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MAGNA GLOBAL ADVERTISING FORECAST 2013
The Global Advertising Market Hovering Over the “Cliffs”

Digital media revenues will increase by +13.5% as more investment shifts towards online video and mobile-based formats

Key Findings

- MAGNA GLOBAL forecasts media owners advertising revenues to **grow by +3.1% in 2013**. This is 1.4% less than our previous forecast published in June 2012 (+4.5%). The revision is mostly caused by a slow-down in economic growth and continued economic uncertainty in Europe and the US, as well as the cautionary marketing spend that took place in the second half of this year.
- The global advertising market reached **\$495 billion** this year, up +3.8% on 2011. The US remains the largest market with \$153 billion in advertising revenues. Japan, China, Germany and the UK complete the top five.
- The **US** ad market grew by 4.0% in 2012, in great part thanks to the influx of Political and Olympic dollars (“P&O”). The US election cycle was - as predicted by MAGNA GLOBAL a year ago - the biggest ever, bringing almost \$3 billion of incremental ad revenues to the marketplace, and the bulk of it into local television stations. Without any such drivers next year, and a strong comparison, 2013 will see more modest growth: +0.6% (or +2.6% for ex-P&O underlying growth).
- **Western Europe** continues to experience challenging economic conditions. Advertising revenues decreased by -2.8% in 2012, and we forecast at least another year of decline in 2013 (-0.1%). Southern Europe will decline again (-4.3%), while Germany and the UK will show modest growth.
- By contrast, **Central and Eastern Europe** will grow by +7.0% in 2013, **Latin America** by +11.9% and **Asia-Pacific** by +4.8%. Amidst economic “soft landing”, two of the four BRIC markets (China and India) slowed down to single-digit ad growth in 2012. However, we expect China and India to resume double-digit growth in 2013-2014, while Russia will remain strong and Brazil will begin to benefit in 2013 from the impact of its Soccer World Cup of 2014.

2012: advertising revenues grew by +3.8%

In 2012, media companies around the world saw their advertising revenues grow by +3.8% to total \$479.9 billion (constant USD 2011 basis). This new estimate is slightly lower (-1.0%) than our previous prediction in June 2012, with most of the difference coming from **Western Europe** (from -0.2% to -2.8%).

As predicted by MAGNA GLOBAL in June, all of **Southern Europe** has experienced declines this year: Greece, Spain, Portugal, France and Italy. The rate of decline ranges from a modest drop in France (-2.5%) to double-digit declines in Italy, Spain and, as expected, in Greece (-28%). Other Western and Northern European markets suffered a milder decline (Belgium, Netherlands, Denmark, Finland). In stark contrast with the rest of the region, the two biggest markets, Germany and the UK, managed to grow, as we expected, by +0.5% and +2.2% respectively. In **Central and Eastern Europe** (CEE) most markets saw a decline, including Hungary, Croatia, Romania, Bulgaria, Poland and the Czech Republic, but this was offset by the growth in Russia (+10.4%) and Turkey (+8.4%). As a result the region's advertising revenues grew by 5.5% overall.

North America was in relatively better shape than Europe this year. US and Canadian media suppliers saw their advertising revenues increase by +4.2%. US ad revenues grew by almost +4.0% but half of the growth was due to incremental Political and Olympic spending, hitting record levels, while the underlying demand grew weaker in the second half of the year.

Asia Pacific advertising revenues grew by an average +5.5%. Emerging Asia market growth slowed down compared to previous years (especially China +9.2% and India +2.6%) but the sub-region still posted robust growth of +8.4%. In positive news for the region this year, post-Tsunami Japan recovered more strongly than expected (+4.1%) after four consecutive years of declines. Australian advertising revenues decreased slightly (-0.5%). **Latin America** advertising revenues grew by +13%, despite slowing down economic growth, and mostly due to high price inflation in some markets. Brazil grew by +13% and Argentina by +22%, while growth was more moderate in Mexico (+6.4%).

In terms of **media categories**, television was resilient yet again in 2012 (+5.0%), buoyed by quadrennial events. That is especially clear when compared with the declines of newspapers (-4.5%) and magazines (-5.7%) that are feeling the triple blow of audience erosion, weaker demand and cheaper digital competitors. Radio had a positive year (+1.6%), despite a shrinking share of audience, partly because it's an inexpensive, flexible medium often used to drive traffic and promotions when branding campaigns are reduced in challenging times. Out-of-home benefitted from the quadrennial events, and is still organically driven by the rise of digital formats (+6.1%).

Amidst slow economic growth and weak advertising demand, the “**quadrennial**” **events** of 2012 were a minor driver for advertising expenditure globally, but provided

mixed results regionally. The London Olympics were a huge audience success in the US, and the rights-holder NBC maximized monetization across television and digital platforms, stealing share from direct competitors but increasing national TV spend as a whole. However, in most other markets the event was neutral or even detrimental for television. The UK is the best example to illustrate this paradox: broadcast entirely on ad-free BBC, the Olympics drew massive audience away from commercial channels for three weeks; while a few Olympic sponsors increased their net annual spending for the occasion, a bigger number of non-sponsor brands decided to withdraw from what they perceived to be a crowded, potentially inflationary market. In fact, only out-of-home media owners clearly benefitted from the impact of the London Games. This was the pattern in most of Europe, where TV rights were held by State-controlled channels, the majority of which are no longer running ads in prime-time. The European Soccer championship was more positive for European media owners as it was more often broadcast on ad-funded, commercial stations.

2013: +3.1% advertising growth

The global economy will be growing at a moderate pace in 2013. **Real GDP growth will average +3.3% globally**, according to the October update from the IMF. This is slightly below IMF's July prediction (+3.5%). Advanced economies are predicted to grow by only +1.3%, although there is a widening divergence between the slow but steady recovery in the US (+2.2% growth) and protracted weakness in the euro area (-0.4%). More recently OECD downgraded its own forecasts to +1.4% among its members, and -0.4% for the euro area.

Our media owners advertising revenue growth forecast for 2013 is revised to **+3.1%**, down from +4.5% in June. That prediction is of course based on the assumption that neither the US nor Europe will fall into their respective fiscal and debt "cliffs" and the current economic forecasts will materialize. Of the 69 markets analyzed, 57 will experience advertising growth while 12 will decline. That is better than 2012, when 22 countries out of 69 showed declining ad revenues.

Western Europe continues to struggle amidst challenging economic conditions and austerity policies. As the debt crisis still looms, the combined ad markets in Spain, Italy, Portugal and Greece are now 34% smaller than they were in 2007 and ad revenues are still expected to decline for at least another year (-4.3%). The French market will also decline (-0.9%). Just as they did in 2012, we expect Germany and the UK to expand again, however slightly (by +1.9% and +0.8% respectively). It will not, however, be enough to restore growth in the entire region in 2013 (-0.1%). We expect advertising growth to return in 2014 (+1.6%). **Central and Eastern Europe** will prove more dynamic, growing by an average +7.0%, driven by robust Russian and Turkish markets; Poland will continue to stagnate. After the Arab Spring turmoil of 2011 and the strong

recovery of 2012 (+10.4%), **Middle-East-Africa** markets will grow by an average +6.4%, driven by Egypt (+9.1%) and South Africa (+7.1%).

In **Asia**, we expect India to re-accelerate after the temporary slow-down of 2012, to +8.7%. Amidst an economic “soft landing” (+7% to +8% GDP growth) that might be more durable, Chinese advertising will grow by +9.5% in 2013 before going back to double-digit growth starting from 2014. Two factors will continue to sustain China and India in the long term: a very low ad-per-capita ratio (\$28 per year per capita in China, \$6 in India compared to the global average of \$91); and the need for global advertisers to reach the rising middle classes, seize the window of opportunity and emerge as leading brands, as only few Western brands are likely to remain significant in the long term. The fact that, for instance, car sales growth is temporarily slowing down in China, does not mean automotive manufacturers will reduce the growth of their marketing investment in the mid-term; the fight for leadership will continue.

Elsewhere in Asia we forecast Japan to return to stagnation (+0.2%) when faced with economic slow-down again, and a strong comparison year 2012; Australia will post modest growth (+1%). Most other markets in Emerging Asia will experience explosive growth: for instance Malaysia (+9.7%) and Vietnam (+13.4%).

In Latin America, media companies will see ad revenues growing by +11.9% next year (Mexico +6.4%, Brazil +10.7%, Argentina +22.2%, Venezuela +15.7%). Advertising spend continues to be driven by rampant inflation in both the general economy and the media economy. According to the MAGNA GLOBAL 2012 Media Cost Study, television advertising costs will increase by an average +13.1% in 2013 in the region, and newspaper costs by an average +20.5%. Some countries like Argentina are showing much higher rates. Despite some economic challenges, Brazil will already feel some positive benefits from the upcoming Soccer World Cup 2014. Television in particular is already leveraging the increased demand from brands to be associated with “futebol” as early as 2013.

The **US** market will slow down, as it often does in a post-election year. We expect total advertising revenues to grow by +0.6% or +2.6% for ex-P&O underlying growth. This is of course *if* Government manages to find an agreement before the end of December, to avoid falling off the “fiscal cliff”, which would potentially reduce economic growth by several points into recession. Television revenues will decrease by -1.9% because of weaker demand and the classic pendulum effect of post-election years. Without the Olympic spend booster and because of long-term audience erosion, National English-Speaking networks revenues will decrease by -3.6%. Without political spend, local broadcast TV revenue will decline by -9.0%. Continued audience growth will keep revenue up in the less-cyclical National Cable TV sector (+4.6%). Digital advertising revenues will increase by +11.6%, newspapers revenues will decline by -6.7% and magazines ad sales will fall by -7.8%. Radio revenues should be flat while outdoor and cinema will keep increasing (+4.4%).

On a global basis, 2013 will be a seventh consecutive year of decline for **Newspapers** ad revenues (-3.4%) as fewer emerging markets now record enough growth to offset the rapid decline otherwise observed in developed markets. **Magazines** will decline by -4.3%, still suffering from the combined pressure of television and the growing targeting capabilities of digital media. **Television** advertising growth will slow down to +2.3%, mostly due to the US market (US television represents about a third of global television: \$62 billion in a \$202 billion global market). **Out-of-home** ad sales (including cinema) will increase by +3.4%. **Radio** will grow by an average +1.5%. Because it's on average five times cheaper than national TV or eight times cheaper than print, radio is in demand and should be able to increase its rates in 2013.

Digital media revenues will increase by +13.5%; classic PC display format (banners, sponsorship) are now barely growing (+6%) as more investment shifts towards online video and mobile-based formats, and Paid Search remains robust (+14%).

Vincent Letang, EVP, Director of Global Forecasting and author of the report, said: "Tablets have been the fastest device ever to reach 50 million users in less than three years. As they become more affordable, we are seeing an explosion in the volume and the nature of mobile media usage. Marketers are gradually embracing the new marketing and branding opportunities: mobile advertising already represents \$6 billion globally, i.e. 6% of digital advertising and 1% of total advertising. MAGNA GLOBAL is predicting the format to grow to \$24 billion by 2017, reaching 14% of global digital advertising and 4% of overall advertising revenues".

2014 and beyond: driver and inhibitors

Although we do expect more robust advertising growth from 2014, as global economy stabilizes, we have slightly reduced our mid-term forecasts. We now expect 2014 to grow 6.0% (previously 6.3%) and 2015 by 4.9% (previously 5.3%). Slowing-down factors are still at work however. Among them the switch to digital and the deflationary pressure it creates. Our 2012 MAGNA GLOBAL Media Cost Study showed that cost-per-thousand impressions (CPMs) are on average \$39 in newspapers and \$21 in magazines, across the 40 markets analyzed. That's more than television costs and five times more than online display.

Meanwhile online advertising is becoming cheaper still as programmatic buying is developing. A recent MAGNA GLOBAL study forecast that 43% of total online display will be traded through programmatic mechanisms (or exchanges) in the US by 2017. At the same time expensive premium formats like online video are starting to reduce their premium and align their CPMs with those of broadcast TV.

A deflationary digital media space means that, as marketers switch budgets from traditional media towards digital media to follow their consumers, they also take advantage of a media mix that comes cheaper. And unless they find themselves in a

growing or highly competitive market, they are not likely to use the savings to increase the advertising pressure or share of voice. That mechanism is very much at work in the developed world and it will gradually affect some of the emerging ad markets over the 2014-2017 period, as digital media reaches a 20% market share or more and programmatic buying tools become widespread.

Among the drivers, we must mention innovation in audience measurement, targeting and monetization and the capacity of some traditional media categories to re-invent themselves (e.g. digital formats increasing the yield and profitability of out-of-home advertising). Separately, the increasing access to education, literacy and media in the developing world will keep creating new opportunities for marketers to reach and engage new consumers.

The next MAGNA GLOBAL Forecast update will be published in **June 2013**.

About MAGNA GLOBAL Advertising Forecasts:

For more than 40 years, MAGNA GLOBAL forecasts have been the industry's leading source for measuring and forecasting advertising revenues. MAGNA GLOBAL forecasts media owners' advertising revenues in the US and around the world through financial analyses of media companies' public filings, government reports, trade association data and local market expertise. MAGNA GLOBAL's new methodology was introduced to the industry in 2009 and has redefined measurement for the advertising-supported media economy, delivering unparalleled authority and accuracy. Our Global Media Suppliers Advertising Revenue Forecasts include television (pay and free), internet (search, display, video, mobile), newspapers, magazines, radio, cinema and out-of-home (traditional and digital). Our report monitors media suppliers' revenues in 71 markets, including all major countries, representing 95% of the world's economy. Two new markets are added in the December 2012 report: Vietnam and Venezuela. Our forecasts are updated twice a year and available to our subscribers. Our **US Advertising Revenue Forecast** study includes detailed data for more than 40 categories of media on a quarterly basis from 1990 to 2012 and on an annual basis from 1980 to 2017, updated quarterly.

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About MAGNA GLOBAL:

MAGNA GLOBAL is the strategic global media unit of Interpublic Group, driving forecasts, insights and negotiation strategy across all media channels. The MAGNAGLOBAL Intelligence Unit delivers the industry's most accurate and authoritative forecast of media value. The MAGNA GLOBAL Investment Unit harnesses \$30 billion of Mediabrands global media billings. Follow us on Twitter for updates @MAGNAGLOBAL.

Figure 1: Global Media Owners Ad Revenues 1999-2017

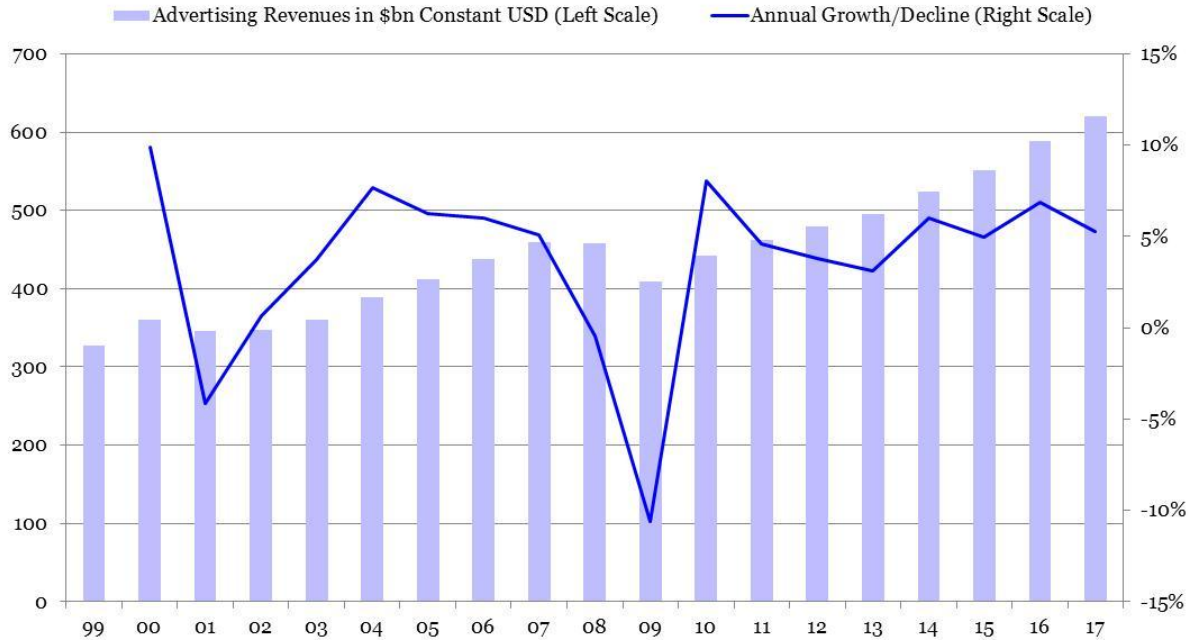


Figure 2: Advertising revenue growth by media category

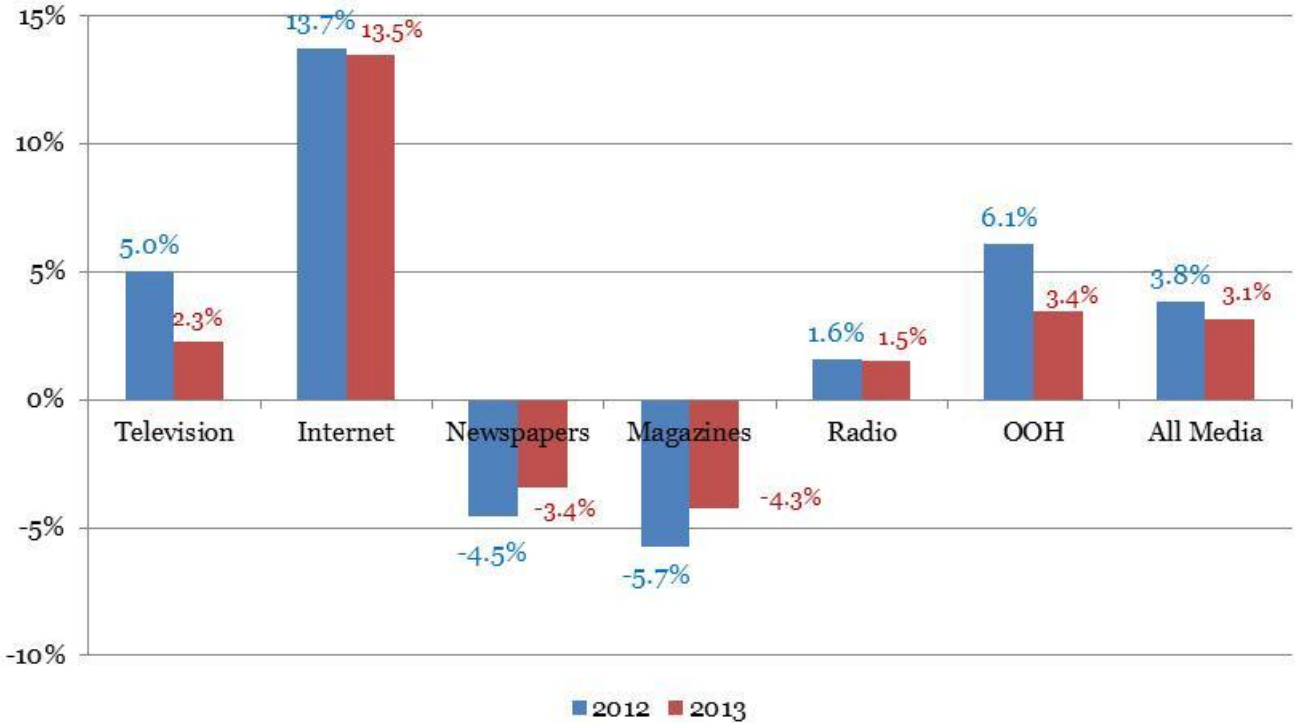


Figure 3: Top 10 advertising markets (2012-2017)

Rank	2012	\$bn	2013	\$bn	2017	\$bn
1	United States	152.3	United States	153.2	United States	179.9
2	Japan	51.2	Japan	51.3	China	66.3
3	China	38.0	China	41.6	Japan	55.1
4	Germany	25.1	Germany	25.3	Brazil	35.1
5	Brazil	20.5	Brazil	22.6	Germany	27.1
6	UK	20.2	UK	20.6	UK	23.1
7	France	14.5	France	14.4	Russia	15.6
8	Canada	12.7	Canada	13.5	Australia	15.4
9	Australia	12.7	Australia	12.8	France	15.3
10	Russia	10.0	Russia	11.0	India	15.2

Figure 4: December Revisions

Advertising revenue growth (2013 v. 2012)	Previous forecast (June 2012)	New forecast (December 2012)
Asia-Pacific	8.0	4.8
Latin America	11.5	11.9
North America	1.0	1.0
Western Europe	1.9	-0.1
Central & Eastern Europe	8.5	7.0
Emerging Markets	12.8	9.9
Developed Markets*	1.6	0.7
World	4.5	3.1

*Developed markets: Western Europe, North America, Australia, New Zealand, Japan, South Korea, Singapore, Hong Kong, Taiwan.