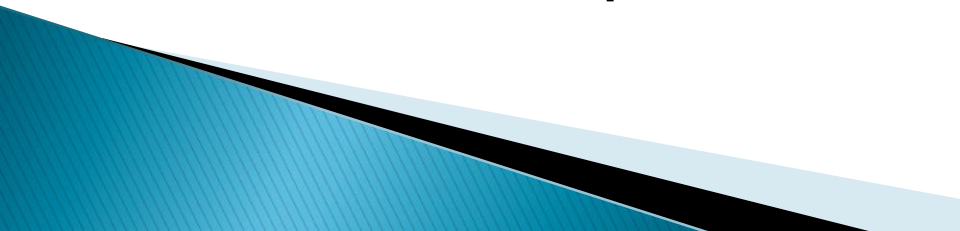


Show Me the Money!!!

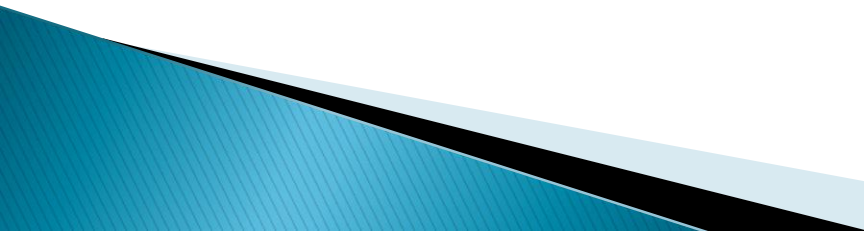
Business and Finance Workshop
Digital Switchover Caribbean Conference
Grand Royal Antiguan Hotel, August 13–14, 2012

Presenter: Gary Allen, Managing Director
RJR Communications Group

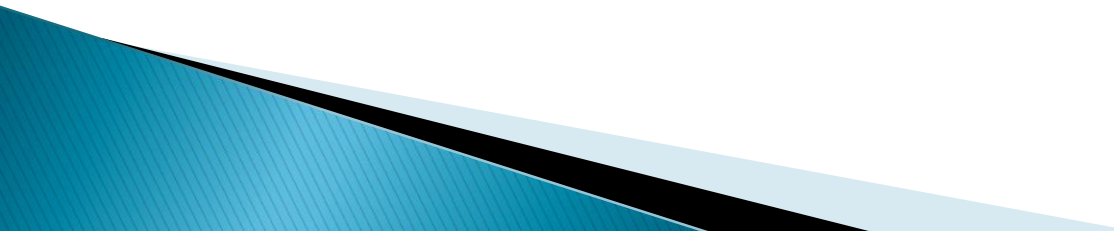
Debunking the Myth!

- ▶ It is not true! Terrestrial Broadcasters are not opposed to DSO!
 - ▶ In 2003 when the first workshop on DSO was being held in Jamaica, Television Jamaica was completing build out of its digital television production studio and editing facilities – through to its distribution chain.
 - ▶ By 2005 CNMG in Trinidad and Tobago were in a similar position.
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The Business Ownership Imperatives

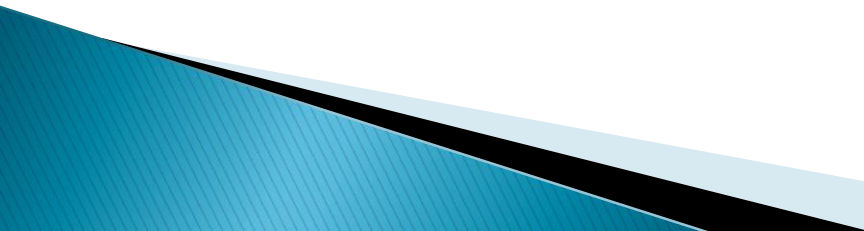
- ▶ **TV Terrestrial Broadcasters in:**
 - ▶ Antigua/Barbuda, Barbados, Bahamas, St. Kitts/Nevis are all government owned, supported and without direct competition – essentially operating as PSBs;
 - ▶ In Jamaica and Trinidad and Tobago, the primary players are publicly traded companies – depending on investor confidence in ROI; others are private profit driven entities to survive
 - ▶ Elsewhere there are mixed ownership structures, all competing fiercely for advertising dollars, with businesses to achieve DSO in an equitable framework.
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The Business Environment

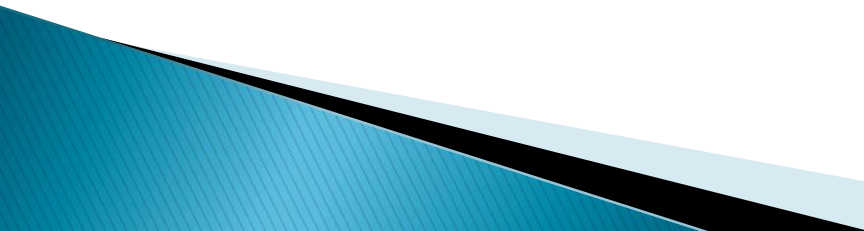
- ▶ The overwhelming majority of Caribbean broadcasters depend 90% and more on advertising revenues;
 - ▶ Most have negative net profit margins, as initial and ongoing infrastructure development costs are difficult to manage;
 - ▶ Few have diversified into profitable multi-media services; none can compete with telecom and cable operators who see benefit and have the cash to pump into media-related services;
 - ▶ Broadcasters have had little source to recover from unprofitable but necessary activities in the “national interest” and from producing necessary local programmes with little re-sale in major external markets.
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Broadcasters' Concerns

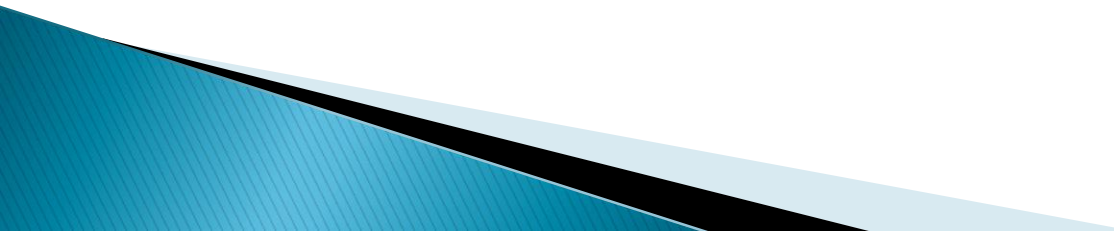
Broadcasters are concerned that:

1. Policymakers and regulators will set aggressive (short-range) switchover timetables that exceeds the absorptive capacity of broadcast entities;
 2. Policymakers will choose technical standards that broadcast businesses, not policymakers have to live with;
 3. Policymakers and broadcasters will go out of step with consumer demands, thereby reducing audiences/business.
 4. Policymakers will implement DSO with inequity due to ownership models that exist;
 5. DSO timetables could herald a death announcement for traditional broadcasters if done at the expense of their businesses.
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Critical specific points of concern

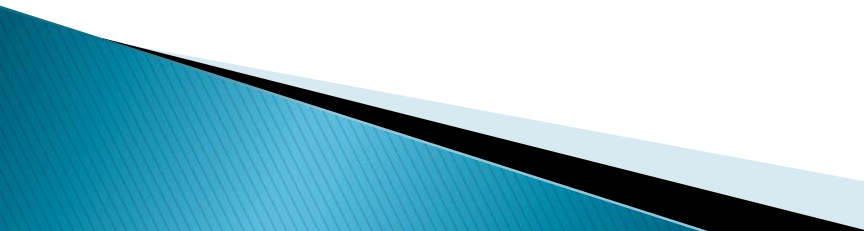
- Short DSO timeline could mean existing equipment being immediately written down with unrecoverable losses that could trash shareholder value and share price.
 - Financing capital cost of digital equipment will lead to new debt, immediately higher depreciation costs and more chronic profitability challenges.
 - Out of time switchover could precipitate lower access by consumers and make it impossible for broadcasters to justify CPM levels for advertising and thereby reduce revenues.
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Critical specific points of concern

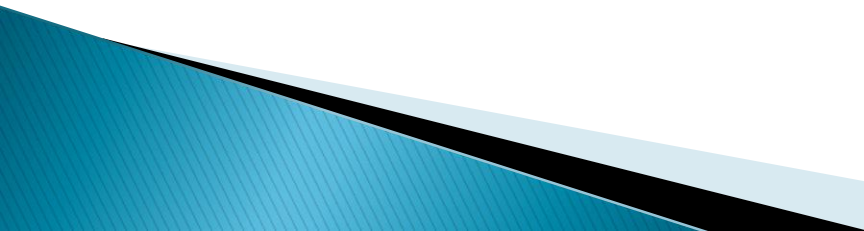
- Caribbean governments are challenged presiding over fragile, flagging economies and have no resources to contribute towards DSO capital acquisitions and may ill-afford being able to – forgo revenues and offer subsidies (except to government owned);
 - Policymakers had largely and previously not supported terrestrial broadcasters also owning STVS, so now that the crème de la crème of market segments have been taken, it cannot be raised as a viable platform for to prospecting;
 - Broadcasters who have developed distribution networks are, under DSO in danger of being forced to give these up as a revenue centres as regulatory models separating content providers and distributors for some reason!!!
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**SO WHAT'S THE
WORKABLE
BUSINESS MODEL?**

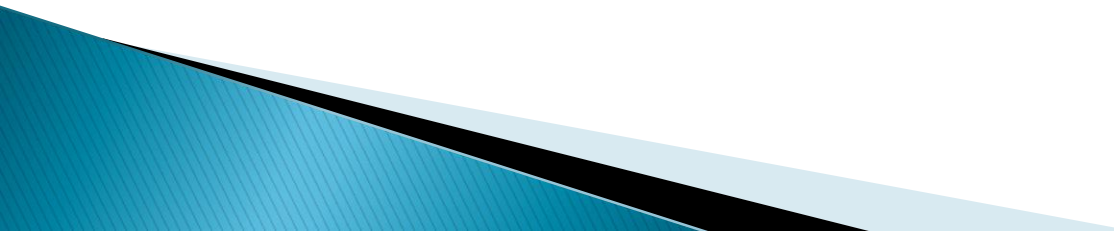
Financing Consumer Terminals

- ▶ Those consumers among us who can afford digital sets will purchase them and could contribute to those who cannot afford it by a special consumption tax – maybe with a sunset period on all new digital sets (maybe starting FY 2013).
 - ▶ Proceeds should go to the acquisition of set top boxes for those who cannot afford TV sets with digital receivers.
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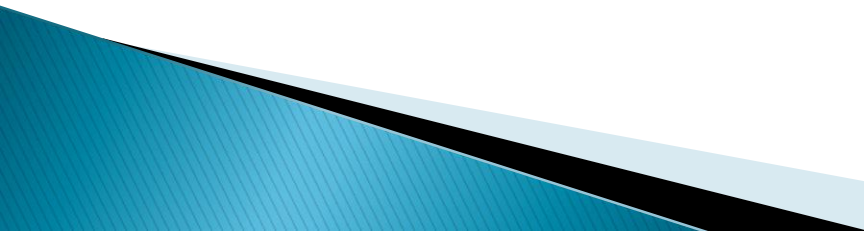
Funding Terrestrial Infrastructure

- ▶ Equitable and maybe pro-rated distribution of surpluses from the SCT on digital TV sets should be used to assist terrestrial broadcasters to fund infrastructure change.
 - ▶ Since broadcasters will not have their analogue equipment to collateralise loans; and will not have strong cash flows; and do not have strong revenues to support business plans for DSO, **development banking windows should be provided at 1-2% rates of interest.**
- 

Sources of Funding

- ▶ Manufacturers' credit (broadcasters to be given time to negotiate)
 - ▶ Development bank funding (governments to agree set policy imperatives for)
 - ▶ SCT on new sets and transparency mechanisms for administration are to be established by FY2013/2014.
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Recommendations

- A. Decide on and set the DSO dates (start and end) by January 2013;
 - B. Decide the standard (bearing in mind investments already made) by January 2013;
 - C. Determine the compression and other technical matters by January 2013;
 - D. Funding support decisions and disclosure to industry, manufacturers and consumers must be done for FY 2013/2014;
 - E. Financing Facilities to be in place by FY2015/2016;
 - F. Anti-Dumping Regulations and Legislative action to be taken swiftly
 - G. Cut off date for manufacturers importing non-digital receivers to be immediately determined and announced;
 - H. Public Education Campaign on Digital Readiness and Awareness to be designed and funded with retailers, broadcasters and regulators being involved.
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Thank You