

2014 AUSTRALIAN

STATE OF THE VIDEO INDUSTRY

THE YEAR OF EXPERIMENTATION IS OVER AS THE VIDEO ADVERTISING INDUSTRY SOLIDIFIES AND LOOKS TO GAIN EFFICIENCY.

This is the second annual report examining the state of the video advertising market in Australia. The report is co-produced by Adap.tv, a division of AOL Platforms, and IAB Australia, and represents the opinions of over 130 media professionals participating in the buying and selling of video advertising. This project has been conducted globally by Adap.tv with over 800 respondents from all major markets.

Publishers, agencies and marketers were invited by IAB Australia and Adap.tv to take part in the survey, with field work conducted in July and August 2014.

Data from the IAB/PWC Online Advertising Expenditure Report shows that the digital video ad market in Australia hit \$196M in financial year 2014, up 76 percent from the previous year, and represented 17 percent of all digital revenue in Q2 2014.

Digital video represented 2 percent of the total Australian advertising market in the first half of 2014 and is now over double cinema advertising revenues and approaching half of pay TV advertising revenue.

Results have been broken out by buyers and sellers for some findings. However, as the industry matures and the lines between organisational functions blur, overall the opinions of both parties is aligning more than previously.

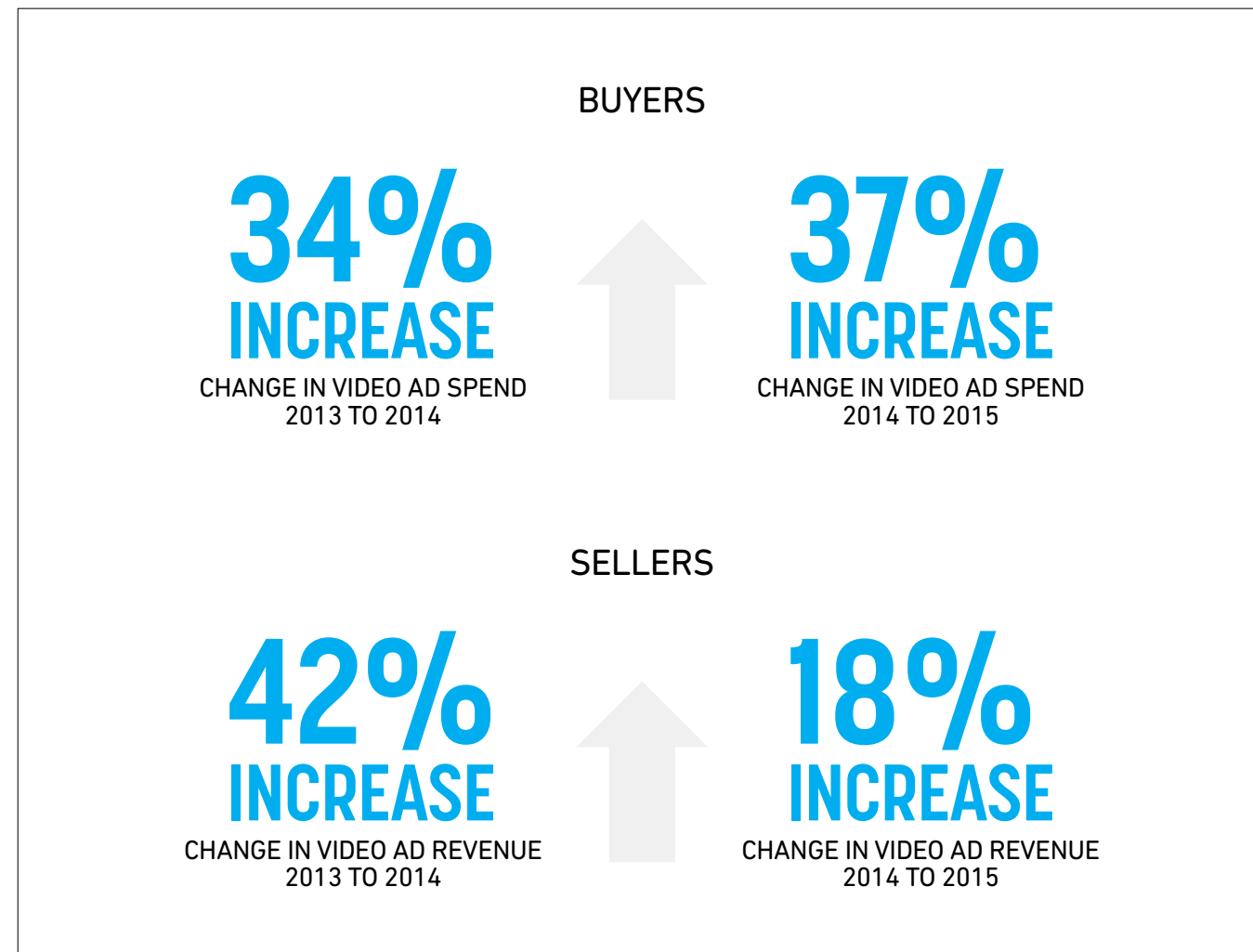
REPORT HIGHLIGHTS:

- Buyers indicate that they are looking to increase their digital video budgets by 37 percent in the coming year.
- Sellers declare that both their inventory levels have increased by 42 percent and their CPMs have also increased by 25 percent. They indicate that over 1/5th of their inventory is being purchased programmatically and over 60 percent are making their premium inventory available through these environments.
- Scarcity of in-demand inventory has increased over the last 12 months as the market grows, with the largest shortage in inventory within long form content.
- Extra spend on digital video to impact current free-to-air TV and print spend followed by moving dollars from digital display.
- Agencies report they are looking for more clarity and consistency in programmatic to aid any increase in investment.
- Only 20 percent of the market feels that they are fully up-to-speed on brand safety issues, including viewability, ad verification and bot fraud.
- 84 percent of agencies are using data targeting to inform their digital video investments with just under a third of agencies (27 percent) are using an automated data-driven process to inform their TV investment.

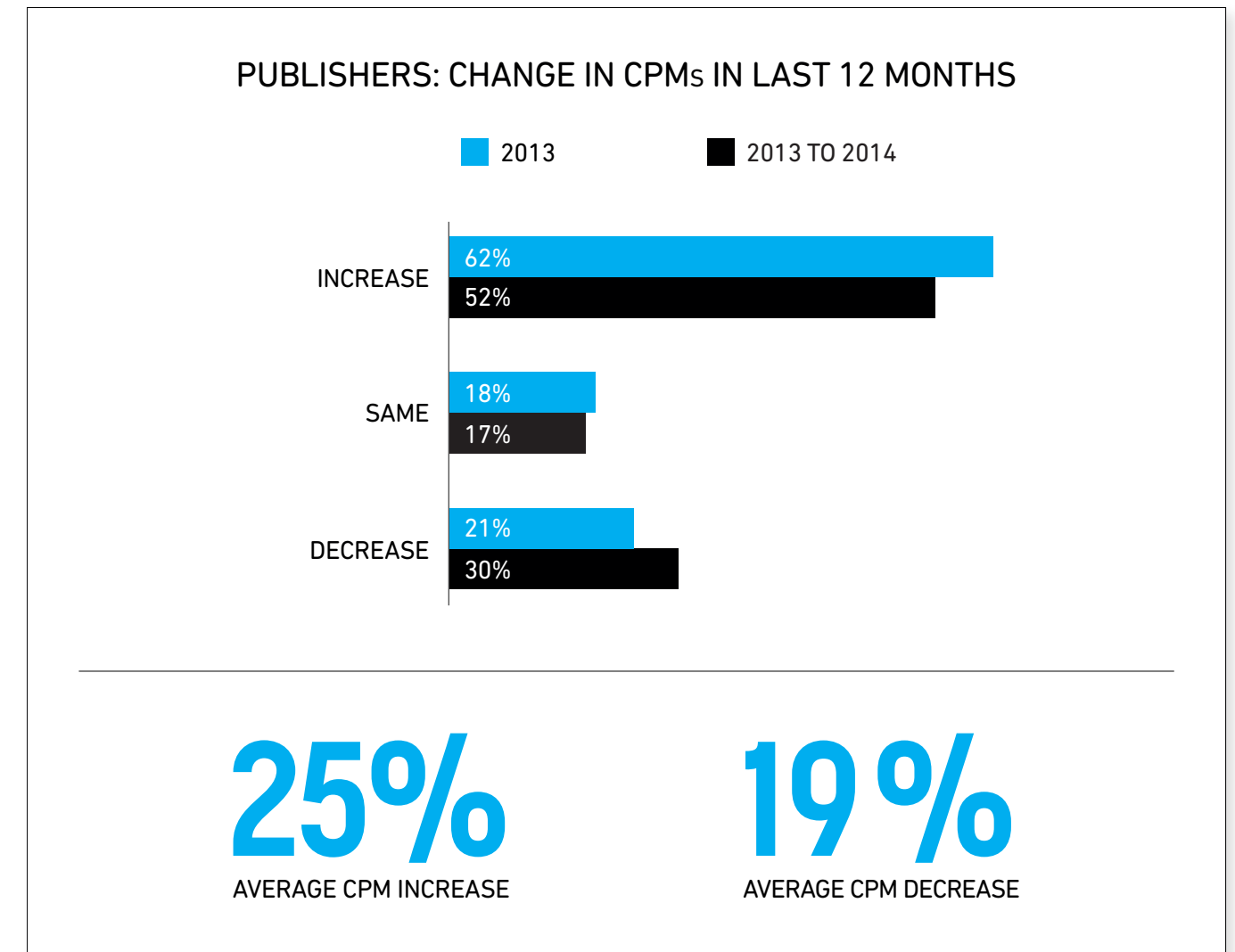
REVENUE AND INVENTORY CHANGES.

Buyers almost universally increased their spend on digital video from 2013 with an estimated change of 34 percent. The market grew faster than this as new advertisers jumped on board. Buyers are indicating an expected 37 percent increase in spend for 2015.

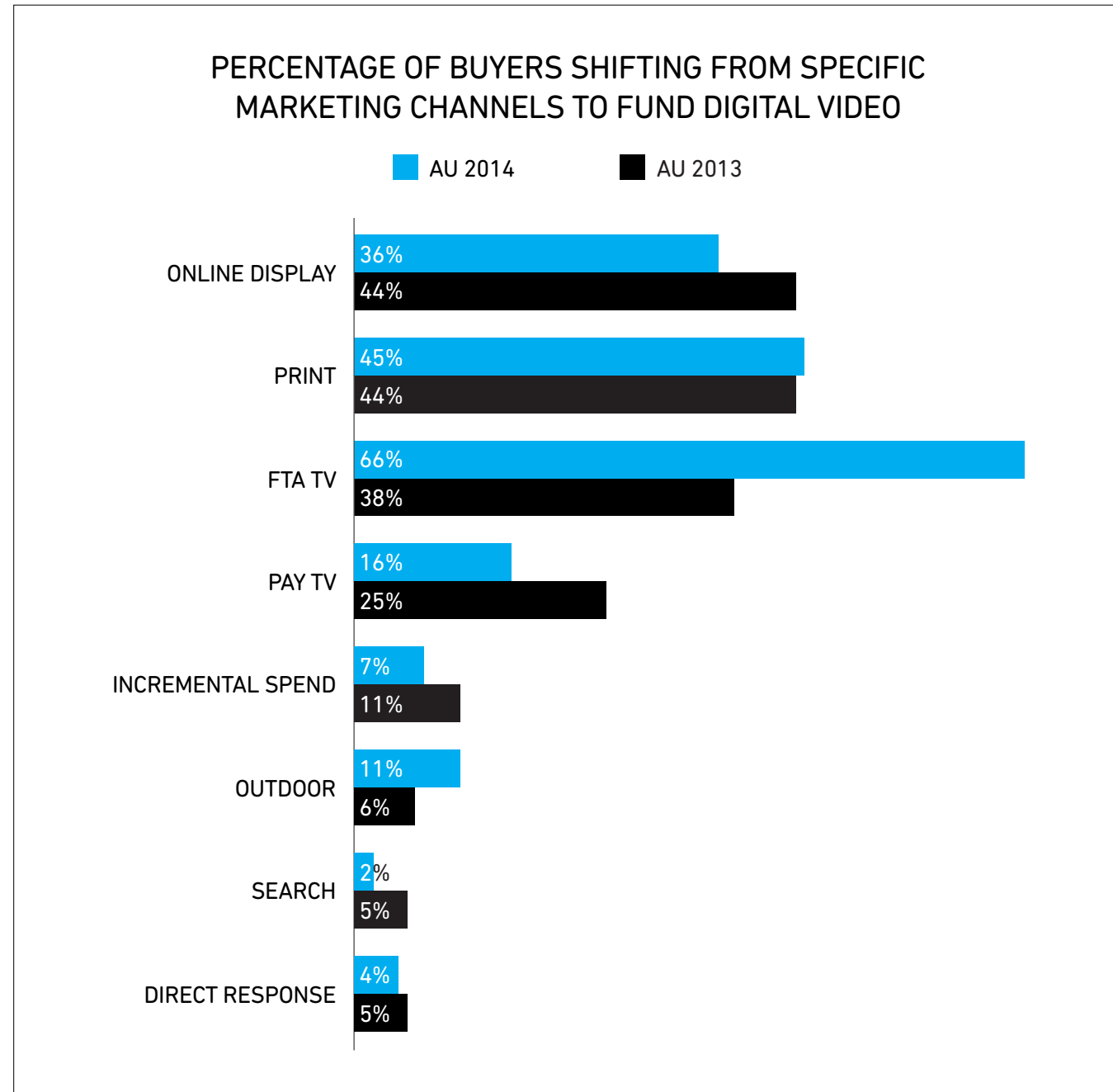
The rapid publisher adoption of programmatic is being bolstered by private marketplaces. There was a 60 percent jump in the number of publishers who operate private marketplaces this year compared to 2013. While two-thirds of publishers still do not operate private marketplaces, a majority—55 percent—said they plan on starting or participating in one within the next 12 months.



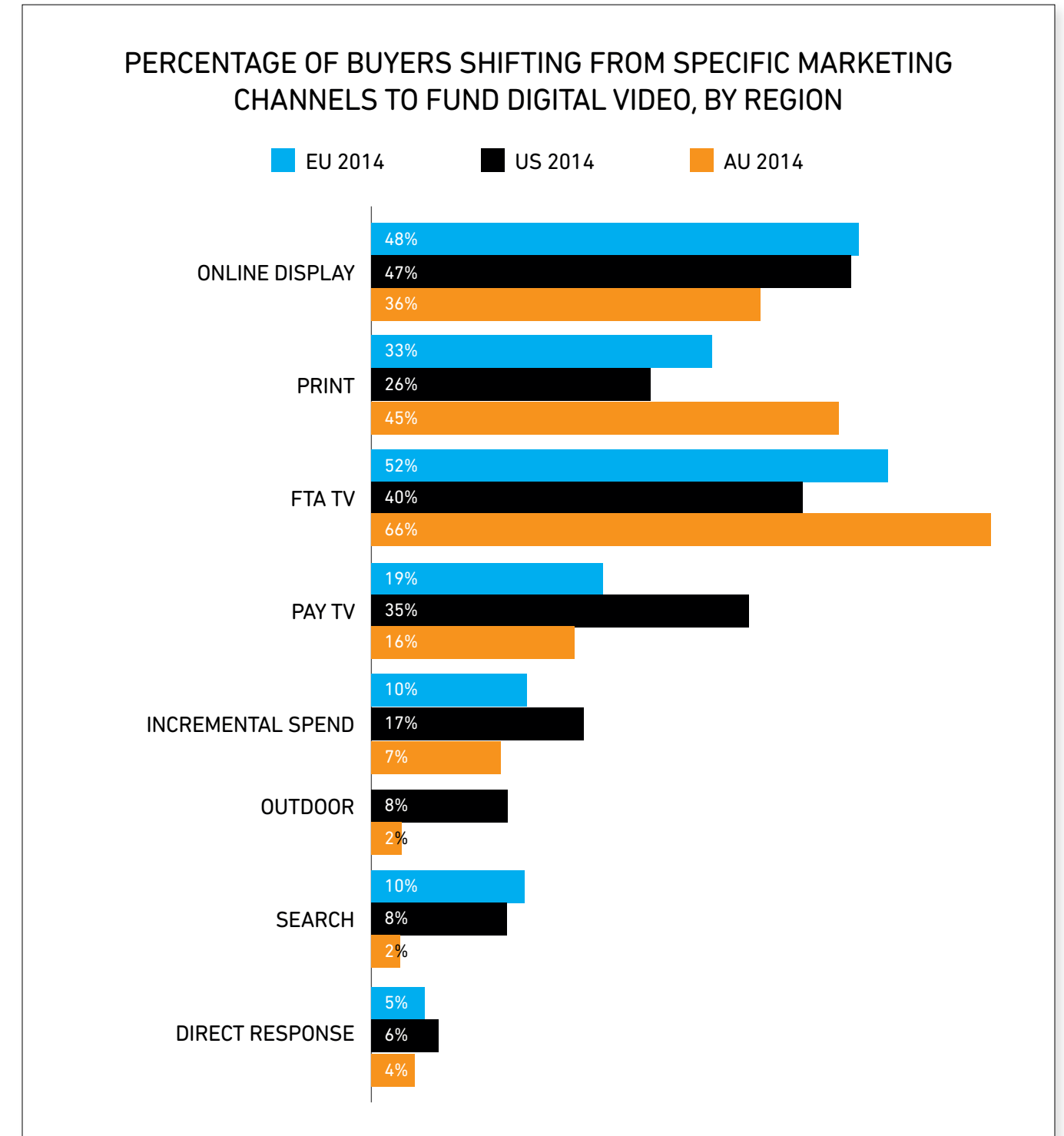
CPMs continue to increase with nearly two-thirds of publishers seeing an average price increase of 25 percent, compared to only 16 percent last year. However, there has also been an increase in the number of publishers seeing a decline, moving from 21 percent to 30 percent in 2014. This indicates that publishers need to continue to optimise the balance between direct and programmatic sales channels to maximise their revenue opportunities.



Last year saw marketers dabbling in video advertising, to the detriment of print advertising, from which advertisers moved budget. This has shifted in 2014 as marketers increased their cross-screen planning to see a larger amount coming from free-to-air TV budgets.



Compared to the US and Europe, Australian media buyers are indicating a stronger impact on their TV budgets but slightly less on their digital display and search budgets.



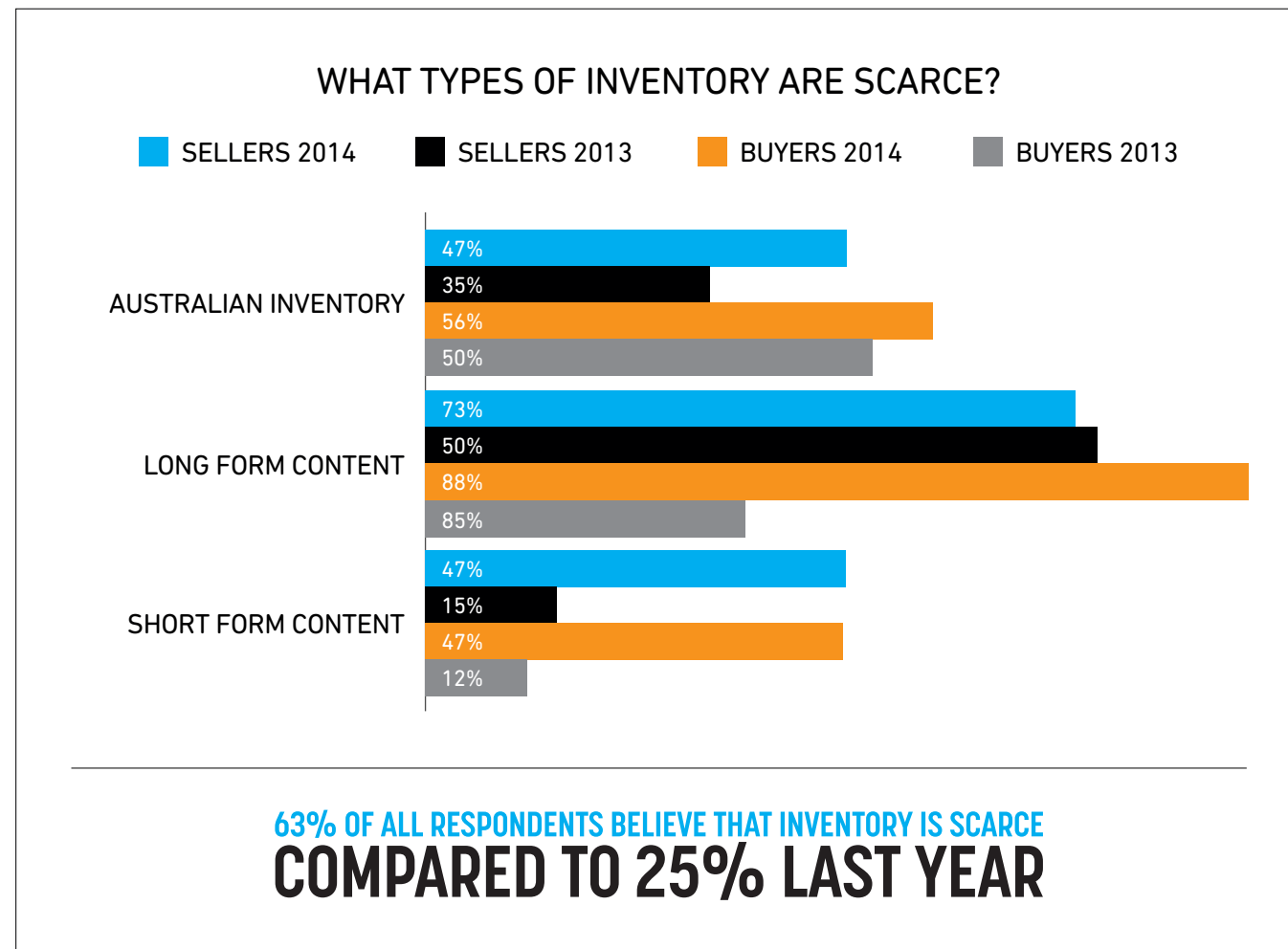
SCARCITY.

Although we continue to see consumption of video content expand across all digital platforms, the perception of scarcity has increased: 62 percent of buyers considered a shortage of inventory a problem, up from 45 percent last year. For sellers, the concern has risen from 57 percent to 65 percent, suggesting that the yield for in-demand inventory is likely to increase further.

Long form content has overtaken Australian-specific inventory as the most pressured area, with 88 percent of buyers concerned about scarcity, a significant jump from 38 percent a year ago. The two categories overlap, of course, indicating there is intense pressure for domestic long form material.

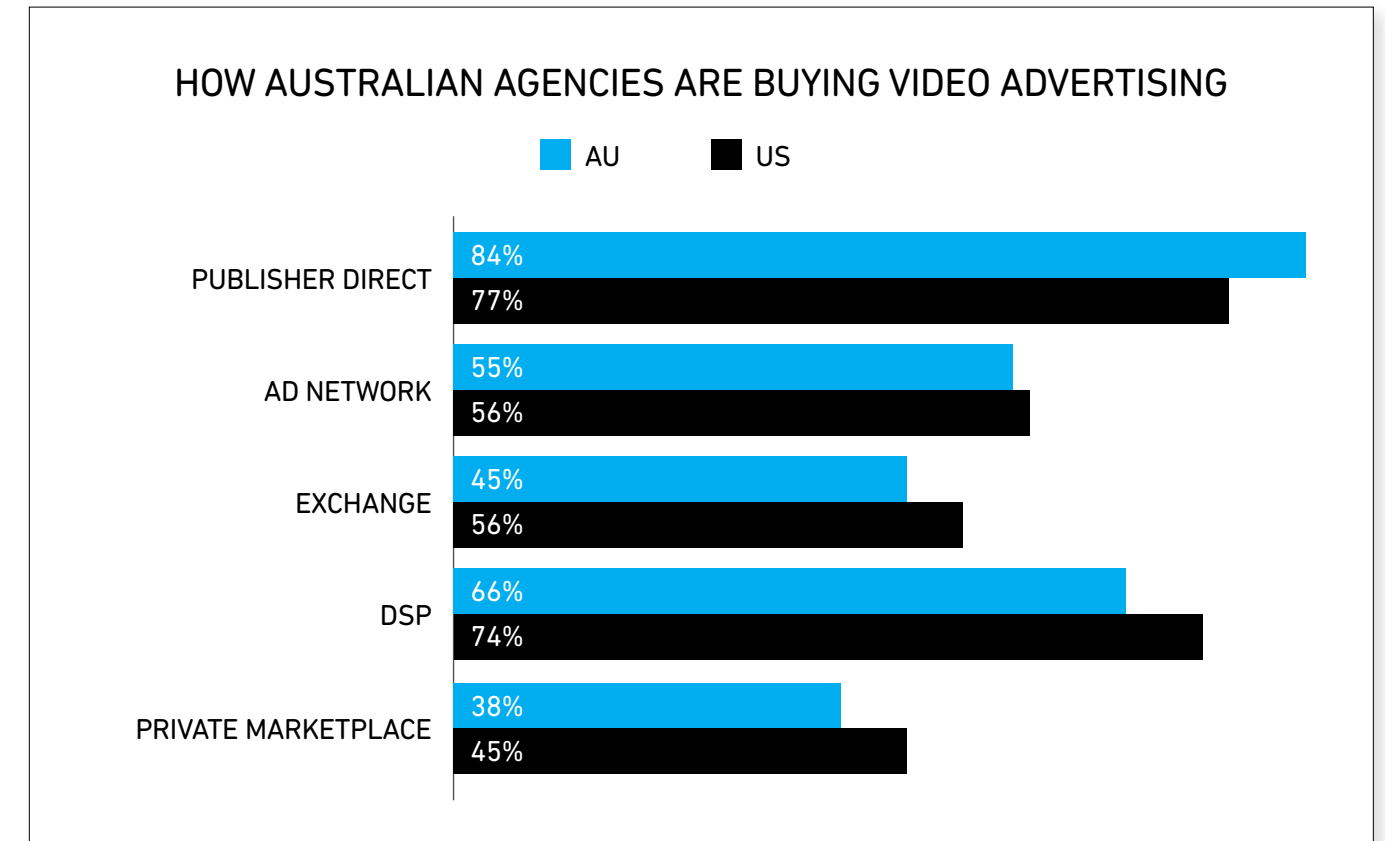
Whilst availability has increased for short form video, a substantial increase in demand means 47 percent of buyers and sellers believe inventory is scarce, triple the figures from a year ago.

Understanding the constraints for inventory, mobile seemed to emerge as a solution: Mobile video is the fastest growing segment of the mobile ad space with 78 percent of publishers now having mobile video inventory available and 84 percent of agencies have purchased mobile video inventory in the last year.



INVENTORY SOURCES.

Australian agencies are more likely to buy direct from a publisher than their US counterparts (84 percent vs 77 percent). More US agencies are currently using exchanges, DSPs and private marketplaces than in the local market. However, there is strong intention for an increase in the use of private marketplaces with 66 percent of respondents not using them currently intending to in the coming year.



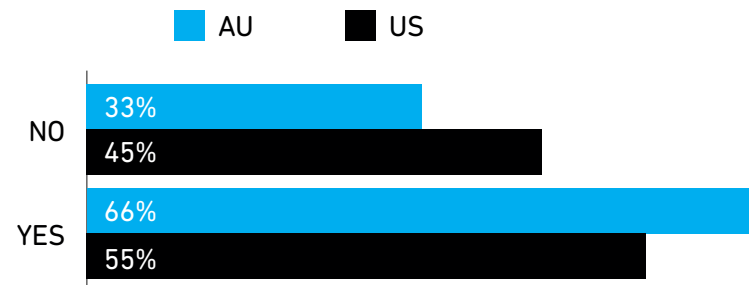
PROGRAMMATIC TRENDS.

Publishers indicate that 22 percent of their video inventory is currently being purchased through programmatic environments. With great demand for premium inventory in programmatic buying, 61 percent of publishers are now making their premium inventory through these environments. Just over two-thirds of agency respondents have accessed premium inventory in a programmatic buy and these buyers indicate that they currently buy a third of their premium inventory this way.

Nearly half of publishers surveyed are currently running a private video advertising marketplace and half of those not currently doing so, plan to in the next 12 months.

Two-thirds of buyers are now including programmatic in their cross-screen planning and buying. Sellers indicate that half of the buys that they processed included at least two platforms.

AGENCIES: DO YOU PLAN TO START PURCHASING VIDEO INVENTORY THROUGH PRIVATE MARKETPLACES IN THE NEXT 12 MONTHS?

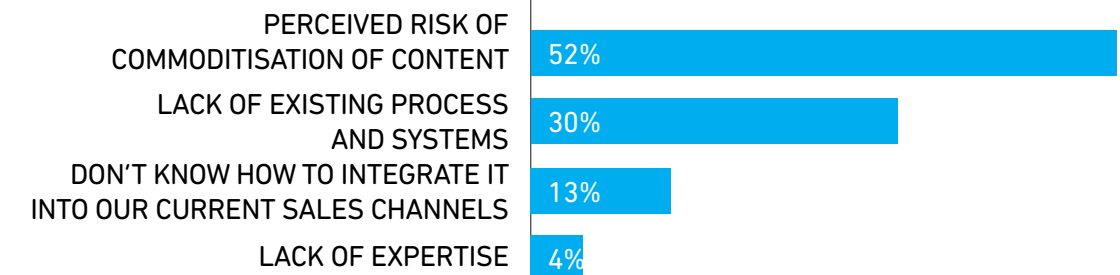


PROGRAMMATIC BARRIERS.

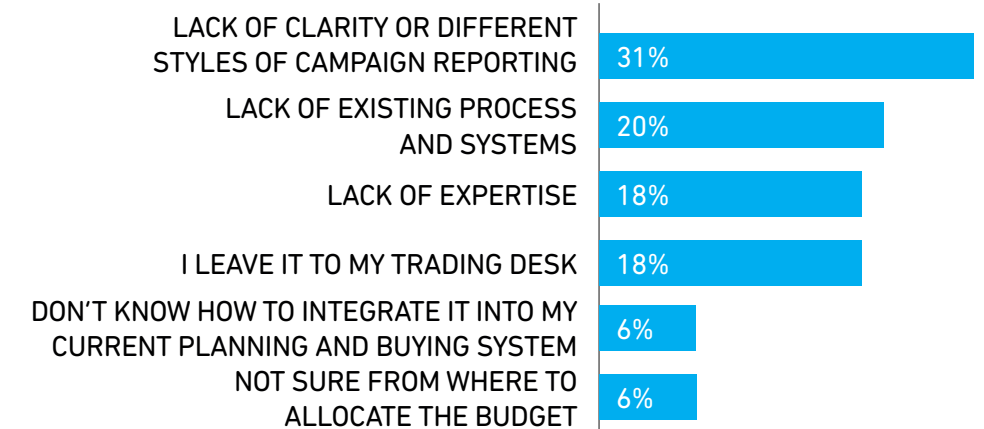
Although publishers are concerned with inventory commoditisation, over half (52 percent) think programmatic can assist with better merchandising of inventory and 39 percent agree that it opens up more buyer demand.

45 percent of agency respondents have brought some programmatic video buying technology in-house, although most of them are using this to drive greater planning efficiency. Only 20 percent have integrated with client marketing automation and CRM systems.

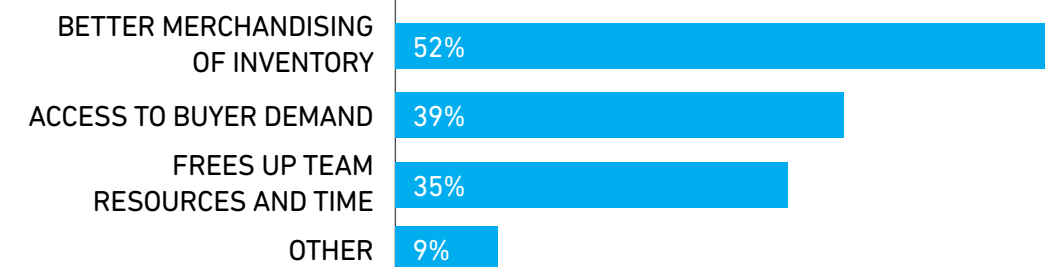
PUBLISHERS: WHAT ARE THE BIGGEST OBSTACLES TO PROGRAMMATIC VIDEO SELLING?



AGENCIES: WHAT ARE THE BIGGEST OBSTACLES TO PROGRAMMATIC BUYING?



PUBLISHERS: WHAT ARE THE ADVANTAGES OF PROGRAMMATIC VIDEO SELLING?

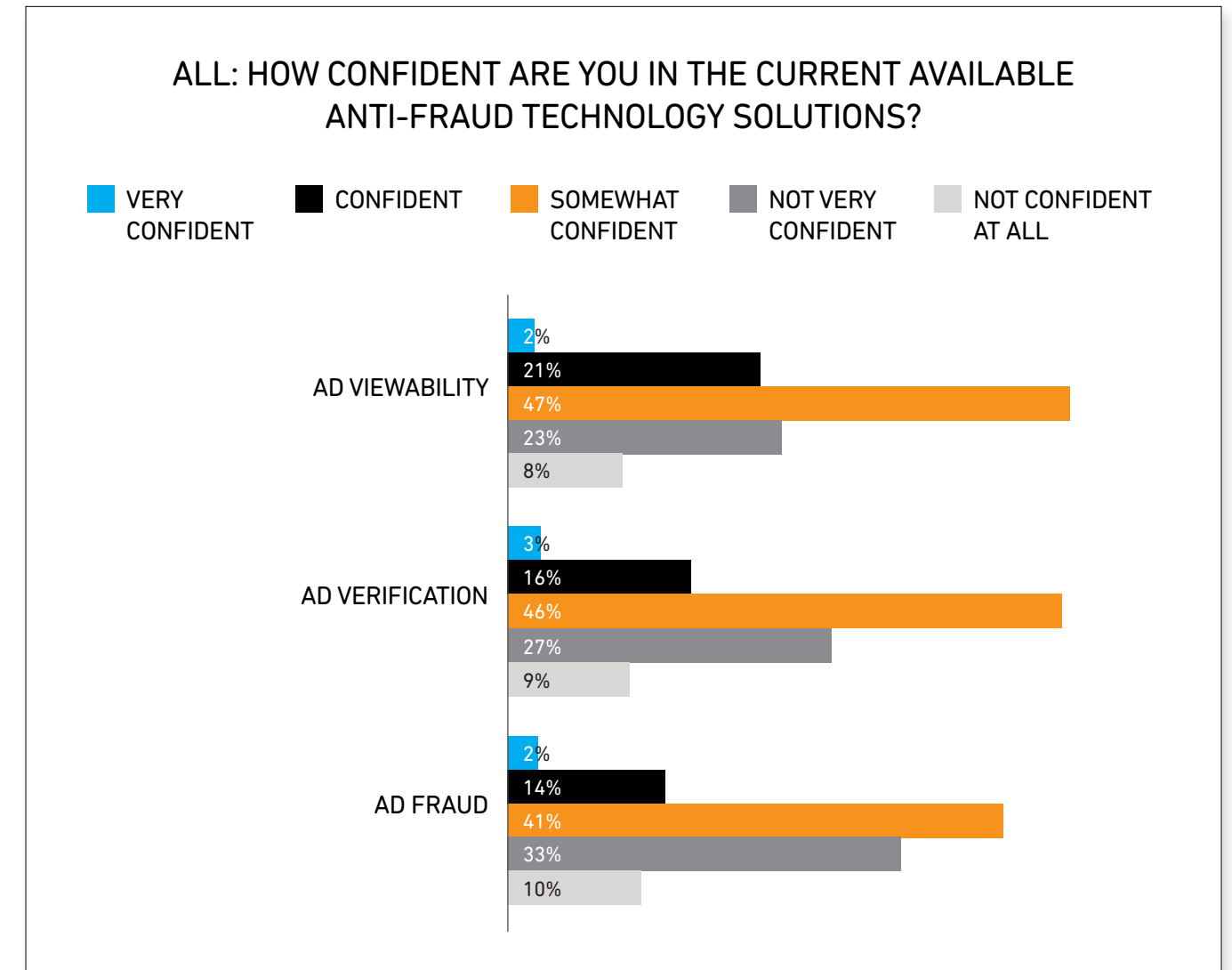
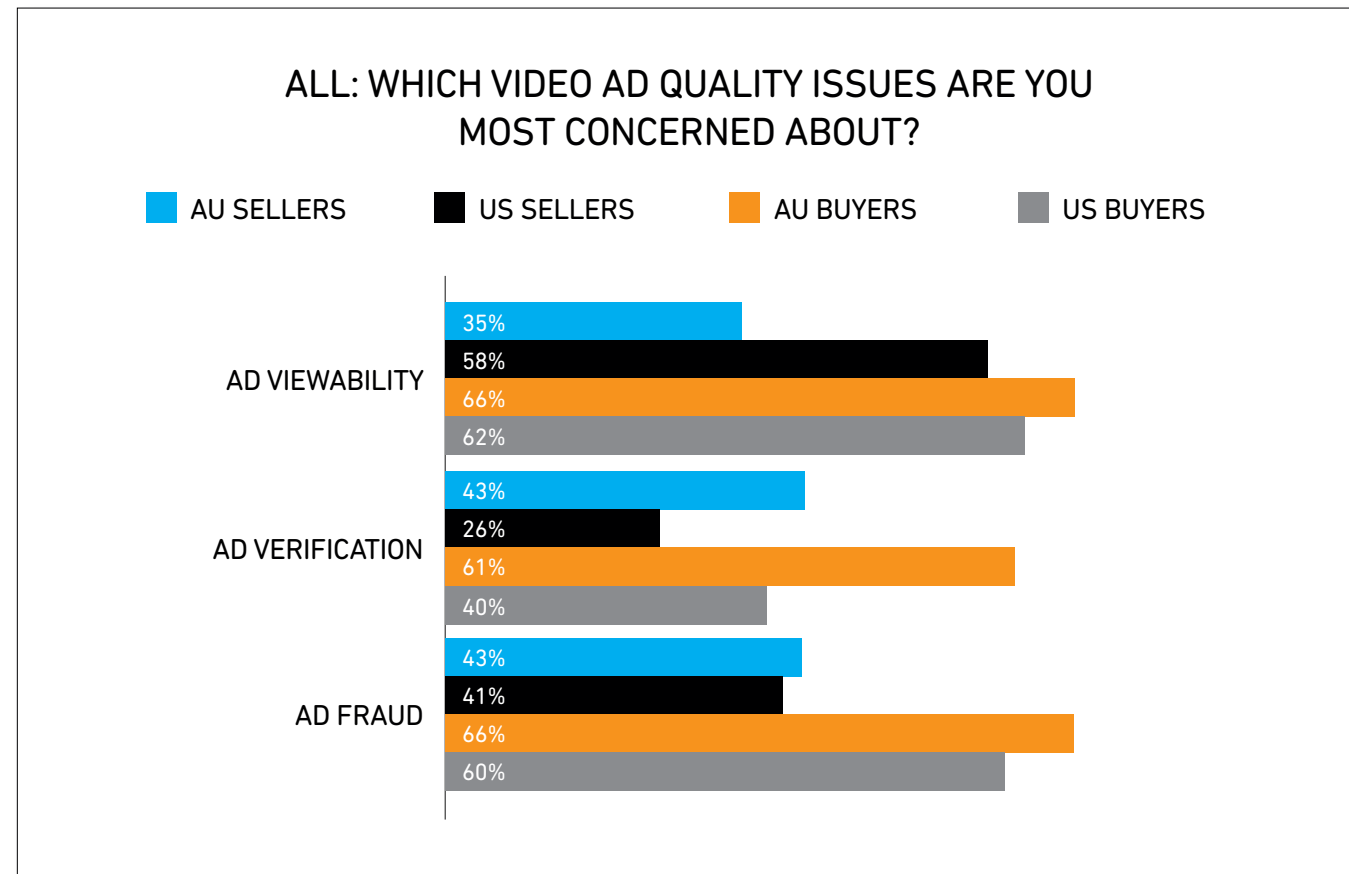


TECHNOLOGY AND QUALITY.

Unsurprisingly, buyers are more concerned with inventory quality control measures around viewability, ad verification and fraud, with two-thirds of local buyers expressing concern on these issues.

However, in the US, viewability has become a major area of review with 58 percent of publishers concerned about this, versus 35 percent of Australian publishers.

Only 20 percent of all respondents feel they are up to speed on all these issues. There is a mid level range of confidence in understanding these issues and the current solutions with fraud being the most vexing. Respondents on the sell side are less confident in the current technology solutions than agencies.



DATA-DRIVEN DECISIONS.

Data targeting is being used for video buying decisions for 84 percent of agencies; of these agencies third-party data is being used by 86 percent to enhance their digital video buying which is in line with the US, and Europe.

The Australian market has embraced data management platforms (DMPs), with 59 percent of agencies currently using one, slightly ahead of US agencies. Half of Australian agencies, not currently using one, intend to in the next twelve months.

Just under a third of agencies (27 percent) are already using an automated data-driven process to inform their TV investment. For buyers carrying out cross-screen buys, 38 percent are using universal IDs to target consumers. However, only 25 percent of buyers are currently using a multi-touch attribution (MTA) vendor to assist them in understanding the impact of their video investments. 44 percent of those not currently doing so intend to next year. This increase is closely tied to the expansion of cross screen (including linear TV) planning and buying.

QUOTES ON CHANGES THE MARKET WILL SEE IN THE NEXT 12 MONTHS:

"A greater blurring of the lines between terrestrial and streamed viewing of TV programming."

"Significant reduction in the amount of inventory available due to client restraints, such as brand safety and targeting."

"There will be a push to trade on-target percentages and viewability. As the lines between TV and online become even blurrier, there will be a push to measure them in an equal fashion."

"Accountability—not the most impressions, the right impressions."

ABOUT THE IAB.

The Interactive Advertising Bureau (IAB) Limited is the peak trade association for online advertising in Australia. As one of over 40 IAB offices globally, and with a rapidly growing membership, IAB Australia's principal objective is to support and enable the media and marketing industry to ensure that they thrive in the digital economy.

IAB AUSTRALIA HAS FOUR CORE OBJECTIVES:

1. To be the 'big tent' for the entire digital advertising industry and define the future of digital advertising.
2. To deliver the benefits of ad funded interactive experiences to Australians.
3. To develop, coordinate and promote industry standards and guidelines that make interactive advertising a simpler and more attractive medium for agencies, advertisers and marketers.
4. To prove and promote the effectiveness of interactive advertising to advertisers, agencies, marketers and the press.

ABOUT ADAP.TV.

Adap.tv, a division of AOL Platforms, is transforming the way video advertising is bought and sold. Adap.tv's video intelligence platform, Pathway, helps many of the world's largest brands, agencies, publishers and ad networks intelligently, effectively and safely plan, buy and measure billions of video ad trades programmatically every month across web, linear TV and mobile video.

Headquartered in San Mateo, California, Adap.tv has US offices in Chicago, Los Angeles and New York, and international offices in Australia, India, Japan, Singapore and the UK.

