

Enterprise Risk Management at Live Nation and Ticketmaster

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Executive Summary

Operators in the Concert and Event Promotion industry produce advertise and manage a variety of live events and performances, including concerts, sporting events and public appearances (IBISWorld, 2019a). IBIS World highlights that the industry's success has been the result of continued demand for live entertainment and its value to US consumers. Over the five years to 2019, industry revenue is expected to grow at an annualized rate of 4.6% to \$33.3 billion, including an increase of 2.3% in 2019 alone. The current period is marked by the growing success of music festivals and rising ticket sales. Billboard Magazine estimates that over 32.0 million Americans attended at least one festival in 2015 (IBISWorld, 2019a).

Live Nation Entertainment Inc. is the leading company that takes the largest market share in the Concert & Event Promotion in the US industry. The company brings 30,000 shows and 100+ festivals to life and sells 500 million tickets per year, which is a massive undertaking, made ERM highly crucial for its sustainable success (Livenation, 2019) .

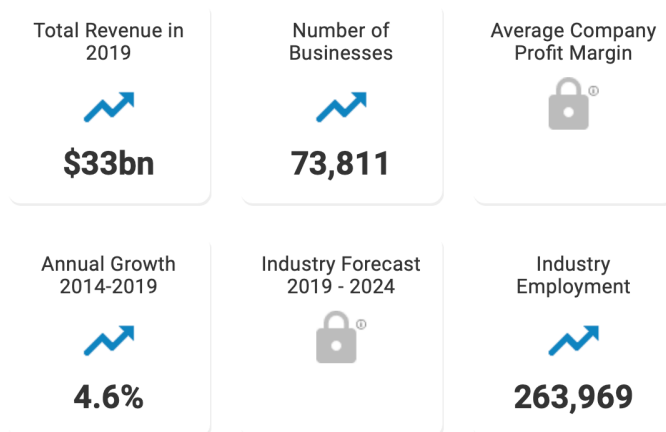
The evolution and the centralization of the market dynamics between 1995 and 2005 brought significant and long-term transformations (White & Preston, 2014). Live Nation, the largest concert promoter, and Ticketmaster Entertainment, the No. 1 ticket seller, announced their widely reported merger deal in February 2009. White et.al argues that the merger was approved by the U.S. Justice department pretty complex and controversial requirements to Ticketmaster to license its primary ticketing software to a competitor, sell off one ticketing unit, and agree to be barred from retaliating against venue owners who use a competing ticket service, which makes Live Nation's ERM more complex than ever before.

Keywords: Live Nation, Ticketmaster, Enterprise Risk Management—ERM

Enterprise Risk Management at Live Nation and Ticketmaster

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How is the Industry Trending in the US?



Info Graph. I(IBISWorld, 2019a)

Live Nation Entertainment Inc.

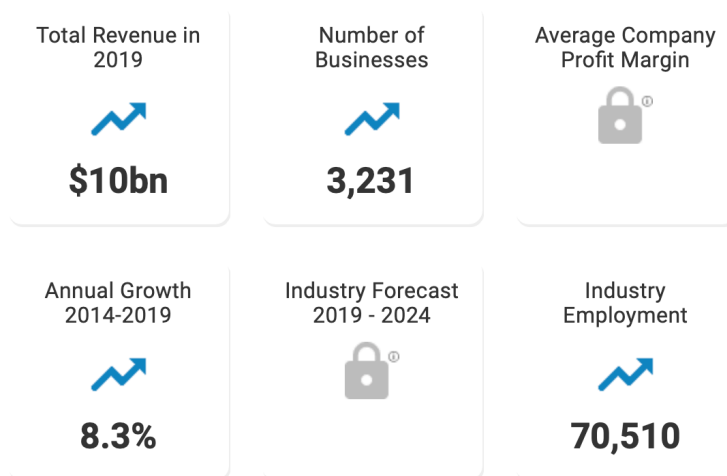
Live Nation Entertainment Inc. is the leading company that takes the largest market share in the Concert & Event Promotion in the US industry (IBISWorld, 2019a). The company brings 35,000

shows and 100+ festivals to life and sells 500 million tickets per year (Livenation, 2019). The Company has over 93 million fans, 4,000 touring artists, and 200+ venues in 40 countries around the world. The company's official website states that "On average, every 16 minutes there is a live nation event starting somewhere in the world" (Livenation, 2019).

Ticketmaster

The Online Event Ticket Sales industry has experienced strong growth amid a major shift from physical tickets and at-home printing to a fully digitized mobile ticketing experience (IBISWorld, 2019b). IBISWorld also highlights that "over the five years to 2019, personal disposable incomes have grown alongside the music industry's continued shift toward live performance. Furthermore, major growth in the percentage of services conducted online, particularly among younger demographic groups that typically favor live performances and music festivals, has given the industry a substantial boost (IBISWorld, 2019b). IBISWorld forecasts industry revenue will expand at an annualized rate of 8.3% over the five years to 2019, including a 5.7% increase in 2019 alone, to reach \$10.3 billion (IBISWorld, 2019b). See the infographic below.

How is the Industry Trending in the US?



Info Graph. II (IBISWorld, 2019a)

Ticketmaster founded in Phoenix Arizona by college staffers Albert Leffler and Peter Gadwa and businessman Gordon Gunn in 1976. Leffler comes up with the name Ticketmaster for the new company (Ticketmaster, 2019). In 1991, the company acquired its major competitor Ticketron. Finally in 2010, Ticketmaster Entertainment merges with Live Nation, becomes Live Nation Entertainment (Ticketmaster, 2019).

Live Nation: Origin, Culture, Structure, ERM Practices & Prior Risk Experiences

Origin. Robert F.X. Sillerman, the founder of SFX Entertainment, was born in 1948 and grew up in the Riverdale section of the Bronx, NY (ReferenceForBusiness, 2019). When he was 13, his father, Michael McKinley Sillerman's company, the Keystone Radio Network went bankrupt. After his graduation from Brandeis University, he worked in the field of marketing. He founded National Discount Marketers, Inc., in 1974. In 1978, he formed a business partnership with well-known New York radio celebrity Bruce "Cousin Brucie" Morrow. According to Reference for Business web site, Sillerman-Morrow Broadcasting Group bought eight radio stations and a TV station before selling out in 1985 and Sillerman continued investing in radio and founded SFX Broadcasting, Inc. with Steven Hicks in 1992 to acquire the stations owned by Command Communications and Capstar Communications. Scrambling Sillerman's middle and last initials created the company's name. His company, SFX Broadcasting went public in 1993 (ReferenceForBusiness, 2019) .

Risk Culture. Apparently, highly risky and sometimes controversial merger and accusations have been part of the company's expansionist corporate culture, possibly inherited

from the founders of the entertainment giant, which gives a vital information regarding the company's risk tolerance. Chapman says "once an organization has developed its tolerance levels, the business risk culture can then be used to inform senior management in their decisions about risk tolerance levels for individual projects and programs in their application for approval" (Chapman, 2006). When the 1996 Federal Telecommunications Act loosen the ownership restrictions, SFX acquired additional stations, such as Multi-Market Radio, Inc., ABS Communications, Prism Radio Partners, Liberty Broadcasting, and Secret Communications over the next several years. The companies portfolio increased more than 70 stations in 20 markets (ReferenceForBusiness, 2019). SFX's first major success into the world of concert promotion came with the company's acquisition of Delsener/Slater of New York, one of the top concert promoters in the northeastern United States (ReferenceForBusiness, 2019).

In August 1997 SFX announced that it would be acquired by the Capstar unit of Dallas-based Hicks, Muse, Tate & Furst, led by former Sillerman partner Steven Hicks. However the Justice Department's antitrust division put on hold the deal (ReferenceForBusiness, 2019). During this time, SFX expanded dramatically by acquiring four major companies including top promoters Bill Graham Presents of San Francisco, Contemporary Group of St. Louis, and Concert/Southern Promotions of Atlanta, as well as Network Magazine Group and SJS Entertainment (ReferenceForBusiness, 2019). In the spring of 1998 SFX received clearance for its acquisition by Hicks, Muse, Tate & Furst, with newly launched SFX Entertainment, Inc. as a separate entity and the new company announced five more major acquisitions SFX (ReferenceForBusiness, 2019).

Structure. Robert F.X. Sillerman, and his new broadcasting company SFX Entertainment, managed the first major development in the centralization of the concert industry

(White & Preston, 2014). The company started to acquire regional concert promoters, focusing on those with substantial assets including: in-house promotion companies, Ticketing companies, Merchandise companies, Production companies, and venues (White & Preston, 2014).

ERM Practices. Jan P. Berger served as a CRO for Live Nation between 2010 to 2016. For over six years, Berger was responsible for global risk programs, contracts and claims at the world's largest live concert and ticketing company—Ticketmaster and Live Nation's global business includes 25,000+ events per year, many at the company's 150+ controlled venues ranging from large amphitheaters to smaller venues such as the House of Blues clubs and Fillmore branded music halls (Gilkey, 2012).

Apparently, there are some major exposures that Live Nation faces. Berger states that in his interview with Eric Gilkey on CLM.

He says: “we have millions of patrons that go in and out of our facilities. We own or control about 125 venues around the world, and we also rent third-party venues to put on our shows. As you can imagine, with thousands of patrons going in and out of those facilities daily, our focus is on making sure they attend our concerts in a safe manner. With that many people, you have your typical slip and falls and the like.

We also face other exposures with our arenas and amphitheaters. Occasionally there is a property event like damage from a hurricane or fire, but that’s rare. The lion’s share are patron issues that occur because you’re moving large amounts of people in a small amount of time around a music concert” (Gilkey, 2012).

Berger goal was to educate employees and try to “make them understand what risk management does, how it can help them and organization, and how to partner with their third

parties to do a better job covering their risks,” during his six years (Gilkey, 2012). Berger underlines that the insurance is one of his major tools to cover risk. He also adds the importance of the “right information and the data sets” with the concern of its difficulties to set its structure in a young company. He arguably states that “ they are not quite ready to approach an enterprise risk management strategy” in his interview to CLM in 2012 (Gilkey, 2012). To resolve issues they have their general liability adjusters in the company which located in Southern California. In addition to that, they have a “network of 18-20 workers’ comp adjusters who work on Live Nation’s account” across the all states. He argues that they have “remarkably small numbers of claims relative to their activity in the US , even dramatically less claim activity overseas” (Gilkey, 2012).

Live Nations's Low Frequency - High Consequence Risk Events

Katie Dwyer, Risk and Insurance columnist states that there are six major issues which entertainment industry faces in the information age including reputation, cyber risk, violence, new business models, talent risk and third party liability (Dwyer, 2018). However, with the importance and increasing frequency of these events, probably the most important low frequency – high-risk event for Live Nation is related to the company’s expansion and business strategy risks.

Federal scrutiny is not new for Live Nation. White et.al argues that SFX's intent to acquire all the concert promoters to put everything under one roof, and then sell the entire enterprise to a larger company was scrutinized by the U.S. Senate Committee on the Judiciary in 2009 (White & Preston, 2014). The industry critics questioned Sillerman's love of music and the concert industry. The proposed Live Nation/Ticketmaster merger to the U.S. Senate Committee

on the Judiciary in 2009, independent promoter Seth Hurwitz of I.M.R strongly argued on the controversial merger,

A roll-up artist named Robert Sillerman got the idea that if he assembled all of these promoters under one company-SFX-he could find someone to buy SFX under the auspices of controlling the concert industry. He bought as many of these cowboys up as he could, by paying them whatever it took to abandon their independence (White & Preston, 2014).

Despite a yearlong judicial antitrust controversy, Ticketmaster Entertainment and the world's largest concert promoter, Live Nation, completed their merger on Monday, January 25, 2010 after agreeing with U.S. antitrust officials to divest some assets (Jeremy Pelofsky, 2010).

Reuters reported that,

The Investors welcomed the settlement, sending shares of Live Nation up 14.7 percent to close at \$10.51 on the New York Stock Exchange. Ticketmaster shares rose 15.8 percent to finish at 15.40 in regular trading on Nasdaq. At those prices the all-stock deal would be worth \$835 million. The new company will trade under the "LYV" symbol on the NYSE(Jeremy Pelofsky, 2010).

According to Seth Gilbert, the companies' approximation value combine in a tax free, all-stock merger with a combined enterprise value estimated at \$2.5b in 2009(Gilbert, 2009). Apparently, efficient mergers make investors happy. Despite years long legal battle between Live Nation and the U.S, antitrust officials obvious winner of the battle is the Company.

See the chart below.

Strong Pro Forma Balance Sheet

(\$ in millions)	September 30, 2008		
	Live Nation	Ticketmaster	Pro Forma Combined
Cash & Cash Equivalents	\$ 206	\$ 545	\$ 751
Free Cash / Operating Cash	50	188	239
Senior Debt	\$ 461	\$ 565	\$ 1,026
Senior Notes		300	300
Convertible Bonds	220		220
Other (Including Capital Leases)	118	3	121
Total Debt	\$ 799	\$ 868	\$ 1,667
Preferred Stock	40	35	75
Total Debt & Preferred Stock	\$ 839	\$ 903	\$ 1,742
Market Capitalization	420	396	816
Total Capitalization	\$ 1,259	\$ 1,299	\$ 2,558
LTM Adj Op Income / EBITDA (Sep-08)	\$ 181	\$ 324	\$ 505
Estimated Synergies	\$ 20	\$ 20	\$ 40
Total Debt & Pref. Stock / Adj Op Inc/EBITDA	4.6 x	2.8 x	3.4 x
Total Debt & Pref. Stock / Adj Op Income/EBITDA (Incl. Estimated \$40mm Synergies)	4.2 x	2.6 x	3.2 x

Source: Company filings and management estimates

Note: Ticketmaster Entertainment is pro forma for the balance sheet impact and \$44M of LTM EBITDA as of 30-Sep-08 for the Front Line acquisition. The Ticketmaster Entertainment preferred stock is paid in kind (PIK) and \$35MM value of preferred stock is subject to accounting adjustments. Live Nation LTM Adjusted Operating Income is not pro forma for discontinued operations. Operating Cash for Ticketmaster Entertainment excludes client cash. Free Cash for Live Nation excludes deferred income, accrued artist fees, collections on behalf of others and prepaids related to artist settlements / events.

Info Graph. III(Gilbert, 2009)

Recently, Senator Amy Klobuchar of Minnesota and Senator Richard Blumenthal of Connecticut say that Live Nation's control in the industry is "virtually unchallenged" (Sisario, 2019). Almost nine years later the Company is still dealing with the same antitrust issues, which is rare but still enormously risky events and evolving. Two United States senators go further by asking the Justice Department to investigate the state of competition in the ticketing business, and to extend a regulatory agreement with Live Nation Entertainment, the industry behemoth that owns Ticketmaster (Sisario, 2019). Still same argument, "The Ticketmaster-Live Nation merger has contributed to consumers' difficulties in the ticketing market," and requests further investigation (Sisario, 2019).

Lessons Learned for the Other Organization in the Industry

Financial Times—FT states that the Anschutz Entertainment Group—AEG Live is an American worldwide sporting and music entertainment presenter and a subsidiary of The Anschutz Corporation. FT also argues that, “Four decades on, the business of staging outdoor concerts is a multibillion-dollar industry dominated by two huge companies—Live Nation and AEG Live” (Murad Ahmed, 2016)

FT argues that “their business model has been to turn high-risk, weather-dependent propositions into sustainable and profitable ventures” (Murad Ahmed, 2016). Live Nation and AEG have done much of their organizations in the U.S., where festivalgoers and promoters began to catch on to festivals in the 2000s, well after weekend-long affairs became established across Europe. See the graph below.



Info Graph. IV (Murad Ahmed, 2016)

Despite FT argument of weather dependent risk proposition, none of the major festivals/events have been cancelled over a decade. One of the low frequency – high consequence/impact that AEG experienced was the loss of reputation regarding the death of

Michael Jackson (Maeve Reston, 2009). The AEG accused of having attempted to profit from the King of the Pop's death, who was due to perform at London's O₂ arena in 2009-2010. While refunds of the approximately 750,000 tickets were made available to customers who requested them, the promoter offered to send out "souvenir" tickets if fans of the singer waived their right to the refund (Maeve Reston, 2009)

The company expected at least 40–50% of its customers would request the original tickets in lieu of the refund, which would save the company \$40 million in refunds. That was in addition to future profits from any material that formed a part of the "This Is It" concerts, which AEG made its intellectual property in sponsoring the concerts themselves (Maeve Reston, 2009)

LA Times argues that,

After Conrad Murray, the physician whom appointed by AEG to take care of Jackson during the run-up and throughout the "This Is It" concerts, was found guilty of involuntary manslaughter, Katherine Jackson, Michael's mother and legal guardian of his three children, filed a wrongful death suit against the promoter, seeking damages that were reported to be in excess of tens of billions of dollars (Maeve Reston, 2009).

AEG filed a motion to have the case dismissed. A Los Angeles County judge, who felt sufficient evidence was present for the progression to a jury trial, denied the case. (Jeff Gottlieb, 2013).

After almost 4 years long legal battle extremely costly legal battle AEG was not found liable in the death of Michael Jackson on October 2, 2013 (Jeff Gottlieb, 2013).

Despite tens of different unexpected events preparation and plans, sometimes it would be hard to predict a death of a star. Even that kind of situation, which I also believe, it was a calculated risk, companies like AEG Live, Live Nation would managed to find a way to

minimize their lost. Apparently, the whole ERM process especially for the low frequency - high impact/consequences/risk events/issues could manage, if the Company has a good leadership with the experienced ERM team with a highly defined and rehearsed plan, corporate wide education and training with risk alertness, well though insurance plan with premeditated/calculated loss in \$ value, sufficient data and working IT infrastructure, consistency, and the good communication—PR with the public.

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