

FreeWheel[®]

SERVING THE VIDEO REVOLUTION.



FREEWHEEL VIDEO MONETIZATION REPORT

Q1 2011

Key Findings:

- Online video viewing appears to be additive to linear television viewing, not eating into prime time. Online video viewing is relatively constant during the week, with a rise that occurs each Saturday of 13% over the lowest viewing day, which is Tuesday. Publishers are also likely to monetize this Saturday spike; it has the highest number of video ad views of any day of the week, an increase of 13% over the lowest monetized day, which is Sunday.
- While video views continue to rise due to consumer demand and the growing availability of professional content online, the more mature pre-roll video ad format displays classic advertising seasonality. The largest volume of pre-roll ads in online video occurred in Q4 and tapered off in Q1, a quarter known to have lighter spending for advertisers.
- Mid-rolls, however, which are often placed in long-form content, continued to see significant volume growth in Q1 – 30% increase over Q4 2010, due to both the growth of long-form content available online and increasing ad loads.
- Mid-roll ads continue to have the highest completion rates, as do any video ads within long-form content; indeed there is a correlation between the two. Consumers find long-form professional content engaging and are most likely to view both the ads and the content through to the end.
- Content producers tend to align length of the content with length of the ad; :15s are more commonly placed in short-form content, while :30s are more commonly placed in long-form content.
- When considering completion rates, the length of the ad (:15s and :30s being the most commonly used) matters much less than the length of the content an ad is placed within.
- News and live events had a dramatic impact on video viewing in Q1: FreeWheel data shows that consumers turned to their nearest available screen during the Japanese earthquake, tsunami, and nuclear crisis, with the highest video viewing occurring in the immediate aftermath of the earthquake. NCAA March Madness also caused a spike mid-March as sports fans sought out games that took place during work hours or that they missed on TV.
- Wireless video viewing is still small compared to online video viewing in general (less than 1%) and is driven by Apple devices, which account for 80% of all wireless video viewing. This majority is largely due to the number of these devices in-market and the fact that so many content producers prioritized their video development for this platform ahead of others.

Overview

FreeWheel's flagship product, Monetization Rights Management® (MRM), manages ad sales rights and serves ads into the U.S. and abroad on wired and wireless Internet devices. MRM solves a crucial issue for producers of professional video content: ads sales rights management as video is consumed on a multiplicity of properties and devices beyond the traditional confines of the television. The data in this report comprises 10 billion video views and 5.5 billion video ad views in Q1 2011 and is one of the largest pools of data available on the usage and monetization of professional video content. As such, the data gives valuable insight into both consumer behavior with this type of content and how brand advertisers are employing it. The FreeWheel Video Monetization Report is released quarterly and seeks to highlight the changing dynamics of how the largest content owners and distributors are monetizing professional digital video content. In this Q1 2011 report, we continue to report on ad placements, content monetization, ad length, and video length and introduce observations for usage and monetization, as well as wireless usage.



Digital Video Viewing Appears Additive to the Linear Television Experience

Digital video viewing stays relatively constant during the week, with a spike on Saturdays of 13% over the lowest viewing day of the week, Tuesday. By contrast, linear television viewing is highest on weekdays and lowest on Saturdays. Content owners and distributors are capitalizing on this online behavior with ad insertion, as video ad volume saw a 13% rise for Saturday over the lowest monetized day, Sunday.

The month of March was an extraordinary month for world and national events that consumers wanted to be able to watch on demand through digital video. Chart 1 shows the typical weekly

Chart 1: Video views spike on Saturdays and with major news events

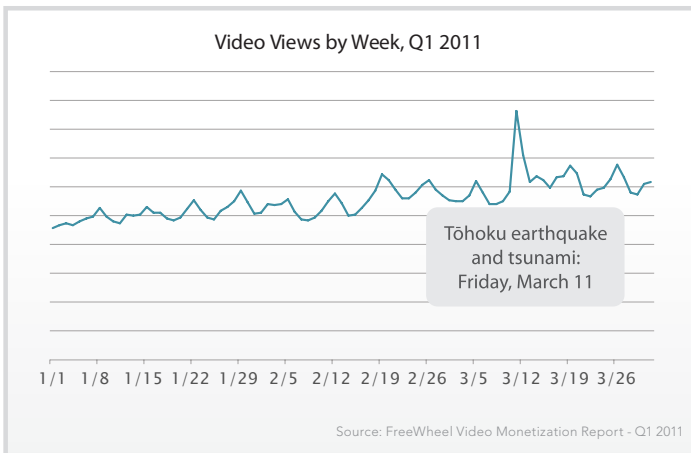
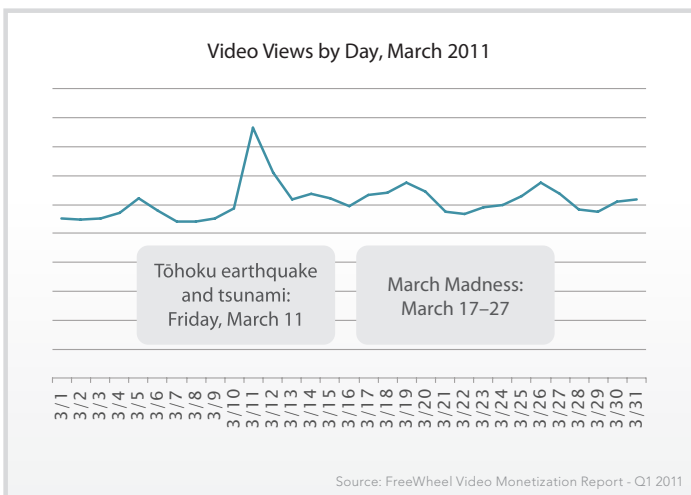


Chart 2: March saw massive spikes due to news and live sports events

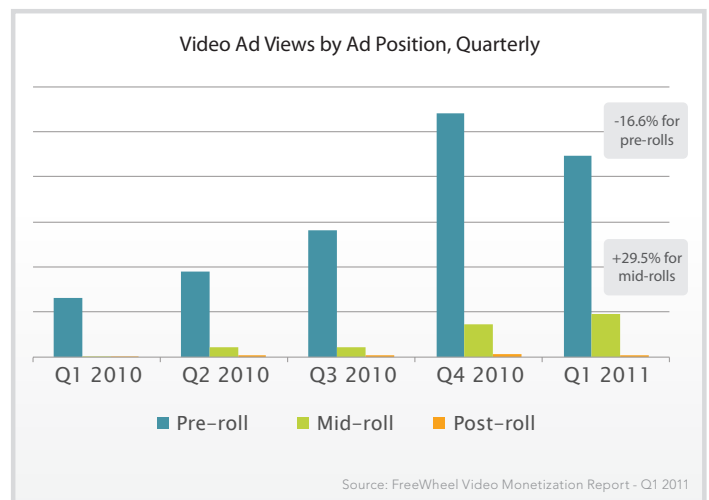


viewing pattern during the quarter with highest volume on Saturday and then the dramatic spike that occurred just after the Tōhoku earthquake and tsunami. Chart 2 depicts volume of video views during just the month of March: viewing was highest just after the earthquake and also spiked as NCAA March Madness games were “aired” live online. Many fans relied on devices beyond their televisions to watch games during work hours or catch up on action they missed. These spikes in usage show how consumers turn to their nearest and best available device for current events (both news and entertainment). The crisis in Japan produced extraordinary video footage of an ongoing natural disaster. In places where people may not have had access to a television, they viewed video on their computers and from wireless devices. A live sports event like March Madness is perfect for digital video: it is national in scope, it has multiple simultaneous events, and it takes place throughout the day and night. FreeWheel saw similar behavior during the FIFA World Cup in May 2010.

Online Video Ad Monetization Begins to Show the Seasonality of Television

Television ad spending typically peaks in Q4 as advertisers market to holiday shoppers and then dips during the quieter months of winter. While video viewing online continued to increase into Q1 due to both consumer demand and increased volumes of professional content coming online, pre-roll video ad volume (the most common online video ad format) dropped 16.6% from Q4 2010 (see chart 3).

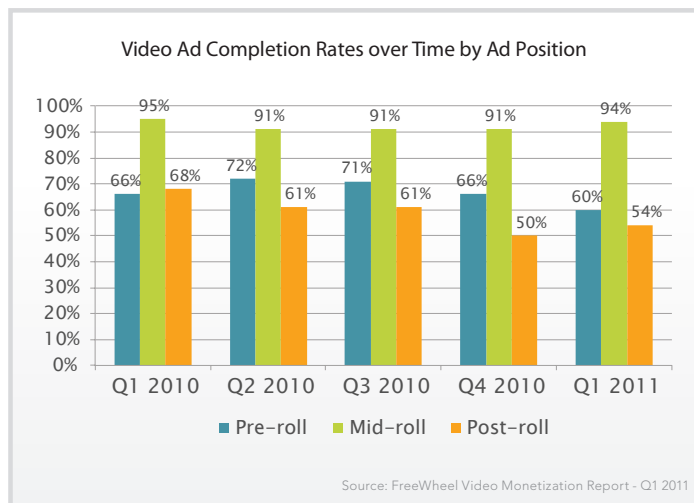
Chart 3: Mid-rolls buck typical advertising seasonality, growing despite usual Q1 dip in spend



Mid-Rolls Buck the Seasonal Trend as Advertisers Take Advantage of High Performance Rates

Use of mid-roll ads, however, defied this seasonal trend with a 30% increase in mid-roll ad volume from Q4 to Q1. This likely reflects both more long-form content coming online and advertiser preference for this highly effective format. Mid-roll ads, which are often placed in long-form content, represented 17% of all Q1 video ad views served by FreeWheel, up from 12% in Q4. Mid-rolls have particular appeal for advertisers due to the fact that they have the highest completion rates of any ad placement: 94% of all mid-roll ads initiated were completed in Q1 as compared to 60% of pre-rolls and 54% of post-rolls (see chart 4).

Chart 4: Completion rates hold steady across quarters with mid-rolls as consistent top performers



Ad Length and Video Length: The Relationship

One of the most common discussions over the past few years about the monetization of online video has focused on optimal ad length. Television has a standard (the :30), should online? Assumptions were made that consumers would only accept short-form ads (:15s or less) since much of the video content available online was less than five minutes in length. FreeWheel data shows that in terms of effectiveness (measured by completion rates), ad length is much less important than the length of the content into which the ads are placed.

Long-form content has the highest completion rates, regardless of whether the ads are :15 or :30 (see chart 5). Content producers and advertisers now typically align the length of content with the length of video ad (see chart 6). Longer ads (:30s) are five times more likely to be placed in long-form content, and shorter ads (:15s) are most likely to be placed in short-form content. This practice is clearly working for advertisers, as video ad completion rates over the past year have remained stable.

Chart 5: Long-form content sees the highest video ad completion rates, regardless of ad length

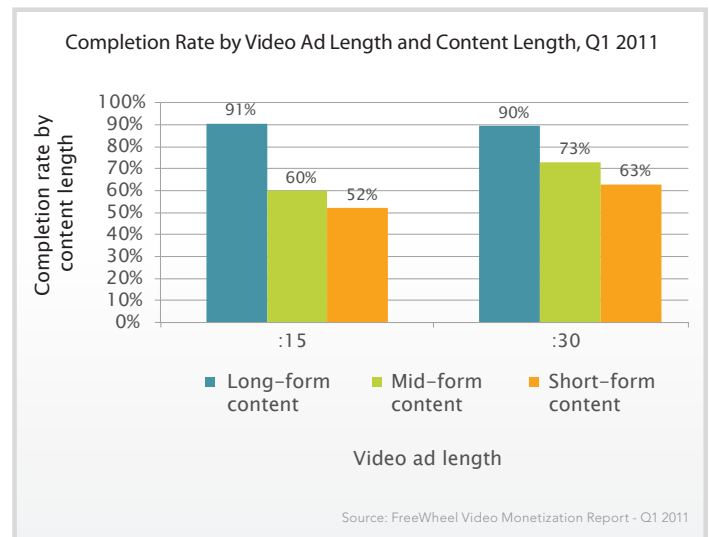
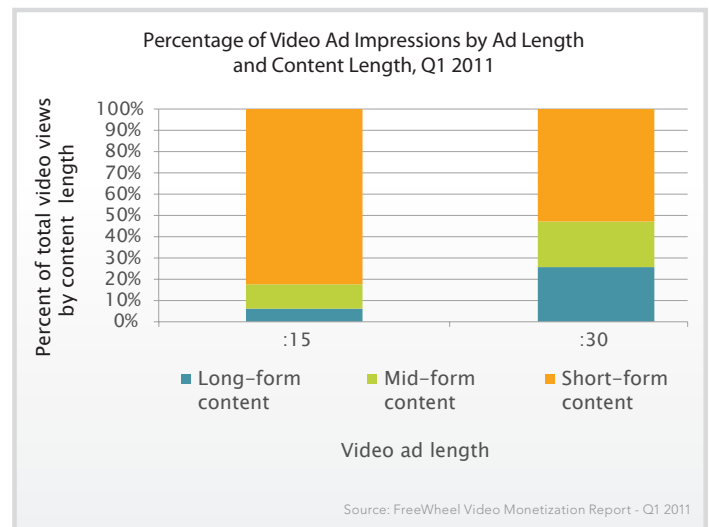


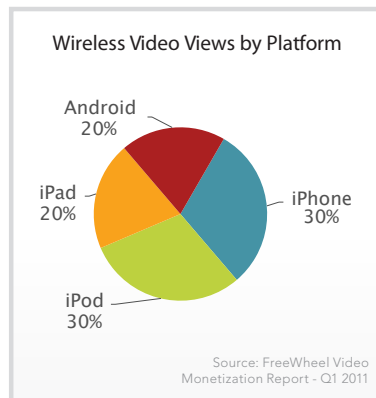
Chart 6: Publishers align content and ad length; longer ads 5x more likely to be in long-form content



Wireless Video Viewing: Small but on the Rise

In comparison to wired video viewing, consumers viewing video on their mobile devices is small and is currently driven by Apple devices, which make up 80% of all video views between iPhones, iPod Touches and the iPad. This majority reflects the number of these devices in market and their early dominance in the smart-device sector. (Their user base has had these types of devices longest and tends to use them as much for media consumption as for communication, per reports from comScore in 2010.) It also reflects the development priorities of content producers and distributors: they optimized their content first for the Apple platforms, with Android a later priority. Though there are fewer than 20 million iPads in the global market right now (Apple statistics for Q1 2011) and many more iPhones and iPods, iPads currently make up 20% of all wireless video views (see chart 7). These tablets are clearly being used as digital video delivery devices. Just as with all video views, wireless video views can be driven by news: the highest wireless viewing days occurred in March during the Japanese crisis and also spiked on NCAA March Madness live game days.

Chart 7: 80% of wireless video views on FreeWheel systems take place on Apple platforms



Summary

The data from the FreeWheel Video Monetization Report constitutes perhaps the largest pool of available information on how producers and distributors are generating value from the professional video content they are releasing into digital formats and how consumers are accessing that video on a multiplicity of devices. Digital video monetization is becoming more like that of television, with seasonal peaks in Q4 and decreases into Q1. Usage rates continue to increase, especially as more long-form content becomes available online and marketers are finding the value in that content increasingly through TV-like ad loads. Mid-rolls bucked the overall advertising trend and increased in volume in Q1. Digital video viewing complements, rather than replaces, linear TV viewing. News, including live events, can greatly impact usage as consumers seek out professional digital video content on their nearest available screens, whether work or home computers, mobile phones, or tablets. The dramatic events of March showed that while video volume could increase unpredictably, content producers could and would continue to monetize that content.

A Note on the Data

FreeWheel served over 5 billion video ads (pre-roll, mid-roll, and post-roll) in Q1 2011 and made ad decisions for over 10 billion video views. While the data here is primarily U.S.-based activity on behalf of U.S.-based content producers, a small percentage of the viewing occurs outside the U.S. The data here represents only video that is rights-managed: aggregate monetization data for professional content from FreeWheel's customers, and does not reflect trends for user-generated content.



For more information or if you have questions about this report, contact us:

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