DIGITAL MEDIA SUMMIT

LUMA Partners presents our annual State of the State in Digital Media which covers our views on the industry trends, the market, and the future of the ecosystem with a specific focus on digital media and marketing. We hope you enjoy it. Because this was our 7th (or 007th) DMS, we went with a James Bond theme.

Meet the Senior LUMA Team

Terry Kawaja	Brian Andersen	Mark Greenbaum	Dick Filippini
			
Founder and CEO	**Partner**	**Partner**	**Partner**
Terry leads strategy, banking, marketing and content for LUMA. He's also head comedy writer.	Brian is LUMA's marketing technology guru. He excels at coaching both little league and big clients.	Mark runs M&A strategy and execution for LUMA. He's never met a term sheet he couldn't improve.	Dick leads LUMA's mobile and gaming banking coverage. You can find him holding court every February in Barcelona.
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Agenda

007^{th} DMS

1. Digital Duopoly
2. The Good, the Bad and the Ugly
3. Market Update
4. Significant Industry Trends

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Last Year's Over Arching Theme: Consumer Power

Last year's meta theme that the consumer is in control more than ever still applies today and will continue in the future. There are really only two principals – the marketer and the publisher – every other party is a middleman. We believe that there is a newly empowered principal, the consumer, whose actions will dictate how the industry evolves.

The Issue That Divides the Digital Ecosystem

The over-arching theme that is front and center this year is the debate around "Open" versus "Closed" and how it relates to the overall digital media ecosystem.

The two dominating players, Facebook and Google, continue to battle it out via "closed" platforms in hopes of increasing their market share…

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…The Ecosystem Fears a Digital Duopoly

HE'S CRYING OUT FOR ALTERNATIVES TO FACEBOOK & GOOGLE

Meanwhile, the ecosystem is looking for alternatives to "closed" systems…

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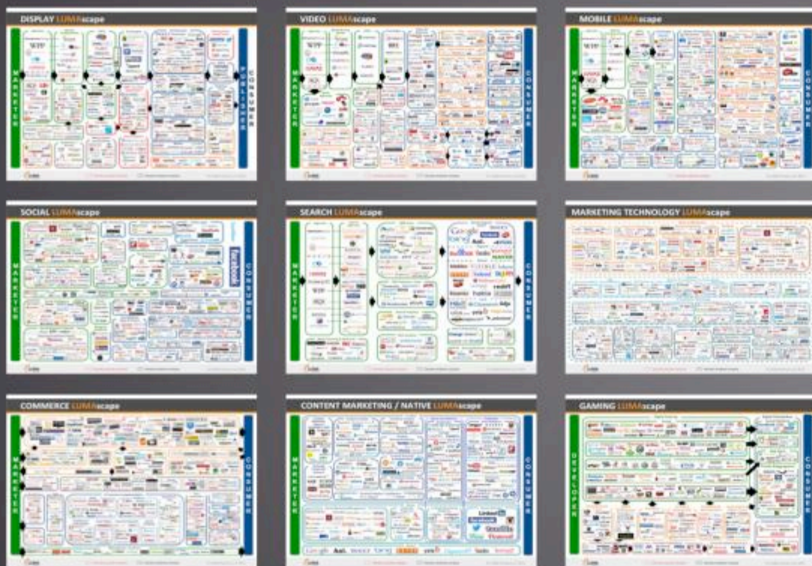
In March 2015, LUMA introduced the first of our Digital Brief series, called "The Good, The Bad, and The Ugly", which outlined the current state of the digital advertising ecosystem.

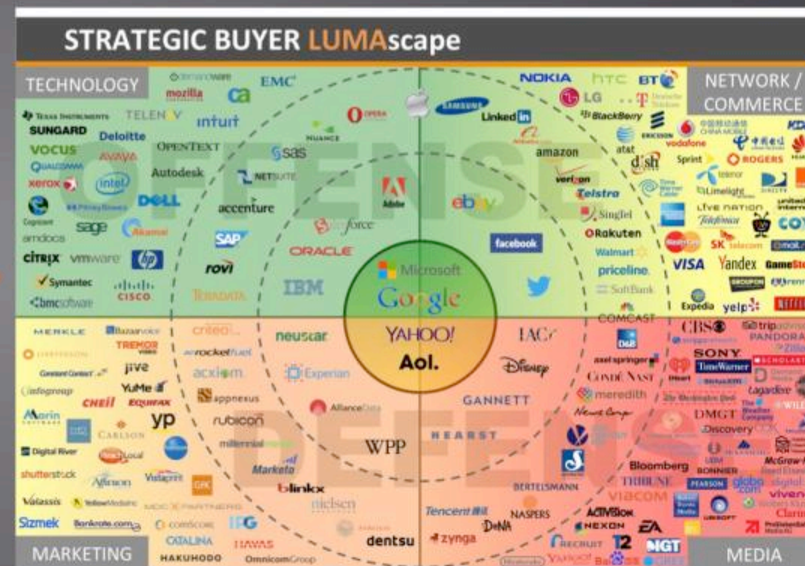
BAD: Digital Supply / Demand Imbalance

SUPPLY



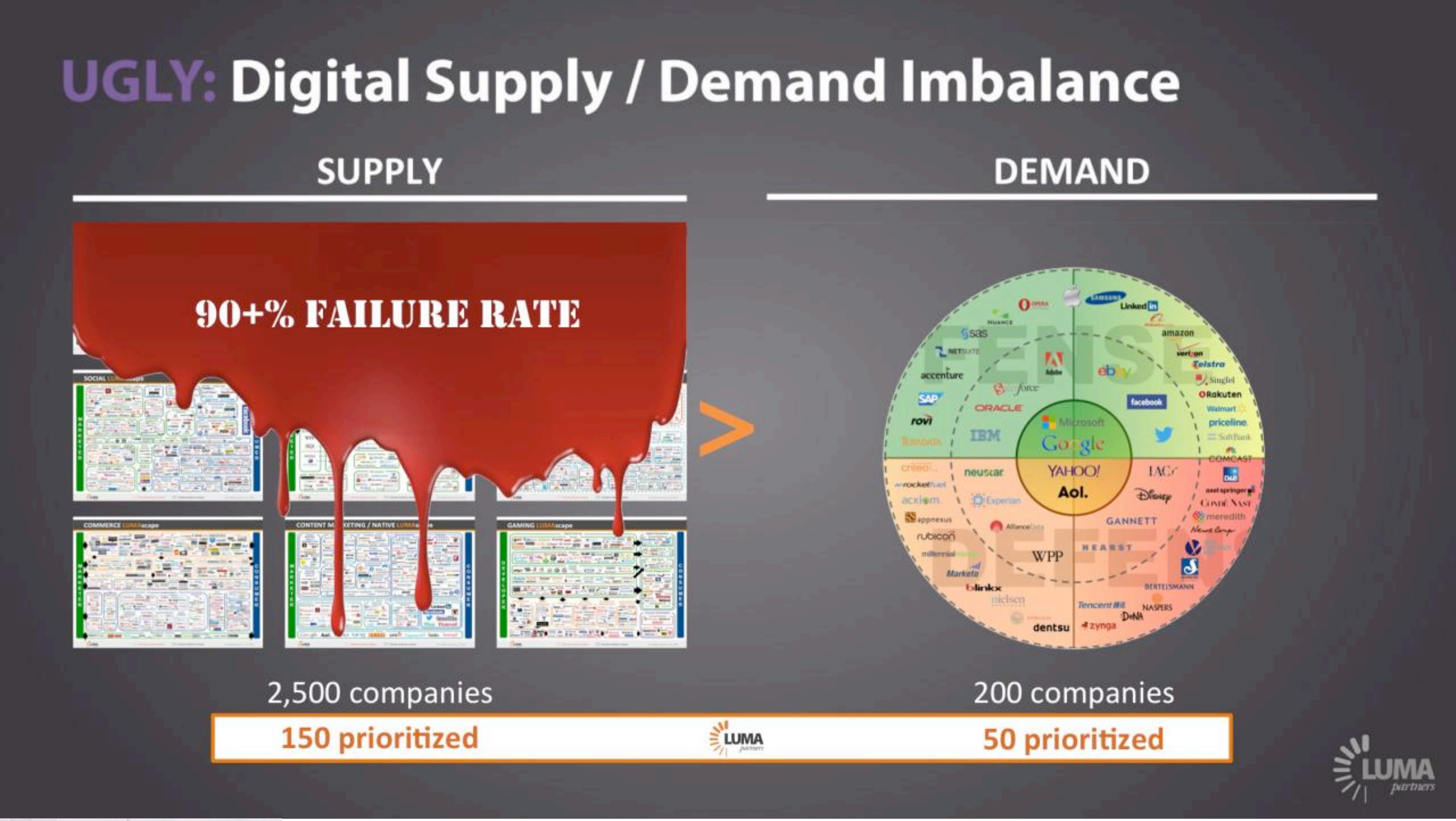
2,500 companies

DEMAND

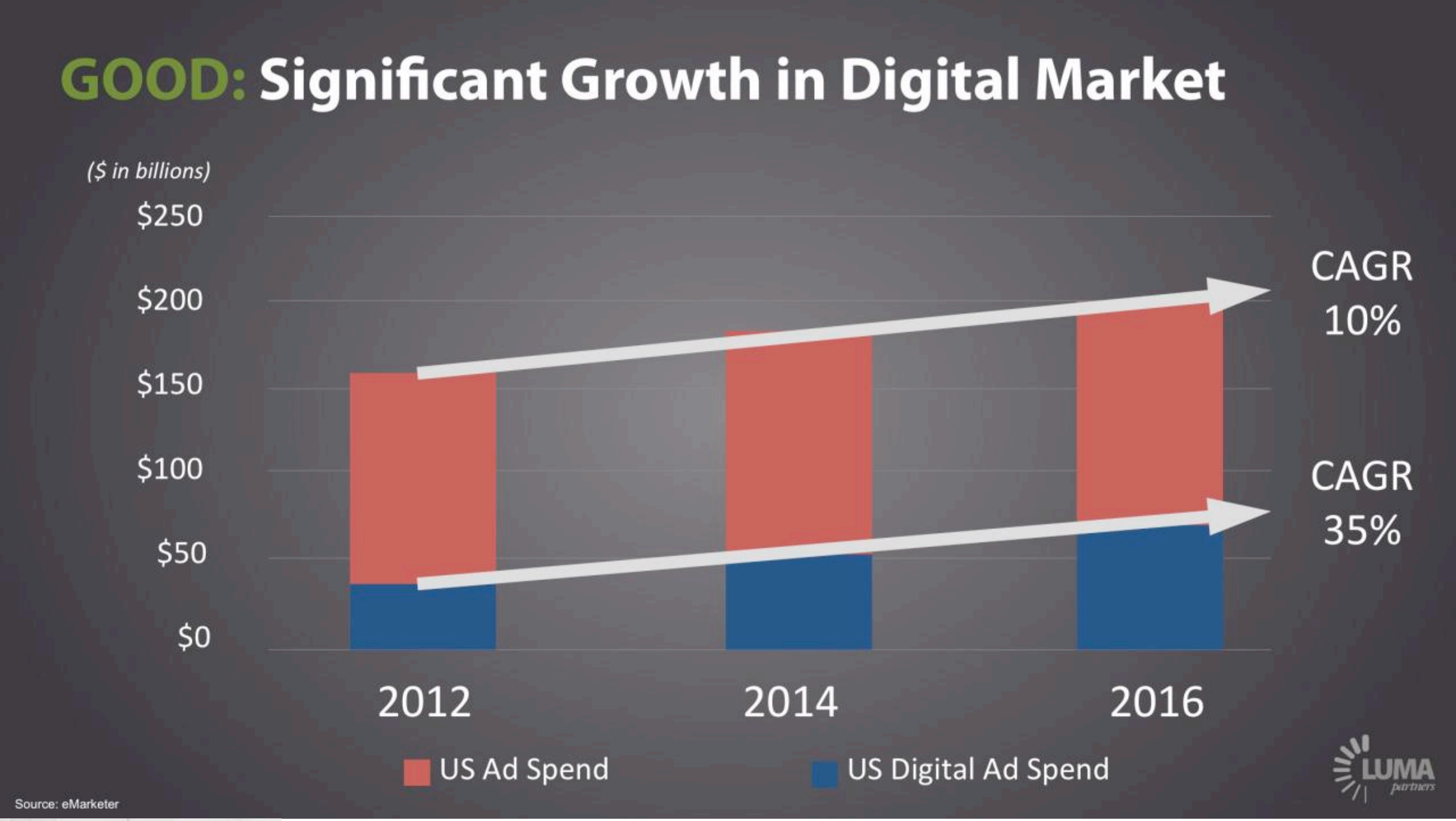


200 companies

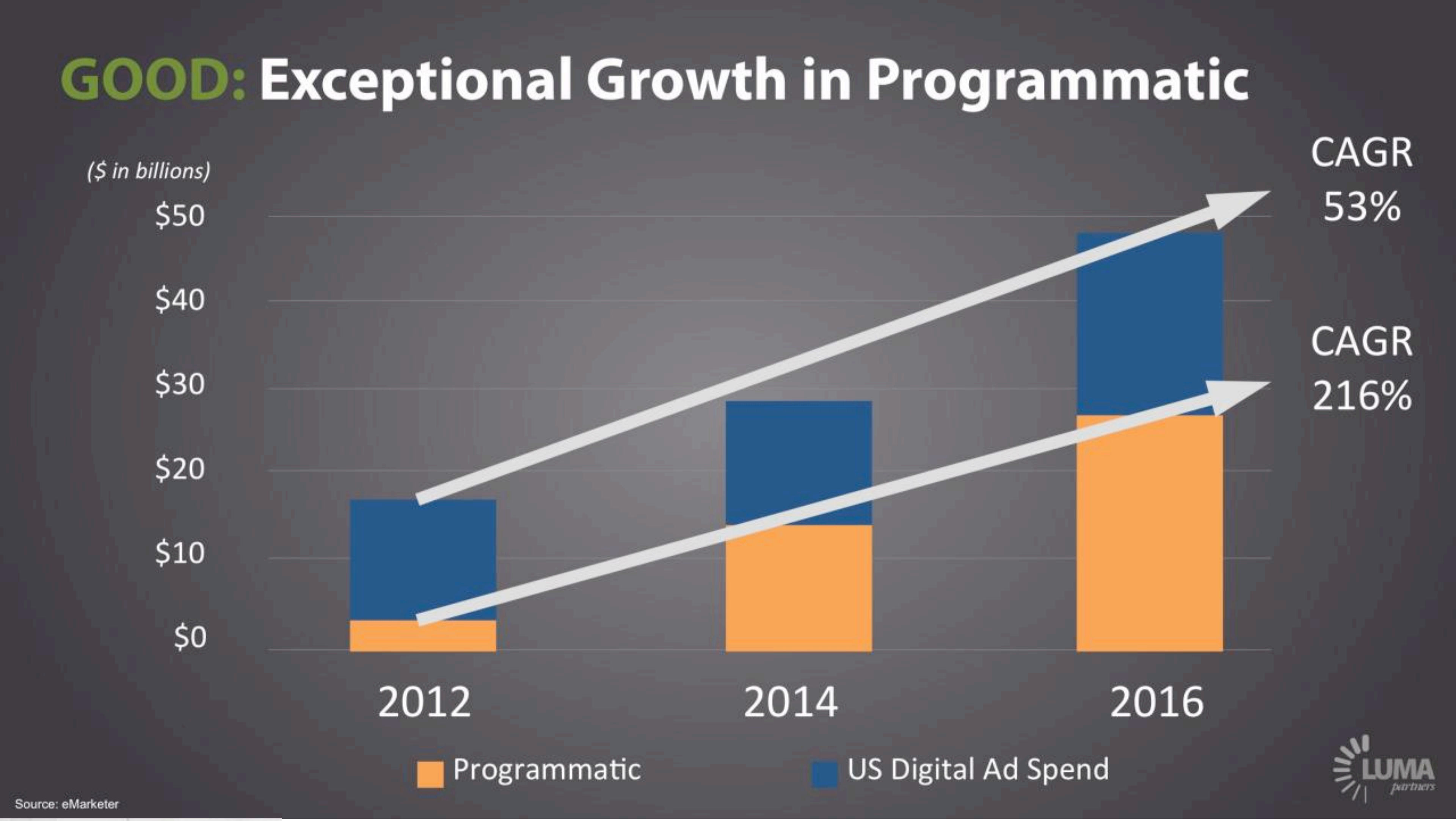
First, the Bad. While the industry is working to sort out fraud, viewability and privacy concerns, we believe there is a more fundamental issue at stake: fragmentation and the supply / demand imbalance. There are over 2,500 companies across the LUMAscapes, yet there are only 200 strategic buyers.



Next, the Ugly. The supply imbalance is worse than it looks. In LUMA's internal coverage prioritization, we focus our time on the 50 most active strategic buyers. On the supply side, we counted only 150 companies that we think have a shot at an exit of $100 million or more. The conclusion is that there will be blood as we realize on what could be a 90% failure rate.



What's the Good news you ask? For one, the digital ad market has never looked stronger. The total ad spend market is growing and spend continues to shift to digital, which is growing at a compounded annual growth rate of 35% to 2016.

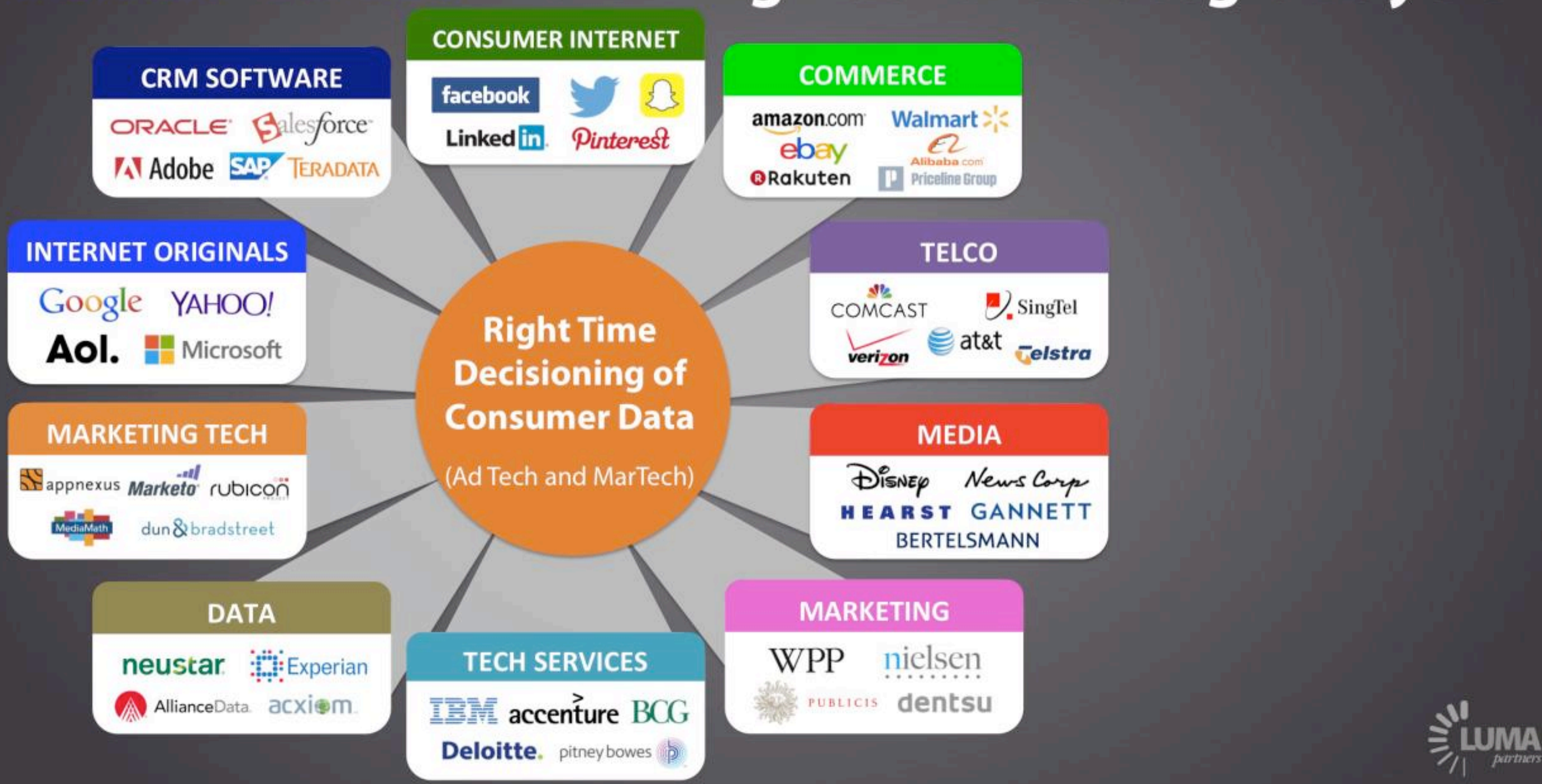


Non-search digital is growing even faster with a 53% compounded annual growth rate through 2016, and programmatic is off the charts with over 200% growth. It is this continued shift to digital and programmatic business models that are attracting new strategic buyers.

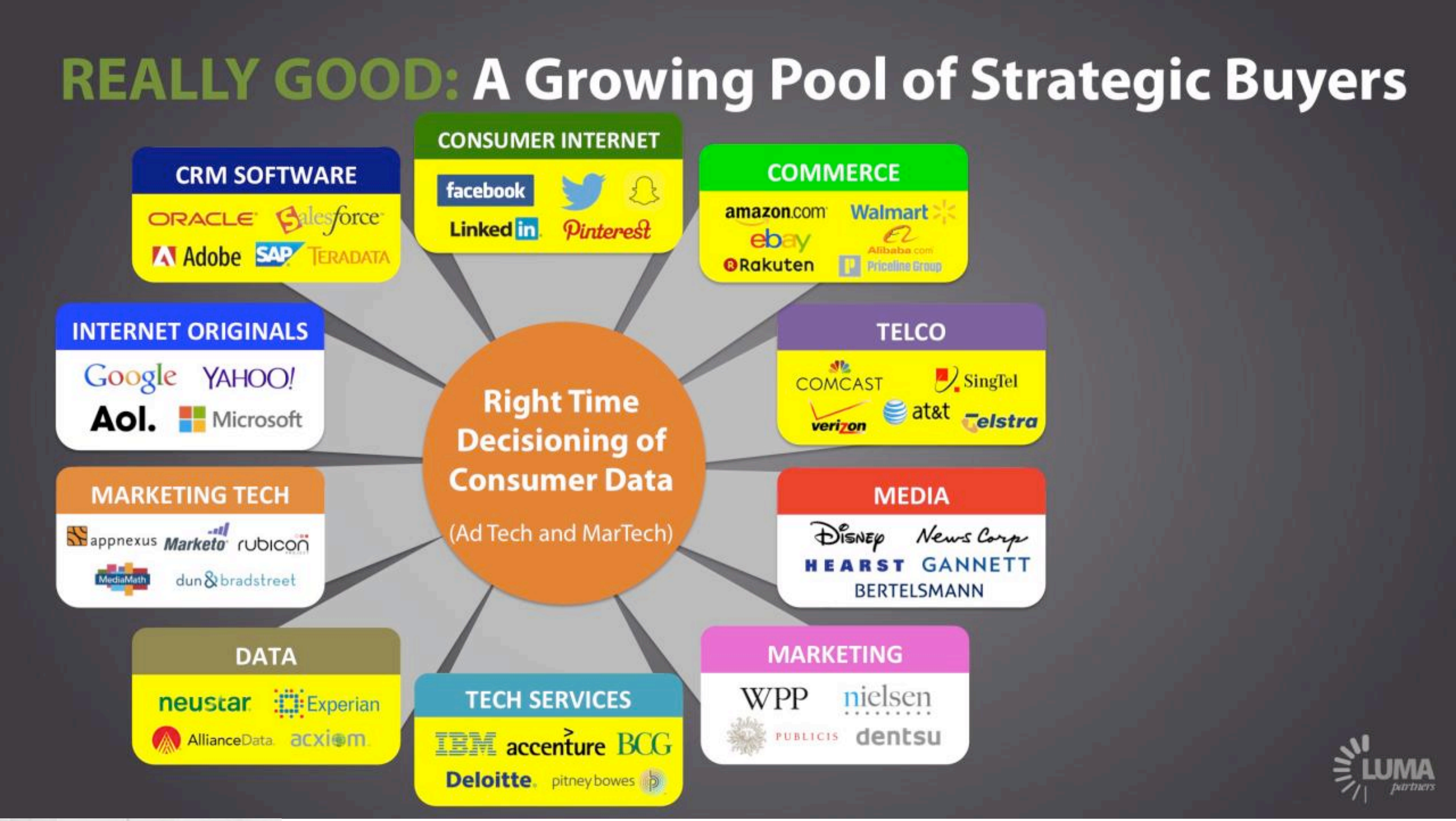
WARNING: LUMA Decks Usually Call for More M&A

This next point comes with a warning. Any investment banker calling for more M&A is akin to when you’re a hammer, everything looks like a nail.

REALLY GOOD: A Growing Pool of Strategic Buyers



However, what was once a small category of interested parties has grown into a robust pool of strategic buyers. Deep pocketed companies from many different industries have a need for "right time decisioning of consumer data". The companies that have best perfected these capabilities are in the Ad Tech and MarTech sector.



Well beyond the usual suspects, we are seeing interest from new entrants, including CRM, Consumer Internet, Commerce, Telco, Tech Services and Data. This is a phenomena that is sure to create quality exit opportunities for differentiated startups. What better of an example is this than Verizon's recent acquisition of AOL?

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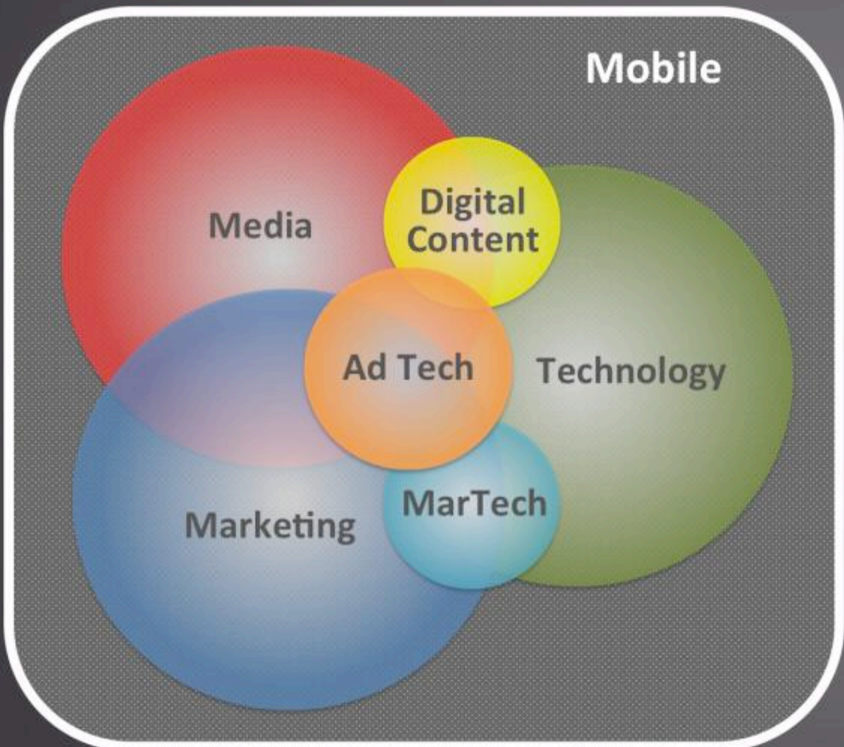
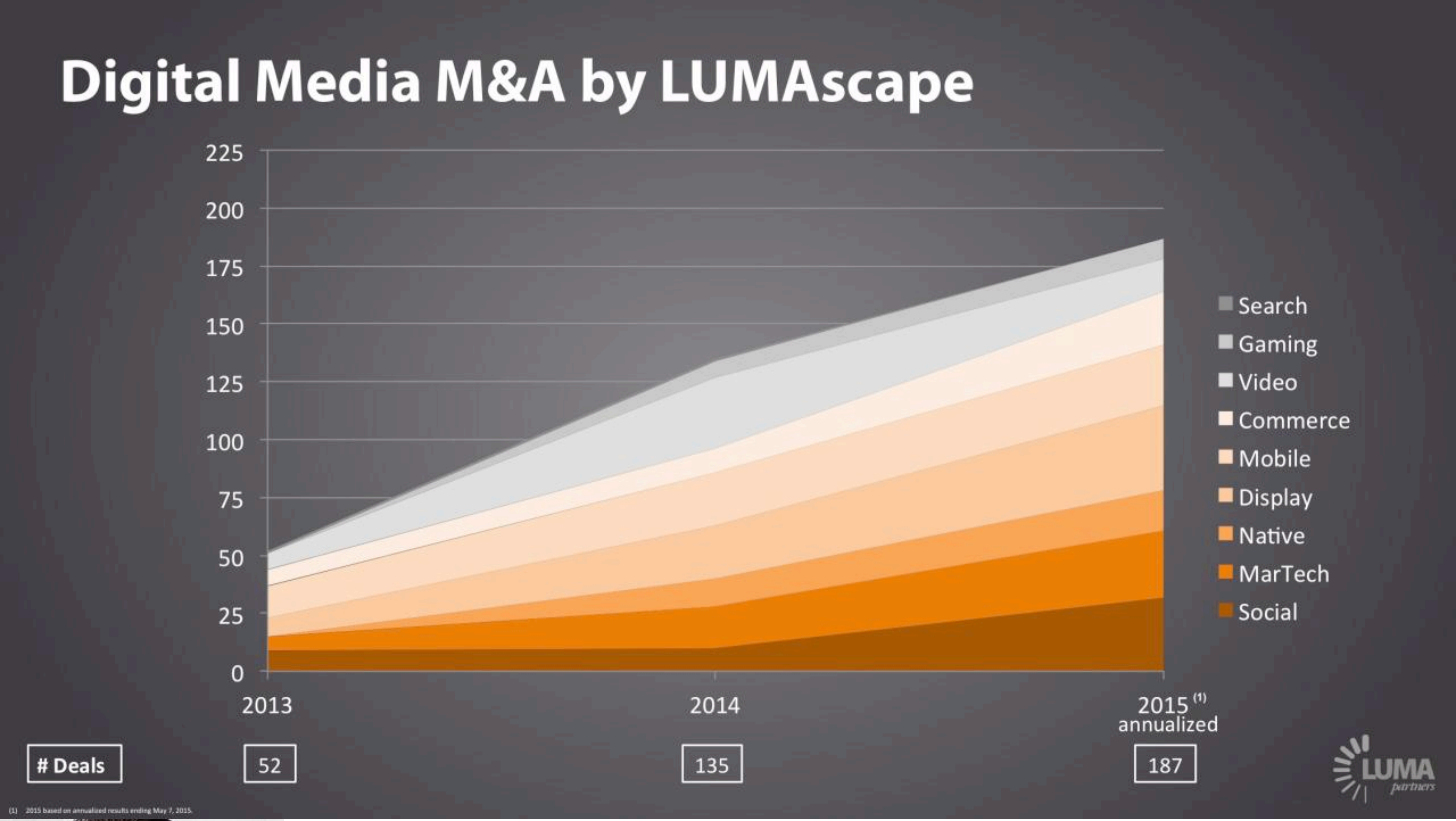
LUMA's Singular Focus on Digital Media



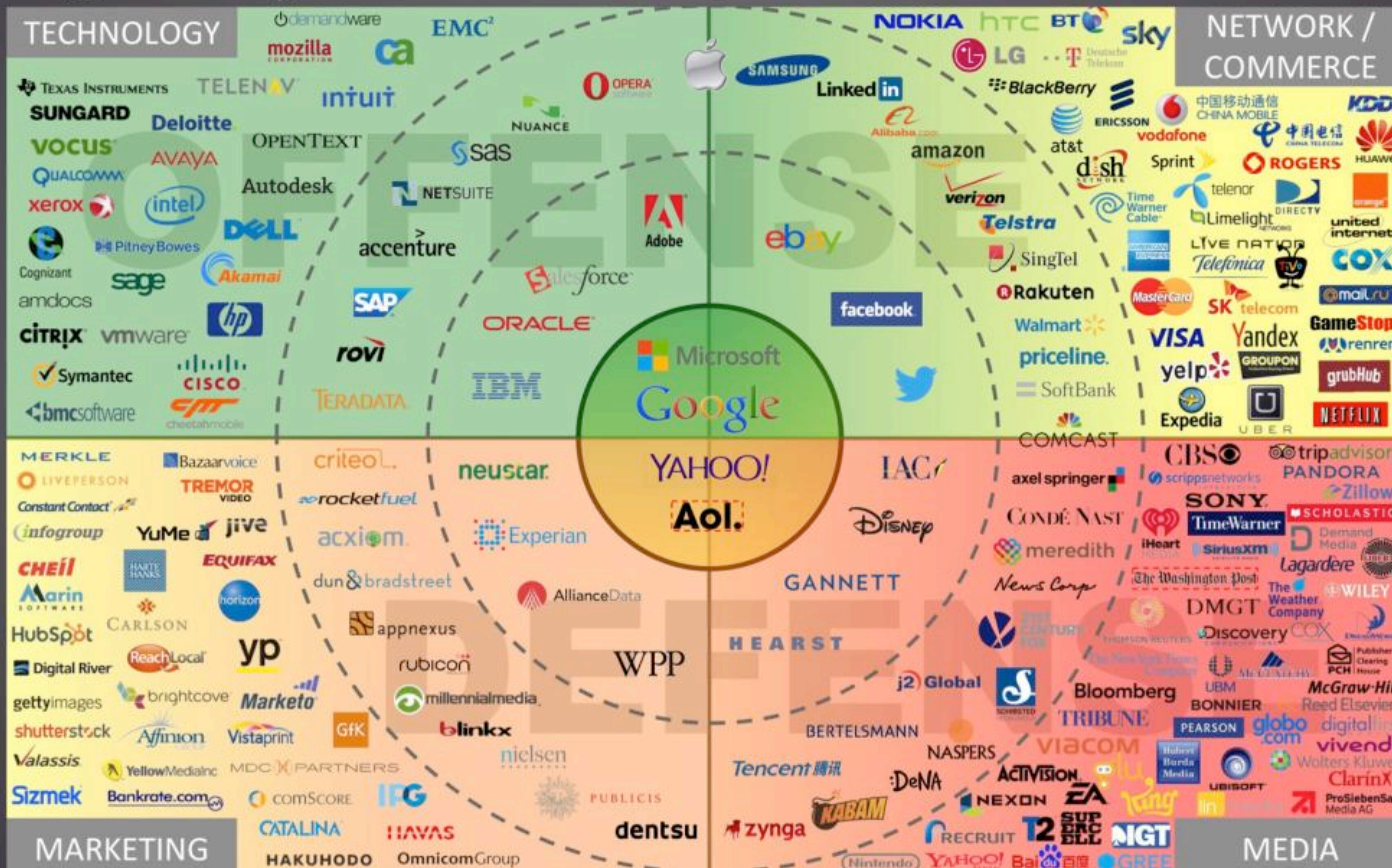
- **Digital Content:** content sites, MCNs, game publishers, aggregators
- **Ad Tech:** display, search, video, mobile, social, content marketing/native, connected TV
- **MarTech:** data, analytics, sales and marketing automation, email, predictive tools, commerce technology, shopper marketing, payments

We'd like to start off with how we define the Digital Media industry. We look at it as the intersection of Media, Marketing, and Technology. LUMA exclusively focuses on the sectors of Digital Content, Ad Tech and MarTech, which when seen through the lens of mobile, is in so many ways the catalyst that is accelerating and enabling disruptive change.



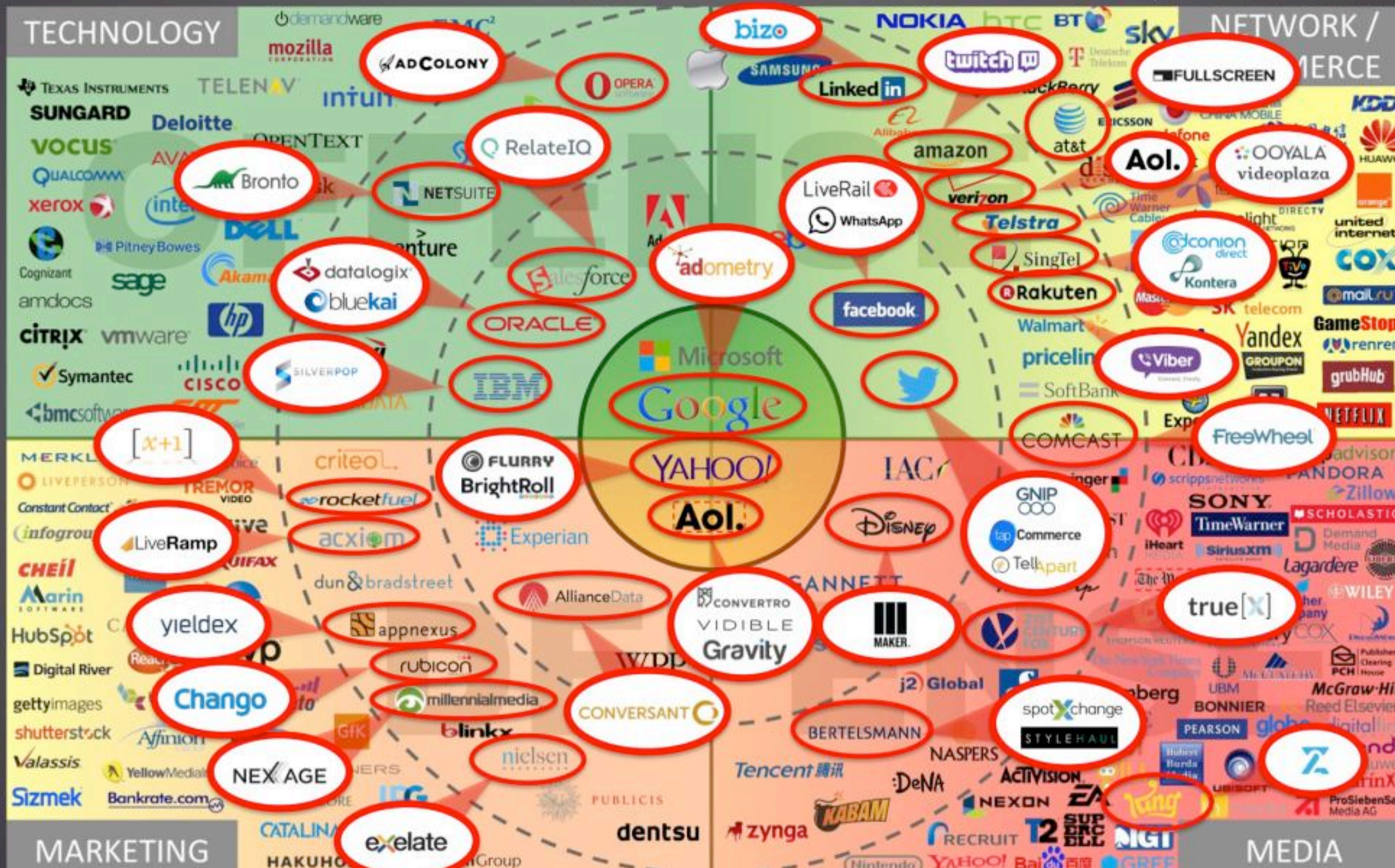
And change is occurring . . . Over the past few years, we have seen M&A activity increase significantly across almost all of the LUMAscapes.

Strategic Buyer LUMAscape



With an increasingly broad set of strategic buyers across various sectors illustrated on the Strategic Buyer LUMAscape.

Significant Recent Digital M&A Activity



We have seen plenty of activity from each of the four buyer categories, as well as an increasing number of companies moving from the outer rings of potential buyers to the inner circles of active buyers.

Last Year Had Few, But Strong Digital Media IPOs

In the public markets – last year saw a number of strong digital IPOs.

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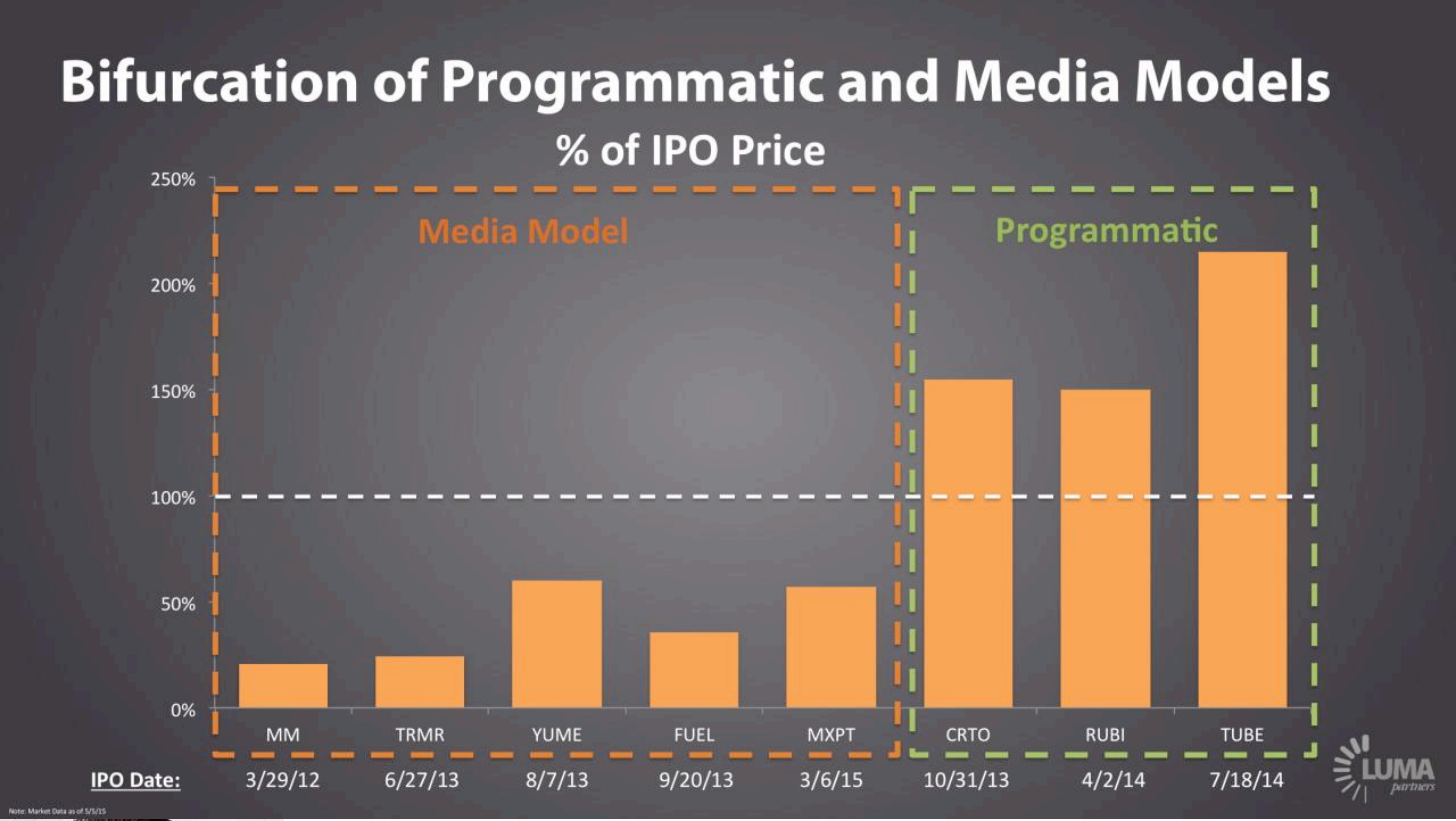
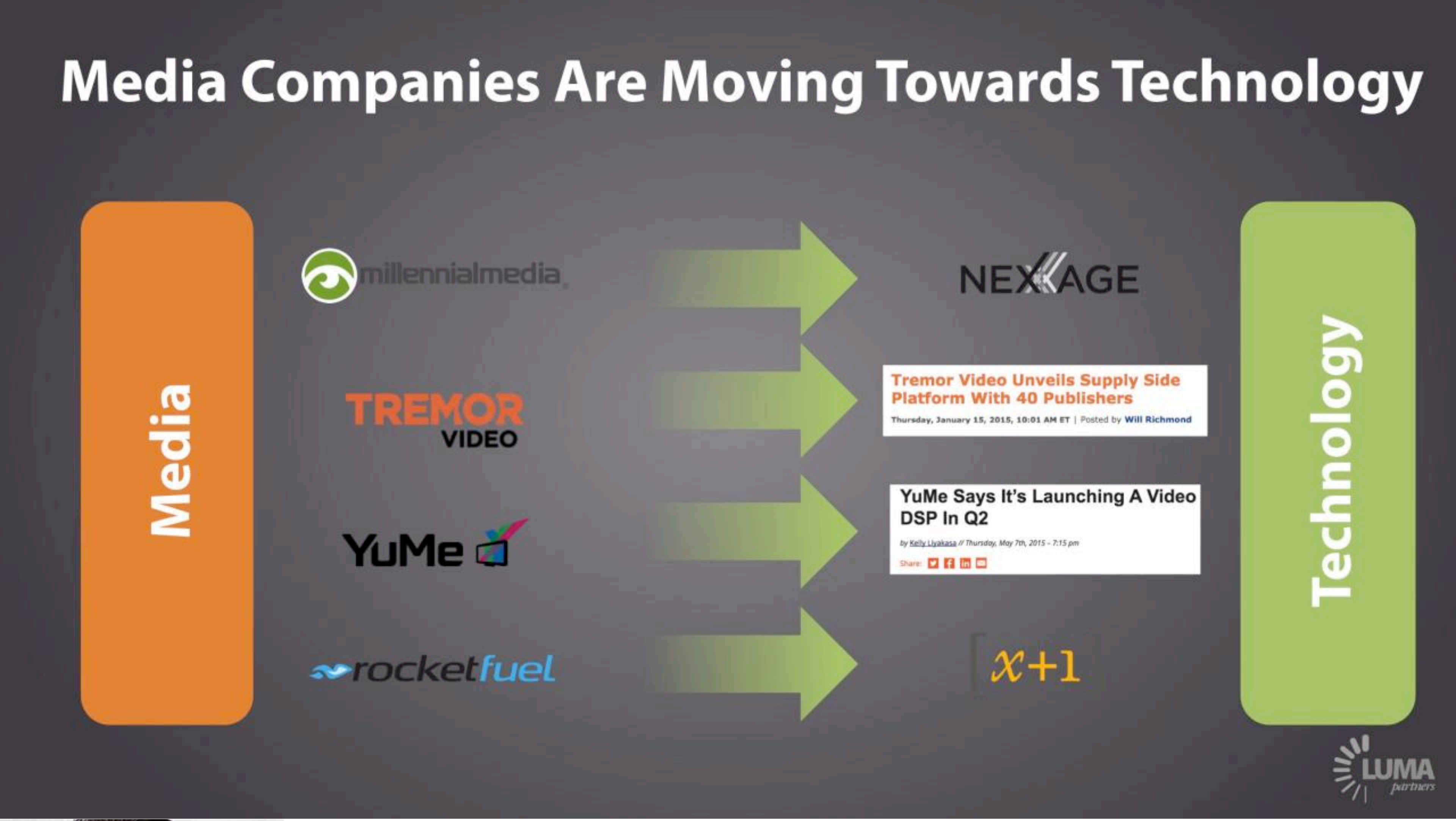
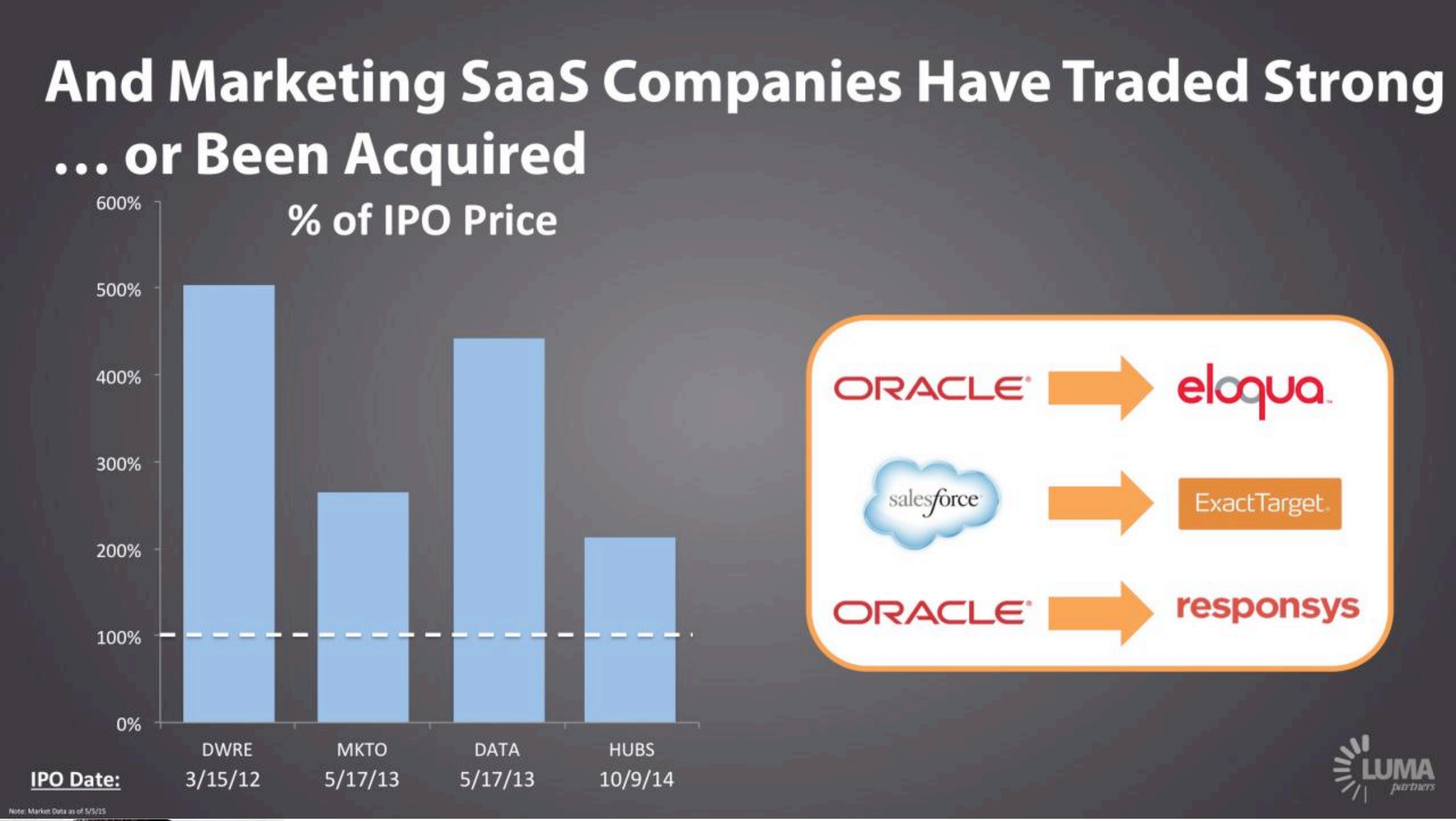


Post IPO trading performance has been mixed. While the public markets may not entirely understand or know how to value Ad Tech business models, it has become clear that technology-driven, programmatic business models are being rewarded with premium valuations over traditional media models.



Media companies have taken notice, with a number making moves to add programmatic capabilities – either organically or through acquisition (with LUMA often advising on the latter).



Further evidence of the market rewarding strong, technology-based business models, we've seen the Marketing SaaS entrants trading very strongly vs. IPO prices… or in many cases being acquired at strategic valuation multiples.

It is also worth commenting on the very active market for private-company financings. In the last year we have seen over 20 companies raise rounds in excess of $20 million; and a number achieving valuations in excess of $1 billion – introducing the "LUMAcorns": AppNexus, Sprinklr, and Domo!

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Top 5 Digital Marketing Trends

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Top 5 Trends

1. Programmatic
2. Mobile
3. Omnichannel / Personalization
4. Identity
5. Convergent TV

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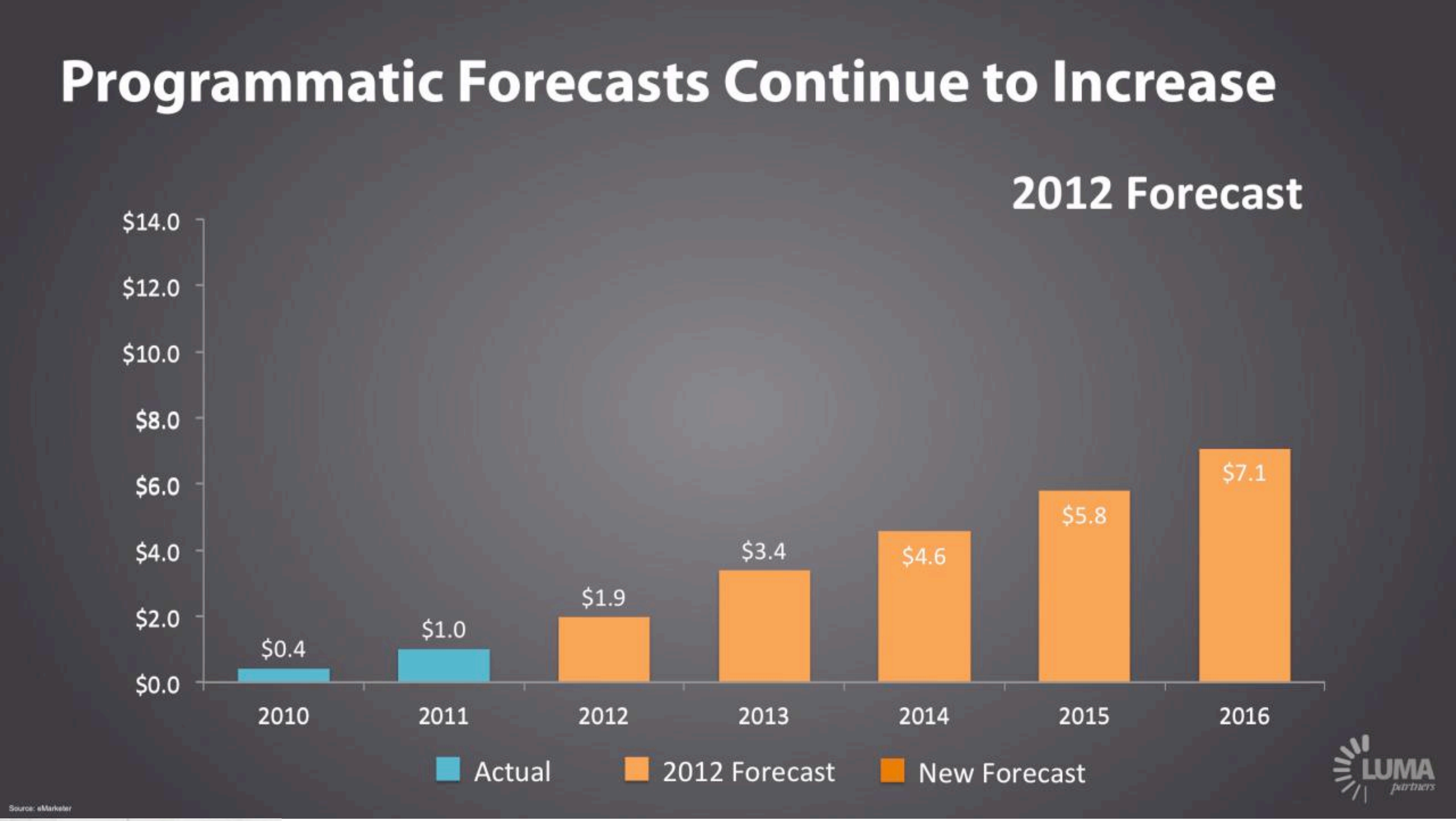
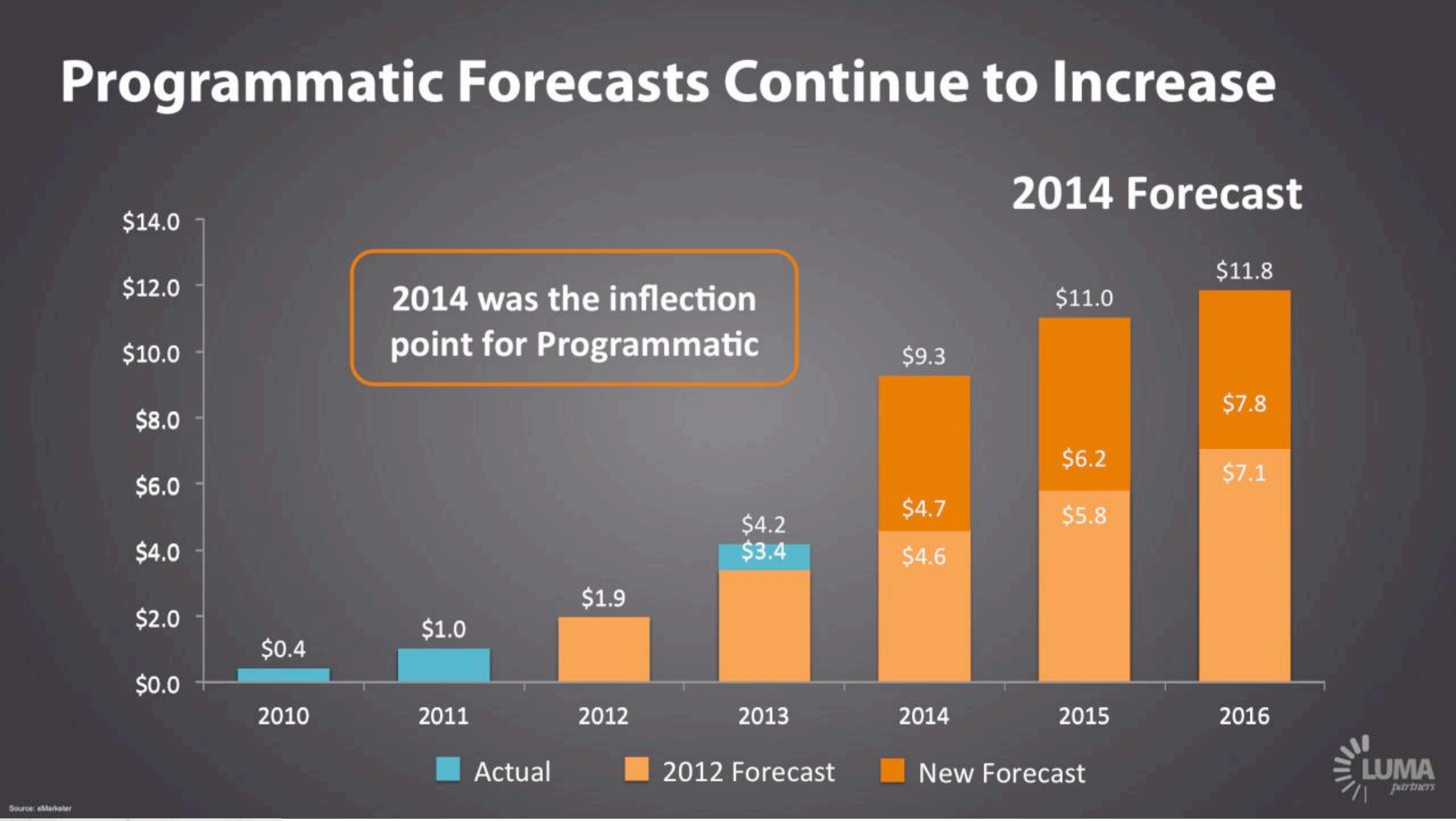


In 2012, eMarketer forecast the programmatic market to be $2 billion, growing to $7 billion in 2016. So the market was starting to look interesting from a market size perspective.

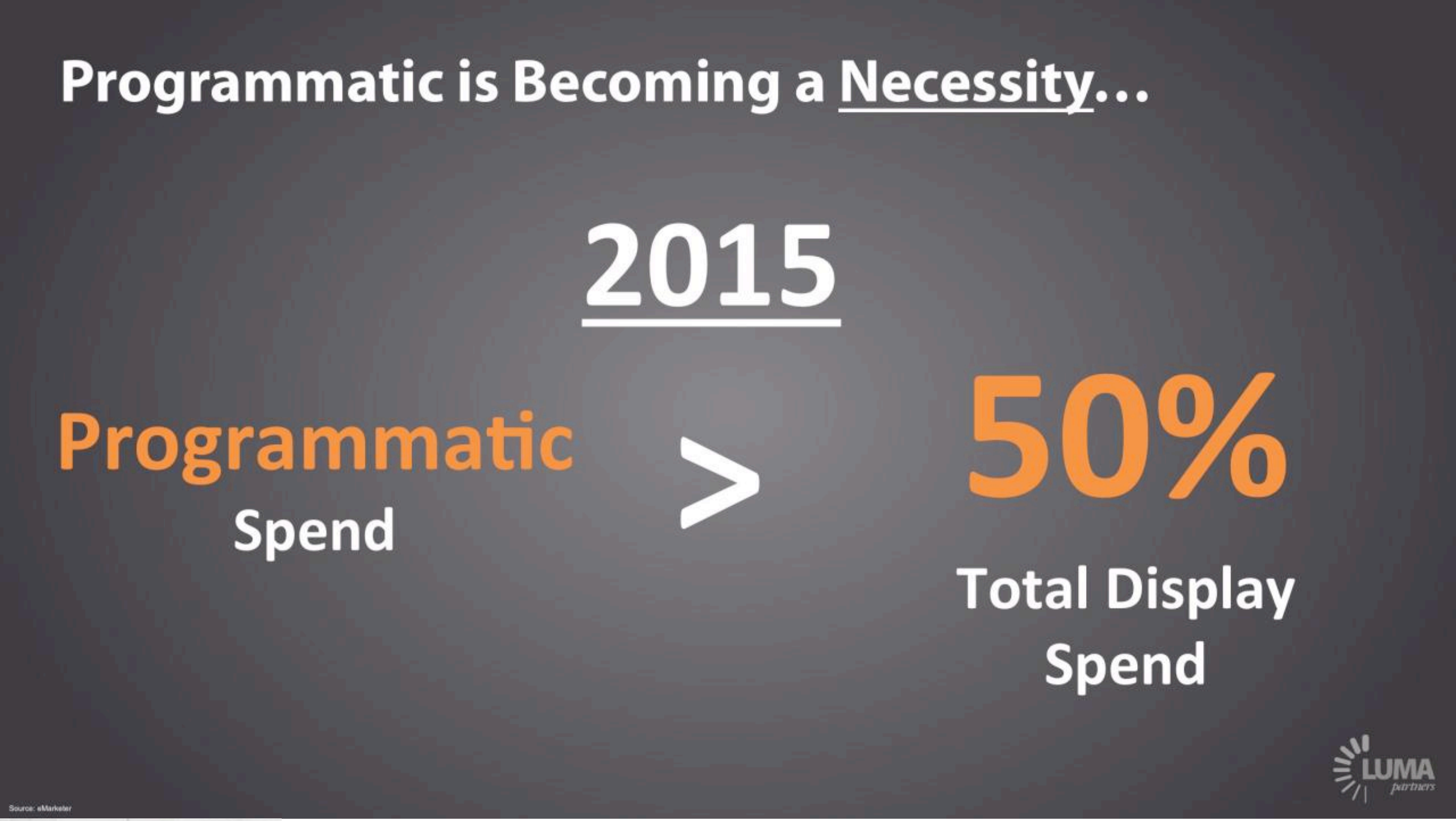
Programmatic Forecasts Continue to Increase

Source: eMarketer

In 2013, eMarketer increased its 2016 forecast about 10%, since the market was growing faster than expected.

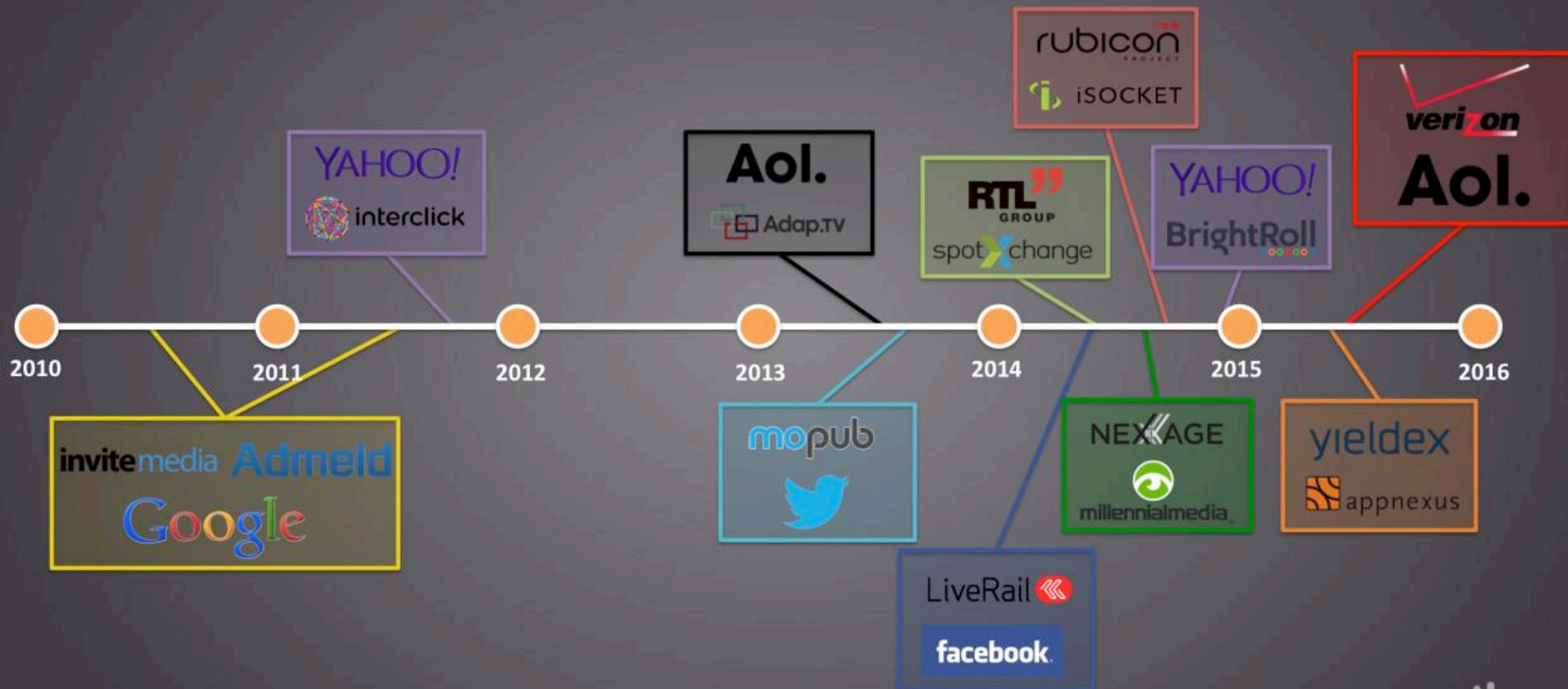


But in 2014, the programmatic market exploded. Growth increased dramatically and eMarketer significantly increased its 2016 estimates to $12 billion – now a market with the scale to attract the interest of the large software companies. 2014 was the inflection year for programmatic.

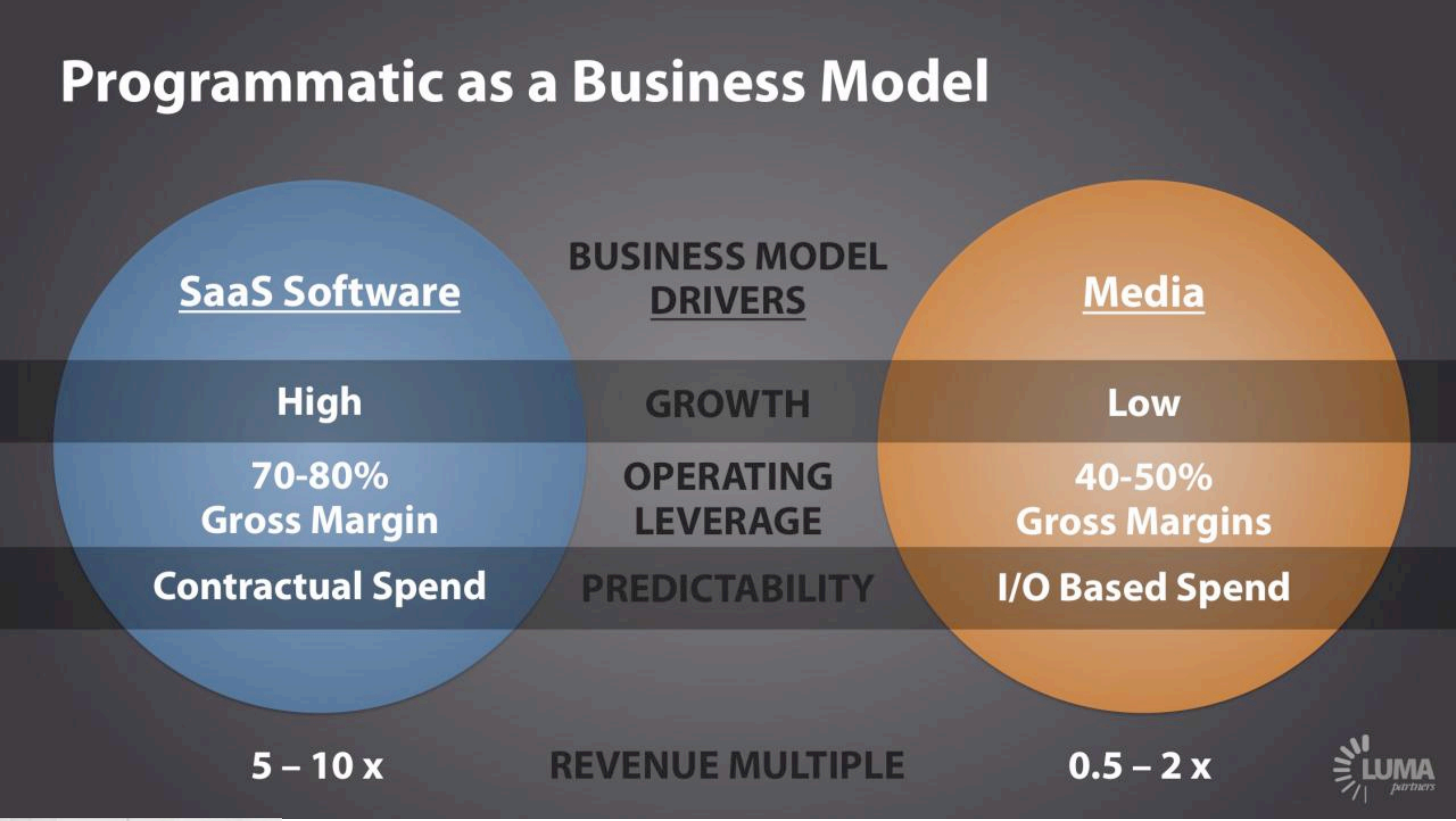


Programmatic capabilities are now a necessity in digital advertising, with total programmatic spend in 2015 expected to represent more than 50% of total overall display spend.

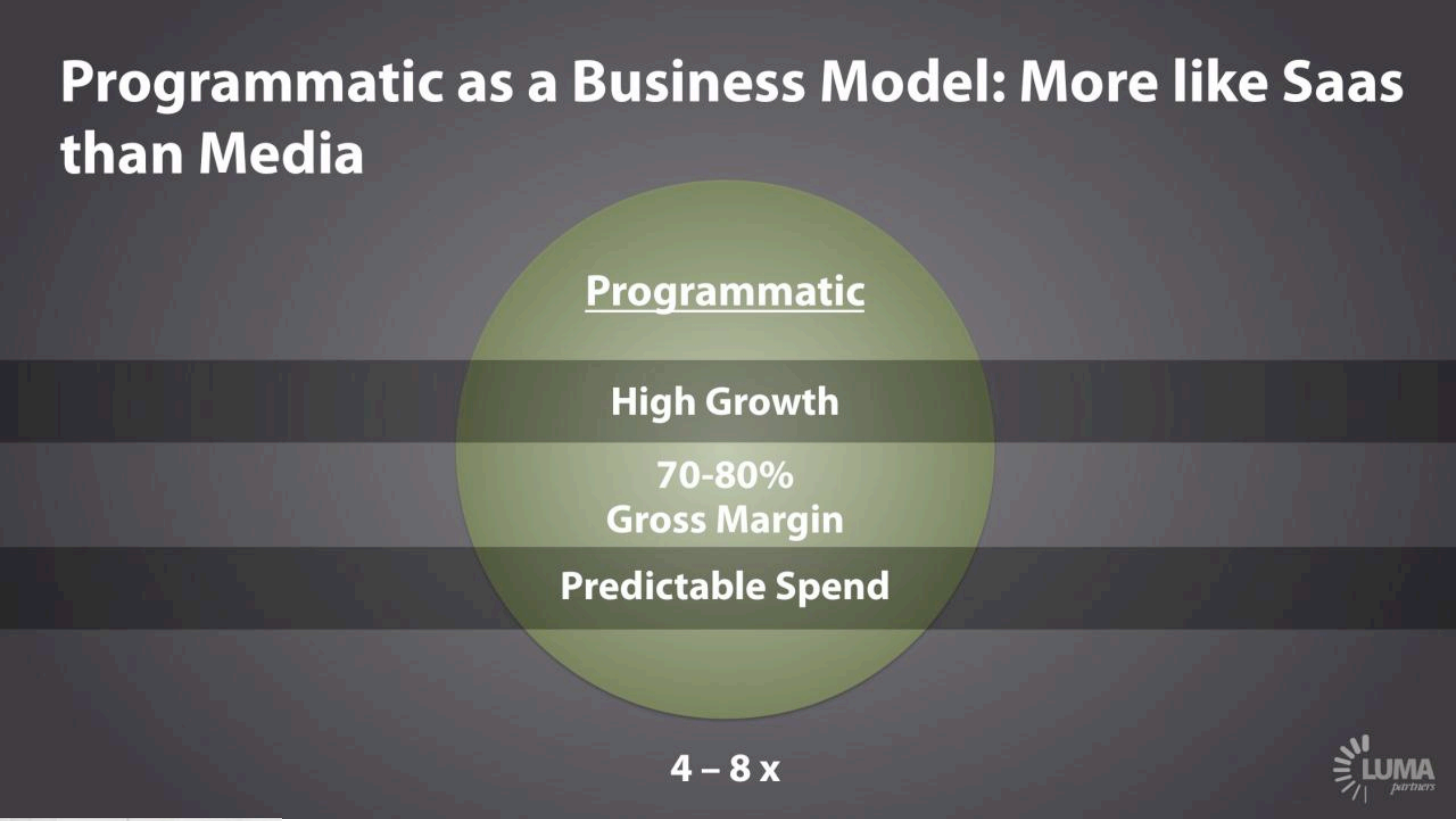
…And is Being Built via M&A



While some are building in-house, programmatic capabilities are largely being acquired through M&A, with a significant increase in transactions over the last year.



Investors value companies based on growth, operating leverage and predictability of revenues. SaaS software companies in general have these attributes. Contrast that with traditional media models, which are showing slower growth, low gross margins and I/O-based contracts. These differences are reflected by a wide disparity in valuation multiples.



Programmatic businesses are also showing high growth and software gross margins. While these businesses may not have contractual recurring revenues, they have de-facto predictable revenues since they have evergreen budgets.

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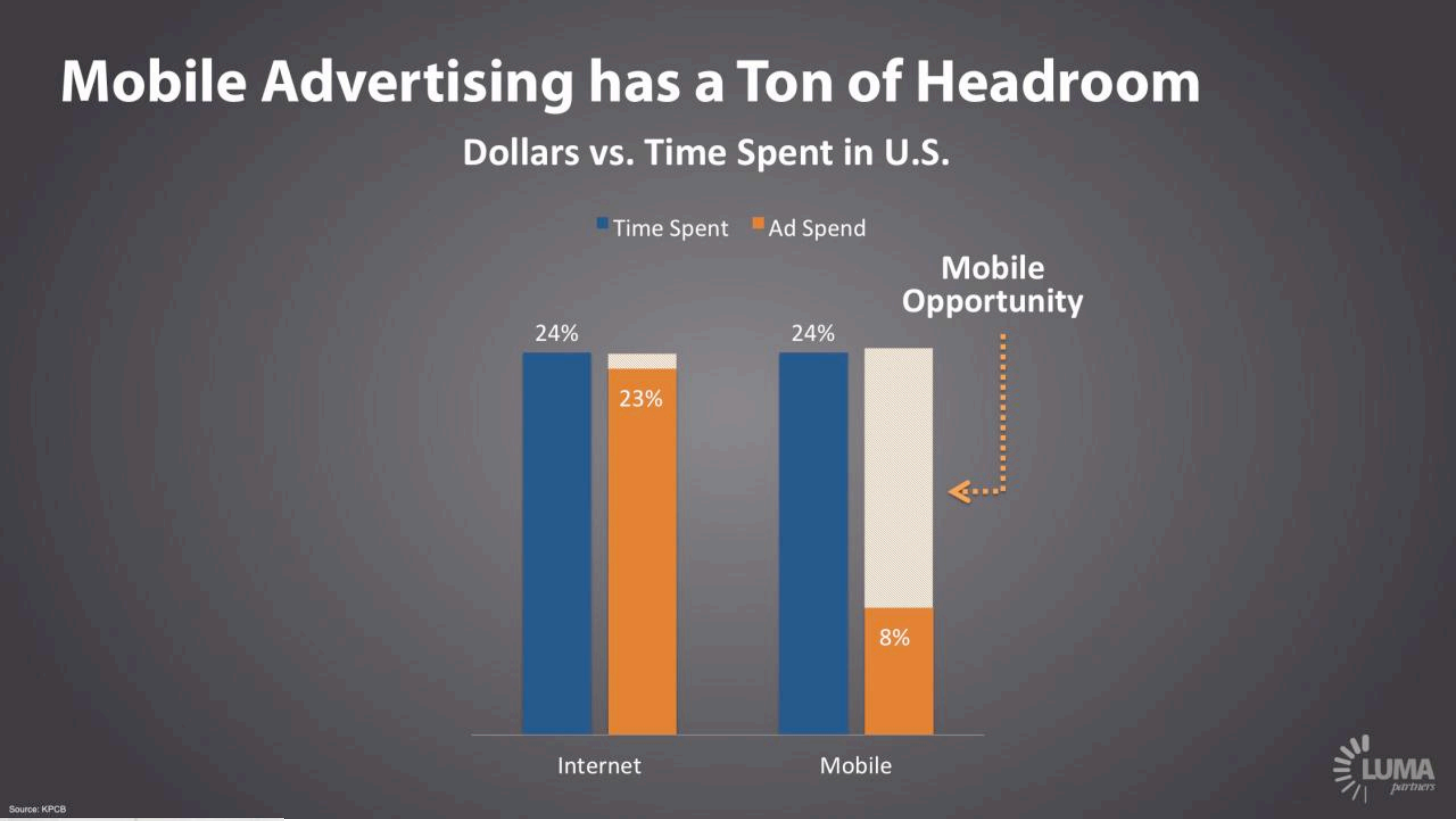
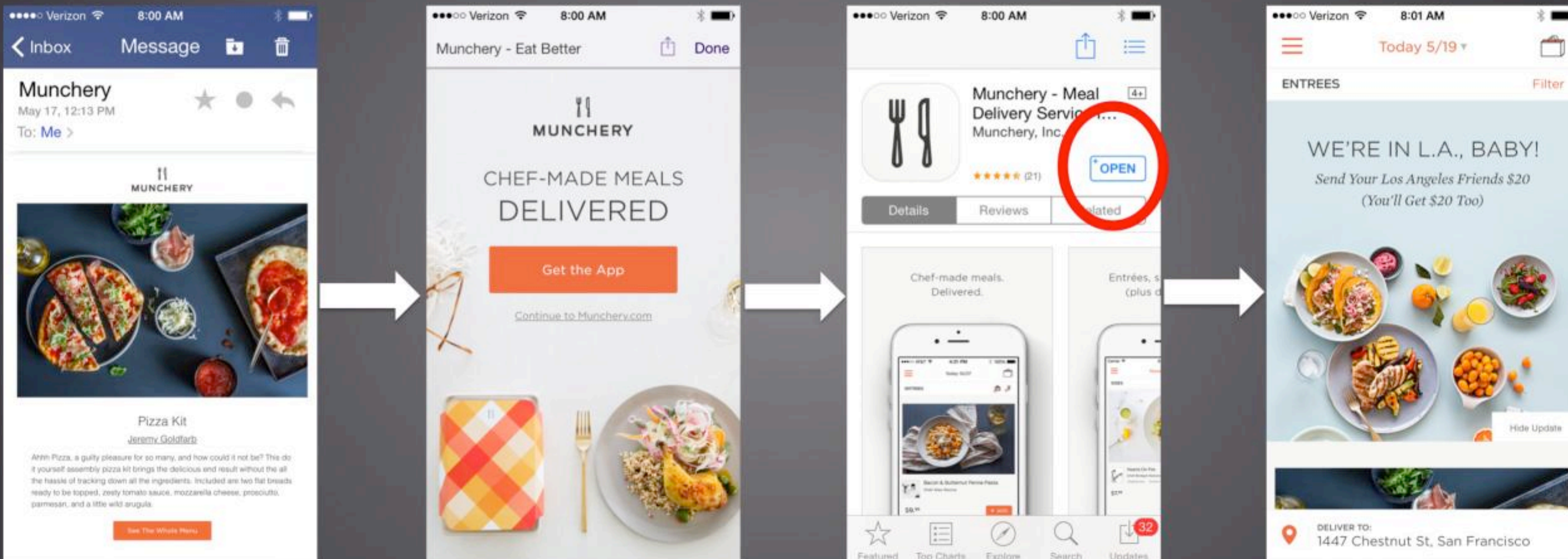
Mobile has Become the Center of Our Universe

Mobile devices are ubiquitous and people glued to their phones throughout the day account for more than half of all internet traffic.

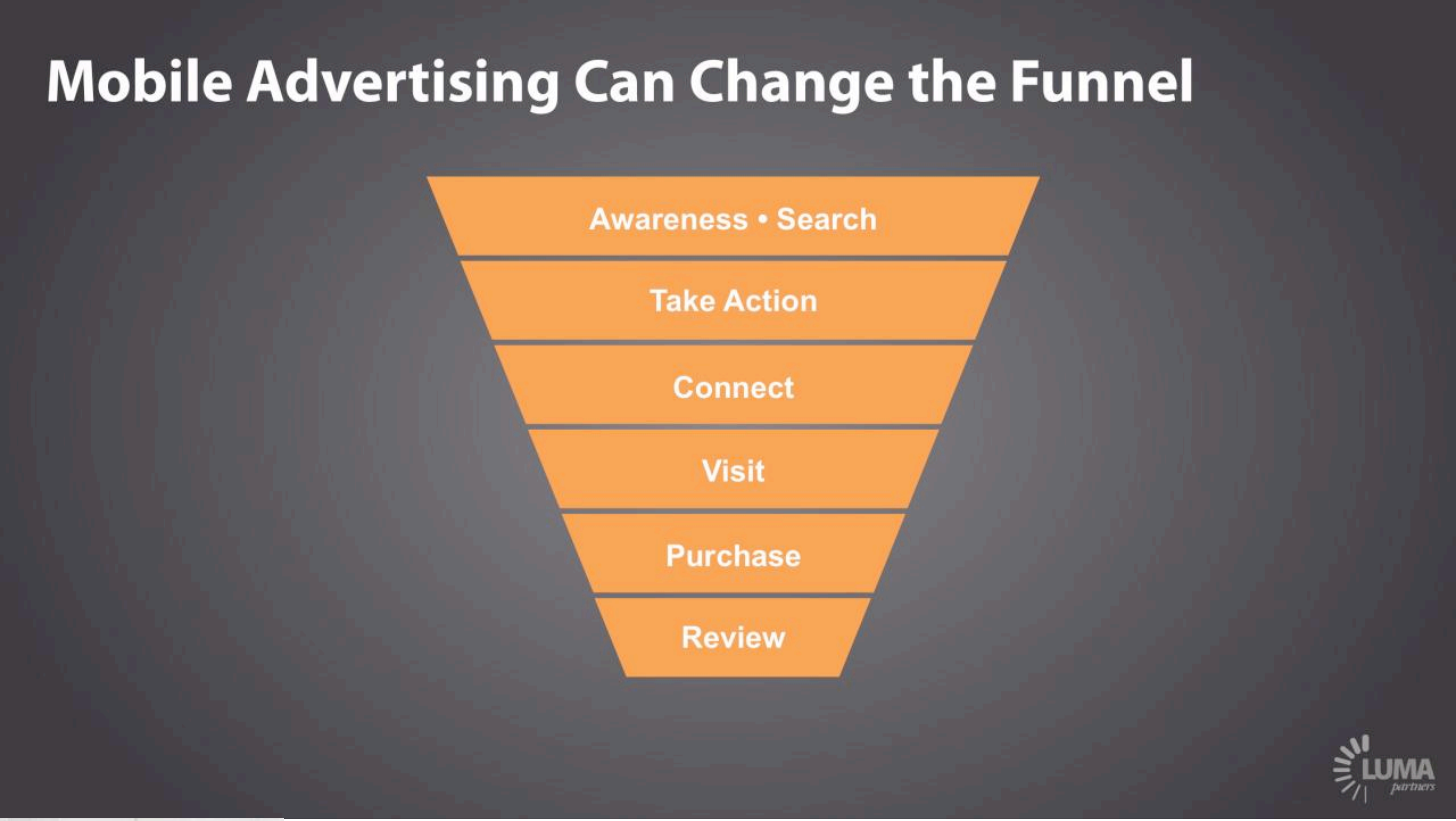


Yet, mobile ad spend has not kept pace with time spent, as the advertising experience has not been optimized for the device form factor.

Workflow Not Optimized



The mobile ad experience has room for improvement, and companies are turning to deeplinking to address this issue. However, that solution is nowhere near pervasive.

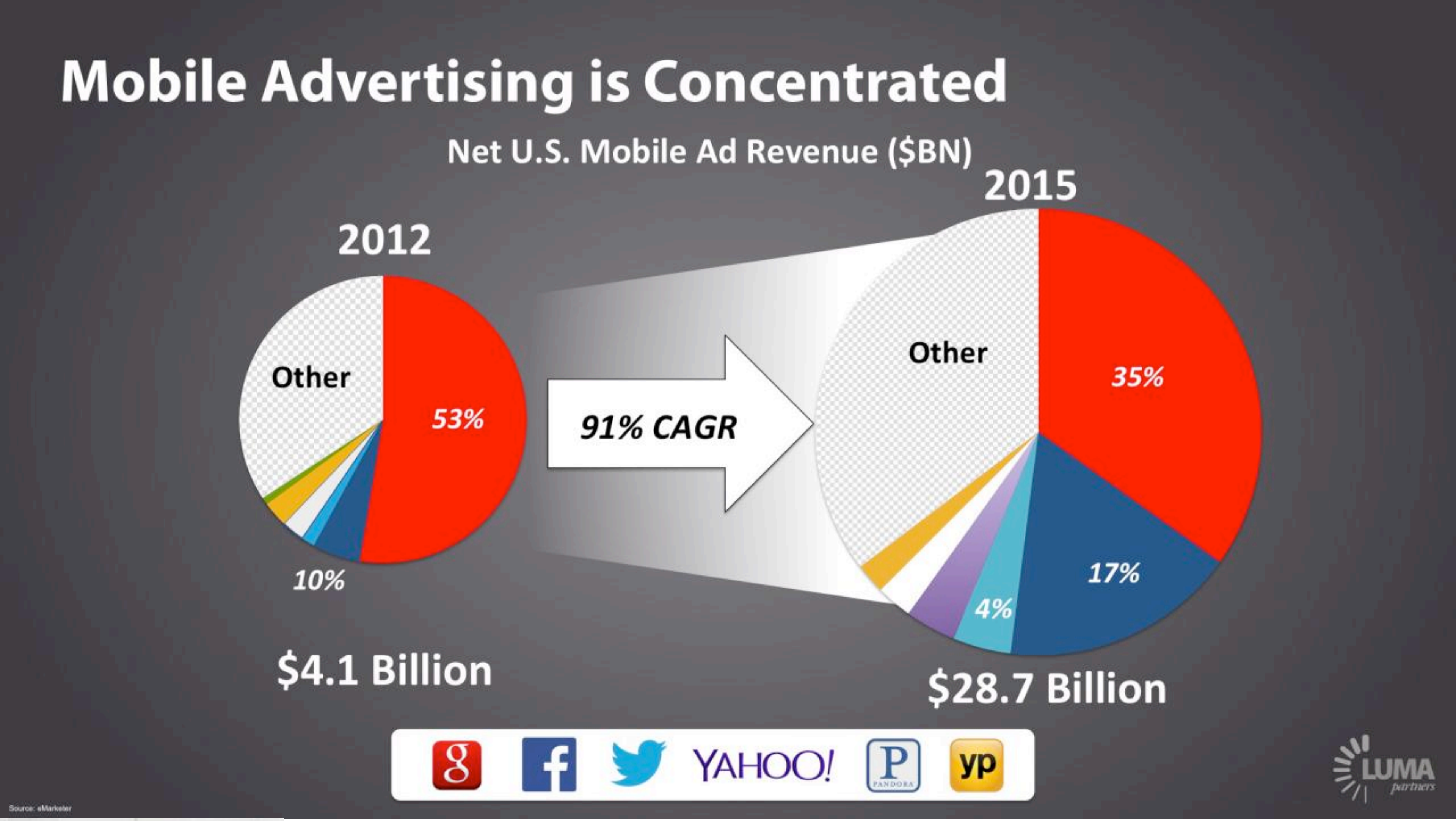


Mobile advertising can help streamline the traditional consumer purchase funnel.

In addition to deeplinking, new features, like a "buy now" button with one-click checkout can shorten the path to purchase.

Action Today Not Indicative of Opportunity

Frequency capping is another cause of the suboptimal user experience. As a result, consumers receive an overload of ads for the same product, even when it is already installed on the phone…



While the mobile advertising market has achieved scale and continues to exhibit strong growth, it remains concentrated with Google and Facebook representing more than half of mobile ad revenue (and Facebook exhibiting tremendous momentum).

"Walled Gardens" of First Party Data…

The walled gardens are no surprise, given Facebook and Google's tremendous first party data assets and reach, which enable them to more effectively target consumers and deliver higher ROI to advertisers…

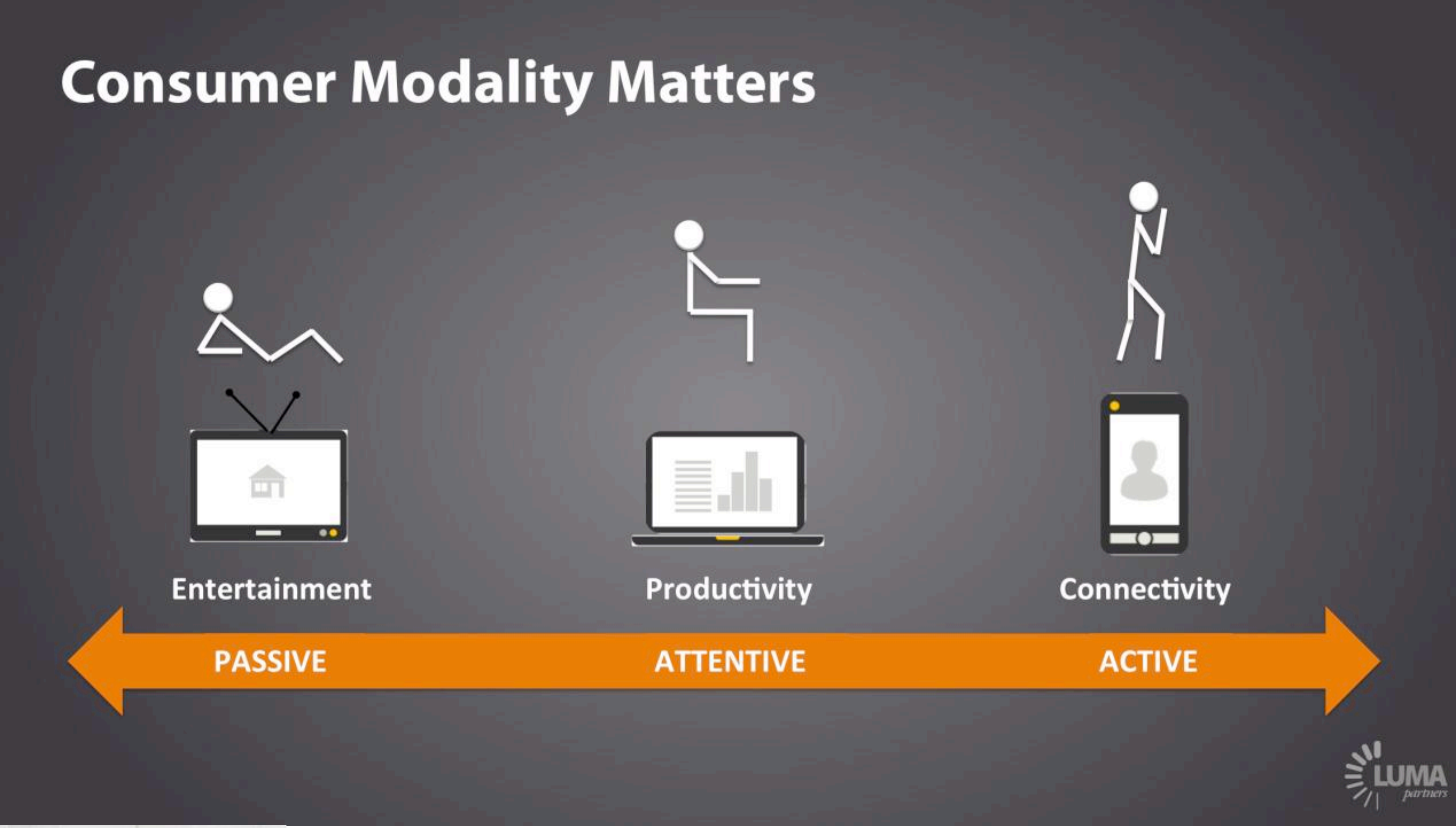
… Have Propagated Through 3rd Party Platforms

...and they are extending this advantage across third party apps and sites to further their dominance with the additional benefit of not degrading their O&O properties with more ads.

Mobile Bridges the Physical & Digital Worlds

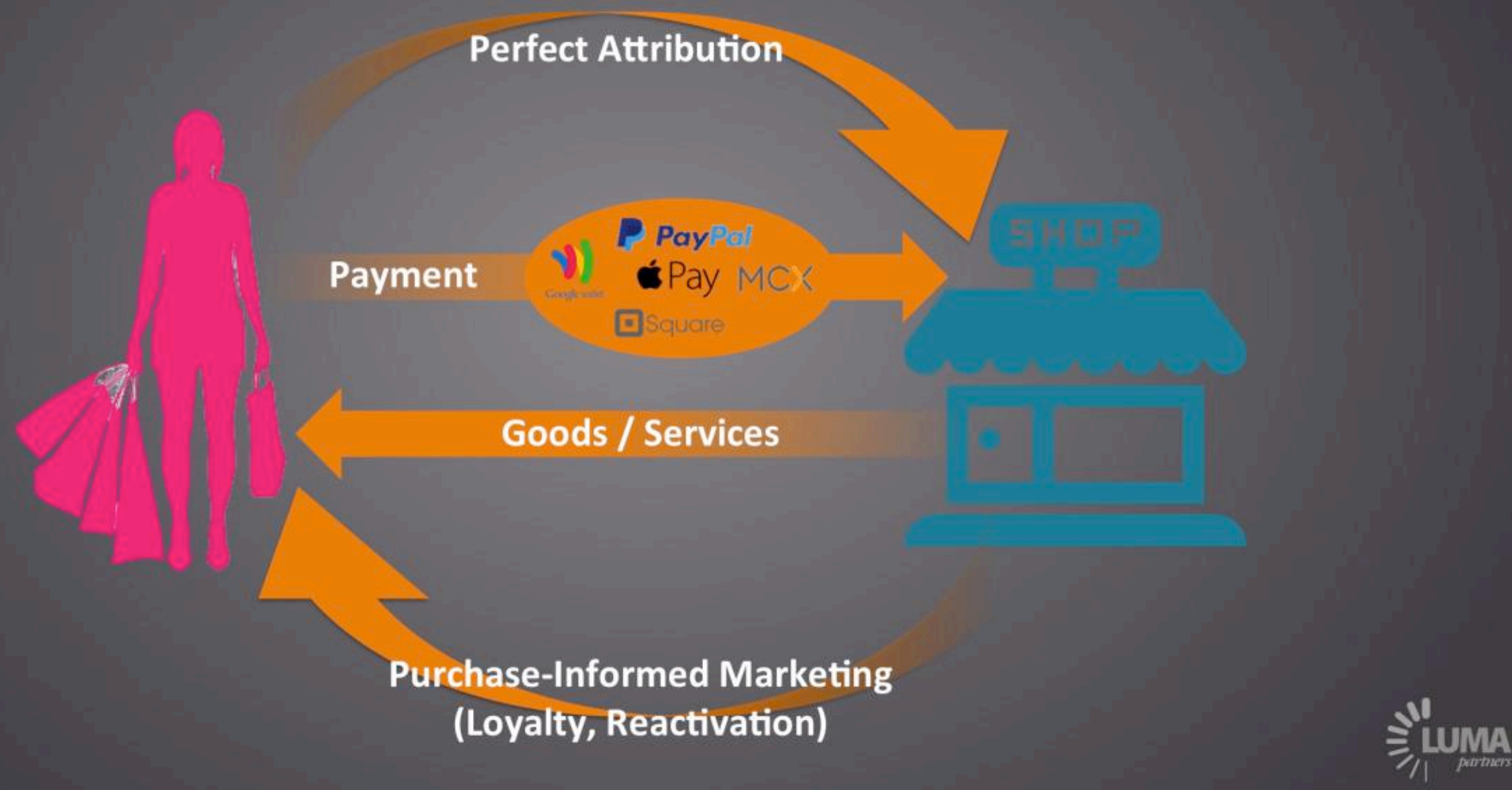
Mobile devices have the potential to bridge the gap between the physical and digital worlds...

...and leverage contextual information to personalize marketing messages and facilitate welcome interactions.



However, advertisers need to be aware of a consumer's state of mind and take action accordingly, so that messages are really facilitative, rather than interruptive / annoying.

Payments Further Fuse These Two Worlds



Payments represent a final piece of the puzzle, in that they can help solve attribution and close the loop for marketers. Payments solutions integrated into mobile devices provide incremental data for personalization and create additional opportunities for marketers to re-engage with consumers.

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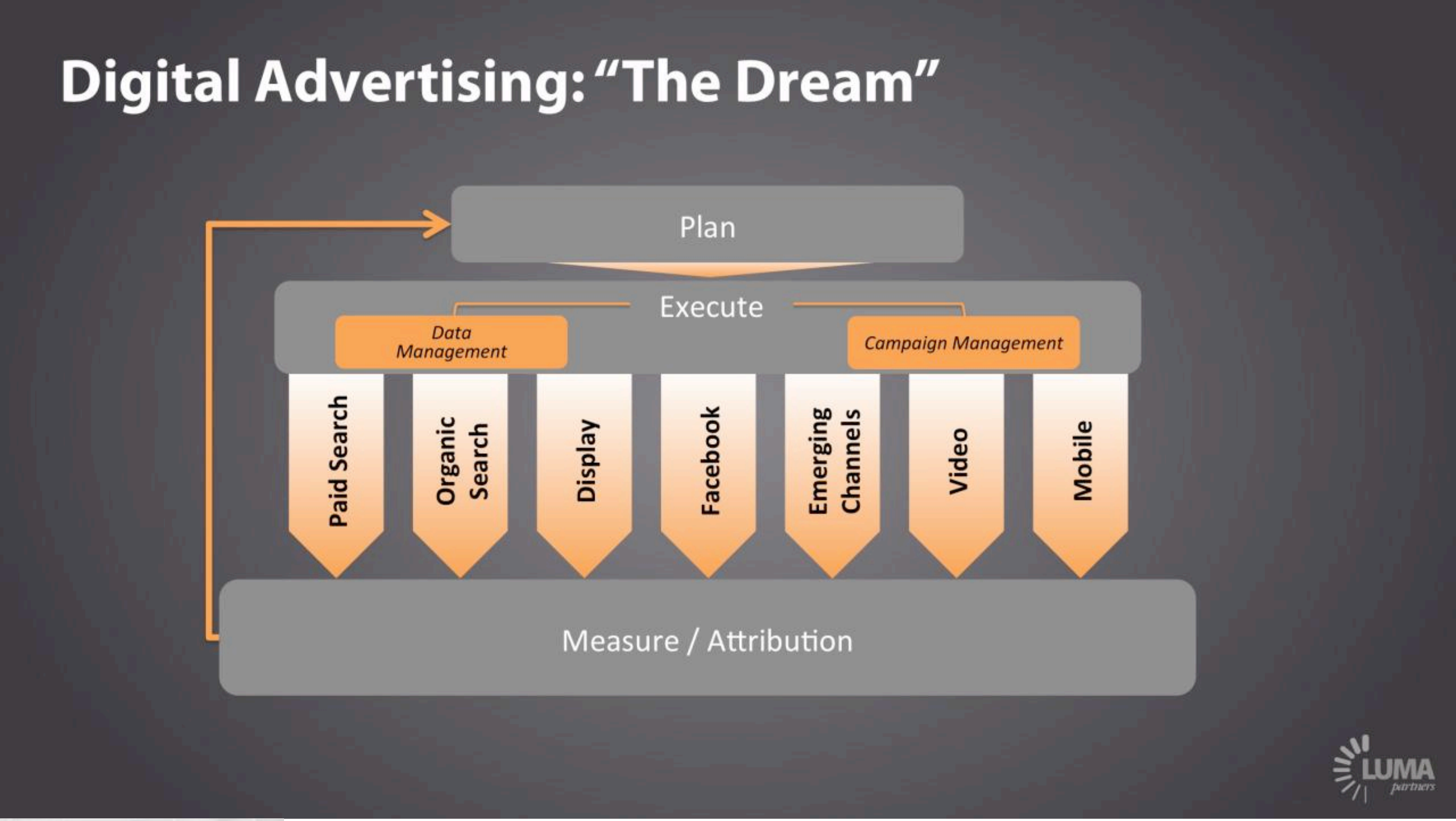
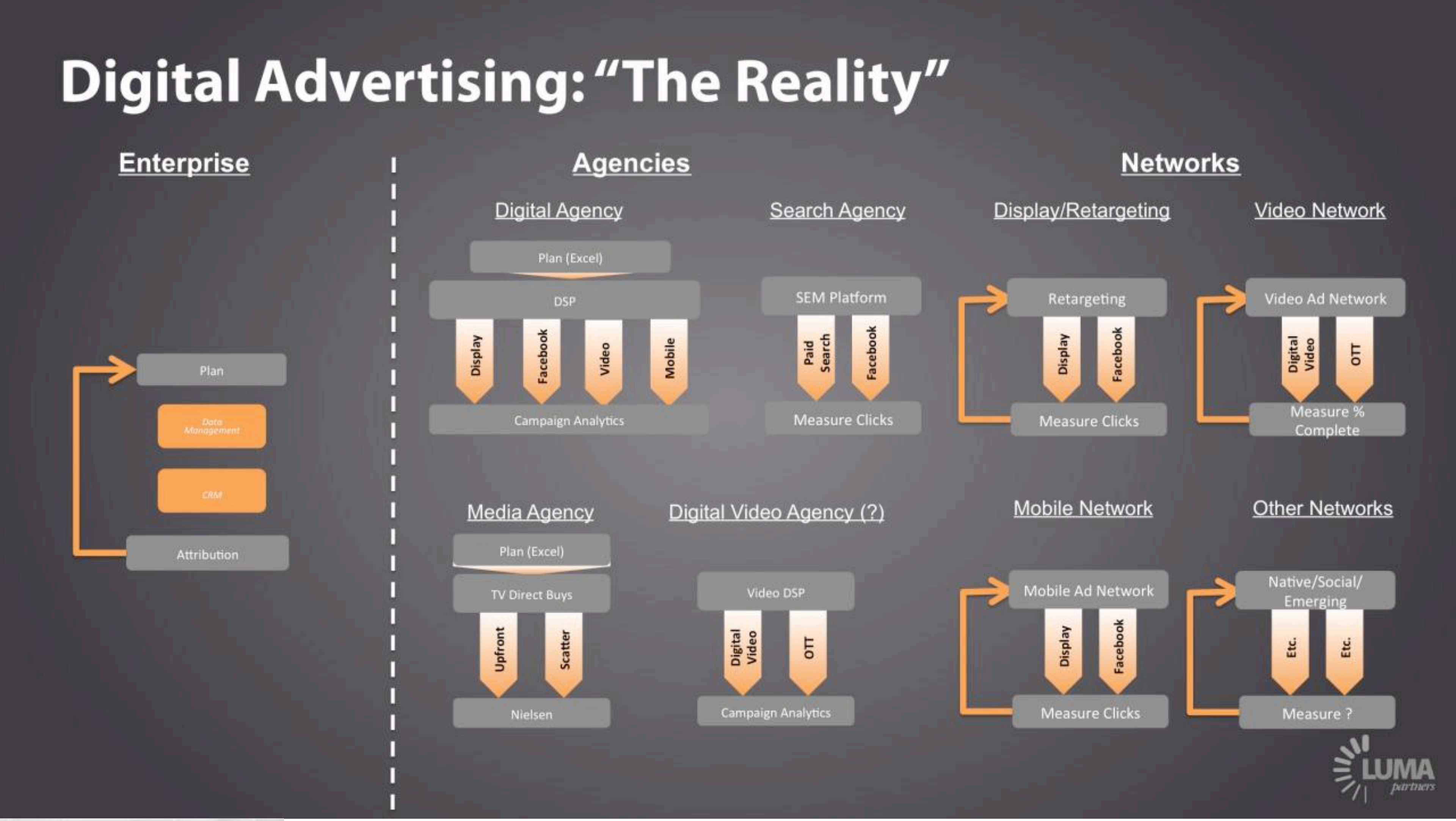


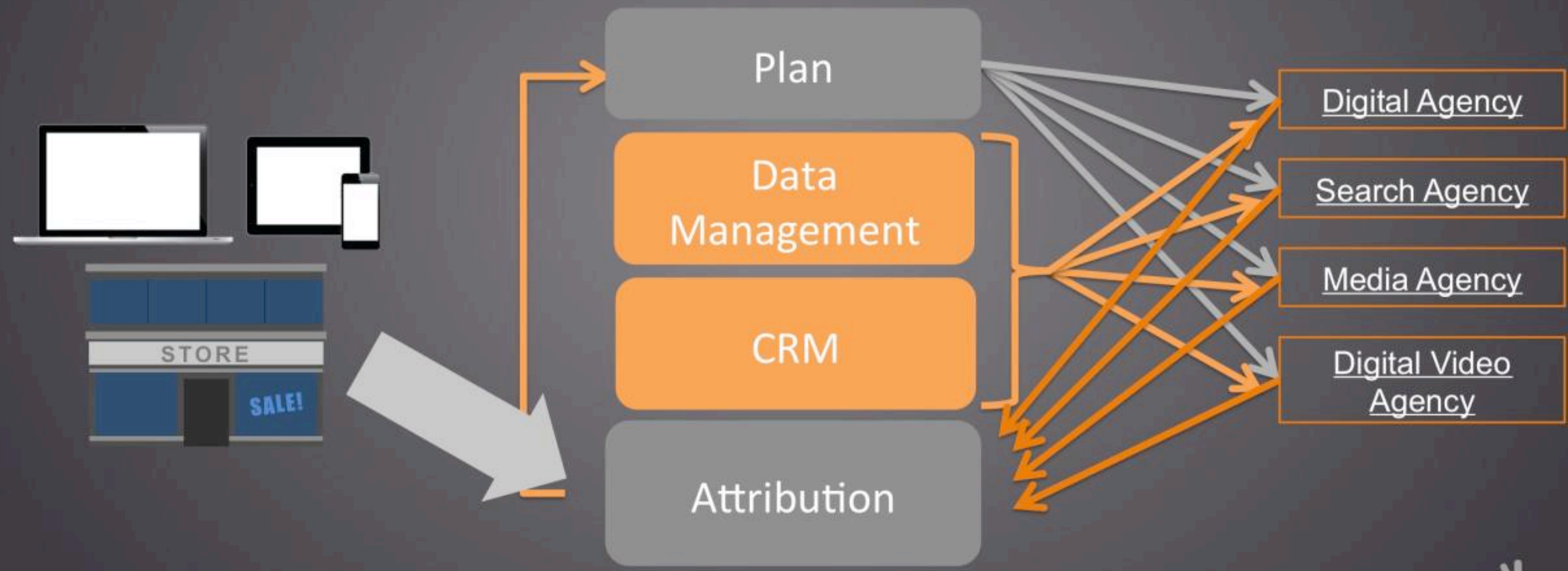
If you were to draw up a fully integrated advertising platform for enterprises, it would look something like this – integrated planning, execution and attribution with common data and campaign management, and a feedback loop to the planning software to adjust / optimize spend.



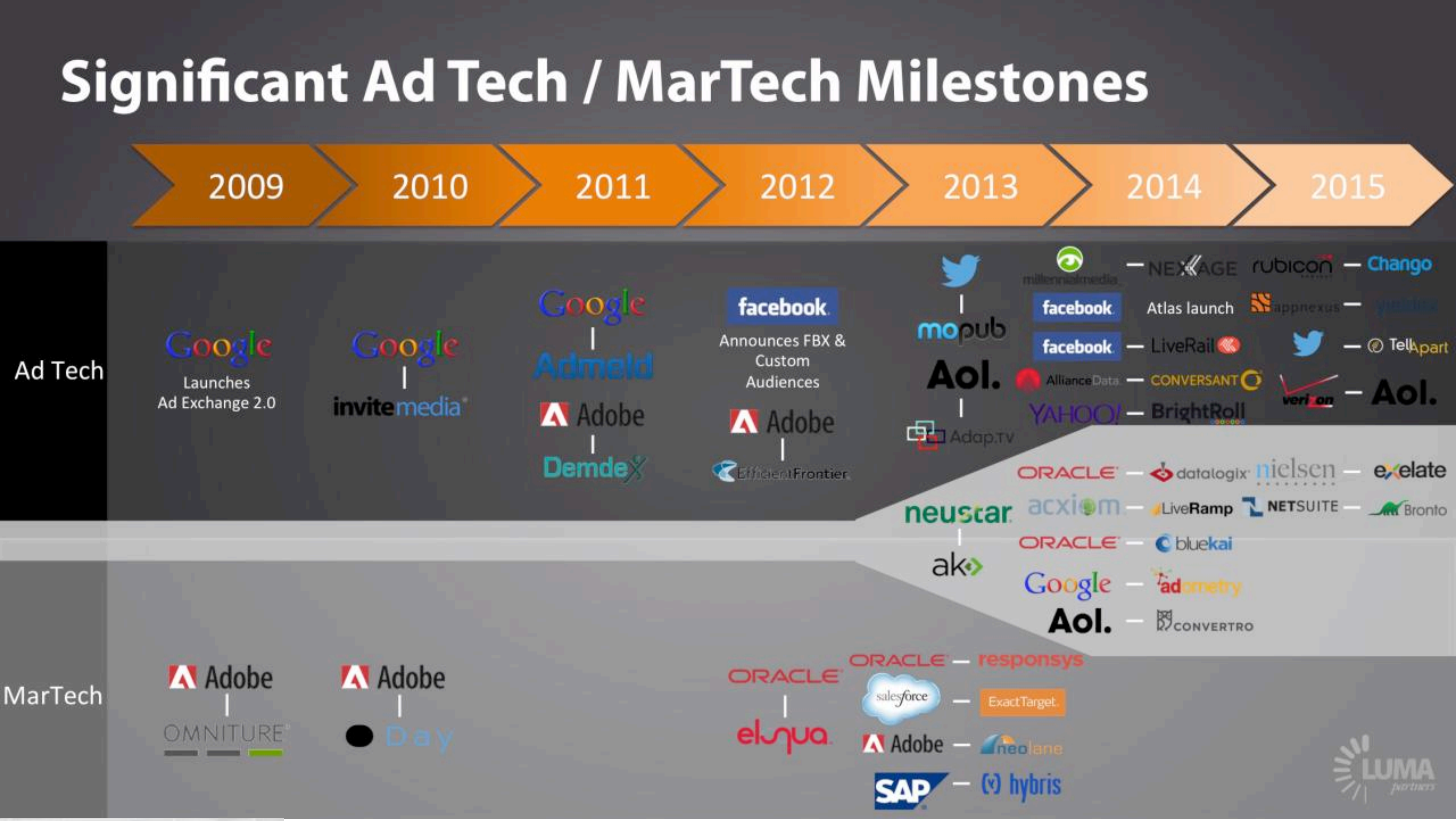
The reality is different. Execution of marketing campaigns – especially media campaigns – are typically performed outside the enterprise. Digital agencies running digital programs, media agencies executing TV buys, and many other specialized networks for other channels. And each entity is planning and measuring its campaigns / channel independently.

Digital Advertising: The Enterprise Stack

"The Intelligence Layer"

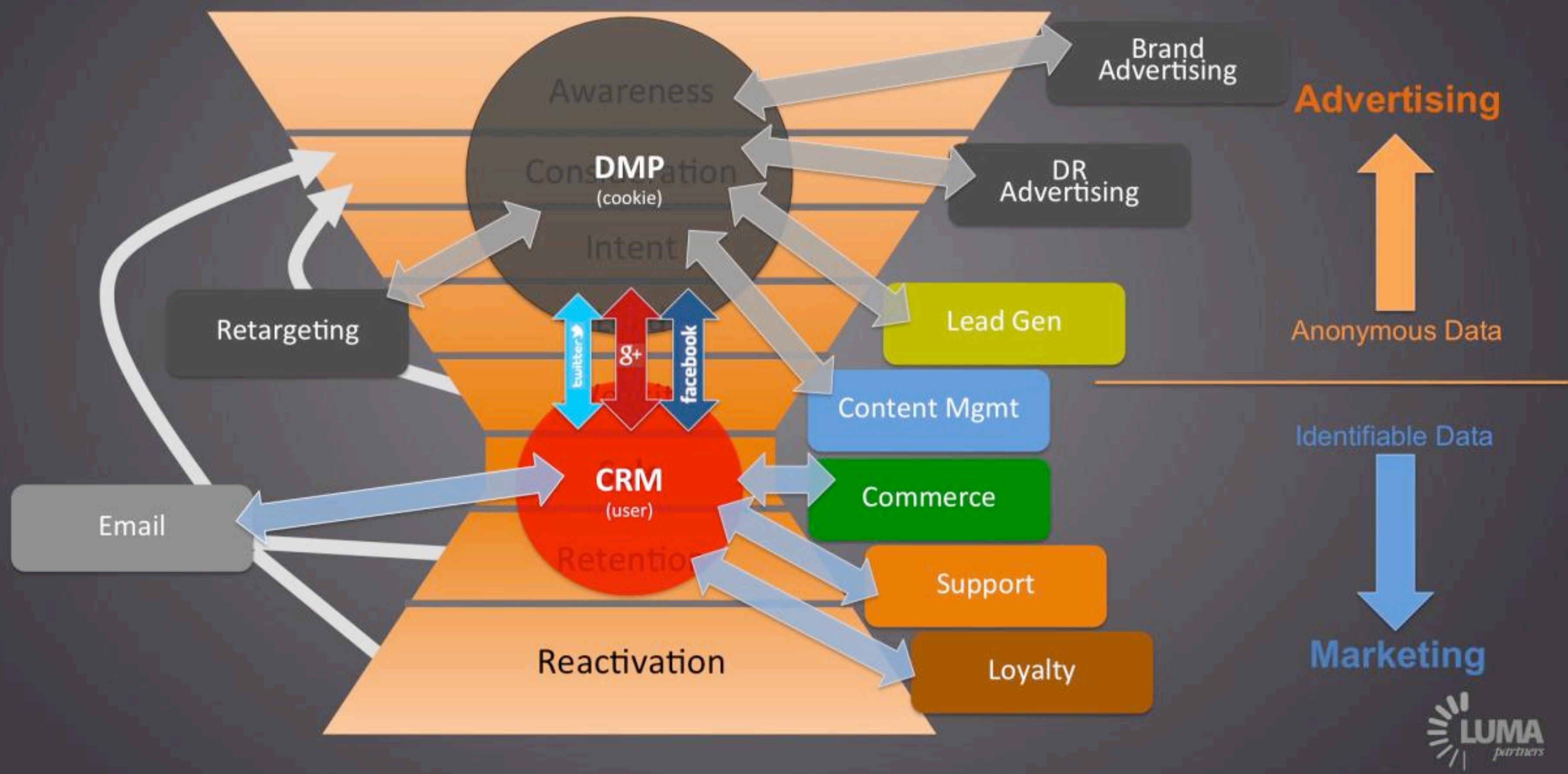


But there is an "enterprise stack" emerging. A planning solution to allocate the spend, a DMP to manage anonymous data, a CRM to manage customer data and an attribution system to measure results. With more robust SaaS offerings, integration will increase within these stacks and with partners' systems. "Big data" enables the real-time analysis for optimization.



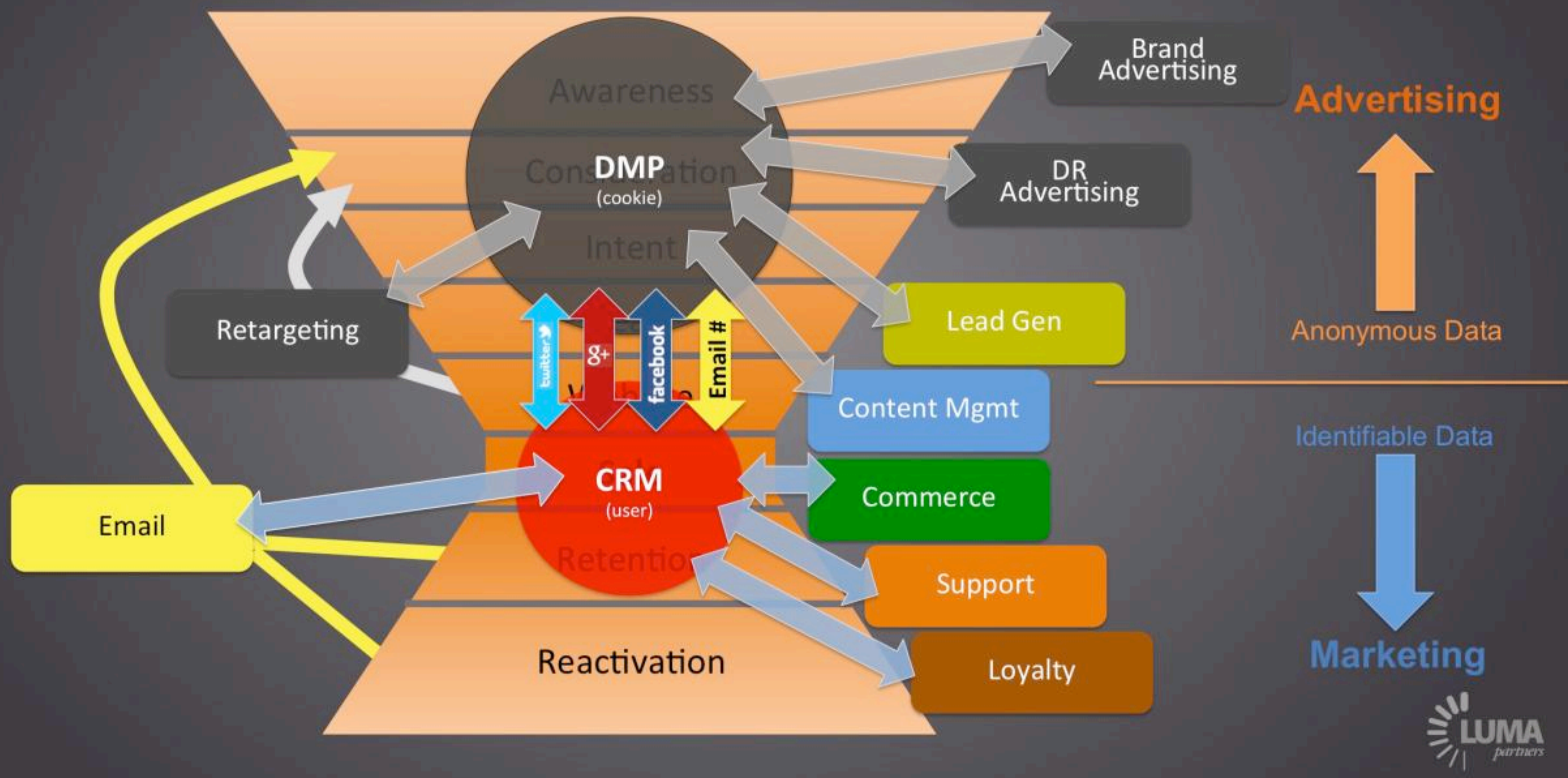
The unifying element between Ad Tech and MarTech is data-driven marketing. Recently there have been a number of strategic acquisitions by large software and media companies of data-centric capabilities – DMPs, online-offline data and attribution, which also represent "Enterprise Stack" capabilities.

Multi-Channel / Multi-Stage Marketing

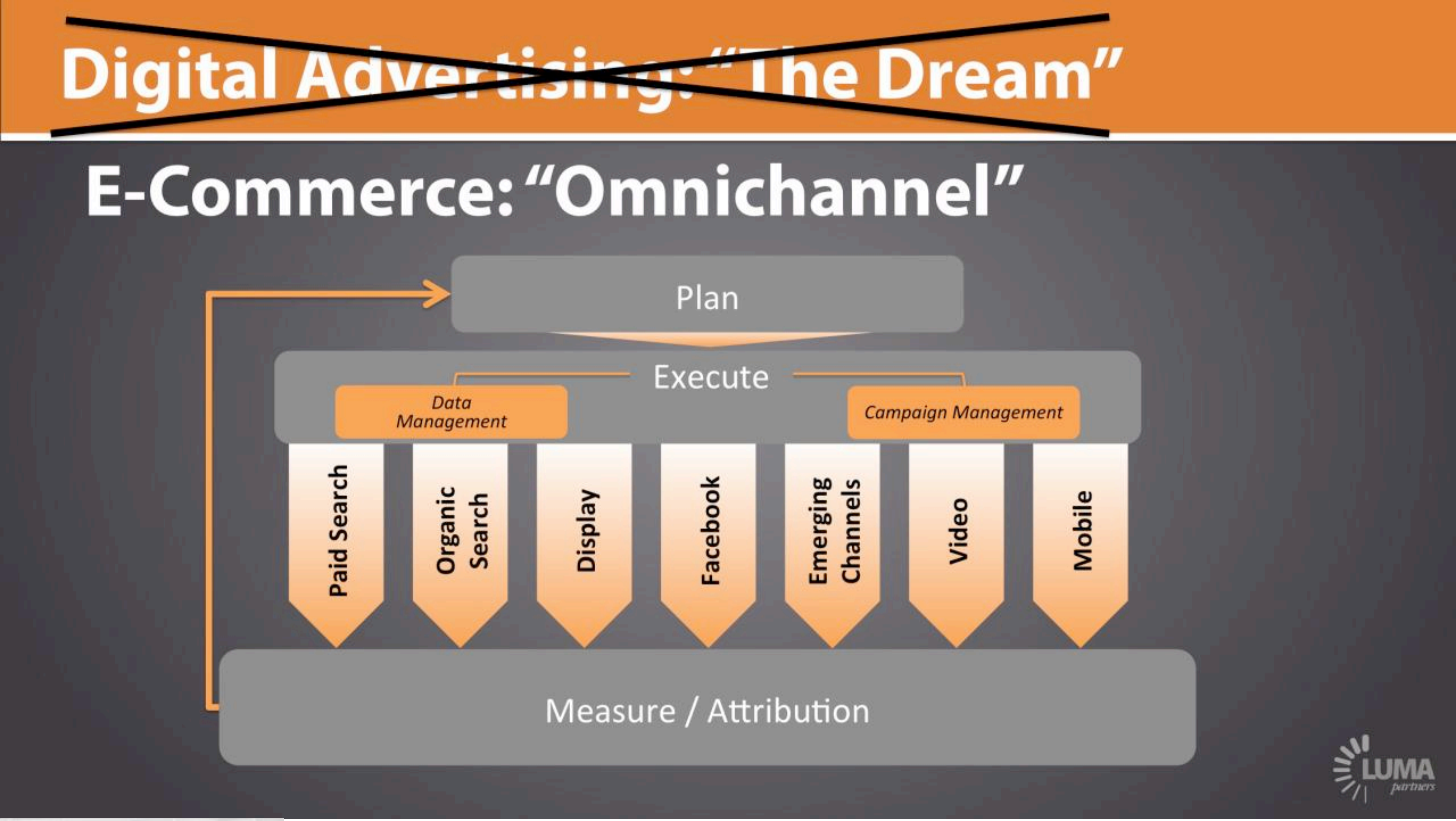


DMPs have emerged as the system used to integrate advertising channels by centralizing anonymous audience data. CRM systems have long been used to coordinate marketing activities to known customers. Consumer companies have a big advantage in linking advertising and marketing functions due to having logged-in customers with both data sets.

Email... The Digital Connective Tissue

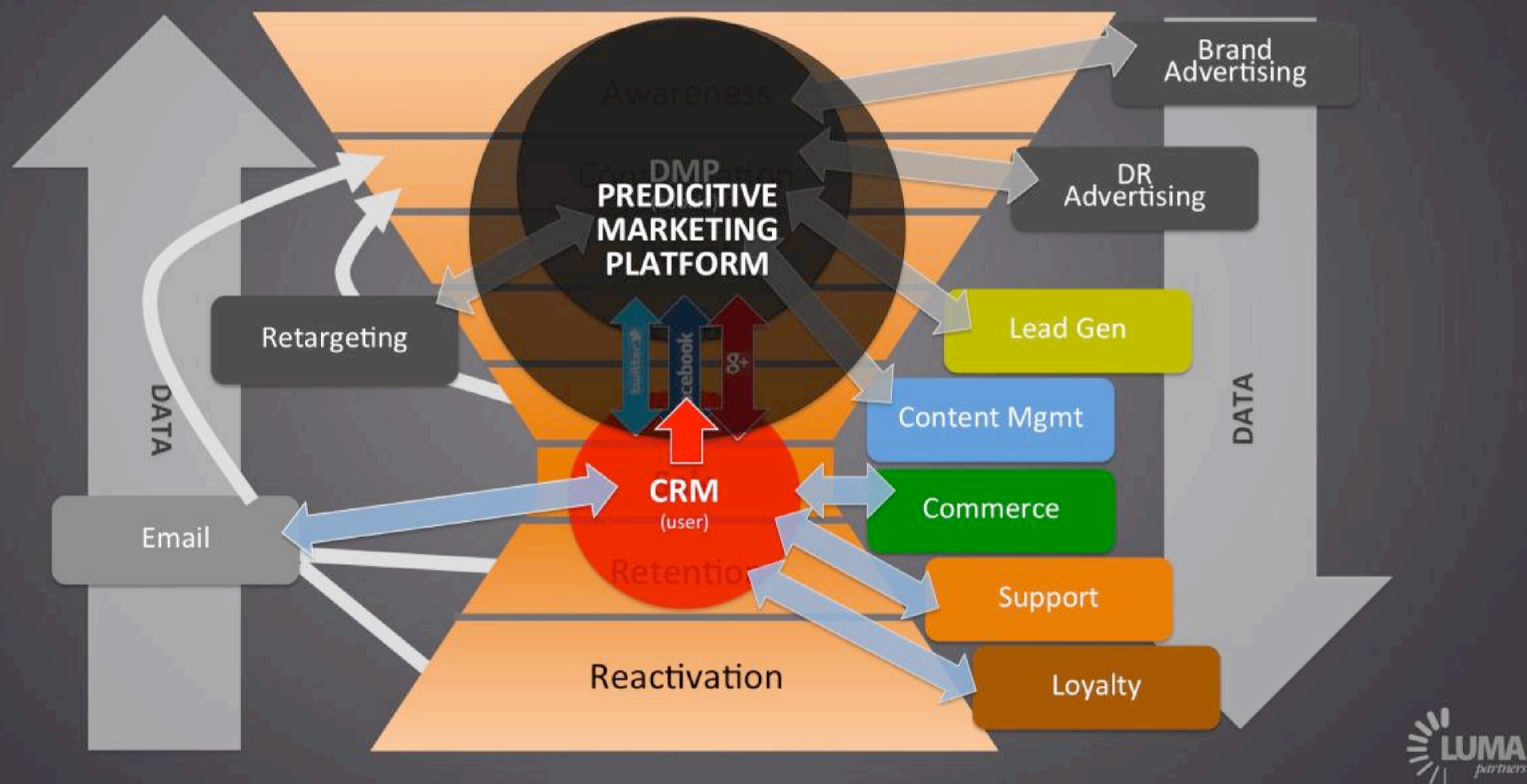


Companies that are not in the consumer internet space compete with email, which remains the highest ROI marketing channel. Now, email – the actual email address or hash – has also become the "connective tissue" for marketing. It is being used very effectively for targeting and attribution, as well as linking "marketing" and "advertising."



E-commerce is actually one segment where the Digital Advertising "Dream" is becoming a reality. E-commerce is unique in that digital advertising is more closely coupled with the actual sale. Additionally, personalization is becoming much more critical to its success. Therefore, tighter integration of execution channels with a common personalization "hub" is required.

Omnichannel & the Predictive Marketing Platform



While DMPs are excellent for segment-based analysis / execution, though they typically don't enable 1:1 targeting necessary for e-commerce. Where 1:1 personalization is necessary, we see predictive marketing platforms emerging as the core data management and personalization system to coordinate interactions with consumers across various channels.

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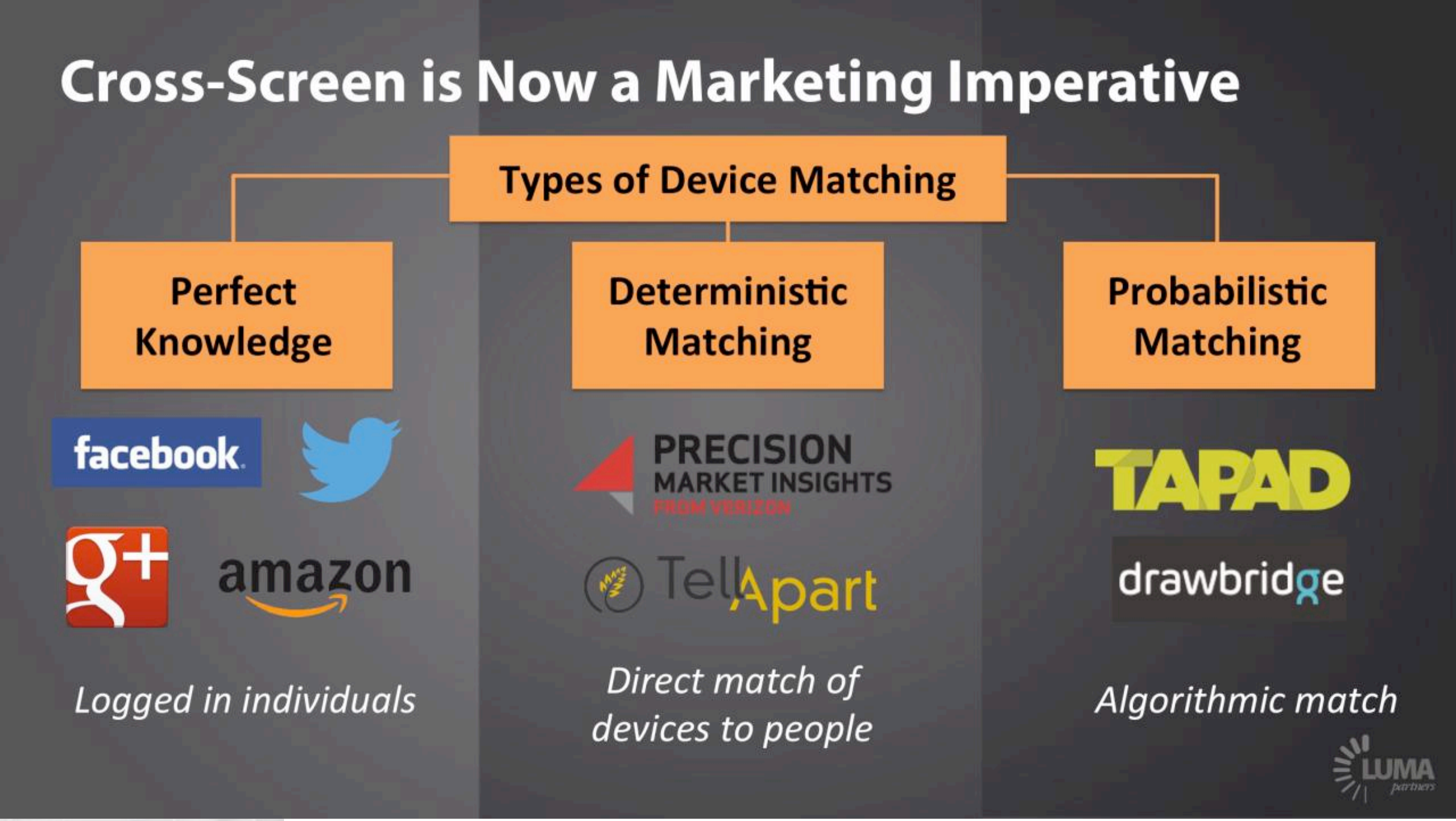
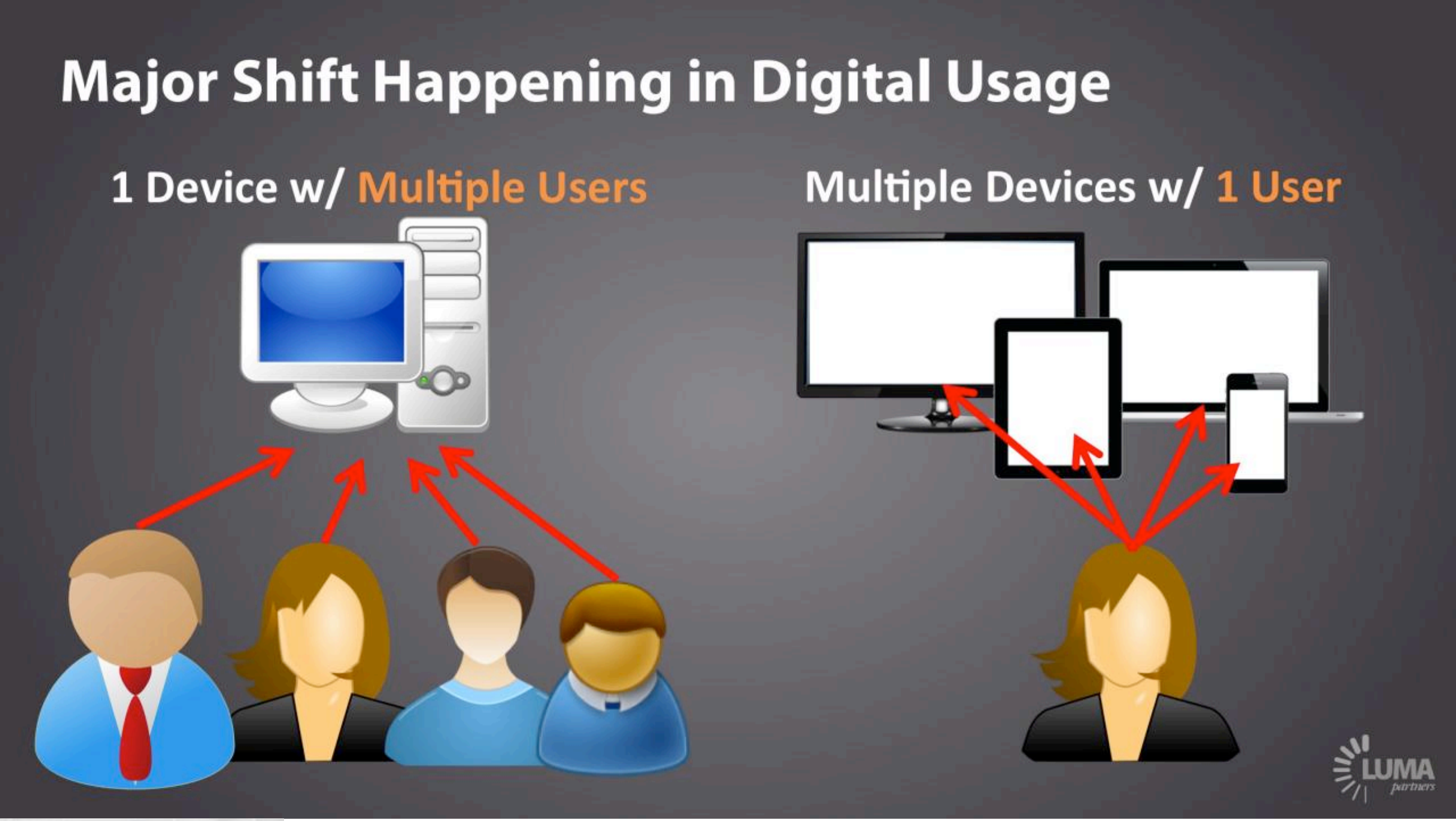
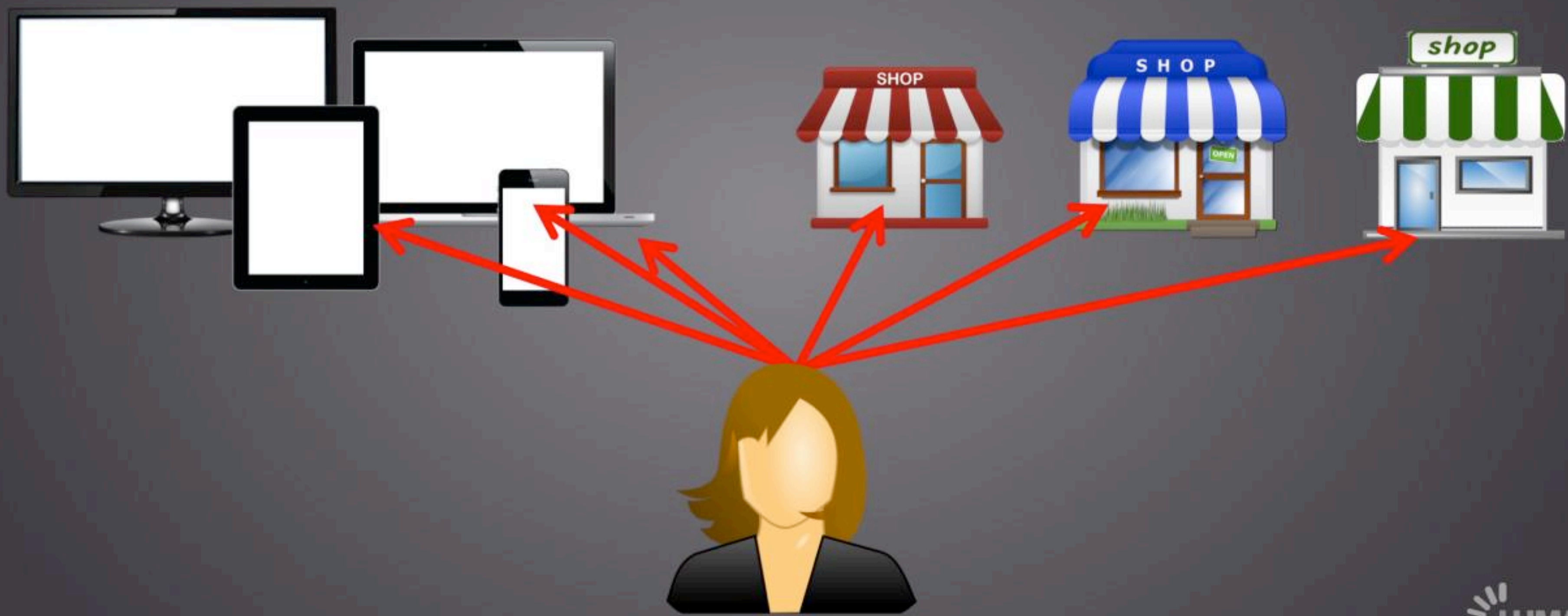


Device matching has become a marketing imperative as marketers aim to provide consistent experiences to consumers across all devices. Companies that have perfect knowledge of the consumer have a clear advantage to deliver a cross-screen experience. Firms without logged-in consumers use matching techniques to deliver cross-screen capabilities.

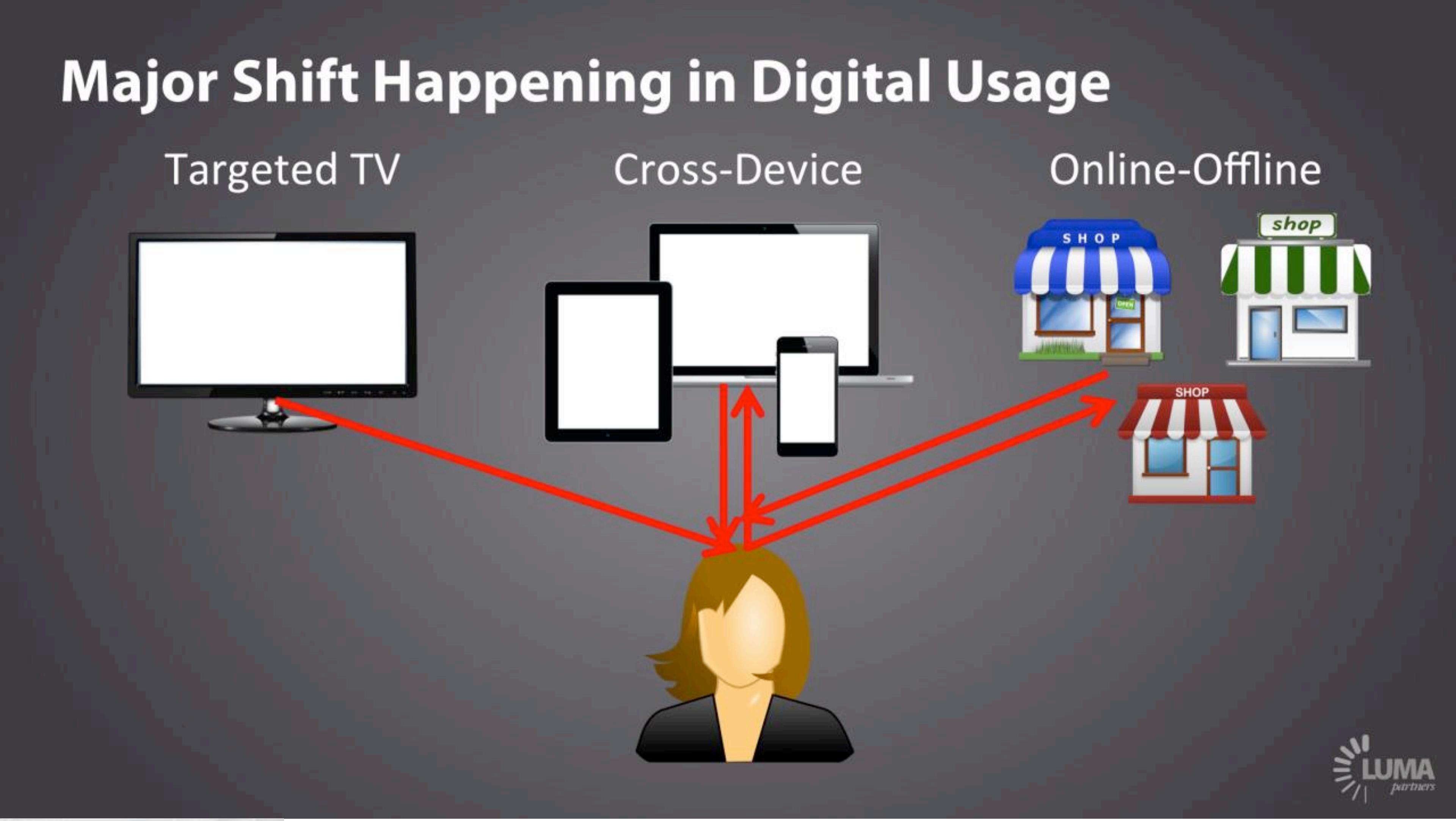


Cross-device has become a marketing imperative due to the shift in paradigm. Five years ago there was one device shared by multiple users. Today, we live in a world where each user has multiple devices.

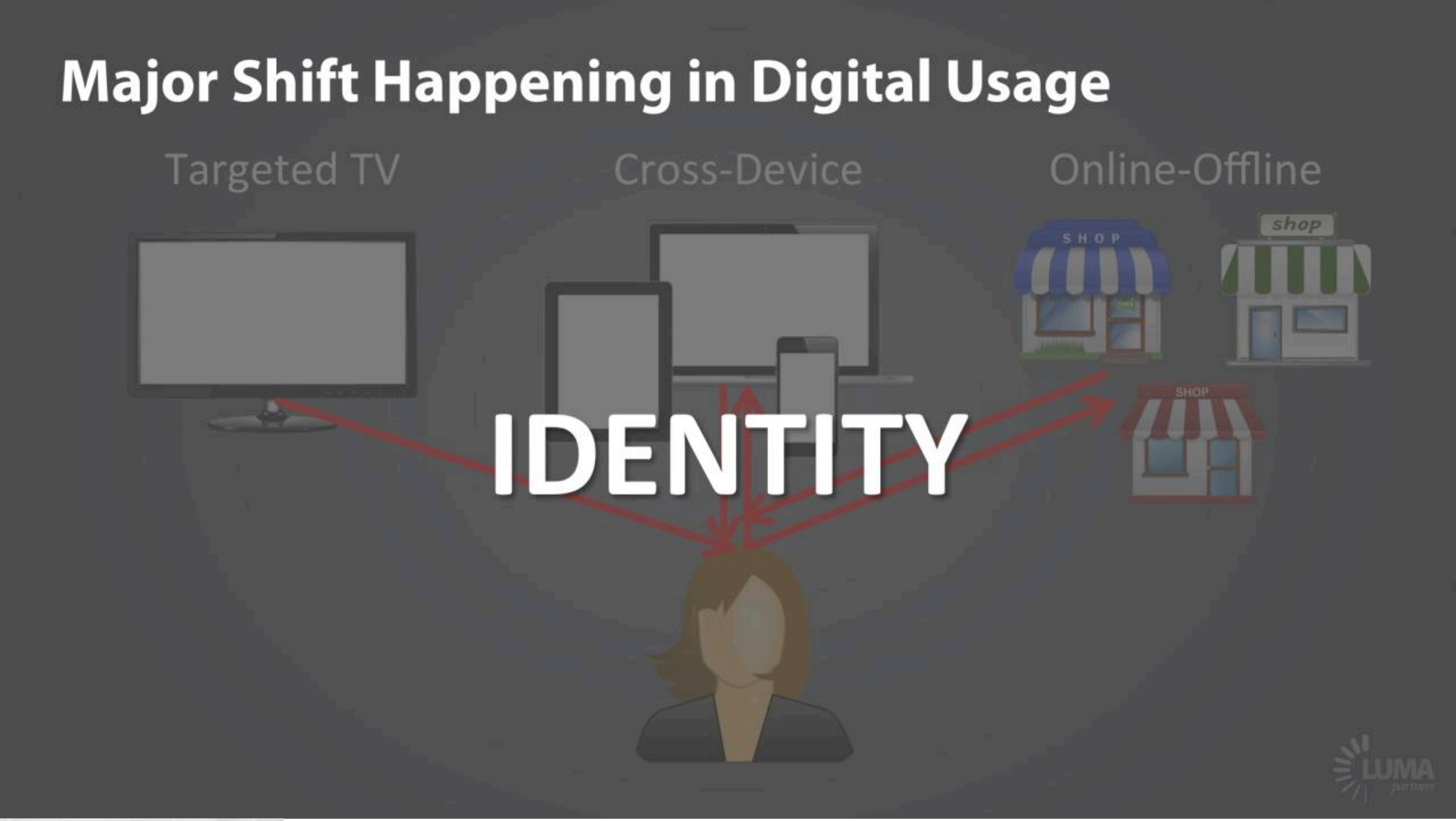
Major Shift Happening in Digital Usage



But it isn't just about linking devices. It is about coordinating activities across all consumer touch points, online and offline.

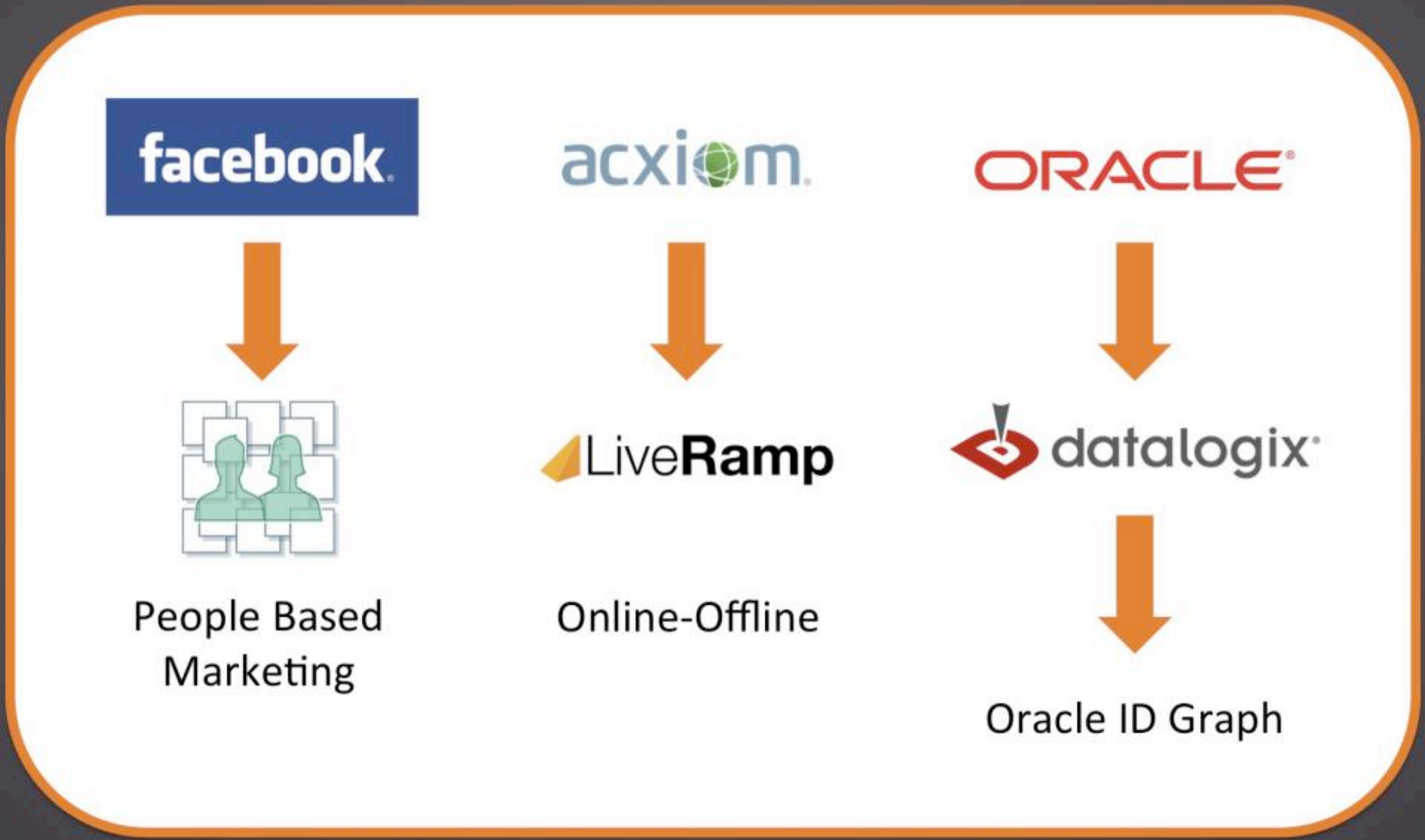


We typically talk about advertising and marketing in siloed technologies, such as targeted TV, cross-device and linking online and offline data.



But the reality is that all of these point applications are part of one major uber-trend: identity. While 2014 was the inflection point for "programmatic," we believe that "identity" will be a key focus area for marketing in 2015 and beyond.

"Identity" Recent Developments



Recently we have seen a number of companies make moves to improve their identity capabilities. Facebook has long focused on people-based marketing. Acxiom acquired LiveRamp to add online to offline capabilities. Oracle acquired Datalogix, and then subsequently announced the Oracle ID Graph to connect identity across marketing channels.

"Identity" Recent Developments

verizon → Aol. → ?

"Verizon, acquirer of AOL, owns the key to fixing [the mobile cookie-less problem]: concrete mobile data which can be used to **tie user identity across devices**."

Additionally, while Verizon did not acquire Aol with "identity" as a strategic rationale, it will be very interesting to watch how Verizon and Aol integrate their capabilities since Verizon does have the mobile data that can tie identity across devices.

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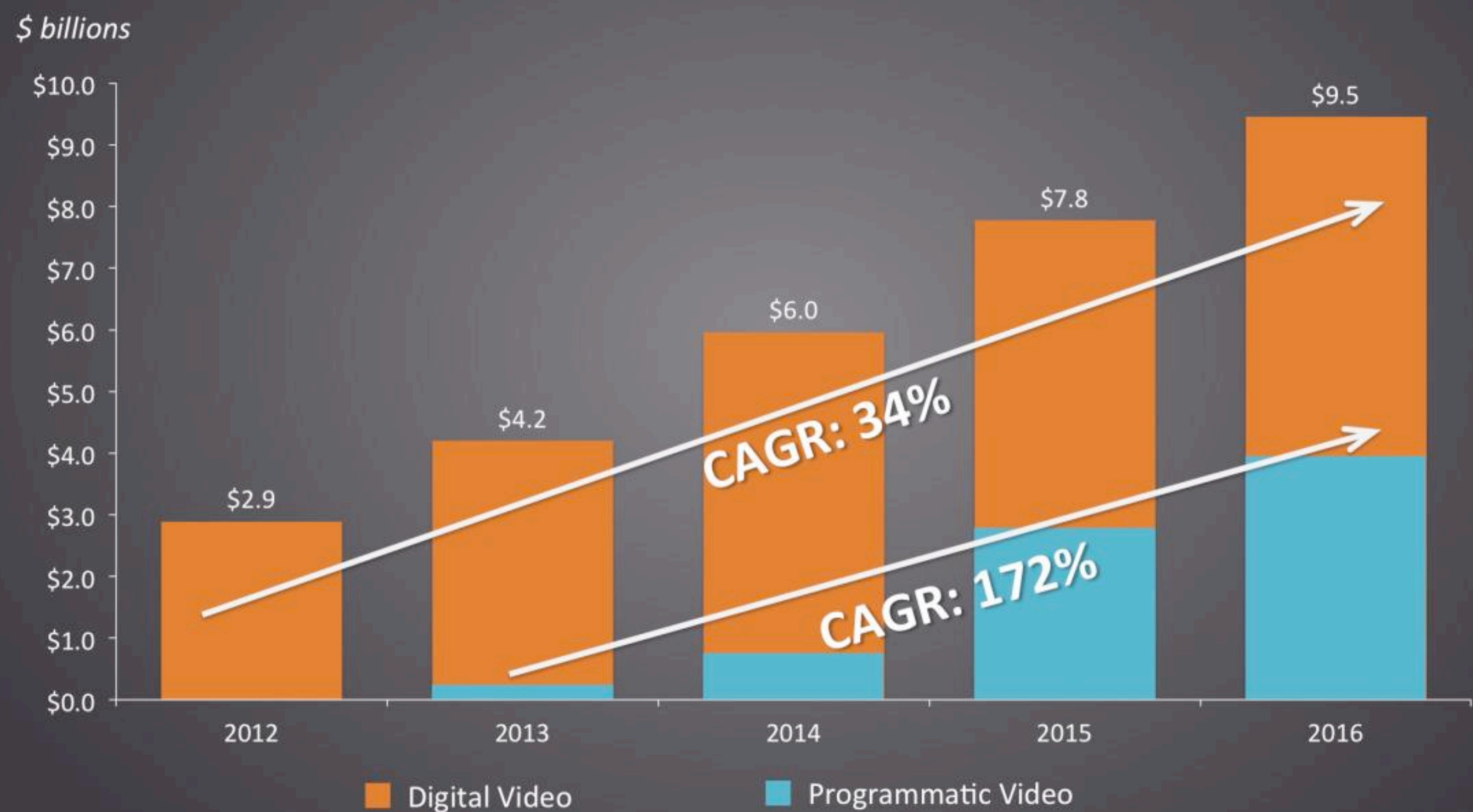
5. Convergent TV

FOR YOUR EYES ONLY

Last year, LUMA created a report titled "The Future of (Digital) TV", which explores the convergence of traditional TV and digital video. This in-depth analysis can be found on our website (lumapartners.com/presentations) and…

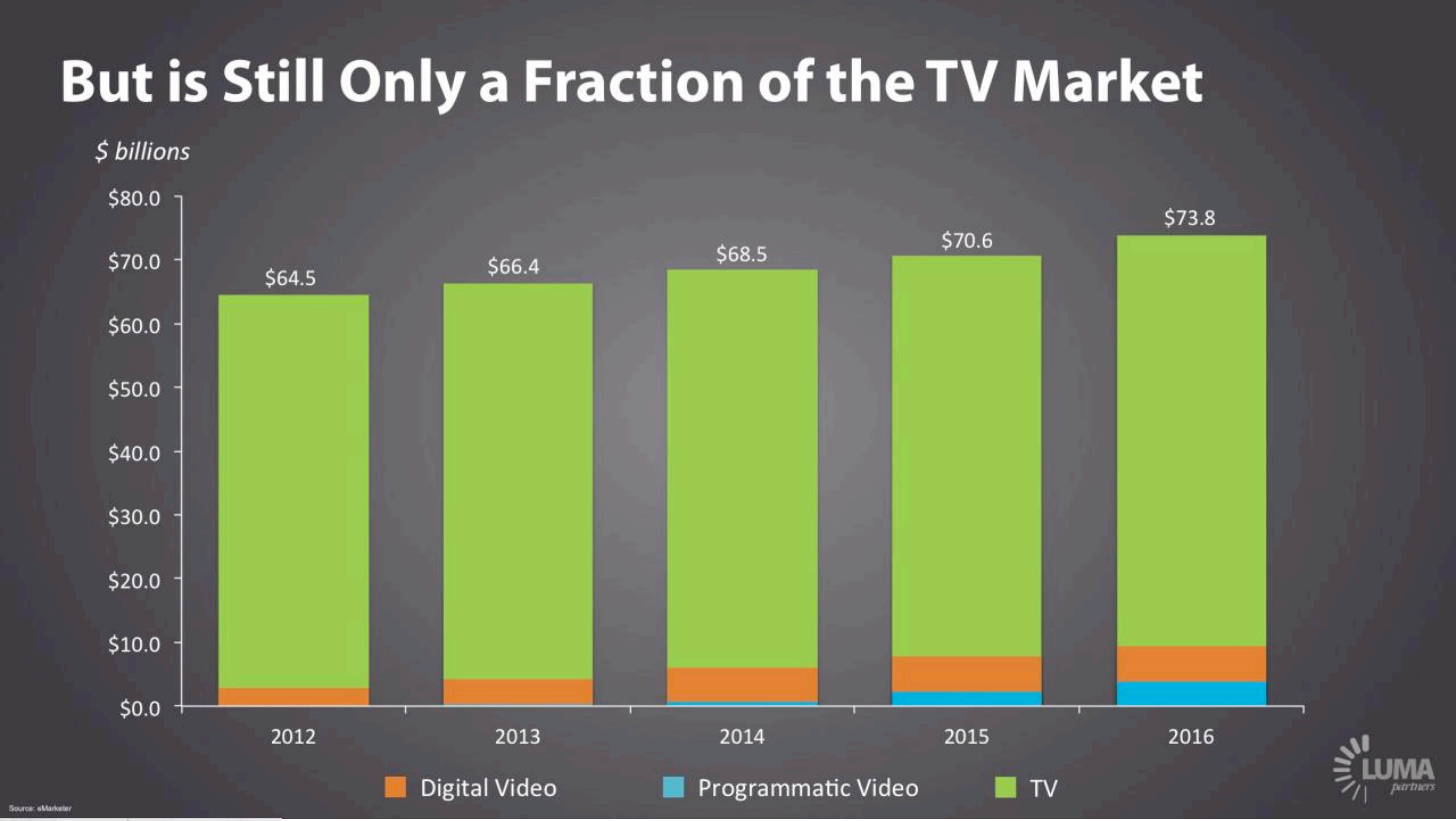
In fact, the deck has been viewed over 400,000 times, and with great qualitative feedback.

Digital Video Spend Continues to Rise



Source: eMarketer

Digital video is enjoying a surge in marketing spend as marketers allocate more money into premium content which is very limited in supply but high in demand. Digital video is also increasingly being bought and sold programmatically. The programmatic video market is expected to grow at a compounded annual growth rate of 172% from 2013-2016.



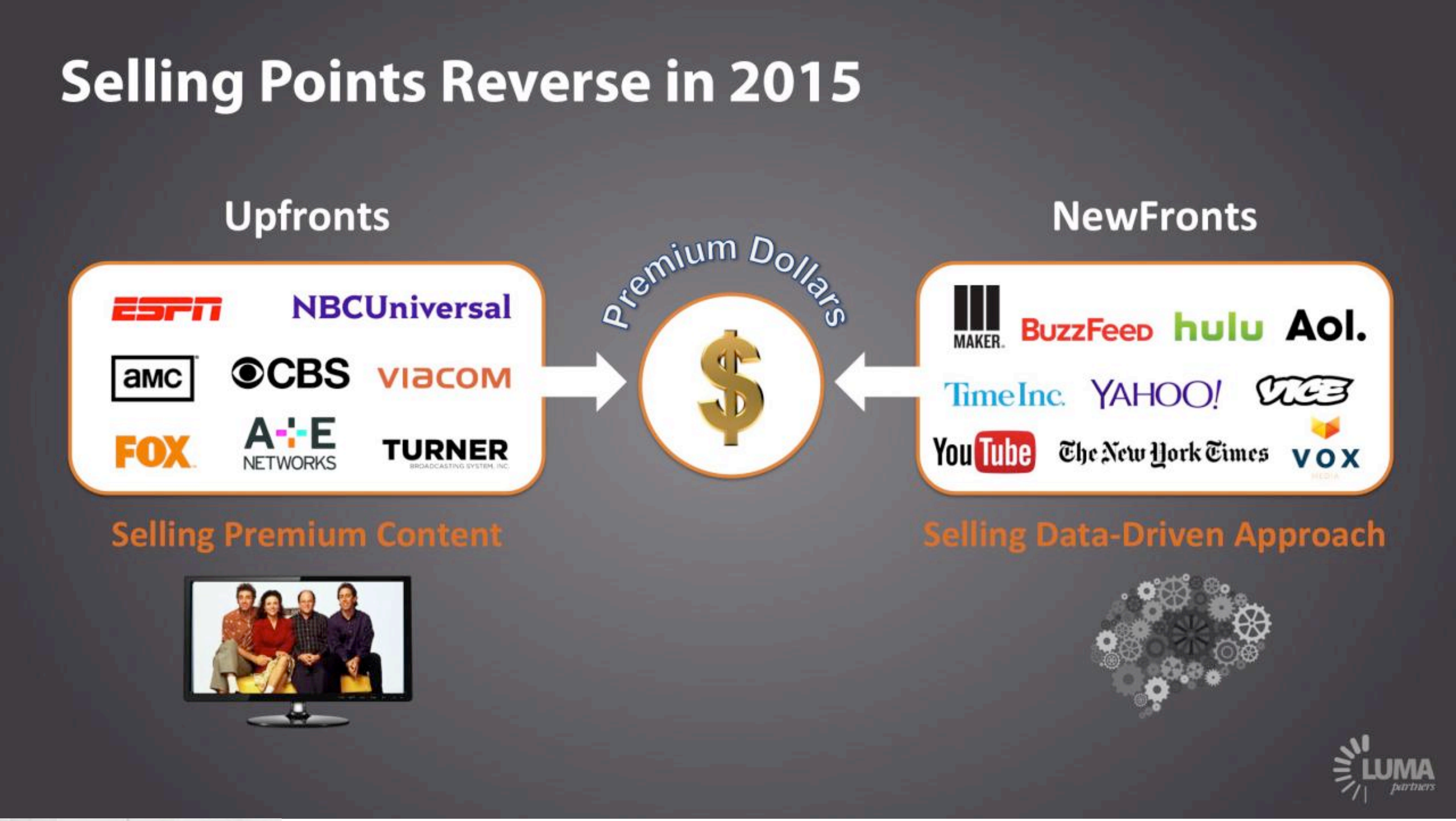
Although the digital video market is growing at a staggering rate, it pales in comparison to the TV market, which is expected to surpass $70 billion this year. The world's major marketers reserve most of their advertising budgets to TV, which is the largest and most preferred channel for brand advertising.

Slack in Demand for Upfront Buys

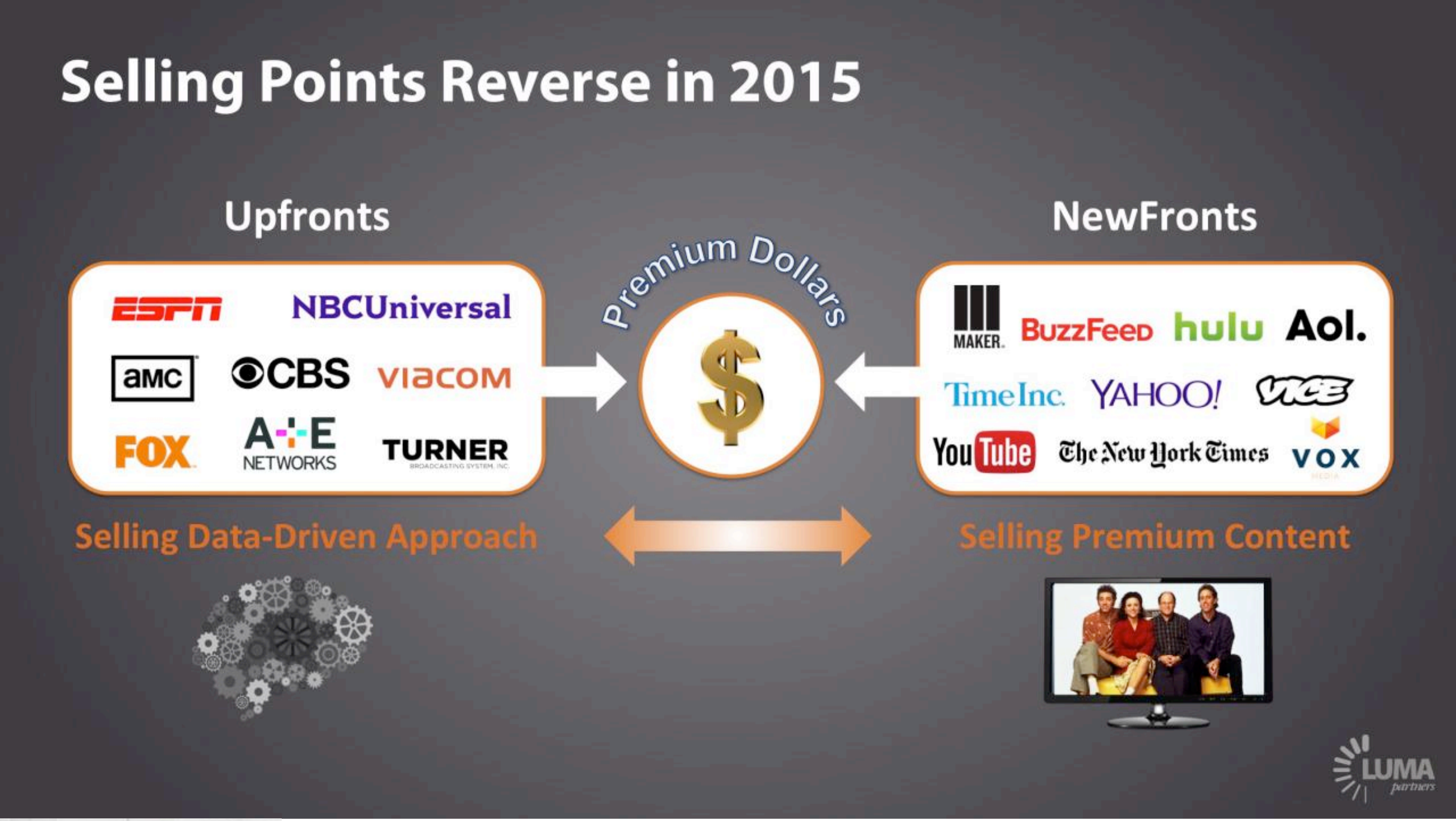
However, the outlook for the TV market seems challenging. Upfronts, which are often used to gauge the health of the market, have shown weak interest from TV's major advertisers over the past few years. Consumers are watching content on multiple screens and marketers are adjusting their advertising spend accordingly.

AOL Programmatic Upfront Makes Waves

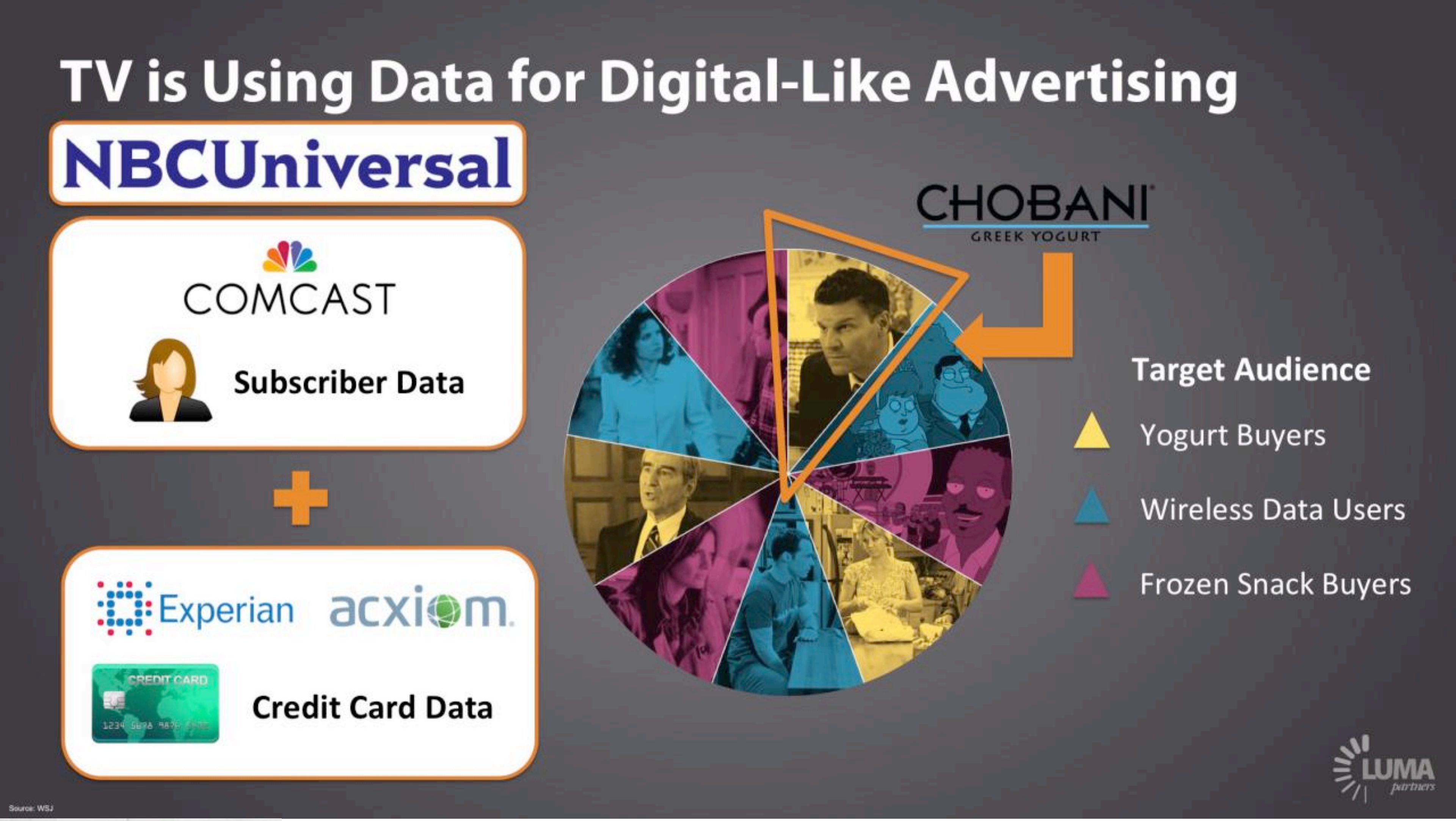
Last year AOL held its first Programmatic Upfront event. What was most impressive about the event was not what was said, but rather who was in the crowd. AOL was able to attract some of the largest media buyers to an event that promoted capabilities that didn't yet exist.



Traditionally during Upfronts season, TV networks pitch programming to marketers that featured great plots, casts, and high production quality. Meanwhile, digital companies sold marketers on their data-driven approach to targeting and advertising. The opposing sides played to their strengths…

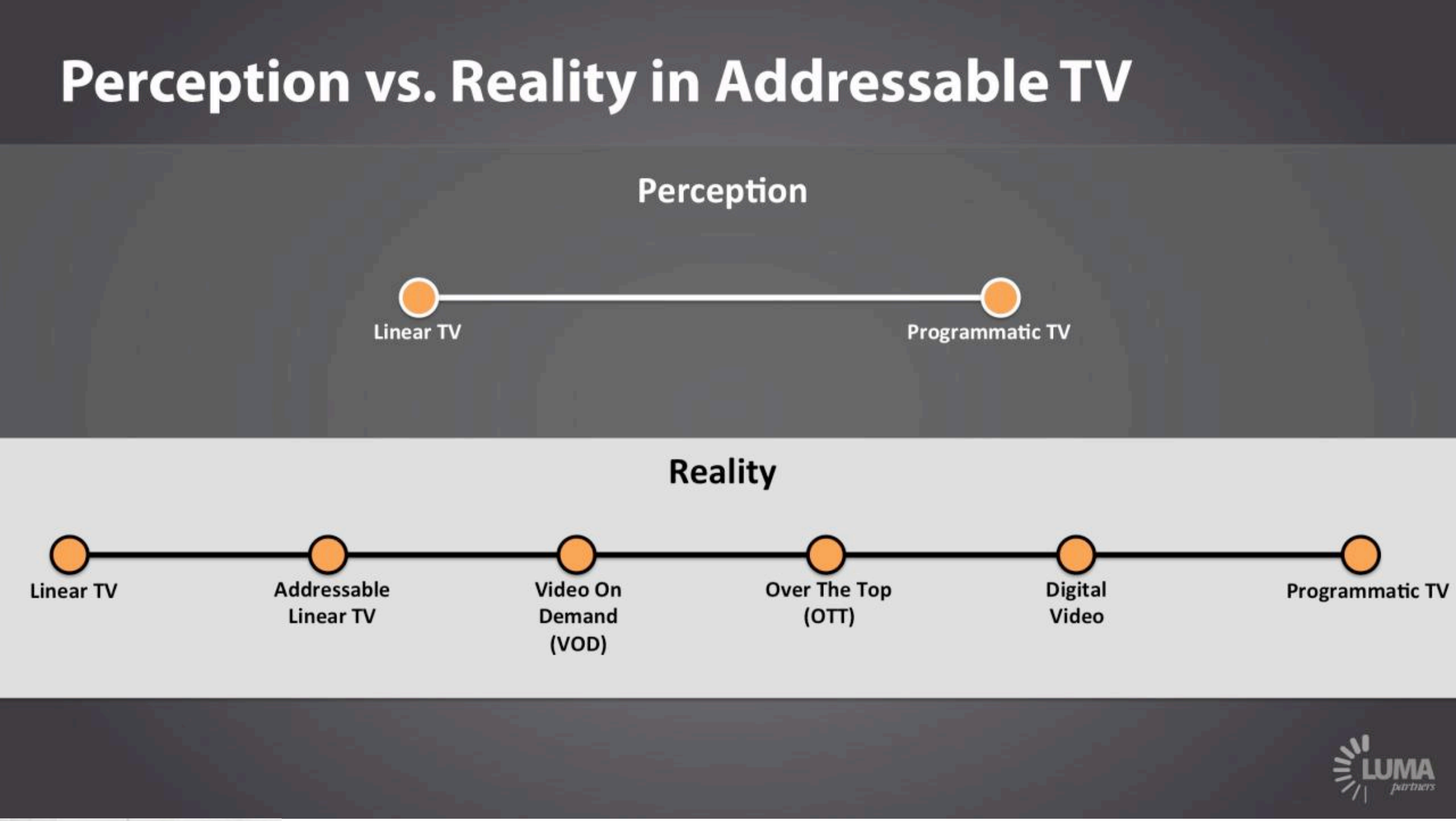


But in 2015, the selling points have reversed. TV networks are introducing new data products after feeling pressure from marketers to provide more granular targeting. Digital companies are selling marketers high quality content that they feel deserve premium dollars because of their coveted audiences and engaging content.

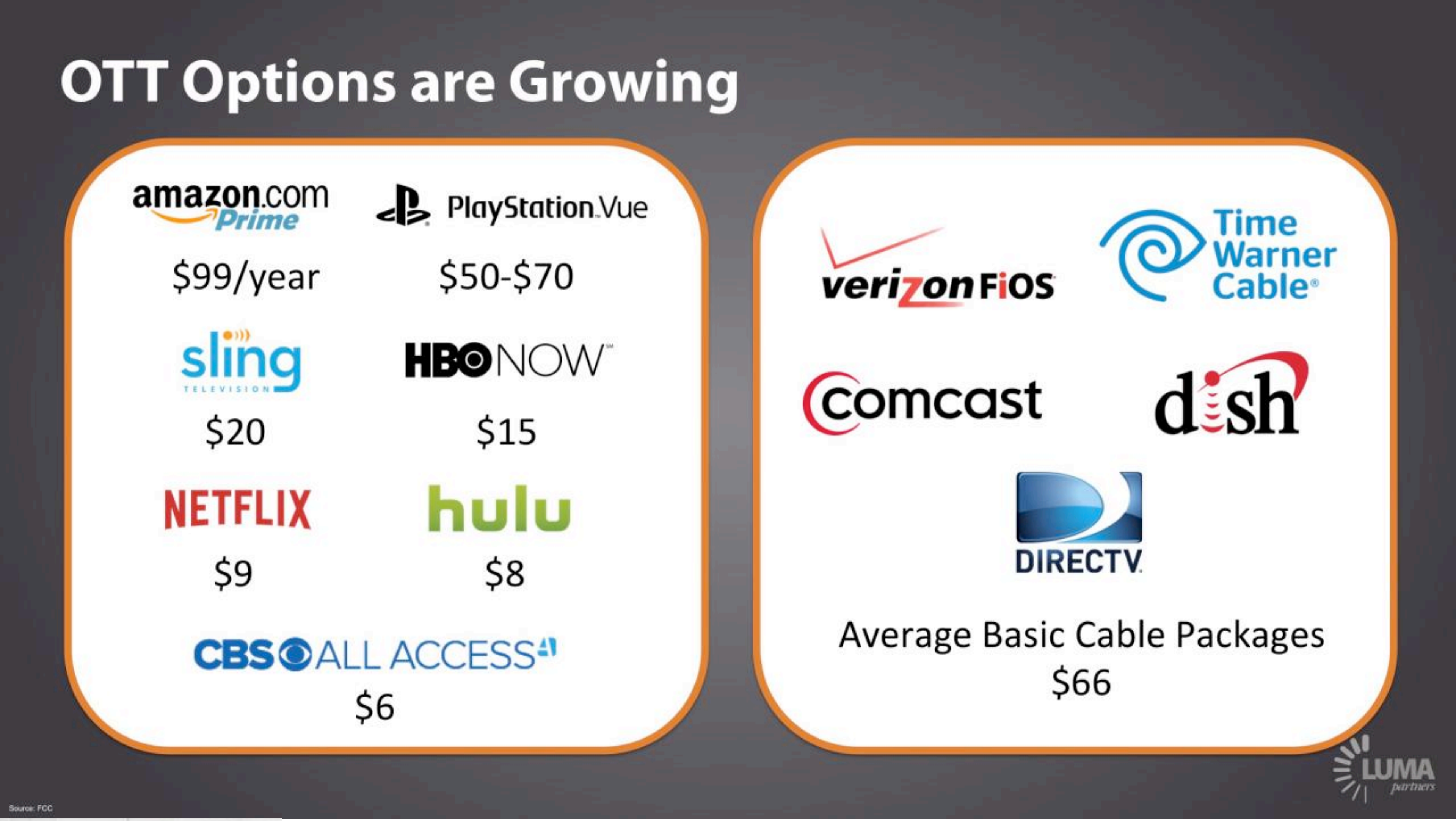


To satisfy their advertisers' needs, TV networks are offering data products with similar capabilities to digital advertising. NBCUniversal, for example, is combining Comcast's subscriber data with Experian and Acxiom's credit card data to help advertisers like Chobani target yogurt-buying consumers.

Digital companies, on the other hand, are increasing their investments in original content. Ever since the success of Netflix's House of Cards series, other leading digital companies have produced premium content of their own to keep consumers on their properties longer and attract major advertisers.



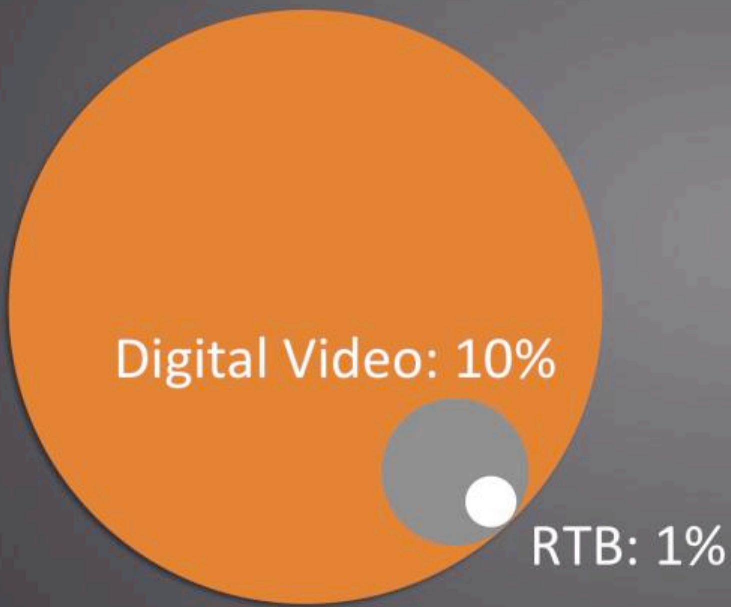
The perception of addressable TV is that there are only two sides of the coin, linear and programmatic TV. The reality, however, is that there are multiple node points in between the two offerings that each have their own unique capabilities and challenges.



Alternatives to TV are growing quickly. OTT (Over-the-Top), offers consumers programming they want to watch, with more flexibility and far less money.

Focus on the 100% Opportunity

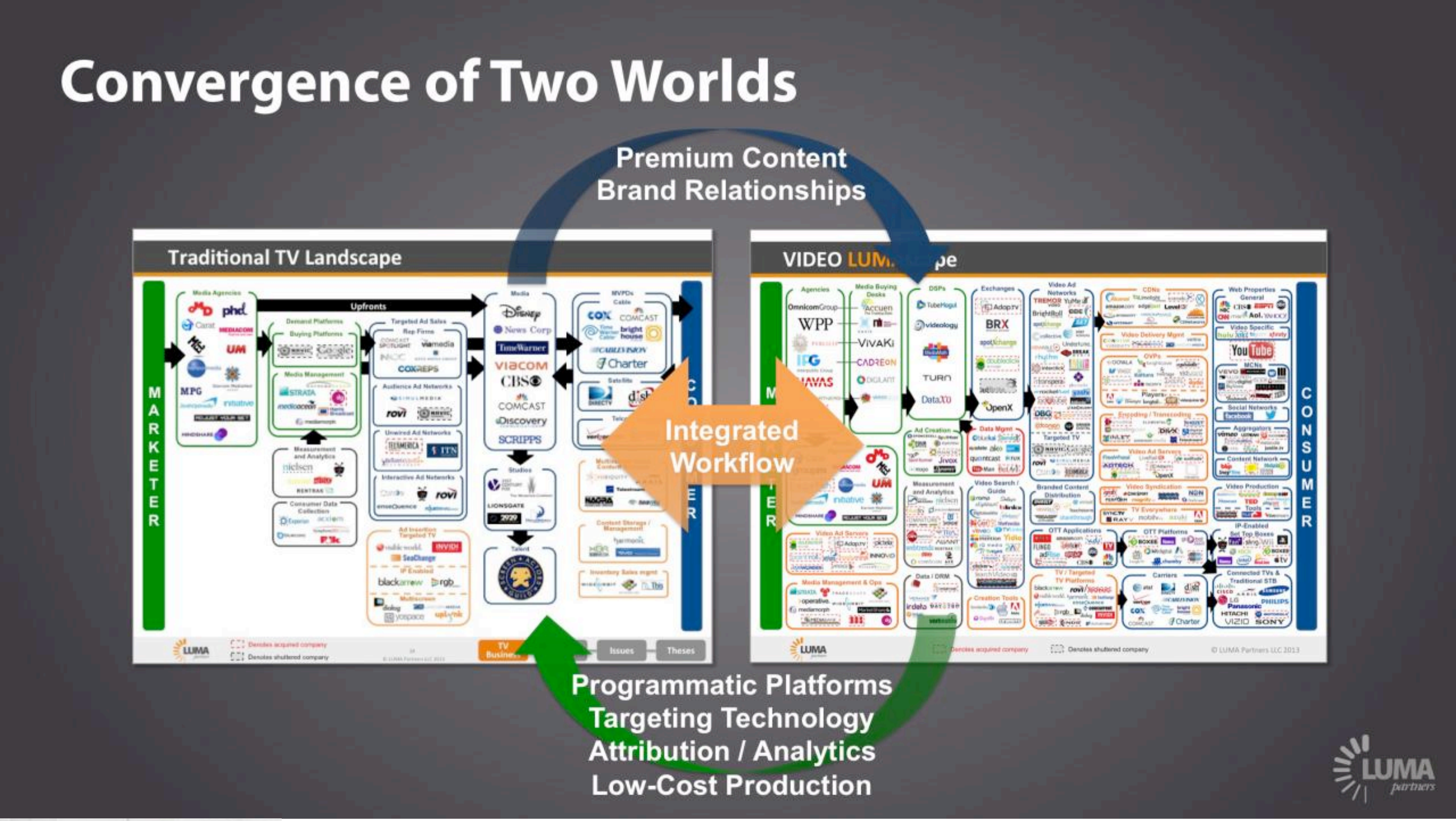
Total US TV & Video Market: 100%



- RTB is attracting a small fraction of the Video Market
- The winners will provide tools that help the TV AND Digital stakeholders

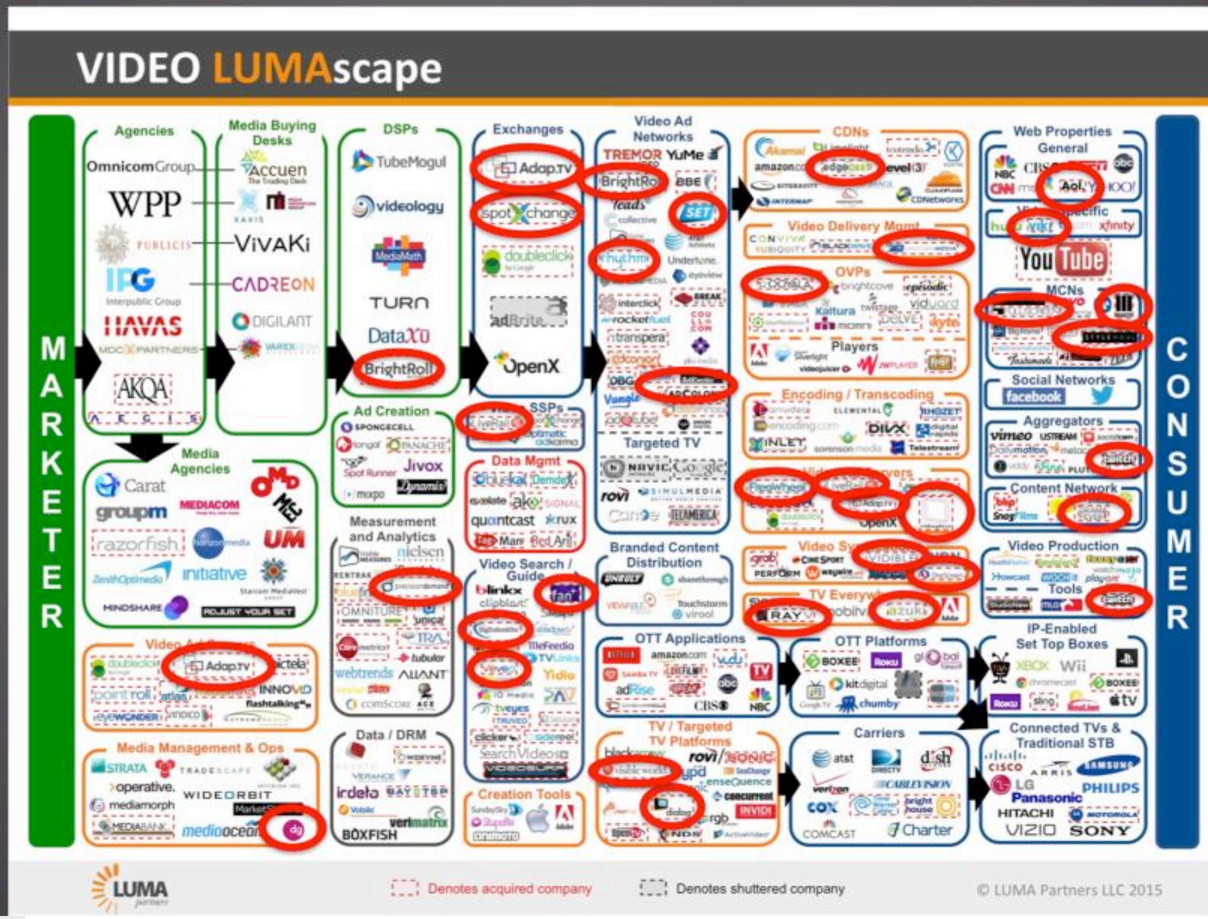
Programmatic video is a fast growing market, but the most lucrative opportunity is the entire TV and video market. The companies that offer solutions to the challenges and needs of stakeholders in the TV and digital video ecosystems will be the ones that gain the most from the 100% opportunity.

In the TV ecosystem, there are many types of stakeholders with different needs. Marketers desire premium content to exist alongside their messaging. Agencies seek more efficient planning and workflow capabilities. MVPDs want solutions that enhance the customer experience. Networks seek tools that increase their revenue.

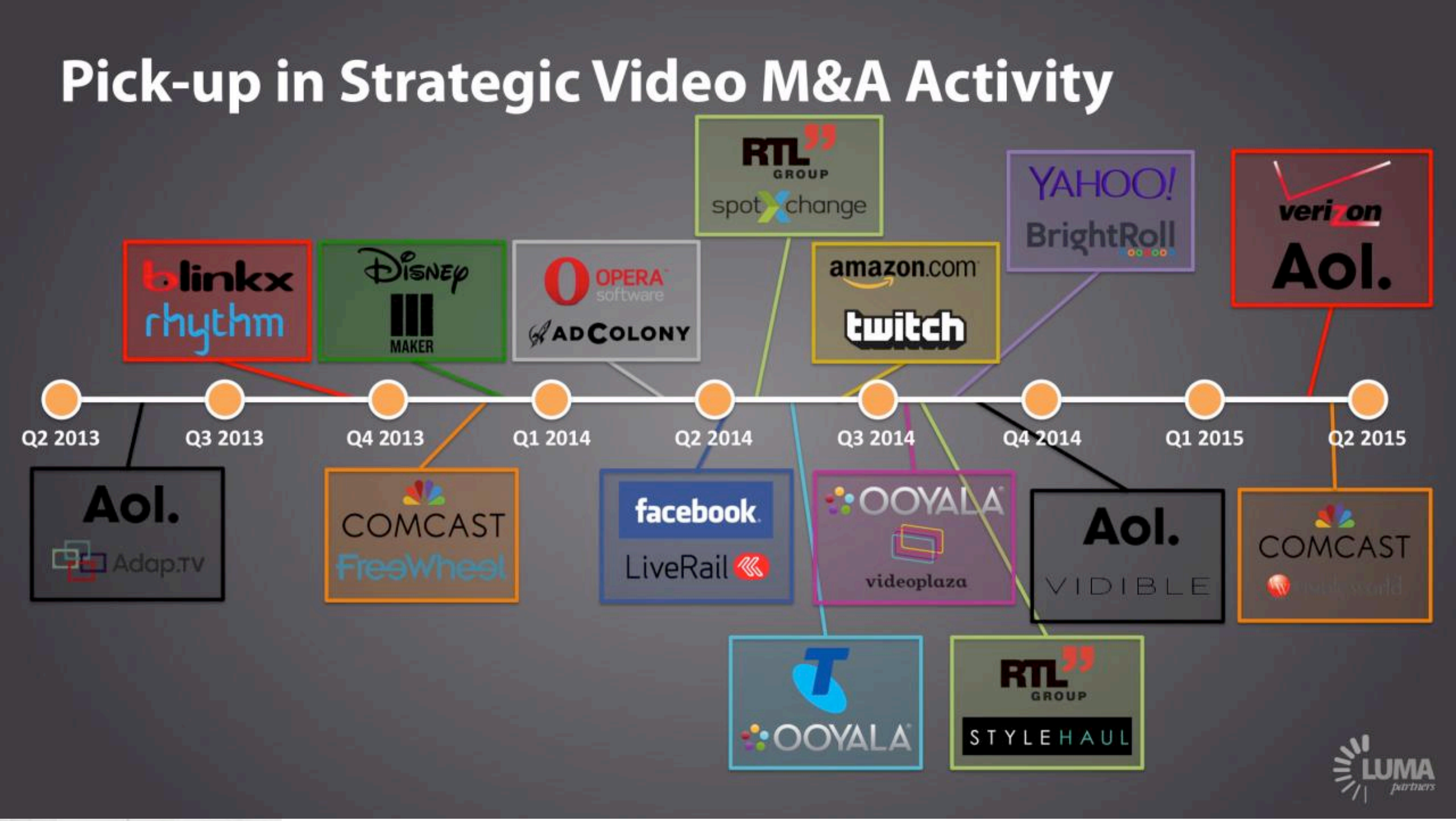


At LUMA, we are firm believers in the convergence of traditional and digital video. A key to this convergence will be M&A. Both sides of the ecosystem will bring their strengths. Additionally, integrated ad buying workflows will unite TV and digital ad buying.

31 Video Deals in the Last 2 Years



This consolidation is already occurring with over 30 scaled transactions in the past two years.



The buyers have come from a variety of sectors: consumer internet, software, media, telecom. We expect both the pace and diversity of transactions to continue as the traditional and digital video sectors continue to merge.

Agenda

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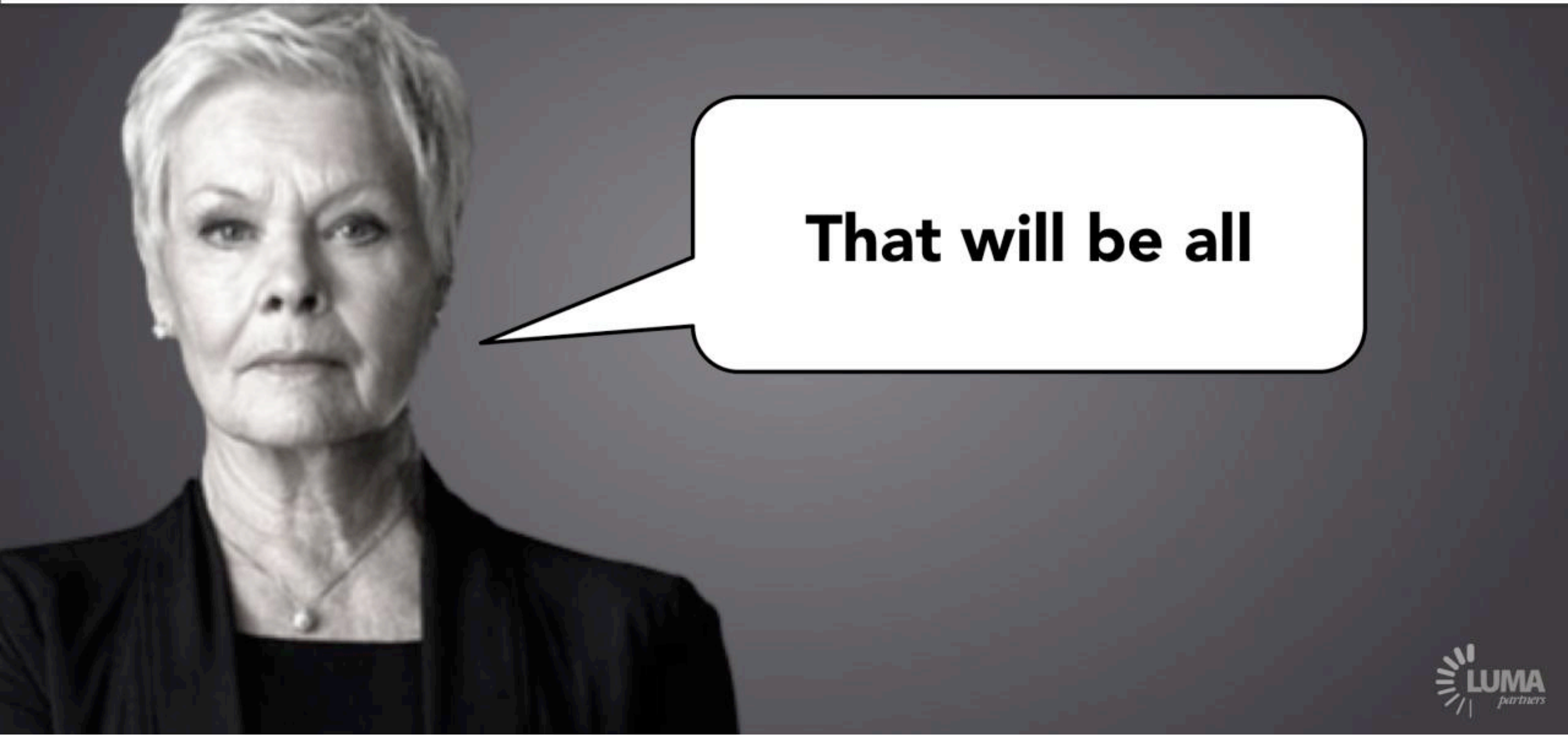

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