

October 17, 2005

Publication: Indianapolis Business Journal (IN)

Section: INSIDE

BEHIND THE NEWS

Another **Smulyan surprise**? Exec could take Emmis private

GREG ANDREWS gandrews@ibj.com

Emmis Communications Corp. CEO Jeff **Smulyan** has struggled to keep Wall Street happy the last few years. He might not have to worry about that much longer. At least three Wall Street analysts have said in recent reports that **Smulyan**, Emmis' controlling shareholder, might take the radio-station company private.

Asked about that scenario during an interview with IBJ, **Smulyan** said nothing to quiet the chatter.

"Everything is under consideration," he said. "There is nothing that's not under consideration."

Key reasons it might happen:

This spring, Emmis spent nearly \$400 million to buy back 35 percent of its shares at above-market prices—an unequivocal message company insiders see the stock as a steal.

This fall, the company drastically deleveraged itself, agreeing to sell 13 TV stations for \$940 million. Three stations still on the block are expected to fetch \$300 million or more.

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

Now that Emmis' balance sheet is in order, the company could launch a leveraged buyout, or LBO, borrowing hundreds of millions of dollars to purchase the stock held by other shareholders, A.G. Edwards analyst Michael Kupinski noted in a report.

Emmis shares were trading late last week for \$19.62. If a buyout occurs, analysts say, it might be for around \$32 a share. At that price, Emmis would need to spend more than \$1 billion to purchase shares not held by **Smulyan**.

"We continue to believe that Emmis will be in a financial position to LBO the company after completing its TV sales," Merrill Lynch analyst Laraine Mancini said in a report. Acquire or LBO?

A key question: Would **Smulyan** rather take the company private or use its new financial firepower to go on an acquisition spree? The company, for instance, has acknowledged interest in buying at least part of the radio empire owned by California-based Walt Disney Co.

Then there's Emmis' plan to invest \$100 million in a **Smulyan**-led group's bid to buy the Washington Nationals from Major League Baseball for at least \$450 million.

Many analysts say if that bid prevails, Emmis is unlikely to go private, since doing so would hinder its flexibility to expand on other fronts.

Other analysts, however, believe the opposite.

Wall Street reacted skeptically when **Smulyan** unveiled the Emmis investment last month, saying it didn't seem to jibe with the company's radio focus. A successful bid might further depress the stock, boosting the allure of an LBO, Wachovia Securities analyst Bishop Cheen said in a report.

Of course, **Smulyan** could dismiss such secondguessing if Emmis were private. Indeed, the freedom to do as he pleases might be enticing to **Smulyan**, as it is for many entrepreneurs, said Robert Shortle, senior managing director of the Indianapolis investment firm Periculum Capital. But taking a company private also is fraught with risks, Shortle said. One of the biggest: The process could propel Emmis into play, attracting a higher offer for the company from a radio rival that **Smulyan** would feel pressured to accept. 'We look at everything'

In his interview with IBJ, **Smulyan** spoke only in generalities about the potential for going private.

"We look at everything. We try to do what makes the most sense," he said, among other unenlightening remarks.

But no doubt, a lot is swirling in **Smulyan's** head these days. On the one hand, the 58-year-old seems to enjoy the spotlight that goes with running one of Indiana's highest-profile public companies.

Yet recent years have been bruising. **Smulyan** took Emmis public in 1994 and enjoyed years of prosperity. At their peak in 1999, just before the market crashed, company shares topped \$60.

Since then, **Smulyan** has struggled to persuade investors radio is still a great business, despite increasing competition from digital-music players and satellite radio. Perhaps he'll finally decide it's not worth the trouble.

*Reprinted with permission of Indianapolis Business Journal
(www.ibj.com), IBJ Corp., copyright 2006.*