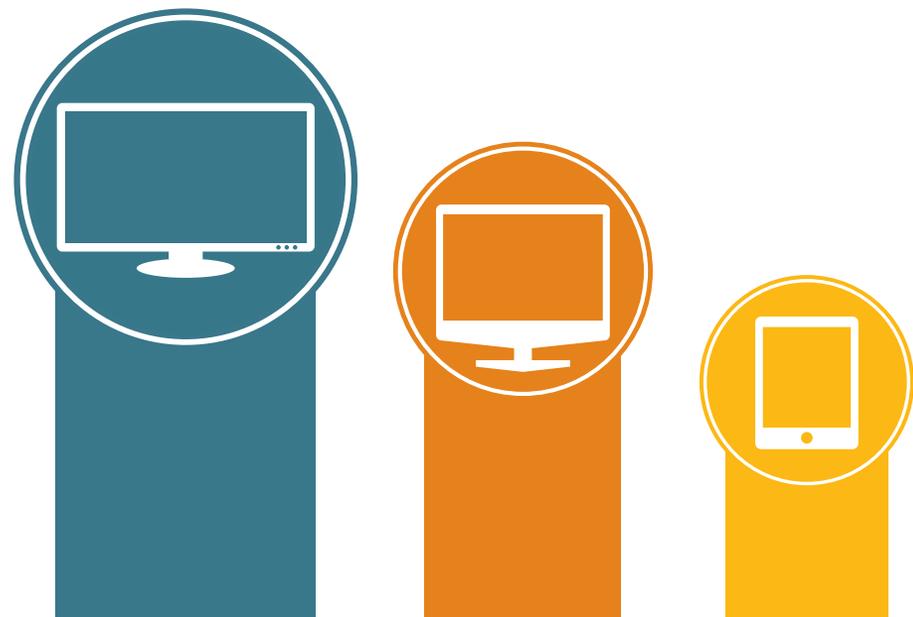


VIDEO MONETIZATION REPORT Q4 2014



FreeWheel

Executive Summary

The Viewers Are Here

Digital video's impressive growth this quarter was headlined by the crown jewels of the TV industry: first-run shows and live events. With considerable growth in both the digital monetization of the Broadcast networks' Fall programming and live streaming, there is ample evidence to indicate that the TV ecosystem is expanding and becoming screen-agnostic.

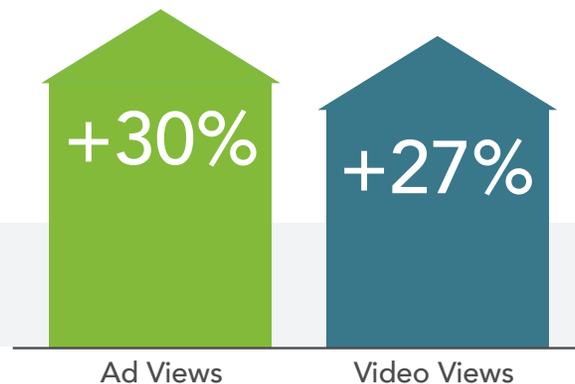
Tracking the TV ecosystem these days, it seems as though every other headline heralds doom and gloom. Between near-constant reports of disruptive market entrants, ratings declines, new generations eschewing

their TV sets as well as piracy and other "bad actors," it could easily be perceived that the barbarians are truly at the gates. When analyzing premium digital video monetization in Q4 2014, however, we see a very different story.

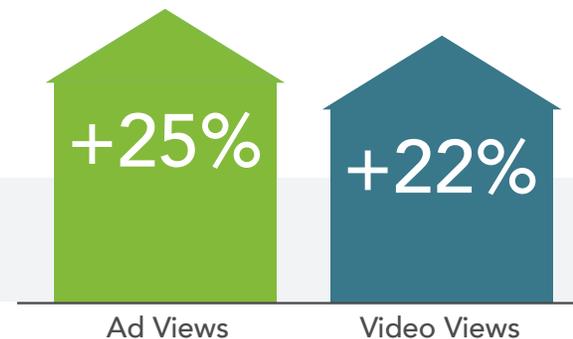
"Broadcasters' Fall TV shows saw a 67% growth in video ad views from last year."

Not only did this quarter cap off a full year of 30% and 27% growth in ad and video views respectively [see chart 1], Publishers also succeeded in drawing audiences to their most premium content. Bringing a heady mix of excitement

1 Ad and Video View Growth
Full Year 2014 vs. Full Year 2013



2 Ad and Video View Growth
Q4 2014 vs. Q4 2013



and relief to traditional Programmers was the resounding popularity that new seasons of shows had online: Broadcasters' Fall TV shows saw a 67% growth in video ad views from last year*.

In addition to brand new episodes, this quarter saw 297% growth in ad views from last year and yet another record for live viewing. Thanks to must-watch live and linear catch-up offerings, this quarter also proved to be significant for TV Everywhere: authenticated viewing grew 591% from this same quarter last year, now accounting for 56% of long-form and live content monetization.

As viewers increasingly flock to digital television for premium content, it is no surprise that devices tailor-made for such viewing have exploded in popularity. Following several quarters of triple-digit growth, over-the-top (OTT) streaming devices overtook tablets this quarter, accounting for 8% of content monetization.

Viewers overwhelmingly use these devices in their living rooms, replicating the traditional TV viewing experience. In fact, 91% of video ad views on OTT devices came on long-form and live content.

“Digital video’s growth is driven by ultra-premium content, and the health of the TV industry can no longer be determined solely by linear GRPs.”

While consistent growth of digital video monetization is impressive in and of itself, what truly caught the eye this quarter was the expansion of the TV ecosystem, thus confirming the fact that digital video’s growth is driven by ultra-premium content, and the health of the TV industry can no longer be determined solely by linear GRPs.



Over-the-top (OTT) streaming devices overtook tablets in Q4, accounting for 8% of content monetization.



23% of Programmer ad views were on live content and 83% of live ad views came from Sports.



Authenticated viewing grew 591%, accounting for 56% of long-form and live monetization.

Content

Building industry scale in premium digital video inventory ultimately depends on cultivating a diverse content mix between:

- Short-form (0-5 min.) | video clips, music videos, made-for-web content
- Mid-form (5-20 min.) | web series, extended clips, interviews
- Long-form (20+ min.) | linear TV shows, live streams, feature films, sporting events

3 Ad View Growth by Content Duration

Q4 2014 vs. Q4 2013



Going Long

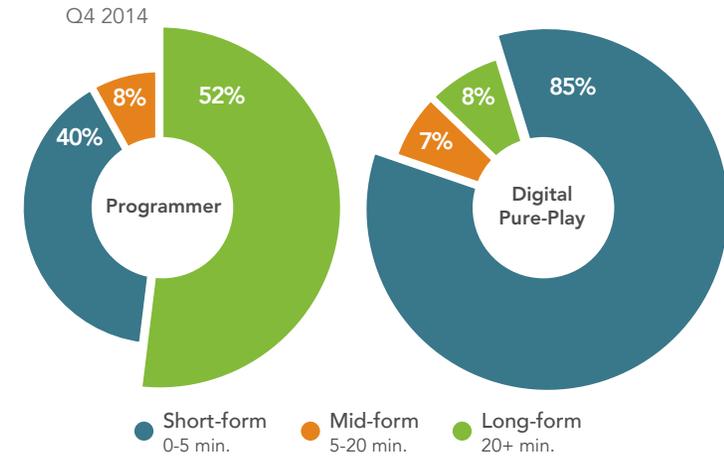
This quarter, we saw a 43% increase in video ad views on long-form content year-over-year [see chart 3]. This strong growth continues a trend we have observed over multiple quarters as viewers replicate the TV experience in the new digital living room and outside the home. At the other end of the spectrum, Publishers successfully packaged bite-sized clips for digital platforms with video ad views growing 19% on short-form and mid-form content.



Long-form content accounted for 52% of Programmer video ad views this quarter [see chart 4]. While Digital Pure-Play volume is still very much driven by video clips and music videos (short-form videos accounted for 85% of their video ad views), long-form content is poised to increase share as digital-first Publishers make original content a strategic priority.

“Long-form content is poised to increase share as digital-first Publishers make original content a strategic priority.”

4 Ad Views by Content Duration

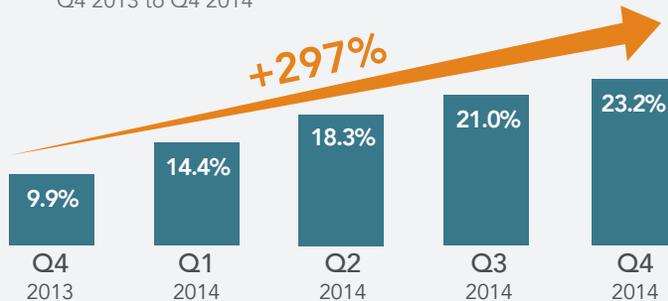


Keeping It Real-Time

Each successive quarter this year brought record volumes of live streaming, culminating with a 297% annual growth rate [see chart 5]. The strong volumes seen in Q2 and Q3, largely propelled by the World Cup, were eclipsed by events such as the College Football Bowl Season in Q4, as 23% of Programmer ad views were on live content and 83% of live ad views came from Sports [see chart 6].

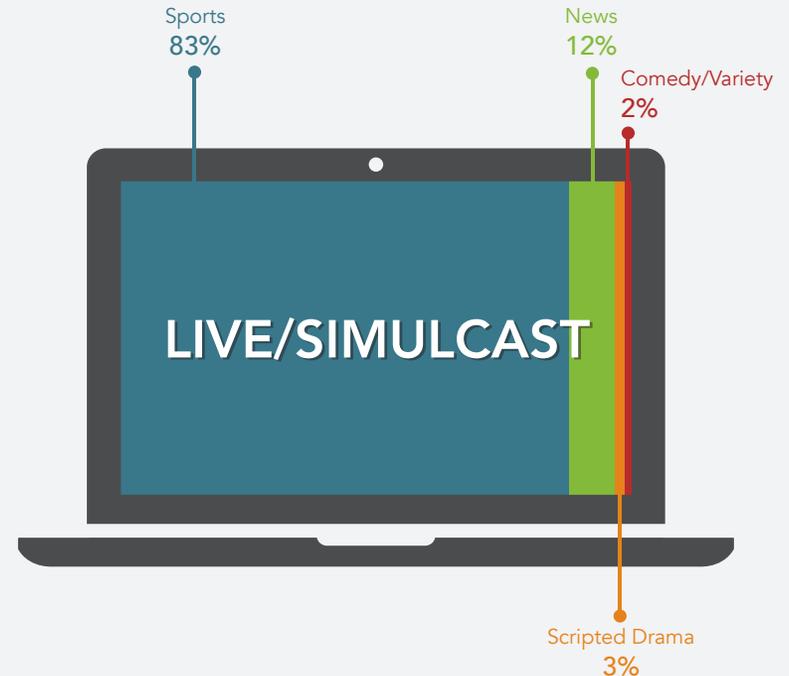
5 Live as Share of Ad Views | Programmers

Q4 2013 to Q4 2014



6 Ad View Share by Content Type | Live/Simulcast

Q4 2014



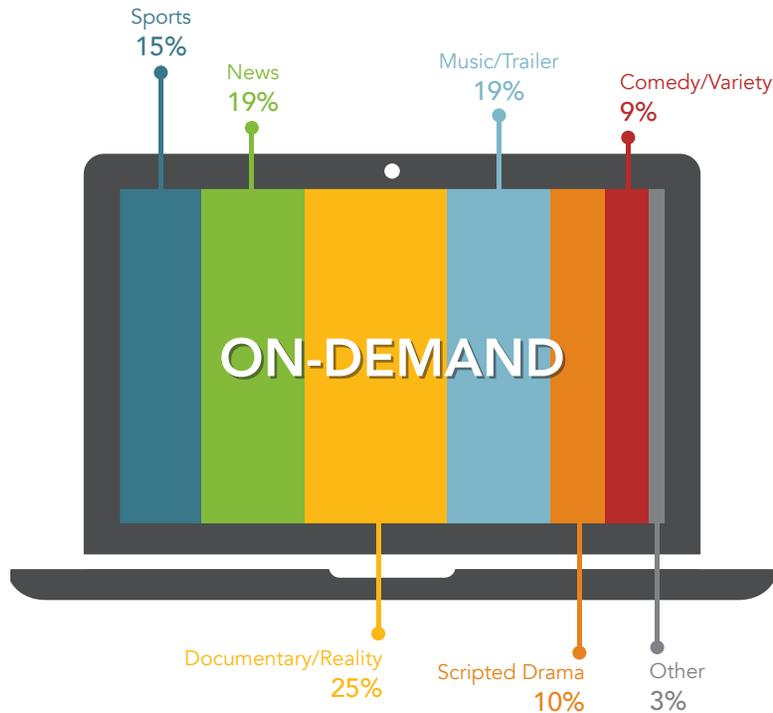
Live viewing serves a dual function for Programmers trying to expand their digital footprint. In addition to bringing enormous numbers of viewers to ultra-premium, high-CPM ad inventory, live sports have also been deployed as a “gateway drug,” hooking new adopters and indoctrinating digital viewing habits. Live events are also more likely than other digital video content to be viewed across device platforms and are used as an entry point for TV Everywhere offerings.

“Live events are... more likely than other digital video content to be viewed across device platforms.”



7 Ad View Share by Content Type | On-Demand

Q4 2014



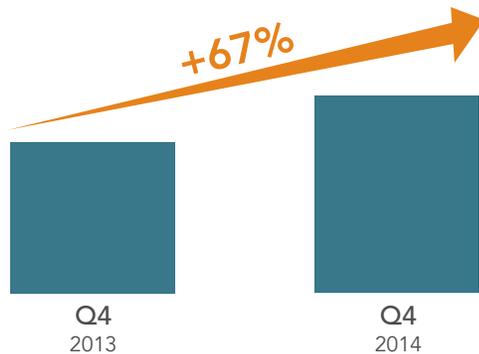
Your Wish is On-Demand

On-demand viewing continues to be relatively evenly split across content types with five separate categories each accounting for over 10% of video ad views this quarter [see chart 7]. Documentary/Reality content was the largest bucket, accounting for 25% of on-demand viewing. Overall, general “entertainment” content (not News or Sports) had a large quarter. Driven by new linear content, entertainment accounted for 63% of on-demand ad views, up from 51% last quarter.

This quarter also marks the first time the relative age of content being viewed has been reported, yielding some fascinating results. First, video ad views of Broadcast show current seasons grew 67% from this quarter last year [see chart 8]. While most Broadcast networks saw their fall TV ratings drop this year* or remain stagnant, the fact that digital viewing spiked so dramatically suggests that viewers are not going away so much as finding new ways to connect with their favorite programs.

8 Ad View Growth on First-Run Content | Broadcasters

Q4 2014 vs. Q4 2013



We also observed that the vast majority of monetization comes on a show's current or most recent season [see chart 9]. The fact that this trend is even more pronounced this quarter

9 Share of Ad Views by Content Age | Programmers

Q4 2014 vs. Q4 2013



in particular, where linear programming is most likely to be new, reinforces the importance of ad-supported digital video's role within the TV ecosystem. The relatively small share of monetization coming from archival content can be explained by two factors: this content is often available solely via subscription on-demand services, and viewers may be disinclined to sit through ads to watch content that is less "fresh."

Also of interest are the patterns by which viewers consume new seasons of content. 28% of viewing occurs within three days of a show's linear air date, while 64% occurs after a week [see chart 10]. While most linear TV ad sales are transacted on the first three days, the fact remains that the vast majority of digital viewers are not beholden to traditional scheduling and are now watching at their own convenience.

10 Share of Ad Views from Air Date | Programmers

Q4 2014



* Source: Thielman, Sam. "Primetime Broadcast Ratings Tumble. Even During Premiere Week." *AdWeek* 2 October 2014

Device

Heading Back Home

30% of monetization this quarter came outside of desktop and laptop environments [see chart 11], bringing the share of viewing outside of “traditional” digital platforms up above 20% for all of 2014 [see chart 12]. While each device saw double-digit growth in both this quarter and 2014 as a whole, monetization on smartphones and over-the-top (OTT) streaming devices exploded, growing 70% and 236%, respectively, in Q4 and 109% and 257% for the year.

Q4 2014 was the first in which OTT streaming devices (such as Roku, AppleTV, Chromecast, Fire TV, Xbox and PlayStation) combined to account for a larger share of monetization than tablets. OTT device sales made headlines in 2014; Parks Associates reported that a staggering 10% of U.S. households with broadband purchased a streaming media player in the first 9 months of 2014*, and up to 70% of broadband households have used such a device**.

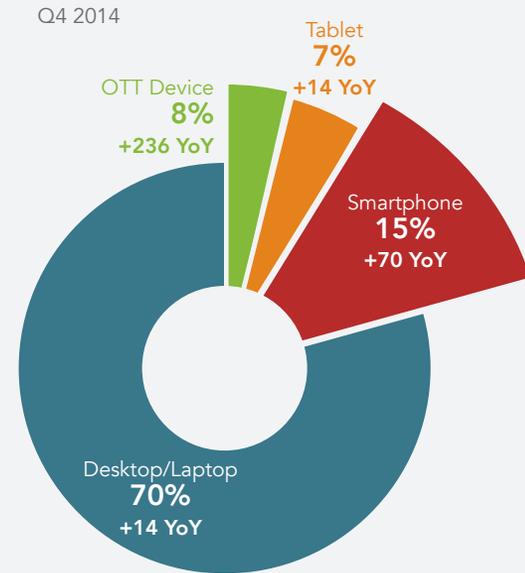
Meanwhile, tablet sales are slowing globally*** as many viewers prefer the “lean-back” experience of streaming content onto their television set to the smaller tablet screen.

*** Source: Parks Associates. (2014). “Parks Associates: 10% of U.S. Broadband Households Have Purchased a Streaming Media Device to Date in 2014” [Press release]. Retrieved from <http://www.parksassociates.com/blog/article/ces-summit2015-pr3>

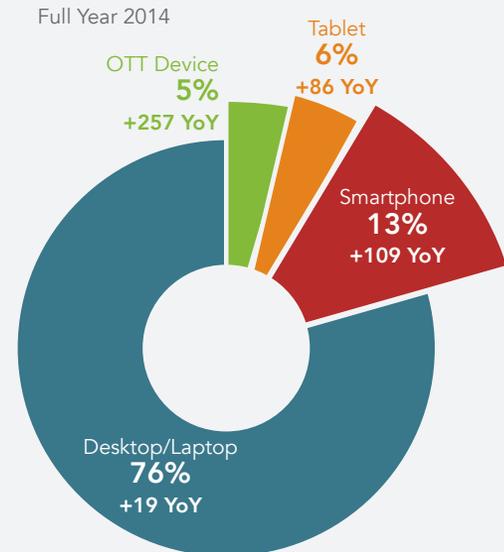
** Source: Wallenstein, Andrew. “The Race Too Early to Call: Roku, Apple TV, Fire TV, Chromecast.” *Variety* 15 September 2014

*** Source: Gartner. (2015). “Gartner Says Tablet Sales Continue to Be Slow in 2015” [Press release]. Retrieved from <http://www.gartner.com/newsroom/id/2954317>

11 Ad Views by Device



12 Ad Views by Device

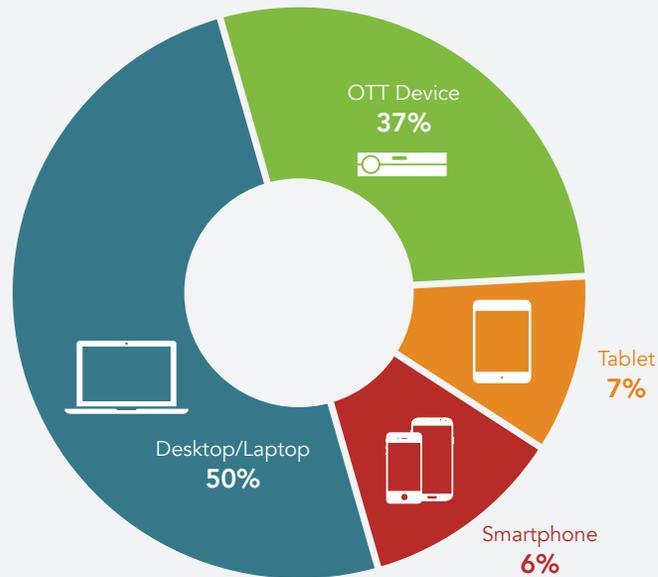


TV viewing habits were found to be most closely replicated on OTT devices. Live streams are more likely than other digital video to be viewed on OTT devices, accounting for 37% of live volume, compared to 8% of all viewing [see chart 13]. Additionally, 91% of video ad views on OTT devices come during long-form and live content [see chart 14]. Similar viewing patterns are seen on tablets, with 54% of video ad views coming on long-form and live.

Meanwhile, desktop computers, laptops, and smartphones continue to be used for viewing shorter content. 70% of desktop computer and laptop video ad views and 75% of smartphone video ad views are on content under 20 minutes in duration. While these devices vary in size and portability, their similar viewing habits can be explained by the fact that computers and smartphones are used to “snack” on content throughout the workday while tablets and OTT devices tend to live in the home and are “binge viewing” portals.

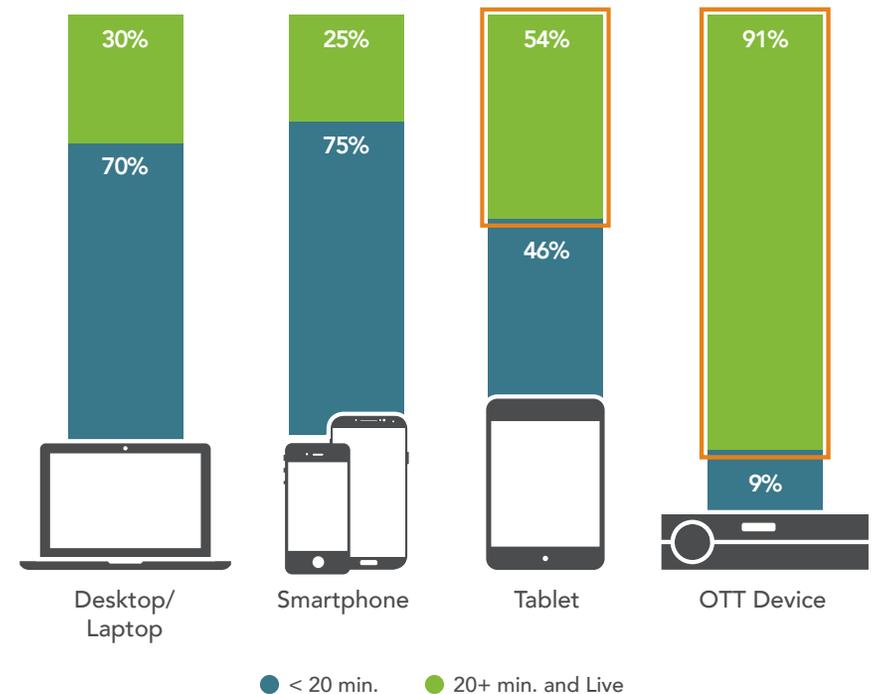
13 Live Viewing by Device

Q4 2014



14 Share of Ad Views by Content Duration

Q4 2014



Distribution

Playing the Field

Video syndication (defined as viewing that occurs outside of a Publisher's Owned and Operated properties) has become an increasingly strategic lever for Programmers, accounting for 13% of Programmer video ad views this quarter compared to 10% a year ago [see chart 15]. Digital Pure-Play networks have long leveraged third-party platforms to reach new audiences, with syndication rates between 45 and 55% in each quarter of 2014.

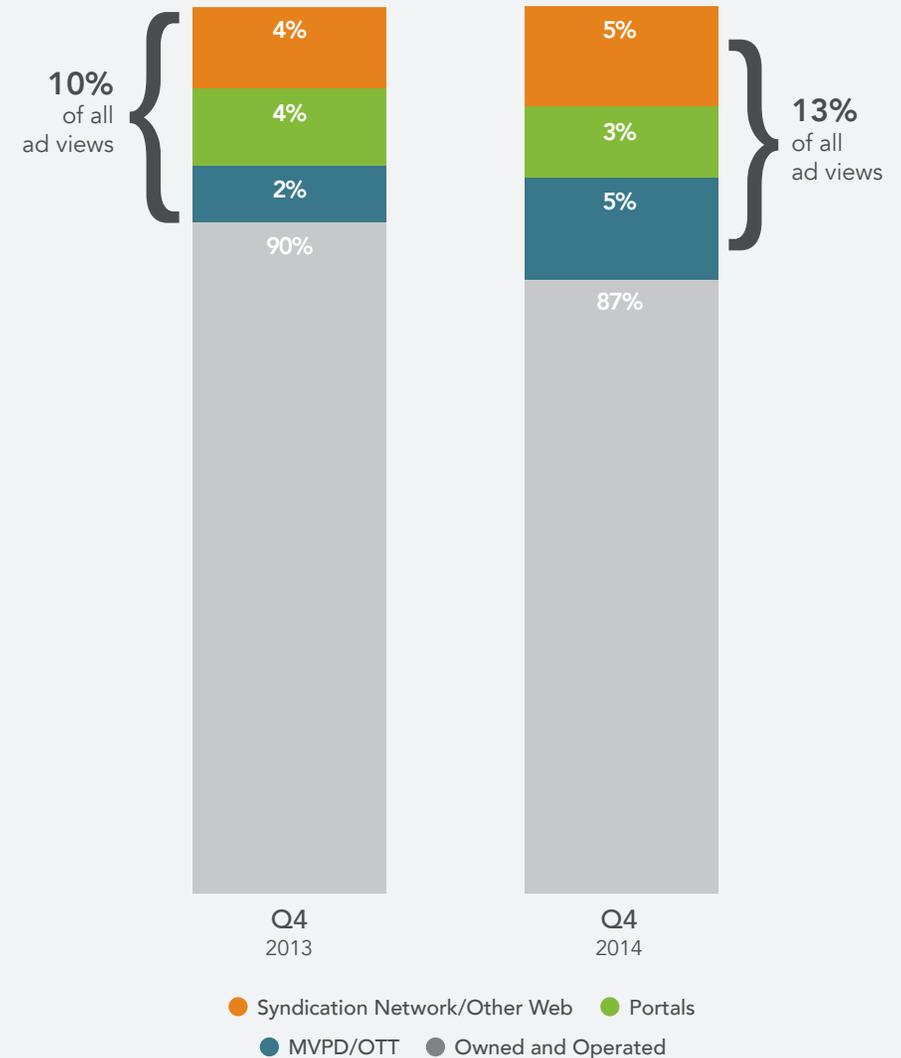
"Video syndication has become an increasingly strategic lever for Programmers."

Programmers have remained reticent to push their content to well-known portals. Combined, they accounted for 3% of Programmer video ad views this quarter. Rather, tremendous growth in the usage of MVPD and OTT apps was revealed, accounting for 5% of Programmer monetization this quarter compared to just 2% a year ago.



15 Share of Ad Views by Distribution Platform | Programmers

Q4 2014 vs. Q4 2013





Watchers on the Wall

Q4 marked the first quarter in which over half of long-form and live monetization came via authenticated viewing (defined as viewing that occurs after viewers enter their MVPD subscription credentials), up from 13% last year. The expanded role of authenticated viewing has proved remarkably consistent, maintaining a quarterly growth rate above 200% since we began reporting on the metric, with 591% year-over-year growth this quarter [see chart 16].

16 Authenticated Ad View Rate

Q4 2013 to Q4 2014



"The expanded role of authenticated viewing has proved remarkably consistent, maintaining a quarterly growth rate above 200%."



Viewer Experience

Give Me a Break

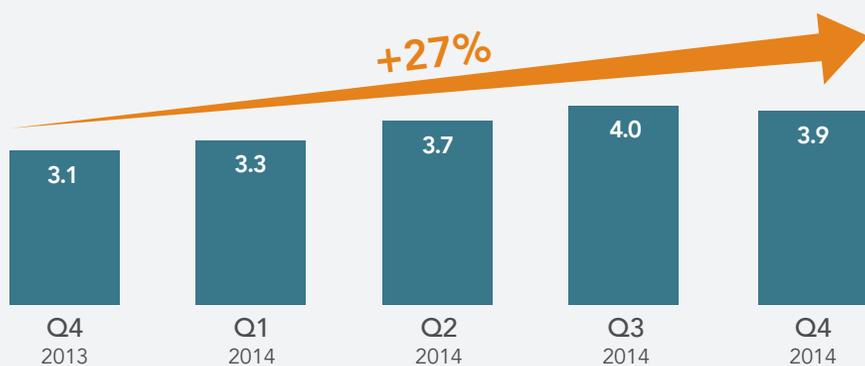
One trend that reversed course slightly this quarter was the move towards longer, “TV-style” ad breaks on long-form content. After several consecutive quarters in which the average ad break crept up in duration, the average mid-roll break shrank from 4.0 ads in Q3 to 3.9 ads in Q4 [see chart 17], with an average duration of 93 seconds, down from 101 seconds last quarter. Whether this quarter proves to be a momentary blip in the march towards linear TV ad breaks remains to be seen. Broadly, this quarter still marked a 27% increase in ads per break from this quarter

last year. This will be interesting to monitor over the next 12 months to determine if digital follows linear’s suit, inserting more advertisements into programming.

Once again, healthy ad completion rates are seen across all content durations [see chart 18]. Long-form ad completion rates are highest at 92%, unsurprisingly, as viewers are more committed to the content and tolerant of mid-roll ads. Indeed, ad completion rates on long-form content have never dipped below 90% since this metric was first reported.

17 Ads per Mid-roll Break

Q4 2013 to Q4 2014



18 Ad Completion Rates

Q4 2014

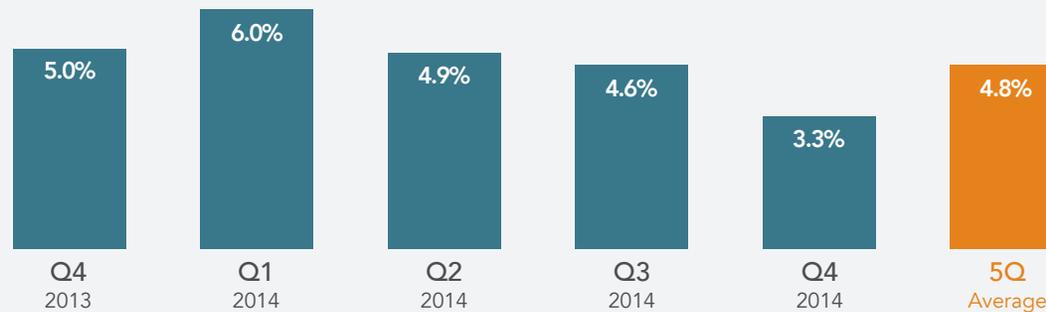


Direct Approach

The share of Programmer video ad views moving through ad networks and exchanges continued to decline, dropping this quarter to 3.3% from 4.6% last quarter, and from 5.0% last year, bringing the five-quarter average to 4.8% [see chart 19]. While we expect that networks and exchanges will continue to play a role in the digital video ecosystem, such as for managing unexpected sales shortages, we believe that Publishers will continue to limit the amount of inventory monetized through these channels, preferring the control, premium value and visibility that come with direct sales channels. Meanwhile, marketers are increasingly cautious due to fears around quality of inventory, which include content quality, viewability, traffic fraud, and brand safety on long-tail sites.



19 Ad Network/Exchange Share of Ad Views | Programmers
Q4 2013 to Q4 2014



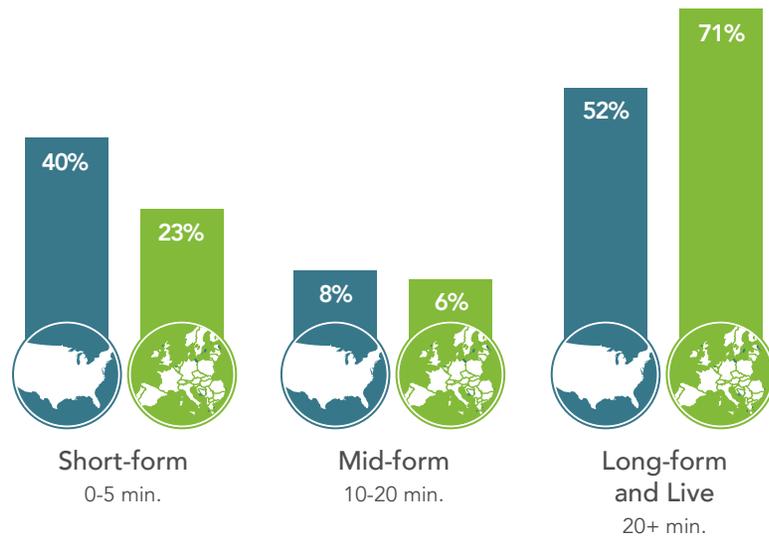
Europe Market Analysis

Euro-Vision

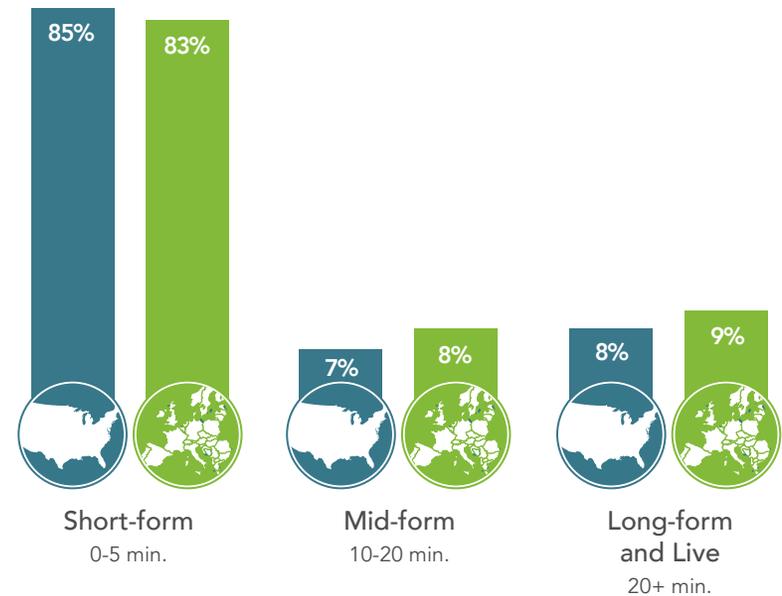
This quarter marks the first instance that data for digital video monetization across Europe has been reported. One clear finding is that among European Programmers long-form and live content accounts for 71% of monetization, compared to 52% for their American counterparts [see chart 20]. European Programmers take advantage of high broadband penetration rates as well as

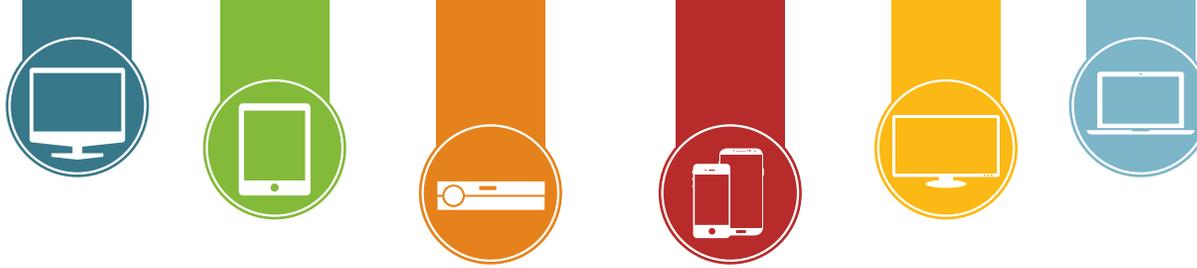
government investment, such as BBC's iPlayer VOD service that launched in 2007, to build out a strong base of TV Everywhere offerings. In contrast, European and U.S. Digital Pure-Play Publishers are largely in line with each other, monetizing portfolios dominated by short-form content [see chart 21].

20 Ad Views by Content Duration | Programmers
Q4 2014



21 Ad Views by Content Duration | Digital Pure-Play
Q4 2014





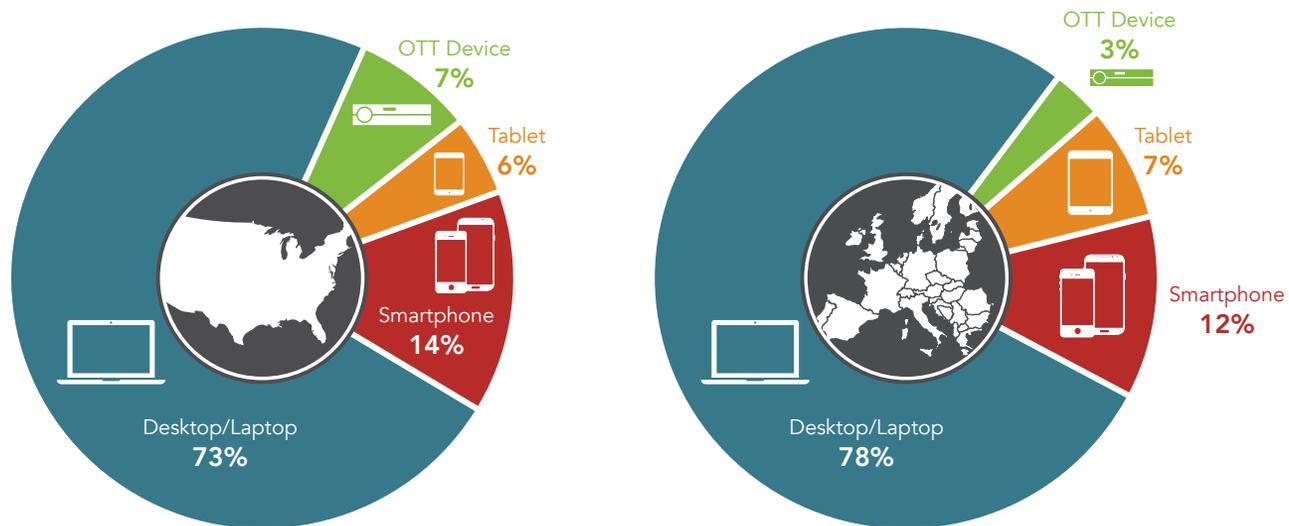
Also of interest is the growth potential that European Publishers have in monetizing across newer device platforms. While the breakdown of volume across desktops, laptops, smartphones

and tablets is quite similar for European and American Publishers, Europe has yet to significantly leverage OTT streaming devices [see chart 22]. Given the fact that European

audiences have proved hungry to consume long-form and live content digitally, we expect Publishers there to develop their own OTT apps and reap benefits.

22 Ad Views by Device

Q4 2014



Summary

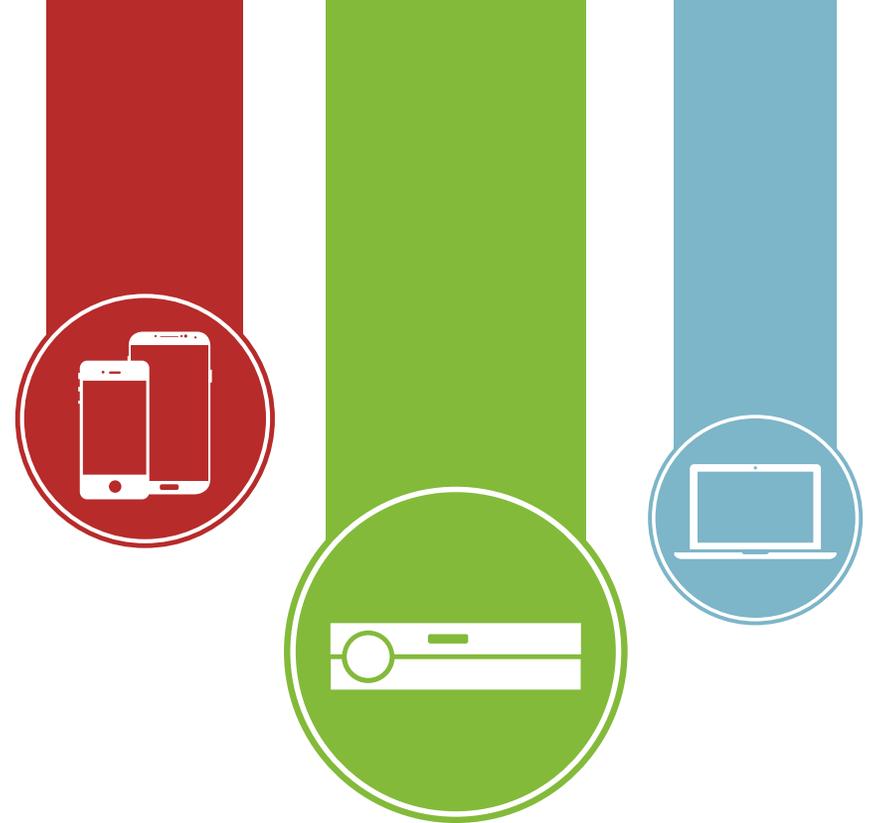
Q4 2014 marked yet another quarter of strong growth and evolution in the digital TV market, with video ad views growing 25% year-over-year.

Several exciting trends emerged this past year as viewers and publishers continued to tinker with how they watch and monetize their shows, sports, clips and more. This quarter's growth is the final chapter in a successful year, in which video ad views grew 30% from 2013.

In addition to top-line growth, what made this quarter noteworthy was what actually drove this development: ultra-premium content. Evident in this report, the TV ecosystem continues to expand, as viewers have not abandoned their favorite content but rather found new ways to access it.

Specifically:

- Live viewing grew 297% year-over-year, driven by strong growth in Sports streaming and News simulcasts.
- First-run broadcast shows attracted far more viewers this quarter than the year prior, as seen by a 67% increase in digital video ad views.
- Over-the top (OTT) streaming devices, overwhelmingly used for long-form and live viewing, overtook tablets, accounting for 8% of all video ad views.
- Viewers are accessing current season content throughout the television season. 64% of viewing occurred over a week after that content's original air date.
- Authenticated viewing grew 591% year-over-year, as 56% of all video ad views on long-form and live content now come from behind authentication walls.



About this Report

FreeWheel's platform for video ad management and monetization helps the largest players in the TV industry generate revenue from their ad-supported content on desktop, mobile, OTT, and traditional STB devices. 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 125 billion video views in 2014.

The *FreeWheel Video Monetization Report* is released quarterly and seeks to highlight the changing dynamics of how enterprise-class content owners and distributors are monetizing professional digital video content.

As part of this analysis, we group Publishers into two categories:

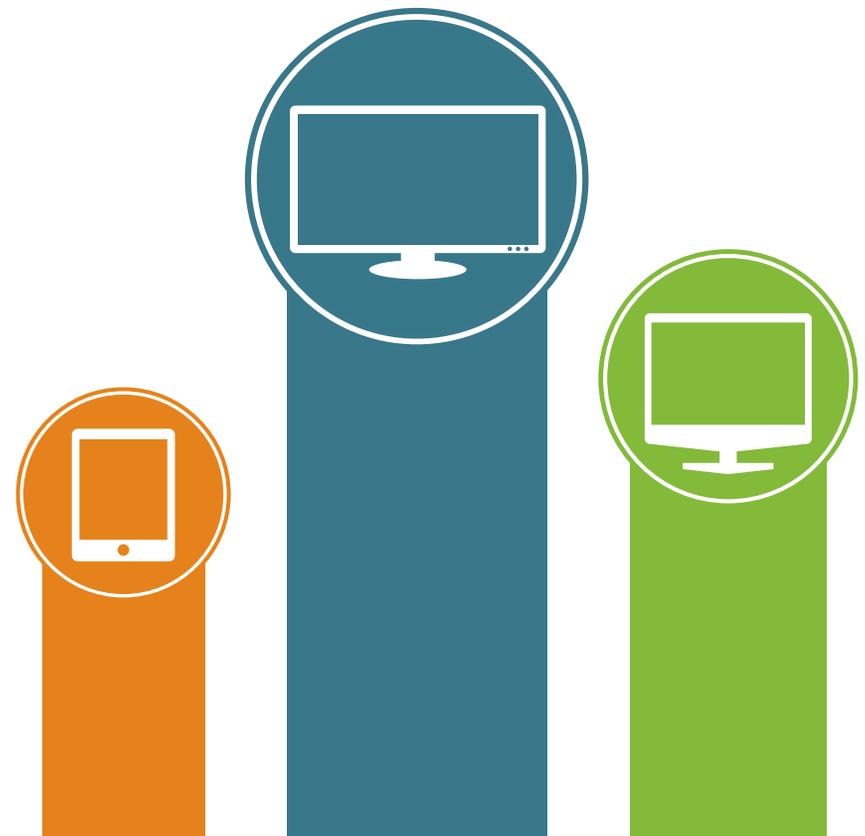
Programmers:

- Includes Programmers and Multichannel Video Programming Distributors (MVPDs) who generate the majority of their advertising revenue from linear TV services
- Offer diverse content mix on IP-based environments

Digital Pure-Play Publishers:

- Generate majority of revenue from IP-based environments
- Aggregate third-party content and/or are developing original content

FreeWheel
POWERING THE FUTURE OF TELEVISION





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