

ADVERTISING MEDIA LANDSCAPE
2011 OVERVIEW AND DYNAMICS IMPACTING 2012

A BRIEF LOOK BACK

In the “crystal ball” section of last year’s media landscape document we predicted that with a little wind in their sails media sellers would attempt to get rate and CPP increases in 2011, allowing themselves to start getting back to 2006/2007 peak pricing levels. We believed their desire to get increased rates in 2011 was important to them to re-establish the consistent annual media inflation pattern that had been in evidence prior to the economic downturn. Naturally, our goal was to hold or reduce 2010 rates into 2011 and forestall any return of media inflation.

So, how’d we do and where are we now on major benchmarks? For Broadcast TV, 2011 Capital Media rates are still 33% below the 2006 peak. CPP is lower by 19%.

For Radio, our 2011 rates inched up by 3% VS. 2010 but are still 39% lower than the 2006 peak.

DYNAMICS THAT WILL IMPACT 2012 MEDIA PRICING

Given current macro-economic and industry dynamics, I very seriously thought about sending out last year’s white paper again this year with a sticky note attached that says “more of the same with the exception of HEAVY political advertising spending coming in 2012.”

Political ad spending on steroids in 2012

In January 2010, the Supreme Court overturned two key elements of campaign finance law: the ban on corporations using their own money to engage in political activity, and the blackout period that prevents certain groups from spending money on ads within 60 days of an election.

With this decision, Advertising Age, the leading industry trade magazine, suggests the floodgates will be open for additional political spending. A spokesperson for TNS Media Intelligence said “it takes already bulked up political spending and puts it on steroids.”

Nationally, analysts predict political advertising spending will increase 25% from \$3.2B in 2010 to \$4.0B in 2012. With the combination of the Supreme Court decision and the 2012 presidential election, local TV sales management is conservatively budgeting for 50%+ increases in political spending in 2012 vs. record levels recorded just two years ago in 2010. Based on these projections, political spending in 2012 could increase total demand on local broadcast television inventory by 15-20% in 2012.

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ADVERTISING MEDIA LANDSCAPE

2011 OVERVIEW AND DYNAMICS IMPACTING 2012

PAGE 2

Political ad spending on steroids in 2012 (continued)

In the DC DMA there will be 30 “Lowest Unit Rate” protected political weeks in 2012. These are weeks when TV and Radio stations are required by law to provide the lowest unit rates (LUR) on their books to political candidates. This LUR requirement provides significant disincentives for stations to provide rock bottom rates for favored advertising clients during protected weeks. It also incentivizes stations to preempt lowest paying advertisers to effectively increase the LUR they have to accept from political candidates.

For what it’s worth, we are often told by media sellers they go right to our orders to identify LUR for political media buyers.

Political ad spending has traditionally impacted TV rates and inventory far more than Radio. However, the last political season saw greater impact to Radio as a result of increased political budgets and corresponding TV rate increases which pushed some (smaller) TV advertisers out of TV and into Radio. We expect this will occur again in 2012.

Advantage: media sellers

National and local economy

National and local economic dynamics influence the media landscape as they impact demand and thus pricing. Certainly, you don’t need us to tell you how tough it is out there.

Some economic lowlights:

- ✓ Consumer Confidence Index
 - August, 2011 – 44.5%
 - August, 2010 – 53.5%
 - August, 2009 – 54.5%
 - August, 2008 – 58.5%
 - August, 2007 – 105.6%
 - August, 2006 – 100.2%

- ✓ A recent Bain & Co. survey indicates that 60% of all executives polled representing a broad cross section of industries believe that consumer spending will not bounce back to pre-recession levels for another three years.

- ✓ Layaway is back. Wal-Mart and Sears reintroduce and market this long-dormant program popular during the Great Depression.

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ADVERTISING MEDIA LANDSCAPE

2011 OVERVIEW AND DYNAMICS IMPACTING 2012

PAGE 3

National and local economy (continued)

- ✓ No meaningful or sustained positive movement in home sales or home sales prices.
- ✓ Jobs, jobs, jobs. Need we say more?
- ✓ We have often noted the local economy outperforms the national economy and thus generally benefits DC DMA media sellers. No difference this year with DC area unemployment rates lower than the current 9.1% national average
 - 6.1% for VA
 - 7.2% for MD
 - 10.8% for DC (but representing only 10% of DC DMA population)

Advantage: media buyers

National media performs better than expected

Last year at this time, most industry forecasts had full year 2010 advertising revenue growing between 1-4%. Actual growth came in at 6.5% with strongest gains in Internet and Cable but with Broadcast TV and Radio also posting healthy gains. Only Magazines and Newspaper ad revenue declined.

As mentioned in last year's media landscape document, we anticipated the momentum from increased spending in 2H/2010 would carry over into 1H/2011 and then fizzle. It appears this came to be and at this point, most industry forecasts call for 2011 ad spending to come in between 2-3% ahead of last year following earlier projections of 3-4%.

On the national side, the 2011 Network TV Upfront saw revenue rise 6-8% vs. year ago with CPM's increasing 6-15% depending on the network. As a point of reference, this year's Upfront was the first time Cable TV generated revenue that exceeded Broadcast TV.

Nationally, Radio revenues in 2010 reversed a three year long slide, growing by 6%.

Modest gains in national media revenue will not be able to counter more impactful macro-economic dynamics.

Advantage: neither seller nor buyer

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ADVERTISING MEDIA LANDSCAPE

2011 OVERVIEW AND DYNAMICS IMPACTING 2012

PAGE 4

Local media sees first revenue gains since 2007

While both local TV and Radio experienced revenue gains in 2010 both are still well below peak years. TV saw a dramatic 18% gain in revenue attributable to organic growth but also due to heavy political spending. 2011 TV revenue is projected to decline by 7%, mostly due to the absence of heavy political spending. Based on 2011 projections provided by TV sellers, local broadcast TV revenue will still be 19% off the 2004 peak.

A similar story for local Radio. The market registered an 8% gain in 2010 revenue reversing a four year skid. Local Radio sellers project a 2% gain for 2011 revenue. Even with these increases their 2011 revenue projections put Radio ad revenue 23% off the 2005 peak.

Advantage: media buyers

CRYSTAL BALL

Because of political, we see a lot of fighting in our future so we're putting on the gloves. We'll be fighting to hold 2012 TV/Cable rate increases to manageable levels. Fighting hard to hold current Radio rates. In addition to providing our clients the most advantaged rates in the market, our ongoing goal is to provide unmatched schedule integrity. Therefore, we will be fighting hard to ensure the media buys we make for you run as we painstakingly plan and purchase them with the fewest preempts possible in those oversold weeks with the highest political demand.

It's going to be a tough year but we will continue to battle it out for you.