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Investors calling for big changes at **Emmis**

Smulyan remains bullish on company's prospects

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In the last year, **Emmis** Communications Corp. Chairman Jeff Smulyan has led efforts to sell his company's television stations, change radio formats, reduce debt and take the company private. He even proposed using company funds to buy a Major League Baseball franchise. Now, after his recently failed attempt to buy the Indianapolis company, many Wall Street analysts and investors are wondering what Smulyan might do next.

Some industry experts believe the only way for Smulyan to do what's best for stockholders is to break up the company and sell it piecemeal.

"The stock's price clearly isn't a reflection of the worth of **Emmis**' stations," said Tom Taylor, editor of industry trade publication Inside Radio. "**Emmis**' stations in New York, Los Angeles and Chicago are beachfront properties."

Smulyan, who in May offered a 13.6 percent premium of $15.25 per share-or $567 million-to buy the 83 percent of the company he doesn't already own, bristles at the notion of selling the company either piecemeal or in its entirety. His effort to take the company private was rebuffed this month by a special committee of the company's board of directors.

"We don't want the company liquidated for the benefit of a hedge fund," Smulyan told IBJ. "If I stand as a barrier to that, I'm fine with that."

More board scrutiny?

Some of **Emmis**' largest investors said it's time for Smulyan to stop thinking about himself and start making decisions that are best for shareholders.

"The rub is, Jeff still views **Emmis** as his company," said Frank Martin, whose Elkhart-based Martin Capital Management owns 8.2 percent of **Emmis** shares. "He's operating like this is his personal fiefdom, and the reality is, he doesn't even own close to a quarter of the company."

Emmis' ownership structure put Smulyan in a powerful position during his recent buyout effort. He owns only 17 percent of **Emmis**' stock, but because Smulyan holds special shares that give him extra votes, his voting power is 67 percent, allowing him to single-handedly vote down any other offer that might emerge. He notified the board during his attempt to take the company private that he would "not agree to any other transaction involving **Emmis** or his shares of **Emmis**."

Smulyan can wield his extra voting power on any vote-except on his own bid for the company. That means rank-and-file shareholders have the power to shoot down Smulyan's offer but not to approve a better one from an outside suitor.

That scenario is unhealthy for **Emmis**, Martin said, but he feels the board may be ready to stand up to Smulyan.

"The special committee's action was a seminal event in the history of **Emmis**," Martin said. "It shows that the board may no longer be the rubber stamp for Smulyan that it has been."

Other investors agree that Smulyan now might be more careful with his operating decisions.

"I think Jeff Smulyan is considered a decent operator," said Kit Spring, an analyst covering **Emmis** for Stifel Nicolaus & Co. Inc. in Denver. "I think going forward, he just needs to choose his path carefully."

Strategy isn't clear

Smulyan has been praised for his creativity during the industry's booms, but investors are nervous now that times are lean.

The radio industry is looking at either small or no gains this year and next, and **Emmis** forecasts are no better.

"This company has taken a lot of twists and turns, and it's really difficult to understand where they're going with any degree of conviction," said Mark Foster, chief investment officer for Columbusbased Kirr Marbach & Co.

Central to **Emmis**' future is what company honchos decide to do with its capital. Having recently sold 14 of its 16 TV stations for $1.16 billion, **Emmis** suddenly has more options.

In his most recent conference call with investors in April, Smulyan said he is still bullish on the lagging radio industry, but would also consider involving the company in fast-growing non-core ventures.

Smulyan thinks **Emmis**' balance sheet is strong enough for the company to make acquisitions if the right ones come along.

Some analysts still think he must be careful.

"**Emmis**' debt is high, but manageable," said Stifel Nicolaus' Spring. "They could probably do small acquisitions, but not large ones."

Smulyan points out that **Emmis** has much less debt than many of its industry counterparts.

"The debt load shouldn't be a concern to anyone," Smulyan said. "We're not highly leveraged."

As Smulyan ponders non-radio opportunities, investors have implored him to focus on the core business, which has been besieged by new technologies and competitors ranging from satellite radio to the iPod.

Buy back or diversify?

Some investors have suggested **Emmis** needs to diversify its radio portfolio. Although the company has 23 stations nationwide, including four in Indianapolis, its premiere properties are concentrated in Chicago, L.A. and New York.

"They have a high concentration of stations in those markets, which have been hit especially hard during the recent industry downturn," said Inside Radio's Taylor.

Emmis' large-market presence wasn't a problem just a few years ago, Smulyan countered.

"When L.A. and New York were doing well, [analysts] praised **Emmis**' position in those key markets," Smulyan said. "We're comfortable in New York and L.A. Those are good markets, and we think they're going to bounce back."

Officials at Noonday Asset Management, the largest **Emmis** investor, have their own ideas about what the company should do with its cash. On Aug. 15, the global investment management firm and another big shareholder proposed a largescale stock repurchase plan. Those requests caused **Emmis**' stock to increase 4.7 percent.

Some insiders think Smulyan is far too bullish on **Emmis** and the radio industry to simply use assets to buy back shares.

"I think [Smulyan] is positioning his company to buy more [radio] stations," said Doug Ferber, senior associate for Star Media Group, a Dallas-based firm that advises media companies. "If you asked me to put money down on if **Emmis** will survive, I'd say 'yes.' And I think they'll be bigger in five years than they are now."

Smulyan said a new listener-measurement system for stations, improved electronic invoicing, and high-definition digital radio-which allows stations the ability to broadcast clearer sound and additional channels-will save **Emmis** and the terrestrial radio industry.

But those are all long-term prospects, Taylor said, and Wall Street is more interested in the next quarterly results.

"The one specific thing **Emmis** can do to maximize shareholder value is sell the company," Spring said. "The private market values this company and its properties much higher than the public market. They could split it up and sell it, and that would make Wall Street happy."

Analysts project that selling the company piecemeal would bring stakeholders $25 to $29 per share. And though Smulyan sounds unwilling to consider the scenario, a board of directors that is growing more self-reliant might force his hand, Martin said.

"The one thing I will say, I don't think it's going to be business as usual at **Emmis**," Martin said. "This is the first time I can remember the board standing up to Jeff. I think the momentum for change is underway."