ANALYSIS & COMMENTARY:
Forrester/ RAB Task Force "The Economic Impact Study of the PPM on The Radio Industry"

EXECUTIVE SUMMARY:

"Ad Panel Consistently States Positive PPM vs. Negative Diary Views – Will Radio Tune In or Dial Out"

Radio stations and groups have an intriguing decision that looms immediately ahead of them. Should the Radio sector stride forward with passive electronic, costly Portable People Meters (PPM), or should it stand firmly still with inexpensive human-inscribed paper, less credible Diaries? The just released Forrester Research/ Radio Advertising Bureau (RAB) PPM-Task Force Study ("Forrester study") forecasts that if Radio moves forward with PPM audience measurement, as its Advertising community Panel suggests, the Radio Industry should potentially generate 3% of added, incremental revenue growth. Conversely, the Forrester study predicts that if Radio stands still with Diaries, that its Ad Panel indicated that Radio should prospectively see about 2% lower growth rate. That's a substantial 5% point swing between PPM and Diaries. The Forrester study and its conclusions stem from its survey of nearly 490 advertisers and agencies. The authors imply that the Radio Industry could pick a more profitable, albeit uncertain future with PPM's positive differences. Alternatively, the authors convey that Radio could remain with its very familiar Diaries, but that path is prospectively less profitable. It's like the old Clash song, *"Should I Stay Or Should I Go?"*

The Industry debate is already underway, as nay sayers and cheerleaders fire away at each other. Overall, this study provides more ammunition for the cheerleaders. One positive trend is 77% of agencies declare that radio advertising will gain greater credibility from electronic measurement. The spread between positive and negative choices in most of the study's questions was consistently and strikingly in favor of PPM [see the table below] by an average of over 12X, a very broad indicator of support. The most revealing result was that if the PPM change occurs, 17% of the Agency respondents would increase their radio ad spend, and if no change occurs with Diaries maintained, that 8% would decrease radio ad budgets. That is a dramatic 25 percentage-point swing. The Advertiser respondents had a more stunning 31 percentage-point swing.

QUESTIONS POSED	**AD AGENCIES**			**ADVERTISERS**		
	Increase	Decrease	***Difference***	**Increase**	Decrease	***Difference***
With **PPM**, do you incr./ decr. Radio adv.?	**17%**	1%	**17X**	**23%**	2%	**12X**
With **Diary**, do you incr./ decr. Radio adv.?	1%	**8%**	**8X**	4%	**8%**	**2X**
	YES	NO	***Difference***	**YES**	NO	***Difference***
Would Radio adv. be higher w/ **PPM**?	**22%**		**22X**	**24%**		**5X**
Would Radio adv. be higher w/ **Diary**?	1%			5%		
	Increase	Decrease	***Difference***	**Increase**	Decrease	***Difference***
Would your Radio adv. incr./ decr. with the avg. station **cume higher**? [2x more w/ **PPM**]	**36%**	4%	**9X**	**44%**	1%	**44X**
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Will your Radio ad. incr./ decr. in **PPM mkts**?	**18%**	2%	**9X**	**22%**	1%	**22X**
Will your Radio ad. incr./ decr. in **Diary mkts**?	5%	**9%**	**2X**	4%	**13%**	**3X**

SOURCE: Forrester/ RAB PPM-Task Force Study, April 2005.

However, the skeptics can point to some discouraging items in the study like a lack of wider, positive action, as 3 out of 4 of the Ad Panelists replied that the introduction of PPM would <u>not</u> increase their radio ad spending. This answer comes from a panel that could be aptly described as the "converted" since the average 19-20% radio ad share of their budgets is 2.5x the norm of the 8% of total ad revenue share that Radio currently enjoys, but assuredly doesn't own. I would point out one other very significant Ad Panel reply, which was when they asked if PPM markets will increase/ decrease spending vs. Diary markets – 18% will increase spending to PPM markets, while 9% will decrease spending in Diary markets. That's another dramatic 27 percentage-point swing of significant budgetary action between change and no change. This disenchantment with Diaries was underscored in last year's Padin & Estabrook LLC Study [1], that revealed radio's Diary audience measurement finished a disappointing second to last out of the nine distinct advertising media listed. That's a dramatically poor ranking, implying a major obstacle to driving revenue is not only the existing Radio research method and seemingly most of the Radio Industry fails to recognize it.

Assuredly, this Forrester study was not designed to be definitive enough to end the heated PPM debate. It is just a snapshot in a time. Yet, it is reasonably based on a diverse, sizeable expert panel's views. However, one shortfall in the study is because it is hard to gauge how much the advertising community should actually follow through with the Ad Panels' predictions. There is also the added difficulty of prophesizing how fast or widely the Radio Industry itself decides to change decades-long practices and invest considerable dollars. Another missing item is no ad rate detail, although that type of question could have had generated some of the fuzziest, unreliable replies. Who shows their proverbial hole cards before negotiations? Nevertheless, an expert snapshot that is subject to change and evolution is better than no guidepost at all for a crucial journey that the Industry now confronts. Forrester [an independent research consulting firm publicly traded, ticker: FORR, $21] and the RAB-PPM Task Force committee can only craft some of the many questions and ask the Ad Panel about this snapshot in time.

- **<u>THINK TOP 10 MARKETS</u>:** In the most likely scenario in my view, Forrester concludes the shift to PPM should result in $362 million (MM) swing. That is comprised of the added $79MM revenue spurred by PPMs in the top 10 markets, when combined with the lost $282MM revenue if Radio sticks with Diaries. I feel that the top 10 markets rollout by 2010 is the most probable scenario of the four that were modeled by Forrester, and even the top 10 can be tough to achieve by 2010. For now, the Industry and investors I feel should ignore the full deployment projection of very large dollar levels as theoretical. Why? After nearly two decades, Nielsen Media Research still has its original meters in only 56 TV markets since the 1987 launch. [Hence, the full Industry deployment modeling is at best hypothetical. I highly doubt PPM occurs in Beckley, Jonesboro, or Casper by 2010.]

- **<u>INERTIA REIGNS & DOLLARS DROP</u>:** If the Radio Industry does not move forward and milks the existing Diaries, the April 2005 phone survey by Forrester suggests that the low single-digit top-line growth of Radio should persist for years to come, rather than perhaps a quicker return to mid single-digit revenue increases. The Forrester study predicts a $282MM annual decline if Diaries are kept. That is 1.3% of the Industry's 2004A revenue amount of $21.4 billion. Hence, the Forrester study implies a future 1% or more potential revenue pullback due to a continued adherence to Arbitron's Diaries.

- **<u>SLUGGISH GROWTH IS AGGRAVATED</u>:** The Forrester study implies the Radio Industry should see sluggish growth, if it sticks with Diaries. Such a slower growth pace for Radio would be akin to newspapers' muted growth since subscriber circulation erosion began in the 1970s, despite annually higher newspaper ad rates. Thus, if the lower cost, but credibility-challenged Diaries are kept as the Radio audience measurement tool through the early 21st century, that has a negative impact in the minds of the Forrester study's Ad Panel that is hard to ignore.

I have reviewed the Forrester study's data, assumptions, modeling and opinions. I have altered certain of their assumptions to stress test their views, utilizing my past background in the Radio Industry and my lengthy stay on Wall Street to test plausible situations. **My overall opinion is that Forrester's judgment**

about the conclusions of their Ad Panel for a positive PPM direction versus a negative Diary direction has a high probability of being correct, directionally speaking. My specific debate is in the Forrester study's potential magnitude of the growth and profitability as being too rosy in nature, and largely trusting the ad community and Radio Industry to consistently react or swiftly conform to new practices. Additionally, there are several other factors changing in Radio today as it shifts to HD radio, electronic data invoicing (EDI), format investment and flexibility, and bloated inventory reduction, as well as the potential move to PPM. One also has to consider external factors, such as if Broadcast TV and Cable TV might similarly move forward in audience measurement improvements too, which therefore might temper Radio's forward moves. The Radio Industry and Wall Street should not believe that any one factor, whether PPM, HD, EDI, "Jack", or LIM, is the single magic bullet that solves Radio's dilemma. Yet, by <u>not</u> moving forward on these various initiatives, the Radio Industry should realize not only carries financial risks to themselves and investors, but also sends a lackluster message of inertia to the industry's employees.

From my vantage, if the Industry does not shift to PPMs, then accordingly its revenue growth should continue to be sluggish as its customers, the ad community, has more reason to question Radio's numbers vis-à-vis the ad community's other ad options' audience measurements. Why should the agencies have to constantly badger and question Radio's willingness to aid the agencies in their ongoing ROI discussion with clients, discussions that have already moved hundreds of millions in ad budgets to media more actively focused on accountability and credible audience numbers.

If the Radio Industry does invest in the shift to PPM, I would forecast a base case of moderate incremental revenue growth of an additional 1.6 percentage-points [2] that is more conservative than the Forrester study. If a more aggressive case is made then I arrive at a 2.1 percentage-point incremental revenue swing as compared to the Forrester study's more optimistic 5 percentage-point swing. The tables [located on pages 11-12] adjust the Forrester study's modeling utilizing different assumptions. In brief, in building my base case I assume the PPM rollout by 2010 is most likely in the top ten markets. I confine the positive PPM impact to the adjusted $3.6 billion in revenue for those major markets. I would trim the subjective growth prediction by Forrester's Ad Panel by 25% for the combined positive PPM and negative Diary impact. I would slash by 50% for the incremental ad growth forecasted from the potential doubling in the average station's audience reach. My base case's higher revenue growth rate consequently has a prospective impact on station or stock valuations. If one utilizes the historical radio relationships between revenue, EBITDA, and FCF relationships at the larger radio groups over the last eight years [3], the potential 1.6% higher revenue could improve EBITDA by roughly 3.4% and could increase Free Cash Flow (FCF) by approximately 5.1%.

Forrester posits a noticeably black and white decision that Industry executives should consider with eyes wide open to the challenges, the uncertainty, and the higher costs, even with the potentially higher revenues garnered from PPM. The possible move towards a "reach-based" Radio ad sales world rather than its "frequency" legacy is another consideration of note. We all can argue on the details and timing of technology and modeling assumptions. I would point out that the Industry's customers are currently voting with their proverbial wallets and should continue to do so, disproportionately away from Radio advertising. $14.6 billion of domestic ad spend has voted in the past five years in the favor [4] of more easily measurable, more accountable, and more ROI-proven media. In the Forrester study, a 30-36% range of the advertiser agencies stated they would be boosting traditional media such as Radio, TV, Outdoor and Print. In a vivid contrast, the same ad agencies declared 51-58% of them would be boosting budgets for newer media, like Online and Cable.

The Radio Industry should candidly ask itself if finishing towards the bottom of credibility of audience measurement ranking is something to ignore. Something to hope ad clients move away from and onto another buzzword besides ROI, or is the lack of credibility likely to be an increasing drag on revenue growth? It's a simple, but brutal and needed question. There is no perfect answer, but the rest of the world may not wait for Radio if it takes too long to try to answer it, however imperfectly. The Forrester study says the ad world will act accordingly – if Radio moves to electronic audience measurement, it should receive more advertising and gain more ad clients, and if Radio stays with paper diaries, it should receive less advertising.

The Radio Industry is now accelerating its investment to move from analog to digital transmission, because Radio listeners should benefit and inevitably all of the media landscape is going digital. It begs another logical question: Why shouldn't Radio similarly invest in a move from a written [think "analog"] form of audience measurement to an electronic [think "digital"] form, because ad customers should potentially benefit and at a time when the marketing environment demands more precision? The loud song I keep hearing in the background is David Bowie's, "*Changes*". Do you hear it, too? "Ch-ch-changes..."

There are several risks to Forrester's conclusion and to mine:

➢ **SUBJECTIVE PREDICTIONS DON'T ALWAYS HOLD:** It is conceivable that the Ad Panel's projected revenue gains are temporary or minimal, if the ad agencies are saying one thing and end up spending differently after the PPM changeover. An offset to that risk is that the ad community's views could increasingly worsen about the Diary and Radio so that revenue could suffer more than Forrester postulates.

➢ **IT TAKES LONGER THAN THOUGHT:** It is possible Radio only partly backs PPM, which extends the transition and mutes expected revenue gains. An offset to that is if Forrester's study is accurate in predicting that 18% of the agencies would increase ad budgets in PPM markets, while 9% decrease Radio ad budgets in Diary markets, then the Radio holdouts would have a large incentive to back PPM rollouts.

➢ **HIGHER COST GOBBLES THE HIGHER REVENUE:** It is conceivable that the investment cost for PPM is above the reportedly 45-60% higher than Diary fees. If so, that might consume much of the forecasted top-line growth, and therefore drop less to the bottom line. During the Study's presentation, one savvy Wall Street analyst in the audience asked the insightful question of has a cost-benefit analysis been conducted. She was advised that it had not been addressed in this Ad Community-centric study.

➢ **RATES MOVE AGAINST RADIO & PPM:** It is arguable that the projected 10-20% increase in other dayparts' audience versus 10-20% decrease in morning drive should become a sole focus of agency buyers. If so, the partial movement of budgets into other dayparts out of the primary 4-hour morning drive should occur, but various daypart ad rates could be hampered, resulting in either a revenue decline or essentially a wash. This might be offset be the higher quality, more reliable audience ratings – but that requires discipline by the Radio Industry to stick to its "quality" guns and not cave. Another critical offset should be the much higher audience cume levels estimated to double in a PPM world for an average radio station. Yes, that's right, one's cume might double. The Quebec Study [5] also saw a much higher weekly cume with PPM in Montreal. Can the Industry begin to sell itself more on "reach" than on "frequency"? How long an education process would that entail? The Forrester study emphatically states yes on "reach", as 36-44% of agencies and advertisers would increase their radio ad spending by 10% and 13%, respectively, due to much higher station audience reach from PPM usage. That translates to a blended radio budget increase of 3.2-5.6% due to higher "reach". Such a level of ad budget improvement should return Radio solidly back to its historical mid single-digit revenue growth from the more recent and persistent flat to low single digit-pace.

➢ **DOES PPM SAVE A "LOST GENERATION":** One very fascinating offset from the Quebec PPM data [5] (a survey based on 550 homes with 90% average daily acceptance) disclosed that Teen radio usage was 50% higher with PPM at 1.5 hrs per day than Diary's 1 hr. per day usage. The overall Quebec PPM data indicates Radio was actually younger and more masculine than previously thought. In a new world of Internet Radio and *iPods*, that is a very encouraging, little known PPM plus for an Industry worried it might be losing Teens like newspapers did, and for the Ad Community that finds Teens very hard to reach.

➢ **WOES OF TECH & STATISTICS AND WHERE'S NIELSEN:** There are inevitable concerns about technology obsolescence and statistical viability. For instance, will the PPM technology measure listening such as from headphones/ ear buds, since it is an audio capture-only technology? Will Nielsen participate, or will it be radio-centric, as that could affect whether the survey is address-based sampling, as well as a smaller size, and at a higher cost? Also, will the Houston PPM survey deliver sufficient in-tab reliability of 75-80% P+6 based on Philadelphia PPM results, which could depend upon whether the survey uses a 3:1 or 2:1 proportion of PPMs compared to Diaries [PPM tested at the 3:1 level of Diaries in Philadelphia] is not yet known? Will the percentage of captured codes stay in the goal of a 50-70% range, despite the widely divergent environments where radio listening occurs? It is possible that a new technology that is not yet invented or tested crops up and supersedes PPM, rather than supplementing it, which could result in wasted investment cost. An offset to that risk is presently there is no other technology or methodology on the near term horizon, so this seems a minimal risk. There are some European firms, such as Eurisko and Ipsos, which propose possible future devices, such as cell phone-based or even wrist-watch-based, yet they still seem a long term potential at best. A notable caveat is that in the past, Arbitron and Nielsen have easily beat back European challengers.

It is not a perfect world. It is not a perfect media or advertising landscape. I would heartily recommend that reasonable executives, interested sales people, proactive programmers, serious promotions folk and any financial personnel consider the various plusses as well as consider the risks associated with moving forward and those plusses and risks of simply standing still while the listeners, the ad clients, the other media, and investors do not tend to stand still. Reading the Forrester/ RAB PPM-Task Force Study presentation is strongly recommended. In the following pages, I provide a selection of the study's highlights, as well as my insights, in addition to other studies and opinions that seem pertinent.

STUDY'S HIGHLIGHTS AND COMMENTARY

The highlights in the view of the study's authors were as follows:

- **Agencies are more aware of PPM than Advertisers, 77% compared to 34%, respectively;**
- **Radio ad spending, based on PPM, should increase at about 1 out 4 respondents, with an average increase of 9% at the agencies and 12% by the advertisers with expected ad spending changes;**
- **PPM suggests a prospective difference in radio ad spending that should be an annual 2% drop with Diaries, whereas PPM should potentially spur an annual 3% boost;**
- **Radio ad spending should likely chase any potential audience movement between dayparts and advtg. would also chase perceived better audience measurement in PPM vs. Diary markets; and,**
- **Deploying PPM in Top 50 markets should potentially drive additional Radio ad spending increases of $150MM annually above non-PPM levels. The hypothetical full PPM deployment across all rated markets** [*simply not possible in the near or mid-term in my view*] **should generate a $696MM swing in Radio ad spending with PPM versus Diaries.**

Secondly, here are many of the relevant details that comprise the Forrester study:

- **BROAD SAMPLE** -- Advertising Panel was composed of 484 ad agency and ad clientele executives.

- **RELEVANT SAMPLE** -- Agency decision-makers made up 61% of the panel, with only one-sixth in senior management, and the rest were directly involved or supervising media planning and buying.

- **RADIO-FRIENDLY, BUT SO WHAT** -- The Ad Panel's agencies, both national and regional/ local shops were represented in the study, had a median amount of overall client ad budgets of $40MM. The average percentage that was spent on Radio was 19.7% in 2004 and forecasted at 18.8% in 2005E. *Two items worth noting – 19-20% for Radio advertising is considerably above the ~8% total ad share that*

Radio typically fetches, so on average these are "radio-friendly" agencies and "radio-knowledgeable". It is worth noting that even these radio "allies" are planning on paring back radio ad spending by 0.9% in 2005E. The quick math says the average radio-friendly agency put $7.9MM into radio in 2004 and plans $7.5MM in 2005E. That's not a nice trend for the Radio Industry and strikes me as not an endorsement of the Radio Industry staying with the status quo.

- **RADIO FANS UP SHARE, DOLLARS DIP** – The Panel's advertisers, both national and regional/ local clientele were included in the study, had a median amount was $7.5MM for their individual budgets in 2004 and $7.0MM was anticipated for 2005E. The average percentage of ad clients' budgets spent on Radio was 19.1% in 2004 and was projected to be 19.8% in 2005E. The vast majority of the clientele panel was directly involved or supervised the advertising/ marketing, rather than the more removed senior management. *Once again, two items of note – 19-20% of ad budgets spent on Radio makes this part of the Ad Panel also "radio-friendly". These radio fans are at least boosting the Radio share, but their 2005E ad budgets are declining. The quick math shows the average radio-friendly advertiser placed $1.43MM into Radio in 2004 and project only $1.39MM in 2005E. Once more, that's not encouraging. Since the old sales adage insists that 80% of your business revenue is done by 20% of the customers, the absolute dip in radio ad budgets should temper the somewhat better view of radio by these advertisers. This dip could even aggravate matters because the many radio stations and clusters that carve up these lucrative radio budgets might fight over shrinking radio dollars by switch-pitching via lower ad rates. Yikes!*

- **ALL THE USUAL SUSPECTS** -- Sufficiently diverse industry sectors were represented at the agencies and by advertisers. Double-digit percent of time was spent by agencies on retail, auto, and leisure & entertainment, with high single-digit percent of time for financial, healthcare, food/ beverage, telecom, and other categories. The Advertisers as ranked by industry had double-digit percent of leisure & entertainment, food/ beverage, retail, financial, and lesser percentages for health, government/ educational, auto, insurance, electronics, telecom, restaurants, as well as other industries.

- **BIGGER WALLETS HAD BETTER VIEWS** -- During the presentation, responses were characterized as consistent across the different sizes of agencies and advertisers, in addition to national and regional/ local budgets. Yet, there is actually a more positive view of PPM at larger ad agencies and larger advertisers in the underlying data. *This should be a plus – the bigger the wallet, the better a perception of the coming PPM potential. Remember the 80%/ 20% rule. There was also a very favorable, perhaps stunning difference in a small group of non-Radio Advertisers in the Ad Pane, which might or might not be statistically significant. See the section on page 10 called "Further Comments on Forrester Study & Presentation".*

- With the Radio advertising spending share stated to be relatively flattish [*even though absolute dollars appear to be trending down*], the Ad Panel respondents affirmed the biggest ad share winners were expected to be Internet and Cable TV. *A quick note, the TV ad budget share was a healthy 51% average in 2004 at the agencies and was expected to be 52% in 2005E. At the advertisers it was a solid 37% average in 2004 and 38% projected in 2005E. A minor difference, but ad agencies were paring back radio ad spending in 2005E while bumping up TV ad spending even in the off-election/ Olympic year.*

- **BIG % IS HO-HUM $$$** -- In 2005E, more agencies and advertisers were planning to increase radio spending rather than decreasing it by a wide margin. 30% of agencies expected to increase and 16% expected to decrease radio advertising. 28% of advertisers planned to increase and 19% anticipated cutting radio advertising. Unfortunately, the blended dollars and percentages tell a different story, with agencies forecasting a 0.4% radio increase and advertisers thinking a 0.7% decrease.

- **PPM MOVES THE $$$ METER** – The PPM was said by 17% of the agencies and by 23% of advertisers to boost their radio advertising. *Although it varies by market size, some radio veterans estimate* *that national/ local ad agencies might account for roughly 35-40% of station revenue. It is therefore positive that more of the advertisers seem to be quite pleased with PPM entry. Although this higher advertiser preference than the agency preference strikes me as a little curious, as agencies are felt to be more numbers-driven than advertisers, which are believed to be more results-driven, prone to a story, and influenced by long relationships. Sometimes, why look in the mouth of the proverbial gift horse.*

- **RADIO's CHANCE TO TEACH AND "BRAND"** -- Over three-quarters of the Agency Panel were already very or somewhat familiar with PPM. One-third of the Advertiser Panel was very or somewhat familiar with the PPM. *It's surprising to me that only a half of the Agency Panel felt they were very familiar with Arbitron ratings. Since over 80% of the Agency Panel are directly involved with or oversee ad placement, these are radio-friendly ad agencies, and ratings are a basic building block – this seems odd. When asked at the presentation, the RAB executive thought senior management would be sufficiently removed from daily activity to explain it. However, when you strip out the 16% that are senior mgmt., that still leaves over a third of the more intimately involved agency personnel with limited familiarity with the dominant, long time radio rating system. I may be guilty of semantics, but this is either a problem or an opportunity for Radio to better educate vital agency personnel on a new rating approach, even "brand" its research.*

- **CONSISTENT LANDSLIDES BODE WELL** -- The magnitude of many positive and negative reactions between the PPM vs. Diaries was often huge. The table shows the consistently wide gaps in the Ad Panel's views. *This was one of the most striking trends in the study. This dramatic, positive skew again and again vs. much lower negative views bodes well for the direction of the predictions to come true.*

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Would your Radio adv. incr./ decr. with the avg. station **cume higher**? [2x more w/ **PPM**]	**36%**	4%	**9X**	**44%**	1%	**44X**
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SOURCE: Forrester/ RAB PPM-Task Force Study, April 2005.

- The questions that dealt with qualitative perceptions typically found the agency and advertiser panelists lined up favorably for electronic measurement and the PPM.

Descriptions of Qualitative Questions Asked of Ad Panel	AGENCIES	ADVERTISERS
Radio should gain **more credibility** from electronic measurement?	**77%**	**72%**
PPM should **more accurately** report on the Radio audience?	**74%**	**69%**
PPM should be **more actionable** w/ shorter time from schedule to data?	**72%**	**69%**
PPM should make Radio a **more accountable** advertising medium?	**71%**	**71%**
PPM ratings should be **more stability and less bounce**?	**54%**	**49%**
Minute-by-minute Radio ratings are very important?	**40%**	**36%**
PPM should make Radio **easier to buy**?	**40%**	**46%**
PPM should **attract more advertising clients** to Radio?	**34%**	**42%**

SOURCE: Forrester/ RAB-PPM Task Force Study, April 2005.

Intriguingly, the final question in the table above is also potentially the most vital response, even though it's given a lower positive percentage than most of the other questions. I believe this because of Radio's big challenge every year to develop new business and to replace the annual advertiser attrition. Therefore, the Ad Panel's high 34% to 42% range that says the PPM should attract more ad clients is quite possibly a major rationale for station personnel and corporate executives to invest in PPM. New business development is often thought to be one of Radio's biggest needs, nationally and locally.

AD PANEL QUOTES ON PPM AND DIARIES – PRO & CON

The Study's presentation also provided a selection of many Ad Panel comments. I have included several of the comments, both positive and negative about the PPM.

⇧ **"People cannot keep diaries. The people need automatic meters."** {VP of Retail advertiser}

⇩ **"My impressions are negative. I don't think there will be an improvement."** {Planning Dir., Natl. Agency}

⇧ **"A step in the right direction in bringing greater accountability to radio."** {Acct. Dir., Natl. Agency}

⇳ **"From what I've seen, I'm not too impressed. I think the current system works just fine. From what I've read, it doesn't seem credible to us."** {Creative Dir., Regl. Agency}

⇧ **"Favorable. Anything more quantifiable, more reliable, and accurate is welcome."** {Media Dir., Regl. Agency}

⇩ **"I have not heard very favorable things about the PPM. Or the results."** {Asst. Vice Media Dir., Regl. Agency}

⇧ **"Anything is better than the way they were doing it. They [Radio] need help desperately, the ratings are very unreliable."** {Media Dir., Regl. Agency}

⇳ **"I think they still need to iron out some problems. Their parallel didn't go so well. But I'm sure it is going to be better than the self-diaries."** {Market Research Mgr. of a Newspaper}

⇧ **"I think the portable people meter would be great for advertising.** {Media Dir., Insurance/ Real Estate}

⇧ **"It would help incredibly to make the measurements more accurate."** {Media Planner of an Auto client}

The Study had a selection of comments about Diaries, both positive and negative, too.

⇳ **"I have the same impression [as] now. It's somewhat inaccurate."** {Media Planner, Regl. Agency; no change to '04 radio ad budget if diaries retained}

⇩ **"We are stuck with a system that could and needs to be improved."** {Rsch., Natl. Agency; 10% cut of '04 radio budget if diaries kept}

⇧ **"It [diaries] is a wonderful thing. It serves its purpose. Wouldn't buy any less."** {Mktg. Dir. At Auto Parts client; no change}

⇩ **"That [diaries] it's behind the times. If they [Radio] don't [change], I would probably switch to media that might give me a better chance, such as Cable."** {Mkt. Research Mgr. at Newspaper; 50% cut of '04 radio budget if diaries kept}

⇳ **"Would not make a difference. Distrust of the system [new one]."** {Controller at Auto client; no change to '04}

⇩ **"I would look to the Internet".** {VP of Mktg. At Financial client; but no change to '04 radio ad budget}

⇩ **"Not doing anything different [if diaries kept], stuck in the mud."** {Media Dir., Natl. Agency; no change to '04}

WALL STREET & MADISON AVENUE REACTION TO THE RADIO INDUSTRY LACK OF ACTIONS

The lingering, sluggish radio revenue growth and the ongoing audience slippage are due to many aspects, not just the perception of antiquated, less reliable audience measurement. It is indeed many factors, such as the protracted rollout of PPM, the slow but accelerating launch of HD [6], the tardy introduction of EDI, the belated format experiments like "Jack", or the long overdue start of the LIM initiative have all contributed to Radio's dilemma. Nonetheless, the combination of concerns that also includes no passive electronic measurement has provoked advertisers and Wall Street to pull substantial money away from the Radio Industry.

A few years ago on Wall Street, there were over twenty-five Broadcasting Analysts covering the Radio sector. Those Analysts typically covered 9 radio stocks. The majority of their recommendations were usually positive. Currently, there are seventeen sell-side Radio Analysts with some tenure or breadth of sector coverage [7]. Wall Street executives have logically allocated fewer resources and people to cover Radio in the past eighteen months as trading volumes and banking fees have eroded. These Broadcasting Analysts now average only about 6 radio stocks covered compared to the prior 9 radio stocks. More telling, these sell-side Analysts recently had net positive recommendations on only one-third of their radio stocks, or 2 out of 6 companies (source: Bigdough.com). That's not much confidence by one side of the Street in the Radio Industry's near to mid-term prospects.

Bear in mind that not all hard-working, intelligent Wall Street Analysts are created equal, from my vantage. In the few Street reports published on the Forrester Study, one diversified Media Analyst displayed a basic lack of industry knowledge. He stated that Morning Drive time was only three hours in length. He then used that shorter span in his projections that generated unenthusiastic results.

Furthermore, in the last eighteen months, the top 10 Institutional holders of the seven largest Radio stocks by market cap have mostly sod off their positions by a range of 20-50%. In addition, the largest shareholders, that were the biggest Radio fans just 18 months ago, have substantially sold off in all but one of the seven largest public Radio companies. That's not at all a vote of confidence by the other side of the Street.

COMPANY	% DIFF.	9/ '03 HOLDINGS	3/ '05 HOLDINGS
Ranked by mkt.cap		*[Top 10 Inst'l. holders' shrs. in millions]*	
Clear Channel [CCU]	**(24%)**	208.7MM	158.7MM
Citadel [CDL]	**73%**	14.5MM	25.4MM
Radio One [incl. ROIAK]	**(24%)**	38.1MM	28.9MM
Entercom [ETM]	**(49%)**	15.7MM	7.9MM
Emmis [EMMS]	**(21%)**	23.4MM	18.4MM
Cumulus [CMLS]	**(43%)**	19.5MM	11.1MM
Cox Radio [CXR]	**(45%)**	20.2MM	11.2MM
Average Difference/ Total Shares	**(23%)**	**340.1MM**	**261.6MM**

SOURCE: Bigdough.com

Finally, there has been an increase in the "short" ratio on many radio stocks over the last four quarters. The present average daily trading volume to cover the short interest is 8 days for the radio station groups [8]. Six months ago, the short coverage ratio was 6 days. Twelve months past, the ratio was 5 days. When radio stocks were in vogue a few years back, I recall ratios more in the 3-4 days to cover the shares sold short. Which means investors are increasingly, actively betting that most radio stocks (which already are trading at EBITDA multiple lows since 9/11 Attack and FCF mult. lows since before the 1995 Telecom Act should plunge even more [valuation mult. data source: Factset]. The highest short ratio of 18 days is for Cox Radio (CXR, $16, not rated), which is largely due to investor fears that it might buy another large radio group at a hefty price, in my view. That's not even close to a vote of confidence, when radio shares are historically cheap, and there's an increase in investors that wager the shares should become even cheaper. *Yikes!*

Advertisers are hardly any more enthusiastic about Radio than Wall Street it seems. For example, the advertising trends of the last five years are quite illustrative. I chose the period from 2000 through 2004, since it was choppy economically, geo-politically, technologically, and had volatile advertising for Radio, but those problems affected the other media, too. I also chose the most recent period as Radio showed an annual average of nearly 2% top-line growth. That's a far cry from its historical 6-8% revenue growth range. As well as a drastic plummet from the double-digit average growth pace of 1996 through 2000. It's rather ironic and almost biblical that Radio had five years of "fat" and subsequently five years of "lean". If one blends the two five-year periods, Radio Industry revenue growth, overall, is back in that 6-8% growth range.

While Radio advertising grew an average of 1.6% annually starting in 2000 through 2004, overall advertising paced at an average of 1.9% per year. This was at a time when the Radio Industry could be accused of inaction on many fronts. The Radio Industry, led by the giant platforms [9] was arguably and myopically milking its analog technology, its old diary measurement, and adding significant inventory bloat from a post-Iraq invasion panic [10], while not swiftly investing in EDI, and not reacting to new competition with format changes of note. Presently, it even appears that the LIM effort to remedy the inventory bloat hasn't reached the next level. The industry initiative, which had hit a lazy plateau through June [11], has subsequently seen modest acceleration in further spot load unit and minutes reduction in July [12]. But I suspect that may be due to July being an historically very light revenue month, hence July often has volatile demand and flaky results and I would wait for the August results and analysis published in early September.

Not too surprisingly then, Radio's overall ad share is relatively flat over the last five years. Conversely, in the five preceding years, Radio's total advertising share had improved by nearly 15%. The following table outlines the ad share shifts, which in most cases track what the ad community felt those media were or were not proactively doing in, conjunction with what the ad community believed its marketing plans could do with or without. Radio's sluggish growth pace has unfortunately been keeping company with other media that also hasn't been proactive, in my opinion, and in the ad community's view.

MEDIA ADVERTISING GROWTH OVER 2000- 2004A and POSSIBLE RATIONALES[4]

MEDIA	'00A REV.	'04A REV.	AVG. %	PROACTIVE	ADVTR. NEED
Newspapers	$48.2 B	$46.6 B	**(0.7%)**	**No** – Net/ Cable/ Bcst./ inertia	Reach & creative.
Broadcast TV	$44.8 B	$46.3 B	**0.7%**	**No** – Cable/ *TiVo*/ Net/ inertia	Reach & compelling.
Direct Mail	$43.7 B	$52.2 B	**3.9%**	**Partly** – Data Mining/ ROI	Targeting & accountable.
Radio	$19.8 B	$21.4 B	**1.6%**	**No** – Net/ *iPods*/ inertia	Demo-targeted & cheap
Cable TV	$14.2 B	$18.8 B	**6.5%**	**Yes** – Interconnects/ research	Demo-targeted & natl. cheap.
Yellow Pages	$13.2 B	$14.0 B	**1.2%**	**No** – Net/ corp. inertia	Cheap & geo-targeted.
Outdoor	$ 4.8 B	$ 5.8 B	**4.2%**	**Partly** – prospective rsch./ tech.	Cheap & geo-targeted.

SOURCE: Univ. McCann, NAA, TVB, RAB, CAB, OAAA, Wachovia *Bcstg. Mktg. Kit* 5/ 05—J. Boyle & Marci Ryvicker, CPA.
COMMENTARY – "Proactive" & "Advtr. Need" is by James Boyle, July 2005, not by Wachovia Capital Markets LLC.

It's as though the Radio Industry has been humming along to the R.E.M. hit, "*It's The End of The World as We Know It (And I Feel Fine)*" whenever Wall Street and Madison Avenue happens along with money to spend.

FURTHER COMMENTS FROM THE FORRESTER STUDY & PRESENTATION

During the presentation, it was asked if PPM induced higher Industry revenue, where these extra Radio advertising dollars would likely come. The Forrester author said that question was not asked, but the general anecdotal remarks from the Ad Panel during the study suggested the extra Radio ad dollars would come more from overall ad budget increases and some could come from TV ad budgets.

Included in the survey were some non-Radio ad agencies at 9% and non-Radio advertisers at 6% of the sample. The authors indicated the views of the non-Radio ad respondents was not usually that different to lead to any conclusions. Yet, the underneath data showed very distinct directional differences. For example, while the overall Ad Agency Panel stated that 17% would increase their Radio ad spending spurred by PPM, only 4% of the non-Radio Agencies would do so. However, the overall Advertiser Panel indicated that 23% would increase their Radio ad spending because of PPM, **while a stunning 25% of the non-Radio Advertisers anticipated beginning to spend in Radio.** This returns to the previous point made by one of the qualitative questions that struck me as a big potential plus, which is concerning PPM's capability to attract brand new advertisers to Radio. Given Radio's challenge to develop new business and to simply replace the annual advertiser attrition, such a relatively impressive percentage of the non-Radio users that believe PPM should attract more ad clients, is once more possibly a major rationale for Radio to invest in PPM. **The impressive 25% level of non-Radio advertisers in the unreleased data is considerably below that previous 34-42% expectation. But, since the vast majority of advertisers do not even use any Radio, if a quarter of those holdouts change their mind because of PPM that should potentially add up to tens or hundreds of millions or more new dollars for Radio.** That's food for thought.

Finally, if the ratings and cume of lesser stations in a market go up, since the PPM indicates almost twice as many stations are actually listened to by people, that should increase those stations' power ratio. The general rule is that on average a station with 1% audience share should bill about 1.5% of the market's radio ad share [13]. Whereas, a station that moves its audience share to a 4% audience share should garner a 5.5 ad share. That's more food for thought, or perhaps a tasty dessert.

Here are the calculations and assumption for my Base Case and my Aggressive Case.

BASE CASE[2]

[numbers may not sum due to rounding]

Top 10 Markets Revenue	$3,976 million (MM)	[accounts for estd. 21% of Industry Rev.]
Top 10 Markets Local Revenue	**3,251 MM**	[Forrester assumes full PPM impact]
Top 10 Markets Nat'l. Revenue	725 MM	[Forrester assumes 50% PPM impact]
Top 10 Mkts. Affected Nat'l. Rev.	**363 MM**	
TOTAL Top 10 Mkts. Affected Rev.	**$3,613 MM**	
Estd. Positive PPM Impact	$ 79 MM	[Forrester's avg. of Ad Panel replies]
Estd. Negative Diary Impact	- (282 MM)	[Forrester's avg. of Ad Panel replies]
TOTAL PPM/ Diary Impact Swing	**$ 362 MM**	[Combines, does not add, the two ests.]
J. Boyle discount of 75% probability	**$ 271.5 MM**	[Assume lower pricing & rosy ad sentiment]
Top 10 Markets Affected Revenue	$3,613 MM	
Estd. Top 10 Mkts. "Cume" Impact	4.4%	[mid-point of 3.2-5.6% incr. range due to 2X cume]
Top 10 Mkts. "Cume" Impact Rev.	**$ 159 MM**	
J. Boyle discount of 50% probability	**$ 79.5 MM**	[Assume long educational sell on both sides]
	271.5 MM	
TOTAL TOP 10 Mkts. Rev. Swing	**$ 351 MM**	
Radio Industry 2004A Revenue	**$21,410 MM**	[Source: RAB's 2004A]

TOTAL TOP 10 Mkts. Rev. Impact **1.6%** [divide '04A Industry by $351 MM Rev.]

AGGRESSIVE CASE[2]

[numbers may not sum due to rounding]

Top 10 Markets Revenue	$3,976 million (MM)	[accounts for estd. 21% of Industry Rev.]
Top 10 Markets Local Revenue	**3,251 MM**	[Forrester assumes full PPM impact]
Top 10 Markets Nat'l. Revenue	725 MM	[Forrester assumes 50% PPM impact]
Top 10 Mkts. Affected Nat'l. Rev.	**363 MM**	
TOTAL Top 10 Mkts. Affected Rev.	**$3,613 MM**	
Estd. Positive PPM Impact	$ 79 MM	[Forrester's avg. of Ad Panel replies]
Estd. Negative Diary Impact	- (282 MM)	[Forrester's avg. of Ad Panel replies]
TOTAL PPM/ Diary Impact Swing	**$ 362 MM**	[Combines, does not add, the two ests.]
J. Boyle discount of 90% probability	**$ 326 MM**	[Assume a rosy ad sentiment, but pricing a wash]
Top 10 Markets Affected Revenue	$3,613 MM	
Estd. Top 10 Mkts. "Cume" Impact	4.4%	[mid-point of 3.2-5.6% incr. range due to 2X cume]
Top 10 Mkts. "Cume" Impact Rev.	**$ 159 MM**	
J. Boyle discount of 75% probability	**$ 119 MM**	[Assume mid-length educational sell, both sides]
	326 MM	
TOTAL TOP 10 Mkts. Rev. Swing	**$ 445 MM**	
Radio Industry 2004A Revenue	**$21,410 MM**	[Source: RAB's 2004A]

TOTAL TOP 10 Mkts. Rev. Impact **2.1%** [divide '04A Industry by $445 MM Rev.]

NOTES: ADDITIONAL DATA, TABLES, AND SOURCES

[1] The following table is from the Padin & Estabrook LLC 2004 Radio Industry Survey that investigated Radio's perception compared to the actual views of over 200 ad community executives of the different media's audience measurement credibility. It disclosed that the nearly 370 Radio station personnel perception greatly overstated Radio's audience measurement ranking by the ad community, while dramatically understating all the other media's measurement credibility ranking by the ad community. Radio felt it was towards the top. More importantly, the advertising community that paid for the different media actually placed it near the bottom. *That's not a big advertising community vote of confidence today for the present Radio Diary measurement by Arbitron.*

AUDIENCE MEASUREMENT CREDIBILITY	**VIEW OF ADVTRS. & AGENCIES [208]**			RADIO STATION PERSONS VIEW [368]	
	Weighted Avg.	**RANK**		Weighted Avg.	**RANK**
Internet	6.2	**1**		4.3	4
Network TV	6.1	**2**		5.0	1
Local TV	5.7	**3**		4.7	2
Magazines	5.6	**4**		3.9	6
Synd. Natl. TV	5.4	**5**		4.2	5
Cable TV	5.2	**6**		2.9	9
Newspaper	4.9	**7**		3.2	8
Local & Net Radio	**4.9**	**8**		**4.5**	**3**
Out-of-Home	3.7	**9**		3.3	7

SOURCE: Padin & Estabrook LLC, 2004.

[2] Assumptions and data taken from Forrester/ RAB-PPM Task Force Study, released July 20, 2005.

[3] Wachovia Capital Markets LLC estd. Avg. (1997A-2004A company data) of historical relationship of Revenue/ EBITDA/ Free Cash Flow sensitivity for Implied Radio Growth [J. Boyle, Marci Ryvicker, CPA & Maria Zubov]. After eliminating extreme outlier data, the average relationship between revenue growth and EBITDA growth was that EBITDA increased at 2.1x revenue's pace. The average relationship between revenue growth and free cash flow (FCF) growth was that FCF improved at 3.2x revenue's pace.

[4] See "Media Advertising Growth 2000A-2004A and Possible Rationales" on pg. 10.

[5] ***"Station to Station: Measuring Radio Audiences with a PPM Panel in Quebec"*** [Pasquale A. Pellegrini and Ken Purdye of BBM Canada, presented June 2005].

[6] ***"Digital Milestones—HD Radio's Transition Underway and Making Quiet Progress"*** [J. Boyle, Marci Ryvicker, CPA & Maria Zubov – Wachovia Capital Markets LLC report from 5/19/05].

[7] [David Bank/ RBC; James Dix/ DB; Eileen Furukawa/ SB; Jim Goss/ BR; Jason Helfstein/ CIBC; P. Gordon Hodge/ TWP; Jonathan Jacoby/ BofA; Mike Kupinsky/ AGE; Laraine Mancini/ ML; Maurice McKenzie/ FBR; Bill Meyers/ LB; Victor Miller III/ BS; Marci Ryvicker, CPA/ WCM; Kit Spring/ SNHI; Spencer Wang/ JPM; Lee Westerfield/ HNB; and, Mark Wienkes/ GS].

[8] Source: NASDAQ web site. Radio stocks, or stocks perceived as radio-oriented, that are included in the average are Beasley, Citadel, Cox Radio, Cumulus, Emmis, Entercom, Radio One, Regent, Saga, Salem, and Spanish Bcstg.

[9] ***"Radio Themes: Is 'Bigger' Better In A Mgmt.-Intense Biz?"*** [J. Boyle & Marci Ryvicker, CPA—Wachovia Capital Markets LLC report from 7/13/04].

[10] ***"Radio--Cutting Clutter Will Work--Bright Lights Coming"*** [J. Boyle & Marci Ryvicker, CPA – Wachovia Capital Markets LLC report from 8/13/04].

[11] ***"June Inventory: No Sequential Change—Is This It?"*** [Marci Ryvicker, CPA and Maria Zubov – Wachovia Capital Markets LLC report from 7/5/05].

[12] ***"July Inventory: Spot Load Reduction Resumes"*** [Marci Ryvicker, CPA and Maria Zubov – Wachovia Capital Markets LLC report from 8/2/05].

[13] Sources: Arbitron Spring and Fall ratings, BIA Surveys.

DISCLOSURES:

--- I do not formally cover the Radio Industry or any of its individual stocks for a Wall Street firm at this time. This commentary has no connection or impact on my past views or to my prior employers. I have covered radio companies in the past for Wall Street firms and I may do so in the future.
--- I do not, and my family does not, own any public radio company shares, nor own any interests in any private Radio companies.
--- I was compensated by The Arbitron Company (ARB, $42, not rated) to provide my comments and analysis on the Forrester/ RAB-PPM Task Force Study. I requested the freedom to write what I believed. The Company readily agreed and subsequently did not attempt to influence my views. As a relevant aside, when I worked on Wall Street, the occasional client would question my credibility on radio stocks since my family has been in radio for fifty years. I would note to them that I frequently downgraded radio stocks when the fundamentals flagged or when valuations had peaked [e.g. downgrades are one of the harshest actions an analyst can impose]. Additionally, I often had a more pessimistic view on the Industry than many of other Street Analysts, who all had no Industry background. My track record was that on average I downgraded the radio company shares I covered nearly once a year during my recent Street tenure.
--- I stand behind my views that are expressed in this commentary. My views do not represent anyone else's that I have been fortunate to be associated with in the past. They are solely my personal views based on my Industry and Street experience and expertise.

James B. Boyle
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