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Clear Channel's Station Sales Could Have Lots Of Takers

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NEW YORK (Dow Jones)--The buyout Thursday of Clear Channel Communications Inc. (CCU) had been long rumored, but the company injected a surprising note when it also put on the auction block nearly 450 radio stations.

Clear Channel said it would seek buyers for more than a third of its 1,150 radio stations and its 42 television stations. The stations are outside the 100-largest radio markets and contributed less than 10% of the company's revenues last year.

The proceeds, which could reach a couple billion dollars, will help the company's proposed private-equity buyers, Bain Capital and Thomas H. Lee, fund the takeover valued at \$26.7 billion, including \$8 billion in debt. Clear Channel said, however, that the station sales will go forward regardless of the company's fate.

Opinion was divided over whether the sudden dump of stations on the market would hurt the prices Clear Channel could receive, but analysts and brokers who handle broadcast asset sales said radio stations' healthy cash flow generation and the cheap cost of borrowing - the same factors that made Clear Channel attractive to buyers - means companies and investors should be busy in coming months sizing up the unprecedented number of stations up for sale.

"Almost every top 25 radio company is going to take a look because these kind of assets don't come to market frequently," said Tuna Amobi, an equities analyst at Standard & Poor's.

Acquisition activity has already been heavy in the broadcasting sector this year, with Citadel Broadcasting Corp.'s (CDL) agreeing to acquire the radio assets of Walt Disney Co. (DIS), Entercom Communications Corp. (ETM) buying 15 stations from CBS Corp. (CBS) and Cumulus Media Inc. (CMLS) buying dozens of Susquehanna Pfaltzgraff Co. radio stations with the help of private equity. These companies and other public or private radio chains could be interested in Clear Channel assets.

And then there's private equity. The cash-rich firms have already proven themselves to be hunters of big media game with buyouts of Univision Communications Inc. (UVN) and Clear Channel.

"What we have now is a perform storm," said Frank Kalil, a radio broker in Tuscon, Ariz. The combination of abundant interest from potential buyers, relatively low interest rates and huge amounts of money collected by investment firms makes for "a huge number of people willing to get into broadcasting." And with every winning bid from private equity firms, there are second-place finishers who still have powder to go after assets.

"It's going to be business as usual but more of it and with more euphoria," Kalil said.

Clear Channel could be sold off station-by-station or in big chunks. Regardless of who ends up owning the assets, news of the potential sale sent shudders through the radio market as sale of an unprecedented number of stations will likely set values for radio stations for years to come.

"This package is so large," said radio broker Michael Bergner, "they are single handedly going to set the market on the sell side."

Radio stations this year have been selling for roughly 13 or 14 times each station's cash flow, a valuation that fetched \$570 million for the 29 stations CBS Corp. (CBS) has sold this year. On that basis, Amobi said the Clear Channel stations could generate a couple of billion dollars.

Amobi doesn't have an ownership interest in the companies he covers, but the ratings agency may provide services to the companies.

But some radio brokers were skeptical Clear Channel could fetch the same price levels.

"I don't think that all 450 will get sold unless the pricing comes down," said Peter Handy, a media broker at Star Media Group in Dallas. If buyers were to pay 13 or 14 times the stations' cash flow, "You have to make the assumption that new management can run these stations way better than current management," he said. "I can't imagine that Clear Channel is running all of those stations poorly."

Clear Channel expressed confidence that it would find eager buyers. "These radio stations and the TV division are all excellent performers, and we are confident we'll find a buyer who wants to grow with them," Clear Channel said Thursday in a Securities and Exchange Commission filing.

The company said it expects to finalize the asset sales by the end of the second quarter next year.

The stations Clear Channel has put up for sale are in places like Reading, Pa., Medford, Ore., and dozens of other places outside the country's top-100 radio markets.

Bergner said smaller market assets have been valued lower on the market because their growth profile is poor. "It's very tough to buy something on a cash flow multiple when things are heading south," said Bergner, of Boca Raton, Fla.-based Bergner & Co.

Kalil said people who have radio assets up for sale now are "panicking" because they feel prices will be depressed by the Clear Channel asset sales. On the other hand, buyers are feeling good because they believe asset prices are going to deflate. They're both wrong, he said.

"Supply and demand plays a role but not as much as the actual return."

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