Let's Make A Deal In 2017
Radio Ink Special Broker Report

They work the phones and their contacts every day, looking for deals, proposing transactions, hooking sellers up with buyers. Brokers who deal in radio have all the inside information on who has the capital, who wants to sell, and what the real multiples are.

According to SNL Kagan, through the first three quarters of 2016, the radio deal volume was about $418 million, with the Beasley purchase of Greater Media deal being the largest ($159 million) — and that's low.

So as we close out a below-average year of radio dealmaking, we reached out to some of the top brokers in the industry to get their opinions on the year that's just concluding, what the multiples will be in 2017, and where the money will come from when investors decide they want to be part of the industry.

How would you rate 2016 in terms of deals? Was it good, bad, average, the new normal, or something else?

Robert Heymann: For me personally, 2016 has been my best year brokering stations since 2001, which is when I sold WNIB-FM/Chicago (now WDRV) for $165 million. So yes, I am very happy. I was fortunate to have closed a number of deals, some of them — for example, WCVG/Cincinnati — I had worked on for quite a few years. Others, such as the radio portion of the $415 million Schurz-Gray deal, happened very quickly, from the start to a signed asset purchase agreement in about three weeks.

I also did quite a large number of translator deals, highlighted by the Beasley Media Group's acquisition of K268CS Las Vegas for a record-breaking $700,000. I was also very proud to represent Indiana University in the disposition of their translators. Overall, according to SNL Kagan, Media Services Group was once again the number one brokerage firm during the first half of 2016. According to Kagan, Media Services Group was also number one in 2015, having assisted in the sale of more radio stations than the next seven brokers combined. We were number one in 2014, 2013, and in fact, number one in Kagan's 10-year ranking by number of deals!

Bill Fanning: Certainly, if you simply look at the deal-volume statistics, 2016 has been a below-average year in terms of M&A. For instance, the aggregate deal activity in the second quarter was the lowest it's been in decades. However, things have picked up in the second half of the year, headlined by the Beasley-Greater Media deal.

I'd characterize the current market environment as opportunistic, with strategic deals getting done. There is certainly an appetite on the buy side for quality assets, but buyers are being more selective and cautious in the acquisitions they make. The buyer pool may not be as deep as it has been in past years, but we are still seeing solid demand for quality clusters in attractive markets. Personally I was encouraged by the tone coming out of the fall NAB Show in Nashville, with a number of operators having good years and looking for compelling deals.

Larry Patrick: It was a very slow year, with a lack of blockbuster deals other than Beasley and Greater Media so far. We were busy and had a fair, but below normal, activ-

Here is our roster of experts:

Michael Bergner, Bergner & Company
William Fanning, MVP Capital
Robert Heymann, Media Services Group
Richard Kozacko, Kozacko Media Services
Fred Kalil, Kalil & Company
Larry Patrick, Patrick Communications

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ity level. No new big buyers entering the market. Overall, 2016 has been a weak year, but hopefully 2017 will improve, once the election is behind us and there are changes at the FCC. Lifting newspaper cross-ownership would be a good first step.

Richard Kozacko: I found 2016 to be an interesting year for radio station transactions, but not a very active year either in the number of stations sold or on the basis of pricing. As to my rankings for the 2016 market, I think I would give it a C-minus for the year. There's just not a lot of activity, and I think this relates to a number of reasons. The market is also affected by a limited number of stations available for purchase. The "new normal" of price-to-cash flow ratio is simply not attractive or an inducement for an owner to sell.

This is especially true if the stations have done well financially. An owner who has experienced a decline in revenue and cash flow might acknowledge that his selling price would be lower than he paid. But if station performance has been consistent or strong and is showing growth, why would an owner sell for less money than he paid? This is a dilemma that many present owners have experienced. Unless there is an absolute need, the stations don't go on the market. If an owner paid a 10-times multiple in his purchases – which was a common pricing multiple in some recent past years – he will recognize that today's pricing does not work to his financial needs.

Michael Bergner: Everyone knows 2016 was a slow year for deals, and once you subtract the Greater Media-Beasley deal, we are probably at 2010 volume. I personally was OK with 2016 – I have been doing this 29 years, have the lay of the land, and filled in the year with seven tower deals so far.

I have no visibility on 2017. It is the new normal, from the standpoint that the trading market now needs "events" to drive trading – for instance, CBS's going public may spawn some deals, which will spawn other deals, etc.

Fred Kalil: We keep hearing how bad the marketplace is, but we've already had our best year ever, even if we don't do another deal in 2016. We've been happy with 2016, because we've still been able to get deals done in a thin market.

What are the real multiples of deals heading into 2017? What are they for the top 10 markets, medium markets, and small markets?

Larry Patrick: I think that they remain where they have been for several years. Large markets trade for 8-9-times; medium markets trade for 7-plus-times, and small markets trade for 5- or 6-times. A lot

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depends on the margins of the stations, the economic climate where the stations operate, competitive landscape in the markets, and the future prospects for the stations.

Bill Fanning: The vast majority of deals in radio today are trading at a buyer’s multiple of 6-7-times, with some very attractive situations pricing above that range. If there are obvious synergies involved, such as expense/personnel reductions or revenue benefits that boost the pro forma cash flow for the buyer post-closing, the multiple to the seller could look even higher. Traditionally, larger markets have traded at a premium, but frankly there are very few deals these days in top 10 markets, with the exception of some one-off fill-ins or stick deals.

A greater amount of activity has been and will continue to be concentrated in the mid-size markets, given the smaller check size for a buyer, as well as the perceived risk associated with being overly dependent on national or transactional business. We expect deals in these size markets to continue to trade in that 6-7-times range even if interest rates tick up slightly. Much smaller markets, such as unrated areas, would trade at a discount to that range.

Fred Kalil: Multiples can be deceiving. Whose multiple, trailing 12 or projected 12 months after acquiring (taking into account back-end efficiencies, etc.)? That said, top 10 market clusters, if available, would be 9-10-times; small to medium 6-8-times; and really small/unrated 5-6-times. It surprises us that multiples aren’t higher with interest rates so low.

Robert Heymann: Every deal is different — and there is even disagreement among buyers and sellers on their specific deal as to what the multiple was. The seller says it was higher, the buyer says it was lower. So given this, you might be better off asking me who is going to win the Super Bowl in 2017!

Seriously, SNL Kagan does a pretty good job of tracking multiples (since there are no “official” industry-reporting standards), and they show multiples declining from a range of 6.7 to 7.0 in 2015 to a range of 6.0 to 6.7 in 2016. I think those numbers are reasonably accurate. And until the radio industry can demonstrate top-line revenue growth, I don’t see any reason for them to change much in 2017.

Richard Kozacko: We are seeing multiples in the 5 and 1/2-times for cash flows for small markets. Probably 6- to 6 and 1/2 for medium-size markets — and this is especially true if there is an established cluster. When you get to a metro-size market, pricing can be approaching 7-times cash flow. It is somewhat different in a top 10 market, and an owner can still get a premium for an exceptional facility within this size market. Real estate certainly can add some value to station prices.

Michael Bergner: I have never been a big believer in the question “What is the multiple?” The question should be, for the buyer, “What can I do with the station?”

Where will money be coming into radio in the next one to three years?

Bill Fanning: As I mentioned previously, buyers are being more strategic and opportunistic in today’s market. For instance, buyers

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are really focused on regional expansions, growth markets, in-market consolidation plays, cozy competitive situations with fewer competitors, etc.

With Digity being sold and Alpha digesting everything that it has acquired over the past several years, there really are no obvious larger-scale national consolidators at this point. However, we have continued to see robust debt markets supporting broadcasters who do need some dry powder to make selective acquisitions. What has been lacking for the most part recently, with a few exceptions such as Alpha and Connoisseur, is an influx of new equity into the sector. The private equity investors who had traditionally invested in the space have not been active because they simply cannot make their target returns over their five-year investment horizon, given flat revenue and no multiple expansion.

As the sector has transitioned from a growth business into a yield one, it demands a new class of investor with different return hurdles and investment horizons. We have started to see this category of investors, such as high-net-worth individuals, family offices, etc., start to make inroads in the sector, but it has been slower coming than most anticipated. Even with minimal growth, a yield-focused investor can make a very attractive return over the long term in radio. Therefore, we do expect to see more of these types of investors making plays in the sector over the next 12-24 months.

Robert Heymann: Well-run public companies like Entercom, Beasley, and Saga have access to capital in the markets. A perfect example of this is the Beasley acquisition of Greater Media. Successful smaller regional companies will have access to financing through their existing banking relationships. The very small companies will look to friends and family, SBA loans, and seller financing.

Michael Bergner: Radio needs more equity, and that will only happen now with top-line growth. I do not see any new sources currently.

Larry Patrick: There is not a lot of new money coming into the market. Thoughts of foreign investment are illusionary. A foreign buyer will look for the same metrics as would an American buyer. The problem is that most investors see little if any secular growth in radio.

Stations do produce a significant amount of free cash flow, which is attractive as a dividend-producing investment. But those who want this type of return are few and far between. Connoisseur attracted the Perot-family office money, and Larry Wilson attracted some new investors also. But these are the exceptions and not the norm currently.

Fred Kalil: Money will continue to come into the business from previous owners, folks who made money before, who remember what a good business radio is. Other sources will be continued interest from family offices and traditional PE groups, albeit at lower numbers historically. How do we know? We are talking to them every day.

Richard Kozacko: Financing is not readily available. The recession of 2008-2009 lost a lot of good financing sources (Wells Fargo, which had its own communications financing department, pops into my mind immediately). Most of these financing sources have not been replaced. While interest rates are low and attractive, financial institutions are not very excited about investing in the broadcast industry. There is still the unusual factor that radio stations still provide an exceptional operating margin compared to other industries. But financial institutions seem to be questioning the future potential of broadcast compared to these other industries.

Without new money being available for station purchases, this, naturally, limits new entrepreneurs entering the broadcast ownership ranks. Yes, stations are being sold, but in many cases, it's from one established broadcast owner to another. You can see this in the recent sale of Greater Media to Beasley Broadcast Group and then the spinoff in Charlotte to group owner Entercom. Some smaller companies, like Community Broadcasters, are on steady growth plans, and that's good to see. But this number is limited.

Foreign investment can be a new source of money for broadcast ownership. Some changes in the federal laws would have to be done to accomplish this. With the slow annual growth in our country running about 2 percent, I don't see much in the way of new investment funds being generated. I hope that a number of financial institutions would recognize the profitability and return on investment that broadcasting can provide and would provide funding for radio station acquisitions. Without new funds being available, radio station sales will be limited.