

## PAI – Q2 QTD – Increasing Signs of Improvement, Along with an Uptick in Advertiser Confidence

June 5, 2020

**BOTTOM LINE:** While its likely not totally shocking at this point, we think that April increasingly feels like the bottom, and the linearity of the quarter appears to be much better in May, with expectations for continued rebound into June. Our and the Street's 2Q20 estimates are largely in the range of where the companies indicated they were pacing for the quarter in April/early May, and our expectations are that there is likely upside to revenue numbers of at least 4-7%. We will be waiting to see how June shapes up, as well as color around 2H outlook before refining our estimates, but numbers are likely going higher.

Marketers, and their decision on how aggressively to lean in, continue to watch some of the same things investors and consumers have been tracking – Covid-19 case growth, the pace of reopening, etc. From what we can ascertain, they largely appear to be tracking the pace of broader economic reopening. The world seemingly stopped in mid-March/early April, but following this, a tale of two different marketing cohorts emerged different dynamics – brand marketing and direct response marketing.

Direct-response marketing has been surprisingly resilient. As we called out earlier this week, the combination of lower media pricing, offline stores being shuttered and a captive consumer with more idle time on their hands than typical was a perfect storm. We heard through late April/early May from some native-DTC ecommerce brands about successive daily record levels of spend combined with incredibly robust conversion rates.

We think that the pricing tailwind for DR brands has weakened, and are hearing vignettes about pricing down 10% from pre-Covid 19 levels, but we have been surprised to hear about heightened levels of spend. As more of the States begin to re-open over the course of June, it will be fascinating to see how the DR channel responds. Gaming, in particular, we suspect will see some retrenchment – with FB and SNAP the most exposed.

Overall, our view on brand marketing has not radically shifted and we think the recovery will take longer than investors are expecting. Ex-CPG, where we are seeing signs of brands playing offense, we believe that many CMOs/CFOs are taking a more conservative approach. While we suspect it will have a relatively more muted recovery, PAI June estimates were substantially better relative to May, so would suggest a healthy degree of recovery in that segment as well.

In terms of themes we are intrigued about, the “productization” of retail/ecommerce advertising is among the most prospectively game changing we have seen in some time. Moves by GOOG, FB and this week with SNAP would imply to us that the cards are stacking up favorably. We would note that we didn't see much within PAI around the relaunch of FB Shops, and suspect that its unexpected launch was not well anticipated by the sales force. We would expect that interest increases over the course of 3Q20, with hopeful potential inflection ahead of the holiday season.

We will be discussing some of our insights in greater detail in a Zoom conference call that we are hosting TODAY at 12pm ET. Please contact [Chad@pvtl.com](mailto:Chad@pvtl.com) for the details.

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### Amazon (AMZN)

**RATING: BUY**  
**Target Price: \$2,700.00**  
Price (6/4/20): \$2,478.40

### Alphabet (GOOG)

**RATING: BUY**  
**Target Price: \$1,575.00**  
Price (6/4/20): \$1,439.25

### The Trade Desk (TTD)

**RATING: BUY**  
**Target Price: \$345.00**  
Price (6/4/20): \$354.98

### Snap (SNAP)

**RATING: BUY**  
**Target Price: \$21.50**  
Price (6/4/20): \$19.73

### Pinterest (PINS)

**RATING: HOLD**  
**Target Price: \$22.00**  
Price (6/4/20): \$21.44

### Twitter (TWTR)

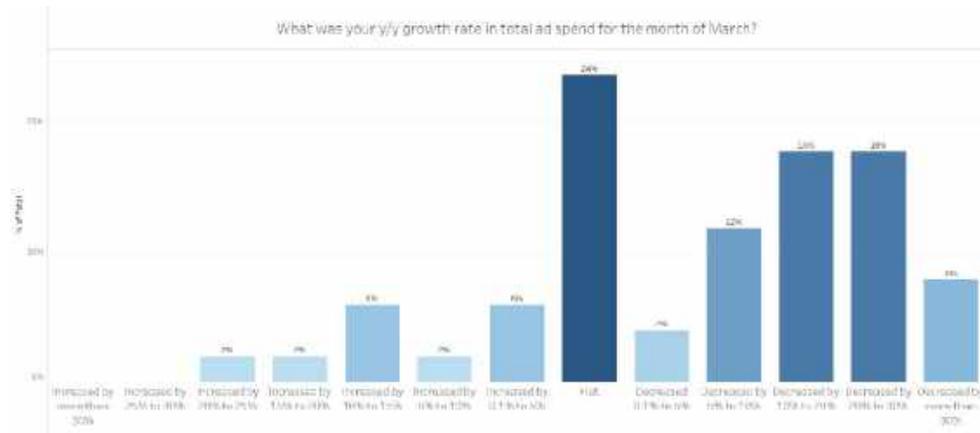
**RATING: HOLD**  
**Target Price: \$32.00**  
Price (6/4/20): \$34.88

### Facebook (FB)

**RATING: HOLD**  
**Target Price: \$225.00**  
Price (6/4/20): \$230.16

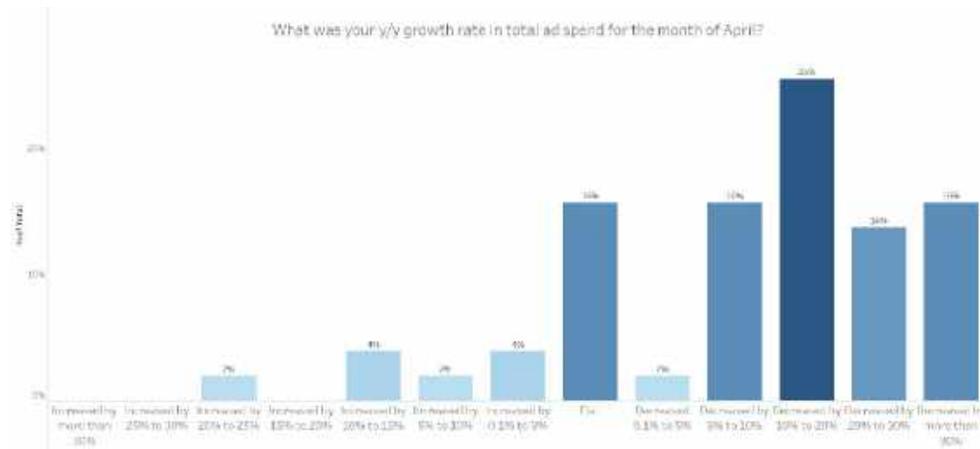
# Online Advertising 2Q20 - QTD

## Exhibit 1: Y/Y Growth Rate in Total Ad Spend – March



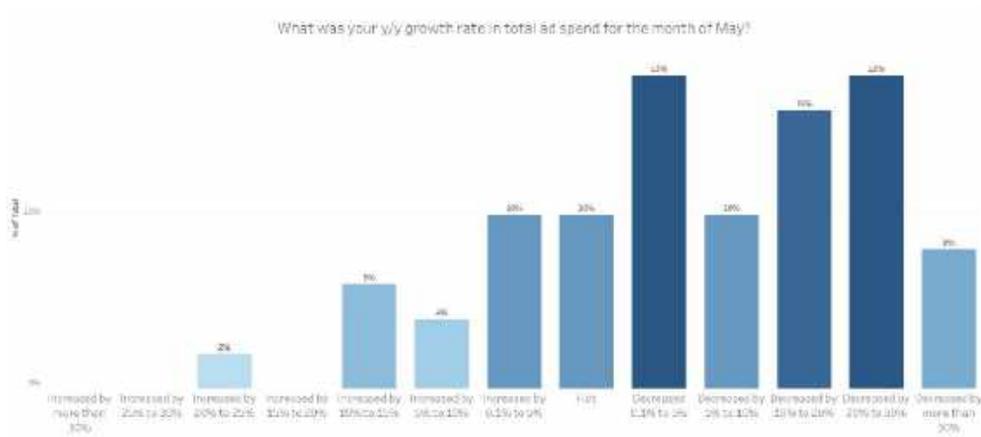
Source: PAI May 2020

## Exhibit 2: Y/Y Growth Rate in Total Ad Spend – April



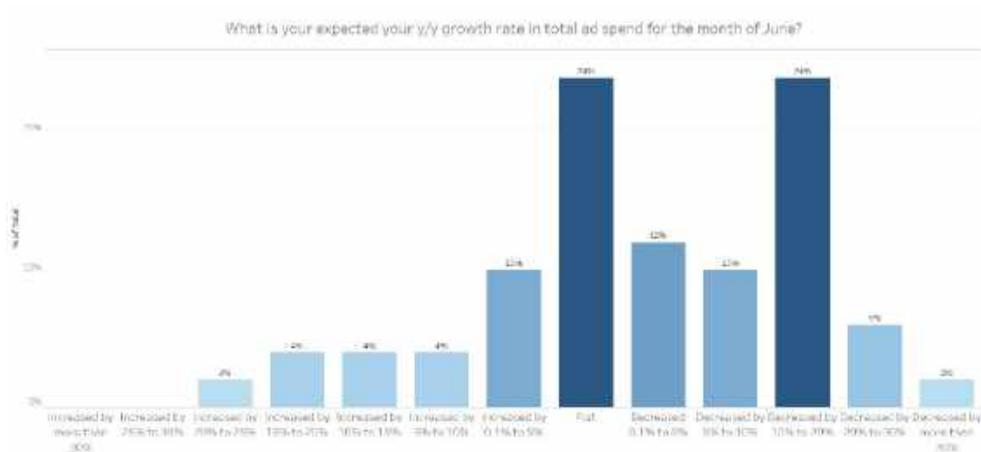
Source: PAI May 2020

### **Exhibit 3: Y/Y Estimated Growth Rate in Total Ad Spend – May**



Source: PAI May 2020

### **Exhibit 4: Y/Y Estimated Growth Rate in Total Ad Spend – June**

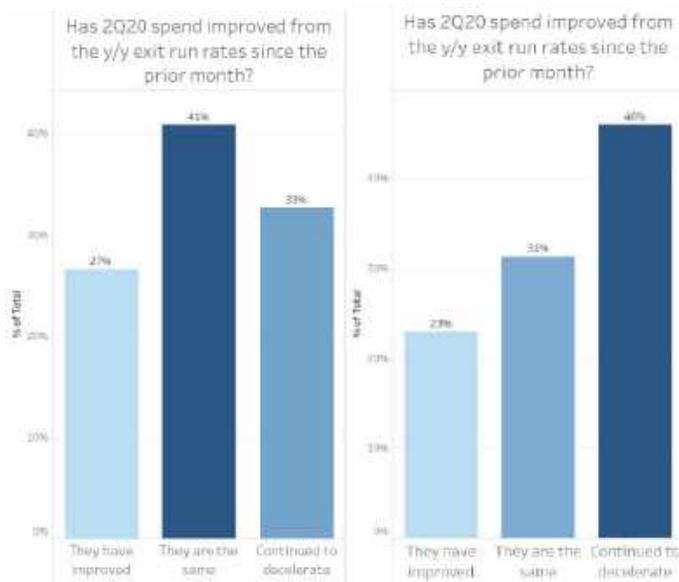


Source: PAI May 2020

**Pivotal Take:** 55% of respondents indicated total ad spend would be down more than 10% y/y in April. This compares to 44% of respondents who saw ad spend declines of more than 10% y/y in the March. For May, 42% of respondents indicated spend would be down by more than 10%, and this improves to 32% of people seeing y/y declines of greater than 10% in June.

Additionally, the greater than 20% y/y declines respondents dropped significantly in June estimates vs May and we think this is supportive of continued positive linearity within the quarter and implies upside to estimates.

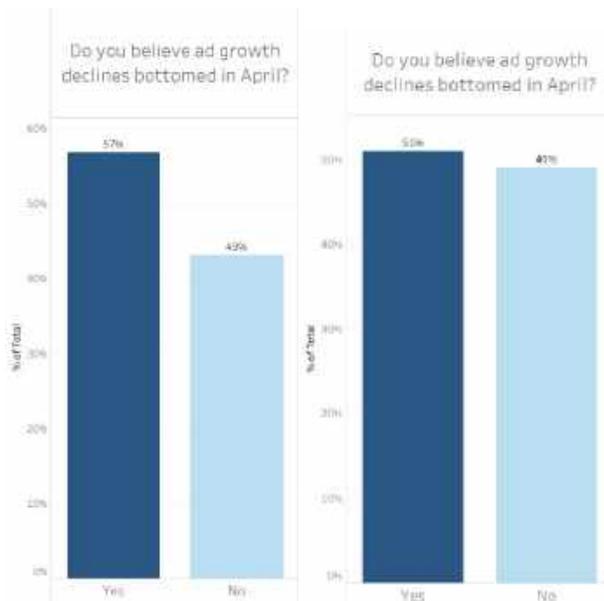
## Exhibit 5: Exit Run Rates



Source: PAI May 2020

Source: PAI April 2020

## Exhibit 6: Have Ad Declines Bottomed?



Source: PAI May 2020

Source: PAI April 2020

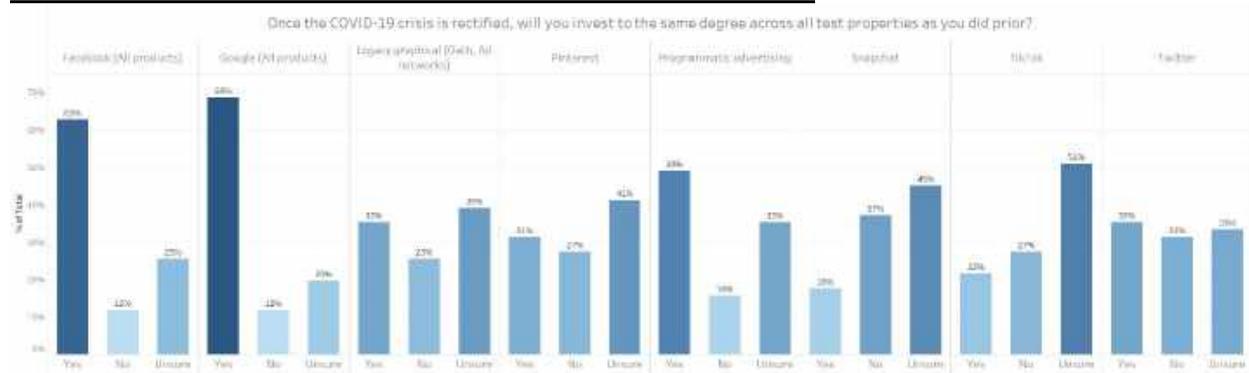
**Pivotal Take:** 57% of respondents believe ad growth declines bottomed in the month of April, up from 51% of people in the April read. We suspect this is likely due to slightly better visibility. Additionally, per Exhibit 5, the exit run rates continued to improve. Qualitative responses below offer additional insight into why advertisers believe the declines have bottomed.

## **Exhibit 7: Qualitative Question Regarding Ad Declines and What Has Changed**

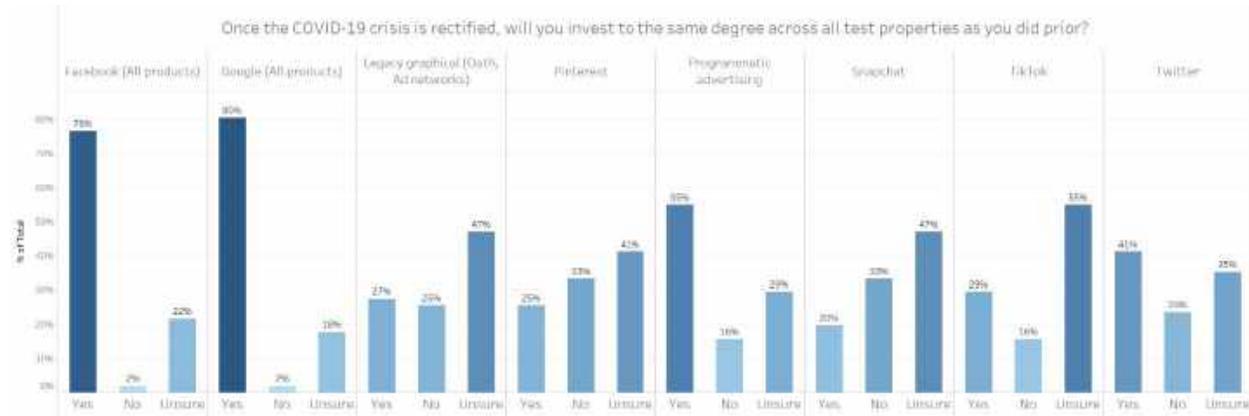
- "Outlook for June and back to real life - seeing budgets increase for June."
- "COVID forced ad spending to be more efficient in being in select TV Day Parts (I.E. News/Prime) & Digital Video"
- "Increase in inventory and drop in prices lead me to believe that this has been a bottoming out."
- "Better attribution"
- "News across the Country regarding impending re-opening lead to revised media plans beginning spend in June 2020"
- "Some amount of economic uncertainty is lifting in light of changing government regulations. Advertisers have greater clarity into how their investments can be acted upon by customers."
- "May is up or should I say down less YoY"
- "March was the start of the downfall, April being the true bottoming falling out. May has already trended back up for the vast majority of brands due to COVID"
- "More supply and less demand"
- "COVID seemed to come under control ad-spending wise."
- "The world is starting to emerge"
- "Yes, we hit the bottom of our budgets in mid-April"
- "Spending has started to increase"
- "Seeing a return in May"
- "I think most of the major changes/ reductions for the Q2/ Q3 have been done. TBD if more to come"
- "Slow Re-Opening"
- "Some business openings"
- "While still slow and long time to recover, businesses are beginning to spend again and focus efforts to acquire and retain customers to stay in business as they reopen"
- "April was when the budgets got turned off and we are slowly bringing them back again."
- "Things have been looking up slightly since May, with stay at home orders beginning to loosen up in our area."
- "We saw in May businesses that had been on pause for the better part of late March and April start to come back with paid activity. This included Retail, QSR and many Entertainment clients. Even some tourism campaigns are tentatively scheduled to go live in early June. We're going month to month but whereas we handle a wide swath of verticals, we're only seeing a few specific types of clients be completely dark. Automotive, especially Tier II and Tier III auto (regional and local dealerships) is one of the verticals we don't expect back for most of 2020."
- "Stimulus passed"
- "April is right in the middle of the Covid-19 period where most businesses were shut down. We are starting to see things go back up in May"
- "markets started reopening"

Source: PAI May 2020

## Exhibit 8: Level of Investment Before and After Covid



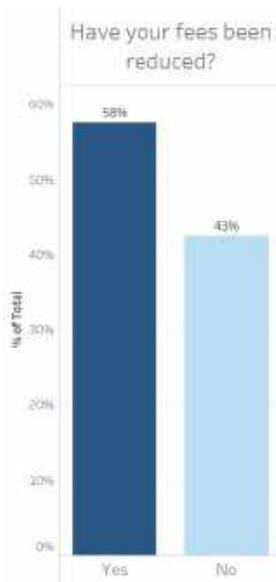
Source: PAI May 2020



Source: PAI April 2020

**Pivotal Take:** Overall, we are often asked as to whether the crisis will further expand the duopoly's dominance and the data would suggest, not surprisingly, that they are well positioned. For the smaller players, we see positive results for programmatic. They are more mixed for TWTR, PINS, SNAP and TikTok, though think this could be having an impact based on the point in time we are asking – where agency teams are likely still more triage crews.

## **Exhibit 9: Agency Fees**

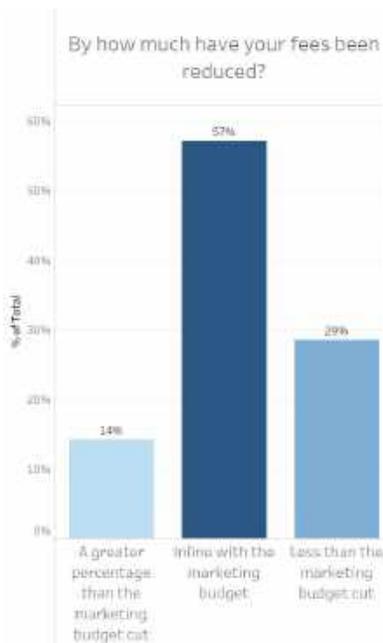


Source: PAI May 2020

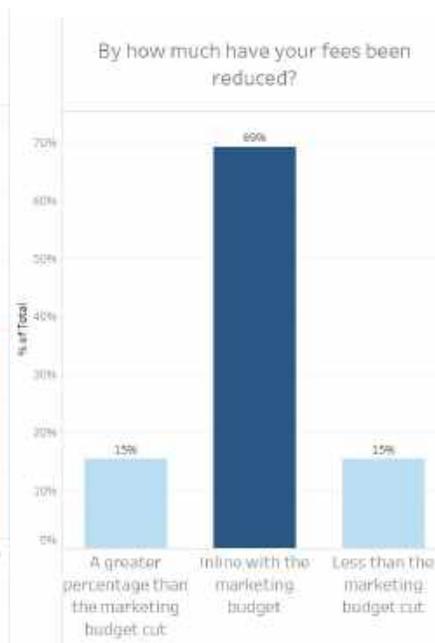
**Pivotal Take:** 58% of respondents have seen a reduction in their fees compared to 43% that have not. This compares to a 50/50% split in our April read. In Exhibit 10 (below), the overwhelming majority in both our May and April reads quantified the reduction as being inline with cuts in marketing budgets. We have been hearing about layoffs happening within the agency complex, so think this is not terribly surprising.

Also in Exhibit 10, there was an increase in the percentage of respondents who quantified the agency fee cuts as being less than the overall marketing budget cut.

## **Exhibit 10: The Magnitude of Fee Reductions**

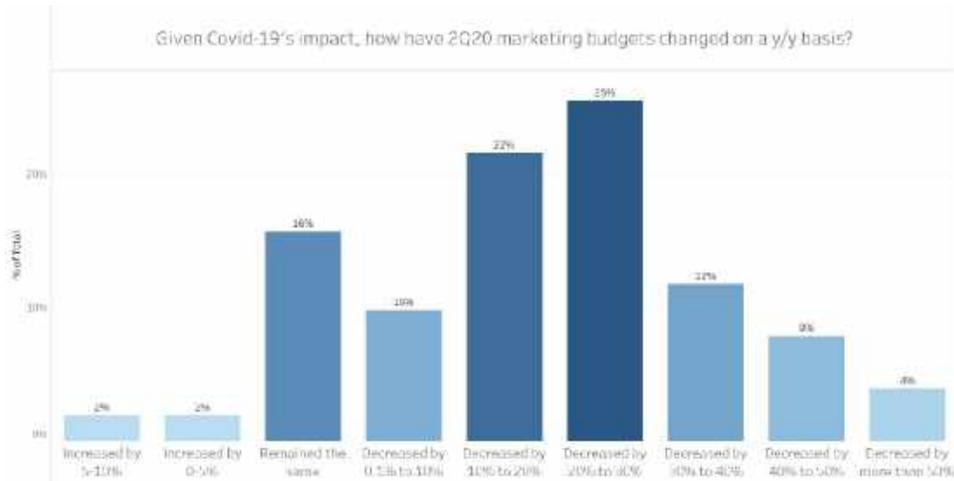


Source: PAI May 2020



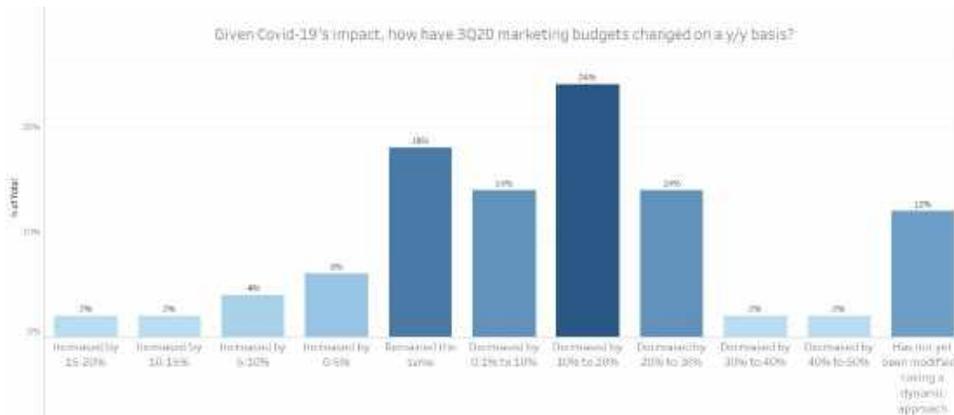
Source: PAI April 2020

## Exhibit 11: 2Q20 Budget Changes



Source: PAI May 2020

## Exhibit 12: 3Q20 Budget Changes



Source: PAI May 2020

**Pivotal Take:** 79% of respondents expect 2Q20 budgets to be down y/y compared to 68% seeing a y/y decline in 3Q20. We see these results as supportive of our belief that branding will likely take a longer time to fully recover than investors are appreciating and, as a reminder, our survey skews heavily towards branding vs. direct response.

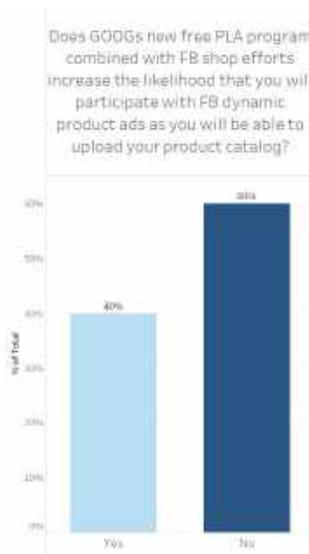
# “Productization” of Retail/eCommerce Advertising

As we have been discussing over the last month, we have been particularly struck by 1) GOOG’s introduction of free PLAs, 2) FBs aggressive push with Shops, 3) SNAP announcing a more aggressive roll out of dynamic product ads.

In short, we think that the combination of these different forces is going to drive advertisers to productize their advertising – i.e. increasing focus on shopping feeds which appropriately index their catalog/skus, and allows for dynamic changes around pricing and potential sales. More “content” in the actual ad products will drive higher response rates and be more contextually compelling in social constructs.

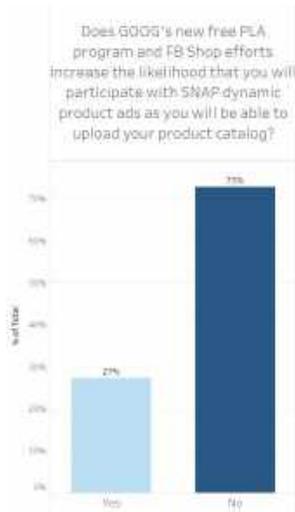
Specifically, we asked about this with FB, SNAP and PINS and will be continuing to watch this dynamic closely over the next few months as we approach back-to-school and prepping for the holidays. In our view, this could be a huge incremental unlock for the category, and we think may be underappreciated by investors.

## **Exhibit 13: FB Dynamic Product Ads**



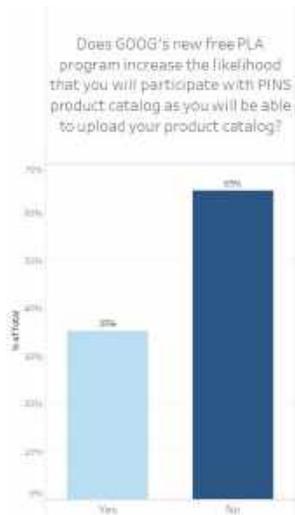
Source: PAI May 2020

## **Exhibit 14: SNAP Dynamic Product Ads**



Source: PAI May 2020

## **Exhibit 15: PINS Product Catalog**



Source: PAI May 2020

# TikTok

Among the greatest areas of controversy we hear from investors are around TikTok's impact to both usage as well as the potential revenue impact to the existing players. TikTok has been a clear usage beneficiary during the Covid crisis, and the hiring of Kevin Mayer from Disney as CEO has only further highlighted their profile.

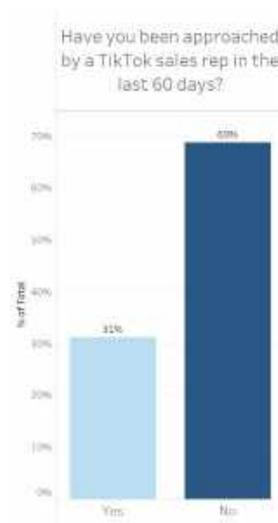
We suspect that TikTok usage is having some impact on both YouTube usage - given the use case in music - as well as with Instagram. We don't subscribe to the bear case that given the younger 18-24 demographic, that they represent a huge threat to SNAP. The younger demographic has if anything become increasingly challenging to reach given that they are often "cord-nevers", so we think there is ample budget to fund both. To the extent TikTok were to introduce chat, we are respectful that there could represent a greater risk to SNAP.

We have heard some chatter that TikTok is in market at extremely low CPCs in order to get onto plans, and have heard little to substantiate this both in our extensive qualitative checks nor from PAI. We would note for investors who may not have context on the China market, that in March/April of 2019, Bytedance (the Chinese parent company of TikTok) unleashed massive volumes of cheap video advertising in the China market. This was incredibly disruptive to Baidu/(iQiyi), Tencent and Alibaba (Youku/Tudou) and drove weakness in pricing.

Given TikTok and Bytedance are private, this would not be a totally shocking tactic as it was successful in the China market and the "private-to-public" narrative would be good in that it would allow TikTok to show share gains and margin improvement from a low-price CPM level.

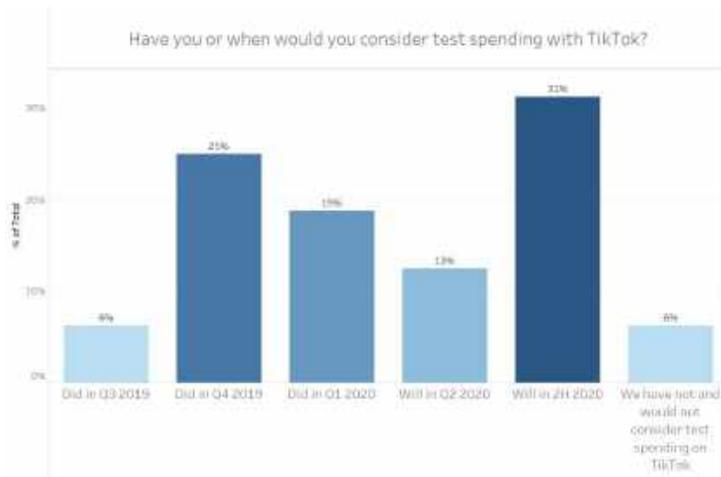
We suspect TikTok will continue to be an important subject for investors, though would frame that we still believe revenue numbers in the US to be relatively small.

## **Exhibit 16: Contact with TikTok Sales Rep**



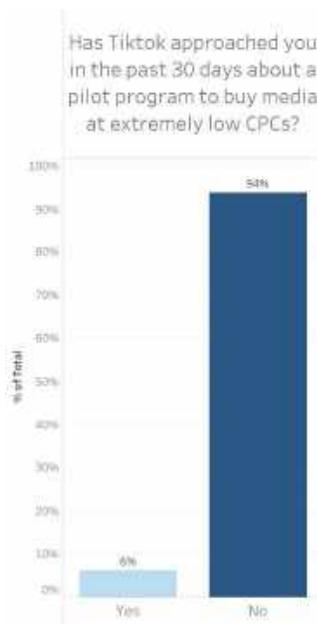
Source: PAI May 2020

## **Exhibit 17: Would you consider spending on TikTok?**



Source: PAI May 2020

## **Exhibit 18: TikTok Pilot Program**

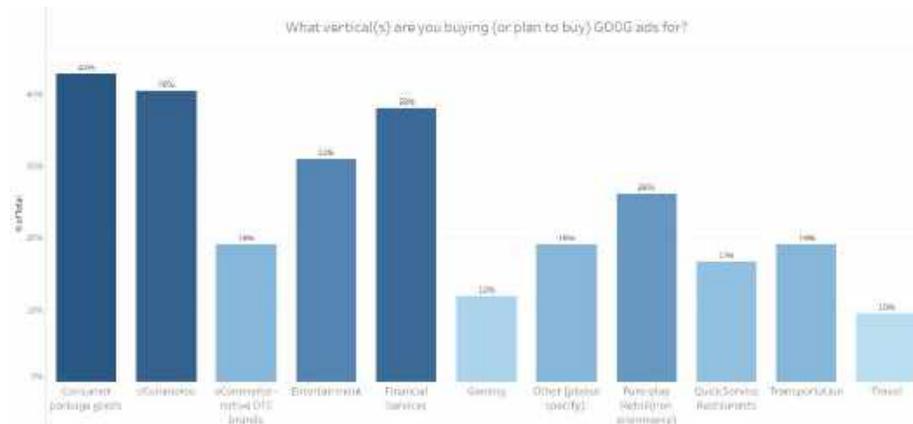


Source: PAI May 2020

On the pilot program referenced in Exhibit 18, we had one respondent that explained the program - "It's a program specifically in the auction to win over direct response clients who have been used to FB Newsfeed campaigns." We thought this was interesting but believe that if there is a beta program in the market, it is limited.

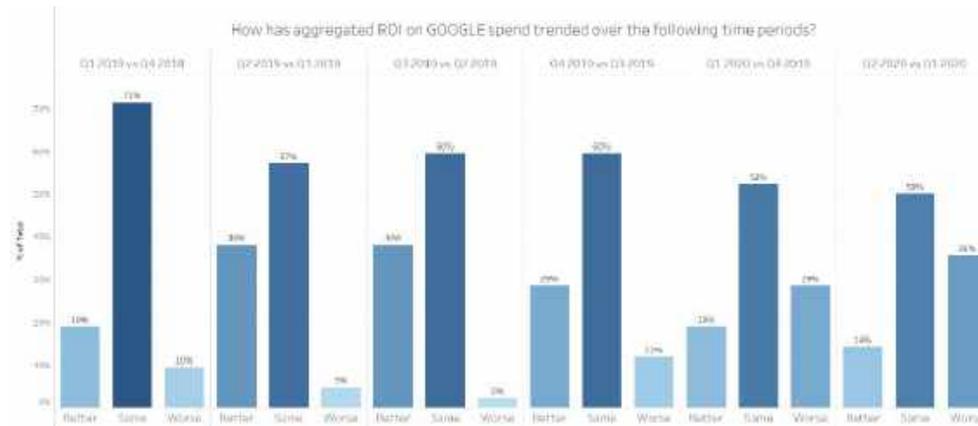
# GOOG - PAI INSIGHTS 2Q20 - QTD

## Exhibit 19: Google Vertical Exposure

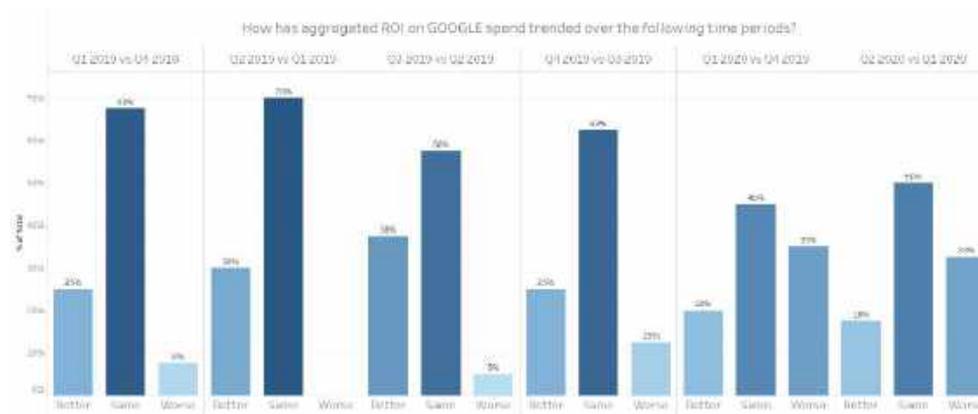


Source: PAI May 2020

## Exhibit 20: Conversion Rates Through May 2020



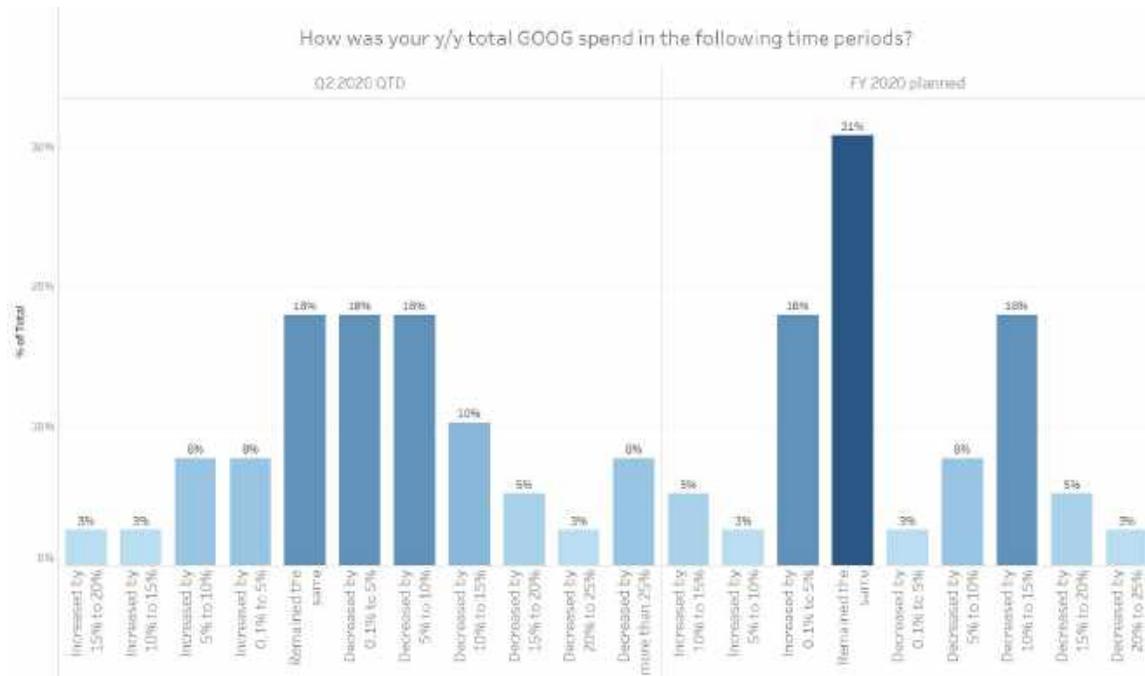
Source: PAI May 2020



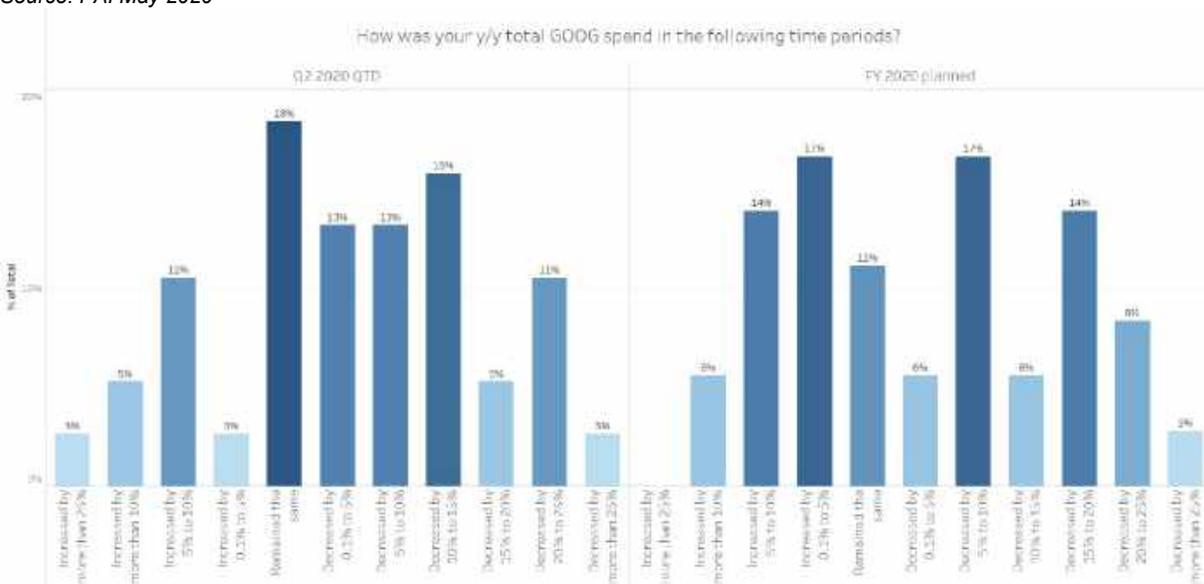
Source: PAI April 2020

**Pivotal Take:** Neutral update – we saw a small downtick in the “Better” ROIs bucket in May compared to April and a slight uptick in the “Worse” ROIs bucket, though the results are largely the same.

**Exhibit 21: GOOG Y/Y Spend for 2Q20 QTD and FY20 Planned**



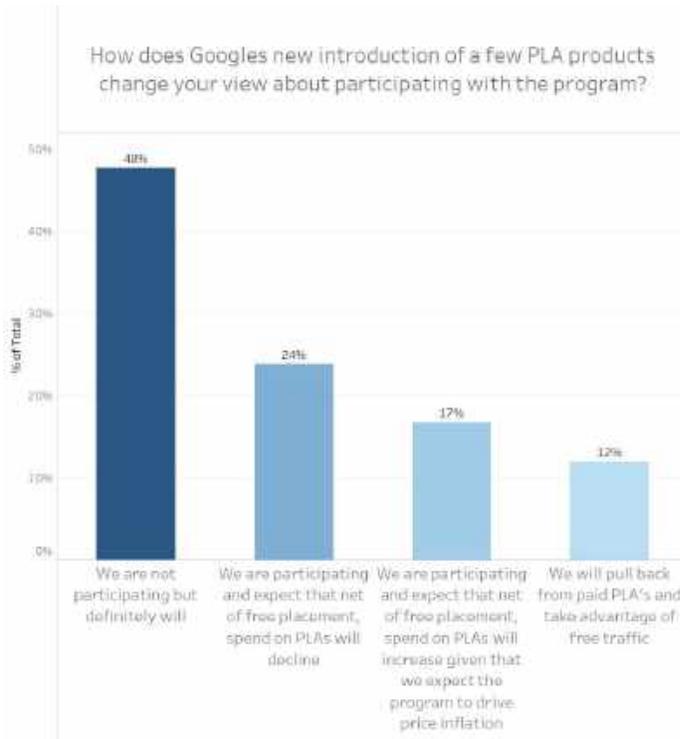
Source: PAI May 2020



Source: PAI April 2020

**Pivotal Take:** For 2Q20 QTD, 22% saw an increase in y/y spend and 62% a/y decline compared to the April results of 22% and 61% respectively. For 2020 planned, 26% expect a y/y increase in Google spend and 37% a decline which compares to the April results of 37% and 54% respectively.

## Exhibit 22: Introduction of PLA Products

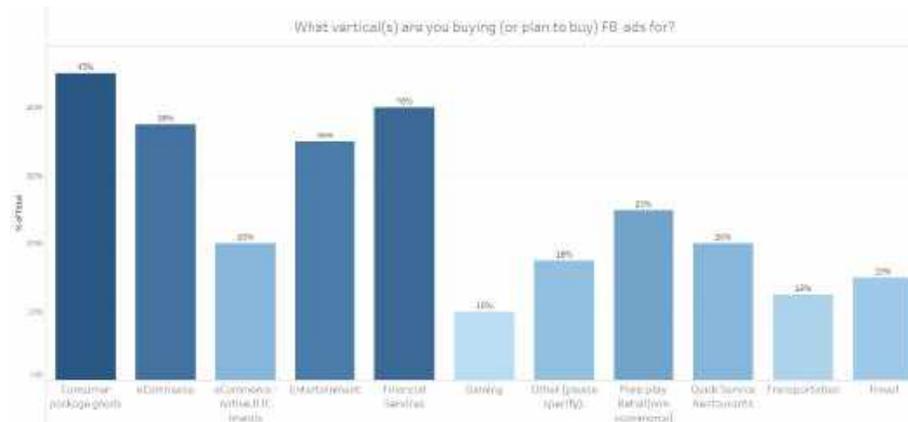


Source: PAI May 2020

**Pivotal Take:** We were impressed by the percentage of respondents (48%) that 'are not currently participating but definitely will' in Google's program with new PLA products.

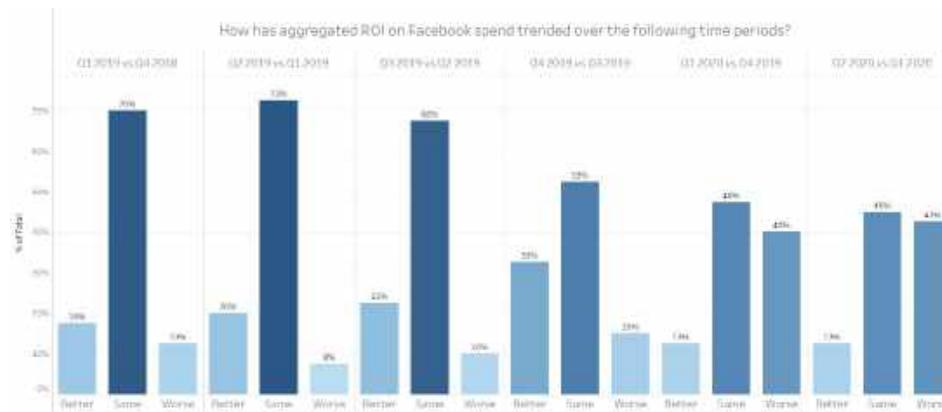
# FB - PAI INSIGHTS 2Q20 - QTD

## Exhibit 23: Facebook Vertical Exposure

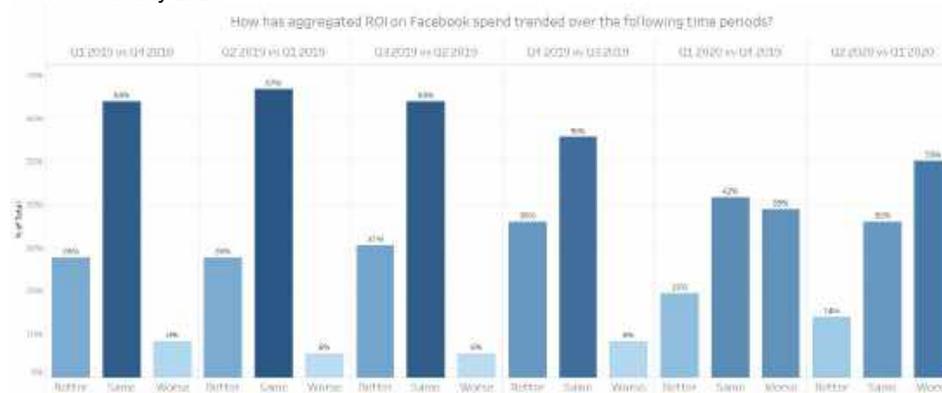


Source: PAI May 2020

## Exhibit 24: Conversion Rates Through May 2020



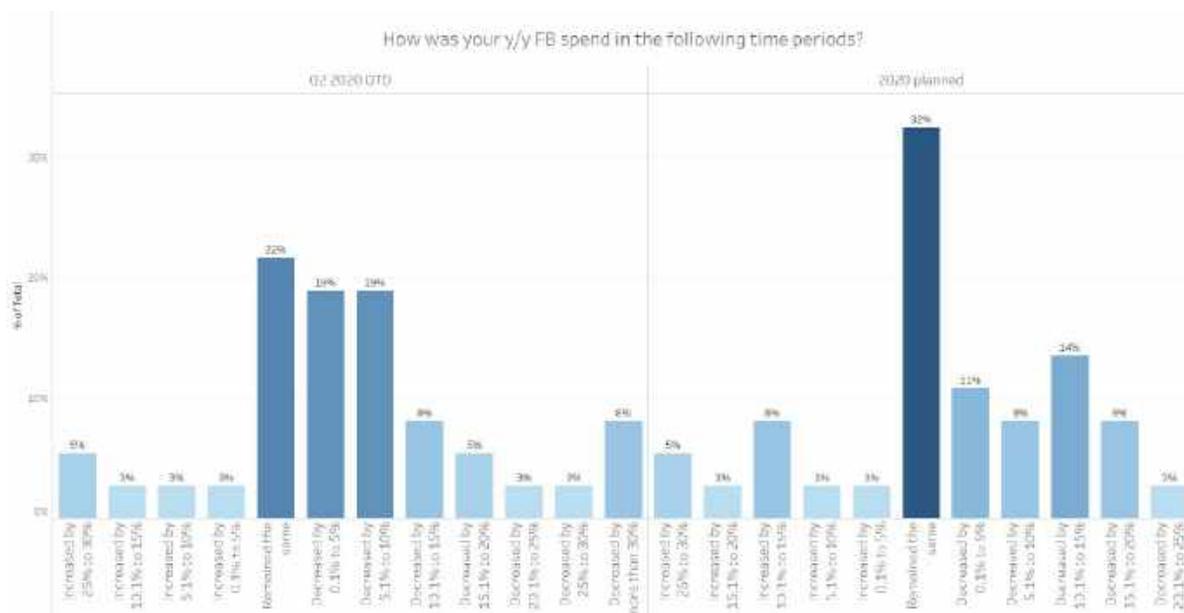
Source: PAI May 2020



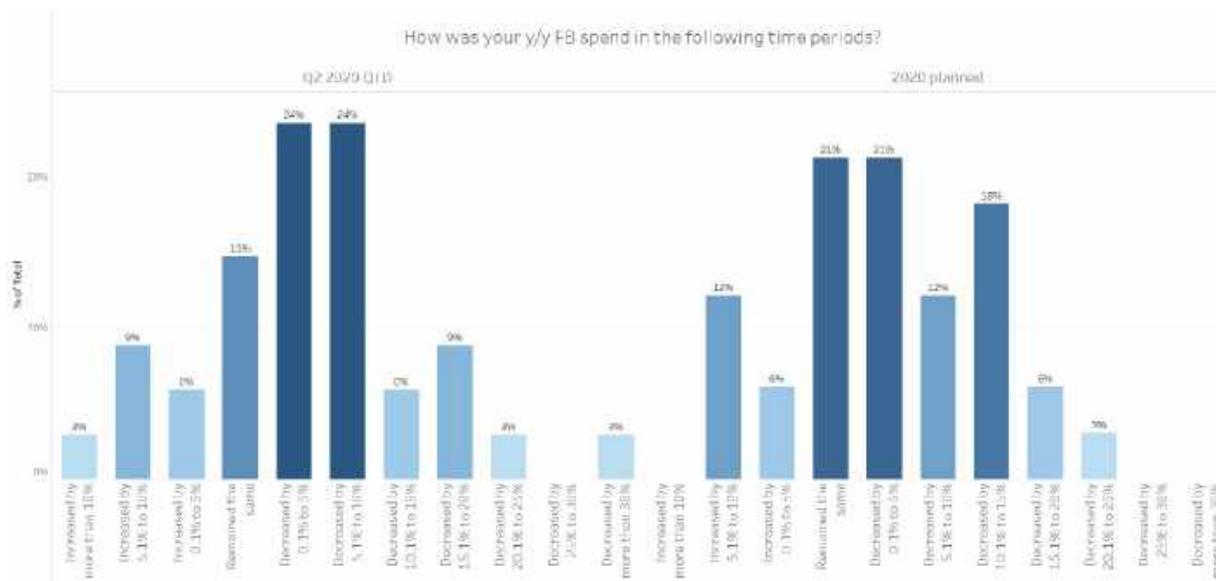
Source: PAI April 2020

**Pivotal Take:** Slight positive update – there was a decline in the percentage of respondents seeing “Worse” ROIs for 2Q20 vs. 1Q20 period to 43% in May compared to 50% in our April read.

**Exhibit 25: FB Y/Y Spend for 2Q20 QTD and FY20 Planned**



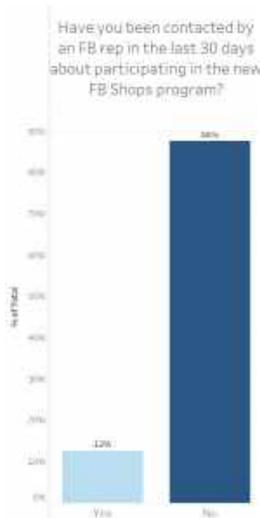
Source: PAI May 2020



Source: PAI April 2020

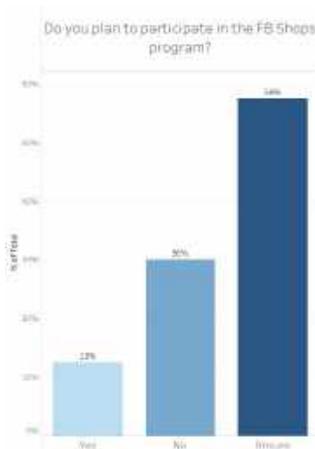
**Pivotal Take:** For 2Q20 QTD, 14% saw an increase in y/y spend and 65% a y/y decline compared to the April results of 18% and 45% respectively. For 2020 planned, 22% expect a y/y increase in Facebook spend and 44% a decline which compares to the April results of 18% and 60% respectively.

**Exhibit 26: Have you been contacted by an FB Rep**



Source: PAI May 2020

**Exhibit 27: FB Shops**



Source: PAI May 2020

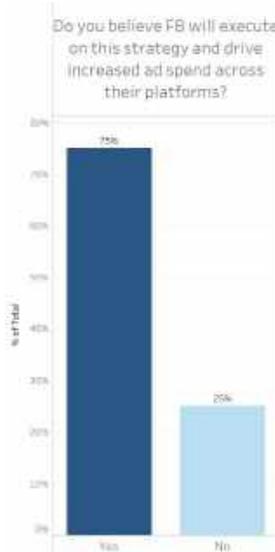
**Exhibit 28: Please elaborate on why you aren't planning to participate in the FB Shops program?**

- "not sure yet"
- "Video content is a priority at the moment"
- "poor ROI potential"
- "Still getting context and learning about the platform."
- "Need to know more about it before we move to this vehicle."
- "Everything is a function of budget and return"
- "don't know enough about it"
- "Budget decreases do not allow for testing of new platforms/products"
- "Not sure clients will want to put budget toward it."
- "too early to dive into a beta opportunity - would allow for SMBs to test into this first"
- "Haven't done my research yet and haven't been invited"
- "Still learning about it."
- "Still learning about it and not sure it fits with my client's needs"
- "Does not make sense for our clients"
- "busy with other issues at the moment"
- "No test budgets being earmarked yet"

- "Too new to show any tangible positive results."
- "Just not sure at this time if it is worth the extra effort."
- "Don't have anything to say on this at this time."
- "I don't know enough about the program yet, and am not currently able to implement new social media advertising tactics due to budget cuts."
- "It seems more oriented to small businesses and not franchisees"
- "Not a relevant platform really. We mainly use FB to drive cost efficient Reach"
- "Not the right time to test out new features"
- "No time/interest in the complexity"
- "Awaiting client demand"

Source: PAI May 2020

### **Exhibit 29: Will FB Shops be successful?**



Source: PAI May 2020

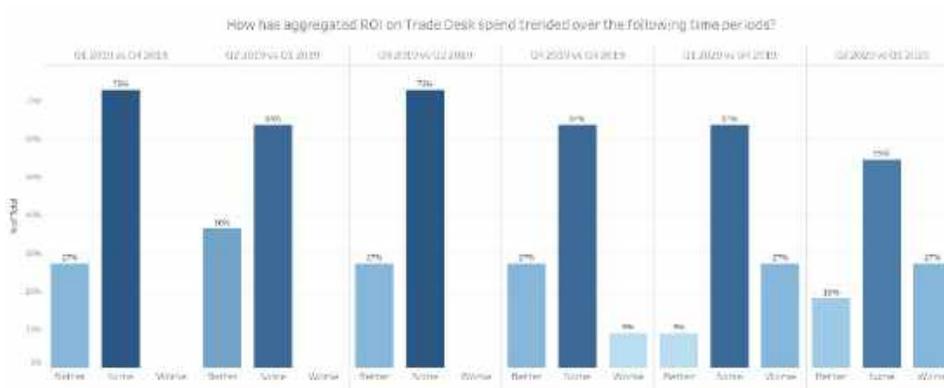
### **Exhibit 30: Please explain why you think FB won't be able to execute on its strategy?**

- Stay in your swim lane. FB is a mobile browsing experience for 30 second bursts of consumer boredom. Nobody is going to spend money on FB as if it's a retailer.
- Decline in popularity. Although time spent on FB has gone way up since Stay At home initiated.
- I think that there are possible issues that may need to be addressed with respect to new customer conversions/sales
- I really just haven't given it that much thought
- difficult to get adoption

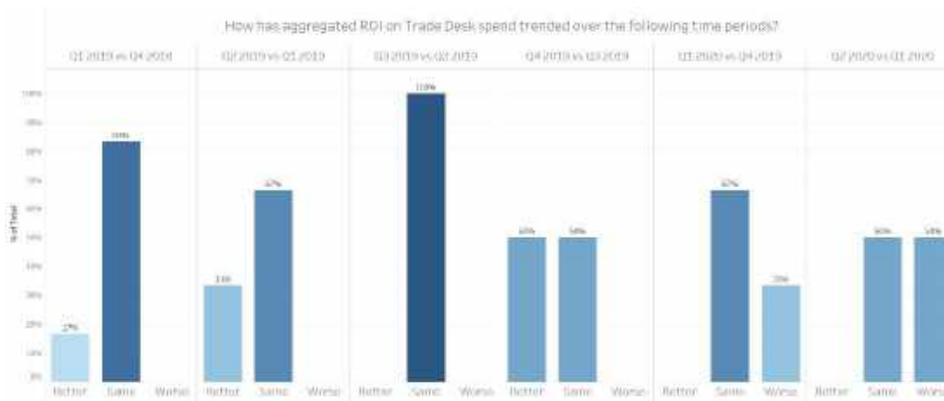
Source: PAI May 2020

# TTD - PAI INSIGHTS 2Q20 - QTD

## Exhibit 31: Conversion Rates Through May 2020



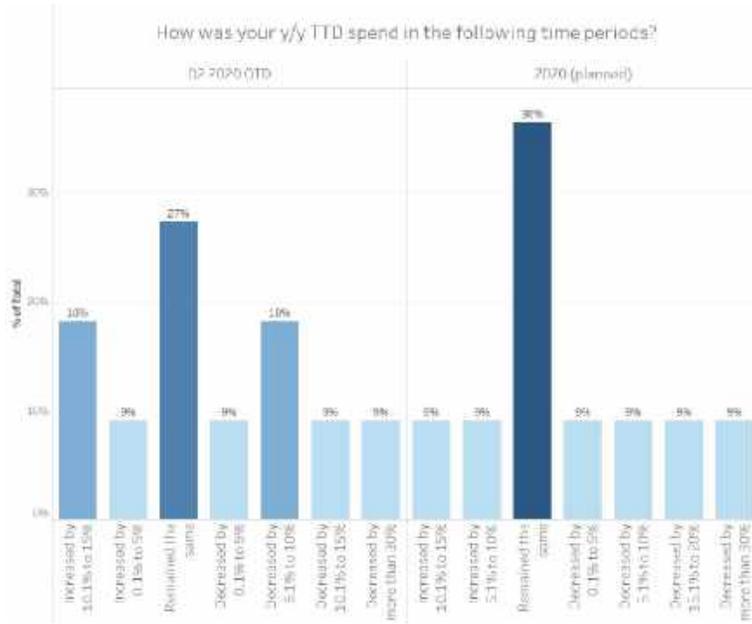
Source: PAI May 2020



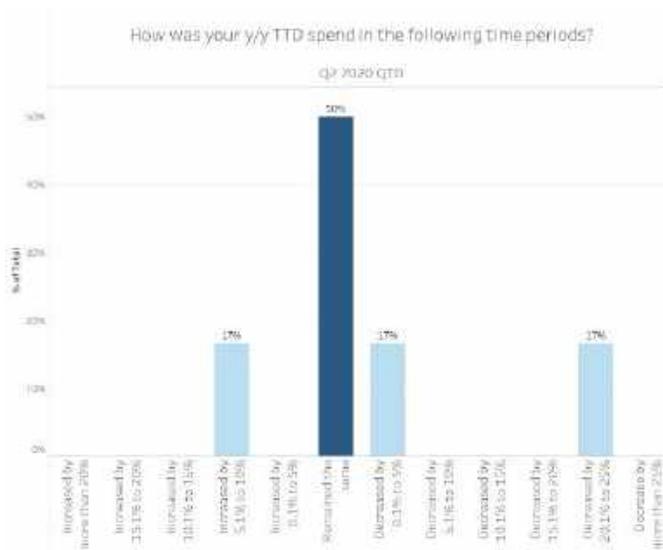
Source: PAI April 2020

**Pivotal Take:** Positive update from the May read on TTD conversion rates compared to April as the “Better” ROIs bucket went from 0% in April to 18% in May and the “Worse” ROIs bucket went from 50% in April to 27% in May for the 2Q20 vs 1Q20 timeframe.

**Exhibit 32: TTD Y/Y Spend for 2Q20 QTD**



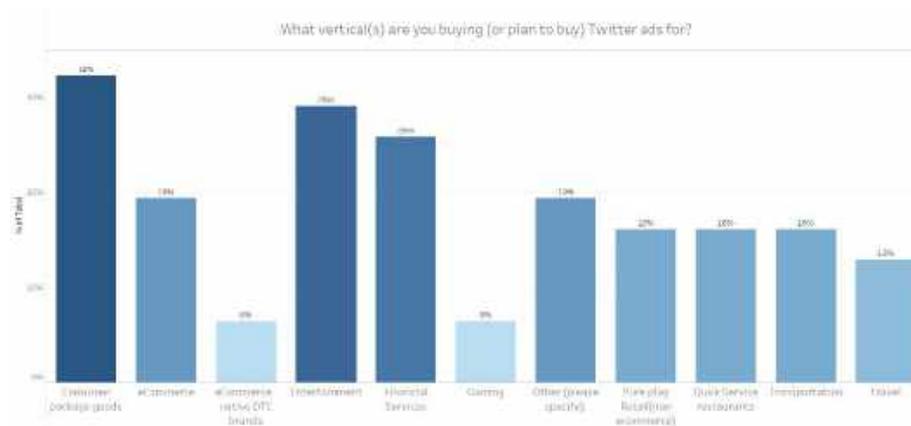
Source: PAI May 2020



Source: PAI April 2020

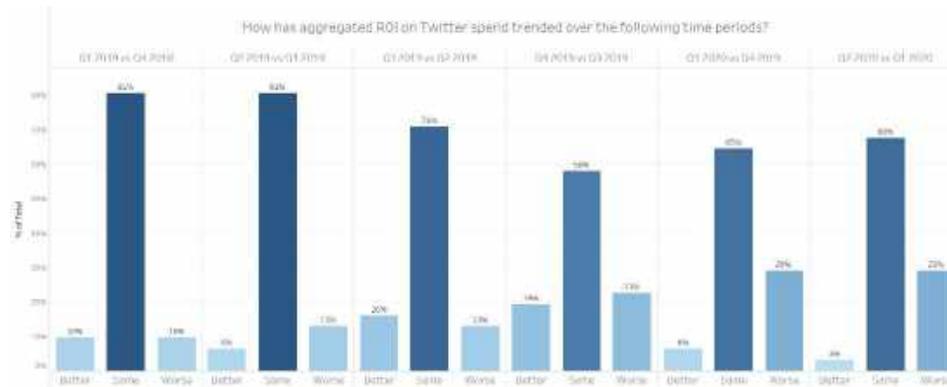
# TWTR - PAI INSIGHTS 2Q20 - QTD

## Exhibit 33: Twitter Vertical Exposure

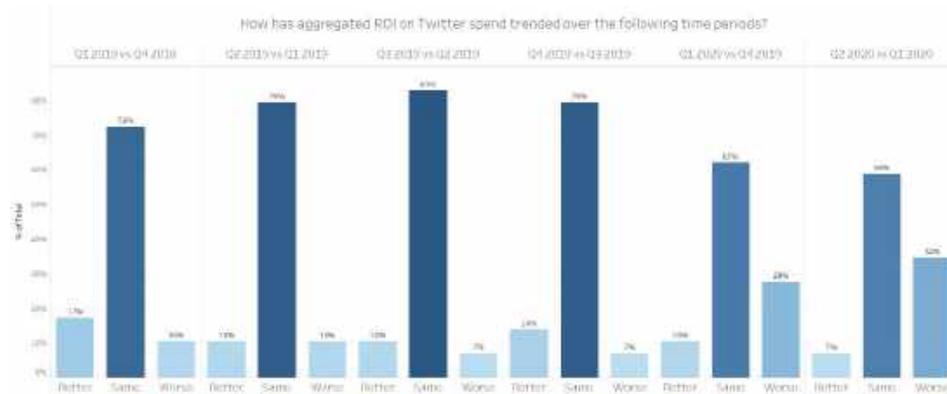


Source: PAI May 2020

## Exhibit 34: Conversion Rates Through May 2020



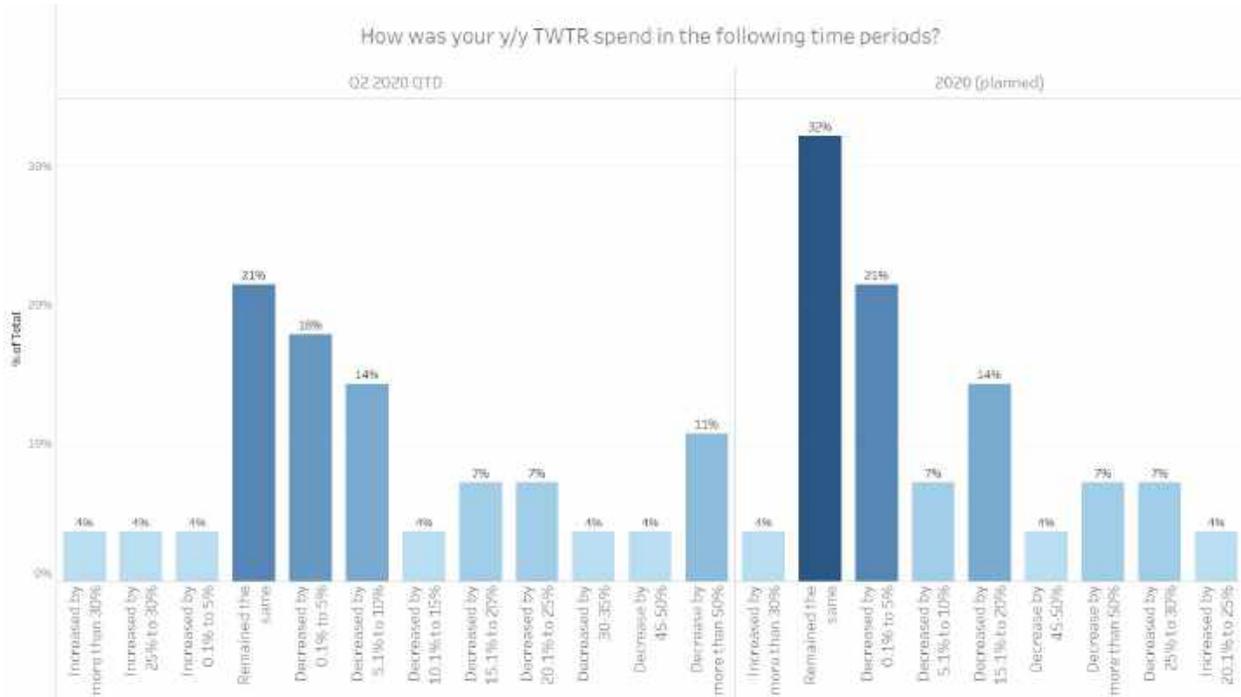
Source: PAI May 2020



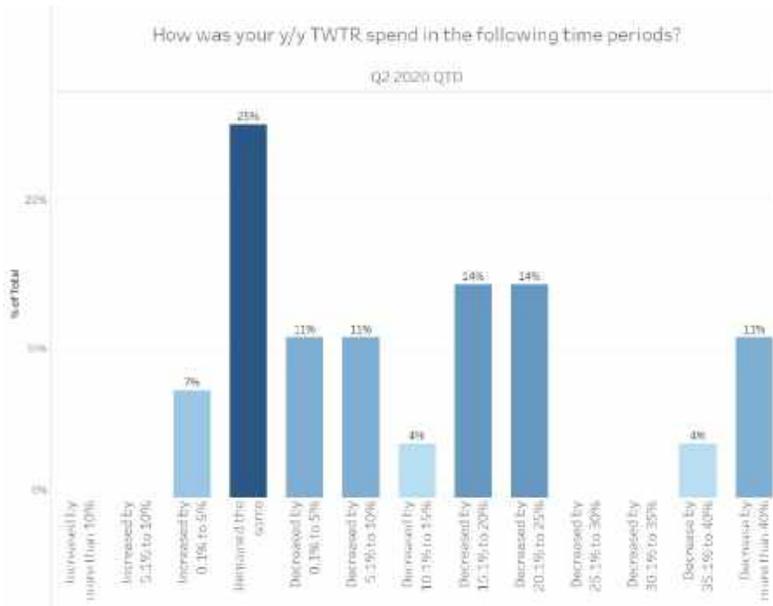
Source: PAI April 2020

**Pivotal Take:** Neutral update – both the “Better” and “Worse” ROI buckets saw a downtick in May compared to the April results. The results don’t differ much when compared to the same period a year ago.

**Exhibit 35: TWTR Y/Y Spend for 2Q20 QTD**



Source: PAI May 2020



Source: PAI April 2020

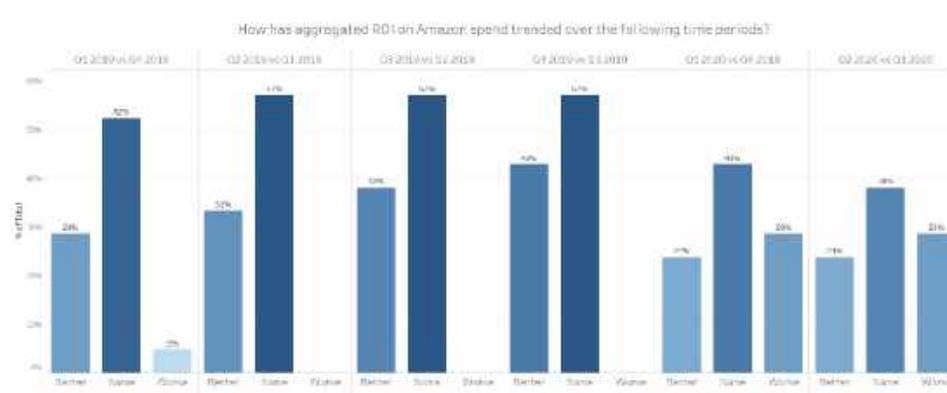
# AMZN - PAI INSIGHTS 2Q20 - QTD

## Exhibit 36: Amazon Vertical Exposure

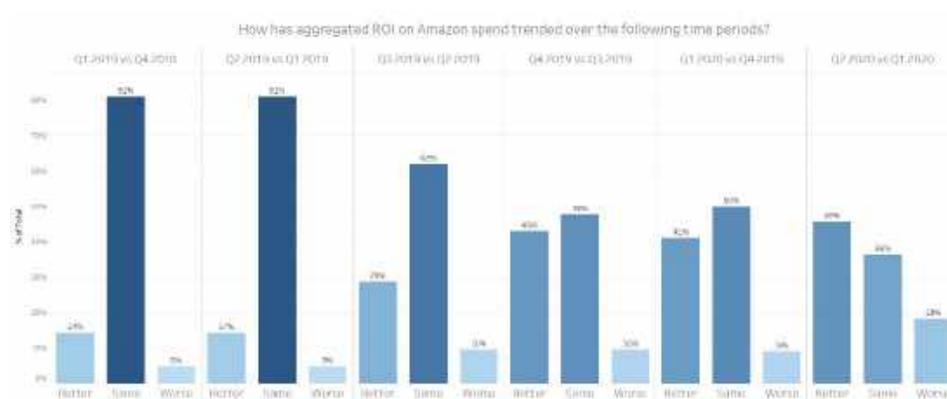


Source: PAI May 2020

## Exhibit 37: Conversion Rates Through May 2020



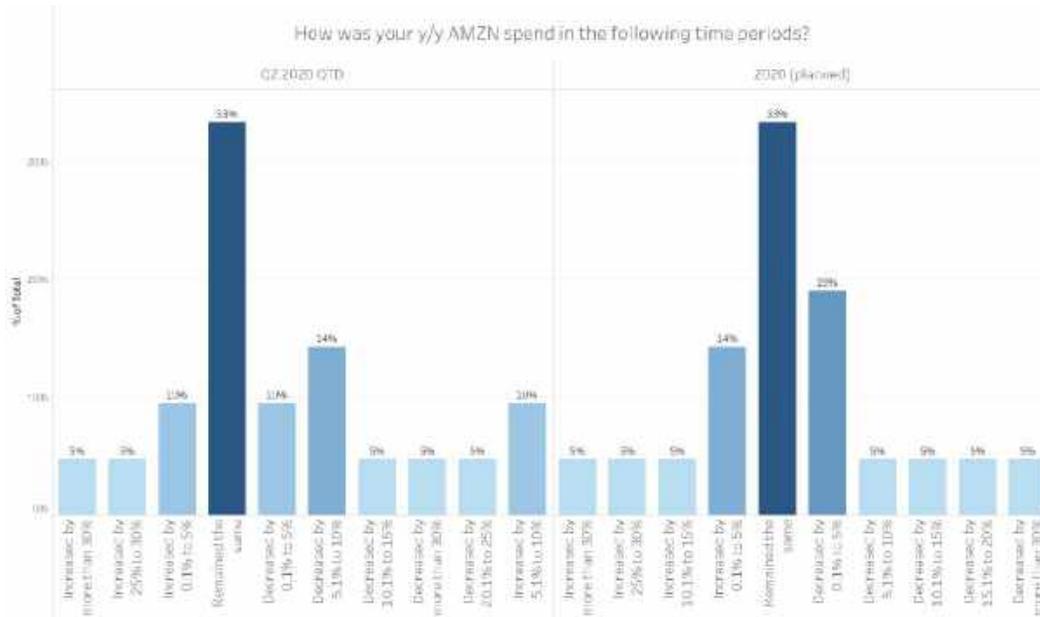
Source: PAI May 2020



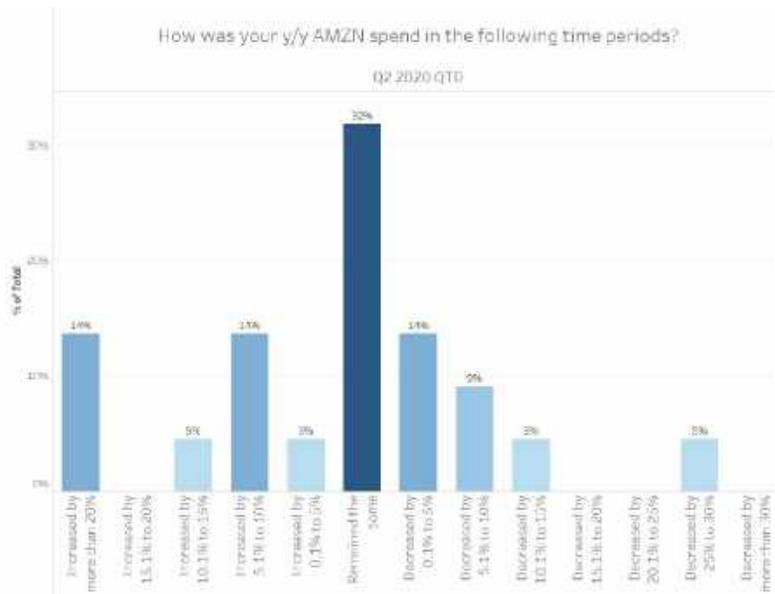
Source: PAI April 2020

**Pivotal Take:** Negative update – conversion rates are weaker in our May PAI read compared to April. The “Better” ROIs bucket declined to 24% from 45% and the “Worse” ROIs bucket increased to 29% from 18%.

**Exhibit 38: AMZN Y/Y Spend for 2Q20 QTD**

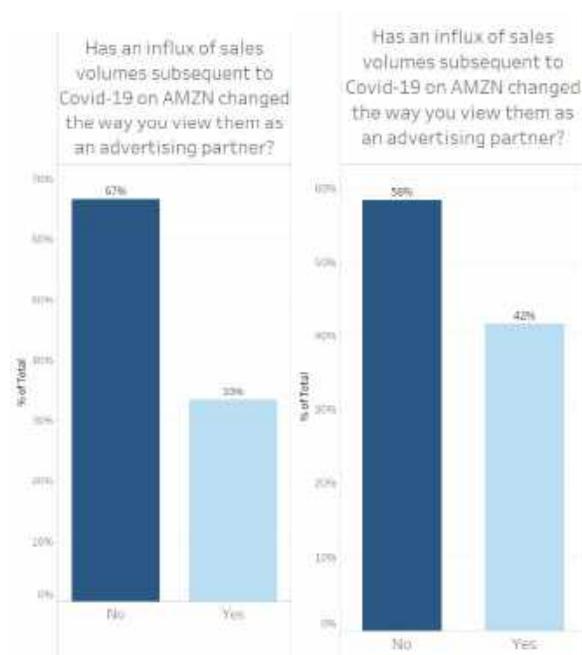


Source: PAI May 2020



Source: PAI April 2020

### **Exhibit 39: Amazon as an Ad Partner**



Source: PAI May 2020

Source: PAI April 2020

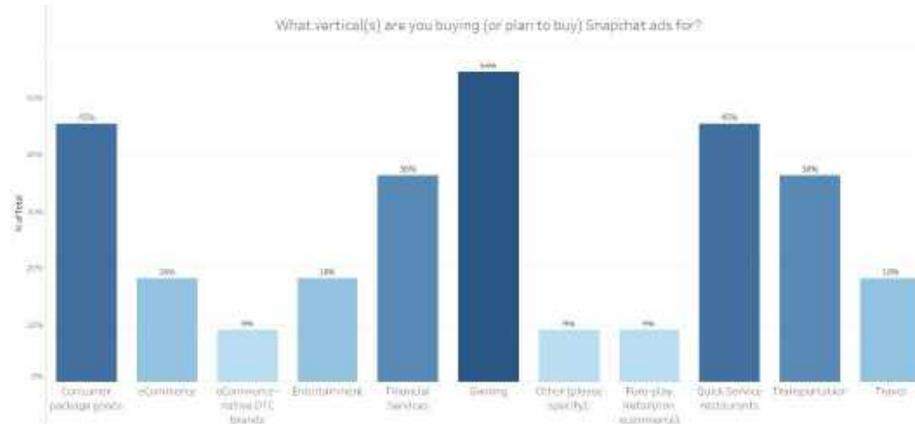
### **Exhibit 40: Qualitative Question on the View of Amazon as an Advertising Partner**

- "Haven't noticed a change."
- "My clients have been very successful doing Shopper Marketing on Amazon"
- "Still a good partner"
- "We have a full amazon department and are experts"
- "Amazon shopper growth has added to our consideration"
- "Their increase along with the manner in which they are pushing "Amazon" as a video platform seems to make them a viable player"
- "They're just as critical now as they always have been."
- "trusted platform to add in more \$"
- "They continue to be a very strategic partner for us."
- "More e-commerce"
- "Our clients don't sell a ton of their product on Amazon"
- "has not made a major impact on our media plans/strategies"
- "We feel the Covid situation is an anomaly, but will have a somewhat lasting effect"
- "we have increased our efforts to develop a stronger e-comm strategy"
- "More people are shopping, but delivery times has had an impact"
- "spending more"
- "Still getting the same ROIs."
- "Amazon is good in what they do but outside of that they aren't scalable, so when things get back to normal we will reduce our budgets."
- "not really - we use them mainly for branding purposes. Their increased traffic is something the're trying to sell on, in this period, but it doesn't change how we view them or use them"
- "Events don't change eCommerce"
- "AMZN shows that their business can sustain just about anything"

Source: PAI May 2020

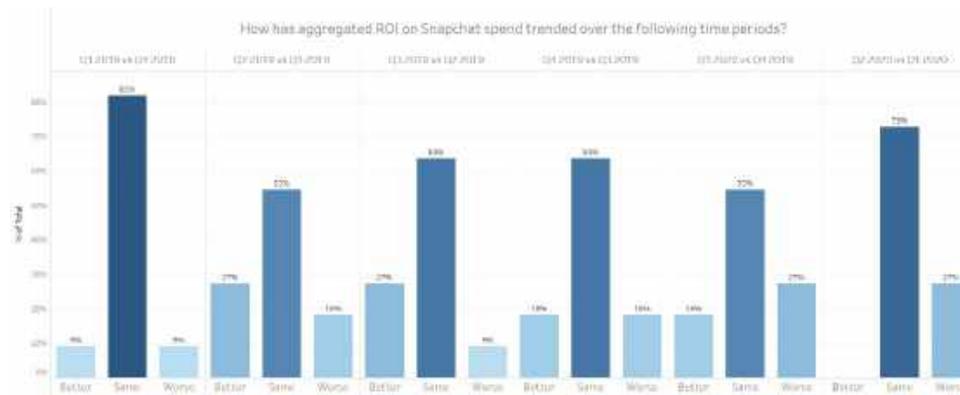
# SNAP - PAI INSIGHTS 2Q20 - QTD

## Exhibit 41: Snap Vertical Exposure

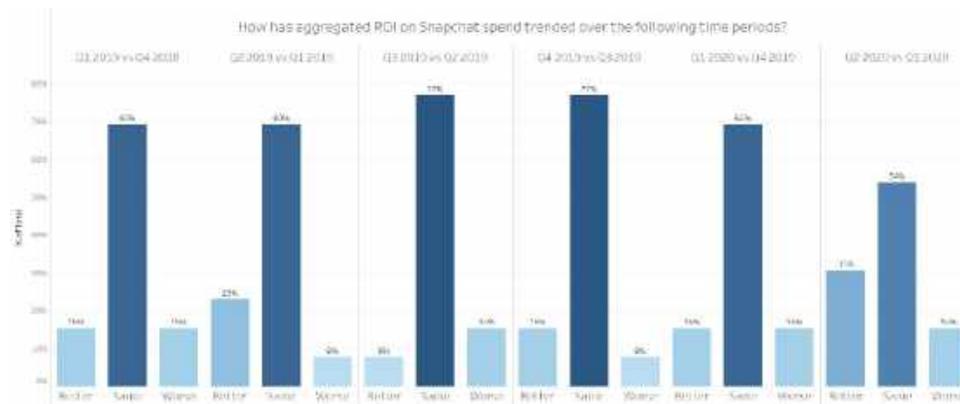


Source: PAI May 2020

## Exhibit 42: Conversion Rates Through May 2020



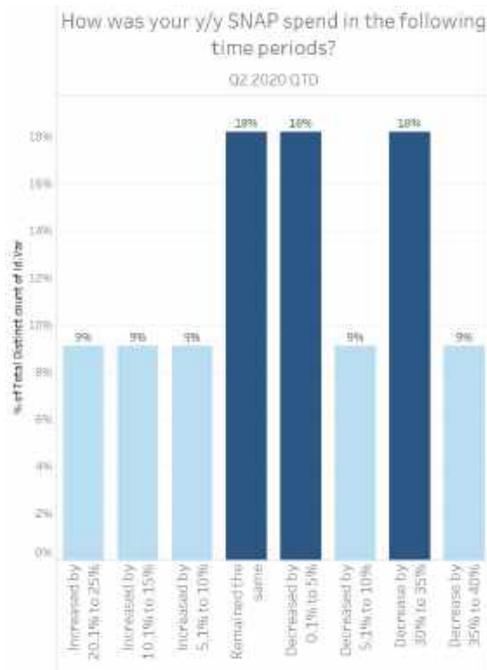
Source: PAI May 2020



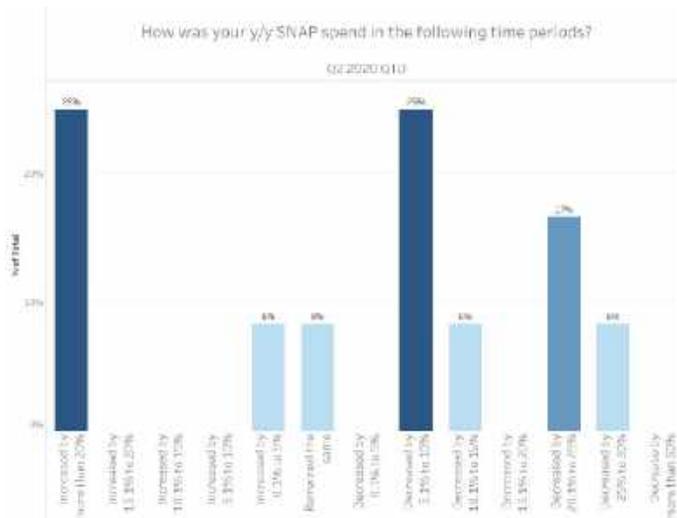
Source: PAI April 2020

**Pivotal Take:** Negative update – the “Better” ROIs bucket went from 31% to 0% and the “Worse” ROIs bucket saw an uptick from 15% to 27%.

**Exhibit 43: SNAP Y/Y Spend for 2Q20 QTD**

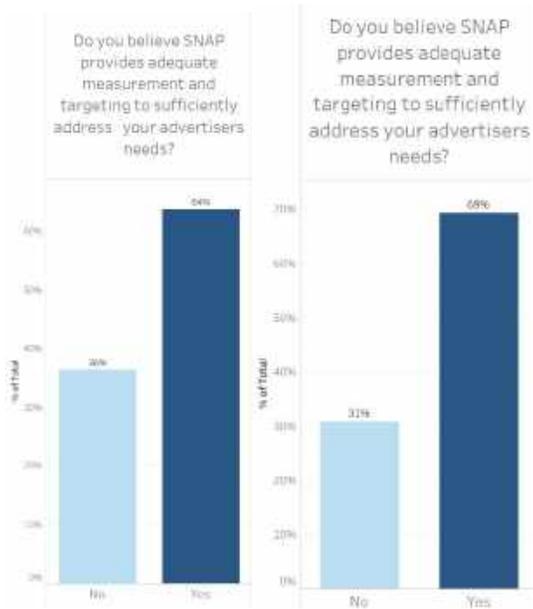


Source: PAI May 2020



Source: PAI April 2020

**Exhibit 44: SNAP Measurement and Targeting**



Source: PAI May 2020

Source: PAI April 2020

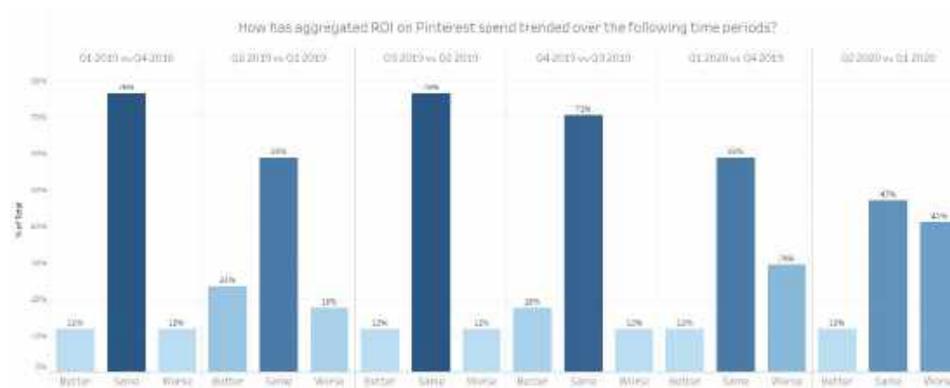
# PINS - PAI INSIGHTS 2Q20 - QTD

## Exhibit 45: Pinterest Vertical Exposure



Source: PAI May 2020

## Exhibit 46: Conversion Rates Through May 2020



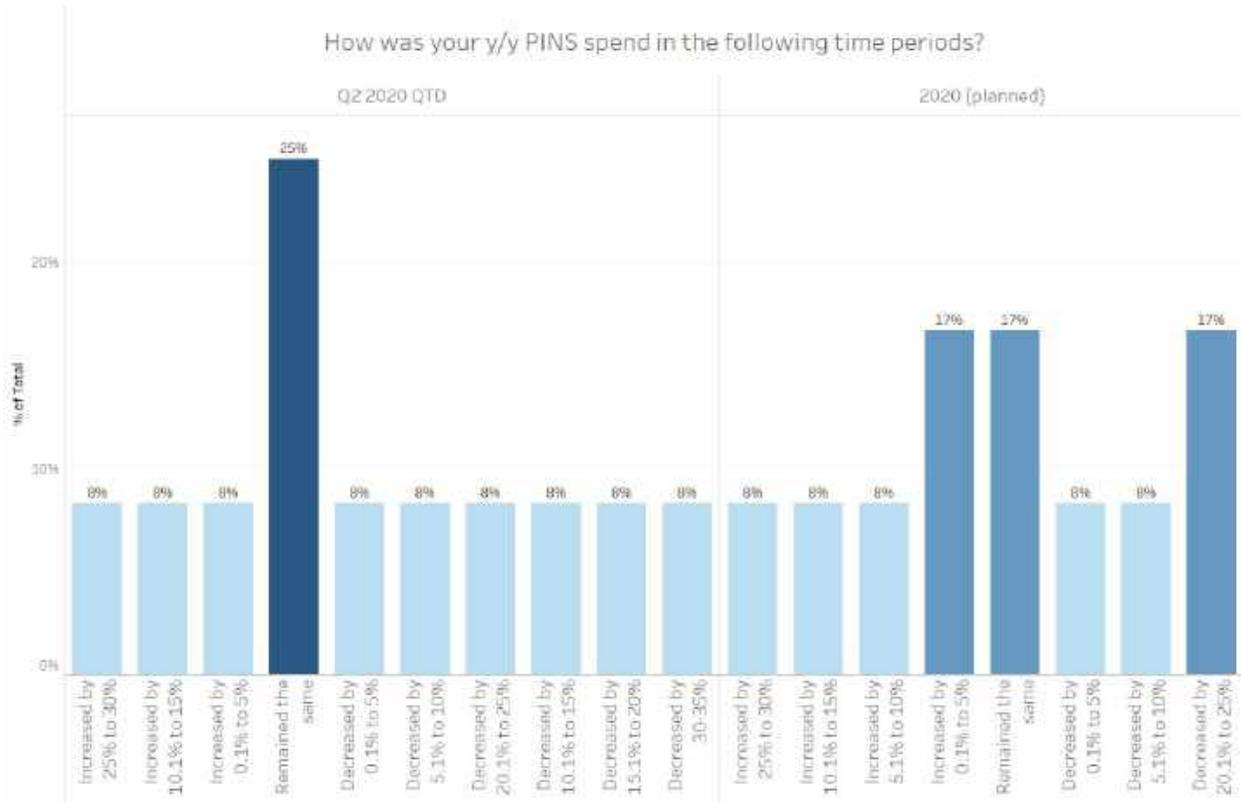
Source: PAI May 2020



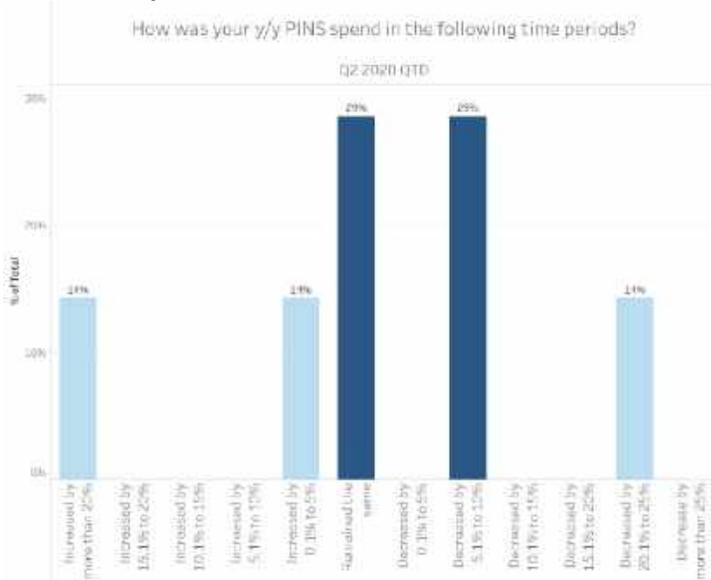
Source: PAI April 2020

**Pivotal Take:** There was a slight uptick in the percentage of respondents seeing better ROIs on Pinterest for the 2Q20 vs 1Q20 timeframe compared to April but a much larger uptick in the percentage in the “Worse” ROIs bucket that went from 18% in April to 41% in May.

**Exhibit 47: PINS Y/Y Spend for 2Q20 QTD**



Source: PAI May 2020



Source: PAI April 2020

# Appendix: Important Disclosures

## Analyst Certification

I, Michael Levine, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company and their securities. I further certify that I have not received and will not receive direct or indirect compensation related to specific recommendations or views contained in this research report.

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**BUY:** The security is expected to have an absolute return in excess of 15%.

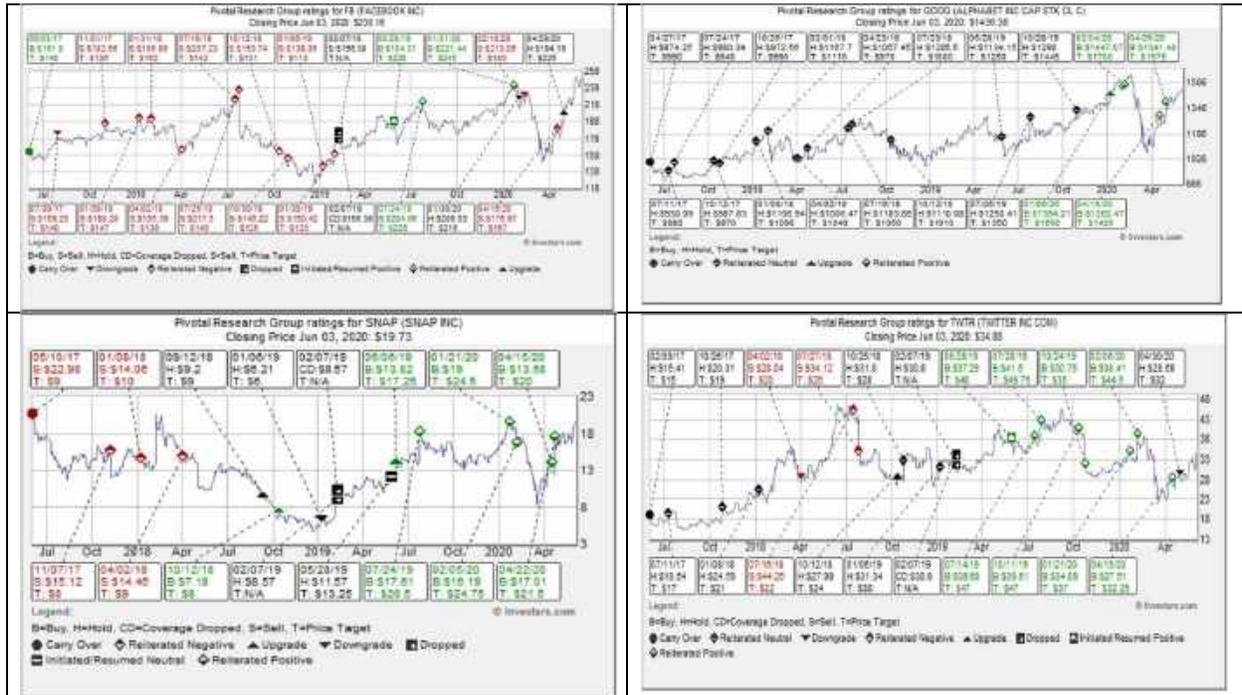
**HOLD:** The security is expected to have an absolute return of between plus and minus 15%.

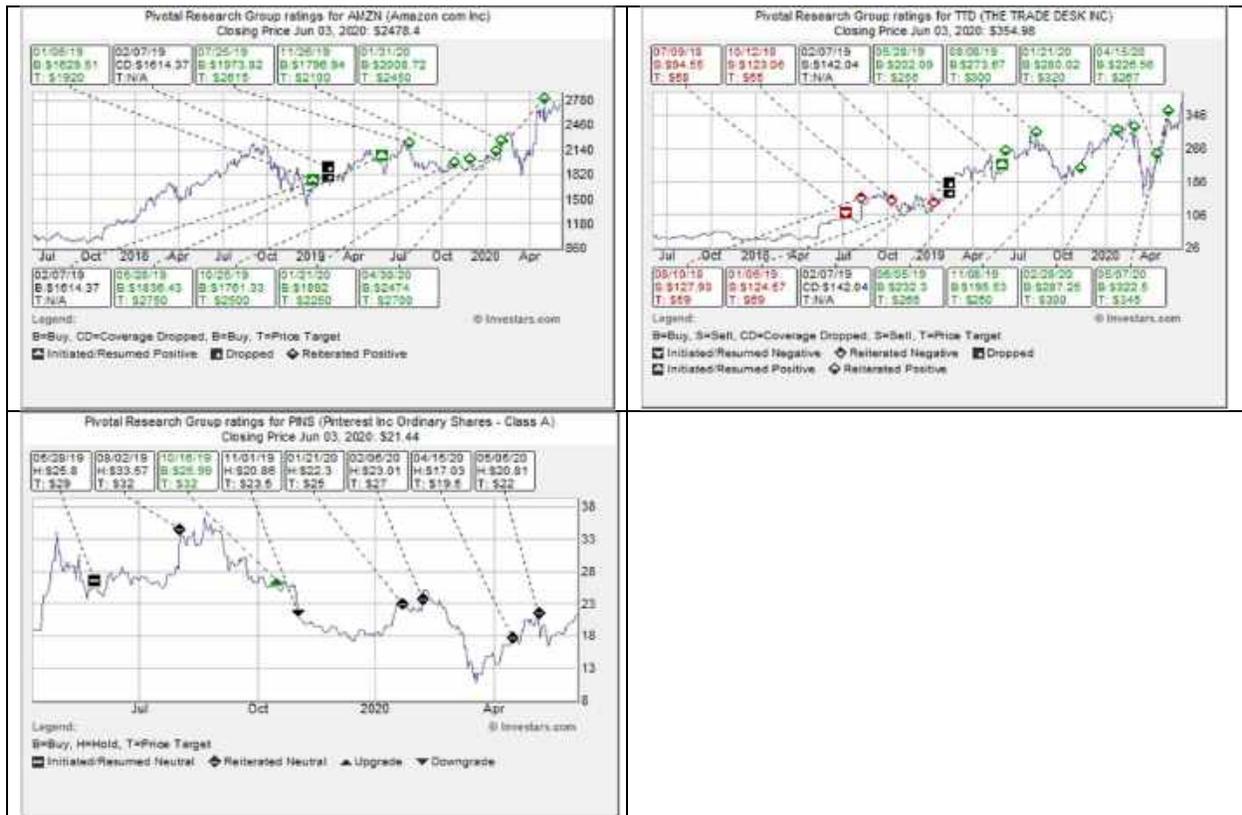
**SELL:** The security is expected to have an absolute return less than minus 15%.

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## Price Chart and Target Price History





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