

VIDEO MONETIZATION REPORT

Q1 2015

The New Living Room

FreeWheel



Q1 has affirmed the arrival
of the “new living room”

FreeWheel

KEY OBSERVATIONS

With video ad views growing 43% year-over-year and video views at 40%, Q1 2015 kicked off what should be one of the strongest growth years since the inception of the premium digital video market.

In exploring the trends in the digital video landscape, we noted the following key observations:

- Long-form on-demand and live content continue to drive growth, growing at 50% and 140%, respectively, year-over-year
- Over 30% of video ad views came from outside of desktop and laptop environments, with OTT devices and smartphones leading growth
- MVPD-authenticated viewing grew 328% year-over-year, accounting for 57% of long-form and live viewing
- Viewing on over-the-top (OTT) streaming devices and smartphones grew 380% and 105%, respectively, year-over-year

EXECUTIVE SUMMARY

The New Living Room

When it comes time to assemble this report each quarter, FreeWheel's Advisory Services team is inundated with hundreds of data points spanning any number of dimensions. It is critical, therefore, to separate the signal from the noise and avoid going down rabbit holes so we can identify and focus on the emerging trends impacting today's digital video landscape.

This quarter, fortunately, the data tells a clear and familiar story: premium digital video continues to grow and mature at a rapid rate. This progression is validated by notable increases in viewing of ultra-premium content, MVPD-authenticated

users, new streaming devices, and trusted deep-pocketed advertisers.

Similar to past quarters, long-form on-demand and live streams were the fastest-growing content dimensions (50% and 140% growth, respectively). *TV Everywhere* offerings saw astounding growth as well, with MVPD app viewership growing 147% year-over-year. Additionally, MVPD-authenticated viewing grew 328% year-over-year. After several quarters of triple-digit growth, authentication is now seen as "table stakes," with 57% of Programmer long-form and live viewing coming from behind the authentication wall.

As more and more viewers use digital video to get their long-form and live content fix, devices that are tailor-made for such viewing have exploded in popularity. Over-the-top (OTT) streaming devices (such as Roku, Chromecast, gaming consoles, and Smart TVs) accounted for 8% of video ad views in Q1 2015, up 380% year-over-year.

Leading agencies and brands have embraced premium digital video's value proposition. With its engaging content, hard-to-reach audiences and advanced targeting capabilities, marketers are shifting spend to digital video, aligning budgets to viewership. The demand for

this quality inventory is reflected in the fact that 94% of Programmer ads were direct sold this quarter.

We are delighted to report on yet another quarter of growth and maturity led by “the new living room”: the same high-quality TV content that was traditionally consumed in the living room is experienced today by the same audience through a multitude of screens and locations. We look forward to the lively discussions and debates that these reports always seem to bring and cannot wait to report again next quarter!

CONTENT

Watch Now, Watch More

Q1 2015 saw 43% growth year-over-year in video ad views and 40% growth in video views [see *chart 1*]. These are the strongest growth numbers reported since 2012 when the digital video landscape was still very much in its infancy.

1 Ad and Video View Growth | Q1 2015 vs. Q1 2014

+40%

VIDEO
VIEWS

+43%

AD
VIEWS



Building industry scale in premium digital video inventory ultimately depends on cultivating a diverse content mix among the following content lengths and types

Short-form (0-5 min.)

video clips, music videos, made-for-web content

Mid-form (5-20 min.)

web series, extended clips, interviews

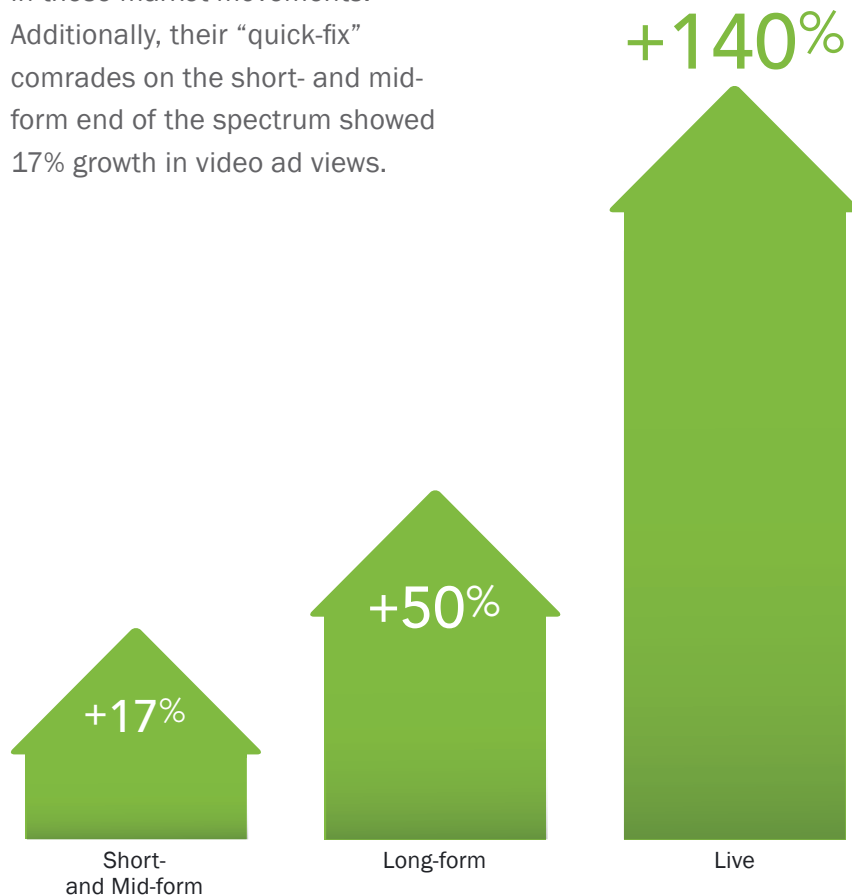
Long-form (20+ min.)

linear TV shows, feature films

Live (All)

live simulcasts, sporting events

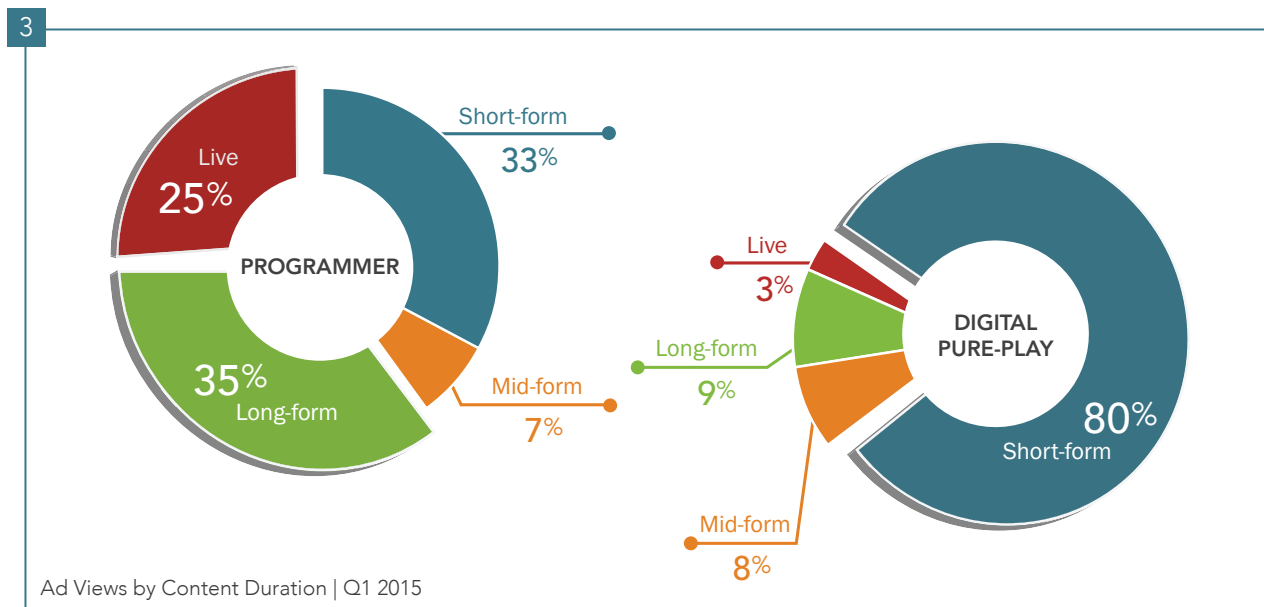
Long-form and live content are the main drivers of this progress, demonstrating 50% and 140% year over-year growth, respectively [see *chart 2*]. Viewers' appetites for whenever, wherever ultra-premium content is unquestionably evident in these market movements. Additionally, their "quick-fix" comrades on the short- and mid-form end of the spectrum showed 17% growth in video ad views.



2 Ad View Growth by Content Duration | Q1 2015 vs. Q1 2014

Strikingly, over a quarter of Programmer video ad views in Q1 came on live streams, resulting in a combined 60% of their video ad views coming from long-form or live content [see chart 3].

Digital-only Publishers, on the other hand, lag behind on developing this slice of the pie, seeing 3% of video ad views coming from live and 9% from long-form content. As Digital Pure-Play Publishers prioritize the development of original programming and simulcasts, they are poised to shift their mix of content closer to that of their linear counterparts.





Over a quarter of
Programmer video ad views
in Q1 came on live streams

Live From Your Screens...

Live viewing has historically been dominated by sports content. While this quarter is no exception, with 82% of live video ad views generated by sports content, there is an increased consumption of entertainment programming via live simulcasts.

This quarter revealed 7% of live video ad views coming from entertainment content, up from 5% last quarter [see chart 4]. This significant growth supports our hypothesis that live sports viewing is leading viewers to TV Everywhere offerings, drawing increasing numbers of viewers



4 Ad View Share by Content Category | Live | Q1 2015

to ultra-premium, high-CPM ad inventory. The live sports “gateway drug” is noticeably moving the needle for Programmers, as viewer cravings for immediate access to content grows more with every simulcast.

On-demand viewing continues to be relatively evenly split, with six separate content categories accounting for 10% or more of video ad views each this quarter [see chart 5]. Documentary/Reality content is yet again the largest bucket, accounting for 23% of on-demand viewing.

ON-DEMAND

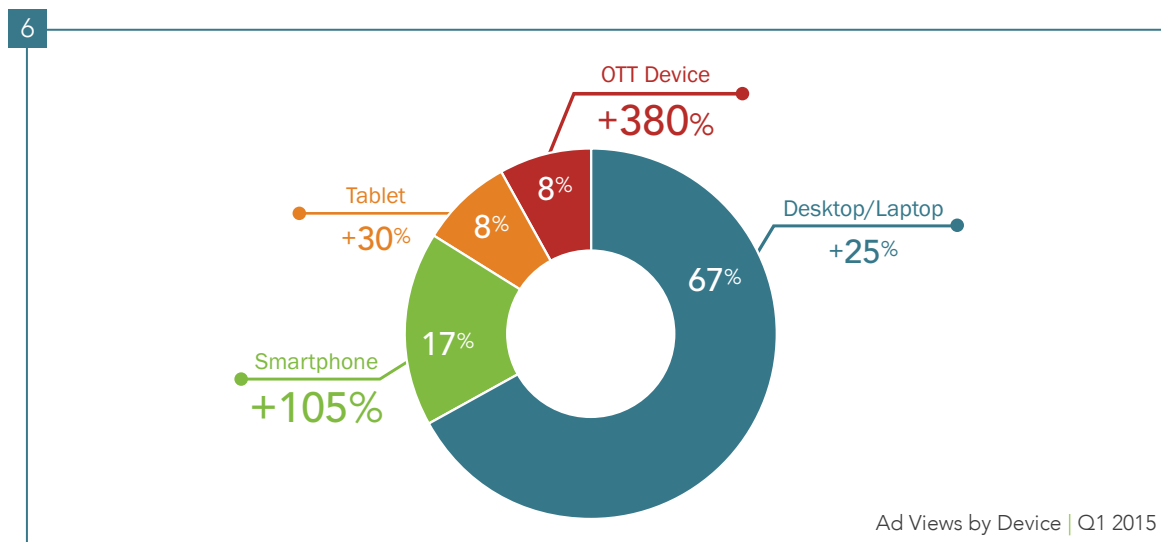


5 Ad View Share by Content Category | On-Demand | Q1 2015

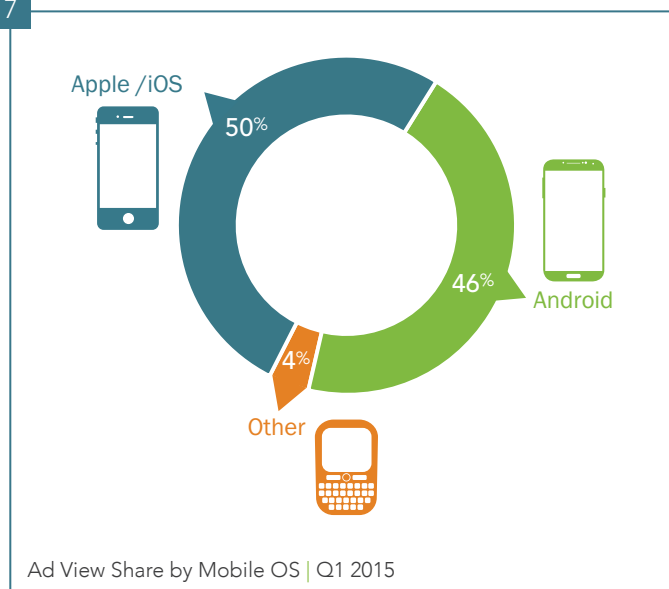
DEVICE

Homeward Bound

33% of monetization in Q1 2015 came outside of desktop and laptop environments [see chart 6]. While every device saw at least double-digit growth, monetization on smartphones and OTT devices (Roku, Apple TV, Chromecast, gaming consoles, and Smart TVs) astounded yet again, growing at 105% and 380%, respectively. Indeed, this is the largest quarter for OTT growth since we began tracking this metric.



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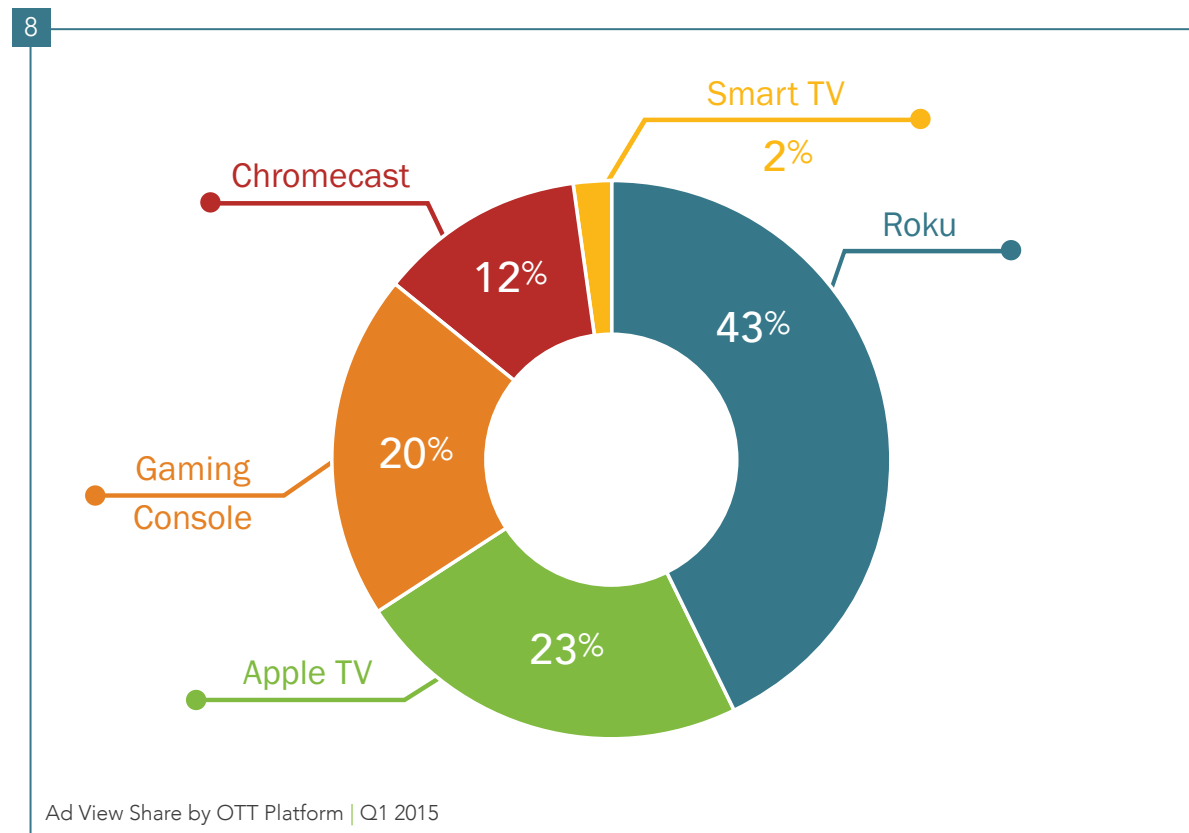


Bigs and Smalls

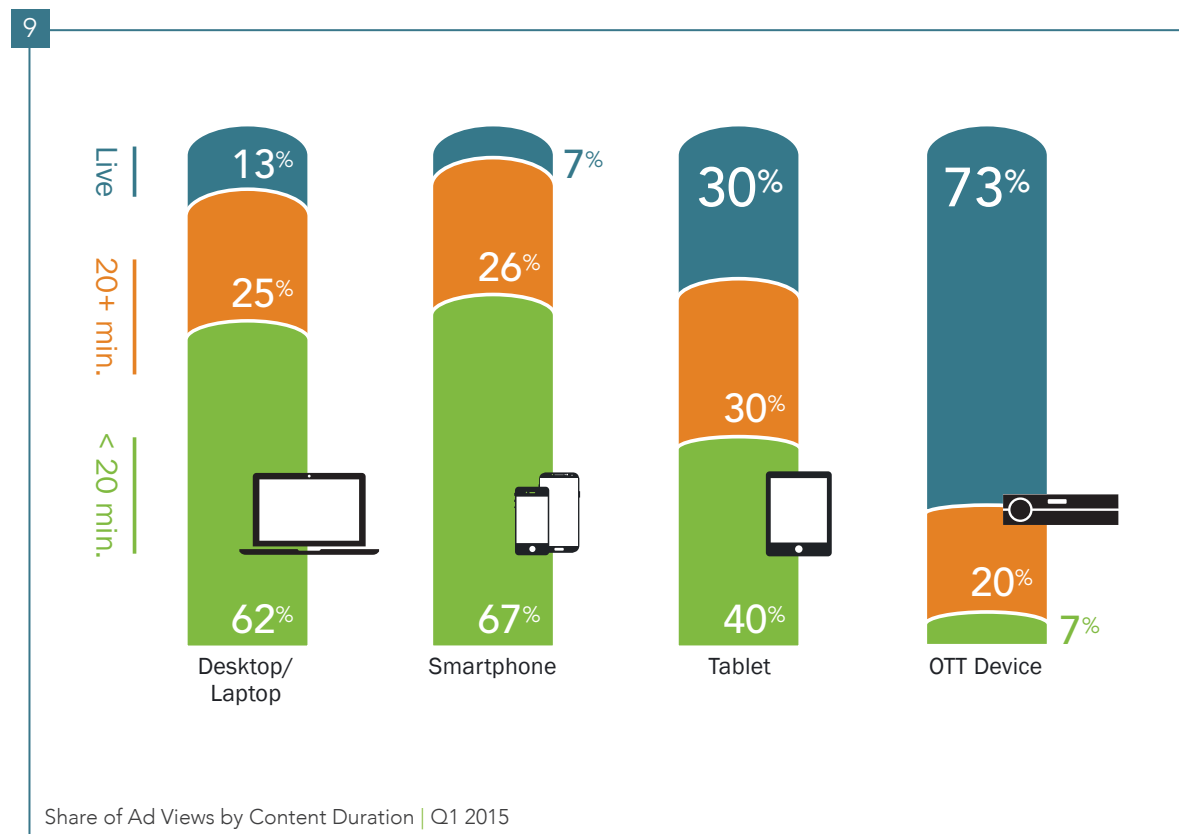
Deep-diving into smartphones, a little more than 50% of mobile video ad views originated on iPhones this quarter, closely followed by Androids at 46% [see chart 7]. The market share of Apple devices in terms of video ads views is especially interesting considering that iPhones only represented about 20% of global smartphone sales in 2014 according to IDC*, and only matched Android devices with respect to screen size with the recent launch of the iPhone 6.

* Source: IDC's Worldwide Quarterly Mobile Phone Tracker®, Q4 2014

Looking at the relative share of OTT devices by platforms, it is clear how much and how quickly the landscape has evolved. While Roku has grown its share of OTT video ad views from 34% in Q2 2014 to 43% this quarter, Apple TV and Gaming Consoles are still each holding onto about 20% of the market, down from 33% and 26% in 2014, respectively [see *chart 8*]. Meanwhile Chromecast is aggressively eating into market share, holding 12% of video ad view volume this quarter, up notably from 7% in 2014.



OTT viewers are also highly likely to watch live streams, (live accounts for 73% of OTT video ad views), while smartphones have yet to take off as a popular live viewing portal: only 7% of mobile video ad views come on live content [see chart 9]. Desktop/laptop and smartphone environments are dominated by short-form content of less than 20 minutes, while tablet and OTT devices both skew towards long-form and live. Consumption across content durations does not appear to be driven by screen size or device portability, but rather the configuration of the device and how closely it mirrors the turn-on-and-lean-back experience of linear television.



DISTRIBUTION

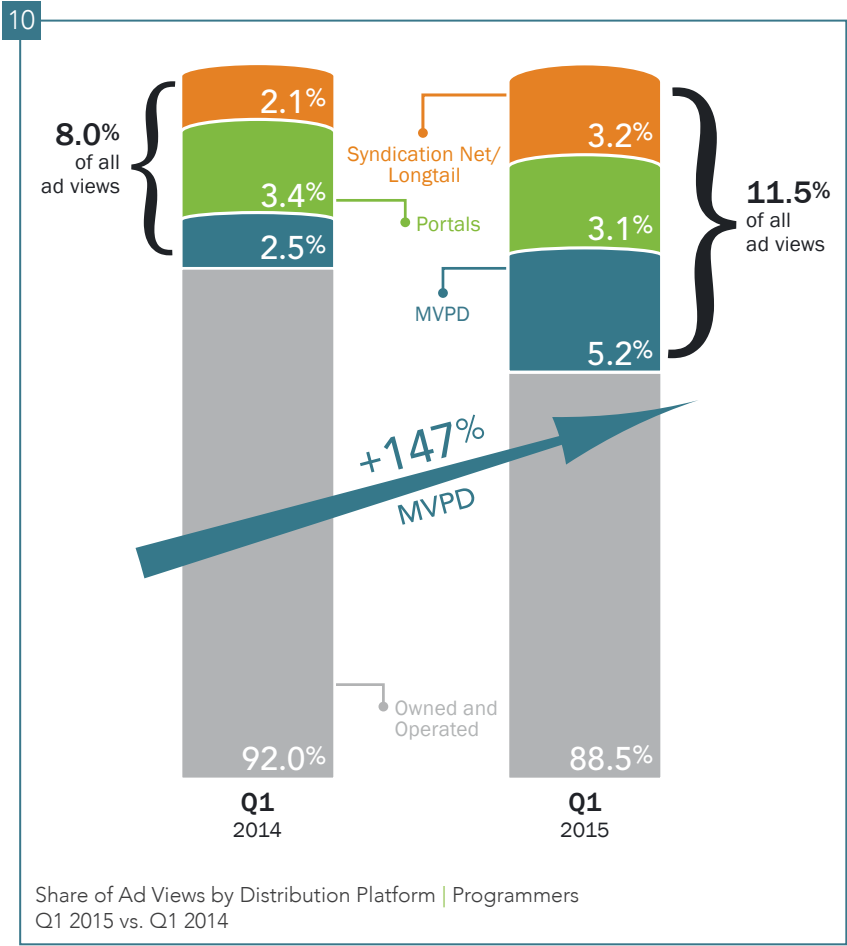
Playing It Safe

Video syndication (defined as viewing that occurs outside of a Publisher’s Owned and Operated properties) has become an increasingly important strategic lever for Programmers, accounting for 11.5% of Programmer video ad views this quarter, as compared to 8% a year ago [see chart 10].

As we have seen in previous quarters, Programmers remain cautious in pushing their content to well-known portals, which when combined, account for just over 3% of Programmer video ad views. Programmers are instead looking towards MVPD apps to disseminate their content to the largest possible audience, with apps seeing 147% year-over-year growth and now account for over 5% of total programmer video ad views in Q1.

Programmers are looking towards MVPD apps to disseminate their content

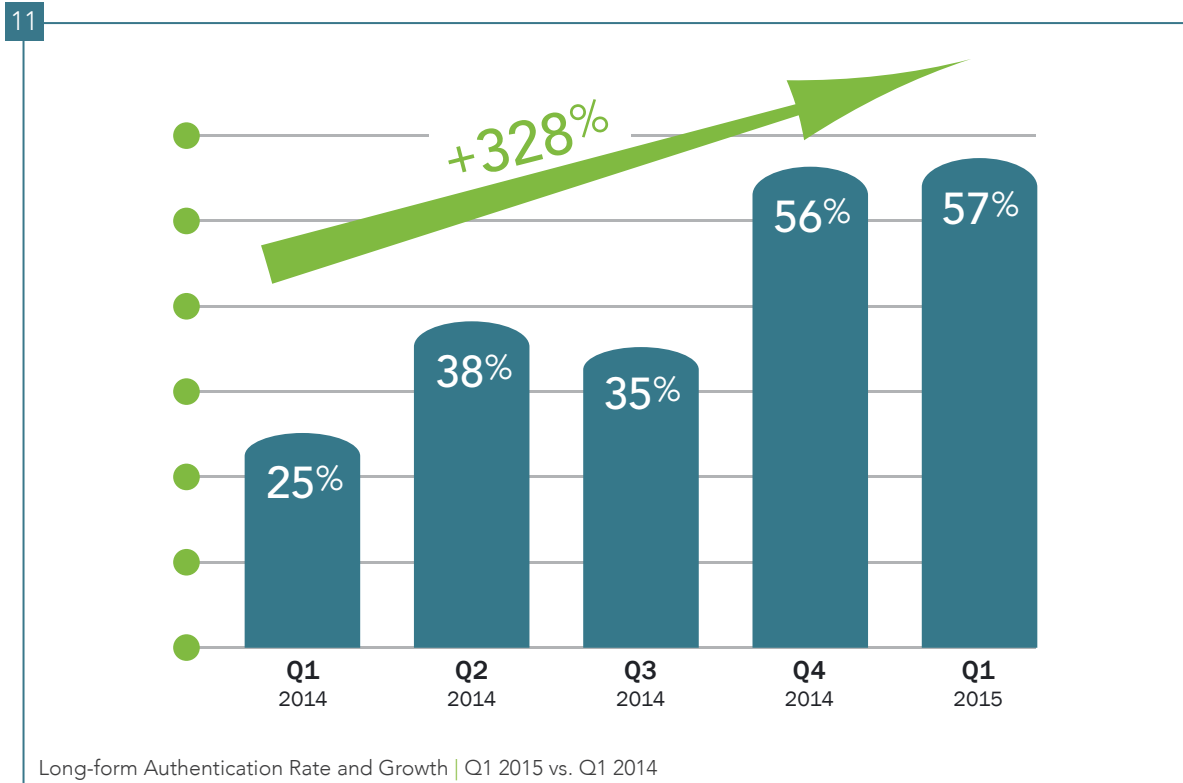
FreeWheel



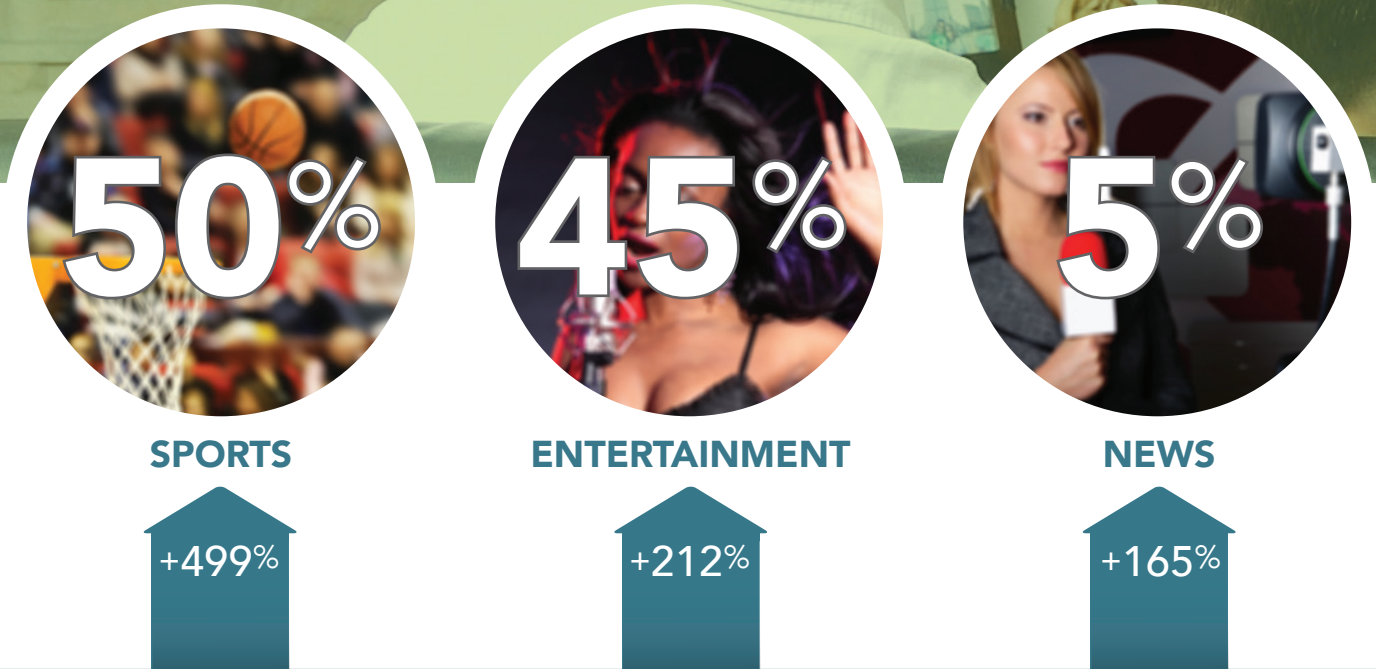
The growth of these *TV Everywhere* apps is great news for MVPDs, as HUB research reported that 82% of (self-identified) heavy *TV Everywhere* users rate pay-TV a “good” or “excellent” value, vs. 52% for light *TV Everywhere* users, and just 48% for non-*TV Everywhere* users.*

Live Free or Live Authenticated

A majority of long-form and live monetization came via authenticated viewing (defined as viewing that occurs after viewers enter their MVPD subscription credentials) in Q1 2015, up from 25% in Q1 2014 [see *chart 11*]. The role of authenticated viewing continues to prove remarkably consistent and explosive, maintaining a growth rate above 200% in each quarter since we began reporting on the metric, with 328% year-over-year growth.



* Source: HUB Entertainment Research. The Impact of TV Everywhere Adoption and Implications. April 22, 2015



12 Authentication by Content Category | Q1 2015

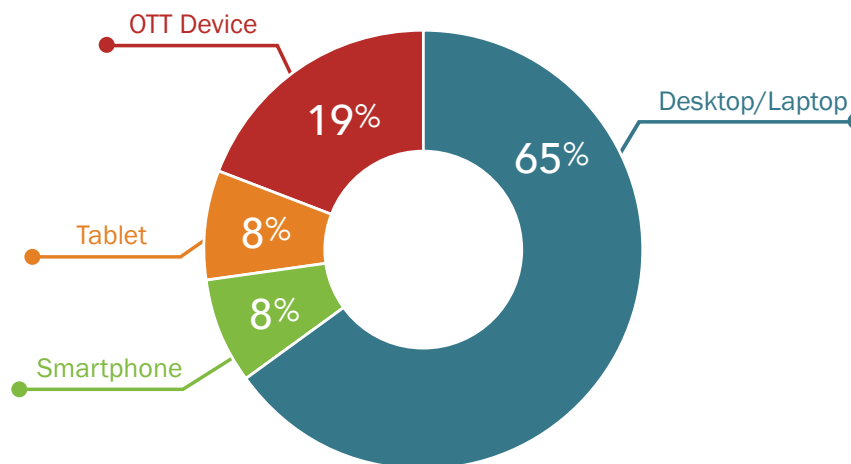
The growth in authenticated viewing was driven by triple-digit growth across the three major content categories (*sports, entertainment and news*) [see chart 12].

Authentication growth was strongest on sports content, growing 499% year over-year, and accounting for 50% of authenticated video ad views. Entertainment came in a strong second with 45% of the authenticated ad view volume, growing 212% year-over-year.



As outlined earlier in this report, owing to the live nature of sports consumption and the skew of viewing on OTT devices towards live content, it is only natural that OTT devices are the second most common device platform for authenticated viewing [see *chart 13*]. Furthermore, most applications with ultra-premium content access on OTT devices require authentication before allowing any sort of viewing.

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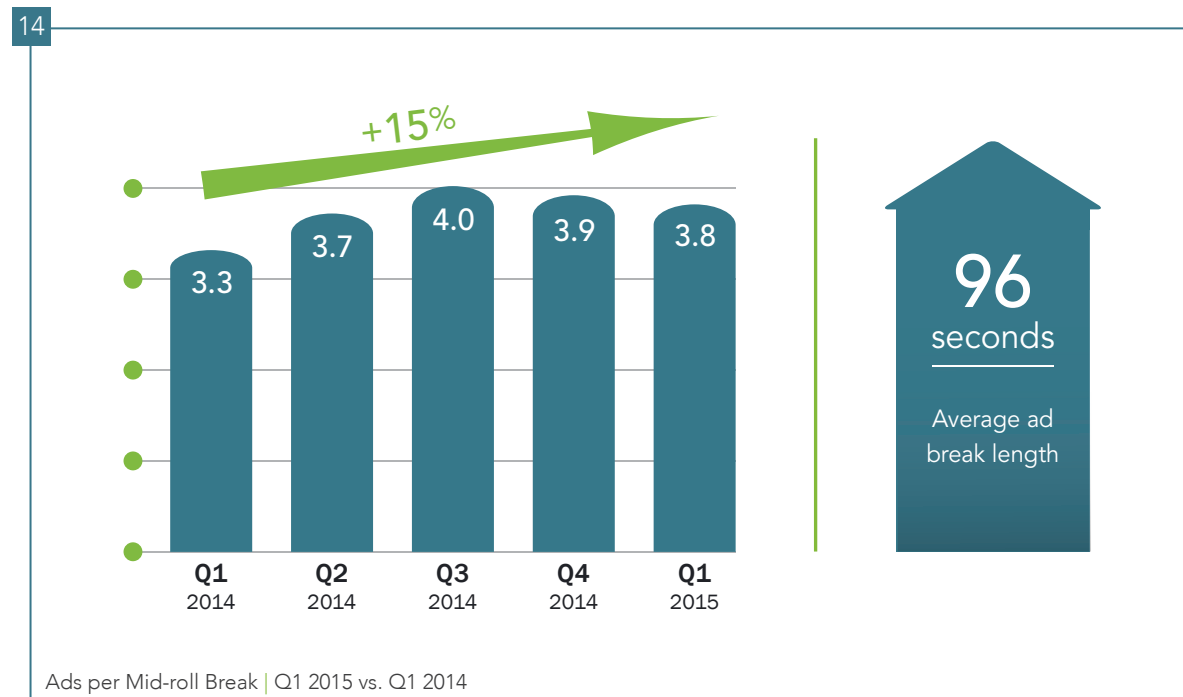


Authenticated Ad View Share by Device | Q1 2015

VIEWER EXPERIENCE

On a Roll

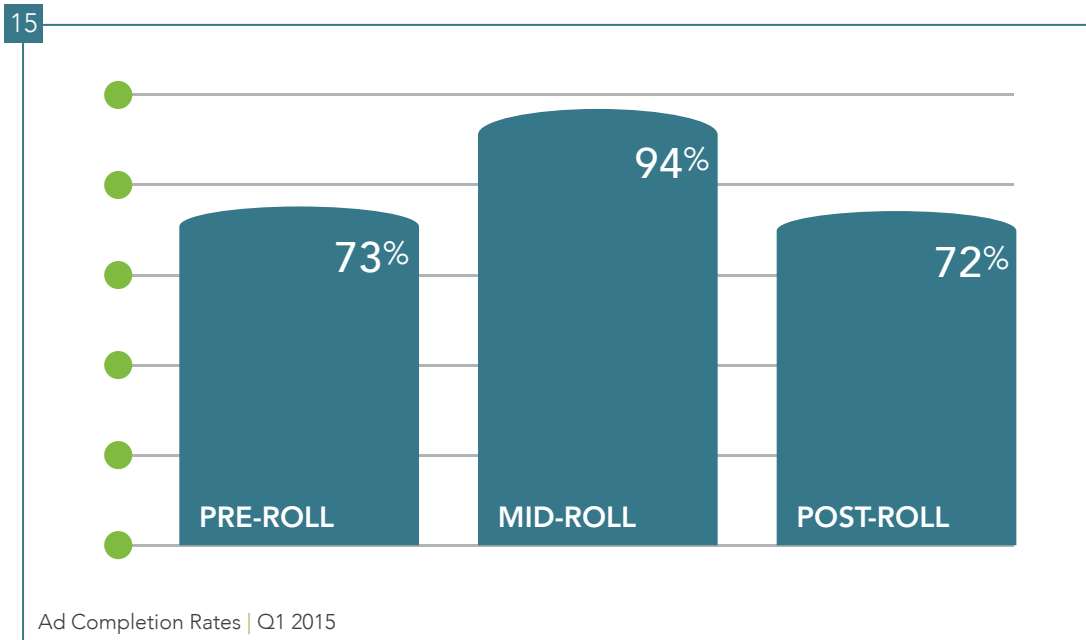
We saw the average mid-roll break both grow and shrink this quarter, down from 3.9 ads in Q4 2014 to 3.8 ads in Q1 2015 [see chart 14], yet lasting an average of 96 seconds (up slightly from 93 in Q4 2014). As linear Programmers continue to progressively pack more advertisements into content*, it remains to be seen whether the digital side of the house follows suit.



* Source: Jon Lafayette, "Cable Networks Pack More Spots into Shows," *Broadcasting & Cable*, January 28, 2015.
<http://www.broadcastingcable.com/news/upfront-central/cable-networks-pack-more-spots-shows/137489>

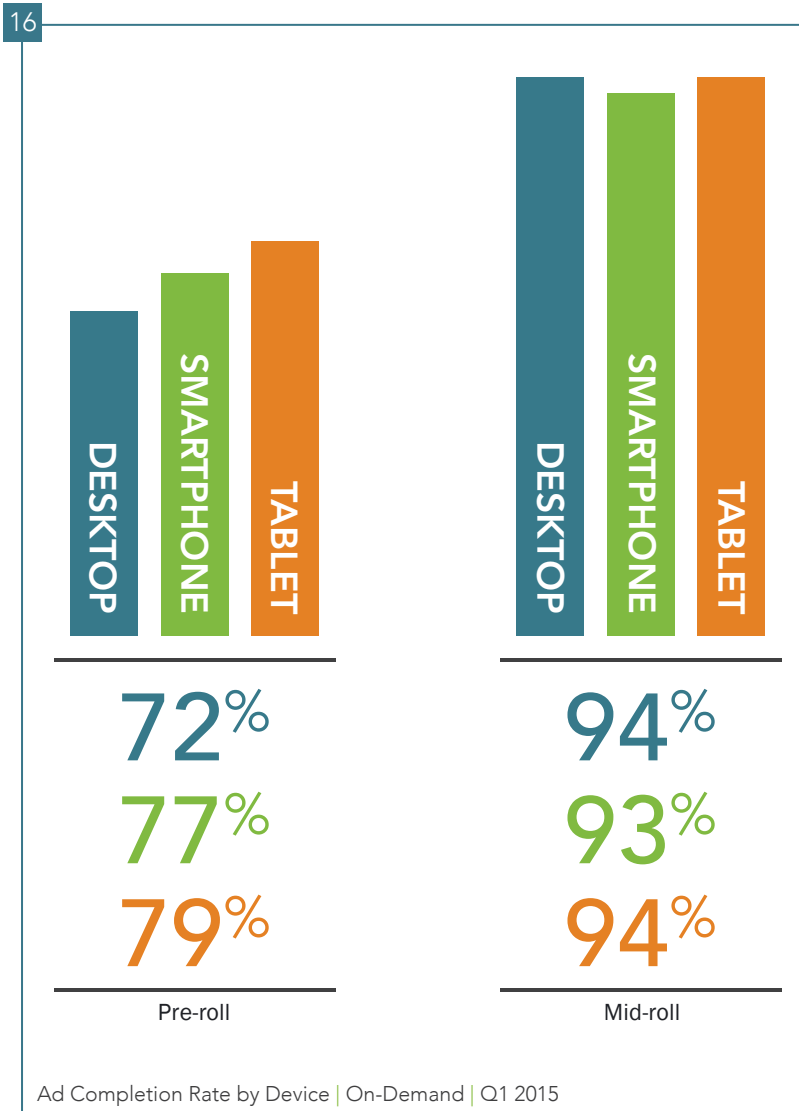


Ad completion rates are highest for mid-roll breaks at 94%, as viewers are more invested in completing the content once they reach this ad unit [see *chart 15*]. Notably, viewers are only slightly less likely to complete post-rolls than they are pre-rolls, at 72% versus 73% completion rates, respectively.



Viewers are most likely to complete pre-roll ads on smartphone and tablet devices with 77% and 79% video ad completion rate, respectively, compared to desktop's 72% rate in this quarter [see *chart 16*].

One major reason driving this is the rich in-app mobile experience does not allow users to queue up content on other tabs, making viewers more likely to wait 15 or 30 seconds to watch their selected videos rather than closing a tab playing a pre-roll and having a content alternative at the ready.



Viewers are most likely
to complete pre-roll
ads on smartphone
and tablet devices

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ADVERTISING

The Gang's All Here

In Q1 2015, the Consumer Packaged Goods (CPG) advertiser vertical accounted for 22% of video ad views [see chart 17]. CPG is also the top vertical for linear TV advertising, according to research by Kantar Media.* This runs in stark contrast to the rest of the digital advertising market (e.g. search, display, social) where CPG advertisers only account for 6% of all ad revenue.**

This discrepancy highlights how advertisers view usage of premium video advertising differently from other formats; brand building tends to be the central focus for video advertising, while other formats are primarily used for lead generation and progressing consumers down the marketing funnel.

17



22%

Consumer Packaged Goods (CPG)



18%

Retail



17%

Financial Services



13%

Auto/Gas/Manufacturing/Utilities



12%

Entertainment/Media



8%

Telecommunications



4%

Computing Products



3%

Leisure Travel



3%

Other

Ad Views by Advertiser Vertical | Q1 2015

* Source: Kantar Media Network TV Ad Spend by Vertical, January - May 2014

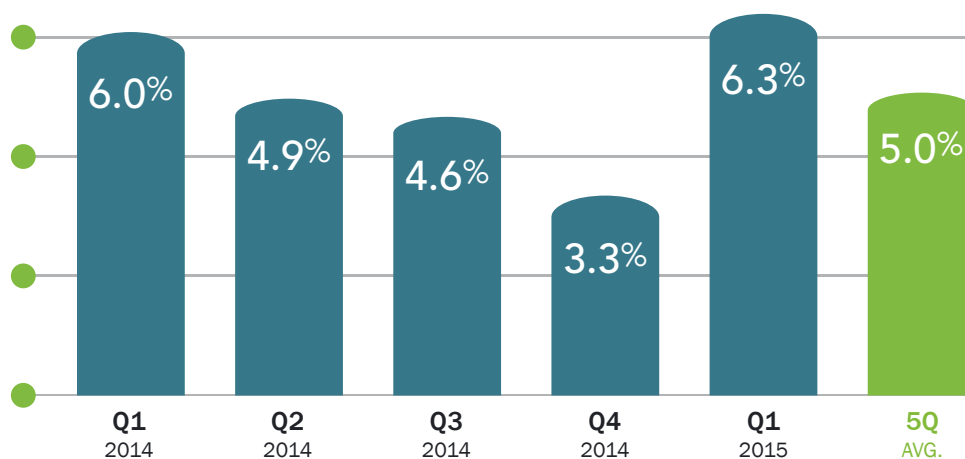
** Source: IAB/PwC Internet Ad Revenue Report, FY 2014, April 2015

Final Piece of the Puzzle

The share of Programmer video ad views moving through ad networks and exchanges rose to 6.3%, bringing the five-quarter average up to 5.0% [see *chart 18*]. Historically, Q1 is the most challenging for broadcasters to monetize due to the pattern of slow sell-through at the beginning of every calendar year, leading them to leverage reseller (ad networks, exchanges, and SSPs) as well as DSP-direct channels more heavily. Conversely, Q4 is historically light for resellers as buyers and sellers jockey to reach year-end budgets.

As premium digital video is a supply-constrained environment, use of resellers continues to be limited, providing one option for content owners to manage demand and supply imbalances. We believe that the use of resellers will continue to play a role in the long term, with Programmers leveraging partners that enable them to maintain the control, safety and compliance of their premium inventory.

18

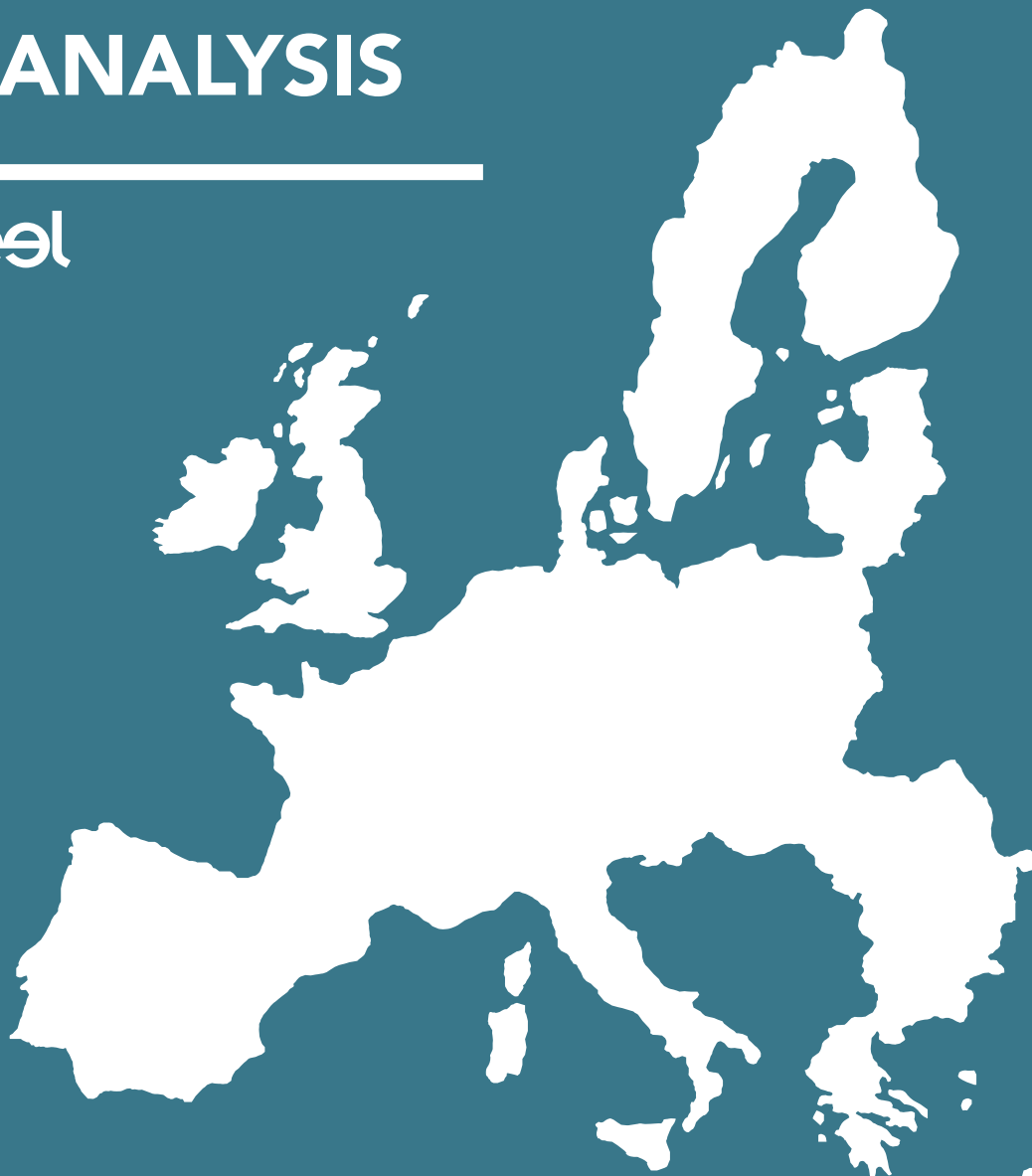


Ad Network/Exchange Share of Ad Views | Q1 2015 vs. Q1 2014



EUROPEAN MARKET ANALYSIS

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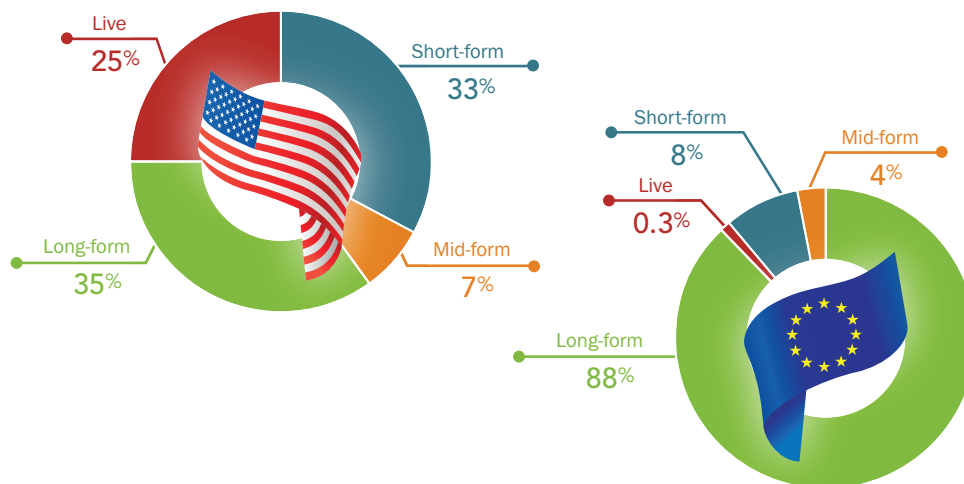


Brothers in Video

This quarter we continue our analysis on data for digital video monetization across Europe. Programmers there skew heavily towards long-form content, which accounts for over 88% of monetization, compared to just 35% for their American counterparts [see chart 19].

In another striking difference, European Programmers only see 0.3%* of their dynamically served video ad views on live content, highlighting a huge rift in monetization strategy from the U.S. where 25% of Programmer video ad views come on live content.

19



Ad Views by Content Duration | USA vs. Europe | Q1 2015

* Does not count linear ads stitched into live video streams.
Includes only ads dynamically served by FreeWheel.

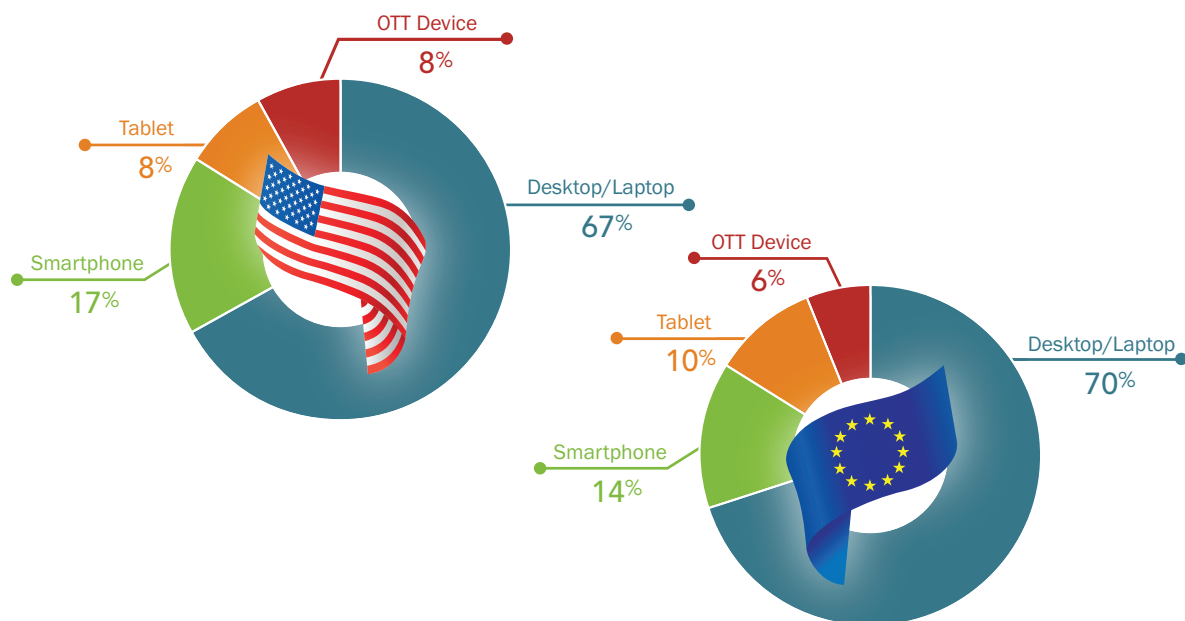
Across Europe, the majority of digital sports content is still sold within the linear TV bundle, so ads are pre-stitched into live streams.

Additionally, as operators in Europe are still building out their Dynamic Ad Insertion (DAI) tech stacks, they are cautious in investing in the development of a significant live offering until they are confident that they can recoup the additional costs.

Finally, European operators are not facing the same pressure on TV ad deals as U.S. broadcasters. With that in mind, Europe should still look to the U.S. where huge sporting events are used heavily by broadcasters to increase yield via the use of live DAI.

With 6% of video ad views being consumed on OTT devices, Europe is quickly catching up to the U.S. benchmark of 8% OTT as a share of market, doubling their 3% figure from last quarter.

Overall, the breakdown of volume across desktop, mobile, tablet, and OTT is quite similar for European and American Publishers by video ad views in Q1 2015, pointing to the global consumption convergence of premium digital video content [see *chart 20*].



Ad Views by Device Type | USA vs. Europe | Q1 2015

ABOUT THIS REPORT

FreeWheel's platform for video ad management and monetization helps the largest players in the TV industry generate revenue from their ad-supported content on desktop, mobile, OTT, and traditional set-top box devices. The dataset used for this report is one of the largest available on the usage and monetization of premium, rights managed video content, and comprised of over 125 billion video views in 2014.

The FreeWheel Video Monetization Report is released quarterly and highlights the changing dynamics of how enterprise-class content owners and distributors are monetizing premium digital video content.

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

Programmers

- Include 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

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Q1 2015 Video Monetization Report

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