MAGNA GLOBAL US Media Owner Revenues Forecast

Ad Revenues will Grow by +2.2% this Year, Accelerating to +3.3% by 2016

Top Stories

- US media owners advertising revenues grew by +1.6% in the first half across all media categories, excluding Political and Olympic (P&O) effects, confirming soft ad sales from television, radio and print.
- Digital Media (+16%) and Out-of-Home Media (+4%) were the only categories to show ad sales growth.
- While Digital Media remained dynamic, growth is increasingly contrasted between social and video formats (from +30% to +50%), search (+10%) and banner display (+4%).
- Reaching $66 billion in ad revenues, digital media (all formats) will surpass television (all formats) in 2016 to become **the #1 media category**, one year earlier than previously expected.
- The second half 2015 will likely fare better due to a stronger economy and easier comps.
- Overall, full-year media owners ad revenues will grow **to $165 billion this year.** This is a **+2.2% year-over-year growth** excluding P&O. Including the (lack of) P&O this year, ad revenues will grow by only **+0.5%.**
- Television ad sales struggled in the first half due to poor ratings, hard comps and degraded pricing power, but we expect the last two factors to improve in the second half. On a full-year basis, total TV ad revenues should nevertheless decrease to $62.4 billion (-1.1%, excl. P&O).
- 2016 is expected to show stronger ad revenue growth than 2015, but growth forecast (excl. P&O) is reduced to **+3.3%** (previously +3.8%). Traditional media will decrease by 2.9%, while digital sales will grow by +15.1%.

First Half of 2015

Media Owners Advertising revenues showed little growth in the first half of 2015. Ad sales grew by +1.0% in 1Q15 and +0.8% in 2Q15 (all media including direct marketing, excl. P&O).

Nearly all traditional media categories were affected: National TV (-1.4% ex P&O), Local TV (-3.4% excl. P&O, -5.8% including P&O), Local radio (-3%), Local Newspapers (-12.9%), National Magazines (-13.3%). The only traditional category to grow was Out-of-Home (+4.2%) as a result of organic growth in digital billboards and digital placed-based media, and strong growth in the small sector of cinema advertising. Cinema advertising, a small segment (approximately $630m in 2014), has become more attractive since TV-style audience metrics were made available and media vendors are now able to tap into national TV budgets. Meanwhile, Digital Media is again providing the bulk of the market growth (+16.0%).

Television Hit by “Digital Deflation”

National TV advertising vendors had a decent first quarter, with total ad sales for broadcast networks, cable networks and syndication growing +0.6%, representing a stabilization following two quarters of decrease (-1.2% in 3Q14 and -2.1% in 4Q14). The market worsened again in 2Q with -3.4%. One needs to go back to 2Q 2009 to find a worse quarterly performance. The National TV aggregate in 1H15 (-1.4%) was affected by the year-over-year decrease in Spanish networks ad revenues caused by the comparison effect with 2Q14 - when sales were boosted 42% thanks to the FIFA Soccer World Cup. Excluding Spanish Broadcast Networks (-27% in 2Q15), the rest of national TV was down by only -0.7% in the first half.

English-Speaking Broadcast Networks (-1.7% in 1H15, excluding P&O) struggled throughout the first half with poor ratings and a soft scatter market. Cable Networks recorded decent ad sales in the first quarter (+1.9%) but suffered a negative second quarter (-1.7%); ad sales were thus flat year-over-year in 1H15. They, too, were afflicted by disappointing ratings and weak pricing power.

In a previous report, we called 2014 a tipping point for traditional television advertising because the second half of 2014 showed abnormally weak advertising sales (especially cable networks), *despite* a robust economic environment. This disconnects between the macro-economic environment and advertising revenues was due to accelerated erosion in measured TV viewing and lower-than-usual CPM inflation. CPM inflation was no longer offsetting the decreasing supply of impressions, as had happened in the last four or five years. This weakening of pricing power was, in turn, caused by weakness in demand for traditional TV inventory, as large mainstream advertisers started to transfer bigger portions of their media budgets from traditional linear television to the various digital media formats (primarily online video but also, social, search and programmatic display). The transfer of demand towards digital media formats was the main factor for the sudden slow-down of TV inflation, hence the term **"Digital Deflation"** to encapsulate the concept and process.

In 2013, the US economy was getting stronger and nominal personal consumption expenditure grew by +3.1%. (NPCE is the economic indicator that is statistically most correlated to advertising revenues.) Ad revenues (excluding P&O) grew by +3.3%. In 2014, by contrast, the economy strengthened again, unemployment fell sharply and NPCE grew by +4.2% but ad revenues grew by a mere +1.5%. In 2015, NPCE is predicted to show a robust +3.8% on a full-year basis but we now anticipate that ad revenues will again grow by only +1.4%. This is 0.7 points below our previous forecast published in June 2015. This disconnect created by "Digital Deflation" is the new normal and will reduce the potential growth of media owners ad revenues in the future, with the health of the surrounding economy no longer the primary factor.

Digital Deflation applies at a macro level but is also exemplified in several key verticals. In Automotive, for many years, advertising spend was remarkably correlated to car sales; that was not a coincidence but a financial requirement effectively followed by automakers and their dealers. Up to 2012-2013, in bad or good years, the auto industry was spending approximately $1,000 per year per vehicle sold. Since 2014-2015, and despite record levels of sales, that ratio has been reduced by approximately 10% as automotive players have accelerated their shift to digital media and efforts to optimize media budgets.

As the first half of 2015 showed a similar pattern to the second half of 2014 - low overall growth despite decent economic activity, strong digital growth - we grow more confident that "Digital Deflation" is indeed the main factor behind revenue trends at the moment. We are therefore adjusting our forecasts for the second half of 2015 and the 2016-2019 periods, forecasting lower growth for television ad revenues.

2015-2016 Forecasts by Media

The 2015-2016 **National TV** upfronts were down in terms of volume, for the second year in a row, with CPM increases in the low single-digit range (compared to mid-single digit a year before). The scatter market on the other hand seems to become gradually busier in 3Q and 4Q with premiums on some daypart rising to high single digit for the first time in two years. The decline of the impression supply seems to have reached the point where inflationary tension might soon play in again. Because of this and easier comps ahead, we expect ad revenues to improve in the second half of 2015 and full-year national TV ad revenue growth to stabilize at -0.4% excluding P&O (compared to +0.1% in 2014 and down from our previous forecast of +1.1%). Including P&O (i.e. the absence of Olympics this year), full year growth will be -1.9%.

Local Television ad sales were also challenged due to the soft spending of one major category. Automotive is disproportionately affecting broadcast "spot" TV. Overall, we expect full year local TV ad sales to decrease by -2.6% (vs. -1.2% in 2014) excluding P&O. Factoring in the lack of political advertising in 2015 (compared to the mid-term spending high of 2014), local TV ad sales this year will decrease by -11%. We are reducing our 2016 ex-P&O forecast to -1.3% which should translate into +11.2% when factoring in incremental political ad revenues, expected to reach $2.8bn i.e. almost 15% of non-political ad sales.

Elsewhere, we expect **print ad sales** (newspapers and magazines) to decline by 12% to 14% this year and next, in line with the long term decline of print readership and pricing power. This does not include digital ad sales made by publishers; including those, the total ad revenues will still decrease by 7% to 8% this year. **Radio** will continue to struggle with low pricing power and the competition of digital audio. We expect the ad revenues of broadcast radio (national and local) to decrease by -2.7% (previously -0.7%) this year and next. **Outdoor media** will continue to benefit from the higher yield of digital formats and the rejuvenation of cinema. We expect the entire category to grow ad sales by +3.3% this year, slowing down to +2.3% next year.

Meanwhile, **Digital media** formats will continue to display robust growth. **Social** and **online video** ad sales continue to show explosive grow in the short term with full-year ad revenue expected to reach +48.2% and +38.4%, respectively. The speed of the shift to mobile in social media remains breathtaking: mobile-served impressions will represent 78% of social media ad sales this year (+80% year-over-year) while desktop sales will shrink by 10%. Mobile video will also grow by +69% as smartphone and tablet usage continue to grow as more and more content is made available across all screens through apps. The higher standards of viewability being introduced by video and social vendors this year may also contribute to higher costs and revenues in the coming quarters.

Search remains robust (+11.8% this year) with mobile search up 46% and desktop search up only 1%. Banner display is the big casualty of the increasing popularity of other formats among internet users and advertisers. It is the format most affected by the rise of ad blocking in the desktop environment and the shift to mobile digital media - where browser-based banners are increasingly difficult to tolerate and monetize and therefore restricted to in-app environments. Overall, we expect banner display ad sales to decrease by -1% this year and -3% next year. Consolidating all formats, we forecast digital media ad sales to grow by +15.8% this year (+62% for mobile formats, +0% for desktop formats), and +15.1% next year (mobile +44%, desktop -1%).

Below-the-line direct marketing categories are also affected by the competition of digital formats. Traditional **Paper Directories** will lose -27% of ad sales this year. **Direct Mail** remains a huge market (almost $21 billion in 2014) but first-half ad revenues (-1.2%) confirmed what we suspected: the 2014 performance (+4.8%) was mostly due to a steep increase in prices that cannot be repeated every year, while volumes keep eroding. Ad revenues are thus expected to decline by -2% this year and next.

Mid and Long Term Forecast

The outlook for the US economy in 2016-2019 has not changed in the last six months, and remains strong. However, it is increasingly clear that media spending lags behind economic growth and the primary factor at work is “digital deflation”. We are thus **reducing our core media 2016 forecast to +3.3% (excluding P&O), down from +3.8%** previously. That will be the combination of traditional media shrinking by -2.9% and digital media growing by +15.1% to reach $66 billion and outgrow television, a year earlier than previously forecast.

For the same reasons, our 2014-2019 CAGR (core media, excluding P&O) is reduced from +3.4% to +3.1%. The average growth over the five-year period will come mostly from digital media (+13.6%) while traditional media ad sales will decrease by an average of -3.4% per year.

The next Media Owner Ad Revenue Forecasts (US and Global) will be published in **December 2015.**

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Fig. 1: Key Forecasts (2014-2015)

2015	Incl. P&O	Excl. P&O
Total Media Owner Ad Revenues ($bn)	165.0	164.7
yoy change	**0.5%**	**2.2%**
previous forecast (June '15)	*1.6%*	*3.0%*

2016	Incl. P&O	Excl. P&O
Total Media Owner Ad Revenues ($bn)	173.7	170.2
yoy change	**5.3%**	**3.3%**
previous forecast (June '15)	*5.7%*	*3.8%*

Fig. 2: Forecasts by Media Category (2014-2016)

Media Categories	2014	2015	2016	*Prev. 2016 (June '15)*
Total TV (incl. P&O)	3.9%	-5.1%	4.5%	6.3%
Total TV (excl. P&O)	-0.4%	-1.1%	-0.7%	1.2%
Digital Media	15.6%	15.8%	15.1%	14.9%
of which Mobile	76.5%	62.2%	43.6%	41.1%
of which Desktop	3.5%	0.1%	-0.6%	1.7%
Newspapers	-11.6%	-12.0%	-11.3%	-15.9%
Magazines	-11.4%	-13.9%	-9.9%	-8.7%
Radio	-3.0%	-2.7%	-2.7%	-1.7%
OOH	1.0%	3.3%	2.3%	2.1%
Total Core Media (incl. P&O)	**3.3%**	**0.5%**	**5.3%**	**5.7%**
Total Core Media (excl. P&O)	**1.6%**	**2.2%**	**3.3%**	**3.8%**
of which Traditional Media	**-3.5%**	**-3.8%**	**-2.9%**	**-2.2%**

About MAGNA GLOBAL Advertising Research

For more than 60 years, MAGNA GLOBAL forecasts have been the industry's leading source for measuring and forecasting advertising revenues. MAGNA GLOBAL forecasts media owners' advertising revenues in the US and around the world through financial analyses of media companies' public filings, government reports, trade association data and local market expertise. MAGNA GLOBAL's new methodology was introduced to the industry in 2009 and has redefined measurement for the advertising-supported media economy, delivering unparalleled authority and accuracy.

Our Global Media Suppliers Advertising Revenue Forecasts include television (pay and free), internet (search, display, video and mobile), newspapers, magazines, radio, cinema and out-of-home (traditional and digital). Our report monitors media suppliers' revenues in 73 markets, including all major countries, representing 95% of the world's economy. Our forecasts are updated twice a year and available to our subscribers. Our US Advertising Revenue Forecast study includes detailed data for more than 40 categories of media on a quarterly basis from 1990 to 2015 and on an annual basis from 1980 to 2019, updated quarterly.

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About MAGNA GLOBAL

MAGNA GLOBAL is the strategic global media unit of IPG Mediabrands, comprised of two key divisions.

MAGNA GLOBAL Investment harnesses the aggregate power of all IPG media investments to create power and leverage in the market, drive savings and efficiencies, and ultimately make smarter, more effective media investments on behalf of our clients.

With a stated goal of reaching 50% automated buying by 2016, the team in North America invests across digital, programmatic, broadcast and all traditional media platforms and is therefore considered the most comprehensive buying and negotiating unit in the media industry. The architects of the MAGNA Consortium – a powerful committee of executives from A&E Networks, AOL, Cablevision, Clear Channel Media and Entertainment, ESPN and Tribune – MAGNA North America is also dedicated to shaping industry automation and audience specific buying.

MAGNA GLOBAL Intelligence has set the industry standard for more than 60 years by predicting the future of media value. MAGNA GLOBAL Intelligence produces more than 40 annual reports on audience trends, media spend and market demand, and ad effectiveness. For more information, please visit www.magnaglobal.com or follow us @MAGNAGLOBAL.