

Retransmission Fees: Pay-TV Provider → Broadcaster

Retransmission fees were at an all-time high in 2011, and sources say these fees could more than double in the next five years. Broadcasters received an estimated \$1.46 billion in total retransmission fees in 2011, and that number is expected to jump to \$2.03 billion in 2012. By 2017, SNL Kagan predicts that industry retrans fees could reach \$4.86 billion.¹

Broadcasters stand behind their demand for higher retrans fees, arguing that although their programming is the highest-rated and most popular, they only get a fraction of what less popular cable program networks are offered from multichannel providers. Kagan notes that while industry retrans fees are admittedly increasing at a rapid rate, the \$3.89 billion in broadcast industry retrans fees projected for 2015 represents just 8% of the \$50 billion that cable, telco video, and satellite operators are expected to pay to basic cable networks, regional sports networks, and premium channels in affiliate fees for the same year.² Along similar lines, Nexstar Broadcasting Group chairman Perry Sook explained that local television stations take just 5% of distribution revenue for pay-TV but represent 40% of the total viewing.³ Broadcasters believe that the ratings speak for themselves, entitling them to increased cash from pay-TV providers.

Multichannel operators claim that if broadcasters continue to ramp up fees, they will have no choice but to pass the increased costs along to subscribers. Dennis Wharton, EVP of the National Association of Broadcasters, contests this claim: “The fact is that local TV station carriage fees account for less than one percent of the cost of a monthly cable bill.” Wharton was also quick to point out that Time Warner Cable, one of the most vocal opponents of increased retrans fees, recently announced a 44% quarterly increase in net income, with annual profits reaching \$1.3 billion in the fourth quarter of 2011.⁴ The cable industry as a whole remained resilient throughout the recession, managing to maintain growth in total year-over-year advertising revenue in all but one year from 2006-2010.⁵ With such strong growth, the NAB and other broadcasters argue that pay-TV operators should be able to cover retrans expenses without passing the cost on to their customers.

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

² *Ibid.*

³ “UBS Conference: Nexstar Eyes \$2 Per Subscriber Retrans Fees,” Michael Malone, *Broadcasting & Cable*, December 6, 2011.

⁴ “Retrans Rumble: Broadcasters Slam Time Warner Cable,” Katy Bachman, *Adweek*, January 27, 2012.

⁵ SNL Kagan, 2011.

The broadcast industry, on the other hand, suffered revenue declines during the recent economic downturn. Over the same four-year period, broadcast television ad revenue experienced three years of declines and only one year of growth.⁶ Moody's predicts that while political advertising and the Olympics will boost broadcasters' profit margins in 2012, revenues and margins will be under much greater pressure in 2013. Advertising sales, still struggling to reach their pre-recession heights will remain sluggish, and broadcasters will be forced to rely more heavily on retransmission fees as a source of revenue.⁷

As retransmission agreements came up for renewal over the last year, demand for increased retrans fees caused disputes between broadcasters and multichannel operators. When time ran out, some disputes resulted in blackouts lasting as long as three months. SNL Kagan reported that of 54 public retransmission deals that took place between broadcasters and multichannel operators in 2011, 11 resulted in blackouts.⁸ Neither broadcasters nor pay-television operators are backing down on the retrans issue, suggesting that 2012 could be a year of continued disagreements and blackouts.

For more information on retransmission fees and their potential impact on broadcast revenues and margins, please feel free to contact any of the principals of Bond & Pecaro, Inc.

⁶ *Ibid.*

⁷ "Moody's: Dreary Prospects for TV Stations Despite 2012 Pop from Political Ads," David Lieberman, Deadline.com, February 1, 2012.

⁸ *Broadcast Investor: Deals & Finance*, SNL Kagan, January 31, 2012.