CREDIT SUISSE

European Advertising Market

SECTOR REVIEW

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Marketing directors and media buyers survey

Gloomy survey results support continued Underweight stance on Media and our preference for "defensives". We conducted a survey of over 40 marketing directors and media buyers across Europe on the state of the advertising market. Unsurprisingly forecasts were universally pessimistic, particularly for traditional media. The pervasive themes were of slashed budgets, lower media prices, greater buying power, a greater need to focus on ROI. Only the Internet was a likely recipient of increased spend, both absolute and share. These conclusions are consistent with our Underweight stance on Media into 2009, particularly for domestic ad-funded single medium owners (ie FTA Broadcasters, Consumer Publishers), and our continued preference for the "defensives" - although nothing in Media is truly defensive. Our key Outperforms are Reed, Vivendi and WPP; our key Underperforms are Mediaset, JCDecaux and Wolters Kluwer.

Main implications of the survey:

1. **Internet continues to grow at the expense of TV, Print, Radio and Outdoor, even in the downturn.** Some investors argue these structural issues are widely recognised and priced in. We disagree: the overwhelming response pointed to almost an acceleration of this trend, and our profitability analysis shows Media operating margins in general have yet to feel the pain.
2. **Core/Terrestrial TV losing ad share to Digital/Multichannel TV.** A pervasive theme is the growing importance of digital TV, again which we know, but moreover a commonly echoed concern that incumbent broadcasters will have to cut programming budgets as digital channels expand, so "programming quality gets even worse", potentially creating a downward spiral of poorer quality programming, lower ad revenues and lower programming budgets. This problem was raised as particularly acute for TF1 in France – we downgrade our rating on TF1 from Outperform to Neutral in this note.
3. **Media buyers indicate 2009 European adspend down 9-10%; marketing directors down 10-20% (consensus c. -5%); 2010 forecasts also too high as pick-up in 2010 seen as unlikely.** For 2009 the survey suggested further downside to adspend forecasts, with media buyers indicating -9-10% and marketing directors even more pessimistic at -10-20%, with the greatest cuts in Spain and France. For 2010 there was no consensus at all on the shape of the year or on adspend expectations, although comments suggested risk on the downside. Moreover, because budgeting for 2010 will start during the depths of the recession, some noted 2010 budgets may remain weak, with recovery deferred at least until 2010 H2.
4. **Outdoor also suffering.** Somewhat surprisingly, given its better structural positioning, Outdoor adspend was seen as vulnerable. Accordingly we reiterate our Underpeform on JCDecaux, as we see better value amongst other structurally robust names.
5. **Eventual cyclical recovery should be played through Agencies, not Broadcasters.** The survey responses support our view that the cyclical bounces for FTA broadcasters and in particular Consumer Publishers will get progressively less in each successive upturn, confirming our thesis that the Agencies offer a better recovery play.

■ **DISCLOSURE APPENDIX CONTAINS ANALYST CERTIFICATIONS AND THE STATUS OF NON-US ANALYSTS. FOR OTHER IMPORTANT DISCLOSURES, visit www.credit-suisse.com/ researchdisclosures or call +1 (877) 291-2683.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Survey of Marketing Executives and Media Buyers

We maintain our Underweight stance on the Media sector and preference for "defensives"

We have just completed a survey of over 40 Marketing Directors and Media Buyers from across Europe on the current and future state of the advertising market. Overall the conclusions were consistent with our Underweight stance on the Media sector into 2009, particularly in relation to domestic ad-funded single medium companies (eg FTA Broadcasters) and our continued preference for the "defensives" in the sector - although we stress nothing in Media is really defensive. Our key Outperforms are Reed, Vivendi and WPP; our key Underpeforms are Mediaset, JCDecaux and Wolters Kluwer.

Overall the survey results support the concerns we identified in our 2009 Sector Outlook of 14th January, specifically:

1. The caution expressed by our strategy team on cyclical sectors such as Media given the likely depth and duration of the recession and Media's high exposure to *discretionary* spend. In our report we analysed the revenue stream of each media company and concluded c70% of sector revenues are corporate discretionary (ie one of the most exposed sectors), c20% are consumer discretionary spend (still vulnerable) and only c10% of revenues are arguably "necessary" spend.

The discretionary and vulnerable nature of adspend was all too evident in the responses we obtained. Although many marketing directors expressed a desire to spend, if only to take advantage of the lower media prices, they were unable to because of P&L pressure and constraints imposed by management and by shareholders.

2. We believe earnings forecasts are still too high - consensus is looking optimistically for 5.5% revenue growth and 7% earnings growth in the Media sector in 2009 (Credit Suisse 2.7% and -4.8%). Our HOLT analysis also implies the sector is still priced to grow with little fade in CFROI®: the market assumes the sector will maintain its *2007* CFROI® of 16.8% for five years with asset growth at 5.5% p.a.

The revenue cuts implied by the average expected decreases to 2009 and 2010 budgets from the respondents indicated the market is still being too optimistic in its forecasts.

3. Structural concerns persist - some investors believe these are now widely recognised and fully priced in. We disagree: our profitability analysis shows Media operating margins are at the same level or even higher than the 7-year average - for *all* sub-sectors. This suggests structural issues have not yet been fully reflected, particularly for Consumer Publishers and FTA Broadcasters.

Again, the responses we received confirmed these structural changes were at the forefront of the minds of both marketing directors and media buyers and that the downturn may even be accelerating the changes in a greater drive towards the higher ROI offered by the Internet.

Highlights from the survey

Media buyers indicate 2009 European adspend down 9-10%; marketing directors down 10-20% (consensus c. -5%)

In general, comments on the 2009 advertising market from both marketing directors and media buyers unsurprisingly revolved around sizeable budget cuts, lower media prices, greater buying power, a greater focus on ROI of advertising investment, more transparency, cost effectiveness, better targeting and better use of marketing spend, *and mostly increased Internet spend*.

Estimates on adspend changes varied widely, but the median forecast among media buyers was for a -9-10% fall in budgets, more pessimistic than consensus of around negative mid-single digit (and the much more optimistic forecasts from the likes of Zenith at -1% for Western Europe). Worryingly, most marketing directors we surveyed were more pessimistic and planned to cut their budgets by between -10% and 20% (excluding outliers) in 2009, with perhaps the greatest cuts by country occurring in Spain and France.

One of the few positives to emerge for traditional media owners in Europe was that some marketing directors were looking to increase share of voice, by between 5% and 20%, taking advantage of lower media prices. However, more than offsetting this was a number of marketing directors saying they would increase marketing spend to gain an advantage if they could, but were constrained as "it is not feasible in my company" or "I would love to but shareholders and stakeholders would not accept it".

Specifically, Outdoor advertising does not appear to be as resilient as one might have expected given its superior structural positioning: media buyers on average predicted -8% change in adspend mix. Interesting, Outdoor was ranked low in terms of value added in the media mix by marketing directors.

Lots of concern was expressed about Core/Terrestrial TV in France losing audiences resulting in a reallocation of budget towards DTT channels. This is an increasing negative for TF1 and one of the reasons why we are downgrading our rating on TF1 in this note from Outperform to Neutral.

The 2010 advertising market – no consensus, no visibility, pick-up may not happen

There was no consensus at all in the survey results on the size or shape of 2010, with mixed expectations among marketing directors and media buyers. Estimates ranged from some growth (the most optimistic being +5% and +10%), helped by the low basis of 2009; to flat; to -5%; and to as low as -10%. Most answers were heavily caveated and were understandably subject to economic developments.

Judging by the wide range of outcomes, no-one really knows how 2010 might turn out. Interestingly, some commented that, because budgeting for 2010 will start during the depths of the recession, 2010 budgets would remain low, with any possible recovery deferred at least until later on during the year.

Timing of the bottom of the downturn

Again, we saw no consensus at all from the survey, with predictions by both marketing directors and media buyers of a pick-up occurring anytime between Q3 2009 and 2012! This really illustrates how poor visibility is. The most common turning point suggested by media buyers was Q4 2009; marketing directors were slightly gloomier with a greater bias towards an expected pick-up mid 2010

Many agreed that the US market would bottom out earlier. This is consistent with our thesis that the more preferable cyclical recovery plays in Europe are those with US exposure ie the global Agencies, rather than the domestic Euro GDP dependent (and therefore later cycle) national media owners.

Changes in media mix

Regarding changes planned in 2009 for the media mix, results were mixed, but most marketing directors were indeed planning a change and there was a general discernible trend to switch from TV (both Terrestrial and Multichannel, by between 10-30%), Print and Radio into the Internet (up by 10-30%).

Among marketing directors over half of the participants thought Core/Terrestrial TV offered the most value, surprisingly in our view, followed less surprisingly by the Internet. Multichannel/Digital TV was a popular second choice. Cinema and Directories were cited as offering the least value. Outdoor was surprisingly ranked towards the lower value-added end of the scale. The overall implication is that Core TV is still valued by marketing directors and media buyers, so clearly is not a “broken” business model yet, but Multichannel TV also appears to offer good value, and the Internet is growing inexorably as the value for money choice.

Key implications emerging from our survey

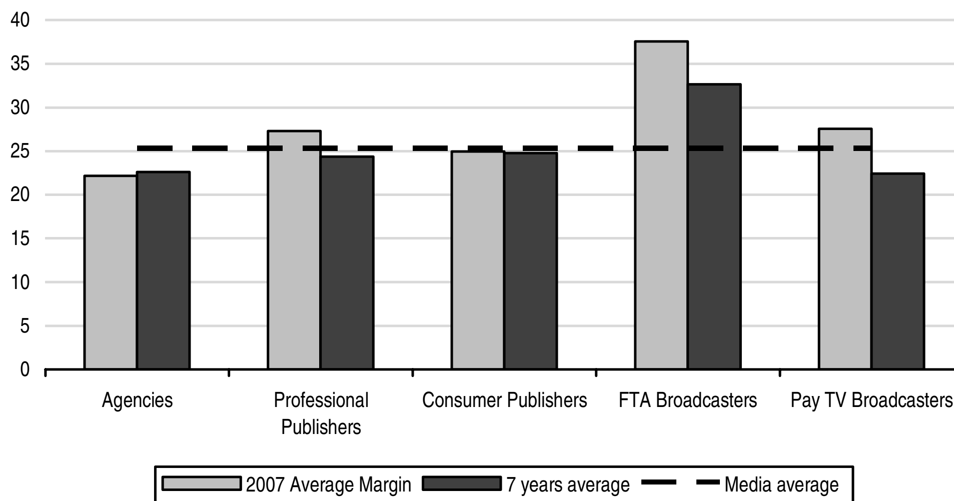
1. Internet continues to grow at the expense of TV, Print, Radio and Outdoor, even in the downturn

Respondents were almost unanimous that Internet usage (and correspondingly advertising revenue, given our view that “Money follows eyeballs”) is displacing traditional media

usage. The importance of the superior ROI generated by Internet advertising was highlighted by the majority of marketing directors and media buyers.

This confirms our view that the digital transition will continue to hurt traditional media companies. Some investors optimistically argue that these structural issues are now widely recognised and priced in. We disagree: our simplistic profitability analysis, as illustrated in the chart below, shows operating margins are at the same level or even higher than the 7-year average - for *all* sub-sectors. This suggests structural issues have not yet been fully reflected, particularly for Consumer Publishers and FTA Broadcasters whose current margins are higher than historical average. Arguably margins should now be below trough margins, and at the very least below the historic average.

Figure 1: **HOLT adjusted operating margins by sub-sector**



Source: Credit Suisse HOLT, Credit Suisse research

(NB For consistency, we have used HOLT adjusted operating margin for all companies and taken a 7-year average as a benchmark because data for many companies is not available beforehand. Although HOLT does not provide 2008 margin estimates, the adjusted EBIT margin for 2008e on our numbers shows an average of 19% for the sector, 14% for the Agencies, 19% for the Professional Publishers, 22% for the Consumer Publishers, 20% for the FTA Broadcasters and 19% for the Pay-TV Broadcasters. Despite these 2008e margins being somewhat depressed by cyclical pressure, this analysis again suggests that the Consumer Publishers and the FTA Broadcasters are trading at margins unsustainably ahead of the sector average despite their greater structural risks.)

Moreover, we would highlight that the European media sector does not offer investors significant online exposure to hedge their investments. In contrast, investors in US media can invest in the likes of Google and Yahoo! and have access to a greater online exposure through the traditional media companies (e.g. News Corp's MySpace; Viacom and Neopets; and NBC and iVillage).

2. Core/Terrestrial TV losing ad share to Digital/Multichannel TV

Unsurprisingly many marketing directors and media buyers highlighted the continued shift away in adspend mix from Core/Terrestrial TV into Digital/Multichannel TV (and of course the Internet). This theme is widely known and accepted by the market. However, there were several references to the problem getting more acute.

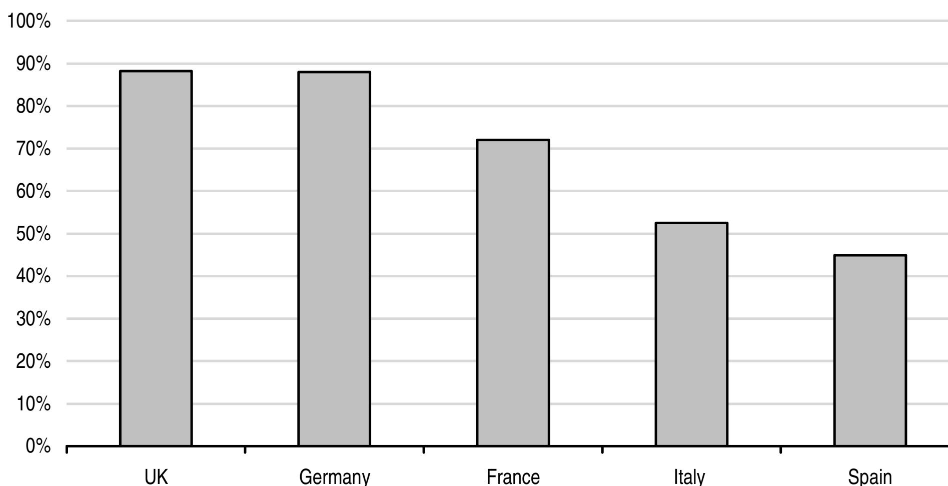
For example, more than one media buyer expects the larger broadcasters to have to cut programming budgets as DTT channels capture an increasing share of their revenue,

meaning "programming quality gets even worse". Worryingly this could create a downward spiral for FTA Broadcasters of lower quality programming leading to lower ad revenues leading to lower programming budgets. This problem was raised as being particularly acute in France. In a similar vein, one media buyer said "2010 will be the beginning not the bottom of the downturn" (interpreting the downturn in the structural rather than economic sense), and that "Europe will change dramatically when DTT takes over conventional TV".

An overriding theme emerging from these surveys is therefore that FTA broadcasters - or certainly those with insufficient digital channel exposure – will suffer disproportionately, both in the current downturn and thereafter. The survey was littered with comments that the adspend shift to digital channels is ongoing and is not over yet, and specifically in France that the cessation of advertising on France Television is just accelerating this trend.

We show in Figure 2 the extent of multichannel penetration in various markets. Among the European countries, the UK and Germany are the most advanced, with c. 88% of homes now able to receive multichannel TV. This means that structurally, ITV and Pro7 should encounter less future audience fragmentation than their European peers in France, Italy and Spain, which have yet to near completion of the digital transition. However, some of the survey comments highlight that, even as digital penetration nears 100%, there is still the risk that digital channels enjoy increasingly more hours of viewing, generating more ad revenue, enabling greater programming investment, thus accentuating the continued pressure on the Core/Terrestrial incumbents.

Figure 2: European TV markets multichannel penetration in 2008



Source: TVi, Ofcom, Credit Suisse estimates (2008)

3. Media buyers indicate 2009 European adspend down 9-10%; marketing directors down 10-20% (consensus c. -5%); 2010 forecasts also too high as pick-up in 2010 seen as unlikely

2009

Estimates by both marketing directors and media buyers on changes in adspend varied widely, but the median forecast among media buyers was for a -9-10% fall in budgets in European advertising, while marketing directors indicated a -10-20% drop. This is much more pessimistic than consensus of around negative mid-single digit (and the much more optimistic forecasts from the likes of Zenith at -1% for Western Europe, although we expect an official downwards revision from Zenith soon).

2010

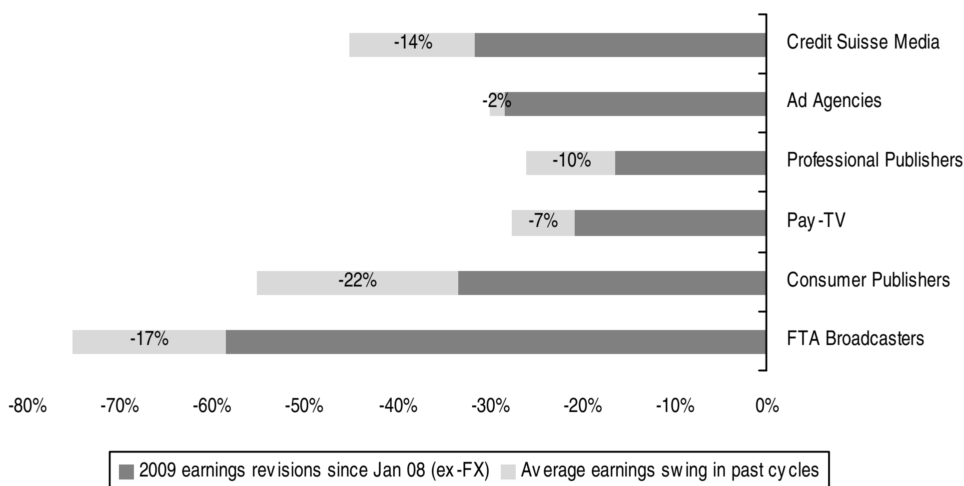
As noted above, there was no consensus at all in the survey results on the size or shape of 2010, with mixed expectations among marketing directors and media buyers. Estimates

ranged from some growth (the most optimistic being +5% and +10%), helped by the low basis of 2009; to flat; to -5%; and to as low as -10%. Most answers were heavily caveated and were understandably subject to economic developments. The average expectation was for a 0-5% decline in adspend, although this was quite difficult to discern from the wide range of possible outcomes. Basically, no-one really knows how 2010 might turn out. Interestingly, some commented that, because budgeting for 2010 will start during the depths of the recession, 2010 budgets would remain low, with any possible recovery deferred at least until later on during the year.

In previous notes we have highlighted the earnings downside risk in Media, especially for the FTA Broadcasters given (i) their high single digit/low double digit revenue declines experienced in Q4 2008 versus the too optimistic FY09 mid-single digit decline expectations; (ii) the difficult H109 comps; and (iii) the possible overlooked risk to 2010 growth projections which tend to reflect a cyclical bounce which is by no means certain. The over-optimism for H1 2009 is already becoming apparent – notably ITV's 15-20% fall in TV ad revenue in Q1 2009 and TF1's revised guidance for FY 2009 of -9% (and previously published Yacast data which indicated TF1's gross ad receipts down -16% in January). However, in our view the risk to 2010 forecasts has not yet been fully recognized or factored in to estimates.

Putting our observations from the past cycles into the context of the current economic environment, we set out below the consensus earnings revisions since the beginning of 2008 against actual earnings swings observed through past cycles to illustrate the downside risk to earnings for each sub-sector. Agencies and Professional Publishers look particularly favourable on this screen with only 2% and 10% downside risks to earnings respectively. Despite the recent downgrades, the earnings expectations for the ad-funded national media owners - the FTA Broadcasters and the Consumer Publishers - still look vulnerable.

Figure 3: Earnings downside risk by sub-sectors under Credit Suisse coverage



Source: IBES, © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse estimates of actual earnings swings through the past cyle.

The chart above assumes the current downturn is similar in depth and duration to the last two. Clearly there is downside risk to this assumption.

4.Outdoor also suffering

Somewhat surprisingly, given its superior structural positioning in the digital age, Outdoor advertising was perceived to be vulnerable in terms of absolute and relative spend. As a consequence we reiterate our Underperform on JCDecaux. Although we like its business and its structural positioning, we see better value amongst other structurally robust names.

JCDecaux currently trades on a 2009E P/E of 13.5x, an 88% premium to WPP, a 57% premium to Publicis, and a 30% premium to the relatively defensive Reed Elsevier. This seems difficult to justify on 2009 forecasts that may yet see further downside pressure. We continue to believe JCDecaux displays too high a premium valuation given its ad-funded nature (and 30% of JCDecaux's ad revenues come from the auto, retail and finance sectors) and high operational leverage.

5.Eventual cyclical recovery to be played through Agencies, not Broadcasters

The light at the end of a long tunnel for the Media sector is an eventual cyclical recovery. At some stage the market will anticipate the upturn, the Media sector will bounce and investors will switch from the defensives to the cyclicals in the sector. In our view, the huge compression in ratings and in earnings in the downturn will reverse, with sub-sectors such as the Agencies capable of bouncing up to 100% over a 12-month period based on evidence in the last two cycles. In terms of timing, our analysis of the last 20 years suggests most media sub-sectors produce share price gains 0-3 months before their relevant GDP inflection, with the exception of Consumer Publishers and Pay-TV broadcasters whose share price gains typically come after GDP recovery. We summarise our analysis in Figure 4.

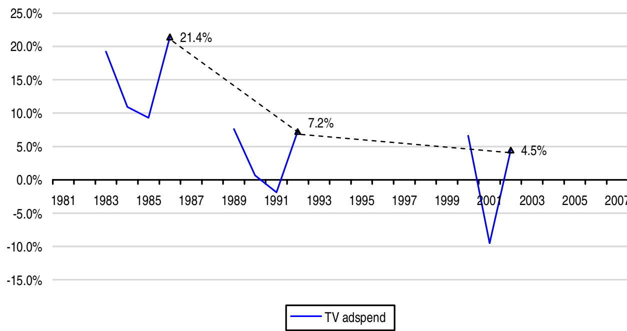
Figure 4: Sub-sector typical absolute share price performance vs relevant GDP over last 20 years

Sub-sector	Timing of typical share price rally	Share price bounce during subsequent 12 months, as per last two downturns
Ad Agencies	Rallies 0–3 months ahead of US/European GDP starting to improve	+102% and +80%
FTA Broadcasters	Rallies 3 months ahead of domestic GDP starting to improve	+76% and +38%
Pay-TV Broadcasters	Modest absolute impact from GDP inflection but relative outperformance comes after European GDP starts to improve	Absolute appears disconnected to GDP Relative +24% and +37%
Professional Publishers	Absolute share price rallies 0–3 months before US GDP begins to improve but sector RELATIVE performance is strongly counter-cyclical with 18–24 months' outperformance throughout downturn	Absolute +26% and +53% Relative +20% and +72%
Consumer Publishers	Rallies 0–3 months after domestic GDP starts to improve	+63% and +1%

Source: © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse research

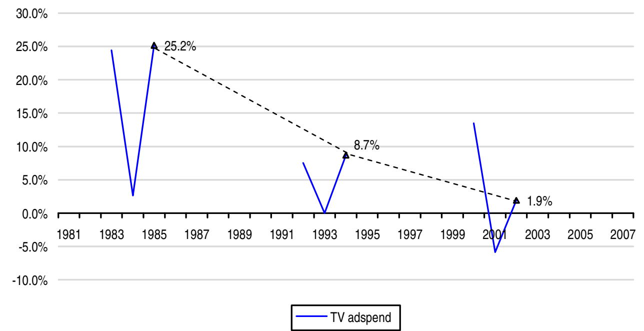
Interestingly, the bounces for FTA broadcasters and in particular Consumer Publishers were progressively less in the 2002/3 upturn compared to 1992/3 upturn. So, our view, as supported by the feedback in the survey, suggests that the positive impact of this cycle's recovery may be more muted in certain sub-sectors, in particular the ad-funded, single-medium traditional media companies due to the pervasive structural concerns. In fact, we believe the long-term structural challenges have already dampened the cyclical recovery for the FTA broadcasters in recent downturns as shown in Figure 5 & Figure 6.

Figure 5: yoy % changes in UK TV adspend in last 3 downturns



Source: ZenithOptimedia, Credit Suisse research

Figure 6: yoy % changes in France TV adspend in last 3 downturns



Source: ZenithOptimedia, Credit Suisse research

Therefore we remain negative on traditional media sub-sectors, at least until 2009 and 2010 earnings expectations are more realistic and/or we are closer in timing to their relevant domestic GDP trough - and at least beyond the difficult 2009H1 comps. Particularly vulnerable stocks, in our view, are Mediaset, the Spanish broadcasters and ITV, as is global outdoor advertiser JCDecaux. We believe a combination of negative trading newsflow, anecdotal evidence on the deteriorating ad market, lower company guidance and accompanying earnings downgrades will be the negative catalysts to instigate Media's underperformance.

Our sector timing analysis also suggests the next sub-sector to rally should be the Agencies, given they are also exposed to the earlier cycle US GDP (albeit diluted by their later cycle European GDP exposure). The view that the US market should be the first to recover was echoed in the survey results.

Indeed, we believe the Agencies will be the default cyclical plays in Media, as opposed to the more sensitive broadcasters in previous cycles, owing to their greater size and liquidity, their recent excessive de-rating (to 20% below 15 year trough valuation multiples), their 80-100% bounces in previous upturns and their relatively superior structural resilience as media agnostic companies. We maintain that Agencies are not as cyclically sensitive or operationally leveraged as some investors would argue. However they have been de-rated during this downturn as if very cyclical – conversely we would expect this treatment to reverse in the recovery.

Survey results

Below we summarise the main findings of our survey, together with relevant quotes, categorised by question.

Medium offering most value for money?

Among marketing directors over half of the participants thought Core/Terrestrial TV offered the most value, surprisingly in our view, followed less surprisingly by the Internet. Multichannel/digital TV was a popular second choice. Cinema and Directories were cited as offering the least value. Feedback was mixed for Magazines, Newspapers and Radio, albeit weighted towards lower value-added. Outdoor was surprisingly ranked towards the lower value-added end of the scale.

Among the media buyers under half (42% of respondents) thought Core/Terrestrial TV offered the most value, followed closely – almost the same ranking (38%) – by the Internet, indicating that media buyers were more favourably disposed to the Internet than Marketing Directors. Least value offered was Cinema (42%), Newspapers (21%) and Directories (17%).

The implications are that TV is still valued by marketing directors and media buyers, so clearly is not a "broken" business model, but Multichannel in particular appears to offer high value, and the Internet is growing inexorably as the value for money choice.

Changes in media mix?

Regarding changes planned in 2009 for the media mix, results were mixed, but most marketing directors were indeed planning a change and there was a general discernible trend to switch from TV (both Terrestrial and Multichannel, by between 10-30%), Print and Radio into the Internet (up by 10-30%).

Comments included:

- "more focus on new media - interaction with final users."
- "The shift toward Internet is driven by the new mix of opportunities available to target specific groups of consumers in a measurable way. Success is not based on GRP or print circulation, but on ROI."
- "Looking for much more transparency and return on investment. The internet as a medium is evolving and provides more flexibility than other platforms."
- "It's about better targeting and better use of our marketing spend. Ensuring we connect with consumers and shoppers through the right channel at the right time with the right message."
- "Budget restrictions due to the crisis combined with the media saturation level of the country and the decreasing ROI imply a spending reduction and a spend mix shift towards more reliable media."
- "We will move more money to online - both display and paid search. We will spend less money in print and auxiliary mediums such as radio and digital TV."
- "Internet - +20% (paid search but also significant uplift in natural search engine optimisation programmes)."
- "Lower CPA in digital marketing, reduced focus on brand building activity."
- "Increase usage of most efficient channels"; "cost effective and impact"; "cost optimisation, budget cuts."
- "Considering the macro economic situation and consumer electronic market trends general savings have to be made. First impacted budget is media expenditure."

Here the implications are that TV, despite still being valued by marketing directors (see above), is losing share to the Internet, as is Print and Radio. There is a big focus on the ROI of marketing spend and how the Internet is best-placed to deliver it.

Among the media buyers population, again the Internet was seen as the biggest beneficiary of changes in marketing mix, with a mean +20% forecast. The losers were Print (-11%), Radio (-9%) and Outdoor (-8%). Interestingly, unlike marketing directors, the media buyers were not so bearish about Core/Terrestrial TV, expecting no material change, and even predicted a modest increase in Multichannel/Digital's share of adspend.

Specific comments from media buyers:

- "Again, a big focus on ROI and correspondingly the Internet as an increasingly effective medium"
- "More focus in online"
- "Digital is now gaining critical mass in a lot of markets, and this, coupled with the transparency of the medium, means we will be focusing more and more on digital."
- "Certain TV budget thresholds won't be met which means budgets will be transferred to Print and Online. Online will take a more important role across the board though as the focus will shift more to ROI."
- "Economic recession causes decrease in advertising expenditure, forcing us to allocate our resources in different and more effective media.
- "Different discounts, clients want to get better ROI and user profiles."
- "More tactical advertising may mean press becomes more relevant. Online outside search will also play a bigger part, taking budget from traditional channels."
- "Digital is more accountable and is proving itself as a branding medium. However, the rest of the media mix is important and a challenge this year is to make that mix as efficient as possible."
- "Internet is increasing penetration and, most of all, time spent on medium."
- "My major clients regardless of the sector are completely focused on ROI. In this context the Internet is the performance focused media."
- "Newspapers in the UK are experiencing adspend decline, will continue; deflation in the TV market means you can spend less for the same impact; online will continue to flourish."
- "There will be more money investing in digital media."
- "We are shifting to core focus targeting and so, for clients with more upmarket targeting we shift to digital TV and online. This is a general trend even for branded consumer goods."

And, regarding TV, the survey revealed mixed messages but a general theme emerging that DTT/Multichannel TV is growing in importance, especially in France:

- "The audience of DTT channels increase in France and the terrestrial channels lose audience. There is a transfer of investments between these two possibilities to communicate on TV2"
- "The increase of DTT & cable satellite channel audience will continue until the 2010 summer"
- "Digital TV and web will increase share of most media mixes"
- "Digital TV (Sat. and DTT) are gaining share and increasing offer"
- "Increasing the TV share to exploit its short term capability to deliver sales"
- "TV down"
- "The TV has changed the ad rules on TF1, France Television so the budget TV will change for more internet"
- "Our estimation is a strong concentration on TV and internet and big budget cuttings due to the economic situation"
- "Reduction on media other than TV and internet"
- "TV will be the biggest drop with advertisers cutting back to focus on core targets, using lower capital cost media like online and press."

The 2009 ad market?

Among marketing directors, 2009 was characterised by comments such as: "suffering", "more competitive", "high desire for return on investment", "big ad spending reduction and

lower media costs", "a lot of opportunities", "airtime, print, internet ads will be much cheaper".

Among media buyers, 2009 was characterised by comments such as: "crisis"; "1H will be awful. 2H hopefully better"; "very very difficult"; "supply is fixed, demand will fall, costs will cheapen"; "good opportunity to improve discounts with the TV networks"; "reduced expenditure, bigger discounts, shorter commitments, more tactical, less branding"; "a dark year"; "soft, with value of -15% in media cost".

Change in 2009 adspend budget?

Excluding outliers, most marketing directors planned to cut their budgets by between -10% and 20% in 2009, with perhaps the greatest cuts by country occurring in Spain and France. Regarding the possibility of cutting marketing spend in the downturn, anecdotally comments included:

- "Yes cutting - all activities"
- "Yes, especially in higher cost of acquisition advertising channels like TV"
- "Yes, cuts will happen in cinema, magazines, TV, partial in radio"
- "Yes. It's more about demanding transparency as to what's working. Less brand driven activity in favour of tactical. I'd move spend below the line so TV, radio would suffer the most."
- "Yes, TV"
- "Yes, especially TV in non strategic brands. More promotional advertising and less image driven campaigns"

And continuing with the ROI theme….

- "Only in areas that do not demonstrate a tangible ROI."
- "Yes. In areas that I cannot measure return on investment."

In partial mitigation, some more encouraging comments included:

- No - continued requirement to achieve business volumes
- NO! because now is more crucial then ever to be seen and be heard!

Media buyers forecast an average 9-10% cut in budgets, not quite as as gloomy as the marketing directors. By far the most common response was a round -10% cut overall. Comments included:

- Regarding TV: between -10% and -30%; Digital TV +20%; "TV slots campaigns -30%";
- Regarding Print: "Magazines up to -10%"; "Print. -10%"; "-5%: Print ads (magazine & newspaper)"; "I expect that we will be using much less of this media and shift its budgets into Online and more specific magazines. The ROI of this medium is declining so it will suffer in 2009."
- Regarding Internet "-8%"; "Online 10% increase"; "Internet: +20%"; "+ 10% (at least), more Search marketing & e-CRM programs"; "digital since it gains lots of SOA I'll say easily +5 to 8%"; "Digital Spend (internet) will increase by 15%, meanwhile the rest will decrease"; "Internet will continue to grow as per its effectiveness".

Expected cost inflation/deflation by media?

Typically, among the marketing director community, a 5-20% cut in prices is expected in Core/Terrestrial TV, less severe if any cuts in Digital/Multichannel TV, double-digit cuts in Print. The Internet saw a mixed response on pricing, with some expecting 5-10% inflation and some 5-10% deflation, with the median suggesting a 5% increase.

This message of overall cost deflation was echoed by the media buyers, although the average cut expected in TV, both Core and Multichannel, was typically around 5%, slightly

less negative than the marketing directors, the median suggesting a 5% increase for Internet and the most vulnerable again was Print with an average -10% cut expected.

Expected increase in share of voice?

One of the few positives to emerge for European media owners was that some marketing directors were looking to increase share of voice by between 5% and 20%, taking advantage of the lower media prices. Unfortunately this positive was offset by a few who were looking to take advantage of lower rates and to cut share of voice by 10%.

However, when specifically asked: due to economic conditions, would you increase marketing spend to gain an advantage, responses included: “the budget doesn't allow it”, “no increase”, “only with measurable campaigns with clear ROI, like the Internet”, “I would but not feasible in my company”, “yes, especially in key markets and strategic brands”, “yes - we are boosting ad budgets by 10% to gain disproportionate benefit from media owners”, “no, however would redeploy marketing spend from advertising to instore related activity, displays, promotions”, “no, unless I have innovative products available”, “would love to, but shareholders/stakeholders will not accept!”

Expected timing of the bottom of the downturn?

The survey revealed no consensus at all with predictions by marketing directors, whose forecasts spanned a wide range of time periods. Estimates included Q2 2009 (US only), H1 2009, Q4 2009, Q1 2010, Q2 2010 (for EMEA, earlier in North America), H2 2010, end of 2010, and even 2011! Many suggested the US market would bottom out earlier.

There was no consensus either among media buyers, with a pick-up expected anywhere between Q3 2009 to 2012! The most common period mentioned was Q4 2009.

Expectations for 2010 marketing budget?

Again, no consensus, and mixed expectations among marketing directors. Overall we saw a greater bias towards an expected pick-up mid 2010, but this seemed to be quite caveated and underpinned by hope of economic recovery. Responses ranged from the more positive:

- “Probably coming back to 2008 level”;
- “+15% on 2008 amount”;
- “I feel it will increase. In line with revenue expectations. I also feel we will decide then to gain share and battle harder. 2009 is the year to battle down and preserve.”
- “Hopefully increase...!”
- “Should increase by +20% because of a very low 2009 level and expected economic better shape in 2010”
- “+6-10% growth, in order to take advantage of the economic recovery, especially in brands that suffered in 09”
- “With the current brand plan, the advertising budget for 2010 would increase. However, this depends on what is achieved in 2009 and the economic situation as we start firming up 2010 plans.”

Or no real change expected:

- “Stay flat with 09”
- “Carry over 2009”
- “I expect it to remain similar to 2009 levels because business requirements will be similar”
- “Constant, although increasing to allow for inflation and revenue forecasts. Shift in spend from DRTV/Print to online almost inevitable.”
- In 2009 probably a small decrease, Back on track in 2010.

To the more negative….:

- "Will be lower for sure, because even though I'm optimistic EBITA of brand will decrease due to the decrease of revenues."

Among media buyers, again there was no consensus, and mixed expectations on the shape of 2010. Estimates ranged from some growth (the most optimistic being +10% and +5%) particularly with references to how this would be helped by the low basis of 2009, to flat, to -5%, and as low as -10%. Most answers were heavily caveated based on possible economic developments.

Judging by the wide range of outcomes, no-one really knows how 2010 might turn out.

Other issues going forward for the marketing budget?

Several of the marketing directors highlighted issues which needed to be addressed going forward concerning how their budget allocation might change. In addition to the obvious focus on the Internet and on-line as an alternative to traditional media, subjects raised included greater use of measurement tools (surveys, tests) for media spending; greater use of direct marketing, social media, and CRM as an alternative to classic "above the line" media; mobile marketing; programming sponsorship.

Slightly worryingly for the Agencies, one executive questioned whether production costs with the above the line agencies could be reduced and noted that several user-generated (UGC) advertising models are rapidly emerging as innovative high-quality alternatives, eg bootb.com, zooppa.com and brickfish.com. However, while UGC models will no doubt continue to be experimented with, we doubt big advertisers will embrace them – a more plausible means of cutting production costs in a downturn in our view is to run fewer adverts (say 3 spots instead of 5) or to cut out expensive luxuries like celebrity voiceovers. Also relevant to the Agencies was that half the Media Buyers respondents were "a little worried" about credit worthiness of their clients. Also a third expected pressure from all their clients in 2009 to renegotiate agency fees, and a third expected pressure from "a few clients".

PVRs were not really seen as a major concern among either group.

Europe / France
Radio & TV Broadcasting (Media) / UNDERWEIGHT

TF1 (TFFP.PA)

Rating	(from Outperform) **NEUTRAL***
Price (24 Feb 09, Eu)	6.18
Target Price (Eu)	(from 15.20) 6.80[1]
Market cap. (Eu m)	1,318.87
Enterprise value (Eu m)	1,338.8

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.

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Structural headwinds strong and ongoing

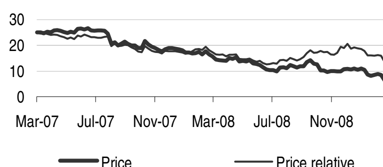
TF1 has modestly outperformed its peers on deregulation. Since mid September 2007, TF1 stock has modestly outperformed its FTA peers, thanks largely to the deregulation benefits that have come through, most notably the proposal to institute more of a BBC-style state channel set up. While we believe deregulation benefits are not yet fully reflected, we have grown yet more cautious as ad downturn compounds structural headwinds, and we feel we cannot justify placing any of the FTA broadcasters on an “Outperform” rating.

The structural headwinds facing TF1 are strong and ongoing. TF1’s results presentation this month included guidance for revenues down -9% for 2009. Management commented that if the whole of 2009 is as bad as the start of the year "we might as well lock the door and turn the lights off", and showed figures demonstrating that since 5th January, the prime time DTT audience has risen 60% yoy to 3.2m, and admitted that DTT competition “has drained advertising”.

Our survey results point to a bleak TV outlook. One media buyer commented, "2010 will be the beginning not the bottom of the downturn", interpreting the downturn in the structural sense, "Europe will change dramatically when DTT takes over conventional TV". Another is expecting big broadcasters to have to cut programming budgets as DTT channels expand, which could lead to a vicious cycle of audience contraction. Many expressed the view that the adspend shift to digital channels certainly isn't over yet.

We are downgrading our 2009E TF1 channel revenue growth from -1.6% to -10.1%. Yacast has published data indicating that TF1’s gross ad receipts dropped 16% yoy between the 5th and 25th of January; we assume that TF1’s ad revenues will improve slightly through the year as the comp base gets easier. We cut our 2009E EBIT forecast from €190m to €94m (cons. €132m) and 2010E EBIT from €193m to €42m (cons. €73m). We have adjusted our target price to €6.8. Stripping out TF1’s Canal+ stake at the PV of the floor put option valuation, this implies a 12.2x P/E on our 09 EPS estimates (or a full 30x P/E in 2010E when the World Cup costs weigh in), an 18% premium to the FTA peer group. We continue to believe that some premium is warranted given the potential upside from deregulation that is not factored into our forecasts, and the scope for margin improvement under TF1’s restructuring programme, from a depressed starting point.

Share price performance



The price relative chart measures performance against the Europe Dow Jones Stoxx index which closed at 184.34 on 24/02/09
On 24/02/09 the spot exchange rate was Eu .78 /US$1

Performance Over	1M	3M	12M
Absolute (%)	-24.3	-40.1	-62.6
Relative (%)	-18.3	-29.7	-27.4

Financial and valuation metrics

Year	12/08A	12/09E	12/10E	12/11E
Revenue (Eu m)	2,593.3	2,356.7	2,312.2	2,433.6
EBITDA (Eu m)	203.70	124.37	72.37	168.06
Net Income (Eu m)	163.8	101.6	25.2	93.4
CS adj. EPS (Eu)	0.77	0.48	0.12	0.44
ROIC (%)	12.79	14.39	11.89	13.94
P/E (adj., x)	8.05	13.00	52.35	14.16
P/E rel. (%)	97.2	162.5	720.9	178.2
EV/EBITDA	6.5	10.8	19.0	8.0

Dividend (2009E)	0.23	IC (12/09E, Eu m)	2,102.7
Dividend yield (%)	3.7	EV/IC	0.64
Net debt (12/09E, Eu m)	724.5	Current WACC	8.6
Net debt/equity (12/09E, %)	52.6	Free float (%)	52.0
BV/share (12/09E, Eu)	—	Number of shares (m)	213.41

Source: FTI, Company data, Datastream, Credit Suisse Securities (EUROPE) LTD. Estimates.

Negative read for French TV – downgrading TF1 to Neutral

Since mid September 2007, TF1 stock has outperformed the median of its free-to-air broadcaster peer group by +8%, outperforming all those FTA broadcasters under our coverage aside from Mediaset. TF1 has as expected suffered from difficult advertising conditions like its peers; its modest outperformance relates largely to the deregulation benefits that have come through, most notably the proposal by President Sarkozy to ban advertising on state TV and institute more of a BBC-style state channel set up. While we still prefer TF1 in the context of our Underweight stance on the FTA broadcasters, largely because of this ongoing deregulatory upside, we have grown yet more cautious as the increasingly bleak advertising downturn compounds structural headwinds, and we feel we cannot justify placing any of the FTA broadcasters on an “Outperform” rating. We are downgrading TF1 from Outperform to Neutral, and cutting our target price to €6.8 (from €15.2).

The advertising environment is increasingly bleak, compounding structural problems

TF1’s results presentation on 19th February included guidance for revenues down -9% for 2009, consistent with previously published Yacast data (which indicated TF1's gross ad receipts down -16% in January), but consensus forecasts were yet to reflect this data, with the street looking for 2009 revenues down only -2%. On the call, management acknowledged that the beginning of the year had been "not good", and commented that if the whole of 2009 is as bad as the start of the year "we might as well lock the door and turn the lights off". They said that advertisers are exerting "huge pressures" on all forms of media, not just TV, and that "France is suffering" albeit not so badly as some regions. In our view, some of the pressure TF1 is seeing is down to structural forces, not just the weak advertising environment.

DTT audiences are growing strongly – up 60% in prime time

Management showed figures demonstrating that since the prime time ad switch-off in public TV on 5th January, the prime time DTT audience has risen 60% yoy to 3.2m, while TF1's audience is flat at 6.8m. This made management comments that the "multichannel market is maturing and stabilising" look optimistic in our view. Management admitted that DTT competition “has drained advertising”, saying that there is currently lower demand for advertising than the slot availability, i.e. there is oversupply of TV inventory.

Our surveys reveal fears of programming cuts leading to a vicious cycle for legacy FTA broadcasters

Our survey results support our interpretation of the structural issues within the French TV landscape. One media buyer for example commented that "2010 will be the beginning not the bottom of the downturn", seemingly interpreting the downturn in the structural rather than economic sense, "Europe will change dramatically when DTT takes over conventional TV". Another media buyer is expecting big broadcasters to have to cut programming budgets as DTT channels expand, meaning "programming quality gets even worse", which could lead to a vicious cycle for the likes of TF1, with audience share suffering further as programming quality weakens. And generally, many comments in the survey pointed to the problems facing free to air broadcasters, or certainly those without much digital channel exposure such as TF1 (which owns only TMC on the free DTT platform). Many of those surveyed expressed the view that the adspend shift to digital channels is ongoing and isn't over yet, and that the cessation of advertising on France Television is just accelerating this trend in France.

Cutting 2009E TF1 channel ad growth from -1.6% to -10.1%, and group revenue growth from -0.7% to -9.1%

Our estimate changes are shown in detail per Figure 7. We are downgrading our underlying forecast (i.e. before deregulatory upside and before the impact of special events programming) for TF1 channel advertising growth from -5.0% for 2009E to -12%,

and from -1.6% to -10.1% including deregulatory upside and the fall off from Euro 2008. Zenith's latest official (as of December) forecast for the French TV market this year is -5.0% but as discussed, TF1 channel is facing pressure from digital channels gaining ad market share, and ad measurement firm Yacast has published some very negative TV market data for January - the Yacast data is on a gross rather than net basis, so does not indicate TF1's revenues directly, and it is over a limited period, but it shows that TF1's ad receipts dropped 16% yoy between the 5th and 25th of January. We assume that TF1's ad revenues will improve slightly through the year as the comp base gets easier. We have downgraded our TF1 group revenue growth expectation from -0.7% to -9.1% (guidance -9%). We have cut our 2009E EBIT forecast from €190m to €94m (consensus €132m) and 2010E EBIT from €193m to €42m (consensus €73m). The impact on 2009E EPS ex-TPS is -46%.

We have adjusted our target price to €6.8. Stripping out TF1's Canal+ stake at the PV of the floor put option valuation, a €6.8 valuation implies a 12.2x P/E on our revised 2009E EPS ex Canal+, an 18% premium to the FTA broadcaster peer group on 10.3x (and a full 30x P/E in 2010E when the World Cup programming costs weigh in). We continue to believe that some premium is warranted relative to peers given the potential upside from deregulation that is not factored into our forecasts, and the scope for margin improvement under TF1's restructuring programme, from a depressed starting point. While TF1 is, like the other European free-to-air broadcasters, facing difficult advertising conditions, and the structural headwinds caused by DTT, and we remain underweight the sub-sector generally, TF1 remains our preferred FTA broadcaster stock pick.

Figure 7: **TF1 – key P&L forecast changes**

€ million, year-end December 31	2008A new	2008E old	new/old	2009E new	2009E old	new/old	2010E new	2010E old	new/old
Core channel gross revenues	**1,647**	**1,649**	**-0.1%**	**1,480**	**1,622**	**-8.7%**	**1,446**	**1,695**	**-14.6%**
% growth	***(4.1%)***	***(4.0%)***		***(10.1%)***	***(1.6%)***		***(2.3%)***	***4.5%***	
Diversification activities	947	952	-0.5%	878	960	-8.5%	867	1,003	-13.5%
% growth	*(8.2%)*	*(7.7%)*		*(7.4%)*	*0.8%*		*(1.2%)*	*4.5%*	
Total revenues	**2,593**	**2,607**	**-0.5%**	**2,357**	**2,588**	**-8.9%**	**2,312**	**2,703**	**-14.5%**
% growth	***(5.9%)***	***(5.4%)***		***(9.1%)***	***(0.7%)***		***(1.9%)***	***4.5%***	
Total TF1 costs	(1,316)	(1,333)	-1.3%	(1,236)	(1,291)	-4.2%	(1,292)	(1,381)	-6.5%
Regulatory tax				(22)	(24)		(22)	(25)	
TF1 core channel gross profit	331	316	4.7%	222	307	-27.7%	133	288	-53.7%
Other operating costs	(954)	(963)	-1.0%	(894)	(950)	-5.9%	(859)	(971)	-11.6%
EBITDA pre-rights amortisation	324	311	3.9%	227	347	-34.7%	162	351	-53.8%
EBITDA post-rights amortisation	204	190	7.5%	124	210	-40.9%	72	213	-66.0%
EBIT	**177**	**169**	**4.6%**	**94**	**190**	**-50.6%**	**42**	**193**	**-78.2%**
% margin	**6.8%**	**6.5%**		**4.0%**	**7.3%**		**1.8%**	**7.1%**	
Interest	(21)	(37)	-44.8%	(22)	(41)	-45.1%	(22)	(43)	-46.7%
Tax on non-TPS	(41)	(40)	3.3%	(21)	(43)	-52.1%	(6)	(43)	-87.2%
TPS & other activities for sale	39	38	2.9%	40	39	2.9%	0	0	
Net income ex goodwill, exceptionals	164	138	18.6%	102	154	-34.1%	25	116	-78.3%
PAT ex TPS, goodwill, exceptionals	125	100	24.6%	61	115	-46.7%	25	116	-78.3%
Average shares outstanding (basic)	213	213	0.0%	213	213	0.0%	213	213	0.0%
EPS reported (basic)	0.77	0.65	18.6%	0.48	0.72	-34.1%	0.12	0.55	-78.3%
EPS pre goodwill excluding Canal+ (diluted)	**0.58**	**0.47**	**25.3%**	**0.29**	**0.54**	**-46.4%**	**0.12**	**0.54**	**-78.2%**
DPS paid in year	0.85	0.85	0.0%	0.47	0.85	-44.7%	0.23	0.85	-72.8%

Source: Company data, Credit Suisse estimates

Disclosures

Companies Mentioned *(Price as of 24 Feb 09)*
Google, Inc. (GOOG, $345.45, OUTPERFORM [V], TP $400.00)
ITV (ITV.L, 23.25 p, NEUTRAL [V], TP 34.00 p, UNDERWEIGHT)
JCDecaux S.A. (JCDX.PA, Eu9.87, UNDERPERFORM, TP Eu11.50, UNDERWEIGHT)
Mediaset (MS.MI, Eu3.46, UNDERPERFORM, TP Eu3.40, UNDERWEIGHT)
News Corporation (NWSA, $6.12, NEUTRAL, TP $11.00)
ProSiebenSat.1 (PSMG_p.DE, Eu1.35, NEUTRAL [V], TP Eu2.70, UNDERWEIGHT)
Publicis (PUBP.PA, Eu18.10, OUTPERFORM, TP Eu29.00, UNDERWEIGHT)
Reed Elsevier plc (REL.L, 518.00 p, OUTPERFORM, TP 680.00 p, UNDERWEIGHT)
TF1 (TFFP.PA, Eu6.18, NEUTRAL, TP Eu6.8, UNDERWEIGHT)
Viacom (VIAB, $15.74, NEUTRAL [V], TP $19.00)
Vivendi (VIV.PA, Eu18.98, OUTPERFORM, TP Eu26.00, UNDERWEIGHT)
Wolters Kluwer (WLSNc.AS, Eu12.78, UNDERPERFORM, TP Eu14.00, UNDERWEIGHT)
WPP (WPP.L, 353.00 p, OUTPERFORM, TP 610.00 p, UNDERWEIGHT)
Yahoo Inc. (YHOO, $12.75, NEUTRAL [V], TP $14.00)

Disclosure Appendix

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