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EXECUTIVE SESSION WITH JASON ELKIN

THE NEW NEW VISION: NO MORE FLIPPING

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Unlike its first two incarnations, says CEO Jason Elkin, the latest New Vision is buying TV stations in small and medium markets with the idea of holding them for a long time and being a significant part of what he believes to be local TV's promising future.

Jason Elkin is at it again.

Along with longtime partner John Heinen and a new financial backer, Elkin is building a substantial group of small- and medium-market TV stations.

Under the New Vision Television banner, Elkin and Heinen made their big move last month, **agreeing to purchase the Montecito group of four network affiliates**— KOIN Portland, Ore. (CBS, DMA 23), KSNW Wichita-Hutchinson, Kan. (NBC, DMA 67); KHON Honolulu (Fox, DMA 72) and KSNT Topeka, Kan. (NBC, DMA 138)—for \$330 million.

Already in the portfolio: WIAT Birmingham, Ala.(CBS, DMA 40); WJCL Savannah, Ga. (ABC, DMA 97); KIMT Mason City, Iowa (CBS, DMA 153); and WKBN (CBS) and WYFX-LP (Fox), both Youngstown, Ohio (DMA 103).

New Vision also has an agreement to run WKBN, the ABC affiliate in Youngstown, along with his other stations there in a **virtual ABC-CBS-Fox triopoly**.

And it has virtual duopoly in Savannah, under an agreement to run WTGS, the Fox affiliate, in tandem with WJCL.

With unannounced letters of intent to buy still more stations, New Vision is well on its way toward its goal of a group with \$100 million in cash flow. That would make the group worth well over \$1 billion on the open market.

Elkin and Heinen have done this twice before over the past 15 years—found a financial backer and stitched together a good-sized TV group only to turn around and sell the stations within a few years to appease backers eager to cash in on the growth.

But this time it's different, says Elkin in this interview with TVNEWSDAY Editor Harry A. Jessell.

This time, Elkin says, New Vision's new financial backer—the Dallas-based hedge fund HBK Capital Management of Dallas—has promised patience.

New Vision will be able to operate the stations for a good long while and test some of Elkin's ideas for growing new media and local advertising revenue, he says.

An edited transcript follows:

So how is the latest iteration of New Vision different than the first two?

New Vision I and New Vision II kind of came and went quickly and that's because we used traditional equity, which had a real, time-based component to it.

In the case of New Vision I, we bought stations in '93 and they were gone in '95. We just exploded. We doubled cash flow in a year and we had a very cantankerous board meeting where the management did not want to sell and the equity people wanted to monetize their gain. Unfortunately, they outnumbered us.

In New Vision II, in 2002, we wanted to grow and get bigger and bigger and bigger, and the equity people again saw a gain and thought it would be a propitious time to monetize that.

With New Vision III, when we went out to raise funds, the first question we asked people was about their horizons because we didn't want to go through all the trouble of building a group and not enjoy running it. We have a lot of unique and creative ideas.

Now our financial source is a hedge fund out of Dallas and the private equity part is run by brilliant guys who are really into building solid foundations and solid businesses that punch out cash flow. They're not looking to flip the stations.

So this is a new New Vision that's in for the long haul or at least for the longer haul?

Right. And, you know, nobody really knows what the long haul is. Did Mark and Randall Mays ever think that Clear Channel would end up going private?

I thought that with these private equity funds it's usually a five-to-seven year play at best.

This hedge fund money is more into having a portfolio of solid business companies rather than just buying and selling, buying and selling.

So, you're digging in.

We're digging in, absolutely. We believe that broadcasting is incredibly healthy. I mean look at the multiples. But we think that the multiples are low and this is a great time to buy. I see a day with multiples north of 20.

Here's one question that's been bothering me about these hedge funds and private equity groups. A private equity firm buys a group of stations, comes in and cut costs and then after a few years it sells to another private equity firm. George Lily was the manager of the Montecito group and he had a reputation as a lean operator. Now you're going to come in and find more fat to cut?

No, no, no. I'm so glad you asked that because if you look at my reputation and New Vision's reputation, you'll see that we don't cut. We build. We grow. We grow the top line.

I just assume that cutting is the first thing you'll do as the new owner.

No. Not this new owner. We're not foolish. We keep an eye on expenses, but every business that New Vision has ever had, we had more employees the day we left than when we started. We focus on getting higher ratings and higher advertising dollars and putting out better news products.

We really love television. All of my managers have come through television. We have no MBAs; we have no one from Wharton or Harvard; we have TV people and we believe in growing the top line.

Now, there are people out there that believe that the quickest way to success is by cutting. I think that those people are really making a long-term mistake. Some stations are fat and need cutting, but a lot of people cut so much that they cut into the bone and they really hurt their stations.

Let me just make it really clear: We just bought the Montecito group. We will add people. We will not cut people. We will focus on the top line and creative ways to bring the news and get the community involved. Localism isn't just having more local spots. It's being very involved in the local community and that's what we plan to do.

People at the stations you're buying will be happy to hear that. So what's the total number of stations you are after?

You know, the truth of the matter is that my target is more of a BCF target. I want a cash flow somewhere north of a \$100 million a year.

Where are you now?

In 2008, I'll be at \$60 million. That's just with the stations I have now, not the LOIs [letters of intent].

You've managed to engineer a triopoly in Youngstown, Ohio. You own the CBS affiliate and a Fox low power and you're adding the ABC affiliate under a shared services agreement.

We're not inventing the wheel here. There are 200 other people that have shared service agreements, joint sales

agreements and time brokerage agreements. Congress got it wrong when they allowed duopolies only in eight-voice markets or above. I mean they should have looked at the smaller markets where the economics of scale demanded duopolies rather than a larger market

I've talked to a lot of your peers who believe the same thing, but it seems that you can do these virtual duopoly or triopoly deals pretty readily so it almost doesn't seem to matter what the rules are.

We don't run the third station. There's an owner there who programs it. They have their own sales staff, and they're going to have their own news that will compete against our news. I guess at the end of the day, the revenue will go to one hand.

But you do have a lot of control over this third station, WYTV, don't you? You've guaranteed the loans of Parkin Broadcasting, which actually bought the station.

Yes. We're going to do a lot of back-office stuff where there'll be less duplicity in engineering and news gathering and, you know, G and A. You can manage expenses a lot more.

Actually, I'm going to approach stations in the other markets where I own stations to try to do shared service agreements that have nothing to do with your fingers being in the other station.

For instance, why do five or six stations cover city hall at a breaking news event? Why not have a pool reporter there? Why does everyone have their own engineers? Why not have one engineer at the antenna farm and then maintenance engineers at the stations, etc., etc. I mean there's a lot of sharing that can be done.

Get some of the benefits of common ownership without common ownership.

Yes. It's just an agreement between stations or even between TV stations and newspapers.

Have you broached that with anybody?

Not yet. Right now, we've been focusing on gaining critical mass. We are getting close to about a dozen stations now. Some I can't talk about because they're under a letter of intent.

But once we get to a critical mass, I will. I want to talk about a lot of things. I have some ideas that I think will help defray some of the costs, that will help stations that are getting hurt by the reduction of national advertising and the fact that there's content distribution everywhere.

Now before we leave Youngstown, I want to ask another question. NABET opposed a deal. One of the things that they said was that the market would lose an independent news voice. In fact, that's what's going to happen, isn't it?

No, not at all. We don't want that to happen. We want to have two news voices. It's not in anybody's best interest to have that happen.

I don't think that NABET realized that we paid a great amount of money, almost \$16 million, for a station that wasn't breaking even, and without an SSA, there was a good chance that that station would have gone off the air.

I can understand why these people object because they remember the good old days when TV stations couldn't get out of the way of money and there was cigarette advertising and there was network compensation.

Now there's no network comp. In fact, Fox has reversed comp and there's no cigarette advertising and you have to split the barter in your syndicated shows and you're not getting as much network time.

So, it's much harder in a small market. I always said it's easier running a TV station in Denver than in Duluth because in Denver there is a significant amount of revenue and you can make a mistake. But in these small stations, you really have to watch every penny that you spend.

But don't you plan to merge those news operations? I can't imagine that you're going to operate two facilities.

I am going to have two newscasts. There might be some sharing in terms of news gathering. I don't want to go further than that because we're still in negotiations with the union. Many times things that I have said have been taken out of

context and hurt me because I try to be as candid as I can. It's probably not a propitious time for me to get into the intricacies of those stations.

Tell me about the Kansas network you're planning.

Kansas is a big state. Wichita covers most of it and we have Topeka. What we want to do is to grow and cover the whole state, which might mean buying a Kansas City station. Then, we're going to put a news bureau and a sales bureau in Salina. So if someone wants to buy Kansas, we hope they can come to us and we can cover the whole state.

Do you see operating all the Kansas stations out of one location?

I'm not a very big proponent of centralcasting. That doesn't mean I will never use it, but I like each station to be autonomous. I don't really like a distant station to switch for a station 100 miles away or to do traffic for it.

Do you have a new media strategy?

A lot of people have made a lot of mistakes on the Internet and they've spent a lot of money and they haven't seen a good return on their investment.

We are going to focus on the Internet driving advertisers and viewers to the TV station. We're going to do some interesting things on the Internet that I don't think have been done before. We're working pretty feverishly in that area. We have a whole Internet staff.

And what is that staff working on?

We're going to try to use the Internet to allow local voices to have a platform. That's something you cannot do on the news. You can't have anybody come on the news and just speak. So, it's an exciting time.

Could you elaborate just a little bit more on that?

We're in R&D right now and we have some trials that are going. To elaborate at this time might give some proprietary information away. But, let me just say, I'm a great admirer of what City-TV did years ago when they put [video] kiosks throughout the city of Toronto.

You could say something about your community. Of course, it was edited for profanity and negativity and then it was used as a bumper or a bridge or an interstitial during the week and then they made an hour program on the weekend. Those are the kinds of things where your voice can be heard.

That's interesting. So you would take that idea to the Web.

Yes, it would be very interesting because you no longer need the kiosk, just the Web. Then eventually I would like to see each community create a program dedicated to the voices of the community and what they're thinking.

Let me be clear: You're talking about gathering this video for an on-air program.

Well, it will always be on the Internet, but we want it also to be a program that will be on air and maybe use some of the more exciting comments as pumpers and bridges.

What about the downside of this business? What about national spot, which seems to be shrinking, especially in the small markets?

Lowry Mays once told me, when I worked for Clear Channel, that the business was going to be all local at some point, or mostly local, and so we have always tried to focus on local advertising. We certainly won't turn national dollars down, but we're not surprised in the reduction in national advertising.

Do you have any ideas for growing local revenue?

Segmentation is critical. Take Los Angeles. Could you advertise as a car dealer if you were in Long Beach on LA TV stations? It used to be incredibly difficult.

But now if your television station has segmentation, you can advertise just in Long Beach. We did that at my last station in San Luis Obispo. It was part of the Santa Barbara DMA, and it was a tri-phenated market—Santa Barbara-Santa

Maria-San Luis Obispo.

We worked really hard on coming up with a system, but we sold the station before we completed it. I think the Evening Post completed it. You had the ability to segment. You could buy spots for Santa Barbara or you could buy spots for San Luis Obispo.

And you do that by sending different feeds to different cable operators?

Yes, you give a different signal to your cable headends so you can bifurcate your advertising.

You see anything else out there that could boost the fortune of TV stations, to turn them around?

There's nothing to really turn around. TV advertising is going up every single year. I see people who are using national network who are coming into spot TV and I see people who are using syndication who have abandoned it and come to spot TV and I've seen people who have come from boards, radio and print, to national TV or spot TV.

Believe me, we're not running 40% open. We have trouble placing all of our inventory. We have more commercials that we have to turn down because we're full in *Oprah* or news or whatever.

There's always daytime and overnight inventory, but the prime spots on television are filled up very, very quickly. So we don't see any kind of slowdown.

The demise of TV has been something I've been hearing for 30 years now. Everyone said it with cigarettes, and then they said it with the VCR and then they said it with cable and now they say it with TiVo.

The truth of the matter is, TiVo doesn't hurt your television advertising. Now do some people fastforward through commercials? Absolutely. But haven't people always gotten up to use the restroom or make a sandwich during commercials? Absolutely.

Listen, the bottom line is, advertising agency executives are really pretty smart people and they know that all their commercials aren't getting seen. But they also know that when they put a TV commercial on the air, products moves.

What's the other upside in TV broadcasting today?

Retrans. If not a matter of if, it's when. It's already there for many broadcasters like Sinclair and Nexstar. Cable, which is now competing against the telcos, is beginning to realize how important the local signals are.

So retransmission will be an alternative revenue line that should more than compensate for the reduction in national and in network comp

And what's more interesting and more esoteric is you have D1 through D5. You have digital bandwidth that can carry five digital channels. Imagine what you would have if you could come up with content and line up a digital channel in every market so you could cover the entire country.

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