MAGNA

US Advertising Forecast

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Executive Summary

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Top Stories

1. **In its latest advertising forecasts, MAGNA forecasts US media owners advertising sales are expecting to grow by +3.7% in 2017, excluding the impact of cyclical events (Political & Olympics). This is a slight slowdown from a strong 2016 performance (+4.7%). Factoring in the (lack of) such events actual dollar growth will be +1.8%.**

2. **Digital ad sales will grow by double-digits again (+14%) while offline media sales will decline by -3%. Search and Social growth will continue to be fuelled by marketing budgets redirected from "below-the-line" direct marketing channels, which means national advertisers don't need to re-allocate massively from their traditional ad campaigns (esp. TV) to fuel that effort.**

3. **National TV advertising sales will thus be flat again, as high-single digit CPM inflation will (barely) offset high-single digit rating declines in 2017.**

4. **MAGNA is also publishing final estimates for 2016, confirming that it was a record year: ad revenues grew by +6.6% to $180 billion - It was the strongest growth in six years, and it's a new all-time high for US ad dollars.**

5. **As usual in even years, cyclical events (elections, Olympics) drove incremental ad spend in TV. Neutralizing the $3.5 billion of additional revenues, the market would still have grown by a robust +4.7%.**

6. **Digital advertising sales surpassed linear television ad sales for the first time: $70 billion vs $67 billion (national+local).**

7. **Social and Search captured 95% of the net ad dollar growth in 2016: $10.5 billion out of $11 billion total net growth, while everything else combined (online display and video and offline ad sales) was flat or down.**

8. **The instant success of a relatively new format, social video, from zero to two billion dollars in its first two years, was a big driver for social media performance (+50%) and overall market growth.**

9. **National TV advertising revenues were resilient due to strong pricing and cyclical events, despite ongoing ratings erosion: +3% to $44 billion (+1% excluding P&O).**

2016 Recap

Based on the final estimates published by MAGNA, 2016 ended up as a record year in terms of total media owners advertising revenues. Total net ad sales (TV, digital media, print, radio, OOH) increased by $11 billion to reach an all-time high of $180 billion (+6.6%). This was a noticeable acceleration on 2015 (+2.6%). However, if excluding the $3.5 billion of incremental spend generated by the cyclical events of 2016 (Political & Olympics, or P&O), the normalized underlying growth in 2016 was +4.7% similar to that of 2015 (+4.3%).

As expected by MAGNA, **the market slowed down in the last quarter of 2016** to +2.2% yoy excl. P&O) following a very strong start of the year: +7.5% in 1Q, +5% in 2Q and 3Q. The gradual slowdown was observed for digital ad sales (+20% in 1Q16, +14% in 4Q16) and national television (+6% in 1Q16, -4% in 3Q16, 0% in 4Q16). One key factor behind the slowdown was the comparison against the exceptionally strong growth of 4Q15.

"Within digital, the two endemic formats, Search and Social, each growing ad sales by five billion dollars, captured the entirety of the $11 billion of digital advertising growth."

Digital ad sales (video, audio, display, social and search) grew by $11 billion in 2016 (+18%) to reach an estimated $70 billion while offline ad sales decreased by -2.4%. As predicted by MAGNA more than two years ago, 2016 was the year when digital ad sales finally surpassed total linear television. This shift taken place years ago in many other countries analyzed by MAGNA (e.g. ten years ago in the UK, two years ago in China) so the fact that it happened in 2016 in the US is thus a testimony to the strength and resilience of television in America: linear TV is losing viewers but remains attractive enough to national advertisers that they are - so far - willing to tolerate high CPM inflation to try and maintain their investment in the medium. With 37% of total ad dollars in 2016, US television's market share is still far above the shares observed in most mature markets (e.g. in the 20 percent range in Northern Europe, Australia and Canada).

Within digital, the two endemic formats, Search and Social, each growing ad sales by five billion dollars, captured the entirety of the $11 billion of digital advertising growth, while the ad sales from editorial formats historically transposed from the offline media space (display and video) were essentially flat. Display ad formats are benefitting from the availability of big data and programmatic targeting technologies but search and social ad formats are 100% programmatic since inception by design and largely immune from the rise of ad blocking.

Online video ad sales continued to grow too, as advertisers look online for the impressions, reach and demographics that linear television is struggling to deliver. Non-social video ad sales grew by +26% to $7bn while social video ad sales more than doubled to reach an estimated $2bn (+140%). Combining the two forms of online video advertising, the overall market is now worth approx. $9bn. This remains small in comparison to traditional linear television ($63bn) but MAGNA predicts that online video ads will grow to represent 37% of total cross-screen video advertising by 2021. Full Episode Players carrying television content will contribute to that growth but the bulk will come from short-form video players and social media.

"While total marketing budgets are flat, the main driver of advertising growth at the moment is below-the-line direct marketing budgets (e.g. direct mail) being re-allocated towards Search and Social by big and small businesses. Most of the net advertising dollar growth will be taken from traditional direct marketing budgets rather than new marketing spend. This leaves linear television budgets relatively unscathed and should provide for a solid ad growth this year again (+3.7% excl. P&O)."

- Vincent Létang, EVP, Global Market Intelligence at MAGNA

2016 Recap Cont.

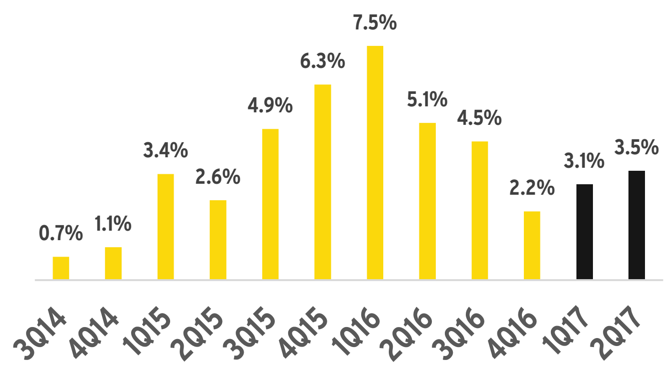
National television benefitted from strong pricing throughout 2016, offsetting rating scarcity. Significant spend increase from several big CPG and automotive brands helped to grow ad sales by +4% in the first half (excl. P&O). The impetus faded somewhat in the second half due to tougher comps and worsening ratings (-2%). Still, on a full year basis, national TV ad sales grew by +1% to $43 billion. Cable networks did marginally better than broadcast networks (+1.5% vs. +0.7% according to MAGNA estimates) partly because of a more resilient audience performance: primetime ratings dropped by an average 5% in 2016 compared to -8% for English-Speaking broadcast networks. Spanish networks outperformed in 2016 (+6% in ad sales) in great parts thanks to the Copa America soccer tournament in June, despite a similar decline in ratings. Beyond the general erosion of ratings, which was in line with previous years, 2016 was the first-ever year showing lower ratings for all "tentpole" events (big sports finals, award ceremonies). The 2016 NFL regular season ratings dropped for the second year in a row, at an accelerated pace (double digit decline on most demographic targets).

Local television had a disappointing year for both non-political (-2% to $20 billion) and political advertising revenues. Despite a late rally, the lower-than-usual spending from the GOP presidential candidate took its toll and the overall incremental revenue (approx. $3 billion) was just on par with the record level witnessed four years ago (+3%). This is significantly early industry expectations that it would be up by +15% to +20% vs. 2012. Overall local TV revenue was up +9% which is a mediocre performance for an election year.

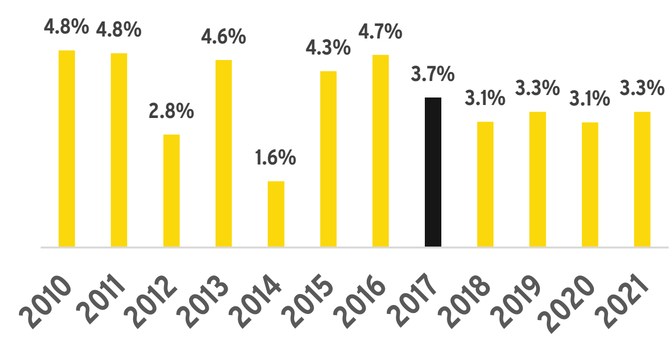
Out of home (OOH) media ended 2016 at an all-time high of $7.6 billion, up +3%. Digital OOH revenues drove the category, with growth of +14% this year, while cinema and traditional/static OOH ad sales were flat. **Print advertising** continued its long-term decline in 2016: newspapers lost 12% of their paper-based ad revenues, now down to $12 billion (it was $43 billion ten years ago) while magazine ad sales lost another 9% down to $8.5 billion (it was 19.5 billion ten years ago). Print ad sales are hit by the combination of three negative trends: dwindling circulation and readership, shrinking ad loads (both daily newspapers and magazines lost 10% of ad pages and insertions in 2016) and stagnating CPMs (decreasing for magazines). **Linear radio** ad sales decreased by -3% to $14 billion, a similar rate as 2015. Audience and reach are holding well in the general population but challenged on younger demographics.

Direct mail ad sales were down -1.6% to $20 billion due to flat volume and the end of a surcharge in April '16. Stripping out the incremental political revenues generated by campaign mailings, the revenue would have been down -3.7% for calendar year 2016, which suggests an acceleration in the rate of decline (ad sales were down between -1% and -2% in 2014 and 2015) due to the intensification of the competition from digital substitutes, equally capable of geo-targeting and based on consumer databases (Search and Social in particular). Many direct marketing campaigns now combine mailing and digital but the latter is gradually attracting more budgets.

Quarterly Ad Spend Growth (excl. DM, P&O)



Long Term Ad Spend Growth (excl. DM, P&O)



	2016 Size ($m)	2016 Growth	2017 Growth
National Television (incl. P&O)	44,063	2.8%	-1.3%
National Television (excl. P&O)	43,348	1.1%	0.3%
Local Television (incl. P&O)	22,996	9.4%	-12.2%
Local Television (excl. P&O)	20,156	-2.0%	-1.6%
Digital Media	70,079	17.7%	13.6%
of which Mobile	32,659	53.3%	35.0%
of which Desktop	37,420	-2.1%	-5.1%
Newspapers	12,312	-12.1%	-13.1%
Magazines	8,481	-8.7%	-11.8%
Radio	14,022	-2.9%	-3.5%
OOH	7,564	3.3%	3.1%
Total Media Advertising (incl. P&O)	**179,518**	**6.6%**	**1.8%**
Total Media Advertising (excl. P&O)	**175,962**	**4.7%**	**3.7%**
of which Offline Ad Sales (excl. P&O)	105,883	-2.4%	-2.9%
Direct Marketing (direct mail + directories)	21,206	-4.6%	-5.6%
Grand Total (incl. DM, P&O)	200,723	5.3%	1.0%

2017 Forecast

The economic environment remains favorable for marketing expenditures in 2017, with GDP forecast to grow by +2.3% (compared to +1.6% in 2016), personal consumption expected to go +4.7% (2016: 3.8%) and unemployment decreasing further down to 4.6%. Consumer confidence is at a 12-year high. In that context, **MAGNA is increasing its all-media growth forecast to +3.7% (excluding P&O) that will translate into +1.8% when including P&O** (no elections or Olympics in 2017).

Digital ad sales will grow by another $10bn this year to reach $80 billion (+14%) while offline ad sales will decrease by $3 billion to $103 billion (-3%). Search will remain the largest revenue generator, with $39 billion (+13%), while video and social will again post the strongest growth rates (both +28%). **Social video** was one of the key drivers in 2016 and that will continue in 2017 with the main social media networks competing to offer ever more video content to their users, including some premium content through partnerships with television and major sports leagues. This will allow social media vendors (Facebook, Snap, Twitter etc.) to offer new innovative video ad formats to advertisers, including ads in live social streams (e.g. Facebook Video app to launch on OTT). **Driven by this continued video push we expect social video ad sales to double again in 2017 to reach more than four billion dollars**, i.e. a third of total US digital video ad sales, and 20% of total social media ad sales.

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Linear television ad sales will be flat in 2017, as high-single digit rating erosion will (barely) offset high-single digit CPM inflation. US television is already one of the most expensive advertising mediums in the world with primetime CPM costs (18-49) averaging $50 on broadcast networks and $20 on cable networks. With CPM inflation consistently in mid to high single digit (double digits for some demographics and dayparts) some small and mid-sized brands or products are likely to be priced out of national television in months and years to come. Meanwhile many large-scale mass consumer brands will remain broadly loyal to the traditional TV campaigns and bear the constant cost increase as they feel national TV still provides good, measurable efficiency for both brand equity and retail sales. Some CMOs feel digital formats still lack accountability while not being that much cheaper than traditional TV (e.g. for premium digital video).

Some CPG companies pulled money from digital formats back into linear TV in 2016 but we believe this was a temporary adjustment. In the mid/long term brands will at best maintain and optimize their linear TV investment but will not increase it significantly. We now see CPG companies concentrating their television spending on fewer brands and products and launching some new products without the national TV campaigns that would have been an automatic part of the plan just years ago. In the next few years any net ad budget increase will fuel online video (long-form TV content and other endemic internet video content), as online formats are gradually providing better accountability in addition to scale and target ability they already offer. Cord-cutting and cord-shaving will continue to affect cable and satellite subscription: an estimated one million homes will be lost this year again and this will negatively affect the reach and audience of cable networks. On the other hand the ongoing consolidation of the cable and satellite TV space, should boost the opportunities of addressable advertising on linear cable networks. At the end of 2016, there were already 42 million TV homes reachable through "household addressable" campaigns and $450 million spent on such campaigns (political, finance and auto being early adopters).

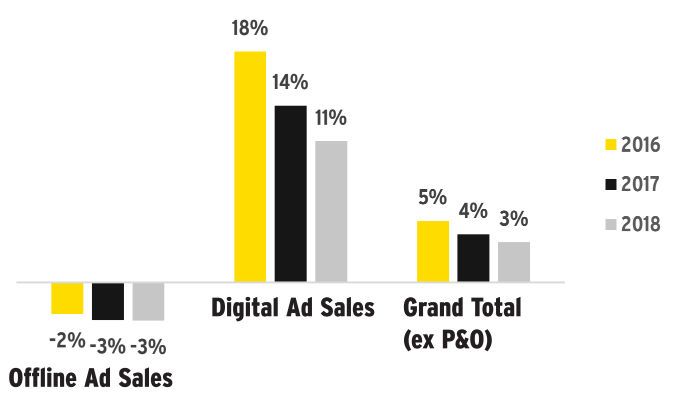
Print advertising and **radio** advertising will continue to struggle in 2017 due to declining audience (for print) and weakening pricing power (for both). Print ad sales will decrease by -13% to $18 billion while radio ad revenue will decrease by -4% to $13.5 billion. In its detailed market model (available to subscribers), MAGNA is consolidating the digital ad sales of publishers and audio players with their traditional offline ad sales. The latter are growing double-digit but from a relatively low base, which means the total, multi-platform, multi-format ad sales trend is still negative for publishers (-9% vs. -13%) and for audio media owners (-2% vs. -4%). Indeed, the bulk of digital growth goes into Social, Search and Video rather than audio and editorial websites.

Meanwhile o**ut-of-home (OOH) ad sales will grow by +3%** to $7.8 billion (digital units +12%, static +0%). Street Furniture revenues are expected to outperform (+9%) thanks to new digital inventory that was rolled out in several cities in 2016 (e.g. JCDecaux digital bus shelters in New York City), while Transit is expected to grow by +6% and Billboards (still the biggest segment) will grow by just +2%. **Cinema** ad sales are expected to accelerate to +4% thanks to a stronger slate of movie releases.

In terms of **spending verticals**, MAGNA anticipate stronger-than-average ad spend growth from Telecoms, Finance and Pharmaceuticals this year, lower-than-average growth from Technology and negative contribution from Retail and Automotive.

The next Advertising Revenue Forecasts (US+Global) by MAGNA will be published in June 2017.

Digital Media Captures All Growth



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 67 years by predicting the future of media value. Bob Coen (1923-2016) started a long, un-interrupted tradition at UM and Interpublic when he published the first ad spend forecasts based on the economic environment outlook, in 1950.

Today the MAGNA Intelligence team produces more than 40 annual reports on audience trends, media spend, ad tech trends and ad spend 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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