

VIDEO MONETIZATION REPORT Q2 2014

FreeWheel



Executive Summary

Can't Get Enough

The resounding popularity and explosive growth of premium digital video is further evidence that we are in the midst of another golden age of TV. Not only did Q2 2014 see growth across formats, categories, and platforms, we also saw several trends that tell a familiar story: TV is TV and viewers can't get enough of it.

Long-form and live content each saw considerable year-over-year ad view growth as more Publishers leveraged premium online properties to both expand their linear presence and provide a distinctive digital experience. Q2 also brought live streaming records, as viewers flocked to their laptops, smartphones, tablets and streaming devices to watch events including the NBA Playoffs, NHL Playoffs, and the World Cup.

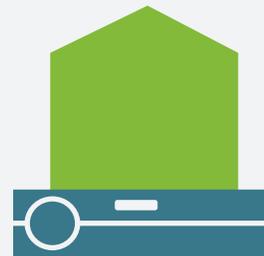
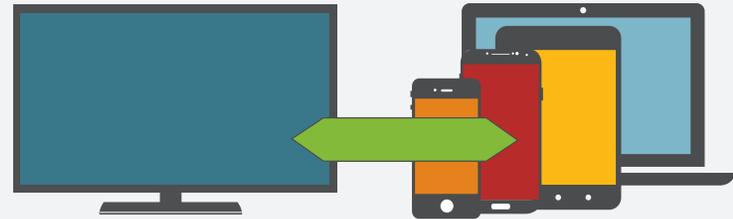
Viewing platforms also continued to evolve in Q2 2014. Mobile and over-the-top devices (OTT) grew 93% and 236% year-over-year, respectively. Along with tablets, these devices now account for 24% of all ad views. *TV Everywhere* took another leap forward as Programmers put more content behind authentication walls and saw viewers follow: 38% of long-form and live ad views now come from authenticated users.

The viewer experience for long-form content increasingly mirrors the TV experience, blurring the lines between tablets and set-top boxes. In Q2, 3.7 ads were shown in the average mid-roll break and, as with linear TV, these ads tended to be 30 seconds in duration.



Mid-roll ad break durations are up 43% year-over-year, up to an average of 98 seconds per break

The composition of digital video advertisers more closely resembles TV than the digital market as a whole



Over-the-top (OTT) device viewing has grown 236% since Q2 2013, driven primarily by long-form content

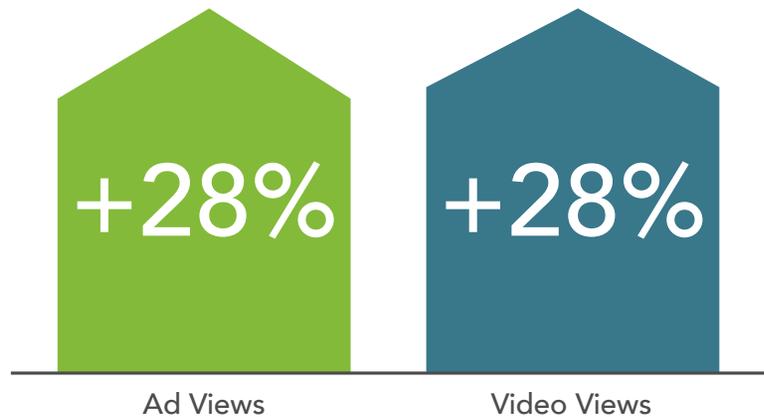
As premium digital video's reach extends across platforms, the TV advertising environment will continue to expand. Consumer Packaged Goods (CPG) and Financial Services brands accounted for 50% of digital video ad views in Q2, with the Financial Services vertical doubling its digital video advertising year-over-year.

As digital viewing grows above 28% per year, expect to see innovation follow suit as Publishers and Advertisers strive to reach viewers wherever and whenever they are watching [see chart 1].

"The viewer experience for long-form content increasingly mirrors the TV experience, blurring the lines between tablets and set-top boxes."

1 Ad and Video View Growth

Q2 2013 vs. Q2 2014



Content

Building industry scale in premium digital video inventory ultimately depends on cultivating a diverse content mix between:

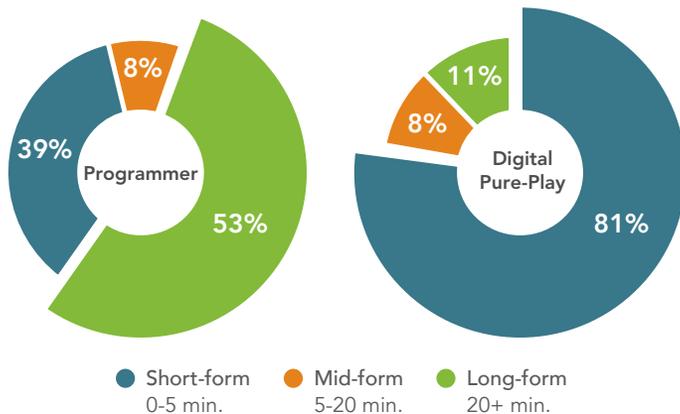
- Short-form (0-5 min.) | video clips, music videos, made-for-web content
- Mid-form (5-20 min.) | web series, extended clips, interviews
- Long-form (20+ min.) | linear TV shows, live streams, feature films, sporting events

Onward and Upward

Ad views on long-form content grew 35% year-over-year [see chart 2]. This strong growth continues a trend we have observed over multiple quarters as the relationship between viewers and online video more closely mirrors that of traditional TV. We also continue to see double-digit growth in short- and mid-form monetization, increasing 17% year-over-year.

3 Ad Views by Content Duration

Q2 2014



Long-form content continues to account for over half of all ad views for Programmers [see chart 3]. While volume for Digital Pure-Play Publishers is still very much driven by video clips and music videos (short-form content accounts for 78% of their ad views), long-form content is poised to increase share as Digital Pure-Play Publishers announce plans to use ad-supported models for original content.

2 Ad View Growth by Content Duration

Q2 2013 vs. Q2 2014



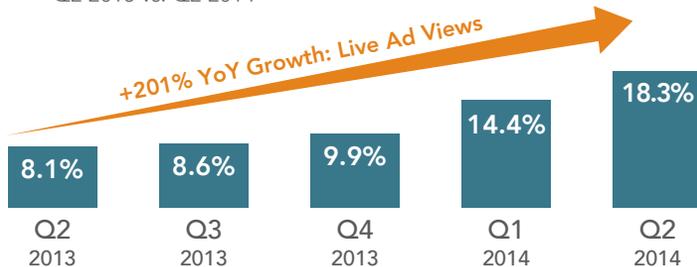
Live is Alive

Q2 2014 was a yet another huge quarter for large, tent-pole live events. We saw 201% growth in live ad views year-over-year, accounting for 18% of all ad views for Programmers [see chart 4]. Live viewing has truly become a year-round phenomenon. Just as Q1 2014 featured signature events like the Sochi Winter Olympics, BCS Bowl Games, and March Madness, Q2 saw the World Cup, NBA Playoffs and NHL Playoffs.

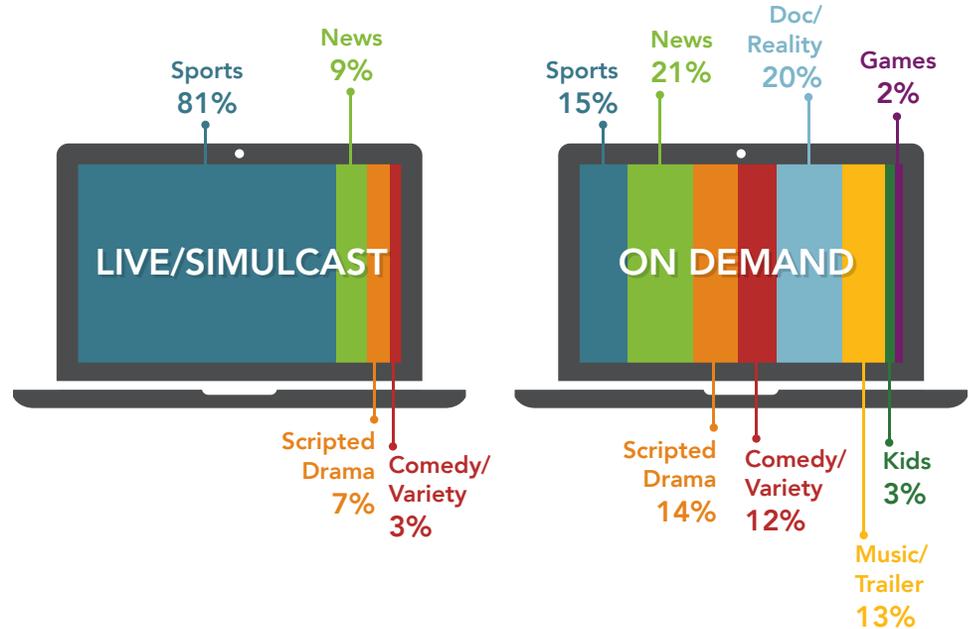
“Live events are becoming synonymous with digital, as Programmers increase their focus in this space.”

Live events are becoming synonymous with digital, as Programmers increase their focus in this space. Consumer education continues to improve as well with each successive event. With highlights such as the MLB Playoffs, College Football and NFL regular seasons, and the mid-term elections yet to come in the second half of 2014, we only expect live growth to continue.

4 Live Ad Views as Share of All Ad Views, Programmer
Q2 2013 vs. Q2 2014



5 Ad View Share by Format and Content Type
Q2 2014

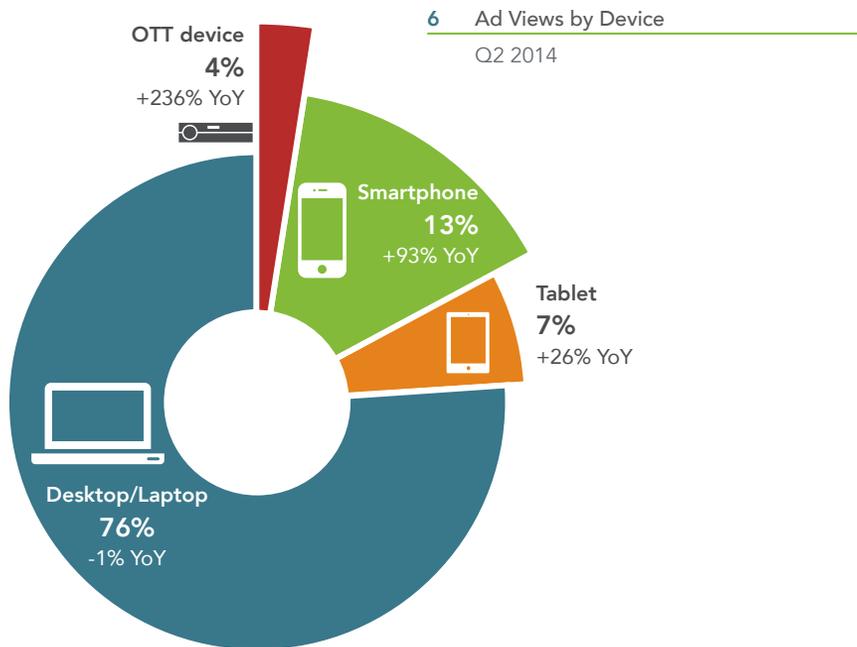


Unsurprisingly, sports programming accounted for the vast majority of live viewing in Q2 [see chart 5]. Garnering fewer headlines, however, is the growth of live entertainment simulcasts. In Q2, we saw simulcasts of linear entertainment programming account for 10% of live monetization – up from 6% in Q1. On the on-demand front, we see a relatively even split, with six separate categories accounting for over 10% of all ad views.

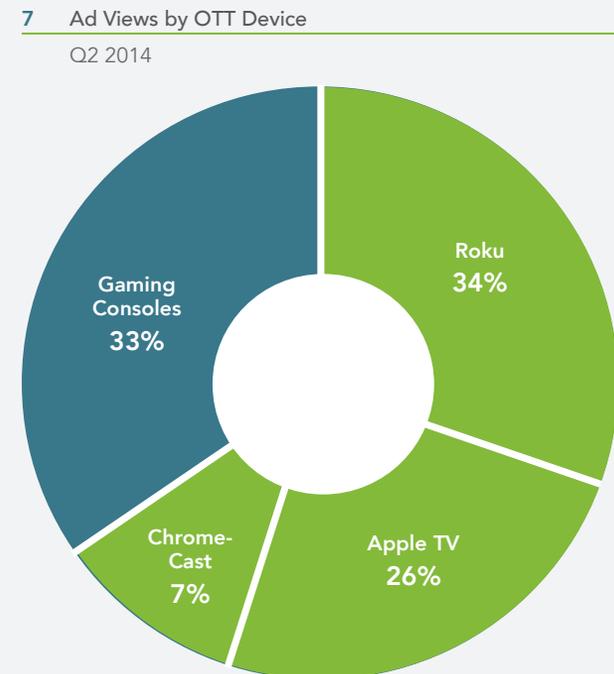
Device

Way Over-the-Top

Almost a quarter of monetization in Q2 2014 came outside of desktop and laptop computers [see chart 6]. While desktop and laptop monetization dropped slightly, smartphones, tablets, and over-the-top (OTT) devices all grew over 20% year-over-year.



OTT devices saw particularly significant growth in monetization, spiking 236% year-over-year. While there was growth throughout the OTT landscape (all devices grew at least 35% year-over-year), streaming set-top boxes and “dongles” more than tripled in size, now accounting for 67% of OTT ad views [see chart 7]. This marks a new trend in consumer behavior as shoppers prove hungry to purchase lower-priced devices with the sole purpose of watching video.



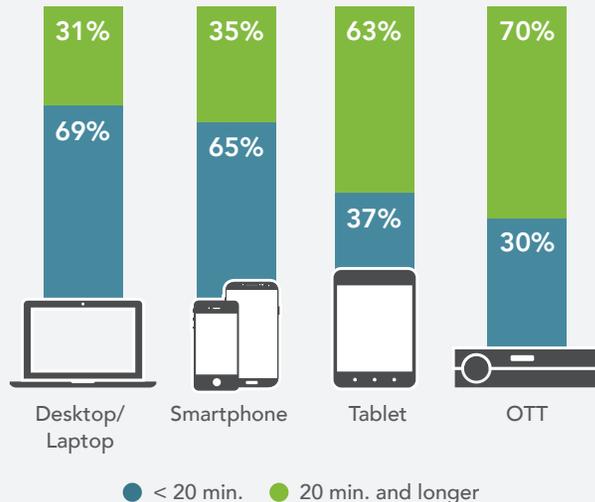
Force of Habit

TV viewing habits are most closely replicated on tablet and OTT devices, where 63% and 70% of ad views come from long-form and live content. Desktop computers, laptops, and smartphones are used for viewing shorter content: 69% of desktop computer and laptop ad views and 65% of smartphone ad views are on content under 20 minutes in duration.

While these devices vary in size and portability, their similar viewing habits can be explained by the fact that computers and mobile devices are used to “snack” on content throughout the workday while tablets and OTT devices tend to live in the home and are used for “binge viewing” [see chart 8].

8 Ad View Share by Content Duration

Q2 2014



Distribution

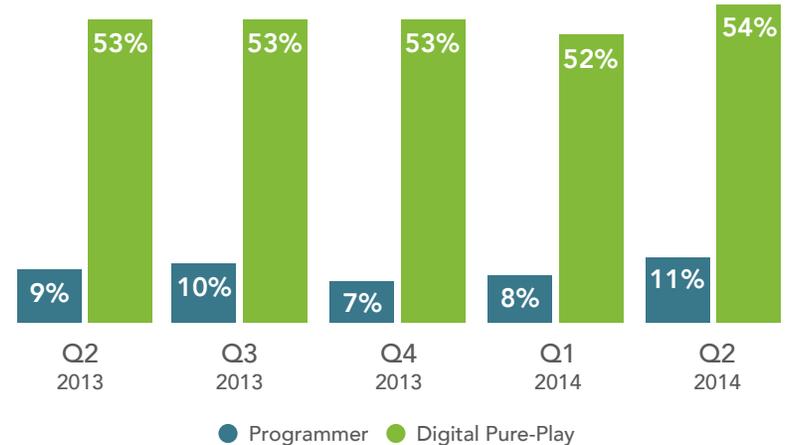
Play Outside

Video syndication (defined as viewing that occurs outside of a Video Publisher’s owned and operated properties) has continued to be stable over the past five quarters [see chart 9]. Programmers continue to favor distribution through their owned and operated sites, but are showing slight growth in syndication rates: Programmers generated 11% of ad views on third-party properties in Q2.

“Programmers continue to favor distribution through their owned and operated sites, but are showing slight growth in syndication rates.”

9 Syndicated Share of Total Ad Views

Q2 2013 vs. Q2 2014



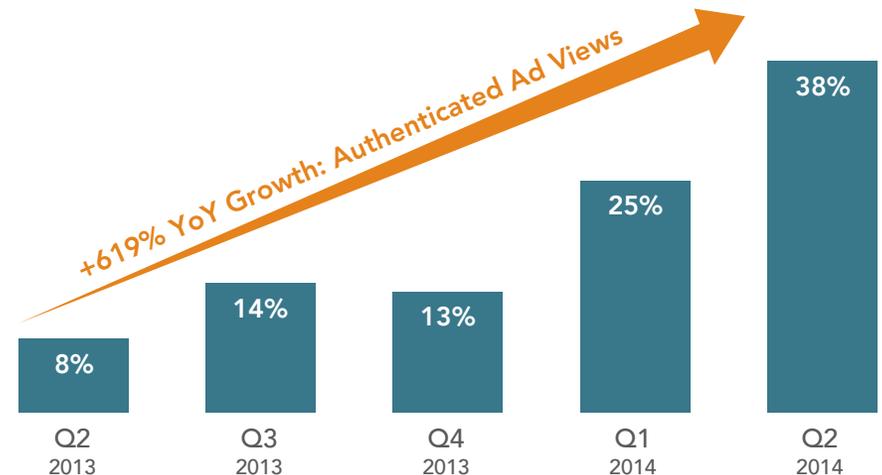
Log in for More

As MVPD apps become more sophisticated and prominent, we expect Programmers to continue to leverage “safe syndication” to reach larger digital audiences. Digital Pure-Play networks appear to have reached a steady state, getting between 52% and 54% of ad views via syndication in each of the past five quarters.

The growth of authenticated viewing (defined as viewing that occurs after viewers enter their MVPD subscription credentials) that we observed in the last quarter (357% year-over-year in Q1) continued unabated in Q2. Authenticated ad views on long-form and live content grew 619% year-over-year and 38% of long-form and live monetization came from behind an authentication wall [see chart 10]. With each successive live event, audience education increases. Potential viewers now expect to be able to watch events anywhere on any screen and are happy to enter their MVPD credentials in order to do so.

“Potential viewers now expect to be able to watch events anywhere on any screen and are happy to enter their MVPD credentials in order to do so.”

10 Authenticated Ad Views as Share of All Long-form Ad Views, Programmer
Q2 2013 vs. Q2 2014



Viewer Experience

TV Doesn't Change Its Spots

In the past few quarters, we have seen growth in both ad break lengths and the number of ads per break. In Q2 2013, an average of 2.7 ads were shown in 68 second long breaks on digital long-form content. In Q2 2014, 3.7 ads were shown in 98 second long breaks [see chart 11]. As long-form content grows to account for a larger share of both audience and revenue, Publishers are willing to test the waters and bring the digital experience on premium content more closely in line with what viewers are accustomed to on linear TV. Viewers have proven receptive thus far – acknowledging that TV is TV, regardless of the screen.

Continuing the trend of mirroring TV ad experiences on long-form content, 66% of all ad views on long-form content were 30 seconds in duration [see chart 12].

In contrast, only 45% of ad views on short-form content were 30 seconds in duration. We expect this number to decrease in upcoming quarters as Publishers more closely align advertising creative with the content that it accompanies.

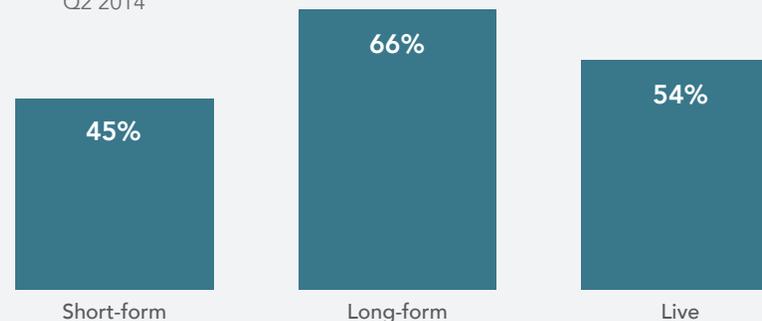
11 Average Mid-roll Ad Break

Q2 2013 vs. Q2 2014



12 :30 Ads as Share of Total Ad Views

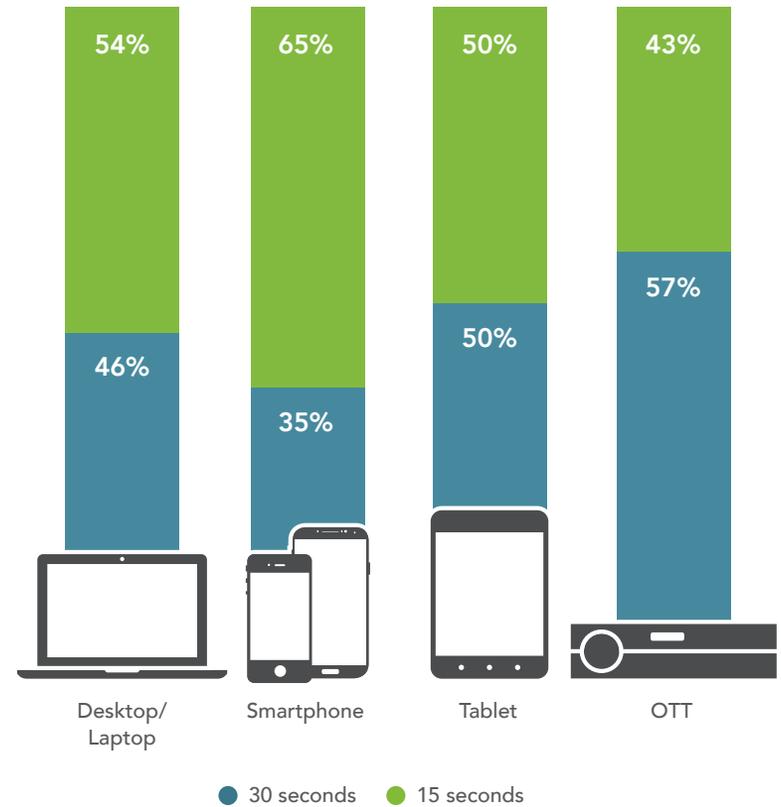
Q2 2014



Publishers have begun to tailor ad experiences to various platforms. Short-form Publishers are 22% more likely to use 15 second creative on mobile devices than on OTT devices [see chart 13]. With regards to live content, we have found that only 54% of ad views are :30 in duration, as Publishers occasionally use :15 ads in order to better manage the unpredictable lengths of ad breaks.

13 Creative Durations on Short-form Content

Q2 2014



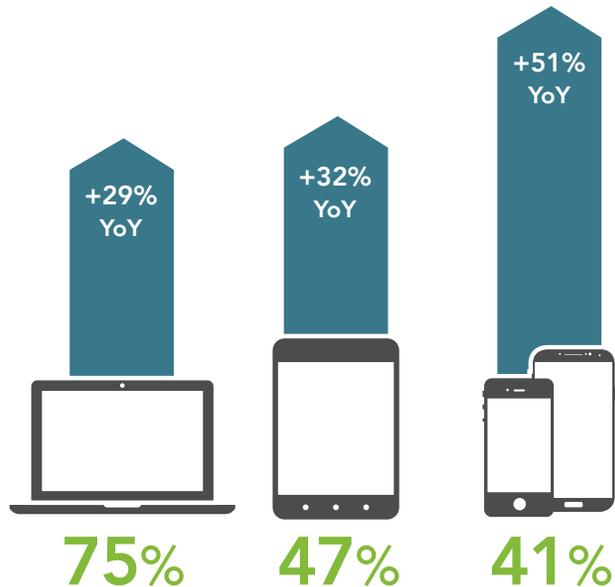
Engagement Party

Mid-roll opportunities on long-form content are not the only instance where Publishers are monetizing viewership at a higher rate. In fact, 75% of short-form videos were monetized with a pre-roll ad on desktop and laptop environments in Q2 (up 29% year-over-year).

While Publishers have been hesitant to use pre-roll ads on smartphones and tablets in the past, viewers now see pre-roll ads on between 40% and 50% of videos on these devices – a year-over-year growth rate of 51% on smartphones and 32% on tablets [see chart 14]. Despite seeing more ads in pre-roll and mid-roll positions, viewers are overwhelmingly likely to stay tuned. Ad completion rates ranged from 73% on short-form content to 94% on long-form content in Q2 [see chart 15].

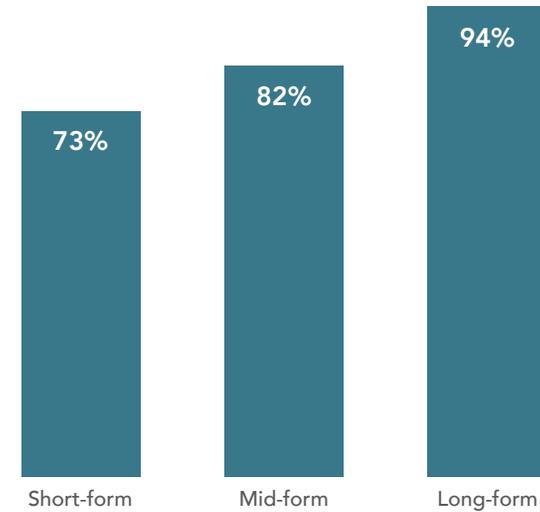
14 Pre-roll Monetization Rate on Short-form Content

Q2 2014



15 Ad Completion Rates

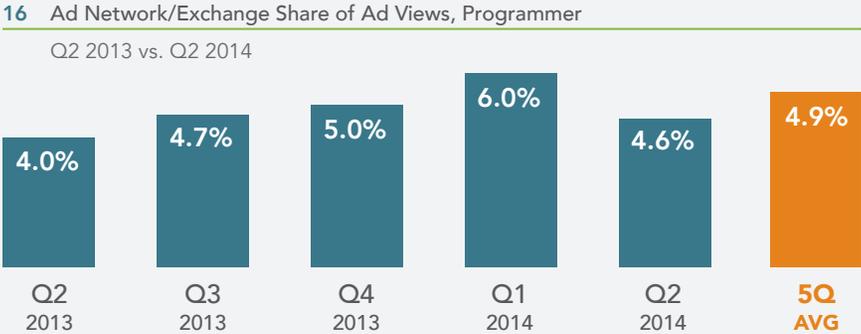
Q2 2014



Advertising

Role Player

The share of Programmer ad views moving through ad networks and exchanges dropped in Q2 to 4.6% from 6.0% in Q1, bringing the five-quarter average to 4.9% [see chart 16]. While we foresee that networks and exchanges will continue to play a role in the digital video ecosystem (managing for unexpected sales shortages, for example) fears around viewability, fraudulent traffic, compliance issues and conflicts with direct sales force goals continue to limit the amount of inventory monetized through these channels. Indeed, a recent study from Vindico reported that only 37% of video ads traded via exchanges in Q2 2014 were viewable.*



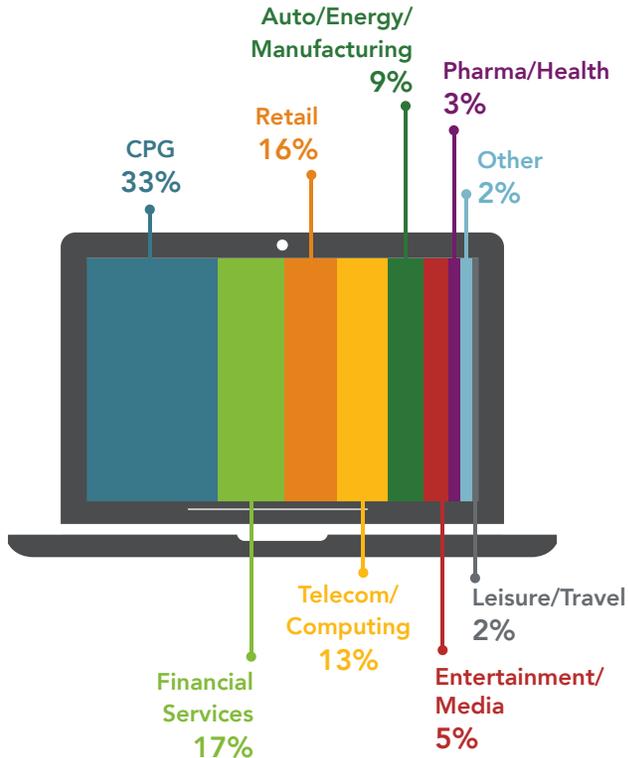
* Source: Vindico Adtricity Data, September – December 2013

Who's Buying?

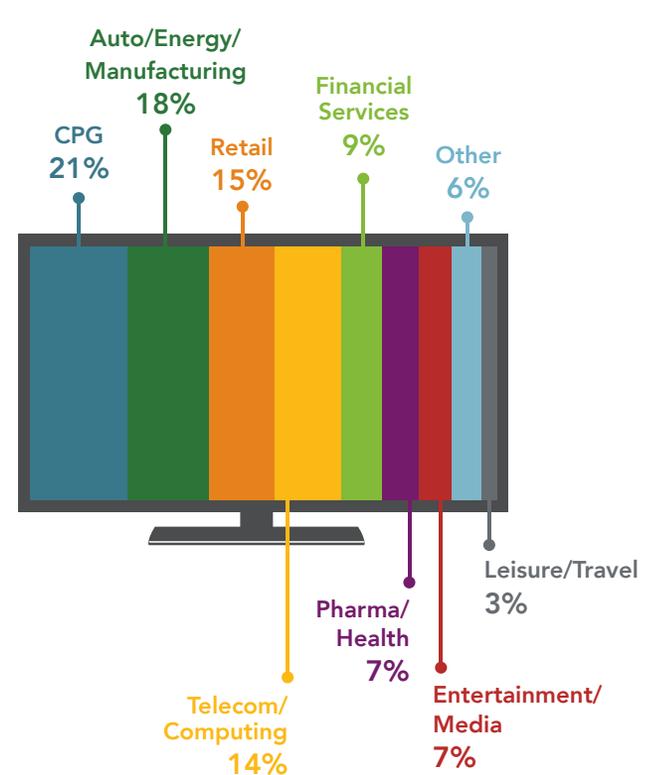
In Q2 2014, we saw the Consumer Packaged Goods (CPG) and Financial Services verticals account for half of all online video ad views; 33% and 17%, respectively [see chart 17]. Astute consumers may notice that CPG and Financial Services brands are not the primary advertisers in the rest of the digital space (e.g. search marketing, display), yet they are quite prevalent on linear TV.

Indeed, according to research by Kantar Media, the same five verticals (CPG, Financial Services, Retail, Telecom/Computing, Auto/Energy/Manufacturing) are the largest advertisers on both premium digital video and linear TV [see chart 18].

17 Percentage of Total Ad Views by Vertical
Q2 2014



18 Percentage of Total TV Ad Spend by Vertical*
January - May 2014

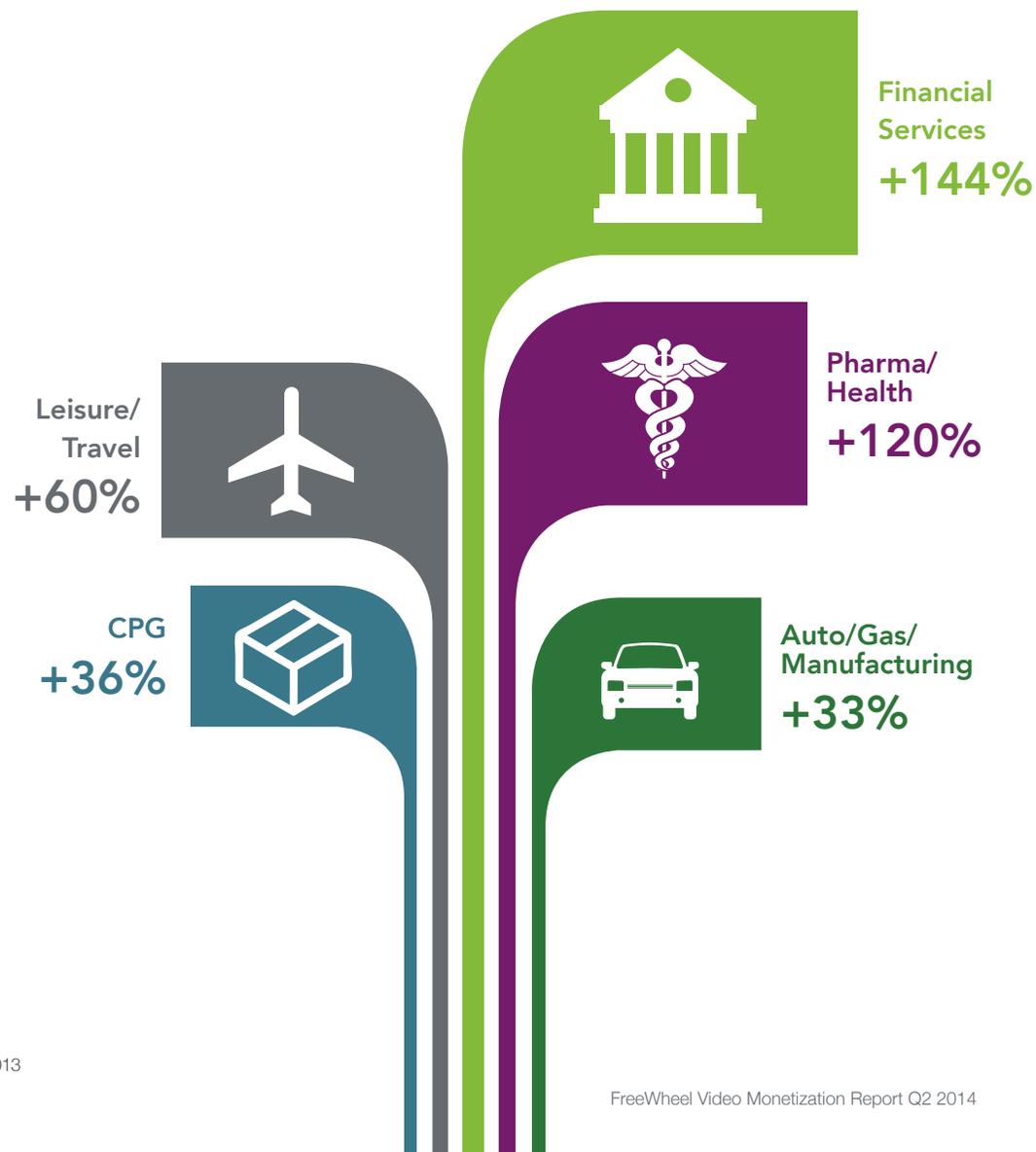


While CPG brands account for 33% of premium digital video and 21% of linear TV ads, IAB/PwC reported that they only make up 8% of ad spend for the overall digital market.* This discrepancy highlights how the purpose of video advertising varies from other formats such as search and display. While brand building is the primary goal of video advertising, eMarketer reports that 59% of overall digital advertising is direct response.**

Interestingly, the makeup of digital video advertisers has changed over time. Both the Financial Services and Pharmaceutical and Healthcare verticals have more than doubled their respective number of digital video ad views year-over-year (144% and 120% growth, respectively) [see chart 19]. The fact that these two industries, where consumer trust is of paramount importance, have pushed so much advertising to premium digital video only underlines the medium's perception in the minds of advertisers and consumers alike.

19 Ad View Growth by Vertical

Q2 2014



* Source: IAB Internet Advertising Revenue Report, industry survey conducted by PwC, October 2013

** Source: eMarketer 2014 Digital Ad Spending Benchmarks by Industry, March 2014

UK Market Analysis

Cross Devices Across the Pond

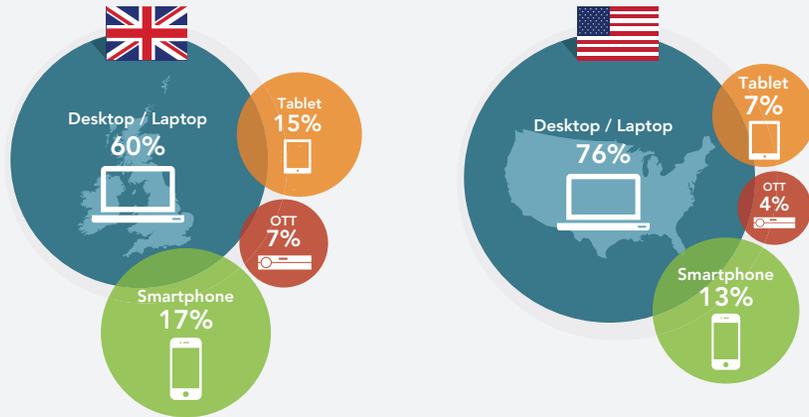
This quarter, we continued to see different patterns of digital video monetization between the United Kingdom and the United States. Publishers have done a remarkable job at monetizing content across devices in the UK. In Q2, nearly 40% of UK ad views came on smartphones, tablets, or OTT devices [see chart 20]. While Publishers in the US are certainly finding success monetizing across platforms, they still lag behind their British counterparts.

More Like the Telly

Another trend that is particularly visible in the UK market is the dominance of long-form content. While long-form content accounts for 53% of ad views in the US, it accounts for 75% of the UK market [see chart 21]. Publishers and MVPDs in the US could look towards the UK for guidance as well as a glimpse of what the future of digital video will resemble (hint: a lot like linear TV).

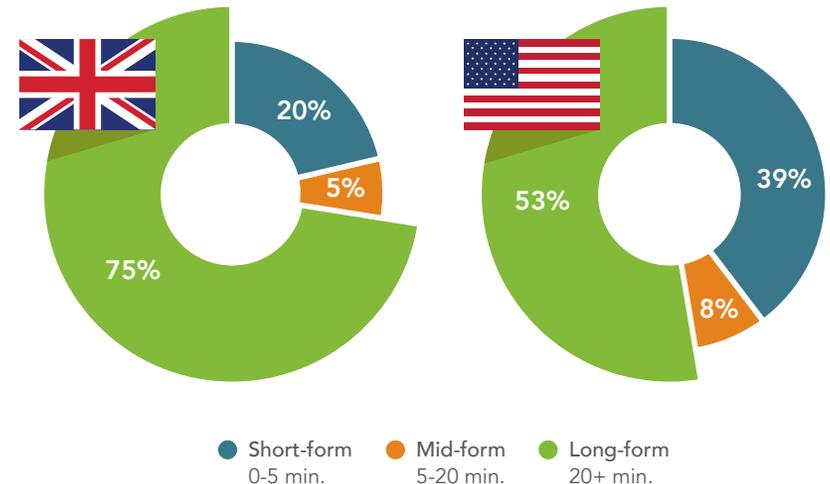
20 Ad View Share by Device, UK vs. US

Q2 2014



21 Ad Views by Content Duration, UK vs. US

Q2 2014



Summary

Q2 2014 has marked yet another quarter of strong growth and evolution in the digital television market, with video views and ad views both up over 28% year-over-year.

In exploring the trends in the digital television industry, we noted the following key observations:

- Live viewing was up 201% year-over-year, driven by strong growth in sports streaming as well as entertainment and news simulcasts
- Monetization continues to move cross-platform, with ad views up 236% year-over-year on OTT devices and 93% on mobile devices
- Authenticated viewing grew 619% year-over-year as 38% of all ad views on long-form and live content came from behind authentication walls
- Viewers are seeing more TV-like ad experiences on long-form content, yet completion rates remain high
- CPG, Financial Services, and Retail advertiser verticals are responsible for over half of all ad views, with Financial Services companies making a strong push into digital advertising
- The UK market is highly skewed toward long-form and cross-device viewing

About this Report

FreeWheel's platform for video ad management and monetization helps the largest players in the television industry generate revenue from their ad-supported content on desktop, laptop, mobile, OTT, and traditional set-top box devices. The data set used for this report is one of the largest available on the usage and monetization of professional, rights managed video content, and is comprised of over 50 billion video views in the first half of 2014.

The *FreeWheel Video Monetization Report* is released quarterly and seeks to highlight the changing dynamics of how enterprise-class content owners and distributors are monetizing professional digital video content.

As part of this analysis, we group Publishers into two categories:

Programmers:

- Includes Programmers and Multichannel Video Programming Distributors (MVPDs) who generate the majority of their advertising revenue from linear TV services
- Offer diverse content mix on IP-based environments

Digital Pure-Play Publishers:

- Generate majority of revenue from IP-based environments
- Aggregate third-party content and/or are developing original content

FreeWheel





For more information on this report:

Brian Dutt

Director, Advisory Services

bdutt@freewheel.tv

Media inquiries:

Laura Colona

Director, Public Relations &
Corporate Communications

lcolona@freewheel.tv