



IAB Internet Advertising Revenue Report

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

1999 First Quarter Results

September 1999



NEW MEDIA GROUP

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About the IAB Internet Advertising Revenue Report

Conducted by the New Media Group of PricewaterhouseCoopers on an ongoing basis, with results released quarterly, the "Internet Advertising Revenue Report" was initiated by the Internet Advertising Bureau (IAB) in 1996. This report aggregates data and information reported directly to PricewaterhouseCoopers by more than 200 companies representing over 1,400 Web sites, in addition to other on-line companies.

The results reported are the most accurate measurement of on-line / Internet 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, broadcast and push technologies, as well as other companies selling on-line advertising.

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

Tom Hyland
Partner, New Media Group Chair
PricewaterhouseCoopers

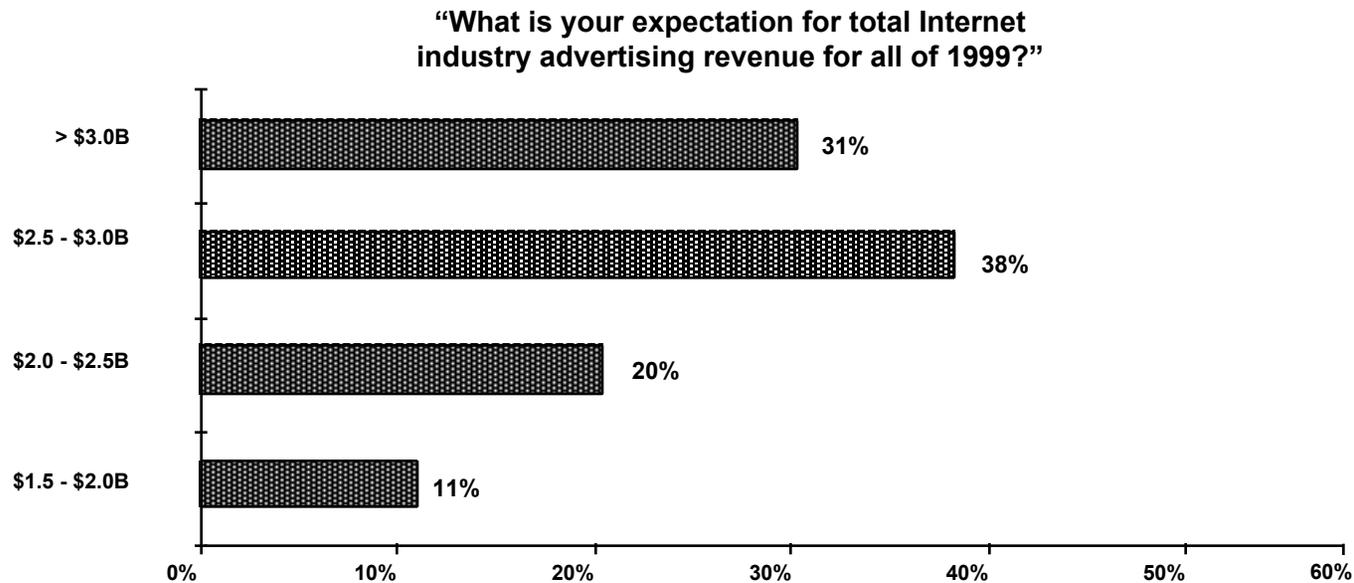
Pete Petrusky
New Media Group Director
PricewaterhouseCoopers

Industry Observations

PricewaterhouseCoopers (PwC) Polled Survey Participants for Their Forecasts of Current Year On-line Ad Revenues

Nearly one-third of the IAB respondents expect 1999 annual Internet ad revenues to exceed \$3.0 billion:

- 69 percent of survey participants expect 1999 revenues to exceed \$2.5 billion.
- 89 percent of survey participants expect 1999 revenues to exceed \$2.0 billion.
- Only 11 percent of survey participants expect 1999 revenues to total less than \$2.0 billion.



1999 total revenues are on pace to exceed \$3.4 billion based on Q1 actual revenues of \$693 million combined with historical revenue patterns (e.g., first quarter revenues have accounted for less than 20 percent of total year revenues between 1996 - 1998).

PwC Asked Participants for Their Views on Critical 1999 Industry Issues

“Which of the following do you consider the most critical issues underlying Internet advertising growth in 1999?”

<u>1999</u>	Mean score
Audience reach (installed base of PC's with modems)	2.3
Audience measurement standards	2.9
Bandwidth	3.4
Deployment of rich media	4.1
Privacy concerns	4.2

“Which of the following do you consider the most critical issues underlying Internet advertising growth in 1998?”

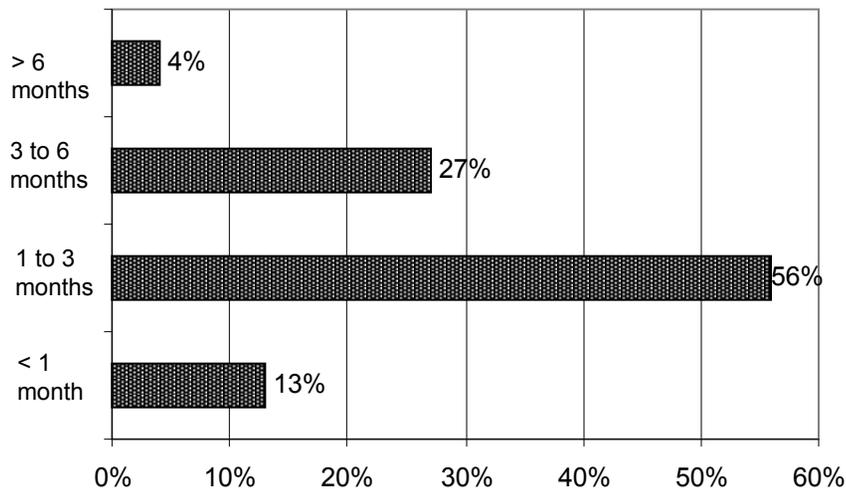
<u>1998</u>	Mean score
Audience measurement standards	2.1
Audience reach (installed base of PC's with modems)	2.6
Bandwidth	3.0
Privacy concerns	4.1
Security of transactions	4.2

Based on a scale of 1 to 5 (1 = most important, 5 = least important)

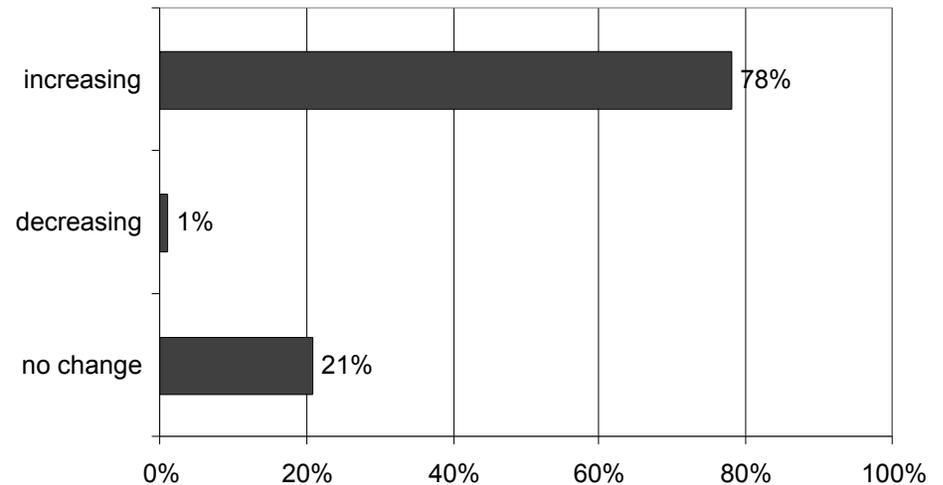
- *Improving audience reach outranked audience measurement reporting standards as the most critical business issue in 1999, compared to audience measurement standards as the most important issue last year.*
- *Bandwidth (availability of high-speed Internet access) and deployment of rich media ads (introduced on 1999 questionnaire) are considered the third and fourth most important issues of 1999.*
- *Privacy concerns edged downward in importance according to on-line publisher responses.*
- *The emergence of effective pricing models and the size of Web advertising budgets were other industry issues cited by survey participants, but not ranked in the top five categories.*

On-line Publishers Reported the Duration of On-line Ad Campaigns Is Increasing

“What is the average length of your sales cycle?”



“Is the average commitment of your clients’ on-line advertising campaigns increasing, decreasing, or no change?”



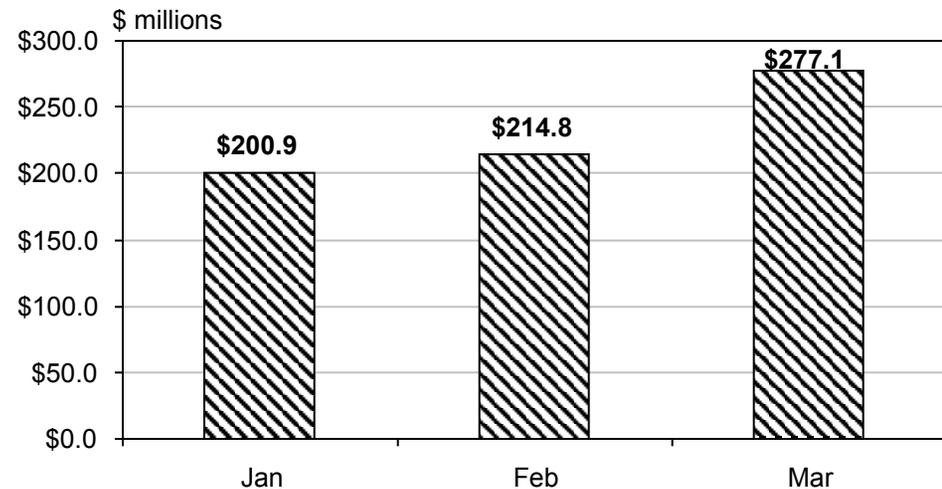
- *The majority of on-line publishers reported that their advertising sales cycle averaged 1 to 3 months, while over one quarter reported a sales cycle averaging 3 to 6 months.*
- *While less than five percent of on-line publishers reported an average sales cycle exceeding 6 months, many indicated they are experiencing a gradual increase in the average sales cycle, partly reflecting the recent growth in more complex hybrid pricing schemes (e.g., more time required to accommodate lengthier deal structuring and negotiations).*
- *The majority of on-line publishers surveyed also reported that the average commitment (duration) of their clients’ advertising campaigns is increasing, while only one percent reported a decrease in campaign commitment.*

Detailed findings

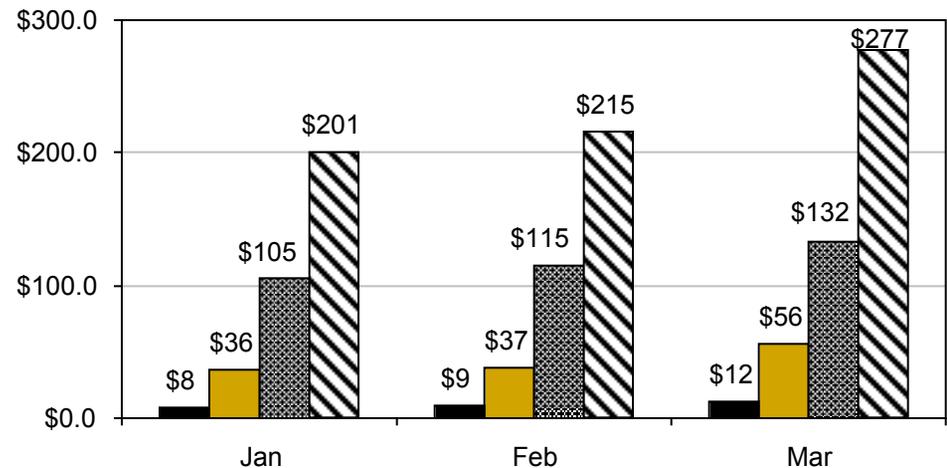
Internet/on-line Advertising Revenues Totaled \$692.8 Million for the First Quarter of 1999

- *On-line publishers reported aggregate Internet / on-line advertising revenues (“revenues”) totaling \$692.8 million for the 1999 first quarter, marking the twelve-consecutive quarterly increase since reporting for the first quarter of 1996.*
- *Advertising revenues averaged \$231 million per month during the first quarter of 1999, up \$13 million from the previous 1998 fourth quarter average of \$218 million.*
- *On-line advertising revenues averaged \$117 million per month during the first quarter of 1998.*

— 1999 first quarter revenues by month —



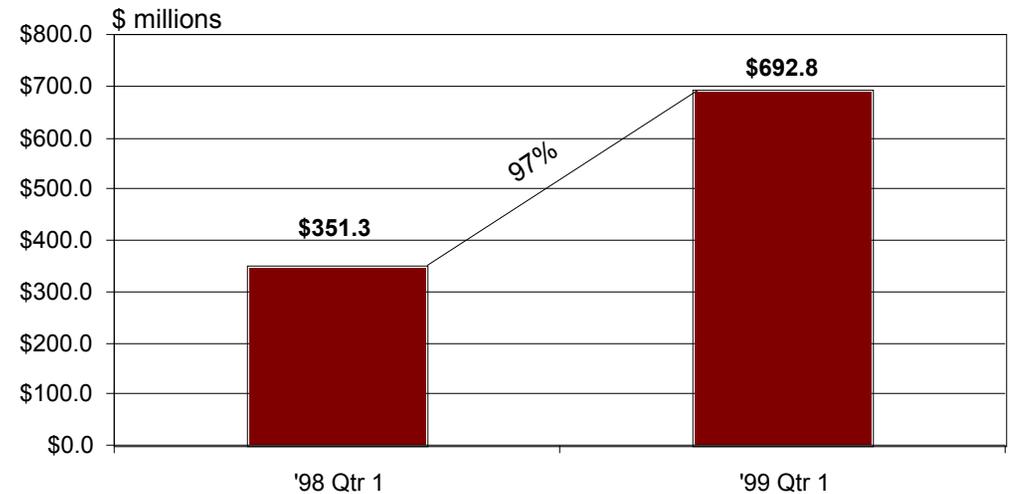
— historical first quarter revenues by month —



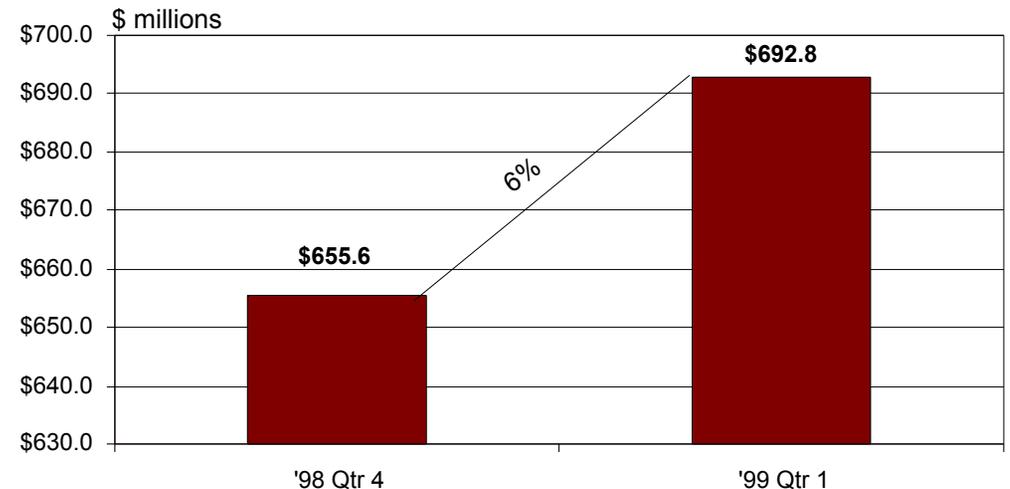
1999 First Quarter Revenues up \$342 Million or 97% Over 1998 First Quarter

- Total 1999 first-quarter revenues were \$342 million or 97 percent higher than the first quarter of 1998, and \$37 million or 6 percent higher than the fourth quarter of 1998.
- Companies with revenue growth in the 1999 first quarter averaged revenue increases of 20 percent from the previous fourth quarter, and outnumbered companies with revenue declines by five-fold.
- Conversely, companies where revenues fell during the 1999 first quarter, averaged revenue declines of 28 percent from the previous fourth quarter.

– 1999 Q1 vs 1998 Q1 revenues –



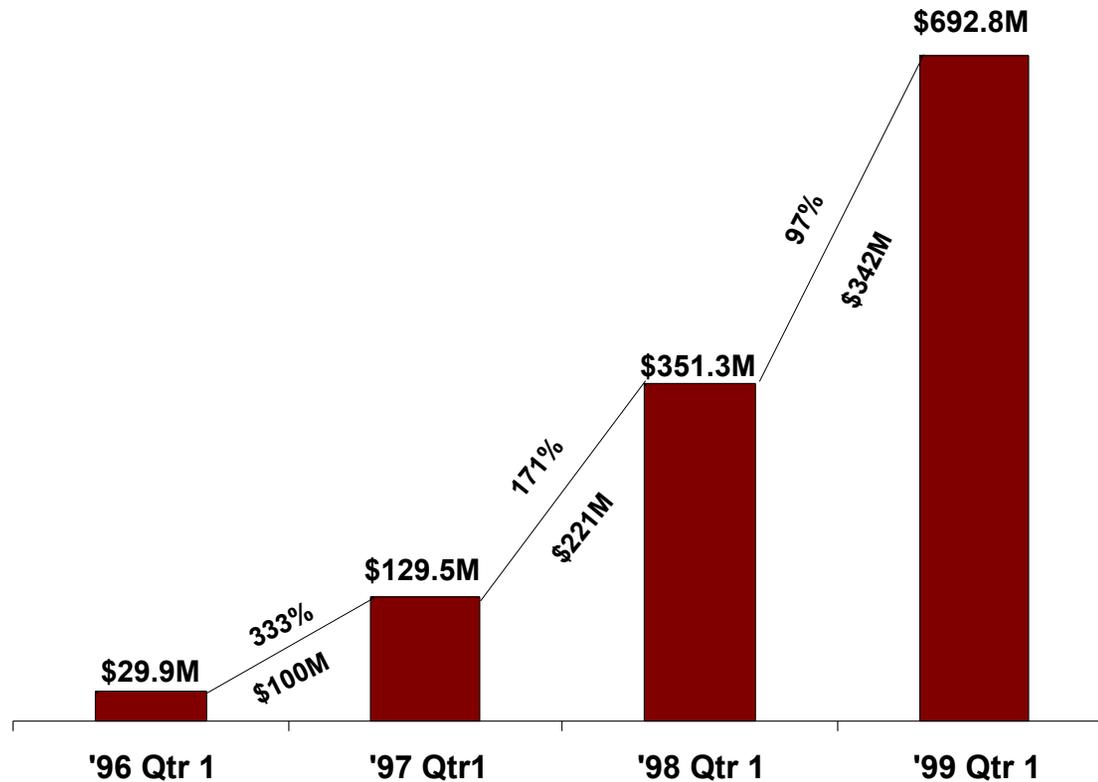
– 1999 Q1 vs 1998 Q4 revenues –



Historical First Quarter Revenue Trends

While inevitably decreasing on a percentage growth basis (i.e., law of large numbers), first quarter revenues have increased significantly on a year-over-year dollar basis during the past four years.

**First Quarter \$ Revenue Comparisons
- 1996 thru 1999 -**

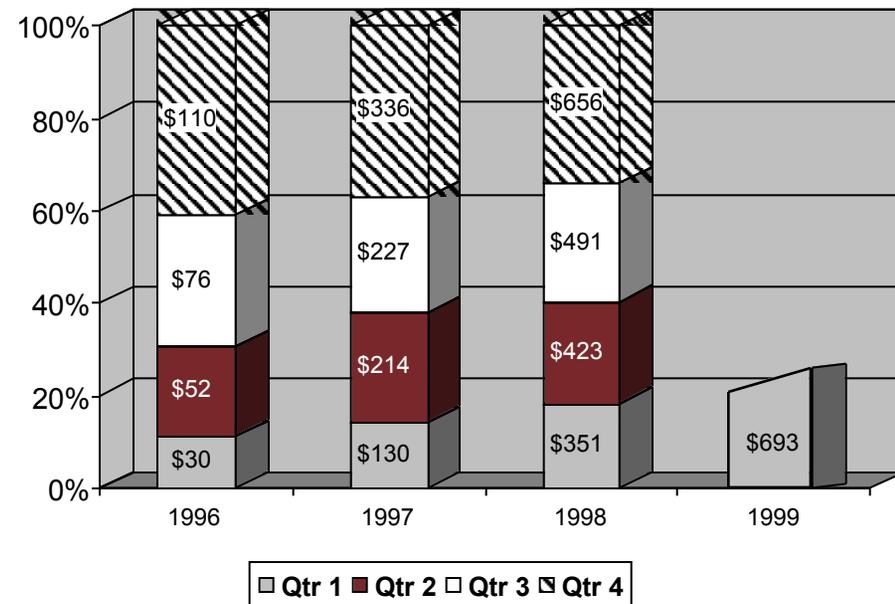


Revenues Experience Strongest Percentage Growth in Second and Fourth Quarters

Annual and Quarterly Revenue Growth Comparisons

	\$ Rev millions	Qtr / ...Qtr%	Year / Year Growth
1Q96	\$ 30	NA	
2Q96	\$ 52	74%	
3Q96	\$ 76	46%	
4Q96	\$ 110	45%	
Total 1996	\$ 267		
	\$ 130	18%	333%
1Q97	\$ 214	66%	313%
2Q97	\$ 227	6%	200%
3Q97	\$ 336	48%	205%
4Q97			
Total 1997	\$ 907		239%
	\$ 351	5%	171%
	\$ 423	20%	97%
1Q98	\$ 491	16%	116%
2Q98	\$ 656	34%	95%
3Q98			
4Q98	\$ 1,920		112%
Total 1998	\$ 693	6%	97%
1Q99			

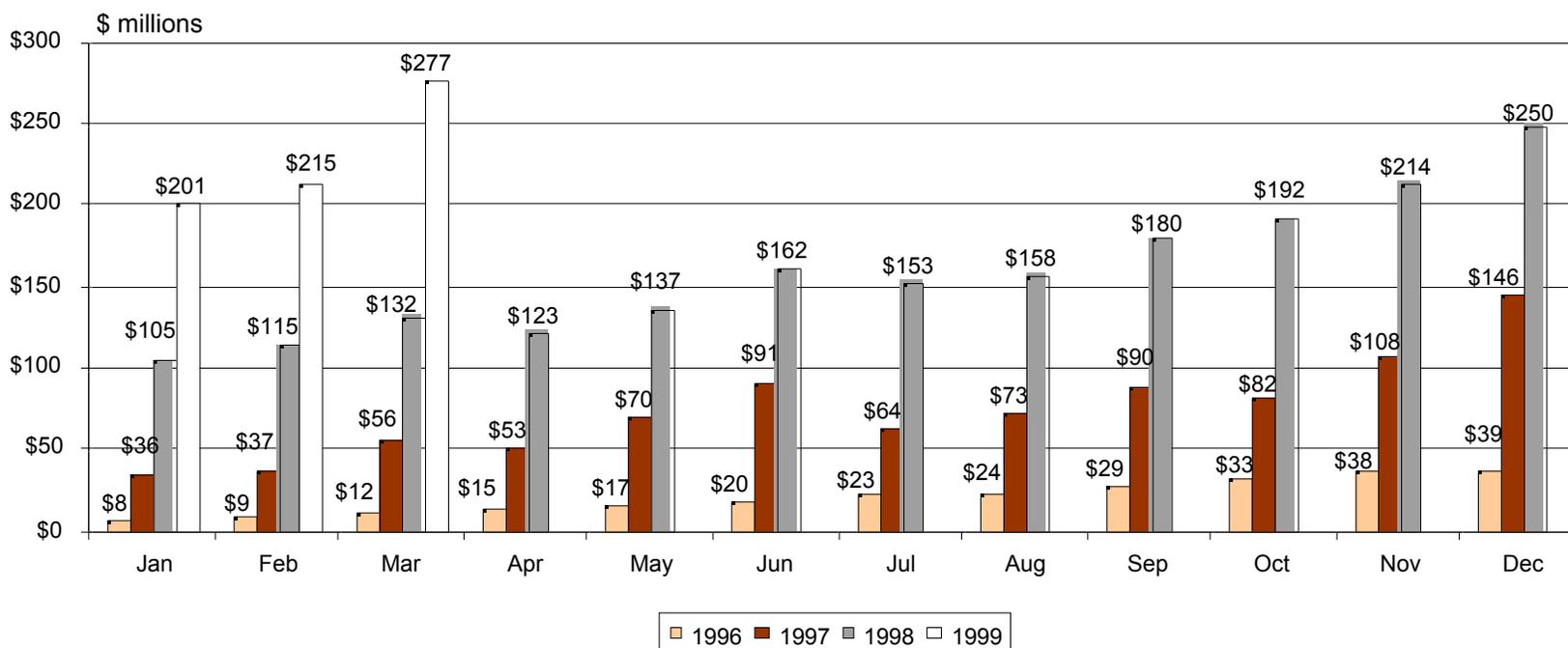
Quarterly Revenue Contributions



Monthly Revenues Continue to Post Significant Year-Over-Year Growth

- Monthly industry revenues averaged \$231 million during the first quarter of 1999.
- Revenues have averaged compound monthly growth of 7.0 percent between April 1998 and March 1999.
- Revenues totaled \$277 million for the month of March 1999, exceeding the revenue total for all of 1996 (\$267 million).

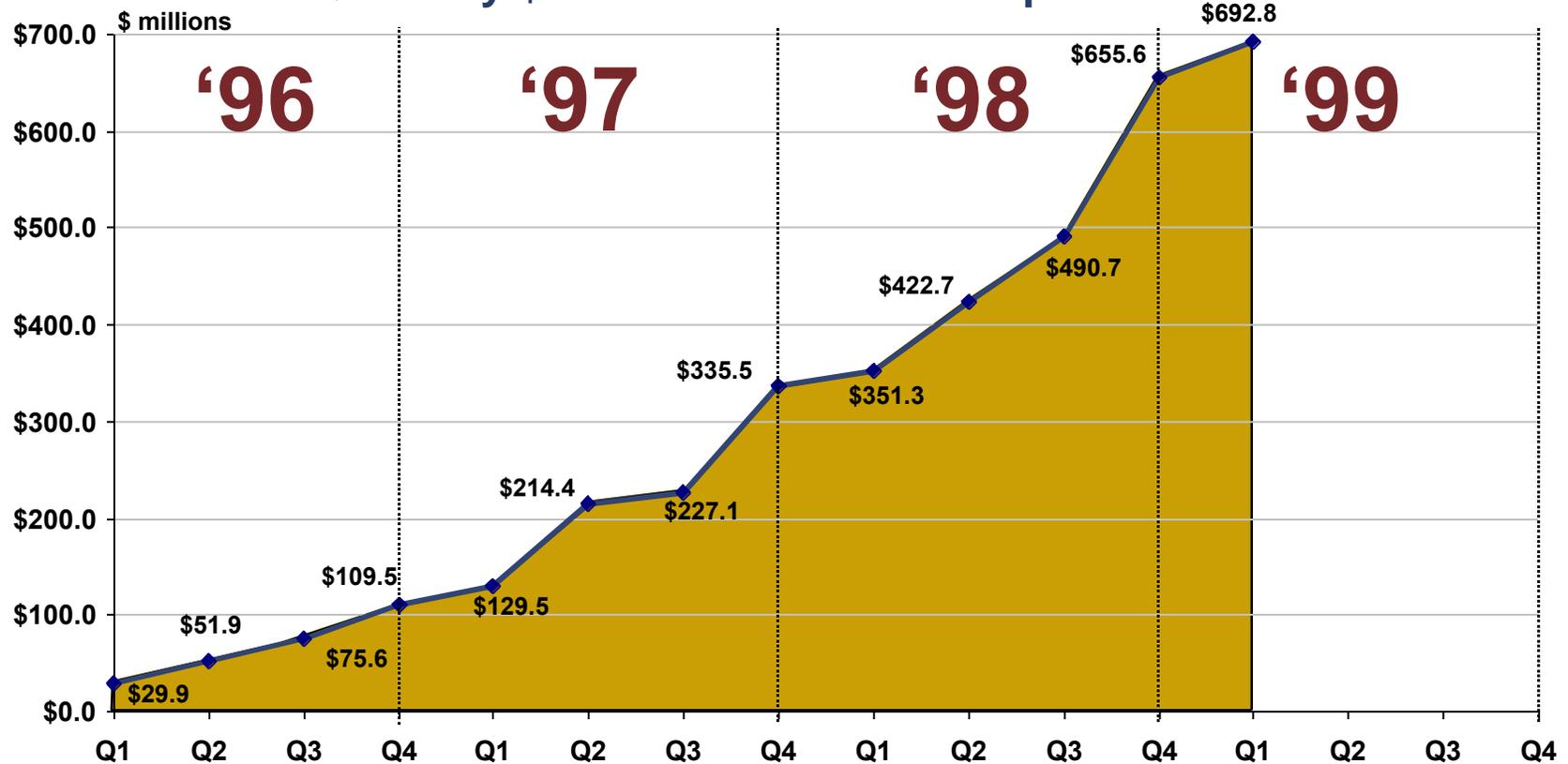
– Monthly \$ Revenue Growth Comparisons –



Revenues Continue to Exhibit Seasonality

- Quarterly industry revenues continue to exhibit a seasonal growth pattern during the first quarter of 1999 (e.g., strongest growth occurs during the second and fourth quarters, with the first and third quarters experiencing somewhat slower growth).
- The sheer growth and relative seasonal spending suggests the Internet is increasingly being factored into advertiser spending plans similar to print and broadcast media.

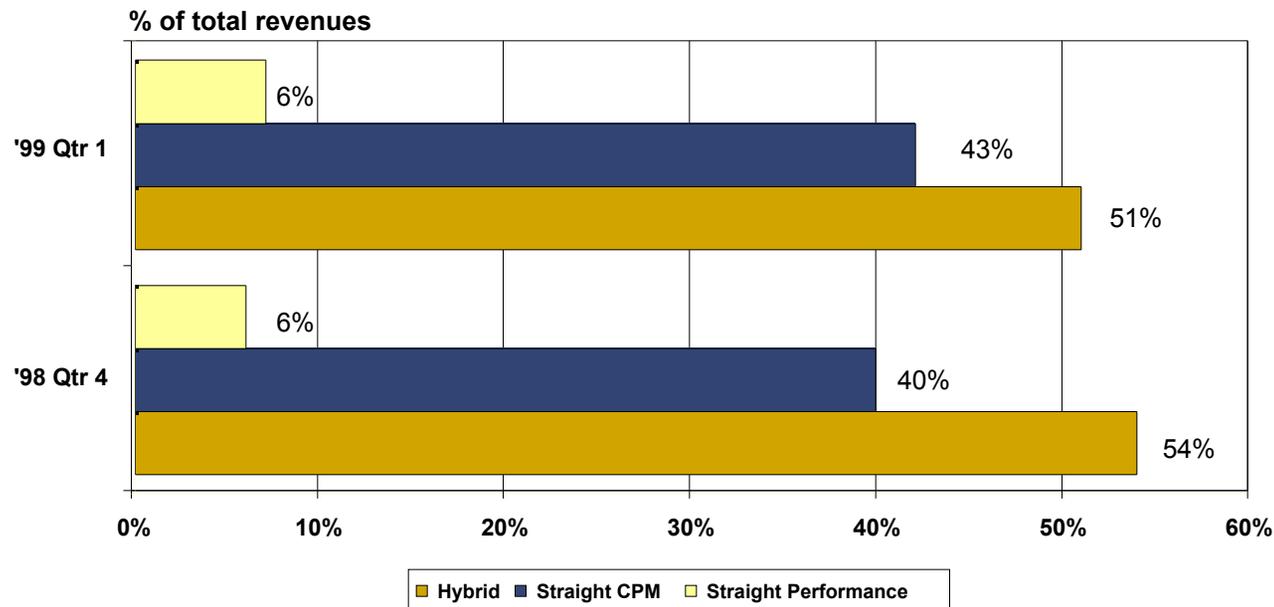
Quarterly \$ Revenue Growth Comparisons



Over Half of Internet Advertising Revenues are Consistently Being Priced on a Hybrid Basis

- Survey participants reported 51 percent of 1999 first-quarter revenues were priced on a hybrid basis (e.g., mix of impression-based pricing plus back-end revenue sharing), down slightly from 54 percent reported for the fourth quarter of 1998.
- Approximately 43 percent of 1999 first-quarter revenues were priced on a straight CPM or impression basis (includes sponsorships), up slightly from 40 percent reported for the fourth quarter of 1998.
- Six percent of 1999 first-quarter revenues were priced on a straight performance (e.g., cost-per-click, sale, lead or straight revenue share (% commission paid upon sale)) basis, no change from previous 1998 fourth quarter.

- Internet Ad Revenues by Pricing Model -



Revenues are Concentrated With Leading Publishers, Partly Reflecting Industry Consolidation

- *On-line advertising remains relatively concentrated at the top, with 10 leading publishers accounting for 75 percent of total advertising revenues in the first quarter of 1999, up from 71 percent reported for the fourth quarter of 1998.*
- *Trends in share of Internet advertising revenues suggest the strongest brands will continue to capture the largest percentage share of on-line advertising.*
- *The top 25 and top 50 publishers are also accounting for more of the total revenue share at 88 and 93 percent respectively.*
- *Increased revenue concentration partly reflects recent industry consolidation.*

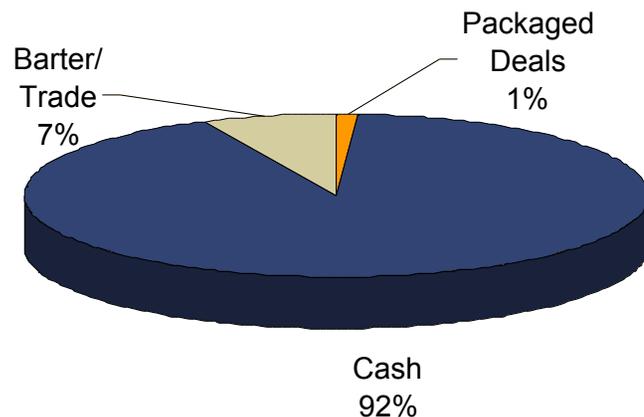
— total share of Internet advertising revenues —

	1997				1998				1999
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
10 publishers	63%	69%	69%	67%	64%	67%	70%	71%	75%
25 publishers	83%	86%	85%	76%	75%	80%	84%	86%	88%
50 publishers	93%	93%	91%	83%	79%	85%	91%	92%	93%

Cash Deals Remain the Dominant Transaction

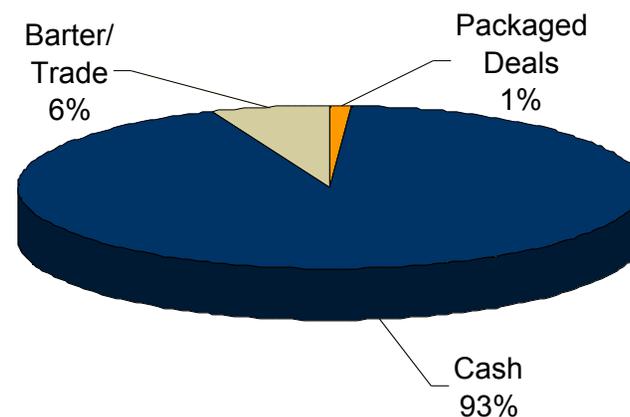
- *Approximately 92 percent of total advertising revenues generated in the first quarter of 1999 were reported as cash deals.*
- *Barter or trade deals accounted for 7 percent of Internet advertising revenues, while packaged deal allocations (e.g., portion of a media buy that may include other traditional media such as TV or radio or print) accounted for one percent of total 1999 first-quarter revenues.*
- *The actual volume of non-cash deals is likely higher than the dollar contribution indicates and, similar to other media transactions, the valuation of non-cash Internet advertising deals remains subjective.*

— % of 1999 first-quarter revenues —



total -- \$692.8 million

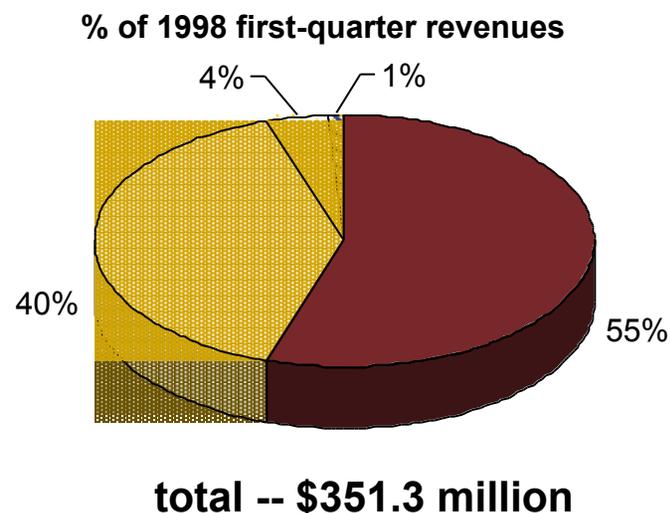
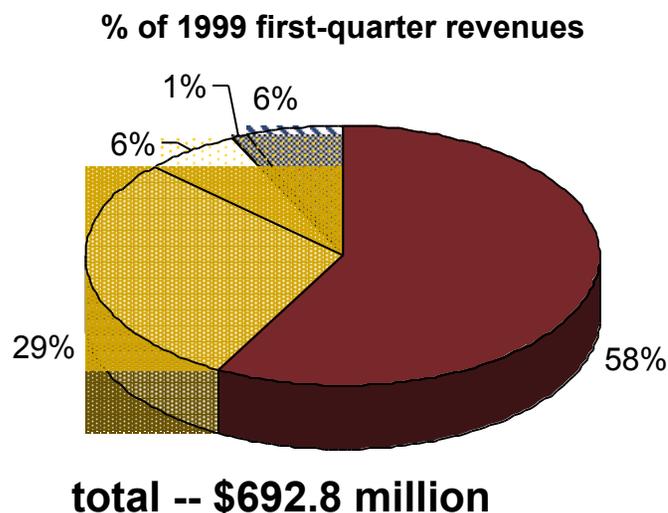
— % of 1998 fourth-quarter revenues —



total -- \$655.6 million

Banners and Sponsorships the Predominant Advertising Vehicles

- *Approximately 58 percent of total revenues were reported as ad banners during the first quarter of 1999, up slightly 55 percent reported in the first quarter of 1998.*
- *Content sponsorships generated 29 percent of revenues during the first quarter of 1999, down from the 40 percent reported for the first quarter of 1998.*
- *Interstitials accounted for six percent of total 1999 first-quarter revenues, up slightly from the four percent reported during the first quarter of 1998.*
- *E-mail (introduced in 1998 Q4) accounted for one percent of 1999 first-quarter revenues. The other category accounted for six percent of 1999 first-quarter revenues.*

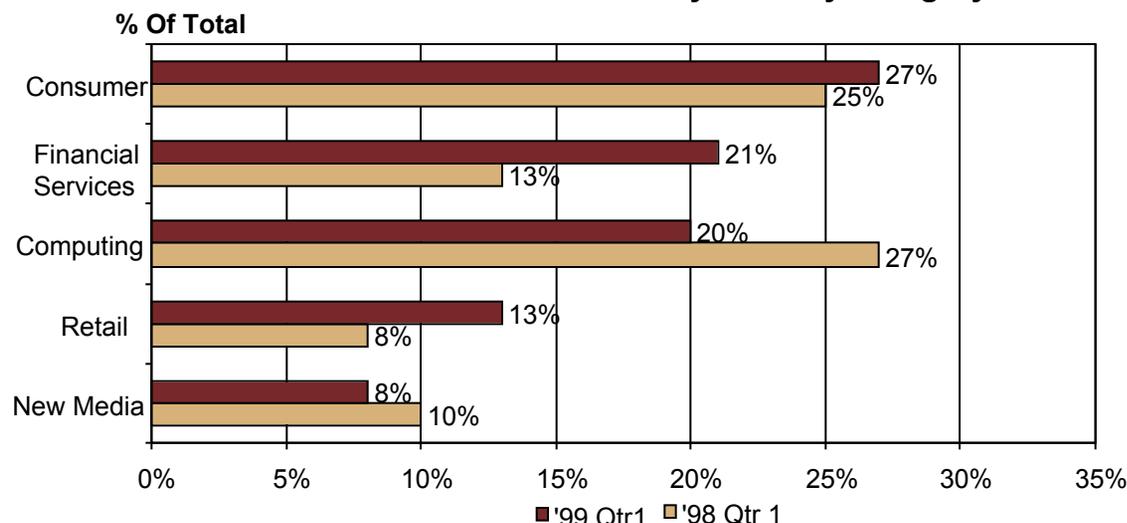


*Note: content sponsorships, including co-branded content, are often offered in combination with a banner rotation package.

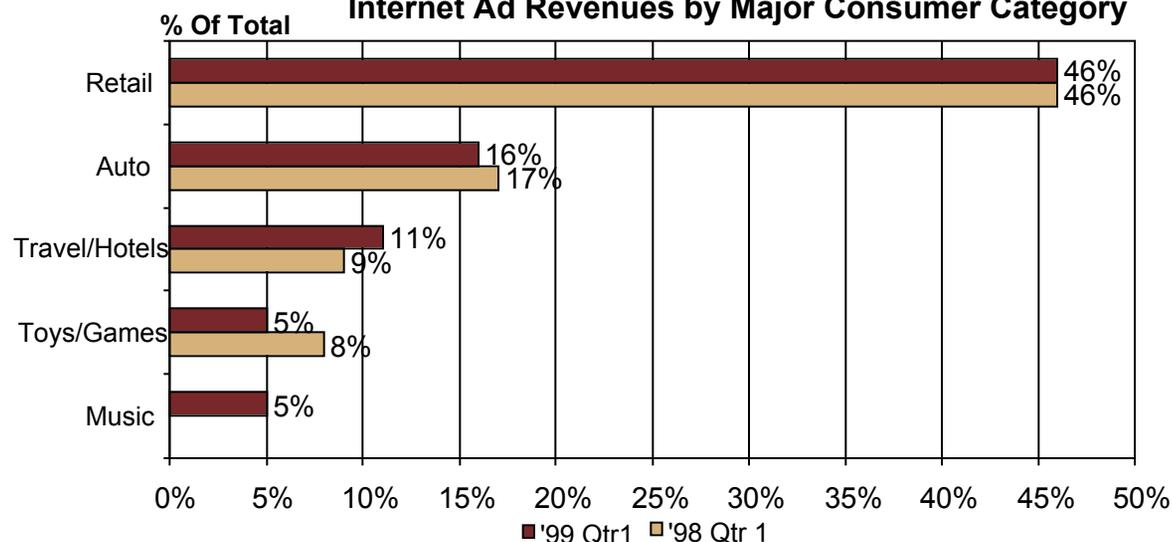
Five Industry Sectors Account for the Majority of Internet Advertising Revenues

- Consumer advertisers represented the largest category of spending, accounting for 27 percent of 1999 first-quarter revenues, up from 25 percent reported in the first quarter of 1998.
- Financial services companies represented the second-largest category, accounting for 21 percent of 1999 first-quarter revenues, up from 13 percent reported in the first quarter of 1998.
- Computing advertisers represented the third-largest category of spending at 20 percent of 1999 first-quarter revenues, down from 27 percent reported in the first quarter of 1998.
- Retail companies contributed 13 percent of 1999 first-quarter revenues, up from 8 percent reported for the first quarter of 1998, and represented the largest category of consumer-led advertisers, accounting for 46 percent of the consumer category during the first quarters of 1999 and 1998 respectively.

– Internet Ad Revenues by Industry Category –

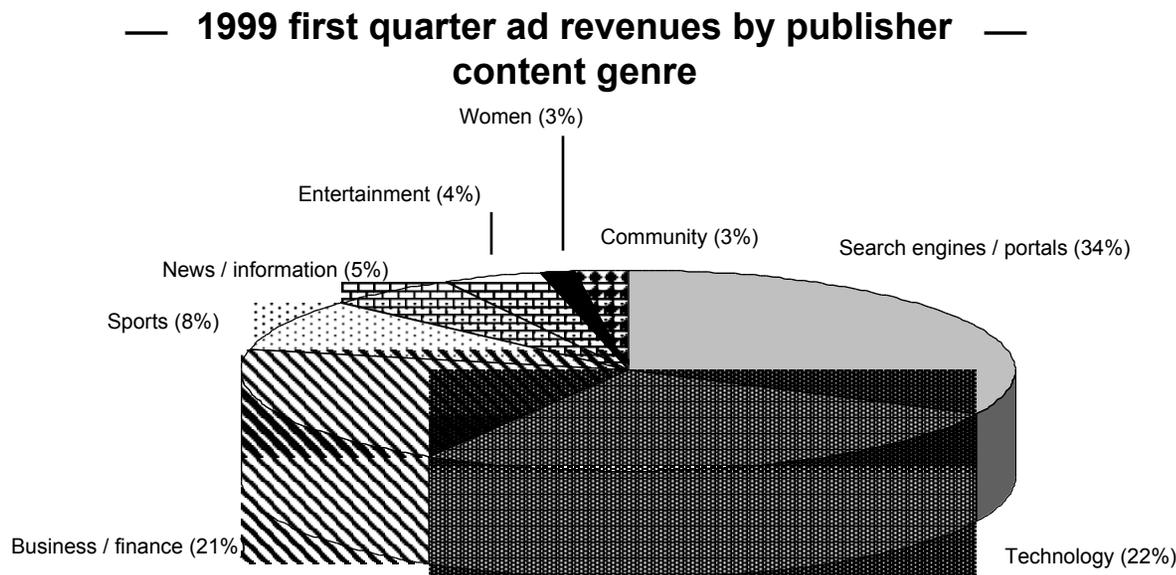


Internet Ad Revenues by Major Consumer Category



Search Engines, Technology and Business / Financial were the Leading Content Genre in 1999 First Quarter

- Survey participants reported 34 percent of total 1998 first-quarter advertising revenues were associated with search engine / portal content, compared to 35 percent during the 1998 fourth quarter.
- Technology-related content represented the second-largest category of publisher advertising revenues at 22 percent of 1998 first-quarter on-line advertising revenues, unchanged from 1998 fourth quarter.
- Business / financial-related content rounded out the top three content categories at 21 percent of 1999 first-quarter revenues, up slightly from 20 percent reported for 1998 fourth quarter.
- Sports (8% of 1999 first-quarter revenues), news / information (5%), entertainment (4%) and women (3%) and community (3%) round out the top categories of leading content genre.



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*.

Definitions

- **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.
- **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.
- **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.
- **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).
- **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.

-- survey industry categories --

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

* Survey participants reported results based on the 42 separate industry categories listed above, 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 several individual categories under "Consumer Related."

Scope and Methodology

The Internet 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 designed 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 are to:*
 - *obtain historical data directly from companies generating Internet/on-line advertising revenues*
 - *make the survey as inclusive as possible, encompassing all forms of Internet/on-line publishing, including Web sites, consumer on-line services and e-mail providers, and*
 - *ensure and maintain a confidential approach, only releasing aggregate data.*

Methodology

- *The Survey team:*
 - *compiles a database of industry participants with Internet/on-line advertising revenues averaging \$5,000 or more per month*
 - *conducts a quantitative mailing survey with leading industry players, including Web publishers, commercial on-line service providers, push technologies and e-mail providers*
 - *requests and compiles several specific data items, including monthly gross commissionable advertising revenue by industry category and transaction (revenues include cash, barter or trade, and packaged deal allocations)*
 - *identifies non-participating companies and apply a conservative revenue estimate based on public sources*
 - *analyzes the findings and identifies key trends.*

Overall Report Guidance Provided by IAB Leadership

IAB Officers

- Chair Rich LeFurgy LeFurgy.com
- Vice Chair Richy Glassberg Phase2Media
- Co-Treasurers Molly Ford America on-line
- Jed Savage Microsoft
- Scott Schiller Buena Vista Internet Group
- Secretary Kate Everett-Thorp Lot21

IAB Board

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- CBS Sportsline USA Peter Horn
- CNET: The Computer Network Jason Fischel
- DoubleClick, Inc. Jonathan Shapiro
- Excite, Inc. Ken Wachtel
- Flycast Greg Stuart
- @Home Network Susan Bratton
- Modem Media.Poppe Tyson, Inc. John Nardone
- NetGravity Eddie Smith
- Onsale Debbie Pinkston
- The New York Times Electronic Media Chris Neimeth
- Turner Interactive David Beckman
- WinStar Interactive Bobbie Halfin
- WIRED Digital Rick Boyce
- Women.com Gina Garrubbo

Internet Advertising Bureau (IAB)

About the Internet Advertising Bureau

Founded in 1996, the IAB is the leading on-line advertising association with over 300 active members. Its activities include evaluating and recommending standards and practices, fielding research to document the effectiveness of the on-line medium and educating the advertising industry about the use of on-line advertising.

Current membership includes companies that are actively engaged in the sales of Internet advertising, with associate membership including companies that support advertising, -- interactive advertising agencies, measurement companies, research suppliers, technology suppliers, traffic companies and other organizations from related industries.

A global organization, the IAB has member countries including Canada, Belgium, France, Germany, Holland, Italy, Switzerland and the United Kingdom, and is currently developing membership countries in Asia and Latin America, as well as other countries in Europe. The IAB and the Internet Local Advertising & Commerce Association (ILAC) agreed to combine their organizations in July of 1998.

PricewaterhouseCoopers New Media Group



NEW MEDIA GROUP

PricewaterhouseCoopers (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 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:

- management consulting
- business assurance services
- Web advertising delivery auditing
- privacy attestation and consultation
- M&A assistance
- tax planning and compliance
- capital structuring
- employee benefits and executive compensation packages

PricewaterhouseCoopers 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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