# RADIO STATION VALUES
# METHODOLOGY

In reality, one does not know the true "worth" (an emotionally charged term) of a radio station until that station has been sold on the open market. An after-the-fact analysis of station sales shows that, historically, radio stations have generally sold for (1) a multiple of Operating Income (so-called "broadcaster's cashflow"), (2) a multiple of revenues, (3) some estimated market value which in turn represents an analysis of items (1) and/or (2) or what has come to be recognized within the industry as a "price per pop" (PPP). Even when basing an Appraisal on so-called "comps" or comparable sales, one must attempt to translate the information into a reasonable application of the above criteria for purposes of equalization.

## Fair Market Value

In valuing closely held corporations or sole proprietorships where market quotations are not available, all other available financial data, as well as all relevant factors affecting the fair market value must be considered. **Fair Market Value** is defined as the price at which a business would change hands between a willing buyer and a willing seller when the former is under no compulsion to buy and the latter is under no compulsion to sell, both parties having reasonable knowledge of relevant facts. It is also generally understood that the parties have had the ability to buy or to sell and the transaction will be in cash or cash equivalents. In the United States, this value is the most widely recognized and accepted value related to business appraisals.

## Operating Multiples

The size of the multiple is most likely to be based on factors such as past Operating Income, past and projected economic conditions in the market served, available financing, competition, and perceived potential for improved operations. For the most part, estimated market values are the result of a projected performance based on national averages of market radio revenues as a percentage of local retail sales. Based on national averages as reported by the National Association of Broadcasters and other sources, radio revenues tend to fall within the range of .3% to .4% of local retail sales within a given market or trade area.

## "Broadcaster's Cashflow"

Broadcasters regularly refer to Operating Income as "cashflow", a misnomer. What a broadcaster means as cashflow is the profit before depreciation, amortization, interest, income taxes, non-recurring one-time charges, and non-operating corporate allocations, all of which could be subtracted from a new Owner's profit and loss statement.

## Revenues

Occasionally, radio stations will sell at a price based on a multiple of revenues. There is justification for a station sales price based on such a multiple because of the ease with which radio operating expenses can be predicted. When a station is purchased on a multiple of revenues, the Buyer is anticipating future operating profit or cashflow with the expectation that station programming and/or operations can be improved and anticipated increased revenues will be realized. The Buyer is still buying anticipated earnings, even if there are none at the time of the sale. Revenues are converted into projected earnings by the revenue's multiple.

Additionally, basing a value on revenue provides a stable dynamic inasmuch as it is relatively easy to adjust expenses in the short term in order to provide an enhanced report of Operating Income; while on the other hand, revenue either is or is not correctly stated and verified.

## The Relationship between Revenue and "Cashflow"

It is frequently assumed that at least 25% of the revenue of a broadcast station will be realized as Operating Income or "cashflow". This is not true for every station, but it is often considered a conservative estimate of broadcast station potential. There are stations which will show 45% to 55% of revenues as pre-tax income and some which run negative.

Once a station has reached equilibrium and is in the "black", it is estimated that 70% to 75% of additional radio revenue will flow to pre-tax income. Of course, not every station will operate on such a basis, but this increased earning potential is one of the major factors making broadcasting an attractive business proposition.

With the assumption of 25% of revenue converting to broadcast cashflow, the multiples applying to revenues or cashflow as a determination of station value net the same results.

For example, in today's market, many Buyers are agreeing to pay four times cashflow for a well-run radio station. This is a "market value" determination. With an assumed 25% cashflow, this multiple would equal 1X revenue.

## Ability to Service Debt

Another approach to establishing station values is based on a station's ability to service debt. This approach attempts to project the amount of debt a station's cashflow could serve given certain financing assumptions.

For example, if a station at the time of sale is capable of generating an average monthly cashflow of $20,000, a maximum, fully-amortized Note of $1.7 Million could be retired in ten years given an interest rate of 7% per annum. If this figure represents 75% of a station's purchase price (assuming a 25% cash down payment), the station's sales price ("value") becomes $2.3 Million.

The Appraisal resulting from the "debt service" model will vary depending on the terms and conditions of the financing. Today, non-regulated lenders are charging up to 15% interest (if they have funds to lend) and seller-financing is going for 6% to 7% interest per annum.

## Base Value

Sometimes, it is necessary to calculate the value of a station in a given market when there is negative cashflow or the station is off the air. A similar situation occurs when a station has recently signed on the air and, while it does not have a history of business success, the station may be experiencing significant increases in revenues and market share on a monthly basis.

A similar situation arises when a station is operating in a non-commercial or not-for-profit mode on a commercial frequency or on a frequency which would warrant a greater value if operated in a commercial or for-profit mode. The licensed value has a higher "best use" value when operated in a commercial mode, regardless of all other aspects. The "base value" concept is based on a mathematical approach to projecting how a particular station or stations might be able to perform given an average share of market listeners and an average share of market revenues.

All such station Appraisals are highly subjective. Station performance is driven in varying degrees by management, programming, technical facilities, operating parameters, and especially the health of the local economy. Although this approach to station Appraisals tends to penalize the hypothetical station which might be a recent addition to the number of stations vying for a share of the marketplace, it should not be assumed that the results is a "zero-sum" situation whereby the available revenue pie will not expand and every competing station must expect a proportionately smaller slice.

Opinion has held that as new stations enter the marketplace and establish themselves and their programming niche, new advertising dollars may be introduced into the total radio advertising revenue mix…at least incrementally. While there is no guarantee that the newest station to enter the market will garner at least its proportionate share of the market listeners and/or its proportionate share of the market radio advertising revenues, this model does provide a reasonable assessment of the average, potential "worth" of the new and/or struggling station.

**Value of Station Assets**

The book value of a Station's "tangible personal property" has very little relationship to its marketplace value. Radio broadcasting as an industry is unique inasmuch as the operating and production equipment rapidly depreciates in value either as a result of accelerated depreciation schedules or actual obsolescence while the station revenue and cashflow increases.

A good example of this can be seen in the fact that with the exception of certain variables, a radio station can be licensed and constructed to a small market for approximately $150,000 while at the same time the same radio station could be constructed to serve a major market for very little more. Nevertheless, the station located in the major market would be worth several times more than the small market station due to the overall revenue in the larger market.

It is not uncommon when discussing station values with station Owners who are considering the sale of the station to hear the position taken that the station is "worth" a certain amount because "That is how much I invested in it!" In our opinion, there is little direct relationship between how much money the station Owner has invested in the station and the value of the station in the market place. This is not to say that a well-equipped and constructed station which shows pride of ownership will not attract a Buyer quicker or at a higher value than a station which is poorly-equipped and constructed. However, often the "turnaround" station, appropriately priced, may sell faster than the station which operates at the top of the market. The driving force behind the value of any station is its revenue, cashflow, and/or its potential for achieving those.

**Price per Pop**

In today's marketplace, it is commonly accepted that station transactions may be converted into a price-per-pop ("PPP") calculation. This is an approach that is especially useful in pre-acquisition determinations of value or in instances where financial data is not available or is not applicable. PPP Appraisals are useful when estimating the value of FM translators due to the fact that the FM translator itself is not a revenue generator but does enhance a primary station's revenue generating capability through the listener reach which might otherwise not be attained.

MCH Enterprises chooses to develop a PPP Appraisal based on reported station or FM translator sales expressed as a relationship to the population base represented whether that is a defined rated market or a geographic area such as a County or Metropolitan Statistical Area ("MSA"). This does require a certain amount of analysis and extrapolation based on the nature of the transaction. Such determinant criteria could be whether the transaction represented the sale of a licensed facility or a construction permit. Another element might take into consideration the ability of the station or FM translator to be upgraded in Class of service (higher power) or relocated to a larger market (greater population served).

## Market Consolidation

The effect of recent changes in the rules and regulations of the Federal Communications Commission which pertain to the number of radio stations that can be owned by one entity nationwide and in particular within a specific market area has created a supply and demand situation which has driven up the overall market value of stations. Counter-positioned to this is the resulting consolidation of market revenue among fewer owner/operators.

Prior to 1996, any radio station owner could own no more than two stations within the same market (one AM and one FM station). Today, under a de-regulation scenario, a single owner could own up to four FM and four AM stations in the same market and in some instances where there are stations located on the fringe of markets, a single entity can own more than that allotment within the same trade area.

This dramatic change in the ownership rules has had a significant impact on station values across the board and has led to some companies owning as many as 500 to 1200 stations nationwide as opposed to the 15 stations that had once been the maximum allowed.

As of this writing, the FCC is considering a further relaxation of the ownership caps, and in some cases their removal altogether. Additionally, the FCC is considering the removal of the so-called “sub-caps” meaning a licensee may own the maximum allowable as all FM or all AM as they desire or can afford. The impact this might have on marketplace dynamics as well as valuations remain to be seen.

## FM Translators

FM translators comprise a low power service on the FM broadcast band (88 to 108 MHz) intended to complement a primary FM or AM service. This service is intended to provide supplementary service to areas in which direct reception of radio service is unsatisfactory due to distance or intervening terrain barriers (e.g., a mountain). Translators may not originate programming, except for limited fundraising efforts. One important exception to this exclusivity is that FM translators relaying AM daytime-only stations may continue to transmit programming when the primary AM station is off the air (post-sunset).

- Translator stations rebroadcasting a commercial AM or FM station (the primary station) may be authorized on Channel 221 through 300 (92.1 MHz to 107.9 MHz), while a translator rebroadcasting a noncommercial educational station (the primary station) may be authorized on any FM channel (Channels 201 to 300, or 88.1 MHz to 107.9 MHz).

- The maximum effective radiated power permitted for any translator station is 250 watts.

- Translator stations simultaneously rebroadcast the signal of a primary AM or FM station on a different frequency.

- Those translator stations that provide service within the primary station's protected service area are classified as "fill-in" stations.

- Fill-in translators can be owned by the main station or by an independent entity. Commercial non-fill-in translators are generally owned by independent entities, with certain exceptions, while noncommercial educational non-fill-in translator stations are generally owned by the primary station being rebroadcast.

FM translators are no longer used solely for filling in coverage gaps. They have become an important part of radio owners' spectrum strategy. Many commercial and noncommercial radio operators — both AM and FM — are using FM translators to gain a greater footprint on the FM dial for content that originally airs on AM stations or FM HD2, HD3, or HD4 channels.

Demand for translators also is increasing as broadcasters realize they effectively can create additional radio "stations" in markets by location-hopping and moving toward more heavily populated areas. Approximately 600 FM translators simulcast AM broadcast stations and that number is growing. That's a measure of the success of a recent rule change allowing AMs to use existing FM translators in certain circumstances. Experience has shown that translators will sell in the $25,000 to $50,000 range, but in cases of highly populated metropolitan areas the rule of thumb of $.50 PPP can drive the value significantly higher.

A recent rule change in the AM/Translator rules changed the proscribed area in which a Translator may be sited relative to its primary AM station carried. The old siting rule limited the Translator to the <u>lesser</u> of the primary AM station's 2.0 mV/m contour or a 40km radius from the AM transmitter. Since April, 2017, the rule states that the siting area is the <u>greater</u> of the two criteria. This allows for a greater distance in some instances, to the benefit of the primary AM being re-transmitted.

It should be noted that for at least the foreseeable future, the FCC will not allow an AM station to be rebroadcast on a reserved band (non-commercial) FM translator.