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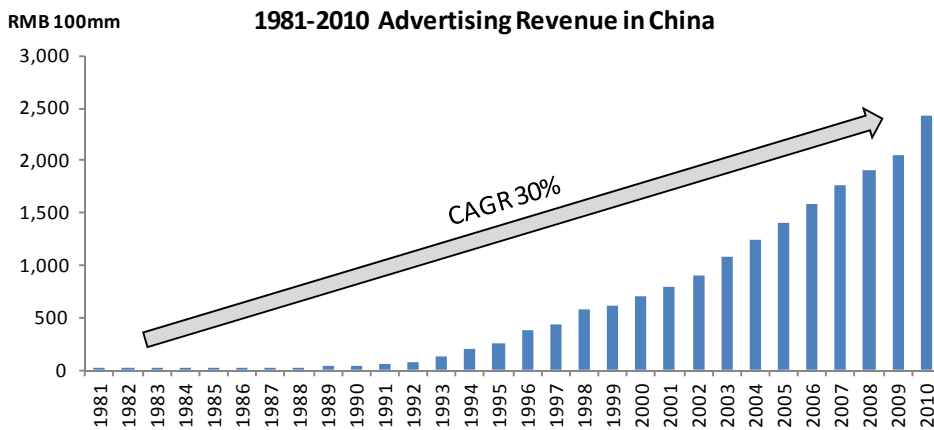
## Report Summary

- China's advertising industry has become one of the fastest growing advertising markets in the world. Advertising industry sales has increased from RMB 120 million in 1981 to RMB 234 billion in 2010, an increase of over 1,000 times. The industry's average annual growth rate of 30% is also higher than China's GDP growth during the same period.
- As China's economy continues to grow and income per capita increases, corporate marketing and advertising expenditures will increase further. The potential growth for China's advertising industry is huge. It is estimated that China's advertising industry will grow at an average annual rate of 15% in the next 10 years. China's advertising expenditures to GDP ratio will also increase and move closer to the global average.
- The advertising industry chain includes clients, advertising companies, media and consumers. Advertising companies played an intermediary role and provided integrated communication services for clients.
- Advertising companies can be classified into three types: advertising conglomerates, media dependent companies and service specialty advertising companies.
- Although the public relations industry developed at a later stage than the advertising industry, the PR industry has developed rapidly. Since PR services are more effective at a company's later development stage, demand is getting stronger and it is expected to grow at a much higher rate in the future.
- China's advertising industry is still very fragmented. In the near future, the industry's future leaders will belong to companies that have the ability to own a complete industry chain, focus on digital marketing and provide integrated marketing communications services. M&A and working closely with capital markets will be important means to achieve this goal.

## 1. Overview of the Advertising and Marketing Industry in China

### Overview of the Advertising and Marketing Industry in China

After 30 years of development, China's advertising and marketing industry has rapidly become a robust and dynamic market. China now also has one of the fastest growing markets in the global advertising industry. The graph below shows the sales data of the advertising industry in China from 1981 to 2010.



Source: *China's Advertising Industry Yearbook*

Sales of China's advertising industry has grown from RMB 120 million in 1981 to RMB 234 billion in 2010, an increase of over 1,000 times. Its average annual growth rate of 30% was also much higher than the GDP growth at the same period.

As of 2010, there were 234,445 advertising companies in China, an 18.76% increase over 2009. The number of employees in the industry increased by 140 thousand and reached 1.48 million in 2010, an increase of 10.9%.

In terms of the amount of advertising expenditures in 2010, the top 5 industries were real estate, food and beverage, automobiles and cosmetics and pharmaceuticals. Pharmaceuticals' advertising expenditures growth has been decreasing and was overtaken by food and beverage, automobiles and cosmetics in the last 2 years. Cosmetics' advertising expenditures enjoyed the highest growth with 35.4%, followed by clothing's 27.37%, home electric appliances' 21.04%, food and beverage's 17.07% and automobiles' 16.99%.

Region wise, Beijing, Shanghai and Guangdong have been the top 3 regions in advertising sales. In 2010, Beijing, Shanghai and Guangdong's total advertising sales reached RMB 112.5 billion, accounting for 48.05% of the national advertising expenditures. In Beijing, the growth rates of advertising expenditures in 2009 and 2010 were 8.4% and 27.76% respectively, growing from RMB 35.7 billion to RMB 49.4 billion. It was the first region to exceed RMB 40 billion. Shanghai's advertising expenditures growth rates increased significantly from 1.6% in 2009 to 18.81% in 2010, benefiting from the World Expo. Guangdong suffered from negative growth in 2010. In recent years, 2<sup>nd</sup> and 3<sup>rd</sup> tier cities became the new revenue growth regions for the

advertising industry. In 2010, the fastest growing regions in the advertising industry included Hunan (808%), Ningxia (70%), Helongjiang (40%), Shaanxi (27%), Zhejiang (27%), Gansu (26%) and Anhui (25%).

### Potential Growth in China's Advertising and Marketing Industry

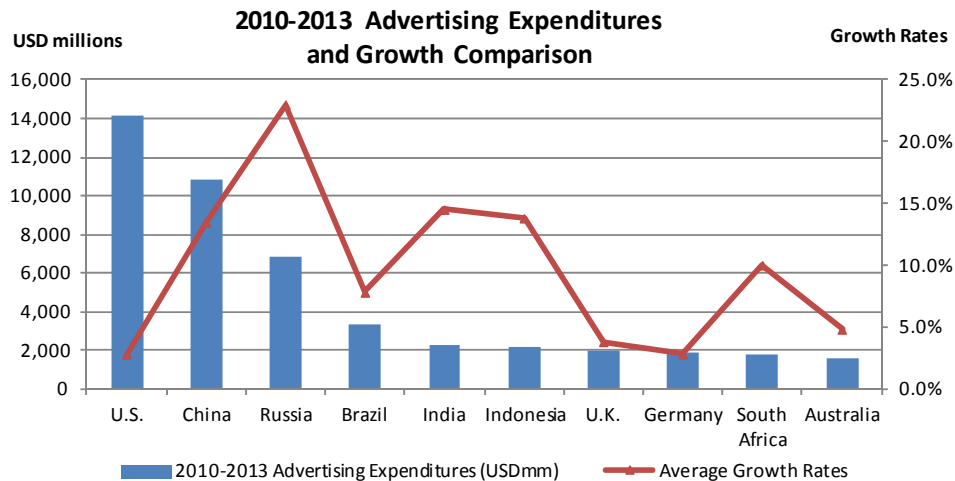
According to historical figures, the scale of a nation's advertising market was positively correlated to its economic development. In the 18 key global markets, the average ratio of advertising expenditures to GDP was 0.73%. In general, the ratio was higher for more developed economies. The ratio for high income countries was 0.83%. The current ratio in China is 0.39%. As China's economy continues to grow and income per capita increases, corporate advertising and marketing expenditures will increase further and the growth potential of the advertising market in China is huge. The growth rate of China's advertising markets for the next 10 years is estimated to be 15%. China's advertising expenditures to GDP ratio will also increase and become closer to the 2010's global average of 0.73%.

### Comparison of Key Advertising Markets Globally, 2010

Country	GDP per Capita (USD)	Ad Expenditures as a % of GDP	Ad Expenditures (USD mm)	GDP (USD bn, 2010)
India	1,202	0.33%	5,000	1,538
Indonesia	2,975	0.71%	5,000	707
<b>China</b>	<b>4,243</b>	<b>0.39%</b>	<b>23,208</b>	<b>5,878</b>
Mexico	9,243	0.47%	4,900	1,040
Russia	10,250	0.53%	7,797	1,465
Brazil	10,866	0.62%	12,950	2,090
Korea	20,165	0.67%	6,700	1,007
Spain	29,875	0.55%	7,700	1,410
Italy	33,828	0.53%	10,801	2,055
U.K.	36,298	0.80%	18,042	2,247
Germany	40,512	0.74%	24,535	3,316
Japan	42,325	0.79%	43,297	5,459
France	42,958	0.51%	13,181	2,583
Belgium	43,058	1.01%	4,700	467
Canada	45,888	0.56%	8,891	1,574
Netherlands	46,418	0.65%	5,100	783
<b>United States</b>	<b>47,132</b>	<b>1.03%</b>	<b>151,519</b>	<b>14,658</b>
Australia	54,869	0.79%	9,705	1,236
18 Countries Total		0.73%	363,026	49,512
Other Countries		0.76%	88,917	11,748
Global Average		0.74%	451,943	61,260
Mid-Low Income Country		0.46%	58,855	12,718
High Income Country		0.83%	294,466	35,559

Source: IMF, ZenithOptimedia

Also, according to the estimation of ZenithOptimedia, China's advertising industry will grow at 14% in the next 3 years, and it will be the second fastest growing market just behind U.S. China will also become the top 3 markets globally in advertising sales in 3 years.



Source: IMF, ZenithOptmedia

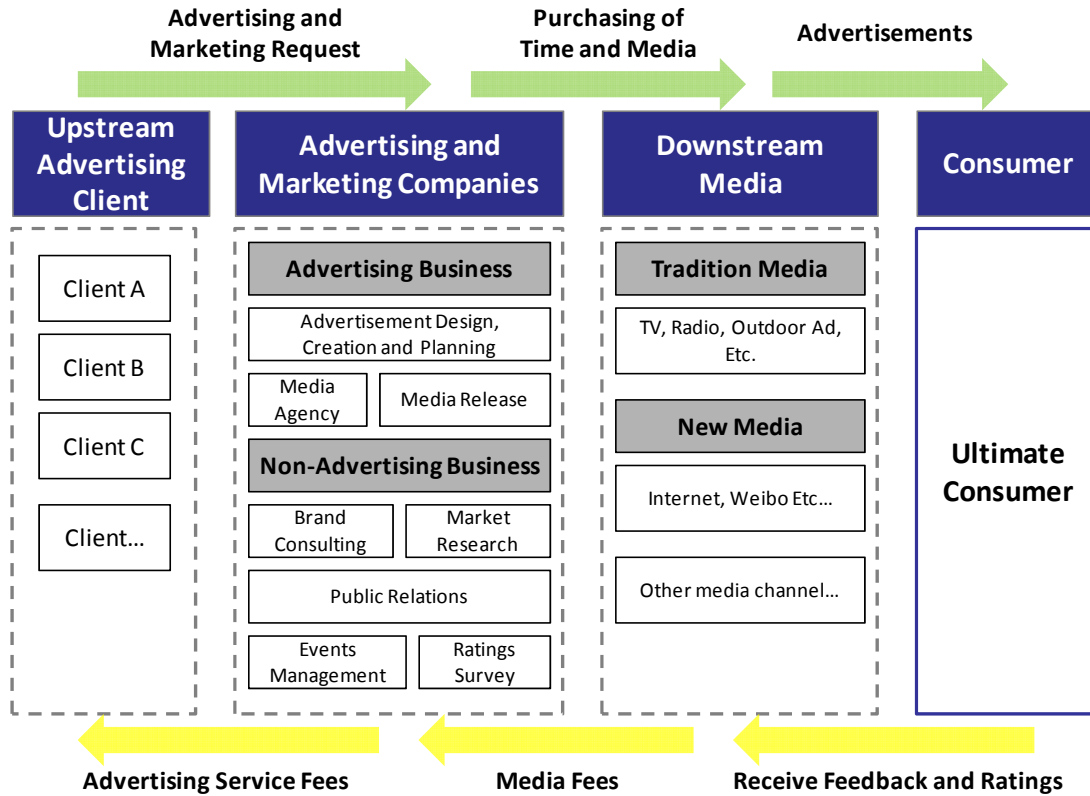
### Advertising Industry Chain

The four major components in the advertising industry chain are advertising clients, advertising companies, media companies and consumers. Advertising companies played an intermediary role and provided integrated communication services in the industry chain. They communicated with advertising clients, media companies and consumers and acted as a bridge among the other three parties. On one hand, advertising companies build relationships with media agency companies and help advertising clients perform market research, establish advertising goals, execute advertising campaign and finish production. On the other hand, advertising companies choose the optimal media, purchase time and space in different media and communicate the advertising messages to the consumers for their clients.

Revenue of advertising and marketing companies only accounted for a small portion of total advertising expenditures of advertising clients. In U.S., it was estimated that for every USD 100 of corporate advertising and marketing expenditures, USD 10-15 went to advertising and marketing services companies for their design, media agency and other services. The rest of the USD 85-90 went to different media companies.

Within the value chain of advertising and marketing companies, high value added services such as brand management, advertising design, public relations and marketing services accounted for a higher portion of the total industry revenue. Examples of low value added services are media purchasing agency services and events management.

The chart below illustrates the advertising industry chain.



Source: Advertising Industry Research Reports

Among the many subsectors in the advertising and marketing industry, non-advertising businesses enjoy the highest growth in the future. Non-advertising businesses include brand consulting, market research, public relations, events management and ratings survey, etc. Brand consulting can be divided into three stages – brand building, brand communication and brand maintenance. Advertising services are the most effective during the brand building stage, while public relations and other marketing services are more suitable for the brand communication and brand maintenance stage. Events management (media release, exhibitions, etc.) can fulfill the needs of all three stages. This also explains that while the public relations services emerged at a much later stage than the usual advertising services in international markets, their growth rates are now much higher than that of traditional advertising services. In China for the past ten years, public relations industry grew at an average annual growth rate of 30% which was much higher than the 13% of traditional advertising services.

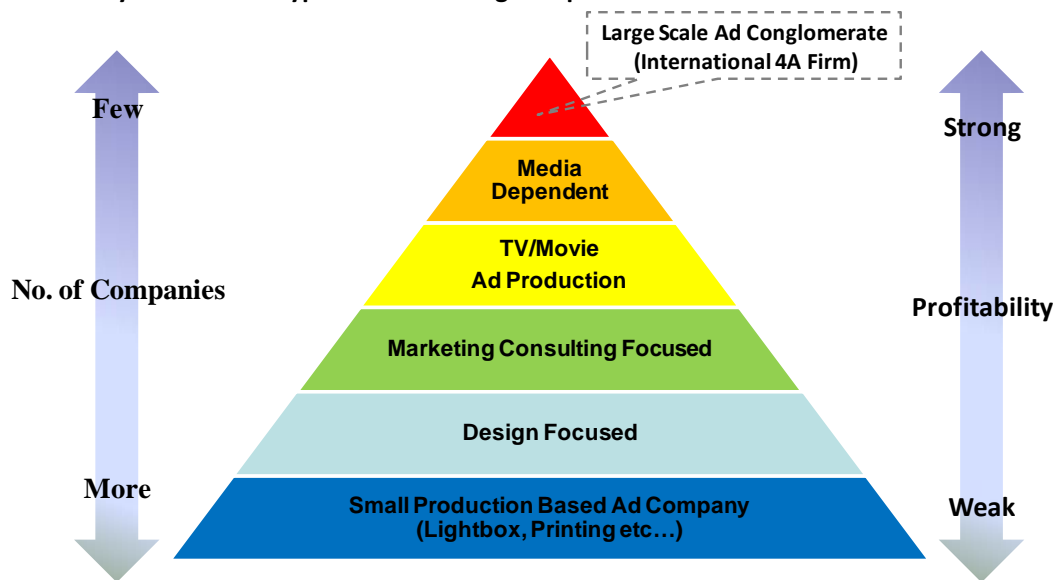
In this issue of our research report, we will focus on analyzing the subsectors of the advertising industry in China – advertising services companies and public relations companies. We will also discuss the growth prospects and investment opportunities of these 2 industries.

## 2. Industry Analysis of China’s Advertising Companies

### Classification of Advertising Companies

The barrier of entry in the advertising industry is low and there are a large number of competitors with very small scale in the industry. The low end market of the industry is very competitive and is close to perfect competition. Also, the ability and quality of services of advertising companies in the industry varied widely. Some mid to small scale companies could only provide one type of advertising services. There were very few large scale conglomerates that were able to provide integrated communication services.

### Profitability of Different Types of Advertising Companies



Source: Advertising Industry Research Reports

Advertising companies can be classified into three major categories based on their business model – advertising conglomerates, media dependent advertising companies and service specialty advertising companies. Service specialty advertising companies include TV/movie advertisement production companies, marketing consulting companies, design focused companies and small production based advertising companies. Small production based advertising companies operate at a much smaller scale and on a much lower level in the industry. Among these many competitors, competition is intense, profitability is low, and business development is difficult. These companies can only reduce their area of services and focus only in one of the following areas: design, research, production, consulting or event management.

The middle level belongs to the media dependent advertising companies, which benefit from the monopolistic industry model in China’s media industry. Through their dependence on certain media companies or certain media such as TV or newspaper, these media dependent advertising companies act as advertisement distributors for the media companies. In general,

these companies do not engage in brand management or creative planning services. Their profits mostly rely on the strengths of the media companies and cooperating with them.

Advertising conglomerates (international and domestic 4A companies) belong to the top of the pyramid. These conglomerates are able to provide comprehensive advertising services, ranging from strategic planning to the execution of strategy. “Integrated marketing communication” is their biggest edge. Currently, advertising conglomerates in China are mostly domestic 4A companies and international advertising companies (Sino-foreign joint venture or 100% foreign investment).

### Types of Companies in the Advertising Services Industries

Based on their different business models, advertising services companies can be classified into three major categories: advertising conglomerates which have advantages in “integrated marketing communications”, small production based companies which focus on specialty services and media dependent companies. Advertising conglomerates can be further classified into domestic conglomerates and international 4A advertising companies.

### Types of Businesses of Conglomerates, Media Dependent Companies and Small Production Companies

Ad Company Type	Category	Types of Business	Representatives
Large Scale Advertising Conglomerate	International	Brand Management, Media Ad Distribution	Ogilvy & Mather, Leo Burnett, Saatchi & Saatchi
	Domestic	Brand Management, Media Ad Distribution, Self-Owned Media	ShengGuang (A Shares Listed)
Media Dependent	Media Distributor	Media Ad Distribution	Future Advertising, China Television Media, B-Ray Media
	Self-Owned Media	Sales of Ad in Self-Owned Media Channel	Beijing Bashi Media, WhiteHorse, Focus Media
Sector Focused Advertising Company	Marketing Consulting	Provide marketing research for clients. Research include industry, products, competitors, sales channels and consumers, etc.	Many
	Design Focused	Design logo, stores layout, packaging materials, ad materials for clients.	Many
	Production Focused	Provide Ad production services for conglomerates. Can be classified into TV/Movie Ad production, print ads and outdoor ads production.	Many
Public Relations		Brand Communication, Crisis Management, Event Management	BlueFocus Communication (A Shares Listed), Linksus
Product Marketing		End User Marketing, Event Marketing	Huayi Jiaxin

Source: Listed Company Prospectus

In December 2005, China allowed the establishment of 100% foreign owned advertising enterprise. Since then, international companies began a new wave of cross border acquisitions and integration, making their advantages in the industry even bigger. Domestic conglomerates took advantage of this opportunity to learn from the international firms and found their own market position. Domestic conglomerates competed and cooperated with international firms at the same time. As the market required more brand building services, domestic companies used the local connection and knowledge to their advantage and became stronger in the industry. Medium and small production companies also became more active in the industry by utilizing their specialty and low priced services to get into the 2<sup>nd</sup> and 3<sup>rd</sup> tier cities and developed new types of businesses.

The range of services provided based on domestic companies' business model is relatively limited. Currently, other than the few domestic conglomerates which can provide more comprehensive services, most domestic companies can only provide a very limited range of advertising services. It is also very difficult for these domestic companies to increase their business scale. Compared to international companies, even the biggest domestic advertising conglomerates are much smaller in terms of operating scale and the range of services available. Currently in China, advertising companies that are truly able to integrate all sorts of marketing services (such as promotion, events marketing, public relations, digital interactive and traditional advertising services) are mostly international conglomerates. Market demand for more integrated advertising services will push more domestic companies diversify and integrate their businesses.

### 3. Analysis of Public Relations Industry

#### Development of China's Public Relations Industry

Although the history of development of China's public relations industry has not been long, the industry has been developing rapidly and is now involved in all aspects of China's economic activities and industries. After 20 years of development, public relations industry has reached a certain scale and there is a strong demand for public relations services. The potential development for the industry is enormous.



Source: National Bureau of Statistics, Public Relations Industry Research Report

According to the “Survey of China’s Public Relations Industry” published by China Public Relations Associations, sales of the public relations industry in China in 2000 was RMB 1.5 billion. It reached RMB 4.5 billion in 2004 and 8 billion in 2006, growing at an average annual rate of 30%. Sales in 2008 were RMB 14 billion and sales reached RMB 21 billion in 2010, growing at 25%.

#### Industry Characteristics

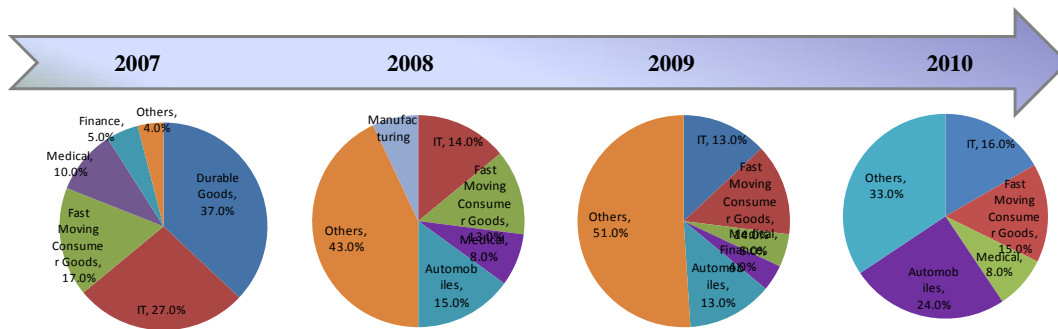
The services provided by China’s public relations industry include the following: communications consulting, media execution, brand communications, products promotion, integrated communications, crisis management, events management, events marketing, network PR, digital media marketing, government relations and corporate social relations, etc. Among these services, communications consulting, media execution, events management and integrated communications are the major businesses of public relations companies in China.

China’s public relations industry has developed rapidly and sales have increased every year. From 2000 to 2010, China’s GDP increased at an average annual growth rate of 14.9%, while the public relations industry grew at a much higher rate of 30%. As China’s economy continues to grow, the potential growth for the public relations industry is huge. It is estimated that the industry will grow at an average annual growth rate of 15% in the next 10 years.

Network PR, events management, crisis management, World Expo PR and corporate social responsibility became the fastest growing business in 2010. According to statistics, 2010 network PR grew significantly in 2010 and many PR companies began to get into this business.

As China's economy continues to develop and change, domestic demand for public relations services are increasing. Currently, industries related to consumer products, fast moving consumer goods and IT have the biggest demand for public relations services. Demand for public relations services has been concentrated in a few industries. In 2010, automobiles, IT, fast moving consumer products, medical and financial services were the top 5 industries in public relations services, accounting for 24%, 16%, 15%, 8% and 4% of the market share, respectively. Other industries like communications, real estate, manufacturing, tourism, sports and culture made up the rest. The trend is that there will be more and more industries requiring public relations services in the future.

**2007-2010 China's Public Relations Market Share Based on Industries**



Source: National Bureau of Statistics, Public Relations Industry research report

**Clients are Concentrated in a Few Regions**

Geographically, domestic public relations markets are still concentrated in 1<sup>st</sup> tier cities. Beijing, Shanghai, Guangzhou and Chengdu are the 4 major public relations markets. 75% of the public relations companies are located in Beijing followed by Shanghai. As China's pace of urbanization increased and consumption power in 2<sup>nd</sup> and 3<sup>rd</sup> tier cities picked up, demand for public relations services in these regions will increase rapidly.

**Clients Type**

Most of the clients in the public relations industry are corporate and institutions. Clients can be classified into foreign enterprise, domestic enterprise, government institutions, non-government institutions and individuals. Currently, most of the services are concentrated in foreign and domestic enterprises and government institutions, while individuals account only for a small portion.

**Frequent Acquisitions by Foreign PR Firms**

Foreign public relations companies' frequent acquisitions have brought a lot of pressure for the domestic public relations companies. Ogilvy acquired West Coast Public Relations, Omnicom acquired Shunya and Edelman acquired Pegasus. Since domestic companies' financing options are

more limited, they may miss the opportunity to increase market share. It may bring adverse effects on their future growth and market positioning in the future.

### Competitive Landscape of China's Public Relations Industry

After over 10 years of development, the quality of services and the development of China's public relations industry have improved significantly. There are now many public relations companies who can develop rapidly and have significant market share. According to the China Public Relations Associations, the top 20 public relations companies in China in 2010 are as follows.

2010 TOP 20 Public Relations Firm in China		
Revenue Range (RMB)	Company	Country
> 200 Million	BlueFocus	China
100 - 200 Million	Linksus	China
	Shunya	China
	Genedigi	China
	NTI	China
	D&S Consulting	China
40 - 100 Million	AcrossChina	China
	Market Resource Group	China
	Evision	China
	O&R	China
	MI Group	China
	HighTeam	China
	Keypoint	China
	APR	China
	Ogilvy PR	U.K. (WPP)
	Weber Shanwick	U.S. (Interpublic)
	Ruder Finn	U.S. (Interpublic)
	Apco Worldwide	U.S. (Grey Worldwide)
	Fleishman Hillard	U.S. (Omnicom)
	Ketchum Greater China	U.S. (Omnicom)

Source: China Public Relations Association, Public Relations Industry research report

In China, the public relations market's competitive landscape is now in the foreign vs. domestic mode. The competition for clients and human resources between foreign and domestic enterprises are fierce. While a few years ago foreign and domestic companies split the market evenly, domestic companies have increased their market share gradually in the last two years.

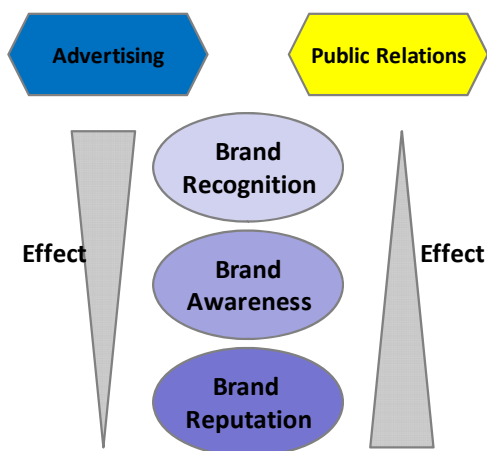
In the industry ranking shown above, foreign companies accounted for less than 50% among the top 20 companies. Sales with over RMB 100 million were all domestic companies, and BlueFocus had over RMB 200 million in sales. It is estimated that foreign companies now has less than 10% of market share. The major reason is that cultural differences played an important role in the service industry. Especially in the public relations industry, the fact that domestic companies are more familiar with local culture and have stronger corporate and government relationships

provide them a significant advantage over foreign companies. Also, domestic companies begin to catch up on foreign companies in terms of operating scale and efficiency in the last few years.

### Differences Between Public Relations and Advertising

Public relations and advertising are the two major means in marketing. Both activities can raise the public awareness of a brand, enhance a brand's reputation, and increase sales and market share of a product. At the same time, there are some differences between the two. Below are some major differences.

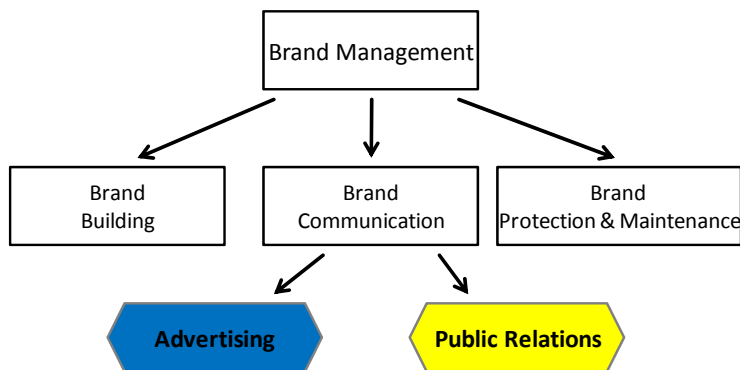
- 1) In most cases advertising serves only corporate clients. Not only can public relations serve corporate clients, it can also provide services for government and non-government institutions.
- 2) Advertising usually has only one specific goal, which is using a direct method to communicate a message utilizing certain media within a certain time frame. The communication is usually one way. Public relations, however, does not only communication messages, but also receive and analyze feedback from the audience so it is more interactive.
- 3) Advertising is more focused on the short term promotion of products, while public relations are more focused on the long term building of a brand's image.
- 4) In terms of the impact of the services provided, there are some differences between advertising and public relations in brand recognition, brand awareness and brand reputation. During the brand building and brand communications phase, the brand name is usually very poorly recognized so it is important for the communications to cover a large area and a lot of audience. On that front, advertising has a bigger advantage. When it comes to the brand communications and brand maintenance phase, since the brand name is already recognized by the public, it is more important to maintain the customers' loyalty and enhance the brand's reputation. Public relations are more effective on that. The effectiveness of public relations gradually increases as the clients move from the brand building stage to the later brand maintenance phase.



5) Advertising usually uses media interface such as TV, radio, newspaper and magazine as the means for promotion. Public relations not only use traditional media, it will also organize activities and events to coordinate with the products promotion to increase the effectiveness.

6) Public relations usually cost less than advertising activities.

Besides providing professional consulting services, public relations services are also responsible for the execution of the campaign for the clients. This requires utilizing different social resources, formulating a comprehensive plan, maintaining and enhancing client's brand image.

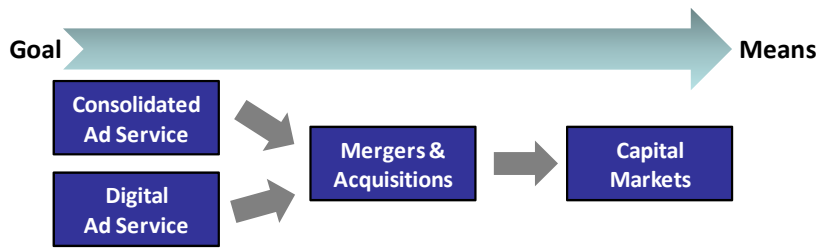


### PR Developed at a Later Stage and the IPO of BlueFocus

The above mentioned differences explained why public relations emerged and developed at a much later stage than traditional advertising services in foreign countries and in China. Since advertising is most suitable for brand building, it is most effective during the economy's or a company's early development phase. Public relations and other marketing means are more suitable for a company's brand communications and brand maintenance, so public relations can only be effective when the companies reach a certain mature stage at a later phase. Therefore, public relations developed at a much later stage than traditional advertising services, and its growth will be much higher in the future.

BlueFocus, a domestic public relations company, successfully completed its IPO in June 2010 in domestic share market with a P/E ratio of 67x and a market value of RMB 2.7 billion. The company had RMB 300 million in sales and RMB 40 million in net income at the time of IPO. BlueFocus marked the first public relations company going public in the domestic market and it was a significant step for the public relations industry to work closer with the capital markets. It also represented that the industry was gradually accepted by secondary market investors.

#### 4. Development Trends in China’s Advertising and Public Relations Industry



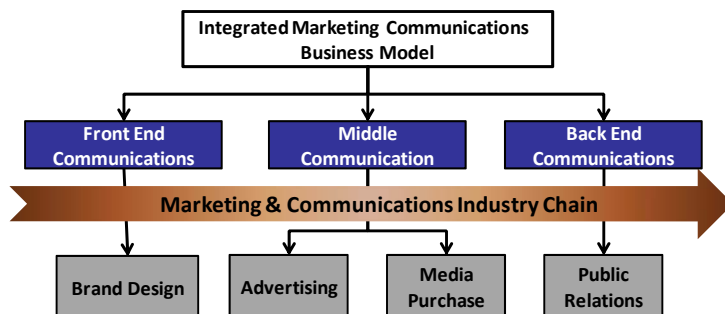
##### Integrated Marketing Communications Services

From the advertising and marketing services perspective, the range of services provided by the industry include advertising, brand management, public relations and event management. These services fulfill the various demand of corporate marketing plan. Since 1980s, international advertising companies began to break away from the traditional one-dimensional advertising services, and started to diversify into other businesses such as surveying, consulting, public relations and brand management. These companies slowly evolved into marketing and communications giants that were able to offer integrated advertising and marketing solutions for clients.

From China’s corporate marketing experiences, intense competition made corporations become more aware of the importance of brand management. Especially after the 2008 financial crisis, corporations realized the defensive nature of brand names and therefore paid more attention to brand building. As consumers consumption behavior and media environment changed, corporations now have a better understanding of what they need in integrated marketing services and brand management.

Integrated marketing communications is defined as customer centric, data driven method of communicating with the customer. It is the coordination and integration of all marketing communication tools, avenues, functions and sources within a company into a seamless program that maximizes the impact on consumers and other end users at a minimal cost. This management concept is designed to make all aspects of marketing communication such as advertising, sales promotion, public relations, and direct marketing work together as a unified force, rather than permitting each to work in isolation.

##### Components of Integrated Marketing Communications



Under integrated marketing communications, based on market research and strategic brand planning, advertising companies executed the creative advertising planning for clients using different media channel such as TV, newspaper, magazines, radio, internet, outdoor billboards and public transportation, etc. On the other hand, advertising companies outsourced events promotions, public relations, product packaging, and all back end work to small production based advertising companies, while advertising companies were only responsible for monitoring. Finally, the goal of this chain of services was to realize full communications between the enterprise and consumers so that they reached a mutual understanding of each other. Therefore, brand planning, creative design and communication with consumers were the key services in integrated marketing communications.

Currently, companies that have the ability to consolidate and execute all of the above mentioned different services and to provide “one-stop shopping” services are mostly foreign enterprises. As market demand for consolidation services increases, domestic companies will be pushed to further diversify and consolidate their services. The future industry leaders will belong to companies that can successfully execute integrated marketing communications.

### **Digital Marketing Will Become a Key Force**

Currently, network media and digital media are in full force entering the advertising markets. Internet, mobile phones, digital TV, commercial building advertisements, and electronic media in public spaces are now more recognized and accepted by corporate advertising clients. New media and new technology are more interactive, focused, accurate and effective when communicating with consumers. They will be the important source of growth for the advertising industry in the future.

As digital technology becomes more mature, corporate clients now pay more attention to the effectiveness of accurate communications. The effectiveness of an advertising campaign becomes a competitive benchmark between different advertising companies. In order to make the marketing communications more consumer oriented and more interactive, well capitalized advertising companies begin to use digital technology and build their own data platform. These data systems will enhance the advertising companies' work effectiveness and quality.

Using the data platform, advertising companies will have an ecosystem that communicates with consumers directly and connects with different media channels. By receiving real-time feedback and understanding consumers' demand, advertising companies can influence the consumers during the interactive process. On the other hand, the data platform can connect all the media channels such as TV, internet, online TV, search engine and mobile internet, and concentrate all the people, time, space and services into this one platform to realize effective marketing. Building creative interactive community and integrating social resources are some of the means to establish the communications between advertising

clients and consumers. These initiatives can provide instant data to raise the accuracy and effectiveness of the brand management business. They can also provide more scientific analysis on the effectiveness of the advertising campaign. As media channels become more complicated and digital marketing become more important in the future, if advertising companies do not have the support of database, they will lose the ability to integrate and connect with the new media. If advertising companies do not build their data platform, creative ideas and marketing planning will be the only businesses left for them.

### **Mergers & Acquisitions will be Key for Rapid Expansion**

The following are the main reasons that mergers and acquisitions will become a key trend of development in the advertising and public relations industry.

#### **1) To Complete the Industry Chain**

As business develops and in order to achieve the above mentioned integrated marketing communications and digital marketing goals, mergers and acquisitions will be an effective tool for advertising and public relations companies to expand rapidly. In general, acquiring a mature brand company is a popular means to grow in the industry. Since new brands take time to develop and could be very costly to build, acquiring the right target and fully utilizing its brand name could rapidly increase market share. It is also a cheaper and more effective way to expand and complete the industry chain.

In the public relations industry, acquisitions have become the easiest way to grow rapidly. In the last few years, foreign PR firms made their moves in China frequently. Ogilvy acquired West Coast Public Relations, Omnicom acquired Shunya and Edelman acquired Pegasus. Through acquisitions of domestic public relations companies, foreign firms rapidly took market share in China.

For domestic companies, with the help of capital markets, listed companies such as BlueFocus and ShengGuang increased their acquisition pace recently. Both companies used acquisitions as a means to complete their own industry chain. As a public relations company, BlueFocus has made 12 acquisitions so far, mostly in the area of internet advertising, interactive marketing and media agency, etc. ShengGuang also acquired a public relations firm and a media purchase company.

Foreign public relations companies' frequent acquisitions have brought a lot of pressure for the domestic public relations companies. Since domestic companies' financing options are more limited, they may miss the opportunity to increase market share. It may bring adverse effects on their future growth and market positioning in the future.

The chart below illustrates the acquisitions made by BlueFocus and ShengGuang in recent years.

Date	Acquired Asset	Type of Business	Price (RMB mm)	Projected Net Income of Acquired Company in the Year of Transaction (RMB mm)	Implied P/E
<b>BlueFocus</b>					
2008-4-1	BestChoice Business Consulting (51%)	Event Management	18.0	4.8	7.4x
2010-4-1	BestChoice Business Consulting (17%)	Event Management	3.8	4.9	4.5x
2011-3-1	BestChoice Business Consulting (16%)	Event Management	4.8	5.8	5.2x
2011-4-1	Beijing SNK (41%)	Internet Advertising	98.4	24.0	10.0x
2010-3-1	Beijing SNK (10%)	Internet Advertising	24.0	24.0	10.0x
2010-12-1	Guangdong Beihe Media & Advertising (3%)	Media Agency	18.0	55.0	10.9x
2010-3-1	Beijing Creaty China (24.5%)	Interactive marketing	2.5	NA	NA
2010-4-1	Dentsu BlueFocus (51%)	PR Service	5.1	1.3	7.5x
2011-6-20	Aries Capital (40%)	Financial PR Service	66.0	20.0	8.3x
2011-7-10	Beijing Kingo (100%)	Advertising Agency	435.0	60.0	18.1x
2011-7-27	Phluency (100%)	Internet Advertising	26.0	5.0	10.0x
2011-7-27	Eyes Media (51%)	Outdoor Advertising	174.0	34.0	10.1x
<b>ShengGuang Advertising</b>					
2011-6-1	Flagence Communications & Consulting (50.98%)	PR Service	10.0	15.0	1.2x
2011-3-1	Chongqing Niandu Advertising (51%)	Media Agency	111.0	21.0	10.3x

Source: Company's announcements, industry research reports.

## 2) Increase Market Share and Number of Clients

Since a public relations firm cannot serve two clients who are direct competitors at the same time, it is a common practice for the advertising holding company to own several brands in order to increase the number of clients. Acquisitions become an important means to execute this strategy. The acquired company in general will not be integrated and will only be controlled by the acquirer on the shareholding level. The acquired company will keep its brand, maintain independent operations and increase market share for the acquirer. This model is widely used in foreign countries.

## 3) Industry is Highly Fragmented and the Need to Consolidate

The barrier of entry in China's advertising industry is very low and there is a large number of advertising companies. Currently there are over 200,000 different advertising companies and the industry is highly fragmented. There are very few domestic advertising conglomerates and they could not compete with foreign conglomerates in terms of scale. There is a need for further consolidation in the industry. For listed companies, they can utilize their advantages and use incentive methods like stock options to maintain the stability of management team. They also have broader capital resources such as using the company's stock as a means of payment during acquisitions. These can lead to further consolidation in the industry.

### Focus on the Use of Capital

The history of China's advertising industry is relatively short. Facing the well capitalized foreign competitors, many domestic companies raised capital through the public markets to increase their business scale and competitiveness. Other than the above mentioned BlueFocus and ShengGuang, TOM (2383.HK), Whitehorse (0100.HK), Dahe Media (8243.HK) and SinoMedia (0623.HK) went IPO in Hong Kong. Huawen Media went public in Shenzhen, while Focus Media (FMCN), Charm Group (CHRM), China Mass Media (CMM) and AirMedia (ARCN) chose to IPO in the U.S. After IPO, these companies rapidly increased their competitiveness and advantages through acquisitions and consolidation of resources in the industry.

## 5. Summary and Outlook

China's advertising industry has been growing rapidly with the economy in the past. Going forward, China's relatively low advertising expenditures to GDP ratio will increase further. As China's economy continues to grow and income per capital increases, corporate advertising and marketing expenditures will increase further. The potential growth of China's advertising industry is huge.

Currently, China's advertising industry is still very fragmented. In the near future, the industry's leaders will belong to companies that can offer integrated marketing communications services and have complete industry chain. Based on foreign experiences, mergers and acquisitions is an important means for advertising companies to complete their industry chain and increase market share. In order to accomplish that, the industry must pay more attention to the use of capital.

From investors' perspective, the advertising and public relations industry offers a lot of attractive investment opportunities. Investors can invest in industry leaders through the secondary markets. In the primary markets, currently there are many companies with a big enough scale waiting for the opportunity to go public. These companies can develop through organic growth or acquisitions and complete their industry chain. During this development phase, whether it is through organic growth or acquisitions, company will need capital to do so. Since the financing options for domestic companies are still very limited, private equity investments will become a key source of capital for the industry's development. For private equity investors, the high growth offered by the advertising industry and the opportunity to look for the next industry leader are all attractive reasons to invest in the industry. After investing in the advertising companies, on one hand, private equity investors can grow the business and complete its industry chain so that the company can complete an IPO in the future. On the other hand, investors can also sell the company to its competitors to make a profit. Companies with a special niche in the industry will become attractive targets under the trend of industry consolidation in the future.

Among the different subsectors in the advertising services industry, public relations industry has the biggest growth potential in the future, and will also be least affected by economic cycles. Since public relations industry emerged at a later stage than traditional advertising services and its services are more effective at the later stage of the economy, the industry will enjoy a much higher growth in the future. Moreover, companies in China are paying more attention to brand management. After the financial crisis in 2008, companies realized the importance of the defensive nature of a good brand name. As consumers set a higher demand for brand names, and more scandals are associated with consumer brands these days, companies understand the significance of brand maintenance and crisis management. Lastly, during an up economic cycle, without a doubt companies will increase their advertising spending. Even in a down cycle, it becomes even more necessary for companies to maintain or enhance their advertising effort in order to grow sales. Therefore, economic cycle has very little impact on the public relations industry.

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## About My Decker Capital

My Decker Capital is a China focused investment banking and asset management company. The company was established in 2007 and moved its headquarter from New York to Beijing in July 2008. The company's businesses include: Advisory, Asset Management, Research and Capital Markets. My Decker Capital's main shareholders are from the United States and Russia and its professional team members are bilingual with extensive investment or corporate finance experience. My Decker Capital's clients include mid to large Chinese and International companies and professional investors. Its focused sectors are Real Estate, Consumer Products, Retail and Media.

My Decker Capital manages its own private equity funds focusing on investing in the retail, consumer products, media and real estate projects. It successfully completed US\$40 million investments into a leading Chinese retail chain: Beijing New Cooperation Supermarket Chain. Tianjin My Decker Capital Fund I, an RMB Fund, is focused on investing in the retail and consumer products industries and real estate projects which will benefit from the China urbanization process. My Decker Capital's professional team would like to work with Chinese entrepreneurs with advanced management skills and clear vision together and deliver superior returns for investors.

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