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SHOULD YOU TUNE IN TO THIS RADIO DEAL?

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RADIO GIVES ME PLENTY to hate. Shock jocks. Musical "artists," running the gamut from Eminem to 50 Cent. Stretches of ads so long even Marconi would give up and pop in a CD. Radio to me is just another word for odious—unless you own a station. Michael Bergner, a station broker in Boca Raton, Fla., has seen deal after deal since 1987 as the industry consolidated. "Even if you knew nothing about the business," he told me, "you would have had to go out of your way to lose money."

Wall Street naturally has been in the thick of it. Now, it's back for one more deal. Citadel Broadcasting, controlled by the Manhattan leveraged buyout firm Forstmann Little, aims soon to sell 16% of its stock in a $306 million initial public offering led by Goldman, Sachs (table). With 206 mostly middle-market stations, Citadel runs far behind industry leader Clear Channel Communications' 1,200-plus. Yet it has grown nicely, and its CEO is Farid Suleman, a numbers guy who helped build radio giant Infinity Broadcasting. About Citadel, there's also this oddity: Charlie Rose, public TV's late-night talk show star, recently joined its board.

Just what Rose knows about running radio stations in Stockton, Calif., or New London, Conn., I can't tell you. Neither he nor Suleman returned my calls. But Citadel's operations are well detailed in its Securities & Exchange Commission filing. Forstmann Little took Citadel private in a June, 2001, deal that valued it at $2 billion. That year, the company had revenue of $324 million. In the first six months under Forstmann's control, it posted $49 million in earnings before interest, taxes, depreciation, and amortization, or EBITDA, the media biz's favorite measure of profitability. In 2002, revenue rose 8%, to $349 million, and full-year EBITDA climbed to nearly $115 million.

CITADEL'S SIGNALS

Revenues	$353 million
Operating profit	–$18 million
EBITDA*	$123 million
Indicated market capitalization	$2,066 million
Estimated IPO Price	$18 per share
Tentative Symbol	CDL

Operating data, for the 12 months ended Mar. 31, 2003, are pro forma for the IPO.

*Earnings before interest, taxes, depreciation, and amortization

Data: Company reports, *BusinessWeek*

The question, as usual, is what about future growth? By all accounts, Suleman is a master of finding efficiencies, so count on more cost-cutting. Buying new stations may add to revenues. Right now, Citadel is in a $133 million deal for Wilks Broadcasting's 11 stations, including four in New Orleans, neatly situated near 14 others it has in Louisiana.

Trouble is, such deals are fewer and farther between as the industry's long consolidation winds down. Also, while details have yet to be issued, the Federal Communications Commission's revisions to its broadcast station ownership rules figure to promote radio dealmaking only modestly, if at all. "It's a very strange market now because there's no inventory" of stations for sale, says Wilks' CEO Jeff Wilks. He declined to reveal what multiple Citadel is paying for his stations but said that for those in the top 150 U.S. markets, 17 or 18 times EBITDA is typical, and higher in some cases.

So it's curious to see how Citadel's underwriters have tentatively priced its IPO. At $18 a share, Citadel would net an estimated $288 million from the IPO, nearly all of it going to pay down debt, and command a stock market capitalization of nearly $2.1 billion. Add to that the $722 million in net debt it figures to have after the IPO, and Citadel's total enterprise value would come to $2.8 billion. That's $800 million more than what Forstmann Little paid for it just 24 months ago.

How would Citadel compare with other radio stocks? Far bigger with $8.5 billion in revenue, Clear Channel boasts an enterprise value of $84.5 billion, or not quite 16 times its EBITDA over the past four quarters. A better analog may be Atlanta-based Cumulus Media, with 254 middle-market stations. It trades for 19 times EBITDA. Buying Citadel in the IPO at $18 a share would cost you a steep 23 times EBITDA. See what I mean about radio? If you're on the right side of the signal, even Eminem sounds lovely. ■

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