

## Traditional Media: Down but Not Out

July 7, 2009

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### Key Take-Aways

This report reviews the historical trends and outlook for traditional media (radio, television and magazines) from a top-down perspective. Key take-aways are as follows:

- Today's advertising expenditure levels are the "new normal" for advertising as a whole. Advertising expenditure as a percentage of GDP has been declining throughout the decade. This has been mostly due to the Internet eroding the pricing power of traditional media. In late 2008 and early 2009 we saw the acceleration of the decline as marketers begin to forecast a permanently lower level of consumer spending relative to the 1990s.
- Radio and magazine revenue will bottom in 2009. Our GDP and revenue share analysis shows that radio and magazine advertising pricing has already bore the brunt of the effect of Internet competition and is likely to stabilize at current levels.
- Radio and magazine operators will have a cyclical revenue recovery of about 5% in 2011, and will experience trend revenue growth of about 2% per year through 2016. Large radio and magazine companies should be valued at 5.5x-6.75x trend EBITDA, while mid-market companies and single properties should be valued at 4.5x-6.0x trend EBITDA due to a higher cost of capital.
- Television advertising revenue has not been significantly affected by the Internet. Pricing and consumption has been stable throughout the decade up until the recent cyclical decline. More of the TV ad share and margin will likely flow to the big media companies and away from the local affiliates. Local TV affiliates should be valued as declining assets at 2x-4x EBITDA.
- There is very little or no equity value in the broadcasting and publishing industries, and a good deal of dilution and debt restructuring needs to occur for companies to be properly capitalized. At present the median Debt/EBITDA for a broadcast company is around 6x. The ideal range, however, is 2-3x EBITDA—a calculation based on the optimal leverage of less than 50% of the capital structure when properly valued.
- The next two years could be an opportune time for private equity to re-enter the media industry, after the prior generation of ownership gets washed out. Opportunistic private equity firms should be able to purchase equity stakes from lenders in exchange for reducing leverage. Now, however, investing in media should be viewed similarly to investing in cyclical industrial companies - as an industry restructuring story, not a growth story.

**Overview**

The year 2009 will be an *annus horribilis* for traditional media. Broadcasting and publishing companies have seen double-digit percentage declines, particularly in the fourth quarter of 2008 and first quarter of 2009. A collapse in consumer spending has badly hurt many traditional advertising stalwarts like automobile manufacturers and dealers who are among the biggest customers of traditional media companies. The Internet has also been siphoning consumers and advertisers away from traditional media companies. In addition, advertising is a cyclical business and is naturally going to be hit hard by a strong economic downturn.

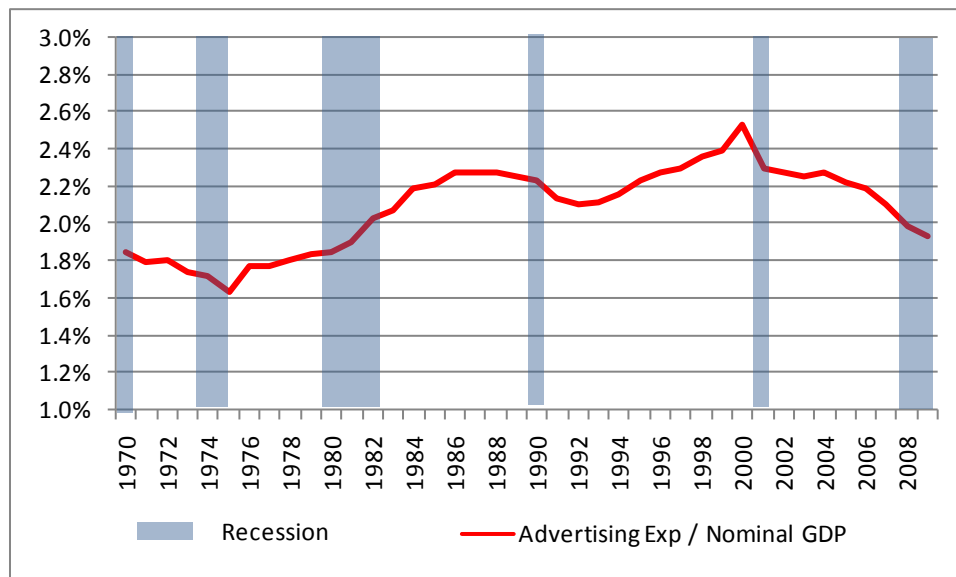
This report uses a top-down, macroeconomic approach to analyze the current downturn in traditional media advertising and to produce an outlook for radio, television and magazine advertising revenue. The analysis is conducted in four steps:

1. An examination of the long term relationship between advertising expenditures and gross domestic product.
2. Evaluation of how the advertising pie is split up among the media types relative to their consumption, and how that relationship has changed over time.
3. Discussion of the outlook for radio, television and magazines individually.
4. Cost-of-capital analysis to produce a methodology for valuing and capitalizing traditional media companies going forward and an outlook for investment in the sector.

**Advertising and GDP**

Advertising is similar to capital expenditures—many companies cut back heavily on advertising during recessions and spend over-exuberantly during expansions. As a result, advertising generally increases as a percentage of GDP during expansions and contracts during recessions.

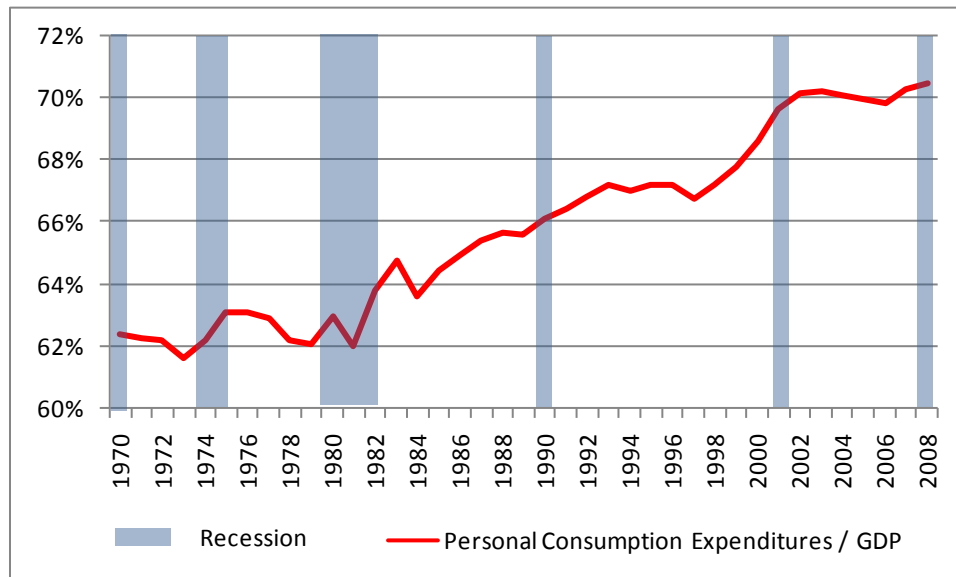
*Figure 1*  
Advertising as a percent of Nominal Gross Domestic Product



Source: Robert Coen, JP Morgan, Economy.com, author's calculations

While advertising has been largely in-sync with GDP for the past four decades, there are two notable exceptions. First, during the vicious double-dip recession of 1980-1982, advertising expenditures as a percent of GDP continued to increase. Second, during the expansion of 2002-2007, advertising to GDP declined. The most plausible explanation for these exceptions lies in consumer spending trends. One would expect advertising expenditures and consumer spending to be correlated.

*Figure 2*  
Consumer Spending as a percent of Nominal Gross Domestic Product



Source: economy.com, authors' calculations

During 1976-2000, advertising expenditure rose secularly to follow the upward trend of consumer spending. Figure 2 shows that consumer spending to GDP rose sharply during the 1982 recession and maintained steady growth during the 1980s and 1990s. Initially, the demand for advertising overwhelmed the supply, making the 1980s the heyday of media fortunes. We define demand as advertising expenditure, and supply as media inventory viewed (or heard) by consumers. Consequently, the high profits attracted more media investment, which brought more media inventory (more cable networks, magazines, satellite TV, satellite radio) and eventually the great Internet build-out of the late 1990s and 2000s. Now we have a nearly unlimited supply of potential advertising inventory.

From 2000-2007 however, it would appear that supply began to outstrip demand. While consumer spending remained elevated from 2000-2007, advertising expenditure as a percent of GDP declined overall. We believe that the decline is due to the effect of the Internet, with its unlimited supply of content and high measurability of advertising performance, which has broken apart the oligopolistic pricing power that traditional media enjoyed in the 1980s and 1990s.

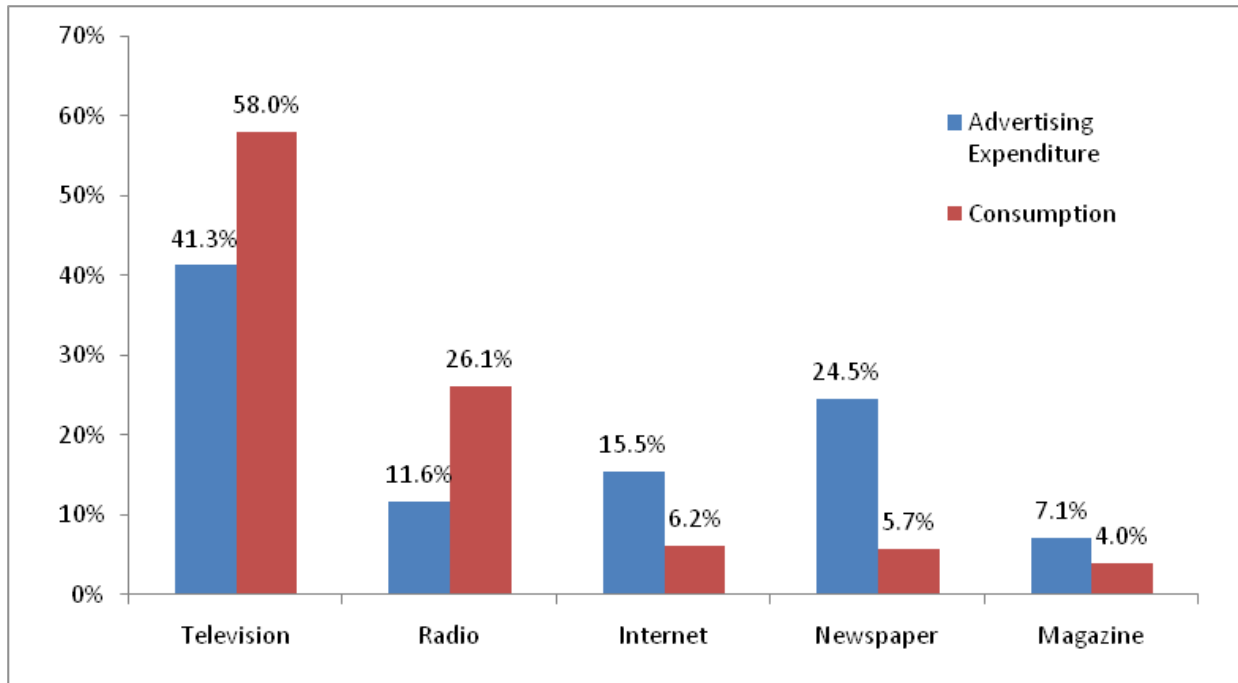
Further decline in advertising expenditure as a percent of GDP can be expected as consumer spending as a percent of GDP is also expected to decline. Advertising expenditure as a percent of GDP will continue to decline over the next 2-3 years, likely reaching the 1.6% of GDP last seen in 1975. If we are expecting a moderate economic rebound in 2010-11, we could expect 2010 to be a flat year for advertising spending, followed by a cyclical bounce of around 5% in 2011.

**Dividing the Advertising Pie**

Big shifts have been playing out in the advertising market. The most obvious is the increase in Internet market share. The Internet has been growing its revenue at a double-digit percentage pace while other mediums have lagged or even declined. Our thesis is that the Internet hurt traditional media by not only increasing its share of consumer time spent, but also by further weakening the ad-pricing power of traditional media, particularly radio and print.

All things being equal, each medium's share of advertising dollars would equal its share of consumer time spent, or consumption. As we can see in Figure 3, below, this is clearly not the case.

*Figure 3*  
Advertising Expenditure versus Media Consumption



Source: Veronis Suhler Stevenson, New York, NY

The various ad-supported mediums have shares of advertising revenue that differ widely from their shares of consumption. Looking at Figure 3, one would assume that the Internet, newspapers and magazines offer value in excess of their consumption, whereas television and radio offer inferior value. This is not always the case. The primary determinants of value and advertising prices are (1) advertising *effectiveness*, (2) ROI *measurability*, and (3) medium *market power*. We define them below, and discuss the impact of the Internet and the implications to the future growth (or decline) of ad spend and consumption.

**Definitions***Effectiveness*

Advertising effectiveness describes the level of sensory engagement of an advertisement, and the extent to which an audience's attention is captured. Video, with its visual and auditory elements will be more effective than a static picture in a magazine. A magazine advertisement can more easily incorporate an advertiser's visual branding than an audio radio advertisement. Internet banner advertisements in turn are less effective than radio advertisements. Classified and pay-per-click advertising is inherently more effective than branding-oriented advertising because it is used when a potential customer is actually demonstrating intent to buy.

*Measurability*

Measurability, as the *quantitative* gauge for success of an advertisement, is now one of the key determinants for advertising demand. If a type of advertising allows a calculation of ROI (return on investment) and targeting of a desired audience, advertising is said to be highly measurable.

With traditional media, measurability usually came in the form of audience surveys (like Nielsen for television) that would estimate audience by demographic group. With magazines and newspapers, measurement was based on circulation, or the number of print copies released to the public. During the post-war period, when most large advertisers like auto companies, consumer product companies and department stores served the mass market, the general reach number was the crucial metric. The classic vehicles for this type of advertising were broadcast television, radio, mass market magazines and newspapers.

Eventually, more targeted forms of media like niche magazines and cable networks came into existence that allowed niche advertisers to target specific interest or affinity groups. This was followed by performance marketing (infomercials, direct response advertising, direct mail) that allowed for audience targeting and/or the ability to directly correlate sales with ad campaigns.

The Internet allows for targeting down to the individual based on geographic, contextual, demographic and behavioral information. In addition, pay-per-click advertising allows advertisers to pay for only customers that click through to their website and ties customers directly to ad campaigns. The ability to have a highly scalable advertising expenditure with accurate ROI metrics has upended the traditional media business.

*Market Power*

Broadcast television and mass market magazines were the once best ways to target a national, mass market audience, while newspapers and the local television affiliate were the best ways to target a local, mass market audience. Radio was another largely local medium. Newspapers also had a virtual monopoly on classified advertising. These mediums had huge market power by virtue of their economies of scale, which limited competition. The market power eroded marginally in the 1990s as cable networks and niche magazines proliferated, but economies of scale still limited the competition to their niches.

Eventually, the rise of the Internet broke down much of the market power of traditional media, particularly among local advertisers and "business-to-business" advertisers. These advertisers began to favor the value of Internet websites and search advertising over that of radio, newspapers, and "B2B" magazines. Newspapers and magazines saw direct substitution of both consumption and advertising with the Internet, which is a print-like medium. The newspapers received a particularly mortal blow from the rise of online classifieds. Newspapers and magazines clearly have a good deal of residual market power, for they still garner more revenue than their share of consumption. Radio, however, fell rapidly behind, collecting far less than its share as shown in Figure 3 above.

## Trends in Traditional Media

### Radio

#### *Steady to Declining Consumption*

Radio listenership has been declining at less than 1% a year over the past 10 years. The latest AMS survey (2008) reported that 73 percent of Americans are listening to the radio about the same as or more than they did five years ago. Radio is most listened to in the car, where it faces some threat from iPods and satellite radio. Direct Internet substitution is unlikely unless a reliable, truly mobile broadband is widely deployed. If consumers move to such a product, traditional radio licenses will rapidly lose value due to disintermediation.

#### *Low Measurability, with Upside*

The lack of visibility in radio holds little appeal for advertisers looking to calculate ROI. This may change by 2010 with the roll out of Arbitron's Portable People Meter, which will offer listener behavior data to advertisers. Nevertheless, this medium remains inferior to Internet and TV advertising in terms of measurability.

#### *Low Effectiveness*

Radio is not particularly effective. Among TV, the Internet, magazines and newspapers, it is rated as the least influential on consumers' buying decisions.

#### *Low Market Power*

Radio advertising currently receives an \$8-11 CPM, a figure comparable to magazines and less than newspapers and TV commercials. Its market power has almost completely eroded, and it is generally a price taker at the mercy of its advertisers.

#### *Outlook*

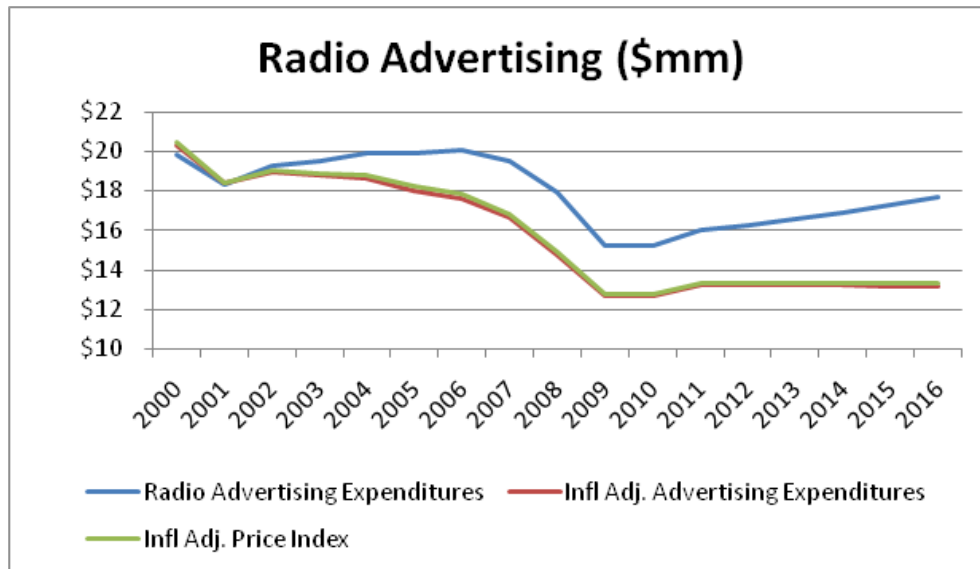
The price effect of the Internet on radio has been largely priced in and we do not anticipate further price declines. We project that consumption in terms of time spent will continue its slight decline over the next 5-6 years. We therefore assume that nominal radio revenues will grow at a rate slightly less than the rate of consumer inflation over the next several years.

Below we look at nominal and inflation-adjusted historical revenues. We calculate a general inflation-adjusted price trend by dividing a consumption index into total inflation-adjusted revenue. Clearly, radio pricing power has eroded significantly over this decade, a trend that accelerated in the recession well beyond the typical 5%-7% recessionary drop. We are looking at an inflation-adjusted trough-to-trough price decline of over 30%. It is possible that radio pricing has eroded too much. The Portable People Meter could provide radio advertisers with better measurements, thereby potentially giving radio pricing a bit of a lift beyond its current level.

We believe that there will at least be a 5% cyclical rebound, which we assume occurs in 2011. From 2011-2016, we project that radio revenue will grow at a CAGR of 2%.

Figure 4

Historical and projected Radio Advertising Revenue (inflation-adjusted figures in 2001 \$)



Source: Historical revenue from JP Morgan, historical consumption from Arbitron and Media Research, historical inflation from economy.com, projected inflation from Euromonitor International, projected consumption and revenue are Catalyst estimates.

## Television

### Steady Consumption

Television viewership on the whole has not declined. The average television viewer watched more than 151 hours of TV per month in Q4 2008—an all-time high, up 4% from Q4 2007. However, we project that video consumption will start shifting over to the Internet in the next five years. Studies have shown that DVRs, which allow consumers to skip advertisements, do not significantly affect video consumption. Instead, DVR owners tend to record popular hit programming and watch more TV overall, inadvertently watching a good deal of advertising as well.

### Above Average Measurability, with Upside

Television is generally more measurable than most other mediums (aside from the Internet). With the advent of DVRs and sophisticated set top boxes, TV has the potential to become even more measurable by tracking viewer behavior and allowing for targeted advertising. TV measurability has scope to improve and increase the value of television advertising, whether via traditional distribution or over the Internet.

### High Effectiveness

Video advertising is highly effective with the dual sensory experience it provides (audio/visual). It is immensely engaging and excellent for developing recognition in consumers. Video can also be used for direct response advertising. Beyond DVRs, the biggest threat to video advertising would be a shift to a pay-per-view model over a free distribution model.

### Changing Market Power

The real story in the television business is the power shifts within the video value chain. Regardless of whether video is consumed via cable, the Internet or over-the-air, the most popular video programming is likely to come from the big media companies (NBC Universal, Disney, Viacom, Time Warner, Fox). Revenue will gradually shift away from the local TV affiliates to the big media companies, as the big media companies end-run the affiliates to sell advertising directly against Internet programming. In addition, the big media companies can charge more for programming, eroding the affiliates' profit margin.

The dynamics within the cable business are less clear cut, as the cable systems already pay hefty programming fees that exceed the advertising revenue the cable networks receive.

There is a strong chance that regulation will affect the outcome of the television business. Media companies, broadcasters, cable companies, telephone companies and technology companies all have powerful lobbies and strong vested interests in the outcome of any regulatory changes that affect television. Net neutrality, cable a-la-carte, cable must-carry, cable carriage fees, station ownership restrictions, and price regulations are all issues that are or could be under consideration at the FCC and in Congress that could dramatically affect the ultimate revenue and cost split within the video value chain.

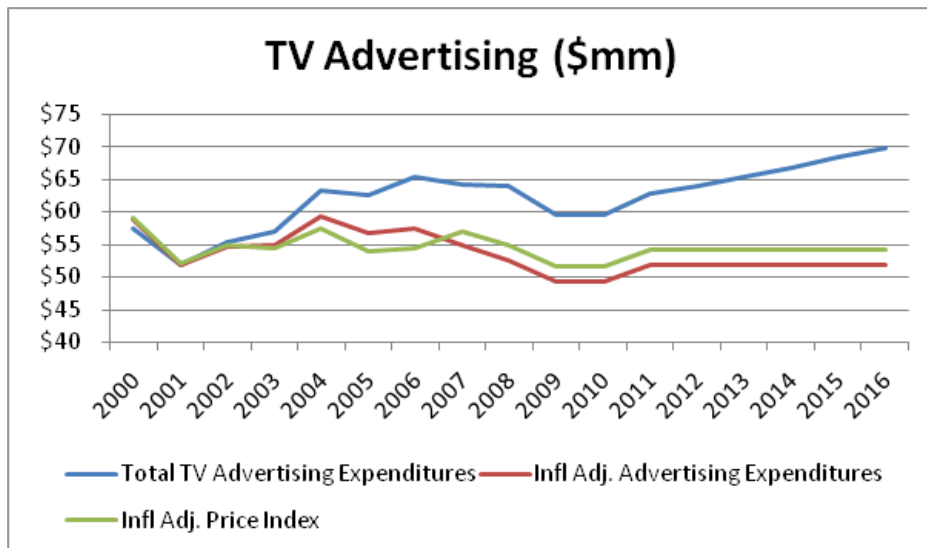
*Outlook*

Television (video) consumption will either continue to increase or remain the same. New technologies are making video consumption more convenient (downloads, DVRs, streaming video, mobile broadband) and exciting (HDTVs and Blu Ray DVDs). We do not think that TV advertising pricing will be adversely affected by the Internet. Historical data shows that TV has had flat inflation-adjusted advertising pricing even as radio and magazine advertising pricing declined (Figure 5).

We project a 5% cyclical rebound in 2011, followed by five years of revenue growth of at least the rate of inflation. There is upside in these numbers that could come from improved measurability and resumed television consumption growth.

The key to investing in video advertising will be identifying the shifts within the video chain and changes in regulation. Absent strong government intervention, we think the best positioned players in video are the big media companies, followed by the cable system operators. The local broadcast affiliates are in the weakest position and will face both revenue and margin pressure over time.

*Figure 5*  
Projected TV Advertising Revenue (inflation-adjusted numbers in 2001 \$)



Source: Historical revenue from JP Morgan, historical consumption from TVbythenumbers.com, historical inflation from economy.com, projected inflation from Euromonitor International, projected consumption and revenue are Catalyst estimates.

## Magazines

### *Steady to Declining Consumption*

Magazine content has been facing direct competition from print-like Internet content, although magazine publishers have had some success creating complementary Internet sites. Since 2000, magazine circulation has been relatively flat. While the circulations of top general interest magazines like *Time*, *Newsweek* and *U.S. News & World Report* have fallen a great deal, many niche publications have posted circulation gains. Like with television, the long trend has been away from mass market content toward niche content.

### *Average Measurability*

Advertisers have access to magazine circulation numbers and subscriber demographic information. Depending on the extent to which a magazine has niche clientele, magazines also provide the ability to target niche market segments, which is highly attractive to advertisers. Although advertisements can include promotions that allow an advertiser to tie leads to the specific ad campaign, a magazine advertiser generally has a hard time calculating the true ROI for branding-oriented advertisements.

### *Average Effectiveness*

Magazine advertisements may not be as engaging as video advertisements but they offer high quality graphics and visuals. By advertising in magazines, advertisers have access to loyal targeted readers who trust the magazine they are consuming. Advertisers can therefore more easily develop brand recognition. In many enthusiast and business-to-business publications, advertising can even serve as a form of content for readers.

### *Low Market Power*

Magazines benefit from the professional reputation of their brands, which separate them from their competition on the Internet. B2B magazines have a very hard time competing with pay-per-click advertising and online lead generation, which are more measurable.

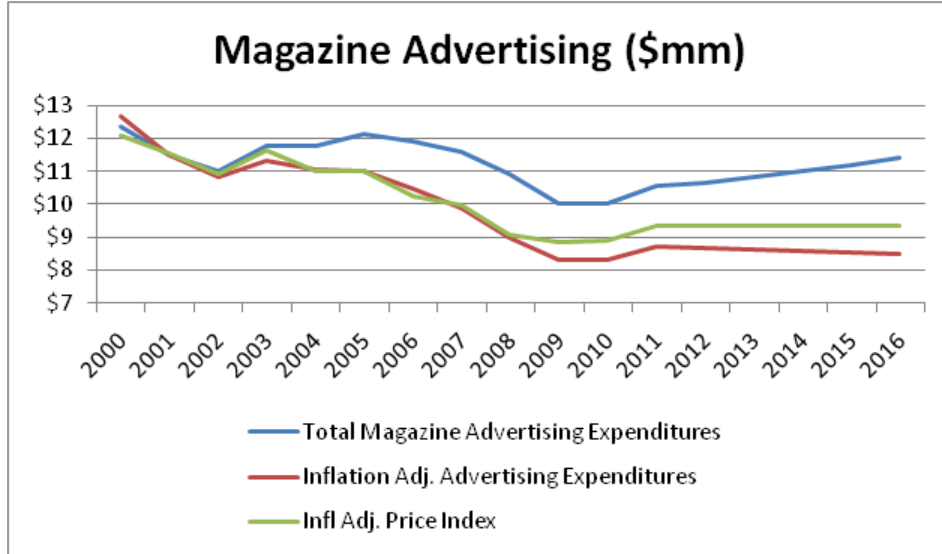
### *Outlook*

On an inflation-adjusted basis, magazine advertising pricing is projected to experience a 23% trough-to-trough decline between 2001 and 2009. With magazines, the decline has not been so much a decline in CPMs, but in fewer ad pages and a move to just-in-time "spot" vs. advance ad purchasing. This pricing change is due to Internet substitution, particularly among business-to-business advertisers. In other words, the effect of Internet substitution is already priced in, and pricing (or at least revenue per copy) is likely to stabilize after a 5% or so cyclical bounce in 2011.

We are forecasting an annual consumption decline rate of 0.5%, which would accelerate if magazines move to more of a subscription model. Magazine publishers can recapture some of the decline in print consumption via Internet distribution or selling subscriptions on Kindles and mobile phones. We expect print magazine advertising revenue to grow at 0.5% less than the rate of inflation per annum, with some offset from Internet advertising and digital subscriptions.

Figure 6

Projected Magazine (print-only) Advertising Revenue (inflation-adjusted numbers in 2001 \$)



Source: Historical revenue from JP Morgan, historical consumption from magazine.org, historical inflation from economy.com, projected inflation from Euromonitor International, projected consumption and revenue are Catalyst estimates.

## Investment Considerations

### Operating Metrics

Revenue at major broadcasting companies is forecasted to plunge by 15%-20% in 2009 (Figure 7). The auto industry's troubles and the economic downturn are to blame for a great deal of the decline, although much of it is also an acceleration of long-term trends.

Across the board, TV and radio broadcasting companies are focused on cost management. This has led to a headcount reduction of many broadcast players (i.e. Hearst, LIN & Belo) as well as other cost cutting measures that, in the case of Cumulus, should lead to a 15% reduction in operating expenses.

Nevertheless, as to be expected in a high fixed cost business, all broadcasters are suffering from margin declines in 2009, with only modest recovery forecasted in 2010.

Figure 7  
Operating Metrics—Broadcast Companies

|                                       | Revenue |       |       |      | Growth  |         |         | BCF Margin |       |       |       |
|---------------------------------------|---------|-------|-------|------|---------|---------|---------|------------|-------|-------|-------|
|                                       | 2007    | 2008  | 2009  | 2010 | '07-'08 | '08-'09 | '09-'10 | 2007       | 2008  | 2009  | 2010  |
| <b>TV Broadcasting</b>                |         |       |       |      |         |         |         |            |       |       |       |
| Lin TV                                | \$396   | \$400 | \$326 | NA   | 1.0%    | (18.4%) | NA      | 35.1%      | 35.2% | 27.1% | NA    |
| Entravision - TV                      | 156     | 146   | 122   | 129  | (6.7%)  | (16.4%) | 5.7%    | 44.9%      | 41.9% | 37.7% | 40.1% |
| Hearst-Argyle Television              | 756     | 721   | 592   | 649  | (4.7%)  | (17.8%) | 9.6%    | 36.0%      | 34.0% | 23.2% | 29.5% |
| Belo <sup>1</sup>                     | 777     | 733   | 580   | 617  | (5.7%)  | (20.9%) | 6.4%    | 36.0%      | 34.4% | 24.0% | 26.6% |
| Sinclair Broadcast Group <sup>1</sup> | 718     | 754   | 601   | 604  | 5.1%    | (20.4%) | 0.5%    | 33.1%      | 30.7% | 23.4% | 24.8% |
| Mean (TV)                             |         |       |       |      | (3.0%)  | (18.9%) | 5.6%    | 37.5%      | 35.3% | 27.1% | 30.2% |
| Median (TV)                           |         |       |       |      | (5.2%)  | (19.1%) | 6.1%    | 36.0%      | 34.2% | 23.7% | 28.1% |
| <b>Radio Broadcasting</b>             |         |       |       |      |         |         |         |            |       |       |       |
| Entravision - Radio                   | \$94    | \$86  | \$74  | \$75 | (7.8%)  | (14.0%) | 0.7%    | 39.6%      | 32.5% | 38.8% | 33.2% |
| Beasley <sup>1</sup>                  | 134     | 121   | 98    | 99   | (9.7%)  | (19.0%) | 1.0%    | 20.1%      | 21.5% | 13.3% | 13.1% |
| Cox                                   | 445     | 410   | 342   | 350  | (7.8%)  | (16.6%) | 2.3%    | 39.2%      | 36.3% | 21.6% | 21.7% |
| Cumulus                               | 328     | 312   | 264   | NA   | (5.1%)  | (15.4%) | NA      | 35.9%      | 34.8% | 34.5% | NA    |
| Entercomm                             | 469     | 439   | 381   | NA   | (6.4%)  | (13.2%) | NA      | 39.9%      | 37.6% | 32.2% | NA    |
| Mean (Radio)                          |         |       |       |      | (8.4%)  | (16.5%) | 1.3%    | 33.0%      | 30.1% | 24.6% | 22.7% |
| Median (Radio)                        |         |       |       |      | (7.8%)  | (16.6%) | 1.0%    | 39.2%      | 32.5% | 21.6% | 21.7% |
| Mean (Broadcasting)                   |         |       |       |      | (5.3%)  | (17.9%) | 3.7%    | 35.6%      | 33.1% | 26.0% | 27.0% |
| Median (Broadcasting)                 |         |       |       |      | (6.7%)  | (17.8%) | 2.3%    | 36.0%      | 34.0% | 23.4% | 26.6% |

Note:

1 Represents EBITDA - BCF forecast not available.

## Valuation and Capitalization

Broadcast companies are uncomfortably levered and are focused on accumulating cash and paying off debt. Even with these cuts, revenue declines of 15%-25% in 2009 will likely result in widespread tripping of debt covenants.

Overall, diversified radio and magazine companies are trading with a cost of capital of between 10% and 12%, or even higher. Both radio and magazines can be expected to grow at the rate of inflation, which we project to be approximately 2%. Radio and magazine companies should be valued on trend cash flow, which we assume to be 5% above 2009 cash flow.

Using the classic Gordon Growth valuation model of  $d/(r-g)$ , we arrive at trend free cash flow valuations of about 10x-12.5x, which roughly equate to 10.5x-13.125x trough (2009) free cash flow. Converting to EBITDA multiples, we arrive at target valuations of 5.5x-6.75x trend EBITDA, which equate to roughly 5.75x-7.0x 2009 trough (2009) EBITDA.

Figure 8  
Equity Comparables—Broadcast (7/6/09)

| Company                   | Price  | %<br>52 Wk<br>High | Mkt.<br>Value | Cash | Debt    | Ent.<br>Value | EV / Revenue |      |      | EV / BCF |      |       | EV / EBITDA |       |       | P/E  |       |       | Debt/EBITDA |      |      |
|---------------------------|--------|--------------------|---------------|------|---------|---------------|--------------|------|------|----------|------|-------|-------------|-------|-------|------|-------|-------|-------------|------|------|
|                           |        |                    |               |      |         |               | 2008         | 2009 | 2010 | 2008     | 2009 | 2010  | 2008        | 2009  | 2010  | 2008 | 2009  | 2010  | 2008        | 2009 | 2010 |
| <b>TV Broadcasting</b>    |        |                    |               |      |         |               |              |      |      |          |      |       |             |       |       |      |       |       |             |      |      |
| Sinclair                  | \$1.15 | 11.5%              | \$93          | \$16 | \$1,376 | \$1,469       | 1.9x         | 2.4x | 2.4x | 5.7x     | NA   | NA    | 6.3x        | 10.4x | 9.8x  | 1.6x | NA    | 14.4x | 5.9x        | 9.8x | 9.2x |
| Belo                      | 1.78   | 16.5%              | 185           | 6    | 1,093   | 1,272         | 1.7          | 2.2  | 2.1  | 4.5      | NA   | NA    | 5.0         | 9.2   | 7.8   | 2.3  | 12.7  | 5.6   | 4.3         | 7.9  | 6.7  |
| Hearst-Argyle             | 4.46   | 18.2%              | 418           | 7    | 791     | 1,202         | 1.7          | 2.0  | 1.9  | 4.9      | 8.8  | 6.3   | 5.5         | 10.7  | 7.2   | 7.7  | NA    | 18.6  | 3.6         | 7.0  | 4.8  |
| Gray Television           | 0.90   | 19.1%              | 45            | 31   | 800     | 907           | 2.8          | 3.4  | 3.4  | 7.1      | NA   | NA    | 8.0         | 12.9  | NA    | NA   | NA    | NA    | 7.1         | 11.4 | NA   |
| Lin TV                    | 1.51   | 13.7%              | 80            | 20   | 743     | 811           | 2.0          | 2.3  | 2.1  | 5.8      | 8.3  | NA    | 6.6         | 10.2  | 6.8   | NA   | 37.8  | 3.5   | 6.0         | 9.4  | 6.2  |
| Nexstar                   | 0.75   | 11.5%              | 21            | 16   | 662     | 668           | 2.3          | 2.6  | 2.4  | 5.6      | NA   | NA    | 6.4         | 8.1   | 6.8   | 5.0  | 2.5   | 1.6   | 6.3         | 8.0  | 6.7  |
| Entravision               | 0.50   | 7.1%               | 42            | 64   | 407     | 384           | 1.7          | 2.0  | 1.9  | 4.3      | 5.1  | 5.0   | 5.2         | 6.3   | 6.3   | NA   | NA    | NA    | 5.5         | 6.7  | 6.6  |
| Mean                      |        |                    |               |      |         |               | 2.0x         | 2.4x | 2.3x | 5.4x     | 7.4x | 5.7x  | 6.1x        | 9.7x  | 7.4x  | 4.1x | 17.7x | 8.7x  | 5.5x        | 8.6x | 6.7x |
| Median                    |        |                    |               |      |         |               | 1.9          | 2.3  | 2.1  | 5.6      | 8.3  | 5.7   | 6.3         | 10.2  | 7.0   | 3.6  | 12.7  | 5.6   | 5.9         | 8.0  | 6.6  |
| <b>Radio Broadcasting</b> |        |                    |               |      |         |               |              |      |      |          |      |       |             |       |       |      |       |       |             |      |      |
| Entercomm                 | \$1.78 | 15.5%              | \$65          | \$4  | \$834   | \$894         | 2.0x         | 2.3x | NA   | 5.4x     | 7.3x | NA    | 6.6x        | 9.3x  | NA    | NA   | 2.7x  | NA    | 6.1x        | 8.6x | NA   |
| Cumulus                   | 1.11   | 17.8%              | 46            | 53   | 696     | 689           | 2.2          | 2.6  | NA   | 6.4      | 7.6  | NA    | 7.7         | 9.6   | NA    | 2.9  | 2.7   | NA    | 7.8         | 9.7  | NA   |
| Cox                       | 4.80   | 36.7%              | 385           | 1    | 400     | 784           | 1.9          | 2.3  | 2.2  | 5.3      | 10.6 | 10.3  | 5.9         | 10.9  | 10.9  | 6.2  | 13.3  | 13.0  | 3.0         | 5.6  | 5.6  |
| Salem                     | 0.70   | 20.2%              | 17            | 2    | 325     | 340           | 1.5          | NA   | NA   | 4.8      | NA   | NA    | 6.6         | NA    | NA    | NA   | NA    | NA    | 6.3         | NA   | NA   |
| Beasley                   | 2.17   | 39.1%              | 49            | 3    | 175     | 220           | 1.8          | 2.2  | 2.2  | 6.4      | NA   | NA    | 8.5         | 17.0  | 17.0  | 6.4  | 43.4  | 36.2  | 6.7         | 13.4 | 13.4 |
| Saga                      | 9.40   | 35.2%              | 57            | 7    | 135     | 185           | 1.3          | 1.4  | NA   | 4.2      | NA   | NA    | 5.6         | 6.9   | NA    | NA   | 5.0   | NA    | 4.1         | 5.0  | NA   |
| Mean                      |        |                    |               |      |         |               | 1.8x         | 2.2x | 2.2x | 5.4x     | 8.5x | 10.3x | 6.8x        | 10.7x | 13.9x | 5.2x | 13.4x | 24.6x | 5.7x        | 8.5x | 9.5x |
| Median                    |        |                    |               |      |         |               | 1.9          | 2.3  | 2.2  | 5.3      | 7.6  | 10.3  | 6.6         | 9.6   | 13.9  | 6.2  | 5.0   | 24.6  | 6.2         | 8.6  | 9.5  |

Note: Cost of Debt represents the interest expense / average debt. Nexstar is the only company with a recent debt transaction. On June 27, 2008, Nexstar issued senior subordinated PIK notes due 2014. The interest was 12% per annum from June 30, 2008 to January 15, 2010. Then it steps up 0.5% every six months thereafter until it hits 15%. This cost of debt is more representative of today's environment.

Most of the valuation multiples above are actually overstated as the market value of debt at these companies generally trades at a hefty discount to book value.

Note that these valuations are for public, diversified media companies. Smaller companies and single properties should be worth about 4.5x-6.0x trend EBITDA due to their higher cost of capital. This would include virtually all private equity-backed media deals.

Local TV affiliates should be valued as declining assets at as little as 2-4x EBITDA. The big media companies should be able to at least grow as fast as GDP as should be valued at 8-10x trend EBITDA.

As cyclical companies, radio broadcasters and magazine companies should have leverage of less than 50% of the capital structure. That means middle-market, private equity-backed media companies should have debt to EBITDA of no more than 2.0x-2.75x, and larger public companies should have debt to EBITDA of 2.5x to 3.0x or less. Most radio companies are currently levered at 5-7x EBITDA (or more), however. There is therefore a high risk of debt covenant default, very little or no equity value remaining in the industry and a good deal of equity dilution and potential debt restructuring that needs to occur to get debt down to proper levels.

### **Implications for Private Equity**

The big question for private equity investors with existing media assets on the books is one of survival. There is very little if any equity value left in these companies. The cash flow of such companies has typically dwindled to the point that their debt load is unsustainable. We believe that 2009 revenues are the "new normal", which means that there is little hope for a return to the pre-acquisition levels of revenue and cash flow. If the existing equity is completely underwater, the private equity investors have little motivation or ability to invest additional equity into the company. For the vast majority of private equity-backed publishing and broadcasting companies, the lender is or will be the *de facto* owner.

For private equity investors looking to deploy fresh capital, the industry offers an opportunity. Revenue is likely in the process of bottoming, and a cyclical rebound can be expected. The industry is likely to be restructured in a way that each content vertical will be consolidated down to one or two viable properties. Owners need to take a hard look at which assets can perform long term and which cannot, and be willing to shut down non-strategic properties. For publishers there is the possibility of generating some growth online, exploiting brand power and ad sales expertise that most online-only companies do not possess. The key for successful investing will be to distinguish between the viable assets with bad capital structures and the non-viable assets with hopeless capital structures.

Dealing with troubled lender-owners will create interesting investment opportunities. There exists the opportunity to structure creative financing deals whereby the investors bring management expertise in exchange for a revamped capital structure. There should also be the possibility to gain scale through M&A given the number of distressed sellers.