



SCBA Special Report

Pandora's Dramatic Decline in both Active Users and Business Model

While The SCBA's mission is to advocate for AM/FM Radio and its digital assets, we are writing this special report as a service to all clients, agencies and media buying services who are considering advertising on the Pandora pureplay platform in 2016.

Before making any media investment on behalf of your clients or your business, the SCBA asks that thoughtful planners, supervisors, buyers, and clients, consider the following dramatic new information and decline regarding Pandora.

- Pandora has lost \$5 Billion dollars in stock value in the past 12 months.
- That is a 66% loss in value, all in one year.
- The stock was at \$37.42 and now trades at \$12.63.
- In the first 9 months of 2015, Pandora has lost \$150 million dollars. That is 5 times its loss from 2014.
- As of Q3 2015, active monthly users are down 1.6% to 78.1 million users YTD.

A Failing Business Model:

There was a time when investing in Pandora made some sense, but that time has long passed based on the rapidly changing and competitive landscape for the pureplay space. Apple's impressive debut of 6.4 million users, Spotify's growth projections, Google, Amazon, and now YouTube with its own subscription based plan with video and music, has changed Pandora's future forever.

It's important to note that Pandora receives 80% of its income from advertising yet almost all of its competitors rely on subscriptions for their revenue growth. What do Pandora's competitors know about audio advertising that Pandora does not?

Simple: It's hard to compete against **Broadcast AM/FM Radio** that still reaches 92% of the U.S. population every week and continues to demonstrate impressive ROI results for its clients.

Even the tech giants like Apple, Spotify, Google, Amazon, et al, don't see their growth coming from audio ads, that's why they offer their services on subscription.

We ask that you take a moment to judge the facts of Pandora for yourself and then decide if this is the right commercial environment and ROI needed for your clients or your business.

The Pandora Strategy:

Knowing its active users had peaked and now in decline, Pandora is trying to move away from its ad supported model with a very risky strategy.

In May 2015, Pandora acquired music data/intelligence service Next Big Sound for an undisclosed fee. In late October, it purchased independent ticketing agency Ticketfly for \$450 million. Also in October, it had to pay \$90 Million to the major record labels and ABKCO to resolve a lawsuit regarding historical play of pre-1972 songs on its platform.

And in November, it paid \$75 Million for the assets of Rdio which was a Spotify competitor of sorts, but had declared bankruptcy weeks before.

While all of this sounds like a diversification strategy, the truth is Pandora is burning through cash at such a rapid rate that it had to go back to its investors recently to raise \$300 million more through a very controversial convertible debt offering. The debt borrows extra money with the intention to pay back with equity "sometime in the future." In other words, they asked investors to invest more in their struggling business model without any guidance of when and if this company will ever turn a profit!

Can this sort of strategy survive?

As of today, Pandora is bleeding cash and with this new convertible debt offering, it is really bracing its investors for some **horrible news** to come and that is this:

Pandora currently pays \$0.0014 for their stream rate to Sound Exchange. That contract is almost expired and Sound Exchange is demanding an increase to \$0.0025. Sound Exchange rarely loses its battles, so at the very least; Pandora can expect to see its rates increase to \$0.0020. That increase will almost surely wipe out the additional cash infusion the convertible debt was supposed to assist with expansion.

So what does all this mean to advertisers?

Plenty. First of all, please note their user base is eroding, which means less consumer interest and the shiny media object they once were is fading rapidly and with it, the commercial environment all advertisers seek to sell their product and build market share and awareness.

When you are struggling to survive as Pandora now is, a focus on advertising clients and their ROI becomes a very distant second on your daily to do list. Now imagine how the Pandora advertising sales force must be feeling; the company is in deep debt, the plan is to move towards subscription based services and not grow the advertiser base and all of sudden, a return to their good old Broadcast Radio sales jobs look very appealing.

There are significant advantages that Broadcast Radio has over Pandora. Please view this link to get an in depth understanding about how different the pureplay platform is from the interactive and local environment that Radio provides:

<http://images.radcity.net/5335/5163656.pdf>

We have created this SCBA Special Report to make sure advertisers know the facts when considering Broadcast Radio vs. Pandora.

It is our hope that you will agree that a business model that is losing monthly users, is rushing away from an ad supported model, and is deeply in debt, cannot survive.

We only ask that you consider this question:

If Pandora is working for its clients, then why are they not expanding their ad supported product and staff, and why rush into a costly and risky new business model that relies on future subscriptions and not commercials?

Radio's rock solid success continues with a timeless business model built on creating the right commercial environment, and focusing on our clients, not on corporate survival.

The SCBA invites fair and accurate comparisons of Radio vs. all other media. To learn more please visit us at www.scba.com. We are also available to meet and discuss with you or your staff and clients, the value and power of Southern California Radio.

We can be reached at: tcallahan@scba.com.

Southern California Radio has never been more compelling than right now.

Sincerely,

Thom Callahan

President

The Southern California Broadcasters Association.

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Sources: Bloomberg Business, NY Times