Southern California Broadcasters Association

The Voice and Advocate for Southern California Radio
www.scba.com

The SCBA Quarterly Market Guidance Report For Q3 2017

"This groundbreaking study provides concrete evidence of broadcast radio's ability to reach and motivate millions of auto buyers in Los Angeles and San Diego." *— Brad Kelly, managing director, Nielsen Audio (FULL STORY)*

The Southern California Broadcasters Association is pleased to publish its **Quarterly Market Guidance Report covering the vast Southern California region for the third quarter of 2017.**

This report is for SCBA member use as well as an ongoing service for clients, advertising agencies, the press, and media buying services that are planning to buy Southern California Radio advertising in **the third quarter of 2017**. The report looks primarily at the upcoming quarter and provides critical insight into the regional economy, Radio growth trends worth noting, advertising category trends, as well as additional market-driven insight from our member stations' management.

With this Q3 2017 report, the SCBA has added additional Q3 insight into the growing technology sector of Southern California, expanded both our competitive media trends, economic growth by county, as well as regional business developments worth noting. The SCBA has expanded its in-depth analysis of Radio's largest ad categories and their projected growth patterns for Q3 2017 and beyond.

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 79 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.

Southern California's estimated gross domestic product will exceed $1.5 trillion in 2017, 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 6th largest economy in the world, ahead of France, and is expected to finish 2017 with a GDP of $2.7 Trillion!

The economic, population, and consumer trend setting 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.

<u>The following showcases the economic strengths of our major Southern California counties.</u>

LA County: With a population of over 10.4 million, Los Angeles County has more residents than 43 states. Total personal income is expected to grow by 5.9% in 2017. Unemployment rates for 2017 will fall to 5.2%. Housing sales will accelerate to 6% in 2017 with new homes sales over 10% YTD. The median price for a home was $486,000 and is expected to climb higher in 2017. New, multi-family and rental units are expected to grow substantially in 2017.

Job gains are expected to increase in 2017 in these categories based on 2016 results: Health care and social assistance as the largest growth job category, followed by administrative, waste services and management of companies and enterprises. Other noteworthy gains will include education, professional, scientific and technical services, and information, which includes motion picture and sound recording. The burgeoning international trade with Asia in 2017 will see heavy investments from both public and private entities and with new trade agreements now in place for numerous industries, the LA region will increase employment and generate new wealth. Average age in LA County: 35.3 years.

LA County has one of the largest manufacturing centers in the nation, is a global gateway for trade and tourism, and draws entrepreneurs and risk-takers from around the world.
Real GDP growth is expected to be 2.7 percent for the next two years, outpacing the nation.

Orange County: The unemployment rate in Orange County will fall to 3.7% in 2017. The home of Disneyland, Orange County job growth mirrored LA County with health care, scientific and technical services leading the way in terms of jobs. Orange County's residential real estate market is improving with the stronger regional and national economy. The county is experiencing strong housing permits for new home construction and is projected to grow by a robust 18% in 2017. New master planned communities in Irvine Ranch, Great Park neighborhoods and Rancho Mission Viejo are all reporting strong sales. Average age in Orange County: 36.7 years

Local commercial real estate is also improving. Institutional investors are pushing up sales prices in expectation of rental increases. This all indicates a solid and growing business environment. Tourism is one of Orange County's most important industries. According to the Orange County Visitor and Convention Bureau, over 46 million people visited Orange County in 2016 and spent in excess of $10.5 billion. Disneyland, Fashion Island, and local beaches will continue to attract international visitors, with China and the Middle East being the two largest tourist countries. Leisure and hospitality jobs are projected to increase to 210,000 in 2017.

Health care is a significant part of the Orange County economy. 14% of all wages and salary jobs are in this sector. More than 1 million square feet of new health care-related leases were signed in commercial real estate in 2016. Look for higher paychecks in Orange County in 2017 from health care, high tech, and the growing biomed industries for the highly skilled workers in this sector.

Bakersfield and Kern County: Often overlooked, Bakersfield and Kern County provide exceptional business and housing opportunities in Southern California. Kern County was awarded the state of California's economic development honor for their promotional video of the advantages of living and working in Kern County. **https://youtu.be/G2wY55Je60Qkefield** The home of Edwards Air Force base and the China Lake Naval Air Weapons Station, Mohave Air and Space Port, Bakersfield and Kern County has a population of almost 900,000 people and is heavily employed in agriculture, energy products, as well as the military and space industries. Kern County is one of the fastest growing counties within Southern California and **is California's top oil-producing county, with 81% of the state's 52,144 active oil wells.**

Additionally, **Bakersfield** is now ranked #5 nationally as the most affordable city to buy a home, and making it very affordable for teachers, first responders, and restaurant workers, according to Trulia. Bakersfield is also ranked #3 in the nation for millennial home ownership.
Cume Radio listenership has grown by 2% or 10,000 more listeners in less than 12 months. Source: Nielsen Audio, Bakersfield, Monday - Sunday, 6a-mid, Persons 12+.

Riverside and San Bernardino Counties: Unemployment rates in the "Inland Empire" are projected to be 5.8% for 2017. This region has regained all of the jobs it lost during the recession. Notable job growth came from the health care, leisure and hospitality, warehousing, and retail sectors. Another leading employment sector is the goods-movement industry which includes transportation and warehousing along with wholesaling. The industry employed 144,000 workers in this growing segment of Riverside and San Bernardino. Based on huge port activity, this category of jobs will grow by 5.1% in 2017.

This region's housing rebound has been remarkable since it was hit the hardest during the housing crisis of 2008. Higher prices per existing homes are expected in 2017 and beyond for this dynamic and growing region. Average Age in Riverside: 34.2 years and San Bernardino: 32.2 years.

Ventura County: The unemployment rate is projected to be 5.3% for 2017. With 43 miles of coastline and close proximity to one of the largest wine growing regions in the world, Ventura County attracts large numbers of tourists every year. Non-farm employment is projected to grow by nearly 4.0% in 2017. Total personal income is expected to rise by 5.6% in 2017. To underscore this county's growth potential, 1 out of 5 jobs will be in construction in 2017 and beyond. Retail and mixed use development projects growing at fastest rate since 2008. Average Age in Ventura County: 36.7 years.

San Diego County: The San Diego market recovered all of the jobs it had lost during the great recession. Total non-farm jobs will exceed 1.5 million in 2017. With 3.3 million people, San Diego County is the second most populated county in California after Los Angeles County. The projected 2017 unemployment rate will be at its lowest, down to 4.9%, and its best percentage since 2008. San Diego County has a wide and dynamic variety of industries. Ship building and aerospace is a jobs driver with heavy ties to the local defense sector. With traditional defense spending down, other defense projects and related technical jobs have increased. These areas of growth include cyber security, intelligence surveillance, defense related electronics and software, and unmanned aerial systems. Biotechnology and health care jobs are surging, with San Diego County ranked 7th in the U.S. in the total amount of biotechnology venture capital invested. San Diego County added more jobs than any other Southern California county for the past four years. It will grow further in 2017 and beyond as a leader in telecommunications, medical devices, life sciences, and high-tech manufacturing. San

Diego County is also investing heavily in its infrastructure that will improve long-term growth prospects, including upgrades to Lindberg Field and border crossing projects. San Diego County is also a popular travel destination which, along with the U.S. Navy and Marine Corps presence, makes this region dynamic and growing.
Average Age in San Diego County: 34.9 years.

Notable Regional Economic News:

- Amazon.com Inc. will acquire Whole Foods Market Inc. in a $13.7 billion deal, marking the biggest transaction ever for the e-commerce giant as it pushes deeper into groceries. Amazon will **pay $42 a share** in cash for the organic-food chain, the companies said. Amazon's biggest acquisition to date came in 2014, when it agreed to buy video-game service Twitch Interactive Inc. for $970 million in cash. (Bloomberg)

- **Study: Women-founded tech startups have twice as many female employees** Startups with at least one female founder wind up **building companies** in which nearly half the staff are women, a new study finds. With an average of 48 percent female workers, women-led firms have nearly twice the industry average and outpace some of the nation's largest tech companies in gender diversity, according to the study by online startup investing platform FundersClub that surveyed 85 U.S.-based tech startups. (Los Angeles Times)

- **Taco Bell's future**: 9k sites, $15B in sales and nacho fries. Boasting a brand that creates culture on its whimsical spin on Mexican food, Irvine – based Taco Bell said its plans to reach $15 billion in sales with 9,000 global stores by 2022. That's roughly **2,350 more restaurants** in five years.

- **Southern California Big Mac fans** can satisfy their craving without leaving their driveway. McDonald's has launched doorstep delivery through UberEats at 375 restaurants in Orange, Los Angeles and Riverside counties. With the exception of soft-serve ice cream orders and promotional items, the full McDonald's menu is available through the fast-growing delivery division of Uber. (Orange County Register)

- **Los Angeles has 6 of the top 10 "Most Packed Roadways"** in the U.S., according to The National Auto Insurance Center. The "Most packed Roadway in the U.S." belongs to the 101 from Topanga Canyon in Woodland Hills to Vignes Street in Downtown"

Southern California Commuter Traffic Congestion Increases (once 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 80 hours of delays is almost 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.

The Larger View for Broadcast Radio and other media:

Buoyed by strong demand for digital and broadcasting, the national advertising market grew 7% in May 2017, according to the latest data from the Standard Media Index. Digital media increased ad spend 16% in May, while national TV ticked up 2%, **with radio up slightly, increasing its market 0.5% compared to a year ago**. Out-of-home, magazine and newspaper, however, were down year-over-year.

Both broadcast and cable networks posted increased ad revenue in May, the SMI reported, with broadcast networks up 1% and cable networks up 2%, compared to May 2016. In an unusual turn, ad spending on sports programming dropped 5% in May, largely due to fewer NBA and NHL playoff games. "Shorter series in 2017 had a negative effect on year-over-year revenue," the report noted. "With six less games, the networks lost out on approximately $24 million compared to 2016."

Despite the lost revenue, the SMI noted that spot pricing did increase for NBA playoff games, with TNT's unit costs up 13% and ABC's increasing 12%, although NBA ad revenue was down 9% for the month, SMI said.

After experiencing slowed growth for the early part of the year, SMI says digital is now on the upswing, with spending up 16% in May, compared to a year ago. Year-to-date, the medium's growth rate is averaging almost 9%, with social up 59%, Facebook ad revenue up 83% and Google's search business up 19%, the report detailed. In one notable decline, YouTube's video ad spend was down 23%, likely a result of many brands pulling their ad dollars over concerns that spots were running alongside objectionable videos. (Google, which owns YouTube, has since announced plans to put new systems in place meant to safeguard against such problems in the future.)

"May results show a definite pick-up in the overall market with digital spend rebounding solidly after a slow start to the year following concerns from advertisers around brand safety. The national TV market is being kept in the black by cable news and lifestyle programming, both of which racked up some big year-on-year gains in May," James Fennessy, CEO of Standard Media Index, said in the report. "On the flip side, the major networks will be very concerned at the continued softness in broadcast primetime. Live sports programming also didn't deliver with shorter playoffs series, thanks to the dominance of [the NBA's world champion Golden State Warriors], really impacting year-on-year comparisons."

Among the largest TV advertising categories, the SMI says entertainment spending was down 24% in May compared to a year ago, with entertainment companies spending $60 million less on cable and broadcast ads. At the same time, entertainment brands increased their digital ad spends by 25% or $13 million. Auto advertising fell 5% in May and 13% so far this year, with auto dealers spending about $238 million less in the first five months of 2017 than they did for the same period in 2016.

Several key categories are increasing their spending though, including pharmaceuticals (+19%); quick service restaurants (+11%) and telecommunications (+10%). These three categories are also increasing their digital ad spend, which points to overall rises in marketing budgets, SMI notes, rather than dollars shifting from one medium to another. However, with major advertisers still pulling back, SMI is bracing for more volatility in the ad market. “Pharma, QSR and Telco’s have all piled into national TV in recent months but the big categories of movies and auto continue to pull money out of national TV and experts in the space are questioning at what point does this start impacting sales,” said Fennessy. The SMI represents 70% of total national U.S. agency spending from top global media agencies and independents.

Q3 2017 poised for growth as Broadcast Radio grows 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.

- Additionally, **BIA/Kelsey projects** that for 2017, Radio and its online platforms will garner 10.5% of the projected $148.8 billion dollar local ad pie.

- According to ad buying service Strata, their new quarterly survey of ad agency buyers reveals that **Radio is the media their clients are most interested in**. This is a 2 year high for the survey in terms of Radio interest. The survey also reveals an optimistic outlook for the marketplace overall in terms of advertising budgets for Q3 2017.

- 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 3 year listener growth trend:

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 Regional Database, P12+, Monday-Sunday, 6:00-12:00 Midnight.

Source: Nielsen Regional Database, Monday – Sunday, 6am-midnight, Persons 12+.

	Fall 2014	Fall 2015	Fall 2016	Change 2014 vs. 2016	
Weekly TSL	9:45	10:15	10:45	**10.3%**	
AVG WK Cume	17,118,900	17,368,300	17,430,500	**1.8%**	**311,600**

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 4 year listener growth trend:

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, for 12+, Monday-Sunday, 6:00-12:00 Midnight.

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

	Winter 2014	Winter 2015	Winter 2016	Winter 2017	Change 2014 vs. 2017	
ATE	2:00	2:00	2:00	2:00	**Unchanged**	
AVG WK Cume	10,524,700	10,531,600	10,733,200	10,681,200	**1.5%**	**156,500**

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

	Winter 2014	Winter 2015	Winter 2016	Winter 2017	Change 2014 vs. 2017	
ATE	1:45	1:45	1:45	1:45	**Unchanged**	
AVG WK Cume	2,513,100	2,528,200	2,539,600	2,573,500	**2.4%**	**60,400**

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. Follow this link: http://images.radcity.net/5335/5167548.pdf to a compelling regional research presentation commissioned by SCBA.

Southern California Radio's inherent ability to attract and retain new advertisers to the many targeted and mobile formats that only Radio can offer is underscored by the May Miller Kaplan

Arase reports of new advertisers in the first five months of 2017. This impressive growth pattern showcases Radio's strength for clients and agencies in expanding reach and creating additional market share.

AM/FM Radio's real economic health in Southern California is revealed in its robust **new business development growth** for YTD May in 2017.

For Los Angeles: 352 new advertisers to AM/FM Radio in the first 5 months of 2017.
For San Diego: 127 new advertisers to AM/FM Radio in the first 5 months of 2017.

May 2017 YTD:
<u>352 New advertisers to AM/FM Radio in **Los Angeles** totaling $21.1 million dollars</u>

<u>127 New advertisers to AM/FM Radio in **San Diego** totaling $4.8 million dollars</u>

<u>That is an impressive $25.9 million dollars in new advertisers for Southern California Radio through May 2017.</u>

If Radio's real strength is local, then this outstanding new business fact **speaks loudly** about the new partnerships that local and regional businesses have developed with SCBA's member radio stations and the inherent ROI in such volume. Simply put… **Radio works.**

Growth for any media comes from new business development and AM/FM Radio in Southern California is leading the state and the nation as of this writing.

While new business development for Radio advertisers will only grow in the critical Q3 period, as well as achieving its largest cume audience ever, but while it's hard to believe, there is still a nagging perception issue regarding the value and strength of AM/FM Radio.

Perception vs. the Reality for Broadcast Radio

"As a marketer, I've always found Radio to be a medium that effectively and efficiently delivers reach over an extended period of time, while driving ROI within the total communications plan," said Mark A Kaline, a former head of media at Ford Motor Company and Kimberly-Clark, who now heads his own consultancy. "But Radio has been too low profile with brands…" Radio needs to be more aggressively marketing their story as the leading mass reach media."

A recent survey commissioned by the Radio industry had the company, <u>Advertiser Perceptions</u>, survey advertisers and agencies in the U.S. about Radio's audience and that of its digital audio rivals. The survey results from the study of 327 advertising decision-makers underscored **Radio's perception problem versus the reality of Radio's reach.**

Advertisers surveyed estimated that 64% of Americans are reached by AM/FM Radio. Nielsen clearly shows that Radio's actual reach is **93%**. Another perception issue rose when advertising executives were asked about the share of audio time spent with Radio and streaming music services. They perceived the time spent with Pandora and Spotify to be the same as AM/FM Radio. However, the reality is that AM/FM Radio's share of audio time is **9 times greater** than Pandora and **17 times greater** than Spotify, according to Edison Research's Share of Ear study.

Adding even more to the misconception of Radio, those surveyed said they believed that Pandora and Spotify reach 27% and 20% of Americans, respectively. **The reality is that Pandora's reach is only 6% of Americans and Spotify even less at 3%, all according to Edison Share of Ear study.**

SCBA Recommendation: If your team, agency or client (s) would like a no obligation consultation on the real facts and value of AM/FM Radio and its vast digital platforms, please contact the SCBA to arrange a confidential meeting. We represent only our member stations and discuss AM/FM Radio without bias for format, ownership, or location. Please contact tcallahan@scba.com for more information or visit us at www.scba.com.

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 2017 by also comparing Q3 2016 activity with projected Intel for Q3 2017 and current market conditions by category.

The SCBA has expanded its analysis of the auto ad category with this Q3 2017 Guidance Report. The documented "softer" year for the automotive industry has meant 5 straight months of auto sales declines on a national basis. Other troubling factors include: rising "days on lots" inventory that now exceeds 75 days on average, dealer and factory incentives that through May 2017, averaged $3,510 per vehicle, the largest amount of discounts since 2009. U.S. Consumer debt on outstanding auto loans now exceeds $1.1 trillion dollars, the largest amount ever. Additional concern is focused on the growing subprime auto loan consumers with FICO scores below acceptable financial levels. It has become clear that disruptive forces are affecting the auto industry in 2017.

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 partnered with Nielsen Audio to conduct the first ever regional research study on consumer behavior and media choices when buying new and used vehicles in Los Angeles and San Diego.

The groundbreaking 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 on 6/7 in LA and 6/8 in SD before capacity sized crowds.
For a complete review of this powerful research study for either market, please visit www.scba.com where video of the LA event and PowerPoint is available.

Our efforts to change media allocations based on this research has launched a national campaign of awareness to the auto industry beyond Southern California. Over the next several months, **the SCBA will lobby 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 2017. We urge all of our automotive clients to review their marketing and advertising plans for the balance of 2017 and look to true ROI as the filter for all media to be judged through. The SCBA is available for any consultations requested. **"The Path to Automotive Purchase" requires all automotive clients to review and act on actual consumer behavior facts. Please find the complete study for both LA and SD at www.scba.com.**

SCBA Recommendation: For automotive clients and dealer groups that are heavily invested in appointment TV, or various digital platforms over Radio, we urge you to meet with us to discuss our SCBA **Auto Focus Report**, which is an in-depth review of current TV to Radio ad spending by dealership and/or association for Southern California. The trend lines of Radio's growth vs. local TV's viewership erosion are compelling data that need your immediate attention for current and future spending levels. To read the full SCBA White Paper study and its findings, which should bring more value and consideration for SoCal Radio, please visit us at http://www.scba.com/Article.asp?id=2819766 under the report entitled "Traditional Appointment Television's Technology and Viewership Crisis."

The SCBA has analyzed the following 25 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 2017 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 of -4% for tiers 2 and 3 for Los Angeles and -2% for San Diego for tiers 2 and 3 for the Q3 period of 2017. 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 new research study on today's automotive customer, **"The Path to Local Purchase**" at www.scba.com

- **Professional Services** which consists largely of attorney services will demonstrate continued growth in Q3 2017. A significant trend will be legal advice and counsel for immigration issues as well as the burgeoning personal injury and environmental health claims segment continues to skyrocket in Southern California. With recent federal efforts to reduce immigration and growing legal challenges for Southern California residents, we project steady Q3 spending for personal and family legal services with growth rates of 3.6% for LA and 3.2% for San Diego.

- **Financial Services**, which consists primarily of consumer credit counseling and debt relief consolidation firms, will continue its growth in Q3 with a 3.1% increase for LA and 2.3% increase for San Diego in Q3 2017. 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 further in Q3 2017. Total household debt in the U.S. for May 2017 has hit a record high of $12.7

trillion dollars. This is the signs of an improving economy and consumer confidence. It also means the consumer will go deeper in debt in 2017 fueling the growth of these debt reduction services within this segment.

- **Home Furnishings/Home Flooring:** With existing home inventory extremely tight and real estate prices on most homes at a 10 year high, Southern California home and 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. This segment will grow by 7.3% for LA in Q3 2017 and 4.6% 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 sector will have a 27% increase in shopping and contractual work performed as Q3 is its peak time of consumer interest and intent. This $315 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 4.1% increase for Los Angeles in Q3 and a 5.5% increase for San Diego in Q3 2017.

- **Cellular Carriers** ad spending in Radio slowed in Q2 2017 as the industry absorbed continued losses from discounted data plans but the SCBA now projects an increase for Q3 2017 as summer months will increase data usage 25% for the average smartphone consumer and comparison shopping intensifies. Cellular data plan pricing has dropped 13% through May 2017 YTD, its largest decrease in 16 years. T-Mobile began the price wars in 2013 by eliminating two year contracts and moving to month by month fee plans. Sprint and AT&T followed the pricing model with similar, various plans. Verizon was the last major carrier to drop the data pricing plans in the face of industry price slashing. Additionally, carriers no longer subsidize the cost of new phones, which has curtailed data plan upgrades and forcing consumers to use their current phones longer. This is a highly volatile and competitive space which indicates the competing carriers will be attacking Sprint's current issues and their continued current erosion of customer share. Based on these dynamic market factors, the SCBA projects a 3.1% increase in LA and a 1.8% increase for SD in Q3.

- **Restaurants, which include all fast food and quick and casual restaurants** remain a growing and year round AM/FM Radio advertiser with an impressive 2016 growth rate of 22.3%. With so many burgeoning restaurant choices in much of SoCal, expanding locations for most major chains and same store sales up through May 2017 for most national brands, volume dining habits will continue strong in 2017. This category should expand by 4.5% in Q3 2017 for LA and 2.4% for San Diego. Important Note: Southern California has run contrary the national trend that is less dining out by the American public as grocery prices vs. eating out prices gain parity. That trend remains outside of California.

- **Healthcare** continues its downward direction as health insurance companies pulling out of the ACA and the uncertainties of the marketplace in California have created erosion in this sector. Providers will be challenged to offer services based on price as health insurance costs in California continue their rapid rise on average of 13% annually. We project a negative variance in Q3 of -6% for LA and -4.3% for San Diego. This projection could change significantly if federal health care laws are changed, but for now, the SCBA remains cautious on this segment.

- **Television/Networks/Cable:** This category continues to suffer from disruptive factors for Southern California as well as the country; impacting appointment TV with continued viewer erosion, and its negative growth rate on advertising for AM/FM Radio. Based on the disturbing trend lines for TV and cable companies, and no sweep periods, we see further erosion of -5.1% for LA and a flat % for San Diego. See a more in depth analysis of TV's erosion and viewer choices, and the surging growth of DVR usage in Southern California at www.scba.com

- **Casinos/Lotteries:** As more casinos open and expand operations with more rooms, gambling events, and spas in our region, and the increased entertainment value of booking major music talent and special events grows, we project more regional travelers coming to casinos during the Q3 period. 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 billion dollars in 2017 in Southern California and directly employ 23,000 people. With current market conditions factored in, the SCBA projects an average 4.0% increase in spending on AM/FM Radio for Q3 2017 for LA and 5.2.0% for San Diego.

- **Groceries/Convenience**: We are projecting significant disruption for the grocery industry in Southern California in the back half of 2017 in light of the Amazon purchase of Whole Foods Inc. Additional disruption from food stamps being accepted online, which will now be accepted by six online grocery delivery services, including Amazon. The industry is suffering from price deflation throughout our region with basic food staples and as a result, intense competitive pricing. Our region will see a 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 summer months, we project this explosive category to be in transition by -5% in LA and -4 in SD for Q3 2017. 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 significant growth in Q3 2017. 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 fall 2017 enrollment 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 consideration for Q3 2017 as the medical health field's demand for trained workers is burgeoning. We see a 6.3% for LA and a 5.0% increase for SD.

- **Personal Fitness/Weight Centers**: This category continues to become 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 yearlong category as opposed to a heavy Q1. Our seasonally adjusted projection for LA in Q3 is a 5.4% growth rate, with San Diego continuing its strong 6.3% increase for Q3.

- **Oil and Gas:** Gasoline prices in Southern California will climb to over $4.60 on average for unregular gasoline by the start of Q3 2017, the largest increase in 2017. 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 42% on average through May 2017. With longer over the road trips, vacations, and summer travel at its peak in Q3 summer months, we see the gas and oil category rising to 5.1% in LA and 3.6% in SD for Q3 2017.

- **The Internet/e-Commerce Category**: Brick and mortar retailers are highlighting their e-commerce sites as are grocery chains and mass merchandisers. New apps, games, and lifestyle web sites will launch from Southern California using AM/FM Radio as a key component. Newer non-retail categories are returning to AM/FM Radio for awareness and recognition instead of digital platforms that offer impressions but negligible ROI. We see this trend continuing in Q3 2017 at an overall regional rate of growth for Q3 in LA of 4.5% and San Diego at 4.0%.

- **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 2017 and based on market Intel and retail feedback, we project continued less ad spending of -7.4% for Q3 2017. 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 6.3% for the robust retail trade on both sides of the border in San Diego.

- **Drug Stores/Pharmaceuticals** will remain a consistent 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 the nicotine prevention products. The Patch, Gum, and other quit smoking products are now available OTC 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 18% higher during the summer months. We project a 1.5% increase in Q3 for LA spending and a 2.2% increase for San Diego.

- **Computers/Office Furniture/ Equipment and Supplies** continue its remarkable and durable 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 furniture. Southern California is also experiencing record setting commercial building construction not seen since 2007. Office space rental applications have grown 8% YTD May for LA, and 12% for SD applications. Demand and growth for office space and equipment is on track to increase by 4.6% regionally in Q3 2017.

- **Heating/Air Conditioning** will continue its growth pattern in Q3 2017, much like the home improvement sector. Based on seasonal demand for new air conditioners, repairs, service contracts, and continued remodeling of existing houses and apartment complexes, we project this category to grow 8.3% for our region in Q3 2017. The hottest summer on record for our region was 2016 and Q3 2017 is on pace to exceed that heat level for Southern California.

- **Auto Parts/Service:** This dynamic sector is entering its busiest season to a potential service market of over 18.1 million registered vehicles in Southern California. (DMV, May 2017) 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 and auto parts and service are critical to the driving experience. With EOM's using synthetic oils, and improved powertrains, service intervals are being extended. However, auto parts, accessories, and high performance options remain very popular with Southern California drivers. This segment should grow by 7.0% for LA and 3.0% for SD in Q3 2017.

- **Hotel/Motel/Resorts** business is rock solid as tourism and a much stronger 2017 economy will drive more tourists, travelers, vacationers, conventions, and business meetings to Southern California. We see seasonal adjustments for Q3 in San Diego at 5.0% as it remains a strong vacation and business meeting destination. We project LA at 6.5% for the quarter. Both cities will have considerable convention and meeting business throughout Q3 and most of 2017.

- **Lawn and Garden's traditional** peak consumer buying season ended in April as spring approached and yard and garden planting began. We see a seasonally adjusted increase in 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 growing SoCal drought - focused yard environments. Projecting a 2.0% increase for the region in Q3.

- **Security systems** will be a continuing growth segment for AM/FM Radio in Southern California. An unfortunate surge in crime and break-ins is being reported for LA with a troubling 13.8% increase in property crime rates in 2017 and a 9.2% increase in San Diego during the first five months of 2017. This negative news will only heighten public fears for personal protection for the home. New technology security systems will be introduced with higher margins for firms, and new products to further protect homes, only increasing ad spending. We see LA spending increasing by 8.3% for LA and 7.4% for San Diego in Q3 2017.

- **Recruitment/Employment** will regain its strength as a Radio advertising category after a brief lull in Q1 2017. With regional unemployment rates going down and a more robust job market, we see recruitment advertising accelerating as new budgets and new jobs appear in Q3 throughout the region with a 6.6% increase for Q3 2017 for LA and an 7.3% for SD. LPN Nursing jobs, Nurse practitioners, and a variety of home health care workers will be in High demand in Q3 and beyond in 2017 for our region.
- **Important**: A much tighter job market will increase recruitment budgets as open positions remain open longer due to competitive hiring trends in Southern California. Special focus on primary and secondary physical health and mental health care open positions should be largest subset of this sector.

- **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 20% nationally in 2017. 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 to consumers. We see a Q3 seasonal adjustment growth rate for our region of 8.4% for LA and 10.1% for San Diego.

- 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

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

- It's latest quarterly "**State of the Media: Audio Today",** Nielsen Audio reports the continued growth of AM/FM Radio usage, stating that "Radio is remarkably resilient." Nielsen's latest Audio Today shows radio **"reaching more Americans each week than any other platform."** The reach for all adults is 93% for Radio and 89% for TV. The smartphone is 83%, the PC is 50%, "TV-connected devices" are at 44% and tablet's reach is only at 37%. Radio's 18-34 reach remains strong at 92%, while TV's reach has dropped to 79%. As for diversity – increasingly important to advertisers – radio's African American 12+ audience has grown from 31,3150,000 two years ago to 32,357,000 now. Hispanics are up even more, percentage-wise, from 40,351,000 to 42,444,000.

- **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. **http://images.radcity.net/5335/5179740.pdf**

- https://www.thestreet.com/story/14024214/1/btig-s-greenfield-pandora-investors-are-sick-and-tired-and-want-a-sale.html?puc=yahoo&cm_ven=YAHOO

- The above link details the exit strategy Pandora must pursue to leave the business.

- **AM/FM Radio remains the overwhelming choice for in-car audio listening**, despite the various choices available for today's in-car listeners. http://www.scba.com/article.asp?id=2851286

- **One More Reason to invest in AM/FM Radio**. Ad blocking poses serious threat to Google and Facebook advertisers. http://images.radcity.net/5335/5179716.pdf

- **Radio remains the top music source to discover new music** among 18-34 year olds. Surprised? Read why: http://www.scba.com/Article.asp?id=2993920&spid=

- In its latest White Paper, the SCBA reveals independent research about Broadcast Radio's awareness and retention among consumers and the substantial advantage it holds over digital and social media. See the complete paper at http://www.scba.com/Article.asp?id=2819766 under **"Consumer Response to Broadcast Radio Commercials vs. Digital and Social Media."**

- Radio's **massive reach** recorded an all-time high of 265 million listeners, making it a larger reach media than television, according to Nielsen.

- With 1 hours and 49 minutes of daily usage, **Radio remained** the second most used medium tracked by Nielsen. Broadcast Radio outperforms Smartphones, Internet access from a computer, time-shifted TV, game consoles, DVD/Blu-ray devices, and multimedia devices. (Source: Nielsen Total Audience Report, Q4 2016).

- 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.

- 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.

Competitive Media Trends:

Breitbart ads plummet nearly 90 percent in three months

There were **just 26 brands** appearing on Brentwood-based Breitbart in May, down from a high of 242 in March, according to Media Radar, which tracks ads on websites. Many conservative sites, including Townhall, The Blaze and National Review, have also had declines, although those declines are much less pronounced than Breitbart, according to MediaRadar. (Digiday)

Facebook to pay up to $250K for original videos from BuzzFeed, Vox Media

Facebook is willing to pay up to $250,000 for original content from companies such as BuzzFeed and Vox Media, according to Reuters. The exclusive report further **reveals the social network's plans** on releasing original videos, as Facebook looks to make its Video tab more relevant among users for additional monetization opportunities. (Tech Times)

Instagram tests direct-response ads in stories

Instagram is testing direct response ads inside its Stories section, allowing sign-up and app-install pitches, among other salesy formats. On Wednesday, Instagram served an ad in Stories from SumUp, an e-payment device company, that **prompted people to swipe up** to sign up for its service. Until now, Instagram Stories ads have only offered broad "reach" objectives for branding purposes and not more targeted marketing goals. (Ad Age)

Sling TV's cloud DVR service is now available for iPhone and iPad. The streaming service's DVR "First Look" option costs an additional $5 per month and gives you 50 hours of DVR storage. The iOS devices now join the growing list of DVR-supported sys. **(Engadget)**

Golden Age of TV shows cracks as some channels give up

For some TV networks, the Golden Age of Television is losing its luster. MTV, A&E and WGN are all cutting back on high-end productions after failing to attract big enough audiences in an increasingly crowded landscape. Their decision to **retreat from non-reality series** suggests a reckoning may loom for other networks and the studios that make shows. (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)

Pandora and other new media reaching limits to growth

They were the all-digital, online media darlings – that being Pandora and Twitter. Pandora stock is down 54% through June 2017, and Twitter stock value has eroded by 56% by end of May

2017. Why? The short answer is investors see both companies with much lower audience potential than earlier in 2017.

- Please see our factual, competitive research in the pure play section on Radio vs. Pandora at www.scba.com.

Microsoft has completed its purchase of LinkedIn in a $26 billion dollar deal

where past acquisitions have failed Microsoft, the company hopes this one succeeds. Using Facebook's success with Instagram as a sort of guide, Microsoft aims to give LinkedIn more autonomy; Microsoft won't weave LinkedIn into one of its existing product lines, and Jeff Weiner will remain LinkedIn's chief executive. Its highest priority is LinkedIn's expansion.

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" at www.scba.com before investing in search engines, third party networks, mobile ad networks, and/or websites that are misleading and dishonest. Please click the link below. http://scbaradio.com/2014/07/01/a-responsibility-to-the-truth/

Also, please read the latest article on **fraudulent digital ad clicks** from the NY Times below:

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

The SCBA's focus on technology as a new Radio advertising category continues with this report. Research and recent activity now indicates that new apps, new tech based services, and a large number of startups in Southern California have begun to consider Southern California Radio to garner market share and brand awareness for their new consumer on-demand services.

- **NBCUniversal** is making a $200 million investment in Buzzfeed, the news sharing web site. Plans include extending their advertising sales platform and collaborating with the NBC "content studio" to produce short form video digital video content for advertisers and create "new digital experiences".

- **Los Angeles has more high-tech jobs than any other metro region in the country**, including Silicon Valley, according to the Los Angeles Economic Development Corp.

- **LA County employed 379,500** people in its high tech sector in 2016, defined as businesses with a large proportion of technology oriented jobs. That number is expected to grow to 390,011 in 2017.

- **Research confirms that Netflix** and others are upending the TV business model. The steady rise in online streaming is causing the rapid deterioration of traditional TV audiences and related ad revenue. Netflix, Hulu, Google TV, Amazon TV and others are greatly reshaping how people watch TV, as well as the broader economics of the TV business. In December 2015, WPP's GroupM advertising firm released a forecast predicting that traditional Television's share of the total ad market would fall for the first time in 2016. Todd Juenger, a media analyst with Bernstein Research said, "The ratings have just disappeared. You have audiences leaving ad-supported Television for non-ad-supported Television, and I don't think they will be coming back.

New SCBA Service for clients and agencies:

The SCBA will introduce a **new service** for clients and ad agencies in Southern California who would like to learn more about Broadcast Radio and its varied digital platforms. Our new seminar is designed as a Primer to Southern California Radio for new media staffers including creative teams, media planners, buyers, and clients who may be new to the advertising business and would like to learn more in a "non-selling" environment.

The seminar is entitled, **"Understanding Broadcast Radio in 2017 and beyond."** Dates and locations for the seminar will be announced shortly. For more information, please contact tcallahan@scba.com.

- For Radio sales staffs and agency account executives looking for new business, the **introductory letter** is critical to that first appointment. The SCBA is now offering one on one consultation to effectively help Radio and agency staffs write compelling and response producing introductory letters to key prospects. For more information, write to tcallahan@scba.com.

- **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.

SCBA Market Guidance for the Third Quarter of 2017

We are projecting Q3 Southern California Radio advertising activity to be steady in the categories documented in this report as well as the noteworthy new business development pace for our SCBA member stations. While caution is still the prevailing mood with some client categories, others will continue enjoying record months through the important Q3 consumer period.

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 the balance of 2017.

If building your brand and increasing sales and market share are crucial in your advertising plans, we urge you to contact us at tcallahan@scba.com to learn more about the ubiquitous reach and commercial environment your message will be heard in as only the value of AM/FM Radio advertising can consistently deliver.

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 2017 and beyond, please contact us directly at 323-695-1000 or at tcallahan@scba.com.

For Advertisers, the media landscape can be a confusing and contradictory world. The SCBA is here to clearly and factually describe the value of Broadcast Radio and its considerable digital platforms, all of which are extensions of its core brands.

We look forward to providing our members, clients, agencies, and the press with any additional and relevant information as needed.

We encourage your feedback and any questions. The SCBA looks forward to a great Q3 2017 with all our members, clients, friends, and partners.

Sincerely,

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323-695-1000

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Sources:
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, Automotive News, CNN, CNBC, General Motors, 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. Broadcasting and Cable. BIA/Kelsey. Restaurant Week. The Washington Post. Crain's Los Angeles Business Report. 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, Standard Media Index, The Association of Fuel and Convenience Stores, cerasis.com, California Gambling Control Board, Toyota Motor Company, Lucintel, Gartner Research, Joint Center for Housing Studies at Harvard University, LMC Automotive, Reuters, Wallet Hub, Trulia.