MAGNA Media Advertising Forecast

July 2009

Summary of Methodology

- Focus on **media supplier advertising revenues**, not marketers' expenditures
- **What is media?** Definitions needed, dividing line essential, model drift expected
- **Categorization of national, local and direct**: defined by supplier footprints, trading processes and means of assessment
- **Historical market sizes determined** through financial analysis, US Census, some trade associations (from 1980 annually, 1990 quarterly)
- **Future growth based on multivariable regression analysis** between "normalized" advertising and economy (through 2010 quarterly, 2014 annually)
- **Model structure** mimics media planning
- **Growth of specific media derived by estimating share shifts** within media, not a bottoms-up approach (forecasts remain informed by sector-specific insights)

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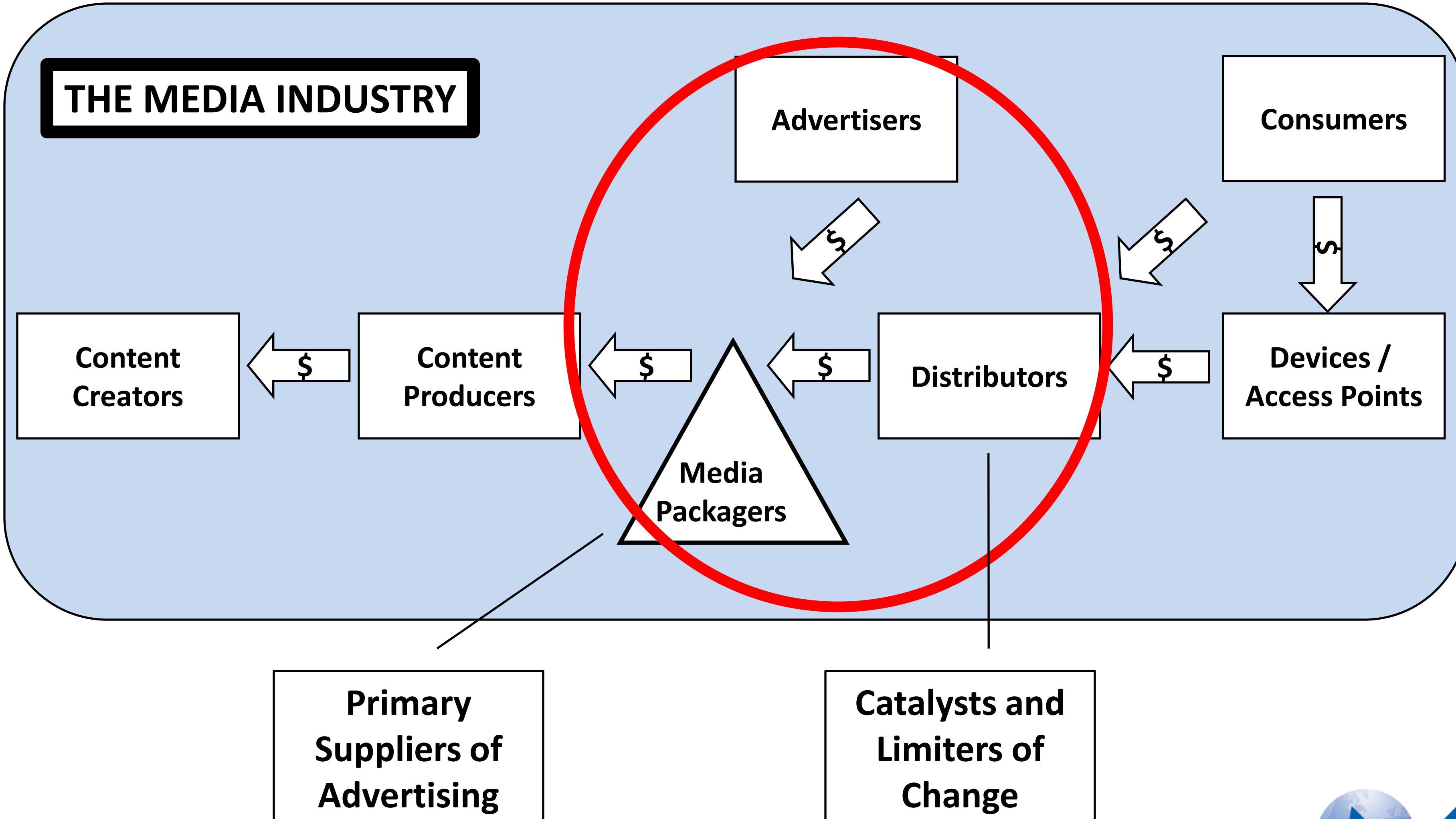
Introduction

Prediction is very difficult, especially if it's about the future

-Niels Bohr, 1865-1962
(Danish Physicist)

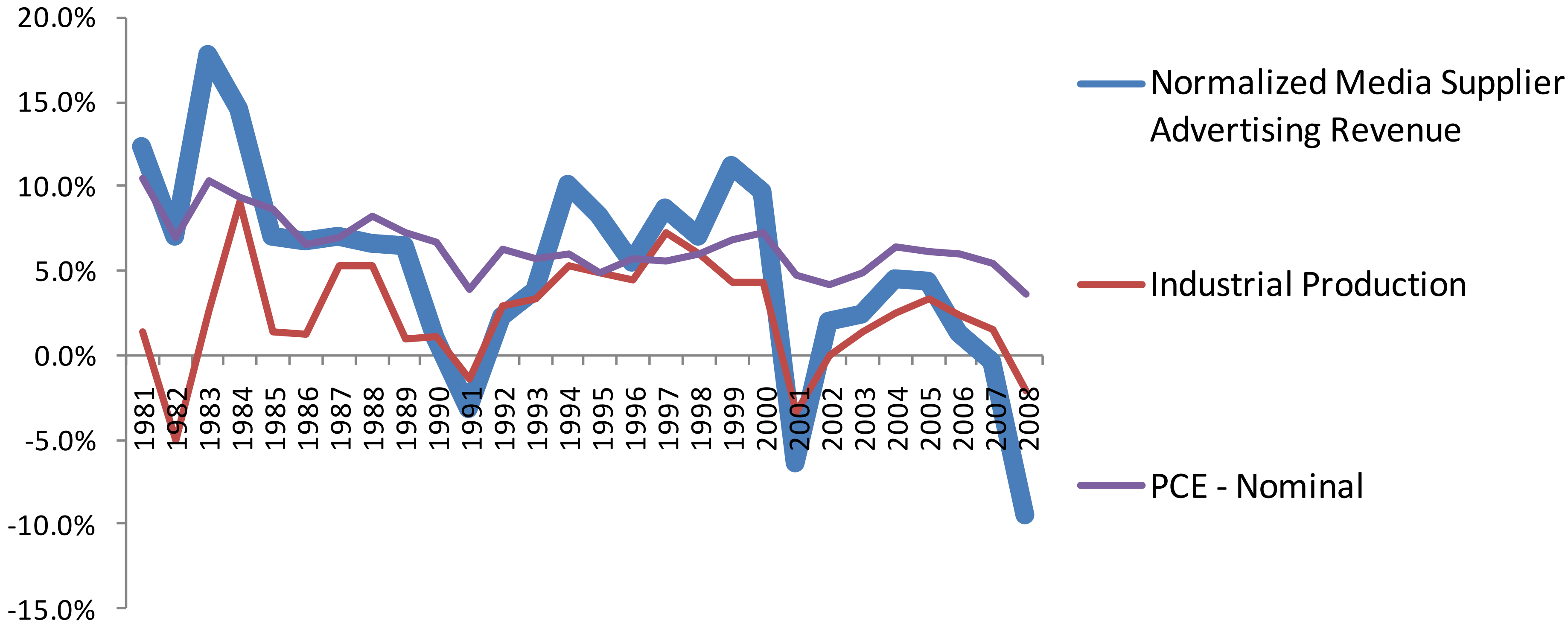
The Focus of Our Forecast



Source: MAGNA

Cyclical Relationships

- **1980-2008: Personal Consumption + Industrial Production = .75 R^2**
  - During same period GDP alone =.52 R^2



Source: MAGNA, US Bureau of Economic Analysis, US Federal Reserve

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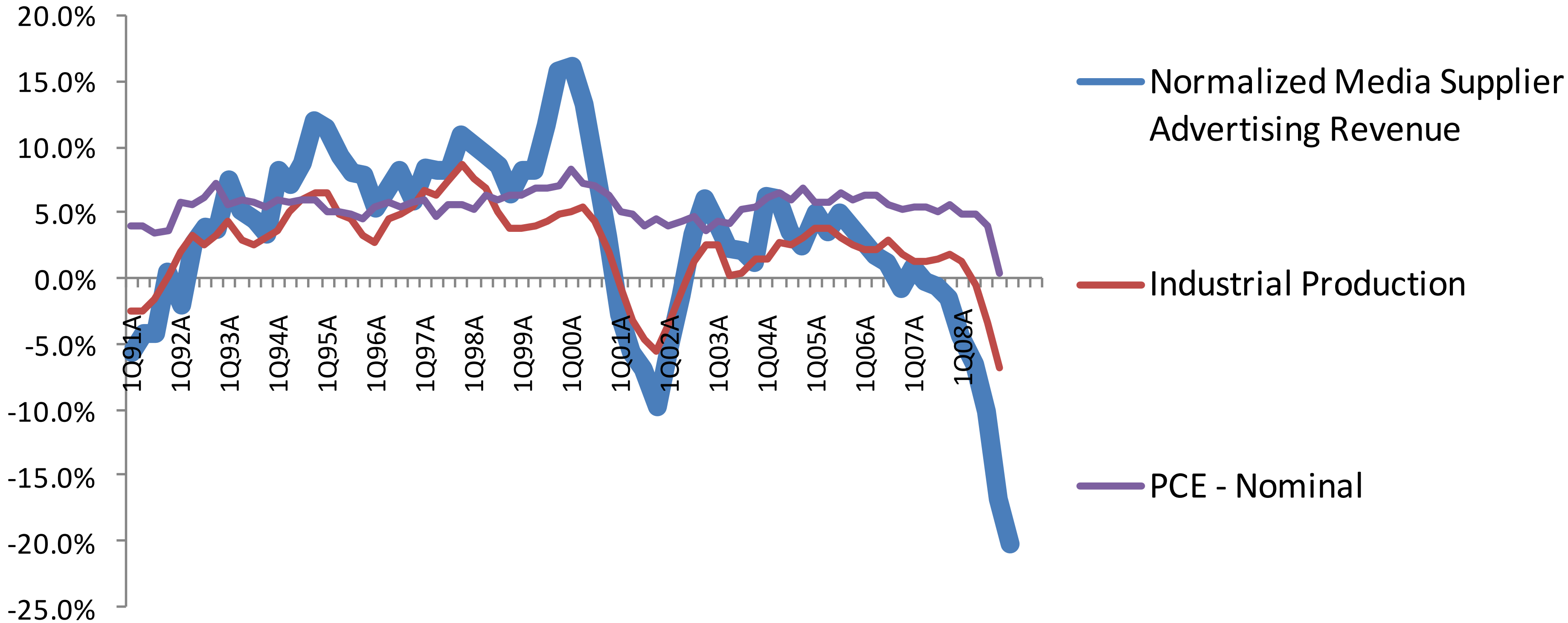
Cyclical Relationships

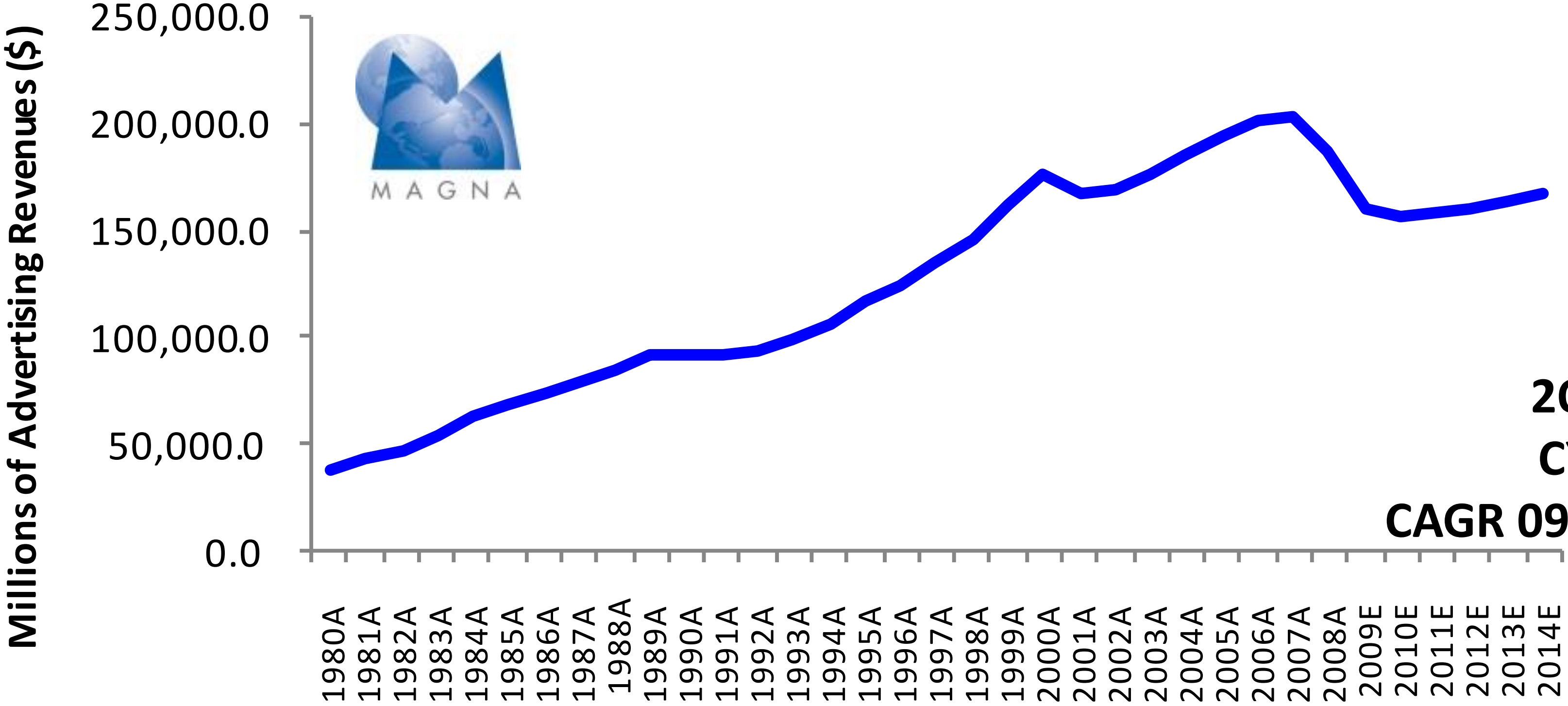
- **Advertising revenues move with economy**
  - From 1991, Industrial Production = best quarterly predictor (.83 R^2)



Source: MAGNA, US Bureau of Economic Analysis, US Federal Reserve

Forecast: Total Normalized Media Advertising

2009E TOTAL: $161.4 BILLION



GROWTH
2Q09: -18.0%
CY09: -14.5%
CAGR 09-14: +0.9%

Source: MAGNA. Excludes incremental Network TV Olympic and total local TV political advertising revenues

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Structural Factors Beyond the Fundamentals

Factor	Our Perspective
Organizational Design	Advertisers' corporate structures can pre-define marketing choices Reach & Frequency is a poor proxy for most marketing today Given the R&F paradigm, traditional media choices are rational
Advertiser Universe Changes	Different media are differently appropriate for different advertisers Different media are differently valuable for different advertisers New mass market categories are critical to growth of media Mature advertisers seem to shift budgets to marketing from media
New Technologies	Distribution platforms limit or alter technological change Technology causes growth and decline, can improve efficiency Technology-led decline is not necessarily a bad thing
Operational Friction	Mere presence of a medium is insufficient to enable advertising Large enterprises have many operational requirements to consider
Sentiment	Value perception often intangible, especially if media is sub-scale

Source: MAGNA

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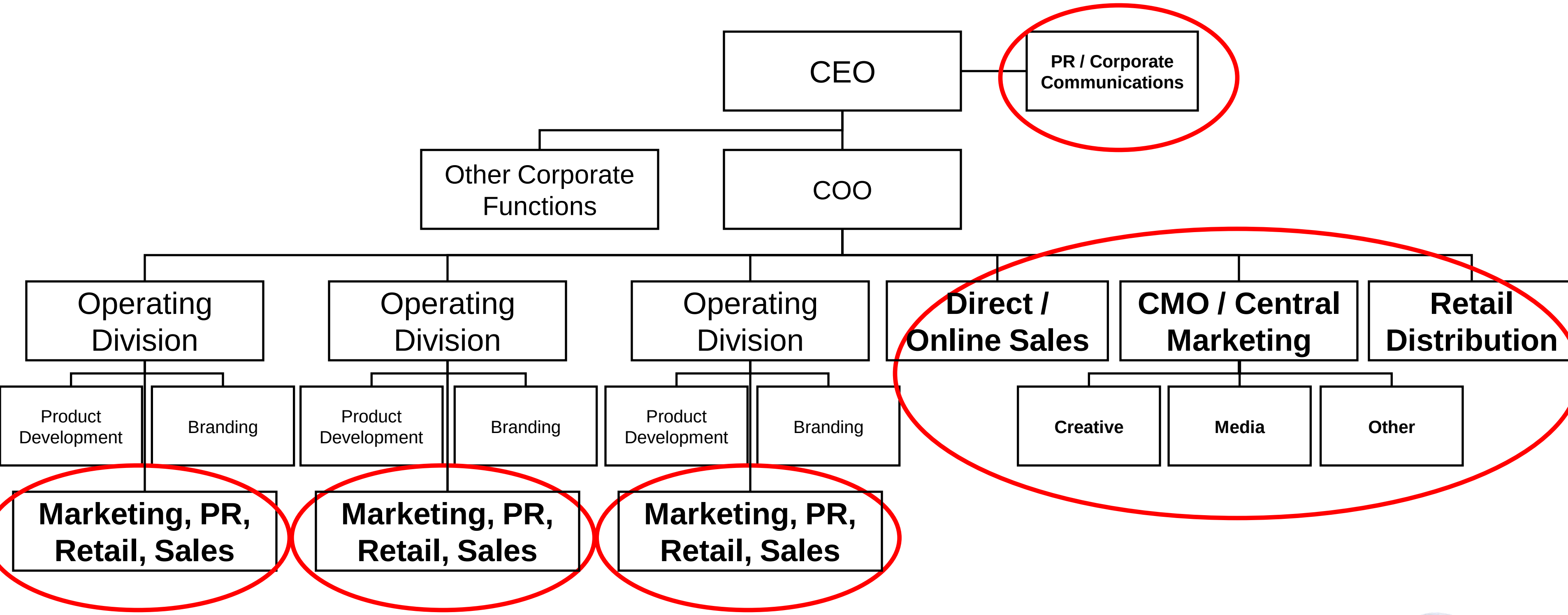
Structural Factor: Organizational Design

- **Structure follows strategy, and structure can pre-define marketing choices**



Source: MAGNA

Structural Factor: Organizational Design

- **Simple marketing objective proxies allow for accountability**

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Structural Factor: Organizational Design

- But reach & frequency was designed for a different era…

Structural Factor: Organizational Design

- …and was likely appropriate if all consumers accessed same platforms

Structural Factor: Organizational Design

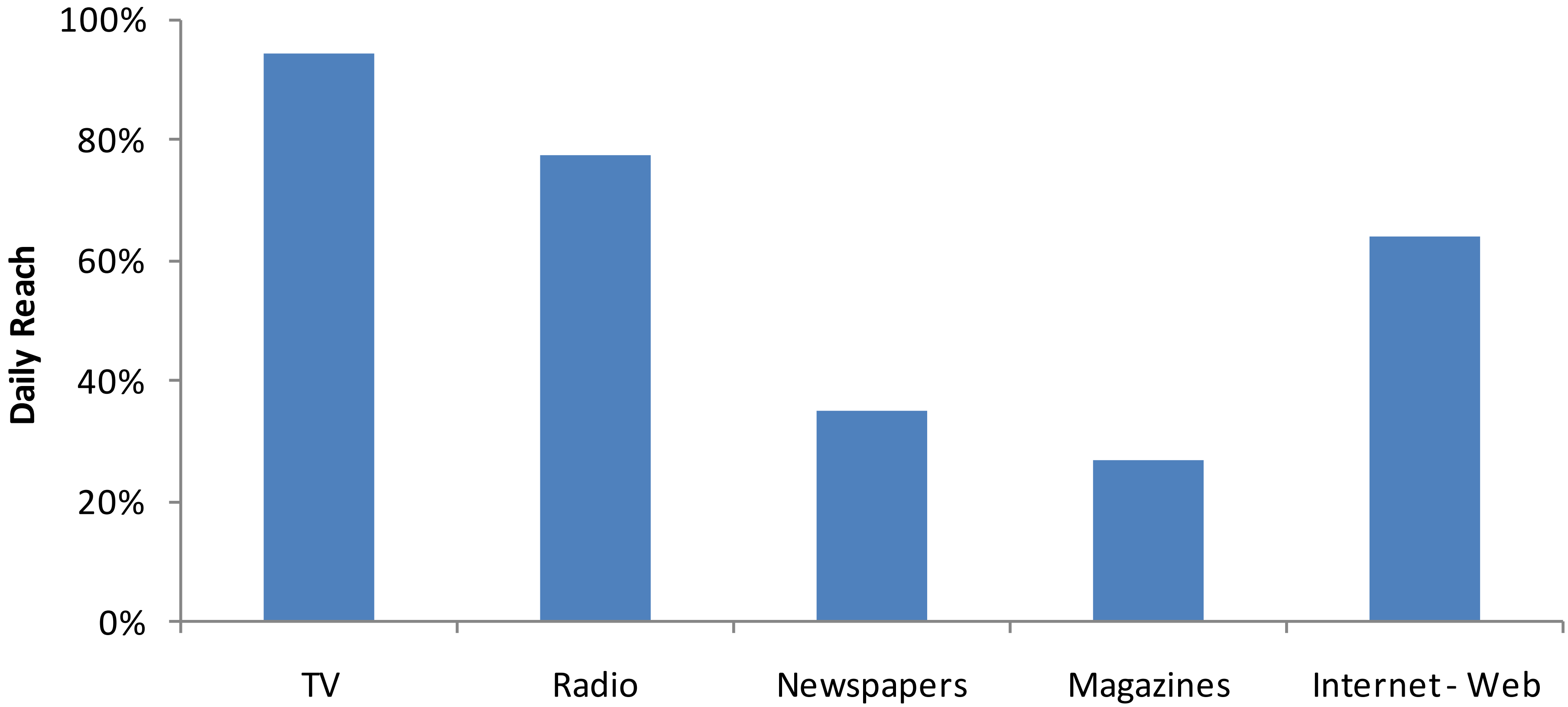
- But world of “Web 2.0%” fragments *some* audiences…

Structural Factor: Organizational Design

- …Separately from others

Structural Factor: Organizational Design

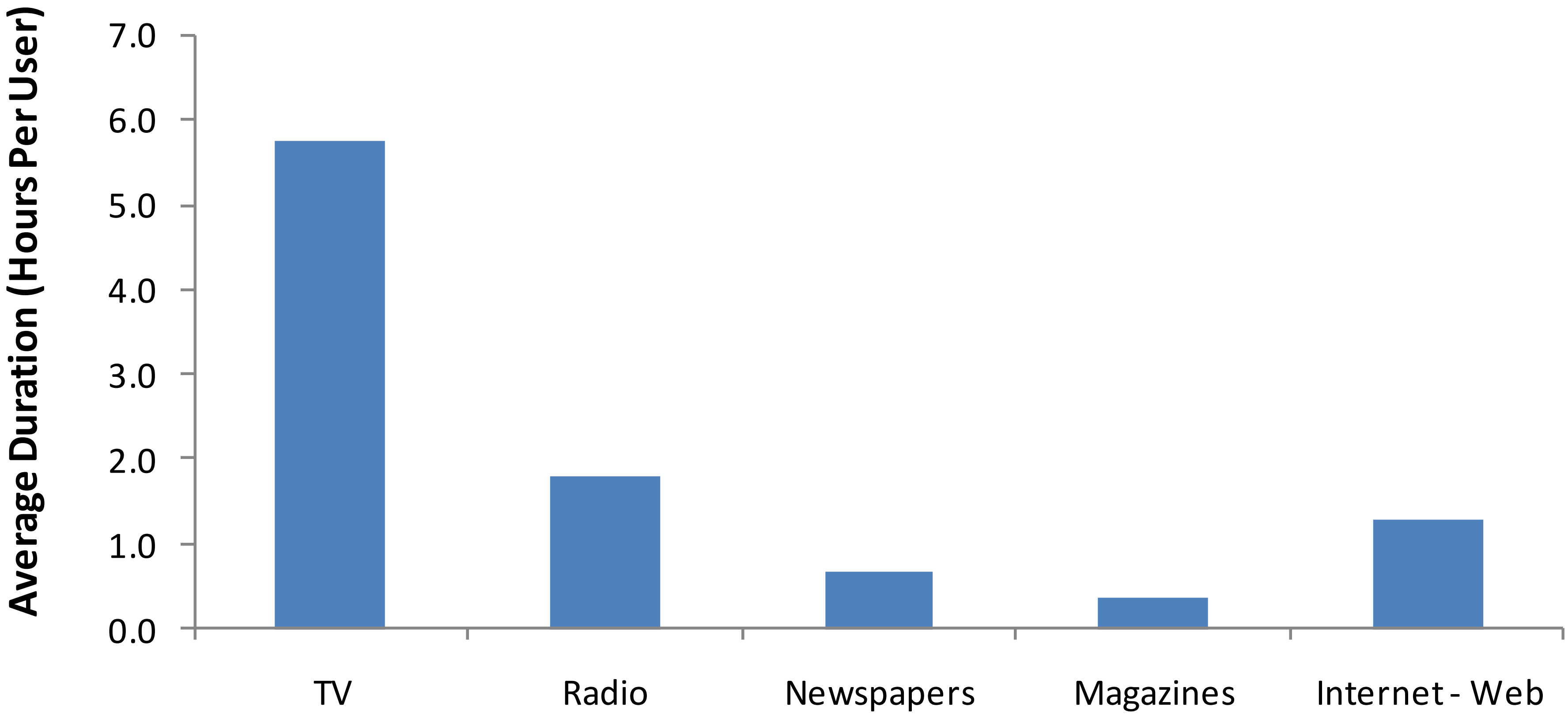
- **Implications: TV can dominate other media because of dominant reach…**



Source: The Council for Research Excellence, April 2009

Structural Factor: Organizational Design

- ...And frequency



Source: The Council for Research Excellence, April 2009

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Structural Factor: Organizational Design

- Are resulting choices bad? For given goals, choices are better than alternatives

~~Democracy~~ Television is the worst form of ~~government~~ advertising, except all the others that have been tried"

-Winston Churchill, 1874-1965
(Former British Prime Minister)

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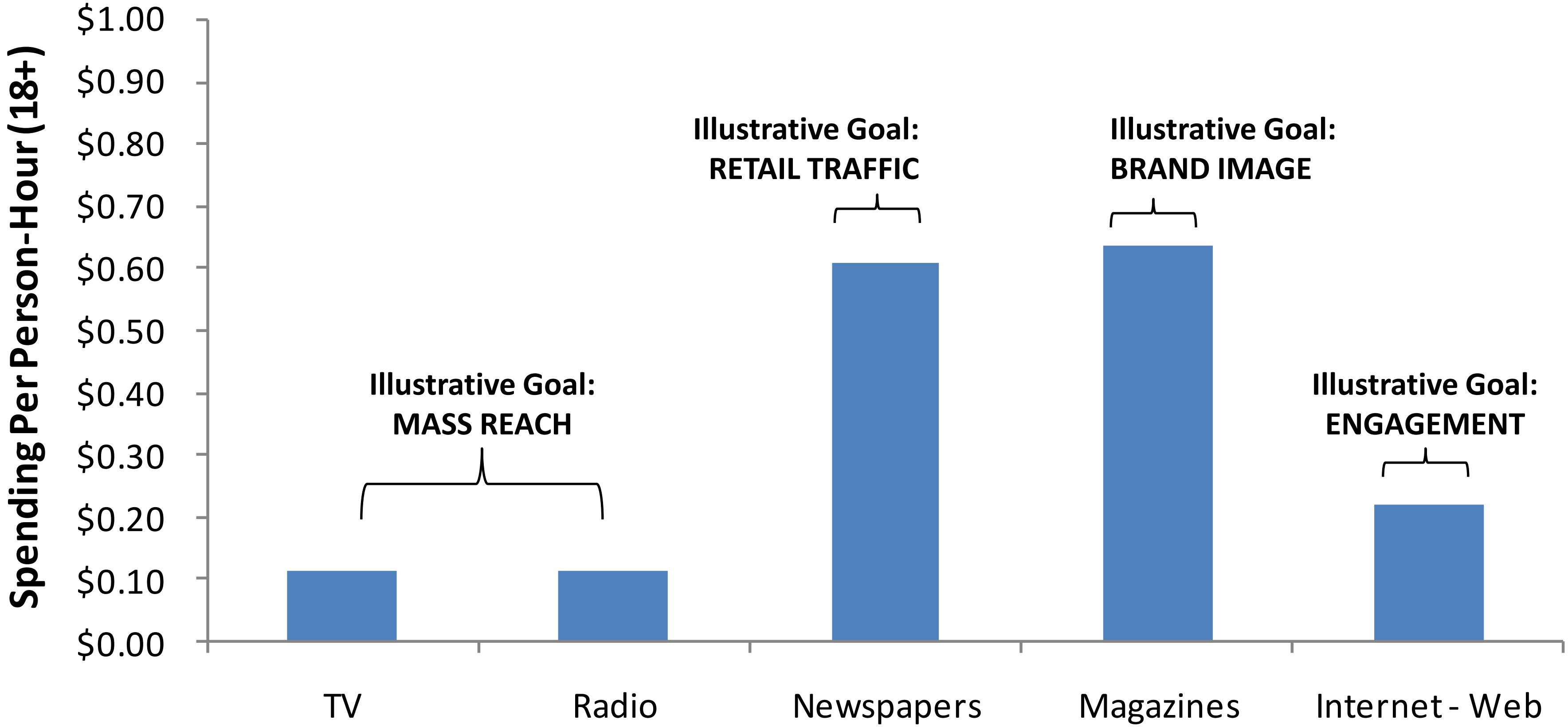
Structural Factor: Advertiser Universe Changes

- **Different value to different advertisers with different *goals***



Source: MAGNA analysis of data from The Council for Research Excellence, April 2009

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Structural Factor: Advertiser Universe Changes

- **Different value to different advertisers at different *life stages***

Top 10 Network TV Advertisers (By Brand)	
1988	**2008**
McDonald's	AT&T Wireless
AT&T Long Distance	Verizon Wireless
Budweiser	Sprint Wireless
Burger King	McDonald's
KFC	Target
American Express	Home Depot
Wendy's	Wal-Mart
Miller Lite	Visa
Miller High Life	Kohl's
Oldsmobile	T-Mobile

New categories: National Retail, Wireless, Pharmaceuticals

Source: TNS

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Structural Factor: Advertiser Universe Changes

- **Different value to different advertisers with different *scale***

=

slide

ReachLocal salesforce.com Success On Demand.

craigslist Google

=

The New York Times

YAHOO!

abc

CLEARCHANNEL

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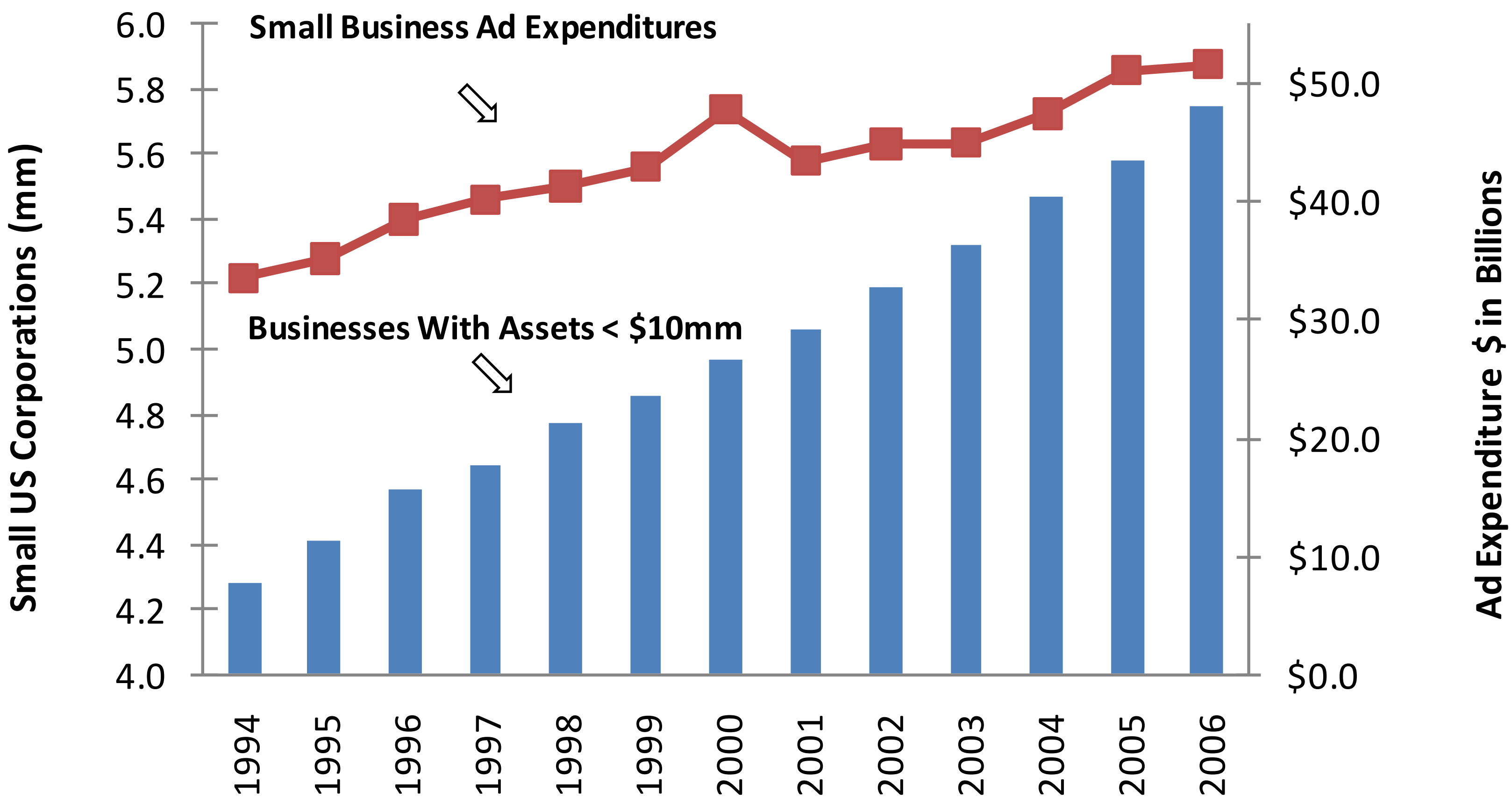
Structural Factor: Advertiser Universe Changes

- ~6 million small businesses spend >$50 billion, impacting industry shape



 Source: MAGNA analysis of data from US Internal Revenue Service. Advertising expenditures refer to IRS reported deductions for advertising

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Structural Factor: Advertiser Universe Changes

- Niche-focus advertising economics may be better (with PR, social media, SEO)

	1979		2009
Mass Focus: Paid Media Budget	$100mm	→	$1,000mm?
Niche Focus: Paid Media Budget	$10mm	→	$1mm?

Source: MAGNA. Figures are illustrative

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Structural Factor: New Technologies

- **Media distribution makes possible *and* limits technological change**
  - Media needs service-based infrastructure, depends on distributors enablement
  - Change must *reliably* benefit incumbent business model to take effect
  - Regulators/Congress may act sometimes, but Constitution places limits

Source: MAGNA

Structural Factor: New Technologies

- **Once enabled by distributors, technology can cause growth or decline**

Technology Enables	Description	Example
Consumer Behavior Shifts	Expanding media consumption or replacement of non-ad supported activities with ad-supported activities grows market Higher value ad-supported behavior may be replaced with lower value behavior	PARKER BROTHERS → EA YAHOO! → facebook
Endemic Eco-Systems	New distribution platforms enable formation of new businesses which may be self-contained to the new medium	amazon.com thumbplay
Market Expansion	New technologies tend to create more fragmented audiences. This in turn results in lower media price points and allows for use of media by smaller advertisers	Google USA NETWORK
Audience Targeting	Technology is applied to deliver higher value per unit of media Lower costs to achieve objectives can result in smaller budgets	TACODA Where the people are Advertising.com

Source: MAGNA

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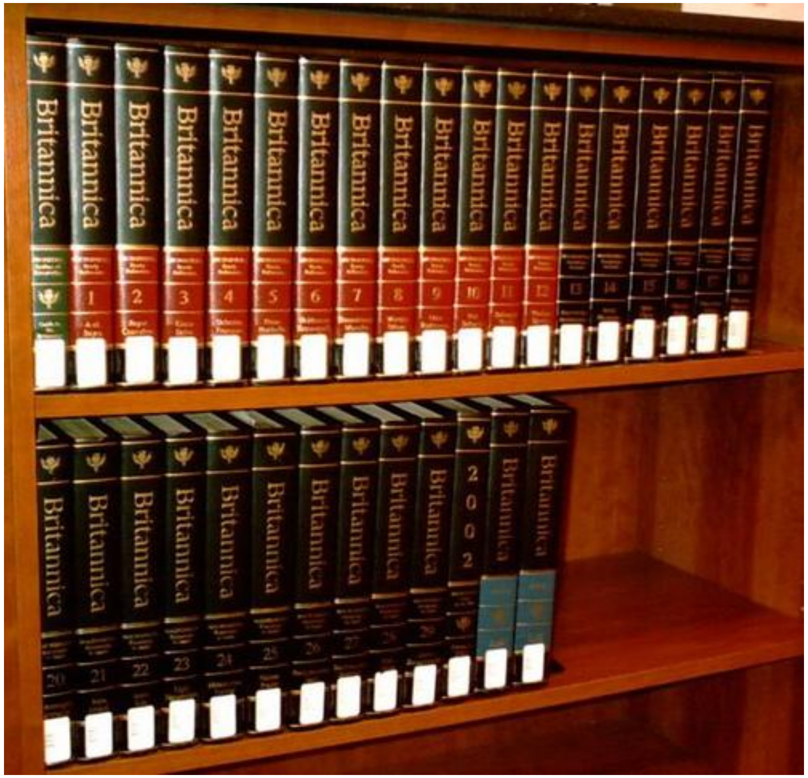
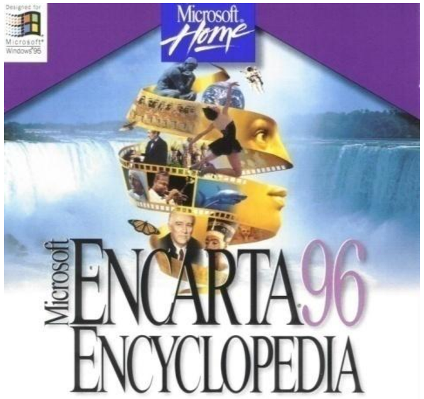
Structural Factor: New Technologies

- **Is technology-led revenue decline necessarily bad?**





WIKIPEDIA
The Free Encyclopedia

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Structural Factor: Operational Friction

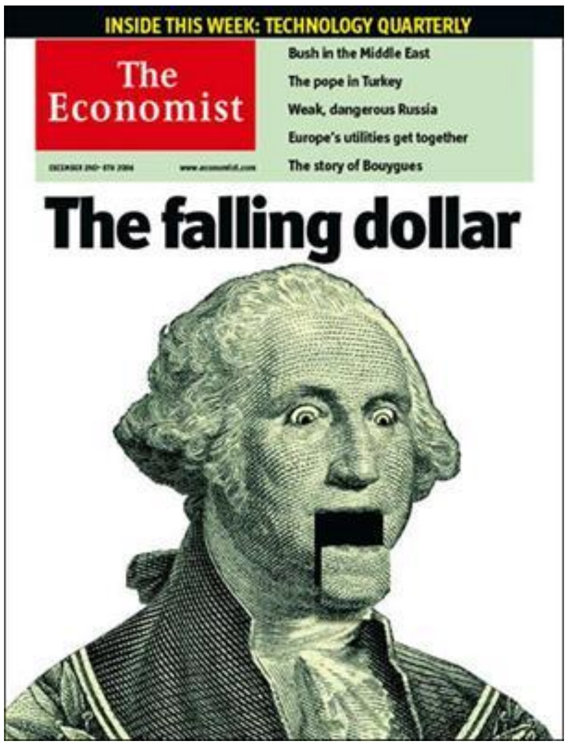
- **Mere presence of a medium is insufficient to enable advertising**

Requirements	Rationale
Critical mass of unique reach	Advertisers require depth within target audiences
Uniform technological standards	Consumers must not be confused by a wide range of similar but materially different technological platforms Advertisers should be able to prepare same creative content for delivery to multiple technical platforms
Research into optimal formats	Advertisers need guidance on preferred format, benchmarked against an existing medium
Smooth buying process	Timely data provision, dynamic ad-insertion and last minute change capabilities are required by many
Provision of robust user data	Verification and performance are increasingly important for accountability of marketing choices
Maintain quality service product	Ad sales service, separation of “objectionable” content are requirements for mass advertiser appeal

Source: MAGNA

Structural Factor: Sentiment

- **Ultimate reasons for use of sub-scale media often based on “feel”**
  - Given difficulty in assigning value or proper testing, gut choices are common



= YAHOO!® ?

MAGNA

Source: MAGNA

Secular Trends: All Media

- **Disintermediation affects different media differently**
  - For business model, consumer and technical reasons

●	Yes for all people under virtually all circumstances
◕	Often for most people under most circumstances
◑	Yes for some most of the time or yes for all some of the time
◔	Yes for some some of the time or no for most most of the time
○	No

	General Print	YP	Radio	TV
Sufficient Range of Content	●	●	●	◑
Sufficient Technical Quality	●	●	●	◑
Equipment Substitution	◑	◑	◕	◔
Sufficient Customer Service	●	●	●	◔
Efficient Navigation	●	●	◑	◔
Cheaper to Substitute	●	◕	◑	◔
Increased Convenience	◑	◑	◑	◕
SUMMARY	◑	◑	◑	◔

Limited TV content available today

Internet can't deliver high res video as well as cable/satellite

Print is tactile

Web video: no STB integration

QoS is critical for video

Hard to navigate to find audio/video

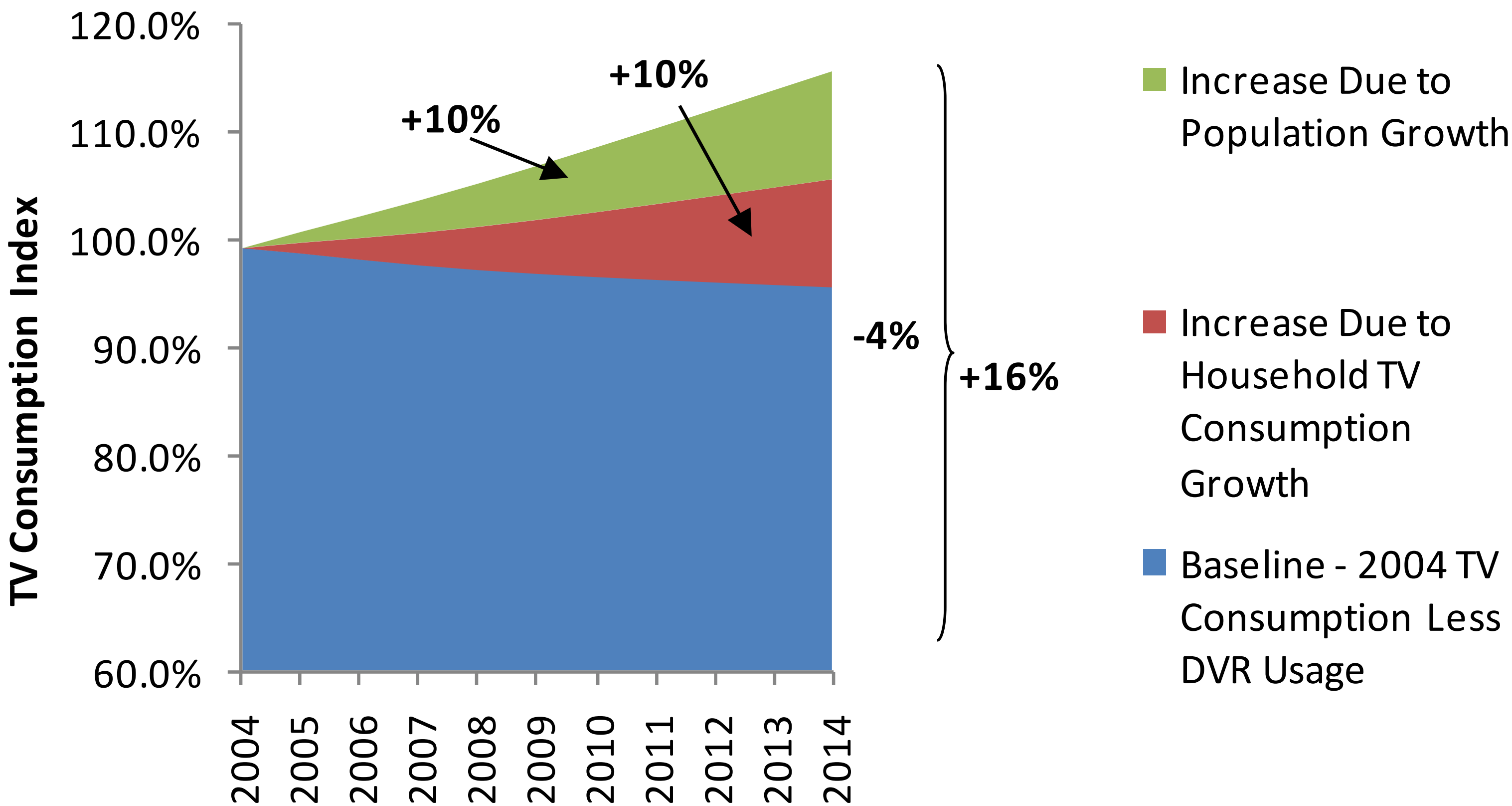
Online bandwidth=more cost than free media

Print and radio are typically portable

Source: MAGNA

Secular Trends: Television

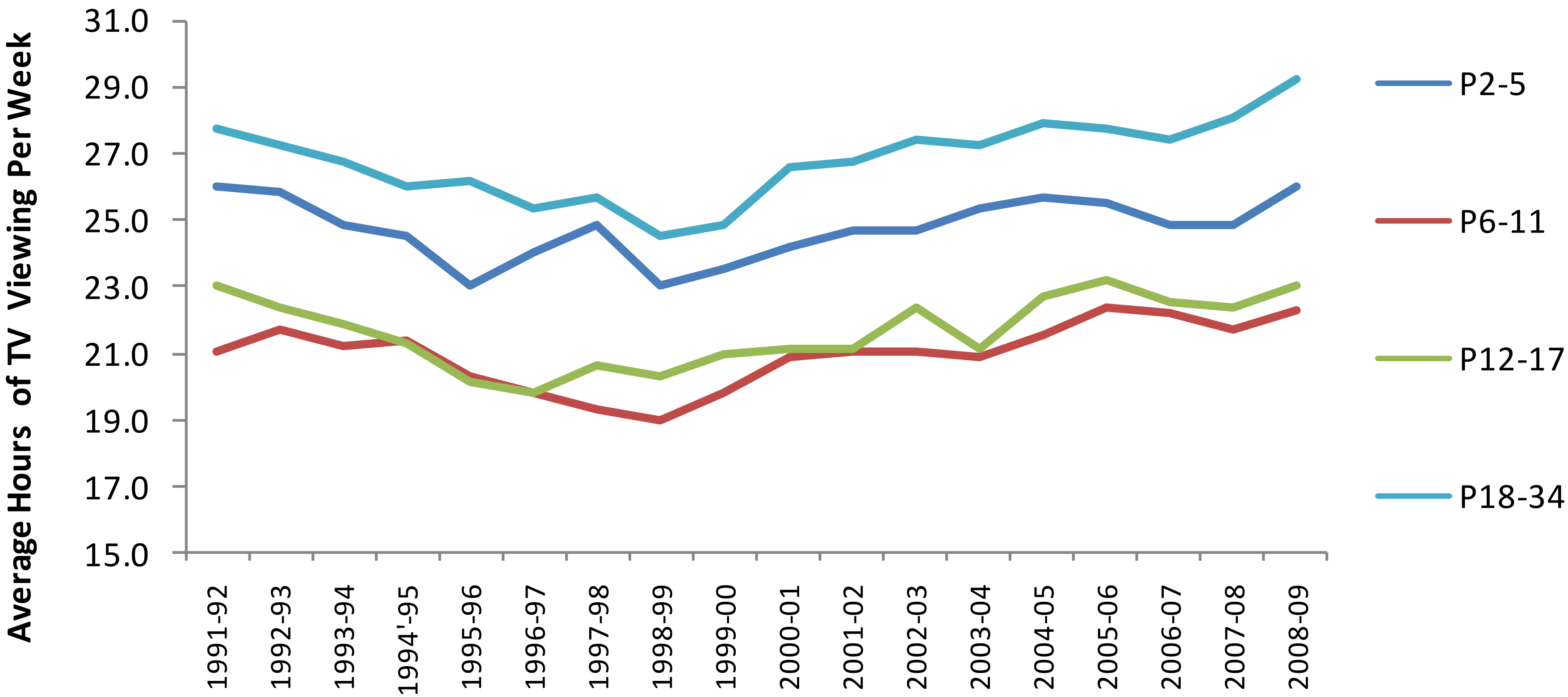
- **Total impressions rising: population + consumption more than offset DVRs**



Source: MAGNA. Illustrative forecasts based on recent trends

Secular Trends: Television

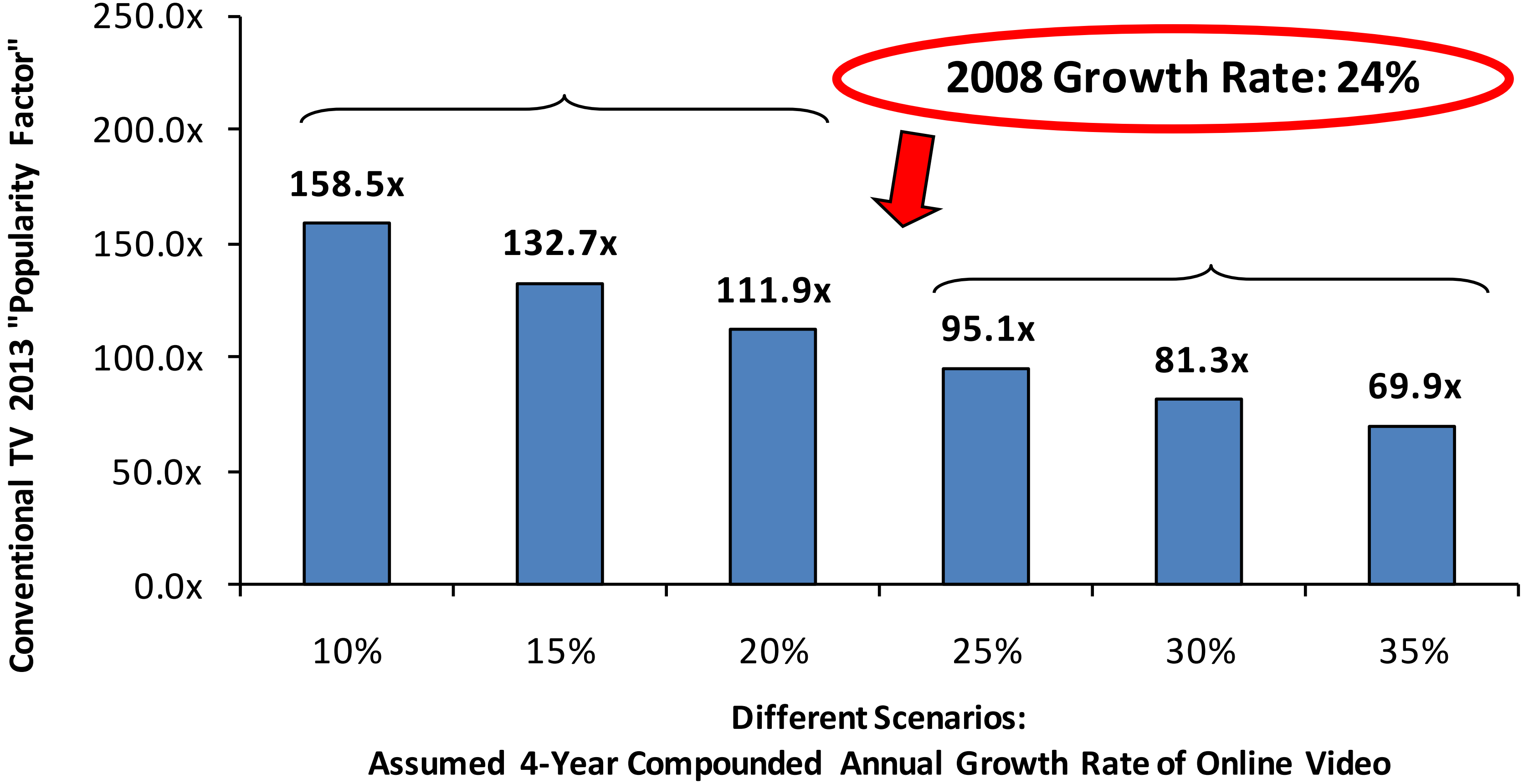
- **TV consumption is flat or up for all audiences – including young ones**



Source: MAGNA, Nielsen

Secular Trends: Television

- **Traditional television will still dwarf online video for years to come**



Source: MAGNA, Nielsen, Accustream

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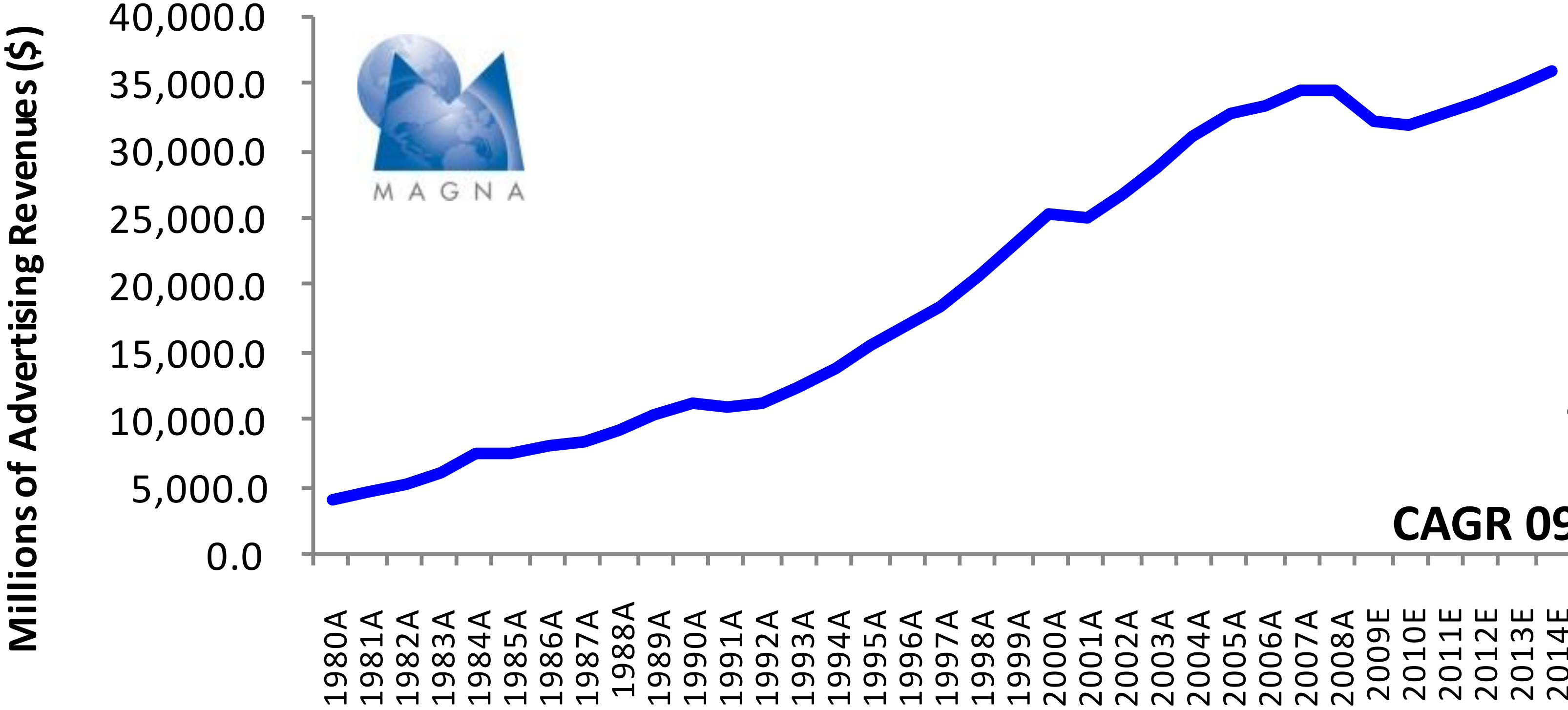
Forecast: National TV (Normalized)

2009E TOTAL: $32.3 BILLION



GROWTH

2Q09: -7.6%

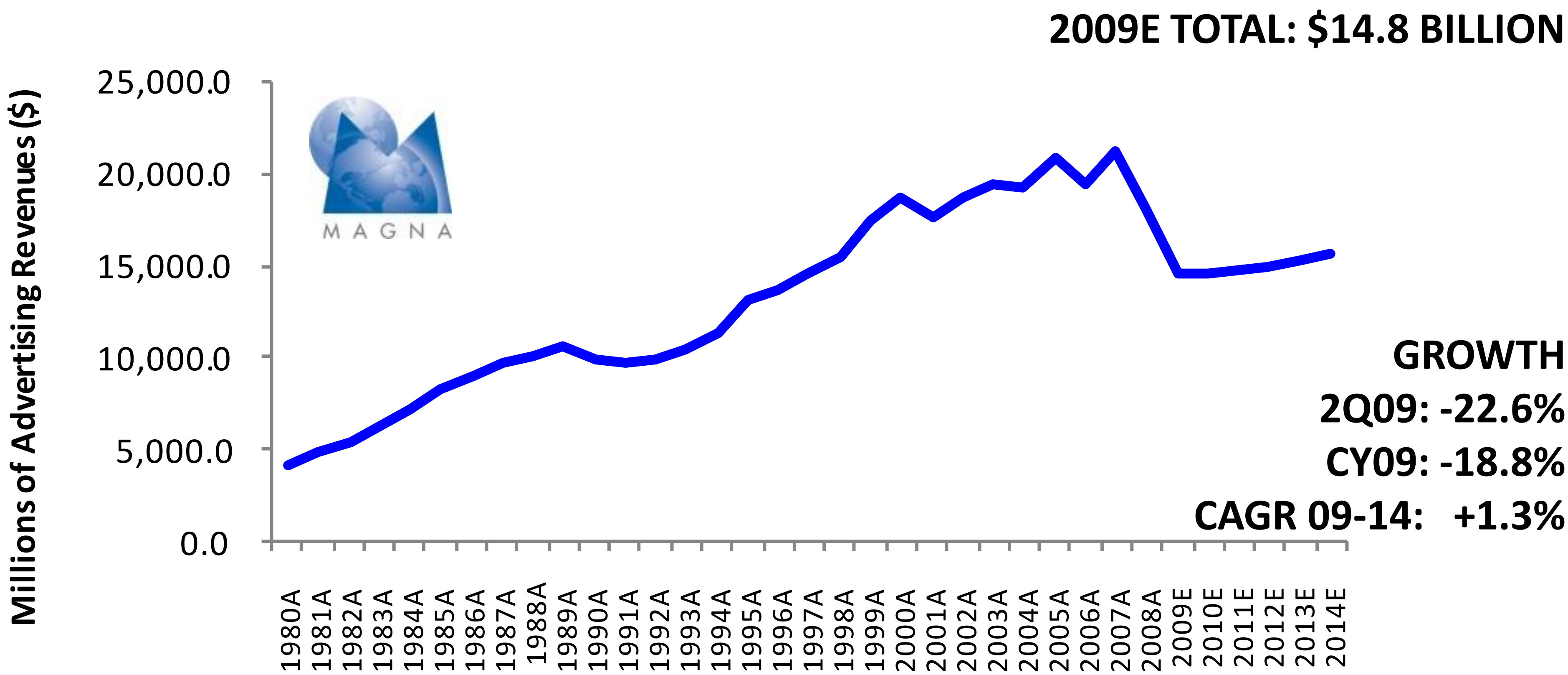
CY09: -6.3%

CAGR 09-14: +2.2%

Source: MAGNA. Includes English and Spanish-language Network, National Cable and Syndication. Excludes Online and Network Olympics

MAGNA

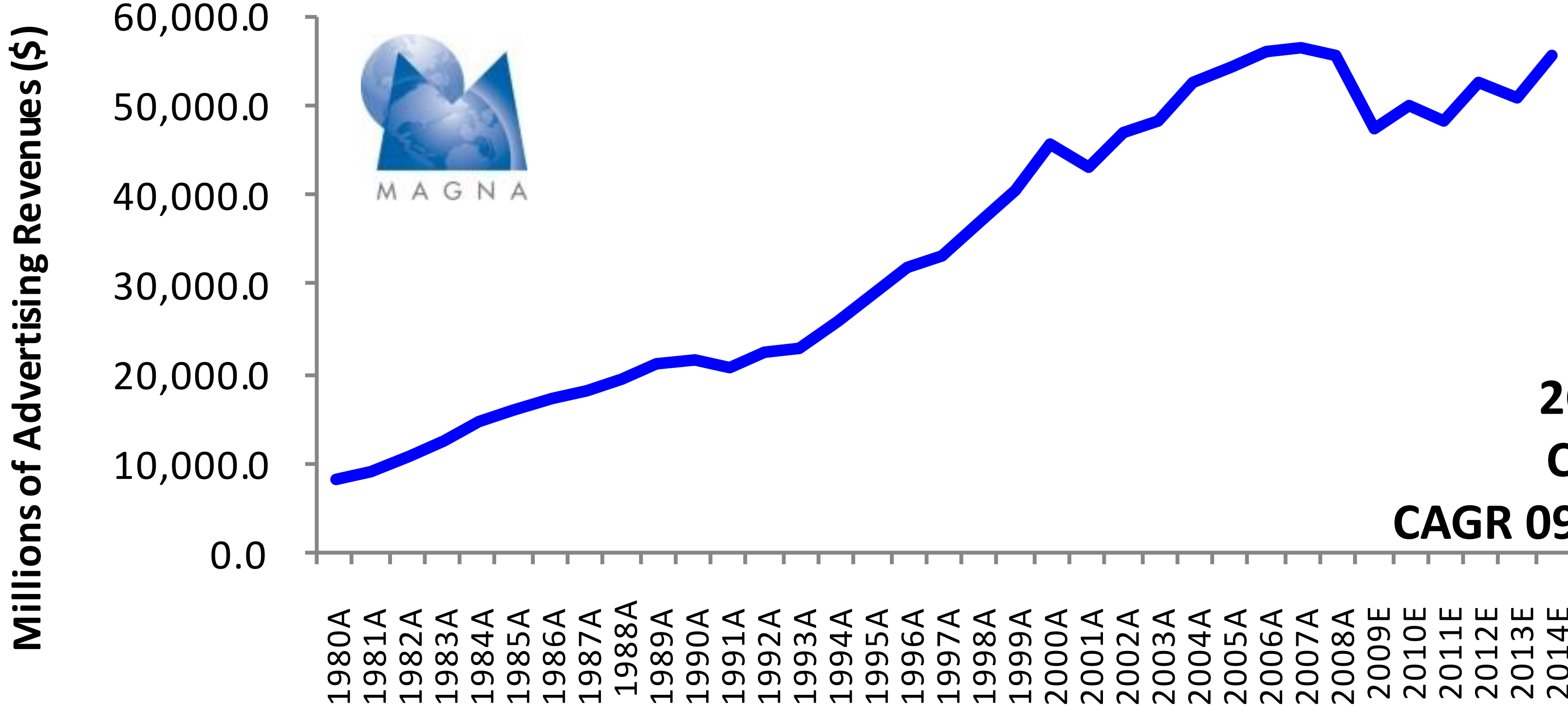
Forecast: Local TV (Normalized)



 Source: MAGNA. Excludes Political and Online

Forecast: Total TV

2009E TOTAL: $47.7 BILLION



GROWTH

2Q09: -14.1%

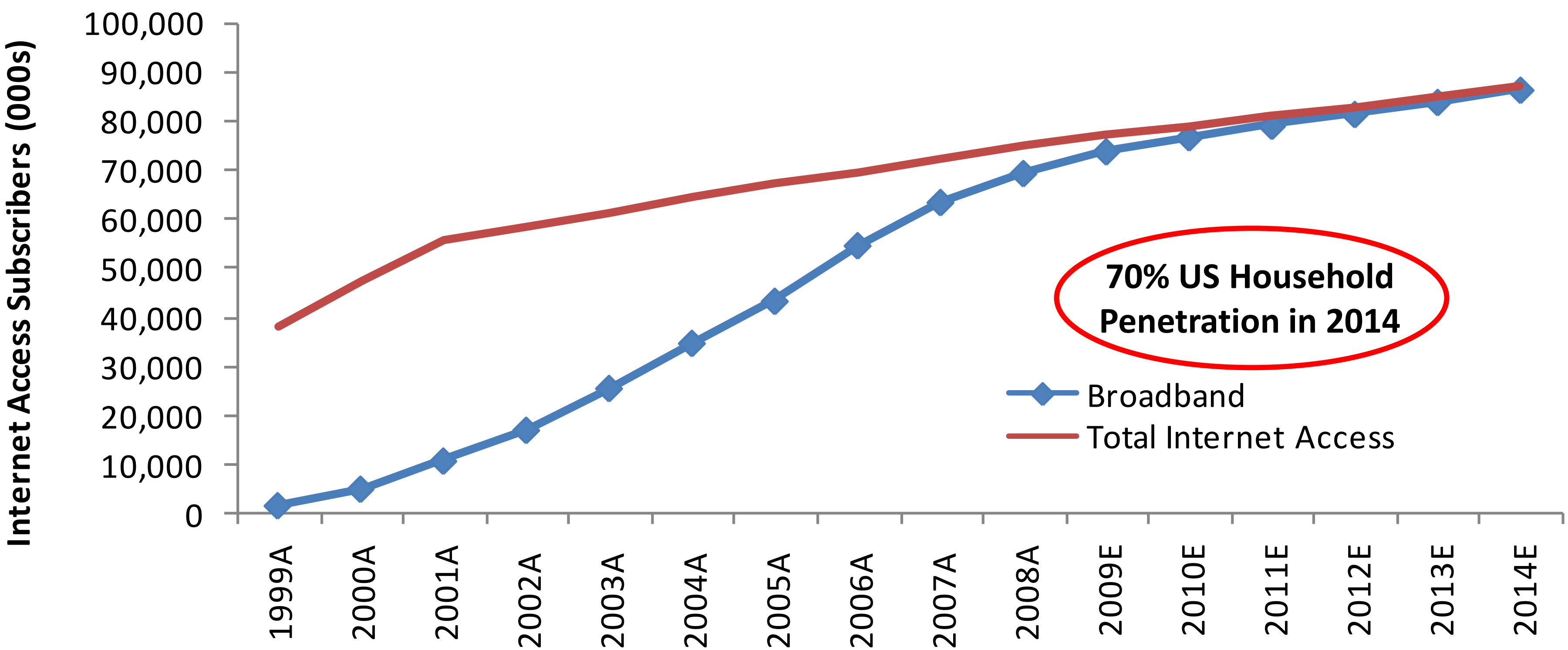
CY09: -14.4%

CAGR 09-14: +3.2%

Source: MAGNA. Includes Olympics and Political. Excludes Online

Secular Trends: Online

- **Broadband slows: near 100% computer, 70% household coverage**



Source: MAGNA, Company Reports

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Secular Trends: Online

- **New sales approaches can cause volume declines through deflation**

ILLUSTRATIVE EXAMPLE OF IMPACT OF SECULAR TRENDS ONLINE

Slow/No Growth in Time Online

Modest Shift Out of Premium Inventory

Ad Networks Drive Inventory, Grow Supply

More Supplier Competition = Lower Pricing

Total Market Pricing Falls

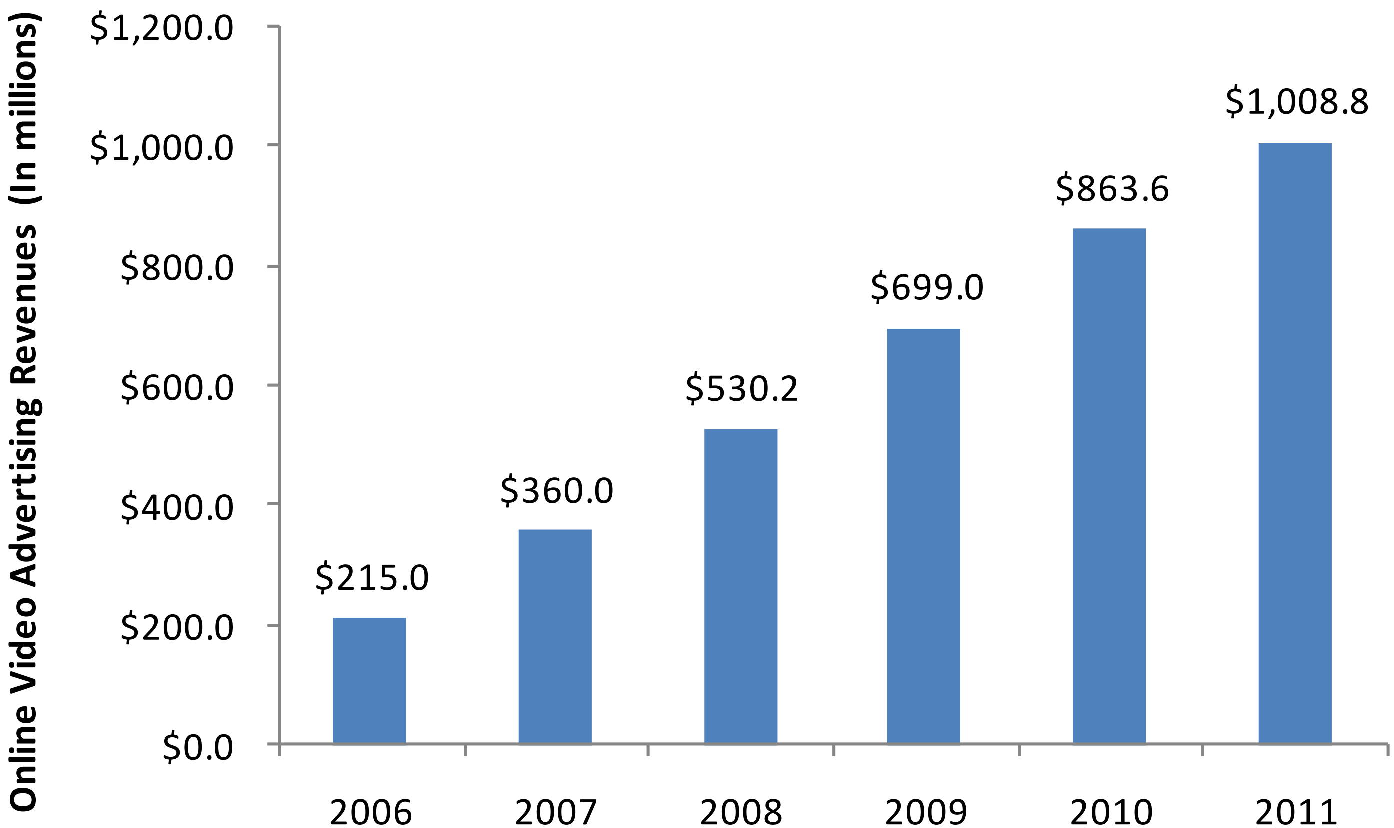
Total Market Deflation Occurs

	Year 1	**Year 2**
Ad Impressions Served (in Billions)	4,000.0	4,000.0
Premium Impressions Sold (in Billions)	400.0	320.0
• % Sold As Premium	10.0%	8.0%
CPM/Ad Impression	$10.00	$10.00
• CPM Inflation (Deflation)	------	0.0%
Premium Revenues (in Billions)	**$4.0**	**$3.2**
Remnant Impressions Sold (in Billions)	1,000.0	2,000.0
• % Sold As Remnant	25%	50%
CPM/Ad Impression	$1.00	$0.75
• CPM Inflation (Deflation)	------	-25.0%
Remnant Revenues (in Billions)	**$1.0**	**$1.5**
Total Impressions Sold (in Billions)	1,400.0	2,320.0
Average CPM/Ad Impression	$3.57	$2.03
• CPM Inflation (Deflation)	------	-43.3%
Total Revenues (in Billions)	**$5.0**	**$4.7**
• Revenue Growth (Decline)	------	-6.0%

Source: MAGNA. Note: figures are illustrative

Secular Trends: Online

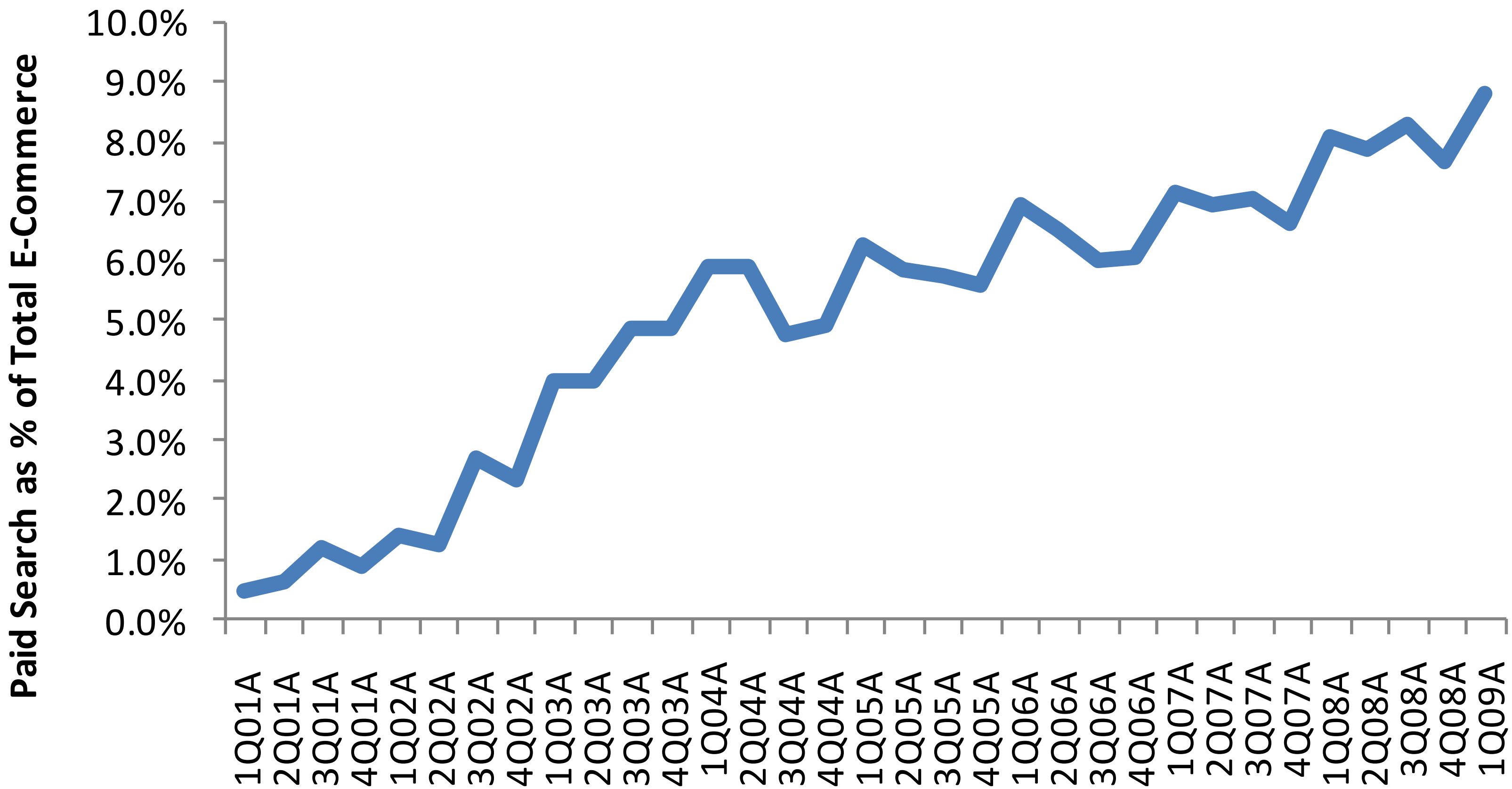
- **But innovation allows for new growth sub-sectors, such as online video**



Source: MAGNA

Secular Trends: Online

- **E-commerce supports search eco-system; brands bring growth**



Source: MAGNA, IAB, US Bureau of Economic Analysis

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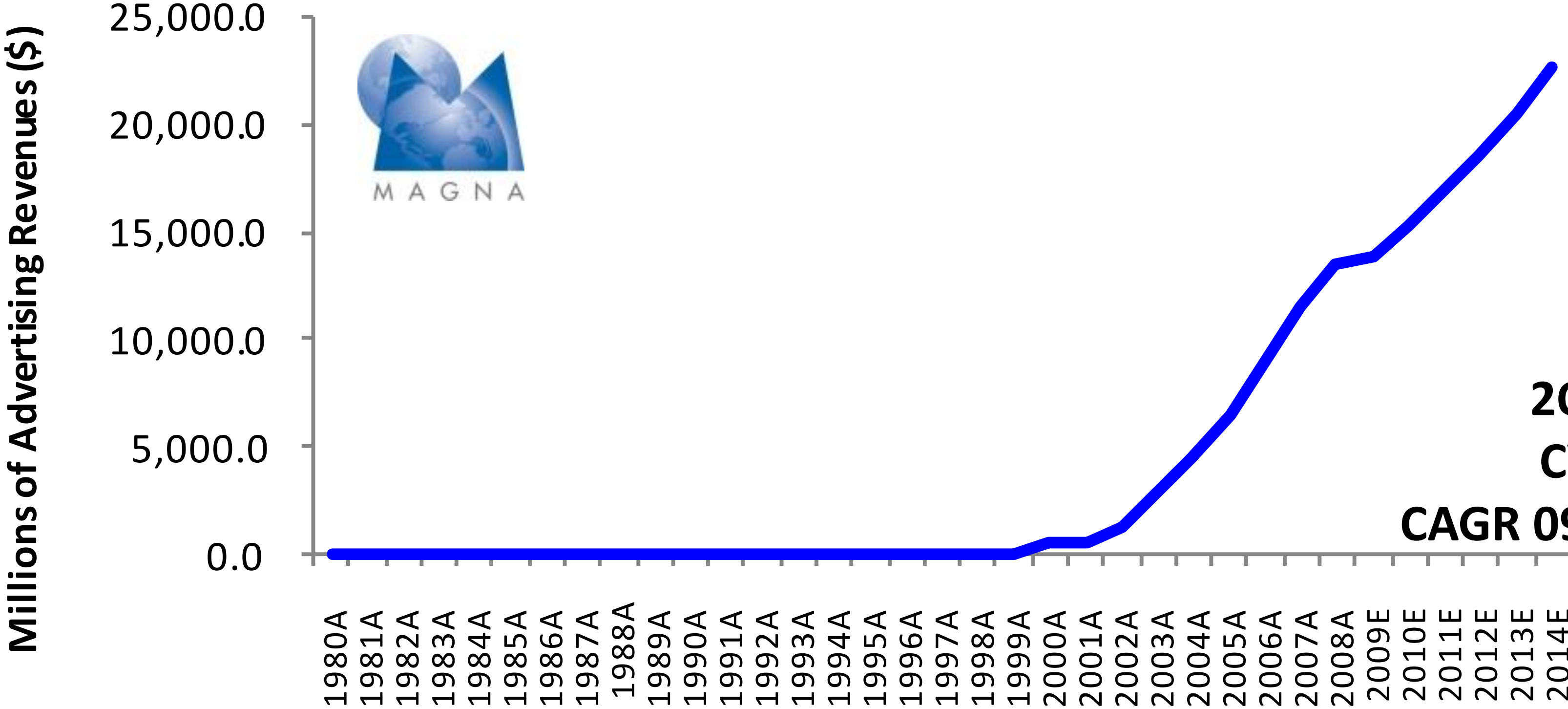
Forecast: Direct Online Media

2009E TOTAL: $13.9 BILLION



GROWTH

2Q09: -0.2%

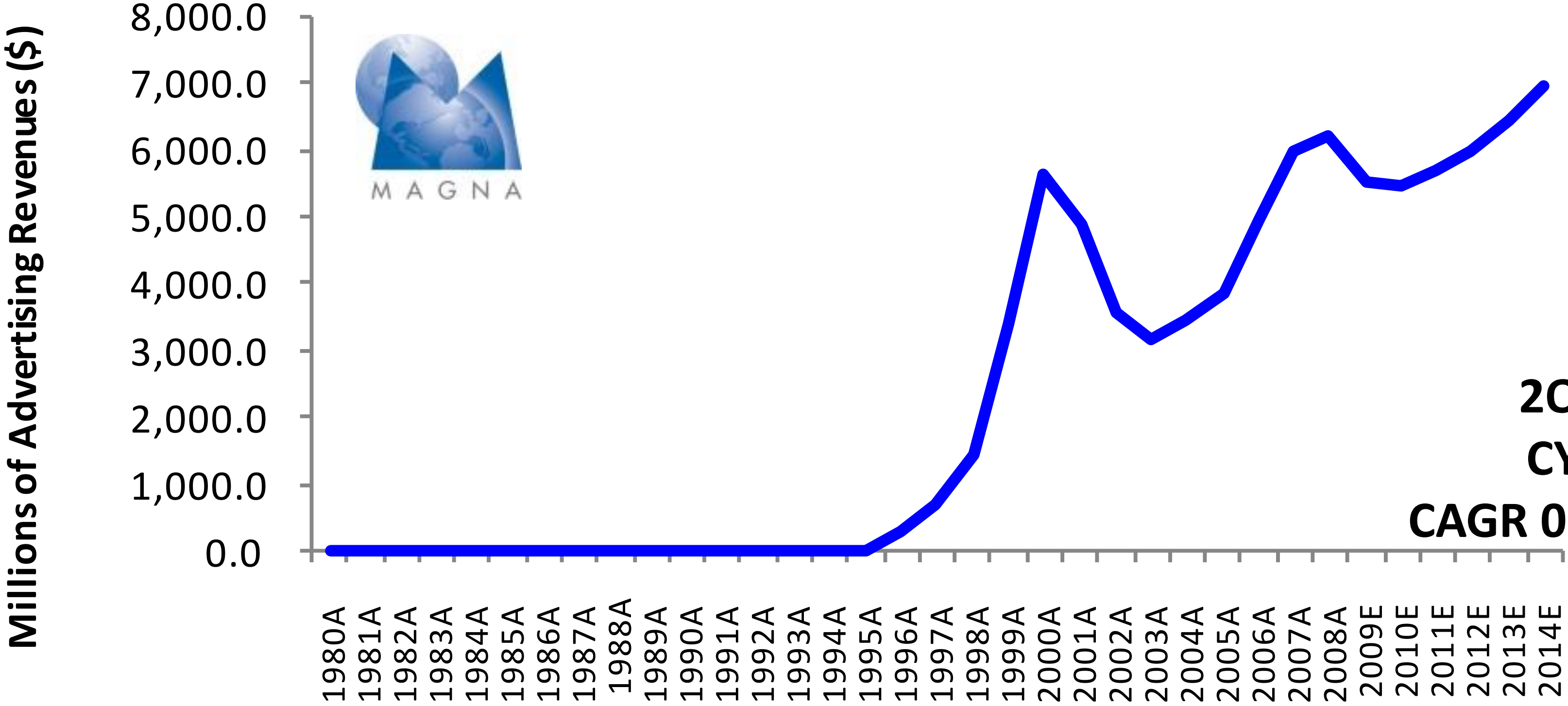
CY09: +2.9%

CAGR 09-14:+10.2%

Source: MAGNA, IAB. Includes Search, Lead Generation and Internet Yellow Pages

Forecast: National Digital/Online

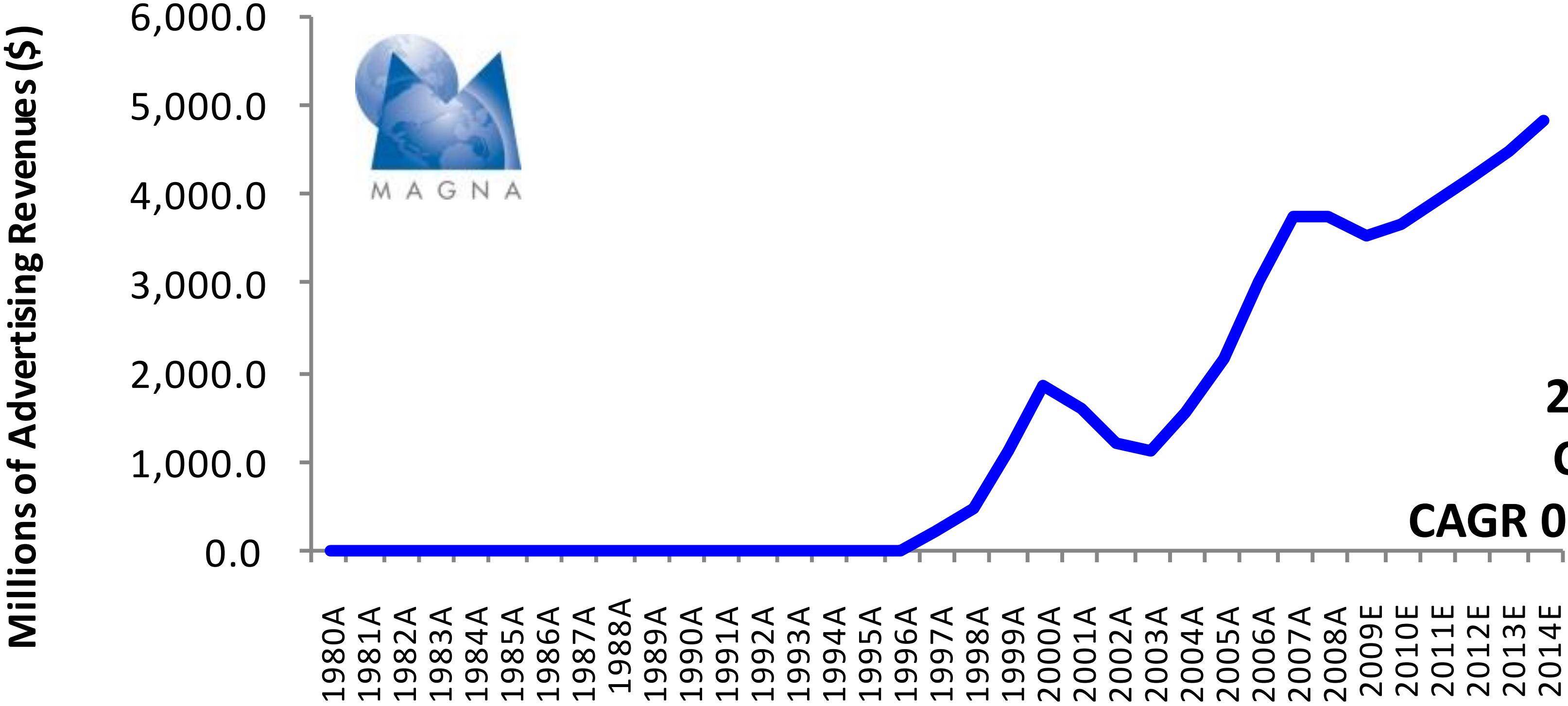
2009E TOTAL: $5.5 BILLION



GROWTH
2Q09: -13.0%
CY09: -11.1%
CAGR 09-14: +4.7%

Source: MAGNA, IAB. Includes Rich Media/Online Video, Classifieds, Email, Display and Mobile Less Internet Yellow Pages and Local Online

Forecast: Local Digital/Online

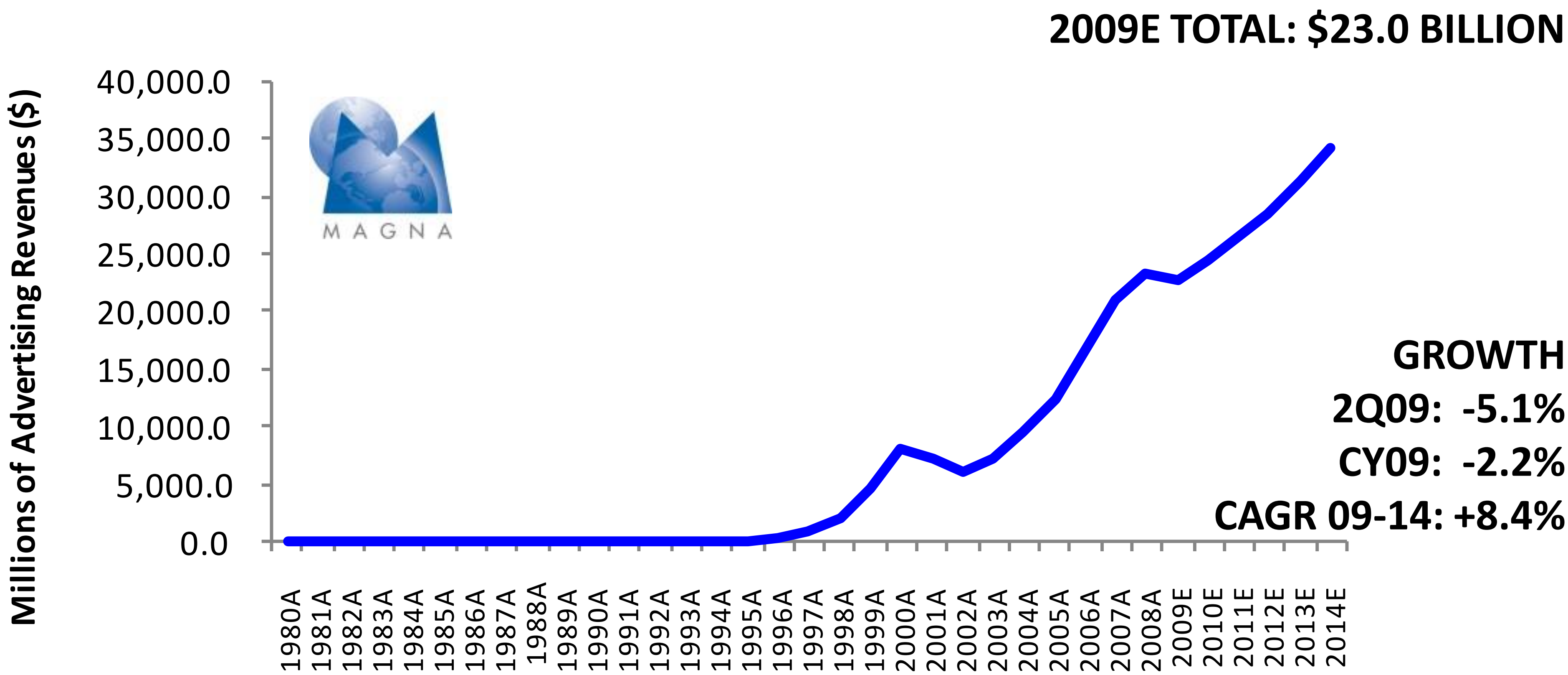


2009E TOTAL: $3.5 BILLION

GROWTH
2Q09: -9.3%
CY09: -5.9%
CAGR 09-14: +6.4%

Source: MAGNA, IAB. Includes online revenues from local TV stations, local radio stations and local newspapers

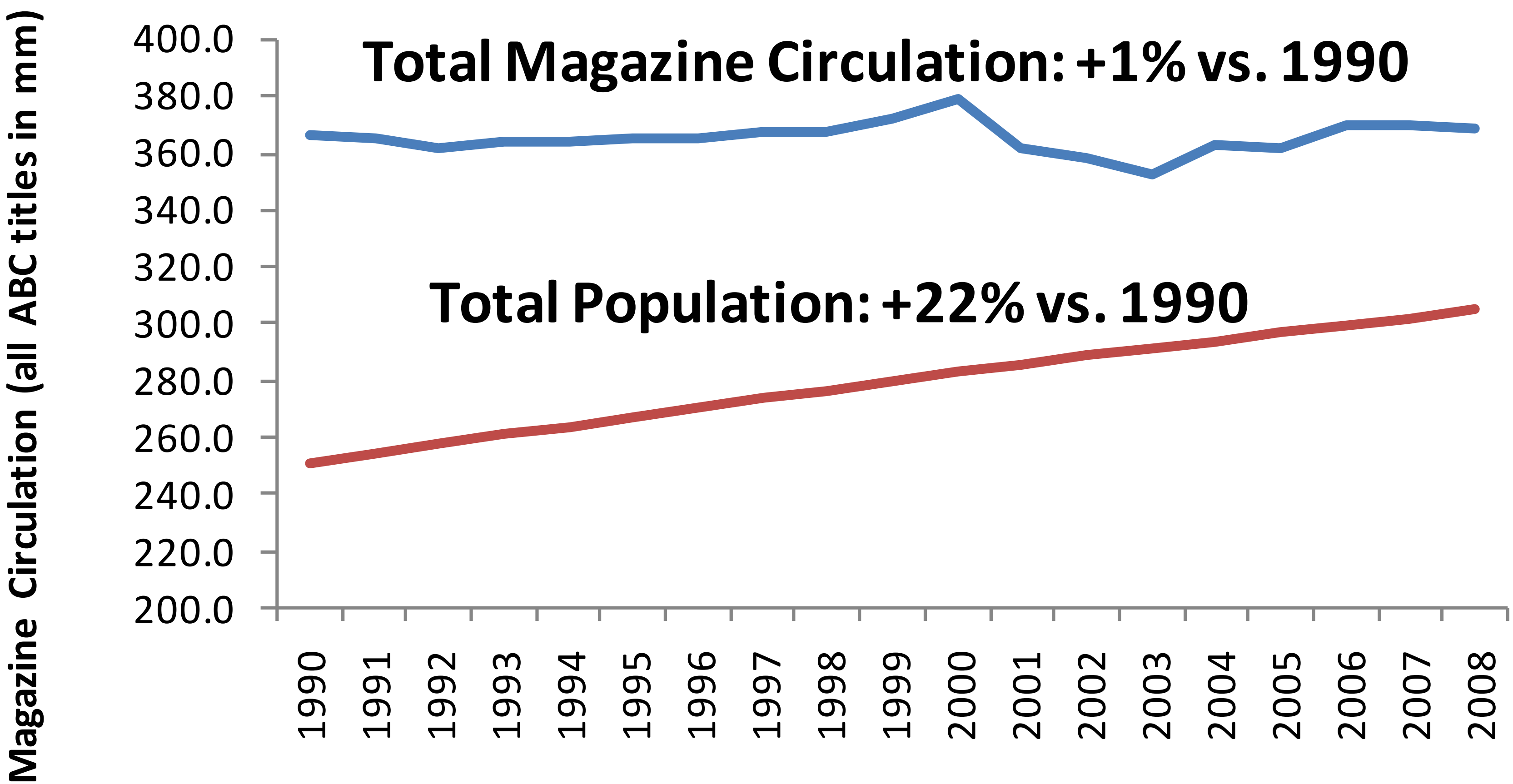
Forecast: Total Online



Source: MAGNA, IAB. Includes online revenues from local TV stations, local radio stations and local newspapers

Secular Trends: Magazines

- **Magazine circulation is not growing, perceptions wrongly assume shifts online**

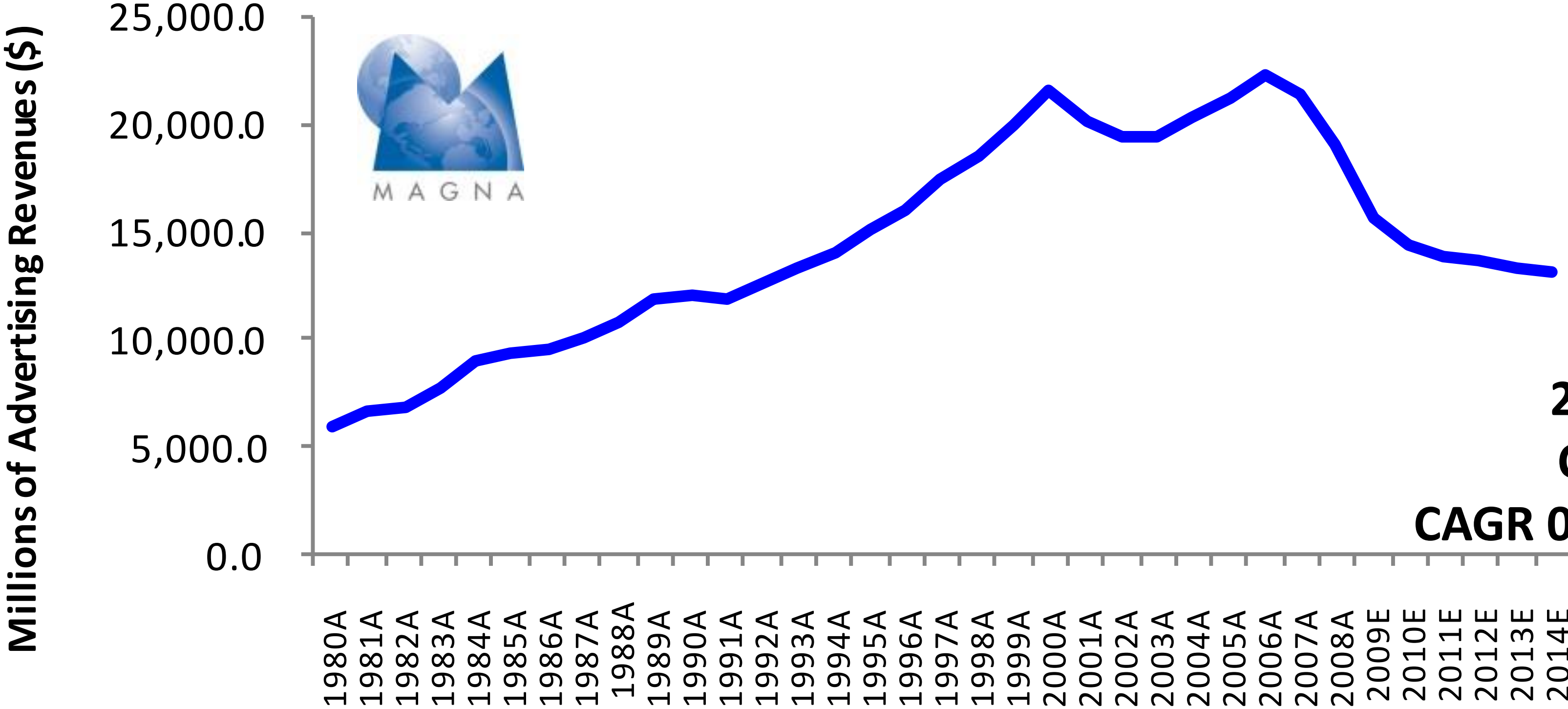


 Source: MAGNA, US Census, Publishers' Information Bureau

MAGNA

Forecast: Magazines

2009E TOTAL: $15.7 BILLION

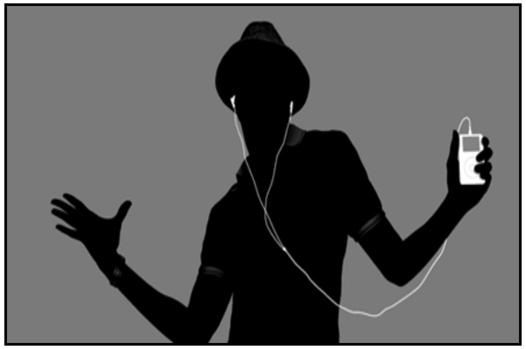


GROWTH
2Q09:-20.7%
CY09:-18.3%
CAGR 09-14: -3.3%

Source: MAGNA, US Census Bureau. Excludes Online

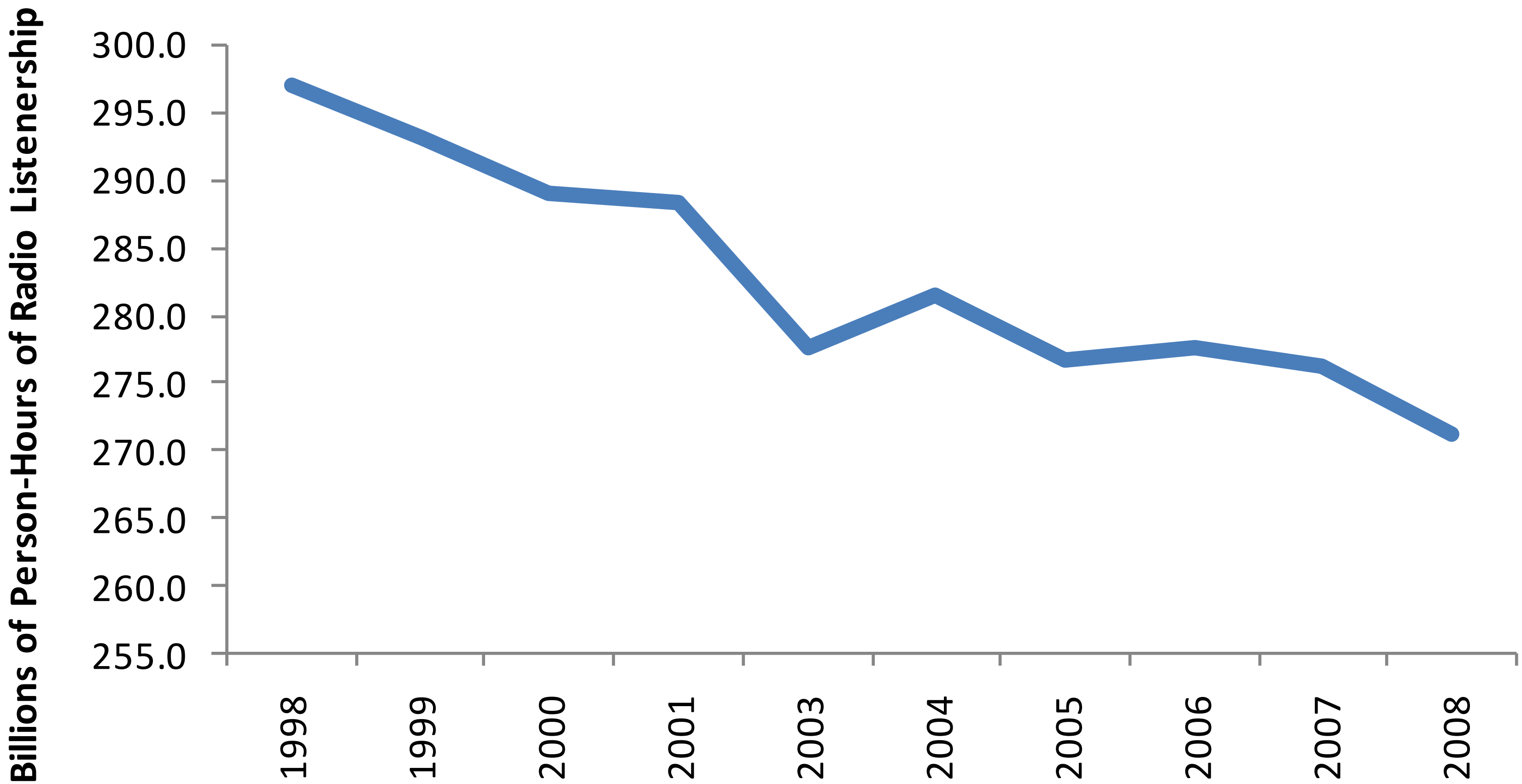
Secular Trends: Radio

- **Perceptions of radio and self-inflicted wounds = decline**



Secular Trends: Radio

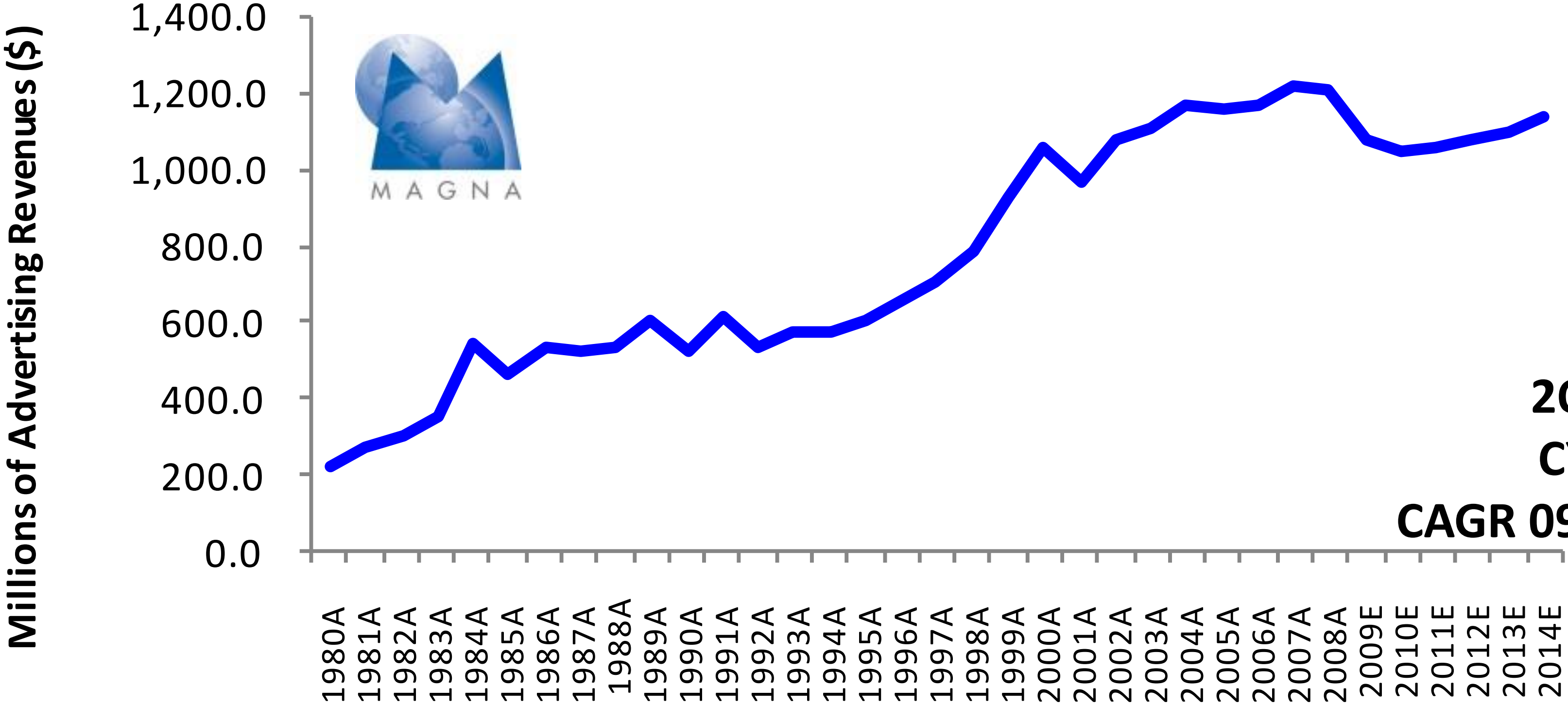
- Although radio consumption is still down ~10% over 10 years



Source: MAGNA, US Census, Arbitron

MAGNA

Forecast: Network and Satellite Radio



2009E TOTAL: $1.1 BILLION

GROWTH

2Q09: -13.0%

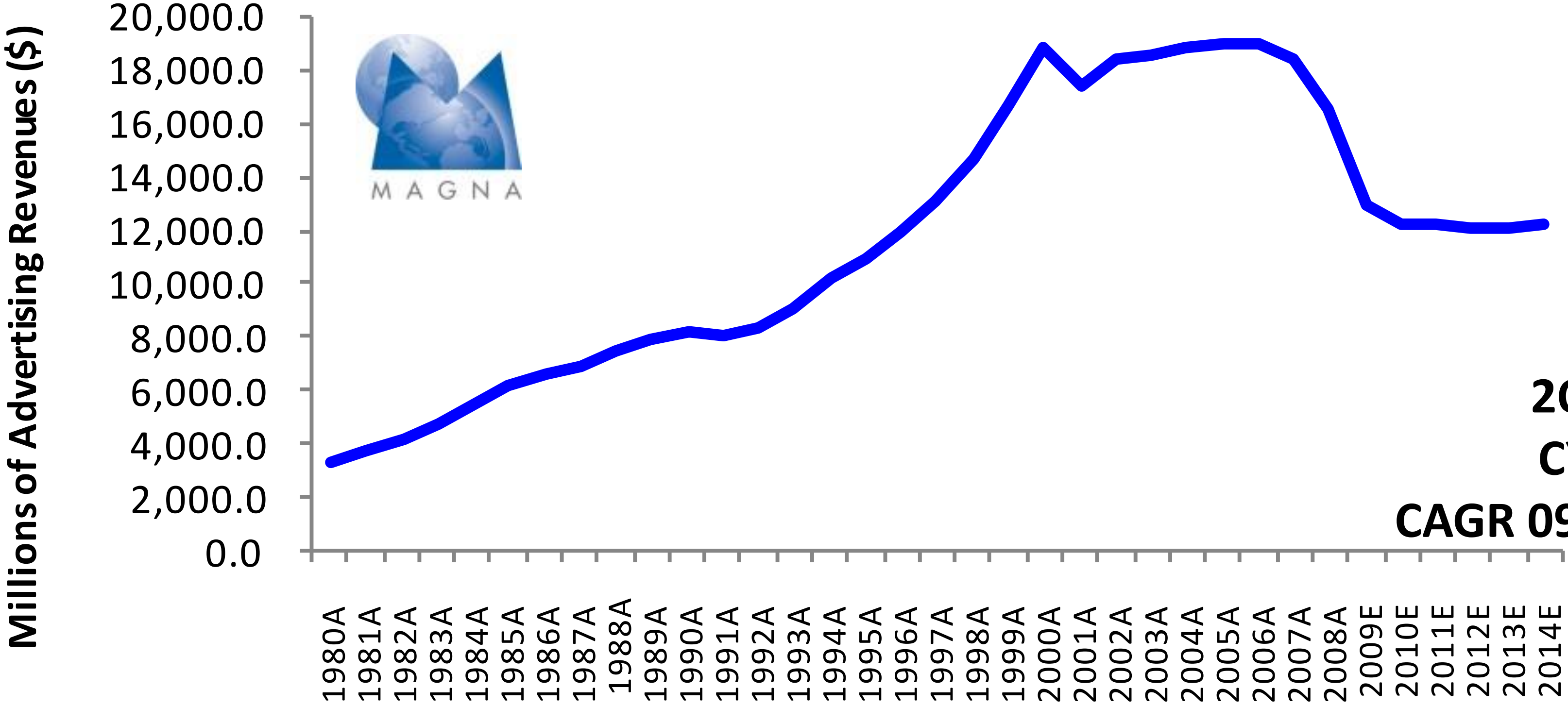
CY09: -11.0%

CAGR 09-14: +1.0%

Source: MAGNA, US Census Bureau, RAB

Forecast: Local Radio

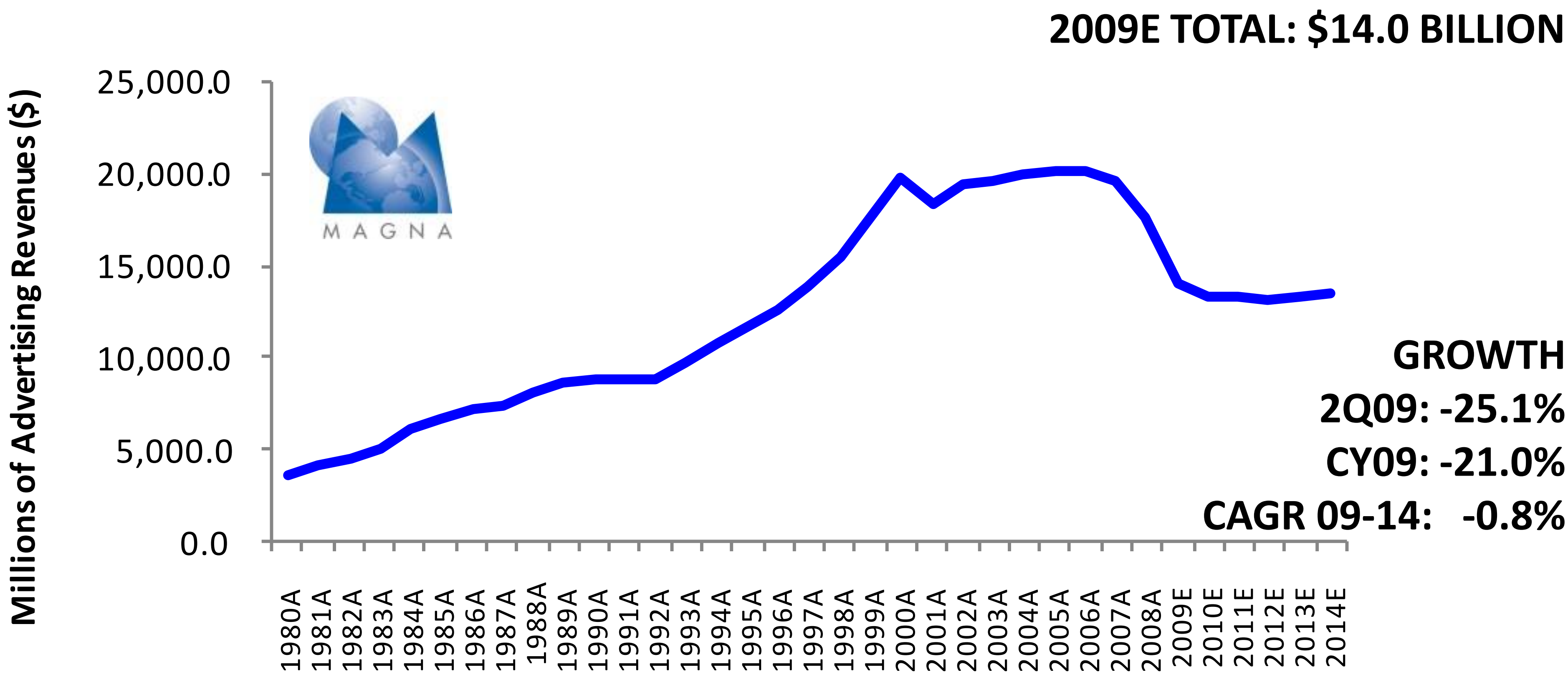
2009E TOTAL: $12.9 BILLION



GROWTH
2Q09: -25.9%
CY09: -21.8%
CAGR 09-14: -1.0%

Source: MAGNA, US Census Bureau, RAB. Excludes Online

Forecast: Total Radio



 Source: MAGNA, US Census Bureau, RAB. Excludes Online

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Secular Trends: Outdoor

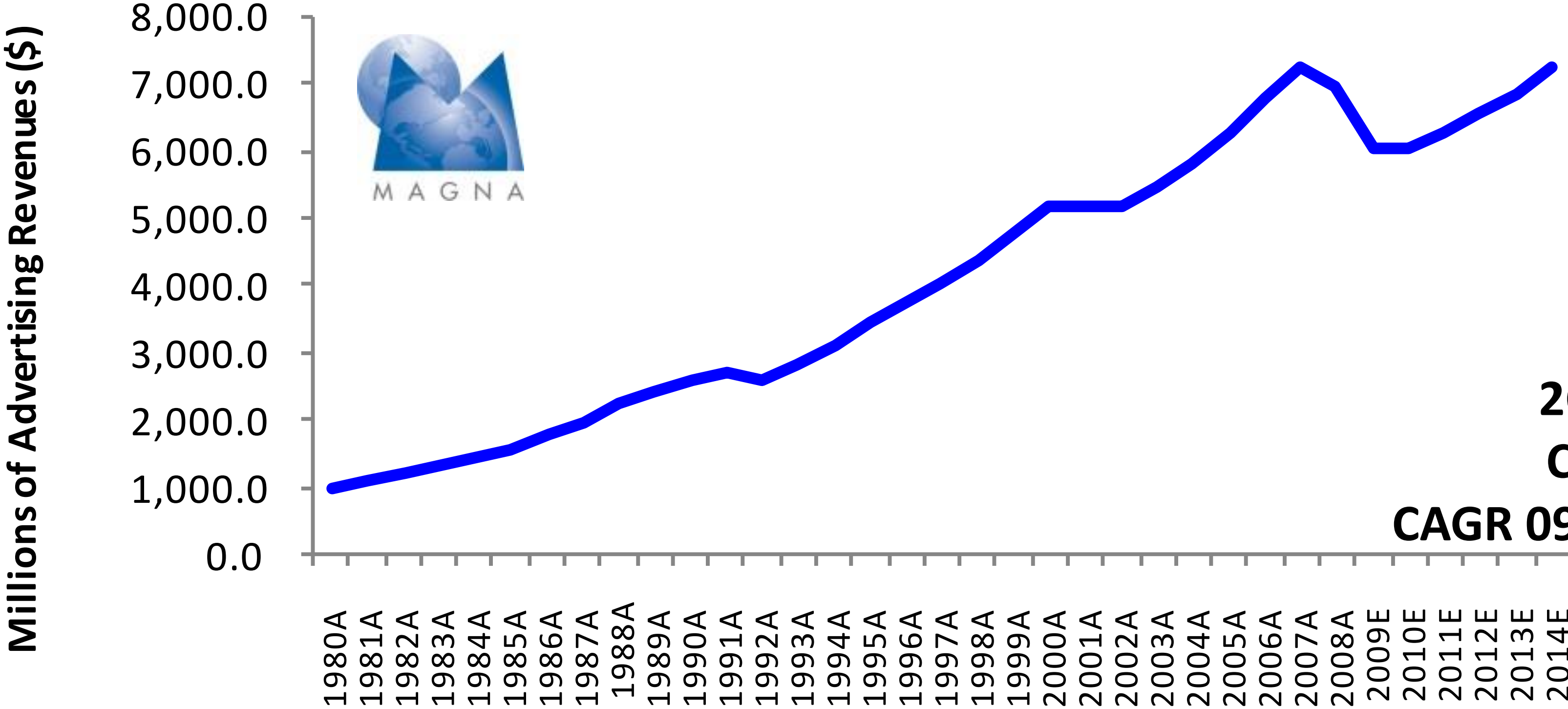
- **New place-based media, digital outdoor, cinema drive growth**

Number of Out of Home Displays (2009)			
Billboards	**Street Furniture**	**Transit**	**Alternative**
Bulletins 158,520 faces	**Bus Shelters** 44,152 displays	**Buses** 265,455 faces	**Arena & Stadiums**
Digital Bulletins 1,519 faces	**Phone Kiosks** **Newsracks** **Urban Furniture**	**Airports** 47,507 faces	**Interior Place-Based** Convenience Stores, Video Networks, Health Clubs, Restaurants/Bars
Posters 156,650 faces	**Shopping Malls** 39,523 displays	**Subway & Rail** 219,645 faces	**Exterior Place-Based** Airborne, Marine, Resorts & Leisure
Junior Posters 27,947 faces		**Truckside/Mobile** 8,924 vehicles	
Walls/Spectaculars 1,697 faces		**Taxis/ Wrapped Vehicles** 52,013 vehicles	

Source: MAGNA, OAAA

Forecast: Outdoor

2009E TOTAL: $6.1 BILLION



GROWTH

2Q09: -18.9%

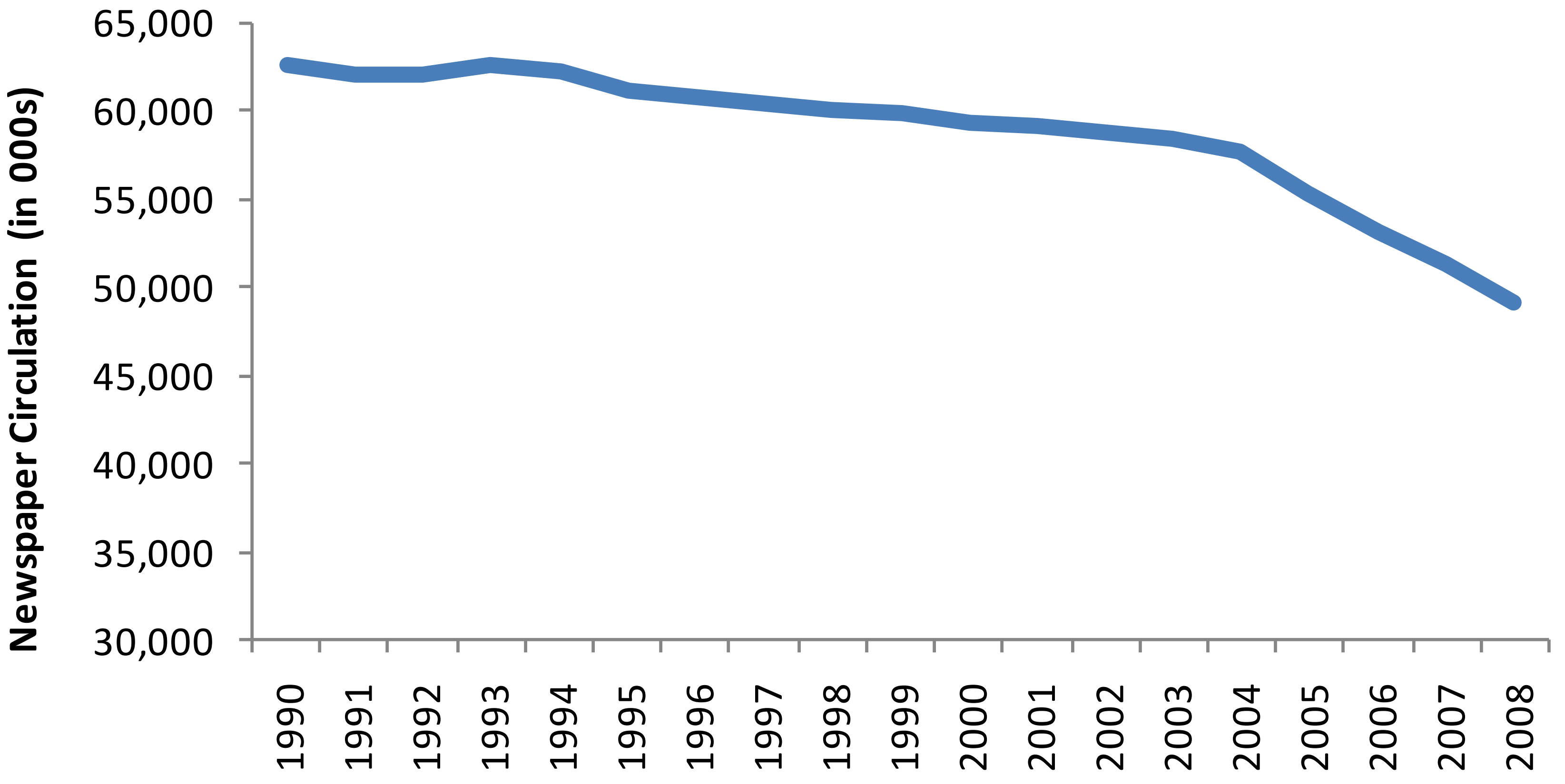
CY09: -12.9%

CAGR 09-14: +3.6%

Source: MAGNA, OAAA

Secular Trends: Newspapers

- **Internet-based competition drives circulation down 22% since 1990**

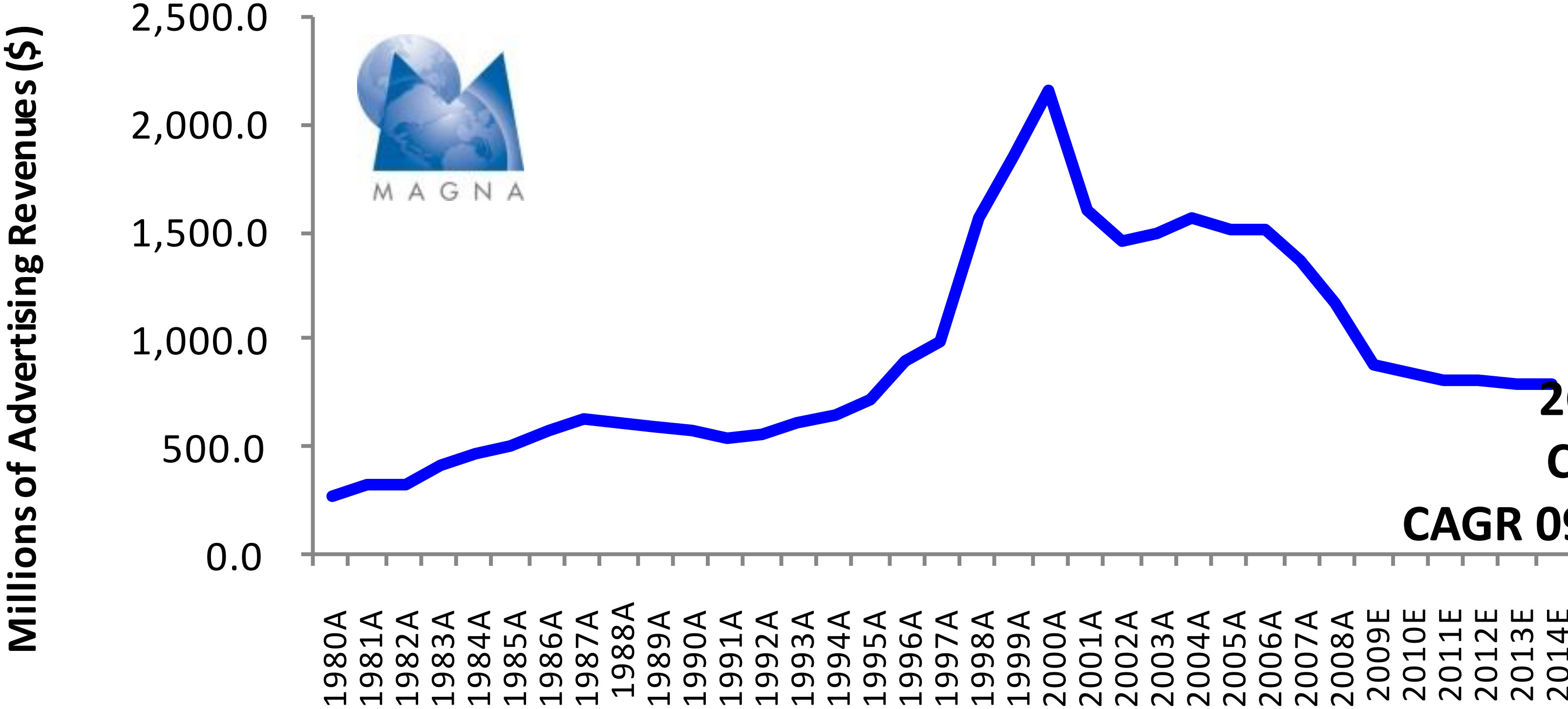


Source: NAA

MAGNA

Forecast: National Newspapers

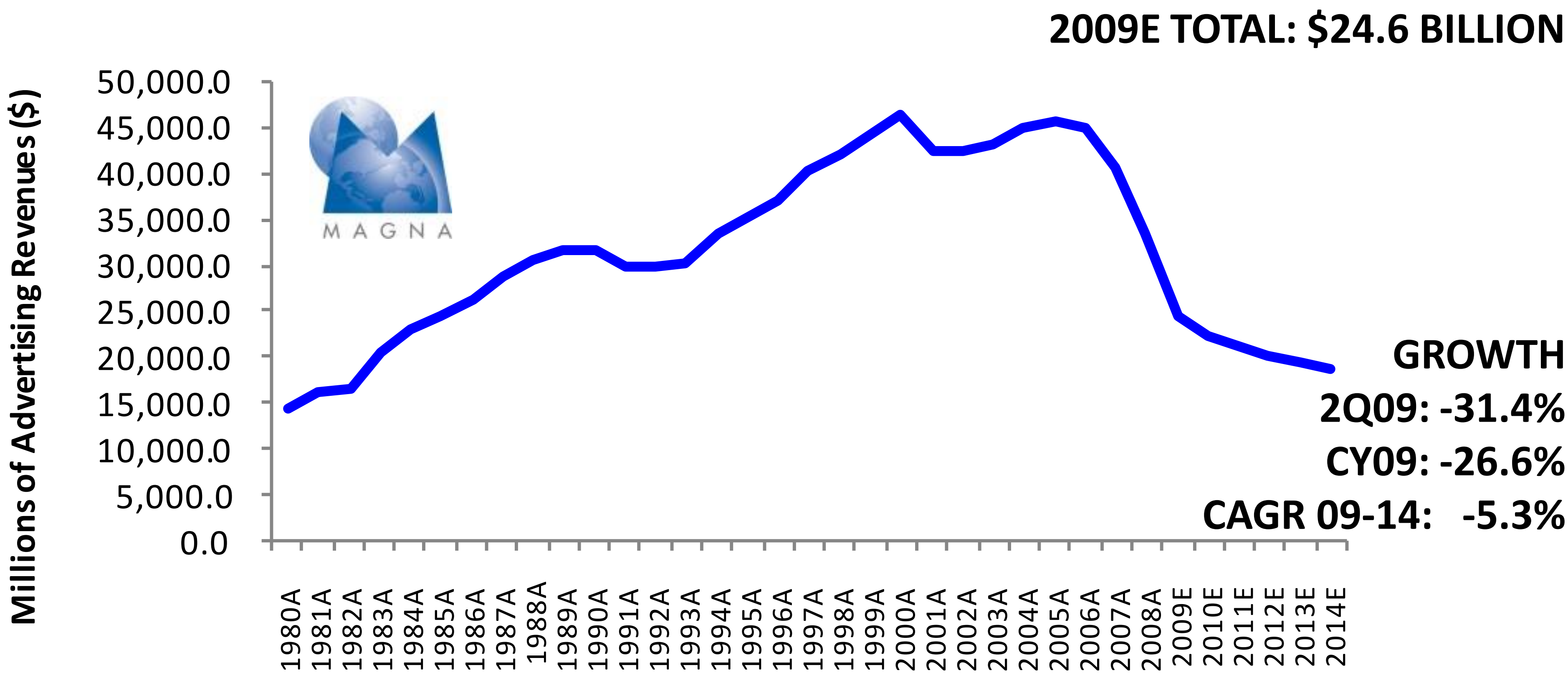
2009E TOTAL: $0.9 BILLION



GROWTH
2Q09: -27.7%
CY09: -23.6%
CAGR 09-14: -2.3%

Source: MAGNA. Excludes Online

Forecast: Local Newspapers

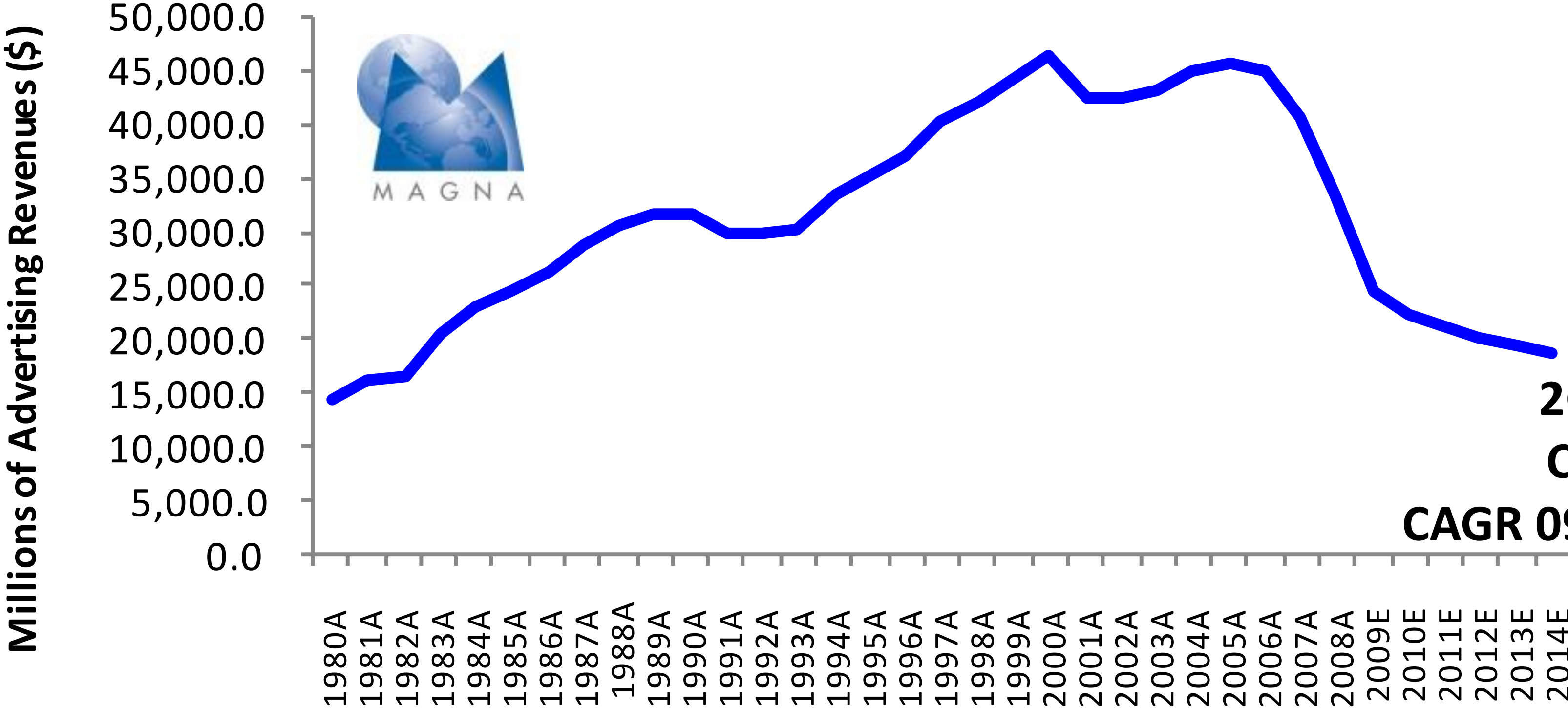


MAGNA

Source: MAGNA, US Census Bureau, NAA. Excludes Online

Forecast: Total Newspapers Including Online

2009E TOTAL: $28.5 BILLION



GROWTH

2Q09: -29.5%

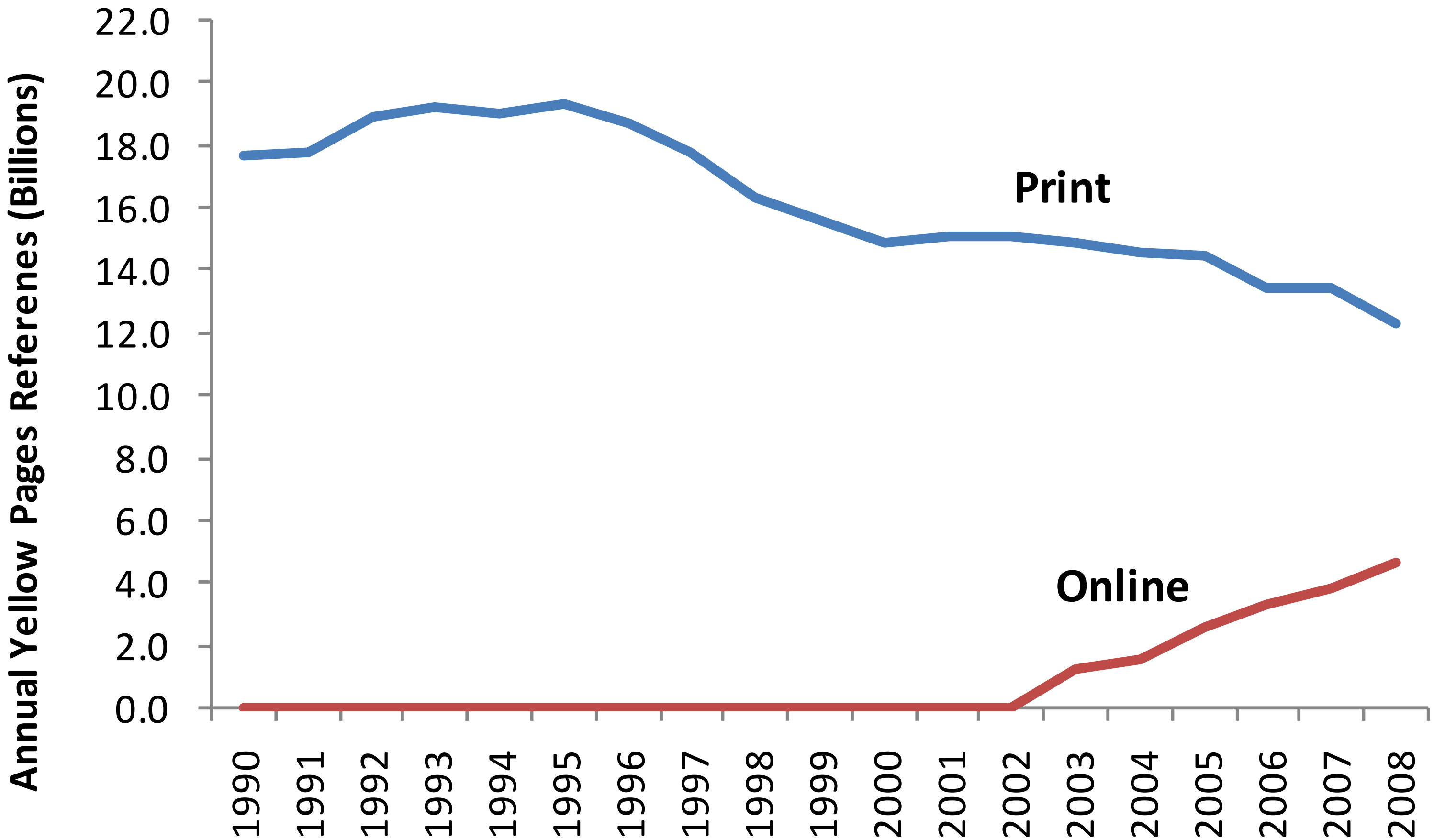
CY09: -24.8%

CAGR 09-14: -3.7%

Source: MAGNA, US Census Bureau, NAA

Secular Trends: Directories

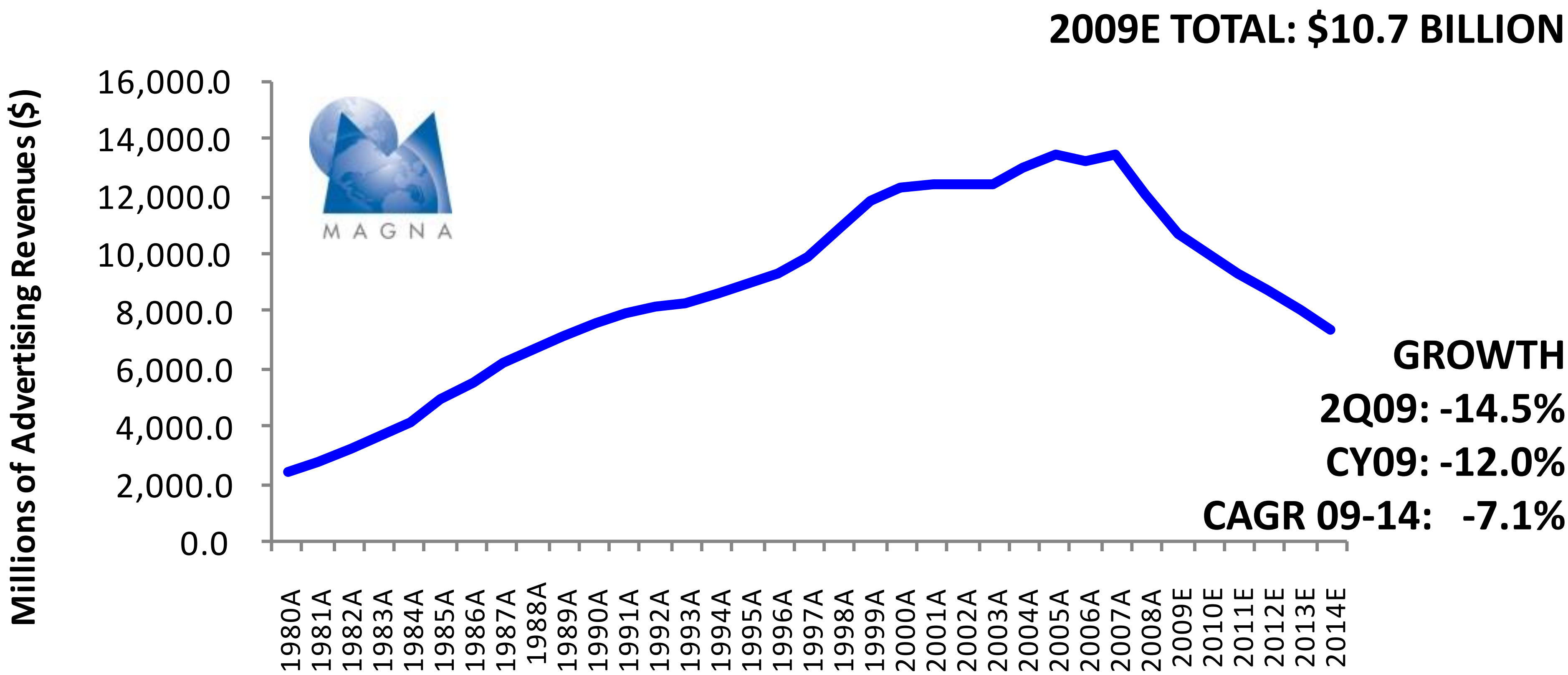
- **Reference activity is shifting online**



Source: Yellow Pages Association

MAGNA

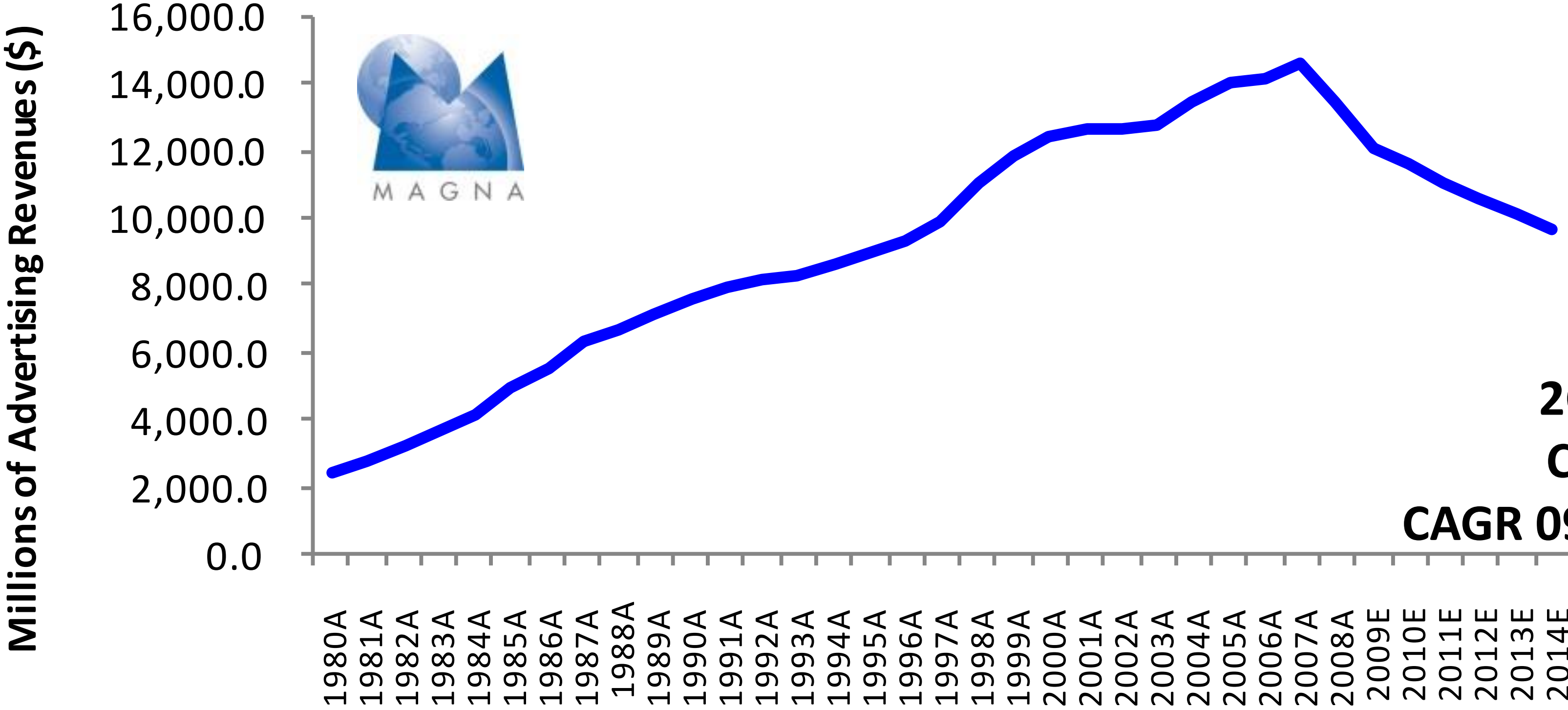
Forecast: Directories



Source: MAGNA, US Census Bureau. Excludes Online

Forecast: Directories Including Online

2009E TOTAL: $12.1 BILLION



GROWTH

2Q09: -12.9%

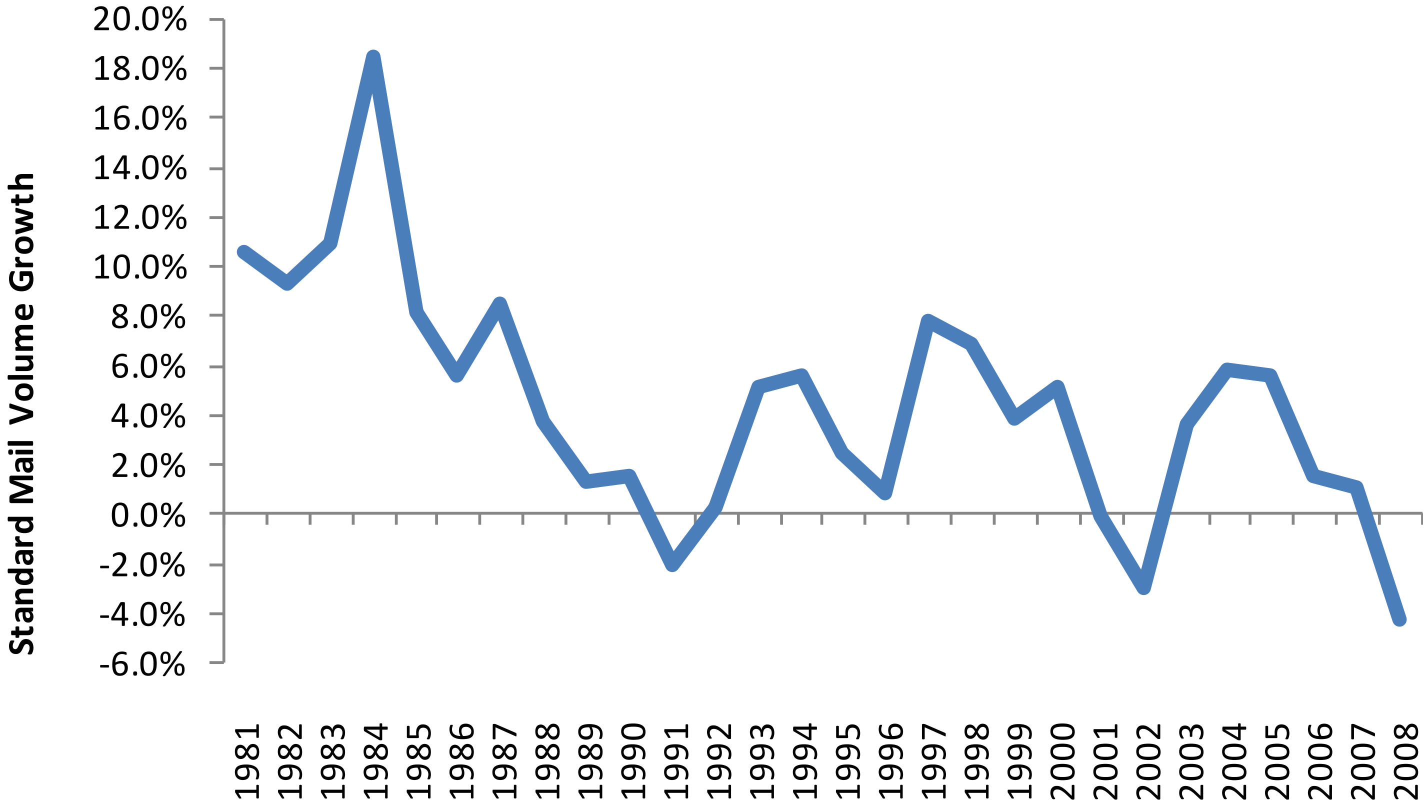
CY09: -10.5%

CAGR 09-14: -4.4%

Source: MAGNA, US Census Bureau

Secular Trends: Direct Mail

- **Direct mail impacted by shifts online, improved efficiency offline**

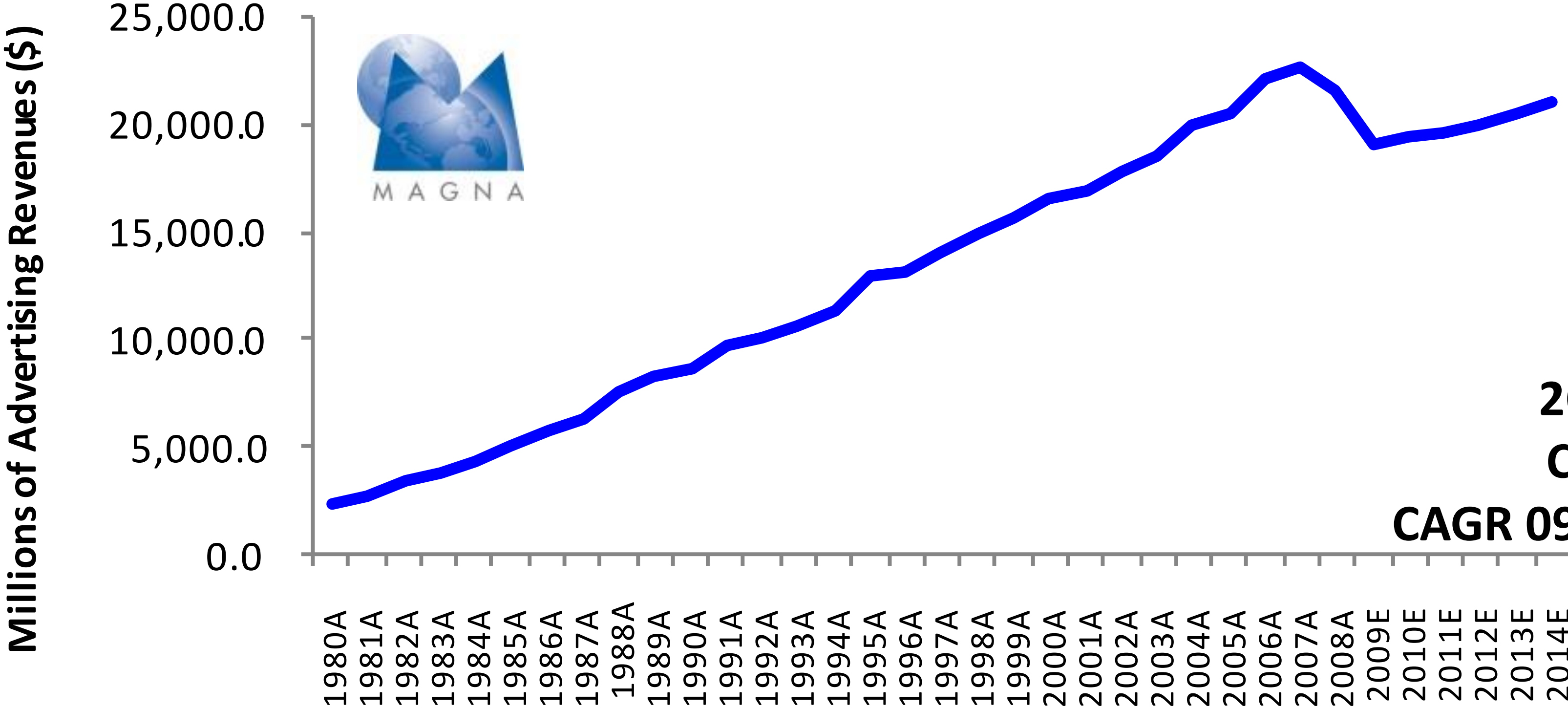


Source: US Post Office

MAGNA

Forecast: Direct Mail

2009E TOTAL: $19.2 BILLION



GROWTH
2Q09: -15.5%
CY09: -11.2%
CAGR 09-14: +2.0%

 Source: MAGNA, US Post Office

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Questions & Answers

To ask a question, click “Raise Hand” in the “Select Feedback” drop down menu in the top corner. If your question has been answered, please put your hand down by selecting “(Select Feedback)”

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MAGNA