Title:

Mr

Forename:

Piers

Surname:

Collins

Representing:

Organisation

Organisation (if applicable):

talkSPORT Limited

Email:

pcollins@talksport.co.uk

What additional details do you want to keep confidential?:

Keep part of the response confidential

If you want part of your response kept confidential, which parts?:

Ofcom may publish a response summary:

Yes

I confirm that I have read the declaration:

Yes

Additional comments:

Question 1:Do you agree that the proposed overall valuation methodology (including our objectives) and the proposed overarching principles are appropriate for the determination of the PQR and cash bid element of the renewed licences? If you do not, please explain why you consider that the overall methodology is inappropriate and what justifications exist for suggested alternatives:

Yes - we agree.

Question 2:Do you agree with our approach to valuing the rights and obligations associated with the INR licences? If not, please explain why not. :

We generally agree with Ofcom's approach, however make the following comments:

1. In relation to paragraph 3.26 of the condoc, we do not consider a new entrant would be likely to lease key studio and production equipment, and consider it even more unlikely in the case of a new entrant seeking to generate speech radio content. First, we are aware of no large-scale radio broadcaster in the United Kingdom who leases such critical infrastructure. Furthermore, in relation to the specific studio and production requirements involved in generating speech radio, specifically the need for larger studio space and a separate control room amongst other things, mean that a new entrant who was serious about bidding for INR3 would need to make the investment in bespoke new studio infrastructure. Finally, even if a leasing decision was made, we are not aware of any vendor who has such specialist studio infrastructure sitting idle that could be used by the new entrant 24 hours a day, 365 days a year for at least the pre-operational and five year duration of the licence. We would therefore suggest that the leasing option should be disregarded.

2. In relation to paragraph 3.28, it is unclear how Ofcom will in practice be able to quantify the theoretical benefit of reduced transactions costs. We would suggest that any such benefit would already be reflected in the existing terms of carriage 'enjoyed' by the incumbent, and that no additional value above this exists.

Question 3:Do you agree with our proposed approach to dealing with uncertainties for the purposes of the review? In particular, do you agree with our proposed approach to dealing with i) future trends in listening to the INR licences
ii) future trends in the proportion of listening that is digital
iii) future trends in revenue and costs of the INR licences
iv) start-up costs associated with the new entrant and
v) the duration of the renewed INR licences?
If not, please explain why not. If you disagree with our proposal to base our valuation on an assumption that each INR licence will endure for the full five year term, please also explain how, and on what basis, you consider we should take account of the uncertainty in respect of the duration of the renewed INR licences in our the licence valuations?:

We broadly agree with Ofcom's approach, however in relation to paragraph 3.43, we do not agree that Ofcom should place particular emphasis on average growth rates since 2010 when assessing future trends in radio listening by platform.

WLG believe that the combined effects of the launch of the second national commercial multiplex, the coverage enhancement of the local DAB layer to ILR FM equivalence, and the expansion of DAB receiver penetration in-car will be significant catalysts to accelerating DAB's share of listening over the forecast period.

The effect of these material events will only start to be seen in the data towards the end of

2016 and during the course of 2017. As a result, an approach that is only backward looking will not take account of these recent events, and will therefore under-estimate DAB's share of listening.

Furthermore, with Ofcom itself conceding that the switchover criteria will likely be met by the end of 2017 and that the Secretary of State might be likely to set a switchover date around 2021, it is also likely that this will drive DAB listening over the period to levels higher than would have been anticipated purely by extrapolating historical growth trends over the period 2010 to 2015.

Question 4:Do you agree that a nominal, pre-tax discount rate of 11.0% is appropriate? If not, then please set out what other considerations Ofcom should have taken into account in determining the discount rate.:

We do not believe that an 11% pre-tax discount rate would in any way reflect the real cost of equity that would be required by any rationale investor in such an undertaking.

Ofcom use some sound mathematics and theory to generate a reasonable WACC of a radio broadcaster. However, this figure does not reflect the investment hurdle rate (i.e. IRR) that a strategic investor (let alone a private equity investor) would require to commit to such a project.

As such, Ofcom's analysis completely misses the real world issues and is not appropriate to derive a valuation of such licences, which by their extreme cyclical exposure and very high operating leverage are very high risk.

Last time around we argued for a discount rate closer to 20%. We reiterate that that view.

Question 5:Do you agree with our proposed approach to setting financial terms? If not, please explain why not and set out what you consider would be an appropriate split between PQR and cash bid. :

Yes - we agree.