

Facebook Inc.

COMPANIES: FB
AAPL, GOOGL, TWTR

FB

App Install Ads Drive Solid Growth

Facebook app install advertisements continued to drive solid U.S. growth during 3Q14 yy, and LiveRail and Instagram are expected to add a new layer of incremental growth.

- OTR Global's read on FB remains positive (July, Sept. 15)
- App install spending with FB remains at triple-digit pace during 3Q14; app install pricing increased to \$4.23, vs. \$3.54 in July
- 3Q14 display advertisement spending up 24%–29% yy, vs. 22%–27% in 2Q14; 4Q14 yy growth expected to tick upward slightly to 27%–32%
- Pricing for News Feed ads increased in 3Q14 and expected to increase 12%–17% in 4Q14; value of right rail also increasing since revamp
- Area to Watch: LiveRail video and Instagram expected to ramp up new budgets and growth momentum for FB during next few quarters

KEY DATA

Facebook App Install Spending YY

(number of sources)

	3Q14	4Q14
Up 851%–900%	1	-
Up 451%–500%	-	1
Up 351%–400%	1	1
Up 251%–300%	-	-
Up 201%–250%	1	-
Up 151%–200%	1	1
Up 101%–150%	-	1
Up 51%–100%	-	1
Up 1%–50%	1	-
Flat	2*	1
Average	Up 285%–290%	Up 208%–213%
2Q14 average	Up 275%–280%	

*Answer from one source who did not answer for 4Q14 excluded from average

“Growth is trending upward at a substantial rate. I think the app install segment will be what makes the quarter for Facebook. The number of marketers placing ads on the platform now has grown tremendously in the last quarter. Clients are no longer asking, ‘Should we place ads on Facebook?’ They’re asking, ‘How do we get on Facebook?’”

*App install advertising specialist*BY CLAUDIA GELLER
EDITOR: PHIL LEGGIERE

SOURCES & BACKGROUND

19 sources, comprising 13 U.S. online agency media buyers, search agency directors and social media analytics/technology platform directors and 6 app developers and app specialist advertising agencies (2 full-service agencies also commented on app install trends)

REPEAT SOURCES 10 (7 online agency sources and 3 app sources) from OTR Global's July report; 10 (6 agency and 4 app sources) from OTR Global's mid-3Q14 check

INTERVIEWS Sept. 17 through Oct. 10**AVERAGES** Straight**See last page for Important Disclosures and Analyst Certification**

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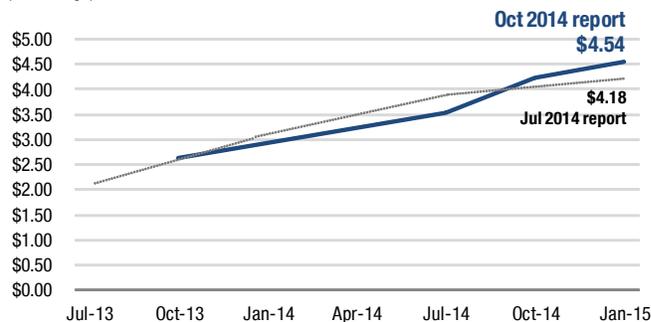
App Install Spending Maintains Hyper Growth

Continuing the sentiment from OTR Global's September mid-3Q14 check, **Facebook Inc.**'s app install spending momentum remained strong in 3Q14, with sources reporting that yy spending continued its triple-digit growth trajectory. "Growth is trending upward at a substantial rate. I think the app install segment will be what makes the quarter for Facebook. The number of marketers placing ads on the platform now has grown tremendously in the last quarter. Clients are no longer asking, 'Should we place ads on Facebook?' They're asking, 'How do we get on Facebook?'" said an app marketing source. Another source cited improved performance of app install advertisements using Facebook's video app install advertising units. "We are now starting to run the app install video ads on Facebook, and the click-through rates [CTRs] have increased from 1%–3% to 3%–5%, which is significant. Video works much better, and Facebook has recently improved the quality of their video ads," said an app marketing specialist.

Prices are also edging up for the app install advertising units, with sources paying an average \$4.23 per install in 3Q14 — up from \$3.85 in 2Q14 — as budgets continue to be channeled to Facebook. Sources expect prices to continue to rise as increasing demand drives competition. "The trend is that the app install ads are getting more expensive. What used to cost us 75 cents is now over \$1. We're seeing a lot more competition for inventory now as well, which also drives the price up," one said.

App Install Pricing on Facebook

(on average)



Sources still expect competition later this year as **Google Inc.** rolls out a new app install advertising unit and **Twitter Inc.** ramps up its offering. However, sources said Facebook is way ahead of any of the competition and is continuing to improve its quality and performance, which is hard to beat. "Our clients ask us if there are other platforms that can give them the same type of performance. And, to be honest, we know of nothing else. Google doesn't have an app install product yet, and Twitter's is much more expensive. And then you have to pay for the third-party SDK immersion tracking, which is an additional cost," one said. Another said, "Facebook is No. 1, and I think at this point, Twitter is a distant second. Twitter's prices are much higher, and you also have to pay for the third-party SDK for immersion tracking. That said, I have limited experience with Twitter. I don't see any clutter on the Twitter platform, but they also don't offer a video option yet."

Sources expect continued triple-digit growth for app install ads in 4Q14 as they leverage Facebook's improvements. "Q4 will be up hugely over last year, as Facebook has more to offer, and our ability to use it effectively has really increased since last year as well. We expect to see Q4 increase six times year to year. Last year, it was a big quarter for us, but this year, we are adding one new client each day, and they are all looking to put their app install ads on Facebook," one said.

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Static Display Demand Continues to Moderate

Advertising agency sources reported 3Q14 static News Feed display advertisement spending was up 24%–29% yy, with repeat sources who were earlier adopters of Facebook citing a slight moderation since 2Q14. However, several new sources are reportedly spending more on Facebook now as they replace the organic advertising they used prior to Facebook's change in algorithm, which is forcing marketers to move into paid media. "We are spending more hard dollars on Facebook now because they have changed their algorithm, which makes it much more difficult to do organic postings. But the fact is, the more you spend, the better the results," an agency source said.

Facebook's static display advertisement has become a mature offering for Facebook. Although the early adopters reported yy growth waning a bit, it is still doing the job. "We're now competing against the big expansion of mobile News Feed we saw late last year, so growth numbers are more moderate. However, the good news for Facebook is its platform has become indispensable and strategic, and [it] still outperforms everything except Google search," a source said. Another said, "Our spending on Facebook is up fairly significantly year to year, but we're up against tougher comps in Q3. But Facebook budgets are solid, thanks to the Custom Audience platform and native ad units." Sources also said spending has been driven by changes within the Facebook platform — most notably better targeting — and because advertisements easily transition consumers off the Facebook platform to a more direct sales environment. Sources also noted improvements on mobile where transitioning has become much more seamless.

Sources expect spending on Facebook's static News Feed and banner advertisements to grow 27%–32% in 4Q14, boosted by sources transitioning from organic to paid advertising, as well as more aggressive use of the Facebook platform for holiday campaigns. "Although we're looking at tougher year to year comps in Q4, we're doing more and more on Facebook each quarter," one said.

Mobile Demand Leads Pricing Moves

Desktop News Feed static display eCPM comparisons showed desktop News Feed ad CPMs at \$5.35, with Right Rail ads averaging \$2.20. Sources said mobile advertisements averaged \$6.75, which is an improvement compared with OTR Global's 2Q14 findings but largely bumped up by one source who was aggressively bidding to get the target audience in an increasingly competitive environment. "Mobile ad pricing is higher because of more competition for mobile, and we're buying more and willing to pay more to get what we want," said the source. Another source said the revamped Right Rail ads had garnered more attention, as well as higher prices. "Right Rail ad pricing is beginning to rise. I wouldn't be surprised if they doubled in the next six months," the source said. Sources expect pricing to increase 12%–17% during the next three months, led mostly by the aggressive buying of mobile inventory.

Mobile Volume Still Growing

Sources said mobile advertising accounted for an average 58%–63% of their spending, up slightly for repeat sources as better performance and engagement continued to drive advertisers toward mobile. "We're seeing more engagement on the mobile ads, so I would expect this segment to grow as Facebook offers more mobile options like third-party data," an agency source said.

Sources expect Facebook's third-party network to begin to scale in 4Q14 and to be a key driver for advertising growth in 2015. Current performance of the network falls short of sources' expectations, but the potential is significant once the platform scales. "Third-party site eCPMs are still a

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good bit lower because the performance is not as good yet, but the pricing will eventually go up. It's a volume play," one said. Another said, "Right now, [it's] just a slight reallocation from News Feed, but that will probably change after the first of the year, and then the ad network will be more incremental."

Big Expectations for LiveRail

As reported in OTR Global's September mid-3Q14 check, sources expect Facebook's acquisition of LiveRail to pay dividends in the long term as brands diversify their digital video budgets to include Facebook inventory. Sources now added that consumption of video on the Facebook platform is increasing, as well as the quality of the advertising units. Brands are looking to spend more heavily on LiveRail as it expands its advertisement unit offerings across premium publisher partner sites and mobile platforms. "We're looking at using video in the Facebook News Feed because we're seeing more and more users actually consuming video content on Facebook. Facebook has done a very good job of rolling out video slowly, and we expect it to be a big growth driver next year," one said. Sources expect Facebook campaigns for branding and direct-response advertisers to increase later this year as video advertisements become more accessible via the LiveRail network. One said, "We've been heavily investing in LiveRail for over a year now. Their inventory is very high quality, and the performance is extremely good with reliable metrics. I'm not surprised Facebook bought them."

Sources expect Facebook to benefit from the rising tide of growing online video, which could accelerate total spending growth on the platform at the end of 2014 and in early 2015. "Video is in very high demand, so any video inventory will be quickly gobbled up," one said.

Brands Anticipate Instagram at Scale in 2015

Sources expect Facebook's Instagram advertisements to attract brand budgets as advertisers continue to look for premium online display opportunities and believe Instagram will emerge as a growth catalyst as early as 4Q14, offering image and video advertising. Instagram's younger demographic is what brands are looking to solicit, but the advertisement offering is thought to still be in the early stages; thus, growth will be slow. "We think Facebook will continue to monetize Instagram as they are losing the younger demographic on their main platform. But we don't see Instagram growing at the rate the main Facebook platform grew at. It will be slower growth and a more seamless integration of the ads over a couple of years," one said. Sources still report a lot of potential for Instagram to become a major new driver of spending, and are waiting for the platform to grow its user base and engagement before it is opened up to large-scale buys — possibly by early 2015.

Contributors: Adrienne Bard and Michael Foster

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ON APP INSTALLS

"I expect to see a stand-alone tool from Apple [Inc.'s] iAd to attempt to compete, but I don't think it will be effective."

"Twitter is being the most aggressive right now, but they are currently limited by size. Facebook is really pushing to keep those advertising dollars. Otherwise, we're not seeing any that are material yet."

"We have actually tested a couple of smaller app install platforms to see if they can give up comparable value to Facebook. But so far, nothing gives us a value that is anywhere close to what Facebook gives us."

"Twitter's new mobile ad network is Facebook's biggest competition. We don't use it yet; we will — but not for at least six to 12 months."

ON SPENDING

"Our spending [has increased] because the organic advertising we did is now moving to paid ads because Facebook has changed their algorithm, forcing us to pay as a result."

"[There is] solid growth certainly — but a little less dramatic — reflecting that we're now competing against the big explosion in News Feed and mobile a year ago."

"I think Q4 growth will be comparable to what we're seeing in Q3. I think we will increase our ad volume, resulting in more spending at lower prices."

"More aggressive use of Facebook for holiday campaigns this year versus last, plus the incremental growth of the ad network will reaccelerate growth in Q4."

ON PERFORMANCE/ROI

"We always opt for using FAN with our app install ads. It doesn't change the pricing at all, which leads me to believe that Facebook is still struggling with growing the network. They still talk about it, but we've not seen it become a roaring success yet. We add it by default on all of our campaigns, and we don't see it making a huge difference yet."

ON COMPETITION

"The only real platforms with scale that can compete are Google and Twitter with MoPub. And we're seeing more adoption of Twitter this quarter than I had expected — although it will never totally eclipse Facebook since Twitter's targeting is not quite as comprehensive."

"The ROI on Facebook is getting more expensive and competitive, but there's still nowhere else with similar scale."

ON VIDEO AND INSTAGRAM

"We're agnostic in video campaigns, but most spending is going to mobile for Facebook O&O because that's where usage is."

"LiveRail provides access to high-performing, brand-friendly inventory with highly effective targeting."

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Agencies

1. Did your 3Q14 advertising spending for Facebook increase, decrease or remain the same yy? Do you expect your 4Q14 Facebook advertising spending to increase, decrease or remain the same yy?

	3Q14	4Q14
Up more than 100%:	1*	-
Up 71%–80%:	-	1*
Up 61%–70%:	1*	-
Up 51%–60%:	-	1*
Up 31%–40%:	2	3
Up 26%–30%:	4	5
Up 21%–25%:	2	1
Up 16%–20%:	1	-
Up 11%–15%:	-	1
Up 6%–10%:	1	-
Down 1%–5%:	-	1*
Down 26%–30%:	1*	-
Average:	Up 24%–29%†	Up 27%–32%

* Outlier excluded from averages; † Repeat sources cited a 200 bps deterioration on average vs. 2Q14

2. What percentage of your Facebook advertisement spending is for desktop and for mobile advertisements?

	DESKTOP	MOBILE
91%–100%:	1	-
81%–90%:	-	1
71%–80%:	-	2
61%–70%:	-	4
51%–60%:	1	3
41%–50%:	1	1
31%–40%:	3	1
21%–30%:	6	-
1%–10%:	1	-
0%:	-	1
Average:	37%–42%	58%–63%
July average:	39%–44%	56%–61%

- 3a. What is your eCPM for Facebook desktop News Feed, Right Rail and mobile advertisements?

	NEWS FEED	RIGHT RAIL	MOBILE
\$10 or more:	1*	-	2*
\$9–\$9.99:	-	-	1
\$8–\$8.99:	2	-	1
\$7–\$7.99:	-	-	1
\$6–\$6.99:	2	-	4
\$5–\$5.99:	2	-	2
\$4–\$4.99:	3	4*	1
\$3–\$3.99:	2	-	-
\$2–\$2.99:	-	3	-
\$1–\$1.99:	-	4	-
\$0.75–\$0.99:	-	1	-
Don't know:	-	1	-
Not applicable:	1	-	1
Average:	\$5.35	\$2.20	\$6.75

* One outlier excluded from averages

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3b. Do you expect Facebook desktop and mobile pricing to increase, decrease or remain the same during the next three months?

Up 11%–20%:	8
Up 1%–10%:	3
Up:	1
Don't know:	1
Average:	Up 12%–17%

3c. What is your current eCPM for Facebook's third-party mobile ad units?

\$4–\$4.99:	2
\$2–\$2.99:	4
Don't know:	1
No response:	1
Not applicable:	5
Average:	\$2.96

Facebook App Install

4. What was the average price per app install you paid on Facebook a year ago and three months ago, and what is it now? What do you expect the average price per install to be on Facebook three months from now?

	1 YR. AGO	3 MO. AGO	CURRENTLY	3 MO. FROM NOW
\$6–\$6.99:	-	-	1	1
\$5–\$5.99:	-	1	1	1
\$4–\$4.99:	2	1	-	3
\$3–\$3.99:	-	2	4	2*
\$2–\$2.99:	3	2	1*	-
\$1–\$1.99:	1	-	-	-
No response:	1	1	1	1
Not applicable:	1	1	-	-
Average:	\$2.63	\$3.54	\$4.23	\$4.54

*Answer from one source who did not answer for full time series excluded from the averages

5. Did your 3Q14 Facebook app install spending increase, decrease or remain the same yy? Do you expect your 4Q14 Facebook app install spending to increase, decrease or remain the same yy?

	3Q14	4Q14
Up 851%–900%:	1	-
Up 451%–500%:	-	1
Up 351%–400%:	1	1
Up 251%–300%:	-	-
Up 201%–250%:	1	-
Up 151%–200%:	1	1
Up 101%–150%:	-	1
Up 51%–100%:	-	1
Up 1%–50%:	1	-
Flat:	2*	1
No response:	-	1
Not applicable:	1	1
Average:	Up 285%–290%	Up 208%–213%
2Q14 average:	Up 275%–280%	

*Answer from one source who did not answer for 4Q14 excluded from average

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6. What other mobile advertising platforms do you consider significant competition for Facebook app install spend now and for the next six to 12 months? (Some sources gave more than one answer.)

	CURRENTLY	NEXT 6-12 MONTHS
Twitter:	6	4
Google:	4	2
AppNexus:	1	-
Ad exchanges:	-	1
Apple:	-	1
Instagram:	-	1
None:	1	2

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