

## Mobile Advertising Trends

Mobile advertising has been one of the fastest growing segments within the online advertising industry category recently. The growth has been fueled by the increasing sales of smartphone and tablet devices which have flooded the market in the past few years. iPhone and Android smartphones have dominated the market with announcements for the release of new models and upgrades emerging every few months. The introduction of the iPad and other competing tablets such as the Kindle Fire and Samsung Galaxy Tab has created a secondary surge in the use of mobile devices.

As shown below, most analysts predict that the explosive growth of smartphones and tablets will continue over the next few years:

Source	Smartphone & Tablet Growth			
	2013	2014	2015	2016
Goldman Sachs (6/4/12)	22.5%	32.2%	41.9%	N/A
eMarketer (1/9/13)	55.7%	35.8%	30.9%	27.2%
Gartner (4/4/2013)	12.0%	7.5%	6.2%	6.0%

The growth in the number of smartphone and tablet units in service is expected to drive the expansion of the US mobile advertising market as indicated in the advertising forecasts shown below:

Source	US Mobile Ad Growth			
	2013	2014	2015	2016
eMarketer (4/4/2013)	77.3%	55.5%	42.7%	33.1%
SNL Kagan (12/17/12)	65.0%	41.0%	31.0%	27.0%
Gartner (1/17/2013)	20.2%	22.7%	37.8%	37.0%

The estimates of mobile advertising are expected to significantly outperform the overall year-over-year growth of US online advertising. An eMarketer study forecasts overall US online advertising annual revenue growth rates to decline from 13.9% in 2013 to a level of 6.4% by 2016.<sup>1</sup>

The mobile OS platform base is dominated by Apple (iOS) and Google (Android). According to a study conducted by Kantar WorldPanel, Android smartphone

<sup>1</sup> “US Digital Ad Spending to Top \$37 Billion in 2012 as Market Consolidates,” eMarketer, September 20, 2012.

subscribers made up 52% of the US smartphone market, while iPhone subscribers comprised 41.9% of sales as of May 2013.<sup>2</sup> However, in the tablet market, Apple was the dominant choice, as the iPad garnered 77% of the tablet market in Q4 2012, while the Kindle Fire (10%) and Google Nexus (4%) came in a distant second and third.<sup>3</sup>

Despite the rapid growth of mobile advertising, there are questions regarding the effectiveness and efficiency of advertising on the different types of mobile devices. A study of mobile advertising trends was conducted by MoPub in its Q1 2013 *Mobile Advertising Marketplace Report* which provides insight into average CPMs, click-through rates, and shares of the mobile advertising market for different mobile devices. The advertising CPMs on iOS devices have continued to exceed ad rates on Android devices. In March 2013, monthly average CPM rates ranged from \$0.88 to \$1.16 on iOS devices compared to \$0.50 to \$0.53 on Android smartphones and tablets.<sup>4</sup> As shown in the table below, the iPad CPM is over two times as high as the Android average CPM.

Device	Avg. Monthly CPM Rates		
	Jan-13	Feb-13	Mar-13
iPhone	\$0.75	\$0.65	\$0.88
Android	\$0.58	\$0.50	\$0.50
iPad	\$0.99	\$0.82	\$1.16
iPod Touch	\$0.90	\$0.74	\$0.98
Android Tablet	\$0.69	\$0.51	\$0.53

*Source: MoPub Q1 2013 Mobile Advertising Report*

Likewise, the Apple iOS devices performed better from an efficiency standpoint as measured from the monthly click-through rates. Click-through rates on the Android devices hovered around 1.0% during March while the iPhone, iPod Touch, and iPad generated click-through rates ranging from 1.7% to 2.5%.

Device	Avg. Click-Through Rates		
	Jan-13	Feb-13	Mar-13
iPhone	1.6%	1.4%	1.7%
Android	1.1%	1.2%	1.1%
iPad	2.1%	2.0%	2.5%
iPod Touch	1.9%	1.5%	2.2%
Android Tablet	0.7%	0.8%	1.0%

<sup>2</sup> Kantar WorldPanel ComTech, May 2013.

<sup>3</sup> SNL Kagan, Economics of Mobile Programming, April 2013, p.12.

<sup>4</sup> Mobile Advertising Marketplace Report, Q1 2013, MoPub.

*Source: MoPub Q1 2013 Mobile Advertising Report*

Not surprisingly, the iPhone share of the advertising market has continued on an upswing during Q1 2013 while the Android smartphone share has experienced a decline. The iPhone share of the market slightly exceeded 50% compared to the Android smartphone share declining to 24.1% from the previous month.

Device	Share of Advertising		
	Jan-13	Feb-13	Mar-13
iPhone	44.5%	47.2%	50.1%
Android	25.7%	27.9%	24.1%
iPad	22.3%	17.7%	19.4%
iPod Touch	7.2%	6.9%	6.3%
Android Tablet	0.2%	0.2%	0.2%

*Source: MoPub Q1 2013 Mobile Advertising Report*

The rate of growth for mobile advertising will continue to outpace other forms of advertising within the next few years. Advertisers face the challenge of how to effectively reach their audience on the myriad of devices. Publishers and content providers have to provide compelling content to attract and hold their audience, often on the go. There is tremendous opportunity in the mobile advertising segment that will ultimately affect the value of digital media companies. Once again, the 500 lb. Gorilla in the online advertising space (Google!) is well-positioned to dominate mobile advertising regardless of the platform.

The valuation of digital media companies and assets is often required for accounting, tax, litigation, acquisition, and estate planning purposes. Bond & Pecaro professionals have over 25 years of experience in the valuation of media and technology companies and have the expertise to assess the opportunities in the mobile digital media segment.

*For more information on the valuation of digital media companies, please feel free to contact any of the principals of Bond & Pecaro at 202-775-8870.*