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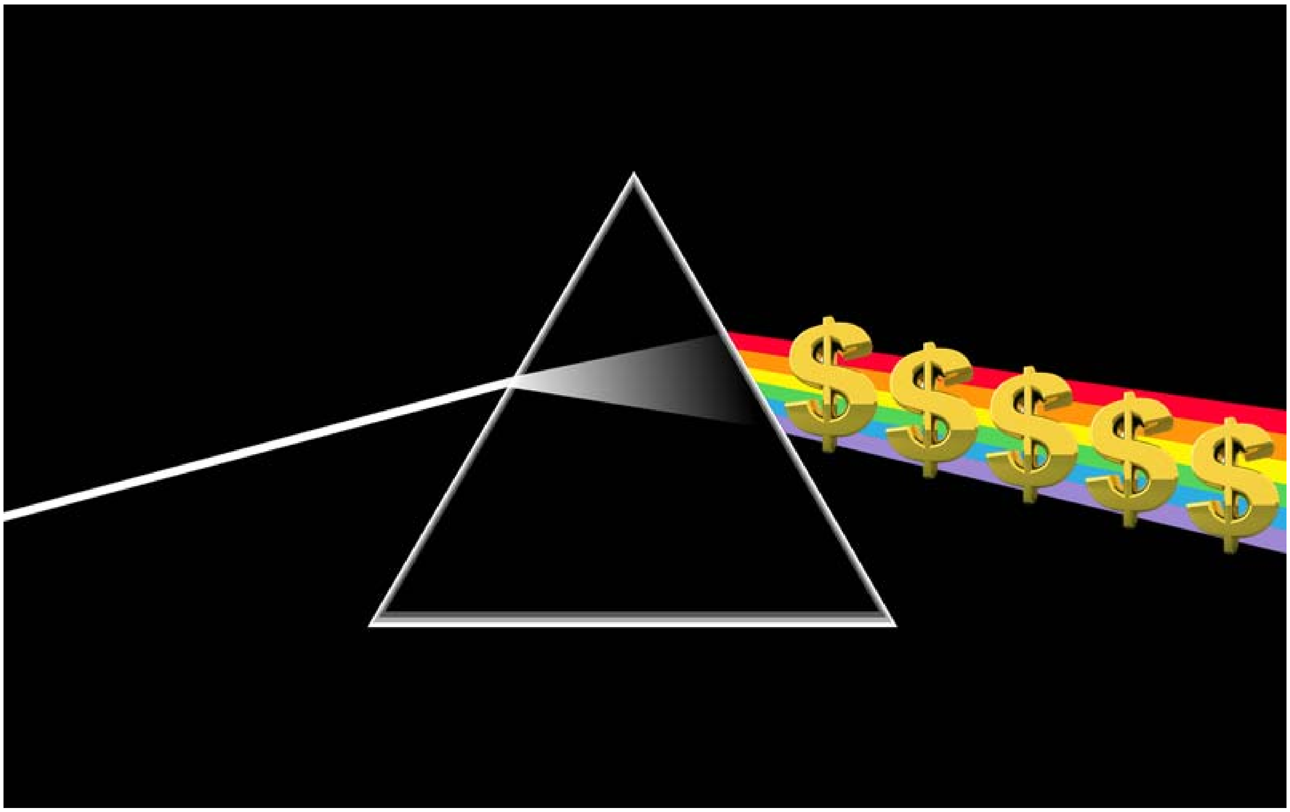
January 20, 2016

Gabelli & Company

The Incentive Auction



The Bids Are In, And The Winners Are…

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Reverse Auction Window Closes
Forward Auction Applications Due Soon

On January 12, 2016, the window closed for broadcasters to submit applications to the Federal Communications Commission (FCC) to participate in the upcoming reverse (incentive) auction due to start later this year. The forward auction (largely for wireless providers) application filing window will open on January 26 and close on February 9, 2016.

The auction will allow for a systematic allocation of spectrum across the nation. Bidders in the forward auction will not know what specific blocks of spectrum they will be bidding on, but the forward auction is expected to be the last large opportunity for wireless providers to obtain meaningful amounts of spectrum for the foreseeable future and could pull in non-traditional participants.

We anticipate that most, if not all public broadcasters submitted applications to participate. There would be no reason not to as applications can be withdrawn, and broadcasters need not actually commit to participating in the reverse auction until March 29. Owners have several options. They can 1) sell a station in the auction and have that station go off the air; 2) they could agree to partner with another broadcaster in the market in a *channel sharing arrangement* (CSA) and remain on the air, but would likely have to share some portion of the proceeds with the partner; or 3) they could opt to move to a VHF channel from a UHF station and receive less in the way of compensation.

Station owners may (and we emphasize may) reap a windfall benefit from participation. A recent *Wall Street Journal* article highlighted station acquisitions by Michael Dell's OTA Broadcasting which accumulated approximately two dozen mostly marginal television stations (religious, independent, etc.) over several years at low prices and stood to make as much as $4 billion.

We note that the $4 billion figure identified for OTA appears to be the sum of the opening bids for the stations. In this reverse auction, the FCC sets the opening bid price. From there, prices will decline as broadcasters decide on a station-by-station, market-by-market basis the sum they require to give up their broadcast licenses. The actual sale price will be determined by a number of variables that include, but are not limited to, the amount of spectrum that the FCC decides to acquire (the more spectrum, the higher the aggregate purchase amount), the number of auction participants in each market (the more players in each market, the greater the probability of a lower sale price) and the level of enthusiasm on the part of forward auction participants. The Commission will not decide on how much spectrum it will try to clear until it evaluates broadcaster commitments after March 29. On the buyer side, Sprint has said it would not be a participant in this auction, and AT&T and Verizon acquired significant spectrum in the last AWS auction.

Some broadcasters have kept their strategies quiet, not discussing plans on how they plan to participate. Others have been more specific. However, with the applications all tendered and the window closed, information about broadcaster plans and strategies will likely be limited as a result of FCC anti-collusion rules.

That said, Media General has been pretty specific on how it might participate in the auction. At its Investor Day on March 12, 2015 the company suggested that it could capture roughly $930 million in auction proceeds (pretax), or up to $4.29 per share (after tax) based on the Greenhill median values and aggressive channel sharing in the majority of MEG's duopoly markets, as well as taking some stations off the air. The company indicated that the impact on broadcast cash flow (BCF) would be minimal. (Note: The FCC commissioned an investment banker, Greenhill, to calculate station values based on a variety of inputs.)

The two companies vying to acquire Media General, Meredith and Nexstar, have said that as part of an acquisition they will provide contingent value rights (CVRs) to MEG holders that could be worth up to $4.29 per share, subject to success in the reverse auction.

Sinclair Broadcast Group has stated that it could monetize in excess of $2 billion worth of spectrum without materially affecting BCF. The company has not provided the level of detail that MEG provided. However, we would anticipate that to reach that level of auction proceeds SBGI would put most duopoly stations into the auction and then co-locate the station sold into the spectrum of its remaining station in a market.

Other broadcasters have been less sanguine about their prospects, likely reflecting fewer opportunities in desirable markets (largely, but not limited to the congested markets along the Interstate I-95 corridor, southern California and around Chicago).

Table 1 aggregates spectrum values for broadcasters based on the Greenhill report as well as the opening bids published by the FCC.

Table 1

Estimated Spectrum Values And FCC Opening Bids
Based on Greenhill Median Values

Company	Symbol	Price	Shares	FCC Opening Bids ($ mils)	Greenhill Med. Val. ($ mils)	Per Share	Proportion of Stock Price
Entravision	EVC	$ 7.05	87.8	$ 3,116	$ 860	$ 9.79	139 %
TEGNA	TGNA	23.20	227.0	7,449	1,416	6.24	27
Gray	GTN	13.14	72.3	5,392	807	11.16	85
Media General	MEG	15.53	130.4	6,226	960	7.36	47
Meredith	MDP	37.85	49.0	2,696	586	11.96	32
Nexstar Broadcasting	NXST	47.66	33.5	9,692	1,659	49.52	104
E.W. Scripps	SSP	17.91	84.2	6,089	1,291	15.33	86
Sinclair Broad. Group	SBGI	29.34	98.4	19,540	3,340	33.94	116
Tribune Media	TRCO	30.65	96.9	11,119	3,027	31.24	102
Graham Holdings	GHC	434.53	5.8	1,355	275	47.05	11
OTA Broadcasting	*private*			4,193	1,227		

Source: Company reports, FCC, Gabelli & Company estimates.

Nominally, Entravision and Sinclair Broadcast Group have the most spectrum value (on a proportion of the stock price). We would point out that the aggregate sum assumes that ***every*** station is sold at the median value, including each duopoly station in a market, an outcome that is improbable at best. Additionally, Gray and Nexstar have a large number of small-market stations which could be of more questionable value. Both companies have indicated in the past that their hopes for the spectrum auction are very modest. Indeed, the Commission has indicated that in a number of small and/or sparsely populated markets it will not have to clear any spectrum.

Tribune Media faces a somewhat different issue. The company owns seven television stations in top-ten markets, including New York, Los Angeles, Chicago, Philadelphia, Dallas, Washington and Houston, some of which could be exceptionally valuable. However, TRCO has no duopolies in those markets which may limit its ability to monetize the spectrum. (We would also note that those markets have disproportionately more stations, including numerous religious, educational and independent broadcasters that are likely to have substantially lower walk-away prices.)

And in the end, the final “bids” accepted by the FCC in the reverse auction may not be the sums that broadcasters receive. Forward auction proceeds must meet or exceed the reverse auction payments plus the $1.75 billion in costs to relocate the stations.

We continue to believe that broadcasters have another spectrum opportunity in the form of a new broadcast standard – ATSC 3.0 which was demonstrated at the Consumer Electronics Show in Las Vegas. ATSC 3.0 is moving forward in a complex adoption process. A new standard would provide broadcasters with more flexibility and mobile receptivity and could be completed later this year with commercialization to follow.

Companies Mentioned

AT&T, Inc.	(T	-	NYSE)
E.W. Scripps Company	(SSP	-	")
Entravision Communications	(EVC	-	")
Graham Holdings	(GHC	-	")
Gray Television	(GTN	-	")
Media General	(MEG	-	")
Meredith Corporation	(MDP	-	")
Nexstar Broadcasting	(NXST	-	NASDAQ)
Sinclair Broadcast Group	(SBGI	-	")
Sprint Corporation	(S	-	NYSE)
TEGNA Inc.	(TGNA	-	")
Tribune Media Company	(TRCO	-	")
Verizon Communications	(VZ	-	")

I***, Barry L. Lucas,*** the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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Important Disclosures

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