

IAB Internet Advertising Revenue Report



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

1999 Second-Quarter Results
November 1999



Internet
Advertising
Bureau

Table of Contents

Background	1
Executive Summary	2
Detailed Findings	3
1999 Second-Quarter Results	
Annual, Quarterly and Monthly Trends	
Pricing	
Industry Concentration	
Deal Transactions	
Advertising Vehicles	
Industry Category Spending	
Consumer Industry Category Spending	
Publisher Content Genre	
Appendix	12
Survey Scope and Methodology	
Industry Definitions	
IAB Board Officers and Directors	
Organization Profiles	

Background

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 1,500 Web sites, in addition to other on-line 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, 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

Executive Summary

IAB Internet Advertising Revenue Report

1999 Second-Quarter Highlights

Internet/on-line advertising revenues (“revenues”) rose significantly in the second quarter of 1999, totaling \$934 million, \$512 million or 121 percent growth over the 1998 second-quarter total of \$423 million. Revenues totaled \$1.6 billion for the first six months of 1999, more than double the same period for 1998, and averaged over \$300 million per month during the second quarter of 1999. Based on historical trends to date, revenues are on pace to reach \$4 billion in 1999.

Several themes continue to characterize industry growth for 1999:

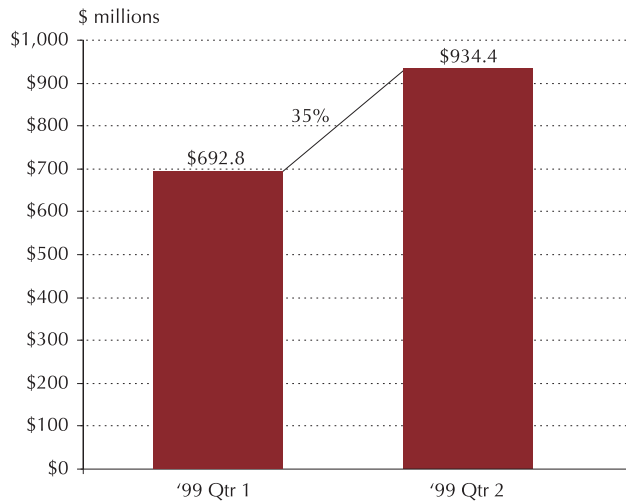
- ❖ **Continued confidence in the medium** – the sheer growth in revenues – from \$267 million in 1996 to nearly \$2 billion in 1998, and on pace to reach \$4.0 billion in 1999 – demonstrates the strength of the medium as it attracts increasingly larger portions of advertiser budgets.
- ❖ **Consumer advertisers leading the charge** – consumer brand advertisers are the leading industry category, accounting for 29 percent of total revenues during the second quarter of 1999, up from 27 percent reported in the first quarter of 1999, and 24 percent reported in second quarter of 1998. Retail and automotive advertisers accounted for more than two-thirds (68 percent) of the consumer advertising revenue reported for the second quarter of 1999.
- ❖ **Banners and sponsorships remain the predominant advertising vehicles** – ad banners and sponsorships accounted for a combined 87 percent of 1999 second-quarter revenues, down from 95 percent reported for the second quarter of 1998. Interstitials (4 percent of 1999 Q2 revenues), e-mail (1 percent) and “other” (8 percent; considered predominantly rich media advertising) represent the remaining categories.
- ❖ **Hybrid pricing continues to account for over half of industry revenues** – hybrid pricing (combination of impression-based pricing plus performance-based compensation) accounted for 52 percent of total revenues during the second quarter of 1999, up slightly from 51 percent reported in the first quarter of 1999. Revenues priced on a straight CPM or impression basis accounted for 41 percent of 1999 second-quarter revenues, while straight performance-based revenues contributed 7 percent of 1999 second-quarter revenues.
- ❖ **Internet advertising remains concentrated with leading publishers** – the 10 leading online publishers accounted for 75 percent of total 1999 second quarter revenues, the same as 1999 first quarter, and up from 67 percent reported for the second-quarter of 1998. The 25 and 50 leading publishers accounted for 86 percent and 90 percent of 1999 second-quarter revenues respectively.

Detailed Findings

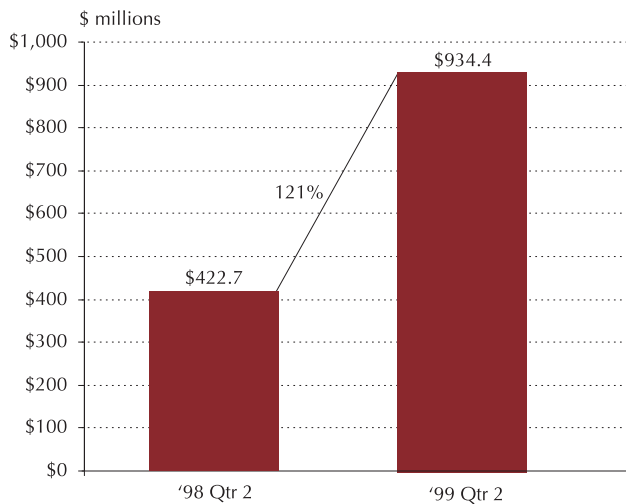
Internet/On-line Advertising Revenues Totaled \$934.4 Million for the Second Quarter of 1999

- ❖ On-line publishers reported aggregate revenues totaling \$934.4 million for the 1999 second quarter, marking the 13th consecutive quarterly increase since reporting for the first quarter of 1996.
- ❖ Total 1999 second-quarter revenues were \$242 million or 35% higher than the first quarter of 1999 and \$512 million or 121 percent higher than the second quarter of 1998.
- ❖ Revenues averaged \$311 million per month during the second quarter of 1999, up \$80 million from the previous 1999 first-quarter average of \$231 million.

1999 Q2 vs 1999 Q1



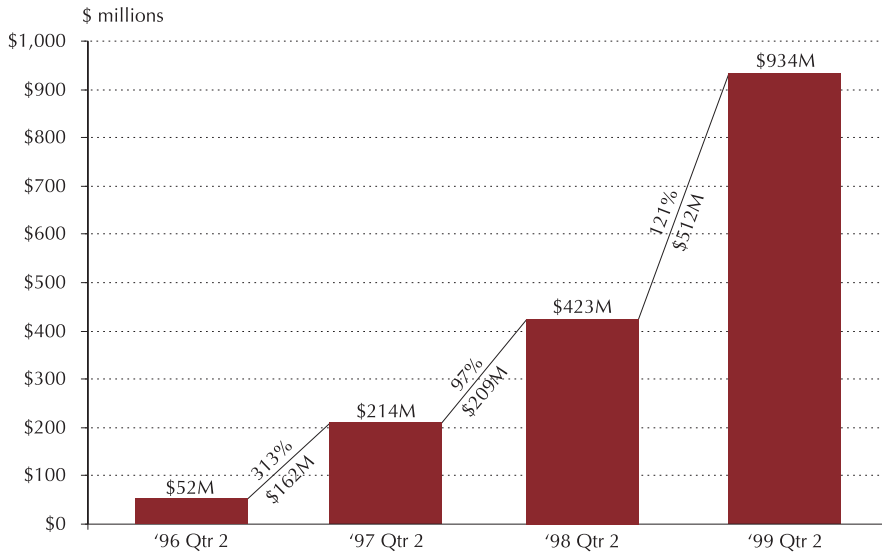
1999 Q2 vs 1998 Q2



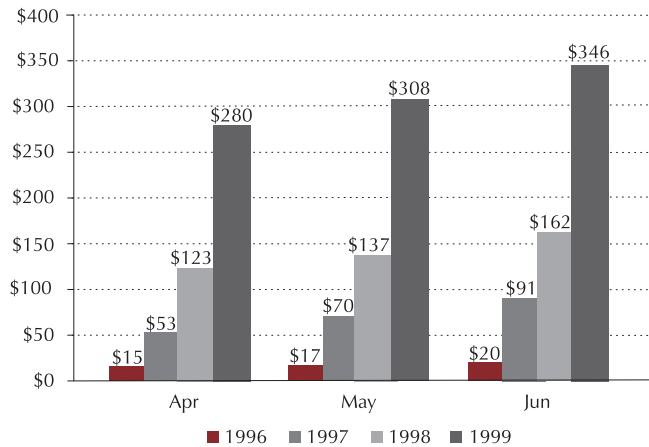
Historical Second-Quarter Revenue Trends

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

Second-Quarter \$ Revenue Comparisons – 1996 thru 1999



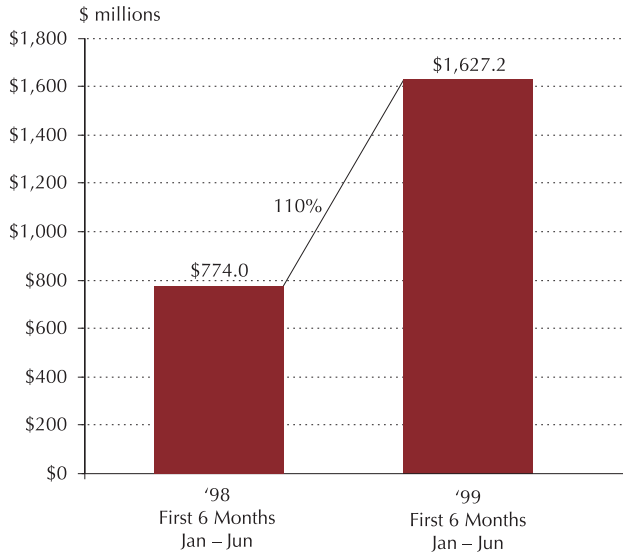
Second-Quarter Monthly \$ Revenue Comparisons – 1996 thru 1999



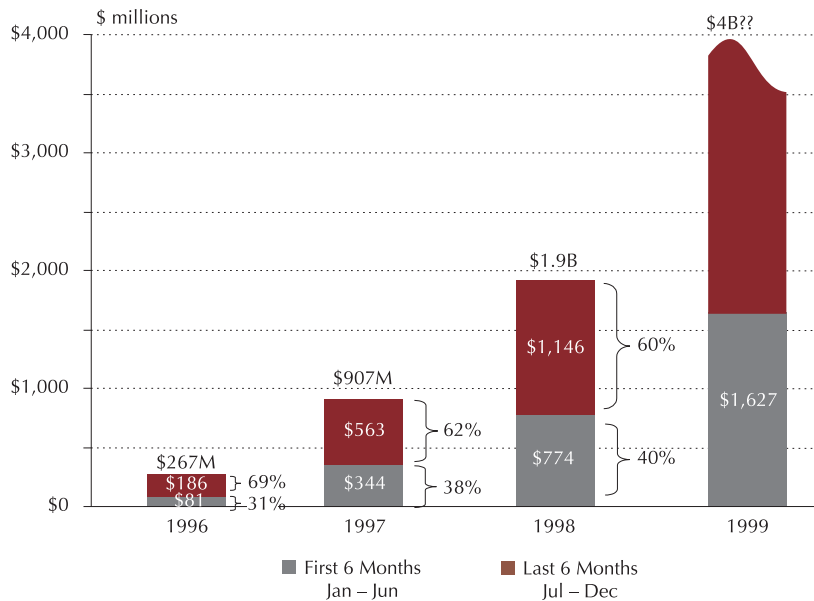
1999 First Six-Month Revenues Totaled \$1.6 Billion

- ❖ Six-month revenues through June 1999 totaled \$1.6 billion, \$853 million or 110 percent higher than the same six-month period for 1998.
- ❖ Revenues for the past four quarters (1998 Q3 – 1999 Q2) totaled \$2.8 billion.
- ❖ Using the seasonality data from prior years (1996 – 1998), 1999 year-to-date revenues of \$1.6 billion are on a \$4 billion annual run rate.

1999 First Six Months vs 1998 First Six Months



Six-Month Revenue Growth Comparisons

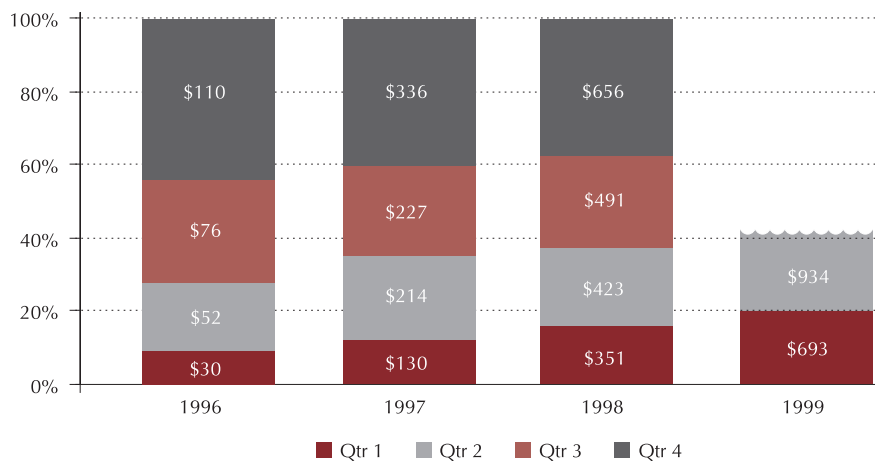


Revenues Experience the Strongest Percentage Growth in the Second and Fourth Quarters

Annual and Quarterly Revenue Growth Comparisons

	\$ Rev Millions	% Growth	
		Qtr/Qtr	Year/Year
1Q96	\$ 30	NA	
2Q96	\$ 52	74%	
3Q96	\$ 76	46%	
4Q96	\$ 110	45%	
Total 1996	\$ 267		
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%

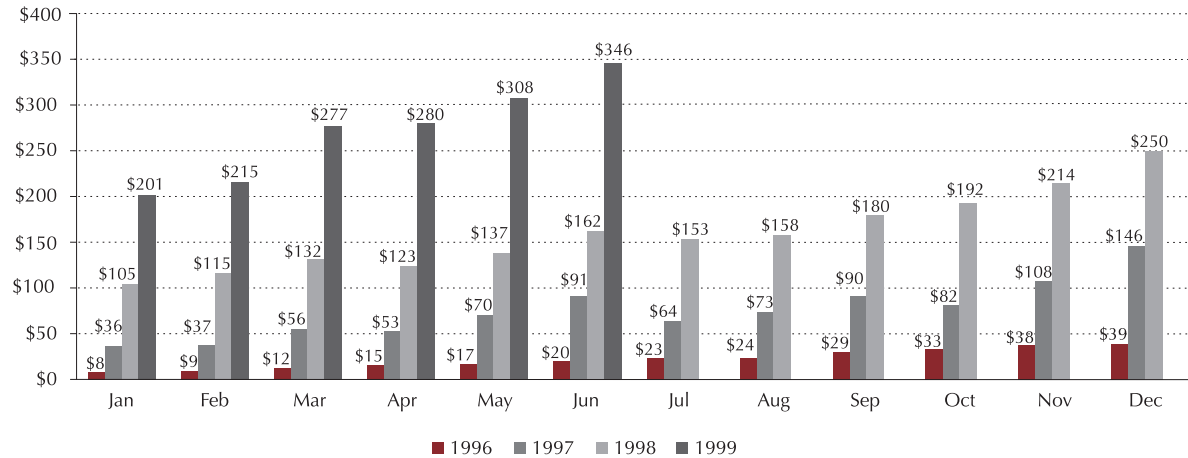
Quarterly Revenue Contributions



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

- ❖ Monthly industry revenues averaged \$311 million during the second quarter of 1999.
- ❖ Revenues have averaged compound monthly growth of 7 percent between July 1998 and June 1999.
- ❖ Revenues totaled \$346 million for the month of June 1999, exceeding the revenue total for all of 1996 (\$267 million) by 30 percent.

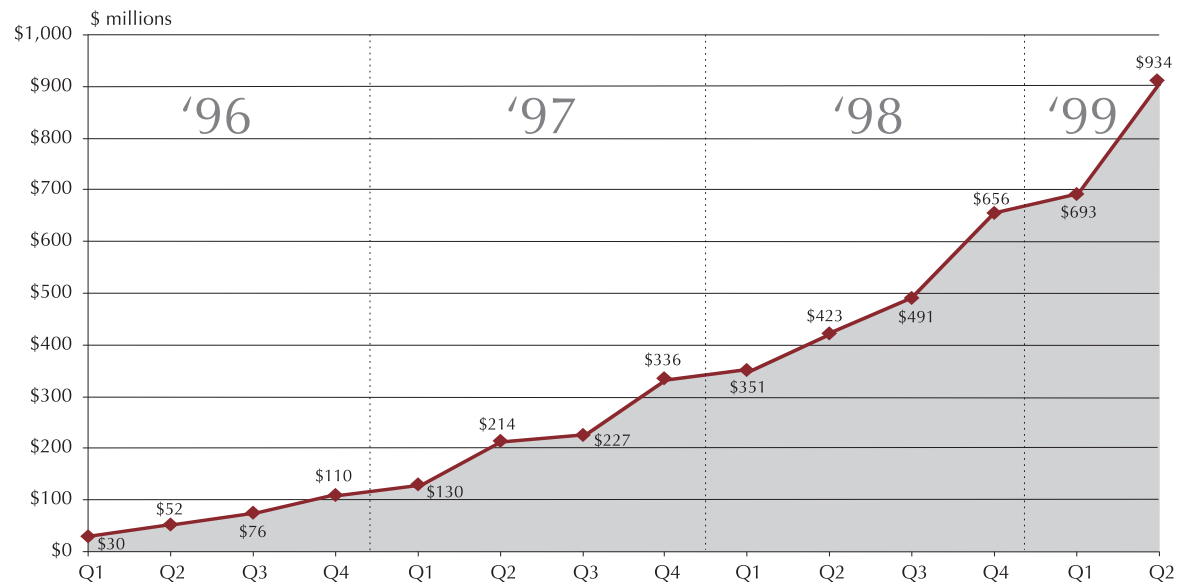
Monthly \$ Revenue Growth Comparisons



Revenues Continue to Exhibit Quarterly Seasonality

- ❖ Quarterly industry revenues continue to exhibit a seasonal growth pattern during the second 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.

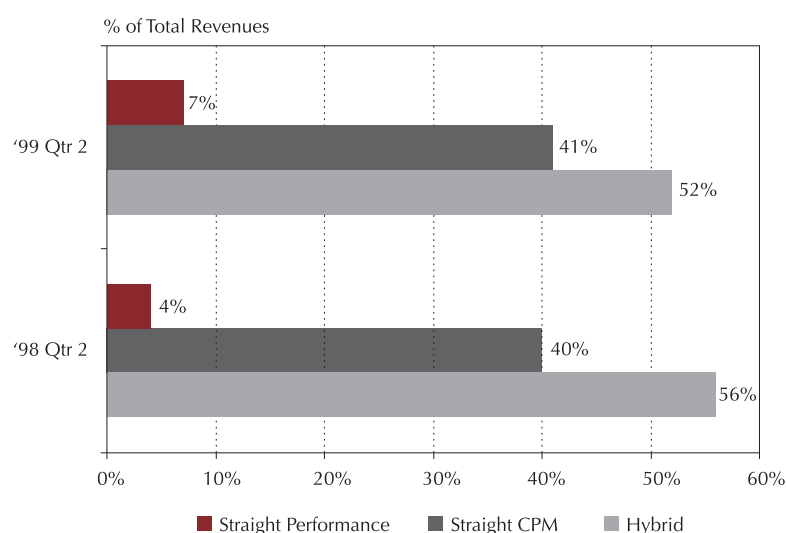
Quarterly \$ Revenue Growth Comparisons



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

- ❖ Survey participants reported 52 percent of 1999 second-quarter revenues were priced on a hybrid basis (e.g., mix of impression-based pricing plus performance-based compensation), down slightly from 56 percent reported for the second quarter of 1998.
- ❖ Approximately 41 percent of 1999 second-quarter revenues were priced on a straight CPM or impression basis (includes sponsorships), up slightly from 40 percent reported for the second quarter of 1998.
- ❖ Seven percent of 1999 second-quarter revenues were priced on a straight performance (e.g., cost-per-click, sale, lead or straight revenue share) basis, up from 4 percent reported for the 1998 second 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 revenues in the second quarter of 1999, up from 67 percent reported for the second 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 accounted for 86 and 90 percent of total 1999 second-quarter revenues respectively.
- ❖ Trends in increased revenue concentration partly reflect industry consolidation.

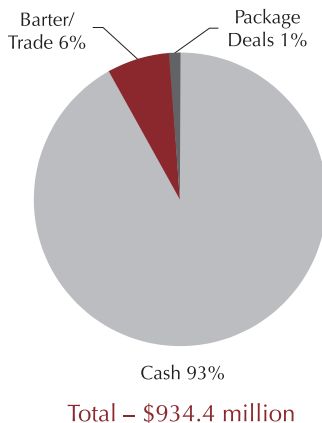
Total Share of Internet Advertising Revenues

	1997				1998				1999	
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
10 Publishers	63%	69%	69%	67%	64%	67%	70%	71%	75%	75%
25 Publishers	83%	86%	85%	76%	75%	80%	84%	86%	88%	86%
50 Publishers	93%	93%	91%	83%	79%	85%	91%	92%	93%	90%

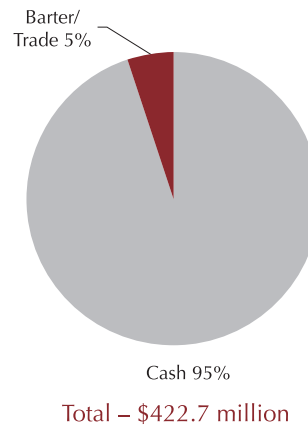
Cash Deals Remain the Dominant Transaction

- ❖ Approximately 93 percent of total advertising revenues generated in the second quarter of 1999 were reported as cash deals.
- ❖ Barter or trade deals accounted for 6 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 second-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 Second-Quarter Revenues



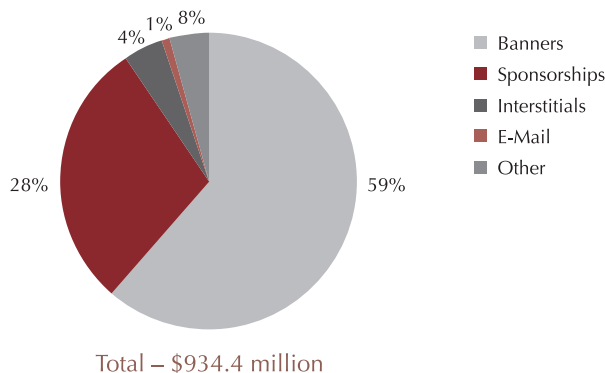
% of 1998 Second-Quarter Revenues



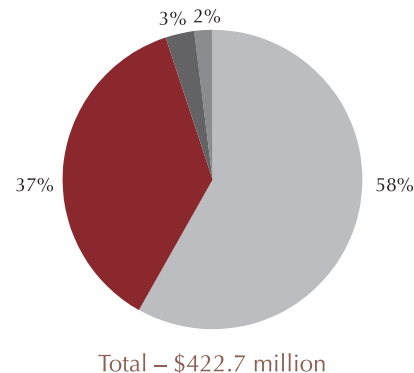
Banners and Sponsorships Remain the Predominant Advertising

- ❖ Approximately 59 percent of total revenues were reported as ad banners during the second quarter of 1999, up slightly from 58 percent reported in the second quarter of 1998.
- ❖ Content sponsorships generated 28 percent of revenues during the second quarter of 1999, down from the 37 percent reported for the second quarter of 1998.
- ❖ Interstitials accounted for four percent of total 1999 second-quarter revenues, up slightly from the three percent reported during the second quarter of 1998.
- ❖ E-mail (introduced in 1998 Q4) accounted for one percent of 1999 second-quarter revenues. The Other category accounted for eight percent of 1999 second-quarter revenues.

% of 1999 Second-Quarter Revenues



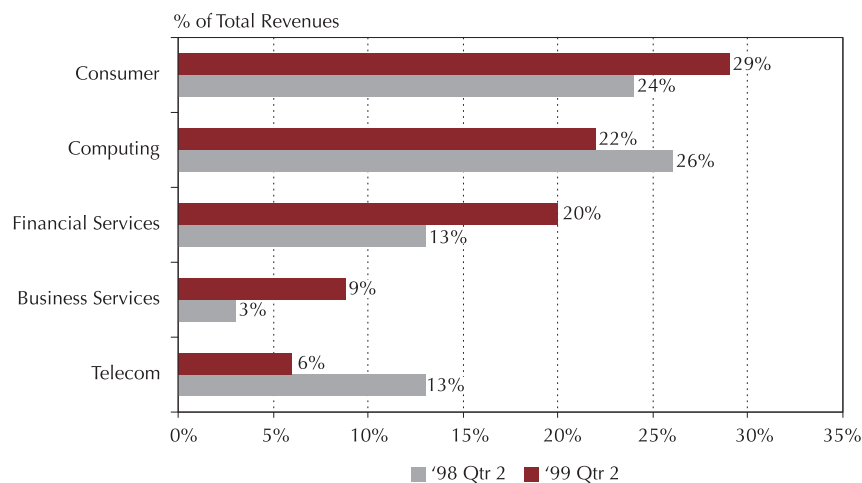
% of 1998 Second-Quarter Revenues



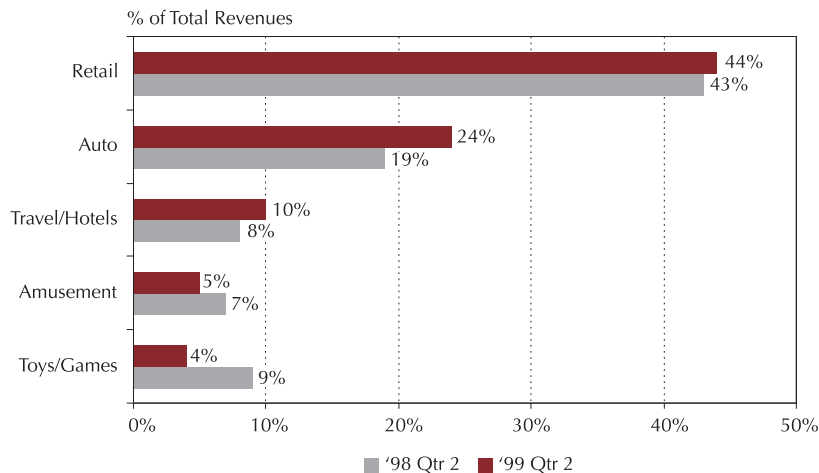
Five Industry Sectors Account for the Majority of Internet Advertising Revenues

- ❖ Consumer advertisers represented the largest category of spending, accounting for 29 percent of 1999 second-quarter revenues, up from 24 percent reported in the second quarter of 1998.
- ❖ Computing advertisers represented the second-largest category of spending at 22 percent of 1999 second-quarter revenues, down from 26 percent reported in the second quarter of 1998.
- ❖ Financial services companies represented the third-largest category, accounting for 20 percent of 1999 second-quarter revenues, up from 13 percent reported in the second quarter of 1998.
- ❖ Business services companies contributed 9 percent of 1999 second-quarter revenues, up from 3 percent reported for the second-quarter of 1998, while Telecom companies accounted for 6 percent of 1999 second-quarter revenues, down from 13 percent reported for the second quarter of 1998.
- ❖ Retail and Automotive companies accounted for more than two thirds (68%) of 1999 second-quarter consumer-related revenues, followed by Travel/Hotels at 10 percent, Amusement at 5 percent and Toys/Games at 4 percent.

Internet Ad Revenues by Industry Category



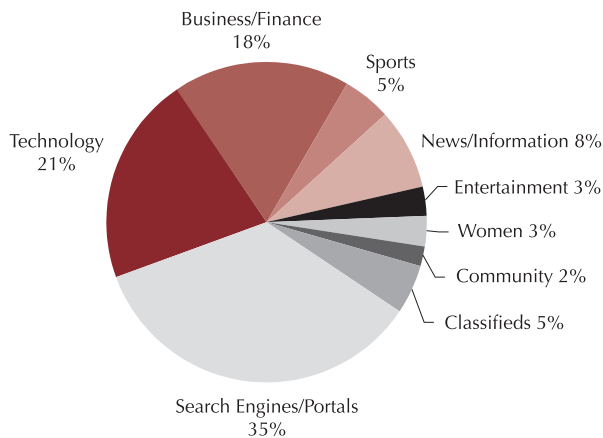
Internet Ad Revenues by Major Consumer Category



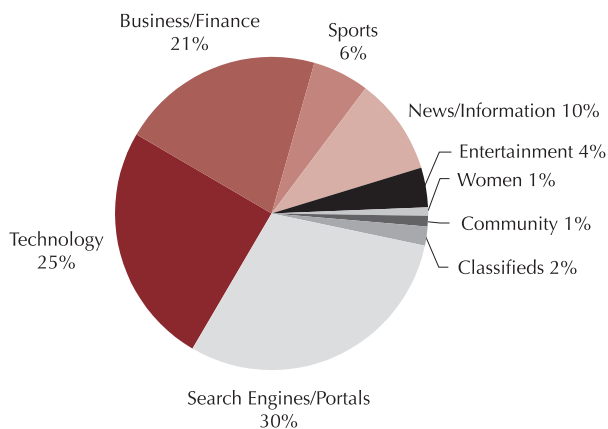
Search Engines, Technology and Business/Financial were the Leading Content Genre in 1999 Second Quarter

- ❖ Survey participants reported 35 percent of total 1999 second-quarter revenues were associated with search engine/portal content, compared to 30 percent reported for the 1998 second quarter.
- ❖ Technology-related content represented the second-largest category of publisher advertising revenues at 21 percent of 1999 second-quarter revenues, down from 25 percent reported for the 1998 second quarter.
- ❖ Business/financial-related content rounded out the top three content categories at 18 percent of 1999 second-quarter revenues, down slightly from 21 percent reported for 1998 second quarter.
- ❖ News/information (8% of 1999 second-quarter revenues), sports (5%), classifieds (5%), entertainment (3%), women (3%) and community (2%) round out the top categories of leading content genre.

1999 Second-Quarter Ad Revenues by Publisher Content Genre



1998 Second-Quarter Ad Revenues by Publisher 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*.

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 – Establishments primarily engaged in rendering services to business establishments on a contract or fee basis, such as advertising, credit reporting, collection of claims, mailing, reproduction, stenographic, news syndicates, photocopying, duplicating, data processing, services to buildings, and help supply services, in addition to engineering, accounting, research, management and related 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).

**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 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 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 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 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, and e-mail providers.
 - 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.

Overall Report Guidance Provided by IAB Leadership

IAB Officers

Chair	Rich LeFurgy	LeFurgy.com, Walden Media
Vice Chair	Richy Glassberg	Phase2Media
Co-Treasurers	Molly Ford	America Online
	Jed Savage	MSN Networks
	Scott Schiller	Buena Vista Internet Group
Secretary	Kate Everett-Thorp	Lot21 Interactive

IAB Board

Buena Vista Internet Group	Scott Schiller
CBS Sportsline USA	Mark Mariani
Classified Ventures	Kevin Granath
CNET, Inc.	Jason Fischel
DoubleClick, Inc.	Jonathan Shapiro
Excite@Home	Susan Bratton
Flycast Communications, Inc.	Greg Stuart
LeFurgy.com, Walden Media	Rich LeFurgy
Modem Media.Poppe Tyson, Inc.	John Nardone
MSN Networks	Jed Savage
Onsale	Debbie Pinkston
Phase2Media	Richy Glassberg
Times Company Digital	Chris Neimeth
WinStar Interactive	Bobbie Halfin
Women.com Networks	Gina Garrubbo

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 sale 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

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 audience measurement auditing
- ❖ Web advertising delivery auditing
- ❖ Privacy policy structuring, attestation and compliance
- ❖ M&A assistance
- ❖ Tax planning and compliance
- ❖ Capital sourcing and IPO assistance
- ❖ 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.

For information about our New Media Group, contact one of the following PricewaterhouseCoopers professionals:

New York

Tom Hyland
Partner, New Media Group Chair
212-259-2404
thomas.e.hyland@us.pwcglobal.com

Pete Petrusky
New Media Group Director
212-259-3309
peter.petrusky@us.pwcglobal.com

Russ Sapienza
Partner-In-Charge, Risk Management
212-259-1517
russell.j.sapienza@us.pwcglobal.com

Boston

Vic Petri
Partner, Business Assurance
617-478-1698
victor.petri@us.pwcglobal.com

Los Angeles

Phil Cross
Partner, Business Assurance
213-356-6491
philip.m.cross@us.pwcglobal.com

Seattle

Gregory Bailes
Partner, Business Assurance
206-398-3005
gregory.l.bailes@us.pwcglobal.com