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MAGNA ADVERTISING FORECASTS

DIGITAL ADVERTISING SOON TO GRAB 50% OF ALL AD DOLLARS

TOP STORIES

- In its Latest Advertising Forecast Report Published Today, **MAGNA Expects the US Ad Market to Reach a New All-Time High in 2018**. Media owners will collect **$197 billion** in net advertising revenues (NAR) – a growth of +5.5% over 2017. **This will be** driven by a strong economic environment and incremental ad spend around cyclical events. This is an acceleration on last year's growth (+2.7%) and stronger MAGNA's previous forecast of +5.0%.
- **Digital To Control Half of All Ad Dollars**. Digital ad formats (search, video, display, and social) continue to account for the lion's share of advertising growth. MAGNA expects them to attract 50% of total advertising sales this year, one year earlier than previously anticipated.
- MAGNA noticed the **Emergence of a "Vertical Divide"** in 2017. TV-centric verticals like CPG, Pharma and Movies have remained mostly loyal to traditional linear television in 2017, while Digital-Centric verticals (technology, retail, finance…) continue to shift their budgets further away from TV, into digital formats.

Other insights include:

- In 2018, the classic even-year cyclical events (Mid-Term Elections, Winter Olympics, and FIFA World Cup) will bring **$3.7bn in incremental net advertising revenues (NAR)**. Without those, non-cyclical ad sales will grow by **+3.7%**, i.e. slightly slower than 2017 (+4.5%).
- **Digital advertising sales** will grow by +14% in 2018 to reach $97 billion, of which almost 60% will come from mobile advertising.
- Meanwhile, **traditional offline advertising sales will shrink by -5%** this year, to 96 billion (excl. Cyclical). National linear TV ad sales will be flat (-2% excluding cyclical boost), local TV NAR will grow by +10% (-4% excluding cyclical), OOH will grow by +2%, print will decrease by -18%, linear radio by -4%.

*The **full report** is available to IPG Mediabrands clients and MAGNA Intelligence subscribers.*

MAGNA

2017 RECAP: OVERALL ADVERTISING THRIVED, BUT TELEVISION STRUGGLED

US media owner's net advertising revenues (NAR) grew by +2.7% and reached $187 billion, representing a slowdown compared to a record growth achieved in 2016 (+7.5%) which was mostly caused the absence of cyclical events in 2017. Neutralizing the impact of even-year cyclical events in both years, the 2017 growth rate was +4.5% compared to +5.7% the year before, suggesting a very moderate slow-down in underlying, non-cyclical advertising spending.

The slowdown in 2017 was concentrated in the first half (+4.0%) while t**he fourth quarter was the strongest of the year**, with advertising sales growing by +5.5%, based on MAGNA's analysis of media companies' financial reports. That pattern reflected a similar improvement of the macro-economic environment throughout the year (second half real GDP growth of +2.9% compared to just +2.1% in the first half) and robust retail sales in the fourth quarter.

Digital advertising sales grew by +18% last year to reach an estimated $85 billion, i.e. a market share of 46%, showing very little slowdown from 2016's growth of +20%. Meanwhile offline traditional advertising sales (linear television and radio, print, out-of-home) decreased by almost 5% (-4.7% excl. Cyclical), which was an acceleration from 2016 (-2.4%).

All traditional media formats suffered to a degree in 2017. National television NAR decreased by -2% to $42 billion, as CPM inflation did not quite offset the continued decline in ratings. Local television NAR decreased by -4% to $19 billion as key verticals such as auto dealers cut ad spend massively. Print ad sales shrank by -15% to $18 billion. Radio NAR decreased by -2% at $14 billion. Out-of-Home NAR showed modest growth (+1.1%) but even that was a significant slowdown from previous years (2016: +3.5%; 2015: +5.6%) due to lower spend from auto dealers and movie studios.

On the digital side, nearly every format benefitted from the general growth of digital marketing investments. Paid search advertising sales grew by +17% to reach an estimated $41 billion, digital video (including YouTube and streaming television services like Hulu and Full Episode Players) increased NAR by +28% to $9 billion and social media ad sales grew by an estimated +39% to reach $23 billion. The exception was static banners, which shrunk by -9% at $8 billion due to ad blocking, lower inventory and stagnant pricing. **Digital growth was entirely concentrated on mobile devices**: ad revenues generated by impressions on mobile devices (across all formats) grew by +40% to reach $48 billion while non-mobile impression revenues (desktop computers) shrank by -2%. Mobile advertising now represents almost **60% of digital advertising** and almost 30% of total advertising in the US, reflecting the continued growth of mobile media usage in every segment of the population.

Linear national television struggled in 2017 (NAR -2.2% excl. cyclical) following a decent performance the year before (+1%). Airtime pricing has remained strong (an average 10% inflation in CPMs in line with the last three years) but inventory has been shrinking at an accelerated rate in 2017: ratings fell -10% to -20% depending on day parts and demographics. No broadcasting segment was spared by the decrease in ad revenues: English-speaking broadcast networks (NAR -3%), Spanish networks (-7%), syndication (-1%) and cable networks (-2%). No TV genre was spared either, except News Networks which benefitted the political situation throughout 2017, with ratings up double-digit (although that boost is now fading away in 2018). Until two years ago, **Sports** broadcasts were largely immune from ratings erosion affecting every other genre, but that is no longer the case. For instance, the NFL, typically of the most popular TV sports, was down -15% in its regular 2017-2018 season (live ratings adults 15-49) for the second year in a row. Cable networks used to outperform broadcast networks' revenue performance by a large margin, but the gap has narrowed down in the last two years. 4Q17 marked the sixth consecutive negative YOY ad sales for national cable TV (-2.4%) due to the combination of viewing declines, cord-cutting and the increasing popularity of over-the-top video platforms on connected TVs.

Television companies were able to mitigate some of the decline in traditional linear ad sales by better monetizing their content on digital platforms (Hulu and Full Episode Players on mobile devices and OTT). MAGNA estimates TV advertising sales houses generated approx. $1.7 billion from those platforms in 2017 (+12%). That revenue, however, was not enough to offset the much bigger erosion in traditional TV ad sales and stabilize total, cross-screen television ad revenues. Combining traditional (linear) and digital ad sales, total **TV content NAR was still down by -1.8% last year**.

Looking at individual spending verticals, MAGNA observed a Vertical Divide in 2017. There's been a growing *divergence* and possibly a *bifurcation* in the media channel allocation patterns between two well-identified groups. Verticals that traditionally display high usage of national TV (the classic TV-Centric verticals: Movies, Pharma, Food/Drinks, Personal Care, Restaurants,) have *remained* mostly loyal to national linear television in 2017. On the other hand industries that already under-index national TV in their media mix (the Digital-Centric verticals: Technology, Retail, Telecom, Finance, Travel) have further *reduced* the share of national TV in their investment in 2017. Thus the **two groups have been drifting away from each other** in the last 18 months as their marketing patterns seem to diverge rather than converge, as was previously expected. One key factor behind this trend is that consumer product sectors lack the volume and granularity of consumer data that the second group possess, and thus draw less benefits from programmatic campaigns and digital media more generally. Moreover some brands in the TV-centric group have decided to pause their diversification toward digital/mobile media due to brand safety concerns or ROI transparency. MAGNA believes that, beyond that pause, all verticals will eventually diversify away from linear media into digital to follow their consumers' media habits, but the process may well take longer than initially expected for verticals whose business model has been symbiotically linked to mass national television.

This "Vertical Divide" is mixed news from a television perspective. The good news is that its core advertisers are remaining loyal for now, and willing to tolerate continued CPM increases as supply is shrinking. The bad news is that most of those TV-centric, TV-loyal industries are not displaying a lot of product innovation while their sales are plateauing (auto, CPG, QSRs) or falling (cinema box office). Those mature sectors therefore freeze or cut their marketing and advertising expenditures. In 2017 net ad spend was down for almost all TV-centric verticals: auto -7%, movies -22%, food/drinks -9%, pharma -1% (a notable exception was personal care +9%) while digital-centric verticals expanded advertising investment: finance +9%, retail +5%, technology +40% (driven by the battle of voice assistants between Google and Amazon). Television is therefore getting a stable share of shrinking budgets from those verticals, while it attracts a shrinking share of budgets from growth verticals.

2018 FORECAST: DIGITAL AD SALES REACH 50% OF TOTAL AD DOLLARS

For 2018 MAGNA anticipates that a robust economic environment and historically high consumer confidence should generate yet another growth year for the US advertising market. MAGNA is anticipating the overall market to grow by +5.5% to $197 billion. This is an acceleration on last year (+2.7%) and stronger MAGNA's previous forecast of +5.0%.

Excluding the boost provided by cyclical events (mid-term elections, Winter Olympics, FIFA World Cup), normalized growth would be just +3.7%, i.e. slightly less than 2017 (+4.5%).

Digital media formats will, once again, concentrate most of the growth of the market. Digital NAR (search, display, and video, social) will grow by +14% to reach $97 billion and **a market share of 50%** (excl. cyclical). Meanwhile, traditional offline advertising revenues will shrink by -5% to 96 billion (excl. cyclical).

While the volume of social media users has reached saturation in the US, growing usage, robust pricing and product innovation (mid-rolls in Facebook Watch, augmented reality, etc.) will continue to drive supply and demand, resulting in +30% growth. **Digital Video** ad sales will grow by +23% as an increasing amount of total video consumption shifts to YouTube, Hulu, and other digital options. Furthermore, an increasing amount of formerly static inventory online has transitioned to become video inventory as publishers shift their content production heavily towards video. Finally, Paid Search will grow by +13% as more options in targeting and personalization have increased the already high impact of search advertising on advertisers' bottom lines.

Meanwhile, national television ad sales are expected to decrease by -2%, local TV by -3.5%, print by -18%, and linear radio by -4%. OOH is the only traditional media channel likely to post net revenue growth (+2%) thanks to further organic growth in digital/ambient OOH inventory. One example is the launch of a multi-year development plan by Outfront Media and the New York Metropolitan Transit Authorities (MTA), aimed at installing 50,000 digital screens in the subway and bus systems, starting in 2018.

Linear broadcast **radio advertising sales** will continue to suffer in 2018 because of a negative pricing trend (CPM -3%) and the continued decline in listening which eclipse the channel's high reach – with an expected NAR decline of 4%. The digital advertising sales of radio broadcasters and streaming players will grow by approx. 10%, mitigating the declines of the legacy linear ad formats. However, the combined "audio advertising" (broadcast + digital) market is still expected to shrink by -2%. The recent "Chapter 11" filings of iHeartMedia and Cumulus (which together represent 25% of the entire radio ad market), reflect the struggle of this media category. Finally **direct mail** advertising revenues will decrease by -4% to $18 billion, as the expected boost from political mailing campaigns will not offset the long term erosion of mailing caused by the competition of digital formats.

In its report, MAGNA notices the **"Growth Paradox"** of an advertising market showing relatively modest growth in 2017 and 2018 (and slowing down since its peak growth rate of 2016) in a macro economic environment that is nominally one of the best in the last 20 years. History-based statistical models indeed suggest that marketing/advertising spending should be much higher in that economic environment. The explanation for that apparent paradox is that US consumers, feeling wealthy and optimistic, are indeed spending their growing disposable income BUT not primarily in products and services that re-invest a high proportion of their revenues in advertising (verticals like CPG, Food, QSR, Personal Care, Automotive, which dedicate 4% to 10% of their revenues to advertising). Instead, consumers increase their spend on technology products, travel, home improvement, and financial products… all sectors that typically dedicate a much smaller share of their revenues to advertising investment (1% to 3%).

In addition, within every vertical, **high-end or niche products/services are the ones benefiting from the expansion of consumption**, not low-end commoditized products. Consumers are increasing their consumption of organic foods and fancy restaurants while sodas and QSRs are increasingly struggling. The problem of course is that niche brands and boutique shops typically dedicate much less to advertising than mass products and large chains.

Finally, automotive is a case of its own: car sales dipped by -3% last year after 8 years of continued strong growth. The market is still healthy and plateauing around an all-time high of 17 million vehicles, but marketers and dealers choose to support incentives rather than increase media spend in what appears to be a saturated market; this explains why a modest dip in car sales led a massive cut in auto ad spend in 2017, and MAGNA expects more of the same in 2018. All of these factors contribute to the apparent paradox of a booming economy not giving way to a booming advertising market, just a decent one.

Vincent Létang, EVP Global Market Intelligence at MAGNA and author of the report, said: *"A buoyant economic environment and record-high consumer confidence will continue to fuel advertising spending in 2018 but that growth will be almost entirely captured by digital media owners, as digital ad sales will reach 50% of total ad dollars by end-year"*.

*The **full MAGNA report** is available to Mediabrands clients and **MAGNA Intelligence** subscribers.*

*The **next update** of MAGNA's advertising revenue forecasts will be published in June 2018.*

KEY FIGURES

Net Ad Revenues	2017 Growth	2018 Size ($m)	2018 Growth	2018 Market Share
National Television (incl. CE)	-3.9%	42,231	-0.3%	21.5%
National Television (excl. CE)	-2.2%	41,493	-2.0%	21.5%
Local Television (incl. CE)	-14.0%	21,671	9.6%	11.0%
Local Television (excl. CE)	-3.6%	18,696	-3.8%	9.7%
Digital Media Total	18.1%	97,352	14.3%	50.4%
of which Mobile	39.7%	62,649	29.5%	32.4%
of which Desktop	-1.8%	34,702	-5.8%	18.0%
Search	17.1%	46,123	12.6%	23.9%
Video	27.7%	11,025	23.2%	5.7%
Social	38.8%	29,507	30.0%	15.3%
Print	-14.6%	14,552	-18.0%	7.5%
Radio	-2.3%	13,136	-4.1%	6.8%
OOH	1.1%	7,977	2.1%	4.1%
Total Core Media (incl. CE)	2.7%	196,919	5.5%	
Total Core Media (excl. CE)	4.5%	193,206	3.7%	100.0%
of which Traditional Media	-4.7%	95,855	-5.1%	49.6%

Source: MAGNA Ad Forecasts, March 2018

Figure 1: Net Advertising Revenues (Last 12 Quarters) (Excluding Cyclical Events)

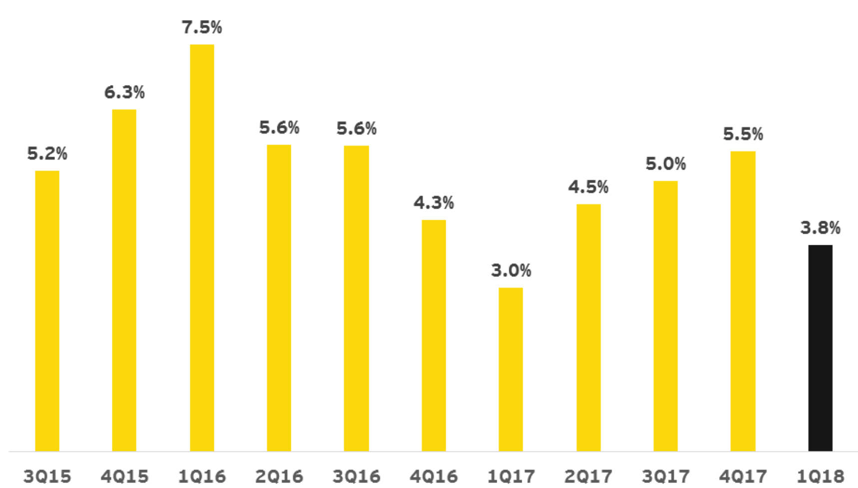


Figure 2: Net Advertising Revenues (Last Seven years) (Excluding Cyclical Events)

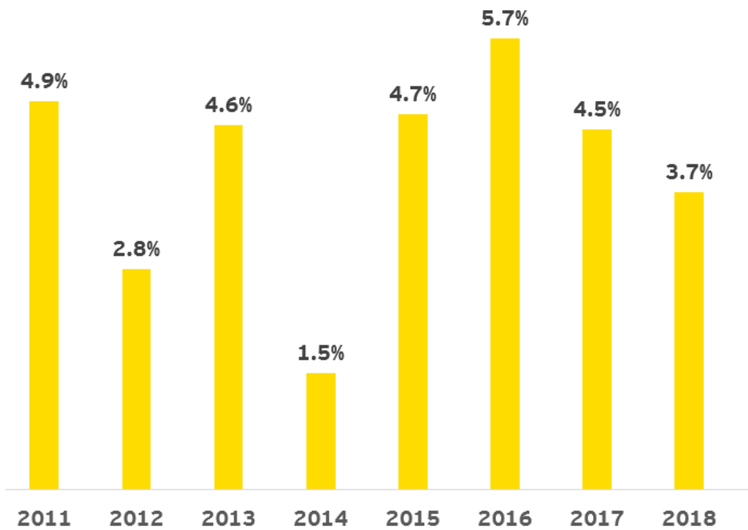
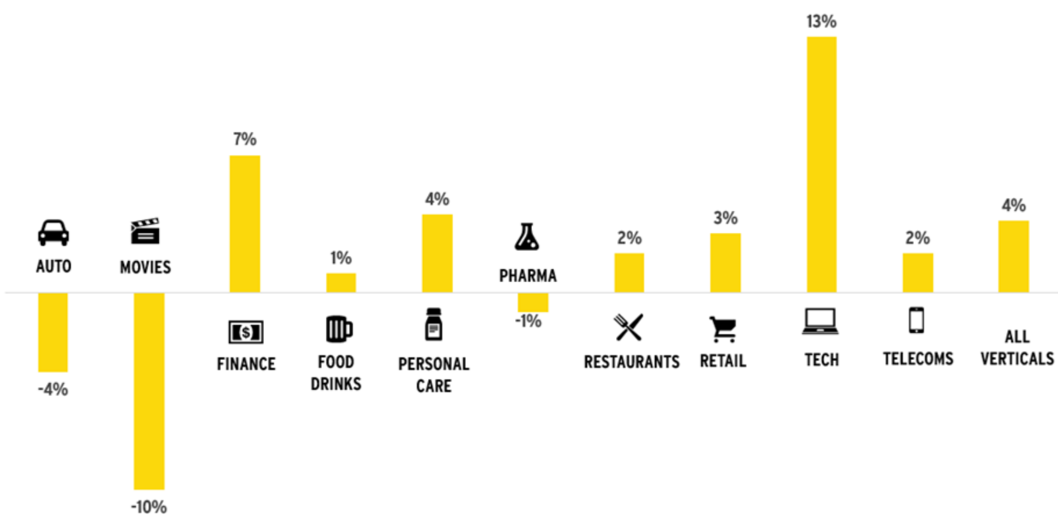


Figure 3: Advertising Spending Growth from Key Verticals in 2018 (Excl. Cyclical)



ABOUT MAGNA

MAGNA is the centralized **IPG Mediabrands** resource that provides intelligence, investment, and innovation strategies for agency teams and clients. MAGNA harnesses the aggregate power of all IPG media investments, $21B in the US and $41B worldwide, and utilizes powerful insights, market forecasts and strategic relationships to provide a marketplace advantage.

MAGNA intelligence provides a 360 degree view of the marketplace through best-in-class analysis and proprietary research. Their insights are the backbone of the Investment and Innovation teams' go-to-market and partnership strategies.

When it comes to the media economy, MAGNA's Market Intelligence team is the trusted source for Wall Street and has set the industry standard for more than 60 years by predicting the future of media value. This requires not only a deep understanding of media owners' advertising revenues, but also of the larger economic trends and category activity that directly impact market shifts. MAGNA distributes updated Ad Spend Forecasts on a quarterly basis and used by over 30 major companies in media, finance, technology and consulting.

To provide a comprehensive perspective, the Audience Intelligence team studies consumer behavioral shifts and their interaction with media. The resulting hypotheses are tested in the team's unique Media Trials program, employing proprietary tools to scientifically analyze ad formats and tactics. Together, they establish best practices for marketing communication in a rapidly evolving ecosystem.

Finally, the Audience Intelligence team leads the charge for IPG Mediabrands in evolving media measurement. This includes creating new currencies to trade upon, pushing our data partners to evolve their products, and advocating for open source solutions to make measurement more transparent and efficient.

To learn about MAGNA Market Research and Forecasts, contact Vincent.Letang@magnaglobal.com.