BROADCAST INVESTOR

US TV, radio station ad projections update: flattish core, political bump

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Market Intelligence

U.S. TV and radio station core ad revenues have been flat, up low single digits so far in 2019, due to a weak national auto ad market, despite strong network upfronts. National ad pacing has been marginally better than local with early primary political campaigning from a large Democratic Party presidential candidate pool expected to pick up in the second half of the year.

Based on first-quarter results, ad pacings in the second quarter and expectations for the second half of 2019, Kagan projects TV station ad revenues will likely decline 6.9% to $21.89 billion in 2019, after a 10.4% growth year in 2018 from record-breaking midterm political spending estimated at $3.04 billion. Average ad revenues per TV station are projected to drop from $17.1 million in 2018 to $15.8 million in 2019. TV station ad revenues are forecast to shrink from 9.2% of total media ad revenues in 2018 to 8.4% in 2019.

The radio station industry is expected to grow slightly on improving local ad trends, average unit rate stabilization, and digital gains from a healthier industry overall with a recapitalized Cumulus Media Inc. and iHeart LLC. Our forecast for 2019 U.S. radio station revenue is improved growth of 0.6% to $16.67 billion, compared with 0.3% growth to $16.57 billion in 2018. This excludes network revenue, with digital and off-air revenue gains of 6.0% and 5.0%, offsetting a 2.3% and 0.5% year-over-year decline in national and local spot ad revenue, respectively.

Average ad revenues per radio station are projected to remain relatively flat at $1.23 million in 2018 and 2019, while radio station ad revenue share of total media ad revenues is expected to tick down to 6.2% in 2019.

We are updating our 10-year projections for TV and radio station ad revenue, also including digital revenues, network radio and off-air, e.g., live events, promotions, merchandise, etc. We last updated our broadcast station revenue projections in May 2018.

Our industry outlook for TV stations in 2019 is for core spot ad revenues, excluding digital and political, to increase 1.7% in 2019 to $18.26 billion with national up 1.4% to $5.92 billion and local up 1.8% to $12.34 billion. In the second half of the year, without the advent of political, local ad pacings are forecast to improve, with professional services, banking and home improvement categories expected to be stronger than the auto category. Including digital, our forecast is for core ad revenue to be up 2.2%.

We project that TV station digital revenues will gain 6.0% in 2019 to close at $2.67 billion and reach 12.2% of total ad sales. Political ad spending is projected to hit $960.2 million in 2019, mainly from local elections, early primary and issue-based spending, and then hit $3.05 billion during the 2020 presidential election cycle. For an update on our broadcast TV political and digital ad revenue projections, please click here and here.

TV station revenues were mixed in the first quarter. Nexstar Media Group Inc. Chairman, President and CEO Perry Sook said in the first-quarter earnings call that "excluding political, Q1 TV ad spend increased by low single digits on a percentage basis in January and March, partially offset by a high single-digit decline in February related to that absence of political — Olympic ad spending." Sook added that "5 out of our top 10 categories were flat or up and overall core revenue continues to reflect healthy levels of new business with our Q1 new-to-television ad revenue equaling $14.5 million, which is 5% over the prior year." Responding to an analyst question on core ad revenue guidance for the year 2019, Sook said it would be more of a low single-digit growth year compared to 2018.

Many station owners had similar comments on core ad trends. With regard to core ad sales, TEGNA Inc. President, CEO and Director David Lougee, in the company's first-quarter earnings call, said "flattish to up a little bit is what we're sort of seeing relatively on a pace basis."

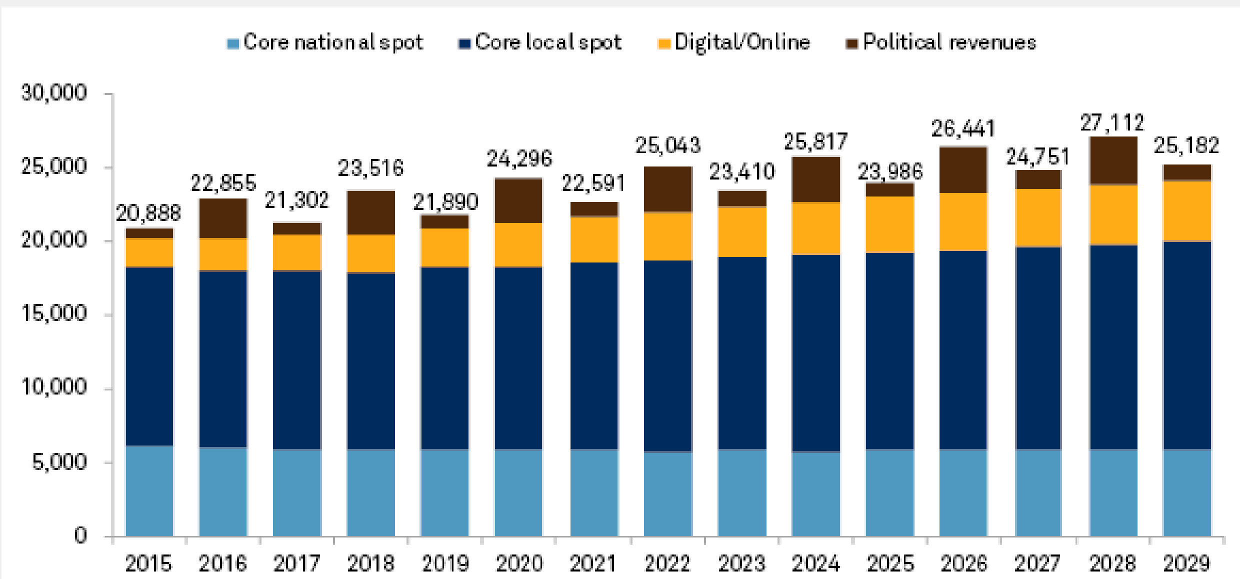
Gray Television Inc. President, Co-CEO and Director Patrick LaPlatney provided additional commentary on the auto category, saying the first quarter was down high single digits. "Auto is sluggish, although we're seeing pretty strong performance out of legal and financial. In fact, both are really very strong relative to the past few quarters. But auto continues to be weak."

Some major NBC affiliate station group station owners, including TEGNA, E.W. Scripps Co. and Meredith Corp., had tougher comps in the first quarter of 2019 without the benefit of ad bumps from both the Super Bowl and the Winter Olympics as in the first quarter 2018.

E.W. Scripps' President of Local Media Brian Lawlor said on the first-quarter earnings call that the company is "very pleased to see the volume of automated advertising dollars come in at about twice the level we'd expected to start the year." He added, "if you back out the impact of the Super Bowl and the 2018 Winter Olympics on Scripps stations, we saw core advertising up about 1% year over year. And I expect to see our core advertising build throughout this year."

Meredith President of Local Media Peter McCreery said in the company's fiscal third-quarter/calendar first-quarter earnings call that "nonpolitical spot advertising revenues grew 6%, driven primarily by a strong performance from our CBS affiliated stations, which benefited from having the Super Bowl." McCreery added that "from an advertising category standpoint, growth was broad-based, as we saw increases in 7 of our top 10 categories, with particular strength in professional services, media and furnishings."

US TV station advertising revenues, 2015-2029 ($M)



Data compiled June 2019.
Sources: Industry data; Kagan estimates
Kagan, a media research group within the TMT offering of S&P Global Market Intelligence.

In 2020, the next presidential election year, we expect total ad revenue growth of 11.0% to $24.30 billion with core ad, including digital, up 1.5%. Political is expected to continue its up-and-down trajectory in even-odd years and, along with improving core ad growth, is projected to boost total ad revenue to $27.11 billion in 2028 and then decline to $25.18 in 2029, a CAGR of 2.2% over our 2019 to 2029 projection period.

Outside of new technological developments in Next Gen TV (ATSC 3.0) that could create incremental revenue streams, advanced advertising and legalized sports betting in most of the U.S. could have a major impact on Big Four affiliate TV station groups, with those in major sports markets being the biggest potential beneficiaries.

On the TV station side, the number of licensed, full-power commercial stations has ticked up slightly at 1,383 at the end of the first quarter, compared to 1,373 at year-end 2018 and 1,377 at year-end 2017. That is despite the 2017 Federal

Communications Commission incentive auction, as the majority of station owners who sold their spectrum are remaining in the business through channel-sharing arrangements.

The number of radio stations has remained relatively flat in the same period, moving from 11,383 in 2017, 11,373 in 2018 and 11,375 at the end of the first quarter of 2019, but the number of AM stations has dropped by 26 as FM stations have gained 18.

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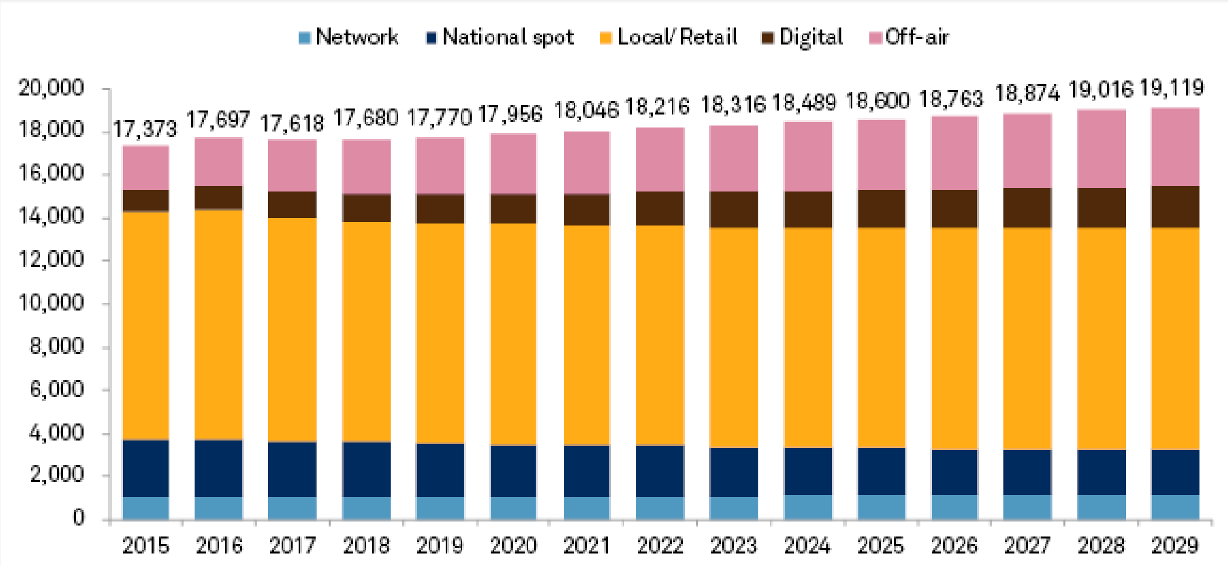

Data compiled June 2019.
Sources: Industry data; Kagan estimates
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In 2018, two of its top three operators, iHeart and Cumulus, going through Chapter 11 bankruptcy debt-for-equity recapitalization plans, negatively impacted the radio station business. In 2019, radio has seen some improvements in the local ad markets. However, national is still being challenged with competition from streaming digital audio players such as Apple Music, Amazon, Google, Spotify AB and Pandora — now under Liberty Media Corp. ownership and partnered with Sirius XM Holdings Inc. — taking from radio's share.

Including all sources of revenue, we estimate that radio station revenues ended 2018 up 0.4% as national and local ad spot revenue declined 2.5% and 1.0%, respectively. That was offset by a 0.8% rise in network revenue, 6.5% growth in digital and a 6.0% increase in off-air revenues, primarily from live events.

For 2019, we project overall revenue growth of 0.5%, with digital and off-air sales buttressing declines in network, national and local spot ad revenues. That would bring the industry to a total $17.77 billion versus the $17.68 billion of 2018. We project a 0.4% decline in radio network revenue, a 2.3% drop in national spot ad revenue and a 0.5% dip in local ad revenues this year.

We project digital gains of 6.0% for the radio industry overall, as that revenue stream rises to $1.34 billion compared to $1.27 billion in 2018. The off-air segment has continued to be solid for the industry, and we think that will continue this year with a 5.0% gain to $2.67 billion.

Radio station owners reported mixed results for the first quarter 2019, with Entercom Communications Corp., the outlier to the upside, boosted by the rebound in ad growth primarily from the CBS Radio Stations Inc. acquisition.

Entercom reported first-quarter total net revenues of $309 million, up 1.2% year over year, with local down a little and national up mid-single digits. Total revenues in the second quarter are pacing up 4%, led by national digital and network strong and local improving. Ex-Traffic and political pacing is up more than 2.5%.

Entercom Chairman, President and CEO David Field said in the company's first-quarter earnings call that the "core radio business is showing signs of local improvement at the same time as our national ad sales remain strong. And we clearly turned the corner several months ago with the legacy CBS radio stations, which have returned to growth after many years of decline prior to the merger." Field highlighted Entercom's digital segment saying, "digital, which is now 10% of our overall business, was up significantly, led by very strong growth in digital audio sales as we're now beginning to participate in that market through our Radio.com platform."

Cumulus Media's radio station group revenues were down 0.8% in the first quarter of 2019. Cumulus President, CEO and Director Mary Berner said in the company's earnings call that second-quarter pacing is approximately flat, slightly down with the Westwood One network continuing to perform relatively better than the station group, which continues to be pressured by local, but national and digital are somewhat offsetting.

Beasley Broadcast Group Inc.'s reported pro forma spot ad revenue increased 1%, led by national in the first quarter of 2019. In aggregate, net revenue from the top 4 categories — consumer services, retail, entertainment and auto — was up 4% in the first quarter of 2019 versus the first quarter of 2018.

Kagan's long-term outlook for the radio station industry calls for revenues to grow slightly to $17.77 billion in 2019, to $17.96 billion in 2020 and then to $19.12 billion in 2029, an average annual growth rate of just 0.7%. Growth in the digital and off-air segments is projected to supplement national ad revenue declines with moderate upticks in political years for network and local ad sales.

Over the 10-year projection period, digital is expected to increase its share of total radio station revenue from 7.2% in 2018 to 10.2% in 2029, while radio's share of total U.S. ad market revenue will likely decline from 5.9% in 2018 to 5.3% in 2028.

Our updated projections are available in the charts in this article and in the related document. We have also included in our spreadsheets the number of broadcast stations over time; a historical look at retail sales; and TV/radio station ad revenues versus total media ad revenues over time.

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