mazin will be chairman of the new company but will retain his titles and duties at CBS. Infinity will include CBS's 155 radio stations and TDI Worldwide, the billboard unit.

Part of the goal is to highlight the value of the CBS radio unit, which Karmazin and CBS Chairman Michael Jordan believe is overshadowed by the TV network. The radio operation is growing strongly, with sales jumping 21% during the second quarter and cash flow zooming up 26%. But even before the recent broad stock market turmoil, CBS's stock had sagged from $36 per share to less than $30.

CBS CFO Fred Reynolds told analysts that with some $1 billion in cash flow this year, the radio group should be valued at $20 billion–$23 billion, or the 20-23 times annual cash flow multiple achieved by other radio companies. If an IPO can achieve that valuation, CBS would get $4.2 billion–$4.6 billion.

More important, if investors accept that level, the TV operation would be valued at very little. At $30 per share, the market valuation of CBS's assets is about $26 billion. "Clearly, we think that this transaction will help unlock the value in CBS Corp.," Reynolds said.

Cash from the deal will go to reduce CBS's debt, about $750 million of which will go over to Infinity. That will leave CBS and Infinity poised for acquisitions, particularly on the radio side—where Karmazin will have not just borrowing capacity but also his own stock to use as currency. But CBS executives said they may try to increase their TV station holdings a bit.

Tim Wallace, broadcasting analyst for Lehman Bros., says he expects Infinity to get a premium valuation multiple, which should, in turn, boost CBS stock: "The lift in value for that asset will be felt quickly in CBS Corp."

Wall Street's focus on the CBS network has been a continuing source of irritation for Karmazin. While NBC is expected to generate $500 million in cash flow this year, CBS's network is looking at a loss. Analysts have been concerned that the CBS network will be hurt by its $2.5 billion deal for National Football League rights, costing about $300 million in the 1998 season and stepping up sharply in subsequent years.

Last month, CBS scrapped its traditional conference call to discuss quarterly earnings, in large part—according to Wall Street executives—because the first-quarter call last May was dominated by questions about the network rather than the TV stations or the radio group.

Focusing on the TV network is hardly surprising, because it accounts for about 63% of CBS's revenue. But Karmazin contends the network should be seen as a programming operation for CBS's station group, not as a stand-alone business.

Further, he insists that even with the NFL rights fees, the CBS network will be profitable. "The network fix that some of you were skeptical about—I hope that skepticism is gone. If it isn't gone [then] maybe we're the wrong the company for you to be investing with. I told you we are going to make the network profitable, and I don't know what else I can tell you." ■

'Get big or get out'

Kelly Broadcasting gets out to tune of almost $900 million for two TVs and an LMA

By John M. Higgins

To much of the broadcasting industry, the executives at Kelly Broadcasting were considered lifers. Longtime family broadcasters with a lock on their core local market in Sacramento, Calif., the company had its third generation running its three stations and was generating strong operating results.

But the frustrations of being a small broadcaster, wariness over debt taken on to buy out other family members last year and the immense temptation of the even more immense prices that established broadcasters and start-up financial players are willing to pay have the Kellys surrendering, collecting almost $900 million to ease the pain.

After a quick auction, Hearst-Argyle Television agreed to pay $520 million for Kelly's Sacramento flagship NBC affiliate KCRA-TV and a local marketing agreement for nearby WB affiliate KQCA(TV). That's some 17 times expected 1998 cash flow, or 15 times if you adjust for the youth of the LMA deal. Hearst-Argyle executives say that from their perspective, tax benefits and other efficiencies will bring the valuation down to 12.5 times cash flow.

Longtime Sacramento broadcasters, the Kelly family—which includes brothers Jon and Robert (shown in vintage photos)—has sold the last of its television stations.

The Kellys also are getting $370 million from Meredith Broadcasting for their Seattle Fox affiliate, KCPQ(TV). Meredith will in turn trade the station for Tribune Co.'s Atlanta CBS affiliate, UHF station WGNX(TV). One executive pegged that deal as worth more than 18 times 1998 cash flow.

"We're a small group in a small pond," says Greg Kelly, general manager of KCRA-TV (He is the son of Jon Kelly and the grandson of founder Gene Kelly.) The properties were in a strong position, he says. "What we saw were the difficulties of maintaining it."

The gain is big. Just a year ago, Kelly Broadcasting Chairman Jon Kelly bought out the interests of brother Bob and nephew Christopher for what industry executives estimate was $600 million. Bob, however, continued to hold a small stake, so he will participate in part of the 50% gain on the station sales.

The gain on the LMA agreement is even more dramatic, with the deal to manage the Sacramento WB affiliate generating 15 times the cost of buying the station in 1995.

Some broadcasters say that the Kellys' exit was unexpected. Tribune Broadcasting President Dennis FitzSimmons had put the Kellys—along with Hubbard Broadcasting in Minneapolis and Ed Ansin's Sunbeam Television in Miami—in the group of station owners that would "never" go. "I was really surprised when they decided to sell," says FitzSimmons, who has been involved in the process for months. "They've been such good broadcasters."

The Kellys struggled over the summer to stay in, asking investment banker Merrill Lynch to engineer some sort of