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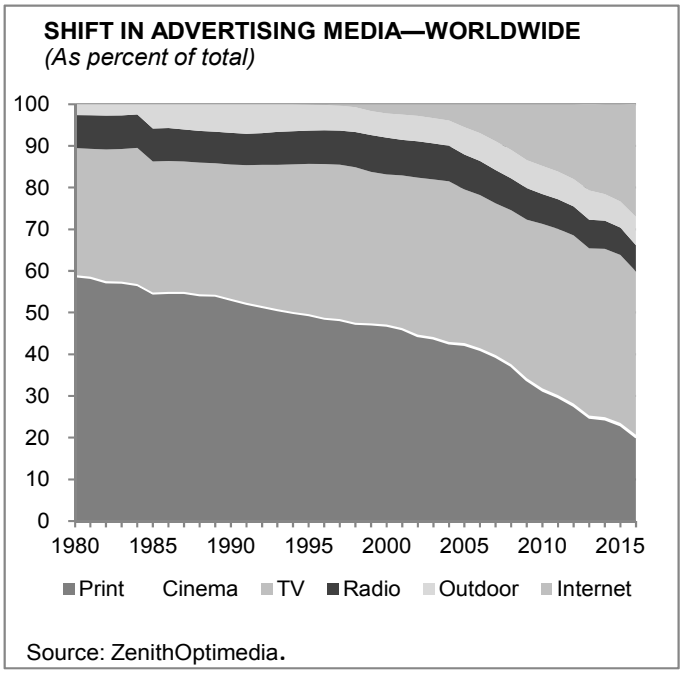
CURRENT ENVIRONMENT

Ad revenues healthy, but allocations shifting

Beefed up by major events and the stabilizing Eurozone economy, global advertising will continue to strengthen through 2016. In the US, advertising revenues are climbing faster than expected this year. Magna Global, the global media unit of advertising and marketing firm Interpublic Group, estimates US advertising spending (ad spend) to grow by 6.0% to $168 billion in 2014, an increase from its forecast of 5.5% in 2013. The firm expects the Sochi Olympics, the FIFA Soccer World Cup, and the US mid-term elections, as well as a healthy economic environment, to propel this growth. Non-recurring special events such as these are expected to generate an additional $7.5 billion in US advertising this year. Television will benefit the most with an estimated revenue growth of 8.3% in 2014, compared with the almost flat growth in 2013.

According to data from ZenithOptimedia (ZO), an advertising research and forecasting agency, global ad spend is estimated to increase by 5.5% to $537 billion in 2014, 5.8% in 2015, and 6.1% in 2016. This growth is attributed to an improving global economy, rapidly rising mobile advertising, and increasing programmatic buying or online display advertising that uses algorithms to match ads to the target market.

Television is still the king of advertising medium with 40.1% share of global ad spend in 2013, according to ZenithOptimedia. The firm forecasts global TV ad spend to grow 5.2% in 2014, up from the 4.4% growth in 2013, benefiting also from the Winter Olympics, the World Cup, and the US mid-term elections. However, this growth is expected to revert to 4.4% in 2015, and rise again to 5.1% in 2016 due to Summer Olympics, European football, and the US presidential election.



ZenithOptimedia reports that ad spending on television has peaked, and is likely to drop slightly in the coming years, especially since desktop and mobile Internet are forecast to grow at a rapid rate. Mobile advertising is expected to rise by about 50% through 2016, due to the influx of smartphones and tablets, and ZenithOptimedia estimates that global spending on mobile advertising will reach $45 billion in 2016 from $13.4 billion in 2013, overtaking radio, magazine, and outdoor advertising.

Although television is the major advertising medium, the Internet is growing the fastest, bypassing newspapers in 2013 to become the second-largest advertising medium in the world. According to ZenithOptimedia, the Internet captured 20.6% of global ad spending in 2013, while newspapers captured 17.0%, a substantial change from 2005, when global ad spending was 29.1% for newspapers and 5.6% for the Internet. Interactive advertising is driving growth, since digital media can identify the most relevant audience segments.

Market research firm eMarketer forecasts digital ad spending to grow 17% to $140 billion in this year, surpassing a quarter of all media ad spend for the first time, with tablets and smartphones still driving this growth.

While total advertising dollars are growing again in aggregate, the allocation of those funds differs significantly from years past. The biggest change has been the rapid growth of digital advertising budgets at the expense of print.

In the eighth consecutive year of decline, newspaper advertising dropped 8.6%, to $17.3 billion in 2013 (which is almost equal to the 1982 level of $17.7 billion), while digital advertising rose 1.5%, based on data from the Newspaper Association of America (NAA), a trade group for newspapers. Total advertising dollars spent on magazines in the US increased by 5% in 2013, according to data from the Publishers Information Bureau (PIB), the industry source for measuring magazine advertising. However, tablet advertising accounted for most of that growth, with an increase of 16% in tablet magazine ad spend, while print advertising revenues were flat at 0.2% in 2013.

We anticipate that the shift away from print will not subside in the near term. Magna Global forecasts that the newspaper and magazine segments will suffer revenue declines of 3.2% and 3.9%, respectively, in 2014. On a longer-term projection, ad spending in newspapers is expected to decline by 31%, and magazine ad spend to drop 22%, from 2014 to 2018, according to a July 2, 2014 article from eMarketer. The shifts in allocation have dramatically changed both the delivery as well as the net beneficiaries of the growth. We expect these trends to continue in the near term, with print and television (to a lesser degree) ceding share of advertising spending to digital forms of advertising.

STABLE AND IMPROVING ADVERTISING ENVIRONMENT

After a steady advertising environment through most of 2013, we anticipate acceleration in growth over the next couple of years. The combination of an improving global economy, major advertising events, and marketers' priority shifting toward driving stronger revenue growth, support better prospects for growth, in our view.

Advertising agencies and forecasters are more optimistic in 2014 than in the past three years. We think the drag from Europe's critical market should lessen and shift to a positive contribution this year. In addition, many of the so-called tail risks—the hidden dangers and remote, hard-to-predict possibilities—that had been threatening the global economy appear contained for now, and confidence is slowly returning. The US market appears steady, with many companies now focusing on growing their top lines as opposed to cutting costs during the downturn, which has led to a revival in advertising budgets. Industries such as consumer product goods, automotive, and financial services are driving the growth in advertising budgets.

The near- and long-term growth engines of global gross domestic product (GDP) are the emerging market economies, where advertising is expanding at double-digit rates. China, Indonesia, and Argentina are the markets with the biggest emphasis, given their relative size and growing consumer spending. ZenithOptimedia forecasts a contribution of 17% of additional ad spend from China during 2013–2016, and 7% each from Indonesia and Argentina.

ZenithOptimedia also expects that seven out of the 10 biggest contributors to new ad spend will come from these markets, contributing about 44% of the total new ad spend for the top 10 countries. Further, during 2013–2016, these markets will contribute 62% of the overall additional global ad spend.

We have the following outlook for regional growth over the next few years, based on ZO and other forecasters' projections overlaid with our own economic outlook and assumptions:

- United States: up 4%–5%
- Europe: 8%–9%
- Asia-Pacific (ex-Japan): up 11%–13%
- Japan: flat at 2%
- Latin America: up 11%–13%
- Total World: up 5%–6%

PROPOSED MERGER OF EQUALS BROKEN

Omnicom Group Inc. and Publicis Groupe SA, the world's second- and third-biggest advertising agencies, announced a merger on July 28, 2013, but called it off on May 8, 2014 due to difficulties that impeded the transaction. The $35 billion planned merger would have represented the largest in the industry to date.

The new company would have been named Publicis Omnicom Group formed through a "merger of equals," bringing together many of the world's leading advertising and public relations agencies under one roof, and overtaking WPP Group plc, the largest advertising agency in the world. However, the inability of both giants to meet halfway on issues of leadership split the two before they officially became one.

Shareholders of each company would have owned about 50% of the new company's equity, following the payment of special dividends by Omnicom to bring the market capitalizations into balance. While Omnicom is the bigger of the two entities in terms of both revenues and earnings before interest, taxes, depreciation, and amortization (EBITDA), the market capitalizations are not too far off. The differences lie in the composition and margin structure of the two companies.

Over the past decade, Paris-based Publicis has focused its growth on expanding its digital capabilities and adding to its geographic reach in faster growing emerging markets. In contrast, New York-based Omnicom has been more methodical in its growth philosophy. By most measurements, the combined company would have catapulted to the top of the advertising world. Based on 2013 figures, the combined company would have accounted for $24.1 billion in revenues. By comparison, WPP had revenues of $18.9 billion in 2013 and Interpublic Group $7.1 billion.

Merging companies of this size is usually difficult enough. Amplifying the integration challenges are the complexity of cultural differences, while maintaining trans-Atlantic headquarters and operating under co-CEOs. The companies would have needed to move into uncharted territory with this transaction, given their sizes and geographic overlap, and gain approval in at least 40 different countries.

According to a report on Reuters (May 9, 2014), the companies had problems obtaining the approval of regulators in Europe for the proposed deal's tax structure. During a conference call in April, both companies reported tax holdups in the UK and France as well as regulatory delays from antitrust authorities in China. The proposed deal cost Omnicom about $50 million gross expenses for merger preparations.

In an industry where acquisitions and consolidation are a norm, both companies are now back in the playing field. Publicis may seek out Interpublic in the meantime, but Omnicom is not planning any large acquisitions at the moment (*Bloomberg*, May 10, 2014).

The *New York Times* reported in May 8, 2014 that technology giants such as Google and Facebook, who track individual sentiments online, are in many cases bypassing traditional advertising agencies by using their abundant sources of user data to place ads. In the advertising industry, where online advertising is growing at a faster rate than television, the wealth of consumer data is key to a successful ad and marketing campaign. We think consolidations in the advertising world will continue, as companies look to increase their presence in digital media.

MERGER ACTIVITY IN PUBLISHING AND NEWSPAPERS

As the traditional publishing businesses have come under pressure, the industry has responded by adapting business models and diversifying toward higher-growth sectors. We have seen a wave of consolidation, and mergers and acquisition activity, in the industry.

Overall, we see two motivating factors that have underscored the merger and acquisition activity over the last few years:

- **Addition by subtraction:** Cordoning off slower-growing publishing assets through a spinoff or sale, in order to highlight segments with more attractive growth characteristics

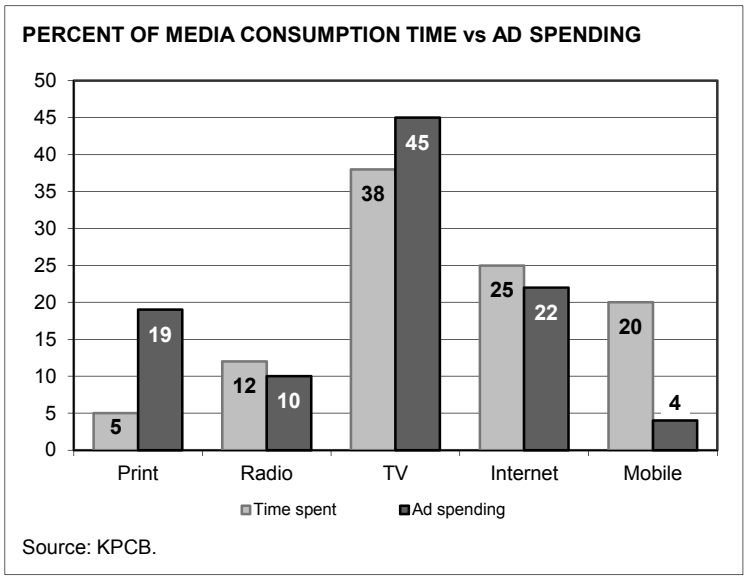
- **Diversification to other sectors:** Purchasing assets in digital and broadcast sectors, where growth is more attractive.

Gannett Co. announced on August 5, 2014 that it will split its TV and newspaper business by next year. According to the *New York Times*, Gannett's publishing division had not seen year-over-year revenue growth since 2006, and the raising of subscription prices has failed to improve circulation revenue. Hence, the aim of the planned separation of the publishing division is to create two focused companies that can strategically acquire more business opportunities. Gannett also signed an agreement to fully own Cars.com, one of the leading digital companies in the automotive industry. Under the agreement, Gannett will acquire the 73% interest it does not already own in Classified Ventures LLC, which owns Cars.com, for $1.8 billion in cash. The final deal values the site at $2.5 billion. Cars.com, together with the online job portal CareerBuilder, will be paired with the new broadcasting company.

On July 30, 2014, E.W. Scripps Co. announced its plans to merge broadcast operations with Journal Communications and split its TV and newspaper businesses by 2015. The merged broadcast and digital media company will still be named The E.W. Scripps Co., while the newspaper company will be called Journal Media Group, and will combine its slow-growth print business that includes daily newspapers, community publications, and digital products. E.W. Scripps is expecting more than $800 million in annual revenue from the broadcasting company and $500 million in annual sales for the publishing business.

In June 2014, Time Warner Inc. completed its spinoff of its Time Inc. publishing division. In addition, CBS Corp. received the Internal Revenue Service's approval in April 2014 to convert its outdoor advertising unit CBS Outdoor Americas Inc. to a real estate investment trust (REIT), separating this lower-growth division from its network and studio division.

In June 2013, News Corp. completed its spinoff of its publishing division. The company's business and movie operation, worth about $65 million was renamed 21st Century Fox after the split. The News Corp publishing unit is composed of *The Wall Street Journal*, *New York Post*, *The Times of London*, book publisher Harper Collins, and tabloids in the UK and Australia. We think the media conglomerates have cordoned off the publishing and outdoor advertising assets so that investors could focus on the more lucrative parts of the portfolio.



Traditional publishing companies have sought opportunities to add assets in areas with more attractive long-term prospects. In June 2014, Meredith Corp. completed its acquisition of three television stations from Gannett Co. and Sander Media for $407.5 million. In fiscal 2012, Meredith Corp. spent $240 million for four acquisitions, the largest of which was the purchase of Allrecipes.com for $175 million. However, the company has not forgone its print legacy altogether, as it added several magazine titles to its portfolio, including *Rachael Ray* and *Family Fun*.

E.W. Scripps continued to reposition its company away from its heritage print newspaper business toward broadcasting and digital platforms when it purchased two television stations from Granite Broadcasting Corp in June 2014, a digital video news provider called "Newsy" in December 2013, and a multimedia reporting bureau called "DecodeDC" in November 2013.

The New York Times Co. has increased its emphasis on its core property by selling its non-core assets and regional papers. The sale of the New England Media Group, which includes the *Boston Globe*, and the increase in its digital subscription strengthened the company's balance sheet in 2013.

Tribune plans spinoff

The Tribune Co. completed its spinoff to a new company, Tribune Publishing, in August 2014. We see this action as a logical step after its emergence from bankruptcy in 2012, as we have difficulty identifying a strategic or financial sponsor that would take on the entire portfolio. By separating newspaper assets from broadcasting, Tribune is following in the path of Time Warner and News Corp., and allowing its higher-growth properties—real estate, equity, broadcasting and entertainment portfolio—to stand alone, unencumbered by the more challenging publishing sector.

News Corp community papers sold

On June 23, 2014, News Corp agreed to sell its Community Newspaper Group (CNG), consisting of 11 New York City weeklies and websites, including *The Brooklyn Paper* and *The Bronx Times*. CNG was sold to the Goodsteins, owners of community newspapers in Manhattan. In September 2013, News Corp sold the Dow Jones Local Media Group, which has 33 publications under its belt, to a Fortress Investment Group affiliate. We think these sales could help the company focus more on its digitization plans to offset the losses of revenue across the publishing industry.

NEWSPAPER AND MAGAZINE PUBLISHING

Advertising has been moving to other mediums, so the model has been shifting aggressively, as a result.

Advertising for print continues to decline

Since 2006, print advertising has continued to decline as marketers move to channels that provide a more direct return on investment (ROI) compared with print. The NAA reported in April 18, 2014 that mobile ad revenue jumped 77% in 2013 and digital-only circulation ad revenue grew 47%. Digital agencies, marketing services, event marketing, and e-commerce, collectively grew by 43% in 2013. However, in spite of the growth seen in unconventional channels, their share as a percentage of total advertising revenues is still small.

According to a May 2014 report from Kleiner Perkins Caufield & Byers (KPCB), a venture capital firm that invests in the digital arena, mobile advertising comprised 4% of total ad spend in2013, while people spent 20% of their time on mobile devices. On the other hand, print advertising comprised 19% of total ad spend, while people spent merely 5% of their time on this medium. Publishing houses need to find the right balance between the ad spend and the time spent on each medium in order to keep up with the consumers' shift of preferences toward digital.

Programmatic advertising: a challenge for newspapers

ZenithOptimedia forecasts Internet advertising will grow by an average of 16% from 2014 to 2016. Display is the fastest growing sub-category, and is forecast to increase 21% annually to 2016. However, newspaper advertising does not stand to benefit from this growth, since Google, Facebook, and other websites are dominating display ads due to the advent of programmatic advertising techniques, which analyze consumers' buying behavior and navigation patterns.

Accordingly, the most relevant search result pops up more frequently. Therefore, instead of predicting where customer traffic will be, companies now keep track of customers' behavior. Programmatic buying is also helping sustain the rapid growth of online video and social media. ZenithOptimedia expects that Internet display will overtake paid search for the first time in 2015, and that ad spend will total $74 billion in 2016—$3 billion more than paid search.

Magazines: declines accelerating

In our opinion, the magazine segment is experiencing the same kind of structural disruption as the newspaper segment, albeit with somewhat of a lag. Based on data from the PIB, total industry advertising pages fell 4% and revenue was down 1.6%, year to date, during the first quarter of 2014.

The decline in ad pages early this year represents a 54.4% drop from the first-quarter level in 2007, which shows that the divergence between aggregate advertising dollar growth and the declines for print magazines is widening. While advertising budgets continue to rebuild slowly, marketers are redirecting the advertising spend to other mediums, such as digital and TV.

One major advantage that many magazines hold over newspapers is that magazines often address a specialized topic that speaks to a core audience. As a result, magazines can elevate the conversation around its niche subject matter, which can support greater depth of content, more targeted ads, and higher circulation rates.

While the wider accessibility of the Internet has increasingly marginalized these relative attributes, we think the rise in popularity of the tablet has been a more disruptive force for magazines and has corresponded to an accelerated shift toward digital advertising. Special interest magazines, often targeted toward women, maintained their shelf life for much longer and seemed more insulated from the Internet. Moreover, many consumers viewed magazines as a leisure product—reading magazines on the couch or in bed as a wind-down activity—something that did not translate well to the web, as consumers could not engage this type of relaxed browsing at their desk or kitchen computer.

That changed with the rise of the tablet, particularly the iPad mini. Suddenly this key demographic for magazines, women, now had a comfortable and portable medium to access the web and serve as a distraction. Since they can bring the tablet with them to bed or carry it in their purse, it serves a similar function as a magazine. Slowly, the tablet has begun to replace the magazine as the core wind-down activity for many consumers.

GLOBAL AD SPENDING FORECAST

	2009	2010	2011	2012	2013	2014	2015
EXPENDITURES (MIL. $)							
Newspapers	99,480	98,510	96,711	93,156	90,959	89,786	89,405
Magazines	44,880	45,078	44,738	42,894	41,812	41,149	40,728
Cinema	2,118	2,348	2,476	2,769	2,735	2,946	3,259
Television	162,787	181,209	189,957	198,942	206,895	216,945	228,556
Radio	32,276	32,688	33,756	34,337	35,222	36,199	37,176
Outdoor	28,764	30,987	31,745	32,334	33,075	34,238	35,553
Internet	57,396	67,939	76,842	88,461	101,236	115,873	132,318
TOTAL	427,700	458,758	476,225	492,893	511,934	537,136	566,995
YEAR-TO-YEAR % CHANGE							
Newspapers	(16.7)	(1.0)	(1.8)	(3.7)	(2.4)	(1.3)	(0.4)
Magazines	(20.6)	0.4	(0.8)	(4.1)	(2.5)	(1.6)	(1.0)
Cinema	(1.8)	10.9	5.5	11.8	(1.2)	7.7	10.6
Television	(6.9)	11.3	4.8	4.7	4.0	4.9	5.4
Radio	(11.0)	1.3	3.3	1.7	2.6	2.8	2.7
Outdoor	(11.2)	7.7	2.4	1.9	2.3	3.5	3.8
Internet	10.5	18.4	13.1	15.1	14.4	14.5	14.2
TOTAL	(9.7)	7.3	3.8	3.5	3.9	4.9	5.6

Source: ZenithOptimedia.

As audience engagement with print magazines comes under pressure, marketers are shifting advertising dollars to other mediums. More direct and measureable forms of advertising, specifically digital and online, are garnering a greater share of the advertising budget. Magna Global expects US magazine advertising to decline 7.1% in 2014, compared with digital's growth of 14.4%. Overall, Magna Global's forecast for total US advertising growth is 6%, in the context of economic recovery, political spending, Sochi Olympics, the World Cup, and the implementation of the Affordable Care Act.

NEWSPAPERS MOVE TO PAID ONLINE MODELS

With the ad dollars moving away from print and free online content proving to be not sustainable in the publishing business, newspapers are moving to paid online models. As of June 2014, more than 400 newspapers in the US had some kind of pay wall for their online content. We see similar developments in Europe and Asia as well. The *New York Times* set the tone for the current US newspaper model by implementing a full-access pay wall in May 2011. Before 2011, most newspapers ran dual platforms: retaining paid subscriptions for print delivery, while keeping digital access free in order to generate a wide viewership against which to sell advertising. The pay wall for online access was limited to publications with a specialized audience, such as the *Wall Street Journal* and the *Financial Times*, both of which serve the business community. However, with the advertising shift away from print newspapers accelerating and digital advertising insufficient to cover the gap, it became apparent that giving content away free online was not sustainable.

The *New York Times* moved to a full-access mode, whereby paid subscribers could access content either in print or digital form, but non-subscribers would have limited access to digital content on a metered basis. The *Times* subsequently stopped discriminating between its print and digital consumers and became more flexible in various platform packages. By April 2014, digital-only subscribers totaled about 800,000. Increasingly, more of the newspaper community is moving behind a wall. Thus, industrywide circulation revenues increased in 2012 for the first time in nine years and moved back to 30% of total revenues. At the New York Times, which boasted more than 700,000 paid digital subscribers at the time, circulation revenue surpassed advertising for the first time ever in 2012.

The pay wall model remains in flux as the industry tries to find the right balance between attracting readers and charging for content. In most instances, the papers ask customers to pay a slightly higher total amount than the print subscription, with the added flexibility of receiving the same content across multiple platforms.

National and sports news compete with free content

National news and sports news are the hardest to get paid for due to the readily available and less expensive content from various sources, including television, which remains the most popular medium for watching sports. According to the "The Global Sports Media Consumption Report 2014: US Overview," published in May 2014 by Sporting News Media, a sports video distributor, sports fans who pay to watch sports online remained at a meager 9% and only 10% are willing to pay for it in the future. The report also stated that 96% of fans consume sports via television, 34% of whom paid to watch sports on TV over the last 12 months. Clearly, paid online sports content does not have many fans.

Further, national news is also accessible through multiple channels, including social networking websites, according to "The State of the News Media 2014" report, released by the Pew Research Center in March 2014. The report noted that half of social network users share news items even if only one-third of people who consume news through Facebook follow a news organization or a journalist, since friends are now their major sources of news.

Local newspapers face less competition

While national news websites such as *USA Today* are available free, local newspapers, which focus on grassroots community interests, do not face such stiff competition and have been able to retain their position, according to paidcontent.org, a website that covers all forms of digital media paid content. Their unique content is difficult to replicate, providing them with an edge over potential competition.

The Patch Network, a group of local news and information websites owned by AOL, is following a different strategy. Through numerous websites, it provides community-specific news for a wide range of communities. In the second quarter of 2014, AOL's ad revenues increased 20% year over year to $451.4 million, as the owner of the Huffington Post news website and the TechCrunch blog acquired the video advertising platform Adap.tv, increasing its programmatic advertising. Total revenue grew 12% to $606.8 million, spurred by the growth in third-party platform revenue, which climbed to $194.3 million.

GROWTH DRIVERS IN 2014: WORLD CUP, OLYMPICS, US MID-TERM ELECTIONS

With events such as the FIFA World Cup, the Winter Olympics, and the US mid-term elections in 2014, the advertising world is more upbeat.

After the US Supreme Court's "Citizens United" ruling in 2010 that removed limitations on fund-raising and campaign spending, the ad spend on mid-term congressional elections is now as big as spending on presidential elections. However, although total ad dollars spent on US elections has increased significantly from 2010, most ad agencies did not participate in the increased spending as it was concentrated around local broadcasts. The major advertisers reserve their ad expenditures for the Olympics and other global sports events, as spending around such events has more leeway for creativity on the agencies' part.

According to an *Advertising Age* article dated September 30, 2013, NBC Universal has sold a record $800 million in advertising for the 2014 Winter Olympics in Sochi, Russia, beating the previous record of about $700 million earned in both the Winter Olympics held in Salt Lake City in 2002 and Vancouver in 2010. In comparison, NBC had pre-sold $200 million in ads for the Summer Olympics in London in 2012. It has also sold digital ads for the winter games for $50 million and attracted an average of 21.4 million viewers during primetime from the opening to closing ceremony, leading to a profitable venture for the company that spent a total of $875 million investment, including the rights to the games. *Bloomberg* reported in April 2014 that the company's revenue from the games reached $1.1 billion.

In addition, the World Cup 2014 siphoned dollars into the global advertising revenue as brands such as Coca Cola, Visa, and Sony spent tens of millions as official partners of FIFA. ZenithOptimedia has estimated that the World Cup will generate a total of $1.6 billion of ad spending this year mostly on television and online platforms, particularly social media. ZenithOptimedia also saw Latin America gaining the biggest share of World Cup dollars, at $500 million, followed by North America and Western Europe at $300 million each, Asia Pacific at $250 million, and the rest of the world at $150 in 2014. Hence, the global ad market will grow 5.4%to $524 billion, from last year's 3.9% growth, according to ZenithOptimedia.

ESPN has the broadcasting rights for World Cup 2014, while Fox and Telemundo (owned by Comcast/NBC) have 2018 and 2022 broadcasting rights, respectively. ESPN paid $100 million for the rights, while Fox paid $425 million and Telemundo paid $600 million, according an October 21, 2011, article in the *New York Times*. Following the profitable Winter Olympics in Sochi, NBC has secured the media rights to the Olympic Games across all media platforms through 2032. This agreement is valued at $7.6. With such major events lined up through 2014, ad dollars are pouring in and advertisers are leaving no stone unturned in gaining the maximum coverage globally. Thus, 2014 continues to look promising, driven by major sports and political events.

CURRENT INDUSTRY OUTLOOKS

Advertising

As of July 2014, our fundamental outlook for the advertising sub-industry was neutral. While we favor long-term growth prospects, supported by exposure to an emerging market consumer and new advertising technologies, current peak valuations coupled with likelihood of near-term revenue weakness temper our enthusiasm. We anticipate a potentially challenging fourth quarter this year, as marketers may pull back on discretionary project work to protect margins. We think the potential of a revenue shortfall, together with the signs of an emerging market slowdown, would limit further multiple expansions and reduce the appeal of the sector.

Major biennial events should support a step-up in total advertising spending and contribute to a relatively solid 2014. Promotional efforts for the Winter Olympics in Russia and the World Cup in Brazil, as well as the US mid-term elections, should all accelerate the pace of advertising. In addition, a company's need to drive top-line growth should leverage higher advertising spending than the rate of global GDP. We think current valuations of major companies are already reflecting stronger advertising growth.

On the mergers and acquisitions (M&A) front, since the proposed merger of Omnicom and Publicis has been called off—a transactions that might have had a far-reaching ramifications—we do not anticipate a wave of consolidation soon.

In our view, the major advertising holding companies are in a strong position to benefit from structural trends in the industry. Clients focusing on faster-growing emerging markets in Asia and Latin America, as well as the shift toward digital advertising, provide above-average growth opportunities. This capability results in greater account consolidation and drives above-market share gains. We view 3–5% sustainable revenue growth as realistic over the next several years.

Year to date in 2014 through June 4, the S&P Advertising Index was down 0.8%, versus the 5.3% gain in the S&P 1500 Index. In 2013, the sub-industry index advanced 47.5% versus a 30.1% increase in the broader market benchmark.

Publishing

As of June 21, our outlook for the publishing and printing sub-industry is neutral. Investor skepticism appeared to have moderated, as several key players demonstrated more stable operating results. In our opinion, since the industry has been stemming the pace of operating declines and moving to more sustainable business models, the depressed industry valuations were able to rebound modestly in the past year. High-profile consolidation and diversification efforts further supported valuation expansion, hence we think valuation multiples for the group have approached near-full levels, making further expansion potentially more challenging.

In general, the industry is shifting the business model toward a circulation-based revenue structure that is less dependent on advertising. While we do not think this shift will solve all the long-term issues confronting the industry, we think it will provide a buffer against the shift to digital readership, at the very least. More importantly, the industry appears to have embraced the paid subscription model *en masse*, increasing the likelihood of success.

Newspaper publisher advertising revenues fell 6.5% in 2013, with print down 8.6%, a continued slide since 2006, according to the Newspaper Association of America. We expect to see a continuing decline in publisher advertising revenues over the next few years, although this should moderate amid further shifts away from print. Gains in digital advertising have partly compensated for some of the print advertising declines, but these gains have slowed materially in recent years, increasing only 1.5% in 2013. In our view, newspapers all the more need to continue its transition to a circulation-based business model.

Amid the recent industry dislocation, companies have stepped up diversification, consolidation, and asset divestitures. We see this trend continuing in 2014, helping to support valuations for the group. At this point of the industry lifecycle, we think strategic consolidation would make sense to improve synergies, and divesting less productive assets would help focus on growth. Many of the major publishers have also emphasized their television broadcast assets, which have values that increased materially in 2013 due to a more predictable cash flow generation.

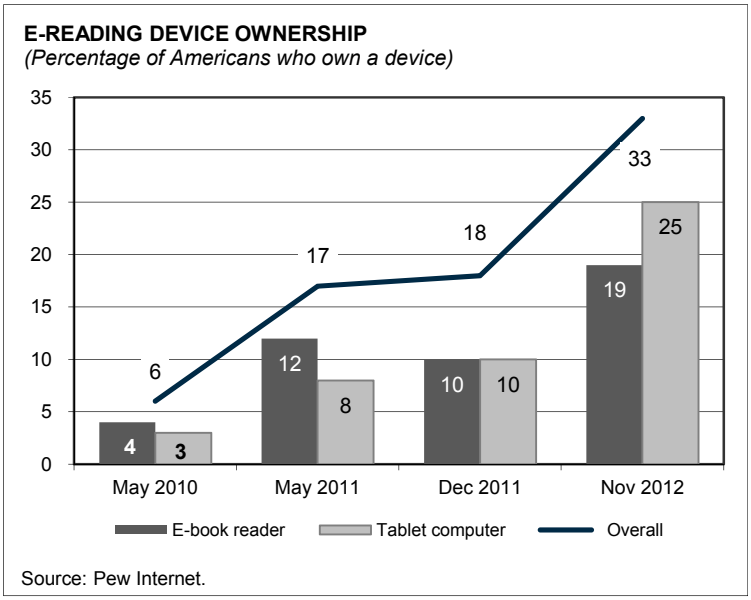
Year to date in 2014, through June 4, the S&P Publishing and Printing Index had declined 2.4% versus a 5.3% advance in the S&P 1500 Index. In 2013, the sub-industry index advanced 54.6%, versus a 30.1% increase in the S&P 1500. ■

New delivery systems change the mix for publishers and advertisers

As the means of distribution evolves, the publishing industry continues to focus on delivering information and entertainment to consumers. Publishing is now more interactive than a decade ago, as technological changes reshape consumers' expectations of content, products, and costs. Consumers today have access to a much wider array of content, and in more convenient delivery mechanisms, than ever before. Moreover, most of the content comes at much lower costs than traditional methods, often available free. As a result, various sub-sectors have responded differently to the market shifts. In many cases, the lines that define traditional publishing are blurring and most publishers have added digital and mobile capabilities to their portfolio.

Newspapers are shifting to a subscription-based model that is less reliant on advertising. Many of the major newspapers are now combining access to their print and digital versions in one subscription package, as opposed to trying to run the print subscriptions and free online models in parallel. The most successful pay walls to date tend to be those publications that offer unique content not easily replicated through the Internet. Examples include specialized publications that are part of the workflow of its users (*The Wall Street Journal*), regional papers that provide local news coverage (*The Des Moines Register*), or high-quality content with deep coverage (*The New York Times*).

Magazines have been slower to embrace the digital subscription model, even as print circulation had declined. Publishers have retained a much tighter control over the online presence, blocking non-subscribers away. As a result, magazines maintained the pricing integrity on their specialized content, but at the expense of losing mindshare of customers as other forms of content became more accessible. The advent of the tablet seems to have accelerated the magazine's push toward digital, however, as the tablet experience more closely captures the magazine reading experience. In general, the desktop was not convenient enough, while the smartphone screen and even the phablet (smartphone-tablet) were too small for the type of engagement magazines required. Tablets provided the first real form factor that could replicate—or even enhance—the magazine experience.



For the most part, subscriptions for print versions and digital versions of magazines remain separate, unlike the current standard newspaper model that combines the two. This strategy has limited the pace of adoption for digital magazines, but digital editions continue to grow as a segment. Digital replica versions of the top 289 magazines comprised 36.7% of total circulation during the last six months of 2013, up from the 2.4% in the same period in 2012, according to Alliance for Audited Media's semiannual report for US consumer magazines. Next Issue Media, a joint venture of Condé Nast, Hearst Corp., Time Inc., News Corp., and Meredith Corp., offers an unlimited monthly subscription to more than 135 magazine titles. This platform makes managing subscriptions and discovery much easier, and might help spur greater adoption of digital magazine subscriptions.

Book publishing has experienced its own digital revolution over the last decade. E-books have been a mixed blessing for publishers as it has lowered distribution costs and spurred net unit growth, but at the expense of top-line revenue. E-book sales accounted for 27% of US book publisher sales in 2013, according to the Association of American Publishers Inc. (AAP), a book publishing trade group. That is slightly up from 23% in 2012. Total trade revenues expanded 3.8% to $1.3 billion in 2013 from $1.25 billion in 2012.

NEWSPAPER AND MAGAZINE PUBLISHING

Advertising is a major source of revenue for publishing houses and it represents a large part of many companies' media budgets. It has been shifting to other mediums, and as a result, the model has been shifting aggressively.

Newspapers: shifting model to subscription-based

The newspaper industry has experienced massive disruption over the last decade, and its business model is still being adjusted in response to the new economic realities. The prototype has gone through several iterations in an attempt to find the proper balance between attracting readers and advertisers, and charging a toll to access content. The good news is that a consensus has been building in the industry through 2013 and into 2014 that some sort of pay wall is required to cover the costs of developing content. It is apparent that the historical model, which depends largely on advertising, is a much harder proposition today. A uniform approach of establishing tolling mechanisms improves the chance of success by limiting leaks among newspapers. Early results of the conversion have been mostly positive, as many of the papers seem to have found a large enough audience to support their product. Total circulation revenues in the US actually grew in 2012 for the first time in nine years. However, we recognize that the industry is moving through the initial wave, and how it proceeds through the next wave will be a much more telling sign.

To understand where the industry is going, we think it is instructive to pull back and gain some historical perspective. The US newspaper industry had revenues that peaked in 2005 and 2006 at around $60 billion (though it achieved nearly that total in 2000 as well). The threats began to appear in the mid-1990s when the Internet was in its infancy, but the industry continued to flourish and it took at least another decade until the impact on operating results was noticeable. Since that 2006 peak, total industry revenues have fallen roughly by half, with 2012 revenues of $32.8 billion. That is approximately the same level of revenues the industry produced in 1985, in nominal dollars. Factoring in inflation, the 2012 level is much lower than 1985. It took 15 years of steady growth (1985 to 2000) for industry revenues to double. After six years when revenues effectively plateaued, it took just six short years to wipe out all those gains. The industry retrenchment has been painful and not without some casualties.

The three major factors that accelerated the industry downturn are the Internet, the iPhone, and craigslist.

◆ **Internet.** The most obvious disruptive element is the Internet, and even casual observers likely understand its influence. The medium allows consumers to receive news content on a real-time basis and often at an attractive price: free. As the Internet became more prevalent and download speeds improved, a generation of consumers grew accustomed to getting its news through the Internet and forgoing the paper altogether. Nevertheless, it was not until the Internet became mobile that the impact was really felt.

◆ **The iPhone.** In our opinion, the introduction of the iPhone in 2007 (and subsequent smartphones) was the tipping point that materially changed the equation for newspapers. It allowed the same disruptive forces of the Internet on news to become mobile and, as a result, much more convenient to access. Consumers now have an easy way to read newspaper content on the go, usurping some of the convenience that newspapers had offered when Internet access was confined to desktops. Early smartphones were too awkward to access the Internet for more than just a quick reference and did not translate well to reading long stories. Similarly, many consumers preferred not to read newspaper content on a desktop or at work. The iPhone removed that limitation, however. It essentially democratized Internet access to a much wider audience while further marginalizing the printed newspaper form. The newspaper companies compounded the effect on newspaper circulation and advertising by offering much of their content free on the Internet, thus undercutting their own offerings.

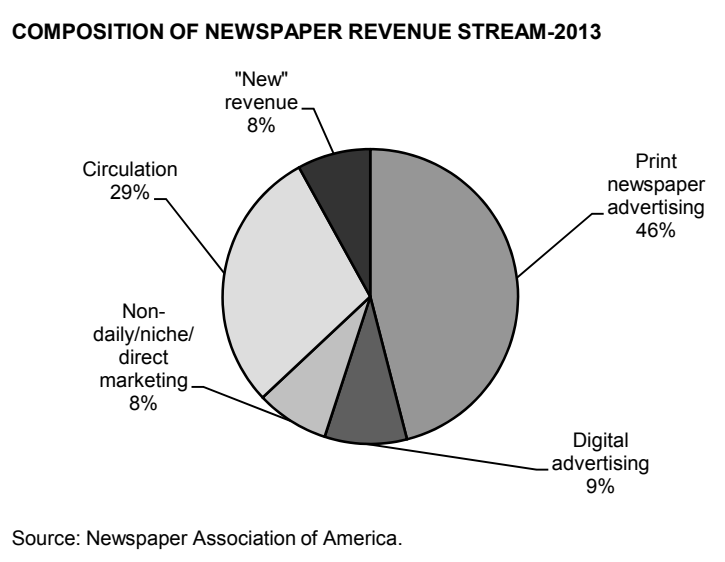
◆ **craigslist.** The impact of craigslist and similar online-classified services on the newspaper industry cannot be understated. Traditionally, newspapers dominated classified advertising, which was a cost-effective means for individuals and companies to reach a target audience. Classified advertising expanded rapidly and became a hugely profitable enterprise for newspapers. In 1960, classified ads represented roughly 15% of total newspaper industry revenues, according to data from the Newspaper Association of America (NAA), a trade group for newspapers.

By 2000, classified ads accounted for roughly 34% of newspaper revenues and peaked in terms of both total dollars and as a percentage of industry sales, and it was also the year of craigslist's first major expansion to cities outside of San Francisco. Like many other disruptive technologies, craigslist's initial impact on the industry was manageable and limited to a specific audience. By 2007, however, as the technology expanded to a wider mass audience, the decline of classified ads accelerated sharply and continues on its rapid descent.

While the exact causes of the decline may be up for debate, what is painfully obvious is that advertising has become a much less reliable source of revenue and profits for most publications. As a result, the model is shifting aggressively to favor subscriptions over advertising as newspapers attempt to identify loyal readers willing to support their content creation. Even the most ardent supporters of the notion that open platforms attract ample advertising dollars to fund its operations appear to be shifting course.

NEWSPAPERS: WEANING OFF ADVERTISING

Total newspaper revenue in the United States declined by 2.6% in 2013 to $37.6 billion, according to the NAA. While industry revenue as a whole continues to contract, the pace of the decline is slowing and we are starting to see some signs of stabilization. Industrywide revenue declined by 5% in 2011 and contracted at an average compounded rate of 10% from 2006 to 2011.



We are encouraged by signs of growth and momentum in several parts of the business. The industry continues to adjust its operating model after a difficult decade of disruption and is now drawing from a much more diversified set of revenue drivers. The companies have shifted from an emphasis on print advertising to favoring circulation, digital, and new sources of revenue. Circulation revenue grew by 3.7%, year over year, in 2013, its second annual increase in nine years. Most of the circulation gains came directly from rolling out digital subscriptions or, in many cases, bundling digital and print subscriptions. While print-only circulation fell by 20% in 2013 due to the shift of print-only to an all-access subscription, print and digital bundled circulation rose 108% year-on-year.

The shift to digital continues to be a top priority for the industry and is becoming a much greater part of the model. An NAA panel survey of 15 major public and private newspapers found that digital sales comprised on average 11% of total revenues in 2012 (latest available), with the percentage climbing as high as 29%. This figure captures both online subscriptions as well as advertising. However, revenue from digital advertising grew 4% in 2012, with the pace of growth decelerating sharply from recent years as the value of display advertising has come under pressure. This is an area of concern and worth monitoring, as display advertising is the prominent form of online advertising for the publishing sites.

In addition, the industry is adding new forms of revenue such as digital consulting, event marketing, and e-commerce, which make up 8% of total newspaper media revenue. According to NAA, the digital agency and marketing services, which were established in 2012 and 2013, increased 43% as of April 2014.

Print advertising remains in sharp decline, and the outlook for recapturing those dollars is bleak. The NAA stated that newspaper industry print advertising fell 8.6% in 2013, with digital gains unable to make up the difference. Although the industry is diversifying away from traditional print advertising as declines in the category mount, it remained 46% of total revenue in 2013. Declines were widespread across major categories: retail advertising again fell 8%, national advertising fell 8%, and classified fell 10.5%. From 2007 to 2012, advertising revenues in these three categories have fallen by 48%, 52%, and 67%, respectively.

Newspaper advertising revenues totaled $17.3 billion in 2013, down 22% from $22.3 billion in 2012, according to the NAA. In 2013, among mass media that sell advertising space, newspapers had the third largest share of advertising across measured media in the US (after network television and consumer magazines). Total circulation is fairly concentrated among the largest papers: the 20 biggest US newspapers account for about 25% of average weekday circulation.

TOP 10 US NEWSPAPERS
(For six months ended March 31, 2013)

	----- AVERAGE CIRCULATION -----				----- AVERAGE CIRCULATION -----		
DAILY NEWSPAPERS	PRINT	DIGITAL	TOTAL*	SUNDAY NEWSPAPERS	PRINT	DIGITAL	TOTAL*
Wall Street Journal	1,480,725	898,102	2,378,827	*New York Times*	1,254,506	1,067,923	2,322,429
New York Times	731,395	1,133,923	1,865,318	*Houston Chronicle*	412,329	90,369	502,698
USA Today	1,424,406	249,900	1,674,306	*Los Angeles Times*	775,641	178,369	954,010
Los Angeles Times	432,873	177,720	610,593	*Washington Post*	639,966	31,135	671,101
New York Daily News	360,459	155,706	516,165	*Chicago Tribune*	706,840	74,484	781,324
New York Post	299,950	200,571	500,521	*Detroit Free Press*	416,986	6,055	423,041
Washington Post	431,149	42,313	473,462	*San Jose Mercury News*	180,357	88,993	269,350
Chicago Sun-Times	184,801	77,660	262,461	*Dallas Morning News*	293,383	66,164	359,547
Denver Post	213,830	192,805	406,635	*New York Daily News*	431,519	156,386	587,905
Chicago Tribune	368,145	46,785	414,930	*Atlanta Journal-Constitution*	342,744	7,231	349,975

*Excluding branded editions.
Source: Alliance for Audited Media.

Newspapers remain relatively fragmented in the United States. The Pew Research Center, a nonpartisan think tank, counted at least 1,380 daily newspapers in operation (latest available). However, ownership is concentrated at the top, with the biggest parent companies accounting for a disproportionate share of total newspaper circulation. The top five newspaper companies own more than 370 daily newspapers. The largest newspaper company in terms of circulation and newspaper revenues is Gannett Co. Inc., which owns 82 US dailies with a cumulative daily circulation of roughly 5 million. Of the national papers, the largest is the *Wall Street Journal*, owned by News Corp, with average total circulation of 2.4 million. The *New York Times* is second largest with average total circulation of 1.9 million, while *USA Today*, owned by Gannett, is third with 1.7 million. The drop-off from there is steep, with the Tribune-owned *Los Angeles Times* coming in fourth with 610,000, and the *New York Daily News* and the *New York Post* with around 500,000 each.

A more concerted effort to promote digital subscriptions has helped to support overall circulation levels for the industry. As of March 2013 (latest available), digital circulations comprised roughly 29% of the total circulation for the top 25 newspapers. The *New York Times* jumped into the lead in terms of both absolute digital subscriptions (1.1 million) and percent of circulation (61%), as of March 2013. Other notable digital newspapers were the *Wall Street Journal*, with roughly 900,000 and 38% of total subscriptions, the *New York Post* (200,000 and 40% of total subscriptions), and the *Denver Post* (193,000 and 46%). At the lower end of the digital subscription spectrum was *USA Today* which resisted putting up a digital pay wall and restricting access to their sites. As a result, digital circulation for *USA Today* is just 15%.

MAGAZINES: FRAGMENTED, BUT WITH SOME BIG PARTICIPANTS

Thousands of consumer and business magazines are published in the US, but we think a relatively small number account for much of the industry's circulation and advertising revenue. Four companies account for the lion's share of publications and industry revenue, some of which have other media properties as well. According to data from the Publishers Information Bureau (PIB), the industry source for measuring magazine advertising, the top four publishing companies comprised roughly 64% of the total advertising market share in 2012 (latest available). Time Inc., a division of Time Warner, is the largest publisher with 21% of the advertising market share. Time Warner completed its spinoff of Time Inc. on June 6, 2014. Two privately held companies represent the second and third largest market share. The Hearst Corp. had a market share of 17%, while Condé Nast, a subsidiary of Advance Publications Inc., had a market share of 15%. Meredith Corp. had 11% market share.

According to the MPA—The Association of Magazine Media, a magazine trade group, 7,390 consumer magazines were published in North America in 2012 (latest available). Since 2009, the multi-year decline in overall magazine circulation has moderated from 2% in 2009 to around 1% in 2010 and 2011, and 0.3% in 2012. However, circulation declined 1.4% in 2013, according to the Alliance for Audited Media, which tracked 417 consumer magazines in 2013. In terms of advertising, total ad pages of the 207 magazines that the Publishers Information Bureau tracked fell 4.1% in 2013, following the 8% plunge in 2012.

Paid circulation make up the 90% of the total circulation, while single-copy sales comprise the rest. As of June 2014, the Alliance for Audited Media reported that paid subscriptions were flat in the second half of 2013 (latest available) compared with the same period in 2012, while single-copy sales fell 10%. According to the MPA, paid circulation revenues totaled $8.3 billion in 2012. The vast majority of circulation is from subscriptions, which generated $6.1 billion (75% of paid circulation) in revenue. Single copy circulation generated the remaining $2.2 billion of revenues in 2012. The industry has experienced significant declines in magazine circulation over the last five years. Since circulation volume peaked in 2006, total subscriptions have fallen by a cumulative 11% to 286 million in 2012, while single-copy sales have fallen by 44% to 27 million over that same six-year period. The industry has compensated for the circulation decline by consistently raising rates. As a result, total industry circulation revenue has held up much better. Because of the periodic rate increases, total circulation revenue only fell by 4.6% from 2006 to 2012, versus the 15% drop in total circulation.

A similar story of persistent decline in volume coupled with rate increases is playing out in magazine advertising as well. Based on PIB data, total advertising pages in tracked publications fell by 38% from 2007 to 2012. The decline stemmed from a combination of circulation declines of 16% over that same period compounded by fewer advertising pages per average publication. To help counter the steady decline in advertising pages, publishers have steadily increased the price per page. The magazine industry increased the average revenue per magazine page by 4.4% annually from 2007 to 2012, representing a 24% cumulative rise. As a result, the rate card revenue decline was a much more muted 16% from 2007 to 2012. In 2013, print ad pages were down 4%, but ad revenue for print-only versions increased 1% to $19.7 billion.

We are skeptical that the industry can continue to raise rates in the face of sharp declines in demand without exacerbating the situation. At some point, magazine publishers will need to demonstrate their value to marketers relative to new forms of advertising that are often cheaper and more measureable. Similarly, if the industry wants to stem the circulation declines and attract readers against which to sell its advertising, it may need to lessen the rate of subscription increases. In the first quarter of 2014, the rate of advertising pages and rate declines accelerated, with ad pages dropping 4% and rate card revenue falling 1.6%. We anticipate further declines in both print circulation and ad pages in the near term as attention shifts to mobile and tablet-related content. The industry can recapture some of the consumer attention and advertising dollars by expanding its digital presence, which it has only recently embraced.

Pew Research reports that online and mobile ad revenue for consumer magazines are estimated to increase by 22.4% to $3.9 billion in 2014. On the other hand, revenues from digital circulation are estimated to rise by 42% to $743 million. According to the latest data from Veronis Suhler Stevenson, a private equity firm

specializing in media, ad spending in digital circulation and subscription remains about 10% of the total magazine revenue and has not offset the losses in print.

BOOK PUBLISHING: A CONCENTRATED CORE

Books continue to be a big market in the United States, although both the medium and distribution is evolving. In the industry annual survey of the Association of American Publishers Inc. (AAP), a book publishing trade group, total sales for the trade, higher education and professional/scholarly publications markets for its members fell 0.4% in 2013 to $27.01 billion.

Total trade (excluding education) contracted by 0.3% in 2013 to $14.63 billion. E-books rose to (473 million units in 2013 and brought in $1.3 billion in revenue, up 3.8% from $1.25 billion in 2012. As tablets and e-readers proliferated in the United States since 2009, e-books have become much more widely accepted and the category has grown its share of the overall market. The AAP cites e-book total share of the US trade book market reaching 20% in 2013 versus just 1.2% in 2008. We see some early signs that the substitution effect from printed books are slowing and e-books are shifting to their own demand drivers.

In 2013, sales of print books fell 2.5% with both hardcover and paperback books declining by 0.2% and 9.1%, respectively, according to data compiled by Rüdiger Wischenbart Content and Consulting's "Global eBook Report" in April 2014 . Physical retail locations used to drive a majority of total printed book sales, but this changed in 2013 when online retail overtook publisher revenue from all brick-and-mortar outlets, with online selling representing about 35% of total trade publisher revenue.

TOP 20 GLOBAL PUBLISHERS

			WORLDWIDE REVENUES	
COMPANY	COUNTRY	PARENT COMPANY	2012	2013
1. Pearson	UK	Pearson	9,158	9,330
2. Reed Elsevier	UK/NL/US	Reed Elsevier	5,934	7,288
3. Thomson-Reuters	US	The Woodbridge Company Ltd.	5,386	5,576
4. Wolters Kluw er	NL	Wolters Kluw er	4,766	4,920
5. Random House	Germany	Bertelsmann AG	3,328	3,664
6. Hachette Livre	France	Lagardère	2,833	2,851
7. Holtzbrinck	Germany	Verlagsgruppe Georg von Holtzbrinck	2,220	2,222
8. Grupo Planeta	Spain	Grupo Planeta	2,597	2,161
9. Cengage*	US	Apax Partners et al.	1,993	N/A
10. McGraw -Hill Education	US	The McGraw -Hill Companies	2,292	1,992
11. Scholastic	US	Scholastic	2,148	1,792
12. Wiley	US	Wiley	1,783	1,761
13. De Agostini Editore*	Italy	Gruppo De Agostini	1,724	N/A
14. China Publishing Group	China (PR)	Government; partly publicly listed	1,104	1,499
15. Houghton Mifflin Harcourt	US	Houghton Mifflin Harcourt Publishing Group	1,286	1,379
16. HarperCollins	US	New s Corporation	1,189	1,369
17. Springer Science and Business Media	Germany	EQT and GIC Investors	1,298	1,301
18. Oxford University Press	UK	Oxford University	1,125	1,254
19. Shueisha	Japan	Hitotsubashi Group	1,464	1,191
20. Informa	UK	Informa plc	1,126	1,185

Source: Publishers Weekly.

Compared with other industries, book publishing is not highly concentrated. Of the more than 87,000 book publishers in the US, most are small mom-and-pop desktop operations. However, larger firms have been gaining market share, and a handful of publishers dominate certain industry segments. Educational publishing is one such highly concentrated sector. It is dominated by Pearson Education Inc. (a unit of Pearson plc), McGraw Hill Education (owned by Apollo Global Management, a private equity firm), Scholastic Corp., John Wiley & Sons Inc., and Houghton Mifflin Harcourt Publishing Co.

Aside from education, other categories dominated by a relatively small number of giants include adult and children's trade books, mass-market paperbacks, and religious books. The top five trade publishers, known

as the "Big Five" (formerly "Big Six" before Penguin and Random House merged in 2013), account for roughly half of the total sales of trade books (adult, children's, and mass-market paperbacks). The Big Five consist of Penguin Random House (co-owned by Bertelsmann and Pearson groups), Hachette Livre, HarperCollins Publishers Inc. (News Corp.), Simon & Schuster Inc. (CBS Corp.), and Macmillan (Holtzbinck Group). Thousands of other publishers also participate in these segments because the barriers to entry are not as high as in educational publishing, where only the biggest can compete.

ADVERTISING: CONTINUED EVOLUTION

As of June 2014, ZenithOptimedia estimates that the global advertising market will rise to $524 billion in 2014 from $509 billion in 2013. The United States is by far the largest advertising market, with $167 billion spent in 2013. By comparison, Japan is the second largest market with $43 billion spent in 2013, while the Eurozone spent about $70 billion. Given the relative size of the United States, all of the major agencies have a significant presence in the region.

Holding companies set the tone

Advertising is a global industry dominated by multinational holding companies that offer a wide array of services. According to *Advertising Age*, five agency networks control approximately 70% of global and 71% of US ad agency revenues. These are London-based WPP Group plc, US-based Omnicom Group Inc., Paris-based Publicis Groupe SA, US-based Interpublic Group of Companies Inc., and Japan-based Dentsu. These companies are also the largest agencies worldwide, with WPP being the leader at $17.3 billion in 2013 worldwide revenues, followed by Omnicom at $14.6 billion. Publicis and Interpublic had 2013 worldwide revenues of $9.2 billion and $7.1 billion, respectively. Dentsu retained its fifth-place position with $5.8 billion. No. 6 Havas trailed far behind the first five with sales of $2.4 billion.

In addition to the multinational conglomerates, the industry has many boutique firms that specialize in such areas as consulting, media planning and buying, direct marketing, customer relationship management (CRM), e-commerce, and public relations. Firms may specialize in a particular field, such as healthcare, financial or human resources communications; recruitment advertising; sports or entertainment marketing; field marketing (at a store or shopping center, for example); event marketing; digital and interactive marketing; or directory and business-to-business advertising.

TOP 10 GLOBAL MEDIA AGENCIES

			WORLDWIDE REVENUES			------ US REVENUES ------			OUTSIDE US REVENUES		
	COMPANY	HEADQUARTERS	2012	2013	% CHG.	2012	2013	% CHG.	2012	2013	% CHG.
1.	WPP Group	London	16,459	17,252	4.8	5,252	5,476	4.3	11,207	11,776	5.1
2.	Omnicom Group	New York	14,219	14,585	2.6	7,364	7,570	2.8	6,855	7,015	2.3
3.	Publicis Groupe	Paris	8,494	9,232	8.7	4,043	4,386	8.5	4,451	4,846	8.9
4.	Interpublic Group	New York	6,956	7,122	2.4	3,804	3,973	4.4	3,152	3,149	(0.1)
5.	Dentsu*	Tokyo	6,385	5,782	(9.4)	734	780	6.3	5,651	5,002	(11.5)
6.	Havas	Suresnes, France	2,305	2,353	2.1	741	728	(1.8)	1,564	1,625	3.9
7.	Hakuhodo DY*	Tokyo	2,184	1,841	(15.7)	0	0	NA	2,184	1,841	(15.7)
8.	Epsilon	Plano, TX	1,248	1,380	10.6	1,188	1,316	10.8	60	64	6.6
9.	IBM Interactive	New York	717	1,250	74.3	343	599	74.4	374	651	74.2
10.	MDC Partners	Toronto/New York	1,063	1,149	8.1	863	945	9.5	200	204	2.1

*Figures are estimated. NA-Not available.
Sources: *Ad Age;* company reports.

Finally, companies may manage activities such as brand identity, promotions, custom publishing, research, databases, lectures (managing/procuring distinguished speakers for corporate and organizational appearances), and so forth.

Competition among agencies is fierce, especially with Facebook and Google emerging as a potential competitor in attracting clients who can change agencies or marketing strategy with relative ease. The fact that barriers to entry are low adds to the challenge, since any creative talent can start an independent agency. Over the past 20 years, many specialty agencies have extended their market reach, attracting major

accounts from their global competitors. Moreover, new agencies have championed the lucrative digital landscape more than their established counterparts.

INDUSTRY TRENDS

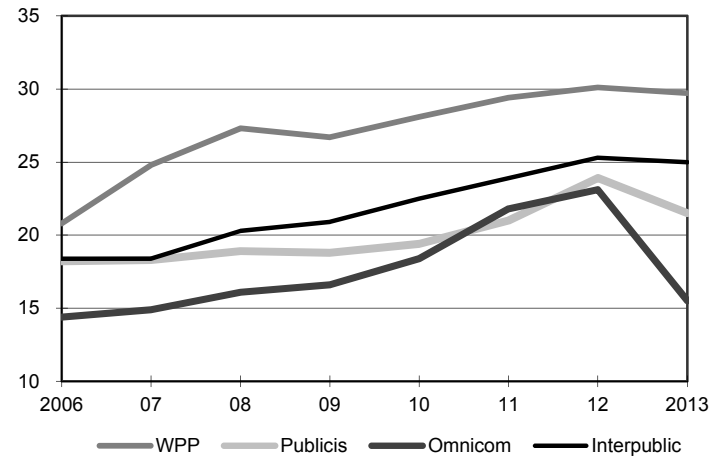
The growing exposure to developing markets is one of the greatest long-term investment strengths of the global advertising agency. While the developed markets remain extremely important in terms of size, technology and creativity, they do not provide the same growth potential as the developing markets. The consumer class is still expanding in the developing markets and discretionary outlays increasingly drive a greater proportion of the GDP mix. We see the global advertising agencies as a good investment vehicle to gain exposure to the emerging consumer theme and anticipate this improved region can support above-average revenue growth for the group in the coming years.

TOP 10 ADVERTISING MARKETS FORECAST
(In millions of dollars)

2013			2016				
	COUNTRY	AD SPENDING		COUNTRY	EST. AD SPENDING	3 YEAR CAGR (%)	
1.	United States	167,299	1.	United States	181,999	USA	2.8
2.	Japan	53,015	2.	China	53,999	Japan	(2.8)
3.	China	40,951	3.	Japan	48,678	China	9.7
4.	Germany	23,184	4.	Germany	27,520	Germany	5.9
5.	United Kingdom	20,448	5.	United Kingdom	24,142	UK	5.7
6.	Brazil	16,380	6.	Brazil	21,080	Brazil	8.8
7.	Australia	13,118	7.	Australia	13,876	Australia	1.9
8.	France	12,809	8.	Indonesia	13,672	S. Korea	8.4
9.	Canada	11,570	9.	South Korea	13,535	France	0.8
10.	South Korea	10,612	10.	France	13,136	Canada	8.8

CAGR-Compound annual growth rate.
Source: ZenithOptimedia; SP Capital IQ estimates.

While the United States is clearly the market leader in the advertising world, China and Brazil have already moved into the top-six tier of advertising markets, with Indonesia projected to join them in the top 10 by 2016. Even more pronounced is the projected rate of growth of those three major emerging market compared with the more traditional developed markets on the list. Over the next three years, the two BRIC countries on the list are forecast to grow an average of 9.3% versus an average of just 4.5% for the seven developed markets.



Source: Company reports.

The global agencies recognized the phenomenon of emerging consumer wealth long ago and began shifting their focus toward the developing markets accordingly. We attribute the desire to build out emerging market capabilities as a byproduct of following their clients. Armed with the advantage of strong relationships with their multinational clients, the agencies saw first-hand that greater resources were going toward chasing sales in the developing markets, where the growth profile was much healthier than domestically.

Increasingly, the agencies saw an opportunity to build their presence in these markets to better serve multi-national clients. As local market expertise became more established, opportunities to serve local marketers also developed.

The favored expansion method into the emerging market has been through acquisition, but the agencies have also built local expertise organically in some cases. Typically, the entry came through a joint venture or acquisition of a local market operator, which then allowed the parent to layer on some of its own technology and best practices.

WPP has been the most aggressive in terms of its ramp-up of non-Western capabilities, with its exposure up to roughly 30%. The other agencies also have established significant operations in the faster growing markets. Interpublic is second with 25% of its sales outside the US and Europe, while Publicis and Omnicom have 22% and 16%, respectively. In effect, we think all four major holding companies have more than sufficient international coverage to serve a global client across all of the major geographies.

SHIFT TO DIGITAL ADVERTISING

The other big structural growth driver of the advertising industry is exposure to digital advertising, which is a broad area encompassing anything from digital marketing, to data and insight services, to Internet advertising. In terms of the absolute ad dollars spent, Internet advertising is by far the largest area of digital advertising, a category that includes display, classified, and paid search.

An addition to the list of digital advertising is programmatic advertising. This advertising technique automates the buying and selling of digital display ads through data-driven platforms or real-time bidding, which helps in studying consumer behavior. Because of these exploding new media choices, marketers seek guidance from the agencies to navigate through the complicated environment.

According to ZenithOptimedia's (ZO) June 2014 figures, Internet advertising contributed 21% of total world advertising expenditures in 2013, overtaking newspapers at 17%. There are marked differences between countries, but the trend is clear: newspaper and magazine advertising were 25% of total global advertising in 2013, but are projected to be just 20% by 2016, according to ZO. In the same period, Internet advertising is likely to grow from 21% to 28%.

Historically, we saw programmers, packagers and advertisers pushing content at consumers—content that was to be used at specific times in particular formats. Today, however, consumers increasingly pull the information and entertainment they want, using a growing assortment of electronic devices (such as e-readers, tablets and smartphones) that enable them to read, watch, and listen at their convenience.

Agencies have been quick to react to these changes by offering an increasing amount of digital advertising services, and reducing their exposure to print media. In the world of print media, margins depended heavily on the ability of an agency to secure good pricing in broadsheets. In the world of digital, in contrast, advertising agencies must offer insight, data, and value-added services for a campaign to be effective.

Publicis has been very acquisitive in the digital media space, and it now claims that in 2013, 38% of its revenues was derived from digital sources. The group's growth has been mainly via acquisitions.

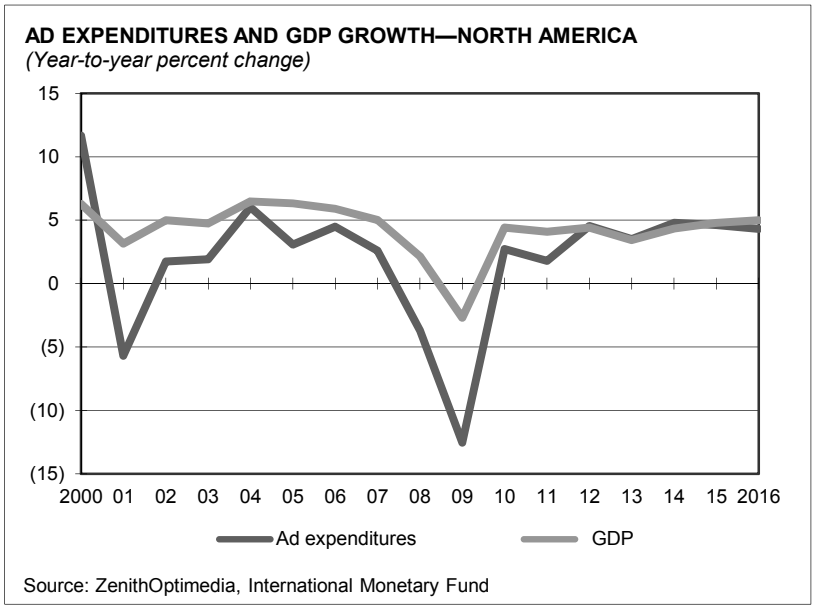
In 2007, Publicis bought digital agency Digitas, followed by the acquisition of Razorfish from Microsoft in 2009. Last year, Publicis made a sizeable acquisition in the digital space, acquiring Amsterdam-based LBi International N.V., one of the last remaining digital agencies with global scale left in the industry.

In July 2013, Publicis announced a proposed merger with Omnicom Group a key development in the advertising world, but the merger was called off. Acquisitions in 2013 included Bosz Digital, a Latin American digital production company; Netalk, China's leading social media agency; and Poke, a UK-based digital ad agency.

As partnering with marketers becomes more critical, companies will now act proactively to compete together and more aggressively. We think the trend of increasing partnerships and consolidation between large holding companies will continue.

NOT YOUR FATHER'S ADVERTISING RECOVERY

One of the interesting features of this current advertising cycle is that the pace of the recovery following the 2007–2009 US recession has been much more muted than prior cycles. Advertising is a highly discretionary expense that companies can quickly and easily curtail in the event of an economic downturn to protect margins. As a result, advertising often is one of the first areas to cut during belt-tightening periods, and the category tends to contract sharply during recessions. However, advertising budgets tend to come back quickly, as most companies don't want to stray from the public's consciousness for too long.



In prior recessions, the advertising dip proved to be temporary, with a quick and powerful recovery phase shortly after the economy began to improve. In the current cycle, not only was the advertising downdraft much more severe than in the past, but it also has taken much longer to recover the losses. In 2013, the growth rate of US ad spend was 3.5%, down from 4.5% in 2012.

In many ways, the pace of the advertising recovery mirrors a more sluggish rebound in the overall economy. Many economic indicators, such as total employment and industrial production, have been slow to rebound relative to prior cycles and remain below peak levels. Against this backdrop, it is not surprising that company managements would be reticent to expand advertising budgets aggressively. However, we recognize a few structural shifts in the advertising mindset that also could be contributing to the tepid pace of the rebound.

◆ **Bottom-line focus.** First, managements have focused on bottom-line results. As the economic crisis hit, company managements went into serious retrenchment mode, with cost-cutting given a much higher priority to protect margins and cash flow. Even when the economy moved out of crisis mode and began to improve, many companies retained their zeal for cost discipline. In general, company profits have recovered much faster than revenues. Advertising was one of the first line items caught in the cross hairs of the cost-reduction efforts, given that it is a discretionary item that can easily be cut without immediate impact on operational results. The cost discipline mentality has applied greater scrutiny to aggregate advertising budgets, which accordingly have been slow to recover.

◆ **Promotions trump ads.** Second, companies have been more willing to allocate marketing dollars to promotions rather than to advertising. This phenomenon is a direct result of recognizing a much more cost-conscious consumer with strapped financial resources. Much greater transparency in pricing and comparability across stores and mediums also play a part in price emphasis. Unfortunately, some of the increased promotion siphons advertising dollars away from higher value-added advertising and lowers the overall growth rate. We think advertising can be helpful in weaning companies off the promotion and discount cycle by emphasizing brand attributes and the differentiation that can support price premiums. It appears that companies are beginning to recognize that benefit as well.

◆ **The shift to digital.** Third, advertising dollars have shifted toward digital, which can be more cost-effective. Marketers want to spend smarter and get greater efficiency out of their advertising budgets than the traditional mix allowed. As these new forms of advertising continued to develop, marketers saw them as a way to reach similar-sized audiences at much lower total costs. Because many marketers were still learning

the landscape, the pick-up in net digital advertising did not increase enough to fully compensate for the drop-off in more expensive print advertising. A better understanding of the landscape, improved attribution tools, and more focused efforts by advertising agencies to help navigate the proper course is leading to a ramp-up of digital advertising budgets. In addition, the core digital mediums such as YouTube and Facebook are improving their ability to monetize their venues, and increasing the toll for using their portals. This development is raising the total costs for marketers to advertise through newer online and social channels. We see sustained double-digit acceleration of digital expenditures as these factors mature.

We are entering a point in the economic cycle where companies need to start focusing more on growing the top line. ZenithOptimedia projects the US advertising growth rate will decline from 4.8% in 2014 to 4.6% in 2015 and 4.3% in 2016.

SEARCH AND BEYOND

The bulk of Internet advertising expenditure (almost half) is spent on paid search, where the key market players are Google, Yahoo, and MSN's Bing, to name the largest. However, it is within display advertising that Internet advertising is seeing the biggest increase in expenditure over the next few years.

According to ZenithOptimedia, expenditures on Internet display advertising will soar to US$74.4 billion in 2014, just trailing paid search (around US$71.1 billion). In a world where search is the main form of advertising, some question the role of the agency—including disintermediation, or eliminating the role of the agency.

Those fears have proven unfounded over the last three years, with big players like Google still very much in favor of the role of the agency in helping the client make key strategic decisions. Agencies are also quick to point out that clients want an objective source to help navigate through an increasingly complex online environment. A common analogy is that a consumer would trust the advice of an independent dealership when deciding which car was best suited for her, over the appeal of any one particular car company whose motivation would slant toward its own product.

Product marketing by its nature requires a holistic approach to advertising campaigns where search can be, and usually is, one aspect of a campaign, but not the whole campaign. In particular, TV viewership has stabilized among most the developed economies, and it continues to play an important role in the advertising mix. Sticking with our car example, in order for a potential car buyer to search for a particular car model, the buyer needs to be aware that a new model actually exists, and for that to happen, TV and any form of display advertising, on and offline, continue to play key roles in the advertising mix.

If anything, we argue that the sheer complexity of media viewership means that the role of the agency is now required more than ever. An advertising campaign may begin on TV, and may be followed on direct marketing, display, dedicated websites, street advertising, and search. In the meantime, data is being harvested, analyzed, and used to change the mix through the product cycle. In this environment, the role of the agency remains extremely important.

HOW THE INDUSTRY OPERATES

Publishing companies and advertising agencies share some similar operating characteristics, including a dependency on labor and advertising. The industries also possess various unique operating drivers, however, so following the discussion of common features, we discuss each industry separately.

ADVERTISING AGENCY FUNDAMENTALS

Ad agencies work with advertisers (their clients) and the media (their suppliers) to design and implement marketing campaigns. Advertisers usually sell commercial goods or services, although government organizations or civic groups may also advertise usually in the form of public service announcements.

Ad agencies analyze the market for a particular product or service, create the communications strategy to convey the agreed-upon message, and choose the most effective media for reaching the desired market. Agencies also negotiate and place orders with the media in accordance with their clients' budgets.

Types of agencies

The principal firms in this industry are general ad agencies and boutique firms. However, individual agencies and boutiques often operate under the umbrella of a larger holding company, forming a full-service agency network.

◆ **Full-service agency groups**. Under a holding company structure, a full-service agency group offers a complete range of ad services, from creative work, production work and account handling to media planning, buying and post-buy analysis. Frequently, certain agencies in the group concentrate on media planning and buying (media independents), while other agencies handle account services, creative work and production.

At the larger holding companies, the parent company provides strategic direction as well as centralized services, such as finance and acquisition support, real estate expertise, legal counsel, and investor relations. The parent company is usually not involved in ad campaigns or other client marketing programs, which are planned, developed and executed independently and confidentially within each agency and operating company.

◆ **General advertising agencies**. The functions of a general ad agency include interacting with clients (*i.e.*, account services), designing ad campaigns (creative), making the actual ads (production), advising on placement (media planning), and booking and coordinating the appearance of the ad (media buying). Whether independent or part of an agency group, general ad agencies plan and create marketing campaigns by identifying and analyzing the market for a particular product or service, evaluating alternative methods of reaching the target market, and choosing the most effective media or promotional efforts. Media include broadcast television, cable TV, magazines, newspapers, direct mail, radio, yellow pages (or directories), the Internet, outdoor displays (billboards, public transportation, bus shelters, etc.), and others. After the campaign is created, the agency places orders for time or space in the selected media.

◆ **Boutiques**. A full marketing program includes not only traditional advertising, but also other efforts to boost product awareness and, ultimately, sales. Although most boutiques operate independently, many are owned by large holding companies, and their activities are often coordinated with those of affiliated ad agencies. Boutiques often specialize in particular marketing services. The various kinds of boutiques are detailed below.

- *Direct marketing/direct response agencies* provide strategic planning, creative services, database design and management, media buying, fulfillment services, and list buying/management. Direct marketing is any direct communication to a consumer or business that is designed to elicit a response. Responses can include an order, a request for further information, and/or a visit to a store or business to purchase a specific product or service. Direct marketing may use one or more advertising media, such as telephone marketing, direct mail, or the Internet. Because advertisers are able to track customers' responses, they gain valuable information on purchasing preferences, demographics, and spending patterns.

- *Public relations (PR) agencies* provide services that include media relations, marketing support, corporate communications, crisis management, advertising and marketing communications, and internal communications. The goal is to build a favorable image of a corporation, its brands and its products. Similarly, when the reputation of a company's major brand is threatened, PR agencies attempt to control the severity or extent of the damage.

- *Branding/logo/identity consultants* are agencies that provide the following services: brand strategies, name development, corporate identity, logo design, package design, retail design, and brand valuation, among others.

- *Sales promotion companies* provide services that include promotional marketing, premium design and production, and marketing communications. Sales promotion companies usually concentrate on developing ideas for product promotion, which is different from media advertising or direct marketing.

Examples include cents-off coupons and/or rebates, and the production of items with company logos (*e.g.*, toys, shirts, hats, golf balls, or pens).

- *Field marketing agencies* provide many services, from product manufacturing to delivery. They are directly involved in putting the product in the consumer's hands. This can include any of the following services: merchandising, point-of-sale product demonstration and coupon distribution, telemarketing, and warehouse distribution, among others.

- *Interactive agencies* are the newest in the ad industry, having emerged in response to the rapid growth of online interaction. Interactive agencies design and monitor websites for their clients, as well as produce a multitude of Internet marketing services. Interactive agencies also produce freestanding kiosks (commonly seen in the fashion and automotive industries), where consumers can design their own products online or find information about a particular product.

- *Specialty agencies* concentrate on one product area (such as financial, health, or medical) and provide numerous services to their clients. These include financial services advertising, financial notices (tombstone) placement, financial printing, medical/pharmaceutical advertising, pharmaceutical print items and/or videos, placement of recruitment ads in various media, and the like.

- *Sports marketing companies* provide sponsorship and sports marketing consultancy, event management and ownership, athlete representation, sports TV programming, and the production, sale and distribution of sports TV rights globally.

New products a plus

Product introductions are good news for ad agencies and advertising media, for a number of reasons. First, the absolute number is very high: thousands of new products (including brand extensions) are introduced annually. Second, new products typically require larger promotional budgets than do established brand-name products or extensions of existing brands. In many instances, new products differ little from existing products, so heavy promotion is especially important. Finally, with 10% to 20% of new product introductions succeeding, the universe of established products vying for consumer attention continues to grow, despite the demise of many once-familiar products each year.

Client relationships crucial

Developing and maintaining client relationships is essential in the ad industry. In some cases, smaller agencies exist solely because of one or two big accounts—thus, maintaining good client relationships is vital to their continued operations.

An ad agency's indirect customers are the consuming public. Ultimately, an advertisement's success or failure depends on whether it reaches the target market and encourages consumers to buy more products. Therefore, not only does the agency have to sell its services to the direct client, but it must also persuade the consumer to accept the client's product or cause.

Contracts between agencies and their clients customarily provide for termination by either party on relatively short notice (typically 90 days). Clients are thus able to move from one agency to another with relative ease. This arrangement puts unyielding pressure on the agency to find and keep the best creative talent.

Clients prefer not to be represented by an agency that handles competing products or services for other advertisers. Consequently, an agency must be careful not to enter into a new client agreement that conflicts with any existing clients. However, some client overlap will occur in specialty agencies that focus on advertising for a specific industry (*e.g.*, financial or medical recruitment agencies). These agencies hone their industry experience, and their clients capitalize on the agency's knowledge of the industry.

To minimize conflicts, agencies often seek clients in "open categories of business"—that is, in industries where the agency does not already have a presence. When pitching to a client in an open category of business, the agency must develop the skills and knowledge necessary to service the client. Investing in the

resources to gain this knowledge can be costly, so the agency must evaluate the financial impact of pitching in an open category of business before taking on such an endeavor.

Compensation arrangements

Clients increasingly require their agencies to provide return on advertising investment metrics. After resisting for many years, agencies have finally agreed to replace a traditional commission-based fee structure with fee-based remuneration for their creative work. Clients also are clamping down on markups for third-party work, once a profitable industry practice. Other drains on profits are stricter invoicing arrangements and low interest rates, which make placing media payments in short-term deposit accounts less profitable.

◆ **Cost-plus fee**. This kind of contract is negotiated for an overall flat fee based on the annual cost of servicing an account, in addition to out-of-pocket production expenses that are billed at cost plus an agreed-upon markup percentage.

◆ **Sliding scale fee**. Contracts negotiated for a sliding scale fee are based on the volume of services provided to the client. Sliding scale arrangements generally include an initial fee, with decreasing rates for services as predetermined thresholds are met.

◆ **Fixed-rate commission**. In a fixed-rate arrangement, if the agreed-upon rate is 10%, then the agency's fee will be 10% of all monies spent.

Seasonality

Seasonality is a factor in the timing and level of advertising spending, and therefore agency revenues. Advertising spending tends to be higher during the second and fourth quarters of the calendar year. Fourth-quarter spending is usually highest, as advertising ramps up during the holiday season.

Competitive environment

Ad agencies face competitive pressures from two directions: broad-based global companies and regional niche companies. Frequently, they must also compete with clients' in-house ad and marketing departments.

Competition among large agencies presents a challenging situation because most clients prefer not to be represented by an agency that handles products or services for competing advertisers. The ad industry has sidestepped this difficulty by forming agency groups, in which the agencies remain independent and may compete with one another, even though they are owned by the same parent company. As a result, these larger agencies gain advantages of scale relative to their smaller peers, including greater media buying power, a broader creative pool, deeper managerial bench strength, and increased financial stability.

Regionally focused agencies often position themselves as more closely attuned to local and regional markets, at lower costs and with better customer service. Some have adopted the integrated marketing concept, in which traditional ad services are supplemented by sales, marketing, and promotional services not traditionally offered by ad agencies.

The industry also has numerous small, privately held advertising firms. Barriers to entry are low in the industry, since ad and marketing businesses generally do not require significant capital for start-up. The industry is labor intensive, so employee compensation and related occupancy costs are the major cost categories.

Consolidation and M&A: business as usual for ad agencies

The advertising industry has also had its share of consolidation in recent years, which has led to a concentration of ad spending among fewer, more powerful players. Such shifts have provided many new opportunities for large advertising holding companies, which have responded in part by acquiring independent agencies. Consolidation among independent agencies is an ongoing trend as well.

Perceived low barriers to entry make it relatively easy for creative talents to launch their own agencies, causing an inherent oversupply in this segment. Independent agencies are more vulnerable than their holding company counterparts to shifts in market conditions, and the loss of a single major account can force an agency to close entirely or be sold to a competitor.

COMMON FEATURES OF PUBLISHERS

Newspapers, magazines, and books are the print publishing industry's three main products. Newspapers and magazines generate income from a mixture of advertising revenue and circulation revenue (from subscriptions and single-copy sales), while book publishing revenue is derived primarily from sales. The migration of readers to digital media platforms is affecting each of the print publishing industries. Meanwhile, for their traditional print products, we see distribution channels, paper costs and other expenses varying from sector to sector.

Labor intensity

All three segments of the publishing business are labor intensive. Newspaper and magazine publishers employ reporters, editors, researchers, editorial assistants, copy editors or sub-editors, proofreaders, art directors, photographers, graphic artists, copywriters, and illustrators on a full-time, part-time, or freelance basis. In addition, some newspapers and magazines maintain correspondents or bureaus in news centers around the world or in major US cities outside their local markets. Book publishers employ some of these same categories of workers, particularly editors, copy editors, graphic artists, proofreaders, illustrators, and researchers. Most book authors are commissioned or under a publisher's contract, not part of its salaried staff.

Magazine and book publishers usually outsource their printing and distribution functions, whereas newspaper publishers usually print in-house. Magazine and book publishers also maintain advertising sales staffs, circulation sales staffs, production personnel, and subscriber services personnel.

Circulation and advertising

Books, magazines, and newspapers compete for readers and buyers based on content, service, and price. Newspapers may compete for readership with other metropolitan, suburban, and national newspapers. Magazines compete to a large extent with similarly focused periodicals. Books compete for readers by subject matter. All three forms of publishing are up against other media for the consumer's time and money.

Newspapers and magazines also compete for advertising. This contest is based on circulation levels, readership demographics, price (measured in cost per thousand readers, or CPM), geographic coverage, and effectiveness (gauged by consumer response).

Paper: publishers' raw material

The major raw material essential to publishing is paper: coated and uncoated publication paper for magazines (body paper), newsprint for newspapers, and various book-grade papers for books. Publishers usually sign multi-year contractual agreements with major paper manufacturers to ensure adequate supplies of paper for their planned publishing requirements. Newspaper publishers also often centralize the purchase of newsprint for all of their properties. In addition, some newspaper holding companies have equity interests in newsprint suppliers.

Much of the impact of rising or falling paper prices is borne by the publisher, although the printer can also make or lose money by buying ahead and maintaining inventories of paper. (For more details on paper supplies and prices, see the *Paper & Forest Products* issue of *Industry Surveys*.)

Production

Most newspaper production is performed on company-owned presses. For most magazines, unrelated third parties do the printing under long-term contracts.

Outside printers typically publish books, but often on paper supplied by the publisher. Book manufacturing contracts are generally signed on a title-by-title basis. When the publisher does not supply paper to the printer, the printer buys in bulk from paper producers.

Distribution: getting the product out

Distribution of national, regional, and increasingly local newspapers, is most often contracted out to third parties, although many newspapers still maintain their own fleets of trucks. Book distribution uses all classes of mail or bulk shipments by freight carriers. Magazine publishers usually sign multi-year contracts

with unrelated third parties for national, regional or market-by-market newsstand distribution services. Subscription copies are mailed through the postal system or in some cases, through courier services.

NEWSPAPERS

Newspaper revenues come largely from advertising (both from print and online editions) and circulation. Some newspaper publishers also derive some revenues from commercial printing, electronic information and publishing, as well as from selling their news to others.

Competing for the advertising dollar

Newspaper advertising is sold in several ways. A full run of press (ROP) ad is printed on a newspaper page and is included in all editions. In a zoned part-run, an ad is printed on a newspaper page, but included only in editions slated for a particular area (*e.g.*, the "eastern suburbs"). Preprints or inserts are advertisements that are printed separately and inserted in a newspaper.

US newspapers compete for ad dollars with "shoppers" and direct mail. Shoppers (or "penny-savers") are free-distribution publications delivered directly to consumers' homes on a weekly, biweekly, or monthly basis. Direct-mail products include samples, magazines, catalogs, coupon packs, circulars, and so on; these are delivered by the US Postal Service or by private carriers. Shoppers and direct mail typically get 100% market penetration without duplication in targeted areas; they also provide guaranteed delivery and concentration in the area the advertiser wants to reach.

Numerous factors have aided the popularity of shoppers and printed direct mail. These include the drop in newspaper penetration rates over the years, rising advertising rates, relatively cheap third-class postage rates, the availability of demographic information keyed to postal zip codes, and relatively low production costs.

The newspaper industry has responded to these challenges by pricing preprints on a par with third-class postage, pushing preprint sales, and increasing the frequency and number of Sunday supplements and special magazine editions. In addition, many newspapers are publishing their own free-distribution papers; some have even acquired their own chains of shoppers.

These subsidiary marketing programs, called "total market coverage" (TMC) or "alternate distribution systems" (ADS), are designed to attract advertisers with a 100%-guarantee market coverage that is significantly higher than the typical daily newspaper's market reach of less than 60%. Adding a TMC or an ADS program allows a newspaper publisher to deliver the advertiser's message to those who are not part of its readership.

Newspapers operate independently, but together

Most daily newspapers operate independently of their parent companies. For example, local management usually establishes editorial policies and business practices, which allows a publisher to meet the needs of the individual areas served by its newspapers.

For corporate-owned newspapers in physical proximity to one another, publishers often combine certain operations. In an effort to improve efficiencies and cut costs, for example, accounting or payroll functions may be consolidated. Where markets overlap, newsgathering and other activities also may be shared.

Quarterly revenues of the newspaper industry vary with seasonal influences. Generally, advertising results in the second and fourth quarters are higher than in the first and third quarters due to heavy ad spending around Easter, Thanksgiving, and year-end holidays.

MAGAZINES

Factors affecting magazine publishers' revenues include advertising, circulation, and brand extension programs.

Circulation determines ad rates

Magazines usually sell three primary types of advertising: run of press (ROP), mail order, and insert. Most magazine advertising pages and revenues are derived from ROP ads, which are printed within the magazine.

Advertising rates are based on each magazine's average per-issue circulation, usually stated as cost per thousand (CPM). Readers' response to advertisers' products and services, the effectiveness of the magazine's sales team, and the quality of customer service are factors affecting advertisers' demand for ad space in a particular magazine.

In addition to circulation statistics, advertisers always demand to know the readership of both free-distribution and paid-circulation magazines. Often, readership is highest among paid-circulation magazines. That makes sense because a person is more likely to read a magazine if he or she has paid for it. However, there are plenty of exceptions. For example, in-flight magazines in the seat-back pouches of airplanes have a huge readership.

Building readership

Subscriptions are usually a magazine's largest source of circulation revenues. They may be generated through direct-mail solicitation, agencies, insert cards, or other means. Newsstand sales, including single-copy sales at supermarkets, drugstores, and other retail outlets, are another important source of circulation revenues for most magazines. (Sweepstakes promotions, which used to account for around one-third of new subscriptions, have virtually disappeared after allegations of deceptive marketing.) Magazine publishers are increasingly using specialized titles and local and regional editions to boost circulation and readership.

◆ **Subscriptions.** Publishers often entice subscribers with discounts from the stated cover price or with premiums. While discounts and giveaways do attract subscribers, they do not necessarily provide additional readers—people who read the publication after buying, borrowing, or obtaining it through other means—and the number of ultimate readers is what advertisers care about. Editorial content, therefore, is crucial to maintaining a loyal readership. Readers must perceive the magazine as valuable and worth the investment of their time and money.

◆ **Newsstand sales.** For magazine publishers, newsstand sales remain an important source of revenue for publishers and new subscriptions. The average subscription price per copy of a typical consumer magazine is generally only 40% of the newsstand cover price. Thus, a subscriber typically pays about $2 per copy for the same magazine that sells for $5 on the newsstand.

Brand extensions: money trees for magazines

For decades, magazines have created brand extensions by producing goods or services that complement and expand the franchise of an existing product, or by licensing their name to manufacturers. For instance, a consumer magazine may create related publications or merchandise (such as books, apps, personalized gifts or collectibles) bearing the magazine's name. A magazine publisher might generate additional revenues from other ventures, such as contract (or custom) publishing. A business magazine or newspaper might offer trade shows, books, or business information services.

CONSUMER BOOKS

General (or consumer) book publishing is a broad category that includes all kinds of books, both hardcover and softcover, with the exception of educational (elementary through high school, or el-hi, and college). Included in the consumer book category are adult and juvenile fiction and nonfiction (or trade books), religious books, professional books, and mass-market paperbacks. Consumer books represent roughly 70% of publishers' net sales in any given year.

Publishing catalogs

A book publisher's catalog falls into two major categories: the frontlist and the backlist.

◆ **The frontlist**. This is a publishing company's catalog of new books. In trade publishing, it is estimated that only one of every five new books succeeds. Therefore, a small number of bestsellers typically subsidize

a large number of less profitable (or unprofitable) titles. In addition, subsidiary rights from the frontlist (such as royalties from paperback reprints) can make a significant contribution to a publisher's profits.

◆ **The backlist**. The backlist comprises a publishing company's catalog of books that have already appeared in a first edition and have been, or will be, issued in subsequent editions. It is the industry's bread and butter, in that its unit sales and revenues are usually predictable. Thus, no matter what frontlist sales are like, the backlist gives publishers a measure of economic security. On average, about 25%–30% of a publisher's sales come from backlist titles. For some publishers, however, the backlist consistently provides more than 70% of sales.

Backlist books are lucrative partly because print runs are planned in advance, so there are fewer costly returns. Such works require no additional editing and very little promotion. The main expenses are manufacturing, and, occasionally, a new jacket design. Thus, while there are no hard statistics, the backlist generally provides a wider profit margin than the frontlist. However, publishers need to invest in new frontlist titles, as today's frontlist is the wellspring of tomorrow's backlist.

Factors in publishing

In the realm of consumer book publishing, important factors include per-unit costs, author advances and acquiring rights, return rates, and remainders.

◆ **Per-unit costs**. Per-unit costs are largely a function of print run size. For example, per-unit costs for mass-market paperback publishers are low compared with most other categories, because the number of copies printed is large—often more than 500,000 in the first run. In addition, these books are usually made of less expensive materials than some other types of books, such as art books or textbooks. Paper grades can differ widely in weight and quality, and therefore price. Mass-market books are also smaller than most other books and thus use less paper and material.

A specialized professional book printed in a small quantity might incur the same plant costs as a general-interest title expected to sell many copies. For the book with a short run, fixed costs are spread over a smaller number of books, raising the cost per unit. As material costs vary with the level of output, the cost of materials, such as paper and ink, is influenced by product demand.

Today, noneducational publishers typically limit the first print run of a hardcover book to 5,000 to 75,000 copies, although a new book by a best-selling author or on a popular topic can be given a first run of two million or more copies.

◆ **Author advances and acquiring rights.** Costs to cover author advances and to acquire rights affect a publisher's profitability. Buying the rights to an unreleased book by a popular author or the paperback rights to a successful hardcover title can cost well into the millions of dollars. These expenses are often higher for publishers of adult trade and mass-market paperbacks than for other publishers, such as those of professional or educational books. Such contracts can be viewed as fixed costs to be spread over high-volume output.

◆ **Return rates**. Trade and paperback publishers generally print far more copies than they expect to sell to the book-buying public, and permit retailers to return unsold books for a full refund. Returns, which entail handling, freight, processing and disposal, are costly. Both publishers and retailers spend millions of dollars to ship unsold books back and forth. On average, retailers return roughly 30% of all publishers' book shipments in any given year, although the actual percentage varies widely by category. Publishers of mass-market paperbacks incur a higher rate of returned books than any other segment.

A major determinant of return rates is the relative size of a publisher's backlist and frontlist. A publisher with many backlist titles usually has much lower returns than does a publisher that emphasizes new fiction, because a frontlist title, by definition, is new to the market, and the demand for it has not been tested. Meanwhile, publishers have a prior selling history—a yardstick—with books on the backlist; for this reason, backlist titles, such as *The Adventures of Huckleberry Finn*, see far fewer returns than new titles. While backlist sales generally are not large, they are steady and predictable.

◆ **Remainders.** Publishers tend to reduce the price of hardcover books drastically after a certain period, in a process known as remaindering. Remaindered books are offered for sale to discount bookstores, jobbers, and other vendors. Paperbacks often are shredded and recycled.

Distribution channels

Retailers and other distributors buy books directly from publishers or from book wholesalers. Retail outlets typically account for 35% or more of publishers' domestic sales of general consumer books. Direct sales to consumers, through mail order and book clubs, account for about 20%. These channels are followed by sales to college bookstores (17%), schools (15%), libraries and other institutions (excluding elementary and high school libraries; 10%), and all others (3%).

EDUCATIONAL PUBLISHING

Educational publishing comprises elementary through high school and college texts. It excludes medical, nursing, and other health sciences textbooks (published by medical publishers), which are generally considered professional books.

High capital stakes restrict el-hi competition

The process of developing instructional materials for elementary and secondary schools is complex, time consuming, and expensive. A full-scale instructional program in any given subject area, such as history or mathematics, usually consists of a series of textbooks and ancillary materials in various formats, such as workbooks and study aids.

A publisher whose textbooks do not make the grade among buyers can lose many millions of dollars in upfront spending. Moreover, after a school text is purchased, it may not be replaced for several years. However, when textbook orders do come, the quantities are large.

Heavy capital demands and erratic income flow serve as barriers to entry that have tended to keep the educational book publishing industry concentrated, as only well financed firms can afford both the upfront costs and the periodic big losses.

El-hi sales run in cycles

Elementary and secondary school textbooks and materials are usually sold to school systems on a contract basis, with the majority of deliveries made during the contract's first few years. School systems acquire their books through one of two means. Under the open territory method, both the choice and the actual purchase of textbooks are made entirely by the local school districts or individual schools. The US has no statewide purchasing schedules or state-selected lists of textbooks. Under the state adoption method, local school districts select textbooks from a menu approved by the state adoption agency. The state board issues curriculum guidelines in each subject area and schedules the purchase of new books and materials.

Twenty-one states use the adoption process to buy elementary and high school textbooks. California adopts textbooks through the eighth grade, but grades nine to 12 are open territory. The other states are open territory states (plus the District of Columbia, which is also an open territory region). Over an adoption cycle, adoption states—including such major purchasers as Texas, Florida, and California—account for the bulk of textbook purchases. In any given year, however, adoption sales may fall below open territory sales.

School districts in adoption states buy all their books by subject matter and grade level essentially at the same time and according to a schedule, although they rarely lump purchasing for every subject in one year. The adoption cycle is significant to publishers because it tends to concentrate spending. After states purchase their books, spending falls sharply until the next cycle begins.

While sales in the el-hi market have always depended on enrollment growth, textbook adoption cycles and government funding levels, funding is often the most volatile and the most difficult to predict. For example, despite the renewed federal government commitment to education through the No Child Left Behind Act of 2001, problems in state and local budgets hampered spending on school materials in the following years. Since fixed-cost items (*e.g.*, contracted teacher and support staff salaries, administration, transportation,

and building maintenance) account for the bulk of school budgets, any budget shortfalls are likely to be felt most in discretionary spending areas, such as materials, which includes textbooks.

College publishing has high profit margins

College texts are the most profitable line in the book publishing industry. Production costs are comparatively low, and cover prices are relatively high. Unit sales are far smaller than in the elementary or secondary school textbook markets. For this reason, college texts typically are more expensive than consumer-oriented books or el-hi textbooks. El-hi instructional programs, which are usually organized in series and sold to a number of states, must meet specific pedagogical and governmental guidelines requiring numerous reviews and revisions. College textbooks are not subject to such scrutiny.

KEY INDUSTRY RATIOS AND STATISTICS

We see various types of macroeconomic, demographic, and industry-specific data being helpful for measuring and forecasting the shape and trends of the publishing and advertising industries. We outline some of these tools below.

◆ **Advertising spending.** Historical and projected advertising sales can serve as an indicator of general health for various media. It is also important to look into the health of the various categories to which media outlets are exposed. For example, newspapers may receive a sizable amount of their advertising from local retailers, while specialized magazines may be more dependent on product manufacturers (*e.g.,* recreational goods) that are looking to sell to the publication's target audience. Historical and projected data are reported by various trade magazines and at the websites of industry associations and research providers. The health of media ad spending contributes to the pace and direction of revenues at various ad agencies.

◆ **Consumer confidence.** The most widely followed consumer confidence survey is conducted by the Conference Board—a private, nonprofit research organization that polls 5,000 representative US households to gauge consumer sentiment. A high level of consumer confidence generally signals that people feel good about the economy, their job prospects, and their future earnings ability. Rising index levels may indicate that consumers expect further economic growth in the months ahead, which generally bodes well for publishers' advertising and circulation sales. Even when confidence levels are relatively low, the comparatively low cost of print publications versus other forms of entertainment should bolster their appeal to consumers, in our view.

◆ **Cost-per-thousand (CPM).** This refers to the price of reaching 1,000 households or readers with an advertisement. It can be used as a measure of cost efficiency, enabling advertisers to compare opportunities in various media. In addition, changes in CPM pricing may be used as a gauge of pricing power for a particular medium or publication.

◆ **Currency exchange rates.** Revenues and earnings from international operations, which are generally denominated in local currencies, are subject to the risks of currency exchange rate fluctuations. For US companies, financial results from international markets would be translated back into dollars, with a weaker dollar generally being favorable. In our view, among major publishing and advertising categories, we see major ad agencies as the most likely to be affected by currency fluctuations, due to their broad geographic scope. Various US magazine publishers have extended their brands into foreign markets, which also could cause them to have some currency exposure. In general, we see US newspaper publishers as being much less likely to be affected by exchange rates, since the bulk of their operations are in the US.

◆ **Demographics.** Measuring the size and growth rates for various parts of the population should be useful in projecting changes in book, newspaper and magazine readership, including the manner in which reading material is accessed. For example, we think that consumers under the age of 35 are more likely to seek and consume digital/electronic reading materials than their older counterparts. Older consumers are likely to have more appreciation for traditional printed products.

Demographic data can be particularly helpful in getting a general idea of the long-range growth prospects for various segments of the economy and in understanding certain target markets. Sources of population

data include the US Census Bureau (http://www.census.gov) and *Ad Age* magazine. These statistics play central roles in both television and radio advertising, particularly when a market is highly segmented. The growth rate and size of key age groups and other categories (such as married couples, grandparents, or working mothers) can determine how much advertising money a segment will attract and which broadcast medium is best suited to reach that segment.

◆ **Gross versus net revenues.** For the publishing industry, advertising and subscription revenues can be reported in a number of ways. In general, we see gross revenues being based on rate cards (*i.e.,* posted prices), while net revenue is a better reflection of what a publisher actually receives after discounts have been applied. Following negotiations over price, we think that a publisher's net ad revenue is often much less than gross revenue. However, we think that gross revenue may often be easier to compute, especially for individual publications, since it would not require disclosure or estimates of price discounting.

◆ **Local and regional economies.** For publications whose target audience is largely within a particular locality or region, the economic health of that geographic area is likely to affect advertising trends within that market. We would expect factors such as employment levels, consumer income, retail sales, and store openings to have an impact on advertising demand.

◆ **Measured media.** These are the various advertising platforms for which audience or distribution data are compiled. Major examples include television, radio, newspapers, magazines, and the Internet. Other forms of marketing, such as direct mail and promotional activity, are considered to be unmeasured media.

◆ **Paper inventories.** Although we see published material and readership increasingly moving to digital platforms, paper is still an important cost component for many publishers. Monthly statistics and other information on pricing trends, manufacturing capacity, and exports and imports of newsprint, coated paper, and uncoated paper are provided by the US Department of Commerce, *Pulp & Paper Week* magazine, and the American Forest & Paper Association.

◆ **Real growth in gross domestic product (GDP).** Reported quarterly by the US Department of Commerce, real GDP measures the change in the nation's output of goods and services, adjusted for inflation. It thus indicates the overall health of the country's economy. We see advertising as both a stimulus for and a reflection of consumer spending, which accounts for roughly 65%–70% of US GDP.

◆ **School/college enrollment trends.** Trends in elementary, high school and college enrollment are essential for projecting textbook sales. Enrollment levels influence demand for textbooks, particularly for college textbook sales. A primary source of enrollment data is the National Center for Education Statistics (http://nces.ed.gov), a US Department of Education agency that collects and analyzes education-related data.

HOW TO ANALYZE A PUBLISHING OR ADVERTISING COMPANY

While each industry has unique aspects to analyze, a number of common factors are significant to publishers and ad agencies.

THE ECONOMY INFLUENCES ADVERTISING DEMAND

Newspapers, magazines, and ad agencies are significantly affected by the demand for advertising, which in turn is influenced by overall economic activity. During periods of prolonged economic decline, corporate revenues fall and companies reduce costs to maintain profits. Since cutting fixed costs or personnel can be difficult, ad budgets often are among the first expenses to be cut. This hurts both advertising agencies that create and buy ads on behalf of their clients, as well as the media outlets that sell their advertising inventory. Conversely, during periods of economic prosperity, the overall level of advertising usually rises.

For many publishers, we think that economic conditions at the local or regional level can have a greater influence on advertising demand than do conditions affecting the nation at large. This is particularly true for newspapers, many of which have a much narrower geographic focus than magazines.

In addition, we view some industries as being more economically sensitive than others, which is likely to cause relatively large swings in related ad spending. Examples include the housing and auto industries. In addition to economic factors, we see newspaper and magazine publishers being vulnerable to changes in technology and reading patterns.

We think that time spent retrieving information on the Internet is often at the expense of traditional print publications. Where readers go, advertisers are likely to follow.

For ad agencies, a diversified client base should help provide some protection from economic declines or downturns in specific industries. We also note that the world's largest agencies derive a substantial portion of revenues from many regions outside their home country; thus, the effect of a weak US economy may be offset by strength in overseas economies, for example.

Newspaper and magazine circulation; book purchases

It is harder to quantify the impact of the economy on newspaper and magazine circulation or on general book purchases. On the one hand, periods of recession or high unemployment may force some consumers to forego optional purchases of newspapers, magazines, and books. On the other hand, during such hard times, consumers may view these relatively inexpensive purchases as even more appealing, while they reduce what they spend on theater tickets, restaurants, and other expensive items.

College book-buying trends are also strongly affected by economic conditions, because a growing proportion of the student population is nontraditional (*i.e.*, older than age 25). Inasmuch as this trend benefits trade schools and two-year colleges, it also bolsters sales of professional and vocational books. During difficult economic times, school enrollment rises as unemployed workers return to acquire new skills or to hone current abilities.

Since a slow economy often means fewer job prospects, more graduating high school seniors may consider entering college or trade school. At the same time, however, students generally have fewer dollars to spend on textbooks and related literature. Thus, many will buy fewer books, if possible, or they will purchase used books or e-books.

With respect to elementary through high school (el-hi) textbooks, more than 90% of the funding for these purchases comes from state and local governments. Thus, economic conditions at the state and local levels play a large part in el-hi school spending.

Competitive environment

The level and type of competition in a market can affect competing advertising media unevenly. Therefore, in addition to considering overall advertising health, it is important to consider competitive factors. We see newer digital media, such as the Internet, providing both new distribution opportunities and increased competition for print publishers. We see growing penetration of broadband Internet access opening the way for further fragmentation of the media and advertising pie.

For publishers, other parts of the competitive landscape include cable companies, local TV and radio stations, and national TV and radio networks. In some markets, paid circulation publications also face challenges from other print media such as free newspapers, which look to bolster advertising demand through the circulation they generate.

ANALYSIS OF MANAGEMENT

Making an assessment of the quality and experience of a management team can give an analyst important insight into the direction of a company. An analyst should consider the following factors when assessing the quality of a company's management.

◆ **Long-term or short-term focus.** Do managers have a long-term focus on the overall health of the business, or do they seem preoccupied with short-term results? For example, a long-term view might be

attributed to a company that focuses on customer satisfaction ratings or reader engagement and reach statistics regardless of the cyclical status of the environment.

◆ **Executive pay.** Is the executive pay structure aligned to shareholder interests? If executives receive significant compensation regardless of their performance, that would be an indicator that pay incentives are not properly aligned.

◆ **Management results**. What is the management team's track record for guiding the company? Does it have a long-term vision for the company and strategic plans to reach that vision, or does the company's direction often change?

◆ **Management structure.** Does the company's management structure make sense for its business? Ad agencies, for example, are structured differently than other companies. Most corporations are structured around product lines, brands, services, or other business units; ad agencies, by contrast, are structured around client accounts. Because clients come and go, and account needs change, openness and flexibility are important aspects of an ad agency's culture.

Financial indicators

A thorough review should be undertaken that compares a company's performance on various financial indicators versus its peers, including revenue growth, cash flow yield, operating margin, and balance sheet data. However, it is not sufficient to simply analyze the relative position of a company versus its peer group; the health of the overall industry must also be considered.

The newspaper industry, for example, generally boasts strong operating margins and cash flow yields compared with other industries. Over the past few years, however, these ratios have generally declined, and newspaper stock prices have fallen in tandem. Thus, it is vitally important to understand both the direction in which financial indicators are moving and a company's overall positioning relative to its peers.

MAGAZINES AND NEWSPAPERS

The major factors affecting the business health of most magazine and newspaper publishers are advertising and circulation revenues (sales of individual publications via single-copy newsstand sales as well as by subscription). The analyst must consider the revenue mix of advertising versus circulation, as well as the composition of each revenue category.

Revenue mix

A company in which ad revenue predominates over circulation will benefit from a strong advertising environment. Conversely, a publisher that depends more on circulation than on ad revenue will be strongly affected by changes in sales patterns and pricing, for subscriptions as well as for single-copy sales.

Typically, newspapers receive more than 80% of their revenues from advertising and about 20% from circulation. Magazine publishers exhibit more pronounced differences, with no norm for revenue and circulation breakdowns. Advertising accounted for 67% of consumer magazine revenue in 2013, but individual titles vary widely. For instance, one magazine may derive 50% of its revenue from advertising and 50% from circulation, while another may receive 90% or more of revenue from advertising or circulation alone. Periodicals that are distributed free of charge are commonly controlled circulation publications, which are highly targeted to a specific audience.

Advertising mix

Among newspaper publishers, the portion of advertising revenue contributed by classified, retail and national advertising can influence results. For example, if total newspaper advertising is expected to grow 10% at a time when classifieds are projected to rise by only 4%, then a publisher heavily weighted with classified advertising might not be expected to do as well as the industry as a whole.

When looking at an individual newspaper or magazine publishing company, the analyst should determine if anything in its market or advertiser mix might affect whole categories of advertisers. Who are the company's

major advertisers? Is the mix diversified, or is it weighted heavily toward one product or industry? In general, the more diverse a publication's advertisers, the greater its ability to weather the ad market's vagaries.

If major advertisers include large local department stores or other businesses, are these companies in the process of consolidating? The amount spent on advertising by a merged business is usually less than the total spent by the individual firms before the merger.

Are other advertisers, such as new car dealers, following their customers to the suburbs? If so, is the publisher also following its advertisers by offering zoned or targeted editions? Consider the economic and competitive conditions of local markets that have an impact on the health of advertising segments such as used car dealerships or real estate.

Timely information on advertising statistics and trends can be obtained from such sources as *Advertising Age* magazine, ZenithOptimedia's *Advertising Expenditure Forecasts,* the Newspaper Association of America, and the MPA—The Association of Magazine Media. However, we caution that definitions may vary on what is included in various categories and in how such data as advertising revenue are measured (for more on this, see the "Key Industry Ratios and Statistics" section of this *Survey*).

Circulation mix

When assessing the health or the growth prospects of a magazine or newspaper publisher, it is important to examine the proportion of newsstand versus subscription sales. Subscription sales provide a fairly secure circulation rate base, while newsstand (single-copy) sales generate more revenue per copy. It is also important to note the quality of a newspaper publisher's circulation numbers. Does the publisher count a significant portion of circulation as coming from third parties, such as hotels, or from distribution areas hundreds of miles outside the major city that the newspaper serves? In recent years, local advertisers have determined that third-party circulation and long-distance distribution are less valuable to them than local subscriptions and newsstand sales. Sales trends in the two latter categories affect a company's revenues.

At present, newsstand sales of magazines and newspapers are experiencing a long-term decline. Subscription sales revenues are also slowly declining, despite higher prices charged by publishers.

Knowing a publication's audience demographics helps the analyst understand trends in the publisher's financial results. One might ask, for instance, whether subscribers to a magazine are trickling away because its readership is aging or perhaps migrating to the Internet. What is management doing to replace those readers? What are the characteristics of the new demographic target, and how fast will the new audience of readers grow? What editorial or platform changes are necessary to attract the new demographic?

Book publishers

For book publishers, revenue from unit sales is the main source of income. Beyond that, it is important to analyze a company's sales mix.

◆ **Unit sales.** Book publishers depend on unit sales rather than advertising, so the kinds of markets targeted by the company must be considered. Does the firm sell to businesses and professionals, children, trade groups, or other markets? Are its products printed books, software programs, or both? Each market segment has its own dynamics. In any given year, demand for various types of books can vary widely. For example, adult trade hardcover sales might be soft one year, but juvenile trade might be strong—boosted, for example, by a new installment in a best-selling series, such as the *Harry Potter* series. Other segments tend to ebb and flow in multi-year cycles, such as grade-school publishing.

◆ **Product mix.** It is essential to distinguish between types of publications when looking at a book publisher. An educational publisher's sales do not correlate with those of trade or general publishing. Even within the educational publishing field, college sales may flounder while elementary sales surge, or vice versa. As explained in the "How the Industry Operates" section of this *Survey*, state adoption cycles play key roles in el-hi publishing. Demographics, economic conditions, recruitment efforts and other factors affect college enrollments and college textbook sales.

Demographic trends and economic cycles can affect trade, general, professional, and other noneducational book segments in various ways. For example, demographic trends now favor rising book readership in general, but an economic slowdown can affect gift giving (and thus juvenile trade books) and discretionary purchases (adult fiction).

On the expense side

With respect to expenses, publishers have some costs in common. Book, magazine, and newspaper publishers alike bear costs for labor, paper, production, and distribution.

◆ **Labor costs.** Personnel expense is the largest cost item for publishers. Some of the questions that should be asked are: Is the company downsizing or expanding? What will average wage hikes be? What proportion of the work force is unionized? Are contracts up for renewal? How fast are benefit costs rising?

It is important to determine the ratio of personnel costs to revenue (or to total costs) and to compare these ratios with those of peer companies. Analysts should look at the direction of cost ratio trends, both for individual publishers and for the industry as a whole.

◆ **Paper costs.** Paper is the second largest cost item for a typical publisher; as such, its pricing trends are critical to a publisher's profit margin. As paper is a cyclical commodity, its prices can change rapidly. The analyst should find out what each company is paying on average for paper, and compare these amounts with list prices and peer averages. Many paper users are able to negotiate discounts on quoted list prices from manufacturers, a practice that is particularly common during soft paper cycles. More often than not, the size of these discounts is significant. Although publishers may keep only one or two months' paper inventory on hand, many negotiate longer-term contracts at set prices. Thus, paper price increases and decreases will not affect such publishers until their contracts expire and come up for renegotiation.

Analysts must look at paper-consumption patterns on both an industrywide basis and a company-by-company basis. If one publisher cuts pages or frequency, trims page size, or closes publications, its paper usage will decrease and so will its costs. The launch of a new magazine obviously will raise a publisher's paper usage and thus its paper costs. Strong advertising demand requires more pages per issue, also boosting usage.

◆ **Production and distribution costs**. In addition to paper, production costs include such items as ink and machinery, or—if printing and production are farmed out—printers' fees. Postage and other distribution costs are also key factors affecting profits for all sectors, although the impact of these cost items varies by company. For example, a magazine publisher with a large subscription base will be more affected by a hike in postage than a publisher largely dependent on newsstand sales.

The analyst should take note of capital spending plans. Is the publisher planning (or in the midst of) plant expansion or modernization? Is it playing catch-up with its peers, or is it in step with or ahead of the crowd in terms of its physical operations? What industrywide upgrades are publishers preparing for or talking about?

AD AGENCIES AND HOLDING COMPANIES

For an ad agency, creativity is the key to winning and maintaining clients. After all, no matter how well an ad or marketing program is put together, if it does not move consumers to act, it has failed. In turn, the key to continually developing innovative ad campaigns is having employees capable of doing just that.

At the heart of the agency: employee issues

Unsurprisingly, an ad agency's largest cost is its personnel. Typically, wages and salaries account for 55%–60% of expenses, and range from 50% to about 70%, depending on the agency. Thus, hiring and maintaining the best managers, creative talent, planners, and other staff is an expensive and competitive proposition, and agencies vie fiercely for the best and most talented employees.

As a result of the central role of human resources in this industry, agencies must focus on both recruitment and retention to be successful. A strong relationship often forms between a client and an account executive who

has remained on the account for several years, and it is not uncommon for an account to follow an executive who has been lured away by a competing agency or who has decided to start his or her own agency.

An indication of a company's creative success that helps measure the effectiveness of its hiring practices can be gleaned from how many industry awards it has won compared with its peers. Industry awards include the Gold Lion, Palme d'Or and Grand Prix (Cannes Lions International Advertising Festival); the ECHO (Direct Marketing Association, for direct marketing); the O'Toole (American Association of Advertising Agencies); the ADDY (American Advertising Federation, for excellence in advertising); the Effies (New York American Marketing Association, for ad effectiveness); and the Clio (The Nielsen Co., for excellence in advertising).

Occupancy costs

After direct employee costs, occupancy (office space) is the second highest expenditure for the typical ad agency. Quite simply, ad agencies need office space to conduct their business. Occupancy costs per employee, square footage per employee, and comparisons with historical occupancy and square footage are key measures when comparing an agency's operating efficiencies with those of its peers. Some agencies have moved to a "virtual office" concept, where employees share workspaces and are equipped with mobile gadgets to conduct business at home, in the office, on the road, or out of town.

Revenue composition

An agency's client list is an important indicator of how it can expect to fare. For example, while an economic slump would hurt most advertising segments, the direct-to-consumer drug and remedy segment might experience relatively strong spending, partly because of new drugs and new therapy campaigns, but also because of the generally recession-proof nature of consumer spending on drugs. Therefore, an agency or group with several clients in these areas would probably outperform its peers.

Product diversity is another important consideration. Many of the largest agencies generate significant revenues from nontraditional sources, such as special events promotion and public relations management. Revenues from these sources may be less cyclical than those from creating advertising and buying ad space. It is also important to understand an agency's digital capabilities, since that is a strongly growing ad segment.

Compensation structures

When analyzing revenues, it is important to determine what percentage of a company's business is based on billings, as opposed to other fee arrangements. Under the billings-based arrangement, an agency's compensation is calculated as a fixed percentage of the client's total spending (or total billings for media placements and the like). Thus, agencies benefit from rising media prices and from growing media budgets. Conversely, significant cutbacks in client spending can greatly reduce agency income.

Key performance measures

When evaluating an ad agency, comparative analysis is important. Agencies can be benchmarked against other agencies based on annual reports and other company documents or material published by trade organizations such as the American Association of Advertising Agencies. In addition, creativity awards, such as the Clio, are highly visible and may be used as benchmarks.

In addition to the performance indicators mentioned in the financial indicators section, analysts may also consider the following: occupancy trends, comparisons of square footage to headcount, payroll as a percentage of revenue, liquidity/cash management, pretax income growth, and effective tax rates.

Other areas that may be monitored are work force utilization (chargeable ratios measure billable time spent on a marketing or advertising program), employee turnover, professional fees paid to consultants, average days billings in accounts receivable, and age of receivables. With this information, the analyst can determine the health of the agency business and run comparative analyses with results of competitors.

EQUITY VALUATION

The price-to-earnings (P/E) ratio—the price of a stock divided by its annual earnings per share—is one of the most widely used valuation measures. It is useful for comparing a company with others in the same

industry and other industries. The P/E ratio gives investors an idea of how much they are paying for a company's earning power. Investors typically afford a company a higher P/E ratio if its earnings are expected to grow more rapidly than those of its competitors.

Over the past 10 years, stocks of the major publishing companies have tended to have P/E ratios below those of the broader stock market. This reflects the greater perceived investment risk by investors, given secular pressures due to shifting advertising spending to digital alternatives.

In the case of major advertising agencies, the P/E value can be understated due to the significant levels of leverage used within the industry. As a result, the ratio of the enterprise value (EV) to earnings before interest, taxes, depreciation and amortization (EV/EBITDA) is a better reflection of valuation. This ratio takes into account the total value of the company's equity and debt in relation to its ability to generate cash flow (EBITDA). ■

GLOSSARY

Advertising—A paid public message, often delivered through a mass media outlet, with the goal of promoting sales of a product and/or service, or encouraging some other action by the audience.

Advertising allowance—Money a manufacturer gives to another member of the distribution channel to advertise the manufacturer's product, service, or brand.

Advertising medium—A vehicle (such as television, radio, newspapers, or magazines) for conveying an advertising message.

Advertorial—A print or web advertisement designed to look like a news or feature story. The television or radio equivalent is known as an infomercial.

Audience—All people, households, or organizations that read, view, or hear a particular marketing communication vehicle.

Audience duplication—The overlap of people, households, or organizations that might read, view, or hear an advertisement or other marketing communication more than once if it is carried by a combination of media vehicles.

Audit—Objective confirmation by independent organizations (such as the Alliance for Audited Media) of circulation figures, web site impressions, and other records, which publications use to promote their business.

Audit report—The official findings of an audit bureau as a result of its examination of a magazine's records for a particular year or other stated period of time.

Average net paid circulation—A term often used by audit bureaus to indicate the average number of copies of a publication sold per issue. It equals the total circulation of all issues during the audit period divided by the number of issues in the audit period.

Backlist—A publisher's catalog of books in print: books that have appeared in a first edition and have been or will be issued in subsequent editions.

Banner ad—On the web, a standard advertisement (either static or animated) that normally, though not necessarily, appears near the top of a web page.

Boutique agency—An ad agency that focuses on just one or a few services. It might, for example, just produce videos.

Brand manager—The manager responsible for the marketing and advertising of a given brand.

Bulk circulation—Distribution of multiple magazine copies sent to an individual addressee.

Bulk sales—The purchase of five or more copies of a periodical for distribution to promote the buyer's business or professional interests (*e.g.*, hotels that give away newspapers).

Buying service—A company primarily engaged in buying media space or time for advertising purposes.

Card rate—The list price for advertising as it appears on the media outlet's rate card. Discounts against this rate may be available, depending on volume purchased and current supply and demand.

Circulation—The number of distributed copies of a periodical publication, often expressed as an average per issue over six months.

Classified advertising—Locally placed, typically brief, text-only newspaper ads organized by category, such as real estate for sale or help wanted.

Click-through—A measure of activity counted if a viewer selects a web page ad, thereby triggering the link assigned to it. The click-through rate is the number of times a web page ad is selected as a percentage of the number of times the ad is displayed.

Contra—A product or service (such as advertising time or space) that is exchanged for another service rather than for cash.

Controlled circulation—Distribution of a free magazine or other publication to a list of people, households, or organizations restricted by some defining characteristic, such as occupation, industry, or hobby. *(See Paid circulation.)*

Copyright—The exclusive legal right, granted by the US Copyright Office, to reproduce, publish, and sell the matter and form of a literary, musical, or artistic work.

Cost per thousand (CPM)—A measure used when quoting costs for an advertising media: for example, per thousand banner ad impressions on the web, per thousand viewers of a TV commercial, or per thousand readers of a print ad.

Creative director—An ad agency employee who supervises all workers involved in the production of advertising, including art directors, graphic designers, and copywriters.

Custom publishing—A collection of materials gathered specifically for publication to a targeted audience.

Database marketing—Using electronic databases to identify markets and fine-tune messages.

Desktop publishing—Designing and producing books, magazines, and other printed matter using a personal computer.

Direct marketing—Any communication sent to a consumer or business recipient designed to generate a response, such as a request for information, an order for merchandise, and/or a visit to a store to make a purchase.

Display advertising—Any advertising in a newspaper other than classified; depends upon a variety of visual and copy elements to present its message.

Fact sheet—A single sheet containing information about a product, service, company, or event, without high-pressure sales talk or flowery language.

Frontlist—A publisher's catalog of first-edition books in print.

Fulfillment house—A company or division of a magazine publisher that responds to and tracks orders sold through direct mail or electronic mail.

Full run—Ads that appear in all editions of a newspaper.

General advertising—Display advertising by national advertisers that promotes products or brand names on a nationwide basis.

House agency—An advertising agency that is owned and operated by the advertiser.

Image advertising—Promoting an overall perception of a company, product, or service rather than touting specific attributes. It is generally used to position a product relative to the competition.

Insert—Preprinted literature (usually advertising) that is placed inside a newspaper or magazine. *(See Run of press.)*

Make-goods—Advertising time or space set aside to compensate marketers when broadcast audiences or print circulation fall short of levels promised.

Marketing communications—All strategies, tactics, and activities used to send sales messages to targeted recipients, through whatever media channels are used.

Mass marketing—The distribution of sales communications through mass media to all residents in a geographic area.

Media kit—A package of information distributed by a media outlet to sell its advertising space. The kit typically includes information about the media vehicle, advertising rates, information about the audience it can deliver, mechanical specifications for ads, closing dates, and so on.

Net paid circulation—A term used in the Alliance for Audited Media audit reports and publishers' statements referring to total paid circulation, either through single-copy newsstand sales or through subscription sales.

Outdoor—Any form of advertising visible outside the home, such as posters placed on billboards, street furniture (kiosks and bus stops), and mass transit.

Paid circulation—Distribution of a publication via paid subscription or newsstand sales. Editorial content tends to attract an audience with certain shared characteristics, though the publisher does not restrict readership. *(See Controlled circulation.)*

Penetration—The percentage of a market that an individual medium or vehicle or advertising message (regardless of vehicles used) reaches.

Per-pocket fee—An extra fee paid to retailers for each pocket (or slot) that its magazines take up at the checkout counter.

Plug—A positive mention of a company, product, service, and/or event in any media vehicle.

Psychographics—A "psychological biography" that marketers compose from statistics denoting the attitudes and lifestyles of a particular market segment.

Public relations (PR)—Communicating information about an organization and/or its products and services to audiences beyond prospective customers.

Publicity—Mass communications for building awareness of and/or fosters an attitude toward a particular company, product, and/or service.

Publisher—Oversees the profitability of a publication (by setting the direction editorially and visually), determines target markets, manages staff, and controls resources and budgets.

Rate base—Average circulation level, which many publishers guarantee to advertisers. Advertisers use the rate base to calculate their cost per thousand (CPM).

Rate card—A printed list of standard advertising rates (card rates) for a publication, radio or television station or network, website, or other ad vehicle.

Rating point—One percent of all television households. Rating points are used to measure the percentage of households viewing a particular station at a particular time.

Reach—The number of individuals or households within a specific target audience that see a particular marketing message. It can be stated as a percentage of the target audience.

Response rate—The rate of responses received from a direct marketing campaign (typically the percentage of recipients who responded to a mailing).

Retail ad—Display advertising from local merchants, such as department and grocery stores.

Rights—A publication's ability to legally publish a writer's work, noted in terms of frequency, location, medium, distribution, and period of time.

Run—Total number of copies printed.

Run of press (ROP)—Generally refers to newspaper or magazine advertisements placed near editorial copy, as opposed to inserts or preprints. *(See Insert.)*

Sales promotion—All forms of paid communication that are attributed to a sponsor, but are not advertising or selling. Examples include cents-off coupons, samples, demonstrations, and point-of-purchase materials.

Single-copy sales—Copies of a magazine or newspaper sold individually at retail outlets; also referred to as newsstand sales.

Subscription reference books—Hardcover and paperback reference books sold by subscription.

Total market coverage (TMC)—Distribution of a newspaper intended to reach 100% of a market's total population (not just subscribers) in order to attract advertisers.

Trade magazine/publication—A publication focused on a specific industry. Also called a business-to-business or specialized business magazine.

Unpaid copies—Publications distributed to readers free of charge; also, circulation distributed at a price too low to qualify as "paid" according to the AAM.

Wholesalers—The companies that handle the physical distribution of magazines to retailers, process returns, and engage in marketing and in-store service. ■

INDUSTRY REFERENCES

PERIODICALS

Advertising Age
http://www.adage.com
Biweekly; marketing and advertising news.

Adweek
http://www.adweek.com
Daily; covers news and information about advertising, marketing, and media.

Book Industry Trends
http://www.bisg.org/publications
Annual study; provides analysis and predicts developments in the book publishing industry.

Broadcasting & Cable
http://www.broadcastingcable.com
Weekly; covers news in the television, radio, and cable industries.

Editor & Publisher
http://www.editorandpublisher.com
Weekly; coverage of developments in newspapers.

Publishers Weekly
http://www.publishersweekly.com
Weekly; covers book publishing and marketing.

The Wall Street Journal
http://www.wsj.com
Daily business newspaper; covers industry news and features in "Media & Marketing" section.

ONLINE RESOURCES

The Conference Board
http://www.conference-board.org
Disseminates statistics and makes forecasts on consumer sentiment and business trends globally.

Internet World Stats
http://www.internetworldstats.com
Internet data consolidator.

Newspapers.com
http://www.newspapers.com
Provides links to newspapers in the United States and around the world.

TRADE ASSOCIATIONS

The American Advertising Federation
http://www.aaf.org
Trade group that promotes advertising.

American Association of Advertising Agencies (AAAA)
http://www.aaaa.org
Represents US agencies; offers broad range of services, information, and expertise regarding the ad agency business.

American Booksellers Association
http://www.bookweb.org
Association of independently owned retail book stores; provides members with advocacy, information, research, and education services.

American Business Media (ABM)
http://www.americanbusinessmedia.com
Association of business information providers; provides monthly and quarterly data on advertising revenues for business-to-business magazines.

Association of American Publishers Inc. (AAP)
http://www.publishers.org
Trade group; lobbies on behalf of members and industry, sets standards, gives awards, and provides book publishing statistics.

Association of National Advertisers (ANA)
http://www.ana.net
Dedicated to marketing and brand building. Provides research, training, legislative assistance, and networking opportunities to more than 300 companies representing 8,000 brands. Publishes *Trends in Agency Compensation*, a triennial survey, and *Advertiser*, a magazine written by and for advertisers.

Cabletelevision Advertising Bureau (CAB)
http://www.thecab.tv
Represents cable system operators and programmers; provides advertising and marketing assistance to members and advertisers, compiles statistics, and promotes cable advertising.

The Direct Marketing Association (DMA)
http://www.the-dma.org
Represents more than 4,700 members worldwide, including users and suppliers in the direct, database, and interactive marketing fields.

The Interactive Advertising Bureau (IAB)
http://www.iab.net
Represents online, wireless, interactive television, and other emerging platform media; provides information and expertise to members and advertisers.

MPA—The Association of Magazine Media
http://www.magazine.org
Industry association for consumer magazines; lobbies on behalf of members and industry, compiles statistics, and conducts research. Its Publishers Information Bureau (PIB) division measures magazine advertising spending and advertising pages by category and title. Previously known as Magazine Publishers of America.

National Association of College Stores
http://www.nacs.org
Association of college stores; provides many member services, including advocacy, lobbying, research, information, education, and professional development services.

Newspaper Association of America (NAA)
http://www.naa.org
Trade association for newspapers; lobbies on behalf of members and industry, sets standards, gives awards, and compiles statistics. Conducts research and public relations for the industry; publishes *Facts About Newspapers* annually.

Radio Advertising Bureau (RAB)
http://www.rab.com
Represents radio broadcasters; provides advertising and marketing statistics, promotes favorable advertising climate, and assists stations in their marketing efforts.

Television Bureau of Advertising (TVB)
http://www.tvb.org
Represents television broadcasters; provides advertising statistics, and promotes a favorable advertising climate in the TV industry.

RESEARCH FIRMS

Alliance for Audited Media (AAM)
http://www.auditedmedia.com
Not-for-profit auditing organization supported jointly by North America's leading advertisers, ad agencies, and content providers; its purpose is to verify the circulation statements of member newspaper and magazine publishers. Formerly known as Audit Bureau of Circulations.

GfK MRI
http://www.gfkmri.com
Provider of multimedia audience research.

Kantar Media
http://www.kantarmediana.com/intelligence
Part of the Kantar Group, Kantar Media provides marketing communication and advertising expenditure information to ad agencies, advertisers, broadcasters, and publishers. Previously known as TNS Media Intelligence.

Kantar Media SRDS
http://www.srds.com
The former SRDS Media Solutions is a now unit of Kantar Media; it is a leading provider of media rates and data.

ZenithOptimedia
http://www.zenithoptimedia.com
Media services group that is owned by communications and advertising company Publicis Groupe. Research includes data on advertising industry revenues.

COMPARATIVE COMPANY ANALYSIS

				Operating Revenues																
				Million $							CAGR (%)			Index Basis (2003 = 100)				
Ticker		Company	Yr. End	2013	2012	2011	2010	2009	2008	2003	10-Yr.	5-Yr.	1-Yr.	2013	2012	2011	2010	2009
PUBLISHING & PRINTING‡																		
GCI	[]	GANNETT CO	DEC	5,161.4 A	5,353.2	5,240.0 A	5,438.7 A,C	5,613.0	6,767.6 A,C	6,711.1 A,F	(2.6)	(5.3)	(3.6)	77	80	78	81	84
MDP	†	MEREDITH CORP	JUN	1,471.3	1,376.7	1,400.5 D	1,387.7	1,408.8 D	1,595.2 D	1,080.1	3.1	(1.6)	6.9	136	127	130	128	130
NYT	†	NEW YORK TIMES CO -CL A	DEC	1,577.2 D	1,990.1 D	2,323.4	2,393.5	2,440.4 D	2,948.9	3,227.2 C	(6.9)	(11.8)	(20.7)	49	62	72	74	76
NWSA	[]	NEWS CORP	JUN	8,891.0 A	8,654.0	9,095.0 A	NA	NA	NA	NA	NA	NA	2.7	**	**	**	**	NA
SCHL	§	SCHOLASTIC CORP	# MAY	NA	1,792.4 D	2,148.8 A,C	1,906.1	1,912.9	1,849.3	2,233.8	NA	NA	NA	NA	80	96	85	86
SSP	§	EW SCRIPPS -CL A	DEC	816.9	903.5	728.7 A	776.9 D	802.4 D	1,001.8 D	1,874.8	(8.0)	(4.0)	(9.6)	44	48	39	41	43
TIME	†	TIME INC	DEC	3,354.0	3,436.0	NA	NA	NA	NA	NA	NA	NA	(2.4)	**	**	**	**	NA
JW.A	†	WILEY (JOHN) & SONS -CL A	# APR	NA	1,760.8	1,782.7	1,742.6	1,699.1	1,611.4	923.0	NA	NA	NA	NA	191	193	189	184
ADVERTISING‡																		
HHS	§	HARTE HANKS INC	DEC	559.6 D	767.7 D	850.8	860.5	860.1	1,082.8 A	944.6	(5.1)	(12.4)	(27.1)	59	81	90	91	91
IPG	[]	INTERPUBLIC GROUP OF COS	DEC	7,122.3 A	6,956.2 A	7,014.6	6,531.9	6,027.6	6,962.7	5,863.4 D	2.0	0.5	2.4	121	119	120	111	103
LAMR	†	LAMAR ADVERTISING CO -CL A	DEC	1,245.8 A	1,182.9 A	1,133.5 A	1,092.3 A	1,056.1 A	1,198.4 A	810.1 A	4.4	0.8	5.3	154	146	140	135	130
OMC	[]	OMNICOM GROUP	DEC	14,584.5	14,219.4	13,872.5	12,542.5 A	11,720.7 C	13,359.9	8,621.4 A	5.4	1.8	2.6	169	165	161	145	136
SZMK	§	SIZMEK INC	DEC	161.1 B	386.6 A	324.3 A,C	247.5 A	190.9	157.1 A	57.7	10.8	0.5	(58.3)	279	670	562	429	331
OTHER MAJOR PUBLISHERS																		
MSO		MARTHA STEWART LIVING OMNIMD	DEC	160.7	197.6	221.4	230.8	244.8	284.3 A	245.8	(4.2)	(10.8)	(18.7)	65	80	90	94	100
MNI		MCCLATCHY CO -CL A	DEC	1,242.2	1,309.6	1,269.6	1,375.2	1,471.6	1,900.5	1,099.4 D	1.2	(8.2)	(5.1)	113	119	115	125	134
PSO		PEARSON PLC -ADR	DEC	8,401.4 D	8,226.9 A,C	9,107.8 A	8,716.5 A,C	9,092.3 A	7,033.2 A	7,313.4 A	1.4	3.6	2.1	115	112	125	119	124
ENL		REED ELSEVIER NV -ADR	DEC	884.6	862.4	544.9	487.0	282.3	332.7	1,080.8	(2.0)	21.6	2.6	82	80	50	45	26
RUK		REED ELSEVIER PLC -ADR	DEC	966.3	912.3	627.7	526.4	344.4	377.2	1,099.1	(1.3)	20.7	5.9	88	83	57	48	31
TRI		THOMSON-REUTERS CORP	DEC	12,702.0 C	13,278.0	13,807.0 D	13,070.0	12,997.0 C	11,707.0 A,C	7,606.0 D	5.3	1.6	(4.3)	167	175	182	172	171
OTHER COMPANIES WITH SIGNIFICANT PUBLISHING OPERATIONS																		
DIS	[]	DISNEY (WALT) CO	SEP	45,041.0	42,278.0	40,893.0	38,063.0	36,149.0	37,843.0	27,061.0	5.2	3.5	6.5	166	156	151	141	134
DNB	[]	DUN & BRADSTREET CORP	DEC	1,655.2	1,663.0	1,758.5	1,676.6	1,687.0	1,726.3	1,386.4	1.8	(0.8)	(0.5)	119	120	127	121	122
TV		GRUPO TELEVISA SAB -ADR	DEC	5,633.7	5,345.0 C	4,485.8	4,672.5	4,009.4	3,468.2	2,096.0	10.4	10.2	5.4	269	255	214	223	191
TWX	[]	TIME WARNER INC	DEC	29,795.0 D	28,729.0	28,974.0	26,888.0	25,785.0 D	46,984.0	39,565.0 D	(2.8)	(8.7)	3.7	75	73	73	68	65
BOOK RETAILERS																		
AMZN	[]	AMAZON.COM INC	DEC	74,452.0	61,093.0 A	48,077.0 A	34,204.0	24,509.0 A	19,166.0	5,263.7	30.3	31.2	21.9	1,414	1,161	913	650	466
BKS	§	BARNES & NOBLE INC	# APR	NA	6,839.0	7,129.2	6,998.6	5,810.6 A	5,121.8 D	5,951.0 A	NA	NA	NA	NA	115	120	118	98
OTHER ADVERTISING AGENCIES																		
CCO		CLEAR CHANNEL OUTDOOR HLDGS	DEC	2,946.2	2,946.9	3,003.9	2,798.0	2,698.0	3,289.3	2,174.6	3.1	(2.2)	(0.0)	135	136	138	129	124
CBSO		CBS OUTDOOR AMERICAS -SPN	DEC	1,294.0	1,284.6	NA	NA	NA	NA	NA	NA	NA	0.7	**	**	**	**	NA
WPPGY		WPP PLC -ADR	DEC	18,263.6	16,868.7	15,570.9	14,362.3	14,039.9	10,930.5	7,325.9 A	9.6	10.8	8.3	249	230	213	196	192
MARKETING SERVICES																		
HPOL		HARRIS INTERACTIVE INC	JUN	140.3	147.5 D	165.3	168.4	184.3	238.7	130.6	0.7	(10.1)	(4.9)	107	113	127	129	141
INOC		INNOTRAC CORP	DEC	NA	107.7	84.7	79.6	100.0	131.4	74.7	NA	NA	NA	NA	144	113	107	134
SGRP		SPAR GROUP INC	DEC	112.0 A,C	102.8	73.5	63.2	57.5 A	69.6	64.9 A	5.6	10.0	8.9	173	158	113	97	89

Note: Data as originally reported. CAGR-Compound annual growth rate. ‡S&P 1500 index group. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the following calendar year. **Not calculated; data for base year or end year not available. A - This year's data reflect an acquisition or merger. B - This year's data reflect a major merger resulting in the formation of a new company. C - This year's data reflect an accounting change. D - Data exclude discontinued operations. E - Includes excise taxes. F - Includes other (nonoperating) income. G - Includes sale of leased depts. H - Some or all data are not available, due to a fiscal year change.

Net Income

Ticker		Company	Yr. End	Million $ 2013	2012	2011	2010	2009	2008	2003	CAGR (%) 10-Yr.	5-Yr.	1-Yr.	Index Basis (2003 = 100) 2013	2012	2011	2010	2009
PUBLISHING & PRINTING‡																		
GCI	[]	GANNETT CO	DEC	388.7	424.3	458.7	567.3	355.3	(6,647.6)	1,211.2	(10.7)	NM	(8.4)	32	35	38	47	29
MDP	†	MEREDITH CORP	JUN	123.7	104.4	131.6	104.0	(102.5)	134.1	91.1	3.1	(1.6)	18.5	136	115	145	114	(113)
NYT	†	NEW YORK TIMES CO -CL A	DEC	57.2	159.7	(39.7)	107.7	1.6	(66.1)	302.7	(15.4)	NM	(64.2)	19	53	(13)	36	1
NWSA	[]	NEWS CORP	JUN	506.0	(2,075.0)	678.0	NA	NA	NA	NA	NA	NA	NM	**	**	**	**	NA
SCHL	§	SCHOLASTIC CORP	# MAY	NA	35.8	108.7	43.6	58.7	13.2	58.4	NA	NA	NA	**	61	186	75	101
SSP	§	EW SCRIPPS -CL A	DEC	(0.5)	40.2	(15.5)	29.0	(192.0)	(632.3)	270.8	NM	NM	NM	(0)	15	(6)	11	(71)
TIME	†	TIME INC	DEC	201.0	263.0	NA	NA	NA	NA	NA	NA	NA	(23.6)	**	**	**	**	NA
JW.A	†	WILEY (JOHN) & SONS -CL A	# APR	NA	144.2	212.7	171.9	143.5	128.3	88.8	NA	NA	NA	**	162	239	193	162
ADVERTISING‡																		
HHS	§	HARTE HANKS INC	DEC	24.4	(73.1)	44.2	53.6	47.7	62.7	87.4	(12.0)	(17.2)	NM	28	(84)	51	61	55
IPG	[]	INTERPUBLIC GROUP OF COS	DEC	267.9	446.7	532.3	261.1	121.3	295.0	(552.9)	NM	(1.9)	(40.0)	NM	NM	NM	NM	NM
LAMR	†	LAMAR ADVERTISING CO -CL A	DEC	40.1	9.8	8.6	(40.1)	(58.0)	9.7	(39.8)	NM	32.8	308.7	NM	NM	NM	NM	NM
OMC	[]	OMNICOM GROUP	DEC	991.1	998.3	952.6	827.7	793.0	1,000.3	675.9	3.9	(0.2)	(0.7)	147	148	141	122	117
SZMK	§	SIZMEK INC	DEC	(4.7)	(238.8)	26.5	41.6	20.5	15.1	4.2	NM	NM	NM	(112)	NM	632	990	488
OTHER MAJOR PUBLISHERS																		
MSO		MARTHA STEWART LIVING OMNIMD	DEC	(1.8)	(56.1)	(15.5)	(9.6)	(14.6)	(15.7)	(1.9)	NM	NM	NM	NM	NM	NM	NM	NM
MNI		MCCLATCHY CO -CL A	DEC	18.8	(0.1)	54.4	33.2	60.3	2.8	144.2	(18.4)	46.3	NM	13	(0)	38	23	42
PSO		PEARSON PLC -ADR	DEC	487.3	460.2	1,486.9	814.2	687.1	558.4	98.1	17.4	(2.7)	5.9	497	469	1,515	830	700
ENL		REED ELSEVIER NV -ADR	DEC	902.5	867.6	566.9	498.9	313.9	409.2	304.8	11.5	17.1	4.0	296	285	186	164	103
RUK		REED ELSEVIER PLC -ADR	DEC	948.0	897.7	604.4	503.3	315.3	352.3	301.5	12.1	21.9	5.6	314	298	200	167	105
TRI		THOMSON-REUTERS CORP	DEC	127.0	2,068.0	(1,394.0)	909.0	821.0	1,405.0	844.0	(17.3)	(38.2)	(93.9)	15	245	(165)	108	97
OTHER COMPANIES WITH SIGNIFICANT PUBLISHING OPERATIONS																		
DIS	[]	DISNEY (WALT) CO	SEP	6,136.0	5,682.0	4,807.0	3,963.0	3,307.0	4,427.0	1,338.0	16.5	6.7	8.0	459	425	359	296	247
DNB	[]	DUN & BRADSTREET CORP	DEC	258.5	295.5	260.3	252.1	319.4	309.5	174.5	4.0	(3.5)	(12.5)	148	169	149	144	183
TV		GRUPO TELEVISA SAB -ADR	DEC	591.6	675.8	493.8	620.5	460.0	564.2	325.6	6.2	1.0	(12.5)	182	208	152	191	141
TWX	[]	TIME WARNER INC	DEC	3,554.0	3,019.0	2,886.0	2,578.0	2,079.0	(13,402.0)	3,146.0	1.2	NM	17.7	113	96	92	82	66
BOOK RETAILERS																		
AMZN	[]	AMAZON.COM INC	DEC	274.0	(39.0)	631.0	1,152.0	902.0	645.0	35.3	22.7	(15.7)	NM	777	(111)	1,788	3,265	2,557
BKS	§	BARNES & NOBLE INC	# APR	NA	(157.8)	(68.9)	(73.9)	36.7	85.4	151.9	NA	NA	NA	**	(104)	(45)	(49)	24
OTHER ADVERTISING AGENCIES																		
CCO		CLEAR CHANNEL OUTDOOR HLDGS	DEC	(48.5)	(183.1)	42.9	(87.5)	(868.2)	(2,851.1)	(35.0)	NM	NM	NM	NM	NM	NM	NM	NM
CBSO		CBS OUTDOOR AMERICAS -SPN	DEC	143.5	113.4	NA	NA	NA	NA	NA	NA	NA	26.5	**	**	**	**	NA
WPPGY		WPP PLC -ADR	DEC	1,552.2	1,337.9	1,305.3	902.0	707.6	641.9	371.8	15.4	19.3	16.0	417	360	351	243	190
MARKETING SERVICES																		
HPOL		HARRIS INTERACTIVE INC	JUN	6.9	(3.7)	(8.5)	(2.2)	(75.3)	(84.7)	11.1	(4.6)	NM	NM	62	(34)	(76)	(20)	(678)
INOC		INNOTRAC CORP	DEC	NA	3.5	(1.5)	(2.7)	(22.7)	3.3	(12.0)	NA	NA	NA	**	NM	NM	NM	NM
SGRP		SPAR GROUP INC	DEC	3.3	2.9	2.2	2.2	0.5	0.1	(0.5)	NM	99.9	11.0	NM	NM	NM	NM	NM

Note: Data as originally reported. CAGR-Compound annual growth rate. ‡S&P 1500 index group. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600.
#Of the following calendar year. **Not calculated; data for base year or end year not available.

Ticker		Company	Yr. End	Return on Revenues (%) 2013	2012	2011	2010	2009	Return on Assets (%) 2013	2012	2011	2010	2009	Return on Equity (%) 2013	2012	2011	2010	2009
PUBLISHING & PRINTING‡																		
GCI	[]	GANNETT CO	DEC	7.5	7.9	8.8	10.4	6.3	5.0	6.5	6.8	8.1	4.8	15.4	18.1	20.4	30.1	26.7
MDP	†	MEREDITH CORP	JUN	8.4	7.6	9.4	7.5	NM	5.9	5.6	7.7	6.1	NM	15.0	13.3	18.0	16.0	NM
NYT	†	NEW YORK TIMES CO -CL A	DEC	3.6	8.0	NM	4.5	0.1	2.1	5.6	NM	3.4	0.0	7.7	28.0	NM	17.0	0.3
NWSA	[]	NEWS CORP	JUN	5.7	NM	7.5	NA	NA	3.5	NM	NA	NA	NA	4.7	NM	NA	NA	NA
SCHL	§	SCHOLASTIC CORP	# MAY	NA	2.0	5.1	2.3	3.1	NA	2.3	6.9	2.8	3.7	NA	4.2	13.8	5.6	7.3
SSP	§	EW SCRIPPS -CL A	DEC	NM	4.4	NM	3.7	NM	NM	4.0	NM	3.6	NM	NM	7.6	NM	5.7	NM
TIME	†	TIME INC	DEC	6.0	7.7	NA	NA	NA	3.5	NA	NA	NA	NA	4.8	NA	NA	NA	NA
JW.A	†	WILEY (JOHN) & SONS -CL A	# APR	NA	8.2	11.9	9.9	8.4	NA	5.4	8.6	7.2	6.3	NA	14.4	21.3	20.2	23.2
ADVERTISING‡																		
HHS	§	HARTE HANKS INC	DEC	4.4	NM	5.2	6.2	5.5	3.5	NM	4.8	5.8	5.2	7.2	NM	10.0	12.8	12.6
IPG	[]	INTERPUBLIC GROUP OF COS	DEC	3.8	6.4	7.6	4.0	2.0	2.0	3.3	4.0	1.9	0.8	11.7	19.6	22.9	11.5	4.8
LAMR	†	LAMAR ADVERTISING CO -CL A	DEC	3.2	0.8	0.8	NM	NM	1.2	0.3	0.2	NM	NM	4.4	1.1	1.0	NM	NM
OMC	[]	OMNICOM GROUP	DEC	6.8	7.0	6.9	6.6	6.8	4.5	4.7	4.8	4.4	4.5	28.1	28.7	26.9	21.3	20.6
SZMK	§	SIZMEK INC	DEC	NM	NM	8.2	16.8	10.7	NM	NM	3.4	8.3	4.3	NM	NM	5.3	9.8	6.6
OTHER MAJOR PUBLISHERS																		
MSO		MARTHA STEWART LIVING OMNIMD	DEC	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
MNI		MCCLATCHY CO -CL A	DEC	1.5	NM	4.3	2.4	4.1	0.7	NM	1.8	1.0	1.8	13.3	NM	27.6	17.0	54.1
PSO		PEARSON PLC -ADR	DEC	5.8	5.6	16.3	9.3	7.6	2.7	2.6	8.8	5.1	4.6	5.2	5.0	16.7	10.5	9.8
ENL		REED ELSEVIER NV -ADR	DEC	102.0	100.6	104.0	102.5	111.2	45.3	47.0	33.7	32.4	27.6	47.2	49.0	35.4	34.4	30.3
RUK		REED ELSEVIER PLC -ADR	DEC	98.1	98.4	96.3	95.6	91.5	46.7	47.7	35.6	32.5	28.0	46.7	47.9	35.9	32.9	28.4
TRI		THOMSON-REUTERS CORP	DEC	1.0	15.6	NM	7.0	6.3	0.4	6.3	NM	2.6	2.3	0.8	12.4	NM	4.7	4.2
OTHER COMPANIES WITH SIGNIFICANT PUBLISHING OPERATIONS																		
DIS	[]	DISNEY (WALT) CO	SEP	13.6	13.4	11.8	10.4	9.1	7.9	7.7	6.8	6.0	5.3	14.4	14.7	12.8	11.1	10.0
DNB	[]	DUN & BRADSTREET CORP	DEC	15.6	17.8	14.8	15.0	18.9	13.3	14.9	13.4	13.8	19.2	NA	NA	NA	NA	NA
TV		GRUPO TELEVISA SAB -ADR	DEC	10.5	12.6	11.0	13.3	11.5	4.3	5.7	4.5	6.0	5.0	12.0	16.1	13.5	18.9	15.4
TWX	[]	TIME WARNER INC	DEC	11.9	10.5	10.0	9.6	8.1	5.2	4.4	4.3	3.9	2.3	11.9	10.1	9.2	7.8	5.5
BOOK RETAILERS																		
AMZN	[]	AMAZON.COM INC	DEC	0.4	NM	1.3	3.4	3.7	0.8	NM	2.9	7.1	8.2	3.1	NM	8.6	19.0	22.8
BKS	§	BARNES & NOBLE INC	# APR	NA	NM	NM	NM	0.6	NA	NM	NM	NM	1.1	NA	NM	NM	NM	4.0
OTHER ADVERTISING AGENCIES																		
CCO		CLEAR CHANNEL OUTDOOR HLDGS	DEC	NM	NM	1.4	NM	NM	NM	NM	0.6	NM	NM	NM	NM	1.7	NM	NM
CBSO		CBS OUTDOOR AMERICAS -SPN	DEC	11.1	8.8	NA	NA	NA	4.2	NA	NA	NA	NA	5.1	NA	NA	NA	NA
WPPGY		WPP PLC -ADR	DEC	8.5	7.9	8.4	6.3	5.0	3.8	3.4	3.4	2.5	2.0	13.1	12.5	12.9	9.3	7.9
MARKETING SERVICES																		
HPOL		HARRIS INTERACTIVE INC	JUN	4.9	NM	NM	NM	NM	11.9	NM	NM	NM	NM	63.7	NM	NM	NM	NM
INOC		INNOTRAC CORP	DEC	NA	3.2	NM	NM	NM	NA	8.9	NM	NM	NM	NA	16.1	NM	NM	NM
SGRP		SPAR GROUP INC	DEC	2.9	2.9	3.0	3.4	0.9	10.2	11.5	10.9	11.9	2.6	22.7	26.4	27.4	39.8	13.8

Note: Data as originally reported. ‡S&P 1500 index group. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the following calendar year.

Ticker		Company	Yr. End	Current Ratio 2013	2012	2011	2010	2009	Debt / Capital Ratio (%) 2013	2012	2011	2010	2009	Debt as a % of Net Working Capital 2013	2012	2011	2010	2009
PUBLISHING & PRINTING‡																		
GCI	[]	GANNETT CO	DEC	1.9	1.1	1.2	1.3	1.2	52.9	37.8	43.1	51.1	64.5	404.6	NM	NM	956.4	NM
MDP	†	MEREDITH CORP	JUN	0.9	0.7	0.8	0.9	1.0	21.4	21.5	13.4	23.8	36.1	NM	NM	NM	NM	NM
NYT	†	NEW YORK TIMES CO -CL A	DEC	3.4	3.1	1.5	1.7	1.0	44.8	52.4	58.0	60.2	56.0	83.1	78.7	296.8	282.4	NM
NWSA	[]	NEWS CORP	JUN	2.1	1.3	1.6	NA	NA	0.0	0.0	0.0	NA	NA	0.0	0.0	0.0	NA	NA
SCHL	§	SCHOLASTIC CORP	# MAY	NA	1.7	1.9	1.8	2.3	NA	6.2	20.1	22.5	23.7	NA	19.2	48.9	64.1	51.4
SSP	§	EW SCRIPPS -CL A	DEC	3.6	2.8	2.6	2.6	1.9	26.6	25.1	27.6	0.1	7.7	68.5	70.2	97.9	0.4	29.2
TIME	†	TIME INC	DEC	0.8	0.9	NA	NA	NA	0.9	0.8	NA	NA	NA	NM	NM	NA	NA	NA
JW.A	†	WILEY (JOHN) & SONS -CL A	# APR	NA	1.0	0.9	0.7	0.7	NA	36.2	28.4	22.0	38.6	NA	NM	NM	NM	NM
ADVERTISING‡																		
HHS	§	HARTE HANKS INC	DEC	1.7	1.6	1.3	1.0	1.5	16.7	20.5	17.0	10.4	28.8	84.2	115.2	156.9	NM	232.9
IPG	[]	INTERPUBLIC GROUP OF COS	DEC	1.0	1.1	1.0	1.1	1.1	31.4	43.8	30.9	36.0	37.1	NM	198.8	476.4	222.2	223.7
LAMR	†	LAMAR ADVERTISING CO -CL A	DEC	1.1	1.5	1.6	2.0	1.4	64.2	68.4	69.7	72.6	72.9	NM	NM	NM	NM	NM
OMC	[]	OMNICOM GROUP	DEC	0.9	1.0	0.9	0.9	0.9	46.8	49.4	41.3	41.1	31.4	NM	NM	NM	NM	NM
SZMK	§	SIZMEK INC	DEC	3.6	1.6	3.6	7.4	2.0	0.0	54.1	48.1	0.0	18.9	0.0	467.8	324.7	0.0	183.4
OTHER MAJOR PUBLISHERS																		
MSO		MARTHA STEWART LIVING OMNIMD	DEC	2.0	2.3	2.1	1.7	1.9	0.0	0.0	0.0	5.0	8.4	0.0	0.0	0.0	17.3	26.0
MNI		MCCLATCHY CO -CL A	DEC	1.4	1.3	1.2	1.1	1.2	79.1	95.1	83.4	79.0	82.1	NM	NM	NM	NM	NM
PSO		PEARSON PLC -ADR	DEC	1.2	1.4	1.8	1.9	1.9	21.1	24.1	22.9	24.0	28.5	307.3	209.1	112.8	98.5	131.0
ENL		REED ELSEVIER NV -ADR	DEC	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM
RUK		REED ELSEVIER PLC -ADR	DEC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM
TRI		THOMSON-REUTERS CORP	DEC	0.8	0.8	0.9	0.7	0.8	29.4	25.2	28.7	24.7	24.5	NM	NM	NM	NM	NM
OTHER COMPANIES WITH SIGNIFICANT PUBLISHING OPERATIONS																		
DIS	[]	DISNEY (WALT) CO	SEP	1.2	1.1	1.1	1.1	1.3	20.9	20.7	21.8	20.5	24.8	542.6	NM	671.7	845.2	396.6
DNB	[]	DUN & BRADSTREET CORP	DEC	1.0	0.9	0.8	0.7	0.9	324.2	472.3	438.1	306.0	445.1	NM	NM	NM	NM	NM
TV		GRUPO TELEVISA SAB -ADR	DEC	1.3	1.5	1.4	1.8	2.1	48.5	48.5	52.0	50.6	51.9	497.0	310.7	381.1	176.5	119.2
TWX	[]	TIME WARNER INC	DEC	1.5	1.4	1.5	1.5	1.5	38.2	37.4	37.5	32.1	30.5	450.5	552.8	432.4	367.6	362.0
BOOK RETAILERS																		
AMZN	[]	AMAZON.COM INC	DEC	1.1	1.1	1.2	1.3	1.3	33.4	31.9	15.4	8.5	4.6	315.0	167.0	54.5	19.0	10.4
BKS	§	BARNES & NOBLE INC	# APR	NA	1.2	1.1	1.0	1.0	NA	14.5	28.2	29.6	25.3	NA	77.5	278.1	NM	NM
OTHER ADVERTISING AGENCIES																		
CCO		CLEAR CHANNEL OUTDOOR HLDGS	DEC	1.6	1.9	2.0	2.0	2.1	88.9	85.0	42.7	43.1	42.9	NM	701.1	344.2	321.5	294.6
CBSO		CBS OUTDOOR AMERICAS -SPN	DEC	1.5	1.5	NA	NA	NA	0.0	0.0	NA	NA	NA	0.0	0.0	NA	NA	NA
WPPGY		WPP PLC -ADR	DEC	1.0	0.9	1.0	0.9	0.9	29.9	32.9	34.5	33.3	34.9	NM	NM	NM	NM	NM
MARKETING SERVICES																		
HPOL		HARRIS INTERACTIVE INC	JUN	1.2	1.0	1.1	1.2	1.2	0.0	13.4	30.5	36.9	42.3	0.0	NM	216.1	145.2	144.6
INOC		INNOTRAC CORP	DEC	NA	1.6	1.8	2.0	2.1	NA	2.3	1.3	0.6	1.5	NA	5.1	2.6	1.3	3.5
SGRP		SPAR GROUP INC	DEC	1.6	1.7	1.7	1.4	1.0	0.0	2.0	3.5	0.0	0.0	0.0	2.8	4.6	0.0	0.0

Note: Data as originally reported. ‡S&P 1500 index group. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the following calendar year.

Ticker		Company	Yr. End	Price / Earnings Ratio (High-Low) 2013	2012	2011	2010	2009	Dividend Payout Ratio (%) 2013	2012	2011	2010	2009	Dividend Yield (High-Low, %) 2013	2012	2011	2010	2009
PUBLISHING & PRINTING‡																		
GCI	[]	GANNETT CO	DEC	18 - 11	11 - 7	10 - 4	8 - 5	11 - 1	47	44	13	7	11	4.4 - 2.7	6.6 - 4.0	2.9 - 1.3	1.4 - 0.8	8.6 - 1.0
MDP	†	MEREDITH CORP	JUN	19 - 12	16 - 12	13 - 7	17 - 13	NM - NM	57	60	34	40	NM	4.7 - 2.9	5.2 - 3.7	4.6 - 2.6	3.1 - 2.4	8.3 - 2.7
NYT	†	NEW YORK TIMES CO -CL A	DEC	42 - 21	10 - 5	NM - NM	20 - 10	NM - NM	11	0	NM	0	0	0.5 - 0.2	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
NWSA	[]	NEWS CORP	JUN	21 - 17	NA - NA	NA - NA	NA - NA	NA - NA	0	NA	NA	NA	NA	0.0 - 0.0	NA - NA	NA - NA	NA - NA	NA - NA
SCHL	§	SCHOLASTIC CORP	# MAY	NA - NA	36 - 22	9 - 7	24 - 17	19 - 6	NA	45	13	27	19	2.2 - 1.7	2.0 - 1.2	1.9 - 1.4	1.6 - 1.1	3.2 - 1.0
SSP	§	EW SCRIPPS -CL A	DEC	NM - NM	16 - 11	NM - NM	47 - 25	NM - NM	NM	0	NM	0	NM	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
TIME	†	TIME INC	DEC	NA - NA	NA - NA	NA - NA	NA - NA	NA - NA	0	NA	NA	NA	NA	NA - NA	NA - NA	NA - NA	NA - NA	NA - NA
JW.A	†	WILEY (JOHN) & SONS -CL A	# APR	NA - NA	21 - 15	15 - 12	16 - 12	18 - 11	NA	40	23	22	23	2.8 - 1.8	2.7 - 1.8	1.9 - 1.5	1.8 - 1.4	2.1 - 1.3
ADVERTISING‡																		
HHS	§	HARTE HANKS INC	DEC	26 - 15	NM - NM	20 - 10	19 - 11	19 - 6	65	NM	46	36	40	4.3 - 2.5	8.3 - 4.2	4.6 - 2.3	3.1 - 1.9	6.7 - 2.1
IPG	[]	INTERPUBLIC GROUP OF COS	DEC	29 - 18	12 - 9	12 - 6	21 - 11	39 - 15	48	24	21	0	0	2.7 - 1.7	2.7 - 2.0	3.6 - 1.8	0.0 - 0.0	0.0 - 0.0
LAMR	†	LAMAR ADVERTISING CO -CL A	DEC	NM - 93	NM - NM	NM - NM	NM - NM	NM - NM	0	0	0	NM	NM	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
OMC	[]	OMNICOM GROUP	DEC	20 - 14	15 - 12	15 - 10	17 - 12	16 - 8	43	33	30	29	24	3.2 - 2.1	2.7 - 2.2	2.8 - 2.0	2.4 - 1.7	3.0 - 1.5
SZMK	§	SIZMEK INC	DEC	NM - NM	NM - NM	40 - 12	29 - 10	33 - 14	NM	NM	0	0	0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
OTHER MAJOR PUBLISHERS																		
MSO		MARTHA STEWART LIVING OMNIMD	DEC	NM - NM	NM - NM	NM - NM	NM - NM	NM - NM	NM	NM	NM	NM	NM	0.0 - 0.0	0.0 - 0.0	9.0 - 4.6	0.0 - 0.0	0.0 - 0.0
MNI		MCCLATCHY CO -CL A	DEC	16 - 10	NM - NM	9 - 2	18 - 7	6 - 0	0	NM	0	0	13	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	25.7 - 2.2
PSO		PEARSON PLC -ADR	DEC	37 - 28	36 - 30	11 - 8	16 - 13	17 - 10	120	122	34	53	61	4.2 - 3.2	4.1 - 3.4	4.2 - 3.3	4.2 - 3.3	6.3 - 3.6
ENL		REED ELSEVIER NV -ADR	DEC	17 - 12	13 - 8	18 - 14	20 - 15	28 - 22	48	49	77	75	122	4.2 - 2.8	5.7 - 3.9	5.6 - 4.2	5.1 - 3.7	5.7 - 4.4
RUK		REED ELSEVIER PLC -ADR	DEC	19 - 13	14 - 10	19 - 15	22 - 16	30 - 23	45	46	67	72	116	3.5 - 2.4	4.8 - 3.3	4.6 - 3.5	4.5 - 3.3	5.0 - 3.9
TRI		THOMSON-REUTERS CORP	DEC	NM - NM	12 - 10	NM - NM	36 - 29	36 - 22	867	51	NM	106	113	4.5 - 3.4	4.9 - 4.2	4.9 - 2.9	3.7 - 3.0	5.1 - 3.1
OTHER COMPANIES WITH SIGNIFICANT PUBLISHING OPERATIONS																		
DIS	[]	DISNEY (WALT) CO	SEP	22 - 15	17 - 12	17 - 11	18 - 14	18 - 9	22	19	16	17	20	1.5 - 1.0	1.6 - 1.1	1.4 - 0.9	1.2 - 0.9	2.3 - 1.1
DNB	[]	DUN & BRADSTREET CORP	DEC	19 - 12	13 - 10	16 - 11	17 - 13	14 - 11	24	23	27	28	22	2.1 - 1.3	2.4 - 1.8	2.5 - 1.7	2.1 - 1.7	2.0 - 1.6
TV		GRUPO TELEVISA SAB -ADR	DEC	25 - 18	19 - 13	25 - 16	20 - 13	23 - 11	22	9	14	0	122	1.2 - 0.9	0.7 - 0.5	0.9 - 0.6	0.0 - 0.0	10.9 - 5.4
TWX	[]	TIME WARNER INC	DEC	18 - 13	15 - 11	14 - 10	15 - 12	19 - 10	30	33	34	37	43	2.4 - 1.6	3.1 - 2.1	3.4 - 2.4	3.2 - 2.5	4.2 - 2.2
BOOK RETAILERS																		
AMZN	[]	AMAZON.COM INC	DEC	NM - NM	NM - NM	NM - NM	72 - 41	70 - 23	0	NM	0	0	0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
BKS	§	BARNES & NOBLE INC	# APR	NA - NA	NM - NM	NM - NM	NM - NM	45 - 23	NA	NM	NM	NM	156	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	6.3 - 3.0	6.8 - 3.5
OTHER ADVERTISING AGENCIES																		
CCO		CLEAR CHANNEL OUTDOOR HLDGS	DEC	NM - NM	NM - NM	NM - 79	NM - NM	NM - NM	NM	NM	0	NM	NM	8.2 - 5.2	135.8 - 40.9	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
CBSO		CBS OUTDOOR AMERICAS -SPN	DEC	NA - NA	NA - NA	NA - NA	NA - NA	NA - NA	NA	NA	NA	NA	NA	NA - NA	NA - NA	NA - NA	NA - NA	NA - NA
WPPGY		WPP PLC -ADR	DEC	19 - 12	14 - 10	13 - 8	17 - 12	17 - 8	38	38	29	34	43	3.2 - 2.0	3.9 - 2.8	3.5 - 2.2	2.9 - 2.0	5.1 - 2.5
MARKETING SERVICES																		
HPOL		HARRIS INTERACTIVE INC	JUN	18 - 10	NM - NM	NM - NM	NM - NM	NM - NM	0	NM	NM	NM	NM	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
INOC		INNOTRAC CORP	DEC	NA - NA	13 - 4	NM - NM	NM - NM	NM - NM	NA	0	NM	NM	NM	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
SGRP		SPAR GROUP INC	DEC	21 - 10	16 - 6	22 - 8	10 - 4	37 - 12	0	0	0	0	0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0

Note: Data as originally reported. ‡S&P 1500 index group. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the following calendar year.

Ticker		Company	Yr. End	Earnings per Share ($) 2013	2012	2011	2010	2009	Tangible Book Value per Share ($) 2013	2012	2011	2010	2009	Share Price (High-Low, $) 2013	2012	2011	2010	2009
PUBLISHING & PRINTING‡																		
GCI	[]	GANNETT CO	DEC	1.70	1.83	1.92	2.38	1.52	(11.31)	(4.33)	(4.38)	(4.98)	(7.66)	29.87 - 18.29	19.99 - 12.17	18.93 - 8.28	19.69 - 11.65	15.99 - 1.85
MDP	†	MEREDITH CORP	JUN	2.78	2.33	2.89	2.30	(2.28)	(11.64)	(11.73)	(6.55)	(7.78)	(9.20)	53.84 - 33.52	37.84 - 26.89	37.51 - 21.10	38.08 - 28.92	33.17 - 10.60
NYT	†	NEW YORK TIMES CO -CL A	DEC	0.38	1.08	(0.27)	0.74	0.01	4.78	3.43	(0.00)	(0.14)	(0.63)	16.14 - 8.07	11.06 - 5.88	11.72 - 5.50	14.87 - 7.06	12.75 - 3.44
NWSA	[]	NEWS CORP	JUN	0.86	(3.32)	1.08	NA	NA	13.21	NA	NA	NA	NA	18.09 - 14.39	NA - NA	NA - NA	NA - NA	NA - NA
SCHL	§	SCHOLASTIC CORP	# MAY	NA	1.12	3.47	1.31	1.61	NA	21.78	20.85	18.27	18.16	34.15 - 25.62	40.17 - 25.03	32.00 - 23.32	31.50 - 22.21	30.87 - 9.28
SSP	§	EW SCRIPPS -CL A	DEC	(0.01)	0.70	(0.27)	0.25	(3.56)	6.78	6.57	6.15	9.70	7.43	22.00 - 8.29	11.46 - 8.02	10.56 - 6.36	11.76 - 6.21	9.00 - 0.67
TIME	†	TIME INC	DEC	1.82	2.38	NA	NA	NA	NA	NA	NA	NA	NA	NA - NA	NA - NA	NA - NA	NA - NA	NA - NA
JW.A	†	WILEY (JOHN) & SONS -CL A	# APR	NA	2.43	3.53	2.86	2.45	NA	(13.67)	(9.89)	(9.85)	(13.41)	56.16 - 35.96	51.96 - 35.62	53.04 - 41.89	46.44 - 34.96	43.56 - 26.19
ADVERTISING‡																		
HHS	§	HARTE HANKS INC	DEC	0.39	(1.16)	0.70	0.84	0.75	(0.82)	(1.38)	(2.14)	(2.26)	(2.63)	10.12 - 5.98	10.24 - 5.14	13.74 - 7.00	15.84 - 9.60	14.48 - 4.50
IPG	[]	INTERPUBLIC GROUP OF COS	DEC	0.62	1.01	1.12	0.57	0.20	(3.72)	(3.65)	(2.98)	(2.42)	(3.01)	17.81 - 11.26	12.17 - 9.04	13.35 - 6.73	12.25 - 6.21	7.77 - 3.08
LAMR	†	LAMAR ADVERTISING CO -CL A	DEC	0.42	0.10	0.09	(0.44)	(0.64)	(10.44)	(11.49)	(11.44)	(12.71)	(13.73)	52.33 - 39.10	41.49 - 23.37	41.88 - 16.49	40.04 - 23.83	32.23 - 5.35
OMC	[]	OMNICOM GROUP	DEC	3.73	3.64	3.38	2.74	2.54	(22.20)	(22.29)	(19.83)	(15.79)	(11.89)	74.50 - 50.40	54.76 - 43.83	51.25 - 35.27	47.88 - 33.50	39.99 - 20.09
SZMK	§	SIZMEK INC	DEC	(0.15)	(8.69)	0.96	1.52	0.90	2.45	(9.33)	(9.93)	6.18	1.25	14.07 - 5.78	15.65 - 7.51	38.00 - 11.22	44.19 - 15.02	29.37 - 12.44
OTHER MAJOR PUBLISHERS																		
MSO		MARTHA STEWART LIVING OMNIMD	DEC	(0.03)	(0.83)	(0.28)	(0.18)	(0.27)	0.43	0.74	0.86	0.86	0.94	4.47 - 2.20	4.89 - 2.28	5.49 - 2.77	7.45 - 4.25	8.84 - 1.60
MNI		MCCLATCHY CO -CL A	DEC	0.22	0.00	0.64	0.39	0.72	(14.35)	(17.43)	(16.66)	(17.04)	(18.32)	3.48 - 2.13	3.45 - 1.50	5.61 - 1.05	7.16 - 2.60	4.04 - 0.35
PSO		PEARSON PLC -ADR	DEC	0.60	0.57	1.86	1.02	0.86	(0.20)	(1.06)	(0.76)	0.13	(1.56)	22.40 - 17.08	20.48 - 17.09	19.53 - 15.24	16.37 - 12.96	14.50 - 8.40
ENL		REED ELSEVIER NV -ADR	DEC	2.51	2.37	1.53	1.35	0.91	5.57	5.10	4.59	4.10	3.79	43.11 - 28.97	29.77 - 20.11	27.95 - 20.93	27.11 - 19.85	25.30 - 19.59
RUK		REED ELSEVIER PLC -ADR	DEC	3.23	2.99	2.01	1.66	1.12	7.24	6.61	5.94	5.27	4.95	60.05 - 40.88	42.21 - 28.66	37.91 - 29.32	35.80 - 26.47	33.56 - 26.09
TRI		THOMSON-REUTERS CORP	DEC	0.15	2.50	(1.68)	1.09	0.99	(12.75)	(10.93)	(11.77)	(12.01)	(11.04)	38.73 - 29.10	30.66 - 26.20	42.15 - 25.28	39.31 - 31.60	35.88 - 21.89
OTHER COMPANIES WITH SIGNIFICANT PUBLISHING OPERATIONS																		
DIS	[]	DISNEY (WALT) CO	SEP	3.42	3.17	2.56	2.07	1.78	5.96	5.35	4.61	4.40	5.39	76.54 - 50.18	53.40 - 37.94	44.34 - 28.19	38.00 - 28.71	32.75 - 15.14
DNB	[]	DUN & BRADSTREET CORP	DEC	6.61	6.47	5.31	5.03	6.06	(48.20)	(45.25)	(33.25)	(30.68)	(27.28)	124.17 - 77.60	86.52 - 62.62	87.08 - 58.50	84.61 - 65.34	84.95 - 68.97
TV		GRUPO TELEVISA SAB -ADR	DEC	1.23	1.41	1.05	1.33	0.97	7.58	6.69	5.16	5.20	3.83	31.02 - 21.86	26.83 - 18.69	26.67 - 17.03	26.58 - 17.05	22.16 - 10.87
TWX	[]	TIME WARNER INC	DEC	3.85	3.14	2.74	2.27	1.75	(11.41)	(11.07)	(10.38)	(6.71)	(6.32)	70.77 - 48.55	48.54 - 33.62	38.62 - 27.62	34.07 - 26.43	33.45 - 17.81
BOOK RETAILERS																		
AMZN	[]	AMAZON.COM INC	DEC	0.60	(0.09)	1.39	2.58	2.08	14.04	10.83	11.33	10.98	7.78	405.63 - 245.75	264.11 - 172.00	246.71 - 160.59	185.65 - 105.80	145.91 - 47.63
BKS	§	BARNES & NOBLE INC	# APR	NA	(3.02)	(1.41)	(1.31)	0.64	NA	(5.62)	(5.83)	(4.75)	(3.73)	23.71 - 12.59	26.00 - 9.35	21.06 - 8.45	24.71 - 11.89	28.78 - 14.81
OTHER ADVERTISING AGENCIES																		
CCO		CLEAR CHANNEL OUTDOOR HLDGS	DEC	(0.14)	(0.54)	0.11	(0.26)	(2.46)	(6.82)	(6.42)	(0.20)	(0.52)	(0.63)	10.69 - 6.84	14.88 - 4.48	15.47 - 8.66	14.46 - 8.07	11.29 - 2.14
CBSO		CBS OUTDOOR AMERICAS -SPN	DEC	1.20	0.95	NA	NA	NA	NA	NA	NA	NA	NA	NA - NA	NA - NA	NA - NA	NA - NA	NA - NA
WPPGY		WPP PLC -ADR	DEC	6.00	5.38	5.25	3.66	2.91	(21.84)	(28.75)	(28.39)	(27.78)	(30.91)	115.40 - 72.50	72.96 - 51.70	69.50 - 43.98	62.12 - 43.19	50.32 - 24.51
MARKETING SERVICES																		
HPOL		HARRIS INTERACTIVE INC	JUN	0.12	(0.07)	(0.15)	(0.04)	(1.41)	0.13	(0.10)	(0.08)	(0.05)	(0.05)	2.19 - 1.15	1.62 - 0.54	1.44 - 0.27	1.55 - 0.69	1.26 - 0.15
INOC		INNOTRAC CORP	DEC	NA	0.27	(0.12)	(0.21)	(1.80)	NA	1.78	1.52	1.66	1.94	8.60 - 2.42	3.60 - 0.95	1.93 - 0.92	1.75 - 0.80	3.74 - 0.51
SGRP		SPAR GROUP INC	DEC	0.16	0.14	0.11	0.11	0.03	0.57	0.47	0.37	0.29	0.17	3.36 - 1.61	2.30 - 0.89	2.38 - 0.87	1.10 - 0.42	1.10 - 0.36

Note: Data as originally reported. ‡S&P 1500 index group. []Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the following calendar year.
J-This amount includes intangibles that cannot be identified.

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