Attracting OPM (Other People's Money)

By John R. Brooks and Erwin G. Krasnow, Esq.

There has been a string of encouraging news lately for the beleaguered broadcast business, and not a moment too soon. Four Points Media, Freedom Communications and McGraw-Hill found ready buyers in Sinclair and Scripps for their TV groups in a flurry of activity. Dean Goodman and Jeff Warshaw, following in Randy Michaels' wake, recently announced new radio deals the size and likes of which haven't been seen for some time. Steven Price and Townsquare Media have been snapping up small market stations for the last few years. Ed Christian claims he's ready to jump back into the deal market. Dave Schutz reports that lenders are tiptoeing back to the NAB. There is nothing like a boost from industry wise men to assure the rest of us that it's safe to dive back into the pond. That's how recoveries start.

But most broadcasters don't have the market clout, credit lines and financial connections to get a deal done, even in the best of times. Many continue to labor in the lender penalty box after several years of busted covenants and payments, tense meetings with workout teams and write-downs. A whole host of media lending talent whose bread and butter was the middle market (deal size under $10 million) are in retreat or gone – CIT, Wells Fargo, Foothill, ORIX, CapitalSource, Textron, Pacific Media, Westburg and the hedge fund crowd. It's unlikely that most of these companies will be coaxed back since credit people have long memories. Bank financing is available, but primarily for large companies (i.e., EBITDA greater than $10 million) with strong financials. So what is a surviving broadcaster to do in the world of TV/Radio 2.0 (or is it TV/Radio 3.0)?

If you're a local broadcaster looking for a new lender, you have a lot of educating to do and you need the patience of Job — but that's no guarantee you'll be successful. Traditional lenders want hard assets – receivables, inventory, equipment, real estate – something in short supply on a broadcast balance sheet. They need to be convinced that a piece of paper posted at your transmitter site (your precious FCC license) is worth what you say it is. A qualified appraiser can help with that.

They also want businesses that are growing and profitable. If we could delete the debacle of 2008/2009 from our spreadsheets, what we're likely to see are two years of steady revenue growth with a forecast for more in 2012. While the core business remains fairly static, digital assets can add some punch if properly monetized. If you're running your stations efficiently (without drawing blood), you should be generating operating margins in the 20's or better (depending on how big you are). This is a huge selling point as other businesses that the local banker is likely to see (manufacturers, wholesalers, retailers) can only dream of such margins, settling instead for single digits. But that’s still no guarantee.

Finally, you need to develop your lender relationship if you don’t already have one. That third “C” of credit – character – is everything to the local banker, and that’s built up over time. It’s also why most VC and private equity firms only back entrepreneurs who’ve been referred from a trusted source or with whom they’ve done business before. You need to present a well-organized, thoughtful business plan and forecast that shows why you’d be a good credit risk. This point cannot be over-stated. If you’re uncomfortable with this process, there is an army of good consultants who can assist you.

As long as we’re talking about local banks, the federal SBA program deserves a mention. The SBA will guarantee upwards of 85% of a qualifying bank loan, $5 million or less but generally under $1.5 million. If there is an SBA Preferred Lender in your community, it may be worth investigating. But like traditional lenders the SBA also looks for hard assets and will insist on personal guarantees, so this becomes another long (and arduous) education process.

Your involvement with the banking world begins even before you start your business. Develop a good working relationship with the bank of your choice from the very beginning. Faster and better services are supplied when a bank is familiar with its customers and their business. In that environment, suggestions for keeping a business financially healthy are more readily given, crisis borrowing can be avoided and good loan planning can be developed.

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