

Helping an Entertainment Company Face the Music

SFX Entertainment



In a difficult situation, the FTI team came up to speed very rapidly, stabilized operations, and established themselves early as credible interim managers. While their technical expertise and restructuring experience was top notch, what truly distinguished their effort was their ability to solve numerous complex problems with a variety of partners, key vendors, and other constituencies. They were pragmatic problem solvers, with a firm command of facts and analysis. FTI integrated well with SFX management to develop and implement the restructuring plan, which called for significant streamlining of operations and staffing. All of this was accomplished with minimal impact on the customer facing events and experiences at the heart of the company's operations.”

— RICH ROSENSTEIN
Former Chief Financial Officer,
SFX Entertainment

SITUATION

SFX Entertainment, founded in June 2012, embarked on an ambitious plan to acquire and consolidate independent electronic dance music (“EDM”) promoters and properties, as well as related digital distribution and ticketing platforms. SFX became the leading global producer of live events and digital entertainment content focused principally on EDM and went public in October 2013. To fund these activities, the Company borrowed extensively and entered into a myriad of complex financing, earn-out and partnership arrangements. It also ambitiously entered into sponsorship arrangements with global name brand enterprises, to which it made significant performance and financial commitments.

The Company staffed and spent in expectation of becoming a billion dollar plus enterprise. However, the revenue and growth plans SFX forecasted were never achieved. It disappointed its sponsorship partners, failed in many of its commitments to venture partners and did not live up to obligations under its earn-out and buy out agreements. Acquired companies were not integrated effectively, and audience numbers and sales did not reach forecasted levels. SFX burned through over \$700 million of invested capital, including more than \$550 million of total consideration for its acquisitions. SFX experienced significant liquidity constraints after failed attempts to realize material cost synergies and growth slowed in its audience numbers, which are crucial to its plan to attract advertising and corporate sponsorship. In January 2016, SFX missed an interest payment and defaulted on one of its loans. SFX filed for Chapter 11 bankruptcy in February 2016.

FTI CONSULTING'S ROLE

FTI Consulting was engaged in January 2016 to provide interim management support and staffed a Chief Restructuring Officer and interim CEO to assist with the development and execution of a turnaround plan to allow SFX to overcome its financial challenges and resolve operational inefficiencies. As part of the restructuring efforts, FTI assisted SFX in developing strategic alternatives, obtaining interim financing, establishing cash management practices, negotiating with creditors and executing on all reporting requirements.

TELECOM, MEDIA & TECHNOLOGY

As part of restructuring support agreements negotiated with bondholders, the FTI team was asked to take over operating leadership and assumed the role of CEO of the Company in the early stages of the Chapter 11, and managed the restructuring process of both domestic and foreign operations, working closely with operations-level employees and retained SFX management to review the underlying operational and financial issues and develop a turnaround plan.

FTI brokered extensive negotiations between SFX, the creditors' committee, and the largest funded debt creditors to arrive at a plan of reorganization that ultimately included the sale of non-core assets and implementation of cost savings initiatives and other restructuring measures to maximize profitability and cash flow. FTI also assisted in the development of a communication plan to creditors, customers and employees and recruited new management to take charge upon exit from bankruptcy.

OUTCOME:

The reorganization of SFX Entertainment resulted in a deleveraging of the balance sheet and complete reinvigoration of and material improvement to the worldwide operations. FTI and SFX's other advisors navigated complex legal and operating issues, pared activities in non-profitable markets, exited burdensome joint ventures and sold non-core businesses in Section 363 sales. Virtually all disputes between creditors and operating partners were resolved consensually, paving the way for a plan process. SFX and its creditors agreed upon a plan under which approximately \$400 million of prepetition debt was equitized or otherwise eliminated from the balance sheet. The Company was able to recruit marquee management who took charge on exit, enabling the Company to emerge stronger, with stable global operations and a significantly deleveraged balance sheet.

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About FTI Consulting

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