

# Mossberg's Investor Digest

## Best Idea Profile:

## Salem Communications (NASDAQ:SALM)

### DESCRIPTION:

Headquartered in Camarillo, California; Salem Communications is a leading radio broadcaster of Christian and family friendly content. The Company's core business is in radio broadcasting. Salem owns and operates a national portfolio of 96 radio stations in 37 markets. Salem maintains a presence in 22 of the top 25 radio markets. Salem also owns a show called Family Talk™ of SM Radio Channel 170. Salem's platform also includes a non-broadcast media division for other content delivery businesses. These activities include the Salem Web Network for online and streaming content, Salem Publishing™ for magazines and Xulon Press for Print on demand publishing. All of these non-broadcasting activities are theme centered on Christian and Family friendly content just like the radio stations. The Company also owns a number of national online portals including OnePlace.com, Crosswalk.com, Christianity.com and Townhall.com®.

### KEY INVESTMENT CONSIDERATIONS:

**Large and Expanding Niche** – Salem is a market leader in the Christian and Conservative content category. As the mainstream media has moved away from this type of content, Salem serves a large and growing market niche. Currently, 40% of Americans read the Bible at least weekly. Church attendance remains consistent at an average of 40-45% (Source: The Barna Group 2011 Study). The US Census Bureau reports the current population of the US at 313 million which implies a potential market of over 125 million people.

**Market Leader** – Salem holds a leading position and is the largest commercial Christian radio broadcaster. The Company has 96 stations across 37 markets and is one of three commercial radio broadcasters with stations in all top 10 markets. Salem is the only national ad sales representative firm in Christian media.

**Diversification** – Salem has a national footprint from coast-to-coast. The Company's revenues are not dependent on any market or geographic region. Furthermore, the Company's viewers represent an audience with less economic volatility than some other groups.

**Integrated Platform** – The Company integrates a diverse media platform that gives it a distinct advantage over other players in its niche. This platform includes the Salem Radio Network, Salem National Media Representative for Christian Media and The Company's Print media division

**Election Cycle** – Christian broadcasters should see increased revenues in FY2012, as the current election cycle creates higher advertising revenues for a group that will be politically motivated in this year's election cycle.

**Cash Flow** – Salem's business is a strong and steady generator of cash flow. The Company generated \$19.9 MM or \$0.81 in Free Cash Flow for FY2011 for an FCF yield of 29%.

**Quarterly Dividend** – The Company recently announced a \$0.035 per share recurring quarterly dividend, which gives is an attractive yield of 3.1%.

**Refinancing Opportunity** – The Company has stated that it has a potential refinancing opportunity for its \$250 million in debt beginning in December of FY2013. This could lower debt servicing costs of 4% which would equate to an additional \$0.40-\$0.50 in additional cash flow.

### VALUATION:

Salem has a unique market, which has growth prospects that are superior to standard media companies. A combination of growth and a refinancing opportunity gives the Company earnings power of \$0.90 to \$1.00 for FY 2013. At \$0.90 Salem current sports a Px/EPS ratio of just 5x.

### Salem Communications (NASDAQ:SALM) Investment Data (as of 3/28/12)

<b>Recent Price</b>	<b>\$4.55</b>
52-Week Range	\$2.12 - \$4.50
Fiscal Year End	Dec
Dividend	\$0.14
Yield	3.20%
Shares Outstanding	24.3MM
Average Trading Volume (3 mos)	75k
Market Capitalization	\$111MM
Cash	\$67k
Long Term Debt	275MM
Enterprise Value (EV)	\$379MM
Book Value	\$8.36
TTM Revenue	\$218MM
P/ Revenue	0.5x
TTM EPS	\$0.23
P/ EPS	19.9x
TTM EBITDA	\$51MM
EV/ EBITDA	7.4x

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