

SMARTER PERSPECTIVE: AUDIOVISUAL INDUSTRY

Recovery Values Remain Resilient Even as Lights, Cameras and AV Gear see Limited Action During Pandemic

By Brent Bonham and Nelson Thorpe

In this article we take a look at both the TV/Film/Broadcast and Concert/Theater/Tradeshow segments of the Audiovisual (AV) Industry and how social distancing requirements, consumer and customer behavior, as well as the distinct challenges associated with each business model are impacting gear sales, asset values and a potential path to recovery.

While TV viewers are mourning the loss of their favorite shows this fall and concertgoers are starved to see their beloved bands back in action on the live stage, the pain being felt behind the scenes on the production side of these and related businesses is far less visible but nonetheless significant to those across the associated segments of the production industry.

The impact of COVID-19 on the AV market overall has been significant given that starting in late March of this year, both the TV/Film/Broadcast and the Concert/Theater/Trade Show segments of the industry were compelled to cease virtually all production. While demand in the market for AV gear is experiencing a significant downturn overall, each side of the industry is being affected differently and we see the recovery for each occurring at different speeds.

TV/Film/Broadcast

In assessing the current state of assets relative to the TV/Film market segment, we see non-computer related gear such as lenses, tripods, lights, microphones, audio mixing boards and cables able to demonstrate a high level of long-term, durable value. During periods of normalized market conditions, this is primarily the case due to the broad spectrum of applications for which this equipment is essential. We have observed that, for the most part, this has continued to hold true during the pandemic period. This is based in large part on continued production demand driven by daily news, talk show and certain other broadcasts that can be executed under the existing restrictions. In many cases these were remotely produced with hosts/stars located in home studios and streaming or taping on their PC/laptop cameras and microphones, or via higher quality equipment provided to them by their studio production teams for that purpose. In addition to this, demand in the corporate video segment has also remained relatively strong during the pandemic, including a noteworthy call for corporate diversity and inclusion, pandemic policy and a host of other timely content to be-developed in recent months.

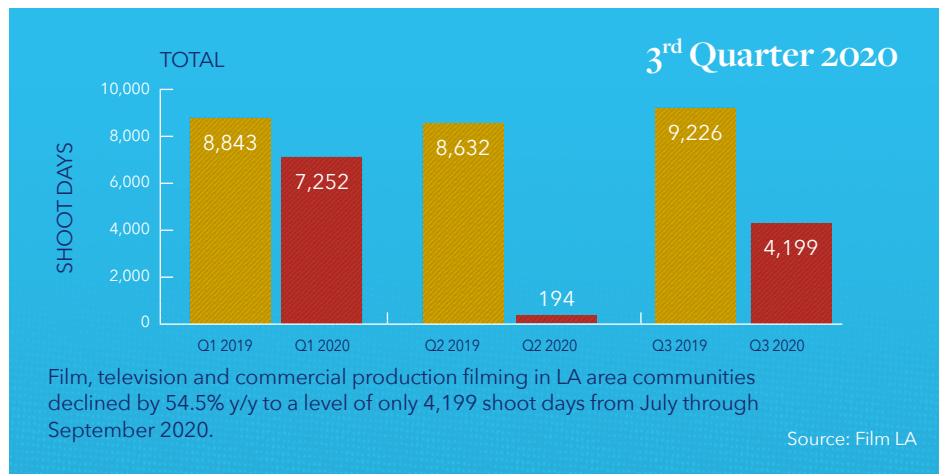
In looking at equipment such as post-production editing and broadcast control room management systems, it is important to understand that there is typically a significant upfront cost associated with the software licenses needed to operate this highly specialized gear. In many cases those licensing agreements are structured such that they are sometimes non-transferrable. Added to this is the simple fact that these are, in essence, very large, niche-specific computers and it is certainly no secret how poorly computers tend to hold their value over time. The actual impact of COVID-19 on both of the above is thus far not clear, as sales of this used equipment slowed to nearly zero initially, but according to at least one dealer with whom Hilco has close ties, the used market for such equipment has now rebounded to approximately 40% of normal with no noticeable drop in market pricing.

As referenced above, the very nature of TV is such that in many cases, scenes can be staged and recorded utilizing a relatively small number of combined actors and production staff. So, when we as TV viewers see new commercials featuring mask-wearing actors going about their business, those masks are not only part of the stories being told to promote those companies and products, but are also a critical and practical component of what is making production of those commercials and the aforementioned smaller productions possible during the ongoing pandemic period.

Film productions, on the other hand, tend to demand a far greater number of participants. Following the nearly worldwide shut down due to the pandemic, production has resumed somewhat on TV and movie projects in England, New York and Atlanta, among other locations, but remains only partially restarted in Hollywood, due primarily to the number of COVID-19 cases reported there. This has also been facilitated via the approach that industry equipment rental companies have chosen to take in response to production stoppage. In many cases, rather than have renters send back their equipment, they chose to leave it in place and not charge for it during this period. As social distancing restrictions have eased, steps such as these have enabled both TV and film projects to more quickly return to soundstages and, essentially, turn the power back on and hit the ground running.

In early September, FilmLA, a southern California non-profit tied to local municipalities for the film industry, reported that permits for film projects had rebounded to about 44% of the normal rates; this is based primarily on projects utilizing smaller crews to limit COVID-19 transmission exposure. Bigger productions continue to struggle with how or when to return, given both ongoing social distancing restrictions and the financial performance of films that have been released during this period. With even most die-hard movie goers reluctant to sit inside a movie house right now, studios have released some films such as Tom Hanks' Greyhound on streaming services. While Apple reportedly paid Sony Pictures around \$70 million for the film (which had a production budget in the range of \$50 million) in an auction and premiered it not in theaters but on Apple TV+, other films such as Christopher Nolan's highly anticipated Tenet which was released in theaters are said to be struggling to reach break-even. The outcomes have been mixed, to say the least. Significantly, Regal Cinemas announced at the start of October that it would close all of its 543 locations in the U.S. with no date certain or schedule for reopening any of those theaters.

So, in terms of TV and Film production equipment, as the industry navigates a path back toward a more normalized level of operations, we expect to see used equipment prices remaining relatively



stable for the short term. That said, a second spike of COVID-19 effecting some or all of these high concentration production geographies and ensuing shutdowns could alter the current rebounding course.

Concert/Theater/Trade Show

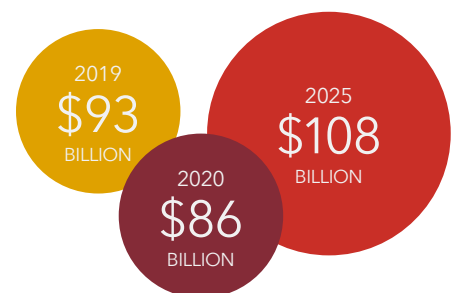
In examining the Concert Lighting /Theater Lighting & Effects/Trade Show side of this equation, we note that this segment was already experiencing certain concerning issues even prior to the onset of COVID-19. Here, companies that supply the industry tend to stock massive quantities of like items, which is always problematic when a short term liquidation scenario evolves, regardless of industry. Additionally, the market has shown that certain types of gear including moving lights and light control boards have a high propensity of obsolescence given the speed of technological evolution. So, as these items sit on the shelf through one or two cycles of what might have been 12- or 18-month concert tours or 24-month Broadway runs, they are likely to age out to some degree. Sound gear including speakers, cables, microphones and stage rigging, however, historically tends to have a much more durable value in the used equipment marketplace and is traded regularly through marketplace websites such as: UsedLighting.com and GearSource.com, among others.

COVID-19 has had a more dramatic impact here than in TV/Film/Broadcast, as it has shut down the vast majority of large public gatherings for the foreseeable future. This has certainly made it more difficult for equipment rental companies in this space to generate meaningful revenues during the pandemic, and we anticipate that for as long as the crisis

persists, this segment will remain more challenging from a used equipment standpoint. That said, it is important to keep things in perspective.

We are active in and observe auctions regularly, including those being held during the current pandemic period. At one recent auction, we saw older moving lights bringing notably less than they would have realized a year ago. LED video walls, historically a tough sell for a variety of reasons (tile color shift issues over time, pixel life span, technology evolution, etc.) also did not perform particularly well at the auction. While there may be little incentive for buyers in this space to stock up on this type of gear unless they can acquire it for future use at heavily discounted pricing, it is also worth noting that we did see several lots of items at the auction – including power distribution panels, dimmer packs and rigging – all fare notably better than might be expected during these challenging times.

The Americas Pro AV Market



After reaching \$93 billion in 2019, the Americas pro AV market is set to drop 8% to \$86 billion in 2020 as a consequence of the COVID-19 pandemic but is expected to recover, reaching \$108 billion by 2025.

Source: AVIXA Research

Conclusions

During the course of the pandemic, we have observed no notable value degradation In TV/Film/Broadcast segment and, in fact, sales as of the end of September rebounded some 40% from spring lows.

Although circumstances may be somewhat more challenging on the Concert/Theater/ Tradeshow side of the AV business at present, we are actually seeing a less than 15% degradation in overall values there post-lockdown through Q3. We expect this will hold relatively steady through Q4 as well. Even with significant overall volume sales declines across these two segments during the span of the ongoing COVID-19 crisis, it is important to point out that pricing has never dropped precipitously for either, leading us to conclude that the market seems to believe a rebound is forthcoming.

While values for some production asset categories are seeing marginal increases and decreases - in many cases correlated to age, condition, type and relative usage across various applications - overall, values are demonstrating surprising resilience. For the many reasons outlined here, the path and timeframe to recovery will be different for these two segments of the AV industry and their subsets, with TV currently leading that charge. In the meantime, even with the current level of optimism in the overall market, given the continued pricing strength and uncertainty, there would appear to be little incentive for potential buyers in the space to stock up on gear until the release of a vaccine and a subsequent reduction in infection levels is seen, particularly across key U.S. AV production geographies.

Throughout this period, Hilco Industrial has remained in frequent contact with our clients and our many industry contacts across both of these segments. Those engagements and daily discussions provide us with valuable insights that we welcome the opportunity to share with those of you who have portfolio exposure in these markets. Whether you're simply looking for some added perspective or a more in-depth consultation, please give us a call today. We are here to help.

Hilco Valuation Services

ABLs, manufacturers and specialized equipment rental companies have achieved a high level of success across numerous industries, including the audio visual industry, in partnership with Hilco Valuation Services. This success is a testament to our commitment to excellence and is based upon our disciplined process, industry-leading bench strength, systematic and highly collaborative approach. By understanding past cycles and performance, documenting historical data points across sectors and industries, and continuously exploring and assessing the path that is being paved ahead, we consistently deliver reliable, accurate and actionable valuations for our valued customers. As part of Hilco Global, the Hilco Valuation Services team frequently works hand-in-hand with the seasoned professionals at Hilco Commercial & Industrial to help maximize the value of underperforming and unwanted machinery, equipment and inventory. Acting as a principal or agent, Hilco Industrial provides customers with acquisition and disposition solutions, and often the capital needed to derive maximum profits from their assets. Over the years, the company has recovered hundreds of millions of dollars for clients on five continents.

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