



WHERE IS THE RADIO INDUSTRY GOING? *A Look At The First Three Quarters of 2006*

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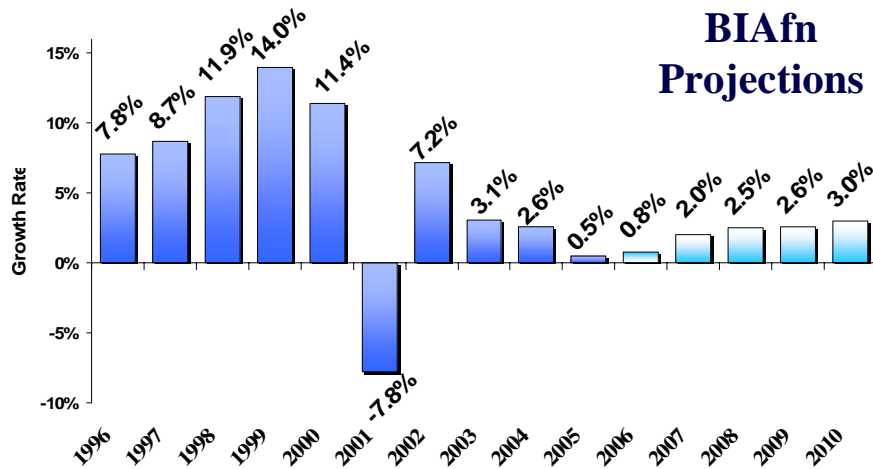
So far, 2006 has been an enigma. On one hand, monthly revenue reports are extremely disappointing and quarterly earnings reports are anemic. The largest two markets are expected to post a year-to-year decline while many smaller markets are posting an excellent year. Conversely, the number of radio stations sold and the total value of those sales are noticeably above last year's pace, with the values of many of the largest deals experiencing strong multiples. And, talk in the financial community indicates a healthy amount of willingness and capital to provide debt financing for new acquisitions. With such conflicting signs, where is the radio industry going and what should we expect to see happening?

As a whole, the short run revenue prospects for the industry will continue at the same tepid growth rate that has been the norm for the past few years. The presence of the Internet, new media, and the continued fractionalization of advertising are trends that will continue for some time to come. A quick look at the revenue history tracks the weak growth trend. The chart below shows the percentage change in total station revenues over the last ten years, and BIAfn's projections for the next five years. Although no one expected the double digit growth of the late 1990s and early 2000 to continue, the last three years of radio station revenue growth have not even kept up with either the overall economy's growth or the consumer price index.



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**Radio Station Revenue
Growth Rates 1996 – 2010**



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But even while competitive forces from Ipods, Internet streaming, satellite radio and concern about ad clutter and creative malaise continues to decrease the appeal of local radio stations as an advertising medium, **the radio industry is still reaching over 90% of the American public. That's an exceptional percentage. So, to recapture its position in the ever-changing media landscape, the industry must demonstrate a renewed vitality and a commitment to accountability .** Radio needs to invest in what made it successful in the past (local news, weather, entertainment and community service) while adopting new distribution channels to get that programming to additional audiences. Without those actions, the radio industry will wallow in the low single digits



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of advertising revenue growth below the inflation rate with the possibility of years of negative growth.

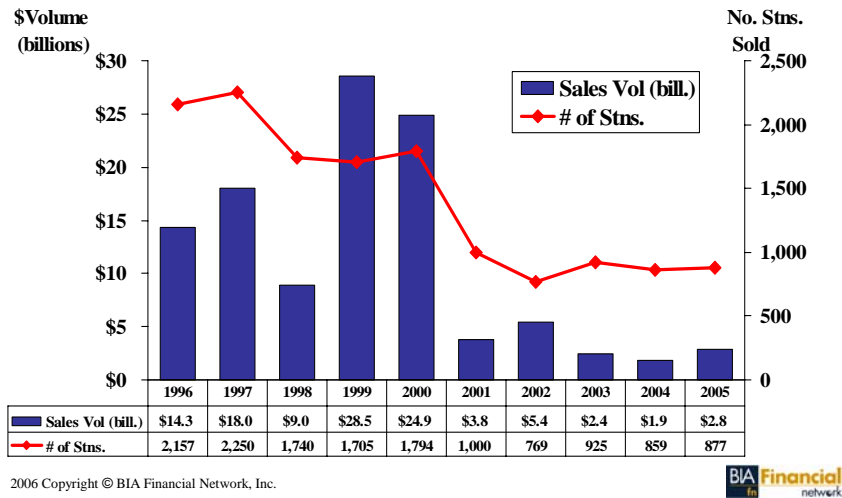
Now, here is where the situation gets interesting. Despite the slowdown in advertising revenue growth, the radio industry still produces margins that are larger than many other businesses, so there is a continual interest in purchasing and owning stations. The present environment of lackluster growth is actually fueling this interest because it creates opportunities for experienced entrepreneurs and station operators to purchase stations at reasonable prices and then be in the position of strategically increasing the value of the assets.

Over the past four years, the number of radio stations sold annually has been pretty consistent, averaging slightly more than 850 stations for a total value of around \$3.1 billion. The chart below shows the ten year history of radio station transactions through the end of 2005.



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**Radio Station Transaction Volume:
 1996 – 2005**

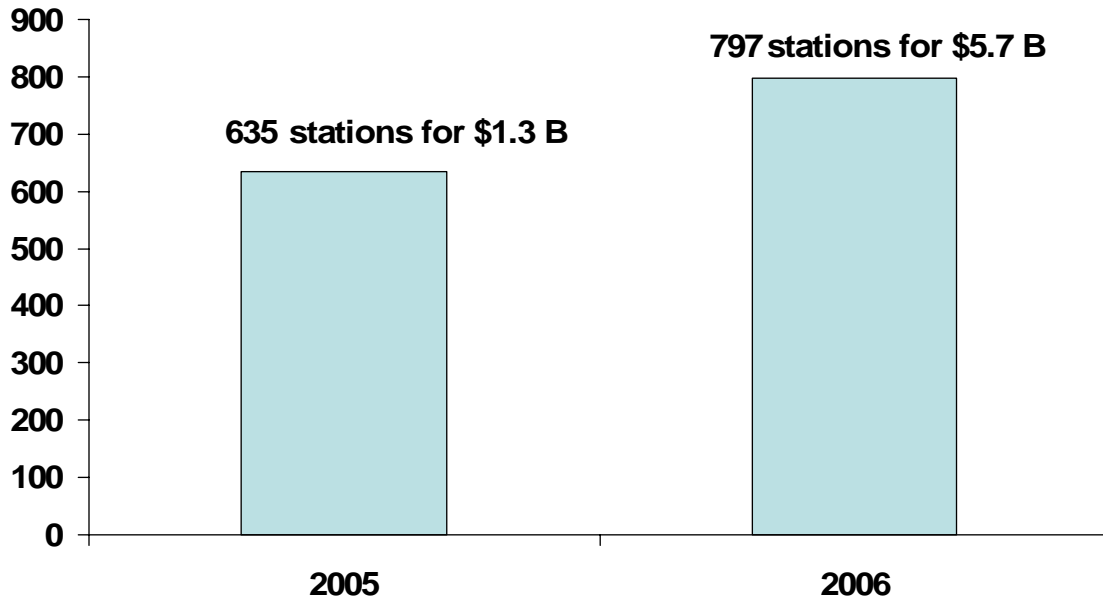


Now, in the first three quarters of 2006, the transaction pace has increased, with the number of radio stations sold so far this year already totaling 817 radio stations, a nearly 30% increase over the same period last year. The total value of those sold stations (many being top tier stations in larger markets) has increased even more, 341%, with a total value of those radio station sales reaching \$5.9 billion in the first three quarters alone, as compared to \$2.8 billion in 2005.



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of Radio Stations Sold:
January – September, 2005 & 2006



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Many of the stations that have recently sold have been some of the assets held by large radio groups. ABC Radio selling their non-Radio Disney, non-ESPN properties to Citadel is one such example as is CBS completing the process of selling ten of their non-strategic markets to different buyers. The interesting point about those sales, as well as others like them (e.g., Salem, Radio One), is that these radio groups are not completely abandoning the radio industry. Instead, they are reassessing their holdings and determining where there is the greatest potential for growth.



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Additionally, the buyers of these properties also believe that they can increase the value of these assets. Whether it is because they already own stations in those markets and/or regions or because they see possible programming and alternative revenue opportunities (e.g., Internet sites, mobile applications, other multi-media platforms), these buyers are paying prices that equate to strong multiples of existing revenues and cash flows.

So, who or what groups will pick up these divested radio stations? Potential buyers most likely will *not* be in the markets where the stations are being sold. Existing competitors are, for the most part, precluded from buying many additional stations under the radio ownership rules as modified in June, 2003. However, there appears to be several mid-sized and new radio groups that may have an interest to enter these markets and have access to an ample supply of equity and debt financing. So long as these strategic radio group buyers are paying prices over the public multiples, there will be an active marketplace for these “non-essential” properties owned by public companies.

Are these groups correct? Only time will tell. Still, it is encouraging to the radio industry that seasoned radio executives and their financial sponsors are eager and willing to take those chances. These executives appear willing to expand on what made radio successful in the past (local news, weather, entertainment and community service). The companies that they lead are beginning to embrace the promise of HD Radio, the Internet and new media, rather than pull away and try to compete with viable multi-media platforms. These commitments should be rather encouraging at a time when the only



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news has been bad news and could lead the industry to a profit margin high enough to support continued reinvestment in itself.