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Latino equities on fire Broadcasters lead way in sparking interest of investment firms

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Back in 2002, a rocker named Juanes zipped up the U.S. music charts with biting Spanish lyrics, garnering praise that ran something like this: Juanes is the best thing to come out of Colombia since author Gabriel García Márquez.

That's when investment specialist Rafael G. Garza found a way to capitalize on the enthusiasm - in Brownsville, Texas, way off Wall Street's radar.

Juanes kicked off the ownership change of a Brownsville radio station, and Mr. Garza and his Fort Worth firm, RGG Capital Partners, were early investors in a broadcasting outlet that would form part of a 30-station chain.

RGG Capital Partners is riding a wave of private equity firms investing in companies focused on the Hispanic market, a population of 40 million consumers with buying power that now exceeds the gross national product of Mexico.

The investment underscores how the U.S. Latin market has caught fire on Wall Street. Further evidence: such recent acquisitions as the \$3.5 billion purchase of Hispanic Broadcasting Corp. of Dallas by Univisión Communications Inc. and the \$850 million purchase of Laredo National Bancshares by a Spanish bank.

"Juanes was a great stamp of approval," says Mr. Garza, who serves as the chairman of the radio chain Border Media Partners.

But so was the capital infusion from New York-based Vestar Capital Partners, which is placing about \$70 million in Border Media Partners. If all pending station deals receive regulatory approval, the chain will include Dallas-area station KXEB-AM.

"There was a disconnect with private equity firms and Hispanic companies," said Federico Peña, a managing director at Vestar Capital who served as transportation secretary in the Clinton administration.

But in recent years, that disconnect has started to vanish as larger private equity investors seek out midsize companies serving the Hispanic market, Mr. Peña said.

Vestar is also an investor in Valor Telecommunications, an Irving-based concern that provides phone service in rural Texas and New Mexico.

To date, most of the equity stakes have been made in companies in media, banking and health care.

Following the stocks

Jay Garcia of Ramirez & Co., a New York-based investment bank and research house, has identified dozens of investment deals in the last three years. He's even created an industry chart of potential targets for capital investment or acquisition.

To punctuate the profit point, Mr. Garcia created the Hispanic index at Ramirez & Co., the nation's largest Hispanic-owned investment bank and research house.

The index is a collection of stocks of Hispanic-owned or Hispanic-focused firms, which range from Univision of Los Angeles to Banco Popular of San Juan, Puerto Rico. It's up 160 percent since its August 2003 inception in a very flat market, Mr. Garcia says.

"The Hispanic companies have done better than the average American company," Mr. Garcia says. "The consumer base is very big, very loyal and growing at a faster rate than other consumer markets."

This year, U.S. Latino spending power is \$686 billion, the Selig Center for Economic Growth estimates. By comparison, Mexico's economy is expected to produce \$620 billion in goods and services this year. By 2009, nearly 1 in 6 people in the United States will be of Hispanic origin.

Media shifts to Spanish-language or Spanglish formats make up the biggest percentage of the deals by far.

Enter the giants

And the players entering the market are huge.

Last month, radio kingpin Clear Channel Communications Inc. of San Antonio said it would convert up to 25 of its stations to Spanish-language formats. That would just about double the number of stations in that format now. Until recently, it held a 26 percent stake in Hispanic Broadcasting of Dallas.

Broadcasting giant Viacom Inc. of New York said this month it would sell a radio station to Spanish Broadcasting System Inc. of Coconut Grove, Fla., a small radio chain operator, in exchange for a 10 percent ownership in SBS. It will also buy warrants to purchase an additional 5 percent stake, marking Viacom's entry into the U.S. Hispanic radio market.

Viacom already runs Spanish versions of its MTV music channel and its Nickelodeon children's channel.

Others in the scene

Other players in the market include the Chicago-based private equity fund Hispania Capital Partners, which invested \$6 million in a Spanish-language publishing firm last year. And New York financial house Goldman Sachs has created an urban investment group, which in turn is an investor in Border Media Group.

Border Media Partners is based in Houston and was co-founded by Tom Castro, who previously owned a small radio station chain. Mr. Garza says his own border roots in the Rio Grande Valley and past experience as an Ernst & Young executive in Mexico position him to understand the market and its crossover, binational affinities.

Its biggest competition will come from those who have the first-in-the-market advantage: Univision and Santa Monica-based Entravision Corp. Both publicly traded companies operate radio stations in the Dallas-Fort Worth area.

"We have to be not only good, but better," Mr. Garza says.

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