

Mossberg's Investor Digest

Best Idea Profile:

Emmis Communications Corp. (NASDAQ:EMMS)

DESCRIPTION:

Emmis Communications, based in Indianapolis, Indiana, owns and operates radio and magazine entities in large and medium sized markets throughout the U.S. It is a broadcasting company that owns more than 20 FM and AM radio stations in New York, Los Angeles, St. Louis, Austin, Indianapolis, and Terre Haute. Emmis also publishes magazines focused on specific cities or regions of the country, such as *Indianapolis Monthly*, *Texas Monthly* and *Orange Coast*. Auto, media and healthcare represent its three largest revenue markets. Emmis was founded by its current chairman and chief executive officer, incorporated in 1979, and went public in 1994.

KEY INVESTMENT CONSIDERATIONS:

Improved Financials – After having to work hard to not follow much of its media rivals into bankruptcy during the financial downturn, operating results are improving. Emmis had a good third quarter, which is publishing's most important quarter. Auto revenue was up 17% and was once again the largest category, representing 12% of third quarter revenue.

Potential of New Innovation – Emmis' CEO believes "the major battleground for the American radio industry in the future will be preserving our preeminent place in dashboards." NextRadio is the Emmis solution to this challenge as it is a hybrid radio application that combines FM analog with Internet capability. Several automakers are looking at NextRadio and evaluating its viability in the dashboard as the product able to interact between radio distribution and streaming. Maybe more importantly, NextRadio's smartphone application is attractive for carriers and consumers because it eliminates data charges that are currently necessary for streaming online radio. This saves the consumers money and eases the crowded data network for carriers. The smartphone application represents a huge potential market. Emmis' CEO is leading the regulatory charge to allow this application to be built on an FM chip that would be embedded in smartphones. NextRadio also has the ability to fit a niche that we forget doesn't really exist anymore and that is the portable radio. Walkmans aren't really around anymore and research indicates there is consumer appetite for portable radio.

Hint of Stock Support – Management has indicated that 2014 may bring back dividends or a share buyback; these are "clearly priorities to focus on in the New Year."

Majority of Capital Structure Problems Fixed –

Emmis issued preferred stock in 1999 that had a liquidation preference of \$50 per share. When the stock plummeted during the financial crisis, the company was unable to satisfy this liquidation or the dividends in arrears and has negotiated concessions to save the company from bankruptcy. Although many concessions have been achieved, this is an ongoing issue that hopefully will soon be coming to an end. Investors were expecting resolution through a hearing in January, but this was postponed. The company prevailed in the first round by eliminating the preferred's voting rights and accumulated dividends.

VALUATION:

The issue with the preferred shareholders is not resolved but likely will be soon. Given the tremendously improved operating results, the resolution could create an attractive outcome for shareholders involving some combination of the following: sale of the company, some positive capital restructuring, continuation of operating improvement. The media industry has been much ignored, but there are pockets of interest in this company (NextRadio launch, regional magazine success) that deserve attention, especially given the low stock price.

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Investment Data (as of 1/27/14)

Recent Price	\$2.98
52-Week Range	\$1.43 - \$3.61
Fiscal Year End	Feb 28
Dividend	NA
Yield	NA
Shares Outstanding	42 M
Average Trading Volume (3 mos)	91k
Market Capitalization	\$125 M
Cash	\$5 M
Long-term Debt	\$133 M
Enterprise Value (EV)	\$255 M
Book Value	\$0.06
TTM Revenue	\$201 M
P/ Revenue	0.6 x
TTM EPS	\$0.33
P/ EPS	9 x
TTM EBITDA	\$36 M
EV/ EBITDA	7 x

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