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June 23, 2003

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: Applications for Transfer of Control of Hispanic Broadcasting Corp., and Certain Subsidiaries, Licensees of KGBT (AM, Harlingen, Texas *et al.* (Docket No. MB 02-235, FCC File Nos. BTC-20020723ABL, *et al.*)

Dear Ms. Dortch:

Spanish Broadcasting System, Inc. ("SBS") is herewith submitting an Equity Research Report published by Lehman Brothers. Lehman Brothers tracks and analyzes the broadcasting industry, among many others. This independent, expert analysis of the Spanish-language broadcasting market makes plain that: 1) Spanish-language television and Spanish-language radio compete with one another in the same market; 2) Spanish-language programming is distinct from English-language programming, and there is little opportunity for cross-over entry; and 3) Univision has monopoly power.

The Lehman Brothers Report provides an in-depth analysis of the state of Spanish-language broadcasting in urban markets.[1] Among other things, it extensively analyzes competition between Spanish-language television and radio.[2] It documents that Spanish-language radio has consistently "forfeited share to Spanish-language television," *id.* at 2, with data presented in the following table:

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[1] The Report also assesses African-American targeted formats, as distinct from Spanish-language programming.

[2] Lehman Brothers Equity Research, "Broadcasting Industry Update, Urban Competition: A Look at the Numbers," (June 11, 2003). A copy of the Report is attached.

TOTAL SPANISH-LANGUAGE AD REVENUES (including print and outdoor)	1991	2002
Radio market share	32.9%	23.9%
Television market share	48.7%	61.8%

The Report further explains that Spanish-language radio operators have not performed as well as expected, in large part due to the fact that "Spanish-language television has stolen share from Spanish-language radio." *Id.* (parentheses omitted). Quite plainly, Spanish-language radio cannot lose share to Spanish-language television unless they are competitors.

The Report also serves to underscore the high barriers to entry for Spanish-language broadcasting. Successful entry cannot be achieved by simply translating programming from English to Spanish. Changing to programming targeted to gain Hispanic American audiences is not like moving from 'Golden Oldies' to 'Classic Rock and Roll.' It is a fundamental change that carries extreme financial risk, specialized knowledge, relationships with distinct advertisers and unique programming sources, and specialized talent resources. And thus the Lehman Brothers Report explains there has been virtually no entry from general market operators into Spanish-language broadcasting: "Despite . . . seemingly strong prospects, general market operators have not meaningfully shifted their portfolios into the Spanish-language format. In fact, the top ranks of the Spanish format remain unpenetrated by mainstream broadcasters." *Id.* at 1. The Report specifically attributes this fact to, *inter alia*, "cultural/linguistic barriers." *Id.* This lack of entry is present notwithstanding the context of a high-growth demographic. *Id*. at 2.[3]

The presence of high entry barriers indicates that Univision's stranglehold on Spanish-language broadcasting will not dissipate in the foreseeable future. To the contrary, rivals have faced increasing losses in the wake of Univision's control over essential television programming (through long-term agreements with the producers of such programming), extensive distribution networks, long term (twenty years!) program affiliation contracts, and now the attempt to acquire its major competitor, HBC. Press reports establish that Telemundo, owned by the deepest of pockets, General Electric, is experiencing significant financial hardship,[4] and thereby demonstrate the difficulties of succeeding in a business dominated by Univision. Unsurprisingly, the Lehman Brothers Report describes Univision as "a clear market leader *providing pricing leadership,*" *id.* at 2, an unmistakable Wall Street euphemism for monopoly power.

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[3] Indeed, the Report expressly notes that general market operators have enjoyed substantial success in reformatting to Urban formats, in contradistinction to the absence of any Spanish-language entry.

[4] "Telemundo Fall Short of GE's Expectations" Eduardo Porter and Kathryn Kranhold, Wall Street Journal Online, June 2, 2003 (noting Telemundo's continuing loss of market share to the market leader, Univision).

Various submissions by SBS and others have documented the same information and facts. Here is now another, fully independent, expert voice confirming the existence of a distinct Spanish-language broadcasting market dominated by Univision. The import of these market facts for the proposed merger is unambiguous: Univision's acquisition of HBC will further entrench its dominant position, with adverse effects on both competition for advertising revenues and viewer diversity.

Respectfully submitted,

/s/ Sue D. Blumenfeld

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June 11, 2003

United States of America
Internet & Media
Broadcasting

Broadcasting

Industry Update

Urban Competition: A Look at the Numbers

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Sector View:

New: 1-Positive

Old: 1-Positive

Investment conclusion

- Recently, there has been significant noise as to whether competition will increase or decrease in the urban radio sub-segment. While some simply "believe" that competition has (and will) decline, our analysis indicates the opposite: the number of urban reformats has steadily increased in the largest (and most important) markets. Furthermore, we expect this trend to continue given the attractiveness of the urban format.

Summary

- Why Will Urban Competition Continue? For general-market operators seeking to augment growth through either the urban or Spanish-language formats, the urban format is the logical choice. From a microeconomic perspective, the urban format boasts: 1) higher revenue growth, 2) a larger overall size (~$1 billion vs. $600mm), and 3) more rational competition that allows higher margins. From a macroeconomic perspective, African Americans enjoy significantly higher purchasing power than Hispanics (1.4x) - making it a more compelling demographic opportunity for advertisers. Furthermore, the per capita purchasing power growth of African Americans has been just as rapid as that of the Hispanic demo.

Spanish Language Ratings & Revenues: Why the Disconnect?

Spanish language operators continue to dominate in The Original Ratings Report Card, with Entravision Communications, Hispanic Broadcasting and Spanish Broadcasting all earnings A-level grades. In fact, all three operators have received A-level grades in each of the last three periods. Combined, the three major Spanish-language operators grew their ratings share 1%, while our nine other radio broadcasters suffered a 2% decline. Among the nine non-Hispanic companies, only one gained share, two were flattish and six lost at least 2%. By comparison, two of the three Hispanic operators grew their ratings. Figure 1 summarizes our findings.

Figure 1: Spanish Broadcasters Outperformed in Winter 2003 (Dollar-Weighted)

			Beasley Broadcast	-3.0%
			Citadel Communications	-0.4%
			Clear Channel Communications	0.0%
			Cox Radio	-6.5%
			Emmis Communications	-2.3%
			Entercom Communications	-3.9%
Entravision Communications	-7.3%		Infinity Broadcasting	-3.0%
Hispanic Broadcasting	6.2%	vs.	Radio One	5.2%
Spanish Broadcasting	2.0%		Saga Communications	-3.6%
Three Major Spanish Broadcasters	**1%**		**Nine Other Broadcasters**	**-2%**

Source: Lehman Brothers

Further, demographic trends suggest that the growth of the Hispanic demographic will catapult this group into an even larger segment of the population.

Nonetheless, General Market Operators Have Stayed on the Sidelines

Despite those seemingly strong prospects, general market operators have not meaningfully shifted their portfolios into the Spanish-language format. In fact, the top ranks of the Spanish format remain unpenetrated by mainstream broadcasters (see figure below).

For reference, we attribute that lack of penetration to cost-benefit considerations (growth prospects offset by the weight of high competition) and cultural/linguistic barriers.

PLEASE SEE ANALYST(S) CERTIFICATION(S) ON PAGE 5 AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 6

Figure 2: Top 10 Spanish Broadcasters are Pure-Play Operators

Rank	Company	Gross Revenues from Spanish Format	% of Total Spanish Market	Number of Spanish Stations
①	Hispanic Broadcasing	294,850	35.9%	57
②	Spanish Broadcasting	146,900	17.9%	26
③	Entravision Communications	78,025	9.5%	43
④	Liberman Broadcasting	43,200	5.3%	11
⑤	Radio Unica	35,525	4.3%	15
⑥	Arso Radio	26,000	3.2%	14
⑦	Lotus Communications	17,500	2.1%	10
⑧	Mega Communications	13,200	1.6%	11
⑨	Multicultural Radio Broadcasting	8,350	1.0%	7
⑩	Lazer Broadcasting	6,975	0.8%	10
11	Clear Channel Communications	6,600	0.8%	13

Note: Circle denotes that company is primarily a Spanish-language operator; revenue figures are in thousands.
Source: Lehman Brothers and BIA

Why? Spanish-language Radio Has Not Lived Up to Expectations
Despite a growing Hispanic population (which grew at 4.5x the rate of the total US population in the 1990s), we believe that Spanish-language radio has failed to live up to expectations, as:

- its revenue growth has been just modestly better than the broader industry,
- it has consistently forfeited share to Spanish-language television, and
- competition has weighed on pricing and margins.

Growth Not Meaningfully Better than Broader Radio Industry
Over the past decade, Spanish-language radio advertising grew 10.2% per year, reflecting outperformance of just 200 basis points relative to the broader radio industry. Over the past five years, the outperformance of Spanish-language radio waned to just 120 basis points versus the general market (+9.4% versus +8.2%).

Forfeited Share to Spanish-Language Television
In sharp contrast to Spanish-language radio, Spanish-language television advertising has outperformed general-market television advertising by a staggering 12 percentage points, on average, over the past decade; and an impressive 13 percentage points, on average, over the past five years. Another startling finding (also in sharp contrast to the general radio market) is that Spanish-language radio has lost share to other forms of Spanish-language media. Specifically, a decade ago, Spanish-language radio captured 32% of the Spanish-language ad pie. By 2002, that share had declined to 24%.

Figure 3: Spanish-Language Media Expenditures (1991–2002)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	10yr CAGR 1992-2002	5yr CAGR 1997-2002
SPANISH LANGUAGE AD DOLLARS														
Radio	**$225**	**$223**	**$231**	**$290**	**$321**	**$322**	**$375**	**$440**	**$508**	**$558**	**$570**	**$588**	***10.2%***	***9.4%***
Television	$333	$344	$324	$454	$517	$640	$780	$997	$1,091	$1,251	$1,320	$1,521	*16.0%*	*14.3%*
Print	$107	$109	$146	$178	$187	$193	$202	$217	$230	$254	$275	$287	*10.2%*	*7.3%*
Outdoor	$19	$20	$20	$31	$37	$43	$51	$57	$62	$67	$69	$66	*12.8%*	*5.0%*
Total Spanish-language advertising	**$683**	**$696**	**$722**	**$953**	**$1,062**	**$1,198**	**$1,408**	**$1,710**	**$1,890**	**$2,130**	**$2,234**	**$2,462**	***13.5%***	***11.8%***
AD REVENUE SPLIT														
Radio	***32.9%***	***32.0%***	***32.0%***	***30.5%***	***30.2%***	***26.9%***	***26.6%***	***25.7%***	***26.9%***	***26.2%***	***25.5%***	***23.9%***		
Television	*48.7%*	*49.5%*	*44.9%*	*47.7%*	*48.7%*	*53.4%*	*55.4%*	*58.3%*	*57.7%*	*58.7%*	*59.1%*	*61.8%*		
Print	*15.6%*	*15.7%*	*20.3%*	*18.7%*	*17.6%*	*16.1%*	*14.3%*	*12.7%*	*12.2%*	*11.9%*	*12.3%*	*11.7%*		
Outdoor	*2.8%*	*2.8%*	*2.8%*	*3.2%*	*3.5%*	*3.6%*	*3.7%*	*3.3%*	*3.3%*	*3.1%*	*3.1%*	*2.7%*		
Total Spanish-language advertising	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***		
General Market Radio Advertising	**$8,593**	**$8,755**	**$9,568**	**$10,652**	**$11,470**	**$12,412**	**$13,794**	**$15,430**	**$17,681**	**$19,848**	**$18,369**	**$19,575**	***8.4%***	***8.2%***
Spanish-language%	*2.6%*	*2.5%*	*2.4%*	*2.7%*	*2.8%*	*2.6%*	*2.7%*	*2.9%*	*2.9%*	*2.8%*	*3.1%*	*3.0%*		
General Market TV Advertising	**$25,461**	**$27,249**	**$28,020**	**$31,133**	**$32,720**	**$36,046**	**$36,893**	**$39,173**	**$40,011**	**$44,802**	**$38,881**	**$40,825**	***4.1%***	***1.5%***
Spanish-language%	*1.3%*	*1.3%*	*1.2%*	*1.5%*	*1.6%*	*1.8%*	*2.1%*	*2.5%*	*2.7%*	*2.8%*	*3.4%*	*3.7%*		

Source: Hispanic Business Magazine, RAB, TVA, and Lehman Brothers

Competition Has Been Intense
In our view, Spanish-language television has stolen share (from Spanish-language radio), as its internal competition is more rational. Specifically, in Spanish-language television there is a clear market leader providing pricing leadership, with Univision setting its ad rates close to general-market TV rates for non-prime-time slots. By contrast, in Spanish-language radio there are two dominant players—often irrationally competing on price rather than striving to maximize the overall size of the Spanish radio ad pie. Given that pricing dynamic, as well as heightened promotional spending, Spanish-language operators had a relatively low 31% EBITDA margin in 2002 (collectively), versus 37% for the non-Hispanic pure-play radio operators.

Of the "Growth" Niches, Urban Opportunity Appears More Compelling

Microeconomic Rationale

In contrast to the Spanish-language market, we believe that the urban format will continue to attract general-market operators seeking revenue growth, combined with more rational competition than in the Spanish-language market. As evidence of that more rational competition, Radio One (the largest pure-play urban operator):

- prices spots near parity with the broader market,
- regularly achieves revenue growth materially better than the industry (In 2002, +12% versus the industry's +6%; in 2001, +5% versus the industry's -7%), and
- maintains industry-high EBITDA margins (47% in 2002 versus 37% for its pure-play peers), as the company does not over-invest in promotions or programming.

While we expect Radio One to continue to fend off competition, we believe that the cost of doing so will be incremental programming and promotional spending -- limiting margin expansion. In fact, we estimate that Radio One's 2003 EBITDA margin will be largely flat with 2002.

Macroeconomic Rationale: Buying Power is Much Stronger

While conventional wisdom argues that the Hispanic demo is the most attractive target (because it exhibits the highest population and buying power growth), we argue that the African American demographic trends are at least as favorable as the Hispanic American demographic trends.

While it is true that the Hispanic demographic has historically exhibited the highest growth in terms of buying power and population; on a per capita basis, growth of African American buying power has outpaced Hispanic buying power over the last 6 years. In addition, on an absolute basis, we highlight that African American buying remains much higher than Hispanic buying power by 1.23x (see table below).

Figure 4: Buying Power Statistics: A Comparison of the Hispanic and African American Demographics

	1996	1997	1998	1999	2000	2001	2002	CAGR 3-year	CAGR 6-year
Hispanics									
Buying Power (billions)	$325	$356	$380	$411	$443	$480	$523	*8.4%*	*8.3%*
Growth	--	*9.5%*	*6.7%*	*8.2%*	*7.8%*	*8.4%*	*9.0%*		
Population (millions)	30.2	31.5	32.8	34.1	35.3	36.5	37.9	*3.6%*	*3.8%*
Growth	--	*4.3%*	*4.1%*	*4.0%*	*3.5%*	*3.4%*	*3.8%*		
Buying Power per capita	$10,762	$11,302	$11,585	$12,053	$12,550	$13,151	$13,807	*4.6%*	*4.2%*
Growth	--	*5.0%*	*2.5%*	*4.0%*	*4.1%*	*4.8%*	*5.0%*		
African American									
Buying Power (billions)	$447	$469	$502	$533	$580	$610	$646	*6.6%*	*6.3%*
Growth	--	*5.0%*	*6.9%*	*6.2%*	*8.8%*	*5.2%*	*5.9%*		
Population (millions)	33.5	34.0	34.5	35.0	35.6	36.1	36.6	*1.5%*	*1.5%*
Growth	--	*1.4%*	*1.6%*	*1.4%*	*1.7%*	*1.4%*	*1.4%*		
Buying Power per capita	$13,326	$13,806	$14,536	$15,229	$16,292	$16,898	$17,648	*5.0%*	*4.8%*
Growth	--	*3.6%*	*5.3%*	*4.8%*	*7.0%*	*3.7%*	*4.4%*		
Total U.S.									
Buying Power (billions)	$5,159	$5,477	$5,714	$6,044	$6,329	$6,486	$6,792	*4.0%*	*4.7%*
Growth	--	*6.2%*	*4.3%*	*5.8%*	*4.7%*	*2.5%*	*4.7%*		
Population (millions)	267.9	271.1	274.4	277.5	280.7	283.9	287.0	*1.1%*	*1.2%*
Growth	--	*1.2%*	*1.2%*	*1.1%*	*1.2%*	*1.1%*	*1.1%*		
Buying Power per capita	$19,256	$20,203	$20,825	$21,781	$22,546	$22,848	$23,666	*2.8%*	*3.5%*
Growth	--	*4.9%*	*3.1%*	*4.6%*	*3.5%*	*1.3%*	*3.6%*		

Source: US Census data; Selig Center for Economic Growth, University of Georgia; and Standard and Poor's DRI

We also note that the Hispanic buying power statistic illustrated above is somewhat overstated for advertising and marketing purposes, as it does not take into consideration the vast amount of money that is sent by U.S. Hispanics to Latin America (in the form of personal remittances). According to the World Bank, remittances to Latin America and the Caribbean are approximately $20 billion per year - and growing. We note that the true figure could actually be much higher, since cash is often sent to Latin America via informal routes. A recent study by the Inter-American Development Bank found that the typical Latin American working in the United States earns less than $20,000 a year, but sends home about $3,000 of that.

If we assume that the actual Hispanic Buying power that remains in the U.S. is 10% below than the official figure, per capita African American buying power is approximately 1.4x per capita Hispanic buying power.

Figure 5: Comparison of Buying Power, Adjusted for Foreign Remittances to Latin America

	1996	1997	1998	1999	2000	2001	2002
Hispanics							
Buying Power (billions)	$325	$356	$380	$411	$443	$480	$523
Remitted to LATAM	$33	$36	$38	$41	$44	$48	$52
Adjusted Buying Power	$293	$320	$342	$370	$399	$432	$471
Buying Power per capita	$10,762	$11,302	$11,585	$12,053	$12,550	$13,151	$13,807
Adjusted Buying Power per capita	$9,685	$10,171	$10,427	$10,848	$11,295	$11,836	$12,426
African American							
Buying Power (billions)	$447	$469	$502	$533	$580	$610	$646
Buying Power per capita	$13,326	$13,806	$14,536	$15,229	$16,292	$16,898	$17,648
African American per cap buying power / Hispanic (adjusted) per cap buying power	1.38x	1.36x	1.39x	1.40x	1.44x	1.43x	1.42x

Source: US Census data; Selig Center for Economic Growth, University of Georgia; Standard and Poor's DRI; and Lehman Brothers' estimates.

Moreover, General-Market Operators Are NOT Shying Away

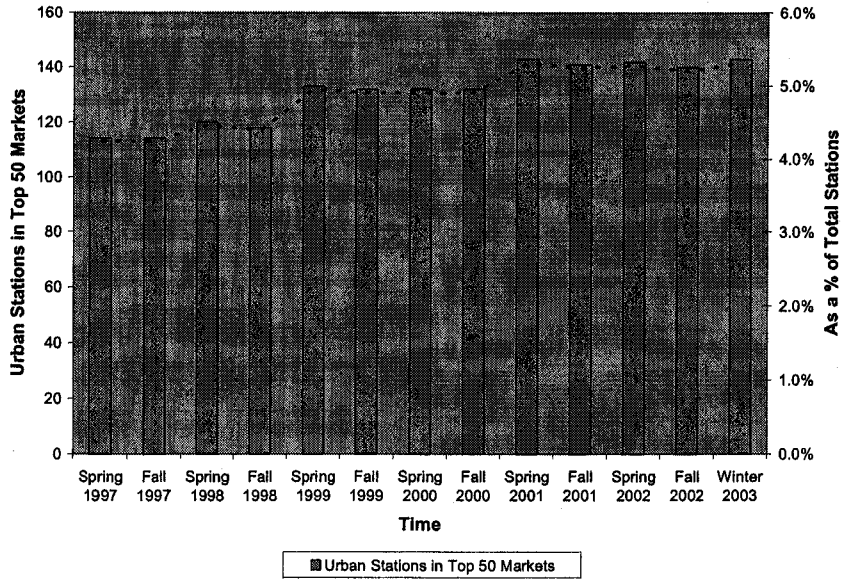
While some industry pundits have contended that urban competition across the broader industry has waned, we believe that this assertion is an oversimplification, at best. Our analyses suggest that: 1) urban competition has actually increased in the largest (and most valuable markets), and 2) general-market operators have increasingly tapped this growth format.

1) The Number of Urban Stations Has Increased

Our analysis of the top 50 radio markets indicates that the number of urban stations has steadily crept higher – not declined. Specifically, the number of urban stations in the top 50 markets has increased from 114 in 1997 to 143 today. More recent history reflects a similar trend, with the number of urban stations increasing from 132 in 2000 to 143 today. As a practical example, two additional stations were reformatted with urban formats in winter 2003: Washington D.C.'s WRQX-FM (ABC Radio) and Miami's WMIB-FM (Clear Channel).

Importantly, African Americans are concentrated in the largest metropolitan cities, and are not spread evenly throughout the United States. Thus, a simple station count across the overall market is irrelevant. Rather, it is more important to concentrate on those areas where African Americans reside.

Figure 6: The Number of Urban Stations Has Increased in the Top 50 Markets



Source: Lehman Brothers and BIA

2) General-Market Operators Have Tapped the Urban Format

Moreover, general-market operators have increased their penetration of the urban format. In fact, seven general-market operators are among the top urban operators. Moreover, Clear Channel actually owns more urban stations (and generates more revenues from them) than Radio One. Clearly, fully diversified, general-market broadcasters can (and do) successfully compete within the medium.

In our opinion, this phenomenon reflects management teams' shared goal of tapping growth opportunities, especially those that come free of exorbitant competitive pressures (as is the case in Spanish-language). Moreover, the urban format has relatively few barriers to entry, especially as urban music and culture become more mainstream. In fact, 30%-plus of Radio One's audience is non-African American.

Figure 7: Three of Top Urban Competitors are Pure-Plays

Rank	Company	Gross Revenues from Urban Format	% of Total Urban Market	Number of Urban Stations
1	Clear Channel Communications	322,400	27.8%	54
②	Radio One	282,550	24.4%	38
3	Cox Radio	97,100	8.4%	8
4	Infinity Broadcasting	71,000	6.1%	7
5	Emmis Communications	66,800	5.8%	2
6	Cumulus Broadcasting	37,100	3.2%	24
⑦	Inner City Broadcasting	35,700	3.1%	6
⑧	Service Broadcasting	29,400	2.5%	3
9	ABC Radio	24,100	2.1%	2
10	Citadel Communications	17,450	1.5%	9

Note: Circle denotes that company is primarily an urban operator; revenue figures are in thousands.
Source: Lehman Brothers and BIA

Analyst Certification:

I, William Meyers, hereby certify (1) that the views expressed in this research note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this note.

Related Stocks:	Ticker	Price (06/09)	Rating
Clear Channel Commun	CCU	42.32	1-Overweight
Cumulus Media	CMLS	18.75	2-Equal weight
Cox Radio	CXR	24.57	3-Underweight
Emmis Communications	EMMS	21.30	2-Equal weight
Entercom Communications	ETM	50.70	2-Equal weight
Entravision Communications	EVC	10.40	3-Underweight
Hispanic Broadcasting	HSP	26.20	2-Equal weight
Radio One	ROIAK	17.92	1-Overweight
Spanish Broadcasting Sys	SBSA	8.22	1-Overweight
Univision Communications	UVN	31.65	1-Overweight

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The analysts responsible for preparing this report have received compensation based upon various factors including the Firm's total revenues, a portion of which is generated by investment banking activities.

Key to Investment Opinions:

Stock Rating
1-Overweight - The stock is expected to outperform the unweighted expected total return of the industry sector over a 12-month investment horizon.
2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the industry sector over a 12-month investment horizon.
3-Underweight - The stock is expected to underperform the unweighted expected total return of the industry sector over a 12-month investment horizon.
RS-Rating Suspended - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity on a merger or strategic transaction involving the company.

Sector View
1-Positive - sector fundamentals/valuations are improving.
2-Neutral - sector fundamentals/valuations are steady, neither improving nor deteriorating.
3-Negative - sector fundamentals/valuations are deteriorating.

Stock Ratings From February 2001 to August 5, 2002 (sector view did not exist):
This is a guide to expected total return (price performance plus dividend) relative to the total return of the stock's local market over the next 12 months.
1-Strong Buy - expected to outperform the market by 15 or more percentage points.
2-Buy - expected to outperform the market by 5-15 percentage points.
3-Market Perform - expected to perform in line with the market, plus or minus 5 percentage points.
4-Market Underperform - expected to underperform the market by 5-15 percentage points.
5-Sell - expected to underperform the market by 15 or more percentage points.

Stock Ratings Prior to February 2001 (sector view did not exist):
1-Buy - expected to outperform the market by 15 or more percentage points.
2-Outperform - expected to outperform the market by 5-15 percentage points.
3-Neutral - expected to perform in line with the market, plus or minus 5 percentage points.
4-Underperform - expected to underperform the market by 5-15 percentage points.
5-Sell - expected to underperform the market by 15 or more percentage points.
V-Venture – return over multiyear timeframe consistent with venture capital; should only be held in a well diversified portfolio.

Distribution of Ratings:
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