

IAB Internet Advertising Revenue Report



A Quarterly Survey Conducted by PricewaterhouseCoopers
and Sponsored by the Interactive Advertising Bureau (IAB)

2002 Full-Year Results
June 2003



Interactive
Advertising
Bureau

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Background

About the IAB Internet Advertising Revenue Report

Conducted by the New Media Group of PricewaterhouseCoopers LLP on an ongoing basis, with results released quarterly, the “Internet Advertising Revenue Report” was initiated by the Interactive Advertising Bureau (IAB) in 1996. This report aggregates data and information reported directly to PricewaterhouseCoopers LLP by companies representing thousands of Web sites, in addition to other on-line ad selling companies.

The results reported are the most accurate measurement of Internet/on-line advertising revenues since the data is compiled directly from information supplied by companies selling advertising on-line. All-inclusive, the report includes data reflecting on-line advertising revenues from Web sites, commercial on-line services, e-mail providers, as well as other companies selling on-line advertising.

The report is conducted independently by PricewaterhouseCoopers LLP on behalf of the IAB, and only aggregate results are published. Individual company information is held in strict confidence with PricewaterhouseCoopers LLP. Further details regarding scope and methodology are provided in the appendix to this report.

Tom Hyland
Partner, New Media Group Chair
PricewaterhouseCoopers LLP

Pete Petrusky
Director, New Media
PricewaterhouseCoopers LLP

Executive Summary

IAB Internet Advertising Revenue Report 2002 Full-Year Highlights

Key trends underlying 2002 full-year results:

Revenue Declines Softening – Internet advertising revenue in the U.S. totaled nearly \$1.6 billion in the fourth quarter of 2002, up from the previous fourth-quarter estimate of \$1.5 billion. Internet advertising for all of 2002 totaled \$6.0 billion, down approximately 16 percent versus 2001. While the \$1.6 billion fourth-quarter figure decreased approximately 4 percent from the same period a year earlier, it marks the first single-digit year-over-year percentage decrease since the first quarter of 2001.

“The improved performance over the past two quarters reflects a stabilizing online advertising market, highlighted by continued strength in paid-for-search results. The recent upturn, coupled with forecasts of continued expansion of broadband distribution, bodes well for a strong year in 2003.”

– Tom Hyland, Partner, PricewaterhouseCoopers LLP

Consumer Advertisers Continue to Lead Spending – consumer brand advertisers represented the largest category of advertiser spending at 32 percent of 2002 revenues. Computing advertisers, the second-largest category, accounted for 18 percent, followed by financial services companies at 13 percent. Within the consumer category the biggest sub-categories are retail (42 percent of the consumer category), automotive (19 percent), music (15 percent) and travel (14 percent).

“The improved online advertising environment reflects a confluence of factors. The publishers are offering a more manageable, uniform and understandable business proposition than ever before. The creative side has gotten smarter and is delivering compelling, entertaining content, which will only improve as the installed base of high-speed access users increases. This adds up to a fertile environment for the industry to right and propel itself.”

– Greg Stuart, IAB President and CEO

Continued Diversification in Advertising Formats – keyword search (analogous to paid search) revenue increased significantly from 4 percent of 2001 revenues to 15 percent of 2002 revenues. Classifieds revenue totaled 15 percent of 2002 revenues, down slightly from 2001, while slotting fees accounted for 8 percent of the 2002 revenues. Ad banners accounted for 29 percent of total 2002 revenues, down from the 35 percent reported in 2001.

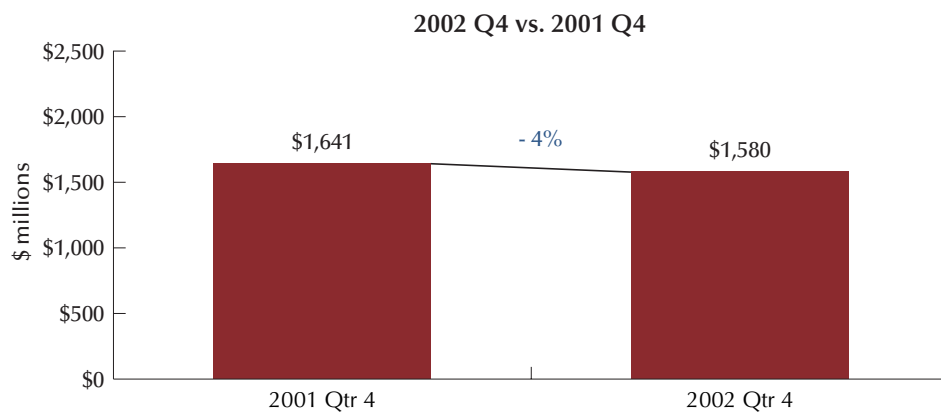
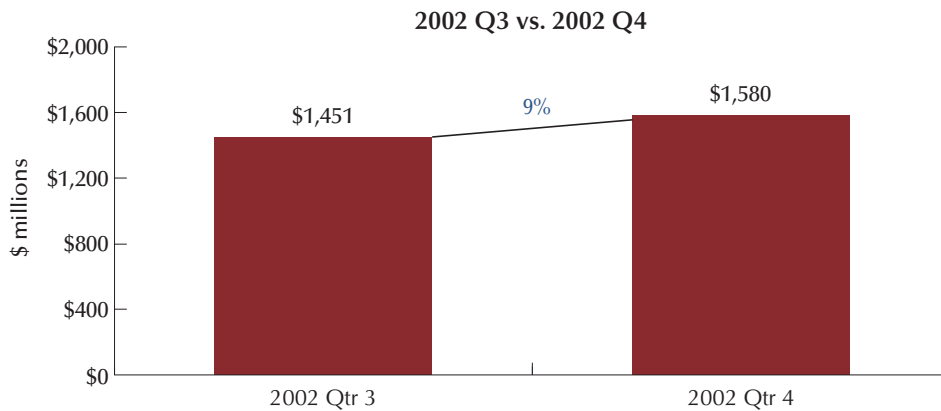
“A number of factors that had been negatively impacting revenue growth seem to be turning favorable, including a modest rebound in overall advertising spending, the fact that sellers are no longer cycling through lost revenue from the dot com fall out, and the sharper growth in high-speed Internet access adoption, providing more opportunities for creative ad formats for sellers and large traditional brand advertisers.”

– Pete Petrusky, Director, PricewaterhouseCoopers LLP

Detailed Findings

Revenues Totaled \$1.6 Billion for the Fourth Quarter of 2002

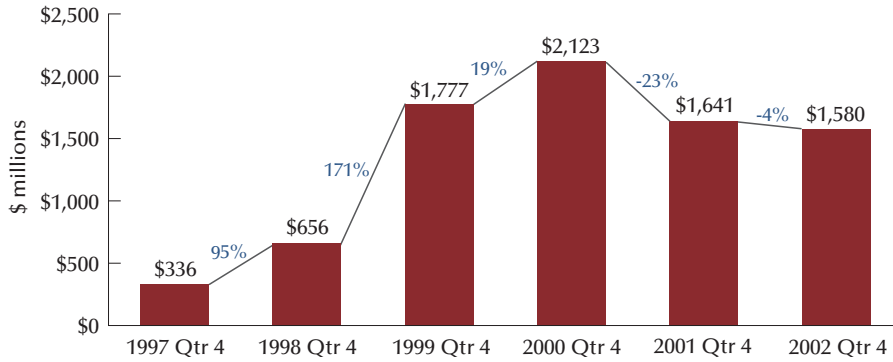
- On-line ad sellers reported aggregate revenues totaling nearly \$1.6 billion for the fourth quarter of 2002, marking the first quarterly increase since the fourth quarter of 2000.
- Total 2002 fourth quarter revenues were \$129 million or 8.9 percent higher than the third quarter of 2002, and \$61 million or 3.7 percent lower than the fourth quarter of 2001.



Historical Fourth-Quarter Revenue Trends

- Fourth-quarter revenues were increased significantly on a year-over-year percentage and dollar basis during the first five years, but scaled back considerably in 2001 and 2002.
- Fourth-quarter revenues accounted for 26 percent of 2002 total revenues, compared to 23 percent in 2001.

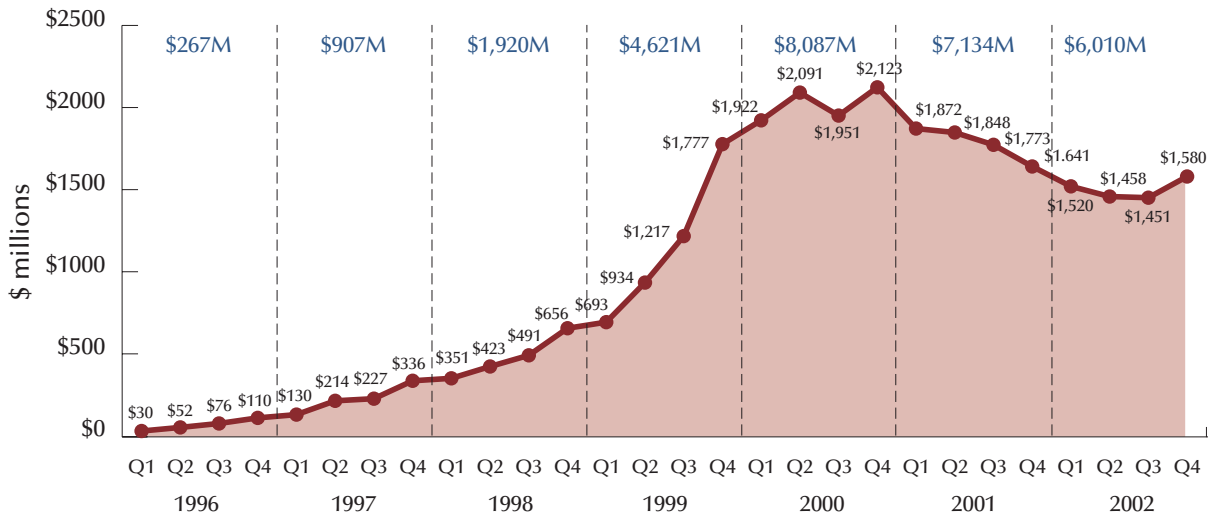
Fourth-Quarter \$ Revenue Comparisons – 1997 through 2002



Revenues Show Signs of Stabilizing

- Quarterly industry revenues have historically exhibited a seasonal growth pattern where the strongest growth occurs during the second and fourth quarters.
- Following nearly two years of revenue declines, 2002 fourth-quarter revenues rebounded with a nearly nine percent increase over the third quarter of 2002.
- The 2001 and 2000 revenue data used for comparative purposes in this report were adjusted to reflect revenue restatements reported in public filings by several individual companies. Those reported restatements totaled \$77 million in 2001 and \$138 million in 2000. Historical industry revenue figures are now adjusted to \$7.134 billion in 2001 and \$8.087 billion in 2000.

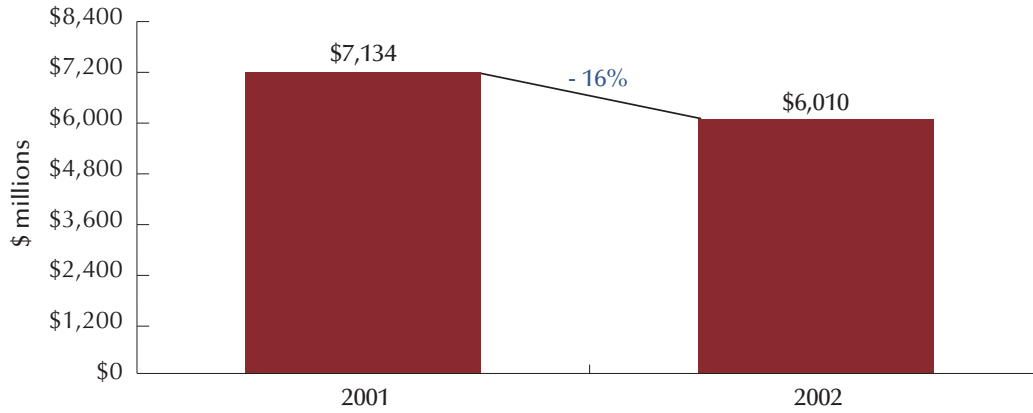
Quarterly \$ Revenue Growth Comparisons – 1996-2002



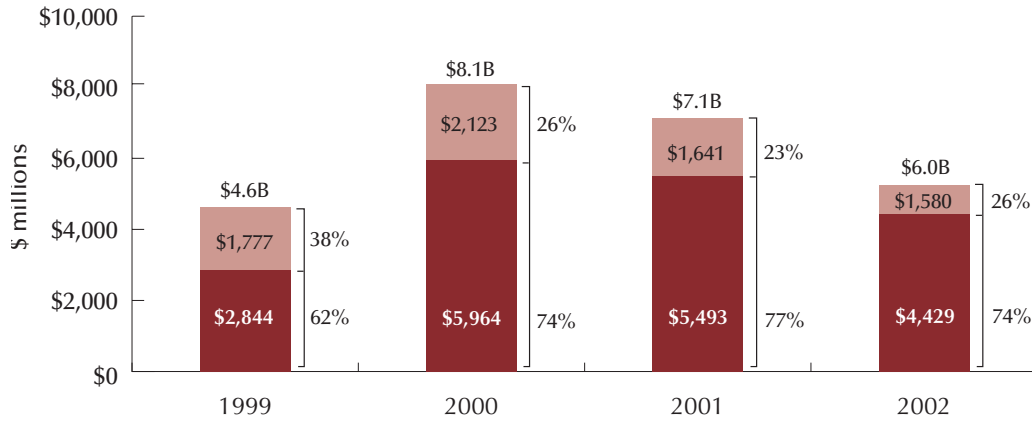
2002 Annual Revenues Totaled \$6.0 Billion

- Full-year revenues for 2002 totaled \$6.0 billion, \$1.1 billion or 15.8 percent lower than full-year revenues for 2001.
- 2002 fourth-quarter revenues accounted for approximately 26 percent of 2002 total annual revenues, up slightly from 2001.

Full-Year Revenue 2001 vs. 2002



Historical Fourth Quarter Revenue Shares Comparison – 1999 through 2002



Historical Revenue Performance

Annual and Quarterly Revenue Growth Comparisons

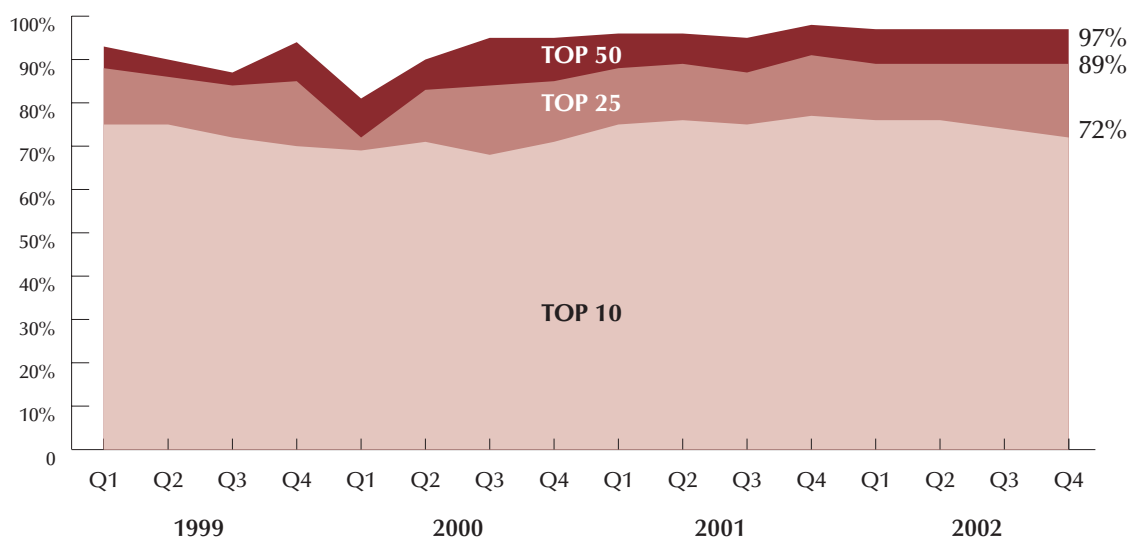
	\$ REV MILLIONS	% GROWTH	
		QTR/QTR	YEAR/YEAR
1Q97	\$130	18%	333%
2Q97	\$214	66%	313%
3Q97	\$227	6%	200%
4Q97	\$336	48%	205%
Total 1997	\$907		239%
1Q98	\$351	5%	171%
2Q98	\$423	20%	97%
3Q98	\$491	16%	116%
4Q98	\$656	34%	95%
Total 1998	\$1,920		112%
1Q99	\$693	6%	97%
2Q99	\$934	35%	121%
3Q99	\$1,217	30%	148%
4Q99	\$1,777	46%	171%
Total 1999	\$4,621		141%

	\$ REV MILLIONS	% GROWTH	
		QTR/QTR	YEAR/YEAR
1Q00	\$1,922	8%	177%
2Q00	\$2,091	9%	123%
3Q00	\$1,951	-7%	60%
4Q00	\$2,123	9%	22%
Total 2000	\$8,087		75%
1Q01	\$1,872	-12%	-3%
2Q01	\$1,848	-1%	-12%
3Q01	\$1,773	-4%	-10%
4Q01	\$1,641	-7%	-23%
Total 2001	\$7,134		-12%
1Q02	\$1,520	-7%	-19%
2Q02	\$1,458	-4%	-21%
3Q02	\$1,451	-1%	-18%
4Q02	\$1,580	9%	-4%
Total 2002	\$6,010		-16%

Industry Revenue Concentration Declined

- On-line advertising remains concentrated with the 10 leading ad-selling companies, which accounted for 72 percent of total revenues in the fourth quarter of 2002 down from 77 percent reported for the fourth quarter of 2001.
- Companies ranked 11th to 25th accounted for 17 percent of revenues for the fourth- quarter of 2002. Companies ranked 26th to 50th accounted for 8 percent in the fourth-quarter of 2002.

Total Share of Internet Advertising Revenues



Performance-based Pricing Continues to Rise

- Approximately 46 percent of 2002 fourth-quarter revenues were priced on a CPM or impression basis (includes sponsorships), up from 45 percent reported for the fourth quarter of 2001.
- Approximately 26 percent of 2002 fourth-quarter revenues were priced on a straight performance basis (e.g., cost-per-click, sale, lead or straight revenue share), up from 13 percent for the same period in 2001.

Internet Ad Revenues by Pricing Model

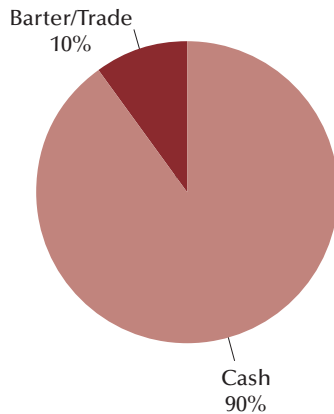


Cash Deals Remain Dominant

- Approximately 90 percent of total Internet advertising revenues generated in the fourth-quarter of 2002 were reported as cash deals, up from the 87 percent reported for the fourth-quarter of 2001. Cash deals accounted for 90 percent of total 2002 revenues, up from 89 percent reported for the year 2001.
- Barter or trade deals accounted for 10 percent of total 2002 fourth-quarter revenues. The actual volume of non-cash deals is likely higher than the dollar activity reported.

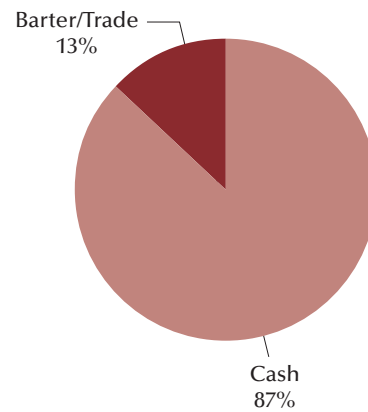
Internet Ad Revenues by Transaction

% of 2002 Fourth-Quarter Revenues



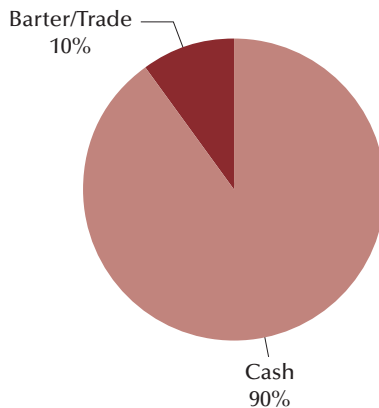
Total – \$1.6 billion

% of 2001 Fourth-Quarter Revenues



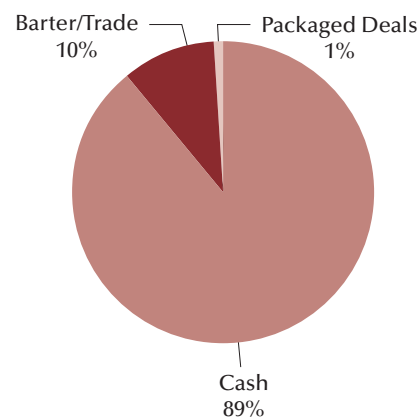
Total – \$1.6 billion

% of 2002 Full-Year Revenues



Total – \$6.0 billion

% of 2001 Full-Year Revenues



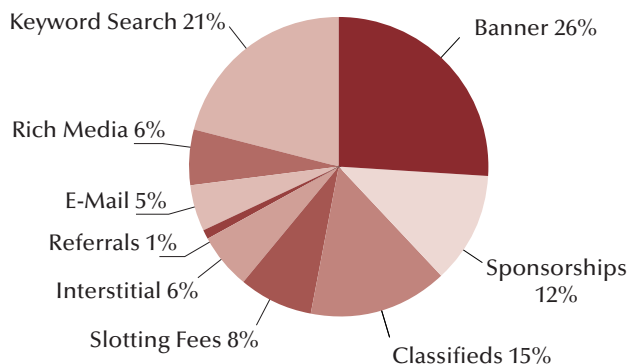
Total – \$7.1 billion

On-line Advertising Formats Continue to Diversify

- Ad banners accounted for 26 percent of total revenues during the fourth-quarter of 2002, down from the 35 percent reported in the fourth-quarter of 2001. On a full-year basis, banners accounted for 29 percent of total revenues in 2002, down from the 36 percent reported for the full year of 2001.
- Sponsorships generated 12 percent of revenues during the fourth-quarter of 2002, down considerably from the 25 percent reported for the fourth-quarter of 2001.
- Emerging on-line ad formats showed continued strength in the 2002 fourth-quarter, including keyword searches at 21 percent of 2002 fourth-quarter revenues, up sharply from the fourth-quarter of 2001, and classifieds at 15 percent of 2002 fourth-quarter revenues, even with the fourth quarter of 2001.
- Slotting fees remained constant at 8 percent of 2001 and 2002 fourth-quarter revenues

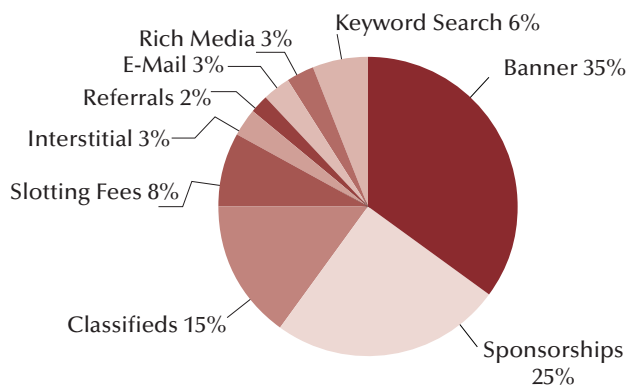
Internet Ad Revenues by Advertising Vehicle

% of 2002 Fourth-Quarter Revenues



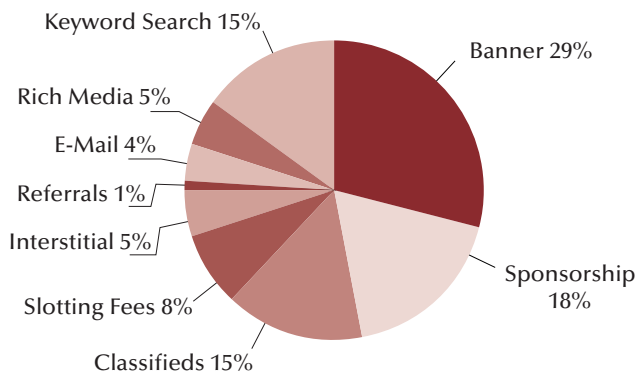
Total – \$1.6 billion

% of 2001 Fourth-Quarter Revenues



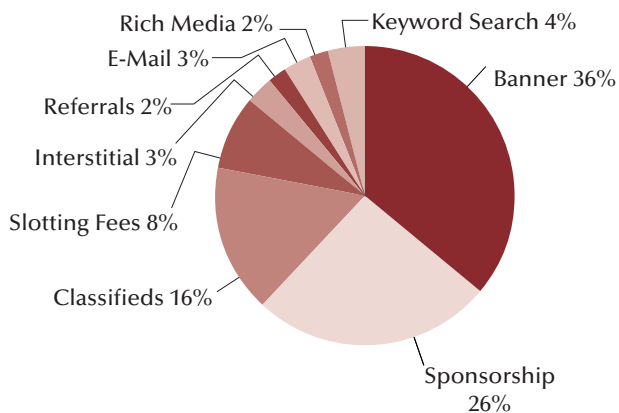
Total – \$1.6 billion

% of 2002 Full-Year Revenues



Total – \$6.0 billion

% of 2001 Full-Year Revenues

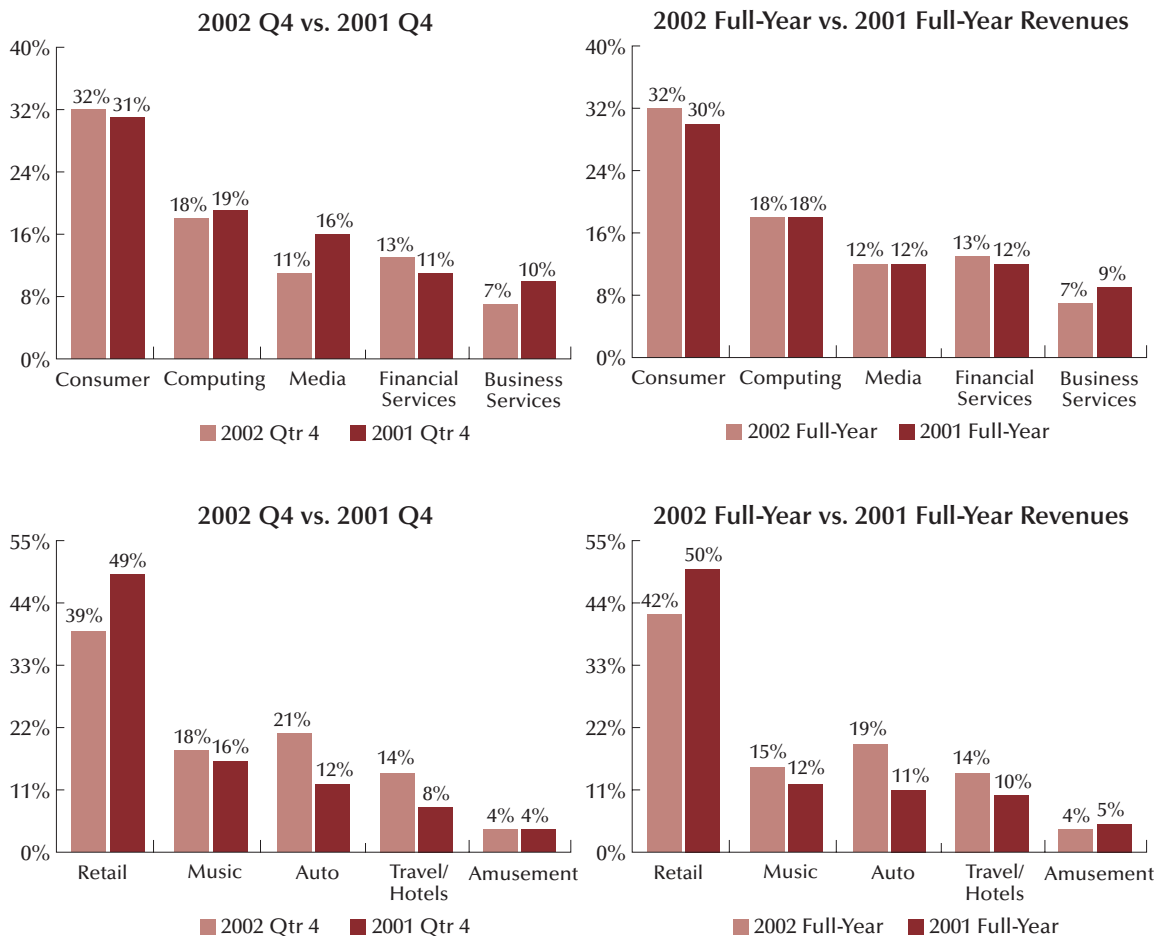


Total – \$7.1 billion

Internet Advertising Remains Concentrated in Five Industry Sectors

- Five industry sectors accounted for 81 percent of total 2002 fourth-quarter revenues, down from 87 percent in the same period for 2001. Consumer advertisers represented the largest category of spending, accounting for 32 percent of 2002 fourth-quarter revenues.
- Computing advertisers represented the second-largest category of spending at 18 percent of 2002 fourth-quarter revenues, down slightly from the 19 percent reported in the fourth-quarter of 2001. Financial Services advertisers represented the third-largest category of spending at 13 percent of 2002 fourth-quarter revenues, up from 11 percent reported in the fourth quarter of 2001.
- Media companies accounted for 11 percent of 2002 fourth-quarter revenues, down from 16 percent reported for the fourth quarter of 2001, while Business Services accounted for 7 percent of 2002 fourth-quarter revenues, down from 10 percent reported for the fourth quarter of 2001.
- Retail and Automotive companies, at 39 and 21 percent, respectively, together accounted for 60 percent of 2002 fourth-quarter consumer-related revenues, followed by Music at 18 percent, Travel/Hotels at 14 percent, and Amusement at 4 percent.

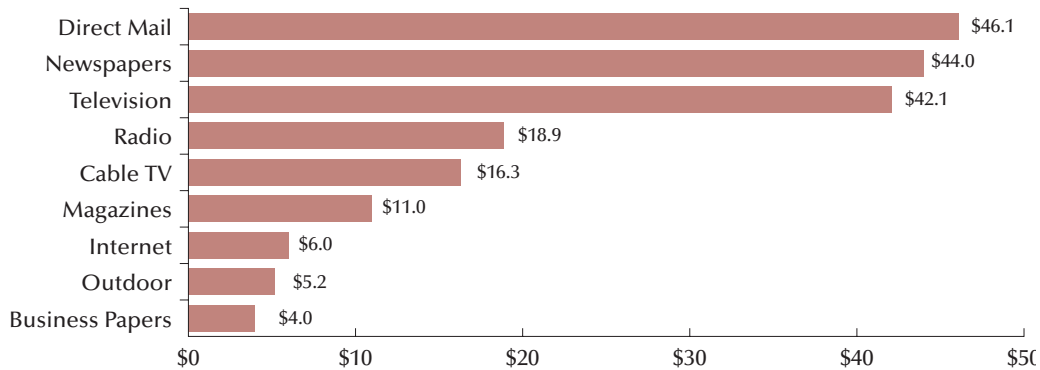
Internet Ad Revenues by Major Industry Category



Internet Advertising Spend vs Other Advertising Sectors

- Internet advertising revenues accounted for approximately 2.5 percent of total U.S. ad spending in 2002, down from approximately 3.1 percent in 2001.
- Internet advertising surpassed a couple of traditional media sectors since reporting in 1996, but trails the next sector, magazines, by a considerable margin.

Overall Advertising Market-Media Comparison (US \$Billions)

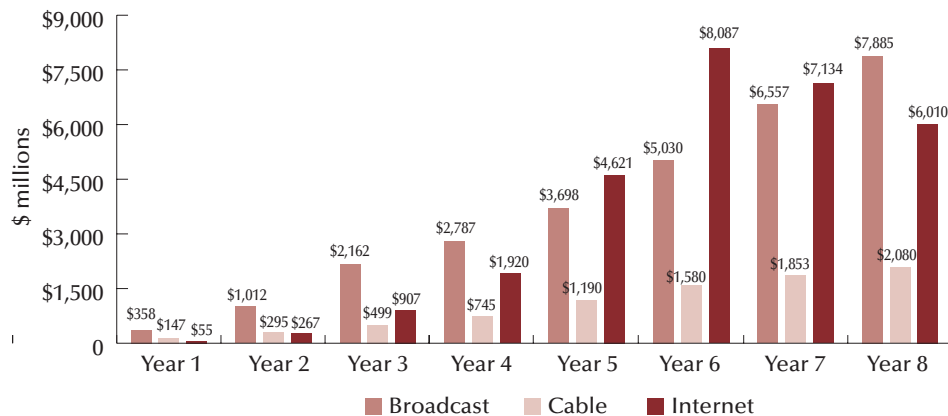


Sources: IAB/PwC Revenue Report; McCann-Erickson

Initial Year Growth Comparisons – Internet Advertising vs. Broadcast and Cable Television

- The first eight years of Internet Advertising (1995-2002) were charted against broadcast television (1949-1956) and cable television (1980-1987), presented in current dollars.
- Internet advertising revenues surpassed cable television revenues in its fourth year of growth, and broadcast television revenues exceeded Internet advertising revenues in year eight.

Annual \$ Ad Revenue Growth*-First 8 Years



Sources: IAB/PwC Revenue Report; McCann-Erickson

Appendix

Definitions of Leading Industry Categories

The industry categories used in the IAB Internet Advertising Revenue Report were sourced from the U.S. Office of Budget and Management's Standard Industrial Classification Manual.*

Consumer Related – includes industry categories classified as consumer-related, including automotive, mail order/catalog, travel/hotel/airlines, amusement & recreation, apparel, drug stores, home furnishings/textiles, retail stores, cosmetics, jewelry, restaurants/fast food, household products, tobacco, toys, pet food/supplies and appliances.

Computing Products – includes hardware (computers, computer storage devices, and computer peripheral equipment), prepackaged software (operating, utility and applications programs), local area network systems and network systems integration, computer processing and data preparation, and data processing services.

Financial Services – includes commercial banks, credit agencies, personal credit institutions, consumer finance companies, loan companies, business credit institutions, and credit card agencies. Also includes companies engaged in the underwriting, purchase, sale or brokerage of securities and other financial contracts.

Business Services – includes accounting, engineering, research, management consulting services and other companies rendering services to business establishments on a contract or fee basis, such as advertising, credit reporting, mailing, news syndicates, photocopying and data processing services.

Telecommunications – includes point-to-point communications services, including telephone voice and data communications, two-way mobile/cellular communications services, and other non-vocal message communications services (e.g., cablegram, electronic mail and facsimile).

New Media – includes design, development, production and distribution of digital media, including consumer on-line services, Internet service providers, Web site developers, CD-ROM title developers, entertainment software, and other companies involved in the licensing, distribution and publishing of creative products in a digital environment.

* Survey participants reported results based on the 42 separate industry categories listed on the next page, which were used specifically for the IAB Internet Advertising Revenue Report. This is consistent with other relevant industry categorization sources that measure advertising spending by industry. For purposes of this report, PricewaterhouseCoopers classified a number of individual categories under "Consumer Related."

Survey Scope and Methodology

The Interactive Advertising Bureau (IAB) retained PricewaterhouseCoopers to establish a comprehensive standard for measuring the growth of Internet/on-line advertising revenues.

- The IAB Internet Advertising Revenue Report is an ongoing IAB mission to provide an accurate barometer of Internet advertising growth.
- To achieve differentiation from existing estimates and accomplish industry-wide acceptance, key aspects of the survey include:
 - Obtaining historical data directly from companies generating Internet/on-line advertising revenues;
 - Making the survey as inclusive as possible, encompassing all forms of Internet/on-line advertising, including Web sites, consumer on-line services and e-mail providers; and
 - Ensuring and maintaining a confidential process, only releasing aggregate data.

Methodology

- PricewaterhouseCoopers:
 - Compiles a database of industry participants selling Internet/on-line advertising revenues
 - Conducts a quantitative mailing survey with leading industry players, including Web publishers, commercial on-line service providers, e-mail providers and other on-line media companies.
 - Requests and compiles several specific data items, including monthly gross commissionable advertising revenue by industry category and transaction.
 - Identifies non-participating companies and applies a conservative revenue estimate based on available public sources.
 - Analyzes the findings, identifies and reports key trends.
 - The 2001 and 2000 full-year revenue data were adjusted to reflect revenue restatements reported in public filings by several individual companies. Those reported restatements totaled \$77 million in 2001 and \$138 million in 2000. Historical industry revenue figures are now adjusted to \$7.134 billion in 2001 and \$8.087 billion in 2000.

Survey Industry Categories

Aerospace	Education	Office equipment/supplies
Amusement and recreational services	Eye care/optical	Pet food/supplies
Apparel	Filmed entertainment	Pharmaceuticals
Appliances	Financial services	Photographic equipment & supplies
Associations	Food	Professional sports, sporting & athletic goods
Audio & video equipment	Government	Publishing
Automotive	Health care services	Real estate
Beer/wine/liquor	Home furnishings/textiles	Retail stores/mail order/catalog
Beverages	Household products/supplies	Telecommunications
Business services	Restaurants/fast food	Tobacco
Commercial printing	Insurance	Toys/games
Computing products (hardware/software)	Jewelry	Travel/hotels/airlines
Cosmetics/toiletries	Manufacturing	
Drug stores	Media	
	Music	
	New media	

Overall Report Guidance Provided by IAB Leadership

IAB Officers

<i>President & CEO</i>	Greg Stuart	Interactive Advertising Bureau
<i>Chair</i>	Shelby Bonnie	CNET Networks, Inc.
<i>Vice Chair</i>	Steve Wadsworth	Walt Disney Internet Group
<i>Treasurer</i>	David Moore	24/7 Media, Inc.
<i>Secretary</i>	Lon Otremba	America Online, Inc.

IAB Board

About, Inc.	Dave Hills	Overture Services, Inc.	Ted Meisel
America Online, Inc.	Lon Otremba	RealNetworks, Inc.	Dan Schwartz
Autobytel	Jeffrey Schwartz	Sportsline.com	Mark Mariani
CNET Networks	Shelby Bonnie	Univision Online	Javier Saralegui
CondéNet	Sarah Chubb	The Wall Street Journal Online	Randy Kilgore
The Excite Network	Bill Daugherty	24/7 Media, Inc.	David Moore
Forbes.com	James Spanfeller	Vindigo, Inc.	Jason Devitt
Google	Tim Armstrong	Walden VC	Rich LeFurgy
IAB	Greg Stuart	Walt Disney Internet Group	Steve Wadsworth
iVillage, Inc.	Peter Naylor	Washpost.Newsweek Interactive	Chris Schroeder
Looksmart	Garret Vreeland	Weather.com	Debora Wilson
MSN	Joanne Bradford	Yahoo!, Inc.	Wenda Harris Millard
NetCreations, Inc.	Michael Mayor		
New York Times Digital	Martin Nisenholz		

About the Interactive Advertising Bureau

Founded in 1996, the Interactive Advertising Bureau (IAB) represents leading interactive companies that are actively engaged in, and support the sale of interactive advertising. IAB members are responsible for selling over 75% of online advertising in the United States. IAB member companies include: AOL, CNET Networks, DoubleClick, MSN, Google, Overture, The Walt Disney Internet Group, Yahoo! and over 100 others. On behalf of its members, the IAB evaluates and recommends standards and practices, fields interactive effectiveness research and educates the advertising industry regarding the use of interactive advertising. For more information on the IAB please visit www.iab.net.

PricewaterhouseCoopers New Media Group

PricewaterhouseCoopers LLP (www.pwcglobal.com), the world's largest professional services organization, helps its clients build value, manage risk and improve their performance. Drawing on the talents of more than 150,000 people in 150 countries, PricewaterhouseCoopers LLP provides a full range of business advisory services to leading global, national and local companies and to public institutions.

PricewaterhouseCoopers' New Media Group was the first practice of its kind at a Big Five firm. Currently located in New York, Los Angeles, Boston, Seattle and the Bay Area, our New Media Group includes accounting, tax and consulting professionals who have broad and deep experience in the three areas that converge to form new media: advanced telecommunications, enabling software and content development/distribution.

Our services to the new media industry include:

- Business assurance services
- Web audience measurement auditing and consulting
- Web advertising delivery auditing and consulting
- Privacy policy structuring, attestation and compliance consulting
- Mergers & Acquisition assistance
- Tax planning and compliance
- Capital sourcing and IPO assistance
- Employee benefits and executive compensation packages

PricewaterhouseCoopers LLP is a licensed CPA WebTrust auditor, a designated TRUSTe auditor, and the leading service provider in the area of Web Advertising Delivery Auditing.

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