Market Brief
Q1 2019

State of Digital Media

POLAR

Executive Summary

Digital advertising is **growing 15% YoY**, from $266b in 2018 to **$465b by 2022**.

- Digital will be 50% of all ad spend by 2022.

63% of digital goes to the Duopoly, **12% is going to the Next 5**.

- Google is growing 20%, with $115 billion and 43% of the market.
- Facebook is growing 33%, with $54 billion and 20% of the market.
- Next 5 (Amazon, Microsoft, Oath, Twitter, Snap) have $29 billion, 12% of the market, 42% growth.
- **Rest of the digital market will decline 11% in 2019.**

Social leads the pack, growing from $185b today, **40% of the ad market by 2022**.

- Video is $28b, growing 15% (in line with market) to $48b by 2022.
- Search, Banner, and Classifieds all growing less than 10%.

Market Insights

Perspectives

The changing tides for media budgets

Client	Budget	Growth	Observations
Digital Media Agency	Premium	-11%	Premium I/O, publisher partnership, traditional approach
	Programmatic	+31%	$19b in new ad spend, mainly to trusted PG/PMP setup
	Social	+28%	Agencies generate lower margins, want to re-allocate spend
	Search	+7%	Growth slowing, about half of the market rate
Traditional Media Agency	TV	+1%	Flat due to cord-cutting, market saturation, digital distraction
	Print	-10%	Rapid and continued decline, lack of readership, legacy ad model
	Radio	+1%	Flat due to market saturation
	Outdoor	+4%	Minor growth with digital outdoor trend

Source: eMarketer, PwC, Statista

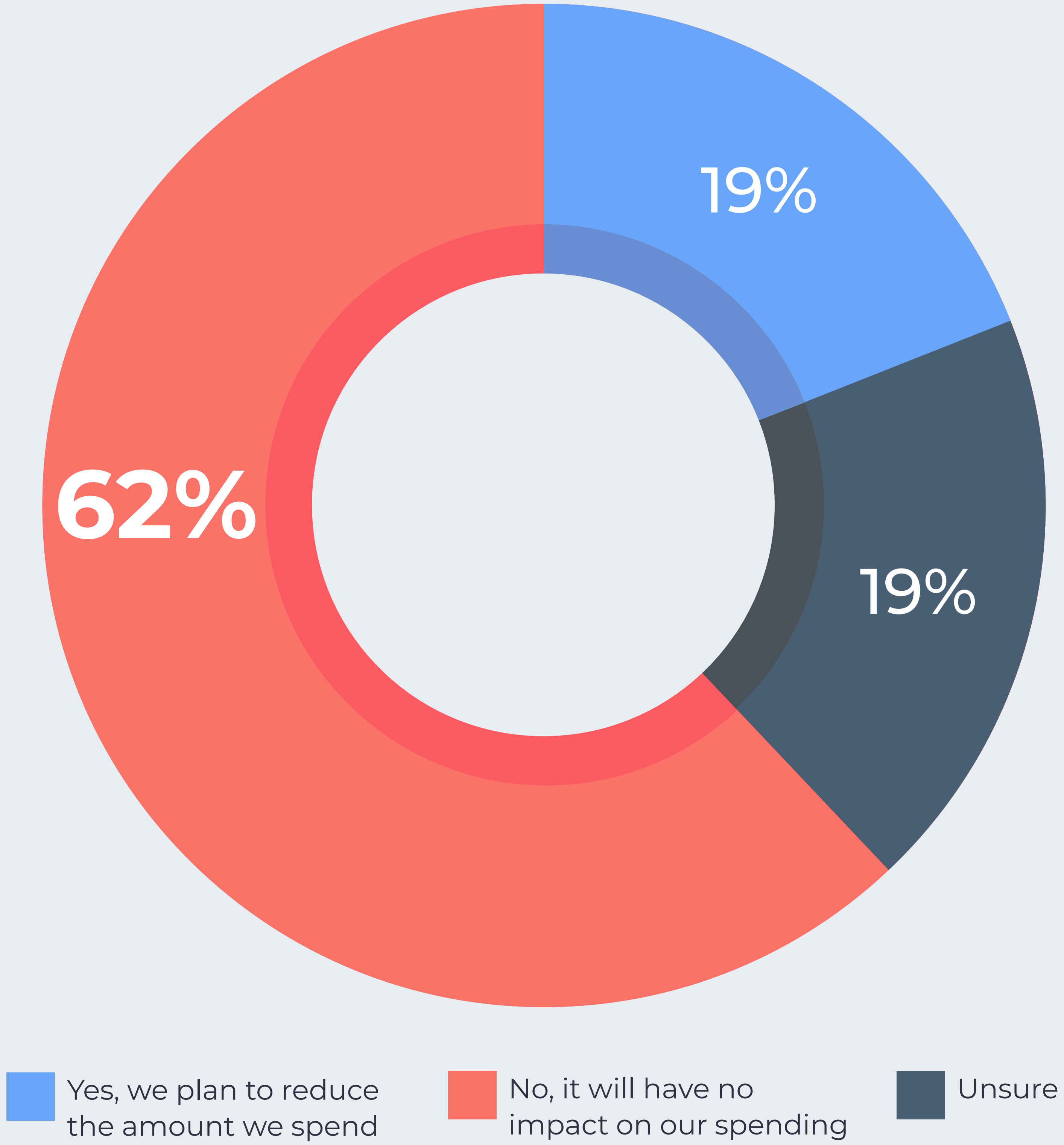
Facebook can fly over speed bumps

2018 has been quite a year for Facebook.

- **Cambridge Analytica** breach where the data for 87m users were exposed even though only 250k people used the app
- Allowing the **Russians to meddle** with elections in many regions globally
- Selling user data in **secret deals**, as exposed by the UK parliament from leaked internal emails
- Failure to stop the Myanmar military from **spreading propaganda**, which led to children being raped, beheaded and burned alive
- Hiring research firms to **slander its opponents** and critics
- **35% decrease in stock price** in past 5 months

Despite these challenges, a recent Digiday survey of 182 media buyers found that **only 1 in 5 marketers plan to reduce spending on Facebook**.

Will your company spend less on Facebook advertising as a result of the platform's recent scandals?



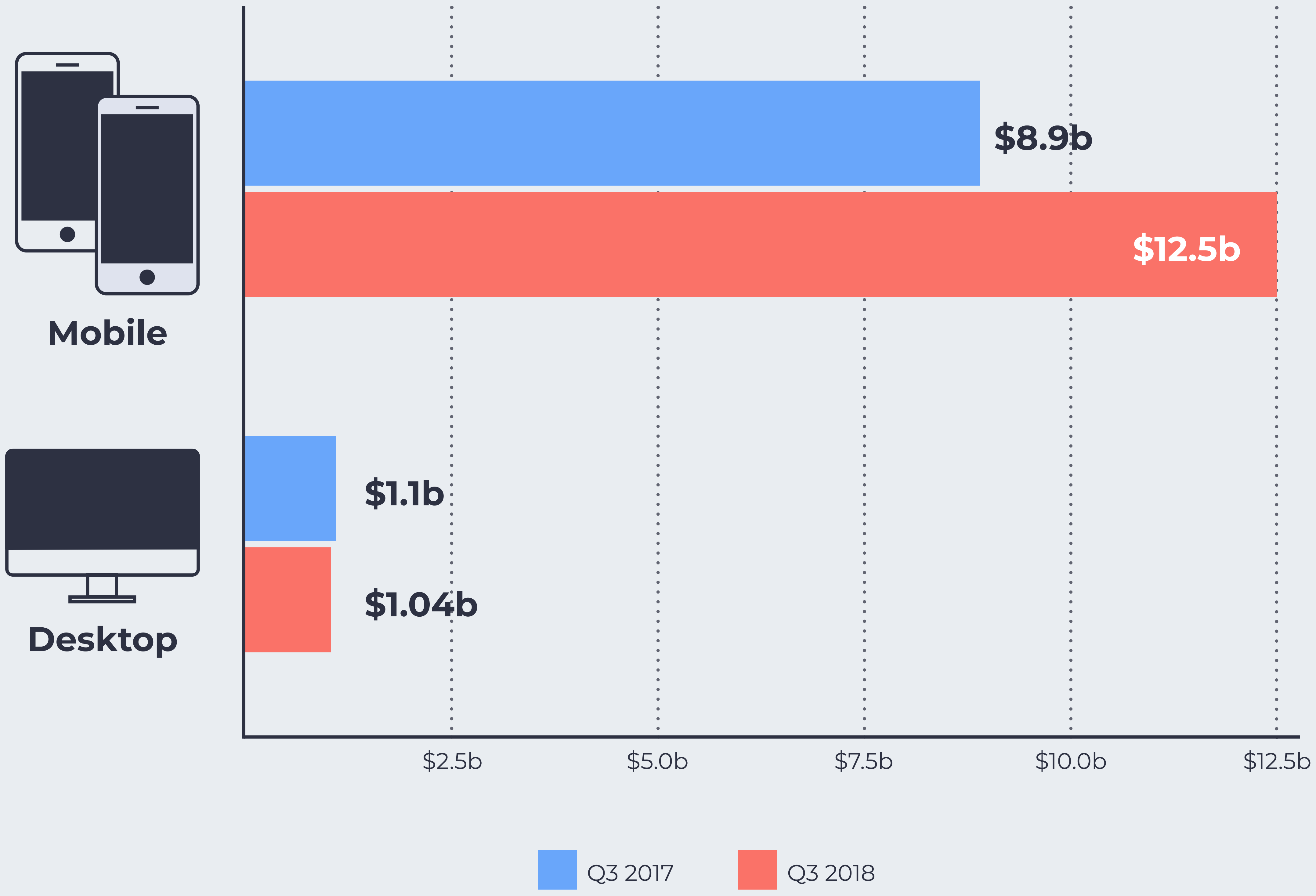
Source: Digiday

Desktop is the new print

Facebook's desktop revenue **declined 6% YoY** and may signal a shift in not only attention to mobile but also ad spend.

Print is currently in decline 10% YoY and with internet penetration having peaked in most developed ad markets, we may have saturated attention and advertising on desktop.

Facebook's Ad Revenue by Device



Source: Facebook

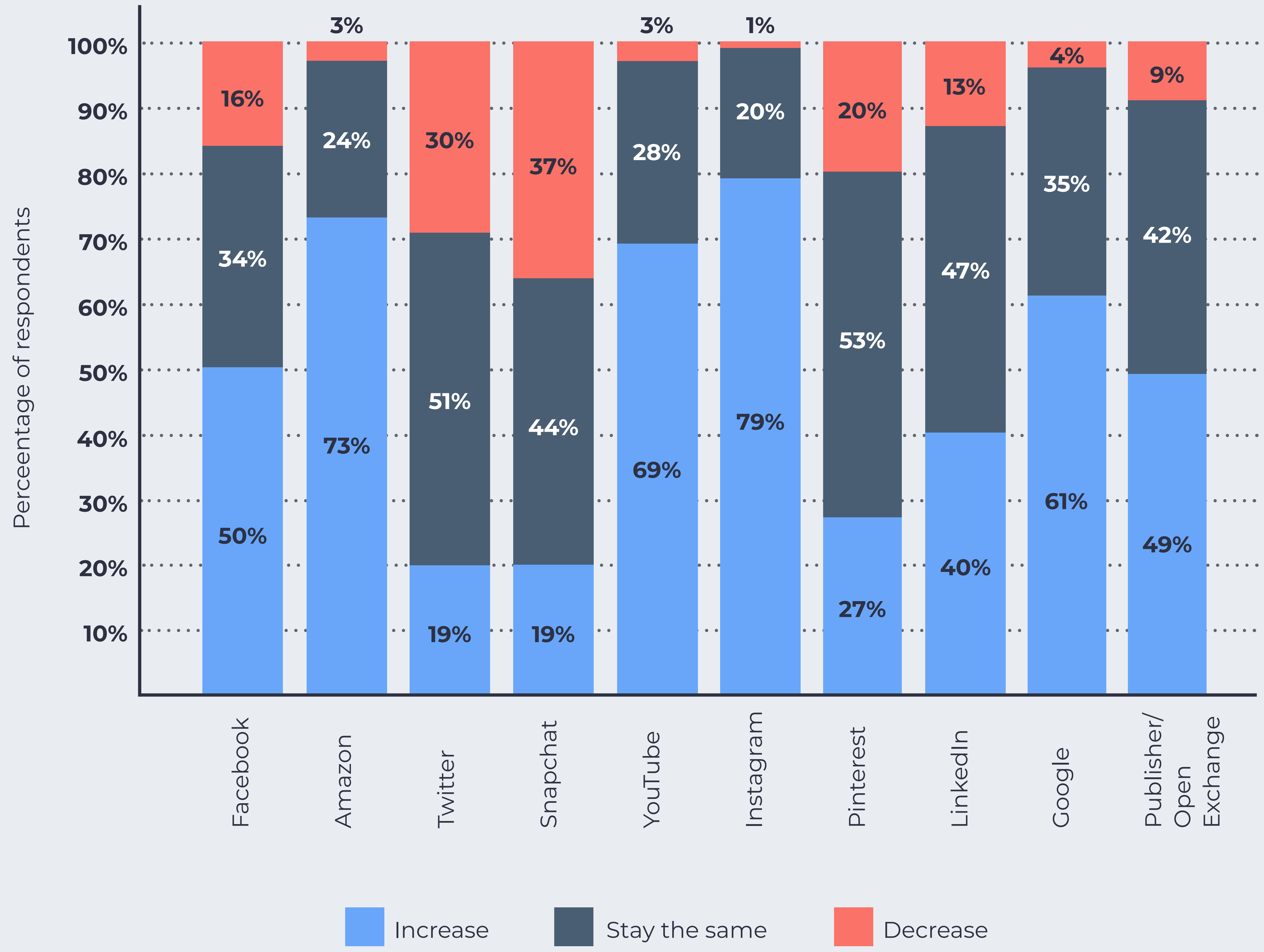
Lack of identity for publishers

Instagram, Amazon and YouTube are the **top 3 channels** and formats that media buyers plan to increase spend within 2019.

A recent Digiday survey of 281 media buyers looked at 10 channels in digital media and whether spend would increase, stay the same or decrease.

It is telling that **publishers were grouped into "open exchange"**. This may hint at the lack of identity publishers have in the eyes of buyers.

How do you expect your spending on the following formats and channels to change in 2019?



Source: Digiday

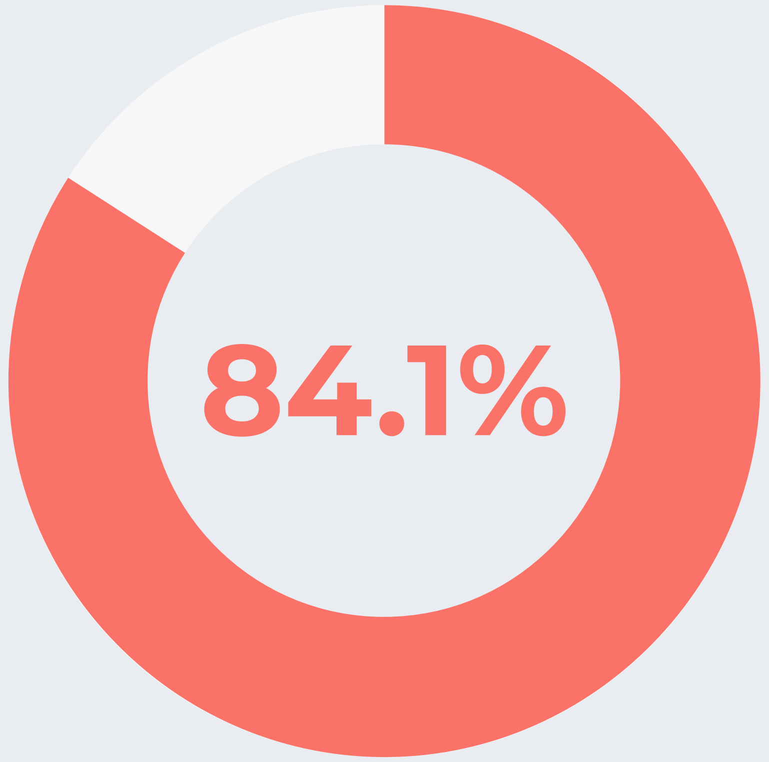
Programmatic growth continues despite challenges

Top Issues

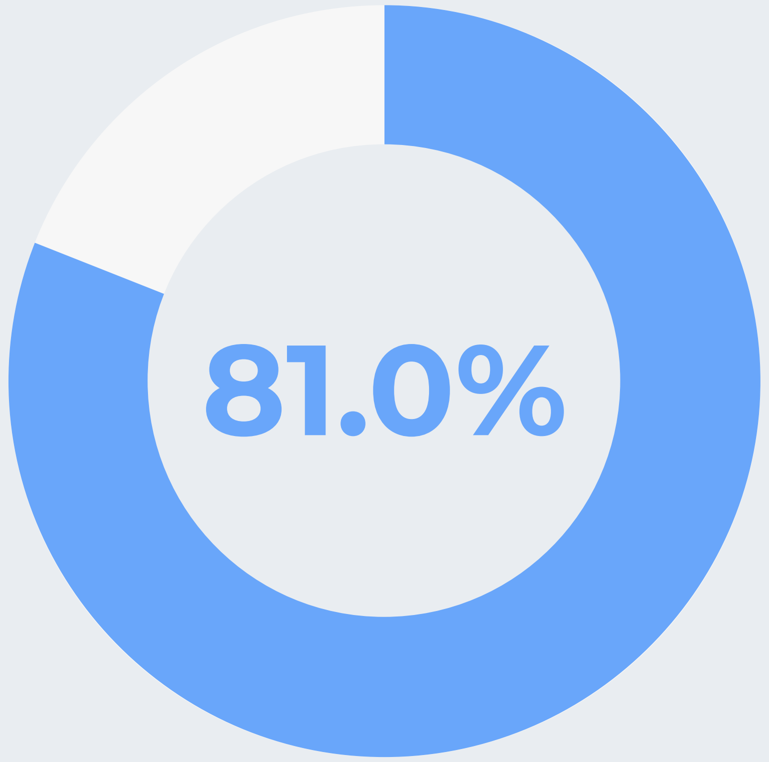
1. Lack of transparency
2. Lack of brand safety

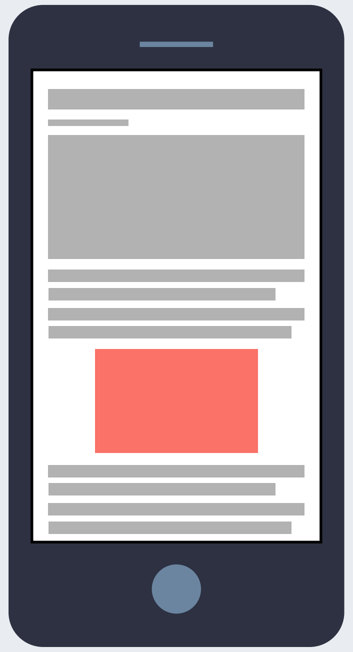
"Nearly **$19 billion in additional ad spending will enter the programmatic display space between 2018 and 2020**. And the majority will go to private setups, such as private marketplaces (PMPs) and programmatic direct transactions, as buyer wariness toward the open markets' **transparency and quality issues persists**."

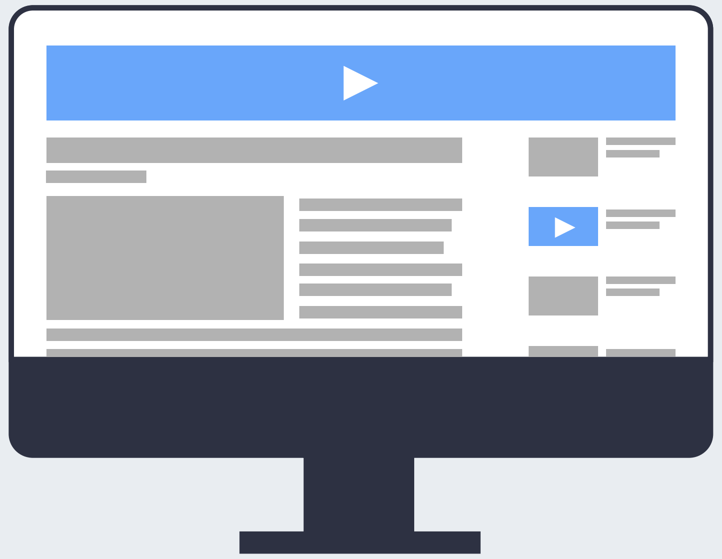
Percentage of total mobile display ad dollars ($31B) transacting programmatically in 2018



Percentage of total digital video ad dollars ($23B) transacting programmatically in 2018







Source: eMarketer

Market Growth

Ad Spend Growth Trends

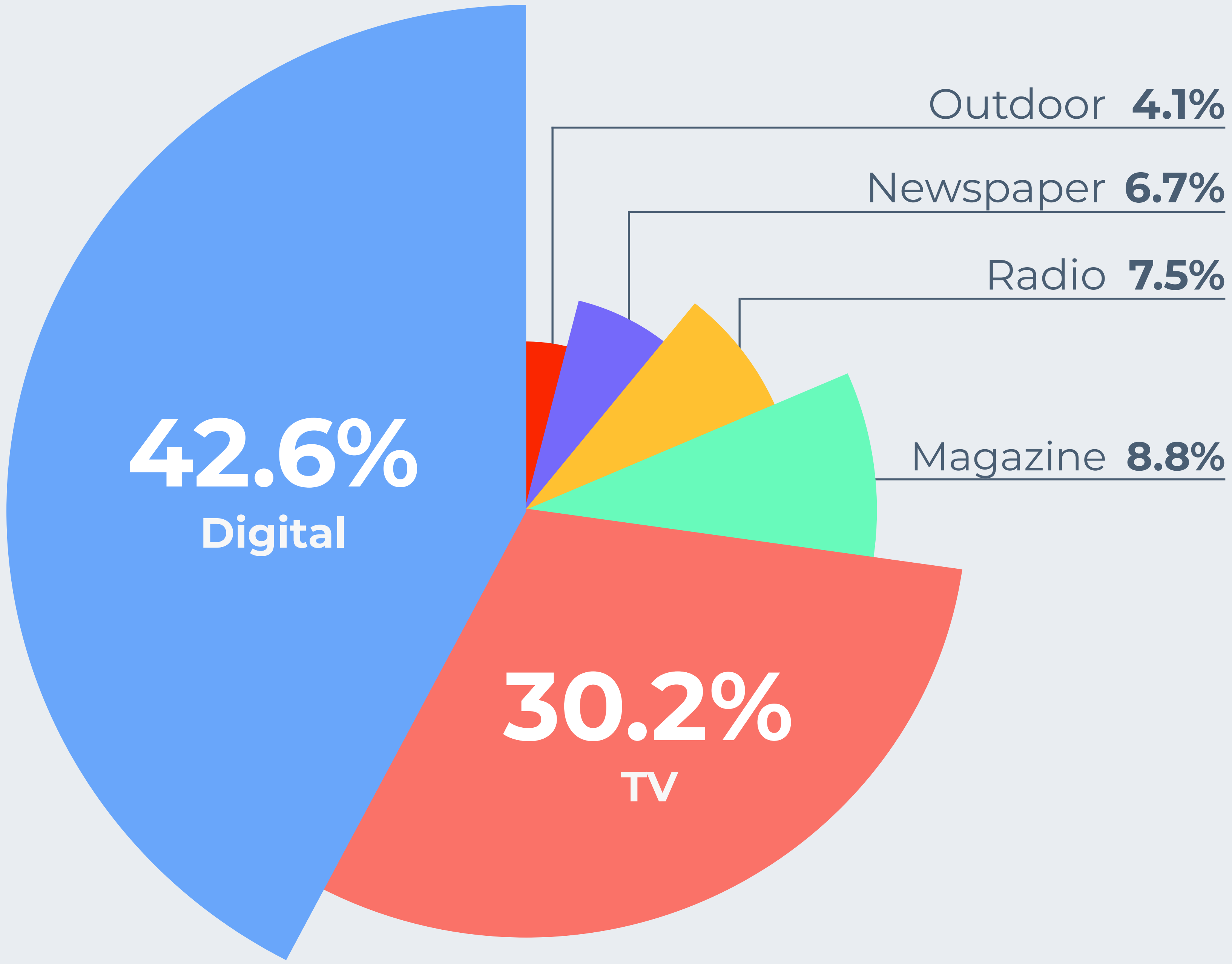
Global ad spend by channel

$629m Total Global Ad Spend (All Channels, USD equivalent)	+7.4% YoY (year over year) Growth
Digital	**+15%** YoY Growth
Outdoor	**+4%** YoY Growth
Television	**+1%** YoY Growth
Radio	**+1%** YoY Growth
Magazine	**-2%** YoY Growth
Newspaper	**-10%** YoY Growth

Digital is growing 15% and is carrying the overall growth of the ad market. Every other segment, including TV, are growing less than the market or in decline.

Digital will be **50% of the ad market by 2020**.

Source: PwC, eMarketer



Global digital ad spend trends

$266b

Total Global Ad Spend (All Channels, USD equivalent)

+15%

YoY Growth

$465b

Global Digital Ad Market

Banner

+10%

YoY Growth

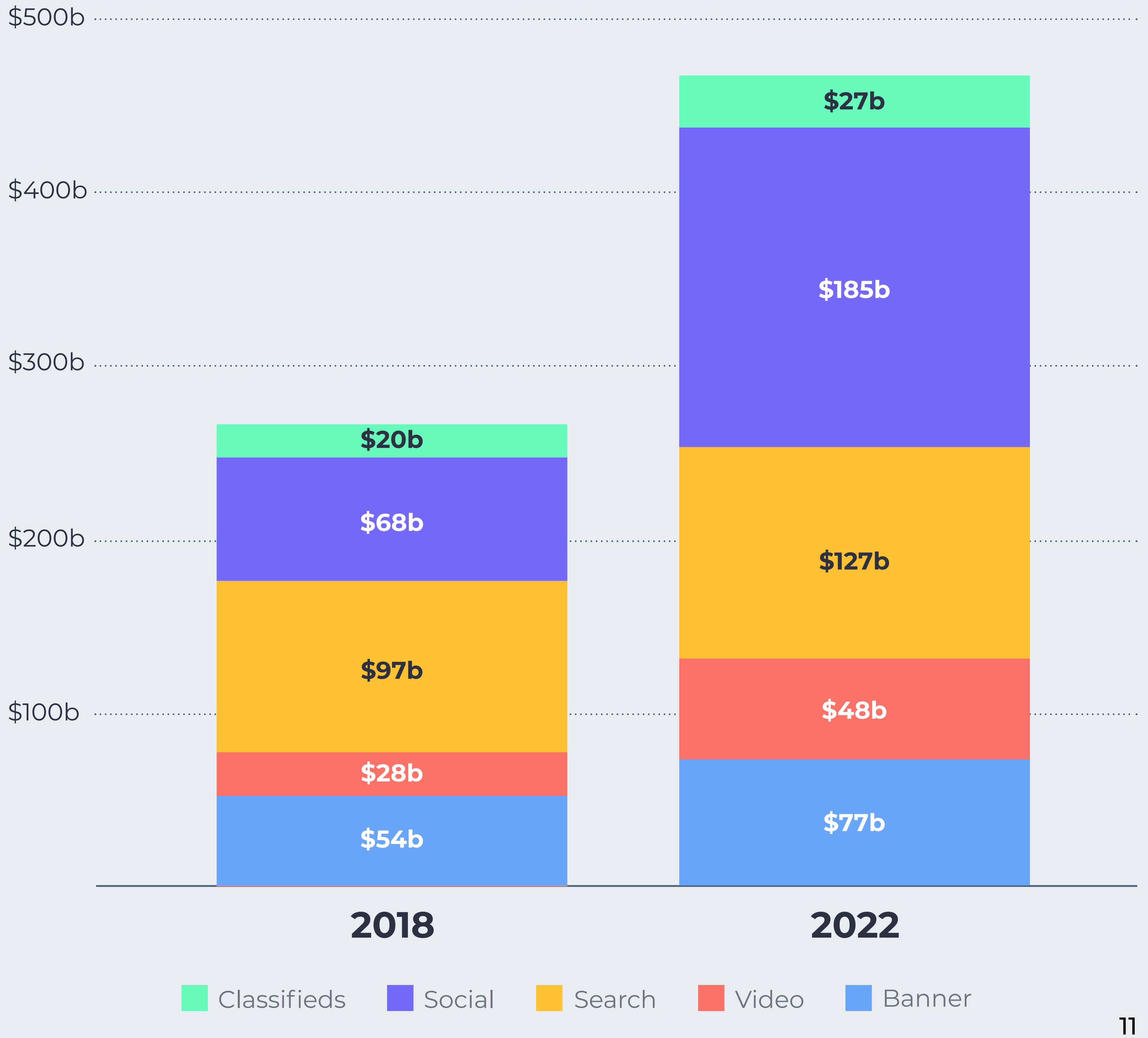
Social

+28%

YoY Growth

Digital is growing 15% annually. **Social is the only segment growing ahead of the market at 28%**. Video is growing 15%. Banner, search and classifieds are all growing less than 10%.

Source: Statista, USD



United States digital ad market

$100b
US Digital Ad Market (2018)

+11%
YoY Growth

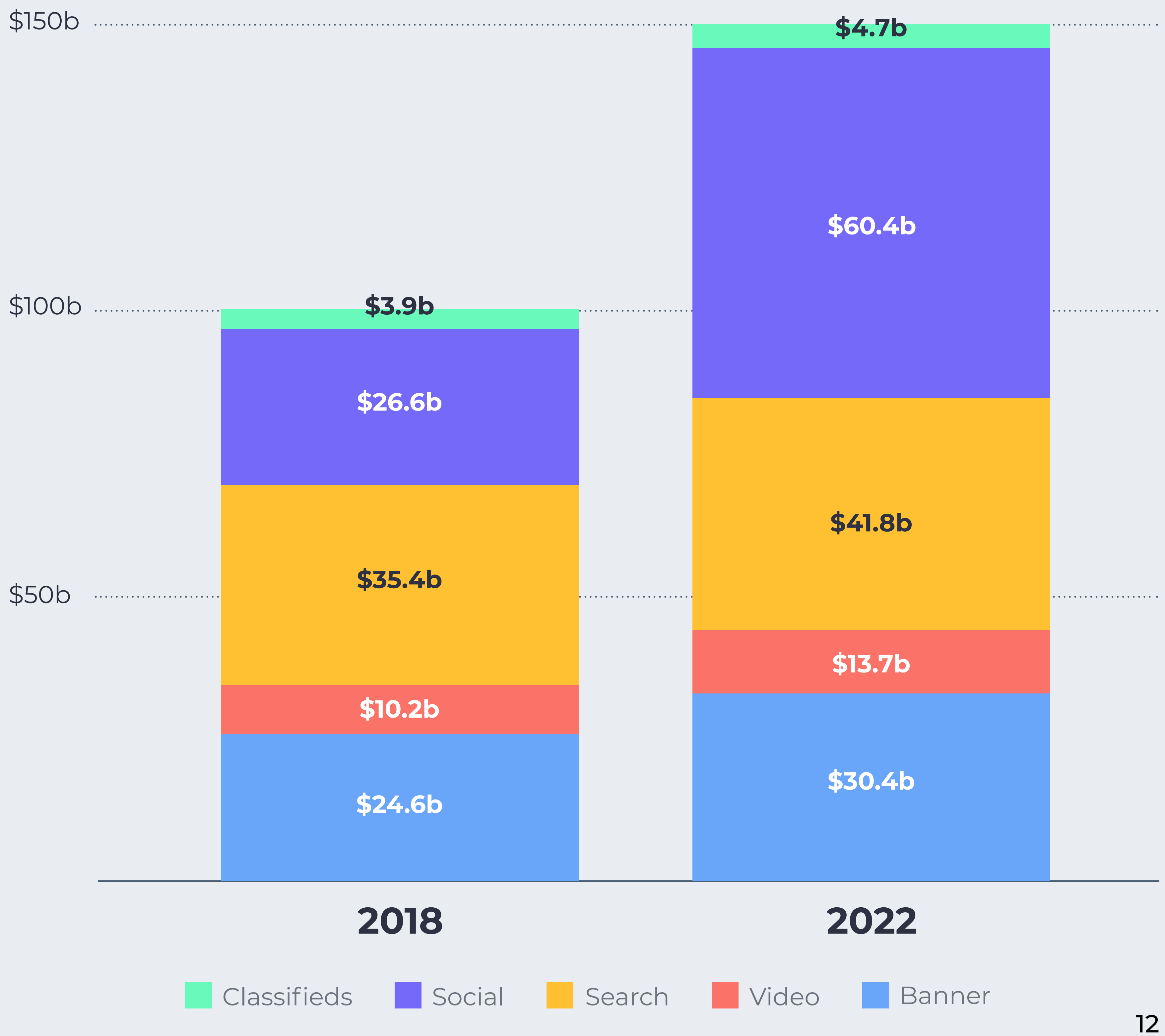
$150b
US Digital Ad Market (2022)

Banner
+5%
YoY Growth

Social
+23%
YoY Growth

The **US digital market hit $100b in 2018** for the first time. Social is growing 23%, followed by video at 8% and all other segments are around 5% (including search).

Source: Statista, USD



United Kingdom digital ad market

£10b
UK Digital Ad Market (2018)

+9%
YoY Growth

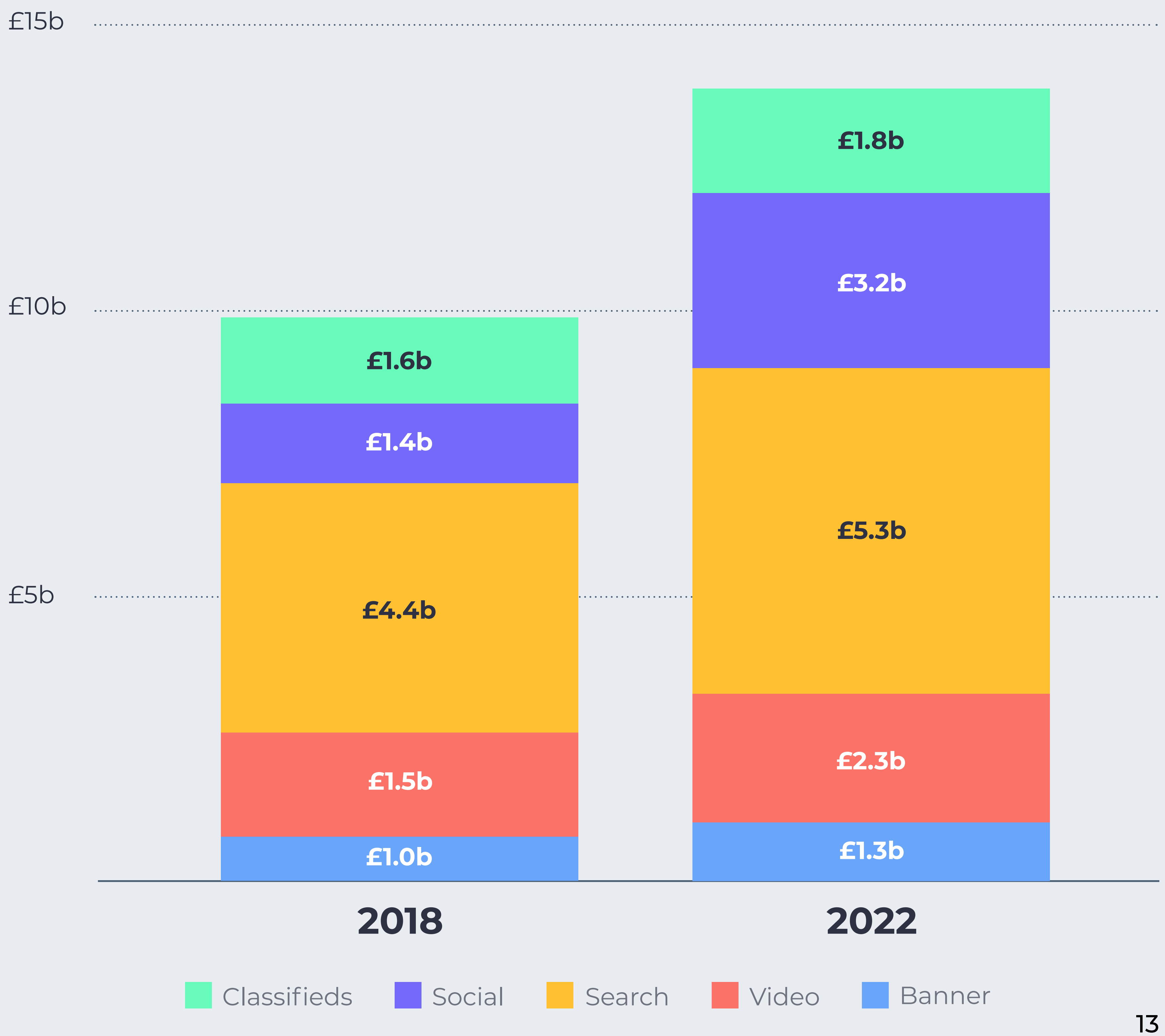
£14b
UK Digital Ad Market (2022)

Banner
+7%
YoY Growth

Social
+24%
YoY Growth

The UK digital market is growing only at 9%, behind the global growth rate of 15%. It will **grow from a £10b market in 2018 to a £14b in 2022**. Social is growing at a healthy 24%.

Source: Statista, GBP



German digital ad market

€9.3b

German Digital Ad Market (2018)

+13%

YoY Growth

€15b

German Digital Ad Market (2022)

Banner

+6%

YoY Growth

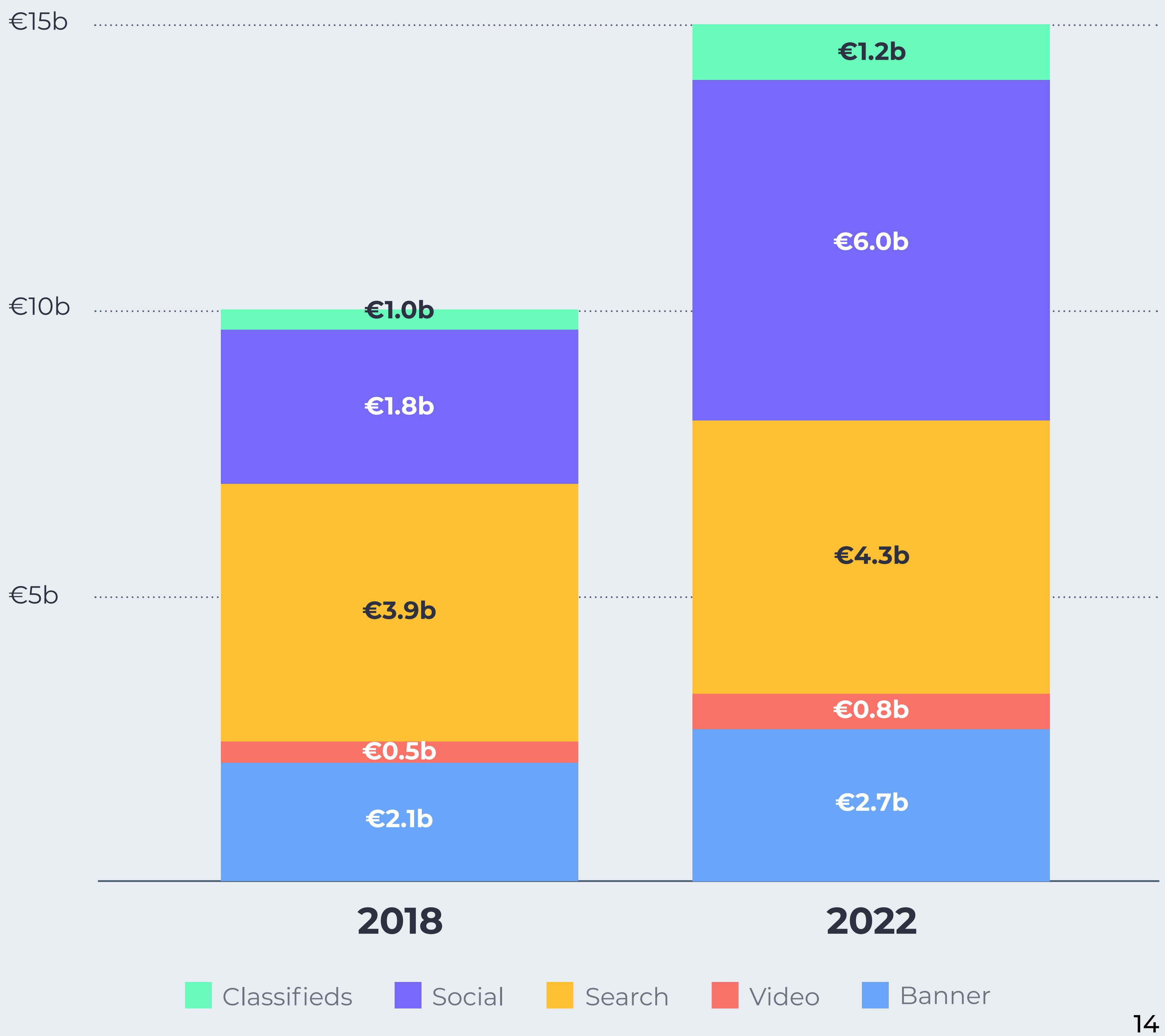
Social

+35%

YoY Growth

The **German digital market will be €15b by 2022, growing 13% per year**. Social is growing at 35%, and will double its market share from 20% to 40% over this time.

Source: Statista, EUR



Canadian digital ad market

$8.1b
Canadian Digital Ad Market (2018)

+14%
YoY Growth

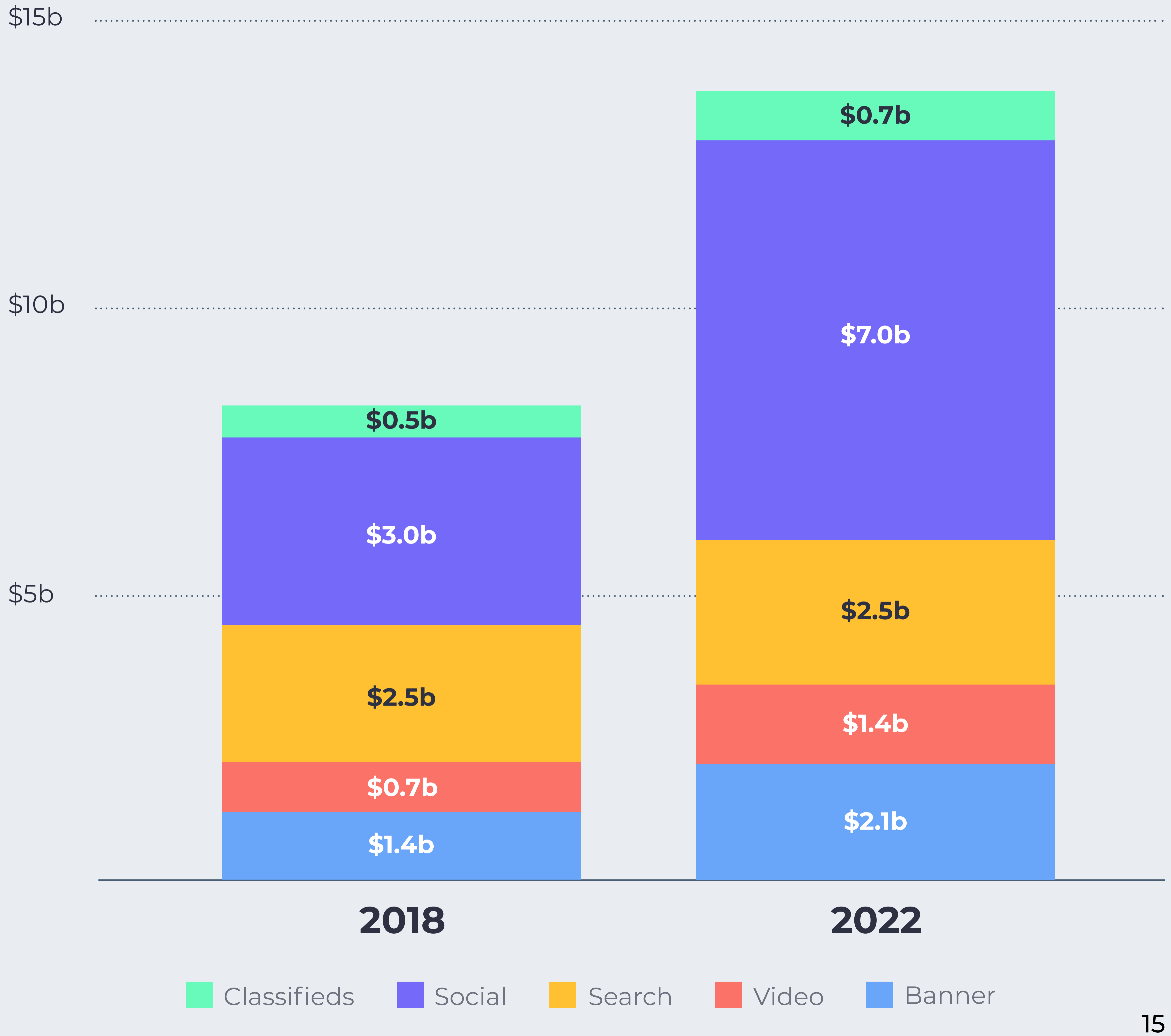
$13.8b
Canadian Digital Ad Market (2022)

Banner
+11%
YoY Growth

Social
+24%
YoY Growth

The growth in the Canadian ad market is **led by social, which will be 50% of the market by 2022** growing 24%.

Source: Statista, CAD



Australian digital ad market

$7b

Australian Digital Ad Market (2018)

+10%

YoY Growth

$10.2b

Australian Digital Ad Market (2022)

Banner

+14%

YoY Growth

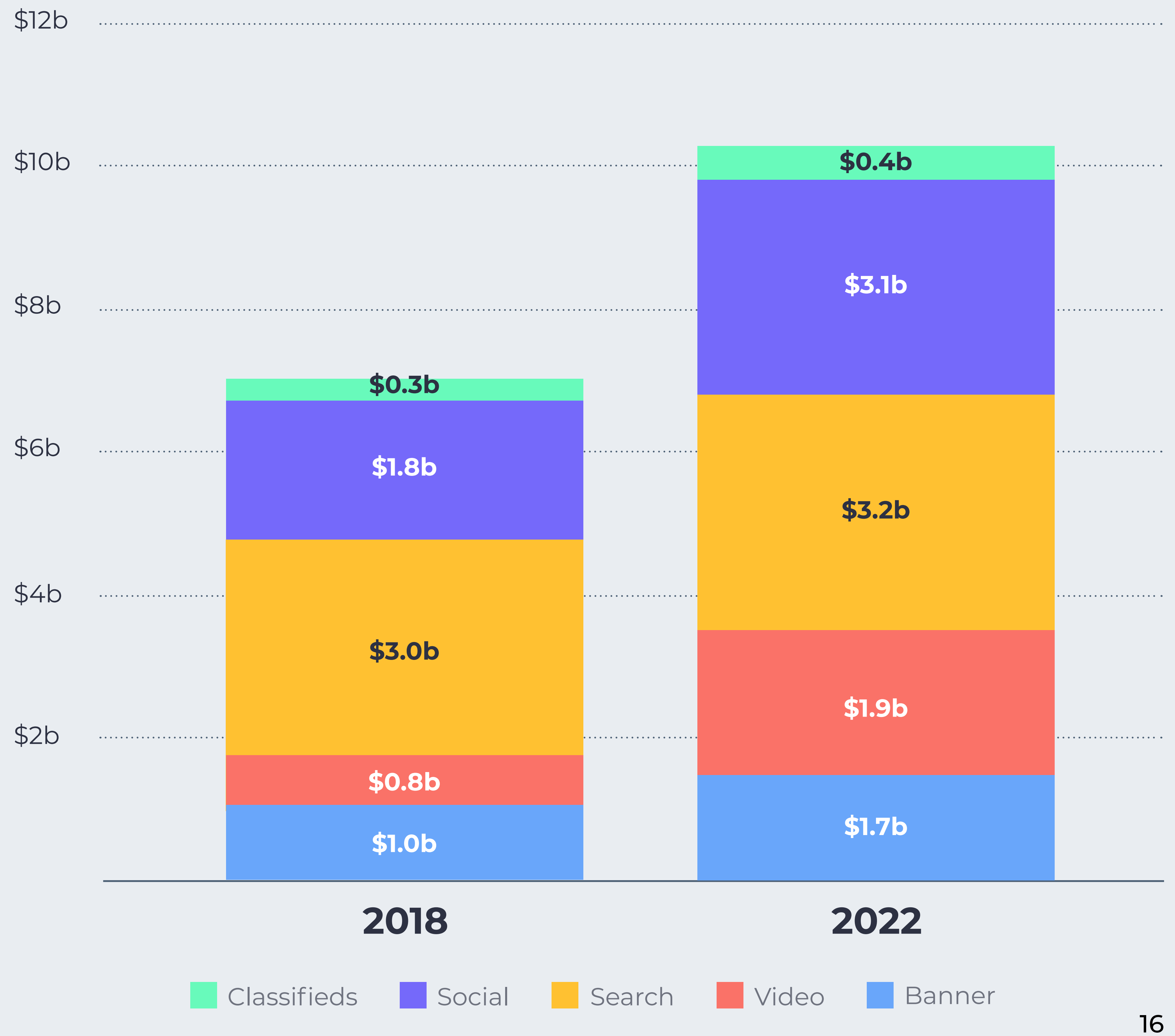
Social

+24%

YoY Growth

Video, social and banners will drive digital growth in Australia as it becomes a **$10b ad market by 2022**. Search will only grow 2%.

Source: Statista, AUD



The Digital Goliaths

The Duopoly and Next 5

The Digital Goliaths

$200b

Digital Goliaths (2018)

+20%

YoY Growth

$245b

Digital Goliaths (2019)

Digital Goliaths

+20%

YoY Growth

Rest of Digital

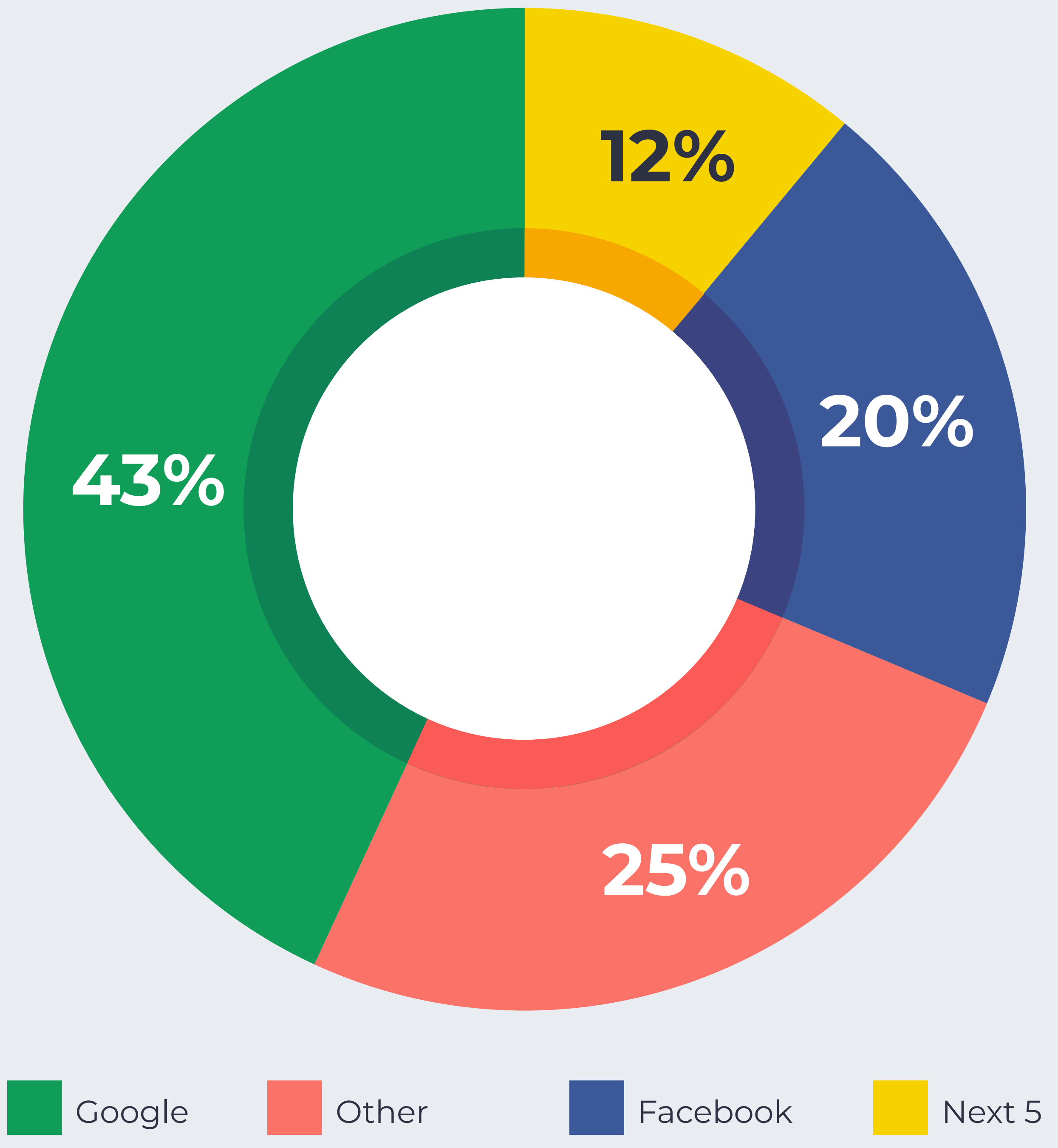
-11%

YoY Growth

The Digital Goliaths include the Duopoly (Google, Facebook) and the Next 5 (Amazon, Microsoft, Oath, Twitter, Snap).

In 2018, they collectively had 75% of the global digital ad market and will grow 20% in 2019 to capture 80% of the market. **The rest of the digital market will shrink 11% in 2019**.

Source: Public filings from all listed companies, USD



The rest of the market will shrink 11% in 2019

The growth rate for the Digital Goliaths has been decreasing over the past few years given their absolute size. If we assume their growth rates decline 15% (e.g. Google's growth rate changes from 20% to 17%, Facebook from 33% to 28% and so on), then their **collective share will grow from 75% of the $266b digital market in 2018 to 80% of the $306b digital market in 2019**. This means the rest of the market will shrink 11%.

If we assume the Digital Goliaths maintain the same growth rate through 2019, then the rest of the digital ad market will shrink 23%.

	Snapshot, as of Q3 2018	
	2018 Revenue Run-Rate ($b)	**Market Share (%)**
Google	$115b	43%
Facebook	$54b	20%
Amazon	$10b	4%
Microsoft	$8.6b	3%
Oath	$7.2b	3%
Twitter	$2.6b	1%
Snap	$1.5b	1%
Other	$67b	25%
Total	**$266b**	**100%**

Source: Statista, public filings from all listed companies, USD

The rest of the market will shrink 11% in 2019

	2019 Forecast A (growth rate declines 15% for Goliaths)			2019 Forecast B (growth rate unchanged for Goliaths)		
	Growth Rate (%)	2019 Revenue Run-Rate ($b)	Digital Share (%)	Growth Rate (%)	2019 Revenue Run-Rate ($b)	Digital Share (%)
Google	17%	$135b	44%	20%	$138b	45%
Facebook	28%	$69b	23%	33%	$72b	23%
Amazon	104%	$20b	7%	122%	$22b	7%
Microsoft	14%	$9.2b	3%	17%	$9.4b	3%
Oath	-9%	$6.6b	2%	-9%	$6.6b	2%
Twitter	25%	$3.2b	1%	29%	$3.4b	1%
Snap	37%	$2.0b	1%	43%	$2.1b	1%
Other	-11%	$60b	20%	-23%	$52b	17%
Total	15%	$306b	100%	15%	$306b	100%

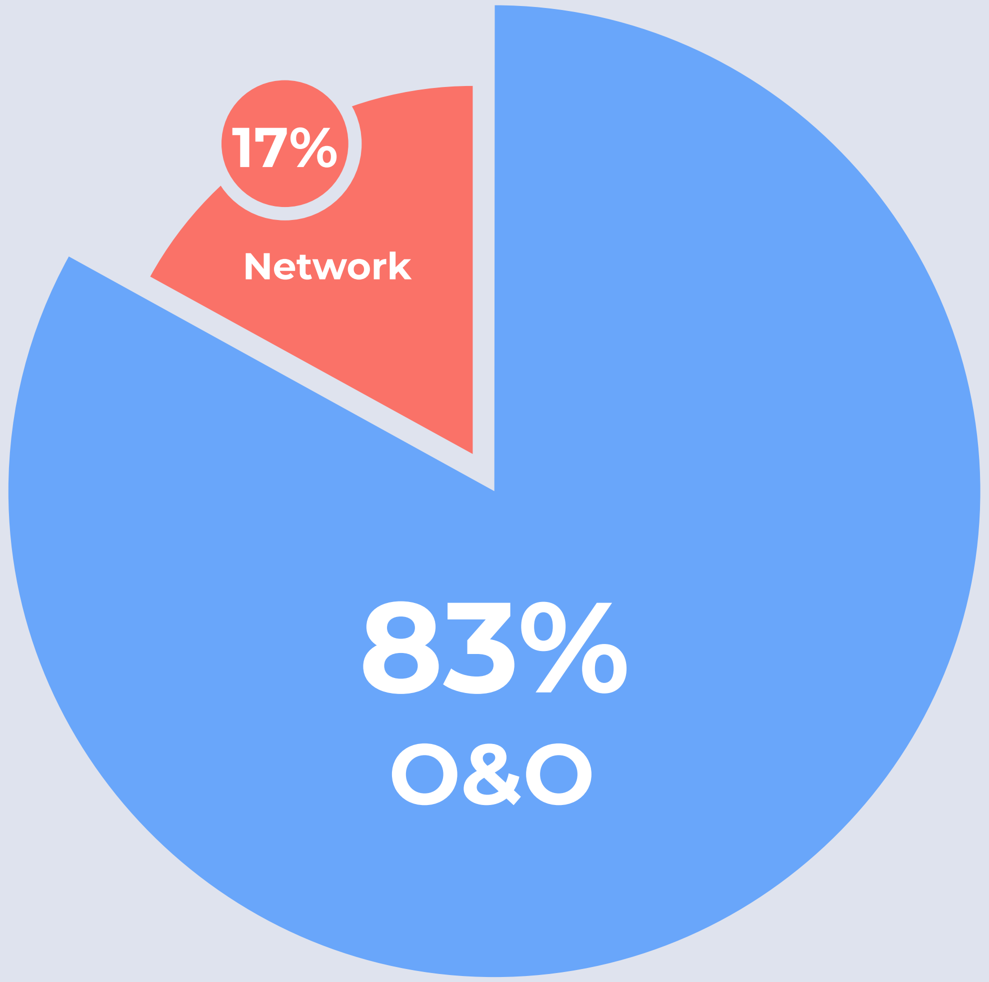
Source: Statista, public filings from all listed companies, USD

Google is doubling down on its Owned & Operated business units

Google's ad business has shifted in recent years to focus on their **owned & operated** assets, mainly Search and YouTube. Together, they both now account for **83% of revenue** and yield an 87% gross margin. Their **network business (programmatic)** only delivers a 30% margin. Network ad volume grew a mere 1% over the last year while CPM rates grew 11%, signaling a likely price increase. Growth may slow for this part of the business as they become less competitive. Google has also moved key talent from the network business into their O&O business over the past year, another indication of their renewed focus.

$115b
Google ad revenue run-rate (as of Q3 2018)

$7.8b
EU Fines (2017-2018)



Network
Programmatic
- $19.6b run-rate
- 30% margin
- +11% CPM rate
- +1% ad volume

O&O
Search, YouTube, Gmail, Play
- $96b run-rate
- 87% margin

Source: Google

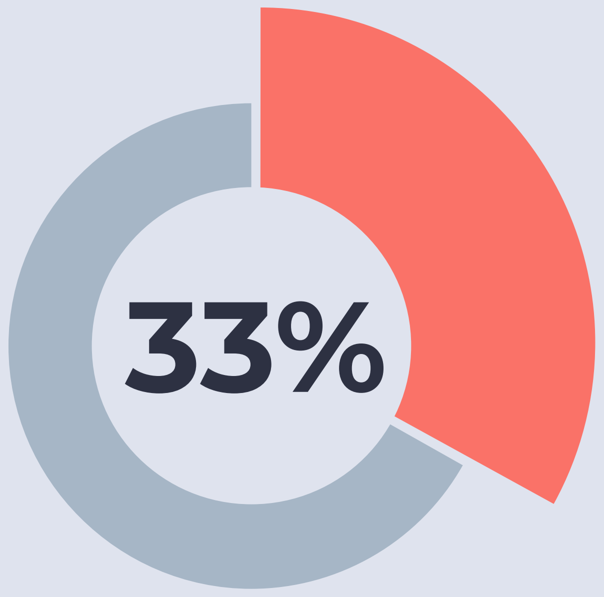
Facebook is quickly becoming a *(large)* closed platform

Facebook continues to dominate despite having a rough year PR wise. The major shift to expect is from a "News Feed-first to Stories-first" user experience. Why? To keep users inside the platform. **In October 2018, Facebook removed capabilities for advertisers to use their third-party data for targeting purposes**, another example of them becoming a closed platform.

33K
Employees Up 45% YoY

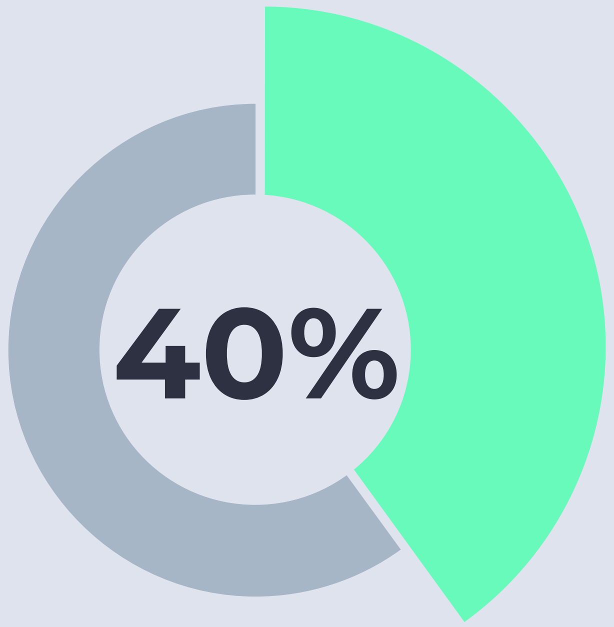
2B
Daily Users

1B
Stories Shared Daily



YoY Growth 2X The Digital Market

$54B
Annual Revenue Run-Rate
Based on Q3 2018



YoY Growth in Mobile Ad Revenue (92% of Total)

$5B
Profit Per Quarter
$45B in Cash

Source: Facebook

Amazon propels into the third spot among digital ad players

Amazon now **boasts a $10 billion ad business and has become the third largest player**; however, they still do not see themselves as an advertising business. The term “advertising” appears a mere 10 times in their SEC financial filing (which includes 6 references to Amazon’s own advertising efforts as a brand), compared to 62 times in Facebook’s filing.

Source: Amazon

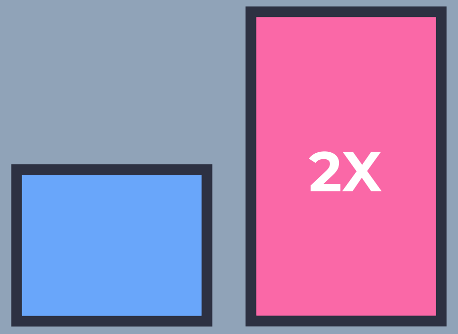
Twitter squeezes more revenue out of shrinking user base

Although Twitter is experiencing a slight user decline, it is providing more value to advertisers. **The cost per engagement went down thanks to an increase in engagement rates**. Twitter benefits from major events in 2018 (Olympics, World Cup, Midterm Elections) that drove up engagement, 2019 may be a different story. Worth noting that Twitter has a $400m data licensing business now.

326M
Monthly Active Users (Down from 335 Last Quarter)

14%
Decrease in Cost Per Engagement

$2.6B
Annual Revenue Run-Rate



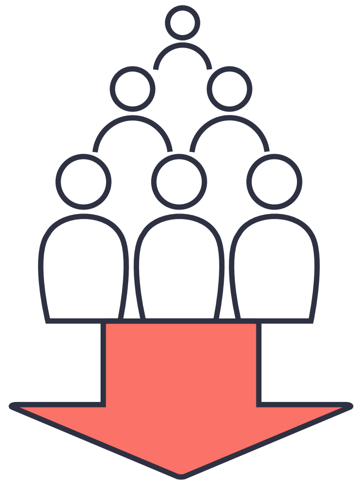
29%
Growth Rate YoY (2X The Digital Market)

50%
YoY Increase in Ad Engagement Rate

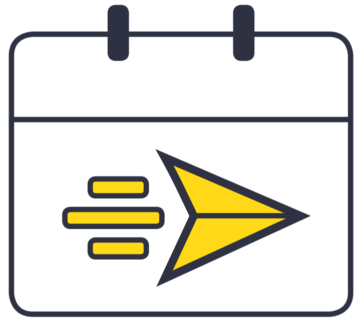
Source: Twitter

Snap, Inc. grows revenue while user growth flattens

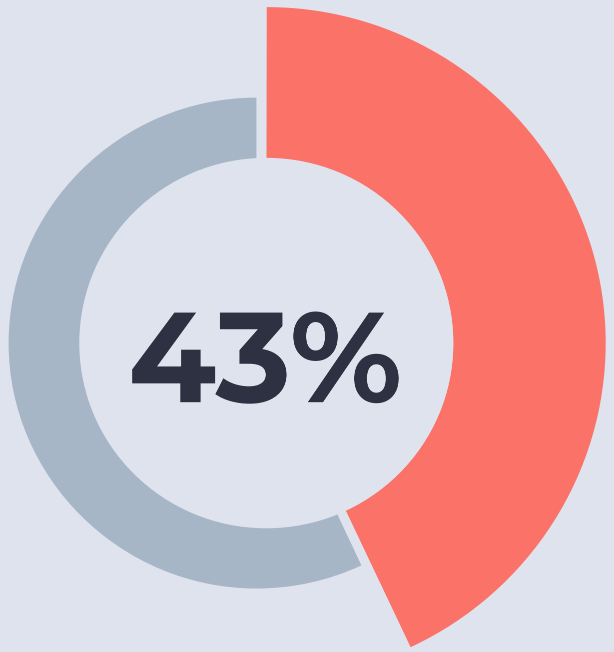
Snapchat has hit a ceiling in terms of users. While it is experiencing a modest decline in users, the engagement per user continues to grow. As their advertising business shifts towards self-serve and with greater investments in modernizing their ad tech capabilities to meet client expectations, **they have been benefiting from impressive revenue growth at 43% year-over-year**.



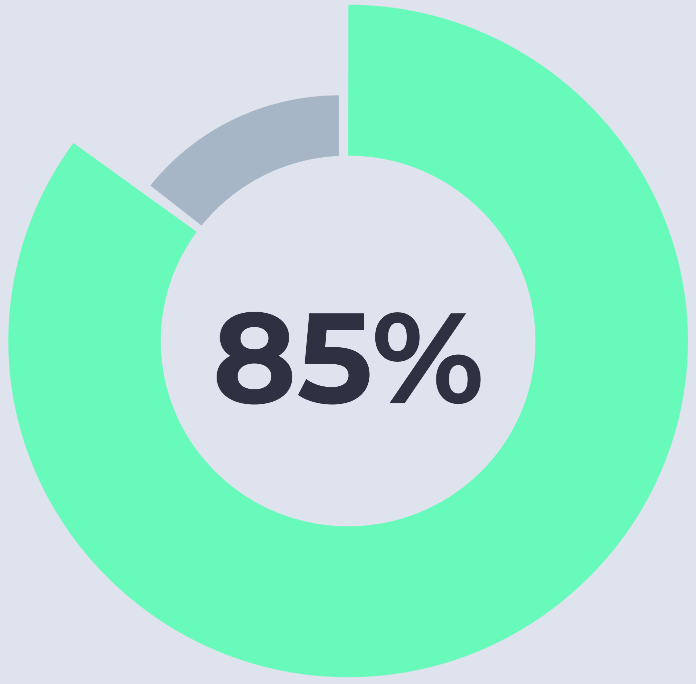
186M
Daily Active Users (down from 191M 6 months ago)



16
Daily Snaps on Average (per user)



YoY Growth Rate (3X The Digital Market)



of Revenue Via Self-Serve Advertising (Up From 35%)

Source: Snap, Inc.

How the Web Has Evolved

The Web is Evolving

Digital media and advertising is a complete mess today. The average consumer has no idea how much of their data is being used and abused.

The attention economy is not a fair value exchange by the platforms.

Publishers are creating less and less original content. And, advertisers are not sure if their dollars spent online are even worth it.

To understand the future of branded content, we should start with an understanding of how the web is perceived by consumers, brands and publishers today and where it is likely going.

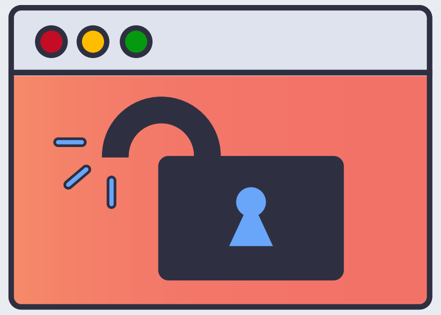
1 The First Era: The Open Web

The first era of the web started about 20 years ago, which we call the Open Web. Audiences globally flocked online, hardware and connectivity went mainstream and services like Google, Wikipedia and online content became popular.

About 10 years into that journey, programmatic technologies were introduced for advertising and fast-forward to present day, the Open Web has become the Dirty Web. With ad blocking, annoying and creepy ads, bots, fraud, data breaches, privacy regulation, brand safety concerns, toxic and divisive content, the number of issues continue to pile on and we believe that this will collapse in the coming years.

When something is so dirty that it cannot be cleaned, you throw it out.

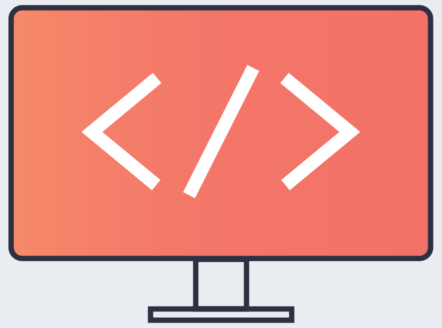
1999



20 Years Ago...

The Open Web was born...

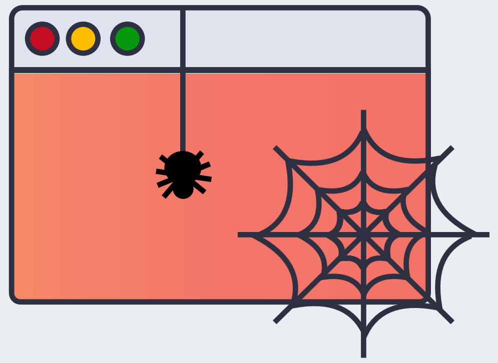
2009



10 Years Ago...

Programmtic Web enters the scene...

2019



Today...

Now, the Dirty Web

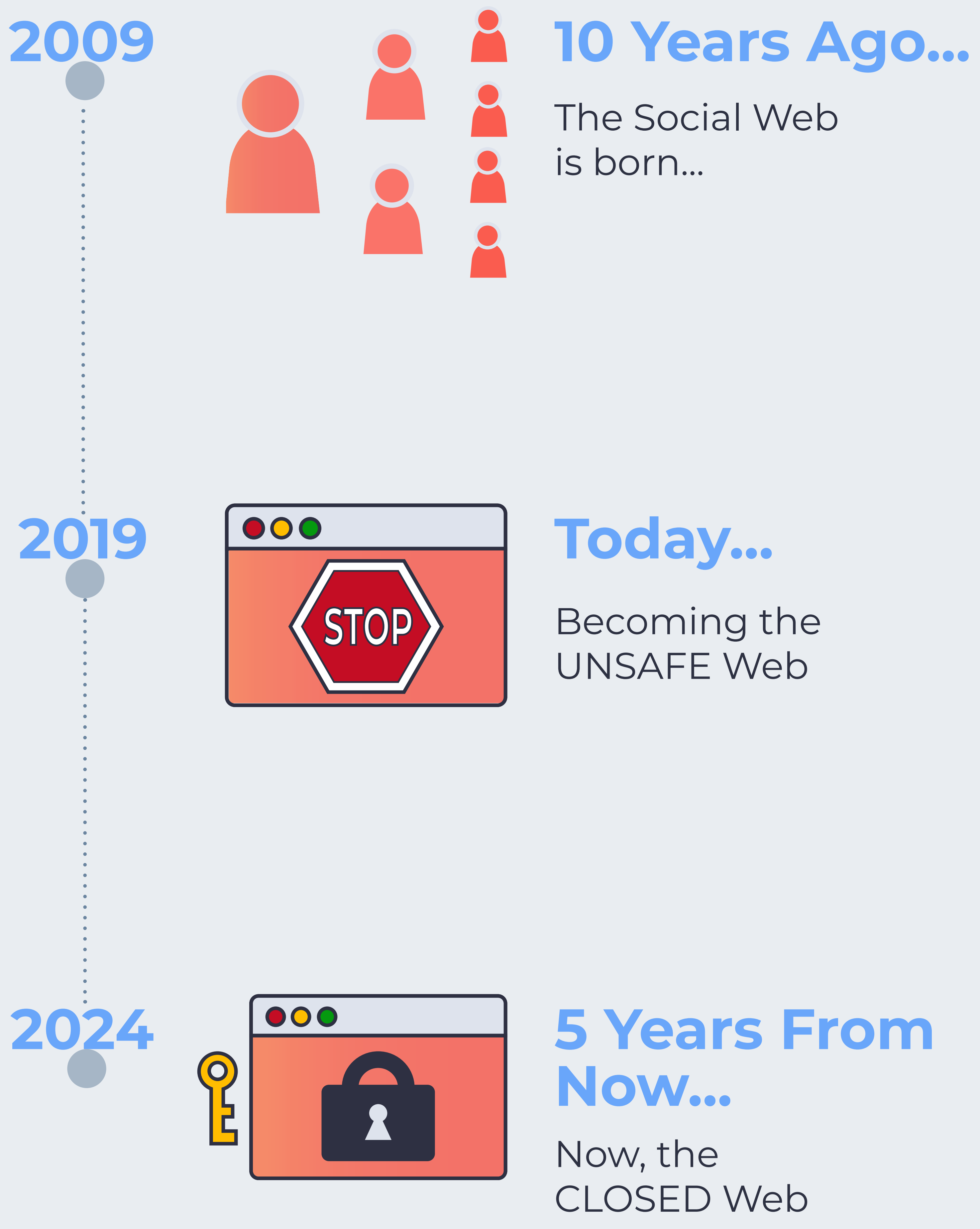
2 The Second Era: The Social Web

The second era of the web started about 10 years ago, which we call the Social Web. Led by Facebook, Twitter and YouTube, audiences began creating, sharing and consuming content with each other on mass and this was further accelerated with the adoption of smartphones.

Now 10 years into this second era, the cracks are starting to show. Many consider the social web to be a random, and potentially dangerous, environment. For example, YouTube has been charged with funding extremist content while Facebook is under constant pressure to disclose their data and privacy policies. While the platforms may be too big to fail, we believe they are becoming the Closed Web as they make less data available, add tons of moderation and introduce more controls on how their platforms are used by third-parties.

The irony is that Google started as an original Open platform but are now becoming Closed.

Source: The Times

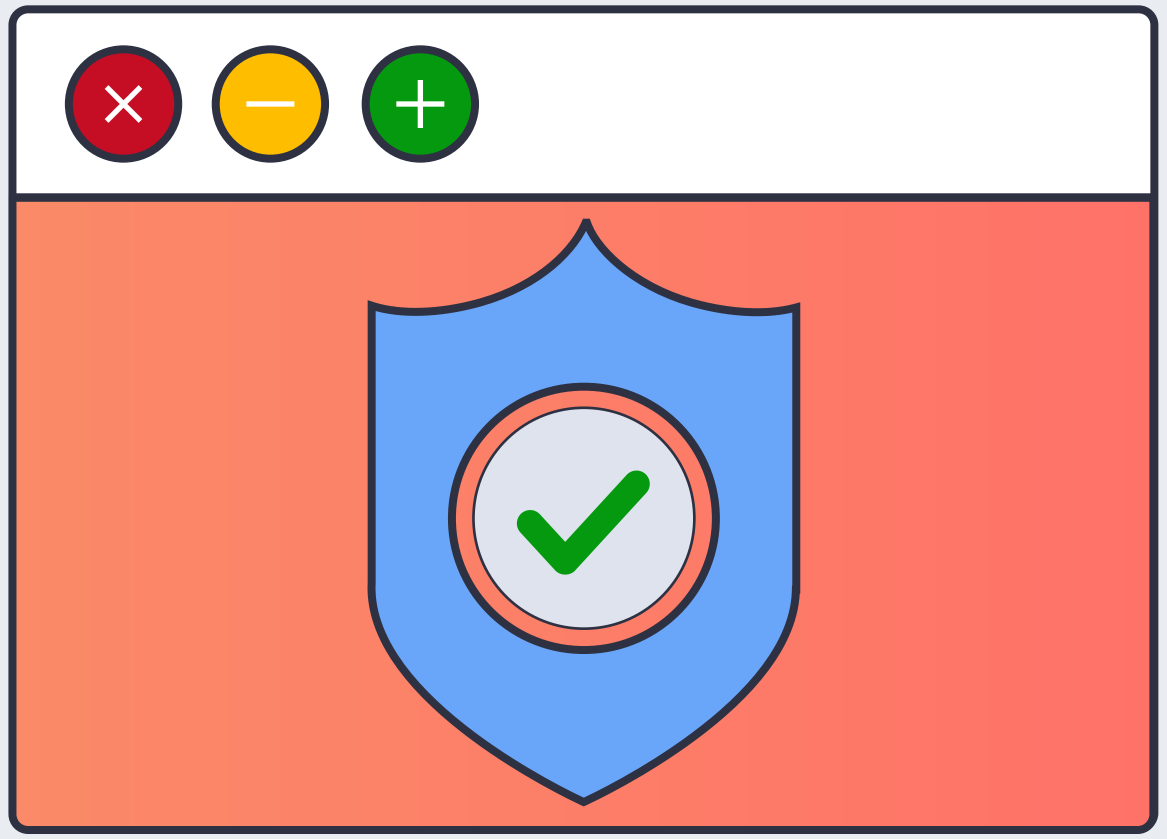


3 The Third Era: The Trusted Web

The third era we believe is being born right now, and we are calling it the Trusted Web.

What are some of the signs that the Trusted Web is being born? Consumers are starting to pay more for premium content (news, video, audio). E-commerce is growing rapidly as people trust the web to handle payments. The need for real news for the benefit of society is clearer than ever before. Advertisers are questioning the effectiveness of traditional digital advertising that is purely audience-based. Privacy and data regulation has gone mainstream.

Trust will increasingly become the currency for the web.



2019

The Trusted Web is born.

Premium content
Quality Over Quantity
E-Commerce
Real News
Brand-Safe Environment
Results That Matter

About Polar

Polar partners with premium publishers to accelerate revenue growth with its suite of innovative branded content and social advertising products. Conde Nast, Gannett, Oath, News Corp, NBC Universal, and The Telegraph work with us to support their direct-sold commercial content and ad product businesses.Our platform is built exclusively for publishers and offers distribution, campaign management, and reporting capabilities. We partner with publishers across 15 countries with offices in New York, London, Sydney, and Toronto.

To learn more, visit us at www.polar.me.

News Corp | GANNETT It's all within reach. | Oath: A Verizon company

The Telegraph | NBCUniversal | CONDÉ NAST

New York City
1216 Broadway
New York City, NY 10001

London
41 Corsham Street
London, UK N1 6DR

Sydney
L1-204 Calrence Street
Sydney, NSW 2000

Toronto
1 Adelaide St E, Suite 530
Toronto, ON M5C 2V9