THE PANDEMIC

PAUSE OR PLAY

ADVERTISING FORECASTS & MEGATRENDS
FOR MEDIA PLANNING POST COVID

IAN WHITTAKER

LIBERTY SKY ADVISORS

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FOREWORD

2020 IS THE MOST DRAMATIC SHOCK TO HIT THE WORLD IN RECENT DECADES

The events of 2020 are more consequential than the global financial crisis of 2008/9, as the pandemic has not only severely weakened the global economic system but led to fundamental changes in the way people live their lives and the way governments have invoked powers normally seen in wartime to regulate people's behaviours and actions. Some of these changes, in the way we work, shop and travel, are likely to be permanent in nature and the post-pandemic world will look significantly different from the world we left behind in 2019.

The start of the rollout of Covid-19 vaccines has heightened optimism that, while we are still in the tunnel, the bright light may be approaching. The nationwide rollout of the vaccine in 2021 will be an important boost to the economy and some are already predicting that pent-up demand will drive an explosion of spending this year, with the Bank of England's chief economist, Andy Haldane, stating that excess savings of circa £100bn had been built up by UK households during the lockdowns.

In fact, consumers have already started: consumer spending rose again in October for the sixth month in a row, driven by e-commerce - which rose 52.8% year-on-year according to the ONS. While consumer spending dipped month-on-month in November due to new restrictions, sales remained above pre-pandemic levels. Although big-ticket items such as new car purchases are still subdued, with November new car registrations down over 27% year-on-year, Dixons Carphone recently reported strong sales of items such as big screen TVs and computing and the hope will be that spending will recover as consumers become more confident on the economic prospects, although concerns over job losses may impact sentiment.

Advertising has been hit hard by the pandemic but not as much as feared several months ago. Our base case forecasts assume a 8.2% fall on 2019 but then a 12.6% recovery in 2021 which will take 2021 advertising past that of 2019. That may seem optimistic, but advertisers are likely to want to capitalise on latent demand for goods and services. Advertising is 'intangible capex' and firms are likely to invest in their brands to boost long-term growth, while the explosion in e-commerce will also drive change.

Like the 2009 crisis, the pandemic will accelerate existing trends within the UK media landscape. However, it is likely that advertisers will take advantage of this 'Pandemic Pause' to rethink their advertising investments.

A cost-led recovery will force brands to re-imagine the advertising mix for optimal effect, realign their in-house resources and reverse some pre-lockdown perceived logic. That is why we have two advertising forecasts. The Pause forecast in which very little changes, and the Play for Profit forecast for brands that reshape their ad investment and use this period as a catalyst for growth. History shows us that crises offer opportunities for strong brands and so I am confident that my Play for Profit forecast is the roadmap for media investment for the next five years.

Ian Whittaker

Liberty Sky Advisors

SECTION 01

THE FIVE MEGATRENDS

POST COVID-19

"FROM MY ANALYSIS, I'VE IDENTIFIED FIVE MEGATRENDS THE ADVERTISING INDUSTRY WILL ENCOUNTER OVER THE NEXT FIVE YEARS.

SECTION 01

MEGATREND ONE: A COST-LED RECOVERY

Several letters of the alphabet have been used to try and describe the potential recovery scenarios.

The most optimistic is the V-shaped recovery, where the economy rebounds quickly, the most pessimistic is an L-shaped outcome, where GDP continues to flatline post-slump.

Sir Martin Sorrell has made reference to the possibility of a K-shaped pattern, where some sectors rebound quickly but others (e.g. travel) remain moribund.

One overriding focus of firms will be to protect their bottom line, adjusting their cost bases as top-line pressures continue to be significant over the coming years. The Deloitte Q4 survey of UK CFOs found that 52% expect that demand will return to pre-pandemic levels by the end of Q3 2021 and that 46% of CFOs see reducing costs as a priority.

A cost-led recovery means firms will look to remove inefficiencies and that cost control will be paramount. Crucially, many firms are likely to try to permanently lock in at least some of the savings caused by the pandemic. Employment and property costs are two obvious candidates for extra scrutiny but there is a significant opportunity to grasp through the optimisation of advertising spend. While in the past, it may not have been the prime attention of company boards and at the CEO and CFO-level, this is likely to change moving forwards.

KEY TAKEOUTS

1. There are three possible roads to recovery: V-shaped, L-shaped and K-shaped.

2. The key focus will be on adjusting the cost base to set solid foundations in order to stay in business long term - as 46% of CFOs see reducing costs as a priority.

3. There’s an opportunity to review and optimise advertising spend - more to follow on this.

MEGATREND TWO: MAXIMISING SHAREHOLDER VALUE

I have estimated that there is between £4.6bn and £4.7bn of unoptimised advertising investment in 2019, or just under 20% of the UK advertising market.

From a shareholder perspective, this means a significant loss of value. Putting this figure on a 10x multiple, this suggests between £46bn and £47bn of lost shareholder value.

In fact, over the forecast period, the loss in shareholder value could be far greater. Using a typical discounted cashflow model to look at the potential wastage of shareholder value, we estimate nearly £90bn of value will be lost by sub-optimal advertising spending.

This excludes any benefits from boosting the top line from such measures.
Procter and Gamble's drive over several years to optimise the allocation of media spending (with its much-publicised drive to reduce digital costs) has seen both the top line and earnings growth accelerate.

Getting to an optimal mix of advertising cannot be done overnight, but there is a significant level of upside for advertisers both in earnings and value by moving to a more optimal mix. At a time when the top line is under pressure due to the effects of the pandemic, optimising the effectiveness and therefore the efficiency of advertising investment will be high on the agenda for firms.

SECTION 01

THE LOSS IN SHAREHOLDER VALUE

Discounted cashflow analysis of the loss in shareholder value from unoptimised UK advertising spending (£m)

	2020E	2021E	2022E	2023E	2024E	2025E
Savings	£4,621	£5,459	£5,570	£5,603	£5,429	£5,021
Discount factor	100%	93%	86%	79%	74%	68%
DCF	£4,621	£5,055	£4,776	£4,448	£3,990	£3,417
Sum	£26,307					
Growth in perpetuity	2.5%					
Terminal cashflow	£5,147					
Terminal value	£63,689					
Enterprise value	£89,995.93					

Source: *Ian Whittaker/Liberty Sky Advisors*

KEY TAKEOUTS

1. An estimated 20% of UK ad investment is not optimised, representing between £4.6bn and £4.7bn in spend.

2. Procter and Gamble's reallocation of media spend (away from Digital Online) saw topline and earnings accelerate.

3. Achieving a fully-optimised media mix cannot be done overnight. A test-and-learn approach is one way for advertisers to move towards a more efficient and effective mix.

MEGATREND 3: THE ADVERTISING MIX REIMAGINED

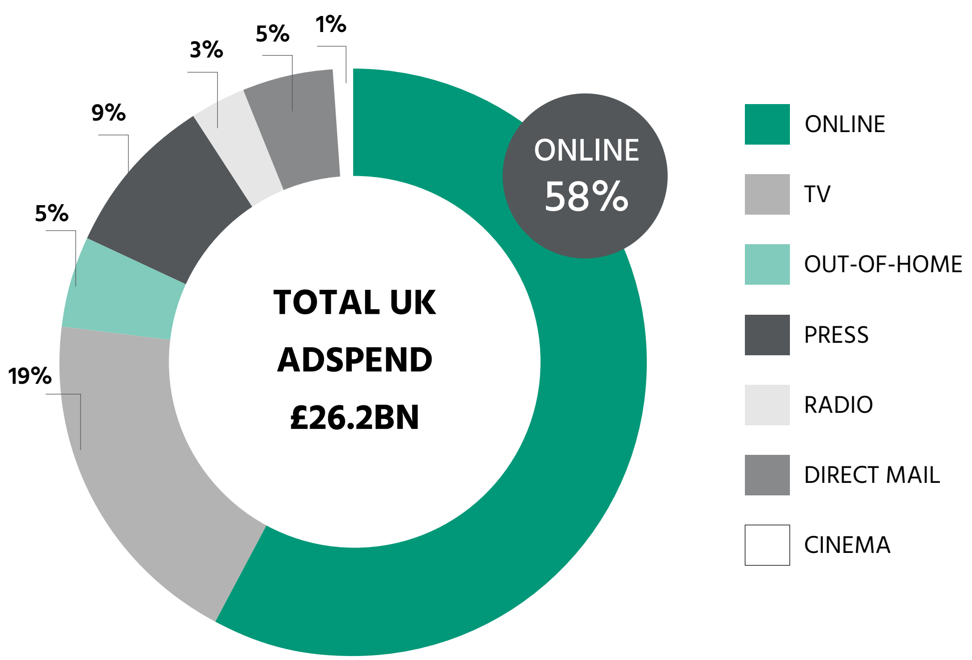
A major current theme is the disconnect between what Digital Online delivers in terms of return-on-investment and its impact on longer-term results.

The UK is one of the most advanced markets globally when it comes to Digital Online advertising, making up 58% of total advertising spend according to AA/WARC estimates.

Given that Digital Online should increase marketing efficiency, then rationally the UK should be seeing a significant increase in advertisers' sales through a massive boost to optimisation, but this has not happened.

The brand values of UK companies have generally fallen and UK consumer discretionary spending in key items has slowed, not accelerated as Digital Online advertising has gained ground.

UK ADVERTISING SPEND 2019



Source: *Ian Whittaker/ Liberty Sky Advisors/AA/WARC/ Figures include digital spend of the platforms*

2019-2020 BRAND GROWTH RATES, FORECAST IN JUNE 2020

Global economy	Top 100 global brands	Top 75 UK brands
-4.9%*	+5.8%	-13%

*Forecast June 2020 (updated to -4.4% by IMF forecast October 2020)

Source: BrandZ™/Kantar2019

This suggests that the benefits of Digital Online are not coming through, and there are several reasons for this.

Leakage in the Digital Online advertising ecosystem.

The recent ISBA/PwC survey found a 15% delta of Digital Online programmatic advertising spending that could not be accounted for, and that does not take into account the level that is taken by intermediaries in the digital programmatic ecosystem. As a result, only half of an advertiser's spend actually reaches the publishing platform.

The spend on activation marketing and non-brand advertising.

In their book, Binet and Field stated that the optimal mix for an advertising budget should be 60% on brand building and 40% on activation to enjoy long-term sustainable profit growth. At the moment the ratio is the opposite with close to 60% spent on activation. One reason for this seeming disparity is that elements of Online Display advertising spending, such as banner and native adverts, while classified as brand building, are actually more like activation spend in their effects. Thus, UK advertising spending is actually inefficient in its structure.

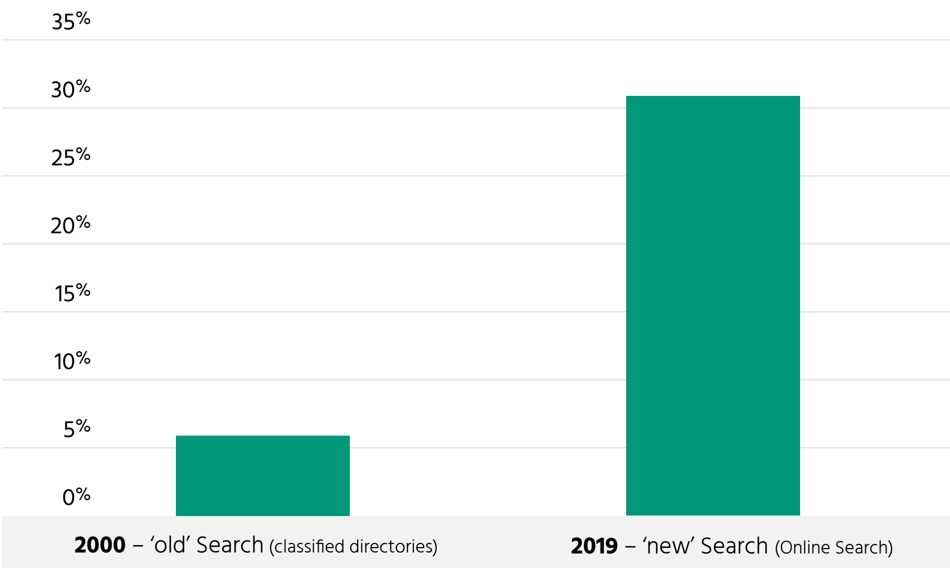
The reliance on Online Search.

Paid Online Search made up 31% of all UK advertising spending in 2019, or £8bn. Paid Online Search is, in effect, the updated version of classified directories spend which comprised circa 6% of UK advertising spending 20 years ago and, like the classified directories of old, Search has its uses but it is arguably not a core part of brand building.

Paid Search's share of advertising should be lower than its current share, and certainly under 20%. It can be extremely useful (especially for SMEs) but for established brands, its ROI effect is being exaggerated. In many cases, consumers know what they want, but use the Search engine as a shortcut to the website. Another analogy is the example of someone buying a pint of a well-known drink, with all the brand advertising and sponsorship associated with the brand, and the purchase being attributed to the branded mat at the bar.

'OLD' SEARCH VERSUS 'NEW' SEARCH

Percentage of UK ad market for 'old' Search (2000) versus 'new' Online Search, (2019)



Source: Ian Whittaker/Liberty Sky Advisors/IAB/AA/WARC

KEY TAKEOUTS

1. As spend in Digital Online has increased over time, UK brand value has declined.

2. The structure of media allocation in the UK is inefficient and isn't working for long-term growth.

3. There are three reasons for this: first, the leakage of spend within the Online advertising ecosystem; secondly, the imbalanced spend allocation between activation and brand-driving activity; and thirdly, an over-reliance on paid Online Search.

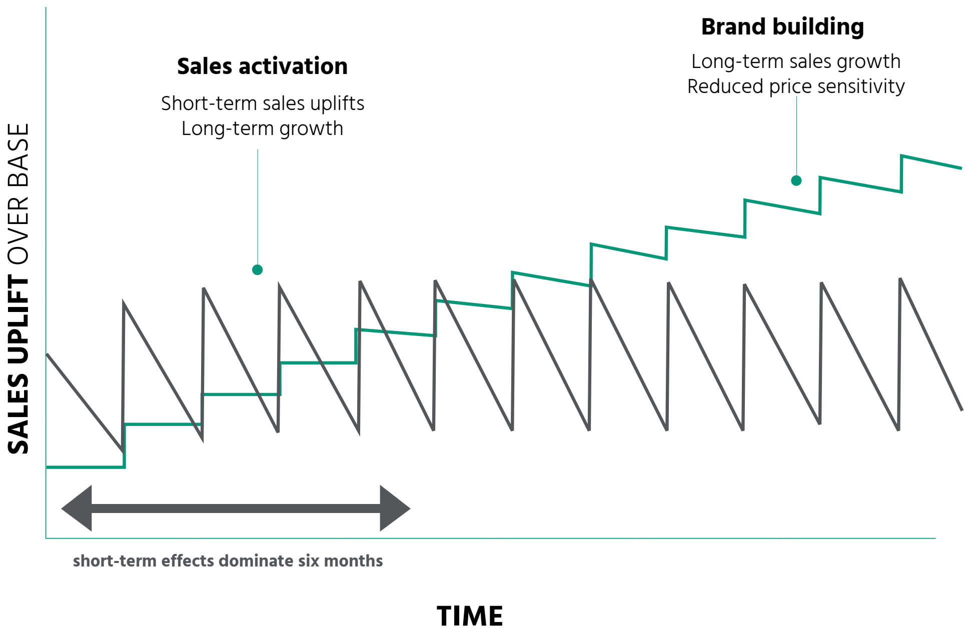
MEGATREND FOUR: BRAND AND ACTIVATION WORKING TOGETHER

Advertising investment will be optimised to those platforms that are good for brand building and long-term effectiveness over the forecast period.

Les Binet and Peter Field showed that advertisers that use a combination of long-term brand building and effective short-term campaigns, see the biggest uplift in sales and profit in both the short term and the long term.

The three platforms that stand out for the future are TV, Out-of-Home and Social Media which combine both brand building and digital targeting.

BRAND BUILDING DRIVES GROWTH



Source: *Les Binet and Peter Field, 2013 Advertising Effectiveness: the long and the short of it, IPA*

The evidence suggests that cross-platform advertising can amplify effectiveness compared with advertising on an individual platform alone. Studies from Facebook show, for example, that a combination of Facebook and Out-of-Home advertising was 13% more efficient than expected and was particularly effective at attracting younger audiences. The expectation is that the traditional 'siloed' approach of having a digital bucket of media spending, separate from TV and Out-of-Home is likely to become increasingly outdated, especially as creative assets can be effectively bridged across digital media assets in Social Media, TV and Out-of-Home.

KEY TAKEOUTS

1. Advertisers will look to media channels that will support them for long-term brand growth as well as short-term uplift in sales.

2. The three platforms that stand out for this are TV, Out-of-Home and Social Media which combine brand building and digital targeting.

3. The traditional approach of having separate brand and digital budgets is likely to become outdated as results show cross-platform advertising amplifies effectiveness and that creative assets can be easily bridged across channels for Social Media, TV and Out-of-Home.

MEGATREND FIVE: SILOS TOGETHER

An increasing factor is likely to be the elimination of silos, as the distinctions between 'traditional' and 'digital' media become increasingly outdated.

Already, digital Out-of-Home (DOOH) represents the majority of Out-of-Home advertising in the UK, and Broadcaster video-on-demand (BVOD) will make up an estimated 10% of 2020 TV advertising spending. For all 'traditional' media platforms, digital will make up an ever more important part of their revenues. By the end of the forecasting period, as well as Out-of-Home, digital will make up the majority of advertising revenues for national and regional Press, as well as Magazines.

DIGITAL SHARE OF AD REVENUES

UK total advertising revenues 2019 – 20205E and growth/decline rates 2020-2025E (£m)

	2019	2020E	2025E
TV	9%	10%	19%
Out-of-Home	53%	67%	80%
Radio	7%	9%	18%
Magazines	40%	45%	72%
Regional Press	33%	39%	74%
National Press	34%	37%	60%

Source: *Ian Whittaker/Liberty Sky Advisors/AA/WARC*

Secondly, programmatic is a key driver of this trend. In the US, Comcast and Disney are offering advertisers their audiences programmatically across all platforms (linear TV and streaming). JCDecaux's partnership with VIOOH looks set to expand significantly the amount of Out-of-Home inventory traded programmatically and through automating existing trade channels on a global scale. The converging of the trading of Digital Online with the digital assets of 'traditional' media using the same data platforms will be an emerging trend.

A third factor will be the increased level of in-housing by advertisers. This does not mean advertisers will seek to disintermediate the agency, in fact we expect most relationships to remain very much intact. According to a recent IAB/Accenture survey, 69% of brands intended to bring their advertising in-house, with 21% saying they had brought their advertising completely in-house. Clients who bring their advertising in-house, will want teams that are able to operate across all media and are not siloed by platform, mainly on the grounds of cost but also because of the likely difficulties of finding sector specialists. This is likely to put pressure on agencies to mirror their clients' teams.

This convergence is likely to be mirrored in the agency groups. It is clear from agencies' comments that they are looking for radical ways to save costs and one likely trend is to accelerate the use of unified cross-channel teams, both to improve media efficiency and save costs.

KEY TAKEOUTS

1. Distinctions of 'traditional' and 'digital' media are outdated as DOOH already represents the majority of Out-of-Home advertising in the UK and BVOD already makes up 10% of TV ad spending.

2. Programmatic or automated trading is a key driver as Out-of-Home and TV can converge with Digital Online to provide full customer journey planning.

3. Brands are increasingly building multi-media in-house advertising teams that are not siloed by channel - this will put pressure on agencies to mirror that structure.

SECTION

02

THE PAUSE FORECAST

MY FIRST FORECAST SHOWS COVID-19'S IMPACT AS A 'PAUSE', BEFORE THINGS CONTINUE AS BEFORE.

MY SECOND FORECAST, PLAY FOR PROFIT IS FOR BRANDS THAT RETHINK THEIR ADSPEND TO BENEFIT FROM ENHANCED EFFICIENCY AND OUTCOMES.

THE PAUSE FORECAST

The Pause forecast is just that. A pause to media investment and then an acceleration of existing trends.

The base case forecast assumes an 8.2% drop in 2020 advertising to £24.1bn, followed by a sharp 12.6% rise in 2021 to £27.1bn, which would take overall UK advertising numbers past its pre-pandemic 2019 level of £26.2bn. Further strong growth in 2022 of 7.3% (to £29.1bn) is then forecast with moderating low to mid-single digit growth thereafter.

UK ADVERTISING FORECASTS 2019 – 2025 (£M)

UK total advertising revenues 2019-2025E (£m) and growth/decline rates 2020E to 20205E

	2019	2020E	2021E	2022E	2023E	2024E	2025E
Total advertising spending (£m)	£26,238	£24,079	£27,125	£29,119	£30,710	£32,000	£33,071
Total growth/ (decline) yoy (%)	6.9%	-8.2%	12.6%	7.3%	5.5%	4.2%	3.3%

Source: Ian Whittaker/Liberty Sky Advisors/AA/WARC

The economic assumptions behind a moderate V-shaped recovery are:
Advertisers refocus their efforts from pure containment on costs to a more balanced approach of cost control, aligned with efforts to stimulate top-line growth.

There is a gradual opening up of the economy led by improved treatments for Covid-19 and the roll out of a vaccine, with the Government shifting priorities from the containment of the disease to pushing economic recovery.

Consumer unemployment reaching the Office for Budget Responsibility base case of peak 10%, but then falls off as new jobs are created in growing sectors to replace those lost in sectors such as retail and hospitality.

Consumers gradually start to spend again, boosted by buoyancy in house prices and more confidence in household finances.

The advertising category assumptions are:
While Online Search recovers in 2021E, with a 7% rise, its growth will slow and then turn negative as advertisers reassess its marketing effectiveness.

Social Media will continue to grow strongly, as advertisers use it to build both brand and activation.

Social Media will continue to grow strongly, as advertisers use it to build both brand and activation. While there have been concerns over the upcoming changes to iOS14, we do not expect this to have a significant impact on Social Media advertising growth.

TV and Out-of-Home advertising will show structural growth, with Out-of-Home growing the faster of the two. In both cases, digital will be the driver, with Out-of-Home's faster growth based on its higher weighting of digital.

The crisis will intensify the decline in structurally challenged areas such as Press and Direct Mail.

KEY TAKEOUTS

1. The Pause forecast sees advertising resume after a Covid pause and the existing trends accelerate.

2. Advertisers balance cost-control with marketing efforts to drive the top line.

3. There will be continued growth in TV, Out-of-Home and Social Media while Online Search will decline as advertisers reassess its effectiveness. The structurally-challenged sectors such as Press and Direct Mail will continue to decline.

SECTION 02

THE PAUSE FORECAST

THE PUBLIC MEDIA

Public media is used in this report to refer to media that is consumed in a one-to-many way and includes: TV, Out-of-Home, Press, Cinema and Radio. Other aspects may include providing a public benefit, such as editorial, news or amenities such as street furniture, or relate to public media being available to consume in public spaces or with others.

THE PAUSE FORECAST: TV

TV advertising revenues will grow by a compound annual growth rate (CAGR), of 6.5% from 2021E to 2025E, with Broadcaster video-on-demand (BVOD) growing on average over 22% a year over the period and traditional linear TV growing at a 4% average, although growth will fall below this in the outer years.

THE PAUSE FORECAST: **TV**

UK TV advertising revenues and growth/decline rates 2019-2025E (£m)

	2019	2020E	2021E	2022E	2023E	2024E	2025E
Total advertising spending (£m)	£4,930	£4,343	£4,939	£5,426	£5,783	£6,050	£6,352
Total growth/ (decline) yoy (%)	-3.5%	-12%	14%	10%	7%	5%	5%

Source: *Ian Whittaker/Liberty Sky Advisors/AA/WARC*

TV pricing has collapsed - unlike most European TV ad markets, UK broadcasters cannot flex their audience supply, so declines in advertising equate to price falls. ITV mentioned in its results during the pandemic that station average pricing (the TV spot price) is 50-60% of pre-pandemic levels, implying that even in nominal terms, that it is back to where it was in the 1980s.

Secondly, the crisis has shown the continued worth of TV due to its ability to drive mass audiences. Broadcast TV reached a peak of three hours and 46 minutes during the crisis and, while that has fallen back, it has demonstrated that television still remains a go-to medium when people are looking for news and entertainment. The addition of BVOD to TV's mix, broadens its reach.

Thirdly, BVOD enables TV to tap increasingly into digital budgets, where TV's brand-safe/family-friendly attributes are likely to become of growing importance. TV is increasingly platform agnostic and while linear TV will remain the majority of TV's advertising spending, BVOD will make up an increasing share of overall TV advertising spend. There are also other areas of potential TV advertising spending around addressable TV (ATV) and Connected TV (CTV) that are also at the beginning of their journeys.

THE TOTAL VIDEO DAY - ALL ADULTS AND 16-TO 34-YEAR-OLDS

Pre-pandemic, Broadcaster TV accounted for 68% of the video day and nearly 50% for 16-to 34-year-olds according to TV industry trade body Thinkbox. While it is natural to assume growth in online viewing in 2020, it is likely that Broadcaster TV - which includes advertising-based video-on-demand (AVOD) - has more than held its own during the pandemic.

	16-to 34-year olds	All individuals
YouTube	27%	12.4%
Facebook	1.2%	1.2%
Other Online video	3.8%	3.6%
Online adult video	3.0%	2.9%
Cinema	0.5%	0.4%
DVD	2.0%	1.9%
Subscription VOD	17.4%	9.6%
Broadcaster VOD	9.5%	5.5%
Playback TV	11.8%	13.0%
Live TV	23.5%	49.5%

Source: BARB 2019/Comscore/Broadcaster stream data/IPA TouchPoints 2019/Rentrak all via Thinkbox

KEY TAKEOUTS

1. While TV ad revenues will grow at 6.5% from 2021E to 2025E, growth will fall as 2025E approaches.

2. BVOD will grow at over 22% a year, offering TV the ability to tap into digital budgets.

3. TV continues to offer a mass audience and despite the growth of BVOD, linear TV will continue to make up the majority of TV adspend.

SECTION 02

THE PAUSE FORECAST: OUT-OF-HOME

Unsurprisingly, given lockdown orders, Out-of-Home had a tough time in 2020.

With footfall on public transport being particularly hit, the Out-of-Home market saw its advertising revenues fall. However, audiences returned quickly after the second lockdown, reaching circa 70% of pre-lockdown figures, so we anticipate a similar rebound once restrictions are lifted.

After a 44% decline in 2020E, Out-of-Home is expected to rebound strongly in 2021 with a rise of 48% year-on-year and surpass pre-pandemic levels by 2022E, followed by high single-digit growth to low double-digit growth thereafter.

THE PAUSE FORECAST: **OUT-OF-HOME**

UK OOH advertising revenues and growth/decline rates 2019-2025E (£m)

	2019	2020E	2021E	2022E	2023E	2024E	2025E
Total OOH advertising (£m)	£1,301	£732	£1,084	£1,307	£1,456	£1,601	£1,735
Total growth/ (decline) yoy (%)	8%	-44%	48%	21%	11%	10%	8%
Programmatic and automatic as share of total DOOH spending (%)	1.5%	1.2%	3.5%	5.8%	7.3%	9.5%	12.6%

Source: Ian Whittaker/Liberty Sky Advisors,/AA/WARC

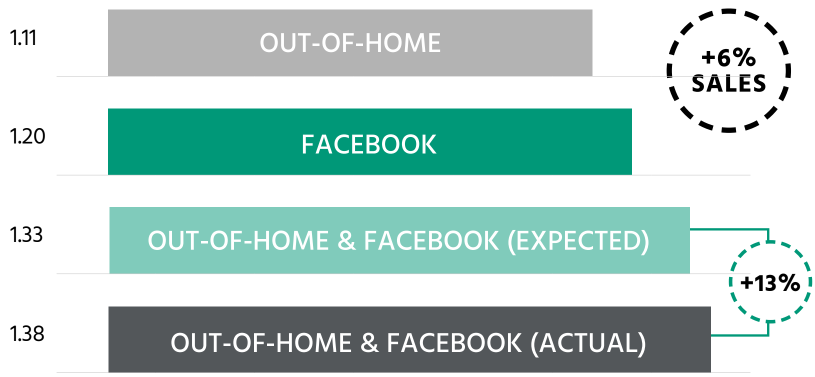
Firstly, digital Out-of-Home (DOOH) should capture a growing share of advertising budgets, accessing two pots of advertising budgets (Digital Online and Out-of-Home). DOOH was 53% of the total Out-of-Home market in 2019 and we estimate it will reach 80% share of Out-of-Home by 2025E, with a CAGR of 17% from 2021E to 2025E.

While some of this growth will be the cannibalisation of traditional Out-of-Home spend, substantially it will be new digital spending looking for a brand-friendly home.

Secondly, changes in the way Out-of-Home is measured and sold will help boost the sector. Out-of-Home has been perhaps the least changed of all the media in the way it is traded and sold. That is changing swiftly, and the crisis should give momentum. The programmatic or automated trading of DOOH through existing agency channels or DSPs, while small now (circa £2m in 2020E) will expand rapidly and make up circa 13% of all DOOH spending within five years. Measurement-wise, data from smartphones will allow Out-of-Home to be traded using similar data to mobile Online targeting, increasing synergies between the sectors.

Finally, the evidence is that Out-of-Home works well with other media, in particular Social Media. The trust, attention and awareness engendered by Out-of-Home makes advertising on Social Media more noticeable and impactful.

OUT-OF-HOME AND SOCIAL MEDIA – FACEBOOK BETTER TOGETHER



Source: Facebook 'Better Together' research 2019. Factors of chart refer to 'likely-to-purchase' and are indexes.

KEY TAKEOUTS

1. Out-of-Home will surpass pre-pandemic levels by the end of 2022, followed by high single-digit to low double-digit growth thereafter.

2. The public screen of Out-of-Home primes the private screen of mobile, leading to enhanced outcomes.

3. DOOH brings access to new digital budgets. Programmatic and automated Out-of- Home will be 13% of all DOOH spending by the end of 2025.

THE PAUSE FORECAST: PRESS

The publishing industry (national and regional Press, together with Magazines) is in structural decline and the long-term trend is expected to be negative, albeit with a temporary bounce in 2021E.

By the end of the forecasting period, advertising revenues for regional Press are expected to be 41% lower than in 2019, with national Press 29% lower and Magazines 37% lower. Note when we refer to Press, it includes these publishers' digital advertising revenues.

All three sub-areas face the same set of problems in the short and long term. Stay-at-home orders impacted physical sales as retail outlets were closed and consumers did not venture out of the house. This has exacerbated long-standing, circulation declines which will not be offset by the growth of digital platforms. Large numbers of titles have closed and that has further depressed volumes and the appeal of the sector.

THE PAUSE FORECAST: **PRESS**

UK Press advertising revenues and growth/decline rates 2019-2025E (£m)

	2019	2020E	2021E	2022E	2023E	2024E	2025E
Total Press advertising (£m)	£2,380	£1,878	£2,046	£1,886	£1,746	£1,638	£1,556
Total growth / (decline) yoy (%)	-5.7%	-21%	9%	-8%	-7%	-6%	-5%

Source: Ian Whittaker/Liberty Sky Advisors/AA/WARC

KEY TAKEOUTS

1. Despite a predicted uptick by the end of 2021, the publishing industry is in a long-term structural decline.

2. Growth in publishing digital platforms will not be enough to arrest this decline, which will be seen across all sectors from the regional and national Press to Magazines.

THE PAUSE FORECAST: CINEMA

We do not forecast advertising revenues from Cinema will return to 2019 levels by the end of the forecast period. There are doubts whether Cinema audience levels will return to pre-pandemic levels.

A large number of people may remain uncomfortable about a return, given fears over the pandemic.

The major global movie studios such as Disney, Universal and Warner Bros. are all part of groups that are also launching their own streaming services worldwide.

The recent announcement by Warner Bros. that it will simultaneously release 17 of its most anticipated 2021 movies at the cinema and through streaming service HBO Max have raised structural fears over Cinema audiences.

THE PAUSE FORECAST: **CINEMA**

UK Cinema advertising revenues growth/decline rates 2019-2025E (£m)

	2019	2020E	2021E	2022E	2023E	2024E	2025E
Total Cinema advertising (£m)	£299	£60	£144	£180	£197	£207	£218
Total growth / (decline) yoy (%)	18%	-80%	140%	25%	10%	5%	5%

Source: Ian Whittaker/Liberty Sky Advisors/AA/WARC

KEY TAKEOUTS

1. If Hollywood keeps postponing big releases, many cinema chains will struggle to survive.

2. Streaming of movie premieres will impact Cinema audiences.

3. The pandemic is likely to have a permanent dampening effect on audiences.

THE PAUSE FORECAST: RADIO

Radio advertising sees continued growth throughout the period although it's only by 2024E that it surpasses pre-pandemic levels. Digital revenues will power this growth, but traditional radio revenues will remain flat.

The amount of time people spent listening to Radio has been impacted by the pandemic. Whilst counter-intuitive, given the increase in the amount of time people spend at home, the loss of commuter listening times has a greater revenue impact. eMarketer estimates that the amount of time UK adults will spend on digital audio will be flat in 2020E, although it will grow thereafter.

There are additional question marks over Radio's ageing demographics and whether Radio will be a longer-term winner from changes in consumer habits. One possible threat is the growth of podcast advertising revenues, which is growing in double digits (even in the pandemic) in the United States and which may take advertising money out of Radio. The recent spate of podcast deals suggest that this is likely to remain a healthy driver of growth.

THE PAUSE FORECAST: **RADIO**

UK Radio advertising revenues and growth/decline rates 2019-2025E (£m)

	2019	2020E	2021E	2022E	2023E	2024E	2025E
Total Radio advertising (£m)	£703	£590	£649	£680	£695	£714	£737
Total growth / (decline) yoy (%)	-2%	-16%	10%	5%	2%	3%	3%

Source: *Ian Whittaker/Liberty Sky Advisors/AA/WARC*

KEY TAKEOUTS

1. Radio advertising will continue to grow, driven by Online listening.

2. Working from home is changing the way people listen - and the loss of commuter listening times will impact ad revenues.

3. Podcast advertising is likely to sustain growth. Changes in consumer habits due to the pandemic will have mixed effects on Radio advertising; however, a switch from public transport to using cars to commute to work should have a positive net effect.

SECTION
02

THE PAUSE FORECAST

THE PRIVATE MEDIA

Private Media is defined as being consumed in a one-to-one or many-to-one way, for the most part via devices such as laptops, desktop computers or mobile phones. In this report it is defined as Online Search, Social Media, Online Display, Online Classified and Direct Mail.

THE PAUSE FORECAST: ONLINE SEARCH

Online Search has grown strongly over the past decade and now comprises nearly a third of the UK advertising market.

It will gradually lose both growth momentum and its share of advertising budget over the next few years and will go ex-growth by 2025E. The forecast assumes a 1% decline in UK Online Search revenues in 2020E, 7% growth in 2021E but then decelerating growth until it hits -3% in 2025E.

THE PAUSE FORECAST: **ONLINE SEARCH**

UK Online Search advertising revenues and growth/decline rates 2019-2025E (£m)

	2019	2020E	2021E	2022E	2023E	2024E	2025E
Total Online Search advertising (£m)	£8,001	£7,921	£8,475	£8,984	£9,253	£9,253	£8,976
Total growth / (decline) yoy (%)	18%	-1%	7%	6%	3%	0%	-3%

Source: Ian Whittaker/Liberty Sky Advisors/AA/WARC

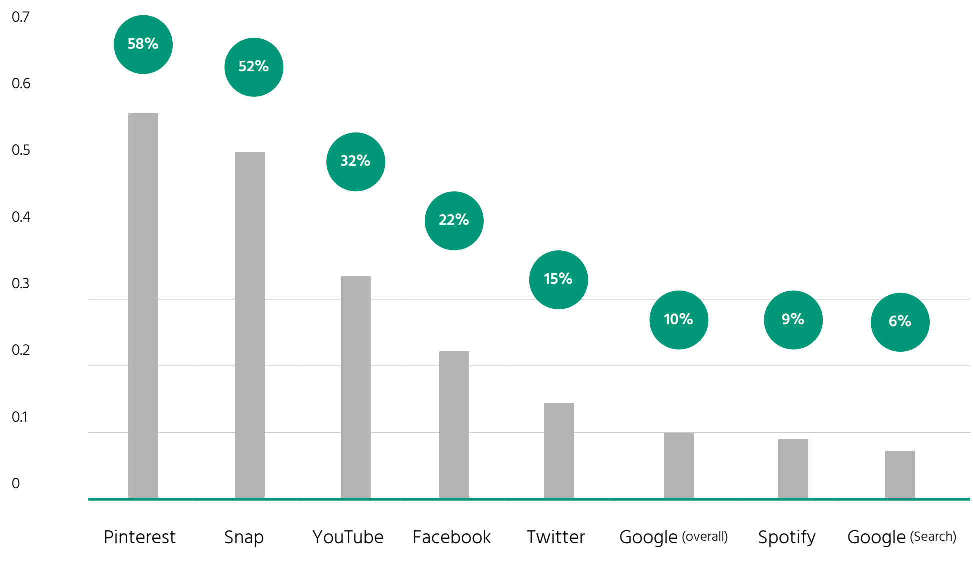
There have been signs from the current earnings season that Online Search has been losing share to Social Media. Google's owner, Alphabet, which controls more than 90% of the UK's Online Search advertising market (source: Competition and Markets Authority, Online platforms and digital advertising final report, July 2020) reported its Q2 Online Search revenues fell 10% globally versus a 10% increase in Facebook's advertising revenues. While some of this is related to sectors such as travel being significantly impacted, it implies there has also been a shift to direct response advertising as opposed to Online Search.

Although Google Search revenues showed a strong recovery in Q3 globally, the Q2 number showed Online Search was less resilient than some other Online media platforms.

The basic premise is that Online Search is ill-suited to promoting brand value and that brands are increasingly discovering this (e.g. Adidas). The core argument is that Online Search is a modern version of the classified directories business and is unsuited to building brands. Classified directories used to constitute circa 6% share of the UK advertising market compared with the 31% of the UK advertising market, Online Search had in 2019.

A further factor which should impact Online Search's advertising revenues is the increasing regulatory focus. The competition and Markets Authority (CMA)'s final report on the Online sector in July 2020 recommended the introduction of a specific digital markets' unit to regulate the space. Given the similarities between Online Search (and Google in particular) and classified directories, we think any new regulatory measures will follow the same steps, namely a form of price capping or behavioural restrictions.

Q3 2020 ADVERTISING GROWTH/DECLINE (%)



Source: Company results

SECTION 02

KEY TAKEOUTS

1. Online Search will lose momentum and share over the next few years.

2. Online Search is already losing share to Social Media.

3. Online Search is ill-suited to brand building and there is a growing recognition among clients (e.g. Adidas) of the need to rebalance Online Search with brand-building media.

THE PAUSE FORECAST: SOCIAL MEDIA

In contrast to Online Search, Social Media revenues are expected to expand rapidly.

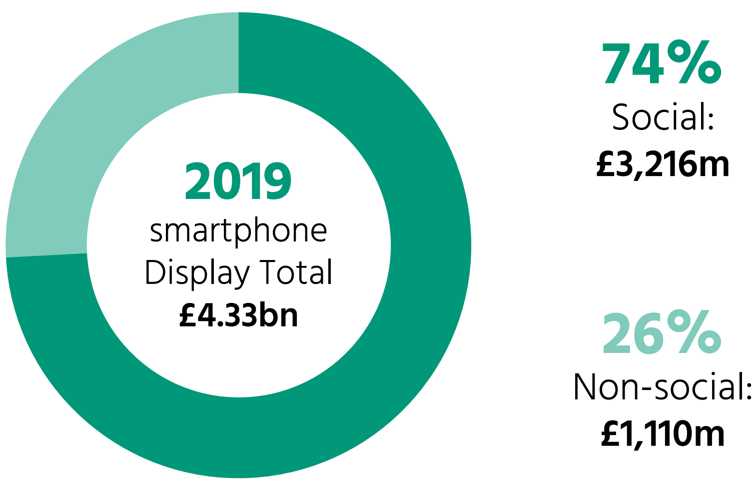
According to the Interactive Advertising Bureau (IAB), Social Media has risen nearly 25 times from 2010 to 2019, with 2019 revenues reaching £3.6bn. The forecast assumes revenues to more than double from £3.7bn in 2020E to over £8.1bn in 2025E, with a circa 15.4% revenue compound annual growth rate from 2021E to 2025E.

For 2020E, Social Media revenues are forecast to grow by 6%. That could be conservative given the strong Q3 results of Facebook, Snap and other Social Media platforms, after the first two reported double-digit Q2 revenue growth, This suggests Social Media may bounce back quicker from the downturn.

One reason for the confidence is Social Media's dominance of the smartphone display market, where Social Media controls 74% of revenues. This should propel future growth given the increasing time spent with smartphones.

SOCIAL MEDIA DOMINANCE OF SMARTPHONE DISPLAY MARKET

74% of all smartphone display is served in a social environment



Source: IAB

Secondly, Social Media has a large advantage over other Online media when it comes to brand advertising, namely that people come to platforms such as YouTube and Facebook to view content, making them more akin to TV.

Thirdly, it works as part of an omni-channel strategy, using multiple platforms to boost reach. Research by Lumen found that when ads were inserted into Facebook feeds as consumers walked past DOOH screens, spontaneous brand recall was doubled.

The advertising boycott of Facebook did not dent revenues. The fact that Facebook reported 10% advertising growth for Q2 and predicted July would show similar growth showed its bedrock is SMBs (small-to-medium businesses) who did not join the boycott.

There are some risks over Social Media's continued high growth. First, as with Online Search, there is the risk of increasing regulation although Facebook does not have the same dominance of Online Display as Google does of Search - the CMA estimated that Facebook controls over half of the Online Display advertising market versus Google's 90%+ control of Search.

The second is the change to Apple's operating system iOS 14 which may reduce the value of publishers' adverts (and Facebook's share of revenues) by limiting publishers' ability to track audiences.

A further risk is that, based on recent statements during the earnings season, Social Media has an over-reliance on activation advertising. But the long-term view is Social Media will benefit from both activation and brand-building budgets.

THE PAUSE FORECAST: **SOCIAL MEDIA**

UK Social Media advertising revenues and growth/decline rates 2019-2025E (£m)

	2019	2020E	2021E	2022E	2023E	2024E	2025E
Total Social Media advertising (£m)	£3,587	£3,818	£4,607	£5,452	£6,344	£7,259	£8,164
Total growth/(decline) yoy (%)	25%	6%	21%	18%	16%	14%	12%

Source: Ian Whittaker/Liberty Sky Advisors/AA/WARC

KEY TAKEOUTS

1. In contrast to Online Search, Social Media revenues are expected to expand rapidly, as consumption via smartphones increases.

2. Social Media works well as an omni-channel strategy with 'Better Together' research from Facebook highlighting this. Lumen insight shows how the public screen (such as Out-of-Home or TV) primes the private screen to provide enhanced outcomes.

3. While there are some risks to growth such as increasing regulation, in the long term, Social Media will benefit from activation and brand-building budgets.

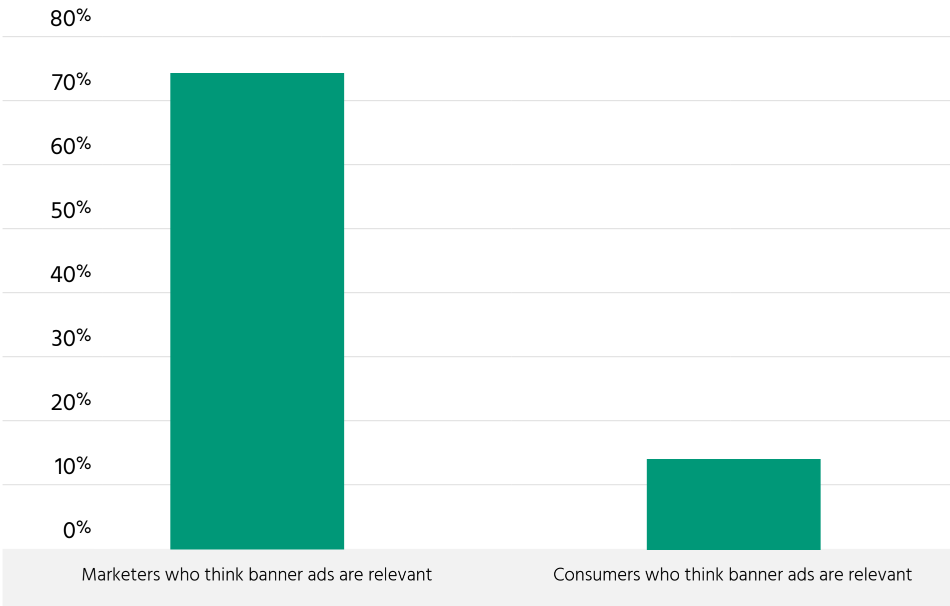
THE PAUSE FORECAST: ONLINE DISPLAY

Online Display covers a wide range of category formats and excludes Social Media. It includes Online video, banner adverts, native advertising (where content is sponsored) and affiliate display amongst others.

Online Display, will be an important part of the advertising mix as advertisers look to take advantage of growing Online usage, though the long tail will increasingly be marginalised. Despite having a 7% increase in 2019, the forecasts are negative on the longer-term fundamentals of banner adverts, which face disruption in a post-cookie world. Adobe's 2019 Summit Ad report found that 74% of marketers thought that banner adverts were relevant to their target audience but only 14% of consumers thought banner adverts were relevant to them. Instead, there is likely to be a switch into Online video. Native advertising, which the IAB/PWC report to be worth £1.3bn in 2019, will continue to grow high single digits in a steady state.

RELEVANCE OF BANNER ADVERTISING

The relevance of banner ads to marketers and consumers



Source: *Adobe 2019 Summit Ad Report - Digital Decluttering*

Online Display ex-Social Media should drop 2% in 2020 and see a 10% rebound in 2021E. However, we then expect growth to decelerate to mid and then low single-digit over time. We expect there will be a shift in share from smaller to larger platforms.

ONLINE DISPLAY EX-SOCIAL MEDIA PAUSE FORECAST

UK Online Display ex Social Media advertising revenues and growth / decline rates 2019-2025E (£m)

	2019	2020E	2021E	2022E	2023E	2024E	2025E
Total Online Display ex-Social Media advertising (£m)	£2,256	£2,206	£2,434	£2,550	£2,670	£2,793	£2,917
Total growth / (decline) yoy (%)	0%	-2%	10%	5%	5%	5%	4%

Source: Ian Whittaker/Liberty Sky Advisors/AA/WARC

KEY TAKEOUTS

1. Online Display will continue to be an important part of marketers' plans as advertisers look to benefit from increased Online usage.

2. Not all parts of Online Display will do well. Banner ad revenues face disruption in a post-cookie world.

3. Native advertising, where content is sponsored will continue to grow.

THE PAUSE FORECAST: ONLINE CLASSIFIED

Online Classified includes recruitment advertising revenues alongside other advertising (e.g. for cars).

For Online Classified, recruitment revenues (now the single biggest component) should track the overall state of the jobs market. It is expected to see a sharp downturn in 2020E, following by recovery thereafter. That will influence the overall growth of the Online Classified market, which is expected to decline 10% in 2020E before seeing a bounce-back of 12% in 2021E. Post-2021E, we expect the Online Classified market to show low single-digit growth moving forwards..

THE PAUSE FORECAST: **ONLINE CLASSIFIED**

UK Online Classified advertising revenues and growth / (decline) rates 2019-2025E (£m)

	2019	2020E	2021E	2022E	2023E	2024E	2025E
Total Online Classified advertising (£m)	£1,399	£1,259	£1,410	£1,452	£1,482	£1,511	£1,541
Total growth/(decline) yoy (%)	-4%	-10%	12%	3%	2%	2%	2%

Source: Ian Whittaker/Liberty Sky Advisors/AA/WARC

KEY TAKEOUTS

1. The forecast finds that Online Classified advertising will bounce back, but growth in the medium to longer term is likely to be below Online Display.

2. Recruitment revenue is the largest component and this is subject to the wider recovery and jobs market.

3. Several categories such as property and motors that were historically an important part of Online Classified revenues have moved to Online subscription sites such as Rightmove and AutoTrader and are not included in the forecast figures.

THE PAUSE FORECAST: DIRECT MAIL

The Direct Mail forecast assumes an 8% decline in 2020E, a 5% growth in 2021E but then double-digit declines thereafter.

Direct Mail has been in decline for a number of years, due to changing attitudes and the increased direct response channels available Online and in Social media.

THE PAUSE FORECAST: **DIRECT MAIL**

UK Direct Mail advertising revenues and growth/decline rates 2019-2025E (£m)

	2019	2020E	2021E	2022E	2023E	2024E	2025E
Total Direct Mail advertising (£m)	£1,383	£1,272	£1,336	£1,202	£1,082	£974	£877
Total growth/ (decline) yoy (%)	-11%	-8%	5%	-10%	-10%	-10%	-10%

Source: Ian Whittaker/Liberty Sky Advisors/AA/WARC

KEY TAKEOUTS

1. Direct Mail has been in decline for years with the rise of other direct response media such as Social media.

2. The rise in people working from home may make Direct Mail a more attractive medium for certain advertisers.

3. It is hard to envisage a scenario where Direct Mail's continued decline does not continue.

SECTION

03

THE PLAY FOR

PROFIT FORECAST

FOR BRANDS THAT WANT TO USE COVID AS A TIME TO MAKE A PLAY FOR PROFITS, GETTING AHEAD OF THE TRENDS AND TAKING ADVANTAGE OF THE MOMENT OF REFLECTION TO MAKE A CHANGE.

THE PLAY FOR PROFIT FORECAST

This is an optimal scenario where advertising spending is reallocated more effectively both to reduce the amount of unoptimised Online spend and to take account of the optimal split of brand versus activation advertising. The main drivers are:

A significantly reduced Online Search as a percentage of overall advertising spending, with a general reduction in share until it reaches just over 18% in 2025E. Just over 50% of the reduction in Online Search is banked by advertisers to help boost the bottom line. The other 50% is reallocated between traditional media and Online Display (roughly in the ratio of 60/40).

We assume there is some unoptimised spend in Social Media (circa 5% of spending), mainly because of the weighting of activation spending and the impact of iOS14 changes, which we think will have some effect on spending.

That 15% of Online Display ex-Social media is considered inefficient. This 15% is that identified by the IAB / PwC report as being unidentified spending on digital.

By 2025E, our Play for Profit forecast total of £30bn versus a Pause forecast of £33bn, but with a more optimised deployment of media budgets.

THE PLAY FOR PROFIT FORECAST

UK total advertising revenues and growth/decline rates 2021E-2025E (£m) – optimal scenario

	2021E	2022E	2023E	2024E	2025E
Total advertising spending - base forecast (£m)	£27,125	£29,119	£30,710	£32,000	£33,071
Total advertising spending - optimal forecast (£m)	£26,662	£28,055	£28,933	£29,543	£30,026
Total advertising spending - base forecast growth rate (%)	12.6%	7.3%	5.5%	4.2%	3.3%
Total advertising spending - optimal forecast growth rate (%)	10.7%	5.2%	3.1%	2.1%	1.6%

Source: Ian Whittaker/Liberty Sky Advisors/AA/WARC

THE REALLOCATION OF MEDIA

Optimal UK advertising spend by platform 2025E vs. base case assumptions. Where ad spend should go to or be taken from in an optimal scenario

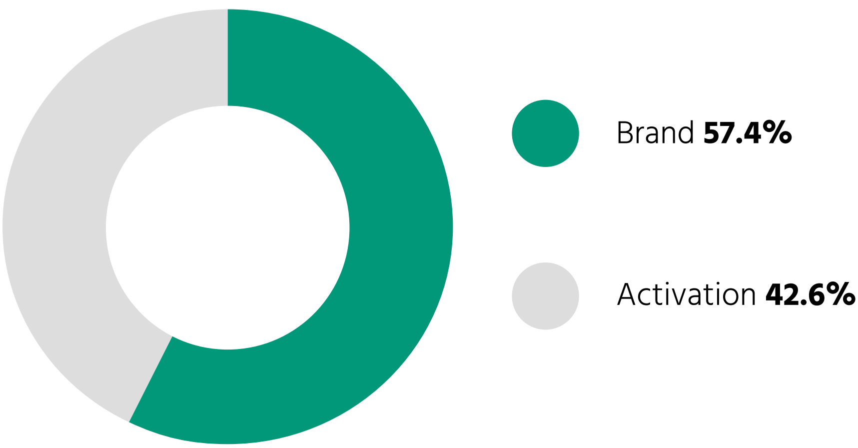
TV	623
Out-of-Home	425
Social Media	-500
Online Search	-3,513

Source: Ian Whittaker/Liberty Sky Advisors/AA/WARC

In terms of media gaining investment, the optimal advertising result would see money shifted to TV and Out-of-Home and money moving out of Online Search. At the end of the forecast period, activation advertising would be 42.6% of all UK advertising spending ex-Direct Mail and brand advertising would be close to 60%.

SPLIT OF BRAND & ACTIVATION ADVERTISING

Split activation vs brand advertising 2025E – optimal scenario



Source: Ian Whittaker/Liberty Sky Advisors/AA/WARC

SECTION 03

KEY TAKEOUTS

1. The Play for Profit forecast is the optimal scenario in which advertisers rethink their media investment to achieve enhanced outcomes by reducing the amount of unoptimised spend and by a balance of brand and activation activity.

2. As brands see the inefficiencies of Online Search, they will reallocate spend towards TV, Out-of-Home and Social Media.

3. By the end of 2025, the optimised Online Search share will be just over 18%.

ADVERTISER BENEFITS

There are several reasons why this strategy benefits advertisers.

Firstly, by optimising the spending of advertising, considerable shareholder value is created, and that's not even taking into account the potential benefits to top-line growth from better targeted advertising. On our optimal forecasts' scenario, we value the extra shareholder value created versus our base case forecasts to be in the range of close to £50bn. As before, we have used a discounted cash flow model, with a weighted average cost of capital (WACC) of 8% and a terminal growth rate of 2.5% (note in the optimal scenario, roughly half of the savings were re-invested, hence the difference from the figure given earlier.)

THE OPTIMISATION OF SHAREHOLDER VALUE

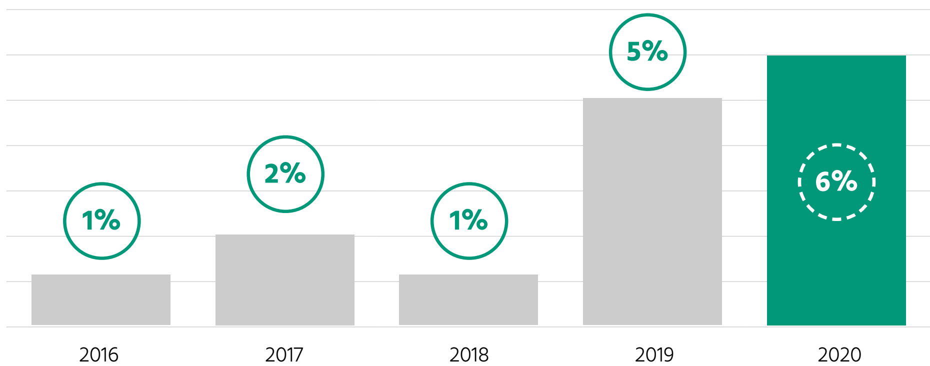
Discounted cashflow analysis of the shareholder value created by optimising UK advertising spending (£m)

	2021E	2022E	2023E	2024E	2025E
Savings	£463	£1,064	£1,776	£2,457	£3,045
Discount factor	100%	93%	86%	79%	74%
DCF	£463	£985	£1,523	£1,951	£2,239
Sum	£ 7,159				
Growth in perpetuity	2.5%				
Terminal cash flow	£3,121.61				
Terminal value	£41,718				
Enterprise Value	£48,877				

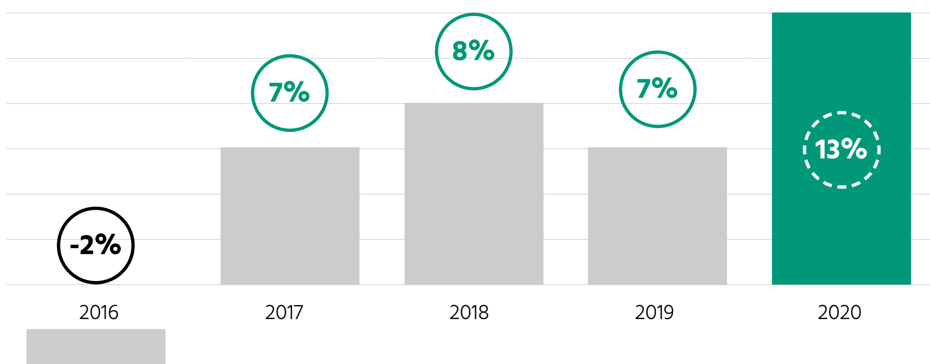
Source: Ian Whittaker/Liberty Sky Advisors/AA/WARC

Secondly, there is a reason why Procter and Gamble's CMO Marc Pritchard talked in 2019 about, "placing media where it is most effective and efficient", about reducing unoptimised spend and about reinvesting into, "better-performing media" including TV, Radio and Out-of-Home. As a result of this process, Procter and Gamble reduced non-optimised media spend by 20%, increased reach by 10% and saved $1bn in agency fees and production costs. The results of this can be seen in Procter and Gamble's financial results, with accelerating organic sales and earnings growth.

PROCTER AND GAMBLE ORGANIC REVENUE SALES GROWTH



PROCTER AND GAMBLE'S CORE EPS GROWTH



Source: *Procter and Gamble, June 2020*

Recently, Proctor and Gamble for the second consecutive quarter increased its full year organic sales forecasts, reflecting the positive impact of its advertising strategy.

Thirdly, reallocating media spending encourages cross-media optimisation, which can boost reach and effectiveness. A Lumen insight study found that combining digital Out-of-Home advertising with Facebook resulted in a very significant uplift in both brand recall and attention levels.

WORKING TOGETHER: **OUT-OF-HOME AND MOBILE**

AVERAGE DWELL TIME LOOKING AT AD		**SPONTANEOUS** BRAND RECALL	
VIEWED OOH ONLY	2 SECONDS	**VIEWED OOH ONLY**	7%
VIEWED MOBILE ONLY	2 SECONDS	**VIEWED MOBILE ONLY**	9%
VIEWED BOTH	5 SECONDS	**VIEWED BOTH**	21%
	+52%		**+133%**

Source: *Lumen for JCDecaux UK 2019*

Finally, it takes advantage of the growing reality that TV and digital Out-of-Home advertising in particular are increasingly offering their digital inventory through programmatic and automated offerings, providing optimised platforms for combined use of 'traditional' media and Digital Online in an optimal omni-channel mix.

KEY TAKEOUTS

1. Our optimal forecast shows extra shareholder value of £50bn can be created by optimising media spend and by reinvesting in better-performing media.

2. Reducing non-optimised spend by 20%, delivered sales growth of 6% and earnings per share growth of 13% for Procter and Gamble.

3. Studies from Lumen and Facebook show cross-media optimisation delivers results throughout the brand funnel. Programmatic and automated offerings will be a key driver.

SECTION 03

WHY WASTE A CRISIS?

Sir Winston Churchill is credited with first saying, "Never let a good crisis go to waste" and as history has shown, times of crisis can also be a catalyst for change and growth.

Will advertisers take a Pause and accelerate existing trends or will they press Play for Profit and an optimised future?

- A cost-led recovery provides momentum for change. Effectiveness and efficiency.
- Brand and activation will return to balance. TV and Out-of-Home will be beneficiaries with enhanced digital offerings.
- Social Media enhanced by TV and Out-of-Home will become the new omni-channel digital future.
- There will be a decline in Online Search as brands reassess its effectiveness. Savings will go to bottom-line profits but there will be reinvestment in brand-building media to optimise effectiveness.
- Multi-platform optimisation will become increasingly important. Silos will be siloed.

OUT-OF-HOME, SOCIAL MEDIA, TV - POSITIVE

RADIO, ONLINE DISPLAY AND ONLINE CLASSIFIED - NEUTRAL

CINEMA, DIRECT MAIL, ONLINE SEARCH, PRESS - NEGATIVE

PAUSE
PLAY
PROFIT

ABOUT
THE AUTHOR

IAN WHITTAKER

Current City AM Analyst of the Year and twice winner of the award, Ian Whittaker is the founder of Liberty Sky Advisors Ltd, a boutique high-end advisory and consultancy firm focused on providing high-level strategic advice.

As a City analyst for 20 years covering the media and internet sectors, Ian is recognised for his industry knowledge across all parts of media and with a proven track record of being ahead of the curve when it comes to understanding industry dynamics and what it means for companies, and makes frequent media appearances including on Bloomberg, Sky News, CNBC and BBC Radio 4, as well as speeches at major industry events and conferences. Ian is a member of the advisory board of Songtradr, a global music licensing business.

Thank you for reading.

If you have any questions or would like to talk to Ian Whittaker about this report, please contact UK.Pause-Or-Play@jcdecaux.com