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# Boosting retrans projections as TV station owners succeed in pushing rates

By Robin Flynn

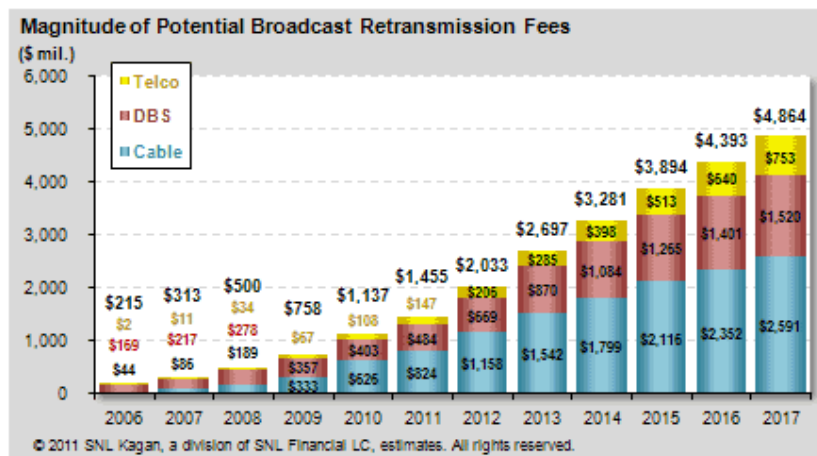
We are issuing new projections for broadcast industry [retransmission revenues](#), based on evidence of rising fees being paid in the current round of negotiations, as TV station owners seek to boost their net intake from retrans fees even as they begin to pay network partners programming fees. We project that industry retrans fees could increase to \$3.9 billion by 2015 (versus our \$3.0 billion projection in May), at which time retrans fees would still represent just 8% of the almost \$50 billion that multichannel operators are projected to pay to basic cable networks, regional sports networks and premium channels in affiliate fees.

TV station owners always thought that increasing retrans fees would be a stair-step process, with the traumatic initial step of going from zero to a fee of 20 cents to 30 cents per sub per month followed in the second or third round of negotiations by going to potentially twice that (higher for owned-and-operated stations). Even with recent increases, TV station owners say that they are still not at fair value given the ratings that they deliver, versus a cable network like [ESPN](#), which we project will receive license fees of \$5.06 per sub per month in 2012.

Station owners say their ability to obtain retrans fees on par with cable networks such as [ESPN](#) has been hampered, given that the negotiations are localized or in a limited number of markets and that affiliate groups do not make as much of an impact on a large multichannel operator as a cable network with a national footprint. However, if [NBC](#) succeeds in its plan to negotiate on behalf of its O&O group as well as affiliates, that dynamic would change for at least one broadcast network.

The potential for group negotiations has prompted a strong response from the multichannel industry, which is protesting arrangements that allow stations to negotiate in any sort of group outside of outright ownership. On Nov. 14, a group including the American Cable Association, [Time Warner Cable Inc.](#) and [DISH Network Corp.](#) sent a letter to the FCC (see [attached](#)) to allege that if stations affiliated with the Big Four negotiate together, they have the market power to increase carriage fees by 21.6% versus situations where Big Four stations negotiate separately. Similarly, in a press release, the ACA took issue with [Raycom Media Inc.](#)'s Nov. 15 shared services agreement with [Belo Corp.](#) to take over operations of two Belo stations in Tucson, Ariz., (affiliates of [News Corp.](#)'s [FOX](#) and [MyNetworkTV](#)) since Raycom already has an affiliate of [CBS Corp.](#)'s [CBS](#) in that market.

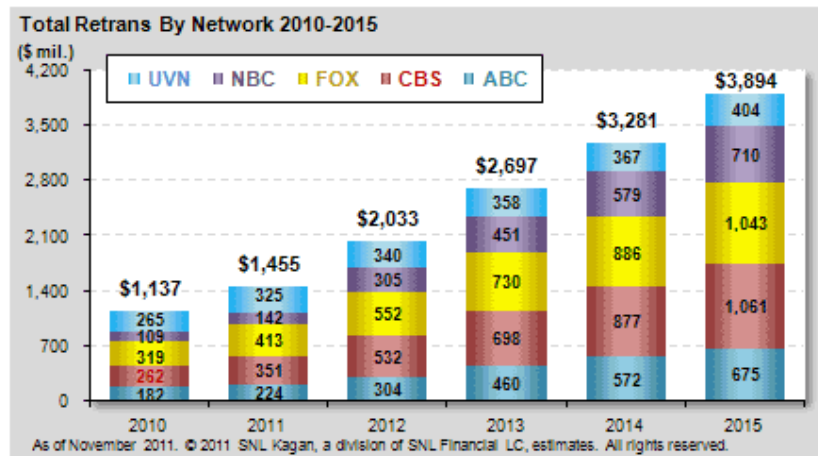
The fact that networks are now taking what can be half of affiliates' retrans income as a "programming fee" or other such payment means that increasing the retrans revenue stream has been made much more of an economic necessity for TV station owners, since it is no longer such a pure contribution to cash flow. That's especially true for arrangements such as one implemented by [FOX](#), which is taking a set fee per sub per month no matter what the TV station is getting. In the larger markets, [FOX](#) is asking for 50 cents per sub per month within four years, indicating that the level received by TV stations in those markets would ideally be at least \$1 per sub per month.



Ultimately, station owners will be faced with paying a programming fee to the networks that may not have anything to do with what they are getting from the MSOs. As [Gray Television Inc.](#) President and COO Robert Prather Jr. said at the Wells Fargo Technology, Media & Telecom [conference](#) Nov. 9, "They are not going to care what you get in retrans. They're going to say, this is our fee for providing our program and take it or leave it." Prather projected that the deals [Walt Disney Co.](#)'s [ABC](#) did last year have proven too cheap, and when his company talks to the ABC network in 2013 it will be paying closer to market rate. "I think the networks are going to wind up, in the long run, probably getting close to 50% of whatever retrans we have going forward," predicted Prather.

The new affiliate agreements spell the end of rapidly waning "network comp," whereby the networks used to pay stations to carry their programming. As Les Moonves said on the company's third-quarter earnings call Nov. 3, "On the reverse comp side, we signed a new deal with one of our largest affiliate groups during the quarter. In this deal that comes into full effect next summer, we took a previous arrangement in which we had been paying our partners and turned it into a deal in which they will now be paying us the kind of compensation we've told you we can expect." The upside of the new arrangement for stations is that they are now much more important to their network partners. As Gray's Prather said, "We are going to be important customers. They're not going to be as willing to treat us like a stepchild, I think, as they have in the past."

As for rising fees, many TV station owners have recently discussed the expanding pie of retrans dollars. Gannett Co. Inc. President and CEO Gracia Martore said Oct. 17, "People need to understand that there's a lot of room for the pie to grow. So there's room to share. And the growth of that pie, we see pretty clearly as we are seeing deals being done in the marketplace and we see our opportunity over the next few years as our deals come up to expand that pie of dollars for us." Regarding increasing fees, Gray's Prather told the Wells Fargo conference Nov. 9, "I will give you an example, I won't use the names, but one of the big operators has countered our proposal and they offered more than double what they are paying right now, as just the first counter. So I think it's a good sign, we're going to get some pretty good money." For more on rising fees, click [here](#).



Our updated retransmission revenue projections show total industry retransmission revenue rising from \$1.45 billion in 2011 to \$4.9 billion by 2017, with the majority of retrans revenue by 2017 still coming from cable MSOs. We have continued to assume a mix of rates between O&Os and large and small market affiliates in our projections spreadsheet (click [here](#)), yielding a blended average rate for MSOs per sub per month by 2017. As shown, the growth in retrans fees is supported by slow growth in multichannel subscribers (for more on multichannel subscriber projections, click [here](#)).

We have validated our projections by building up the number not only from the top down, but also from the bottom up. Last month, we published our detailed [reverse retrans projections](#). In this analysis, for the first time, as shown, we have also broken out retrans fee projections by affiliate group, assembling these numbers by working on a station-by-station basis across the various affiliate groups, utilizing publicly released retransmission revenues from TV station groups, and backing into implied quarterly payments per subscriber per month by calculating multichannel subs reached by station based on data from MediaBiz. More on specific fees per sub per month by station owner can be found by clicking [here](#).

As shown, we project that by 2015, CBS and FOX, by virtue of the size of their O&O station groups as well as emphasis on pushing rates, will be generating the largest chunks of retrans revenue, at more than \$1 billion each. Given that CBS is already allocating half of its O&O retrans revenues to its networks, that would mean significantly more funds available to invest in programming than existed before the broadcast retrans funds began flowing. Station owners are counting on some of that money being invested in high-value programming to allow them to continue to grow local spot rates, deliver viewers to local news and attract political dollars. Local news is still an important revenue generator for TV stations, with early morning news increasing in importance even as late night news for some stations declines.

<b>TV Station Retransmission Revenues by Network: 2010-2015</b>						
	2010	2011	2012	2013	2014	2015
	(\$ mil.)	(\$ mil.)	(\$ mil.)	(\$ mil.)	(\$ mil.)	(\$ mil.)
O&O Retrans*	627	861	1,108	1,327	1,502	1,702
Affiliate Retrans	509	594	925	1,370	1,779	2,192
<b>Total</b>	<b>1,137</b>	<b>1,455</b>	<b>2,033</b>	<b>2,697</b>	<b>3,281</b>	<b>3,894</b>
<b>Reverse Retrans</b>	<b>23</b>	<b>146</b>	<b>473</b>	<b>745</b>	<b>1,037</b>	<b>1,290</b>
<b>By Network</b>						
<b>O&amp;O Retrans*</b>						
ABC	78	104	122	149	177	205
CBS	118	181	250	299	349	398
FOX	185	257	308	358	408	459
NBC	-	16	110	186	224	263
UVN	247	303	318	334	343	378
<b>Total</b>	<b>627</b>	<b>861</b>	<b>1,108</b>	<b>1,327</b>	<b>1,502</b>	<b>1,702</b>
<b>Affiliate Retrans</b>						
ABC	105	120	183	311	395	471
CBS	144	170	282	399	528	663
FOX	134	156	244	372	478	585
NBC	109	126	194	266	354	447
UVN	17	21	22	24	24	27
<b>Total</b>	<b>509</b>	<b>594</b>	<b>925</b>	<b>1,370</b>	<b>1,779</b>	<b>2,192</b>
<b>Total O&amp;O and Affiliate Retrans</b>						
ABC	182	224	304	460	572	675
CBS	262	351	532	698	877	1,061
FOX	319	413	552	730	886	1,043
NBC	109	142	305	451	579	710
UVN	265	325	340	358	367	404
<b>Total</b>	<b>1,137</b>	<b>1,455</b>	<b>2,033</b>	<b>2,697</b>	<b>3,281</b>	<b>3,894</b>
<b>Reverse Retrans from Affiliates</b>						
ABC	5	53	143	198	231	267
CBS	0	28	98	171	284	368
FOX	0	39	134	233	296	341
NBC	0	5	76	119	202	288
UVN	17	21	22	24	24	27
<b>Total</b>	<b>23</b>	<b>146</b>	<b>473</b>	<b>745</b>	<b>1,037</b>	<b>1,290</b>

\* Reflects gross retrans revenue accruing for carriage of the O&O TV stations before any sharing with the network division. As of November 2011. © 2011 SNL Kagan, a division of SNL Financial LC, estimates. All rights reserved.

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