ENTRAVISION COMMUNICATIONS CORP
Form 10-Q
May 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-15997

ENTRAVISION COMMUNICATIONS CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 95-4783236 |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>Identification No.) |

2425 Olympic Boulevard, Suite 6000 West

Santa Monica, California 90404

(Address of principal executive offices) (Zip Code)

(310) 447-3870

(Registrant’s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer (Do not check if a smaller reporting company) | Smaller reporting company |
| | Emerging growth company |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 4, 2018, there were 64,544,938 shares, $0.0001 par value per share, of the registrant’s Class A common stock outstanding, 14,927,613 shares, $0.0001 par value per share, of the registrant’s Class B common stock outstanding and 9,352,729 shares, $0.0001 par value per share, of the registrant’s Class U common stock outstanding.

ENTRAVISION COMMUNICATIONS CORPORATION

FORM 10-Q FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2018

TABLE OF CONTENTS

Forward-Looking Statements

This document contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words "may," "could," "will," "estimate," "intend," "continue," "believe," "expec "anticipate" or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Except for our ongoing obligation to disclose material information as required by the federal securities laws, we do not intend, and undertake no obligation, to update any forward-looking statement.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. Some of the key factors impacting these risks and uncertainties include, but are not limited to:

- risks related to our substantial indebtedness or our ability to raise capital;
- provisions of our debt instruments, including the agreement dated as of November 30, 2017, or the 2017 Credit Agreement, which governs our current credit facility, or the 2017 Credit Facility, the terms of which restrict certain aspects of the operation of our business;
- our continued compliance with all of our obligations under the 2017 Credit Agreement;
- cancellations or reductions of advertising due to the then current economic environment or otherwise;
- advertising rates remaining constant or decreasing;
- rapid changes in digital media advertising;
- the impact of rigorous competition in Spanish-language media and in the advertising industry generally;
- the impact of changing preferences, if any, among U.S. Hispanic audiences for Spanish-language programming, especially among younger age groups;
- the impact on our business, if any, as a result of changes in the way market share is measured by third parties;
- our relationship with Univision Communications Inc., or Univision;
- the extent to which we continue to generate revenue under retransmission consent agreements;
- subject to restrictions contained in the 2017 Credit Agreement, the overall success of our acquisition strategy and the integration of any acquired assets with our existing operations;
- our ability to implement effective internal controls to address a material weakness discussed in this report;
- industry-wide market factors and regulatory and other developments affecting our operations;
- the ability to manage our growth effectively, including having adequate personnel and other resources for both operational and administrative functions;
- economic uncertainty;
- the impact of any potential future impairment of our assets;
- risks related to changes in accounting interpretations;
- the impact of provisions of the Tax Cut and Jobs Act of 2017 (the "2017 Tax Act"), including, among other things, our ability to fully account for all effects of the 2017 Tax Act, reasonably estimate the income tax effect of the 2017 Tax Act on our financial statements and utilize provisional amounts during an interim that in no circumstances will extend beyond one year after the enactment date of the 2017 Tax Act;
-

consequences of, and uncertainties regarding, foreign currency exchange including fluctuations thereto from time to time;

2

- legal, political and other risks associated with our operations located outside the United States;
- the effect of proposed changes in broadcast transmission standards by the Advanced Television Systems Committee's 3.0 standard (“ATSC 3.0”), assuming they are adopted by the Federal Communications Commission, or FCC, that may impact our ability to monetize our spectrum assets; and
- the uncertainty and impact, including additional and/or changing costs, of mandates and other obligations that may be imposed upon us as a result of federal healthcare laws, including the Affordable Care Act, the rules and regulations promulgated thereunder, any executive action with respect thereto, and any changes with respect to any of the foregoing in Congress.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see the section entitled “Risk Factors,” beginning on page 30 of our Annual Report on Form 10-K for the year ended December 31, 2017.

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENTRAVISION COMMUNICATIONS CORPORATION

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share and per share data)

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $89,224 | 39,560 |
| Marketable securities | 157,752 | - |
| Restricted cash | 769 | 222,294 |
| Trade receivables, (including related parties of $4,910 and $4,653) net of allowance for doubtful accounts of $3,013 and $2,566 | 73,728 | 84,348 |
| Prepaid expenses and other current assets (including related parties of $274 and $274) | 9,732 | 6,260 |
| Total current assets | 331,205 | 352,462 |
| Property and equipment, net of accumulated depreciation of $182,255 and $179,869 | 60,075 | 60,337 |
| Intangible assets subject to amortization, net of accumulated amortization of $89,084 and $87,632 (including related parties of $9,248 and $9,555) | 25,306 | 26,758 |
| Intangible assets not subject to amortization | 254,506 | 251,163 |
| Goodwill | 70,557 | 70,557 |
| Other assets | 4,253 | 4,690 |
| Total assets | $745,902 | $765,967 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Current maturities of long-term debt | $3,000 | $3,000 |
| Accounts payable and accrued expenses (including related parties of $2,645 and $2,548) | 46,397 | 57,563 |
| Deferred revenue | 1,535 | 1,959 |
| Total current liabilities | 50,932 | 62,522 |
| Long-term debt, less current maturities, net of unamortized debt issuance costs of $3,637 and $3,761 | 291,863 | 292,489 |
| Other long-term liabilities | 23,420 | 21,447 |
| Deferred income taxes | 39,289 | 40,639 |
| Total liabilities | 405,504 | 417,097 |
| | | |
| Commitments and contingencies (note 5) | | |
| | | |
| Stockholders' equity | | |

| | | |
|---|---|---|
| Class A common stock, $0.0001 par value, 260,000,000 shares authorized; shares issued and outstanding 2018 65,586,094; 2017 66,069,325 | 7 | 7 |
| Class B common stock, $0.0001 par value, 40,000,000 shares authorized; shares issued and outstanding 2018 and 2017 14,927,613 | 2 | 2 |
| Class U common stock, $0.0001 par value, 40,000,000 shares authorized; shares issued and outstanding 2018 and 2017 9,352,729 | 1 | 1 |
| Additional paid-in capital | 882,935 | 888,650 |
| Accumulated deficit | (541,538) | (539,730) |
| Accumulated other comprehensive income (loss) | (1,009) | (60) |
| Total stockholders' equity | 340,398 | 348,870 |
| Total liabilities and stockholders' equity | $745,902 | $765,967 |

See Notes to Consolidated Financial Statements

4

ENTRAVISION COMMUNICATIONS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except share and per share data)

| | Three-Month Period Ended March 31, 2018 | 2017 |
|---|---|---|
| Net Revenue | $66,838 | $57,510 |
| | | |
| Expenses: | | |
| Cost of revenue - digital media | 10,625 | 1,752 |
| Direct operating expenses (including related parties of $2,048 and $2,320) (including non-cash stock-based compensation of $216 and $223) | 31,033 | 27,092 |
| Selling, general and administrative expenses | 13,294 | 11,200 |
| Corporate expenses (including non-cash stock-based compensation of $1,033 and $752) | 5,975 | 5,867 |
| Depreciation and amortization (includes direct operating of $2,536 and $2,205; selling, general and administrative of $1,313 and $1,016; and corporate of $90 and $325) (including related parties of $307 and $581) | 3,939 | 3,546 |
| Change in fair value of contingent consideration | 2,100 | - |
| Foreign currency (gain) loss | 213 | - |
| | 67,179 | 49,457 |
| Operating income (loss) | (341) | 8,053 |
| Interest expense | (3,398) | (3,645) |
| Interest income | 913 | 109 |
| Dividend income | 128 | - |
| Other income (loss) | 22 | - |
| Income (loss) before income taxes | (2,676) | 4,517 |
| Income tax benefit (expense) | 930 | (1,899) |
| Income (loss) before equity in net income (loss) of nonconsolidated affiliate | (1,746) | 2,618 |
| Equity in net income (loss) of nonconsolidated affiliate, net of tax | (62) | - |
| Net income (loss) | $(1,808) | $2,618 |
| | | |
| Basic and diluted earnings per share: | | |
| Net income (loss) per share, basic and diluted | $(0.02) | $0.03 |
| | | |
| Cash dividends declared per common share | $0.05 | $0.03 |
| | | |
| Weighted average common shares outstanding, basic | 90,319,092 | 90,236,476 |
| Weighted average common shares outstanding, diluted | 90,319,092 | 91,760,531 |

See Notes to Consolidated Financial Statements

5

ENTRAVISION COMMUNICATIONS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In thousands, except share and per share data)

| | Three-Month Period Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net income (loss) | $(1,808) | $2,618 |
| Other comprehensive income (loss), net of tax: | | |
| Change in foreign currency translation | 290 | - |
| Change in fair value of available for sale securities | (1,239) | - |
| Change in fair value of interest rate swap agreements | - | 553 |
| Total other comprehensive income (loss) | (949) | 553 |
| Comprehensive income (loss) | $(2,757) | $3,171 |

See Notes to Consolidated Financial Statements

6

ENTRAVISION COMMUNICATIONS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

| | Three-Month Period Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net income (loss) | $(1,808) | $2,618 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,939 | 3,546 |
| Deferred income taxes | (1,014) | 1,473 |
| Amortization of debt issue costs | 124 | 183 |
| Amortization of syndication contracts | 176 | 109 |
| Payments on syndication contracts | (186) | (113) |
| Equity in net (income) loss of nonconsolidated affiliate | 62 | - |
| Non-cash stock-based compensation | 1,249 | 975 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | 11,043 | 10,979 |
| (Increase) decrease in prepaid expenses and other assets | (3,981) | (891) |
| Increase (decrease) in accounts payable, accrued expenses and other liabilities | (5,977) | (5,963) |
| Net cash provided by operating activities | 3,627 | 12,916 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (3,030) | (1,526) |
| Purchases of intangible assets | (3,153) | - |
| Purchases of marketable securities | (159,403) | - |
| Purchases of investments | - | (250) |
| Deposits on acquisition | - | (230) |
| Net cash used in investing activities | (165,586) | (2,006) |
| Cash flows from financing activities: | | |
| Proceeds from stock option exercises | - | 311 |
| Tax payments related to shares withheld for share-based compensation plans | (2,227) | - |
| Payments on long-term debt | (750) | (938) |
| Dividends paid | (4,518) | (2,821) |
| Repurchase of Class A common stock | (2,402) | - |
| Net cash used in financing activities | (9,897) | (3,448) |
| Effect of exchange rates on cash, cash equivalents and restricted cash | (5) | |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (171,861) | 7,462 |
| Cash, cash equivalents and restricted cash: | | |
| Beginning | 261,854 | 61,520 |
| Ending | $89,993 | $68,982 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Cash payments for: | | |
| Interest | $3,274 | $3,462 |

| | | |
|---|---|---|
| Income taxes | $84 | $426 |
| | | |
| Supplemental disclosures of non-cash investing and financing activities: | | |
| Capital expenditures financed through accounts payable, accrued expenses and other liabilities | $870 | $786 |
| Contingent consideration included in accounts payable, accrued expenses and other liabilities | $18,000 | $- |

See Notes to Consolidated Financial Statements

ENTRAVISION COMMUNICATIONS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MARCH 31, 2018

## 1. BASIS OF PRESENTATION

### Presentation

The consolidated financial statements included herein have been prepared by Entravision Communications Corporation (the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to such rules and regulations. These consolidated financial statements and notes thereto should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The unaudited information contained herein has been prepared on the same basis as the Company's audited consolidated financial statements and, in the opinion of the Company's management, includes all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the information for the periods presented. The interim results presented herein are not necessarily indicative of the results of operations that may be expected for the full fiscal year ending December 31, 2018 or any other future period.

Certain amounts in the Company's prior year period consolidated financial statements and notes to the financial statements have been reclassified to conform to current period presentation.

## 2. THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

### Nature of Business

The Company is a leading global media company that, through its television and radio segments, reaches and engages U.S. Hispanics across acculturation levels and media channels. Additionally, the Company's digital segment, whose operations are located primarily in Spain, Mexico, Argentina and other countries in Latin America, reaches a global market. Entravision's expansive portfolio encompasses integrated marketing and media solutions, comprised of television, radio, and digital properties (including data analytics services). The Company's management has determined that the Company operates in three reportable segments as of March 31, 2018, based upon the type of advertising medium, which segments are television, radio, and digital. As of March 31, 2018, the Company owns and/or operates 55 primary television stations located primarily in California, Colorado, Connecticut, Florida, Kansas, Massachusetts, Nevada, New Mexico, Texas and Washington, D.C. The Company's television operations comprise the largest affiliate group of both the top-ranked primary television network of Univision Communications Inc. ("Univision") and Univision's UniMás network. The television broadcasting segment includes revenue generated from advertising, retransmission consent agreements and the monetization of the Company's spectrum assets. Radio operations consist of 49 operational radio stations, 38 FM and 11 AM, in 16 markets located in Arizona, California, Colorado, Florida, Nevada, New Mexico and Texas. Entravision also operates Entravision Solutions as its national sales representation division, through which it sells advertisements and syndicate radio programming to more than 300 stations across the United States. The Company operates a proprietary technology and data platform that delivers digital advertising in various advertising formats that allows advertisers to reach audiences across a wide range of Internet-connected devices on its owned and operated digital media sites; the digital media sites of its publisher partners; and on other digital media sites it can access through third-party platforms and exchanges.

Restricted Cash

As of March 31, 2018, the Company’s balance sheet includes $0.8 million in restricted cash, which was deposited into a separate account as temporary collateral for the Company’s letters of credit. As of December 31, 2017, the Company’s balance sheet includes $222.3 million in restricted cash of which $221.5 million relates to proceeds received by the Company for its participation in the FCC auction for broadcast spectrum which were deposited into the account of a qualified intermediary to comply with Internal Revenue Code Section 1031 requirements to execute a like-kind exchange. The remaining $0.8 million in restricted cash was used as temporary collateral for the Company’s letters of credit.

Related Party

Substantially all of the Company’s stations are Univision- or UniMás-affiliated television stations. The Company’s network affiliation agreements with Univision provide certain of its owned stations the exclusive right to broadcast Univision’s primary network and UniMás network programming in their respective markets. Under the network affiliation agreement, the Company retains the right to sell no less than four minutes per hour of the available advertising time on stations that broadcast Univision network programming, and the right to sell approximately four and a half minutes per hour of the available advertising time on stations that broadcast UniMás network programming, subject to adjustment from time to time by Univision.

Under the network affiliation agreement, Univision acts as the Company's exclusive third-party sales representative for the sale of certain national advertising on the Company's Univision- and UniMás-affiliate television stations, and it pays certain sales representation fees to Univision relating to sales of all advertising for broadcast on the Company's Univision- and UniMás-affiliate television stations. During the three-month periods ended March 31, 2018 and 2017, the amount the Company paid Univision in this capacity was $2.0 million and $2.3 million, respectively.

The Company also generates revenue under two marketing and sales agreements with Univision, which gives the Company the right to manage the marketing and sales operations of Univision-owned Univision affiliates in six markets – Albuquerque, Boston, Denver, Orlando, Tampa and Washington, D.C.

Under the Company's proxy agreement with Univision, the Company grants Univision the right to negotiate the terms of retransmission consent agreements for its Univision- and UniMás-affiliated television station signals. Among other things, the proxy agreement provides terms relating to compensation to be paid to the Company by Univision with respect to retransmission consent agreements entered into with multichannel video programming distributors, ("MVPDs"). As of March 31, 2018, the amount due to the Company from Univision was $4.9 million related to the agreements for the carriage of its Univision and UniMás-affiliated television station signals. During the three-month periods ended March 31, 2018 and 2017, retransmission consent revenue accounted for approximately $8.9 million and $8.0 million, respectively, of which $7.5 million and $7.3 million, respectively, relate to the Univision proxy agreement. The term of the proxy agreement extends with respect to any MVPD for the length of the term of any retransmission consent agreement in effect before the expiration of the proxy agreement.

Univision currently owns approximately 10% of the Company's common stock on a fully-converted basis. The Class U common stock held by Univision has limited voting rights and does not include the right to elect directors. As the holder of all of the Company's issued and outstanding Class U common stock, so long as Univision holds a certain number of shares, the Company will not, without the consent of Univision, merge, consolidate or enter into another business combination, dissolve or liquidate the Company or dispose of any interest in any Federal Communications Commission, or FCC, license for any of its Univision-affiliated television stations, among other things. Each share of Class U common stock is automatically convertible into one share of Class A common stock (subject to adjustment for stock splits, dividends or combinations) in connection with any transfer to a third party that is not an affiliate of Univision.

Stock-Based Compensation

The Company measures all stock-based awards using a fair value method and recognizes the related stock-based compensation expense in the consolidated financial statements over the requisite service period. As stock-based compensation expense recognized in the Company's consolidated financial statements is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures.

Stock-based compensation expense related to grants of stock options and restricted stock units was $1.2 million and $1.0 million for the three-month periods ended March 31, 2018 and 2017, respectively.

Stock Options

Stock-based compensation expense related to stock options is based on the fair value on the date of grant using the Black-Scholes option pricing model and is amortized over the vesting period, generally between 1 to 4 years.

As of March 31, 2018, there was less than $0.1 million of total unrecognized compensation expense related to grants of stock options that is expected to be recognized over a weighted-average period of 0.8 years.

Restricted Stock Units

Stock-based compensation expense related to restricted stock units is based on the fair value of the Company’s stock price on the date of grant and is amortized over the vesting period, generally between 1 to 4 years.

As of March 31, 2018, there was approximately $5.7 million of total unrecognized compensation expense related to grants of restricted stock units that is expected to be recognized over a weighted-average period of 1.6 years.

Income (Loss) Per Share

The following table illustrates the reconciliation of the basic and diluted income (loss) per share computations required by Accounting Standards Codification (ASC) 260-10, "Earnings per Share" (in thousands, except share and per share data):

| | Three-Month Period Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Basic earnings per share: | | |
| Numerator: | | |
| Net income (loss) | $(1,808) | $2,618 |
| Denominator: | | |