

mtm

**The Connected TV Advertising
Opportunity in Europe**

September 2017

Commissioned by
SPOTX

Introduction to SpotX

SpotX is a video ad serving platform providing media owners with monetisation tools for desktop, mobile and connected devices. The platform features modern ad-serving and programmatic infrastructure, and other monetisation tools, like solutions for OTT and outstream video ad units. SpotX gives publishers the control, transparency and actionable insights needed to understand buyer behaviour, manage access and pricing, and maximise revenue. The company is headquartered in Denver, Colorado, and has offices in Amsterdam, Belfast, Hamburg, London, Los Angeles, New York, Paris, San Francisco, Stockholm, Singapore and Sydney. In August 2017, RTL Group, a leader across broadcast, content and digital, announced it would take full ownership of SpotX, after having acquired a 65% stake back in 2014.

Introduction to MTM

MTM is an international research and strategy consulting firm, specialising in media, technology and advertising. MTM helps clients in the private, public and not-for-profit sectors around the world understand and respond to digitally-driven change, providing award-winning consumer research, industry analysis, strategic advice, and support for new ventures, business development, and organisational change and transformation. MTM's approach combines in-depth knowledge of our sectors, a unique combination of skills and capabilities, and wide-ranging engagement with the market. Headquartered in London, MTM is a private company working with clients around the world.

At a glance

"The world is about to completely change, with a shift to IP delivery in the next five years." – European broadcaster

Across the five largest TV markets in Western Europe, consumption habits are evolving and audiences are increasingly accessing TV content on connected TVs via the internet. TV industry executives are excited about the opportunity to apply internet advertising techniques and technologies to ads delivered to the TV screen. Broadcasters, however, face a number of key challenges if they are to take full advantage of connected TV advertising's potential. This paper contains the results of our research programme, which captured senior industry executives' perspectives of the growth prospects for connected TV advertising across the UK, Germany, France, Italy and Spain.

Key findings

Connected TV advertising is an exciting new class of ad inventory

For advertisers and agencies in all five markets, connected TV (hereafter, CTV) advertising is seen as an opportunity to bring the best of internet advertising to the TV market, on a big screen. In particular, this includes applications such as data-driven targeting and household-level addressability, as well as the ability to apply programmatic trading to the TV market, all of which are difficult to realise on traditional TV platforms: *"There's strong demand from advertisers, and even more from agencies, that want to plan everything programmatically."*

Industry participants see the CTV as a superior medium for digital advertising, relative to desktop, mobile and tablets: *"Advertisers are interested in CTV advertising because ads are usually seen in their entirety. [...] Demand currently outstrips supply."*

Participants agree that CTV ads have demonstrable effectiveness – and that viewers are more likely to pay attention to an ad on a TV screen than on another device. The experience of the US market, moreover, where CTV advertising is more widely adopted, is that the application of data delivers higher ROI for advertisers by reaching the right audience at the right time.

Consumers are watching more OTT content – live and on-demand – on their connected TVs

In terms of building audiences for CTV content, the prospects in Europe are promising. Penetration of connected TVs (including via streaming devices) is growing in all five markets and popular events such as the FIFA World Cup in 2018, as well as the opportunity to upgrade to UHD, are expected to boost sales of smart TVs.

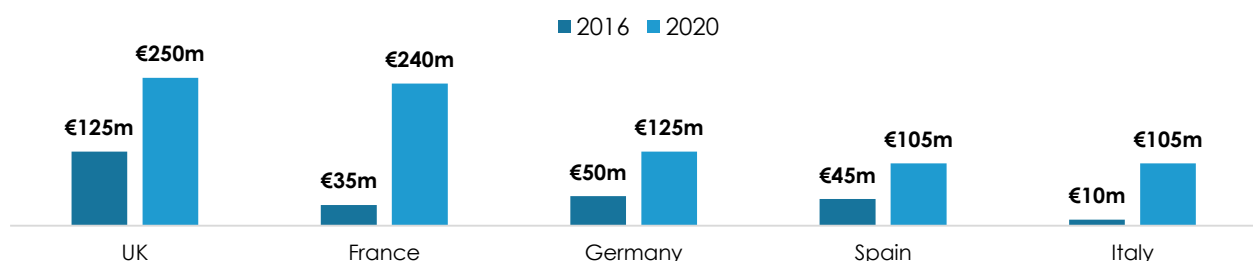
Participants in all five countries believe that ad-supported OTT services from broadcasters will increase their share of OTT viewing, as awareness of their services grows, relative to ad-free services such as Netflix, increasing the potential for CTV advertising. Most industry participants also noted recent growth in the volume of OTT content viewed on TV screens (rather than on a laptop, tablet or mobile device). Rising sales of Amazon's Fire TV stick in particular was cited as a driver in both the UK and Germany. Dedicated space on the TV remotes is being sold by hardware manufacturers to the likes of Amazon and Netflix, driving adoption of their OTT services. This viewing shift towards the TV can be seen in the UK, for example, where viewing on the All 4 platform via a connected TV has doubled in the last two years¹. In addition, a leading pay-TV operator in Spain reported that a third of its OTT views are now via a connected TV.

Another viewing trend is the growing proportion of OTT content viewed live, rather than on-demand, with sports content especially effective at attracting a live audience across multiple platforms.

CTV advertising across the five markets could be worth €825 million in 2020...

Industry participants estimate that CTV advertising across the five largest TV markets in Europe could be worth up to €825 million in 2020, up from €265 million in 2016, a CAGR of 33%. While there were different views on measuring the size of each market (see below), participants agreed that the UK was the largest and most mature CTV market in 2016 and will remain so in 2020, though with a lower forecast growth rate than other markets.

Exhibit 1: Forecast value of the connected TV advertising market across five major European markets (€ m)²



In all five markets studied, participants agree that CTV advertising is an important opportunity for broadcasters. It enables them to take advantage of new forms of advanced advertising, without tackling the technical challenges of traditional TV platforms or negotiating complex data and revenue-sharing agreements with TV platform operators.

Participants believe that the major commercial free-to-air (FTA) broadcasters in each market are best-placed to grow the CTV ad market: they have the content, scale, reach and resources to respond to the opportunity.

¹ Channel 4

² UK forecasts performed in GBP; converted assuming 1.15 EUR to GBP; rounding errors may occur

...but there is widespread uncertainty about the current CTV advertising market

Across each of the five markets, there is limited consensus about the current definition, size and value of the CTV advertising market. In all markets, industry participants have differing views about whether they consider CTV advertising as a separate class of inventory. Much of what we consider to be CTV advertising – advertising delivered to a connected TV via the open internet – is currently not sold as CTV advertising, but is often sold as digital advertising, and could appear on tablets or mobile devices as well.

CTV advertising sales strategies are immature across Europe. CTV inventory is currently fragmented across different services, and is hard to aggregate. Given a lack of clarity about the scale and value of available inventory, a number of participants in all markets remain cautious about the prospects for CTV advertising. They believe that, while growth is possible, it will require new forms of cross-industry collaboration in areas such as the sharing of data and new measurement currencies: *"We have to agree: what is the right measurement and what is the common currency?"*

TV audience measurement solutions do not sufficiently capture CTV viewing

In most markets, there is a common observation that existing TV audience measurement panels are not yet fully capturing OTT video viewing alongside broadcast TV. For example, in the UK, BARB's panel captures viewing of broadcaster content on connected TV services and via traditional TV, but does not distinguish between the two. In all markets, participants believe total audience measurement – combining TV and digital audience measurement – is crucial for the CTV ad market to develop.

Most participants expect improvements in audience measurement solutions during the next three years. For example, Médiamétrie in France launched its total video measurement solution in November 2016; and BARB in the UK and Auditel in Italy are expected to launch improved solutions in 2018.

The internet giants are advancing

Even the most bullish advocates of CTV advertising are fearful that, if TV industry players are slow to develop CTV advertising strategies, the internet giants who dominate digital advertising will take a large share of the emerging market. Many TV executives also expect major internet media companies to scale up their acquisitions of rights to premium live events: *"Live is the fastest way of getting reach, and big advertisers are still looking for it."*

Participants in all markets expect broadcasters to face significant competition in the CTV advertising market from Facebook and Google, and estimate that these companies could capture between a third and a half of the future CTV advertising market in each country, if broadcasters do not compete aggressively. In the longer term, many participants also feel that Amazon and potentially Netflix will look to introduce advertising into their services.

1 Introduction

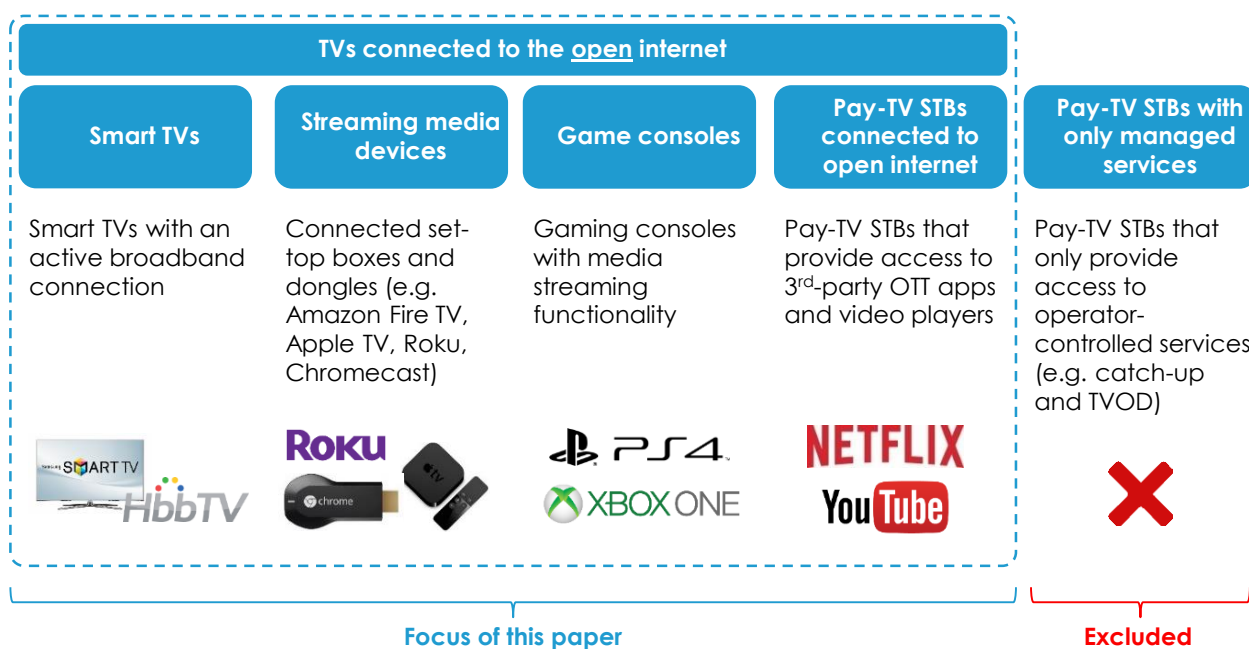
SpotX commissioned MTM to explore the prospects for connected TV advertising – advertising viewed on a connected TV and delivered via the open internet – in the five largest Western European markets³: the UK, France, Germany, Italy and Spain.

In June and July 2017, MTM conducted in-depth interviews with senior industry executives in each market and held five executive seminars, one in each country. All quotations in this document come from the seminars and from the interviews. Overall, 46 experienced industry participants took part in the research programme, providing a broad sample of industry perspectives on the prospects for connected TV advertising in each market. The project methodology is described in detail in the appendix.

2 Defining connected TV advertising

In Europe at present there is no industry-wide, commonly-accepted definition of connected TV advertising. For the purposes of this paper, we are focusing on ads served with professionally-produced, rights-based TV content, delivered via the open internet, to connected TVs.

Exhibit 2: Defining connected TVs

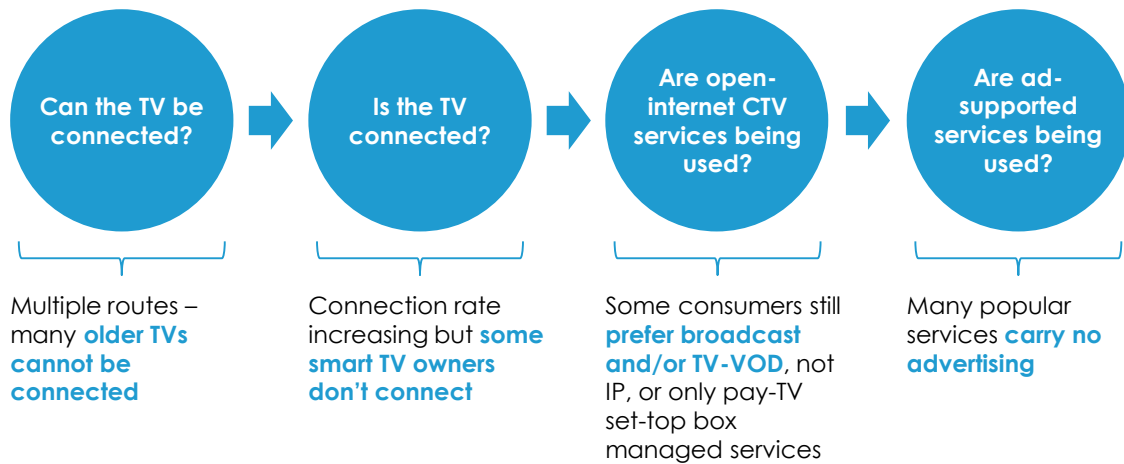


Our focus is on the value of ads delivered to a TV screen via an open internet connection. This includes ads delivered directly to smart TVs, via streaming media devices, or via gaming consoles, but excludes ads delivered to CTVs through pay-TV set-top boxes via managed networks. CTV advertising can include targeted, household-level addressable advertising and ads sold programmatically, as well as ads sold with limited forms of targeting, such as by programme, genre, or postcode.

³ Largest by TV ad spend

Several criteria need to be satisfied in order to meet our definition of CTV ads (Exhibit 3). While a growing number of TVs in each market are connectable, not all consumers connect their TVs to the internet. Further, many consumers whose TVs are connected primarily watch broadcast content or on-demand content delivered within the walled garden of a pay-TV set-top box. In addition, many popular internet-delivered TV services currently carry no advertising, whether public-service broadcaster services such as BBC's iPlayer or SVOD services such as Netflix and Amazon Prime Video.

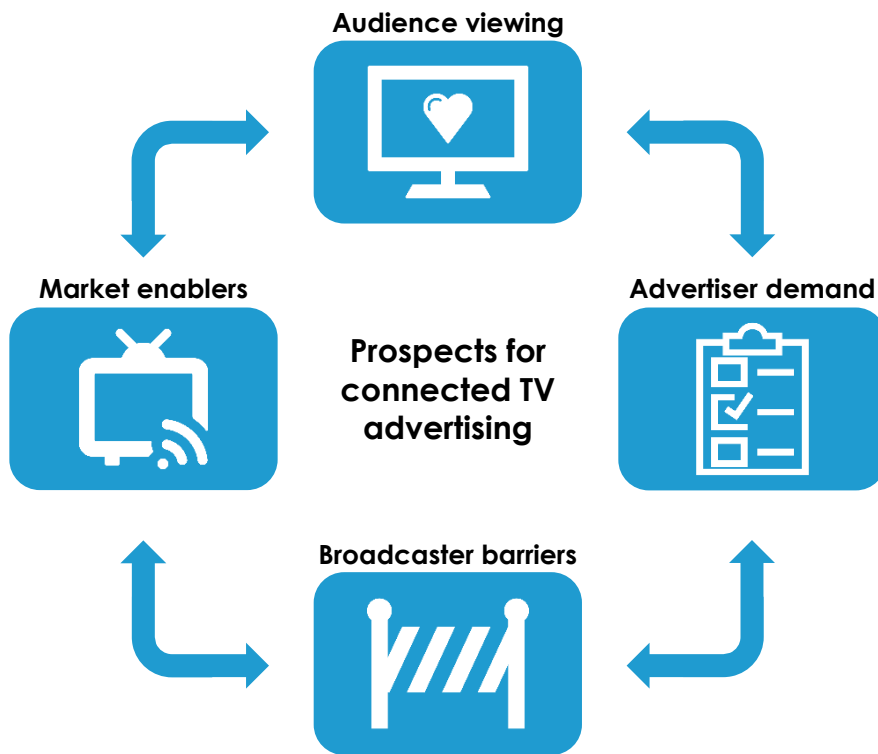
Exhibit 3: Filtering criteria for CTV advertising



3 Analytical framework

We developed the following analytical framework to assess the drivers and inhibitors of growth of CTV advertising in each of the five markets. We structured our industry seminars around this framework, to measure the influence of each factor on the prospects for CTV advertising in each market.

Exhibit 4: Analytical framework



Market enablers

What impact will improvements in **broadband** quality and access have?

How will **CTV penetration** increase?

Will **availability of OTT apps and services** on CTVs increase – and support CTV advertising growth?

Audience viewing

How will **awareness** of ad-supported services on connected TVs change?

How will **viewing preferences** on connected TVs evolve, e.g. for OTT content versus traditional broadcast TV and TV VOD?

Advertiser demand

Will demand for **programmatic buying** drive CTV advertising growth?

How important is cross-platform, **total video measurement** to the growth of CTV ad spend, and how will measurement develop?

How important is **data-driven, targeted TV advertising** for advertisers?

Broadcaster barriers

Will **policy and regulation** impede or enable growth of CTV advertising?

Can broadcasters collect and utilise **audience data**?

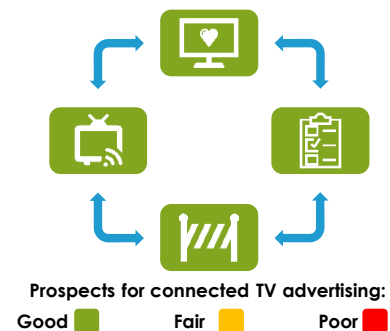
Can broadcasters develop the necessary **capabilities** – technology and expertise – to support CTV advertising?

4 United Kingdom



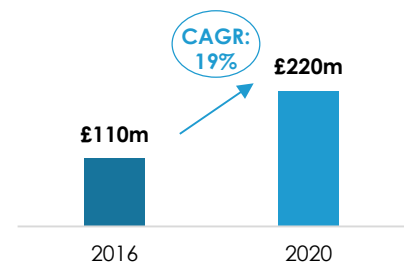
UK – market overview

- High penetration of connected TVs (CTVs), driven by adoption of smart TVs and rapid growth of third-party device usage
- Many participants have observed audience viewing on connected TVs increasing rapidly and expect this to continue
- Industry executives believe developing CTV advertising is a top-three priority for broadcasters in the UK



Industry executives believe the connected TV (CTV) advertising market in the UK – Europe's largest market, in terms of both TV ad spend and internet ad spend – will be worth £220 million (€250 million) in 2020, up from an estimated £110 million (€125 million) in 2016⁴. Participants emphasise that UK consumers are spending more time viewing OTT content on their CTVs via services such as ITV Hub and Channel 4's All 4, with notable growth in live event TV. UK industry executives acknowledge the challenges that must be addressed in order for CTV ads to fulfil their potential – such as a common currency for audience measurement – but also are optimistic about the scale of the opportunity presented by CTV advertising.

UK – CTV ad market size



Market enablers

Industry participants are confident the key market enablers for the development of CTV advertising – broadband, devices and service availability – are all in place in the UK.

91% of UK households have fixed broadband connections⁵, of which 91% are over 4 Mbps⁶, suggesting that the UK is well-placed to support OTT video content. However, some participants believe broadband outside of major cities is still insufficient to support widespread connected TV viewing, and that government support may be needed to make an impact.

Two-thirds of UK households had a connected TV in 2016⁷, and industry participants estimate this will grow to around 75% by 2020. Take-up of connected TV devices – including dongles, such as Amazon Fire TV Stick and Chromecast, and set-top boxes, such as Amazon Fire TV, Apple TV and Roku – increased from 5% of households in 2016 to 10% in 2017⁸. In particular, participants noted usage of Amazon Fire TV devices increased significantly in 2016, supported by the company's investments into exclusive content such as *The Grand Tour*.

⁴ UK forecasts performed in GBP; converted assuming 1.15 EUR to GBP; rounding errors may occur

⁵ PwC, *Global entertainment & media outlook 2017-2021* (2017)

⁶ Akamai, *State Of The Internet* (Q4 2016)

⁷ Ofcom, *Communications market report* (2017)

⁸ *ibid.*

British consumers have access to a wide range of connected TV apps from online-only OTT services and UK broadcasters, such as BBC iPlayer, All 4 and ITV Hub. However, not all CTV platforms – particularly older smart TVs – support a full range of services, and participants noted that app store interfaces may inhibit discovery and usage of CTV apps: *“The more content you have on an app ecosystem the more it drives usage [...] [but] app stores are inconsistent in terms of usability. We're testing across devices; some are brilliant and some are very clunky.”*

Audience viewing

CTV viewing is increasing in the UK – 43% of UK consumers viewed broadcaster catch-up services on a connected TV in 2016, up from 37% in 2015⁹. Many executives noted similar growth in CTV viewing, and expect increases to continue over the next three years, driven by high-quality viewing experiences and availability of content: *“We're seeing live viewing on connected TVs through an app growing consistently: big event TV, finals, sports, and peak shows.”*

For UK audiences, OTT TV is increasingly about live, linear content as much as on-demand content: *“The experience for linear streams on those [connected TV] platforms is so fantastic. It's no different from a satellite, cable or terrestrial broadcast – if I'm in that ecosystem and can flip to a different app it's as easy [as changing channels].”*

As the number of CTV apps and services used by UK audiences continues to grow, industry participants believe curation and recommendation will become increasingly important to attract and retain viewers: *“Right now curation is a barrier. The people that are going to succeed are the people that get content to customers quickly. The ability to aggregate all the [CTV] services will clearly be a big focus, whether it's on NOW TV, Amazon [Fire TV], or other device manufacturers; hopefully that's something that will be resolved by 2020.”*

However, curation on CTV platforms remains challenging. Industry participants noted that pay-TV platforms such as Sky and Virgin are able to provide recommendations because they have data about all viewing activity taking place on their platforms, but this is not the case for most CTV platforms or ecosystems: *“You need the [viewing] data to do the curation and personalisation; who's owning the customer?”*

Advertiser and agency demand

Industry participants expect demand for CTV advertising in the UK to grow, as advertisers and agencies look to extend data-driven buying to bigger screens, especially as more live content is delivered via OTT: *“Live is the fastest way of getting reach, and advertisers are still looking for it.”*

Participants emphasise that improved, cross-platform measurement will be key to unlocking this spend. The UK's TV audience measurement body, BARB, is working on a combined TV and digital measurement system, known as Dovetail, due to launch in March 2018. Industry participants are cautiously optimistic that Dovetail

⁹ Ofcom, *Communications market report* (2017); Ofcom, *Communications market report* (2016)

will improve their ability to measure across platforms and plan across media more effectively: *"Measurement standardisation is important. I hope Dovetail works. We can plan [CTV advertising] in a certain way, but you've got to see the results."*

One participant expressed the importance of unique reach for agencies, and hoped to improve their ability to measure it: *"Agencies would like to follow a user ID across any platform, which is difficult, especially with upcoming legislation. For an agency it's all about unique reach; trying to track that post campaign is important."*

Broadcaster barriers

Industry participants believe UK broadcasters face minimal barriers when it comes to the development of CTV advertising. Regulations allow the use of data for targeted advertising. The two largest commercial broadcasters, Channel 4 and ITV, require viewers to log in and are able to collect and analyse viewers' demographic and viewing data.

In addition, most participants believe it is feasible to access the technology, skills and expertise necessary to develop advanced advertising capabilities. Some broadcasters, such as Channel 4, ITV, and Sky, have already implemented complex solutions, such as dynamic ad insertion in linear streams.

However, some participants noted that the costs of developing advanced, data-driven advertising solutions for CTVs could be a barrier for some broadcasters: *"There's a cost barrier: trying to justify an unknown return against a large investment."*

Prospects

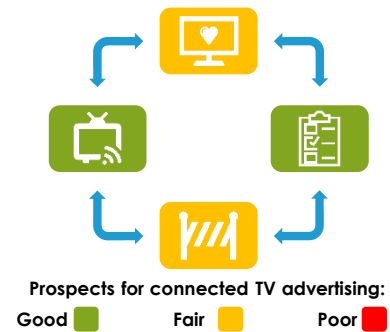
Industry participants expect that as the UK CTV advertising market grows in the next three years, to an estimated £220 million (€250 million), UK broadcasters are likely to capture nearly half of this value. However, UK executives also expect the internet giants such as Facebook and YouTube to capture a significant portion as the market grows, along with new TV ad-market entrants such as Netflix and Amazon (which continues to roll out advertising products in other parts of its business): *"If you look at the likes of Amazon or Netflix, at some point they'll look and say 'why aren't we doing it already?' They have the best view of all of us of what audiences are interested in."*

5 Germany



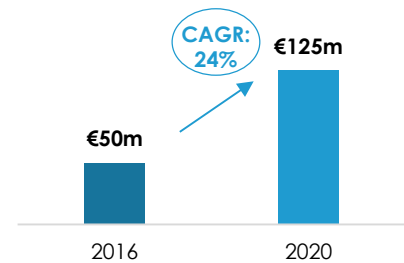
Germany – market overview

- Industry executives believe audience awareness of connected TV (CTV) services is low, but are confident that broadcasters will change this through industry-wide initiatives
- Regional advertising in linear broadcasts is currently prohibited, but participants see addressable TV advertising to connected TVs as a potential workaround
- High smart TV penetration, but devices are not always connected



Industry executives in Germany are optimistic about the opportunities connected TV (CTV) advertising can provide, and forecast that it could generate revenues of €125 million by 2020, up from an estimated €50 million in 2016. Further investment into connected TV apps and services by the main broadcasters, RTL and ProSiebenSat.1, will create new opportunities for CTV advertising. However, participants are cautious, given Germany's historically slow adoption of new technologies and challenges around combined TV and digital measurement.

Germany – CTV ad market size



Market enablers

CTV penetration in Germany was 39% in 2016¹⁰ and industry executives forecast this to grow to around 55% by 2020. However, smart TV penetration was 50%, indicating that at least 20% of smart TV owners have not connected their smart TVs to the internet¹¹.

Fixed broadband penetration in Germany is relatively high, at 79%¹², with 89% of these connections over 4 Mbps¹³. However, industry participants point out that urban and rural areas vary widely in terms of availability and speed of broadband: For the 70% of households in urban areas¹⁴, improvements are expected, but participants are not optimistic about speed and connectivity improvements in rural areas.

Some participants are concerned that broadband infrastructure may not be sufficient to support significant growth in CTV viewing: "Everyone wants to watch high quality video content. If everyone is using OTT services at the same time, if everyone uses [video] at primetime, then it will take many years before broadband will be good enough to distribute a service."

The availability of services for connected TVs will grow, executives argue, if standards such as Android TV make it easier to develop apps for what is currently a fragmented device landscape: "[Service availability]

¹⁰ Zvie, Studie zu TV-Nutzungsgewohnheiten (2017)

¹¹ ibid.

¹² PwC, Global entertainment & media outlook 2017-2021 (2017)

¹³ Akamai, State Of The Internet (Q4 2016)

¹⁴ Initiativkreis Europäische Metropolregionen in Deutschland, Regionales Monitoring (2012)

depends on standards – if Android TV is growing rapidly and it's easier for programmers to write apps, then it will be a much brighter future."

Audience viewing

Though half of German households have a TV that can be connected to the internet, awareness of CTV apps, particularly for smart TVs, remains low among German audiences: *"Awareness [of CTV services] is low. The Netflix button on some devices helps, but apart from that I can't see a lot of incentives for consumers to use CTV apps. [...] It would be interesting to see how many people buy a Fire TV stick and already have a smart TV at home, but didn't know [about content services]."*

Industry participants noted that, relative to those in other markets, German consumers tend to move more slowly when it comes to adopting new technologies: *"Change in Germany is super slow but once it happens it hits. [...] DVDs are a good analogy: in Germany, DVD sales had not declined in recent years, but this year they are down 20%. Once it happens, it happens, so be ready."*

Executives also believe German consumers' love of free content will also influence the growth of the CTV ad market in Germany. Participants argue that SVOD services such as Netflix and Amazon are unlikely to be as dominant in Germany as in other markets: *"Germans like everything that is free, so the opportunities for an advertising-supported model on connected TVs is big, but it also needs the content distributors, the ProSiebens and the RTLs, to create this environment."*

Advertiser and agency demand

Industry participants see the potential for strong demand from advertisers and agencies, if challenges around use of data and measurement can be resolved. The measurement body, AGF, introduced combined TV and digital measurement in Q1 2017, but participants believe it is not yet sufficient to support the growth of CTV advertising. Participants also note that current digital measurement doesn't properly take into account multiple viewers watching on a connected TV: *"TV sets are a household set, not like a mobile device or some other internet devices that are very personal. So you have to learn about the data you get there, who's sitting in front of the TV set."*

Some participants believe that identifying the individual viewers watching CTV content will be key to growing new ad revenues: *"What needs to be done when it comes to measuring connected TV, is that you're able to not only report an ad impression, but also report who the viewers are, because you have more than one person in front of the TV. If [measurement] can do that, it can grow the market."*

Some participants note that a CTV ad sold as a standard digital ad can be more valuable, given factors such as high viewability, better ad effectiveness on a bigger screen, and the potential for multiple people to see that impression. However, others emphasise that adoption by advertisers may be slow, drawing parallels to the growth of mobile advertising: *"It will take some time for everyone to be aware of all the possibilities of CTV advertising; the market has to develop more, there needs to be more standards. [...] [During the shift*

from desktop to mobile] it was hard for us to find agencies and advertisers willing to buy our mobile inventory because they didn't understand the potential yet."

Broadcaster barriers

Current regulations in Germany prohibit regional advertising by TV broadcasters, but participants noted that these regulations are old and unclear. There is a general belief that addressable advertising, using targeting characteristics other than region, such as socio-demographic data, is allowed, but industry participants seek more regulatory clarity, which they are optimistic about: *"It's not 100% clear because the regulations are very old. When they were made there was no internet and no one was thinking about TV through the internet and targeting down to a one-to-one user, but we are sure this will get resolved in some time."*

Participants believe broadcasters need to be more proactive to boost the prospects for CTV. An industry-wide initiative would, they argue, help raise awareness – and viewing – of connected TV services: *"Relative to other factors, improved consumer awareness [of connected TV services] could have the biggest impact on usage of connected TVs, and programmatic video ad sales as a consequence. [...] There needs to be an industry-wide approach in order to raise that awareness – I don't think any broadcaster or OTT service alone has the potential to raise awareness significantly."*

Executives believe broadcasters in Germany will also need to develop their advanced advertising capabilities, in order to move the CTV ad market forward: *"We all have the same understanding of what we want to do but we need to do a lot of research and development to get there. There is no standard architecture for technical things, and a lot of good people have specialised knowledge about video streams and targeting, but not for this [CTV advertising] context."*

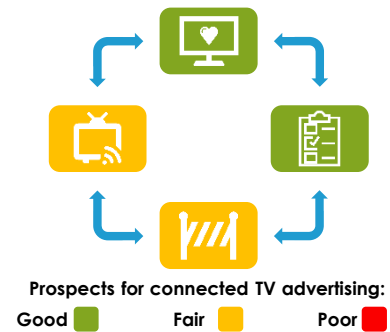
Prospects

Industry participants believe that, as the CTV ad market in Germany grows, to a predicted €125 million by 2020, German broadcasters will retain the majority of revenue. YouTube and Facebook are forecast to have the second-largest share, but German executives are not agreed on how much they will grow in this space by 2020: *"I don't see Facebook on the big screen – it's too personal. YouTube probably will have a significant share [of connected TV advertising]. But first they have to obtain rights, and they will need to go a long way to catch up to broadcasters."*

6 France

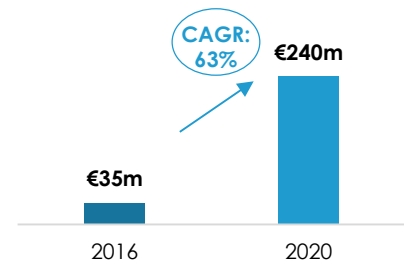
France – market overview

- Industry participants are positive about the size of the CTV advertising opportunity and advertiser demand
- Connected TV (CTV) penetration is high, owing to high IPTV penetration, but viewing of CTV services is relatively low
- Addressable ads in linear broadcasts are currently prohibited but industry participants are confident regulations will change soon



Industry participants agree that the drivers of connected TV (CTV) market growth in France are in place. They forecast the CTV ad market in France to grow from an estimated €35 million in 2016 to around €240 million by 2020. Participants cite anticipated changes in regulation, permitting addressable advertising in linear broadcasts, and planned industry initiatives and agreements to enable sharing of data. Executives also expect further broadcaster investments into CTV apps and services will boost consumer usage of CTV services and advertiser interest in CTV advertising in France.

France – CTV ad market size



Market enablers

Industry executives in France are confident the key market enablers are in place to support growth of the CTV advertising market, although they note that the strength of the IPTV market (with 44% of French TV households accessing TV via IPTV at the end of 2016¹⁵) currently reduces the volume of ads delivered via the open internet. Broadband penetration and speed are widely believed to be sufficient and participants expect both will continue to improve, supporting the growth of CTV advertising.

In 2016, connected TV penetration in France was relatively high at 57%¹⁶. Industry participants expect this to grow to around 75% by 2020, largely driven by sales of new smart TV sets. Major sporting events (especially the FIFA World Cup in 2018) and the availability of content in higher-resolution formats such as UHD will influence this growth: “What drives consumers to buy new TVs is availability of content. [...] 2K, 4K, 8K – if there is no content imperative then there's no growth.”

Participants believe that the limited availability of CTV services, particularly on smart TVs, has served as a barrier to growth of the CTV ad market, noting that many operators and broadcasters have been slow to develop connected TV apps due to platform fragmentation: “From a [pay-TV] provider point of view, we see that investment in content and portals on smart TVs is expensive, because of platform fragmentation.” However, participants expect the breadth of services, and number of supported devices, to increase over

¹⁵ CSA, *Observatoire de l'équipement audiovisuel des foyers* (2017)

¹⁶ Médiamétrie, *2016, a year in TV* (2016)

the next three years, as broadcasters and operators recognise the popularity of OTT services such as Molotov (which now has more than one million users¹⁷), and invest in the CTV ecosystem.

Audience viewing

Industry participants in France noted that current consumption of connected TV services, delivered over the open internet, is lower than CTV penetration would suggest. This reflects the popularity of IPTV in France, with many consumers only viewing TV content contained within the operator-managed ecosystems of the set-top boxes.

Executives agree that awareness and usage of catch-up, on-demand and OTT services is high in France, but that awareness of many services for connected TVs is much lower: *"On a new smart TV you can find some OTT services easily, such as Netflix and [Amazon] Prime Video, but finding other services like 6Play is more difficult."*

However, participants expect awareness and usage of CTV services to increase significantly in the next three years, particularly as more French-language content is available on CTV services: *"Like elsewhere in Southern Europe, audiences in France are very attached to local content. On OTT services where content is not in French, adoption may take more time [than in markets like the UK]."*

The appetite for local content indicates that French broadcaster-led OTT services will be well placed to deliver audiences to advertisers, as the services develop.

Advertiser and agency demand

Executives in France see strong advertiser and agency demand for CTV advertising and expect this to grow further: *"[Advertisers are interested in CTV advertising] because ads are usually seen in their entirety. [...] Demand currently outstrips supply."*

Participants also believe increasing demand for programmatic buying is likely to contribute to the growth of CTV advertising: *"There's strong demand from advertisers, and even more from agencies, that want to plan everything programmatically, and handle [TV and digital] budgets together. [...] Programmatic is driving the discussions between sales houses and the agencies."*

Agreeing to standardised, cross-platform measurement is widely believed to be a requirement for the development of advertiser and agency demand, but industry participants are optimistic this will be achieved. The TV measurement body in France, Médiamétrie, launched integrated TV and video audience measurement in Q4 2016, and participants expect standardised measurement to continue developing: *"In the next three to four years we'll have all the measurement necessary to make advertising on connected TVs interesting [to agencies]."*

¹⁷ Techcrunch, TV streaming app Molotov now has 1 million users (2017)

Broadcaster barriers

Industry participants agree the biggest short-term barrier to the growth of CTV advertising in France is regulation. Addressable advertising in linear broadcasts is currently prohibited, but industry participants are confident that restrictions will be relaxed in the coming years, with broadcasters and sales houses petitioning for regulatory change via the trade union, SNPTV: *"If you permit addressability, [the CTV advertising market] can easily grow significantly with addressable CTV ads on live broadcasts."*

Participants also believe that stakeholders must first agree to commercial terms around the use of data. Some industry players have already taken steps towards cooperation. M6 and SFR, for example, are part of the Gravity Alliance, which enables multiple publishers to pool user data to be used for digital advertising: *"The debate about how we share data around ISPs, broadcasters and agencies will be a huge one. Nobody wants to give the data away but everybody understands we need the data to bring the money in."*

Executives expect increased investment in data, as well as data sharing arrangements, during the next few years: *"Everybody has to invest in data: broadcasters, ISPs, advertisers and agencies. In the next three years, everyone will have their own DMP and we'll learn to exchange data safely."*

Participants are confident that broadcasters have the necessary capabilities to take advantage of connected TV advertising opportunities: *"We have the people, technology and expertise; [capabilities are] not a barrier, just the effort and the regulation."*

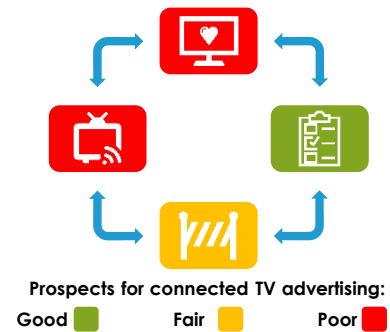
Prospects

Industry participants believe that the future development of the CTV ad market, including the forecast revenues of €240 million in 2020, will depend on what the major broadcasters do. Participants agree YouTube and Facebook could capture a significant share of the CTV advertising market in France, if they seek to compete directly with broadcasters in terms of content, and if those broadcasters fail to act: *"There are two potential scenarios. First is that Google and Facebook invest a lot in TV content, and French broadcasters do not, so 70 to 80% of the connected TV advertising market could be captured by YouTube and Facebook. But if the [French] broadcasters move, then YouTube and Facebook's share could be very low – broadcasters with other allies can do better than YouTube or Facebook can."*

7 Italy

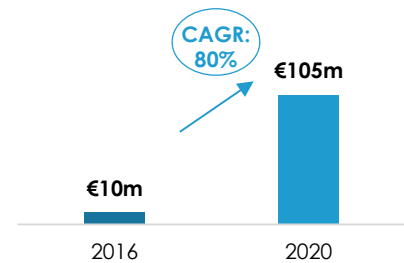
Italy – market overview

- Participants are optimistic about connected TV (CTV) ad growth, but believe major FTA broadcasters are not yet motivated to invest in CTV services
- Low CTV and broadband penetration, and low consumer awareness of CTV apps and services
- New audience measurement from Auditel in 2018 is expected to help support demand, especially from international advertisers



Industry executives in Italy are optimistic about the opportunities connected TV (CTV) advertising can provide, forecasting that it could be worth €105 million by 2020, up from an estimated €10 million in 2016. They see potential for growth in the longer term, despite a lack of investment so far from the major broadcasters. Participants cited Sky's recent launch of its linear addressable advertising solution, AdSmart, and total audience measurement from Auditel, expected in 2018, as signals that the Italian market readiness is increasing.

Italy – CTV ad market size



Market enablers

Industry participants in Italy believe that key market enablers, especially broadband and device penetration, are weak. Only 59% of Italian households have fixed broadband¹⁸ and participants expect improvements in quality and availability to vary widely between urban and rural areas, as well as between regions.

71% of households use DTT as their primary broadcast medium, owing to strong free-to-air TV offerings and Mediaset Premium's pay-DTT service¹⁹. CTV penetration in Italy is low relative to other large European TV markets such as the UK, Germany and France, at 15% in 2016²⁰. Industry participants expect this to rise to around 30% by 2020, driven by consumers purchasing new TVs, rather than lower-cost streaming media devices. "The free TV offer is very rich, so consumers are not in the habit of having a set-top box. I don't think a Roku, Chromecast or other streaming device will have a big impact [on CTV penetration in Italy]."

Participants also note that consumers in Italy are not yet accustomed to connecting their TVs to the internet, as consumers are not fully aware of the services available to them and of the advantages that connected TVs provide: "The number of connected TVs is growing of course, because all TVs you can buy now are smart TVs. But there is still a big drop between buying a TV and connecting it."

Participants believe that the adoption of CTV services in Italy will require improved cooperation between broadcasters and smart TV manufacturers in order to change consumer behaviour: "There's a big difference between the world of manufacturers and broadcasters. Manufacturers want to control their own

¹⁸ PwC, *Global entertainment & media outlook 2017-2021* (2017)

¹⁹ Ofcom, *International Communications Market Report* (2016)

²⁰ MTM analysis; industry participants

environment and a direct relationship with users, but broadcasters want another thing: to keep users engaged. Broadcasters want to protect the TV environment against manufacturers, but both sides need to collaborate."

Audience viewing

Industry executives believe limited viewing of CTV services, particularly ad-supported services, has restricted the CTV ad market size thus far: *"The main thing holding the country back is viewing behaviour. Lots of TV content is being watched away from the TV, but it's mostly Netflix and streaming services that are not carrying ads. [...] CTV advertising is a very marginal part of the market in terms of inventory."*

Participants are optimistic that CTV audiences will grow over the next few years, as consumers become aware of the advantages of CTV apps and services: *"Once you discover what connected TV can do in terms of experience, you will never go back. It does change viewing behaviour and attitudes."*

However, some participants note that audience behaviour may be slow to change because of Italy's demographics: *"Our concern is peoples' attitudes, to use new technology and to be connected. The most important group for technology adoption is over 65 years old and it is growing. If the oldest people are the biggest part of the population, then adoption will be slower."*

Advertiser and agency demand

Industry participants note that, at present, demand for CTV advertising is coming from international advertisers who are looking for addressability: *"Connected TV advertising is more important for international clients than for Italian clients. No Italian clients ask about addressable opportunities. International advertisers like P&G and Nestlé are the ones interested in connected TV and the possibilities that can add."*

Most participants agree that shared measurement will be crucial to supporting advertiser and agency demand, noting that it's easy for broadcasters to measure CTV viewing of their own services, but more difficult to understand share, relative to other broadcasters and to traditional TV: *"What we need from Nielsen is additional coverage; we can count single streams, but what we need is a share survey, like Auditel [currently provides for broadcast TV]."*

Italy's TV measurement committee, Auditel, is expected to release its total audience measurement solution in 2018, covering TV and video viewing. Participants see this as a key step to the development of demand for CTV advertising: *"Total audience measurement is a critical factor. After it launches next year, we will be able to assess the potential of broadcast TV vs. OTT."*

Broadcaster barriers

The two largest free-to-air (FTA) broadcasters in Italy, Mediaset and RAI, control the lion's share of TV advertising; they captured 56% and 21% of total TV ad spend in 2016, respectively²¹. As a result, some industry participants believe Mediaset and RAI have been slow to embrace CTV advertising, for defensive reasons:

"In Italy, the way TV advertising is sold is standard, and it's been like this for many years. There is a lot of aversion to change. If you sell targeted advertisements, then you move away from the traditional way that TV advertising is sold, and you enter the realm of internet advertising; and you are then competing against Google, Facebook and other internet players."

In addition, industry participants in Italy believe that broadcasters have neither the necessary data about their users nor the digital advertising expertise to compete as effectively in digital advertising as the major internet media companies: *"It's in Facebook' and Google's genetics to say they can reach people one-to-one with things that interest them the most. They know everything about their users and we know very little. There's no way we'll learn to do their jobs as well as they know how to."*

Participants see the regulatory environment as being broadly favourable to supporting CTV advertising, noting that privacy rules are strict, but currently permit addressable advertising in linear and on-demand streams.

Prospects

Participants believe that, as the Italian CTV ad market grows, to a predicted €105 million in 2020, Google and Facebook are well-placed to capture the largest share: *"Facebook and Google get 70% of the digital advertising market [in Italy]. The remaining 30% is scattered around a thousand companies and broadcasters do not get a large part of that, even though we have fabulous players: Dplay is a great service, RaiPlay is fantastic. But [digital advertising] is not our business."*

However participants also believe that broadcasters in Italy will have an important role to play in the CTV ad market, operating their own services while also producing content and licensing it to others such as Facebook, Google, and potentially telcos. For example, Discovery and TIM announced a partnership in June 2017 to give TIM subscribers access to Eurosport Player²², reflecting the importance of live sports content.

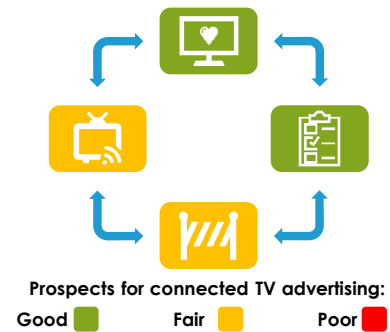
²¹ Advanced Television, Italy; TV ad market worth €3.8bn in 2016 (2017)

²² Telecom Italia, TIM to offer Eurosport Player exclusively to its broadband, ultrabroadband and mobile customers to watch great Italian and international sports events (2017)

8 Spain

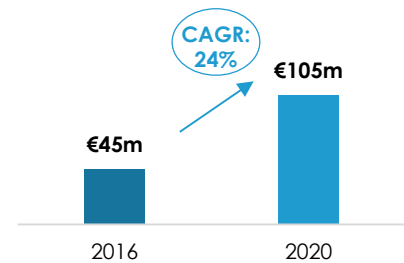
Spain – market overview

- Industry executives observe demand for connected TV (CTV) advertising is outpacing current supply – but viewing is currently low
- Moderate CTV penetration, but industry executives expect penetration and usage to grow rapidly to 2020
- Investment in CTV content and services by major FTA broadcasters – Atresmedia and Mediaset – will be critical to wider growth in the CTV ad market



Industry participants expect to see growth in Spain's connected TV (CTV) advertising market, from an estimated €45 million in 2016 to a forecast of €105 million by 2020. Participants anticipate further investment in local content apps and services from the leading Spanish broadcasters, Atresmedia and Mediaset, will enable them to compete with OTT services such as Netflix, Amazon and HBO. Executives expect investment will be driven by growing demand from advertisers and agencies for CTV ad inventory, and by increased penetration of CTVs, as Spanish consumers upgrade to new TVs.

Spain – CTV ad market size



Market enablers

Two of the key market enablers – high-speed broadband and service availability – are in place in Spain. Connected TV penetration is relatively low, with 28% household penetration in 2016²³. Industry participants estimate this will grow to around 50% by 2020, as consumers upgrade to smart TVs.

Though at 76%²⁴, Spain has lower fixed broadband penetration than the UK, France and Germany, available connections are fast: 90% of fixed broadband connections are over 4 Mbps²⁵. Participants note that growth in broadband penetration is limited by demographic factors: "There's a generational gap; there's people that don't want to have the internet."

Spain also has a large and growing selection of CTV apps and services – Sky recently announced its plans to launch an OTT service there during 2017: "The market has become really hot. [...] We have HBO, Netflix, Amazon, and there's more to come, like Sky."

Audience viewing

Despite wide availability of CTV apps and services, CTV viewing has been slow to take off in Spain and industry participants argue that awareness of these services is low, noting that broadcasters such as Antena 3

²³ CNMC, Informe Económico Sectorial de las Telecomunicaciones y el Audiovisual (2016)

²⁴ PwC, Global entertainment & media outlook 2017-2021 (2017)

²⁵ Akamai, State Of The Internet (Q4 2016)

promote services such as Atresplayer, but not specifically for connected TVs: *"RTV Española and Atresmedia have a great app for connected media. They're offering their own on-demand content through connected TV apps. But they're not creating specific demand on connected TVs; it's also about PCs, tablets, and other distribution mechanisms."*

In addition, participants believe viewing on connected TVs is new for many Spanish users, and a lack of curation has made discovery more difficult for some: *"It's like the internet – consumers have so much to choose from; which are the services that fit you? In many cases you have different marketplaces or different manufacturers of connected TVs so there are different things. The difficulty of finding what you want to do in the connected TV world has been a barrier to increasing viewing."*

Some executives noted that growth in OTT viewing has mostly gone to newer entrants, such as Netflix and Amazon, and not to services from the major FTA broadcasters. But some operators offering pay-TV as part of a bundle with broadband are seeing audiences access increasing volumes of OTT content via connected TVs: One participant noted that nearly one-third of their TV everywhere viewing is now via a CTV.

Advertiser and agency demand

Participants believe demand for addressable advertising, not currently supported on any linear TV platforms in Spain, is driving demand for CTV advertising: *"Making things connected is good but what the market wants is addressable - bringing data and targeting from the internet to TV, at scale."*

Some industry participants that are selling CTV ads are seeing demand outpace supply, and expect this to continue as viewing increases: *"We have overbooking for the next three years. Advertisers want [CTV ads]. I'm really surprised. We've got clients knocking on the door wanting to pay more."*

However, some participants don't expect CTV advertising to become a priority for large advertisers until viewing increases: *"When I see media planning, I never see even a line for connected TVs. I see TV, radio, but I never see this as a media that matters. For larger advertisers the main objective is reach but with connected TV you don't currently meet your objectives."*

Broadcaster barriers

The largest barrier to broadcasters pursuing CTV advertising in Spain, some executives argue, is the market structure: The leading broadcasters, Mediaset and Atresmedia, controlled 85% of the TV ad market in 2016²⁶. Industry participants believe that the market will need a concerted move by the two largest players in order to progress with issues such as audience measurement: *"[Many industry participants] want to change audience measurement, but a duopoly is not a positive for that because you are against them. The market status quo is a challenge."*

Industry executives perceive Spain's leading free-to-air (FTA) broadcasters to be hesitant to promote CTV services, noting that the FTA broadcasters face limited competition in TV advertising, but are up against the

²⁶ Advanced Television, *Spain's TV duopoly remains strong* (2017)

likes of Google, Facebook and Amazon in digital advertising: “[Broadcasters] don't want to shift viewing to OTT from free-to-air. Compared to the €800 million they get now, how much will they get of connected TV advertising? The competition that might open up is much bigger than that. The threat is bigger than the opportunity.”

Participants note that another challenge Spanish broadcasters face is user data, which many CTV services do not currently collect: “Users can watch whatever they want and people don't log in. If you don't have data then you can't do targeting.” This suggests an opportunity for data companies to work with broadcasters to boost the prospects for CTV advertising.

Prospects

Industry participants in Spain believe that as value of the CTV ad market grows to a forecast €105 million by 2020, the major FTA broadcasters, along with YouTube and Facebook are likely to capture at least 80% of the market. However, executives have mixed views about which group will hold the biggest share and believe it will depend on the willingness of major broadcasters in Spain to invest in CTV apps and services.

Appendix: Methodology

SpotX commissioned MTM to explore the prospects for connected TV advertising – advertising viewed on a connected TV and delivered via the open internet – in the five largest Western European markets: the UK, Germany, France, Italy and Spain.

The research programme explored industry perspectives on the drivers and inhibitors of growth for CTV advertising in each market, during the next three years, including:

- The key **market enablers** underpinning the prospects for connected TV advertising
- The evolution of **audience viewing** and it will affect the CTV ad market
- The development of **agency and advertiser demand** for advertising on connected TVs
- The major **barriers** to broadcasters unlocking the potential of CTV advertising.

The research programme consisted of three main stages:

1. A review of industry data on connected TVs in the five markets, to establish a baseline of industry data about digital paid-for products and services (Note: All sources have been attributed)
2. In-depth interviews with senior broadcasting and advertising industry participants, exploring their perspectives on the current state and future developments of connected TV advertising
3. A series of executive seminars in June and July 2017, held in London, Munich, Paris, Milan and Madrid. Each seminar was structured around a simple framework to explore industry executive views and develop a group consensus on the prospects for connected TV advertising in each market.

The research used a form of the Delphi technique – a widely-used approach for developing forecasts and predictions about the future by stimulating a consensus of opinion across a group of experienced industry participants. The technique is intended to facilitate access to the positive attributes of interacting groups – for example, by sharing knowledge from a variety of sources and industry perspectives.

In total, 46 senior industry participants took part in the research programme. MTM and SpotX would like to thank all those who contributed to the research for their input and insights:

Exhibit 5: Research participants



Unless otherwise attributed, all quotations used in this paper come either from the programme of in-depth interviews or the executive seminars. All sessions were completed under the Chatham House Rule (no attribution without prior permission), with participants speaking as individuals and not as company representatives. Inevitably, this paper provides only a partial view of a highly complex industry. It represents a snapshot of industry perspectives at a particular moment in time²⁷.

²⁷ The opinions expressed within this paper are solely those of the authors and reflect MTM's judgement at the time, based upon the available information. These views do not necessarily represent the views of the interviewees and contributors. Any errors or mistakes are entirely the responsibility of the project team.



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