

In this report we document these increases and analyze the number of different media outlets by television markets³. We also examine other outlets not available at the time of the earlier study, for some of which data are only available on a national level. When applicable, we will compare the most recent data with the data presented in the earlier study.

INTERNET ACCESS

Unfortunately, data on Internet access are not available on a television market basis. What are available, however, are national data demonstrating the incredible growth of the Internet in just a few years. From 4.9 million households being online in 1994, nearly five times that number, or 23.4 million, are presently on line, with that number expected to grow to 35.2 million by the year 2000.⁴

Projections such as this do not seem far-fetched, as access to the Internet constantly becomes less expensive. From sub-\$1,000 computers to less expensive Internet Service Providers,⁵ the costs of connecting to the millions of entertainment and information Internet sites become lower every month.

DIRECT BROADCAST SATELLITE (DBS) SERVICES

Direct-to-home satellite services have been around for several years, first services using the very large dishes and the C-Band spectrum, and only recently the smaller dish (1 meter) Ku-band services. The recent growth has been remarkable. According to the most recent data, there are 9.1 million subscribers to satellite services, with 2 million new subscribers in just the last year.⁶ Of those over nine million subscribers, 7.1 million of those subscribe to the smaller dish Ku-band services. These Ku-band services offer over

³ The markets examined are the 211 Nielsen DMAs. Every county in the continental U.S. is assigned to one and only one television market based on viewing patterns in that county. At the time of this analysis, the Fairbanks and Anchorage markets only encompass five Alaskan counties. Finally, Puerto Rico is not included in any Nielsen television market.

⁴ These estimates are from Jupiter Communications (www.citynets.com/cmp/presentations/internethouseholds1.html)

⁵ Over ninety percent of the US population has easy access to a competitive Internet access market, ...", T. Downes, Tufts University & S. Greenstein, Northwestern University, "Universal Access and Local Commercial Internet Markets," June 8, 1998.

⁶ SkyTRENDS 1998, Media Business Corp., Golden, CO.

a hundred different video and audio channels, providing competing and complementary video programming to cable services.

TV BROADCAST SIGNALS

The number of over-the-air television broadcast stations on air has increased dramatically, 19.7% from June of 1987, to a total of 1,576 commercial and non-commercial stations.⁷ This number is actually an understatement of the number of over-the-air television signals available for there are also presently 2,074 low power television stations on air.⁸

When viewed on market level basis, some markets have seen substantial increases in the number of television stations available over-the-air. Figure 1 shows the weighted average⁹ of licensed television stations within the nine groupings of television markets. Across all television markets, the weighted average is 12.4 television stations.

In almost all market groupings, the average number of television stations in the market has increased noticeably. In fact, in the smallest markets, the number increased by over 30%, with the average market in DMA rank 201 and above now having more than four television stations.¹⁰

⁷ The 1998 number of television stations comes from the FCC as reported in *Broadcasting & Cable*, July 8, 1988, p. 49. The 1987 value of 1,317 television stations is from the FCC's news release of June 15, 1987.

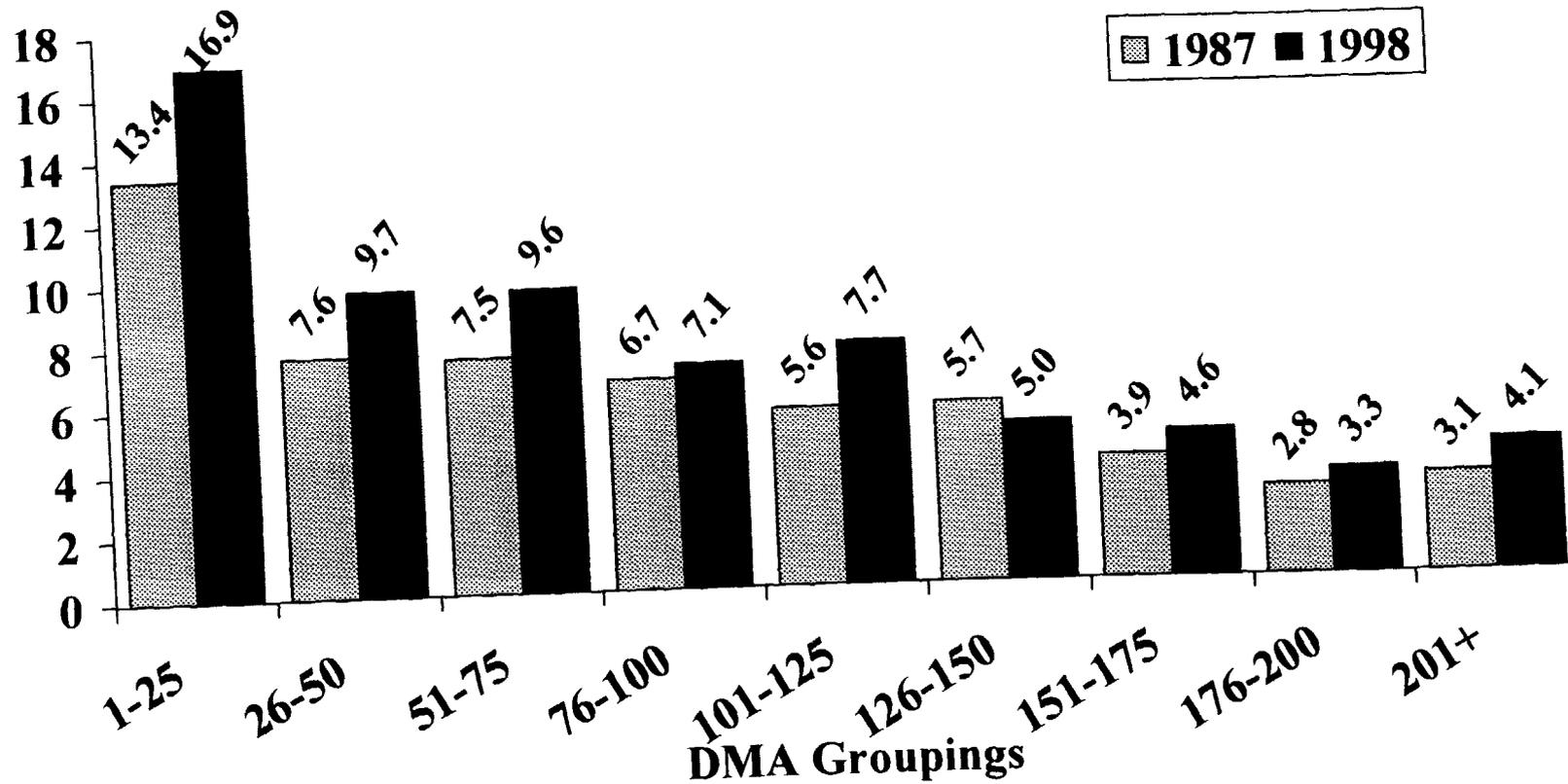
⁸ Low power television stations have seen an amazing 641% increase between 1987 and 1998. Ibid.

⁹ Within each market grouping, the weights applied correspond to the number of television households for each market. For example, Los Angeles has approximately 10.4% of all the television households in the top 25 markets, while Boston has 4.8%. In calculating DMA market size 1-25's weighted average, the number of television stations in the Los Angeles market will count more than twice as much as the number of television stations in the Boston market. In the mid-size and smaller market groupings, the relative weights of the different markets are very similar.

¹⁰ The only exception was for the market grouping 126-150, which saw a decrease. That decrease is due to the different markets that moved in and out of that grouping.

Figure 1

TV Broadcast Signals by DMA Grouping



Weighted Averages reflect market size in terms of television households.

RADIO BROADCAST SIGNALS

As with television broadcast signals, the number of radio stations nationally has risen dramatically since the earlier analysis. Presently, there are 12,276 radio stations on air, with 10,315 of those commercial stations.¹¹ This is a 16.7% increase from the 8,836 commercial stations on air in June of 1987.

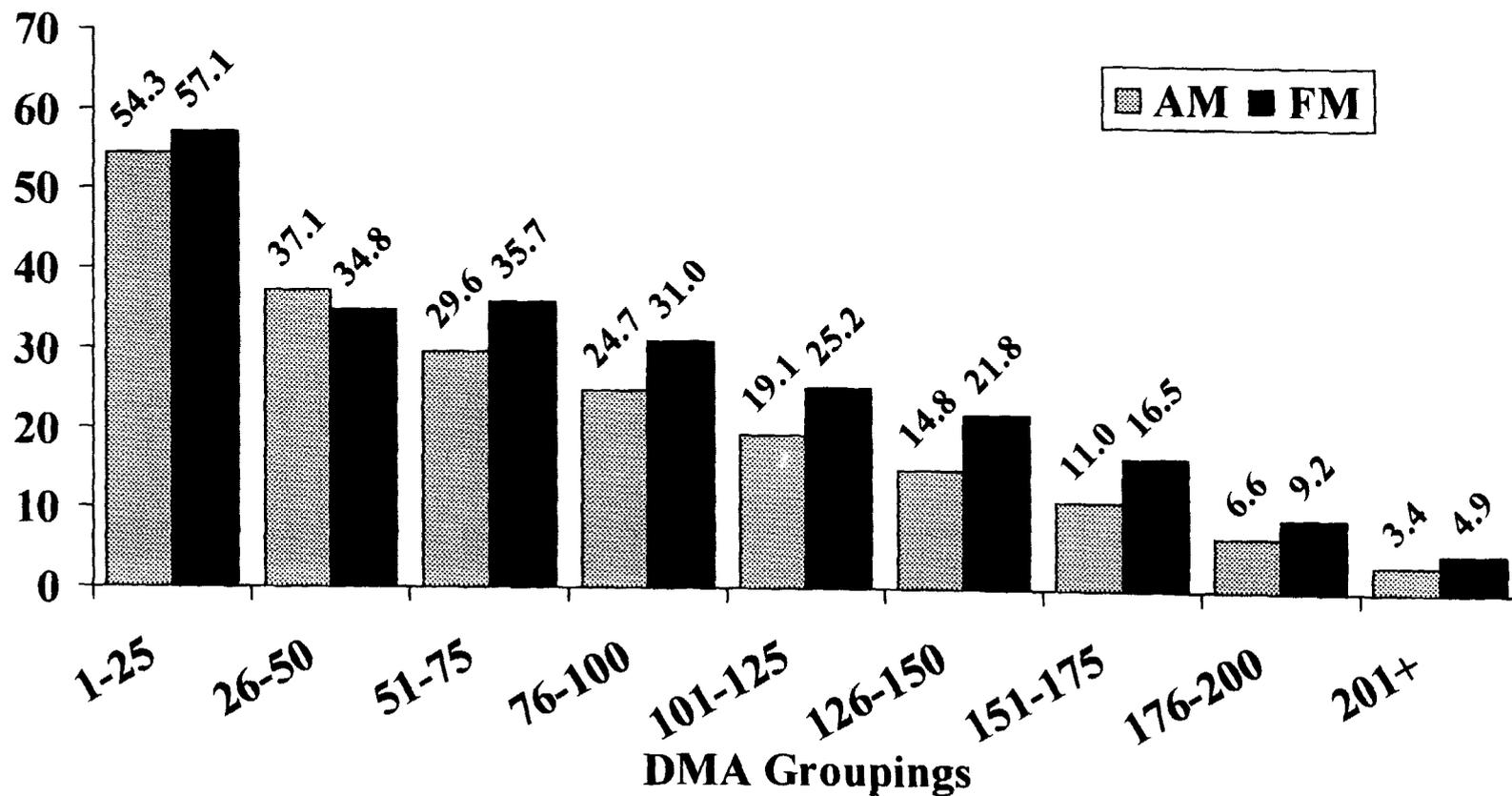
Figure 2 shows the weighted average of AM & FM commercial stations for the different market size groupings. The weighted average across all markets is 84.1 commercial radio stations. In the largest markets, there are over one hundred commercial radio stations licensed on average. Obviously as you move to the smaller markets, there are fewer stations, but even in the smallest markets, DMA rank 201 and larger, there are over eight radio stations.

These averages actually understate the number of available radio stations as they do not include non-commercial radio stations, for those data are not available on a television market basis. Comparisons cannot be made to the earlier study, as data on all radio stations within the entire DMA were not available at the time of that study.

¹¹ *Broadcasting & Cable*, July 8, 1988, p. 49 citing FCC data.

Figure 2

AM & FM Stations by DMA Grouping



Weighted Averages reflect market size in terms of television households.

Source: Results generated using information from BIA Master Data.

CABLE CHANNELS

Another source of increased information and entertainment options to the American public has been the expansion of cable services. This expansion has manifested itself in two forms, increased penetration and increased numbers of channels offered. Nationally, cable penetration increased from 50.5% in May of 1987 to 66.1% presently.¹²

Figure 3 shows the average cable penetration for the nine market groupings. All market groupings showed similar increases as the national value. Interestingly, the two market groupings that had the highest penetration values in 1998 were the two smallest market groupings, DMAs 176-200 and 201 and higher, with 68.1% and 71.5% penetration rates, respectively.

Figure 4 shows the average cable channels in use for the nine market groupings and compares those values to the earlier report values. To calculate each of the 211 television market values we weighted the cable channels in use by the number of subscribers for each of these systems.¹³ The weighted average across all markets was 65.8 channels in use.

In the earlier study, the channels in use were weighted by the number of homes passed by each cable system in each market. As most homes are now passed,¹⁴ weighting by subscribers provides a near equivalent measure of the cable channels presently available.

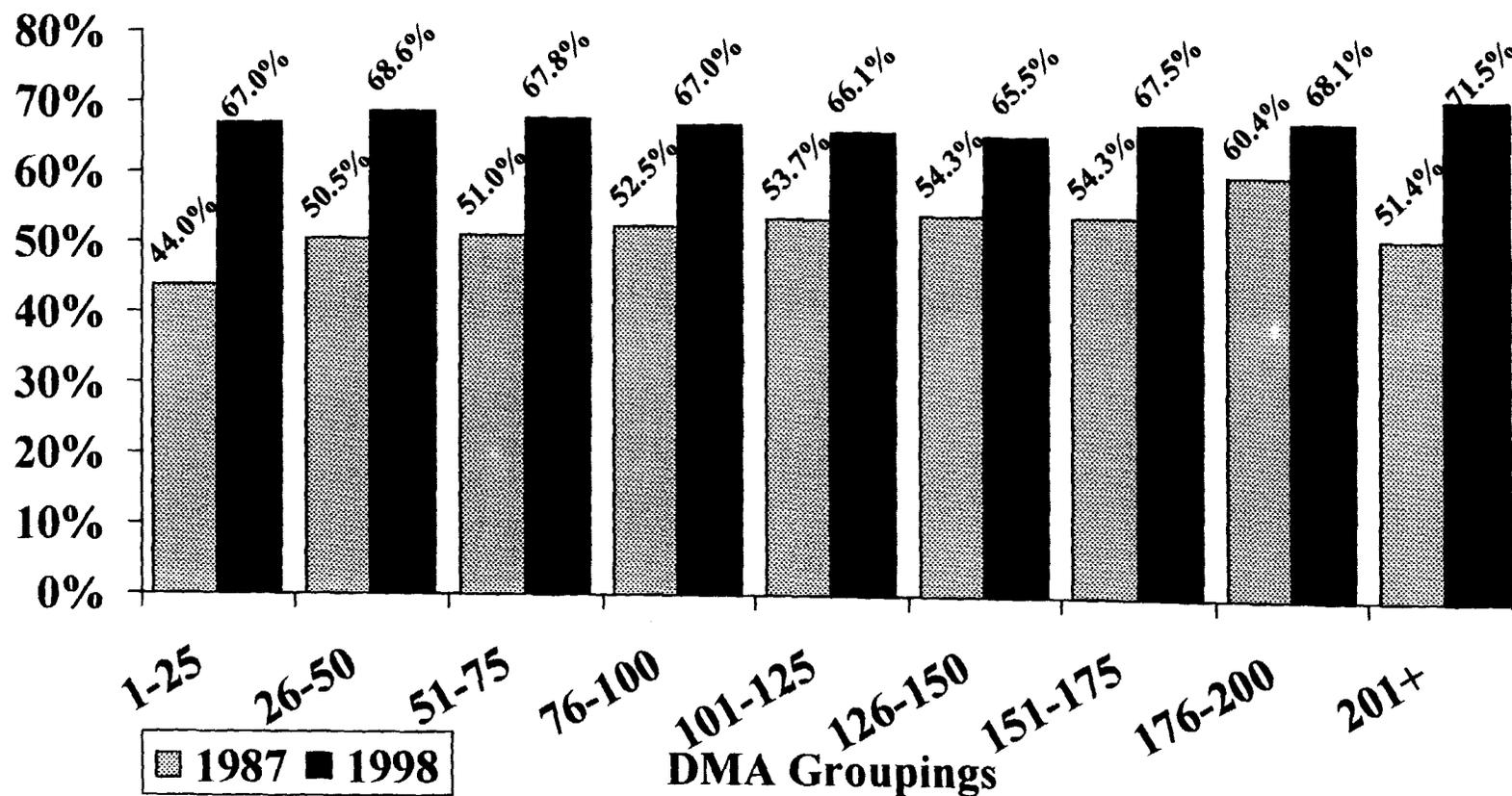
¹² May 1987 and February 1988 results are from Nielsen Media Research.

¹³ Data on cable channels in use for each of the systems in all 211 television markets were obtained Nielsen Media Research. They collect these data from the individual cable systems on a periodic basis.

¹⁴ The most recent data available show that 96.7% of all U.S. television household are passed by cable systems. *Cable Television Developments*, National Cable Television Association, Spring 1997.

Figure 3

Cable Penetration by DMA Grouping

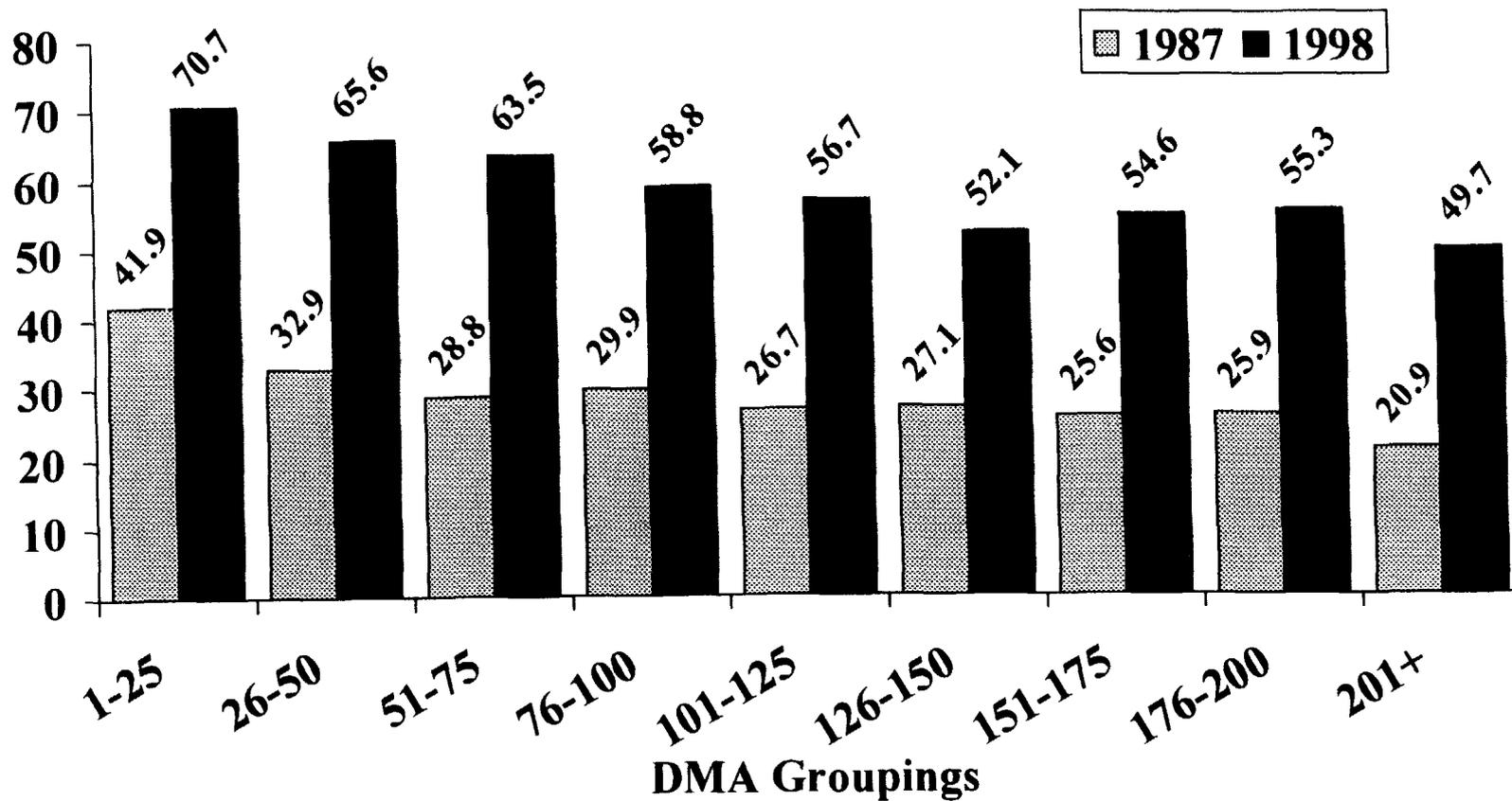


Weighted Averages reflect market size in terms of television households.

Source: Weighted averages are calculated using market level data from Nielsen Media Research.

Figure 4

Cable Channels In Use by DMA Grouping



Weighted Averages reflect market size in terms of television households.

Source: Results generated using information from Nielsen Cable On-line Data Exchange (CODE).

NEWSPAPERS – DAILY & WEEKLY

In addition to electronic media, printed materials also offer a variety of diverse voices. Newspapers, printed locally or elsewhere, provide an alternative source of information and entertainment.

We examined the availability of daily newspapers using three different measures, as shown in Figure 5.¹⁵ The All Newspaper average for the nine market groupings represent all daily newspapers in each market that reach at least 1,000 in circulation. Across all markets, the weighted average is 18.3 newspapers that reach 1,000 or more in circulation. The DMA Newspaper average represents all daily newspapers in each market that reach at least 1,000 in circulation **and** are published within that television market. The weighted average across all markets for DMA Newspapers is 13.6. Finally, the 5% Newspaper average represents all daily newspapers in each market that reach at least 1,000 in circulation **and** have at least a 5% penetration in that market. The weighted average across all markets is 2.9 newspapers that meet the circulation and penetration criteria.

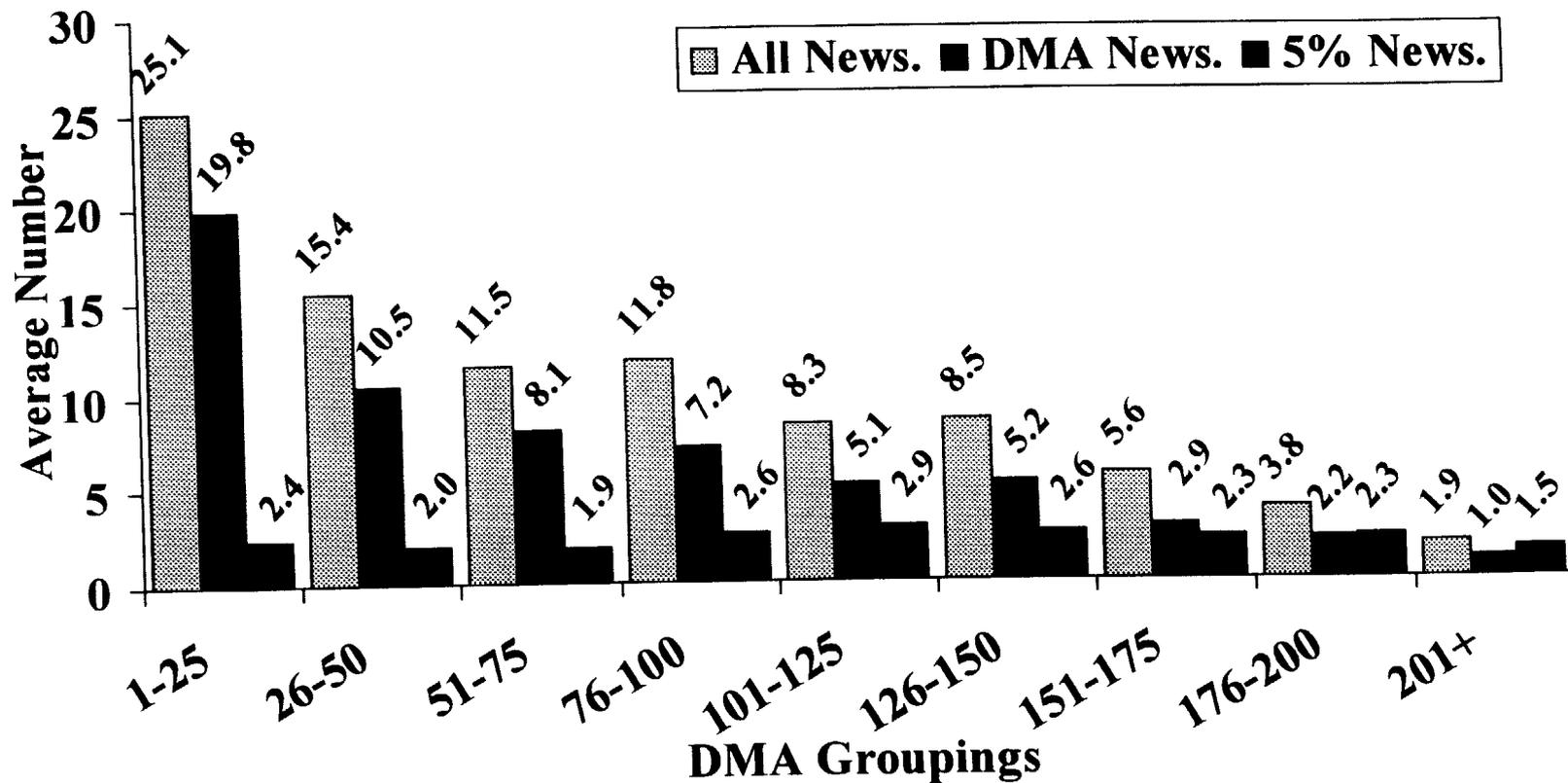
The circulation and penetration criteria were the ones used in the earlier study and, thus, the results can be compared, as is done in Figure 6. Most market groupings experienced slight decreases in the number of newspapers reaching 5% penetration, except for the three smallest market size groupings, DMAs 151-175, 176-200 and 201 and higher.

In addition to daily newspapers, weekly newspapers in many markets provide a widely read source of information and entertainment. Figure 7 shows the average value for weekly newspaper penetration for the nine market groupings. The weighted average across all markets is 23.6% penetration of weekly newspapers. In the largest markets that penetration is only one-fifth of the households, while in some of the mid-size and smaller markets that penetration is nearly double that value.

¹⁵ All newspaper circulation data are from *Circulation 87* and *Circulation 98*, SRDS, Des Plaines, IL.

Figure 5

Daily Newspapers by DMA Grouping

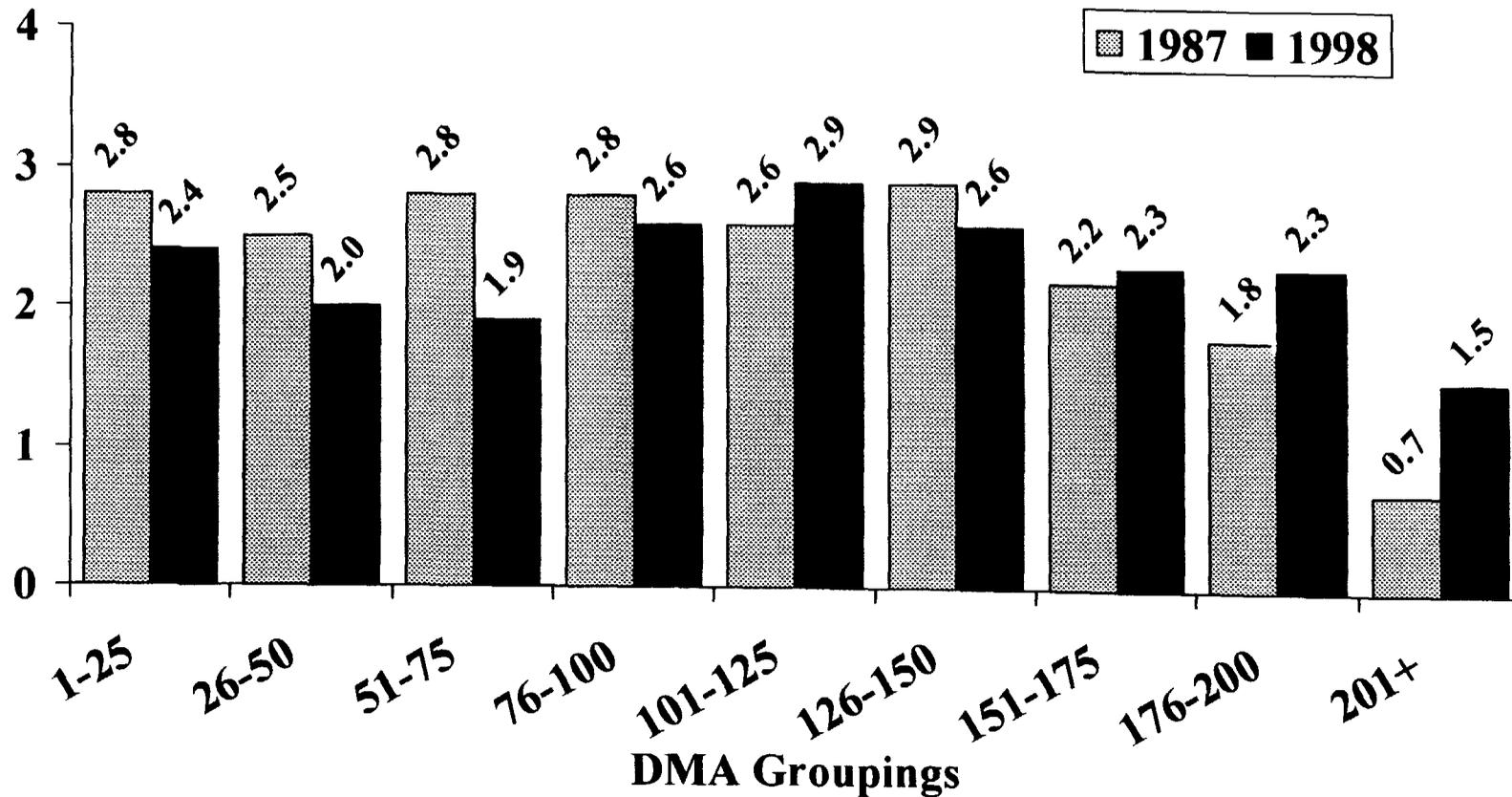


Weighted Averages reflect market size in terms of television households.

Source: Results generated using information from *Circulation 98*, SRDS.

Figure 6

Daily Newspapers with 5% Penetration by DMA Grouping

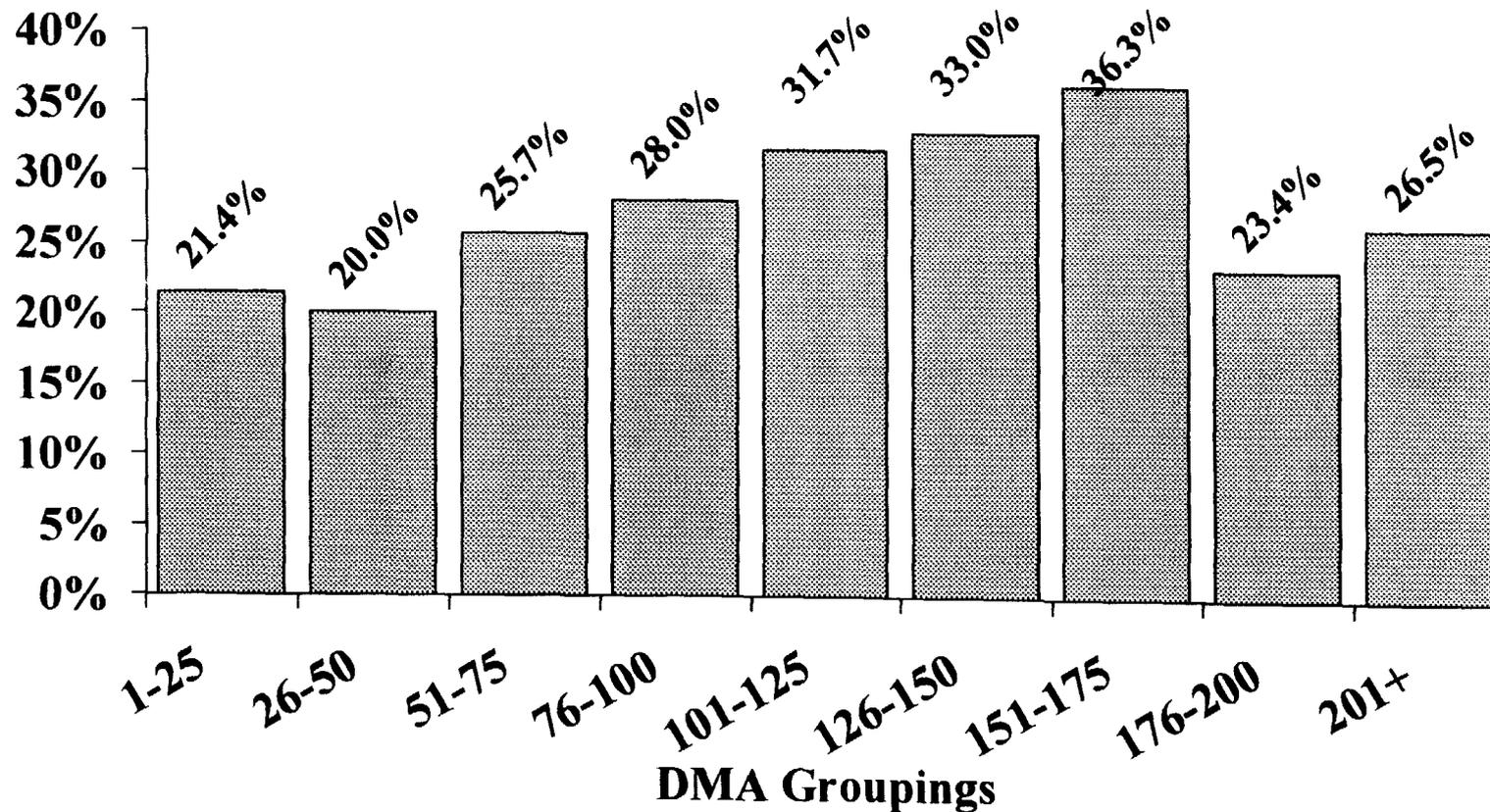


Weighted Averages reflect market size in terms of television households.

Source: Results generated using information from Nielsen Cable On-line Data Exchange (CODE).

Figure 7

Weekly Newspapers Circulation by DMA Grouping



Weighted Averages reflect market size in terms of television households.

Source: Results generated using information from *Circulation 98*, SRDS.

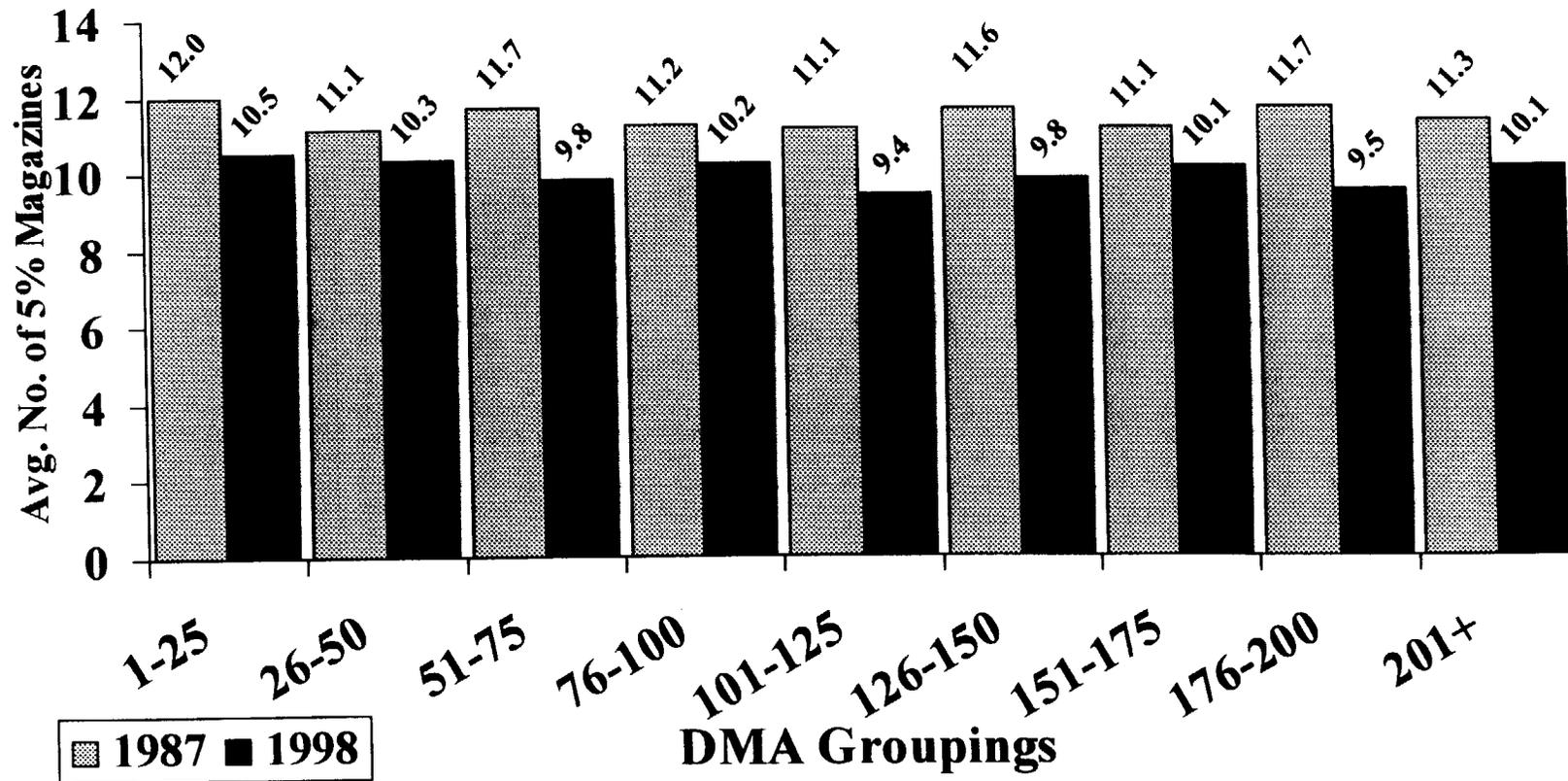
MAGAZINES

Another important source for information and entertainment is national magazines. Figure 8 shows the average number of magazines in the nine market groupings for both 1987 and 1998 that achieve at least a 5% penetration in each television market. Across all markets, the weighted average is 10.2 magazines which achieve the 5% penetration threshold. These values understate the actual number of magazines widely read by the American public because the data on magazines are only available for the 25 leading national magazines. Other national, regional and local magazines, which could easily have a wide following in a particular television market (e.g., *Washingtonian* in the Washington, D.C. DMA), are not reported.

The number of magazines that reach a 5% penetration has decreased in all market sizes between the two study periods. There is also very little difference in the average number with all market size groupings having 10 magazines reaching that threshold penetration value.

Figure 8

Magazines with 5% Penetration By DMA Grouping



Weighted Averages reflect market size in terms of television households.

Source: Results generated using information from *Circulation 98*, SRDS.

VCR PENETRATION

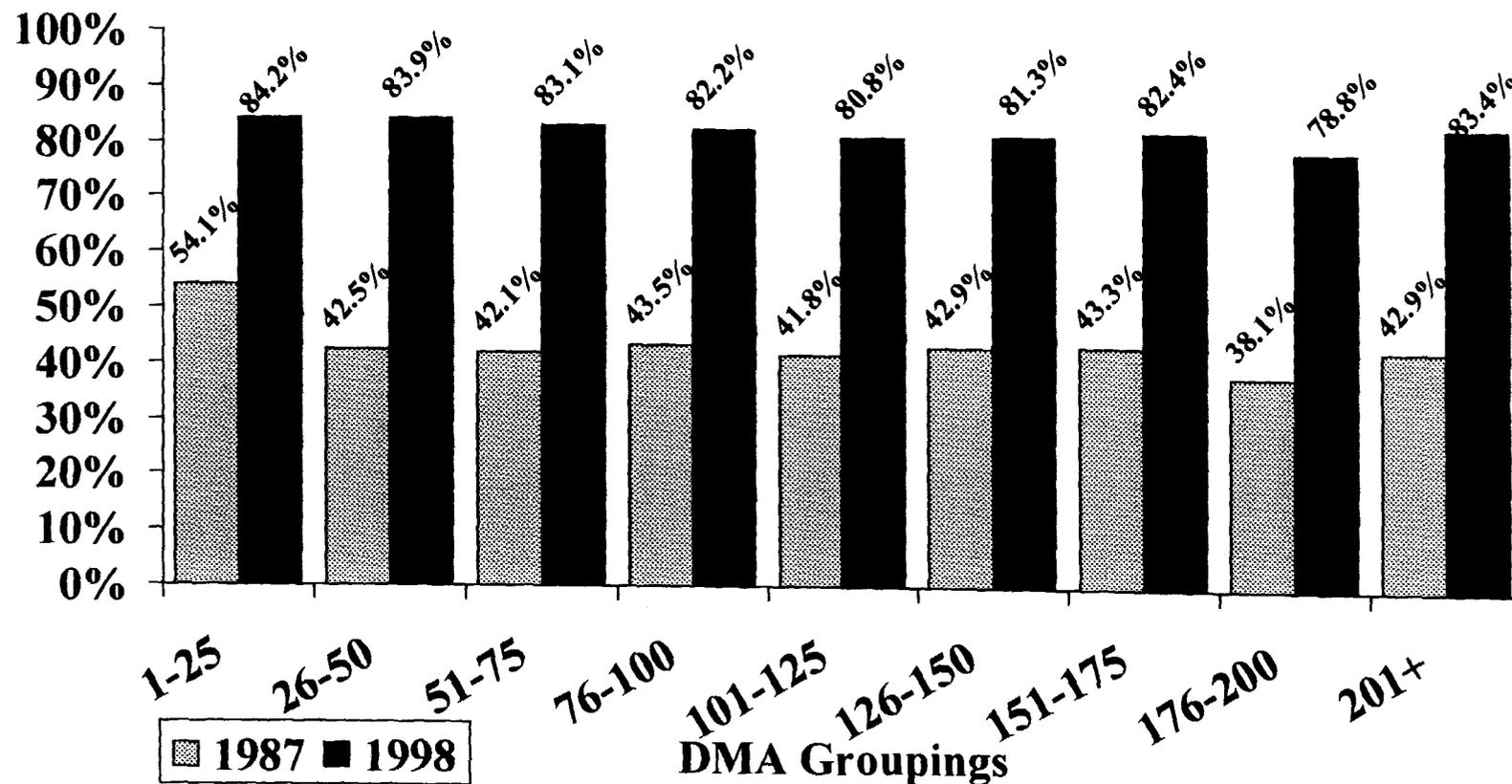
Even at the time of the earlier study, the number of households that had at least one VCR was growing very quickly with 48.7% of all households by 1987¹⁶. That rapid rise continued with 84.2% of all television households having at least one VCR. Figure 9 shows the average VCR penetration for the nine market groupings for both 1987 and 1998.

All market groupings experienced dramatic increases, with several groupings doubling in VCR penetration rates. Clearly, VCRs provide a widespread source of information and entertainment throughout the country.

¹⁶ VCR penetration values are from Nielsen Media Research.

Figure 9

VCR Penetration by DMA Grouping



Weighted Averages reflect market size in terms of television households.

Source: Nielsen Media Research.

CONCLUSION

For anyone who has been monitoring the communications industries, the data presented above should not come as a surprise. It is hard to read the popular and relevant trade presses without seeing every week or every month some report on the growth of the various media. Moreover, it is hard not to see in these same magazines and newspapers reports on the incredible growth of the non-traditional media (e.g., DBS and Internet services) in just the past few years. Americans now have an incredibly long parade of choices for information and entertainment.

What this report demonstrates is simply that this national parade goes through each and every Main Street in the country. People in all market sizes have now available to them more television and radio stations, increasingly subscribe to larger capacity cable systems, continue to read daily and weekly newspapers, subscribe to many national magazines, and own at least one video cassette recorder. Further, people in all market sizes are increasingly subscribing to digital broadcast satellite services offering hundreds of channels, and are connecting via continually less expensive means to the Internet, opening up millions of new sources of information and entertainment. Americans throughout the country truly live in an information rich society.

Appendix B

**A Study to Determine Certain Economic Implications
Of Broadcasting/Newspaper Cross-Ownership**

**A STUDY TO DETERMINE CERTAIN ECONOMIC IMPLICATIONS
OF BROADCASTING/NEWSPAPER CROSS-OWNERSHIP**

**Prepared for:
The National Association of Broadcasters
July 21, 1998**

**A STUDY TO DETERMINE CERTAIN ECONOMIC IMPLICATIONS
OF BROADCASTING/NEWSPAPER CROSS-OWNERSHIP**

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**A STUDY TO DETERMINE CERTAIN ECONOMIC IMPLICATIONS
OF BROADCASTING/NEWSPAPER CROSS-OWNERSHIP**

I. INTRODUCTION

Scope of the Study

Bond & Pecaro, Inc. has been retained by the National Association of Broadcasters ("NAB") to determine certain economic implications of broadcasting/newspaper cross-ownership. Currently, regulations administered by the Federal Communications Commission ("FCC") restrict the ownership of daily newspapers and broadcast stations in the same market areas. This study will address the economic efficiencies and associated benefits which may result from such cross-ownership.

The objective of this study is to measure certain economic advantages that would accrue to a newly-combined newspaper and broadcasting entity in small, medium and large market areas. In each market type, the combination of a newspaper with both a television station and a radio group was considered, for a total of six analyses. A large market was defined as one ranked 20 or above by Nielsen Media Research ("Nielsen") in the case of television, and The Arbitron Company ("Arbitron") in the case of radio.^{1/} A medium market was ranked 21 to 100, while markets ranked 101 and above were considered small markets. Large market newspapers corresponded to those with approximate daily circulations in excess of 80,000, while medium and small market

^{1/} Nielsen Media Research and The Arbitron Company compile and analyze audience data for radio and television markets.

newspapers were classified as having circulations between 20,000 and 80,000 and below 20,000, respectively.

Methodology

A number of specific tasks were necessary to complete this analysis. These included:

1. The collection of financial data regarding the financial performance of newspaper, television, and radio properties in markets of various sizes.
2. The compilation of this data into nine "base-case" income statements representing the financial performance of typical newspaper, television, and radio properties in small, medium, and large markets.
3. Independent research regarding the potential economies and associated benefits which might result from combining newspaper and broadcasting operations in each market. This included trade press research and interviews with senior financial executives in the newspaper, radio, and television industries.
4. The application of these findings to adjust the "base case" income statements to reflect the revenue enhancements, cost savings, and related changes which could be expected to result from newspaper/broadcasting cross-ownership.
5. The formulation of conclusions from these analyses.

The use of a qualitative, rather than a quantitative approach to measure economic efficiency is appropriate in this case because, due to existing regulations and economic practices, few meaningful examples of integrated newspaper-broadcasting operations exist.

The measure of economic efficiency employed in this report is operating cash flow.^{1/} Operating cash flow is the most prevalent measure of operating efficiency in the communications and media industries, and is the starting point for a variety of methods of calculating value, such as the discounted cash flow analysis and the cash flow multiple approach.^{2/}

This analysis was complicated by the fact that newspapers and broadcast stations have different financial reporting practices. For example, many newspapers combine news and other editorial expenses, whereas broadcast stations typically separate accounts for news expenses. Similarly, newspaper technical and sales expenses may be combined within the general and administrative expense category, whereas they are commonly separated by broadcasters. In this analysis, an effort was made to group newspaper and broadcasting expense items for purposes of comparability.

^{1/} For the purposes of this analysis, operating cash flow is defined as revenues minus expenses, not including interest, depreciation, amortization, income taxes, and other "non-cash" expenses not directly related to operations. This measure of operating efficiency is not affected by debt, tax matters, and similar non-operating factors.

^{2/} A common media industry valuation benchmark, the cash flow multiple, involves dividing a business' purchase price or value by its operating cash flow. A radio station with \$100,000 of cash flow which sells for \$1,000,000 would have an indicated cash flow multiple of ten.

The base-case broadcast and newspaper income statement data were drawn from a number of sources. These include the Inland Press Association's 1997 Cost and Revenue Study for Daily Newspapers; James H. Duncan, Jr.'s Radio Market Guide, 1998 Edition; the National Association of Broadcasters and Broadcast Cable Financial Management Association 1997 Television Financial Report; Editor & Publisher International Yearbook, 1998; Broadcasting & Cable Yearbook, 1998; and other industry sources. Also relied upon was Bond & Pecaro's experience in the appraisal and financial analysis of over 2,500 television, radio, newspaper, and related media businesses.

**A STUDY TO DETERMINE THE ECONOMIC IMPLICATIONS
OF BROADCASTING/NEWSPAPER CROSS-OWNERSHIP**

II. EXECUTIVE SUMMARY

Based upon the findings herein, several conclusions are evident. These include the following:

1. In cases where newspaper/broadcast cross-ownership exists due to the "grandfathering" provisions of current regulations, owners have almost invariably chosen to keep operations of these businesses separate. This decision has two motivations. The first is a prevailing philosophy that certain operations are more efficiently run on a separate basis. The second relates to concerns that combined operations might impede compliance with future and existing regulations. Additionally, the consolidation of operations could complicate any future efforts to divest either the newspaper or the broadcasting operation.
2. Current practice notwithstanding, it appears that relaxation of the broadcasting/newspaper cross-ownership restrictions would have a positive economic impact upon these businesses. Specifically, operating cash flow could increase between 9% and 22%, depending upon market size and the configuration of the business combination.
3. Cross-ownership efficiencies would not be distributed equally across station types and market sizes. The benefits would be most significant in absolute terms to large market television stations, which maintain large news infrastructures, and in proportional terms to small market radio stations, where even small cost savings can create a sharp increase in operating profits.
4. In many instances, it appears that management of commonly owned properties would continue to maintain separate business operations, particularly in sales. Many managers believe that competing sales forces will generate greater revenues than a consolidated one.