

Advertising Strategy: Reversing Course

August 15, 2012

Downgrading Advertising Expectations for 2012 and Beyond

BOTTOM LINE: After a review of 2Q12 earnings and commentary from media buyers in recent weeks, we are revising expectations for ad-supported media downward. What seemed an improving environment in 1Q12 now appears to have been a "false dawn": 2Q12 turned out to be in line with trends observed during late 2011, growing by only 1.3%. With the US "fiscal cliff" unlikely to be resolved soon, and with economists downgrading their expectations for the economy at the same time, we're skeptical that 3Q12 will reverse course again. Our expectations for US advertising are further reduced for 2012 through 2017. For 2012 we now forecast 1.4% growth vs. 2.3% previously.

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Our key sector observations follow:

- National TV was weaker than our prior expectations. With negative growth in network TV, and diminished growth in cable, the total sector grew by only 2% in 2Q12. While management teams identified various reasons to explain declines, the fact that budgets didn't show up elsewhere indicates to us that the markets generally softened more in line with the trend we observed coming out of last year's fourth quarter. The flow through effect of related share-shift trends leads us to now estimate normalized (ex-Olympics) growth of 3.1% for 2012 vs. 4.8% previously.
- Local TV (including local broadcasting and cable) grew by nearly 9.8% vs. our expectations of +7.8%. Political is likely to have had stronger impact than originally forecast, especially on local broadcasting. Overall, our prior forecasts now appear too conservative, with industry contacts confirming the general nature of expectations implied by local broadcasters with respect to political advertising. We now expect local TV advertising to grow by 15% in 2012 vs. 2011, and up 8% vs. 2010. Total political revenues are now forecast for \$2.9 billion this year.
- National digital display and related media seemingly grew at a consistent pace in 2Q12 vs. 1Q12 at around 4% in each period. However, overall display advertising continues to decline by high single digit rates annually. This is partially offset by growth in mobile (which we believe to be nearly doubling year-over-year) and online video (growing in excess of 20% year over year in recent quarter). Our expectations for this grouping of media now call for +5.1% growth for 2012 vs. +6.8% previously.
- Direct online media including paid search held up well, decelerating but still likely growing by 20% year over year. We have only reduced our expectations for related media types modestly because of the aforementioned macro-economic issues. The impact of those changes means that our 5-year CAGR for pc-based paid search growth has only been reduced from +12.2% to +11.8%.
- Outdoor advertising and local radio were in-line with our expectations. Still, as with other media, we've reduced long-term forecasts because of macro-concerns.

Among companies we cover directly impacted by these trends, **Facebook will be least affected** (given that company's focus on grabbing market share inside of various digital media verticals) and **Google should fare well too** (because the company is well positioned as a dominant player in fast growing areas of media).

On the more explicitly negative side, **Yahoo** will be directly affected at an operating level because it is almost entirely exposed to the worsening national digital media sector. The company's valuation would not be meaningfully affected because so little of its value lies in core operations, and any negative assessment would not be enough to affect the stock we believe. With well over half of the company's revenues tied to US advertising, **CBS** is the most exposed to the macrotrends we have observed. However, the total change to the industry's CAGR is less than 1% each year, and this level weighted against the company's advertising revenue mix is insufficient to alter our price target at this time. Advertising agency holding companies may be affected on the margins, but we'll await full 2Q results from that universe of companies (WPP and Havas have yet to report) before re-assessing expectations for that field.

Pivotal Research US Advertising Forecast

) Brian@Pvtl.com (t) 212 514 4682 (m) 9	2010A	2011A	1Q12A	2Q12A	3Q12E	4Q12E	2012E	2013E	2014E	2015E	2016E	20
ATIONAL MASS MEDIA ADVERTISING R ational Television	EVENUES											
ational Cable ^(a)	\$20,369.0	\$22,000.1	5,506.5	5,997.3	5,611.9	6,161.3	23,277.0	24,473.1	25,724.6	27,146.5	28,649.6	30,55
innual Growth / Decline 6 of National TV	12.6% 56.1%	8.0% 57.0%	7.0% 54.3%	5.0% 59.7%	4.8% 62.8%	6.5% 56.0%	5.8% 58.0%	5.1% 59.2%	5.1% 60.3%	5.5% 61.5%	5.5% 62.6%	63
ational Broadcast - English ^{(a)(c)}	12,989.0	13,468.1	3,914.8	3,233.5	2,523.7	3,937.0	13,609.0	13,616.4	13,624.4	13,655.0	13,688.7	13,85
nnual Growth / Decline 6 of National TV	0.8% 35.8%	3.7% 34.9%	4.8% 38.6%	-4.0% 32.2%	-0.4% 28.2%	2.8% 35.8%	1.0%	0.1% 32.9%	0.1% 31.9%	0.2% 30.9%	0.2% 29.9%	1 28
ational Broadcast - Spanish ^(a) Innual Growth / Decline	1,093.4 8.3%	1,171.7 7.2%	245.0 13.0%	329.8 7.0%	279.9 6.5%	404.4 5.3%	1,259.0 7.5%	1,339.4 6.4%	1,446.2 8.0%	1,518.4 5.0%	1,618.8 6.6%	1,74
6 of National TV	3.0%	3.0%	2.4%	3.3%	3.1%	3.7%	3.1%	3.2%	3.4%	3.4%	3.5%	3
ational Syndication Innual Growth / Decline	1,867.6 5.2%	1,938.6	470.8 3.3%	488.4 3.0%	526.9 1.4%	500.4 2.3%	1,986.5 2.5%	1,944.5 -2.1%	1,899.9	1,855.3 -2.3%	1,807.7 -2.6%	1,77
6 of National TV	5.1%	5.0%	4.6%	4.9% \$10.049.0	5.9%	4.5% \$11.003.2	4.9%	4.7% \$41.373.4	4.4%	4.2% \$44,175,2	3.9%	\$47.93
otal National Television Innual Growth / Decline	\$36,318.9 7.6%	\$38,578.6 6.2%	\$10,137.1 6.1%	\$10,049.0 1.9%	\$8,942.3 3.1%	\$11,003.2 4.9%	\$40,131.5 4.0%	\$41,373.4 3.1%	\$42,695.0 3.2%	\$44,175.2 3.5%	\$45,764.8 3.6%	\$47,93
6 of National Advertising	60.5%	60.7%	64.0%	59.8%	61.6%	62.3%	61.9%	63.0%	63.6%	64.2%	64.8%	65
otal Magazines ^(a) Innual Growth / Decline	13,813.3 0.1%	13,760.2 -0.4%	2,979.2 -4.4%	3,828.0 -5.0%	2,963.6 -5.4%	3,293.8 -5.4%	13,064.6 -5.1%	12,249.0 -6.2%	11,682.2 -4.6%	11,114.5 -4.9%	10,529.4 -5.3%	10,01
6 of National Advertising	23.0%	21.7%	18.8%	22.8%	20.4%	18.7%	20.2%	18.7%	17.4%	16.2%	14.9%	13
ational Digital ational Digital Display ^(b)	5,460.1	5,923.1	1,289.6	1,372.8	1,107.5	1,605.6	5,375.4	5,034.0	5,013.2	5,069.9	5,161.7	5,34
nnual Growth / Decline	16.9%	8.5%	-10.9%	-10.3%	-9.7%	-6.6%	-9.2%	-6.4%	-0.4%	1.1%	1.8%	
6 of National Digital nline Video	76.6% 1,404.0	69.7% 1,809.0	61.3% 544.7	60.9% 582.5	56.5% 532.3	61.7% 598.0	60.2% 2.257.5	53.7% 2.603.9	49.7% 2.902.4	46.7% 3,177.8	44.2% 3,476.5	3,83
nnual Growth / Decline	38.1%	28.8%	28.2%	25.0%	24.7%	21.8%	24.8%	15.3%	11.5%	9.5%	9.4%	1
6 of National Digital obile Ex-Search	19.7% 260.4	21.3% 760.0	25.9% 270.0	25.9% 297.5	27.1% 321.7	23.0% 399.9	25.3% 1,289.2	27.8% 1,727.9	28.8% 2,161.5	29.3% 2.597.3	29.8% 3,027.1	3,47
innual Growth / Decline 6 of National Digital	30.2% 3.7%	191.8% 8.9%	80.0% 12.8%	75.0% 13.2%	67.6% 16.4%	61.3% 15.4%	69.6% 14.4%	34.0% 18.4%	25.1% 21.4%	20.2%	16.5% 25.9%	1 2
otal National Digital	\$7,124.5	\$8,492.1	\$2,104.3	\$2,252.8	\$1,961.5	\$2,603.5	\$8,922.0	\$9,365.8	\$10,077.2	\$10,845.0	\$11,665.3	\$12,66
nnual Growth / Decline 6 of National Advertising	21.0% 11.9%	19.2% 13.4%	4.1% 13.3%	4.0% 13.4%	6.3% 13.5%	5.9% 14.7%	5.1% 13.8%	5.0% 14.3%	7.6% 15.0%	7.6% 15.8%	7.6% 16.5%	1
otal Network and Satellite Radio	1,166.5	1,209.7	298.7	315.2	312.8	339.7	1,266.4	1,282.8	1,311.3	1,344.1	1,380.1	1,43
unnual Growth / Decline	4.2% 1.9%	3.7% 1.9%	8.0% 1.9%	5.0% 1.9%	4.0% 2.2%	2.3% 1.9%	4.7% 2.0%	1.3%	2.2%	2.5%	2.7%	.,
otal National Newspapers ^(a)	930.2	849.5	1.9%	1.9%	142.2	233.9	753.2	680.9	612.1	541.4	485.3	43
nnual Growth / Decline	1.3%	-8.7%	-11.6%	-12.0%	-11.9%	-10.2%	-11.3%	-9.6%	-10.1%	-11.5%	-10.4%	-1
6 of National Advertising otal Cinema	1.5% 658.3	1.3% 644.3	1.2%	1.1% 174.2	1.0%	1.3% 182.8	1.2% 673.4	1.0%	730.9	0.8% 766.3	0.7% 804.5	8
nnual Growth / Decline	12.7%	-2.1%	10.0%	5.0%	7.9%	-2.5%	4.5%	3.7%	4.6%	4.9%	5.0%	
6 of National Advertising OTAL NATIONAL	1.1% \$60,011.7	1.0% \$63,534.4	0.8% \$15,837.6	1.0%	1.3% \$14,507.0	1.0%	1.0% \$64,811.1	1.1% \$65,650.5	1.1% \$67,108.7	1.1% \$68,786.6	1.1% \$70,629.4	\$73,3
nnual Growth / Decline	7.0%	5.9%	3.5%	0.4%	1.6%	2.6%	2.0%	1.3%	2.2%	\$68,786.6 2.5%	2.7%	
6 of Mass Advertising	48.4%	50.2%	52.1%	51.2%	48.4%	51.8%	50.9%	51.4%	51.9%	52.4%	52.9%	
OCAL MASS MEDIA ADVERTISING REVE	NUES											
ocal Television ocal Broadcast TV ^{(a)(a)}	\$14.876.1	\$15,227.1	4.096.7	3.659.4	\$4,022.88	3.915.9	\$15,694.97	\$16.347.88	\$16.910.81	\$17,492.94	\$17,938.61	\$18.25
nnual Growth / Decline	8.0%	2.4%	4.5%	5.0%	3.7%	-0.6%	3.1%	4.2%	3.4%	3.4%	2.5%	,
6 of Local TV cal Cable TV ^{(a)(d)}	79.6% 3.813.3	79.6% 3.909.9	82.8% 849.0	76.8% 1,103.8	79.2% 1,054.3	79.3% 1,023.0	79.6% 4,030.1	79.6% 4,197.7	78.8% 4,544.5	78.3% 4,842.6	77.3% 5,262.2	5,50
nnual Growth / Decline	12.9% 20.4%	2.5% 20.4%	3.0% 17.2%	4.0% 23.2%	6.9%	-1.4% 20.7%	3.1%	4.2% 20.4%	8.3%	6.6%	8.7%	2,01
6 of Local TV otal Local Television	\$18,689.5	\$19,137.0	\$4,945.7	\$4,763.2	\$5,077.2	\$4,938.9	\$19,725.0	\$20,545.6	\$21,455.3	\$22,335.6	\$23,200.8	\$23,70
Innual Growth / Decline 6 of Local Advertising	8.9% 29.2%	2.4% 30.3%	4.2% 34.0%	4.8% 29.8%	4.3% 32.8%	-0.8% 30.1%	3.1% 31.6%	4.2% 33.1%	4.4% 34.5%	4.1% 35.8%	3.9% 36.9%	3
otal Local Newspapers ^(a)	21,865.1	19,842.3	4.173.9	4,574.3	4,292.9	5,196.6	18,237.7	16,619.9	15,254.6	13,921.6	12,754.5	11,40
nnual Growth / Decline 6 of Local Advertising	-8.5% 34.1%	-9.3% 31.5%	-8.0% 28.7%	-8.0% 28.6%	-7.9% 27.7%	-8.3% 31.7%	-8.1% 29.2%	-8.9% 26.8%	-8.2% 24.6%	-8.7% 22.3%	-8.4% 20.3%	-1
otal Local Radio ^(a)	14.181.0	14.060.0	3.047.0	3,722.0	3,648,4	3,626.0	14.043.5	13.943.5	13,970,7	14,035.9	14,125.7	14.0
nnual Growth / Decline	4.9% 22.1%	-0.9% 22.3%	-0.5% 21.0%	0.0% 23.3%	-0.5% 23.6%	0.4% 22.1%	-0.1%	-0.7%	0.2%	0.5%	0.6%	1-1,01
6 of Local Advertising	5.484.5	5.744.1	1.302.9	1.855.4	1,374,9	1,402.9	5.936.1	6,110.8	6.340.1	6,681.8	6,944,4	7,2
nnual Growth / Decline	4.1%	4.0%	4.0%	3.0%	3.6%	2.9%	3.3%	2.9%	3.8%	5.4%	3.9%	
6 of Local Advertising otal Local Digital ^(b)	8.6% 3,871.5	9.1% 4.294.5	9.0% 1.072.6	11.6% 1,084.8	8.9% 1,098.2	8.5% 1,245.4	9.5% 4,501.1	9.9% 4.779.0	10.2% 5.098.9	10.7% 5.434.8	11.1% 5,783.6	6,08
nnual Growth / Decline	12.0%	10.9%	2.4%	5.0%	5.5%	6.2%	4,501.1	6.2%	6.7%	6.6%	6.4%	6,00
6 of Local Advertising	6.0%	6.8%	7.4%	6.8%	7.1%	7.6%	7.2%	7.7%	8.2%	8.7%	9.2%	
DTAL LOCAL nnual Growth / Decline	\$64,091.5 1.2%	\$63,077.8 -1.6%	\$14,542.2 -0.7%	\$15,999.7 -0.5%	\$15,491.6 -0.5%	\$16,409.9 -2.3%	\$62,443.3 -1.0%	\$61,998.8 -0.7%	\$62,119.6 0.2%	\$62,409.6 0.5%	\$62,809.1 0.6%	\$62,6
6 of Mass Advertising	51.6%	49.8%	47.9%	48.8%	51.6%	48.2%	49.1%	48.6%	48.1%	47.6%	47.1%	4
DTAL NATIONAL AND LOCAL	\$124,103.2 3.9%	\$126,612.2 2.0%	\$30,379.7 1.4%	\$32,809.4 0.0%	\$29,998.57 0.5%	\$34,066.76 0.2%	\$127,254.46 0.5%	\$127,649.30 0.3%	\$129,228.35 1.2%	\$131,196.14 1.5%	\$133,438.49 1.7%	\$135,96
6 of Normalized Advertising	74.5%	73.8%	72.8%	73.7%	73.0%	73.2%	73.2%	72.2%	71.4%	70.7%	69.9%	•
RECT MEDIA ADVERTISING REVENUES												
rect Online aid Search - Ex-Mobile	\$11,661.0	\$14,768.0	\$4.307.8	\$4.650.6	\$3.982.2	\$4.822.1	\$17.762.6	\$20.613.3	\$23.346.9	\$26.017.2	\$28.560.2	
nnual Growth / Decline	9.0%	26.6%	24.0%	22.0%	19.3%	16.3%	20.3%	16.0%	13.3%	11.4%	9.8%	\$30,90
6 of Total Direct Advertising aid Search - Mobile	77.5% 338.5	77.9% 840.0	78.4% 300.0	79.0% 342.0	76.6% 381.3	77.0% 511.3	77.8% 1.534.6	77.3% 2.325.9	76.3% 3.281.1	75.0% 4.410.9	73.8% 5.698.4	7,1
nnual Growth / Decline	34.9%	148.1%	100.0%	90.0%	81.6%	70.4%	82.7%	51.6%	41.1%	34.4%	29.2%	2
6 of Total Direct Advertising ther Direct Online ^(e)	2.3% 3,045.5	4.4% 3,340.4	5.5% 886.1	5.8% 892.9	7.3% 832.2	8.2% 930.7	6.7% 3,541.8	8.7% 3,737.0	10.7% 3.982.0	12.7% 4,251.2	14.7% 4,455.5	4,7
nnual Growth / Decline	-1.5% 20.2%	9.7% 17.6%	5.0% 16.1%	5.0% 15.2%	5.0% 16.0%	9.0%	6.0% 15.5%	5.5% 14.0%	6.6% 13.0%	4,231.2 6.8% 12.3%	4,493.9 4.8% 11.5%	
6 of Total Direct Advertising otal Direct Online	20.2% \$15,045.0	\$18,948.4	\$5,493.8	\$5,885.5	\$5,195.6	\$6,264.0	15.5% \$22,839.0	\$26,676.3	\$30,610.0	\$34,679.4	\$38,714.0	\$42,8
nnual Growth / Decline 6 of Total Direct Advertising	9.1% 35.4%	25.9% 42.2%	23.0% 48.4%	21.5% 50.2%	19.7% 46.8%	18.2% 50.3%	20.5% 49.0%	16.8% 54.2%	14.7% 59.2%	13.3% 63.7%	11.6% 67.5%	1
otal Direct Mail	20,599.1	20,402.0	4,729.8	4,693.6	4,891.6	5,137.4	19,452.5	19,044.8	18,457.4	17,801.7	17,190.3	16,6
unnual Growth / Decline 6 of Total Direct Advertising	3.8% 48.5%	-1.0% 45.5%	-4.5% 41.7%	-4.0% 40.0%	-4.5% 44.1%	-5.6% 41.2%	-4.7% 41.7%	-2.1% 38.7%	-3.1% 35.7%	-3.6% 32.7%	-3.4% 30.0%	10,0
otal Directories ^(a)	6.852.2	45.5% 5.529.7	1.130.3	1,155.8	1,004.4	1,056.7	4.347.2	38.7%	2.621.2	1,943.5	1,475.3	1.10
nnual Growth / Decline	-23.5%	-19.3% 12.3%	-22.7%	-20.0% 9.8%	-22.5%	-20.3% 8.5%	-21.4% 9.3%	-20.0%	-24.7%	-25.9% 3.6%	-24.1% 2.6%	-2
6 of Total Direct Advertising	16.1% \$42,496.2	12.3% \$44.880.0	10.0% \$11,354.0	9.8% \$11,735.0	9.1% \$11.091.6	8.5% \$12.458.1	9.3% \$46,638.7	7.1% \$49,200.0	5.1% \$51.688.5	\$54.424.5	\$57.379.6	\$60,5
innual Growth / Decline	-0.8%	4.5%	4.3%	5.0%	3.1%	3.3%	3.9%	\$49,200.0 5.5%	\$51,688.5 5.1%	\$54,424.5 5.3%	\$57,379.6 5.4%	
6 of Normalized Advertising ORMALIZED DIRECT AND MASS	25.5%	26.2%	27.2%	26.3%	27.0%	26.8%	26.8%	27.8% \$176,849.3	28.6%	29.3%	30.1%	\$106.5
Innual Growth / Decline	\$166,599.5 2.8%	\$171,492.2 2.9%	\$41,733.7 2.2%	\$44,544.4 1.3%	\$41,090.2 1.2%	\$46,524.9 1.0%	\$173,893.1 1.4%	\$176,849.3 1.7%	\$180,916.8 2.3%	\$185,620.7 2.6%	\$190,818.1 2.8%	\$196,54
plitical ⁽¹⁾	\$2,220.0	\$561.1	\$282.0	\$307.1	\$726.5	\$1,564.9	\$2,880.5	\$645.3	\$3,312.5	\$742.1	\$3,809.4	\$8
i-Annual Growth / Decline ympics ^(g)	1.3% 605.0	-8.7% 0.0	10.0%	25.0% 0.0	30.0% 670.0	35.0% 0.0	29.7% 670.0	15.0%	15.0% 625.0	15.0%	15.0% 700.0	1
luadri-Annual Growth / Decline	0.0%	0.0%	0.0%	0.0%	370.0	0.0%	10.7%	0.0%	0.0%	0.0%	0.0%	
DTAL ADVERTISING REVENUES	\$169,424.5	\$172,053.4	\$42,015.7 2.7%	\$44,851.4	\$42,486.6	\$48,089.8	\$177,443.6	\$177,494.6	\$184,854.4	\$186,362.8	\$195,327.5	\$197,3
nnual Growth / Decline nurce: Pivotal Research Group, Cinema Ad Counci	4.3% I, IAB, Magna Globi	1.6% al, OAAA, RAB	2.7%	1.8%	4.2%	3.8%	3.1%	0.0%	4.1%	0.8%	4.8%	
	,,gra GIUU											
Excludes Internet-Based Advertising Revenues												
	splay Less Internet	Yellow Pages and	Local Digital									

Appendix: Important Disclosures

Analyst Certification

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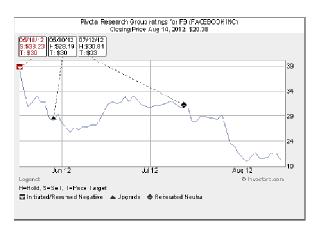
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Price Chart and Target Price History









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