

November 2006

Clear Channel May Once Again Lead the Way for Others

Given the multitude of industry-wide repercussions of the recently announced Clear Channel buyout by Bain Capital and Thomas H. Lee, here are our initial thoughts (really by way of questions), leading to a preliminary conclusion below:

This will be only the first leg of a longer term multi-pronged repositioning of the company well beyond the traditional radio model.

- What do the private equity guys know that the hedge funds (some of the previous public investors) did not? Or, for that matter, the Mays family of executives at Clear Channel? Initial indications are that the transaction will be styled according to the traditional LBO model of very high leverage followed by cost reductions and asset sales to pay down debt. Could Clear Channel management and previous shareholders not have also pursued this strategy to create shareholder value in the past several years?
- According to an internal company email that has made its way into the press, Clear Channel intends to divest almost 450 radio properties (out of 1,150), all located outside of the top-100 markets. It will be interesting to see whether these assets will be acquired piecemeal by a variety of operators, or as a whole by one. In either case, the shuffling of deck chairs does raise the question of, why? If the premise is one of narrower market focus, then what has changed in this consolidating field to give rise to this new way of thinking?
- Word has it that low single-digit revenue growth is the base case assumption for the buyout group, which raises the question of how such growth, albeit modest, is justified on a sustainable basis in the declining-to-flat revenue environment of late?
- Noting Clear Channel's historical position of leadership within the radio industry (for example, Clear Channel's role in the HD alliance and other sector initiatives), what will be the industry impact were Clear Channel to become more strictly focused on cutting costs, paying down debt, and honing in on core initiatives in order to optimize its overhead value?
- What will be the eventual exit strategy for the buyout group? Radio stocks have not been in favor, the IPO market has not been strong, and the buyout group would have to believe going into this deal that the eventual exit value could produce an attractive return. Is then an M&A exit the more likely assumption? There are only a handful of candidates – inside or outside of radio – that can absorb or reasonably combine with a Clear Channel.

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- In light of significant underlying pressures on terrestrial radio – from satellite radio, Internet radio, iPods, and now cell phones, can the sole strategy for Clear Channel really be to spruce up its core radio business and bet on a successful exit?

Our preliminary conclusion: The announced buyout of Clear Channel, and the financial and strategic measures initially discussed, will be only the first leg of a longer term multi-pronged repositioning of the company well beyond the traditional radio model. A future deal with one of the satellite radio operators may not be out of the question. Sirius's Mel Karmazin knows something about the radio business, for example. Or perhaps some form of wireless alliance? Clear Channel owns quite a bit of spectrum (and in the top-100 markets), which may not be the greatest asset from a traditional wireless communication perspective, but the recent AWS auctions and continuing introductions of new wireless services and applications are showing that any spectrum may be welcome spectrum to some. In either case, and there is surely a host of other possibilities, such future moves may indeed be easier to implement by a private company. And Clear Channel may once again lead the way for others.

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