MAGNA

MAGNA ADVERTISING FORECASTS
FALL UPDATE (September 20, 2017)

US Ad Market Continues to Grow As Strong Digital Sales Make up for Television Slowdown

TOP STORIES

1. In its latest report, MAGNA forecasts US media owners net advertising revenues (NAR) to grow by **+3.6% this year** (excluding the impact of cyclical events - Political & Olympics) to reach **$185 billon,** a new all-time high. This is in line with our previous forecast (June: +3.4%).
2. This is a slower growth rate compared to an exceptionally strong performance in 2016 (+5.9% excl. P&O) but the moderate slowdown remains within what had already been anticipated by MAGNA. Neutralizing cyclical drivers in 2016-17, actual growth will be **+1.8% this year.**
3. **In 2018**, the return of even-year cyclical advertising drivers (mid-tem elections, Winter Olympics, Soccer World Cup) will help accelerate ad growth to +4.8% (unchanged from previous forecast) despite a slowdown in underlying spending (+3.1% excl. P&O).
4. **Ad sales grew by +4.2% in the second quarter of 2017** (excl. P&O), accelerating from a modest first quarter (+3.2%) and MAGNA expects 3Q and 4Q to grow by approx. +3.5% yoy.
5. **Digital ad sales** grew by +17% in the first half showing very little slowdown from the strong growth of 2016 (+20%). For full year 2017 digital formats will generate $84 billion in advertising revenues (+16%) while **offline media sales** (linear TV, print, radio, OOH) will **decline by -5% to $101bn.**
6. Within digital ad sales, video and social remain the fastest-growing formats. **Social media ad sales grew by +39%** in the first half. Within social media, video ad format sales will more than double this year, reaching $4.8bn i.e. 22% of the total social media ad market ($22bn).
7. **Mobile takes the lead.** Advertising sales generated through mobile devices represented 50% of total digital ad sales in 2016; they will grow to +58% in 2017.
8. **National Linear TV** advertising sales decreased by nearly -3% in the first half as ratings erosion outweighed CPM inflation and three of the top ten categories reduced their spend (food, finance, auto). However the increased volume of transactions in the broadcast year "upfront" sales this year showed that there is still demand for national TV campaigns.
9. **Local media struggled in the first half** with local TV NAR decreasing by nearly -5% (excl. Political), local radio NAR down -3%, and OOH flat. Key spending verticals like Automotive and Entertainment reduced ad spend following dwindling sales (e.g. car sales and box office both down -2% YTD).
10. The fragmentation of audiences and the decrease in impressions being delivered is affecting every media type (except OOH) and is generating **inflationary trends** in the market. National TV CPMs are increasing by +10% while print costs grow by +2% to +5%.

KEY DEVELOPMENTS

US advertising sales grew by +4.2% in the second quarter of 2017 (excl. P&O), accelerating after a modest first quarter (+3.2%). The improvement in 2Q17 was driven by robust digital media spend, slightly better national TV spend (-1.8% yoy compared to -3.7% in the first quarter) and much easier comps (1Q16 was one of the strongest quarters ever for advertising revenues). The comps factor, at least, should continue to apply in 3Q and 4Q; we thus anticipate total advertising revenue to grow by approx. +3.5% in the second half and by +3.6% over the entire year.

Digital ad sales grew by +17% in the first half, showing very little slowdown from the strong growth of 2016 (+20%). For the full year 2017 we now expect digital formats to generate $84bn in advertising revenues (+16%) while offline media sales (linear TV, print, radio, OOH) decline by -5%, to $101bn. Next year (2018) the +3.1% growth overall will be the combination of offline media sales down again by -4% while online and mobile ad sales will grow by +12%.

Within digital ad sales, video and social remain the fastest-growing formats. **Social media ad sales grew by +39%** in the first half, and we now expect full-year growth of +35%. Within social media, video ad formats sales will more than double this year, reaching $4.8bn i.e. 22% of the total social media ad market ($22bn). Other (non-social) video advertising formats grew by +29% in the first half. Meanwhile **search ad sales increased by +17% in the first half** showing almost no sign of slow-down (2016: +19%). MAGNA believes mobile-based search (+40%) is now capturing all of the format's growth while desktop search revenues are actually shrinking following rapid changes in mobile usage.

Consolidating all digital formats, mobile-based ad sales represented exactly 50% of total digital sales in 2016. Mobile clicks and mobile impressions already represent the overwhelming majority of social media formats; they will reach 50% of search revenues this year and 42% of digital video ad sales; overall, **58% of digital ad sales will be generated through mobile devices.**

National TV advertising sales decreased by nearly -3% in the first half. It should kept in mind that last year's first half was extremely strong (+4.3%) and thus a hard comparable to compete with. The second quarter however, showed some stabilization (-1.8%), following a poor 1Q (-3.7%). National TV ad sales are being hit by dwindling spending from four of its top ten verticals, including Food (biggest National TV category, down -6% in the first half), Finance (third biggest category -6% too), Automotive (fourth biggest category, -13%) and Movie Releases (#10, -12%). Those key categories are adjusting marketing and advertising spend to plateauing or declining sales year-to-date. For instance car sales and cinema box office were both down -2% in the first half. Because we expect continued weakness in those markets in the next few months, we downgrade our forecast for full year 2017 national ad sales from -1.4% to -2.2% (excluding P&O).

Despite claims of some CPG companies that they wish to diversify away from linear television, the **increase in the value of airtime traded during the broadcast year "upfronts"** last spring (+3% to $25 billion) is a testimony that many brands are still willing to commit to significant CPM inflation (+6% to +10% depending on day-parts) to secure supply and avoid potentially higher inflation on the "scatter" market.

Looking at national TV segments, English-Speaking broadcast networks suffered in the first half, as NAR decreased by -3.6%. Second quarter was flat, following a poor first quarter (-7%). Spanish-Speaking broadcast networks fared even worse with revenues down -12%, although some of that decrease was caused by the extra revenues generated by the Copa America soccer tournament over the same period last year. Cable networks NAR was down -1.5% in the first half. We now anticipate cable NAR to decrease by -1% full-year in what would be the first negative year ever, apart from 2009.

The erosion of traditional linear TV viewing is the result of a rapid shift towards on-demand video consumption on digital devices or "over-the-top" (OTT) on living-room TV sets, through smart TV or the increasingly popular OTT boxes. The most popular of such boxes, Roku (15 million users) filed for IPO recently, shedding some light on OTT usage and the advertising revenues generated by that non-conventional form of TV viewing. Roku generated $66 million in advertising sales in 2016. This is less than 0.1% of traditional television ad sales ($67 billion) but this is growing quickly ($55 million in the first half of 2017). The SVOD environment is still largely ad-free, but as SVOD OTT consumption becomes mainstream we believe advertising opportunities and revenues will increase in the future.

Local TV advertising sales decreased by -4.8% in the first half of 2017, even after neutralizing the cyclical effect generated by (the lack of) political spend in 2016 and 2016. Not neutralizing that effect, actual dollars are down -9%. Local TV is disproportionately affected by the cuts in marketing expenditure by car dealers.

Automotive is, by far, the largest spending vertical for local media and local broadcast TV in particular. On a full year basis **we now expect local TV to decline by -4.1% this year, excluding political spending (or -14% in actual dollars).** This will the fourth consecutive year of declining revenue for local television and we expect a similar outcome in 2018 (-2.8%) as the car market is not expected to recover immediately. Within local TV, local cable ad sales decreased by approx. -1% in the first half, while the much larger segment, local stations' revenues, decreased by -6%.

Out-of-home ad sales were nearly flat in the first half (+1% including cinema, compared to an average +4% in the last five year). This sudden slow-down was caused by spending cuts in two key verticals, automotive and movie studios, as they are both affected by slow sales (car sales and box office declining by 2% each year-to-date). Looking at market segments, the first half showed static OOH ad sales being flat while digital OOH sales are still growing thanks to organic inventory expansion. In terms of environment, Street Furniture and Transit generated revenue growth in the first half while Billboard and Shopping Malls stagnated. Meanwhile in-theater ad sales shrank by 12% due to poor cinema attendance. MAGNA expects the second half to slightly stronger, resulting in full year OOH ad revenues to growing by +1.7% to $7.9bn.

Broadcast Radio ad revenues fell by -1.6% in 2Q following a -4.2% decrease in 1Q. The stabilization of 2Q17 following three quarters at -3% or -4% was caused by more dynamic spend on national network radio (+5%) while local radio NAR, representing 90% of broadcast radio ad sales, continued to decline (-2%).

Print-based advertising sales (newspapers and magazines) fell by -14% in the first half, an acceleration from the previous rate of decline (-11% in 2016). The decrease in ad sales is driven by the competition of digital media and the long-term erosion of readership and ad pages. For the full year 2017, print ad sales are expected to fall -14% to $18bn, down to just a third of the $54bn in ad sales it captured ten years ago, with a similar trend for daily newspapers (-15%) and magazines (-13%). We anticipate a similar rate of decline (-14%) in 2018. In contrast with radio, the decline in advertising revenues is mostly driven by shrinking *volumes* (number of readers for dailies, volume of ad pages in magazines) rather than *pricing* (print CPMs are up +2% to +5%).

Digital ad sales now account for 27% of total publisher advertising revenues. This is a significant result but those revenues are still not enough or growing fast enough to offset the declines from the legacy print based business. Combining the traditional print "paper" ad sales and digital ad sales revenues, publishers advertising revenues are still expected to decrease, by approx. 9% in 2017 and 2018. News and content publishers are struggling against banner ad blocking while consumer time and advertiser spend is attracted away from display advertising towards social media and search.

Inflation in the media sector. The fragmentation of audiences and shift towards ad-free or ad-light alternatives to traditional media consumption is affecting every media type (except OOH). This is reducing supply and making some demographics increasingly hard to reach, therefore generating inflationary trends in the market. For instance, national TV cost-per-thousand (CPMs) are expected to increase by an average +9% to +10% this year and next (more for some day parts), while print costs are increasing by +2% to +5%. OOH is mostly immune from the scarcity trend and therefore costs evolve in line with general US general inflation (+2%).

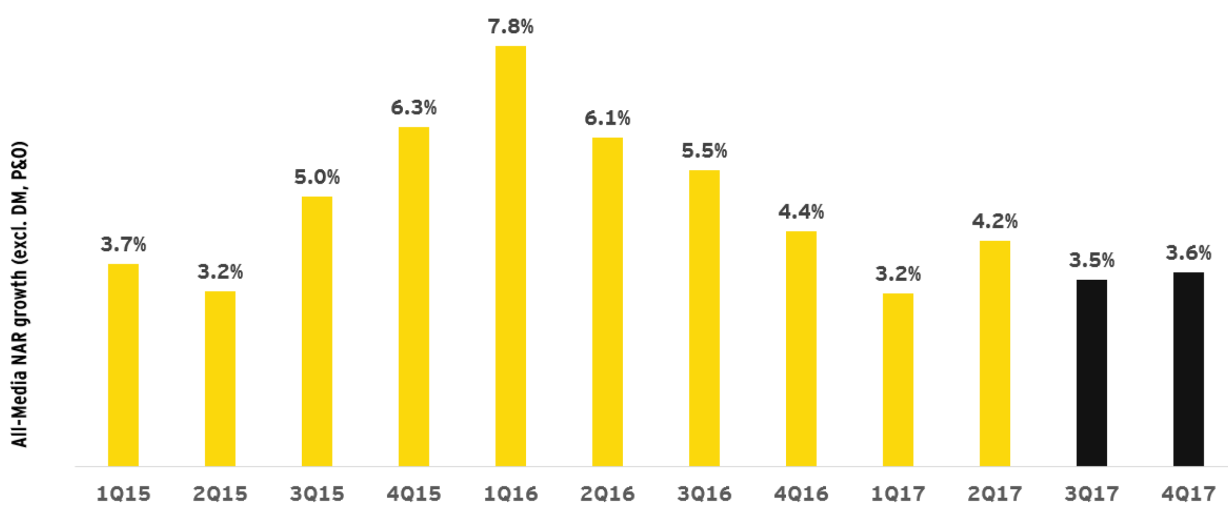
Vincent Létang, EVP Global Market Intelligence and author of the report said: *"While the overall advertising market held in the first half of the year, some media categories suffered more than expected: national and local TV, and local radio. Looking at national TV, the balance of airtime inflation and supply erosion - which, in a good quarter, can roughly offset each other to provide revenue stability - has shifted in the first half of 2017 as ratings fell by an unprecedented -14%."*

The next MAGNA advertising forecasts (US and Global) will be published in December 2017.

MAGNA Forecasts – Key Figures

	2017				2018	
US Media Owner NAR	Size ($bn)	Growth (%)	Growth ($bn)	Share of Total	Growth (%)	17-22 CAGR
Offline ad sales	**100.9**	**-4.9%**	**-5.1**	**54%**	**-4.1%**	**-3.7%**
National TV (incl. P&O)	42.4	-3.8%	-1.7	23%	0.3%	-0.9%
National TV (excl. P&O)	42.4	-2.2%	-0.9	23%	-1.0%	-1.1%
Local TV (incl. P&O)	19.7	-14.4%	-3.3	11%	10.1%	0.4%
Local TV (excl. P&O)	19.3	-4.1%	-0.8	10%	-2.8%	-2.6%
Print	17.8	-14.3%	-3.0	10%	-15.9%	-17.2%
Radio	13.5	-3.7%	-0.5	7%	-4.3%	-4.7%
OOH and Cinema	7.9	1.7%	0.1	4%	2.6%	2.7%
Digital Ad Sales	**84.0**	**16.0%**	**11.6**	**45%**	**11.8%**	**9.5%**
of which Mobile	49.5	36.9%	13.3	27%	25.7%	17.4%
of which Desktop	34.5	-4.8%	-1.7	19%	-8.2%	-8.6%
of which Social	22.1	34.9%	5.7	12%	20.3%	14.2%
of which Search	40.3	15.2%	5.3	22%	12.5%	9.3%
Grand Total (incl. P&O)	**185.3**	**1.8%**	**3.2**	**100%**	**4.8%**	**3.5%**
Grand Total (excl. P&O)	**184.9**	**3.6%**	**6.4**	**100%**	**3.1%**	**3.2%**

MAGNA Forecasts: Media Owners Ad Sales in the Last 3 years



###

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.

###

Media Contact:
Eric Sherman
Global Corporate Communications
212- 883-3758
Eric.sherman@mbww.com