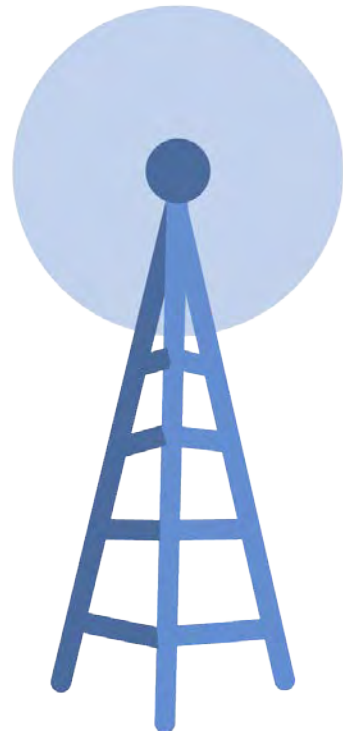




STATE OF THE INDUSTRY REPORT

LOCAL TELEVISION STATIONS PROFILES AND TRENDS FOR 2014 AND BEYOND

December 2013



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EXECUTIVE SUMMARY

The competitive landscape facing local television stations is drastically different than just five years ago, much less than what it was ten or twenty years ago. Competition from national cable/telco/satellite delivered networks has continued to increase with more competition from online streaming sources. While viewing of live television is still the predominant viewing of all consumers, several age groups are utilizing other sources of video programming. Additionally, all consumers are utilizing additional sources of news in lieu of local television stations' news.

In the face of this increase competition for viewers, local television stations are maintaining its position in the advertising marketplace. New options for national and local advertisers are now available exerting some competitive pressure. With the consistent advertising revenue, local television stations are also benefiting from increased retransmission consent revenue from the cable, telco, and satellite delivery services.

Local television stations are also trying to develop new services with their digital signals and are in the planning stages for a massive overhaul and improvement in their main over-the-air signal which will be several years away. What is not encouraging in the short run are prospects for any regulatory relief of ownership rules and present litigation of services that stream these local stations signals without any payments to these stations.

Nevertheless, the level of television station transactions in recent years has increased due to the success of larger groups retransmission consent negotiations and the upcoming reverse auction to be held by the FCC. With this renewed interest in local television stations and their underlying forces affecting local television stations the values of publicly traded local television station companies has soared in recent months suggesting a bright future for these stations.

INTRODUCTION

Today, operators of local television stations find themselves in increasingly challenging positions. While they generated substantial revenue gains during the political and Olympic year of 2012, they now face an increasing array of new competitive advertising media. At the same time they face an increasing number of new competitive viewing options available to the consumers. Faced with the competition for audiences and selling those audiences to national and local advertisers, local television stations are attempting to expand their services.

Many of these local television stations are in a position of strength, benefiting from the additional political advertising in recent years and significant revenue from their retransmission consent agreements with local cable, telco and national satellite distribution services. This revenue allows them to reinvest in their programming and develop new services.

In this paper we review the overall landscape facing local television stations. We start off with an examination of the many viewing options now available to consumers and some recent data on the levels of viewing to those options. Despite this new competition, viewing of local television stations has held up quite well. This has led to a continuation of consistent revenue growth, the focus of the next section. Local television stations are competing with many more new media to realize that revenue, a point we will demonstrate.

We then cover the increasingly important new revenue stream of retransmission consent payments. Due to strong negotiating and the increased concentration of local television station ownership, we expect that this revenue will continue to grow sharply in the years to come, and we will provide our nation estimates of that revenue to highlight that point.

Local television stations are also trying to expand and improve their product offerings with advancements in technology. We will describe some of these efforts already

We next cover the many regulatory and legal issues associated with local television station ownership and copyright of the programming aired on these stations. While there is little likelihood of further deregulation of local ownership rules, there is some possibility of a tightening of some existing relationships between local television stations. Additionally, there is a growing controversy concerning the ability of certain firms to retransmit local television stations via the Internet without any payments to those local television stations.

Amid all of these various forces affecting local television stations, there has been a noticeable increase in the level of television station trading activity. We will review that

recent history, explore the reasons for this activity, and examine the values of some of local television station companies.

After reviewing all of these factors that affect the local television station industry, one is led to a feeling that while there will continue to be many new challenges to these stations, they continue to maintain an important presence in the local media marketplace. This potential to thrive in the new video and advertising marketplace has led to investors becoming more confident that some of these television groups will continue to grow in profitability and thrive in the new media marketplace.