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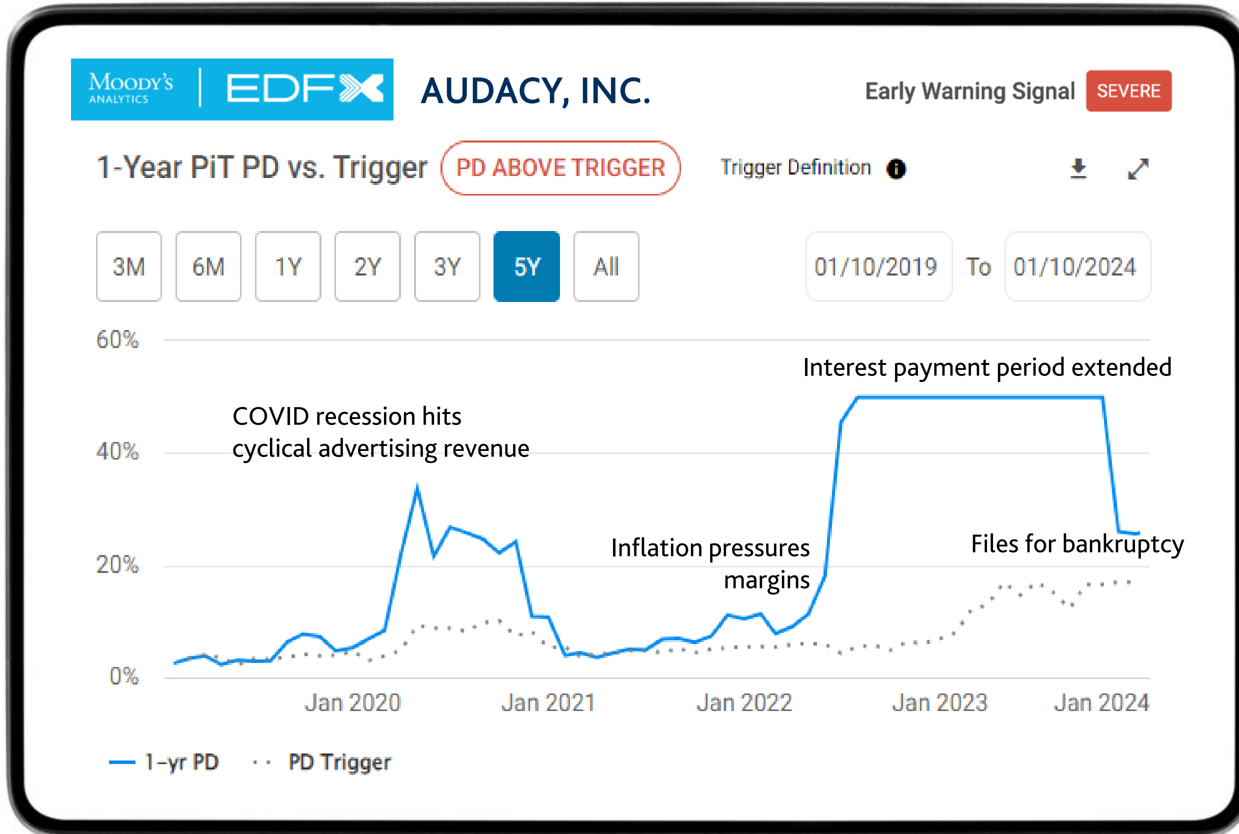
CASE STUDY: AUDACY INC.

Audacy was tipped into bankruptcy by the combination of declining advertising revenues, slower economic growth and an unsustainable capital structure



ANALYSIS

Audacy's overleveraged capital structure left it vulnerable to adverse economic developments, ultimately forcing the firm to file for Chapter 11 bankruptcy in January 2024. The firm – the second largest U.S. radio company by revenues, operating in over 50 markets and the leading broadcaster in 20 major markets – faced both cyclical and structural headwinds since the onset of the COVID-19 pandemic.

COVID-19 weighed on Audacy's revenues. Advertising spend is cyclical, and with the economy contracting in 2020, the firm's sales fell by nearly 30%. Further, advertising dollars have steadily moved from radio to digital entertainment. Audacy streamlined operations, sold assets and reduced headcount in response, but remained under pressure. High inflation increased operating costs and a large debt burden left the firm in a tenuous position. The EDF-X Early Warning System flagged Audacy as a material credit risk as far back as 2019, and its early warning signal was categorized as severe from 2021 up until the time of its bankruptcy. Companies whose early warning signals are severe are significantly more likely to default than those with low or medium risk.

Audacy worked with creditors, extending the interest payment grace period on its March 2029 notes in November 2023. While this offered the firm breathing room, leverage was still extremely high; Audacy's debt to EBITDA ratio reached 25 through the 12-months ending in June 2023. Given these obstacles, the firm filed for Chapter 11 bankruptcy, looking to reduce its debt burden from $1.9 billion to $350 million.

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