

THINK AGAIN:

TECH AND MEDIA OUTLOOK 2016

WSJD Live Conference

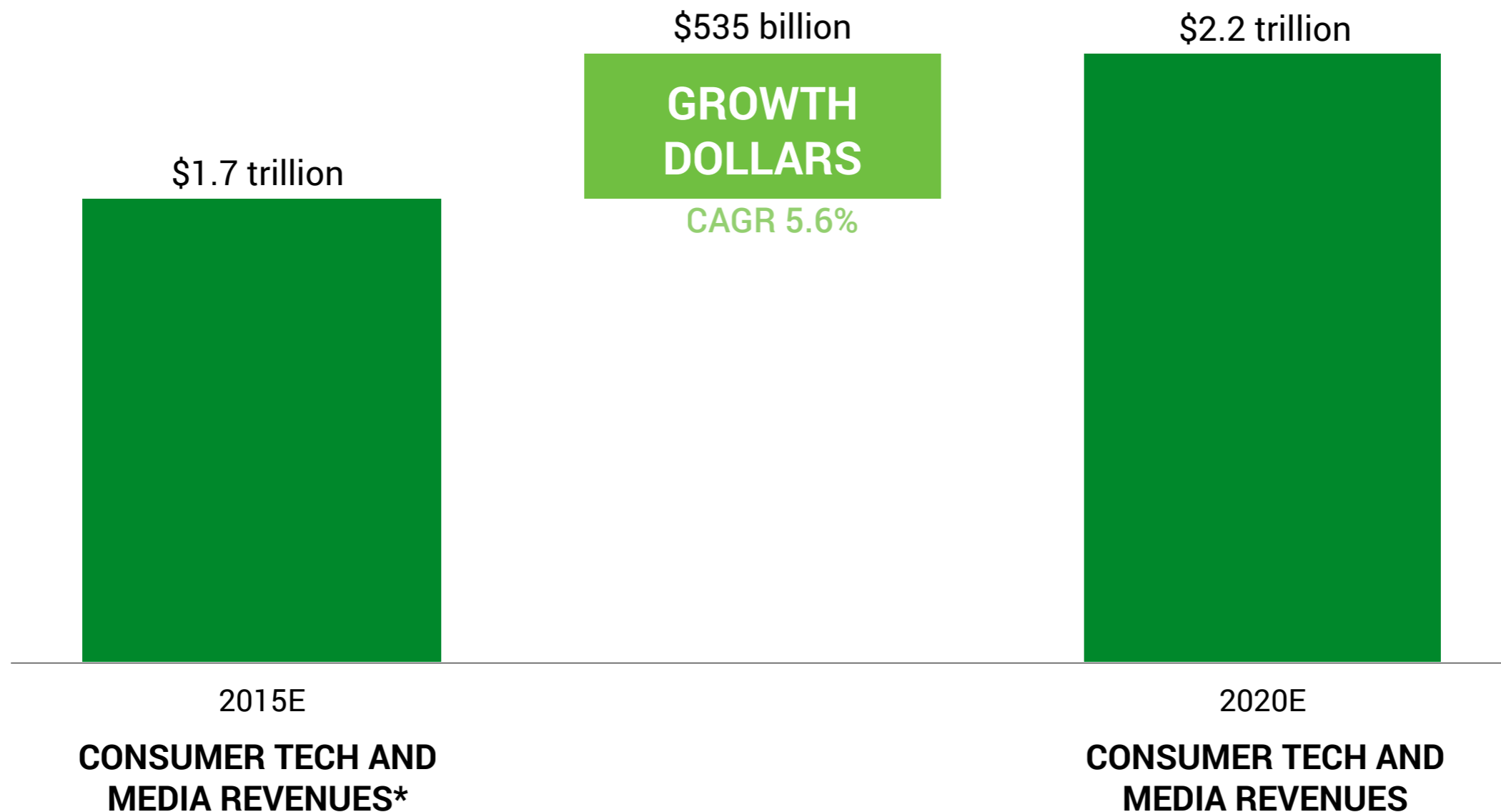
October 20, 2015

www.activate.com



Over the next five years, the consumer tech and media industry will grow by over \$500 Billion

Consumer Tech and Media Business Growth, 2015E-2020E



The 9 most important insights for tech and media in 2016

THE AVERAGE AMERICAN SPENDS MORE TIME ON TECH & MEDIA THAN WORK OR SLEEP

MESSAGING WILL BLOW PAST SOCIAL NETWORKS AS THE DOMINANT MEDIA ACTIVITY

THE NEXT BIG WINNERS IN STREAMING AUDIO ARE ALREADY (QUIETLY) HERE

THE LONG-AWAITED CORD CUTTING MOMENT IS STILL FAR OFF

THERE IS A “CABLE KILLER” COMING, BUT IT WON’T LOOK LIKE YOU EXPECT

E-SPORTS & WAGERING WILL CHANGE THE GAME IN GAMING

GOOD LUCK GETTING RICH IN THE APP STORE!

THESE COMPANIES ARE GRABBING ALL THE MONEY IN CONSUMER TECH & MEDIA

ONE SIMPLE WAY TO PREDICT WHAT TECH & MEDIA PLAYERS WILL DO NEXT TO COMPETE

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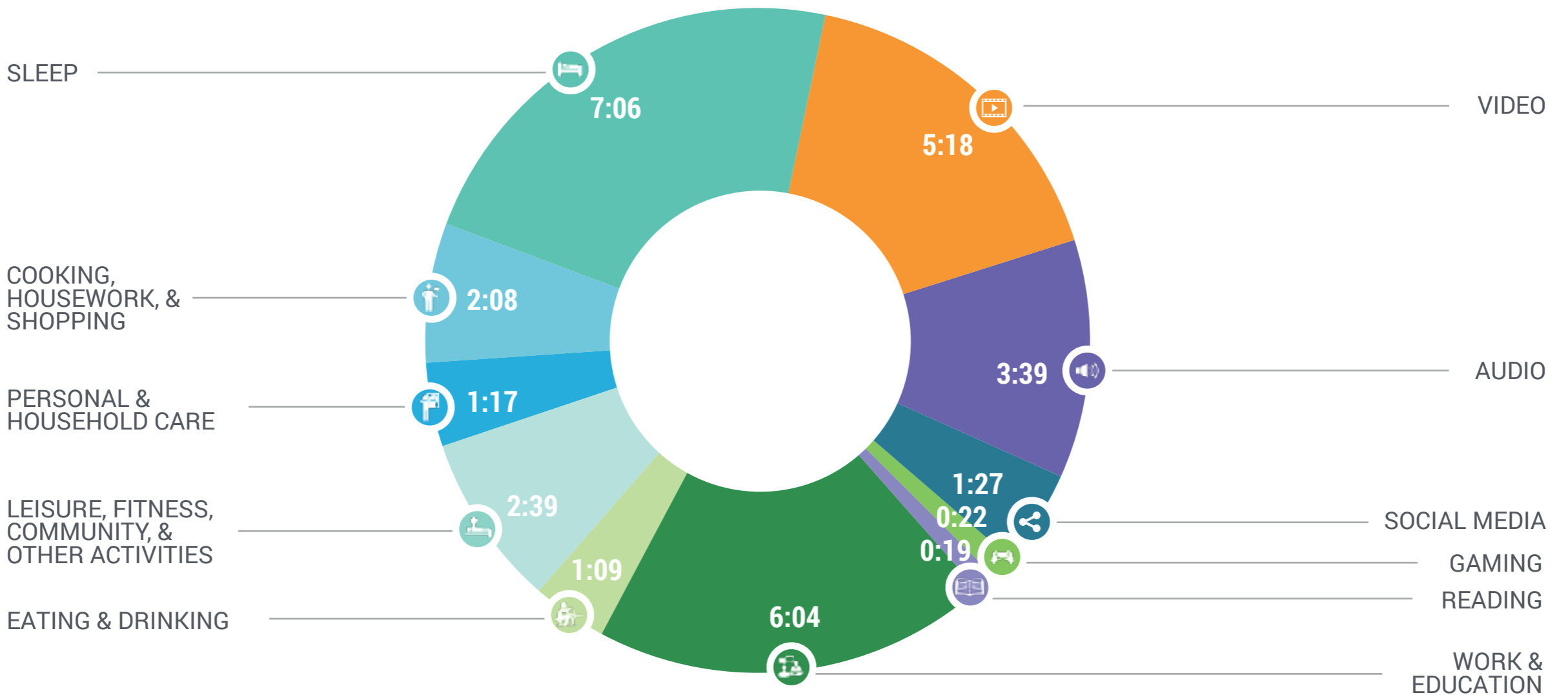
CAPTURING ATTENTION IS NOT A ZERO SUM GAME

**WE ANALYZED EVERY MINUTE IN AN AVERAGE
AMERICAN ADULT'S DAY**

Attention is multi-tasked: the average American has over 31 hours of activity in a day

Average Employed Adult Daily Behavior, U.S., 2014, Hours : Minutes

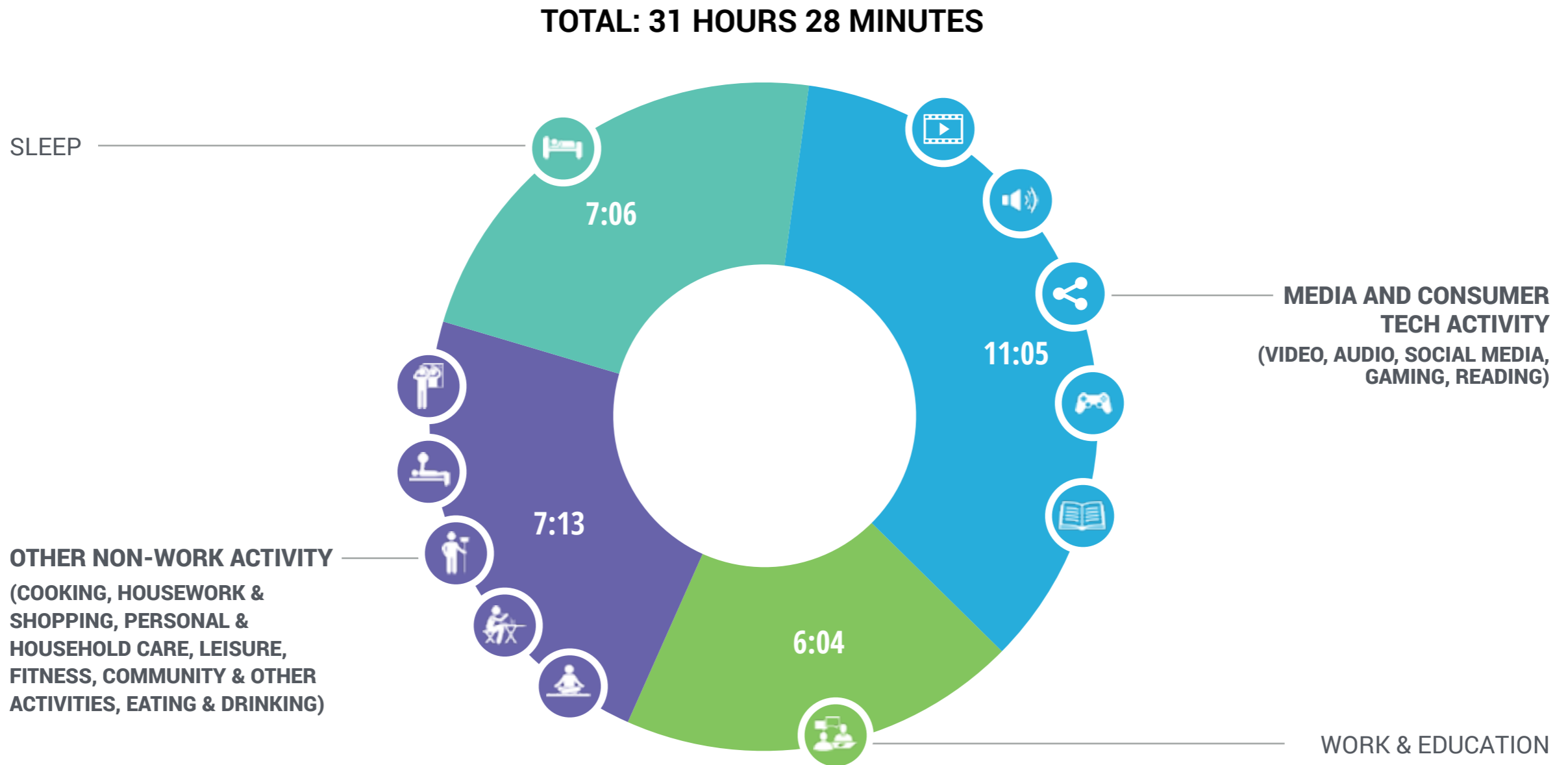
TOTAL: 31 HOURS 28 MINUTES



Sources: Bureau of Labor Statistics, The Telegraph, Edison Research, We Are Social, eMarketer, Nielsen, National Sleep Foundation, Deloitte, SNL Kagan, Sandvine, Ipsos, comScore, Global Web Index, OECD, Activate analysis. Behaviors averaged over 7 days. Related travel time is included within timing reported for daily activities.

The total tech and media attention up for grabs is enormous: more than half the waking day is spent on tech and media

Average Employed Adult Daily Behavior, U.S., 2014, Hours : Minutes



All of this attention is split up across relatively few apps, sites and channels

Actual Consumption for Apps, Websites, TV Channels, U.S., 2014

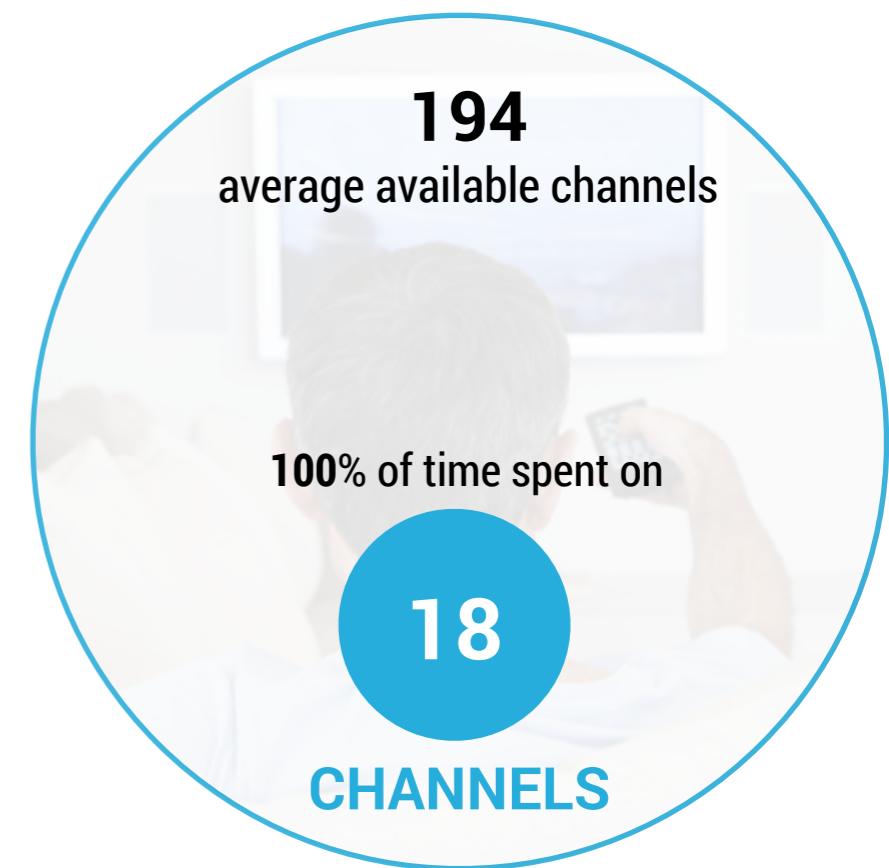
APP SHARE OF TIME SPENT



WEBSITE SHARE OF TIME SPENT

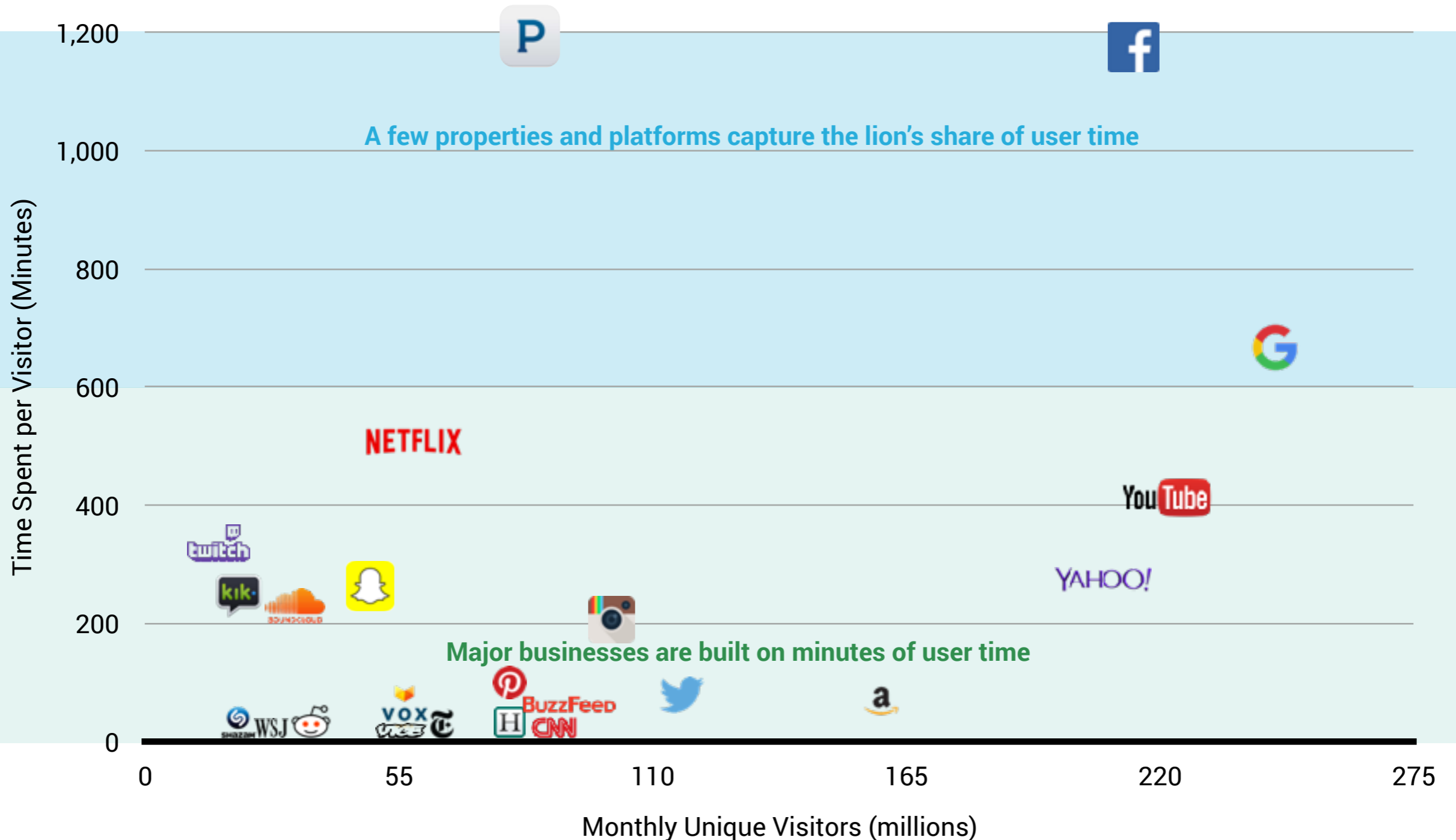


TV CHANNEL CONSUMPTION



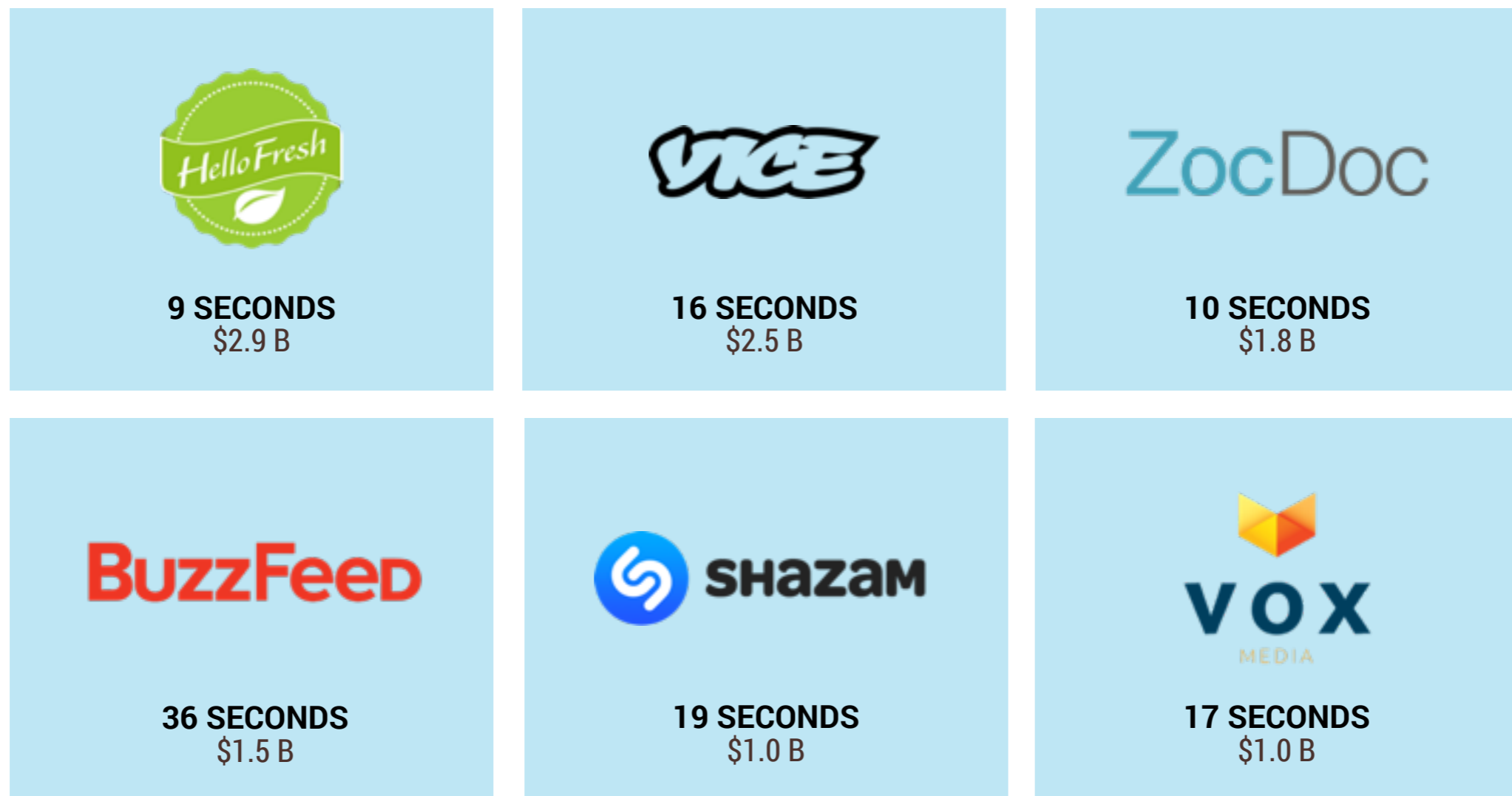
We can find growth opportunities in people's online behavior: how many users visit the top websites and apps, and for how long?

MUVs vs. Minutes per Visitor per Month, U.S., January - September 2015



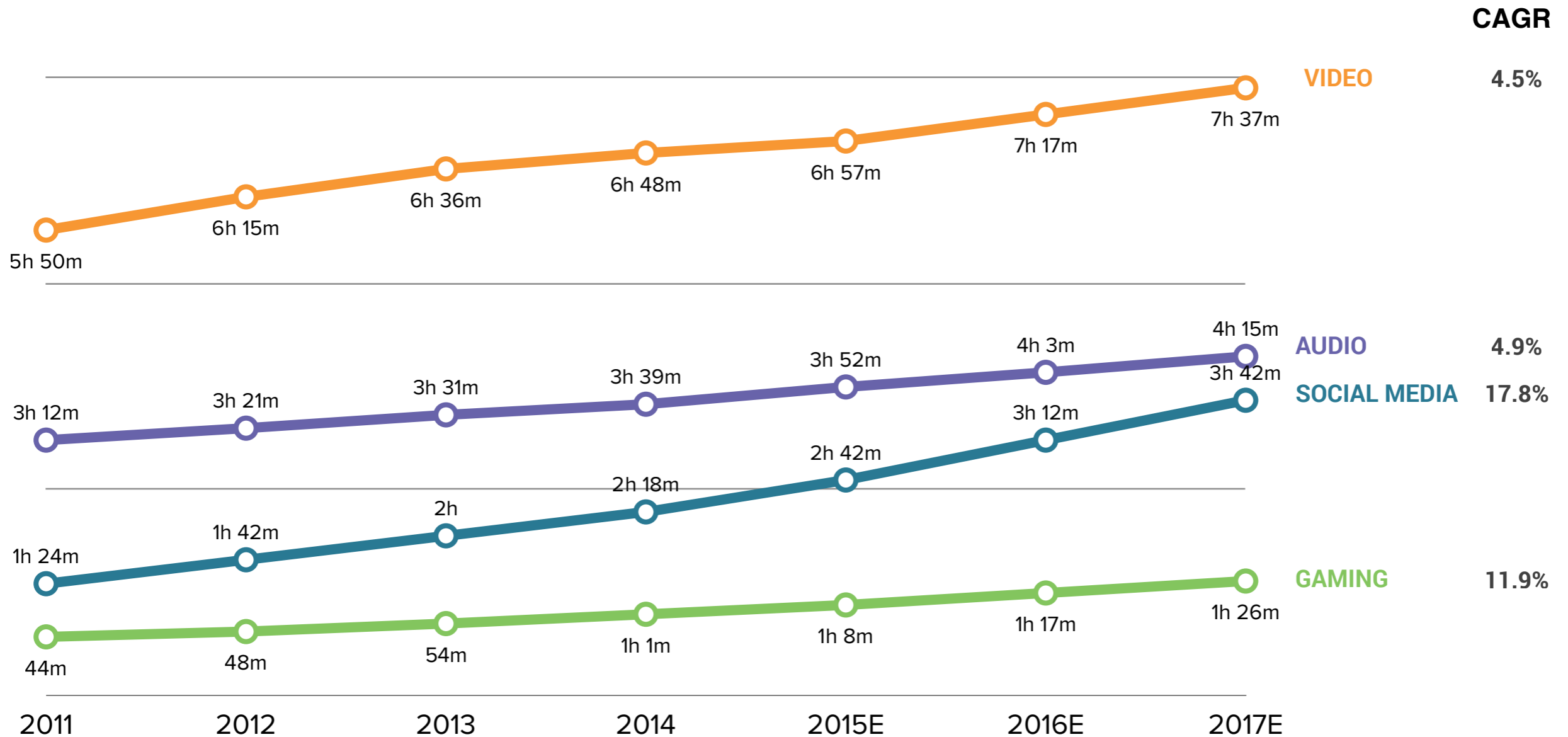
A billion dollar business can be built by capturing less than a minute of an average user's daily attention

Average Time per User (MUV) per Day, U.S., Valuation (in billions)



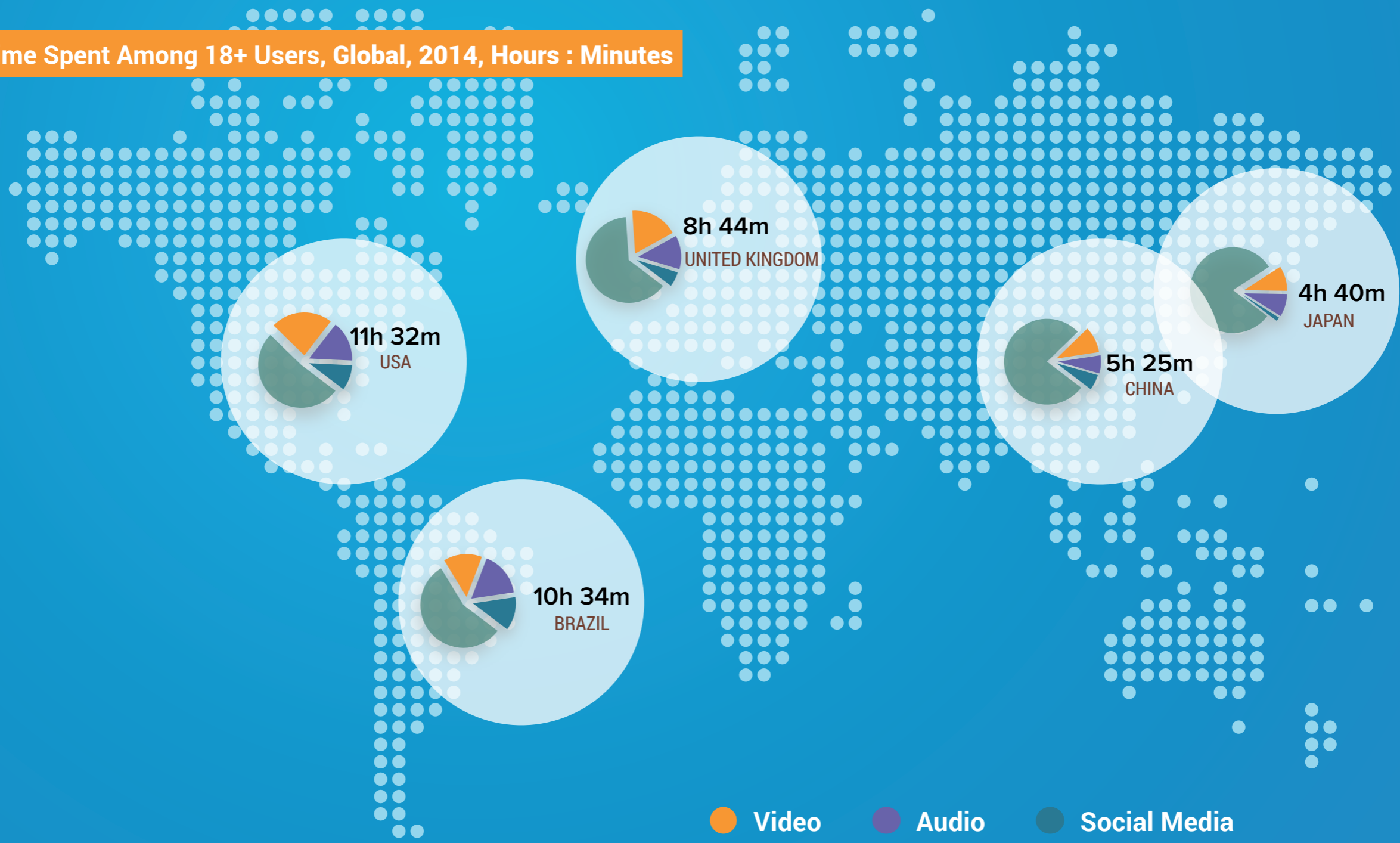
Time spent on major digital activities like video, audio, social media and gaming will continue to increase

Time Spent Among 18+ Users, U.S., 2011 - 2017E, Hours : Minutes



These behaviors dominate people's attention around the world

Time Spent Among 18+ Users, Global, 2014, Hours : Minutes



Multitasking will continue to grow as new products and experiences expand the number of multitasking moments

Google Self-Driving Car



Microsoft HoloLens



Amazon Echo



Disney Playmation



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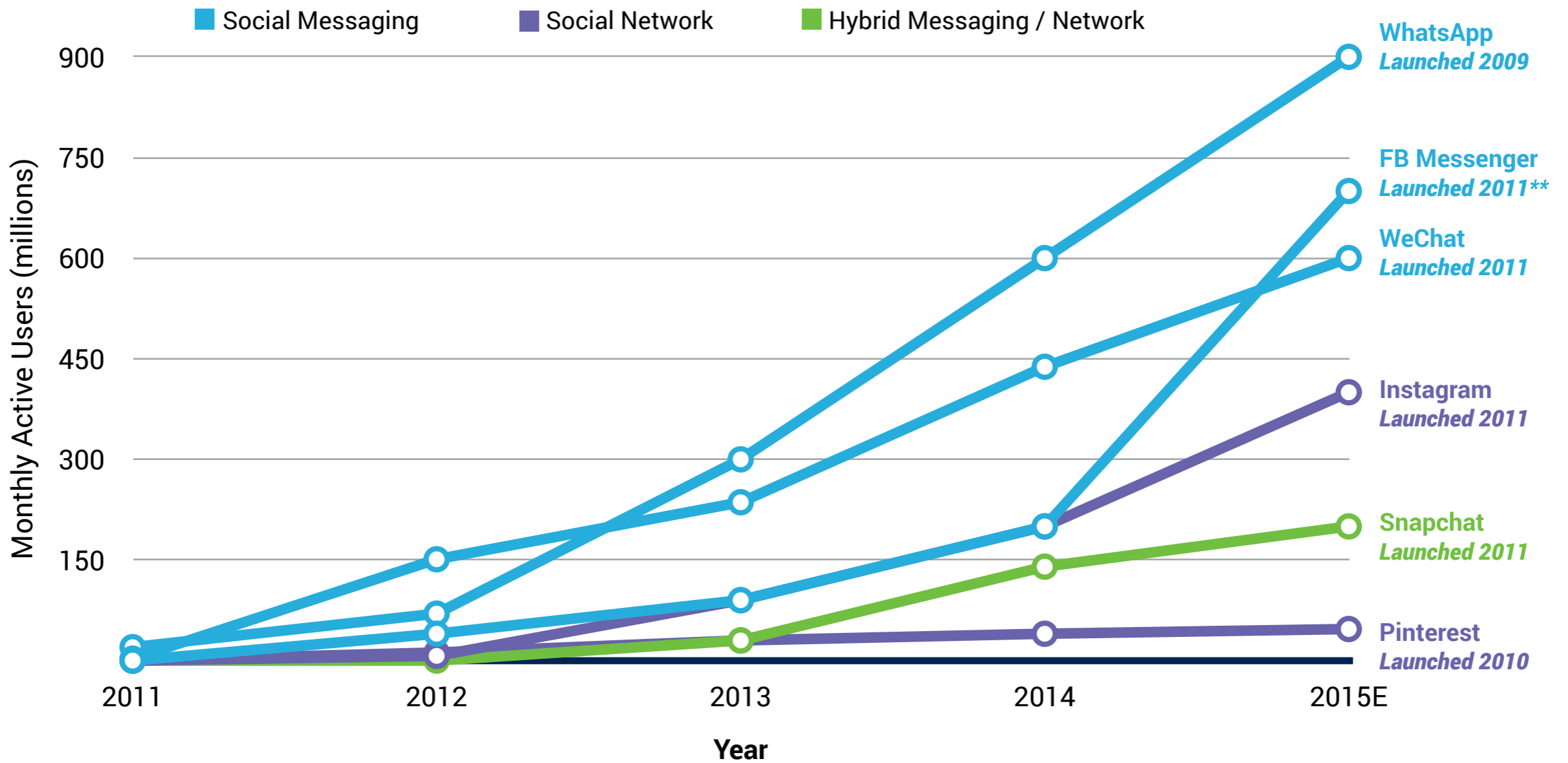
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Messaging has been the fastest-growing online behavior within the social landscape over the past five years, passing social networks

Growth of Messaging Platforms vs. Network Platforms, Monthly Active Users (MAUs), 2011 - 2015E*



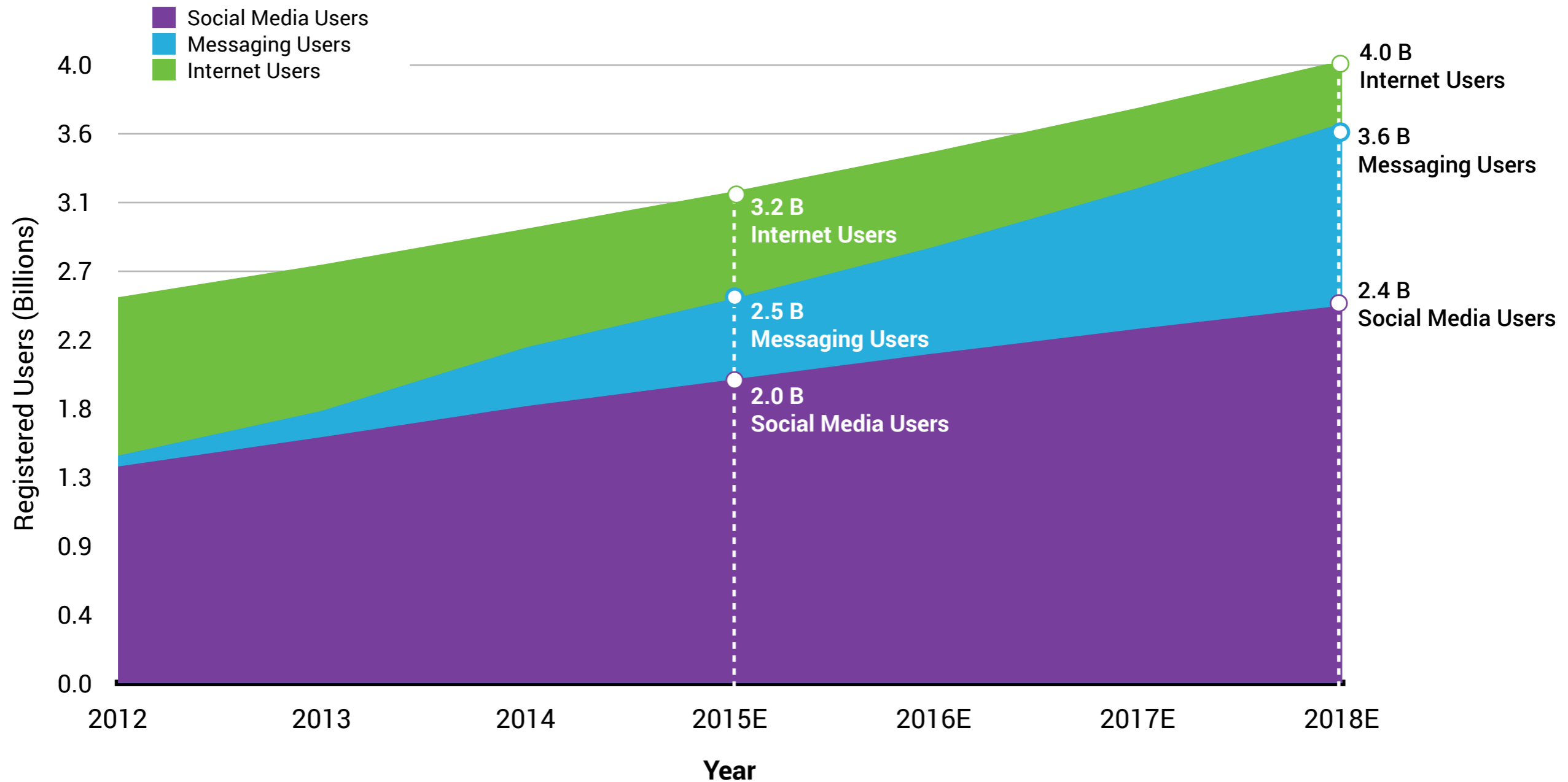
*Messaging defined as communicating primarily in real time with other contacts; social defined as broadcast sharing of status updates, images, videos, or other content. All data measured from Q2/Q3 of each year.

**Became standalone app in 2014

Sources: Business Insider, Fortune, Mashable, Instagram, AppAnnie, AdWeek, Quartz, Yahoo Finance, Experian, TechCrunch, Forbes, Tech in Asia, eMarketer, Compete, Activate analysis

We forecast that messaging will add 1.1 Billion new users by 2018

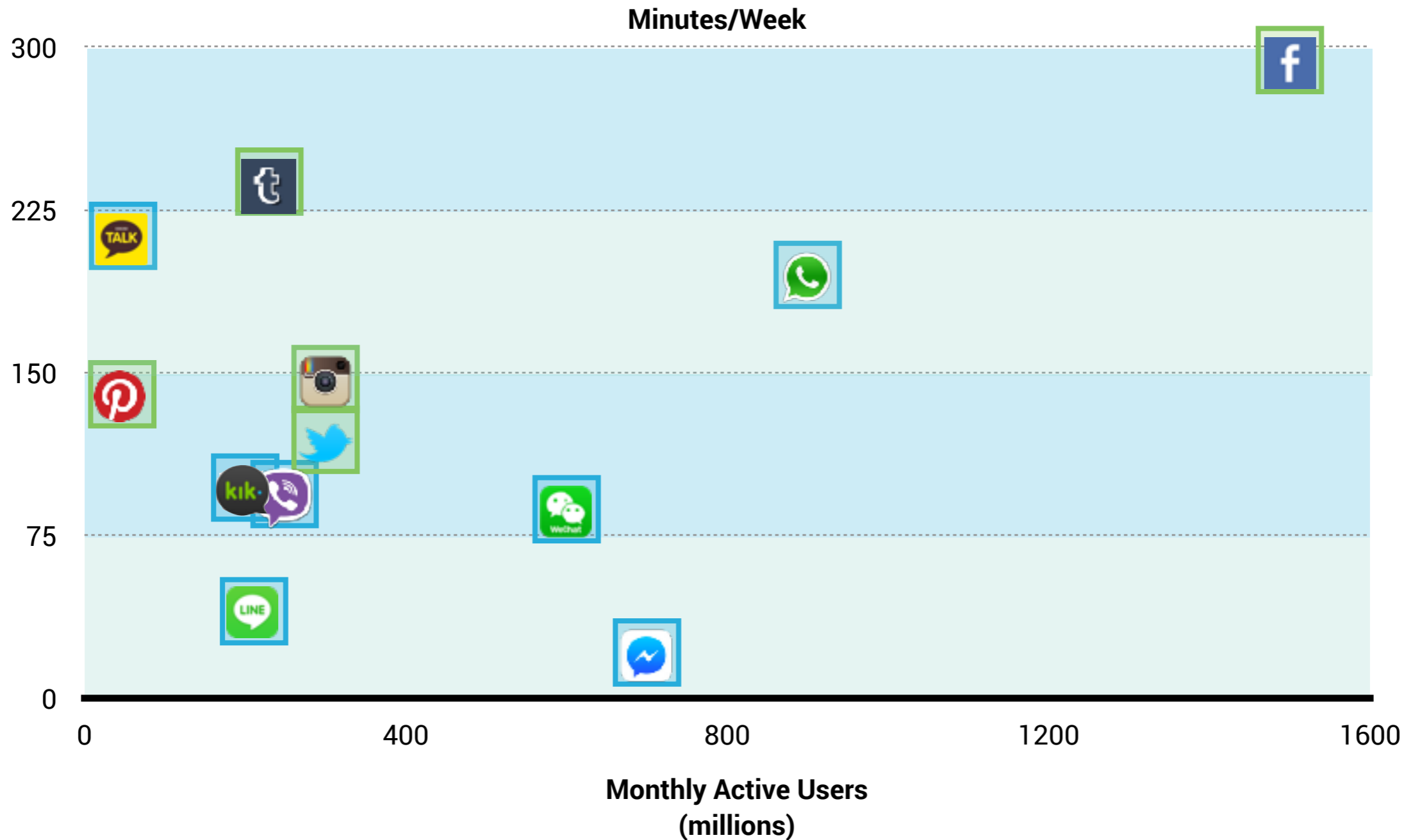
Users of Messaging, Social Media, and Internet, Global, 2012 - 2018E



Some messaging platforms already rival social networks for time spent by users

Time Spent on Messaging vs. Social Platforms, Global

■ Social Network ■ Messaging



Clear leaders are emerging in the messaging landscape; Facebook Messenger and WhatsApp are global, others dominate locally

Name	Monthly Active Users (in millions)	Geography of Dominant User Base
WhatsApp	900	Global
Facebook	700	Global
WeChat	600	China
QQ Mobile	~600 *	China
Gchat	>425 *	USA
iMessage	~400 **	USA
Viber	249	EMEA
LINE	211	Japan
Snapchat	200	USA & EMEA
Kik	200	EMEA
Telegram	85	EMEA
Tango	80	APAC
KakaoTalk	48	South Korea
Hike	35	India
Zalo	~18 *	Vietnam
Path Talk	10	USA
FireChat	< 5 *	EMEA & APAC
YikYak	4	USA
SOMA	< 2	Saudi Arabia
Jott	< 1	USA
Nimbuzz	N/A	India
Microsoft Send	N/A	USA
Vurb	N/A	USA

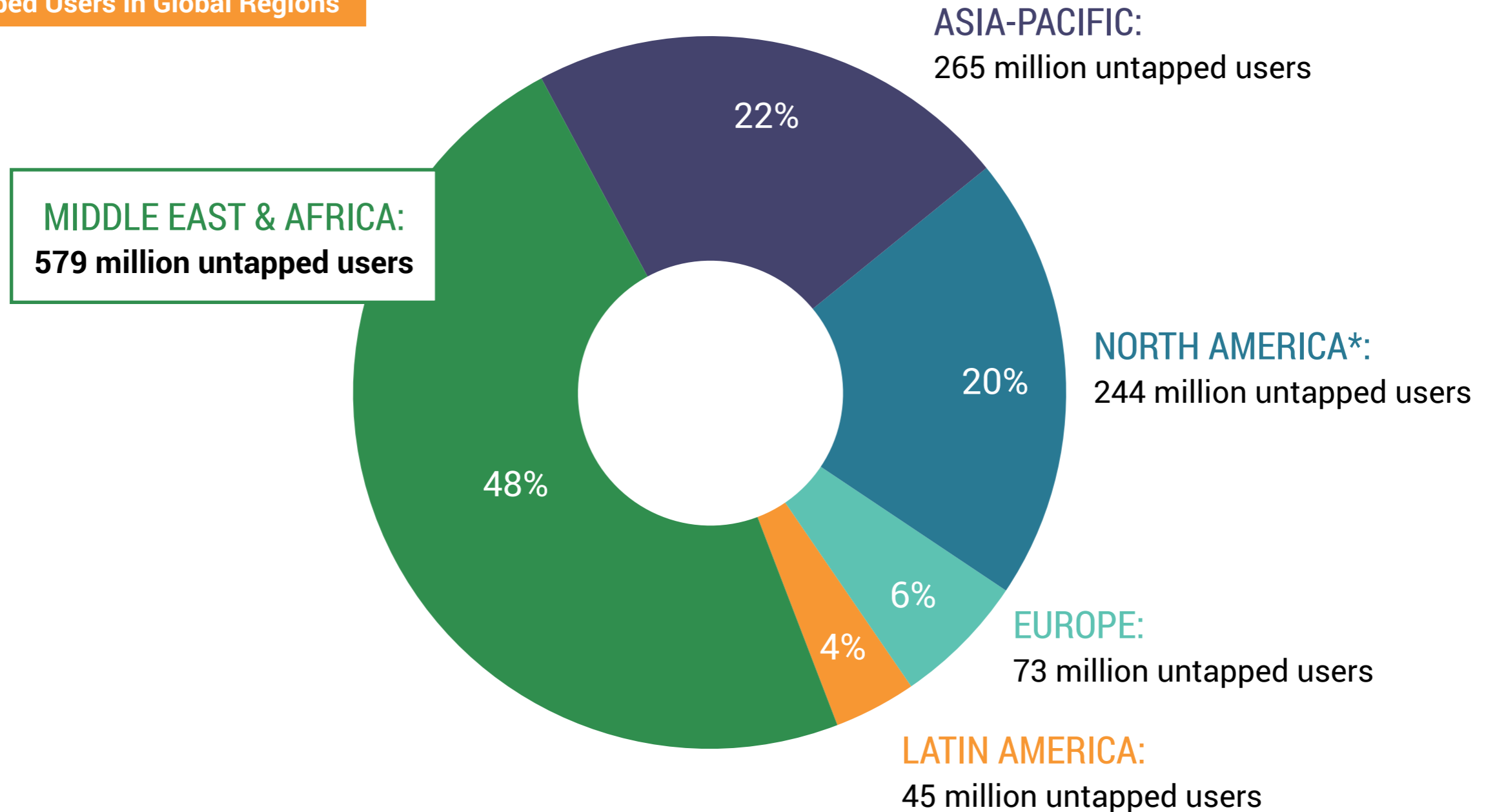
While founded in the U.S., both **WhatsApp** and **Facebook Messenger** have attracted **global audiences**

The **third largest messaging platform is Chinese** – WeChat (and its predecessor QQ Mobile) owned by Tencent

*Indicates estimates; ** Estimate based on number of iPhones sold
 Sources: AppAnnie, AdWeek, Quartz, Yahoo Finance, Experian, TechCrunch, Forbes, Tech in Asia, VentureBeat, Kakao, LINE, Viber, Activate analysis

Almost half the growth opportunity for messaging players is in the Middle East & Africa; North America presents a significant opportunity if messengers can displace SMS

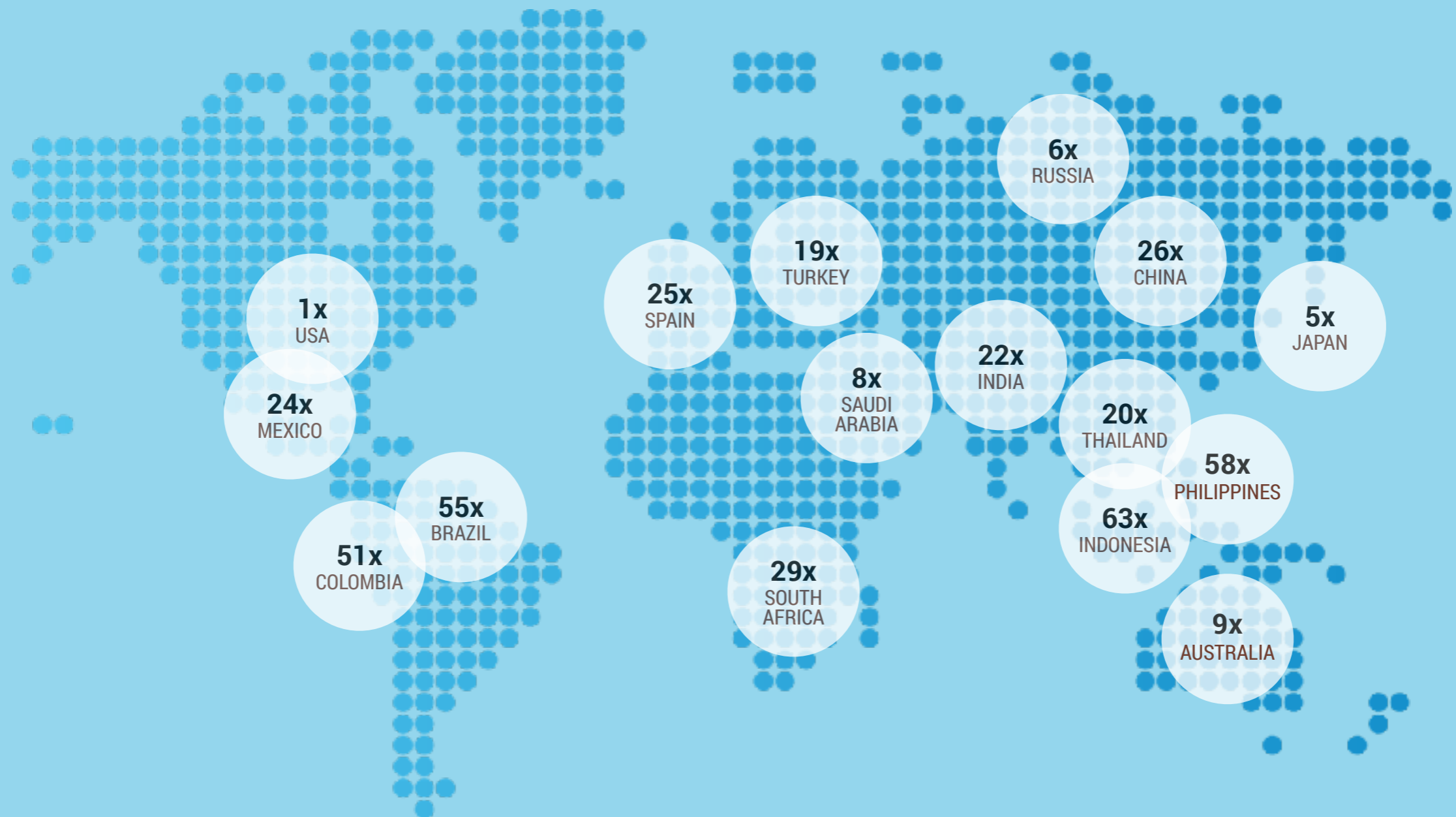
Untapped Users in Global Regions



The messaging boom is about price—sending an SMS is up to 63x more expensive outside the U.S., while messaging apps are flat-fee or free

Comparative Cost of Sending SMS

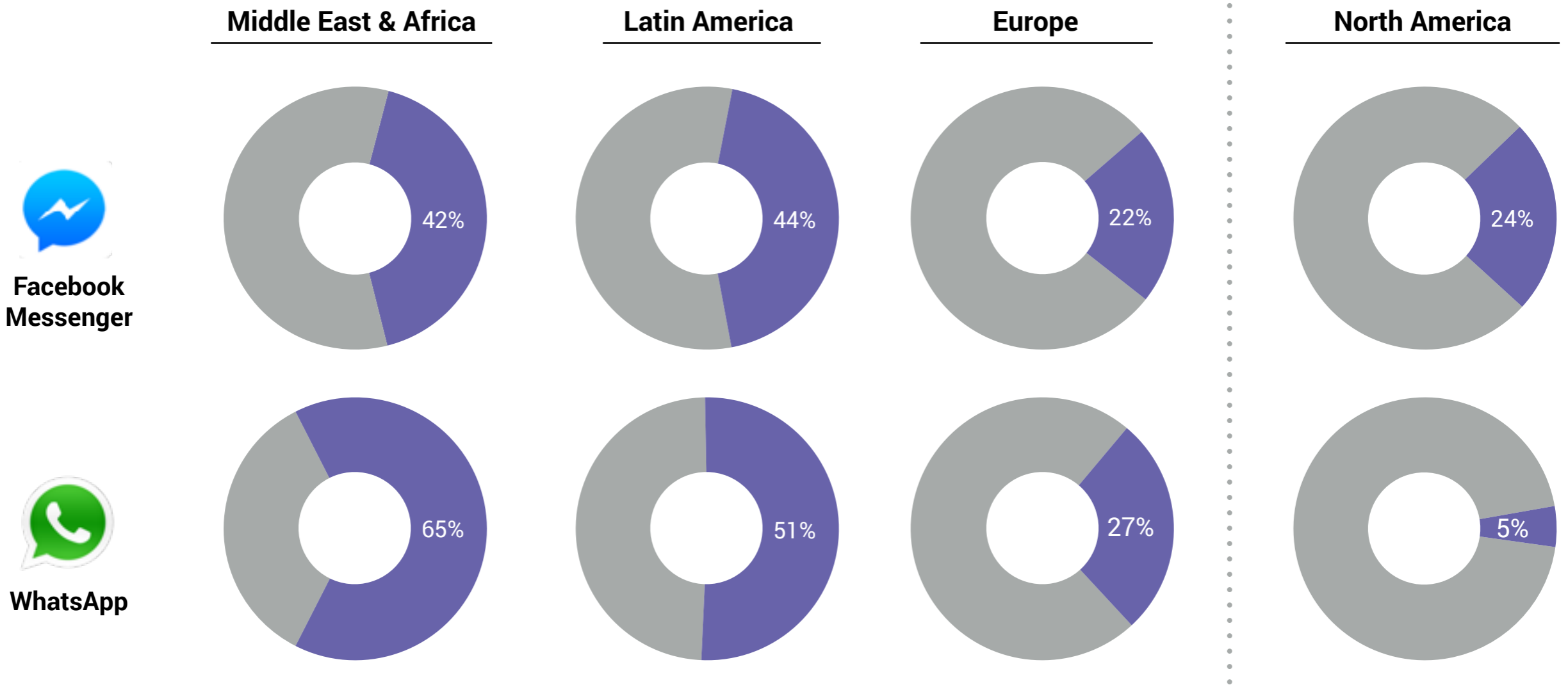
Indexed Against United States SMS Costs
Normalized for Median Household Income & Purchasing Power Parity



Facebook's WhatsApp and Messenger are the only global players, leaving them in the best position to capitalize on messaging












Messaging App Regional Share of Smartphone Owners

● Penetration Rate



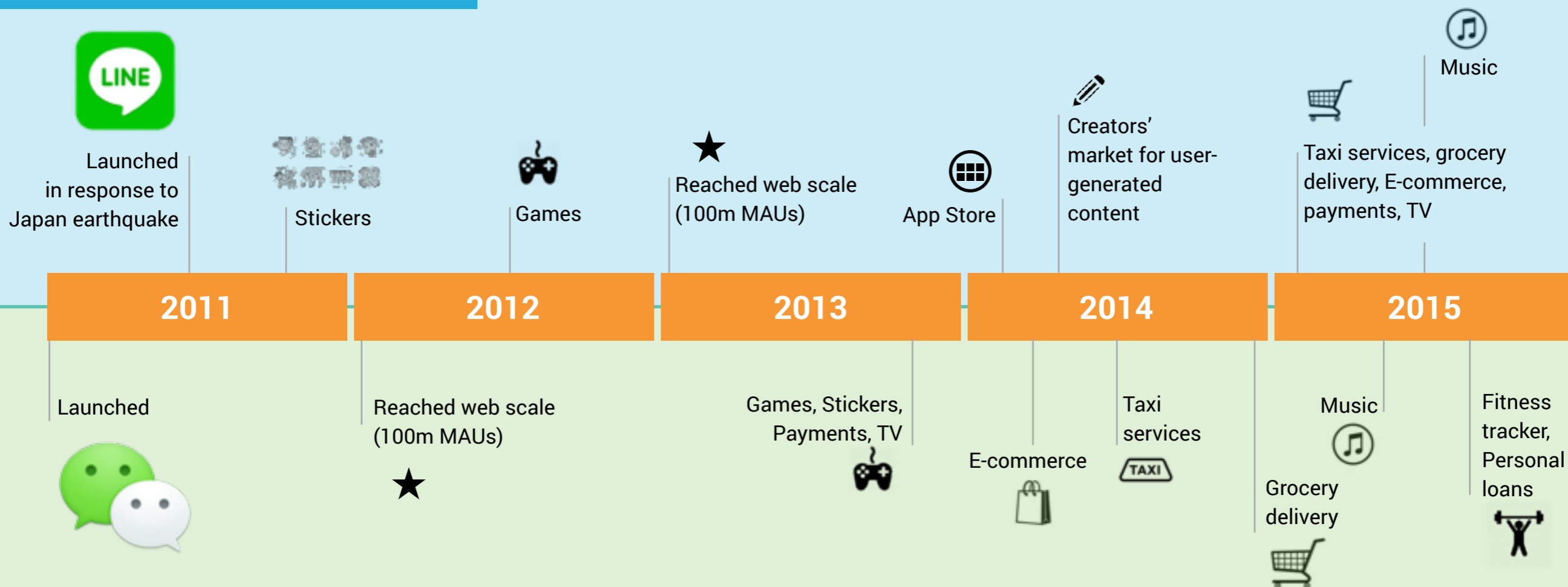
In Asia-Pacific, local messaging apps dominate in the largest countries, but in Southeast Asia global players are competing

Penetration by Country, Local vs. Global Messengers

	Country	Dominant Local (APAC) App	Facebook Messenger 	WhatsApp 
Major local players	China	 WeChat	0.65	0.04
	Japan	 LINE	0.6	0
	South Korea	 TALK	0.43	0.18
Southeast Asia: Competition from global players	Taiwan	 LINE	0.48	0.1
	Thailand	 LINE	0.54	0.12
	Vietnam	 Zalo	0.4	0.5
	Philippines	 LINE	0.09	0.52
	Malaysia	 WeChat	0.31	0.49
	Indonesia	 LINE	0.31	0.4
				0.45

As major Asian messaging platforms reach scale, they have launched new first-party and third-party services as apps on top of messaging, capturing significant messaging revenues

LINE's Platform Timeline



WeChat's Platform Timeline

Apps built on top of messaging enable users to solve broad problems; messaging becomes a hub for consuming content, playing games, and conducting transactions

LINE Example

LINE Taxi



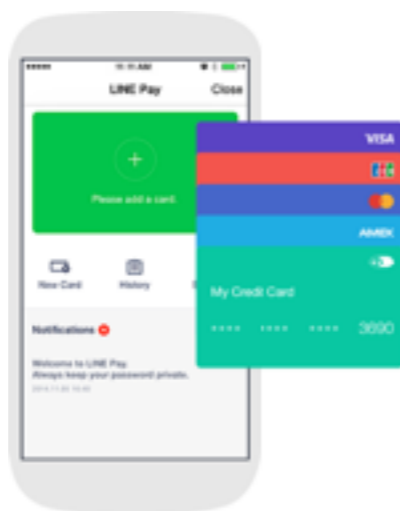
LINE Music



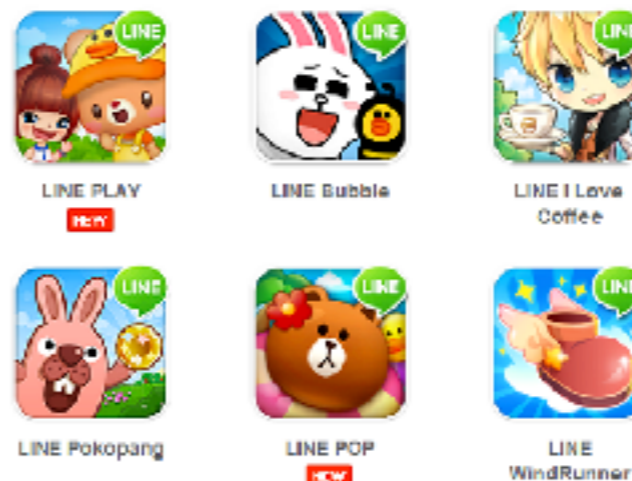
LINE TV



LINE Payments



LINE Games



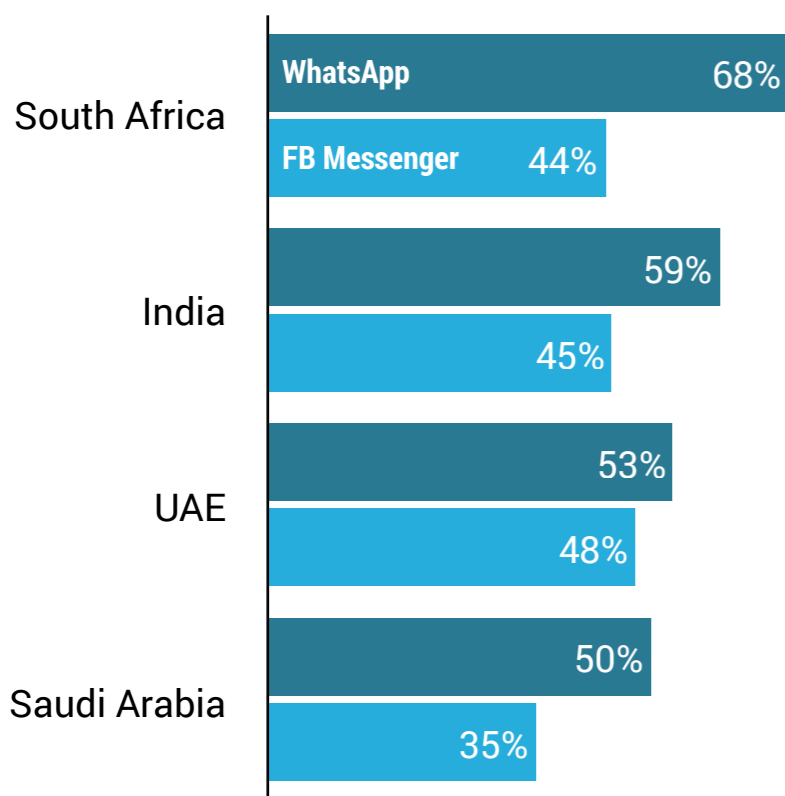
Facebook messenger has been focusing on building scale and is now starting to add platform layers and its first app features



WHATSAPP ACQUISITION

Access to High Growth Markets
February 2014

Penetration Comparison in Key Growth Markets



MESSENGER APP STORE

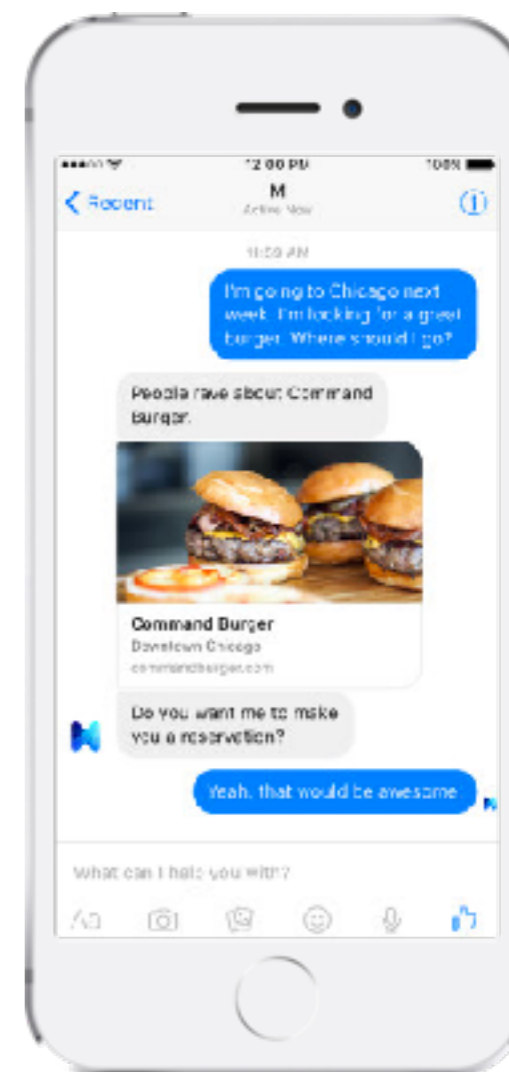
Apps for Audio, Photos, GIFs
August 2015

Get Apps for Messenger

- Sound Clips**
Express yourself with sound! **INSTALL**
- FlipLip Voice Changer**
Change your voice to make friends laugh **INSTALL**
- Ultratext**
Eye-popping GIF messages! **INSTALL**
- GIFs**
The perfect GIF for every moment. **INSTALL**
- Pic Stitch**
#1 Photo Collage Maker **INSTALL**
- PicCollage GIF CAM**
Send animated selfies & stickers? YES!!! **INSTALL**
- Cleo**
Look awesome with stunning filters **INSTALL**
- Kanvas**
5 in 1! Gifs, fonts, pics, video & draw **INSTALL**

VIRTUAL ASSISTANT "M"

Artificial Intelligence
September 2015



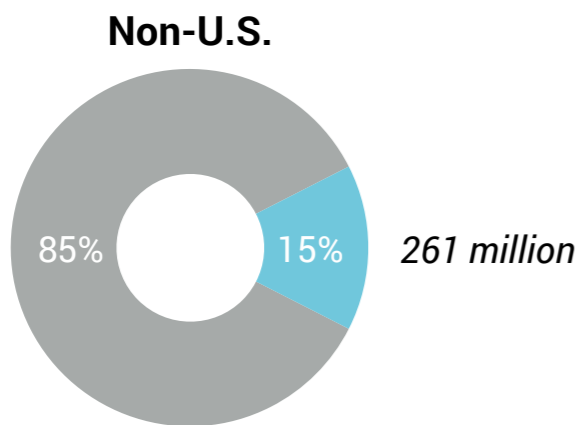
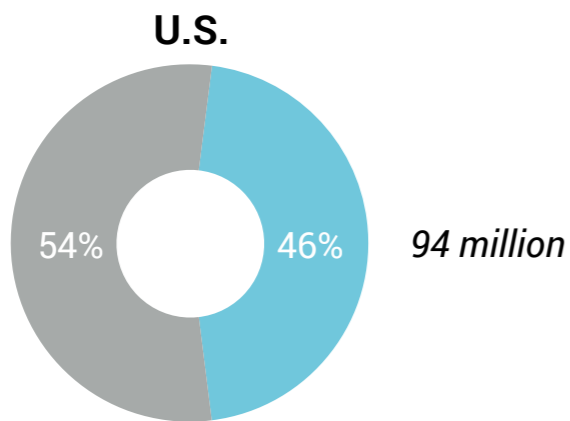
Apple's Messages has the potential to gain significant market share, and Apple's platform control could support smarter apps



2015 YTD MARKET SHARE

Pre-Installed User Base, High Penetration in USA

● Unpenetrated % ● Penetrated %

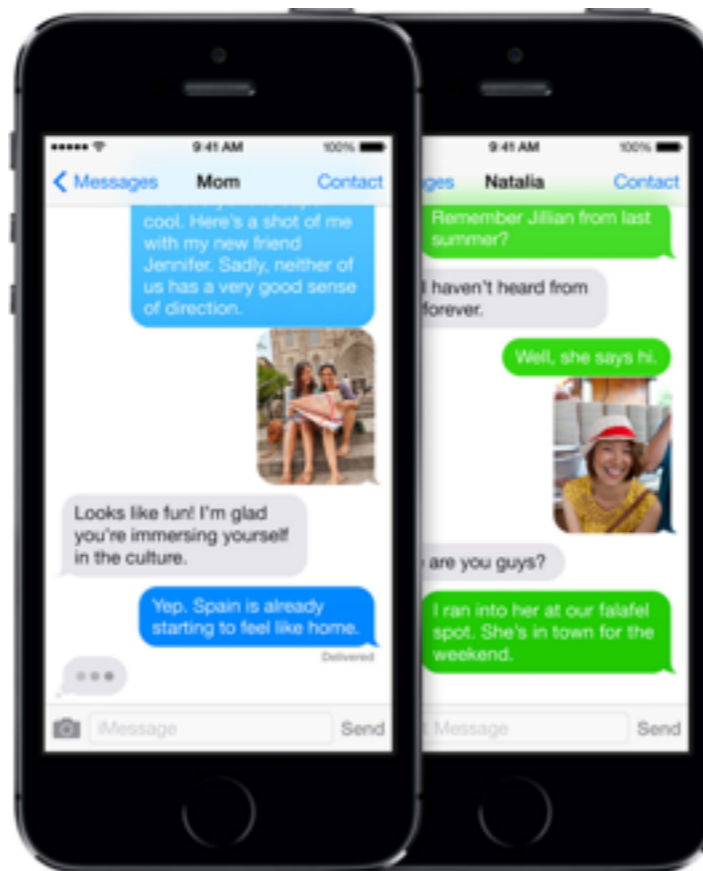


SMS INTEGRATION

One Interface for Messages and SMS

iMessage

SMS



iOS APP STORE

Apps Remain Separate from Messages



While Snapchat is growing quickly, the company has not yet developed a consistent approach to expanding its platform while building a revenue model



SNAPCASH

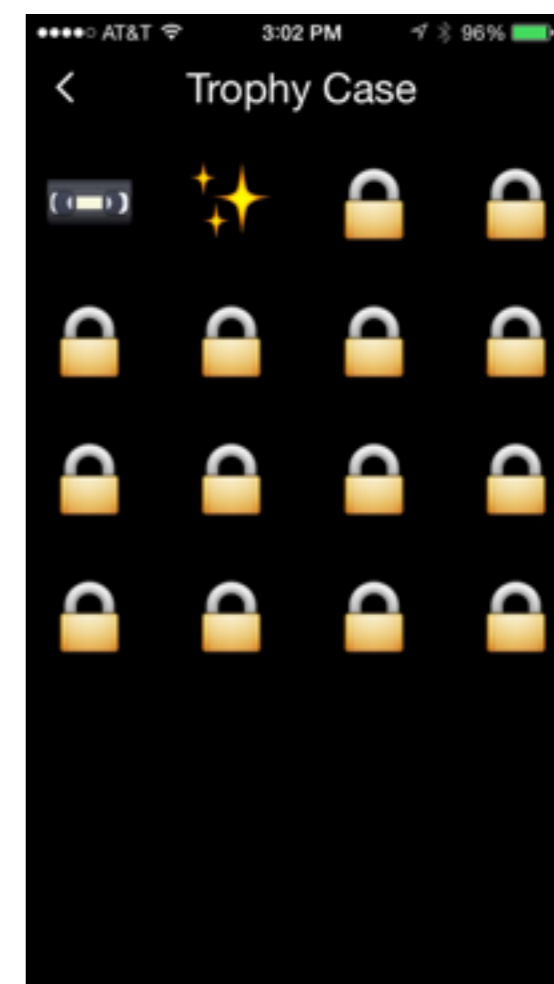
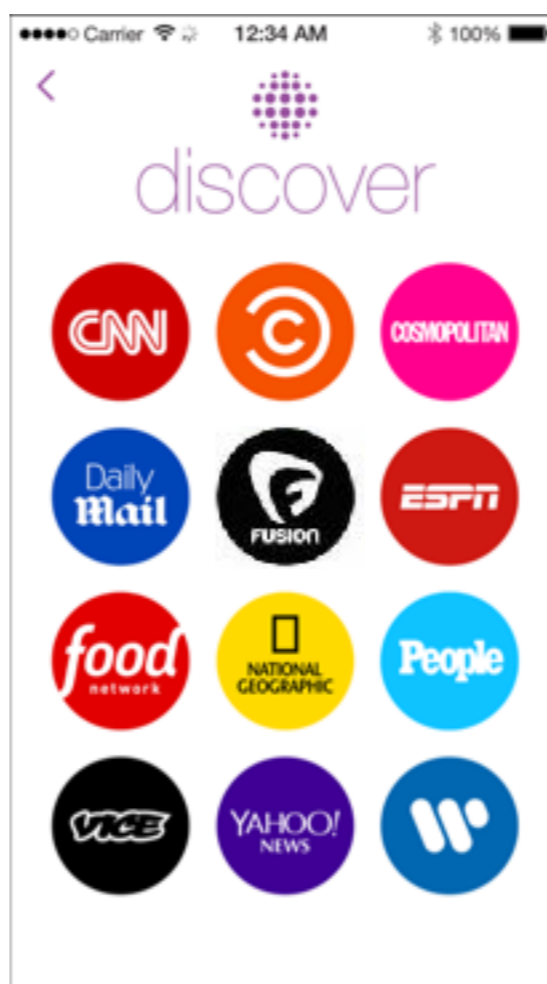
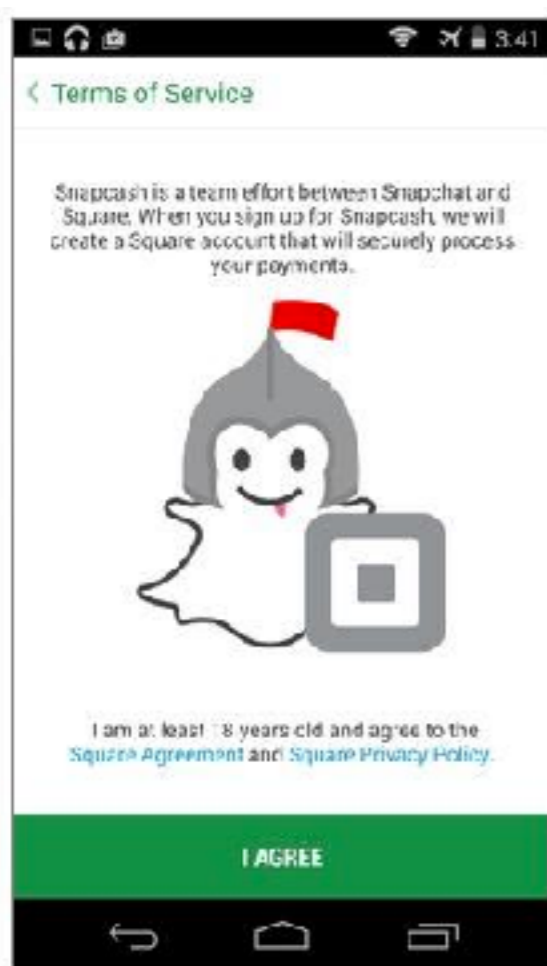
Payments Service
November 2014

DISCOVER

Paid Content Distribution
January 2015

TROPHY CASE

Gamification of User Activity
September 2015

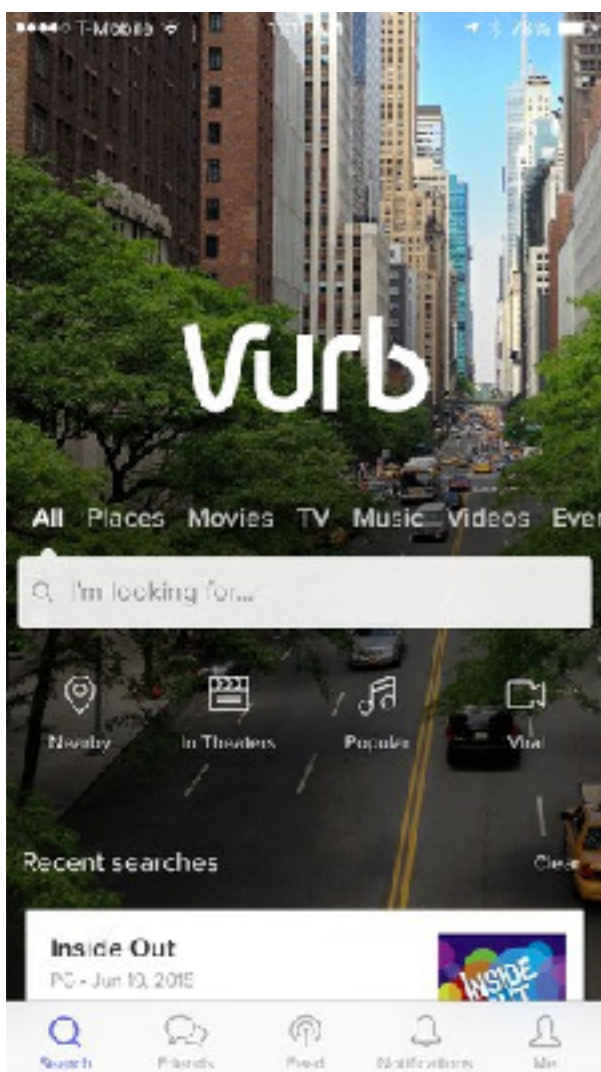


New entrant Vurb pulls search results from across third-party apps and integrates with messaging, minimizing the need for app switching



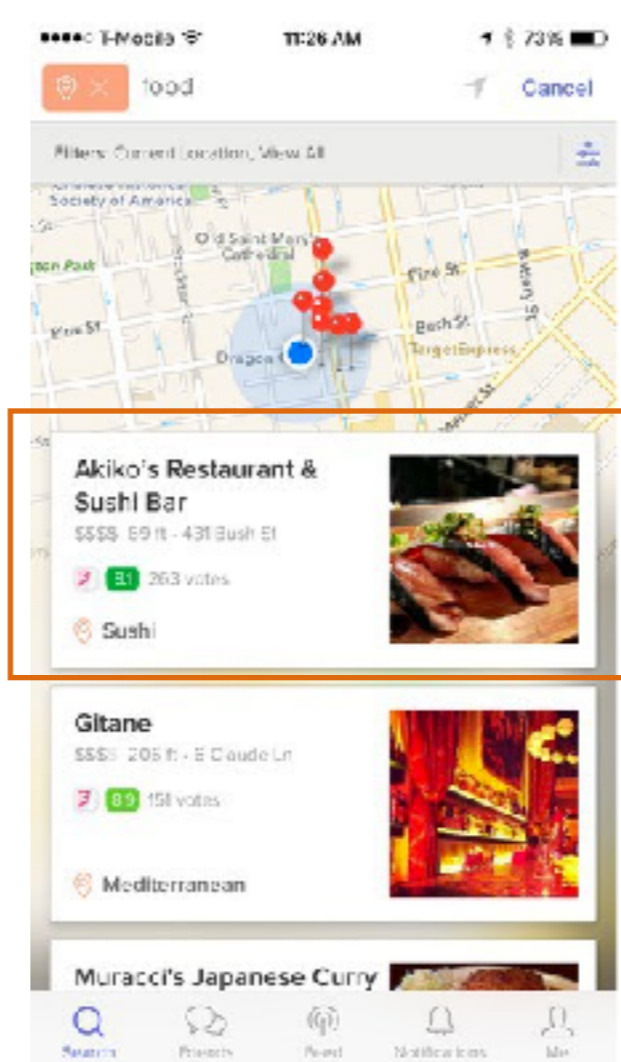
SEARCH

Mobile-Friendly Search Categories



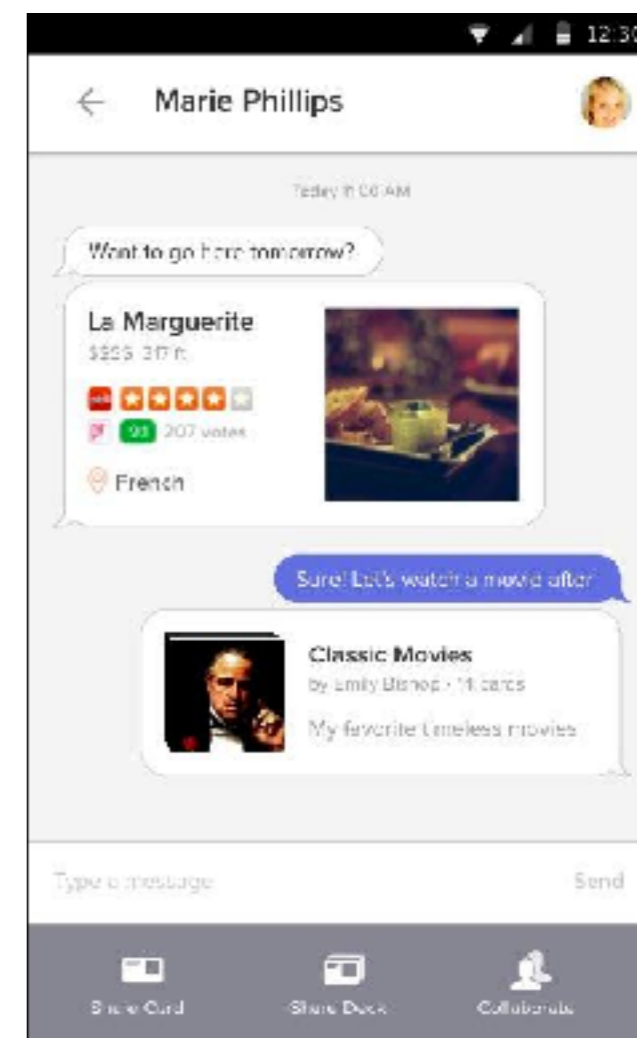
CONTEXTUAL RESULTS

Context from Other Apps Aggregated into Search Results



INTEGRATION WITH MESSAGING

Users Integrate Search Results into Chats
August 2015



New consumer businesses are being built on messaging platforms – this will expand as messaging bots become more ubiquitous

Platform-Specific Messaging Businesses (Operate through At-Scale Messaging Services)

POCKETTOUR

Third-Party Travel Agency on Viber



TRAVEL

Travel agency built on top of Viber for easy booking and correspondence with agents

WeBank

First-Party Bank Built by WeChat



PERSONAL FINANCE

Online-only bank that operates outside the WeChat interface but uses WeChat login credentials for its accounts

Jobot

Third-Party Bot on WeChat

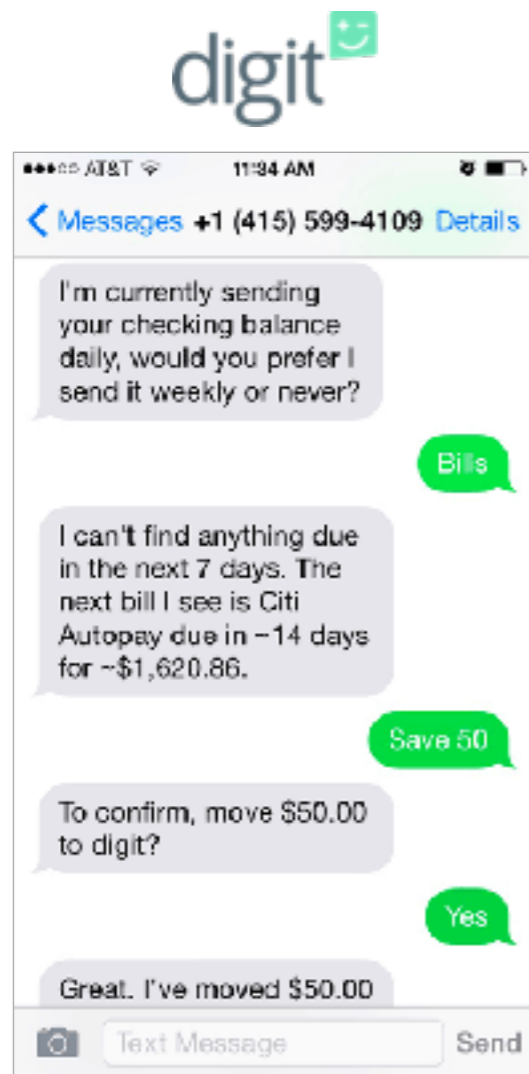


CAREER

Bot that helps WeChat users search for jobs based on Q&A style conversations

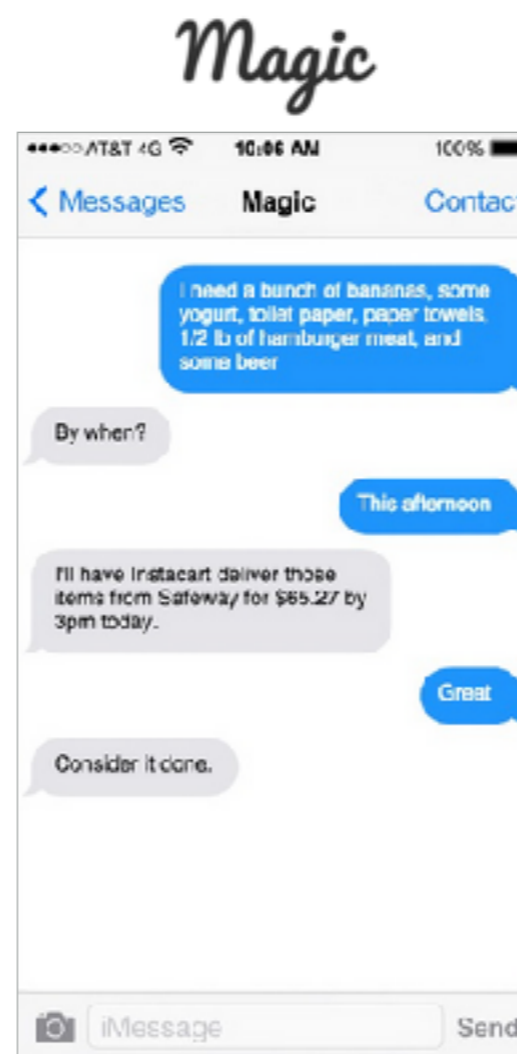
In the US, low cost means consumer businesses can leverage both SMS and proprietary messaging platforms like Apple iMessage

Platform-Agnostic Messaging Businesses (Operate Through SMS or iMessage)



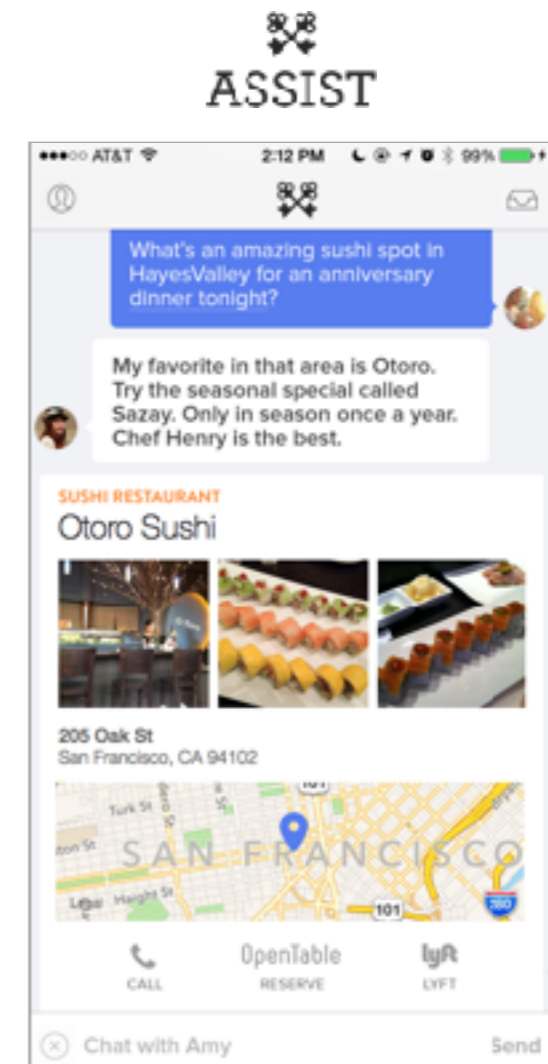
PERSONAL FINANCE

Automated savings and daily updates on checking account balance, upcoming bills, and savings progress



PERSONAL ASSISTANCE

Message-based personal assistance for shopping, errands



TRAVEL

Chat with locals while traveling for immediate, person-to-person recommendations

Enterprise is also starting to move to app-enabled messaging with bot integrations



1.1m Daily Active Users
300k Paying Users

MESSAGING & SEARCH



LAYER #1 - MESSAGING

Real-time messaging with co-workers; flexibility to chat in 'channels,' 'private groups,' or 'one-on-one'

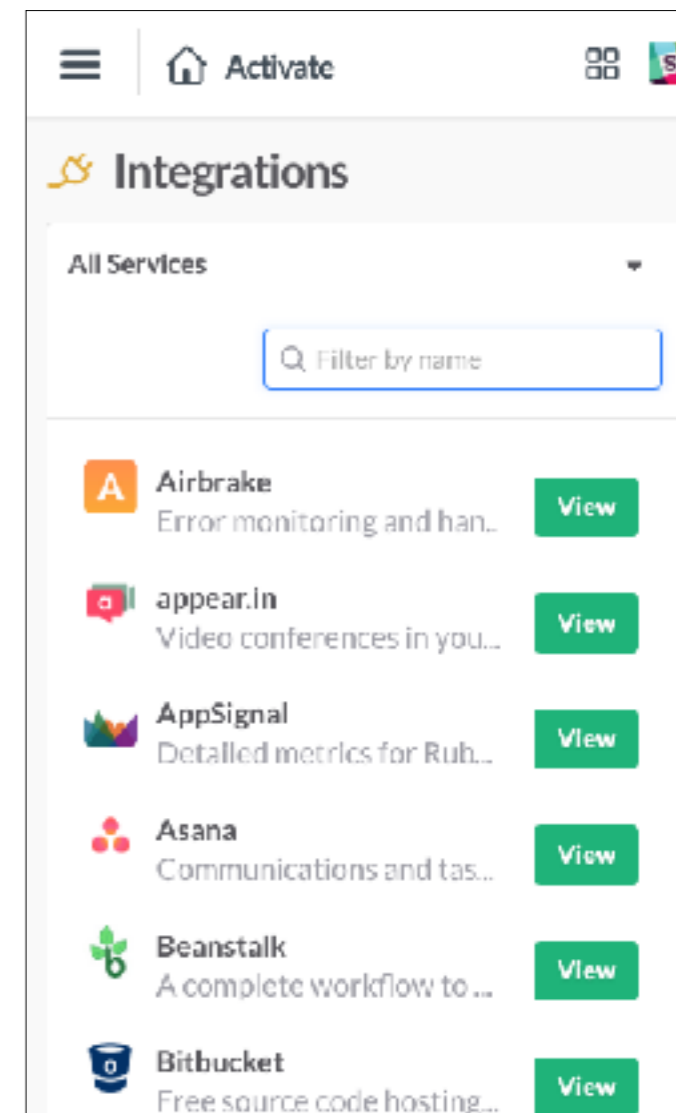
LAYER #2 - APPS & BOTS

Third-party integrations and automated bots function like an app store – this differentiates Slack from competition and is essential for adoption.

LAYER #3 - SEARCH

Enables users to sift through messages and files, over specific date ranges or from specific people

APPS & BOTS



What users do in native apps today, they will also do in messaging apps tomorrow – presenting an enormous revenue opportunity


New & Potential Functions for Messaging

Function	Innovator	Feature	Launch Date	Revenue Opportunity
News	Snapchat	Discover	1/2015	Sponsored content Native ads
Shopping	LINE	LINE Shop	2/2015	Percentage of transaction
Mobile Web	Kik	Kik Browser	4/2015	Advertising
Productivity	Facebook Messenger	'M' Virtual Assistant	8/2015	Search ads
Games	XBOX Live	Live Social Gaming	9/2015	In-game purchases Advertising
Finance	WeChat	WeBank Loans	9/2015	Interest from loans
Education	TBD	TBD	TBD	Fees for courses
Sports	TBD	TBD	TBD	Fees for betting Paid fantasy leagues
Health & Fitness	TBD	TBD	TBD	Advertising
Business	TBD	TBD	TBD	Paid job posts

Asia-Pacific platforms demonstrate the money potential in messaging - and global players are just getting started

Platform Sophistication Compared to Annual ARPU, 2014

Service	Market Served (% users)	Ads	Stickers	Games	Taxi	Payments	App Store	Music	TV	Sub Fees	E-Commerce	URL Bar / Search	ARPU
WeChat	China (65%)	•	•	•	•	•	•	•	•		•		\$7.00
KakaoTalk	S. Korea (43%)	•	•	•	•	•	•	•	•		•	•	\$4.24
LINE	Japan (60%)	•	•	•	•	•	•	•	•		•		\$3.16
WhatsApp	Global									•			\$0.06
Viber	Global		•	•									\$0.01
Facebook Messenger*	Global		•			•	•				•	•	\$0.00

 = Main Revenue Driver

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What's at stake in the audio market? Over four hours a day of listening time—and growing

Audio Consumption Time Among 13+ Users, U.S., 2014

Total = 4:05 hours

■ Digital Media
■ Non-Digital Media

50%

25%

2006

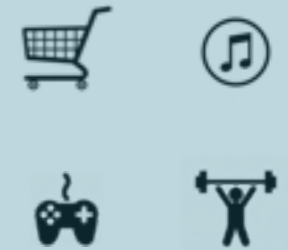
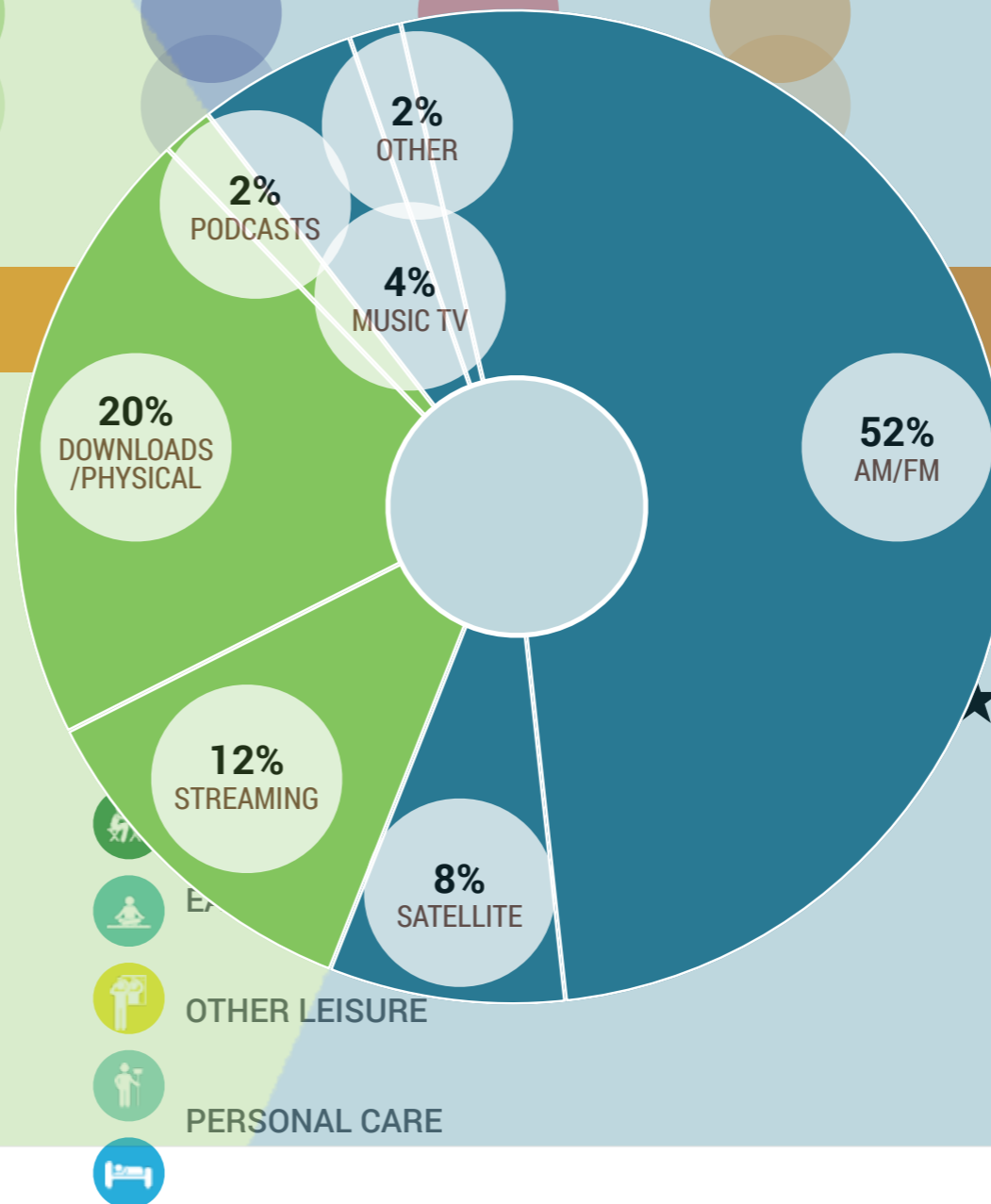
2008

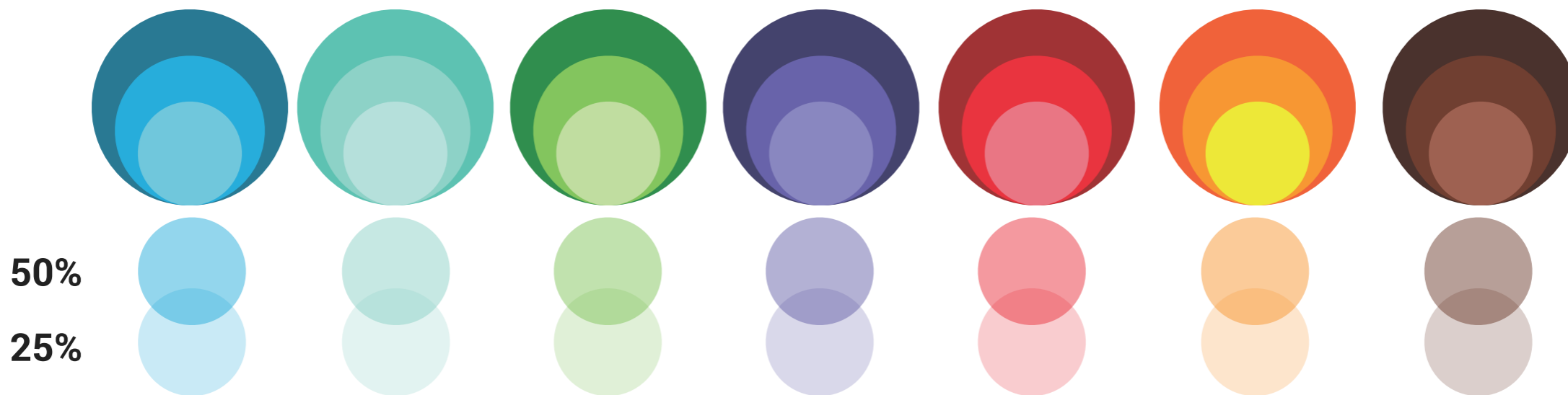
2014

Title Element

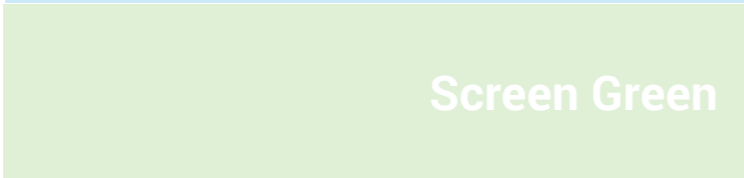
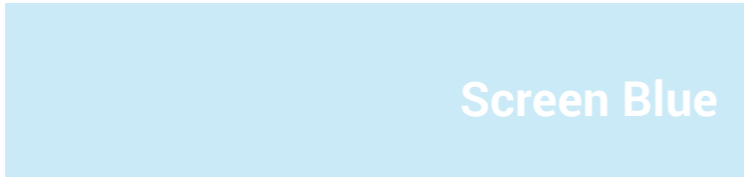
Screen Blue










Screen Green





Title Element



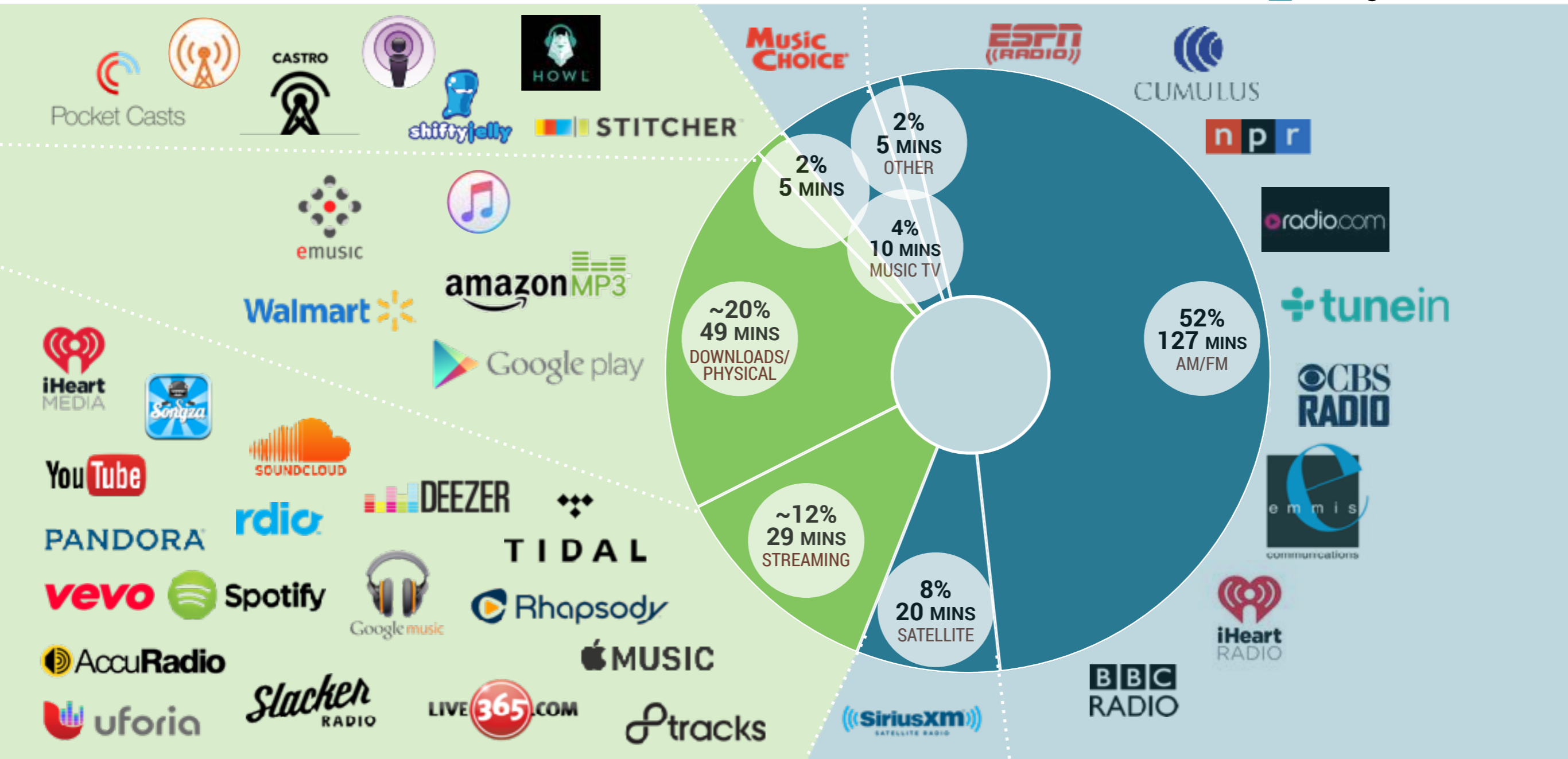
-  VIDEO
 -  AUDIO
 -  SOCIAL MEDIA
 -  WORK
 -  EATING & DRINKING
 -  OTHER LEISURE
 -  PERSONAL CARE
 -  HOUSEWORK
- 

There's a proliferation of new digital players, but many crowded categories only represent a small fraction of overall listening

Audio Consumption Time Among 13+ Users, U.S., 2014

Total = 4:05 hours

■ Digital Media
■ Non-Digital Media



Expect growth to come from digital players claiming their fair share of the pie

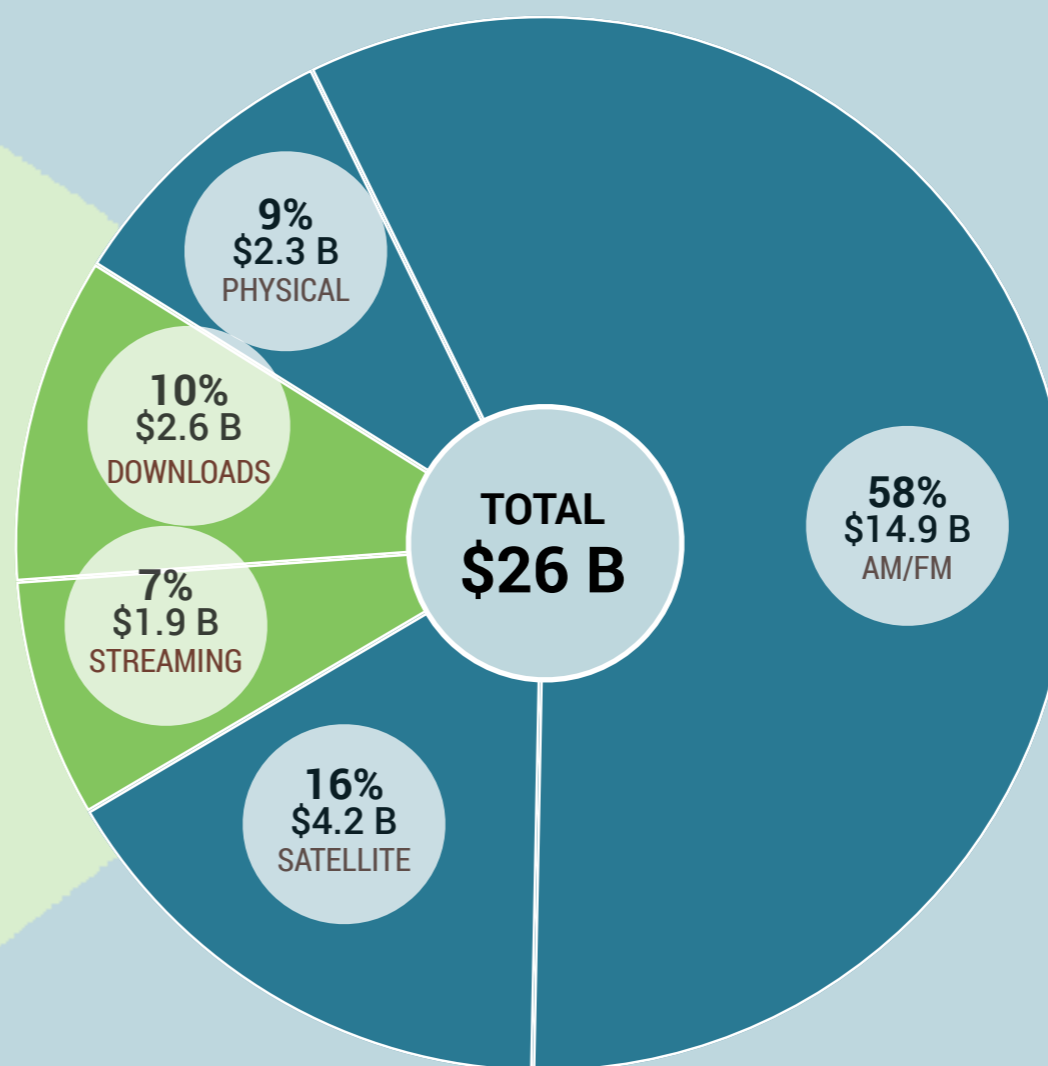
Consumer and Advertising Spend on Music Listening, U.S., 2014

Digital Media
Non-Digital Media

DIGITAL takes up over a third of listening time, but less than a fifth of total revenue

TOTAL U.S. DIGITAL REVENUE
\$4.5 B

REVENUE IN \$BILLIONS



Consumers will spend more time on digital audio, driven by multi-tasking moments

TYPICAL U.S. DAILY BEHAVIOR, AGES 13+ 2014

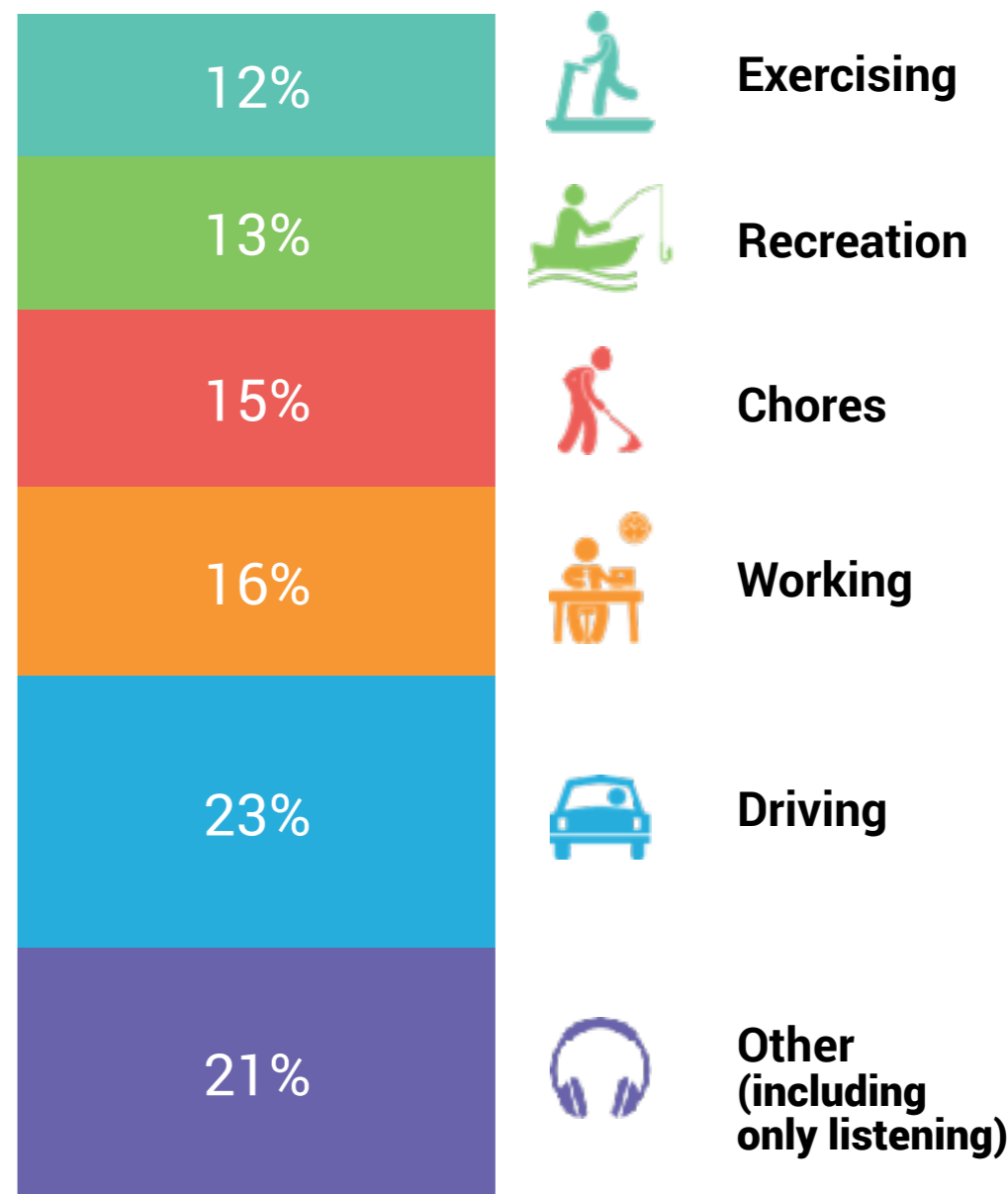


SHARE OF MOBILE APP TIME SPENT, June 2015



Total mobile app time: 3:25 hours/day

WHILE LISTENING TO MUSIC, AMERICANS (13+) ARE ALSO:



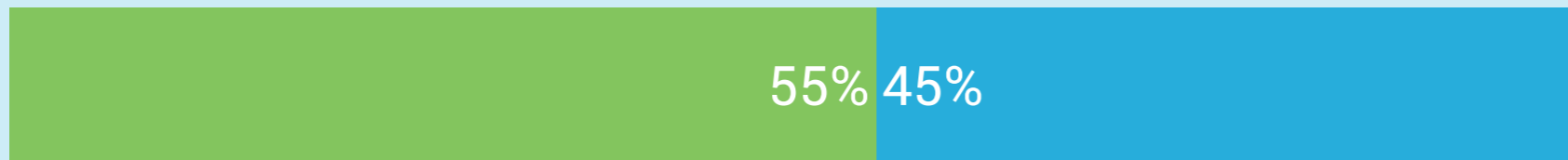
Today, young listeners spend more time listening through streaming, but AM/FM radio remains the largest overall

Daily Listening to Streaming Services vs. AM/FM by Age Group, U.S. 2014

■ Streaming Services
■ AM/FM

PERCENTAGE OF DAILY LISTENING TIME

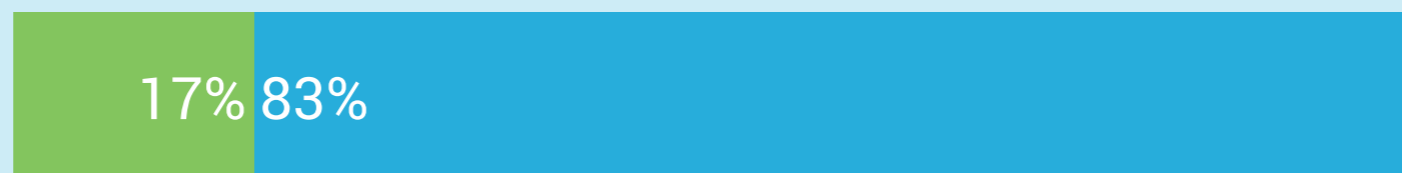
AGE 13-17



AGE 17-34



AGE 34-55

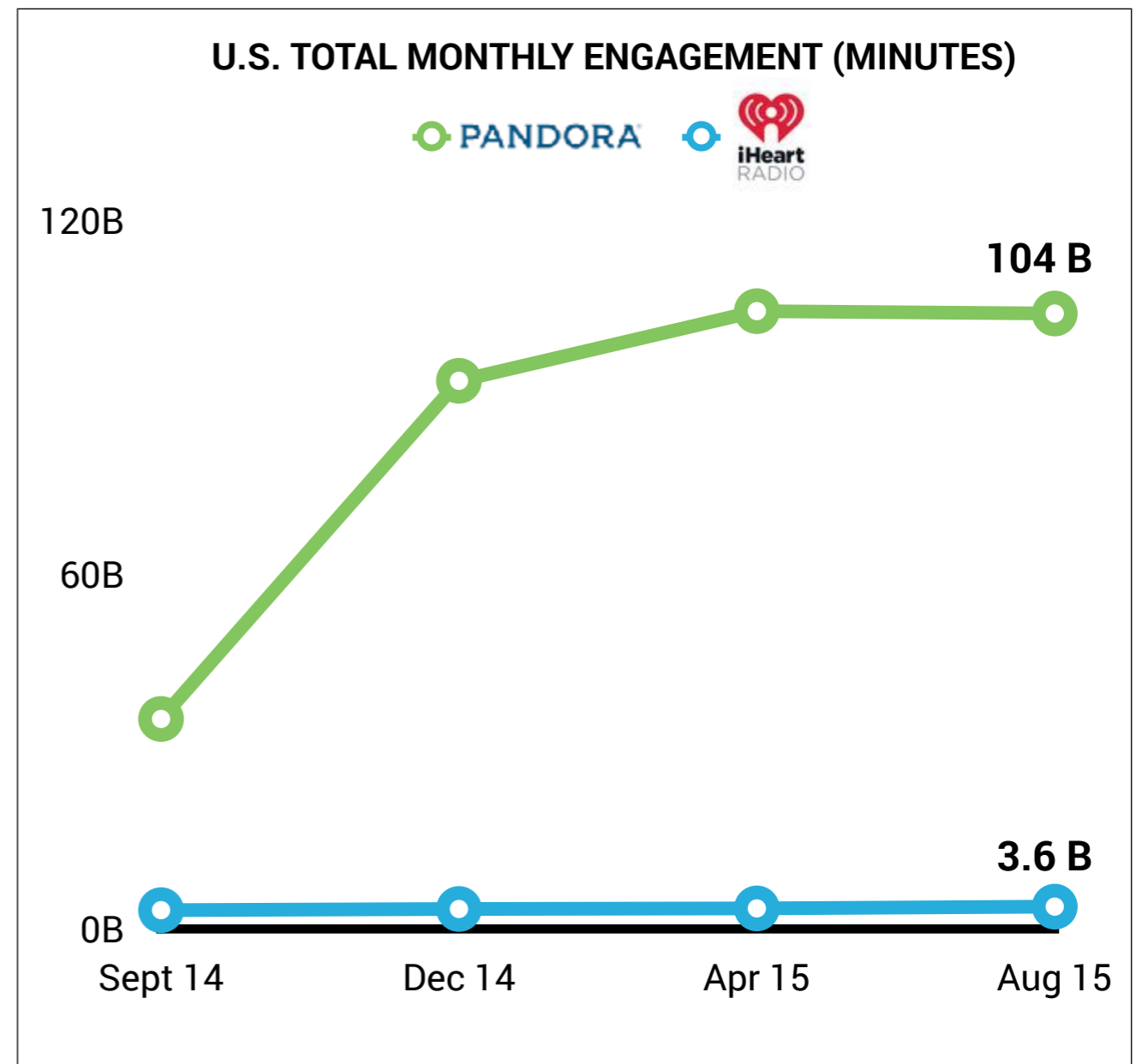
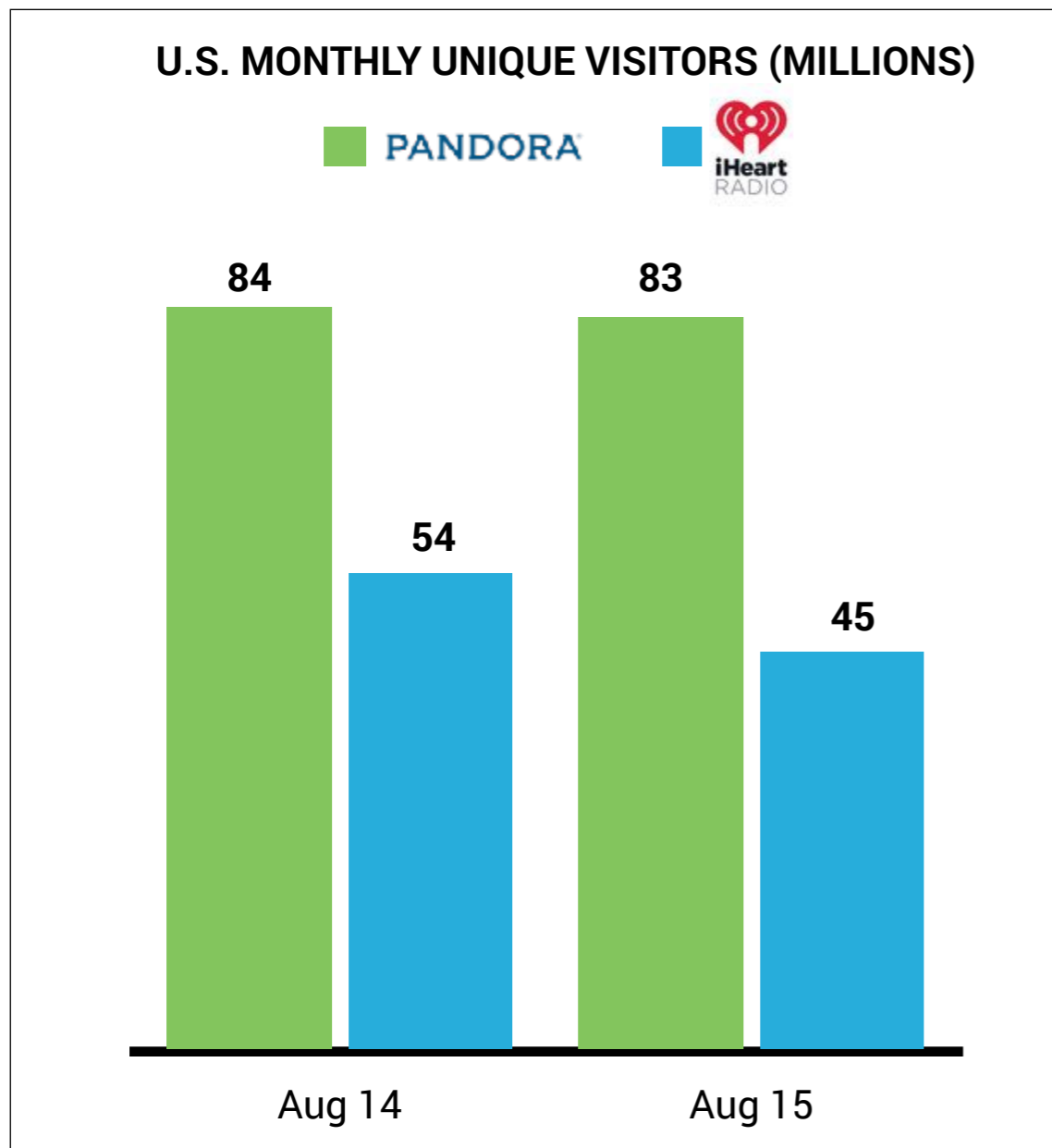


AGE 55+



Legacy players have migrated audiences to digital streaming services, but inferior user experiences leave engagement lagging

Monthly Visitors vs. Total Digital Engagement, Pandora and iHeartRadio

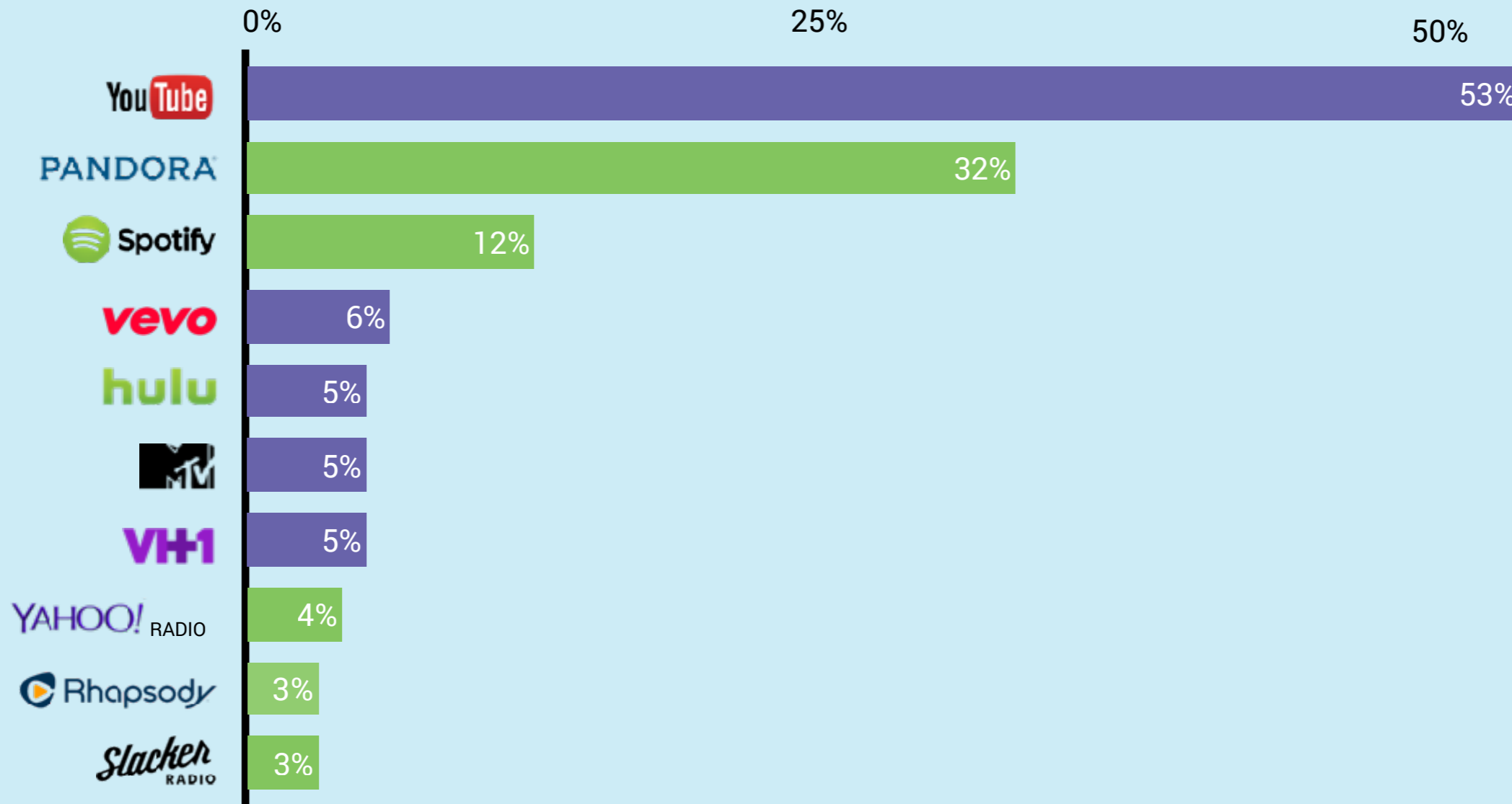


If we isolate YouTube's audio usage, online music was dominated by three services last year – with different user experiences and monetization models

Music Sources Used, U.S., 2014

■ Music Streaming Service
■ Other Service

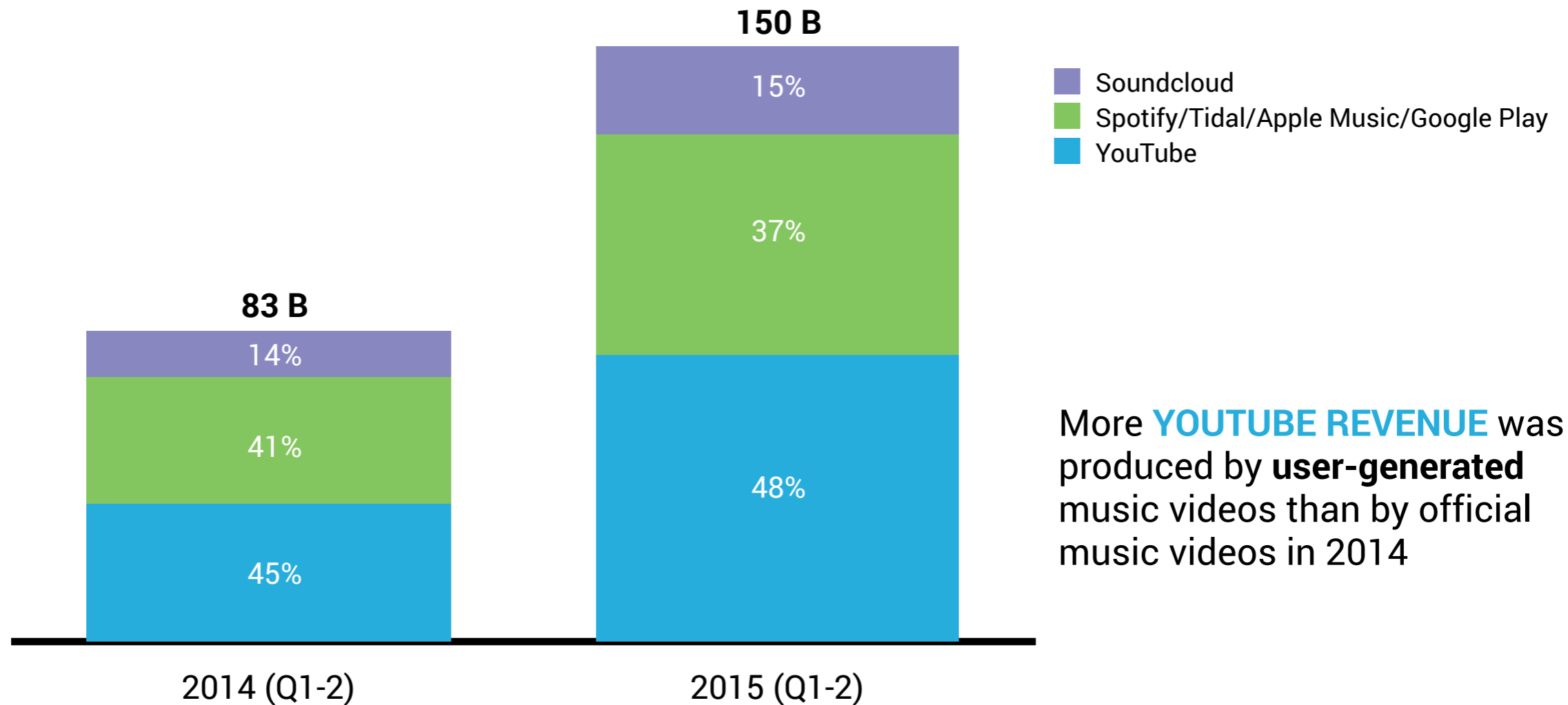
PERCENTAGE OF INTERNET ADULTS, PAST 3 MONTHS



YouTube is even more dominant for on-demand streaming, representing over half of all on-demand streams

Total Streams by Service, Q1 - Q2, 2014 vs. 2015

BILLIONS OF STREAMS



More **YOUTUBE REVENUE** was produced by **user-generated** music videos than by official music videos in 2014

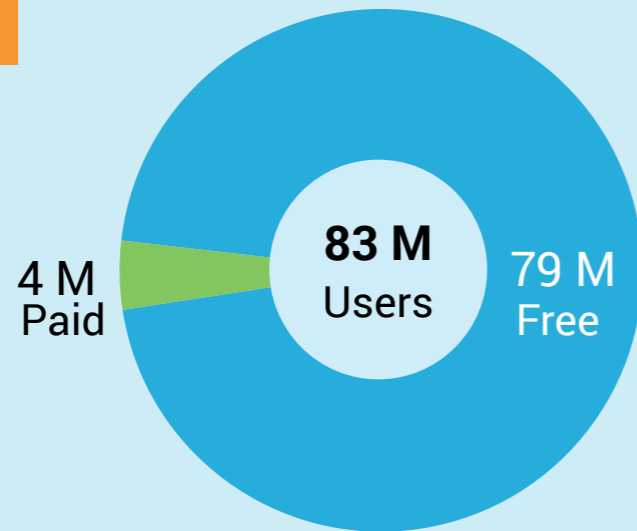
Today, Spotify and Pandora are not in the same business: they cater to two different audiences, and have different monetization models

USERS BY TYPE, 2015 YTD

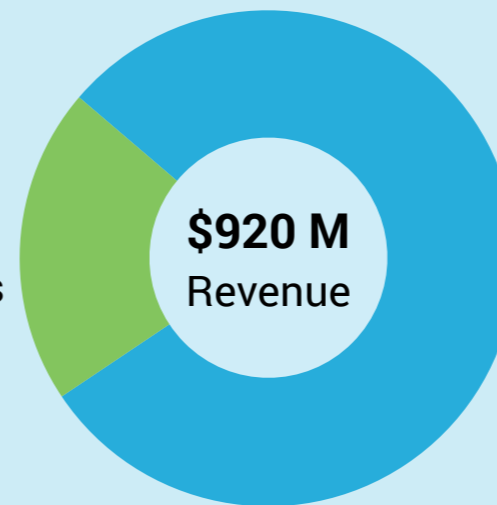
REVENUE SOURCES, 2014

KEY FEATURES

PANDORA



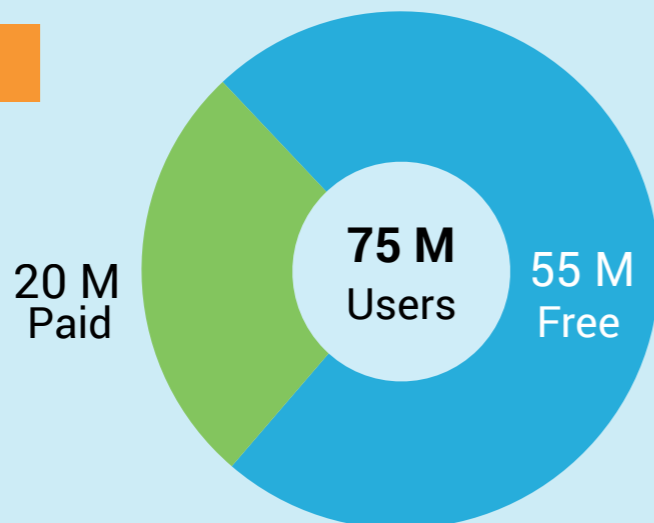
\$190 M
Subscriptions



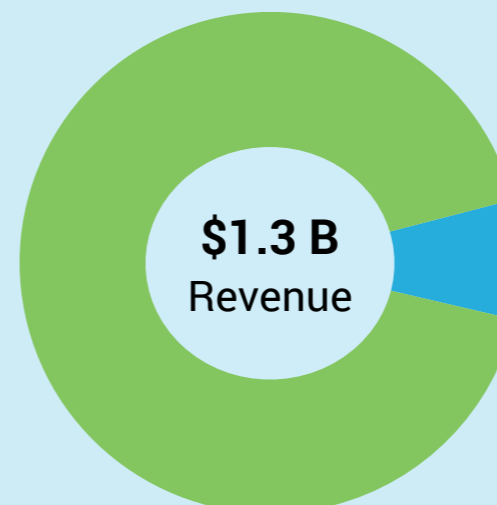
\$730 M
Advertising

- SUFFICIENT FOR MORE PASSIVE LISTENERS**
- ✓ Library size 1.5M
 - ✓ 64k free, 192kbps paid
 - ✓ No exclusives
 - ✓ No offline listening
 - ✓ No tracks on demand

SPOTIFY



\$1.2 B
Subscriptions



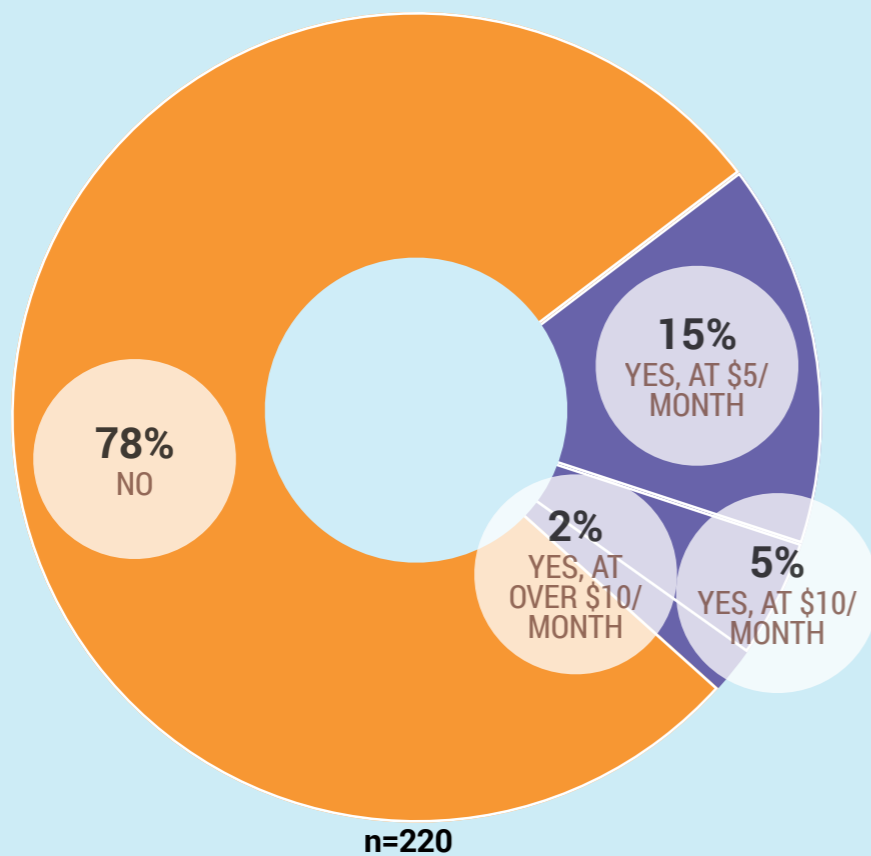
\$100 M
Advertising

- ABLE TO CATER TO MORE ACTIVE LISTENERS**
- ✓ Library size 30M+
 - ✓ 96/160k free, 320kbps paid
 - ✓ Exclusives
 - ✓ Paid offline listening
 - ✓ Tracks on demand

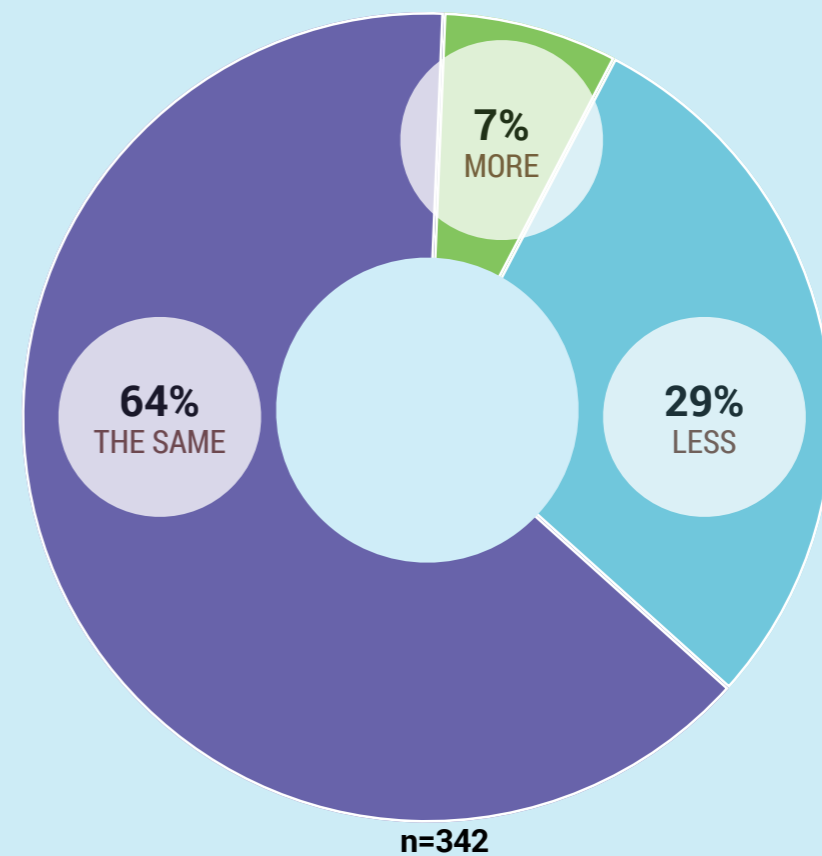
Subscriber loyalty will present a challenge to new services, but YouTube has a shot because music listeners are willing to pay

Consumer Preferences in the Digital Streaming Music Space

**EXISTING STREAMING SUBSCRIBERS:
WILLINGNESS TO SWITCH TO ANOTHER SERVICE**

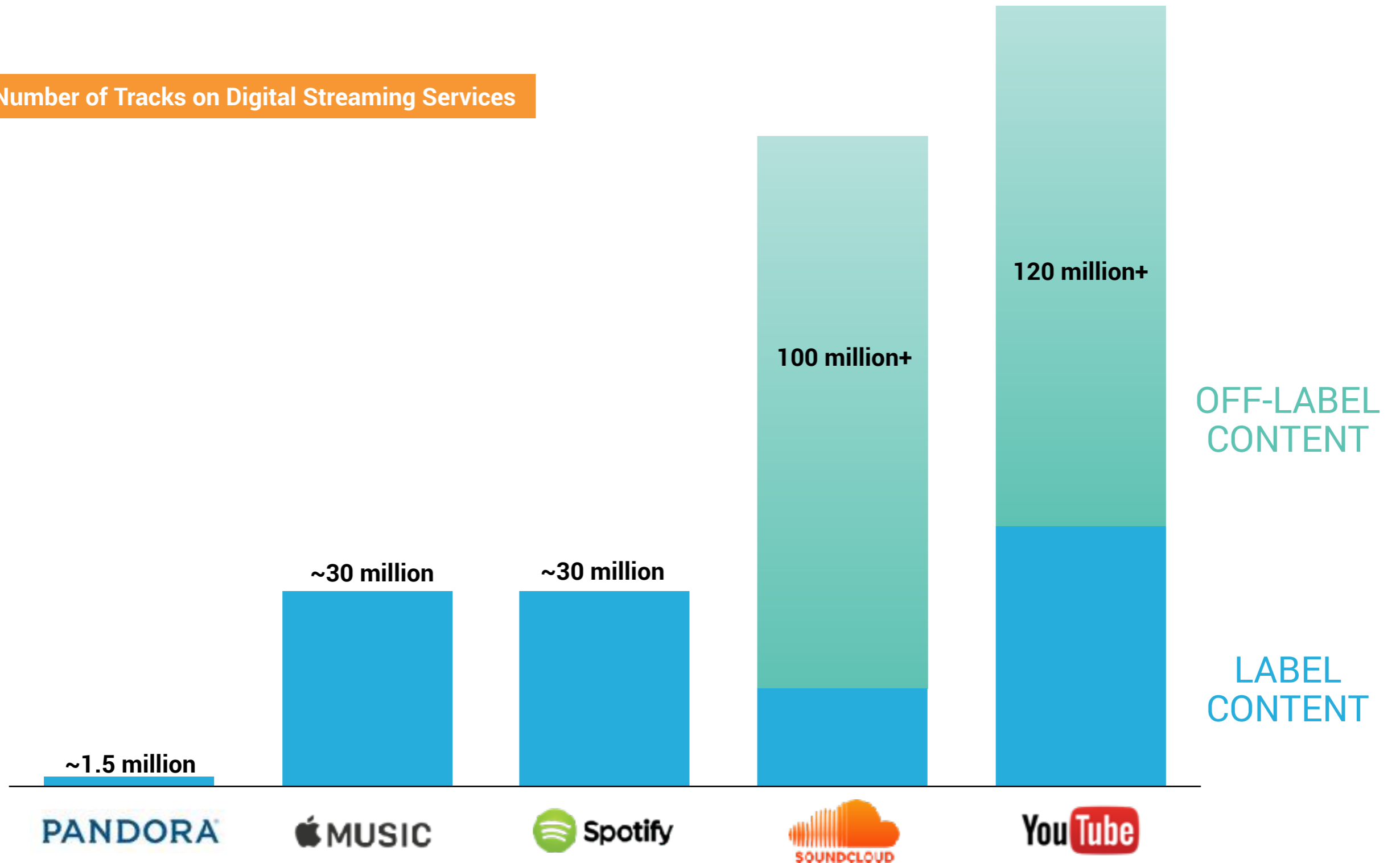


**POTENTIAL STREAMING SUBSCRIBERS:
PRICE TO JOIN A YOUTUBE STREAMING SERVICE, COMPARED TO EXISTING SERVICES**



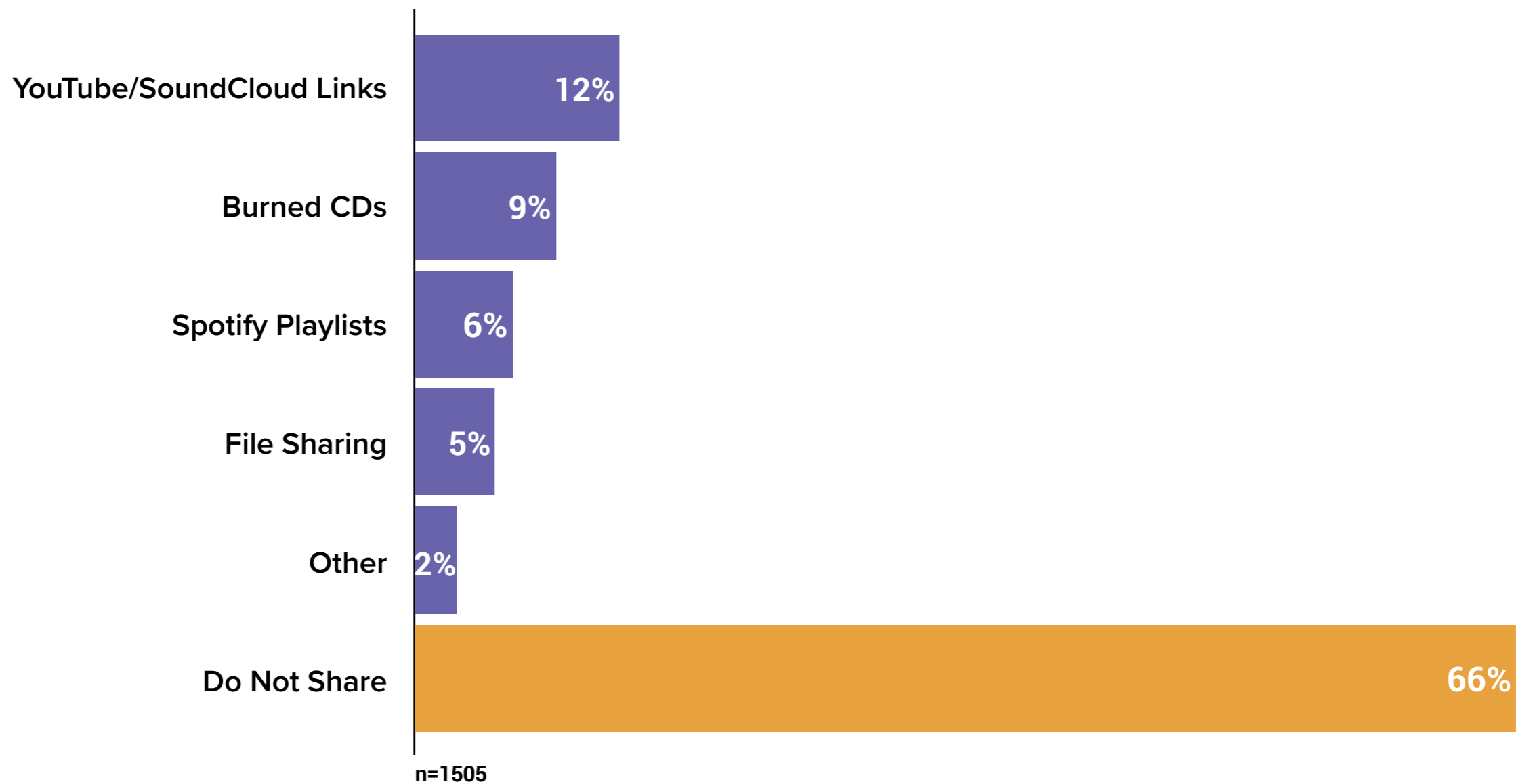
What could make a major new entrant successful? Original, unique songs as found on SoundCloud and YouTube will be a critical factor

Number of Tracks on Digital Streaming Services

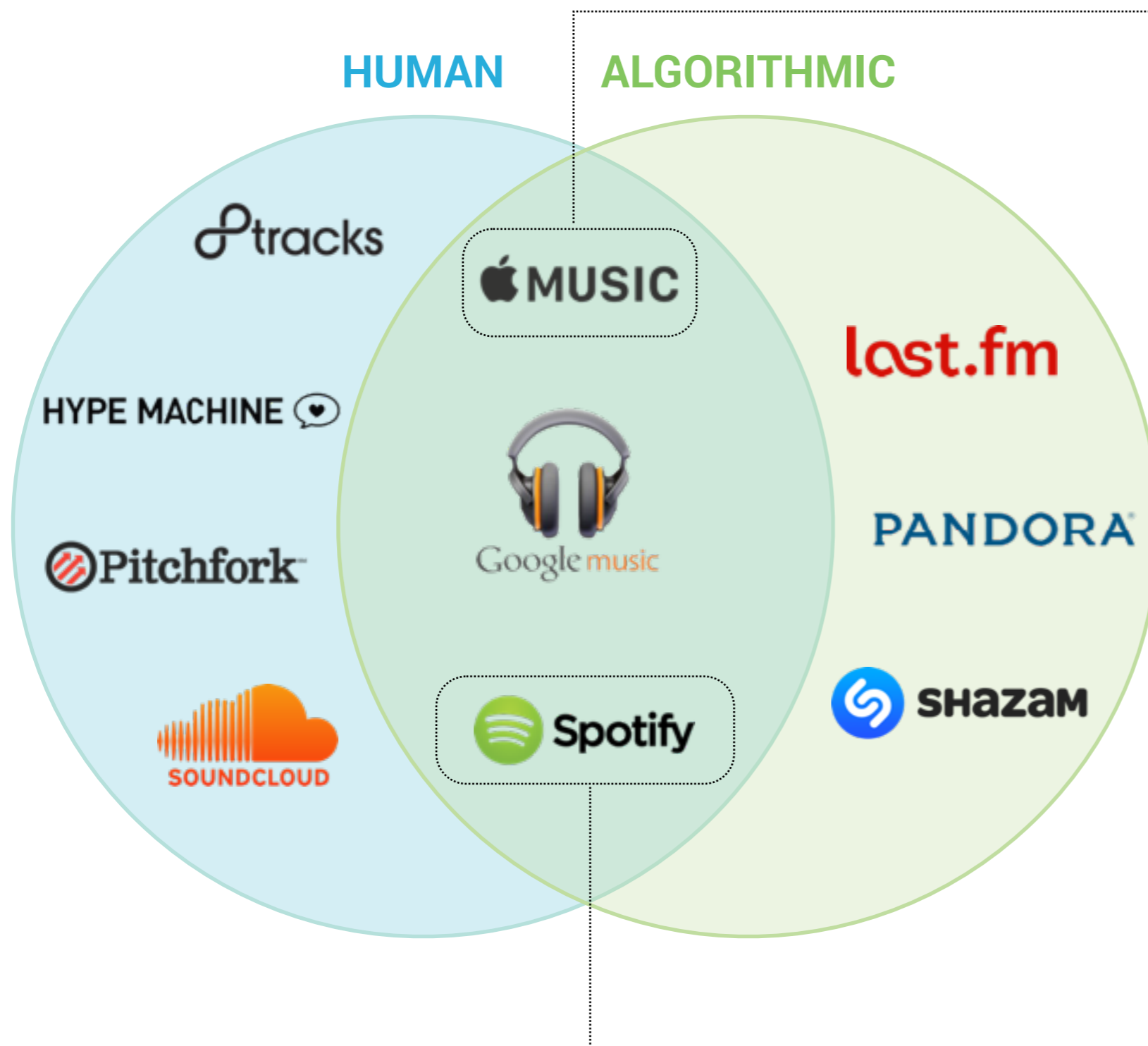


Today, most listeners don't share their listening activity on social networks, creating an opportunity for any player that can improve the sharing experience

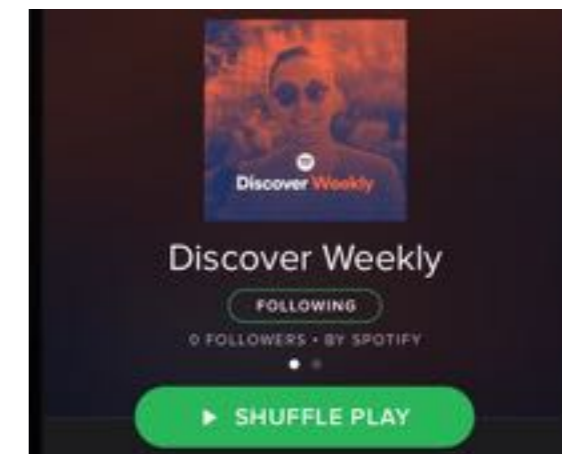
Audio Social Sharing Preferences



Another major area of differentiation will be smart curation that combines human and algorithmic methods

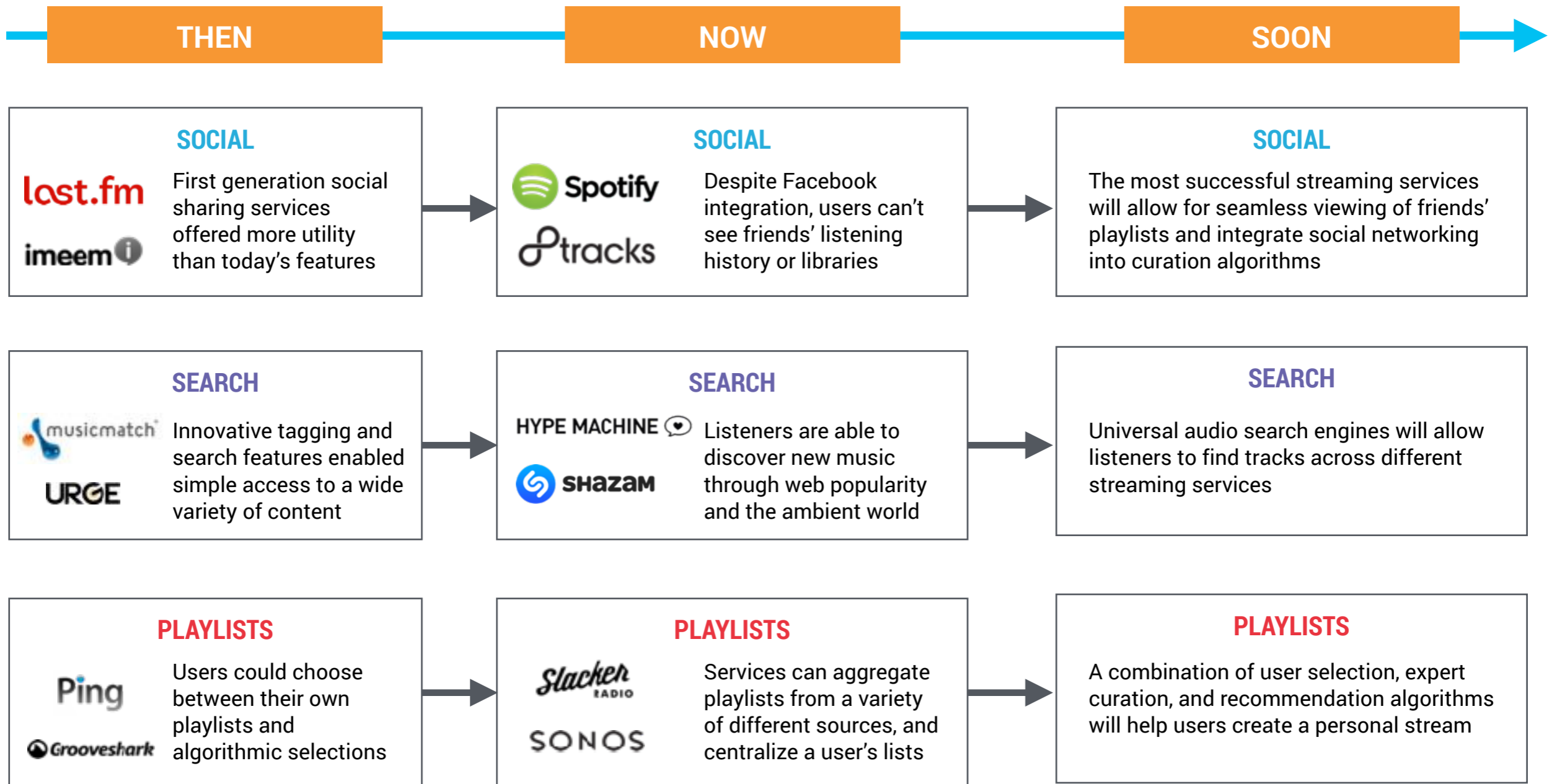


Emphasis on human curation with Beats1 radio station



Emphasis on algorithmic recommendations with personalized "Discover Weekly" playlists

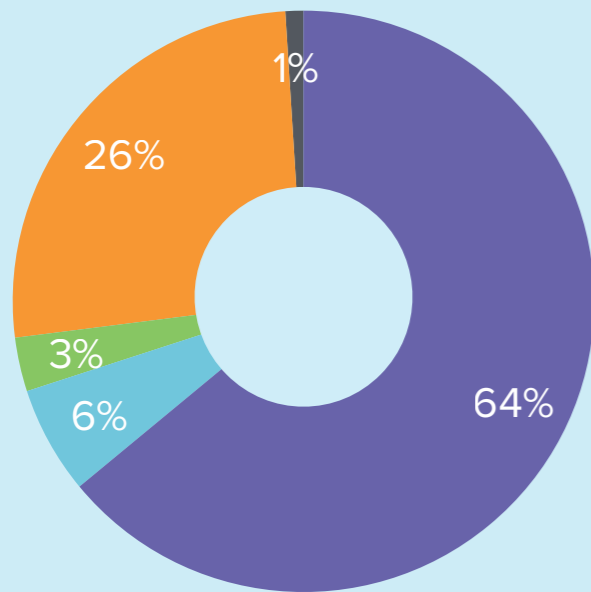
Some of the features that enable new players to succeed may revisit features from past generations of digital music services



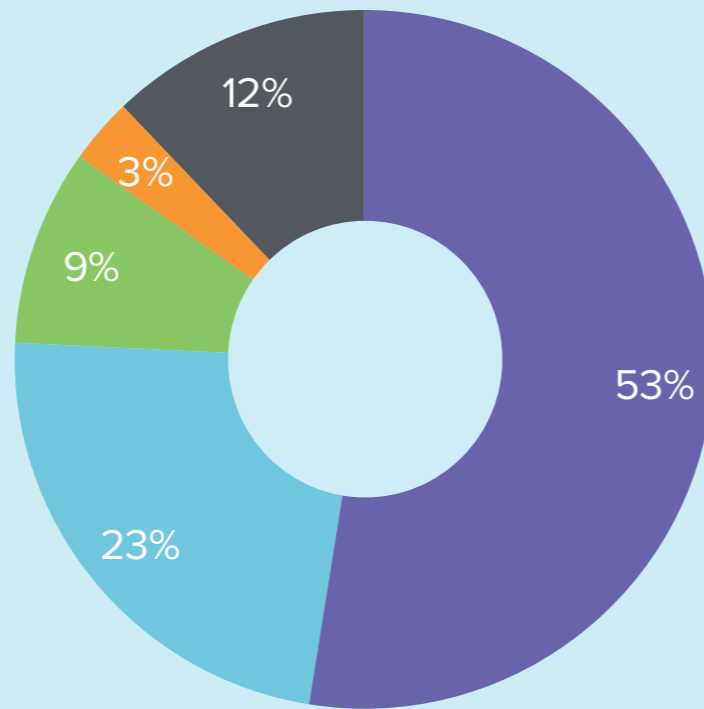
By 2020, digital music revenues will be \$10 Billion globally, and streaming will be over half of that - growing at the expense of downloads

Activate Forecasts for Digital Music Revenue by Source, Global

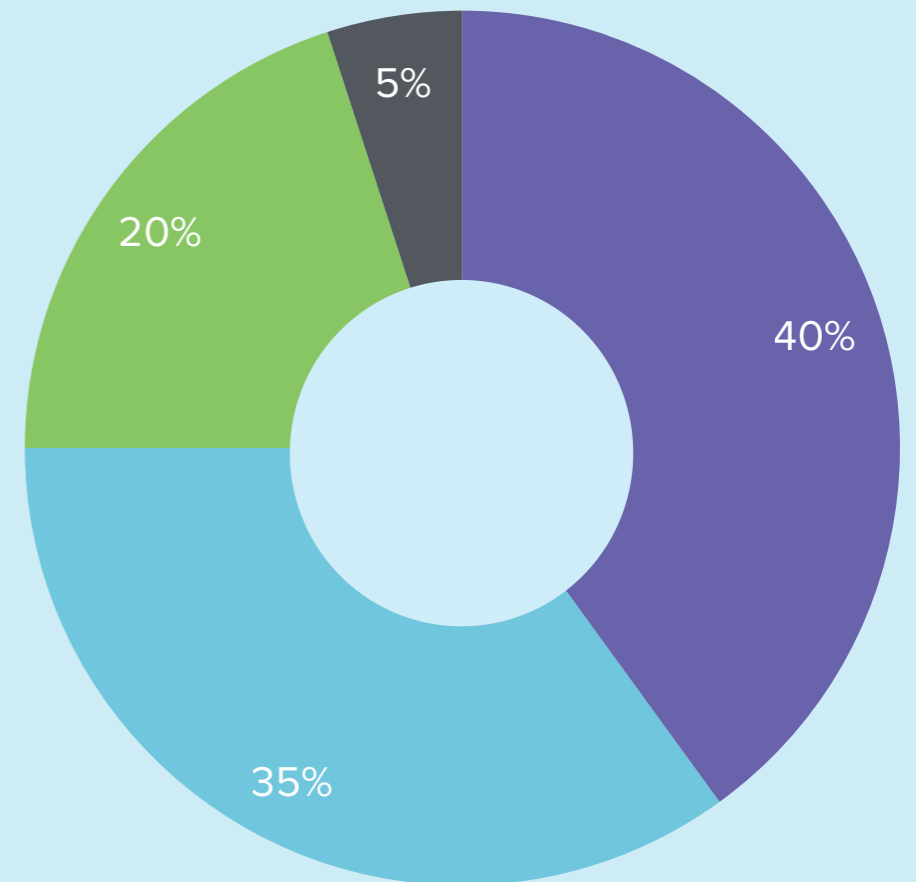
● Permanent Downloads
 ● Streaming (Subscription)
 ● Streaming (Ad-Supported)
 ● Ringtones
 ● Other



2008
\$4 Billion



2014
\$6.9 Billion

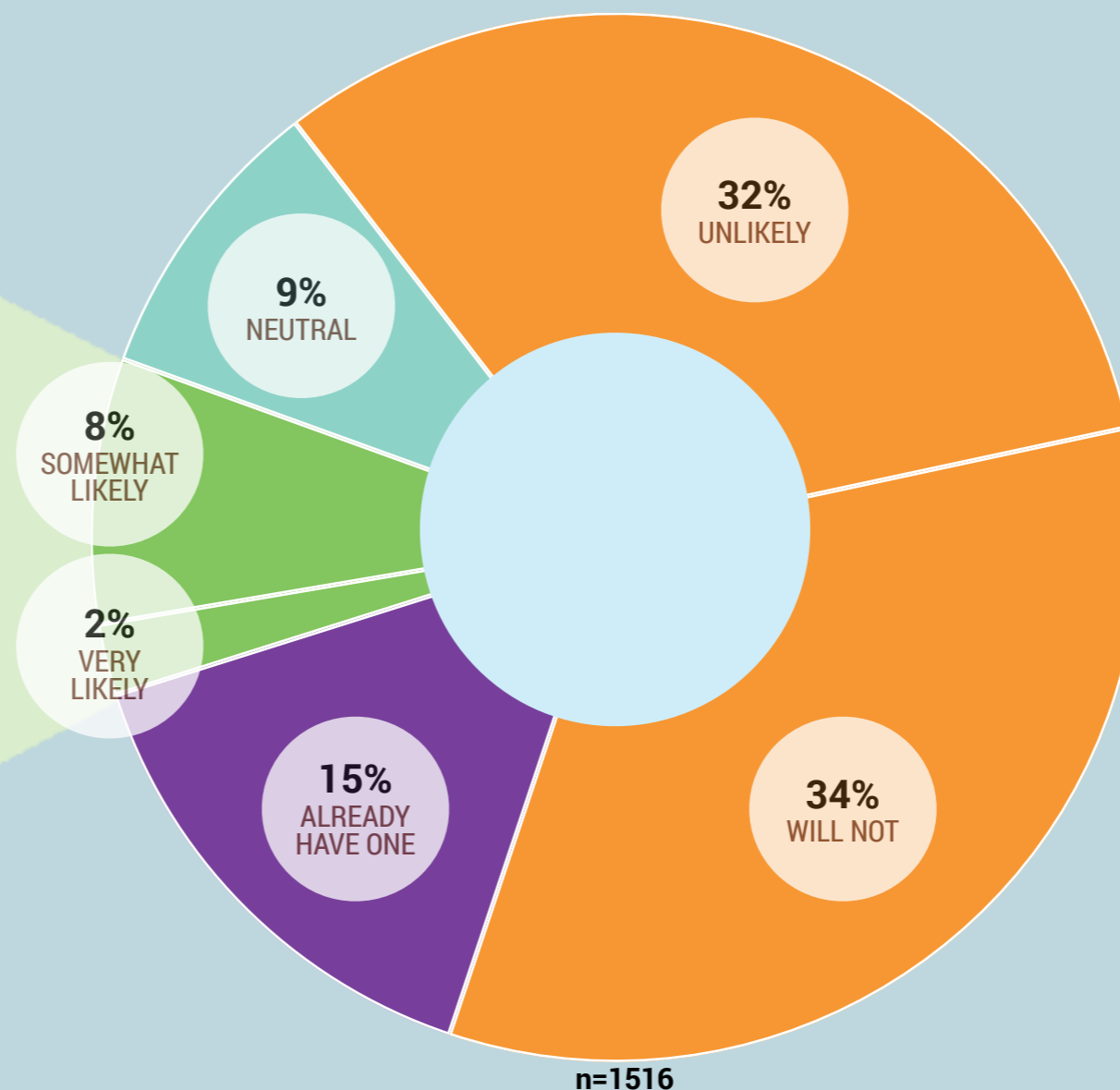


2020E
\$10 Billion

There may be an upper bound to the number of consumers that are willing to pay for a subscription music service

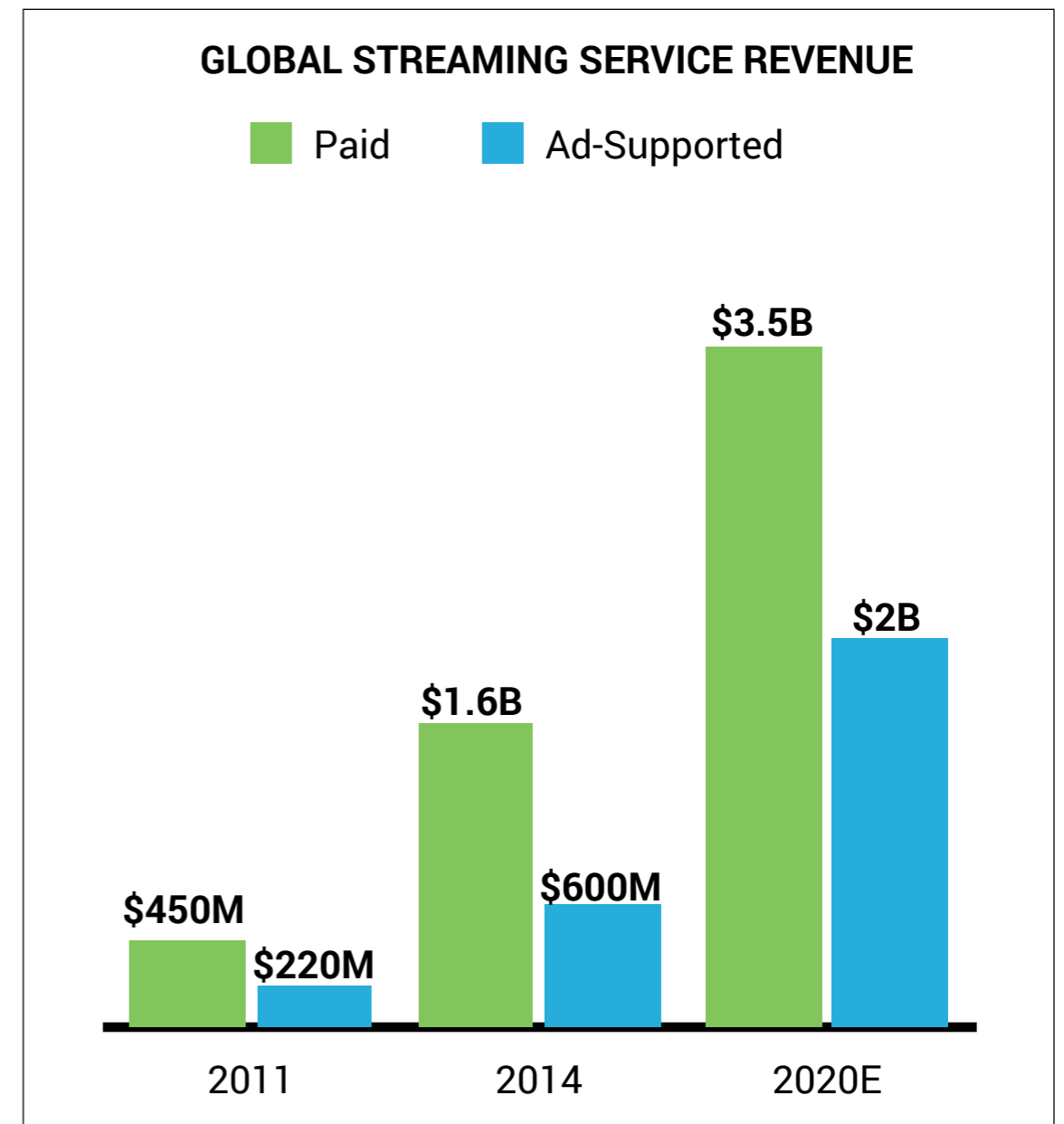
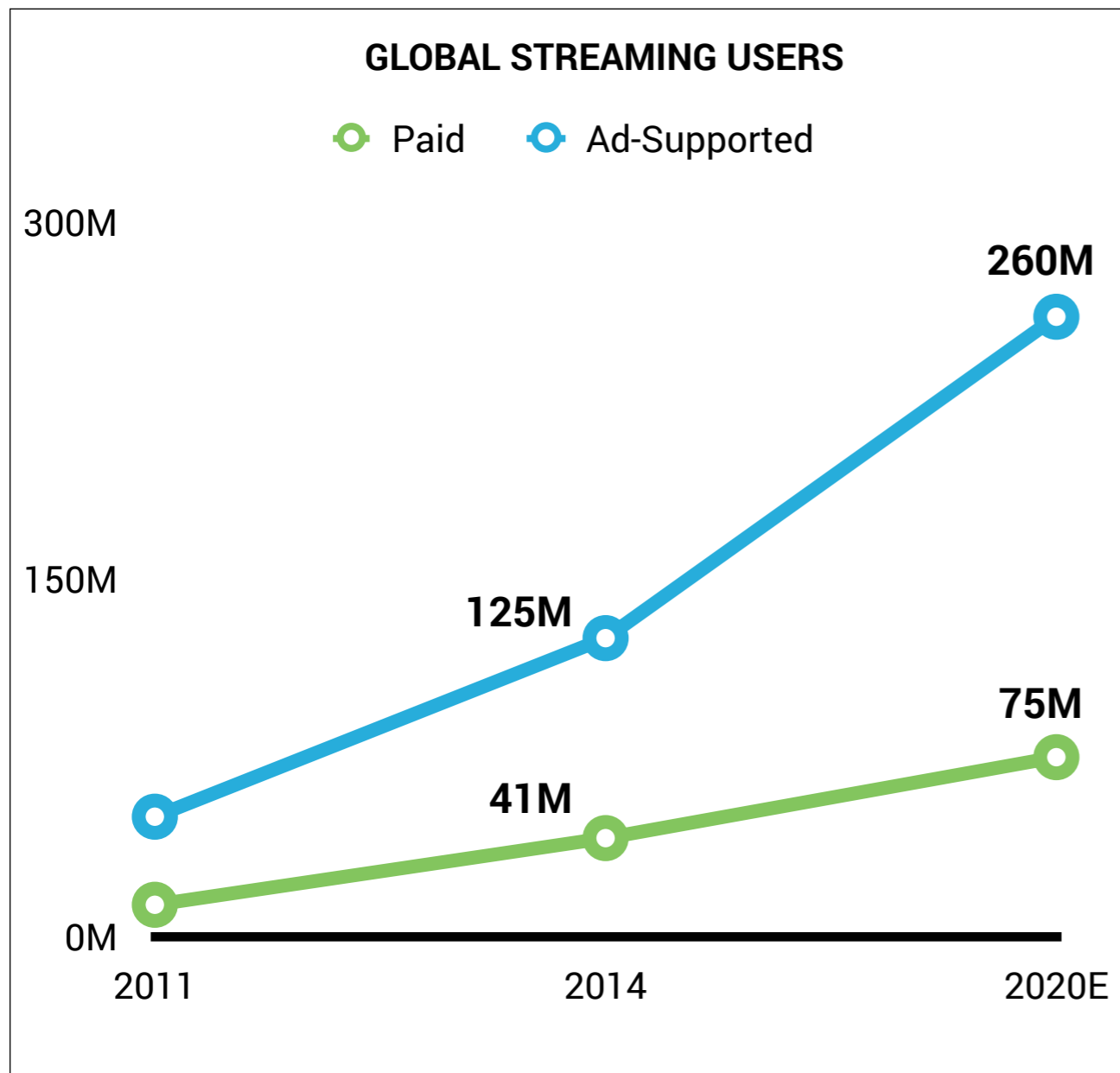
U.S. Consumer Likelihood of Purchasing Music Streaming Subscription in the Next 6 Months

Only an **additional 10%** of consumers are open to subscribing to a streaming service

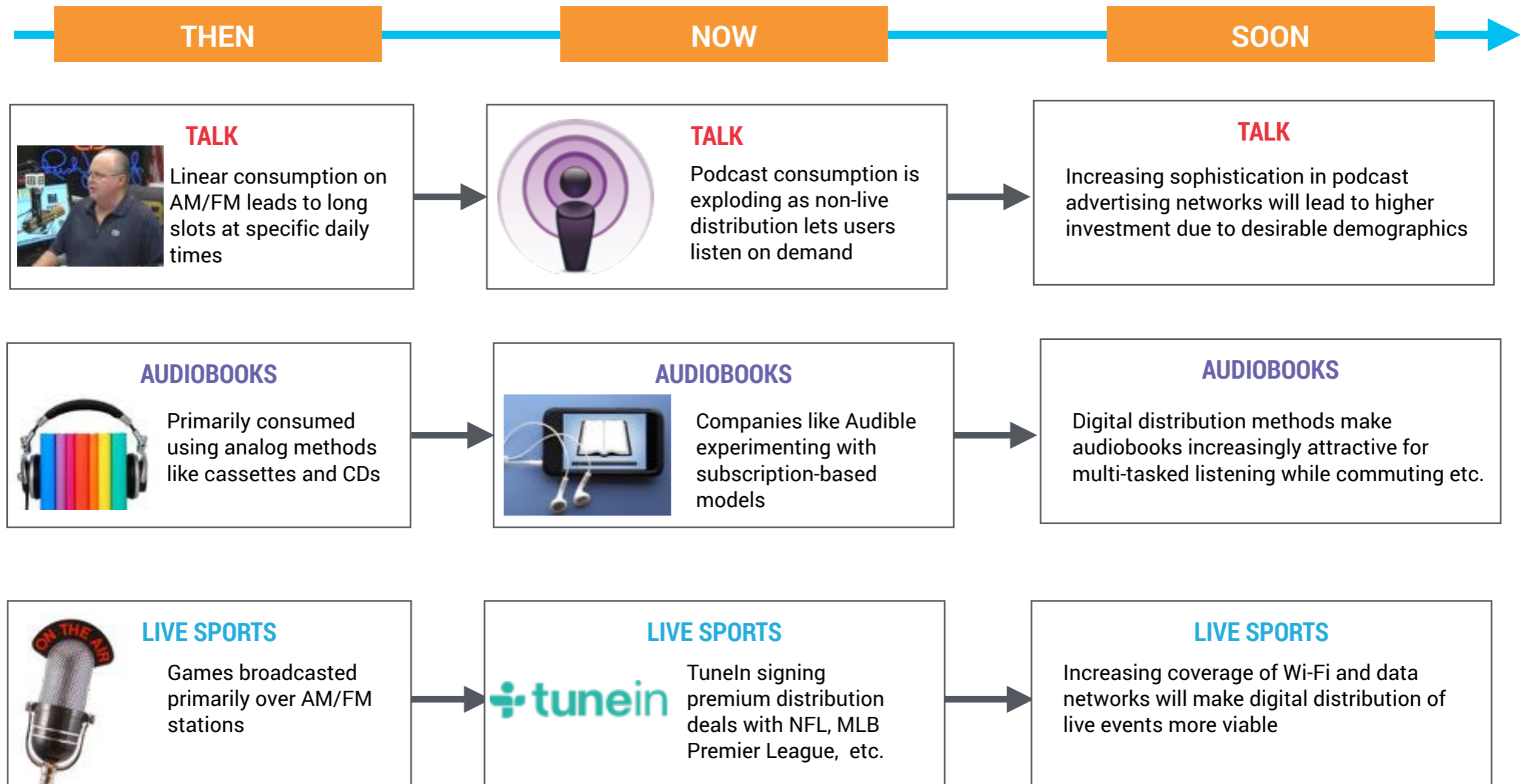


Most of user growth in digital streaming will be ad-supported, but paid users will account for a far greater proportion of the revenue

Annual User and Revenue Growth in Digital Music Streaming, Global, 2011 - 2020E

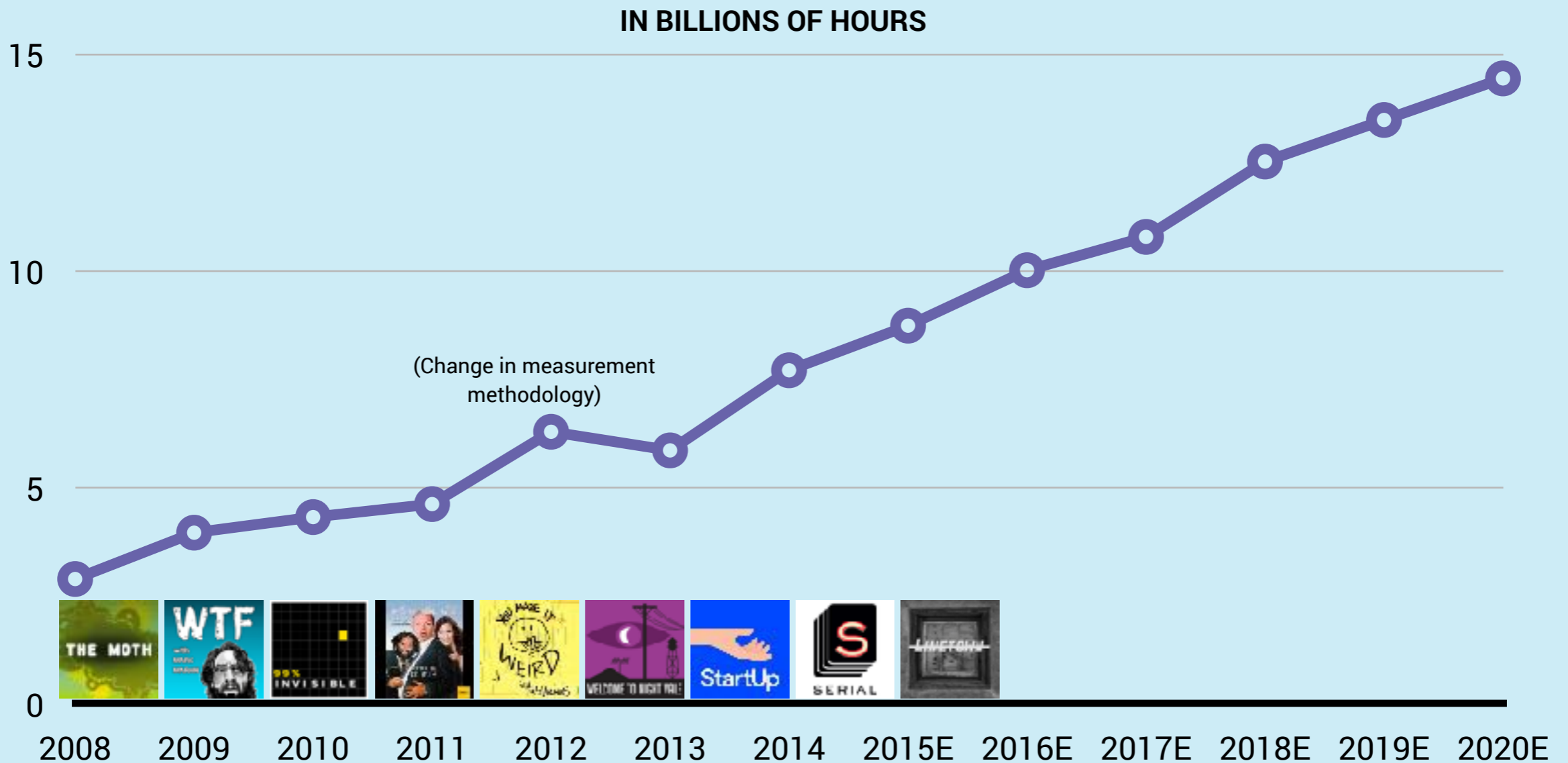


Beyond music, opportunities abound in non-music formats as listeners move from analog to digital



It's more than just music: Podcast are having their breakout moment as consumption explodes will continue to grow steadily

Activate Projections: Total Podcast Listening Time, U.S., 2008 - 2020E

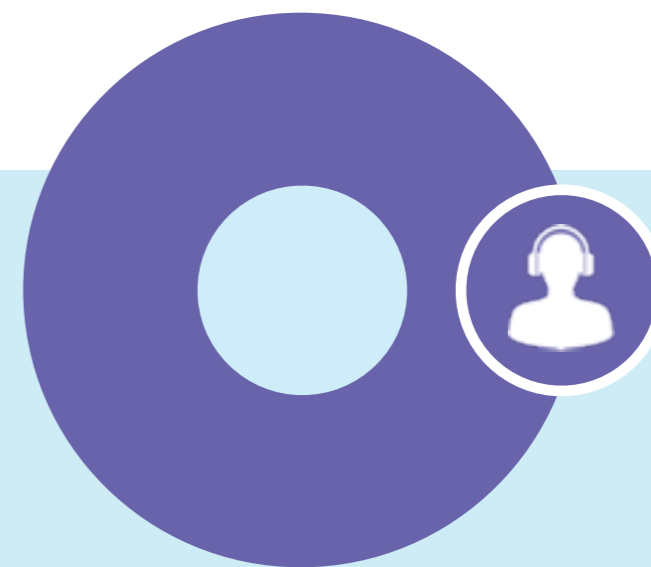


Podcast listeners are the elite of audio: they listen to more non-podcast audio than average, and are an attractive demographic

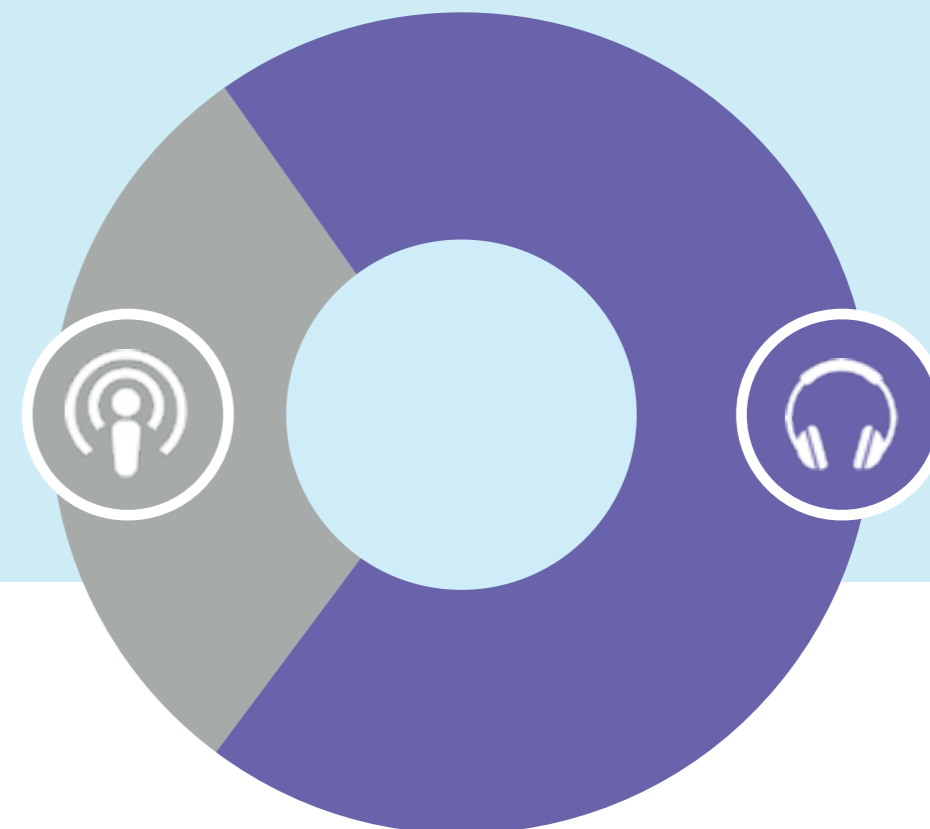
LISTENER DEMOGRAPHICS

	AVERAGE	PODCAST
Median Age	37	30
Age 18-34	0.3	0.67
Income Over \$50K	0.27	0.62
Bachelor's Degree?	0.3	0.58

AVERAGE LISTENERS
4:05 hours/day



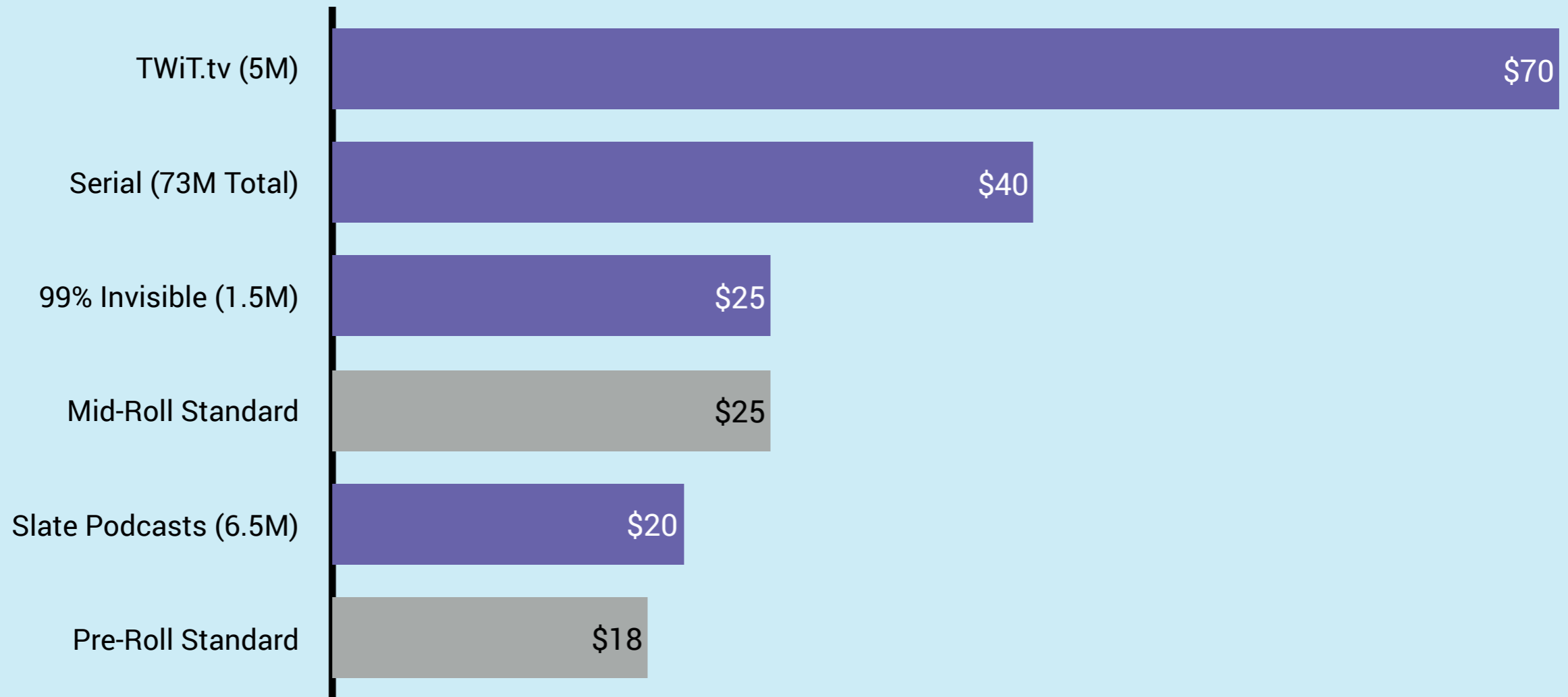
PODCAST LISTENERS
5:50 hours/day
(4:19 non-podcast)



Early successes are showing podcast publishers can generate premium advertising rates

Podcasting Monthly Downloads and CPM Rates

■ Publisher data
■ Industry average



There are enormous new opportunities in digital audio for adjacent, terrestrial and niche players

Digital listening minutes will increase



Players in adjacent markets (e.g. YouTube) will attempt to shift into pure audio



Podcasting becomes a web-scale, ad-supported industry; expect investment in podcasting advertising infrastructure and networks



High-engagement listening experiences may drive higher CPMs



Terrestrial players can tap growing digital audio ad dollars by migrating existing audiences to higher quality digital experiences



THE AVERAGE AMERICAN SPENDS MORE TIME ON TECH & MEDIA THAN WORK OR SLEEP

MESSAGING WILL BLOW PAST SOCIAL NETWORKS AS THE DOMINANT MEDIA ACTIVITY

THE NEXT BIG WINNERS IN STREAMING AUDIO ARE ALREADY (QUIETLY) HERE

THE LONG-AWAITED CORD CUTTING MOMENT IS STILL FAR OFF

THERE IS A “CABLE KILLER” COMING, BUT IT WON’T LOOK LIKE YOU EXPECT

E-SPORTS & WAGERING WILL CHANGE THE GAME IN GAMING

GOOD LUCK GETTING RICH IN THE APP STORE!

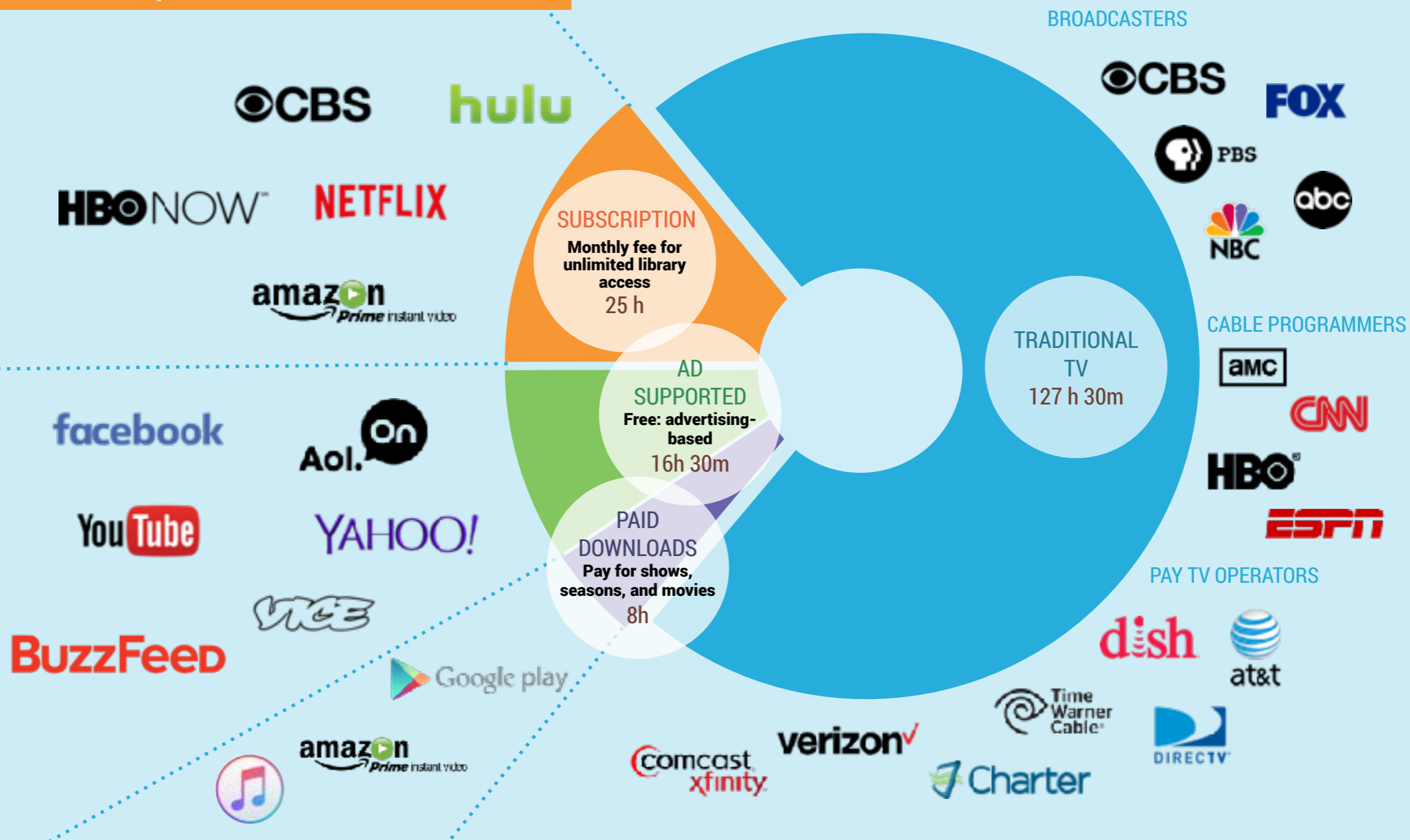
THESE COMPANIES ARE GRABBING ALL THE MONEY IN CONSUMER TECH & MEDIA

ONE SIMPLE WAY TO PREDICT WHAT TECH & MEDIA PLAYERS WILL DO NEXT TO COMPETE

An increasingly large number of players are competing for consumers' video time and attention, with traditional TV still capturing 72% of all viewing

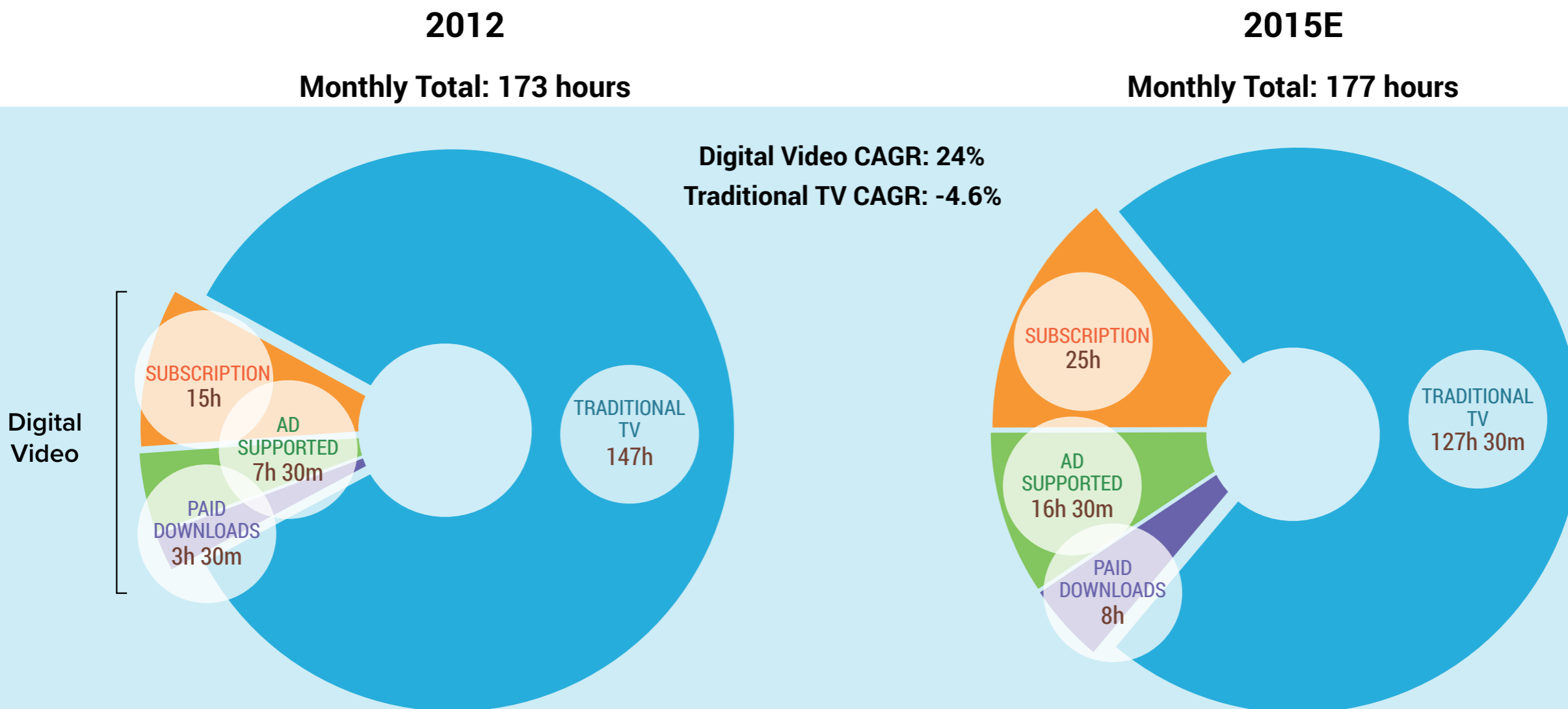
Monthly Consumer Time Spent on Video, U.S., 2015E, Hours

Total: 177 hours



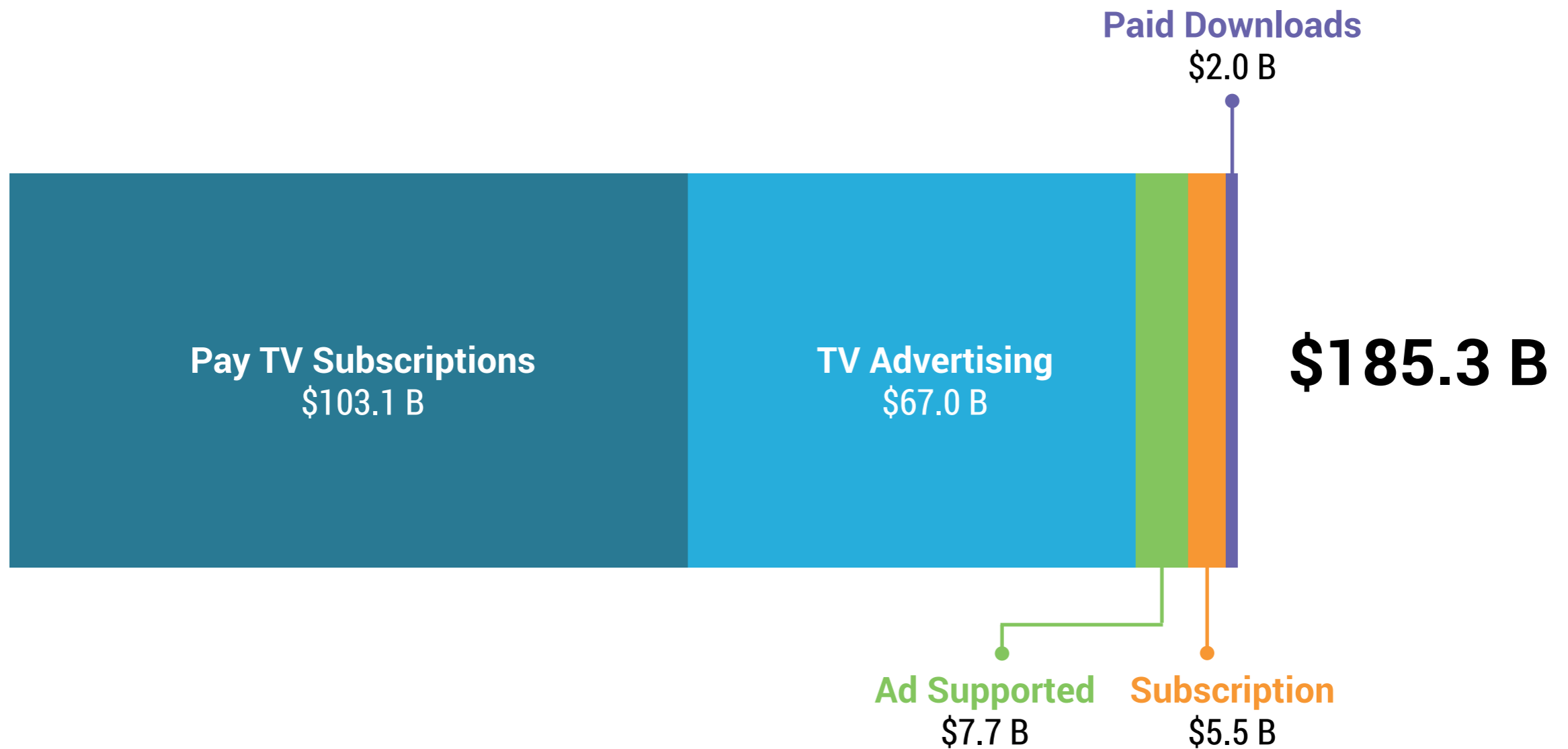
What's at stake in video? Nearly six hours a day of viewing time, making video the single most popular media activity

Monthly Consumer Time Spent on Video Among 2+ Users, U.S., 2012-2015E, Hours



U.S. video revenues are enormous—\$185 Billion, and the largest share is still pay TV subscriptions

Revenues, U.S., 2015E, USD billions

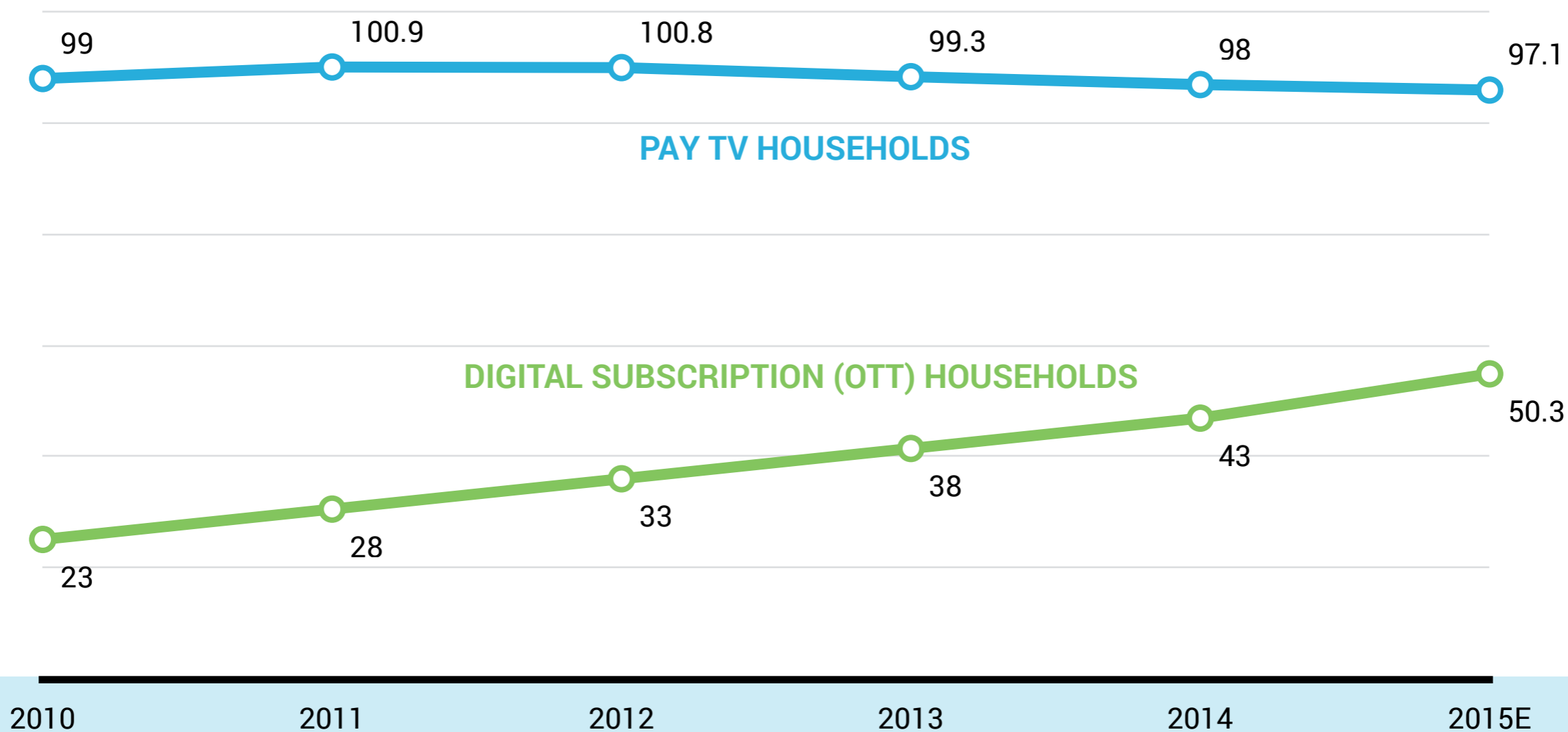


SO, IS IT TRUE THAT “THE FUTURE OF TV IS APPS”?

YES, BUT THAT PHRASE DOESN'T MEAN EVERYBODY WILL CUT THE CORD. IT MEANS THAT APPS WILL DEFINE THE EXPERIENCE, BUT WON'T DECIDE WHO GETS PAID FOR TV AND VIDEO.

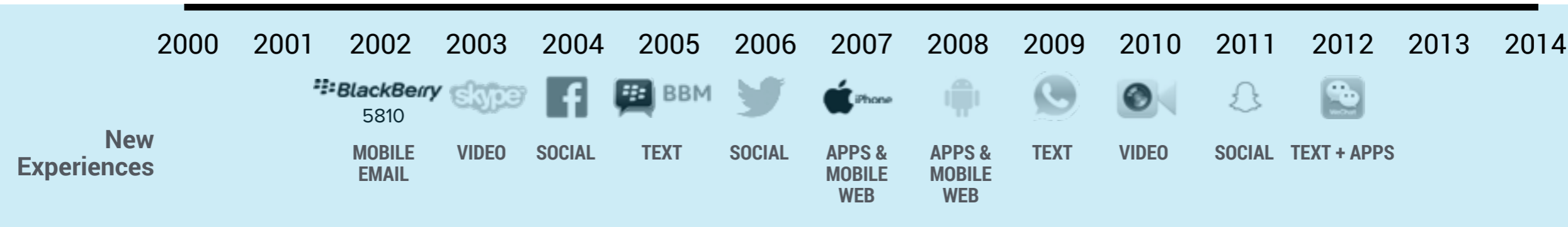
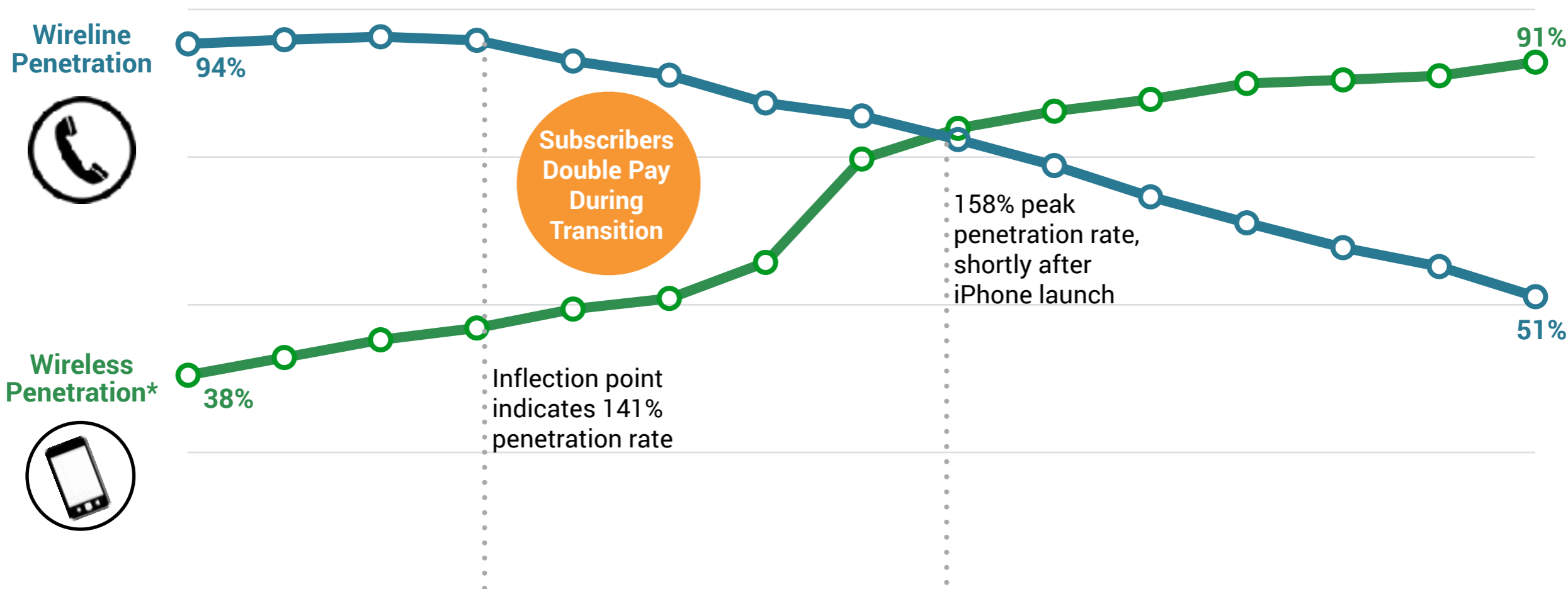
We appear to have hit “peak cable,” with pay TV providers shedding subscribers while digital subscription (OTT) services gain ground

Households with Pay TV vs. Subscription OTT, U.S., 2010-2015E,



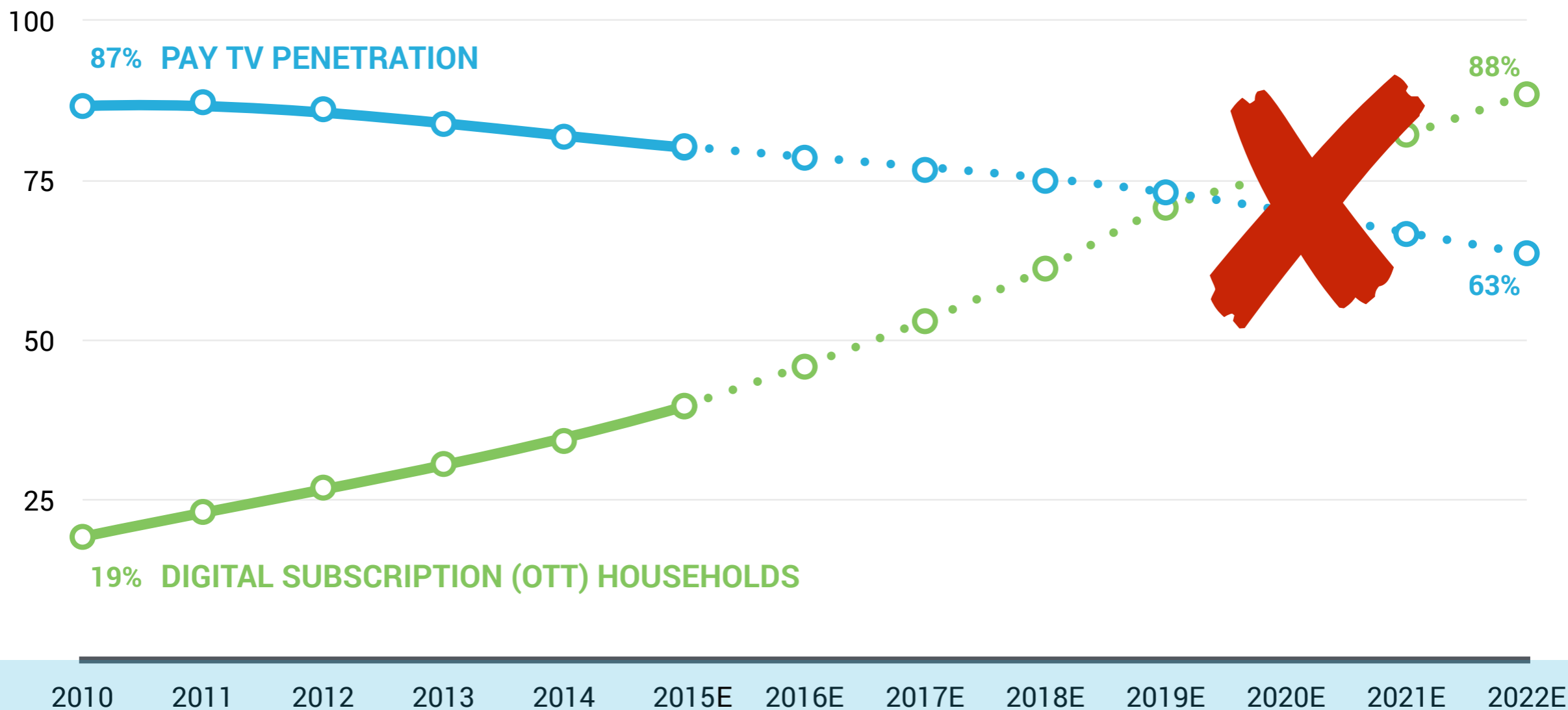
A major platform transition, such as cutting the cord for telephones, can take more than a decade to play out

Wireline vs. Wireless Household Penetration, U.S., 2000-2014, % of Households



If television cable cutting followed the same pattern as telephones, the crossover would happen in 2019—but this isn't likely

Extrapolated Pay TV and Subscription OTT Household Penetration Rates, U.S., 2010-2022E, % of



THE PAY TV TRANSITION IS DIFFERENT

CHANGES IN THE TV MARKET ARE NOT JUST A SIMPLE TECHNOLOGY TRANSITION. CORD CUTTING WON'T HAPPEN OVERNIGHT.

Four reasons why cord cutting on TV won't look like a typical tech transition



USERS:

People are still hooked on traditional TV and are consuming more video overall (Pay TV + OTT)



CONTENT:

A significant amount of popular content is still exclusive to pay TV (e.g. sports)



PRICING:

People can't cobble together the content they want for a lower price than a pay TV package

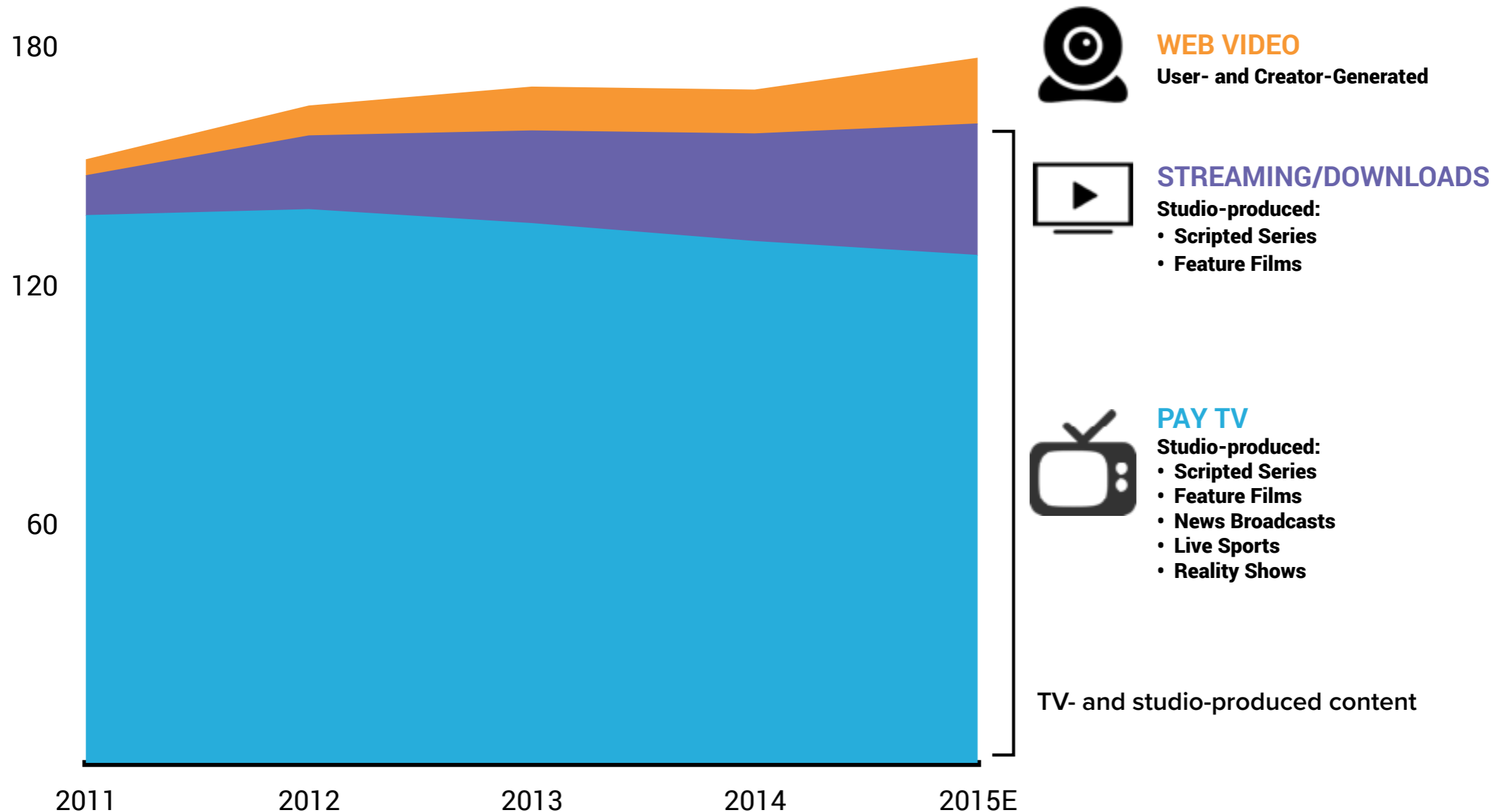


EXPERIENCE:

Today, traditional pay TV still wins for simplicity and reliability. Digital offers more power, control and discoverability, but also more complexity

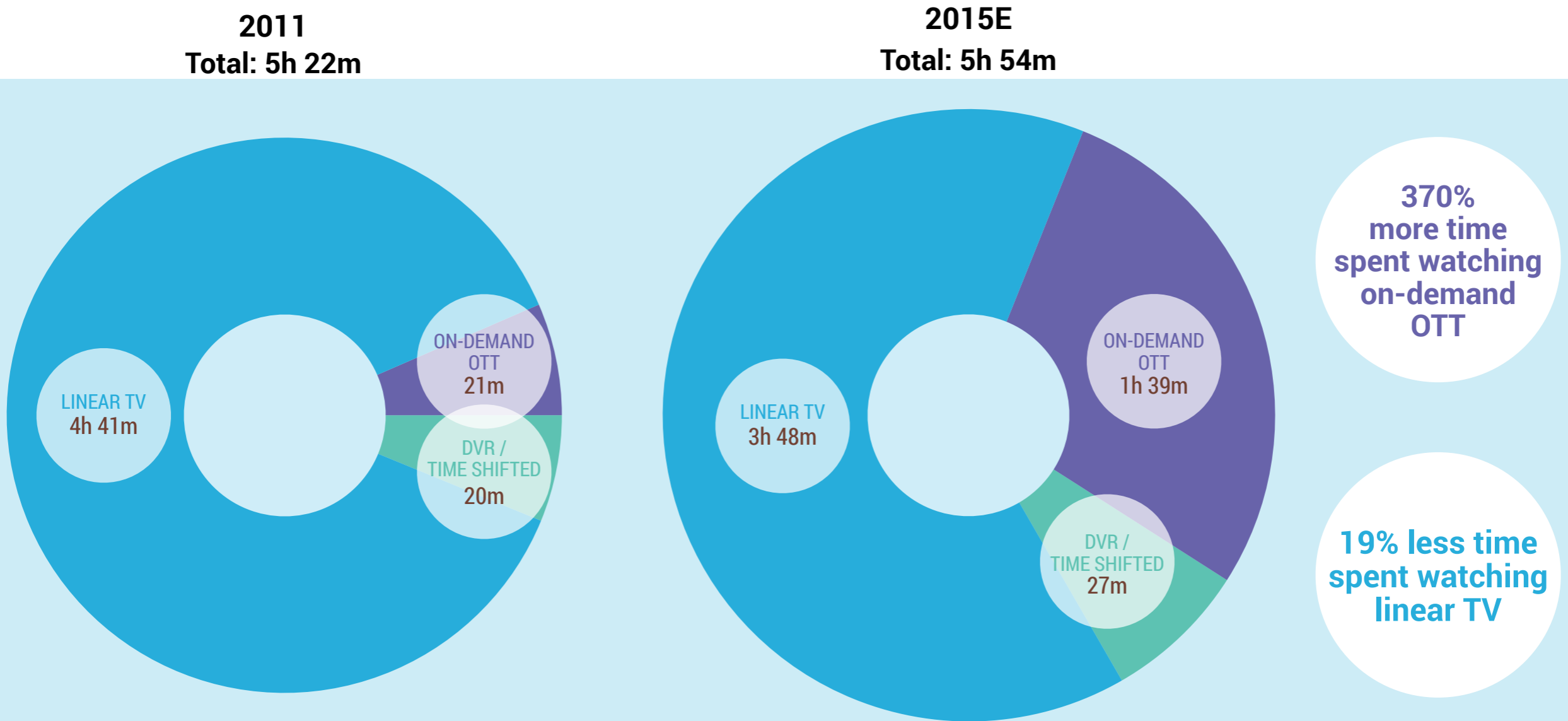
People are still spending most of their time with TV- and studio-produced content

Monthly Video Consumption, U.S., 2011-2015E,



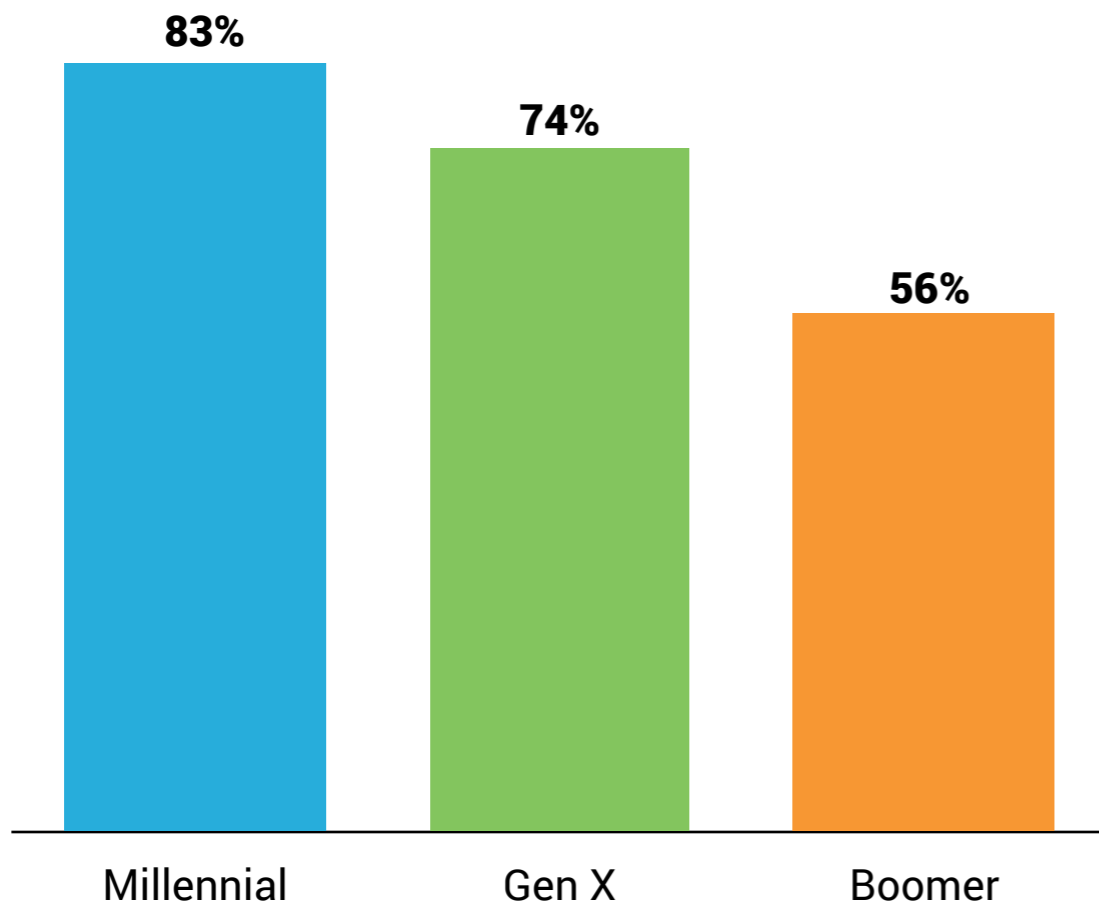
On-demand and time-shifted viewing is growing quickly, as viewers watch more and more TV on digital platforms

Daily Time Spent on Linear TV vs. Video On-Demand Among 2+ Users, U.S., 2011-2015E, Hours : Minutes



Most Americans now binge watch TV, and this behavior is amplifying time-shifted viewing

PERCENTAGE OF PEOPLE WHO BINGE WATCH BY AGE GROUP



PREFERRED PLATFORM FOR BINGE WATCHING* (ACROSS ALL AGE GROUPS)



60%
Computer
(Desktop/Laptop)



37%
Pay TV
(On-Demand)

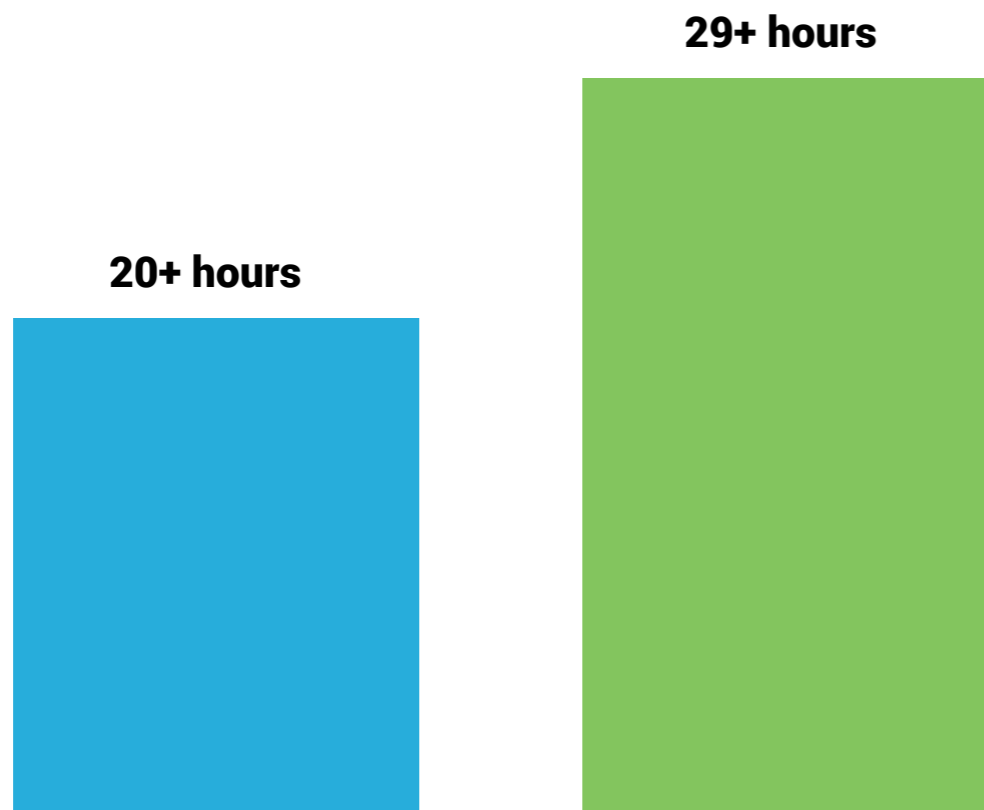


37%
Streaming Device

Millennials still watch more than 20 hours per week of television while consuming more video overall than any other group

Average Weekly Time, U.S., 2015E, Hours

TV VIEWING



Millennials

Gen X

Population Size: 71 million

64 million

ALL VIDEO VIEWING

Hours of video among Pay TV subscribers

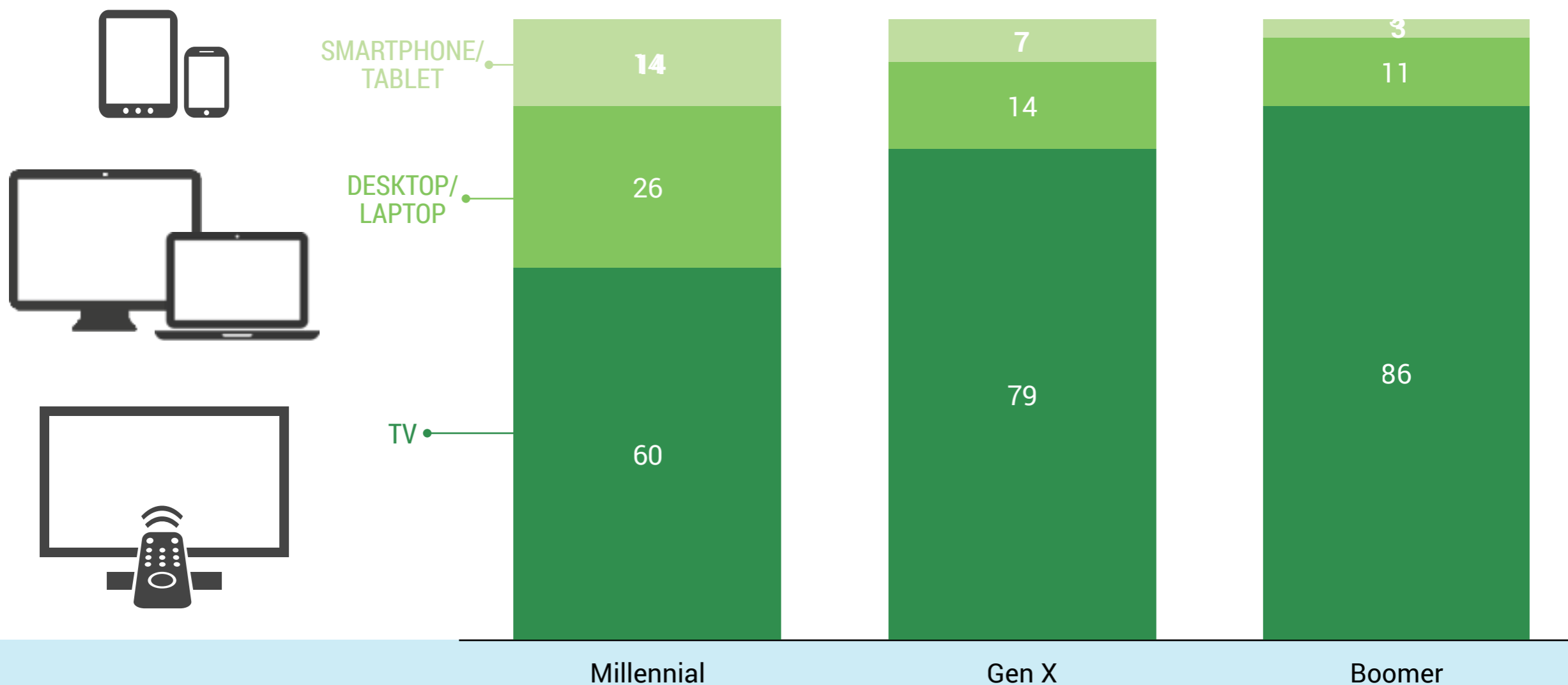


Hours of TV/video among cord cutters

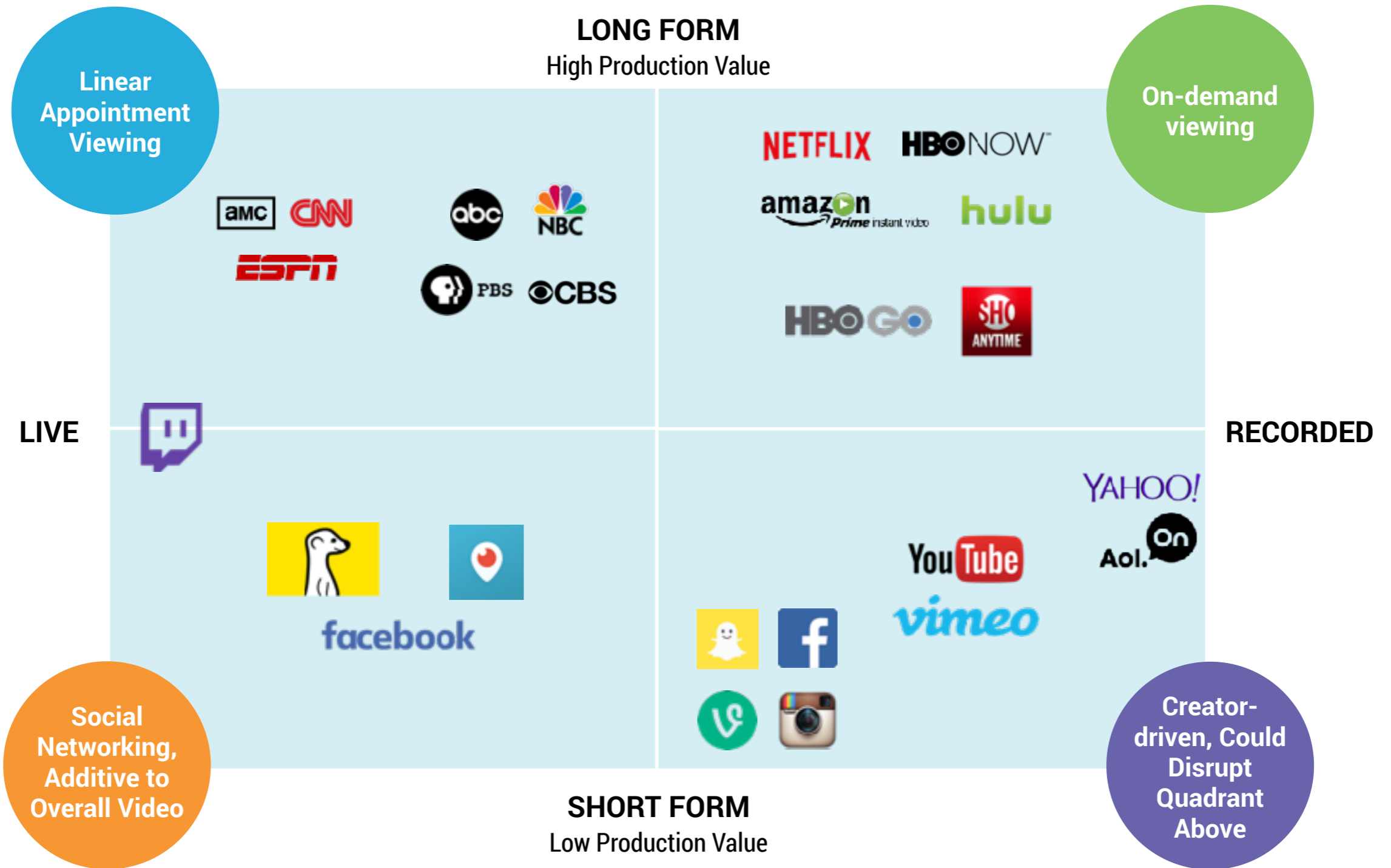


All adult age groups, including Millennials, like to watch high-quality video on large screens

Device Preferences for Watching TV Series, U.S., 2015E, Percent








Consumer behavior has moved beyond traditional appointment viewing and has created audiences for new kinds of content



Pay TV still holds the reins on the ultimate appointment viewing: live sports, where synchronous viewership is the norm

PERCENTAGE OF LIVE GAMES*

	National Broadcast	National Pay	Local Pay**	Pay Channels Required	Live OTT?
	0.95	0.05	-	4	Out of market
	3% + Finals	10% + Playoffs	0.87	5	Out of market
	.05% + Finals	5% + Playoffs	0.94	5	Out of market
	Stanley Cup Only	7% + Playoffs	0.93	2	Out of market
	16% + Bowls	84% + Bowls/Playoff	-	2-7	N/A


























- Fragmentation of rights among local and national networks makes it challenging to offer comprehensive sports packages at price points lower than Pay TV
- Sports networks are also subsidized by the bundle, which will limit in-market OTT offerings for the foreseeable future

*Percentages refer to regular season games only

**Most markets; some smaller markets have select games on broadcast

Sources: Deadspin, NBA, NFL, MLB, NHL, ESPN, Activate analysis. NCAA refers to football only; live post season games not available OTT (authenticated only).

While some premium channels offer over the top subscriptions, much of the most popular cable programming is still exclusive to pay TV

	HBO®	SHOWTIME	Cable Programming	Sports	
Current Season OTT Availability	HBO NOW™	SHO	Not Available	Not Available**	
	    	    	    	    	    

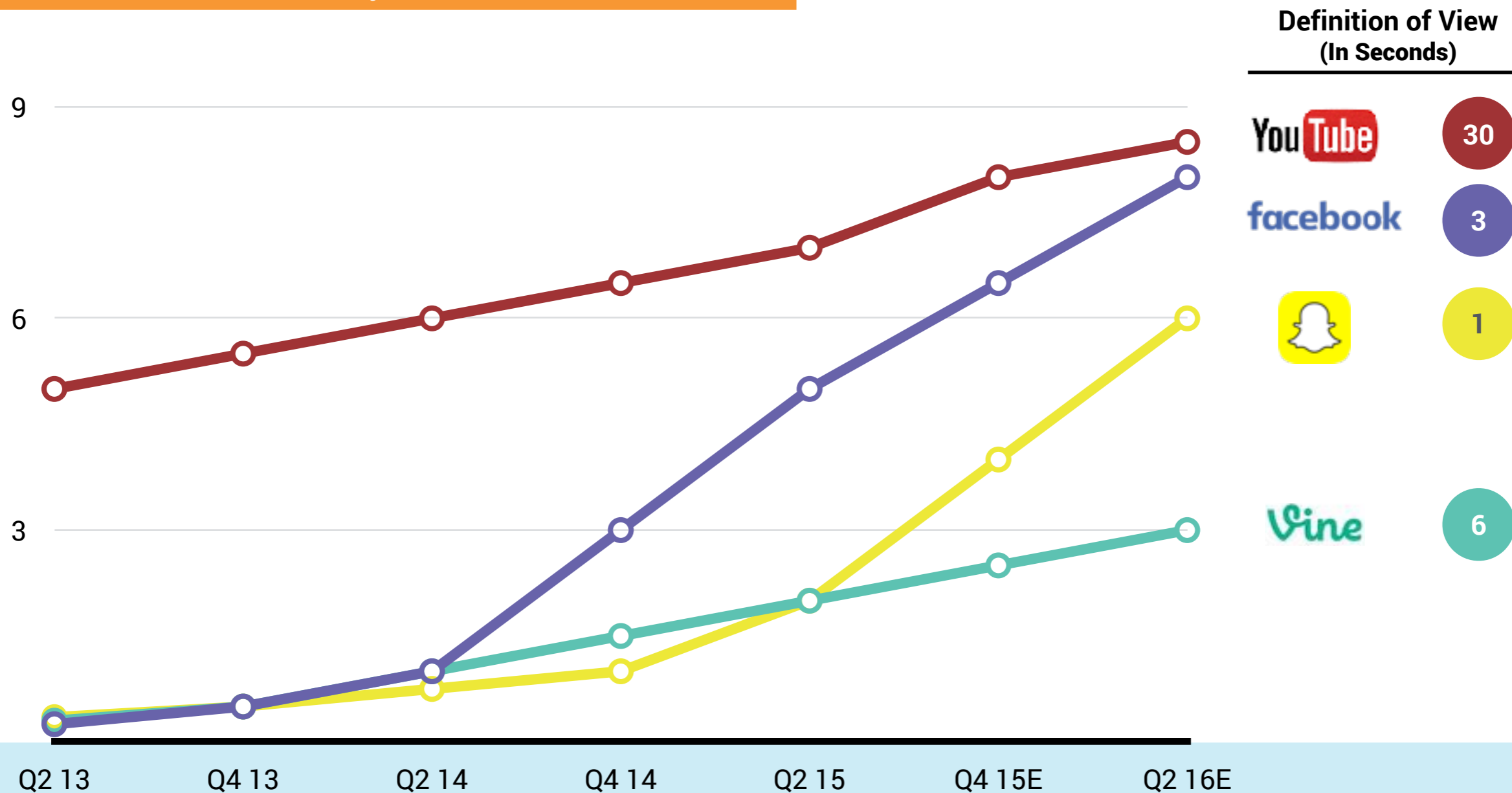
*National broadcast and inclusion of select local affiliates

**Availability on mobile through NFL Mobile on Verizon, and DirecTV Sunday Ticket where DirecTV is unavailable

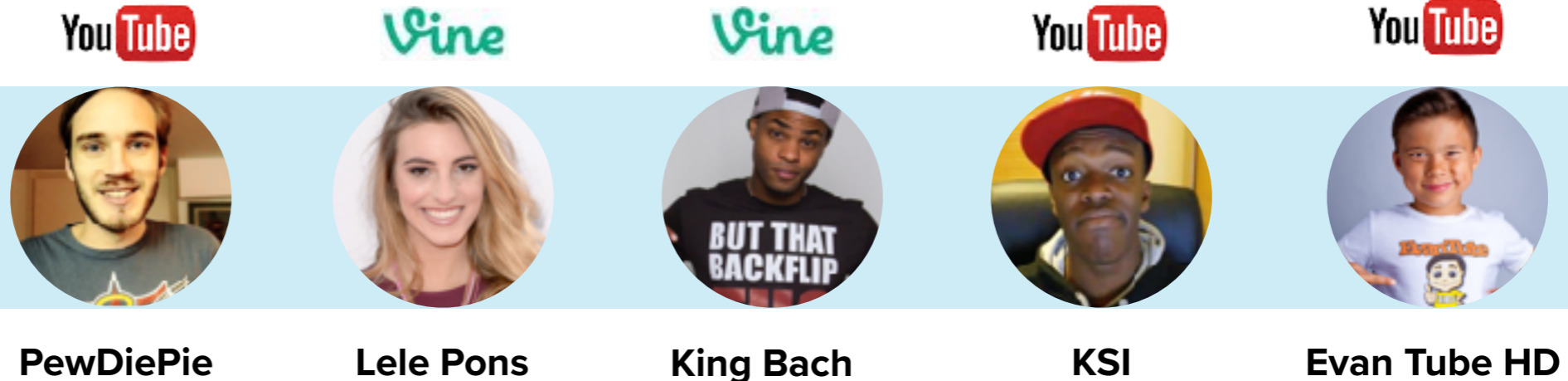
Sources: HBO, Nielsen, Showtime






Web video distribution is booming, with some new entrants rivaling YouTube in video views, even though not all “views” are the same

Number of Video Views Per Day, U.S., Q2 2013-2016E, Billions



Web video is driven by native creators producing short content that reaches a massive audience and grows overall video consumption



	PewDiePie	Lele Pons	King Bach	KSI	Evan Tube HD
GENRE	Gaming	Comedy	Comedy	Gaming	Reviews
TOTAL VIEWS (BILLIONS)	10 B	7 B	3 B	2.4 B	1.6 B
TOTAL FOLLOWERS (MILLIONS)	40 M	9.5 M	14 M	11 M	2 M
MCN					

Digital media companies are investing in originals but haven't had a hit yet - they lag behind web creators and studio shows

Media Company Content Distribution Strategies



Free, ad-supported video blending original content with 3rd party partners

- Available videos range from short news clips to full-length films
- Offering includes 12 originally produced TV series



On-demand streaming service for TV shows, movies, and webisodes

- Screen has 26 channels, which includes original episodes of Community
- Upcoming slate of original programming will bring total to 55 video series



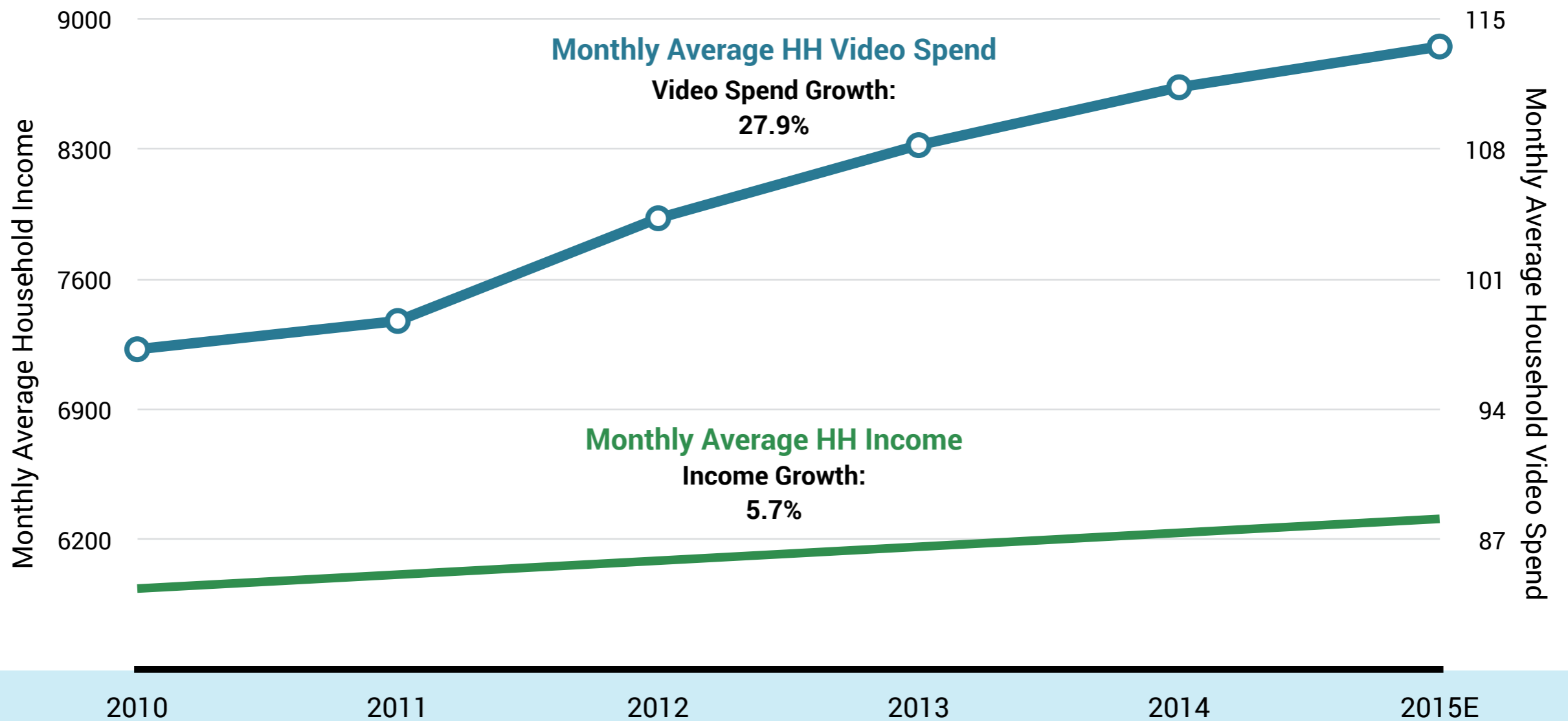
Widely distributed short-form original videos targeted at millennials

- Library includes 10 original series and over 700 original short videos
- Distribution includes a YouTube Channel with 7.8M subscribers



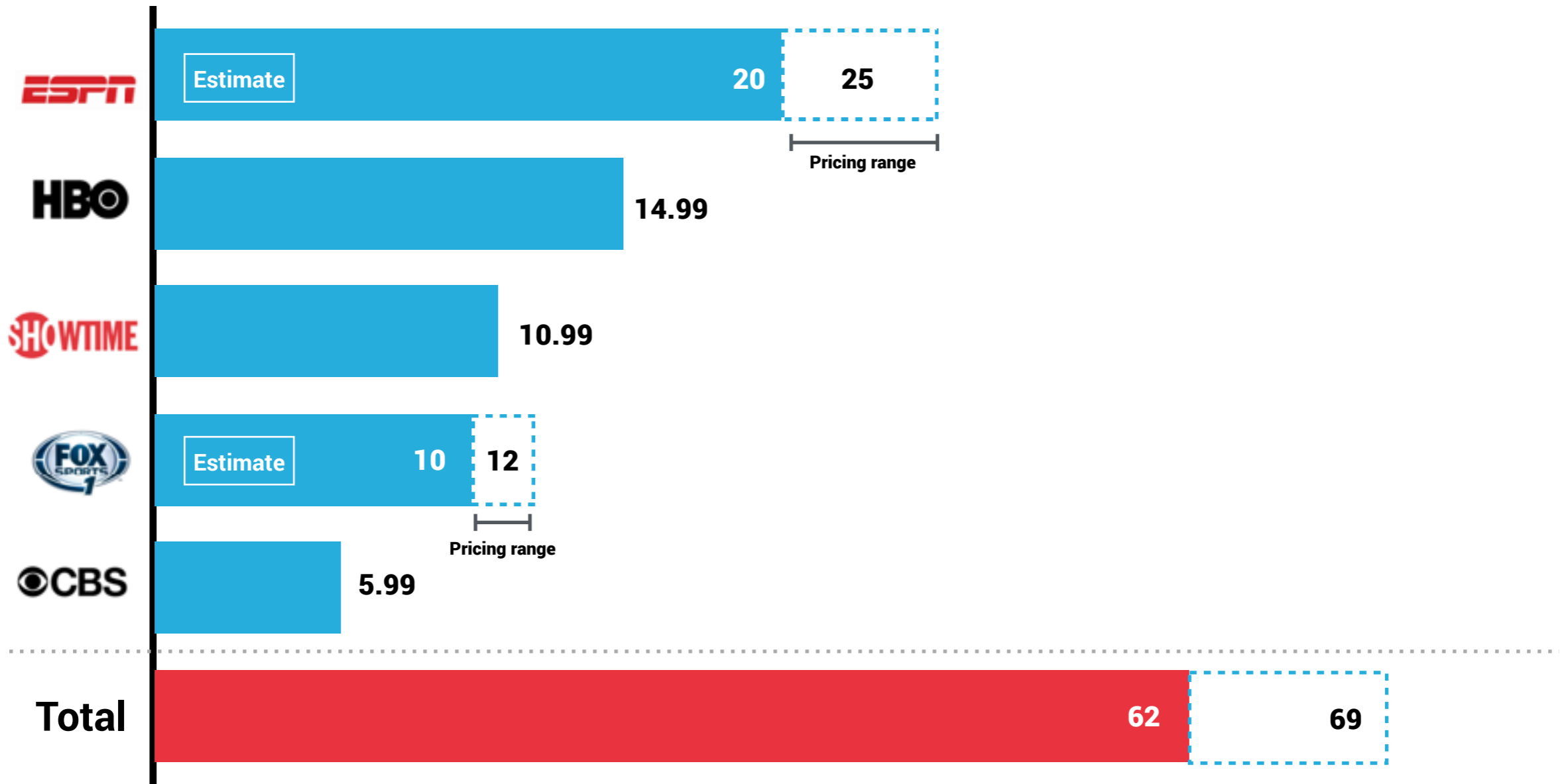
Consumer spend on video is growing faster than income, which could put pressure on Pay TV pricing

Average Video Spend vs. Income, U.S., 2012-2015E,



As more OTT services come online, the value of the bundle becomes more apparent

Monthly Prices of OTT Services, USD



Even if an OTT offering can be competitively priced, Pay TV operators have flexibility to vary pricing and packaging

Video Pricing Examples from Select Providers, U.S., 2015E, USD

TRADITIONAL PAY TV

HIGH PRICE

LOW PRICE

Time Warner Cable

Compare TV

Preferred TV
200+ Channels
Whole House Service

\$79.99 per month for 12 months

Includes HBO® and choice of SHOWTIME® or STARZ®

[View Details](#) [Order Now](#)

Compare TV

Starter TV
20+ Channels

\$19.99 per month for 12 months

[View Details](#) [Order Now](#)

dish

EVERYTHING PAK FREE Hopper HD DVR w/ 2 HD DVRs

\$86.99 per month

regular price: \$131.99/mo

YOU SAVE: \$45.00/mo

315+ CHANNELS

REVIEWS: ★★★★★

SMART PAK

\$19.99 per month

regular price: \$34.99/mo

YOU SAVE: \$15.00/mo

55+ CHANNELS

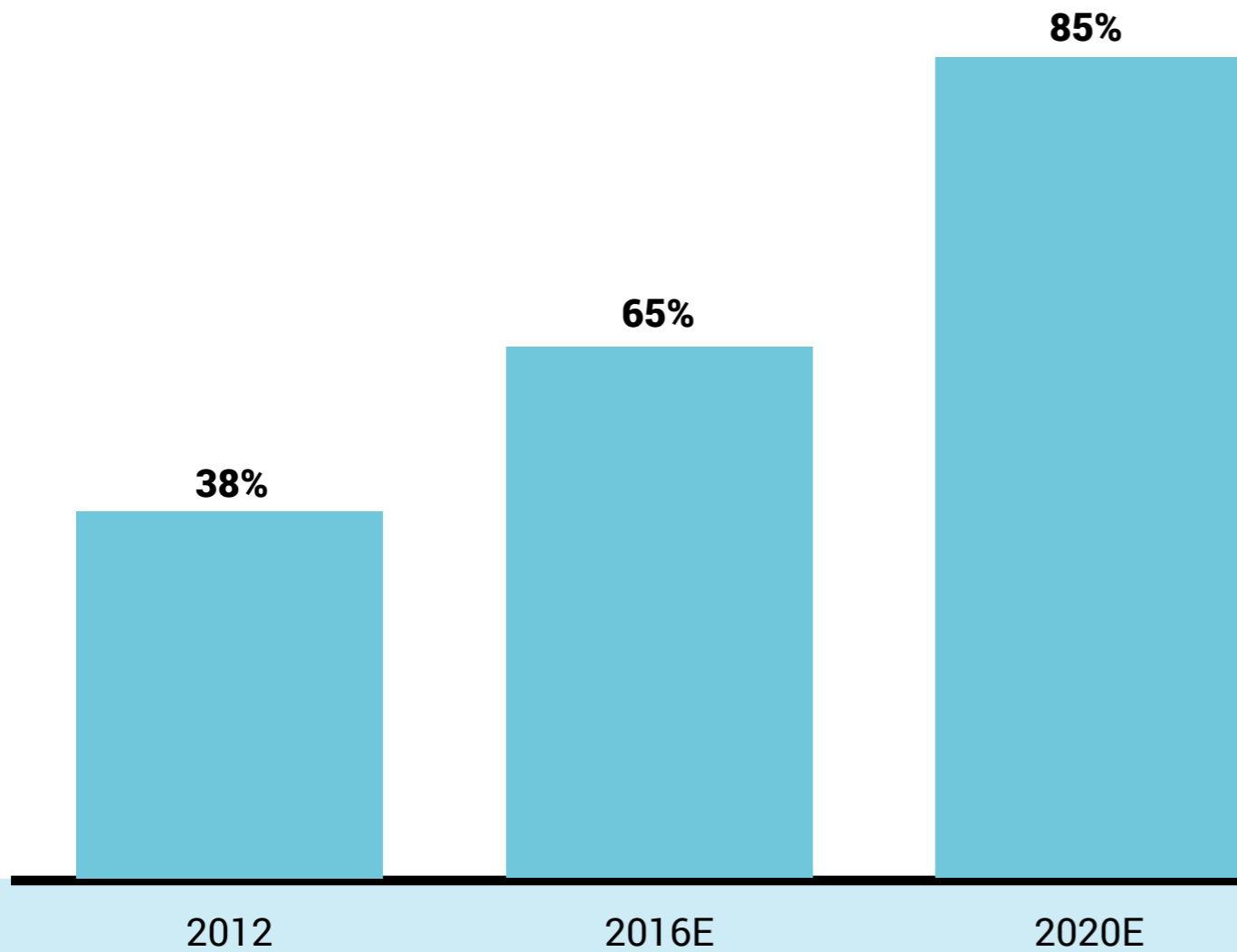
REVIEWS: ★★★★★

verizon

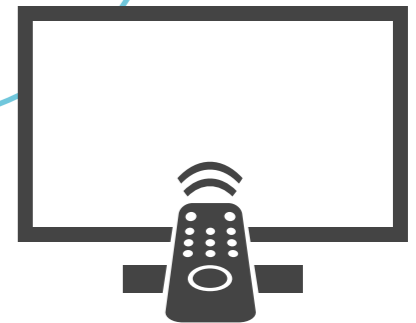
Ultimate HD 540+ Channels (175+ HD)	Featured Channels COMET, HBO, MTV, STARZ, ESPN, EPIX2	TV Plan Price \$89.99 MO. for 1 yr. plus taxes, equip. charges, RSN & other fees. Offer & Pricing Details
Extreme HD 440+ Channels (135+ HD)	Featured Channels NFL, BBC AMERICA, FX, MTV, HBO, CITY	TV Plan Price \$79.99 MO. for 1 yr. plus taxes, equip. charges, RSN & other fees. Offer & Pricing Details
Preferred HD 300+ Channels (85+ HD)	Featured Channels FOX NEWS, MTV, TNT, ESPN, Syfy	TV Plan Price \$74.99 MO. for 1 yr. plus taxes, equip. charges, RSN & other fees. Offer & Pricing Details
Fios TV Local 70+ Channels (15+ HD)	Featured Channels abc, NBC, CBS, FOX, PBS, CW	TV Plan Price \$10.00 MO. for 1 yr. plus taxes, equip. charges & other fees. No sports channels. Offer & Pricing Details

More streaming devices are enabling homes to view digital streaming as well as TV Everywhere on large screens

Internet-connected TV Penetration, U.S., 2012-2020E, % of

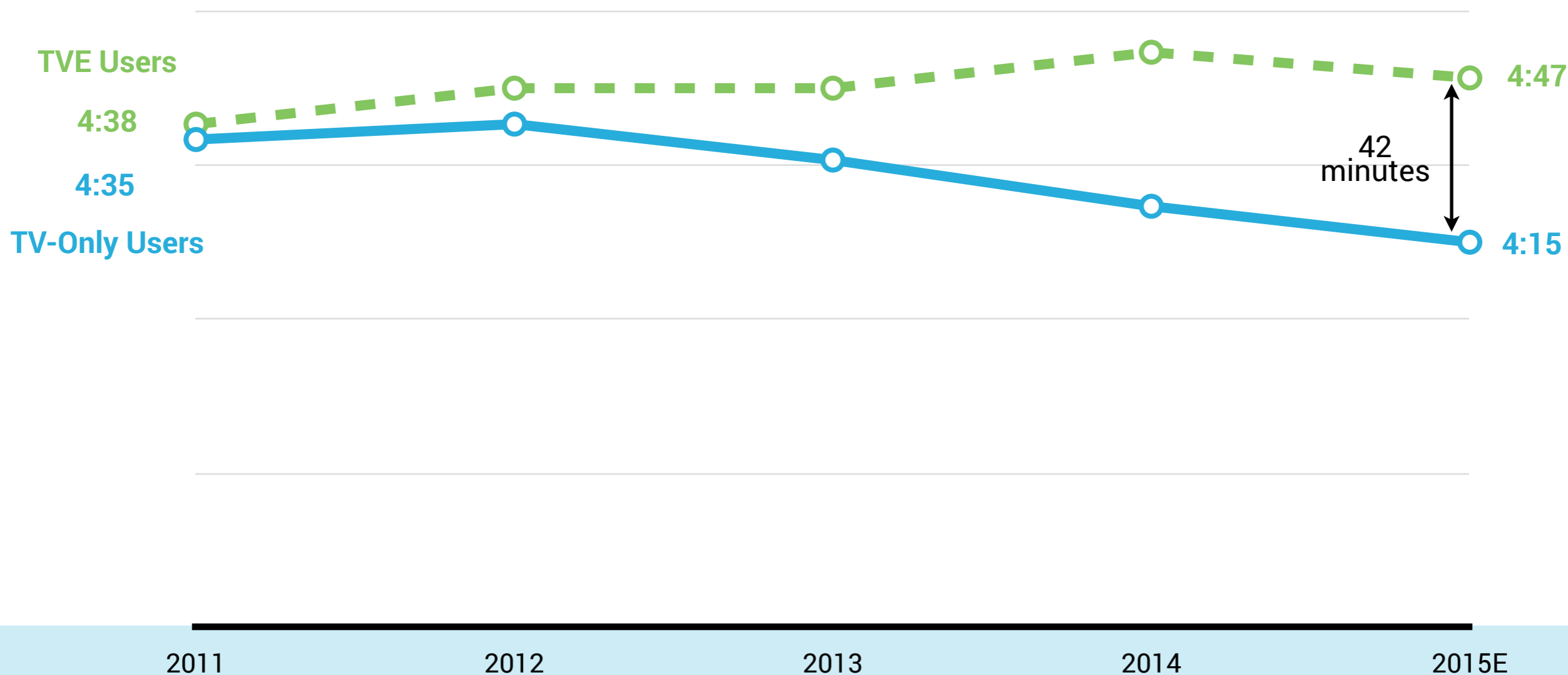


Share of TVE usage on connected devices grew 110% from Q2'14 to Q2'15



TV consumption holds steady, or even increases, in the 13% of households that use TV Everywhere, rather than seeing a decline

Daily Television Consumption Among TVE Users vs. TV-Only Users, Hours : Minutes



THIS IS PAY TV'S GAME TO LOSE

FOR A CONSUMER, BUILDING YOUR OWN CORD CUTTING BUNDLE IS EXPENSIVE AND INCOMPLETE. CABLE COMPANIES CAN MOUNT A STRONG DEFENSE. THEY'LL HAVE TO KEEP INNOVATING AND STAY NIMBLE, BUT THEY CAN SLOW DOWN THE THREAT OF CORD CUTTING.

What will it take for Pay TV to stay competitive against challengers?



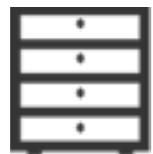
An intuitive and user-friendly experience across platforms



Integrated search capabilities across video providers, regardless of source



Smarter discovery capability, modernizing the set top experience



A deep content library



Enhanced tools for time-shifted and offline viewing

THE AVERAGE AMERICAN SPENDS MORE TIME ON TECH & MEDIA THAN WORK OR SLEEP

MESSAGING WILL BLOW PAST SOCIAL NETWORKS AS THE DOMINANT MEDIA ACTIVITY

THE NEXT BIG WINNERS IN STREAMING AUDIO ARE ALREADY (QUIETLY) HERE

THE LONG-AWAITED CORD CUTTING MOMENT IS STILL FAR OFF

THERE IS A “CABLE KILLER” COMING, BUT IT WON’T LOOK LIKE YOU EXPECT

E-SPORTS & WAGERING WILL CHANGE THE GAME IN GAMING

GOOD LUCK GETTING RICH IN THE APP STORE!

THESE COMPANIES ARE GRABBING ALL THE MONEY IN CONSUMER TECH & MEDIA

ONE SIMPLE WAY TO PREDICT WHAT TECH & MEDIA PLAYERS WILL DO NEXT TO COMPETE

Cable Killer

=

Equivalent or better video content

+

Lower-cost package to undercut the cable bundle

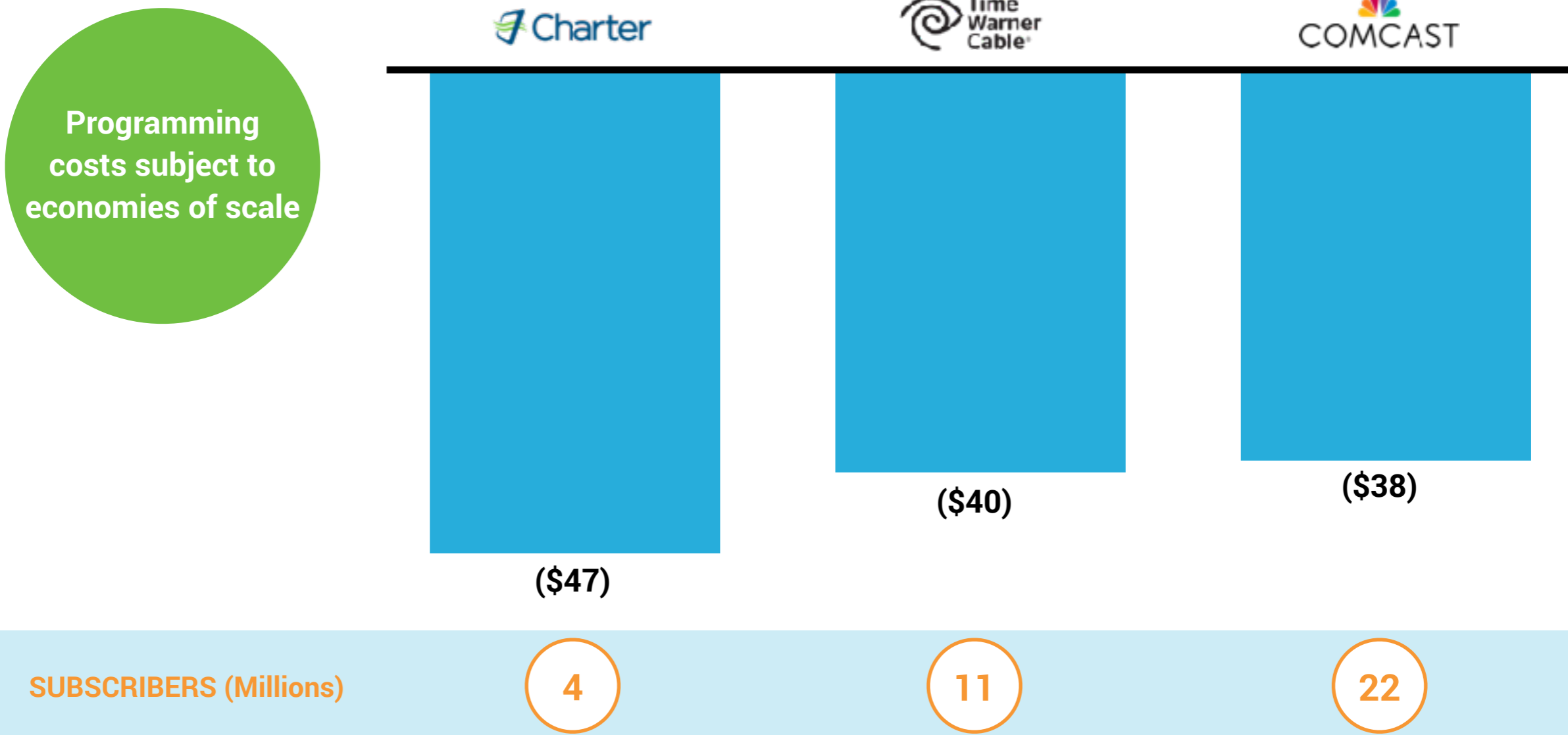
+

Better user experience and reliability

**FOR A NEW PLAYER TO CREATE A POTENTIAL
'CABLE KILLER', THEY WOULD HAVE TO START BY
LICENSING TOP-TIER CONTENT**

Today's cable operators have a huge advantage: the biggest players pay the lowest cost per subscriber for content; far lower than a new entrant could pay

Monthly Programming Costs per Subscriber for Cable Providers, U.S., 2014



A potential 'cable killer' cannot easily compete with cable's broadband bundling advantage

Pay TV + Broadband Bundles



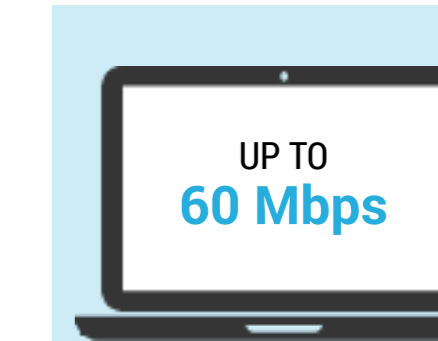
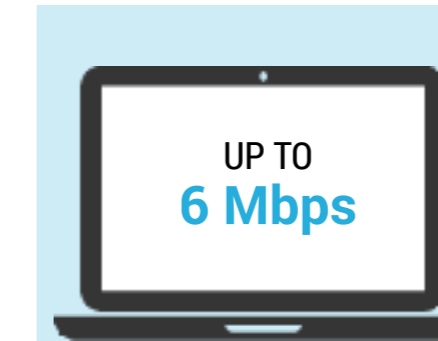
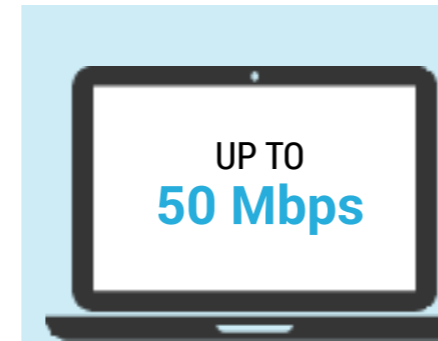
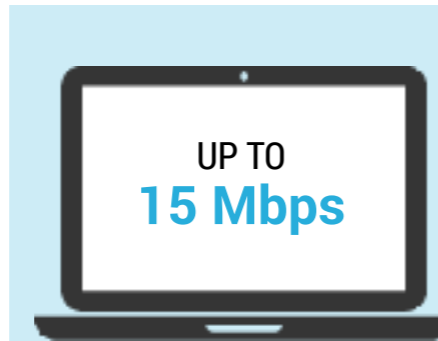
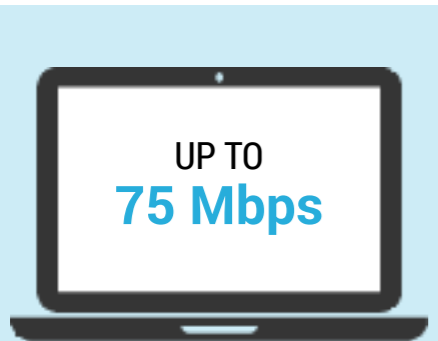
\$50

\$50

\$50

\$60

\$90



Does not include ESPN

Does not include ESPN

Does not include ESPN

A new entrant could create a better user interface, but would most likely need to *increase* the monthly cost for consumers – similar to the introduction of smart phones



Motorola RAZR (2007)



iPhone (2007)

\$50+

DEVICE/VOICE/TEXT PER MONTH

UX Improvements

- Touchscreen capability
- App and multimedia integration
- Improved device sensors
- Faster data connections

\$90+

DEVICE/DATA/VOICE/TEXT PER MONTH

THE “CABLE KILLER” WON'T BE A LOW-PRICED COMPETITOR, IT WILL BE “SMART CABLE”

JUST AS SMARTPHONES FIRST DISRUPTED THE WIRELESS MARKET (AND INCREASED MONTHLY BILLS) BY CREATING A SUPERIOR HIGH END EXPERIENCE, SMART CABLE COULD TARGET THE MOST LUCRATIVE AND PROFITABLE CUSTOMERS.

What would a “cable killer” have to do to compete with a cable company’s advantages?



Bundle for distribution. Players that have established a foothold with consumers by selling devices like smartphones or set-top boxes can offer content subscriptions on top



Bring your own broadband. Allow consumers to bring their own, or include with partner provider or new competitor



Better search and discovery. Search capabilities across video providers, regardless of source, uniting TV content and web videos



Seamless access. Integrated platform to access all types of video content - Digital Subscriptions, Web Video, TV Everywhere - across all devices



Simplicity and customer service. Easy choices with price transparency and customer-friendly policies to contrast with current cable frustrations



Premium pricing (that’s worth it). Target the high end of the market, preserving margins while paying for higher content licensing costs - and integrating all other subscriptions for one monthly bill

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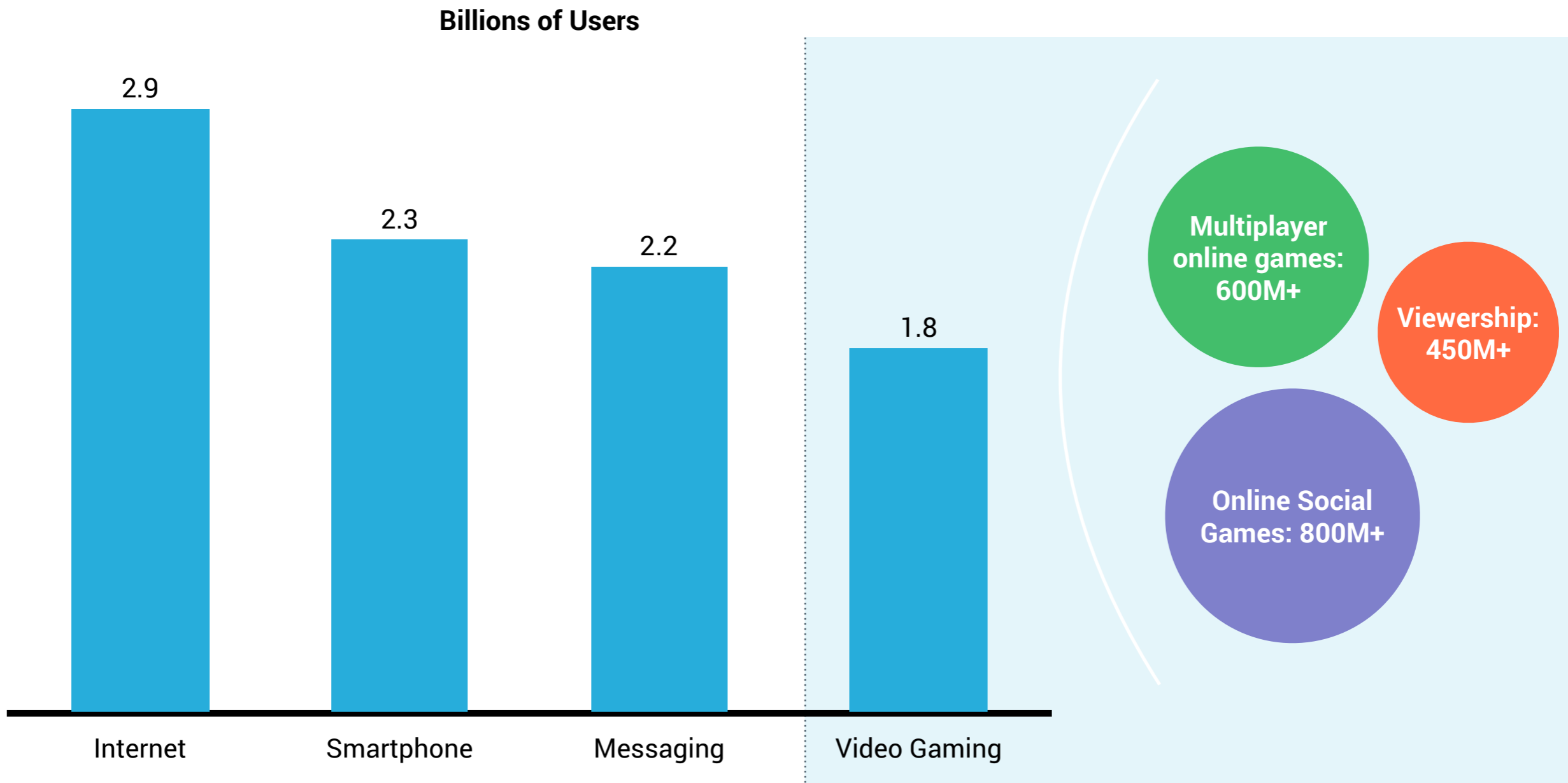
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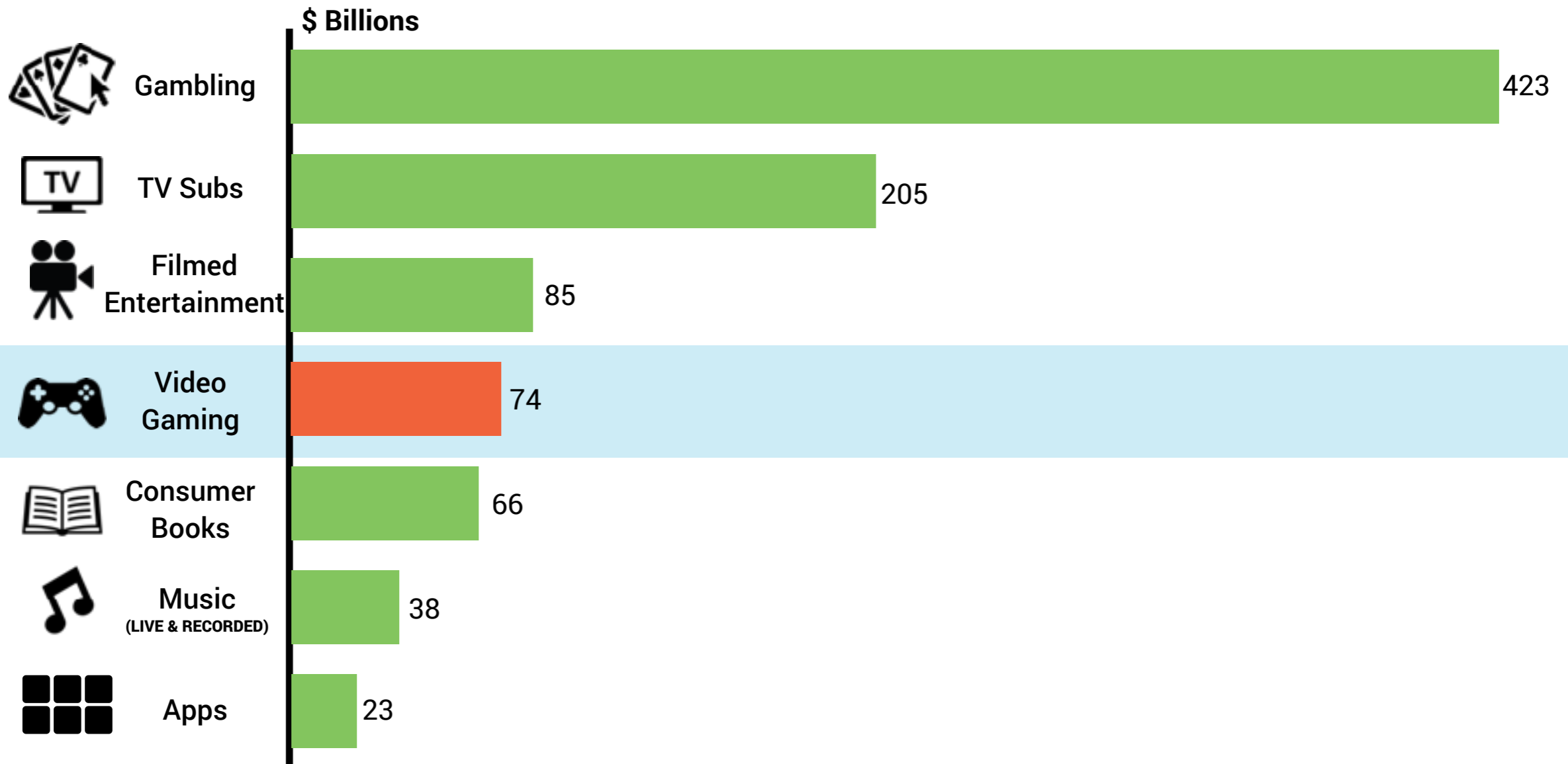
Video gaming is one of the most widespread consumer behaviors with ~2 Billion highly networked and connected users worldwide – and growing

Number of Users by Tech Platform, Global, 2014

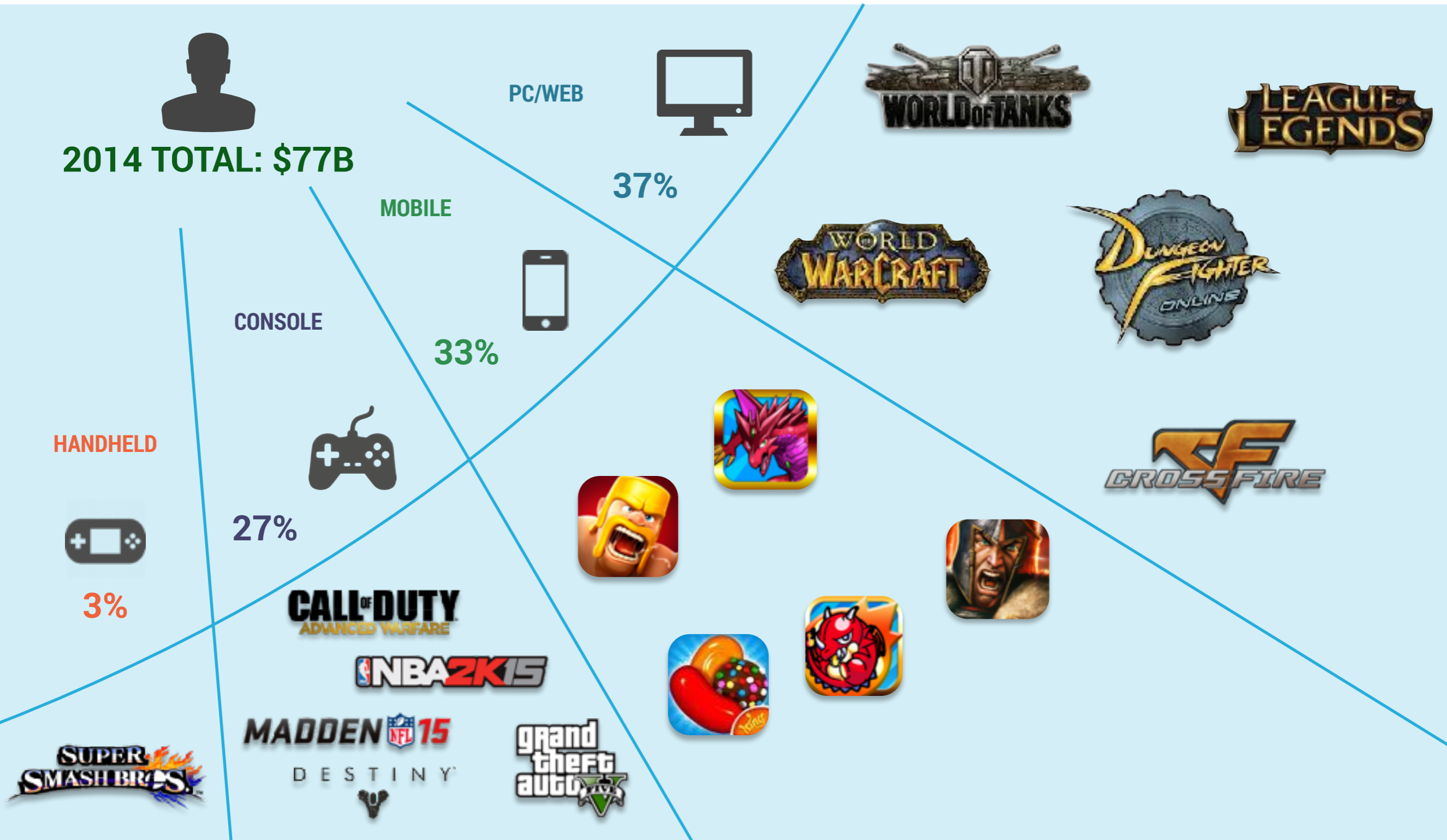


Global spend of \$74 Billion is likely to expand as video gaming broadens to include advertising and gambling streams

Consumer Spend on Major Entertainment Segments, Global, 2014















PC/Web is the leading video gaming platform by revenues, with mobile as a close second



The top games across PC/Web, Console and Handheld are increasingly multiplayer – mobile is the exception

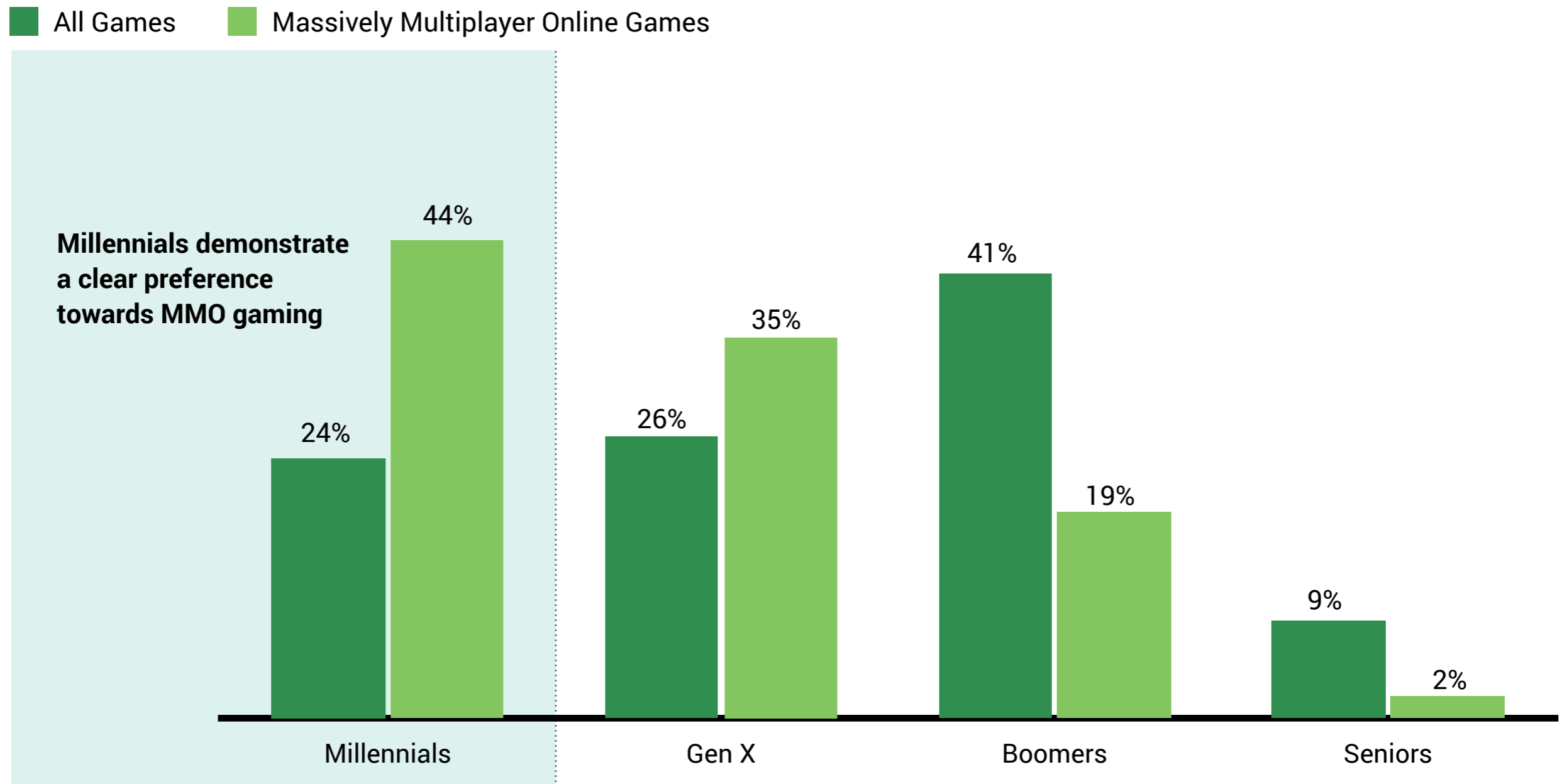
Most Popular Games by Platform

Online Multiplayer

PC/Web	Mobile	Console	Handheld
			
			
			

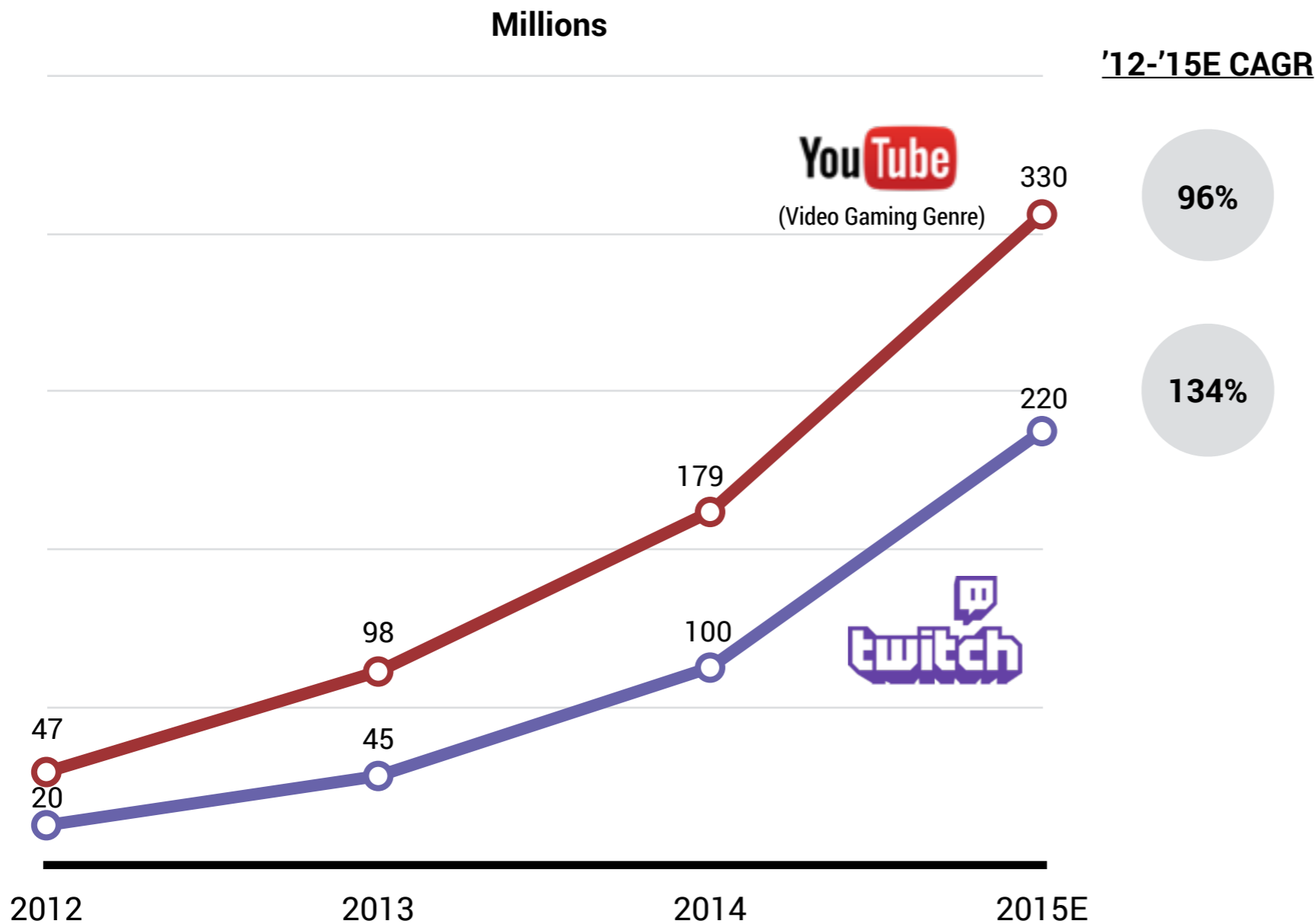
The growth of multiplayer gaming will be driven by Millennials

Consumer Spend on Major Entertainment Segments, Global, 2014



Video gaming has now broadened beyond individual players to include a wider spectator audience

YouTube Video Gaming and Twitch Monthly Unique Visitors, Global, 2012-2015E



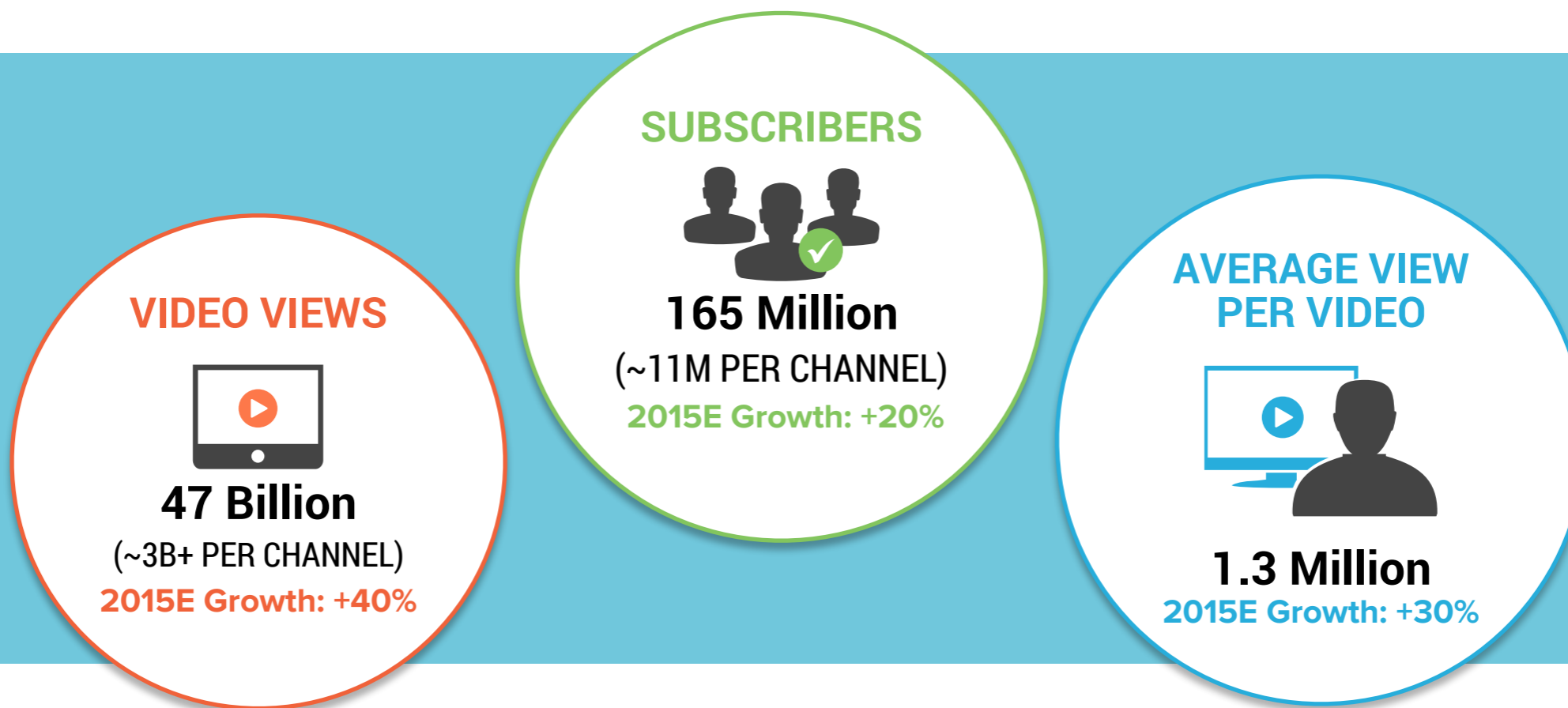
Global viewership reached 450M+ in 2015

Gaming as video content includes:

- Gameplay commentaries
- Professional gaming competitions
- Tutorials
- Video game trailers
- Walkthroughs

YouTube viewership for gaming channels demonstrates the massive consumer interest in video gaming

Metrics for the Top 15 YouTube Video Gaming Channels*



Top 5 Channels:



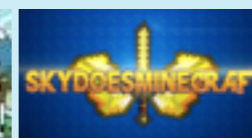
PewDiePie



VanossGaming



elrubiusOMG



SkyDoesMinecraft



JuegaGerman

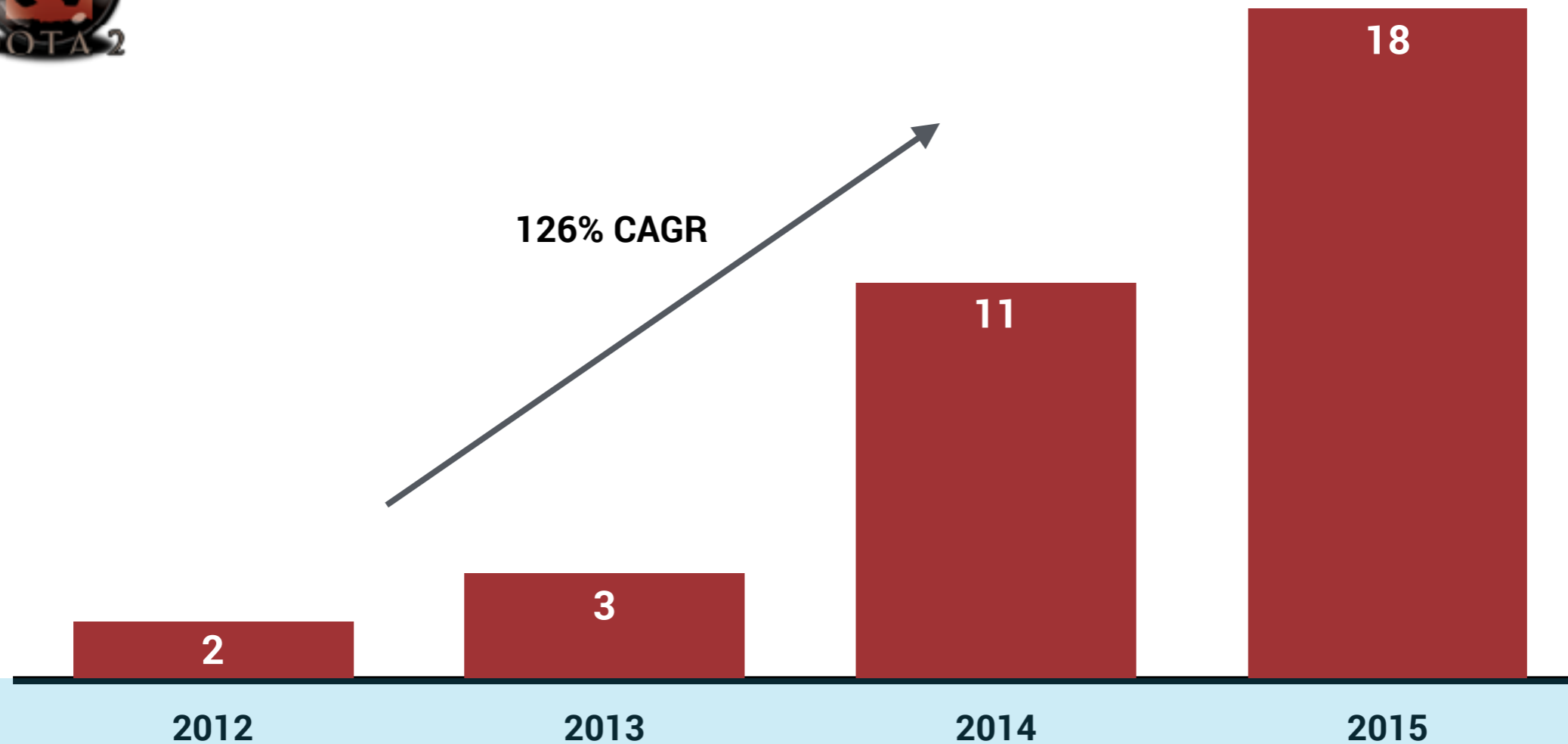
Organized multiplayer video game competitions are emerging as a formidable spectator sport: eSports

Examples of Major eSports Tournaments



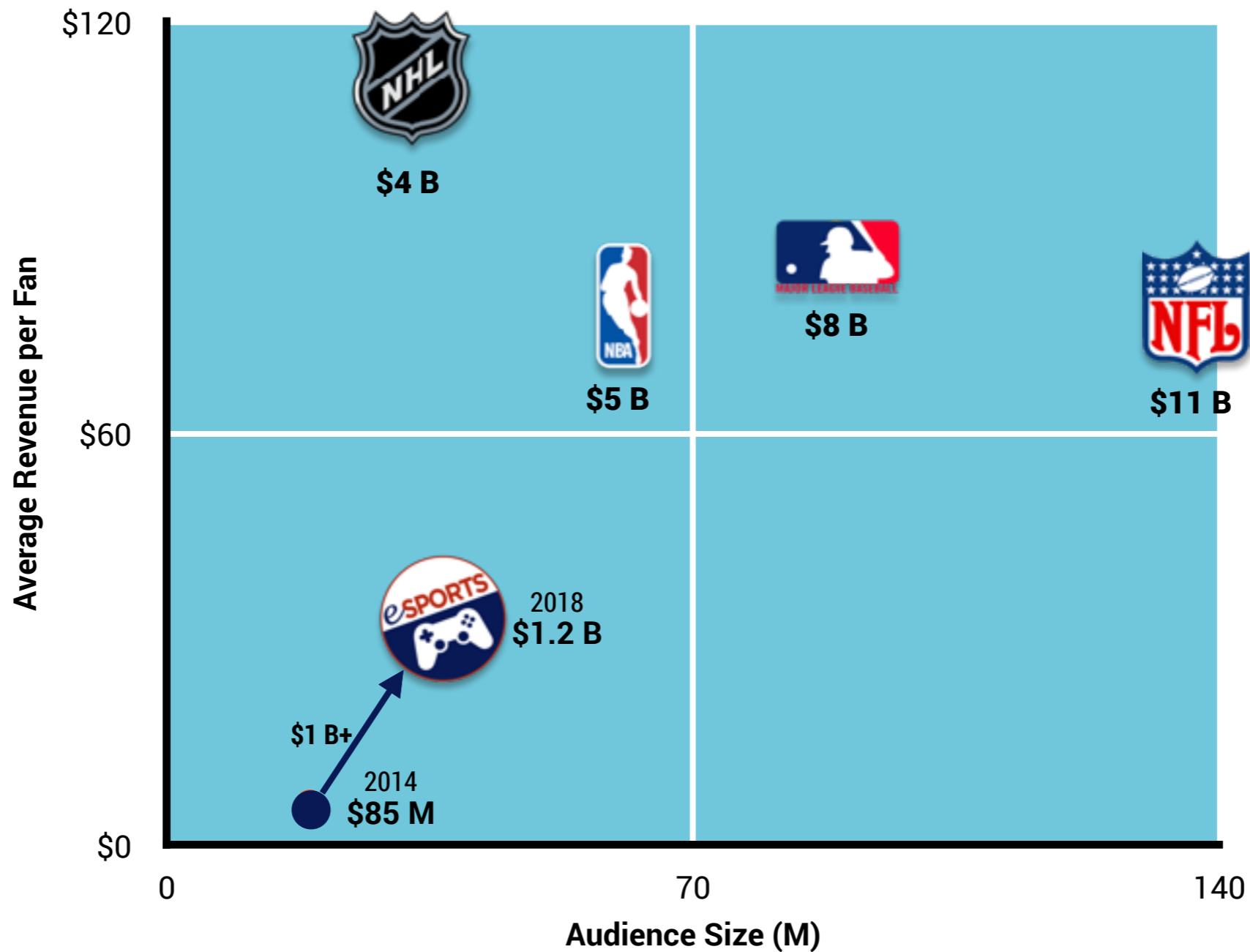
Growth in tournament prize pools - which are largely crowdfunded by fans - illustrates potential of eSports

Dota 2 Example: Growth in Tournament Prize Pool, \$M



If eSports organized as a league, our forecast indicates that it would become a \$1 Billion + business in the U.S. by 2018

Activate Forecast for eSports, U.S., 2018E

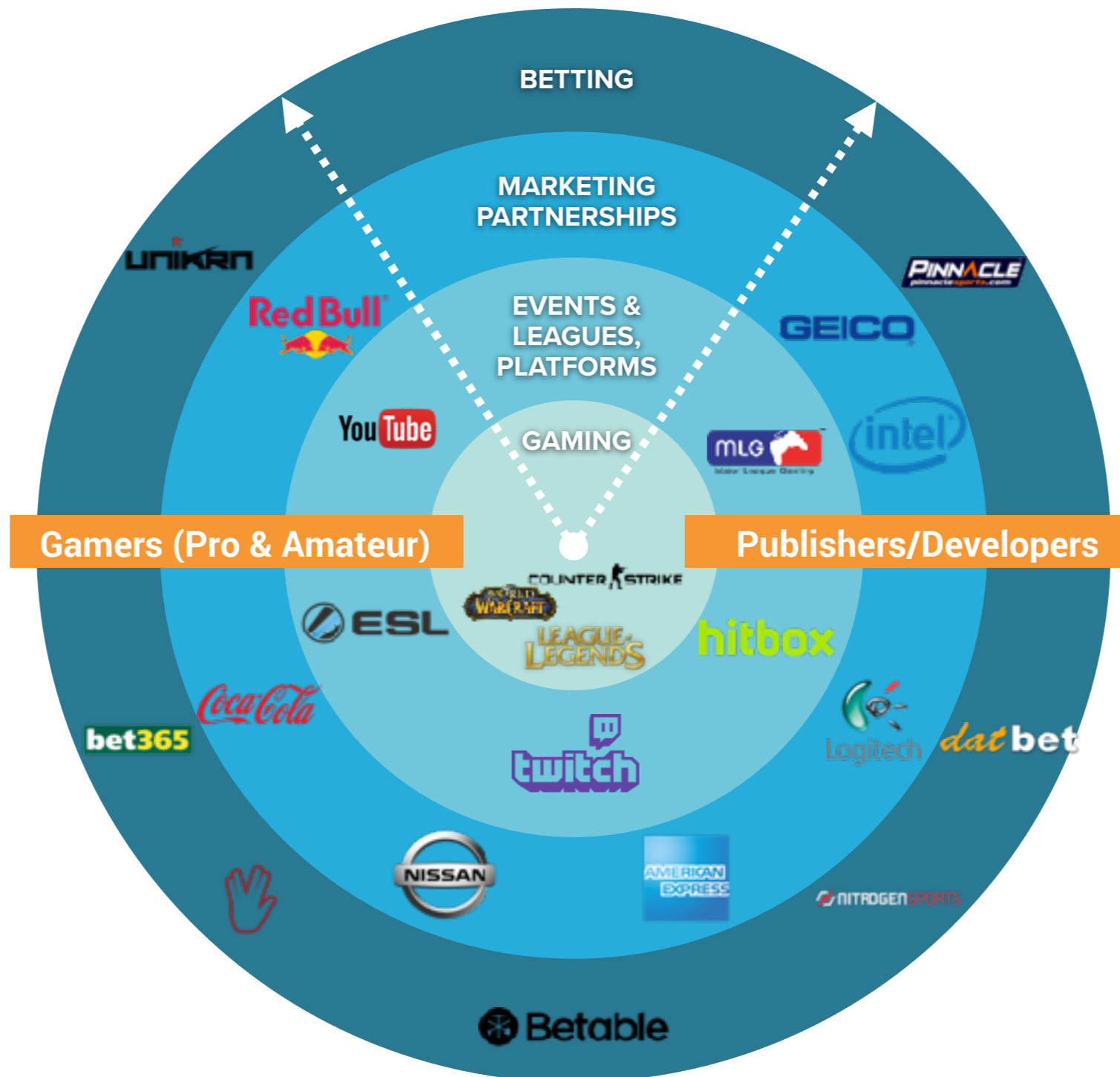


eSports will be a \$4 Billion global business by 2018

Activate Forecast: eSports Revenue, Global, 2018E



As it grows, eSports will develop its own economy, extending from multiplayer games to marketing partnerships, and eventually betting



Real money wagering will become an integral part of the video gaming experience

WAGERING

Real-money betting layer into games and other digital entertainment experiences



New form of video game **MONETIZATION** (beyond ads, Freemium, Subscription)



SKILL-BASED - require players to make multiple decisions and use strategies (not games of chance)



SOCIAL - creates an environment of community and competition



First person and spectator mainly on online multiplayer games, **eSPORTS EVENTS**

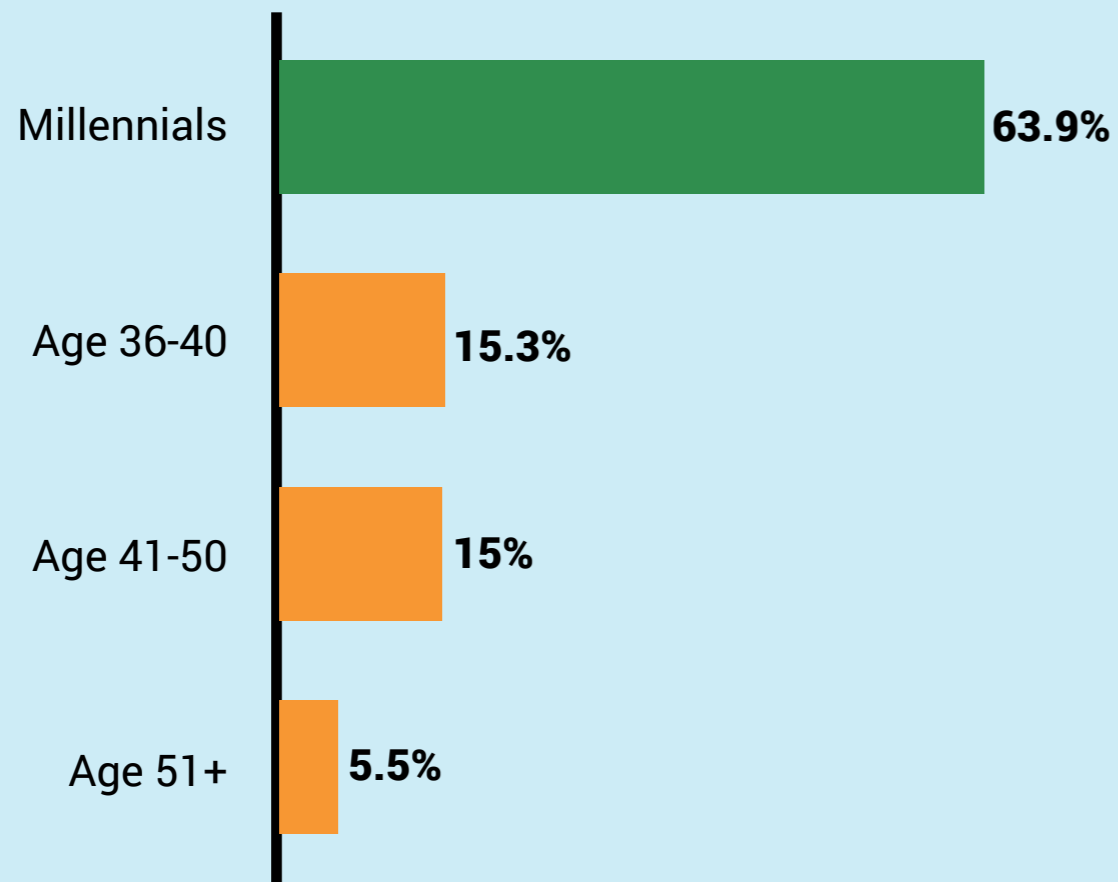
Why? Millennials find skill-based wagering a compelling leisure activity - and are not interested in rudimentary gambling

Ability to Deliver ○ Low ● High

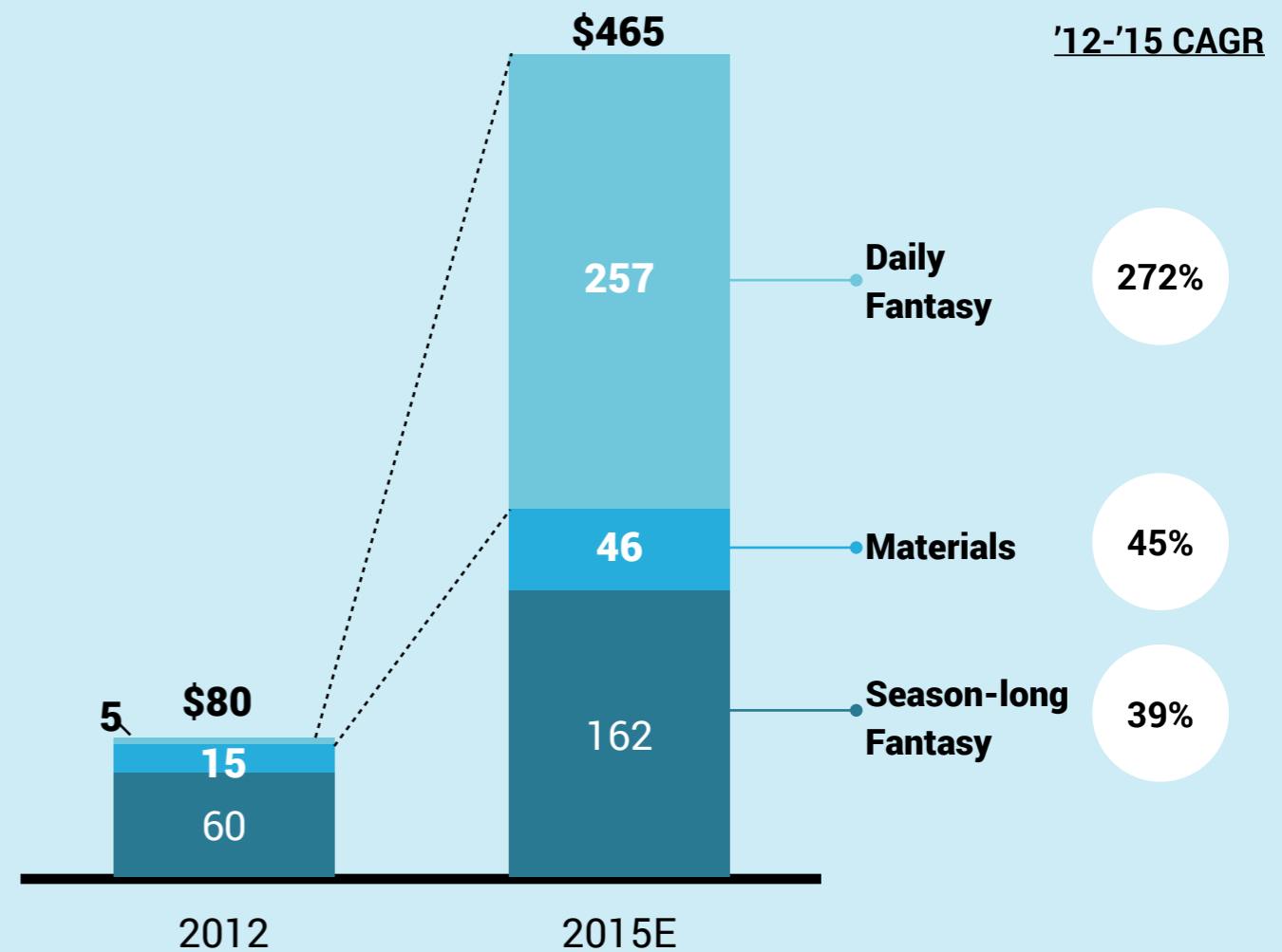
Millennial Preferences	Description	Casino Gambling	Season Fantasy	Daily Fantasy
ACCESSIBLE	Easy access from any location and platform (e.g. PC, smartphone, tablet)	○	●	●
EXPERIENTIAL	Interactive content consumption - cannot be consumed passively	●	●	●
IMMEDIATE	Available any time, provides instant gratification	●	◐	●
PERSONALIZED	Content created or customized based on personal preferences	○	●	●
SOCIAL	Peer-led, community-based participative experience	◑	●	●

Millennials' preference in skill-based wagering is demonstrated by their interest in daily fantasy sports

DEMOGRAPHICS OF U.S. DAILY FANTASY PLAYERS, 2015
n=1,243



AVERAGE SPEND BREAKDOWN PER PLAYER*



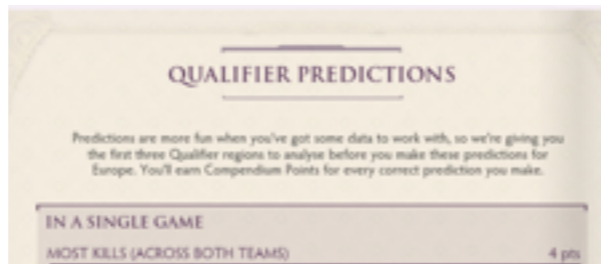
Today, players pay to participate and fund prize pools for eSports tournaments, but can only win virtual goods/currency themselves



1

The Compendium is a one-time purchase for \$9.99:

- 25% of purchase price gets added to the International Prize Pool
- In 2015, total contributions amounted over \$17M of the prize pool for Dota 2 eSports tournament



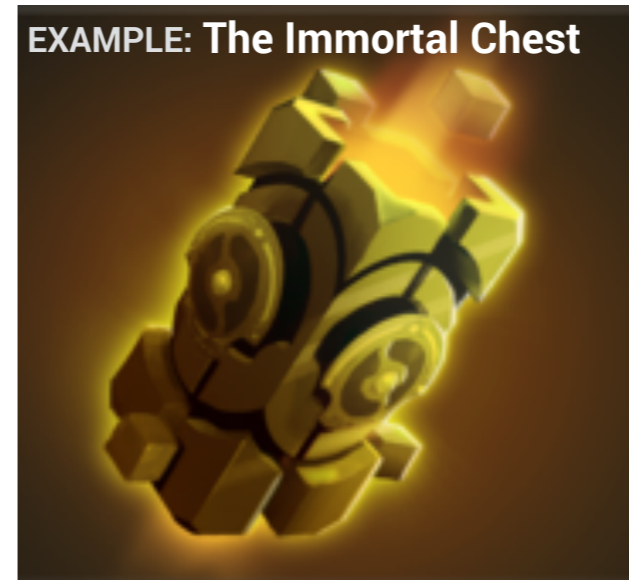
2

Purchase provides player stats and history, enabling purchasers to make predictions for Dota 2 tournament and qualifiers, e.g.:

- Player with most kills
- Largest critical hit
- Latest first blood

3

Correctly making predictions earns points



EXAMPLE: The Immortal Chest

4

Points can be redeemed for rewards, but points remain virtual and rewards do not always pertain to player preferences

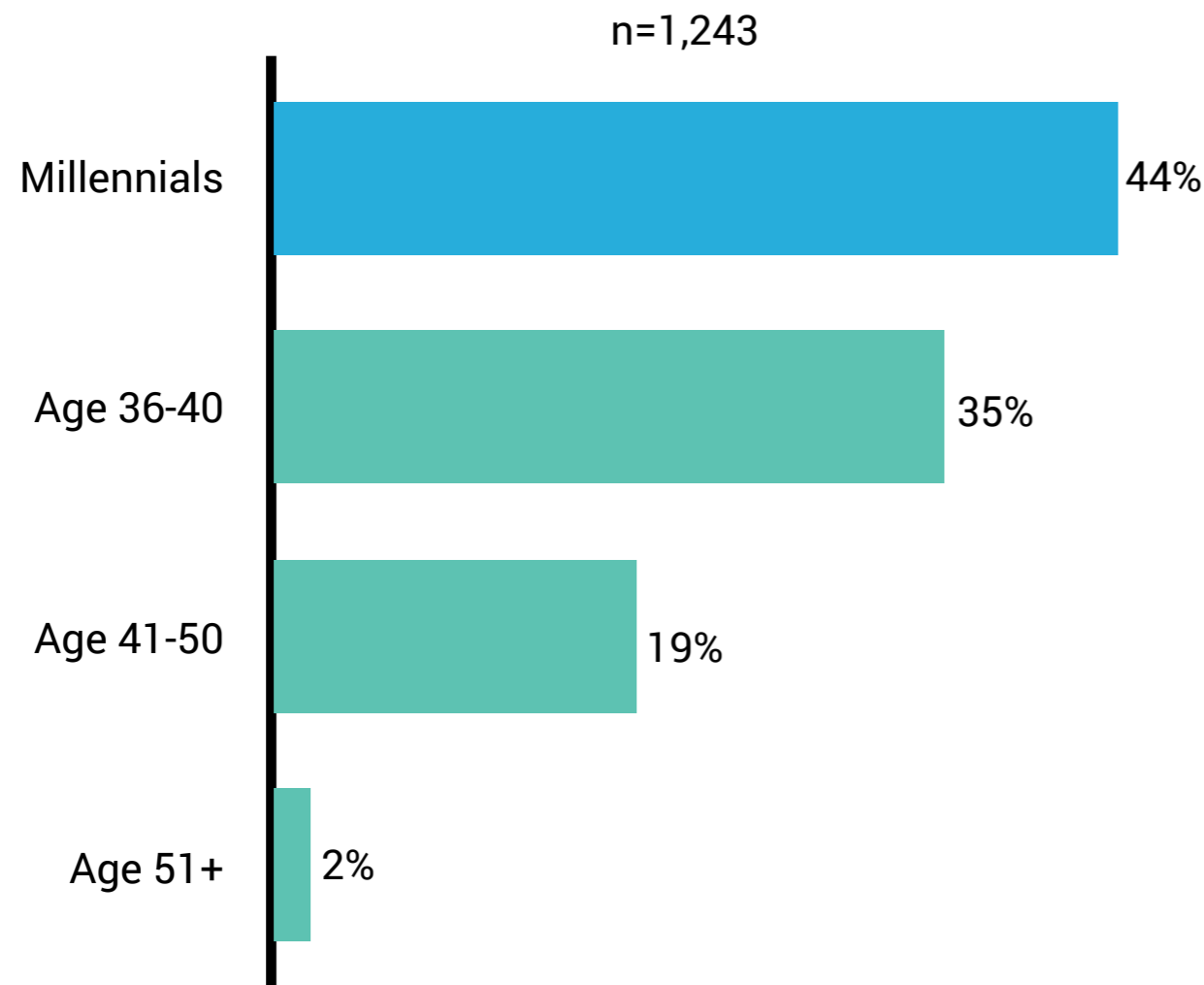
WAGERING ALTERNATIVE

Use real money for increased transparency and engagement

Allows players to pick and purchase items of preference

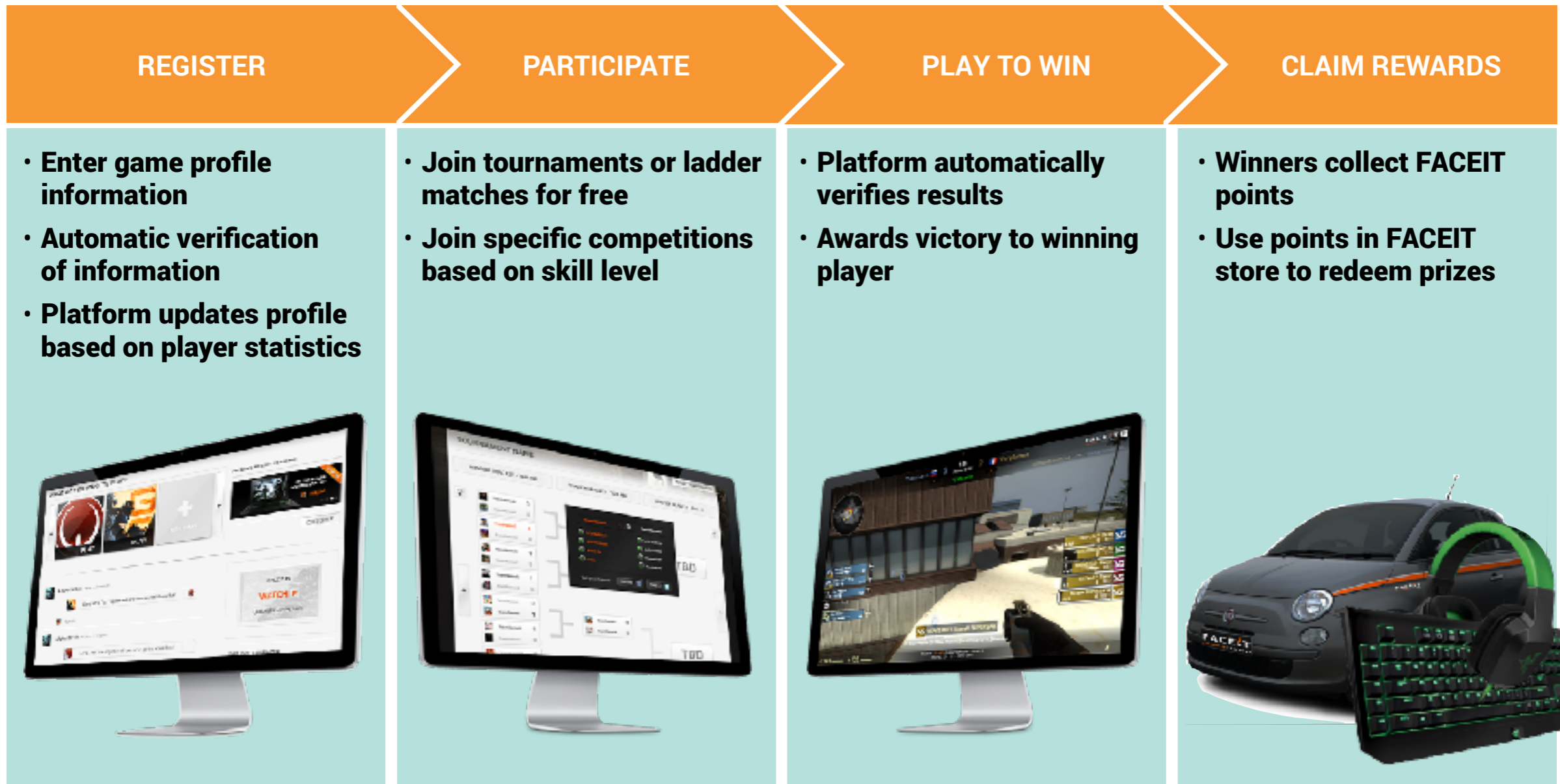
Millennials favor real money rewards for in-game competitions

Players of Massively Multiplayer Online Games by Age Segment



Early examples of real-money wagering are already taking place - but off platform

COUNTER STRIKE FIRST-PERSON EXAMPLE: HOW TO EARN REAL MONEY REWARDS USING **FACEIT** GAMING PLATFORM

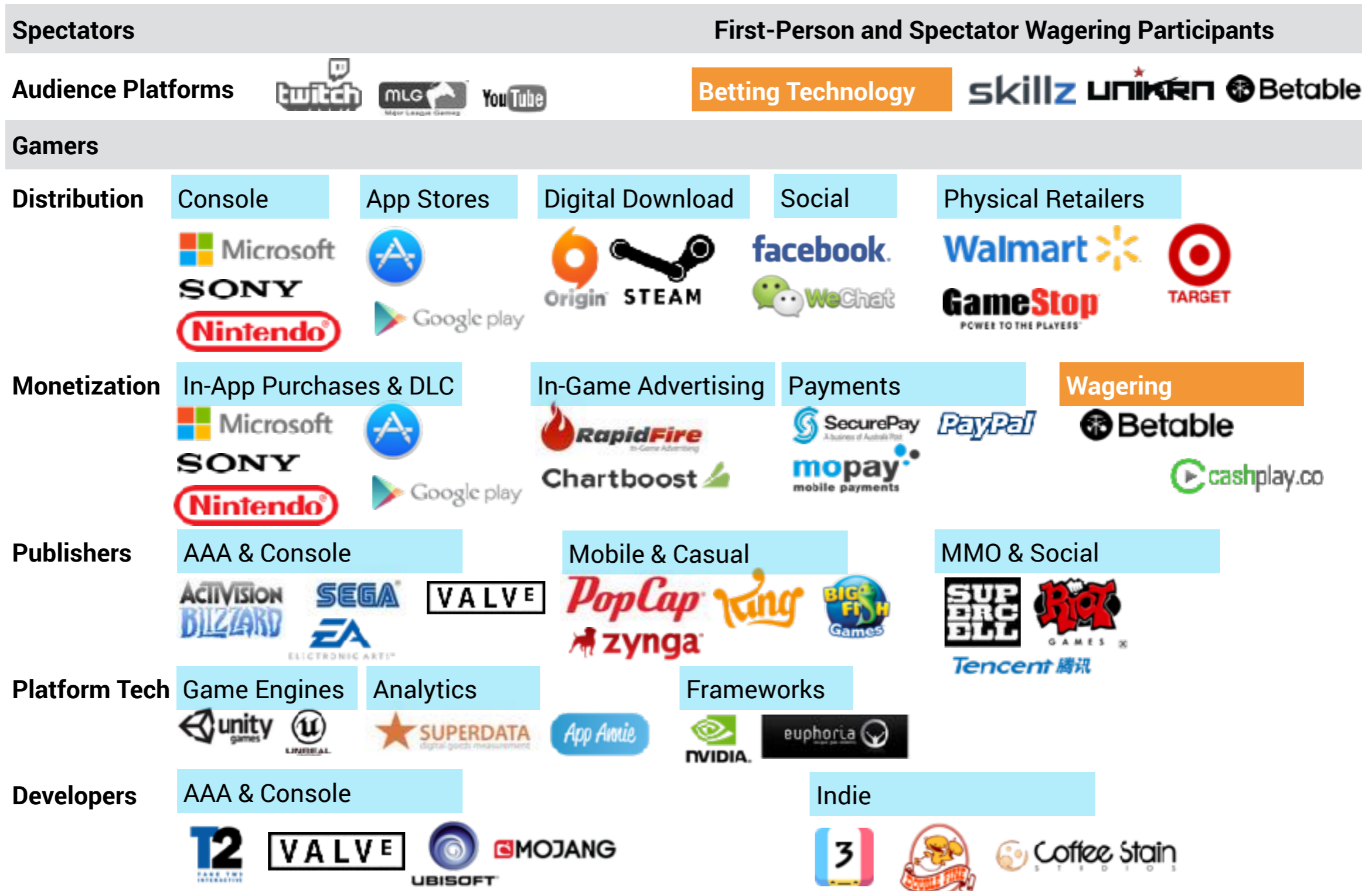


Top multiplayer online games with mass audiences will likely be the first to feature wagering

Examples of Popular MMO Games by Type

Massively Multiplayer Online Games			
Battle Arena (MOBA)	First Person Shooter (MMOFPS)	Role-Playing Game (MMORPG)	Strategy Games
			
			
			
			

The \$80 Billion+ video gaming ecosystem will evolve to include tech that enables wagering as monetization of audiences



To capitalize on the growth potential, the industry will continue to integrate media, entertainment, and tech companies through...

...Mergers and Acquisitions

Completed Examples (2015 YTD)

TALENT	
WME IMG	GLOBAL ESPORTS MANAGEMENT
EVENTS, LEAGUES, PLATFORMS	
CINEPLEX ENTERTAINMENT	WORLD GAMING
GAME	MULTIPLAY
WAGERING	
FanDuel	ALPHA DRAFT
UNIKRN	
ANALYTICS	
DOTABUFF	

...Strategic Partnerships

Announced Examples (2015 YTD)

WEB TV	
twitch	NFL EA SPORTS
facebook.	MLG Major League Gaming
TRADITIONAL MEDIA	
ESPN	ACTIVISION BLIZZARD
TURNER A Time Warner Company	WME IMG VALVE
tbs	
WAGERING (INCL. BETTING TECH)	
DRAFT KINGS	SM
cashplay.co	mouse sports
	CLOUD9
	GAMBLIFY

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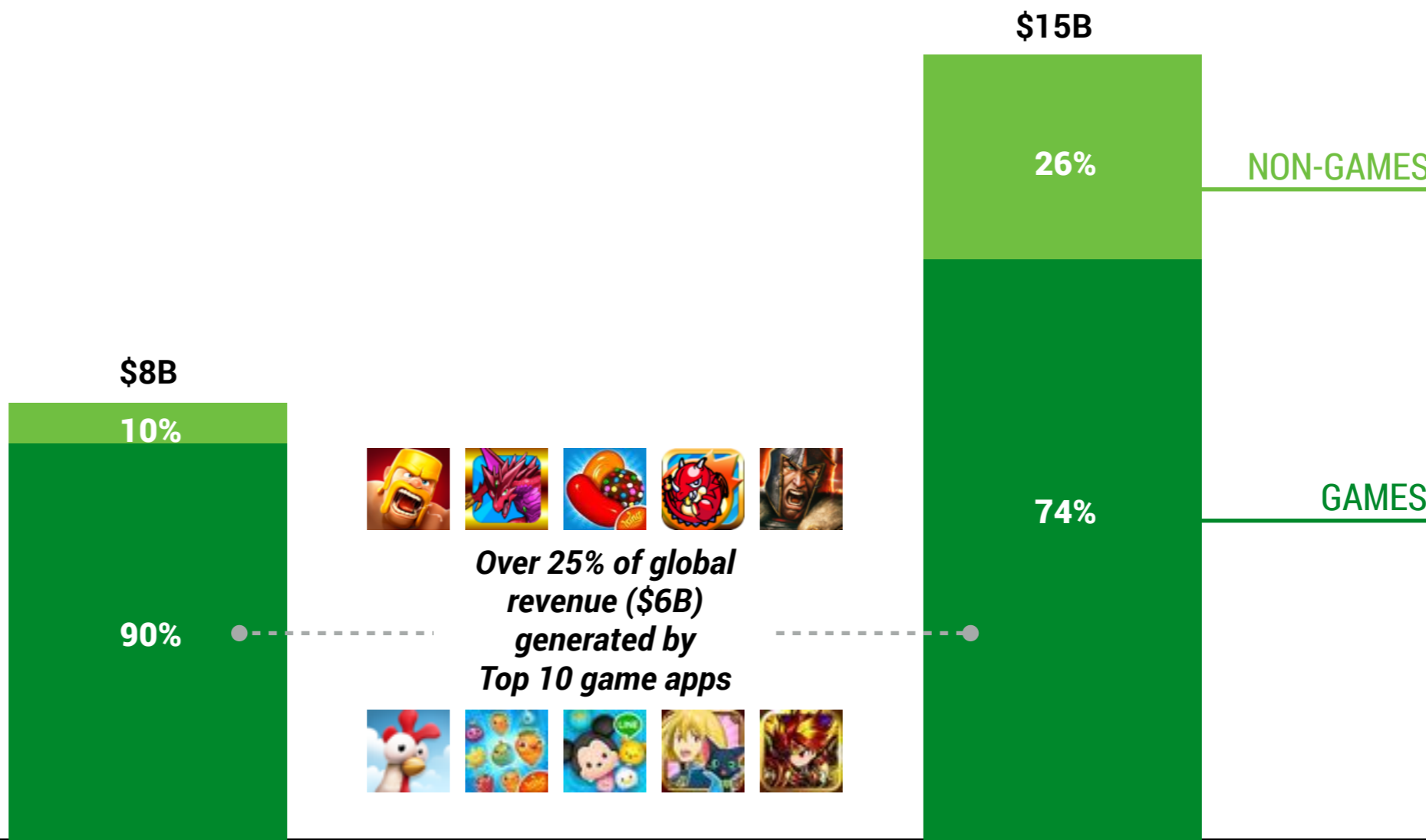
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THE DREAM OF THE INDEPENDENT DEVELOPER BUILDING A BUSINESS IN THE APP STORE IS OVER

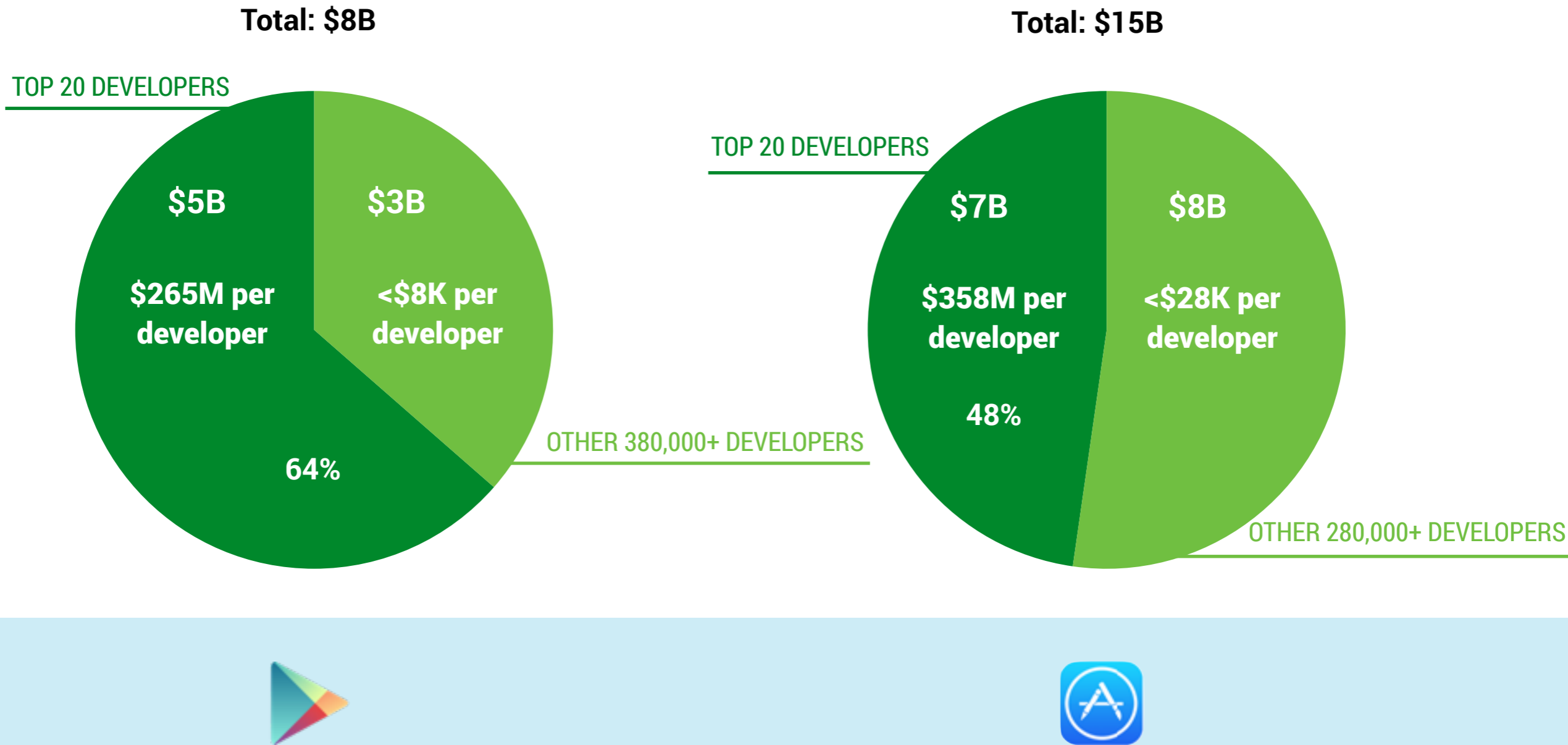
The top 10 games take 25% of the \$23 Billion in global app revenue

Google Play & iTunes App Store Revenues, Global, 2014

Total: \$23B



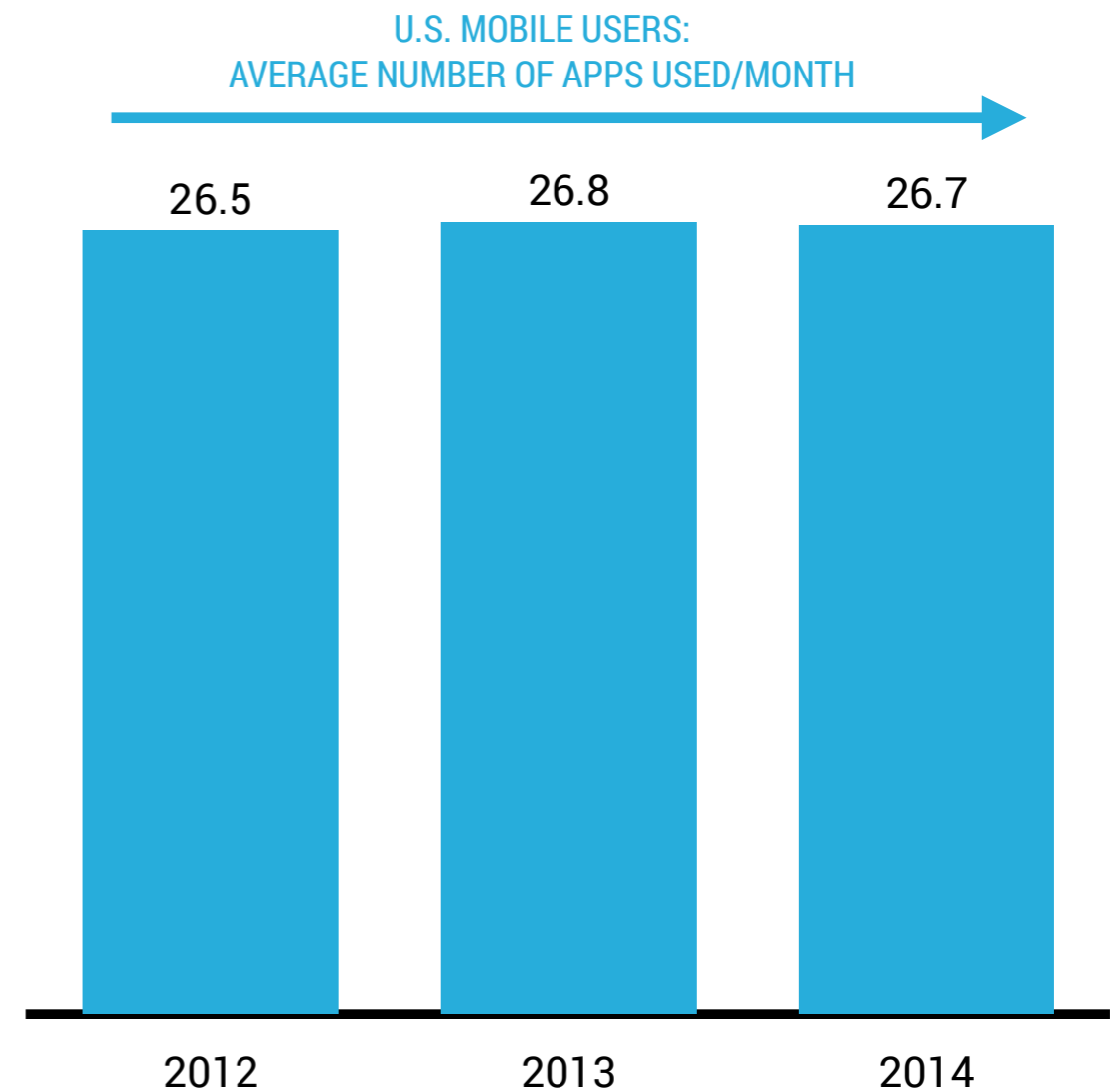
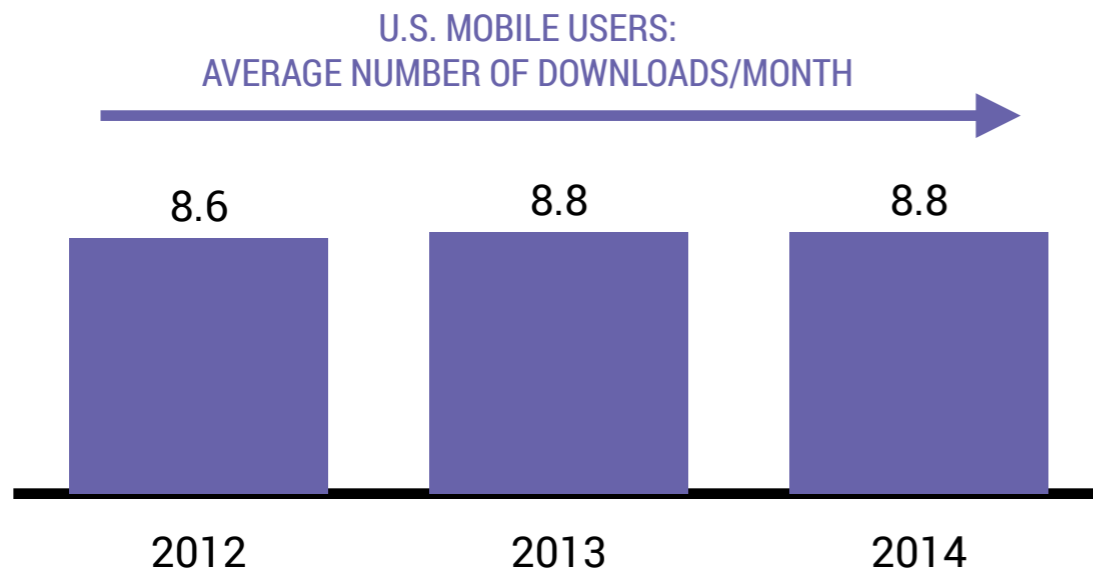
The number of developers on a platform doesn't matter if the top 20 publishers take most of the money



Despite massive number of available apps, users are downloading and using the same number of apps

Number of downloads remain unchanged...

...as do the number of apps used

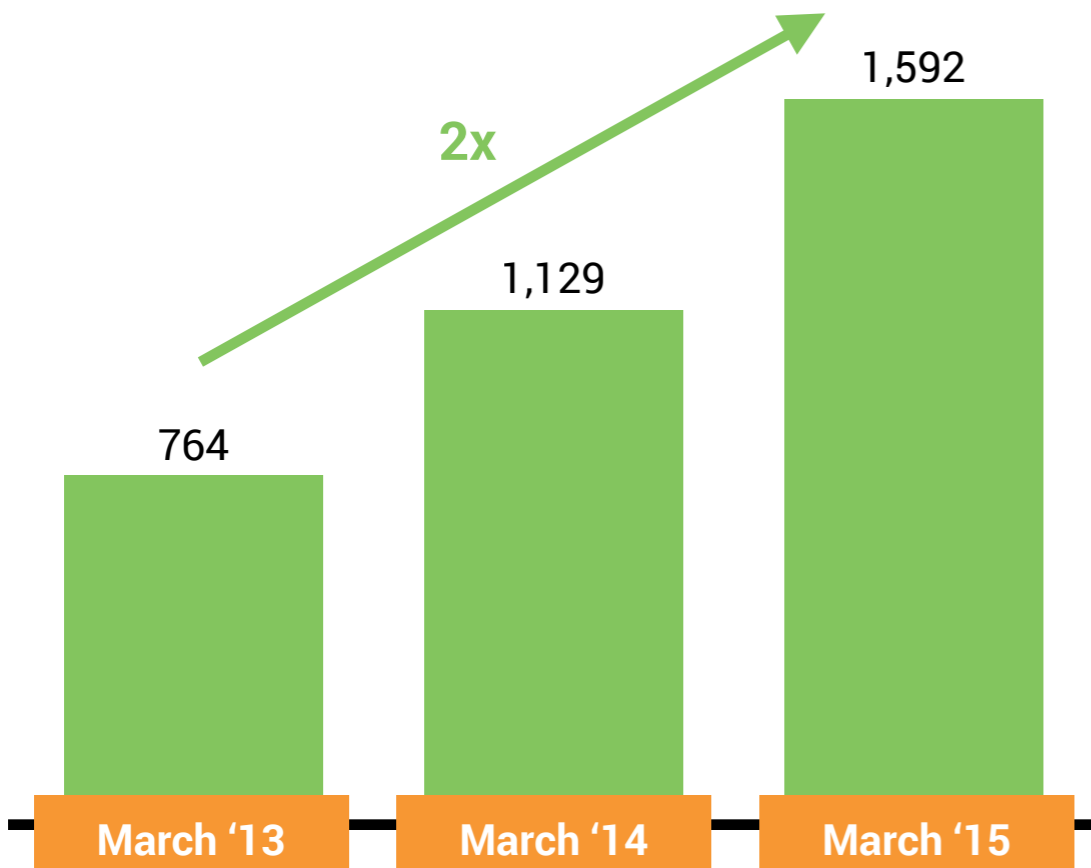


Discoverability continues to be a barrier to the long-tail as app count and cost per install increase concurrently

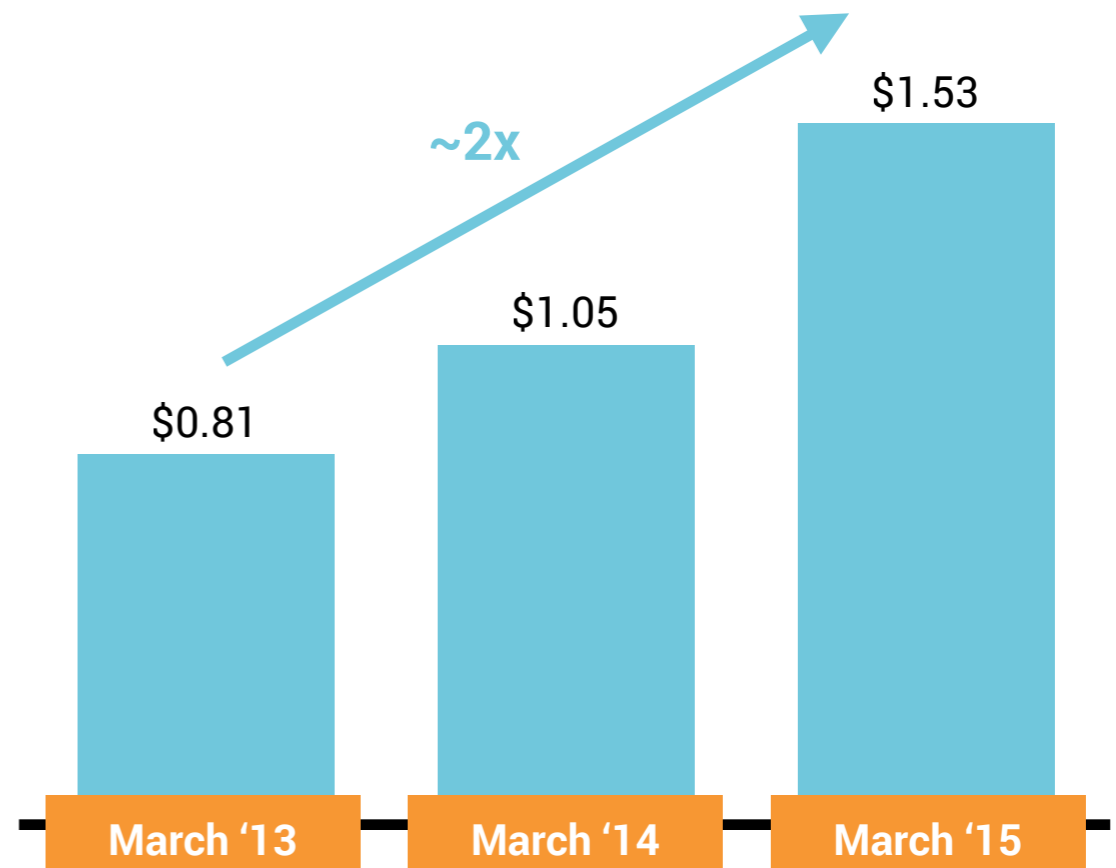
App count continues to grow exponentially...

...along with the cost to earn downloads

U.S. ITUNES APP STORE: ACTIVE APP COUNT
THOUSANDS

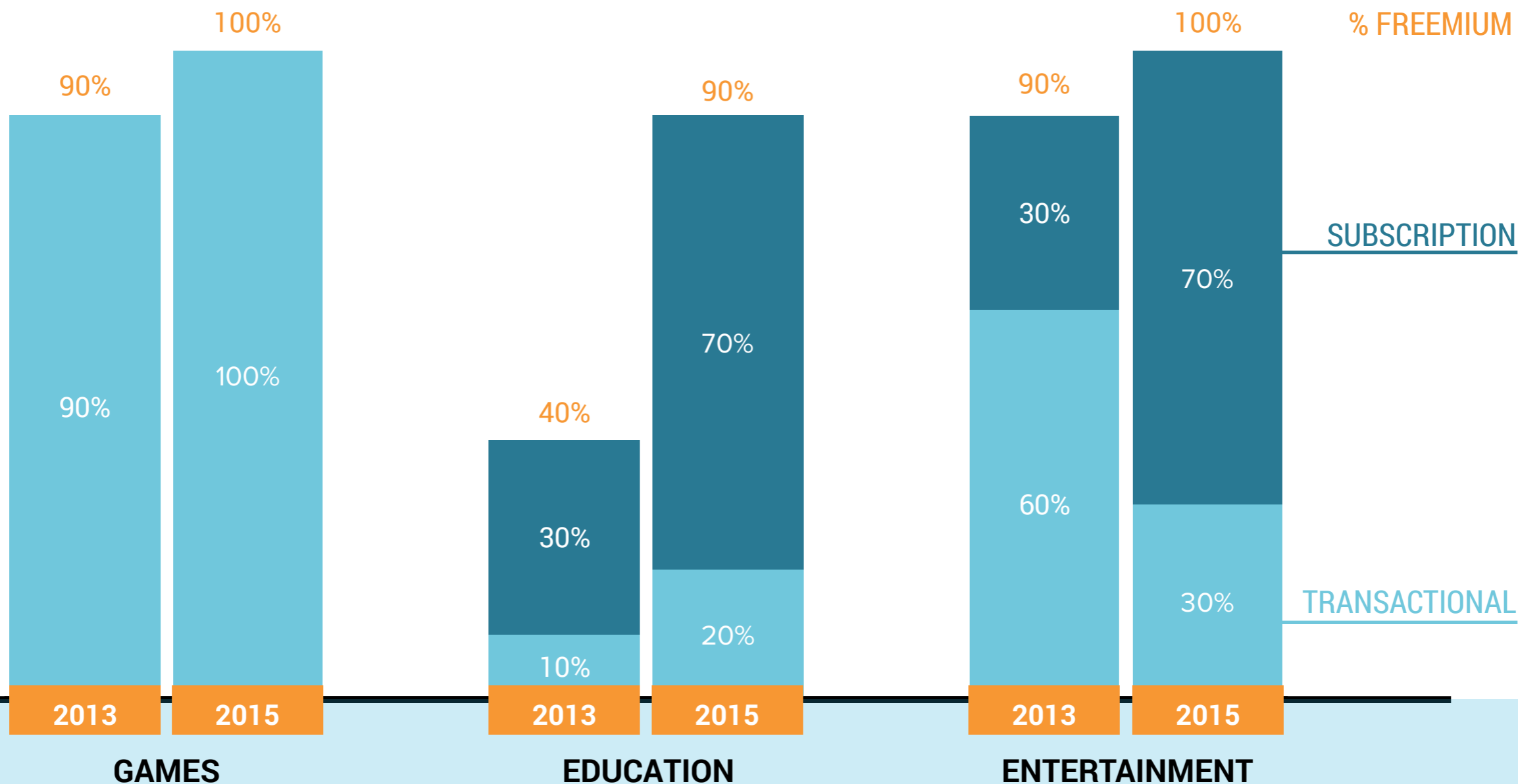


U.S. ITUNES APP STORE: COST PER INSTALL DIRECTLY
ATTRIBUTED TO ADVERTISING



Freemium has become the prevalent business model for top grossing app categories, with subscription dominating except for games

Freemium Apps as % of Top 10 Grossing Apps at iTunes App Store, Global



The majority of top apps by unique visitors monetize outside of the app store

Top apps in iTunes App Store, U.S., June 2015

Rank	App Name	Unique Visitors (M)	Growth	Business Model	
				Generates App Store Revenue?	
				YES	NO
1	Facebook	125.7	0.09		•
2	YouTube	98.9	0.18		•
3	Facebook Messenger	95.7	1.44		•
4	Google Search	81.1	0.16		•
5	Google Play Music	77.4	0.07	•	
6	Google Maps	76.5	0.19		•
7	Pandora Radio	74.2	0.08	•	
8	Gmail	67.9	0.13		•
9	Instagram	63.1	0.35		•
10	Apple Music*	49.7	0.22	•	
11	Apple Maps	49.3	0.17		•
12	Yahoo Stocks	46.4	0.1		•
13	Amazon Mobile	43.7	0.65		•
14	Twitter	41.3	0.19		•
15	Pinterest	40.8	0.66		•
16	The Weather Channel	35.8	0.17		•
17	Snapchat	34.1	0.29	•	
18	Google+	33.1	0.15		•
19	Netflix	32.8	0.18	•	
20	Weather Channel Widget	32	N/A		•

15 OF THE TOP 20 APPS do not generate any app store revenue


A new wave of companies are building businesses by using the app store for distribution and engagement, but not monetization

Instacart

oscar

 **airbnb**

 **slack**

 **Square**

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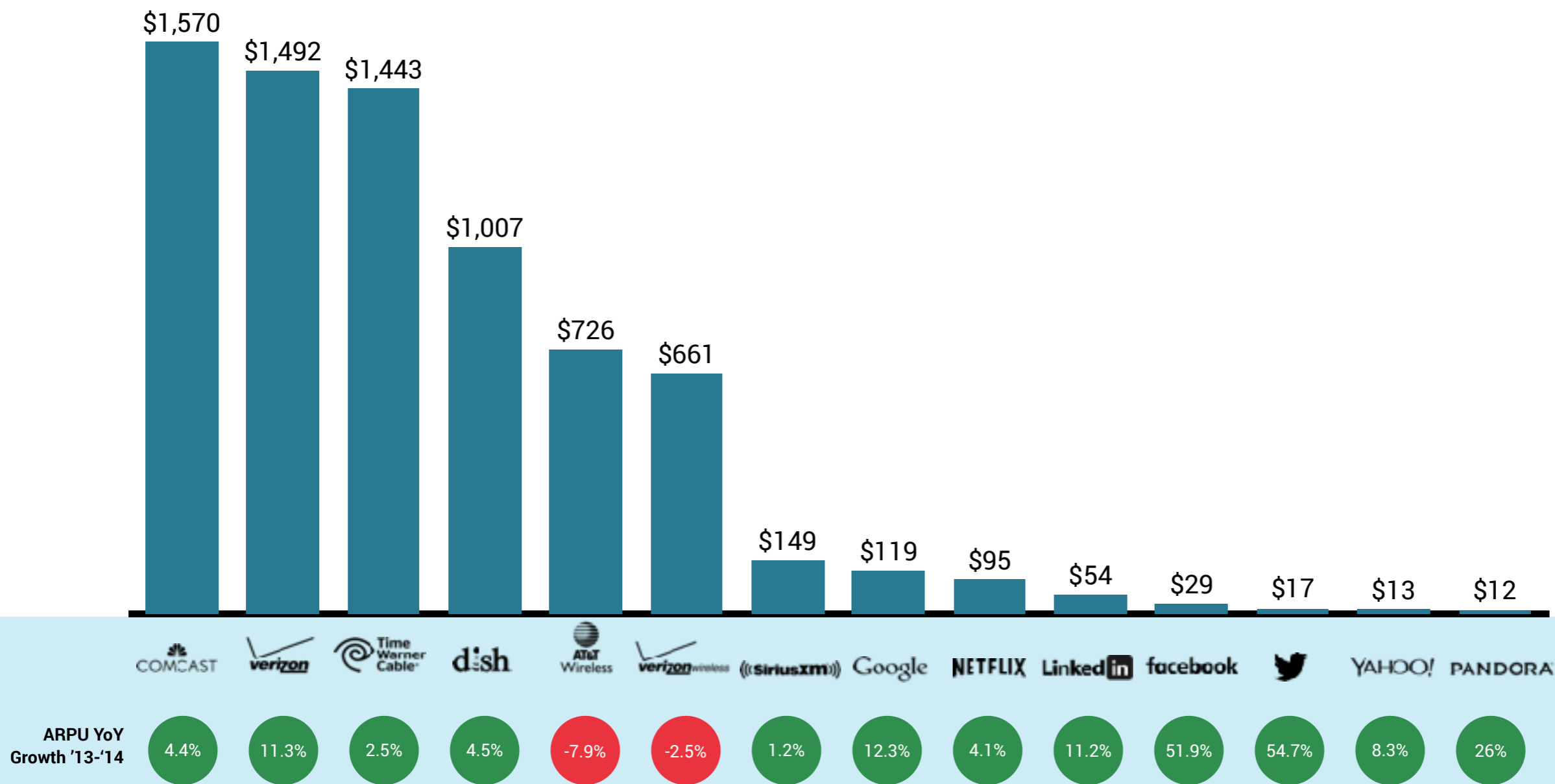
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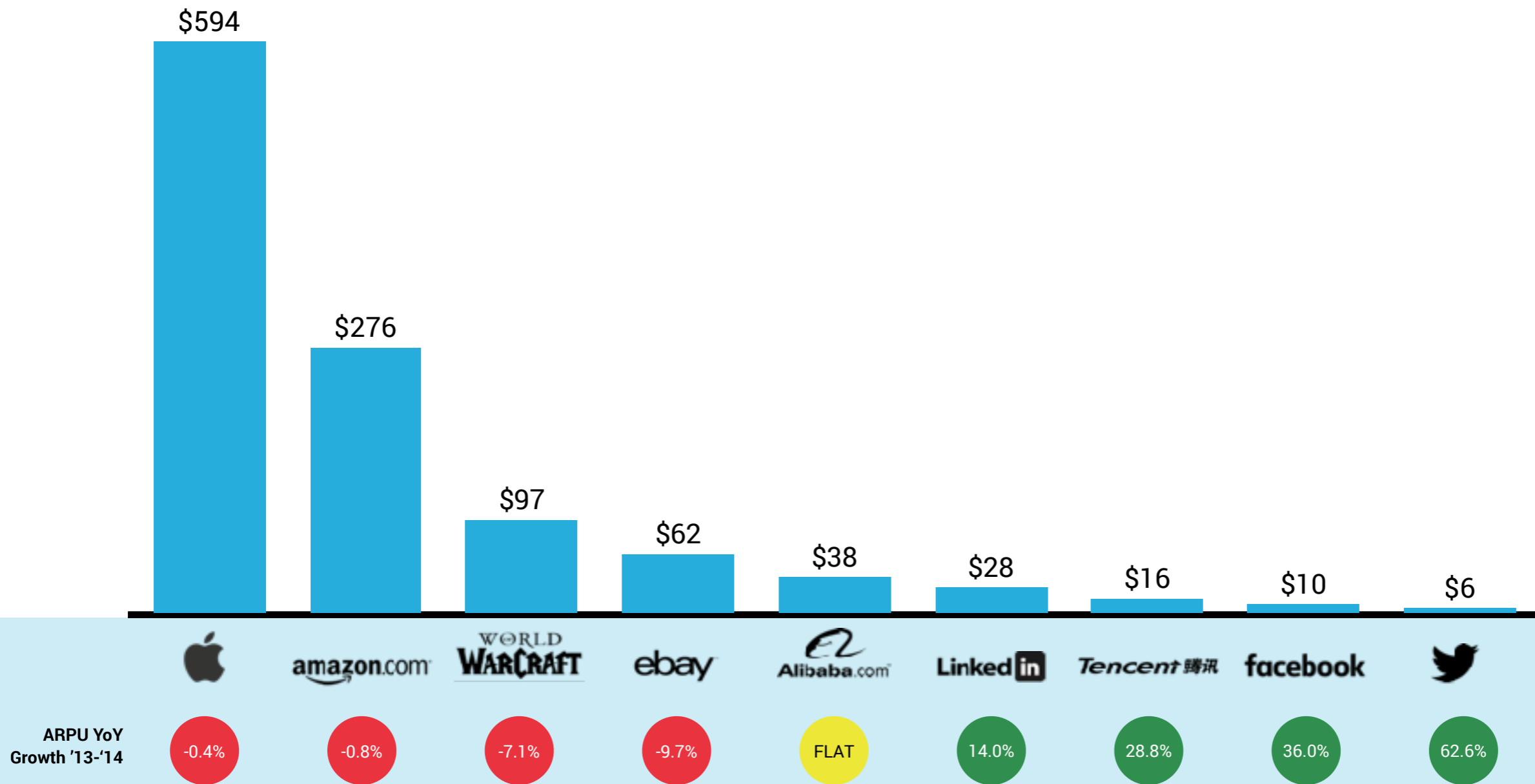
Not surprisingly, the Pay TV providers continue to capture the highest average revenue per user in the U.S.

Annual ARPU: U.S., 2014



Globally, wide range of growth and average revenue per user across consumer tech and media companies

Annual ARPU: Global, 2014



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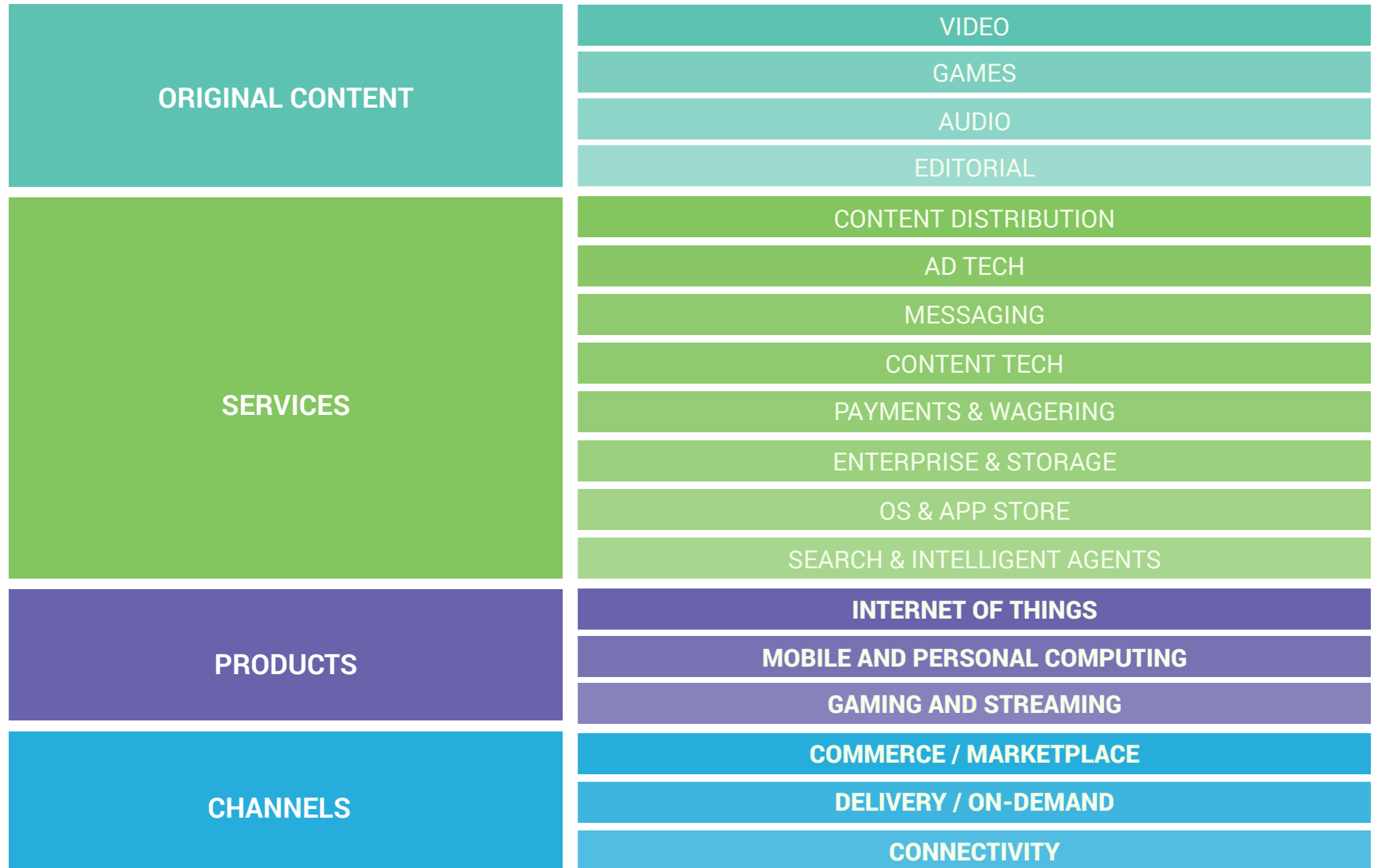
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The Tech & Media world is evolving into an increasingly unified stack



Not surprisingly, all of the major players are trying to solve many of the same problems and attempting to play in multiple layers

	U.S. BASED							ASIA		CHINA			
	amazon	Apple	COMCAST	Disney	facebook	Google	Microsoft	YAHOO!	SAMSUNG	SONY	Alibaba.com	Bai 百度	Tencent 腾讯
VIDEO	•	•	•	•	•	•		•		•	•	•	•
GAMES	•			•			•	•		•			•
AUDIO	•	•		•		•				•	•		•
EDITORIAL			•	•				•			•	•	•
CONTENT DISTRIBUTION	•	•	•	•	•	•	•	•	•	•	•	•	•
AD TECH	•	•	•	•	•	•	•	•			•	•	•
MESSAGING		•			•	•	•	•			•	•	•
CONTENT TECH													
PAYMENTS AND WAGERING	•	•			•	•	•		•		•	•	•
ENTERPRISE & STORAGE	•	•				•	•		•	•	•	•	•
OS & APP STORE	•	•				•	•		•		•	•	•
SEARCH & INTELLIGENT AGENTS						•	•	•			•	•	•
INTERNET OF THINGS	•	•		•	•	•	•		•	•	•	•	•
MOBILE & DEVICES	•	•		•		•	•		•	•			
GAMING & STREAMING	•	•	•	•		•	•		•	•	•	•	•
COMMERCE / MARKETPLACE	•	•		•		•	•		•	•	•	•	•
DELIVERY / ON-DEMAND	•					•					•	•	•
CONNECTIVITY			•			•							

**WE CAN ANTICIPATE THE NEXT STRATEGIC MOVES
OF MAJOR CONSUMER TECH AND MEDIA PLAYERS
BY IDENTIFYING THE LAYERS THEY'RE MISSING**

Expect the next wave of M&A activity to be driven by larger players looking to fill in the gaps with the independent players

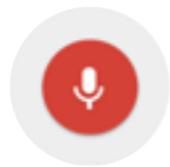
KEY INDEPENDENT PLAYERS IN EACH LAYER

VIDEO	
GAMES	
AUDIO	
EDITORIAL	
CONTENT DISTRIBUTION	
AD TECH	
MESSAGING	
CONTENT TECH	
PAYMENTS & WAGERING	
ENTERPRISE & STORAGE	
OS & APP STORE	Limited
SEARCH & INTELLIGENT AGENTS	Limited
INTERNET OF THINGS	
MOBILE & DEVICES	Limited
GAMING & STREAMING	
COMMERCE / MARKETPLACE	
DELIVERY / ON-DEMAND	
CONNECTIVITY	

COMPANIES THAT CAN'T BUY THEIR WAY INTO A LAYER OF THE STACK WILL TRY TO "OVERLAY" IT

BIG PLAYERS MAY ATTEMPT TO ENTER NEW LAYERS BY USING THEIR MARKET STRENGTH IN ADJACENT LAYERS RATHER THAN THEIR DEEP POCKETS.

Major technology players and upstarts are already implementing an overlay strategy for fiercely competitive layers



Google Now, Apple Siri and Microsoft Cortana overlay other search and messaging layers by providing a user interface which bypasses competitors' services completely



Amazon Echo overlays Internet of Things products from other companies, forming an intermediary layer that lets Amazon retain control over the user experience of those devices



Slack's unified search doesn't just provide access to chat messages in Slack, but the contents of files in apps that are connected to Slack, overlaying productivity software in adjacent layers



Microsoft Office 365 is now available on every operating system, overlaying platforms like Android and iOS with an enterprise layer that Microsoft controls



Apple TV overlays the offerings of cable companies and over the top video providers by adding an interface which can search for content without regard for its source, putting control in Apple's hands

Activate: We are the leading strategy consulting firm for technology, media, entertainment and information companies

Activate works with CEOs, senior management teams and principal investors to drive growth and position their companies to win in the dynamic tech and media ecosystem.

We help our clients develop strategies to grow their businesses and capture the opportunities from the innovation and invention reshaping these industries.





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Activate Technology & Media 
Outlook 2016

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