

COMPANY PROFILE

Salem Media Group, Inc. (formerly Salem Communications Corporation)

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Salem Media Group, Inc. (formerly Salem Communications Corporation)

Company Overview



COMPANY OVERVIEW

Salem Media Group, Inc. (formerly Salem Communications Corporation) (Salem or "the company") is a multi-media company with integrated business operations covering radio broadcasting, digital media, and publishing. The company primarily operates in the US where it is headquartered in Camarillo, California and employed 1,177 people, including 1,230 full time and 375 part time employees as on February 17, 2015.

The company recorded revenues of \$266.5 million during the financial year ended December 2014 (FY2014), an increase of 12.5% over FY2013. The operating profit of the company was \$28.6 million in FY2014, a decrease of 17.1% as compared to FY2013. The net profit of the company was \$5.5 million in FY2014, as compared to a net loss of \$2.7 million in FY2013.

KEY FACTS

Head Office	Salem Media Group, Inc. (formerly Salem Communications Corporation) 4880 Santa Rosa Road Camarillo California 93012 USA
Phone	1 805 987 0400
Fax	
Web Address	http://salemmedia.com/
Revenue / turnover (USD Mn)	266.5
Financial Year End	December
Employees	1,177
NASDAQ National Market Ticker	SALM

SWOT ANALYSIS

Salem Media Group, Inc. (formerly Salem Communications Corporation) (Salem or "the company") is a multi-media company with integrated business operations covering radio broadcasting, digital media, and publishing. The company's strong market position provides it a competitive advantage over its peers and improves its brand image. However, intense competition could lead to pricing pressures, thereby impacting Salem's business, revenue, financial condition and results of operations.

Strengths	Weaknesses
<p>Strong market position Focus on serving Christian and family-theme markets Strategic acquisitions</p>	<p>Lack of geographic diversification increases business risks</p>
Opportunities	Threats
<p>Poised to benefit from the growing Hispanic population Robust growth in digital advertising spending</p>	<p>Intense competition Stringent regulatory environment Advertising revenue susceptible to ratings agency projections</p>

Strengths

Strong market position

Salem has a strong market position in the industry that it operates. According to the company, it is the largest commercial radio broadcasting company in the US, providing programming to audiences interested in Christian and family-themed content, as measured by number of radio stations and audience coverage. In FY2014, Salem owned and operated 108 radio stations across 39 markets in the US, including 65 stations in 22 of the top 25 markets. Furthermore, Salem is the sixth largest operator measured by number of stations overall and the third largest operator measured by number of stations overall and the third largest operator as measured by number of stations in the top 25 markets. The company is also one of only three commercial radio broadcasters with radio stations in all of the top 10 markets.

In addition, Salem owns Salem Radio Network (SRN), one of the leading national radio network syndicating music, news and talk programs to over approximately 2,400 affiliated radio stations. The company also owns Salem Media Representatives (SMR) and Vista Media Representatives (VMR), national advertising sales firms with offices in 11 US cities. In addition, Salem Web Network (SWN)

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SWOT Analysis



is the leading internet provider of Christian content and online streaming; and Salem Publishing is a leading publisher of Christian themed magazines.

Salem's strong market position provides it a competitive advantage over its peers and improves its brand image.

Focus on serving Christian and family-theme markets

Salem has a strong focus towards serving Christian and family-theme markets. The company is one of the leading commercial radio operators in the US serving Christian and family-themed markets. Most of Salem's radio stations feature formats like the contemporary Christian Music, Christian Teaching and Talk, Spanish Christian Teaching and Talk, Gospel, and ethnic brokered programming, apart from common news talk format. The company's non-broadcast media comprises of Salem Web Network (SWN), a provider of online Christian content and streaming, Salem Publishing, a publisher of Christian magazines and Xulon Press, a print-on-demand self-publishing service for Christian authors. The SWN content is accessible through its national portals such as OnePlace.com, Christianity.com, Crosswalk.com, GodVine.com, Jesus.org and Bible Study Tools.com.

The company programs 42 of the stations with its Christian Teaching and Talk format, which is a talk programming with Christian and family themes. The programming strategy on the company's Christian Teaching and Talk radio stations is to sell blocks of time to a variety of religious and charitable organizations that create compelling radio programs. Salem programs 28 of its radio stations in News Talk format, 12 Contemporary Christian Music stations, 10 Business format stations, and nine Spanish-language Christian Teaching and Talk stations. Therefore, focus on serving Christian and family-theme markets enabled the company to establish a niche and there by a favorable competitive environment.

Strategic acquisitions

Salem made a series of acquisitions over the years that enabled it to enhance its business offerings. For instance, in 2014, the company acquired the entities of Eagle Publishing, including Regnery Publishing, HumanEvents.com, RedState.com, Eagle Financial Publications and Eagle Wellness. The addition of Eagle Publishing's business units to Salem's already considerable portfolio of multi-media assets created a strong conservative media business. The company made a series of other acquisitions during 2014 and enhanced its broadcasting business. These include acquisition of an FM translator in Pickens, South Carolina; an FM translator in Bayshore Gardens, Florida; an FM translator in Travelers Rest, South Carolina; radio station KXXT-AM in Phoenix, Arizona; radio station WOCN-AM, in Miami, Florida; and radio stations KDIS-FM, Little Rock, Arkansas and KRDY-AM, San Antonio, Texas.

Similarly in 2013, Salem acquired a Twitter curation site, Twitchy.com. Twitchy.com, combined with Townhall.com and HotAir.com, creates social media driven conservative platform on the web with nearly 10 million unique readers and over 100 million pageviews each month. In 2012, the company acquired Godvine.com, a Christian website that offers family-friendly videos; and SermonSpice.com, an online provider of church media for local churches and ministries.

The company's strategic acquisitions such as these enabled the company enhance its digital offerings and its broadcasting business. The successful incorporation of the strategic acquisitions have generated are expected to generate higher revenues for the company.

Weaknesses

Lack of geographic diversification increases business risks

Salem's operations are confined to the US. The company has not ventured into international markets or other related markets, while some of its major competitors in the commercial radio market have expanded into national and international markets. For instance, the company's competitor such as CBS operates national and international marketing activities through its outdoor segment with operations in Americas, Asia-Pacific and Europe. High dependence on a single market makes Salem substantially vulnerable to the market condition in that region, increasing its business risk.

Opportunities

Poised to benefit from the growing Hispanic population

The company has increased its focus on offering exclusive programs targeting the Hispanic population in the US. According to the US Census Bureau projections, Hispanic population is expected to reach about 106 million in 2050, about double the number in 2015. During 2000 and 2010, Hispanics made up more than half of the US population growth. In addition, the Hispanic immigrant population is expected to grow by 57% during 2015 to 2050. Also, Hispanics are the fastest growing segment of the population and have considerable spending power of over \$1.2 trillion. The spending is further expected to reach \$1.6 trillion by 2018.

Salem is expected to benefit from the growing Hispanic population in the US. The company programs eight of its radio stations in Spanish Christian Teaching and Talk format. It broadcasts biblical and family-themed programming for Spanish speaking audiences. Further, the company's strength in the Christian teaching and talk, news talk, and contemporary Christian music formats allow it to expand rapidly into the Spanish language market. Growing Hispanic population in the US will provide encouraging opportunities for the company.

Robust growth in digital advertising spending

The outlook for the advertisement market is robust. According to industry estimates, spending on advertisements served to internet-connected devices including desktop and laptop computers, mobile phones and tablets is expected to reach \$656.3 billion by the end of 2018, at a CAGR of 5% during 2014-18. Digital advertisement spending is expected to account for one third of the overall advertisement spending globally. Further, the US digital advertising spending is expected to reach

\$58.6 billion in 2015. The growth is expected to be driven by strong contributions from mobile, online video and social networking advertising platforms.

The company offers a range of online advertising services, including digital display advertisements on its websites. In addition, the company generated over 61.2% of its total digital media revenues through digital advertising. The company's strong presence in the US would make it a desirable medium for the advertisers.

Threats

Intense competition

The company operates in a highly competitive broadcast and media business. Salem competes for advertisers and customers with other radio broadcasters, as well as with other media sources, including broadcast and cable television, newspapers and magazines, national and local digital services, outdoor advertising, direct mail, online marketing and media companies, social media platforms, web-based blogs, and mobile telephony devices. The company faces intense competition from a wide range of competitors, including online marketing and media companies, integrated social media platforms and other specialist and enthusiast websites.

In addition, Salem Web Network competes for visitors and advertisers with other companies that deliver on-line audio programming and Christian and conservative internet content as well as providers of general market internet sites. Salem's print magazines compete for readers and advertisers with other print publications, including those that follow the Christian music industry and those that address themes of interest to church leadership and the Christian audience. Xulon Press, the company's print-on-demand self-publishing service for Christian authors, competes for authors with other on-demand publishers including those focused exclusively on Christian book publishers. Some of the company's competitors include CBS RADIO, Beasley Broadcast Group, Clear Channel Communications, Cox Enterprises, Cumulus Media, Emmis, Entercom, Saga Communications, Spanish Broadcasting System, and Univision Communications.

Intense competition could make it more difficult for the company to provide value to its consumers, advertisers and content creators and result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses, decreased website traffic and decreased market share. This could impact Salem's business, revenue, financial condition and results of operations.

Stringent regulatory environment

Radio broadcasting industry in the US is regulated by the Federal Communications Commission (FCC). Among other things, the FCC assigns frequency bands for broadcasting; determines whether to approve certain changes in ownership or control of station licenses; and regulates transmission facilities, including power employed, antenna and tower heights, and location of transmission facilities. The FCC also adopts and implements regulations and policies that directly or indirectly affect the

ownership, operation and employment practices of stations; and has the power to impose penalties for violations of its rules under the Communications Act.

Also, Communications Act and FCC rules and policies require prior FCC approval for transfers of control of, and assignments of, FCC broadcast licenses. The FTC and the US Department of Justice (DOJ) evaluate transactions to determine whether those transactions should be challenged under federal antitrust laws. Since Salem has presence in a number of markets the future transactions may be subject to more frequent and aggressive review by the FTC or the DOJ due to market concentration concerns.

Such stringent industry regulations may impact the company's ability to complete future transactions.

Advertising revenue susceptible to ratings agency projections

The company's advertising revenue is susceptible to ratings agency projections. Rating agencies uses the Portable People Meter (PPM) device to collect data for their ratings services. The PPM does not require active manipulation by the end user and is capable of automatically measuring radio, television, internet, satellite radio and satellite television signals that are encoded for the service by the broadcaster. According to the company, in markets in which it subscribes to the PPM, its ratings tend to fluctuate even when there are no significant programming or competitive changes in the market. PPM data can fluctuate when changes are made to the panel (a group of individuals holding PPM devices). This makes all stations susceptible to inconsistencies in ratings that may or may not accurately reflect the actual number of listeners at any given time. The company's advertising revenue could be impacted due to the fluctuations in the ratings agency projections.

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