

MAGNA ADVERTISING FORECASTS WINTER UPDATE (DEC. 4, 2017)

Global Advertising Revenues to Grow by 5% in 2018

Decent US performance (+4.9%) but Mostly Due to the 2018 cyclical events

Top Stories

- In its latest report on global advertising market trends, released December 4, 2017, MAGNA forecasts media owners' net advertising revenues to grow by **+5.2% to \$535 billion** in 2018.
- This will be an **acceleration from 2017 (+4.1%)** mostly due to the impact of cyclical drivers in 2018 (FIFA Football World Cup, Winter Olympics, US Mid-Term elections). Neutralizing the five billion dollars of incremental ad spend generated by those cyclical events, the 2018 growth would be +4.1%, compared to +5.1% in 2017.
- Digital and mobile advertising sales will grow by +13% in 2018 to reach \$237 billion or 44% of global advertising revenues. They will comprise 50% of total advertising sales by 2020.
- **In the US**, advertising sales will grow by **+5.0% in 2018** to reach \$195 billion. Neutralizing the incremental ad sales generated by even-year events (+\$3.7bn), 2018 growth will only be +3.2% compared to +3.9% in 2017 and +5.9% in 2016.

Ten Key Findings

1. **Globally, media owners advertising revenues are projected to grow by +5.2% in 2018, to \$535 billion.** This is slightly above MAGNA's previous forecast (published June 2017). This will be a re-acceleration from 2017's growth rate of +4.1%.
2. The major cyclical events taking place in 2018 (The Football World Cup in Russia, Mid-Term elections in the US, Winter Olympics in South Korea) will contribute one point to global ad growth. Excluding cyclical effects, underlying advertising growth would be +4.1% in 2018 compared to +5.1% in 2017 and +4.9% in 2016.
3. The **fastest-growing regions** in 2018 will be Central & Eastern Europe (+7.2%), and Latin America (+9.3%), followed by APAC (+5.9%) and North America (+5.0%). Western Europe will slow-down to just +2.7% (2017: +3.4%, 2016: +4.3%) as political uncertainty in the UK, Spain and Germany may negatively impact business confidence.
4. **65 of the 70 markets** analyzed by MAGNA experienced some level of growth in 2017 while five saw lower ad sales. In 2018, we anticipate that only one market (Singapore) may shrink again. Within the top 20 markets, the **highest growth rates are expected from India (+12%) and Russia (+10%)**. China also remains robust (+9%) despite some vertical spending (e.g. automotive) slowing down.
5. **Linear television ad revenues will grow again in 2018 (+2.5% to \$183 billion)** thanks to the return of cyclical events (which will generate nearly \$5 billion of incremental ad spend) and despite the erosion of viewing and ratings, that is otherwise barely compensated by CPM inflation. Without the incremental even-year ad sales, TV would be flat next year (-0.1%) instead of being up +2.5%. The multi-year normalized growth for TV is thus slowing down gradually, from +0.8% in 2016 and +0.6% in 2017 as viewing erosion accelerates and digital alternatives are increasingly available to advertisers.
6. **Online and mobile advertising sales (display, video, search, social) will grow by +13% next year to \$237 billion**, slowing only slightly from 2017 (+17%), while *offline* ad sales (linear television, print, broadcast radio, out-of-home) will decrease by -0.5% to \$298 billion.
7. **Out-of-Home** will be the only other offline media channel to grow in 2018, alongside TV (+3% to \$33 billion) while **print** ad sales will decrease by -11% to \$54 billion and **radio** ad revenues will shrink by -2% to \$28 billion.
8. **Digital advertising sales** surpassed television in 2017, as previously forecast, reaching a 41% market share (compared to 35% for linear television). MAGNA anticipates that digital media sales will reach 44% of total ad sales in 2018 and **50% by 2020 (\$291 billion)**.
9. Within digital, **the majority of advertising sales (55%) is now generated by impressions and clicks on mobile devices**. Mobile ad sales grew by +39% in 2017 and will grow again by +27% in 2018 to reach 62% of all digital ad sales. **Search and social formats continue to drive digital advertising growth** (growing by +16% and +40%, respectively, in 2017) as billions of below-the-line, direct marketing dollars are being redirected towards these formats. Social and search now represent 70% of digital media spend, compared to 24% for display banners and video.
10. **In the US, media owners advertising sales will grow by +5.0% in 2018 to reach \$195 billion.** Neutralizing the effect of the even-year events, however, results in 2018 growth of just +3.2% compared to +3.9% in 2017 and +5.9% in 2016. The slowdown is mostly caused by offline media sales (e.g. national television: -1% excluding political and sports). The sports component of the 2018 bonanza, approx. \$800 million, will not grow compared to previous years due to unfavorable time zones (Russia, Korea) and the absence of some US athletes (soccer, ice hockey). In a heated political environment, mid-term election advertising spend could increase by 20% compared to a disappointing 2014 cycle.

According to Vincent Létang, EVP, Global Market Intelligence at MAGNA and author of the report:

“The classic quadrennial drivers (FIFA World Cup, Winter Olympics and US Elections) will offset the underlying slowdown of the global advertising market in 2018 to generate decent growth (+5.2%). The transition to a digital-centric media world accelerates as digital ad sales continue to grow as fast - and often faster - than expected. We are now forecasting digital ad sales to represent 50% of all ad dollars by 2020. Meanwhile linear television struggles in most major markets (US, UK, Australia etc.) as CPM inflation is no longer strong enough to compensate for declining ratings and lower demand from consumer goods.”

Global Overview: 2017 Recap

Media owners' net advertising revenues (NAR) are estimated to have grown by **+4.1% in 2017**, to **\$508 billion**. This new estimate is slightly higher than MAGNA's previous forecast (+3.7% in June 2017).

Neutralizing the impact of cyclical events (2016 US elections, 2016 Summer Olympics, 2016 UEFA Soccer Competition) and the lack of similar events in 2017, MAGNA believes **the "normalized" growth would have been +5.1% this year**, almost exactly the same level as 2016 (+5.0%) in the context of a slightly stronger economy (global output according to the IMF: +3.6% in 2018 vs +3.2 in 2017).

Around an average growth of +4.1% this year (2017), Latin America experienced the highest growth rates, mostly due to inflation: +7.3%. Asia-Pacific (APAC) came next (+5.7%) followed by EMEA (+4.5%) and North America (+2.2%). Within EMEA, growth was strong in Central and Eastern Europe (CEE, +8.8% driven by the recovery of Russia and Ukraine), followed by Middle-East and Africa (+7.7%) and Western Europe (+3.4%, slowing down from 4% in the two previous years).

Emerging markets collectively grew by +8.2% to reach 26% of the world's advertising activity (vs 23% four years ago) while developed markets increased by only +2.7%. In the long term (2022), emerging markets are forecast to represent 30% of global ad spend.

Five Three years ago the "BRIC" nations were the growth engine of the global advertising market (growing by an average 14% between 2010 and 2014), but then Russia and Brazil fell into recession and China was expected to cool down in a "soft landing", leaving India as the only member of the club to grow by double-digits. **2017 was the year of the come-back for the "BRIC" group**, with combined advertising revenue growing up by +9.3%. Russia and India are firmly in the double-digit league (+12.7% and +11.1% in 2017 resp.) while China's slowdown never materialized and growth has remained consistently robust in high single digits (+8.7%, beating economic growth) and even Brazil is finally recovering (+9.7%).

Collectively the four BRIC markets now represent 18% of the world's advertising activity compared to 16% four years ago, and that share is forecast to grow to 21% by 2022. In terms of individual markets, the strongest growth rates in 2017 came from Argentina (+24.7%), Ukraine (+19.8%), Egypt (+20.9%) and the Philippines (+11.9%). Some mature markets also displayed high-single digit growth: Sweden (+9.5%), and Spain (+5.9%) but most of them experienced rates between 0% and 5%: UK (+4.7%) Australia (+3.2%), Canada (+5.2%), Germany (+2.5%) and the US (+2.1%). Normalized for (the lack of) cyclical events, US growth would have been +3.9% this year. Finally, a handful of markets (5 out of 70) suffered negative growth this year for various local factors, including Singapore (-7.2%), South Korea (-0.8%), Peru (-2.0%) and Thailand (-2.4%).

In terms of media categories, **linear television suffered** from decreasing ratings, weakening pricing power and the lack of cyclical events. Globally, TV NAR decreased by -2% to \$178 billion (free TV -2.5%, pay TV -0.9%). During the last odd-numbered year (2015) television NAR had been flat. Of the 70 markets analyzed by MAGNA, 41 showed

some level of TV NAR growth in 2017 while **29 markets showed declines**, including half of the top ten markets (US, UK, Canada, Australia, China).

Print advertising continued its long-term decline, driven by the combination - in most markets - of fewer titles, fewer ad pages, fewer readers and weak pricing. Paper-based ad sales decreased by **-11% to \$61 billion**. Print ad sales are now declining in 65 out of 70 markets analyzed by MAGNA. The only exceptions are found in the Indian sub-continent and Austria. The digital revenues generated by news publishers and magazine titles are not growing fast enough to offset the rapid decline of traditional page ad sales. Downsizing and consolidation (e.g. the recent Meredith-Time Inc. merger) are taking place in the industry to face this challenge.

Radio advertising is challenged by the rise of streaming music sites, and the use of social and search by local businesses that used to be loyal to this low-cost, reactive media channel. Global ad sales decreased by **-1% to \$28 billion**. Radio ad revenues are still growing in 45 of the 70 markets analyzed by MAGNA but declining in the US and Canada.

Out-of-home (excluding cinema) ad revenues grew by +3% in 2017, to reach an all-time high of \$29.5 billion. Growth is entirely concentrated in the digital OOH segment: revenues from OOH screens, in transit and street furniture especially, are growing by 16% to reach \$4.8 billion (16% of total OOH revenues).

2017 growth was once again concentrated in **digital formats**. Online ad sales grew by +17% to \$209 billion while offline ad sales (linear TV, broadcast radio, print, out-of-home) declined by -3% to \$300 billion. It is the heaviest decline ever recorded for offline media sales. Traditional ad sales (TV especially) do suffer in odd-numbered years and the previous one (2015) showed a decrease of just -2%; meanwhile 2014 and 2016 recorded flat sales for offline formats.

Global Overview: 2018 Forecasts

According to the IMF (October 2017 WEO update) the global economy is predicted to grow by roughly the same pace in 2018 as it did in 2017: +3.7% in 2018 compared to +3.6% in 2017 and +3.2% in 2016.

One negative factor lies in the fact that **economic sectors disproportionately represented in advertising spending** (i.e. sectors that spend a high percentage of revenue in advertising) like consumer goods and automotive **are lagging the rest of the economy**, facing shrinking profits and often cutting advertising spend as a result. This is typically happening with the automotive sectors in the world's two largest auto markets, China and the US: as car sales plateau and start to decrease, manufacturers and dealers are cutting advertising spend to concentrate on discounts instead.

Another driver for marketing and advertising expenditure will come from the **major cyclical events taking place in 2018**: The FIFA World Cup in Russia, Mid-Term elections in the US, and the Winter Olympics in South Korea. MAGNA believes that the FIFA world cup will not bring more incremental ad spend than four years ago in Brazil, in part due to the failure to qualify by some top football nations (Italy, Chile, the Netherlands, and the US) while the Winter Olympics may suffer from time difference and the political tension in the Korean peninsula as well as the absence of NHL players (Americans, Canadians, Russians...) in the ice hockey tournament. The US Mid-Term elections, by contrast, could see advertising spending grow by up to +20% compared to the 2014 cycle as a result of the heated political climate. Altogether these cyclical events will still bring almost **five billion dollars** in incremental ad spend and thus should **contribute approximately one point** to global advertising growth.

Excluding cyclical effects, underlying advertising growth would be +4.1% in 2018 compared to +5.1% in 2017 and +4.9% in 2016. **Including cyclical revenues, global ad sales will grow by +5.2% in 2018, to \$535 billion.**

North American ad revenues will increase by +5% in 2018, slightly ahead of EMEA (+4%) while APAC (+6%) and Latin America will lead the way in growth. 69 of the 70 markets forecast by MAGNA are expected to show some market growth - Singapore being the only one where we anticipate no growth.

Digital media sales will grow by +13% next year to reach \$237 billion (a 44% market share), driven by search (+12%), social (+26%) and video (+29%) (See our section on *digital trends*) while offline ad sales will decrease by -0.5% to \$298 billion. Within offline media categories, television ad sales will grow by +2.5% (see our section on *television*), print ad revenues will decline by -11%, radio ad sales will shrink by -2% and OOH will grow by +3%. Within OOH, digital panel ad sales will grow by 15% to reach \$5 billion (18% of total OOH ad sales excluding cinema). Some markets are much more advanced in terms of digitization: in the UK, DOOH sales will represent 50% of all OOH spending as soon as 2018.

Focus on the US: +5.0% in net ad sales in 2018

US media owners net advertising revenues (NAR) grew by +2.1% this year (2017) to reach \$186 billion, a new all-time high. This is slightly higher than our previous forecast of +1.9% published in Sept 2017. Excluding the impact of (lack of) cyclical events in 2017, underlying ad sales grew by +3.9%. This is lower than the extremely strong underlying growth of 2016(+5.9%) but slightly higher than the +3.6% anticipated in our previous (Sept. 2017) forecast.

2018 will see the return of even-year cyclical advertising spending drivers and the incremental ad revenues to be generated around Mid-Term elections, Winter Olympics and the soccer World Cup, by decreasing order or magnitude. **These cyclical events will help accelerate ad growth to +5.0% next year to reach \$195 billion.** Excluding cyclical events however, the normalized growth will be just +3.2%, thus showing a gradual slow-down in non-cyclical ad revenues (2016: +5.9%, 2017: +3.9%).

Digital ad sales grew by +17% this year, showing very little slowdown from 2016's growth of +21%, as mobile search, video and social drive growth. In 2017 digital formats generated \$85 billion in advertising revenues while **offline media sales** (linear TV, print, radio, OOH) **declined by -5% to \$101bn.** Within digital ad sales, video and social remain the fastest-growing formats. Contrary to previous reports from Facebook warning of a slowdown in social media ad sales, growth in social remained exceptionally strong in the third quarter, where social media ad sales grew by +39%. Within social media, video ad format sales will more than double this year, reaching \$4.9bn i.e. 22% of the total social media ad market (\$22bn). Full year, social will grow by +37%, while video will grow by +28%. Advertising sales generated through mobile devices will grow by +39% and will represent 59% of digital media by the end of 2017. Mobile video (+52%), social (+43%) and search (+38%) are the key drivers of all digital media. Mobile search's growth is of particular note. Despite being a more mature format, it will bring in more than \$6.6bn of incremental advertising dollars in 2017 (compared to mobile video's \$1.3bn, and mobile social's \$5.8bn). In 2018, digital media ad sales will grow by double-digits again: search +12%, video +27% and social +23%.

After a good 2016 year, national linear television has been struggling again in 2017. National advertising sales (excluding cyclical effects) decreased by -1.5% in the third quarter of 2017, in line with MAGNA expectations, as primetime ratings continued to erode (broadcast: -9%, cable: -6%). **For the full year 2017, national television ad sales (excluding cyclical) are expected to decrease by -2.2%.** All segments are showing some level of decrease: English broadcast networks (-3.5%), Spanish networks (-3.8%) and cable networks (-1.3%).

Cable networks NAR grew by an average +6% per year between 2010 and 2013, then growth slowed down to +1% to +2% between 2014 and 2016, with some negative quarters. **This year (2017) was the first ever to show negative growth in every quarter.** Cable networks used to benefit from organic growth by taking viewing share off broadcast network and reaching more homes every year through cable and satellite subscription; both drivers are out of steam now as the audience performance is only marginally better than broadcast in most quarters, and the reach of many networks is challenged by the

acceleration “cord cutting”. Multichannel video distributors lost nearly one million subscribers in second quarter of 2017 alone - the worst quarterly loss ever for the cable and satellite industry. **MAGNA now estimates that 2.6 million MVPD subscribers cut the cord in 2017.** By the end of 2017, there are an estimated 29 million “Cord Cutters” and “Cord Nevers” households (mostly young households that *never* subscribed to cable or satellite TV) out of approx. 110 million television households. MVPD penetration in US households stood at 81% by mid-2017, down from 90% six years ago. At the current pace of decline, it will decline to about 63% by 2022, i.e. 77 million household or 17 million fewer than today.

Meanwhile, **local television** decreased by an estimated -4.9% (excluding cyclical) in the full year 2017, compared to -2% the year before. Local cable ad sales fare slightly better (-2.3%) than local broadcast stations (-5.8%). Factoring in the lack of political revenues in 2017, the nominal revenue decline was -15%. Inhibitors are many: ratings issues, weak pricing power and significant cuts from the automotive industry, as the car market is now slowing down in the US after years of strong growth. The third factor may be temporary but local TV also suffers from the general weakness of local businesses (auto dealers but also retail and restaurants). Local cable sales (the smaller segment of local television advertising) benefit from improving targeting opportunities and “advanced” audience-based campaigns but they may also suffer from the shrinking reach of some networks due to cord cutting.

Television always benefits from a significant boost in even-numbered years but expectations are mixed for 2018. Early indications are that political advertising will be strong in 2018 in a heated political climate. MAGNA expects growth of +18% vs the 2014 midterm, to \$2.9 billion.

The 2018 **Winter Olympics** held in South Korea are expected to bring in just +2% more in ad spend than the Russian Sochi games did four years ago. Strong pricing is offset by headwinds that include the absence of NHL players in the hockey tournament. The event remains popular, however, and gets high ratings in the dead of winter, generating approx. **\$640 million in ad revenues.** The 2018 **FIFA World Cup** hosted by Russia will bring in less incremental revenues than previously expected due to the failure of team USA to qualify.

However, the effect is mitigated by the fact that the majority of ad dollars flow through the Spanish networks, and Hispanic viewers’ interest in the event typically extends far *beyond* team USA. World Cup advertising revenues are nevertheless expected to decline by **-11% vs 2014, to approx. \$200 million:** -5% for Spanish networks (still capturing the bulk of incremental dollars) and a massive -30% for English networks fully hit by the absence of team USA. The biggest inhibitor on the Spanish side will, in fact, be time difference. While the 2014 World Cup was held in Brazil, in a time zone close to the US, there will be at least an eight hour time difference between the US and Russian cities hosting the games. Despite a sports driver that’s looking slightly less promising than originally expected, television revenues will recover in 2018. **National television ad sales will be flat (+0.2%, or -1.5% excluding CE) and local TV sales will grow +10% (-3% excluding CE).**

Other media categories will show little or no growth in 2018. Newspaper and Magazines paper ad sales are predicted to decrease by -17% and -16% respectively, and the growth digital ad sales of publishers won't offset the rapid decline of the legacy format. Combining paper and digital, MAGNA expects publisher ad sales (newspapers and magazines) to drop by -10% in 2018, to \$22 billion.

Linear **radio ad sales** will drop by **-4% in 2018 to \$15.8 billion** due to a weak pricing dynamic. Digital ad sales will grow by more than +8% to reach \$2.7 billion but that will not be enough to grow total audio advertising. Combining broadcast and digital, radio broadcasters and digital streaming pure players, advertising sales will decrease by -2.4%.

Out-of-home media will show some growth thanks to its digital segments. Total OOH ad sales will grow by **+2.5% to \$8 billion**. Street Furniture, Transit and "Place-based" media will be growing significantly, thanks to new digital inventory becoming available to media buyers, while the Shopping segment will plateau and the Roadside Billboard segment (still the biggest in size) will stagnate.

Vincent Létang, EVP, Global Market Intelligence at MAGNA, said:

"Advertising spending grew roughly in line with expectations in the US in 2017 (+2.1% or +3.9% excluding cyclical events). Digital ad spend growth was even stronger than anticipated, as social and search in particular barely slowed down from their pace in 2016. In the end, digital ad spend grew by nearly +17% while offline ad sales declined by almost -8%. MAGNA anticipates the underlying growth to slow down next year to +3.1%. Incremental political advertising should be strong but cyclical sports might disappoint, bringing the nominal all-media growth of +4.9% next year."

Global Television Trends

Linear television advertising revenues suffered from multiple headwinds in 2017, mostly: decreasing ratings, weakening pricing power and the lack of cyclical events. **Globally, TV NAR decreased by -2% to \$178 billion (free TV -2.5%, pay TV -0.9%)**. During the last odd-numbered year (2015) television NAR had been flat. Of the 70 markets analyzed by MAGNA, 41 showed some level of NAR growth in 2017 while **29 markets showed declines**, including half of the top ten markets (US, UK, Canada, Australia, China).

MAGNA believes several markets have entered a new phase in the **transition** from a media landscape once characterized by near-universal, cross-generational TV reach, a television-centric media market, and stable and predictable audiences, into a rapidly evolving, generationally-divided, supply-demand-driven ad market.

In the first stage, linear audience starts to decrease but reach remains high (it still runs at around 90% of all adults in most mature markets), and most TV verticals are keen to secure their share of a shrinking number of impressions. In this first stage, CPM inflation accelerates to stabilize net advertising spending and revenues.

In a second phase, television costs become too high for some product categories or brands, and others are struggling to reach some of their key targets (e.g. Millennials, high income households), encouraging them to explore alternatives to television campaigns (e.g. digital video). Demand for linear TV thus falters and CPM inflation cools down, no longer offsetting ratings declines.

When we reach that phase, television can still post revenue growth in a good year, for instance when it can capitalize on international or national events, but it will basically plateau in the mid-term. As more markets are gradually entering the second phase of this transition, MAGNA expects global TV NAR to grow by just +2.5% in 2018 and the average growth rate will be just +0.1% over the next four years.

Multichannel television (cable/satellite channels) will continue to slightly outperform national free-to-air networks in terms of NAR (four year CAGR +1.9% vs -0.8%) thanks to their growing share of viewing. The gap is narrowing however, as the growth of multichannel penetration is slowing down in mature markets and some - most notably in North America - have reached the point where multichannel subscriptions and the technical reach of cable networks are beginning to shrink. This is caused by the sudden acceleration of "cord-cutting" since the beginning of 2017, and the increasingly attractive over-the-top SVOD offerings (e.g. in the US), or because of "skinny bundles" or a-la-carte channel picking becoming available to consumers (e.g. in the US Canada).

Beyond the reach and pricing concern, one area of worry for television in 2017-2018 is the decrease in the spending in **two crucial client categories: Consumer Packaged Goods (CPG) and Automotive**.

Many among the multinational companies that dominate the CPG sector are engaged in all-around cost cutting. Besides the renewed focus on "Brand Safety" (or the lack of it, in some digital media), has not so far triggered a massive return to traditional television.

CPG will remain a core category for television, as it still provides the reach and scale that consumer products need to build and maintain brand equity and retail sales, but CPG advertisers are now reducing and diversifying their spending in most markets. They also reduce the numbers of products and brands advertised on television and sometimes skip television in product launches.

Global Digital Trends

Global digital advertising sales will increase by +13% in 2018, slightly slower than this year's +17% growth rate, but stronger than prior expectations (+12%). Growth in 2018 will bring global digital advertising spend to \$237 billion, significantly larger than television, at \$183 billion. Digital growth is expected to remain strong in the next five years, reflecting fast changes in media consumption and marketing technology. **By 2020, digital ad sales will reach 50% of all advertising sales**; by 2022, digital advertising spend will reach \$348 billion, representing more than 55% of total advertising budgets across all formats.

Growth in digital is now entirely driven by mobile advertising. Mobile spend is expected to increase by +27% to \$147 billion in 2018, ahead of prior expectations for +24% growth. While this is slower in growth terms than 2017's +39% growth rate, it represents a similar amount of incremental spend (\$32 billion). This strong growth contrasts with desktop advertising growth, which shrank by -2% this year, and is expected to shrink by -4% in 2018. Desktop-based impressions and clicks are simply shrinking in most markets as mobile devices, mostly smartphones, become the primary platform for almost every aspect of the digital life except office computing: social, messaging of course, but also, increasingly: ecommerce, news, video and search. Young generations are almost entirely mobile-centric by now and further growth is now coming from older generations playing catch up.

The much younger demographic profile of emerging markets, as well as the lower penetration of computers and the affordability of feature phones explains that the share of mobile usage and mobile advertising is higher in developing markets: 59% of digital advertising by 2018 compared to 54% in mature markets and 55% on average globally. The share of mobile is highest for social media as usage shifted very quickly towards mobile the minute Facebook introduced advertising within its mobile apps; mobile penetration within social accelerated as the social ecosystem became more diversified and competitive. At the end of 2017, 85% of social media ad sales are mobile-centric globally.

The search migration is slower and, contrary to social, search may continue to take place on desktops in the long term; the share of search passed 50% (57%) in 2017 and is forecast to trend towards 78% by 2022. Banner display remains far behind, with just 25% to 30% of ad sales being mobile-based at the end of 2017, but video is also seeing mobile gains, and will see 46% of advertising revenues coming from mobile devices by the end of this year

Within digital formats, **search advertising** is by far the largest segment. Search ad sales are expected to grow by +12% in 2018 to reach **\$113 billion**, or just under half of total digital advertising budgets. This will be driven by +25% growth in mobile search, while

desktop search revenues will be shrinking by -4%. Mobile search advertising has now passed the halfway point to become the majority of search advertising spend, and will reach 63% share of total search advertising spend in 2018. Furthermore, the incremental \$12 billion of search advertising spend expected in 2018 represents nearly 50% of total incremental digital dollars. Search remains attractive because of continued **product innovations** such as “customer match”, “similar audiences”, and “remarketing search lists” from Google, along with the growth of non-core search such as **Alibaba** product listings. Furthermore, search advertising continues to be strong because of its position in the advertising funnel and the ease with which search activity can be connected to customer behavior and sales, and play a central role the ecommerce and programmatic ecosystems. Looking forward, search advertising will remain robust, growing by +10% annually to reach **\$159 billion by 2022**. At that point, it will be larger than newspaper, magazines, radio, and OOH advertising combined (and approaching the size of television).

Social media advertising sales are expected to grow by +26% in 2018 to reach \$57 billion, ahead of prior expectations for +21% growth. Although growth is expected to slow down somewhat from the 2017 pace (+40%), social advertising remains, along with video, one of the fastest-growing segments in digital advertising. 85% of total social advertising dollars are already coming from mobile devices, the highest share of any digital sub-format. Social’s 26% growth rate in 2018 would represent \$12 billion in incremental spend. This is nearly as much as can be found in search advertising despite social being less than half the total size. Growth comes from increased social usage and penetration, as well as product innovations, including social video, increasingly dense ad loads on social media, and new fast-growing niche players.

Impressively, **search and social represent 70% of digital advertising spend, and more than the total of incremental dollars across all other media formats**. Video and OOH are the only formats that even saw positive growth in 2017 (offline media and shrinking digital formats like banner display are net losers; search and social, along with digital video, remain the growth engine for global ad spend).

Video advertising is growing just as quickly as social media; growth in 2018 is expected to be +29%, which will bring total video advertising spend to \$29 billion (this is excluding social video ad sales, which are included in “social”). While desktop video will still show growth at +12%, the engine for online video ad spend growth is mobile (+48% growth expected to bring mobile share of video spend to 52% in 2018, surpassing desktop video spend for the first time). The continued outperformance of mobile video is driven by improvements in the mobile video experience, continued growth of wireless broadband penetration and a greater focus on mobile video content from publishers. By 2022, online video advertising will have passed the \$60 billion mark globally, and digital video will represent more than 25% of total video viewing (TV and online video combined).

In contrast to search, video, and social, **ad sales from static banners and other digital advertising formats (email advertising, online classifieds etc.) are stagnating**, and are expected to shrink by approx. -7% in 2018. Not only have brands found better outcomes using other digital formats such as search, social, and video, but display inventory is also

on the decline. Ad-blocking gets worse every year, and standard banner real estate is being replaced by video out-stream “in-read” space.

Endemic digital formats capture all the growth

Of the \$30 billion of additional ad spend in digital media in 2017, \$14 billion went to paid search (+16%) and \$13 billion went to social (+40%) media. **Endemic formats thus captured 90% of additional digital dollars this year.** Another five billion went to digital video (+30%), while static banners and other formats lost an estimated \$2 billion dollars (-3.5%).

By contrast, advertising monetization of editorial content through display formats - banners and, to a lesser extent, digital video and music - is hampered by several factors. First, consumers are increasingly opting for ad-free, paid tiers for their video and music entertainment and sometimes their news too. Hulu, for instance, no longer offers free, ad-supported viewing in the US but instead has a “limited commercial” plan (\$8 a month) and a “no commercial” plan with zero ads (\$12 a month), which is increasingly popular. Other online streaming players that were always ad-supported have recently launched no-commercial subscription-based offers, e.g. Pandora and Youtube (“Red”). Content providers (video, music, news) follow that route partly to avoid ad blocking.

Ad blocking was used by 11% of the global internet population as of the end of 2016, according to Pagefair. That represented 615 million total devices, and an increase of 30% compared to 2015. Mobile ad blocking is on the rise too, and there are now more mobile devices globally using ad blockers than there are desktop devices. The popularity of ad blocking technology varies significantly by country, however, with 18% of desktop users and just 1% of mobile users in the US employing the technology. Nearly 75% of internet users say they leave websites that require disabling ad blockers as well, highlighting the lack of leverage that many publishers currently have, and the temptation to look for alternative business models including subscription (if content is strong enough). The “good” news is that ad blocking is mostly an issue in the browsing environment and the migration to mobile-centric digital usage coincides with a migration to an in-app digital usage that’s mostly immune to ad-blockers. As desktop represents a shrinking share of consumer’s digital life, ad blocking may become less of an issue in the future, that is, for those content providers who will manage to carve themselves a monetizable position in the home screen of consumers’ smartphones.

Another concern for content providers is the **strengthening of data privacy rules** in several markets. Programmatic and re-targeting have enabled publishers to better monetize their impressions in the last few years, but new regulations like GDPR Directive in the European Union, coming into force in 2018, may make it easier for consumer to opt-out

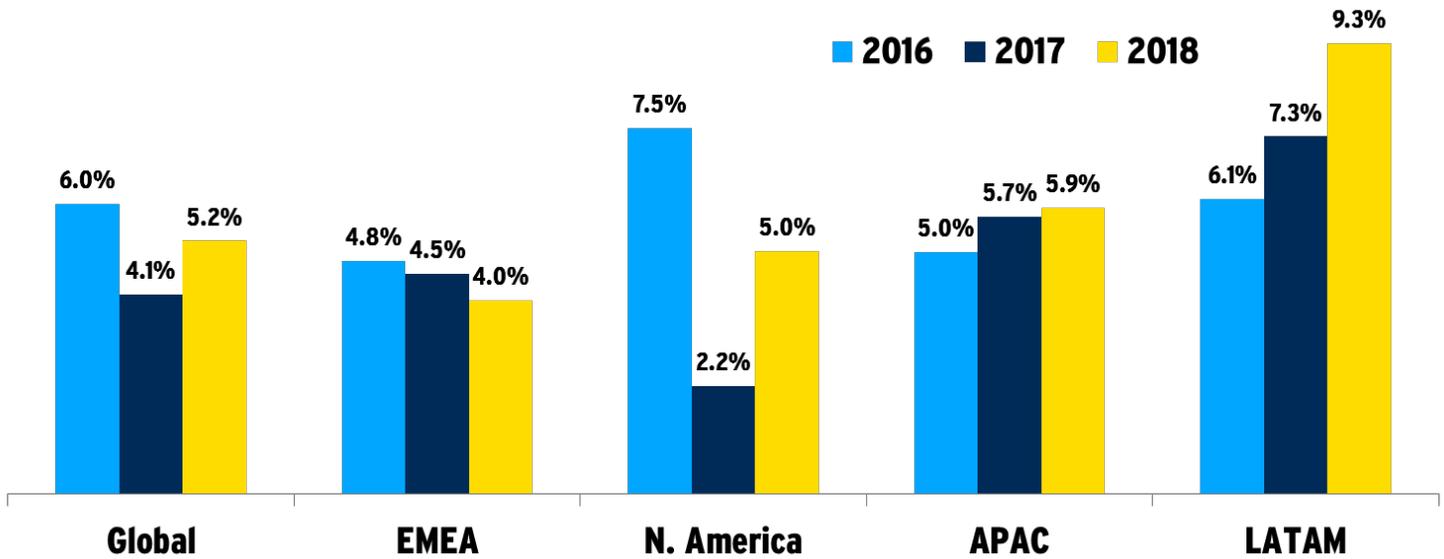
from cookies and thus reduce the pool of consumer data that programmatic campaigns can reach and the volume of marketable programmatic impressions.

Finally, one bright spot for content providers and digital monetization is **the return of “brand safety” and brand relevance issues to the forefront in 2017**. Some brands have come to realize that the scale and efficiency brought in by large online properties or programmatic campaigns over hundreds of sites sometimes comes at the cost of editorial relevance, bringing undesirable associations with dubious editorial environments. That realization gives an opportunity to premium media brands in news, video and radio to re-enforce the value of their own safe inventory.

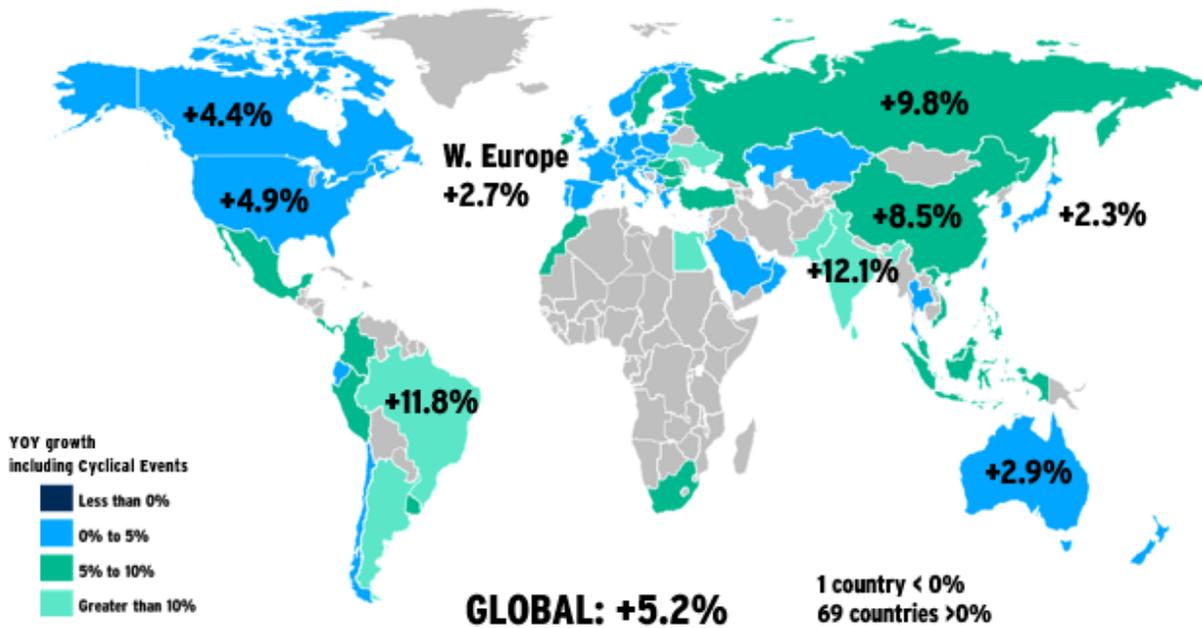
The next Global Advertising Forecasts by MAGNA will be published in June 2018.

The next US Advertising Forecasts by MAGNA will be published in March 2018.

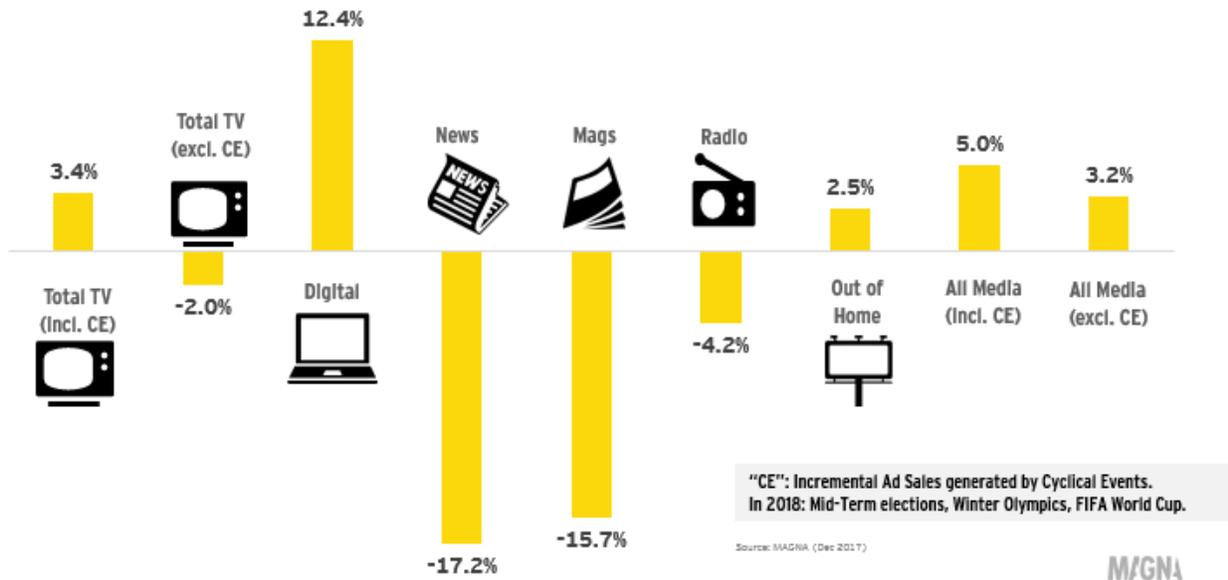
Net Advertising Revenues: 2016-2018 Growth by Region



Net Advertising Revenues: 2018 Growth Forecast in Key Markets



Net Advertising Revenues: 2018 Growth Forecast in the US



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About MAGNA

MAGNA is the centralized IPG Mediabrands resource that develops intelligence, investment and innovation strategies for agency teams and clients. We utilize our insights, forecasts and strategic relationships to provide clients with a competitive marketplace advantage.

MAGNA harnesses the aggregate power of all IPG media investments to create leverage in the market, negotiate preferred pricing and secure premium inventory to drive maximum value for our clients. The MAGNA Investment and Innovation teams architect go-to-market investment strategies across all channels including linear television, print, digital and programmatic on behalf of IPG clients. The team focuses on the use of emerging media opportunities, as well as data and technology-enabled solutions to drive optimal client performance and business results.

MAGNA Intelligence has set the industry standard for more than 60 years by predicting the future of media value. The MAGNA Intelligence team produces more than 40 annual reports on audience trends, media spend and market demand as well as ad effectiveness. To access full reports and databases or to learn more about our subscription-based research services, contact forecasting@magnaglobal.com.

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