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EXCLUSIVE REPORT

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Video Did *Not* Kill The Radio Star

A Secured Bond from America's Top Broadcasting Firm

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> *Does radio remain in style?*
> *Is it a "sound" investment?*
> *Don't touch that dial and listen while*
> *We give you our assessment.*
> – *Martin Fridson*

It was Christmas Eve, 1943, and Helen Schauffler of New Rochelle, New York, was desperately lonely.

Helen's husband, Allen, and her son were overseas fighting in World War II, and she sat in her living room, in her words, "dreading Christmas."

Then a familiar, comforting voice crackled over the radio… President Franklin Delano Roosevelt with his latest "Fireside Chat."

After saying a few words about the state of the war and diplomacy, FDR **spoke** directly to the hearts of war-weary Americans:

> *"American boys are fighting today in snow-covered mountains, in malarial jungles, and on blazing deserts, they are fighting on the far stretches of the sea and above the clouds, and fighting for the thing for which they struggle. I think it is best symbolized by the message that came out of Bethlehem.*
>
> *On behalf of the American people – your own people – I send this Christmas message to you, to you who are in our armed forces: In our hearts are prayers for you and for all your comrades in arms who fight to rid the world of evil. We ask God's blessing upon you – upon your fathers, and mothers, and wives and children – all your loved ones at home."*

Mrs. Schauffler was so moved that she immediately wrote and posted a **letter** to the White House.

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> *"I want you to know that what you have just said so simply and honestly, has made everything seem right – and I'm not dreading Christmas any longer," she wrote to the president. "As you spoke it seemed as if Allen were sitting here beside me listening with me, as we have listened to you together so many times. Thank you, from the bottom of my heart."*

In an era where heads of state usually relied on dry and formal official statements to communicate with their subjects, FDR's chats were revolutionary. And Mrs. Schauffler wasn't alone in expressing her gratitude: Close to half a million cards, telegrams, and letters inundated the White House after each simple, calming radio address.

FDR's "Fireside Chats" – 30 over the course of his four terms in office – were a brilliant political strategy to get the struggling nation through the Great Depression and WWII. The president explained politics and policy in a down-to-earth, relatable style, speaking directly to the average American in his or her living room.

As another letter writer recounted, "All sorts of people; a newspaper representative, a writer of action stories, a house-to-house solicitor, the postman, express man, and grocery man" gathered in the homes of friends in order to tune in and discuss the messages.

And it was all thanks to that supremely democratic mass medium: radio.

FDR's "Fireside Chats" brilliantly exploited, and fueled, the "Golden Age" of American radio – a period during the 1930s and '40s when commercial broadcast radio was the main source of news and entertainment for a country of eager listeners.

Although television burst onto the scene and captured ear-share after World War II, and ever since, video has still not yet killed the radio star (contrary to the lyrics of the **famous Buggles song** that launched MTV in 1980).

The seemingly "old-school" medium still reaches 88% of Americans every single day. More than 80 years after FDR's "Fireside Chats," radio remains an immensely powerful instrument for informing, entertaining, and motivating mass audiences.

And it's profitable, too.

This Month's Bond At A Glance

Our latest addition to the *Porter & Co. Distressed Investing* portfolio is a bond that is secured by the assets of the largest owner of radio stations in the United States. It's trading at a discount to its $1,000 face value. It's the first bond scheduled to mature of a company that's generating cash and has substantial backup liquidity.

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The company is communications giant iHeart Media, Inc. The bonds are the 6.375% Secured Bonds due May 1, 2026 (CUSIP 45174HBC0). The annualized return on these bonds, reflecting coupon payments as well as capital appreciation, over the next three years should be around 13.8%. They're very well protected on the downside, as well as – in the worst-case scenario – a claim on virtually all of iHeart's assets.

What we like about iHeart:

1. It has the largest radio network in the US, with 860 owned and operated stations (that's more than double what #2 controls).
2. It's a streaming pioneer and leader that takes advantage of new technology.
3. iHeart Chairman Bob Pittman has been active in radio for five decades, and has had a storied career building and media businesses. His expertise is developing brands and brand loyalty.
4. iHeart is profitable and generates cash each year.

We like the radio business, as well:

1. Since the first broadcast on November 2, 1920 (KDKA in Pittsburgh), this medium for news and entertainment has stood the test of time.
2. It has always been – and still is – a part of our lives.
3. In the face of massive technological changes over the last century, it continues to thrive.
4. The listener base is enormous. Radio reaches 88% of Americans each week. On average, people listen to 104 minutes of radio each day.
5. Radio is free. This is particularly important at a time when consumers face monthly subscription fees for news and entertainment.

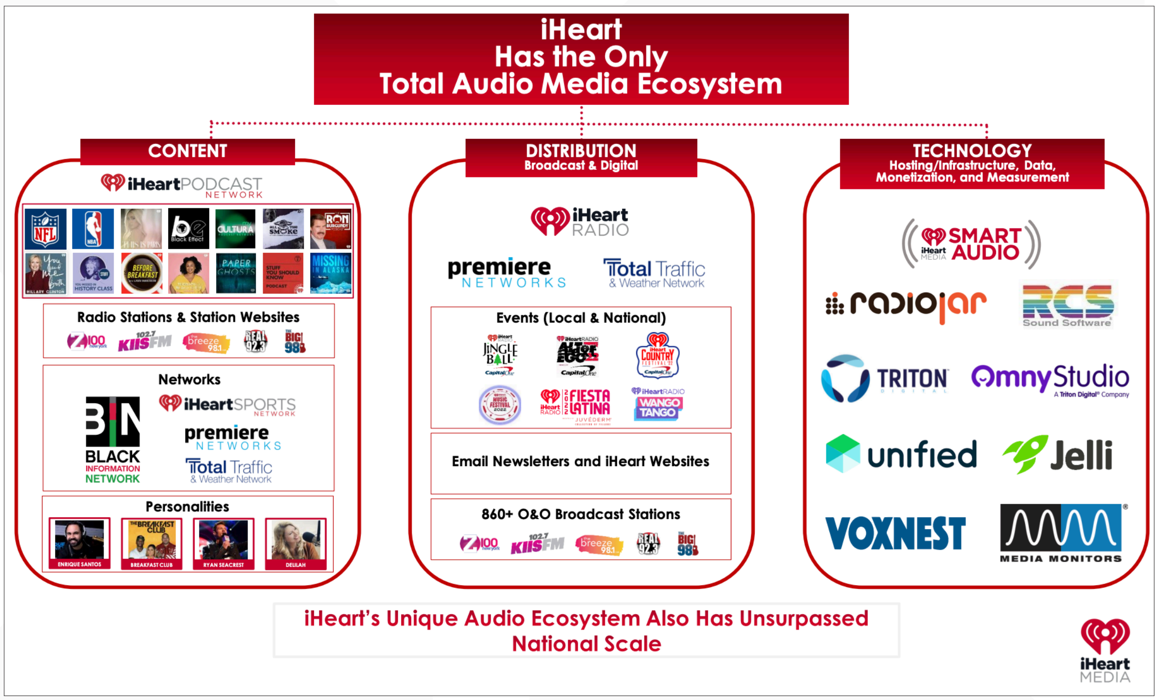
And we like this bond:

1. It pays 6 ⅜% interest each year.
2. Since we'll be buying it at a discount, we'll earn 11%+ annually.
3. Secured by the best assets in both radio and podcasting.
4. It matures in just under 3 years.

America's Best Broadcaster

Through its radio stations – which are broadcast over the air and also streamed over the internet – iHeart Media reaches 90% of Americans each month. Access to such a large audience makes it attractive to advertisers – both local businesses, on individual stations, and national advertisers, on its networks.

The company also owns a multitude of businesses relating to that core. It describes itself as a "Total Audio Media Ecosystem" of businesses that fit together and create opportunities for cross-selling.



iHeart operates in three business segments:

The Multiplatform Group consists of 860 live broadcast radio stations in 160 markets across the country. iHeart owns the top-rated station in 73 out of 160 radio markets and in 28 of the 50 top markets in the U.S. Its *Premiere Network* produces, distributes or represents 120 syndicated programs that run on more than 6,400 radio station affiliates – 39% of all radio stations in the U.S.

The Digital Audio Group streams iHeart's radio stations and offers its own branded subscription music services similar to Spotify and Apple Music. This segment also includes newsletters, digital advertising companies, and a fast-growing podcast business.

Audio & Media Services consists of *Katz Media Group*, the world's largest media sales agent, and RCS, the world's largest provider of software used for television and radio broadcasting, and webcasting.

iHeart is run by Bob Pittman, the company's Chairman, CEO and Co-Founder, who has extensive experience with building media brands – which is the soul of iHeart. Pittman started in the industry as a radio broadcaster at age 15, and moved on to reprogram NBC's flagship station, WNBC (AM) in New York; oversee the creation and growth of MTV, the single most profitable cable network of the time; turn around MCA's record business; increase annual attendance at Six Flags Theme Parks from 17 million to 25 million; and raise AOL customer count from 6 million to 30 million.

Viewed as a whole, iHeart derives the bulk of its revenues from selling advertising – either directly on its stations or indirectly when it brokers ad space. For this reason, the most significant factor that's beyond management's control is the broader economy. A strong economy tends to buoy iHeart's results, and a weak economy tends to weigh them down.

For example, when COVID first spread and there were extended, widespread lockdowns, the best profit measure for iHeart – earnings before interest, taxes, depreciation and amortization (EBITDA) – declined by 39%, from $1.085 billion in 2019 to $656 million in 2020. When the economy started bouncing back, EBITDA rose to $908 million in 2021 and $950 million in 2022.

If the U.S. economy enters a recession over the next year or two, iHeart's revenues and profits are likely to decline. Based on the expected level of ad spending on federal, state and local elections iHeart's revenues and profits are likely to start rising again in 2024. (In the leadup to the 2020 election, advertising spending on radio, digital and TV reached $8.5 billion – more than double the previous record from 2017-2018. Many expect it will exceed $10 billion in this election cycle.)

It's true that iHeart – like all over-the-air or online broadcasters – faces technology risk. Over time, advances in communications have led to more alternatives for news, sports and entertainment. Competition for eyes and ears has increased over time and that's likely to continue.

But iHeart has repeatedly shown that it can deftly adapt to new technology. For instance, the company's large radio market has been a valuable tool in building its podcast business. It is now incorporating AI (artificial intelligence) to reduce operating costs by using fewer employees more efficiently. By automating much of the sales force's administrative work, it will free the company to spend more of its time bringing in new business and cross-selling to existing customers.We're confident that the company has the scale, financial strength and management needed to adapt to any technological changes to come.

A 10-Second Spot for iHeart's Financials

We like iHeart's business and its management, and we are confident in their ability to generate cash from operations. The chart below shows financial information for each of iHeart's three business segments, and also for the company as a whole.

iHeart Financials

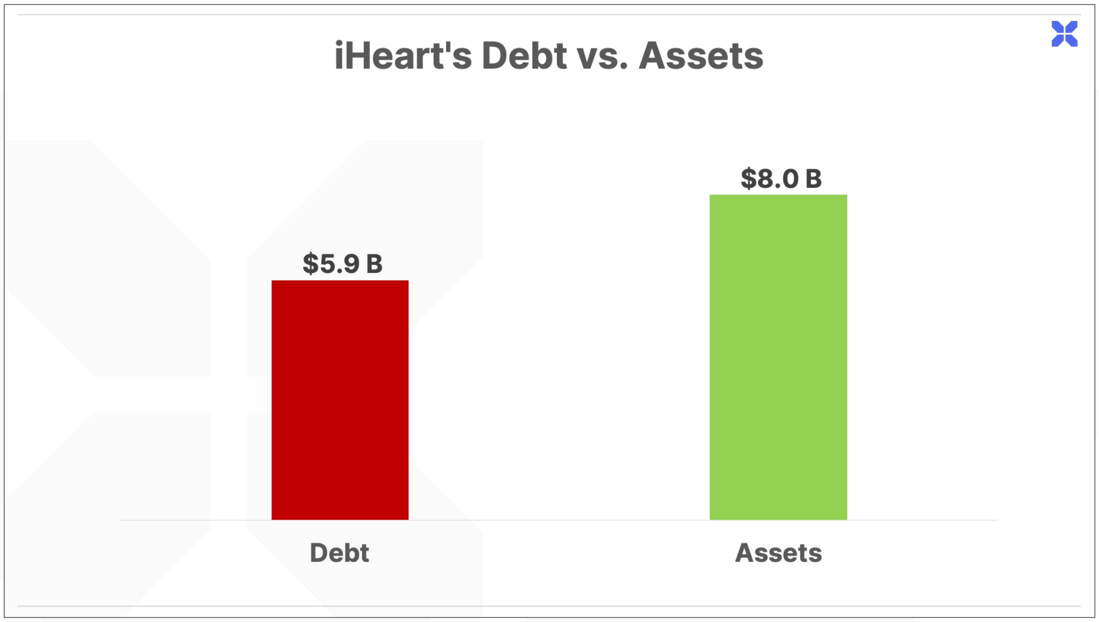
	2022	2021	2020
Multiplatform Group			
Revenues	$2,597	$2,489	$2,207
Segment Profit	$768	$743	$483
Digital Audio Group			
Revenues	$1,022	$835	$474
Segment Profits	$309	$261	$131
Audio & Media Services			
Revenues	$304	$248	$275
Segment Profits	$113	$76	$95
Company overall:			
Total Profits for Company	$950	$811	$539
Capital Expenditures, net	$129	$161	$76

Data in $millions.

According to its most recent financials, iHeart had $4.3 billion of secured debt and $1.1 billion of unsecured borrowing – for a total of $5.4 billion. (More on the unsecured bonds below.)

Of that total, the interest rate is fixed on almost 60% of its debt. The interest rate on the remaining debt varies with changes in market interest rates. Market-based interest rates have gone up sharply over the last year. This has increased total interest expense as well as the market-based return on all bonds. (Both of these factors, along with the prospect of a recession in the U.S., are a large part of why iHeart's bonds are currently out of favor.)

iHeart's asset value easily covers its obligations, as seen in the chart below:



Additionally, operations provide more than enough cash – we estimate it will be at least $300 million in 2023 – to make all of its interest payments. Currently, secured debt is equivalent to 4x operating profit. If you add unsecured bonds – which typically are paid off in a liquidation only after the secured debt is paid off – that ratio is 5.4x. (Even assuming operating profits were to fall to $800 million this year – and the company may well do better than that – the business will still generate roughly $300 million in cash after all interest payments.)

In its most recent conference call, management reiterated that the best return on its free cash flow comes from buying its bonds in the open market. Using its free cash flow this way reflects its commitment to reducing debt.

In 2022, operating profits (cash flow before interest expense and tax) were $950 million – which equates to almost 3x what iHeart needs to make interest payments. This is a substantial margin of safety. It means that the company could continue to make all interest payments even if operating profits weaken.

As seen in the chart below, Bloomberg forecasts that iHeart's free cash flow will outstrip its debt load by incrementally larger numbers each year through 2026:

iHeart's Interest Payments vs. Forecast Free Cash Flow

Period	Interest Payments	Free Cash Flow
2023	$209.2	$225.8
2024	$361.5	$414.0
2025	$342.1	$451.2
2026	$246.2	$636.5

Source: Bloomberg. Data in $millions.

The company has significant financial flexibility. Even with higher interest rates in 2022, iHeart generated cash flow from operations of $420 million. At March 31, iHeart had $188 million in cash -- and the quarter ending March 31 is a seasonally weak one for the company, meaning this cash balance should grow over the course of the year. Additionally, it has just over $400 million available to borrow should it ever become necessary.

This cash balance is after the company bought back $350 million of its 8.375% unsecured bonds for $315 million over the course of the last year. Based on management's previous comments, we think it is highly likely this repurchasing will continue in 2023.)

Management has repeatedly indicated it plans to use cash that iHeart generates to bring debt down to 4x operating profit over the next few years. Using cash flow to reduce debt is music to a bondholder's ear.

All of iHeart's borrowing is available without any ongoing performance testing – so there is no being forced to repay any borrowings early – and its nearest-term maturity is this bond issue in June 2026. In a nutshell, the company has the financial strength to enable management to operate the business as it believes best for the long term, and has no debt coming due before the 6.375% bonds maturing May 1, 2026.

Why Are These Bonds Distressed?

Often, when a company's bonds trade at a substantial discount from their face value, it's because the market is concerned about how the company will pay its bills. Either the business is unprofitable, or there's too much debt, or it has run out of cash… or is about to.

This is not the case with iHeart. The business makes money, with minimal capital expenditures needed, and generates additional cash each year.

We believe that iHeart's bonds trade at a discount based on history and concern about short-term results. Let's start with iHeart's past, which includes a Great Financial Crisis-fueled Chapter 11 bankruptcy.

On July 30, 2008, two of the most prominent private equity firms at the time, Thomas H. Lee Partners and Bain Capital Partners, purchased Clear Channel Communications – now known as iHeart – for $26.7 billion. (Based on market values, the company is now worth $6.6 billion. Just $4.3 billion of that amount covers our bonds in full.)

As it happened, the American economy had entered the Great Recession a few months before, and Lehman Brothers would fail a few months later, and the S&P Index was in the process of falling 48% from August 2008 through March 2009. To borrow a line from the comical secret agent character Maxwell Smart, "Missed it by that much."

To make matters worse, the purchasers loaded the company with close to $20 billion in debt to complete their purchase. It was a leveraged buyout that struggled from the start.

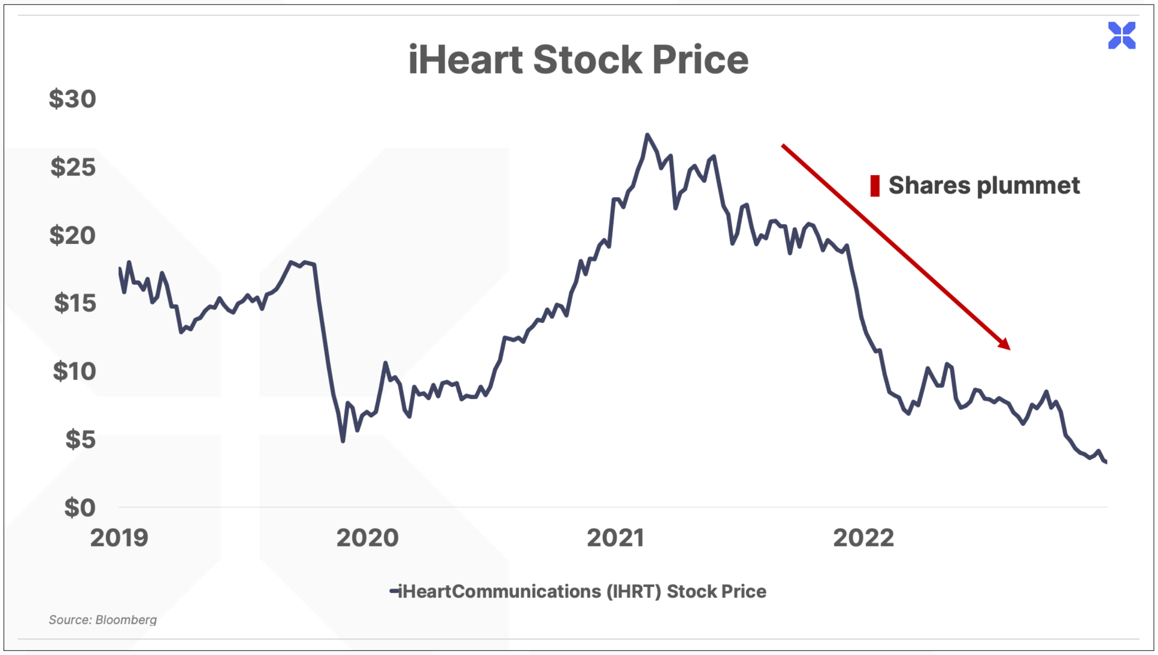
Through some quick maneuvering and by adding more and more debt, the company stayed afloat until 2018, when it filed for bankruptcy. (By that time, the company was spending more than $1.8 billion dollars a year on interest expense.) In 2019 it emerged from Chapter 11 with its debt cut from $20 billion to its current level of just over $5 billion.

With a vastly reduced debt load, management could once again devote its full attention to the business – which performed well. After a sharp Covid-related market decline in earnings and stock price in early 2020, both rebounded smartly as both the U.S. economy and the level of spending on advertising recovered. iHeart's stock hit an all-time high of $27.93 in June 2021 and ended the year at roughly $20 per share. At the peak, the aggregate value of the company's shares was close to $4 billion.

During 2022 the Federal Reserve Bank raised interest rates repeatedly, the stock and bond markets fell, and fears of a near-term recession increased. Tougher times meant sharp cuts to advertising budgets – and iHeart suffered. In late February of

2023, management presented its outlook for operating profit in the first quarter of 2023 – $80-90 million compared with $133 million in 2022. (Operating profit for the quarter ended up being $93 million, which is slightly above the high end of management's range of expectations.)

The projected decline in operating profit took the market by surprise. The stock, which had ended 2022 around $7 per share, moved to its current level of just over $3 per share.



But, as Warren Buffett has said...

> *"Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it."*

How We'll Profit from Folly

We're confident that iHeart has a valuable business with many long-term strengths. Despite the occasional hiccup, this company's revenues and profits are more than sufficient to pay the interest on its debt and repay the principal when it comes due. Over the last three months the 6.375% secured bonds that we're recommending – which share the first claim on the company's assets -- have declined in price from $980 to $825 (per $1,000 obligation).

As we've mentioned above, iHeart has no bonds to pay off before this issue matures on May 1, 2026. We're very comfortable that these bonds will be paid on time and in full. In fact, they might even be paid off early.

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Both the Chairman/CEO and the CFO of iHeart have extensive experience raising money – and are expert at refinancing bonds opportunistically. The company is currently taking advantage of the market discounts by purchasing its own bonds in the open market. (It isn't a good idea to sell your bonds to the people who know the company best. It's a better idea to join them!)

We wouldn't be surprised if iHeart ends up refinancing these bonds (and possibly others at the same time) before they come due in May 2026. The company currently has the right to repurchase the bonds at $1,015.94 until April 30, 2024 – and afterward at their face value of $1,000.

Because we're recommending these bonds at a significant discount to face value, any potential early repayment would only increase the return on your investment. For instance, if these bonds end up being repaid six months ahead of schedule, the realized yield would be 15.1%. If they are repaid a year ahead of schedule, that figure would rise to 17.2%.

Terms of the Bond

The 6.375% bond issue maturing in May 2026 has a face amount of $800 million. (Since we're looking at buying these bonds at a significant discount from face value, it is as if the $800 million of bonds were available for just $660 million.) These bonds are secured by all of the company's assets – other than cash and accounts receivable.

Under all circumstances, the value of this collateral belongs to the secured bondholders and nobody else is entitled to a penny of it – up to the point when you've received all of your interest and full repayment of the bond's $1,000 face amount.

All of the company's income-producing assets secure these bonds and others that mature after our bonds. All the bonds together total $4.3 billion in face value. At the end of 2022, the book value of these assets exceeded $6.8 billion. This means iHeart's assets are worth substantially more than its debt.

iHeart's secured bonds have numerous legal provisions that protect the value of the 6.375% bonds. The most important of these are:

The debt is guaranteed by the company's subsidiaries. If iHeart sells any assets, the proceeds remain part of your bond's security.

The company is limited in how much more it can borrow against its assets. Although there are various small exceptions, we estimate iHeart could issue roughly $1 billion more in secured debt. But that would mean that there was another $1 billion of value in the company. The reason is that if EBITDA rises, this limitation goes up. Conversely, if EBITDA declines, so does the additional amount iHeart can borrow. So all in all, we do not see the possibility of additional debt issuance as a great risk to bondholders.

There's a similar limitation in how much the company can spend repurchasing bonds that are not secured by any assets.

Furthermore, that same limitation applies to how much iHeart can pay in dividends or use to repurchase stock.

If iHeart were to merge or be acquired by another company, the new company would have to honor all the terms of your bonds and the assets securing them would be the same.

A Note on The Unsecured Bonds

We believe that iHeart's 6.375% Secured Bonds maturing May 1, 2026 offer a compelling overall balance of risk and reward – a yield of 13.8% and security with a book value of more than 150% of the total secured debt. The company has one issue of more speculative bonds that are priced at a large discount but not backed by any of the company's assets (known as unsecured bonds).

Although we aren't recommending iHeart's unsecured bonds – a $1.1 billion issue of 8.375% bonds that matures May 1, 2027 – we note that they have a highly speculative appeal. The bonds are trading at $618 – equating to a yield of 24.1%. Moreover, the company has been using excess cash flow to buy these bonds in the open market. (In 2022, iHeart repurchased $330 million face amount of bonds for $299 million.)

The price of these riskier bonds has fallen sharply over the last few months – from $910 in late February to $618 today. We believe that the company will continue to use excess cash to repurchase the unsecured bonds in the open market. The 8.375% bonds are iHeart's highest-yielding bond – and also its riskiest one.

Action to Take: Buy iHeart Communications 6.375% Secured Bond due 5/1/26 up to $860 CUSIP 45174HBC0

iHeart Communications 6.375% Secured Bond Due 5/1/26

Summary		
May 10, 2023	Amount Invested	$826.58
	Total Interest and Principal	$1,191.25
	Current Yield	7.7%
	Total Return	44.1%
	Issue Size	$800 million
	Credit Rating	BB- S&P, B1 Moody's
	Callable	Yes (at $1,0159.38)
Details		
May 10,2023: Purchase the bond	Accrued interest*	$1.58 per bond
	Total Cost	$826.58 per bond
November 1, 2023	Receive interest payment	$31.69 per bond
May 1, 2023	Receive interest payment	$31.68 per bond
November 1, 2024	Receive interest payment	$31.69 per bond
May 1, 2025	Receive interest payment	$31.68 per bond
November 1, 2025	Receive interest payment	$31.68 per bond
May 1, 2026	Receive interest and principal payment	$1,031.69 per bond

The accrued interest from May 1, 2023 to May 10, 2023, This amount is received by the seller on the settlement date and is added to the price of the bond. The first interest payment you receive on December 1, 2023 is for $31.69

The interest and principal repayments add up to a 14.8% annualized total return over the period from when the investor purchases the bond until it's paid off May 1, 2026. That's an extraordinarily high return for bonds that mature in just under three years. It compares very favorably with other bond alternatives. For example, the 6.375% bonds are currently rated B1 by Moody's and BB- by Standard & Poor's. As of May 1, the effective yield on the ICE BofA Single-B US High Yield Index was 8.53%.

Martin Fridson

Porter & Co.

Stevenson, MD

P.S. If you'd like to learn more about the Porter & Co. team – all of whom are real humans, and many of whom have Twitter accounts – you can get acquainted with us **here**.

mailbag@porterandcompanyresearch.com

Part Two: How to Buy IHRT's 6.375% 05/01/2026 Bond

How to Buy This Bond with a Live Broker

If you are putting in a phone call to your broker, here's a quick breakdown of the steps you'll go through.

1. Tell your broker the number of bonds you'd like to acquire.
2. Provide the name of the borrower, the coupon, and date of maturity.
3. Provide the CUSIP number (The CUSIP for iHeart 6.375% 05/01/2026 Bond is 45174HBC0)
    - CUSIP stands for "Committee on Uniform Securities Identification Procedures" and is a unique series of numbers and letters assigned to every traded security. Providing the CUSIP will ensure that you're buying the right security.

Specific Instructions for iHeart Communications 6.375% 05/01/2026 Bond

Now, the bond we are recommending today is generally not tradeable online, except at Interactive Brokers and a few very high-end brokerages, so instead you will need to place your trade by phone. We've confirmed that the iHeart Communications 6.375% 05/01/2026 Bond is available through Schwab, T.D. Ameritrade, (Fidelity but only for qualifying orders, i.e., over $50,000) and at full-service brokerage firms.

Recall that the bond market is much less popular (and there's much less trading volume) compared to the stock market, so don't be surprised if you are dealing with a broker who knows little about the bond market.

This is part of the reason why, in the bond market, there are fewer market participants and less overall interest, so it's easier to scoop up bargains when opportunities arise.

The instructions for placing an order are usually standard across the brokerage platforms mentioned above.

Here's an example of how the conversation with your broker might go:

Investor: *"Hello. I am interested in buying the iHeart Communications 6.375% 05/01/2026 Bond. Can you get me the bond quote so I can decide whether or not I want to buy?"*

Broker: *"Yes, can you confirm with me the CUSIP?"*

Investor: *"The CUSIP is 45174HBC0."*

Broker: *"We don't have these bonds in our inventory. However, we can place open market orders which allows for this bond to be traded and sold through an alternative trading system (ATS). We can get you a quote. How many of these iHeartCommunications bond due May 1, 2026 are you looking to purchase?"*

Investor: *"I'd like to purchase 25 of the iHeart Communications 6.375% 05/01/2026 Bond."*

Broker: *"Okay, I will get you a quote and call you back. Bye."*

This is where the first conversation with the broker will come to an end… but within the next 24 to 48 hours of the next trading day, the broker should return your call and will give you the quote (the price) of the bond. This call is when you will place and confirm your order.After your initial call to receive the quote, the broker will call you back in most cases and after he confirms he's speaking to the correct person, he can go ahead and place your order.

Here's how the second call might go:

Broker: *"Hello, this is John Doe, the Fixed Income specialist you spoke to earlier. I am calling to give you a quote for the 25 iHeart Communications 6.375% 05/01/2026 Bond you inquired about earlier today. The price for the size of your request to buy 25 bonds is $86.465. Would you like to go ahead and place the trade?"*

Note: The $86.465 price he quoted is really $864.65 for the cost of each bond. When quoting bonds, brokers will most likely drop the last number, so $86.465 becomes $864.65. Now, if the investor decides to purchase 25 bonds, his total will be $21,616.25 ($864.65 × 25 = $21,616.25) in addition to the commission or service fee.

Investor: *"Yes. The total comes out to $21,616.25 plus the service fee. Is that correct?"*

Broker: *"Yes, it is correct. I will go ahead and make the transaction. You will get an email confirmation over the next 24 hours. Have a great day!"*

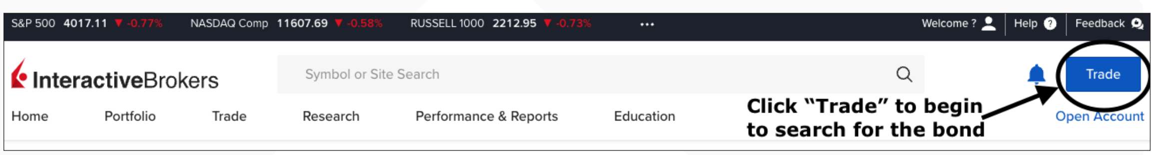
As always, if you have questions, please call Lance, your personal Porter & Co. Concierge, toll-free at **(888) 610-8895**, or locally at **(443) 815-4447**. We do not endorse any specific brokerage and are offering this guide for informational purposes only.

How to Buy This Bond Online

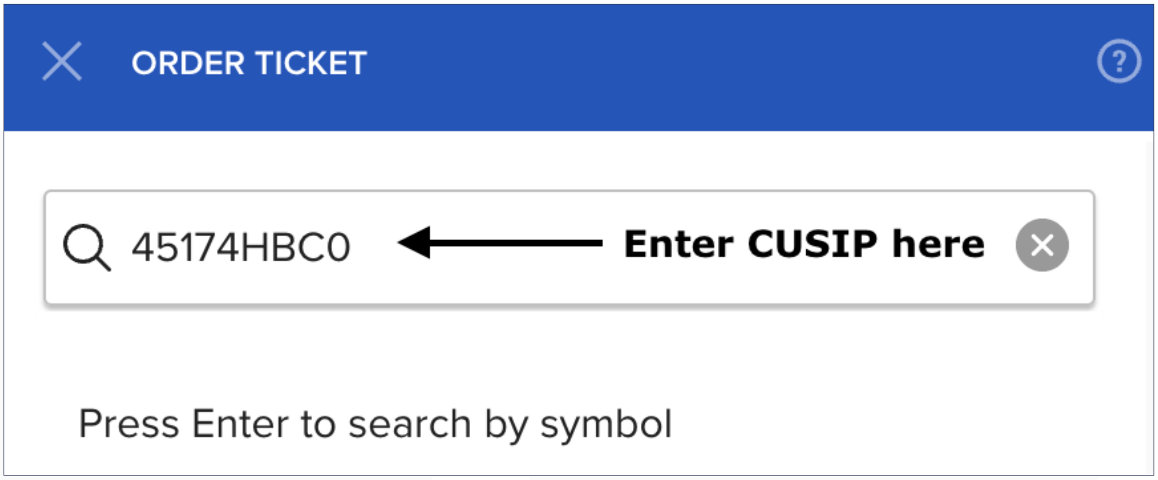
For readers who prefer to purchase bonds online and who have Interactive Brokers accounts, we've taken screenshots to walk you through what to expect.

For Interactive Brokers Users

1. Log in to your Interactive Brokers account as you traditionally would access your equity portfolio.
2. When logged in, click on the blue "Trade" box located in the top right-hand corner of your screen to search for the IHRT's 6.375% 05/01/2026 Bond.



3. Enter the CUSIP (45174HBC0) into the search bar and select the "IHRT Corp 6.375 May01'26 IHRT IBCID364374951" option.



4. Now, you will enter the preliminary amount of bonds you'd like to purchase. The amount of bonds you enter is nominated in the bond's face value ($1,000). So, if you want to purchase 1 bond, the face value is $1,000 and you'd be purchasing one bond for the price of $864.65. If you'd like to purchase 25 bonds, enter 25, and your order will come out to $21,616.25 based on the quote below. When you are ready to place your order, click "Submit Buy Order".

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