

Tribune Bankruptcy May Signal Distress for Media-Company LBOs

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Dec. 10 (Bloomberg) -- **Tribune Co.**'s bankruptcy is a bad omen for the almost \$90 billion in buyouts of U.S. media companies from 2005 to 2007 that relied heavily on borrowed money and economic assumptions that proved too optimistic.

Already, some bonds of radio broadcaster Clear Channel Communications Inc., acquired in a \$17.9 billion leveraged buyout this year, trade at about 16.5 cents on the dollar, while debt of Spanish-language media company Univision Communications Inc., purchased for \$12.3 billion in 2007, is around 12 cents.

The prices indicate investors are concerned the companies may default, said **Larry Allen**, managing director of Greenwich, Connecticut-based Nyppe

Holdings LLC, which trades interests in buyout funds.

Tribune, acquired a year ago by billionaire real-estate investor **Sam Zell** in a buyout that left the company with \$12.9 billion of debt, tumbled into bankruptcy as U.S. newspaper advertising sales plunged at an accelerating rate, dropping 18 percent in the third quarter alone.

"We're going to see more bankruptcies in leveraged deals that were done at high prices in the past two or three years," said **Brooks Zug**, senior managing director of HarbourVest Partners LLC in Boston, which invests in private equity. The acquisitions most at risk are "consumer-oriented and deals that had covenants on borrowing."

Between 2005 and 2007, 282 U.S. media deals valued at \$89 billion were announced in transactions where companies were taken private, or involved in a management or private-equity buyout, according to data compiled by Bloomberg.

Buyout Firm Writedowns

Buyout firms will likely extend their writedowns to 40 percent to 80 percent of the value of their media acquisitions, said Allen.

Scott Sperling, co-president of Boston-based Thomas H. Lee Partners LP, one of the Clear Channel buyers, and **Chuck Dohrenwend**, a spokesman for Madison Dearborn Partners LLC in Chicago, which participated in the Univision purchase, declined to comment on Allen's estimates.

Michele Clarke, a spokeswoman for Clear Channel, declined comment. **Brooke Morganstein Gordon**, a spokeswoman for Univision, said the company has "more than ample liquidity to operate the business in the current environment, and has sufficient cash on hand to meet all obligations and debt maturities, including repayment of the asset sale bridge due in March 2009."

Zell's \$8.3 billion Tribune purchase in December 2007 came at the tail end of **leveraged-buyout** boom that was squelched by the collapse of the U.S. mortgage industry in July 2007. Zell eliminated jobs and sold assets including the Long Island, New York, newspaper Newsday to cope with Tribune's debt load and declining revenue.

The Dec. 8 bankruptcy filing by 161-year-old publisher of the Los Angeles Times and the Chicago Tribune was necessary to "save the business," Zell said.

Advertising Spending

U.S. advertising spending in the third quarter dropped 4 percent even with election campaigns and will likely fall 6.6 percent in the last three months of the year, Sanford C. Bernstein & Co. analyst **Michael Nathanson** said in a Nov. 14 report. Ad spending will shrink 9.3 percent next year, more than this year's 6.7 percent drop, Nathanson said.

Lee and Bain Capital Partners LLC of Boston agreed in November 2006 to acquire San Antonio-based Clear Channel, betting they could cut costs and halt a slide in radio advertising caused by listeners' migration to the Internet, satellite radio and iPods.

The Clear Channel deal, which closed for about 12 times earnings, is now worth about half that, said **Jake Newman**, a media analyst at CreditSights Inc. in New York. The values of radio and outdoor-ad companies fell to an average of 7.3 times earnings in October from 10.6 times earnings in August 2007, according to a report by Credit Suisse Group.

'Plentiful Credit'

"The deals that got done were a function of plentiful credit at attractive rates and that more than anything drove multiples," said **Peter Kern**, a managing partner at InterMedia Partners LP, a private equity firm in New York that invests in media companies.

Madison Dearborn and Lee in March 2007 backed the buyout of New York-based Univision along with Providence Equity Partners Inc., TPG Inc. and billionaire **Haim Saban**.

Univision said Nov. 17 that adjusted profit for the third- quarter fell 2.7 percent. Univision may not be able to cover its interest **expense** on loans, said **Shelly Lombard**, an analyst at Gimme Credit Publications Inc. in Montclair, New Jersey.

"Broadcasting has been in a really tough business this year with a significant amount of automotive advertising coming out of local markets," said **Mike Simonton**, an analyst at Fitch Ratings in Chicago.

Pennies on the Dollar

Univision's \$1.5 billion of 9.75 percent notes due in 2015 were trading at 12 cents on the dollar as of Dec. 8, Newman said. Clear Channel's \$500 million of 5.75 percent notes due in 2013 traded at 16.5 cents on the dollar as of Dec. 5, according to Trace, the bond price reporting system of the Financial Industry Regulatory Authority. **Bonds trading at less than 25 cents show investors consider the company as a possible candidate for default or bankruptcy, Allen said.**

Another sign of concern is that credit-default swap traders are demanding 64 percentage points upfront and 5 percent a year to protect Univision bonds from default for five years, according to CMA Datavision. That means it would cost \$6.4 million initially and \$500,000 a year to protect \$10 million in bonds. The upfront cost on contracts protecting against a Clear Channel default is 64.6 percent, CMA data show.

Banks, hedge funds and private-equity firms must assign a value to their holdings even if they have no intention of selling. This has forced investors to record losses on assets they expect to recover when markets return to normal. Mark-to-market accounting involves valuing an asset at its current price in the market rather than its original cost.

"The question investors then have is whether this is a permanent impairment or temporary impairment," said **Hanneke Smits**, chief investment officer of Chicago-based Adams Street Partners, which invests in private equity.

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