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STATE OF THE INDUSTRY

LiveRail's Q4 2008 review of online video advertising

LiveRail Research Department

Highlights:

- Internet Video Overtakes TV Consumption for 18-24 Year Olds.
- Next-generation TVs Hint at Future of Ad Delivery
- Time Spent Watching Online Video Up 40% in 2008
- Video May Be Immune From Advertising Downturn; Average CPMs Up.
- Q4 Sees Volume of Unique US Online Video Viewers Surge Past 125m
- Will Mobile Video Be the Breakout Ad Product of '09?

Internet Video Overtakes TV Consumption for 18-24 Year Olds

Q4 2008 saw the valuable 18-24 year old demographic spend more time watching internet-distributed video content than “traditional” broadcast television, according to a survey conducted by LiveRail in December.

LiveRail CEO Mark Trefgarne commented, “We were genuinely surprised by the results of our survey. We polled several hundred under-25 year olds, and an overwhelming majority are now watching as much or more video content online as on regular TV. For advertisers seeking to reach this valuable demographic, it’s clear that online video is the place to be”.

As younger viewers shift increasingly online, TV is steadily becoming the medium of choice for advertisers wishing to reach an older audience. According to a study released by Magna Global's Steve Sternberg, the five broadcast networks' average live-viewer median age reached 50 for the first time last season - this marks the first time ever that the major networks' median age has slipped outside the vaunted 18-49 age group. Fueling the graying of the networks: the rapid aging of ABC, NBC and Fox’s average audiences. The CBS audience age, traditionally the oldest-skewing network, has remained fairly steady.

LiveRail’s survey included over 400 respondents in the 18-24 category and was conducted online (via popular social networks such as Facebook and Myspace). Of these respondents, 53% stated that in an average month they spent “*More time watching online video than TV*”, 19% said they watched “*About the same*” and 28% said they watched “*More TV than online video*”

Next-generation TVs Hint at Future of Ad Delivery

Next-generation TV sets, dubbed by their manufacturers as “broadband-enabled”, have begun to hint at the future direction of internet video, and with it, the very future of video advertising. Recent announcements from manufacturers have shown that in the near future, internet-based delivery of video content will become a mainstay for content distribution, opening new opportunities for ad insertion, optimization and personalization.

Manufacturers such as LG have begun by building-in support for premium subscription services such as Netflix On Demand, which are of course ad-free. For ad-supported content channels, technology vendors such as LiveRail and BlackArrow can provide ad insertion tools to enable the true, dynamic serving and reporting that advertisers have become accustomed to on the Web, which should aid the transition to new video viewing environments.

Whereas traditional TV advertising has relied on per-show and DMA targeting, broadband-enabled TV and IP-based content channels can tailor advertising delivery on a per-user basis, according to the interests, viewing habits, demographics, time and/or location of every individual viewer. Internet video delivery also allows insertion parameters to be adjusted and optimized to maximize performance on the fly.

Time Spent Watching Online Video up 40% in 2008

Consumption of online video has grown dramatically in 2008. According to statistics from Comscore, frequent viewers are now consuming an average of 273.1 minutes of online video content per month, up from 195 minutes during the previous year. Our own figures suggest this number may be even higher, with viewers on LiveRail-enabled sites spending an average of 51% more time watching video content than at the start of the year.

This trend is being driven primarily by an increase in the availability of quality long-form content. Sites like Hulu and TV.com are delivering full-length television episodes, with many younger consumers now watching as much video online as on traditional television. This time last year, content was dominated primarily by short-form UGC content on sites like YouTube, where average user sessions last a matter of minutes.

Video May Be Immune From Advertising Downturn; Average CPMs Up.

Despite the recent negative economic climate, and concerns over a drop in ad spending, online video appears to have weathered Q4's economic slump. According to a recent survey of its online video publishers conducted by LiveRail in December, average CPM values appear to be rising, with publishers reporting an average payment rate of \$16.40 per thousand in-stream impressions.

PermissionTV also conducted a survey of advertisers to gauge the "tactics on which US marketers plan to focus their online marketing budget in 2009", with the top response being video. 66.8% of marketers suggested that video would be their among their priorities for 2009, versus just 22.8% for banner advertising.

Despite the optimism in the market and the growth in average CPMs, there does appear to be evidence that campaign distribution strategies are shifting, resulting in smaller total buys and an ever-growing focus on acquiring "premium" inventory, versus broad media buys.

Q4 Sees Volume of Unique US Online Video Viewers Surge Past 125m

Despite early indications of slowing growth in October, the number of overall unique online video viewers rose again in November, according to Nielsen's VideoCensus. The number of unique viewers in the US during the month grew to 124 million from 120 million in October, with 9.5 billion streams served (up from 8.89 billion the month before) in October.

YouTube and Hulu unsurprisingly led the market growth, with YouTube serving 5.56 billion streams in November, (up from 5 billion the month before), and its number of uniques growing to 84.5 million (from 82.5 million). Hulu served an estimated 220 million videos in November (up from 206 million the month before), but Nielsen estimates that its unique viewer count dropped to 7.5 million (from 9 million during the month of October), primarily due to a drop-off in interest in political content after the 2008 presidential election.

Will Mobile Video Be the Breakout Ad Format of '09?

In the fourth quarter of 2009, the ad industry has seen tentative, but compelling, forays into video advertising within mobile content. With an increasing number of premium content producers (like Cnet and NBC) beginning to publish entire video libraries on their mobile destination sites, and mobile application developers (read iPhone and Android) seeking new revenue sources, this is the first quarter that has seen both high levels of mobile viewership¹ and significant volumes of premium mobile inventory.

Mobile-specific ad serving products like Videoegg's Mobile Ad Frames (currently for iPhone and soon for Android), AdMob for iPhone and LiveRail's iPhone AdManager have recently been released to take advantage of this emerging market, providing innovative ad insertion and display tools for publishers. Given that mobile video viewership is still in an early growth phase, the relative success of these technologies will likely depend on their ability to work within existing workflows (i.e. to support cross-platform delivery of campaigns), and to provide the level of reporting that advertisers and agencies have come to expect from digital media. We anticipate this will be a quickly evolving space in 2009.

¹ estimated 10.3 million US mobile video viewers, *Nielsen January 2009*

VOLUMES AND VALUES

Q4 2008 has been an surprisingly successful period for online video advertising, despite the increasingly difficult economic climate. With ad spending overall showing clear pressures, online video has proven to be relatively resilient.

Overlays

Average overlay click-through rates: 1.2%

Close-out rates for overlays: 69.0%

Click-through rates for standard overlays: 0.9%

Animated overlay click-through rates: 4.2%

Completion rate for overlay-initiated video ads: 90.0%

Click-through rates from overlay-initiated video ads to advertiser websites: 11.5%

Average CPMs for overlay ad campaigns: \$7.40²

Current market size for overlays: approx. \$138m³

In-Stream (pre/mid/post roll)

Average completion rates are 79% for 15 second in-stream units

Average completion rates are 84% for 30 second in-stream units

Click-through rates for in-stream ads to advertiser websites: 1.9%

Average CPMs for in-stream ad campaigns: \$16.40

Current market size for in-stream ads: approx. \$540m⁴

Industry-Wide

- 27.3 billion US video streams estimated for Q4 2008

- Estimated calendar 2008 US online video advertising revenue: \$565m

- Given our overlay and in-stream ad unit data, and assuming each monetized video asset contains 1.2 billable ad units, we find the average monetized video asset nets an eCPM of \$15.77. At this rate, we estimate that 39% of video streams are currently being monetized⁵.

² This figure is dramatically lower than last quarter's stated figure due to a change in methodology; we have begun to include text overlays in this statistic, which produce CPMs in the \$1-2 range

³ Overlays and other non-linear ads estimated to represent 36.2% of video ads served by volume, up from 12% last quarter, due to inclusion of text overlays; market size represents annualized Q4 data

⁴ In-stream ads estimated to represent 63.8% of video ads served by volume; market size represents annualized Q4 data

⁵ This figure is unsuitable for comparison to LiveRail's Q3 estimate due to a change in methodology

FORECASTS

	2006	2007	2008	2009	2010
US Online Video Ad Spend (\$m)	\$214	\$371	\$565	\$876	\$1,226
Growth (%)		73.25%	52.40%	55.00%	40.00%
US Total Online Ad Spend (\$m)*	\$16,879	\$21,206	\$23,600	\$25,700	\$28,500
Growth (%)		25.64%	11.29%	8.90%	10.89%
Video as a % of total spend	1.27%	1.75%	2.39%	3.41%	4.30%

*2008-2010 entries are projections - Source: eMarketer, November 2008

About LiveRail

LiveRail is a San Francisco-based technology company dedicated to providing best-of-breed solutions for online video advertising. The company's multi-platform video ad serving, optimization and reporting tools empower publishers and advertisers to make the most of the opportunities of online video. For more information, please visit www.liverail.com.

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Disclaimer

The figures, statements and statistics contained in this report have been gathered and compiled by LiveRail through observing activity on its own network, collating data/reports from third parties including ad networks, advertisers, publishers and technology partners both formally and anecdotally, statistics gathered from third-party white papers and by general observance of the industry. Statements in this document are accurate to the best of our knowledge; however, LiveRail makes no guarantee as to their accuracy for any purpose.