Advanced Valuation

Radio One, Inc.

Radio One (Nasdaq: ROIA, ROIAK), the largest radio group targeting African-Americans in the country, had achieved tremendous success by purchasing underperforming radio stations, changing them to urban formats, and using its programming, marketing, and operating skills to cut unnecessary costs. Under the leadership of Alfred Liggins III, chief executive officer and president, the company posted consistent, above-average, same-station broadcast revenue and cash flow growth, and grew from 7 stations in 1995 to 28 in 1999.

In October 1999, two of the nation's largest owners of radio stations—Clear Channel Communications Inc. (NYSE: CCU) and AMFM Inc (NYSE: AFM)—announced plans to merge. Scott Royster (HBS '92), chief financial officer and executive vice president of Radio One, knew that the Federal Communications Commission (FCC) would require Clear Channel to divest some of its radio assets after the proposed merger. The divestitures were an opportunity for Radio One to acquire 12 established urban stations in the top 50 markets. Acquiring those stations would more than double the size of Radio One and help build its national platform. Liggins and Royster had to decide if Radio One should purchase the stations and how much to offer.

The Company

Radio One was founded by Liggins's mother, Catherine Hughes, who learned the radio business while teaching at Howard University. In 1980, Hughes and her husband raised money to purchase WOL-AM in Washington, D.C., for just under $1 million.[1] Hughes changed the format from R&B music and public affairs to talk radio.[2] To save money, the Hugheses themselves became radio personalities. As a result, Cathy Hughes became known as a hard-hitting political analyst and spokesperson. (Exhibit 1 contains brief biographies of the Radio One executives.)

In 1987, Hughes purchased WMMJ-FM in Washington for about $7.5 million and began to broadcast a new musical format targeting African-Americans. In 1992 and 1993, Hughes acquired four stations in Baltimore, Maryland, for $6.4 million and in

[1] Broadcasting & Cable, "Mother/Son Makes Radio One," August 30, 1999. The Hugheses were the beneficiaries of a now defunct FCC regulation that allowed the sale of financially distressed radio assets to minorities at below-market prices.

[2] Ibid.

High Tech Fellow Pauline Fischer and Professor Richard Ruback prepared this case solely as the basis for class discussion. HBS cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.