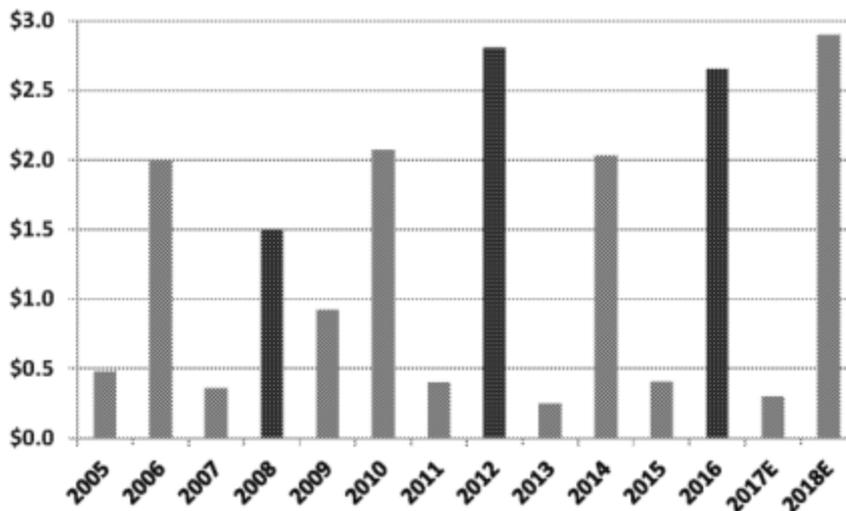




- Political:** Political ad spending was supposed to soar to record highs in 2016, but President Donald Trump's lack of spending proved those early prognostications incorrect: 2016 spend ended up lower than 2012. That said, the current heated political climate has early commentary suggesting the 2018 mid-terms could match or surpass 2016 for Local Market TV. The combination of issue, candidate, and PAC spending will drive this. Currently the Cook Political Report has 42 House seats in play (12 toss-ups), 9 Senate seats in play (4 toss-ups), and 17 state governors' races in place (12 toss-ups).

Political Advertising on Local Market TV (Spot, \$bn)



Note: Red bars = Presidential election years
 Source: TVS, CMAG, MAGNA, Deutsche Bank estimates

- Regulatory environment & M&A:** FCC policy under the leadership of former Chairman Tom Wheeler (and Democratic majority) was not particularly friendly towards local broadcasters (i.e., JSA rules change). However, Trump's election (and Republican majority) has certainly turned the tide. Wheeler is out, replaced by Republican Ajit Pai. With a 3-2 Republican edge at the commission, in April the FCC voted to reinstate the "UHF discount" (which had been repealed back in August 2016). This will allow broadcasters to apply a 50% discount to their calculation of household reach for UHF channels. Currently broadcasters are capped at 39% HH penetration, but the UHF discount creates capacity under that cap for groups that own UHF stations to make additional acquisitions. Then in November the FCC voted to loosen local media ownership rules, including eliminating the "Eight-Voices Test" and allowing for case-by-case review of the "Top-Four Prohibition." This should spur consolidation on the local level, perhaps with a focus on swaps to strengthen existing footprints. And then in December, the FCC voted to launch a review of the national 39% broadcast audience reach cap. The FCC will examine whether it can modify the cap, which was created by Congress, and if the cap should be raised or lowered (more likely raised, in our view). No definitive timeframe was set for any action to be taken on this front. With the spectrum auction complete, looser regulation, and Sinclair + Tribune expected to cross the finish line (and set a precedent) in 1Q, we believe 2018 should be a busier year for consolidation in the local TV space. Below we present the current industry landscape against the 39% HH reach cap.