service controlled by AEG.

"Don't abandon Gwinnett," he wrote to a Live Nation talent coordinator. "If there's an issue or issues let's address."

"Issue?" the Live Nation coordinator wrote back. "Three letters. Can you guess what they are?"

Live Nation says that, no matter what its employee wrote, the decision to bypass the center was not punitive. The other venue was managed by Live Nation and simply fit more people. But the following year, Live Nation cut the number of tours it brought to Gwinnett in half, from four to two.

Live Nation described the drop as a routine fluctuation. But Mr. Markham later said in an email that he had expected the drop-off because Live Nation "warned us that they would put us in a literal boycott."

AEG provided The New York Times with copies of those emails, and others, to support its account of threats.

"What happened in Atlanta is just one example of what has been occurring much more broadly," said Ted Fikre, the chief legal officer for AEG.

Live Nation officials say they never threaten or retaliate. They dismissed the complaints as tactical, deliberate mischaracterizations by AEG.

"You have a disgruntled competitor that is trying to explain their loss around the boogeyman that there were threats made that nobody can document," said Daniel M. Wall, Live Nation's antitrust lawyer.

The bloodletting between Live Nation and AEG has grown fierce in recent years and rippled through the industry. Last month, another of Mr. Wall's clients, the heavy-metal icon Ozzy Osbourne, sued AEG on antitrust grounds, saying that it tried to bar him from playing its O2 arena in London, unless he played its Staples Center in Los Angeles.

AEG said its policy was a response to Live Nation's steering concerts to its Los Angeles rival, the Forum.

The Justice Department's inquiries into possible antitrust violations have gone beyond the bitter rivalry, with regulators in the past year looking into reports of Live Nation threats at venues that AEG does not manage: at the H-E-B Center outside Austin, Tex.; and at Boston's TD Garden, according to executives familiar with the federal review.

Justice officials declined to comment on the status of their inquiries. Several of the venue owners have denied the accounts of threats reported by others.

The inquiries come as Justice officials review two more proposed mergers of huge companies — AT&T with Time Warner, and the Walt Disney Company with 21st Century Fox. In discussing those proposals, the department's new antitrust chief has pointed to the Live Nation deal and several other mergers as problematic because, he said, they relied too much on the federal government's ability to police corporate behavior.

"Even if we wanted to do that, we often don't have the skills or the tools to do so effectively," Assistant Attorney General Makan Delrahim said in a speech last November.

Beau Buffier, the chief of the New York Attorney General's Antitrust Bureau, was blunter in assessing whether the government had done enough to ensure a vital ticketing marketplace.

"The Consent Decree was supposed to prevent Live Nation from using its strength in live entertainment to foreclose competition in ticketing," said Mr. Buffier. "But it is now widely seen as the poster child for the problems that arise when enforcers adopt these temporary fixes to limit the anticompetitive effects of deeply problematic vertical mergers."

Multiple Incomes

The live music business has long operated as an ecosystem where multiple parties work together to put on a show.

Promoters front the money for a concert or tour and take on the greatest risk.

Talent agents and managers negotiate artists' fees.

Venues rent space and hire ticketing companies to handle their events.

These were long separate fiefs. But Live Nation now operates in all of them, so it's the rare music fan who does not run into the company somewhere in any concert-going experience.

It operates more than 200 venues worldwide. It promoted some 30,000 shows around the world last year and sold 500 million tickets. Its portfolio of acquisitions since the merger includes the Lollapalooza and Bonnaroo festivals, promoters from Idaho to Sweden, and a string of European and American ticketing companies.

It also draws more fire from music fans than any other company, in large part because it is blamed — unfairly in many respects — for skyrocketing ticket prices and the size of those much-maligned ticket service fees, both costs it only partly influences.

Though the price of tickets has soared, that trajectory predates the merger and is driven by many factors, including artists' reliance on touring income as record sales have plummeted.

Alan B. Krueger, a professor of economics and public policy at Princeton University, said that fan demand was the primary force behind higher prices and the money was drawing a broader array of acts to the stage.

Live Nation typically locks up much of the best talent by offering generous advances to artists and giving them a huge percentage of the ticket revenue from the door.

Why? Because it can afford to. It has so many other related revenue streams on which to draw: sponsorships for the tour, concessions at venues, and, most of all, ticket fees. The fees supply about half of Live Nation's earnings, according to company reports.

Ticketmaster said it no longer sets the final fee. It just negotiates a set per-ticket charge. The rest of the fee is added on by the venues and sometimes promoters too. Yet at many concerts Live Nation is not just the ticket seller, but also the promoter, the venue operator or even the artist's manager, with an opportunity to collect at every juncture.

Take, for example, an April 2016 concert in Nashville where Ticketmaster added a $14.75 fee on top of a $36 ticket for a show in an amphitheater Live Nation owned. Even Michael Rapino, Live Nation's chief executive, called that fee "not defendable," according to an internal email.

Holding onto venues is critical to a company that relies so much on ticket fees. Mr. Rapino has repeatedly boasted to Wall Street that the number of venues it tickets around the world — a statistic it does not release — is constantly growing.

For the live music market, a larger question going forward is whether Live Nation is now so big, so empowered by the merger, that competition in ticketing at the major venues is effectively blocked. Jared Smith, the president of Ticketmaster in North America, said no, that evidence of vibrant competition can be seen in the innovative technology and better deals that his company must now offer venues to keep them from switching to a rival.

"The space is more competitive than it's ever been," he said. "We're working harder each and every year."

AEG acknowledges that some part of its difficulty in securing contracts is rooted in its own missteps in developing a competitive ticketing system. And certainly, at the lower reaches of the market, Ticketmaster's share is not nearly so commanding.

But it's clear that Ticketmaster, by whatever means, has kept its rivals from gaining a meaningful foothold in the market for major music venues.

Preserving competition in the ticketing market was a chief concern for regulators when the Live Nation-Ticketmaster merger was proposed in 2009. Live Nation, which had long stayed in its lane as a promoter and venue operator, had just begun to sell tickets and was taking on that role at some 110 venues.

If the two companies merged, that competition — a healthy marketplace development, as regulators saw it — would disappear.

So, as part of the consent decree, Justice officials ordered steps that they hoped would enable two new robust challengers. One measure required Ticketmaster to license its ticketing software — the proprietary system that allowed it to service swarms of customers when a popular concert went on sale — to its competitor AEG.

It was also required to divest a ticketing subsidiary, Paciolan, to another competitor.

But, as it turned out, AEG never licensed the Ticketmaster software because, it said, it did not view the technology as cutting edge. The company that Ticketmaster sold off, Paciolan, remained a niche player in the music end of the business.

"It has now been eight years since the merger and the world does not look a lot different," said John E. Kwoka Jr., a professor of economics at Northeastern University and a longtime critic of the merger.

Ms. Varney declined to comment on the effectiveness of the agreement she had shepherded. But the antitrust division's former chief counsel, Gene Kimmelman, said the Justice Department had been hampered in what it could do to create competition in an industry already so dominated by one company.

"The people who came in to oversee this transaction were very interested in doing everything imaginable to create more competition in ticketing in the marketplace," he said, "and were frustrated that the options were unbelievably limited."

Talent Needs

Few buildings in Louisville are as important to the local economy as the KFC Yum! Center, a 22,000-seat arena on the banks of the Ohio River that features a mix of events, from Louisville Cardinals basketball games to concerts by Garth Brooks.

In 2012, Live Nation submitted a joint bid with another company for a contract to manage the arena. Three people who listened to Live Nation's pitch said in interviews that the company said some of its tours might skip the arena if it lost the deal.

"One of their main selling points was the relationship with the talent that they had and their ability to determine where that talent chose to play," said Larry Hayes, who was then chairman of the Louisville Arena Authority, which oversees the venue.

The arena picked AEG anyway.

Mr. Fikre and other AEG officials say that two years later, when their company considered replacing Ticketmaster with their own ticketing service, AXS, Live Nation gave a warning.

Over dinner on the night of a Miley Cyrus concert in August 2014, they said, a Live Nation executive told AEG's local venue manager that some Live Nation tours would likely bypass Louisville if AEG made good on its plan to replace Ticketmaster.

This is one of the incidents that AEG complained about to the Justice Department, pointing out that the consent decree specifically forbids Live Nation from threatening to withhold shows from venues that do not hire Ticketmaster.

The AEG account is supported by an internal email in which its employee reports being warned that the Yum! Center might lose "toss of the coin shows" — the kind that could go to a nearby arena — if Ticketmaster was dumped.

Mr. Hayes said in an interview that he had not been aware of a second warning. He had, in fact, endorsed retaining Ticketmaster, he said: It had served the arena well. But the letter of endorsement he wrote to AEG made plain that he understood there was a nexus between employing Ticketmaster and retaining access to Live Nation talent.

"Due to the relationship between Ticketmaster and Live Nation," Mr. Hayes wrote, "and knowing how important content is to our financial stability, the Louisville Arena Authority is requesting that AEG receive a formal bid from Ticketmaster to retain its business at the KFC Yum! Center."

AEG officials say they ultimately ditched the plan to replace Ticketmaster because they worried the venue might lose show revenue.

Live Nation disputed the account of warnings and supplied data showing that since 2012 the number of tours it has sent to the KFC Yum! Center has only increased. (Even at the Gwinnett Center outside Atlanta, now known as the Infinite Energy Center, the number of Live Nation shows rebounded after dropping off in 2014.)

There is little evidence, actually, of Live Nation retaliation. Competitors say that is because venues so rarely stray.

Critics say enforcement of the consent decree has been complicated by what they call its ambiguous language. Though it forbids Live Nation from forcing a client to buy both its talent and ticketing, the agreement lets the company "bundle" its services "in any combination." So Live Nation is barred from punishing an arena by, say, steering a star like Drake to appear at a rival stop down the road. But it's also allowed, under the agreement, to redirect a concert if it can defend the decision as sound business.

Mr. Buffier, of the New York Attorney General's office, said the ambiguity creates "high burdens to prove violations in court."

Competitors assert that the bundling lets Live Nation pressure venues without ever uttering a threat.

"They don't need to," said Marc Leibowitz, co-owner of One Percent Productions, an independent concert promoter in Omaha. "It's just implied."

David Willis, a former ticketing executive who left Ticketmaster in 2014, said the company was always careful to instruct the sales staff to respect the rules as to how talent could be mentioned when pitching an arena for business.

"We were not saying, certainly, 'If you don't go with us you are losing that,'" he said. But he acknowledged, "I would imagine that that is what they assumed to be the case."

A Regulator's Quandary

Live Nation and AEG both have their headquarters in Los Angeles, and last summer the companies faced off in a contract dispute over a new Major League Soccer team there, the Los Angeles Football Club.

Trouble began brewing when the team began looking for someone to ticket its new stadium downtown, due to open this month.

Ticketmaster put in a bid. But the team insisted that Live Nation bring in some concerts as well. Live Nation balked — soccer stadiums, executives said, were a poor fit for concerts — but it struck a preliminary deal that included ticketing and a commitment to provide a few shows each year.

Then the plan hit a snag. AEG owned another professional soccer team in Los Angeles — the Galaxy — and had an agreement with Major League Soccer: If another franchise from Los Angeles joined the league, AEG had the right to match any competitor's ticketing offer.

Wielding that clause as leverage, AEG blocked the selection of Ticketmaster, and the contract instead went to SeatGeek, an upstart company that had deals with a number of M.L.S. teams.

The Ticketmaster executives were furious and threatened to sue. They told the team owners that, if there was no Ticketmaster contract, they would not be getting the Live Nation shows. The team then complained to Major League Soccer that Live Nation had threatened to withhold talent, according to a statement by the league.

Live Nation denied it had made any kind of threat and pointed out that the soccer league has a small equity stake in SeatGeek. It said the arena had simply pulled out of a package deal that covered both ticketing and concerts — just the sort of bundling, it said, the Justice Department settlement had allowed. Without ticketing, according to Live Nation officials, it simply made no economic sense to put concerts in a space built for soccer.

But the consent decree, which expires in 2020, also says Live Nation cannot "condition or threaten to condition the provision of live entertainment events" if a venue decides to use another company for ticketing.

So is this a case of bullying, or just a business decision?

"Live Nation and Ticketmaster," the company said in a statement "do not 'condition' the placement of concerts at venues on becoming the venue's ticketing provider. Venues, on the other hand, often condition the ticketing contract on guaranteed content."

Antitrust experts said this was the kind of thicket that Justice officials must navigate as they reviewed the antitrust complaints.

Since the dust up, Live Nation has returned to the table and is discussing bringing acts to the stadium. The team declined to comment on the dispute. SeatGeek ended up holding onto the contract.

But the perception that Live Nation might withhold talent is prevalent enough that SeatGeek now structures some bids to address the concerns of venues who fear losing big stars, and revenues.

For example, last year, when SeatGeek tried to unseat Ticketmaster from its contract at the TD Garden in Boston, it included in its bid a promise to pay the arena $250,000 for every show that Live Nation pulled, according to a bid document reviewed by the Times and three people with knowledge of the negotiations.

Ticketmaster still won. TD Garden officials said the contract was awarded on the merits, and they had not received threats.

A SeatGeek spokesperson declined to discuss the negotiations. But Russ D'Souza, a founder of the company, said he has seen evidence that competition in the market is less than open.

"When we sell to teams," he said, "we have heard fears about losing concerts if they choose us."

Appendix 3 – Customer Reviews

Trustpilot, UK Customer Reviews

Ticketmaster UK

Reviews 6,190 • Great

Reviews 6,189

Filter by: Rating English

Excellent		55%
Great		11%
Average		7%
Poor		7%
Bad		21%

douge56
1 review

Verified order — A day ago

Priority booking!!!!!!!!No I don't think so

I thought with having advanced priority ticket purchase I would be able to pick any seat at the venue, within reason. Your pre sale tickets seats at the Glasgow Hydro for the country to country were rubbish to put it mildly, away up very high.
On the the day of general release, we purchased tickets and as ticketmaster said "BEST AVAILABLE " we now on the the floor at the venue. Not good, but at least we are going.
A week later, ticketmaster then released the tickets where we would have preferred to be be seated, 205 - 211 area. So much for best available the previous week and what's the advantage of having priority booking.
I fully realise that my comments will amount to nothing. I emailed ticketmaster, but got no reply. I even emailed SSE Rewards whom I am with.no reply from them either.
Does anybody listen????

Amanda Romano
1 review

21 Dec 2018

I made a mistake and bought a wrong...

I made a mistake and bought a wrong ticket, the person who attended me was very helpful and supportie, I couldn't be more thankful for the way I was cared for.

Julie
1 review

Verified order — 14 Dec 2018

A bit concerned as no paper ticket...

A bit concerned as no paper ticket issued in advance. However reminders of the necessary paperwork to take to the venue were very efficient and entry to the theatre was seamless.

Elaine
1 review

Verified order — 15 Dec 2018

Ticket booking okay But security poor.

Ticket booking okay but your site subject to data breaches leading to fraud in my card a number of times following me booking tickets with you.

Carolyn
1 review

21 Dec 2018

Sue in Customer Service is a...

Sue in Customer Service is a life-saver. Ordered tickets for my Niece's Christmas and lost them! Sue arranged for replacement tickets to be collected at the venue- can't thank her enough. Efficient and quick service!

Gill White
1 review

5 days ago

DO NOT USE THESE RIP OFF MERCHANTS

DO NOT USE THESE RIP OFF MERCHANTS! Customer service is shocking!!! Bought 2 Elton John tickets for 2 yrs time and have had to put them up for resale due to unforseen circumstances. The tickets have now sold & now been told we will not get the actual refund till 10days after the event!! So while my credit card is gaining interest while i try and pay it off i'll be the one out of pocket while Ticketmaster are quids in with everyones money!! So i'm at a finacial loss thanks to these rip offs. They are holding everyones money & for what? Customer services is non existant so dont bother trying to contact them. Useless.

Victoria Lindsay
4 reviews

Updated 15 Dec 2018

Top Service

Great prompt responses from Ticketmaster. My mum fell ill and couldn't attend this evenings concert and I have been issued a full refund. Thank you so much for your time and patience.

Victoria

Laura
2 reviews

Verified order — 16 Dec 2018

Too long hanging on the phone

Your guy on the phone was great but I had to wait so long on the phone to speak to him it made me very angry. Employ more staff on your phones and make the calls free

ConsumerAffairs, US Customer Reviews

ticketmaster®

Overall Satisfaction Rating

Based on 118 ratings submitted in the last year

5 stars	1
4 stars	0
3 stars	0
2 stars	3
1 stars	114

Dave of Reno, NV ✔ Verified Reviewer

Resolution response: Dec. 4, 2018

NA

Original review: Dec. 4, 2018

I am an avid concert goer going to many concerts a year. Unfortunately there is a company that has managed to buy off enough politicians to maintain a monopoly on the ticket market and the only company you can buy tickets from for more than 3/4 of venues. Ticketmaster is a crooked company lined with crooked executives in which they have created a monopoly, overcharge in ticket fees, rig all their sales so that the great seats make it to their secondary market ticket site TicketsNow, and make your buying experience terrible.

Anne of Madison, WI ✔ Verified Reviewer

Original review: Dec. 15, 2018

Purchased front row tickets to Trans-Siberian Orchestra in Milwaukee, 12/30/2018. Got an email months later that our seats had been moved due to a "stage reconfiguration", and we were now in a worse section and in the third row. Emailed customer support, no one could provide a new map of the venue and Trans-Siberian Orchestra says nothing has changed stage wise. Now our ORIGINAL seats are back up for sale on Ticketmaster and we are stuck with crappy seats we did not want. Total scam, avoid at all costs. I'll be getting my money back.

J of New York, NY ✔ Verified Reviewer

Original review: Oct. 24, 2018

I booked a ticket to a Broadway show on their website. I of course didn't double check anything before I entered my credit card details and clicked 'purchase.' I sent the details to my wife who spotted the issue straight away... I was pretty sure this would be a black spot in the marriage forever! I checked the Ticketmaster website for returns/changes to booking policy. The theatre was not a member of Ticketmaster's 'Fan Guarantee' program and there was no option at all to change one's booking.

As a last ditch effort, I called the customer service helpline. I could not have had a better service. I explained my problem (and admitted my mistake) and the customer service representative did everything possible to rectify my problem. It took 40 mins on the phone (while she had to look up the returns policy, speak to manager, unlock reserved seats etc) but the job was done. When I realized I'd made a mistake with Ticketmaster, my heart dropped as I had heard about their bad reputation. I thought I'd lost my money. However, this OUTSTANDING customer service experience has totally changed my opinion of the company. Thanks!

BRYAN of Columbia, SC ✔ Verified Reviewer

Original review: Dec. 18, 2018

Thiefs. Ripped me off. I purchased tix on presale and they gave my tickets "a unique name/Club PRODUCER seats." The next day they call those exact same tix (date, section and row), Standard seats and charge less than half price with no different benefits. They fraudulently misrepresented them and refuse to refund the difference as "non-refundable, all sales final." I get prices change, but they misrepresented them for more. Spoke with several persons and nothing. Total scam. I was told my tickets were better seats and that's the difference in name; but they're not. Same ticket available for less than 1/2 price.

Chris of Friendswood, TX ✔ Verified Reviewer

Original review: Dec. 8, 2018

I purchased 3 tickets from TM on 12-1 for Rolling Stones/Houston for $1245.15. They took $$2,576.95 from my PayPal/checking account. I have been on hold for a total of 30 minutes, transferred to 3 departments, the last one the fraud dept. I was told that was the transaction that took place and there was nothing they could do since it was purchased 7 days ago. I opened up a dispute case with PayPal, but I have a feeling this will not work out for me. Wow.

Renata of United Kingdom ✔ Verified Reviewer

Original review: Dec. 24, 2018

Booked tickets from them 4 days ago. Never received any confirmation email. So I called them to find out why they did not send confirmation. Adviser said, "Will send it straight away", never received. Called again next day. Another adviser said, "We have no notes that you have called or whatsoever." When I asked to send it over again I will be checking my email. She said she cannot stay on the line until I receive it and also asked, "Why you need that confirmation email if you have reference number." Like really??? I booked tickets, paid money and want to receive confirmation email!!! Distressful. Never booking through them again and strongly recommend do not waste your time!!! Worst service ever!!!

Michele of Seattle, WA ✔ Verified Reviewer

Original review: Dec. 3, 2018

I went online to buy Dead and Co tickets for the Gorge in Washington State. I bought into the verified fan pre-sale. Almost all the seats in the general admission PIT section could only be purchased if you bought one of their expensive "packages" but after refreshing and entering my code, I was able to buy one GA Pit ticket. It cost me $175 which is crazy but got even worse when the total bill came to $207 because there was $32 dollars in fees! FEES of $32! I don't have another option for purchasing tickets to this show so I am stuck paying for the fees for each ticket I purchase! How is Ticketmaster NOT a monopoly? It's an absolute rip-off! Ticketmaster is horrible and should be investigated!

Yelp, US Customer Reviews

Overall Rating

Yelping since 2011 with 183 reviews

5 stars	2
4 stars	2
3 stars	4
2 stars	1
1 star	174

Julian A.
Long Beach, CA
1587 friends
505 reviews
1014 photos

9/11/2015

If this is for the actual Ticketmaster website, I'll just say first of all that I have never had an issue with them!

Ticketmaster is your go to spot to purchase tickets for anything, whether it be a game, a concert, a play or such. I only get tickets for concerts through them, as for some reason, tickets for games are a bit higher! I have purchased from them tickets to see artists such as Rebelution, Tribal Seeds, Shakira, Echo and the Bunnymen and many many more. Yes, you do have to pay a small fee alongside your tickets. The good thing with them is that they let you see the seats you're choosing as far as the venue goes.

I have not had to experience them through the phone, but from what I've heard, those experiences haven't been so good! But for now, Ticketmaster is the way to go for me!!!

21 people voted for this review

Useful 18 | Funny 15 | Cool 19

Nicollette G.
Los Angeles, CA
181 friends
59 reviews
35 photos
Elite '18

11/16/2018

Music is my passion, my language, the key to my soul. I don't just listen to music, music has been my therapy since childhood and for that reason I have been to over 200 concerts and I am 28 years old. I've seen legendary musicians many times, for example Chris Cornell, Guns N Roses, Audioslave just to name a few. Never in my life have I experienced any trouble trying to buy ticket for a concert. It's always been simple log into Ticketmaster the date and time does tickets go on sale select the seats and pay. However, I realize the last two times it I've tried to buy tickets for a concert the tickets somehow manage to sell out in less than 10 seconds, can somebody tell me how this is possible? And if they didn't sellout and 10 seconds the tickets were somehow quadruple the price they should be. I don't know about you but this is very wrong to me. So you are telling me now that people need to be millionaires to attend the concert? What about the high school kids trying to see one of their favorite bands perform? What about the lower middle class simply wanting to experience live music? How is it okay for Ticketmaster to sell their tickets to mainly people who buy to resell that ticket for 3x the value? In my opinion ticket master needs to stop selling to people who aren't even trying to see the show, can these people try to make a living that doesn't involve screwing everyone else over? This business has turned into something disgraceful, music is supposed to bring people together. It's not meant to divide classes of people, or to provide scammers a living. I wish Ticketmaster would go back to their older methods because somehow buying tickets used to be a much easier process. I went online today 30 minutes before tickets to this event went on sale, And when it was 10 o'clock, instead of being able to buy a ticket I was told that I was the 2000th person in line, lol nice joke Ticketmaster thanks for nothing.

Johnny V. and 1 other voted for this review

Useful 1 | Funny 1 | Cool

W R.
Pasadena, CA
0 friends
66 reviews

Share review
Embed review
Compliment
Send message
Follow W R.

10/8/2018

I really hate this crappy company.

They cheat customers constantly with their backhanded and misleading ads, and they (along with other companies like them) have the box offices landlocked so that we are forced to do business through them, and they can scalp the tickets legally via "services fees", but if an ordinary citizen tries to do that they would be arrested for "scalping", since they aren't a big corporation with money to pay off the powers that be....Pirates and Emperors.

Anyway, we bought 2 tickets for the Werq The World concert at the Orpheum theater in DTLA, and the site had stated "Meet and Greet Presale", for the category which we purchased the tickets. We even contacted someone at Werq The World and asked them if those were indeed the Meet and Greet tickets being sold at that moment, we still have the DMs to prove it. Yet when we got there with or tickets, the Orpheum and event staff told us that our tickets were standard, and "Meet and Greet Presale" was nothing more than a fancy heading on our tickets to entice people to start buying tickets. We were not the only ones misled by Ticket-BASTARD, as there were 6 other people who were told the same thing and had purchased the same tickets. They were very disappointed and we were all pulled out of line and humiliated by this whole unpleasant affair. Some of them were forced to dig cash from their wallets and their purses to pay the staff to let them do the Meet and Greet anyway, but it was an extra $100 per person, which we didn't have (I'm not exactly the "Shah of Iran").

I do not blame Voss Entertainment, or even the Orpheum theater staff. They were actually nice about it. But all of this Meet and Greet missing out we place squarely on the fault of Ticketmaster. When we called to complain, they were unapologetic, mean, snotty, condescending, and they cursed at us, and when I demanded to speak to a supervisor, we were put through to a supervisor and he was just as big of an asshole as the stupid representative on the phone. A fish rots from the head down...

...and Ticketmaster can rot in hell

Johnny V. and 2 others voted for this review

Useful 2 | Funny 1 | Cool

Joe C.
Marina del Rey, CA
365 friends
70 reviews
15 photos

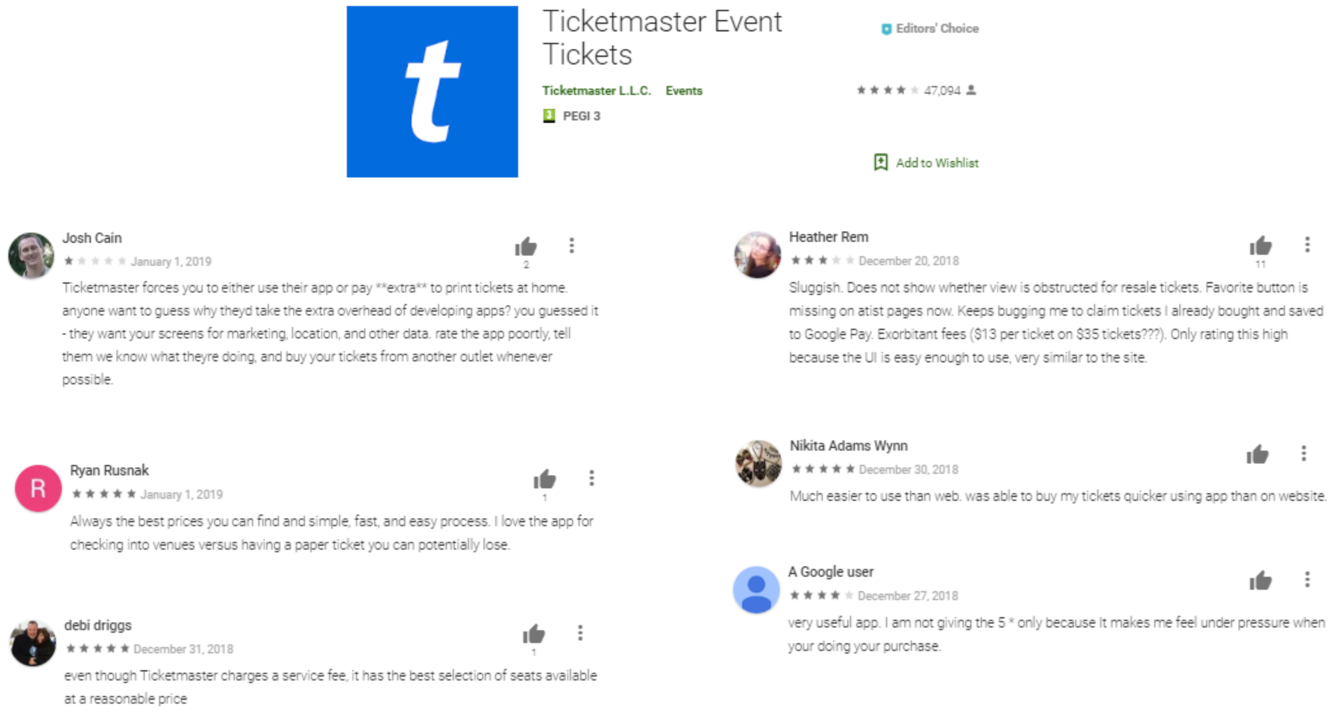
11/26/2017

Very very disappointed! Several months ago, I bought two tickets to Bruno Mars at the Forum for about $910 for his November show. Ticketmaster's online seating chart lead me to believe the seats I purchased were to be a good section, which ended up being about five rows from the very back row and the highest point of the Forum.

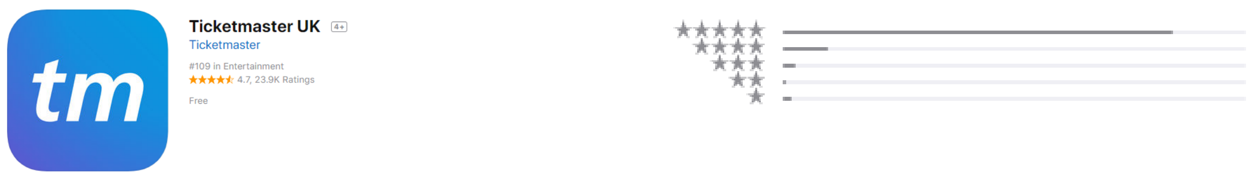
From these poor seats, we could not see the stage or the big tv monitor (due to the big air conditioning pipe that blocked the entire hugger TV). Furthermore, these seats were easily about 20 degrees hotter up in this section making it impossible to stay seated or in the area for too long. Topping it off, right before the show, we asked people around us in this section of what they paid for their tickets which was about 50 to $60 a piece. At that point I got very angry as I felt as though I was robbed by Ticketmaster. They certainly knew of these horrific seats and the ridiculously priced tickets for this section. Yes I paid for the tickets thinking I was giving something special for my wife's birthday, but she certainly got something different.

Congratulations Ticketmaster, you fooled me! What a big disappointment and a hard lesson learned about not buying tickets through Ticketmaster in the future!

Google Play Store, US Customer Reviews



AppStore, Customer Reviews (US, Canada, Australia and UK)



Appendix 4 – Employee Reviews

Glassdoor, Live Nation

Live Nation Entertainment Reviews

Updated January 6, 2019

587 reviews

Filter

3.5 Rating Trends

63% Recommend to a friend

84% Approve of CEO

Michael Rapino
281 Ratings

Employee Reviews

Sort: **Popular** | Rating | Date

Pros

"Fun and interesting work environment" (in 50 reviews)

"You get to attend all live nation shows for free which is an obvious pro for a music lover also the people are fantastic to work with" (in 19 reviews)

"Great people great management fun venue" (in 41 reviews)

"Another perk is free concerts - woohoo" (in 40 reviews)

"Get to see a ton of cool shows, free tickets to any show you would like to attend" (in 31 reviews)

Cons

"Work life balance sucks at the venue level" (in 28 reviews)

"Long hours on event days, which is expected if you aspire to work with events" (in 56 reviews)

"Limited Room for Growth, very separated divisions" (in 15 reviews)

"Upper management roles more frequently filled from the outside in recent years" (in 23 reviews)

"ABSOLUTELY No work/life balance" (in 10 reviews)

Selected Reviews

Jan 7, 2019 Helpful (1)

"Fun place to work, but not very fun work."

Former Employee - Marketing in Beverly Hills, CA

Doesn't Recommend Neutral Outlook No opinion of CEO

I worked at Live Nation Entertainment full-time (More than 3 years)

Pros

The benefits are great if you have a full-time position. The pay is decent at best given the amount of work, time, and location. A great learning experience if you're young and enjoy a stressful, fast-paced, demanding environment, dogs, and free coffee.

Cons

Management gives little to no recognition for the amount of work and hours some people dedicate to their job. Human resources department does nothing to monitor or enhance your progress within the company. Most of the people who work here are young 20s-30s. Everyone is in it for themselves, and it can feel like there are quite a few cliques of people that help each other navigate around. Opportunities for growth are few, if any, and seemingly reserved for cool people who "fit in" the most.

Show Less

Advice to Management

HR is there for a reason, put it to good use. Have management take the time to sit with employees and map out a path for growth and success. Communion and giving employees information is key, along with inclusion and opportunity. Repeating the same mantra of "we need to sell more tickets" only instills fear, competition, and worry about results and performance. Value your people, not just the bottom line.

Jan 7, 2019

"Cleveland Chapter - Live Nation"

Former Employee - Administrative in Cleveland, OH

Doesn't Recommend Negative Outlook Approves of CEO

I worked at Live Nation Entertainment full-time (More than 3 years)

Pros

Good place to learn about the music industry
Fun, fast paced environment

Cons

VERY unprofessional "toxic" management
Hard work / little pay

Only have seasonal positions open except for select few

Advice to Management

None

Nov 2, 2018 Helpful (1)

"It was okay to get some experience"

Former Employee - Usher in Tinley Park, IL

Doesn't Recommend Neutral Outlook No opinion of CEO

I worked at Live Nation Entertainment (Less than a year)

Pros

I got to listen to music at work and be in the pretense of some awesome artists. I also enjoyed having conversations with fans of artists that I listened to.

Cons

Working late nights wasn't too good for me, I don't feel like I got paid nearly enough for my job, standing for 9 hours in a row was strenuous, cleaning up at the end of the night was annoying, breaks weren't long enough at all, I didn't actually get to watch the shows!!!

Advice to Management

Raise the wages for ushers to at least $9 or $10. Change average break time to at least 30 minutes, I'd like to actually rest my feet.

Oct 20, 2018

"Production Runner - Part Time Seasonal"

Former Employee - Anonymous Employee

Recommends Neutral Outlook No opinion of CEO

I worked at Live Nation Entertainment part-time

Pros

Mainly the whole purpose of the job is acting as a tour guide and personal shopper for the tour visiting the venue. The pros of the jobs are I got to work backstage with all the production and tour managers, as well as, work along side several artists and bands. Great job to work if you are a music major because of all the networking opportunities. Bonus: I was fed 3 meals a day backstage and got to eat with the crew. Extremely flexible. There is no set schedule when you work, they ask you when you want to work/are available to work. No shame/penalties in turning down work either for this job. Depending on the tour needs, sometimes the days were extremely busy and other times I had a lot of down time. Most of the time during down time, I was socializing with everyone backstage to see how they were enjoying their time at the venue or reading a book. Sometimes if I wasn't running errands or picking/dropping off people then I got to go out into the house and watch part of the concert. When running errands, Live Nation will either provide a 15 passenger van to drive or have you drive your personal vehicle with guests in it and LiveNation does pay for gas in both vehicles if you were using both. Don't have to wear the LiveNation uniform. Basically, you can wear what you want as long as its appropriate and not offensive.

Show Less

Cons

Long hours. Usually I worked a minimum of 12-18 hours each day I got to work. I usually had to be at the venue sometime in the morning (8-9am) and I never knew what time I would get off because of what the needs of the tour were. The earliest I got off was about 11:30pm and the latest was 3:30am. This is a great on the side opportunity, but don't expect to work this job all the time with pay coming in. The job was only durning the summer concert season and I got to work a totally of 5 times the entire summer. It was more like "when we need you" job once a month and usually I was notified the day before to a week in advanced of when they needed me to work. Don't expect to watch the concerts either because you more than likely will be running errands or picking up people during this time. At times, it could be awkward of knowing your place at the venue because of the info meetings going on backstage that management didn't want you to hear, so to get away production runners either hung in the bathroom or the vans they were driving.

Nov 27, 2018 Helpful (1)

"The Place To Work If You Enjoy Music and Music Fans"

Current Employee - Guest Service Team Member in Virginia Beach, VA

Recommends Positive Outlook No opinion of CEO

I have been working at Live Nation Entertainment part-time (More than 8 years)

Pros

Awesome Co-Workers and Supervisors
Free Live Music

Exciting Concerts

Cons

Some Concert Crowds are overwhelming
Minimal Pay for Seasonal Workers

Advice to Management

Consider raises for those seasonal employees who come back every season. They are experienced and a valuable asset.

Dec 5, 2018

"Sales Coordinator"

Current Employee - Anonymous Employee

I have been working at Live Nation Entertainment full-time

Pros

Great industry, casual work environment, LIVE music. Good amount of time off and benefits.

Cons

Work long hours and weekends during the concert season. Base salary could be better. Not much room for upward mobility unless you relocate.

Oct 10, 2018 Helpful (1)

"people quit bad managers, not bad companies..."

Current Employee - Usher/Security/Gopher in Atlanta, GA

Recommends | Approves of CEO

I have been working at Live Nation Entertainment part-time (More than a year)

Pros

great for music lovers! the experiences and memories you will have pays far more than the hourly rate.

Cons

local mgrs pick favorites and hold grudges openly. criticism of any kind will get you stuck working gates and nothing else.

Advice to Management

BETTER and more frequent auditing of your local management and supervisors, you're losing great folks who are not there to work for $10/hr, they are there for the experience and fun...its supposed to be fun and should never be subjected to intimidation or fear retaliation for expressing criticisms or concerns about supervisors or other band members behaviors when not following security protocol.

Aug 6, 2018 Helpful (3)

"Don't waste your time"

Current Employee - Systems Analyst in Hollywood, CA

Doesn't Recommend | Neutral Outlook | Disapproves of CEO

I have been working at Live Nation Entertainment full-time (More than 3 years)

Pros

Closed for two weeks in December. Flexible work schedule. Free concerts. Good insurance.

Cons

Horrible pay scale. Excessive hours. Management knowingly violate labor laws. Wreckless.

Advice to Management

If you are going to talk tge talk, you better be able to walk the walk.

Details about Remuneration

	Average Base Salaries in (USD)	Low	High
Marketing Manager 19 salaries	$59,762/yr	$46K	$71K
Usher - Hourly 18 salaries	$9/hr	$7	$13
Senior Accountant 16 salaries	$71,000/yr	$63K	$76K
Box Office Manager 11 salaries	$46,327/yr	$40K	$60K
Staff Accountant 11 salaries	$45,000/yr	$40K	$75K
Marketing Coordinator - Hourly 11 salaries	$18/hr	$13	$24
Sponsorship Coordinator 10 salaries	$36,547/yr	$35K	$41K
Director 10 salaries	$134,000/yr	$81K	$193K

	Average Base Salaries in (USD)	Low	High
Software Engineer 10 salaries	$103,861/yr	$74K	$132K
Senior Financial Analyst 9 salaries	$83,000/yr	$71K	$134K
Senior Software Engineer 9 salaries	$120,591/yr	$93K	$137K
Marketing Assistant - Hourly 9 salaries	$11/hr	$8	$15
Marketing Coordinator 9 salaries	$35,000/yr	$31K	$56K
Line Cook 8 salaries	$28,516/yr	$27K	$32K
Production Manager 7 salaries	$60,000/yr	$53K	$97K
Server 7 salaries	$24,759/yr	$23K	$29K
Graphic Designer 7 salaries	$43,688/yr	$27K	$60K

Glassdoor, Ticketmaster

Ticketmaster Reviews

3.7 Rating Trends

73% Recommend to a friend

80% Approve of CEO

Jared Smith and Mark Yovich
212 Ratings

Pros

"Great group of people with a great work life balance" (in 30 reviews)

"Free tickets to events throughout the year plus 4 free guaranteed tickets to ANY Live Nation promoted concert you want" (in 36 reviews)

"Great work environment and flexible schedule" (in 32 reviews)

"Great people with a clear vision" (in 30 reviews)

"Great place to work great great benefits" (in 24 reviews)

Cons

"Very poor at any kind of work/life balance; very lean operation requires essentially everyone to work overtime" (in 21 reviews)

"Work/Life balance, season gets pretty packed and tough where you might work long hours" (in 16 reviews)

"Employees aren't trained properly/at all and when upper management complains about mistakes" (in 16 reviews)

"Most of them have little to no direct reports" (in 6 reviews)

"No work life balance, management doesn't listen to employees" (in 6 reviews)

Selected Reviews

"Information Technology"

Current Employee - Anonymous Employee in New York, NY

Recommends | Positive Outlook | No opinion of CEO

I have been working at Ticketmaster full-time

Pros

Great People
Great offices

Great Benefits

Cons

Starting pay is very low and tough to deal with.

Advice to Management

Get that starting pay up. Cost of living in New York is high and the pay is tough to reconcile with that.

Dec 5, 2018

"Fun But No Work Life Balance"

Former Employee - Anonymous Employee

Doesn't Recommend | Neutral Outlook | No opinion of CEO

I worked at Ticketmaster full-time (More than 3 years)

Pros

Fun events always happening
Great office morale

Great Christmas vacation of two-three weeks

Cons

No Work Life Balance
Always on call

No manager support

Benefits are pricey

Advice to Management

Listen to staff and reward them for hard work.

Details about remuneration

Job title	Average Base Salaries in (USD)	Low	High
Software Engineer 37 salaries	$96,520/yr	$71K	$110K
Customer Service Representative - Hourly 19 salaries	$9/hr	$8	$13
Marketing Manager 19 salaries	$65,973/yr	$36K	$128K
Senior Software Engineer 18 salaries	$125,960/yr	$100K	$150K

Job title	Average Base Salaries in (USD)	Low	High
Product Manager 16 salaries	$105,301/yr	$79K	$121K
Senior Product Manager 14 salaries	$125,517/yr	$114K	$163K
Director 10 salaries	$123,225/yr	$103K	$154K
Program Manager 7 salaries	$123,000/yr	$90K	$147K
Database Administrator 7 salaries	$106,951/yr	$76K	$140K
Client Support Specialist 6 salaries	$56,440/yr	$45K	$64K
Software Engineer - Hourly Intern 6 salaries	$20/hr	$20	$25
Software Engineer() - Hourly Intern 5 salaries	$20/hr	$20	$20

Glassdoor, Competitors of Live Nation

StubHub Reviews

Updated January 1, 2019

368 reviews

Filter

2.8 ★★★ Rating Trends

37% Recommend to a friend

35% Approve of CEO

Sukhinder Singh Cassidy
25 Ratings

Pros

"What I like about SH is that it has a good work/life balance and offers a ton of flexibility in terms of working from home whenever it's needed" (in 31 reviews)

"Good benefits and usually free food" (in 16 reviews)

"Lot of initiatives to support diverse and inclusive work environment" (in 16 reviews)

"You get free tickets once in a while" (in 15 reviews)

"Owned by Ebay, have a lot of resources" (in 8 reviews)

Cons

"Work/life balance can be in question sometimes" (in 18 reviews)

"No clear vision, dynamic leadership team" (in 20 reviews)

"Senior management at corporate level and tech teams are out of touch with "real" people" (in 13 reviews)

"Stubhub will now shift its Customer Service base to Salt Lake City" (in 9 reviews)

"Decision making slow, collaboration difficult - no one wants to be accountable so just stand in the way" (in 8 reviews)

AEG Reviews

Updated December 29, 2018

164 reviews

Filter

3.4 ★★★★ Rating Trends

67% Recommend to a friend

85% Approve of CEO

Dan Beckerman
59 Ratings

Pros

"Great people, learned about the music industry through this internship" (in 11 reviews)

"Great environment to work in, and the people are all really nice" (in 6 reviews)

"Great company, great benefits, room to grow - I'm sure this depends on the specific venue you are working at" (in 10 reviews)

"All around great company with great energy" (in 10 reviews)

"Fun environment, interesting projects, passionate coworkers, great exposure to the industry if that's what you're interested in" (in 6 reviews)

Cons

"Work/life balance can be difficult, but that's the industry overall" (in 12 reviews)

"Can be very long hours/days when working events but that's par for the course in this industry" (in 16 reviews)

"No cons in my time working here" (in 5 reviews)

"Since it part time not enough day to make any money" (in 5 reviews)

"A lot of hours and understaffed" (in 3 reviews)

Songkick Reviews

25 reviews

Filter

4.2 ★★★★ Rating Trends

77% Recommend to a friend

89% Approve of CEO

Matt Jones
10 Ratings

IMP Reviews

36 reviews

Filter

4.2 ★★★★ Rating Trends

83% Recommend to a friend

85% Approve of CEO

Richard Drach
30 Ratings

LiveStyle Reviews

Updated December 20, 2018

49 reviews

Filter

2.3 ★★ Rating Trends

15% Recommend to a friend

N/A Approve of CEO

Brandon Phillips
1 Rating

Madison Square Garden Reviews

Updated January 3, 2019

291 reviews

Filter

3.4 ★★★ Rating Trends

64% Recommend to a friend

54% Approve of CEO

James Dolan
24 Ratings

AXS Reviews

Updated December 10, 2018

30 reviews

Filter

3.5 ★★★ Rating Trends

69% Recommend to a friend

74% Approve of CEO

Bryan Perez
12 Ratings

Spectra Ticketing & Fan Engagement Reviews

30 reviews

Filter

3.7 ★★★ Rating Trends

83% Recommend to a friend

92% Approve of CEO

Dave Butler
18 Ratings

Eventbrite Reviews

Updated December 16, 2018

275 reviews

Filter

4.5 ★★★★★ Rating Trends

89% Recommend to a friend

98% Approve of CEO

Julia Hartz
133 Ratings

SeatGeek Reviews

Updated December 10, 2018

99 reviews

Filter

4.8 ★★★★★ Rating Trends

95% Recommend to a friend

100% Approve of CEO

Jack Groetzinger
61 Ratings

Employee Reviews (Eventbrite)

Sort: **Popular** | Rating | Date

Pros

- "Work/life balance here is the best of any company I have ever worked for" (in 38 reviews)
- "Flexible work-from-home and vacation policies" (in 14 reviews)
- "Take the time you need is a real thing" (in 9 reviews)
- "Love the "take the time you need" policy" (in 9 reviews)
- "The "take the time you need" policy and other great benefits offered by Eventbrite are quite refreshing" (in 15 reviews)

Cons

- "Growth of the team - sometimes the processes can take awhile to catch up and you need to have a flexible attitude to deal with some growing pains" (in 13 reviews)
- "I've found the work/life balance to be great (and that balance is VERY encouraged), but this is not a place for people who just want punch the clock" (in 7 reviews)
- "With any growing company, when changes and growth occur there can be some shifting in responsibilities within roles" (in 11 reviews)
- "Management didn't show the most interest in supporting entry level career growth, though admittedly they had very busy schedules" (in 10 reviews)
- "The one con that comes to mind is the disconnect between offices/locations" (in 5 reviews)

Employee Reviews (SeatGeek)

Sort: **Popular** | Rating | Date

Pros

- "Despite an ambitious product timeline, work-life balance is still very reasonable and flexible" (in 7 reviews)
- "Supportive work environment and great people" (in 12 reviews)
- "The company has a pretty tight-knit culture, and people are always willing to help" (in 5 reviews)
- "Lots of smart people who are willing to help" (in 8 reviews)
- "I genuinely love coming to work everyday, not only because I like what I do, but also because I love the people I work with and the company I work for" (in 4 reviews)

Cons

- "Typical growing pains of a startup becoming a growth company" (in 13 reviews)
- "The company has grown quickly (which is a good thing), but has started to lose the "know everyone by name" vibe" (in 2 reviews)
- "No hand-holding, you need to make things happen yourself" (in 2 reviews)
- "Occasionally it feels like we don't have the number of people that we'd ideally want to have working on some fairly pressing problems" (in 2 reviews)
- "I can't really think of a strong con, the only thing that I wish there was more of is people from experienced backgrounds" (in 2 reviews)

Vivid Seats Reviews

Updated December 20, 2018

228 reviews

Filter

3.3 ★★★★★ Rating Trends

56% Recommend to a friend

67% Approve of CEO

Eric Vassilatos
142 Ratings

Ticketfly Reviews

Updated September 25, 2018

43 reviews

Filter

3.6 ★★★★★ Rating Trends

63% Recommend to a friend

89% Approve of CEO

Andrew Dreskin
28 Ratings

Etix Reviews

Updated December 31, 2018

26 reviews

Filter

3.6 ★★★★★ Rating Trends

77% Recommend to a friend

41% Approve of CEO

Travis Janovich
5 Ratings

Viagogo Reviews

Updated January 3, 2019

108 reviews

Filter

3.3 ★★★★★ Rating Trends

59% Recommend to a friend

N/A Approve of CEO

CEO
11 Ratings

TicketNetwork Reviews

Updated November 26, 2018

120 reviews

Filter

3.1 ★★★★★ Rating Trends

55% Recommend to a friend

50% Approve of CEO

Donald J. Vaccaro
76 Ratings

Appendix 5 – Board and Management Biographies

The following information is sourced from a report by MSCI ESG dated 7 December 2018.

Directors

ARIEL Z. EMANUEL

Age: 57
Gender: M
Nationality:

Financial: No
Risk: No
Industry: Media - Media

FLAGGED DIRECTOR

Mr. Emanuel is designated a 'flagged director' because of his service on the board of Source Interlink Companies, Inc., which filed for Chapter 11 bankruptcy protection in May 2009.

BIOGRAPHICAL INFORMATION

LIVE NATION ENTERTAINMENT, INC. - Board Member Source Date: 04/20/2018

Ari Emanuel • Age: 57 • Professional Background: Mr. Emanuel has served as a member of our board of directors since 2007. Mr. Emanuel was a founding partner of Endeavor, a leading talent agency that merged with the William Morris Agency in 2009, creating WME Entertainment (now known as Endeavor Co., or Endeavor). Mr. Emanuel was an integral part of Endeavor's success and provided its vision. Mr. Emanuel is now Chief Executive Officer and a member of the board of directors of Endeavor, which acquired IMG, a global leader in sports, fashion and media, in 2013. Mr. Emanuel is also a member of the Board of Trustees of the Museum of Contemporary Art (MOCA). • Board Membership Qualifications: Mr. Emanuel's qualifications as a director include his professional background and experience, his leadership skills acquired while building Endeavor and guiding WME Entertainment, his extensive knowledge and understanding of, and reputation in, the entertainment industry and his expertise in artist representation.

CORPORATE BOARDS

Company	Role	Tenure	Appointed	Resigned	Independent of Management	Independent of Other Interests	Attendance
LIVE NATION ENTERTAINMENT, INC.	Board Member	11	Sep 01, 2007		Yes	Yes	

BOARD COMMITTEES

Company	Committee Type	Position
LIVE NATION ENTERTAINMENT, INC.	Corporate Governance	Member
LIVE NATION ENTERTAINMENT, INC.	Nomination	Member

VOTING RESULTS

Company	Year	For %	Against %
LIVE NATION ENTERTAINMENT, INC.	2018	84.5%	15.5%

DIRECTOR PAY (all values USD)

Company	Role	Tenure	Pay Year	Cash Fees	Total Awarded Pay	Shares Held
LIVE NATION ENTERTAINMENT, INC.	Non-Executive	11	2017	99,000	253,361	75,737

DANA WALDEN

Age: 53
Gender: M
Nationality:

Financial: No
Risk: No
Industry: Media - Media

BIOGRAPHICAL INFORMATION

LIVE NATION ENTERTAINMENT, INC. - Board Member Source Date: 04/20/2018

Dana Walden • Age: 53 • Professional Background: Ms. Walden is a first-time nominee to our board of directors in 2018. She currently serves as Chairman and Chief Executive Officer of Fox Television Group, positions which she has held since 2014. Previously, she served as Chairman and Chief Executive Officer of 20th Century Fox TV from 2010 until 2014. Ms. Walden currently serves as a director of Hulu LLC, a privately-held leading premium streaming service, and the UCLA Jonsson Comprehensive Cancer Center, is a trustee of the Greater Los Angeles Zoo Association and is a member of the University of Southern California President's Leadership Council. • Board Membership Qualifications: Ms. Walden's qualifications as a director include her professional background and experience, previously held senior-executive level positions, her service on other private company boards, her leadership skills developed while leading large organizations, and her extensive knowledge and understanding of, and reputation in, the entertainment industry.

CORPORATE BOARDS

Company	Role	Tenure	Appointed	Resigned	Independent of Management	Independent of Other Interests	Attendance
LIVE NATION ENTERTAINMENT, INC.	Board Member	0	Jun 06, 2018		Yes	Yes	

VOTING RESULTS

Company	Year	For %	Against %
LIVE NATION ENTERTAINMENT, INC.	2018	99.7%	0.3%

GREGORY MAFFEI

Age:	57	Financial:	Yes
Gender:	M	Risk:	No
Nationality:		Industry:	Media - Media

BIOGRAPHICAL INFORMATION

CHARTER COMMUNICATIONS, INC. - Board Member Source Date: 03/15/2018

Gregory B. Maffei, 57, was appointed to the board of directors of Charter in May 2013. Mr. Maffei has served as a director and the President and Chief Executive Officer of Liberty Media Corporation (including its predecessor) since May 2007 and Liberty Broadband Corporation since June 2014, a stockholder of Charter, since its spin-off from Liberty Media Corporation ("Liberty Media") in November 2014. He has served as the President and Chief Executive Officer of Liberty TripAdvisor Holdings, Inc. since July 2013 and as its Chairman of the Board since June 2015. He has served as the President and Chief Executive Officer of Liberty Interactive Corporation (including its predecessor) since February 2006 and as a director since November 2005. Mr. Maffei leads the team transforming Liberty Media and Liberty Interactive to compete in the digital/mobile era. Liberty Media owns, media, communications and entertainment businesses, including subsidiaries SiriusXM and the Atlanta Braves and interests in Live Nation Entertainment and Formula One. Liberty Interactive owns digital commerce businesses, including subsidiaries QVC, HSN, Zulily, Bodybuilding.com, and Evite, and interests in Expedia, Interval Leisure Group and FTD. In addition, Mr. Maffei has served as (i) the Chairman of the Board of TripAdvisor, Inc. since February 2013, (ii) the Chairman of the Board of Live Nation Entertainment, Inc. since March 2013 and a director since February 2011, (iii) a director of Zillow Group, Inc. since February 2015, having previously served as a director of its predecessor, Zillow, Inc., from May 2005 to February 2015, (iv) the Chairman of the Board of Sirius XM Holdings Inc. since April 2013, and as a director since March 2009; and as Chairman of the Board of Pandora Media, Inc. since September 2017. He previously served as President and Chief Executive Officer of Starz from May 2007 to January 2013 and as Chairman of the Board from January 2013 to December 2016, and a director of Barnes & Noble, Inc. from September 2011 to April 2014. Mr. Maffei also served as a director of Electronic Arts, Inc. from June 2003 until July 2013. Mr. Maffei is a member of the Board of Trustees of Dartmouth College and the Council on Foreign Relations. Mr. Maffei has an M.B.A. from Harvard Business School, where he was a Baker Scholar, and a B.A. from Dartmouth College. We believe Mr. Maffei's qualifications to sit on Charter's board include his significant financial and operational experience.

Board Membership Qualifications: Mr. Maffei brings to our board significant financial and operational experience based on his senior policy making positions at our company, Qurate (formerly Liberty Interactive and including its predecessor), GCI Liberty, Liberty Media, Liberty Broadband, Oracle, 360networks and Microsoft and his public company board experience. He provides our board with executive leadership perspective on the operations and management of large public companies and risk management principles.

CORPORATE BOARDS

Company	Role	Tenure	Appointed	Resigned	Independent of Management	Independent of Other Interests	Attendance
GCI Liberty, Inc.	Executive, Board Member, CEO	0	Mar 09, 2018		No	Yes	
PANDORA MEDIA, INC.	Board Member, Chairman	1	Sep 22, 2017		Yes	No	Has Failed Standards
LIBERTY TRIPADVISOR HOLDINGS, INC.	Executive, Board Member, Chairman, CEO	5	Jul 01, 2013		No	Yes	
CHARTER COMMUNICATIONS, INC.	Board Member	5	May 01, 2013		Yes	No	
TRIPADVISOR, INC.	Board Member, Chairman	5	Feb 12, 2013		No	No	
LIVE NATION ENTERTAINMENT, INC.	Board Member, Chairman	7	Feb 04, 2011		No	Yes	
SIRIUS XM HOLDINGS INC.	Board Member, Chairman	9	Mar 17, 2009		No	Yes	
LIBERTY MEDIA CORPORATION	Executive, Board Member, CEO	11	May 01, 2007		No	Yes	
LIBERTY BROADBAND CORPORATION	Executive, Board Member, CEO	11	May 01, 2007		No	Yes	
QURATE RETAIL, INC.	Board Member, Chairman	13	Nov 09, 2005		No	Yes	
ZILLOW GROUP, INC.	Board Member	13	May 01, 2005		Yes	Yes	

VOTING RESULTS

Company	Year	For %	Against %
CHARTER COMMUNICATIONS, INC.	2018	78.4%	21.6%
GCI Liberty, Inc.	2018	96.9%	3.1%
LIBERTY MEDIA CORPORATION	2018	97.9%	2.1%
LIBERTY TRIPADVISOR HOLDINGS, INC.	2018	79.1%	20.9%
LIVE NATION ENTERTAINMENT, INC.	2018	65.3%	34.7%
QURATE RETAIL, INC.	2018	82.6%	17.4%
SIRIUS XM HOLDINGS INC.	2018	94.3%	5.7%
TRIPADVISOR, INC.	2018	80.6%	19.4%

EXECUTIVE PAY (all values USD)

Company	Role	Tenure	Pay Year	Total Annual Pay	Total Awarded Pay	Total Realized Pay	Shares Held
LIBERTY MEDIA CORPORATION	CEO	11	2017	7,852,782	19,812,263	10,510,001	1,632,213

DIRECTOR PAY (all values USD)

Company	Role	Tenure	Pay Year	Cash Fees	Total Awarded Pay	Shares Held
CHARTER COMMUNICATIONS, INC.	Non-Executive	5	2017	40,333	339,855	1,870
LIVE NATION ENTERTAINMENT, INC.	Chairman	7	2017	90,000	392,568	77,669
PANDORA MEDIA, INC.	Chairman	1	2017	26,250	157,988	0
QURATE RETAIL, INC.	Chairman	13	2017		47,809,756	4,646,370
SIRIUS XM HOLDINGS INC.	Chairman	9	2017	100,000	200,317	672,859
TRIPADVISOR, INC.	Chairman	5	2017	65,000	314,966	20,018
ZILLOW GROUP, INC.	Non-Executive	13	2017		350,000	299,177

JAMES KAHAN

Age: 70
Gender: M
Nationality:

Financial: Yes
Risk: No
Industry: Telecommunication Services - Diversified Telecommunication Services

BIOGRAPHICAL INFORMATION

LIVE NATION ENTERTAINMENT, INC. - Board Member Source Date: 04/20/2018

Jim Kahan • Age: 70 • Professional Background: Mr. Kahan has served as a member of our board of directors since 2007. Mr. Kahan is a former executive of AT&T where he spent nearly 38 years. During his tenure at AT&T and its predecessors, he oversaw approximately $300 billion of acquisitions and divestitures, including the acquisitions of Pacific Telesis (1997), Southern New England Telecommunications (1998), Ameritech (1999) and the former AT&T Corp. (2005), as well as Cingular Wireless' acquisition of AT&T Wireless (2004). He was also responsible for AT&T's acquisition of BellSouth Corp. in 2006. • Other Current Public Company Directorships: Mr. Kahan serves as a director of Amdocs Ltd., which provides software products and services to the communications industry worldwide. • Board Membership Qualifications: Mr. Kahan's qualifications as a director include his professional background and experience, previously held senior-executive level positions, his service on other public and private company boards and his financial and mergers and acquisitions expertise.

Amdocs Limited - Board Member Source Date: 12/11/2017

James S. Kahan

70

Mr. Kahan has been a director of Amdocs since 1998. From 1983 until his retirement in 2007, he worked at SBC, which is now AT&T, and served as a Senior Executive Vice President from 1992 until 2007. AT&T is our most significant customer. Prior to joining AT&T, Mr. Kahan held various positions at several telecommunications companies, including Western Electric, Bell Laboratories, South Central Bell and AT&T Corp. Mr. Kahan also serves on the Board of Directors of Live Nation Entertainment, Inc., a publicly-traded live music and ticketing entity, as well as two private companies. Mr. Kahan's long service at SBC and AT&T, as well as his management and financial experience at several public and private companies, have provided him with extensive knowledge of the telecommunications industry, particularly with respect to corporate development, mergers and acquisitions and business integration.

CORPORATE BOARDS

Company	Role	Tenure	Appointed	Resigned	Independent of Management	Independent of Other Interests	Attendance
LIVE NATION ENTERTAINMENT, INC.	Board Member	11	Sep 01, 2007		Yes	Yes	
Amdocs Limited	Board Member	20	Apr 01, 1998		Yes	Yes	

BOARD COMMITTEES

Company	Committee Type	Position
Amdocs Limited	Nomination	Member
Amdocs Limited	Corporate Governance	Member
LIVE NATION ENTERTAINMENT, INC.	Audit	Member

VOTING RESULTS

Company	Year	For %	Against %
Amdocs Limited	2018	95%	5%
LIVE NATION ENTERTAINMENT, INC.	2018	84.9%	15.1%

DIRECTOR PAY (all values USD)

Company	Role	Tenure	Pay Year	Cash Fees	Total Awarded Pay	Shares Held
LIVE NATION ENTERTAINMENT, INC.	Non-Executive	11	2017	111,000	265,361	76,994

JAMES (JIMMY) IOVINE

Age: 65
Gender: M
Nationality:

Financial: No
Risk: No
Industry:

BIOGRAPHICAL INFORMATION

LIVE NATION ENTERTAINMENT, INC. - Board Member Source Date: 04/20/2018

Jimmy Iovine • Age: 65 • Professional Background: Mr. Iovine has served as a member of our board of directors since 2014. Mr. Iovine currently serves as a creative consultant to Apple Inc. Previously, he co-founded Interscope Records in 1990, which subsequently became Interscope Geffen A&M in 1999. In 2006, he co-founded Beats Electronics and Beats Music, companies which produce audio products and operate a music streaming service, and which were sold to Apple Inc. in May 2014. • Board Membership Qualifications: Mr. Iovine's qualifications as a director include his professional background and experience, previously held senior-executive level positions, his extensive knowledge and understanding of, and reputation in, the music industry and his experience as an entrepreneur in the music industry.

CORPORATE BOARDS

Company	Role	Tenure	Appointed	Resigned	Independent of Management	Independent of Other Interests	Attendance
LIVE NATION ENTERTAINMENT, INC.	Board Member	4	Dec 02, 2014		Yes	Yes	

BOARD COMMITTEES

Company	Committee Type	Position
LIVE NATION ENTERTAINMENT, INC.	Pay	Member

VOTING RESULTS

Company	Year	For %	Against %
LIVE NATION ENTERTAINMENT, INC.	2018	85.6%	14.4%

DIRECTOR PAY (all values USD)

Company	Role	Tenure	Pay Year	Cash Fees	Total Awarded Pay	Shares Held
LIVE NATION ENTERTAINMENT, INC.	Non-Executive	4	2017	90,000	244,361	19,088

JEFFREY HINSON

Age: 63
Gender: M
Nationality:

Financial: Yes
Risk: No
Industry: Media - Media

BIOGRAPHICAL INFORMATION

LIVE NATION ENTERTAINMENT, INC. - Board Member Source Date: 04/20/2018

Jeff Hinson • Age: 63 • Professional Background: Mr. Hinson has served as a member of our board of directors since 2005. Mr. Hinson has been President of YouPlus Media, LLC since June 2009. Previously, he served as Chief Executive Officer of Border Media Partners, LLC from 2007 to 2009, was a private financial consultant from 2005 to 2007 and served as Executive Vice President and Chief Financial Officer of Univision Communications Inc., or Univision, from 2004 to 2005. He served as Senior Vice President and Chief Financial Officer of Univision Radio, the radio division of Univision, from 2003 to 2004. From 1997 to 2003, Mr. Hinson served as Senior Vice President and Chief Financial Officer of Hispanic Broadcasting Corporation, which was acquired by Univision in 2003 and became the radio division of Univision. • Other Current Public Company Directorships: Mr. Hinson has served as a director (since 2006) and as Chairman of the Board (from 2013 until 2017) of Windstream Holdings, Inc., a provider of advanced network communications, and as a director of TiVo Inc., a provider of entertainment technology and audience insights, since 2007. • Board Membership Qualifications: Mr. Hinson's qualifications as a director include his professional background and experience, previously held senior-executive level positions, his service on other public company boards, his extensive experience with companies in the media sector and his financial expertise.

CORPORATE BOARDS

Company	Role	Tenure	Appointed	Resigned	Independent of Management	Independent of Other Interests	Attendance
TIVO CORPORATION	Board Member	2	Sep 07, 2016		Yes	Yes	
WINDSTREAM HOLDINGS, INC.	Board Member	12	Jul 01, 2006		Yes	Yes	
LIVE NATION ENTERTAINMENT, INC.	Board Member	13	Dec 01, 2005		Yes	Yes	

BOARD COMMITTEES

Company	Committee Type	Position
LIVE NATION ENTERTAINMENT, INC.	Audit	Chairman
TIVO CORPORATION	Audit	Member
WINDSTREAM HOLDINGS, INC.	Audit	Member
WINDSTREAM HOLDINGS, INC.	Corporate Governance	Member
WINDSTREAM HOLDINGS, INC.	Nomination	Member

VOTING RESULTS

Company	Year	For %	Against %
LIVE NATION ENTERTAINMENT, INC.	2018	84.7%	15.3%
TIVO CORPORATION	2018	91.8%	8.2%
WINDSTREAM HOLDINGS, INC.	2018	91%	9%

DIRECTOR PAY (all values USD)

Company	Role	Tenure	Pay Year	Cash Fees	Total Awarded Pay	Shares Held
LIVE NATION ENTERTAINMENT, INC.	Non-Executive	13	2017	129,000	283,361	64,259
TIVO CORPORATION	Non-Executive	2	2017	56,000	215,990	37,167
WINDSTREAM HOLDINGS, INC.	Non-Executive	12	2017	102,500	202,721	56,554

PING FU

Age: 59
Gender: F
Nationality:

Financial: No
Risk: No
Industry: Technology Hardware & Equipment - Technology Hardware, Storage & Peripherals

BIOGRAPHICAL INFORMATION

LIVE NATION ENTERTAINMENT, INC. - Board Member Source Date: 04/20/2018

Ping Fu • Age: 59 • Professional Background: Ms. Fu is a first-time nominee to our board of directors in 2018. Ms. Fu currently serves as a director of The Long Now Foundation, Gelsight, Inc. and Burning Man Project. Previously, she served as Chief Entrepreneur Officer of 3D Systems Corporation from 2013 to 2016. From 1997 until its acquisition by 3D Systems in 2013, Ms. Fu was Chief Executive Officer of Geomagic, Inc. Before co-founding Geomagic, Ms. Fu was program manager of visualization at the National Center for Supercomputing Applications, where she was part of the team that initiated and managed the NCSA Mosaic software project that led to Netscape and Internet Explorer. She has more than 20 years of software industry experience in database, networking, 3D printing, geometry processing and computer graphics. • Board Membership Qualifications: Ms. Fu's qualifications as a director include her professional background and experience, including her perspectives on female leadership and cultural sensitivity in the public and private sectors, previously held senior-executive level positions and global business experiences, her extensive track record as a futurist in technology trends, social change and policy-making, and her long history of working with and nurturing innovators and creative talents.

CORPORATE BOARDS

Company	Role	Tenure	Appointed	Resigned	Independent of Management	Independent of Other Interests	Attendance
LIVE NATION ENTERTAINMENT, INC.	Board Member	0	Jun 06, 2018		Yes	Yes	

BOARD COMMITTEES

Company	Committee Type	Position
LIVE NATION ENTERTAINMENT, INC.	Audit	Member

VOTING RESULTS

Company	Year	For %	Against %
LIVE NATION ENTERTAINMENT, INC.	2018	99.7%	0.3%

MARK CARLETON

Age: 57
Gender: M
Nationality:

Financial: Yes
Risk: No
Industry: Media - Media,Commercial & Professional Services - Professional Services

BIOGRAPHICAL INFORMATION

SIRIUS XM HOLDINGS INC. - Board Member Source Date: 04/23/2018

Mr. Carleton has been a director since December 2014. Mr. Carleton has been the Chief Financial Officer of Liberty Media Corporation ("Liberty Media," which term includes its predecessors), Liberty Broadband Corporation ("Liberty Broadband") and Liberty Interactive Corporation ("Liberty Interactive") (now known as Qurate Retail, Inc.) since October 2016, and served as the Chief Development Officer of Liberty Media, Liberty Broadband and Liberty Interactive from January 2016 until October 2016. Mr. Carleton was also the Chief Development Officer of Liberty TripAdvisor Holdings, Inc. ("Liberty TripAdvisor") from January 2016 to September 2016. Mr. Carleton served as Senior Vice President of Liberty Media from December 2003 to December 2015, Liberty Interactive from November 2014 to December 2015 and Liberty Broadband from October 2014 to December 2015. Prior to joining Liberty Media, Mr. Carleton was a partner at KPMG LLP from 1993 to 2003, where he also served as a member of KPMG LLP's Board of Directors. Mr. Carleton previously served as a director of Sirius XM Radio Inc. from January 2013 to September 2013. Mr. Carleton currently serves as a director of Live Nation Entertainment, Inc. and Barnes & Noble, Inc. Mr. Carleton also served on the boards of directors of Air Methods Corporation and Ideiasnet during the last five years. Mr. Carleton has extensive experience in the media, telecommunications and entertainment industries; this experience is very valuable in assessing and evaluating opportunities and our plans from both a short- and long-term perspective. He also brings to the board, among his other skills and qualifications, financial and accounting expertise acquired as the Chief Financial Officer of Liberty Media, Liberty Interactive and Liberty Broadband and as a partner at KPMG LLP. In addition, Mr. Carleton's service on other public company boards has provided him with a number of skills, including experience in the areas of leadership development and succession planning, risk assessment, and stockholder and government relations.

CORPORATE BOARDS

Company	Role	Tenure	Appointed	Resigned	Independent of Management	Independent of Other Interests	Attendance
SIRIUS XM HOLDINGS INC.	Board Member	4	Dec 10, 2014		No	Yes	
BARNES & NOBLE, INC.	Board Member	7	Sep 20, 2011		Yes	Yes	Has Failed Standards
LIVE NATION ENTERTAINMENT, INC.	Board Member	8	Jan 01, 2010		Yes	Yes	

BOARD COMMITTEES

Company	Committee Type	Position
BARNES & NOBLE, INC.	Audit	Member
SIRIUS XM HOLDINGS INC.	Pay	Member

VOTING RESULTS

Company	Year	For %	Against %
BARNES & NOBLE, INC.	2017	36.2%	63.8%
LIVE NATION ENTERTAINMENT, INC.	2018	83.3%	16.7%
SIRIUS XM HOLDINGS INC.	2018	94.9%	5.2%

EXECUTIVE PAY (all values USD)

Company	Role	Tenure	Pay Year	Total Annual Pay	Total Awarded Pay	Total Realized Pay	Shares Held
LIBERTY MEDIA CORPORATION	CFO		2017	2,023,555	2,909,374	6,513,938	0
QURATE RETAIL, INC.	CFO		2017	603,032	1,910,639	3,210,886	43,572

DIRECTOR PAY (all values USD)

Company	Role	Tenure	Pay Year	Cash Fees	Total Awarded Pay	Shares Held
BARNES & NOBLE, INC.	Non-Executive	7	2018	82,500	207,496	38,314
LIVE NATION ENTERTAINMENT, INC.	Non-Executive	8	2017	90,000	244,361	43,423
SIRIUS XM HOLDINGS INC.	Non-Executive	4	2017	100,000	200,317	98,050

MARK SHAPIRO

Age: 48
Gender: M
Nationality:

Financial: No
Risk: No
Industry: Media - Media,Consumer Services - Hotels, Restaurants & Leisure

FLAGGED DIRECTOR

Mr. Shapiro is designated a 'flagged director' because of his service on the board of Six Flags, Inc., which filed for Chapter 11 bankruptcy protection in June 2009.

LIVE NATION ENTERTAINMENT, INC. - Board Member Source Date: 04/20/2018

Mark Shapiro • Age: 48 • Professional Background: Mark Shapiro was elected to our board of directors in 2008. Since November 2016, he has served as Co-President of IMG, a global leader in sports, fashion and media, having previously served as its Chief Content Officer from September 2014 until November 2016. Prior to that, he served as Executive Producer of Dick Clark Productions, an independent producer of television programming, from September 2012 to September 2014, and was its Chief Executive Officer from May 2010 to September 2012. Mr. Shapiro was the Chief Executive Officer of Six Flags, Inc., or Six Flags, the world's largest regional theme park company, from December 2005 through May 2010. Prior to joining Six Flags, Mr. Shapiro spent twelve years at ESPN, Inc., or ESPN, where he served as Executive Vice President, Programming and Production, and in various other capacities. At ESPN, he had significant responsibility in building the strength of the network's brand, and was responsible for the development, acquisition and scheduling of all ESPN programming; oversaw all remote and studio production for ESPN's domestic and international entities, including ESPN Radio; and developed original films, dramatic television and reality programming for the ESPN family of networks. During his tenure at ESPN, Mr. Shapiro garnered 16 Emmy Awards and two Peabody Awards. • Other Current Public Company Directorships: Mr. Shapiro has served as a director of Frontier Communications Corporation, a telecommunications company, since 2010, as a director of Papa John's International, Inc., a restaurant company, since 2011 and as a Trustee of Equity Residential, a real estate investment trust, since 2010. • Board Membership Qualifications: Mr. Shapiro's qualifications as a director include his professional background and experience, previously held senior-executive level positions, his service on other public and private company boards and his extensive experience with companies in the entertainment sector.

CORPORATE BOARDS

Company	Role	Tenure	Appointed	Resigned	Independent of Management	Independent of Other Interests	Attendance
PAPA JOHN'S INTERNATIONAL, INC.	Board Member	7	Feb 17, 2011		Yes	Yes	
FRONTIER COMMUNICATIONS CORPORATION	Board Member	8	Jul 06, 2010		Yes	Yes	
EQUITY RESIDENTIAL	Board Member	8	Jan 26, 2010		Yes	Yes	
LIVE NATION ENTERTAINMENT, INC.	Board Member	10	Nov 12, 2008		Yes	Yes	
SIX FLAGS ENTERTAINMENT CORPORATION	Executive		Dec 01, 2005	May 11, 2010	No	Yes	

BOARD COMMITTEES

Company	Committee Type	Position
EQUITY RESIDENTIAL	Corporate Governance	Member
EQUITY RESIDENTIAL	Pay	Member
EQUITY RESIDENTIAL	Nomination	Member
LIVE NATION ENTERTAINMENT, INC.	Pay	Member
PAPA JOHN'S INTERNATIONAL, INC.	Audit	Member
PAPA JOHN'S INTERNATIONAL, INC.	Corporate Governance	Chairman
PAPA JOHN'S INTERNATIONAL, INC.	Nomination	Chairman

VOTING RESULTS

Company	Year	For %	Against %
EQUITY RESIDENTIAL	2018	96.2%	3.8%
FRONTIER COMMUNICATIONS CORPORATION	2018	87.4%	12.6%
LIVE NATION ENTERTAINMENT, INC.	2018	82.4%	17.6%
PAPA JOHN'S INTERNATIONAL, INC.	2018	98.6%	1.4%

DIRECTOR PAY (all values USD)

Company	Role	Tenure	Pay Year	Cash Fees	Total Awarded Pay	Shares Held
EQUITY RESIDENTIAL	Non-Executive	8	2017	92,500	227,464	11,785
FRONTIER COMMUNICATIONS CORPORATION	Non-Executive	8	2017	95,000	215,000	33,912
LIVE NATION ENTERTAINMENT, INC.	Non-Executive	10	2017	105,000	259,361	41,318
PAPA JOHN'S INTERNATIONAL, INC.	Non-Executive	7	2017	82,000	207,086	25,070

MICHAEL RAPINO

Age: 52
Gender: M
Nationality:

Financial: No
Risk: No
Industry: Media - Media

BIOGRAPHICAL INFORMATION

LIVE NATION ENTERTAINMENT, INC. - Executive, Board Member, CEO Source Date: 04/21/2017

Mr. Rapino is our President and Chief Executive Officer and has served in this capacity since 2005. He has also served on our board of directors since 2005.

Live Nation Entertainment, Inc., Source Date: 4/27/2015

Michael Rapino is our President and Chief Executive Officer and has served in this capacity since 2005. He has also served on our board of directors since 2005. From 2004 to 2005, Mr. Rapino was Chief Executive Officer and President of our predecessor's Global Music division.

The following experience, qualifications, attributes and/or skills led the board of directors to conclude that Mr. Rapino should serve as a director: his professional background and experience, his leadership skills acquired prior to and while serving as Chief Executive Officer of Live Nation, his extensive knowledge and understanding of, and reputation in, the music industry and his understanding of Live Nation's business, operations, products and services.

CORPORATE BOARDS

Company	Role	Tenure	Appointed	Resigned	Independent of Management	Independent of Other Interests	Attendance
SIRIUS XM HOLDINGS INC.	Board Member	0	Jan 23, 2018		Yes	Yes	
LIVE NATION ENTERTAINMENT, INC.	Executive, Board Member, CEO	13	Dec 01, 2005		No	Yes	

VOTING RESULTS

Company	Year	For %	Against %
LIVE NATION ENTERTAINMENT, INC.	2018	85.6%	14.4%
SIRIUS XM HOLDINGS INC.	2018	99.9%	0.1%

EXECUTIVE PAY (all values USD)

Company	Role	Tenure	Pay Year	Total Annual Pay	Total Awarded Pay	Total Realized Pay	Shares Held
LIVE NATION ENTERTAINMENT, INC.	CEO	13	2017	10,263,545	70,615,760	30,848,657	7,420,369

RANDALL T. MAYS

Age: 52
Gender: M
Nationality:

Financial: Yes
Risk: No
Industry: Media - Media,Diversified Financials - Capital Markets

BIOGRAPHICAL INFORMATION

LIVE NATION ENTERTAINMENT, INC. - Board Member Source Date: 04/20/2018

Randall Mays • Age: 52 • Professional Background: Mr. Mays has served as a member of our board of directors since our formation in 2005. He currently serves as President of Running M Capital, a private investment company, and formerly served as Vice Chairman, President and Chief Financial Officer of Clear Channel Communications, Inc. • Board Membership Qualifications: Mr. Mays' qualifications as a director include his professional background and experience, previously held senior-executive level positions, his service on other public and private company boards and his financial, media and advertising expertise.

CORPORATE BOARDS

Company	Role	Tenure	Appointed	Resigned	Independent of Management	Independent of Other Interests	Attendance
LIVE NATION ENTERTAINMENT, INC.	Board Member	13	Jan 01, 2005		Yes	Yes	
CLEAR CHANNEL OUTDOOR HOLDINGS, INC.	Executive		Apr 01, 1997	May 16, 2011	No	Yes	

BOARD COMMITTEES

Company	Committee Type	Position
LIVE NATION ENTERTAINMENT, INC.	Corporate Governance	Chairman
LIVE NATION ENTERTAINMENT, INC.	Nomination	Chairman

VOTING RESULTS

Company	Year	For %	Against %
LIVE NATION ENTERTAINMENT, INC.	2018	80%	20%

DIRECTOR PAY (all values USD)

Company	Role	Tenure	Pay Year	Cash Fees	Total Awarded Pay	Shares Held
LIVE NATION ENTERTAINMENT, INC.	Non-Executive	13	2017	108,000	262,361	129,124

ROBERT TED ENLOE III

Age: 79
Gender: M
Nationality:

Financial: Yes
Risk: No
Industry: Technology Hardware & Equipment - Technology Hardware, Storage & Peripherals,Diversified Financials - Diversified Financial Services

BIOGRAPHICAL INFORMATION

LIVE NATION ENTERTAINMENT, INC. - Board Member Source Date: 04/20/2018

Ted Enloe • Age: 79 • Professional Background: Mr. Enloe has served as a member of our board of directors since 2006. Mr. Enloe has been Managing General Partner of Balquita Partners, Ltd., a family securities and real estate investment partnership, since 1996. Mr. Enloe's former positions include Vice Chairman of the Board and member of the Office of the Chief Executive for Compaq Computer Corporation and president of Lomas Financial Corporation and Liberte Investors. • Other Current Public Company Directorships: Mr. Enloe has served as a director of Leggett & Platt Inc., a diversified manufacturer primarily in the home furnishings space, since 1969 and as its Non-Executive Chairman of the Board since 2016. • Board Membership Qualifications: Mr. Enloe's qualifications as a director include his professional background and experience, previously held senior-executive level positions, his service on other public and private company boards, his extensive experience with technology companies and his financial expertise.

CORPORATE BOARDS

Company	Role	Tenure	Appointed	Resigned	Independent of Management	Independent of Other Interests	Attendance
LIVE NATION ENTERTAINMENT, INC.	Board Member	12	Dec 01, 2006		Yes	Yes	
LEGGETT & PLATT, INCORPORATED	Board Member, Chairman	49	Jan 01, 1969		Yes	Yes	

BOARD COMMITTEES

Company	Committee Type	Position
LEGGETT & PLATT, INCORPORATED	Audit	Member
LEGGETT & PLATT, INCORPORATED	Pay	Member
LEGGETT & PLATT, INCORPORATED	Corporate Governance	Member
LEGGETT & PLATT, INCORPORATED	Nomination	Member
LIVE NATION ENTERTAINMENT, INC.	Pay	Chairman

VOTING RESULTS

Company	Year	For %	Against %
LEGGETT & PLATT, INCORPORATED	2018	84.2%	15.8%
LIVE NATION ENTERTAINMENT, INC.	2018	81%	19%

DIRECTOR PAY (all values USD)

Company	Role	Tenure	Pay Year	Cash Fees	Total Awarded Pay	Shares Held
LEGGETT & PLATT, INCORPORATED	Chairman	49	2017	105,000	399,219	40,855
LIVE NATION ENTERTAINMENT, INC.	Non-Executive	12	2017	120,000	274,361	23,450

CQS New City Global Equity

Press Articles and Viewpoints

September 2019

«Aktien sehen durchaus erschwinglich aus»

MITTWOCHSINTERVIEW Raphael Pitoun, Portfoliomanager bei CQS New City Equity, fokussiert auf Unternehmen mit solider Bilanz. Zu seinen Anlagetipps zählen Straumann und Abbott Labs.

Herr Pitoun, wie stufen Sie gegenwärtig das Marktumfeld ein?
Es ist definitiv eine Diskrepanz zwischen dem Anleihen- und dem Aktienmarkt zu sehen. Wenn die Bondrenditen sinken, ist das normalerweise ein Signal für eine bevorstehende Rezession – gerade in Kombination mit einer invertierten Zinskurve. Zur selben Zeit notieren viele Aktienindizes nahe ihrem Allzeithoch. Allerdings sollte man beachten, dass weder der Anleihen- noch der Aktienmarkt zuverlässige Aussagen zum künftigen Wachstum zulassen. Das aktuelle Marktumfeld ist vielmehr ein Abbild dessen, was die Zentralbanken unternehmen – etwa hinsichtlich monetärer Stimulusmassnahmen.

Wie relevant ist der globale Handelsstreit?
In den Unternehmen, die wir analysieren, haben wir bislang nur eine sehr limitierte Wirkung festgestellt. Die Handelsbeziehung zwischen den USA und China macht nur 2% des Welthandels aus. Trotz den Strafzöllen sind die Folgen auf den Konsum begrenzt. Etwa sind in den USA kaum Inflationstendenzen zu sehen. Auch bei den Konzerngewinnen ist der negative Einfluss nur in einzelnen Branchen wie Rohstoffe oder Automobil erkennbar. Der Disput trübt aber definitiv die Investitionsaktivität der Unternehmen.

Wie dürfte es im Konflikt weitergehen?
China hat zwar diverse Möglichkeiten,zurückzuschlagen. Wir sollten allerdings nicht die Bereitschaft der Chinesen unterschätzen, eine Lösung anzustreben. China braucht Wachstum viel dringender als die USA. Und die Spannungen in Hongkong dürften Peking daran erinnert haben, wie wichtig die Wahrung der sozialen Stabilität ist. US-Präsident Donald Trump befindet sich also in einer starken Position.

Erwarten Sie eine weitere Abkühlung der globalen Konjunktur?
Gerade jetzt, im September und Oktober, legen viele Unternehmen ihr Budget für das kommende Jahr fest. Die allgemeine Unsicherheit führt dazu, dass operative Ausgaben und Investitionspläne gekürzt werden. Auch die Lagerbestände dürften reduziert werden, was sich dämpfend auf das kurzfristigeWirtschaftswachstum auswirkt. Die Situation bleibt also ziemlich fragil. Die Frage ist: Kommt es zu einer kurzen oder einer langen Rezession? Meiner Meinung nach dürfte der Abschwung relativ kurz ausfallen und auf einzelne Branchen wie Industrie, Investitionsgüter oder Automobil begrenzt sein.

Wo sehen Sie aktuell noch Lichtblicke?
Der US-Konsum zeigt sich gegenwärtig sehr solide. Wenn die Rohstoffpreise und die Hypothekarzinsen weiter sinken, dürfte das zusätzlich Auftrieb verleihen. Auch der amerikanische Arbeitsmarkt läuft momentan auf Hochtouren. Zudem dürfte sich die Steuerreform noch immer positiv auf viele Haushalte auswirken.


BILD: PIRANHA PHOTOGRPHY
«Wir mögen Unternehmen, die anderen Gesellschaften beim Innovieren helfen.»

Welche Entwicklung prognostizieren Sie den globalen Aktienmärkten?
Man muss drei Faktoren beachten: die Wachstumsraten, die Bewertung und die Marktliquidität. Das Wachstum verlangsamt sich, was dem Markt kaum helfen wird – besonders in Europa. Wenn die Anleihenrenditen weiterhin so niedrig bleiben, schauen Aktien in Sachen Bewertung dagegen durchaus erschwinglich aus. Hinsichtlich Liquidität kommt es darauf an, wie weit die Notenbanken mit neuen Kapitalspritzen gehen und wie gut sie die Realwirtschaft tatsächlich ankurbeln – gerade angesichts der schlechten geopolitischen Visibilität.

In den amerikanischen und den europäischen Aktienmärkten wird für 2020 weiterhin von einem hohen Gewinnwachstum ausgegangen. Teilen Sie diese Zuversicht?
Wir befinden uns in der Zeit des Jahres, in der die Analystenerwartungen typischerweise nach unten revidiert werden. Langfristig erzielten die Unternehmen im S&P 500 durchschnittlich ein jährliches Gewinnwachstum zwischen 7 und 8%. Wenn man davon ausgeht, dass der Konsens zurzeit bei rund 10% liegt, wäre die Revision folglich nicht allzu gross.

Gerade US-Unternehmen haben das Niedrigzinsumfeld dazu genutzt, sich stärker zu verschulden. Sehen Sie hier Risiken?
Ich schaue immer genau auf den Verschuldungsgrad. Wir fokussieren meist auf Gesellschaften mit einer sehr soliden Bilanz. Das sind in der Regel auch Konzerne, die die Marktführerschaft wahren können, was auch immer in der Branche oder der Gesamtwirtschaft geschieht. Wir betrachten das Thema also nicht von einem finanziellen, sondern eher von einem strategischen Standpunkt aus.

«Der Abschwung dürfte auf Branchen wie Industrie, Investitionsgüter oder Automobil begrenzt sein.»

Können Sie das genauer erläutern?
Ein Beispiel liefert der Kosmetiksektor: Auf der einen Seite gibt es stark verschuldete Unternehmen wie Revlon, die angesichts der Schuldenlast kaum auf neue Konsumtrends reagieren können. Auf der anderen Seite haben wir Namen wie Estée Lauder, die über eine sehr solide Bilanz verfügen und deshalb genügend Spielraum besitzen, auf neue Marktentwicklungen zu reagieren – zum Beispiel mit neuen Filialen oder neuen Produkten.

Auf welche Faktoren schauen Sie in der Auswahl der Unternehmen sonst noch?
Ich achte unter anderem auf Aktienrückkäufe. Ein Grossteil der gestiegenen Verschuldung ist darauf zurückzuführen, dass Unternehmen mit dem aufgenommenen Fremdkapital eigene Titel zurückgekauft haben. Ich kann mich gut an die Finanzkrise erinnern – und an Unternehmen, die noch 2007 grosse Buybacks umgesetzt haben und bereits ein Jahr später gezwungen waren, eine Kapitalerhöhung durchzuführen. Wachstum, das primär durch Financial Engineering angetrieben wird, muss kritisch betrachtet werden.Wir bevorzugen organisches Wachstum, etwa über steigende Margen.

In welchen Bereichen sehen Sie Trends, die trotz schleppender Konjunktur solches Wachstum versprechen?
Zurzeit werden in Emerging Markets wie China und Indien zahlreiche Wasserprojekte umgesetzt, die mit grossem Budget ausgestattet werden. Hier sind auch diverse Unternehmen aus den Industrieländern involviert, beispielsweise Xylem.

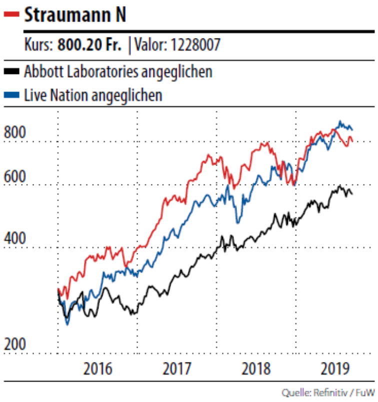
Welche Unternehmen gefallen Ihnen sonst?
Wir versuchen primär in Gesellschaften mit gesundem Geschäftsmodell zu investieren, die nicht so starkem Margendruck ausgesetzt sind. Einem Geschäftsmodell also, bei dem die Konsumenten nicht mit Marketing überzeugt werden, sondern mit der Qualität der Produkte.

Können Sie konkrete Namen nennen?
Um die Preismacht in einem Markt wahren zu können, muss stetig innoviert werden. Wir mögen Unternehmen, die anderen Gesellschaften dabei helfen, Innovationen voranzutreiben. Dazu gehören etwa Softwarehäuser wie Ansys, Dassault Systèmes oder Nemetschek.

Haben Sie weitere Anlagetipps?
Ein Unternehmen, in das wir investiert sind, ist der US-Konzertveranstalter Live Nation. Die kalifornische Gesellschaft organisiert beispielsweise Touren für bekannte Künstler. Auch gehört ihr das Verkaufsportal Ticketmaster.

Was halten Sie von den FAANG-Aktien wie Facebook, Alphabet oder Netflix, die lange Zeit den Gesamtmarkt angetrieben haben?
Da sind wir nicht beteiligt. Ein Faktor, den wir beispielsweise beim Streamingdienst Netflix nicht mögen, ist die schwache Bilanz. Zudem sind die Wechselkosten für Nutzer nicht allzu hoch. Mit einem Klick kann man das Abonnement kündigen und zur Konkurrenz gehen, beispielsweise zu HBO oder Disney.

Halten Sie auch Beteiligungen im Schweizer Aktienmarkt?
Wir sind zurzeit beim Dentalunternehmen Straumann investiert. Ein Geschäftsmodell, das wir grundsätzlich mögen, ist B2B2C – Gesellschaften wie Straumann also, die Spezialisten beliefern, die wiederum an den Endkonsumenten verkaufen. Vor einigen Jahren entschied sich Straumann, in günstigere Preissegmente vorzustossen. Viele Investoren waren anfangs recht skeptisch, doch hat sich der Schritt ausgezahlt. Zudem ist das Unternehmen sehr innovativ und verfügt über eine gute Corporate Governance.



Abbott Laboratories ist zurzeit in Ihrem Fonds die grösste Position. Was gefällt Ihnen am US-Gesundheitsunternehmen?
Abbott Laboratories ist ein grosses Unternehmen, das es dennoch geschafft hat, seine Innovationskraft über alle Konzernstufen zu wahren. Trotz der Grösse wächst es immer noch sehr stark. Produktseitig hat es etwa ein fortschrittliches Blutzuckermessgerät lanciert. Der Markt hat gemäss jüngsten Aussagen des Managements
ein Potenzial von 10 Mrd. $.

Wo weichen Sie vom Marktkonsens ab?
Vorsichtig bin ich zum Beispiel bei Unternehmen aus dem Basiskonsumsektor wie Nestlé oder Danone, deren Aktien über die letzten Monate extrem gut gelaufen sind. Die Stärke wurde vor allem von der Marktliquidität getrieben und dem Fakt, dass die Titel als Anleihenersatz gesucht waren – ohne dass gleichzeitig der ökonomische Wert der Unternehmen gestiegen wäre. Ich würde deshalb der Mehrheit der Branchenvertreter fernbleiben.

INTERVIEW: FRANK HEINIGER

Why New City's Pitoun believes the impact of a trade war will be limited

30 August 2019

Veteran investor Raphael Pitoun explains why quality companies should be less affected by any potential escalation of the US-China trade war.

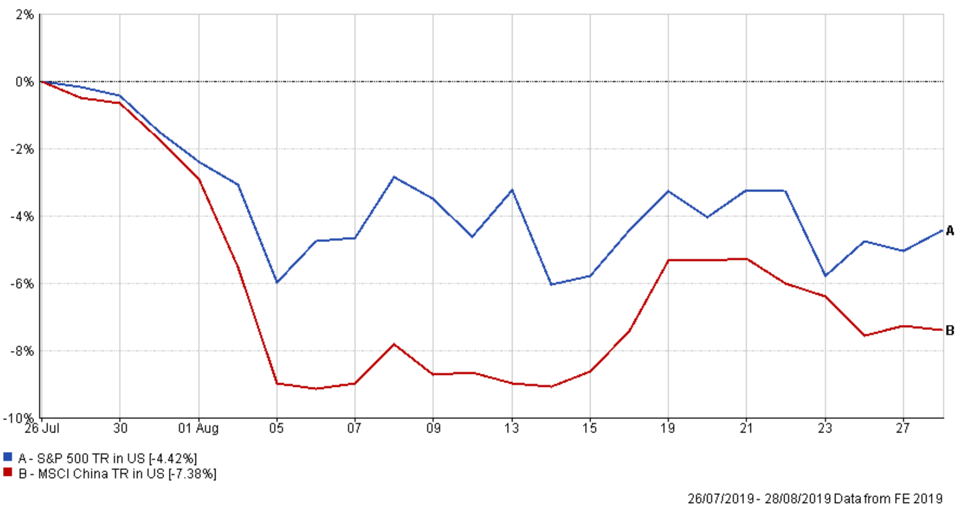
By Rob Langston,
News editor, FE Trustnet

The potential for a US-China trade war to disrupt markets may be more limited than some investors believe, according to CQS New City manager Raphael Pitoun, although this could change should there be an economic downturn.

President Donald Trump upset markets earlier this month by taking aim once more at China, ordering US companies to start looking immediately at alternatives to China and announcing that tariffs on Chinese goods would be raised from 1 October.

As the below chart shows, both markets have reacted badly to the resumption of a more hostile environment, with the S&P 500 down by 4.42 per cent in sterling terms and the MSCI China making a loss of 7.38 per cent.

Performance of indices over 1mth in US dollar



Source: FE Analytics

Yet, Pitoun – who heads up the CQS New City Global Equity fund and was previously chief investment officer at Seilern Investment Management and manager of five FE Crown-rated Seilern Stryx World Growth fund – said market reaction might have been overdone.

“I think the effects of the trade war on the real economy at this stage are very small,” he said. “And I’m talking about the real economy here.

“Just to give you a statistic the trade relationship between China and the US represents 2 per cent of the total trade in the world between countries.

“And on top of that, what we see looking at the companies we invest in, the impact on their P&L [profit & loss statement] is actually very limited.”

While the direct impact of the trade war between the US and China is limited, there are other wider impacts due to the uncertainty caused by the increasingly hostile environment.

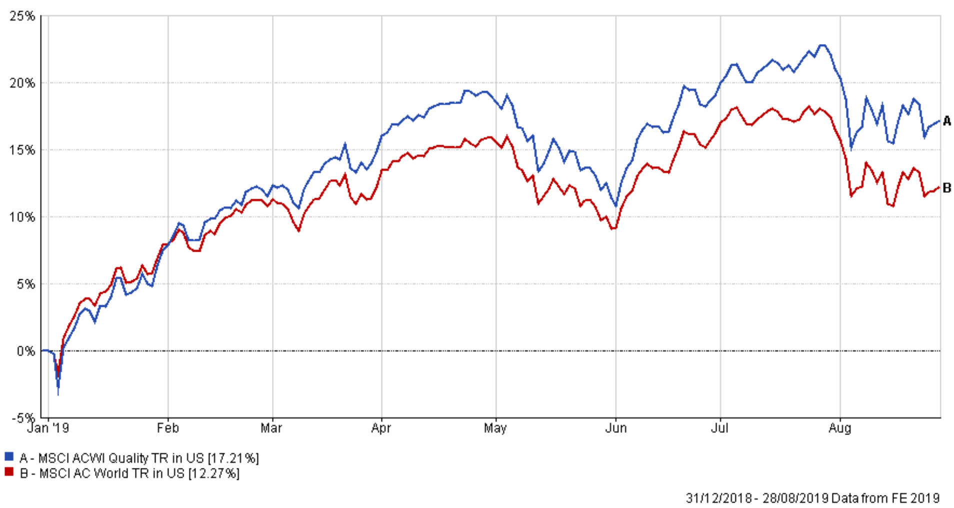
“Because no one knows where this tension is going to end, in certain industries you see some side effects,” he explained.

While it is likely to affect some sectors more than others, said the manager – electronics and agriculture, for example – overall the effect will be relatively limited, however.

Although Pitoun does not disregard the impact that a US-China trade war could have on global markets, however, it is unlikely to affect the companies he invests in significantly.

As the below chart shows, the MSCI ACWI Quality style index has outperformed the broad MSCI AC World index, in US dollar terms, year-to-date as trade war rhetoric has remained elevated.

Performance of indices YTD



Source: FE Analytic0073

The universe of quality names that Pitoun builds his CQS New City Global Equity fund from are likely to have in place “some Plan B ‘if and when’ the situation deteriorates”.

“And for the other ones, typically what they do is they use their pricing freedom in order to pass on some price increases to the client,” he explained.

“For some sectors, and some industries, it’s impossible to source anywhere other than China,” the global equities manager said. “In the elevator business [for example], 80 per cent of the electronic components necessary to build an elevator come from the area of Shanghai.

“It’s very concentrated in terms of sourcing. Big elevator companies need to go there in order to find the products. But then, elevators is actually an industry with good pricing power so the impact will be passed on to consumers.”

Nevertheless, should a trade war coincide with an economic slowdown, which has become a greater concern following the inversion of the yield curve recently, may make it more difficult to pass on costs to consumers.

In China, many of the companies on Pitoun’s radar are there for the long-term and as such more plugged-in to the domestic economy.

“A few consumer companies like Nike, for example, or McDonalds and many industrial companies are in China forever; they hire a lot of local people,” he said.

“One of the companies that I’m looking at, it’s a [US] water company called Xylem, they don’t have any single ex pat working in the Chinese business.”

The other significant market event of the summer was a long-anticipate move by the Federal Reserve to cut rates by 25 basis points, signalling its intention to stand behind the slowing US economy.

However, while the rate cut could stir some growth, it remains to be seen whether it will help the economy in the long term, according to Pitoun.

“There is a theory that we are at the point where the returns of this loosening of monetary policy are declining. And I think it’s possible that’s the case.

“I don’t really see that monetary policy has a real impact on the on the economy,” he said. “I think the economy is still OK. But we also don’t expect a lot of upside coming from Fed action.”

As such, the global equities manager remains focused on finding pockets of growth and these remain overwhelmingly in the US than in any other region.

“In the US, that’s where I find the best companies both in terms of innovation, corporate governance, and ability to grow,” he explained. “It might change one day, but I suspect it’s going to take a very long time for this to change.

“One of the things that is more complicated in Europe, for example, is the financing of the economy. which is based on bank debt,” said Pitoun. “This is a real problem and the real challenge for the development of the European economy

“We still have some European companies, we have Asian companies as well in Japan. But, yes, the focus is and should stay in the US.”

Indeed, the fund manager said that the ambition of the CQS New City Global Equity fund – which launched earlier this year – is to deliver the right returns to investors and, as such, needs to be invested wherever the best prospects are.

“We’ve got a lot of investors in the world that are challenged by the low-rate environment,” he said. “Everyone with a long-term investment horizon these days experiences some challenge.”

However, he conceded there are some risks posed by the amount of disruption currently taking hold of markets.

“Access to money and access to capital is absolutely not a problem,” he said. “So you see some new business models emerge that could compete with existing companies quite quickly.

“Our focus is really to make sure that the companies we invest in we are invested in have the right barriers to entry, have sustainable competitive advantages and continue to innovate.

He added: “The worst thing that could happen in a company is just to rely on one or two products forever without really looking to challenge the way they serve their clients.”

Source : https://www.trustnet.com/news/7458441/why-new-citys-pitoun-believes-the-impact-of-a-trade-war-will-be-limited-

The rise of superstar firms is changing the way managers invest

By **Jessica Beard** 03 May, 2019

The new reign of the 'monopsony' – the outsized power of a few consolidated employers – was a headlining theme at this year's central bank gathering in Jackson Hole is of enormous importance to investors.

That is according to Raphael Pitoun, global equity portfolio manager at CQS New City Equity.

The concentration of total profits in a few large companies was explained at the conference in part by the relaxation of anti-trust rules and the effects of globalisation and outsourcing.

'Fast forward six months and investors are witnessing the $25 billion valuation of Lyft, founded less than seven years ago, and 10-year-old Uber's prospective market capitalisation of $100 billion.

'Such successful unicorns might give the impression that investment in quality companies is increasingly risky at a time when disruption and innovation are able to significantly impact the profit distribution inside an industry,' Pitoun told *Citywire Selector*.
Overall, it is rare to find entrepreneurs determined enough to create long-term independent companies, he said.

‘When it does happen there is often significant friction within their ecosystem and with shareholders – look no further than Tesla and Uber.

'Many others - and the list is very long – appear to be for a quick, and sometimes well deserved, buck. Just think Dollar Shave Club, MobilEye and Shazam.’

A new law of large numbers

While there has been a debate surrounding the desire for some companies to remain private, Pitoun said the reasons driving this desire are in fact different to what many believe.

‘Many start-ups look for a strategic investor ready to pay the right price and to enable an acceleration of growth. From their perspective, a buyer can scale up newly acquired products and services or at least, if they do not manage to create direct value due to the high price often paid, manage to choke competition.

'The more it goes, the more super companies generate profits and the less likely it is that large acquisitions are sufficiently important to destroy an acquirer’s value – hence a revised law of large numbers.’

The main lessons equity investors can take from this include the fact that common descriptions around the start-up eating the cake of the incumbent is wrong, according to Pitoun, who said it may happen but it’s rare.

‘Most successful start-ups, new technologies and processes end up being subsumed by increasingly powerful companies. Market concentration might just be at its infancy.’

The second lesson to detract is that the primary characteristics of super companies remain intact. ‘They build their competitive advantages through investments in innovation - product, business process and distribution -and human capital management - leadership, incentives and organisation.

'But on top of these two features, a relevant consideration is the strength of their balance sheets, a defining success factor for companies that have to be ready to adapt quickly and/or sometimes buy other companies. Third, profit concentration goes in the opposite direction of index investing and ETFs.’

Shorter time horizons

Concentration of profits is happening at a time when barriers to entry are said to be declining in many industries due to digitalisation, while there’s a seemingly unstoppable flow of venture capital financing of new business models.

‘How can one reconcile the opposing effects of an economy increasingly driven by new systems of production of goods and services and easier access to clients, with the emergence of superstar firms?’

This is largely down to the type of financing for these companies, Pitoun said. He questioned whether it may be the case that entrepreneurs and VC investors who support them have increasingly shortened their long-term horizons.

‘What is fascinating is that the propensity to disrupt businesses has increased with the massive rise in the availability of capital and the democratisation of digital access, and the reaction of incumbent companies has been to cartelise emerging models by purchasing them or taking a significant share to control and monitor their development.’

With regards to this development, Pitoun used the example of the payment business, where many successful emerging models have fallen into the laps of Mastercard and Visa, with the exception of Paytm in India.

Source: https://citywireselector.com/news/the-rise-of-superstar-firms-is-changing-the-way-managers-invest/a1225568

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"Big Bang" In US Healthcare Is Under Way - CQS New City Equity

Editorial Staff

28 March 2019

The following comments about investment prospects in the healthcare and related sectors come from Raphael Pitoun, who is portfolio manager at CQS New City Equity. This publication is pleased to share these views with readers; it doesn't necessarily endorse all views of guest writers and invites readers to respond. Email tom.burroughes@wealthbriefing.com

Market participants may be overly confident regarding the growth prospects of the healthcare sector and this optimism is based on misperceptions around the most important issues facing the industry. I believe that a disproportionate amount of attention is given to the aborted attempts by US congress to control prices, and that some investors are missing the silent revolution taking place in the background.

Many investors have traditionally looked to changes in regulation to ascertain the pricing dynamics of the drugs sector. What is more interesting, and certainly more defining for the industry's outlook, are the considerable changes already underway in the value chain, as well as the modernisation of healthcare sector practices.

One of the important developments has been the ongoing consolidation between pharmacy benefit managers along with their integration inside health insurers. This vertical integration has resulted in enormous companies that are able to harness their size and scale, and achieve better prices from drug makers. The rebate mechanism, which led to inflated prices for the benefit of both PBMs and drug makers, but to the detriment of insurers and patients, could be coming to an end.

In parallel, the power of these new giant companies, such as UnitedHealth and Aetna, has been increasing thanks to the outsourcing of a growing proportion of Medicare patients to the private sector. This dynamic has just started and will likely result in more pricing power and scale benefits. As the private sector becomes an increasing proportion of the system, market-based mechanisms have begun to take hold, and have contributed to a rationalisation of excessive profits, notably in specialty drugs.

Furthermore, the development of value-based reimbursement methods, and the increasing importance of formulary management, whereby a list of drugs are recommended, have started to have a notable impact on drug prices. It is now difficult for a drug maker to get a product broadly reimbursed if its price is not consistent with the costs it is able to save. A new drug for the treatment of cholesterol would be priced according to the cost insurers would be able to avoid were the drug not prescribed, for example, by assessing the decreased likelihood of a stroke.

These developments have already resulted in negative pricing pressure for prescription drugs the US. In its 2018 annual report on drug trends the PBM, Express Scripts, reported that drug inflation was up by a benign 0.4 per cent for employer-sponsored plans, and down an by unprecedented -0.3 per cent for Medicare plans. Recent outlooks provided by pharmaceutical companies point to an acceleration of this trend.

These significant developments will likely shrink and redistribute the industry's profit pool. This may also change the drug sector's earnings predictability in a similar way to what has been witnessed in the consumer staples sector. The risk is also high for health insurers. If they do not self-control their high margins, even they could be disrupted at some point by the emergence of new models such as the alliance between Amazon, JP Morgan and Berkshire Hathaway.

Beyond the impact on the sector itself, a sustained containment of prices in the industry might have broad implications for the economy and the outlook for inflation. Healthcare is a large component of price indices and, until recently, has been one of the last consumer-facing segments resisting deflationary pressures.

MARCH 2019

CQS | NEW CITY EQUITY

Brands are Dead, Long Live the Brands!


Raphael Pitoun: Portfolio Manager, CQS New City Equity
Philip Gottschalk: Equities Analyst, CQS New City Equity

- Brand building long seen as the most effective way to generate revenues in the consumer sector
- Parameters have changed: national brands are no longer the most astute way to drive retailers' profitability
- Emergence of local competition in developing markets and new business models of significant importance
- Finding the right consumer companies is now about product innovation, business model flexibility and corporate governance

It's time for a reset. Many consumer brand marketers have long considered brand building as the most effective way to generate revenues. And, for a long period of time, it worked extremely well with advertising spend the main determinant of market share for many consumer goods companies and a driver of earnings growth.

The underlying business model was simple. Retailers and large brands worked hand-in-hand to sell a maximum of often undifferentiated products at hefty margins. This cosy relationship began in the US and Europe in the 1960s and was exported to emerging countries some twenty years ago. Scale (a combination of first mover advantage and access to capital) was the main competitive edge.

As (then) Mr Donald Trump noted many years ago: "If your business is not a brand, it's a commodity". At that time it reflected reality. But I believe the parameters have now changed however. Retailers shifted their focus from national brands, even becoming the main competitors to the latter, while discount retail has become a global phenomenon. Margins in retail are getting increasingly thin, to some extent exacerbated by online retail, and promoting national brands is now no longer the most astute way to drive profitability for a retailer. Private label brands are now at the fore.

In parallel, more affluent consumers have a desire to increasingly express their own identities, sophisticated tastes and health concerns. As a result, many large undifferentiated brands are increasingly ignored or even disliked, in some cases resulting in desperate attempts to rejuvenate a brand's image. Gillette's recent controversial advertising campaign is a notable example.

Things could actually get worse. The emergence of credible local competition in developing markets and new business models around the world are of significant importance. In the meantime, many incumbents are often too big to innovate. Examples include two world leading consumer goods companies over the last ten years; Danone shockingly missed the trend towards Greek yogurt in the US and it took years for Colgate to develop credible flavoured toothpastes adapted to emerging markets. Young and agile companies often manage to better capture market opportunities and larger, more established companies are often obliged to pay a high acquisition price, or lose market share.

From an investment perspective, these implications cannot be ignored. Building a portfolio of "famous" brands has never been more dangerous. Many "quality compounders" may find that a portfolio of investments in consumer staples as an anachronism. Their earnings growth is now increasingly driven by cost cutting, pricey acquisitions and financial engineering, rather than organic revenue growth. Moreover, given the industry's new configuration, there might well be an even more ferocious price war when the next recession bites. This could come as a shock to those investors who have historically been accustomed to the consumer staples sector being defensive and could ultimately be disastrous for valuations. A comparison of note is the telecom sector in the 2000s when the emergence of local competition and low cost providers led to dreadful stock market performance which has remained unabated for 20 years.

ELAN is the new FANG. Finding the right companies to invest in the consumer space is no longer a question of advertising and promotion, but one of product innovation, business model flexibility and the right corporate governance. Very few companies have the ability to maintain decent pricing power. It could be that ELAN (Estée Lauder, L'Oréal, Adidas and Nike) becomes the new consumer FANG. These companies act as brand incubators, monetising their scale and large balance sheets to address the consumer differently, mostly directly. Consumer faith might diverge like a barbell, between a handful of these superstar companies and a lot of falling and fallen angels. In a world where brands become a consequence and not a cause, finding the right ones requires homework.

To paraphrase the now US President Donald Trump, 'if you have too many consumer brands, your portfolio becomes a dangerous commodity.'

CQS New City Global Equity

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