

## Conclusion

Liggins and Royster realized that the Clear Channel/AMFM divestiture was an unprecedented growth opportunity for their company. Urban stations, particularly those in the top 50 markets, rarely became available. Liggins and Royster, therefore, decided that Radio One should attempt to purchase 12 of the Clear Channel stations in the top 50 markets. The resulting larger national footprint would bring greater advertising revenue and serve as a more meaningful platform for the company's planned expansion into other forms of media, including cable, the recording industry, and the Internet.

Royster was uncertain how much the company should be willing to pay for the stations. Infinity Broadcasting paid \$1.4 billion, or about 21.5x 2000 BCF to acquire 18 stations from Clear Channel<sup>15</sup> and Cox Radio paid about \$380 million, or about 18.4x 2000 BCF for 7 of the stations.<sup>16</sup> The 12 stations Radio One targeted were of similar quality to those purchased by Infinity, and thus Royster anticipated offering at least 20x BCF.

In the weeks following Clear Channel's divestiture announcement, Radio One's stock increased from the mid-\$40s to as high as \$97 per share. At \$97 per share, Radio One was trading at nearly 30x's forward BCF. Exhibit 8 shows that the 30x multiple was substantially greater than the typical trading multiple for radio companies. Royster and Liggins attributed the stock price gains to the market's expectation that Radio One would submit a bid, and by early March 2000 analysts were speculating on the scope of Radio One's acquisition. In addition, Royster and Liggins were in negotiations with Davis Broadcasting for the purchase of 1 station in Charlotte, North Carolina, and 5 stations in Augusta, Georgia; and with Shirk, Inc. and IBL, LLC for the purchase of 3 stations in Indianapolis, Indiana. The proposed acquisitions, therefore, would add 21 stations.

Royster projected the performance of Radio One's stations and the 21 targeted stations. Those projections are contained in Exhibit 9. In addition to the information in Exhibit 9, Royster recognized that each targeted station would require about \$100,000 of capital expenditures each year. Also, Radio One would have to provide the stations with their initial working capital because the working capital of the targeted stations would not be sold to Radio One in the proposed asset sale.

Liggins and Royster wanted to gauge the purchase price range that would make sense. They wanted Radio One's offer price to be preemptive but not dilutive. At one extreme, to be preemptive, the price would have to exceed the stand-alone cash flow value of the targeted stations. At the other extreme, to avoid dilution, Radio One could afford to pay up to its 30x multiple.

### EXHIBIT 8

Company	Year	Market Capitalization (\$)	2000 BCF	Multiple (Market Cap / BCF)
Radio One	2000	9,700,000,000	320,000,000	30x
Infinity Broadcasting	2000	1,400,000,000	65,000,000	21.5x
Cox Radio	2000	380,000,000	20,600,000	18.4x
Clear Channel	2000	1,000,000,000	40,000,000	25x
AMFM	2000	1,000,000,000	40,000,000	25x
Radio Shack	2000	1,000,000,000	40,000,000	25x
Walt Disney	2000	1,000,000,000	40,000,000	25x
Time Warner	2000	1,000,000,000	40,000,000	25x
News Corp.	2000	1,000,000,000	40,000,000	25x
Verizon	2000	1,000,000,000	40,000,000	25x
AT&T	2000	1,000,000,000	40,000,000	25x
Microsoft	2000	1,000,000,000	40,000,000	25x
Amazon	2000	1,000,000,000	40,000,000	25x
Google	2000	1,000,000,000	40,000,000	25x
Yahoo	2000	1,000,000,000	40,000,000	25x
Comcast	2000	1,000,000,000	40,000,000	25x
Time Warner Cable	2000	1,000,000,000	40,000,000	25x
Verizon Wireless	2000	1,000,000,000	40,000,000	25x
AT&T Wireless	2000	1,000,000,000	40,000,000	25x
Nextel	2000	1,000,000,000	40,000,000	25x
Motorola	2000	1,000,000,000	40,000,000	25x
Qualcomm	2000	1,000,000,000	40,000,000	25x
Intel	2000	1,000,000,000	40,000,000	25x
Microsoft	2000	1,000,000,000	40,000,000	25x
Google	2000	1,000,000,000	40,000,000	25x
Yahoo	2000	1,000,000,000	40,000,000	25x
Comcast	2000	1,000,000,000	40,000,000	25x
Time Warner Cable	2000	1,000,000,000	40,000,000	25x
Verizon Wireless	2000	1,000,000,000	40,000,000	25x
AT&T Wireless	2000	1,000,000,000	40,000,000	25x
Nextel	2000	1,000,000,000	40,000,000	25x
Motorola	2000	1,000,000,000	40,000,000	25x
Qualcomm	2000	1,000,000,000	40,000,000	25x
Intel	2000	1,000,000,000	40,000,000	25x

<sup>15</sup>Prudential Securities, Infinity Broadcasting, Equity Research Consumer Services Report dated May 16, 2000.

<sup>16</sup>Credit Suisse First Boston, Cox Radio Inc., Equity Research Report dated March 25, 2000.