

HD RADIO ALLIANCE – The Terrestrial Reaction to Satellite and Internet radio

Background

Charter members include Clear Channel, Bonneville, Citadel, Emmis...

A potentially watershed development occurred recently in radio. A consortium of radio companies developed the HD Digital Radio Alliance to advance the rollout of HD digital radio. Charter members include Clear Channel, Bonneville, Citadel, Emmis, Entercom, Greater Media and Infinity.

The stated goals of the alliance are to:

- 1) Coordinate the rollout of HD digital radio, including coordinating the formats on new multicast channels known as HD2.
- 2) Work together to secure automotive design wins and lower receiver price points; and
- 3) Jointly market HD digital radio, in partnership with receiver manufacturers and retailers.

Members will also devote air time, dollars, and a coordinated national marketing campaign, to promote HD digital radio and the new HD2 multicast channels. Most interestingly, the consortium will also coordinate launch dates and formats in specific markets for new digital channels offered by member companies.

What this means

It seems that Terrestrial radio is reacting to the heat of Satellite and Internet radio, IPOD, etc. The radio industry appears to be effectively combining to create the equivalent of one company with respect to digital radio, which is quite a move from previous times, when radio companies seemed unconcerned about such technology and more interested in competing with each other.

...minimize technology comparability, accelerate roll-out..., and keep equipment prices low

There are obvious benefits to the broadcasting industry to coordinate on HD. Everyone wants to minimize technology incompatibility, accelerate the roll-out of new technology with higher quality sound, and keep equipment prices low. Some industry coordination is essential.

Questions remain

- 1) How far can these companies go (particularly in terms of format coordination between them, in specific markets) before running afoul of anti-trust laws?
- 2) How will format and other decisions in the alliance be made, and will dominant members emerge?
- 3) Is this a first step to massive industry consolidation?

- 4) How will the issue of equipment subsidies be handled especially without subscription revenue?
- 5) Will non-member companies be effectively forced to join the consortium or otherwise become uncompetitive? (It is important to remember that membership in the consortium comes with an undisclosed cash price-tag.)
- 6) Is the move to HD too little too late? Will the premium content and total ubiquity of satellite radio and the inevitable proliferation of WiMax/3G networks with thousands of free internet radio channels limit HD Radio's market appeal?

Time will tell, but it is clear that radio is undergoing a fundamental change, and the answers to some of these questions could impact the future of the Broadcast and other Media sectors for a long time to come.

By J. Armand Musey, CFA

Armand Musey is President and Partner of Near Earth LLC. He can be reached by email armand@nearearthllc.com or by phone 646-452-9931.

IMPORTANT DISCLOSURES AND INFORMATION ABOUT THE USE OF THIS DOCUMENT:

Near Earth, LLC ("Near Earth") has published this report solely for informational purposes. The report is aimed at institutional investors and investment professionals, and satellite, media and telecom industry professionals. This report is not to be construed as a recommendation or solicitation to buy or sell securities. The report was written without regard for the investment objectives, financial situation, or particular needs of any specific recipient, and it should not be regarded by recipients as a substitute for the exercise of their own judgment. The content contained herein is based on information obtained from sources believed to be reliable, but is not guaranteed as being accurate, nor is it a complete statement or summary of any of the markets or developments mentioned.

The authors of this report are employees of Near Earth, LLC, which is a member of NASD. The opinions expressed in this report accurately reflect the personal views of the authors but do not necessarily reflect the opinions of Near Earth itself or its other officers, directors, or employees.

The portions of this report produced by non-Near Earth employees are provided simply as an accommodation to readers. Near Earth is under no obligation to confirm the accuracy of statements written by others and reproduced within this report.

Near Earth and/or its directors, officers and employees may have, or have had, interests in the securities or other investment opportunities related to the companies or industries discussed herein. Employees and/or directors of Near Earth may serve or have served as officers or directors of companies mentioned in the report. Near Earth does, and seeks to do, business with companies mentioned in this report. As a result, Near Earth may have conflicts of interest that could affect the objectivity of this report.

This report is subject to change without notice and Near Earth assumes no responsibility to update or keep current the information contained herein.

Near Earth accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this report.

No part of this report may be reproduced or distributed in any manner, via the Internet or otherwise, without the specific written permission of Near Earth. Near Earth accepts no liability whatsoever for the actions of third parties in this respect.