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MENA MID-YEAR REPORT
JUNE 2020

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MENA Mid-Year Forecast Report

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Advertising will decline -25% in 2020

MENA advertising spend declined by -5.8% in 2019 and will now decline further as it faces a dual shock, COVID-19 and the drop-in oil prices.

Advertising spend was \$2,737Bn in 2019. Following the current downward trend, we have revised our forecasts to be \$2,053Bn in 2020 and \$2,320Bn in 2021. On a positive note, +13% growth is predicted in 2021 as advertisers adapt to economic conditions.

We have seen trade supply side impacted with disruptions across retail and hospitality sectors. At the same time, reduced demand for oil in China and India (the world's largest consumers) led to cancellations of oil deliveries.

In Lebanon, the economic crisis continues to worsen, led by the banks' sporadic behaviours, where depositors across the country are finding it impossible to gain access to dollar

balances. Although capital controls have not officially been introduced, it seems banks have taken it upon themselves to conserve liquidity and capital by dictating what level of funds clients can withdraw or transfer abroad. Meanwhile, in Iraq, civil unrest has been blamed on the inadequacy of state services and the lack of jobs as a reason for public anger.

Looking at North Africa, there is a trend of trade deficit and the weakening of the currency in the face of a depreciation close to 30-40% against the dollar across Egypt and Tunisia.

As a consequence, the MENA region's growth rate has been slashed by the World Bank for 2020. The rate for 2021 remains unchanged for now, though, whilst governments battle to contain the global pandemic. Our presumption is that we will see difficult macro-economic conditions in the year ahead.

The global pandemic crisis is not hurting all business sectors.

With more people working from home, the demand in video conferencing technology such as Skype, Microsoft Teams and Zoom has seen a rise in usage. When surveyed by Ipsos, 70% VOD users stated that their usage had increased on these platforms and 40% expressed intent on subscribing to a new platform. Our proprietary research, MLive, found that the quarantine has caused huge demand for SVOD services. Respondents were asked, "did you subscribe to any new SVOD platforms during the COVID-19 situation?" Almost

half of answers were 'yes.' The UAE has the highest SVOD penetration figures as we saw a 32% in increasing potential demand. Kuwait and Qatar had the highest share of new subscribers to these platforms.

Another flourishing sector is e-commerce. Supermarket revenues are up, and millions of people across MENA are now also turning to online fitness classes. MENA shoppers are mobile-first, and heavy users of search and video. The bulk of this activity – a \$12Bn industry – is in the UAE and Saudi Arabia (KSA), which represents 60% of the e-commerce market in the region. UAE is heavily app-based for companies such as Instashop where 97% of consumers purchase via the app, while it is closer to 15% in markets such as Egypt.

In the Levant, which is seen as unfriendly to e-commerce, our research found the highest increases in e-commerce transactions in Jordan. At this pace, e-commerce penetration will be equal to that of France in 2017, 10% of total retail across MENA. The question for advertisers will be how to maintain the momentum post-COVID-19.

Search will increase by +9% as consumers appetite for information grows.

With more time on their hands, MENA consumers may look to switch from their preferred brands to less-expensive options. We know that search is often the one tool for growth of website traffic for many advertisers. More than ever,

advertisers will need to create trust and credibility in comparison to competitors.

Historically, MENA's search share has been held back by the high proportion of investment behind social and video used by regional and global advertisers. However, 2020 is seeing a change in sentiment toward search versus non-search ad spend. Our data shows that non-search accounted for 5.7% of internet spend in 2020 and will fall -22% in 2021 as traditional media recovers. The current environment gives search greater opportunity to grow its share of ad spend, although from a smaller pot.

We forecast growth in search of +11.4% in 2020 slowing to +9% in 2021. We anticipate that search will account for 33% of total digital ad spend during 2021.

More broadly, including all types of digital advertising, internet's share of ad revenue will grow to 50% for the first time in 2020. Google and Facebook will continue to dominate in MENA.

Television will continue to hold share relative to others.

Overall across MENA, 2020 TV ad spend will be -29.5% versus 2019 with its proportion of media spend holding strong at 31%. We foresee an upward trend in spend across 2021, ascending to a 33% share, similar to what was seen pre-COVID-19 of 33-35%.

These expectations are based on our observations in countries such as Egypt, where TV consumption is already high, and we anticipate further increases. Similarly, across Morocco and Tunisia, we have observed a +57% increase in television versus pre-pandemic levels.

Meanwhile, KSA saw 98% of its population watch TV. Average hours watched exceeded 6 hours in recent months, compared to 5 hours during January. Movie Channels increased share as did religious programming among females. As expected, we also saw a growth of people tuning into political programmes mainly driven by males.

Despite growth in consumption, during the holy month of Ramadan, investment fell by -30% versus 2019 levels, with declines particularly pronounced in Egypt.

TV share of spend will remain at 30-35% in our longer-term view where content banking has become an important reality. The average time spent on News and Movie Channels has gone up by over 30%. Entertainment Channels have seen an increase of 20% to 30%.

Regional events will return later in 2020 across KSA and the UAE. Outdoor advertising will gain share.

Outdoor and cinema advertising continue to see declines of at least -40% in 2020 but should recover in 2021, growing +50% next year. These results will be boosted by the postponement of the 2020 Expo Dubai to October of next

year. The most significant categories impacting our forecast for this year will be reduced ad spend from governments, who will be focused on reinvigorating their economies. The Hajj in Saudi Arabia is also at risk.

Across MENA, “stay at home directives” constrained outdoor and cinema ad spend. In KSA, cinema was the new growth medium but, with these restrictions, forecasts have been downgraded.

On a combined basis, outdoor and cinema advertising are expected to fall to 12% of spending in 2020 but should grow to 18% in our longer-term forecast. Post-crisis, much-anticipated movie releases will flood cinemas creating a worldwide rebound.

Likewise, for print, The Media National Council suspended newspaper distribution and, in some areas, stopped taking advertising money. In others they have stop printing all together; however, we do expect a rebound for print next year as well. Overall, we forecast print at -66% in 2020 and +83% in 2021. Print's share of media should continue to decline as in previous years.

“Digital extensions of audio and outdoor will make programmatic first approaches more important”

(Fadi Mouawad, GroupM Head of Trading)

Looking at longer time horizons, we expect to see a rise in digital extensions, aided by the emergence of programmatic audio and digital outdoor advertising vehicles. TV extensions such as Shahid focusing on premium and original content have seen spikes in viewership.

“Marketers are improving results by integrating media and e-commerce together. Creating a new sales channel, particularly for FMCG in personal and home care”

(Tyrone Waite, GroupM Investment)

When your e-commerce strategy is not a part of an integrated media solution, consumers can be left with a disconnected

experience. It is essential all media communication and channels allow for a seamless consumer journey. E-commerce enters a new phase of growth, now seen as an essential channel for the personal and home care categories, whilst electronics and retail are seeing a rapid uptake.

“Saudi Arabia will catapult MENA once again in the coming years. The make or break year is 2021.”

(Ravi Rao, GroupM MENA CEO)

We remain optimistic that we will soon see a return to growth. The bounce back will be quicker and faster than the gradual decline in ad spends we have seen over the years. Oil prices have crossed \$40, fiscal measures by governments are in place and the acceleration of economic growth in KSA, in addition to a rebound from Dubai and the UAE, should help return MENA to growth in the coming years. The make or break year is 2021.

MENA

Long-term ad forecasts

Traditional Media Only, Media, USD m, net

	2016	2017	2018	2019	2020	2021f	2022f	2023f	2024f
TV	1,891	1,298	1,020	903	636	766	1,072	1,061	1,069
Radio	124	110	112	96	23	81	107	113	107
Newspapers	765	478	350	301	101	186	153	161	160
Magazines	207	171	99	68	21	35	46	48	43
Outdoor + Cinema	675	478	393	411	246	371	521	579	591
Internet	855	888	932	958	1,026	882	1,164	1,254	1,370
Search	171	195	214	240	267	291	407	473	564
Non-Search	684	692	718	719	760	591	756	781	805
Total	4,517	3,422	2,906	2,737	2,054	2,320	3,062	3,215	3,341

MENA

Long-term ad forecasts

Year on year % change, Traditional Media Only, Media, USD m, net SOURCE: GroupM

	2016	2017	2018	2019	2020	2021f	2022f	2023f	2024f
TV	-14.8%	-31.4%	-21.4%	-11.4%	-29.5%	20.3%	40.0%	-1.0%	0.8%
Radio	-36.7%	-10.9%	1.1%	-14.2%	-76.4%	259.5%	32.0%	5.0%	-5.0%
Newspapers	13.3%	-37.5%	-26.9%	-13.9%	-66.3%	83.1%	-17.5%	5.0%	-0.3%
Magazines	-26.0%	-17.5%	-42.0%	-30.9%	-70.0%	69.5%	32.0%	5.0%	-10.0%
Outdoor + Cinema	-9.7%	-29.2%	-17.7%	4.4%	-40.0%	50.7%	40.3%	11.2%	2.2%
Internet	20.6%	3.8%	5.0%	2.7%	7.1%	-14.1%	32.0%	7.8%	9.2%
Search	-----	14.2%	9.8%	11.7%	11.4%	9.0%	40.0%	16.1%	19.3%
Non-Search	-----	1.2%	3.7%	0.1%	5.7%	-22.2%	28.1%	3.3%	3.1%
Total	-14.8%	-31.4%	-21.4%	-11.4%	-25.0%	20.3%	40.0%	-1.0%	0.8%

MENA

Long-term ad forecasts

% shares of media, Traditional Media Only, Media, USD m, net

SOURCE: GroupM

	2016	2017	2018	2019	2020	2021f	2022f	2023f	2024f
TV	41.9%	37.9%	35.1%	33.0%	31.0%	33.0%	35.0%	33.0%	32.0%
Radio	2.7%	3.2%	3.8%	3.5%	1.1%	3.5%	3.5%	3.5%	3.2%
Newspapers	16.9%	14.0%	12.0%	11.0%	4.9%	8.0%	5.0%	5.0%	4.8%
Magazines	4.6%	5.0%	3.4%	2.5%	1.0%	1.5%	1.5%	1.5%	1.3%
Outdoor + Cinema	14.9%	14.0%	13.5%	15.0%	12.0%	16.0%	17.0%	18.0%	17.7%
Internet	18.9%	25.9%	32.1%	35.0%	50.0%	38.0%	38.0%	39.0%	41.0%
Search	20.0%	22.0%	23.0%	25.0%	26.0%	33.0%	35.0%	37.7%	41.2%
Non-Search	80.0%	78.0%	77.0%	75.0%	74.0%	67.0%	65.0%	62.3%	58.8%
Total	41.9%	37.9%	35.1%	33.0%	31.0%	33.0%	35.0%	33.0%	32.0%

GroupM's This Year Next Year is published twice a year with the goal of informing analysts and marketers of GroupM's market observations.

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