



# THE RACE FOR THE DIGITAL MARKETING HUB: VERSION 1.2

May 2011

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BMO  Capital Markets

# Marketing & Advertising Services

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Industry Rating: **Market Perform**

## The Race for the Digital Marketing Hub v 1.2

In this latest edition of our **Digital Marketing Hub** series, we update our thoughts from versions 1.1 and 1.0 (also bundled with this report) including how privacy regulation and innovation in commerce are changing marketing. The evolution from offline to digital marketing is 30+-year trend, and the current development of real-time capabilities has driven a new wave of innovation, particularly around online display advertising.

**Businesses have always tried to coordinate their marketing with databases and technology, but the influx of information that began with the “Internet era” has heightened its importance.** Today, around 80% of the roughly \$1 trillion of global marketing spending is done directly through offline channels by people employed by the brands or their partners (e.g., media agencies) and media vendor and direct marketing channels’ sales forces. Making up around 20% of all of marketing spend, the digital marketing ecosystem has exploded over the past 10+ years, and the speed of transaction is accelerating toward real time. For perspective, estimates for the amount of display inventory traded in real-time reach as high as 30%-35%. However, display itself is only a subset of the digital marketing ecosystem, and real-time inventory tends to be low priced, meaning that real-time transactions account for less than 1% of total marketing spending.

**Key large-cap players include Google, Microsoft and IBM.** The related group also includes other “digital titans” (Amazon, eBay, etc.), agency holding companies (WPP, Omnicom, Publicis, Interpublic, in particular their agency trading desks) information and data services (Nielsen), and of course, digital ad-supported media with its proprietary Hub technologies (Yahoo!, Baidu, etc.) and traditional media vendors (Time Warner, Viacom, Disney, NewsCorp, etc.) for whom digital ad sales are becoming increasingly important, and real-time technologies are beginning to appear at the edges of their liquidity. We expect more large-cap enterprise software providers, including Oracle, Salesforce.com and SAP, to become more active in acquirers of Digital Marketing Hub technology, joining IBM and Adobe as consolidators.

### Summary

- In this latest edition of our Digital Marketing Hub series, we update our thoughts from versions 1.1 and 1.0 (also bundled with this report) including how privacy regulation and innovation in commerce are changing marketing.
- Businesses have always tried to coordinate their marketing with databases and technology, but the huge influx of information that began with the “Internet era” has heightened its importance considerably.
- Today, around 80% of the roughly \$1 trillion of global marketing spending is done directly through offline channels.
- Making up around 20% of all of marketing spend, the digital marketing ecosystem has exploded over the past 10+ years. The speed of transaction is accelerating towards real time.
- For perspective, estimates for the amount of display inventory traded in real-time range as high as 30%-35%. However, display itself is only a subset of the digital marketing ecosystem and real-time inventory tends to be low priced, meaning that real-time transactions account for less than 1% of total marketing spending.
- Key large-cap players include Google, Microsoft IBM, Amazon, Yahoo!, SAP, Oracle, Salesforce.com, WPP, Omnicom and Nielsen.

## Exhibit 1. Digital Marketing Hub Valuation Comparables

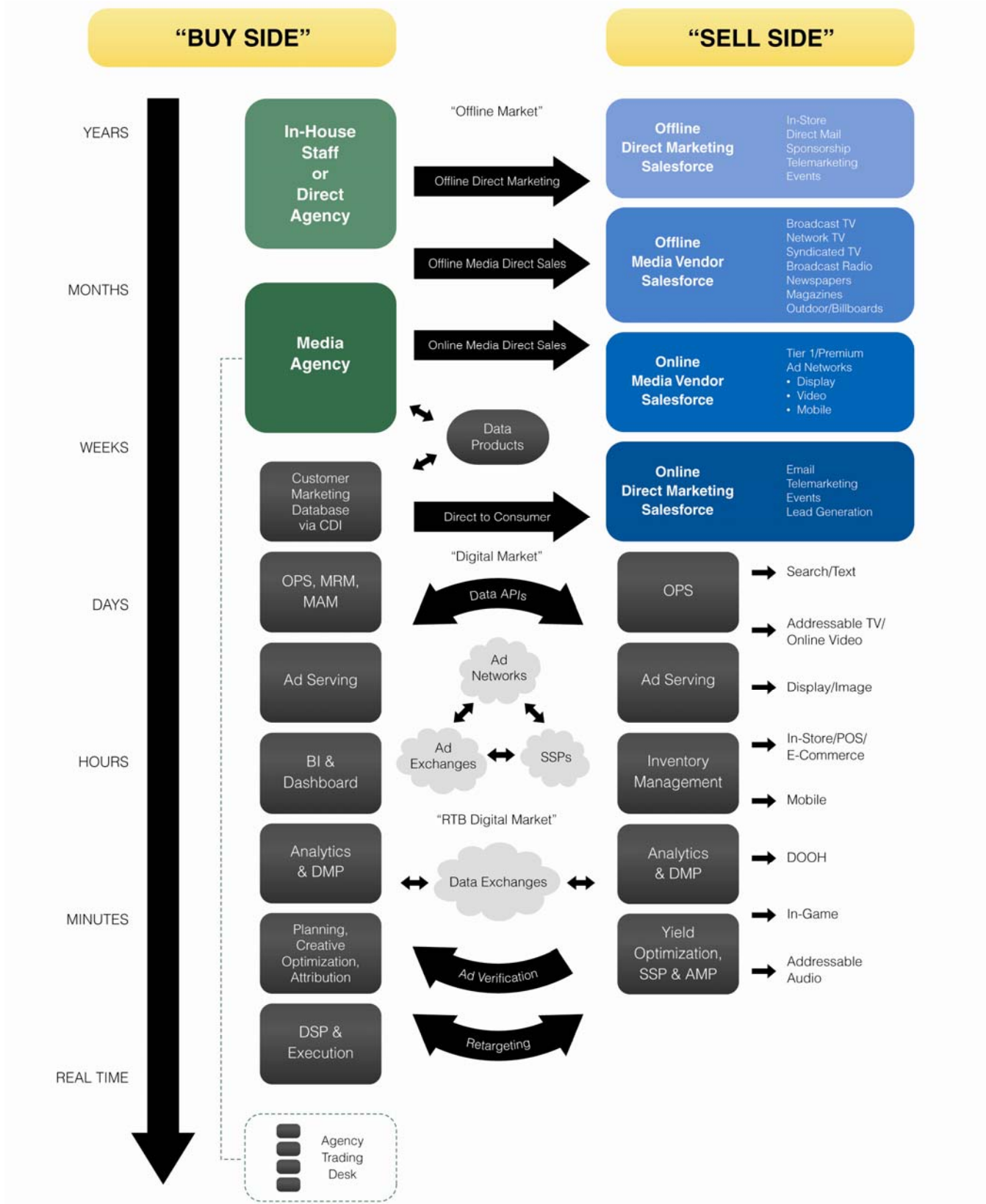
Company	Ticker	5/25/2011		Rating	Shares Out (mm)	Market Cap (mm)	EV/Rev.		EV/EBITDA		P/E		2011	2011	FCF Yield	
		Price	Target				2011	2012	2011	2012	2011	2012	PEG	vs S&P	2011	2012
Apple	AAPL	\$337.64	\$415	OP2	925	\$312,234	2.4x	1.9x	7.9x	6.2x	14.2x	12.5x	0.2x	1.0x	7.8%	9.6%
Microsoft	MSFT	\$24.24	NR	NR	8,433	\$204,368	2.3x	1.9x	5.3x	4.5x	9.4x	8.7x	0.4x	0.7x	12.5%	14.0%
IBM	IBM	\$167.79	\$180	OP2	1,211	\$203,227	2.1x	2.0x	9.0x	8.8x	12.8x	11.7x	1.0x	0.9x	9.2%	8.6%
Oracle	ORCL	\$33.13	\$42	OP1	5,117	\$169,526	3.8x	3.3x	8.4x	7.0x	14.1x	12.6x	1.1x	1.0x	7.0%	7.9%
Google	GOOG	\$521.20	\$700	OP	322	\$167,826	4.5x	3.8x	8.3x	6.9x	15.3x	13.0x	1.0x	1.1x	6.1%	7.4%
Amazon	AMZN	\$192.63	NR	NR	452	\$87,077	1.7x	1.3x	32.9x	25.0x	77.9x	50.8x	-64.5x	5.7x	3.0%	3.2%
SAP AG	SAP-XE	\$43.10	\$52	Mkt1	1,188	\$51,209	3.8x	3.3x	10.6x	8.9x	17.2x	15.4x	1.2x	1.3x	5.8%	6.6%
eBay	EBAY	\$30.70	NR	NR	1,298	\$39,845	3.1x	2.5x	8.8x	7.2x	15.7x	13.7x	1.0x	1.1x	7.8%	9.4%
Yahoo!	YHOO	\$16.19	NR	NR	1,303	\$21,095	4.7x	4.2x	8.0x	7.1x	16.4x	15.0x	1.9x	1.2x	6.4%	6.9%
Salesforce.com	CRM	\$151.05	\$165	OP1	134	\$20,223	9.1x	7.1x	64.4x	45.0x	nm	nm	nm	nm	1.9%	2.6%
WPP plc	WPP-LN	£7.39	£8	Mkt	1,339	£9,891	1.1x	1.0x	7.2x	6.3x	13.8x	12.3x	1.0x	1.0x	9.4%	10.5%
Adobe	ADBE	\$34.15	NR	NR	504	\$17,227	3.9x	3.3x	9.6x	7.8x	15.3x	13.5x	0.9x	1.1x	8.0%	9.3%
Omnicom Group	OMC	\$46.42	\$55	OP	304	\$14,088	1.1x	0.9x	7.6x	6.3x	14.5x	12.6x	0.8x	1.1x	8.3%	9.0%
Experian	EXPN-LN	£7.75	NR	NR	1,026	£7,946	2.2x	2.0x	6.8x	7.0x	11.1x	9.8x	1.1x	0.8x	14.7%	16.4%
Nielson	NLSN	\$30.73	NR	NR	358	\$11,007	3.2x	2.8x	11.4x	10.1x	20.4x	16.8x	0.1x	1.5x	6.1%	9.2%
Publicis Groupe	PUB-FR	€ 37.79	€ 41	Mkt	235	€ 8,898	1.3x	1.1x	7.1x	5.9x	13.8x	12.4x	0.8x	1.0x	7.9%	8.7%
Interpublic Group	IPG	\$11.65	\$16	OP	526	\$6,125	0.7x	0.6x	5.3x	4.3x	17.8x	14.5x	0.4x	1.3x	7.7%	9.9%
Akamai	AKAM	\$32.88	NR	NR	187	\$6,139	4.3x	3.6x	9.5x	7.8x	20.9x	18.4x	1.8x	1.5x	6.0%	7.6%
Sage Group	SGE-LN	£2.82	NR	NR	1,310	£3,690	2.5x	2.2x	9.2x	8.1x	14.1x	13.1x	2.0x	1.0x	8.6%	9.1%
Alliance Data Systems	ADS	\$89.01	\$95	Mkt	56	\$4,959	2.0x	1.5x	6.6x	4.9x	12.5x	11.0x	0.6x	0.9x	8.8%	10.7%
GSI Commerce	GSIC	\$29.17	NR	NR	73	\$2,121	1.1x	0.9x	10.1x	8.3x	nm	nm	nm	nm	8.8%	14.0%
AOL	AOL	\$19.72	NR	NR	107	\$2,109	0.7x	0.6x	4.5x	4.2x	26.5x	23.6x	-0.4x	1.9x	16.8%	17.0%
Sapient	SAPE	\$14.49	NR	NR	138	\$1,999	1.7x	1.4x	13.7x	10.3x	28.9x	21.4x	0.5x	2.1x	3.4%	4.1%
ValueClick	VCLK	\$17.07	\$17	Mkt	82	\$1,405	2.3x	1.9x	7.5x	6.0x	18.7x	15.4x	0.6x	1.4x	7.5%	8.8%
Digital River	DRIV	\$30.88	NR	NR	40	\$1,224	1.9x	1.5x	9.0x	6.2x	27.1x	20.3x	0.9x	2.0x	6.2%	nm
Acxiom	ACXM	\$13.48	\$18	OP	81	\$1,096	1.0x	0.9x	4.2x	3.9x	18.0x	14.2x	2.0x	1.3x	15.3%	18.4%
DG Fastchannel	DGIT	\$32.90	NR	NR	27	\$902	3.5x	3.1x	7.9x	6.7x	15.0x	12.6x	0.3x	1.1x	nm	nm
comScore	SCOR	\$26.75	NR	NR	32	\$853	3.3x	2.6x	18.5x	11.7x	nm	82.1x	nm	nm	6.0%	7.3%
Velti	VELT	\$16.22	NR	NR	51	\$825	4.5x	3.2x	14.8x	10.2x	41.4x	24.9x	nm	3.0x	nm	nm
QuinStreet	QNST	\$14.89	NR	NR	47	\$696	1.6x	1.4x	7.4x	6.4x	14.8x	13.9x	0.4x	1.1x	10.3%	11.6%
Constant Contact	CTCT	\$23.28	NR	NR	29	\$686	2.8x	2.2x	17.8x	12.0x	36.9x	25.4x	0.5x	2.7x	5.8%	7.0%
Limelight Networks	LLNW	\$5.59	NR	NR	112	\$627	2.2x	1.9x	17.4x	11.4x	nm	94.7x	nm	nm	3.6%	5.5%
MDC Partners	MDCA	\$18.02	\$22	OP	31	\$566	0.8x	0.7x	7.9x	6.4x	nm	nm	nm	nm	8.1%	11.3%
Harte-Hanks	HHS	\$8.32	\$10	Mkt	64	\$534	0.7x	0.7x	5.6x	5.0x	11.1x	10.2x	-1.1x	0.8x	11.2%	12.0%
Mediamind	MDMD	\$16.84	NR	NR	19	\$320	2.1x	1.7x	9.2x	6.3x	25.2x	19.4x	nm	1.8x	nm	nm
Marchex	MCHX	\$6.95	\$7	Mkt	36	\$248	1.5x	1.2x	11.0x	8.1x	29.7x	25.7x	0.1x	2.2x	5.6%	7.7%
Rentrak	RENT	\$19.92	NR	NR	11	\$220	2.2x	1.9x	21.3x	10.7x	34.5x	18.0x	nm	2.5x	4.4%	5.7%
interclick	ICLK	\$6.79	NR	NR	25	\$167	-1.5x	-1.3x	-13.7x	-8.3x	25.5x	17.4x	nm	1.9x	9.4%	11.8%
<b>Digital Marketing Hub</b>						<b>Mean</b>	<b>2.4x</b>	<b>2.0x</b>	<b>11.0x</b>	<b>8.4x</b>	<b>21.2x</b>	<b>20.8x</b>	<b>-1.5x</b>	<b>1.5x</b>	<b>7.9%</b>	<b>9.4%</b>
						<b>Median</b>	<b>2.2x</b>	<b>1.9x</b>	<b>8.6x</b>	<b>7.0x</b>	<b>16.4x</b>	<b>14.5x</b>	<b>0.8x</b>	<b>1.2x</b>	<b>7.8%</b>	<b>9.1%</b>

OP-Outperform, Mkt-Market Perform, Und-Underperform, NR-Not Rated.

<sup>1</sup> Covered by Karl Keirstead, <sup>2</sup> Covered by Keith Bachman.

Source: Company reports and BMO Capital Markets estimates for covered companies; Thomson Reuters for Not Rated companies.

Exhibit 2. Sell-Side and Buy-Side Digital Marketing Hubs and the Marketing Sales Ecosystem



Source: BMO Capital Markets.

## Why Does the Digital Marketing Hub Matter to Investors?

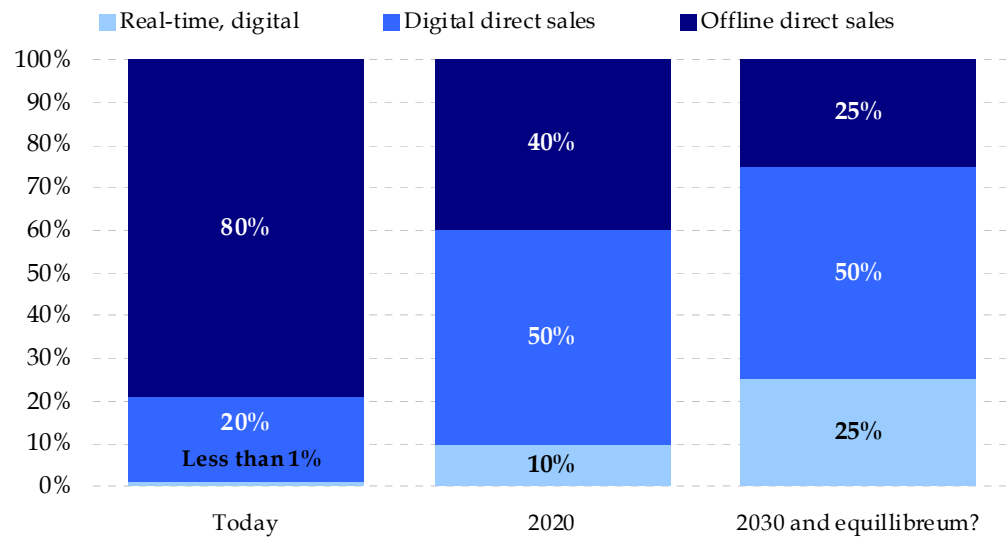
### Digital Marketing Hub Adoption Is a 30+-Year Secular Growth Trend

**Businesses have always tried to coordinate their marketing with databases and technology, but the huge influx of information that began with the “Internet era” has heightened its importance considerably.** Database marketing specialists date back to the 1960s or earlier and effectively evolved into the original digital marketing hubs. But with the explosion of Internet-enabled technology and media in 1990s, the Hub began adding entirely new elements at a rapid pace. The introduction of search and its instantaneous auctions in the early 2000s has evolved to bring real-time bidding (RTB) to the display market and, increasingly, other emerging channels like mobile and addressable television.

**Today, around 80% of the roughly \$1 trillion of global marketing spending is done directly through offline channels** by people employed by the brands or their partners (e.g., media agencies) and media vendor and direct marketing channels’ sales forces. The most valuable inventory and customized marketing opportunities will continue to be transacted by people and only touch the Hub when they are manually input. Many marketing opportunities – an extreme example would be long-term, stadium naming rights – will always be primarily negotiated by people. The Hub will help inform these people, but it will play little to no role in the execution of the transaction.

**Making up around 20% of all of marketing spend, the digital marketing ecosystem has exploded over the past 10+ years, and the speed of transaction is accelerating toward real time.** Search and its unique, auction-based transactions gave rise to search engine marketing software, which remains a key element of the Hub. Email marketing is used by more than 90% of marketers, and they are increasingly automating its delivery through small business-focused software-as-a-service providers like Constant Contact and enterprise database marketers like Epsilon and Acxiom. But the creation of the display ad exchange and demand and sell-side platforms that plug into them has been what has made “real-time” one of the frequently used terms in marketing. In Exhibit 3, we present an anecdotal view on the share of total marketing spending based on the transaction business model:

- 1) Offline direct transaction;
- 2) Digital direct transactions; and
- 3) Real-time digital transactions.

**Exhibit 3. Marketing Transaction Business Model Share**

Source: BMO Capital Markets.

**For perspective, estimates of the amount of display inventory traded in real-time reach as high as 30%-35%.** However, display itself is only a subset of the digital marketing ecosystem, and real-time inventory tends to be low priced, meaning that the dollar share is likely less than 5% of total digital spend and certainly less than 1% of total marketing spending.

**Digital Marketing Hub and real-time advertising adoption begins at the edges in marketers' experimental budgets.** Like all new marketing opportunities, brands must first gain insight and experience into the value of a new marketing discipline, and once its value is proven out, then it can be rolled into the core budget. For exchange-traded display inventory it then begins to eat into spending on ad networks (which are themselves evolving) to augment premium inventory purchases through a media or network sales force. Likewise, addressable TV providers look to take share from the run-of-network buys that fill out a TV plan after primetime and other top-tier inventory is secured.

**Equities and other securities trading is often pointed to as a roadmap for the data-driven advertising ecosystem.** Like advertising, the business model has transitioned first to electronic and digital systems to manage people-executed transactions and then subsequently to automated, rules-based, real-time transactions via algorithmic trading. Electronic trading debuted in the mid-1970s and the role of algorithmic trading started taking off about ten years ago. Today, algorithmically traded volume makes up 70% of total US stock market volume. But we do not expect real-time, audience-based media buying to reach these levels. A key difference is the nature of the assets being traded as ad inventory is almost entirely disposable, whereas securities live on, traded back and forth over time. Because the inventory is disposable there is more emphasis on buying in volume ahead of the inventory's due/air date.

**In addition to the promise of better targeting and marketing relevance, cost reductions are also a key driver of adoption of the Hub and real-time advertising ecosystem.** Google estimates that the transaction costs on the DoubleClick Advertising Exchange account for only \$0.02 of every dollar, whereas relationship-driven digital sales transaction costs (paying a sales staff, travel expenses, back office, etc.) are likely closer to 25%-30% and offline media can approach 40%.

## Key Developments in the Past 12 Months

- A trickle of online consumer privacy legislation in the US has turned into a gusher.** Privacy is a subject that we expect to be in constant focus and flux for decades to come as digital natives (mostly under 30 years old today) replace more and more digital immigrants in society and help shape evolving attitudes and standards around the use of consumer data in targeting digital advertising. We expect the current focus on “do not track” (aka opting out of consumer data collection, most commonly through “private browsing” or a similar option in Internet browsers) to continue evolving to incorporate more regulation around other digital data (e.g., transactions, social sharing, etc.), offline data and the mixing of all data sources for a more holistic view of the customer or prospect. For digital marketing hub technology and services providers, this will help shape the development of tools to ensure proper governance of the consumer data that flows through the hub and broader marketing ecosystem.

### Exhibit 4. Current US Privacy Legislation

Bill Name	Chamber	Sponsor(s)	Does it mention Do-Not-Track?	Civil actions/penalties?	Safe harbor for self-regulation?	Notes
Commercial Privacy Bill of Rights Act of 2011	Senate	John Kerry (D-MA) and John McCain (R-AZ)	Doesn't specifically mention DNT, but grants FTC right to develop rules for opt-out mechanism.	Lets FTC impose civil penalties on self-reg groups running noncompliant programs.	FTC power to establish safe harbor program and monitor self-regulatory program for opt-out.	Gives FTC power to make rules requiring cos provide "clear, concise, and timely notice" of personal data collection, use, transfer.
Do-Not-Track Online Act of 2011	Senate	Jay Rockefeller (D-WV), Chairman of the Senate Commerce	Yes. FTC to create standards for mechanism allowing users to indicate personal data collection preferences.	States can bring civil action against violators, violators subject to FTC enforcement penalties.	No mention of "safe harbor," but calls on FTC to consider mechanisms in existence that let users indicate personal data collection preferences.	Rockefeller chairs the committee in which he introduced the legislation, so it may have greater likelihood of
Best Practices Act	House	Bobby Rush (D-IL)	No specific mention of DNT, calls for FTC to approve a self-reg program for opt-out mechanism prohibiting data sharing with 3rd parties	Allows FTC and states to slap civil penalties on violators.	Allows for safe harbor for companies in compliance with FTC-approved self-reg program	Rep. Rush has been early on the subject of online privacy, but as a minority member with less clout than other bill sponsors, may be challenged to gain traction.
Do Not Track Me Online Act of 2011	House	Jackie Speier (D-CA)	Yes. Calls for FTC to determine standards for "online opt-out mechanism"	Gives states the right to bring a civil action on behalf of residents against violators	N/A	Bill is short in length compared to other privacy bills, and seen as a way for Speier to establish a stance on online privacy issue.
Consumer Privacy Protection Act of 2011	House	Cliff Stearns (R-FL), Brian Bilbray (R-CA), John Duncan (R-IN), Donald Manzullo (R-IL), Jim Matheson (D-UT)	No specific mention of DNT, only calls for "brief, concise, clear, and conspicuous" privacy policies.	N/A	No mention of Safe Harbor, but bill gives FTC power to approve a self-reg program.	Believed to be the most industry friendly . Relies on privacy policies rather than requiring a more clear and conspicuous mechanism for opting out from data collection and use.
Do Not Track Kids Act of 2011	House	Ed Markey (D-MA) and Joe Barton (R-TX)	Yes - calls on FTC to create regulations for site and app operators to provide "clear and conspicuous" explanation of personal data collected and how it's used. Bill calls for FTC to require operators to implement "Eraser Buttons" allowing users to eliminate personal data from a site or	Gives states right to bring a civil action against violators, makes violators subject to FTC enforcement penalties.	N/A	Restriction of collection and use of children's and teens' location data is a key focus.

Source: ClickZ.

- While still very much focused on display, other advertising channels continue to plug into the Hub and development is much more multi-channel focused.** This has brought new players that specialize in other media onto the radar screen. No longer can the display-focused players ignore development in addressable television, digital-out-of-home and shopper marketing. Companies in this area are increasingly pushing toward real-time solutions, and we expect they will also look to move into other channels as their technology, client bases and offerings mature.

3. **The acronym roster continues to grow with DMP, AMP and ATD.** Standing for data management platform, audience management platform and agency trading desk, these are the latest acronyms to add to DSP (demand-side platform), SSP (sell-side platform) and RTB (real-time bidding). DMPs and AMPs provide technology for marketers and publishers to manage their proprietary data in the Hub and also often offer data “exchanges” where third-party data can be bought. Companies include AudienceScience, Collective Media, Bluekai, Aggregate Knowledge, BrightTag (all private), and Demdex (recently acquired by Adobe). With the terms in their early, “buzzy” phase, the exact parameters of the business models are still forming, but are sure to become more common. ATD is the term that has come to distinguish the Hub technology platform developed by holding companies' media buying operations. They include WPP's Media Innovation Group, Omnicom's Accuen, Interpublic's Cadreon, Publicis' Vivaki Nerve Center, and MDC Partners' Varick Media Management. In many cases, the holding companies will partner with other technology players like Google or independent demand-side platforms to customize solutions to clients' needs.

### Google, Microsoft and IBM Are Notable Large Cap Players

**Adoption of the Digital Marketing Hub is a secular driver for some of media and technology's largest names.** Below we look at three of the most prominent:

1. **Google:** The leader in search advertising also provides the DoubleClick technology suite (ad serving, media planning, publisher yield optimization, etc.), Google Analytics and Urchin (web analytics), Teracent (creative optimization), and Invite Media (demand-side platform). The AdSense partner network, YouTube, AdMob mobile network and DoubleClick Ad Exchange are pools of advertising liquidity, with the latter transacted entirely in real time and increasingly intermingling inventory from the first three. Finally, the Google TV Ads program now reaches 30 million US households and will become increasingly important as the Google TV product launches and extends the TV Ads platform.
2. **Microsoft:** The software heavyweight has become an important Hub player through internal development and acquisitions including the Atlas ad serving suite (as part of aQuantive), the Navic TV advertising program, Rapt yield management system and ScreenTonic mobile advertising technology provider. The company also operates an ad network and exchange (in part, built upon AdECN, which was acquired in 2007).
3. **IBM:** The longtime technology stalwart has been adding Hub technologies at a brisk pace in recent years including Coremetrics (web analytics), Unica (marketing management software) and SPSS (predictive analytics) to augment the broader enterprise software and services offering. Moreover, recently acquired Netezza, the data appliance warehouse provider, has a strong concentration in digital media and advertising.

Other large-cap Digital Marketing Hub players in the public market include other non-advertising driven “Internet titans” (Apple, Amazon, eBay) agency holding companies (WPP, Omnicom, Publicis, Interpublic) information and data services (Nielsen), and of course digital ad-supported media with its proprietary Hub technologies (Yahoo!, etc.) and traditional media vendors (Time Warner, Viacom, Disney, NewsCorp, etc.) for whom digital ad sales are becoming increasingly important and real-time technologies are beginning to appear at the

edges of their liquidity. As the digital marketplace develops and adds more real-time elements, ad-supported media companies will develop more sophisticated sell-side digital marketing hubs to manage inventory and maximize returns.

### **“Big Software” and “Big Internet” Will Buy Most Successful Start-ups**

**We expect more large-cap enterprise software providers, including Oracle and SAP, to become more active acquirers of Digital Marketing Hub technology.** As noted, Microsoft and IBM are already prominent, and Adobe acquired the leading web analytics provider in Omniture and also recently added Demdex, a DMP. The business intelligence offerings of SAP (Business Objects, acquired in 2007) and Oracle (bolstered by the acquisition of Hyperion, also in 2007) already act as the “dashboard” or user interface for many marketing-related business practices (IBM is also a player here via Cognos). Salesforce.com remains a player to watch, particularly after adding social media monitoring company Radian6. These players become more important Hub players as digital convergence breaks down the silos between the three traditional components of customer relationship management (CRM): marketing, sales and customer service. See Versions 1.0 and 1.1 for more on how the Digital Marketing Hub will eventually be merged into the Digital Customer Hub.

**The other group of large-cap acquirers is “Big Internet” including both the advertising-driven entities (Google, Yahoo!) and those for which it is ancillary (Apple, Amazon, eBay, etc.)** The latter group receives the majority of its revenue from non-advertising-related businesses, but is taking advantage of technology scale as the systems that underpin marketing evolve. In particular, eBay’s recent acquisition of GSI Commerce is notable, as that company had evolved from e-commerce systems provider to become one of the largest digital marketing services providers.

**We also expect IPO activity to ramp up; the majority will be small caps.** Nielsen is an important recent IPO and LinkedIn’s performance post-offering has certainly piqued interest in the IPO market. And potential large-cap IPOs from Facebook (and to a lesser extent Groupon and/or LivingSocial) would bring a great deal of attention to key hub themes around data use in targeting advertising. In general, however, we expect to see smaller players looking for scale (and a currency for acquisitions) filling the pipeline, similar to MediaMind (rich media and ad technology, IPO’ed on August 10, 2010) and Responsys (SaaS platform for email, social, etc., IPO’ed on April 20, 2011).

### **Commerce Advancements Also Drive Hub Innovation**

**Digital payment systems development opens up new Hub elements.** Traditionally marketing and commerce were relatively separate environments: advertising was delivered in the home (TV and most other media), in the car (radio) and even a little at work (say, reading *The Wall Street Journal*). Although there were some intertwined models (think: infomercials and their 800 number sales channels), most commerce was transacted in bricks and mortar retailers, where there was some advertising, but only a small slice of total spend. However, digital technology has created the opportunity to more closely entwine marketing and commerce. The Digital Marketing Hub meets commerce at the retail point-of-sale, kiosks and the shopping cart on both the ecommerce site and mobile app. And so while consumer technology innovation (tablets, smart-phones, etc.) and IP network development are the more

regularly cited broader secular themes that will drive the Hub, the evolution of digital payment systems is a driver as well, dovetailing with the Digital Customer Hub concept above.

**Mobile payment system development is undergoing a strong acceleration as smartphone penetration works its way through the mainstream section of the adoption curve.** In particular, app marketplaces are a game changer in creating a “mobile” wallet, and faster IP networks are key. Substantial barriers to adoption exist of course, and they include cost of merchant POS upgrades and entrenched payment network players. However, with MasterCard, Visa and other existing networks beginning to offer APIs to the marketplace to help drive innovation, it’s clear that the established players recognize the opportunity as well.

**Innovation around near-field communications (NFC) technology is leading innovation today.** The short-range wireless technology is being rolled out in both smartphones and POS terminals, but it remains early days. Verizon, AT&T and newly acquired T-Mobile have banded together to create the Isis mobile wallet network to compete with the traditional credit card networks, and Google was reported to be imminently launching a mobile payment trial in partnership with Sprint at the time of this report’s writing.

## Barriers to Adoption Remain Significant

**As noted, the Hub will be a 30-year secular trend, which means there are plenty of barriers to adoption today.** Each of these factors plays some part in helping form the digital and real-time advertising technology ecosystem, and we watch for the evolution (some quantitative, some qualitative) of each of them to gauge the growth of real-time marketing.

1. **Media/publisher direct sales channel conflict:** Media companies are focused on maintaining their audience brand value and ensuring highest prices. Many transactions will never leave this channel (think: Super Bowl spots, product placement, etc.). Media companies lose some level of control as audience-based buying gains traction; though they are still the keepers of the audience, they are in no rush to yield influence.
2. **Consumer privacy concerns** are a trend that will evolve over the next 30 years. The fundamental shift in buying audiences in real time will be shaped by society’s evolving views on personal digital information and the regulation of its use.
3. **Slow transition to digital inventory technology:** Think: outdoor/billboards transitioning to digital-out-of-home, radio adding HD technology, addressable TV ads infiltrating TV budgets. All have been slow to adopt new technology, again defending legacy business models.
4. **Consumer technology adoption and network improvements:** Innovation is happening more briskly in these areas, but new platforms like tablet computers and over-the-top video are still in their infancies and audience shifts are gradual.

## What Is the Digital Marketing Hub?

*The digital marketing hub is the point at which relationship-driven media planning and buying meets technology services and infrastructure...functionally, the digital marketing hub absorbs all of the new digital marketing data harvested from these networks, organizes and analyzes it, and then uses it to optimize marketing campaigns.*

-- The Race for the Digital Marketing Hub v1.0

For the most part the above definition still works to describe the Digital Marketing Hub. What has changed – not surprisingly – is not only the complexity of the Hub and the advertising ecosystem it helps manage, but also the number of companies developing elements of it. We've also tried to refine our thoughts on the nature of transaction marketplaces (offline-direct to digital-direct to digital real-time) and distinguishing between the Hub tools used by the buy side from those on the sell side. Below we look at the development of the Digital Marketing Hub through the lens of its basic components: technology, data and media.

### Technology: The Components of the Digital Marketing Hub

**As noted, the technology component of the Digital Marketing Hub goes back to the development of consumer marketing databases more than 40 years ago.** Over the next 30 years, other elements were added like marketing asset and campaign management software, as well as billing/workflow systems and other “ad ops” tools for agencies and media vendors alike. These systems were developed to help support offline marketing channels, but they are increasingly weaving in digital and real-time layers as well.

**The emergence of digital marketing ushered in a new technology set, including ad serving, web analytics, and search engine and email marketing software.** The “Internet era” has also ushered in the (still slow) transition from hosted software and technology to software-as-a-service (SaaS) and on-demand delivery. The SaaS model allows players to shorten upgrade times materially and integrate new features quickly through system-wide upgrades, and more seamlessly integrates new data through APIs.

**Finally, the transition to real-time transactions brings technologies like DSPs, SSPs, AMPs, DMPs, and creative optimization to prominence.** Equally important is the development of the exchange marketplaces, which are often also owned by companies with stakes on both the buy side and the sell side, including Google, Yahoo! and Microsoft. How the “separation of powers” and management of conflicts of interest develop as the ecosystem matures will be a key theme. See our initiation report on Google dated December 6, 2010, for more on these themes.

### Data: The Fuel for the Digital Marketing Hub

**Changes in the use of data, even more so than technology, are truly transforming the marketing and advertising ecosystem.** Both have been essential elements since the discipline moved beyond word of mouth, be they broadcast towers or agency focus groups. And certainly the significant leap in technology to two-way, IP-based networks is the facilitator of the entire evolution. However, it is the exponential growth of data and more advanced manipulation of existing data that is changing the nature of how consumers interact with marketing messages.

While technology is the element that creates the growing number of two-way consumer touchpoints, it is the data that makes these pipes and touch screens smart. For advertising and marketing, it means a quantum leap in trying to achieve the eternal goal of “the right message to the right person at the right time.” Some data sets are long-established and evolving, while others are brand new and being added to the mix.

**The most underappreciated data plays in the public market are MasterCard, Visa and American Express.** Transaction data is one of the most compelling data sets for marketers and transaction processors are amongst the richest in this asset. Alliance Data Systems is a key player here, too, though its marketing data story tends to be better recognized through its ownership of marketing services provider Epsilon and coalition loyalty programs like Canada’s AIR MILES. Established marketing data providers include Nielsen, Experian, Acxiom, and Rentrak are riding the secular growth of data usage across the enterprise. This has given rise to integration of data from companies like Verisk Analytics and Corelogic, which collect actuarial and financial data that can be applied by financial services companies’ prospecting campaigns. Finally, technology and media players possess their own caches of proprietary data. The scale of companies like Google, Akamai, Microsoft, Facebook, and Baidu. Apple, Verizon and Comcast produce a huge variety of data and information assets that can be incorporated into the Digital Marketing Hub.

### **Media: The Consumer Touchpoints**

**Today, the media and ad inventory is generally categorized as channels and probably always will be to some extent.** We now describe media and advertising inventory as search, display, online video, mobile, television (broadcast, network, syndicated, addressable), radio and in-game. Direct-to-consumer channels include outdoor and DOOH, in-store and on-premise, email, direct mail and call centers.

**But as digital technology increasingly underpins all marketing systems (print and broadcast losing audience share), the media should increasingly be categorized by its basic elements.** Those are text, audio, images and video (and scent so long as magazine perfume ads persist). Functionally, there’s no difference between television advertising and online video: they both combine video and audio to deliver the marketing messages. Likewise search and yellow page directories boil down to the text format. As consumers adopt technologies that can deliver all four of marketing content’s basic components, the idea of a marketing channel becomes increasingly obsolete.

**Companies mentioned (priced as of the close on May 25, 2011):**

Time Warner (TWX, \$35.58, Rated **OUTPERFORM** by Jeff Logsdon)  
Viacom (VIA, \$49.95, Rated **OUTPERFORM** by Jeff Logsdon)  
Disney (DIS, \$41.13, Rated **OUTPERFORM** by Jeff Logsdon)  
News Corporation (NWSA, \$17.18, Rated **MARKET PERFORM** by Jeff Logsdon)  
Verisk Analytics (VRSK, \$33.84, Not Rated)  
Corelogic (CLGX, \$17.94, Not Rated)  
Baidu. (BIDU, \$129.54, Not Rated)  
Verizon (VZ, \$36.40, Rated **OUTPERFORM** by Peter Rhamey)  
Comcast (CMCSA, \$24.50, Not Rated)  
Responsys (MKTG, \$17.23, Not Rated)

# Advertising and Marketing Services

June 9, 2010

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Industry Rating: **Market Perform**

## The Race for the Digital Marketing Hub: Version 1.1

This note is a brief “patch” to the report published on May 8, 2009 entitled *The Race for the Digital Marketing Hub, Version 1.0*. The aim is to refresh some commentary and add some new thoughts. These include:

- 1) **The Digital Marketing Hub continues to plug into “the other 80%” of ad budgets that is not typically categorized as “internet.”** Those categories include TV, radio, outdoor and print, which are integrating “internet” technology to become addressable TV, HD radio, digital-out-of-home and print-on-tablet models.
- 2) **Acronyms wild:** The mainstream emergence of the terms demand-side platform (DSP), sell-side platform (SSP) and real-time bidding (RTB) are the most buzzed about developments of the last year.
- 3) **The adoption of real-time, auction-based bidding for commoditized inventory in more channels will pressure media agencies’ cash floats,** but will not eliminate them entirely. RTB is not built for customized placements or many marketing services, both of which will remain relationship-driven.
- 4) **An update on the Digital Customer Hub: the three traditional customer silos (marketing, sales and customer service) continue to merge together** as enterprises reconfigure their businesses around a single/central data engine that tracks transactions, customer contacts and exposures.
- 5) **Google is the leader in consolidating the advertising technology stack,** including the recent acquisition of DSP Invite Media. Akamai and Microsoft are among the group of other major players that offer a unique toolset.

Housekeeping note: With this note our two industry groups -- “advertising agencies” and “marketing services” – are being merged into “advertising and marketing services.” Our rating remains **MARKET PERFORM**.

### Summary

- This note is a brief “patch” to the report published on May 8, 2009 entitled *The Race for the Digital Marketing Hub, Version 1.0*. The aim is to refresh some commentary and add some new thoughts. These include:
- The Digital Marketing Hub continues to plug into “the other 80%” of ad budgets that is not typically categorized as “internet.”
- Acronyms wild: the mainstream emergence of the terms demand-side platform (DSP), sell-side platform (SSP) and real-time bidding (RTB) are the most buzzed about developments of the last year.
- The adoption of real-time, auction-based bidding for commoditized inventory in more and more channels will pressure media agencies’ cash floats, but will not eliminate them entirely.
- An update on the Digital Customer Hub: the three traditional customer management silos (marketing, sales and customer service) continue to merge together.
- Google is the leader in the consolidating the advertising technology stack; Akamai and Microsoft are among the group of other major players that offer a unique toolset.

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## Plugging into the Other 80%

**There has been a noticeable uptick in the number of companies that are actively planning for how their “internet” tools will adapt for other media** as those channels adopt the type of IP-based infrastructure that underpins the “internet.” U.S. and global advertising forecasts typically suggest that around 20% of “ad spend” is on the internet, implying that there is 80% that it doesn’t yet touch. Today, the development of the digital marketing hub continues to be focused around paid search and other direct-response online advertising, with more display inventory being optimized in this manner every day. But as traditional media (TV, radio, outdoor and print) continue to integrate two-way, IP-based technology, they, too, are gradually plugging into the digital marketing hub to help create a more holistic view. These new iterations include digital out-of-home (DOOH), HD radio, and, most importantly, addressable IP-based television (IPTV). Many marketing services, like in-store and event marketing, are adopting “quick response” (QR) codes (two-dimensional barcodes) and other technology that allow them to plug into the hub. And mobile continues to grow as a category that was born and bred in the digital age, though its roots in telephone technology makes it a distant cousin of yellow page directories and call centers.

**Consumer end-device innovations like smart-phones and tablet PCs are also blurring the line between the internet’s 20% and the other 80%.** Among the most prominent topics based around the emergence of tablet PCs is how they might serve to save the traditional magazine and newspaper models. While they definitively cannot save the business models (which are predicated on the high barriers to entry of printing infrastructure), tablets may preserve the familiar consumer experience, including the accepted amount of advertising inventory.

**For these reasons, we believe point solution vendors focused on search/display would be well-served to focus on expanding their capabilities into other media rather than acquiring/developing different layers of the stack.** The accelerating transformation of the media and marketing ecosystem to digital frameworks creates the opportunity to generate strong equity returns, not by just innovating within a certain channel, but innovating across channels as the infrastructure standardizes. Too often, it seems to us that this alternate strategy for investment is overlooked.

## Acronyms Wild: DSPs, SSPs & RTB

**The most talked about development in the race for the digital marketing hub since we published *Version 1.0* has been the emergence of the terms demand-side platform (DSP), sell-side platform (SSP) and real-time bidding (RTB).** In our original report, this group was more generally referred to as “ad optimizers.” The DSP phenomenon burst on the scene first and the term sell-side platform has become common in 2010 to describe publisher yield management platforms that also offer pools of liquidity. Certainly, the companies and technologies in question have been innovating longer than the past year; however, there has been a considerable uptick in the collective understanding of the ecosystem that encompasses ad exchanges, ad networks and other liquid ad pools.

**This acronym wave is often described as applying the benefits of search to display advertising.** If that is the backdrop, then DSPs act as the search engine marketing (SEM) does, while SSPs aim to enhance publishers’ revenue like search engine optimization (SEO). SSPs are also often seen as supply-side liquidity pools, which is a slight difference from the search

world. But the point remains that targeting, optimization and analytics capabilities live on all sides of the trade, with DSPs, SSPs, ad exchanges and networks all offering their own proprietary tools and data.

### Real-Time Bidding Will Pressure Media Floats

**The gradual incorporation of more real-time bidding (RTB) into other media will pressure media agencies' floats.** Today, media agencies operate with cash floats that get as large as the hundreds of millions in USD because the process of settling the transaction from start to finish can take weeks, if not months. Media agencies and their parent holding companies benefit from this not only in working capital management, but also in the valuation of their stocks, where the float affects the enterprise value calculation.

**The media float will not go away however, because the buying and selling of marketing messages will never be entirely technology-driven.** The challenge for real-time, ad buying technology is that it is thus far useful only for commoditized inventory and standard impressions. It's the data layered on top of the media unit that makes this inventory valuable and this is what the hub coordinates. The technology is not built for add-on, customized services that generate incremental revenue (like product placement). In other words, so long as humans are making the final decisions, relationships will always continue to matter.

**The onset of the real-time web and real-time ad bidding is perhaps the most buzzed about topic of 2010.** Much of the innovation around social networks revolves around the circulation and syndication of regular data streams (Twitter posts, Facebook likes, FourSquare check-ins, etc.) to the data maker's network of connections (and often beyond). Subsequently, real time ad bidding platforms are growing around this massive influx in marketing opportunities. Paid search is in this way the grand-daddy of the phenomenon as it was built on a real-time, auction-based selling model from the start. Now those lessons are being rapidly applied to display advertising with innovation in video, mobile (including apps), DOOH, and addressable TV on tap.

### Emergence of the Digital Customer Hub Continues

**The "digital marketing hub" is gradually being rolled into a "digital customer hub."** The exponential growth of customer data available from digital communications/transaction systems is driving a merging of the three traditional customer relationship management silos – marketing, sales, and customer service – as enterprises reorganize their businesses around a central data engine that tracks transactions and incoming/outgoing customer contacts and exposures. When this is combined with flexible, as-a-service/on-demand interfaces, it creates a more powerful tool that can be used at more levels of the enterprise. Moreover, stripped-down digital customer hubs will be given away for free to small and medium businesses, just as many established and emerging point solutions are today.

**Potential customer hub players are emerging from legacy positions in CRM software, e-commerce and transaction processing, as well as marketing services.** Some of the notable developments and acquisitions include:

- **GSI Commerce** acquired FetchBack (retargeting solutions), MBS (database marketing) and Pepperjam (affiliate marketing and search agency) to build out its marketing suite.

Legacy e-commerce providers like GSI and Digital River were early innovators in merging digital sales and marketing services.

- **Salesforce.com** acquired Jigsaw, which crowd sources business contact data, enabling users of Salesforce's CRM tools to better mine data for new leads. Salesforce also bears watching closely for its leadership in the broader software-as-service space.
- **MasterCard** launched Advisors Merchant Solutions, an analytic and modeling solution for spending data that aims to generate more targeted advertising.
- **American Express** launched American Express Business Insights, which will use transaction data from Amex's 90 million cardholders to build an analytics and consulting service for corporate marketers.
- **Alliance Data Systems** restarted its M&A program to build its loyalty and direct marketing services with the acquisition of Equifax's direct marketing division. It joins the Epsilon digital/direct agency, which continues to emerge as a leader in the space.

## Google Continues to Roll up the Advertising Stack

**The latest addition was the acquisition of demand-side platform Invite Media.** As a platform for buying optimized display ads, it will be worth watching what Google does with Invite. In the past, the company has shied away from the SEO and SEM businesses owing to the conflict with its paid search franchise, which still makes up the majority of Google's revenues. This avoidance of conflict with its primary revenue source lead the company to eventually sell the SEM capabilities of Performics to Publicis in August 2008, after isolating it from the company's other operations upon acquiring DoubleClick. We don't expect the same type of concern with Invite, as Google does not have the same dominant position in display as it does in search.

**No company has a wider set of components to service marketers' digital marketing hub needs than Google.** The full toolset offered by the world's leading search engine are generally given away for free to small and medium businesses which make up the vast majority of the customer ranks. Google earns direct fees for its tools from enterprise-level customers in the DoubleClick division by normally taking a fraction of the media spend when it serves an ad.

**This toolset also creates an enormous monetization advantage for Google's owned and operated ad inventory,** including search, display and video units. The advantage has two legs to it: first is the benefit the company receives by applying internally developed tools to its own ad inventory (i.e., walk down the hall and ask the engineer that built the tool); and second is the knock-on effect it has in helping Google gain share of advertisers' budget. For SMBs, this happens both organically -- unsophisticated marketers are likely to be attracted to Google's more complete monetization and service toolset than to pick and choose among vendors -- and proactively, such as the recent "\$100 of free keywords" promotion that the company has sent to Google Analytics users that don't already use the AdWords search buying platform. The list of key Google tools and services includes:

- AdWords acts as the buying platform for both search and the Google Content network.
- DSP Invite Media was recently acquired to build out display buying tools.
- Google Analytics was born from the acquisition of Urchin in 2005.

- The DART suite of tools for publishers and advertisers is dominant in ad serving.
- Teracent was acquired in November 2009 for creative optimization.
- Google Content Network is one of the largest sources for inventory/liquidity, and we expect it to expand and incorporate the recently acquired AdMob mobile inventory.
- The DoubleClick Ad Exchange offers an auction-based model.
- The Google Affiliate network was originally a part of DoubleClick's Performics.

The above list doesn't include Google's leadership positions in paid search inventory (google.com, toolbars, international search sites, etc.), video inventory (YouTube and Google Video) and its other proprietary sites where it sells ads. Together with the set of services and tools noted above, these O&O assets create dominant franchises in both online media *and* marketing services. Although there may be conflicts of interest in this approach, it has not yet reached a point where it causes Google to change its current long-term strategy.

**Other major players that seek to offer different sets of the advertising technology include Microsoft, Akamai and Limelight.** These three companies offer either major ad serving platforms or content delivery networks (CDNs). Microsoft continues to innovate an offering that spans ad networks and exchanges, buying platforms and analytics. Akamai has acquired the online advertising co-op Acerno, while Limelight recently added dynamic ad technology from Eyewonder. Players like Yahoo! (known firstly for its vast premium O&O ad inventory) and ValueClick (known first for its ad networks) also layer on analytics and serving tools (among others) for their buyers. And finally, smaller point solutions are rolling up other services, like MediaMath's acquisition of creative optimizer Adroit.

### Other Important Drivers and Constraints of the Hub

- **Data companies like Acxiom, Quantcast, Nielsen and Experian are ready and able to optimize both emerging digital channels and analog-turned-digital ones today.** Digital innovation is also changing the traditional "market research" model from one based on sampling and shelf life, to one that converges on continuous, real-time data collection, cleansing and delivery.
- **Advertising and marketing is moving beyond "reach and frequency" to "targeting and engagement," which will drive pricing shifts for different media as their value propositions shift.** Liquidity and data are changing the traditional supply and demand curves and many web publishers remain concerned with how these trends will affect premium pricing and overall revenue and profitability. How this trend is countered by better targeting and engagement will be the primary determinants of which entities benefit/suffer and the overall pace of innovation. And as other media plug into the Hub, these issues will be front and center for them, too.
- **The pace at which personnel incentives are aligned with data-driven business goals is also key.** This is not to say that the "art" of advertising will be sucked out of the industry, but rather that it will be connected more directly to sales growth. Moreover, as the infrastructure across media standardizes on IP, the age of specialists in certain media will begin to fade away.
- **Standardization remains a key driver or resistor of adoption.** The recent "dust-up between Flash and HTML5 technology (with Adobe and Apple taking lead roles on

their respective sides) serves as only the latest example of how innovation can slow while standard technologies battle for dominance. Of course, the result is that this allows the market to choose the best technology for the long run, but it still bears watching “dust-ups” like HTML5 versus Flash to gauge the pace of change.

**Other companies mentioned (priced as of June 9, 2010)**

Apple (AAPL, \$243.20, **OUTPERFORM**), covered by Keith Bachman

## Exhibit 1. Comparable Valuation Multiples for Digital Marketing Hub Players

Company	Ticker	6/8/10			Market Cap (mm)	EV/Rev.		EV/EBITDA		P/E		2010	2010	FCF Yield	
		Price	Target	Rating		2010	2011	2010	2011	2010	2011	PEG	vs S&P	2010	2011
Omnicom Group	OMC	\$36.81	\$45	OP	\$11,218	1.0x	0.9x	6.5x	5.9x	13.0x	11.3x	1.1x	1.0x	8.8%	9.5%
WPP plc	WPP-LN	£6.66	£7	MP	£8,246	1.2x	1.0x	7.5x	6.4x	15.5x	12.5x	na	1.2x	9.4%	10.6%
Interpublic Group	IPG	\$7.93	\$12	OP	\$4,154	0.5x	0.4x	3.9x	2.8x	17.4x	13.2x	0.1x	1.3x	10.1%	11.2%
Publicis Groupe	PUB-FR	€ 33.11	€ 33	MP	€ 7,276	1.4x	1.3x	7.9x	6.8x	15.0x	13.3x	1.3x	1.1x	7.8%	7.9%
Dentsu	4324-TO	¥2,279	NR	NR	¥633,981	0.4x	0.4x	13.3x	10.3x	22.1x	20.5x	-1.7x	9.2x	7.6%	8.0%
Havas	HAV-FR	€ 3.68	NR	NR	€ 1,582	1.0x	0.9x	6.6x	5.8x	13.2x	12.2x	0.5x	1.0x	10.3%	11.1%
Aegis	AGS-LN	€ 1.07	NR	NR	€ 1,235	1.1x	1.0x	7.0x	6.2x	10.9x	10.0x	-0.8x	0.8x	12.7%	14.4%
Hokuhodo	2433-TO	¥4,500	NR	NR	¥174,851	0.1x	0.1x	9.0x	7.8x	na	48.2x	na	na	3.0%	5.3%
MDC Partners	MDCA	\$11.90	\$17	OP	\$329	0.9x	0.8x	7.0x	5.4x	na	26.5x	na	na	11.5%	14.0%
<b>Agency Holding Companies</b>					<b>Mean</b>	<b>0.8x</b>	<b>0.7x</b>	<b>7.6x</b>	<b>6.4x</b>	<b>15.3x</b>	<b>18.6x</b>	<b>0.1x</b>	<b>2.2x</b>	<b>9.0%</b>	<b>10.2%</b>
					<b>Median</b>	<b>1.0x</b>	<b>0.9x</b>	<b>7.0x</b>	<b>6.2x</b>	<b>15.0x</b>	<b>13.2x</b>	<b>0.3x</b>	<b>1.1x</b>	<b>9.4%</b>	<b>10.6%</b>
Experian	EXPGY	\$8.91	NR	NR	\$9,142	2.9x	2.8x	8.6x	8.3x	14.1x	13.4x	6.7x	1.1x	11.1%	12.3%
Alliance Data Systems	ADS	\$67.24	\$67	MP	\$3,484	2.0x	1.6x	7.0x	5.6x	18.0x	12.6x	0.8x	1.4x	9.4%	10.9%
Acxiom	ACXM	\$15.07	\$18	MP	\$1,215	1.2x	1.0x	4.8x	4.0x	21.6x	16.9x	0.7x	1.6x	12.1%	15.0%
Harte-Hanks	HHS	\$12.13	\$10	UP	\$778	1.1x	1.1x	7.9x	7.7x	15.2x	14.3x	-1.9x	1.1x	8.5%	8.7%
<b>Database Marketing</b>					<b>Mean</b>	<b>1.8x</b>	<b>1.6x</b>	<b>7.1x</b>	<b>6.4x</b>	<b>17.2x</b>	<b>14.3x</b>	<b>1.6x</b>	<b>1.3x</b>	<b>10.3%</b>	<b>11.8%</b>
					<b>Median</b>	<b>1.6x</b>	<b>1.4x</b>	<b>7.4x</b>	<b>6.7x</b>	<b>16.6x</b>	<b>13.8x</b>	<b>0.8x</b>	<b>1.3x</b>	<b>10.3%</b>	<b>11.6%</b>
Google	GOOG	\$486.21	NR	NR	\$119,413	4.3x	3.4x	7.1x	5.6x	17.5x	15.2x	0.8x	1.3x	6.8%	7.8%
Amazon	AMZN	\$120.15	NR	NR	\$53,547	1.4x	1.0x	18.7x	13.9x	40.6x	30.5x	0.7x	3.1x	4.6%	5.7%
eBay	EBAY	\$22.03	NR	NR	\$28,793	2.4x	2.0x	6.8x	5.5x	13.2x	12.0x	1.6x	1.0x	9.4%	10.6%
Yahoo!	YHOO	\$14.91	NR	NR	\$20,651	1.9x	3.0x	5.4x	8.3x	22.0x	19.5x	0.4x	1.7x	5.6%	6.1%
IAC	IACI	\$22.67	NR	NR	\$2,224	0.7x	0.7x	4.7x	4.6x	30.7x	20.8x	0.6x	2.3x	8.2%	9.6%
Aol	AOL	\$19.98	NR	NR	\$2,132	0.6x	0.5x	2.3x	2.0x	14.2x	12.7x	na	1.1x	20.5%	22.8%
ValueClick	VCCLK	\$11.23	\$10	MP	\$912	1.8x	1.5x	6.2x	5.0x	18.6x	16.0x	-1.3x	1.4x	8.7%	9.7%
Sapient	SAPE	\$10.01	NR	NR	\$1,343	1.4x	1.1x	12.2x	8.8x	31.9x	20.9x	0.6x	2.4x	3.5%	4.9%
Constant Contact	CTCT	\$22.38	NR	NR	\$638	3.1x	2.4x	24.3x	14.9x	63.6x	33.2x	na	4.8x	na	na
<b>Interactive Advertising and Marketing Services</b>					<b>Mean</b>	<b>2.0x</b>	<b>1.8x</b>	<b>9.7x</b>	<b>7.6x</b>	<b>28.0x</b>	<b>20.1x</b>	<b>0.5x</b>	<b>2.1x</b>	<b>8.4%</b>	<b>9.6%</b>
					<b>Median</b>	<b>1.8x</b>	<b>1.5x</b>	<b>6.8x</b>	<b>5.6x</b>	<b>22.0x</b>	<b>19.5x</b>	<b>0.6x</b>	<b>1.7x</b>	<b>7.5%</b>	<b>8.7%</b>
Microsoft	MSFT	\$25.35	NR	NR	\$222,163	3.0x	2.5x	7.1x	6.1x	12.4x	11.0x	0.6x	0.9x	9.7%	10.7%
Google	GOOG	\$486.21	NR	NR	\$119,413	4.3x	3.4x	7.1x	5.6x	17.5x	15.2x	0.8x	1.3x	6.8%	7.8%
Oracle	ORCL	\$21.98	NR	NR	\$110,320	3.9x	2.9x	8.5x	6.8x	13.6x	11.6x	1.0x	1.0x	8.0%	9.7%
SAP AG	SAP-FF	\$36.21	NR	NR	\$44,389	3.6x	3.2x	11.0x	9.4x	17.3x	15.3x	0.9x	1.3x	6.3%	7.3%
Adobe	ADBE	\$31.30	NR	NR	\$16,477	3.9x	3.4x	9.1x	7.7x	17.1x	14.8x	0.8x	1.3x	7.3%	8.1%
Salesforce.com	CRM	\$91.12	NR	NR	\$11,727	8.6x	6.8x	64.9x	41.2x	na	na	na	na	2.2%	2.6%
Akamai	AKAM	\$42.50	NR	NR	\$7,315	6.3x	5.3x	13.3x	11.4x	30.5x	27.2x	-2.0x	2.3x	5.2%	5.4%
Sage Group	SGE-LN	\$2.41	NR	NR	\$3,153	2.4x	2.2x	9.0x	8.2x	0.1x	0.1x	na	0.0x	8.9%	9.6%
GSI Commerce	GSIC	\$28.50	NR	NR	\$1,770	1.3x	1.0x	11.8x	9.2x	na	na	na	na	8.0%	9.3%
Digital River	DRIV	\$25.75	NR	NR	\$1,020	1.5x	1.3x	9.3x	5.6x	33.6x	20.1x	-0.6x	2.5x	4.2%	8.0%
DG Fastchannel	DGIT	\$38.98	NR	NR	\$1,107	5.3x	4.8x	12.1x	10.1x	27.5x	21.3x	0.3x	2.1x	na	na
Limelight Networks	LLNW	\$3.95	NR	NR	\$349	1.6x	1.4x	11.6x	9.0x	na	na	na	na	0.9%	5.7%
Unica	UNCA	\$9.41	NR	NR	\$201	1.4x	1.1x	10.3x	na	25.6x	16.5x	na	1.9x	4.4%	na
<b>Advertising Tech and SaaS</b>					<b>Mean</b>	<b>3.6x</b>	<b>3.0x</b>	<b>14.2x</b>	<b>10.9x</b>	<b>19.5x</b>	<b>15.3x</b>	<b>0.2x</b>	<b>1.5x</b>	<b>6.0%</b>	<b>7.7%</b>
					<b>Median</b>	<b>3.6x</b>	<b>2.9x</b>	<b>10.3x</b>	<b>8.6x</b>	<b>17.4x</b>	<b>15.3x</b>	<b>0.7x</b>	<b>1.3x</b>	<b>6.6%</b>	<b>8.0%</b>
Gartner	IT	\$24.37	NR	NR	\$2,344	2.0x	1.8x	13.0x	10.5x	23.4x	19.4x	1.0x	1.8x	na	na
GfK	GFK-FF	€ 27.33	NR	NR	€ 981	1.1x	1.0x	7.2x	6.2x	11.8x	10.3x	0.3x	0.9x	13.6%	15.1%
Ipsos	IPS-FR	€ 28.90	NR	NR	€ 938	1.1x	1.0x	8.8x	7.6x	14.3x	12.4x	0.4x	1.1x	9.4%	10.7%
Arbitron	ARB	\$29.09	NR	NR	\$774	2.0x	1.1x	7.7x	4.1x	17.8x	14.0x	1.2x	1.3x	na	na
comScore	SCOR	\$16.29	NR	NR	\$505	2.5x	2.0x	11.8x	8.8x	72.1x	41.1x	1.0x	5.5x	6.6%	8.0%
Rentrak	RENT	\$21.02	NR	NR	\$222	2.1x	1.7x	na	37.1x	na	26.6x	na	na	2.7%	4.1%
<b>Data and Information Services</b>					<b>Mean</b>	<b>1.8x</b>	<b>1.4x</b>	<b>9.7x</b>	<b>12.4x</b>	<b>27.9x</b>	<b>20.6x</b>	<b>0.8x</b>	<b>2.1x</b>	<b>8.0%</b>	<b>9.5%</b>
					<b>Median</b>	<b>2.0x</b>	<b>1.4x</b>	<b>8.8x</b>	<b>8.2x</b>	<b>17.8x</b>	<b>16.7x</b>	<b>1.0x</b>	<b>1.3x</b>	<b>8.0%</b>	<b>9.4%</b>

Source: Company reports, BMO Capital Markets and Thomson Financial for uncovered companies.

NOTES

# Advertising Agencies and Marketing Services

May 8, 2009

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Industry Ratings: Market Perform

## The Race for the Digital Marketing Hub: Version 1.0

**The most important long-term issue for agency and marketing services investors is the continued adoption of digital marketing techniques and its effect on the value chain over the next decade-plus.** “Disintermediation risk” by new technology players is justifiably near the top of the question list when valuing the stocks of incumbent (holding companies, database marketers, etc.) and newer technology players (digital analytics/optimization/serving, software-as-a-service, etc.).

**The digital marketing hub is the point at which relationship-driven media planning and buying meets technology services and infrastructure.** In this sense, the hub is not new as database marketers, enterprise CRM/back office software companies (and in-house solutions) have provided this type of interface for several decades. However, with the advent of two-way digital channels (online, mobile, etc.) and delivery methods (IP-based wired and wireless networks, etc.), the pace of innovation has accelerated. Functionally, the digital marketing hub absorbs all of the new digital marketing data harvested from these networks, organizes and analyzes it, and then uses it to optimize marketing campaigns.

**We see five fundamental drivers that will determine winners and losers.** 1) diversification of the “tool set”; 2) evolution of application delivery to on-demand/software-as-a-service model; 3) conflict of interest management; 4) relationships with marketers and proximity to CMO, IT and CFO; and 5) management of privacy legislation and security of consumer data.

**We believe the revenue pool for hub applications and related services revenue (including market research) is approximately \$46 billion** and should resume a mid-single digit growth rate after a 2% pullback in 2009. This figure represents the collective revenue pools of CRM applications focused on marketing (as opposed to sales and customer service) and related services revenue (implementation, training, support, etc.) as well as revenue earned by media agencies and market research companies.

**The prevailing wisdom is that incumbent models are at risk of long-term multiple contraction due to disintermediation, but it’s not that simple.** Incumbent players are improving their offering and efficiency through the migration to digital marketing hub platforms, as traditional revenue streams wither away. As importantly, incumbents can take advantage of the increased complexity that is driving the need for a digital marketing hub, to grow revenue throughout the value chain (for example, increased personalization of creative).

### Summary

- The most important long-term issue for marketing services investors is the continued adoption of digital marketing techniques and its effect on the value chain over the next decade-plus.
- The digital marketing hub is the point at which relationship-driven media planning and buying meets technology services and infrastructure.
- We see five drivers that will determine winners and losers. 1) diversification of the “tool set”; 2) evolution of delivery to on-demand/software-as-a-service model; 3) conflict of interest management; 4) relationships with marketers and proximity to the CMO, IT and CFO; and 5) management of privacy legislation.
- We believe the revenue pool for hub applications and related services revenue (including market research) is approximately \$46 billion.
- The prevailing wisdom is that incumbent models are at risk of long-term multiple contraction due to disintermediation, but it’s not that simple.

## What Is the Digital Marketing Hub?

**The digital marketing hub is the point at which relationship-driven media planning and buying meets technology services and infrastructure.** In this sense, the hub is nothing new as database marketers, enterprise CRM and back office software companies (as well as in-house solutions) have provided this type of interface for several decades. However, with the advent of two-way digital marketing channels (online, mobile, etc.) and delivery methods (IP-based wired and wireless networks, etc.), the pace of innovation has been accelerated. Functionally, the digital marketing hub absorbs all of the new digital marketing data harvested from these networks, organizes and analyzes it, and then uses it to optimize marketing campaigns. Both the usefulness and take-up rate of the digital marketing hub will increase as each of the following secular factors accelerates:

- **Proliferation of digital devices for video, audio and text.** Each new digitally connected device (be it a laptop, smartphone or e-book reader) presents an opportunity to deliver messages to consumers and gauge feedback. So too does the growth of digital out-of-home displays which can be better targeted via GPS, Bluetooth, and other technologies. In fact, a mobile device and digital billboard can work in tandem to target and deliver a promotion.
- **Growth of high speed wireless (WiMax, WiFi, CDMA, GSM, etc.) and wired (IPTV, broadband, etc.) communications networks.** Without these networks, mobile devices and out-of-home displays are nothing dumb screens and audio speakers.
- **Improvement of delivery, reporting and targeting systems.** Put more digital devices into pockets and purses, connect them to networks and the last thing needed to harness the power of the hub is the requisite systems to deliver, personalize, and analyze customer marketing messages.

**Digital marketing hub interfaces are evolving and becoming easier to use by delivering the hub to multiple platforms.** For example, Omniture's services are now available to customers via mobile devices in order to monitor marketing and customer activities on the go.

## Why Is the Digital Marketing Hub Important?

**The digital marketing hub adds value by better organizing and using customer data to inform, execute and re-target media and marketing plans.** The value chain for marketing services can be broken down into three broadly defined stages:

- Planning and strategy
- Creative and design
- Buying and execution

**The digital marketing hub will disintermediate many elements of the traditional buying and execution models and drive innovation (technological and otherwise) in both creative and planning.** The fragmentation and digitization of media and marketing channels creates both new challenges (re-aggregation of audiences, etc.) and opportunity (message targeting, better measurement of ROI, etc.) for marketers and their vendors. Incumbent business models (traditional agencies, database marketing, hosted enterprise software, etc.) are being

challenged by new ones (digital analytics/optimization, on-demand software delivery, etc.). Companies are emerging with pure-play offerings in new models, while incumbents are evolving their offerings and long-term strategies through internal R&D and acquisitions. Below we outline on how the digital marketing hub will drive innovation in each phase of the value chain for advertising and marketing services.

### **Buying: More Feedback and Better Ability to Make Real Time Changes**

**We generally discuss them in tandem in this report due to their legacy home in media agencies, but the difference the traditional media buying and planning models is important.** The proliferation of customer marketing feedback channels through the development of digital networks has provided marketers and vendors much more information on which to base marketing decisions. Add this to the increasing fragmentation of audiences and the need for a central hub to coordinate and optimize this data is clear.

**While the ability to better target customers is frequently noted, the ability to tweak campaigns when results turn out differently is just as important.** As the hub collects and organizes feedback to better inform the planning stage (see below), it also allows marketers to communicate quickly with media owners and adapt campaigns as a result of new analysis more easily. The idea of changing a campaign on the fly is not new, but the hub makes the process more efficient and increases marketing ROI.

**This all being said, the risk that the digital marketing hub will completely disintermediate the human relationships in the buying process is overdone.** Media agencies' revenues will not "go to zero." The holding companies have and will continue to make investments in the technology that is challenging their traditional turf and are re-positioning personnel to adapt; many agencies are already cross-training buyers to provide more planning services and to better utilize new digital tools. In addition to this repositioning, we see two ways in which relationships will remain essential to media buying:

1. **Marketers (particularly large ones) will always seek deals in buying media, even at the last minute,** long after volume discounts, product placements or cross-sold ads in a complementary medium are negotiated. For example, consider the situation when a major marketer (and preferred client) needs to launch a last minute campaign. The recent soap and disinfectant campaigns from consumer packaged goods companies in response to the swine flu epidemic is a good example. The human element is required to manage smaller clients whose ads (on which they have spent a considerable sum of money) may be bumped from a prime spot on network television (say, a highly rated, Thursday night show).
2. **As media buying becomes more technology-based, the need for IT support increases.** Enterprise software companies have long understood that a successful license or subscription agreement must be accompanied by the requisite level of implementation, training, and maintenance support. While these roles differ from that of a traditional media buyer, they ensure that relationships will remain a vital part of the media buying process.

## Planning: More Left Emerging in the “Right Brain-Left Brain” Dynamic

**Media planning is evolving to incorporate a greater degree of quantitative analysis.** Marketers have long tried to incorporate more data to planning; this has driven growth of the market research industry in augmenting the role of traditional media planners. The digital marketing hub accelerates data-informed planning and also helps manage the fragmentation of audiences as the media and marketing ecosystem gets increasingly complex. A number of start-ups have been acquired in recent years to capitalize on this trend. This includes Compete (by Taylor Nelson Sofres, itself since acquired by WPP), Hitwise (Experian), and Alexa (Amazon).

## Creative: Targeted Ad Copy, More Metrics, Best Work Gets Premium

**Better targeting consumers requires more personalized ad copy, which should support revenues in the creative/design portion of the value chain.** Again, not a new trend but one that has accelerated due to digital communications systems and tools such as behavioral targeting and personalized emails. As traditional media transitions to digital platforms, this opportunity is growing. For example, the launch of the major cable companies’ Project Canoe aims to bring online-like targeting to television, which should provide a boost to traditional creative agencies that have been built upon television advertising.

**More feedback data will also help creative personnel craft more effective ads, better justify their budgets, and demand premiums for the best work.** While marketers have long tried to tie the effectiveness of creative work to sales impact, the digital marketing hub will make this process more effective and efficient. Once the ROI of creative work can be better judged, the best-performing personnel/organizations will be better able to price top work at a premium.

**All of these factors play to the benefit of traditional creative agencies and digital/direct marketing creative services, but it may also dramatically change their operating model.** As digital communications networks spread, they create more opportunity for “crowd-sourcing” ideas. For example, Doritos has run contests for consumers to create ads on their behalf. While we don’t see this type of 100% “user-outsourced” model as a solution for most marketers, it should challenge creative agencies to sharpen their focus. Whereas many creative agencies outsource the actual creation of an ad (e.g., video production companies, independent photographers, etc.) this evolution will also allow/force them to incorporate more “open source” ideas as well.

## Fundamental Factors Determining Winners and Losers

1. **Growth and Diversification of the “Tool Set.”** This comes in a variety of forms for different business models. For media agencies, it means evolving beyond price negotiating prowess and relationship management to incorporate more technology skill sets/tools and tying themselves more closely to market research and other data sources. For example, we believe WPP has made the most significant investment in analytics (including an investment in Omniture) and is gradually tying its market research and media buying units together more closely. For incumbent enterprise software providers (such as SAP and Oracle) it means adding more analytics and execution tools to their suites and more closely tying their hubs to media vendors. This group includes specialist media agency software providers such as MediaBank and Donovan Data Systems. Analytics and marketing CRM

vendors are striving to grow their predictive modeling, behavioral targeting and media buying capabilities. For example, most of the top web analytics and optimization suites (Omniure, Coremetrics, Webtrends, Google, etc.) have incorporated tools to buy paid search keywords based on data culled from analytics tools.

2. **Evolution of application delivery to On-Demand/Software-as-a-Service model.** The software industry as a whole is undergoing the transition to “on-demand” from “locally hosted” software. The SaaS model’s advantages versus the traditional hosted application model include:
  - **Allows vendors to more easily integrate third-party applications.** A successful digital marketing hub vendor will need to integrate services and tools from other vendors and the media owners to which the marketing message is delivered.
  - **Scale advantages.** The incremental cost of an additional user is lower than for hosted solutions as the new user simply becomes the latest node on the network.
  - **A lot of customer service can be done remotely,** without the need to visit a client to maintain a hosted application. Webinars and other customer service tools can be used for training, etc.
  - **Software upgrades and the integration of new components and intellectual property can be rolled out more easily,** as the vendor updates the software and users enjoy the added value immediately upon next accessing the service.
  - **Compatibility issues are essentially limited to web browsers and access tools,** eliminating problems with integrating new software applications with a customer’s in-house operating systems and onsite infrastructure.
3. **Conflict of interest management.** There are two primary types of interest conflict in the marketing services ecosystem.
  - **Client conflict.** Specifically the ability of a single vendor to work for multiple clients that compete against one another. For example, the agency holding companies are well-versed in managing this conflict and have developed independent media agencies to compensate (e.g., WPP’s GroupM includes four major media agencies, Mediacom, Mediaedge:cia, Mindshare and Maxus).
  - **Channel conflict.** Specifically the ability of marketing application and service vendor to maintain independence when it also owns media/marketing channels. For example, Google’s digital marketing hub tools (which are primarily aimed at small and medium business owners) face an impediment to adoption by enterprise clients due to the company’s ownership of a major search engine and a variety of outlets for advertising.
4. **Relationships with marketers and proximity to CMO, IT and CFO/procurement.** The success of a digital marketing hub vendor will depend greatly on the strength of the relationship with the Chief Marketing Officer. In this sense, we believe media agencies have an advantage as they hold the traditional role of “consigliere” to the CMO (think Robert Duvall playing Tom Hagen in *The Godfather*). Incumbent enterprise software and database marketers are also in a good position because of their strong ties with both CMOs and IT departments. Increasingly, however, we believe the relationship must flow further

up the enterprise food chain (to the procurement department, Chief Financial Officer and ultimate Chief Executive Officer) and by providing greater data-supported performance reports, this flow upstream should be facilitated. Again, this is not new; we often hear that long-standing agency partnerships are based on agency leaders' relationships with upper management.

5. **Management of privacy legislation and security of consumer data.** We are a firm believer that as each day passes, privacy legislation becomes less important. Younger generations have a significantly different concept of privacy than older ones and as these consumers gain power (purchasing and otherwise), society's concept of privacy and appropriate public information will change with it. That said, protection of consumer information will always remain a priority for digital marketing hub vendors and will remain critically important for the next 5-10 years at least. Vendors that can secure consumer information with certainty and adapt to government policy (no small feat, as global companies will have hundreds of jurisdictions to manage) will have an advantage over those that don't.

## Potential Market Size and Revenue Pool

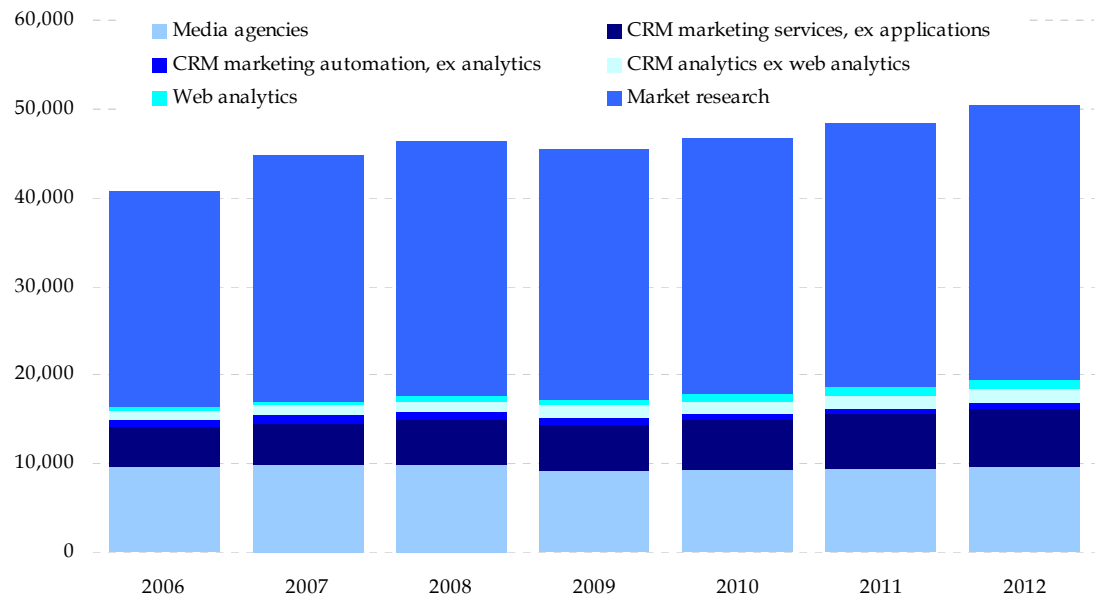
**We believe the worldwide revenue base for digital marketing hub applications and related services revenue (including market research) is approximately \$46 billion and should resume a mid-single digit growth rate after a 2% pullback in 2009.** This figure represents the collective revenue pools of CRM applications focused on marketing (as opposed to sales and customer service) and related services revenue (implementation, training, support, etc.) as well as revenue earned by media agencies and market research companies.

**Exhibit 1. Digital Marketing Hub and Associated Service Revenues and Growth Rates**

<i>Absolute \$ in millions</i>	2006	2007	2008	2009	2010	2011	2012
Web analytics revenue	415	514	611	703	813	943	1,080
<u>Other</u>	<u>976</u>	<u>1,104</u>	<u>1,202</u>	<u>1,287</u>	<u>1,421</u>	<u>1,565</u>	<u>1,736</u>
CRM analytics revenue	1,391	1,617	1,813	1,990	2,234	2,508	2,815
<u>Other</u>	<u>823</u>	<u>946</u>	<u>914</u>	<u>823</u>	<u>686</u>	<u>614</u>	<u>541</u>
CRM marketing automation application revenue	2,214	2,563	2,727	2,813	2,920	3,121	3,356
<u>Related CRM marketing services revenue</u>	<u>4,583</u>	<u>4,778</u>	<u>5,153</u>	<u>5,218</u>	<u>5,718</u>	<u>6,098</u>	<u>6,611</u>
Total CRM marketing revenue	6,797	7,341	7,880	8,031	8,638	9,219	9,967
Market research revenue	24,349	27,709	28,716	28,260	28,825	29,690	30,878
<u>Media agency revenue</u>	<u>9,566</u>	<u>9,756</u>	<u>9,780</u>	<u>9,193</u>	<u>9,193</u>	<u>9,377</u>	<u>9,565</u>
<b>"DMH" and related service revenue</b>	<b>40,712</b>	<b>44,806</b>	<b>46,376</b>	<b>45,484</b>	<b>46,656</b>	<b>48,286</b>	<b>50,409</b>
<b>Year-over-year growth</b>							
Web analytics revenue	na	23.7%	19.0%	15.0%	15.6%	16.0%	14.5%
<u>Other</u>	<u>na</u>	13.1%	8.9%	7.1%	10.4%	10.1%	10.9%
CRM analytics revenue	na	16.3%	12.1%	9.8%	12.2%	12.3%	12.3%
<u>Other</u>	<u>na</u>	14.9%	-3.4%	-10.0%	-16.6%	-10.6%	-11.8%
CRM marketing automation application revenue	na	15.8%	6.4%	3.2%	3.8%	6.9%	7.5%
<u>Related CRM marketing services revenue</u>	<u>na</u>	4.3%	7.8%	1.3%	9.6%	6.6%	8.4%
Total CRM marketing revenue	na	8.0%	7.3%	1.9%	7.6%	6.7%	8.1%
Market research revenue	na	13.8%	3.6%	-1.6%	2.0%	3.0%	4.0%
Media agency revenue	<u>na</u>	2.0%	0.2%	-6.0%	0.0%	2.0%	2.0%
<b>"DMH" and related service revenue</b>	<b>na</b>	<b>10.1%</b>	<b>3.5%</b>	<b>-1.9%</b>	<b>2.6%</b>	<b>3.5%</b>	<b>4.4%</b>

Source: Advertising Age and BMO Capital Markets for media agency revenue, IDC for analytics and other CRM data and forecasts, GroupM for market research historical figures and forecasts through 2009, BMO Capital Markets for 2010-2012 estimates.

**The revenue pool can be broken down into three broad categories: marketing-focused CRM application and services revenue, media agency revenues, and market research.** For media agency figures we use *Advertising Age's* estimates of US media agency revenue and assume that roughly the same amount is earned by international media agencies. We apply our own growth estimates to derive figures out to 2012. For market research figures we use GroupM's figures and estimates through 2009 and add our own estimates for 2010-2012.

**Exhibit 2. Digital Marketing Hub and Associated Service Revenues**

Source: Advertising Age and BMO Capital Markets for media agency revenue, IDC for analytics and other CRM data and forecasts, GroupM for market research historical figures and forecasts through 2009, BMO Capital Markets for 2010-2012 estimates.

For CRM application and services revenue IDC is our source for both historical figures and forecasts. This revenue pool is broken down first into two sub-groups:

1. **CRM marketing applications revenue** (license and subscription fees for software)
2. **CRM marketing services revenue** (professional fees paid for planning, implementation, training and customer service, etc.)

We then break down the **CRM marketing application** revenue into two sub-groups:

- a) **CRM analytics application revenue**
- b) **Other CRM marketing automation application revenue**

Finally, the CRM analytics figures can be broken down into two separate groups:

- I. **Web analytics revenue**
- II. **Other CRM analytics revenue**

Admittedly, the boundaries between the sub-categories can blur and distinctions between application and related service revenue can overlap at times, however we believe this represents a good figure from which the financial potential of the digital marketing hub can be based.

### From “Digital Marketing Hub” to “Digital Customer Hub”

**If other traditional CRM disciplines (namely sales and customer interaction) are added to the marketing revenue pool, potential “digital hub” revenue would reach \$63 billion.** We believe that the different CRM applications and services (i.e., marketing, sales and customer service) are gradually merging into one another as digital communications systems generate more “feedback” data and tie all customer interactions more closely together. From this

standpoint, the “digital marketing hub” has the opportunity to evolve into a “digital customer hub” that incorporates a holistic view of the entire marketing/sales/customer interaction cycle.

### Exhibit 3. Potential “Digital Customer Hub” Revenue as CRM Functions Merge

<i>Absolute \$ in millions</i>	2006	2007	2008	2009	2010	2011	2012
Total CRM marketing revenue	6,797	7,341	7,880	8,031	8,638	9,219	9,967
Market research revenue	24,349	27,709	28,716	28,260	28,825	29,690	30,878
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<b>"Digital Marketing Hub" and related revenue</b>	<b>40,712</b>	<b>44,806</b>	<b>46,376</b>	<b>45,484</b>	<b>46,656</b>	<b>48,286</b>	<b>50,409</b>
CRM customer interaction revenue	8,770	9,472	10,168	10,103	10,258	10,660	11,881
CRM sales revenue	6,358	6,867	7,372	7,772	8,099	8,931	9,418
<b>"Digital Customer Hub" and related revenue</b>	<b>55,840</b>	<b>61,145</b>	<b>63,916</b>	<b>63,359</b>	<b>65,013</b>	<b>67,877</b>	<b>71,708</b>
<i>Year-over-year growth</i>							
Total CRM marketing revenue	na	8%	7%	2%	8%	7%	8%
Market research revenue	na	14%	4%	-2%	2%	3%	4%
Media agency revenue	<u>na</u>	<u>2%</u>	<u>0%</u>	<u>-6%</u>	<u>0%</u>	<u>2%</u>	<u>2%</u>
<b>"Digital Marketing Hub" and related revenue</b>	<b>na</b>	<b>10%</b>	<b>4%</b>	<b>-2%</b>	<b>3%</b>	<b>3%</b>	<b>4%</b>
CRM customer interaction revenue	na	8%	7%	-1%	2%	4%	11%
CRM sales revenue	na	8%	7%	5%	4%	10%	5%
<b>"Digital Customer Hub" and related revenue</b>	<b>na</b>	<b>10%</b>	<b>5%</b>	<b>-1%</b>	<b>3%</b>	<b>4%</b>	<b>6%</b>

Source: Advertising Age and BMO Capital Markets for media agency revenue, IDC for analytics and other CRM data and forecasts, GroupM for market research historical figures and forecasts through 2009, BMO Capital Markets for 2010-2012 estimates.

## Valuation and M&A Implications

The prevailing wisdom is that incumbent business models are at risk of long-term multiple contraction due to disintermediation from new models, but it's not that simple. Incumbent players are improving their offering and operating efficiency through the migration to digital marketing hub platforms, as traditional revenue streams wither away. As importantly, incumbents can take advantage of the increased complexity that is driving the need for a digital marketing hub, to grow revenue throughout the value chain (for example, increased personalization of creative). Below we explore some of the drivers and constraints of valuation multiples as the race for the digital marketing hub picks up pace:

- Agency Holding Companies.** Media agencies are under pressure as new technology enters their traditional turf. However, there is nothing stopping them from investing in these new models in a variety of forms (internal R&D, equity investments, 100% acquisitions, etc.) and the holding companies have a great deal of experience in merging new marketing services tools and techniques into their offering. Moreover, media agencies will likely still serve as the primary “human advisor” to the CMO for some time to come. Finally, holding companies can potentially reap new benefits at their creative agencies as marketers demand more (personalized) ad copy.
- Enterprise CRM Marketing Software Vendors.** The valuation effect is somewhat limited for larger players in this area (Oracle, SAP) that offer suites that go beyond marketing automation to all departments of the enterprise. That said, new pure-play software-as-a-service providers do not need to protect legacy business models (i.e., hosted-on-premise software) in growing and diversifying their offering and this will challenge incumbents to innovate.

- **Database Marketers.** These companies are the legacy proprietors of customer marketing databases and have a variety of advantages, such as experience in segmentation and targeting offline media and management of data privacy legislation. But as a group, we are concerned that the level of investment in digital analytics and new “on-demand” delivery models has lagged too much and that new players will increasingly encroach on their territory as marketers shift their focus to emerging channels such as mobile.
- **Analytics, Optimization and Serving.** This is a diverse group of companies that ranges from behemoths like Microsoft and Google to small-cap public companies like Omniture to the dozens of start-ups in the space. The race for the digital marketing hub should help support all of their valuations. First, these companies have digital technology in their DNA and are not beholden to incumbent business models, making them more agile and flexible in serving clients. Second, many of these companies are evolving from “analytics” to the “application of analytics.” This opens up new revenue pools, including the estimated \$8 billion of revenue paid to media agencies for placing advertising budgets.
- **Market Research.** Companies in this space have been one of the few active areas of M&A activity in the recession (most notably WPP’s acquisition of Taylor Nelson Sofres) as their value increases by being more easily integrated with digital marketing hubs. Investment in digital tools (emerging digital channel measurement, online surveys, etc.) is needed to continue evolving the offering and more effectively wrap services around the hub.

**From an M&A perspective, we expect to continue to see many start-ups in analytics and targeting scooped up** by holding companies, enterprise software vendors, major Internet companies and media owners over the intermediate term. A reacceleration of the M&A (and IPO) market should ride on the back of an economic recovery. Whether or not the M&A market re-accelerates to the pace seen in 2007 – when private equity sponsors were also active participants – remains to be seen. These financial players showed particular interest in database marketing as attempts were made to take both Alliance Data Systems and Acxiom private

**The long-term potential for “transformational” M&A is also intriguing.** As the marketing services value chain incorporates more digital platforms and companies such as Google and Microsoft possess substantial financial resources, we believe it is possible that agency holding companies and database marketers become takeout targets down the road. No doubt there are a variety of barriers to this: large Internet companies have channel conflict with their own media properties, the corporate cultures are dramatically different, and traditional marketing services possess lower margins, are more relationship-driven and would need to be well above the current ~20% level for revenue from digital services.

## Exhibit 4. Comparable Valuation Multiples for Digital Marketing Hub Players

Company	Ticker	5/6/09		Rating	Market Cap (mm)	EV/Rev.		EV/EBITDA		P/E		2009	2009	P/FCF		
		Price	Target			2009	2010	2009	2010	2009	2010	PEG	vs S&P	2009	2010	
Omnicom Group	OMC	\$32.19	\$36	OP	\$9,886	1.0x	0.9x	6.7x	6.2x	12.2x	11.7x	-0.8x	0.9x	10.3x	10.7x	
WPP plc	WPP@LN	£4.93	£4.50	MP	£6,514	0.9x	0.9x	5.8x	5.5x	10.9x	10.8x	9.3x	0.8x	6.9x	6.9x	
Interpublic Group	IPG	\$5.78	\$7	MP	\$3,252	0.4x	0.3x	3.2x	2.4x	15.0x	13.6x	-0.5x	1.1x	6.4x	6.3x	
Publicis Groupe	PUB@FP	€ 24.31	€ 23	MP	€ 5,153	1.1x	1.0x	6.1x	5.7x	12.0x	11.7x	-1.7x	0.9x	8.7x	8.6x	
Havas	HAV@FP	€ 2.51	NR	NR	€ 1,080	0.7x	0.7x	5.8x	5.5x	12.1x	11.9x	-0.9x	0.9x	8.7x	8.4x	
Aegis	AGS@LN	£0.89	NR	NR	£1,027	0.9x	0.9x	6.7x	6.5x	10.2x	10.3x	0.5x	0.7x	6.7x	6.3x	
MDC Partners	MDCA	\$5.32	\$8	OP	\$152	0.4x	0.3x	3.6x	2.6x	26.2x	15.0x	nm	1.9x	4.0x	3.6x	
Cossette	KOS@CN	\$3.17	NR	NR	\$54	0.3x	0.3x	3.0x	2.4x	7.6x	7.2x	-0.2x	0.6x	nm	nm	
<b>Agency Holding Companies</b>						<b>Mean</b>	<b>0.7x</b>	<b>0.7x</b>	<b>5.1x</b>	<b>4.6x</b>	<b>13.3x</b>	<b>11.5x</b>	<b>0.8x</b>	<b>1.0x</b>	<b>7.4x</b>	<b>7.3x</b>
						<b>Median</b>	<b>0.8x</b>	<b>0.8x</b>	<b>5.8x</b>	<b>5.5x</b>	<b>12.1x</b>	<b>11.7x</b>	<b>-0.5x</b>	<b>0.9x</b>	<b>6.9x</b>	<b>6.9x</b>
Experian (ADR)	EXPGY	\$7.00	NR	NR	\$7,161	2.5x	nm	8.3x	nm	11.8x	nm	nm	0.8x	nm	nm	
Alliance Data Systems	ADS	\$41.91	NR	NR	\$2,469	1.5x	1.4x	5.1x	4.8x	8.3x	7.1x	0.6x	0.6x	4.8x	4.4x	
Axciom	ACXM	\$9.23	NR	NR	\$722	1.1x	1.1x	4.1x	4.1x	10.4x	9.5x	0.5x	0.7x	nm	nm	
Harte-Hanks	HHS	\$8.82	\$6	MP	\$565	0.8x	0.8x	7.1x	6.8x	16.0x	14.7x	-0.3x	1.2x	8.6x	9.3x	
infoUSA	IUSA	\$5.08	NR	NR	\$290	1.0x	1.0x	6.1x	5.9x	10.0x	8.9x	nm	0.7x	nm	nm	
<b>Database Marketing</b>						<b>Mean</b>	<b>1.4x</b>	<b>1.1x</b>	<b>6.1x</b>	<b>5.4x</b>	<b>11.3x</b>	<b>10.0x</b>	<b>0.3x</b>	<b>0.8x</b>	<b>6.7x</b>	<b>6.8x</b>
						<b>Median</b>	<b>1.1x</b>	<b>1.0x</b>	<b>6.1x</b>	<b>5.4x</b>	<b>10.4x</b>	<b>9.2x</b>	<b>0.5x</b>	<b>0.7x</b>	<b>6.7x</b>	<b>6.8x</b>
Microsoft	MSFT	\$19.32	NR	NR	\$171,943	2.4x	2.4x	6.1x	5.9x	11.3x	10.7x	-1.3x	0.8x	9.0x	8.4x	
Google	GOOG	\$396.61	NR	NR	\$125,305	6.4x	5.2x	10.2x	8.4x	18.8x	16.6x	2.3x	1.4x	13.9x	12.4x	
Yahoo!	YHOO	\$14.80	NR	NR	\$20,645	3.5x	3.2x	13.1x	11.4x	41.6x	35.2x	-1.8x	3.0x	22.1x	20.0x	
Digital River	DRIV	\$36.99	NR	NR	\$1,412	2.3x	2.0x	8.1x	6.8x	19.1x	17.5x	4.5x	1.4x	12.7x	11.6x	
ValueClick	VCLK	\$10.05	\$8	MP	\$868	1.2x	1.0x	4.9x	4.3x	17.1x	15.3x	-1.2x	1.2x	17.1x	15.3x	
Omniture	OMTR	\$11.66	\$16	OP	\$833	1.8x	1.4x	9.2x	6.7x	21.6x	16.6x	0.7x	1.6x	28.9x	18.8x	
SPSS	SPSS	\$33.94	NR	NR	\$622	1.6x	1.6x	5.6x	5.3x	18.9x	17.6x	-4.2x	1.4x	13.7x	nm	
DG Fastchannel	DGIT	\$19.31	NR	NR	\$403	2.2x	1.9x	5.8x	4.8x	20.4x	13.4x	1.0x	1.5x	nm	nm	
<b>Analytics, Optimization and Serving Technology</b>						<b>Mean</b>	<b>2.7x</b>	<b>2.3x</b>	<b>7.9x</b>	<b>6.7x</b>	<b>21.1x</b>	<b>17.9x</b>	<b>0.0x</b>	<b>1.5x</b>	<b>16.8x</b>	<b>14.4x</b>
						<b>Median</b>	<b>2.2x</b>	<b>2.0x</b>	<b>7.1x</b>	<b>6.3x</b>	<b>19.0x</b>	<b>16.6x</b>	<b>-0.2x</b>	<b>1.4x</b>	<b>13.9x</b>	<b>13.8x</b>
Microsoft	MSFT	\$19.32	NR	NR	\$171,943	2.4x	2.4x	6.1x	5.9x	11.3x	10.7x	-1.3x	0.8x	9.0x	8.4x	
Oracle	ORCL	\$18.42	NR	NR	\$91,794	3.9x	3.6x	7.8x	7.1x	13.0x	12.3x	1.4x	0.9x	11.1x	11.0x	
SAP	SAP	\$37.50	NR	NR	\$44,512	2.8x	2.6x	nm	nm	16.0x	13.6x	-1.1x	1.2x	13.9x	13.1x	
Salesforce.com	CRM	\$41.18	NR	NR	\$5,082	3.5x	2.7x	nm	nm	nm	nm	nm	nm	22.6x	20.3x	
Sage Group	SGE@LN	\$1.94	NR	NR	\$2,547	2.1x	2.0x	8.9x	8.2x	12.4x	11.8x	1.4x	0.9x	10.8x	10.7x	
Teradata	TDC	\$20.50	NR	NR	\$3,559	1.8x	1.6x	9.3x	7.5x	18.7x	15.9x	-0.8x	1.4x	nm	nm	
Informatica	INFA	\$15.23	NR	NR	\$1,328	2.7x	2.2x	11.0x	8.3x	18.5x	16.3x	2.2x	1.3x	14.9x	14.1x	
Omniture	OMTR	\$11.66	\$16	OP	\$833	1.8x	1.4x	9.2x	6.7x	21.6x	16.6x	0.7x	1.6x	28.9x	18.8x	
Unica	UNCA	\$4.72	NR	NR	\$98	0.6x	0.5x	18.0x	6.2x	nm	27.8x	nm	nm	nm	nm	
<b>CRM and Enterprise Marketing Software</b>						<b>Mean</b>	<b>2.4x</b>	<b>2.1x</b>	<b>10.0x</b>	<b>7.1x</b>	<b>15.9x</b>	<b>15.6x</b>	<b>0.4x</b>	<b>1.1x</b>	<b>15.9x</b>	<b>13.8x</b>
						<b>Median</b>	<b>2.4x</b>	<b>2.2x</b>	<b>9.2x</b>	<b>7.1x</b>	<b>16.0x</b>	<b>14.7x</b>	<b>0.7x</b>	<b>1.2x</b>	<b>13.9x</b>	<b>13.1x</b>
Gartner	IT	\$13.26	NR	NR	\$1,251	1.3x	1.2x	9.1x	7.4x	17.6x	14.0x	-0.8x	1.3x	nm	nm	
GfK	GFK@GR	€ 18.34	NR	NR	€ 658	0.8x	0.7x	5.2x	4.5x	8.5x	7.5x	1.4x	0.6x	5.3x	4.7x	
Ipsos	IPS@FP	€ 18.50	NR	NR	€ 601	0.8x	0.7x	6.9x	6.2x	11.1x	10.2x	2.5x	0.8x	7.7x	7.2x	
Arbitron	ARB	\$20.51	NR	NR	\$543	1.3x	1.2x	6.3x	5.3x	13.5x	10.6x	1.1x	1.0x	nm	nm	
TiVo	TIVO	\$8.00	NR	NR	\$831	2.7x	3.2x	6.9x	nm	7.9x	nm	nm	0.6x	nm	nm	
ComScore	SCOR	\$11.65	NR	NR	\$348	2.3x	1.8x	nm	nm	76.1x	37.7x	-0.9x	5.5x	12.7x	10.4x	
Rentrak	RENT	\$10.09	NR	NR	\$106	0.7x	0.6x	6.2x	3.1x	15.3x	8.1x	0.2x	1.1x	nm	nm	
<b>Market Research and Media Measurement</b>						<b>Mean</b>	<b>1.4x</b>	<b>1.3x</b>	<b>6.8x</b>	<b>5.3x</b>	<b>21.4x</b>	<b>14.7x</b>	<b>0.6x</b>	<b>1.5x</b>	<b>8.5x</b>	<b>7.4x</b>
						<b>Median</b>	<b>1.3x</b>	<b>1.2x</b>	<b>6.6x</b>	<b>5.3x</b>	<b>13.5x</b>	<b>10.4x</b>	<b>0.7x</b>	<b>1.0x</b>	<b>7.7x</b>	<b>7.2x</b>

Source: Company reports, BMO Capital Markets and Thomson Financial for uncovered companies.

## Drivers for Different Hub Stakeholders

Below we review different groups of stakeholders in the digital marketing hub and their fundamental drivers (both positive and negative). We have delineated the companies by broad groups, however many companies have operations in multiple business models (particularly the holding companies).

### Media Agencies

- Execute purchases for the majority of traditional media, particularly expenditures for branding
- Strong relationships with media owners
- Holders of incumbent planning role to the largest marketers
- Technology savvy must be better ingrained in culture and skill set
- Relationships evolving from “negotiating and buying” to incorporate more IT-style services (training, implementation, etc.)

#### Exhibit 5. Selected Players: Media Agencies

Company	Unit/Selected Brands	Headquarters
Aegis	Carat	London, UK
Cossette	Cossette Media	Quebec City, Canada
Havas	Havas Media, AdNetik	Paris, France
Horizon Media	Columbus Media International (part owner)	New York, NY
Interpublic	Mediabrand/Initiative, Universal McCann, MC Media	New York, NY
MDC Partners	Mediakithchen, Varick Media Management	New York, NY
Omnicom	Omnicom Media Group/OMD, PHD, Resolution, Icon	New York, NY
Publicis	Vivaki/StarCom Mediavest, ZenithOptimedia	Paris, France
WPP	GroupM/Mindshare, MEC, MediaCom, Maxus	London, UK

Source: Company reports/websites/presentations and BMO Capital Markets.

### Analytics, Optimization and Serving Technology

- Innate engineering and software development expertise
- Primarily built upon new delivery techniques (on-demand, SaaS, etc.)
- Privacy risk is particularly acute versus other hub stakeholders
- Increase in volume of marketing messages due to digitization and fragmentation of marketing channels and customer targeting
- Newer models must increase proximity to CMOs, as well as IT and marketing analysts

**Exhibit 6. Selected Players: Analytics, Optimization and Serving Technology**

Company	Unit/Selected Brands	Headquarters
AdMob	Mobile Analytics	San Mateo, CA
Akamai	Acemo/ Advertising Decision Solutions	Cambridge, MA
AOL	AdTech, TACODA,	New York, NY
Atomic Labs	Pion	Mountain View, CA
AudienceScience	Targeting Marketplace	New York, NY
ContextWeb	ADSDAQ	New York, NY
Coremetrics	Analytics, Explore, Impression Attribution, Search Marketing Solutions	San Mateo, CA
DG FastChannel	Spot Box HD Xtreme, SpotCentral, AdGallery, SourceCreative, Unicast, Springbox	Irving, TX
Digital River	Fireclick	Eden Prairie, MN
EyeBlaster	Eyeblaster/ ACM, Search, Channel Connect for Mobile,	New York, NY
EyeWonder	AdWonder, LiveWonder, LocalWonder, Universal In-Stream Framework	Atlanta, GA
Google	TV Ads, Ad Planner, Analytics, Urchin, DoubleClick DART	Mountain View, CA
MediaMath	Singularity	New York, NY
Microsoft	Atlas, DrivePM	Redwood, CA
Omniure	Genesis, SiteCatalyst, SearchCenter, CMO Dashboard	Orem, UT
Pubmatic	PubMatic Premier, AdFlex	Palo Alto, CA
Rubicon Project	SmartMatch,	Los Angeles, CA
ValueClick	MediaPlex	Westlake Village, CA
Visible Measures	VisibleSuite	Boston, MA
Visible World	intelliSpot Connect, intelliSpot Dashboard, intelliSpot Video	New York, NY
Webtrends	Ad Director, Analytics, Marketing Warehouse, Score	Portland, OR
WPP	24/7 Real Media, INVIDI, Yield Software, Visible World	London, UK
X + 1	Site + 1, Media +1, Performance +1, Brand + 1	New York, NY
Yahoo!	Yahoo Wb Analytics (fka InvestTools), Right Media, APT	Sunnyvale, CA

Source: Company reports/websites/presentations and BMO Capital Markets.

**Database Marketers**

- Experience in building/cleansing/segmenting customer data
- Analytics tools for traditional direct marketing
- Institutional knowledge of current privacy legislation and adherence
- Lag newer entrants in adoption of software-as-service/on-demand delivery
- Lag newer entrants in digital analytics (web, mobile, interactive TV, etc.)

**Exhibit 7. Selected Players: Database Marketers**

Company	Unit/Selected Brands	Headquarters
Axciom	MarketEdge-X, InfoBase-X, Relevance-X, ConnectionPoint-X, Personix, MarketScape-X, BI Platform-X, Kefta	Little Rock, AR
Allant	Prevalence	Naperville, IL
Alliance Data Systems	Epsilon, AirMiles, LoyaltyOne, Purple@Epsilon, Abacus	Dallas, TX
Aspen Marketing	Identify! Plus, AppointNet, SmartTouch 2.0	West Chicago, IL
Choicepoint Precision	Strattem DirectLink	Alpharetta, GA
Equifax Database	TargetPoint, Connexus, TotalSouce XL,	Wakefield, MA
Experian	Experian Marketing Services, Hitwise, CheetahMail	Dublin, Ireland
Harte-Hanks	Trillium, Allink, CiTDB, SuppressMax, Aberdeen Group, Postfuture, nexTouch	San Antonio, TX
infoGROUP	Salesgenie.com, infoUSA, Donnelley Marketing, Walter Karl	Omaha, NE
IXI Corporation	WealthComplete, Investyles, Income360, CreditStyles, Cohorts, MarketMix	McLean, VA
KnowledgeBase (WPP)	IMPACT, DirectSuccess	Richardson, TX
Merkle	Knowledge Center, Alterion Acquire	Columbia, MD
Pluris Marketing	MORE, Integrated Marketing Solution (IMS)	Boston, MA
TargetBase (Omnicom)	XACT	Dallas, TX
Tranzact	Former assets of MarketNet and Data Warehouse	Fort Lee, NJ

Source: Company reports/websites/presentations and BMO Capital Markets.

**Media Agency and CRM Marketing Enterprise Software**

- Legacy position as CMO and marketing department processing and execution interface, particularly for traditional media
- Strong relationships with IT departments
- Frequently cross-sold as feature on broader enterprise business software suite
- Must continue to evolve offering for on-demand/SaaS model

**Exhibit 8. Selected Players: Media Agency and Other Enterprise Software**

Company	Unit/Selected Brands	Headquarters
Alterian	Marketing Suite	Bristol, UK
Aprimo	Enterprise, Professional, Agency, Xinet	Indianapolis, IN
Consona	Onyx, KNOVA, SupportSoft	Indianapolis, IN
Donovan Data Systems	iDesk, BrandOcean, MediaOcean	New York, NY/London, UK
Infor	CRM Epiphany, EAM, ERP	Alpharetta, GA
Informatica	PowerCenter, PowerExchange, Data Explorer	Redwood City, CA
MediaBank	O   X A   X, X   G, I   Q, A   V, C   D, F   P	Chicago, IL
Microsoft	Dynamics CRM	Redmond, WA
Neolane	Campaign, Interaction, Message Center, Lead, MRM	Newton, MA
Oracle (Siebel)	Marketing, CRM OnDemand, Siebel Contact Center,	Redwood Shores, CA
Salesforce.com	Marketing, Service, Force.com	San Francisco, CA
SAP	NetWeaver, SAP Marketing, CRM On-Demand	Walldorf, Germany
SAS Institute	Customer Intelligence Platform, Marketing Resource Management, Campaign Management	Cary, NC
Teradata	Teradata CRM	Miamisburg, OH
The Sage Group	ACT! by Sage, Sage SalesLogix, Sage CRM, Swiftpage	Newcastle Upon Tyne, UK
Unica	Affinium, Insight, Plan, Model, Detect, Leads, NetInsight	Waltham, MA

Source: Company reports/websites/presentations and BMO Capital Markets.

## Market Research and Media Measurement

- Increased demand for marketing data in order to justify investment
- Established relationships with corporate marketing departments
- Ties to media agencies co-owned within holding companies increasing
- Must continue to take-up digital tools (online surveys, etc.)

### Exhibit 9. Selected Players: Market Research and Media Measurement

Company	Unit/Selected Brands	Headquarters
Aegis	Synovate	London, UK
Amazon.com	Alexa	Seattle, WA
Arbitron	Portable People Meter, Arbitrends	Columbia, MD
comScore	MediaMetrix, AdMetrix	Reston, VA
GfK	GfK/NOP, GeoMarketing, Retail and Technology, Arbor, Custom Research, Automotive, Market Measures	Nuremburg, Germany
Ipsos	Ipsos/ MORI, Loyalty, ASI, MediaCT, Public Affairs, Interactive Services, Ipsos-Reid	Paris, France
Nielsen	ACNielsen, Nielsen Media Research, IMS, BookScan, SoundScan, Scarborough Research	New York, NY
Quantcast	Media Planner, Publisher, Marketer	San Francisco, CA
Rentrak	Essentials/ OnDemand, TV, Box Office, Mobile TV, Mobile OnDemand, Broadband, Digital Download	Portland, OR
TiVo	Stop   Watch	San Mateo, CA
WPP	Kantar, TNS, Compete	London, UK

Source: Company reports/websites/presentations and BMO Capital Markets.

Advertising Agencies	Rating	7-May Price	Target	EPS			P/E			Div	Yld	Book	Mkt Cap (\$mm)
				2008E	2009E	2010E	2008E	2009E	2010E				
Interpublic Group (IPG)	Market Perform	\$5.78	\$7	\$0.55	\$0.39	\$0.43	10.5	14.8	13.4	\$0.00	0.0%	\$3.33	3,254
MDC Partners (MDCA)	Outperform	\$5.32	\$8	\$0.37	\$0.20	\$0.35	14.4	26.6	15.2	\$0.00	0.0%	\$4.71	149
Omnicom Group (OMC)	Outperform	\$32.19	\$36	\$3.14	\$2.65	\$2.75	10.3	12.1	11.7	\$0.60	1.9%	\$11.46	9,915
Publicis Groupe (PUB)	Market Perform	\$24.58	\$23	\$2.17	\$2.02	\$2.08	11.3	12.2	11.8	\$0.80	3.3%	\$12.97	5,211
WPP plc (WPP)	Market Perform	\$4.93	\$5	\$0.45	\$0.45	\$0.46	11.0	11.0	10.7	\$0.23	4.7%	\$4.59	6,174

Source: BMO Capital Markets estimates and company reports.

Marketing Services	Rating	7-May Price	Target	EPS			P/E			Div	Yld	Book	Mkt Cap (\$mm)
				2008E	2009E	2010E	2008E	2009E	2010E				
Harte-Hanks (HHS)	Market Perform	\$8.82	\$6	\$1.03	\$0.55	\$0.60	8.6	16.0	14.7	\$0.30	3.4%	\$5.91	560
Marchex (MCHX)	Market Perform	\$3.95	\$5	\$0.37	\$0.25	\$0.28	10.7	15.8	14.1	\$0.08	2.0%	\$7.36	98
Omniture (OMTR)	Outperform	\$11.66	\$16	\$0.42	\$0.45	\$0.65	27.8	25.9	17.9	\$0.00	0.0%	\$9.02	886
Valassis (VCI)	Market Perform	\$4.91	\$2.0	\$0.51	\$0.44	\$0.61	9.6	11.2	8.0	\$0.00	0.0%	\$5.02	236
ValueClick (VCLK)	Market Perform	\$10.05	\$8	\$0.68	\$0.59	\$0.66	14.8	17.0	15.2	\$0.00	0.0%	\$7.17	872

Source: BMO Capital Markets estimates and company reports.

## Important Disclosures

### Analyst's Certification

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Buy	Outperform	35.3%	14.0%	39.1%	38.6%	45.1%	53.2%
Hold	Market Perform	62.3%	12.0%	59.4%	57.5%	51.8%	41.7%
Sell	Underperform	2.4%	8.3%	1.6%	3.9%	3.1%	5.1%

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(S) = speculative investment;

NR = No rating at this time;

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