tion has driven the market into its next logical progression, which is consolidation of larger companies," says broker Gary Stevens, who anticipates doing more than $100 million in transactions this year. "We're seeing this business take a shape that nobody anticipated it would—that is, having unlimited opportunities to own as much as you want."

"Effective running of, say, four or five significant properties in a given market is going to be very challenging. In such a situation, growth may come at your own expense."
—Steve Dodge

For the time being, the rush to consolidate has also pushed up station prices into the range of 12-14 times cash flow, Stevens says.

And the lenders are back in full force. Radio deals will constitute 45% of the $1 billion lending portfolio of Society National Bank this year, says Kathleen Mayher, senior vice president and manager of Society's media finance division. To date, Society has committed $300 million to radio deals, including $200 million to the Westinghouse/CBS deal, she says.

"There are 100 institutions that are actively looking for broadcast deals now, and I remember in 1990 and 1991 we were among a handful of banks actively looking for those deals," Mayher says. She places the total lending market for broadcasting companies at close to $20 billion this year.

Radio's popularity with financiers is growing as ownership groups expand, says Ian Crowe, managing director of communications finance at Toronto Dominion Bank. "As duopoly has continued, it has reduced the risk of investment and has allowed radio companies to be more diversified, both geographically and formatically," Crowe says.

"Through consolidation in the banking industry, banks are quite strong and highly liquid, so there is a lot of capital available and there will continue to be," Crowe says. "We expect to have the telco bill by Thanksgiving, and if it happens, there is no doubt there will be more activity."

Steding gauges banks' interest in broadcasting by the number of invitations he gets to their cocktail parties. "In 1991, not one invitation from a commercial lender. In 1995 there's a stack of them," he says.

"The financing at all levels, from debt to at-risk equity, is more available than I have ever seen," he says, adding that a proposed reduction in capital gains taxes has encouraged sellers and buyers.

Amid the rush to consolidate are some words of caution. "Some broadcasters might not find in-market consolidation as profitable as they might think," says Steve Dodge, chief executive officer of American Radio Systems.

In markets where one operator may claim half of the advertising revenue and then buy an "underperforming" station that becomes successful, "its growth may come at the expense of the other stations you already own," he says.

"Effective running of, say, four or five significant properties in a given market is going to be very challenging," Dodge says. "In such a situation, growth may come at your own expense."

As a result of consolidation, brokers and executives predict that media groups with a small portfolio of radio properties may choose to exit the industry and give way to larger radio group operators.

"You'll begin to see companies that own a couple of stations in larger markets begin to selectively sell off markets where they don't want to be a long-term player," Steding says. "You either have to play the game or you are going to get squashed. So you have that pushing some of the inventory."

"Everybody is looking at their position and asking themselves: Am I going to build in this industry or exit?" says Emmis Broadcasting President and Chief Executive Officer Jeffrey Smulyan. "Consolidation comes at a high price. At these multiples, everybody has to make a decision whether they are a buyer or seller." ■

Tribune's $70.5 million takes San Diego UHF

Paying 30 times cash flow, WB investor defeats UPN co-parent for station

By Elizabeth Rathbun

WB Network investor Tribune Broadcasting Co. last week defeated UPN co-owner United Television in a fierce bidding war for UHF station KTTY(TV) San Diego. Tribune ended up paying nearly 30 times cash flow for the WB affiliate.

Tribune's winning bid at last Tuesday's bankruptcy auction was $70.5 million. UPN Network co-parent United Television stopped at $70 million, says broker Elliot B. Evers of Media Venture Partners (MVP). Evers and Brian E. Cobb represented the seller.

The station's cash flow was $2.4 million in 1994, making the winning bid 29.4 times cash flow, says Anna Quigley, MVP's assistant to the managing director. "Nobody expected it to go to 70...but you had two [companies] with deep pockets," she says. "[Tribune] definitely went in with the intention to walk away with the station."

KTTY 69

Tribune says the station is a value at $70.5 million. "That's a classic turnaround situation," and the company expects to increase cash flow quickly, says Tribune spokesman Robert D. Carr. But he disputes the broker's numbers, saying the station's cash flow was $4 million in 1994. That makes the deal 17.6 times cash flow—"still a high number," Carr says.

Besides the station's being a revenue underachiever, several other factors drove up KTTY's price, according to observers and participants in the auction:

■ San Diego is "an outstanding market," Evers says. It is the nation's 27th DBA and the 16th-largest market for TV revenue. The high cable penetration rate of 79.5% also is to a broadcaster's