FreeWheel | **V**ideo **M**onetization **R**eport

Q1
2016

THE SHARED THRONE OF PREMIUM VIDEO

CONTENT, VIEWERS AND
EXPERIENCES REIGN

FreeWheel | **V**ideo **M**onetization **R**eport

Q1 2016

Today's media landscape is more complex than ever before.

Rapid ongoing evolution in our space has made it difficult for Programmers and Digital Pure-Plays to keep monetization efforts one step ahead of user behavior. In response to this challenge, it's imperative that players in our space have a comprehensive understanding of these perpetual seismic shifts.

Thanks to our position firmly at the center of the premium video economy, FreeWheel is able to offer unprecedented insight into consumption habits and patterns – from Desktop to Set-Top-Box. Armed with the knowledge contained within this report, Publishers have the ability to make sure the monetization of premium video remains in lockstep with today's massive growth in consumption. No other industry report or body of work can offer such accuracy and depth of insight on the premium video economy.

The format of the Video Monetization Report (VMR) has evolved to meet the needs of our ecosystem and offer greater depth of insight. Our report now includes two sections:

1. **Quarterly Theme**: A rotating topic each quarter which we will seek to unravel using new analysis and insight

2. **Core Observations**: Standard VMR analytics which detail the state of the industry to a degree of granularity no one else can offer

In this edition, our Quarterly Theme will seek to challenge an all-but-too-prevalent phrase which hovers around our industry: "*Content Is King.*" While the importance of content is unquestionable, FreeWheel believes this is an oversimplification which marginalizes two of the other, equally potent, forces which rule over the kingdom of premium video: the **viewer** and the **experience**. Tying these three distinct elements together allows for thorough comprehension behind how premium video is consumed in the present day media ecosystem.

Understanding what we call "the shared throne of premium video" across the intersection of content, viewers, and the experience that ties them together, unlocks the ability to drive positive business outcomes for clients and competitors alike.

As for the report in itself, long time readers may notice a major change. We explored our dataset to uncover new metrics of value. Portions of our analyses now build on an identifier which allows us to observe reach and frequency variables for this first time ever in this report.

The FreeWheel VMR team is thrilled to bring this exciting piece of research to the marketplace every quarter, and we appreciate your spending some time with it. If you have any feedback at all, please feel free to reach out and let us know what you think.

Best,

Jonathan Bohm
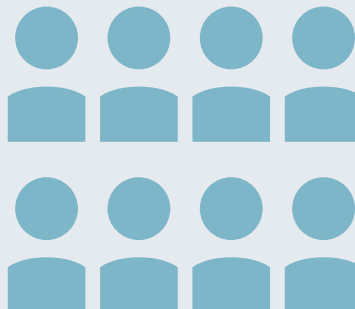Strategic Research Group Director,
Advisory Services

Dasha Pryamitsyna
Associate,
Advisory Services

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Q1 2016

THE SHARED THRONE OF PREMIUM VIDEO:
CONTENT, VIEWERS AND EXPERIENCES REIGN

EXECUTIVE SUMMARY

FULL LIBRARY
Complete anthology

ROTATIONAL LIBRARY
Limited episodes

AUDIENCE BY PROGRAM CATEGORY

4x
the audience when all episodes are available in one location

FIRST RUN
Premiere – only the most recent available
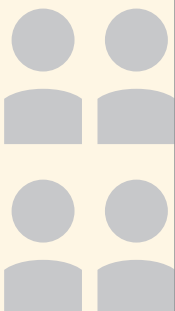
RETURNING
At least one season aired – only most recent available
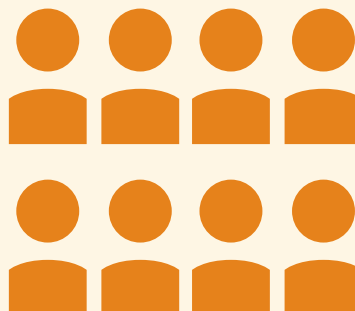
AUDIENCE BY PROGRAM CATEGORY

REACH DOUBLES
in returning sessions

25%

DIGITAL PURE-PLAY SECONDARY SALES CHANNELS

SHARE OF PAID AD VIEWS ON SECONDARY SALES CHANNELS

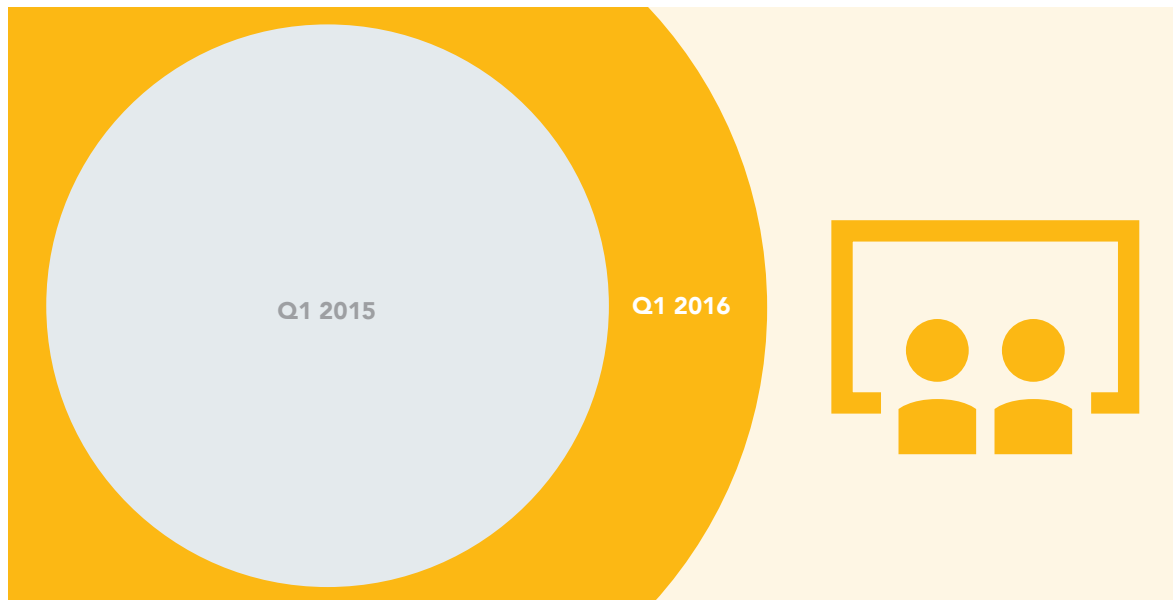**25%** of Digital Pure-Play volume coming from Secondary Sales Channels

---

72%
(An all-time high)

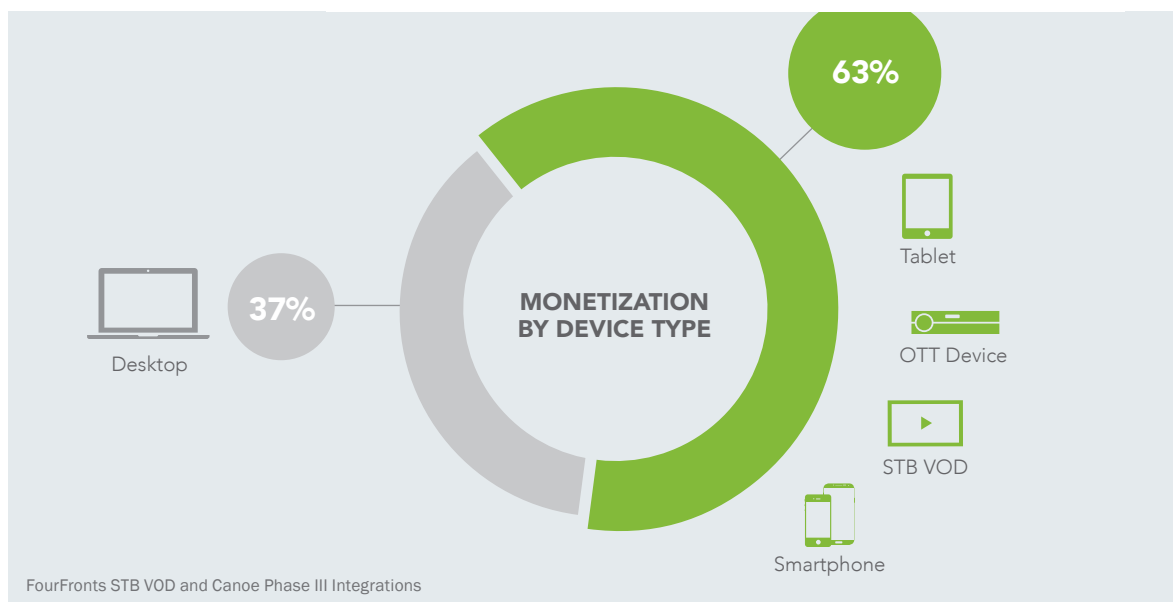AUTHENTICATION

LONG-FORM & LIVE CONTENT AUTHENTICATION AD VIEWS

72% of all true TV-style content monetization is authenticated

Q1 2015

Q1 2016

Entertainment content now holds

55%

share of all ad views across all genres, growing

+21%

year-over-year in volume

MONETIZATION BY DEVICE TYPE

63%

37%

Tablet

OTT Device

STB VOD

Smartphone

Desktop

FourFronts STB VOD and Canoe Phase III Integrations
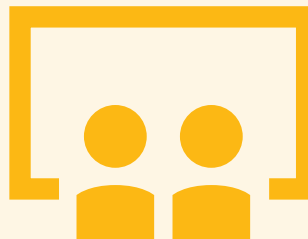
AD VIEW COMPOSITION BY DEVICE

63%

of monetization now occurring outside Desktop environments

91%

OTHER
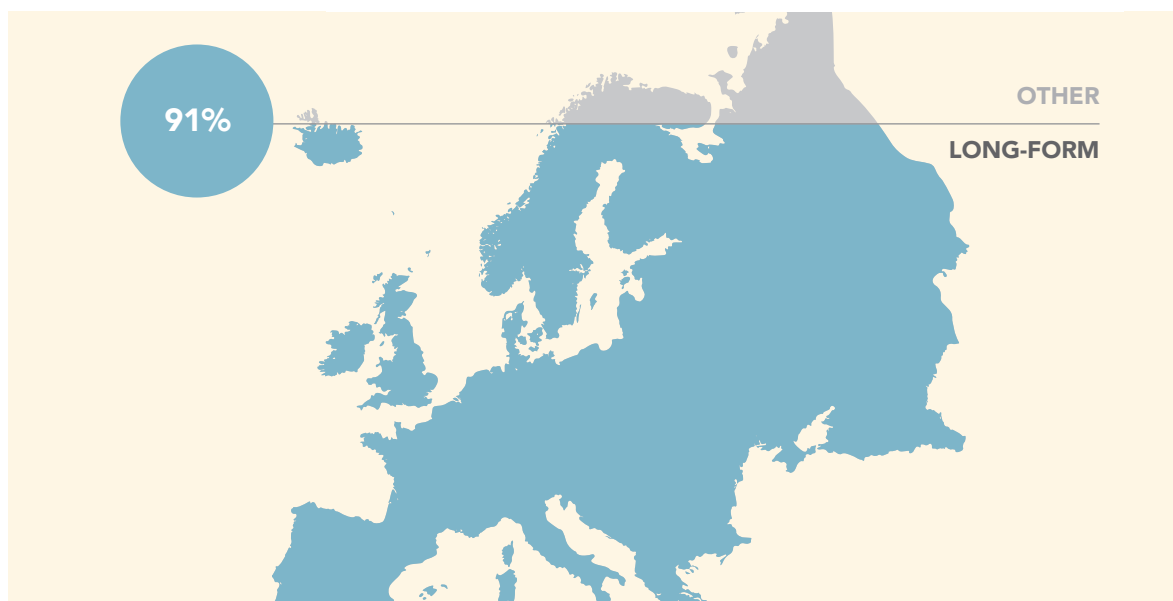
LONG-FORM

AD VIEW COMPOSITION BY CONTENT DURATION

91%

of European DAI occurring in long-form content
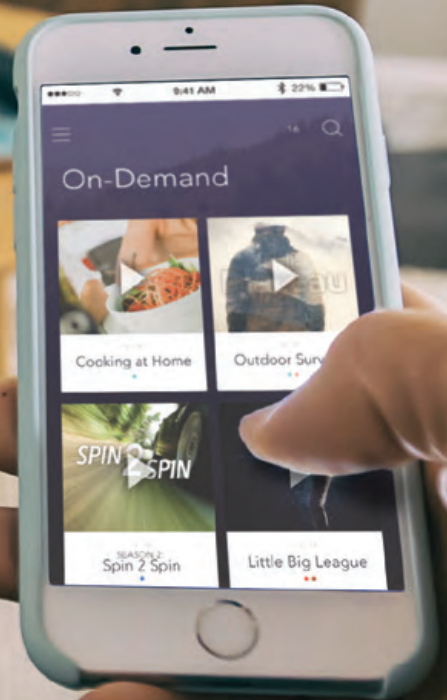
Q1 2016 ANALYSIS

THE SHARED THRONE OF PREMIUM VIDEO

CONTENT, VIEWERS AND EXPERIENCES REIGN

In the past three years the media industry has seen an explosion of content acquisition efforts. Programming budgets have increased dramatically across all players in our industry, in hopes of identifying content which attracts viewers en masse – something that's become pretty hard to do in our fragmented industry. This means content is really important, there's no doubt; but it's also just "table stakes." Without it, success is unlikely, but even with great content, success is not a guarantee. There's too much high-quality programming available at our fingertips for every program to be given the exposure and attention deserved. Due to this, by *exclusively* considering the value of great content, we as an industry are not meeting the collective potential. We at FreeWheel believe what ultimately determines success is content, how it intersects with a user experience, and building the two out to serve the needs of your viewers.

Understanding audience behavior and building great experiences surrounding content are paramount to success. Today's marketplace leaders got there by offering great content, of course, but also by delivering a seamless user experience and understanding the how and why behind viewer engagement.

It's this fusion of viewer behavior, experiences and content – plus the monetization strategy which arises, which we seek to begin exploring this quarter. This is obviously a topic which goes well beyond the eight analyses we have here, but we hope by identifying the "shared throne" and beginning to dissect this notion, we encourage new and insightful thought on this multi-dimensional topic.

VIEWERS SEEK OUT ROBUST EXPERIENCES AND KNOWN CONTENT

Let's begin by deconstructing how audiences aggregate across, and utilize different programming distribution experiences. By observing unique reach and frequency for the first time within the VMR across distinct segments of programming we have uncovered interesting and *actionable* insights.

For this analysis we carefully selected a sample of premium shows, spanning both Cable and Broadcasting channels and divided them into four distinct groups:

1. **Full Library:** A completed program with all episodes available for viewing online

2. **Rotational Library:** A completed program with limited episodes available through an endpoint at any given time

3. **First Run:** A new show, in its first season, with only recent episodes available

4. **Returning:** A currently airing show in season two or beyond, with only recent episodes available

While some would argue this is a story about content, we believe this is about building experiences, and uncovering how viewers engage within. Comparing Full Library experiences to Rotational Library, we immediately learn the ROI of building a comprehensive viewer experience surrounding programs. Full Library programming achieved four times the reach, based on volume of unique viewers over the course of a quarter, and a +52% increase in frequency measured by episodes consumed per viewer, compared to that of a Rotational Library show. Viewers are dictating that they want an end-to-end solution to watch and binge their favorite programming.

The numbers simply do not lie: whenever possible, offer viewers a Full Library.

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AUDIENCE BY PROGRAM CATEGORY, UNIQUE VIEWERS PER SERIES
Q1 2016

4x
AUDIENCE INCREASE
when all episodes are available in one location

- 🟢 Rotational Library: Limited Episodes
- 🔵 Full Library: Complete Anthology

CONSUMPTION BY PROGRAM CATEGORY, EPISODES PER VIEWER
Q1 2016

1.5x
MORE
content consumed

Sample of Broadcast & Cable shows with ad views in Q1

AUDIENCES SEEK FAMILIARITY IN NON-LINEAR ENVIRONMENTS

Despite popular belief, newer is NOT always better. For proof just look to your audiences. We found that shows returning to the air after at least one season offered an audience twice as large compared to a show currently in its freshman season.

Interestingly, when overall viewership was larger for the returning show, the number of episodes consumed per viewer was essentially flat. We believe this means viewers are using both buckets of programming the same way – for "catch-up" viewing.

Results show Programmers need to offer viewers time to navigate this cluttered media ecosystem and discover new content. Due to this, programs need breathing room. One season is simply no longer enough to gauge success or failure of a program, especially when observing non-linear consumption. The non-linear space offers a valuable audience building and retention platform to Programmers who allow fans the opportunity to discover new favorites.

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CHART 2

AUDIENCE BY PROGRAM CATEGORY, UNIQUE VIEWERS PER SERIES
Q1 2016

CONSUMPTION BY PROGRAM CATEGORY, EPISODES PER VIEWER
Q1 2016

2x AUDIENCE INCREASE for programming in returning seasons

NO DIFFERENCE

🟡 First Run: In Premiere Season – only the most recent available

🟠 Returning: Second Season or beyond – only most recent episodes available

Sample of Broadcast & Cable shows with ad views in Q1

CHART 3

AD VIEWS PER VIEWER PER SESSION
SAMPLE LONG-FORM AND
LIVE CONTENT Q1 2016

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24.3
AUTHENTICATED

10.6
NON-AUTHENTICATED

2.3x
more ad views

AUTHENTICATED VIEWERS CONSUME MORE

TV Everywhere (TVE) authenticated viewing is defined as viewing that occurs after entering MVPD subscription credentials to access content aired on Broadcast, Cable, or Satellite TV platforms. As we will demonstrate later, the majority of TV-style viewing is now actually happening behind this TVE "wall," recognizing that there is proportionally less long-form Programmer content available outside of TVE offerings. FreeWheel believes this is a huge accomplishment and a testament to the dedication of premium video players working together under a unified goal to transform user behavior.

Results show that authenticated viewers see an average of +129% more ads per day than non-authenticated viewers. The act of authenticating indicates that a viewer is more embedded in the TV ecosystem and experiences, thus more engaged. The driving force of monetization isn't exclusively the content – once again, content is simply the baseline. What drives monetization potential is training your audiences to become comfortable with the nuances of the premium ecosystem.

UNDERSTANDING GENRES

The following analysis utilizes reach and frequency data to understand how viewers aggregate across genres, and what that means for Publishers' monetization potential. In this instance, reach is the absolute size of the unique digital audience across a quarter for all Publishers, and frequency is determined by ad exposures per viewer. Once again, we learn it's less about content than it is about viewer choice and utilization.

Starting at the top right, we find genres which draw both high reach and high monetization potential. Not surprisingly, News has the largest audience scale,

Sports drives aggressive monetization opportunity and Scripted Drama + Reality fall here because they offer cultural capital to viewers. These universal formats and urgency media are driven by the appointment viewing and watercooler effect.

Moving downwards are high reach and low retention genres, where we find the ultra-casual and sharable world of Variety/Sketch content. Think viral clips from late night talk shows, long-running game shows, and shocking moments from beauty pageants.

Continuing around the diagram, we have the low reach and low

frequency genres, which gives home to Documentaries and Financial News. This is the super niche appeal area that's still relatively emerging in the digital video space. It is also hampered by the lower levels of content creation, and therefore availability.

Lastly, Scripted Comedy and Kids programming can be identified as low reach, high frequency programming. They do not drive large populations of viewership, but what they lack in aggregating mass they more than make up for by generating loyalty and repeat viewing among viewers.

CHART 4

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USER AND AD VIEWS PER USER/GENRES
Q1 2016
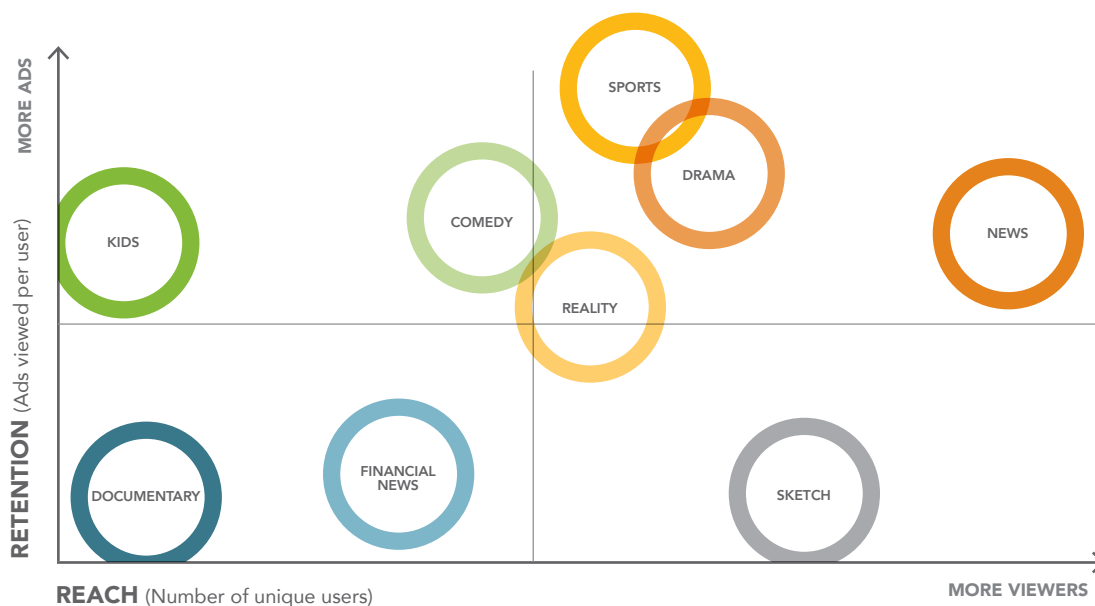
DRIVERS OF AD COMPLETION

We've studied the intersection of viewers, content and experience – now let's shift our attention to better understand how these variables can further impact monetization by analyzing completion rates. Here we've pivoted completion rates by multiple key variables – including content genre, content duration, platform, ad format and ad length.

First and foremost, take note: ad completion rates are high – and that's really good. Across the entire FreeWheel database in Q1 2016 we saw an ad finish 85% of the time. Breaking down rates by these categories reveals two very distinct monetization models, which complement what we've already uncovered in this report:

1. Long-form and live TV-style experiences, which often occur on a TV screen via an over-the-top (OTT) device or on Desktop and leverage high mid-roll completion rates (thanks to engaged and embedded viewers already mid-stream), drive ad completion above and beyond the 85% completion rate average. Unsurprisingly, genres which typically are consumed in full-episode fashion through these platforms, like Entertainment and Kids, lead the way in ad completion.

2. Mid-form and short-form "snackable" experiences, which often occur on smaller screens, are mostly dependent on pre-rolls which intuitively have a lower completion rate than a mid-roll – hover around 80% and below the industry average. Predictably, clip-oriented content like News and Music both skew towards this lower completion rate vs. the more long-form driven monetization model.

Acknowledging these monetization models before the execution of a campaign will likely yield positive results. There are strong dynamics at play between content genres, length, ad units, and platforms, all of which tie into one another.

Unexpectedly, we uncovered little variance within ad duration. The :15s vs. :30s showcase identical results except for short-form and live – where :15s perform slightly stronger. This ties into our former suggestion – consider variables like content duration to find the appropriate ad, optimize user experience and audiences will reward you with their attention and engagement. Short-form content should offer viewers more succinct messaging.

Extra care and consideration should be given to mobile and short-form content
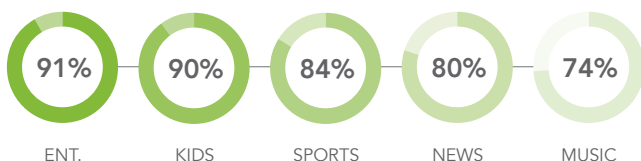
CHART 5

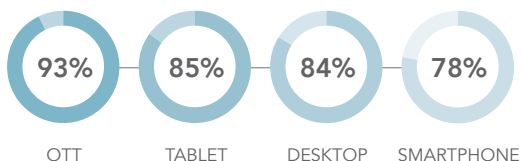## AD COMPLETION RATE BY CONTENT, VERTICAL, DURATION & DEVICE
Q1 2016

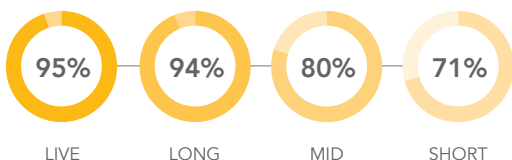*Click to Tweet*

85% OVERALL COMPLETION

CONTENT VERTICAL

91%	90%	84%	80%	74%
ENT.	KIDS	SPORTS	NEWS	MUSIC

DEVICE

93%	85%	84%	78%
OTT	TABLET	DESKTOP	SMARTPHONE

DURATION

95%	94%	80%	71%
LIVE	LONG	MID	SHORT

AD UNITS

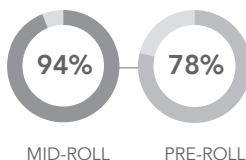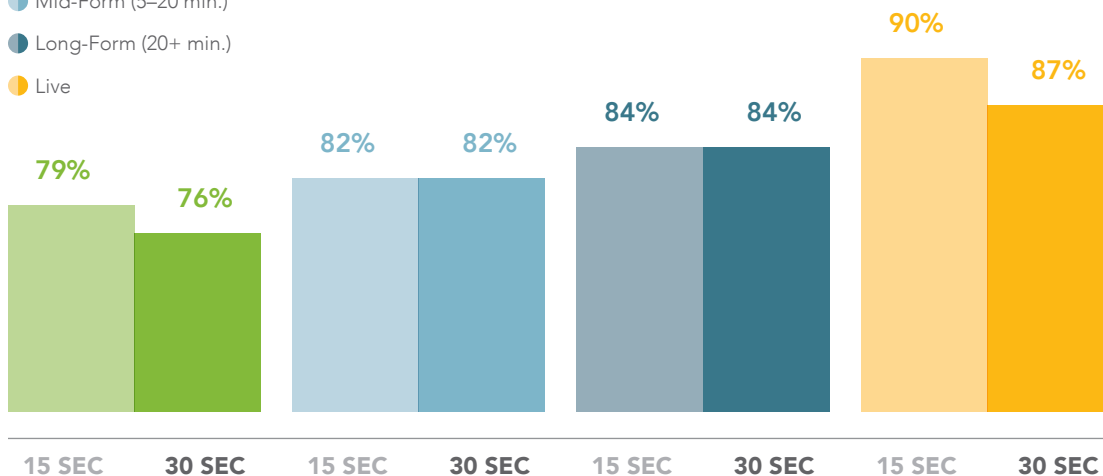| 94%	78%
MID-ROLL	PRE-ROLL

CHART 6

PRE-ROLL AD COMPLETION RATES BY CONTENT AND AD DURATION
Q1 2016

Click to Tweet

- Short-Form (0–5 min.)
- Mid-Form (5–20 min.)
- Long-Form (20+ min.)
- Live

	15 SEC	30 SEC
Short-Form	79%	76%
Mid-Form	82%	82%
Long-Form	84%	84%
Live	90%	87%

MID-ROLL UTILIZATION IS KEY IN BUILDING A GREAT USER EXPERIENCE

I n Q1 2016, 57% of all messaging was delivered via mid-roll breaks. Diving in a little deeper reveals a dramatic difference in pod duration for long-form vs. live content. Despite both being TV-style experiences, live mid-roll breaks were 53% longer on average (based on number of ads) than a long-form on-demand stream.

Live streams are obviously beholden to linear ad breaks, and we believe the best user experience is generated by filling the break as much as possible – which is likely driving this number. Using "your program will return shortly" slates should never be the goal.

On-demand content affords Programmers more control and opportunity to experiment, but referring back to our previous analysis of ad completion rates, consider the type of content and platform before determining the model. Is it binge-able? Is it catch-up viewing? Is it likely to be seen on an OTT device? Etc.

Live is typically a more complex environment to control – so the goal should always be fill-rate. On-demand allows for various monetization models, so determining the correct approach when considering your content is key.

CHART 7

ADS PER MID-ROLL BREAK, REQUEST TYPE
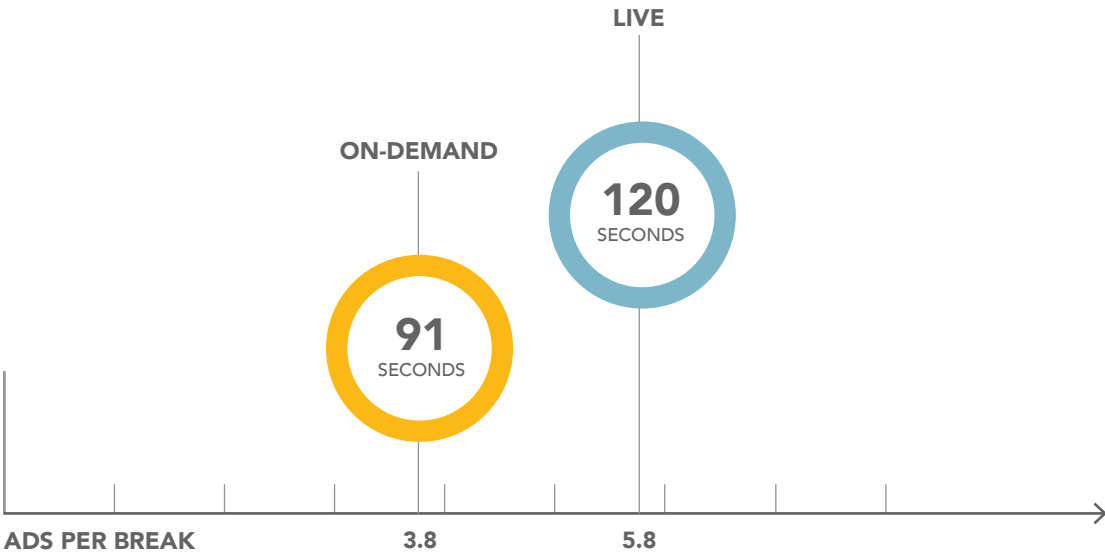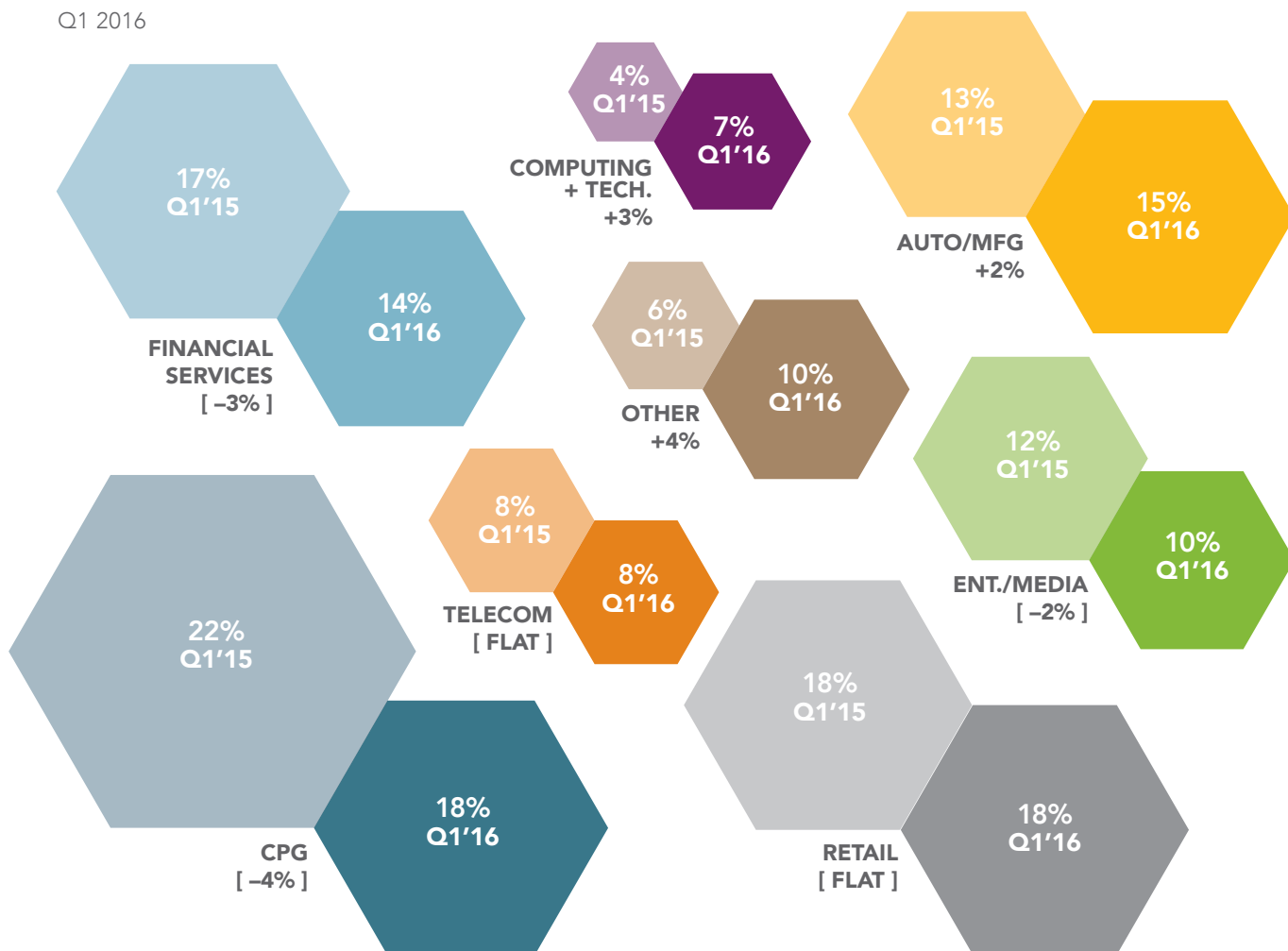Q1 2016

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LIVE

120 SECONDS

ON-DEMAND

91 SECONDS

ADS PER BREAK   3.8   5.8

CHART 8

AD VIEWS BY ADVERTISER INDUSTRY
Q1 2016

Click to Tweet

COMPUTING + TECH. +3%
4% Q1'15
7% Q1'16

AUTO/MFG +2%
13% Q1'15
15% Q1'16

FINANCIAL SERVICES [−3%]
17% Q1'15
14% Q1'16

OTHER +4%
6% Q1'15
10% Q1'16

ENT./MEDIA [−2%]
12% Q1'15
10% Q1'16

TELECOM [FLAT]
8% Q1'15
8% Q1'16

CPG [−4%]
22% Q1'15
18% Q1'16

RETAIL [FLAT]
18% Q1'15
18% Q1'16

WHO'S BENEFITTING?

We've covered how viewers utilize premium content in non-linear environments, and how that impacts monetization and ad completion. Now let's take a quick glance at buy-side activity to better understand the categories benefitting from the "shared throne."

Here you'll find a breakdown of ad impressions by product category. Comparing share to a year ago (Q1 2015), the big movers and shakers are CPG (-4 percentage points) and Other (+4 percentage points). We believe the CPG decline is likely due to recent category ad spend conservatism after shifting budgets to programmatic in early 2015. The Other bucket indicates a more diverse range of Advertisers have now adopted non-linear premium video.

Q1 2016 CORE OBSERVATIONS
BAROMETER OF THE INDUSTRY

———

THE MOST DEFINITIVE DATA AVAILABLE ON PREMIUM ENVIRONMENTS

PREMIUM VIDEO CONTINUES TO SOAR

FreeWheel has been producing this Video Monetization Report since 2011, and while this report has evolved greatly over the past four years, we have always measured quarterly year-over-year video and ad view growth. We're excited to announce that premium video in non-linear environments has grown in terms of both content consumption and ad views for 21 consecutive quarters, when comparing to the equivalent time period the previous year.

Industry growth remains on par with what we've seen in the previous three quarters – with Q1 2016 clocking in at +24% growth across both content and ads vs. a year ago, revealing a complementary effect between Programmers and Digital Pure-Plays. Programmers are leveraging significant overall growth in long-form (+37% faster than overall ad growth) and live content (+79% faster than overall ad growth) in order to drive ad view growth and monetization. Conversely, Digital Pure-Plays are building out programming opportunities in order to generate scale for their platforms, thus generating a positive effect on content views.

CHART 9

TOTAL VIEWS
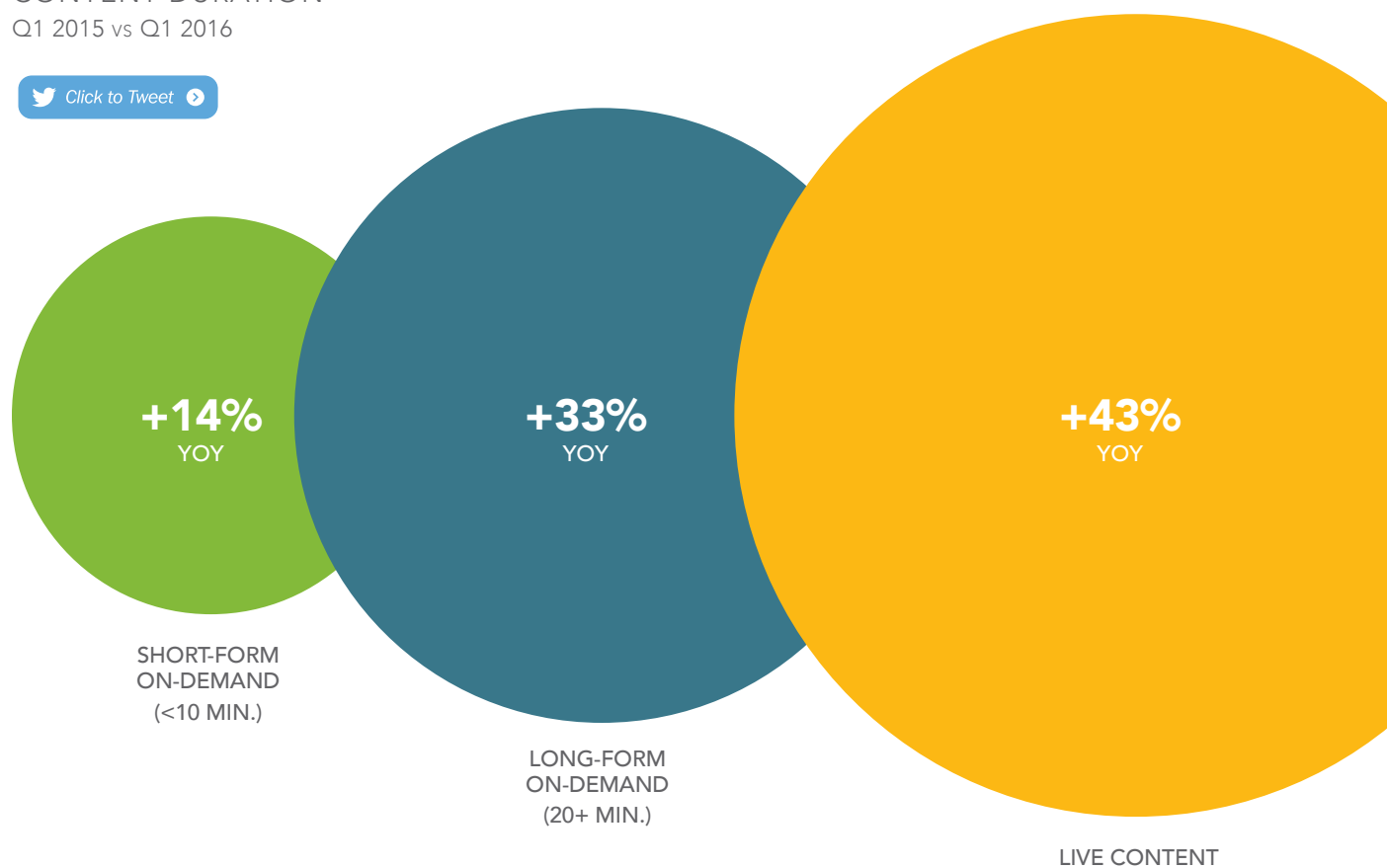AND AD VIEW GROWTH
Q1 2015 vs Q1 2016

Click to Tweet

24%
YEAR-OVER-YEAR
VIDEO VIEWS

24%
YEAR-OVER-YEAR
AD VIEWS

CHART 10

AD VIEW GROWTH BY CONTENT DURATION
Q1 2015 vs Q1 2016

Click to Tweet

+14%
YOY

+33%
YOY

+43%
YOY

SHORT-FORM
ON-DEMAND
(<10 MIN.)

LONG-FORM
ON-DEMAND
(20+ MIN.)

LIVE CONTENT

LONG-FORM AND LIVE CONTINUE TO DRIVE GROWTH

The demand for full episode TV-style content, and the monetization efforts surrounding it, continue to grow as audience adoption of OTT and Set-Top-Box Video On-Demand (STB VOD) consumption widens *(page 24 for more information)*. Long-form and live content are outpacing overall industry growth and now represent seven out of every 10 ad impressions in Q1 2016, an uptick in share vs. Q1 2015. Simultaneously, a healthy share of "clippable" short-form content is used to complement monetization efforts. Considering this, and our previous point regarding the overall monetization growth being tied to Programmers, illuminates the fact that TV-style content is currently the driver catapulting the premium video economy to new heights.

Ultimately FreeWheel believes the monetization potential is directly tied to offering a diverse range of content, both in duration and in genre. In light of this, U.S. Digital Pure-Plays have focused recent strategic efforts on diversifying content, while relying on an already mature short-form market to meet present-day monetization needs. Programmers are offering an already healthy mix of all content duration.

European results reveal a still emerging market which has almost exclusively learned to only rely on and monetize long-form content. Short and long term growth will depend on better monetization of short-form and live content, likely enabled by a more mature tech stack.

Opportunity for European Programmers to increase the diversity of their inventory against live and short-form

CHART 11

AD VIEW COMPOSITION BY CONTENT DURATION
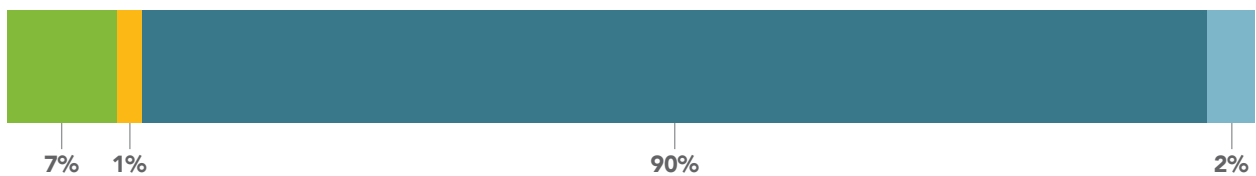Q1 2016

- 🟢 Short-Form (0–5 min.)
- 🟡 Live
- 🔵 Long-Form (20+ min.)
- 🔵 Mid-Form (5–20 min.)

U.S. PROGRAMMERS

| 26% | 17% | 53% | 4% |

EUROPEAN PROGRAMMERS

| 7% | 1% | 90% | 2% |

U.S. DIGITAL PURE-PLAYS

| 80% | 1% | 11% | 8% |

GENRE MONETIZATION REMAINS DIVERSE IN U.S., WHILE EUROPE RELIES ON ENTERTAINMENT CONTENT

All major content genres continue to deliver double-digit growth year-over-year, ranging from Music at +10%, to Kids content at +59%.

The majority of U.S. monetization continues to be driven by Entertainment programming. In the United Kingdom, this point is intensified where more than nine out of every 10 ads delivered are derived from long-form Entertainment TV-style content. This obviously means big opportunities for the European marketplace with all other content categories – especially when considering previously referenced results in regards to European content duration monetization. Consider the following: News holds almost 4X the share in the U.S. vs. Europe – and short-form monetization is minimal in those same European markets.

European Programmers should consider Live Sports monetization strategies employed by their U.S. counterparts

CHART 12

AD VIEW COMPOSITION & GROWTH BY CONTENT VERTICAL, U.S. vs EUROPE

Q1 2016

Click to Tweet
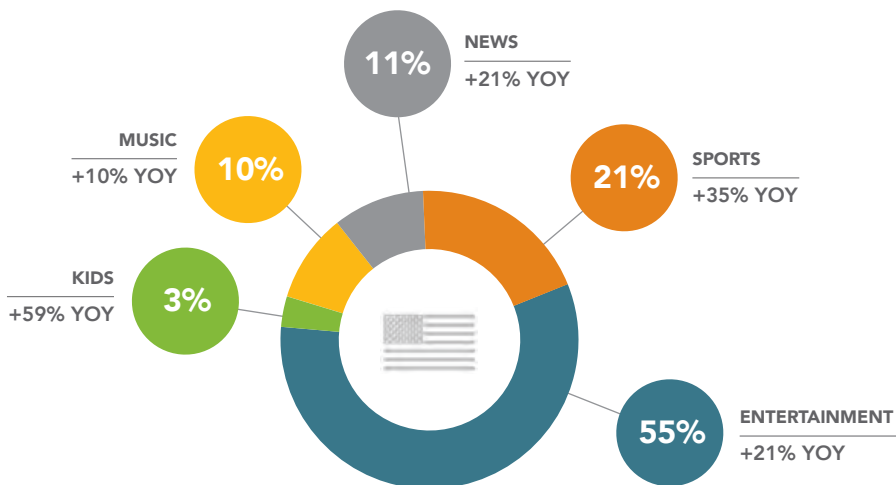
U.S.

NEWS **11%** +21% YOY

MUSIC +10% YOY **10%**

KIDS +59% YOY **3%**

SPORTS **21%** +35% YOY

ENTERTAINMENT **55%** +21% YOY

EUROPE

Year-over-year ad view growth unavailable for European activity

NEWS **3%**

SPORTS **2%**

KIDS **1%**

94% ENTERTAINMENT
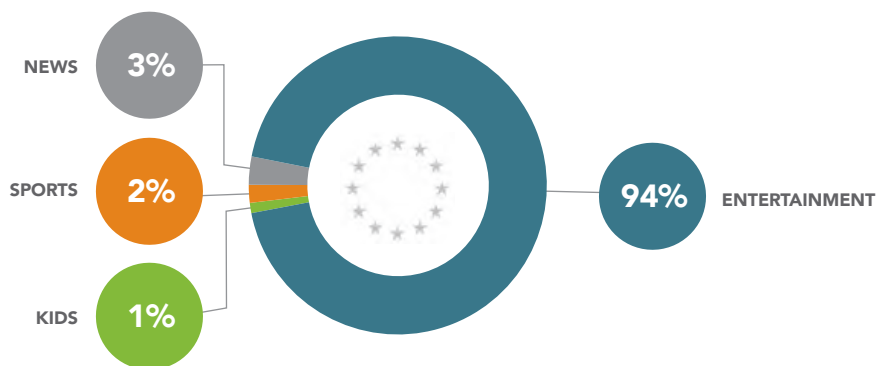
CHART 13

AD VIEW COMPOSITION & GROWTH
BY DEVICE, U.S. vs EUROPE
Q1 2015 vs Q1 2016

🐦 *Click to Tweet* ⊙
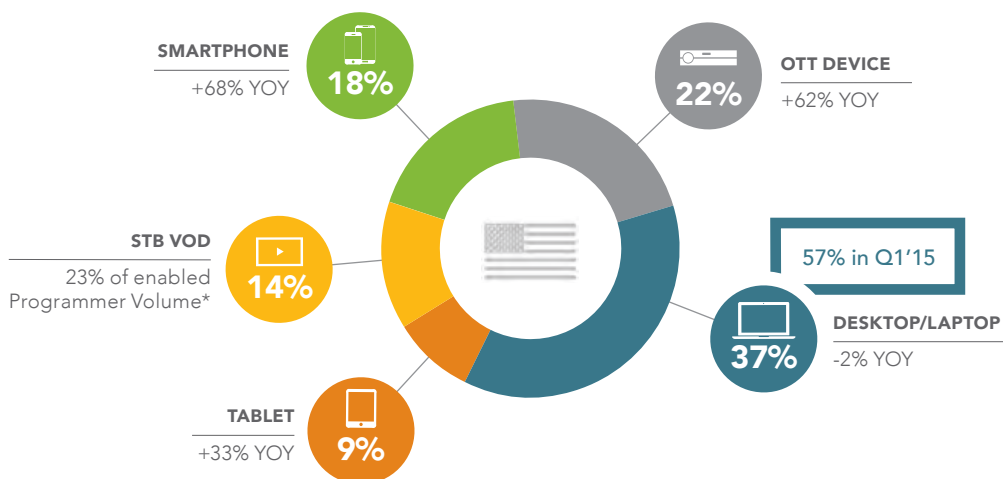
U.S.

SMARTPHONE
+68% YOY
18%

OTT DEVICE
+62% YOY
22%

STB VOD
23% of enabled
Programmer Volume*
14%

57% in Q1'15

DESKTOP/LAPTOP
-2% YOY
37%

TABLET
+33% YOY
9%

EUROPE

Year-over-year ad view growth unavailable for European activity

TABLET
14%

SMARTPHONE
24%

OTT DEVICE
13%

DESKTOP/LAPTOP
49%
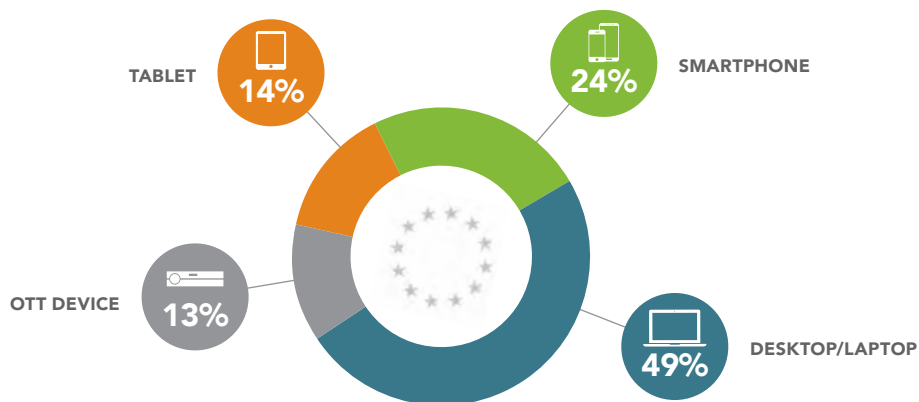
*FourFronts STB VOD and Canoe Phase III Integrations

DESKTOP SHARE CONTINUES TO DECLINE AS AUDIENCES FRAGMENT ACROSS PLATFORMS

In the Q4 2015 VMR we reported that the landscape was quickly balancing out in terms of platform monetization. This fact has come to fruition in Q1 2016. Desktop/Laptop share has never been lower – now yielding 37% of the marketplace (previous low was 40% in Q4 2015). We're excited to reveal that Publishers are now monetizing equally (almost one-third each) across the living room, the office, and on-the-go viewing. Just last year, the Q1 2015 Desktop/Laptop share of the marketplace was 57%. Living room experiences, OTT and STB VOD, now represent 36% of all ad impressions; and mobile platforms, Smartphone and Tablets, collectively represent 27% of the marketplace.

A major change this quarter is OTT's new standing as the second most monetized platform in the U.S., now delivering slightly more than one out of five ads. We'd like to note this is both a combination of organic growth and "FreeWheel growth" – meaning,

growth we're recognizing for the first time in our analysis due to new devices and networks being "turned on." This shows adoption of OTT is occurring with both viewers and Publishers in lockstep. There's room for further growth too, as new devices and Publishers enter the OTT landscape, which we expect to continue throughout 2016. Look for the living room's share to continue to rise.

While the U.S. and Europe look somewhat similar, there are some important variances worth noting. Desktop remains the overwhelming leader within this marketplace, with almost a one in two share. OTT appears to still be in "early days" over in Europe, with only a 13% share of the marketplace. Interestingly, Smartphones' status as the #2 platform with a 24% share is fascinating when considering content genres in these markets. As covered previously, full-episode Entertainment content almost exclusively drives

monetization, contrasting with these findings uncovers that a significant portion of full-episode content is being consumed on Smartphones. One factor driving this is likely the accessibility and cost associated with data plans in the U.S. vs. Europe, where affordable, unlimited data plans are typically offered by major carriers. As previously uncovered by Business Insider, U.S. Smartphone owners pay up to 20X more for Smartphone data compared to the United Kingdom. [1]

2/3 of impressions are now occurring outside Desktop environments

[1] http://www.businessinsider.com/afp-mobile-information-superhighway-super-expensive-in-us-compared-to-europe-2015-11?IR=T

U.S. VOLUME

+24%
YOY
Q1'15 vs
Q1'16

PROGRAMMERS **15.3%**

15.6%

SYNDICATED PLATFORMS
- 2.4% Syndication Net/Longtail
- 6.6% Portals
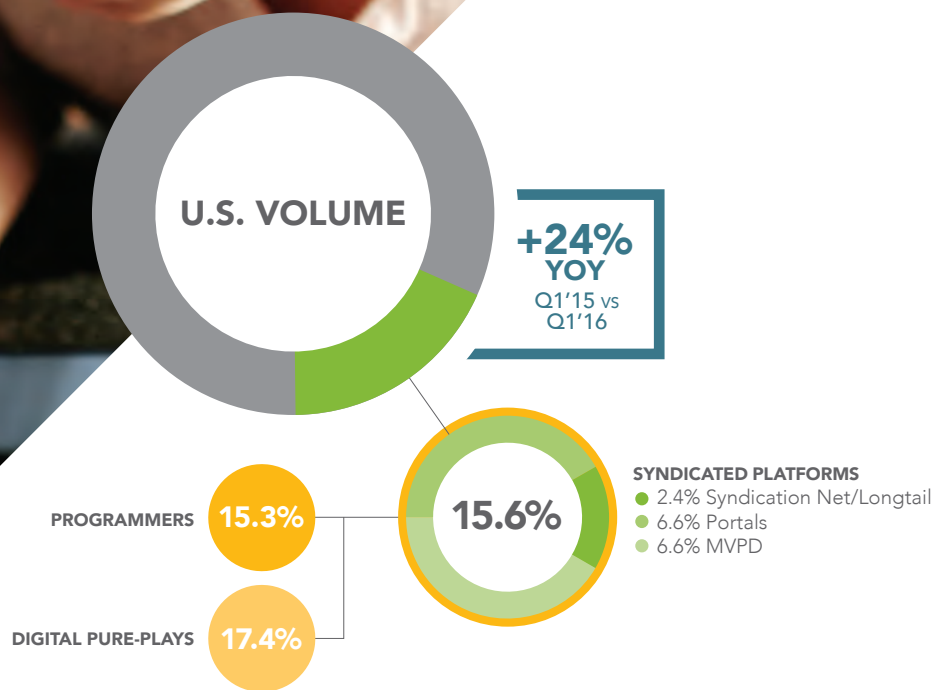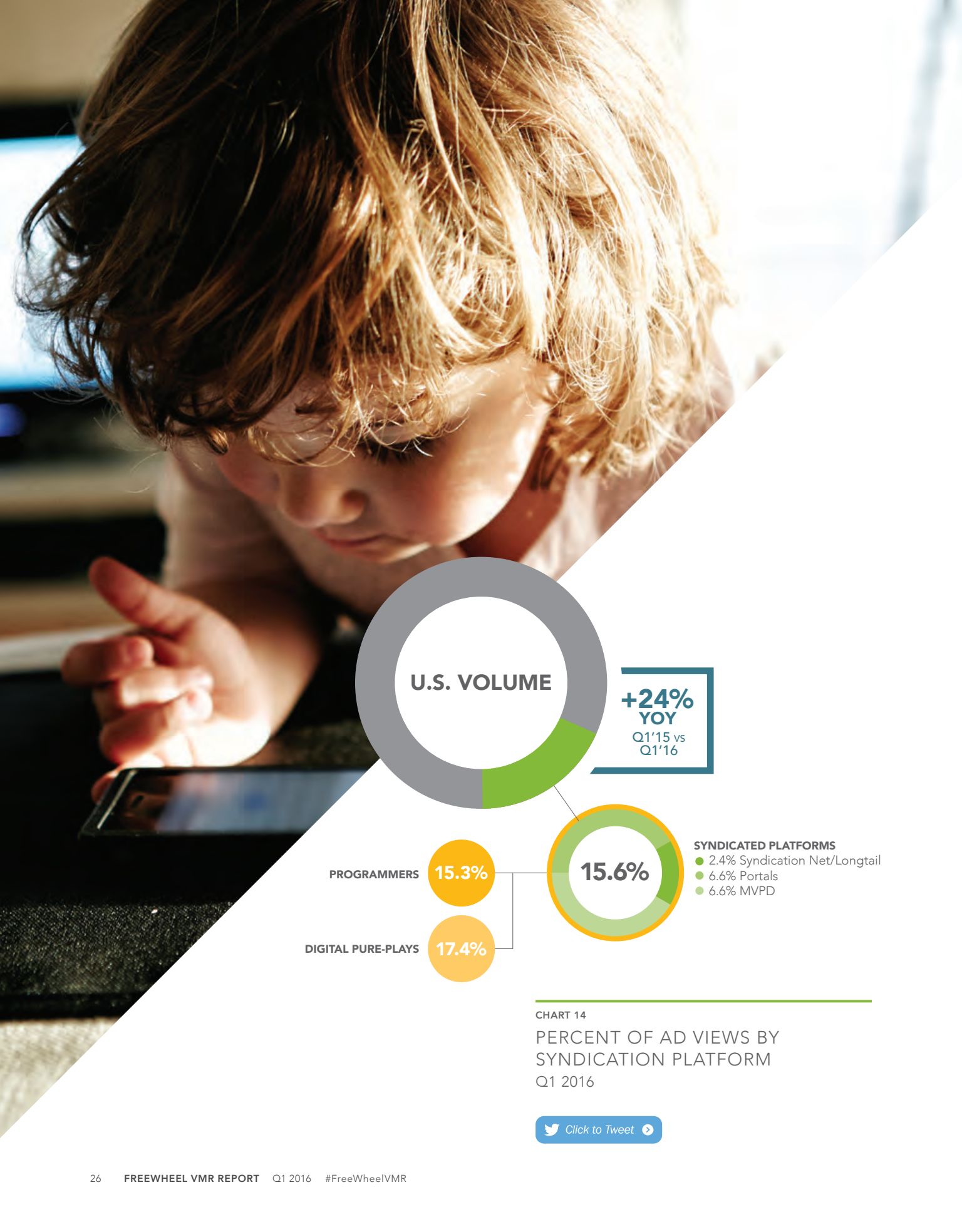- 6.6% MVPD

DIGITAL PURE-PLAYS **17.4%**

CHART 14

PERCENT OF AD VIEWS BY
SYNDICATION PLATFORM
Q1 2016

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MVPDS AND PORTALS LEVERAGED MORE THAN EVER FOR SYNDICATED VIEWING

Here we observe premium video syndicated viewing is defined as viewing that occurs outside of a Publisher's Owned and Operated (O&O) properties or primary platforms.

In Q1 2016, 15.6% of all of all ad views occurred outside of O&O platforms, which represents growth of +24% in total volume year-over-year, with Digital Pure-Plays slightly over-indexing on total marketplace results, at 17% share of all ad views (Programmer share clocks in at 15.3%). Within syndicated viewing we've identified three distinct platforms where audiences are finding and enjoying content:

1. **Multichannel Video Programmer Distributors (MVPDs):** A pay TV, typically cable or satellite, platform viewing domain

2. **Syndication Networks/Longtail:** Small scale/niche content aggregators

3. **Portals:** High-traffic content aggregators

The overwhelming majority of syndicated viewing is now coming out of Portals and MVPDs, with each capturing 6.6% of the total marketplace, and combined representing 79% syndicated share. Portals are growing the fastest out of all syndication channels, with +188% year-over-year growth, twice the rate of MVPDs. Both Programmers and Digital Pure-Plays have funneled their inventory away from long-tail, less premium environments over the last year, which declined -64% in total volume year-over-year.

In the realm of syndication Programmers and Digital Pure-Plays are driven by distinct distribution strategies, mostly due to carriage agreements. Programmers trust MVPDs to be a safe source of inventory across TVE domains and apps, while Digital Pure-Plays leverage Portals to distribute their short-form content, create new sources of inventory, build brand awareness, and grow audience.

Programmers and Digital Pure-Plays have funneled their inventory away from long-tail, less premium environments

TO COMPLEMENT AND COMPLETE – SECONDARY SALES CHANNELS (SSC)

While "programmatic" continues to be one of the terms du jour in the industry, purveyors of premium video historically have tended to be more cautious in adoption of automated transaction models due to quality, compliance, and technological concerns.

In this report we use the term "Secondary Sales Channel" to describe non-direct-sold transaction models. SSCs can be used as one of many transaction or supply allocation models within a Publisher's larger strategy. FreeWheel views SSC transaction models as complementary, not conflicting, to overall inventory monetization tactics. The partners that represent the ad volumes flowing through these channels can often be challenging to classify, as they can play multiple roles and act as intermediaries both between and amongst each other. Nevertheless, last quarter we introduced a categorization that, while not mutually exclusive, does give us a vocabulary to discuss the subject:

1. **Exchanges:** Predominantly private marketplaces which enable varying degrees of automation; open markets comprise a small portion of this category. Note: this classification does not include exchange based inventory transacted through a DSP and/or SPP.

2. **Platform Supported:** Typically Supply-Side Platforms (SSPs) are used to connect Publishers to buyers via Demand Side Platforms (DSPs). However, both SSPs and DSPs can access supply directly, and do not necessarily depend on the interconnectedness of one another.

3. **Ad Networks:** Intermediaries that aggregate inventory across many Publishers and offer that inventory as bulk package; includes syndication platforms that buy the rights to sell into a Publisher's inventory.

Overall, we saw a healthy increase in SSC activity year-over-year, with volume now comprising 12% of all U.S. sales. Digging deeper, DPPs tend to rely on SSCs more than Programmers given an often less-scaled direct sales force. In 2016, only 8% of total Programmer sales came via SSCs vs. 25% for Digital Pure-Plays. The vast majority of the growth was generated via private marketplaces, which reflects the premium nature of this inventory and Publishers' focus on protecting their core value proposition. Additionally, we observe a continued trend towards moving away from the legacy ad network model towards more transparent transaction models such as private marketplaces.

We expect growth of SSCs to continue, driven by growth within private marketplaces, which in turn give more control to the Publisher for maintaining premium value of their own supply.

Digital Pure-Plays rely on more non-direct sales channel partners as a function of short-form dominated inventory
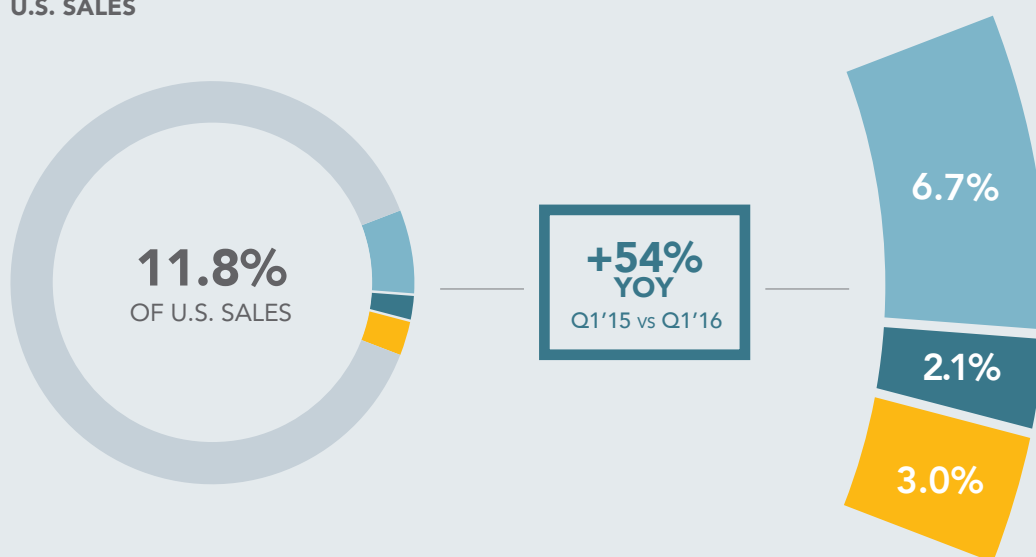
CHART 15

PERCENT OF PAID AD VIEWS AND GROWTH BY SECONDARY SALES CHANNEL, U.S.

Q1 2016

Click to Tweet

- Exchanges
- Platform Supported
- Ad Networks and Syndication Partners
- Other

U.S. SALES

11.8%
OF U.S. SALES

+54%
YOY
Q1'15 vs Q1'16

6.7%

2.1%

3.0%

PROGRAMMERS

7.7%
OF TOTAL
SALES

5.4%
1.7%
0.6%

DIGITAL PURE-PLAYS

25.4%
OF TOTAL
SALES

11.4%
3.0%
11.0%
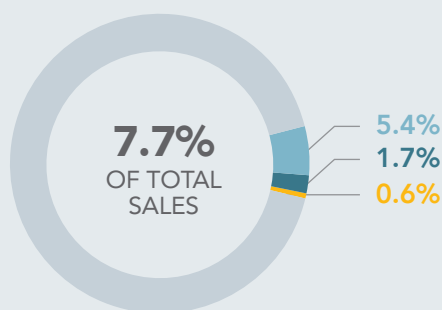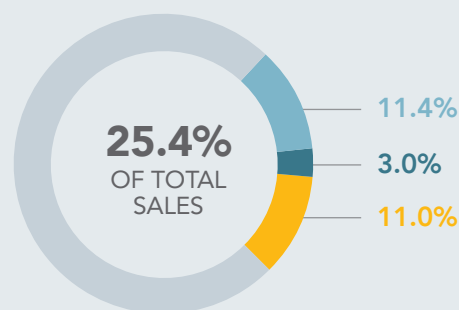
CHART 16

LONG-FORM & LIVE CONTENT AUTHENTICATED AD VIEWS AND AUTHENTICATION RATE, U.S. PROGRAMMERS
Q1 2013 – Q1 2016

🐦 *Click to Tweet* ❯

+177% CAGR video ad view growth

2014 FOOTBALL WORLD CUP

2014 WINTER OLYMPICS

	2013				2014				2015				2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	7%	8%	14%	13%	29%	38%	46%	56%	57%	60%	65%	65%	72%
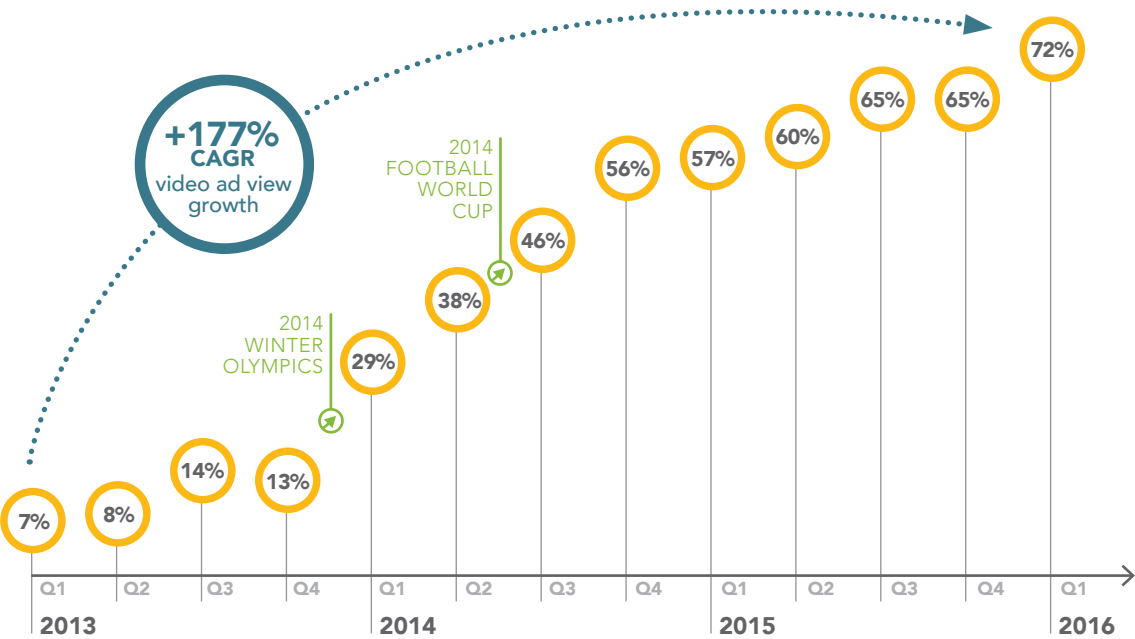
AUTHENTICATION AT AN ALL-TIME HIGH

Our latest data reveals that 72% of all TV-style viewing is now occurring after a viewer enters their MVPD credentials to access long-form and live streaming content aired on Broadcast, Cable, or Satellite TV. After 13 straight quarters of growth, it is impossible to refute that TVE products have not only cemented their popularity with subscribers but also expanded the footprint of the New Living Room to ever new screens.

Last quarter, we illuminated how viewing beyond "the wall" had dramatically diversified over the course of the past year. Sports and Desktop were usurped from their dominant position in 2014 and complemented by the shared landscape of authenticated viewing happening across all genres and devices by Q4 2015. Nevertheless, the pioneering Programmers who spurred viewers up the credential-entry learning curve did so by leveraging major sporting events, after which users retained access behaviors as the amount of content available behind "the wall" increased. Leading the charge, the 2014 Winter Olympics invited viewers to enter a username and password that previously most had only utilized to check their monthly billing statements, or to view events otherwise unaired during the linear broadcast. This more than doubled the amount of authenticated ad views from one quarter to the next. Then the 2014 Football World Cup provided another opportunity for Programmers to capitalize on the near universal appeal of a global sporting event, which in turn prepared viewers for the fall 2014 season, when the monetization rate firmly crossed over into the majority at 56%.

Looking forward, the overall rate will likely never reach 100% for the entire Programmer market, as some Publishers will continue to find value in "front of the wall," unauthenticated distribution strategies to drive new awareness, audiences and other general marketing goals. Irrespective of this, FreeWheel data illuminates that after years of slow adoption, TVE is now the standard.

Viewers were spurred up the authentication learning curve by quadrennial sporting events and retained access behaviors as the amount of content available behind "the wall" increased

Q1 2016 CONCLUSION

As the premium video economy continues evolve, leaders of our industry should remain laser-focused on the ultimate goal of maximizing revenues, while simultaneously leading market trends and entertaining viewers. This combined effort represents the fuel which drives our entire ecosystem, and that is why the shared throne of content, viewers, and experience is the ruler of it all.

We thank you for spending some time with our report and we look forward to your readership next quarter!

JONATHAN BOHM

Jonathan leads Research efforts at FreeWheel as Director of the newly formed Strategic Research team. Jonathan began his career in 2007 after receiving a Master's of Science in Social Research. Since then he spent the majority of his career within various research-centric roles spanning Sports, Entertainment and Kids content at a major broadcaster. At FreeWheel his role primarily focuses on thought leadership, and identifying research solutions for both clients and the FreeWheel Council for Premium Video. He also spends his time as an Adjunct Lecturer at Hunter College in NYC, teaching a graduate course on the interconnectedness between methodology and technological innovation.

DASHA PRYAMITSYNA

Dasha is an Associate on FreeWheel's Business Advisory Team. After starting her career at a leading management consulting firm in the Communication, Media, and Technology Strategy Practice, she has grown her industry expertise by leading client engagements as well as external insights initiatives focused on the premium video market – including being a principal author of the FreeWheel Video Monetization Report for five quarters. She is especially passionate about helping clients make impactful, data-driven decisions to grow their business and improve viewer experience.

MOYI DANG

Moyi is a Data Scientist at FreeWheel. As part of the Advisory Services team, Moyi works mostly to automate analyses into a python-based ETL process, and to create user behavior-based analyses. Her analyses have contributed to the FreeWheel Video Monetization Report for the past six quarters.

We would like to thank Zhouli Xu and Jeremy Scher for their many contributions to the Q1 2016 FreeWheel Video Monetization Report.

Ad Load
Average number of ads in a content stream

Ad Networks
Aggregate inventory across many Publishers and sells that inventory as a bulk package

Ad View
Accrued after the first frame of an ad is displayed

Authenticated Viewing
Viewing that occurs after entering MVPD subscription credentials to access content aired on Broadcast, Cable, or Satellite TV

Content Vertical
Content genre

Demand-Side Platform (DSP)
Technology used to connect Advertisers (buyers) into exchanges

Digital Pure-Plays (DPP)
Publishers that generate the majority of their revenue from digital environments. Aggregate third-party content and/or develop original content

Direct-sold
Advertising deals made directly between a Publisher and an Advertiser

Dynamic Ad Insertion (DAI)
Process of dynamically inserting ads into a content stream, such that different ads can be inserted into the same ad break

Exchanges
Open and private markets for buyers and sellers to trade across with varying degrees of automation

Interactive Advertising Bureau (IAB)
Sets commercial standards and accreditations for the industry

Impression
Occurs each time an ad is displayed

Inventory
An ad opportunity. A piece of inventory is filled by an ad impression

Linear
Traditional Broadcast, Cable, or Satellite TV

Mid-roll
An ad break that occurs in the middle of content

Multichannel Video Programming Distributor (MVPD)
Provides pay TV services delivered either through Broadcast Satellite or Cable TV. Examples include Comcast and DirectTV

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

Over-the-top (OTT)
Viewing content delivered over an internet connection. Typically seen as OTT Device, which includes devices like Roku, Apple TV, etc.

Portals
High-traffic content aggregators, ex: AOL and HuffPo

Pre-roll
An ad break that occurs before content starts

Premium Video
Video content that is professionally produced, rights managed, limited in supply, and with partially direct-sold inventory

Pre-stitching
Occurs when ads are pre-selected and inserted into the content beforehand

Programmer
Publishers that generate the majority of their advertising revenue from linear TV services. Offer diverse content mix in digital environments as well

Publisher
Producers or syndicators of content. Can be Programmers or Digital Pure-Plays

Set-top-box (STB)
Accompanies a cable/broadcast/satellite setup. Contains a cable input and outputs to a TV

Simulcast
A digital stream of a live event also broadcast on linear TV simultaneously

Supply-Side Platform (SSP)
Technology used to connect Publishers (sellers) into exchanges

Syndication
Viewing that occurs outside of a Publisher's Owned and Operated properties or primary platforms

Syndication Networks/Longtail
Small scale/niche content aggregators

TV Everywhere (TVE)
Apps that allow viewers to access content over the internet by logging in with their subscription credentials

Video View
Accrued after the first frame of video content is displayed

FreeWheel | **V**ideo **M**onetization **R**eport

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.

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The dataset 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 160 billion video views in 2015 and 55 billion video views for Q1 2016.

#FreeWheelVMR

FreeWheel | **V**ideo **M**onetization **R**eport

Q1 2016

FreeWheel.tv

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