Southern California Broadcasters Association

80 Years as the Voice and Advocate for Southern California Radio
www.scba.com

The SCBA Quarterly Market Guidance Report For Q3 2018

"Clients that are shifting budgets to mobile advertising may be adversely affecting their ability to win new customers and expand their market share."
-Zenith Media 2018 Report

The Southern California Broadcasters Association is pleased to publish its SCBA Quarterly Market Guidance Report, covering the dynamic Southern California consumer region for the third quarter of 2018.

This industry report is for SCBA members as well as an ongoing service for clients, advertising agencies, and media buying services that are planning to invest their advertising budgets in Southern California Radio in **the third quarter of 2018**. The report looks primarily at the upcoming quarter and provides critical insight into Radio's growth trends worth noting, advertising category trends, as well as additional market-driven insights from a variety of trusted sources.

The Southern California Broadcasters Association now represents 170-member Radio stations, our highest Radio station membership to date, covering 52,000 square miles in the ten most southern counties of California. The SCBA is also celebrating 80 years of continuous operation since 1937, making it the longest operating Radio advocacy association of its kind in the United States. For more information about the SCBA, please visit us at www.scba.com.

With this edition, The SCBA Q3 2018 Market Guidance Report has made significant content changes which reflect both the opportunity and the challenges ahead for the rest of 2018 for Southern California Radio. We are focused on the non-Radio digital space as we continue our coverage of disruptive forces affecting our key advertising categories and competitive factors impacting all media in Q3 2018 and beyond.

This report was written as a factual framework for clients and agencies to view the future through a prism of comparative analysis, and actual return on investment. Today's business climate demands nothing less from all shareholders in the advertising industry.

Southern California's estimated gross domestic product will now exceed $1.6 trillion in 2018, making it the 16th largest economy in the world with Los Angeles County alone ranking 21st with a gross domestic product of $644 billion. The state of California is now the 5th largest economy in the world, ahead of the United Kingdom, and is expected to finish 2018 with a GDP of $2.8 Trillion dollars.

The economic, population, and consumer spending powerhouse for the nation is Southern California. This region can only be viewed as the largest and most lucrative advertising market for Radio advertisers looking to grow revenue, build their brands, and drive market share.

For the third quarter report, our focus will shift entirely to the growth of Southern California Radio, its inherent value for clients, and specific category activity and spending projections for Q3 2018.

Southern California Commuter Traffic Congestion Increases (again)

With 71% of Los Angeles Metro listenership being done away from home, it's important to note that traffic congestion has grown substantially in our region with the improving economy. According to census data and the Texas Transportation Institute at Texas A&M University, average commuter time spent while driving is on **the increase again.** The institute's most recent study shows that motorists in LA and Orange Counties experience **80 hours of delay annually**.

Those 101 hours of delays is more than double the national average of 42 hours.

With the country's largest traffic congestion, heavy traffic and its inherent Radio listenership trends are on the **increase** in Southern California once again.

SCBA recommends: Please see the highlights of this study created by the SCBA under the Traffic and Commuting tab in the Market Research section entitled; **"Listening to Radio in SoCal's Traffic Jams." At www.scba.com**

In addition to all of the growing traffic congestion that is faced in Southern California, there is new concern that traffic will become much worse under the new proposed Mobility Plan 2035, a major effort by the LA City Council to get people to take the bus and/or bike to local neighborhood events.

If there was ever a doubt about how big Los Angeles media really is, BIA/Kelsey's report below answers that question.

The Larger View for Broadcast Radio and other media:

dentsu

Advertising and digital communications group ***Dentsu Aegis Network*** has released its biannual forecast, pointing to a ***more positive 2018*** for global advertising expenditure than previously expected. Ad-spend growth will rise from 3.3% in 2017 to hit 3.9% in 2018. This is higher than the 3.6% forecast in January 2018, hiking total investments to $613.5 billion.

Global events such as the Winter Olympics & Paralympics, the FIFA World Cup in Russia and U.S. mid-term elections will play an important role in stimulating growth, according to the survey; while primary growth regions include North America and Asia Pacific, contributing 32% and 41% of the global increase, respectively. Western Europe accounts for 13% with Latin America at 8% and Eastern Europe 5%.

"In the context of synchronized economic growth across the U.S., Europe and Asia, these figures point to a more positive outlook today than at the beginning of the year and represent a modest but encouraging source of optimism," said Jerry Buhlmann, CEO of Dentsu Aegis Network. "The U.S. economy is growing strongly as economic stimulation and tax cuts filter through." In addition, he said, "Digital remains the dominant growth area with 25% of global advertising spend expected to be delivered through mobile for the first time." ***Digital is now the leading form of advertising in 21 out of the 59 markets tracked.***

Specifically, in the U.S., the advertising spend is forecast to show continued growth in 2018, increasing by 3.4% to reach $217.3 billion. The Winter Olympics brought in about $1.6 billion. Local TV is where politicians look to spend, with national TV reaching 90% of the U.S. population. It is predicted that more than $2.8 billion will be spent on the upcoming mid-term elections. Mobile ad spend is forecast to grow by 21.2% in 2018, revised up from 20.2%, with the majority of spend going towards in-app advertising (80%).

Mobile is forecast to represent a quarter of global advertising spend (25.2%) this year, exceeding the previous prediction of 24.8%. With new platform such as mobile payments driving demand, mobile ad spend is forecast to grow by 23.3% in 2018 and 18.8% in 2019.

Traditional media spend is forecast to decline by just -0.5% in 2018 and -0.4% in 2019. Newspapers and magazines are expected to continue a downward trend, with falls of -7.5% and -6.5% respectively. ***Radio (+2.0%),*** Out of Home (+2.2%) and Cinema (+5.9%) spend are expected to show steady growth. TV spend is forecast to move back into growth in 2018 (+1.2%), following a -0.7% decline in 2017, remaining a major medium in the mix with 35.5% of overall investment.

E Marketer: Consumers Spend More Time With AM/FM Than Social.

Most U.S. adults spend more time with traditional radio than they do with all social media. The average daily time spent with radio in 2017 was 1 hour and 26 minutes, compared to 40 minutes on social via mobile devices and 11 minutes via desktop/laptop, according to a new survey from eMarketer.

In its newly released, "Six Surprising Facts About the Way We Spend Our Time with Media," eMarketer notes that "conventional wisdom doesn't always match up with reality. It is common knowledge that U.S. consumers fill their waking hours with media usage—but how people split up their media time may surprise you."

In its latest estimates for time spent with media, the company explains that in revealing that adults spend much more time with non-digital radio than they do with social networks, "There's no shortage of buzz about social media. There's next to none about radio."

Among other findings, eMarketer suggests that we are in a period of gradual change—not of wild volatility—in the ways U.S. adults spend their time with media. With smartphone penetration expected to gain less than a single percentage point per year by 2020, media consumption is in something of a lull until the "Next Big Thing" comes along, the company says.

Among the media categories for which eMarketer gauges time spent, there aren't any it anticipates will see double-digit increases or decreases next year. Mobile video comes closest, with an 8.7% rise expected; while overall, time spent with digital media is expected to grow a modest 3.5%.

The company also found that despite the ascent of other social networks, U.S. adults are slightly increasing the amount of time they spend on Facebook. Calculated across the whole adult population, daily time spent with Facebook is expected to rise from 25 minutes in 2017 to 26 minutes in 2018 and 27 minutes in 2019.

Infinite Dial: Has Social Media Lost Its Cool Factor?

After more than a decade of steady growth, it appears the party lights have dimmed at Facebook. The portion of Americans 12+ using the social media staple has declined in 2018, from 67% last year to 62%, according to the Infinite Dial study released last week from Edison Research and Triton Digital. READ MORE

Borrell: More Advertisers Will Increase Their Radio Budget Than Cut It.

More local advertisers (12%) plan to up their radio budget than cut it (10%) while the vast majority intend to make no changes to their radio spend, according to a new survey of 3,511 advertisers by Borrell Associates. “A whopping 78% of advertisers aren't bowing to pressure to cut their radio spending, and, in fact, 12% plan to increase their ad budgets,” says Borrell Associates CEO Gordon Borrell. “Only 10% plan to cut. Sounds like a big vote of confidence.” READ MORE

BIA/Kelsey: Local Ad Revenue to Hit $174B; On Rise Through 2021.

Local advertising revenue is predicted to see a slow and steady uptick for the next four years, with a compounded annual growth rate of +4% by 2021. That will result in an increase from $148.77 billion this year to $174 billion, according to new figures released by BIA/Kelsey. READ MORE

GroupM Forecast: U.S. Ad Market Slows, Radio Grows.

While the overall U.S. ad market is slowing slightly, radio holds steady. In a new forecast, media agency GroupM is revising its outlook for the U.S. market downward, estimating total spend will grow 2.2% this year, down from an earlier prediction of 2.6% issued in Dec. 2016. The agency says radio will grow 3% this year and 3% in 2018. READ MORE

GroupM Projects Overall Ad Market slowing slightly as Radio holds Steady

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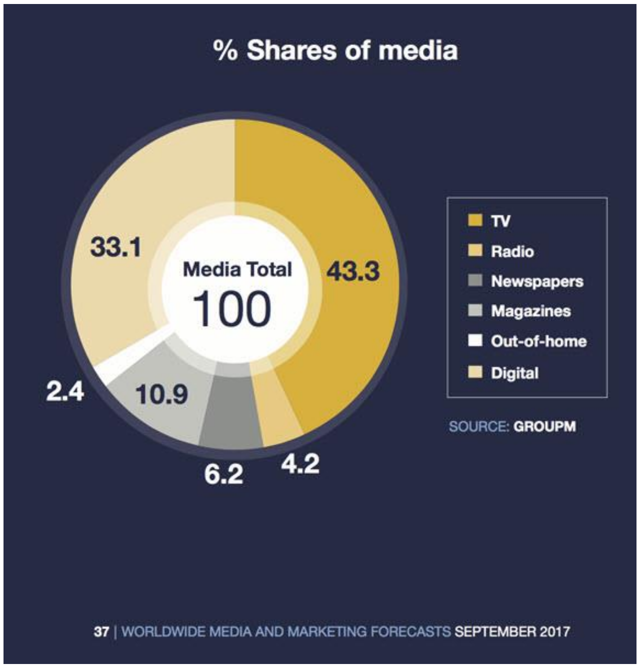
A combination of sluggish GDP growth and declines in print spending accounted for the revised estimate for the overall ad market, GroupM explained. At a time when companies are examining their media spending and return on investment, GroupM says brands are trying to reduce expenses and increase efficiency.

“Marketers continue to study their investments in traditional media and have increased their scrutiny of all phases of digital, with an emphasis on view ability, verification and value. As investment in digital grows, this scrutiny is likely to increase,” the report notes.



And from ***Ad Age's large report*** on where advertisers are spending their budgets, we see Radio holding steady against an ever-growing fragmented media environment.

Radio

Measured network, national spot and local radio ad spending

(in millions)

Rank	Marketer	2017
1	Deutsche Telekom (T-Mobile US)	$188
2	Comcast Corp.	185
3	Home Depot	112
4	AT&T	104
5	Berkshire Hathaway	97
6	SoftBank Group Corp. (Sprint Corp.)	94
7	Steinhoff International Holdings (Mattress Firm)	89
8	Fiat Chrysler Automobiles	81
9	Macy's	56
10	McDonald's Corp.	56

Source: Rankings based on Ad Age Datacenter analysis of U.S. measured-media data from WPP's Kantar Media. Radio includes network, national spot and local radio.

In its breakdown of media platforms, radio commands 8.6% of the total advertising pie, with $17.6 billion in brand spending, according to Zenith figures. The total $204.0 billion pie is led by the internet, with 38.4%, followed by TV (33.4%), newspapers (7.4%), magazines (7.0%), outdoor (4.7%) and cinema (0.5%).

Zenith Media offers its own Global Ad Market Projection...

Calling it a "persistent uncertainty" in the marketplace, Zenith is forecasting U.S. advertising spending to ***increase +3.3%*** in 2018, they also cite a +2.9% growth in 2019 and increasing to a +3.4% increase in the big national election year of 2020. "The U.S. will be the leading contributor of new ad dollars to the global market over the next three years, making up in scale what it lacks in speed," Zenith says in its latest "Advertising Expenditure Forecasts," released.

Regarding the radio industry here in the U.S., Zenith forecasts radio revenues to remain flat. "Although advertisers are returning to audio, the additional inventory streams should offset rate increases normally seen with increased demand," Zenith says. The research and insights division of the agency holding company giant Publicis Media notes that "local audio has been going through its own reinvention for some time, with new business models forming around new audience behaviors, supported by technology advances." The new report states that the merger of CBS Radio and Entercom will "bring new ideas, inventory and competition for our clients, and create a more competitive advantage for our clients."

Digital, particularly mobile, continues to take dollars from print media, the report notes. But at the same time, digital consumption is also driving overall video consumption up, even as traditional television viewing continues to decline.

For the global marketplace, the Zenith forecast is aggressive on mobile, stating it will account for 30.5% of global advertising in 2020, up from 19.2% in 2017. In fact, global mobile ad spend will total $187 billion in 2020, more than twice the $88 billion spent on desktop advertising, and only $5 billion away from the $192 billion spent globally on television advertising. At the current growth rate, mobile advertising will leapfrog television by 2021. "***Advertising on mobile devices is rising at a meteoric rate and is taking market share from all most other media," the report says.***

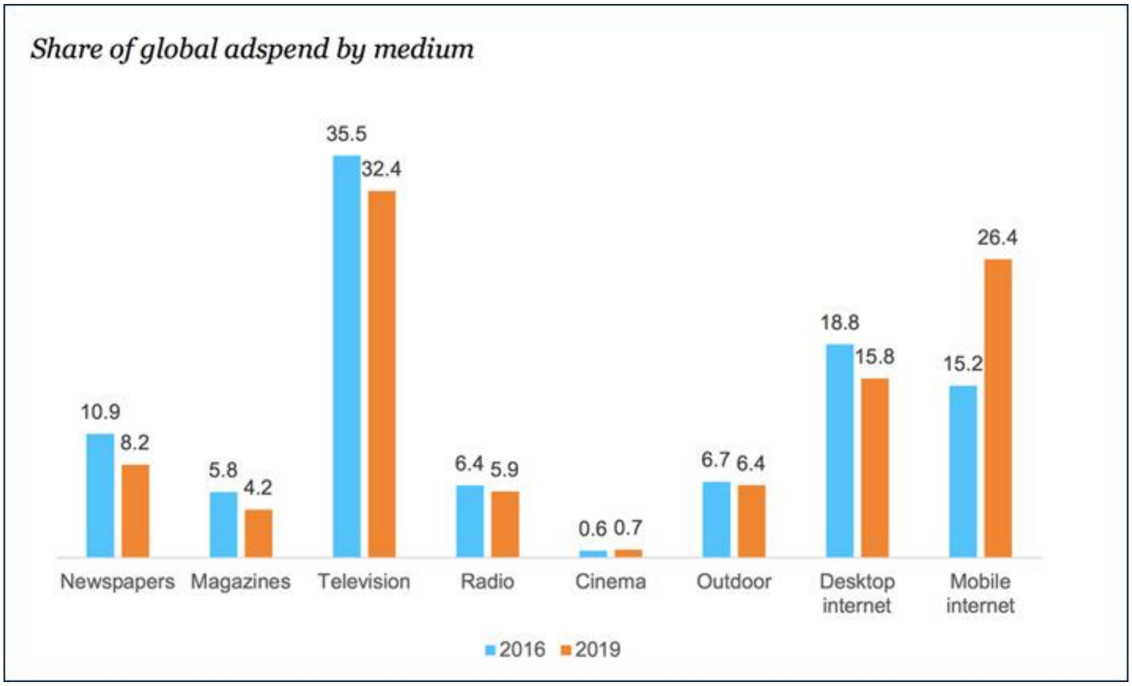
Zenith also warns marketers about the dangers of over-extending themselves in mobile advertising at the expense of traditional media like TV and radio. "Brands that are shifting budgets to mobile advertising may be affecting their ability to win new customers and expand their market share," the report says. In fact, research from Zenith's Touchpoints ROI Tracker Shows "traditional mass media are more effective at driving recall among new or light buyers. So, while using mobile to target ads at existing customers can "certainly help brands achieve short-term performance targets," the report finds that mobile advertising is "currently less effective at creating long-term awareness among potential customers than traditional media, so brands with a heavy mobile presence should consider investing more in traditional mass media to compensate for this."

All told, the Zenith forecast is for total global advertising to grow 4.5% to $580 billion in 2018, a smidge behind the 4.6% growth forecast in March. But that's mainly because the firm upped its 2017 figures to 4.2% from an earlier 4.0% estimate, which made for a tougher year-on-year comparison. In dollar terms, the new forecast is $1 billion higher than the previous one. Looking ahead, growth will remain comfortably within the 4%-5% range it has stayed within since 2011, Zenith says, with a 4.2% increase in 2019 and 4.3% in 2020. But the advertising growth will lag behind the growth of the global economy as a whole, which is on track to grow in the range of 5.5% to 5.8% each year from 2018 through 2020.

Given current global economic uncertainty, advertising agency Zenith Media is cautioning that the global ad market will grow slightly less than it anticipated, while reconfirming that the U.S. ad market is moving in a positive direction. Strong demand for popular digital formats, including social media and online video, are helping to fuel much of the growth, the agency says.

Zenith says the global ad marketplace will grow 4% this year to $508 billion, down from its earlier prediction of 4.2% growth. In North America, Zenith says the ad market will grow 3.6% this year and continue on at an average 3.4% growth rate through 2019.

And another view from Zenith Media…



The above chart from Zenith Media tracks a disturbing trend line, based on their research.

At the same time, traditional media is seeing its share of advertising spend slip. Television, which represented 35.5% of all ad expenditures last year, will drop to 32.4% by 2019, while radio falls from 6.4% to 5.9% in the same period. Newspapers will decline to 8.2% from a 10.9% share, while magazines dip from 5.8% to 4.2%. (Zenith's figures for newspapers and magazines only apply to their print properties and do not include any digital extensions.)

Looking specifically at automotive advertisers, ***BIA/Kelsey*** reports this segment will spend ***$16.3 billion on local advertising this year*** and AM/FM radio will garner a 10% share of that money, according to a new report from BIA/Kelsey.

According to the latest report, broadcast television will grab the largest share of auto ad dollars, commanding a 32.4% share, but digital media represents the fastest-growing ad category for auto.

After a decades-long absence, Procter & Gamble is back in business with radio. One of P&G's top media and marketing execs said the company will increase its new plan to spend on radio—but the medium will need to deliver results to remain part of its media plan.

"We are spending more and you're going to see more in the next couple of quarters," John Fix, analyst/manager—North America Media & Marketing at P&G, told a packed room of broadcasters during his first appearance at a radio event.

The consumer-packaged goods giant has been advertising on broadcast Radio over the past several months for some of its biggest brands. But, said Fix, "If at the end of fiscal, I haven't coordinated a way to make the brands feel good about their investment, next year won't be as active." As the world's largest advertiser, P&G invests billions of dollars in media time. But it and other CPG giants have grown frustrated by narrow digital-ad targeting. P&G wants to speak to everyone, not a narrow target, Fix explained, which is why it has rediscovered Radio.

Q3 2018 poised for even further growth as Broadcast Radio expands its listenership:

- Weekly cume and average time exposed (or TSL) has increased again for Southern California over the past year, making AM/FM Radio the only media to show engagement and usage growth. This includes local TV, Pandora, and all other measured media.

- A recent report from **JD Power** found 20% of new-vehicle owners said they never used 16 of 33 in-car tech features and nearly 33% indicated they never used in-vehicle apps.

- Americans spend an average of **4 hours and 5 minutes a day consuming audio**. A cross-media analysis by Edison Research finds that **more than half (52%)** of that time is spent with over the air AM/FM Radio. 14% is spent with owned music, another 13% with Internet Radio and Satellite Radio at 6% of the daily listening time.

Southern California Radio Industry Growth Trends:

Southern California Radio is in the midst of an impressive 4-year listener growth trend for our region as a whole:

Southern California Radio's growth is even more impressive when one looks at all the varied audio competition that is available to our listeners. Now let's take a closer look at the steady and impressive growth in Radio listenership for Southern California according to Nielsen.

Source: Nielsen Regional Database, ***Southern California***, Monday – Sunday, 6am-mid, Persons 12+.

	Fall 2014	Fall 2015	Fall 2016	Fall 2017	% Change 2014 vs. 2017	# Change 2014 vs. 2017
AVG WK Cume	17,275,200	17,567,800	17,610,700	17,516,600	1.4%	241,400
Weekly TSL	9:45	10:15	10:45	10:15	5.1%	

The SCBA views this continued listening and average time exposed growth rate for Southern California Radio as further proof that Broadcast Radio remains a **consistently growing and popular medium. You can view this data and much more audience growth research for AM/FM Radio at www.scba.com**

Southern California Radio is in the midst of an impressive 5-year listener growth trend for LA and SD.

Now let's take a closer look at the ***steady and impressive growth*** in actual Radio listenership for the Los Angeles and San Diego metro areas alone as well as the critical Average Time Exposed data according to Nielsen Audio.

Source: Nielsen Audio, ***Los Angeles Metro***, Monday – Sunday, 6am-mid, Persons 12+.

	Winter 2013	Winter 2014	Winter 2015	Winter 2016	Winter 2017	Winter 2018	% Change 2013 vs. 2018	# Change 2013 vs. 2018
AVG WK Cume	10,317,400	10,524,700	10,531,600	10,733,200	10,681,200	10,505,200	+1.8%	187,800
ATE	2:00	2:00	2:00	2:00	2:00	2:00		

Source: Nielsen Audio, ***San Diego Metro***, Monday – Sunday, 6am-mid, Persons 12+.

	Winter 2013	Winter 2014	Winter 2015	Winter 2016	Winter 2017	Winter 2018	% Change 2013 vs. 2018	# Change 2013 vs. 2018
AVG WK Cume	2,463,200	2,513,100	2,528,200	2,539,600	2,573,500	2,543,400	+3.3%	80,200
ATE	1:45	1:45	1:45	1:45	1:45	1:45		

The SCBA views this continued listening and average time exposed growth rate for Southern California Radio as further proof that Broadcast Radio remains a **consistently growing and popular medium. You can view this data and much more audience growth research for AM/FM Radio at www.scba.com**

We also encourage our readers to learn more about Radio's powerful ROI. This is a compelling regional research presentation commissioned by the SCBA.
An informed client is in everyone's best interest. Please get the facts about Southern California Radio at www.scba.com today.

Southern California Radio Category Trends and Data

The SCBA examines and tracks a number of key advertising categories and industries. Our analysis includes opportunity factors for each sector as well as disruptive industry patterns that could change business models and growth assumptions. We supplement that data with both local Radio management input and selected client feedback to offer the following overview of the region's advertisers and how it may affect advertising decisions regarding Southern California Radio and its digital platforms. We offer this overview of the Radio advertising climate for Q3 2018 by also comparing Q3 2017 activity for seasonality as well as YTD activity. We also account for projected market Intel for Q3 2018 and current market conditions by category.

The SCBA has expanded its analysis of the auto ad category with this Q3 2018 Guidance Report. The documented "softer" year for the automotive industry has meant 10 of the past 12 months has seen auto sales declines on a national basis. Other troubling factors include: rising "days on lots" inventory that now exceeds 78 days on average, dealer and factory incentives that through May 2018, averaged $4,700 per vehicle, the second largest number of discounts/incentives since 2009. U.S. Consumer debt on outstanding auto loans now exceeds $1.2 trillion dollars, the largest amount on record. Additional concern is focused on the ***growing prime and subprime auto***

loan consumers with FICO scores below acceptable financial levels. It has become clear that numerous disruptive forces have impacted the auto industry with a flat to down year projected for 2018.

To protect the interests of Southern California Radio's largest ad category, and to propose and advance a more effective media allocation to attract more qualified auto customers, ***The SCBA has partnered again with Nielsen*** Audio to conduct our second ever regional research study on consumer behavior and media choices when buying new and used vehicles in Los Angeles and San Diego. We look forward to sharing the results of this new automotive research project in September.

The previous compelling study entitled; **"The Path to Automotive Purchase"** examines the vehicle buying habits of actual auto customers over the past 1-2-year period in both Los Angeles and San Diego. The findings of this study were revealed before auto clients and SCBA members in a special presentation in LA and in SD before capacity sized crowds. For a complete review of this powerful research study for either market, please visit http://www.scba.com/The-Power-of-Radio where video of the LA event and PowerPoint is available.

Our industry efforts to address media reallocations based on this research has launched a national campaign of awareness to the auto industry beyond Southern California. Over the past 12 months, the SCBA has lobbied the auto industry and its agencies to re-think and re-purchase their media from a much different perspective.

SCBA Observation: It is clear the auto industry and its dealers will face higher costs to reach their customers than ever before, especially with the ongoing headwinds hitting the industry in 2018. ***We urge all of our automotive clients to review their marketing and advertising plans*** for Q3 and Q4 2018. The continued ad spending on non-Radio digital platforms at the expense of other powerful media is not warranted when comparing customer acquisition expense to ROI.

"The Local Path to Automotive Purchase" will reveal important actual consumer behavior facts. Please find the complete study for both LA and SD at www.scba.com.

The SCBA has analyzed the following 27 key advertiser segments and subsets. Based on market and industry research, seasonality, and historical revenue trends, the SCBA projects the following potential spending trends for Q3 2018 from these categories for Southern California Radio. Our enhanced membership merger with San Diego market has, in most cases, created two projections due to the unique market aspects of the two MKA monitored markets.

- **The Auto Category:** Radio's largest advertiser category is automotive, which includes dealers, dealer groups, and the manufacturers. As reported above, there are disruptive market factors impacting the sector. Based on current market conditions, we project an average adjustment growth of 1% for tiers 2 and 3 for

Los Angeles and -2% for San Diego for tiers 2 and 3 for the Q3 period of 2018. The inconsistent ad trend line for tier 1, or EOM's budgets, are planned and purchased largely out of the control of Southern California Radio so any projections are with risk. Please see our latest research study on today's automotive customer, **"The Path to Local Purchase**" at www.scba.com

  - ***Please note***: Gasoline prices are hovering in LA on average at $4.39 and in San Diego at an average of $3.95. Consumer demand is slowing for the big SUVs and is moving now towards smaller SUVs and light trucks.

- **Professional Services** which consists mostly of attorney services will remain a steady and predictable growth category in Q3 2018. Immigration issues as well as the ever-expanding personal injury and environmental health claims in Southern California will drive the growth. With recent federal efforts to reduce immigration, an uncertain future for "Dreamers", and the executive action that currently protects them from deportation called DACA as well as growing legal and personal bankruptcy challenges for Southern California residents, we project steady Q3 spending for personal and family legal services with growth rates of 4.2% for LA and 2.9% for San Diego.

- **Financial Services**, which consists primarily of personal consumer credit counseling and debt relief consolidation firms, will slow somewhat in Q3 with a 1.7 % increase for LA and 1.2% increase for San Diego in Q3 2018. The consumer affairs division for California lists 162 approved credit counseling service firms in Southern California alone. This does not include banks and credit unions which are also entering this growing consumer segment. Additional new online financial services for this sector will grow in Q3 2018. Total household debt in the U.S. for May 2018 has hit a new record high of $13.8 trillion dollars.

- **Home Furnishings/Home Flooring:** With existing home inventory extremely tight and real estate prices on most homes now at a 20-year high, Southern California home owners, condo owners, and renters are investing in home furnishings and flooring as plans for moving keep being delayed due to a very expensive housing market and unfavorable real estate tax rates for those buying new or existing properties in California. This segment will grow by 2.6% for LA in Q3 2018 and 2.0% for SD in the same period.

- **Home Improvement:** The housing and affordability crisis in Southern California will continue to benefit the home improvement sector as home and condo owners remain in their current homes and look to upgrade and/or enhance their current address. This $316 billion-dollar industry remains robust in our region with 70% of this revenue coming from residential spending. Of this, 35% is spent on property improvements and exterior upgrades, kitchen upgrades 11.6%, bath remodeling, 9.1%, and systems upgrades 13.4%. We project a 2.2% increase for Los Angeles in Q3 and a 2.1% increase for San Diego in Q3 2018.

- *Please note:* The devastating wild fires and mud slides that hit Southern California has left numerous areas still in a rebuilding mode, driving the category to more activity.

- **Cellular Carriers** ad spending in Radio slowed in Q2 as the industry absorbed continued losses from discounted data plans and the SCBA does not see much improvement for Q3. The recent merger of T-Mobile and Sprint, to be called the New T Mobile, will certainly change the competitive environment and produce more market share opportunities for the merged companies. This is a highly volatile and competitive space in a fully consolidated industry. Based on these dynamic market factors, the SCBA projects a 1.6% increase in LA and a 1.1% increase for SD in Q3 2018.

- **Restaurants, which include all fast food and quick and casual restaurants** have slowed in Q2 due more to a more regional approach to media placement by some clients and overall consumer demand. This category should expand by 2.0% in Q3 2018 for LA and 1.1% for San Diego, all in the busy summer months.

- **Health Care** has been robust in Q2 and we see more explosive growth for LA with April/May showing 16 hospitals, 7 Cancer treatment centers, 13 dental centers, and 9 skin care medical centers, all increasing their Radio campaigns. We project a positive variance in Q3 of 4.3% for LA and 1.1% for San Diego.

- **Television/Networks/Cable:** This category continues to suffer from disruptive factors for Southern California viewership as well as for the entire country; impacting appointment TV and its negative growth rate on advertising for AM/FM Radio. Based on the trend lines for TV and cable companies, we see further erosion of -4.2% for LA and -1.6 % for San Diego.

- **Casinos/Lotteries:** As more casinos remodel and expand operations with more rooms, gambling events, and spas in our region, and the increased entertainment value of booking major music talent, we project more regional travelers for the summer months to casinos during the Q3 period, which includes two major holiday weekends. There are 27 Indian owned casinos operating in Southern California and while there are no completely documented revenue numbers, industry sources estimate the industry will generate $8.4 billion dollars in 2018 in Southern California and directly employ 23,300 people. With current market conditions factored in, the SCBA projects an average 2.0% increase in spending on AM/FM Radio for Q3 2018 for LA and 1.3% growth for San Diego.

- **Groceries/Convenience**: We continue to project significant disruption for the grocery industry in Southern California in Q3 and quite frankly, for the foreseeable future. The Amazon purchase of Whole Foods, Inc. is just one of a number of factors impacting the Grocery chain segment. Additional disruption from food stamps being used the same as cash online, which will now be accepted by six online grocery delivery services, including Amazon, in Southern California. The industry is suffering from price deflation throughout our region with basic food pricing down, and as a result, intense competitive pricing. Our region will see another loss for AM/FM Radio in Q3 for this category. With deep discounter Aldi's 45 locations, home delivery now promoted by all major chains, and the intense price wars for grocery staples only heating up more in the Q3 holiday period, we project this explosive category to be in transition by -12.1% in LA and -6.8% in SD for Q3 2018. We urge grocery clients to read our Category Alert on the Grocery business at www.scba.com for more details.

- **Education**: The continuing education sector is poised for growth in Q3 2018. Among the drivers in this category include the expansion of the red hot 13-16-month online MBA programs now offered throughout Southern California. With MBA online programs costing $15,000-20,000 on average and more, the need to recruit credit worthy candidates is critical. This is a particularly competitive subset of the sector and recruiting new students for the spring enrollment period has begun. Increased enrollment in nursing schools, Physician Assistant programs, bio medical extension training, Nurse Practitioner degree programs, technical training centers, and IT training and retraining centers will see increased activity and competitive student recruitment for Q3 2018 as the medical health field's demand for trained workers continues unabated. We see a 3.1% growth for LA and a 2.1% increase for SD.

- **Personal Fitness/Weight Centers**: This category continues to grow and is now a more year-round advertising category as personal weight control centers are no longer seasonal and personal fitness centers are more targeted to group classes, specialized exercise, health plans, and personal trainers. Businesses are expanding their offer to share the cost of health clubs with their staffs, providing a more year-long category as opposed to a heavy Q1. Our seasonally adjusted projection for LA in Q3 is a 2.0% growth rate, with San Diego growing by 1.7% increase for the third quarter of 2018.

- **Oil and Gas: The average price of unleaded regular** gasoline, as of this writing in Los Angeles, is about $4.39 a gallon, and about $3.95 in San Diego. The "summer blend increase is now baked into retail gas pricing; however, OPEC continues its tight supply pricing, which will increase gas prices even more in Q3. This increase will intensify the highly competitive gas/convenience location business throughout Southern California. Within this category there are 124,000 gas/convenience stores in the U.S., making up 80% of all fueled purchased. Gas sales are just a loss leader to this omnipresent retail segment as same store profit margins on beverages, quick foods, coffee, snacks etc. is a staggering 48% on average YTD through April 2018. With longer over the road trips, longer commuting times due to traffic congestion, we see the gas and oil category rising to 2.6% in LA and 2.2% in SD for Q3 2018.

 - ***Please note:*** The increased price of gas is already impacting SoCal larger truck sales with a move towards smaller SUVs and light trucks.

- **The Internet/e-Commerce Category**: Various Apps, and Amazon.com lead the way in this ever-growing segment of our industry. We see this trend continuing in Q3 2018 at a seasonally adjusted overall regional rate of growth for LA of 1.1% and San Diego at 1.2%.

- **Department Stores/Discount/Shopping Centers**: Another category experiencing considerable erosion due to forces outside of AM/FM Radio's control, mainly from the Internet and powerful I-retail monster, Amazon. The retail sector stocks have been hit hard in 2018and based on market Intel and retail feedback, we project a seasonal correction of -12.1% for Q3 2018. **However,** San Diego is clearly the outlier in this equation as its proximity to Tijuana, Mexico demonstrates. Thousands of Mexicans cross the border every day to do their shopping in San Diego. San Diego offers a short drive from Tijuana as well as a greater variety of goods and services. We see continued growth of 3.5% for the robust retail trade on the border in San Diego.

- **Drug Stores/Pharmaceuticals** will remain a consistent and growing ad category for Radio in Q3 for Southern California. Two primary reasons for this growth include over 700 drugs that were previously only available by prescription 10 years ago have been reclassified now by the FDA as safe for the counter (OTC) purchase. The" RX to OTC" conversion rates will increase further as the FDA is focused on the individual making their own health choices at more reasonable rates. The largest selling segment of this market is in the nicotine prevention products. The Patch, Gum, and other quit smoking products are now available over the counter and without a trip to the Doctors office. Additionally, drug stores have expanded their offerings with larger food selection, electronics, and non-drug merchandise. Drug store retail traffic counts are 19% higher during the spring months due to flu shot visits and changing allergy issues as the season changes. We project a 1.3% increase in Q3 for LA spending and a 1.0% increase for San Diego.
  - ***Please note:*** The CVS purchase of Aetna Health for $69 billion dollars will significantly change the relationship between drug retailer and health insurance providers. We see considerable consolidation in this sector in 2019.

- **Computers/Office Furniture/ Equipment and Supplies** will continue its remarkable growth pattern for AM/FM Radio in Southern California. This sector mirrors the overall growth of our region's jobs, economy, and a high occupancy rate for office space and business parks needing equipment, computers, and office furniture. Southern California is also experiencing record setting commercial building construction not seen since 2007. Office space rental applications have grown 11% YTD through April 2018 for LA, and 10% for SD applications. Demand and growth for office space and equipment will increase by 2.1% regionally in Q3 2018.

- **Heating/Air Conditioning** will continue its growth pattern in Q3 2018, much like the home improvement sector. Based on seasonal demand for new A/C repairs, service contracts, and continued remodeling of existing houses and apartment complexes, we project this category to grow 2.3% for our region in Q3 2018. The unusual weather patterns in Southern California will also drive more volume to this sector.

- **Auto Parts/Service:** This sector is entering its peak summer season to a potential service market of over 18.3 million registered vehicles in Southern California. (DMV, May 2018) The growth in this sector is coming from tires, transmission work, and full-service repair advertising clients. With the average age of vehicles still on the road today at 11.3 years, and daily commutes increasing by 12 minutes every year, wear and tear on tires and service demand more service for the daily commuter. With EOM's using synthetic oils, and improved powertrains, oil and parts service are being extended. Despite that trend, high-performance options remain very popular with Southern California drivers. Adjusting for the peak summer season, we see 1.7% for LA and 2.1% for SD in Q3 2018.

- **Hotel/Motel/Resorts** business has been very solid as tourism and a much stronger 2018 economy has driven more tourists, travelers, vacationers, conventions, and business meetings to Southern California. However, we see seasonal summer adjustments for Q3 in San Diego at 1.8%. We project LA at 2.0% for the quarter.

- **Lawn and Garden's** traditional peak consumer buying season will begin to tail off in Q3 as spring gardening and yard and garden planting will be completed. We see a larger, seasonally adjusted rate with this sector due to tighter housing inventory, and increased home and garden improvement trends for Southern California. Retailers will be focused on marketing the more profitable gating, trellis work, and the continued SoCal drought - focused yard environments. Projecting a 1.0% increase for the region in Q3.

- **Security systems** advertising was down somewhat in Q2 in both markets but summertime is the peak buying season for security systems as there are 33% more crime and home intruders during July and August in Southern California. Los Angeles is ranked as the 4th most dangerous city in the U.S. while San Diego crime rates are the lowest in decades. New technology security systems have been introduced with higher margins for security firms, and new Wi-Fi products to further protect homes and property, which will increase ad spending. We see LA Radio spending increasing by 2.0% for LA and 1.6% for San Diego in Q3 2018.

- **Recruitment/Employment** Radio advertising was very hot in Q2 in both markets and is expected to continue that trend in Q3. Indeed.com, U.S. Army, and ZipRecruiter lead the way so far in Radio recruitment advertising. With regional unemployment rates the lowest in ten years, and a very robust job market, we see recruitment advertising accelerating as new budgets and new jobs appear in Q3 throughout the region with a 3.5% increase for Q3 2018 for LA and 2.8% for SD. Look for more on-line job posting firms to market themselves through Southern California Radio as the most efficient recruitment tool for hundreds of job postings and career categories. With record unemployment, the job market is highly competitive.

- **Appliances/Electronics** have seen rapid growth as an advertising category due primarily from new product introductions, enhancements to existing product lines, and consumer demand for newer products. The market share for Small domestic appliances such as coffee makers and toasters are projected to grow by 21% nationally by end of 2018. Products that are "home connected" as well as tablets (12% growth) and smart phone demand for 3D enhancement technology will grow to a $4.4 billion-dollar market by 2020. Appliances and all forms of electronics are sold everywhere, which also increases availability, distribution, and product comparisons which benefit the consumer. We see a Q3 seasonal adjustment growth rate for our region of 3.3% for LA and 3.1% for San Diego.

- **Jewelry stores/Pawn Shops** have been added to our category analysis based on its explosive growth from San Diego and more modest but consistent growth from LA. With a robust economy, higher consumer debt, and the constant cross-country border shopping from Tijuana to San Diego, this category, covering both ends of the economic status of consumers, will grow by 3.5% in Q3 for SD and 2.1% for LA.

- **Insurance** is a large variety of subsets including auto, home, and Life. While LA will see modest growth of 1.8%, San Diego insurance advertising will continue its hot streak with a 4.3% growth rate for Q3. The auto category and all of its dependent service industries such as auto insurance remains our region's strongest industry category.

- If there is a particular industry not listed that you or your company would like additional insight on, please contact us at tcallahan@scba.com

AM/FM Radio Trends worth reading from www.scba.com

- **AM/FM Radio Dominates the Pure plays:** Read how AM/FM Radio clearly dominates all audio listening compared to Pandora, Spotify, and Sirius/XM Satellite.

- **AM/FM Radio remains the overwhelming choice for in-car audio listening**, despite the various choices available for today's in-car listeners.

- **One More Reason to invest in AM/FM Radio**. Ad blocking poses serious threat to Google and Facebook advertisers.

- Radio's **massive reach now stands at a** recorded an all-time high of 267 million 12+ listeners.

- With 12 hours and 15 minutes of weekly usage, **Radio** is the third most used medium tracked by Nielsen. Broadcast Radio outperforms Internet access from a computer, time-shifted TV, game consoles, DVD/Blu-ray devices, video on a PC, and multimedia devices. (Source: Nielsen Total Audience Report, Q2 2017).

- According to a report from Millennial Media and ComScore Research, **79% of streaming Radio listening now takes place on Smartphones**, 16% on tablets and 5% on desktops and laptops.

- **AM/FM Radio** content is now everywhere; in the car, on mobile phones, and all on a 24/7 anywhere-our-listeners-go basis.

- **Southern California Radio's weekly reach** of Persons 18+ is larger than any other media including TV, Newspaper, Facebook, Twitter, Pandora, Sirius/XM **and** all other media outlets in our region.

- And finally, we urge everyone to read the latest blog post from SCBA President Thom Callahan, which is entitled, ***"Rage Against the Machines".*** This factual post about real media comparisons is recommended reading for your attention and consideration. Here's the link; https://scbaradio.com/ which is part of a series of posts called "Listening for Radio" at www.scba.com

- Please visit www.scba.com for a variety of topics and information regarding the compelling case for AM/FM Radio in Southern California as an effective and efficient audio and digital platform.

Expanded Digital Information:

We have expanded our coverage of non-Radio digital platforms and begin this series with some serious issues facing digital and the concern it should raise for advertisers:

HACKERS HAVE INFUSED NEW MALWARE IN GOOGLE'S DOUBLCLICK ADVERTISING SERVICE

Hackers have infused new malware in Google's DoubleClick advertising service to serve ads to consumers that contain cryptocurrency mining software or better known as "Coin Hive Miners".

So, what does that mean?

Coin Hive Miners is malicious software that often gets downloaded from an infected website or comes bundled with other legitimate software, and which may collect the user's sensitive personal information, open the door to other Coin Hive Miner or viruses and interfere with stable system performance. Spyware and adware are subtypes of Coin Hive Miner that serve a specific purpose, just as their names suggest. **Many malicious programs are designed to be unnoticeable at first, making it hard for the user to trace them to the source.**

This means that client ads served in certain countries through **DoubleClick beginning on 1/18/18** may have contained nasty new malware that can destroy cellphones using the Android platform as well as "mine" personal data from Phones or PC's and create fictitious Apps. The malware -- **reported by the Trend Micro Security Intelligence Blog,** showed after an increase in traffic to five malicious domains on January 18 and all came from DoubleClick. The security company detected an increase of nearly 285% in the number of Coin hive miners on January 24. For more information, click here .

Mining cryptocurrency through ads is a relatively new form of abuse that violates Google's **policies**, and one that the company has been monitoring closely, according to a Google spokesperson. "We enforce our policies through a multi-layered detection system across our platforms which we update as new threats emerge," per a Google spokesperson. "In this case, the ads were blocked in less than two hours and the malicious actors were quickly removed from our platforms." The problem is that for at least two hours, thousands of web sites, You Tube video ads, and Android users may have been infected and users won't know it until it's too late.

The Bottom Line:

Digital ad servers such as DoubleClick can be infected with malware for a client and the client's customers. While there are numerous safeguards in place, even Google's ad servers cannot block every new form of abuse which targets personal information.

However, Broadcast Radio ads will never damage PC's or cell phones, will not contain malware, and has never stolen personal information.

AM/FM Radio is Southern California…safe, secure, and highly dependable!

Buzzfeed struggles against Facebook and Google

- BuzzFeed's newest spin-off brand, As/Is, will cover beauty and style with a focus on body positivity and celebrating individuality. As/Is is the latest effort by BuzzFeed to find new revenue models through lifestyle brands that not only generate content, but experiences and products for a millennial audience. It's an area the digital publisher has been betting more on as it struggles to find ways to compete with Facebook and Google for ad revenue. **(Ad Age)**

Why 280 characters won't save Twitter

- Twitter has received a spate of bad press lately. From President Donald Trump's "propaganda" to the suspension of Rose McGowan's account, some might feel that the once-popular micro-blogging site is on the way out. And the numbers justify that assumption. Millennials make up the largest generation in the United States, yet Twitter is struggling in positioning itself as an option for them. A picture says 1,000 words, and this generation prefers selfies to short remarks. **(Ad Age)**

Fair gets $1B to bring car buying into digital age

- Fair, maker of an app that it says provides the first fully digital end-to-end way to buy a car, said it has closed a strategic funding round led by BMW i Ventures and secured offers for nearly $1 billion in dedicated capital. Santa Monica, Calif.-based Fair said the financing round also included investments from Penske Automotive Group and others. **(Business Journals)**

Spotify Smacked With $1.6 Billion Copyright Lawsuit.

As it prepares to go public, Spotify must cope with a massive copyright lawsuit from the music publisher that administers the rights to songs by Tom Petty, Neil Young and hundreds more. Wixen Music Publishing has filed a $1.6 billion suit against the streaming music service, claiming it is using more than 10,000 songs, including Petty's "Free Fallin'" and The Doors' "Light My Fire" without license and compensation. READ MORE

Netflix says it will spend up to $8B on content next year
Netflix will spend between $7 billion and $8 billion on content in 2018, up from the roughly $6 billion it will spend this year, the streaming service said while announcing its third-quarter earnings on Monday. Netflix added 5.3 million subscribers in the quarter, surpassing expectations, and had revenue of nearly $3 billion, a 30 percent increase from the same period last year. The company also saw its net income rise to $130 million. (New York Times)

Do 2-second videos work on Facebook?
Why should a marketer pay for video ads that aren't even viewed for 2 seconds? It's perhaps the most important question going in mobile marketing, with brands pushing back against the very notion that many ads on platforms including Facebook, Snapchat and Twitter have the chance to make much of. (Ad Age)

The true costs of ignoring online brand safety
In 2017, JPMorgan Chase and Procter & Gamble faced the brand safety crisis head-on. After its ads appeared next to offensive content, JPMorgan Chase cut the number of sites it advertised on from 400,000 to just 5,000 a month. P&G slashed its digital ad spending by $140 million over similar brand safety concerns. Were these moves enough? This is the question that marketers need to ask. (Ad Age)

Facebook's new tool lets publishers use its data to sell video ads
Facebook is opening up its data for TV-type publishers to **target video ads** on their sites and in their apps. A&E Networks, ESPN, Hearst Television and Scripps Networks Interactive are testing an automated system that lets marketers find their intended audience using Facebook data such as age, gender and location. (Ad Age)

The SCBA has begun a new service for clients and members entitled The SCBA Digital Information Series, which is a series of brief overviews of specific digital challenges advertisers must face. You can see them all at www.scba.com.

The SCBA Urges Caution regarding non-Radio Digital Advertising

While Radio has always welcomed competition from other media, the growing trend of some advertisers to spend their budgets in non-Radio digital platforms is, from our perspective, very concerning. In our "**Thought Leaders**" media post, the SCBA urges caution for any advertiser investing in digital platforms based on misleading gross impressions. The reality of deceptive digital advertising today and exactly who or what is seeing or hearing digital ads is highly questionable. We strongly recommend that advertisers read our post, "A Responsibility to the Truth" and "Rage against the Machines" at www.scba.com before investing in search engines, third party networks, mobile ad networks, and/or websites that are misleading and dishonest.

Also, please read the latest article on **fraudulent digital ad clicks** from the NY Times with this link:http://www.nytimes.com/2014/12/10/business/media/study-puts-a-price-tag-on-digital-ad-click-fraud-.html?smid=nytcore-ipad-share&smprod=nytcore-ipad

New SCBA Research Services for clients and agencies:

- The SCBA/Nielsen research study entitled, "***The Local Path to Automotive Purchase***" can be read in its entirety at www.scba.com. The study reveals what actual vehicle buyers rely on to make their new and used vehicle buying decisions. A must read for anyone in or out of the auto industry.
- The success of our partnership with Nielsen continues as we are once again planning for another major automotive research project. Our new study will launch in late September. More details to come.

- **The SCBA/Nielsen Audio Radio Research Event** was Nielsen's groundbreaking new research on Radio's powerful Return on Investment for Radio advertisers. If you would like to learn more about this definitive research and would like to discuss any of the facts presented, please contact us at tcallahan@scba.com for details. Here is a link to that study: http://www.scba.com/assets/pdf/5167548.pd

Additional Guidance on Political Advertising demand in California

The 2018 political advertising activity for California will be remarkable by any standard. Every significant elected office in the state will be voted on by Californians in 2018, which will include U.S. Senate, U.S. House, Governor, Lt. Governor, State Supreme Court, Secretary of State, State Assembly, State Ballot Measures, Appellate Courts, Local Judges, School Boards, State Senate races. All those races and numerous ballot propositions alone will be significant to local media. Add the unknown element of Political Action Committees (PACs) and the large amounts of cash they control and 2018 could be a record year for political advertising in Southern California and the rest of the state.

Additionally, an amendment to change **Proposition 13** is projected to not only bring out aggressive spending from both sides of the issue but will have significant impact on the Governor's race as well. Briefly, the amendment seeks tax relief for seniors 55+, allowing them to sell their homes without paying a higher tax rate on their new home. We mention this issue as only one of many propositions that will be heated and debated months before the public vote.

We strongly urge clients to look ahead for their advertising planning as Radio station inventory has begun to tighten for Q3 based on political advertising demands. Since much of this category's activity can happen on a week to week basis, based on shifting polls, public opinion, and budgets, the SCBA recommends that advertisers consult with Radio about Q3 and Q4 availability.

SCBA Market Guidance for the Third Quarter of 2018

After extensive study of both category and competitive factors, the SCBA is projecting Q3 Southern California Radio advertising activity to be ***steady and strong*** in a number of categories documented. While we continue to actively monitor and report on disruptive forces facing our clients, we are also looking for ***considerable growth*** as all the economic indicators clearly show consumer expansion for our Southern California markets.

With an ever dynamic and disruptive business environment facing many of our larger ad categories, SCBA and its member stations are well positioned to advise and recommend media solutions for our clients and agencies to expand their business effectively in Q3 and beyond. The SCBA studies market, consumer, and industry trends and can assist and advise clients on a variety of media solutions for Southern California.

If you have any questions about the **SCBA Quarterly Market Guidance Report** for the third quarter, or if you would like to schedule an in-depth discussion about your advertising plans using Southern California Radio and its many business solutions for Q3 2018 and beyond, please contact us directly at 323-695-1000 or at tcallahan@scba.com.

The SCBA recommends the use of the **SCBA Quarterly Market Guidance Report for Q3 2018** as an important resource for your planning and understanding of the true power and competitive strength of AM/FM Radio and its own digital platforms for consumer engagement. On behalf of our executive committee and the SCBA board of directors, we look forward to a very strong and steady Q3 with our clients, partners, and friends.

Sincerely,

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June 27, 2018

Sources:

Engadget.com, Zenith Media, GroupM, Dentsu Aegis Network, Strata Agency Survey, Pro Publica, The Verge, The New York Times, Los Angeles Times, San Diego Business Journal, San Diego Union-Tribune, Los Angeles Business Journal, Nielsen Audio, Los Angeles Economic

Development Corporation, ComScore Research, Los Angeles Board of Tourism, The Wall Street Journal, Miller Kaplan Arase, LLC, Employment Development Department of Southern California, UCLA Anderson Forecast, Inside Radio, Bureau of Indian Affairs, Automotive News, CNN, CNBC, General Motors, Ford Motor Company, Subaru-global.com, The U.S. Department of Transportation. Scarborough Data, SCBA Member Stations, California Association of Realtors, Indiancasinos.com, Kyser Center for Economic Research. Bloomberg News. Orange County Register, Media Radar, Broadcasting and Cable. BIA/Kelsey. Restaurant Week. The Washington Post. Crain's Los Angeles Business Report, Internet Advertising Bureau Edison Research. CNBC. Texas Institute at Texas A&M University. California Department of Transportation. Los Angeles County Institute of Applied Economics, California Department of Finance, STR Research. Statisa.com, San Diego Association of Realtors, The Times of San Diego, NBCTV San Diego, Cushman Wakefield, Inc., Food and Drug Administration, ALG, Barclay's Capital Investments Division, The U.S. Department of Commerce, Kelley Blue Book, Cox Automotive, Facebook, Twitter, JD Power and Associates, Uber.com, Fox8 News, Standard Media Index, The Association of Fuel and Convenience Stores, cerasis.com, California Gambling Control Board, Toyota Motor Company, Lucintel, Linex.com, Gartner Research, Joint Center for Housing Studies at Harvard University, LMC Automotive, Reuters, NADA, Wallet Hub, Trulia. Proctor and Gamble, California Association of Realtors, opensecrets.org, Us.pc.com, Worldpharmanews.com, Wards Automotive, ATT.com, Axios.com, Challengergray.com, Consumer Credit Services, Office of Immigrant Assistance, State of California, Sprint.com, Association of Home Appliance Manufacturers, Los Angeles Police Department, San Diego Police Department, Westfieldcorp.com, warnerbros.com, The Press-Enterprise,
Office of the Mayor of the City of Los Angeles, FBI, Businessweek, Ad Age.