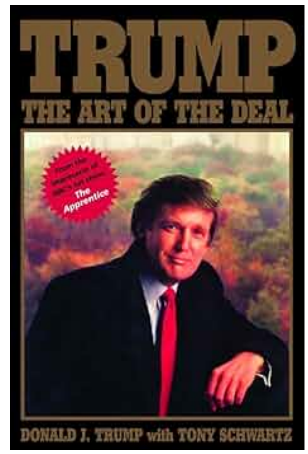
February 05, 2025

THE LONG PULL: Buying Trump For $0.12 on The Dollar?



Trump won the popular vote and the Electoral College, and the Republicans control the Senate. Trumpism, or whatever you want to call it, is at an all-time high.

Fortunately, I found a way to buy this “Red Pill” for $0.12 on the dollar. Some would call it the *Art of The Deal*.

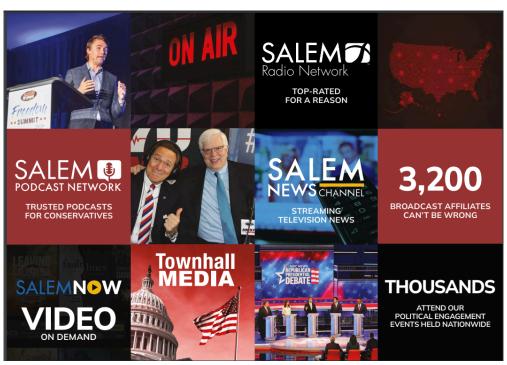
Enter Salem Media (SALM).

SALM is a $16M micro-cap stock traded on the OTC markets.

The company owns 81 radio stations, a network of 3,200 affiliates, and over 100 web properties generating 150M+ monthly page views.

It’s ASMR/audio porn for hardcore conservatives.

The Wall Street Journal calls SALM’s network “a conservative multi-media powerhouse.”



SALM has some of the most prominent conservative talk/media names on its roster (see below):

- ➢ Charlie Kirk: 2.7M X followers
- ➢ Dennis Prager: 348K X followers
- ➢ Seb Gorka: 1.4M X followers
- ➢ Brandon Tatum: 751K X followers

Here’s why you should care.

SALM recently sold seven of its Christian talk radio stations for $80M. It also extinguished all its long-term debt, added a Strategic Investor to further value creation, and is at the apex of Conservatism Fever.

The company trades at ~13% of liquidation value with a management team **serious about closing the valuation discount.**

The Radio Station Business

I assumed radio stations were like physical newspapers: once great businesses but now obsolete thanks to The Internet.

But I was wrong.

Radio stations are good businesses. They generate consistent/predictable cash flows from multiple revenue streams, are generally low-cost operations, and experience some local monopoly benefits and barriers to entry from FCC regulations.

Radio stations are perfect leveraged buy-out (LBO) targets. They generate high EBITDA margins (30-40%) from high fixed/low variable costs and minimal maintenance capex requirements.

Stations also hold valuable assets such as real estate, FCC licenses, and broadcasting equipment (towers, etc.), which can be used as collateral in an LBO.

Finally, radio is a mature industry with limited FCC licenses, creating local monopolies that protect advertising revenue and margins.

SALM owns 81 radio stations in Tier-1 locations such as Atlanta, GA, Los Angeles, CA, and Dallas, TX.

Here’s what we’re getting for $16M.

SALM’s Radio Station Liquidation Value

The company sold seven Christian talk stations to EMF in December for $80M (or $11.4M per station). That same year, SALM sold its Little Rock station for $1.55M and its Nashville and Honolulu stations for $7M.

Like real estate, location matters, and tier-1 locations command higher price points. SALM owns 57 stations in Tier 1 locations and 24 stations in smaller (Tier 2) markets.

Let’s assume $10M per Tier 1 station and $3M per Tier 2 station:

- Tier 1 value: $570M
- Tier 2 value: $72M
- **Total Radio Station Value: $642M**

The current market cap is $16M, and the company has no long-term debt.

But like any deep-value situation, there’s some hair. To the balance sheet!

The Hair: Capital Stack & Future Dilution

SALM eliminated $159M in long-term debt through radio station proceeds and debt-for-equity swaps.

There are two equity-like classes ahead of the common stock:

- ➢ $40M Series B Convertible Preferred
- ➢ $24M Series A Preferred

The company issued the Series B shares to [Christian non-profit WaterStone] as part of its $159M debt payoff. WaterStone manages a pool of $545M in assets and invests in projects and companies aligned with a Christian worldview.

SALM then issued the $24M in Series A to the 2028 noteholders (i.e., original $159M debt holders). The Series A notes convert to preferred stock upon future radio station sales.

Remember RAIL's situation, where the fully diluted share count distorted current valuations and discounts? This is similar.

Converting Series A and B shares would dilute the common stock by another 58M (from 27M to 85M shares outstanding).

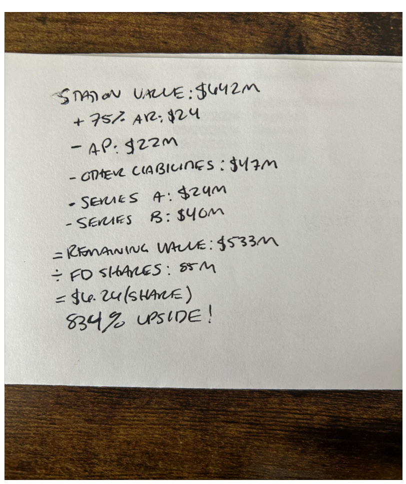
There are also ~$385K in dividend obligations on these Series A and B issues.

That is significant dilution.

But because this stock is so cheap, it's not a deal breaker (like it was with RAIL). Let's see what the rewards look like for common shareholders under a liquidation scenario.

What's Left For The Common ~~Man~~ Shareholder?

Here's my back-of-the-napkin valuation on SALM (see below).



$642M in radio station value, plus $24M in receivables, less payables, other liabilities, and Series A and B equity.

You're left with **$533M in remaining value for common shareholders.** Divide by the fully diluted share count of 85M for **$6.26/share** or **834% upside from the current price** (~$0.75/share).

There's a lot that can go wrong with this trade.

Management could issue Series C-Z shares to enrich like-minded friends, or the company could raise money to buy other non-core assets, mismanage its remaining portfolio, or accept low-ball bids for the other 81 stations.

Maybe conservatism will die over the next four years. Or Trump tweets about his own new, shiny Trump Radio Network that displaces SALM's brands and affiliates.

The good news is that it's all reflected in today's stock price. Here's another way of looking at it. **SALM's $16M market cap implies a per-station value of $190K for its remaining 81 radio stations**.

Small, Tier-2 markets still command $1M+ per station (as we've seen with SALM's earlier sales in 2024). So the market is valuing SALM's remaining radio station portfolio at **19% of the low-end of its Tier-2 market value.**

It's the wrong price.

"But I thought markets were efficient, what gives?"

There are structural reasons why this inefficiency exists.

SALM trades on the OTC market after delisting from the NASDAQ. This makes it uninvestable for most investors. So we're trading with retail and *small* single-person hedge funds.

Second, this is an illiquid stock. The stock trades around $0.75/share with an average daily volume of ~4,000 shares. Again, this is not practical for larger accounts (you know who you are!).

Finally, the stock trades near all-time lows, so it's not on any momentum/trend screeners.

TL;DR: SALM is a turnaround play with secular cultural tailwinds, no long-term debt, and a Strategic Investor to guide value realization with uncorrelated market returns.