

Thinking About Selling a Tower Site?

Should you sell your tower? How do you know? Learn what is ahead for tower valuations and the best way to sell, get the transaction closed, and obtain maximum value.

By Thomas Engel

Not long ago, the value of silver retraced its recent high of \$20 an ounce. Tower sites with high-quality cash flow equate to silver at \$75 per ounce. The value for towers is not going to get any better.

I have been brokering businesses for nearly 48 years, first in cable television, and then publications, radio and TV stations, radio-frequency spectrum and cellular telephone systems. Cable TV systems once valued at 13 to 15 times cash flow now sell for multiples in the range of five to seven times cash flow. Radio broadcast stations once valued as high as 13 to 22 times cash flow now sell for multiples of four to seven times cash flow. I am told that TV stations sell for six to eight times cash flow. Nonmedia businesses, however, sell for less (see Table 1).

EBITDA

Most other business sectors sell for 1.8 to 6.5 times earnings before interest, taxes, depreciation and amortization, or EBITDA — another expression for cash flow. With towers sites selling at blended rates in the range of 12 to 17 times cash flow, and with broadband cell towers selling at multiples from 16 to 25 times cash flow, it appears that most other business sectors are selling for much lower

Business Sector	EBITDA Multiple
Architectural Firms	2.96x
CPA/Accounting Practice	4.38x
Construction Defect Restoration	4.62x
Custom Software Development	7.61x
Engineering Consulting	8.19x
Employment Agencies	4.49x
Environmental Consultant	6.47x
Family Medical Practice	2.71x
Florist Retail	1.78x
Gas Station with Convenience Store	2.27x
Heavy Construction Services	4.37x
Janitorial	4.92x
Plastic Product Manufacturing	6.16x
Restaurant or Sports Bar	2.22x

Nonmedia businesses sell for lower multiples of earnings before interest, taxes, depreciation and amortization (EBITDA, or cash flow) than tower companies. Source: www.valuadder.com

multiples of cash flow (see Table 2).

The high prices cannot continue. Here's what that means for those involved and why:

- **Reduced proceeds to the seller:** With states short of cash and the federal government \$20 trillion in debt, tax rates have to rise.
- **Less revenue for the owner:** Because of technological obsolescence,

the number of non-broadband tenants is diminishing.

- **Less revenue for broadcasters:** The broadcast sector is weak and getting weaker because of content competition and digital competition for the advertising pool.
- **Fewer broadband tenants mean less revenue for tower owners:** The consolidation of the broadband

industry will reduce the number of potential broadband tenants.

- **Reduced purchase prices:** As interest rates increase (and they will), prices for towers will have to go down to maintain acceptable levels of returns on investment (ROI).
- **Less revenue for tower owners:** Broadband rates will drop because of carrier pressure and subsidized overbuild.
- **Lower selling prices for tower owners:** Tower consolidation has reached a tipping point and the buyer pool is consolidating.

Anyone with a computer and a cell phone can solicit multiple offers in less than a couple days. It is a sellers' market. A lot of cash (equity and debt) is flowing into the wireless infrastructure market where a rapidly diminishing number of sites remain to be consolidated. The consolidation of the wireless communications tower market has reached a critical tipping point.

That said, selling is easy, closing is difficult, post-closing issues can be a problem and maximizing net after-tax proceeds to the seller is a challenge.

Current Trends

After participating in nearly 500 transactions over the last 48 years, I am seeing some current trends emerge.

The transaction cycle has greatly extended. In the early 1990s, most tower transactions took 75 to 90 days to close. Now, most transactions take six to nine months to close. Several in which we have participated have taken one to two years to close.

Adjustments diminish net cash to the seller (the purchase price versus the net proceeds). Significant closing adjustments related to regulatory,

Cable TV	5x-6x
AM Radio Broadcast	5x
FM Radio Broadcast	5x-6x
TV	6x-7x
Broadband Cell Towers	16x-24x
Wireless Towers with Mixed Revenue	12x-16x

Tower sites are selling at blended rates in range of 12 to 16 times cash flow, and broadband cell towers are selling at multiples from 16 to 24 times cash flow.

title, structural, cash flow and site issues have become more common. They can be minimized by taking advantage of what was learned from previous transaction experience with the buyer, carefully worded contract language, the performance of due diligence and asset preparation.

Third-party consent extortion (e.g., estoppels and assignment consent) has become time-consuming and costly for many transactions. The delay and expense involved with third-party consents can be minimized with planning, workarounds and timing. In an example of a third-party consent extortion, one land leaseholder wanted 50 percent of the purchase price as a condition for extending the term of the land lease.

For the performance of due diligence, most agreements allow 45 days, starting when the buyer receives all items requested. The problem is that today's buyers have significant due diligence requirements. If not properly managed, the process can take months. We set up a data room with secure shared online access for each site. The data room had subfolders on the topics of regulations, operating expenses, taxes, cash proof, land, easement, tower

tenants, permissions, engineering and technical. Mismanaged due diligence can cost time and money.

Post-closing liabilities are more prevalent and can linger for years. They can cost more than the sale price. In one example, 20 years after buying a large tower portfolio, the buyer sued the seller for an amount in the seven figures because the state government failed to extend a ground lease on one of the sites. Such risk can be mitigated with proper wording in the contract and knowing which companies tend to be the most litigious.

Undertaking little or no tax planning can be costly. Conversions from limited liability corporations to Subchapter S corporation conversions, 1031 exchanges, installment sales, rent (revenue sharing) versus capital gain, asset allocation, stock sales and exchanges of stock are all tools that can be used to minimize the amount the seller pays in state and federal taxes.

Contract and closing documents have increased in length and number. Although many tower companies have participated in thousands of transactions, most sellers do only one. A simple "shall" instead of "may" or an "and" instead of "or" can make a

profound difference in meaning and value. It is helpful to find a broker familiar with the contracts used by each buyer and the technical language of the industry, and one who knows (from previous transactions) the buyer's willingness and limitation regarding modification of document language. If the seller can afford it, it is best for the seller to hire counsel familiar with tower transactions.

Market timing is more important than ever. It is a seller's market, but taking a site to market in the fourth quarter for a yearend closing can be costly to the seller. Taking a smaller transaction to market when the best buyers are tied up with due diligence or closing a megadeal usually costs the seller money.

The Request for Proposal

Unless the seller has a reason for wanting a discrete sale, the request for proposal (RFP) process is by far the best way to maximize value. We start with an executive summary that provides the buyers with most of the information they need to prepare a meaningful offer, subject to due diligence. We put it into our standard format so buyers know where to find the information they want. We prepare summary tables

with site date, land date, tenant data and a cash flow summary. They are included in the executive summary, but we also send the Excel spreadsheet versions in a standard format to reduce the time required for analysis.

We usually send the RFP to 15 to 20 potential purchasers with a seven to 14 day response deadline. In the RFP cover letter, we include assumptions and requirements to provide the bidding process some flexibility, make it easier for us to compare proposals and focus the buyer's offer on the seller's financial objectives.

We provide the seller with a summary of the proposals and rate them quantitatively by cash flow multiple and purchase price. We also provide some qualitative insight related to the buyer from past transactional experience post-closing relationships and current practice. Different sellers may have different objectives. One example is if the seller is cashing out versus a seller who plans to lease back space on the tower, in which case the buyer becomes the seller's landlord.

After discussing the proposals with the seller, we usually go back to the two or three parties that submitted the best offers. We try to improve and clarify terms and conditions

and maximize value before the seller selects the one to work with. The seller is under no obligation to work with any of the bidders.

The Sale

When the seller has accepted an offer, we help the seller wade through the letter of intent (LOI) to purchase or the expression of interest. We set up a data room and begin building the due diligence folders. We redline the definitive agreement (AKA, APA or PSA) with our comments for the seller and the seller's counsel. We work through the due diligence documents and defects with the buyer to minimize any adjustments. We assist the seller in meeting closing requirements (e.g., approvals, estoppels, payoffs and defect correction). We work with the seller and the seller's counsel on the settlement statement and closing documents. ■

Thomas Engel is a partner in Strategic Tower Advisors. During his nearly half-century of experience in cable TV, publishing, broadcasting and broadband communications, he has participated in hundreds of transactions, prepared numerous appraisals, provided expert witness testimony, authored numerous articles and spoken at many conferences.
