

Financing 101: Small and Medium Market Deals

Since deregulation, radio station prices have climbed upward. Great news if you already own a station, but reason for despair if you are trying to buy your first. And if you don't already have an established track record as an operator, forget the idea entirely.

We may be seeing the last opportunity for budding entrepreneurs, or at least those lacking very deep pockets, to enter the ranks of station ownership. Large markets are for the most part already out of reach. For those intending to take the plunge nonetheless, this article serves as a primer, perhaps a "crash" course on the basics of station financing.

Let's start with valuation. No financial structure will correct an over-priced acquisition. Fair Market Value is fundamentally the price at which a willing buyer and a willing seller will agree to a transaction. When there is an excess of willing buyers (and a lack of willing sellers) as we have today, the law of supply and demand reins supreme. Prices are forced up. Multiples of cash flow are actually a short-cut answer to an analysis of discounted cash flows. This is one area where the short-cut is not recommended. Do the math. Construct a set of realistic operating projections, determine the expected cash flows at least five years into the future, and discount them back to today's value using a discount rate commensurate with the risk. Only then do you get a realistic valuation. Cash flow multiples over-simplify the process and can result in bad deals. If you don't understand this process, learn it. Too much is at stake to leave it to chance.

Financing larger deals is actually easier than financing smaller deals. Most major broadcast lenders and institutional equity investors only begin to get interested at \$10 million and up. Where does that leave the first time buyer for a smaller sized transaction? With only a few options.

The seller is your best financing source, in many cases, your only source for debt. Negotiate hard for seller paper. Otherwise you may be forced to use a financing contingency in your asset purchase agreement which the seller might (and with some justification) find difficult to swallow. Some local banks will do broadcast loans, but if yours has no prior experience, the learning curve can be excruciating (and often fruitless). Banks and finance companies active in the business will typically loan four to five times the station's prior twelve months' Broadcast Cash Flow (and occasionally as high as six times).

One alternative for senior financing is an SBA guaranteed loan (using the 7(a) program). Utilizing an SBA lender, you may borrow up to \$500,000 with the SBA guaranteeing a significant portion of the loan. The annual interest rate cannot be greater than Prime plus 2.75%.

The balance of the purchase price is equity: personal funds, financial angels, venture capital, or your rich uncle (subordinated debt may also be an option, but again mostly reserved for only the largest players). While the lender gets paid along the way, the equity investor has the patient money (at least in theory). Their return comes at the end when the station is sold or refinanced.

The key to securing any type of financing is to have a detailed, well-thought-out business plan. It should include realistic financial projections, with Best, Probable and Worst Case Scenarios. Remember that investors are focused on the return on investment; lenders want their money back, with interest, on time, and with more than adequate security (and almost always with a personal guarantee on the smaller loans). Two different visions, each requiring a different approach. Any good library or book store will have a number of publications on preparing a business plan. Or there are a number of firms (including ours) willing to lend a hand for a fee.

It is an exciting time to be a broadcast owner, but the cost of entry may soon be out of reach for the operator of even above average means. If you elect to take the plunge, do your homework to understand the financial side of the equation. Being a great operator is no longer enough. Good luck!

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