How to Maximize Your Chances of Getting "OPM", Part II

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

Last week we talked about the importance of a good business plan as part of a comprehensive strategy to cultivate interest from potential investors and lenders in your company. So what is a good business plan? That will vary based on specific concerns among institutions and investors, but here are some general tips for getting a fair shot at "OPM."

Paper or Electronic: With rare exception, there is a strong preference for an electronic document in a Word, Excel or PDF attachment to an e-mail. They're easy to read and easily portable on a laptop or tablet. If an institution wants paper they can hit "Print."

Length: Oftentimes, less is more. People are busy sifting through proposals stacked up in their InBox and, consequently, may have short attention spans. For that reason, "teaser memos" are often used to layout the deal basics in no more than two or three pages. They usually include a company/deal overview, industry metrics if relevant, sources and uses of funds at close, projection summary and management bios. Most importantly but all too often forgotten are the "beg" (what you are asking for) and your contact information.

Assuming the teaser gets a thumbs-up, how long should the formal business plan be? There is no magic number, but keeping in mind the "less is more" notion — a nice round number to strive for is ten to fifteen pages of text (excluding projections, coverage maps, etc). If the institution is interested, they'll ask for more. Just be ready to deliver.

Executive Summary: In one to two pages, make your elevator pitch. It has many similarities to the teaser memo but provides more color and fewer graphics to the reader. The first paragraph should be your hook, because that's all the attention you may get. What makes your deal stand out from others? A unique value or upside proposition? A management team uniquely qualified to execute this plan?

Proposed Terms: A one to two page summary term sheet is helpful to outline structural issues that should be flushed out up front – borrower structure, guarantors, collateral, proposed payment schedule, existing debt and principal distributions. Don't try to insert rate and fee expectations; they will be negotiated later if you get that far.

Industry: Some business plans contain an industry overview when it is unnecessary because the reader already is knowledgeable about broadcasting and may feel patronized. However, for broadcast rookies it is essential to explain the basics of this business – operations, competition, growth outlook, collateral issues. In other words, what makes this a compelling capital deployment opportunity compared to other alternatives?

The Business: This is a description of the company's markets, technical facilities, ratings and competition. Much of this information can be in table form with additional color to give the reader a feel for the markets at the ground level. What are the strengths/weaknesses of the market, the competition or the company? Has the company adequately identified and addressed the risks?

Financials: All too often, business plans provide projections without any historical context so it's difficult for the reader to determine if the projections are realistic. Sometimes there's good reason for this – a start-up, bankruptcy or format change. Nonetheless, your potential lending and investing sources like to have some kind of a base line from which to measure future performance. This is especially important in light of the unprecedented impact of the recession on broadcasting in recent years.

Financial projections should include an income statement, balance sheet, cash flow statement and ratio analysis. Cash flow, including projected capital expenditures and working capital consumption, is particularly important but too often glossed over. Many times below the line items (LMA payments, other debt payments, distributions, depreciation, projected taxes, alimony, child support, gambling debts, the boat payment, the Jag, the ski lodge, the father-in-law's "salary") are omitted and may understate cash flow available for debt service.

Projections are only as good as the assumptions, particularly with respect to revenue growth. If revenue is projected to grow at anything over 1% per year (the analysts' consensus), it needs to be substantiated. Does this market enjoy an unusual lift? Is it a ratings play? Has the sales force been decimated? Is there significant non-broadcast revenue for the taking? If you can't substantiate your projections, your suitor may decide that you will only grow at 1% per year, which may undermine your entire investment thesis.

Bottom line growth based on expense cuts is much easier to document and easier for institutions to understand. Unfortunately, broadcasters have been in a belt tightening mode for the last few years and opportunities to streamline bloated expenses have diminished.

Management: The management section, like the elevator pitch, should convince the reader that this team has the experience necessary to execute the business plan presented. What is their track record? Have they operated in these markets or markets that are very similar?
Other: Depending on the kind of company, coverage maps may or may not be relevant. Institutions want to know that the company's signals cover their target audience. Radiolocator.com does an adequate job, but an engineer or appraiser can produce a more precise map if you're willing to spend some money. This is more important for AMs than FMs, and more important for radio than TV. For TV it's more about cable and satellite carriage and channel position.

Looking for OPM will likely be the most challenging task you will face in your quest for broadcast station ownership and expansion. Preparing and pitching a persuasive business plan will draw upon all of your skills, knowledge and then some. The good news is that if you're successful your efforts will be well rewarded.

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