



**Dhruv Prasad & Bill Wilson**  
Co-Chief Executive Officers

March 13, 2018

Fellow Shareholders,

We are delighted to be writing to you at the start of our first full year together as leaders of Townsquare. The last year was one of transition for our Company, characterized by strong local performance, major leaps forward for the digital marketing businesses that fuel our Local Marketing Solutions segment, challenges in our Entertainment portfolio that we have addressed, and, of course, a management succession in October that led us to our current roles as Co-CEO's of the Company. Amidst this year of transition, our core Local Marketing Solutions business continued its impressive and consistent performance, delivering, at the end of FY 2017, its 16th consecutive quarter of positive, organic revenue growth. As we turn the page into 2018, we expect to build upon this position of strength and stability.

Before we review our business and our outlook for 2018, we wanted to first acknowledge and thank Steven Price, Townsquare's co-founder and founding CEO, who now serves our Company as Executive Chairman of our Board of Directors. It is quite literally true that, without Steven, this Company would not exist. As a result of his leadership, Townsquare has been among the fastest-growing companies in our industry since our inception and, of course, the first radio company to enter the public equity markets in over ten years. We look forward to continuing to work with Steven in his new role as Executive Chairman, and to his continued strategic contributions to the future of our Company.

Since our appointment as Co-CEO's in October of 2017, our focus has been on executing upon our plan, composed of four key principles: first, focus on local execution (what we have been calling "Local First") – the blocking and tackling of delivering our multi-platform local offerings; second, reduce complexity and volatility in our business – which was largely the focus of our Entertainment segment review; third, continue to invest in the impressive growth of our most promising digital products – Townsquare Interactive and Townsquare Ignite; and fourth (and finally), drive the product innovation that has resulted in our Company's strong revenue growth since our inception.

#### *Local First*

In 2017, we made several investments in core local broadcast programming, and as a result the Fall 2017 ratings period was one of our strongest in years. We posted strong ratings share gains in the key adults 25-54 demo in some of our largest markets, including El Paso, TX and Buffalo, NY (where we own the #1 and #2 ranked stations); Lafayette, LA (where we own 3 of the top 5 stations); and Portland, ME (where we own 3 of the top 4 stations). In the Country format, which is our #1 format by net revenue, we achieved our second consecutive positive ratings book, finishing 12% ahead of the Fall 2016 book, as measured by Average Quarter Hour Share for adults 25-54. In the aggregate, these ratings represent our best results in several years and are the direct result of Townsquare's investment in content quality (for example, the decision to hire a new morning show for WGNA in Albany led to

the station surging to the #2 position in the Fall ratings period), investment in strong new content managers, and aggressive marketing campaigns for our brands.

In addition to content, we have made several key investments to widen our distribution platforms. In 2017, we built and launched over 300 individual radio station mobile apps for all of our local brands – each of which is integrated with Apple CarPlay and Android Auto for connected cars; we re-launched all of our local, radio-branded websites with a new, premium design and user interface that has already demonstrated increased engagement as well as generated incremental revenue opportunities; additionally, we have made each of our stations compatible with the smart speaker platforms operated by Amazon, Google, and Apple. We are tremendously excited about smart speakers and, in particular, the opportunity to place audio content, and thus radio, back in the center of the home entertainment experience.

To upgrade our local systems, we completed a major traffic system conversion across all 67 of our markets in 2017. By way of background, the traffic system is the core enterprise software platform that handles, among other key functions, the scheduling of commercials, revenue management, and billing. They rarely get the glory, but we are exceptionally proud of the efforts that our traffic team expended to complete this conversion. With that said, we are also glad that the conversion is behind us, as it caused incremental expense and employee distraction in 2017.

Finally, and in addition to the year-long initiatives described above, we have made changes to our Market President and Director of Sales compensation plans to drive local revenue and profit growth, initiated a Company-wide hiring initiative to bolster our local, cross-platform sales force, and expanded our in-house on-boarding and training program, Townsquare University.

As part of the internal roll-out of this plan, over the past several months, we have visited nearly all of our Company's 67 local media markets to meet with our local managers and employees in the field. Our key takeaways have been: (1) our local marketing offerings continue to demonstrate relevancy for consumers and advertisers, as well as strength and resiliency despite the rapidly changing local marketing landscape, (2) there is a meaningful gap between the quality and differentiation of our product set relative to our competitors in most of these markets – we believe we have better resources and superior products and services, and (3) we believe we have a meaningful competitive advantage in launching new businesses and products for our local audience, advertisers and consumers, consistent with one of Townsquare's core founding principles.

### *Reduce Complexity*

This was the objective of the Entertainment segment review that we announced in the fall of 2017. During this review, which began in October, we closely examined each aspect of our Entertainment business to assess its long-term stability, sustainable growth prospects, capital intensity, and fit with Townsquare's overall strategy. This review is now largely complete, and we have taken corrective steps during Q4 2017 and Q1 2018 based on our conclusions. These steps have included an overall reduction in the number of events in our Company (from approximately 500 in 2017 to approximately 350 planned for 2018), driven by a significantly smaller schedule for our Insane Inflatable 5K race series in 2018; the sale of our Halloween event series, The Glow, that we completed last month; the elimination of a handful of less profitable events, including the Country on the River and Crude Fest music festivals; and the significant reduction of our live events overhead as a result of this decline in business activity.

In our national digital business, we simplified operations, transitioning to a largely programmatic sales platform, which will reduce our revenue potential but will also reduce fixed expenses, and therefore

the volatility that we experienced in 2017 associated with the very competitive national digital marketplace.

While we have completed a set of internal actions intended to improve the performance of our Entertainment segment, in the near term we will be focused on stabilizing profitability, and not revenue growth, in our Entertainment segment. In addition, we will continue to be opportunistic in exploring strategic transactions for our Entertainment portfolio that could maximize shareholder value.

### *Support Our Most Promising Growth Products*

The most promising growth areas of our Company in the last 24 months have been our local digital products, led by Townsquare Interactive, our digital marketing solutions business, and Townsquare Ignite, our programmatic digital advertising platform. In 2017, total net revenue from our digital products and services was just under \$100 million, and we generated strong profits at operating margins consistent with our overall Local Marketing Solutions segment.

By way of background, there are essentially three distinct digital product lines in our Local Marketing Solutions segment. The first is our local digital business, which was our initial area of focus when we launched Townsquare in 2010. At that time, nearly all of our revenue was derived from over-the-air broadcast advertising, and we had virtually no digital presence, nor digital products. In our first few years, we built a world-class digital engineering and content team who helped us develop our own content management system, a proprietary mobile app platform, and individually branded station websites for our local broadcast brands that we populated, and continue to populate, with great, locally produced content. We produce an astonishing 30,000 pieces of original content each month for our own websites. With this content, we were able to attract our broadcast audience over to our digital platforms, not as a substitution, but largely as an addition to their consumption of broadcast, demonstrating once again the strength and relevancy of our brands, on-air talent, and content. As our digital audience grew (for context, in 2017 we averaged 13 million unique visitors per month on our local websites), we were able to monetize this audience through high impact display, streaming, video and mobile advertising on our owned and operated local websites, generating significant revenue growth from these new platforms. Over time, we have expanded our digital capabilities to also include e-commerce, social media and video offerings. For example, together with our national websites, we have 391 channels in our YouTube Multi-Channel Network with over 188,000 videos created and over 1.3 billion video views.

The second piece of our digital product portfolio is Townsquare Interactive (“TSI”), our digital marketing solutions business. The inspiration for this business was the suggestion of an employee in one of our local markets, St. Cloud, MN. This employee brought to our attention that, although we had great digital advertising products, she was facing a significant customer objection – businesses in her town did not have websites, or were not happy with the quality and presentation of their websites. As such, they didn’t want to buy advertising that directed potential customers to these sites. To solve this problem, we created Townsquare Interactive in 2012. Townsquare Interactive develops and hosts desktop and mobile websites, and provides services such as search engine optimization, online directory optimization, online reputation management and social media management services, for a monthly subscription, to small and mid-sized businesses. With Townsquare Interactive as part of our product mix, our salesforce could now provide their advertisers with a world-class digital storefront, as well as provide them with digital advertising that would help them to grow their business. Our first TSI customers were also often advertisers of our radio stations; however, Townsquare Interactive has grown significantly since 2012, and we now proudly serve over 12,400 clients across the country, who pay approximately \$300 per month, on average – as a result, Townsquare Interactive generated \$40 million of net revenue in 2017, significantly up from the prior year, and we forecast continued growth

in 2018. We continue to update our Townsquare Interactive product offerings, and over the years have added e-commerce functionality, member benefits programs, and are now working on the addition of e-mail marketing, enhanced social services and appointment scheduling.

Finally, the third and newest part of our local digital product portfolio is Townsquare Ignite (“Ignite”), our programmatic digital advertising platform. A few years ago, in 2014, we found that while our customers wanted to advertise on our owned and operated local websites, they also wanted to locate and engage their target customers, defined by strict demographic and psychographic attributes, across multiple platforms (web, mobile, video, and social). For example, a client may want to specifically target home owners in Cedar Rapids, IA, who are currently in the market to purchase an automobile. Or, another client may want to advertise to women over 25 years old in Rochester, MN, who have been to a particular retailer, like Target, in the past 30 days. Importantly, as a result of our strong relationships and proven track record of digital execution, these local clients wanted Townsquare to buy and manage these powerful digital programmatic advertising programs for them. To address this customer need, we built the Townsquare Ignite product platform. Ignite enables us to fulfill our client’s entire audience demand, using both our own digital inventory (on our owned and operated websites) in addition to other advertising inventory across the Internet, which we access via our digital programmatic buying platform. Our competitive advantages in this space are many, including (1) superior customer service, which differentiates us in a competitive environment where clients often lack transparency, adequate reporting and responsive customer support and (2) our local advertising relationships that we have leveraged, as a trusted partner, to build a new advertising business from scratch. Today, we have approximately 1,600 Ignite campaigns running per month, up from an average of approximately 385 per month in 2016, and under 1,000 per month in 2017. We believe that there is significant runway available to further grow this product, and we are investing to grow our planning, sales, buying, optimization, and service teams in order to support this future growth.

### *Drive Innovation*

Finally, we strongly believe that what has characterized Townsquare since our inception is our willingness to invest in and support innovation, risk-taking, and business-building on both an organic and inorganic basis. Over the course of the last several years, we have built profitable and growing franchises in digital and live events products to complement and reinforce our core broadcast products and services, proving our founding thesis. And while we have occasionally swung and missed, it is critical that we continue to support the innovation in our Company that brings new products (like Townsquare Interactive, Townsquare Ignite, and many of our successful organic live events launches) to market and develops new revenue streams for Townsquare. Whilst it may be possible to drive greater short-term profitability by minimizing our “R+D investment”, we must continue to develop our product mix to meet the needs of the rapidly changing media and marketing landscape. In 2018, we will be particularly focused on investments in our first party data initiative, that is in the early stages of commercialization, as well as in our broadcast measurement and attribution service.

## **2017 RESULTS**

As we said earlier, our 2017 results were driven by strong local performance, including major leaps forward for the digital marketing businesses that fuel our Local Marketing Solutions segment, as well as challenges in our Entertainment segment that resulted in the strategic review that we undertook late last year. As a reminder of our relative business mix, our Local Marketing Solutions segment contributed 69% of our total net revenue in 2017, and 93% of our total Adjusted EBITDA (before corporate overhead). This is the core of Townsquare’s business, and the area where we will focus the bulk of our investment capital and growth expectations going forward, consistent with our plan of “Local First”. In 2017, revenue in this segment grew 1.9%, or 3.9% excluding political revenue, and

Adjusted Segment Operating Income declined 4.0%, but increased nearly 1% when excluding the impact of political revenue.

Our Entertainment segment, on the other hand, is the smaller of our two business segments, and in 2017 contributed 31% of our revenue and 7% of our Adjusted EBITDA (before corporate overhead). 2017 was a challenging year in this segment. Our Entertainment segment revenue declined 8.6% over the prior year, and Adjusted Segment Operating Income from this segment declined 32% from the prior year, as a result of the beginning of the end of the life cycle for our successful Insane Inflatable 5K fun run property, as well as a series of idiosyncratic issues that negatively affected our fairs business, North American Midway Entertainment. These issues, which we discussed in detail on our earnings updates during 2017, included the disruption in the national H-2B visa program, which we rely upon as a significant source of our labor, the hurricanes in Q3 2017 that temporarily disrupted transportation markets, and the Las Vegas, NV mass casualty event on October 1, 2017 that we believe had a chilling effect on attendance at our major Q4 events, including the Arkansas State Fair, the Mississippi State Fair, and the South Carolina State Fair.

These Entertainment results affected our overall performance, muting what was otherwise a good year delivered by our Local Marketing Solutions segment. Townsquare's total net revenue in 2017 decreased 1.7% over the prior year to \$507.4 million, and was nearly flat excluding political revenue. Adjusted EBITDA declined to \$97.2 million in 2017, 8.8% lower than the prior year. Over the course of FY 2017, we produced approximately \$41 million of free cash flow, defined as Adjusted EBITDA less capital expenditures, cash interest expense, and cash taxes.

## **CAPITAL ALLOCATION / SHAREHOLDER RETURNS**

At year-end 2017, we had \$571.9 million of total debt and \$65.3 million of cash on our balance sheet, resulting in \$506.6 million of net debt, or 5.2x net leverage, based on 2017 Adjusted EBITDA of \$97.2 million. In addition, we have a \$50 million revolving credit facility that is currently undrawn. Our weighted average interest rate is 5.6%, and we have no maturities on either our term loan or Senior Notes until 2022. In our view, the free cash flow characteristics of our business can clearly support higher debt levels from a cash interest coverage standpoint; however, we do not anticipate testing the upper bounds of this theory and, absent accretive and opportunistic investments like the acquisition of WOUR-FM that we announced in February or the acquisition in the Berkshires that we completed last fall, as well as smart internal, organic investments like the ones that created our local digital business, we continue to work towards reducing overall net leverage.

It has been our intention for some time to begin returning capital to shareholders. We are delighted to report that our Board of Directors has approved a quarterly dividend of \$0.075 cents per share, or \$0.30 per share on an annualized basis. Even after taking the dividend into account, we expect to continue to reduce net leverage over time, whilst at the same time generating current cash returns for our equity shareholders.

## **THE PATH FORWARD**

We are excited about 2018 at Townsquare. We are focused on delivering steady growth from our Local Marketing Solutions segment, stabilizing our Entertainment segment, driving forward our market-leading, local digital product set, including Townsquare Interactive and Townsquare Ignite, and, in all respects, leaning forward into 2018.

While there continues to be some dislocation in our sector and overhang from ongoing restructurings or expected restructurings of other companies in the industry, we believe that, as these are addressed, some of the cloud cover that has remained over our industry from both an advertiser and investor perspective, should lighten. We are particularly excited that there finally appears to be momentum in

Washington, DC to change the outdated radio ownership rules, a movement we wholeheartedly support, and which we will advocate for in 2018. More than ever, though, and most of all, we remain focused on and energized by our local mission, which has remained the same since the inception of our Company in 2010, and which was recently summarized by Steven Price in a letter he wrote to employees announcing our management transition last fall. He wrote:

*“Whether on-air, online, or on site, our teams go to work every day to knit the fabric of our communities – connecting our audiences to content they love, information they need, products they want, and things that matter. The enduring value of these authentic and shared local experiences, the heart of what Townsquare is all about, is what motivated me to start this Company, and what I believe will sustain our business for years to come. While the local media landscape is clearly different than it was in the past, our Company has been at the forefront of embracing change, evolving our business and product offerings, and staying laser-focused on our North Star – our local communities.”*

It is this mission that motivates us and drives our team forward. As shareholders of Townsquare, you, along with our other key stakeholders – debt holders, vendors and partners, and of course employees – support us every day in the pursuit of this mission, and for that, we are very grateful.

Sincerely,



Dhruv A. Prasad  
Co-Chief Executive Officer



Bill Wilson  
Co-Chief Executive Officer

**Forward Looking Statements and Non-GAAP Financial Measures**

This letter contains forward looking statements and certain non-GAAP financial measures. For further information regarding these matters, see Exhibit 99.1 to the Company’s Current Report on Form 8-K, filed with the SEC on March 13, 2018.