February 2007

With one eye on XM/Sirius, the other on Clear Channel

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As the satellite radio operators seek to clarify their fate in an uncertain regulatory environment, the fate of their biggest counterpart in traditional radio seems no more certain at this time. Although for reasons related to its own operating and financial profile rather than regulatory factors beyond the company's immediate sphere of influence, it may be as challenging to predict the outcome of the radio operator's pending going-private transaction as that of the proposed XM/Sirius combination. Two aspects of the continuing Clear Channel saga, as the company seeks to obtain shareholder approval for its leveraged buyout, are of current note:

1. While some of the company's larger stockholders, accounting for 16% of the vote – including the company's largest, Fidelity Management – are opposed to the transaction on grounds of an insufficiently high valuation, and as Clear Channel's bylaws require a 66% vote (rather than the more typical majority standard) in order to win approval, failure to cast a vote counts as a vote against. We can imagine, in the realm of a large-cap and widely held stock such as Clear Channel's, the number of proxy solicitations that are (as is often the case) ignored by retail shareholders. Considering that the company is starting off with only 84% of votes available for its desired goal, (deducting the 16% believed to be negative), a mere incremental 18% either voted against or, what amounts to the same thing, tossed in the dustbin with assorted junk mail, would cause the proposed deal to be rejected.

2. Adding to the argument that the proposed valuation is insufficiently high, Clear Channel's recently reported fourth-quarter results included spectacular performance by its 90%-owned outdoor business, which posted growth of 13% and 61% in revenue and net income respectively. Although arguably a non-core asset of the company's, the success of this business underscores the notion that the future upside for Clear Channel may be outside of traditional radio, and may be significant.

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The performance of Clear Channel stock as word of these events has spread – recently trading close to a post deal-announcement high, and just 3% below the target buy-out price (despite the high risk of a failed shareholder vote) – implies that a higher offer may be anticipated. It will be interesting for the entire media sector to see, in the coming weeks, if a higher price is indeed offered, by whom, and how it is justified. Here is why:

[In that case], the signal will have arrived that capital providers are past the leap of faith that "new media" may require.

While the existing deal was predicated primarily on non-core asset sales and cost cutting, additional value could perhaps be unlocked – once the conventional LBO efficiencies are fully exploited – with a greater focus on "alternative" (e.g., outdoor) and "new" media initiatives (e.g., Internet radio, wireless carrier alliances, and even HD). That the current bidding group does not seem to have built such growth possibilities into its offer price, seeming instead to focus more conservatively on cost cutting and asset sales as noted, suggests a lesser confidence in the non-traditional initiatives. Should an enhanced offer for ClearChannel rely more explicitly on non-core growth opportunities, rather than treating these as "added bonus" (as appears to currently be the case), the signal will have arrived that capital providers are meaningfully past the leap of faith that "new media" may require. Alternatively, if the current offer with its basis in traditional media and traditional LBO cost-optimization is the best there is, despite the great potential born out of Clear Channel's almost unparalleled platform, the verdict on "new" and "alternative" media may remain one of caution.

For these and many other reasons, entrepreneurs and investors alike should continue to monitor the unfolding of Clear Channel's deal status, even as the XM and Sirius merger may continue to gather steam. The two situations, indeed, are not unrelated as both are likely to play a key role in the way we define the industry for many years to come.

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