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CONNOISSEUR OF FINE RADIO

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JEFF WARSHAW IS A CONNOISSEUR OF FINE RADIO

Many entrepreneurs, focused sharply on the bottom line, don't really see the businesses that spin through their orbits. Jeff Warshaw has been an entrepreneur since his days at Wharton, but his eye has always been focused on radio. Despite the industry's many changes, he has watched for opportunities and changed his business plans accordingly.

Radio has been a part of Warshaw's life since childhood, when his parents and an uncle owned Universal Broadcasting. When the bulk of that company was sold not long after his college graduation, Warshaw still owned an Indiana station, for which he had initiated purchase as a student, and he began Connoisseur Communications. Between 1993 and 2000, he acquired 39 stations in small and medium markets in a belt from Pennsylvania to Iowa. Consolidation was fun — and lucrative; he sold the company in 2000 for \$256 million.

By then, the industry had evolved, and the cost of ownership spiraled. Although he wanted to get back into the business, says Warshaw, "We could not find any opportunities that made financial sense. The multiples were too high." This entrepreneur had to rethink his business plan. He became an investor in media companies.

INK: What drove your decision to get back into the radio business and start Connoisseur?

JEFF WARSHAW: After we sold in 2000, although we wanted to get back into the business, we could not find any opportunities that made financial sense. The multiples were too high. We just couldn't create sufficient value that would justify re-entry into the business. During that time, through Connoisseur Capital, I became an active investor in the debt and equities of media companies. I did dozens of transactions throughout this period and developed a close relationship with Noonday Asset Management, a large hedge fund and a fantastic partner. Although I remained excited about the business, I could not justify paying 14x or more multiples for fully consolidated positions in medium and small markets. It has never been my orientation to subscribe to the "PF Flyer"

In 2004, long-time partner Mike Driscoll came to him to discuss the upcoming FCC auction of construction permits for 10 new FMs. Deciding that this was their opportunity for re-entry into the industry's ownership orbit, the two men partnered with Noonday Asset Management to bid on and acquire 10 licenses, which became the foundation for their newest company, Connoisseur Media.

Knowing that consolidation's churn has slowed, Warshaw's business plan changed again, concentrating on building value in the stations being created while adhering to the company's core values: community service, dedication to listeners, and results for advertisers.

Connoisseur's first stations — in Bloomington, IL — garnered an immediate, enthusiastic response, with shares of 5.9 and 4.7. "We are committed to grow value over the long term," Warshaw says. "We make no decisions that put short-term performance in front of long-term value creation." As the new Connoisseur works on stations for Wichita, KS; Omaha, NE; Des Moines, IA; and Rapid City, SD, Warshaw talked with *Radio Ink* about running radio stations and adjusting to the opportunities of our evolving industry.

school of management — bigger, faster, stronger. I would not make acquisitions based on the hope that we might be better at running them without any specific, quantifiable way of improving the operation. I didn't feel comfortable forecasting continued revenue growth in the high single digits. I wasn't comfortable with financial models that featured mid-teen exit multiples. I wasn't excited to execute a business plan that required continued cost cutting. Simply put, the prices were too high and, in order to generate an attractive return on capital, we would have to run the stations in a way that was not acceptable to me.

In the spring of 2004, my long-time partner, Mike Driscoll, approached me about opportunities in the upcoming FM auction. We had always expected to get back into ownership, and this was just the opening we had been waiting for. We undertook an

exhaustive and rigorous process to come up with the licenses we thought would be most valuable. After winnowing down the list, we ended up with approximately 30 licenses that we wanted to bid on. We were able to acquire 10 of the top 20 licenses on our list.

Because I'd had successful dealings with Noonday, we decided to go into partnership with them when we bid on these licenses. This gave us a suitable platform for the new Connoisseur Media.

We are committed to grow value over the long term. We make no decisions that put short-term performance in front of long-term value creation. We have put ourselves in the position to grow rapidly and steadily. We are all patient investors.

RI: What are you doing differently the second time around?

WARSHAW: Conditions have changed, and therefore aspects of our strategy have changed. Virtually every rated market is now consolidated, so my strategy for Connoisseur Communications, which was to consolidate the medium and small markets, is no longer viable. That said, the core values of our company remain the same — service to the community, dedication to our listeners, results for



WE DO OUR HOMEWORK, ACT QUICKLY, HAVE NO FINANCING CONTINGENCIES AND NO UNWIELDY BOARD, AND WE TREASURE OUR REPUTATION FOR HAVING STERLING INTEGRITY.

our advertisers, creating a terrific work environment, having integrity, and honest dealings in all aspects of our operations.

RI: You pride yourself on being a true believer in radio. How do you differ from the rest of the industry in the operation of your stations?

WARSHAW: We don't have to pacify a nervous investor group. Our creating value is not based upon hitting quarterly numbers, nor is it necessary for us to keep our stock price afloat in order to fund acquisitions. As a result, we spend heavily on research and promotion. We invest confidently in our properties. We believe that is one of the ways to build long-term value. Not everybody has that luxury. Some companies have placed themselves in the unenviable position of having to sacrifice the quality and promotion of their service. In many cases, developing people is just too expensive, with no immediate gratification. Local service becomes lip service.

We think that our markets are ready for the kind of radio that

we want to bring them — exciting formats, innovative marketing, and dramatically less clutter.

RI: What are your plans to grow the company?

WARSHAW: From a financial standpoint, we are ready to grow rapidly. Our biggest challenge is to find the dedicated, creative people who we must have to run our operations the way we insist they be run.

RI: You've always been a cutting-edge thinker. In what ways is that manifesting itself? What are you doing that is unique to your company?

WARSHAW: Although we only started building stations in the second half of 2005, we have already put a number of them on the air. In fact, over one six-week period, we will have built from scratch and put on the air five brand-new stations. Each of these stations has been well-researched. The programming is market- and situation-specific. In one case, we will be signing on with a new format that I don't believe has ever been done before. Each station has its own marketing plan, individually tailored creative promotions, and unique stationality. As part of our introduction into the markets, our general managers and staff are charged with immersing the new stations into their markets.

Our first sign-ons in Connoisseur Media were in Bloomington, IL. We exploded onto the scene with fresh formats and exciting marketing. Incredibly, in our first book, both stations debuted in the top five, 25-54.

Connoisseur Communications was a leader in the use of yield management at our radio stations. We are using technology in ways to enhance our listeners' experience as well as create new opportunities for revenue.

One of the areas in which we think we are unique is our dedication to developing people with skill sets and rigorous skill-development plans. These skill-development plans have become part of our compensation plan for many of our department heads. We believe that helping people become better at their jobs is one of the salient ways to build a great company. We believe it is a right

of every employee to be helped to do a better job. If our people are better, the benefits accrue to our listeners and advertisers. I have heard from dozens of former Connoisseur employees who have told me that, without question, they grew more as professionals with Connoisseur than they have working for any other company. This is one of the reasons that so many of our former employees are coming back to the Connoisseur family.

RI: Connoisseur isn't just radio. What else are you into?

WARSHAW: Connoisseur Media is all about owning and operating radio stations. Connoisseur Capital is the investment division that is primarily involved in equity and debt of public media companies.

RI: In terms of the direction the industry is taking, what are we doing well, and what are we not doing well?

WARSHAW: I believe radio is the greatest business in the world,

can still be wildly profitable, and should always be fun to operate. However, I think there are a few aspects of our business that could really be improved. As an industry, we run far, far too many commercials. As an investor in both private and public companies, I understand the difficulties in having the discipline to walk from business because of rate. Added to the already tough environment caused by falling stock prices, reducing spot loads is very difficult for many companies. I think the industry needs to take its medicine on this one. Radio is a terrific value for advertisers.

There are far too few new formats and we are too nervous to take risks introducing any innovative ideas. We have seen the markets respond to something new and exciting. Connoisseur is committed to taking these kinds of chances. Not taking these chances is far riskier for the future of radio.

I believe that if we provide exciting programming, reduce clutter, and become devoted to developing our people, then the success of our industry cannot be stopped.

RI: If you could spend 10 minutes with Mark Mays at Clear Channel, what would you say to him?

WARSHAW: Wearing my Connoisseur Capital suit, I have had the opportunity to meet with Mark and others at Clear Channel. We are a big supporter of the company and, through our association with Noonday, a significant shareholder. They have a group of unique, irreplaceable stations. It is an amazing collection of assets.

With Connoisseur Media jeans on, I would ask him to please continue to decrease spot loads, and increase promotion and training. They are the industry leaders. We like their focusing on radio.

RI: You have a reputation for being a decisive and savvy deal-maker. To what do you attribute this success?

WARSHAW: I always do what I say I'm going to do. I am also extremely disciplined. If I am interested in acquiring properties, I make my best offer and follow through on the promise. We do our homework, act quickly, have no financing contingencies and no unwieldy board, and we treasure our reputation for having sterling integrity.

RI: What needs to be said to the people running radio stations today?

WARSHAW: Turn your swords away from your competitors in the radio industry and focus on helping grow the radio business in your communities. Spend less time worrying about your competitors' promotions and spend more time unleashing your own creative ideas. Focus less on your competitors' rates and more on the value that you are giving your advertisers. Embrace the opportunity to work in this fantastic industry.

RI: How do your salespeople differ on the streets?

WARSHAW: We try to give our salespeople the tools to sell the benefits of advertising on our stations. Negative selling is something we try to avoid.

One of the major advantages that all of our salespeople have is that we spend heavily promoting our own radio stations. Many stations in our industry have severely cut down or entirely eliminated their promotion budgets. How can we ask our clients to believe in the power of advertising when we ourselves don't advertise?

RI: What are you doing to keep radio thriving in your markets?

WARSHAW: We carefully research each of our radio stations. We try to put on compelling programming and we run extremely low spot loads. With our new stations, we are committed to running no more than eight units an hour. We think that increases the likelihood of success for our clients and greatly enhances the listening experience. We are extremely fortunate that we have not overpaid for our stations, and we try to pass that benefit on to our clients and our listeners.

RI: New technologies like iPods, satellite radio, cell phones, and WiFi are gaining a lot of attention. How do they play into your future?

WARSHAW: I have a 14-year-old daughter and an 11-year-old son, so I am aware of these new technologies. That said, radio still reaches virtually every person on a weekly basis. People love to hear their favorite songs on the radio. People tune to their radio stations for local news, weather, traffic, etc. Radio is free. If we provide compelling programming for our listeners, the radio industry will thrive. ☐