



Radio Station Valuations

In reality, one does not know the true “worth” of a radio station until that station has been sold on the open market. While it is true that there is no absolute “worth” to a radio station, an after-the-fact analysis of station sales shows that, historically, radio stations have generally sold for (a) a multiple of Operating Income (so-called “broadcaster’s cashflow”), (2) a multiple of revenue, or (3) some estimated market “base value” which in turn represents a pro-forma analysis of items (1) and/or (2).

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 not under any 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 valuations.

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 “base 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 .4% to .5% of local retail sales within a given market.

“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.

Multiple of Revenue

Occasionally, radio stations will sell at a price based on a multiple of revenue. There is some 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, consequently, anticipated increased revenues will be realized. The Buyer is still buying the earnings, even if there are none at the time of the sale. Revenues are converted into projected earnings by the revenue's multiple.

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 revenue as pre-tax income.

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 these increased earnings potential is one of the major factors making broadcasting an attractive investment.

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.

In recent years, many Buyers were willing to pay eight to ten times cashflow for a radio station. This is a "market value" determination. With an assumed 25% cashflow, eight times cashflow would be equal to two times revenues and ten times cashflow would be equal to 2.5 times revenues. In today's financial market, the typical multiple of cashflow may go as low as six to seven times cashflow. That is an after-the-fact analysis of a market-based decision.

Ability to Service Debt

Another approach to establishing station values is based on the station's ability to service debt. This approach attempts to project the amount of debt a station's cashflow could retire given certain financial 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 \$1.5 Million could be retired in ten years given an interest rate of 10% per annum. If this figure represents 75% of the station's purchase price (assuming a 25% cash down payment), the station's sales price ("value") becomes \$2 Million (slightly more than 8 times cashflow).

The valuation resulting from the "debt service" model will vary depending on the terms and conditions of the financing.

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.

The “base value” approach is based on a mathematical approach to projecting how a particular station or stations would be able to perform given an average share of market listeners and an average share of market revenues.

All such station valuations are highly subjective. Station performance is driven in varying degrees by management, programming, technical facilities, operating parameters, and the health of the local economy. Although this approach to station valuation tends to penalize the hypothetical station which might be the 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.

In fact, experience has shown that as new stations enter the marketplace and establish themselves and their programming niche, new advertising dollars will be introduced into the total radio advertising revenue mix. 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 the station’s personal tangible 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 revenues and cashflow increase.

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 larger market would be worth several times more than the smaller market station.

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 of money because. . . “That’s how much I have invested in it!” The truth of the matter is that there is no 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, will 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 the potential for achieving those.