

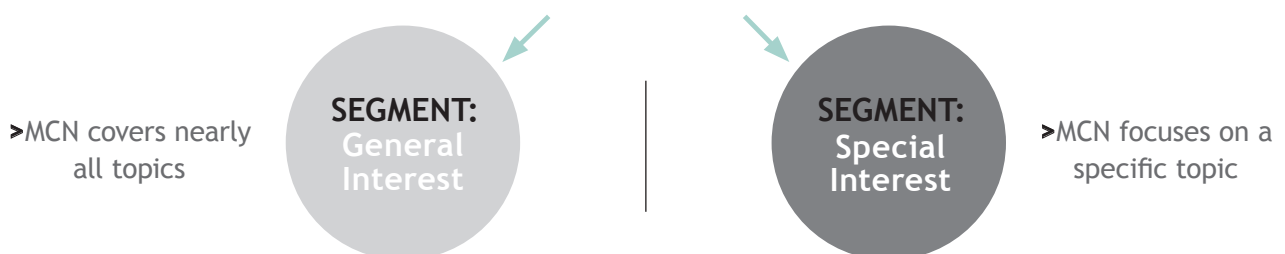
MULTI-CHANNEL NETWORKS

SUMMARY

- Content providers are increasingly presenting their material on YouTube in own channels. Multi-Channel Networks (MCNs) bundle and promote them.¹
- Revenues are principally generated via video advertising - 2013 ad revenues on YouTube are expected to increase to USD 5 billion.²
- In the battle for ad revenues and consumer reach, these networks have become serious competitors to traditional providers of moving pictures.
- As a result, companies like Bertelsmann/RTL Group, ProSiebenSat.1 or Time Warner are investing in existing MCNs or setting up their own.³

DEFINITION

MCNs support content producers and owners of YouTube channels via services such as programme planning, production, audience management and digital rights management. In return they earn commissions on ad revenues, which are displayed before, during and after videos.



BroadbandTV

Fullscreen

Maker Studios

Machinima (Gaming)

Stylehaul (Fashion)

VEVO (Musik)

VIDEO TRENDS

Premium instead of
user generated

USD
380m

Investment by
Google/YouTube in
"Original Channels"^a
and MCNs since 2011⁵

69

Number of channels
belonging to MCNs
among the Top 100
channels by monthly
views⁶

15.3 %

Top 50 MCNs' share of
global YouTube traffic by
monthly views⁷

USD
>300m

Investment by
media companies and
venture capitalists
in MCNs since 2012⁴

How do MCNs earn money?

AD REVENUES

- > MCNs take over ad marketing for content providers and can generate higher CPMs with their broad reach^{8/b}
- > YouTube generally receives 45 % of ad revenues⁹
- > Content provider and MCN usually allocate the remaining 55 % at a ratio of 70/30⁹
- > MCNs provide analysis tools with which content providers can measure the performance of individual video content⁸

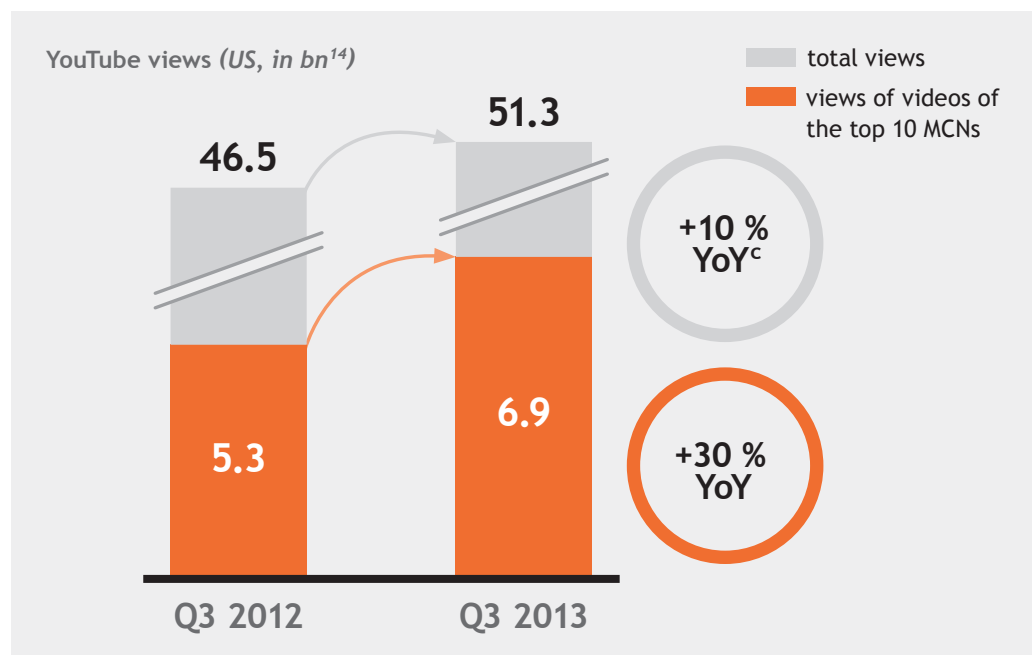
ADDITIONAL REVENUES

- > Product placement tailored to channel content
- > Sponsored product reviews (e.g. cosmetic products at Stylehaul)¹⁰
- > Co-production with media companies (e.g. Machinima realises own web series together with Lionsgate)¹¹

OPTION: PAID SUBSCRIPTION FOR CHANNELS

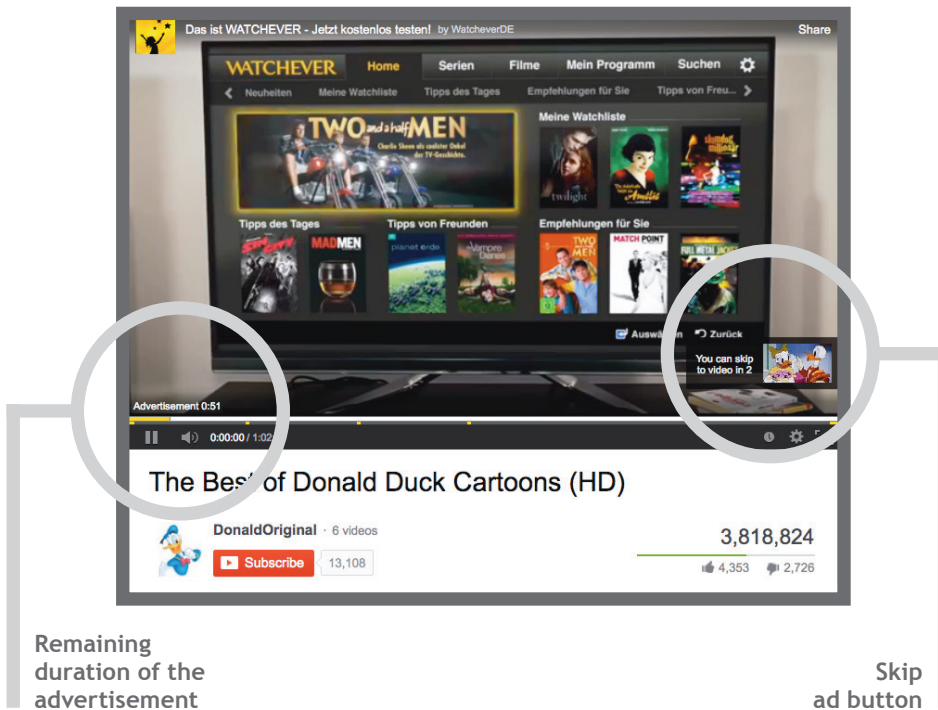
- > Since May 2013 users in the US have been able to buy a monthly/yearly subscription with YouTube (monthly fee USD 1 to 8) and choose from more than 50 channels by 30 content providers (e.g. National Geographic)¹²
- > Ad space continues to be monetized with YouTube receiving 45 % of subscription fee^{12/13}

MCNs are growing exponentially when compared with overall YouTube views



Example: TrueView-InStream ad format

TrueView-InStream is an innovative YouTube ad which is often used by MCNs. In this format, users can skip video ads after a few seconds.



ADVANTAGES FOR ADVERTISERS:

- > Advertisers only pay when user watches the entire ad or more than 30 seconds
- > Enables efficient audience targeting

ADVANTAGES FOR MCNs:

- > Higher click prices and rates compared with other ad formats
- > Reduced video drop-off rate by showing more relevant ads

Outlook for the segment

OPPORTUNITIES

- Pressure on YouTube to increase commissions
- Increasing proliferation of MCN-Content, especially with younger generations¹⁵
- Stronger focus on online video by advertisers

RISKS

- Wide range of specific topics already taken (especially music, gaming and comedy)
- The most popular content providers already in contract with MCNs
- Advertising is the only sustainable source of revenue
- Strong dependence on YouTube/Google (e.g. retrievability of content and contractual terms)

STRATEGIC OPTIONS

"People are still trying to figure out the right commercial model and find the right equilibrium."

Ynon Kreiz, CEO Maker Studios¹⁶

Transformation to "Multi-Platform-Networks"

Example:

VEVO plans to monetize music videos additionally on Samsung Smart TV, Sony PlayStation 4 and Apple TV¹⁷

Operation of own online video platforms

Examples:

The Collective buys video platform Metacafe (2012)¹⁸

Maker Studio acquires video platform Blip (2013)¹⁹

Talent scouting for own formats

Examples:

YouTube channel "The Annoying Orange" with own series on Cartoon Network

YouTube channel "Fred" with several shows and movies on Nickelodeon²⁰

BACKGROUND: THE EVOLUTION OF YOUTUBE

PHASE 1: (from 2005)
YouTube grows significantly via user generated content



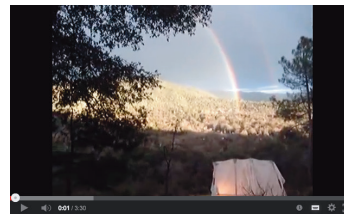
PHASE 2: (from 2007)
YouTube creates a partner program for monetization and lures professional producers



PHASE 3: (from 2011)
Google/YouTube funds own channels



PHASE 4: (from 2012)
MCNs emerge, grow rapidly and receive investment



Shortlink:
<http://bit.ly/Nunatak-Rainbow>

Example: Double Rainbow
Content: Video shows the ecstatic exclamations of a person about a double rainbow
Facts: >Uploaded in

January 2010
>To date more than 38m views
>Monetization via iTunes song and YouTube



Shortlink:
<http://bit.ly/Nunatak-orange>

Example: The Annoying Orange
Content: Comedy web series in which a speaking orange plays the leading role amongst others
Facts: >One man production
>To date more than 1.8bn views and 3.3m subscribers

>Annual estimated ad revenue USD 865k (2011)²¹
>Broadcasted on Cartoon Network since 2012²²
>The Collective has taken over sales, supply of technology infrastructure, production and marketing²³



Investment by Google (YouTube):
>USD 300m investment in marketing for its "Original Channels" (since 2011)²⁴
>Google leads USD 35m funding round for Machinima (May 2012)²⁴

>Google purchases stake in VEVO valued at USD 50m (Q2/2013)²⁵
YouTube Space:
>Own studios, to produce exclusive video content for the platform



Exemplary investment of media companies:
>Time Warner leads USD 36m funding round for Maker Studios (December 2012)
>AwesomenessTV is

the first MCN to be acquired by Dreamworks for USD 33m (May 2013)
>Bertelsmann/RTL Group invests USD 36m in BroadbandTV (June 2013)

The Nunatak Group is a digital strategy consultancy based in Munich and Berlin. Our focus is on new revenue models, Mobile Media, Social Media, Growth Strategy, Digital Coaching and Investment Support for companies in growth industries.

The Nunatak Group GmbH | Managing Partners: Robert Jacobi, Rupert Schäfer | www.nunatak.com | info@nunatak.com