

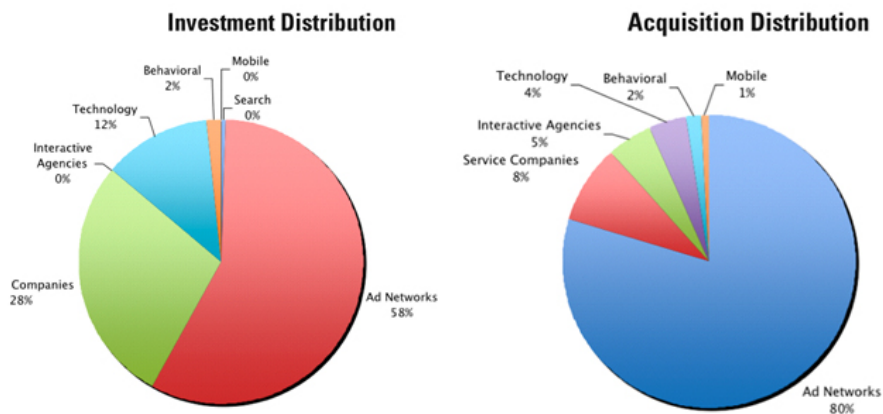
Why ad networks keep getting funded

In general terms, ad networks are the intermediaries that help online publishers sell-off excess ad inventory at significantly reduced prices. A few top tier ad networks have the economies of scale and scope to succeed in the current market, while a handful of niche networks have been able to offer a differentiated service by focusing on specific verticals or by using complex algorithms to match the right ads with the right placements. For the rest, the fragmented industry is plagued with price erosion, channel conflict and poorly targeted advertising. Recently, major online publishers such as ESPN and WeatherChannel have announced that they will stop using 3rd party ad networks, citing genuine concern about commoditization of their brands. However, even with the portended decline of such premium ad inventory, poor overall financial market conditions and general economic slowdown, the ad network industry continues to receive significant attention from investors seeking to capitalize on the advertising transition from traditional to new media (that is gaining momentum). In August, Brand.net received a second round of funding of \$20 million, Adisn raised \$1 million in its first round, Media6Degrees announced a \$9 million raise, Turn Inc. raised \$15 million, Lotame raised \$13 million, and the list goes on.

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According to the “2008 Online Advertising Deals Report” by ContentNext Media, there were 160 venture capital investments and 100 M&A deals in the Internet advertising sector between Q1 ‘07 – Q2 ‘08, with a combined value exceeding \$20 billion.¹ Ad networks represented 58% and 80% of these VC and M&A deals, respectively, during that period (see chart below).

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Source: 2008 Online Advertising Deals Report by ContentNext Media

¹ Includes Microsoft's acquisition of aQuantive (\$6 billion) and Google's acquisition of Doubleclick (\$3 billion).

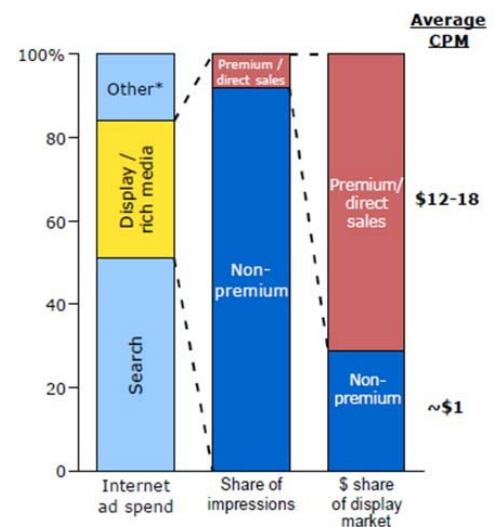
Ad networks are a subsection of the overall display advertising sector, in which marketers pay for website space or “inventory” to display their advertisements. According to the Interactive Advertising Bureau (IAB), display advertising (including rich media ads) generated revenue of \$9 billion in 2007, and accounted for approximately 30% of the overall U.S. online advertising market.

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A recent study by Bain and Company in coordination with the IAB highlighted the value chain dynamics of the display advertising market. According to this study, ad networks control the bulk of display inventory, but only generate ~30% of the revenue, which implies that in 2007 ad networks generated roughly \$2.7 billion of revenue. Pareto’s 80-20 Principle is certainly at work in the display advertising market, as a very small portion of display ad inventory is generating the majority of display ad revenues. This is further reflected in the large difference in CPM rates when sold directly or through an ad network. Premium ad inventory sold directly to marketers command average CPM rates of \$12-\$18, compared to ad networks’ CPM rates of ~\$1 (see chart above).

Inventory sold by the ad networks receives lower CPMs because it is remnant ad space, typically on non-premium websites. CPM rates also vary based on other factors such as supply and demand of inventory, amount and type of website traffic, type of content, time of year, geography of inventory, number of

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Bain_IAB Digital Pricing Study FINAL EXTERNAL 08-08-08

*Other includes classifieds, email advertising, email based lead generation, slotting fees, etc. Source: CIBC; ThinkEquity; literature searches; Deutsche Bank; Bear Stearns; CIBC; Advertising Age; Piper Jaffray; eMarketer; Forrester; Veronis; company filings; Bain Analysis IAN

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Top 15 Ad Networks March 2008 Total U.S. - Home/Work/University Locations Source: comScore Media Metrix		
	Total Unique Visitors (000)	% Reach
Total Internet : Total Audience	188,010	100.0
Platform-A*	170,537	90.7
Yahoo! Network	160,336	85.3
Google Ad Network	152,048	80.9
Specific Media	145,554	77.4
ValueClick Networks	140,091	74.5
Tribal Fusion	135,640	72.1
Casale Media Network	129,399	68.8
DRIVEpm	124,333	66.1
adconion media group	117,469	62.5
interCLICK	108,818	57.9
Traffic Marketplace	105,420	56.1
Collective Media	100,151	53.3
24/7 Real Media	94,525	50.3
ADSDAQ by ContextWeb	94,459	50.2
Burst Media	93,291	49.6

*Includes Advertising.com, which reached 167.5 million visitors in March 2008.

impressions per unique user, and which ad networks a publisher is using. As illustrated below, different ad networks boast different audience access, and different features that may improve the advertising value.

Based on comScore's March 2008 Media Metrix results (see tables to the right), the top three ad networks are AOL's Platform-A, Yahoo! Network and Google Ad Network.

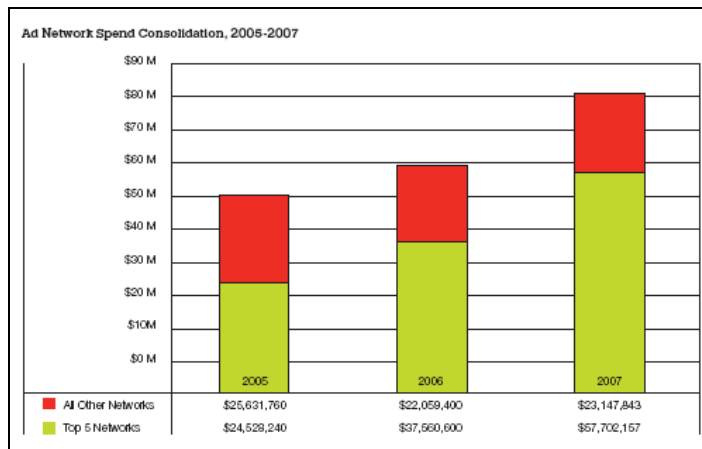
These top tier networks reach roughly 80-90% of Internet users in the U.S. Niche ad networks have far less reach, but try to use higher levels of targeting. For example, Snap Shots Network uses pop-up advertising alongside key words, AdOn Network uses contextual and behavioral targeting technology, and GoFish Networks works with publishers focused on the consumer kids, teens and moms segment. These niche networks typically reach only 5-10% of Internet users.

Selected Niche Ad Networks March 2008 Total U.S. - Home/Work/University Locations Source: comScore Media Metrix		
	Total Unique Visitors (000)	% Reach
Total Internet : Total Audience	188,010	100.0
Snap Shots Network	18,556	9.9
AdOn Network	16,825	8.9
GoFish Networks	9,865	5.2
Widgetbucks Network	9,622	5.1
HispanoClick by Batanga	8,370	4.5
Indieclick	6,885	3.7
The Heavy Men's Network	3,379	1.8
NeoEdge Game Network	911	0.5

[While] top tier networks reach roughly 80-90% of Internet users in the U.S., niche ad networks have far less reach but try to use higher levels of targeting.

Despite the targeting capabilities and others provided by such leading edge ad networks, the trend among online advertisers has been to focus their spending on the top tier providers (which have traditionally competed on the basis of large traffic volume). In 2007, the top 5 ad networks accounted for 71% of the total ad network spend, compared to 63% in 2006 (see chart below). With large ad inventories, the top tier ad networks are able to offer more choices at lower prices. More recently the top tier networks have tried to maintain their leadership edge with key acquisitions of "next generation" or "2.0" ad networks (similar in capabilities to the niche ad networks described in the previous paragraph). In 2007, Yahoo! acquired Right Media and Blue Lithium, while AOL acquired Tacoda and Quigo, which has helped enhance the value of their inventory and drive more ad spending to the top tier networks. The ad network spend consolidation trend is in this fashion expected to continue, while smaller independent niche players will probably find it even more difficult to compete.

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Source: 2008 Digital Outlook Report by Avenue A / Razorfish

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So why do small ad networks continue to be funded when the industry is highly competitive, the advertisers are only working with a select few networks, and the premium publishers are shying away from using the ad network service all together? Part of the answer is in the consolidation illustrated above, and the exit opportunity this constitutes. Additionally, we have to remember that the online advertising industry is still relatively new, and everyone from advertisers to agencies, publishers and ad networks is still experimenting with what makes the ideal display ad solution and how all parts of the value chain could work together. New trends, such as rich media ads with video and sound, are transforming the market and commanding significantly higher CPMs. New inventory, from social networking sites, blogs, widgets and mobile devices, is also adding to the complexity. With this type of potential and ongoing change in online advertising, many VCs see opportunity and are willing to invest in companies with strong intellectual property and a seasoned management team. We expect that ad networks that continue to develop (or acquire) innovative targeting solutions, and to offer better measurement and monitoring of their ad placements, will be among the leaders of this highly competitive space.



SPECIALISTS IN SATELLITE, MEDIA AND TELECOM INVESTMENT BANKING

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