Emerging Media Advertising Sources of Revenue

December 2007
Emerging Media Advertising: Sources of Revenue

• **Despite proliferation of new media platforms...**

Source: MAGNA Global
Emerging Media Advertising: Sources of Revenue

• ...And forecasts of radical changes
  • Venture activity as a proxy for expectations

<table>
<thead>
<tr>
<th>Individual or Corporate Behavior Driver</th>
<th>Radio/Music</th>
<th>TV</th>
<th>Online/Print</th>
<th>Out-of-Home</th>
<th>Marketing Services</th>
<th>Other Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>UGC Production</td>
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<tr>
<td>Social Content Consumption</td>
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<td>Niche Content Consumption</td>
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<tr>
<td>New Place Consumption</td>
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<td>Asset Management</td>
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<td>Content-on-Demand</td>
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<td>Information Seeking</td>
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<td>Commerce / Shopping</td>
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<tr>
<td>Game Playing</td>
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</tr>
</tbody>
</table>

Source: MAGNA Global
Emerging Media Advertising: Sources of Revenue

- Resulting in hundreds of ways to move content...

<table>
<thead>
<tr>
<th>Production</th>
<th>Targeting</th>
<th>Throughput</th>
<th>Access</th>
<th>Last-Mile</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional • Amateur/UGC</td>
<td>Broadcast • Unicast</td>
<td>Stream • Download</td>
<td>Push • Pull</td>
<td>Unwired • Wired</td>
<td>Home • Portable</td>
</tr>
</tbody>
</table>

[Images of logos for endemol, YouTube, MediaFLO, mobitv, NBC, INDEMAND, DIRECTV, comcast, abc]
Emerging Media Advertising: Sources of Revenue

- And although new media can radically impact industries
  - Digitization drove music industry change
  - Affected production, distribution and consumption

![Graph showing manufacturers' shipments of recorded music from 1991 to 2006. Key events include the launch of Napster (June 1999), BitTorrent, Kazaa, Grokster, etc. (active), and the iTunes launch (March 2003).]
### Emerging Media Advertising: Sources of Revenue

- **Wholesale change takes decades**
  - For business model, consumer and technical reasons

<table>
<thead>
<tr>
<th></th>
<th>General Print</th>
<th>YP</th>
<th>Radio</th>
<th>TV</th>
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</thead>
<tbody>
<tr>
<td>Sufficient Range of Content</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Sufficient Technical Quality</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Equipment Substitution</td>
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<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Sufficient Customer Service</td>
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<td>Efficient Navigation</td>
<td>●</td>
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<tr>
<td>Cheaper to Substitute</td>
<td>●</td>
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<td>●</td>
<td>●</td>
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<tr>
<td>Increased Convenience</td>
<td>●</td>
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<td>●</td>
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<tr>
<td><strong>SUMMARY</strong></td>
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<td>●</td>
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<td>●</td>
</tr>
</tbody>
</table>

- **Limited TV content available today**
- **Internet can’t deliver high res video well**
- **Print is tactile**
- **IPTV: 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**
- **Prospects for online media substitution limited by drawbacks relative to traditional media**

Source: MAGNA Global
Emerging Media Advertising: Sources of Revenue

• What will cause advertisers to use more emerging media?
  • For large advertisers
    • Traditional media must stop working (relatively) well
    • Change in focus from reach and frequency to behavior
    • Infrastructure must be improved
    • Organizations may need to be re-designed
  • For smaller advertisers
    • Narrow reach, narrow targeting are strengths

• But even if emerging media grows, it may not necessarily occur at the expense of traditional media
  • Pie-expansion!
Traditional Media Works (Relatively) Well

• What if Churchill worked in marketing?

“Television is the worst form of advertising, except all the others that have been tried”
Advertisers Focus on Reach and Frequency

- Large brand-based advertisers: focus on reach...

Network TV Prime Time Reach - Live Only Adults 18-49

- 96.17% in 2002
- 96.72% in 2007

Source: Initiative Analysis of Nielsen Data
Advertisers Focus on Reach and Frequency

• ...And frequency

Total US Population: Hours Spent With Media

- TV
- Radio
- Consumer Internet
- Newspapers
- Consumer Magazines
- Search

Source: MAGNA Global, US Census, Veronis Suhler, OPA
Advertisers Focus on Reach and Frequency

• This is true in established markets...

Source: MAGNA Global, WARC, InternetWorldStats. Weekly reach figures for France and UK, daily for other countries. Reach definition for magazines = issue reach in France, Italy and Spain. Internet reach typically = % of population online monthly per Nielsen NetRatings, ITU and other sources as of June 30 2007 (except for US = March 31, 2007)
Advertisers Focus on Reach and Frequency

• ...And emerging ones

Media Reach By Country

Source: MAGNA Global, WARC, InternetWorldStats. Weekly figures for Brazil and Russia. Russia, China and India magazines are issue reach figures. Indian TV and radio = daily, newspapers = issue. Chinese TV = weekly and radio = daily. Internet typically = % of population online monthly per Nielsen NetRatings, ITU and other sources as of June 30 2007
Advertisers Focus on Reach and Frequency

• It also holds for young audiences...

Source: MAGNA Global analysis of Nielsen Media Research data
Advertisers Focus on Reach and Frequency

• ...In the US and around the world

TV Reach: Adults and Teens
Advertisers Focus on Reach and Frequency

- **Contrast online video vs. traditional TV**
  - Conventional TV popularity: 90x vs. Online in 2011?

**Different Scenarios:**
- Assumed 5-Year Compounded Annual Growth Rate of Online Video

- **2006 Growth Rate Was 38.8%**
  - Below Trend: 145.8x
  - Above Trend: 82.7x
  - 25%: 145.8x
  - 30%: 119.8x
  - 35%: 99.2x
  - 40%: 82.7x
  - 45%: 69.4x
  - 50%: 58.6x

Source: MAGNA Global, Accustream
Infrastructure For Emerging Media Is Often Poor

• **Standardized infrastructure must be present**
  • Critical mass of unduplicated / unique reach
  • Uniform technological standards
  • Research into optimal creative formats
  • Smooth buying process
  • Provision of robust user data
  • High-quality service and product standards
Infrastructure For Emerging Media Is Often Poor

- Canoe: Cable now understands from experience

“The goal is to create a technology platform...and put forth a united front to marketers”
Emerging Media Revenue From Large Advertisers

• **Targeting’s value realized by few with traditional media**
  - Example: limited use of local and multicultural

• **Measurability is great, but few do anything with the data**

• **Why has this happened?**
  - Lack of integration between brand activity and sales data
    - Sales, product, and brand may be separate
    - Few advertisers control customer’s retail experience
  - National activity makes difficult assessing impact from other media
    - Requires testing that few advertisers undertake
Emerging Media Revenue From Large Advertisers

• So when is emerging media used?
  • Niche-focused brands or marketing objectives
  • Reaching consumers across multiple touch-points
  • Experimentation / internal learning / preparation for the future
Emerging Media’s Advantage for Smaller Advertisers

- **Drivers of emerging/new media = smaller businesses**

![Bar Chart: 2006 Unique Advertisers By Medium](chart.png)

- **Network TV**
- **Internet Display**

*Source: TNS-CMR*
Emerging Media’s Advantage for Smaller Advertisers

• **Small businesses = >$48 billion advertising market**
  - Very small out-of-pocket budgets
  - Products are – by definition – narrow-reaching

Source: MAGNA Global analysis of IRS data

![Ad Expenditures By Small Businesses](chart)

Source: MAGNA Global analysis of IRS data
Emerging Media’s Advantage for Smaller Advertisers

- **Mid-sized businesses = >$33 billion advertising market**
  - Limited out-of-pocket budgets
  - Products are – by definition – narrow-reaching
  - **Sweet-spot = data-intensive and sophisticated mid-sized companies**

Source: MAGNA Global analysis of IRS data
Emerging Media’s Advantage for Smaller Advertisers

- **Search spending reflects effectiveness for SMEs...**
  - Search has exploited **new market** (smaller advertisers!)
    - Marketing/media/brand often the same function as sales
    - Few mass marketers spend much on search today

![Graph showing advertising dollars spent per hour of media consumption](image)

Source: MAGNA Global, US Census, Veronis Suhler
Emerging Media’s Advantage for Smaller Advertisers

• ...And represents large share of e-commerce sales
  • Search will be driven partially by e-commerce growth
  • Impact of search and branding? Mobile search?

![Search Spending as % of E-Commerce Sales Chart]

Source: MAGNA Global, US Census, IAB
Emerging Media’s Advantage for Smaller Advertisers

• **Sub-scale media: effective for sub-scale advertisers**
  - Emerging media requires ad hoc processes and workflows
  - Most or all processes in smaller advertisers are ad hoc!

• **Advertisers’ org design impacts marketing emphasis**
  - Silos aren’t necessarily bad – nor are existing structures
  - Where to realize economies of scale?

“**The company is (putting) retail marketing strategy under the same marketing directors who oversee brand teams**
Emerging Media Advertising: Sources of Revenue

- Beyond search, emerging media = small business in aggregate today

2007E Emerging Media Advertising

Revenues in Millions

<table>
<thead>
<tr>
<th></th>
<th>2007E Revenues in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Search</td>
<td>$8,000.0</td>
</tr>
<tr>
<td>All Other</td>
<td>$2,000.0</td>
</tr>
</tbody>
</table>

MAGNA Global
Advertising as a Key Media Company Driver

• **Focus on three advertising-related themes:**
  • The growing role of non-media marketing
  • Increasing divergence between advanced and emerging markets
  • Shifting sensitivity to advertising
Advertising as a Key Media Company Driver

- **1) It is clear that non-advertising marketing spending is now growing materially faster than advertising expenditures globally and that the trend is here to stay**


<table>
<thead>
<tr>
<th>Year</th>
<th>Media/Advertising</th>
<th>Non-Media Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>155</td>
<td>160</td>
</tr>
<tr>
<td>2004</td>
<td>250</td>
<td>167</td>
</tr>
<tr>
<td>2007E</td>
<td>315</td>
<td>187</td>
</tr>
</tbody>
</table>

Marketing Intensity

- 3.2% in 2000
- 3.6% in 2004
- 3.6% in 2007E

Source: UBS, MET, and company reports
Advertising as a Key Media Company Driver

• 2) Emerging markets and the Internet are driving global advertising, representing 70% of all 2008E incremental growth

• We believe growth in traditional media (print, television, radio) would likely migrate to emerging markets

Chart: Global Measured Media (broadcasting, print, outdoor) Advertising Intensity (as % of GDP)

Source: UBS estimates
Advertising as a Key Media Company Driver

• **3) New methods needed**
  • Bottom-up aggregation does not work
  • A model using overall marketing is better
Non-Media Marketing is Taking Share

• Using proprietary data, UBS was able to demonstrate that non-media marketing is diverting resources from measured adspend (including branded-ad Internet) at a growing pace, hurting companies depending on fundamental advertising.

Chart: Assessing Direct Response vs. Overall Advertising Market Growth in US

Source: UBS estimates and company reports
Other Risks for Advertising

• The increasing supply of advertising ad impressions (or eyeball interaction) should further fragment the market
  • For instance, LCD-based targeted ad systems in supermarkets should increase the allocation for co-op spending (boosting promotion budgets, now more likely to be integrated with the overall advertising and marketing allocation)
  • Wireless, interactive gaming, digital outdoor and indoor or digital radio would drive fragmentation
  • We have already experienced mild pricing compression in the online video-ad market as new entrants are launched

• Targeted and accountability-based media should allow premium pricing for ad suppliers but could also lead to a de-rating of non-targeted advertising value in many industries
  • This is a risk we expect in the mid-term because budgets may not be able to match some of the online CPM/CPA growth
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