

Second Quarter 2024 Earnings Conference Call Transcript

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Presenters

Michael Rapino, President and CEO

Joe Berchtold, President and CFO

Amy Yong, Head of Investor Relations

Q&A Participants

Stephen Laszczyk – Goldman Sachs

Brandon Ross – LightShed Partners

David Karnovsky – J.P. Morgan

Cameron Mansson-Perrone – Morgan Stanley

Peter Supino – Wolfe Research

Barton Crockett – Rosenblatt Securities

Operator

Greetings, and welcome to The Live Nation Entertainment Second Quarter 2024 Earnings Call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero, on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Amy Yong, head of Investor Relations. Thank you, Amy, you may begin.

Amy Yong

Good afternoon and welcome to the Live Nation Second Quarter 2024 Earnings Conference Call. Joining us today is our President and CEO, Michael Rapino, and our President and CFO, Joe Berchtold. Before we begin, we would like to remind you that this afternoon's call will contain certain forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ, including statements related to the company's anticipated financial performance, business prospects, new developments and similar matters.

Please refer to Live Nation's SEC filings, including the risk factors and cautionary statements, including the company's most recent filings on forms 10-K, 10-Q and 8-K for a description of risks and uncertainties that could impact the actual results. Live Nation will also refer to some non-GAAP measures on this call. In accordance with the SEC regulation G, Live Nation has provided definitions of these measures and a full reconciliation to the most comparable GAAP measures in our earnings release. The release reconciliation can be found under the financial information section on Live Nation's website.

With that, we are now ready to take your questions. Operator?

Operator

Thank you. We'll now be conducting a question-and-answer session. If you would like to ask a question, please press star, one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions.

Thank you. Our first question is from Stephen Laszczyk with Goldman Sachs. Please proceed with your question.

Stephen Laszczyk

Great. Good afternoon. Thanks for taking the questions. Joe, on fan count, it looks like it grew 5% in the second quarter, with some diverging growth trends between North America up 26% and International down 16%. Just wondering if you could talk a little bit more about the attendance trends you're seeing across region and then within that, across venue type. And then maybe related to that, there's been a lot of attention just on tour cancellations and consumer demand over the last few months. Could you comment on what you're seeing on that front, then to what extent you think that demand extends into the back half of the year and what that means ultimately for attendance growth into the back half of '23? And then I have a follow up from Michael. Thank you.

Joe Berchtold

That's about a four-part question. Let's start with some of the easier pieces. In terms of cancellation rates, our cancellation rates, we're seeing historical norms below last year. They historically run kind of 4% to 5% of shows, about a percent and a half of fans, absolutely in line with historical trends. I think most of the reports that we've seen have been efforts to take one or two data points out of a very large number of tours and shows, and we're just not seeing anything unusual there.

In terms of overall demand continues to be extremely strong. We tried to highlight here a couple of casual fan metrics that we think are important, where obviously we've heard a lot of things from other companies over the past weeks or month or so. One is just when we put on promotions or Summer Concert Week back in May, or more recently, our four-pack promotion, those tend to be focused on the casual fan. And we've seen increased interest of fans and their purchase behavior, so that's a positive signal.

The other signal that we look at is how do shows close. In the last couple of weeks before the amps play off, are people buying more of those lawn tickets, as they're making the last-minute decision on whether or not to go to the show? That number is up 16% year-to-date. So again, seeing very strong, casual demand there. And finally, once they go to the show, what's their behavior? And again, we're seeing no issues, so we continue to be on track for a couple of dollars

growth in our APF spend at our amphitheaters. So, I think it's all consistent with our concerts being seen as very good value for money, two-thirds less than \$100, one-third of them less than \$50. It's a much more memorable event than a lot of other experiences you can get at that price point. So, we continue to feel very good about the strong level of consumer demand we're seeing.

In terms of the specific fan count numbers that we've seen over the quarter and over the first half of the year, I think it really is venue type driven. It's not so much geographic driven. It's very consistent with what we've been saying for the past year, this was not going to be a big stadium year. You're seeing that play out in terms of lower stadium shows, lower fan count. That impacts our international number. North America, where we've had very strong performance, particularly on the amphitheater side, as you see here, we said amphitheater attendance up 40% for the second quarter. So, it's really that amphitheaters are up very strongly year-to-date, arenas, theaters and clubs, all up double-digits as well. So, you're seeing in totality, continued growth, despite not having the stadium shows this year. And just from a geographic standpoint, that happens to benefit the U.S., doesn't make any comment on any kind of macro longer term trend.

As we head into the back half of the year, again, no underlying issues on fan demand at all. Expect to see continued growth in the fan count over the course of the second half. I think most of that will come in Q4. Q3, you'll see the continued impact of the stadium show count. And I think we had, if we just look at the summer season, Q2, Q3, probably about two-thirds of your amp growth in terms of shows and fans was in Q2 as we got started earlier in the year, and the majority of arena shows as well. But we expect still solid fan demand growth, fan growth overall for the second half of the year, again, probably more in Q4 than Q3.

Stephen Laszczyk

Got it. Thanks for that. And then maybe just for Michael. As you look out into 2025, any early reads on how the touring pipeline is shaping up? I think in the press release, you mentioned it was expected to be a busy year, just any more color or commentary around that, particularly on the stadium front and arenas and amps as well.

Michael Rapino

Yeah. As we said from day one, this was never going to be a big stadium year. We're thrilled that we can still grow the business coming off two years of extraordinary growth given where we were in 2019, so it's still a strong year for us overall. Stadiums were always the challenge and international was always going to be a stadium issue, given Paris Olympics. Most of France shut down for that month and most of that affected a lot of the stadium business for the summer.

So, the good news is, as we predicted, '25 looks like to be a big banner year. Again, we're looking right now at our stadium pipeline for '25. It's bigger right now than it was two years ago, in '23. Our amp and arena is bigger right now than it was last year at this time in terms of our pipeline. So, we've always thought 2024 would be the year of AOI in amphitheaters and arenas and '25 will be the back to a solid continual growth of stadiums. And as we've always predicted, post-

COVID, we'd be back to an 8%, 9% compounded annual growth as an industry on the top line, and we'll see that come back to life next year, and probably more.

Stephen Laszczyk

Great. Thank you both.

Operator

Thank you. Our next question is from Brandon Ross with LightShed Partners. Please proceed with your question.

Brandon Ross

Thanks. I'll try and keep it tight. Just as a follow up there on Stephen's seventh question, I think that was, just in terms of the stadium activity, what does that look like for you in terms of ticketing performance the rest of this year? Should we expect a big Q4 this year, similar to the types of Q4s that you were putting up in larger stadium years? And where does that kind of bring ticketing overall for the year since there's relative weakness in Q2 and Q3, given the mix?

Joe Berchtold

Sure, Brandon, let me also just start out with a little bit of context. I think we look over a multi-year trends entering this year. Since 2019, Ticketmaster AOI was up around 130%, sponsorship around 85%, and concerts around 35%. So, I think one of the things we're seeing this year is, as you'd expect as the businesses grow, some normalization and those numbers start to come together more. So that said, our views on Ticketmaster remain unchanged. We think it's going to be a mid-single digit growth this year.

It's going to be Q4 driven by the onsales Michael was just talking about with the stadium activity. And I think in general, a lot of people have just under modelled the stadium impact, good and bad. I think it's been under modeled for the upside in Q4. As I've said in the past from just purely a ticketing perspective, narrowly to how they do their numbers, one stadium show is triple the fan count and triple the average ticket price of an amphitheater show. So, while overall those amphitheater fans are very valuable to us as a company and have helped drive our AOI growth this summer, and this year overall, as you look specifically at the ticketing segment, you're going to see it impacted the other way.

Brandon Ross

Great. And then just overall on the lawsuit, I don't want to ask about where you stand with the DOJ, but just wanted to ask how that whole situation overall is impacting your strategic decision making. When you look at M&A opportunities, both domestically and abroad, is that piece of it in the back of your mind and swaying how you allocate capital now at all, or are you just straight ahead as if there was nothing going on?

Michael Rapino

Yeah. We're able to isolate. So, if you're in my legal department, you're working on the DOJ. If you're running any one of my divisions, it's business as usual. We've been focusing on Venue Nation, global venues around the world. I think we put in that press release, we got 15 coming online over the next year, still 75 or so in the pipe.

I had a venue meeting this morning. We looked at 10 new venues that we're looking to build across the U.S., Latin America and Asia, in the pipe. So, business as usual. We think there's still a great whitespace on a global venue basis. And ticketing, I think you saw last week we expanded ticketing in South Africa and have a few more of those on an international basis. So, lots of opportunities still ahead of us and business as usual in the divisions.

Brandon Ross

Great. Thank you very much.

Operator

Thank you. Our next question is from David Karnovsky with J.P. Morgan. Please proceed with your question.

David Karnovsky

Hey. Thank you. Joe, Michael, we've heard from some other live entertainment companies recently kind of talked to pull forward and demand post-COVID and that's starting to normalize. I'm curious for your view on this as it relates to concerts, do you think there was any pull forward from kind of late '21 through '23, or anything in your data to indicate that the frequency of concert going ramped to an unsustainable level and is now kind of moving back to trendline?

Joe Berchtold

Frankly, I find the concept of pull forward for experiences like concerts to be a little bit of an odd one. I think that we have long said this is a supply driven business, the demand is there. Notwithstanding the fact we have a lot fewer stadiums this year, we're actually still growing our show count. We're still growing our fan count. We've talked a lot about new artists. We've talked a lot about global artists, Afrobeats, Latin, K-pop, exporting Country. So, I think what we're seeing is an acceleration of the continued globalization on the demand side, the artists seeing that they can go everywhere in the world. We'll have some shifts in terms of venue types, and exactly which markets have which level of activity, but there's nothing that would suggest that we're really deviating from historical trajectories on the ongoing growth of the business.

Michael Rapino

We never predicted that the industry was going to grow at 30% a year going forward. We always wanted to restate that regardless of some of the COVID pent up demand or some of the shows that got moved around, this industry on a global basis supply demand, are the basics still sound, are they going to grow at a 9%, 10% a year growth rate and we see all those trends we've talked about over the last year: globalization, consumers wanting to get to the show from Columbia to Pittsburgh, globalization of the artists, supply demand, experience economy, still make this

industry overall probably one of the best industries you're going to find out there, continued double-digit growth amongst many of the divisions as well as on a global basis at 9%, 10% annual base.

David Karnovsky

OK. And then your amp show count and attendance growth were particularly strong in the quarter. Joe, I think you might have said before, more of the show count growth slowing to Q2 this year, due to an earlier season. And can you just frame what that should mean potentially on a relative basis for AOI growth or margin in Q3 relative to Q2?

Joe Berchtold

Yeah. I think Q3 is pretty much always our high watermark on margin, as we have the high volume of festivals, in addition to the amphitheaters. I'd see no reason for that not to continue. We expect to continue to have AOI growth as a result of that margin expansion. I was trying to give you guys a little bit of more specific context for the modeling, but we expect this to be a very strong AOI growth year for concerts. I gave some of the numbers earlier where I talked about more normalization.

So, we do expect concerts to carry a lot of growth for the overall company this year, and we think that margins are moving back towards 2019 levels. I always hesitate to give exact margin forecasts, because a lot of it depends on our volume of onsales in Q4 that results in expensing of marketing but expect that we're moving back towards the 2019 margin levels on a full-year basis.

David Karnovsky

Thank you.

Operator

Thank you. Our next question is from Cameron Mansson-Perrone with Morgan Stanley. Please proceed with your question.

Cameron Mansson-Perrone

Thanks. Two if I can. Notice that take rates been up nicely at Ticketmaster this year, year-to-date. Has that success and some of that first step you've taken to kind of improve the ancillary monetization there, or what's factoring into that? And then, Joe, on the higher capex guidance, given the comment about pull forward in the release, does that mean lower growth in capex next year? How should we think about that? And on the note that you expect to generate free cash flow conversion consistent with last year, despite how capex is ramping, this year, just any context in terms of how you're achieving that given the capex ramp?

Joe Berchtold

Yeah. I think in terms of the pull forward, what we're speaking to specifically is we're now expecting to have 14 major venues open between '24 and '25, as opposed to the 12 that we had last quarter. I think it's very early to start talking about '25 capex. As Michael talked about on an

earlier question, we're regularly looking for all the venue opportunities we can find globally. He spends a lot of time with the teams in every market, looking at that. So, I think that we'll continue to make those decisions on next year's capex based on the opportunities and hopefully there will continue to be a lot of great opportunities with the kind of 20%+ return profile that we tend to look at.

In terms of the free cash flow conversion, I think those numbers, the cash conversion that we use is after maintenance capex and before growth capex. So, the growth capex numbers since the growth in the number and the forecast was in growth capex. I don't think that impacts how that number flows through. Back to your first question in terms of Ticketmaster. Yeah, Ticketmaster is continuing to perform well, again, adding a lot of clients internationally, continuing to have strong renewal rates, both in North America and Internationally. We're growing our upsells and ancillary spend with the ad units at Ticketmaster.

So, I think the underlying performance and the health of the business continues to be very strong. The fact that the AOI in Q2 was actually as high as last year given the volume of stadium shows that they lost in the second quarter, the fact that it's still one of the top five quarters that has had are all indications of the great performance and strength of that business on a multi-year basis.

Cameron Mansson-Perrone

Got it. All really helpful. Thanks.

Operator

Thank you. Our next question is from Peter Supino with Wolfe Research. Please proceed with your question.

Peter Supino

Hi. Thank you. I wanted to ask two questions, one on concert segment. With a really high growth. I wondered if you could parse the contribution from Venue Nation versus the promotion function. And then a question on growth capex. Your press release talks about 30% returns on venue upgrades. And in prior discussions, you aspired to 30% returns on some Greenfield venue builds. If Venue Nation generally does invest capital at a 30% incremental return, should we take the difference between total capex and maintenance capex and multiply that by 30% to forecast the return on your growth capex, or would that be an oversimplification? Thanks.

Joe Berchtold

So, first on the Venue Nation versus the concert promotion, really, because that's transfer pricing, we don't spend a lot of time trying to separate the two. We don't have, I would say, fully distinct P&Ls that would give you at the AOI level, I think what you're asking about. We do look at the returns that we generate, the returns that we generate from all aspects of the business to give you a feel that we're creating a lot of shareholder value as we're opening new venues and making other capex investments. I think that what we've said historically, is we strive for 20% north or

higher on major renovations and new builds, and as we showed here, 30% plus on some more tactical improvements.

This is also all the venue-based capex. There's also Ticketmaster and other capex that we make. So, I think it's probably a bit of an oversimplification, particularly if you're trying to apply it to a single timeframe, given that the capex is often ongoing for a couple of years on a major project. So yeah, you have a little bit of timing complexity there. So, it's probably just not quite as simple. Over time, you'd get those returns, but not if you're trying to do this on a quarter-by-quarter basis.

Peter Supino

Thanks, Joe. Thanks, Amy.

Operator

Thank you. Our next question is from Barton Crockett with Rosenblatt Securities. Please proceed with your question.

Barton Crockett

Hi, thanks for taking the question. I wanted to ask maybe a little bit more about what's happening with sponsorship. So, the revenue was up 3% in the quarter, but AOI was up 10%. And you're guiding for the year, you're talking about double-digit bookings growth and stable margins. I was just wanting to explain what drives the acceleration in the top line, but kind of the give back on the margin? And just talk generally about the health of what you're seeing in sponsorship at this point.

Joe Berchtold

Yeah. I'll give you some specifics on the margins and Michael can comment on overall. I think the business continues to be a 60%+ margin business, very strong. I think, as I have long said, when over analyzed single quarters, I think over the course of the year, we'll continue to deliver similar margins as we have in past years. This is all a part to, as Michael talked about, when you have a high single-digit growth business underlying in the industry level, and we're over delivering that, part of that over delivery is if you look at sponsorship, it's been in the teens historically on an AOI growth basis. And as we continue to grow the fan count and grow the overall business, we expect we'll continue those sorts of historical growth rates.

Michael Rapino

Yeah. And I would just say as an overall, given I work with the team a lot on our big clients, we're seeing this continual upgrade, moving from a regional deal to a global or national deal. That has been our biggest strategy over the last five years, is upgrading from a local to a national deal with a larger relationship and a longer-term relationship, more integrated. And the lineup continues to be strong on all major brands. All CMOs look at us kind of like the NFL and want to find ways to work on our digital, our on-site, our festivals, our tours, the artists, all the different ways they

want to attach to live music. So, we continue to be a great business on AOI growth basis for a long time.

Barton Crockett

OK. Great. Thank you.

Operator

Thank you. There are no further questions at this time. I'd like to hand the floor back over to Michael Rapino for any closing comments.

Michael Rapino

Thank you, everybody. Have a great summer talk and we'll talk in the fall.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.