

## Endeavor, the massive Hollywood talent agency that owns UFC and Miss Universe, could face significant financial risk in the months ahead as the coronavirus shuts down live events

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Endeavor, Hollywood's largest talent agency and a rising player in live entertainment events, has seen revenues plummet amid the fallout from the coronavirus pandemic, leading S&P Global to downgrade its credit rating on Monday.

The private-equity giant Silver Lake is one of Endeavor's largest financial backers. It plowed \$750 million into the company over the past eight years and holds a controlling stake in the company.

S&P lowered Endeavor's issuer rating to CCC+ from B, saying social-distancing measures had likely taken a toll on the firm's revenues given its expansion into media production and live events and that it may not be able to support its hefty debt burden.

It also downgraded its rating on the Endeavor subsidiary WME IMG Holdings LLC's first-lien credit facilities to CCC+ from B



Patrick Whitesell and Ari Emanuel. J. Vespa / Contributor, Getty Images

and said its B issuer rating for UFC and B rating on its first-lien debt remained on CreditWatch with negative implications.

"Endeavor entered 2020 with a highly leveraged capital structure, therefore the anticipated significant drop in revenue in 2020 could potentially result in an unsustaina-

ble capital structure," credit analysts Jing Li and Emile Courtney wrote in the report.

Further, the credit-ratings agency said the bleak outlook for the company's media-production and events revenue streams "significantly heightened financial risk over at least the next several

quarters," which the agency believes "could motivate the company to seek a distressed debt restructuring if coronavirus containment does not occur by midyear so that revenue can begin to recover." Silver Lake and Endeavor did not immediately respond to requests to comment.

In recent weeks, Hollywood's largest agencies have turned to layoffs, furloughs, and salary cuts as government-mandated shutdowns and stay-at-home orders have frozen businesses across the country.

Endeavor, the largest entertainment talent agency with 7,000 staff across an array of businesses, has laid off 250 employees whose jobs can't be done remotely and shelved an April equity award to partners. Top execs Patrick Whitesell and Ari Emanuel have foregone salaries for the year, and they've rolled out broad staff pay cuts on a sliding scale.

The company, which pulled an initial public offering in September the day before it was set to debut, has been on an M&A spree in recent years and diversified its business away from solely talent representation.

In 2016, it led a consortium of buyers that spent \$4 billion to acquire the mixed-martial arts league UFC. It has also bought Professional Bull Riders, Miss Universe

Pageant, and art-events and media companies, among other transactions.

That has helped the company's revenues soar, but it has also saddled it with nearly \$5 billion in debt.

By mid-2019, the company was on track for \$4 billion in annual revenue — up from \$1.3 billion in annual revenues five years earlier — but only one-third of it was from representation, according to documents filed with the Securities and Exchange Commission as part of the company's IPO effort. Nearly two-thirds was driven by entertainment and sports events like UFC and professional-soccer media rights.

**This expansion hasn't aged well amid the COVID-19 outbreak that has canceled and postponed myriad live events and put Hollywood production on hold.**

**"That's a double whammy that could prove fatal," Lloyd Greif, a veteran Los Angeles investment banker and the founder of boutique Greif & Co., told Business Insider. "I think because of their massive leverage, that double-edged sword is going to cut them deeply."**

S&P said the multifront assault on Endeavor's businesses has presented "significant anticipated stress on revenue and cash flow."

"A sizable portion of Endeavor's revenue is event- and live en-

tertainment-based or otherwise sensitive to the health of the leisure and entertainment economy, which is currently disproportionately hurt by restrictions on public gatherings," S&P wrote in the report. "Endeavor owns, operates, or represents a number of events and entertainment properties, including Professional Bull Riders, Fashion Week, Fortnite competitions, and several European soccer leagues."

Endeavor is scheduled to shell out \$650 million in interest and principal payments on its debt this year and next, according to company filings from fall.

In mid-March, S&P put Endeavor and UFC on a negative credit watch, calling Endeavor "very highly leveraged."

It's not clear when the US economy will open back up again for business and facilitate group gatherings, but even in the best-case scenario, Endeavor faces an uphill battle.

"Even when production restarts, which we currently assume would be in the next few months, it might not be sufficient to offset the impact from cancelled or postponed events," S&P wrote in the report.