Advertising & Marketing Services

Advertising 101: A Primer with a Focus on Macro Trends

- **Comprehensive Overview of the Advertising Industry.** In this primer we closely examine macroeconomic trends, the domestic and international markets, and the major media that participate in this industry. We also provide a close look at the evolving digital world, its impact on agencies, and the changing competitive dynamic.
- **Close Look at Current Macro Trends.** We detail advertising patterns in recessions and economic recoveries, highlighting how we expect this downturn to play out and how the beleaguered auto industry may impact the recovery.
- **Detailed Examination of the Business Model of an Advertising and Marketing Services Company.** We discuss the structure of an ad holding company, study the growth drivers behind the business, and highlight current trends that influence its outlook.
- **2009 Company-Specific Outlooks.** We provide pertinent financial information and investment summaries for six of the top companies that we cover in the industry: Interpublic, Omnicom, WPP, Publicis, Havas, and Aegis, including an overview of each company's business mix and client base.
- **Recession Weighs on Stocks, But Fundamentals Likely to Outperform Other Traditional Media.** The highly diversified business models of the advertising and marketing services companies and somewhat variable cost structures provide a buffer to earnings in weak economic periods. Good balance sheets and limited exposure to any one vertical also minimize risks in these turbulent times. While ad spending lags an economic downturn, suggesting the worst may still be ahead of us, we do believe these businesses will weather the storm better than most and expect the stocks to continue their trend of relative outperformance in 2009 as long as the economic climate remains weak.

Advertising Agencies & Marketing Services

Alexia S. Quadrani[AC]
(1-212) 622-1896
alexia.quadrani@jpmorgan.com
J.P. Morgan Securities Inc.

Townsend Buckles, CFA, CPA
(1-212) 622-0461
townsend.buckles@jpmorgan.com
J.P. Morgan Securities Inc.

Monica DiCenso, CPA
(1-212) 622-0473
monica.dicenso@jpmorgan.com
J.P. Morgan Securities Inc.

European Advertising & Publishing

Tim Nollen[AC]
(44-20) 7325-9482
tim.nollen@jpmorgan.com
J.P. Morgan Securities Ltd.

Karim de Baecque
(44-20) 7325-9181
karim.debaecque@jpmorgan.com
J.P. Morgan Securities Ltd.

See page 126 for analyst certification and important disclosures, including non-US analyst disclosures.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Table of Contents

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Executive Summary

Relative Outperformance Likely Despite Increasingly Challenging Economic Backdrop

While the advertising and marketing services companies ended 2008 with good growth despite an increasingly difficult macro environment, 2009 will be a greater challenge. Advertising lags an economic cycle and therefore both the further deterioration of global economies and the weakening ad climate will likely lead to mid-single digit organic revenue declines this year across our universe. Foreign exchange will also be a large headwind from the stronger dollar, at least for the US-based agencies. Despite these challenges we believe these stocks are good investments or a “good place to hide” in this tumultuous marketplace. The diversified revenue stream (by geography and discipline) and the somewhat variable cost structures should lead to relatively better fundamental performance than most other media. Furthermore, this group generally has solid balance sheets and healthy free cash flow, suggesting they can weather the storm even if business deteriorates further than we project.

U.S. Ad Market Likely to Fall 9% in 2009 With More Modest 5.5% Global Decline

We estimate the global ad market will contract 5.5% in 2009. This assumes a 9% decline in the U.S. (weighed down heavily by an anemic local ad market) and more modest declines in the rest of the world – Europe down 6-9% and emerging markets flat to slightly up.

- **United States.** Ad budgets are down in 2009 across just about every vertical. Cutbacks are much more pronounced in auto and financial categories and some segments in retail are also aggressively pulling back. Other verticals like consumer package goods, restaurants and pharma have held up relatively well so far, but we expect even these segments will cut further in the months ahead. The national ad market lags an economic cycle by 6-8 months, which suggests real weakness will likely come in Q2. We estimate national ad spending will be down 6%-7% with local (which is more coincident with the economy) down close to 20% in 2009. This brings our projection for total ad spend in 2009 down 9%.
- **Europe.** J.P. Morgan expects economic growth in the UK and continental Europe to turn down sharply in 2009, and we expect ad spending will follow in similar fashion as in the US. This will likely apply to much of central/eastern Europe as well as western Europe. J.P. Morgan European Media Research projects ad spending declines ranging from -6.5% in Italy to -9.2% in Spain in 2009, with the UK, France and Germany all expected to be down -7% to -8%. The composition of the advertising markets in these countries varies (TV is more than 50% of total ad spending in Italy and Spain, print is more than 50% in Germany, and the UK stands out for its very high 24% contribution from the internet), however the pull-down from falling economies will likely produce similar downturns in all countries.
- **Asia/Pacific/ROW.** By contrast, as long as GDP is positive we would expect to see ad spending also positive in many emerging markets, albeit at notably lower rates than last year. For example, J.P. Morgan economists expect China to grow 7% in 2009, and ZenithOptimedia’s forecast is for a similar 9% growth rate. India and Brazil are forecast to grow double-digits. We would expect these growth targets to come down in upcoming forecast updates, but nevertheless, even

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

modest growth in these regions, which contribute 20% on average to ad holding company revenues, would be welcome this year.

Cutbacks in Ad Spending Are Upon Us, Although So Far a Bit More Mild Than Expected....

Cutbacks appear milder than expected, perhaps because there has been relatively muted growth in ad spending the last few years, leaving no bubble to burst in this weak economic marketplace. Ad spending only returned briefly to its historical premium growth rate to nominal GDP, in 2004, since the last downturn in 2001. We believe secular challenges in the industry (ongoing fragmentation of the audience and proliferation of new media) gave more leverage to the advertiser, limiting pricing inflation in any one place. This trend, combined with the hole left from the dotcom bust and declining ad spend in the important auto segment, has had a deflationary effect on the overall ad market.

Advertisers are also reluctant to reduce spending, as in most industries it has a very direct correlation to sales. We believe budgets have been set in general with modest declines built in, but we could very well see more dramatic negative revisions as the year progresses, particularly if the economy continues to soften.

…But Advertising Lags and Agencies Lag Further

Not only does advertising lag an economic cycle, but agencies tend to lag advertising a bit more as well. This is in part due to the fact that they are global businesses and therefore still feel the weakness of soft spending in other parts of the globe that lagged the U.S. in this downturn and will lag coming out.

As One of Few Places in Media Not Contending With Secular Issues, Agencies Are Likely to Do Well Longer-Term

Once this downturn is behind us, much of media will still be challenged from declining audiences resulting from the ongoing fragmentation of the ad market. While ad dollars have been relatively sticky to traditional media in this downturn, we would assume the share shift to new media such as digital will pick up again in a more stable market. The advertising and marketing services companies, which are media-agnostic, are in a strong position to benefit from this share shift.

Longer-term we continue to see the migration to digital as an opportunity for the advertising and marketing services companies. We believe investors have a hard time digesting the concept that a traditional media company can benefit from the ongoing fragmentation of advertising dollars, coupled with the migration to digital media. When so much of old media (newspapers, radio, and TV) are suffering from declining audiences, limited pricing power, and loss of advertising share, it may be difficult to see how such an old institution as the ad agency can benefit given these changes. The key differentiator for the advertising and marketing services companies is that they are media-agnostic, and have much more flexibility to change with the market. Also, these companies began diversifying into other forms of media almost two decades ago, well before the Internet was a household word.

Digital Economic Model Very Favorable

As dollars shift from traditional media to digital areas, the advertising and marketing services companies are in a position to assume a larger portion of the total advertising budget. This is the result of 1) typically lower CPMs on digital, which frees up marketing dollars; 2) more complex media plans as dollars fragment away from one or two major networks to include multiple platforms and formats, such as Internet website development, search, display, video, mobile devices, etc.; 3) higher demand for creative work as a marketing message goes from mass media to a more targeted message (i.e., the ad has to be adapted to appropriately attract more segmented audiences); and 4) less production expense so dollars stay within the agency rather than being outsourced. Whether the advertising and marketing services company is assisting with a search campaign, helping build a website, creating and producing a video message, or simply managing creative messages across the Web, we believe more revenues are allocated for these services over more traditional advertising work. Also, a large portion of traditional work is outsourced from the holding companies (i.e., for a broadcast campaign, the production, talent, and directors are often outsourced), which is not the case for a digital campaign, leading to more revenues for the agency. Several industry executives we spoke with insist that margins are similar (as advertisers are billed on a time/materials/plus basis, regardless of media); however, we have also heard that given the higher returns on digital campaigns, there is less pressure on price, and therefore margins tend to be slightly higher for the agency.

The advertising and marketing services companies have a surprisingly broad offering in the digital area, including website development, display/rich media advertising, and search engine marketing. Agencies are also actively leveraging the large amounts of data Internet ad campaigns produce in an effort to optimize creative and media strategy and achieve better audience targeting.

Competitive Environment Constantly Evolves, But Advertiser/Agency Relationship Remains Intact

Over the last few decades, there have been several instances where the traditional ad agency business has been threatened by a new entrant to the market. In the 1980s, management consultants tried to encroach upon the advertiser/agency relationship to assume the analytical/advisory role. Years later, the talent agencies took a stab at the creative work (the most notable success was CAA's ability to take the long-standing Coke account away from McCann Erickson). However, this threat was short-lived (the Coke business moved back to McCann shortly thereafter). Then came the emergence of independent media buying companies trying to squeeze their way into the business by proposing that the media business should be separate from creative. We have since seen the unbundling of the media business; however, the large advertising and marketing services companies largely kept this business in-house, and continue to own the bulk of the media buying industry.

Following Google's acquisition of DoubleClick and Microsoft's purchase of aQuantive in 2007, a new potential competitive threat emerged as many have speculated that these Internet giants were attempting to automate the entire media buying process and might enter the creative side of the business as well. The businesses that were bought by both Google and Microsoft are online advertising placement technologies (Dart and Atlas). The advertising and marketing services companies do the analytical and creative work, media planning, and negotiate the buying before outsourcing the actual execution of the campaign to one of these platforms. The change in ownership raised the question of whether Google or Microsoft will then try to use these businesses to gain entrance into other aspects of the marketing process. We don't see this as a real threat to the agencies, as we have never believed that either technology company has any interest in moving into the services industry by encroaching on the advertising and marketing services work. We have spoken to many industry executives and advertisers on this topic, all of whom can't imagine advertisers bypassing the agency altogether and going directly to a media platform. The one exception may be a very small/local advertiser with a limited budget that uses all of its marketing dollars in search, and therefore has little to lose. That said, small/local advertisers are not the ad holding companies' customers to begin with, and therefore do not represent potentially lost revenues.

Publicis and Google announced a collaborative venture in 2008 that involves the two companies exchanging employees and training them (Google has established a dedicated account team for Publicis), and that will give Publicis access to early-stage advertising technology at Google. Meanwhile, WPP, who coined the term "Frenemy" in referring to Google, recently partnered with the company to sponsor a multi-year study on how traditional and online ads work together to influence consumer behavior in an effort to better allocate ad dollars. While these partnerships may not end up being transformative for the industry, as they don't necessarily suggest any dramatic differences in the way current business is conducted, it is another sign the agencies and portals – most importantly Google – are working together amicably, dismissing concerns of a competitive or adversarial relationship.

2009 Advertising Stocks Outlook

Positives for the Stocks

After good growth in 2008, the advertising and marketing services companies will face bigger challenges in 2009 as the weak ad market impacts their revenue growth. However, with a diversified base of businesses and somewhat variable cost structure, we expect better relative performance in this group than most other media. This lower beta and generally strong balance sheets should lead to further outperformance by the stocks in this sector, in our view, throughout the rest of 2009.

- **Organic Growth Weak But Likely to Outpace Overall Ad Market.** We expect organic revenues at the holding companies to weaken in Q1 and remain very soft through most of 2009. We are looking for a 4% decline across the group with as much as 7% decline in organic revenues in Q1. US-based holding companies like OMC and IPG will also be hit hard by FX, which will lead to meaningful declines in overall reported revenues. However, with expectations of a 5.5% decline in global advertising this year, we note that this performance holds up well relative to the overall ad market.
- **Margins Likely to Contract Modestly.** Margins will likely provide some buffer to earnings growth pressure in 2009. The high level of variable costs gives management some flexibility in a decelerating revenue environment. We expect modest margin deterioration (70-150 basis points) across most of the ad holding companies in 2009.
- **Valuations Remain Modest.** On a 2009E P/E basis, valuations range from 11.9x at IPG to 9x at Omnicom and WPP (fully reported basis). On an EV/EBITDA basis, valuations range from a high of 6.2x at WPP to a low of 3.0x at IPG. While all multiples have come down across media, we believe the better longer-term outlook in this group will ultimately drive an above-average rebound, suggesting these businesses remain a good longer-term investment.

Risks for the Stocks

There are some risks to these stocks as well, with the most obvious one being the state of the global economy. If the economy were to weaken more than we are anticipating, we would likely see negative earnings revisions across our group.

- **Ad Growth Depends on Economic Strength.** If the slowdown in the economy significantly worsens, we would expect to see pullbacks in advertiser spending.
- **Auto Exposure Not Insignificant.** With approximately 10-15% of revenues from global auto companies (2%-5% from domestic auto), the advertising and marketing services stocks have some exposure to the beleaguered auto industry. Therefore, a bankruptcy filing in any of these businesses could lead to additional pressure on fundamental results and share prices of these companies.
- **Not Likely to Have the Highest Beta Initially in a Rebound.** We believe worse-performing US-based traditional media stocks (which have more concentrated revenues and higher fixed costs) may initially see a better rally coming out of this downturn. However, we believe once that bounce has occurred, advertising and marketing services with better longer-term growth prospects will ultimate outperform the rest of media.

Summary Outlook for Individual Stocks

- **Interpublic Group of Companies Inc. (Overweight).** After years of staying on the sidelines with Interpublic, we upgraded the stock late in 2007, seeing a compelling valuation and good signs that stability in the business had finally been achieved. The company's financial controls appear improved, its client base is more stable, and management is consistent. The company delivered on its targets for 2008, with some of the best revenue growth of the year in the group, and hit their 8.5% margin target. While there is still work to be done on the agency level and improvements are needed in its European operations, at the current valuation we believe these issues are more than priced in. On a P/E basis, the stock trades at 11.9x our 2009 EPS estimate, although this valuation is marred by an abnormally high effective tax rate. However, on an EBITDA basis, the stock is trading at a low 3.0x our 2009 EBITDA projection. While this stock may struggle along with the rest of media in a very weak economic climate, we believe there is still opportunity for cost cutting given the below-average margin and expect results to be roughly in line with its peers again in 2009. Comparatively less exposure to Europe is also a plus given the weakness in that market and anticipated slow turnaround in a recovery. Given these more consistent results we would expect this valuation gap to narrow (IPG's peers trade at ~6x 09 EBITDA) suggesting good upside from existing levels despite the stock's already positive move year-to-date in a very challenging market. Our December 09 price target is $10.
- **Omnicom Group (Overweight).** We view Omnicom as the premier holding company in the group with impressive agency strength across the board and a steady long-term view on investing in the business, which produces highly visible and stable earnings and solid cash flow growth. Omnicom's business and geographic mix are one of the most diversified in our universe, which offers the company great exposure to the above-average growth in nontraditional media and in international markets. We estimate new business trends also topped the group last year, suggesting nice upside to industry growth. OMC is currently trading at 5.6x and 9.0x our 2009 EBITDA and EPS estimates, respectively, which is a discount to the S&P, versus OMC historically trading at a healthy premium. We expect 2009 EPS of $2.60 and our year-end 2009 price target is $40.

- **WPP Group plc (Neutral).** We like WPP's geographic and business mix and appreciate its historical strong, steady growth. Its above-average exposure to non-traditional marketing and faster-growing emerging markets should also be a plus in 2009. Furthermore, its UK reporting domicile makes FX a tailwind in this weakened pound sterling environment. The offset to these positives include integration risk with recently acquired TNS (although management has noted it is tracking ahead of plan), above-average leverage (2.4x net debt/EBITDA versus the group at less than 1x), and relatively higher exposure to media buying and planning, which we find to be the most cyclical area and likely hit hardest in this downturn. At 8.8x 2009 fully reported EPS and 6.2x EV/EBITDA, WPP's valuation is well below long-term averages and trades at the lower end of the group on reported P/E and higher end on EV/EBITDA. While we expect some upside as the company continues to show its relative strength versus other media (from its diversified geographic and business base), we believe possible shortfalls from expectations (management's guidance is for only a 2% decline in organic growth in 09) as well as the above-mentioned risks will limit meaningful upside near-term. Our year-end 2009 price target is 425p on WPP.L shares.
- **Publicis (Overweight).** Publicis is one of our top sector picks in European Media for 2009 due to its diverse business mix (20% digital and 20% emerging markets), strong run of account wins, especially relative to size ($5 billion of net new business in 2008 was similar to WPP and Omnicom though Publicis is only half the size), and secure balance sheet with net debt/EBITDA at less than 1x. We believe Publicis' strong interactive operation is a key strength: Publicis has been very successful in winning global pitches, and its digital effort is centered on unique collaborative agreements with Google, Yahoo, and many other online properties and technologies. We expect organic growth of -4% in 2009, with operating margins down a relatively modest 70bps to 16% thanks to a flexible variable cost structure. PUB.PA stock trades at a slight discount to the group on EV/EBITDA at 5.1x and roughly in line with peers on P/E at 9x, reflecting the strong balance sheet, in our view. Our year-end 2009 price target is €26.
- **Havas (Underweight).** We remain more cautious on Havas due to its smaller size, which we believe will give it less ability to retain global accounts, as well as manage costs in this downturn. The company has a mixed record on net new business, reflecting its greater focus on cutting costs. We also remain skeptical on a potential Havas-Aegis merger, despite ongoing press coverage of Havas Chairman Vincent Bolloré's evident interest in merging the two groups. HAV.PA stock trades toward the higher end of peer group range at 6.1x EV/EBITDA and 10.5x P/E estimates, respectively. Our December 09 price target is €1.40.
- **Aegis (Neutral).** We believe Aegis is undergoing a thorough transformation on cost structure as well as corporate culture under new Chairman and interim CEO John Napier. We have long felt Aegis was perhaps the most ideally positioned ad company in our coverage, focused on the faster-growing areas of the industry: media planning and buying, interactive, and outdoor, while developing a market research business that outperforms the industry in top-line growth and margins. The new emphasis on improving cost structure and corporate governance likely implies a period of adjustment as well as less chance of asset divestitures or merger discussions with Havas, in our view. The account losses suffered in 2008 appear to have reversed in recent months with some excellent wins, but revenues will not fully kick in until Q3. This all adds up to a second-half story to us, hence our Neutral rating, yet we do see meaningful upside to current trading levels in

our sum-of-the-parts analysis, which implies break-up value in this market at 100p, which is the basis for our December 09 price target.

Scope of This Report

This report is an overview of the advertising and marketing services industry. We start with an overview of the industry's size and growth dynamics in relation to GDP, and consider the growth of advertising as a global industry. We then look at the different media in which advertising is placed before thoroughly investigating the structure of an advertising and marketing services company. With this understanding, we discuss industry growth drivers and trends, including the compensation structure, and we analyze important accounting issues in the industry today. Finally, we provide a financial outlook for the industry, a look at valuation of the six advertising and marketing services companies under our coverage, as well as snapshots of each of the leading global advertising and marketing services companies.

A Macro View

The Advertising and Marketing Services Industry Today

Most broadly defined, advertising is everything that comes out of a marketing budget. It includes traditional advertising (the dollars behind a media buy as well as the creative work to support it), but also many other forms of marketing, including direct mail, interactive marketing, promotional sales (coupons or incentive-based advertising), public relations, market research, event marketing, and specialist forms of marketing, including health care communications. Depending on the definition, advertising expenditures in the U.S. account for anywhere between 1% and 3% of GDP, or an estimated $271 billion in 2008, according to leading forecaster Robert Coen at MAGNA. The U.S. is the largest advertising market in the world, accounting for ~45% of the $625 billion in global advertising spending in 2008.

Advertising is a critical component for most media companies, including television, cable, radio, newspapers, internet, and the diversified advertising and marketing services companies, as a large portion of revenues is advertising-based and can fluctuate based on the health of the overall industry. The term "diversified advertising and marketing services companies" is most commonly used today to describe the major holding companies that own a variety of advertising agencies as well as many other marketing businesses such as public relations, direct marketing, market research, and digital businesses. Historically, these businesses were referred to as "agencies." Today, however, they are much more diversified with businesses that work in these broader forms of marketing, hence the updated terminology.

In this section, we provide an overview of the advertising and marketing services industry, taking a look at the correlation between advertising spending and GDP. In the current economic downturn, we consider how advertising spending reacts to economic recessions, as well as expansions in the United States. This is followed by a look at the effect of two significant events on advertising spending every two years – the U.S. political elections and the alternating Summer and Winter Olympic Games. Finally, we examine trends in international advertising expenditures.

Tracking Ad Expenditures

A number of organizations track advertising expenditures and forecast advertising spending by medium. The most notable sources include Robert Coen of IPG's MAGNA (who is retiring this year, to be replaced by Brian Wieser), who has been tracking ad spending and forecasting ad expenditures since 1950; ZenithOptimedia (Publicis); TNS Media Intelligence (recently acquired by WPP); and more recently GroupM (WPP). TNS has traditionally been a leading forecaster; however, since being acquired by WPP last fall, it has ceased publishing forward estimates. Other notable forecasters include Jack Myers, a media and marketing strategist who provides industry analysis and projections in the *Jack Myers Report*, Aegis' Carat, and PricewaterhouseCoopers.

- **MAGNA's Robert Coen/Brian Wieser.** Mr. Coen tracks and forecasts U.S. ad spending projections by media, including television (network, spot, cable, and syndication), radio, magazines, newspapers, business publications, direct mail, Internet (display only), outdoor, yellow pages, and other media such as point-of-purchase, fliers, and matchbooks. Mr. Coen's estimates exclude media such as sales promotions or incentives used to stimulate sales (e.g., a free pen when purchasing a notebook) and direct sales. He also provides international forecasts for some of the largest countries. After recently announcing his retirement, Mr. Coen will stay on as an advisor to Brian Wieser, who will take over the role as lead forecaster. Forecast updates are expected to continue twice a year, in June/July and December.
- **ZenithOptimedia.** This media services company tracks global advertising expenditures by region and more than 70 countries across major media, including newspapers, magazines, TV, radio, cinema, outdoor, and the Internet. Zenith updates its forecasts and publishes comprehensive global advertising expenditure books on a quarterly basis.
- **GroupM.** WPP's media arm has become more involved in published forecasting over the last few years. Led by WPP's chief economist, the aptly named Adam Smith, GroupM publishes a global "This Year, Next Year" forecast semiannually. These reports also include forecasts for marketing services disciplines including direct & specialty, public relations, market research, and sponsorship.
- **TNS Media Intelligence.** TNS tracks historical advertising expenditures in the top 100 U.S. markets for more than two million brands across media, including television (network, Spanish language network, spot, syndicated, and cable), magazines (consumer, business-to-business, Sunday, and Hispanic), newspapers (national, local, and Hispanic), radio (network, national, and local spot), freestanding inserts (FSIs), Internet display, and outdoor. TNS also provides advertiser-specific data and ad spending by industry group. TNS releases monthly ad spending data to subscribers and quarterly updates publicly. Once one of the primary industry prognosticators, TNS has ceased publishing forecasts since being acquired by WPP.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 1. U.S. Advertising Growth Projections, 2005-09E ($ in billions)

Source	2005	% Change	2006	% Change	2007	% Change	2008	% Change	2009E	% Change
MAGNA - Robert Coen										
12/8/2008							$270.8	-3.2%	$258.7	-4.5%
7/8/2008					$279.6	-0.7%	$285.1	2.0%	$294.0	3.1%
12/3/2007	$271.1	2.8%	$281.6	3.9%	$283.9	0.7%	$294.4	3.7%		
ZenithOptimedia[1]										
2/11/2009									$161.6	-6.3%
12/8/2008					$179.3	2.5%	$172.5	-3.8%	$161.8	-6.2%
10/30/2008	$166.2	2.9%	$174.8	5.2%	$179.3	2.5%	$182.0	1.6%	$183.3	0.7%
GroupM[1]										
3/30/2009							$162.1	0.3%	$155.1	-4.3%
12/8/2008			$158.1	4.8%	$161.7	2.3%	$162.1	0.3%	$156.9	-3.2%
1/25/2008	$150.8	4.2	$158.1	4.9%	$162.6	2.8%	$168.6	3.7%		
JPMorgan (JPM)	$275.9	3.5%	$289.5	4.9%	$290.4	0.3%	$282.9	-2.6%	$257.5	-9.0%
JPM GDP	$12,421.9	6.3%	$13,178.4	6.1%	$13,807.5	4.8%	$14,263.1	3.3%	$14,092.0	-1.2%

(1) Major media only.

Source: Robert Coen of MAGNA; GroupM; ZenithOptimedia; J.P. Morgan estimates.

Advertising Relative to GDP

As a percentage of GDP, U.S. advertising spending has averaged 2.1% since 1950, hitting a peak of 2.5% in 2000 with the dotcom bubble, and since returning to an expected 1.9% for 2009. Ad spending has a lagging cyclical relationship with the economy (see Exhibit 2), typically by 6-8 months. The advertising industry moves through long cycles: in the first year or two out of an economic recession, ad spending tends to lag nominal GDP growth, then match GDP growth in the second or third year, and then surpass it in subsequent years.

An important secular factor has interceded into this ad cycle: media fragmentation, most obviously in the form of online and interactive advertising, which brings with it lower pricing. In the most recent cycle (2001-2007), ad spending predictably surpassed nominal GDP growth in 2004 – in the third year of economic recovery – however, ad spending fell short of GDP growth in 2005-2008 which we see as likely due to: 1) less pricing power by traditional media as advertisers are moving dollars elsewhere, particularly Online; and 2) the shift of budgets to often unmeasured marketing channels (by the tracking firms) away from traditional media. This trend is most evident by the steep declines in newspaper ad revenues over the last several years.

We see the underlying cause for ad spending's recent declining share of GDP is that advertisers are finding that more targeted marketing can often be cheaper than traditional media, and at the same time, provide better returns on their marketing dollars. Advertisers have more quantitative tools at their disposal now, which enable them to track spending and realize better returns through more efficient, direct marketing. This can mean fewer overall dollars need to be spent to achieve desired goals, with those dollars geared toward targeted marketing, at the expense of

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

traditional media. Elsewhere in this report, we discuss the fragmentation of media and the effect of shifting ad dollars away from traditional media to more direct channels.

The following exhibits show Mr. Coen's ad spending figures – adjusted for a full internet spending estimate from the Interactive Advertising Bureau since Mr. Coen only tracks traditional display ads on the internet – along with comparisons to GDP.

Exhibit 2. U.S. Advertising Expenditure Versus Nominal GDP Growth, 1970-2009E ($ in billions)

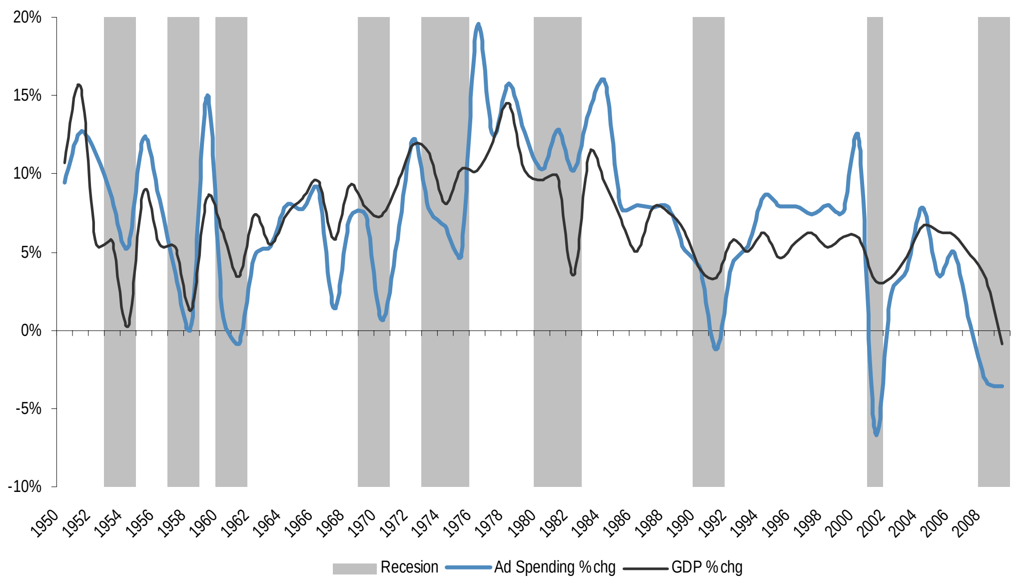
Year	Advertising Expenditure	% Change in Ad Exp	Nominal GDP	% Change in GDP	Advertising Expenditures as a % of GDP
1970	$19.5	-	$1,054.2	-	1.9%
1971	20.7	6.0%	1,153.1	9.4%	1.8%
1972	23.2	12.2%	1,289.7	11.8%	1.8%
1973	25.0	7.7%	1,435.3	11.3%	1.7%
1974	26.6	6.6%	1,551.6	8.1%	1.7%
1975	27.9	4.9%	1,710.5	10.2%	1.6%
1976	33.4	19.4%	1,885.4	10.2%	1.8%
1977	37.5	12.5%	2,112.4	12.0%	1.8%
1978	43.5	15.8%	2,418.0	14.5%	1.8%
1979	49.0	12.7%	2,663.8	10.2%	1.8%
1980	54.0	10.3%	2,918.8	9.6%	1.8%
1981	60.9	12.8%	3,203.1	9.7%	1.9%
1982	67.2	10.2%	3,315.6	3.5%	2.0%
1983	76.6	14.0%	3,688.8	11.3%	2.1%
1984	88.6	15.7%	4,033.5	9.3%	2.2%
1985	95.6	7.8%	4,319.3	7.1%	2.2%
1986	103.2	8.0%	4,537.5	5.1%	2.3%
1987	111.2	7.8%	4,891.6	7.8%	2.3%
1988	119.9	7.8%	5,258.3	7.5%	2.3%
1989	126.1	5.2%	5,588.0	6.3%	2.3%
1990	130.0	3.9%	5,803.1	3.8%	2.2%
1991	128.4	-1.2%	5,995.9	3.3%	2.1%
1992	133.8	4.2%	6,337.7	5.7%	2.1%
1993	141.0	5.4%	6,657.4	5.0%	2.1%
1994	153.0	8.6%	7,072.2	6.2%	2.2%
1995	165.1	7.9%	7,397.7	4.6%	2.2%
1996	178.1	7.9%	7,816.9	5.7%	2.3%
1997	191.3	7.4%	8,304.3	6.2%	2.3%
1998	206.7	8.0%	8,747.0	5.3%	2.4%
1999	222.3	7.6%	9,268.4	6.0%	2.4%
2000	249.1	12.1%	9,817.0	5.9%	2.5%
2001	232.8	-6.5%	10,128.0	3.2%	2.3%
2002	238.1	2.2%	10,469.6	3.4%	2.3%
2003	247.2	3.8%	10,960.8	4.7%	2.3%
2004	266.6	7.9%	11,685.9	6.6%	2.3%
2005	275.9	3.5%	12,421.9	6.3%	2.2%
2006	289.5	4.9%	13,178.4	6.1%	2.2%
2007	290.4	0.3%	13,807.5	4.8%	2.1%
2008	282.9	-3.2%	14,263.1	3.3%	2.0%
2009E	271.7	-4.0%	14,092.0	-1.2%	1.9%

Note: Ad spend figures are from Robert Coen, adjusted for Internet spending using IAB historical data and eMarketer estimates.
Source: Robert Coen of MAGNA; IAB/PwC; Bureau of Economic Analysis; J.P. Morgan GDP estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

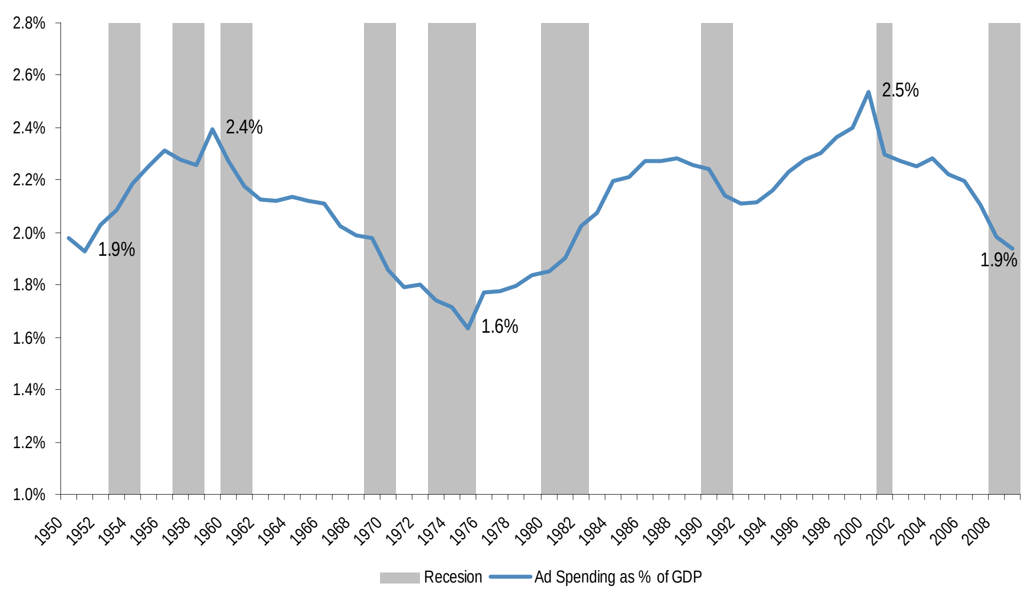
Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 3. Change in Ad Expenditures vs. Nominal GDP 1950-2009E



Note: Ad spend figures are from Robert Coen, adjusted for Internet spending using IAB historical data and eMarketer estimates.
Source: Robert Coen of MAGNA; IAB/PwC; Bureau of Economic Analysis, J.P. Morgan GDP estimates.

Exhibit 4: Advertising Spending as % of Nominal GDP, 1950-2009E



Note: Ad spend figures are from Robert Coen, adjusted for Internet spending using IAB historical data and eMarketer estimates.
Source: Robert Coen; IAB; eMarketer; BEA; J.P. Morgan estimates.

Advertising Spending During Recessions

In the two previous recessions of 1991 and 2001, advertising expenditures declined relative to GDP. Ad spending fell 1.2% in 1991 and 6.5% in 2001, dipping as a

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

percentage of GDP in both years. This behavior was atypical as growth was particularly robust in three of the last five recessions, increasing on average 6% in 1973-75, 10% in 1980, and 10% again in 1982 as companies worked especially hard to boost consumption and differentiate their products. However, as mentioned above, ad spending is expected to once again lag GDP growth in the current recession.

In 1991, a catalyst for the decline in ad spending was the presence of private-label brands, which doubled their market share during the first three years of the 1990s. The rapid emergence of low-cost, brand-less competition encouraged established companies to move dollars away from advertising toward promotional spending and price cuts. The heyday of this trend came on April 2, 1993, “Marlboro Friday,” when Philip Morris decided it would slash its cigarette prices by 20% to compete with the bargain brands, causing not only a large drop in its share price but also a rapid decline in the shares of most stocks of household brands such as Heinz, Quaker Oats, Coca-Cola, and Procter & Gamble. The few advertisers that continued investing in their brands during this period (e.g., Nike and Disney) actually gained meaningful market share, and it wasn’t long before the rest of the household brands abandoned the promotional strategy and returned to traditional branding as they acknowledged how branding effectively differentiated a product in the consumer’s mind.

While the 2001 recession was short, lasting only eight months, advertising spending took a hard hit, declining sharply as it cycled against exceptionally high growth in the previous year. This was exacerbated by delayed new product launches and reduced advertising budgets as advertisers focused on existing product lines and streamlining their cost structures. Given that it was a recession led by corporations rather than consumers, budgets were cut across the board and promotional spending declined along with advertising.

2009 Playing Out to Be the Worst Recession Since WWII

We believe we are now in the midst of another ad recession in 2009, perhaps the longest and deepest recession we have seen since WWII. We estimate that U.S. ad spending will fall 9% in 2009 with some continued weakness next year, though less severe, down low-single digits. This falloff is largely driven by a very weak local ad market (estimated to be down 20% this year) with more modest declines in national (estimated down 6%).

Local Media Leading Declines

The local ad market is hampered by: 1) ad dollars continuing the trend of moving out of the local market into national market due to the “Wal-Mart effect” (small business being eaten up by bigger national chains); 2) high concentration in the most beleaguered industries (auto and retail make up close to 50% of the local ad market); and 3) less resilient nature of the local businesses to spend in a downturn, which leads to bigger cuts early in a down cycle and a lag in a recovery. A decline in audience at many major local media (fewer readers of newspapers, less listeners to radio, and migration of viewership to cable and the internet away from local TV) has also played into the decline as advertisers are reluctant to spend on a medium that is reaching smaller audiences.

National ad spending is falling as well, largely reflecting declining revenues among major advertisers. While large advertisers tend to lag on the way into a downturn as they will fight the tide and keep spending as long as they can to preserve market share and stimulate growth, at a certain point ad budgets contract in an effort to preserve profitability in a declining revenue environment, which is what we are seeing now.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

A Closer Look at Auto Advertising: Recovery Will Come in National, But May Be Tempered in Local Markets

The problems in the auto industry are clearly weighing on the overall ad market and may continue to curtail growth even coming out of this negative cycle. Auto was the largest advertising category as recently as 2006, spending $19.8 billion in measured media that year, according to TNS. The category peaked in 2004 at $21.7 billion in spending when the big 3 auto makers were among the top 6 advertisers in the country; GM was the largest at number two behind P&G.

In 2007, Auto fell behind Retail as the 2nd largest category at $18.5bn in spending, representing a 6.4% decline year-over-year. GM stood as the 4th largest advertiser, while Ford was 7th and Chrysler 14th in '07.

Through the first nine months of 2008, auto spending was down another 13% year-over-year with domestic makers leading cuts, down 19% (foreign down 7%). We believe these declines accelerated in Q4 and wouldn't be surprised if the year-over-year drop approached 20%.

About 45% of total auto spending comes from the dealerships (30% from the dealerships directly and 15% from dealer associations). These dealers have cut back tremendously, reflecting 1) limited credit as buyers can't finance new purchases and 2) less competition as many dealerships have closed in the past year. In 2008, approximately 1,000 dealerships closed and another 1,200 are expected to close to in 2009. If GM goes forward with its plan to discontinue Saturn and Pontiac, we may see an additional 2,000 dealerships close at that time. The local ad market, which historically relied on the auto dealerships for about 25% of its spending, has been hard hit by this vertical as we estimate dealership ad spending to have been down almost 30% in 2008 with similar declines (if not worse) expected in 2009.

National auto spending has also been hard hit, with declines estimated in the mid-teens. However, the outlook for national auto spending seems less bad given that new car sales have been hovering around 10 million (SAAR), a 50-year low. With scrappage rates much higher than that (estimated at 12 million), once credit conditions ease, we would expect a strong pick up in new car sales. The auto industry will react accordingly, in our view, and advertise heavily once demand picks up. While we should also see a recovery in the local ad market among the dealerships, with fewer dealerships and fewer brands, we don't expect that rebound to be quite as steep.

A Robust Ad Budget Is Key in Difficult Times, Although Doesn't Always Result in Ongoing Spending

"There are few things as detrimental as a lapse in advertising. It costs much more to get up advertising momentum than it costs to keep it going. And once you let that momentum die, you must start almost from scratch again." — Charles Brower, late President of BBDO

While it may be a natural reaction to restrain spending during periods of economic difficulty, a study by the American Association of Advertising Agencies (AAAA) demonstrates that advertising during difficult times results in much greater market share gains than in periods of economic prosperity. In fact, the study showed that during a recessionary period, an increase in marketing expenditures resulted, on average, in a 1.5-point gain in incremental market share. The same increase in a strong economy showed no market share gains, on average. Furthermore, the study pointed out several examples of companies that aggressively marketed during recessions and how they have fared compared to their competition. For instance, during the Great Depression of the 1930s, Kellogg maintained its advertising while

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Post pulled back. The study goes on to suggest that this decision is likely responsible for Kellogg's dominance in the cereal category during the second half of the 20th century.

While this study does not guarantee that companies will increase their marketing budgets in difficult times, it does suggest that the negatives associated with an advertising pullback are often much more severe than the short-term fix a cut in spending may do for the bottom line.

Advertising Spending During Economic Expansions

Until the most recent expansion, advertising expenditure growth outpaced GDP growth in economic expansions, on average, as seen since 1975 below.

Exhibit 5. Advertising Expenditure and GDP Growth – Past Expansionary Periods

Expansionary Period	No. of Months	CAGR of Ad Expenditures	GDP Growth	Change in Ad Exp. / GDP Growth
Mar 1975 - Jan 1980	58	13.4%	11.5%	1.17x
July 1980 - July 1981	12	11.6%	9.7%	1.20x
Nov 1982 - July 1990	92	9.0%	7.5%	1.20x
Mar 1991 - Mar 2001	120	6.6%	5.2%	1.27x
Nov 2001 - Dec 2007	73	3.7%	5.3%	0.71x

Source: National Bureau of Economic Research; Robert Coen, MAGNA; IAB; J.P. Morgan.

The latest expansion (2001-2007) was a little different, with ad spending growth only exceeding GDP growth in 2004. As discussed elsewhere in this report, we believe this is more the result of a secular shift related to ongoing media fragmentation and the lessening of pricing power rather than a temporary or cylical issue.

There are three generally discernible stages of ad recovery:

- **Direct and Promotional Spending Increases.** Usually, this is the first area to see increased spending, as marketers like the proven return on investment and customers are encouraged to purchase a product. Direct and promotional spending did indeed increase at a faster pace than the industry overall in the early stages of the most recent recovery, albeit at a slower pace than broadcast TV.
- **New Products Enter the Market.** Companies try to boost sales by launching new products. This is supported by an increase in traditional advertising dollars. Examples of new products in 2003 and 2004 included the Motorola RAZR, Campbell's Soup products, numerous pharmaceutical products such as Cialis and Levitra, and new product extensions such as Coca-Cola Zero.
- **National and Global Branding Campaigns Emerge.** With improving profitability, companies develop campaigns to develop or support brand images. Big new branding campaigns emerged in 2003 and have continued until now. Examples include McDonald's "I'm Loving It" campaign in 2003, and revitalized branded campaigns from HSBC ("The World's Local Bank"), Subway ("Eat Fresh"), and Samsung. Large-scale branding campaigns emerge, especially as M&A activity in a healthy economy brings about new corporate entities; among many recent examples are Macy's nameplate consolidation and the new AT&T.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Recovery From Current Crisis Will Be Tempered, in Our View, as Pricing Cuts Will Be Difficult to Reverse

Looking at the current downturn amidst a very weak and uncertain macroeconomic environment, particularly for consumer spending, we see many advertisers moving swiftly into Phase I: allocating budgets toward promotional and direct marketing while trimming branding and overall spending. We expect direct marketing channels – those more closely tied to generating revenue – to show greater resilience such as promotional (e.g., coupons), direct mail, and online search. Not coincidentally, these areas also tend to be more measurable and produce a clearer ability to determine a return on investment (ROI). This measurability allows for an arguably more efficient use of marketing dollars, and greater accountability in a period of corporate cost cutting.

We see a tempered recovery coming out of this downturn, which we currently estimate will occur in late 09/early 2010. While some advertisers will want to be quick to get back into the market to gain market share from their competitors, we believe the depth and length of this downturn will have had a negative impact on pricing, which will take time to recover. Therefore, we do not expect a hockey stick recovery of any sort for ad spending. Traditional media will likely recover first as advertisers take advantage of soft prices to gain historically pricey inventory. Then as pricing begins to recover, we should see the return to migration toward newer media that offers a growing audience and potentially better ROIs. We do not expect the ad market to once again regain its historical premium growth rate to the overall economy and at best foresee advertising growth matching nominal GDP growth several years into the expansion cycle.

As discussed above, the link between ad spending and GDP is very close, indicating that future growth in ad budgets essentially dependant upon the timing of an economic recovery, particularly in consumer spending.

Political and Olympic Advertising Provide a Boost to Ad Spending in Even Years

Every two years, the advertising industry benefits from U.S. elections and the Olympic Games as mass audiences in the U.S. and abroad tune in to monitor the progress of each event.

Every calendar year can be classified as either a Congressional, presidential, or off-election year (although some local and county elections may occur in off years). In Congressional years, one-third of the Senate, all of the House of Representatives, and approximately 75% of state governors are elected. In presidential years, the President, one-third of the Senate, all of the House, and 25% of state governors are elected. Odd-numbered calendar years are off-election years.

According to TNS, roughly 85%-90% of political advertising is spent on television. National spot radio accounts for around 5% of political ad spending, and newspapers account for another 5%. In the most recent presidential election, the internet attracted a fair amount of political spending, but despite the general migration of spending away from traditional media to the internet, TV still captures the bulk of political ad dollars.

2008 Was a Record Year for Political Ad Spending

Historically, political advertising-related expenditures on broadcast TV have consistently increased over previous election years. For example, the 2006 Congressional elections blew the top off all previous years, including the 2004

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

presidential campaign, with an estimated $1.8 billion spent on advertising in bitterly contended House and Senate battles. In 2008, the historic presidential election and compelling primary races helped drive the largest political year for TV in history, with an estimated $1.9 billion spent on advertising.

Exhibit 6. Political Advertising on Broadcast Television, 1970-2009E

$ in millions

Year	Type of Elections	Network Stations	Local Stations	Total Political
1970	Congressional	$0.3	$11.8	$12.0
1971	Off-Election Year	0.0	5.5	5.5
1972	Presidential	6.5	18.1	24.6
1973	Off-Election Year	1.2	7.9	9.1
1974	Congressional	1.5	21.8	23.3
1975	Off-Election Year	1.7	6.3	8.0
1976	Presidential	7.9	42.9	50.8
1977	Off-Election Year	0.0	15.0	15.0
1978	Congressional	1.1	56.5	57.6
1979	Off-Election Year	0.3	16.9	17.1
1980	Presidential	20.7	69.9	90.6
1981	Off-Election Year	0.7	20.1	20.8
1982	Congressional	0.0	122.8	122.8
1983	Off-Election Year	2.7	24.6	27.3
1984	Presidential	43.7	110.2	153.8
1985	Off-Election Year	0.0	22.7	22.7
1986	Congressional	0.5	161.2	161.6
1987	Off-Election Year	0.0	24.9	24.9
1988	Presidential	38.5	189.4	227.9
1989	Off-Election Year	0.0	51.5	51.5
1990	Congressional	0.0	203.3	203.3
1991	Off-Election Year	0.0	37.3	37.3
1992	Presidential	73.8	225.8	299.6
1993	Off-Election Year	0.0	70.2	70.2
1994	Congressional	0.0	355.0	355.0
1995	Off-Election Year	0.0	44.5	44.5
1996	Presidential	33.8	366.7	400.5
1997	Off-Election Year	0.0	78.9	78.9
1998	Congressional	0.0	498.9	498.9
1999	Off-Election Year	0.0	60.9	60.9
2000	Presidential	0.8	611.2	611.9
2001	Off-Election Year	0.0	119.0	119.0
2002	Congressional	0.0	1100.0	1,100.0
2003	Off-Election Year	0.0	225.0	225.0
2004	Presidential	0.1	1,400.0	1,400.1
2005	Off-Election Year	0.0	450.0	450.0
2006	Congressional	0.0	1650.0	1650.0
2007	Off-Election Year	0.0	700.0	700.0
2008E	Presidential	0.1	1900.0	1900.1
2009E	Presidential	0.0	700.0	700.0

Notes:
Congressional: One-third of Senate, all of House, and about three-quarters of governors.
Presidential: President, one-third of Senate, all of House, and one-quarter of governors.
Off-Election Year: Some local and county elections.

Source: J.P. Morgan estimates.

Record Olympic Ad Spending in 2008 with the Beijing Games

In 1994, the Summer and Winter Olympic Games changed cycles. The quadrennial cycle was replaced by a biennial cycle. As a result, the Summer Olympics coincide with a presidential election year and the Winter Olympics with Congressional

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

elections. Similar to political advertising, the big gainers from Olympic Games spending are network and spot television, with the Internet capturing some dollars.

With the 2004 Summer Olympics in Athens back in the northern hemisphere, where most of the largest ad markets are located, and with strong advertiser demand for this global sporting event, Olympic ad spending reached about $1.6 billion, up $255 million from the 2000 Sydney Games. Network TV took in the bulk at $1.2 billion, followed by local TV stations with $285 million and cable TV at $93 million. General Electric's NBC televised the 2004 Games, and has broadcast rights to the Olympics through 2012.

The 2008 Summer Olympics in Beijing attracted record ad spending as companies made an effort to reach the vast audiences attracted by the event and its political significance, as well as tap into the burgeoning consumer culture in China. Forecasters estimated over $3 billion in ad spending worldwide would be spent on the games, with $1 billion in China alone.

Ad spending on the Olympics is not all incremental, as many advertisers will simply reallocate dollars to the Olympics from other programming, or will shift dollars to the Olympic Games from other times in the year. However, official sponsors do increase their budgets, many advertisers develop new Olympic-themed campaigns to push their products (meaning much new work for the agencies), and pricing is high around this event. Therefore, the Olympics do have a modest inflationary impact on the overall ad market.

Top Olympic advertisers usually include some of the large auto companies, but with those manufacturers facing unprecedented weakness in 2008, auto spending was lower during the 2008 Summer Games. According to TNS, some of the top advertisers for the 2008 Beijing games were AT&T, Bank of America, Coca-Cola, Lenovo, McDonald's, and VISA.

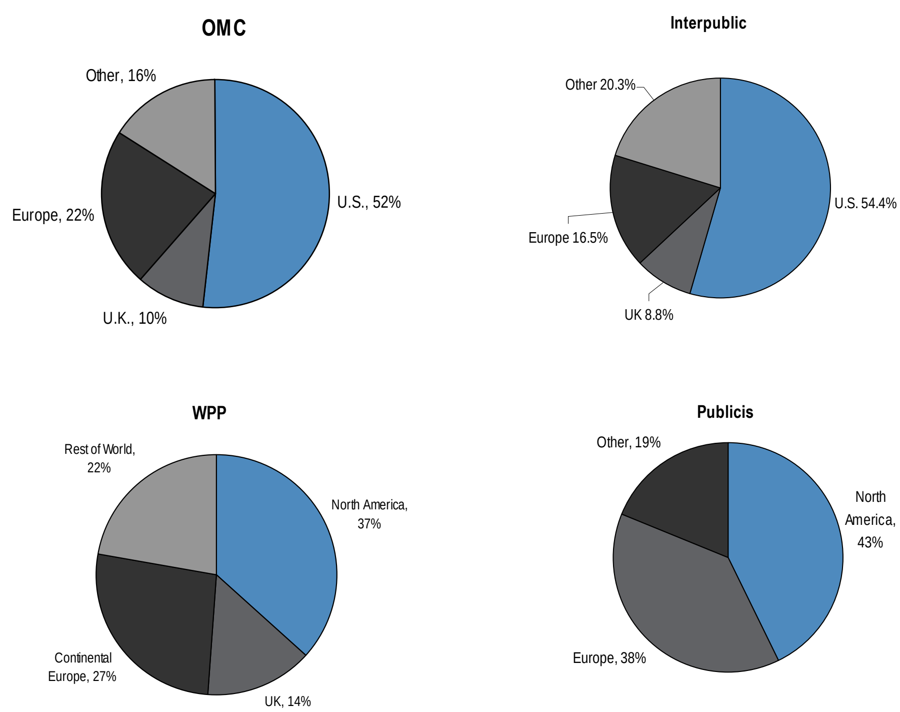
Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

International Trends

The top advertising and marketing services companies derive roughly half or more of their revenues from non-U.S. sources, with about 30%-40% in Europe and 15%-20% from emerging markets. Geographically, acquisition activity has been concentrated in emerging markets, and WPP has a long-term target of 33% of revenues from these countries.

Exhibit 7. Advertising and Marketing Services – Geographic Distribution of Revenues, 2008



Source: Company reports; J.P. Morgan.

We expect emerging markets to be an important growth driver for the ad companies over time, and may help prop up overall growth in the near term, depending of course on economic performance. While western Europe will likely follow the U.S. down in 2009, we are hopeful that countries such as China and India, while slowing, will still be in positive territory. Over time we expect ad spending growth in emerging markets to outpace that in the U.S. and western Europe as a powerful new consumer culture grows.

International Ad Spending Forecasts

Numerous forecasters have brought down outlooks recently, sharply reducing 2009 global estimates from around +3%-4% in October to around flat by December. More recently, however, Zenith Optimedia provided an update in January, now forecasting global measured media ad spending down -1.8% in 2009 and Aegis' Carat revised its expectation for global spend to fall 5%. To indicate the degree of falloff in estimates, the Exhibit below shows Zenith's 2009 estimates revised down a full 6% between October 2008 and January 2009.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 8. Zenith Ad Spending Growth Estimates for 2009

	As of Oct-08	As of Dec-08	As of Jan-09
USA	0.7%	-6.2%	-6.3%
Japan	2.3%	-0.5%	-5.7%
UK	3.6%	1.5%	-4.0%
Germany	1.5%	-4.6%	-5.1%
China	10.1%	8.8%	8.8%
France	0.8%	-1.9%	-1.9%
Italy	1.2%	0.1%	-2.7%
Spain	2.7%	-4.9%	-8.0%
World	**3.9%**	**-0.2%**	**-1.8%**

Source: Zenith Optimedia.

It is interesting to note that while forecasts for the top 4 markets, U.S., Japan, UK, and Germany, have all come down to mid-single digit decline, China has actually not come down by much, only from +10% to +9%. J.P. Morgan economists expect GDP growth in China of 7.2% in 2009, which, if it holds, should continue to provide support for advertising.

Going back to Zenith's full December 2008 forecasts, the exhibit below shows regional growth projections bottoming out in 2009, though we expect the degree of decline will come down further and the 2010 forecast should also be more subdued when Zenith next provides a full update.

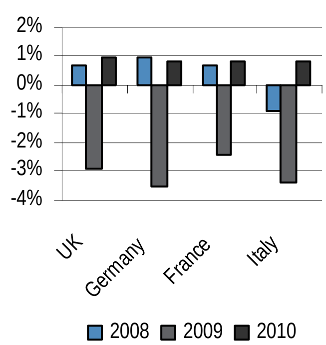
Exhibit 9. Zenith Ad Spending Outlook by Geographic Region

	2008	2009E	2010E	2011E
North America	-3.5%	-5.7%	2.1%	2.9%
Western Europe	-0.5%	-0.1%	3.2%	4.1%
Asia/Pacific	4.6%	3.2%	5.8%	5.5%
C & E Europe	12.0%	1.5%	10.1%	13.6%
Latin America	12.1%	14.9%	18.8%	12.8%
Africa/M. East/ROW	9.7%	11.2%	14.5%	13.1%
World	**1.3%**	**-0.2%**	**5.5%**	**5.8%**

Source: Zenith Optimedia, December 2008.

Western Europe Following the US Down

Real GDP Forecasts



Source: J.P. Morgan estimates.

Economic indicators in Europe are uniformly grim: Q4 08 Euro area GDP fell -1.2% year over year, or -5.9% in a seasonally adjusted average rate. The UK finished Q4 in positive territory (+1.5%) but the outlook is much worse. Business and consumer confidence surveys in all countries are at extremely low levels (though not deteriorating in the most recent surveys, perhaps due to the reining in of inflation). Confidence may yet worsen, however, as unemployment is rising, now at 8% in the euro area after bottoming at 7.2% a year ago.

Advertising is likely to drop sharply in 2009, due to structural issues in media such as newspapers across western Europe, as well as regulatory issues in countries such as France and the UK. J.P. Morgan's European Media team, headed by Filippo lo Franco, projects growth in Europe as follows in 2009:

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 10. Ad Spending Growth Forecasts for Major European Countries, 2009E-2010E

	UK		Germany		France		Italy		Spain	
	2009E	2010E	2009E	2010E	2009E	2010E	2009E	2010E	2009E	2010E
Newspaper	-12.5%	-2.0%	-8.0%	0.0%	-9.0%	3.0%	-10.0%	3.0%	-14.0%	1.0%
Magazine	-10.0%	0.0%	-10.0%	2.5%	-7.0%	3.0%	-10.0%	2.0%	-11.0%	0.5%
TV	-9.0%	2.0%	-9.0%	3.0%	-15.1%	4.0%	-6.0%	3.0%	-12.0%	2.0%
Radio	-11.0%	2.0%	-7.0%	3.0%	-13.0%	2.5%	-6.0%	3.0%	-5.0%	2.0%
Cinema	-14.0%	-1.0%	-6.0%	3.0%	-12.0%	1.0%	-10.0%	2.0%	-20.0%	-1.0%
Outdoor	-6.0%	1.0%	-5.0%	3.0%	-7.0%	3.5%	-3.5%	3.0%	-4.0%	3.0%
Internet	5.0%	7.0%	7.5%	15.0%	8.0%	12.0%	12.0%	20.0%	10.0%	18.0%
Total	**-7.1%**	**1.8%**	**-6.5%**	**3.6%**	**-8.6%**	**4.7%**	**-6.5%**	**3.6%**	**-9.2%**	**3.4%**

Source: J.P. Morgan estimates.

We slightly reduced our UK ad growth forecast from -6.4% as published in our note on ITV on February 16, to -7.1% to factor in further deterioration in newspapers. Nevertheless, the UK benefits from a high contribution from the internet – 24% of total by our estimates in 2009 – which we expect will grow in 2009.

The following Exhibit shows the media mix among the top 5 European countries.

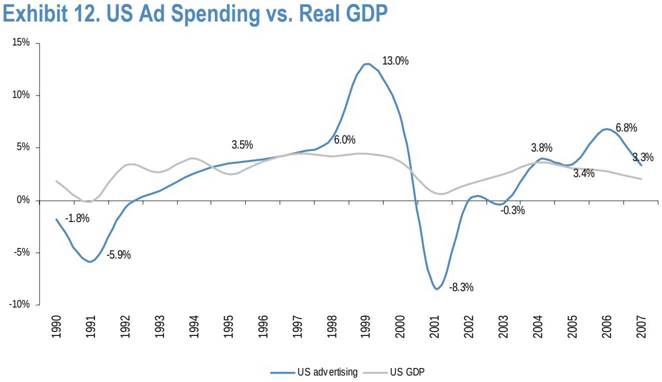
Exhibit 11. Media Mix for Major European Countries, 2009E

	UK	Germany	France	Italy	Spain
Newspapers	28.7%	35.3%	14.8%	17.4%	20.5%
Magazines	10.7%	20.5%	19.9%	13.2%	8.7%
TV	25.5%	20.8%	31.2%	53.7%	42.6%
Radio	3.5%	3.7%	7.2%	7.0%	9.7%
Cinema	1.2%	0.6%	0.8%	0.6%	0.3%
Outdoor	6.4%	4.5%	11.0%	3.6%	7.9%
Internet	24.1%	14.8%	15.1%	4.5%	10.5%

Source: J.P. Morgan estimates.

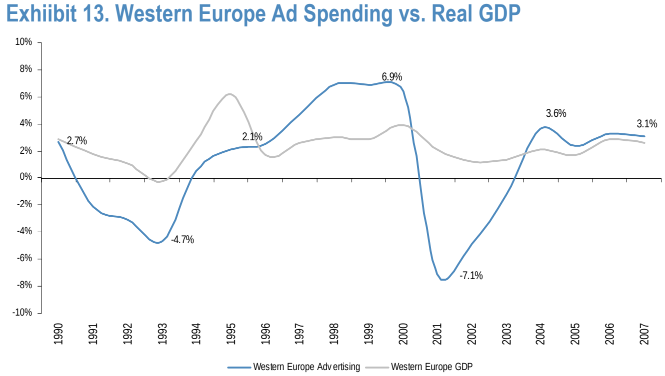
Ad spending trends in western Europe are very similar to the U.S., though not quite as pronounced.

Exhibit 12. US Ad Spending vs. Real GDP



Source: Zenith Optimedia; J.P. Morgan estimates.

Exhiibit 13. Western Europe Ad Spending vs. Real GDP



Source: Zenith Optimedia; J.P. Morgan estimates.

United Kingdom

We see overall UK spending down -7% in 2009. The internet comprises 20%-25% of total UK ad spending, and this alone has held the UK up until recently. Internet's share of advertising is amongst the highest in the world, partly due to the restrictions on TV advertising and partly due to hyper-competitiveness of national newspapers.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

The UK broadcast TV market has been particularly weak due to contract rights renewal (CRR) regulations on ITV that effectively remove pricing power. In addition, the BBC is the dominant TV broadcaster in the market and attracts a large share of viewing, but does not air commercial advertisements. ITV1 remains the largest mass market audience provider in the UK, and in an increasingly fragmented audience share environment, the relative value of ITV1 airtime has increased. Unfortunately, ITV1 has not been able to capitalize on this because of the CRR regulation. The OFT published a preliminary review on CRR on January 15th, with two main conclusions: 1) It may ease CRR if there's an effective remedy; 2) A possibility is to remove the roll-over of advertising contracts (which indexes down ITV1's advertising revenues in line with audience share loss) if big advertisers are protected. If the obligation is removed, safeguards would be put in place to stop ITV abusing its market share. This might require ITV to set out pre-defined prices per commercial impact. We expect TV advertising to fall -9% in 2009; changes in CRR regulation could drive ad revenue increases on TV starting 2011 if new legislation is passed.

UK newspapers appear to be in free fall, having turned negative in early 2008. Display advertising was down 16% at Trinity Mirror's national papers in January-February, and down 37% at classified-driven regionals. Some classified categories are down as much as 50%. We expect display advertising to fall 12% or more in 2009, and classifieds to drop 20% or more.

France

J.P. Morgan economists expect the French economy be a relative outperformer in 2009 (GDP growth forecast of -2.4% for France vs. -3.5% for Germany and -3.4% for Italy). This slight outperformance will not, in our view, have much impact on advertising spending in France; however, we expect the French advertising market to decline by -8.6% in FY09 (vs. -6.5% for Italy and Germany).

The French advertising market is currently disrupted by regulatory change in TV broadcasting. As a consequence of regulatory changes we expect TV to lose its status as the largest medium in France in 2009. Print media – the sum of newspapers (15% share) and magazines (20% share) – may surpass TV (c31% share).

On February 4th the French Senate passed a bill on audiovisual, which confirms the removal of advertising airtime for state-owned TV broadcasters (France Télévision) from 8pm to 6am in 2009. In December 2008 the French government passed an act allowing commercial TV broadcasters (from 1st January 2009) to: 1) insert a second advertising break during the broadcast of films; and 2) increase the daily average advertising minutes per hour to 9 minutes (from 6 minutes) with a maximum of 12 minutes per hour. Given the current gloomy economic outlook, we do not, however, expect a transfer of advertising budgets from France Télévision to commercial broadcasters this year and we therefore expect the TV advertising market to decline by -15% in 2009. TF1's management has already guided for consolidated revenues to decline by -9%.

Germany

Germany's economy shifted suddenly into reverse in Q4, with a collapse in exports and concurrent decline in business confidence. Ad spending likewise turned negative in most media. We expect German advertising to fall -6.5% in 2009.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

The most important FTA TV players in Germany are RTL and ProsiebenSat1, each with an advertising market share above 40%. Having held up pretty well in H108, the German TV advertising market deteriorated significantly in H2. We expect the German TV market to further deteriorate and to decline by -9% y/y in 2009.

Print is still a huge component of German advertising at 56%. There is a dominant national newspaper (the tabloid Bild, owned by Axel Springer) and a few smaller quality papers, plus hundreds of more local newspapers. While readership is declining in Germany, as in all western countries, in favor of the internet, the degree of decline appears to be more moderate.

Italy

Trends were not quite as bad in Italy in the first three quarters of 2008 (flat advertising growth year on year). However, national newspaper advertising declined in the first nine months by -8%, while TV was up 2%. The Italian advertising market is relatively underdeveloped (the lowest advertising/GDP ratio amongst western European countries) and may see better structural growth in the intermediate term due to a more deregulated and liberalized economy. Increased competition within the Italian economy may lead to increased advertising expenditure.

With 2008 advertising share of 53%, TV in Italy captures the highest proportion of advertising expenditure among western countries. However, according to indications by Mediaset's management in its Q3 08 conference call and in various interviews with the press, the advertising environment deteriorated significantly in Q4 and we expect Mediaset ad revenues to have declined by -7%. Mediaset (whose parent company Fininvest is part-owned by Prime Minister Silvio Berlusconi) has 60% TV market share. We expect the TV ad market to decline by -6% in Italy in 2009.

We expect newspapers and magazines to continue to have the strongest decline (both -10% by our forecasts) as advertisers will continue to invest in stronger mass market media (TV) and online (where we expect 2009 growth of +12%).

Spain

The boom in Spain has turned to bust, led by the property market, leaving ad spending particularly prone to a downturn.

TV advertising was already down -11% in 2008, with Q3 and Q4 progressively worse at -17% and -23%, respectively. Deteriorating spending momentum along with strong competition in the TV market (exacerbated by the increasing penetration of multichannel TV) is undermining the economics of broadcast TV – once one of the most profitable media markets in Europe. The Spanish government is actively promoting competition in TV markets, passing a law that allows companies and individuals to own a stake of more than 5% in more than one national FTA TV broadcaster as long as the combined audience share does not exceed 27%; this is to financially strengthen TV companies at a time when advertising is falling severely.

Other traditional media are suffering even worse. Press and cinema continue to face a secular decline: we foresee newspapers down -14% after falling -20% in 2008, and expect cinema advertising to be down -20% this year. Internet was the only growing media in 2008 (+26%), and we expect to see it gain further share in 2009.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Asia-Pacific: Softening But Still Growing

The Asia-Pacific region has emerged as the largest growth opportunity for ad agencies, now that countries such as China and India are becoming more economically powerful. A growing consumer culture across the region has helped boost ad spending, with many countries up in the double digits. The exhibit below shows Zenith's growth forecasts for the largest Asia markets as of Zenith's last full report in December; since then it has lowered its 2009 forecast for Japan to -5.7%, but we do not have the full breakout to present. We assume further downward revisions are in store for most countries.

Exhibit 14. Ad Spending Forecasts

	Japan		China		India	
	2009E	2010E	2009E	2010E	2009E	2010E
Newspapers	-11.8%	-10.0%	-4.5%	8.9%	12.6%	16.3%
Magazines	-3.5%	-3.5%	6.5%	11.5%	26.1%	28.7%
TV	-1.6%	-1.4%	4.0%	9.0%	10.6%	14.4%
Radio	-4.5%	-3.3%	6.1%	10.0%	7.8%	12.0%
Cinema	NA	NA	15.0%	10.0%	13.3%	16.7%
Outdoor	3.0%	2.6%	16.0%	18.0%	6.3%	10.5%
Internet	15.3%	12.3%	37.8%	31.0%	72.4%	70.0%
Total	**-0.5%**	**0.0%**	**8.8%**	**14.5%**	**13.1%**	**17.3%**

Source: Zenith Optimedia.

China: Huge Opportunity, Though Likely Near-Term Dip

Ad spending in China has risen 256% since 2000, according to Zenith Optimedia. China's growth is driven by multinational corporations flocking to the region to take advantage of the supply side (cheap manufacturing costs) and the demand side (a huge and increasingly affluent population). Also, Chinese companies are achieving critical mass as powerful domestic players and are beginning to emerge as global corporations in their own right.

Growth in consumer spending appears inexorable, and major multinationals such as P&G have announced plans to boost marketing spending in China even during this economic slowdown as a means of gaining share for the longer term. There are numerous other large events in the coming years that will also attract advertisers, including the Expo 2010 in Shanghai and the 16th Asian Games in Guangzhou in 2010.

We expect growth to slow meaningfully in 2009 however, following a strong 2008 helped by the Beijing Olympics and tracking the slowdown in economic growth (from 13% in 2008 to JPM estimates of 7% in 2009). J.P. Morgan's China Internet analyst Dick Wei expects ad spending in China to flatten out at 0% in 2009.

Ad spending in China as a percentage of GDP is still well below countries in the western world at approximately 0.5% of GDP, compared with 1.1% in the US. We would expect this figure to rise over time.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 15. Advertising as a % of GDP

	2006	2007	2008	2009	2010	2011
N. America	1.3%	1.2%	1.1%	1.1%	1.0%	1.0%
W. Europe	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
C/ E Europe	0.8%	0.9%	0.8%	0.8%	0.8%	0.9%
Asia Pacific	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%
Lat America	0.7%	0.7%	0.8%	0.8%	0.9%	1.0%

Source: Zenith Optimedia.

China is a unique advertising market, as the news media is owned by the government and media is highly regulated. TV currently garners the most ad spend in China (a 40% share, based on Zenith estimates), and the medium is still growing as demand for airtime remains strong. Online is the fastest-growing medium in China.

India: Another Big Potential Market

India is currently a much smaller ad market than China (approx. $6 billion vs. China's $20 billion), but also represents a significant advertising opportunity as consumers gain more disposable income.

Advertising spending in India is still well below the average percentage of GDP for other regions, in part due to its fragmented retail industry. India's retailers mainly operate regionally, and there are not many foreign retailers competing for consumer dollars, resulting in less ad spending by retailers in the country. This is beginning to change however. Another factor contributing to the lower ad spending in India is the relatively lower penetration levels of television. Current estimates of TV penetration in India are roughly 40%-50%, versus more than 90% in China. As TV penetration increases during the next few years and competing retailers begin to establish broader sales outlets, ad spending should increase significantly.

Traditional media attracts the bulk of advertising: newspapers account for 48% of total ad spending and print media continues to grow strongly as readership rises, boosted by an increasing focus on education. Internet advertising is the fastest-growing sector and will likely continue to be as broadband penetration increases.

Japan: Sliding with the Western World

Japan is the #2 ad market in the world and the largest in Asia-Pacific (for now at least), garnering 40% of the region's ad spending in 2008, according to Zenith estimates. Japan's economy has only grown modestly if at all the past several years, and will likely take a sharp turn down in 2009: Zenith's revision to forecasts in January points to a concurrent -6% drop in ad spending. As with other mature economies, newspapers are suffering the most from media fragmentation.

In terms of ad agency presence, Dentsu and Hakuhodo own dominant market share, making it difficult for the U.S. and European ad holding companies we cover to establish a foothold; Japan is therefore a small piece of the geographic pie. Publicis has a slight edge through its partnership with Dentsu, which owns 15% of PUB stock.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Central/Eastern European Growth at Risk

Central and Eastern European countries experienced above-average growth during most of this decade as economies have expanded and consumer spending rapidly rose. This period of growth may now be halted, however, by sudden shocks such as banking problems, collapsing oil prices (particularly painful to Russia), and drops in currencies, particularly the Russian ruble and Polish zloty. In addition, several central European countries such as Poland and the Czech Republic have taken on characteristics of mature western European markets in recent years, so we would expect economic and ad spending trends to exhibit more mature cyclical growth and decline rather than straight secular expansion.

As with other emerging regions, traditional media has grown rapidly, but recent trends in print are following patterns we have seen in western markets, with declines into the double digits. Internet advertising accounts for only 2%-3% of the region’s total ad expenditures, but is gaining share as in most other regions.

Russia

Russia accounts for the largest portion of the region’s ad spend, and has seen ad spending growth well into the double digits since 2000 thanks to strong consumer demand and solid GDP growth. This is likely to reverse course in 2009, however; we expect Zenith to revise forecasts meaningfully downward when it next provides forecasts in April. TV is nearly 50% of the Russian ad market.

Exhibit 16. Ad Spending Forecasts – Russia

	2009E	2010E
Print	-0.7%	10.4%
TV	10.8%	16.9%
Radio	-13.9%	3.6%
Cinema	-11.3%	8.5%
Outdoor	-2.9%	10.9%
Internet	28.6%	48.3%
Total	**5.0%**	**15.2%**

Source: Zenith Optimedia.

Latin America, Middle East, and Africa May Be More Resilient in 2009

Ad trends in Latin America have historically been volatile, but economies may be a bit better positioned in this downturn than in previous ones. Zenith maintains steady, strong growth forecasts into 2009 though we suspect current estimates will have to come down to reflect the deepening global crises. Brazil and Mexico are the largest ad markets in the region, accounting for around 35% and 20%, respectively, of 2008 ad spending, according to Zenith. Mexico may face more relative pressure due to its reliance on manufacturing and its closer ties to the U.S.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 17. Ad Spending Forecasts – Brazil

	2009E	2010E
Newspapers	20.0%	23.0%
Magazines	30.0%	35.0%
TV	30.0%	35.0%
Radio	29.0%	32.0%
Outdoor	5.0%	20.0%
Internet	95.0%	80.0%
Total	**29.8%**	**34.9%**

Source: Zenith Optimedia.

Ad growth in the Middle East has exploded in the past few years, but it and Africa remain only minor contributors to global ad spending. Based on Zenith estimates, the region represented only 3% of total worldwide ad spend. Markets like Dubai may pose particular risk in this economic downturn. Political risk is another concern in some countries, so ad holding companies often limit their exposure to the area through joint ventures.

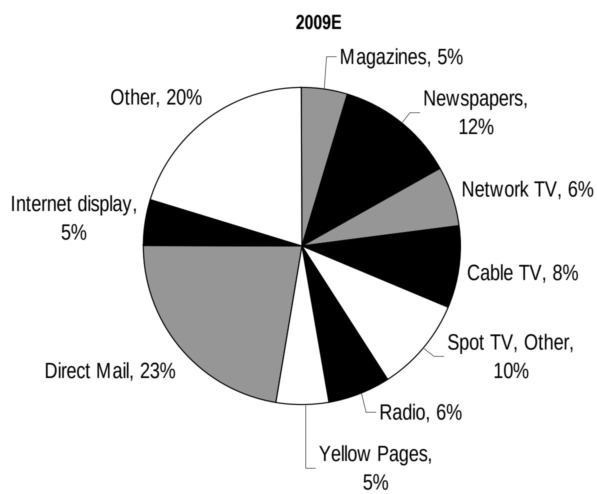
Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Advertising Spending by Major Media

Over the past few decades, the media landscape has changed with the birth of "new" media: cable in the 1980s and the Internet in the 1990s. The major traditional advertising media now include television, radio, newspapers, magazines, outdoor, and the Internet. After some growing pains and ongoing refinement in the early part of this decade, the Internet has emerged as an important advertising medium, which is likely to continue growing share of budgets as advertisers are now eager to explore this dynamic medium. However, it is still only a small percentage of overall advertising spending at approximately 9% (Robert Coen's figures tend to be on the low side at 5%, as he only includes display ads). Direct mail and yellow pages advertising remain sizable at 23% and 5%, respectively, while "other" non-measured media (which includes trade promotions, in-store promotions, and other direct forms of marketing) continues to outpeform traditional media and maintain hefty market share. In 2009, the three traditional media that are expected to receive the greatest number of total advertising dollars are television (24%), newspapers (12%), and radio (6%).

Exhibit 18. U.S. Advertising Spending by Medium – 2009E

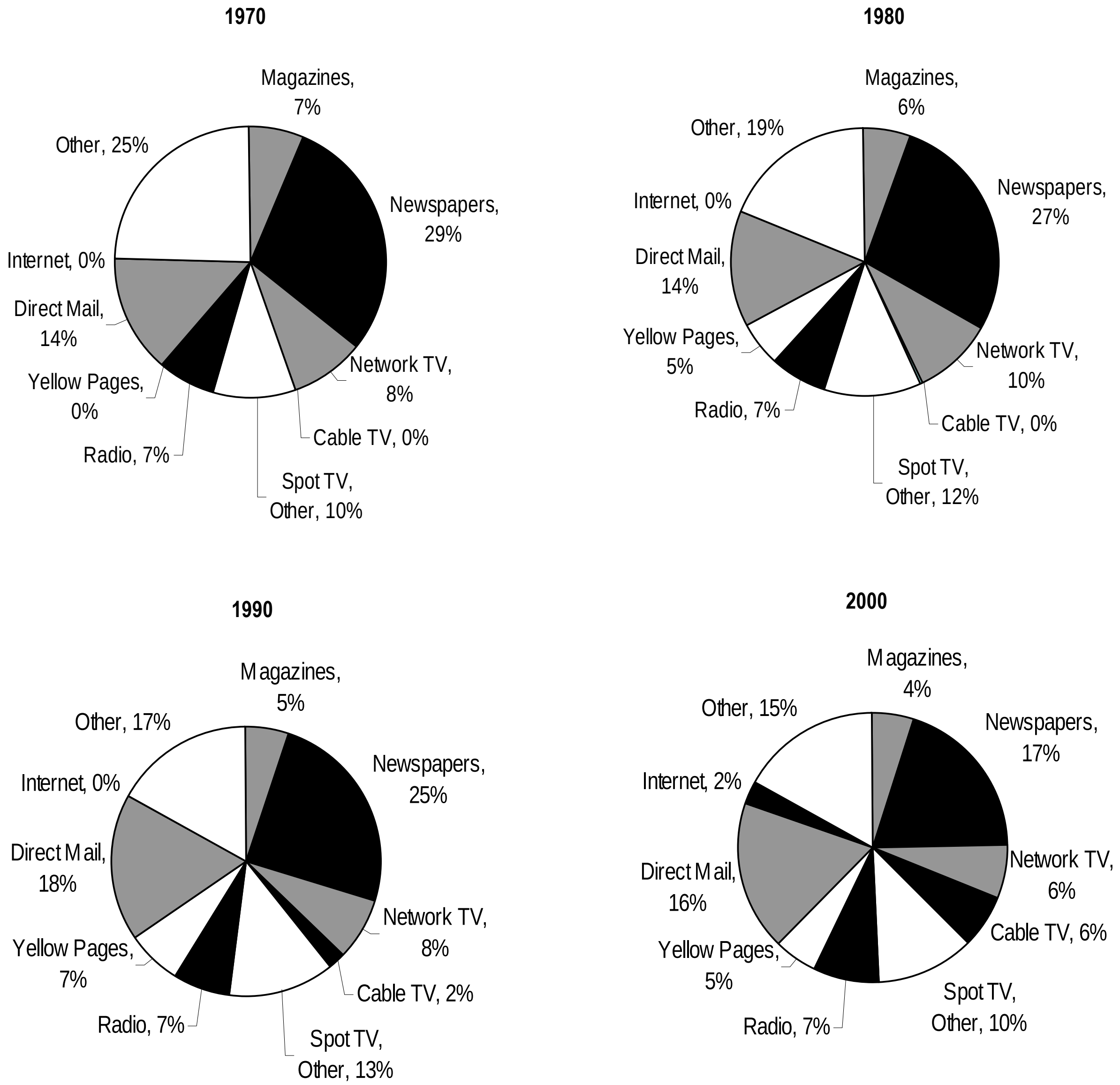


Source: Robert Coen, MAGNA Global, J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 19. Shift in Media Mix, 1970-2000



Source: Robert Coen, MAGNA Global; J.P. Morgan estimates.

Since each medium is measured by a different metric, cost is determined from a number of criteria such as creative formats, reach or coverage of advertising, frequency of delivery, and time slot selected. However, to level the playing field and compare the cost of each medium, marketers use the metric of cost per thousand, or CPM.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 20. Major Advertising Media

Medium	Brief Description	Lead Times	Units	CPM
Television	Cost-efficient medium used to deliver advertising that can dramatize a product to a mass market.	4+ months		Varies by daypart. Prime Time: $15 Average: $9.50
Network	Broadcast programs nationally through a group of networked stations. Usually the same programs are simultaneously broadcast within a region. Prime Time: Mon-Sat 8-11pm and Sun 7-11pm.		30 sec	
Spot	Purchase local TV time in select markets and either synchronize or stagger schedules.		30 sec	
Syndication	Distribute programs by non-network stations and vary by air time, date, and market.		30 sec	
Cable	More targeted medium than broadcast TV due to more interest-specific programming delivered via satellite to localized operators who wire programming to subscribers.		30 sec	Varies by daypart. Prime Time: $8
Radio	Targeted medium used to reach a specific age or gender cross-section of the population. Requires a mix of formats and minimum frequency of three to obtain desired effectiveness. Best time slots are (1) Drive times (Mon-Fri 6-10am, 3-7pm) and (2) Mid-day.	10-15 days		
Network	Reach specific target audiences locally through nationally affiliated stations.		30 sec	$2
Spot	Purchase radio time by selected market and station. Reach is determined by the number and size of markets.		30 sec	$7
Newspapers[1]	Timely mass medium that is considered an "action medium" where readers seek sales, classifieds, and coupons. Local circulations reach approx. 60% of households in a market.	1-3 days	1/3pg B&W dailies	$26
Magazines	Targeted medium that reaches a selected audience over a relatively extended life.	1-3 months	Full page, four color	$7
Outdoor	Outdoor media properties that require a specific location or event. Examples include billboards, posters, blimps, transit advertising, etc.	2-3 months	30 sheet	$2
Internet	An interactive medium that enables advertisers to deliver ads, store customer information, track behavior, and facilitate transactions.	2-4 weeks	Varies	Very wide variation: Premium Display: $15-$30; Non-premium/ad network display: $0.60-$1.10 Video: $30-40 Keyword search: $0.05-$7.00 per click

Note: 1. Top 50 markets.

Source: Media Dynamics; Bain/IAB; J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Television Offers Advertisers Mass Reach

Television allows for cost-effective reach of advertising to mass audiences, especially since 98% of U.S. households have at least one television (according to the Consumer Electronics Association). As a result, TV is suited to marketers selling products that are widely distributed, such as consumer packaged goods, autos, and retail goods, because the CPM is relatively low. Broadcast and cable TV are expected to capture approximately 16% and 8% of total ad spending, respectively, in 2009. TV's CPMs vary by daypart. Broadcast TV CPMs are determined by demand and limited supply, where an increase in demand is augmented by a decrease in supply, thereby leading to higher CPMs. Cable revenues are different. As demand for cable continues to grow, supply continues to grow as well, effectively muting some of the growth in cable CPMs.

Content is an important driver of a network's ability to attract advertisers and raise CPMs, as top shows can often earn many times the revenue for a 30-second spot that a lower-rated show can command. Content is critical on the cable side as well: the leading cable networks have distinguished themselves as those with the best-rated shows, and this leads to some pricing power in cable upfront negotiations. Hence, Scripps Network's Food Network, for example, has been a leader in the ratings game, which has translated into above-average CPM gains.

Advertisers have three opportunities to purchase TV advertising time: 1) upfront, 2) scatter, and 3) remnant. Advertisers work through media buyers to negotiate placement and rates for their ads.

Upfront Cancellations Increased in 2009

From May through July every year, networks sell 75%-85% of their ad space for a 12-month period beginning in September. In exchange for early commitments, advertisers get ratings guarantees and options to cancel their commitments during certain windows throughout the year. The media buyers negotiate these deals on behalf of the advertiser during this upfront process. In years of very strong demand for advertising space, the upfront selling season can be as short as a few days. In more "normal" times, the process lasts several weeks to over a month. In the face of a very weak ad market, more advertisers are taking advantage of cancellation options in upfront contracts, with cancellations expected to range from 10%-12% in Q2 09, up from the historical average of ~5%.

Exhibit 21. Upfront Media Cancellation Schedule

Period	% Cancellable	Cancellation Dates
1Q (Dec)	0%	-
2Q (Mar)	25%	Oct 15 - Nov 1
3Q (June)	50%	Jan 1 - Feb 1
4Q (Sept)	50%	April 1 - May 1

Source: J.P. Morgan estimates; MediaCom.

Television pricing is a function of supply and demand. In the 2002 and 2003 upfronts, networks sold about 85% of inventory as advertisers flocked to broadcast television, resulting in 15%-20% increases in total upfront spending each year. These were particularly strong due to: 1) a share shift to network TV, reflecting advertisers' bias toward more traditional media in a period of economic and political uncertainty; 2) dollars typically reserved for scatter market buys moving to the upfront, which appeared to be a better deal; and 3) low-teens CPM increases as more dollars chased limited inventory. By the 2004 upfront, these factors had dissipated, and advertisers looked to a more rational media spend. Spending in the 2004 upfront rose about 5%.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

In 2005, media fragmentation contributed to a shift in ad dollars away from TV and brought upfront demand down further; the average increase was about 3%. During the past few years, upfront demand has remained relatively stable, with pricing up in the mid-to-high single digit range. Given the weak ad environment today and the increase in upfront cancellations in recent months, we expect the 2009 upfront to be weaker than we have seen in many years, with pricing likely flattish versus last year, and the length of upfront negotiations extending over longer time periods versus prior years. We discuss the upfront market in more detail in Appendix II of this report.

Scatter

The scatter market is the sale of ad space that was not sold in the upfront market. It is sold on a shorter-term basis. Supply and demand dynamics determine pricing, which is typically higher in the scatter market as it provides for short-term buying decisions, but ratings are not guaranteed. Scatter pricing is referred to in percentage premiums or discounts versus upfront pricing.

Exhibit 22. Scatter Market Pricing Compared to the Upfront in Typical Years

Period	Supply	Demand	CPMs
1Q (Dec)	In line	In line	Flat
2Q (Mar)	Increase	Decrease	Flat/Down
3Q (June)	Decrease	Increase	Up
4Q (Sept)	Decrease	Increase	Up

Source: J.P. Morgan estimates; GroupM.

In the first broadcast quarter (fourth calendar quarter), demand typically equals supply for advertising inventory on network TV, causing CPMs to be roughly in line with upfront pricing. In the second broadcast quarter (first calendar quarter), demand drops off a bit, as advertisers do not spend much at the beginning of the year, post-holiday season. Supply is decent, as a percentage of inventory sold in the upfront for this quarter is not particularly high, and scatter market pricing may remain stable. In the third and fourth broadcast quarters (second and third calendar quarters), demand increases and supply decreases (sellout rates in the upfront for these quarters is typically higher than it is in the first half of the season, around 90%, which limits supply and hence tightens up the market). This causes scatter market pricing to typically sell at a premium to the upfront. This pattern is beneficial to the networks as it raises scatter market pricing going into the upfront negotiation period.

While this is a typical cycle, in reality scatter market dynamics often vary (especially in the current season, as described below) as there are other factors affecting supply and demand, such as audience deficiency units (ADUs). If ratings are particularly poor and fall short of guarantees, networks will eat into inventory (read: decrease supply) in order to offer advertisers the free air time owed to them, known as a "make-good." This can tighten the market and, in turn, raise prices.

In the current 2008/2009 season, scatter prices have held up relatively well, despite the difficult ad environment. Versus last year's upfront, scatter prices are holding up relatively better on cable than broadcast with cable scatter up in the mid-to-high single digit range versus the upfront, while broadcast is trending flat to down.

Remnant

The unsold inventory after the upfront and scatter markets is sold as remnant. Advertisers purchasing remnant usually do not have specific marketing goals and are

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

just looking for discounted space. In a strong market, this remnant space is generally limited to the early hours of the morning. Purchases are made on short notice, typically occurring one to seven days in advance.

Remnant advertising is increasing in this challenging environment as networks hold back inventory to maintain pricing, leaving more available “airtime” for remnant ads. We estimate remnant now accounts for about 10% of cable network advertising and upwards of 20% on broadcast TV.

TV Outlook for 2009

TV ad revenues totaled $65 billion in 2008, according to Robert Coen of MAGNA Global. For 2009, we expect a softer year for TV, given difficult political and Olympic comps and anticipated declines in overall ad spending, with local broadcast revenues down roughly 25%, down in the low-single digit range at the network level, and flat to up in the low-single digit range for cable.

Radio

While this medium lacks the visual capabilities and effects associated with other media, radio appeals to the imagination – which highlights the importance of ad frequency to generate the desired response. Radio cost effectively targets geographic markets, typically on a local basis. Advertisers also like radio’s low media and production costs compared to television.

Radio advertising is similar to TV in that advertisers can make network, national spot, and local spot buys. The majority of advertising on radio is local (about 75%), with roughly 25% on network and national spot radio. Like television, radio advertisements are also placed by daypart, with the largest audiences tuning in during the early morning and late afternoon drive times. Radio advertising is heavily influenced by radio ratings (such as those provided by Arbitron), as advertisers target listeners based on these ratings and as radio stations set rates according to daypart and program popularity.

Radio is one of the fastest ways to get a message out to a consumer at a local level. The lead time to get an advertisement on radio is short, since there are limited production requirements, making it a medium that reacts quickly when the advertising market changes. Sales are usually made one to four weeks in advance for this medium (although they can be accomplished in as few as two days), providing a little less visibility than TV.

Radio is often used by smaller advertisers looking for good value and the benefits of radio – quick turnaround and low production costs. This renders local radio relatively better off than national, as large national advertisers look more to TV for their branding.

Addressing Radio Weakness: Electronic Measurement

Since the prior ad recession in 2001, radio has been weak, in large part due to its relative lack of accountability, which is particularly evident now that the Internet provides such targetable and measurable marketing spending. Commercial skipping on radio is recognized but not measurable under Arbitron’s traditional diary system, and since there are other mediums that can more accurately record such consumption habits (including more precise TV measurement now), radio looks less appealing to marketing officers looking more intensively at return on investment (ROI).

We believe the ongoing commercialization of Arbitron's Portable People Meter (PPM) technology for radio ratings (now in the top 10 markets) will help radio attain more comprehensive data on radio listening behavior, and this could help radio regain some ad dollars – or at least mitigate declines – as advertisers could then better understand radio listening habits. PPM brings much more precise and timely measurement to the radio industry, which could help broadcasters design better programming and more effective advertising pricing models. After some execution shortcomings by Arbitron and fierce resistance by broadcasters unhappy with the harsh reality that electronic measurement brings to light the overreporting in the diary system (resulting in lower ratings), PPM appears to finally be on track to roll out over the top 50 markets by the end of 2010. We are confident that once the kinks get worked out and broadcasters and advertisers become better educated on the new methodology, electronic ratings will become an embraced currency.

Radio Outlook for 2009

We expect another bleak year for radio given its high exposure to two of the most troubled ad categories: auto and retail, particularly on the local level. In addition, 2009 will come up against tough comps from political spending last year. J.P. Morgan expects radio revenues to decline around 20% in 2009, off of a base of $16.5 billion in 2008.

Newspapers

Newspapers allow advertisers to penetrate local markets using text- and graphics-based advertising. Print newspaper advertising formats include the following:

- **Graphics (Run-of-Press, or ROP).** Graphics/ROP ads are favored by retail companies, wireless carriers, political campaigns, etc. Ads come in different formats (e.g., half page, full page), in black and white, or increasingly, in color.
- **Classifieds.** Ads for automobiles, help-wanted, real estate, or other items for sale.
- **Promotions.** Promotions, such as coupons and preprinted inserts (FSIs), are produced by newspapers or third-party marketing companies.

Newspaper companies report advertising revenues in terms of retail (or local), national, and classified ads, which make up about 45%, 15%, and 35%, respectively, of revenues.

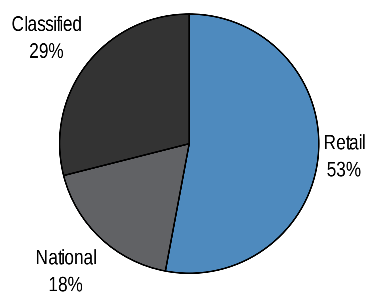
- **Retail.** Retail advertising is placed by retail shops such as department stores, grocery stores, drugstores, and restaurants, at the local, as opposed to the national, level. Newspapers remain one of the few advertising vehicles to reach a large local audience.
- **National.** National advertising is generally a small category for most newspapers; this is advertising placed by large advertisers at the national level – i.e., branding campaigns that are not targeted toward local audiences.
- **Classifieds.** Classified ads are small text ads placed primarily at the local level, and include four subcategories: auto, real estate, help wanted, and other, which

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

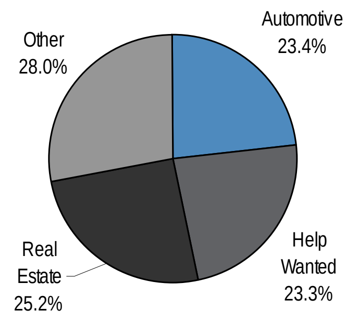
Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

includes miscellaneous items for sale and event announcements. The health of these subsegments depends a great deal on the health of the related industries.

Exhibit 23. Newspaper Company Revenues



Classified Revenue Breakout



Source: NAA.

Much of newspaper advertising's appeal reflects the ability to tailor ads to local markets, as the majority of newspapers cater to local populations (with the exception of more national papers such as *The Wall Street Journal* and *USA Today*). Ad sales are typically made two to four weeks in advance of publication, although regular advertisers such as department stores and auto dealers often negotiate packages for up to a full year's worth of advertising. Classified sales have a shorter lead time, at about one to two weeks.

Newspapers have suffered as media has fragmented, and the outlook is weak. Circulation has dropped off in the past couple years, down in the low-to-mid single digits in 2007 and 2008 after average declines of only 0%-1% for most of the past 20 years. In 2008, newspaper advertising accounted for approximately 12% of total U.S. advertising expenditures, down from about 30% in 1970. As circulation has declined, ad dollars have followed, affected by growing media and audience fragmentation, advertisers shifting ad dollars to other media, such as the Internet and cable, lower readership (especially among younger demographics), and the virtual disappearance of evening newspapers after the evolution of evening news on television.

Online – Too Little, Too Late?

Newspapers have been developing their internet presence aggressively, both through their own websites and through investments into other internet properties such as CareerBuilder (jointly owned by Gannett, Tribune, and McClatchy) and About.com (New York Times). Online grew ~20% in 2007, though turned negative in 2008, down 2%. We forecast online revenues in 2009 will see added weakness, declining double digits, resulting from both the weak overall ad market and newspapers' continuing struggle to monetize their online presence.

In order to capitalize on the significant growth opportunities online, many publishers have developed partnerships or have formed syndicates focused on capturing more ad revenues in a cost-efficient manner. Importantly, some of these new initiatives include internet heavyweights Yahoo! and Google in addition to traditional publishers.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

- In November 2006, Yahoo! formed a partnership initially with seven publishers, and is now partnered with over 800 U.S. newspapers, including those owned by A.H. Belo, Cox Newspapers, Hearst Newspapers, Journal Register, Lee Enterprises, McClatchy, MediaNews Group, E.W. Scripps, and Media General, to deliver a print and online help wanted service that combines the daily U.S. newspaper sites and Yahoo's Hot Jobs online career site. The Yahoo! consortium has grown significantly since its inception and now allows the newspapers to take full advantage of Yahoo's behavioral targeting technology. A.H. Belo recently commented on the consortium, helping drive significant online revenues at its largest publication, *The Dallas Morning News*, and commented that the headline placements on Yahoo.com (where readers click and are re-directed to the local newspaper site) can account for nearly a quarter of daily page views and up to two-thirds of daily unique visitors.
- The formation of another national newspaper advertising network, quadrantONE, was announced in early 2008 and formally launched later in the year. It is co-owned by Tribune, Gannett, The Hearst Corporation, and The New York Times, and covers 27 of the top 30 markets. The network has a reach of nearly 50 million unique monthly visitors and allows national advertisers to efficiently convey their message across hundreds of local broadcast and newspaper sites through one buy.

Some Online Partnerships with Newspapers Have Already Ended

Although these ventures remain in their infancy, we believe they give a clear indication of the strategic direction that publishers are likely to follow in order to attempt to remain strong competitors in the quickly changing media landscape. So far these initiatives have not contributed meaningfully to operating results at most newspaper companies and are nowhere near enough to compensate for losses in print advertising. Also, some initiatives that were rolled out in recent years have already ended, as profits have not materialized. For example, in 2006, Google introduced a print ad initiative, called Google Print Ads, to sell print ads to small merchants that buy internet ads from the company. At its height, Google Print Ads featured hundreds of advertisers and over 800 newspapers, including flagship titles such as *The New York Times*, *The Chicago Tribune*, *The Washington Post*, and *The San Jose Mercury News*. Google Print Ads ended in January, and a similar initiative by Google for radio ads ended recently as well, casting a shadow of doubt over the long-term feasibility of the current online model for many newspapers.

Newspaper Outlook for 2009

Newspaper ad revenues totaled $38 billion in 2008. We expect newspaper industry advertising to be down approximately 20% in 2009, despite very easy comparisons through the year. All ad categories are suffering from both secular and cyclical pressures. For example, we expect retail advertising to drop 15% in 2009, as retailers are being impacted by the effects of the housing crises and economic slowdown and are experimenting with more direct media and online initiatives. National continues to hurt as advertisers trim budgets to protect the bottom-line and are looking more to other media to achieve a better ROA. Classified is experiencing declines in all three main segments: help wanted is declining significantly as unemployment increases and more recruitment dollars move online; real estate is especially down in conjunction with the sub-prime mortgage collapse and economic crisis; and auto remains in negative territory for the fifth straight year. Lastly, online growth has turned negative; we expect double-digit declines at the newspapers in 2009.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Magazines

Magazines are a targeted medium that reaches a selected audience and can deliver lengthy, complex messages over an extended shelf life. Consumer and specialty magazines provide notably good reach to well-defined target groups, although it may be difficult to reach a broad geographic area. Advertising sales are typically made two to three months in advance of publication, which explains why this medium often lags changes in the ad market.

Over the past few years, there has been pressure on magazine advertising, given: 1) more competition for ad dollars from electronic media such as cable TV and the Internet; 2) concerns over return on investment as well as circulation accuracy; 3) heavy rate discounting; and 4) and intense competition among print titles. In addition, advertisers are procrastinating, delaying decisions until shortly before publication date and purchasing ads for only a couple of issues at a time. Overall, magazine circulation has been challenged due to: 1) persistent retailer consolidation (the Wal-Mart effect and traffic moving to dollar stores and warehouse clubs); 2) retailers often replacing magazine racks with other products at checkout counters; and 3) the demise of sweepstakes promotions. Circulation troubles often reduce pricing flexibility at many titles.

Despite these issues, many magazines have been able to overcome these obstacles, given their targeted nature, as they provide advertisers with the ability to reach specific audiences. Continued media fragmentation and changing consumer usage patterns (e.g., TiVo) could actually be a positive development for the magazine industry going forward.

Magazine Outlook for 2009
Consumer magazines generated ad revenues of nearly $13 billion in 2008 according to MAGNA Global. We expect magazine ad revenues to decline in the 15% range in 2009.

Outdoor

Outdoor is a mass medium that reaches a general audience with a concise message in a selected geographic region. Outdoor advertising includes billboards, street furniture (e.g., bus shelters, park benches), transit advertising, and alternative outdoor areas, such as stadiums and arenas, cinema advertising, airborne vehicles, marine vessels, beaches, ski resorts, golf courses, bicycle rack panels, gas pump panels, rest areas, ad panels on top of taxi cabs, etc. Billboard advertising constitutes the bulk of outdoor advertising available, capturing 60% of total outdoor advertising revenues.

The application of digital technology, such as video and wireless interaction, has led to resurgent growth in outdoor advertising, which is now the second-fastest-growing medium behind the Internet. For example, eMarketer forecasts ad spending on outdoor video in the U.S. will grow at a 15% CAGR over the next four years. Outdoor is also raising the bar through more eye-catching displays, such as real cars or live performers to draw more attention to billboards. Outdoor advertising is typically sold for long-term periods (6-12 months), and most street furniture and transit contracts are locked up under multiyear contracts that vary by city.

Measurement of outdoor advertising is finally here, after years of lacking meaningful quantification, with Nielsen beginning to commercialize an outdoor ratings system based on GPS and traffic patterns. Outdoor yields low CPMs and is cost effective as advertisements can be viewed 24 hours a day, year-round – advertisers like this great reach, the dawn of measurability, and the fact that outdoor advertising is not susceptible to skipping technologies such as the remote control on TV.

Outdoor Outlook for 2009

Industry revenues declined roughly 4%, to $7.0 billion, in 2008, according to The Outdoor Advertising Association of America. We expect spending to decline even further in 2009 as both local and national advertisers pull back on ad expenditures, and look for total outdoor spending in the U.S. to decline in the high-single digit range.

Internet

The Internet is a mass medium that can deliver ads on a highly targeted basis. There is a wide range of ad formats that include the more traditional display (banner) ads, keyword search, online classifieds, and e-mail marketing, as well as newer "rich media," such as video. Aside from rising use by consumers, advertisers continue to shift ad budgets toward interactive channels because of the improved ability to measure return on investment and track user behavior, which can be used to deliver targeted advertisements. Further, advertisers are increasingly willing to explore a wide variety of websites for their ads beyond the main portals (Yahoo!, Google, MSN, AOL); Microsoft's Razorfish, one of the largest digital ad agencies in the U.S., bought advertising across over 1,000 web sites in 2008. Advertisers are indeed following eyeballs and are willing to experiment, as evidenced by the rise of advertising on social networking and user-generated content sites such as Facebook and YouTube.

Ad Networks and Exchanges Bring Greater Efficiency

Further capturing the flow of Internet users away from the main portals to smaller, often niche sites (aka the "long tail" of the Internet) are third-party advertising networks such as ValueClick, which aggregate ad inventory across thousands of typically midsize to small publishers, thus matching the reach of any single portal. The networks can also allow for precise demographic and behavioral targeting (e.g., buying ad space only on auto-related websites or retargeting a consumer across a network with relevant ads based on past behavior) and have become popular, cost-effective alternatives or complements to the large properties.

Another increasingly popular method for acquiring inventory is through auction-based ad exchanges, which stand to dramatically alter how display ads are bought and sold. These exchanges allow publishers to list their typically non-premium inventory for advertisers/agencies who can then efficiently buy impressions in a transparent marketplace, both in terms of pricing and knowing where the ad will be served (as opposed to a blind ad network where a buyer doesn't necessarily know what web pages/content their ad could appear next to). All of the major portals own an exchange they are actively developing. One of the largest, Right Media, was acquired by Yahoo several years ago and now has all of Yahoo's non-premium inventory offered through it.

Ongoing Shift to Performance-Based Pricing Accelerating in Current Recession

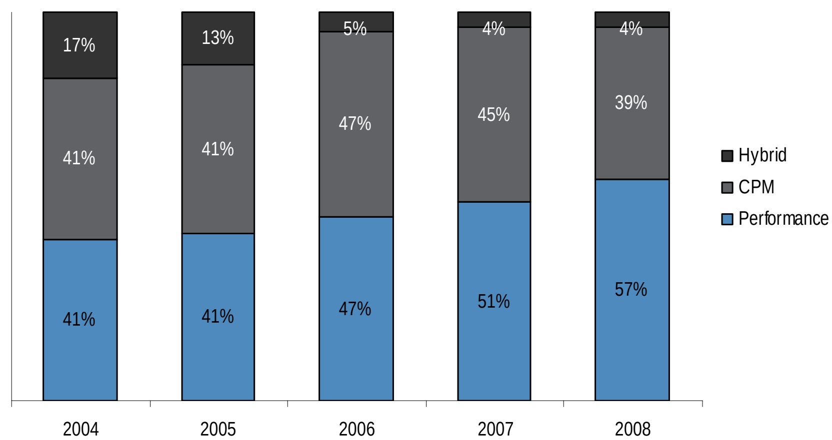
In general, pricing for performance-based advertising, such as search keywords, has performed far better than CPM-based display ads. Pricing for display varies widely by site, position on a page, and format. On top properties where inventory is continually in demand, such as the front page of Yahoo!, pricing can become quite

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

high, especially for video ads. Conversely, inventory at the bottom of a website that attracts little traffic often goes unsold. Prices for keyword search vary for each term as advertisers bid on keywords in an auction, though overall, search pricing has seen the strongest growth given the inherent measurability of cost-per-click advertising and often direct tie to revenue. Advertisers are increasingly favoring performance-based pricing on all formats (i.e., cost-per-click, cost-per-lead, or other specified action) given the measurability provided, especially in the current difficult environment where a greater emphasis is placed on efficiency and clearer ROI.

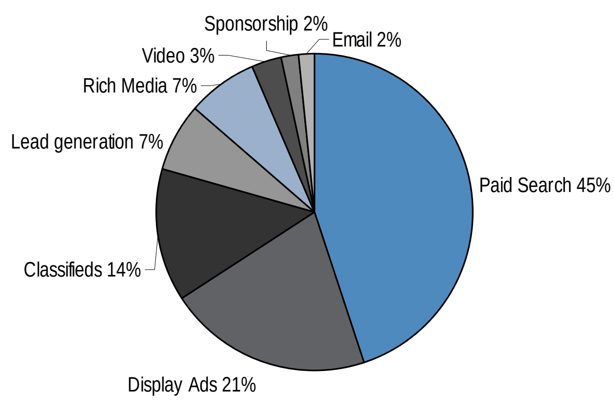
Exhibit 24. U.S. Internet Advertising by Pricing Model, 2004-08 ($ in millions)



Source: Internet Advertising Bureau/PricewaterhouseCoopers.

Below, we define the various types of online advertising as laid out by the Interactive Bureau of Advertising (IAB), as well as growth expectations.

Exhibit 25. U.S. Internet Advertising Share by Format, 2008



Source: IAB.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 26. U.S. Internet Advertising by Category, 2007-13E ($ in millions)

	eMarketer's Projected Annual Revenue							'09-'13
Format	**2007**	**2008E**	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**	**CAGR**
Paid search	$8,805	$10,691	$12,285	$13,880	$15,552	$17,686	$19,530	12.8%
All graphical	7,072	7,694	8,327	9,492	11,168	13,764	16,590	16.6%
Display ads	4,456	4,629	4,933	5,448	6,182	7,175	7,958	11.4%
Rich media	1,656	1,888	2,030	2,252	2,560	2,960	3,360	12.2%
Video	324	587	850	1,250	1,850	3,000	4,600	50.9%
Sponsorships	636	590	514	542	576	629	672	2.6%
Classified	3,321	3,139	2,956	2,936	2,944	2,960	2,982	-1.0%
Lead generation	1,584	1,605	1,645	1,682	1,792	1,998	2,268	7.2%
E-mail	424	472	488	513	544	592	630	5.9%
Total	**21,206**	**23,601**	**25,701**	**28,503**	**32,000**	**37,000**	**42,000**	**12.2%**

Source: eMarketer, November 2008.

- **Display Advertising.** Display advertising, also known as banner ads, is graphics placed on a website, fitting prescribed sizes just as a print ad would in a magazine or newspaper. Banner ads can be static or hyper-linked and take the user to another site. Pricing is charged on a CPM impressions basis or performance metric (e.g., cost per click) and varies widely, from pennies to upwards of $100 per CPM, depending on the property and placement of the ad. In the current environment, display advertising has come under perhaps the greatest pressure among the major formats due to 1) its branding nature that is less tied to a measurable ROI and 2) a glut of inventory, much of it non-premium (e.g., on social networks), which is pressuring pricing. We expect display advertising to decline mid-to-high single digits in 2009, driven by budget cuts and pricing declines.

- **Search.** Keyword search primarily refers to paid placements, where the advertiser bids to be listed in a search engine's sponsored links. This segment also includes contextual search and site optimization. Contextual search refers to ads delivered based on the content of the Web page. Site optimization refers to ads that are placed on a website using optimization techniques that help improve both unpaid and paid search rank by boosting "relevance," such as adjusting the keywords used to describe an advertiser's content. Paid placement is sold in an auction model. Pricing therefore varies based on the terms or group of terms selected. We project keyword search to be the most resilient format in the macro environment – growing mid-single to double digits – given its high measurability and close link to revenue generation for many companies (many business models are built entirely on search advertising).

- **Classifieds.** Online classified advertising (including help wanted, items for sale, and personals) has been a fast-growing area as online classifieds are proving very popular for their interactive nature and efficiency costs and means (on sites like Monster and Craigslist), in which users can organize their search according to criteria they select, and can communicate directly with the individual or company that places the ad through the same medium. In the current environment, however, online classifieds have been one of the hardest hit given the severe weakness in real estate and autos, as well as rising unemployment. We expect spending to decline low-double digits in 2009.

- **Lead Generation/Referrals.** Lead generation is a popular pay-for-performance strategy whereby fees are paid by advertisers for qualified leads or purchase inquiries. Payments can be made when users inquire about a product to a local dealer (e.g., auto), register online, apply for credit cards, etc. While hit in recent years by Federal Trade Commission (FTC) investigations into several companies' promotional lead-generation tactics, we expect this channel to be popular with advertisers in this environment given its closer tie to sales.

- **Rich Media.** Rich media adds a dynamic and interactive element to display ads. These ads typically include streaming video or audio that enables users to view and interact with products or services. This segment includes interstitials, which include ads that appear between content pages. Other examples of interstitials are splash screens, pop-up windows, and superstitials. Spending on rich media ads was flat in 2008, and we expect further weakness in 2009, similar to other branding-based display formats.

- **Video.** Video advertising has been the fastest-growing format recently, albeit still small, thanks to new video content sites such as Hulu which have garnered impressive audience growth. CPMs for video ads have been robust as the TV-like format has attracted greater branding dollars and inventory remains fairly scarce. While we see most branding-centric formats under greater pressure in the current environment, we expect the rapid user growth of Video will translate to further ad spending gains.

- **E-mail Marketing.** E-mail marketing is a form of direct marketing in which companies target users' e-mail addresses, just as direct mail targets consumers at home. This can take productive forms, such as companies sending promotional offers to current consenting customers, but consumer receptivity to e-mail marketing suffers from the profusion of spam and deceptive marketing. Efforts to limit spam, such as through filters and new legislation, could help restore some legitimacy to e-mail marketing, particularly in business-to-business communications. Low-cost e-mail marketing represents only a small part of total online advertising spending. We expect some resilience in online e-mail advertising in the difficult environment given its CRM foundation and relatively cheaper cost; we look for slightly positive growth.

- **Sponsorships.** In a sponsorship, an advertiser typically partners with a website to obtain a strong association with the site or more pronounced visibility than other advertising on the site. Sponsorships can provide advertisers with more targeted audiences than other run-of-site advertising, depending on the content. We expect a weak year given strains on ad budgets and more distant link to this strategy's revenue generation.

The Internet has established itself as a viable and vibrant medium with an advertiser base that now extends beyond the initial set of small to medium-sized businesses to include a broader base of large, national advertisers, such as consumer packaged goods companies. The growing appeal of this medium is driven by its combination of broad reach (consumers spend around 20% of media consumption time online, while only ~9% of ad budgets are online) and its ability to deliver targeted ads and measure return on ad spending. Ad dollars are shifting in a steady fashion to the Internet from traditional media. In some industries, such as telecom and financial services, online ad budget allocations are already reaching the high-teens percentage, and are expected to go higher.

A key driver of success is the Internet's growing adoption by large brand advertisers, particularly in the consumer packaged goods category. Advertisers in sectors such as tech, automotive, financial, and pharmaceutical have used the Internet, particularly keyword search, for many years to promote products that garner heavy consideration,

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

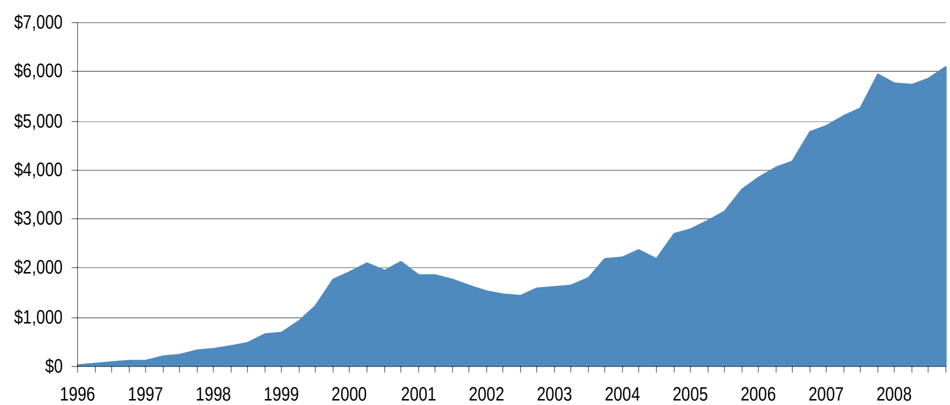
where consumers often spend time researching on the Internet before making purchase decisions. Today, more advertisers are taking a holistic approach toward the online ad buy and are considering the symbiotic relationship between keyword search and branded advertising. Some advertisers in categories such as auto, airlines, and consumer packaged goods are also taking a Web-centric approach to their overall media plans and are using offline mediums (e.g., TV, outdoor, etc.) to drive users to an online destination. Keyword search has long been praised for its measurability, and the ability to measure the effectiveness of branded advertising has improved, helping justify ad expenditures. In addition, advertisers and online ad sellers such as Yahoo! are developing metrics on the impact of online campaigns on offline sales and vice versa.

Advertising agencies are aggressively bolstering and acquiring capabilities in Internet marketing as advertisers continue to shift an increasing proportion of their ad budgets away from traditional media to this more measurable channel. Agencies now typically provide a full suite of creative and media services, akin to traditional media. Services offered include strategy, research, planning, analytics, website development and maintenance, and technology enablement.

Internet Outlook for 2009

In 2008, online advertising revenue grew 11%, to $23.6 billion, according to the IAB, driven by continued strong growth in Search and triple-digit gains in the relatively new Video format. We expect single-digit growth in 2009 with resilience in search making up for weakness across display advertising.

Exhibit 27. Internet Ad Spending by Quarter, 1996-2008 ($ in millions)



Source: Interactive Advertising Bureau (IAB); PricewaterhouseCoopers.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

The Advertising and Marketing Services Company

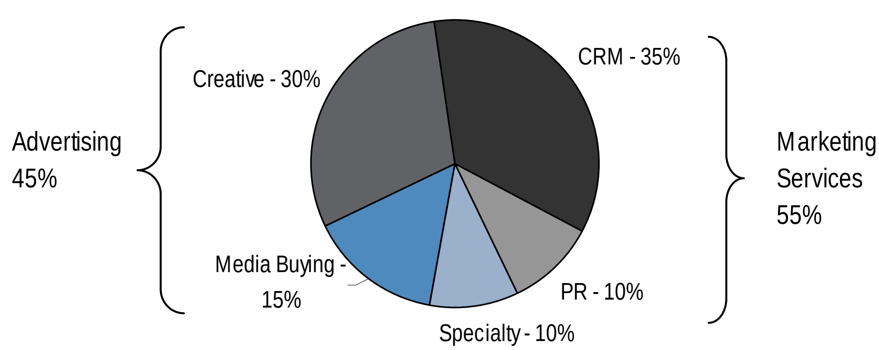
In this section, we look at the typical advertising and marketing services holding company, examining the split between advertising and marketing services, the components of each, and providing some insight into how each of these businesses works.

Composition of Revenues at an Advertising and Marketing Services Company

Advertising and marketing services companies are typically composed of approximately half traditional advertising and half marketing services (the variation ranges from 43/57 at Omnicom to 62/38 at Publicis). In recent years, the big holding companies have moved aggressively into developing their marketing services offering as they seek both diversification and the higher growth rates that marketing services businesses often provide.

Revenues in traditional advertising are broken out between creative advertising (about 30% of the total) and media planning and buying (about 10-25% of the total). Marketing services is composed of customer relationship management (CRM), about 35% of total revenues on average; public relations (PR), some 5%-10% on average; and specialty/other communications, about 10%-15% on average. We believe CRM and specialty marketing will continue to increase as a percentage of total revenues as advertisers become increasingly interested in direct forms of marketing and look to specialized areas such as interactive and multicultural marketing.

Exhibit 28. Advertising and Marketing Services Company Revenue Breakout



Source: J.P. Morgan estimates.

The trend among the top advertising and marketing services companies is clearly toward more marketing services business, which offers higher-growth prospects in the longer term than traditional advertising. All of the advertising and marketing services companies have spoken of plans to expand their reach in marketing services.

Traditional Advertising

Traditional advertising involves three distinct activities: creating advertisements, planning ad campaigns and strategies, and buying ad space in media outlets. Creative advertising is the actual conception and production of advertisements. Media planning is the research and evaluation of advertising placement strategies. Media buying is negotiations with the media for placement of advertisements.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

The advertising and marketing services holding companies have multiple creative agency networks. The idea behind this diversification is to 1) avoid client conflict and 2) provide a more diverse creative offering. With only one agency network, the holding company may be limited to just one client in each industry, as there is still sensitivity in most industries that prompts companies to forbid the advertising agency to work with a competitor. Most advertisers (with the exception of the Big Three automakers and archrivals such as Coke/Pepsi) don't mind, however, if a competitor is represented at another agency within the same holding company. Furthermore, having many agencies boosts the chances of winning more business that is up for review, as the creative reputation or flavor may differ from one agency to another. For a public company, there is also less volatility in a holding company that has more than one agency network, because if one agency falls out of favor for a while, the others still help contribute to growth.

Media planning is often coupled with media buying, but the two need not work together: ad companies can run their media planning and buying operations as separate entities. In addition, many large advertisers have their own media planning divisions, and therefore use advertising companies only for creative and media buying work. Media planning usually involves close interaction with the creative teams as well, to produce a well-thought-out, comprehensive ad campaign.

Traditionally, agency networks each housed their own creative and media planning and buying divisions. In recent years, however, most holding companies have extracted the media buying functions from within the agency networks and combined them, making one large media buying unit. The reason behind this move was the idea that scale really matters in the media buying business. More dollars under the media buyer's control give it more leverage in negotiating pricing or placement of a client's advertisement. The holding companies have, in many cases, reconfigured their structure such that a powerful media buying arm is positioned to draw media buying business, often performing the service on behalf of the holding company's own traditional creative agencies, which promotes their specialization and streamlines the entire process.

Advertisers often prefer to keep all functions within the same advertising company as this can enable increased communication and coordination of ad campaigns. In practice, though, the three activities are quite distinct, and some advertisers prefer to use different agencies and even different holding companies for their creative and media planning and buying work. Some advertisers may maintain accounts with different agencies or advertising companies because of client conflict issues, or simply because they have good relationships with different creative and planning and buying companies.

The top ten global advertising agencies are listed in Exhibit 29 below.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 29. Top 10 Worldwide Agency Brands by Revenue, 2007 ($ in millions)

		Worldwide Revenue	
Rank	Agency	2007	% Change
1	DDB Worldwide Communications (OMC)	$2,621	15.0%
2	McCann Erickson Worldwide (IPG)	2,533	8.9%
3	Dentsu	2,472	-0.6%
4	BBDO Worldwide (OMC)	2,389	15.0%
5	Young & Rubicam (WPP)	2,150	12.4%
6	Ogilvy Group (WPP)	1,836	11.4%
7	TBWA Worldwide (OMC)	1,779	12.1%
8	JWT (WPP)	1,489	7.5%
8	Euro RSCG (Havas)	1,310	2.2%
10	DraftFCB (IPG)	1,241	7.2%

Source: Advertising Age.

Creative Advertising

Creative agencies design and produce advertisements to be placed in media outlets. The creative work itself involves the conceptualization, production, and presentation of an advertisement. The ad concept involves an understanding of the product or service offered, the marketplace and competition for the product or service, and the target market, before developing a campaign theme and producing ad copy or recorded material to support this theme. This work may be supported by media planning.

Depending on the medium selected, the lead times required to prepare creative campaigns will vary. Print advertisements range from a few days for a daily newspaper to two to three months for consumer magazines, while TV ads require at least four months of planning and preparation. In some cases, creative agencies are also performing more direct and interactive work, sometimes in partnership with sister agencies. For example, direct marketing agency OgilvyOne is related to Ogilvy & Mather Worldwide at WPP, while Rapp is a direct marketing wing of DDB at Omnicom. Other agencies perform more full-service work themselves; one example is Havas' Euro RSCG.

Media Planning

Media planning is often the first step in developing an advertisement, involving the evaluation of potential media and determining which will be the most effective and cost-efficient way to deliver the client's message. Indeed, over the last few years we have seen more focus on the central role of media planning, as this is increasingly seen as the starting point for total communications planning. More advertisers have consolidated their media planning and/or media buying accounts with one regional agency, which could then better manage brand image and placement. Examples include AT&T (to WPP's Mediaedge:cia), Nissan-Renault (to Omnicom's OMD), and GaxoSmithKline in the U.S. (to WPP's MediaCom).

Media planning involves significant research into viewing and readership data and trends, and into pricing of different media at different times, with the goal of delivering an advertisement with the greatest coverage and reach. Three metrics are used in assessing delivery of the selected media:

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

- **Reach.** Reach is the percentage of the target population that is exposed to the message at least once.
- **Frequency.** Frequency represents the average number of times the target is exposed to the message.
- **Gross Rating Point.** The gross rating point is the percentage of the target that saw the ad (= reach x frequency).

To successfully sell a product, media planners research the product's merits and utilize population demographics to segment the target market. Researchers also analyze competing products and competing product advertisements, as well as the general economic environment, in order to best position the product in the marketplace. The goal is to create a brand image and establish a process of communicating this image.

Media planners also work with their clients to evaluate options for the placement of the advertisement, including:

- What medium to use – for example, TV, radio, print, outdoor, or the Internet;
- What genre to focus on – for example, what type of magazine to advertise in (such as *The Economist* or *National Geographic*), or what type of TV program to place ads in (a football game or a reality show), depending on the product or service advertised;
- What level of advertising to use – for instance, how to break out spending among local, national, and international audiences, and how to combine placement in each medium if the advertiser wants a multimedia message; and
- What timing to consider in running ads – for instance, when during the day, or even during the program, to run the ad in order to reach the largest possible audience.

Media Buying

Media buying consists of national and local broadcast purchasing where buyers negotiate programming and pricing packages on behalf of their clients. Buyers then monitor the programs and follow up with a comparison of completed campaign results against the original advertising plan.

Media buying has become increasingly important in its own right. As the choices of media available to advertisers expand and the cost of media continues to fluctuate, media buying specialists have emerged and attracted business away from the traditional agencies. Advertisers realize that the skills required for media planning and buying are very different from those needed for a creative marketing campaign. As these media specialists have grown, they've gained the scale necessary to demand the most coveted advertising space and the best prices from the media owners. This, in turn, enhances their ability to attract new customers.

Whereas media planners work with the advertiser that wants to place an ad, media buyers work with the medium that will host the ad. Media buying is essentially the task of negotiating ad placements with the various forms of media, including the price of the ad (which can be driven lower by a larger, more powerful buyer), the

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

location of the ad (for example, during which TV show), timing (more specifically, what time during the TV program, such as during which quarter of a football game), and, for multimedia or multi-region campaigns, combinations of placement and timing to bring optimal price efficiency to the client. Much is negotiable, and the size and clout of the media buyer can have a significant effect on the pricing and placement of an advertisement.

Prominent media buyers and their parents are listed in the following exhibit. Accounts are listed in terms of billings, which is the total advertising budget allocated to the respective agency by the advertiser. Agencies serve as the pass-through vehicle for the advertising budgets; media buyers take a small cut (around 2%-4%) of the total. We believe pricing pressure is increasing in the media buying business as consolidated accounts have more bargaining power and media buyers may be willing to come down a bit on price to secure a prestigious and lucrative new account.

Exhibit 30. Leading Holding Company and Agency Network Media Buyers by Billings, 2007 ($ in billions)

Rank	Market Share	Holding Company / Media Unit	Worldwide Billings 2007	% Chg
1	15.9%	WPP / GroupM	$63.5	7.0%
2	11.9%	Publicis / VivaKi	47.7	7.2%
3	8.2%	Omnicom / OMG	32.8	7.4%
4	5.8%	Interpublic / Mediabrands	23.0	-5.2%
5	5.6%	Aegis / Aegis Media	22.4	8.4%
6	3.1%	Havas / Havas Media	12.3	14.5%
	50.4%	**Total holding companies/networks**	**201.7**	6.1%
	49.6%	**Independents / in-house / others**	**198.3**	4.8%
	100.0%	**Total worldwide buying market**	**400.0**	5.6%

Rank	Market Share	Global Network (Parent)	Worldwide Billings 2007	% Chg
1	6.6%	OMD (Omnicom)	$26.3	6.7%
2	6.3%	Starcom MediaVest SMG (Publicis)	25.4	6.4%
3	5.7%	MindShare (WPP)	22.8	0.8%
4	5.6%	ZenithOptimedia (Publicis)	22.3	8.0%
5	4.9%	MediaCom (WPP)	19.8	10.5%
6	4.8%	Mediaedge:cia (WPP)	19.1	10.6%
7	4.7%	Carat (Aegis)	18.6	5.8%
8	3.0%	Universal McCann (Interpublic)	11.9	-6.5%
9	2.8%	MPG (Havas)	11.2	15.5%
10	2.8%	Initiative (Interpublic)	11.1	-3.7%
11	1.6%	PHD (Omnicom)	6.5	-3.7%
12	0.9%	Vizeum (Aegis)	3.8	-3.7%
13	0.4%	Maxus (WPP)	1.8	-3.7%
14	0.3%	Arena (Havas)	1.1	-3.7%

Source: RECMA.

Relationships and the Bidding Process

Agencies tend to maintain long-term relationships with clients, and sometimes will handle all their clients' creative work – across products, divisions, and geographical regions (for example, General Motors has used some of the same agencies for almost a century!). Yet, accounts move among agencies (thereby driving net new business

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

wins) with some frequency. This is because clients are mindful of the status of their relationship, and relationships can grow stale over time. Account movements often are due to the advertiser seeking a new image, the need for fresh ideas in communicating a marketing message, or the desire for a more productive relationship. An account typically moves for either external (advertiser) or internal (agency) reasons.

External catalysts include:

- Merger and acquisition activity that changes the decision maker at the advertising company;
- Poor sales performance, with blame placed on the agency – whether justified of not; and
- A consolidation decision (where the advertiser moves more business to one agency to gain leverage and save money).

Internal reasons include:

- Dissatisfaction with the agency's creative output or strategic direction; and
- Personality or account management issues.

On the other side of the coin, advertising agencies themselves are constantly on the lookout for new accounts to win, and so they may take their existing relationships for granted while chasing the next big fish, thereby unwittingly letting existing accounts slip away.

The bidding process is generally an open competition in which an advertiser hires a consultant and announces that its account is open, thereby eliciting bids. Advertising companies put together pitches, and the advertiser meets with prospective agencies to discuss the service offering; this may be the foundation of a long-term relationship. Advertisers therefore look for an agency's particular strengths and the strategies it offers, and accounts are usually won primarily based on the quality of the service offering and personality fits. Price is an important consideration, and some advertisers have consolidated accounts at fewer agencies in order to save costs; however, in an open bid for a new account, price is typically a secondary consideration to quality.

In some cases, an account will move without an official review. In these cases, the advertiser already has a good idea of who it wants its ad agency to be, based on that agency's reputation or the service offering it can make that is particular to the advertiser's needs (for example, its creative or technical capability, recent success with a comparable product, or geographic reach), or quite simply on relationships among advertisers and agency personnel. Changes in chief marketing officers can lead to changes in ad agencies; recent examples include PepsiCo, Dell, and Intel. Ad agencies tend to move through trends, and a run of successes at one agency often pulls in more new business as that agency is perceived to be "hot." On the flip side, a string of account losses can rattle existing clients into perceiving the agency as being on the downswing – indeed, employee cutbacks and lowered morale can take a toll on an agency, and, in extreme cases, lead to a downward spiral.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Marketing Services

The profile of the leading advertising and marketing services company has changed meaningfully over the last two decades. The most significant change is the investment in marketing services businesses, or "nontraditional advertising," transforming these companies into more diversified marketing communications companies. "Diversified marketing services" generally encompasses CRM, PR, and specialty/other communications. CRM (Customer Relationship Management) offerings include direct, interactive and database marketing, market research, and promotional marketing. Specialty/other communications refers to tailored services such as health care, multicultural, entertainment, and sports and event marketing.

Advertisers are increasingly looking for more specialized and targeted ways to deliver their marketing messages. An advertising organization's ability to deliver a wide variety of marketing services will likely help attract more business and boost its overall profitability, since overall sales and marketing costs fall and services can often be bundled together at higher rates, leading to improved margins. In addition, this shift in business mix gives advertising organizations a more diversified revenue base, providing downward protection in a sluggish economy and upward pressure on growth rates in a robust environment. Providing many services to one client also helps solidify the agency/advertiser relationship.

Longer-erm, we continue to believe the growth of these businesses should outpace traditional marketing, as 1) advertisers are moving more and more of their incremental spending into targeted, measurable, and often cheaper forms of marketing, and 2) as the advertising and marketing services companies continue to expand relationships with their clients, since much of the incremental business being picked up is in the marketing services area. Indeed, the holding companies are working hard to better integrate their advertising and marketing services businesses. Thus, we would expect marketing services in aggregate to grow at about a 2%-4% premium to traditional advertising in a healthy economic environment (i.e., if traditional advertising grows at 6%, marketing services could grow at 8%-10%).

Rationale for Diversification

By expanding into marketing services, advertising companies are capitalizing on existing customer relationships and presenting lucrative value propositions to prospective clients. First, ad holding companies offering a full suite of advertising and marketing services are better positioned to capture more marketing dollars rather than passing them along to another service provider. Second, having more service offerings reduces the revenue risk exposure to one business line. Third, unlike traditional advertising, whose margins are typically lower due to high variable costs, marketing services can, in some cases, yield greater opportunities for growth as they are highly leverageable businesses. Finally, marketing services are expected to grow at a faster rate as advertisers seek more cost-effective direct and targeted communication media to reach their desired customer base.

- **One-Stop Shopping.** The one-stop shopping approach offers the opportunity to formulate a unified message across multiple advertising and marketing media under the umbrella of one advertising and marketing services provider. Dealing with only one advertising and marketing services company may also: 1) provide cost savings from reduced back-office functions; 2) eliminate the cost and time of a lengthy review process for a new agency; and 3) result in some price

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

concessions to advertisers in return for giving the advertising holding company more business.

- **Diversification of Revenue Base.** The traditional agency structure used to be fairly cyclical, with revenue growth dependent on the decisions of major clients as well as the strength of the economy. This dependency caused great sales volatility, making it difficult for an advertising agency to generate consistent double-digit earnings growth. The diversification into other marketing businesses reduced this volatility by increasing the range of services an agency provided (decreasing the concentration of business) and often strengthening the agency's relationship with the customer. Some of these diversified businesses are more resilient during economic downturns, providing some protection in a recession. For example, pharmaceutical marketing services tend to be less affected by economic downturns, as pharmaceutical companies continue to promote products aggressively in good times and bad, since health and illness are not dependent on economic conditions. Direct marketing, particularly digital/interactive, also appears more resilient in recessions, since it is more accountable than advertising on mass media.

- **Higher Levels of Profitability.** Some of these diversified marketing services businesses have the potential to produce higher profits than traditional advertising. Since direct marketing is a relatively accountable means of selling a product, the direct marketing company can usually charge a premium for service compared to traditional advertising on a cost-per-thousand basis. The extent of this premium would depend on the response rates it will likely generate and the value of the targeted audience. For example, if Procter & Gamble wants to reach new mothers to tell them about a new baby product, on a CPM basis, a direct mail campaign may make more sense than a television advertisement. While a television advertisement may reach a larger number of viewers, only a small fraction of them will likely be new mothers who would be interested in the particular product. A direct marketing campaign can target its mailing to a desired audience, making the average 1%-2% response rate a very good return on investment. As targeting tools improve (including via the use of the Internet and e-mail marketing) and marketers use more sophisticated databases, communications can be enhanced and returns potentially improved further.

In addition, most of these diversified businesses have fairly high fixed costs that can be leveraged across a wide customer base. For example, once a database company sells enough data to cover the costs of acquiring and maintaining that information, any additional sales generate profits that essentially fall to the bottom line. Since data can be sold over and over again, operating margins will improve with every additional sale. This is not necessarily true for a traditional advertising campaign, which must use significant additional people-hours to create every new advertisement.

- **High Relative Growth Rates.** Over the last decade, growth rates of many of these diversified marketing services sectors have outpaced the growth in overall advertising expenditures. As the marketplace becomes further segmented and the ability to reach defined groups of potential consumers improves, advertisers are allocating more of their dollars to direct means of promoting their products. While it is not easy to define advertising and marketing services, when we examine the non-advertising lines of businesses that are generally considered marketing services, the growth rates of marketing services divisions outpace

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

traditional advertising. For example, at Omnicom, advertising revenues grew 4.9% in 2008, while its CRM business grew 9.5%. At IPG, revenue at its traditional agencies grew 3.4% organically in 2008, while its marketing services agencies grew revenue 6.2%.

Customer Relationship Management

CRM services broadly refer to offerings that help an enterprise create, develop, manage, and enhance a customer relationship. For example, to provide customers with products they need or may want, a company might build a customer database that tracks historical purchases so the sales force can understand the types of purchases made and, in turn, make more relevant product recommendations. Service offerings include direct and interactive marketing, market research, and promotional marketing.

Direct Marketing

This vehicle has emerged as one of the faster-growing sectors of the advertising industry in recent years, outpacing the overall industry. Certain subsegments of this category, such as database management and interactive marketing which offer greater targeting and measurability, have demonstrated double-digit growth. In fact, the use of sophisticated databases will likely increase as direct mail becomes more targeted. Direct mail, the largest promotional medium at $59.6 billion in 2008 and accounting for approximately 35% of marketing budgets (per the DMA), has steadily outpaced the overall ad market in recent years thanks in part to improving technology.

We view interactive marketing as a form of direct marketing, as the method of reaching consumers directly is readily transferable to digital means. For example, the tools used in direct marketing transfer well to e-mail marketing. It is, in fact, hard to distinguish where interactive revenues fall, as it is a matter more of the delivery than the medium and much of this work is integrated with creative agency or direct agency work, or both.

Leading direct marketing firms include Omnicom's Rapp; WPP's Wunderman and OgilvyOne; Interpublic's DraftFCB and MRM; Publicis' Digitas; and Havas's Euro RSCG 4D. Leading niche players include Harte-Hanks.

- **Market Research.** The increasing importance companies place on customer data to gain insight into consumer behavior is driving demand for quality market research. Worldwide market research spending for 2008 was forecast by GroupM to reach $28 billion globally, as advertisers increasingly seek consumer insights they can now better leverage through targeted digital media. Market research includes ad hoc (customized) research as well as syndicated research. Customized research has not regained meaningful traction as advertisers still hesitate to commission individual studies, and hence margins have remained weak in this part of the business. Syndicated research, involving ongoing panels of participants, is a more steady business. Market research companies pass through data collection costs to their customers as a cost of goods sold. As data collection costs are coming down due to Internet data gathering as well as outsourcing of this function to lower-cost labor markets, gross revenues on market research are coming down; however, net revenues (the base from which operating costs are drawn) are largely unaffected.

WPP and Aegis are the only ad holding companies that posses meaningful market research businesses. Leading market research firms include WPP's Kantar and recently acquired Taylor Nelson Sofre; Aegis' Synovate; and various market research businesses owned by Nielsen, GfK, and Ipsos.

- **Promotional Marketing.** Consumer promotions are benefiting from the shift of trade marketing dollars to in-store promotions. In-store marketing is a big growth area as advertisers try to reach consumers at their most vulnerable position – point of sale. The purpose of promotional marketing is to move product. Promotional marketing attempts to appeal directly to consumers by offering price discounts, free samples, and in-store advertising of products to heighten consumers' awareness and purchase of a company's products. Advertisers use these vehicles to drive sales, while also creating brand awareness to ultimately capture market share. Advertisers can also measure the success of a campaign in multiple ways, such as the number of registrations of new clients and the number of leads generated through coupon and premium distribution or redemption.

  Promotional companies include Omnicom's Integer, Interpublic's Jack Morton, and independent firms such as Valassis (FSIs and shared mail).

Public Relations

PR is the communication of a company's or organization's message or image to the public. After being hurt by corporate scandals in 2001 and 2002 such as Enron, Global Crossing, and WorldCom, which raised questions about the role of PR in those situations, the PR industry has bounced back as companies seek to boost their image. As information is so accessible, organizations need public relations firms to help audiences distinguish between perception and reality. Adding to more recent strength has been the rise of online social networks (e.g., MySpace, Facebook, and YouTube) that have suddenly put companies at potential risk, as well as given them new outlets to promote and defend their brands. User-generated content creates potential hazards for companies as commentary and user-created video clips relating to their products can quickly take their brand out of their control. Experimental advertising on websites such as YouTube and MySpace can also pose potential hazards as ads may be served up alongside inappropriate subject matter. Examples of industries whose image could be negatively portrayed include pharmaceuticals (such as defending against consumer reactions to drug recalls) and financial institutions (such as presenting the position of lenders in the current tough credit markets).

As a defense mechanism, PR therefore becomes an important tool for companies to communicate their brands, and this can become a proactive effort as well. There are strong elements of traditional advertising and direct marketing in PR, and campaigns can be run across media. Wal-Mart, for example, ran full-page ads in newspapers a couple years ago to defend its labor practices; this PR-driven effort may have contributed to Wal-Mart becoming a more active advertiser, which it hadn't been before. After double-digit growth in 2007, PR growth eased in 2008, though we expect the discipline to remain a key corporate tool in this rapidly changing economic and consumer environment.

Leading PR firms include Interpublic's Weber Shandwick and Golin/Harris International; Omnicom's Fleishman-Hillard, Porter Novelli, and Ketchum; WPP

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Group's Hill & Knowlton, Burson-Marsteller, and Ogilvy Public Relations; Publicis' Manning, Selvage & Lee; and Havas' Euro RSCG Magnet.

Specialty/Other Communications

Specialty and other communications are a grouping of focused marketing efforts targeting specific industries, demographic groups, or media. Some of the work involves traditional advertising, but in a specialized industry or targeted to a specific demographic group, and some of the companies active in these areas are, in fact, owned or operated by advertising agencies. General subgroups include health care, interactive, multicultural, entertainment, and sports and event marketing.

- **Health Care Marketing.** The accelerated rate of Food and Drug Administration (FDA) approval for prescription products in the 1990's and early part of the decade, combined with the shortening life cycle of these drugs, has created a highly competitive environment in the pharmaceutical industry. Faced with intensified competition and a limited window of time in which to promote their products due to patent expirations, pharmaceutical companies have stepped up their marketing spending and turned to pharmaceutical services firms to supplement their internal marketing departments. These outside providers offer services such as medical detailing (i.e., describing the specifics of new drugs to doctors and pharmacists so that they are better educated on the pros and cons), educational services, direct mail programs, and managed care consultancy.

  In addition, the Food, Drug, and Cosmetic Act of 1997 (which loosened the regulations on direct-to-consumer [DTC] marketing by requiring drug companies to meet obligations to inform consumers by referring to four sources of additional information – i.e., a doctor, a toll-free number, a magazine or newspaper ad, and a website) has prompted a proliferation of DTC advertisements. DTC ads help generate brand awareness and loyalty when new drugs are launched, and brand stickiness when prescription drugs lose their patent but go over-the-counter (OTC). From 1996 to 2006, DTC spending grew ~20% annually, reaching $5.4 billion in '06. Over the last two years, however, spending has tailed off somewhat, declining 4% in 2007, and down 6% through Q3 in 2008 with bigger declines expected in Q4. Aside from the difficult macro environment, several industry factors are credited with the reduced spending, including fewer blockbuster drug launches and increased scrutiny by Congress over drug safety and advertising practices that has seen a higher time lag between FDA approval and DTC campaign launches.

  Several companies have emerged as leading providers of these pharmaceutical services, including Omnicom's Cline Davis & Mann; Interpublic's Lowe Healthcare; Publicis's Publicis Healthcare Group, which includes the agencies Nelson, Klemtner, and Medicus; WPP Group's CommonHealth and Healthworld; and Havas's Euro RSCG Life.

- **Multicultural Marketing.** Advertising targeted to specific ethnic populations is affected by the language used and cultural interpretation. Advertising agencies have recognized the importance of multicultural marketing by operating agencies that cater to African-, Asian-, and Hispanic-Americans. Hispanic marketing in particular is seen as a very high-growth area, given burgeoning Hispanic populations in many parts of the U.S. and a new recognition of the targetability of this consumer group by advertisers. In 2007, each of the top-tier holding

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

companies had an agency that ranked among the top-ten multicultural agencies for at least one of the ethnic groups (see Exhibit 31).

Multicultural marketing also includes marketing services targeted toward other social groups, such as gays and lesbians. As gay and lesbian lifestyles have gained greater social acceptance (at least in the U.S. and Europe), marketing to these groups has increased in importance.

Exhibit 31. Top U.S. Multicultural Agencies, 2007 ($ in millions)

Marketing to Hispanics		U.S. Revenue	
Rank	**Agency (Parent)**	**2007**	**% chg**
1	Dieste Harmel & Partners* (Omnicom)	$40.4	4.9%
2	Bravo Group* (WPP)	37.8	7.1
3	Vidal Partnership	31.0	19.2
4	Lopez Negrete Communications	23.8	12.2
5	Bromley Communications* (Publicis)	22.6	-3.3
6	Conill* (Publicis)	20.9	20.1
7	GlobalHue* (GlobalHue*)(1)	20.5	23.7
8	Zubi Advertising Services	19.6	3.2
9	LatinWorks* (Omnicom)	17.3	9.3
10	Casanova Pendrill* (Interpublic)	15.0	11.1

Marketing to African-Americans		U.S. Revenue	
Rank	**Agency (Parent)**	**2007**	**% chg**
1	Carol H. Williams Advertising*	$25.4	0
2	Burrell Communications Group* (Publicis)	23.0	-0.9
3	GlobalHue* (GlobalHue*)	19.7	23.7
4	UniWorld Group* (WPP)	16.8	23.1
5	Matlock Advertising & Public Relations	8.3	-16.5
6	Sanders/Wingo	8.3	37.7
7	Footsteps* (Omnicom)	8.2	26.2
8	Fuse	8.2	-5.6
9	True Agency	7.2	4.3
10	Hawkeye (Hawkeye Group)	6.4	7.1

Marketing to Asian-Americans		U.S. Revenue	
Rank	**Agency (Parent)**	**2007**	**% chg**
1	Kang & Lee* (WPP)	$16.5	26.9
2	InterTrend Communications	12.1	51.5
3	Admerasia	10.5	7.7
4	IW Group* (Interpublic)	10.2	30
5	Time Advertising	7.1	3
6	APartnership	7.0	-19.4
7	PanCom International*	5.9	-22.9
8	AdAsia Communications	5.8	31.8
9	Ethnic Solutions	4.7	16.6
10	Global Advertising Strategies	4.5	80

(1) Figures are *Advertising Age* estimates.

Source: *Advertising Age*.

- **Interactive Marketing.** Interactive advertising is a versatile medium that encapsulates much of the advertising and marketing services world, including creative work, media planning and buying, and various other marketing services. By virtue of the direct nature of interactive advertising, most interactive advertising agencies fulfill a variety of roles. These companies generally help clients design and operate websites, manage databases, perform market research and segmentation analyses, plan the best mix of interactive vehicles to use, produce creative online advertising campaigns, provide interactive CRM services such as e-mail marketing, and, in some cases, buy online advertising inventory and run sponsored search. Because of the direct nature of interactive marketing, some holding companies report revenues from this business as CRM revenue. All the ad holding companies own interactive marketing assets, with some of the more important ones shown in the following exhibit.

We believe interactive advertising agencies will become increasingly important as advertisers seek to broaden their media mix and look to more accountable outlets for their marketing dollars. We believe Internet advertising will grow steadily as Internet usage grows, broadband penetration renders online advertising more effective, and advertisers become more attuned to the highly targeted, highly measurable nature of the Internet.

Exhibit 32. Interactive Agencies at the Major Holding Companies

Omnicom	WPP	Interpublic	Publicis	Havas	Aegis
Organic	OgilvyInteractive	R/GA	Digitas	Euro RSCG 4D	Isobar
Tribal DDB	digital@JWT	MRM	Publicis Modem	Media Contacts	Carat Fusion
Tequila	Wunderman	iDeutsch	Moxie Interactive		iProspect
Agency.com	G2	Reprise Media	Performics		
Atmosphere BBDO	24/7 Real Media	FCBi			

Source: Company reports; J.P. Morgan.

- **Entertainment Marketing.** Entertainment marketing ranges from music licensing and movie product placements to TV sponsorships. Ad holding company efforts to place products on hit TV shows and movies and develop product-based storylines are expected to increase as advertising and entertainment overlap. Across all holding companies, existing relationships with Hollywood are anticipated to support these entertainment marketing initiatives. In fact, some agencies are beginning to formalize these relationships by creating divisions that blend programming with advertising.
- **Sports and Event Marketing.** Event marketing advertising expenditures have experienced mid-single-digit growth over the last few years. Contributing to this growth is the increased popularity of sports and other entertainment events, as evidenced by the expansion of U.S. sports overseas; the increasing regard for professional soccer in the U.S., and of events such as the World Cup; the consolidation of event and venue businesses; and the biennial scheduling of the Olympics. Also, media has played a significant role in increasing the popularity of some athletes, causing marketers to get them under contract and create a brand affiliation. As the athlete becomes more successful, the hope is that the brand will benefit from the association. Nike is one marketer that has historically been successful in efforts to build brand equity (on a global scale) with successful athletes such as Michael Jordan and Tiger Woods.

  In 2008, the much anticipated Beijing Summer Olympics attracted record advertising. Zenith forecasted ad spending surrounding the games would reach $3 billion, with $1 billion of that spent in China.

We believe an advertising and marketing services organization's involvement in this area of event marketing enhances its future growth opportunities. However, the event marketing industry is highly competitive and fragmented, and many companies are still evaluating the growth prospects of their sports marketing units after over-exuberant expectations in 2000. Small firms often rely on one event, league, or specialty, which places them at great risk – a prime example is Brands Hatch, the former motor sports business at Interpublic, which had a seriously deleterious effect on Interpublic's operating results for several quarters in 2002-04. In order to diversify such risk, advertising organizations have shown an interest in consolidating such companies into a strong sports marketing division.

For example, Interpublic has grouped most of its sports and entertainment marketing businesses under Octagon to go along with another of its large agencies, Jack Morton, which, among other things, produced the opening and closing ceremonies at the 2004 Summer Olympics. Publicis's International Sports and Entertainment (iSe) works in partnership with Dentsu and Sports Mondial, which owned the sponsorship rights to the 2006 World Cup in Germany. Omnicom owns a leading sports marketing company, GMR Marketing, as well as The Marketing Arm and Millsport. Likewise, WPP Group offers sports marketing services through PRISM and Global Sportnet.

Exhibit 33. Description of Select Diversified Marketing Services

Service	Est. '09 Growth Rate	Description
Direct Marketing	-2% - direct mail flat - database management	Direct marketing is defined as any direct communication with a customer or business that is designed to generate a response in the form of an order, a request for more information, and/or a visit to a store or other place of business. Services include creating/designing of marketing plans, data compilation, database management (merge/purge, data enhancement, sortation), data analysis, fulfillment/execution through the use of direct mail, teleservices, publications, or online services, and response analysis.
Market Research	-2%	Market research involves collecting, processing, and analyzing data on a syndicated or custom basis from a representative sample and using the findings to assist companies in developing select marketing strategies. Research is usually performed via unsolicited telephone interviewing, door-to-door personal interviewing, central location interviewing, and panel surveys. For direct marketing purposes, market research involves developing and analyzing target markets for promotional or selling activities.
Promotional Marketing	2%	Promotional advertising can be defined as incentives given to end-user customers that encourage the purchase of a product and includes trade promotions to groups such as wholesalers and retailers. Types of promotions used to reach objectives of increasing product trial, repeat purchase, complementary product purchase, and collecting customer data include coupons, samples, frequency marketing programs, sweepstakes, premiums, price promos, refunds and rebates and displays. Ability to measure effectiveness has increased attractiveness of this type of advertising.
Public Relations	-5%	Public relations can be defined as inducing the public or a certain segment of the market to have a good understanding of and positive feeling about a business, person, or institution. Longer term, it can involve managing the reputation that has been established. This extends to managing communications regarding financial, medical, environmental, and legal issues; consumer affairs; crisis resolutions; and media relationships.
Pharmaceutical Marketing	-5-10%	Pharmaceutical marketing includes educational services/physician detailing (describing the benefits of new drugs to doctors), product sampling, and direct-to-consumer advertising.
Interactive Marketing	5-10%	Interactive marketing is broadly defined as the use of an interactive medium to attract public attention or patronage. These media include most notably the Internet, but also digital TV and video games. Interactive marketing primarily involves designing and placing Internet advertisements, developing Web sites, handling keyword search, placing online ads, and tracking advertising delivery.

Source: Robert Coen of Universal McCann; Council of Public Relations; DMA; ESOMAR; Promotional Marketing Association/*PROMO Magazine*; J.P. Morgan.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Advertising and Marketing Services Company Growth Drivers

Advertising and marketing services companies have three main drivers of revenue growth. These are industry growth, net new business wins, and acquisitions. These companies report an estimate for organic growth (industry growth and net new business wins) separately, distinguishing it from total reported growth, which includes growth from acquisitions. Foreign exchange also affects total reported growth. Investors tend to focus primarily on organic growth as the key figure in a company's revenue performance.

Industry Growth

Industry growth is the starting point for ad agency growth: A healthy business climate leads to healthy advertising spend, as we outlined in the section on ad spending in relation to GDP growth. Much of this also has to do with a psychological effect; for example, even though the U.S. economy grew steadily from 2002 to 2003, advertisers initially came back slowly to the market as they worried about other factors such as consumer confidence levels and lack of pricing power in a low-inflation environment. As we head into a period of increasing economic uncertainty, spending declined at the end of 2008 and is expected to remain weak through 2009 as advertisers try and navigate through the global economic slowdown. As such, we expect U.S. ad spending to decline 9% in 2009, with global spending down 5.5%.

Net New Business (Market Share Gains)

The second leg of growth is new business wins. In general, the larger advertising and marketing services firms have netted more wins than losses of accounts over the last several years. This has been driven by the fact that holding companies in general own the top creative agencies and offer a full range of marketing services on a global level. Consolidation of business has also led to significant ad dollars moving to the larger advertising and marketing services holding companies. New business wins or market share gains generally contribute two to three percentage points of growth on average at the larger advertising and marketing services companies. Net new business is always reported in terms of billings, not revenues, even though it is widely acknowledged that this reported figure is rather loosely defined. We expect new business activity to slow a bit during this downturn, as advertisers tend to shift agencies less frequently during periods of economic weakness and lower ad spending. For more on billings, please see Appendix 1.

Acquisitions

Advertising agencies have traditionally grown through acquisitions; in fact, the major holding companies serve as parents to as many as 1,500 subsidiaries. While mergers and acquisitions have always been a part of the advertising world, we saw a particularly strong wave of consolidations in the 2000-05 period – e.g., WPP/Young & Rubicam (2000, \$4.7 billion); Publicis/Bcom3 (2002, \$3.1 billion); Interpublic/True North (2001, \$2.2 billion); Havas/Snyder Communications (2000, \$2.2 billion); Publicis/Saatchi & Saatchi (2000, \$1.9 billion); WPP/Grey (2005, \$1.3 billion); WPP/Tempus (2001, \$675 million); and WPP/Cordiant (2003, \$325 million).

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

This increase in acquisition activity enabled the top advertising and marketing services companies to meaningfully broaden their reach and create greater scale. With additional agency networks, these holding companies can avoid client conflict issues in many more cases and compete for additional business. The scale attained through these acquisitions often enables an agency to assume more business from a current client, facilitating an account consolidation. This scale has been particularly important in winning media business, as the larger media buyers tend to benefit from stronger relationships with the media and better media rates. Therefore, advertising and marketing services companies have aggressively combined their own internal media businesses and acquired others to attain this scale and win more business from clients.

Acquisitions extend far beyond major mergers such as those mentioned above. In fact, most large holding companies make a steady stream of acquisitions of much smaller companies, often as much as ten to 20 per year. The agency landscape is still very fragmented, with smaller creative and marketing services agencies throughout the globe, providing a rich crop for the large holding companies to choose from. Omnicom's strategy, in fact, is predicated on making small acquisitions that fit a particular need.

The pace of acquisitions slowed after the 2001 recession as the holding companies tightened their own budgets and focused more on conservative balance sheets and free cash flow. Interpublic and Havas even divested underperforming or non-core units in 2003-04 as these two companies tried to right-size after failing to integrate prior acquisitions. Omnicom slowed its pace of acquisitions dramatically from 2003 to 2005 as we believe it was distracted by Sarbanes-Oxley compliance work as well as high bidding from private equity shops, but the company appears geared toward picking up the pace again as we emerge from this downturn with regard to small acquisitions, particularly those in emerging markets. Publicis made a transformative acquisition of Bcom3 in 2002, and then limited itself to small tuck-ins until the $1.3 billion Digitas deal announced in late 2006. WPP, meanwhile, took advantage of its relative balance sheet strength by acquiring Cordiant in 2003, Grey in 2005, 24/7 Real Media in 2007, and TNS in 2008, in addition to making smaller tuck-ins. With less investment by private equity since mid-2007, we believe that pricing has become more attractive and expect to see a pick-up in acquisition activity in late 2009 and 2010, particularly if credit markets strengthen a bit and the global economy sees some stabilization. With slower acquisition activity expected through at least the first half of 2009, we expect acquisitions to account for about one percentage point of total growth at the major holding companies in the intermediate term.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 34. Major Mergers and Acquisitions ($, £, and € in millions)

Year	Target	Acquirer	Primary Category	Trans. Value	Transaction Value as a Multiple of: Sales	EBITDA	EBIT
2008	TNS	WPP Group	Marker Research	£1,362.0		8.6x	
2008	Naked Communications	Photon Group	Media Strategy	$318.0	8.0x		50.0x
2007	Quigo	AOL (Time Warner)	Online ad network	$350.0			
2007	BlueLithium	Yahoo!	Online ad network	$300.0			
2007	Interactive Marketing Works	TradeDoubler	Search engine marketing (SEM)	$112.0			
2007	TACODA	AOL (Time Warner)	Online ad network	$275.0	7.3x		
2007	Lintas India (51%)	Interpublic Group	Advertising	$50.0			
2007	Bluestreak.com	Aegis	Online ad serving	$12.5			
2007	Business Interactif	Publicis Groupe	Digital Marketing	$182.8			
2007	aQuantive	Microsoft	Digital Marketing	$6,000.0	9.7x	40.1x	54.1x
2007	24/7 Real Media	WPP Group	Digital Marketing	$649.0	2.2x	31.0x	54.1x
2007	Alliance Data Systems	Blackstone Group (Private equity)	Marketing and Data Services	$7,800.0	3.4x	12.4x	14.2x
2007	Clemmow Hornby Inge (49.9%)	WPP Group	Advertising	$59.0	3.3x		
2007	Right Media (80%)	Yahoo!	Online ad exchange	$680.0	12.1x		
2007	Catalina Marketing	Hellman & Friedman (Private equity)	Marketing Services	$1,696.0	3.0x	9.9x	14.3x
2007	Hitwise	Experian	Digital Market Research	$240.0	4.3x		
2007	DoubleClick (Hellman & Friedman, private equity))	Google	Online ad serving	$3,100.0	10.3x	30.0x	
2007	AgenciaClick	Aegis	Digital Marketing	£20.0			
2007	AKQA (majority stake)	General Atlantic (Private equity)	Digital Marketing	$250.0	2.5x		
2006	Digitas	Publicis Groupe	Digital Marketing	$1,295.0	2.7x	16.2x	
2006	ADVO	Valassis	Marketing Services	$1,232.5	0.8x	12.3x	22.5x
2006	Accipiter	aQuantive	Online ad serving	$30.3			
2006	Abacus (DoubleClick)	Alliance Data Systems	Digital Marketing	$435.0		10.0x	
2006	VNU	(Private equity consortium)*	Market Research	€ 8,600.0	2.0x	11.9x	15.7x
2006	Medical Broadcasting Company	Digitas	Healthcare Interactive Advertising	$30.4	1.3x	-	-
2005	The Communications Group (70% stake)	WPP Group	Advertising	$70.0	1.0x	-	6.0x
2005	SOPACT, Metrobus, JC Decaux Ned. (Publicis)	JC Decaux	Advertising	€ 110.0	-	-	-
2005	Fastclick	Valueclick	Digital Marketing	$214.0	3.7x	27.1x	28.8x
2005	Digital Impact	Acxiom	Marketing Services	$120.0	2.5x	-	-
2005	Molecular	Aegis	Marketing Services	$31.5	-	-	-
2005	AZTEC	Aegis	Market Research	£18.1	2.2x	-	-
2005	Zyman Group (61% stake)	MDC	Advertising	$75.7	1.8x	-	-
2005	Grey Global Group	WPP Group	Advertising	$1,310.0	0.9x	8.7x	10.3x
2004	Cooper & Hayes	Omnicom Group	Advertising	$25.0	-	-	-
2004	Bounty (Havas)	LDC	Marketing Services	£20.0	-	-	-
2004	Modem Media	Digitas	Digital Marketing	$200.0	3.1x	11.0x	-
2004	Consodata	Acxiom	Database Marketing	€ 30.0	0.6x	-	-
2004	Claritas Europe (VNU)	Acxiom	Database Marketing	$33.5	0.4x	-	-
2004	SBI Razorfish	aQuantive	Digital Marketing	$160.0	1.7x	-	-
2004	Advertising.com	AOL	Digital Marketing	$435.0	1.9x	-	-
2003	Isis Research	Aegis	Market Research (Health Care)	£23.8	-	-	-
2003	Cordiant	WPP Group	Advertising	£198.0	0.4x	5.4x	-
2003	Agency.com (Seneca)	Omnicom Group	Internet Advertising	$196.8	-	-	-
2003	Maxxcom (26% stake)	MDC Corp	Advertising	$18.0	-	-	-
2003	NFO	Taylor Nelson Sofres	Market Research	$425.0	0.9x	-	-
2003	NCH Marketing Services	Valassis	Marketing Services	$49.4	0.7x	4.5x	6.4x
2003	Chime Communications (49% of HHCL)	WPP Group	Public Relations	$19.3	-	-	-
2002	Organic (Seneca)	Omnicom Group	Internet Advertising	$106.2	-	-	-
2002	BCom3 Group Inc	Publicis Groupe	Advertising	$3,133.7	1.6x	12.2x	28.1x
2002	Maxxcom	MDC Corp	Advertising	$16.2	0.0x	0.7x	1.4x
2002	@plan.inc	Nielsen NetRatings	Online Market Research	$18.5	-	-	-
2002	Scottish Radio (Score Outdoor)	Clear Channel UK Ltd	Outdoor advertising (billboards)	$83.8	3.4x	-	94.8x

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Year	Target	Acquirer	Primary Category	Trans. Value	Transaction Value as a Multiple of: Sales	EBITDA	EBIT
2001	Tempus	WPP Group	Media Buying	$674.8	2.8x	20.0x	25.7x
2001	Roper Starch Worldwide	United Business Media	Marketing Research	$88.0	1.3x	-	-
2001	Grizzard	Omnicom Group	Direct Marketing	$91.3	1.0x	-	-
2001	True North Communications	Interpublic Group	Advertising	$2,250.1	1.4x	8.5x	11.0x
2001	55% of Media Planning Group	Havas	Media Buying	$470.5	4.6x	-	-
2001	NPD (custom marketing division)	Ipsos	Marketing Research	$120.0	1.7x	-	12.0x
2000	ACNielsen	VNU	Marketing Research	$2,339.5	1.5x	14.5x	15.1x
2000	Deutsch	Interpublic Group	Advertising	$250.0	1.7x	-	-
2000	Leagus Delaney	Envoy	Advertising	$86.0	1.9x	19.3x	-
2000	Lighthouse Global Network	Cordiant	Marketing Services	$542.0	3.4x	14.6x	-
2000	Saatchi & Saatchi	Publicis Groupe	Advertising	$1,900.0	2.5x	18.7x	-
2000	Young & Rubicam	WPP Group	Advertising	$4,714.0	2.4x	13.7x	18.1x
2000	Caribiner (Communications Group)	Interpublic Group	Specialized Communications	$90.0	0.4x	-	-
2000	Competitive Media Reporting (VNU)	Taylor Nelson Sofres	Marketing Research	$88.0	1.6x	-	11.7x
2000	Snyder Communications	Havas	Advertising & Direct Marketing	$2,237.5	3.2x	17.1x	21.4x
2000	Fallon McElligott	Publicis	Advertising	$120.0	1.5x	-	-
2000	Frankel	Publicis	Direct Marketing	$170.0	1.8x	-	-
1999	M/A/R/C Inc.	Omnicom Group	Direct Marketing	$122.4	1.3x	12.8x	28.0x
1999	Rainey Kelly Campbell Roalfe	Young & Rubicam	Advertising	$40.5	-	-	-
1999	Mullen Advertising (75%)	Interpublic Group	Advertising	$45.0	1.6x	-	-
1999	KnowledgeBase Marketing	Young & Rubicam	Direct Marketing	$175.0	5.2x	23.4x	-
1998	Abbott Mead Vickers (72.3%)	Omnicom Group	Advertising	$447.1	3.0x	14.7x	18.1x
1998	CKS Group	USWeb Corp.	Interactive Ad./Marketing	$312.6	2.0x	13.9x	16.8x
1998	International Public Relations	Interpublic Group	Public Relations	$226.5	1.0x	-	-
1998	Jack Morton	Interpublic Group	Specialized Communications	$100.0	1.4x	-	-
1998	Arnold Communications	Snyder Communications	Integrated Marketing	$120.0	1.2x	-	9.2x
1998	Hill, Holliday	Interpublic Group	Advertising	$100.0	1.4x	-	-
1998	Carmichael Lynch	Interpublic Group	Advertising	$40.0	1.3x	-	-
1998	GGT	Omnicom Group	Advertising	$300.0	1.0x	-	10.0x
1997	Bozell, Jacobs, Kenyon & Eckhardt	True North	Advertising	$440.0	0.9x	-	10.0x
1997	SiteSpecific	CKS Group	Interactive Ad./Marketing	$6.5	3.6x	-	-
1997	Fleishman Hillard	Omnicom Group	Public Relations	$85.0	0.8x	-	-
1996	64% of Modem Media	True North	Interactive Ad./Marketing	$33.0	3.4x	13.6x	15.5x
1996	DiMark	Harte-Hanks	Direct Marketing	$44.5	0.6x	-	-
1996	Ketchum Communications	Omnicom Group	Public Relations	$65.0	0.5x	-	-
1995	DIMAC	Heritage Media	Direct Marketing	$251.8	2.2x	-	-
1995	Ross Roy Communications	Omnicom Group	Direct Marketing	$57.9	0.9x	5.3x	5.9x
1994	Western International Media	Interpublic Group	Media Buying	$50.0	0.6x	-	-
1994	Ammirati & Puris	Interpublic Group	Advertising	$55.0	0.8x	-	-
1993	TBWA Advertising	Omnicom Group	Advertising	$65.0	0.7x	-	-
1991	Scali McCabe Sloves	Interpublic Group	Advertising	$55.5	0.8x	-	-
1989	Ogilvy Group	WPP Group	Advertising	$793.0	0.9x	9.1x	-
1987	JWT Group	WPP Group	Advertising	$555.3	0.9x	17.1x	-
1986	Ted Bates Worldwide	Saatchi & Saatchi	Advertising	$391.0	1.2x	-	-
1986	Doyle Dane Bernbach/Needham Harper/BBDO	Omnicom Group	Advertising	$480.2	0.7x	-	-
1986	Backer & Spielvogel	Saatchi & Saatchi	Advertising	$47.2	0.8x	-	-
1986	Dancer-Fitzgerald-Sample	Saatchi & Saatchi	Advertising	$70.8	0.6x	-	-
				Mean	**1.6x**	**13.3x**	**18.4x**
				Median	**1.3x**	**13.7x**	**15.3x**

(1)Consortium includes AlpInvest Partners, The Blackstone Group, The Carlyle Group, Hellman & Friedman, Kohlberg Kravis Roberts & Co., and Thomas H. Lee Partners.

Source: J.P. Morgan.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Industry Trends

Several major industry trends benefit the large advertising and marketing services companies. These include account consolidation, globalization, and the development of alternative marketing.

Account Consolidation
Beginning in 1997, the rate of account consolidation began to increase, and after the pullback in 2001, this pace picked up even further in 2003-04. More and more advertisers have moved their business to the larger advertising and marketing service holding companies. This move has been the result of advertisers looking to create a more consistent brand image on a global level and gain potential cost savings from either improved operating efficiencies or bundled pricing. Consolidation on the media buying side of the business has also furthered this trend. In addition, the larger advertising and marketing services companies have facilitated this move through the rapid buildup of diversified marketing services and a global presence so they can offer one-stop shopping to their clients.

We believe account consolidation has intensified recently as companies have sought to rationalize both their costs and operations, as explained below. Account consolidation has stepped up at the global level as well, as multinational corporations address the reality of globally integrated markets, where a consistent brand image is important; because of this, media planning and buying account consolidations have also noticeably increased in the past year or so, and account consolidations have begun to emerge at the holding company level as well.

We believe that clients will continue to consolidate accounts at fewer advertising and marketing service companies for three reasons: pricing leverage, elimination of redundant costs, and brand harmony.

Advantages of Account Consolidation

Advantages of account consolidation include the following.

Better Pricing Leverage for Clients. In general, account movements are based on reputation, service offering, creative ideas, and synergies between the parties involved. And although price has always been a driver in account movement, we believe it is playing a bigger role today in influencing advertisers to consolidate their business at fewer agencies. The leverage a client has over an agency when that agency is its sole supplier creates an opportunity for the client to seek price concessions. Moreover, a client may use price as a bargaining chip before giving one agency more business.

This is not to say price is the primary determinant; in fact, some of the major account consolidations, such as GM's media planning and buying account (to Publicis and Aegis) and Bank of America's complete advertising business (to Omnicom), were not decided on the basis of price, but on quality of service.

Eliminating Redundancies. Account moves are clearly driven by an advertiser's ability to lower advertising costs, whether through lower prices or through cost reductions. From a cost-saving perspective, it is expensive to have multiple agency

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

relationships. Costs associated with an agency include back-office functions, legal support, and additional staff. Therefore, eliminating these costs is a consideration when deciding to narrow down the agency roster.

Brand Harmony. Following the tough price competition with several generic offerings from consumer product categories in the early 1990s, companies became much more focused on supporting their brands. Private-label companies assumed an increased appreciation for the power of the brand to differentiate their products and earmarked more marketing dollars for branding in an attempt to build market share. This branding initiative highlighted the importance of developing a consistent brand image on a global level, which was naturally much easier to accomplish using one agency or holding company. The globalization trend has made brand harmony even more important. As advertisers became more global, more of their business would move toward the larger holding companies that could support a multinational branding campaign.

On the flip side, there are some advertisers who prefer not to consolidate, but to maintain a variety of agencies with the goal of maintaining a competitive atmosphere and driving the best creative work. A prime example of this is Coca-Cola, which decentralized much of its advertising in recent years away from McCann Erickson (Interpublic), where it was a core client for decades, to other agencies including Ogilvy & Mather (WPP), Leo Burnett (Publicis), independents Wieden & Kennedy and Mother, and Euro RSCG and MPG (both part of Havas).

Agency and Client Mergers and Acquisitions

Account consolidation is partly a function of the M&A activity among advertisers, which have sought to streamline operations by narrowing their advertising to fewer agencies, as well as among the agencies themselves, who have sought to broaden the scale and scope of their operations, thereby attracting larger accounts.

M&A Activity Among Clients. The wave of M&A activity that occurred through the 1990s and into the early 2000s created much larger corporate entities with more streamlined ad budgets, such as Citicorp/Travelers, Daimler/Chrysler, AOL/Time Warner, and Hewlett-Packard/Compaq, and this contributed to the consolidation of the ad holding companies. More recent mergers, such as Cingular/AT&T Wireless, Sears/Kmart, Federated/May, and most notably P&G/Gillette, likewise raised questions as to the status of the respective advertising accounts. Subsequent to the mergers, these new corporations have streamlined operations, including evaluating their agency relationships. While most companies still left the decision of choosing an agency to individual brand managers, it became common to reevaluate these relationships from a corporate level after a major acquisition. This effort often began with the process of a corporate re-branding of the new combined entity, as an agency had to be chosen for that high-profile job. During the process, agency relationships were often evaluated across the board, which, in many cases, led to major account consolidations by dropping multiple agencies and giving all of the business to one company. A prime example was Citicorp's merger with Travelers, which prompted the company to move the bulk of its advertising budget to Young & Rubicam.

M&A Activity Among Ad Agencies. Advertising and marketing services companies have traditionally grown through acquisitions of smaller firms, as well as through larger-scale mergers. Such agency consolidation has enabled the top

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

advertising and marketing services companies to meaningfully broaden their reach and create greater scale. With additional agency networks, these holding companies could avoid client conflict issues in many more cases and compete for additional business. The scale attained through these acquisitions often enabled an agency to assume more business from a current client, facilitating an account consolidation.

Client Conflict Considerations

Account consolidation through M&A activity has commonly faced a stumbling block in client conflict policies, although this has moderately liberalized over time. Many advertisers have historically maintained client conflict policies that preclude them from working with an ad agency that also manages the advertising of a competing product. Historically, in an attempt to avoid this problem, holding companies composed of several independent agencies were formed. In most cases, this structure has worked out well, allowing for two different agencies within one holding company to work on competitive products, as long as the holding company sets up effective firewalls to prevent communication between its agencies on sensitive matters. While many clients will insist that a competitor not be represented by the same agency, some will claim category exclusivity for the entire holding company. In recent years, many top advertisers have claimed to loosen their conflict policy (P&G has been vocal about this, for example), but, in reality, some client conflict issues still exist. Interpublic Group lost several clients to conflict issues following the acquisition of True North (including Pepsi, Chrysler, and Reckitt Benckiser). In response, during its acquisition of Bcom3, Publicis Groupe was particularly careful about client conflict issues, actively engaging its key clients in the negotiations. Likewise, WPP's acquisition of Cordiant was predicated, in part, on client fit, and conversely its acquisition of Grey has led to some integration concerns regarding P&G/Gillette, Unilever, and Colgate-Palmolive. Unless conflict issues are completely eliminated, they will continue to prevent some account consolidation or lead to instability during integrations.

Some holding companies have formed client-specific agencies within their network of companies in order to create a further sense of isolation for sensitive clients – to help manage conflicts – as well as to provide even more specific services for that client alone. The most recent example is WPP creating a separate agency to handle all of the work related to Dell.

Consolidation in Media Planning and Buying

The media buying industry has undergone tremendous consolidation during the past five years or so. In this area of the advertising business, size really does matter. The more dollars a media buying company has within its network, the more leverage that company will have in negotiating pricing and placement of advertising dollars for its clients. A decade ago, there were three major TV networks and 25 leading media buying entities. The balance of power was clearly with the sellers of advertising space. Today, that pendulum has swung, with only a handful of top media buyers (the top ten buyers manage over 50% of the global market) and a multitude of sellers, as cable and other national networks evolved. The media buyers appear to have a stronger position in the industry today than ever before.

These consolidations have been the result of several consolidations within the advertising companies (for example, WPP formed MindShare from the media buying businesses of its subsidiaries Ogilvy & Mather and J. Walter Thompson);

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

acquisitions of media buyers (e.g., WPP acquired Tempus, which it then consolidated with Media Edge, the media arm of its subsidiary Young & Rubicam (Y&R), to form Mediaedge:cia); and account movement, of which a large component continues to be in the media buying business.

Most holding companies have formed umbrella organizations for their media buying and planning businesses, in order to achieve some back-office efficiencies as well as position themselves as having even greater scale. Omnicom has thus formed Omnicom Media Group (OMD and PHD), WPP has formed GroupM (Mindshare, Mediaedge:cia, MediaCom, and Maxus), and Publicis created Publicis Groupe Media (Starcom MediaVest and ZenithOptimedia). In 2008, Interpublic created Mediabrands to oversee its two media networks, Initiative and Universal McCann, in an effort to properly align IPG's media products with its other offering. The two media networks work independently, but Initiative also often works closely with Draftfcb, while Universal McCann often works with McCann Erickson.

Globalization

As advertisers are becoming increasingly multinational, advertising and marketing services companies must provide global support in order to remain competitive. This requirement, combined with the rapid growth rates in advertising expenditures found in many emerging markets, has encouraged these advertising organizations to acquire (or merge with) more international companies to develop a truly global network in order to ensure consistent brand management and an integrated strategy. All of the top global companies have developed significant international businesses, with around 50% of revenues coming from foreign markets. Aegis and Publicis lead the group, with 77% and 67%, respectively, of their business outside of North America. WPP derives 65% of its business from outside North America. The other top advertising organizations (which are U.S. based) somewhat further behind: Interpublic currently derives 46% of its revenues outside the U. S., and Omnicom gains 48%.

This globalization trend will most likely continue and even accelerate over the next several years, as the global advertising companies continue to grow with their multinational corporate clients, and as they seek acquisition opportunities in emerging markets in fast-growing Asia.

Alternative Marketing Opportunities

New technologies have presented new marketing opportunities for advertisers. In addition, advertisers are seeking new formats and genres to promote their message; indeed, some of these are in response to direct potential threats. Beyond the obvious trend of Internet ad spending growth, the following are a few of the technologies and trends drawing advertising dollars.

Digital Video Recorders

Digital video recorders (DVRs, also called personal video recorders [PVRs], or personal recording devices [PRDs]) are a threat to traditional TV advertising as they allow TV viewers to easily skip through ads and watch programs anytime after they have aired. According to some initial studies, DVR users skip commercials up to 70% of the time, although more recent studies indicate this percentage is lower. TiVo is the most popular DVR maker, and its devices can save up to 300 hours of

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

programming, record and replay in high definition (HD), and can record more than one program at once.

DVR penetration is still low at only an estimated 15%-20% of total U.S. TV households, according to J.P. Morgan estimates, but penetration is expected to increase rapidly, particularly as more cable companies offer DVR capabilities through set-top boxes, which could drive DVR penetration well over 30% in the next few years.

As DVR penetration increased during the past few years, media buyers and TV executives began to take notice and the industry has begun to evolve. Nielsen now reports TV rating for live broadcasts and also reports ratings for the live broadcast plus three to seven days after broadcast to include the viewing of consumers that record programs and watch them later. Advertisers have also responded to the threat that DVRs pose by experimenting with alternate advertising techniques, such as more product placements directly in TV shows, and through sponsoring a show with limited commercial interruptions.

Wireless/Mobile Marketing

Advertisers are looking at ways to reach consumers via mobile devices given their ubiquity, portability, and status among consumers. For example, in the U.S. alone, mobile phone subscribers are expected grow at a mid-single digit CAGR over the next few years, suggesting a penetration rate of well over 80%. Given this profile, we are not surprised that advertising executives believe in the future of mobile marketing. Publicis CEO Maurice Lévy has said that he believes mobile phones will eventually become the largest mass media ever.

Advertising on wireless devices such as mobile phones and PDAs is already quite common in European and Asian markets. Asian markets have set the trend in mobile marketing as mobile phones in some Asian countries outnumber landline phones. The development of more sophisticated, integrated phones with Internet, e-mail, photo, and other capabilities provides new opportunities for targeted marketing to a captive audience. Short messaging service (SMS) in particular is seen as an important new marketing medium, as use of SMS by mobile phone users is swiftly rising and eventually could be used to deliver coupons and other forms of targeted advertising.

Another form of mobile marketing involves targeting an ad to a person’s mobile device based on his proximity to a particular store, or even based on his location near products in a store. Some advertisers are targeting consumers by offering free service in exchange for customer data that can be used to send users limited targeted advertising each month.

Video Gaming

Video game advertising is becoming a very important ad medium as more advertisers are looking to reach users across media platforms and find gaming consoles attractive primarily because of high user engagement.

Gaming consoles can serve as a medium for product placement and for display advertising or sponsorships in games. Microsoft, Sony, and Nintendo have new game consoles that support advertising both through the consoles themselves as they launch a number of video games with paid ad placements or launch games in sponsorship with advertisers. Also, beyond in-game advertising, marketers are also looking to align themselves with the gaming culture. A recent example of this was Mountain Dew's collaboration with SpikeTV in which it is sponsoring TV specials that chronicle the lives of gamers across the globe.

Movies/Entertainment

The film industry presents innovative marketers with a platform to highlight their wares to a captive audience. Initiatives include the following:

Cinema Advertising. Cinema advertising refers to the ads that run before an in-theatre movie starts. Advertisers like this form of advertising because they capture a consumer's undivided attention. Studies by Arbitron have noted that young consumers aged 12-34 found cinema ads more acceptable than ads on TV or other mediums, and further demonstrated greater recall, implying that cinema advertising is an effective way to reach an audience. Zenith estimates cinema advertising in the U.S. grew 20% in 2008 to $660 million, representing one of the fastest growth mediums, yet still quite small. Advertisers across categories have increasingly entered this channel, such as auto, beverage, military, entertainment, and telecom. Notable advertisers include Coke, Hyundai, American Express, and the National Guard. We believe that ad dollars are coming at the expense of network TV ads, and pricing is determined by region and volume. The cinema ad market is essentially split between two companies, National CineMedia and Screenvision, who enter into long-term exclusive contracts with the movie theatre chains to run ads before the movie previews begin. National CineMedia has the edge in market share with 30-year contracts with the top three chains: Regal Entertainment, AMC, and Cinemark, as well as shorter contracts with many others. Cinema advertising is less than 0.5% of total U.S. ad spending, and could catch up to the 1-2% of total ad spend that it captures in relatively more established markets, such as the UK and France, as it becomes more of a core media buy in more advertiser categories.

Product Placement and Content Creation. Product placement is another marketing tool that involves clever placement of products in films, even weaving them product into the story. While this method is not new (recall the use of Reese's Pieces in *E.T.: The Extra-Terrestrial* more than 20 years ago), its use is increasing, particularly as DVR penetration increases. Recent examples include Coke on *American Idol* and 24-Hour Fitness on *the Biggest Loser*.

We would note that as product placement increases, there is the possibility of regulatory action, perhaps warning consumers that programming contains sponsored products, and this could take some of the sheen off this advertising method. At the same time, though, regulations in Europe are easing and product placement could become a more viable marketing tool in those markets. Despite a relaxation of regulations across most of Europe, some restrictions still remain, most notably with the UK government recently denied a sanction for product placement in locally produced content (product placement is not banned on content imported from other regions), citing concerns over "blurring the boundaries between advertising and editorial."

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Compensation Structure

The Commission-Based System Is Giving Way to Fixed-Fee Rates
The advertising industry today has largely moved away from commission-based compensation and toward fee-based pay. Traditionally, advertising organizations were paid at a set percentage of an advertising budget for the creative work on an account. The percentage was originally around 15% back in the early 1980s, but it has been declining as the price of media has escalated, and today averages closer to 10%-12%. The issues with commission-based compensation include the following:

- Commissions create the incentive to recommend expensive media to increase agency revenues.
- Commissions did not appropriately align the work with the fee paid (i.e., an agency could develop a campaign, and if the client decided not to air it, the agency in theory would not be paid).
- The agency's pay was not aligned with the success of the campaign.

Today, we estimate that more than 80% of all advertising clients (and 100% of marketing services) have moved away from commission-based compensation structures to enter fixed-fee or a combination of fee and incentive compensation.

Due to this shift in compensation structure, earnings at the leading advertising and marketing services companies are a little more predictable. Whereas in the early 1990s a majority of advertising and marketing services companies' revenues was commission-based, we estimate that 80% or more of their total revenues are now fee-based. This new compensation method proved to be particularly valuable in 2000-01, when TV scatter market prices took a nosedive. Despite the weakness in the price of most media in the U.S. during that period, the advertising and marketing services companies continued to report healthy revenue growth through 2001, as fee-based contracts signed during 2000 carried through. The flip side is also true, however, with a pickup in spending as the advertising and marketing services companies did not benefit in late 2002, when media first enjoyed a rebound in ad spending. The fee-based structure creates a lag both on the downturn and on the upturn.

Fixed-Fee Rates Benefit Both Sides
Fee-based revenues tend to be figured on a "cost-plus" basis and, thus, should be less cyclical than compensation schemes tied directly to advertising's ebbs and flows. In this model, a client agrees to pay total costs plus a profit margin and requires agencies to be held more accountable for their spending estimates and actual outlays. Cost-plus, fee-based revenues tend to be recognized earlier in the work process, when the service is rendered, whereas commission-based revenues are recognized when the advertising appears on a specific medium, which is after the agency makes sizable expenditures. As long as an advertising company's management is diligent regarding receivables, fee-based revenues should be collected earlier than commissions, translating into enhanced cash flow dynamics. The fixed-fee basis also enables the agency to better plan its own budgets, hence giving the holding company a better grasp of its businesses' performance. The fixed-fee system may limit the agency's upside, however, in an inflationary environment, when a commission system might otherwise produce a greater windfall. We note that the fixed-fee method seems to favor the agencies in light of the trend of media fragmentation. As

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

dollars move from traditional, expensive media to multiple, lower-cost media, the agencies should garner a larger portion of the overall marketing budget.

Incentive-Based Compensation Is Growing

Incentive-based compensation is increasingly becoming a component of a fee-based system. This method has emerged as clients seek more accountability for how advertising spending improves performance, which is measured by both objective and subjective metrics, including sales, market share, and the quality of creative work. We believe that more than one-third of advertisers use incentive-based compensation, including companies such as P&G, Unilever, General Motors, and Ford. The terms of these agreements and their financial impact are not certain, as agreements vary by client relationship. Typically, cost plus a small margin is guaranteed, and upside depends on hitting certain preset targets such as sales goals or market share gains. Given that this is a fairly new compensation method and largely subjective, advertisers and agencies are still trying to determine the best approach to building it into a compensation structure, but parties on both sides are very supportive of the principle. Publicis's Saatchi & Saatchi CEO Kevin Roberts has even declared his belief that agencies, in some cases, should be compensated completely based on their clients' sales.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Accounting Issues

Thanks to J.P. Morgan's equity research accounting team for their contributions to this section:

In New York:
Dane Mott (212) 622-1443
dane.mott@jpmorgan.com
J.P. Morgan Securities Inc.

In London:
Sarah Deans (+44-20) 7325 1775
sarah.deans@jpmorgan.com
J.P. Morgan Securities Ltd.

Accounting rules in the U.S. and Europe have converged significantly in recent years due to a signed Memorandum of Understanding (MoU) between the International Accounting Standards Board (IASB) which publishes International Financial Reporting Standards (IFRS) and the Financial Accounting Standards Board (FASB) which publishes U.S. Generally Accepted Accounting Standards (U.S. GAAP). In 2011, the U.S. Securities and Exchange Commission (SEC) is scheduled to decide whether the U.S. should adopt IFRS beginning as soon as 2014.

We summarize below some of the more significant accounting rules affecting advertising & marketing services companies, and the similarities and differences between IFRS and U.S. GAAP. These may affect comparisons between US-based companies such as Omnicom and Interpublic, and IFRS reporters in Europe such as WPP, Aegis, Publicis, and Havas. We also highlight some of the more important non-GAAP measures, such as organic growth, which may be inconsistently calculated by the different companies.

Goodwill Impairment

Both IFRS and U.S. GAAP require that goodwill is no longer amortized, but is tested for impairment annually, although there are some differences in the detail of impairment testing. Investors and analysts in Europe typically add back goodwill impairment from "underlying" EPS, although we note that WPP, for example, tends to write down some of its goodwill annually (total goodwill impairment charges have exceeded £40m for every year since 2002).

Stock Options

Both EU and U.S. companies have been required to record stock option expense, using the fair value method as determined on the date of grant, since 2005.

Pensions

Pension accounting differs somewhat between the U.S. GAAP and IFRS accounting, although the general approach is fairly similar. In IFRS accounting under IAS 19, there are smoothing mechanisms in pension accounting that defer gains and losses for both balance sheet and income statement recognition. However, companies can make an election to immediately recognize actuarial gains and losses directly through equity, which results in the true funded status appearing on the balance sheet. Also, under IFRS, companies are not allowed to use a market-related value to calculate the expected return on plan assets, which can result in increased expense volatility under IFRS relative to U.S. GAAP. The IASB is currently working on a project that would look to remove the smoothing mechanisms from pension accounting (both balance sheet and P&L). This project could be completed as early as 2011, although we do not expect any changes to be mandatory until 2013.

In the U.S., FAS 158 (effective for fiscal years ending after December 15, 2006) has removed smoothing for balance sheet purposes and requires recognition of the plan's actual funded status. Currently, the smoothing of gains and losses is still in place for income statement purposes.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

In general, pension accounting is less significant for ad agencies than for many other sectors, as pension schemes are usually not particularly large relative to the size of the companies.

Convertible Securities

In 2008, the FASB issued new rules on accounting for convertible debt which converges towards the IFRS treatment. When IFRS was adopted by European companies in 2005, the IFRS rule on convertible debt materially reduced earnings at Publicis and Havas due to a higher interest charge.

- **U.S. GAAP.** In May 2008, the FASB issued FASB Staff Position (FSP) No. Accounting Principles Board 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement* effective for fiscal years beginning after December 15, 2008. The FSP requires bifurcating an issue between the debt portion and the conversion option (equity), similar to International Accounting Standards Board (IASB) rules, and requires changes to be applied retroactively. The impact of accounting changes include 1) lower debt and lower leverage ratios, and 2) lower net income and EPS due to higher interest expense.
  - **Omnicom.** FSP14-1pertaining to convertible notes may affect Omnicom in particular as it has three zero-coupon contingent convertibles outstanding, totaling approximately $1.2 billion (the bulk of holders of Omnicom's convertible notes due February 2031 put the notes back to the company in February 2009). Based on a preliminary review of the FSP, it appears that the company may have to recast some historical results, although it is important to note that any impact to earnings is non-cash. The FSP requires issuers to value the debt portion of the convert and make the accounting adjustments based on the period between the issue date to the *end of its expected life*, not necessarily the maturity date. For Omnicom, this could mean that it only has to record adjustments between the notes' issue date and the first put dates. As the first put date for the company's converts has passed, the impact could be to recast prior results, with no impact to future results. While Omnicom's current accounting for its convertible notes is appropriate under current U.S. GAAP, we do note that with almost no dilution recorded from its convertible bonds, it has had an advantage over its European counterparts that were forced to record much higher interest expense on their convertible bonds.
- **IFRS.** Under IFRS since 2005, all convertible bonds are allocated a debt and an option portion (recorded under equity); interest expense on the debt portion is recorded as the equivalent cost had the company issued straight debt instead of convertible debt on the date of issuance. This often leads to a significantly higher interest expense charge when compared to previous GAAPs.
  - **WPP.** In 2007, WPP redeemed its £450 million convertible bond, and the only remaining convertible instruments on its balance sheet are $150 million in 5% convertible notes, due 2033, that were inherited through the Grey acquisition in 2005.
  - **Publicis.** Publicis has been restructuring its balance sheet in response to IFRS rule changes (as well as in an attempt to reduce debt and simplify its balance sheet) and has now replaced most of its hybrid securities. The two remaining are: 1) €120 million remaining on an OCÉANE convertible bond paying

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

2.75% coupon, due in 2018 – the majority of this is allocated as the bond portion, and the interest rate charge is 7.37%; and 2) an ORANE mandatory convertible bond worth €495 million, paying a dividend equivalent to Publicis' dividend on common shares (currently €0.60) – the bond portion is worth €47 million, and the interest charge is 8.5%. This dilutes EPS by about 6% under IFRS.

- **Havas.** Havas paid down its €450 million OCÉANE in January 2009. Havas has also issued two convertible bonds called OBSAARs worth €380 million combined to a consortium of banks, with detachable warrants that were sold to its employees. Accounting is similar to other convertible bonds under IFRS; a coupon of 3.75% on the majority of the face value of the convert is charged to the P&L, and the warrants become dilutive in 2011.

M&A Accounting

Both FASB and IASB have issued new standards on M&A accounting, which will have a number of implications for advertising companies as discussed below. The new U.S. GAAP standard takes effect in 2009 and the IFRS standard will take effect in 2010 for companies with calendar year-ends, such as the ad holding companies.

Earnouts and Buyouts

Earnouts are a common way of paying for acquisitions, particularly in service industries. It is a way of ensuring that there is an ongoing value to a business that is being bought, through retaining important management and employees of the acquired company and by setting revenue and profit goals that extend beyond the purchase date. After some skepticism a few years ago about earnouts as a payment method, investors now generally appear comfortable with the idea as it does provide some protection to the acquirer that the asset it is buying will continue to perform longer-term, or full payment will not be made. The main issue on this topic that is still a concern is the recognition that, for U.S. companies, these earnout payments (the balance due to the owners of the acquired company assuming profit goals are met) have traditionally been an off-balance-sheet liability that should be recognized when looking at the overall debt and liquidity of the business. We subtract expected earnout payments from the free cash flow calculations of all six holding companies under coverage.

Typically, a company will pay a portion of the purchase price of an acquisition (often 50% in our space) on the day of the acquisition, with an agreement to pay the remainder of the purchase price over several years (often five years), contingent on the acquired company meeting certain performance objectives.

Similarly, buyouts are basically put options that an acquired company has on its shares. Advertising holding companies often acquire stakes in other companies, with options on the part of the smaller company to sell remaining stakes to the holding company. We do not subtract buyouts from our free cash flow calculations as this is a more subjective option on the part of the acquired company (i.e., it can choose to sell its remaining stake to the holding company or can hold onto its share of ownership).

- **U.S. GAAP.** Under U.S. GAAP, earnout and buyout payments generally have not been recorded at the date of acquisition. Rather, the earnout payment was recorded in the period in which the portion of the earnout payment is irrevocably earned. However, the FASB issued FAS No. 141(R) *Business Combinations*, and FAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, on December 4, 2007. FAS No. 141(R) and FAS No. 160 are intended to bring greater harmonization between U.S. GAAP and IFRS standards. These new U.S. GAAP standards are effective for fiscal years beginning after December 15, 2008. As part of the new standards, earnouts are recorded as either a liability or equity (depending on the form of settlement) at the estimated fair value on the transaction's closing date. Omnicom and Interpublic do not currently include these on the balance sheet as liabilities or equity, although both companies provide the estimated amount in the footnotes to their financial statements, and all of the major advertising and marketing services companies clearly lay out their remaining earnout payment schedule in their earnings presentations. Note that these amounts are estimates provided by management and are subject to changes as earnout payments change depending on the performance of the acquired company (i.e., how close it is to meeting financial targets).

- **IFRS.** Under IFRS, earnout payments are considered a liability if they are probable and reliably measurable; thus, they are generally recorded on the balance sheet as liabilities, and increase goodwill on the assets side. As the earnout is paid over time, any difference vs the original estimate is adjusted in the goodwill line under current rules. WPP, Publicis, Havas, and Aegis thus include the expected remaining earnout payment amount on the balance sheet.

  Under IFRS 3 (Revised), which will take effect from 2010 for the European advertising agencies, any changes to earnout payment liabilities will be charged to the P&L. This means that if acquired businesses underperform, then the company may (counterintuitively) record additional income due to lower-than-expected earnouts; conversely, better performance may lead to higher earnouts and thus an additional P&L charge. *Please refer to Sarah Deans' report from 1 August 2007 on WPP's acquisition accounting "Potential implications of IFRS 3 revised."* *https://mm.jpmorgan.com/servlet/PubServlet?ss=y&fullDocId=GPS-140946-0*

A second concern with earnout payments relates to their impact on the income statement. Some skeptics question whether using earnouts is simply a way of avoiding compensation expense. The thought is that rather than including the salaries and bonuses of the executives of an acquired company on the holding company's P&L, the holding company is able to avoid this SG&A cost by paying off the ownership interests in tranches as earnout payments. U.S. GAAP includes some guidance to prevent this, which requires that earnouts linked to continuing employment should be charged as a staff cost. Current IFRS does not contain this guidance. As a result, some earnouts paid by European companies under IFRS would have been accounted for as staff costs under U.S. GAAP. For example, disclosures in WPP's form 20-Fs between 2000 and 2006 showed that WPP's profits would have been a cumulative £323m lower (14.6% of profits) over that period if it had applied this U.S. GAAP guidance. However, we understand that WPP's earnouts have been structured differently since 2007.

The revised IFRS standard incorporates new guidance on this issue, and therefore any earn-outs linked to continuing employment will be accounted for as a form of staff cost. It also specifies other indicators that the contingent consideration should be accounted for as staff costs, for example: "if the selling shareholders who owned substantially all of the shares in the acquiree continue as key employees, that fact

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

may indicate that the arrangement is, in substance, a profit-sharing arrangement intended to provide compensation for postcombination services" (i.e., staff cost). We believe management and auditors may have to exercise significant judgment in determining whether earn-outs are staff costs or acquisition payments.

Under IFRS, the accounting for buyouts depends on whether the put option is held by a minority interest in companies which are consolidated, or if the put option is held by the other owner in an associate. If a minority interest holds the put option, then the minority interest is reclassified as a liability rather than a form of equity. If an owner of an associated company holds a put option, then a financial liability is only recorded for the fair value of the option (so an option to sell at market price does not result in an additional liability). In this case, the full potential payment is only disclosed as a contingent liability.

Valuation of Acquired Minority Interests

When a company acquires less than 100% of another business, 100% of the identifiable assets and liabilities acquired are shown on the balance sheet, with minority interest representing the share of those assets and liabilities which are not owned. However, only the acquired percentage of the acquiree's goodwill is shown on balance sheet, with the result that minority interest only reflects the minority's share in the identifiable net assets and liabilities. For advertising agencies, this means that the value of minority interests is typically greatly understated on the balance sheet. For example, WPP reported minority interests of £120m in the 2007 balance sheet, while £49m of the net income was attributable to those minorities.

Under the new U.S. GAAP standard, for acquisitions from 2009, goodwill will have to be "grossed up" on the balance sheet and minority interest will be reported at fair value. The new IFRS standard will give a choice of either the existing accounting treatment or the new U.S. GAAP treatment (minority interest recorded at fair value).

Some analysts or investors may be currently valuing minority interests based on the balance sheet value, either in DCF-derived calculations of equity value or included within Enterprise Value for EV multiples. If so, the new U.S. GAAP treatment may lead to a more accurate valuation of minority interests. We assume that most European companies will not change the method of valuing minority interests.

Acquisition-Related Expenses

The new IFRS and U.S. GAAP standards will require that any acquisition-related expenses are charged to P&L; at present these expenses are capitalized as part of goodwill. These expenses (for lawyers' fees, etc) typically amount to about 1% of the cost of an acquisition, but can range up to 5% (as for WPP's acquisition of Grey).

Non-GAAP measures

Non-GAAP measures are not defined in the accounting standards and generally not audited. They may therefore be less reliable than audited figures, and there may be substantial inconsistencies in the calculations. We highlight below some of the problems with commonly used non-GAAP measures.

Accounting for Organic Growth

Organic growth in the advertising and marketing services industry is considered all growth generated by a company excluding acquisitions. This would include two of

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

the three growth drivers discussed earlier: industry growth plus net new business wins. There is no established GAAP definition for accounting for organic growth. Omnicom accounts for organic growth somewhat differently from the rest of the group. The portion of the acquired company's revenue that contributes to Omnicom's top line in the year of acquisition is considered acquisition growth, but any incremental revenue growth by that acquired company while under Omnicom's ownership is claimed as organic revenue growth. Omnicom claims that this more accurately reflects the value of its acquisition. This can be viewed as a more aggressive approach than its competitors take – for example, WPP excludes any incremental growth from an acquired entity until it has been on the books for one full fiscal year. The logic is that in the first year after a company is purchased, one normally sees above-average growth of that entity as the parent company is introducing its newly acquired services to many existing clients. Critics of Omnicom argue that calculating organic growth this way therefore inflates the real underlying growth of the existing business. We believe that in the absence of any standard, the differing practices are equally acceptable, and that there is only a modest difference between them. However, one should be aware that advertising and marketing service companies' definitions and calculations of organic growth should not be considered exactly apples-to-apples comparisons.

EBITA/PBITA Margin

WPP includes associate income in EBITA, which flatters the margin comparison, because associates do not affect reported sales.

Headline EPS

WPP, Publicis, Aegis, and Havas report headline or adjusted EPS which is EPS excluding intangible amortization (items such as customer lists), impairments, and, in some cases, restructuring costs. Omnicom and Interpublic in the U.S. do not provide headline EPS, such that EPS for these companies is slightly lower than it would be if they reported to a UK or French analyst base. The difference is small – 3% of Omnicom's EPS by our calculation, but this is one reason we prefer to look at EV/EBITDA multiples to compare these companies on a more apples-to-apples basis.

When calculating headline EPS, WPP uses the reported P&L figure for tax and for minority interests. It therefore adds back expenses (such as amortization) gross rather than net of tax. We believe that it is normal practice for headline EPS calculations to reflect the net-of-tax effect of expenses added back.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Financial Outlook

Following a few years of moderate expansion, we expect the global economic slowdown to weigh on results in 2009 and into 2010, in spite of the diversification of the large advertising holding companies. Annual organic revenue growth has averaged 3%-7% over the past few years, while earnings grew closer to 7%-12% per year as margins gradually expanded, primarily due to better operating leverage and ongoing cost containments. We expect this trend to reverse in 2009, with mid-single digit organic revenue declines and margin contraction, resulting in average earnings declines of over 10%. We expect companies to remain relatively conservative with balance sheets, and do not estimate any material share buyback programs in the near term, in spite of the stocks trading recent lows. Below, we take a look at the various components that lead us to our earnings conclusions, with specific items affecting earnings in 2009.

Revenues
As discussed in more detail in the preceding "Growth Drivers" section, there are three main variables affecting revenue growth: industry growth, market share gains, and acquisitions.

Industry Growth
As we discussed in the "Macro View" section, we are expecting a contraction in industry spending in 2009, with larger declines in the U.S. and more tempered declines globally as some international markets will likely still see modest growth in spite of the economic slowdown. In addition, the fact that advertising spending in many international markets makes up a relatively small proportion of their GDP compared to the U.S. suggests higher-than-average ad spending growth going forward as we emerge from this downturn. As we navigate through a more conservative spending environment and advertisers remain focused on achieving the best possible return, we expect traditional media will continue losing share, and the impact on the advertising and marketing services agencies appears to be a net positive. We project the global ad industry will decline 5.5% in 2009.

Acquisitions
Following the rapid consolidations of the late 1990s/early 2000s, companies in general took a breather during 2003-05 (though WPP did continue with the acquisitions of Cordiant in 2003 and Grey in 2005). This was in conjunction with the shift in investor focus away from total growth toward more conservative balance sheets and cash flow generation, and the recognition that in a consolidated industry, at the global level the most successful holding company is not necessarily the largest, but the best integrated. The pace of acquisitions picked up again in 2006 and 2007 at Omnicom, WPP, and Publicis, all of whom focused on targeted businesses primarily in direct and interactive marketing, and in fast-growth emerging markets such as Asia. The pace of M&A slowed a bit in 2008 as the economy and ad market weakened, however WPP did make the sizeable acquisition of TNS in late-2008.

In our view, the age of big acquisitions is almost over, with the possible sales of Havas and Aegis (or a merger between the two – this appears possible given Havas chairman Vincent Bolloré's large minority stake in Aegis) as the more likely holding companies left that could potentially be sold, in our view. Interpublic may be an

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

attractive target for private equity, or even Publicis, given the overlapping client base, but given the current credit market constraints, we see a takeout in the near term as unlikely. Outside of the large holding companies, there are still many smaller independent agencies out there, as well as some potentially attractive specialty marketing services companies.

In the 1990s, acquisitions contributed to about one-third of revenue growth on average. This decade, acquisitions made for less of a contribution. In 2009, we expect acquisition activity to remain modest as companies preserve capital and estimate acquisitions will add roughly 1% of growth to revenues.

Operating Margins

Approximately 60% of revenues at the typical advertising and marketing services company are salaries; this high-variable cost component helped protect earnings somewhat during the prior downturn as companies managed their staffing levels and reduced incentive compensation to meet business demand, and we expect that to be the case again in 2009, as most companies have already made moves to reduce headcount in the face of a weak advertising environment.

Other items that have impinged upon margins in recent years include pricing pressure, real estate and IT rationalizations (such as combining office space and developing shared IT services), and Sarbanes-Oxley implementation costs and other related professional fees – most of which began to ease over the past couple of years.

Margin Outlook for 2009 and Longer-Term

For 2009, we expect operating margins to decline across the board as a weak top-line weighs on profitability, reversing a trend of steadily expanding margins in recent years. All of the advertising and marketing services companies have made efforts to reduce their cost base during this advertising downturn, which we believe should keep margin compression under 150bps despite anticipated top-line declines in the mid-to-high single digits. At Omnicom, we expect margins to drop 50bps to 12.1%, and we anticipate more significant compression at IPG of roughly 120bps to 7.3%. We expect WPP’s headline margin to compress 130 bps, due in part to a full year impact of recently acquired, lower-margin TNS, though we note management has guided to less of a decline. Longer-term, WPP targets 50bps of expansion every year. We expect Publicis’ margins to fall 70bps to 16.0%, less than at other peers due to strong cost management and high variable costs (8% of revenue). We model a drop of 100bps at Aegis, though management expects flat margins excluding restructuring costs. We see margin decline of about 150bps at Havas, which we believe has less scope to cut costs than larger peers.

Longer-term, we believe that margins will steadily increase once the advertising market and economy strengthen again. We believe that as an advertising and marketing services company assumes a greater proportion of marketers’ budgets, margins should naturally improve as the company can leverage more marketing dollars across its expertise on that account. In addition, the longer an advertising and marketing services company maintains an account, the more profitable that relationship usually becomes for the advertiser, as the advertising and marketing services company moves beyond the initial costs and is able to better manage the account (e.g., taking advantage of higher utilization rates). We believe some of the best individual agencies have in the past achieved targets as high as 20%-25%,

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

implying that there is still quite a bit of room for margin expansion at the advertising and marketing services companies.

Interest Expense

Interest expense will increase at Omnicom as it is refinancing its convertible notes that were put to the company in February, and will likely have to refinance or pay a sweetener on its convertible notes due in July. We expect net interest expense to decline at Interpublic in 2009 as its ELF matures mid-year and its cash balances have increased, resulting in more interest income. Interest expense should increase at WPP given significantly higher debt levels following its acquisition of TNS. Publicis' interest expense will likely continue to come down as it has paid down convertible bonds in recent months. Aegis expects a slight increase in net interest due to lower interest income at today's rates. Havas will likely see flattish interest expense.

Tax Rates

All of the larger advertising and marketing services companies are likely to continue their recent efforts to reduce tax rates. Efforts on this front include consolidating different agency networks in international markets so that gains are offset by losses to minimize the tax burden. Last year, WPP took the extraordinary step of moving its tax domicile to Ireland due to higher tax burdens expected to come in the UK. Omnicom, WPP, and Publicis have historically been successful in lowering their tax rates over time. Interpublic's effective tax rate remains unpredictable and volatile due to operating losses in foreign jurisdictions and other adjustments to its deferred tax positions, and we expect volatility to continue over the next few years. Aegis is guiding to a 26% tax rate, while Havas has reduced its tax to below 30%.

Share Buybacks and Dividends

In spite of the stocks trading at recent lows, we don't expect significant buyback activity in 2009 as companies preserve the health of their balance sheets and navigate through this economic downturn. Most of the large advertising and marketing services companies recognize the increasingly important role of dividends in this marketplace, and while other media companies have cut their dividends recently to preserve cash, we believe that the ad holding companies are still generating sufficient free cash flow to maintain dividends at current levels and do not anticipate any significant cuts or the elimination of dividends. That said, we do not expect increases to dividends either, despite that Omnicom, WPP, Publicis, and Aegis all having historically raised dividends on a regular basis. WPP has guided toward 15% dividend growth and buybacks at 1% of shares in 2009, though we are hesitant these will occur given the company's need to pay down debt under its higher leverage.

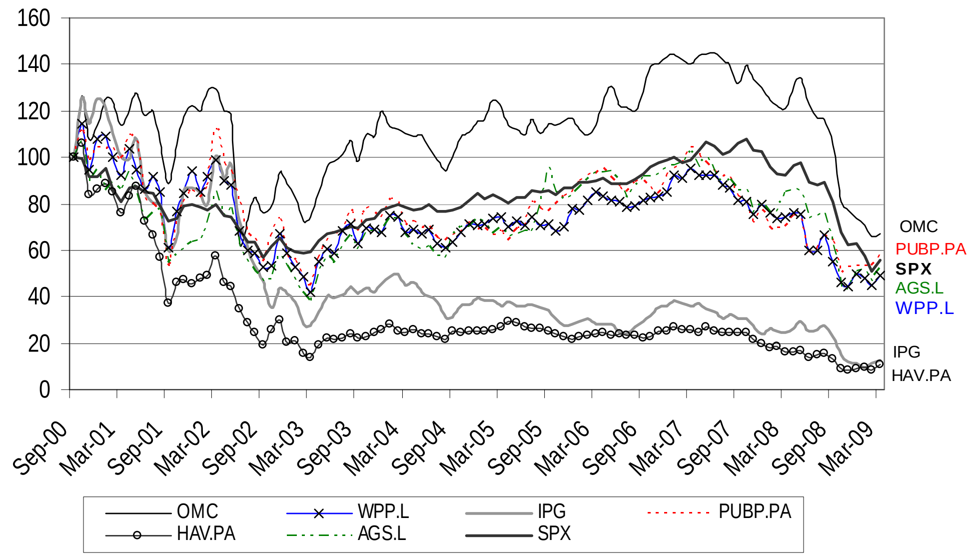
Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Valuation

Advertising and marketing services companies are valued on a P/E basis and other metrics such as enterprise value to EBITDA (EV/EBITDA) when comparing U.S. companies to European companies, given differences in items such as interest expense and convertible bonds, and related tax effects. In this section, we provide an overview of historical trading patterns; we provide specific valuation and stock recommendations in the company-specific sections that follow.

Exhibit 35. Share Price Performance, Indexed to September 2000



Source: FactSet; J.P. Morgan.

Omnicom

For the past ten years, OMC has traded at a healthy premium to its peers as well as to the S&P 500 Index on a P/E basis. On average, OMC shares have traded at a ~20% premium to the S&P during this time period, hitting a peak of 93% in December 1999. The bottom fell out in June 2002, however, when a *Wall Street Journal* article highlighting some potential accounting issues – during a period of particular sensitivity to such matters – shook investors' confidence in the stock. OMC shares dropped to a 39% discount to the S&P in late June 2002. Over the past few years, this premium has fallen to an average of only 10%-15%, and the shares are now trading at a discount to the S&P for the first time since April 2003.

Interpublic

Before 1996, IPG traded at a premium to the group and the S&P 500 Index. During 1996, the stock fell behind Omnicom due to that company's more favorable mix of higher-growth marketing services businesses and superior financial performance, and from 1996 to 2000, IPG traded at a 12% average premium to the market. Interpublic's recent series of restructurings, including a string of financial disappointments and other concerns such as the Securities and Exchange Commission (SEC) investigation into its earnings restatements, have skewed valuation since. However, in the last 12 months, the company has shown signs of stabilization, and valuations are approaching more normalized levels.

WPP

WPP has had more pronounced volatility than Omnicom or Interpublic over the last 15 years, beginning with its near-bankruptcy after acquiring Ogilvy & Mather and J. Walter Thompson (JWT) (which over-leveraged the company) just prior to the recession of the early 1990s. Since 1996, shares have traded at an average premium to the market of 5%, or a 15%-20% discount to OMC, but the multiple versus OMC has narrowed recently, with an average 10% discount over the past few years. Currently, WPP shares are trading at ten-year-plus lows, similar to the rest of its peers, and nearly a 40% discount (fully reported basis) to the S&P 500. Within the group, WPP currently trades at the higher end of peers on EBITDA. On a P/E basis, WPP trades at a slight discount to OMC and PUB; we believe WPP's higher debt load following its recent acquisition of TNS has added some pressure to the stock as investors are particularly concerned about maturities within the next two years in this difficult credit environment. WPP also trades in the U.S. as an ADR listed on the NASDAQ, ticker: WPPGY.

Publicis

PUB stock often trades at a discount to WPP and OMC, though it has moved to a premium vs. WPP on P/E lately, due, we think, to its lower-levered balance sheet. Publicis stock trades primarily on the Euronext exchange (where it trades as PUB; it is more commonly quoted on Reuters as PUBP.PA and on Bloomberg as PUB FP). Publicis removed its ADRs from the New York Stock Exchange in 2007, and listed over-the-counter (OTC) as PUBGY.

Havas

Havas shares have meaningfully underperformed the peer group since 2001 due to poor financial performance, but the stock has achieved an EBITDA premium to its European peers on hopes that Chairman Bolloré will enact a transformative deal with Aegis. Havas shares trade on Euronext under the ticker HAV; it is more commonly quoted on Reuters as EURC.PA and on Bloomberg as HAV FP.

Aegis

AGS.L shares have traded toward the upper end of the group range in recent years, reflecting Aegis's strong fundamental position as well as M&A speculation, given well-publicized interest from Publicis and WPP on parts of its business, and more pointedly from Havas Chairman Bolloré's large 29.9% stake in AGS.L.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Company Profiles

The advertising and marketing services industry today is highly consolidated, with revenues largely concentrated in the top four holding companies: WPP, Omnicom, Interpublic, and Publicis. A second group of companies that includes Havas and Aegis, and the Japanese-focused Dentsu and Hakuhodo DY, is far behind in terms of revenues. In the following pages, we provide snapshots of the leading global advertising and marketing services companies.

Exhibit 36. Top Global Ad Companies by Net Revenue, 2008-09E ($ in millions)

		Net Revenue	
Rank	Company	2009E	2008
1	WPP Group	$ 16,076	13,832
2	Omnicom Group	11,902	12,694
3	Interpublic Group	6,390	6,963
4	Publicis Groupe	6,280	6,868
5	Dentsu	3,273	3,445
6	Aegis Group	2,520	2,483
7	Havas	1,975	2,289
8	Hakuhodo DY	1,427	1,586

Notes: Omnicom, WPP, Interpublic, Publicis, Havas, and Aegis are J.P. Morgan estimates.
Dentsu and Hakuhodo DY are constant-dollar rough estimates.
Publicis and Havas are converted at the following exchange rates: 2009: $1.30, 2008: $1.46
WPP and Aegis are converted at the following exchange rates: 2009: $1.48, 2007: $1.85

Source: Company reports; Bloomberg; J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

WPP Group

Based in London, WPP Group is the largest advertising company in the world, with 2008 revenues of £7.5 billion ($13.8 billion). We estimate the company has approximately 115,000 employees (including associates). WPP's primary global ad agencies are JWT, Ogilvy & Mather, Y&R, and Grey, complemented by smaller agencies such as Bates Asia. WPP's companies also include three top-flight media buying and planning concerns, Mindshare, Mediaedge:cia, and MediaCom, which it has grouped together as GroupM. On the marketing services side, WPP's Information, Insight, & Consultancy group includes leading market research firm The Kantar Group and recently acquired Taylor Nelson Sofres (TNS); its Public Relations/Public Affairs group includes Hill & Knowlton; and its Branding & Identity, Healthcare, & Specialist Communications group includes direct marketing companies Wunderman, OgilvyOne, and 141 Worldwide. WPP's CEO, Sir Martin Sorrell, is among the more outspoken of the top advertising and marketing services companies' executives, and has built WPP though a bold acquisition strategy since 1987. The company has been praised by investors for the transparency of its financial statements.

Reasons to Invest

- **Preferential business and geographic mix favoring higher-growth marketing disciplines and international markets.** Strong media buying businesses (No. 1 globally in size) and good marketing services orientation (60% of revenues) capture changing ad spending trends. WPP has a leading presence in many of the faster-growth emerging markets, including China, India, and Brazil.
- **History of meeting/beating guidance.** WPP is a well-respected and well-known company in the industry, with a track record of investor friendliness. Management has consistently foreseen and communicated market trends and provided careful guidance, and is highly incentivized to the stock price.
- **History of active share buyback program and progressive dividend.** While pared back following its acquisition of TNS, WPP has demonstrated a commitment to buying back shares; its repurchase program in recent years rose to 4%-5% of share capital (following TNS, WPP is targeting 1% of share capital, still better than most peers). WPP also has the highest dividend yield in the group, which we see as attractive in this difficult equity market.

Investment Risks

- **Mixed performance from creative networks.** Grey, Y&R, and JWT have all struggled to adapt to the changing ad landscape, and new business trends at these agencies over the last few years have generally been weak. We believe slower organic growth at these agencies contributes to slightly slower overall organic growth at WPP versus its top peers.
- **Integration of TNS.** WPP acquired TNS last November after a hostile seven-month battle with both TNS and its initial suitor, GfK. WPP is now integrating the business into its research firm Kantar, which presents cost and human capital risks, especially with some bad feelings possibly remaining with TNS staff. WPP has estimated it will achieve £52 million in cost synergies from the acquisition, which management has commented are running ahead of plan.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

- **Highest debt burden vs. peers, nearer-term maturities.** Following its acquisition of TNS, WPP is the highest levered of the major ad holding companies at 2.4x net debt to EBITDA. While we do not see its overall debt level as a large concern, WPP financial flexibility is more limited and the company has several maturities over the next several years, including November 2010, which will likely need to be refinanced (at unfavorable pricing); a concern in the current credit markets.

Outlook

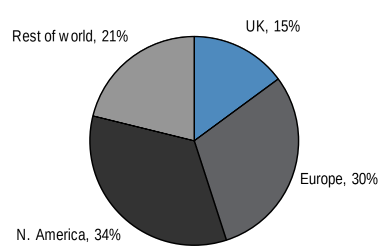
Like its peers, WPP has seen a significant slowing of revenue growth that began in 2H08 due primarily to the macro downturn. We expect trends to continue through at least 2009, with organic revenue growth declining 4%, including a 6% drop in 1H09. Profitability should also suffer as a result of the slowdown, as well as a full year of TNS (which carries lowers margins); we forecast 130bps in headline operating margin compression. Helping to offset these weak trends should be a very favorable FX impact due to the weak pound sterling, which we look to boost revenues by 11% at current rates. In addition, TNS provides acquisition growth, leading to our expectations for flat EPS over 2008.

Valuation and Investment Opinion

We rate WPP.L shares Neutral with a year-end 2009 price target of 425p, which implies constant forward EV/EBITDA valuation, currently 6.2x, applied to our 2010 estimate. At nearly a 40% discount to the S&P (on WPP reported EPS basis), we see shares as undervalued long-term given our expectation for solid growth longer-term; however, with results likely to weaken and ongoing concerns over WPP higher debt levels and upcoming maturities, we remain on the sidelines.

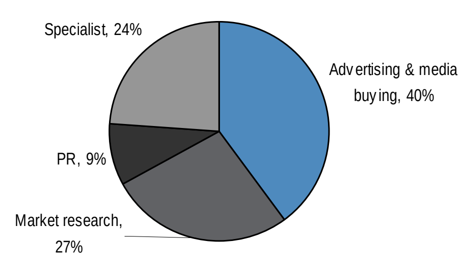
- **Upside and downside risks to our rating and price target.** Risks primarily include U.S. dollar foreign exchange rate movements; the health of JWT, Y&R, and Grey; and the status of the global economy, particularly in the U.S. and Europe.

Revenues by Geography, 2008



Source: Company reports.

Revenues by Segment, 2008



Source: Company reports.

Major Subsidiaries

Traditional Advertising			Marketing Services		
Major	**Other**	**Media Buying**	**CRM / Direct**	**PR**	**Market Research/other**
JWT	United Group	GroupM:	Wunderman	Hill & Knowlton	Kantar Group
Ogilvy & Mather	Bates Asia	Mediaedge:cia	OgilvyOne	Burson-Marsteller	TNS
Y&R	CHI	Mindshare	141 Worldwide	Ogilvy Public Relations	CommonHealth
Grey	Tapsa	MediaCom	RMG Connect		Global Sportnet
		Maxus	24/7 Real Media		

Source: Company reports.

Key Management

Executive	Position
Sir Martin Sorrell	CEO
Paul Richardson	CFO
Miles Young	CEO, Ogilvy & Mather
Bob Jeffrey	CEO, J. Walter Thompson
Hamish McLennan	CEO, Y&R
Jim Heekin	CEO, Grey
Irwin Gotleib	CEO, Group M

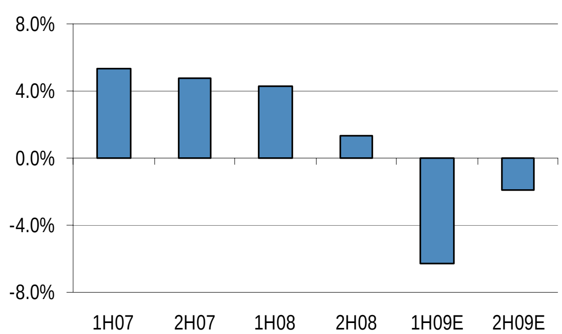
Source: Company reports.

Key Clients

Client	
Ford	IBM
Unilever	Procter & Gamble
AT&T	HSBC
Citibank	American Express
Colgate-Palmolive	Pfizer
Dell	GSK

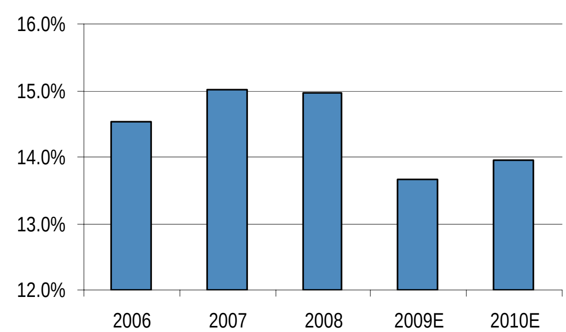
Source: Company and media reports.

Organic Revenue Growth, 2007-09E



Source: Company reports and J.P. Morgan estimates.

Headline Operating Margins, 2006-10E



Note: Headline operating earnings exclude amortization of intangibles, goodwill impairment, and other non-cash writedowns.

Source: Company reports and J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Acquisitions

£ in millions

2000	£281
2001	730
2002	277
2003	345
2004	209
2005	508
2006	216
2007	675
2008	1,049

Source: Company reports.

Reported Net New Business Wins

$ in millions

2000	$4,500
2001	2,500
2002	3,600
2003	3,600
2004	6,800
2005	5,200
2006	6,411
2007	9,809
2008	5,623

Source: Company reports.

Balance Sheet and Cash Flow Position, 2008

Net debt/EBITDA (bank definition)	2.4x
EBITDA/Net Interest (bank definition)	9.4x
Covenants: Max Net Debt/EBITDA	3.5x
Min EBITDA/ Net Interest	5.0x
FCF	£700
FCF/share	54.7p
Dividend	10p

Source: J.P. Morgan estimates.

Expected Earn-Out Payments

£ in millions

2009	£90
2010	128
2011	97
2012	53
2013	8
Total	**£376**

Source: Company reports.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 37. WPP Group – Income Statement (£ in millions, except per share data)

	1H 08	2H 08	1H 09E	2H 09E	2006	2007	2008	2009E	2010E
Revenue	**£ 3,339.1**	**£ 4,137.8**	**£ 4,317.3**	**£ 4,817.0**	**£ 5,907.8**	**£ 6,185.9**	**£ 7,476.9**	**£ 9,134.3**	**£ 9,264.4**
% change	*14.3%*	*26.7%*	*29.3%*	*16.4%*	*9.9%*	*4.7%*	*20.9%*	*22.2%*	*1.4%*
Organic growth	*4.3%*	*1.3%*	*-6.3%*	*-1.9%*	*5.4%*	*5.0%*	*2.7%*	*-3.9%*	*1.2%*
Headline Operating Profit									
Advertising & Media Investment Management	242.6	338.7	244.6	334.2	443.7	466.9	581.3	578.7	591.3
% of segment revenue	*15.9%*	*18.7%*	*15.0%*	*17.5%*	*15.8%*	*16.3%*	*17.5%*	*16.3%*	*16.5%*
Information, Insight & Consultancy (incl. TNS)	49.3	98.3	113.0	149.1	98.7	104.3	147.6	262.1	277.5
% of segment revenue	*10.1%*	*12.1%*	*9.2%*	*11.5%*	*11.1%*	*11.5%*	*11.3%*	*10.4%*	*10.8%*
Public Relations & Public Affairs	57.2	67.7	64.5	70.4	89.5	106.5	124.9	135.0	140.6
% of segment revenue	*16.1%*	*17.1%*	*15.8%*	*16.6%*	*15.0%*	*16.6%*	*16.6%*	*16.2%*	*16.6%*
Specialist Comms, Branding & Identity, Healthcare	104.3	160.1	94.5	178.0	227.1	250.3	264.4	272.5	283.0
% of segment revenue	*10.7%*	*14.3%*	*9.0%*	*15.0%*	*14.1%*	*14.2%*	*12.6%*	*12.2%*	*12.5%*
Headline Operating Profit	**£ 453.4**	**£ 664.8**	**£ 516.6**	**£ 731.7**	**£ 859.0**	**£ 928.0**	**£ 1,118.2**	**£ 1,248.3**	**£ 1,292.5**
% of revenue	*13.6%*	*16.1%*	*12.0%*	*15.2%*	*14.5%*	*15.0%*	*15.0%*	*13.7%*	*14.0%*
% change	*18.4%*	*22.0%*	*13.9%*	*10.1%*	*13.8%*	*8.0%*	*20.5%*	*11.6%*	*3.5%*
Amortization, goodwill impairment/write-down	46.2	117.8	45.0	45.0	87.6	86.1	164.0	90.0	85.5
1x items (Gain on disposals/writedown on investments	8.7	23.5	23.5	23.5	(11.3)	(4.2)	32.2	47.0	23.5
PBIT	**398.5**	**523.5**	**448.1**	**663.2**	**782.7**	**846.1**	**922.0**	**1,111.3**	**1,183.5**
% of revenue	*11.9%*	*12.7%*	*10.4%*	*13.8%*	*13.2%*	*13.7%*	*12.3%*	*12.2%*	*12.8%*
of which, share of results of associates	20.7	25.3	21.7	26.6	41.1	41.4	46.0	48.3	49.7
Net finance costs	(60.0)	(115.2)	(118.1)	(115.8)	(100.7)	(126.7)	(175.2)	(233.9)	(210.5)
PBT	**338.5**	**408.3**	**330.0**	**547.4**	**682.0**	**719.4**	**746.8**	**877.4**	**972.9**
Tax	101.2	131.7	97.3	145.1	199.4	204.3	232.9	242.4	268.8
Effective tax rate (%)	*29.9%*	*32.3%*	*29.5%*	*26.5%*	*29.2%*	*28.4%*	*31.2%*	*27.6%*	*27.6%*
Reported Net profit	**237.3**	**276.6**	**232.6**	**402.3**	**482.6**	**515.1**	**513.9**	**635.0**	**704.1**
Minority interests	29.1	45.7	25.0	35.0	46.8	49.2	74.8	60.0	81.0
Net profit attributable to equity holders	**£ 208.2**	**£ 230.9**	**£ 207.6**	**£ 367.3**	**£ 435.8**	**£ 465.9**	**£ 439.1**	**£ 575.0**	**£ 623.1**
Add back: amortization & 1x items	54.9	128.9	68.5	68.5	76.3	81.9	183.8	137.0	109.0
Revaluation of financial instruments	(4.3)	29.7	-	-	8.0	16.0	25.4	-	-
Headline earnings	**258.8**	**389.5**	**276.1**	**435.8**	**520.1**	**563.8**	**648.3**	**712.0**	**732.1**
Diluted share count	1,174.4	1,188.4	1,281.0	1,281.0	1,242.2	1,227.1	1,169.6	1,281.0	1,261.8
Headline diluted EPS	**22.1p**	**32.8p**	**21.6p**	**34.0p**	**42.0p**	**46.0p**	**55.5p**	**55.6p**	**58.0p**
% change	*21.1%*	*18.6%*	*-2.4%*	*3.8%*	*16.6%*	*9.7%*	*20.6%*	*0.1%*	*4.4%*
Headline EPS-ADR	**$2.18**	**$2.84**	**$1.56**	**$2.55**	**$3.87**	**$4.61**	**$5.13**	**$4.10**	**$4.35**
% change	*21.1%*	*2.1%*	*-28.1%*	*-10.0%*	*18.1%*	*19.1%*	*11.4%*	*-20.2%*	*6.2%*
Diluted reported EPS	22.1p	32.8p	21.6p	34.0p	35.2p	38.0p	37.6p	44.9p	49.4p
Diluted reported EPS - ADR	$2.18	$2.84	$1.56	$2.55	$3.24	$3.81	$3.48	$3.31	$3.70
EBITDA (ex. inc from associates)	**£ 502.5**	**£ 737.6**	**£ 587.6**	**£ 797.9**	**£ 971.8**	**£ 1,031.8**	**£ 1,240.1**	**£ 1,385.5**	**£ 1,456.2**

Source: Company reports; J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Omnicom Group

Based in New York, Omnicom Group is the second largest advertising company in the world, with 2008 revenues of $13.4 billion. Omnicom was incorporated in 1986, and employs approximately 68,000 people worldwide. The company is divided into three main agency networks (BBDO Worldwide, DDB Worldwide, and TBWA Worldwide), which comprise a full range of traditional advertising as well as marketing services businesses; Omnicom has a stable of over 100 smaller independent agencies in its Diversified Agency Services (DAS) division as well. Over the past several years, Omnicom has shifted many marketing services agencies from its DAS division into these three main networks, essentially creating three mini holding companies. Omnicom's Media Group consists of two full-service media companies, OMD Worldwide and PHD Network, as well several media specialist companies. The company has traditionally boosted its growth through small-scale acquisitions and has been successful at integrating its various businesses into an organization that delivers industry-leading top- and bottom-line growth.

Reasons to Invest

- **Leading industry position; best earnings visibility in the group.** Omnicom maintains a broad business mix, with three top creative networks, a strong media buying business, and with more than half of its revenues coming from high-growth marketing services. This breadth of quality helps the company consistently deliver above-average organic revenue and earnings growth, and should help it perform relatively better than its peers during this downturn.
- **Resilient cost structure in challenging ad environments.** Omnicom has demonstrated impressive resiliency in past ad spending downturns (a chief concern for 2009) through a variable cost structure that allows it to quickly pull back on staff and other resources to preserve profitability. Similar to prior downturns, Omnicom was very proactive in reducing its cost base in late-2008, which we expect to help protect its margins in 2009, and estimate a 50bp operating margin decline despite an anticipated organic revenue decline of 4.6%.
- **Market share gains, geographic expansion will likely help growth when economy stabilizes.** Omnicom has an impressive track record of new business wins, coming in at the top of our proprietary new business wins/losses database for 2007 and 2008. In addition, we believe the company is steadily gaining new business in high-growth emerging markets such as China, which should continue to support robust growth once the global economy stabilizes. Importantly, Omnicom also does a very good job of retaining both accounts and personnel. This stability leads to consistently steady top- and bottom-line growth that typically outpaces its peers.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Investment Risks

- **Economic slowdown will likely hinder growth.** Ad spending tracks GDP closely, so a continued deterioration in the economy can hurt Omnicom's top line. As mentioned above, we believe the company has had very good earnings resiliency in past downturns; however, this economic downturn is quite severe and will likely test OMC's resiliency.
- **Upcoming put of convertible bonds may utilize more of Omnicom's available credit.** Omnicom has ~$850M in convertible notes that may be put to the company in July 2009. Omnicom recently had the bulk of its February convertible notes put to the company, and unless the markets improve significantly, we believe that the July notes will be put to the company as well. Our estimates already assume that Omnicom refinances the notes with available credit under its $2.5B facility, however if all the notes are put, we estimate the company will have less than $1B remaining under its facility, giving it less flexibility in this challenging market.

Outlook

We expect revenues to decline 10.9% in 2009, of which about -4.6% is organic and -6.3% is from acquisitions/FX. Omnicom has moved quickly to right-size its business in the face of a weak global ad market, but we still expect operating margins to dip a bit in 2009, down roughly 50bps to 12.1%. With slightly higher interest expense due to the refinancing of convertible debt, we expect EPS to decline 18.5% to $2.60. While 2009 will likely be a challenging year for Omnicom and its peers, we believe that its track record of outperforming its peers should continue during this downturn, and we view it as well-poised for growth once the economy stabilizes.

Valuation and Investment Opinion

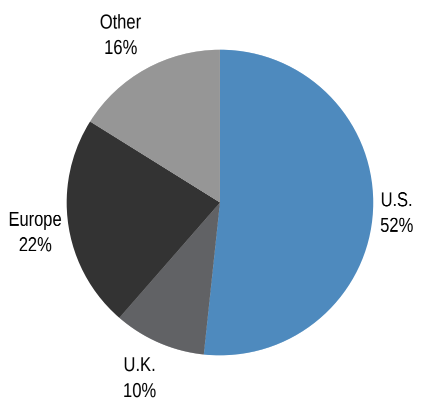
We still think OMC is a relatively good place to hide at 5.6x 2009E EBITDA, but acknowledge that any significant near-term upside may be limited until there is more clarity on the economic environment, which will help us determine how deep and how long this ad recession will be. Our December 2009 price target of $40 reflects our belief that OMC should trade at a modest premium to its peers and the S&P, based on our 2010 estimates.

Risks to our rating and price target. Risks include a continued deterioration of the global economy and advertising market, which would weigh on OMC's results beyond 2009.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

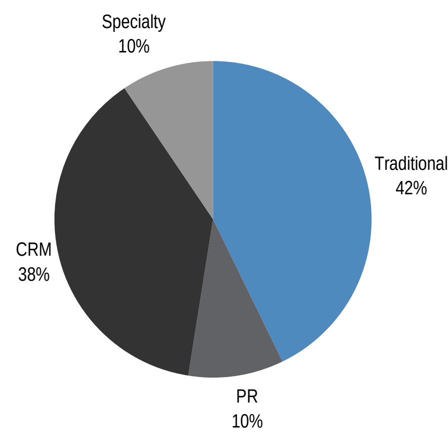
Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Revenues by Geography, 2008



Source: Company reports.

Revenues by Segment, 2008



Source: Company reports.

Major Subsidiaries

Media Planning and Buying	Marketing Services	Interactive
BBDO	Rapp Collins WW (Direct Marketing)	Tribal DDB
DDB	Fleishman-Hillard (PR)	Agency.com
TBWA		

Source: Company reports.

Key Management

Executive	Position
John Wren	President, CEO
Randall Weisenburger	EVP, CFO
Chuck Brymer	CEO of DDB
Tom Carroll	CEO of TBWA

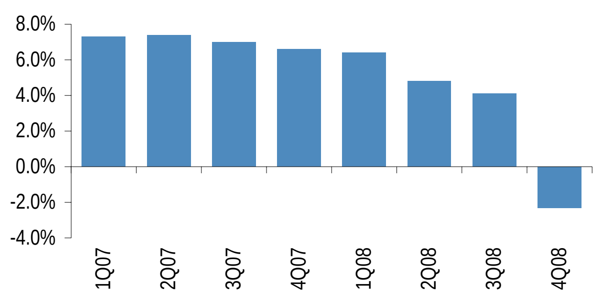
Source: Company reports.

Key Clients

Client	
DaimlerChrysler	Hewlett-Packard
Pepsi	Johnson & Johnson
Anheuser-Busch	AT&T
McDonald's	Siemens

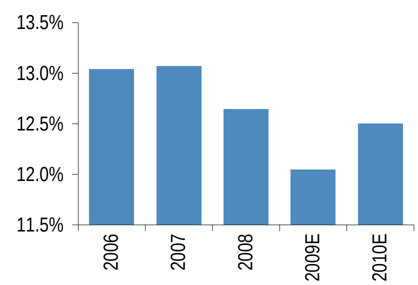
Source: Company reports.

Organic Revenue Growth, 2007-08



Source: Company reports and J.P. Morgan estimates.

Operating Margins, 2006-10E



Source: Company reports and J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Acquisitions

$ in millions

2000	$796
2001	819
2002	685
2003	591
2004	380
2005	327
2006	311
2007	378
2008	492

Source: Company reports and J.P. Morgan estimates.

Reported Net New Business Wins

$ in millions

2000	$4,959
2001	4,390
2002	4,213
2003	4,060
2004	4,000
2005	5,500
2006	4,250
2007	4,600
2008E	3,500

Source: Company reports and J.P. Morgan estimates.

Balance Sheet and Cash Flow Position, 2009E

$ in millions, except per share data

Net debt/EBITDA	1.0
Covenants	Max Debt to EBITDA of 3:1, Min Interest Coverage of 5:1
FCF	805
FCF/share	2.62
Dividend	0.60

Source: J.P. Morgan estimates.

Historical and Expected Earn-Out Payments

$ in millions

2007	236
2008	179
2009	118
2010	99
2011 and after	98
Total	730

Source: Company reports and J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 38. Omnicom Group – Income Statement ($ in millions)

	1Q 08	2Q 08	3Q 08	4Q 08	1Q 09E	2Q 09E	3Q 09E	4Q 09E	2006	2007	2008	2009E	2010
United States	$1,661.2	$1,751.3	$1,718.0	$1,759.5	$1,553.2	$1,646.2	$1,640.7	$1,733.1	$6,194.0	$6,704.4	$6,890.0	$6,573.2	$6,869.0
% change	*7.6%*	*5.5%*	*3.8%*	*-4.7%*	*-6.5%*	*-6.0%*	*-4.5%*	*-1.5%*	*7.8%*	*8.2%*	*2.8%*	*-4.6%*	*4.5%*
International	1,534.2	1,725.6	1,598.2	1,611.8	1,195.1	1,335.6	1,294.5	1,503.8	5,182.8	5,989.7	6,469.8	5,329.1	5,702.1
% change	*18.3%*	*17.7%*	*10.5%*	*-9.5%*	*-22.1%*	*-22.6%*	*-19.0%*	*-6.7%*	*9.4%*	*15.6%*	*8.0%*	*-17.6%*	*7.0%*
Total Revenues	**3,195.4**	**3,476.9**	**3,316.2**	**3,371.3**	**2,748.4**	**2,981.8**	**2,935.2**	**3,236.9**	**11,376.8**	**12,694.1**	**13,359.8**	**11,902.3**	**12,571.2**
% change	*12.5%*	*11.2%*	*6.9%*	*-7.0%*	*-14.0%*	*-14.2%*	*-11.5%*	*-4.0%*	*8.5%*	*11.6%*	*5.2%*	*-10.9%*	*5.6%*
Salaries and related costs	2,326.9	2,416.3	2,405.6	2,400.3	2,033.8	2,090.3	2,141.0	2,285.3	8,047.4	9,008.2	9,549.1	8,550.3	8,988.4
% of revenue	*72.8%*	*69.5%*	*72.5%*	*71.2%*	*74.0%*	*70.1%*	*72.9%*	*70.6%*	*70.7%*	*71.0%*	*71.5%*	*71.8%*	*71.5%*
% change	*13.5%*	*11.3%*	*7.0%*	*-5.4%*	*-12.6%*	*-13.5%*	*-11.0%*	*-4.8%*	*8.6%*	*11.9%*	*6.0%*	*-10.5%*	*5.1%*
Office and general expenses	517.7	543.8	537.2	522.6	448.0	471.1	479.6	509.2	1,846.0	2,026.7	2,121.3	1,907.9	2,011.4
% of revenue	*16.2%*	*15.6%*	*16.2%*	*15.5%*	*16.3%*	*15.8%*	*16.3%*	*15.7%*	*16.2%*	*16.0%*	*15.9%*	*16.0%*	*16.0%*
% change	*9.2%*	*10.4%*	*6.9%*	*-6.2%*	*-13.5%*	*-13.4%*	*-10.7%*	*-2.6%*	*6.8%*	*9.8%*	*4.7%*	*-10.1%*	*5.4%*
Operating income	**350.8**	**516.8**	**373.4**	**448.4**	**266.6**	**420.4**	**314.7**	**442.5**	**1,483.4**	**1,659.2**	**1,689.4**	**1,444.2**	**1,571.4**
% of revenue	*11.0%*	*14.9%*	*11.3%*	*13.3%*	*9.7%*	*14.1%*	*10.7%*	*13.7%*	*13.0%*	*13.1%*	*12.6%*	*12.1%*	*12.5%*
% change	*11.2%*	*12.0%*	*6.6%*	*-15.7%*	*-24.0%*	*-18.6%*	*-15.7%*	*-1.3%*	*10.7%*	*11.9%*	*1.8%*	*-14.5%*	*8.8%*
Net interest expense (income)	11.0	18.7	20.7	23.9	27.2	28.5	30.0	31.0	91.4	74.1	74.3	116.7	116.7
Income before taxes	**339.8**	**498.1**	**352.7**	**424.5**	**239.4**	**391.9**	**284.7**	**411.5**	**1,392.0**	**1,585.1**	**1,615.1**	**1,327.5**	**1,454.7**
Income tax provision	115.2	167.2	118.2	142.0	80.9	132.5	96.2	139.1	466.9	536.9	542.6	448.7	491.7
Tax rate	*33.9%*	*33.6%*	*33.5%*	*33.5%*	*33.8%*	*33.8%*	*33.8%*	*33.8%*	*33.5%*	*33.9%*	*33.6%*	*33.8%*	*33.8%*
Income after taxes	224.6	330.9	234.4	282.5	158.5	259.5	188.4	272.4	925.1	1,048.2	1,072.4	878.8	963.0
Equity in affiliates/minority interests	(15.9)	(24.2)	(20.5)	(11.5)	(17.5)	(25.0)	(19.0)	(17.5)	(61.0)	(72.4)	(72.1)	(79.0)	(79.8)
Net income	**208.7**	**306.7**	**213.9**	**271.0**	**141.0**	**234.5**	**169.4**	**254.9**	**864.0**	**975.8**	**1,000.3**	**799.8**	**883.2**
Addbacks	-	-	-	-	-	-	-	-					
Adjusted net income	208.7	306.7	213.9	271.0	141.0	234.5	169.4	254.9	864.0	975.8	1,000.3	799.8	883.2
Avg. shares outstanding	320.9	320.8	310.7	307.2	307.2	307.2	307.2	307.2	346.1	330.4	313.0	307.2	307.2
Diluted EPS	**$0.65**	**$0.96**	**$0.69**	**$0.88**	**$0.46**	**$0.76**	**$0.55**	**$0.83**	**$2.50**	**$2.95**	**$3.20**	**$2.60**	**$2.88**
% change	*18.2%*	*14.3%*	*11.7%*	*-8.1%*	*-29.4%*	*-20.2%*	*-19.9%*	*-5.9%*	*14.8%*	*18.3%*	*8.2%*	*-18.5%*	*10.4%*
EBITDA	**408.0**	**575.3**	**433.9**	**508.1**	**323.1**	**476.9**	**371.2**	**499.0**	**1,673.4**	**1,867.8**	**1,925.3**	**1,670.2**	**1,804.2**
% of revenue	*12.8%*	*16.5%*	*13.1%*	*15.1%*	*11.8%*	*16.0%*	*12.6%*	*15.4%*	*14.7%*	*14.7%*	*14.4%*	*14.0%*	*14.4%*
% change	*12.3%*	*12.3%*	*7.7%*	*-13.8%*	*-20.8%*	*-17.1%*	*-14.5%*	*-1.8%*	*10.5%*	*11.6%*	*3.1%*	*-13.3%*	*8.0%*

Source: Company reports, J.P. Morgan estimates

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Interpublic Group

Based in New York, Interpublic Group of Companies is the third-largest advertising group in the world, with 2008 revenues of $7.0 billion. The company is composed of three fully integrated advertising/marketing communications divisions, McCann Worldgroup, Draftfcb, and Low; two leading media specialists, Initiative and Universal McCann; leading specialist and marketing services agencies, including PR firm Weber Shandwick and experiential marketing firm Jack Morton; plus a collection of stand-alone domestic agencies such as Deutsch, Hill-Holliday, and Campbell-Ewald. Interpublic was founded in 1930 as McCann Erickson (and has operated under the name Interpublic since 1961), and currently employs 45,000. Interpublic has had poor financial performance in the recent past, marked by severe margin deterioration compounded by numerous restructuring charges, asset write-downs, and earnings restatements. In addition, the company has been through several rounds of management changes while divesting some non-core businesses and shoring up its balance sheet. Over the past two years, Interpublic has effectively managed its turnaround and began to see some of the benefits of its turnaround plan, as evidenced by peer-like organic growth in 2008, and significant improvement in operating margins.

Reasons to Invest

- **2008 results demonstrated continued improvement.** Following volatile results in recent years, IPG demonstrated considerable improvement in 2008, posting peer-like organic revenue growth for the year of 3.8%, and significant improvement in operating margins, which reached 8.5% in 2008, in line with management targets. These achievements should alleviate some concerns among investors regarding the status of IPG's turnaround and management's ability to effectively manage its business through the downturn.

- **Maintains position with good agencies and top-tier client base.** Despite much negative press in recent years, Interpublic still maintains some highly regarded agencies with a broad range of marketing services disciplines. While the company has lost numerous high-profile accounts in recent years, its stable of clients is still large and includes many important global advertisers. Furthermore, recent new business trends have been favorable and IPG's agencies have begun to be recognized for their recent improvements, most notably with Initiative and R/GA earning top scores in *AdAge's* annual agency rankings, and each were also named *Adweek's* "Agency of the Year" in media and digital, respectively.

- **Strong balance sheet should help during downturn.** IPG ended 2008 with a net cash position of approximately $150 million, and very manageable upcoming maturities, with $250M in notes due in late 2009 and 2010. IPG's solid balance sheet should give the company the flexibility it needs to successfully navigate through this downturn.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Investment Risks

- **Underperforming operations in Europe and at U.S. agencies may dampen longer-term profitability.** Continued poor profitability in Europe, and ongoing weakness at Lowe (which we believe was profitable in 2008, but still much less profitable than peers) all weigh on the company's margins and may result in IPG underperforming its peers during this advertising slowdown.
- **Low mix of marketing services could lead to slower relative growth.** Marketing services is only 42% of the total. As this is the faster-growing segment of the industry and should relatively outperform traditional advertising during this downturn, Interpublic's growth may be somewhat hampered compared with its peers.

Outlook

We expect 2009 revenues to decline 8.2% on a reported basis, with an organic decline of approximately 4.0%, as IPG faces a worldwide advertising slowdown. With the largest U.S. exposure in our coverage universe, there could be more significant downside risk to revenues versus peers if the U.S. economy continues to deteriorate. While IPG made significant progress in improving operating margins in 2008 and reached its target of 8.5%, we expect margins to decline approximately 120bps in 2009 as top-line declines will likely outweigh savings from cost reductions. Earnings are still rather volatile given large swings in IPG's effective tax rate, but we do expect EPS to decline roughly 33% to $0.35 in 2009. Over the longer term, we believe that IPG has made significant progress in its turnaround and expect margins to improve gradually once the economy stabilizes and begin to approach peer-like levels.

Valuation

At 3.0x 2009E EBITDA, we continue to believe that IPG is very attractively priced versus its peers at ~6x, and believe that concerns over its liquidity and risk from GM exposure are overdone, hence our Overweight rating. Our $10 December 2009 price target assumes that IPG trades at a smaller discount to peers, and that trends in late 2009/2010 improve somewhat, allowing for modest multiple expansion.

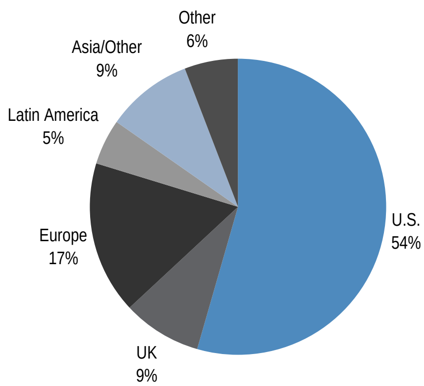
Risks to our rating and price target:

- Ad spending tracks GDP closely, so any meaningful slowdown in the U.S. can hurt Interpublic's top line.
- Continued weaker profitability in Europe and ongoing challenges at Lowe may hamper the company's profits even further during this challenging economy.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

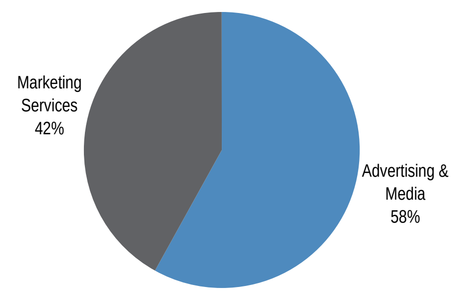
Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Revenues by Geography, 2008



Source: Company reports.

Revenues by Segment, 2008E



Source: Company reports.

Major Subsidiaries

Media Planning and Buying	Marketing Services	Interactive
McCann Erickson	Draftfcb	R/GAr
Draftfcb	Jack Morton (experiential marketing)	MRM Worldwide

Source: Company reports.

Key Management

Executive	Position
Michael Roth	Chairman, CEO
Frank Mergenthaler	EVP, CFO
John Dooner	CEO, McCann Erickson
Howard Draft	Executive Chairman, Draftfcb

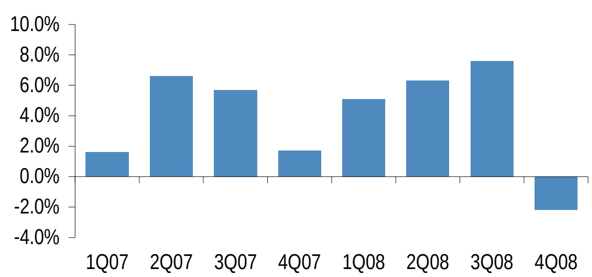
Source: Company reports.

Key Clients

Client	
GM	Nokia
Johnson & Johnson	Verizon
Microsoft	Motorola
Mastercard	Coca-Cola

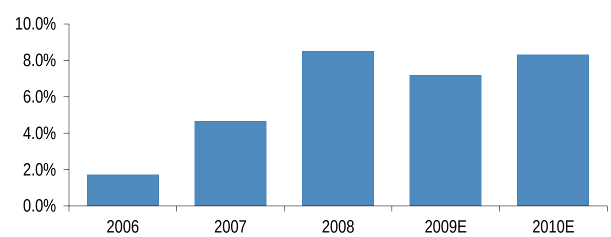
Source: Company reports.

Organic Revenue Growth, 2007-08



Source: Company reports and J.P. Morgan estimates.

Operating Margins, 2006-10E



Source: Company reports and J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Acquisitions

$ in millions

2000	$	670
2001		311
2002		277
2003		225
2004		378
2005		327
2006		311
2007		151
2008		106

Source: Company reports and J.P. Morgan estimates.

Reported Net New Business Wins

$ in millions

2000	$	2,559
2001		2,668
2002		3,201
2003		NA
2004		NA
2005		NA
2006		NA
2007		NA
2008		NA

Source: Company reports and J.P. Morgan estimates. Note: IPG stopped reporting new business in 2003.

Balance Sheet and Cash Flow Position, 2009E

$ in millions, except per share data

Debt/EBITDA	2.6x
Covenant	Interest Coverage over 4.5x; Leverage under 3.5x; EBITDA over $600M
FCF	324
FCF/share	0.58
Dividend	NA

Source: J.P. Morgan estimates.

Historical and Expected Earn-Out Payments

$ in millions

2006	$	18
2007		15
2008		24
2009		77
2010		65
2011 and after		256
Total		455

Source: Company reports and J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 39. Interpublic Group – Income Statement ($ in millions, except per share data)

	1Q 08	2Q 08	3Q 08	4Q 08	1Q 09E	2Q 09E	3Q 09E	4Q 09E	2006	2007	2008	2009E	2010E
Revenues	**$1,485.2**	**$1,835.7**	**$1,740.0**	**$1,901.8**	**$1,299.6**	**$1,624.6**	**$1,583.4**	**$1,882.8**	**$6,190.8**	**$6,554.2**	**$6,962.7**	**$6,390.3**	**$6,582.0**
% change	*9.3%*	*11.1%*	*11.5%*	*-4.1%*	*-12.5%*	*-11.5%*	*-9.0%*	*-1.0%*	*-1.3%*	*5.9%*	*6.2%*	*-8.2%*	*3.0%*
Salaries and related costs	1,064.8	1,103.2	1,093.5	1,081.1	968.2	986.1	1,005.5	1,054.4	3,950.4	4,139.2	4,342.6	4,014.1	4,100.6
% of revenue	*71.7%*	*60.1%*	*62.8%*	*56.8%*	*74.5%*	*60.7%*	*63.5%*	*56.0%*	*63.8%*	*63.2%*	*62.4%*	*62.8%*	*62.3%*
% change	*7.7%*	*9.3%*	*5.7%*	*-2.3%*	*-9.1%*	*-10.6%*	*-8.1%*	*-2.5%*	*-1.2%*	*4.8%*	*4.9%*	*-7.6%*	*2.2%*
Office and general expenses	475.0	527.8	526.3	484.2	414.6	474.4	481.4	540.4	2,079.0	2,044.8	2,013.3	1,910.7	1,961.4
% of revenue	*32.0%*	*28.8%*	*30.2%*	*25.5%*	*31.9%*	*29.2%*	*30.4%*	*28.7%*	*33.6%*	*31.2%*	*28.9%*	*29.9%*	*29.8%*
% change	*-4.1%*	*5.0%*	*12.2%*	*-16.3%*	*-12.7%*	*-10.1%*	*-8.5%*	*11.6%*	*-9.1%*	*-1.6%*	*-1.5%*	*-5.1%*	*2.7%*
Restructuring costs	3.2	4.1	3.9	5.9	-	-	-	-	28.2	25.9	17.1	-	-
Asset impairment charges	-	-	-	-	-	-	-	-	27.2	-	-	-	-
Operating income	**(57.8)**	**200.6**	**116.3**	**330.6**	**(83.2)**	**164.1**	**96.6**	**288.1**	**106.0**	**344.3**	**589.7**	**465.6**	**520.0**
Operating margin	*-3.9%*	*10.9%*	*6.7%*	*17.4%*	*-6.4%*	*10.1%*	*6.1%*	*15.3%*	*1.7%*	*5.3%*	*8.5%*	*7.3%*	*7.9%*
% change	*-53.5%*	*37.8%*	*127.6%*	*21.6%*	*43.9%*	*-18.2%*	*-16.9%*	*-12.9%*	*-201.7%*	*224.8%*	*71.3%*	*-21.1%*	*11.7%*
Interest expense	(57.8)	(53.0)	(53.2)	(48.0)	(48.7)	(47.2)	(42.7)	(39.5)	(218.7)	(236.7)	(212.0)	(178.2)	(123.2)
Other income, net	27.3	29.3	22.3	14.8	16.5	20.0	24.0	28.0	107.2	128.1	93.7	88.5	92.9
Investment impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0
Income before taxes	**(88.3)**	**176.9**	**85.4**	**297.4**	**(115.4)**	**136.8**	**77.9**	**276.6**	**(5.0)**	**235.7**	**471.4**	**375.9**	**489.7**
Income tax provision	(23.7)	79.1	35.5	65.7	(31.2)	58.8	31.1	83.0	18.7	58.9	156.6	141.8	195.9
Tax rate	*26.9%*	*44.7%*	*41.6%*	*22.1%*	*27.0%*	*43.0%*	*40.0%*	*30.0%*	*-374.0%*	*25.0%*	*33.2%*	*37.7%*	*40.0%*
Income of consolidated companies	(64.5)	97.8	49.9	231.7	(84.2)	78.0	46.7	193.6	(23.7)	176.8	314.9	234.1	293.8
Income applicable to minority interests	0.6	(3.2)	(4.7)	(15.7)	0.0	(3.5)	(4.9)	(7.0)	(20.0)	(16.7)	(23.0)	(15.4)	(15.4)
Equity in net income of unconsolidated affiliates	1.1	0.5	0.5	1.0	1.3	0.7	0.7	1.3	7.0	7.5	3.1	3.6	3.7
Net income	**(62.8)**	**95.1**	**45.7**	**217.0**	**(83.0)**	**75.2**	**42.5**	**187.9**	**(36.7)**	**167.6**	**295.0**	**222.2**	**282.1**
Net Margin	*-4.2%*	*5.2%*	*2.6%*	*11.4%*	*-6.4%*	*4.6%*	*2.7%*	*10.0%*	*-0.6%*	*2.6%*	*4.2%*	*3.5%*	*4.3%*
Discontinued operations	-	-	-	-	-	-	-	-	5.0	-	-	-	-
Dividend on preferred shares	(6.9)	(6.9)	(6.9)	(6.9)	(6.9)	(6.9)	(6.9)	(6.9)	(47.6)	(27.6)	(27.6)	(27.6)	(27.6)
Allocation to participating securities	-	0.1	(0.1)	(0.3)	-	-	-	-	-	(8.7)	(2.2)	-	-
Net income (adjusted)	**(69.7)**	**88.3**	**38.7**	**209.8**	**(89.9)**	**68.3**	**35.6**	**181.0**	**(79.3)**	**131.3**	**265.2**	**194.7**	**254.6**
Add-backs for diluted EPS	-	0.3	0.3	7.2	-	-	-	-	-	1.9	3.0	-	30.9
Avg. shares outstanding	459.2	516.0	501.3	562.7	463.4	524.2	524.2	562.6	428.1	503.3	518.3	562.6	542.6
Diluted EPS (including discontinued ops)	**($0.15)**	**$0.17**	**$0.08**	**$0.39**	**($0.19)**	**$0.13**	**$0.07**	**$0.32**	**($0.19)**	**$0.26**	**$0.52**	**$0.35**	**$0.53**
% change	-47.9%	-27.8%	NM	23.8%	NM	-24.1%	-12.7%	-16.6%	*-72.9%*	*-242.9%*	*95.5%*	*-33.1%*	*52.1%*
Diluted EPS (continuing ops)	($0.15)	$0.17	$0.08	$0.39	($0.19)	$0.13	$0.07	$0.32	($0.20)	$0.26	$0.52	$0.35	$0.53
EBITDA (including one-time items)	12.1	273.7	189.3	396.7	(18.2)	232.7	164.4	348.4	366.5	632.0	871.8	727.2	790.3
% of revenue	*0.8%*	*14.9%*	*10.9%*	*20.9%*	*-1.4%*	*14.3%*	*10.4%*	*18.5%*	*5.9%*	*9.6%*	*12.5%*	*11.4%*	*12.0%*
EBITDA (excluding one-time items)	15.3	277.8	193.2	402.6	(18.2)	232.7	164.4	348.4	421.9	657.9	888.9	727.2	790.3
% of revenue	*1.0%*	*15.1%*	*11.1%*	*21.2%*	*-1.4%*	*14.3%*	*10.4%*	*18.5%*	*6.8%*	*10.0%*	*12.8%*	*11.4%*	*12.0%*

Source: Company reports; J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Publicis Groupe

Publicis is the fourth-largest advertising and marketing services company in the world, with 2008 revenues of €4.7 billion. The company has grown rapidly through acquisitions in the past few years, having bought Saatchi & Saatchi and Fallon in 2000, Bcom3 (which brought in Leo Burnett and Starcom MediaVest) in 2002, and Digitas in 2007. Publicis is relatively more heavily skewed toward traditional advertising than its competitors (65%), although its digital marketing contribution is as high as, if not higher than peers at 19%. Publicis owns two exceptionally strong media buying operations, ZenithOptimedia and Starcom MediaVest. Its marketing services businesses are grouped as Specialized Agencies and Marketing Services (SAMS), and include health care marketing, PR, and sports marketing. Publicis is based in Paris, where the stock trades on Euronext as PUB (quoted in Reuters as PUBP.PA and on Bloomberg as PUB FP); its ADRs were delisted from NYSE in 2007, and now trade OTC as PUBGY. The company has over 40,000 employees worldwide. Publicis is 15% owned by Dentsu and ~15% by the founder's family.

Reasons to Invest

- **Strong new business wins in 2008 and tight cost management could cushion the impact of the downturn on earnings.** We expect Publicis' top line to fare relatively well in 2009, thanks to its diversified revenue streams across sectors and geographies. Another good year for account wins ($5 billion in billings) should help, and Publicis can see relatively more dynamic revenue growth as it is half the size of top rivals, yet tends to win the same volume of business. We also expect Publicis' high proportion of variable staff cost to enable the company to protect best-in-class margins better than some peers.
- **Top-flight media planning agencies.** One of Publicis's greatest strengths is its two media planning and buying franchises, Starcom MediaVest and ZenithOptimedia. These agencies have taken on a more leading role in developing clients' ad budgets as media fragments.
- **Interesting digital strategy through VivaKi.** Publicis has created a unique collaboration with Google and many other online properties and technologies. We believe agencies will become a more integral part of digital marketing as online advertising grows, and Publicis' open platform approach could lead to better data, knowledge, and relationships that can help win client business.
- **Strong balance sheet.** Net debt/EBITDA is only 1x, and Publicis has no debt covenants. This looks particularly attractive in the current market.

Investment Risks

- **Likely near-term declines in organic growth – particular exposure to auto.** We expect mid-single digit declines in agency organic growth through 2009, and while consensus estimates appear to factor this in, actual reports of these figures will likely be disconcerting. Publicis counts GM, Renault, and Toyota as large clients, together representing 15% of revenue.
- **Working capital could turn sharply negative**. Cash payments on creative work and media buying could be delayed as advertisers rein in spending, or even face liquidity problems. This could raise accounts receivable and hence cut working capital inflows.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

- **Cost cuts may have to accelerate; charges possible,** particularly as the company moves more toward cutting the tougher fixed costs after having removed some of the easier variable costs.

Outlook

We expect Publicis' revenues to decline -4.4% organically in 2009E, as strong new business wins only partly offset the impact of the very weak economic climate. We expect the company's margins to decline a relatively modest 70bps in 2009E thanks to the company's impressive cost flexibility, with variable staff costs representing 8% of revenues.

Valuation and Investment Opinion

We rate Publicis Overweight, with a €26 December 09 price target. Our DCF analysis suggests fair value of €27-28, which we round down to €26 to reflect current market concerns around the stock's cyclicality.

Risks to our rating and price target:

- Likely near-term declines in organic growth – particular exposure to auto. We expect mid-single digit declines in agency organic growth through 2009, and while consensus estimates appear to factor this in, actual reports of these figures will likely be disconcerting. Publicis counts GM, Renault, and Toyota as large clients, together representing 15% of revenue. We do not expect fundamental improvement overall until 2010 or even 2011.
- Working capital could turn sharply negative. Cash payments on creative work and media buying could be delayed as advertisers rein in spending, or even face liquidity problems. This could raise accounts receivable and hence cut working capital inflows.
- Cost cuts may have to accelerate; charges possible, particularly as the company moves more toward cutting the tougher fixed costs after having removed some of the easier variable costs.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

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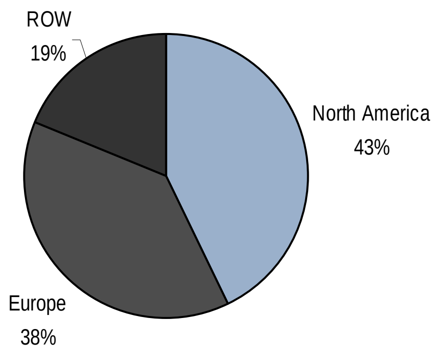
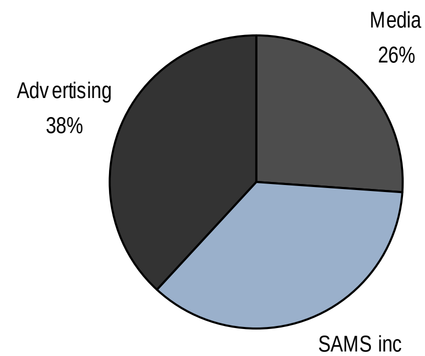
Revenues by Geography, 2008



Source: Company reports.

Revenues by Segment, 2008



Source: Company reports.

Major Subsidiaries

Traditional Advertising			Marketing Services		
Major	**Other**	**Media Buying**	**CRM / Direct**	**PR**	**Other**
Publicis WW	Fallon Worldwide	Publicis Groupe Media	Digitas	Manning, Selvage & Lee	Publicis Healthcare Group(2)
Saatchi & Saatchi	Kaplan Thaler	Zenith Optimedia	ARC Worldwide	Publicis Consultants	Bromley
Leo Burnett	Bartle Bogle Hegarty(1)	Starcom MediaVest	Publicis Dialog		iSE

Notes:(1) Publicis owns 49% (2) Includes Nelson, Medicus, Klemtner, and Saatchi & Saatchi Healthcare

Source: Company reports.

Key Management

Executive	Position
Maurice Lévy	CEO
Jean-Michel Étienne	CFO
Jack Klues	Co-Head of VivaKi
David Kenny	Co-Head of VivaKi
Olivier Fleurot	COO, Publicis Worldwide
Kevin Roberts	CEO, Saatchi & Saatchi
Tom Bernardin	CEO, Leo Burnett
John Farrell	CEO, SAMS

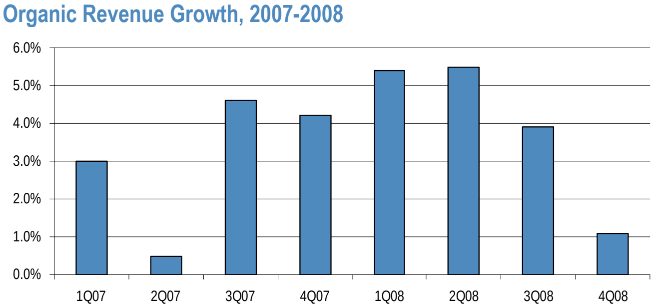
Source: Company reports.

Key Clients

Client	
Procter & Gamble	Allied Domecq
General Motors	Disney
Toyota	Nestlé
Renault	Sanofi-Aventis
Altria	L'Oréal
General Mills	Carrefour

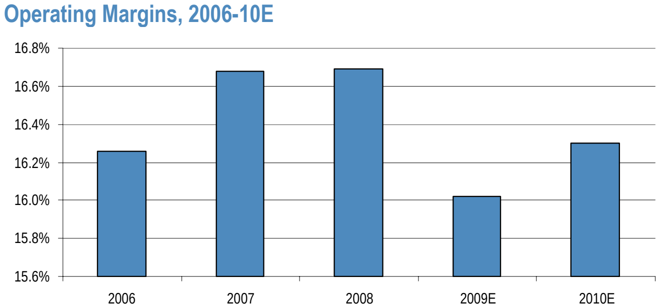
Source: Company reports.

Organic Revenue Growth, 2007-2008



Source: Company reports and J.P. Morgan estimates.

Operating Margins, 2006-10E



Source: Company reports and J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Acquisitions

€ in millions

2001	77
2002	75
2003	200
2004	124
2005	(164)
2006	58
2007	996
2008	172

Note: Includes earn-outs
2000 does not incl. Saatchi& Saatchi (€1,825m stock). 2002 does not incl. Bcom3 (€3,432m stock).

Source: Company reports and J.P. Morgan estimates.

Reported Net New Business Wins

$ in millions

2000	$1,400
2001	2,000
2002	2,000
2003	4,000
2004	4,400
2005	9,800
2006	3,700
2007	5,000
2008	5,000

Source: Company reports and J.P. Morgan estimates.

Balance Sheet and Cash Flow Position, 2009E

Net debt/EBITDA	0.8x
Covenant	N/A
FCF	€ 440m
FCF/share	€ 2.09
Dividend	€ 0.60

Source: J.P. Morgan estimates.

Expected Earn-Out Payments

€ in millions

2006	€ 20
2007	50
2008	46
2009	13
2010	45
2011 & after	53
Total	**€ 227**

Note: earn-outs are included in the balance sheet under Other Debt

Source: Company reports and J.P. Morgan estimates.

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(1-212) 622-1896
alexia.quadrani@jpmorgan.com

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(44-20) 7325-9482
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Exhibit 40. Publicis Groupe – Income Statement (€ in millions, except per share data)

	1H 08	2H 08	1H 09E	2H 09E	2008	2009E	2010E	2011E
Revenue								
Europe	873	932	793	858	1805	1651	1618	1651
% Change	*3.2%*	*-2.2%*	*-9.2%*	*-7.9%*	*0.3%*	*-8.4%*	*-2.0%*	*2.0%*
FX	*-2.6%*	*-2.5%*	*-2.2%*	*-1.9%*	*-2.8%*	*-1.9%*	*0.0%*	*0.0%*
Organic growth	*3.5%*	*0.3%*	*-7.0%*	*-6.0%*	*1.3%*	*-6.5%*	*-2.0%*	*2.0%*
North America	942	1066	1011	1103	2008	2114	2114	2156
% Change	*-6.5%*	*5.8%*	*7.3%*	*3.5%*	*-0.4%*	*5.5%*	*0.0%*	*2.0%*
FX	*-12.8%*	*6.2%*	*13.3%*	*8.5%*	*-6.6%*	*11.0%*	*0.0%*	*0.0%*
Organic growth	*5.5%*	*-0.4%*	*-6.0%*	*-5.0%*	*4.4%*	*-5.5%*	*0.0%*	*2.0%*
Rest of World	411	480	443	515	891	957	986	1011
% Change	*4.3%*	*3.9%*	*7.7%*	*7.2%*	*4.1%*	*7.6%*	*3.0%*	*2.5%*
FX	*-6.4%*	*-2.9%*	*6.7%*	*4.2%*	*-3.3%*	*5.5%*	*0.0%*	*0.0%*
Organic growth	*8.8%*	*6.8%*	*1.0%*	*3.0%*	*7.7%*	*2.1%*	*3.0%*	*2.5%*
Total revenue	**€ 2,226**	**€ 2,478**	**€ 2,247**	**€ 2,476**	**€ 4,704**	**€ 4,722**	**€ 4,718**	**€ 4,817**
% Change	*-1.0%*	*2.3%*	*0.9%*	*-0.1%*	*0.7%*	*0.4%*	*-0.1%*	*2.1%*
Organic growth	*5.4%*	*1.2%*	*-5.0%*	*-3.7%*	*3.8%*	*-4.4%*	*-0.1%*	*2.1%*
Other operating income	0	0	0	0	0	0	0	0
Salaries and related expenses	1389	1463	1422	1473	2852	2895	2878	2915
% Change	*-0.9%*	*2.5%*	*2.4%*	*0.7%*	*0.8%*	*1.5%*	*-0.6%*	*1.3%*
% Net sales	*62.4%*	*59.0%*	*63.3%*	*59.5%*	*60.6%*	*61.3%*	*61.0%*	*60.5%*
Office and general expenses	453	510	456	508	963	964	958	978
% Change	*-0.2%*	*2.0%*	*0.7%*	*-0.5%*	*0.9%*	*0.1%*	*-0.6%*	*2.1%*
% Net sales	*20.4%*	*20.6%*	*20.3%*	*20.5%*	*20.5%*	*20.4%*	*20.3%*	*20.3%*
EBITDA	**€ 384**	**€ 505**	**€ 368**	**€ 495**	**€ 889**	**€ 864**	**€ 882**	**€ 925**
% Change	*-2.0%*	*1.8%*	*-4.1%*	*-1.9%*	*0.1%*	*-2.9%*	*2.2%*	*4.8%*
% Net sales	*17.3%*	*20.4%*	*16.4%*	*20.0%*	*18.9%*	*18.3%*	*18.7%*	*19.2%*
Depreciation and amortization	50	54	54	54	104	107	111	116
EBITA	**€ 334**	**€ 451**	**€ 315**	**€ 442**	**€ 785**	**€ 757**	**€ 771**	**€ 809**
% Change	*-0.9%*	*2.0%*	*-5.7%*	*-2.1%*	*0.8%*	*-3.6%*	*1.9%*	*5.0%*
% Net sales	*15.0%*	*18.2%*	*14.0%*	*17.8%*	*16.7%*	*16.0%*	*16.3%*	*16.8%*
Goodwill amortization - intangibles + impairment	18	24	24	24	42	48	48	48
Interest and dividend (income)/expense	42	37	34	34	79	69	63	55
Pre-tax income	**€ 274**	**€ 390**	**€ 257**	**€ 384**	**€ 664**	**€ 640**	**€ 660**	**€ 707**
Exceptional (income)/expense	(4)	(5)			(8)	0		
Income tax	84	112	74	111	196	186	192	205
Effective tax rate (%)	*30.3%*	*28.4%*	*29.0%*	*29.0%*	*29.2%*	*29.0%*	*29.0%*	*29.0%*
Income after taxes	**€ 194**	**€ 283**	**€ 182**	**€ 272**	**€ 476**	**€ 454**	**€ 469**	**€ 502**
Equity in net income of affiliates	5	(3)	5	6	2	11	11	12
Net income (before minority interests)	**€ 199**	**€ 280**	**€ 187**	**€ 278**	**€ 478**	**€ 465**	**€ 480**	**€ 514**
Net income (before minority interests)	**199**	**280**	**187**	**278**	**478**	**465**	**480**	**514**
Minority interest expense	7	24	7	20	31	27	27	29
Net income (group share)	**€ 192**	**€ 256**	**€ 180**	**€ 258**	**€ 447**	**€ 439**	**€ 453**	**€ 484**
% growth	*-3.3%*	*0.6%*	*-5.8%*	*1.1%*	*-1.1%*	*-1.8%*	*3.3%*	*6.9%*
Net income (excluding goodwill)	**€ 210**	**€ 280**	**€ 204**	**€ 282**	**€ 489**	**€ 487**	**€ 501**	**€ 532**
% growth	*-1.6%*	*1.6%*	*-2.4%*	*1.0%*	*0.2%*	*-0.5%*	*3.0%*	*6.2%*
Add-back for OCEANE and ORANE	16	4	2	2	20	3	3	3
Average shares outstanding (basic)	204.5	202.5	202.5	202.5	202.5	202.5	202.5	202.5
Average shares outstanding (diluted)	233.8	210.6	210.6	210.6	220.7	210.6	210.6	210.6
EPS - reported (before amortization & exceptional s)	**€ 0.89**	**€ 1.23**	**€ 0.86**	**€ 1.23**	**€ 2.12**	**€ 2.10**	**€ 2.17**	**€ 2.31**
% change	*0.2%*	*8.9%*	*-2.6%*	*0.1%*	*4.6%*	*-0.9%*	*3.3%*	*6.8%*
EPS (Headline)	**€ 0.94**	**€ 1.29**	**€ 0.94**	**€ 1.31**	**€ 2.22**	**€ 2.26**	**€ 2.33**	**€ 2.48**
% change	*1.7%*	*8.7%*	*0.7%*	*2.0%*	*5.2%*	*1.6%*	*3.0%*	*6.4%*

Source: Company reports and J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Aegis Group

Aegis is a London-based media specialist with over 14,000 employees, whose chief agency is its planning and buying organization, Carat (about 38% total revenues). Carat is the fourth-largest media buyer globally and the largest independent media buying company. Aegis generates approximately 64% of its revenues from Europe, Middle East, and Africa (EMEA) and 23% from North America. The company's other businesses are market research (Synovate), interactive media (a collection of acquired agencies held as Isobar), and outdoor (Posterscope). Synovate represents 39% of group revenues, which are growing ahead of the market average at 4% in 2008 on our estimates, with a high proportion of business from emerging markets. Isobar and Posterscope are well positioned in the fastest-growing functional segments of the advertising market. Vincent Bolloré, the chairman of Havas, retains a 29.9% stake in Aegis, driving interest in a potential merger of the two, although his attempts to get a board seat have been thwarted so far. Aegis's stock trades on the London Stock Exchange under the ticker symbol AGS.L and on Bloomberg under the ticker AGS LN.

Reasons to Invest

- **Well positioned in the most resilient areas of media.** Aegis limits itself to the best secular growth agency businesses: media planning/buying, interactive, and outdoor; and is well positioned in market research, which we believe will become a more critical asset as data and quantitative research grow in importance. Media planning and buying is becoming a more critical function as media fragmentation places more complex demands on advertisers, who increasingly turn to their media planning and buying agencies for guidance. As ad dollars shift from traditional to more interactive media such as the Internet, Aegis has integrated a good portfolio of interactive agencies under the Isobar brand. Aegis now gains 25-30% of revenue from digital activities.
- **Cost savings effort under way could unlock better earnings growth.** New Chairman and interim CEO John Napier is undertaking a thorough cost efficiency and corporate governance overhaul that could help produce better long-term margins.
- **Strong balance sheet.** Despite a steady stream of acquisitions, Aegis's balance sheet is strong, with a net-debt-to-EBITDA (2008) ratio of 1.2. Moreover, cash flow generation is strong, with 2009E equity FCF yield of 7%.
- **Potential asset divestiture or sale.** Aegis will likely remain a bid target given the clear presence of Havas Chairman Vincent Bollore as 29.9% shareholder. Separately or in conjunction with a possible Havas tie-up, we believe a potential sale of Synovate could be accretive.

Investment Risks

- **Weakening fundamentals through H1 09 likely to weigh on the shares.** A significant slowdown, including organic revenue declines and margin contraction, is widely expected, which we believe will weigh on the stock. Near-term friction may also be possible as the company tightens its focus.
- **Ad-hoc market research may be exposed; margins are a drag.** Synovate has grown nicely on the top line in recent years, but may be exposed to reduced

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

project spending as 80% of its business is ad-hoc rather than steadier syndicated work. Operating margins at 8% are well below those of media and interactive, in the high teens.

- **Lack of M&A activity could continue to drag on the stock.** Aegis shares have moved in line with sentiment over M&A; as this now appears to be on hold there could be a drag on the stock.

Outlook

For 2009E, we forecast a rapid fall-off in organic growth to -3.1%, from +4.6% in 2008, with -3.4% for Aegis Media and -2.5% at Synovate. We expect the company's media buying and planning operations to suffer from both the general slowdown and from last year's account losses still dragging on H1 revenues, before recent wins begin to help revenues in H2.

Valuation and Investment Opinion

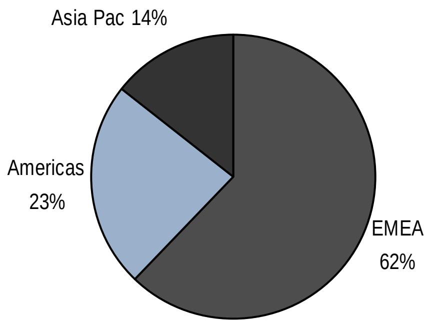
AGS trades at the upper end of peer group multiples at 9.0x 2009 PE and 6.4x EV/EBITDA. AGS trades at a 15% discount to our Dec 09 price target of 100p, based on DCF and sum of the parts analyses. Although we acknowledge this looks appealing, we worry that near-term worries over deteriorating fundamentals will continue to weigh on shares, and we are not ready to make a call on potential break-up of the company. We rate the stock Neutral.

Risks to our rating and price target on the downside primarily relate to worsening economic conditions, which may lead to reduced ad spending. As Aegis' media buying business is still largely commission-based, there may be further pressure on revenues and margins, as well as on working capital. Upside risks include any potential corporate restructuring, plus the likely relative strength of online media that could support revenues and earnings.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

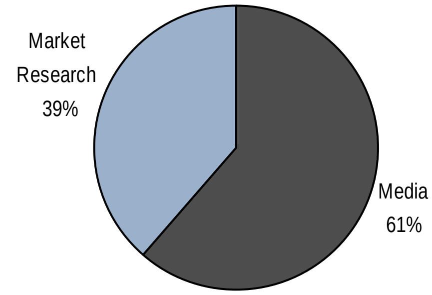
Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Revenues by Geography, 2008



Source: Company reports.

Revenues by Segment, 2008



Source: Company reports.

Major Subsidiaries

Media Planning and Buying	Marketing Services	Interactive
Carat	Synovate (market research)	Isobar
Vizeum	Posterscope (outdoor)	

Source: Company reports.

Key Management

Executive	Position
John Napier	Chairman/Interim CEO
Alicja Lesniak	CFO
Jerry Buhlmann	CEO, Aegis Media
Adrian Chedore	CEO, Synovate

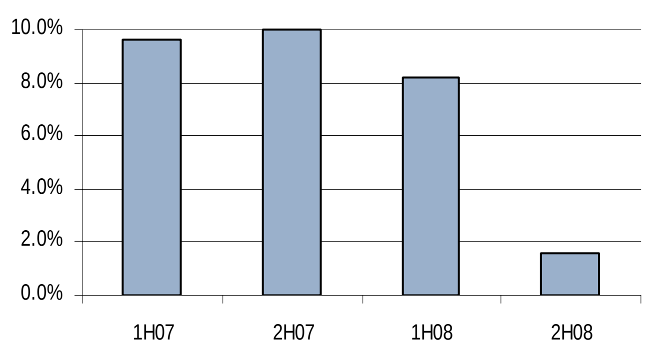
Source: Company reports.

Key Clients

Client	
P&G	Diageo
Mattel	Philips
Adidas	Kellogg's
GM (Europe)	Johnson & Johnson

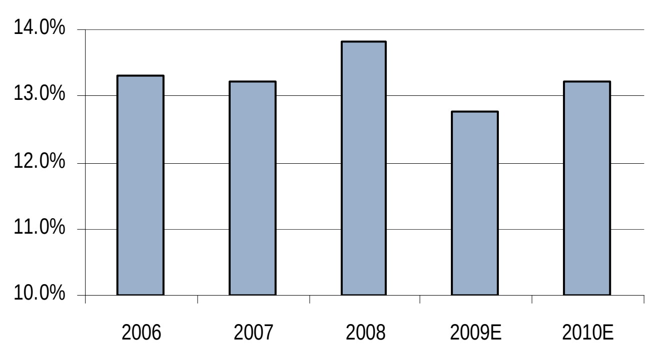
Source: Company reports.

Organic Revenue Growth, 2007-08E



Source: Company reports and J.P. Morgan estimates.

Operating Margins, 2006-10E



Source: Company reports and J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Acquisitions

£ in millions

2000	£	45
2001		30
2002		33
2003		45
2004		50
2005		90
2006		15
2007		76
2008		56

Source: Company reports and J.P. Morgan estimates.

Reported Net New Business Wins

$ in millions

2000	$	2,054
2001		1,701
2002		1,487
2003		728
2004		1,842
2005		1,595
2006		2,000
2007		1,668
2008		1,000

Source: Company reports and J.P. Morgan estimates.

Balance Sheet and Cash Flow Position, 2009E

Net debt/EBITDA	1.5x
Covenant	3.0x
FCF	£62m
FCF/share	5.4p
Dividend	2.7p

Source: J.P. Morgan estimates.

Expected Earn-Out Payments

£ in millions

2006	55
2007	43
2008	31
2009	72
2010	42
2011 and after	81
Total	323

Source: Company reports and J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 41. Aegis – Income Statement (£ in millions, except per share data)

	1H 08	2H 08	1H 09E	2H 09E	2008	2009E	2010E	2011E
Revenue								
Media	386	438	408	443	824	851	842	863
% change	*26.0%*	*19.3%*	*5.8%*	*1.1%*	*22.3%*	*3.3%*	*-1.0%*	*2.5%*
FX impact (%)			*10.8%*	*3.1%*		*6.7%*	*-1.0%*	*0.0%*
Organic growth	*10.0%*	*2.2%*	*-5.0%*	*-2.0%*	*6.1%*	*-3.4%*	*0.0%*	*2.5%*
Market Research	222	297	241	341	518	582	582	594
% change	*15.0%*	*23.4%*	*8.5%*	*15.0%*	*19.7%*	*12.2%*	*0.1%*	*2.0%*
FX impact (%)			*11.0%*	*4.0%*		*7.0%*	*-0.9%*	*0.0%*
Organic growth	*5.2%*	*-0.7%*	*-2.5%*	*-2.5%*	*2.3%*	*-2.5%*	*1.0%*	*2.0%*
Total revenue	**608**	**734**	**649**	**783**	**1342**	**1432**	**1424**	**1457**
% change	*21.8%*	*20.9%*	*6.8%*	*6.7%*	*21.3%*	*6.7%*	*-0.5%*	*2.3%*
FX impact (%)			*10.9%*	*3.4%*		*6.8%*	*-1.0%*	*0.0%*
Organic growth	*8.2%*	*1.0%*	*-4.1%*	*-2.2%*	*4.6%*	*-3.1%*	*0.4%*	*2.3%*
Cost of sales	(78)	(111)	(91)	(114)	(189)	(204)	(199)	(201)
% net sales	*12.9%*	*14.5%*	*14.0%*	*14.5%*	*14.1%*	*14.3%*	*14.0%*	*13.8%*
Operating expenses	(473)	(516)	(509)	(553)	(989)	(1062)	(1054)	(1074)
% net sales	*77.9%*	*70.4%*	*78.5%*	*70.6%*	*73.7%*	*74.2%*	*74.0%*	*73.7%*
Restructuring	(8)	(19)	(12)	0	(27)	(12)	0	0
Impairs, writeoffs, amort purch intangs, loss on disp	(4)	(17)	(9)	(9)	(22)	(17)	(17)	(17)
Share of associates	1	2	2	2	3	3	3	3
Operating Profit	**48**	**89**	**37**	**117**	**136**	**153**	**171**	**182**
% margin statutory	*7.9%*	*12.1%*	*5.7%*	*14.9%*	*10.2%*	*10.7%*	*12.0%*	*12.5%*
Underlying Operating Profit	**60**	**125**	**57**	**125**	**185**	**183**	**188**	**200**
% margin underlying	*9.9%*	*17.0%*	*8.8%*	*16.0%*	*13.8%*	*12.8%*	*13.2%*	*13.7%*
Financial income (expense)	(10)	(5)	(11)	(6)	(15)	(17)	(17)	(17)
Ordinary PBT	**39**	**86**	**27**	**112**	**125**	**139**	**157**	**168**
% net sales	*6.4%*	*11.6%*	*4.2%*	*14.3%*	*9.3%*	*9.7%*	*11.0%*	*11.6%*
% change	*-3.2%*	*-6.4%*	*-30.6%*	*31.3%*	*-5.4%*	*11.9%*	*12.7%*	*7.2%*
Exceptionals / other non trading items	0	7	4	4	7	7	7	7
Underlying PBT	**51**	**115**	**44**	**117**	**167**	**162**	**167**	**179**
Tax	(14)	(22)	(12)	(31)	(35)	(42)	(44)	(46)
Deferred tax & tax benefits	1	7	4	4	8	8	8	8
Effective tax rate (%)	*24.7%*	*13.0%*	*26.0%*	*26.0%*	*16.6%*	*21.1%*	*26.0%*	*26.0%*
Ordinary PAT	**25**	**64**	**16**	**82**	**89**	**97**	**114**	**122**
Underlying PAT	**37**	**87**	**29**	**83**	**124**	**112**	**116**	**124**
Minority interests	(4)	(3)	(4)	(3)	(6)	(6)	(7)	(7)
Profit attributable to group	**22**	**61**	**12**	**79**	**83**	**91**	**107**	**115**
Avg. shares outstanding (basic)	1,130.8	1,130.8	1,130.8	1,130.8	1,133.5	1,130.8	1,130.8	1,130.8
Avg. shares outstanding (diluted)	1,137.9	1,136.9	1,136.9	1,136.9	1,136.9	1,136.9	1,136.9	1,136.9
Basic Underlying EPS (p)	2.9p	7.5p	2.2p	7.1p	10.3p	9.3p	9.6p	10.3p
Diluted Underlying EPS (p)	**2.9p**	**7.4p**	**2.2p**	**7.0p**	**10.3p**	**9.3p**	**9.6p**	**10.3p**
% change	*35.6%*	*23.2%*	*-23.3%*	*-5.1%*	*26.6%*	*-10.2%*	*3.6%*	*7.3%*

Source: Company reports and J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Havas

Based in Paris, Havas is the sixth-largest advertising company in the world with 2007 revenues of €1.5 billion ($2.1 billion), and approximately 14,000 employees. Havas has reorganized its three core brands with an emphasis on more integrated services, and has divested numerous underperforming businesses. Its chief global advertising network is Euro RSCG Worldwide, which offers a full suite of advertising and marketing services businesses. Arnold Worldwide is a much smaller local agency. Media buying is handled by Havas Media, which includes Media Planning Group (MPG), Media Contacts, and Arena. Havas's business mix is evenly split between traditional advertising and marketing services. Following Chairman Vincent Bolloré's takeover of the company in mid-2005, Havas has gone through two CEO changes, most recently settling on former MPG head Fernando Rodès Vilá. The company seems an undersized player in a consolidated industry, and is often mentioned as a potential merger partner with Aegis, given Mr. Bolloré's large stakes in both companies. Havas shares are traded on Euronext as HAV (quoted on Reuters as EURC.PA and on Bloomberg as HAV FP).

Investment Positives

- **Fundamentally improving.** Havas has improved its fortunes in the past couple of years through top-line growth. Margins have risen as well, and Havas is no longer considered to be at risk financially.
- **Possible transformative deals could bring heightened investor interest.** Mr. Bolloré appears intent on growing Havas through transformative deals, which could include either acquisitions or an eventual breakup or sale of the company. While acquisitions may be dilutive in the near term, we believe this is Havas's only way forward as an independent entity and could be appreciated by investors. Joint ventures are also possible. On the other hand, Mr. Bolloré could try to sell or break up Havas; while we believe this would be difficult to achieve right now (the company may be too big to sell as a whole and not all of its parts are interesting), it could become more attractive over time.
- **Management is well incentivized.** Havas has locked in some 400 managers through a purchased equity warrant plan, to encourage commitment and stability.

Investment Risks

- **Lack of scale.** Havas is unlikely to gain meaningful scale through account wins (which are even less likely in a slowing ad market, when accounts tend to change hands less frequently), and is particularly undersized versus its competitors in critical growth areas such as media planning & buying and digital marketing. A cyclical slowdown could further inhibit management's ability to reduce costs as a proportion of revenues.
- **Slowing revenue growth likely to hit earnings.** This downturn may reverse the improvements achieved over the past few years. Havas faces difficult comparables in H1 09, and is less involved than peers in emerging markets. Together these two factors are in our view likely to mean that Havas's organic growth will be hit harder than its competitors' in 2009. We also believe Havas has less scope for cost cutting than bigger peers and its margin could therefore decline relatively more.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

- **Transformative M&A would not help in the near term.** Havas has often been mentioned in the context of potential large-scale M&A within the industry, due to its relatively small size. We remain sceptical that this will occur in the near term as we do not believe Havas makes an attractive target and we are not sure how Havas could make a large acquisition without producing serious dilution or raising debt to dangerous levels.

Outlook

We project organic growth of -6.0% in 2009E, as we expect the company's over-exposure to the U.S. and Europe to weigh on the top line. We expect a 130bps decline in operating margin to 10.8% in 2009E.

Valuation and Investment Opinion

HAV trades at the upper end of peer group multiples at 10.5x PE and 6.1x EV/EBITDA. Our DCF valuation (8.8% WACC) implies a value of €1.40 (using LT terminal growth of 0), which is the basis for our Dec 09 price target.

Risks to our UW rating: We wonder if any announcements are forthcoming as to cost restructuring – which could as a flipside to our view produce an upward kick to both earnings and share sentiment. There is possible upside risk should Bollore manage to find an accretive transaction for Havas-Aegis.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
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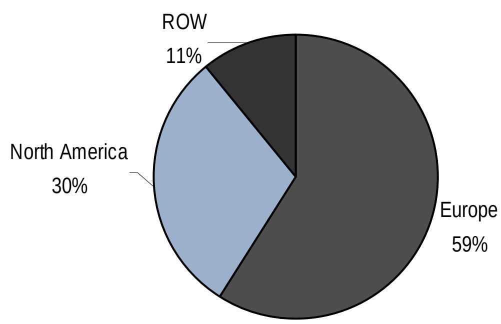
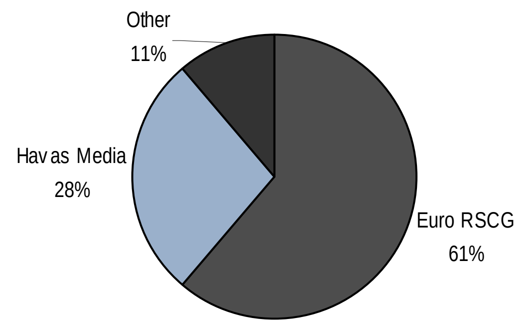
Revenues by Geography, 2008



Source: Company reports.

Revenues by Segment, 9M 08



Source: Company reports.

Major Subsidiaries

Traditional Advertising	Media Buying
Euro RSCG Worldwide	Havas Media
Arnold Worldwide	

Source: Company reports.

Key Management

Executive	Position
Vincent Bolloré	Chairman
Fernando Rodés Vilà	CEO
Hervé Philippe	CFO
Jacques Séguéla	Vice Chair; Chief Creative Officer
Ed Eskandarian	Vice Chair; CEO, Arnold
Alfonso Rodés Vilà	CEO, Havas Media
David Jones	CEO, Euro RSCG
Mercedes Erra	Euro RSCG - Co-Chair
Stéphane Fouks	Euro RSCG - Co-Chair
Rémi Babinet	Euro RSCG - Chief Creative Officer

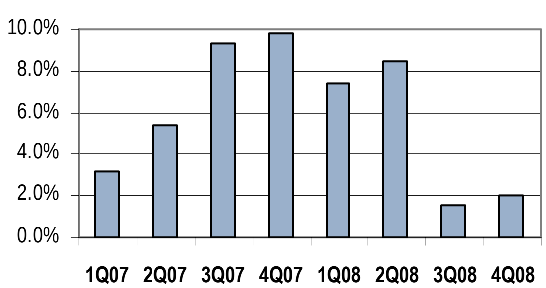
Source: Company reports.

Key Clients

Client	
Peugeot	Jaguar
Reckitt Benckiser	Sanofi-Aventis
France Telecom	Danone
Carrefour	Sears

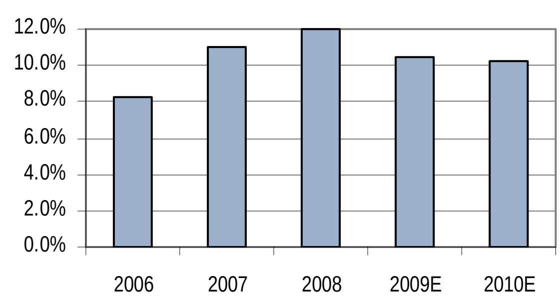
Source: Company reports.

Organic Revenue Growth, 2007-08



Source: Company reports and J.P. Morgan estimates.

Operating Margins, 2006-10E



Source: Company reports and J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Acquisitions

€ in millions

2000	€ 174
2001	285
2002	100
2003	68
2004	-
2005	-
2006	76
2007	44
2008E	21

Source: Company reports and J.P. Morgan estimates.

Reported Net New Business Wins

€ in millions

2000	$3,600
2001	1,850
2002	1,600
2003	1,921
2004	1,950
2005	1,265
2006	2,700
2007	1,500
2008	2,352

Source: Company reports and J.P. Morgan estimates.

Balance Sheet and Cash Flow Position, 2009E

Net debt/EBITDA		1.4x
Covenant		N/A
FCF	€	63m
FCF/share		€ 0.15
Dividend		€ 0.05

Source: J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 42. Havas – Income Statement (€ in millions, except per share data)

	1H 08	2H 08	1H 09E	2H 09E	2008	2009E	2010E	2011E
Revenue								
Europe	448	475	417	451	923	868	851	876
% change	*8.7%*	*4.4%*	*-7.0%*	*-5.0%*	*6.5%*	*-6.0%*	*-2.0%*	*3.0%*
North America	234	243	220	231	477	451	442	459
% change	*-6.8%*	*-5.3%*	*-6.0%*	*-5.0%*	*-6.0%*	*-5.5%*	*-2.0%*	*4.0%*
Rest of World	73	95	73	93	168	166	169	178
% change	*10.6%*	*3.8%*	*0.0%*	*-2.0%*	*6.7%*	*-1.1%*	*2.0%*	*5.0%*
Total revenue	**€ 755**	**€ 813**	**€ 710**	**€ 775**	**€ 1,568**	**€ 1,485**	**€ 1,462**	**€ 1,513**
% change	*3.6%*	*1.2%*	*-6.0%*	*-4.6%*	*2.3%*	*-5.3%*	*-1.6%*	*3.5%*
% Organic	*8.0%*	*1.8%*	*-7.0%*	*-5.0%*	*4.7%*	*-6.0%*	*-1.6%*	*3.5%*
Compensation	475	500	440	481	975	931	917	953
% net sales	*62.9%*	*61.5%*	*62.0%*	*62.0%*	*62.2%*	*62.7%*	*62.7%*	*63.0%*
% change	*2.8%*	*0.6%*	*-7.4%*	*-3.9%*	*1.7%*	*-4.5%*	*-1.6%*	*4.0%*
Other expenses	198	207	184	202	405	393	387	393
% net sales	*26.2%*	*25.5%*	*26.0%*	*26.0%*	*25.8%*	*26.5%*	*26.5%*	*26.0%*
% change	*3.1%*	*-2.4%*	*-6.8%*	*-2.6%*	*0.2%*	*-2.8%*	*-1.6%*	*1.6%*
Other operating items					*(1)*			
Operating income (EBITA)	**€ 82**	**€ 106**	**€ 85**	**€ 93**	**€ 189**	**€ 160**	**€ 158**	**€ 166**
% net sales	*10.9%*	*13.0%*	*12.0%*	*12.0%*	*12.1%*	*10.8%*	*10.8%*	*11.0%*
% net sales excl. other items	*10.9%*	*13.0%*	*12.0%*	*12.0%*	*12.0%*	*10.8%*	*10.8%*	*11.0%*
% change	*5.6%*	*11.4%*	*10.5%*	*-8.0%*	*11.8%*	*-15.2%*	*-1.6%*	*5.5%*
Financial income (expense)	(19)	(18)	(18)	(18)	(33)	(33)	(33)	(33)
Pre-tax income	**€ 63**	**€ 88**	**€ 67**	**€ 75**	**€ 156**	**€ 127**	**€ 125**	**€ 133**
% change	*14.5%*	*17.0%*	*6.7%*	*-14.4%*	*20.1%*	*-18.4%*	*-2.0%*	*6.9%*
% net sales	*8.3%*	*10.8%*	*9.5%*	*9.7%*	*9.9%*	*8.6%*	*8.5%*	*8.8%*
Exceptional income (expense)	9				9	0	0	0
Income tax	20	26	20	23	44	38	37	40
Effective tax rate (%)	*27.8%*	*30.0%*	*30.0%*	*30.0%*	*28.2%*	*30.0%*	*30.0%*	*30.0%*
Income after taxes	**€ 52**	**€ 61**	**€ 47**	**€ 53**	**€ 121**	**€ 89**	**€ 87**	**€ 93**
Equity in net income of affiliates	0	1	1	1	0	0	0	0
Net income before goodwill amortization	**52**	**62**	**48**	**54**	**121**	**89**	**87**	**93**
Minority interests	3	4	3	5	8	8	8	9
Net income (group share, before goodwill amortization)	**€ 49**	**€ 58**	**€ 45**	**€ 49**	**€ 113**	**€ 81**	**€ 79**	**€ 84**
% growth	*40.0%*	*19.7%*	*-8.7%*	*-16.0%*	*35.4%*	*-28.2%*	*-2.1%*	*6.3%*
Avg. shares outstanding (basic)	429.9	429.9	429.9	429.9	429.9	429.9	429.9	429.9
Avg. shares outstanding (diluted)	430.1	430.1	430.1	430.1	430.1	430.1	430.1	430.1
EPS (diluted, before goodwill amortization)	**€ 0.09**	**€ 0.13**	**€ 0.10**	**€ 0.11**	**€ 0.24**	**€ 0.19**	**€ 0.18**	**€ 0.20**
% change	*16.5%*	*22.1%*	*11.8%*	*-16.0%*	*27.1%*	*-22.0%*	*-2.1%*	*6.3%*

Source: Company reports; J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Exhibit 43. Comparables ($, £, and € in millions, except per share data)

Company	JPM Rating	Ticker	Price 3/31/2009	Market Cap. (mm)	Net Debt(a) 12/31/2008	EBITDA 08	EBITDA 09E	EPS 08	EPS 09E	EV/EBITDA 08	EV/EBITDA 09E	P/E 08	P/E 09E	FCF Yield (b) 09E	09 P/E Rel. To S&P 500	Dividend yield
In US$																
INTERPUBLIC GROUP	O	IPG	$ 4.12	$ 2,100.4	$ 296.3	$ 888.9	$ 727.2	$ 0.52	$ 0.35	2.5x	3.0x	8.0x	11.9x	14.0%	0.8	NA
OMNICOM GROUP	O	OMC	$23.40	$ 7,188.5	$ 2,200.4	$ 1,925.3	$ 1,670.2	$ 3.20	$ 2.60	4.9	5.6	7.3	9.0	11.4%	0.6	2.6%
WPP GROUP - ADR (1)	N	WPPGY	$27.95	$ 7,009.9	$ 5,424.5	$ 2,294.2	$ 2,043.6	$ 3.48	$ 3.31	5.4	6.1	8.0	8.4	14.4%	0.6	4.0%
In Local Currency																
AEGIS (2)	N	AGS.L	£ 0.83	£ 943.6	£ 338.5	£ 183.7	£ 201.4	£ 0.103	£ 0.093	7.0x	6.4x	8.0x	9.0x	6.6%	0.6	3.0%
HAVAS (2)	U	HAV.PA	€ 1.99	€ 855.0	€ 295.0	€ 215.0	€ 188.0	€ 0.24	€ 0.19	7.9	6.1	8.3	10.5	7.8%	0.7	2.0%
INTERPUBLIC GROUP	O	IPG	$ 4.12	$ 2,100.4	$ 296.3	$ 888.9	$ 727.2	$ 0.52	$ 0.35	2.5	3.0	8.0	11.9	14.0%	0.8	NA
OMNICOM GROUP	O	OMC	$ 23.40	$ 7,188.5	$ 2,200.4	$ 1,925.3	$ 1,670.2	$ 3.20	$ 2.60	4.9	5.6	7.3	9.0	11.4%	0.6	2.6%
PUBLICIS GROUPE (2)	O	PUBP.PA	€ 19.62	€ 4,130.9	€ 600.0	€ 889.0	€ 864.0	€ 2.22	€ 2.26	8.9	5.1	8.8	8.7	11.7%	0.6	3.1%
WPP GROUP (1) (2)	N	WPP.L	£ 3.93	£ 4,928.2	£ 3,715.4	£ 1,240.1	£ 1,385.5	£ 0.555	£ 0.556	7.0	6.2	7.1	7.1	13.9%	0.5	4.0%
Advertising Stocks Equally-Weighted Index:										6.4x	5.4x	7.9x	9.3x	10.9%	0.7x	2.9%
S&P 500 Index			$ 797.87					$49.49	$56.65			16.1x	14.1x			

Notes:

Bold indicates companies under coverage.

O = OVERWEIGHT, N = NEUTRAL, U = UNDERWEIGHT, NR = NOT RATED; NM = not meaningful

(1) EBITDA excludes income from unconsolidated companies.

(2) EPS excludes amortization, writedowns (aka. Headline EPS)

(a) Net Debt = Long-term debt + Short-term debt - Cash. Ad holding company net debt is calculated using average cash of previous 12 months to account for seasonal working capital swings.

(b) FCF = Net Income + D&A + stock option and convert add-back - capex - adjustment for restructuring costs, if applicable.

Source: Company reports; Factset; J.P. Morgan estimates.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Other Advertising and Marketing Services Companies

Dentsu and Hakuhodo – Two Leading Japanese Companies

There are two Japanese advertising groups with significant scale in the global tables, but both are much more focused on their domestic market and have little presence outside Asia. Dentsu is the leading Japanese ad company whose agency of the same name is the largest ad agency in the world; Dentsu owns 15% of Publicis. Hakuhodo DY Holdings is a holding company formed by the three-way merger of Hakuhodo, Daiko, and Yomiko.

Dentsu

Based in Tokyo, Dentsu is the fifth-largest advertising company in the world, with FY March 2008 revenues of over $3.4 billion, and the largest advertising company in Japan. Its core agency of the same name has a network of creative advertising and marketing services shops concentrated in Asia, and a strong media planning and buying operation in Japan, with close ties to many leading Japanese media outlets. Dentsu has tried in recent years to expand its reach outside of Asia, by establishing joint ventures with U.S. advertising companies. The company's U.S. presence was bolstered by its acquisition of a 22% stake in Bcom3 in 2000. Subsequent to Publicis's acquisition of Bcom3 in 2002, Dentsu now owns 15% of Publicis. Dentsu also established a joint venture with Young & Rubicam prior to its acquisition by WPP, creating a subsidiary known as Dentsu Y&R. Recently, Dentsu has acquired several smaller U.S.-based creative shops, Attik and mcgarrybowen. Dentsu is listed on the Tokyo Stock Exchange under the ticker 4324, having gone public in 2001 in part to support its international growth.

Hakuhodo DY Holdings

In 2003, Hakuhodo, Daiko, and Yomiko, Japan's No. 2, No. 4, and No. 8 advertising companies, respectively, formed a three-way merger into a single holding company. The new entity is the world's eighth-largest advertising and marketing services group, with over one trillion yen in billings and 2008 revenues of approximately $1.6 billion. The three companies have collaborated since late 2001 on media buying and planning; the new entity incorporates the three separate creative advertising networks and a combined media buying entity. A chief motive behind the merger is the desire to compete more effectively with Dentsu, primarily in Japan, although all three agencies also have international operations. Hakuhodo is best known for its creative work, though it has expanded into more diversified marketing services in recent years. Hakuhodo has a partnership with Omnicom's TBWA that includes a 50/50 joint venture in G1, which produces advertising for Nissan. Daiko is 20% owned by Interpublic's Lowe and also has a media buying partnership with Interpublic's DraftFCB. Daiko's primary business is media buying in Japan. Yomiko is a smaller diversified company that has a partnership with Publicis's Saatchi & Saatchi.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

MDC Partners

An up-and-comer in the advertising holding company world, MDC Partners (Nasdaq: MDCA) is based in Toronto and New York and owns partial stakes (generally 51%-70% equity ownership) in several highly regarded agencies such as Crispin, Porter + Bogusky and Kirschenbaum Bond. MDC Partners is focused on higher-growth specialty communications, and it provides services in North America, Europe, and Latin America, with the bulk of its revenues earned in the U.S. Some of MDC's clients include Burger King, Volkswagen, Sprint, and BMW.

One principle of MDC's strategy is to own partial rather than full stakes in ad agencies. In doing so, the company believes that the agencies can better maintain their unique culture, and the agencies' management has an equity ownership stake in the agency to help drive incentive. In examining potential agency partners, MDC focuses on well-managed agencies with solid margins and significant growth potential. So far, its strategy has historically helped drive impressive growth on a consolidated basis; 2008 revenues grew 10% (8% organic increase) to $585 million, following 16% organic growth in 2007. The above-average growth of these niche businesses could deliver industry-leading organic revenue and operating margin growth.

Appendices

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Appendix I: Billings

An advertising account is always reported in terms of billings, not revenues. Billings represents the advertiser's total advertising budget for that particular product. Historically, the industry standard was that 15% of this budget went to the agency that provided the creative work. The media buyer (the agency that negotiated the pricing and placement of the advertisement to the media) would be allocated approximately 4% of the budget for that job. The move to a fee-based compensation structure has made the translation from billings to agency revenues more complex, and pressure on fees has pushed down the revenue take on billings over the years.

A shorthand way of determining the annual revenue impact to an agency from a client's budget is to take 10%-12% of a budget for a creative account and 2%-3% of the budget for media buying services. (As the price of media skyrocketed in 1990s, the agency creative fee moved to 12% from 15% of a typical budget.) This is an estimate, but generally provides a good approximation of an agency's fees. For example, the agency that does the creative work for an account valued at $100 million would likely generate approximately $10-$12 million in annual revenues from that advertiser. If it was a media account (the agency is simply responsible for the brokerage of the media business), it would be worth $2-$3 million to the agency. If it was both a creative and a media account, it would be worth about $12-$15 million. The rest of the dollars ($85-$88 million in this example) goes to the medium itself (TV, radio, etc.).

Therefore, when a trade magazine writes about new business won or lost, the dollars being discussed are always referred to in terms of billings. The actual impact to an agency's revenue line is typically only a fraction of the amount quoted.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Appendix II: The Upfront Market

The upfront market is the selling of advertising space on network TV prior to the 12-month network season that begins in September. The upfront market takes place from May to July, and networks typically sell 75%-85% of their ad space during this period. Advertisers work through media buyers to negotiate placement and rates for their ads.

Advertisers purchase airtime in the upfront market in order to obtain guaranteed ratings on particular shows through the season. While advertisers give early commitments, they have options to cancel these commitments during certain windows throughout the year (see below). The usual cancellation rate is approximately 8%-12%. Thus, from the advertiser's perspective, the upfront market is a good opportunity to book advertising space on programs it feels would give its products the exposure it wants, at a fixed price and with some ability to cancel.

Exhibit 44. Upfront Market Cancellation Schedule

Period	% Cancellable	Cancellation Dates
1Q (Dec)	0%	-
2Q (Mar)	25%	Oct 15 - Nov 1
3Q (June)	50%	Jan 1 - Feb 1
4Q (Sept)	50%	April 1 - May 1

Source: J.P. Morgan estimates, MediaCom.

Advertising space that is not sold in the upfront market is sold in the scatter market (a short-term market with commensurately higher rates) during the network season, or as remnant sales (which advertisers typically resort to at the last minute without particular marketing goals, in order to spend the remainder of their budgets).

The networks typically bargain from a position of strength during the upfront season: they have a limited inventory of programs, and popular shows command top dollar. However, in the past few years, consolidation in media buying has produced fewer, larger media buyers, which have gained some bargaining strength on behalf of their clients.

Since the 2001 recession, the performance of the upfront market has changed dramatically through the economic and advertising recovery. In 2001, the power pendulum swung from the sellers of advertising space to the buyers. For the first time in ten years, the upfront market for TV and cable sold at a discount to the previous year. With fewer advertising dollars available due to smaller budgets and with advertisers hesitant to commit to spending despite the cancellation options, networks were forced to accept lower prices for upfront commitments.

In the 2002-03 upfront, sellers regained the upper hand as advertisers such as auto and retail companies continued promotional advertising, tight political races racked up ad spending, and TV viewership rose on the strength of several popular, returning programs. Approximately 85%, versus 75% in prior year, of total network inventory was sold in the upfront, and cancellations for the season averaged a low 5%. The scatter market in the 2002-03 season was also very strong, given limited inventory and strong demand, resulting in healthy double-digit premiums. The strength seen in the 2002-03 upfront market was repeated in the 2003-04 upfront despite the lack of robust political advertising, foretold by the healthy scatter market in the preceding months. In 2003-04, the upfront benefited from advertisers' focus on branding and a return to traditional mass media at the expense of print and other media as well as a shift of scatter dollars to the upfront as advertisers remembered the price hikes in the previous year. About 85% of inventory was sold and cost-per-thousands rose almost 15%. The 2004-05 upfront cooled somewhat from these highs, but was still strong by most standards, up about 5%.

The 2005-06 and 2006-07 upfronts each slowed a bit more, with average CPMs up about 3% in 2005-06 and only slightly positive overall in 2006-07, as ABC set the tone early somewhat with low-single-digit increases in an effort to gain market share; other networks with less attractive programming then accepted CPM increases of about 0%-4%, but in some cases, CPMs actually fell in 2006-07.

During the 2007/2008 upfront, demand increased with average CPMs up in the mid-to-high single digit range, with some networks posting CPM increases over 10%. On a total dollar basis, dollars committed during the broadcast upfront increased in the low-single digit range, as CPM increases were offset by the impact of lower TV ratings. The most significant change during the 2007/08 upfront season was that most advertisers negotiated deals based on Nielsen's new ratings system, which includes DVR playback and commercial ratings. Since the upfront negotiations, scatter prices have been soaring upwards of 50% as a result of several factors contributing to both high demand and reduced supply, including: 1) a record upfront season that reduced scatter inventory; 2) several large advertisers who sat out the upfront, such as Johnson & Johnson and Coca-Cola, are spending virtually all their TV dollars in the scatter market; 3) record high political spending as a result of tight presidential primary races in both the Republican and Democratic parties; and 4) a high amount of "make-goods" from last season, which take up inventory.

Given the weak ad environment today and the increase in upfront cancellations in recent months, we expect the 2009 upfront to be weaker than we have seen in many years, with pricing likely flattish to down versus last year, and the length of upfront negotiations extending over longer time periods versus prior years. We wouldn't be surprised to see sellers holding back some of their inventory to sell in a hopefully stronger scatter market in 2010.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

Appendix III: Working Capital Changes

Because advertising agencies serve as the pass-through vehicle for substantial sums of billings money, cash flows can fluctuate greatly. Specifically, an ad agency's accounts receivable, expenditures billable to clients, prepaid expenses, and accounts payable balances shift from quarter to quarter (and even from week to week and day to day).

For this reason, we prefer to exclude working capital changes in our net free cash flow calculation, as the quarterly shift in working capital does not necessarily provide a clear picture of an advertising and marketing services company's ongoing cash position.

The following is a summary of the working capital changes quarter by quarter at Omnicom and Interpublic during the past couple of years, which exemplify the positive-negative shift due to receivables and payables. Historically, Interpublic's working capital swings were more dramatic, but as it has progressed through its turnaround it has done a very good job of improving its capital management, and finished 2008 with a net positive for the year.

Exhibit 45. Working Capital Changes at Omnicom and Interpublic, 2007-08 ($ in millions)

	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08
Omnicom	$ (607)	$ (64)	$ (82)	$ 996	$ (809)	$ 10	$ 10	$ 794
Interpublic	$ (283)	$ (132)	$ 22	$ 223	$ (241)	$ 183	$ (102)	$ 353

Source: J.P. Morgan estimates, Company reports.

Appendix IV: Glossary

Account Consolidation: Concentration of advertising budgets at fewer agencies by advertisers. Companies have trended in recent years toward using fewer agencies for advertising of their different product lines, in an attempt to improve brand cohesion, achieve integration of advertising and marketing service efforts, and gain greater pricing concessions over agencies.

Acquisition Growth: Growth through revenues of acquired companies. As advertising and marketing services companies typically acquire smaller companies on a regular basis, acquisition growth is an important component of overall growth.

Advertiser: Any company that promotes its product or service through some form of media.

Advertising Agency: Company that specializes in the creation or advertising for clients and/or purchasing of advertising space in the media. Some advertising agencies have marketing services operations as well, such as health care or multicultural advertising or market research; in most holding company structures, these are classified as marketing services, separate from advertising.

Advertising and Marketing Services Company: Holding company that includes one or more advertising agencies and an assortment of marketing services companies. The largest advertising and marketing services companies serve as parents to as many as 1,500 separate businesses.

Average Frequency: In TV and radio ratings, the average number of times the target is exposed to the message.

Billings: An advertiser's total advertising budget, which is handled by its advertising agency. Advertisers allot a total dollar amount to advertise their product, and advertising agencies serve as the pass-through vehicle for these dollars, taking a share of the billings as agreed with the advertiser and passing the rest on to the media on which the ad is placed. For creative work, agencies typically take approximately 12% of the total billings as a fee or commission. For media buying work, agencies typically take approximately 4% of total billings. Billings is often used as a measurement of an advertising agency's size.

Client Conflict: Many advertisers have historically maintained client conflict policies that preclude them from working with an ad agency that also manages the advertising of a competing product. One of the goals of the holding company structure is to provide more than one advertising agency such that competing product accounts can be housed at different agencies within the holding company.

Consumer Packaged Goods (CPG): Manufactured consumer products, including food and personal care products. Referred to as fast-moving consumer goods (FMCG) in Europe.

Cost-Plus Compensation: Fee-based compensation system whereby clients pay advertising agencies the total costs involved in their work plus a profit margin agreed upon during contract negotiations. As opposed to commission-based compensation, cost-plus compensation tends to be recognized earlier in the work process, when the service is rendered, whereas commission-based compensation is recognized when the advertising appears on a specific medium, which is after the agency makes sizable expenditures.

CPM: Short for cost per thousand ("M" being 1,000 in Roman numerals), the cost per 1,000 viewings of an advertisement. CPM = (Media Cost/Impressions) x 1,000. Used as a standard across advertising media.

Creative Advertising: The conception and production of advertisements.

Customer Relationship Management (CRM): Broadly speaking, marketing services that help an enterprise create, develop, manage, and enhance a customer relationship. Service offerings include direct marketing, market research, and promotional marketing.

Digital Video Recorder (DVR): Also called Personal Video Recorder (PVR) or Personal Recording Device (PRD), a device that records TV broadcasts electronically and allows the user to replay content and quickly scan through recorded material, such as advertisements.

Direct Marketing: Direct communication with a targeted population segment or a specific customer. Direct marketing involves maintenance of customer databases and the sending of direct mail or e-mail to targeted population segments (such as a certain age group, geographic location, or ethnicity) or to previous customers, as well as telemarketing and response analysis.

Direct-to-Consumer (DTC) The marketing of pharmaceuticals directly to the end-user, rather than through trade marketing to health care professionals.

Display Advertising: Also known as banner ads, these are graphics placed on websites in prescribed sizes, just as a print ad appears in a newspaper.

Earnouts: Common form of paying for a business acquisition, in which the agency pays a portion of the purchase price (often 50%) on the day of the acquisition, with an agreement to pay the remainder of the purchase price over several years (often five years), contingent on the acquired company meeting certain performance objectives.

Entertainment Marketing: Advertising and marketing of personalities in film, music, and other fields of entertainment, and use of such fields of entertainment as a medium for advertising. Entertainment marketing includes music licensing, movie product placements, and sponsorships of products by famous personalities.

Health Care Marketing: Targeted marketing by pharmaceutical companies and health care providers to the medical community as well as to consumers. Service offerings include medical detailing (describing the specifics of new drugs to doctors and pharmacists), educational services, direct mail programs, and managed care consultancy.

Incentive-Based Compensation: A hybrid of commission and fee-based compensation, whereby clients pay their advertising agencies an agreed-upon fee plus commissions if the advertisements created improve the client's product's performance.

Interactive Advertising/Marketing: Development of advertising through interactive media, primarily the Internet, and marketing through e-mail. Interactive marketing is often offered in conjunction with other advertising and direct marketing services, and includes consulting and strategic planning work in this medium. Also referred to generally as online advertising/marketing.

Keyword Search: Using a search engine such as Yahoo! or Google, Internet users can find topics of interest on the Web by entering in words or phrases. For advertisers, this creates new forms of direct marketing through paid placement, in which the advertiser bids to be listed in a search engine's sponsored links, or through paid inclusion, in which the advertiser pays a fee to the search engine to be guaranteed it will appear in the search engine's index.

Marketing Services: As opposed to traditional media advertising, other forms of marketing that include direct mail, market research, promotions, public relations, and specialized forms such as health care, multicultural, entertainment, and sports and event marketing.

Market Research: Collection and analysis of data in order to determine factors that influence customers' purchasing patterns. Market research involves surveys and interviews from population samples, combined with an understanding of population demographics and historical consumption of products and services. Market research can further include projections of consumer purchasing behavior based on these findings.

Media Buying: Purchasing of advertisement space in the various media (TV, radio, print, etc.). Media buying involves negotiations between specialized media buyers and the media outlets.

Media Planning: Research and evaluation of advertising placement strategies, as a preliminary step in developing creative advertising.

Multicultural Marketing: Advertising targeted to specific ethnic or other social groups, incorporating these groups' languages and social customs and interpretations. The most common ethnic marketing services in the U.S. are African-American, Asian-American, and Hispanic-American, and other social marketing services include marketing to the gay and lesbian populations.

Net New Business: New business won from existing or new clients, netted against business losses from existing clients.

Online Advertising: Advertising and marketing using the Internet — includes display ads, keyword search, Internet classifieds, and e-mail marketing.

Organic Growth: Growth from existing clients within the advertising agency and from new business wins, as opposed to growth through acquisitions. There are certain variations in the definition of organic growth — Omnicom, for instance, includes in its organic growth calculation incremental revenue from newly acquired companies while under Omnicom's ownership. Most other advertising and marketing services companies only claim organic growth from businesses that they have acquired and recorded on their books for one full fiscal year.

Personal Video Recorder (PVR): See Digital Video Recorder.

Promotional Marketing: Incentives offered to potential customers that heighten consumers' awareness and encourage the purchase of a product, including price discounts, free samples, and in-store advertising of products, as well as trade promotions to groups such as wholesalers and retailers.

Public Relations (PR): Communication of a company's or organization's message or image to the public.

Reach: In TV and radio ratings, the percentage of the target exposed to the message at least once. The number of different homes/people exposed to at least one program or commercial across a stated period of time. All homes are counted only once; maximum reach therefore is 100% of TV or radio households or audience.

Remnant: Broadcast advertising space that is not sold in the upfront or scatter markets. It often consists of inventory at odd hours and is sold in periods as short as a week in advance.

Scatter: Also known as spot sales, consisting of broadcast advertising space sold in the short term (typically a few weeks to a few months in advance) and usually at higher rates than in the fixed-rate upfront market.

Specialty/Other Communications: General grouping within marketing services of focused marketing efforts targeting specific industries, demographic groups, or media. Some of the work involves traditional advertising, but in a specialized industry or targeted to a specific demographic group. General subgroups include health care, multicultural, interactive, entertainment, and sports and event marketing.

Sports and Event Marketing: Use of sports personalities in advertising and marketing, as well as the placement of advertising at sporting events. Event marketing also includes the planning and execution of events such as corporate functions, conferences, and sporting events.

Traditional Advertising: Mass-media advertising, including advertising on TV, radio, newspapers, magazines, the Internet, and outdoor.

TV Rating: Percentage of persons or homes that have access to a TV that are tuned to a particular program. One rating point equals 1% of the total potential household or demographic audience. Therefore, the rating is the percentage of a population viewing a TV program during the average minute.

Upfront: Selling of advertising space on network TV prior to the 12-month network season that begins in September. Advertising space is sold at fixed rates in advance, and advertisers have a schedule of options to cancel their commitments. The upfront market takes place from May to July, and networks typically sell about 75% of their ad space during this period.

VOD: Video on Demand; an interactive system through which users can stream or download individual video programs from a provider such as a broadcast or cable network, often priced per program. VOD enables more personal consumption of media and can be advertising-free.

Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

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Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

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Alexia S. Quadrani
(1-212) 622-1896
alexia.quadrani@jpmorgan.com

Tim Nollen
(44-20) 7325-9482
tim.nollen@jpmorgan.com

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