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Core and Everlasting Assets

At the time that this is being written, a flurry of acquisition activity has been underway in the media and communications industry, with new and more sensational headlines in the news each day. From board approval for the Clear Channel buyout, to similar progress in negotiations for Cablevision's going-private transaction, to the announced acquisitions of Alltel by Goldman Sachs, and EMI by Terra Firma, activity is percolating across a variety of media sectors. This assortment of transactions, spanning multiple facets of a dynamic but somewhat volatile industry of late, suggests growing buyer comfort with the sector's prospects. But there could also be an additional investment thesis in the buyers' calculations, supporting the strong valuations in this environment: In all the illustrated cases there is an underlying asset or set of assets that is generally unaffected by (and likely to withstand) changing technologies or consumer habits. We describe some of the noted examples.

- While Clear Channel's core radio revenue performance has been flat at best, and prospects remain uncertain in the midst of a competitive landscape that includes satellite radio, Internet radio, MP3 devices, and now also cell phones, the company also owns significant and difficult to replicate assets in support of a proposed EBITDA deal multiple in the low- to mid-teens. Within its assorted portfolio of holdings, for example, Clear Channel owns a substantial spectrum footprint (especially in large metro areas) and a sizable tower portfolio from which its signals are broadcast. We have seen how highly both spectrum and tower assets are regarded by capital markets as we watched the bidding in the recent AWS spectrum auctions, and as we watched tower companies such as American and Crown ascend to ever rising valuation heights.
- Alltel's spectrum value – with a U.S. coverage map comprising 35 states – has no doubt also been factored into the buyout of this service provider, which ranks distantly behind Verizon, AT&T, Sprint, and T-Mobile, at a valuation of roughly 20x free cash flow and 30x earnings.
- While Cablevision's footprint is geographically more limited than Clear Channel's or Alltel's, Cablevision is the owner of a concentrated asset base in and around the nation's top media market that is almost unparalleled in its diversity and regional brand value. The portfolio includes properties such as Madison Square Garden and its assortment of entertainment and sports franchises, Radio City Music Hall, and the numerous regional (as well as some national) television networks that comprise Rainbow Media. There is, of course, also a cable franchise serving more

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than 3 million demographically desirable homes with state of the art telecom services. From a cash flow perspective alone, the proposed structure of Cablevision's going-private transaction will result in a debt multiple around the mid-teens, and it would seem that more than cash flow alone is needed to justify the leverage.

- Despite the music industry's well publicized struggles from which EMI is not immune, the value of this music company's portfolio – which includes more than a dozen labels, two major recording studios, a music catalog ranging from the Beatles to Sinatra, and a music publishing library ranging from ABBA to The Yardbirds – was apparently not lost on the private equity fund that has bid almost \$5 billion for a company with revenues that have been declining for the past two years.

Of course, we would never suggest that media is becoming an asset based industry in the same sense as real estate or manufacturing. But in light of the generally acknowledged industry risk dynamic – driven by almost perpetual emergence of new technologies and applications, new and rapidly changing consumer behavior patterns in response, and often diminishing barriers to competition in an Internet-based environment – the ownership of valuable assets provides two important risk mitigation and financial advantages:

- To the extent that the asset is media or technology agnostic – so that for example the same EMI-owned title can be enjoyed on Clear Channel's radio broadcast, its Internet stream, downloaded over Cablevision's fiber or Alltel's wireless network – the underlying asset provides a sort of backstop to uncertain profitability.
- In the current high liquidity capital markets, in which credit capital constitutes an increasingly attractive and available form of finance, the underlying asset provides an added element of credit support that in many cases enables potential acquirers or investors to maximize financial leverage.

As long as the described risks in the current media and communications landscape persist, we would look for investors, lenders, and buyers to continue to seek ways to mitigate these risks with (and capitalize on) the value of strong underlying assets. That attractive deals are getting done, especially in light of the described competitive environment, is a positive signal and vote of confidence that, after the dust has settled, the same key assets (comprising both content and distribution) will remain central. In a sector almost defined by change, it seems some assets are everlasting.

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