The dynamics of the sector

Global media expenditure grew from $434bn (about £280bn) in 2006 to $494bn in 2013, and is forecast to reach $538m by the end of 2015, according to media investment company GroupM.

However, media spend is cyclical: it fell by 6% in 2009, but – driven by central bank actions – rebounded in 2010, with growth in all regions, led by the emerging markets. The World Cup in Rio, Brazil, provided a boost in 2014, while the US was supported by the mid-term elections. Similarly, 2016 should benefit from the Olympics in Rio, the Euro 2016 football championship in France, and the US presidential election.

Through the cycle, media expenditure has delivered approximately 3% growth. Although it doesn't garner the same attention as the higher-profile disciplines of advertising and media investment management, marketing services is similar in scale. Of the $900bn combined spend in 2013, advertising & media accounted for 57%, while marketing services – including market research – contributed the 43% balance.

The share of marketing services across disciplines has been broadly stable over the past decade. Direct marketing is the largest, accounting for almost three-quarters of marketing services spend. Sponsorship is set to grow share to 13.6%. By contrast, share has edged down in market research and healthcare communications, but has broadly been held in public relations.

Since the 1980s, UK-quoted advertising and marketing services have gone through a process of consolidation. Global holding companies have acquired numerous medium-size UK-listed independents.

"Media spend rebounded in 2010, with growth in all regions"

WPP is the leader in revenue terms, having acquired J Walter Thompson (JWT, 1987), Ogilvy & Mather (O&M, 1989), Young & Rubicam (2000) and Grey Global (2005). This pole position was threatened by the proposed merger of Omnicom and Publicis in 2013, but – because of tax and management issues – this was abandoned. Publicis has since agreed to acquire Criteo for $3.7bn. On acquisition by WPP, JWT and O&M both had the added attraction of established and renowned market research operations – MRB and Research International respectively.

The global holding companies are quite different in composition. WPP comprises advertising, media, marketing and a unique position in market research. Omnicom is focused on advertising and marketing, but is underweight on media investment management, and doesn't have a presence in market research, while Publicis is weighted toward marketing. Given the strength of the Aegis media business, Dentsu/Aegis has an enviably strong position in media.

The agencies sub-sector of advertising & marketing services is an attractive medium-term investment proposition. The groups are structurally neutral to changes in advertising and marketing communications expenditure, and have adapted well to the development of digital and, more recently, to the explosive growth in mobile. Further, as the majority of costs are staff-related, they can take action to defend margins should revenues fall. Finally, after a period of de-leveraging, agency balance sheets are in good shape, with modest earn-out liabilities.

After a stellar year in 2013, when the average agency share price leapt 52%, performance was more muted in 2014. Within this, earnings per share (EPS) fell 7% as a result of heavy downgrades at Huntsworth, FX-led trimming at WPP and start-up investment at TLA. The sector continued to re-rate in 2014, led by online market researcher YouGov, as the potential for data services/products captured investors' imagination.

Lorna Tilbian is executive PLC director and head of media at Numis Securities

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