Department of Justice Local Advertising Workshop

May 2, 2019

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Broadcast Advertising Basics

- Advertising in linear television has historically been Gray's core product
- Ad inventory varies by programming type:
  - Network
    - Network sells most inventory on a national basis with limited local avails
  - Local News/Programming
    - Broadcaster owns and sells all the inventory
  - Syndicated
    - Inventory divided between syndicator and the station
- Sold on a local, regional and national basis
  - Local & regional was 80% of advertising revenue in 2018 (excludes political)
  - But viewing patterns and shifts in technology are changing the business fundamentally
- Gray now distributes content through mobile apps, websites, social media and OTT platforms

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A typical sale

The way it really works…

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The typical Client; the typical buy

Our example is a local agency that places all local ad buys for a Kia/Dodge/Chrysler/Jeep dealer

- Client is a typical large advertiser in a Gray market with a DMA rank of 100-125
- The agency has determined that football viewers are a key to the Dealer's sales
- Produces multiple commercials featuring different models and targeted unique buyers

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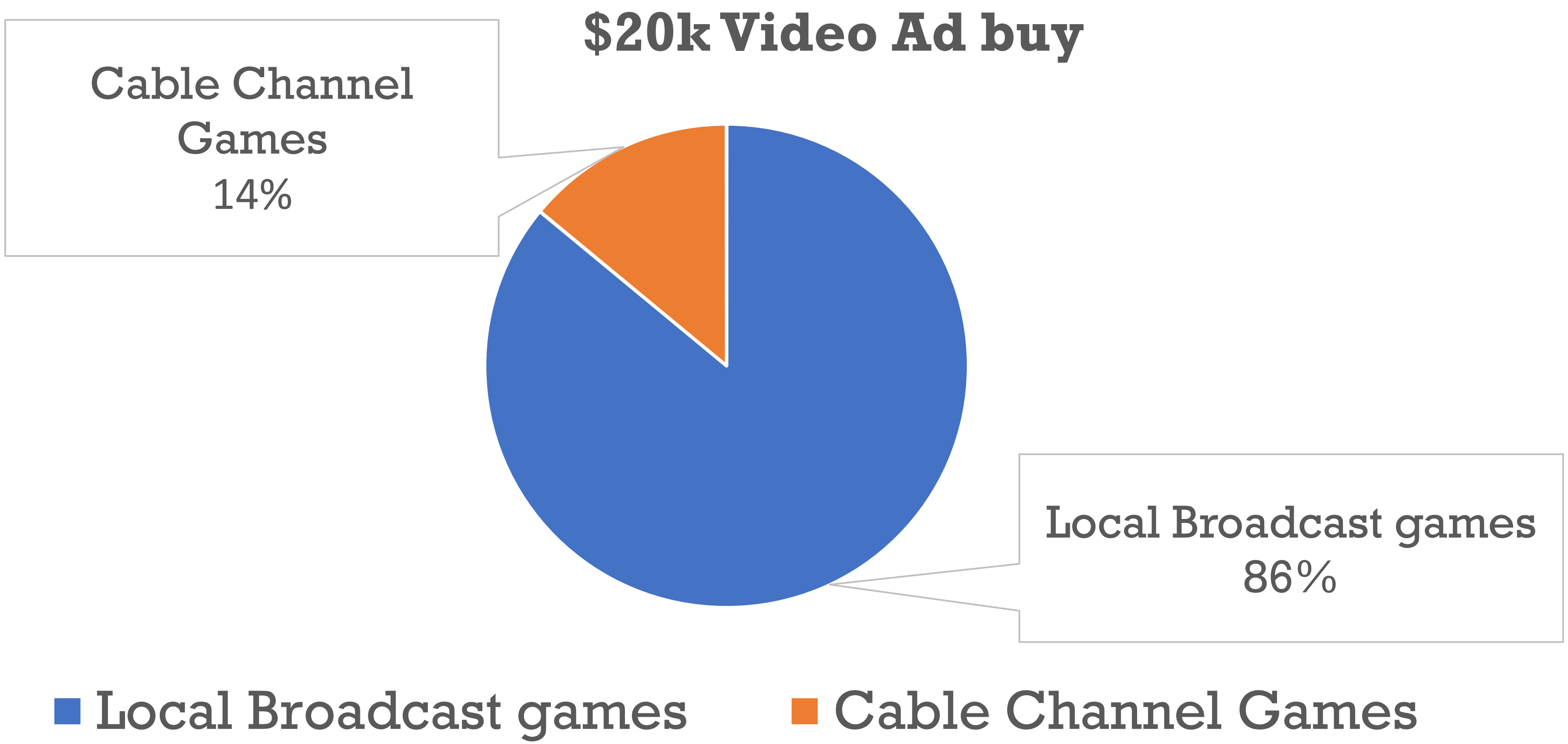
The typical Client; the typical buy

In 2005 reaching College Football video viewers required purchasing air time from:

- The Local ABC, CBS or NBC Affiliate
- Local Cable Companies -- 5 cable networks carried football games on opening day

How the buy might have looked in 2005

It was a simpler and more profitable time for local broadcasters



The typical Client; the typical buy

By 2018, the landscape had changed dramatically. To reach an audience of football fans with <u>video</u> ad messages that same dealer has many more options:

1. ABC NBC CBS FOX for regular broadcast and games on network apps

2. Local cable providers individually or through an interconnect

   Charter Spectrum, Comcast, Frontier, Mediacom, Cox, xfinity

- National sports networks
- Conference Networks

3. Regional Sports Networks

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The typical Client; the typical buy

By 2018, the landscape had changed dramatically. To reach an audience of football fans with <u>video</u> ad messages that same dealer has many more options:

Cont'd

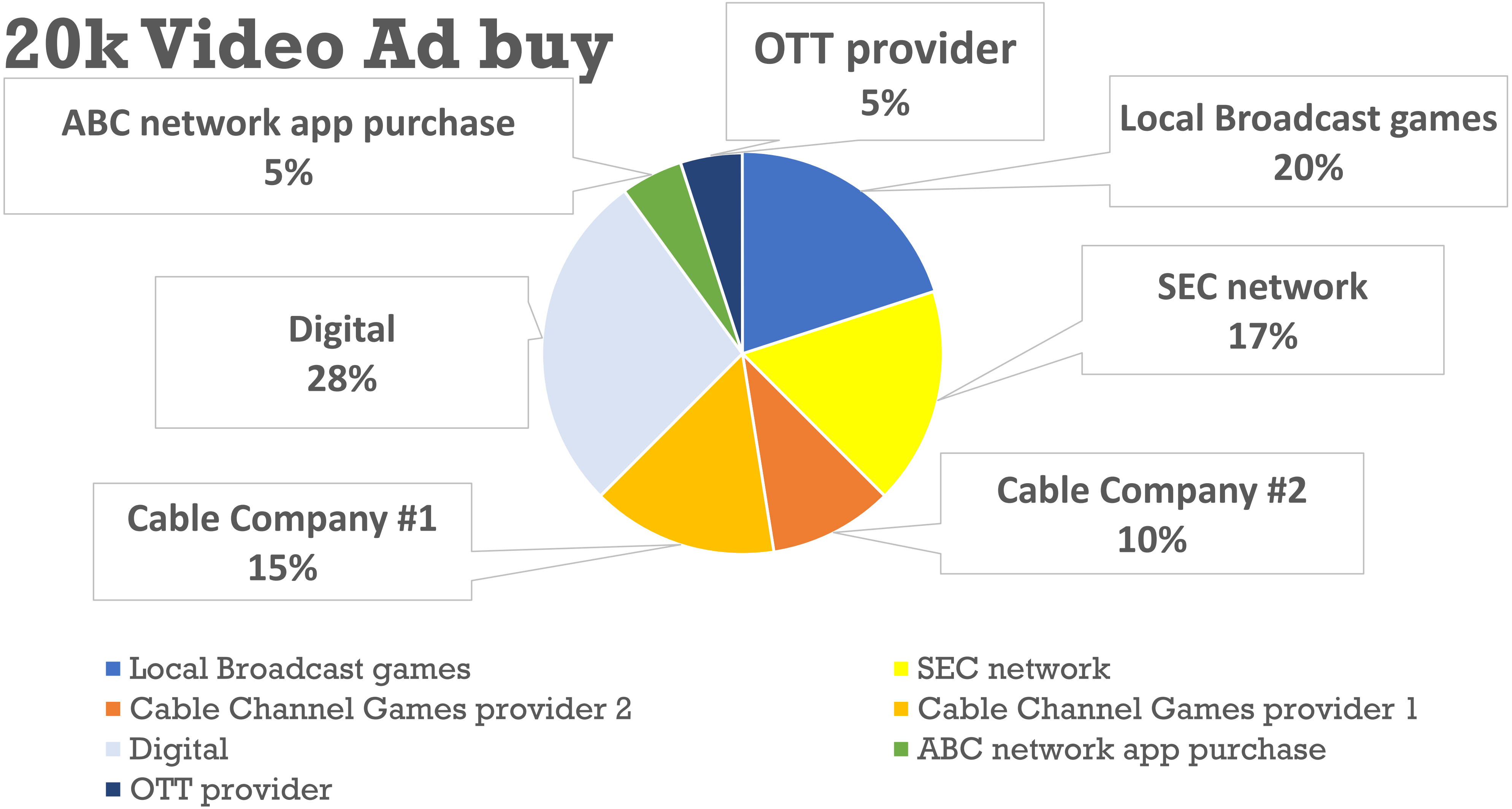
4. National and Cable Network mobile

5. OTT outlets

6. Resellers of online sports content sites

Current 2019 Media Plan

$20k Video Ad buy



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The typical Client; the typical buy

For local broadcasters, the audience is diluted in different ways:

- Reduced viewership for any one game--lower reach, lower value to the advertiser.
- The top-rated game in a DMA may be on broadcast or cable network
    - Top-rated games nationally often are not top-rated locally
- Fragmented viewership means a savvy buyer can deliver the same number of football fan eyeballs buying multiple smaller games and platforms
    - No need to purchase the top rated games, in which broadcasters have limited inventory
- Digital video ad insertion on sites that report on, cover, and discuss games further increase opportunities for a local car dealer to reach football fans.
- Broadcasters can be bought around
    - Rates are reduced just to maintain share

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The impact to our revenue is obvious

The particular client has increased total local ad spend by more than 20% in the last 8 years. However, revenue spent with our station—the number 1 ranked station in the market is as follows:

2012	$528k
2013	$526k
2014	$378k
2015	$390k
2016	$415k
2017	$247k
2018	$178k
2019 YTD	**$16k**

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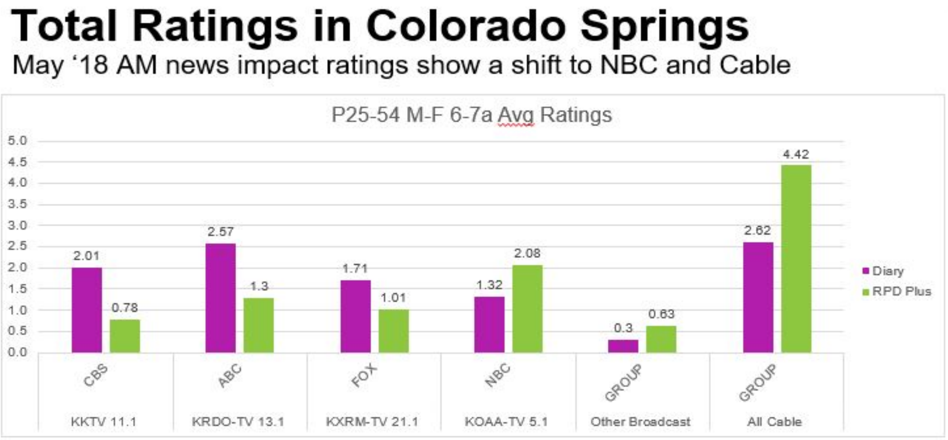
Nielsen Changes Benefit Cable Ratings

- Sports is not the only programming with audience fragmentation
- Recent changes at Nielsen have increased (reported) ratings to cable networks at the expense of local news
  - Switch from paper diaries to electronic measurement



- Broadcast ratings shifted to cable
  - Reported ratings for top-rated newscasts dropped 15-30%, while ratings for cable increased in some DMAs by over 100%
  - More rated cable networks means more sellable inventory in the local market

Source: https://www.mediavillage.com/article/Nielsens-Catherine-Herkovic-on-Modernizing-and-Improving-Audience-Measurement/; https://www.nielsen.com/us/en/press-room/2016/nielsen-to-deliver-all-electronic-measurement-to-local-tv-market-retire-tv-paper-diaries.html

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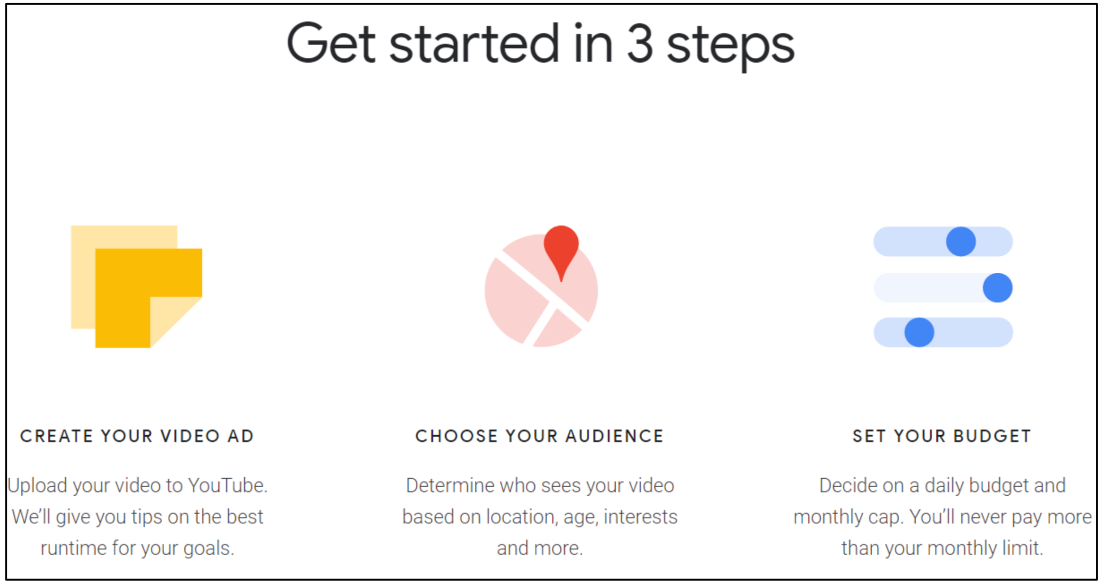
Broadcasters Responding to Competitive Threats from Digital & Cable

Digital Advertising Has Numerous Advantages

- Precise geographic and personalized targeting
- Reduced costs through programmatic buying
- Increasingly, local sales capability (Hulu, YouTube)



Source:
http://www.thevab.com/wp-content/uploads/2018/03/OTT-Ecosystem-Overview-Final.pdf
https://www.hulu.com/press/hulu-strengthens-advertising-sales-leadership-with-new-executives-tracie-maffei-and-jennifer-donohue/;
https://ads.google.com/intl/en_us/home/campaigns/video-ads/

Broadcast's Response: Automated Buying

- Gray investing in automated media buying
  - Reduce friction / costs in purchasing TV ads
  - Make buying more like digital
- HudsonMX gaining traction among advertising agencies, especially for national spot advertising
- Other platforms competing in the (sell-side) space:
  - Videa, Wide Orbit's Programmatic TV
- Ad buyers tell us dollars will shift back to local broadcast with implementation of automated buying

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The hard truth

In 2018, the College Football Bowl season ratings show clearly that cable now dominates the ratings landscape. Broadcast television had only 1 of the top 10 rated bowls and 3 of the top 20.

Broadcast is losing the battle for sports viewership

2018 College Bowl Ratings

13.8	(25.280M)	CLEM-ALA	CFPNC	1/7, 8:00p	ESPN Megacast
9.9	(19.069M)	ALA-OKLA	Orange	12/29, 8:00p	ESPN/ESPN2
9.4	(16.809M)	CLEM-ND	Cotton	12/29, 4:00p	ESPN/ESPN2
8.9	(16.781M)	OSU-WASH	Rose	1/1, 5:00p	ESPN/ESPN2
7.3	(13.298M)	TEX-UGA	Sugar	1/1, 8:30p	ESPN/ESPN2
4.7	(8.471M)	LSU-UCF	Fiesta	1/1, 1:00p	ESPN
5.0	(8.366M)	UF-MICH	Peach	12/29, Noon	ESPN
4.4	7.709M	UK-PSU	Citrus	1/1, 1:00p	ABC
3.2	(5.547M)	WASH ST-IA ST	Alamo	12/28, 9:00p	ESPN
2.7	(5.142M)	T A&M-NC ST	Gator	12/31, 8:00p	ESPN
2.8	(4.828M)	WVU-SYR	Orlando	12/28, 5:15p	ESPN
2.3	(3.830M)	OK ST-Mizzou	Liberty	12/31, 3:45p	ESPN
2.3	(3.790M)	WISC-Miami	Pinstripe	12/27, 5:15p	ESPN
2.3	3.785M	ORE-MSU	San Francisco	12/31, 3:00p	FOX
2.0	(3.343M)	Baylor-Vandy	Texas	12/27, 9:00p	ESPN
2.25	3.334M	FRES ST-ASU	Las Vegas	12/15, 3:30p	ABC

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The impact on our business

WSFA 12 News to say goodbye to Sports Director Jeff Shearer

20 years ago, our local sports Team was a vibrant and profitable part of our local broadcast news department. But because of the overwhelming dilution of sports reporting our sports teams have now dwindled down to typically 1 or 2 sports journalists and 2 minutes in the evening news.

The impact on our business

- Perhaps recapping box scores is not the core business of local news. For sporting fans, competition in that space is beneficial.
- But further competitive dilution into local news and weather will diminish our ability to serve our communities.
- The Division should recognize the impact of increased competition and allow broadcasters to achieve the economies of scale necessary to continue to provide this vital service.