Radio one

Business

This was the arrest acquisition in the company's history at that time, which as well presented an exciting opportunity to them, because the station had been No. 1 in the market, but had fallen to No. 13 by the time of the purchase.

Concentrating mostly on the African-American market, also onto the South East of the united States, leftRadio Onewith a market that at first did not find many advertising agencies that wanted to Invest and advertise on these radio stations. Radio One's strategy was to " provide urban-oriented music, entertainment and Information primarily African-American audience In as many major markets as Seibel. Alfred Lagging Ill, the CEO at the time of the merger talks and Scott Rooster, the COOP of Radio One, continued to expand their radio station throughout the Eastern US, even going further north, like Detroit, MI. In May 1999, Lagging led the company to its PIP and by the end of their fiscal year Radio One, Inc. Recorded a $81.

7 million in net revenue, defined as revenue from local and national advertising less agency commissions. This was equivalent to an average growth rate of 51 % over three years.

In 1992 the Federal Communications Commission (FCC) relaxed its tight existing isolations to allow one company to own two FM stations In one market or 36 nationwide. In 1996 then, the Telecommunications Act lifted nearly all of the limitations on ownership, which opened Radio One, Inc. New horizons. Issues Through the relaxation of the FCC and with help of the Telecommunications Act significant consolidation occurred within a few years, which allowed radio station to realize economies of scale through, cost reduction, capacity utilization and pricing power.

For advertisers radio has been, ever since, a great medium to reach audiences at home, car and even at work. After the passing of the Act, the highly competitive radio network business doubled and reached over $1 billion in 1999. This was the time, when Clear Channel, who was the nation's largest radio station operator, petitioned the FCC to purchase the second-largest station group MFC for $17. 4 national ownership cap, it retained a limit on the number of stations owned by a single entity In a particular mar et K .

Nils meant Tanat Clear channel Ana to Olives nearly 100 stations in 37 markets, which was the largest divestiture in the history of the industry, with gross proceeds being predicted to reach $4. Billion.

For Radio One, Inc. This was potentially a great opportunity to enter new marketsћ especially since more than a fourth of the 100 companies were urban and 12% were in the top 50 African-American markets. In case Radio one would agree to purchase these stations, they would get more African-American listeners, than any other media targeting them.

The price increase over the last 10 years was substantial, though. In 1990 the broadcast for FM stations was around 10-xx, whereas in 1999 it Jumped up to 18-xx BCC.

Major issues arose, when Lagging and Rooster sensed the opportunity for unprecedented growth of the company, but also were uncertain how they would be paying for this investment. Furthermore, Radio one was also negotiating whether to purchase nine radio stations in Charlotte, NC; Augusta, GA and Indianapolis, IN.

This would total to 21 radio stations in this deal. Financial Theories In order to choose the best solution to the case problem, a look at the financial statements of the company and using them will be needed in order to see its profitability and its financial health. The numbers given in the case for the years 1997 through 1998 will be used to analyze this case, as well as the pro formal statements or the years to follow, after and if the investment has been done.

Alternatives Having stated this, the only two alternatives to this case would be: 1) Invest into the acquisition of the 21 new stations double the size of Radio One 2) Remain at Status Quo, meaning that nothing should be invested and take time to expand.

Analysis of data using the criteria and analysis of alternatives: In the analysis we will use following criteria: 1) Demographics 2) Assets 3) Shareholders 4) Broadcast cans How 5) Revenue Looking at the demographics, focusing on the African-American market, the numbers re showing faster population growth in that market.

By the year 2010 the population growth rate will be 21. 2% compared to 1995. As well as the population rate, the income growth rate for the years 1980 until 1995 was clearly higher in the African- American market. 10.

7% growth rate of the population are African-Americans, this means that they will be spending more in the future than the general population, due to better income. The Urban Format Power Ratio also shows the rise of the urban people, which are mostly inhabited by African-Americans, since in 1999 the ratio is 0. 1 and is estimated to rise to 0. 85 in 2002. Radio One, Inc.

Ad always a highly positive amount of cash and cash equivalents on hand. Throughout the years 1997 – 1999 they had over $4 million, while ending the year 1999 with a healthy $6, 221 , OHO. A very important aspect, when looking at the Assets side of the Balance Sheet, is the Investments available for sale, which amounted to a relatively high $256, 390, 000 in the year 1999. By purchasing the other radio stations Radio One's return on investment will be higher and therefore there is better return from this investing activity. Shareholders value has been diluted over the years.

The numbers on the Income Statement show that net loss applicable to common shareholders were constantly in the negative numbers.

Although there is a slight raise, shareholders would argue this negativity over such a long period of time. Furthermore the net income started of with a loss on the Income Statement, recuperated in 1998, but went down by over $708, 000 in the year 1999. 4) Broadcast Cash Flow This data is very interesting to look upon. Over the three-year span, Radio One had an increase of Broadcast Cash Flow. This increase almost tripled from 1997 – 1999 and almost doubled within that last period.

Starting off in 1997 with they increased that cash flow to $21, 608, 000 in 1998 and stated at the end of the year 1999 a cash flow of $37, 444, 000.

This cash flow is available to the company for future operations and is very much helpful when thinking of acquiring more radio stations. Rural one's revenue Including Darter revenue Increased at a very null pace. In 1 they had $36, 955, 000 in revenues including $1 in barter revenues. This rose up to $52, 696, 000, which is an increase of over 30%, Just to see it Jump up to 93, 260, 000 (including $1 barter revenue) at the end of 1999.

This increase of 43% Just proves how well Radio One was doing in the past several years. Looking at the Gross Revenue numbers including the projected ones, one can be confident in investing in this company, since their forecasted figures seem very realistic.

The existing markets as well as the potential new markets show a steady rise in revenues, whereas the new markets even show better results, when looking at the Net Revenues, Gross Revenues and Direct Expenses (pro formal and projected). Criteria Criteria / Alternative Purchase new stations Status Quo

Demographics 1 0 Assets 1 0 Shareholders 0 1 Broadcast Cash Flow 1 0 Revenues 1 0 Total score for alternative 4 Explanation of the results According to the above calculation, investing and purchasing these new radio stations has its advantages and disadvantages. Demographics show a very solid and steady increase in not Just the population of African-American, bus also in the income growth of that specific market. African- Americans are more willing to spend more on certain good and services, which the rest of the population of the United States wouldn't, while earning less than them.

This is a chance for marketers, advertisers to target these sectors of the population. Another important aspect, which helped deciding for which project to pull, was the Revenue part of the criteria matrix.

Radio One, Inc. Has great revenues and even the Terracotta part came up wilt reasonable menders, wanly can De realize Walton ten next few years. Looking at the downside, the shareholders' value, it is hard decision, whether it is actually negative or not. Shareholders have been losing in the previous years, but looking at the Net Loss of the shares, which was diminishing over the three ears from $0. 4 in 1997 to $0. 08 in 1999, this would mean that they are on their way up again.

Total Stockholder's Equity was in the negative numbers in the years 1997 and 1998, but made it to a positive and high amount of $420, 256, 000 at the end of the year 1999. Conclusions and Recommendations Lagging and Rooster should definitely go for the acquisition of all the 21 radio stations. Over the past three years, the company has been financially sound, not say in great health. Through their diversified strategy, by focusing on a rising minority population, the African-Americans, which in fact is the biggest minority in the USA.

Another factor that proves that Radio One is ready for the acquisition is their great amount of cash and cash equivalents, which they amassed over the years.

Just investments available for sale are $256, 390, 000 and by having this much money ready to invest elsewhere, it should be almost a “ no brainier” to expand and invest in different geographical areas. Being proactive, in this case acquire more radio stations, rather than reactive and wait to see what will happen could be harmful to true business making.

Broadcast Cash Flows would be steadily increasing, since more radio stations in big American cities would be acquired. “ The South” with its cities Charlotte, Atlanta and Augusta, are Just perfect markets to expand into, gain more revenue and increase advertising. Marketing and financing activities would gain from the purchase, since more broadcasting means more cash inflow through advertising and more investors would be interested in investing into Radio One, Inc. , making it one of the strongest competitors in the broadcasting business.