

May 1, 2006

**Publication:** Indianapolis Business Journal (IN)

**Section:** INSIDE

## **Emmis fights radio doubt**

CEO Smulyan defends his struggling industry as stock price continues to slide

*Anthony Schoettle aschoettle@ibj.com*

**Emmis** Communications Corp.'s stock has fallen 80 percent in six years. Revenue from its radio stations is falling short of Wall Street expectations. And its bid for Major League Baseball's Washington Nationals is running third in a three-horse race. But **Emmis** CEO Jeff Smulyan is as optimistic as he's been in months. "I'm upbeat because I think this industry is ready to turn the corner, and **Emmis** is turning the corner," Smulyan told Wall Street analysts after his company released fourth-quarter results April 18. Smulyan vowed to turn the company around by investing in its core radio business and exploring investments in faster-growing industries. Analysts aren't convinced. "Nothing we do seems to make anybody happy these days," Smulyan lamented. To right the ship, the 59-year-old Smulyan said he'll consider anything. "Those are pretty bold words," said Kit Spring, an analyst covering **Emmis** for Stifel Nicolaus & Co. Inc. in Denver. "We'll see what he's willing to pull the trigger on." Analysts see a whole range of possibilities. They say Smulyan even could take the company private or sell it outright. Investors are eager for something to spark the stock. **Emmis'** shares took their latest hit April 18, when the company projected that radio revenue would fall at a "mid-single-digits" percentage in the first quarter ending May 31. The shares now trade around \$12.50, down nearly half since September. "There's a disconnect with this optimism," Spring said. "The numbers don't show advertisers are coming back."

Industry-wide, radio advertising is taking a beating, especially in New York and Los Angeles, where **Emmis** has five of its 25 radio stations. **Emmis** also owns stations in Austin, Texas; Chicago; Phoenix; St. Louis; and Terre Haute. In addition, the company owns four in Indianapolis-WLHK-FM 97.1, WNOU-FM 93.1, WYXB-FM 105.7 and WIBC-AM 1070.

**Emmis'** news was so dour that on the conference call last month, Wachovia Capital Markets analyst Marci Ryvicker asked, "Is radio by itself a lost cause?"

Hurting the sector, analysts say, is the increasing popularity of satellite radio, Webcasting and iPod music players. Revenue from all of radio's staple advertisers-auto, restaurant, beverage and cellular companies-was down in 2005.

"Los Angeles and New York are especially hard hit due to the concentration of advertising dollars there," said Scott Uecker, general manager of WICR-FM 88.7 and instructor of communications at the University of Indianapolis.

Because **Emmis** is relatively small compared with industry behemoths like Texas-based Clear Channel, it's less able to offset disappointments in certain markets with strength in others. Creative solution?

Some analysts are more willing to bet on Smulyan, who successfully pulled **Emmis** through tough times in the early 1990s, but have long-term doubts about the radio industry.

"Jeff is an incredibly creative guy, and this has served him well in the past," said Mark Foster, chief investment officer for Columbus-based Kirr Marbach & Co. Among his pioneering moves: launching the nation's first all-sports radio station, on an AM frequency in New York City, nearly two decades ago.

Instead of retreating from radio, Smulyan is exiting the TV business and reinvesting in radio. Smulyan said he plans to pour more money into marketing his stations and the on-air personalities that drive them, even adding key personnel.

"Anecdotally, we're seeing some better signs in the market; we're just not seeing it in L.A. or New York," Smulyan said. "In other parts, people realize radio gets results. Satellite radio is a nice niche business that may or may not be profitable."

He added: "The analysts say this industry is over. It's struggling, but it's not over. The basic relevance of this medium has not ended. Radio reaches almost every American every day."

If there's a disconnect between **Emmis** and investors, it might be partly Smulyan's doing, industry observers say. They say he seems conflicted as he struggles with the vision of the company he founded with a single Shelbyville radio station in 1979.

On the one hand, Smulyan bristles at analysts who suggest radio can't make it as a stand-alone business. Moments later, he's explaining his attempted foray into baseball and his desire to pursue other non-core businesses.

Wall Street-for the most part-disdains Smulyan's attempt to buy the Nationals. Yet he refuses to drop his personal quest, even pledging \$100 million of **Emmis'** money toward the bid.

While Smulyan said baseball and other forms of sports programming can be lucrative, analysts said his pursuit of a baseball franchise makes his vision appear disjointed.

"He has serious issues to deal with regarding his core business, and this other noise becomes a distraction," Foster said. Batter up

Still, Smulyan persists. He said that if his bid for the Nationals fails-as now appears likely-he will look at other businesses where **Emmis** can leverage its skills. He wouldn't divulge which businesses **Emmis** might enter.

While the Beltway media has bashed Smulyan as a carpetbagger, a group led by the family of Washington-area developer Theodore Lerner has emerged as the front-runner. Media reports say a group led by Washington businessmen Fred Malek and Jeffrey Zients is running a close second.

Analysts say Smulyan should proceed with caution as he looks for other opportunities.

Even as he decries the cachet of satellite radio and calls the Internet threat overblown, he details plans to have all of **Emmis'** radio stations streaming online. He also plans to delve into digital radio and interactive enterprises. Creating a profitable business model for Smulyan's new endeavors could prove difficult, analysts said.

Part of **Emmis'** problem could be perception.

"Radio has allowed the psychology of the marketplace to turn against it," said Tom Taylor, editor of trade publication Inside Radio. "I think Jeff Smulyan has a good outlook, but the perception is radio is some old fogey, dying media."

To reduce debt and focus on that core radio business, **Emmis** last year sold 13 of its 16 television stations, and plans to sell the other three this year. Because of the TV station sales, **Emmis** posted fiscal 2005 profit of \$349.4 million, or \$8.15 a share. That compared with a loss the previous year of \$313.3 million, or \$5.58 a share.

But in the quarter ended Feb. 28, **Emmis** lost \$1.01 a share on continuing operations, which exclude TV station sale profit. That compares with a 4-cents-a-share loss a year earlier. **Emmis'** quarterly revenue of \$84.5 million was short of an \$86.3 million company forecast. Some good news

As bad as the news was last year, **Emmis** still gained market share in six of nine markets. And revenue for its publishing division-which includes Indianapolis Monthly-was up 12 percent.

"Unfortunately, I don't think **Emmis'** woes are completely behind them," Stifel Nicolaus' Spring said. "They still have some serious challenges ahead."

**Emmis'** own guidance to Wall Street bears that out.

In the quarter ended May 28, the company expects operating expenses to rise by about the same percentage radio revenue declines.

"The revenue and expense forecast is a double whammy, and Wall Street is going to punish [**Emmis**] for that," said Kirr Marbach's Foster, who's followed **Emmis** since 1989. "They need to get these issues under control, because there are some new competitive forces that aren't going away."

**Emmis'** high corporate expenses, along with increased marketing, have become an albatross around the company's neck, analysts said. **Emmis** for sale?

Smulyan is so confident the company's stock is undervalued that he launched a huge share buyback last year. **Emmis** spent \$395 million to purchase 20.3 million shares, or 36 percent of stock outstanding.

Smulyan said more buybacks are likely this year, which fuels speculation he might take the company private. In response, he says only that all options are under consideration.

"The Street is not valuing **Emmis'** stock at what it's worth," Foster said. "The sale price of these major stations alone would bring in more than the stock value [of \$460 million]. But taking it private is **Emmis'** last resort. You lose access to capital markets needed to grow, and taking the company private might mean Smulyan would need a [financial] partner, and he could lose some of his control."

Smulyan owns 15 percent of **Emmis'** shares, but because most of his stock has extra voting power, his voting control is 62 percent.

Some analysts think Smulyan should consider an outright sale. A private investor, they say, likely would pay a handsome premium to where the stock now trades.

"If someone is willing to pay a lot more than the current public value of the stock, why not sell?" Spring said. "Especially if you have the shareholders' best interest at heart."

*Reprinted with permission of Indianapolis Business Journal ([www.ibj.com](http://www.ibj.com)), IBJ Corp., copyright 2006.*