

Hey, big spender! CBS on spree

Pays Gaylord \$485 million for KTVT, the underperforming Dallas-Fort Worth affiliate

By Steve McClellan

CBS' acquisition spree continued last week. Two weeks after announcing a deal to buy heavy-weight syndicator King World Productions, the network struck a \$485 million stock deal to acquire Gaylord Entertainment's remaining TV station—KTVT(TV) Dallas-Fort Worth. CBS also made two more Internet-related investments that the company valued at \$200 million.

KTVT is one of CBS' most underperforming major-market affiliates. Broadcasting executives and Wall Street analysts say they expect big changes at the station once CBS acquires it, particularly given CBS CEO Mel Karmazin's interest—and skill—in getting more bang for his owned-station buck. The changes will be designed to cut costs and boost ratings and revenues.

According to the local Nielsen ratings book for Dallas-Fort Worth for February 1999, KTVT has the lowest audience-share levels in households and across most of the key selling demographics (sign-on-to-sign-off) among the Big Four affiliates in the market. The station's estimated annual cash flow is between \$22 million and \$25 million. Sources estimate the station's operating cash-flow margin to be 35%-40% (on revenues of about \$65 million) versus 50% for the CBS station group as a whole.

Part of the station's problem has been its stand-alone status, which gives it little leverage in the program syndication marketplace and makes it harder to get good shows to drive ratings. That status will change when it becomes part of the CBS group. "They've eliminated a big headache" by buying the station, says one Wall Streeter of CBS. "If [the station] did just average ratings, it would be generating \$40 million in cash flow."

Indeed, analysts report that CBS executives tell them they think they can increase the station's cash flow approx-

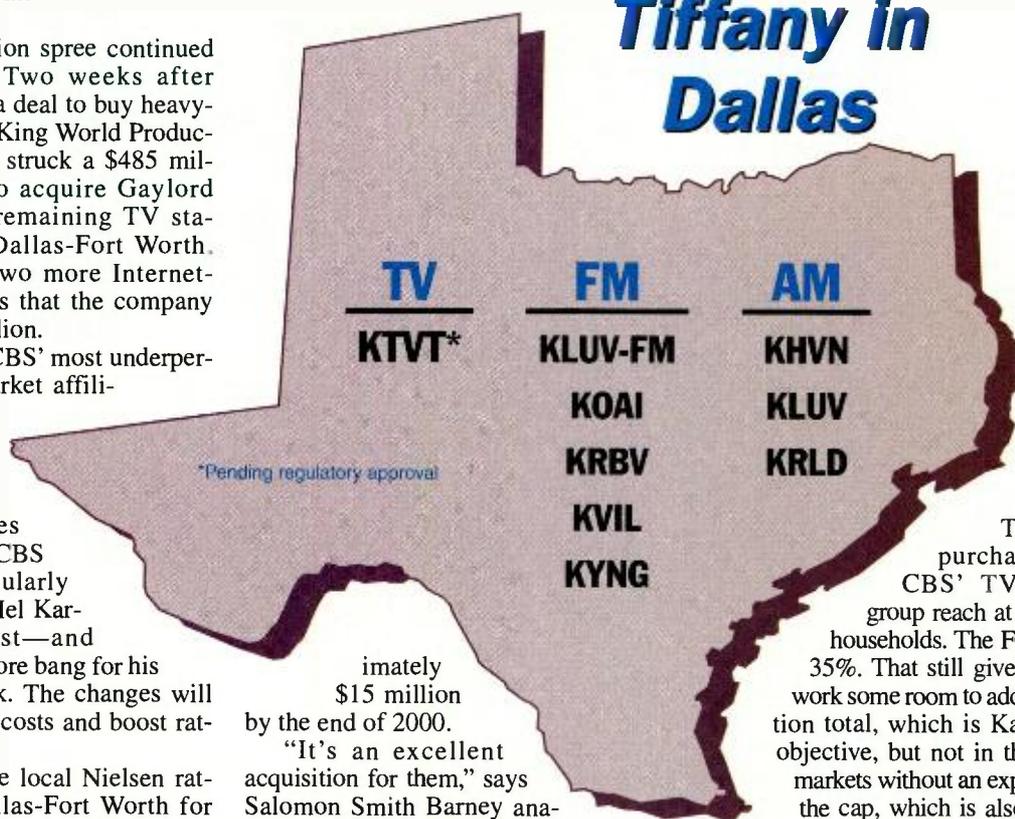
imately \$15 million by the end of 2000.

"It's an excellent acquisition for them," says Salomon Smith Barney analyst Paul Sweeney. "They get a double benefit of picking up a top-10 market and improving the profitability of the network by strengthening one of its weakest affiliates. There's a tremendous amount of upside at the station, as well as cost savings opportunities."

SG Cowen media analyst Ed Hatch notes that with eight radio stations in the market, CBS will become the largest broadcaster in Dallas-Fort Worth. "We expect CBS can significantly improve results through buying programming with its greater group clout and superior advertising sales leverage

In a statement announcing the KTVT acquisition, Karmazin said: "Our strategy is to concentrate our media ownership in the largest advertising markets in the nation.... This acquisition allows us a very rare opportunity to expand our TV holdings into a growth market where CBS already has a significant media position." Major market VHF stations, he says, "are the most scarce assets in this business."

Tiffany in Dallas



The KTVT purchase puts CBS' TV station group reach at 32.8% of households. The FCC cap is 35%. That still gives the network some room to add to its station total, which is Karmazin's objective, but not in the top-10 markets without an expansion of the cap, which is also the network's objective.

Two years ago Gaylord sold CBS TNN and Country Music Television cable networks, also in a stock transaction. That was when CBS' stock was trading at 18. Last Tuesday it closed at 45-7/16, up 3/4 from the previous day. "Gaylord has to be pleased with its investment in CBS," says one media analyst.

As part of the deal, Gaylord Entertainment receives \$1 million in advertising time on KTVT each year for 10 years. "The station has served as a tremendous marketing force for our various entertainment and hospitality businesses," notes Gaylord Entertainment CEO Terry London. In addition to the "Grand Ole Opry" and Opryland Hotel in Nashville, Gaylord has a new venture—the Opryland Hotel-Texas.

Gaylord has owned KTVT since 1963. The station was an independent for 32 years, before affiliating with CBS in 1995 as part of the round of affiliate switches that began with the jump of the New World stations from CBS to Fox ■