MID-YEAR REVIEW & FORECAST

Management, Sales & Marketing

By Katy Bachman

Radio revenue observations from the industry leaders

1995 is another hot year for radio. How long will the winning streak last? What can stations do to prolong the prosperity? RBR talked with key sales executives for a read on where we're headed.

Les Goldberg, President, *The Interep Radio Store*
1995 is shaping up to be another great year. Although June has softened, we begin to pick-up again in July and August. By December, we are pacing double digits ahead of 1994. At Interep, we're 13% ahead on our same stations. When you factor in stations we acquired in 1995, it is much better than that. Our transactional salespeople are selling radio at higher rates and focusing on qualitative sales points, which has a positive effect on pricing.

Ralph Guild, Chairman, *The Interep Radio Store*
Pending FCC and government decisions concerning station ownership, the radio industry is on the brink of its most radical change since the advent of television. There will be continued industry consolidation. The largest station groups will get larger. And there will be more dedicated rep companies formed to handle national sales for these groups. Independently-owned stations will be demanding more individualized attention. While I can't go into any details right now, Interep will be adding some new rep firms in the next few months.

Stu Olds, President, *Katz Radio Group*
The industry is off to a tremendous start, both locally and nationally, something you don't usually see on both sides. There's been a bit of a June swoon. July is not as strong, but there evidence it will pick up later in the month. Inventory remains at a premium; CPPs are going up. With all the industry market efforts by us, Interep, RIEP, and others, radio continues to stand out very tall in a 500 channel world. I don't see any kind of let-up through 1996 unless there's a major calamity. With a strong TV upfront, the Olympics and the election, we're in great shape.

The trend toward deregulation is extremely positive. It puts more stations in the hands of better broadcasters, resulting in a better product. Broadcasters continue to realize their long term growth will come from market expansion and they will continue to invest in the medium. We've entered a period of increased stability. We've already lived through the challenges of fragmentation. Advertisers have recognized this and are using radio more as a primary medium.

Ralf D'Amico, VP/GM,
CBS Radio Representatives
The year started off very well and people thought it would be like '94. My concern started in April and then May got bad. There was a lot of demand; stations locally were selling out and prices got high. A lot of buyers decided they didn't want to pay the rates, so agencies decided they would buy later, or not do the campaign at all. June died and July looks soft. August is a question mark. But I'm optimistic that fourth quarter wil be strong, starting right after Labor Day. September is back to school. Just be a history student, you can chart the positive effect the Olympics and the election will have. TV upfront is another positive sign. Agencies putting their money upfront, usually indicates there wil be some money for us.

Judy Carlough, EVP Marketing,
Radio Advertising Bureau
When a good year follows a good year, it's terrific. I think we will finish the year up 10-11%.There's no reason to think we can't continue in double digits. This is a dream come true—a good economy, plus the Olympics, the election and a limited inventory.The only thing that can keep us from doing that is if people underprice their inventory. The Olympics and the election are good reasons to price aggressively. If you're 85% sold out and you drop your rates like a stone in the ocean, you won't be able to hype them aggressively. Stations will take a little less business at first; there will be some that won't find rate hikes acceptable. The busier and more demand you make it sound like you have, the more attractive you will appear. It tends to have a charismatic effect on advertisers.

JUNE 23, 1995

R&R

THE INDUSTRY'S NEWSPAPER

Radio Stocks Riding High After Senate Dereg Vote

The Senate's approval of legislation eliminating radio ownership limits sent stocks soaring on the wings of investors' dreams of mega-groups with mega-cash flow.

Paul Kagan Associates' Radio Stock Index, which includes 15 publicly traded radio groups and program suppliers, jumped 8.9% between June 14 (the day before the Senate vote) and June 19.

According to Kagan Senior Analyst **Bishop Cheen,** that growth was powered by the huge gains enjoyed by leading groups such as **Infinity Broadcasting,** which saw its stock price rise 5.8% in the days following the Senate vote.

Cheen notes that the Senate vote added fuel to an upward trend in radio stock prices that is attributable to investor satisfaction with the

STOCKS/See Page 13

Stocks

Continued from Page 1

results of the last round of ownership deregulation — including duopolies, the expansion of large groups, and the resulting boom in cash flow that occurred in 1994. Indeed, Kagan's radio index rose 19% from mid-May to mid-June.

Further relaxation or elimination of the local and national ownership limits would create even more of those growth opportunities, particularly in the largest markets.

Lasting Effect?

Will radio stocks hold the added value conferred by the Senate? That, said Cheen, depends on the work of the conference committee charged with working out differences between the House and Senate telecommunications bills — not to mention President Clinton's thoughts on the legislation.

"Everything [in the stock market] runs on emotion," Cheen explained. "If word starts to leak that the House and Senate leaders have worked this out over dinner, [radio stocks] will take off." Conversely, word of an imminent veto could put the chill on things.

But another looming legislative initiative, Cheen noted, could provide an even bigger boost to radio stocks. If Congress cuts the capital gains tax rate, he said, it could prompt several operators to sell out, creating new growth opportunities for publicly traded groups.

"The biggest trading quarter in radio history was the fourth quarter of 1986," says Cheen. "The capital gains rate was about to go up, and people were trying to get out before that happened."

Banks slowly open vault for smaller-market deals

With duopoly rules and strong advertising, station acquisition in midsize and small markets has appeal to lenders

By Donna Petrozzello

Duopoly ownership rules, solid advertising revenue and more attention to radio from Wall Street investors increasingly has lured large banks toward financing midsize and some smaller-market station purchases.

"When the [radio] market was in difficulty, there was a stronger preference to lend to large-market stations, but now lenders are willing to reach into the smaller markets," says Tom Reifenheiser, managing director of media and telecommunications at Chase Manhattan Bank.

From station brokers to investment bankers, many agree that lenders are drawn to radio for its relative fiscal stability and for brisk station trading in markets beyond the top 10 or top 25 markets since duopoly rules were adopted in 1992.

"Because there are so few opportunities to invest in larger markets now, the broadcast lenders and investors are beginning to see the opportunities in smaller and midsize markets," says Rick Zitelman of the Zitelman Group of investment bankers.

"Three years ago, major banks weren't lending to broadcasting groups, but they have now rediscovered that radio is a solid industry," says Jeff Kilrea, vice president at Finova Capital Corp. of Chicago.

Most large banks known for investing in radio are still unlikely to lend money for deals in small markets, those ranked over 100 by Arbitron, as opposed to midsize markets, generally ranked from 11-50.

Brian Rich, managing director of communications finance at Toronto Dominion Bank, prefers to loan to groups whose stations generate at least $10 million annually in broadcast cash flow from stations in a variety of markets.

Toronto Dominion recently loaned to Radio Equity Partners, a group with stations in the top 50 markets. While the bank is pleased with its investment, Rich said that "prior to 1991, we would have been nervous about it. If we get into small and medium markets, we don't want any more than 25% of the cash flow coming from any single market."

Since duopoly has narrowed the number of station owners in medium and smaller markets, fewer owners are competing for advertising revenue in those markets. This has made more midsize radio stations successful, especially in markets heavy with FM signals, and able to attract investors.

"Smaller-market stations had a hard time because there were too many stations chasing too few dollars, but now it seems to be balanced," Reifenheiser says.

Several lenders agree that in 1995, banks have been more conservative with radio investments than in the late 1980s.

Banks are back in, but they are in more conservatively," says Ross Secunda, president of Hanevan Financial Services, which raises equity for radio and TV transactions. Secunda suggests that instead of lending groups the full acquisition price, banks are more apt to lend half that sum, forcing owner equity or seller financing to make up the difference. ■

Ad revenue up 10%

Radio collected an average 10% more in combined local and national advertising revenue in April over the same period last year, the Radio Advertising Bureau reports. In a survey of 100 radio markets, stations reported an average 9% growth in local ad revenue and an average 14% growth in national ad revenue for April 1995.

Stations in the Midwest reported the strongest gains in local advertising, an average 11% hike, and stations in the East reported the strongest national ad gains, at an average 20% increase. Only stations in the Southwest reported a slight dip of 2% in national ad revenue for the month.

Newspapers' loss may be radio's gain

Seminar concludes radio growth will come from its ability to lure advertisers from print

By Donna Petrozzello

Radio station group owners and industry analysts predict radio will reap additional revenue this year as advertisers are expected to spend less money in newspapers and more money in broadcast media.

Participating in panel discussions at a one-day seminar on radio's financial future, hosted by Paul Kagan & Associates, several group owners said they expect advertisers to divert more of their spending from newspapers to radio.

"There is a direct correlation between retailers moving away from newspapers" and radio's projected rate of revenue growth, said Emmis Broadcasting CEO Jeff Smulyan.

"Can we sustain 10% growth? I don't know," Smulyan added. "But last year, radio revenue grew at a rate 7.5% above the rate of inflation, and that represents, more than anything else, the fundamental shift of retailers from daily newspapers to radio."

"Radio's growth will come from our efficiency and our ability to take revenue from newspapers," said Evergreen Media Corp. Chairman and CEO Scott Ginsburg. "Newspapers are a declining business."

According to Veronis Suhler & Associates' 1994 Communications Industry Report, operating income margins at newspapers rose only one-tenth of 1% in 1993, and cash-flow margins were only three-tenths of a percent higher than 1992's.

Those results were significantly below newspapers' performance in 1989, when income margins were 3.5 points higher and cash-flow margins were 2.2 points higher on average, the report stated.

Meanwhile, a survey by the Radio Advertising Bureau showed a 13% average increase in revenue totals from local and national advertising for first quarter 1995. For March 1995, stations reported an average 10% increase in combined local and national advertising revenue compared with March 1994.

Although some analysts have predicted that retail spending will slow in 1995, several broadcasters said that it should not affect radio too sharply.

"Slowing down of business will have an adverse effect on radio, but there are so many things inherently attractive about radio, revenue levels will never go down to where they were three years ago," said Michael Ferrel, president and chief operating officer of Multi-Market Radio.

George Sosson, president and chief operating officer of Radio Equity Partners, however, warned broadcasters that a drop in retail sales and automotive advertising may reduce radio revenue more than expected this year.

Other panelists predicted further consolidation in the radio industry, despite limited ownership restrictions in effect by the FCC.

Star Media Group station broker William Steding predicted that more group owners will expand into other media rather than buy radio stations in a variety of markets: "In a few years, groups will concentrate power in one market by expanding to own community newspapers and other media."

Media Venture Partners station broker Elliot Evers said an increasing number of owners are entering joint sales agreements in their markets, allowing them to sell inventory on more stations than the ones they own and operate.

"We see the anticipation of triopoly in joint sales agreement arrangements," said Evers. "We are seeing some people enter a joint sales agreement and control inventory on three stations on the same band in a market. It's clearly done in anticipation of the ownership rules changing." ■

Brisk gains in first quarter for radio group owners

Traditionally slow quarter is anything but

By Donna Petrozzello

Although many companies regard the first fiscal quarter of the year as their slowest, most radio groups reported net revenue gains topping 10% for this year's first quarter over last year's, which was also strong.

For the first time in the company's history, Infinity Broadcasting reported a positive net income for the first quarter of a fiscal year. Multi-Market reported a 55% increase in net revenue and also acquired Southern Starr Broadcasting stations during the quarter. SFX Broadcasting reported a 39% increase in broadcast cash flow for the first quarter on a pro forma basis.

Below is a summary of various radio groups' first-quarter financial reports.

Westwood One Inc.

Westwood One reported a 21% increase in net revenue, to $31,421,000, and a 168% increase in operating cash flow, to $3,197,000, for the first quarter over the same period last year.

Increases were attributed mainly to the addition of the Unistar Radio Networks, which Westwood One acquired in early February 1994. Higher advertising revenue also contributed to net revenue gains, Westwood One officials noted.

Net loss per share for the latest quarter was $2,492,000, or $.08 per share, as compared with a net loss of $7,416,000, or $.29 per share, for the same period last year.

Mel Karmazin, president/CEO of Westwood One and president/CEO of Infinity Broadcasting, remarked that first-quarter net revenue and operating cash flow were the "highest reported results by the company for a first quarter since the company went public in 1984."

Infinity Broadcasting Corp.

Infinity Broadcasting reported a 29% increase in net revenue, to $62,327,000, and a 21% increase in operating cash flow, on a pro forma basis, for the last quarter over 1994.

Net revenue figures included revenue from stations new to its portfolio, WPGC-FM Washington and WXYT(AM) Detroit, acquired last June, Infinity officials said.

For the first time in the company's history, Infinity reported a positive net income during a first quarter, said Karmazin. Net income for the quarter totaled $505,000, or $.01 per share, as compared with a net loss of $3,864,000, or $.09 per share, for first quarter 1994.

SFX Broadcasting Inc.

New York–based SFX Broadcasting reported an 18% increase in net revenue and a 39% increase in broadcast cash flow, each on a pro forma basis, for first quarter 1995 over the same period last year.

The company's latest first-quarter report placed net revenue at $14,288,000 in 1995, up from $12,151,000 in 1994. Also on a pro forma basis, broadcast cash flow for the last quarter totaled $4,024,000 over last year's $2,897,000 first-quarter figure.

In January of this year, SFX entered into an agreement to purchase KTCK(AM) Dallas for $8 million in cash and $2 million in preferred stock. The company also closed on a $50 million, five-year senior credit facility, which will be used primarily for acquisitions.

In April, SFX entered into an LMA arrangement and agreed to purchase WTDR(FM) Statesville, N.C., and WEZC(FM) Hickory, N.C., which each serve the Charlotte area.

Saga Communications Inc.

On a pro forma basis, Saga reported a 6% increase in net revenue, to $10,564,000, and a 13% increase in broadcast cash flow, which comes to 2,732,000 for first quarter 1995 over the same period in 1994.

Saga attributed much of the increase in net revenue for the quarter to revenue earned by WLZR-AM-FM Milwaukee and KOAM-TV Joplin, Mo., which were acquired in 1994. Likewise, the bulk of the increase in broadcast cash flow was attributed to properties acquired in 1994, company officials stated.

According to the company's first-quarter statement, net loss per share for the period was $.07, which was equal to the net loss reported last year. In addition, after-tax cash flow per share increased 41%, to $.24 from $.17 in the first quarter of last year.

Multi-Market Radio Inc.

Multi-Market Radio reported a 55% gain in net revenue and a 92% gain in broadcast cash flow for the latest fiscal quarter. Net revenue for the quarter was $1,796,000, and broadcast cash flow was $542,000.

Increases included revenue of WRXR-FM Aiken, S.C., and WKBG(FM) Martinez, Ga., which the company acquired last year, along with revenue from Multi-Market's existing properties. First-quarter results do not include results of seven stations Multi-Market acquired in March when it completed a $35 million merger with Southern Starr Broadcasting.

Operating as a separate entity for most of the first quarter, Southern Starr reported a 28% increase in net revenue and a 63% increase in broadcast cash flow in 1995 over the same period last year.

Multi-Market also reported a $.20 net loss per share in the first quarter compared with a net loss per share of $.12 during the first quarter of last year.

CBS Radio Networks

While CBS Inc. reported net income losses reaching 68%, CBS Radio Networks noted a "significant increase" in radio revenue for the latest quarter.

CBS officials did not provide a breakdown in revenue and broadcast cash flow for the radio network, but attributed the bulk of the increase to stronger advertising and larger audiences for KCBS(FM) Los Angeles and KKRW(FM) Houston. ■

RIDING GAIN

Radio advertising up 13% in first quarter

First quarter 1995 totals for combined local and national radio advertising revenue totals marked a 13% increase over the same period last year, according to a survey by the Radio Advertising Bureau.

Separately, local ad revenue totals were an average 11% greater in the past quarter over first quarter 1994, with markets in the Southwest showing the largest increases of 14% on average. National ad revenue totals increased by about 23% overall, with markets in the Southwest reporting increases of 28% on average. National advertising revenue represents a smaller percentage of total radio ad revenue than local.

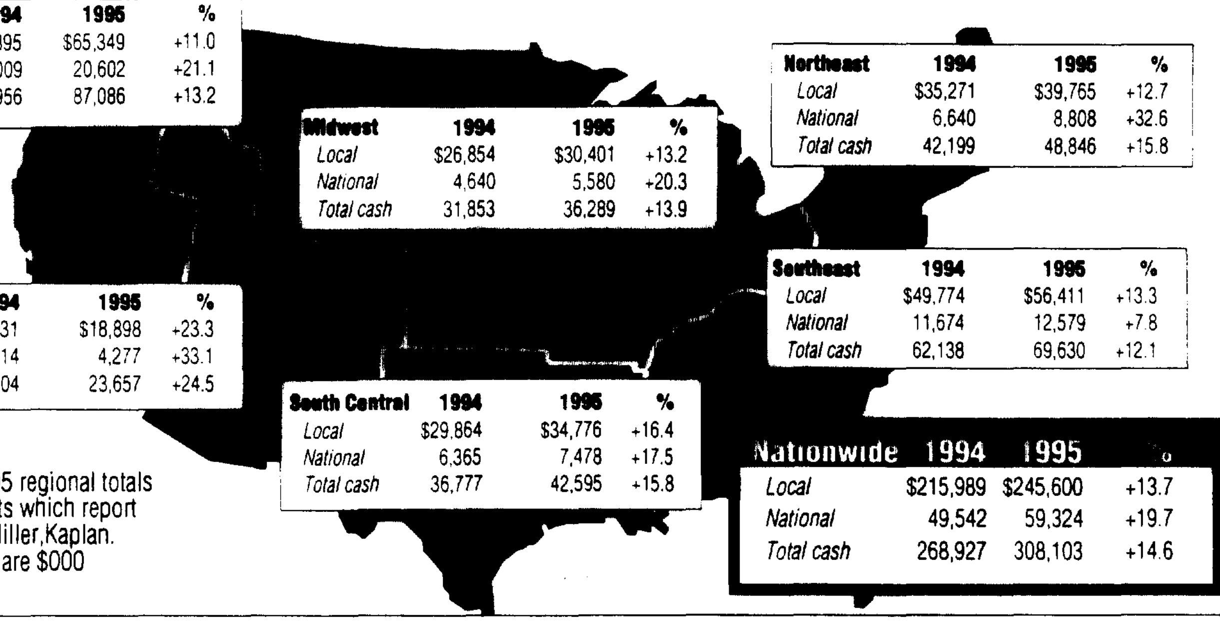
Local and national ad revenue data is based on a 100-market survey compiled by the RAB with figures from the independent accounting firms of Miller Kaplan Arase & Co. and Hungerford Aldrin Nichols & Carter.

Fries also said that radio advertising is on strong upward trend, but stations should be aggressive in pursuing larger share of advertising dollar. Fries said radio last year passed Yellow Pages in ad revenue, should post 8%-9% growth this year: "Will this prosperity last? Yes." Fries said radio listenership has held steady through introduction of cassette and CD players in cars, and he said RAB will release survey soon showing more up-to-date figures reaching same conclusion. In his speech, Fries also commended Fritts and NAB Exec. Vp James May for helping to persuade Congress to pass legislation relieving radio stations of need for long disclaimers for rental cars. Task was hard because bill was in Banking Committee, which isn't usual field for NAB lobbyists, Fries said.

Exclusive: *RBR/Miller, Kaplan* local revenue report

Local revenue for February: +13.7%

Local advertising revenue was up 13.7% in February, according to the *RBR/Miller, Kaplan* revenue report. Overall, the six regions posted an even-better 14.6% gain in total-cash sales for the year. National-spot was up 19.7%. The *RBR/Miller, Kaplan* revenue report below shows the current standings for radio's two main revenue streams, local and national.



West Coast	1994	1995	%
Local	$58,895	$65,349	+11.0
National	17,009	20,602	+21.1
Total cash	76,956	87,086	+13.2

Midwest	1994	1995	%
Local	$26,854	$30,401	+13.2
National	4,640	5,580	+20.3
Total cash	31,853	36,289	+13.9

Northeast	1994	1995	%
Local	$35,271	$39,765	+12.7
National	6,640	8,808	+32.6
Total cash	42,199	48,846	+15.8

Rocky Mtn.	1994	1995	%
Local	$15,331	$18,898	+23.3
National	3,214	4,277	+33.1
Total cash	19,004	23,657	+24.5

Southeast	1994	1995	%
Local	$49,774	$56,411	+13.3
National	11,674	12,579	+7.8
Total cash	62,138	69,630	+12.1

South Central	1994	1995	%
Local	$29,864	$34,776	+16.4
National	6,365	7,478	+17.5
Total cash	36,777	42,595	+15.8

Nationwide	1994	1995	%
Local	$215,989	$245,600	+13.7
National	49,542	59,324	+19.7
Total cash	268,927	308,103	+14.6

Figures show 1995 regional totals for major markets which report revenues to Miller,Kaplan. All figures are $000

Advertisers expected to favor radio in '95

Medium called 'best positioned' for next five years

By Donna Petrozzello

Advertisers are expected to remain bullish on radio, and larger radio groups should develop under relaxed ownership laws, media analysts at leading advertising and financial firms say.

"The radio industry is probably in the best position it's been in for decades and will be the best-positioned medium for at least the next five years," says Fritz Beesemyer, senior vice president, media, Oppenheimer & Co.

Beesemyer was joined last Tuesday by William Donald, media analyst, Standard & Poors, and Howard Nass, senior VP/corporate director, spot broadcasting, Foote, Cone & Belding advertising, at a breakfast seminar organized by the New York Market Radio Broadcasters Association. WLTW(FM) and WNEW(FM), both New York, hosted the seminar.

Beesemyer noted that 7% of all advertising dollars are spent on radio spots, and radio's share appears to be growing. Combined advertising revenue devoted to local, national and network radio exceeded $10 billion in 1994, 11.3% more than in 1993, according to a market survey compiled by the Radio Advertising Bureau.

Fritz Beesemyer, senior VP, media, Oppenheimer & Co.; Howard Nass, senior VP/corporate director of spot broadcast, Foote, Cone & Belding; and William Donald, media analyst, Standard & Poors, at NYMRAD's breakfast seminar March 14 in New York.

Donald this year expects a 7.5% gain in total advertising dollars spent in the U.S. While the "domestic economy may slow down, the upward momentum in advertising should continue for 1995," he said.

Given network television's problems with "channel surfing," new networks, declining viewership and expanded satellite channels, radio measures up favorably, Nass said.

The speakers also pointed out radio's selling points to advertisers, including its portability and its ability to deliver a targeted audience and reach consumers close to the point of purchase.

However, Nass said, local cable operators could give radio some competition because they can offer advertising spots on television more inexpensively than can national cable operators and may attract advertising dollars that might have been spent in radio. ■

National spot revenue up 38%

By Donna Petrozzello

National radio ad revenue in January increased an average of 38% over January 1994 revenue, the Radio Advertising Bureau reported last week.

The largest increases in national revenue were reported by stations in Southwest markets, which tallied an average 49% increase over January 1994. Markets in the East and West reported an average 40% revenue increase, while Midwest markets were up 39% and Southeast markets rose 30%.

RAB President Gary Fries says that "the 38% growth in national spot revenue is just that—pure incremental growth for an industry that continues to attract new advertisers and larger budgets."

Meanwhile, local ad revenue increased an average of 11% nationwide, and combined local and national radio ad revenue totals were an average 15% higher than in January 1994, the RAB reported.

Fries adds that "January's 15% jump is all the more significant when you consider that we're using as the basis for comparison January 1994, a month when radio revenue grew 12%."

Markets showing the most growth in local ad revenue were those in the East and West, which both reported average 12% growth in January 1995 over January 1994. Southwest markets were up, on average, 10%, while Southest and Midwest markets rose an average of 9% and 8%, respectively.

The RAB calculations were based on a survey of 100 markets by the accounting firms of Miller Kaplan Arase & Co. and Hungerford Aldrin Nichols & Carter. ■

Special Report

STATION TRADING IN 1994

Station sales encore in '94

On the heels of a prosperous 1993, radio and TV sales continue their banner pace, doing $5 billion in business

By Julie A. Zier

The growth curve of the broadcasting business continued to soar upward in 1994, marking the second year of booming station trading following the recession.

Although trading slowed mid-year, 1994 saw a dollar volume that exceeded 1993's by almost $2 billion. Duopoly, the resurgence of equity and debt, and the economic recovery were among the facors contributing to the $5 billion year.

Combination deals exploded, more than doubling total dollars from $756 million in 1993 to $1.8 billion. Television had another banner year of $2.2 billion in deals, although several contoversial deals have yet to be approved at the FCC.

Sale prices of standalone FMs rose 12.7%, from 1993's $743.5 million to $838 million, while the number of deals dropped 23%. Standalone AMs felt a similar decline in the number of deals, from 231 to 169 in 1994. But the total dollar value of AM sales shot up 84%, totaling $132.3 million in 1994 over 1993's $71 million.

RADIO

"When the early 1990s are revisited and we look at radio, this will be viewed as a period of enormous structural change. You're not going to see trading like this five years from now. This trading is genetic engineering," says radio broker Gary Stevens.

Brokers and group owners agree that 1994, like 1993, was a year of phenomenal growth for the broadcasting industry and that the undisputed force behind the activity was duopoly.

"Duopoly has increased the value of stations," Jacor President/co-COO Randy Michaels says. "There is power in having a multibrand strategy in a single radio market."

In late 1992, the FCC loosened its ownership restrictions, allowing groups to own up to two AMs and two FMs in markets with at least 15 stations. The impact on the sluggish radio industry was unprecedented. By the end of 1993, the dollar volume of FM-only transactions almost tripled, to $743.5 million, while group sales grew 44%.

American Radio System's co-COO David Perelman points to Buffalo, N.Y., as a model of duopoly's explosion. Fifteen months ago, Buffalo had several independently owned radio stations. Today, he says, four companies own 79% of the listening audience and 95% of the revenue. Only one station remains independently owned.

"Deals are being driven strategically rather than by multiples," Stevens says. Liberty Broadcasting, for example, follows a regional strategy of buying only stations on the East Coast.

"We've turned down opportunities out West because we don't want to be fragmented," Liberty President/CEO Jim Thompson explains. They were one of the year's most active groups, putting 19 transactions through the FCC. "We want to have some marketing influence in regions."

While the duopoly trend continued into 1994, other factors spurred trading activity. The economic recovery could be felt on all fronts of the radio industry. There was an availability of equity players. Banks began lending again, but unlike the freewheeling late 1980s, caution reigned. Lending multiples were capped at five or six times cash flow, Stevens says, versus the seven or eight times that was standard before the recession.

As a result, the structure of deals has taken on a new look. At the height of the recession, according to broker Bill Steding of Star Media Group, the average deal was 60%

equity and 40% senior debt. In 1994, senior subordinated debt was added to the mix, providing a less expensive capital structure.

"You don't have the leverage you had in the '80s," OmniAmerica Chairman/CEO Carl Hirsch says. "It's harder to enter the game now."

Another difference from the frenzy of the late '80s is in the nature of the beast, Liberty's CEO Jim Thompson says. "There were a lot of business people who didn't know radio, and a lot of radio people who didn't know business." In today's radio marketplace, he says, the two converge.

Advertising revenue set new records in 1994. Total radio ad revenue grew 11.3% last year, its highest increase since 1985, according to the Radio Advertising Bureau.

"The surge in radio revenues created a more robust operating income, which ultimately raised the prices and value of stations," broker Dick Foreman explains. "They've helped create more interest in the radio sector, and more people want to invest."

In mid- to late-1994, trading activity slowed. Part of the blame rested on multiples, which hovered at 10-11 times cash flow in major markets, 9-10 in medium markets and 7-9 in smaller markets. But most notably, interest rates rose five times last year.

"We can't be as aggressive on prices and what we might pay for a station in a rising-interest environment," EZ Communications President Alan Box says. "They're not stopping the good deals, they're just making everyone look a little closer before they sign on the dotted line."

"There is an eagerness to acquire stations now before interest rates go higher," broker Jim Blackburn says. "But that desire is not being satisfied because of a lack of supply."

The next flurry of activity will follow the widely expected changes in ownership rules, traders agree. The FCC has proposed raising or eliminating the radio ownership cap of 20 AMs and 20 FMs. Every broadcaster and broker interviewed for this article favors such a change.

"If we are going to be able to compete with cable companies and telephone companies and satellite technology and digital broadcasting, the idea that we should be limited to a number of radio stations seems to be inappropriate," Infinity President/CEO Mel Karmazin says.

"Let the free market decide," says Steding, who also is in favor of eliminating restictions on foreign ownership, another proposal on the table at the FCC. "The demons the Democrats expect to come forward will not."

But the FCC seems to have its bureaucratic hands full processing routine paperwork. Radio broadcasters are complaining the FCC is backlogged, delaying action on the most basic deals.

"Anything slightly controversial has stopped in the commission," Michaels says. "Almost every group broadcaster is frustrated about the fact that one or more applications are tied up because the commission has it sitting on someone's desk and doesn't really know what to do."

Radio broadcasters are predicting another active year in 1995, but not up to the 1993-94 levels.

"The easy, logical deals got done in 1994," Box says. "The more creative, or stretch, deals will be done in 1995 as people look around and try to make the best of what's available."

Box says the trend for this year will be group owners trying to establish duopolies in markets in which they do not now operate. "The dynamics are completely different," he says.

Certain unresolved factors that should be decided this year will have an effect on trading volume. "The industry is set for a nice trading pickup if capital gains are cut and ownership limits are lifted," says broker Tom Gammon of Americom. "Small markets could come more into play."

Some larger players that have achieved critical mass—loosely defined as enough stations and cash flow to entice investors—will begin to get impatient, Bergner says. The initial public offering market cooled off in mid-year, preventing some companies from tapping into public money.

"There will be more mergers and buyouts because companies are realizing they can get a lot more for their stations on the private market than the public market," Bergner predicts.

Overall, the mood of the industry is one of optimism and excitement. Carl Hirsch, like others, is "bullish" on radio, and he hinted that television is also opportunity-rich. "I see the next three to five years as a wonderful window of opportunity," Hirsch says. Why? "Broadcasters are like crabs in a bucket; none of us can get out of the bucket, and none of us can get out of each other's way."

RAB meeting marks prosperous year

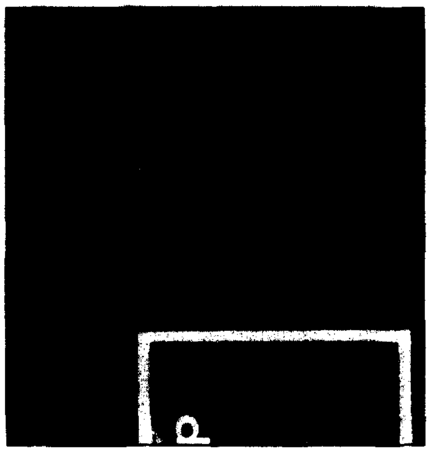
With 11% increase in radio ad revenue for 1994, association's annual conference is upbeat

By Donna Petrozzello

Radio Advertising Bureau President Gary Fries at the RAB's annual marketing leadership conference in Dallas congratulated radio station sales teams for billing more than $10 billion in advertising revenue in 1994. More than 2,000 station general managers and sales managers were on hand, double the number in attendance just four years ago.

The conference marked a particularly prosperous year in radio sales. Combined 1994 revenue for radio from local, national and spot advertising garnered $10.65 billion, an 11.3% overall increase over 1993 levels. In addition, stations nationwide billed a combined $1 billion during May 1994 alone.

In his opening remarks, Fries said that radio's strong performance last year made it the fourth-largest advertising medium for the year, surpassing the amount billed by other national advertising mediums, including telephone book yellow pages.



"I don't think anybody can stop this industry."
RAB President Gary Fries

"We've created an environment of deep respect for us, the people in the radio industry, as it [radio] is a part of the media scheme" purchased by advertisers, Fries said. "The landscape has changed. I think this is our moment and our opportunity."

Fries also predicted more revenue growth in markets nationwide for 1995: "I don't think anybody can stop this industry. I think we'll keep going forward at a pace that those of us who have been around for a while have never seen before." ■

Radio groups finish '94 with solid gains

Many public companies turned in double-digit revenue, cash-flow performances

By Donna Petrozzello

Fourth-quarter and year-end financial reports from several publicly traded radio group owners understated the strong fiscal gains in advertising revenue that radio stations in nearly all markets saw in 1994. Most companies reported double-digit growth in net broadcasting revenue and broadcast cash flow for both the last quarter of 1994 and the year in total. Following is a summary of fiscal reports from several public companies (figures are on a pro forma basis).

■ **EZ Communications** reported a 10% increase in net broadcasting revenue and a 17% increase in broadcast cash flow during fourth quarter 1994 (ended Dec. 31). The company's year-end results also show a double-digit increase in broadcast cash flow and improved net revenue over 1993.

Ron Peele, EZ's chief financial officer, says the company's gross revenue of $22.36 million in the fourth quarter compared with $20.4 million for the same quarter in 1993. Broadcast cash flow totaled $7.2 million in fourth quarter 1994, compared with $6.2 million in 1993.

As for 1994 as a whole, EZ reports net broadcasting revenue of $72.5 million, up 5.4% from 1993's $68.5 million. The company reported broadcast cash flow for 1994 of nearly $26 million, 15% higher than the $22 million in 1993.

EZ Communications President/CEO Alan Box attributed the rises to "increased advertising revenue" and the performance of EZ's WUSL(FM) Philadelphia and KZOK(AM) Seattle, acquired in midyear. EZ also forged deals last December (now awaiting FCC approval) to purchase WBYU(AM)-WRNO(FM) New Orleans and KBEQ-AM-FM Kansas City, Mo., and entered a one-year purchase option for KFKF-FM Kansas City, Kan. The pending deals, expected to close early this year, will give EZ duopolies in eight markets.

■ **Jacor Communications** reported an 11% increase in net broadcasting revenue and a 24% rise in broadcast cash flow in the fourth quarter. Jacor's year-end '94 results showed an 11% increase in net revenue and a 29% increase in broadcast cash flow.

The company's net broadcasting revenue totaled $98.4 million in 1994 and $25.9 million in the fourth quarter. By comparison, in 1993 Jacor reported net broadcasting revenue of $88.3 million for the year and $23.3 million for the fourth quarter.

Jacor President/COO Randy Michaels attributes the increases to strong performance by its Denver duopoly of KAZY(FM)/KRFX(FM).

Jacor reported net income of $7.9 million, or 37 cents per share in 1994, a 250% increase over 1993's $1.4 million (10 cents per share). Net income for fourth quarter '94 was $3.1 million (14 cents per share), compared with fourth quarter '93 totals of $900,000 (5 cents per share).

■ **Evergreen Media Corp.** reported net revenue 11% greater in fourth quarter 1994 compared with the same period in '93, while broadcast cash flow was up nearly 15% over 1993 during the same period.

Net revenue in the fourth quarter totaled $29.7 million, up from $25.8 million in 1993. Broadcast cash flow totaled $10.7 million, compared with $8.7 million the year before.

Evergreen Chairman/CEO Scott Ginsburg says, "The fourth quarter results demonstrate that our fundamental corporate strategy of growing Evergreen's presence in the nation's major radio markets is paying off."

Evergreen reports consolidated net revenue in 1994 of $110.4 million, up 3.1% from 1993. Broadcast cash flow totaled $41.1 million, up 9.3%.

Ginsburg also says that the company expects revenue and cash-flow growth to continue this year, helped in part by the company's recent acquisition of Broadcasting Partners Inc.'s 11 stations. The acquisition boosts Evergreen's station total to 22 and gives it its first station in New York.

■ **SFX Broadcasting Inc.**'s latest financial report shows a 13% increase in net broadcasting revenue and a 22% gain in broadcast cash flow for fourth quarter 1994. SFX posted a 17% increase in net revenue and a 41% increase in broadcast cash flow for 1994.

SFX had net revenue of $15 million in fourth quarter 1994, up from $13.3 million for the same period in 1993. Broadcast cash flow totaled $6.1 million for fourth quarter 1994, compared with $5 million in the same period in 1993.

The company also reported net income for fourth quarter 1994 at $305,000 (4 cents per share) as compared with a loss of $14.9 million ($2.62 per share) in fourth quarter 1993. Net income for 1994 was $1.8 million (26 cents per share), compared with a loss of $17.7 million ($7.08 per share) in 1993.

Commenting on the company's 1994 performance, SFX Chairman/CEO Robert F.X. Sillerman announced that SFX received a commitment from the Bank of New York for a $50 million secured credit facility. ■

1994 Radio Advertising Revenues Break $10 Bil Ceiling, Growing 11.3% From '93

FINAL RADIO ADVERTISING revenue figures for 1994 are in, and the news is very good. Thanks to a 11.3% growth rate over 1993, radio advertising revenues hit $10.7 billion last year, up from $9.57 billion in 1993, according to the Radio Advertising Bureau. This represents the industry's fastest ad revenue growth rate since 1985.

Not only was 1994 the first year ever to break the $10 billion barrier for total radio advertising, it also was the first year that radio ad revenue totaled more than $1 million in a single month (May).

National spot revenue grew 14.8% last year, the biggest increase in that category in more than 50 years, according to the RAB. Local advertising was up 11.2% in 1994, compared to the previous year.

Less sensational were radio network revenue figures, which ended the year just 1% ahead of 1993's total.

Radio sees big revenue gains in 1994

Ad revenue increase—11.3%—biggest since '85; year-end totals break $10 billion

By Donna Petrozzello

Radio station revenue from local, national and network advertising peaked at $10.65 billion in 1994, an 11.3% increase over the $9.56 billion year-end total for 1993, according to market surveys compiled by the Radio Advertising Bureau. Last year also was the first year in which radio advertising revenue exceeded $10 billion, according to the RAB.

The double-digit increase represents the steepest growth in revenue totals since 1985, when advertisers spent an additional 11.5% in radio over 1984 levels, the RAB says, adding that in May 1994 revenue totaled more than $1 billion, the highest recorded in a single month.

RAB President Gary Fries says that the selling points of radio as an advertising medium account for its success last year.

"Key to radio's growth both this past year and in the future are its steadily increasing audience in the face of a proliferation of new media options, its status as the only electronic medium to travel easily with consumers outside the home, and [its] targeted advertising environment," Fries says.

Market to market, on average, national ad revenue increased 14.8%, to an estimated $1.86 billion in 1994 over 1993 levels. Revenue from local advertising sales—which constitute about 75% of all radio revenue—increased by 11.2%, to $8.37 billion in 1994 over 1993, the RAB reports.

Combined in a weighted average, national and local ad revenue increased by an average 12%, the RAB says. A survey of local and national ad revenue at radio stations in 100 markets was conducted by the accounting firms of Miller Kaplan Arase & Co. and Hungerford Aldrin Nichols & Carter for the RAB.

Advertising revenue from network ad sales, which constitute only about 4% of radio advertising revenue, totaled an estimated $411 million for 1994, a 1% increase over 1993 levels, the RAB reports. A survey of network ad revenue was compiled by the Radio Network Association with Miller Kaplan Arase & Co.

Radio stations in the southeastern U.S. report the largest gains in national ad revenue, an average 17% increase for 1994 over 1993 levels. National revenue increases averaged 15% for stations in the eastern and western U.S. Increases in local ad revenue were fairly consistent throughout U.S. regions, with an overall average of 11.2% for the year.

In a 1994 year-end survey of radio revenue and retail sales figures in radio markets nationwide, BIA Publications found stations in Southwestern markets generally showed the highest increases in revenue over 1993 levels.

Stations in Albuquerque showed revenue increases of 23% in 1994 over 1993, BIA reports, with estimated revenue at $24.8 million for 1994 compared with $20.1 million in 1993. And stations in Boston, Atlanta, Phoenix and Las Vegas also report 20% average increases.

The RAB also reported revenue totals for December 1994. Local ad revenue showed an average 10% increase across all markets and national revenue increased an average 19% for the month.

Stations in the eastern, midwestern and western U.S. each reported national revenue totals for the month more than 20% greater than totals in December 1993, the RAB states. Network ad revenue, on average, edged up nearly 2% last year over 1993.

In a survey of 65 Los Angeles-area stations, the Southern California Broadcasters Association reported estimated radio revenue at $503 million from local and national advertising, says Gordon Mason of the SCBA. Thirty-four of those stations, which were also surveyed by Miller Kaplan Arase & Co., report revenue of $457 million.

Mason says that the automotive industry continued in the second half of 1994 to be the largest radio advertiser in the Los Angeles area. Retail department stores and telephone companies also advertised heavily on radio in the same period, he said. ■

Early results look good for 4th quarter

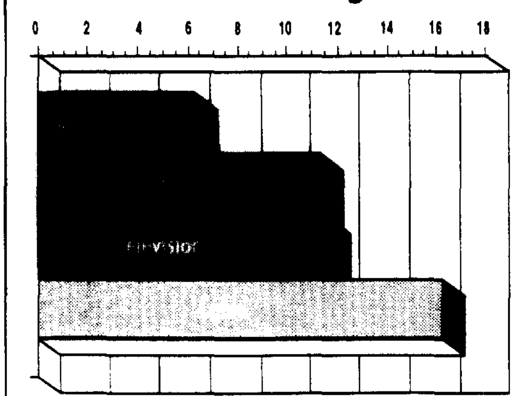
Solid fourth-quarter fiscal reports from many radio groups ended a year that industry executives considered perhaps radio's best since the downturn in business in 1989. Below are early results from two groups.

Infinity reported a 35% increase in net revenue and a 17% increase in operating cash flow (on a pro forma basis) for fourth quarter 1994 over the same period in 1993. Net revenue for the quarter ended Dec. 31, 1994, was $82.6 million, compared with $61.1 million for 1993. Operating cash flow for fourth quarter 1994 was $38.8 million, compared with $27.8 million in 1993. Infinity's net income for fourth quarter 1994 was $14.1 million, compared with its net income of $9 million for the same period in 1993. Earnings per share for fourth quarter 1994 were 32 cents per share, compared with 20 cents per share for fourth-quarter 1993.

Tribune's radio division had net revenue that rose 7.3% in December 1994; a 9.7% increase for fourth quarter 1994, and a 1.1% increase for 1994 over the same periods in 1993. Tribune says last summer's Major League Baseball strike caused the company's broadcasting and entertainment properties to lose an estimated $30 million in advertising revenue for the year. —DP

Banner year: Radio breaks $10 Million in revenue, 11.3% jump biggest since '85

RAB's year-end figures show radio advertising revenue grew at a rate of 11.3% in 1994, compared to 1993 figures. RAB estimates the industry's revenues reached $10.652 Billion. That's up from an already-healthy $9.568 Billion in 1993, which represented a 9.3% increase over 1992.



Soures: *News Assoc. of America, Veronis, Suhler, TVB.McCann-Erickson. RAB,Paul Kagan*

For the first time ever, radio's revenues increased by more than a billion dollars in a single year. It's radio's biggest percentage jump since 1985, when revenues grew by 11.5%. May, 1994 also marked the first time that the industry registered a billion dollars in revenue in a single month.

"It's the biggest dollar volume increase we've ever seen in the radio industry," said RAB President **Gary Fries**. "The bottom line is we increased revenues by over a billion dollars, which is no small accomplishment. The industry should be proud of itself." Fries added, "Looking at first quarter, all indications are that it will continue."

National spot was 1994's stellar performer. It registered an unprecedented 14.8% increase for the year. It's national spot's biggest increase in more than 50 years.

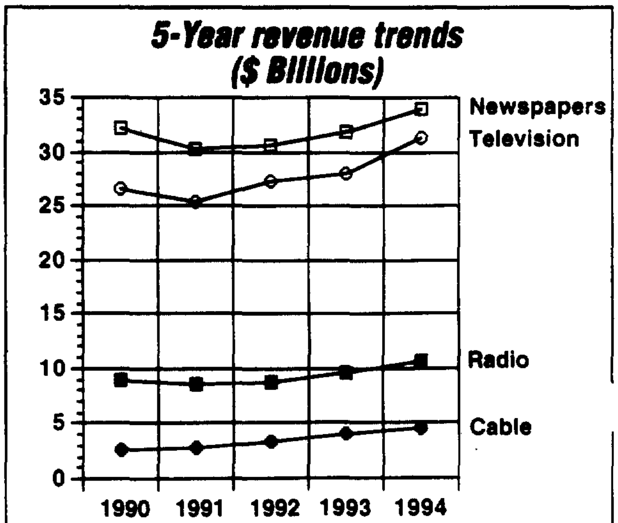
Local advertising, which accounts for more than 75% of radio's revenues, was up 11.2% in 1994. Local and national combined were up 12%.

Network radio, which rose only 1%, was the only category which did not register vigorous growth in 1994. Industry observers note that much of the advertising activity which traditionally would have been reported in the network column is channeling through various syndicators.

Every region of the country saw double-digit local revenue growth in 1994. The Southwest's 13% jump led the pack.

At the same time, the Southwest was the only region which did not see a national spot jump well into double digits.

Local and national spot revenue figures are based on the Radio Advertising Bureau's radio revenue index of more than 100 markets. Network revenue is compiled by the Radio Networks Association as reported to *Miller, Kaplan, Arase & Co.*



Soures: *News Assoc. of America, Veronis, Suhler, TVB,McCann-Erickson, RAB,Paul Kagan*

***RBR* observation:** Perhaps the most incredible thing about 1994 was that the big increases came on top of big jumps in 1993. The industry is 20% ahead of where it was in 1992. Not bad.

Truth be known, the real 1994 number is more like 12%, because syndication dollars are "real" radio dollars, and the syndicators do not report their revenues to a major accounting firm, as do local stations, reps and networks. The syndication market represents at least another $100 Million in ad dollars, and is growing at a rate close to 20%. We estimate that the RAB would have reported something in the 11.9% to 12% range had syndication been included as network revenue.

We also note that revenue directly to stations — local and spot — was up a full 12% for the year.

RAB Radio Revenue Index
December1994 vs. December1993
and
Year end 1994 Revenues vs.1993 Revenues

Local Revenue —December 1994:		**Local Revenue — Year End 1994:**	
All Markets	**10%**	**All Markets**	**11.2%**
East	9%	East	12%
S East	8%	S East	12%
Midwest	10%	Midwest	10%
S West	12%	S West	13%
West	11%	West	11%
National Revenue — December 1994:		**National Revenue — Year End 1994:**	
All Markets	**19%**	**All Markets**	**14.8%**
East	22%	East	15%
S East	11%	S East	17%
Midwest	22%	Midwest	13%
S West	8%	S West	9%
West	21%	West	15%
Local & Nat'l Revenue December1994:		**Local & Nat'l Revenue Year End 1994:**	
All Markets	**12%**	**All Markets**	**12%**

Source: RAB calculations derived from figures supplied by *Miller, Kaplan, Arase & Co* and *Hungerford Aldrin Nichols & Carter*

Estimated 1994 Radio Revenue (in millions)

Local:	$8,374	(+11.2%)
National Spot:	$1,867	(+14.8%)
Network:	$411	(+1 %)
Total:	$10,652	(+11.3%)

Radio Network Revenue

4th Quarter +1.9 %

Full year '94 +1 %

Network revenues are compiled by the Radio Network Association a reported to them by the accounting firm of *Miller, Kaplan, Arase & Co.*

1994 spot up 15% in top 100 markets

Just-released data from Competitive Media Reporting show national spot radio gained 14.9% from 1993 to 1994. The top 5 markets (by '94 revenue rank) accounted for nearly 30% (29.8%) of the top 100 total. See Monday's RBR for a list of the top 25.

Rev Rnk	Mkt Rnk	Market	'93 Rev (000)	'94 Rev (000)	% Incr
1	2	Los Angeles	$100,237	$111,043	10.8
2	3	Chicago	62,084	67,995	9.5
3	1	New York	52,587	58,040	10.4
4	4	San Francisco	47,977	54,488	13.6
5	5	Philadelphia	43,231	51,270	18.6
6	8	Washington, DC	41,807	50,266	20.2
7	9	Boston	37,782	43,133	14.2
8	10	Houston	30,458	37,287	22.4
9	7	Dallas	34,883	35,488	1.7
10	12	Atlanta	23,074	30,203	30.9
11	6	Detroit	27,387	30,006	9.6
12	11	Miami	24,601	28,563	16.1
13	13	Seattle	18,428	24,028	30.4
14	15	San Diego	20,409	22,623	10.9
15	23	Denver	18,075	21,483	18.9
16	16	Minneapolis	18,592	21,191	14.0
17	20	Phoenix	15,305	20,054	31.0
18	28	Sacramento	15,593	17,947	15.1
19	21	Tampa	15,471	17,205	11.2
20	18	Baltimore	13,930	16,584	19.1
21	17	St. Louis	14,272	16,241	13.8
22	19	Pittsburgh	14,361	15,350	6.9
23	40	Orlando	13,848	15,111	9.1
24	22	Cleveland	12,438	15,042	20.9
25	25	Portland, OR	10,518	14,309	36.0
		Top 25 Total	727,348	834,950	14.8
		Top 100 Total	$1,001,435	$1,150,949	14.9

Source: *CMR*, but obtained through other sources

The New York Times

NEW YORK, MONDAY, JANUARY 2, 1995

Ads on Radio Posted Strong Gains in 1994

By JOSHUA MILLS

For the oldest broadcasting medium, 1994 was a very good year.

Advertising revived with a vengeance, posting double-digit increases in 7 of the first 10 months of the year and ending the first 10 months up 12 percent over all. In the face of this growing demand, the industry was able to raise its rates after several years of marking them down to gain business. Radio executives are optimistic that strong increases will be posted in 1995 as well.

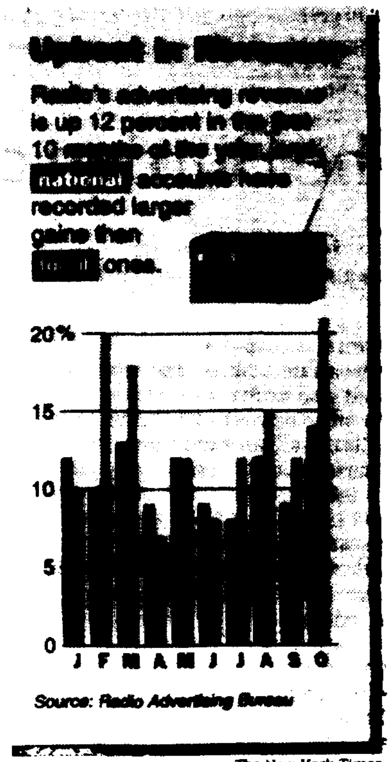
As industry ownership continued to consolidate, the biggest got bigger, taking advantage of rules revisions adopted by the Federal Communications Commission in 1992. One owner may now operate 20 AM and 20 FM stations, and even though twice as many stations are on the air as a decade ago, the number of owners remains the same. More deals are now in the works, so the consolidation will surely continue in 1995.

The Infinity Broadcasting Corporation of New York, for example, added 4 stations in 1994, giving it 16 FM and 10 AM stations, and also gained control of the large Westwood One radio network. CBS; Westinghouse Broadcasting, the subsidiary of Westinghouse Electric that is also known as Group W and Capital Cities/ABC either added stations, swapped smaller ones for larger ones, sharply increased revenue or all three.

The other growth spurt came in talk radio, which soared in numbers and in influence — a trend that was made clear by the candidates tripping over each other as they tried to get on the air before Election Day. Radio stations carrying nothing but news, talk, business coverage or sports — in other words, no music — grew to 1,028 in 1994 from 841 in 1993 (and from 308 in 1989). And the Big Three of talk radio — Howard Stern, Don Imus and Rush Limbaugh — continued to increase the number of stations carrying their syndicated programs.

The radio industry scored another victory in 1994 when the F.C.C. looked Mr. Stern in the eye, recoiled in disgust at what it called his indecent programming, but then slunk away, concluding that it lacked the power to penalize Infinity, Mr. Stern's employer, in any meaningful way. The commission had discussed blocking Infinity's plan to pay $170 million to acquire three stations, or even rescinding some Infinity licenses, but it decided in February that a Federal appeals court decision had eroded its power to do so (More than $1 million in fines that the commission has levied against Infinity for Mr. Stern's on-air remarks continue to be appealed in the courts.)

Infinity's chairman, Mel Karmazin, continued to consolidate his position as radio's most influential executive. One Karmazin strategy that has caught the eye of industry executives is his attempt to establish FM radio, traditionally the bastion of music, as a home for sports broadcasting. Infinity carries Dallas Cowboys games on KVIL-FM, Dallas the Eagles on WYSP-FM, Philadelphia, and the Tampa Bay Buccaneers on WQYK-FM, Tampa. Next season, its WBCN-FM, Boston, will carry the New England Patriots games. If those bets pay off, imitators will surely follow.



The New York Times.

On a roll like never before, RAB looks to maintain radio's growth momentum

RAB's Board of Directors met in San Diego last week. Members were clearly pleased with the role radio's sales and marketing organization has played in the industry's unprecedented growth over the past couple of years. RBR VP/Editor J. T. Anderton was there, and filed this report.

"It's a very, very good time for us"

RAB President **Gary Fries**' opening remarks to his board of directors in San Diego last week summed up the general atmosphere at the meeting. With the industry riding a growth wave — some 25 straight months of revenue increases — there was ample reason to smile.

Citing numerous newspaper articles and several national TV reports on the effectiveness of radio advertising, Fries stated that "Radio is becoming the darling of the advertising community." and is now "welcomed everywhere as a major player."

The words came as welcome news to industry veterans on the board, many of whom have labored for years to gain widespread advertiser acceptance for the aural medium.

Even with a bright revenue forecast for 1995 and beyond, RAB execs warned against complacence. While noting that revenues are up 12% for the year, Exec. VP/National Marketing **Judy Carlough** cautioned, "Now, we have to fight the natural human tendency to forget stormy seas." Said Fries, "The challenge now is to maximize the potential."