Medium Market Radio/Newspaper

In the medium market scenario, it was again assumed that the radio property would consist of a group of three to five stations. In this case, the revenues associated with the radio operation are still less than half of those of the newspaper. On a stand-alone basis, the radio property generates operating cash flow of $2.0 million, while the newspaper generates $4.8 million, reflecting very similar operating cash flow margins of 28.3% and 26.1%, respectively. Unadjusted combined cash flow is $6.9 million, representing an operating margin of 26.7%, as shown in Table 6.

The medium market revenue benefit is projected to be less than 1%. Expense savings are more significant, averaging over 5% in the sales, advertising and promotion, and general and administrative categories. Although the increase of $849,400 in operating cash flow is less than one-sixth of that quantified in the large market radio scenario, the proportional impact is greater. Operating cash flow increases by 12.4%, compared to 8.6% in the large market scenario.

Table 6

Economic Analysis of Medium Market Radio/Newspaper Combination

(Dollar Amounts Shown in Thousands)

	Standalone Radio Operation	Standalone Newspaper Operation	Unadjusted Combined Operation	Revenue Benefit/ Cost Saving	Adjusted Combined Operation	Percentage Change
Revenues						
Total Advertising Revenue	$7,660.7	$12,510.7	$20,171.4	$161.4	$20,332.8	0.8%
Circulation	0.0	4,366.4	4,366.4	0.0	4,366.4	0.0%
Other Revenue	0.0	1,591.9	1,591.9	0.0	1,591.9	0.0%
Total Revenues	$7,660.7	$18,469.0	$26,129.7	$161.4	$26,291.1	0.6%
Net Revenues	$7,213.7	$18,469.0	$25,682.7	$158.6	$25,841.3	0.6%
Operating Expenses						
Editorial/News/Programming	$1,473.8	$1,988.6	$3,462.4	($173.1)	$3,289.3	-5.0%
Engineering/Technical	239.1	0.0	239.1	0.0	239.1	0.0%
Production/Printing	0.0	4,868.3	4,868.3	0.0	4,868.3	0.0%
Circulation	0.0	1,626.5	1,626.5	0.0	1,626.5	0.0%
Advertising/ Sales/ Promotion	2,101.8	1,484.9	3,586.7	(215.2)	3,371.5	-6.0%
General and Administrative	1,359.8	3,681.6	5,041.4	(302.5)	4,738.9	-6.0%
Total Operating Expenses	$5,174.5	$13,649.9	$18,824.4	($690.8)	$18,133.6	-3.7%
Operating Cash Flow	$2,039.2	$4,819.0	$6,858.3	$849.4	$7,707.7	12.4%
Operating Cash Flow Margin	28.3%	26.1%	26.7%		29.8%	

Small Market Radio/Newspaper Combination

In the small markets studied, the local newspapers typically generate approximately $4.0 million in revenues, compared to $2.5 million for the radio operation, as indicated in Table 7. On a stand-alone basis, the profitability of these radio and newspaper operations is almost identical, with margins of 17.7% and 18.3%, respectively. Unadjusted combined operating cash flow is approximately $1.2 million, reflecting a margin of 18.1%.

Given the spending patterns of small market advertisers and the smaller staffs which typify both operations, the potential savings from a combination, in gross dollar terms, are limited. However, in relative terms, these savings could yield significant increases in profitability.

As indicated in Table 7, the net advertising revenue benefit of 0.8% corresponds to only $41,600, while expense savings average 4.1% and aggregate to $218,800. The total increase in operating cash flow is $258,600, or 21.8%.

Table 7

Economic Analysis of Small Market Radio/Newspaper Combination

(Dollar Amounts Shown in Thousands)

	Standalone Television Operation	Standalone Newspaper Operation	Unadjusted Combined Operation	Revenue Benefit/ Cost Saving	Adjusted Combined Operation	Percentage Change
Revenues						
Total Advertising Revenue	$2,829.3	$2,374.6	$5,203.9	$41.6	$5,245.5	0.8%
Circulation	0.0	856.4	856.4	0.0	856.4	0.0%
Other Revenue	0.0	795.2	795.2	0.0	795.2	0.0%
Total Revenues	$2,829.3	$4,026.2	$6,855.5	$41.6	$6,897.1	0.6%
Net Revenues	$2,532.4	$4,026.2	$6,558.6	$39.8	$6,598.4	0.6%
Operating Expenses						
Editorial/News/Programming	$616.5	$457.4	$1,073.9	($64.4)	$1,009.5	-6.0%
Engineering/Technical	75.1	0.0	75.1	0.0	75.1	0.0%
Production/Printing	0.0	1,301.7	1,301.7	0.0	1,301.7	0.0%
Circulation	0.0	350.7	350.7	0.0	350.7	0.0%
Advertising/ Sales/ Promotion	703.9	365.3	1,069.2	(64.2)	1,005.0	-6.0%
General and Administrative	689.1	814.8	1,503.9	(90.2)	1,413.7	-6.0%
Total Operating Expenses	$2,084.6	$3,289.9	$5,374.5	($218.8)	$5,155.7	-4.1%
Operating Cash Flow	$447.8	$736.3	$1,184.1	$258.6	$1,447.7	21.8%
Operating Cash Flow Margin	17.7%	18.3%	18.1%		21.9%	

STATEMENT OF LIMITING CONDITIONS

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This analysis has been prepared for the NAB in connection with its planning and regulatory requirements. All information and conclusions contained in this report are based upon the best knowledge and belief of the authors, whose qualifications are attached hereto.

EXHIBIT A

STATEMENT OF LIMITING CONDITIONS

EXHIBIT B

QUALIFICATIONS OF TIMOTHY S. PECARO, JOHN S. SANDERS, AND JEFFREY P. ANDERSON

PROFESSIONAL EXPERIENCE AND QUALIFICATIONS

TIMOTHY S. PECARO

Timothy S. Pecaro is a principal in the firm of Bond & Pecaro, Inc., a Washington based consulting firm specializing in valuations, asset appraisals, and related financial services for the communications industry. Before the formation of Bond & Pecaro, Inc., Mr. Pecaro was a Vice President with Frazier, Gross & Kadlec, Inc. Mr. Pecaro joined that firm in 1980 and was named Manager of the firm's Asset Appraisal Services Division in 1982. He became Director of Asset Appraisal Services in 1983 and Vice President of the firm in 1984.

Mr. Pecaro has actively participated in the development, research, and preparation of appraisal reports for owners of radio, television, cable, newspaper, radio common carrier, and telecommunications properties. He has also developed several research studies and has participated in special research at the Federal Communications Commission (FCC).

Mr. Pecaro has appraised the assets of more than 2,000 communications facilities. He has also been retained to provide special market studies and individual research projects for the management of media properties and related industries. He is a director of the Broadcast Cable Financial Management Association, Co-chairman of the association's Cable Television Committee, and a member of the Tax Committee. Mr. Pecaro is also a member of The National Association of Broadcasters (NAB) Tax Advisory Panel and Depreciation Task Force. Mr. Pecaro has testified as an expert witness in connection with telecommunications valuation matters before federal, state, and local courts; the FCC; and the Joint Committee on Taxation. He has also spoken on communications financial issues at the annual conferences of the National Association of Broadcasters, the Broadcast Cable Financial Management Association, and Telocator. Additionally, Mr. Pecaro has been a guest lecturer at the University of Missouri School of Journalism.

Prior to his association with Frazier, Gross & Kadlec, Mr. Pecaro was employed at WMAQ and WKQX(FM) in Chicago, Illinois, two of the NBC owned and operated radio stations.

Mr. Pecaro received a Bachelor of Arts degree in Radio/Television Communication Arts from Monmouth College in 1976. He graduated Cum Laude with highest honors in his major field of study.

PROFESSIONAL EXPERIENCE AND QUALIFICATIONS

JOHN S. SANDERS

John S. Sanders is a principal in the firm of Bond & Pecaro, Inc., a Washington based consulting firm specializing in valuations, asset appraisals, and related financial services for the communications industry. Prior to his association with Bond & Pecaro, Inc., Mr. Sanders was Manager, Appraisal Group, with Frazier, Gross & Kadlec, Inc. He worked for that firm in various analytical and managerial positions between 1982 and 1986.

Mr. Sanders has been actively involved in both fair market valuations and asset appraisals of over 1,000 television, radio, hardline and wireless cable, radio common carrier, newspaper and related communications businesses. He has also assumed primary responsibility for a number of expert testimony and similar special projects, including economic analyses of specific communications industry issues.

Mr. Sanders has spoken on financial issues for the Cellular Telecommunications Association (CTIA), the Personal Communications Industry Association ("PCIA"), the National Association of Broadcasters (NAB), the Broadcast Cable Financial Management Association, the Telecom Publishing Group, and other organizations. His commentaries have also been published in the trade press, including Cellular Business, PCIA Journal, Open Channels, Broadcasting, and Communications magazines and the Broadcast Financial Journal. He has been interviewed by publications including The Washington Post, The Orlando Sentinel, Communications, PCS News, and Telephony. He has served as a member of the PCIA's Program and Education Committee and Chairman of its Finance Subcommittee.

Mr. Sanders received a B.A. Cum Laude in Economics and International Studies (Honors) from Dickinson College. He also holds a Masters Degree in Business Administration from the University of Virginia in Charlottesville, Virginia.

PROFESSIONAL EXPERIENCE AND QUALIFICATIONS

JEFFREY P. ANDERSON

Jeffrey P. Anderson is a principal in the firm of Bond & Pecaro, Inc., a Washington based consulting firm specializing in valuations, asset appraisals, and related financial services for the communications industry.

Prior to joining the firm, Mr. Anderson worked as a Financial Analyst with Frazier, Gross, & Kadlec, Inc. As Financial Analyst, he actively coordinated and prepared asset appraisals for various radio, television, and CATV clients. Mr. Anderson also performed research and support work during client IRS audits. During the summer before completion of graduate studies, he worked as a Summer Associate in support of the Asset Appraisal Group.

From 1981 to 1983, Mr. Anderson worked as a Cost Analyst with General Foods Corporation. His duties included productivity and capital budgeting analysis.

Mr. Anderson received the Master of Business Administration degree at the Colgate Darden School of Business Administration at the University of Virginia in 1985. In 1981, he received a B.A. in Economics from the College of William and Mary.

Appendix C

The “UHF Penalty” Demonstrated

The "UHF Penalty" Demonstrated

Stephen E. Everett, Ph.D.

Director
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National Association of Broadcasters

July, 1998

Introduction

Do people at home watch a UHF network affiliate less, just because it's a UHF station? The findings reported here suggest the answer is "yes" – even after considering other factors that might enter into the mix, such as a station's network and its DMA rank.

Viewing data gathered in November, 1997, by Nielsen Media Research were analyzed for all Nielsen DMAs in an effort to identify systematic differences in viewing levels between UHF and VHF network affiliates (for the four major networks). In order to minimize programming differences from station to station, only prime-time ratings were included in this analysis. The research question: after controlling for possible intervening factors such as network programming line-up and market size, do UHF affiliates generate lower prime-time ratings than do VHF affiliates, on average? As a follow-up question, are VHF/UHF ratings differences related in any way to network affiliation or market size?

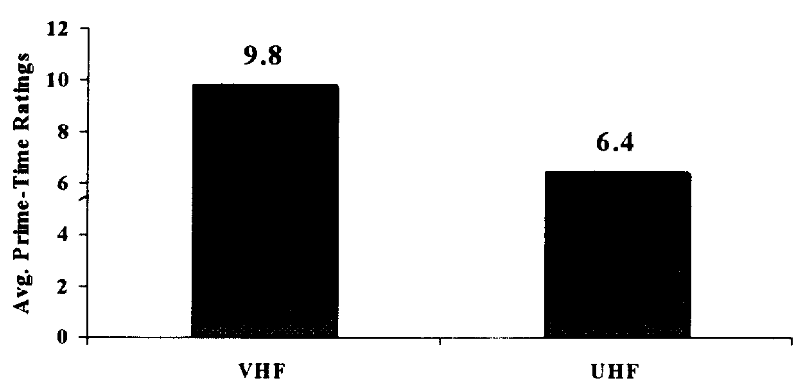
Data analysis was performed using Analysis of Variance (ANOVA).

Results

VHF Affiliates Draw Higher Ratings

As Figure 1 shows, the group of VHF affiliates from all markets in this analysis averaged a 9.8 prime-time rating, while UHF affiliates averaged only a 6.4 rating. This is strong evidence that the conceptual premise for the "UHF discount" remains in force and, consequently, the discount is justified.

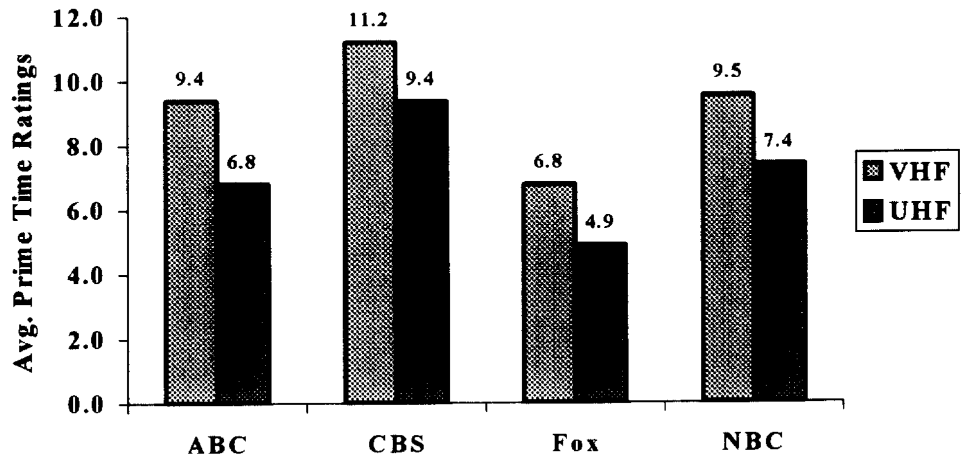
Figure 1
VHF/UHF Ratings Differences



"UHF Penalty" Worse for Some Networks

Figure 2 shows that the difference between VHF and UHF affiliates' average prime-time ratings is more pronounced for ABC and NBC affiliates than for CBS and Fox.[1]

Figure 2
Interaction Between VHF/UHF Status and Network Affiliation



When the mean ratings are adjusted through ANOVA for market size differences and the overall VHF/UHF difference, this result is even more pronounced:

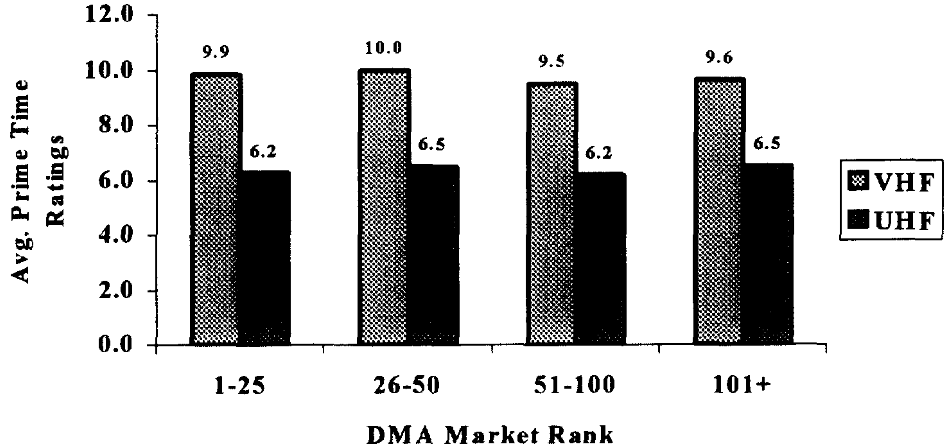
Affiliation	V/U Difference
ABC	3.1
NBC	3.6
CBS	1.2
Fox	1.0

[1] The average rating shown for each network is the unweighted mean of average ratings of affiliates for all DMAs (one average rating per affiliate in each DMA). As such, large and small markets have equal influence upon the national averages. Therefore these averages may not reflect the relative positions of the networks as commonly reported.

"UHF Penalty" Present Across All Market Sizes

As shown in Figure 3, the difference between VHF and UHF affiliates' prime-time ratings exists for all four market groups analyzed in this study. There are only very slight differences in the magnitude of these "UHF penalties" from market group to market group.

Figure 3
Interaction Between VHF/UHF Status and Market Size



Conclusion

The "UHF Penalty" apparently continues to exist. When we account for the statistical effects of market size and network affiliation – two factors reasonably expected to be related to prime-time ratings from station to station – strong evidence emerges to continue to support the notion that UHF affiliates draw lower ratings because they are UHF stations.

This "UHF Penalty" shows up across markets of different sizes and for all four networks. However, the penalty is greater for ABC and NBC affiliates. Perhaps the station affiliation changes between CBS and Fox in recent times, in which Fox picked up numerous new VHF affiliates while CBS signed new deals with UHF affiliates, is responsible for diluting the difference somewhat for these two networks. The difference still is there, however.

Appendix D

A Financial Analysis of the UHF Handicap

A FINANCIAL ANALYSIS OF THE UHF HANDICAP

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July 1998

A FINANCIAL ANALYSIS OF THE UHF HANDICAP

Introduction and Overview of Study

Within the television industry there is a noticeable distinction between those stations on the VHF and UHF bands. Due to technical properties, the coverage patterns of VHF stations generally are much larger than UHF stations. For a given service area, UHF stations have to use more power, thereby increasing their operating costs compared to VHF stations.

Given their inherent coverage disadvantages, UHF stations tend to attract smaller audiences than for their VHF counterparts, for the same programming.[1] With these smaller audiences, it easily follows that advertising revenues, pre-tax profits, and cash flows should be lower than comparative VHF stations. Of course, there are exceptions to this general conclusion, but we would expect to see a generally worse financial profile of UHF stations as compared to their VHF cohorts.

In this report we examine that hypothesis. Using data collected by NAB, Broadcast Cable Financial Management Association (BCFM), and Price Waterhouse, we can evaluate the past four years worth of data to determine whether UHF stations face a financial disadvantage.[2] These data are from an annual survey of all commercial television stations that attracts nearly a 70% response rate providing a reliable picture of the financial situation faced by commercial television stations.

To try and focus in on the impact of the UHF disadvantage we only examine affiliates of the four major networks – ABC, CBS, Fox, and NBC. By only looking at these stations we can compare stations with identical, or near-identical prime-time programming (assuming they clear a similar amount of their network programming). Comparisons are presented on a national historical basis for the years 1993-1996, by market size (Nielsen DMA) and affiliation type for the most recent year that data are available, 1996.

National Comparison

In Figure 1 we present the comparisons of all affiliates from the four major networks for the years 1993 through 1996. Three station's variables are compared – net revenues, pre-tax profits and cash flows. The averages for these two groups of stations are compared to generate the reported percentage.

The relative performance of UHF affiliates has improved in the four years shown, though they still suffer from a noticeable disadvantage, with the average UHF affiliate generating less than 50% of average VHF affiliate revenues, slightly more than a third of the cash flow and less than a quarter of the pre-tax profits.

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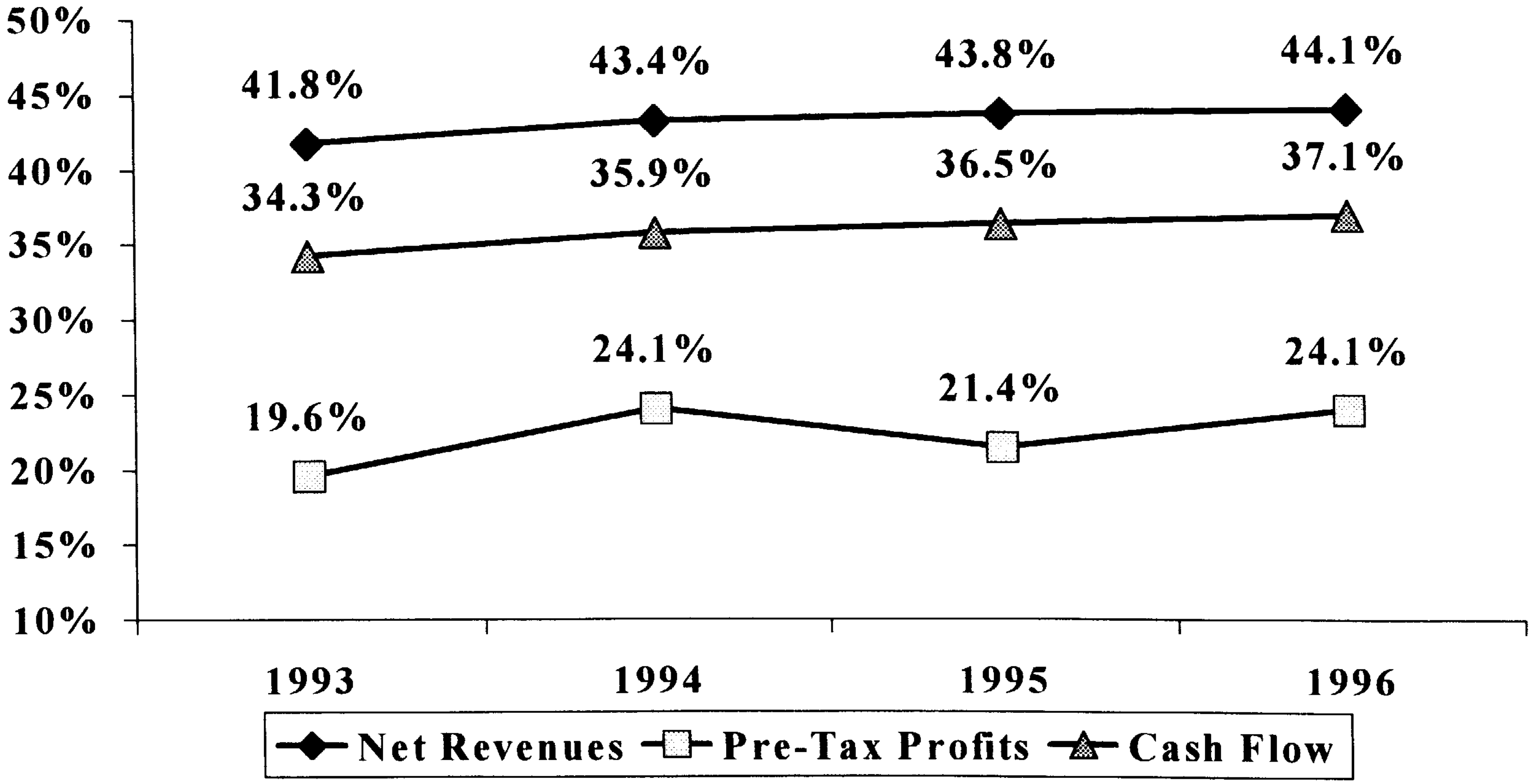
[1] See S. Everett, "The 'UHF Penalty' Demonstrated," Appendix C, Comments of the National Association of Broadcasters, in MM Docket 98-35.

[2] Unfortunately, the data from previous years (before 1993) are not available for easy analysis.

Figure 1
UHF Affiliates* Performance
as a Percentage of VHF Affiliates*



* Includes ABC, CBS, Fox & NBC affiliates

Source: 1994 - 1997 NAB/BCFM Television Financial Surveys.

Market Size Comparison

This disadvantage is evident when examined on a market size basis. Figure 2 shows the same comparative values for four market size groupings for 1996. What is particularly noticeable is that the disadvantage becomes less pronounced when you examine the smaller markets. In fact, in the smallest markets, DMA rankings 101 and above, the UHF affiliate generates only 20.3% less in revenues, 30.0% less in cash flow, and 32.7% less in pre-tax profits.

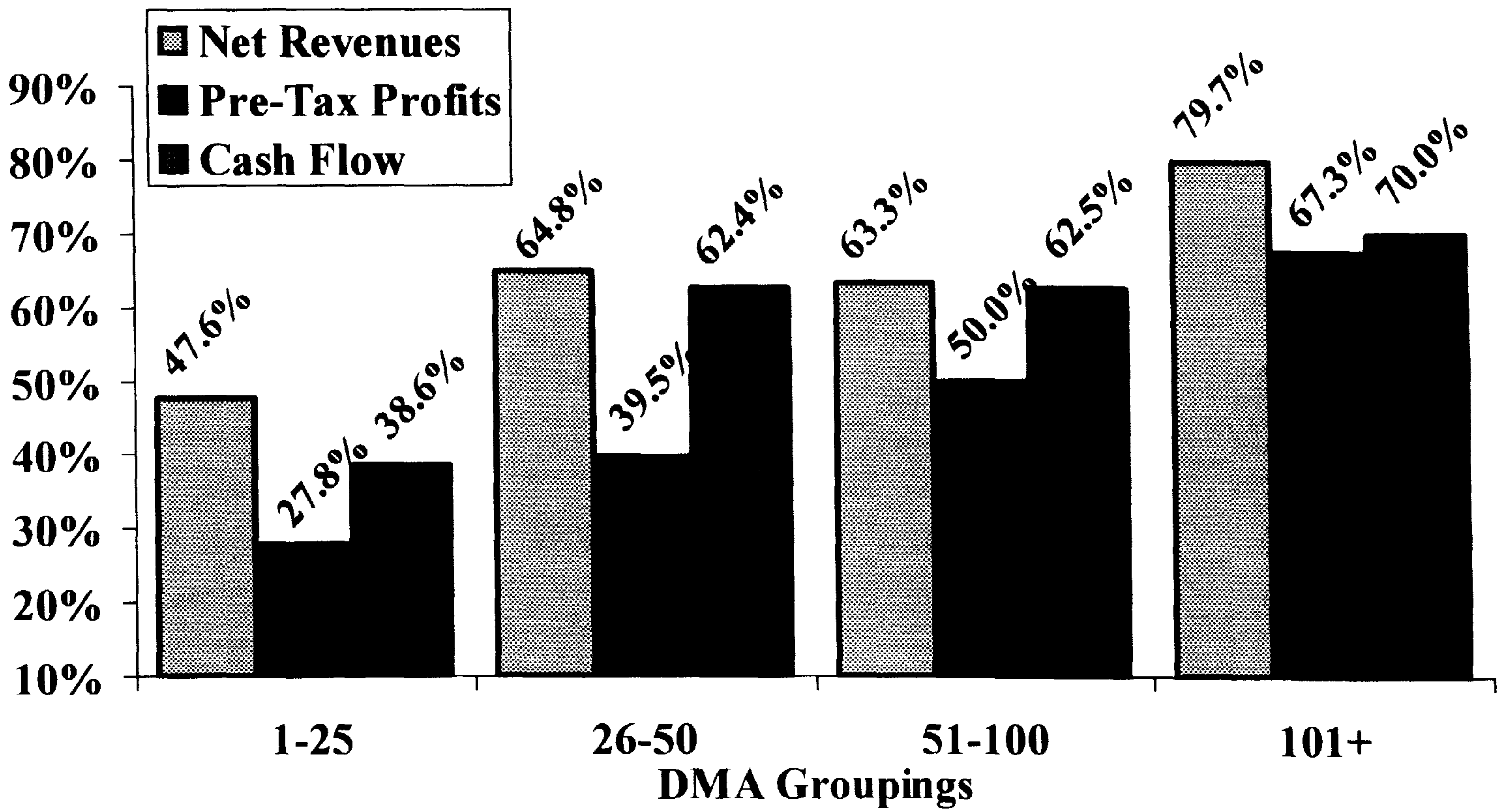
Affiliate Type Comparison

The final comparison is with the different affiliate types. Figure 3 shows the comparative values for the four major affiliate types for 1996. All comparisons reinforce the UHF disadvantage, though to vastly different degrees. In fact, the average UHF CBS affiliate actually generated a loss while the average VHF affiliate generated positive pre-tax profits. On the other hand, the average UHF CBS affiliate came closest to their VHF counterpart in terms of net revenues, generating nearly 50% of that value.

Conclusion

By examining the relative values for UHF and VHF affiliates nationally for the past four years, by market sizes and by networks, one only can conclude that UHF stations fared worse than their VHF counterparts. While in some cases (e.g., UHF stations in the smallest markets) that poorer performance is small, in all cases by examining several financial indicators (net revenues, pre-tax profits and cash flows) UHF stations still face a disadvantage.

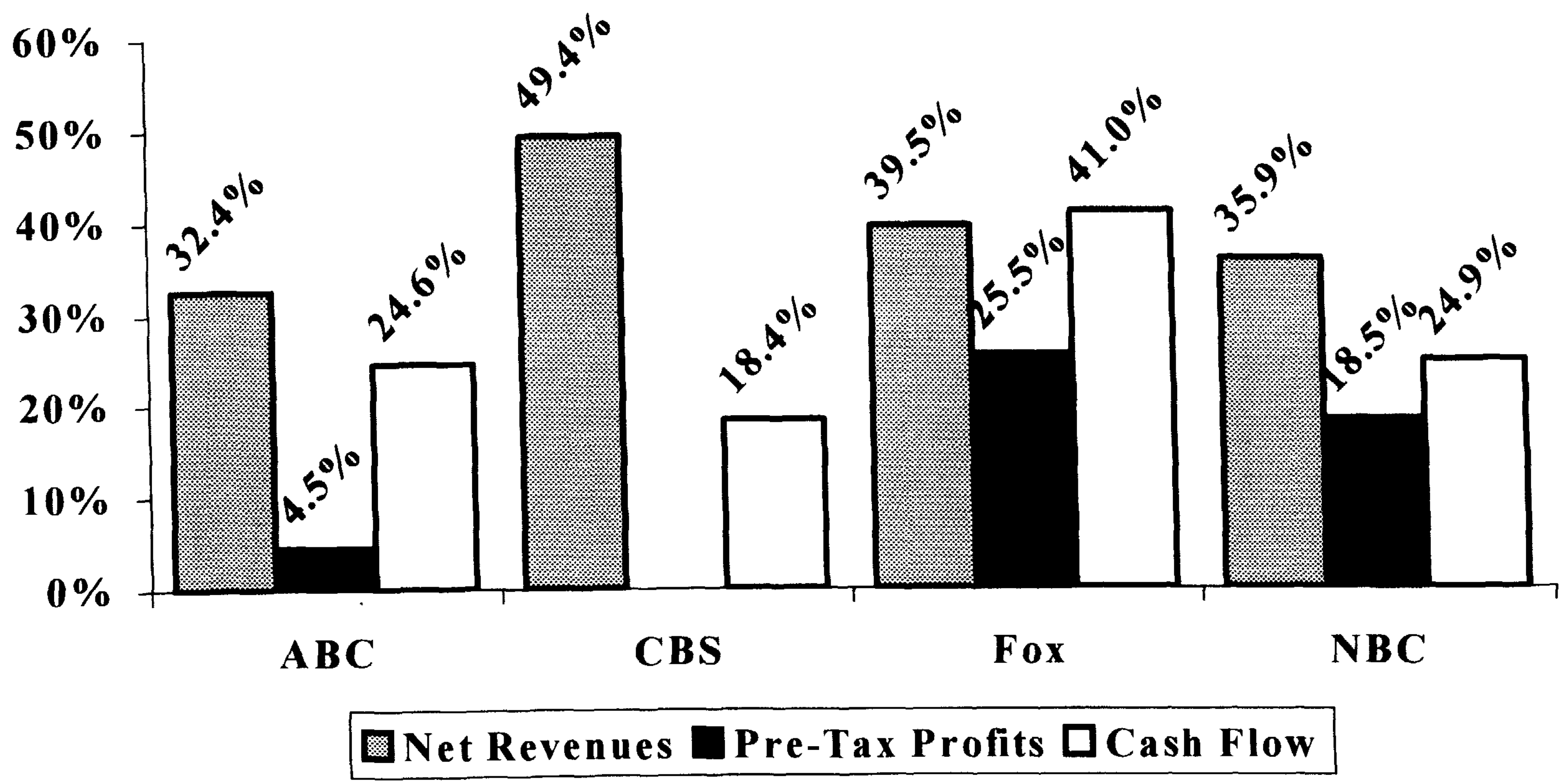
Figure 2
UHF Affiliates* Performance as a Percentage of VHF Affiliates* By Market Size in 1996



* Includes ABC, CBS, Fox & NBC affiliates

Source: 1994 - 1997 NAB/BCFM Television Financial Surveys.

Figure 3
UHF Affiliates Performance as a Percentage of VHF Affiliates By Affiliation Type in 1996



Source: 1994 - 1997 NAB/BCFM Television Financial Surveys.