

Reverse Compensation: Broadcaster → Networks

With broadcasters receiving ever-increasing retransmission fees from cable multiple system operators (“MSOs”), telco, and satellite providers, broadcast networks have recently begun demanding that some of the retrans revenues be returned to them. Often called reverse compensation, or reverse retransmission fees, networks argue that they are entitled to receive a part of their affiliate stations’ retransmission revenue as additional compensation for their network programming’s contribution to the station’s success.

In 2010, major broadcast networks recorded total reverse retransmission fee revenues of approximately \$23 million, with CBS, FOX and NBC receiving no reverse compensation. This represents just 2.0% of the approximately \$1.2 billion that network O&O and affiliate television stations were generating in retransmission fees the same year. By 2011, all major networks received reverse compensation, with total reverse retransmission revenue totaling \$146 million. SNL Kagan predicts that by 2015, total reverse compensation revenue for the four major networks will reach \$1.3 billion, resulting in a staggering 224% compound annual growth rate from 2010. The \$1.3 billion equates to one third of the networks’ O&O and affiliate stations’ \$3.9 billion in projected retransmission revenue for 2015.¹

Stations continue to resist network demands for an increased portion of their once virtually expense-free source of revenue. A recent disagreement took place between FOX and several affiliate stations owned by Nexstar Broadcasting Group when FOX demanded 50 cents per subscriber within four years, regardless of what the affiliate stations were generating in retransmission revenue.² FOX’s decision to increase reverse compensation came before the stations’ retransmission agreements with multichannel providers were up for renewal, compelling the stations to transfer extra revenues to the network prior to negotiating higher retransmission fees of their own. As a result, three Nexstar television stations lost their FOX affiliations and became independent stations. A fourth Nexstar station switched to become an ABC affiliate.^{3, 4}

Instead of battling their stations, at least one network has decided to team up with its affiliates. NBC is attempting to negotiate upcoming retransmission

¹ *Broadcast Investor: Deals & Finance*, SNL Kagan, November 25, 2011.

² *Ibid.*

³ “Fox Dumps Two More Nexstar-Owned Affiliates,” RBR.com, June 20, 2011.

⁴ “Fox Fee Demand Driving Away Affiliates,” Media Matters for America, August 1, 2011

agreements on behalf of its O&O and affiliate stations in exchange for a portion of the retransmission revenue. If NBC succeeds, the dynamics of retransmission negotiations could change dramatically. Networks would have more clout than individual stations or broadcaster groups and may have the power to demand more favorable retransmission agreement terms from multichannel operators. While many argue that this would simplify the entire process, reducing the number of negotiations and potentially eliminating the chance of blackouts, subscription television operators are worried about what this may mean for the future of their retransmission fees. Similarly, station groups are reluctant to cede control of the retransmission negotiations to networks with whom they have often had contentious relationships in recent years.

In a letter to the Federal Communications Commission, the American Cable Association relayed concerns that if things continued down this path, the Big Four networks may begin negotiating together on behalf of all of their stations. Combined, these networks could have the bargaining power to increase carriage fees by 21.6%, the ACA contended.⁵ The ACA may be worrying about a problem that does not exist. NBC has yet to convince many of its affiliated stations to allow them to negotiate on their behalf, and no plans are yet in the works to overhaul the entire retransmission agreement process.

For more information on reverse compensation and its potential impact on future broadcast revenues and margins, please feel free to contact any of the principals of Bond & Pecaro, Inc.

⁵ *Broadcast Investor: Deals & Finance*, SNL Kagan, November 25, 2011.