

December 14, 2007

Sector **Rating**
 Broadcasting - Outdoor MW
 MO=Market Overweight; MW=Market Weight;
 MU=Market Underweight; NR=Not Rated

Companies Covered

Company	Price	Rating
Clear Channel Outdoor Holdings Inc	\$27.02	P
Lamar Advertising	\$49.52	P

O=Outperform; P=Peer Perform; U=Underperform

Securities in this report priced as of:
 December 13, 2007 market close

Eyes On Ratings - Providing Outdoor With a Seat at the (Media Planning) Table

- Eyes On Ratings For Outdoor.** On December 13, we held a conference call with Joe Philport, the President & CEO of The Traffic Audit Bureau for Media Measurement (TAB) and Andrea MacDonald, President & CEO of MacDonald Media. The call focused on the TAB's efforts to launch an improved audience measurement system in 4Q 2008.
- The Problem – DEC's Not a Highly Valued Currency.** Historically, the industry has used traffic counts to determine audience size. Traffic counts determine how many people are exposed to or have an "opportunity to see" an outdoor display. This is called a daily effective circulation, or DEC. DEC's are the standard by which media buyers determine the relative merits of each display. However, ad buyers consider DEC's to be too large and not comparable to other measured media, which makes it a lesser valued currency. As a result, outdoor typically is involved only in the ad buying process, but not the ad planning process.
- The Solution - Board by Board, "Eyes On" Ratings.** TAB's goal is to create a new system that provides the industry with a currency comparable to other media. The new system will integrate research to provide board-by-board demographic data in 200+ markets. The data will go far beyond mere circulation, and will include "Eyes On" ratings by demographic group; the equivalent of TV's commercial viewing.
- The Benefit - A Seat at the Table With Media Planners.** Without demographic data, outdoor hasn't been able to participate in the advertising planning/budgeting process that national advertisers/agencies conduct. A new system could provide outdoor with a seat at the table during the planning process, not just the buying process.
- The Upside.** U.K. outdoor ad spending doubled between 1994-2002 (and share of spending nearly doubled) after a new measurement system was introduced. In the U.S., we don't believe a doubling of *share* is possible, but a doubling of spending over an 8-10 year period is not unreasonable.

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Eyes On Ratings – A Conference Call On Improved Audience Measurement for Outdoor. On December 13, we held a conference call with Joe Philport, the President & CEO of The Traffic Audit Bureau for Media Measurement (TAB) and Andrea MacDonald, President & CEO of MacDonald Media, an advertising agency that specializes in creative marketing in the out-of-home space. The call focused on the TAB's efforts to launch an improved outdoor audience measurement system in 4Q 2008.

The Problem - Daily Effective Circulation (DEC) Not a Highly Valued Currency. Historically, the outdoor industry has used traffic counts to determine an outdoor display's audience size. Traffic counts determine how many people pass a given outdoor display. This exposure would be the equivalent of circulation in the newspaper or magazine industry, or HUT levels (Households Using Television) in the TV industry. This provides advertisers with total exposure or "opportunities to see" an outdoor display. This measure is called a daily effective circulation, or DEC.

The daily effective circulation, or DEC, is the average number of persons 18+ potentially exposed to an out-of-home advertising display over a 12-hour period (when the display is not illuminated), an 18-hour period (when it is illuminated until midnight), or a 24-hour period (when it is illuminated at all times). DEC's are determined by factoring into account seasonality, illumination, directional traffic, vehicle occupancy, and department of transportation (DOT) growth rates.

DOTs provide official traffic counts at the city, county or state level. State counts are taken in 3-year cycles, while city and county counts are taken less frequently. These official traffic counts are not DEC's. The TAB adjusts the official counts to reflect one or two-way traffic, the number of persons per vehicle (called a "load factor") and illumination.

Converting DOT Traffic Counts to DEC's

Period of Exposure	Panel's Illumination	Formula
24 Hour	Daylight + all-night artificial lighting	$(100 \times 1.38)/2 = .69$
18 Hour	Daylight + 6 hours artificial lighting	$(100 \times 95\% \times 1.38)/2 = .656$
12 Hour	Daylight only	$(100 \times 66.6\% \times 1.38)/2 = .46$

Notes:

1.38 = Adult 18+ Load Factor (i.e., the number of adults in the vehicle)

95% = the percentage of total daily traffic that passes in an 18-hour period

66.6% = the percentage of total daily traffic that passes in an 12-hour period

Source: The TAB

DEC's are the industry's standard by which media buyers determine the relative merits of each display. However, ad buyers consider DEC's to be too large, and not an effective measure of who is actually viewing the displays. As a result, advertisers typically discount the measure to adjust the total potential audience to reflect the likelihood that someone viewed a particular display.

Outdoor's gross audience numbers do not adequately differentiate the true audiences of various outdoor media formats (bulletins, bus shelters, phone kiosks, etc.) and are not truly comparable to other media measurements. As a result, DEC's are not comparable to other measured media, which makes it a lesser valued currency. It is also not a currency that can be used to calculate return on investment (ROI), a measure that has become more and more dear to advertisers. The TAB's new measurement system should lead to greater accountability, a trait which has become increasingly important to media buyers and advertisers.

The result of having a lesser valued currency is that the outdoor medium typically is involved only in the national advertiser buying process, and not the national advertiser planning process.

The Solution - Board by Board, "Eyes On" Ratings. The essence of the TAB's new system is to move away from gross reporting of audiences passing by the boards that have an "opportunity to see", and towards an actual measure of "eyes on" or commercial ratings. The new system will integrate a variety of research to provide board-by-board ratings with demographic data in over 200 markets.

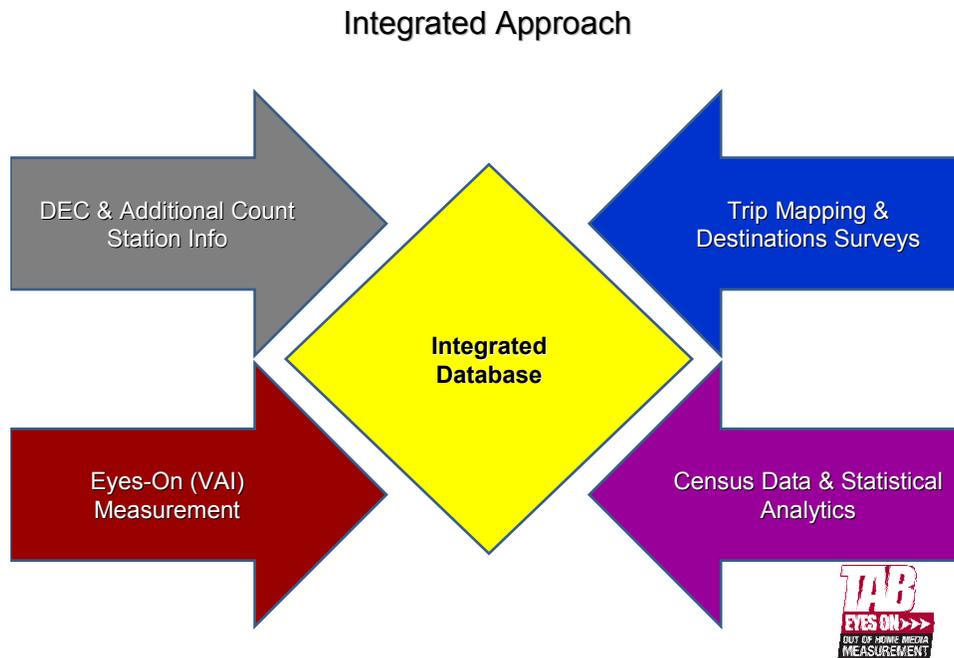
The plan involves numerous inputs from several leading media research companies. In December 2005, the TAB's technical committee issued an RFP to 20 research companies. In April 2006, the TAB chose GfK's MRI and Telmar. GfK is the 5th largest market research firm in the world, with over 130 subsidiaries in 70 countries. MRI is a part of the GfK group and is currently the leading provider of magazine audience and multimedia research data. Telmar is a leading supplier of media planning services that offers a wide range of software and support services which allows advertisers and agencies to integrate a wide range of data sources, and to efficiently plan, select and sell media.

The new approach will involve a variety of marketing research companies that that will contribute components that will consist of four basic building blocks:

- 1) traffic counts;
- 2) travel patterns;
- 3) demographic or census data, and
- 4) visibility adjustments.

This data will then be combined and integrated into a ratings system that is deliverable to agencies in a familiar currency (i.e., gross ratings points, or GRPs) that can be integrated into planning tools of media planners.

An Integrated Approach



Source: The TAB

1. Traffic Counts. A company called Peoplecount will provide traffic counts in 200 markets using Department of Transportation (DOT) data from 2,500 local, county and state agencies. Census surveys will also be used to incorporate consumer travel patterns, as well as in-market traffic flow data. In addition, pedestrian counts will also be used to identify exposure to other displays such as transit shelters and 8-sheet posters. Historically, it has been prohibitively expensive to collect this data not just in the large markets, but in all markets.

2. Travel Patterns. Mediamark Research, or MRI, will conduct 50,000 travel surveys that will document the type of trips and the purpose of trips that people take (commutes, errands, vacations, etc.). These surveys will be used to collect demographic data as well as modes of transportation.

3. Census Data. Most demographic data will be provided by government census data. However, it is more important to determine travel patterns of a person or demographic group rather than a person's home address. This is because most highway signage is seen more by the people that drive past it on their way to work than by people who live in the same area or zip code.

4. Visibility Adjustments. Four separate companies (GfK Custom, Micromerements, PRS, and MAP) are working together to create video simulations and dynamic modeling that will translate an "opportunity to see" into an "eyes on" rating. The simulations will test various displays in various environments. The companies will be tracking eye movements in real situations. There will be separate models for vehicular and pedestrian exposure to outdoor displays.

5. Integration. The final integration is data integration. Telmar is taking all the data and integrating it into a single database. The data will provide demographic information on over 1,000 separate demos that can be analyzed by age, gender, etc. The demographic data and ratings information will be available for each display in a market.

The Benefit - A Seat at the Table With Media Buyers. Without demographic data, the outdoor industry hasn't been able to participate in the advertising planning/budgeting process that national advertisers and agencies conduct. Board by board demographic data could result in outdoor having a seat at the table during the planning process, not just the buying process.

The Upside. Outdoor's share of ad spending nearly doubled in the U.K. over an 8-yr period after ratings data was introduced in the early 1990s, as shown in the chart below. A company called Postar began providing ratings data for the U.K. outdoor industry in the early 1990s. Postar combined vehicular and pedestrian traffic counts with visibility studies and travel surveys to create their audience measurement system. This gave the U.K. outdoor industry a more robust audience measurement system that enabled it to compete more effectively with radio and television (which also revamped their measurement systems in the 1990s).

Perhaps helped by the audience measurement data, outdoor ad spending in the U.K. doubled over a 8-year period between 1994 and 2002. In the process, outdoor's share of U.K. ad spending increased to 8.0% of revenues from 5.2% of revenues. To put the doubling of outdoor ad spending in context, total outdoor ad spending increased by a compound annual growth rate (CAGR) of 9.1% over the 8-year period, while total ad spending increased by 5.5%. Outdoor's revenue growth exceeded total ad spend by 360 basis points over this period. Outdoor has continued to take share in subsequent years, and its share of outdoor spending has nearly doubled since the early 1990s.

U.K. Outdoor Advertising – Revenues, Growth Rates and Share of Ad Spending

Year	Revenues	% Growth	Share of Ad Spending	Total UK Ad Spend	Growth of UK Ad Spend
1994	£350.0	NA	5.2%	£6,730.8	
1995	£411.0	17.4%	5.6%	£7,339.3	9.0%
1996	£466.0	13.4%	5.9%	£7,898.3	7.6%
1997	£545.0	17.0%	6.3%	£8,650.8	9.5%
1998	£563.0	3.3%	7.1%	£7,929.6	(8.3)%
1999	£596.0	5.9%	7.1%	£8,394.4	5.9%
2000	£697.0	16.9%	7.5%	£9,350.0	11.4%
2001	£677.4	(2.8)%	7.8%	£8,702.9	(6.9)%
2002	£701.5	3.6%	8.0%	£8,764.2	0.7%
2003	£786.4	12.1%	8.8%	£8,942.8	2.0%
2004	£847.8	7.8%	8.9%	£9,480.2	6.0%
2005	£896.8	5.8%	9.2%	£9,704.5	2.4%
2006	£932.5	4.0%	9.7%	£9,610.3	(1.0)%
1994-2002 CAGR		9.1%			5.5%

Source: Outdoor Advertising Association of Great Britain; Postar

In the U.S., outdoor takes 3.8% of all *measured* media spending and 2.3% of *all* media spending (which includes yellow pages and direct mail). We have heard outdoor industry participants talk about a doubling of outdoor industry's *share* of all ad spending in the U.S. (for example, to more than 4% from 2%). We do not believe this is possible since, based on our analysis, it would take far more than 9% compound annual growth to double the U.S. outdoor industry's *share* of ad spending in the U.S. (assuming mid-single digit growth in all measured media spend).

It is important to note that were the U.S. outdoor industry to grow 9% per year over the next 8 years, it too would double in size, it just would double its share of ad spend. What's deceptive is that if all other measured media grew by 5.5% per year as it did in the U.K., then the U.S. outdoor industry's share of ad measured media would only increase to 4.9% from 3.8% currently (or to 3.0% from 2.3% using *all* media). Therefore, we prefer not to frame the discussion in terms of "share of ad spending", but rather prefer to focus on relative growth rates. We believe it is perfectly reasonable to assume that with an improved measurement system, outdoor spending could exceed measured media spending by 300-400 basis points, as it did in the U.K.

To illustrate, in the chart below, we provide an analysis of U.S. outdoor advertising growing by 9.1% over an 8-year period (using 2006 as the base year), and total U.S. measured media growing by 5.5%. These are the same growth rates that the U.K. outdoor and total U.K. ad spending grew over an 8-year period. Under this hypothetical scenario, outdoor would only increase its share of spending by 1 share point. Our point is, even growing the industry's share by just one percentage point could yield meaningful upside (in this case, a \$6.8 billion increase in spending over an 8-year period assuming a healthy advertising environment in which spending increased by mid-single digits).

Hypothetical Ad Share Analysis of U.S. Outdoor Spending Growing by 9.1%; All Other Measured Media by 5.5% (\$ in Millions)

Outdoor Spending vs. Measured Media Spending

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Outdoor Ad Spending	\$6.8	\$7.4	\$8.1	\$8.8	\$9.6	\$10.5	\$11.5	\$12.5	\$13.7
Other Measured Media	\$173.8	\$183.1	\$192.9	\$203.2	\$214.1	\$225.5	\$237.5	\$250.2	\$263.5
Measured Media	\$180.6	\$190.5	\$201.0	\$212.1	\$223.7	\$236.0	\$249.0	\$262.7	\$277.2

Growth Rates

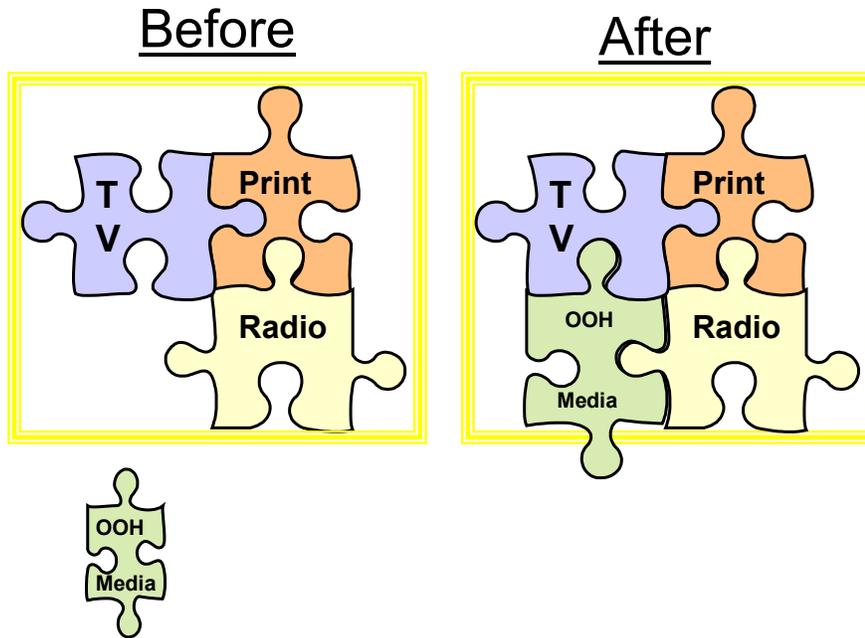
Outdoor Ad Spending		9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%
Other Measured Media		5.4%	5.4%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
Measured Media		5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%

Outdoor Ad Spending	3.8%	3.9%	4.0%	4.2%	4.3%	4.5%	4.6%	4.8%	4.9%
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Source: Outdoor Advertising Association of Great Britain; Postar

The key to realizing this upside is getting advertisers involved with the outdoor medium earlier in the process. Rather than just being a part of the media *buying* process, outdoor needs to take a seat at the table during the media *planning* process. Having a currency that tracks commercial viewing along demographic lines would be a huge step for the industry. It would provide the industry with a familiar currency that would give it greater credibility. It also might allow the industry to take a seat at the media planning table with other mediums such as print, TV and radio. [Below, is a modified slide from today's presentation].

Before and After the Introduction of An Improved Audience Measurement System: A Seat at the Media Planning Table?



Source: TAB slide; Bear Stearns

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Christopher Ensley

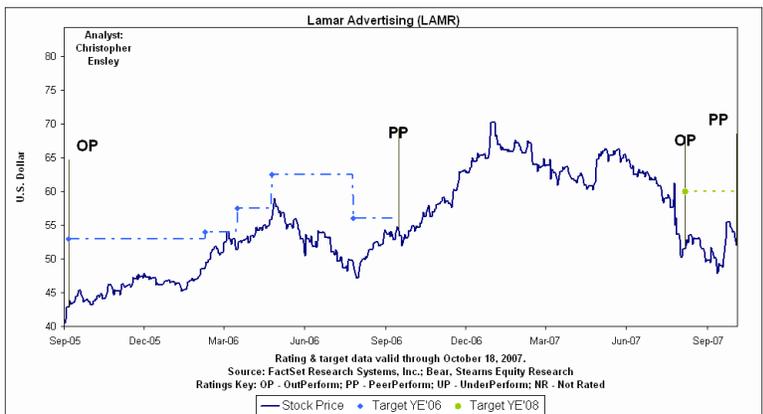
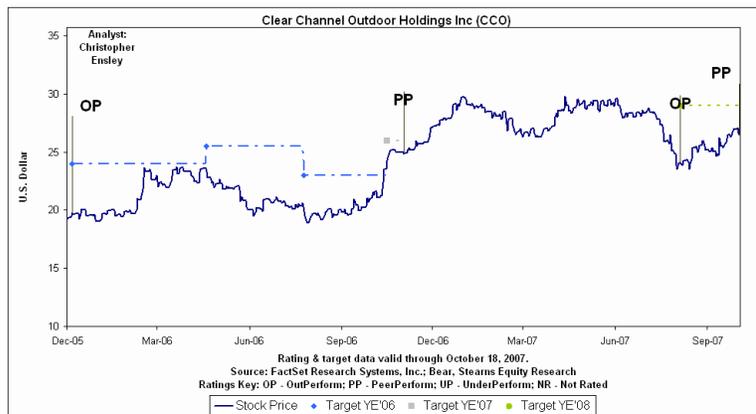
Companies Analyzed

Clear Channel Outdoor Holdings Inc (CCO) - \$27.02 (as of December 13, 2007 market close) - Peer Perform

Lamar Advertising (LAMR) - \$49.52 (as of December 13, 2007 market close) - Peer Perform

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Peer Perform (Neutral): 48.4 / 9.3

Underperform (Sell): 7.1 / 6.5

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