# MEDIA ECONOMY REPORT

## THE NEW FACE OF TV

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MAGNA GLOBAL



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Supply
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New Value Drivers

# *THE NEW FACE OF TV*

I enjoyed being an early mover in digital media and helping build the industry from the bottom up. Creating something from scratch presented challenges and opportunities that made the business exciting and rewarding. The Internet ushered in a "Big Bang" moment with new currencies, new measurement, new ways of thinking and endless possibilities. It is for this reason that I can think of no better way to kick off 2016 than to introduce the "New Face of TV."

It is no secret that the world of television is facing more challenges than ever before. Consumers have more and more choice, and they are presented with options from the most diverse set of storytellers the world has ever known. They are armed with new technologies that allow them to actively avoid commercials, consume a la carte content with limited (or no) ads, and watch on increasingly more diverse screens.

The "New Face of TV" introduces us to television's own "Big Bang" moment. It introduces us to a new galaxy and new players in the universe, and it forces us to re-evaluate some of our long held beliefs. Over-The-Top (OTT) is a term that we have been using for years, but it is one that has quickly been followed with "there is no scale," and "traditional TV consumption is still on the rise, right?" For a long time these reactions were warranted—today they are no longer true.

Netflix, Amazon, YouTube and Apple have changed the game on the aggregation (and original production) side of the business. Roku, Google Chrome, Amazon Fire, Apple TV, Playstation and Xbox are now aggregating meaningful audiences. With a finite amount of media time in a day, it is no surprise that all of these emerging opportunities are detracting from traditional linear television consumption.

These consumption trends not only place a great deal of pressure on the traditional television marketplace, but they also present the industry with a signficiant measurement challenge. How can we capture these audiences as they splinter into more and more diverse content and platforms? How can we re-aggregate these audiences into a comprehensive holistic view? How can we both count and value these audiences accurately?

In an increasingly dynamic marketplace the answers to these questions will only come through collaboration across every corner of the industry. Marketers, agencies, data providers, content producers and distributors must work together to charter a new course and boldly go where no one has gone before.

This is our Big Bang moment. This is the New Face of TV.

David Cohen

*President, North America*
*MAGNA GLOBAL*

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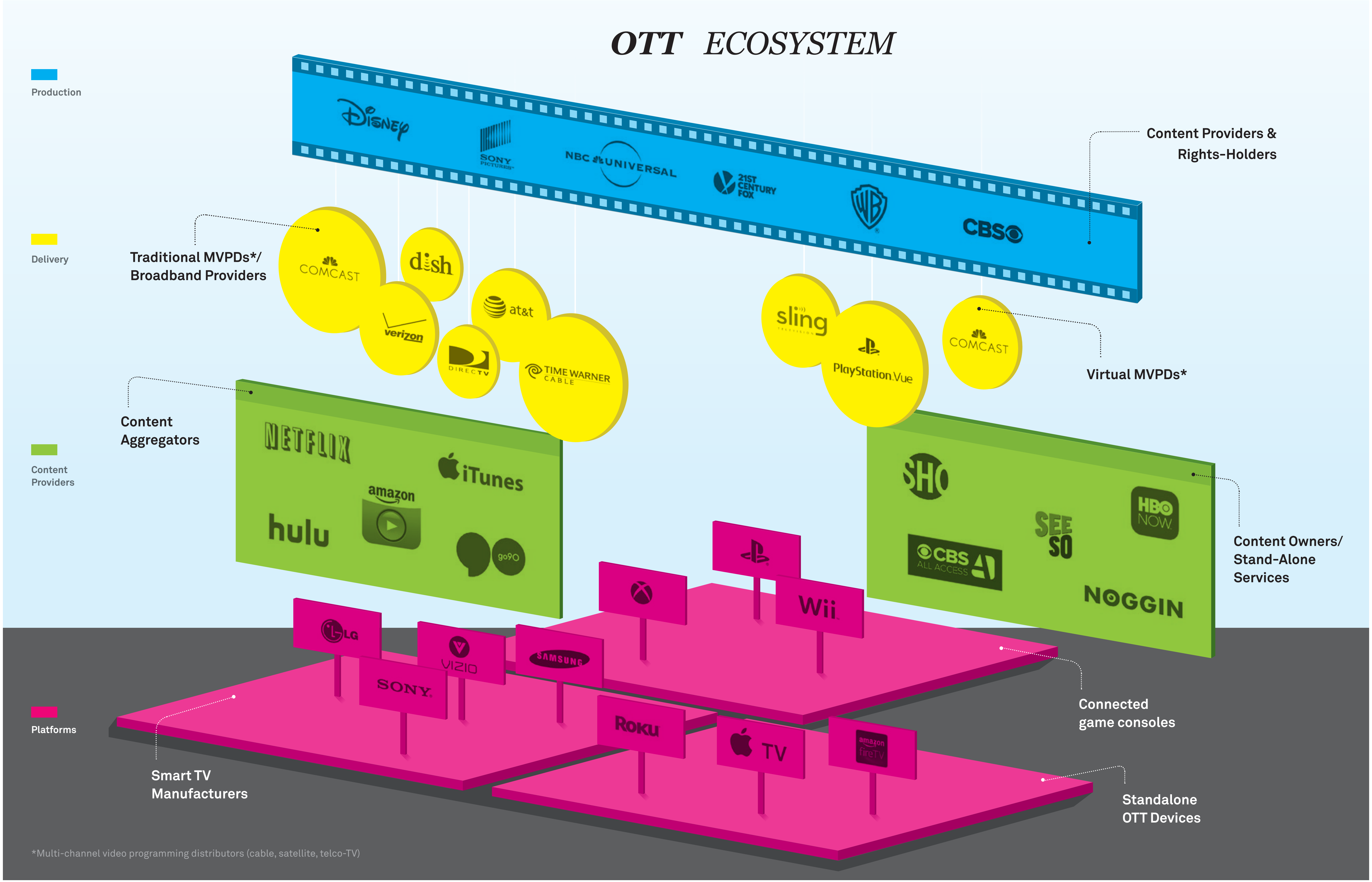
# *DEFINING "OTT"*

An over-the-top (OTT) application is any app or service that provides a product over the Internet and bypasses traditional distribution (Techopedia)

| | MVPD services | OTT services |
|---|---|---|
| **01** **Technology** | Delivery through walled-garden infrastructure (wired networks or DBS, and set-top boxes) | Delivery through open web infrastructure to any screen (connected TV, tablets, smartphones) |
| **02** **Content** | Live linear channels (basic cable networks, broadcast networks, premium channels), STB-based VOD (TV episode replay, movies). | Until recently OTT services were exclusively VOD – no live streams, no sports. The 2015 generation of OTT services (HBO Now, Sling, PlayStation View, CBS All Access) is adding live linear networks to the package. Still very little live sports available without authentication. |
| **03** **Window** | First window for professional video content. | Originally a second window for television content. Since 2014, OTT players like Netflix, Hulu, and Amazon are increasing their volume of original production rapidly and meeting success. |
| **04** **Business Model** | Video content generally bundled with broadband access and equipment in packages worth $100 per month or more. Bulky. | Low entry/exit barriers. Flexible, affordable ($5-$15 pm), month-by-month services, requiring no additional equipment, easily cancellable. |

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# *SUPPLY*

**As the worlds of television and video continue to shift toward streaming on demand delivery, for the TV set remains a central access point for entertainment. Viewing on smaller screens like smartphones and tablets continues to grow, but none as fast as the usage of TV-connected devices. So while the means by which the video gets to the living room may be different, the experience is still valued by consumers.**

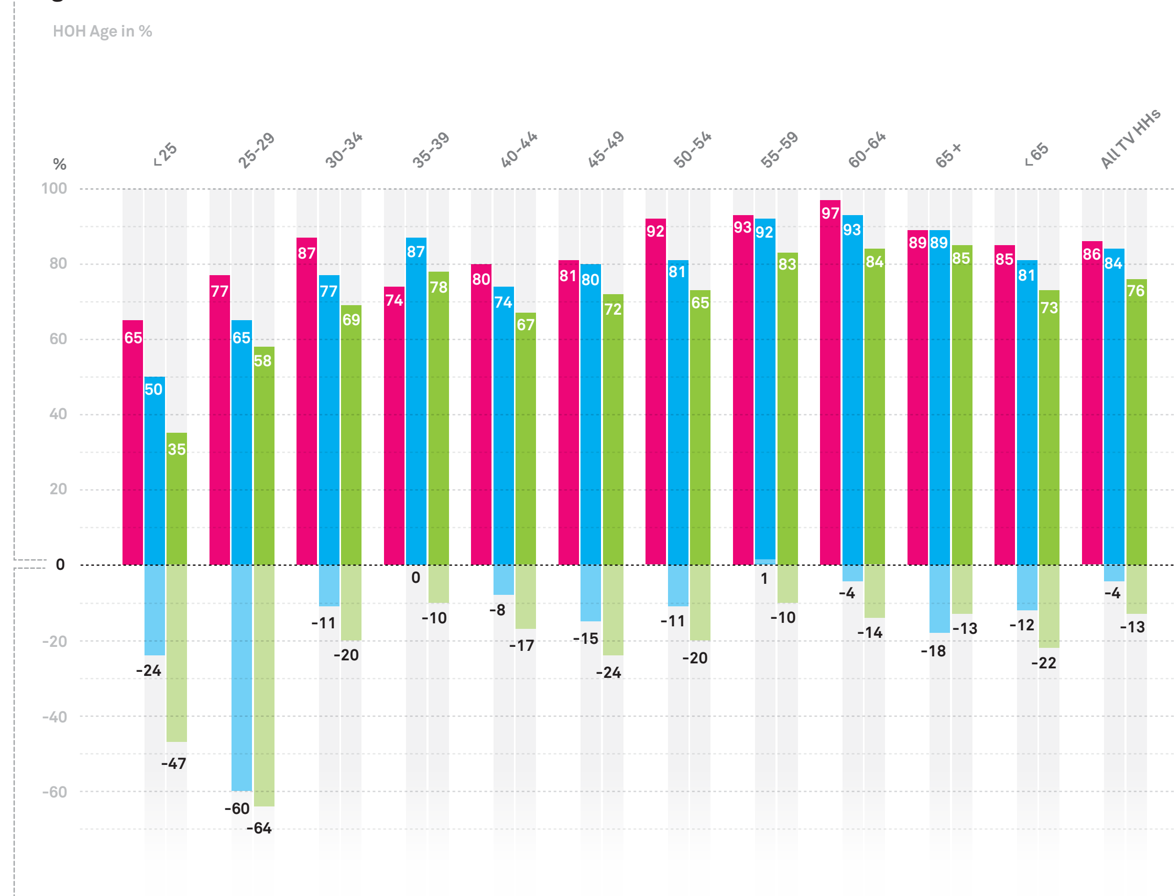
*KEY TAKEAWAY*

1. "Cord-cutting" became a reality in 2015, as concerns about rising cable bills and easier access to premium streaming content have made it a more attractive option.
2. While we expect cutting to increase over the next few years, there are a far larger number of consumers that are either trimming back to basic channel packages or declining to get a multichannel subscription to begin with.
3. Nearly half of US homes now have access to a subscription video on demand service, and those homes watch less traditional TV.
4. Time spent with OTT devices has more than doubled year-to-year.
5. Digital video sources look to be more than offsetting declines in traditional TV usage.

## *CORD-CUTTERS, CORD-SHAVERS AND CORD-NEVERS:* ***DRIVERS OF OTT ADOPTION***

Up until 2015, cord-cutting was often discussed but there wasn't much actual movement in the overall multichannel subscriber base. Now it has become a reality. There are key differences in multichannel subscriptions depending on the age of the head of household. The two sets of projections below explore different possibilities for the next few years; one where younger consumers eventually embrace traditional multichannel packages as they reach a more mature life stage, and a second where they continue to move away from them over time.

**MVPD Penetration by age group/ generation (2020 vs. 2015)**




**Impact on MVPD HHs (2020 vs. 2015)**

Sources: Nielsen, MAGNA GLOBAL estimates

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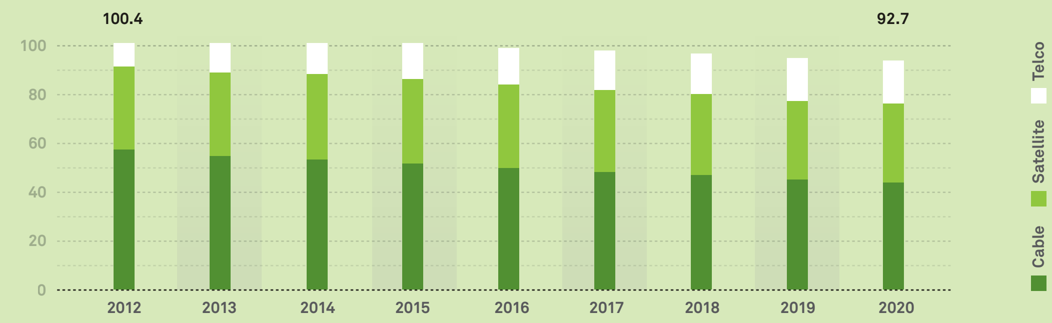
# *CORD-CUTTING*
## *SCENARIOS FOR THE NEXT FIVE YEARS*

The chart on the right represents a medium scenario where MVPD HHs would decrease by 7% between 2015 and 2020, which is approximately the rate of erosion we are seeing currently (1-2% per year).

Based on our estimates for current MVPD homes, this would bring the total from 100.4 million in 2014 to 92.7 million in 2020.




Source: MAGNA GLOBAL estimates

## *DRIVERS TO OTT USAGE AND CORD-CUTTING*

01

**Cost of MVPD bundles:** stagnant purchasing power creates pressure to cut monthly spending. MVPD subscription fees have increased faster than CPI in the last ten years.

02

**Content:** In the last 12 months, OTT services have become more attractive for TV drama and movies and now provide access to premium content (HBO, Showtime) and linear cable programming too (Sling) without authentication.

03

**Connectivity:** No longer an issue even on TV as now come equipped with easy broadband connectivity and standalone OTT devices are cheaper, easier, and smaller than three years ago.

## *INHIBITORS TO CORD-CUTTING*

01

**Content, Sports:** Live streams of major sports league are the last major program category that remains mostly unavailable to cord cutters for the time being, due to the existing deals between networks, MVPDs and major leagues. Only some linear networks are available OTT without authentication, but the #1 cable net, ESPN, is one of them (on Sling and PlayStation Vue).

02

**Barriers to entry/exit:** Most subscribers are on a month-by-month subscription with no annual commitment but cancelling a subscription requires some effort (e.g. calling, arguing, returning boxes). By contrast, OTT subscriptions can be signed up or cancelled online at any point, in minutes.

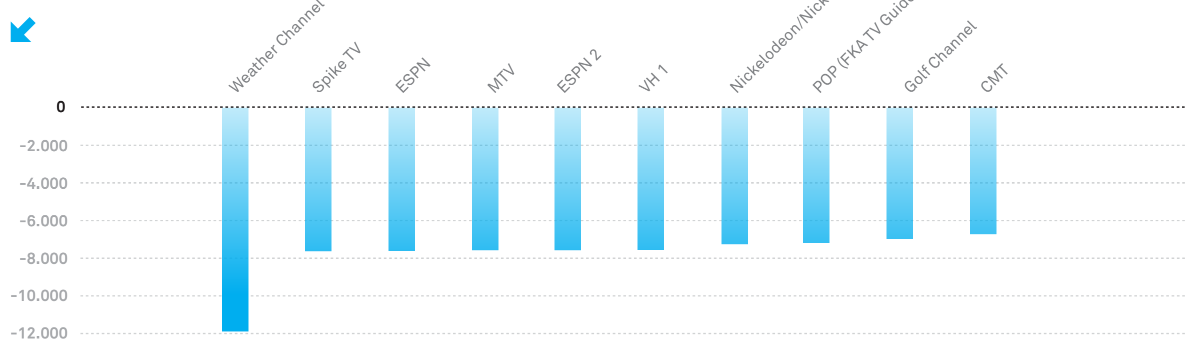
03

**Bandwidth Issues:** MVPDs are also the biggest ISPs. They can therefore manipulate the cost of broadband-only services so that adding OTT services on top of internet becomes more expensive than a traditional triple-play MVPD bundle. Separately, there have been issues with live streaming events where many viewers at once cause crashes and buffering (Oscars, Game of Thrones premieres, etc.)

## *THE RISE OF THE "SKINNY BUNDLE"*

In the realm of "cord-shaving," an increasing number of consumers are moving to more basic channel packages to save money on their cable bills. While this may not impact the MVPDs' overall subscriber counts, it has amounted to significant losses for major cable networks that aren't included in these skinny bundles.

**Subscriber Losses (000)**
**2015 vs. 2011**

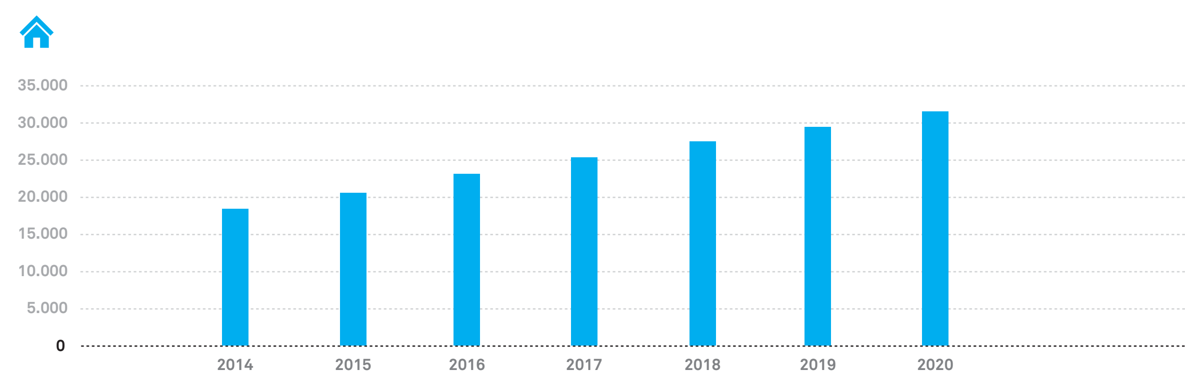



Source: Nielsen | December of each year

## ***CORD-NEVERS:** A QUIET MAJORITY*

While cord-cutting is now a reality, the bulk of homes that don't have multichannel subscriptions today never had one to begin with. These include broadband-only homes, in which video is delivered to the set exclusively via streaming sources; broadcast-only homes, which receive over-the-air TV signals (but may also have streaming options); and non-TV homes, which don't have a set at all, and may stream to other devices or have little interest in video entertainment. All three segments have been growing, as younger consumers establish their homes without a traditional multichannel subscription. We expect the overall number of "cord-never" homes to pass 30 million by 2020.

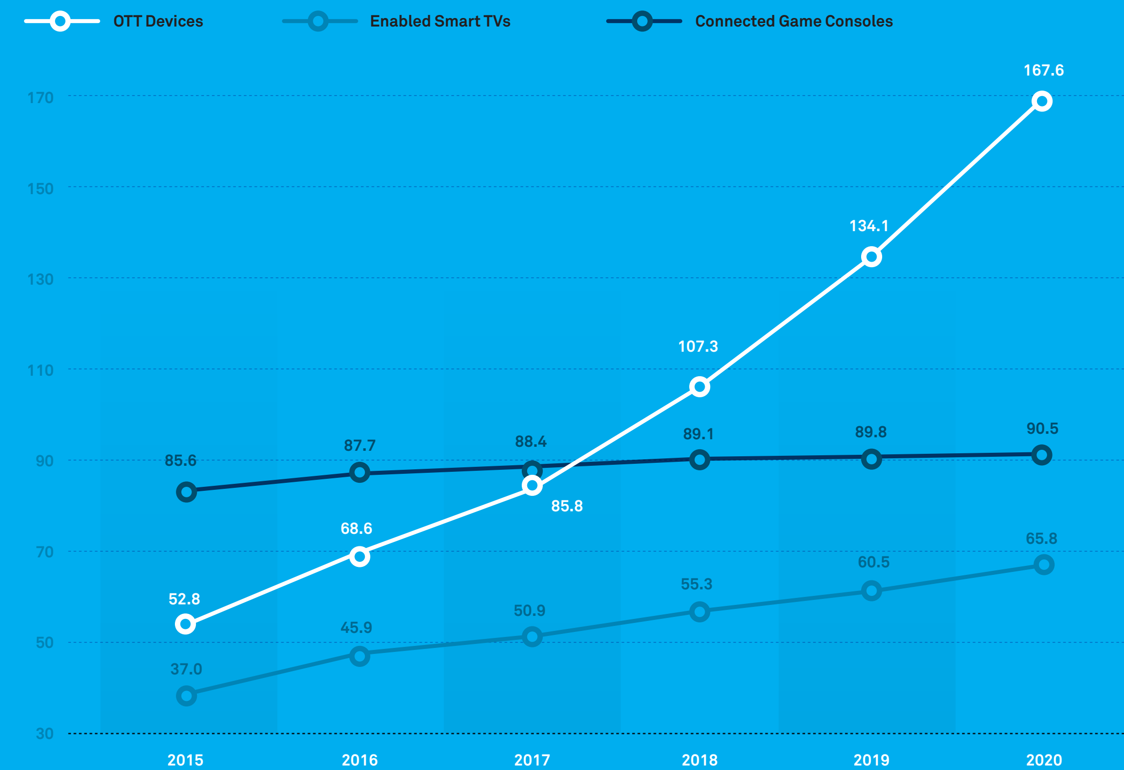
**"Cord-Never" Households (000)**




Sources: Nielsen, MAGNA GLOBAL estimates

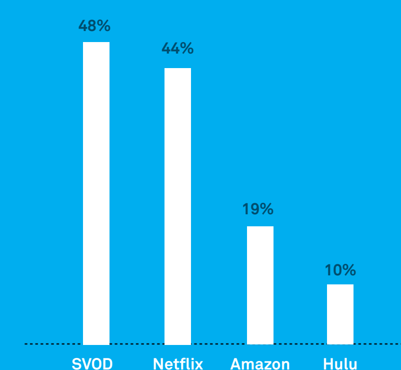
## ***GROWING DEVICE PENETRATION** AND EASE OF ACCESS REMOVE BARRIERS TO STREAMING*

Standalone OTT devices such as Roku and Apple TV are the easiest access points for streaming video, and will continue to proliferate over the next few years. With most newer models offering connectivity, more smart TVs are being activated as well. Game consoles, meanwhile, have reached critical mass.




Source: MAGNA GLOBAL estimates
*Includes standalone units like Roku, Google Chromecast, Amazon Fire, Apple TV, etc

US homes continue to embrace subscription video services, with Netflix remaining the leader. Although these aggregators keep their viewing numbers close to the vest, strong word of mouth and industry accolades have bolstered their reputations for creating high quality original programming, creating a degree of parity with the traditional TV networks.



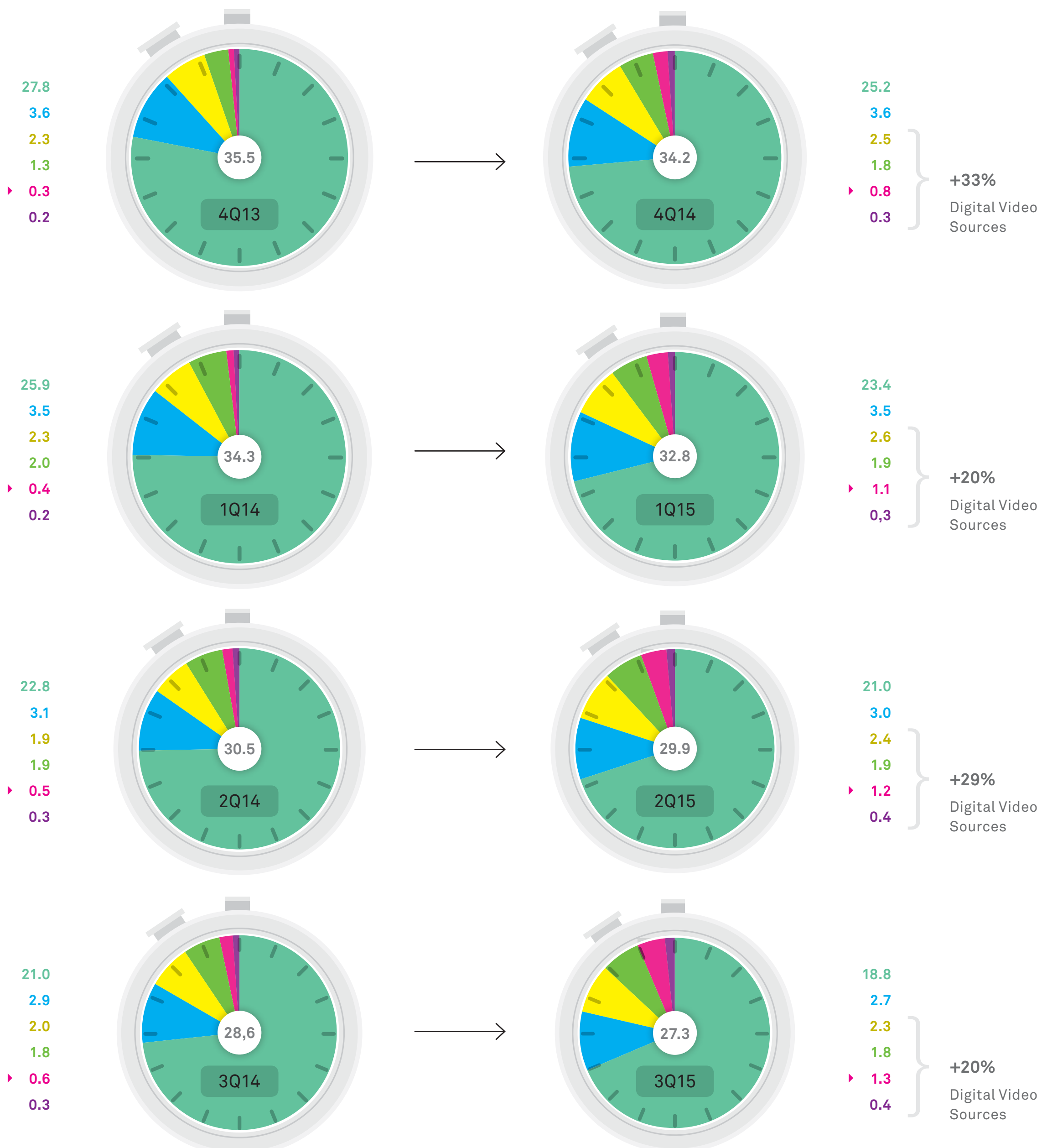

Source: Nielsen

## *TIME SPENT WITH CONNECTED DEVICES GROWS AT THE EXPENSE OF LIVE TV*

Hours Per Week, Adults 18-49

Weekly time with OTT devices has more than doubled year-to-year

- Live TV
- Time Shifted TV*
- Game Consoles
- PC Streaming
- OTT Devices
- Smartphone Streaming



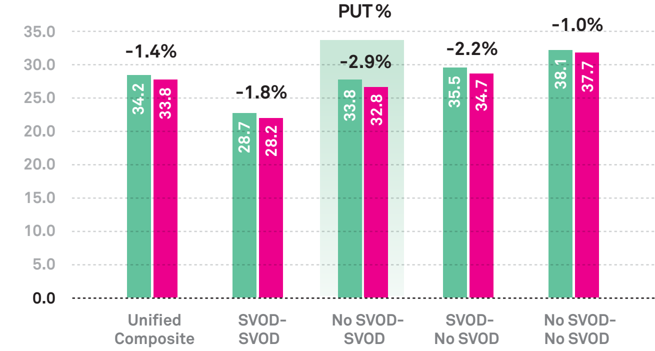

Source: Nielsen, MAGNA GLOBAL estimates

*includes DVR playback and recently telecast VOD

## *SVOD DOES APPEAR TO DISPLACE TRADITIONAL TV VIEWING*

While traditional TV usage is declining across the board, it happens at an accelerated pace in SVOD homes.

- Before
- After



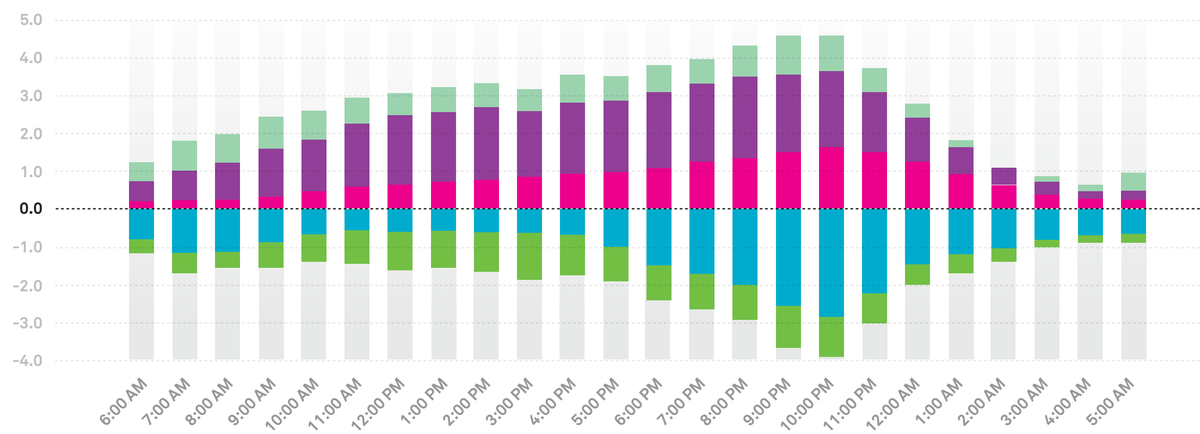

Source: Nielsen, average of 12 three-month analyses

## *CONNECTED DEVICE INCREASES MORE THAN OFFSETTING DECLINES IN TRADITIONAL TV*

**May 2014-May 2015 Difference in P18-49 Average Audience**

- TV PUT
- PC
- TV-Connected Devices
- Smartphone
- Tablet

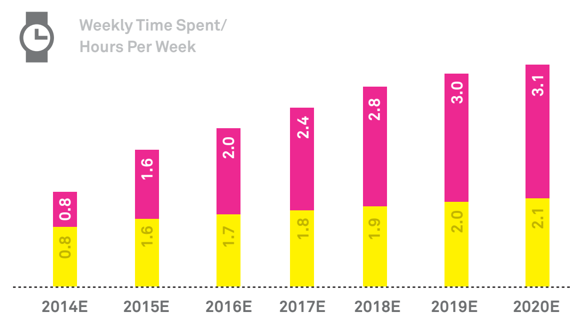
Diff in Average Audience (Millions)




Source: Nielsen Total Audience Report Q2 2015, May 2015 vs. May 2014 | TV Connected Devices = DVD, Game Console, Multimedia Device, VCR

## *CONNECTED VIDEO USAGE WILL CONTINUE TO GROW AT A STEADY PACE THROUGH 2020*

- OTT Video
- Game Console (Video)




Sources: Nielsen, ComScore, MAGNA GLOBAL estimates.
Based on A18-49, Video Usage Only

# *CLIENT PERSPECTIVE*

Q & A

**Max Seippel**
Senior Audience Analyst
*MAGNA GLOBAL*

**Jackie Vlahakis**
Manager
*IMC/Media Investment, Johnson & Johnson*

**Given consumers' evolving video behavior and the changing definition of "TV," how are you thinking about the television set in the context of your overall media strategy?**

Television is changing but it's not that people aren't watching TV—in fact, they're watching more TV than ever but on their own terms and not through traditional means. With major players like Apple and its App Store, Roku and its integrated programming grid, and many providers offering over-the-top services, TV content consumption has shifted from a programming grid to an on-demand, feed-based discovery model. A byproduct of this consumer shift is that our ability to understand and pinpoint audiences as scale is ever increasing. At J&J, we need to align with these consumer and platform shifts so we are taking an audience-based approach to all of our media buying, especially TV. We are leveraging advanced TV tactics to buy TV inventory in an automated fashion with more specific data triggers layered on and we are testing shopper targeting vs. demo-based TV buys.

**Have you had the opportunity to experiment with new ad formats in the OTT space? If so, what are your thoughts about the results? If not, are you planning on trying it out?**

The OTT space is still new and consumers are exploring this innovative interface and spending time with all of the buttons, interactions, videos, pages, etc. so we want to leverage this engagement and test varying campaigns in this space. Right now, the OTT space has limited scale, limited targeting, and limited connectivity to the programmatic pipes we've already set up so we're testing it on a few select brands to gain learnings. That said, the brands that we are testing it, we're using it more as an awareness-driver through the use of high-impact, interactive ads to leverage consumer engagement.

**What do you see as the pros and cons of advertising in the connected television space?**

Pros: Currently ad space is fairly high impact, and because it's a new space there is less clutter. Also, because consumers are still exploring the space, brands can engage with the end user for longer periods of time; interaction and engagement is higher in this space. The connected TV also has audio-enabled targeting functionality so we will start to be able to understand the exact consumer who heard our ads or our competitors ads and be able to target against that.

Cons: Because the space is so new, the industry is still trying to integrate it into the current pipes so there is limited scale, targeting, and connectivity. There are also some major gaps with measurement that aren't allowing us to capture key inputs for our test campaigns.

**Since measurement is still an issue for OTT, what types of metrics would you like to see to feel more comfortable with investing there more regularly?**

Right now we're only looking at partner allocation and impression delivery but we would like to integrate OTT into our holistic measurement suite that drives the business.

We would love to see some of the following measurement within the OTT space:

- Audience Validation (i.e. Nielsen)
- Network Allocation
- Daypart Allocation
- GRP Delivery
- Cost Per Incremental Reach (incremental to base TV buy)
- Closed Loop studies showing sales or brand metric measurement
- Attitudinal Metrics (IX)
- Competitive Tracking

**Do you see traditional TV sticking around for the long haul, or are we moving toward a world where channels become apps?**

a. Consumers wills always consume "TV" content, now it's just a matter of how they consume it and as marketers we need to stay on top of the trends to reach consumers regardless of device. We are testing advanced TV tactics to reach consumers while they are watching FEP TV inventory, OTT TV inventory, In-App TV inventory, etc. and now we're layering on more advanced targeting to hone-in on our desired target audience. However, the industry will take some time to shift this way so we will continue to have "traditional" TV buys but start to integrate advanced TV tactics more and more in our plans.

b. Personal Anecdote: As a consumer lover of TV content, having cable apps is my dream! This would allow me to have access to the channels that I like, while cutting out all of the channels that I never watch and that fluff which account for 80%+ of my cable subscription.

# DEMAND

**While cord-cutting and shaving may impact MVPDs (multichannel video programming distributors), it is rising programming costs that are a bigger challenge to their bottom line today. There a number of strategies at play to battle the changing environment and growth of SVOD services, as consumers continue to demand more control over their viewing options.**

KEY TAKEAWAY

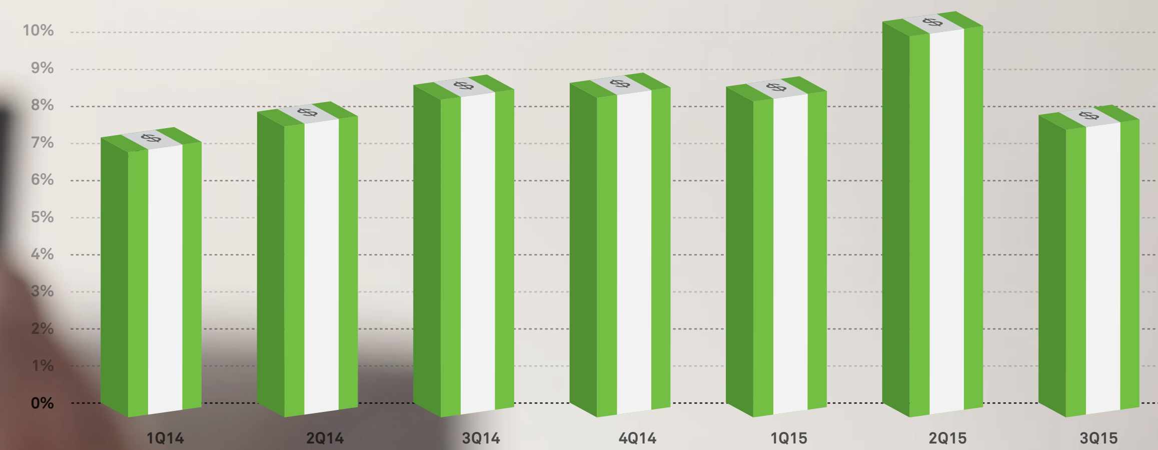
1. Programming cost increases for the major MVPDs have consistently been in the mid-to-high single digits over the past two years.
2. There are a number of mergers and acquisitions underway as MVPDs seek greater size to leverage in carriage negotiations.
3. National TV ad revenues have slowed amid viewing changes and we expect them to stay relatively flat over the next several years.
4. Even as the top MVPDs' multichannel subscribers have been declining, their broadband subscribers have been on the rise—and US consumers pay more for access than their European counterparts.
5. While true a la carte TV doesn't look to be on the horizon in the US just yet, there are a number of cable networks that might be challenged as consumers are given more choice.

## *PROGRAMMING COSTS DRIVING DOWN MVPDS' BOTTOM LINES*

Cord cutting fears have not stopped cable networks and major sports leagues – the linchpin of the pay TV bundle – from continuing to charge more for their programming. These costs are ultimately then passed on to the cable subscriber.

Programming cost growth is a second front for cable providers whose top line revenue numbers already feel downward pressure from the loss of video subscribers to cord cutting.

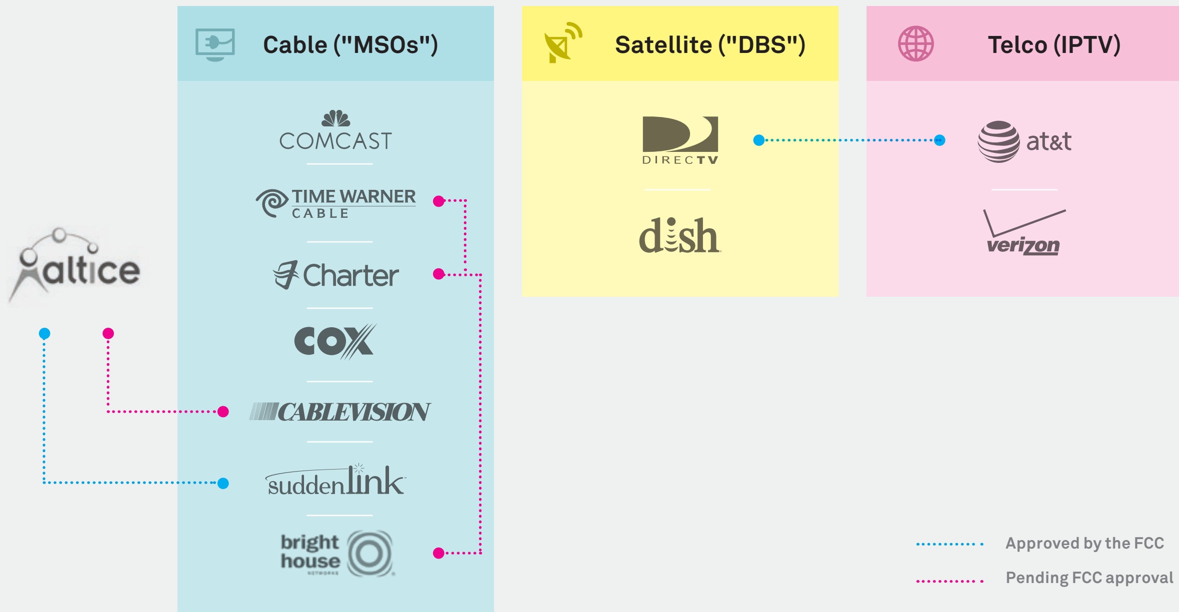
**Programming Cost Growth (y/y)**




Source: MAGNA GLOBAL analysis of MVPD financial statements

## ...LEADING TO CONTINUED ***CONSOLIDATION IN THE INDUSTRY***

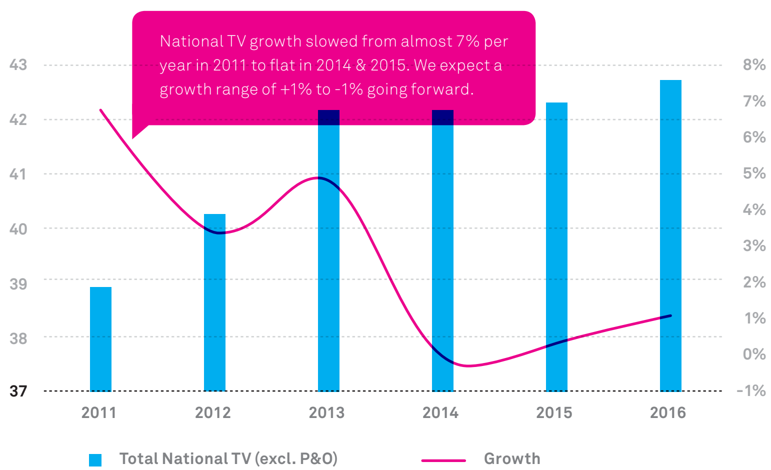
This has lead to a flurry of mergers and acquisitions in the industry, as cable providers seek strength and size – and thus counter-leverage – against the networks. The post-merger industry (assuming all are approved by the FCC) will be much more centralized than it was a few years ago.




## ***SLOWDOWN*** IN NATIONAL TV REVENUES

Even as programming costs rise, advertising revenue growth has also tapered amid audience declines and cord-cutting fears.

**National TV Ad Sales by Year ($bn, excl. P&O)**

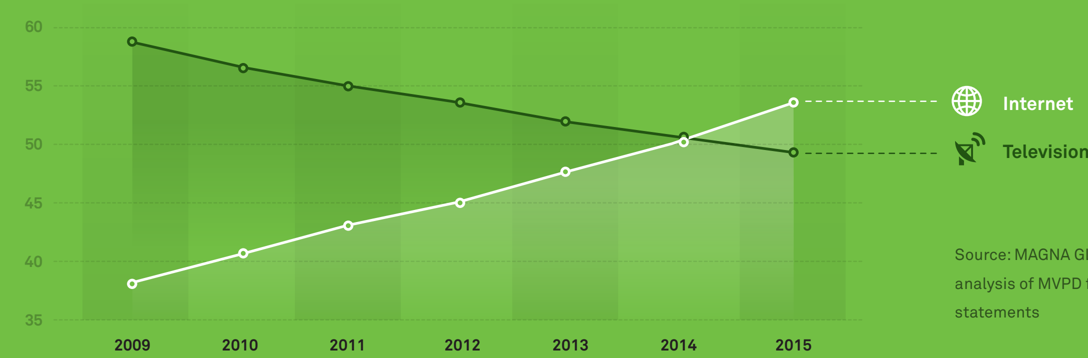



Source: MAGNA GLOBAL estimates

## ***BROADBAND:*** ONE CORD CONSUMERS STILL NEED

Although multichannel subscriptions may be falling for the top MVPDs, they are also the leading broadband providers, which continues to be a growth area. Relying on streaming on demand options for video entertainment requires a stable connection.

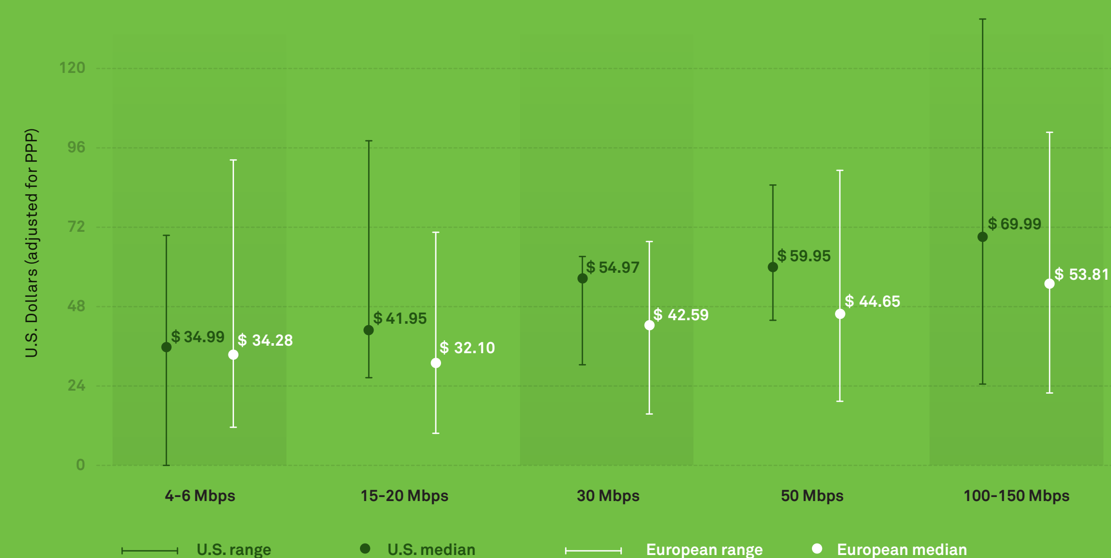
**Subscribers to Top 9 MVPDs**




Source: MAGNA GLOBAL analysis of MVPD financial statements

## AND ***US SUBSCRIBERS PAY MORE***

Compared to Europe, the median cost of a broadband connection at home is consistently higher for Americans. It's not surprising that the MVPDs would increase internet fees to make up for multichannel losses, but demand for bandwidth has also allowed them to create higher speed tiers (that are naturally more expensive).




* Some European plans also include phone service because there is no broadband-only service

Source: Open Technology Institute

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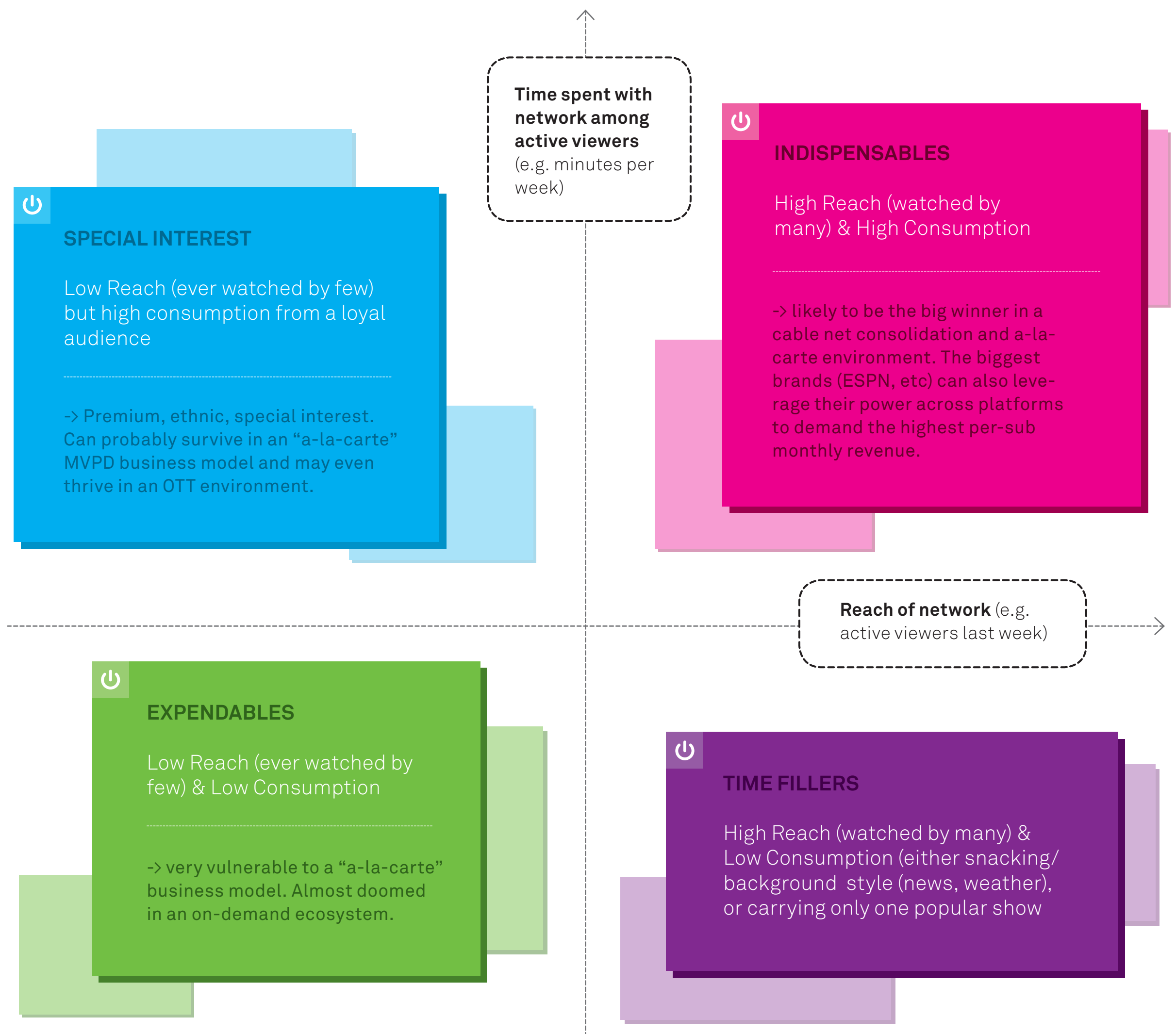
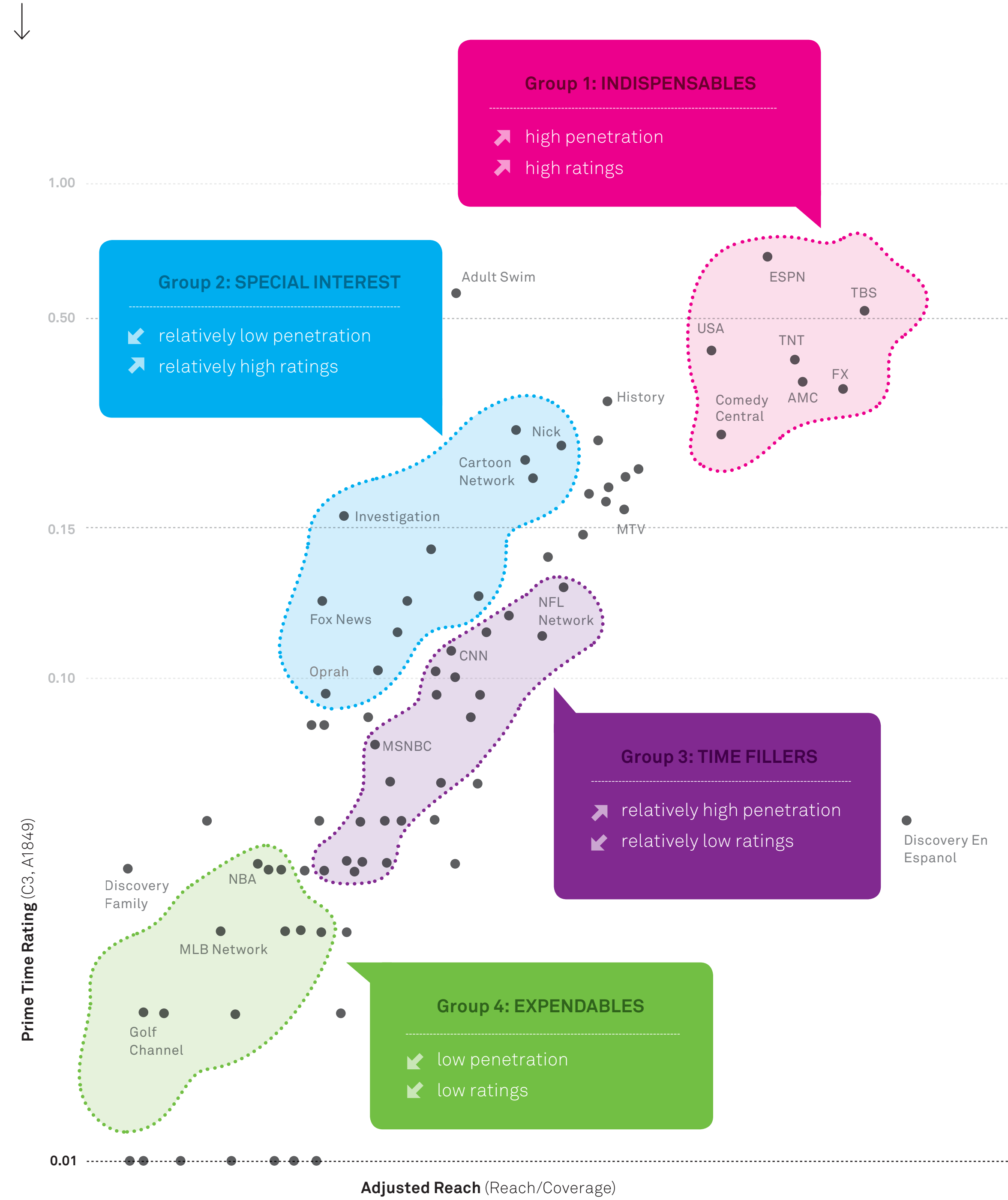
# ***WINNERS*** *AND* ***LOSERS***

## *HOW CABLE NETWORKS MIGHT FARE FACING IN AN UNBUNDLED TV ENVIRONMENT*

In Canada, following complaints from consumer groups and a ruling from the television regulator, MVPD will be forced to offer integral a-la-carte access to individual networks, from 2016. It is largely expected to cause some secondary networks to lose reach and perhaps go under, as customers might cut them out of their custo-mized packages. Nothing that drastic is expected in the US and there's no regulatory pressure in the mid-term, but MVPD themselves are under pressure to offer more flexibility to customer, to prevent




This chart suggests a typology of cable networks based on their usage pattern: how many consumer ever watch them, how often they tune-in and how long they watch. Below we try to map two of those three dimensions, to illustrate the perceived value from a MVPD subscriber perspective and how each type might be vulnerable if the MVPD industry switches to a a-la-carte/skinny bundles or virtual MVPD packages.



# *SVOD SERVICES:*
## *DIFFERENT APPROACHES TO LURING SUBSCRIBERS*

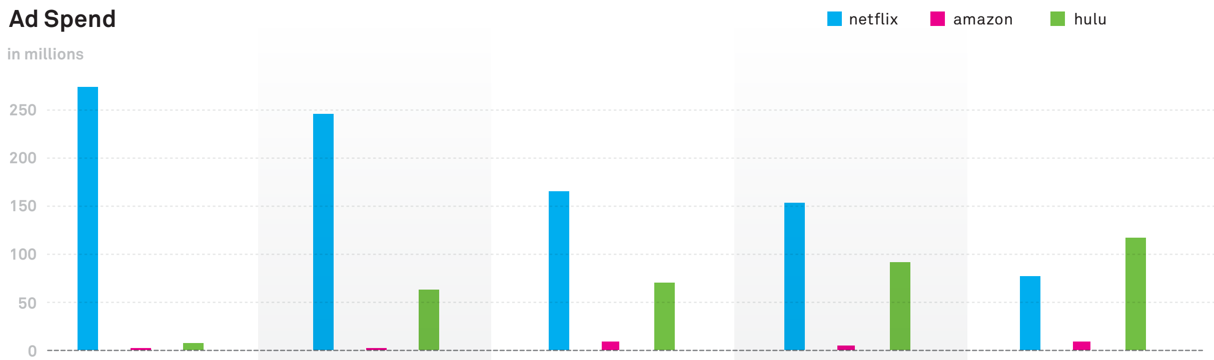
Netflix, far and away the biggest player in the SVOD space, has decreased its ad spend as word of mouth seems to be getting the job done. Hulu, meanwhile, surpassed its high as of October of last year and continues to grow its efforts. Relative to its competitors, Amazon has spent modestly to advertise its streaming video products, but has a very large built-in customer base with its Prime subscribers.

As a native digital company, Amazon focused entirely on digital advertising at first, diversifying more as its original series gained recognition. The company only began dabbling in national TV in 2015.

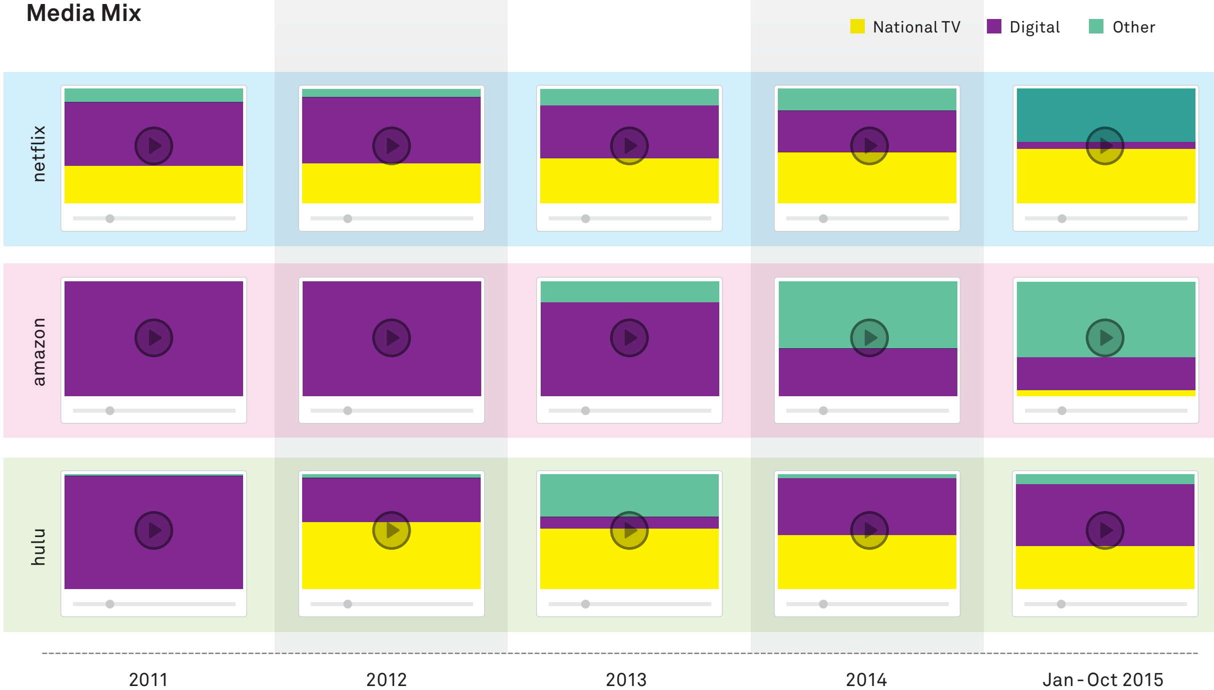
Netflix has been steadily increasing its national TV budget at the expense of digital, while Hulu has done the opposite.

**Ad Spend**

in millions




**Media Mix**

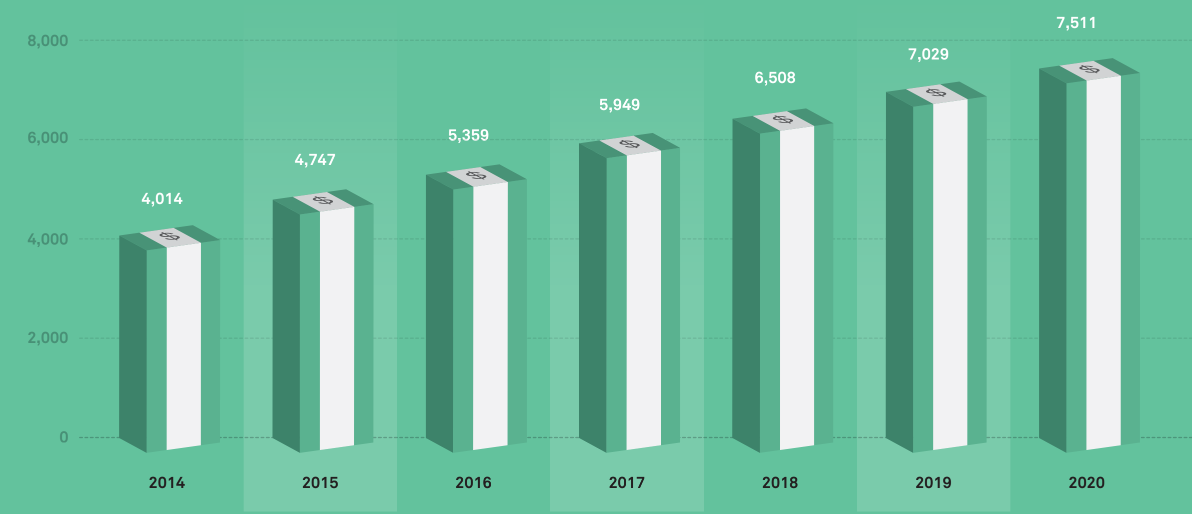



Source: Kantar Media | "Other": Local TV, Print, Radio & OOH

## *MORE REVENUE ...*

**Revenue in the SVOD market**

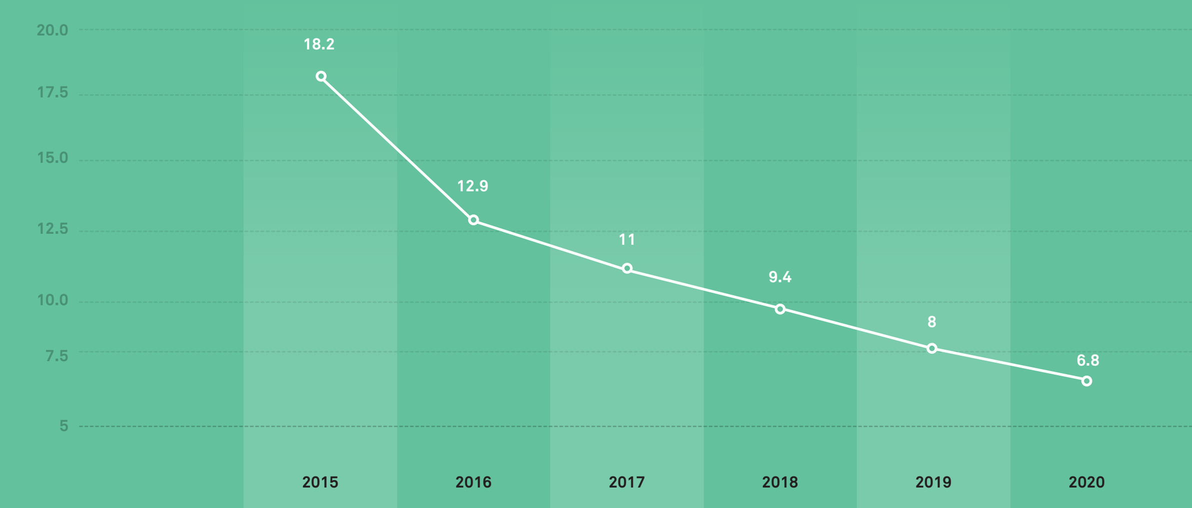
in million U.S. Dollars (United States)




## *... BUT SLOWER GROWTH*

**Revenue Growth in the SVoD market**

in percent (United States)




Source: Statista 2015

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# *MEDIA OWNER PERSPECTIVE*

Q & A

**Brian Hughes**
SVP, Audience Analysis
Practice Lead,
*MAGNA GLOBAL*

**Artie Bulgrin**
SVP, Global Research
& Analytics
*ESPN*

**While traditional TV viewing continues to decline, live sports are still considered one of the few reliable ways to get viewers in front of the set in real time. That being said, ESPN seems to have embraced streaming as an alternative viewing option. Can you talk a little bit about how the WatchESPN (now just ESPN?) app fits into your strategy?**

ESPN is a cross-platform media company built on the mission to Serve Sports Fans Anytime, Anywhere. I'd posit that WatchESPN is complementary viewing versus alternative viewing. Fundamentally, sports has to be consumed live, especially events, and fans will seek out the next best available screen to watch those events or get caught up on sports news in real time when they can't be home. We want ESPN to be that screen. Mobile has become the primary digital connection for sports fans—in fact unique viewers to WatchESPN has doubled in the past year—but we knew we could make it easier for them to find and connect with WatchESPN. So the integration of Watch into the ESPN app made total sense and it is working; in its debut month the ESPN App already represented 10% of the unique viewers to Watch ESPN.

**On a related note, the "TV Everywhere" model of authentication has traditionally been the route for consumers to stream cable TV content, but you are also exploring pure IP plays like Sling TV and Playstation Vue. How do you see the two working together?**

We believe that the multichannel subscription provides the most value. That said, we are always looking for new ways to grow our business.  Products like Sling and Vue reach a different audience and are additive to our current offerings.  We also believe they ultimately serve as a bridge to the multichannel subscription.

**What have you learned about the audience that streams ESPN programming? Are they inherently different from the average TV viewer?**

Yes, they tend to be younger, a bit more male, more upscale and also more multicultural. Typically a valuable, hard to reach audience. The majority of the reach for WatchESPN is generated by users on PC's, smartphones and tablets—this indicates a tech savvy sports fan leveraging technology to watch sports wherever they are. But about half the viewing minutes are coming from OTT devices (e.g. Apple TV, Roku), suggesting that WatchESPN is a preferred or alternative interactive viewing environment in the home. In either case the minutes per viewer can be significantly higher than our standard multichannel experience.

**Obviously measurement, particularly of OTT activity, is a challenge right now. What do we need to be able to transact on those audiences, considering there could be different ad models depending on the platform?**

Well we need traditional audience measurement. OTT activity using TV connected devices is no different than traditional TV and so we need to be able to measure the number of viewers in front of the set. It also means that dynamic content and ads need to be measured separately. In my view, this requires a combination of panel and census measurement. On the content measurement side, media companies and OTT platforms will need to cooperate with measurement companies to make this work at the highest level.

**How do you see live sports consumption evolving over the next ten years?**

From an audience and advertising perspective I see it becoming more valuable and essential. In 2015 TV sports reached 229 million persons 2+ in the average month – nearly 80% of the total population. If we include unmeasured live TV audiences out-of-home and on digital platforms the number is much higher. Sports is delivering the highest rated events in television and setting new records. The reason for this pervasiveness is that sports remains a passion for Americans and an enduring source of social currency. It's entertainment that has to be experienced live and that simply won't change. And in an age when most other content can easily be time-shifted or viewed on demand, live sports viewing has moved up in the hierarchy of choice for live TV viewing. This is one reason why ESPN was the number one cable network in prime time across all major demos the last two years; this has never happened before.

# NEW VALUE DRIVERS

With non ad-supported players like Netflix and Amazon have been earning accolades for their programming (as well as a growing number of subscribers), the over-the-top space might seem like the domain of premium pay content at first glance. However, there is an increasing number of options for advertisers in the connected TV space, and new companies exploring different ways to interact with consumers via the set.

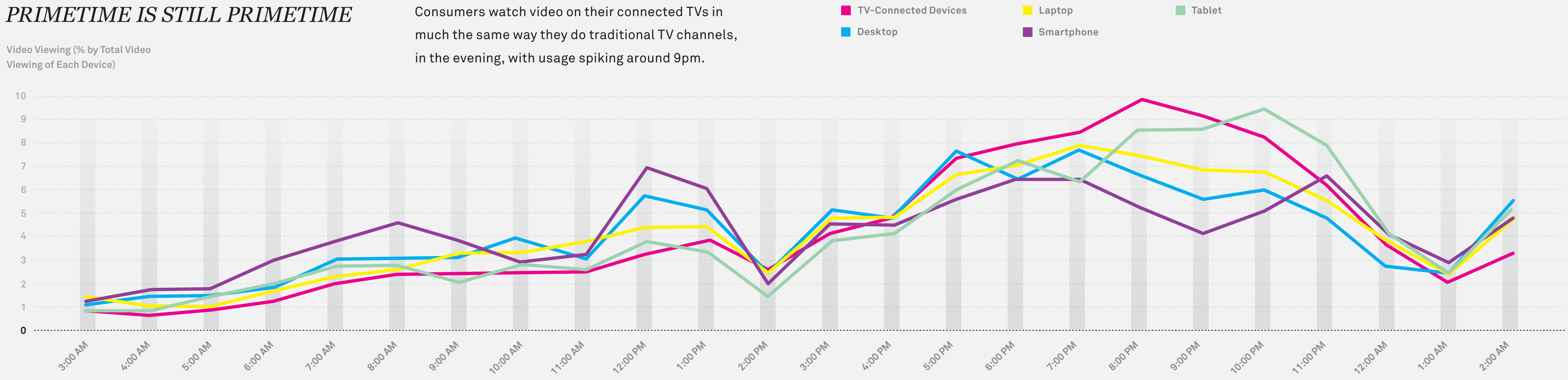
*KEY TAKEAWAY*

1. **Like traditional TV, connected TV usage peaks in the evening when most consumers are home.**
2. **As with most connected devices, consumers look to connected TV for relaxation and entertainment, but the on-demand nature of the viewing still makes it more of a lean-forward experience than traditional live TV.**
3. **OTT devices are capturing an increasing share of digital video ad views, and growing faster than any other device.**
4. **Recall for connected TV ad experiences is considerably better than linear television.**
5. **Regardless of category, connected TV campaigns consistently drive interaction and increase key brand metrics.**

# *PRIMETIME IS STILL PRIMETIME*

Video Viewing (% by Total Video Viewing of Each Device)

Consumers watch video on their connected TVs in much the same way they do traditional TV channels, in the evening, with usage spiking around 9pm.




Source: IPG Lab, N=13,614 Connected TV includes game consoles, TV connected to streaming device such as Roku, tablet, etc. or smart TV (e.g., Panasonic Smart Viera, Samsung Smart Hub)

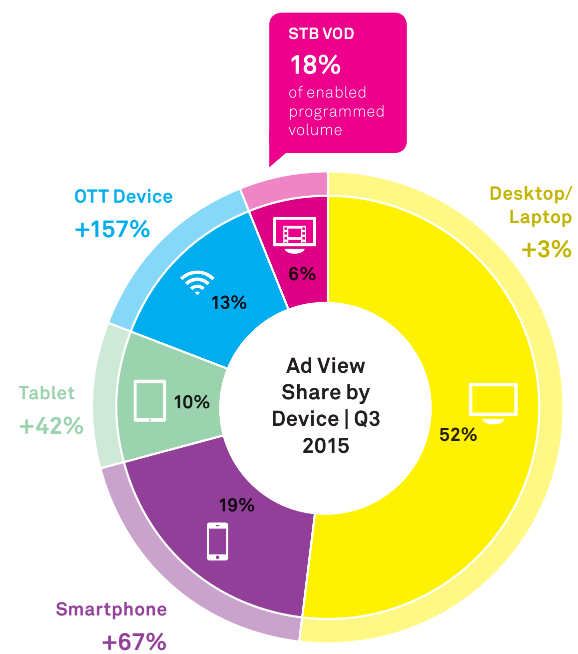
## *CONNECTED TV = PURPOSEFUL RELAXATION*

When it comes to streaming video, the TV screen still edges out its smaller companions when it comes out consumers' desire for relaxation and entertainment. However, it is also more social and less likely to be a "time-killer"—all the benefits of an on demand living room experience.

| | Smartphone | Tablet | Laptop | Desktop | CTV | Grand Total |
|---|---|---|---|---|---|---|
| Education | 6% | 4% | 5% | 7% | 3% | 5% |
| Entertainment | 32% | 41% | 41% | 39% | 42% | 40% |
| Other | 4% | 3% | 3% | 5% | 2% | 3% |
| Relaxation | 26% | 31% | 30% | 28% | 32% | 30% |
| To get work done | 4% | 2% | 3% | 3% | 1% | 2% |
| To hang out with friends/family | 5% | 4% | 4% | 3% | 10% | 6% |
| To kill time | 17% | 11% | 11% | 12% | 8% | 10% |
| To share with others | 6% | 3% | 4% | 3% | 3% | 3% |

Source: IPG Media Lab, 2014

## *OTT IS THE FASTEST GROWING SOURCE OF VIDEO AD VIEWS*

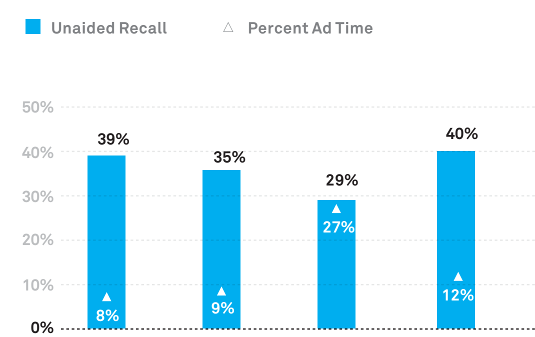



Source: FreeWheel Video Monetization Report, Q315

## *TV WITHOUT THE CLUTTER*

An IPG Lab study conducted with YuMe demonstrated that the less cluttered environment of connected TV demonstrated significantly better recall than linear TV.

### Unaidet Recall & Ad Clutter by Screen




Source: IPG Media Lab/YuMe, 2012

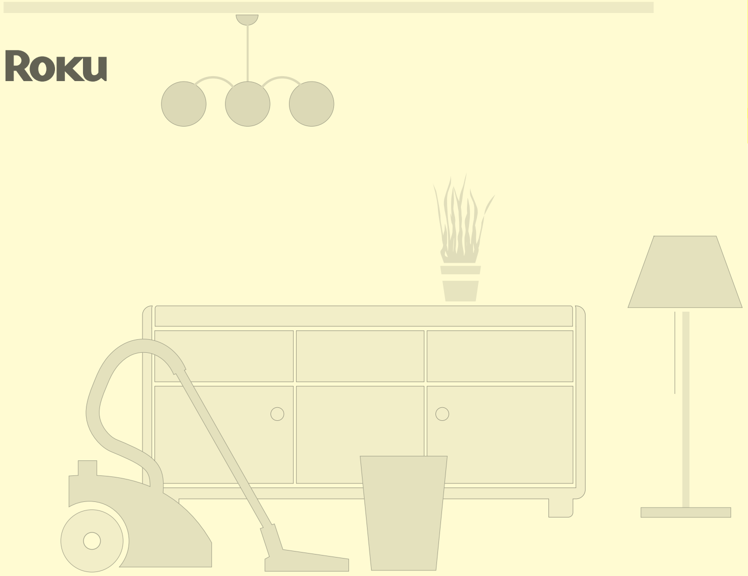
# *CONNECTED TV AD EXPERIENCES CONSISTENTLY DRIVE INTERACTION AND BRAND METRICS*

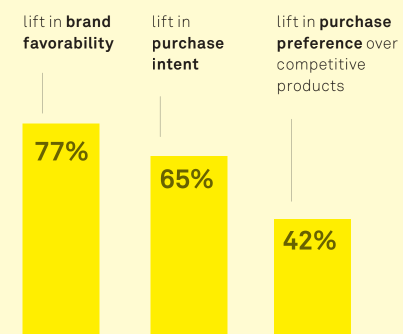
## Roku

Case Study **01** household cleaner brand

**Approach:**

Geo-targeted video across relevant ad-supported Roku channels





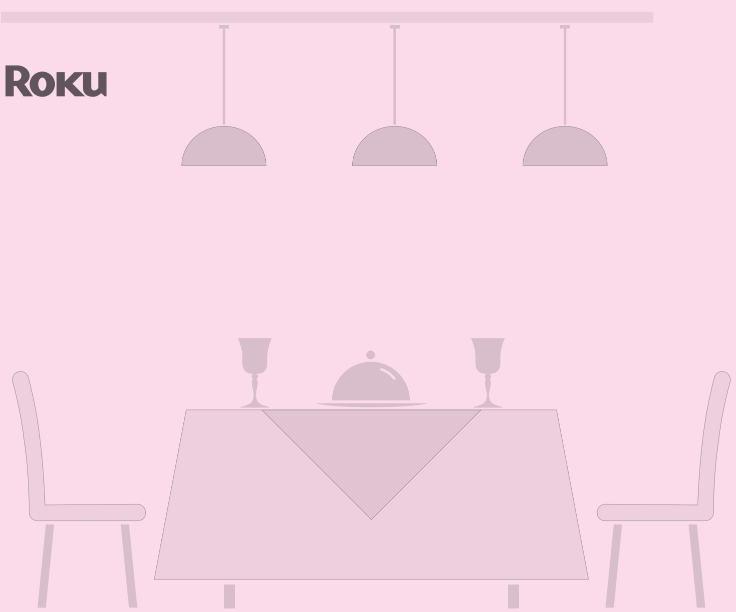

Source: Millward Brown Digital Brand Lift Insights, 2015

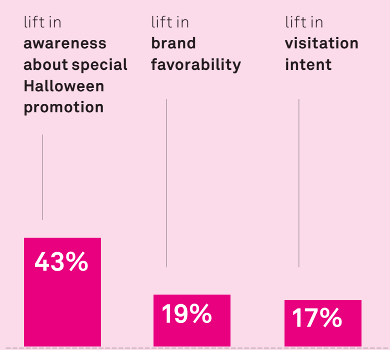
## Roku

Case Study **02** casual dining restaurant

**Approach:**

Video across ad-supported Roku channels + custom movie sponsorship





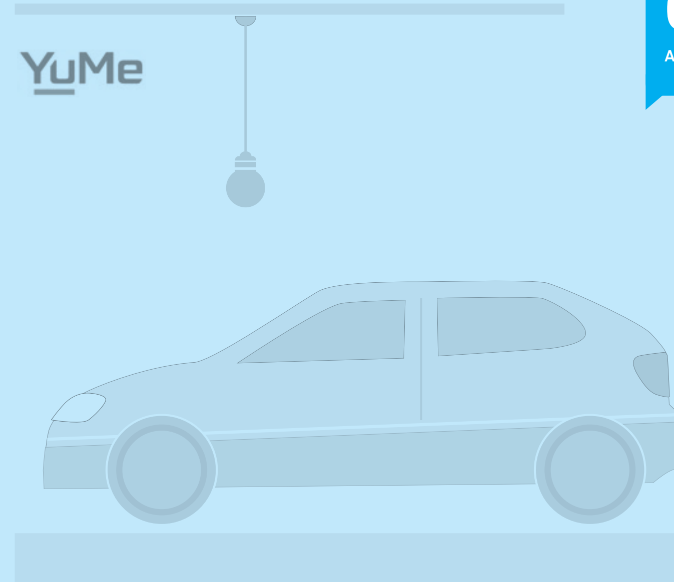

Source: Millward Brown Digital Brand Lift Insights, 2015 (all data reported among target audience, A25-54)

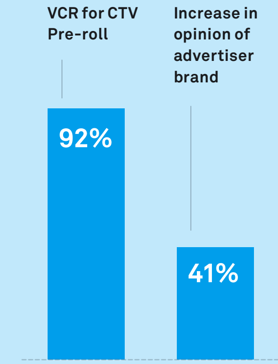
## YuMe

Case Study **03** Auto Brand

**Approach:**

This brand was the launch partner for YuMe's Ngage+ ad unit on CTV. Ngage+ is an all-in-one interactive video ad unit that combines video, branding slate and multiple inter-activity buttons.






## BRIGHTLINE

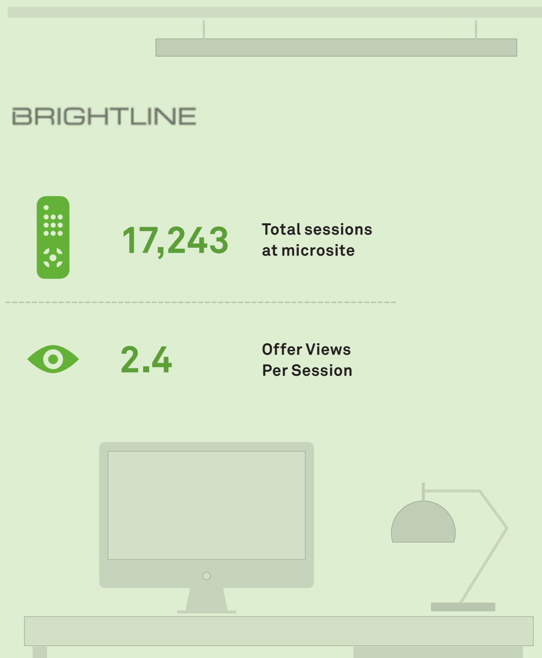
Case Study **04** Office Supply Chain

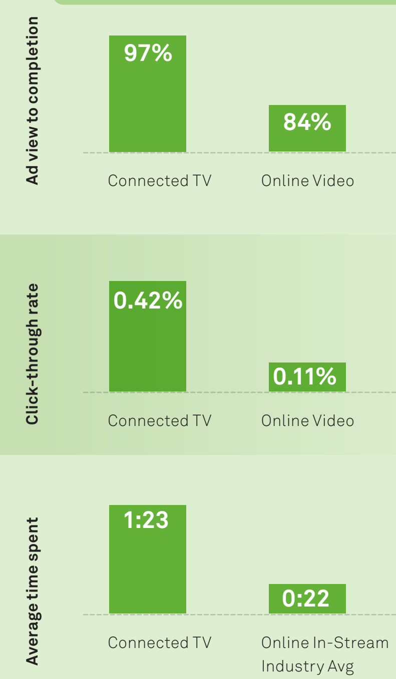
**Approach:**

Interactive video buy across connected TV landscape (Roku, Samsung, Fire TV, etc.) using BrightLine ad products, targeted and purchased via Cadreon

**17,243** Total sessions at microsite

**2.4** Offer Views Per Session






* NOTE: Online in-stream benchmarks based on average of published benchmarks from Innovid, DoubleClick and PointRoll's online rich media ads. Online display benchmarks based on published DoubleClick benchmarks.

# START-UPS TO WATCH

The evolution of TV has brought many of the interactive and targeting components of the digital world to the living room, and a growing number of companies are seizing that opportunity.

**What It Does –** Allows users to instantly shop for products that appear in movies and TV shows.

**Experience –** Icons appear over content to aid discovery and purchase of over 100,000 items.

**Platform –** Connected TV, Desktop, Mobile

**Web –** thetake.com

**What It Does –** A free and legal video-streaming app with over 40,000 TV and movie titles.

**Experience –** Viewers access premium content from Paramount, MGM, Lionsgate and others in exchange for the occasional ad.

**Platform –** OTT, Connected TV, Desktop, Mobile

**Web –** tubitv.com

**What It Does –** Media solution for publishers and advertisers to monetize on Apple TV.

**Experience –** Viewers are profiled and targeted based on their app usage.

**Platform –** Apple TV, Mobile

**Web –** applovin.com

**What It Does –** Offers dynamic, customizable and fully interactive ad units for connected TV.

**Experience –** Viewers are served more relevant and relatable ads.

**Platform –** Connected TV, Desktop, Mobile

**Web –** innovid.com

**What It Does –** The first 360-degree video viewing experience for TV.

**Experience –** Viewers discover, consume and share immersive content.

**Platform –** Apple TV, Desktop, Mobile, VR

**Web –** littlstar.com

**What It Does –** Programmatically serves targeted in-program ads on TV.

**Experience –** Viewers are served timely and relevant ads within the TV content they're watching.

**Platform –** Connected TV, Desktop, Mobile

**Web –** watchwith.com

# *INVENTORY PARTNER PERSPECTIVE*

Q & A

**Kara Manatt**
VP, Consumer Research Strategy
*IPG Media Lab*

**Michael Hudes**
EVP, Emerging Markets
*YuMe*

**For a while, mobile was the real growth area for video, and although it's still on the rise, we've seen that OTT video on the TV screen is generating even bigger growth in terms of viewing. How have you adjusted your tactics and technology to account for this?**

Connected television (CTV) has been a long term strategy for YuMe and has been a key offering for our clients. We've continually invested in this area and have made direct efforts to ensure our technology platform is multi-screen at its core. YuMe has had the benefit of being one of the first in market to deliver advertising within the OTT arena. We continue to develop partnerships and be pro-active and nimble in order to drive the industry forward with innovative ad units, deeper measurement and data insights. Whether it be a first impression unit on a smart TV hub, an interactive unit that delivers content such as recipes to the consumer, or dynamic creative within a gaming environment. YuMe proactively encourages inclusion of CTV as part of a brand's media strategy to reach unique audiences and we continue to conduct research on the efficacy and opportunity of this platform.Our cross-platform SDK allows a very seamless integration and automatic updates, which means that our publisher and app partners have to do minimal lifting to start delivering interactive YuMe video ads across their content on any device.  We understood the inherent value of being in front of a consumer with sight, sound, and motion on whichever screen they were choosing to consume on from our inception – the marketplace has now started to translate and quantify those benefits for brands. While we're finding that at a high level, exposure across more screens is more effective, we're also uncovering that the CTV/OTT environment consistently outperforms not only the other digital screens but its linear counterpart as well. Together with our Marketing and Research divisions, our Creative Studio has continuously developed and tested new ad concepts that drive different engagements multi-screen. We have learned through many lab studies that consumers indeed expect "smarter" ads on their Smart TVs. In turn, we have created highly-dynamic units where users can engage with brands most relevant to them in the moment. As we move into 2016, users will notice even more interactivity by being able to place orders, view interiors of cars, and get localized information. Additionally, with the layer of virtual reality (VR), we will be able to create even more immersive experiences for users.

**Have you found that clients are now insisting on having OTT in the mix, or is it happening more organically?**

What began as more of an organic insertion, or test as part of a multi-platform video buy, has now become a mandate for many of our campaigns. Over the last few years, we've seen clients moving from utilizing OTT/CTV on an experimental basis to insisting it be part of the mix in order to maximize reach and campaign efficacy. We've also found this is starting to take shape internationally as well as OTT devices become increasingly mainstream. Advertisers very quickly realized the benefits of CTV/OTT exposure and now use the space not only to boost performance on their video initiatives but achieve incremental reach to an audience that seems to be moving away from linear television. They build ads specifically designed for the users and behaviors on CTV and are able to specifically tie an increase of sales to it. Furthermore, they get to interact with their consumers differently than other screens and can get instant feedback about products. When consumers interact with ads on their OTT device, it is unlikely to be "accidental." The "click" on OTT is much more dependent on the consumer's effort, thus also more reliable. Since YuMe is an audience solution for video brand advertisers, we can drive OTT into the mix organically, by finding the right target audience at the right time, regardless of screen. OTT happens to be one of the screens we have in our ecosystem, and advertisers can capitalize on our commitment and ability to deliver relevant ads across multiple-screens. Many forward-thinking advertisers are buying with this method now as they understand the complexities of budgeting and setting the same KPIs across different screens. They can request the metrics that are most important to their campaign, and YuMe will insure to focus on metrics and audience, agnostic of the screen.

**What have been the challenges in gaining access to inventory and measuring the OTT space?**

Historically, the connected TV/OTT space has offered limited inventory and high value partnerships are required to deliver the level of performance required by advertisers. This has been accomplished through strategic partnerships with OEMs, application and content developers. As new devices and more content moves to these platforms, inventory is being addressed, though due to the nature of the medium, they still must be leveraged with strategic partnerships which YuMe has a head start on. Measurement continues to be an industry-wide challenge as the traditional measurement companies are struggling to keep up with the level of innovation, device fragmentation and lack of standards.  In the meantime, we rely upon our proprietary technologies to provide reliable metrics and a close network of partners to help assess the efficacy of campaigns.

**Are there considerations for serving ads in different OTT environments (game console, Roku, smart TV, etc.)?**

Outside of different creative specs for certain display or rich media opportunities, many brands are repurposing TV or digital video assets when it comes to delivering pre-roll across devices.  Most of the consideration by platform is based around audiences and who the device, or content we're delivering within, reaches. The reality is that each one of the devices, platforms and environments are unique -- each with their own inherent capabilities and limitations. This extends to the consumer mindset on how they engage and interact with the device. A gaming environment is fundamentally different than a smart TV environment. These nuances can make the difference in terms of the success of a campaign and how consumers interact with content in these different environments and on different devices. We've never had a series of devices within a category that are so unique.

**Looking ahead a few years, how do you think the living room viewing experience will change?**

In the coming years, we will start seeing a true blending of screens. Content is at the center of the experience for the consumer and there will be a much more seamless integration among screens as consumers travel from one to the other. Whether it's on the move, in a car, in the kitchen or in the living room, content and engagement will be more seamless with time. Consumers don't discriminate when it comes to devices – they follow their passion for content wherever it can be accessed.  Further, the evolution of the living room we're all bearing witness to, really has to do with one central factor, and that's making our lives as video consumers easier.  All of the device manufacturers , whether OTT, smart TV, game console, or even cable box, are in a race to bring consumers a personally customized interface that can be used as the fastest path to the specific content that individual wants to consume.  More intuitive UIs that offer a more diverse set of content choices will contribute, as well as remotes that enable easy data entry via voice control.  Gesture control will certainly come into play, and virtual reality will have a significant role in how we engage with gaming and video content, beginning in 2016.

# *SUMMARY CHEAT SHEET*

## Supply

1. "Cord-cutting" became a reality in 2015, as concerns about rising cable bills and easier access to premium streaming content have made it a more attractive option.

New Finding: We expect nearly seven million homes to cut the cord between now and 2020.

2. While we expect cutting to increase over the next few years, there are a far larger number of consumers that are either trimming back to basic channel packages or declining to get a multichannel subscription to begin with.

New Finding: The number of "cord-never" households—whether they are broadband-only, broadcast-only, or non-TV homes—to reach 30 million over the next few years.

3. Nearly half of US homes now have access to a subscription video on demand service, and those homes watch less traditional TV.

New Finding: Netflix remains the leading provider by a significant margin, but Amazon and Hulu are on the rise.

4. Time spent with OTT devices has more than doubled year-to-year.

New Finding: Overall time with digital video, regardless of device, has increased by 25 percent.

5. Digital video sources look to be more than offsetting declines in traditional TV usage.

New Finding:Interestingly, this is especially the case when there are higher volumes of first-run programming on the broadcast schedule.

## Demand

1. Programming cost increases for the major MVPDs have consistently been in the mid-to-high single digits over the past two years.

New Finding: Coupled with cord-cutting fears, this has put pressure on their bottom-lines.

2. There are a number of mergers and acquisitions underway as MVPDs seek greater size to leverage in carriage negotiations.

New Finding: With retransmission disputes becoming increasingly common, this is one of the few means of strengthening their position.

3. National TV ad revenues have slowed amid viewing changes and we expect them to stay relatively flat over the next several years.

New Finding: This is down from annual growth in the mid-single digits just five years ago.

4. Even as the top MVPDs' multichannel subscribers have been declining, their broadband subscribers have been on the rise—and US consumers pay more for access than their European counterparts.

New Finding:With the losses on the multichannel side, looking to increase revenue from the broadband side of the business is a given.

5. While true a la carte TV doesn't look to be on the horizon in the US just yet, there are a number of cable networks that might be challenged as consumers are given more choice.

New Finding: Networks with low reach and smaller audiences would be the most vulnerable, followed by channels used primarily for program "snacking."

## New Value Drivers

1. Like traditional TV, connected TV usage peaks in the evening when most consumers are home.

New Finding: "Primetime" may look different than it has in the past, but the TV set is still the central entertainment device in the evening.

2. As with most connected devices, consumers look to connected TV for relaxation and entertainment, but the on-demand nature of the viewing still makes it more of a lean-forward experience than traditional live TV.

New Finding: It also tends to be a more social experience than personal devices like smartphones and tablets, offering the chance to reach multiple viewers at once.

3. OTT devices are capturing an increasing share of digital video ad views, and growing faster than any other device.

New Finding: According to ad network FreeWheel, OTT devices recently passed tablets' share of digital ad views and are catching up with smartphones.

4. Recall for connected TV ad experiences is considerably better than linear television.

New Finding: A far less cluttered ad experience is a major driving force behind the difference.

5. Regardless of category, connected TV campaigns consistently drive interaction and increase key brand metrics.

New Finding: With the quality of the big screen and the interactivity of digital, connected TV offers a unique experience, the benefits of which are still being uncovered.

*CONCLUDING TWEET*

**Brian Hughes** *@bhughes_magna*

*While "watching TV" is no longer limited to the set, it remains the central video hub and is growing source of digital ad interactions.*

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# *THE GLOBAL ADVERTISING MARKET* 2015-2016

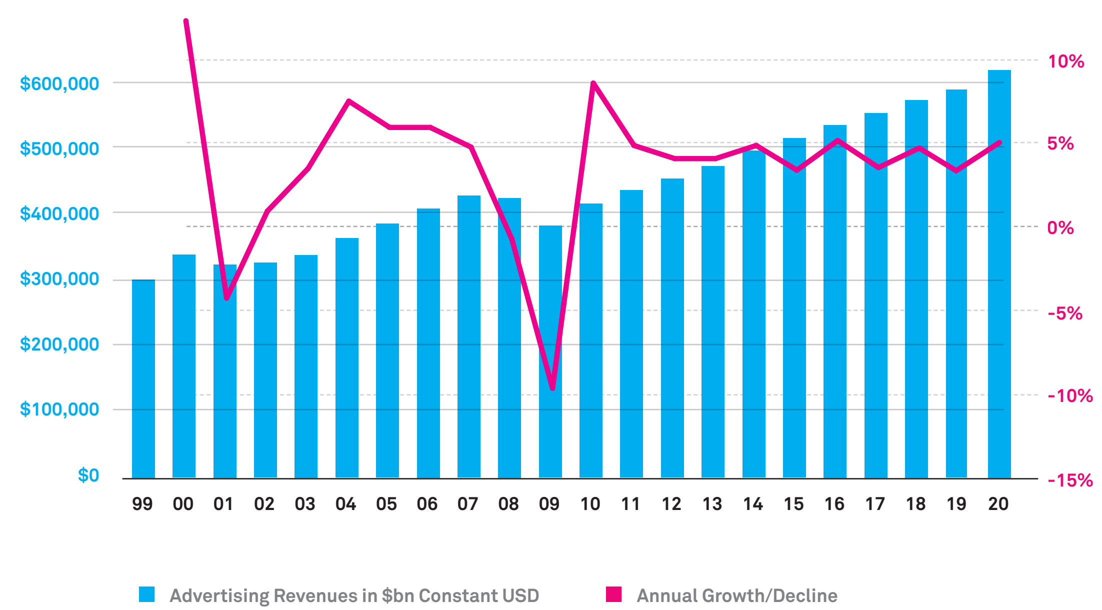
— Globally, media owner advertising revenues will grow by +4.8% to $527 billion in 2016. Advertising revenues will be boosted in 2016 by incremental spending generated around even-year non-recurring events: the US Presidential election, the UEFA Football championship, and the Summer Olympics in Brazil. Neutralizing the impact of these non-recurring events in 2016, the global ad market would only grow by +3.7%, down from 2015's +4.1% rate, suggesting no real acceleration in underlying 2016 ad demand beyond the cyclical drivers.

— Digital media advertising sales will grow by 13.2% in 2016, driven by mobile advertising (+42%), video formats (+34%) and social formats (+29%). Banner formats will stagnate (+0.8%) due to increased competition from other formats and ad blocking. Digital media revenues will reach 37.3% market share by the end of 2017 globally, surpassing TV, to become the number one media category.

*For full report, detailed estimates over 73 markets and long-term forecasts, please contact MAGNA GLOBAL.*

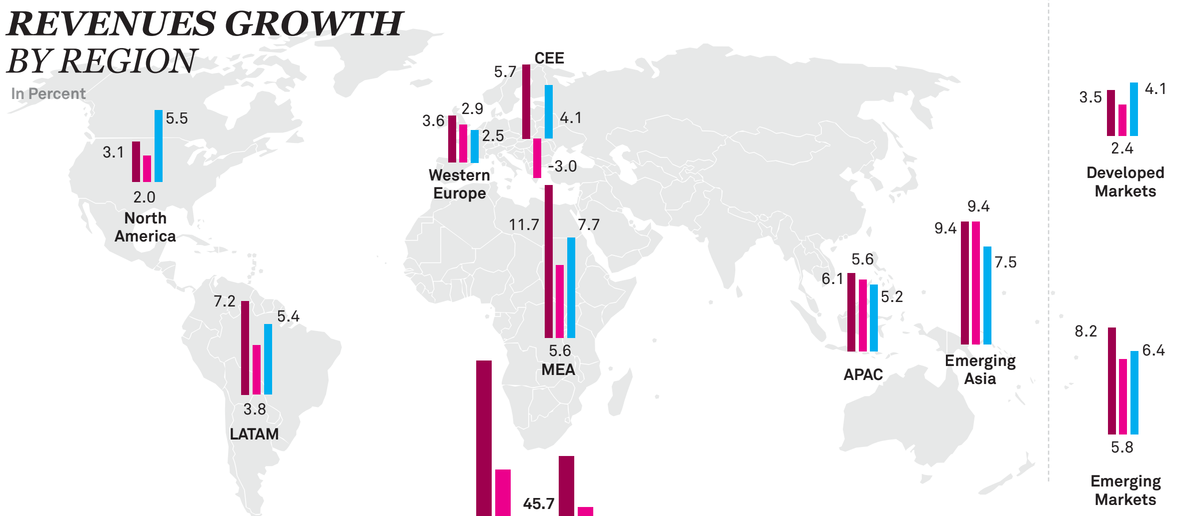
## *REVENUES* 1999-2020

(YOY growth)



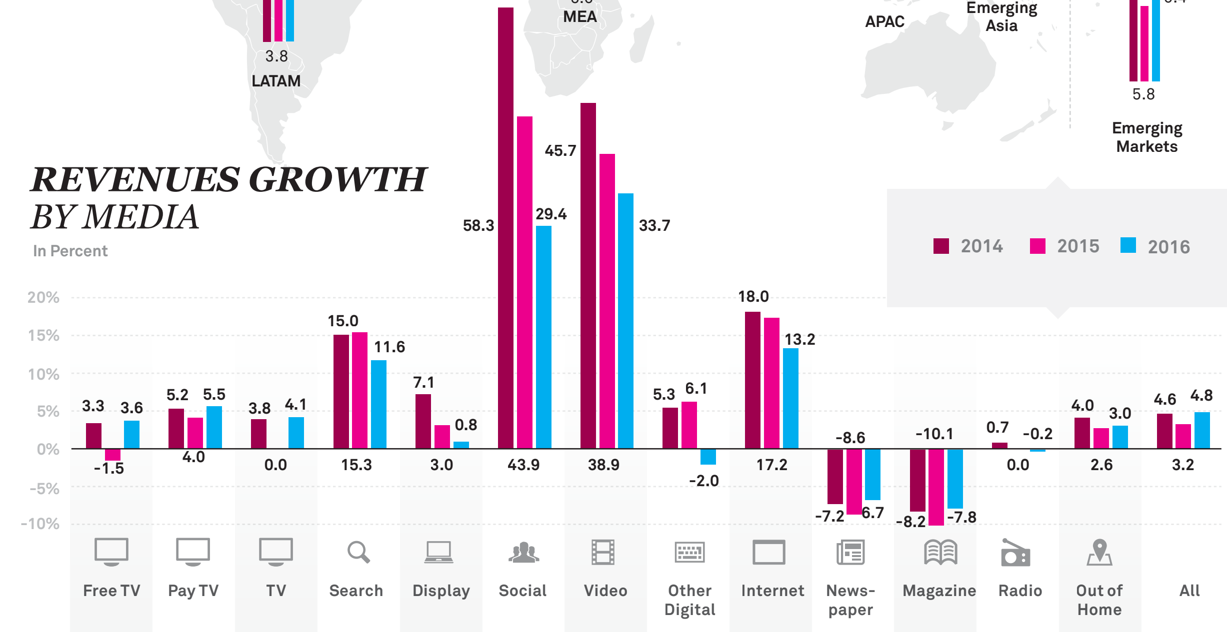

## *REVENUES GROWTH* BY REGION

In Percent

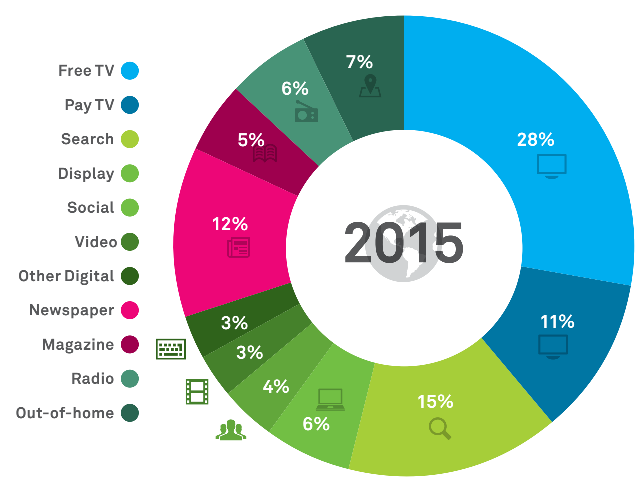



## *REVENUES GROWTH* BY MEDIA

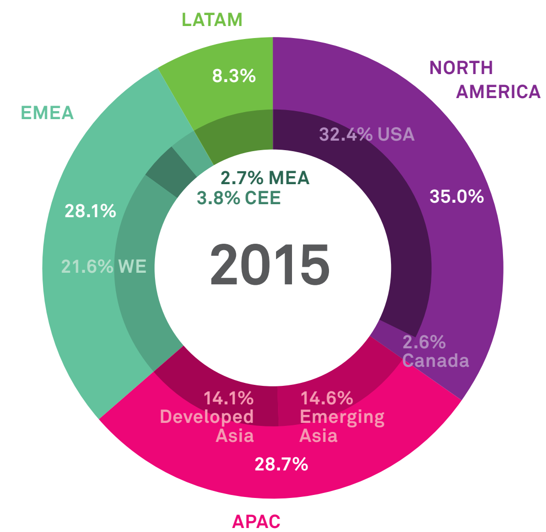
In Percent




## *GLOBAL* MEDIA MIX



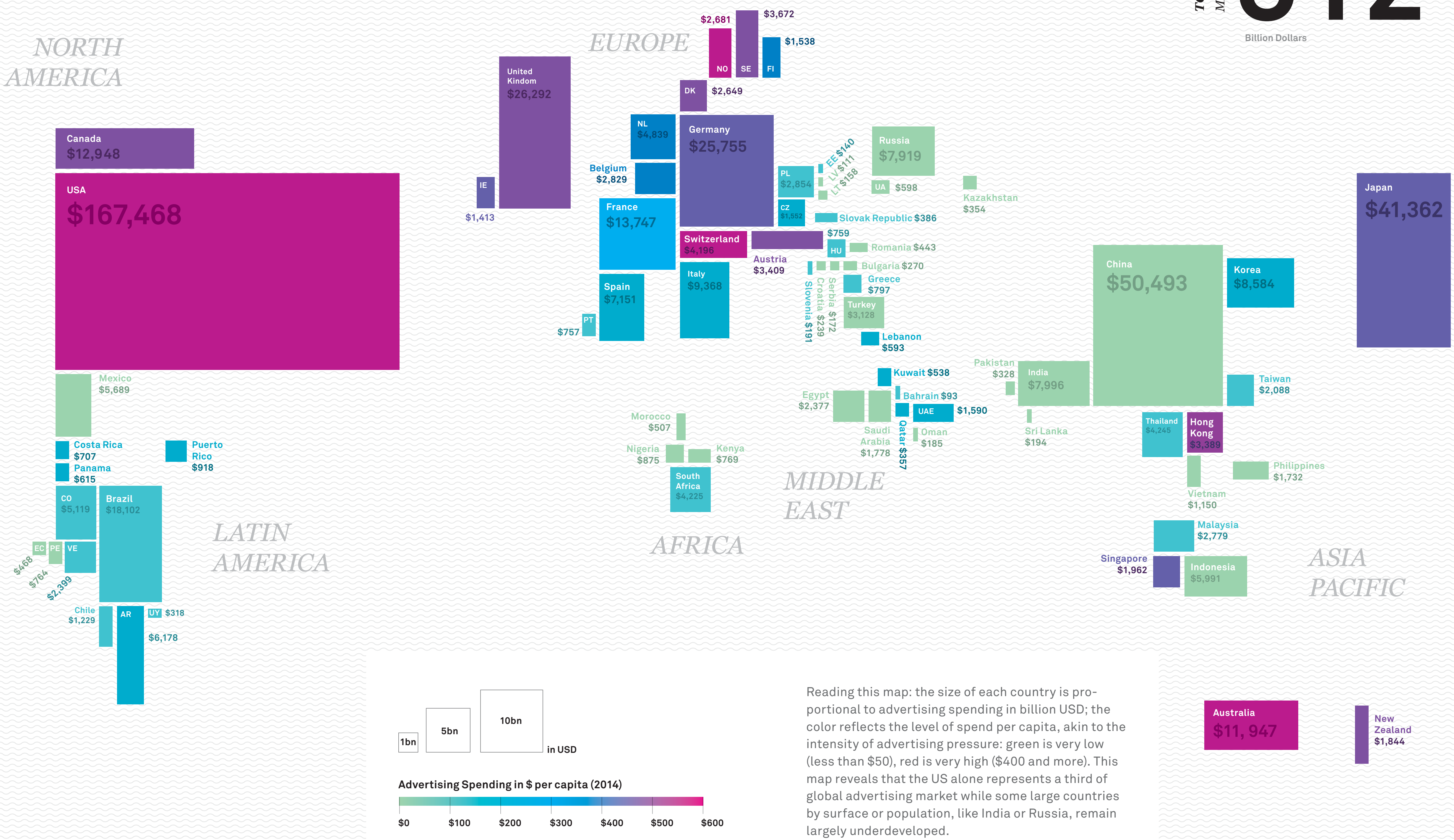

## *AD MARKET* BY REGION




New Value Drivers
Demand
Supply

# THE GLOBAL ADVERTISING MARKET 2015

TOTAL MARKET SIZE **512** Billion Dollars




Reading this map: the size of each country is proportional to advertising spending in billion USD; the color reflects the level of spend per capita, akin to the intensity of advertising pressure: green is very low (less than $50), red is very high ($400 and more). This map reveals that the US alone represents a third of global advertising market while some large countries by surface or population, like India or Russia, remain largely underdeveloped.

New Value Drivers
Demand
Supply

## *ABOUT*
## ***MAGNA GLOBAL***

MAGNA GLOBAL is the strategic global media unit of IPG Mediabrands, comprised of two key divisions.

MAGNA GLOBAL Investment harnesses the aggregate power of all IPG media investments to create power and leverage in the market, drive savings and efficiencies, and ultimately make smarter, more effective media investments on behalf of our clients. With a stated goal of reaching 50% automated buying by 2016, the team in North America invests across digital, programmatic, broadcast and all traditional media platforms and is therefore considered the most comprehensive buying and negotiating unit in the media industry. The architects of the MAGNA Consortium – a powerful committee of executives from A&E Networks, AOL, Cablevision, Clear Channel Media and Entertainment, ESPN and Tribune – MAGNA North America is also dedicated to shaping industry automation and audience specific buying.

MAGNA GLOBAL Intelligence has set the industry standard for more than 50 years by predicting the future of media value. MAGNA GLOBAL Intelligence produces more than 40 annual reports on audience trends, media spend and market demand, and ad effectiveness. For more information, please visit www.magnaglobal.com or follow us on Twitter @MAGNAGLOBAL.

## *ABOUT*
## ***IPG MEDIABRANDS***

IPG Mediabrands was founded by Interpublic Group (NYSE: IPG) in 2007 to manage all of its global media related assets. Today, we manage over $37 billion in marketing investment on behalf of our clients, employing over 8,500 marketing communication specialists in more than 130 countries.

IPG Mediabrands is a new world agency group designed with dynamic marketing at its core. Our speed, agility and data smarts ensure we continue to create growth for many of the world's biggest brands. IPG Mediabrands' network of agencies includes UM, Initiative, BPN and Orion Holdings as well specialty business units including Magna Global, Cadreon, Ansible, Society, Reprise, Rapport and the IPG Media Lab.

IPG Mediabrands. Dynamic by Design.