Rudenstein’s Guest Lecture

NYU/Stern School
Professor Giddy
October 7, 2003
Introductions

- Rudenstein background/NYU connection
- Apfelbaum background & NYU connection
- What is the perspective of the class:
  - Commercial bankers
  - Mezzanine
  - Private Equity
  - Consulting/CPA/Legal
  - Industry
TDI THEMES

Series of valuation exercises
  - original LBO 1986
  - Ouster of old management team 8/89
  - New management post 1989 asset disposals
  - 1992 restructuring deal
  - 1993 refi that funded 1992 agreement
  - 1995 harvest
  - 1996 harvest

Stakeholder claims on value

Who adds/diminishes value
TDI History

- Winston Network founded in 1950’s
- Initial focus was on Bus Advertising
- Acquired TDI (Rail advert) in 1970’s from ITT
- Acquired selected BB assets in early 80’s
- Founder exits thru 1986 MBO led by Saratoga
- New management renames Company AMNI
- Business begins to underperform
How did the Old management team diminish value?
How was value diminished?

- BAD ACQUISITIONS
- INCREASE DEBT
- BAD BIDS
- POOR OPERATING PERFORMANCE
- LOSE CONFIDENCE OF STAKEHOLDERS
- AVARICE/PERSONAL AGENDAS
## Post LBO Performance

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td>$100</td>
<td>$104</td>
<td>$112</td>
<td>$114</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>$17</td>
<td>$17</td>
<td>$11</td>
<td>$9</td>
</tr>
<tr>
<td><strong>DEBT</strong></td>
<td>$110</td>
<td>$110</td>
<td>$124</td>
<td>$135</td>
</tr>
<tr>
<td><strong>DEBT/EBITDA</strong></td>
<td>6.5</td>
<td>6.5</td>
<td>11.3</td>
<td>15.0</td>
</tr>
</tbody>
</table>
### Deterioration of Franchise Business

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Operating CF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>$66</td>
<td>$11</td>
</tr>
<tr>
<td>1988</td>
<td>$69</td>
<td>$9</td>
</tr>
<tr>
<td>1989</td>
<td>$69</td>
<td>$6</td>
</tr>
</tbody>
</table>

**88 vs 89 vs 87**

- Revenue: 5% vs 0%
- Operating CF: (18%) vs (33%)
## Post LBO Valuation

<table>
<thead>
<tr>
<th></th>
<th>LBO</th>
<th>Prior to Asset Sales</th>
<th>After Asset Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EBITDA</strong></td>
<td>$17</td>
<td>$9</td>
<td>$4</td>
</tr>
<tr>
<td><strong>Enterprise Value</strong></td>
<td>8.0</td>
<td>136</td>
<td>72, 32</td>
</tr>
<tr>
<td><strong>Funded Debt:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior</td>
<td>69</td>
<td>80</td>
<td>38</td>
</tr>
<tr>
<td>Sub</td>
<td>41</td>
<td>55</td>
<td>55</td>
</tr>
<tr>
<td><strong>Total Funded</strong></td>
<td>110</td>
<td>135</td>
<td>93</td>
</tr>
<tr>
<td><strong>Equity Value</strong></td>
<td>26</td>
<td>(63)</td>
<td>(61)</td>
</tr>
</tbody>
</table>
How did new Mgt add value?
How did new Mgt add value?

- REDUCE DEBT
- SELL ASSETS
- FOREBEARANCE OF LENDERS
- IMPROVE OPS/EARNINGS
- GAIN CREDITABILITY OF:
  - Stakeholders
  - Industry
TDI “SWOT” ANALYSIS
1989

What are the:
- Strengths
- Weaknesses
- Opportunities
- Threats

Facing Apfelbaum & Co in 9/89?
TDI “SWOT” ANALYSIS
1989

Strengths:
- Network “in place”
- L/T Contracts
- Transit advert “monopoly”
- Salable BB assets

Weaknesses
- Angry lenders
- Weak sales/earnings
- Unprofitable franchises
- Demoralized staff
- Neg industry “buzz”
TDI “SWOT” ANALYSIS
1989

碌Opportunities:
碌 Honeymoon
碌 Limited competition
碌 Operating leverage
碌 OOH vs other media forms

碌 Threats:
碌 Gannet Outdoor
碌 “Wildass” bidders
碌 Lender “hardball”
碌 Dependency on tobacco advert
碌 Will industry adspend increases continue
TDI’s business in 8/1989

Three legged stool:
- Transit /Franchise
  - Bus & Rail major market network
- Outdoor
  - NY Billboards
  - NJ Billboards
  - NY & Los Angeles “8 sheets”
- Land Lease
# TDI’s business in 8/1989

<table>
<thead>
<tr>
<th>1989 SEGMENT EBITDA ($mil)</th>
</tr>
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<tbody>
<tr>
<td>Transit</td>
</tr>
<tr>
<td>NY Outdoor</td>
</tr>
<tr>
<td>Land Lease</td>
</tr>
<tr>
<td>BB held for sale</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
</tr>
<tr>
<td>Corp OH</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>
Dynamics of Transit Business

Franchise agreement attributes:

- Competitive procurement
- Exclusivity
- 5 year deals
- TA gets > of MAG vs % revenue
- require bonds/LC’s to secure performance
- TDI has a “One of a kind” national network
Dynamics of BB Business

- No national player...many local/regional players
- Stable /long term business
- Banks know business/comfortable to lenders
- History of ownership changes
Why Did New Management get its original 1989 deal?
Why Did New Management get its original deal

- 50% of “nothing” = $0
- Private equity firm agenda
- Original management’s worn out welcome
- Asset divestitures funded “down payment”
- Weak lead senior lender
- Patient lead mezzanine lender
- Transit authority inertia
TDI Turnaround & Restructure I

- Gain creditability of Stakeholders
  - scrub balance sheet
  - dispose assets to reduce debt
  - reduce past dues/ cure defaults
  - develop a believable plan...under promise/over deliver

- “Buy Time” to fix the business

- Negotiate a deal to compensate new Mgt
  - Apfelbaum insists on & gets control

- Debts still significantly exceed equity value
## Post Restructure I Performance

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<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BUDGET</td>
<td>$114</td>
<td>$123</td>
<td>$132</td>
<td>$143</td>
</tr>
<tr>
<td>ACTUAL</td>
<td>120</td>
<td>128</td>
<td>135</td>
<td>167</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>BUDGET</td>
<td>$9</td>
<td>$11</td>
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<td>$15</td>
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<tr>
<td>ACTUAL</td>
<td>9</td>
<td>6</td>
<td>8</td>
<td>9</td>
</tr>
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Post Restructure I
Performance

- 1990’s results exceed plan despite worsening economic environment
- 1991 miss plan but still outperform industry
- Senior Lenders refuse additional funding
- Stop debt service/hire restructure advisors
- Use upcoming NY MTA bus franchise renewal to create a “line in the sand”
What Caused Lender’s to “Cave” in 2002?
What Caused Lender’s to “Cave” in 2002?

- Bankruptcy threat to Subdebt
- Lead Sr. Bank lender’s agenda
- Lead Subdebt lender’s ability to take equity viewpoint
- Letter of credit exposure to Banks
- Impact of tobacco advert contraction
- Fatigue
- Adequately marketed to market
Funding Restructuring II

- Banks agree to take proceeds from NY Outdoor as “full & final” payment
- Management pursues sale as well as a refi
- Enter BKB bank group
- TDI's reborn as a real company
- Performance takes off
  - new entertainment & fashion replaces tobacco
  - continue to “fix” bad franchises
  - UK expansion
# Post Restructuring II Performance

<table>
<thead>
<tr>
<th></th>
<th>92</th>
<th>93</th>
<th>94</th>
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</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>8</td>
<td>9</td>
<td>19</td>
</tr>
<tr>
<td>ENTERPRISE VALUE</td>
<td>8</td>
<td>64</td>
<td>72</td>
</tr>
<tr>
<td>SENIOR</td>
<td>40</td>
<td>18</td>
<td>13</td>
</tr>
<tr>
<td>SUB</td>
<td>55</td>
<td>6</td>
<td>6</td>
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<tr>
<td>TOTAL FUNDED</td>
<td>95</td>
<td>24</td>
<td>19</td>
</tr>
<tr>
<td>EQUITY VALUE</td>
<td>(31)</td>
<td>48</td>
<td>133</td>
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</table>
TDI 1995 Harvest Opportunity

- Strong performance builds value and creates harvest opportunity
- Balance control and value growth against risk of a return to ills of the past
- Pursue multiple paths:
  - Sales to strategic vs financial buyer
  - ESOP
  - Leveraged recap
1995 Harvest

Factors that made leveraged recap possible:
- BKB support
- Ops created debt capacity
- No change of control
- LBO firms validated enterprise value
- Act 94 EBITDA of $19mil vs budget of $10mil
## Post 1995 Harvest Performance

<table>
<thead>
<tr>
<th></th>
<th>94</th>
<th>95</th>
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</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>19</td>
<td>38</td>
</tr>
<tr>
<td>ENTERPRISE VALUE</td>
<td>8</td>
<td>152</td>
</tr>
<tr>
<td>SENIOR</td>
<td>13</td>
<td>43</td>
</tr>
<tr>
<td>SUB</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL FUNDED</td>
<td>19</td>
<td>43</td>
</tr>
<tr>
<td>EQUITY VALUE</td>
<td>133</td>
<td>261</td>
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TDI 1996 Harvest

- Continued strong performance builds even more value and creates new opportunities
  - another leveraged recap/IPO/Sale
- BKB Intro to INF
- Timing and valuation everything
  - 95 offer of $100 mil LBO (EBITDA=$19mil)
  - 96 sale for $300 mil (EBITDA=$38mil)
  - 00 EBITDA rumored to approach $100mil
  - 03 rumored to be in “the crapper”
Life after TDI

- After the R&R gets “tired”
- Life as an “Angel” investor
- Goal is to have fun...NYU connection
- Finding entrepreneurs that want your help and opinions, in addition to your $, are rare