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Rise in TV multiples seen boosting M&A

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The rise in stock prices for public television companies in 2009 has improved EBITDA multiples and may have set the stage for renewed action in TV station trading. **M.C. Alcamo & Co.**, a media investment bank, has been analyzing how the supposedly out of favor TV business now compares to the multiples of other well-respected public companies.

Effective at the close of trading on December 31, 2009, the firm calculated that the six pure-play publicly-listed TV broadcasters were valued at an average multiple of 10.7 x EBITDA. That was just behind Microsoft at 11.1 x and ahead of eBay at 10.4 x and McDonald's at 10.3 x.

"The robust multiple indicates significant confidence among investors – confidence in continued stock price appreciation and an anticipation of rising profitability throughout 2010-11. Investors are willing to pay nearly eleven times EBITDA for companies that are well-positioned to benefit from advertising growth in the recovery. The view that broadcast is somehow disfavored by investors turns out to be erroneous," said **Michael Alcamo**, President of the firm that bears his name.

In addition to the pure plays, M.C. Alcamo & Co. studied trading data for 14 listed companies with broadcast media divisions. The firm indexed trading multiples to the revenue arising from the firm's broadcast division. After indexing, the public trading multiple was 10.3 x.

How did the investment bankers arrive at those figures? Trading multiples illustrate a company's enterprise valuation at 12-31-09, divided by EBITDA for its trailing twelve months (debt is reported at par). On an individual asset basis, Alcamo noted, broadcast cash flow is normally higher than EBITDA, and therefore BCF multiples for individual markets or assets may be slightly lower. " M&A multiples in specific markets are, moreover, highly dependent on the market's rating, the strength of a network affiliation, and other strategic and qualitative considerations," the report cautioned.

Those closing prices at the end of 2009 were not necessarily the end of the upswing, in fact some of the companies have seen their prices jump more already this year. "As the S&P's upward momentum continues, we expect broadcast stocks to continue to recover, and then to meet and exceed their 52-week range," the report stated.

"The trading data reflect continuing market confidence in broadcast media. Moreover, we expect revenue and profits to continue to surprise investors throughout 2010. In the past two quarters, certain broadcast stocks were disfavored due to the uncertainty of ongoing lender negotiations. Improved operating visibility in 2010 will enable these groups to free up cash for investment or to pay down debt," Alcamo said.

And noting that the Television Bureau of Advertising (TVB) has estimated that political revenues for TV stations in 2010 will total about $3 billion, Alcamo told RBR-TVBR that estimate is likely to turn out to be low. So revenues are improving, cash flow is improving and multiples are improving. He said multiples tend to peak about 9-12 months after the end of a recession.

The investment banker is already seeing an increase in inquiries from groups interested in selling TV stations now that the market is showing improvement. He figures the next 6-12 months will be a good time to sell.

So, are there buyers, we asked? Yes, there are groups ready to buy TV stations as well, Alcamo said. The potential buyers most interested now tend to be broadcasters with strong private equity backing, he said.

After a long drought, we may at last see a pick up in transaction activity in 2010.

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