



Radio's Leading
Indicator

Radio's Leading Indicator

Audience Ratings and Their Impact on Revenue

Introduction

There are two measures that determine the financial health of a radio group: revenues and ratings. For analysts and brokers, a group's financial statements are familiar territory. Less familiar may be the Arbitron ratings, the currency by which radio time is bought and sold. Because ratings are the measure that advertisers use to determine the price they will pay for advertising time, Arbitron's audience estimates are a reliable indicator of a station's future revenue performance.

This presentation is designed to explore the relationship between ratings and revenue and how analysts and brokers can use ratings to set a value for radio groups and stations.

For more information regarding Arbitron ratings estimates, contact:

Brad Kelly
(757) 336-1192
brad.kelly@arbitron.com

Thom Mocarsky
(212) 887-1314
thom.mocarsky@arbitron.com

Contents

Radio's Revenue Trends	4
Listening Trends	5
The General Rule: Ratings = Revenue	7
Example #1: High Ratings = Strong Revenues	8
Example #2: Low Ratings = Revenue Woes	9
Top-Ranked Stations Corner Revenues	10
Format Choice Impacts Ratings	11
Format Choice Impacts Station Rank	12
Format Choice Impacts Revenues	13
How Radio Formats Are Trending	14
Formats Have Regional Appeal	16
Insight Online at www.ArbitronRadio.com	23

Radio's Revenue Trends

Throughout the 1990s, radio revenue growth outpaced most other media. From 1998 through 2000, the radio business enjoyed unprecedented double-digit revenue gains. This growth was fairly consistent across all regions of the country.

In 2001, however, this growth slowed to a minuscule, yet positive, pace as the media industry grappled with a recession and the country struggled to recover from the terrorist attacks of 9/11. Radio rebounded faster than many other media though, posting a solid growth rate in 2002. Over the past two years, this pace has slowed somewhat, with radio expanding moderately in 2003 and recording modest gains in 2004—still a notable achievement considering the uncertain political and economic climate in the U.S. during this time.

Most industry watchers agree that the primary force behind radio's resilience and continued revenue success is consolidation. With the loosening of national and local ownership caps in 1996, groups have discovered how to leverage market clusters to better serve both their clients (advertisers and agencies) and their customers (listeners). As advertisers increasingly seek a mobile, targeted medium that can provide both reach and frequency, radio is well positioned for positive growth over the next few years.

	1996	1997	1998	1999	2000	2001	2002	2003	2004
East North Central	5.7%	8.6%	10.5%	11.2%	8.5%	0.5%	6.1%	5.5%	1.9%
East South Central	8.4%	6.9%	12.7%	10.1%	8.1%	-0.1%	6.8%	5.3%	2.2%
Mid-Atlantic	7.9%	8.2%	12.1%	13.7%	12.3%	1.0%	8.5%	6.1%	2.5%
Mountain	9.8%	12.4%	13.1%	15.1%	10.2%	1.1%	6.6%	5.7%	4.0%
New England	7.4%	8.5%	11.6%	15.1%	10.6%	0.4%	6.8%	5.5%	4.0%
Pacific	8.2%	7.3%	13.3%	18.2%	14.9%	1.2%	7.5%	6.9%	1.8%
South Atlantic	8.7%	9.7%	10.7%	14.1%	11.4%	0.7%	7.2%	5.6%	4.7%
West North Central	7.6%	7.0%	13.7%	9.0%	7.4%	0.1%	7.0%	5.5%	3.4%
West South Central	8.6%	9.0%	12.2%	11.6%	12.5%	2.3%	8.2%	5.6%	1.5%
National Average	7.8%	8.6%	11.9%	13.5%	11.2%	0.9%	7.3%	5.9%	2.7%

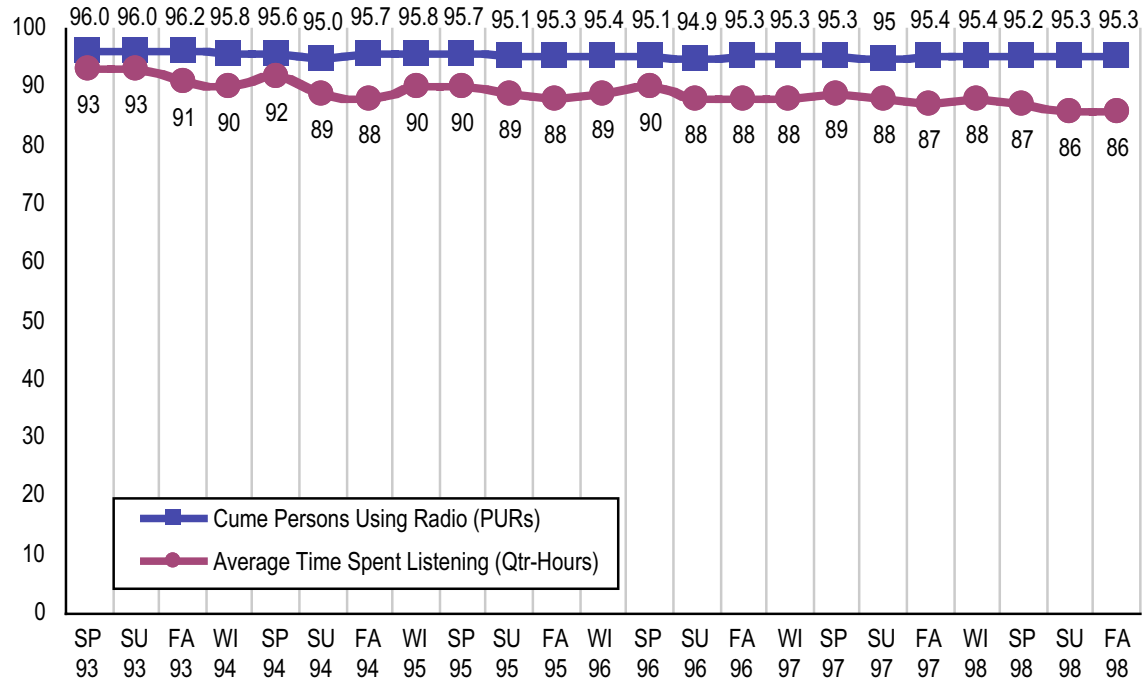
Radio Revenue Growth by Region
% Change from Previous Year

Source: BIA

© 2005 Arbitron Inc.

Listening Trends

There are two critical measures of radio listening: Cume and Time Spent Listening. Cume is similar to a newspaper's circulation; it's the number or percent of people that tune in to radio in a single week. Time Spent Listening is how long people listen to radio in a single week. These two basic measures, how many and how long, are the foundation for all the audience estimates that stations use to sell their commercials to advertisers and to gauge the effectiveness of their programming strategies.



New Media Challenge Radio
P12+ Monday-Sunday 6AM-Mid, Continuous Measurement Markets

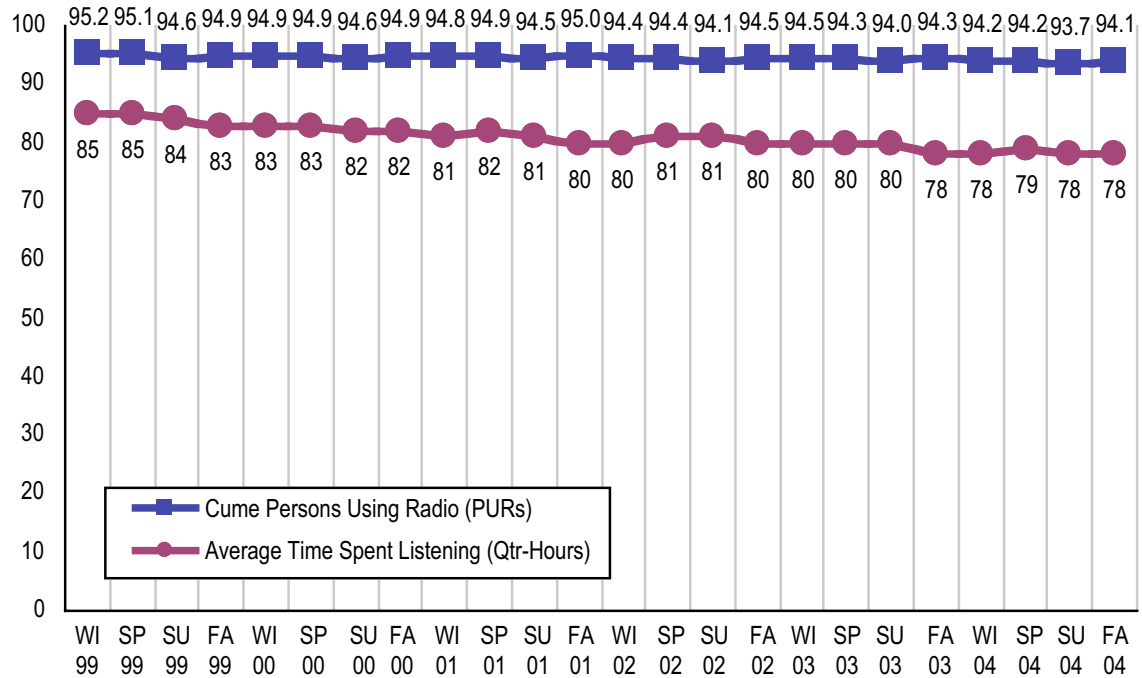
Source: Arbitron's American Radio Listening Trends

© 2005 Arbitron Inc.

Listening Trends *(continued)*

Trending these two measures yields a mixed story for the health of radio. While the number of people (cume) that tune in to radio remains fairly constant—about 94% of all people listen to radio each week—there are signs that they are spending less time doing so. In Fall 2004, people spent 19 and a half hours a week listening to radio—down more than an hour from five years ago. The challenge posed by new media is reflected even more strongly over a ten-year time period: Average weekly time spent listening to radio has dropped two and a half hours since Fall 1994.

Despite these declines, radio listening is holding up far better than network TV viewing or newspaper circulation, according to several recent studies. While radio time spent listening has slipped about one hour and 15 minutes over the past five years, consumer time investment with television and newspapers has declined at an even more precipitous rate.



New Media Challenge Radio
P12+ Monday-Sunday 6AM-Mid, Continuous Measurement Markets

Source: Arbitron's American Radio Listening Trends

© 2005 Arbitron Inc.

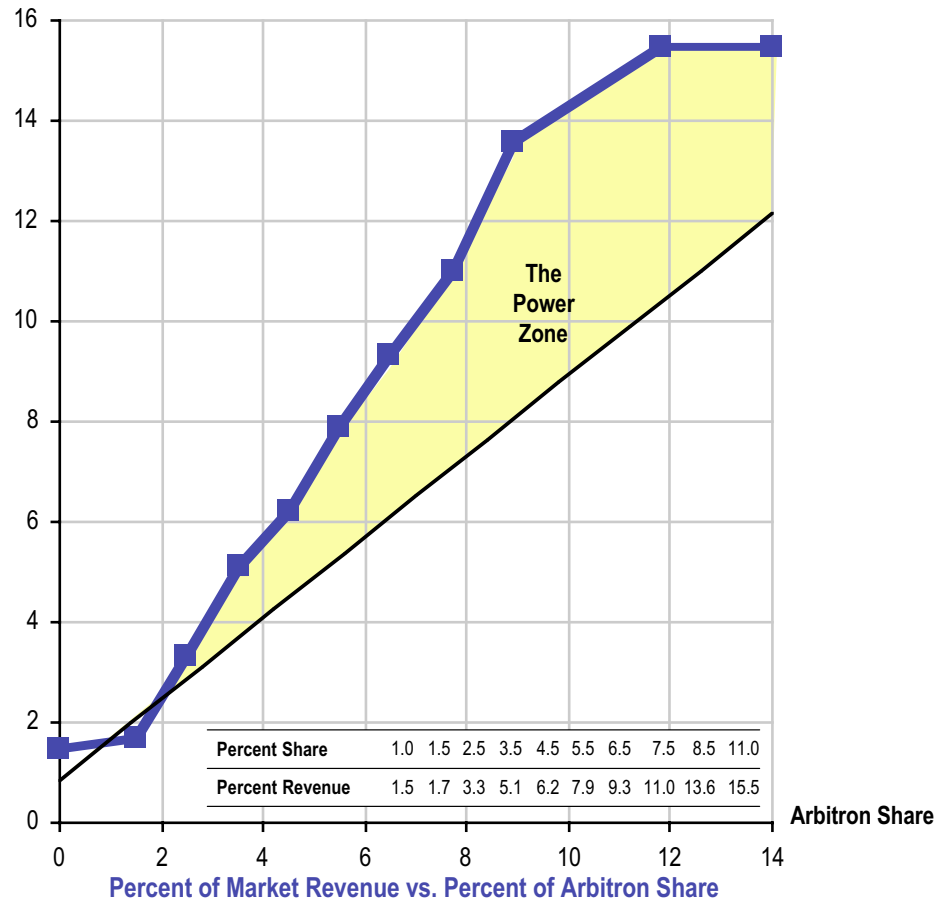
The General Rule: Ratings = Revenue

Because ratings are the currency by which radio time is bought and sold, ratings are a likely indicator of revenues. An increase in a station's share of listeners will generally translate into more dollars. And a station's share of revenue increases more substantially the higher its share of the audience.

If a station garners a 1% share in the Arbitrons, on average, it will bill about 1.5% of the market's available radio revenue. As a station's audience shares increase, the revenue shares will increase even more. A station that posts a 5% to 6% share will capture about 8% of the radio market revenue. One that records a share above 8% will make an even bigger jump, typically capturing about 13% or more of the radio market's revenue.

That general rule also translates to specific station examples.

Percent Market Revenue



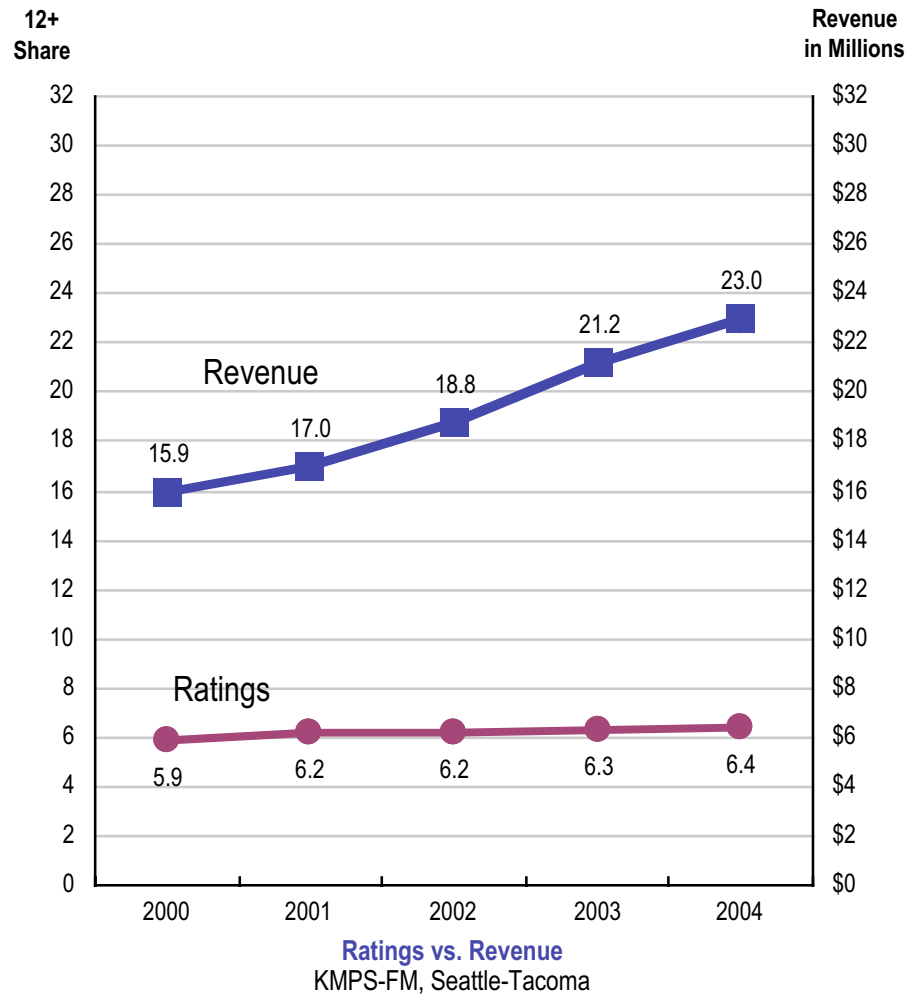
Source: BIA Surveys, Spring and Fall for Percent Share

© 2005 Arbitron Inc.

Example #1: High Ratings = Strong Revenues

This Country station's ratings have grown slowly but steadily in the last five years, with its share of the market's radio audience gradually trending upward from 5.9 in 2000 to 6.4 in 2004.

Accordingly, the station's revenues have increased too, but even more dramatically. Its revenue figures clearly reflect the premise that a station's share of revenue increases more substantially the higher its share of the audience. While the Country station's ratings rose a half a percentage point from 2000 to 2004, its revenues grew nearly 45%, jumping from \$15.9 million in 2000 to \$23 million in 2004. Strong regional growth supported this station's upward revenue momentum.



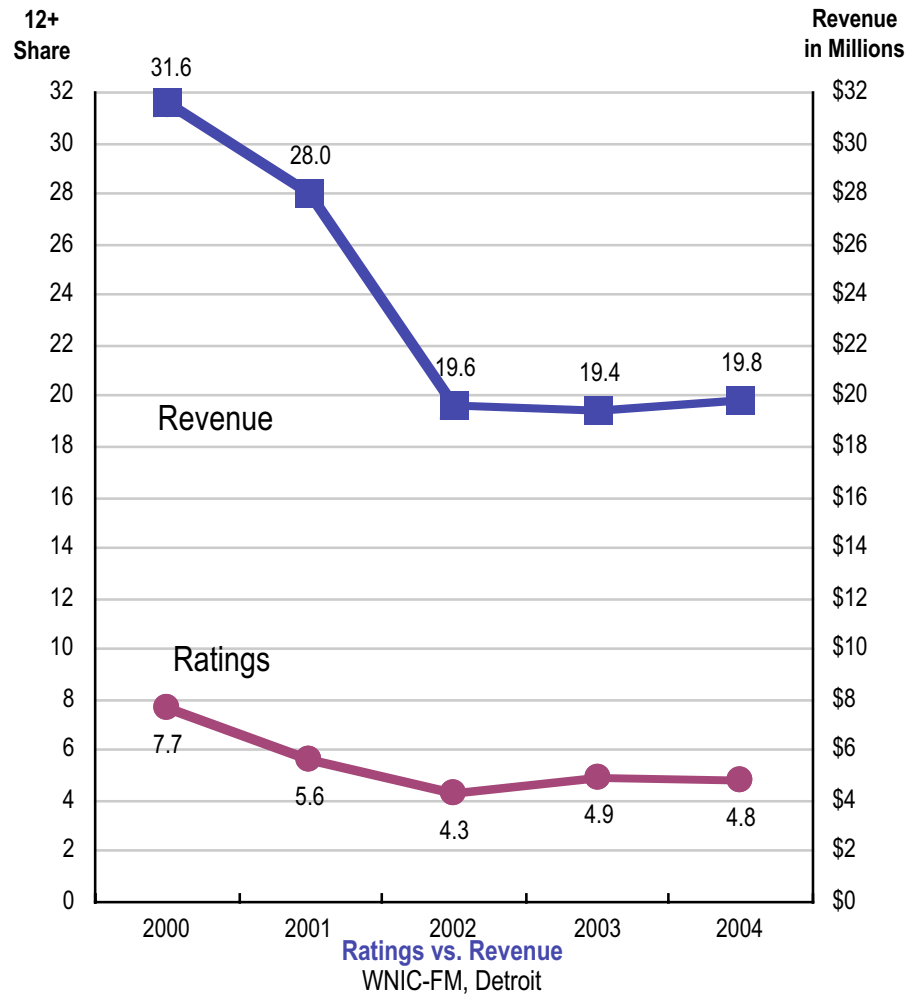
Source: BIA

AQH Share for Spring and Fall surveys are averaged for each year.

© 2005 Arbitron Inc.

Example #2: Low Ratings = Revenue Woes

This AC station's ratings have declined; so have its revenues. Its share of the market's radio audience has dropped sharply from a high of 7.7 in 2000 to a low of 4.3 in 2002 before rebounding to 4.8 in 2004. Revenues followed suit, falling from a high of \$31.6 million to a low of \$19.6 million in 2002, then rebounding slightly to \$19.8 million in 2004. Sluggish regional growth compounded this station's revenue woes.



Source: BIA

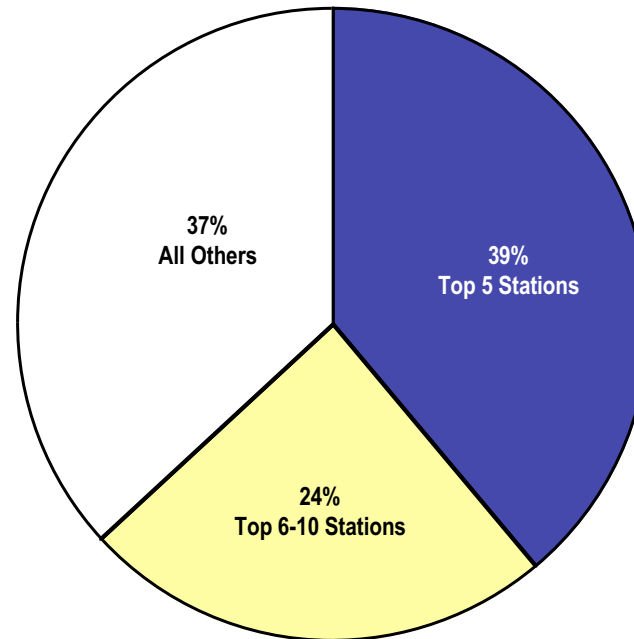
AQH Share for Spring and Fall surveys are averaged for each year.

© 2005 Arbitron Inc.

Top-Ranked Stations Corner Revenues

Not only must stations work to get a 3 share or better if they want to attract a significant percentage of the radio revenues, they must also compete vigorously with the other stations in the market. It's not unusual for advertisers and agencies to limit buys to the top 5 or even top 3 stations in the market.

The chart opposite shows that the top 5 ranking stations net 39% of radio revenues. The top 10 stations capture nearly two-thirds of a market's radio revenues—a remarkable statistic considering that major markets average about 45 stations.



Heavy Hitters Take a Disproportionate Share of Radio Revenue
Percent of Market Revenue

Format Choice Impacts Ratings

While it varies by regions, some formats tend to end up at the top of the rankers more than others. In this analysis, the number of stations in each format is compared with the number of stations in that format that have a 3 share or better. The comparison results in an index for each format.

An index of 100 or better indicates that the format outperforms the average station in its ability to deliver a 3 share or better. An index of less than 100 means the format falls short of the average.

What formats outpace the norm? CHR/Top 40, with an index of 280, and Urban, with an index of 259, top the charts. Album-Oriented Rock/Classic Rock (214), Rock (144) and Adult Contemporary (132) round out the top 5.

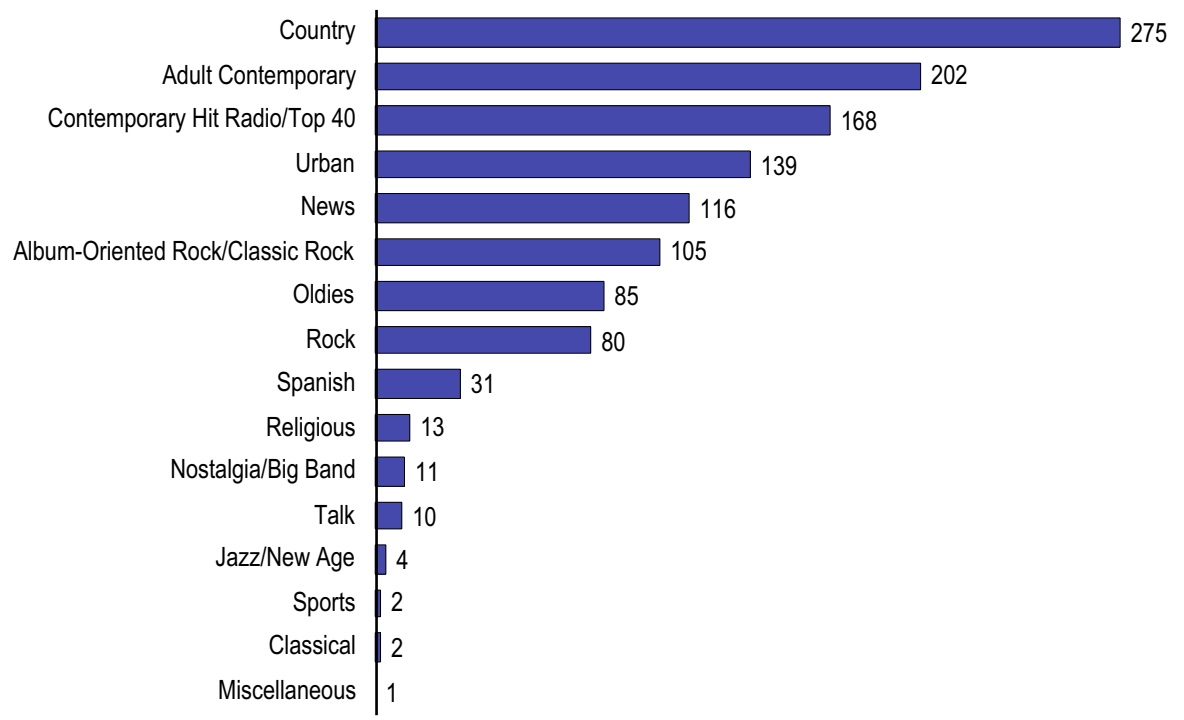
	Total Number of Stations in Format	Stations in Format w/ 3+ Share	Index
Country	2,115	409	96
Religious	1,957	52	13
Adult Contemporary	1,538	409	132
News	1,163	222	95
Oldies	938	211	112
Rock	830	240	144
Spanish	816	84	51
Album-Oriented Rock/Classic Rock	620	267	214
Contemporary Hit Radio/Top 40	519	292	280
Sports	444	9	10
Urban	428	223	259
Talk	410	46	56
Nostalgia/Big Band	402	41	51
Classical	310	8	13
Jazz/New Age	159	28	88

Source: BIA, Spring 2004, All Metros

Format Choice Impacts Station Rank

Another way to look at formats is to compare stations based on rank. As we've said before, it's not unusual for advertisers and agencies to limit buys to the top 5 or even top 3 stations in the market.

This analysis is a count of how many times a format won in the ratings by ranking among the top 5 stations in the market. Although the resulting format cluster is similar to the previous analysis, Country now enters the scene, reflecting its position as the most pervasive format in America. Country-formatted stations appear in the top 5 stations in a market more than any other format, followed by Adult Contemporary, CHR/Top 40, Urban, News, and Album-Oriented Rock/Classic Rock.



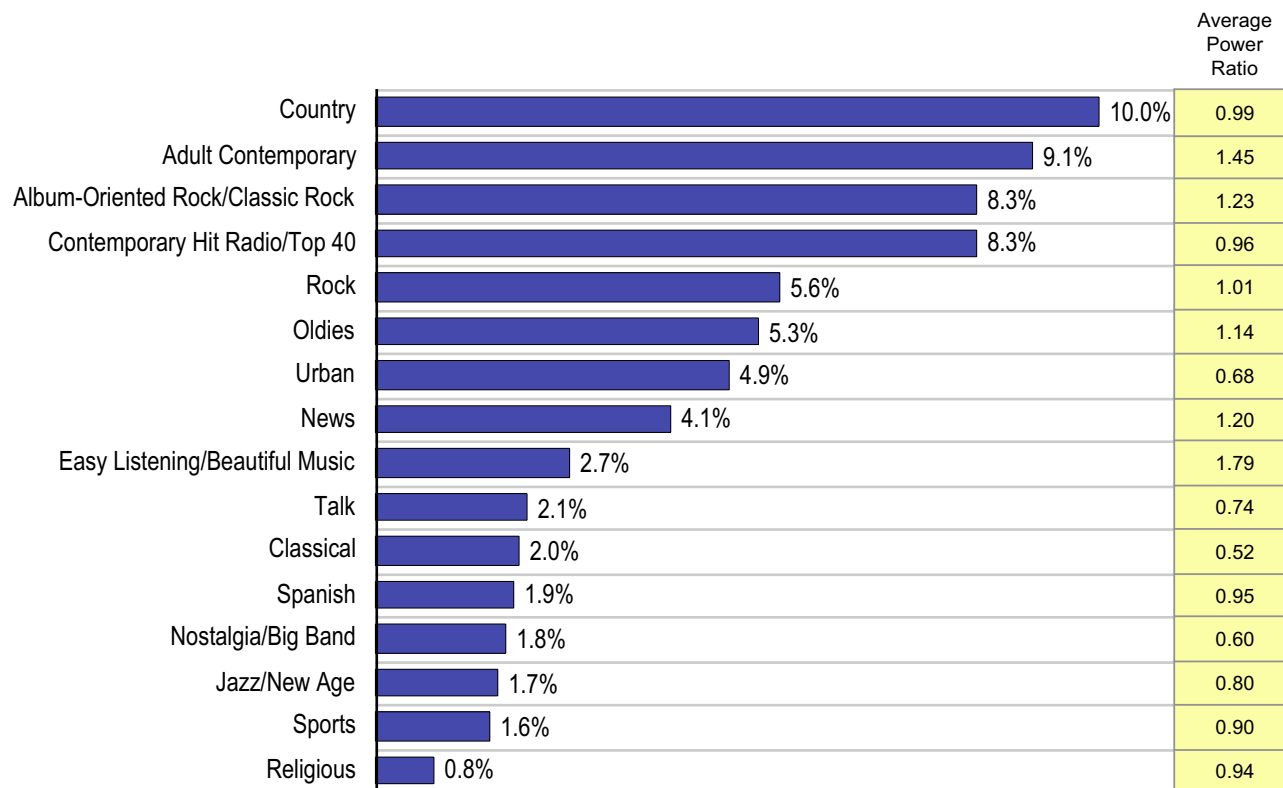
Which Formats Deliver the Ratings?
 Number of Times Format Ranked in "Top 5"
 All Markets

Source: BIA, Spring 2004, All Metros

Format Choice Impacts Revenues

Format choice impacts revenues, but some formats are more lucrative than others. In this chart, formats are ranked by the percentage of market revenue. Their power ratio (revenue share divided by audience share) is also given. On average, Country stations have 10% of the market revenue, with a power ratio of 0.99. The combination of strong ratings and strong revenues has motivated many to program Country stations. As one might expect, Country is the most prevalent format in the U.S.

AC, while having a higher power ratio than Country of 1.45, ranks second in terms of percent of revenue, with 9.1%. Meanwhile, Easy Listening/Beautiful Music delivers a very desirable market segment. With a power ratio of 1.79, the highest of any format, these stations generate much more revenue than simply their ratings would suggest.



Which Formats Deliver the Ratings?
Number of Times Format Ranked in "Top 5"
All Markets

Source: BIA, Spring 2004, All Metros

How Radio Formats Are Trending

Formats gain or lose share as a result of many factors: demographic shifts, significant news or weather events, music tastes and trends, or seasonal listening patterns. For instance, Urban stations have been on the rise, recently, thanks to their ability to attract large numbers of young, ethnically diverse listeners, and Spanish-language stations continue to attract record audiences thanks to America's rapidly growing Hispanic population. Also, News/Talk/Information has gotten a big boost in recent years as listeners flocked to the radio to hear the latest developments in national events, such as the plethora of corporate scandals, the bitterly fought 2004 Presidential election, and the continuing wars in Afghanistan and Iraq.

Even accounting for these events and trends, format shares have been remarkably stable since the advent of consolidation. Today's mega-groups are better able to invest in their programming, using perceptual research and effective station promotions.

Survey Key: SP = Spring, SU = Summer, FA = Fall, WI = Winter, 00 = 2000

	FA98	WI99	SP99	SU99	FA99	WI00	SP00	SU00	FA00	WI01	SP01	SU01
Adult Contemporary	15.7	15.8	15.3	15.0	15.1	15.2	14.4	15.0	15.3	14.2	14.4	14.1
Adult Standards	3.7	3.8	3.4	3.4	3.3	3.5	3.7	2.9	3.0	3.1	2.7	2.5
Alternative	4.9	5.1	5.1	5.1	5.1	5.0	5.0	5.2	5.0	4.7	4.8	5.1
Classical	1.7	1.7	1.6	1.6	1.8	1.7	2.6	1.6	1.7	1.7	1.5	1.5
Contemporary Hit Radio	10.7	10.9	11.5	11.7	11.7	11.7	11.7	12.0	11.4	12.0	12.3	12.2
Country	9.5	9.3	9.5	9.2	9.2	9.0	8.8	8.8	9.0	8.8	8.9	8.7
New AC/Smooth Jazz	3.0	2.9	2.8	2.8	2.7	2.7	3.1	2.8	2.7	2.8	2.8	3.0
News/Talk/Information	16.4	16.2	15.8	15.9	16.0	15.8	16.3	15.6	16.9	16.3	16.2	16.7
Oldies	7.3	7.5	8.1	8.5	8.5	8.4	7.9	8.4	8.1	8.8	8.5	8.2
Religious	2.1	2.2	2.2	2.1	2.3	2.5	2.2	2.4	2.5	2.6	2.6	2.7
Rock	9.6	9.7	9.8	9.9	9.3	9.2	9.3	9.8	9.0	9.2	9.4	9.1
Spanish	6.7	6.5	6.8	6.8	7.2	7.2	6.7	6.8	6.9	7.2	7.0	7.1
Urban	8.2	8.0	7.7	7.8	7.5	7.8	7.6	8.2	8.0	8.1	8.4	8.8

This report is based upon all continuously measured radio Metros within the selected geography.

Which Formats Are on the Rise? Percent of Radio Listening

How Radio Formats Are Trending *(continued)*

Survey Key: SP = Spring, SU = Summer, FA = Fall, WI = Winter, 00 = 2000

	FA01	WI02	SP02	SU02	FA02	WI03	SP03	SU03	FA03	WI04	SP04	SU04	FA04
Adult Contemporary	14.6	14.6	14.7	14.3	14.7	13.9	13.8	13.5	14.0	14.0	13.7	13.4	14.3
Adult Standards	2.3	2.3	2.3	2.2	2.2	2.1	2.0	2.0	1.9	1.8	1.8	1.6	1.4
Alternative	5.0	5.2	5.3	5.2	5.0	5.0	4.9	4.9	4.7	4.8	4.9	4.8	4.4
Classical	1.5	1.5	1.3	1.4	1.5	1.5	1.4	1.3	1.4	1.5	1.3	1.3	1.3
Contemporary Hit Radio	11.7	12.1	12.0	12.5	12.1	11.8	11.6	11.7	11.2	11.2	11.7	11.6	11.2
Country	8.4	8.6	8.4	8.5	8.2	8.6	8.6	8.8	8.8	8.6	8.9	8.8	8.8
New AC/Smooth Jazz	3.0	2.9	3.0	3.0	3.1	2.9	3.1	3.1	3.1	3.1	2.9	2.9	3.0
News/Talk/Information	17.6	16.3	16.4	16.4	16.5	17.0	17.0	16.4	16.8	16.7	17.1	17.5	18.3
Oldies	7.8	7.9	6.9	7.2	7.7	7.4	7.6	7.8	7.5	7.4	7.4	7.3	7.0
Religious	2.6	2.7	2.9	2.9	2.7	2.9	2.9	2.8	2.9	3.0	2.8	2.7	2.8
Rock	8.9	9.0	9.5	9.3	8.7	8.4	8.5	8.6	8.2	8.4	8.3	8.3	7.8
Spanish	7.2	7.6	8.1	7.7	8.4	8.5	8.3	8.4	9.1	9.2	8.9	9.2	9.6
Urban	9.1	9.0	8.9	9.0	9.1	9.7	9.9	10.4	10.1	10.1	10.3	10.5	10.1

This report is based upon all continuously measured radio Metros within the selected geography.

Which Formats Are on the Rise? Percent of Radio Listening

Source: Arbitron's American Radio Listening Trends

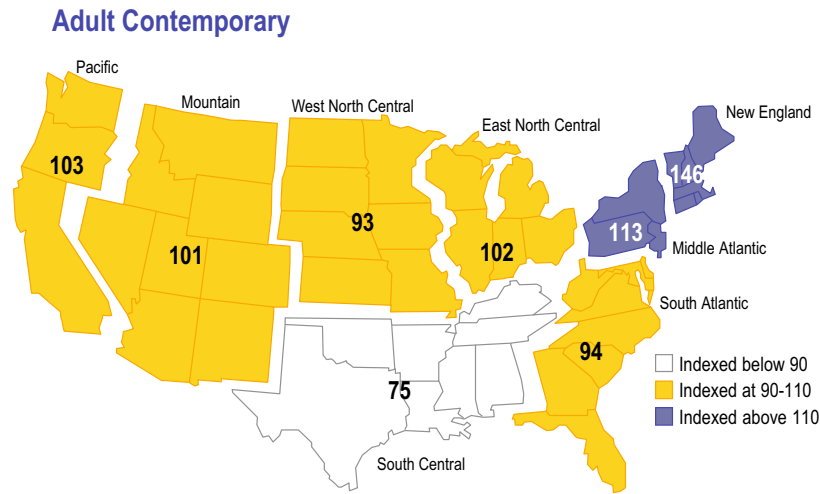
© 2005 Arbitron Inc.

Formats Have Regional Appeal

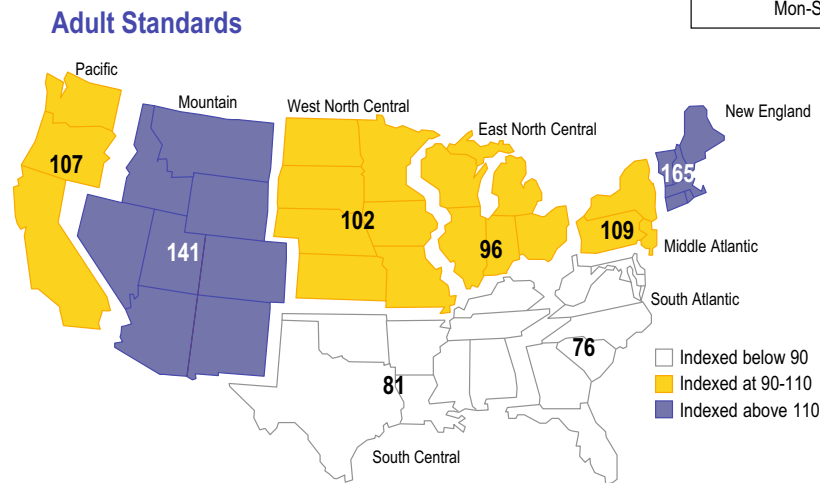
There are more formats today than ever before, thanks to consolidation. As groups consolidate, they form market clusters looking to amass a group of stations where each station format occupies a specific, well-defined audience that appeals to certain advertisers. Groups may want to concentrate on reaching all ages of women, or focus on developing younger audiences with a variety of formats. Or they may want to offer a little of everything, arraying formats from young to old, men to women.

Station success is dependent not only on its format but also on where the station is located. The format's appeal must match a viable segment in the market's population. So, for example, a Country station as a rule may not fare well in New England but will have a better chance of success in the South. Spanish-formatted stations would be a long shot in the center of the country but perform well in Texas, the southwestern states and the Pacific region.

16 Radio's Leading Indicator



Audience Share by Region
 Index Based on All Metros, 100 = National Average
 Mon-Sun, 6AM-Mid, Persons 12+, AQH Shares



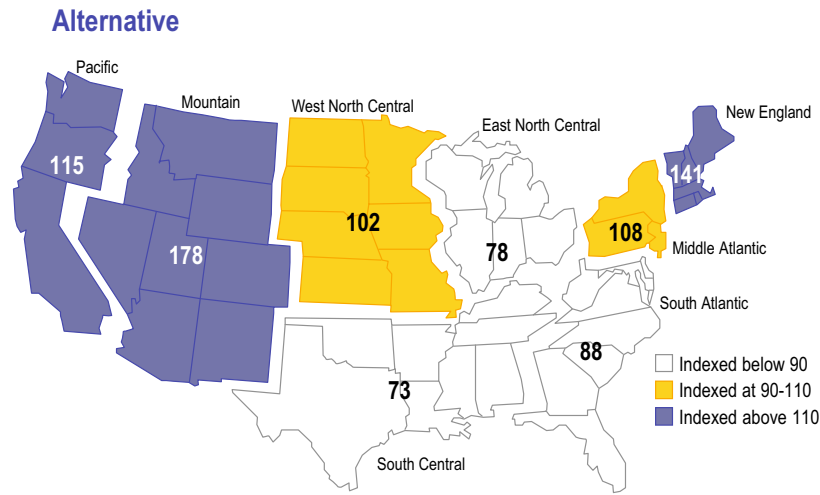
Source: Arbitron's MaximiSer® Plus, Spring 2004

© 2005 Arbitron Inc.

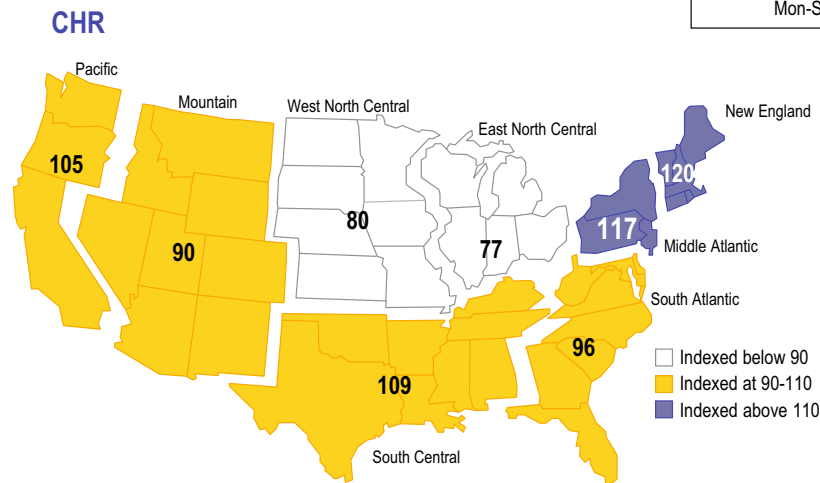
Formats Have Regional Appeal *(continued)*

Urban stations have greatest success in metropolitan, urban areas. Formats that seem to have broad-based regional appeal include Adult Contemporary, CHR and Oldies.

The 13 radio programming formats shown here are just a sampling of the different programming formats radio broadcasters use to reach a valuable, targeted audience segment.



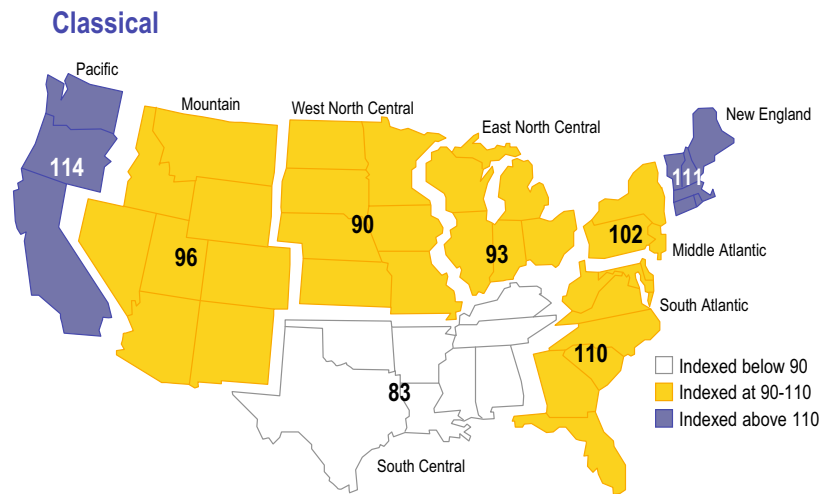
Audience Share by Region
 Index Based on All Metros, 100 = National Average
 Mon-Sun, 6AM-Mid, Persons 12+, AQH Shares



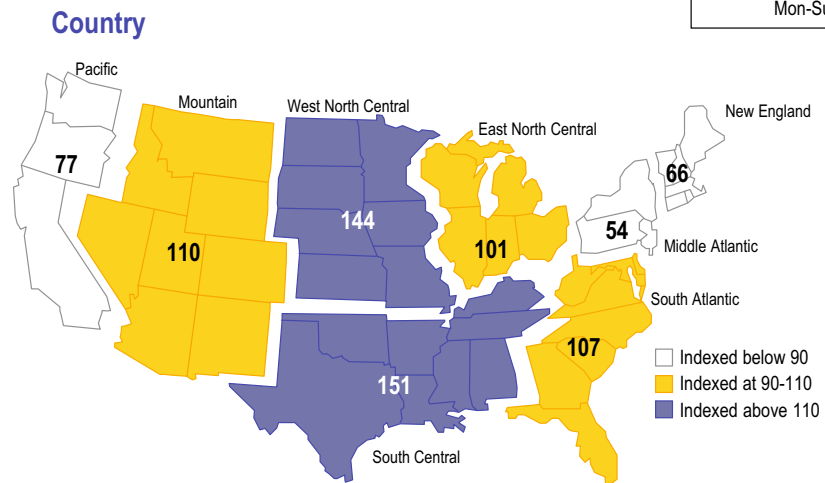
Source: Arbitron's MaximiSer® Plus, Spring 2004

© 2005 Arbitron Inc.

Formats Have Regional Appeal *(continued)*



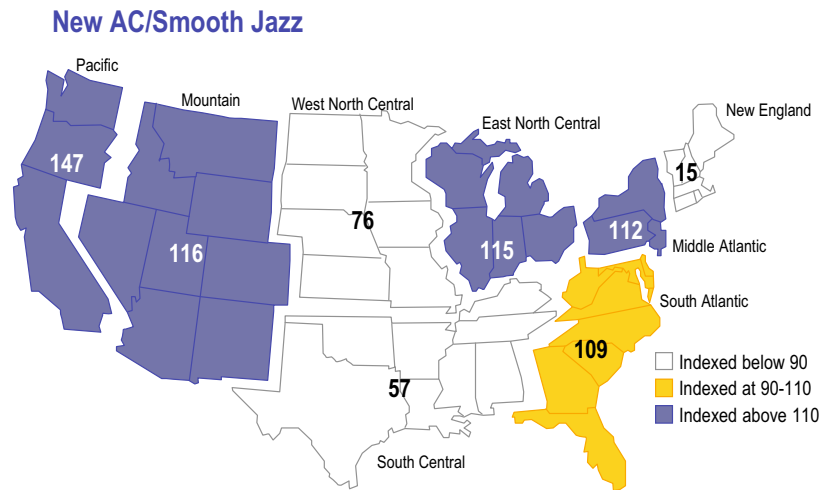
Audience Share by Region
 Index Based on All Metros, 100 = National Average
 Mon-Sun, 6AM-Mid, Persons 12+, AQH Shares



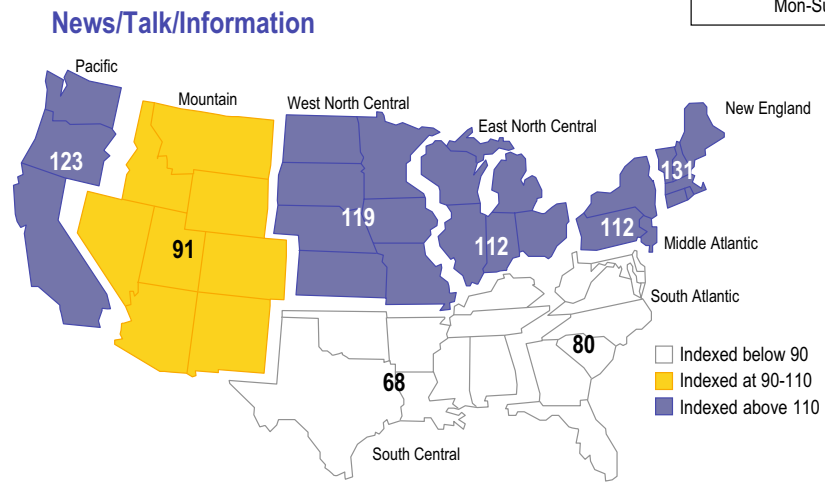
Source: Arbitron's MaximiSer® Plus, Spring 2004

© 2005 Arbitron Inc.

Formats Have Regional Appeal *(continued)*



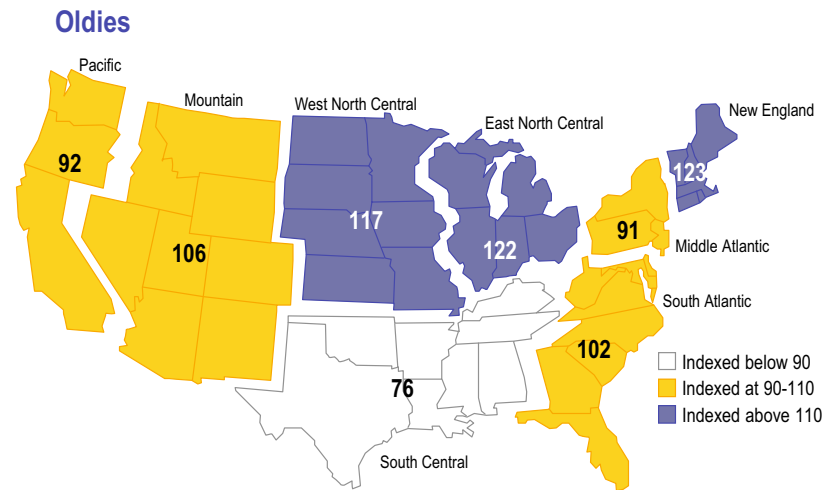
Audience Share by Region
 Index Based on All Metros, 100 = National Average
 Mon-Sun, 6AM-Mid, Persons 12+, AQH Shares



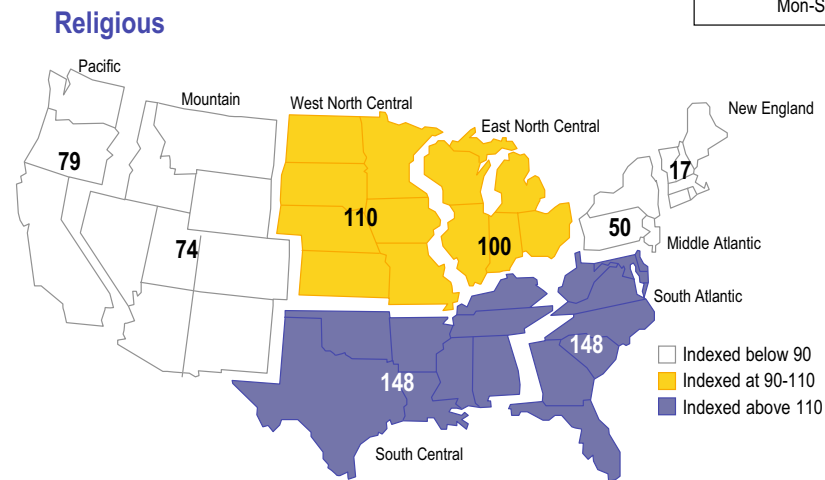
Source: Arbitron's MaximiSer® Plus, Spring 2004

© 2005 Arbitron Inc.

Formats Have Regional Appeal *(continued)*



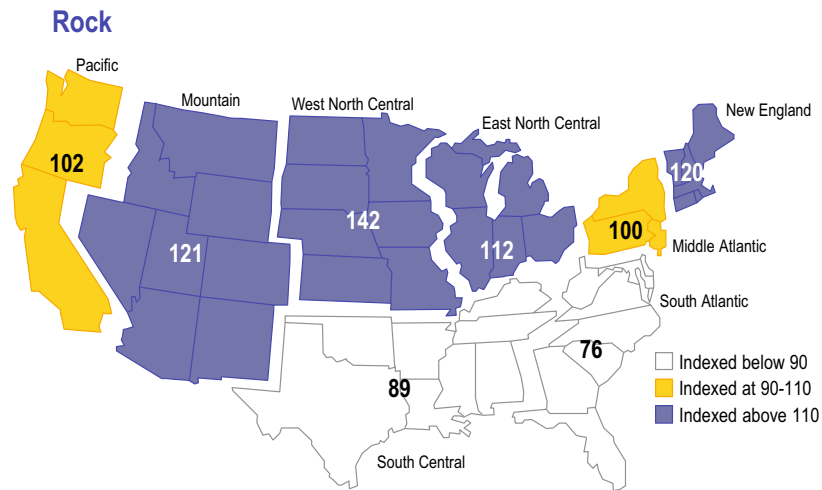
Audience Share by Region
 Index Based on All Metros, 100 = National Average
 Mon-Sun, 6AM-Mid, Persons 12+, AQH Shares



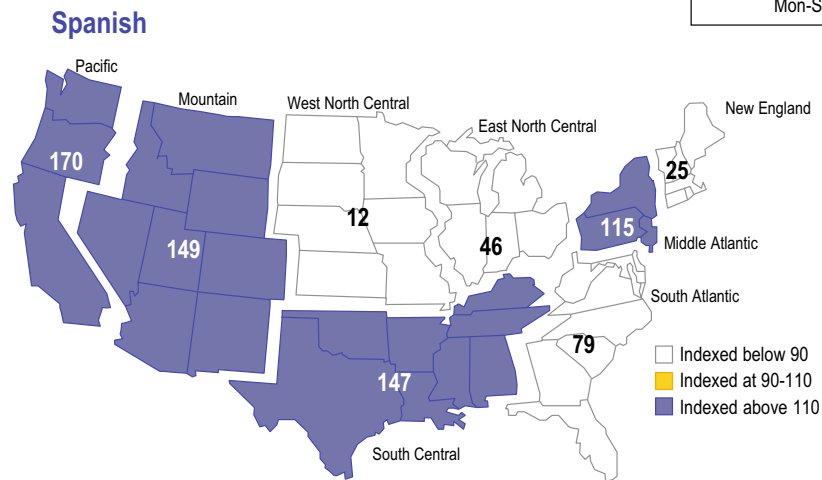
Source: Arbitron's MaximiSer® Plus, Spring 2004

© 2005 Arbitron Inc.

Formats Have Regional Appeal *(continued)*



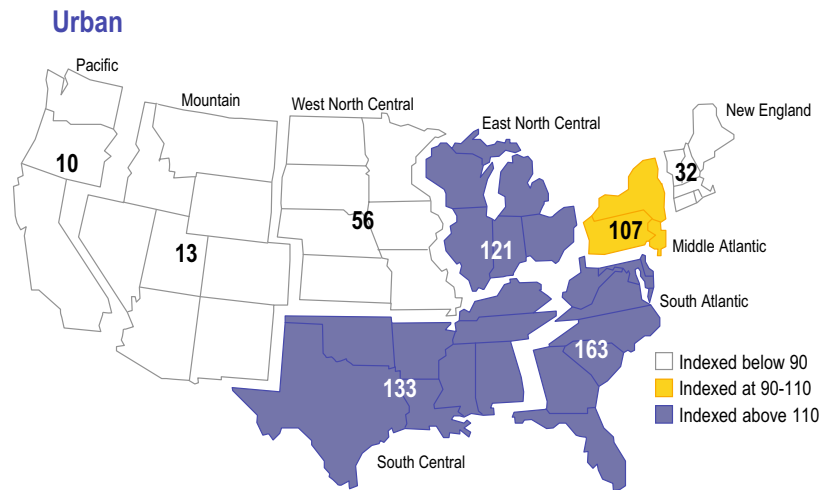
Audience Share by Region
 Index Based on All Metros, 100 = National Average
 Mon-Sun, 6AM-Mid, Persons 12+, AQH Shares



Source: Arbitron's MaximiSer® Plus, Spring 2004

© 2005 Arbitron Inc.

Formats Have Regional Appeal *(continued)*



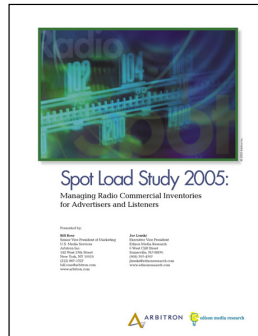
Audience Share by Region
 Index Based on All Metros, 100 = National Average
 Mon-Sun, 6AM-Mid, Persons 12+, AQH Shares

Source: Arbitron's MaximiSer® Plus, Spring 2004

© 2005 Arbitron Inc.

Insight Online at www.ArbitronRadio.com

Arbitron's acclaimed series of studies examine the ways consumers use media to make sense of changes in the marketplace and help radio stations position themselves for growth. Issues covered include such timely and varied topics as what women want from radio, the buying power of radio listeners, and how commuters are using radio. Best of all, these studies are free and available for immediate download. Just go to www.ArbitronRadio.com and click on "Free Studies & Reports."

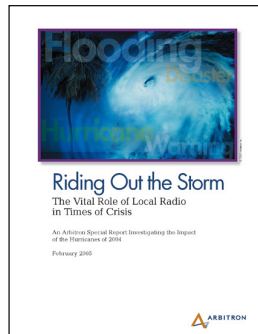


Spot Load Study 2005:
Managing Radio Commercial Inventories
for Advertisers and Listeners

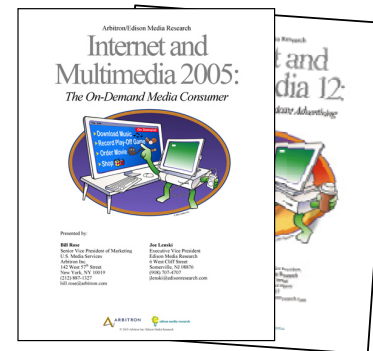


Radio Today Studies:

- Radio Today 2005
- Black Radio Today 2005
- Hispanic Radio Today 2005



Riding Out the Storm:
The Vital Role of Local Radio in Times of Crisis



Internet Studies:

- The On-Demand Media Consumer
- The Value of Internet Broadcast Advertising
- And others...



New York

142 West 57th Street
New York, New York 10019-3300
(212) 887-1300

Chicago

222 South Riverside Plaza
Suite 1050
Chicago, Illinois 60606-6101
(312) 542-1900

Atlanta

9000 Central Parkway
Suite 300
Atlanta, Georgia 30328-1639
(770) 668-5400

Los Angeles

10877 Wilshire Blvd.
Suite 1600
Los Angeles, California 90024-4341
(310) 824-6600

Dallas

13355 Noel Road, Suite 1120
Dallas, Texas 75240-6646
(972) 385-5388

Washington/Baltimore

9705 Patuxent Woods Drive
Columbia, Maryland 21046-1572
(410) 312-8000

Birmingham

3500 Colonnade Parkway
Suite 400
Birmingham, AL 35243

04-RSS-521 7/05

Maximiser® is a registered mark of Arbitron Inc.

24 Radio's Leading Indicator

© 2005 Arbitron Inc.

www.arbitron.com