



FreeWheel

Video
Monetization
Report

Q2
2017

THE POWER OF PREMIUM VIDEO: DRIVING CHANGE & INNOVATION

THE QUARTERLY BAROMETER
OF THE INDUSTRY



FreeWheel

Video
Monetization
Report

Q2 2017

The television upfront season generates a great deal of anticipation,

as it often foreshadows the performance of the wider premium video industry. This year, the U.S. TV upfront market outperformed expectations, increasing revenues by 6% over last year to reach \$19.7Bn¹. Similar to how several of the new fall shows plan to bring viewers back to familiar territory, with throwback revivals, advertisers have gradually turned back to the TV ecosystem, both linear and digital, amidst concerns around the safety and effectiveness of other digital marketing channels.

But the optimistic results counterbalanced warnings by media executives about the threats faced by the TV advertising market. Joe Marchese, president of advertising revenue at Fox Networks Group, warned at their upfront about a forthcoming advertising “sub-prime crisis” that is “represented by unviewable ads and unsavory content entering our ecosystem. All compounded by ad blockers, DVRs and growing ad-free options².” In the face of these challenges, premium video publishers have doubled down on their efforts to demonstrate superior value and develop creative products that advance advertiser goals. This quarter’s Video Monetization Report (VMR) highlights the strong performance of premium video ad monetization in the context of change and innovation:

- Premium ad views grew at 17% year-over-year, driven by strong double-digit growth of full-episode and live stream monetization.
- For the second consecutive quarter, over-the-top (OTT) devices claimed the title of largest platform for premium video monetization, growing 32% year-over-year. Meanwhile, ad views on desktop, the second largest platform, declined 15%.
- The mix of syndication channels shifted in favor of multichannel video programming distributors (MVPDs). Ad views on MVPD platforms grew 39% YOY in Q2 2017, driven by the launch of new digital direct-to-consumer offerings.
- Programmatic accounted for 11% of ad views overall with private marketplaces overwhelmingly preferred as the transaction model for programmatic deals.
- Viewers completed 97% of mid-roll ads in full-episode content and 92% in live streams. Mid-roll ad loads stayed at around four per break and only 16% of ads repeated during a full-episode.

Even with the content and device landscape looking markedly different than in the recent past, premium video is well positioned to overcome industry headwinds and deliver another great season.

We hope you enjoy the read!

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1. “Strong TV Upfront Gains, Revenues Hit \$19.7B,” (July 2017). Retrieved at <https://www.mediapost.com/publications/article/304505/strong-tv-upfront-gains-revenues-hit-197b.html>

2. “Fox’s Marchese: Can You Hear Me Now? — Gets Upfront Attention With, Well, Attention,” (May 2017). Retrieved at <https://www.mediapost.com/publications/article/301212/foxs-marchese-can-you-hear-me-now-gets-upfro.html>





Q2 2017 CORE OBSERVATIONS
THE MOST DEFINITIVE DATA
AVAILABLE ON PREMIUM VIDEO
UNITED STATES

NEW OFFERINGS AND ADVANCED PLATFORMS DRIVE PREMIUM VIDEO GROWTH

In Q2 2017, video ad views grew 17% and video starts grew 26% compared to Q2 2016. Changes on both the supply and demand sides of the premium video market made this growth possible. In the last year, companies from both traditional cable and digital backgrounds have aggressively launched new offerings to increase the supply of premium video content. As cord-cutting rates rose and cable subscriptions and TV ratings declined³, traditional TV companies continued to evolve their businesses by embracing audience fragmentation and offering consumers greater flexibility with their viewing experience⁴.

Advertisers are responding to the growing supply of premium video content by increasing their investment. eMarketer forecasted that U.S. digital video spend would be up nearly 24% year-over-year in 2017⁵. For premium video, the vast majority of monetization—89% in Q2 2017—still occurs through direct sales channels while programmatic channels are leveraged to further maximize the yield from unsold inventory.

The growth in video monetization is further accelerated by the adoption and acceleration in usage of OTT device platforms⁶. Driven by full

episode and live viewing, OTT grew to 29% of ad views in Q2 2017. At the same time, desktop ad views declined to 27%, the smallest share it's had since the VMR was first published over 5 years ago. The growth of OTT has also created a solid foundation for new digital direct-to-consumer services that rival traditional cable bundles. In Q2, these new offerings contributed to the expansion of MVPD syndicated ad views.

PREMIUM VIDEO CONTINUES TO LEAD THE WAY FOR THE REST OF THE INDUSTRY, PROVING THE VALUE OF QUALITY VIDEO ADVERTISING.

As a result of the robust growth in premium video consumption and monetization, we continue to see other digital content businesses pivot to video, from Mic⁷ and BuzzFeed⁸ to Facebook with its new dedicated “Watch” tab⁹. In the following sections, we dig further into the sources of growth and what publishers can do to capitalize on the increased appetite for premium video.

3. “As Streaming Services Amp Up, Not all TV Channels Make the Cut,” (May 2017). Retrieved at <https://www.wsj.com/articles/as-streaming-services-amp-up-not-all-tv-channels-make-the-cut-1494766801>

4. “The Changing TV Experience: 2017,” (May 2017). Retrieved at <https://www.iab.com/wp-content/uploads/2017/05/The-Changing-TV-Experience-2017.pdf>

5. “Q2 2017 Digital Video Trends: Monetization, Audience, Platforms and Content,” (June 2017). Retrieved at <http://totalaccess.emarketer.com/reports/viewer.aspx?r=2002082>

6. “The Changing TV Experience: 2017,” (May 2017). Retrieved at <https://www.iab.com/wp-content/uploads/2017/05/The-Changing-TV-Experience-2017.pdf>

7. “Layoffs hit Mic as digital media’s “great pivot of 2017” continues,” (August 2017). Retrieved at <https://www.fastcompany.com/40455151/layoffs-hit-mic-as-digital-medias-great-video-pivot-of-2017-continues>

8. “BuzzFeed Bets Big on Original Shows for Platforms,” (March 2017). Retrieved at <https://digiday.com/media/inside-buzzfeeds-original-shows-strategy/>

9. “Facebook Launches Watch Tab of Original Video Shows,” (August 2017). Retrieved at <https://techcrunch.com/2017/08/09/facebook-watch/>



CHART 1

TOTAL VIDEO START AND AD
VIEW GROWTH, U.S.
Q2 2016 VS Q2 2017

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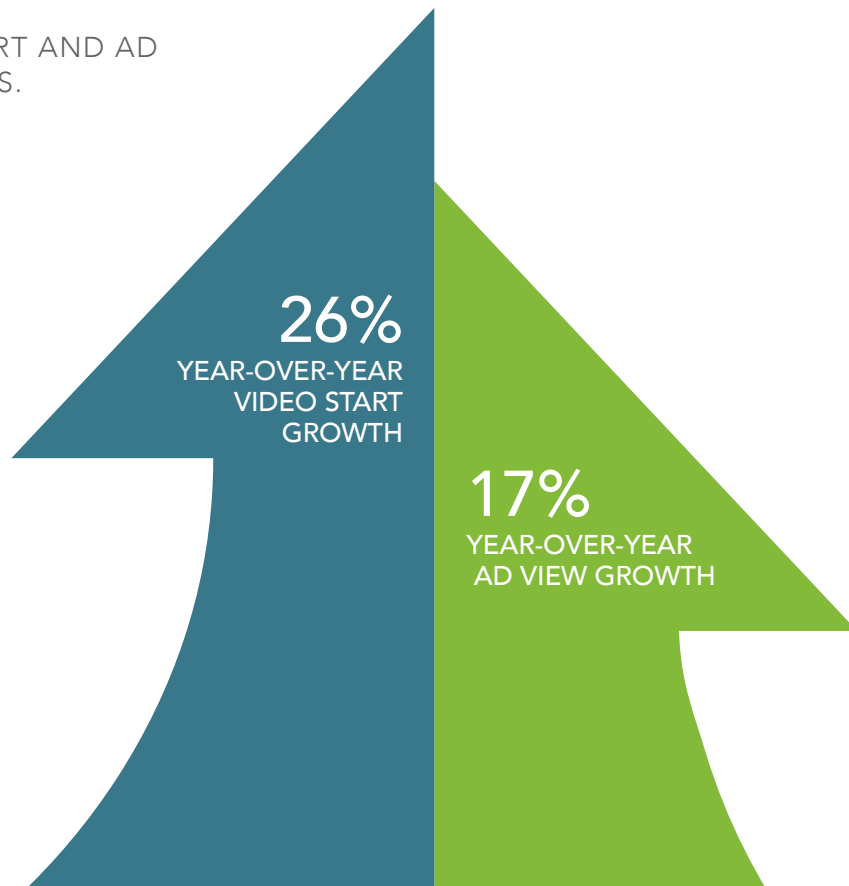


CHART 2

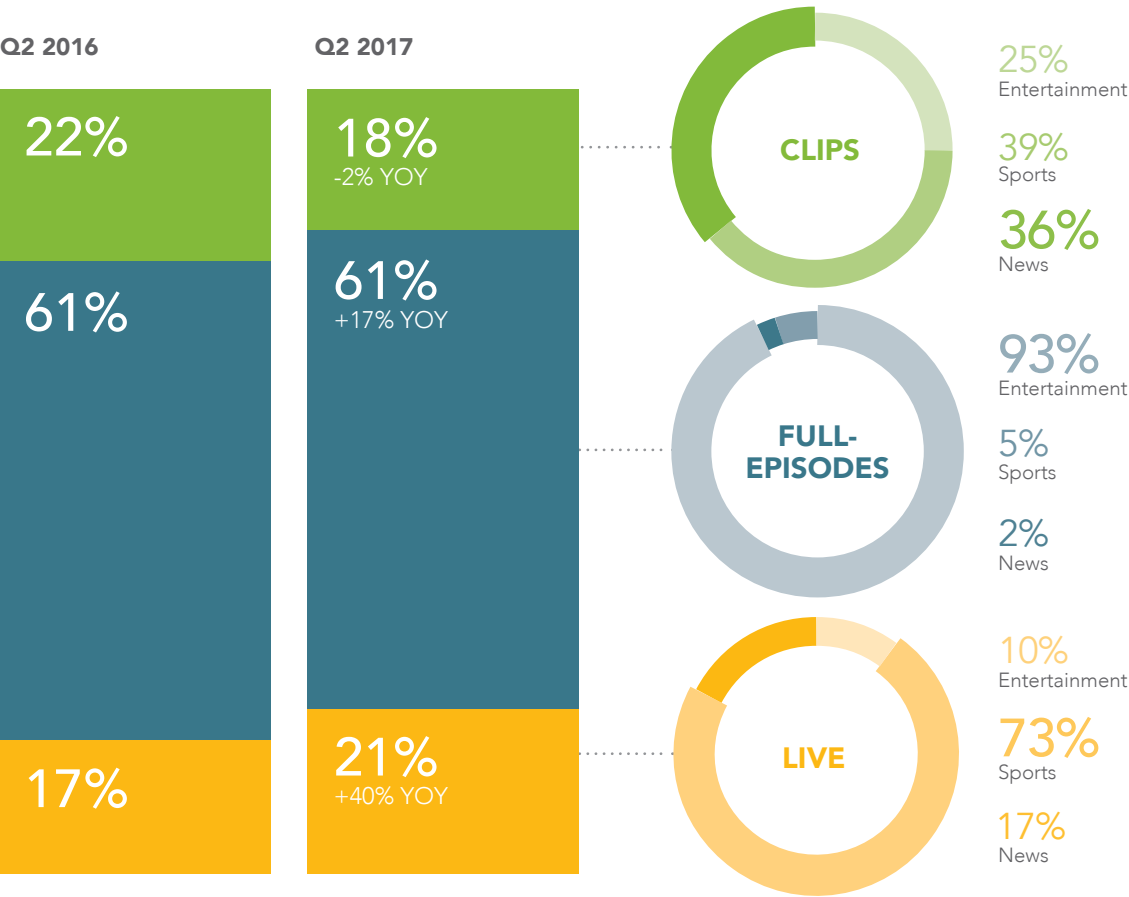
CONTENT COMPOSITION AND GROWTH
BY FORMAT AND VERTICAL, AD VIEWS, U.S.
Q2 2016 VS Q2 2017

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- Clips (0-5min.)
- Full-Episodes (5+ min.)
- Live

CONTENT FORMAT COMPOSITION

CONTENT FORMAT BY VERTICAL
(Q2 2017 ONLY)



TV CONTENT FLOURISHES IN DIGITAL

Even new players recognize the value of TV-style premium video content. In the first half of 2017, many content streaming companies announced huge financial investments in developing TV-like content. Netflix publicized it would increase spending on original shows from \$6Bn this year to \$7Bn next year and Amazon is expected to spend \$4.5Bn on video, tripling the amount of original content in Prime Video. Apple will reportedly invest \$1Bn in original shows in 2018¹⁰. These moves point to the high demand for quality, TV-like content across all screens.

This quarter, the content formats that have roots in traditional television — full-episode and live streamed video — showcased impressive growth. Together, these two categories contributed over 80% of ad views. In Q2 2017, full-episode ad views accounted for 61% of the total, with 17% year-over-year growth. Live or simulcast content continued its strong trajectory from last quarter, increasing ad views by 40% year-over-year and making up 21% of the total share.

In contrast, ad views for clips declined 2% year-over-year. As viewing increasingly shifts toward platforms like OTT and set-top box video on-demand (STB VOD), where more consumption is skewed

towards TV-like content, short-form will make up a diminishing portion of content and monetization. However, publishers can still leverage clips to drive engagement and loyalty, if not monetization, by sharing them through social media channels and promoting them during the off-seasons to keep viewers engaged.

LIVE NEWS AD VIEWS GREW 150% YEAR-OVER-YEAR.

While sports, news and entertainment each contributed a similar share to clip monetization, 93% of full-episode ad views were delivered in entertainment content. On the other hand, 73% of live streamed ad views occurred during sports content. Over time, however, we have seen gradual diversification in sources of live stream monetization.

Live ad views on news grew 150% year-over-year to comprise 17% of live monetization in Q2 2017. Most entertainment content is still consumed on-demand, but as more people have the ability to access simulcast streams of entertainment networks through new virtual MVPD services, we expect their share of live to grow over time.

10. "Apple is Reportedly Investing \$1 Billion in Original Video Content," (August 2017). Retrieved at <https://www.theverge.com/2017/8/16/16155600/apple-original-tv-content-1-billion-investment>

DESPITE CHALLENGES, OTT & STB VOD DOMINATE MONETIZATION

OTT and STB VOD devices drove the majority of growth in premium video monetization and made up nearly half of all ad views in Q2 2017. Smartphone and tablet devices reported moderate year-over-year growth rates and collectively comprised almost a quarter of ad views. These devices all grew at the expense of desktop, which declined 15% to reach an all-time low ad view share of 27%. To put this in perspective, desktop made up 90% of ad views four years ago in Q2 2013.

In the same period of time, OTT devices grew from 1% of total ad views to 29% in Q2 2017, making it the platform with the most ad views for the second quarter in a row. Earlier this year, FreeWheel introduced a Signature Insights report¹¹ to highlight the ways OTT provides the best of both digital video and linear television, through delivering a 98% ad completion rate, a high share of engaged viewers, and strong lifts to brand awareness and favorability for advertisers. The report also addressed the key misconceptions marketers have regarding the platform and provided actionable solutions for publishers to tackle those challenges.

The growth of OTT would not be possible without both increased content availability and consumer adoption of the new technology. In an IAB study

on the changing TV experience¹², consumers responded that the primary reasons they stream more video content are: the acquisition of new streaming-enabled devices, increased ease-of-use of these devices, and increased quantity and quality of video content available to stream.

OTT AND STB VOD BOTH PROVIDE THE USER EXPERIENCE OF TRADITIONAL TELEVISION WHILE ALLOWING ADVERTISERS TO TRANSACT MORE DYNAMICALLY.

Dynamically inserted ads on STB VOD accounted for 20% of total share in Q2 2017. STB VOD lacks standards for measuring audience and engagement that are better established for more mature digital and linear platforms, making it difficult to compete for ad dollars. Despite these challenges, STB VOD ad views grew 34% year-over-year, showing that advertisers recognize the value of this viewing experience and content quality.

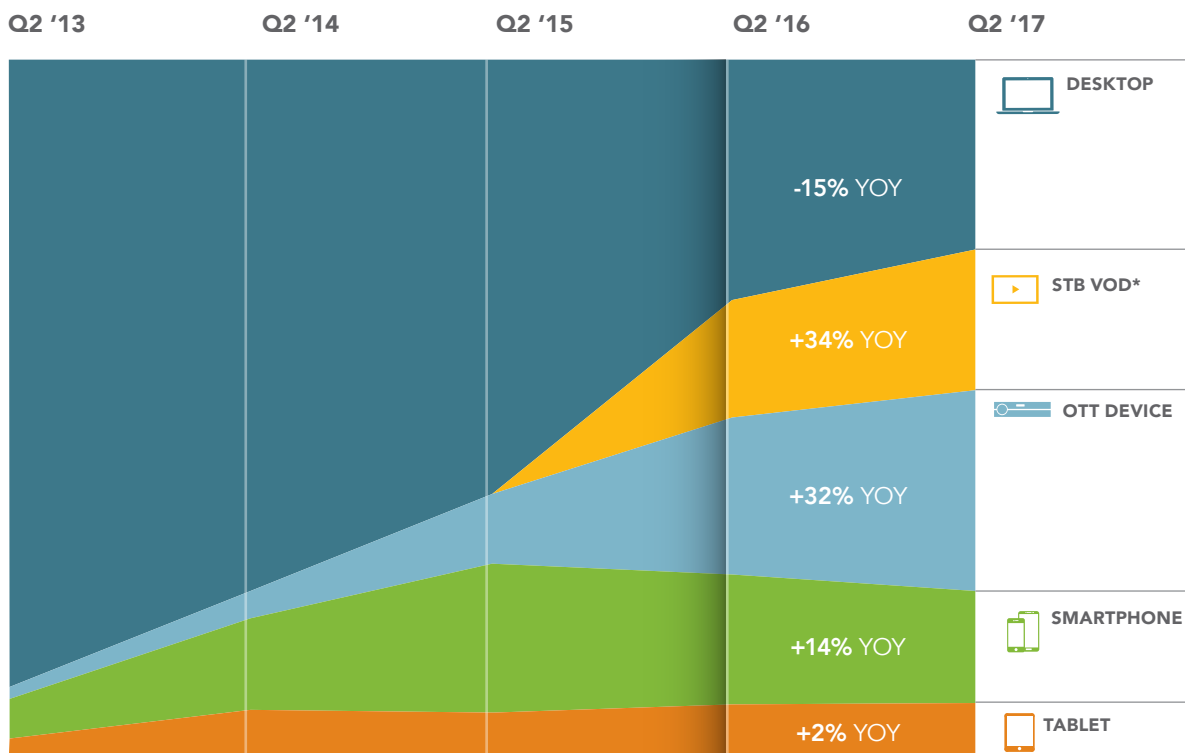
11. "The Power of OTT: Audiences & Engagement," (August 2017). Retrieved at <http://freewheel.tv/insights/#signature-insights>

12. "The Changing TV Experience: 2017," (May 2017). Retrieved at <https://www.iab.com/wp-content/uploads/2017/05/The-Changing-TV-Experience-2017.pdf>

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CHART 3

AD VIEW COMPOSITION AND GROWTH BY DEVICE, U.S Q2 2013 – Q2 2017



COMPOSITION SHARES BY QUARTER

90%	76%	62%	34%	27%
—	—	—	17%	20%
1%	4%	10%	23%	29%
6%	13%	21%	18%	16%
3%	7%	7%	8%	8%

* FourFronts STB VOD and Canoe Phase III integrations



It's no surprise that the devices that dominate the living room, STB VOD and OTT, skewed heaviest toward full-episode content. OTT had more than double the live ad view share of tablets, indicating that people use OTT devices to augment traditional linear TV viewing while tablets may be used more for catch-up viewing.

The content composition on smartphones provides another interesting lens into behavior. While smartphones are traditionally considered to be optimized for consuming short, snackable content, in reality two out of every three premium video ad views on smartphones come from full-episode or live content. In fact, live ad view share on smartphone exceeded that of tablets in Q2 2017. With live content happening throughout the day,

smartphones are a convenient access point for viewers, wherever they happen to be.

SMARTPHONES AREN'T JUST FOR CLIPS ANYMORE. TWO-THIRDS OF PREMIUM VIDEO AD VIEWS ON MOBILE CAME FROM FULL-EPISODE AND LIVE CONTENT.

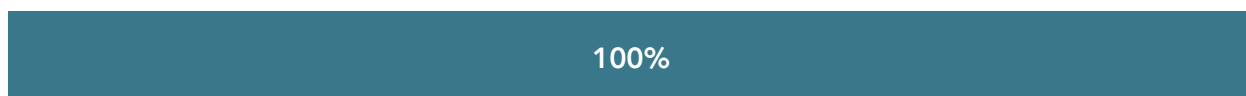
Across all devices, live ad views make up the biggest share for OTT and desktop. As mentioned in FreeWheel's Signature Insights report on OTT, the high percentage of live ad views on that platform reveals how engaged the audiences are and how the viewing is truly incremental to traditional television.

CHART 4

CONTENT COMPOSITION BY DEVICE, AD VIEWS, U.S. Q2 2017

- Clips (0-5min.)
- Full-Episodes (5+ min.)
- Live

STB VOD



OTT DEVICE



SMARTPHONE



TABLET



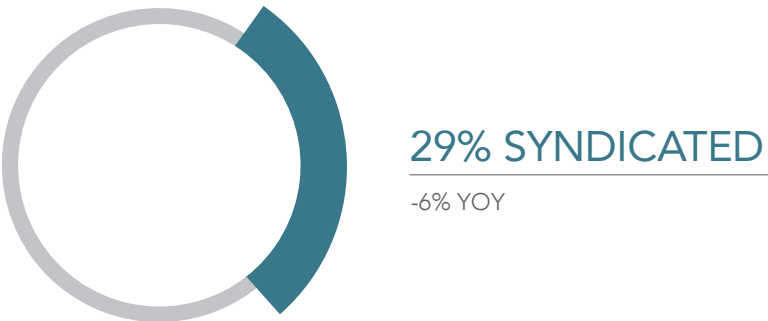
DESKTOP/LAPTOP



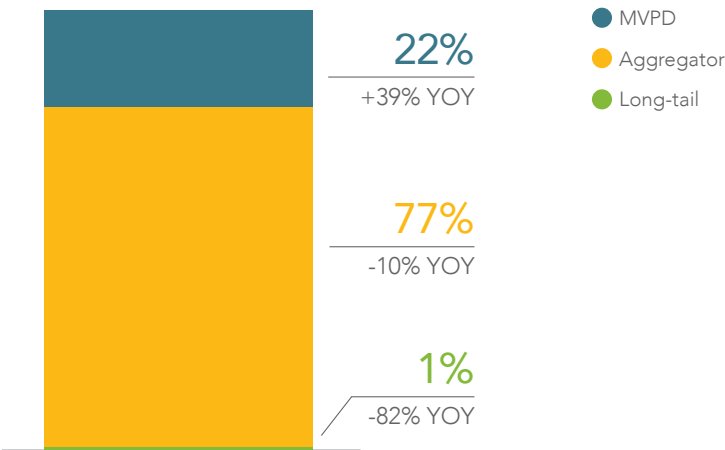
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CHART 5
SHARE AND GROWTH OF AD VIEWS
BY SYNDICATION PLATFORM, U.S.
Q2 2017

TOTAL VOLUME OF AD VIEWS, U.S.



BREAKDOWN BY PLATFORM





SYNDICATION SHIFTS TO PREMIUM ENVIRONMENTS

Publishers continue to favor distribution on their owned and operated properties. Yet syndication, in the right environment, is a highly effective channel to build incremental audience and reach. In Q2 2017, 29% of premium video ad views came from syndicated platforms.

While the top-line syndicated ad views remained flat relative to Q1 2017, MVPD platform ad views grew 39% year-over-year, counterbalancing ad view declines on content aggregator platforms and long-tail sites. The MVPD segment's significant growth illuminates the fact that syndication is becoming increasingly important as operator and programmer partnerships evolve to scale TV Everywhere and virtual MVPD offerings across digital platforms.

This shift from aggregator and long-tail sites to operator environments that require authentication supports the trend observed throughout our analysis that viewers and advertisers place more value on premium video, especially environments and content similar to the TV experience.

MONETIZATION

DIRECT AND PROGRAMMATIC TRANSACTION MODELS SUPPORT GROWING VIDEO MONETIZATION

While publishers continue to push premium video inventory through direct sales models, they are gradually ramping up usage of programmatic sales channels. In Q2 2017, 89% of total ad views were monetized through traditional direct sales, and just under 11% came through programmatic transactions.

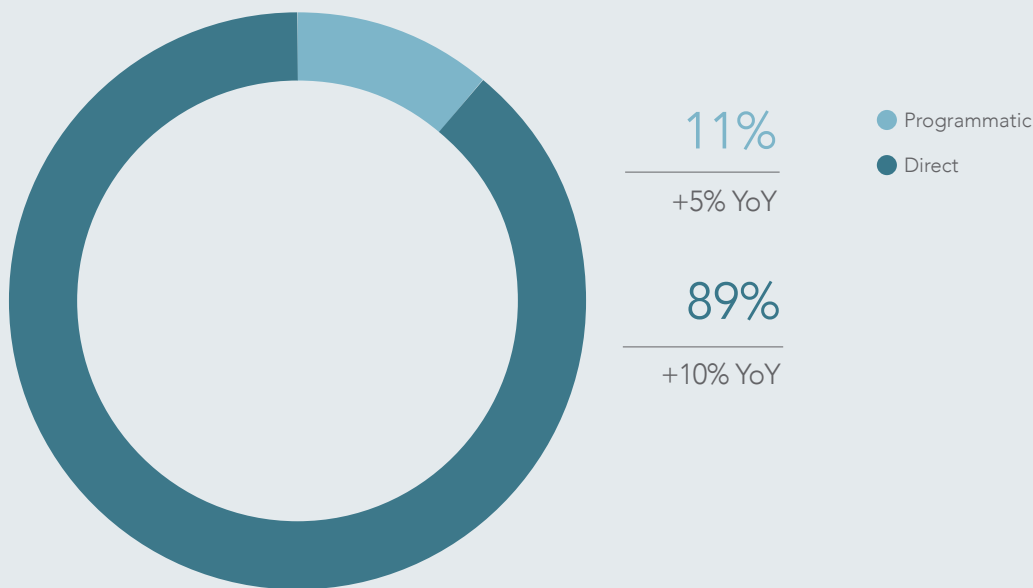
Historically, premium publishers have used programmatic as a secondary monetization

strategy. However, they are gradually increasing the volume and variety (eg. full-episode, OTT, etc.) of inventory they make available for purchase through automated channels. For now, the growth of traditional direct-sold ad views still outpaces that of programmatic as publishers are figuring out how best to take advantage of those demand sources in safe and transparent ways.

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CHART 6

SHARE AND GROWTH OF DIRECT AND PROGRAMMATIC MONETIZATION, U.S. Q2 2017





MONETIZATION

DIRECT SALES BY ADVERTISER INDUSTRY

The top five advertiser industries accounted for 70% of premium video ad views in Q2 2017 and have stayed relatively stable over time. Consumer Packaged Goods (CPG), which again claimed the top industry share, contributed one out of every five ad views. The heavy investment from CPG marketers — who put an especially high premium on ensuring their brand is featured in safe, engaging environments — is a compelling sign that advertisers see premium video as an important channel to get quality reach.

Over the last few years, premium programmers have started to unify their traditional TV and digital sales teams in order create a one-stop shop for agency buyers, who are interested in transacting ‘fluidly’ across different platforms. This means that the transaction models and terms that are standard in linear will become increasingly expected for premium digital video as budgets converge. One such term is

the third-party demo guarantee. In Q2 2017, based on a sample of clients using FreeWheel’s Audience & Measurement Suite, 39% direct-sold ad views were delivered against a demo-guarantee.

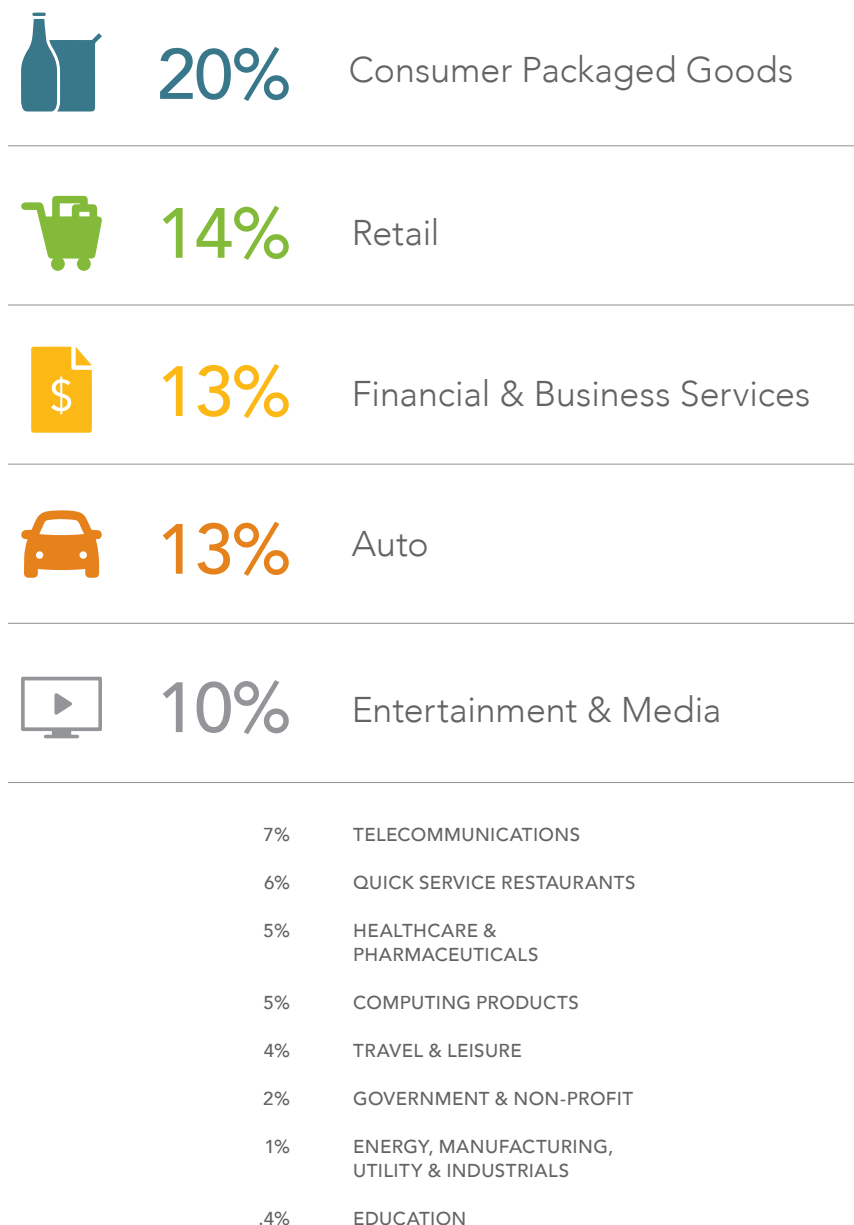
According to a report from the FreeWheel Council for Premium Video (FWC) launching in October 2017 titled, “The State of Unified Video,”¹³ agencies and marketers cited reasons such as ad relevancy and accountability for the increasing share of deals with demo guarantees. However, others who have relied less on demo guarantees said that it may not always be the most efficient currency and are moving from demos towards audience-based guarantees.

39% OF AD VIEWS FROM DIRECT-SOLD DEALS WERE TRANSACTED WITH A DEMO GUARANTEE.



CHART 7

AD VIEW SHARE BY ADVERTISER
INDUSTRY, U.S. PROGRAMMERS
Q2 2017



13. "The State of Unified Video," (October 2017). Available for download October 10, 2017: <http://freewheel.tv/fwcouncil/#freewheel-council-positions>

MONETIZATION

PUBLISHERS FOCUS ON KNOWN BUYERS IN PROGRAMMATIC DEALS

Premium video publishers have historically approached programmatic monetization with more caution than long-tail video publishers. They want to retain control over which ads will serve, uphold data compliance rules, and protect the value of their inventory.

Premium publishers are highly selective about who can buy their inventory. A buyer could be a single advertiser, an agency buying on behalf of one or more advertisers, or a demand-side platform buying on behalf of one or more advertisers. Publishers are able to determine which of these buyers has access to specific segments of inventory. As a result, we can generally divide premium video programmatic transactions into two categories:

1. Private Marketplace

The publisher carves out a specific segment of inventory and grants exclusive access to a set of hand-picked buyers. The publisher may offer the inventory to just one buyer or several buyers, in which case those buyers will compete via auction as that inventory becomes available. These transactions rely on a deal ID, a unique identifier that serves as a passkey to this inventory. This transaction model provides full visibility on both sides, so the buyer knows who the publisher is and vice versa.

2. Open Exchange

The publisher opens their inventory to a larger set of buyers. Similar to private marketplace transactions, buyers will compete in real-time auctions for this inventory. However, unlike a private marketplace, the publisher may not have a pre-existing relationship with the buyer. The publisher thus has much less certainty ahead of time as to which buyers will deliver against these opportunities, and in turn even less visibility into what ad it will serve. Buyers also have no visibility into the specific source of inventory and thus have less control over where their ads will run.

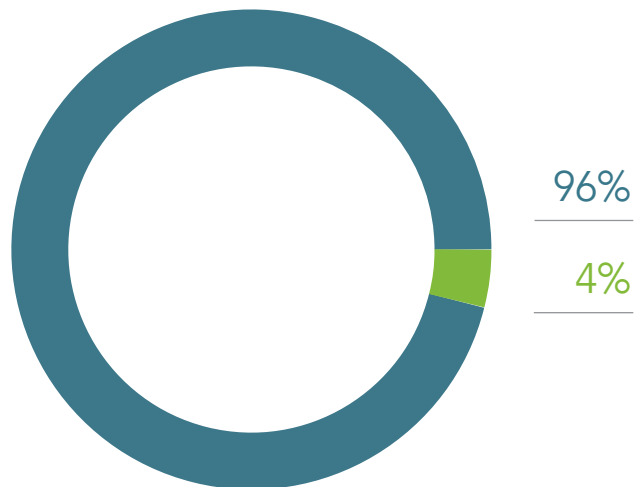
Premium video publishers skew heavily towards private marketplace transactions, which account for 96% of programmatic impressions. This provides the greatest levels of control and transparency to both buyers and sellers. Knowing which advertisers will serve, and where, alleviates compliance and safety concerns that are more likely to arise in a standard open exchange model. Advertisers also benefit from having increased transparency into what they are buying and the source of the inventory.

96% OF PREMIUM PUBLISHER PROGRAMMATIC TRANSACTIONS RELY ON EXISTING BUYER RELATIONSHIPS.

CHART 8

AD VIEW SHARE BY PROGRAMMATIC
TRANSACTION MODEL, BROADCASTERS, U.S.
Q2 2017

- Private Marketplace
- Open Exchange



Data set for this analysis consists of a sample of clients using the FreeWheel SSP.





USER EXPERIENCE

AD EXPERIENCE

Ad experience remains a hot topic with advertisers and publishers as both a challenge and opportunity for innovation.

Across the industry, the sentiment exists that the ad experience on many publishers' sites is driving viewers to seek content on non-ad-supported streaming platforms. As a result, many premium publishers have recently experimented¹⁴ with lower ad loads on linear television and have been gradually reducing the number of ads on digital streams as well.

But the overall ad experience is comprised of much more than the number of ads a viewer is served. The quality, sequencing, and relevancy of the ads all contribute to the viewer's decision to spend more or

less time on a platform. As a result, there have been many recent advancements aimed at improving the viewing experience.

The migration from Flash to HTML5 players on web environments, driven by IAB's recommendation to transition video ads to HTML5 by July 2017¹⁵, is designed to improve both technical performance and user experience by reducing latency in ad load times. After transitioning to HTML5, CNN reported a 67% decrease in loading time for desktop ads and attributes viewer retention improvements to these faster load times.¹⁶ Fox Networks Group is also starting to test six-second ads¹⁷ in addition to the true[x] interactive ad format.

14. "Hallmark Channel to Cut Commercials by More Than Half," (June 2017). Retrieved at <http://adage.com/article/special-report-tv-upfront/hallmark-channel-cut-ad-loads-half/309388/>

15. "IAB Tech Lab Releases Guidance for Transitioning Video Ads From Flash to HTML5/JavaScript," (December 2016). Retrieved at <https://www.iab.com/news/iab-tech-lab-releases-guidance-transitioning-video-ads-flash-html5javascript/>

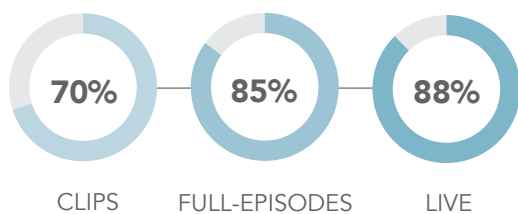
16. "How CNN Prepped For Flashpocalypse," (June 2017). Retrieved at <https://adexchanger.com/publishers/cnn-prepped-flashpocalypse/>

17. "Fox Networks Group to Run 6-Second Ads, Pioneered by YouTube," (June 2017). Retrieved at <http://deadline.com/2017/06/fox-network-group-run-6-second-ads-pioneered-youtube-1202116582/>

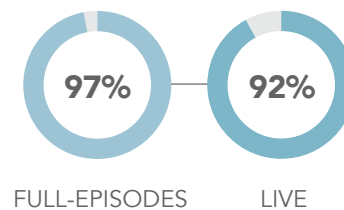
CHART 9

AD COMPLETION RATES BY AD UNIT AND CONTENT DURATION, U.S. Q2 2017

PRE-ROLL



MID-ROLL



USER EXPERIENCE

AD ENGAGEMENT

The fact remains that premium video still delivers high ad completion rates across all content and ad units, even amidst the concern that viewers may be deterred by poor ad experiences.

Ad completion is the highest for mid-roll ads in full episodes and live streams, at 97% and 92% respectively. This exceeds the digital video overall average of 73%¹⁸, and demonstrates the importance of context in producing engaged audiences. Viewers that seek out full-episode and live streamed content are looking to immerse themselves in that content, and that mindset seems to extend to the mid-roll advertising as well.

Across all content, ad formats and ad durations, the ad completion rate in Q2 2017 for premium video was 85%. This is significantly higher than what other digital channels have reported. Facebook recently published a completion rate of 70%+ for in-stream video ads up to 15 seconds¹⁹. This doesn't take into account ads that were longer than 15 seconds, which may have an even lower completion rate on Facebook's platform.

18. "2017 Q2 Video Benchmarks," (2017). Retrieved at <https://4duhi51qwr1221fore2931fd-wpengine.netdna-ssl.com/wp-content/uploads/2017/07/ExtremeReach-video-benchmarks-2017Q2.pdf>

19. "A New Way to Buy In-Stream Video Ads on Facebook Audience Network," (August 2017). Retrieved at <https://www.facebook.com/business/news/a-new-way-to-buy-in-stream-video-ads-on-facebook-and-audience-network>

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CHART 10

AVERAGE NUMBER OF ADS PER
MID-ROLL BREAK, FULL-EPISODES, U.S.
Q2 2017

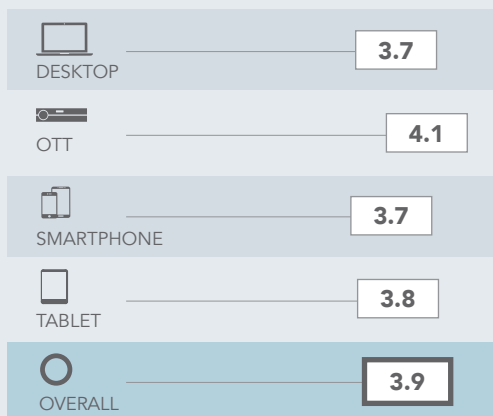
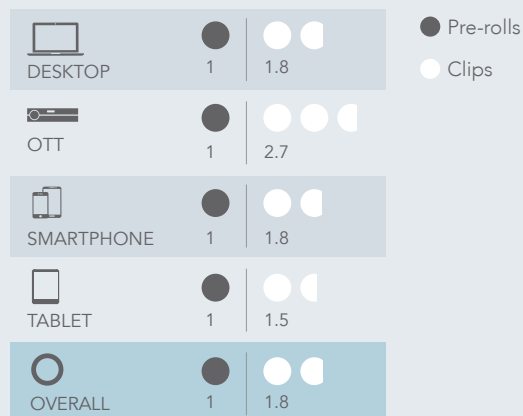

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CHART 11

AVERAGE RATIO OF PRE-ROLLS
TO VIDEOS, CLIPS, U.S.
Q2 2017



USER EXPERIENCE

AD LOAD

For many publishers, the quantity of ads seen during video content is often one of the first things to come to mind when discussing ad experience. As a result of audience complaints gathered through surveys and online reviews, many publishers have made it a priority to re-evaluate their ad experience and test lighter ad loads. Although the overall effects remain to be seen, advertisers on TruTV and TNT saw a 30-39% lift in brand awareness after the network reduced ad loads on their linear television channel, according to the company's research²⁰.

In Q2 2017, premium full-episode content averaged just under four ads per mid-roll break, and 100 seconds in total duration. For short-form clips, the average ad-to-content ratio was 1 to 1.8, in other words one ad was seen for just about every two videos started. Overall, these ad loads seem very reasonable. However, the lack of variation across devices suggests that publishers may be missing out on an opportunity to fine-tune the ad experience by platform, where sensitivity to advertising could be different.

20. "Some TV Networks Take a Hit from Cutting Ad Time, Benefits Yet to Materialize," (August 2017). Retrieved at <http://www.foxbusiness.com/features/2017/08/14/some-tv-networks-take-hit-from-cutting-ad-time-benefits-yet-to-materialize.html>

USER EXPERIENCE

AD REPETITION

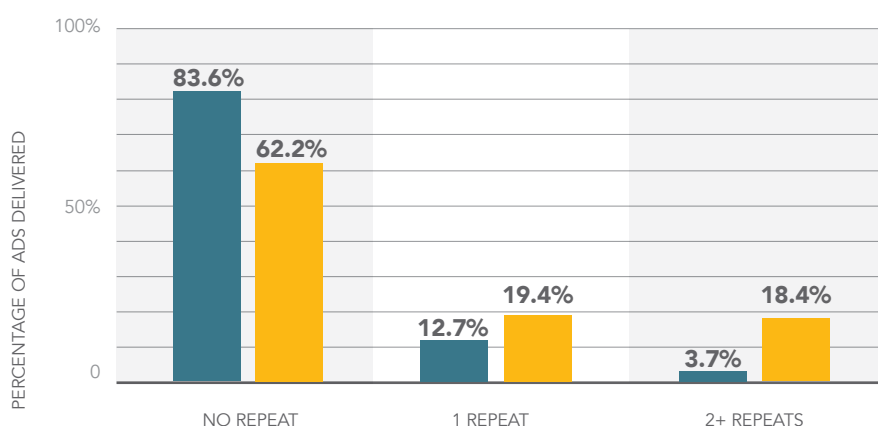
Another prevalent user experience concern is how often the same ads repeat in a viewing stream. Over the past few quarters, publishers and buyers have taken strides to decrease ad repetition, and we're starting to see improvement. While the live ad repetition data shows no change since last quarter, overall ad repetition decreased across full-episode content — which accounts for the largest share of ad views at 61% — a positive sign that that user experience is improving at scale for premium video inventory.

In Q2 2017, 84% of ad views in full-episode content did not repeat ads throughout the viewing session. For live content, 62% of ad views did not repeat within the same stream. Ads are more likely to repeat within live streams since the average viewing session is longer and the number of eligible advertisers may be restricted. Sports programmers regularly face the latter challenge since there can be high concentration from buyers from certain categories, such as auto.



CHART 12

AD REPEAT FREQUENCY PER
STREAM BY CONTENT FORMAT, U.S.
Q2 2017



LACK OF ADVERTISER DIVERSITY CONTRIBUTES TO HIGHER AD REPETITION ON LIVE STREAMS VS. FULL EPISODES.

● Full-Episodes
● Live





Q2 2017 CORE OBSERVATIONS
THE MOST DEFINITIVE DATA
AVAILABLE ON PREMIUM VIDEO
EUROPE

INTRODUCTION

Building upon the detailed analysis on European market trends featured in our Q1 2017 report, we are happy to see a continuation of the growth trends previously observed:

- Increased monetization of premium content through premium distribution channels
- Expanded monetization strategies to account for a wider range of content types
- Continued emphasis on programmatic monetization channels

The overall market growth figures once again show a higher increase in video starts versus ad views compared to Q2 2016. This shows both the maintained focus on user experience in the European premium video ecosystem as well as the future potential of the market.

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CHART 13
TOTAL VIDEO START AND
AD VIEW GROWTH, EUROPE
Q2 2016 VS Q2 2017

44%
YEAR-OVER-YEAR
VIDEO START
GROWTH

21%
YEAR-OVER-YEAR
AD VIEW GROWTH

Over the past year, the FreeWheel European footprint has expanded to include several new clients. In order to maintain parity, these have not been included in the growth calculations, but are part of the Q2 2017 composition figures.

FULL EPISODES DOMINATE, BUT CLIPS ARE GROWING

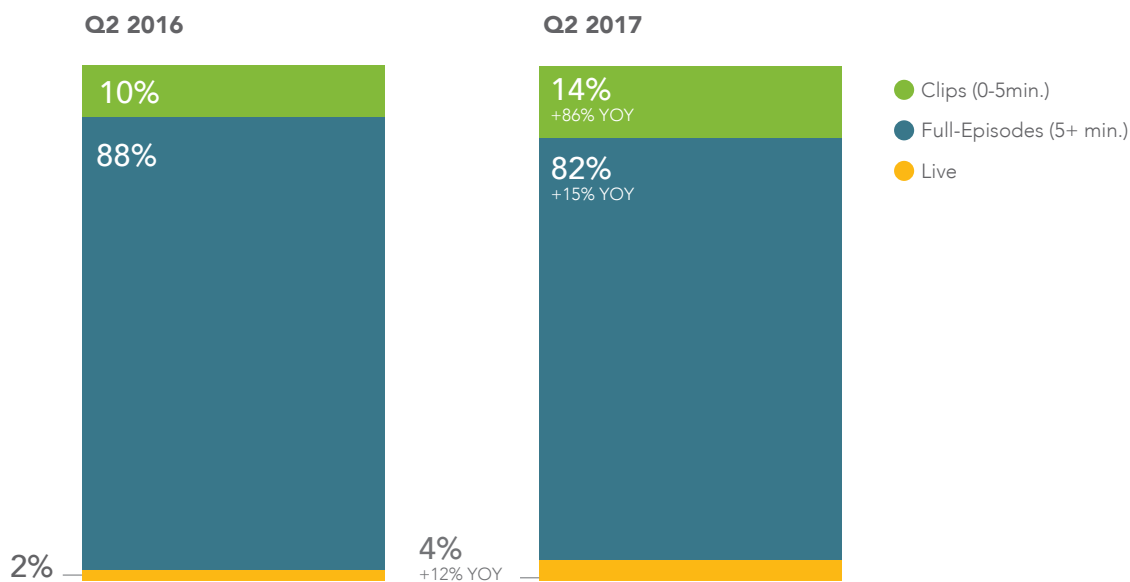
Per the trend we identified in the beginning of the year, all content types have seen further growth in Q2. Relative to the U.S., where the focus has been the shift towards full-episode and live, the European market is still focused on diversification, with more and more clips being monetized through advertising. Compared to Q2 2016, ad views on clips increased by 86%, to an overall share of 14%.

Monetization of live content has maintained a steady presence of 4% with further growth expected in the future, as more of our clients are investing in the technology solutions that will allow them to deliver a premium viewing experience on this type of content.

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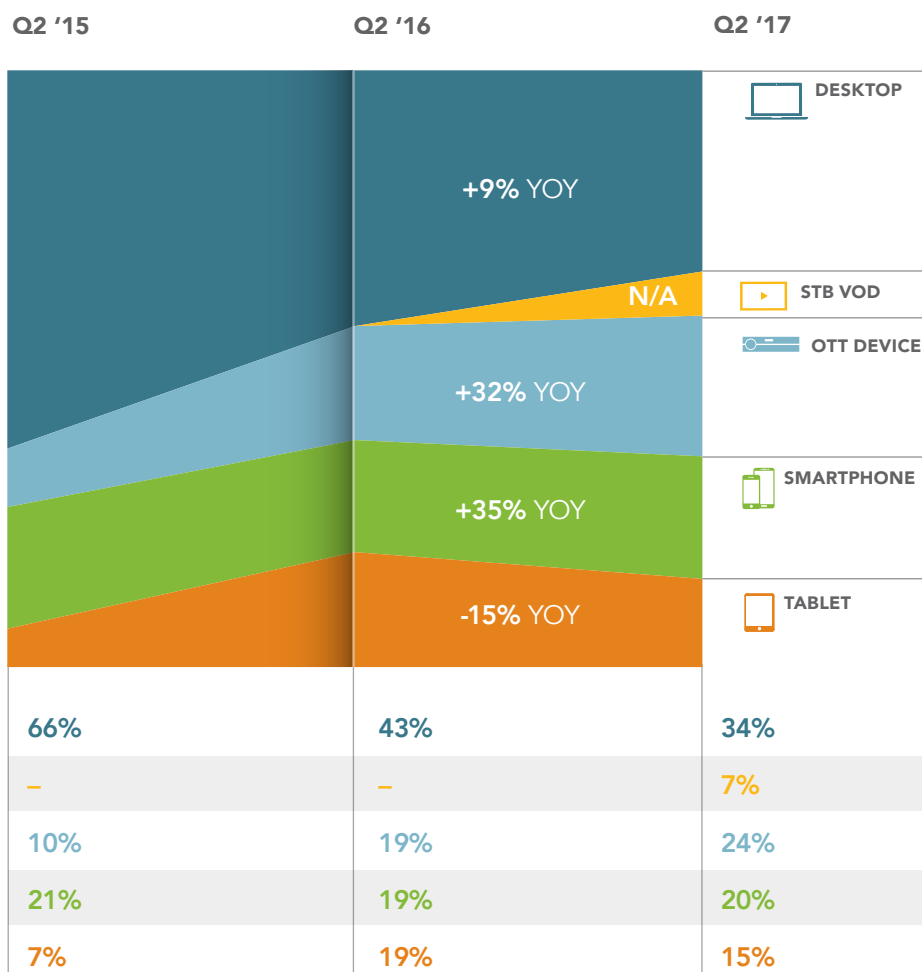
CHART 14

AD VIEW COMPOSITION AND GROWTH
BY CONTENT DURATION, EUROPE
Q2 2016 VS Q2 2017



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CHART 15
AD VIEW COMPOSITION AND GROWTH
BY DEVICE, EUROPE
Q2 2015 – Q2 2017



OTT POSITIONED FOR SIGNIFICANT GROWTH

The distribution of devices that premium publishers deliver their content through remains very closely divided between: mobile devices (smartphones and tablets) 35%, living room devices (OTT and STB VOD) 31%, and desktop 34%. This is significantly different from the U.S. market, where living room devices hold a share of 49% of all ad views.

However, in line with this trend, the share of OTT has moved from 19% in Q1 2017 to 24% in Q2 2017.

This positions OTT monetization with the biggest growth potential in the region. We can say that this is expected because, while still allowing for a TV-like viewing experience, OTT devices compared to STB VOD have much shorter technology enablement cycles and our clients can easily start monetizing their content through these types of devices.





OPERATOR PARTNERSHIPS DRIVE SYNDICATION

The main syndication channel for European premium publishers is through their operator partnerships. We expect to see these partnerships grow and be further enhanced through the use of viewer data. This is where, ultimately, the true value of this partnership will shine through, by offering marketers the ability to find audiences across all distribution platforms.

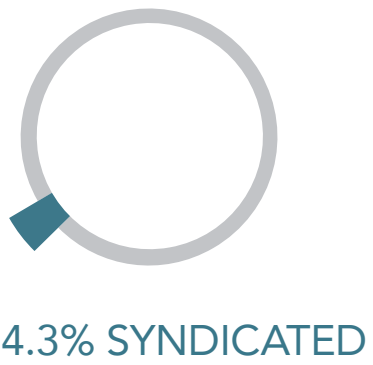
This view is shared across the industry, where there are high expectations that the business models

agreed upon between operators and programmers should align with the technical integrations currently being developed to allow for even further increases in their partnership potential²¹. The European market needs to reach an agreement on how to share revenue between the two parties, based on the value that they each bring to marketers and the overall ecosystem.

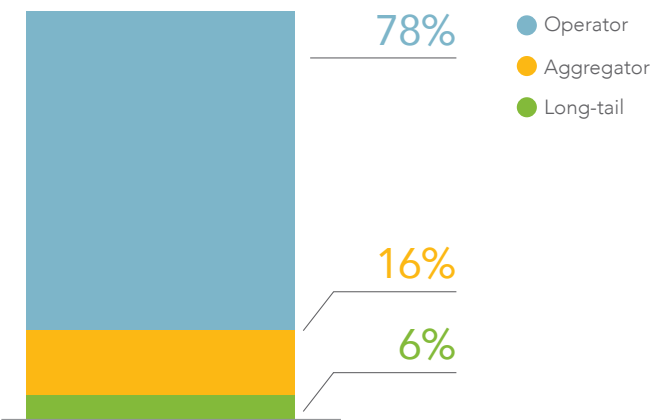
CHART 16
SHARE OF AD VIEWS BY
SYNDICATION PLATFORM, EUROPE
Q2 2017

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TOTAL VOLUME OF AD VIEWS



BREAKDOWN BY PLATFORM



21. "Broadcasters and Pay TV Operators Need to Agree on Sharing Revenue for Addressable TV Advertising," (August 2017). Retrieved at <http://videoadnews.com/2017/08/29/broadcasters-and-pay-tv-operators-need-to-agree-on-sharing-revenue-for-addressable-tv-advertising/>

PROGRAMMATIC ATTRACTS MORE DEMAND

During the first half of 2017, more premium publishers across different markets have started to monetize their content through programmatic channels. Some of them are incentivized by automation, others by the ability to use data or increase the value of their inventory through auction. This has kept the percentage of ad views monetized programmatically above 20% in Q2.

This is the first quarter in which we have started to look at how the different transaction models offered by FreeWheel Markets are divided across the U.S. market. Based on our client knowledge, we expect the European share to be dominated by private marketplace deals, and we look forward to expanding this research in future issues of the VMR.

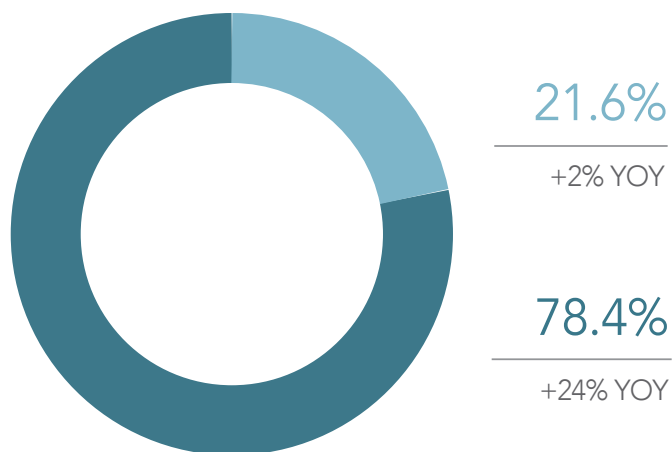
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CHART 17

SHARE AND GROWTH OF DIRECT AND PROGRAMMATIC MONETIZATION, EUROPE Q2 2017

● Direct

● Programmatic



PREMIUM USER EXPERIENCE DOMINATES FULL-EPIISODE

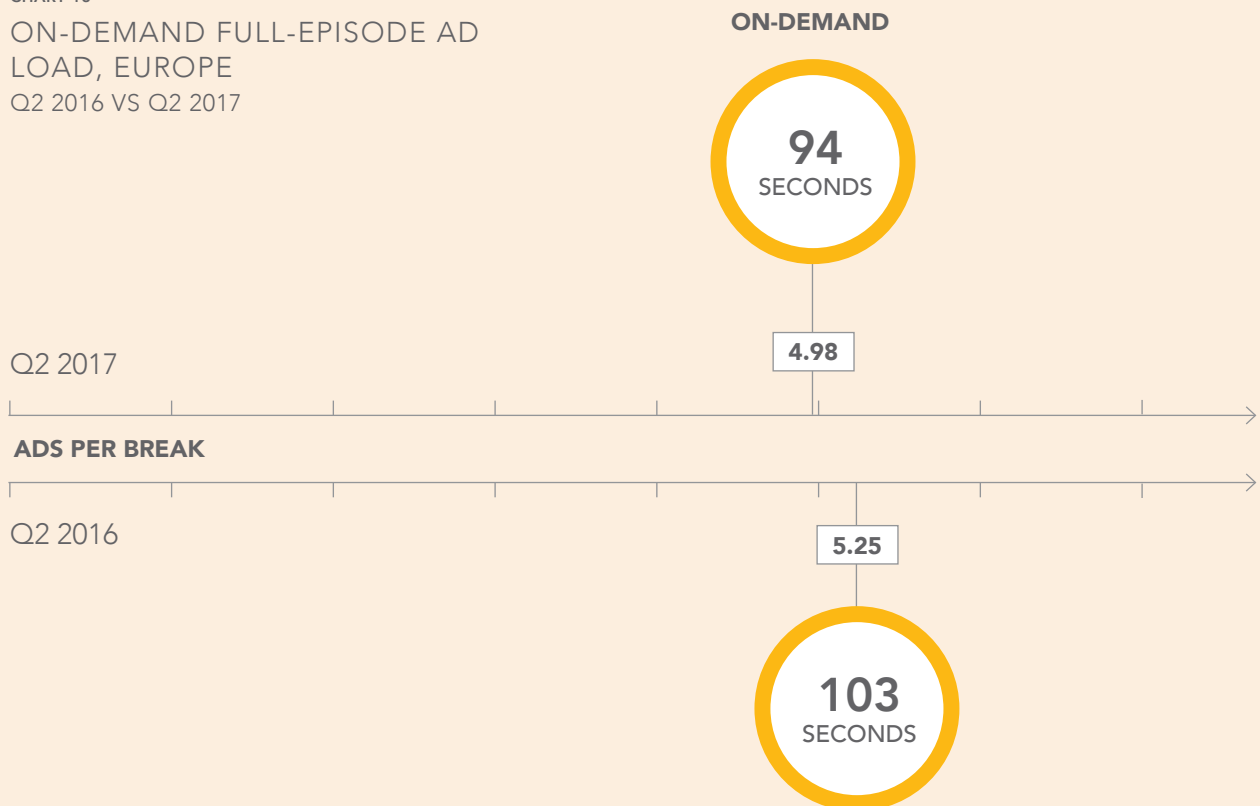
As the balance of ad views continues to trend toward premium devices, European publishers are focusing significantly on keeping a high quality of user experience. We can also see this through the drop in ads per break from 5.25 in the second quarter of 2016, to 4.98 ads in 2017. The duration of the break has also decreased in proportion with this trend.

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A big opportunity that still exists with European publishers is to find the right user experience for the right category of users, enabling them to increase overall ad load.

CHART 18

ON-DEMAND FULL-EPIISODE AD
LOAD, EUROPE
Q2 2016 VS Q2 2017



Q2 2017 CONCLUSION

As we progress further into 2017, the differences between the historically separate worlds of digital and linear television continue to fade. The changing landscape will continue to yield new business models as publishers explore diverse methods of monetizing their content. Monetization strategies aside, the appetite for premium video is at an all-time high, and viewers have increasing expectations around content quality, availability, and ad experience. Keeping this change and uncertainty in mind, our data points toward an optimistic future. Declining rates of ad repetition combined with ad view growth can tell us only one thing: publishers are selling advertising inventory in higher quantities to a more diverse portfolio of clients. This means more room for investment in the premium content we all know and love and an ad experience that works for viewers and advertisers alike.

Tune in next quarter for our view into the evolving premium video industry.



YING WANG

As Director of Advisory Services at FreeWheel, Ying Wang leads the company's Business Advisory Practice. In this role, she partners with enterprise and emerging media companies to develop and execute strategies for digital video that improve viewer experience, maximize yield, and grow revenue. Prior to FreeWheel, Ying advised media and retail companies as part of Oliver Wyman, a global management consultancy, and worked in Digital Distribution for the international division of Warner Bros. Home Entertainment.



JEREMY SCHER

Jeremy Scher is an Associate in FreeWheel's Business Advisory practice. In this role he collaborates with media clients to grow and evolve their digital businesses through consulting engagements. His portfolio includes projects such as competitor benchmarking analysis, yield management, process optimization, and workshop development. He is also a regular co-author of the Video Monetization Report and has contributed towards other market-facing thought leadership. Before FreeWheel, Jeremy worked in Accenture's Management Consulting practice.



KIMBERLY GOUGHNOUR

Kimberly Goughnour is an Associate in FreeWheel's Product Advisory Practice. In this role, she works with media clients to provide tactical and strategic guidance to maximize the utility of the FreeWheel product suite. Her portfolio includes network design, new integration/feature implementation and process optimization. Prior to working at FreeWheel, Kimberly managed programmatic campaigns at large agency trading desks before transitioning to VideoAmp, where she focused on go-to-market execution for its cross-screen video Demand Side Platform.



MIRUNA DOGARU

As Lead of Advisory Services at FreeWheel, Miruna Dogaru represents the European Business Advisory Practice. In this role, she works with new and experienced media companies to identify and implement digital strategies, maximize yield and drive operational efficiency. Before FreeWheel, Miruna advised media and technology companies as part of Deloitte Digital.

Special thanks to: Steven Rosenblum, Xu Yao, Alexander Groysman and Steve Paule

Ad View

An impression that is accrued after the first frame of an ad is displayed

Aggregator

A high-traffic content aggregator, for example AOL or MSN

Content Verticals

Content genre, e.g. news, entertainment, sports

Deal ID

Unique deal identifier of a programmatic transaction that can be used to match advertisers and publishers directly

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

FreeWheel Council for Premium Video (FWC)

Serves the interests of those in the premium video industry through leadership positions, research, and advocacy to promote the premium video economy

Impression

Occurs each time an ad is displayed. Synonymous with "ad view"

Inventory

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

Linear

Traditional broadcast, cable, or satellite television

Long-tail

Small scale/niche content aggregators

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

Operator

Provides pay TV services in the EU, functioning similarly to MVPDs in the U.S. Examples include Sky UK and SFR

Over-the-top (OTT)

Viewing content delivered over an internet connection. Typically seen as OTT Device, which includes devices like Roku, Apple TV, Connected TVs, etc.

Pre-roll

An ad break that occurs before content starts

Premium Video

Video content that is professionally produced, rights managed, and limited in supply

Programmatic

The use of automation software or managed services to execute an advertising deal

Programmer

U.S. publishers that generate the majority of their advertising revenue from linear TV services and offer a diverse content mix in digital environments as well

Publisher

Producers or syndicators of content. Can be programmers or digital pure-plays

Set-top-box Video-on-Demand (STB VOD)

Accompanies a cable/broadcast/satellite setup. Contains a cable input and outputs to a TV. Integrations via FourFronts STB VOD and Canoe Phase III.

Simulcast

A digital stream of a live event that is simultaneously broadcast on linear TV

Syndication

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

TV Everywhere (TVE)

Apps that allow viewers to access content over the internet by logging in with their MVPD subscription credentials

Video Start

Accrued after the first frame of video content is displayed. Formerly referred to as video view

Virtual MVPD

Digital-only cable alternatives that offer access to both live and on-demand premium video content for a subscription fee



FreeWheel

Video
Monetization
Report

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.

The data set used for this report is one of the largest available on the usage and monetization of professional, rights-managed video content worldwide, and is based off of census-level advertising data collected through the FreeWheel platform.

#FreeWheelVMR



Video Monetization Report

Q2 2017

FreeWheel.tv

 @FreeWheel

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#FreeWheelVMR

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