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Flashpoint
The Broadcast
Spectrum Auction

Preparing for a
post-auction world



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Consumer-driven demand for mobile data has prompted the FCC to find ways to get more spectrum into the hands of mobile operators. To do that, regulators at the FCC have turned their attention to a portion of the spectrum now in the hands of television broadcasters. In doing so, they have set the wheels in motion for a potential transformation of the broadcast industry. For any broadcaster, the implications could be profound, and auction-related decisions could set a broadcaster on a new course for the future—for better or for worse.

The FCC plan involves an ambitious two-step auction in which the first step, a reverse auction, seeks to acquire what is expected to be between 84 MHz and 126 MHz of spectrum on a national basis from broadcasters—at the lowest price. The second step, a more traditional forward auction, would repack the acquired spectrum and auction it off for mobile broadband uses at the highest price.

Supply and demand

Auction success is predicated on the FCC performing a balancing act. The agency must attempt to purchase as much spectrum as possible from the broadcasters without exceeding the total price point it can achieve from bidders in the forward auction.

If the forward auction doesn't generate adequate proceeds—meaning the FCC can't sell the spectrum for at least as much as it conditionally purchased it for in the reverse auction—the FCC will reduce its goal for the amount of spectrum it purchases from the broadcasters and restart both the reverse and forward auctions, repeating this buy-sell cycle until total demand payments in the forward auction meet or exceed supply purchases in the reverse auction. The end result won't be known until late summer 2016, and the process could extend into 2017 if more than one auction cycle is required.

Decision time

The auction is the first, and maybe only, opportunity for broadcasters to sell their spectrum license rights in this manner, and many station operators realize that decision time has come for taking advantage of this unique opportunity. They will need to determine whether they want to stay in the business with 6 MHz spectrum license rights as they have today, share a 6 MHz spectrum block with another operator in return for a split of auction proceeds, or exit the business and reinvest the auction proceeds elsewhere. Hundreds of licenses could be sold in the process.

Regardless of the auction decision by a given operator, all broadcasters that remain in operation will be subject to being “repacked” into new channel assignments by the FCC, to move the broadcasters out of the way for mobile broadband spectrum. The planned auction, therefore, stands to significantly reshape the national broadcast landscape and affect virtually all U.S. broadcasters—even those that do not participate.

Amid the potential for a dramatically reshaped post-auction landscape, station owners, operators, and investors are looking for answers. For any broadcaster, a few key post-auction considerations emerge: Why participate in the auction? What are the implications of participating with a channel-sharing partner? What are the challenges of repacking? And how can you best use proceeds for evolution or reinvention? Regardless of the auction scenario, broadcasters should focus on preparing for the post-auction environment—because no matter which path they take, the new broadcast landscape likely will be dramatically different, and decisions made now can have long-term implications for who emerges as winners or losers. Here are some things to know.

Key considerations



Wait and see: a risky proposition

To sit idle is to take a big bet that things will remain the same. Virtually all stations will feel an impact.



Partner up: channel-sharing

Auctioning off spectrum and then sharing a channel with a new partner could offer a win-win scenario for some.



Technical difficulties: repacking challenges

The auction will bring with it the complexities of a repack, requiring strategic thinking and careful planning for the new environment.



Invest in the future

The auction harbingers a new era. Broadcasters face a rare opportunity to reinvent themselves and pursue bold new business models.



Not all stations will be winners

Any missteps on auction strategy could have long-term repercussions on revenue, performance, and the bottom line.

Wait and see: a risky proposition

Choosing not to participate in the auction could represent a head-in-the-sand moment for many broadcasters—a big bet that things will stay the same. A station that decides to “stay put” is betting that the broadcast and commercial landscape within its market won’t materially change as a result of the auction, and that the future will be bright for over-the-air (OTA) services relative to auction prices. It’s also betting that the FCC won’t eventually claim eminent domain and bump it off the spectrum, with little or no compensation.

A broadcaster that participates minimally (or not at all) in the auction could miss out on a windfall, while broadcasters that participate in a big way could reap significant monetary rewards. Those major participants then could leverage those funds to gain a competitive advantage over minor participants or “wait and see” broadcasters. As a result, investors

might view some auction strategies or nonparticipation as failures—leading them to lose confidence in leadership and question corporate direction.

A station also could find itself operating in a dramatically different environment—with a new, repacked station footprint in its market, the footprints and economic strength of competitors altered, and a new supply-and-demand equation affecting local advertising rates. New interference concerns also could emerge—creating operational and quality issues that might prompt viewers to reassess their local channel preferences.

And for those stations that don’t participate yet are forced by the FCC to move, the challenges they’ll face will be identical to those stations that do choose to participate and repack.



To sit idle is to take a big bet that things will remain the same. Virtually all stations will feel an impact.

Partner up: channel-sharing

While some broadcasters might choose the “do nothing” approach, others might use the auction as an exit opportunity—to monetize an underperforming station. But there’s an additional option for broadcasters: channel-sharing, in which two stations or broadcasters use a single channel to broadcast both of their signal streams. The opportunity to channel-share could provide the best of both worlds for some broadcasters—allowing them, for example, to auction off their existing spectrum, split the proceeds with a channel-sharing partner, maintain their license, continue cable carriage, and operate with potentially reduced overhead.

But in the new world of channel-sharing, developing a viable strategy will require more than a willing partner and a sharing agreement. Channel-sharing will require operational, financial, and technical skill, as well as careful planning, to ensure that the parties can effectively and collaboratively execute their vision of channel-sharing.



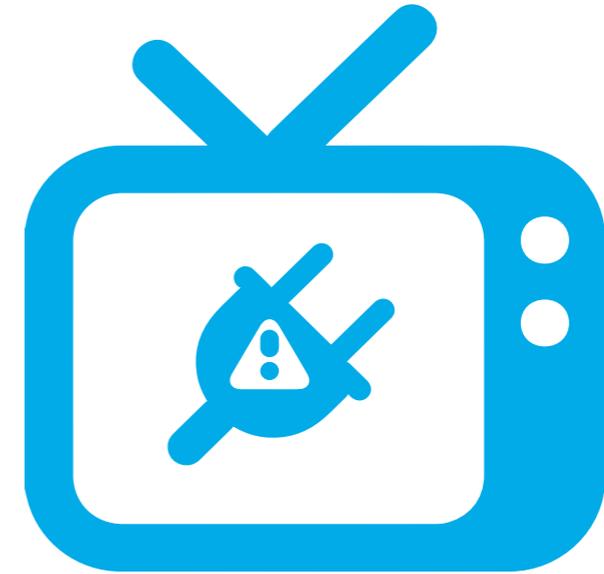
Auctioning off spectrum and then sharing a channel with a new partner could offer a win-win scenario for some.

Technical difficulties: repacking challenges

Regardless of whether broadcasters choose to participate in the auction, they may be repacked—moved to a new channel assignment. And such moves on a broad scale will require extensive planning, funding, specialized operational and technical skills, and custom equipment. Since the last broadscale channel upheaval—the analog-to-digital evolution that occurred last decade—those skills and resources have been less in demand. Finding them now could prove challenging. Broadcasters should think well ahead of time about the resources they will need for a repack—from technicians to customized equipment. And they should consider the “daisy chain” of effects that will occur as station after station undergoes repacking and clamors for these limited technical resources.

effort will require an understanding not just of how to retool towers. It will require nuanced understanding of the synchronization that must occur in local markets and region by region as scores of stations develop their timelines for moving to new channels. Executing poorly could lead to channel interference or other difficulties. Toss in the challenges of weather, worker safety, local regulations, long lead times for equipment, scarce availability of technicians, and the risk of FCC fines for not meeting the repack deadline, and the layers of complexity for a repack grow. For many, repacking could be a process that takes longer than expected—while the window to do it effectively, from a business operations standpoint, might be small.

The technical challenges of a repack extend beyond the requirements of a single station. The nationwide



The auction will bring with it the complexities of a repack, requiring strategic thinking and careful planning for the new environment.

Invest in the future

In monetizing their spectrum license assets—whether through a sell-and-exit strategy or a sell-and-channel-share approach—many broadcasters will have an opportunity to evolve with fresh funds. And those broadcasters can use auction proceeds in a wide variety of ways, from strengthening the balance sheet to funding operational improvements to fueling a reinvention. A broadcaster with substantial auction proceeds would stand at a strategic crossroads, and how it chose to reinvest the proceeds would have long-term implications for its business.

In the post-auction world, where empowered consumers and pervasive mobile broadband services diminish the power of the traditional OTA broadcast model, many station operators will recognize a clear need for bold ideas and new business models. It's an opportunity to focus on what it means to be a station in the digital era and to focus on new partnerships and strategies that can deliver value.

In each market and for each station, the sustainability of over-the-air will help drive the thinking on new models. Five local OTA news stations for a million-person market might not be sustainable in the new era, for example. As broadcasters begin to think about business models differently, they'll have to make new decisions on where best to allocate capital.

Ultimately, the post-auction shake-up could affect decisions on how local content gets delivered to the audience. Traditional over-the-air? Just via cable? A new model for Web or over-the-top (OTT) delivery? For some, the answer to the question of reinvention will involve forming new content alliances with other local media, such as newspapers. And the auction could accelerate decisions on whether to “unbundle” local news and OTA broadcasting capabilities—the two traditional core strengths of a station—and concentrate on one.



The auction harbingers a new era. Broadcasters face a rare opportunity to reinvent themselves and pursue bold new business models.

Not all stations will be winners

If the auction takes place as the FCC imagines it, there will be winners and losers—with those that have carefully planned and prepared best-positioned to reap the rewards.

For each market, the auction dynamics will be different, as will the economic realities from station to station. The FCC will have a predetermined amount of spectrum that it's seeking in each market. And the amount that the FCC will pay out during the reverse auction will depend on how much spectrum the agency has targeted in a particular market, how many “open slots” there are in the UHF and VHF bands for a market, which stations volunteer to participate in the auction, and the prices at which broadcasters are willing to give up their licenses.

For some stations, the auction values and the resulting complexities of channel-sharing might be well worth the trouble. For others, the auction value might provide an attractive opportunity to monetize an underperforming asset, to make an exit. But for some stations, the economics of auction values might

prove underwhelming and represent a poor offer to take—depending on their views of the post-auction landscape in their local markets. New station footprints and new competitive forces will of course present new business hurdles and new opportunities.

But other industry developments are in play as well, requiring broadcasters to think broadly and to factor in other important strategic considerations—such as the value of the emerging ATSC 3.0 broadcast transmission standard, increasing threats from OTT and mobile broadband video, and the changing advertising landscape.

Any missteps on auction strategy could have long-term repercussions on revenue, performance, and the bottom line, especially if compounded by other market forces and trends underway in the broadcast industry. And if the market doesn't perceive a broadcaster as successful in its auction strategy, that broadcaster could face challenges in investor relations and even become an acquisition target.



Any missteps on auction strategy could have long-term repercussions on revenue, performance, and the bottom line.

Let's talk

If you're a broadcaster, you already have an auction strategy. But there's always room for improvement when it comes to developing an effective post-auction strategy.

Whether you're selling or holding, big changes lie ahead for local content, delivery options, business models, and the nature of competition. And whether you spend your new-found spectrum capital or deploy other resources, you'll need fresh strategy for your evolving business model. Before the big shifts upend the status quo, you should have a post-auction strategy at the ready.

If you want to explore a few possibilities in depth and work toward some meaningful answers to tough questions, we should talk. Please contact us to get the conversation started.

In the meantime, be sure to check back for a [monthly dose](#) of the latest issues driving the future of technology, media, and telecommunications companies.

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