

FREEWHEEL

VIDEO MONETIZATION REPORT Q2 2013



TV is TV, regardless of the screen

In the second quarter of 2013, data showed growing evidence of the shift from linear TV / living room viewing to anytime, anywhere, any device viewing. Video view growth increased 38% year over year, largely driven by tablets and mobile phones. As scale continues to build, digital video increasingly reflects the linear TV experience; long-form linear ad loads are up 12% year over year, thirty second ads comprising almost 50% of ad views, and viewers using tablets and OTT devices for long-form content consumption.

Non-traditional viewing continues to explode, driving new monetization trends

- Video views increased 38% year over year, with healthy growth from both Linear+Digital and Digital Pure-Play publishers.
- Both Linear+Digital and Digital Pure-Play publishers saw significant video view growth across all lengths of content; however long-form content is growing at half the rate of short-form.
- Long-form ad loads for Linear+Digital rose 12% year over year, while mid and short-form ad loads remained flat.
- Digital Pure-Play drove over 80% of ad views from short-form content, while Linear+Digital has released and monetized a more diverse content mix.
- Thirty second ads now comprise almost 50% of all ad views with viewers completing :15 and :30 second ads at nearly identical rates.
- Mobile continues to show strong growth comprising 13.2% of all views in Q2. However, monetization has been a challenge, with mobile totaling only 5.6% of total ad views.
- Tablets and OTT devices (gaming consoles, Roku) are more aligned with TV style viewing habits, with long-form content generating approximately 45% of total ad views.

Overview

FreeWheel's flagship product, Monetization Rights Management® (MRM) is an advertising management system for enterprise-class media companies designed to manage ad sales rights and serve ads through all digital channels including desktop, mobile, OTT, and traditional STB.

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.

The dataset used for this report is one of the largest available on the usage and monetization of professional, rights managed video content, and in Q2 2013 comprised over 18 billion video views.

This quarter includes more analysis of how Linear+Digital companies (those that release content in broadcast and digital) compare to Digital Pure-Play companies in monetizing content.

Video viewing continues to trend upward

Video viewing on digital platforms continued its healthy double digit year over year growth with an increased viewing of 38% from Q2 2012 [see chart 1]. This was driven by 41% growth in Digital Pure-Play views and 32% growth in Linear+Digital. Video viewing of all content lengths for both Linear+Digital and Digital Pure-Play content publishers experienced significant growth over the past year. For both groups, growth in long-form has lagged that of short and mid-form content [see chart 2].

As consumers continue to extend their viewing across screens and devices, Freewheel expects video viewing to continue to grow for both types of content publishers: Linear+Digital as TV Everywhere apps are launched and Digital Pure-Play as more original content is created. During this year's Digital Content NewFronts, companies such as AOL, Sony Crackle, and Hulu made significant announcements about their continued investment in original programming. In conjunction with the buzz around Netflix's Emmy nods for *House of Cards*, made for digital original premium programming continues to edge the industry toward a more unified future in which TV is TV regardless of the screen.

Ad loads increasing, with long-form an immediate opportunity

New content and TV Everywhere deals are likely to go a long way in creating the audience scale of linear TV. However, building monetizeable inventory around that audience will require continued movement toward the TV viewing experience, as in the number of ads a viewer sees in each session.

Chart 1:

Overall video view growth up 38% year over year

Total Video Views by Publisher Type

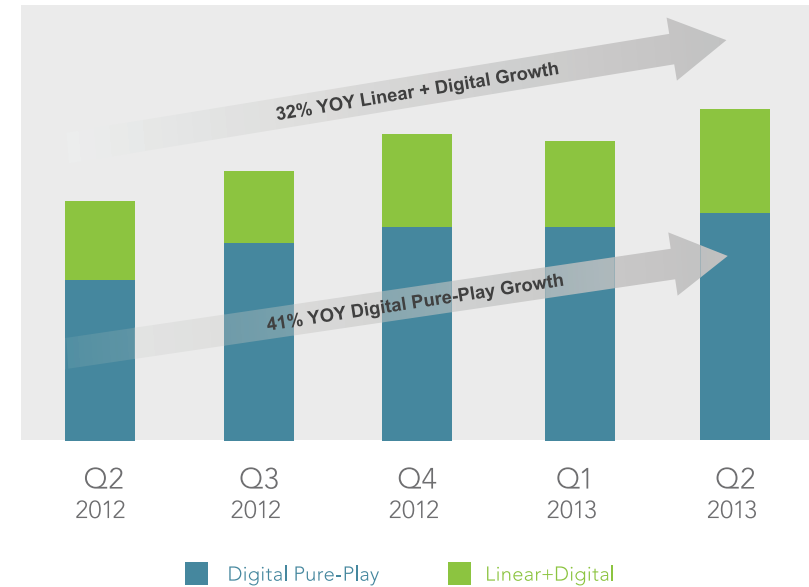


Chart 2:

Both publisher groups saw significant video view growth; long-form growth lags behind

U.S Video View Growth by Content Duration

Q2 2012 - Q2 2013

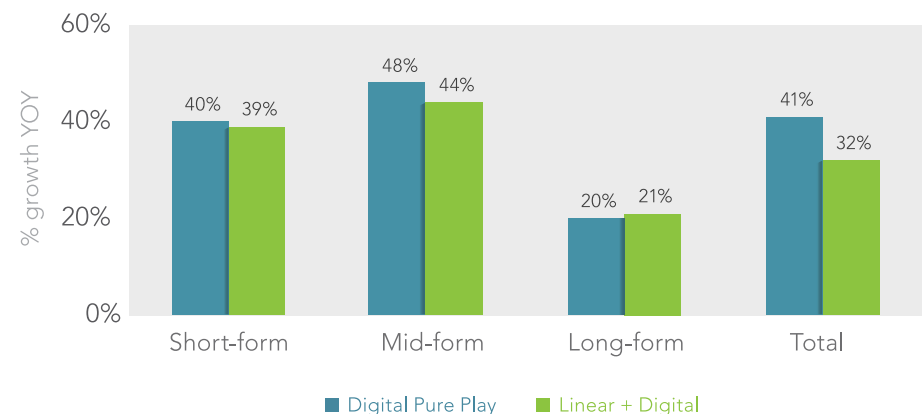


Chart 3:

Long form ad loads for Linear + Digital up 12% year over year; mid and short-form ad loads remain flat

Linear + Digital Publishers
Ad Load (Ads Per Video Viewed)

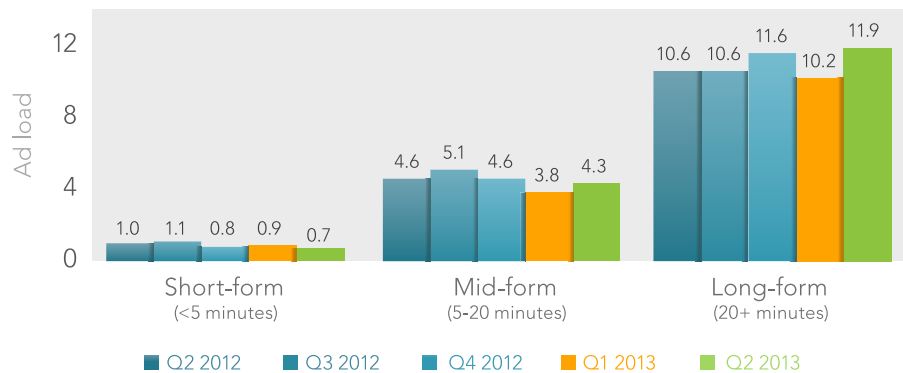
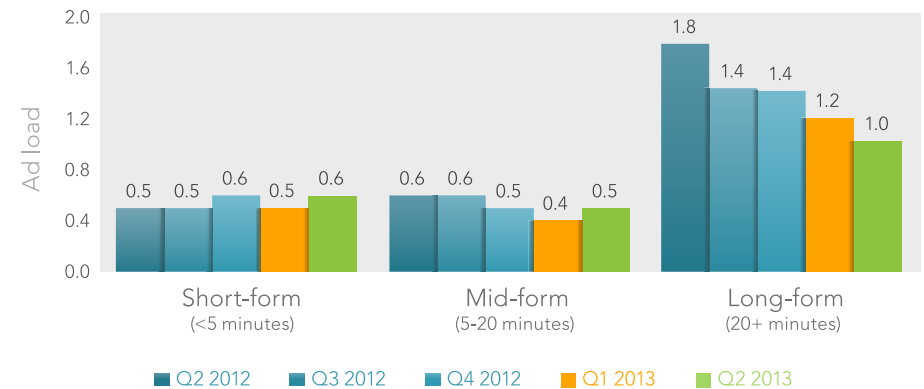


Chart 4:

Increasing ad loads for Digital Pure-Play Publishers represent significant opportunity

Digital Pure-Play Publishers
Ad Load (Ads Per Video Viewed)



Long-form ad loads for Linear+Digital grew 12% to 11.9 in Q2, reflecting conscious decisions from many publishers to increase the number of ads per stream, while balancing for user drop-off and viewer return rates [see chart 3]. Long-form ad loads for Digital Pure-Play content remains constant at significantly lower levels than those seen in Linear+Digital, as this group has focused more on development of short-form content [see chart 4]. Expect these Digital Pure-Play numbers to shift as they begin to release more original series and increase ad loads to align more closely with linear TV programming.

The resulting difference between Linear+Digital long-form ad loads and Digital Pure-Play's focus on short-form content creates two different pictures of monetizeable inventory for these groups [see chart 5].

Rise of the :30 ad indicates shift toward linear viewing experience

Another key element of viewer experience is ad creative duration. The :30 ad spot, historically the most common ad length in broadcast television, has become increasingly

Chart 5:

Digital Pure-Play largely monetizing short-form content, while Linear + Digital Publishers pursue diverse content mix

% Total U.S. Video Ad Views by Content Duration
Q2 2013

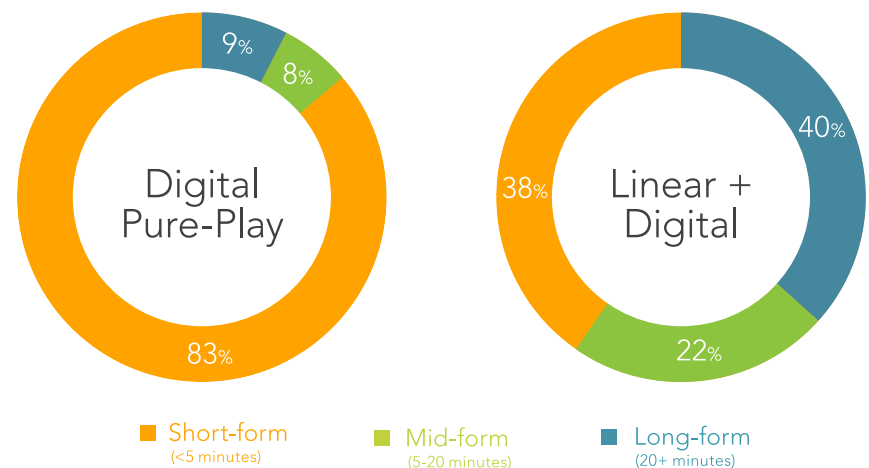


Chart 6:

Growth in :30 second ads indicate continued shift toward linear TV experience

Distribution of Ad Views by Creative Duration Q2 2013

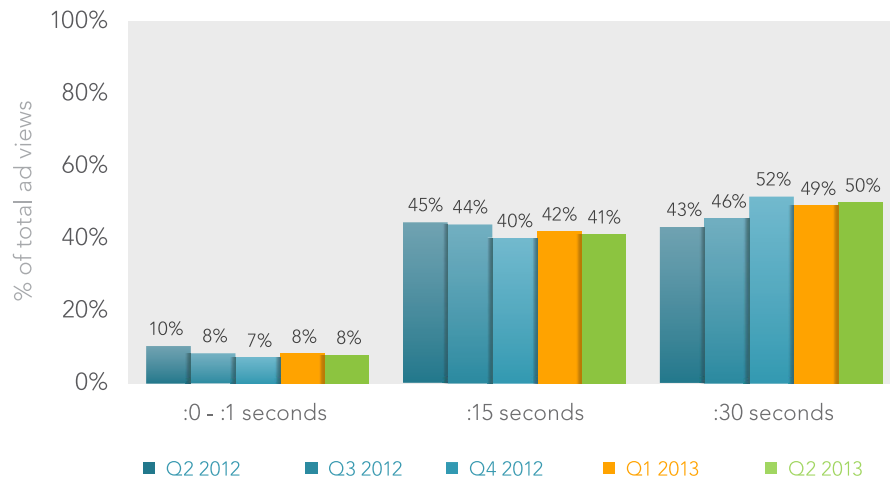
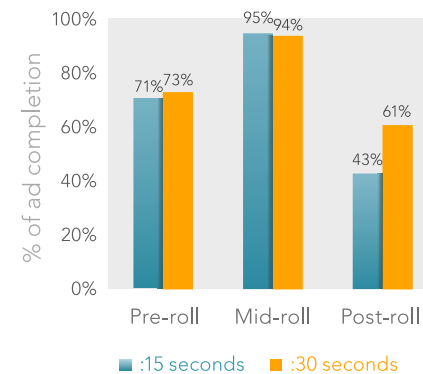


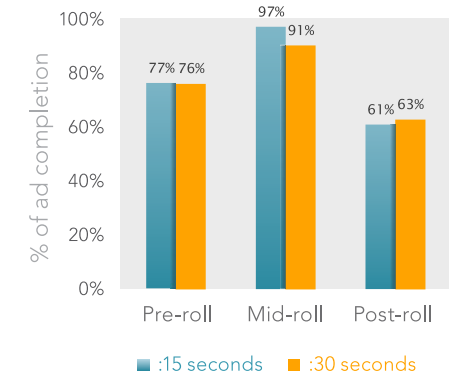
Chart 7:

Viewers completing :15 and :30 second ads at nearly identical rates

Digital Pure-Play Ad Completion Rate



Linear + Digital Ad Completion Rate



more prevalent in digital video over the past four quarters. Fifty-percent of ad views are now :30 spots, up from 43% last year [see chart 6]. This trend indicates increased viewer comfort watching :30 ads online, movement of linear TV creative to digital video environments, and more effective digital inventory management by publishers looking to better reflect the TV ad experience.

The shift toward :30 second creative has had little impact on completion rates, as :15 and :30 second ads are completed at nearly identical rates. There is also little difference in ad completion rates between Digital Pure-Play and Linear+Digital content [see chart 7].

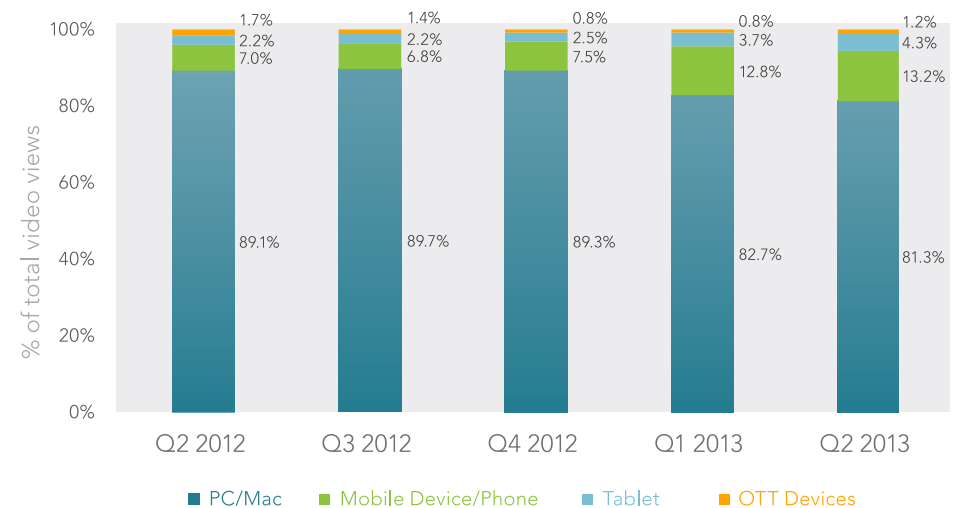
Monetization of mobile and OTT lagging video view growth

Mobile phones and tablets continue to experience tremendous video viewing growth. These devices doubled year over year share of total video views to 18% in Q2 [see chart 8].

Chart 8:

Mobile phones and tablets doubled year over year share of total video views in Q2 2013

Video Views by Device Type



But while video views continue to shift to mobile and tablet devices, the dollars are not: video views on mobile phones comprised 13.2% of all views in Q2, yet only 5.6% of total ad views [see chart 9]. The monetization challenge for mobile is a result of measurement challenges, consumer viewing habits, and device fragmentation in particular with Android environments.

Despite that the Android market share for mobile phones continues to grow, (estimated by comScore at 52% in June 2013 compared to 40% for iOS), nearly 60% of non-desktop video ad views occur on Apple devices compared to just 31% on Android devices [see chart 10]. Ad viewing on Apple devices has significantly outpaced Android over the past year [see chart 11].

Screen size increasingly driving viewer behavior

Viewing habits on gaming consoles and tablet devices more closely mirror traditional TV viewing, with up to 45% of content watched in long-form. Larger screens and the “lean back” experience create an environment more conducive to long-form content. In contrast, only 20% of content watched on mobile phones was long-form, reflecting on-the-go usage of these devices for short-form content [see chart 12].

Chart 9:
Industry challenges continue to impact ability to monetize mobile and tablet devices

% of U.S. Video Views and Video Ad Views by Device Type

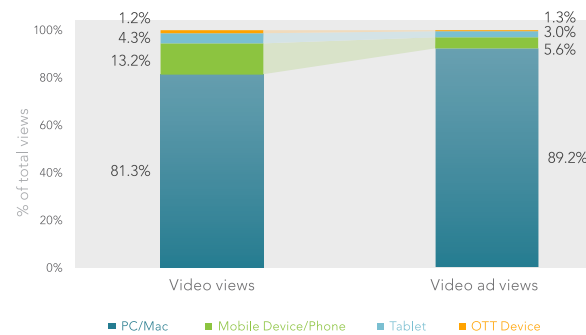


Chart 10:
Apple devices comprise over 60% of non-desktop video ad views; double Android devices

U.S. Non-Desktop Video Ad Views by Device - Q2 2013

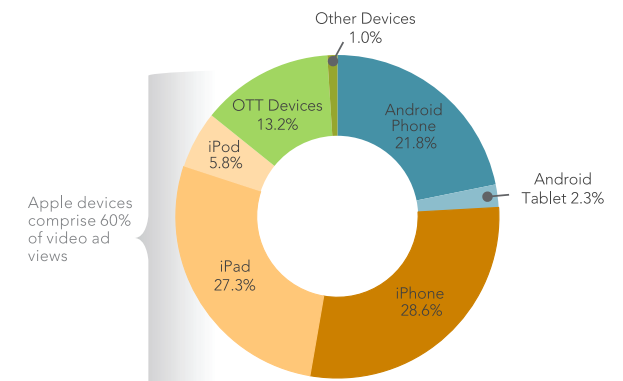


Chart 11:
Despite shrinking U.S. market share, iOS continues to outpace Android monetization

% of Total Ad Views by Device

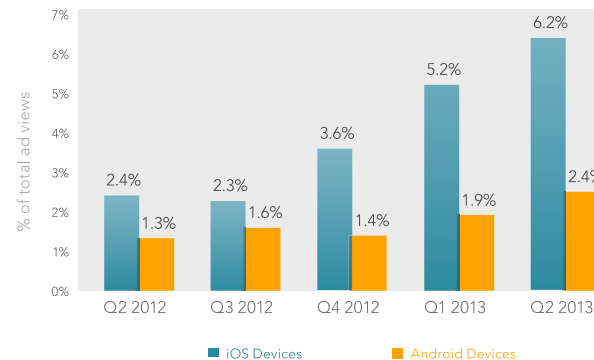
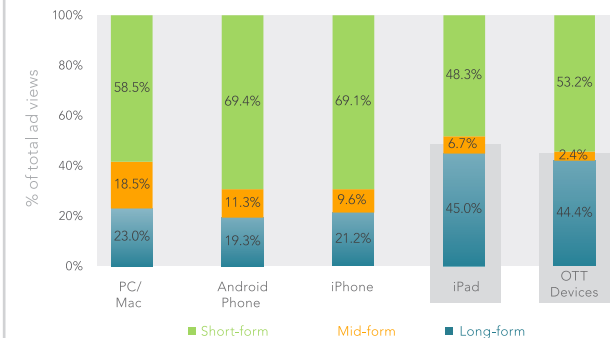


Chart 12:
iPad and OTT devices more aligned with TV style viewing, with 45% of ad views in long-form

Ad Views by Content Duration and Device



In summary

Q2 represents another dynamic period in the evolution of digital video in the U.S. market, with video views up almost 40% year over year.

We continue to see evidence of movement toward linear TV viewing experiences and monetization strategies reinforcing our belief that the industry continues to work toward linear and digital convergence.

- Long-form ad loads continue to climb for Linear+Digital publishers
- Thirty second ad creatives are on the rise
- Tablets and OTT devices continue to establish themselves as long-form viewing devices
- Strong growth in mobile video views continues, but ad views lag behind

While these are important indicators, we believe the industry is still in the very early stages of bringing together the best of linear TV with the best of digital video. The rewards for the industry are significant; however, challenges ranging from measurement to organizational will continue to persist for the foreseeable future.

A note on the data

The data in this report only represents video that is rights-managed: aggregate monetization data for professional content from FreeWheel's customers, and does not reflect trends for user-generated content. Starting with this Q2 2013 report, we are solely reporting on U.S. based data. Any variation in data between this report and prior versions is due to extraction of international data. In upcoming quarters, we will begin reporting separately on international results.



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