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Pivotal Research Group

U.S. Equity Research
Internet / Advertising

Unilever Conveys Plans to Continue – Not Cut – Social Media Spend

Feb. 12, 2018

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FACEBOOK (FB)
RATING: SELL
(Previous: SELL)
Target Price: $152.00
(Previous: $152.00)
Price (2/9/18): $176.11

GOOGLE (GOOG)
RATING: HOLD
(Previous: HOLD)
Target Price: $1110.00
(Previous: $1110.00)
Price (2/9/18): $1046.27

SNAP (SNAP)
RATING: SELL
(Previous: SELL)
Target Price: $10.00
(Previous: $10.00)
Price (2/9/18): $18.81

TWITTER (TWTR)
RATING: SELL
(Previous: SELL)
Target Price: $21.00
(Previous: $21.00)
Price (2/9/18): $31.51

BOTTOM LINE: At the annual IAB Leadership Meeting today, Unilever CMO spoke of the company's commitment to "responsible" platforms, content and infrastructure, and also conveyed that it will support partners such as Facebook and Google as they invest in improving their platforms. Commentary was somewhat contrary to prior press reports which indicated that Unilever may take a harder line on digital media, much as CPG peer Procter & Gamble did at the same event last year.

At the annual IAB Leadership Meeting – an event primarily composed of digital ad sales executives rather than marketers – Unilever's Chief Marketing and Communications officer Keith Weed provided comments regarding its commitment to spending its advertising on "responsible platforms" and "responsible content" with "responsible infrastructure. More specifically, he stated the following:

- Unilever will "not invest in platforms that do not protect…children or which create division in society. (They) will prioritize investing in responsible platforms that are committed to creating a positive impact in society"
- "Unilever is committed to tackling gender stereotypes in advertising…and championing this across the industry"
- "Unilever will only partner with organizations who are committed to creating better digital infrastructure, such as one measurement system and improving the consumer experience, from targeting to delivery"

Although he noted that the ills associated with those platforms are more than industry issues now and are impacting society, he stated that the industry is "sleepwalking on progress." As in the past, Weed noted Unilever's approach to these issues has been to work with media owners in attempting to contribute towards solutions to the problems (last year when substantial numbers of brands pulled spending from YouTube in response to brand safety concerns, Unilever indicated it would not).

Importantly for investors, contrary to many of the headlines which ran in the press prior to the speech, comments provided on stage did *not* suggest that Unilever would be pulling its spending from Facebook and Google. If anything, those comments suggested that Unilever will stay the course so long as Facebook, Google and others continue to make efforts to improve their platforms.

We note that these comments were generally consistent with observations we have found recently, which indicates that marketers are unlikely to cut their spending because of concerns about the social ills of social media. However, spending will change if consumer behaviors on those media change, and spending will further be impacted by practical limits to growth in budgets for advertising, which for us remains as a key concern on the growth potential for digital media companies we cover.

Our price targets and recommendations on each of Alphabet, Facebook, Snap and Twitter are unchanged, with a Hold rating on Alphabet and Sell ratings on the other three companies.

RISKS. Core risks for digital advertising companies relate to: 1) high degree of rivalry given an absence of barriers preventing new competition from emerging 2) overly high and increasing capital needs to remain competitive and 3) government regulations and consumer pushback related to management of consumer data and respect for privacy.

Appendix: Important Disclosures

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Pivotal Research Group LLC assigns one of three ratings based on an expectation of absolute total return (price change plus dividends) over a twelve month time frame. The ratings are based on the following criteria:

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

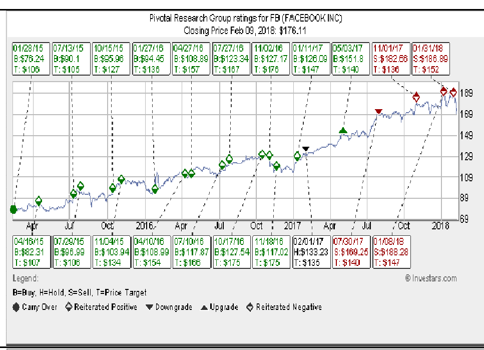
HOLD: The security is expected to have an absolute return of between plus and minus 15%.

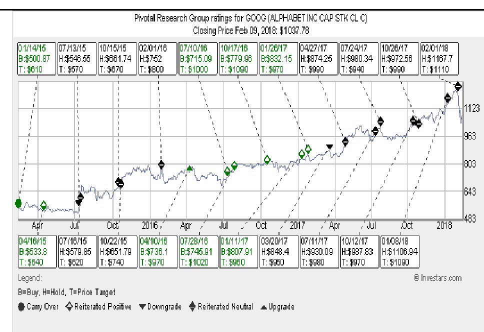
SELL: The security is expected to have an absolute return less than minus 15%.

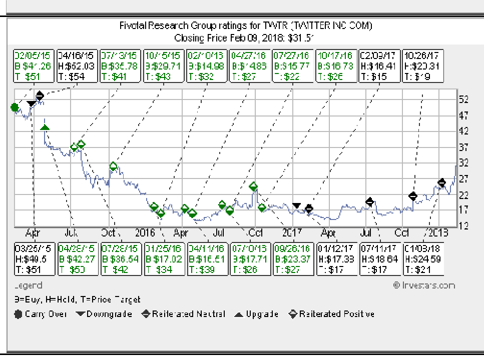
Ratings Distribution

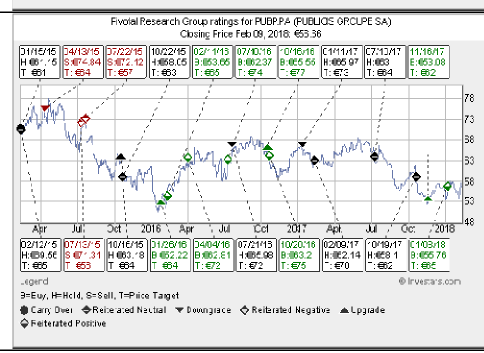
Pivotal Research LLC currently provides research coverage of 70 companies, of which 57% are rated BUY, 33% are rated HOLD, and 10% are rated SELL. Our company does not offer investment banking services. This data is accurate as-of 2/11/18.

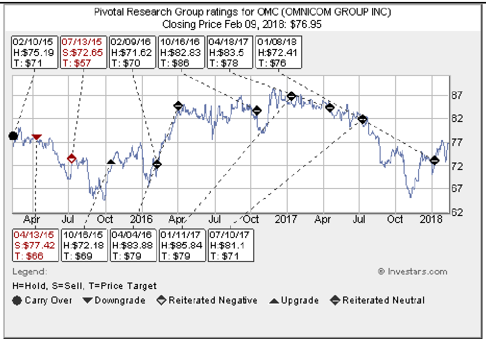
Price Chart and Target Price History










Pivotal Research Group ratings for OMC (OMNICOM GROUP INC)
Closing Price Feb 09, 2018: $76.95
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Legend:
H=Hold, S=Sell, T=Price Target
Carry Over Downgrade Reiterated Negative Upgrade Reiterated Neutral


Pivotal Research Group ratings for IPG (INTERPUBLIC GROUP COS INC)
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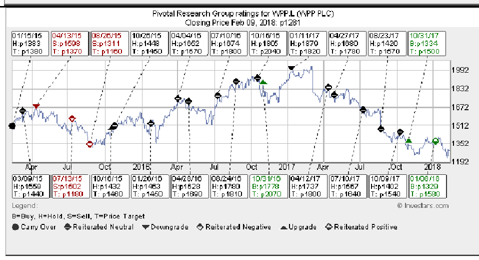
Legend:
B=Buy, H=Hold, T=Price Target
Carry Over Downgrade Reiterated Neutral Upgrade Reiterated Positive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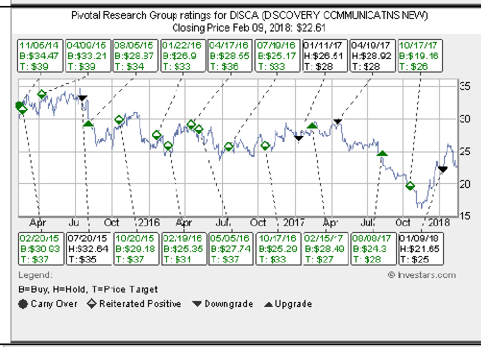
Closing Price Feb 09, 2018: p1281


Pivotal Research Group ratings for DISCA (DISCOVERY COMMUNICATNS NEW)
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Legend:
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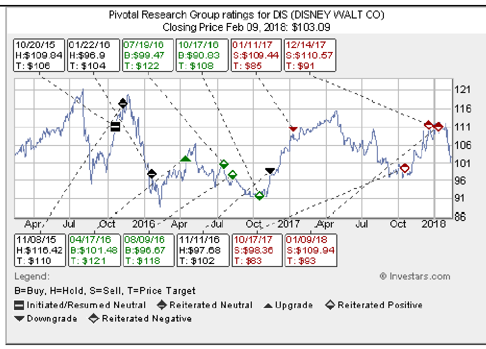
Carry Over Reiterated Positive Downgrade Upgrade


Pivotal Research Group ratings for DIS (DISNEY WALT CO)
Closing Price Feb 09, 2018: $103.09
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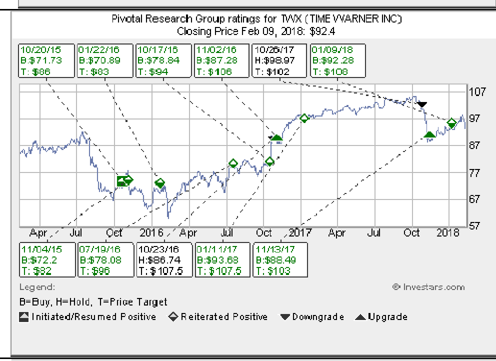
Initiated/Resumed Neutral Reiterated Neutral Upgrade Reiterated Positive
Downgrade Reiterated Negative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Closing Price Feb 09, 2018: $92.4
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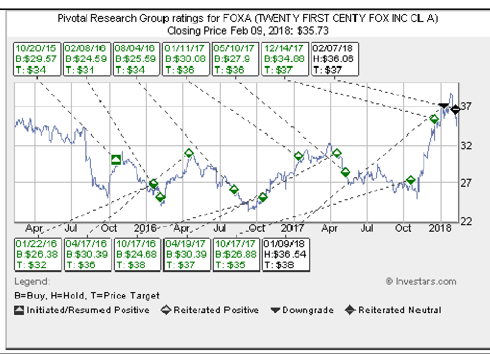
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Closing Price Feb 09, 2018: $35.73
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Legend:
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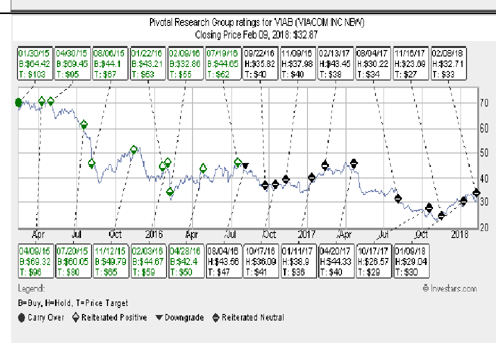
Initiated/Resumed Positive Reiterated Positive Downgrade Reiterated Neutral


Pivotal Research Group ratings for VIAB (VIACOM INC NEW)
Closing Price Feb 09, 2018: $32.87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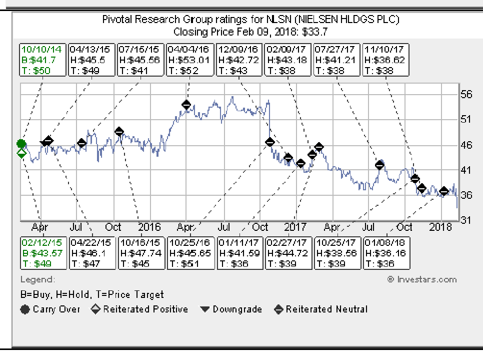
Carry Over Reiterated Positive Downgrade Upgrade Reiterated Neutral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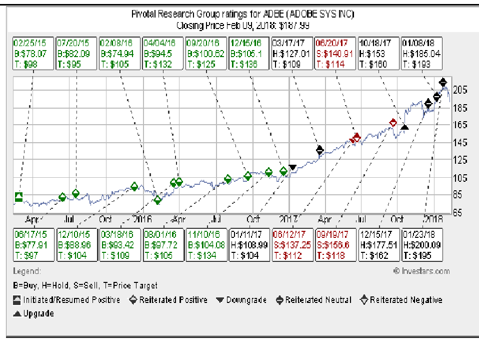
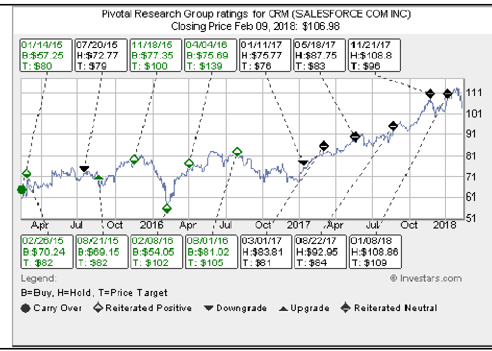
Carry Over Reiterated Positive Downgrade Reiterated Neutral





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