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**MEDIA OWNERSHIP WORKSHOP ON FINANCIAL ISSUES  
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**FCC Mail Room**

**BRIAN A. RICH**

Thank you for having me here this morning. My background is actually quite similar to my fellow bankers on the panel. I started as a lender to large broadcast, cable, wireless and publishers at one of the largest media and telecom banks. In the mid 1990's I broadened my focus to growth equity where my interests included classic media, as well as cellular, telephony and spectrum investments. More recently our firm, Catalyst Investors, has been focused on digital media and other internet-driven businesses as that is where the growth is. Given my background it should be no surprise that I believe that the broadcast sector needs to be looked at holistically and in combination with wired and wireless digital media in order to gain a full perspective when considering how to regulate it. My comments will reflect this perspective.

Fundamental changes and the continuation of technological evolution

Broadcast has gone past its growth phase and through a massive consolidation period. It is an industry which is now mature. The industry has fundamentally changed, and is not going back to the "old days". While 2009 saw an extraordinary decline in advertising dollars due to the recession, I believe that the decline in advertising as a percentage of GDP from 2.4% in 2000 down to 1.9% today is permanent. Cable and the internet have eroded broadcast TV's and radio's pricing power, although the good news is that I believe this effect is diminishing. Broadcasters' increasing cable carriage fees are also a positive, as are the inroads broadcasters are making into digital media although still quite small at <5% of revenues.

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However, in the long run broadband will have a deteriorating effect on broadcast viewership and wireless services will negatively influence radio listenership. There are some major factors that will cause this trend to continue:

- Mobile internet is exploding -- 50x increase in data traffic in the last three years (in the case of AT&T and the iPhone). On demand video and audio streaming will be seamlessly integrated into automobiles. Features like two-way interaction and location based services cannot be replicated by broadcast;
- Powerful new publishing and distribution platforms, like Facebook (100MM US visitors in November), YouTube and Twitter will continue to take advertising dollars away from broadcast;
- Disruptive broadband distribution providers such as Netflix, Hulu.com and other forms of direct viewership through the internet will continue to increase time share away from broadcast.

More of the ad share and margin will flow back to the big, diversified media companies – and therefore larger markets – and away from the smaller affiliates and smaller markets. Broadcasters must continue to adapt in order to survive and return to growth. To date, this has largely been done as a function of cost reductions – which were necessary – but going forward broadcasters will have to invest in alternative revenue streams as well.

I also would advocate “out of the box” thinking. Examples:

Television – To my earlier point, the value of a TV station as a distributor of content is being commoditized. Much of the value creation going forward will be based upon the news, sports and other local content being created by the broadcaster. This should be encouraged. In addition, the local TV broadcaster

needs to consider other ways to distribute its content. Obviously, this means over the internet but also through existing and future wireless broadband networks.

Radio – While radio has almost ubiquitous in an analog world, it has far less reach in a digital one. I understand that there is an effort under consideration to mandate that radio tuners are in cellphones. This idea is an interesting one particularly as a precursor to a digital solution for radio broadcasters. It is important to maintain localism.

#### Present broadcast market environment from a capital markets perspective

Debt and equity providers, both public and private, are largely disinterested in the radio and TV broadcast sectors today. The question is: what will it take for capital providers to once again embrace the industry?

Historically, these capital sources were attracted to broadcast because of the franchise value of their licenses. The limited competitive environment allowed for predictable revenues, cash flow and high margins with modest capital investment. Radio and TV were by and large long-term growth businesses. None of these facts are now true.

The broadcast spectrum however remains extraordinarily valuable. For instance, the 700MHz auction a couple of years back garnered \$19 billion of proceeds, or over \$1 per MHz-pop. However, the franchise value of the broadcast license, when used for the purpose of TV broadcast, has been diminished due to the advent of the technologies I have just described. This reduction of "stick value" is a big negative from a lender's perspective.

Large cap broadcasters aside, there is little or no equity value in the sector. Valuation multiples have been permanently impaired. Where double-digit multiples of Broadcast Cash Flow (BCF) were the norm historically, the "new normal" is significantly less – perhaps as low as 4x BCF in some cases. The industry will have to work through its debt load which includes costly syndicated programming. I believe that the resulting industry leverage should be no more than 2-3x EBITDA. There has been, and will be more bankruptcies and restructurings to accomplish this de-levering. Following this workout period, capital providers will need to be convinced that broadcasting is once again a stable, long term predictable business with multiple revenue streams.

#### Potential effect of regulatory change

I believe that the regulatory environment during this next upcoming cycle can have a profound impact on the future of the broadcast industry going forward. It is my view that there should be relaxation of the ownership limits and cross-ownership rules, particularly between newspapers and broadcasters. I believe doing so would benefit the public as well as the broadcast and print industries.

I say this for two reasons:

First, I believe that given the multitude of information sources, including online, short-form video, blogging and others, the effective number of voices in a market can no longer be measured simply by broadcasters and newspaper publishers. Therefore, the existing rules do not consider the marketplace as a whole.

Second, without change, both the newspaper and broadcast industries will continue to suffer greatly and many stations – both radio and TV – will not

survive. This will cause the remaining product to weaken from a quality and diversity perspective. It would be unfortunate if such voices diminish through inaction. Local market content must be able to survive, so allowing producers to achieve the necessary scale to do so is crucial.

Thank you for your time and consideration, and I look forward to questions.