CMPartners

# THE MEGA MEDIA CASE

## The Buy Side: Confidential Instructions for the Mega Media Representative

MEGA MEDIA is expanding its network of media outlets in secondary urban markets across Europe, Asia, and the Americas. The company is privately held today, but will soon need significant additional working capital in order to fund its global growth. Thus, the Mega Media partnership plans an initial public offering (IPO) of stock within the next twelve months.

You recently joined MEGA MEDIA North American operations in New York City. Your new boss, Managing Director Bill Gillam, hopes to acquire WDOG, the leading country music station in the Jacksonville Florida market. WDOG meets all MEGA MEDIA's acquisition criteria: profitability, market leadership, strong advertising cash flow, and effective management with most staff and "on-air" talent signed to reasonable contracts.

Today three partners each own 1/3rd of WDOG. Two live in Stamford Connecticut. Mr. Gillam has already negotiated options to buy each of their shares for $8 million each. At a multiple of 8.0 times annual cash flow, that price is fair. Recent multiples for similar deals in other US markets range from 7.5 to 9.5 times cash flow.

| Station | City | Multiple (Price/Cash Flow) |
|---|---|---|
| WHIT | Toledo Ohio | 8.0 |
| WZOO | Albany New York | 9.0 |
| KRAT | Sacramento California | 9.5 |
| KKAT | Tucson Arizona | 8.3 |
| WMDZ | Cleveland Ohio | 7.5 |
| WLUV | Richmond Virginia | 8.7 |
| **Average** | | **8.5** |

Gillam told you that MEGA MEDIA must acquire the third remaining share of WDOG before it can exercise its two existing options, because US tax law requires at least 80% ownership of any single media outlet before its profits can be consolidated with other holdings. Importantly, WDOG profits would offset losses at several other MEGA MEDIA stations, and thus improve its balance sheet in advance of the upcoming IPO.

The remaining 1/3rd owner, Bill Bryant, lives in Jacksonville with his family. Despite having no formal contract, Bryant has managed the station for five years. Since Bryant's involvement, WDOG has risen from third to first in its market.

Yesterday, Gillam and Bryant met for the first time. As expected, Gillam offered $8 million for Bryant's remaining 1/3rd share. In turn Bryant demanded a shocking $14 million to "take it away from me". The conversation ended abruptly after each man declared that his was a "take-it-or-leave-it" position.

Today, your boss says that he is unable (you think unwilling) to meet again with Bryant. He has asked you to take the lead. This is the first time that he has given you such a responsibility. The stakes are clearly high.

Please prepare for your meeting with Mr. Bryant at his office in Jacksonville.