



WITH THE SUPPORT OF



# ONLINE VIDEO IN RUSSIA

*From piracy to global integration*

EXECUTIVE SUMMARY – FIRST EDITION – OCTOBER 2013

IN PARTNERSHIP WITH



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## About this report

This research was conducted by East-West Digital News in partnership with comScore, Ernst & Young, Moscow's Higher School of Economics, and The Next Web. It took place in August and September 2013 with the participation of more than 20 Russian and international market players.

The report has been sponsored by Tvigle.ru, a leading Russian online video site. This has had no impact on the report's editorial neutrality.

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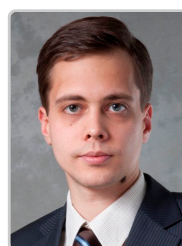
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# Participating companies

## MARKET PLAYERS



## INVESTMENT FUNDS



## DATA & EXPERTISE





ONLINE VIDEO IN RUSSIA

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# EXECUTIVE SUMMARY



## Internet in Russia: Europe's largest market

Even though Russia overtook Germany in 2011 to become Europe's largest Internet market by number of users, Russia still lags behind most other European countries in terms of penetration, with 57% of the adult population connected (66 million people) as of spring of 2013. Internet penetration is higher in Moscow and St. Petersburg (over 70% of adult inhabitants) than elsewhere in Russia (less than 50% in small towns and around 60% in cities of over one million inhabitants), even though the capitals represent only 15% of the country's total Internet audience.

Mobile Internet took off rather late in Russia, but it has shown dramatic growth since 2010. The number of Russian mobile Internet users – including feature phone and smartphone owners – is estimated to be around 90 million this year. Better 3G and LTE coverage as well as the increasing success of smartphones and tablets on the domestic market are the key drivers of this growth.

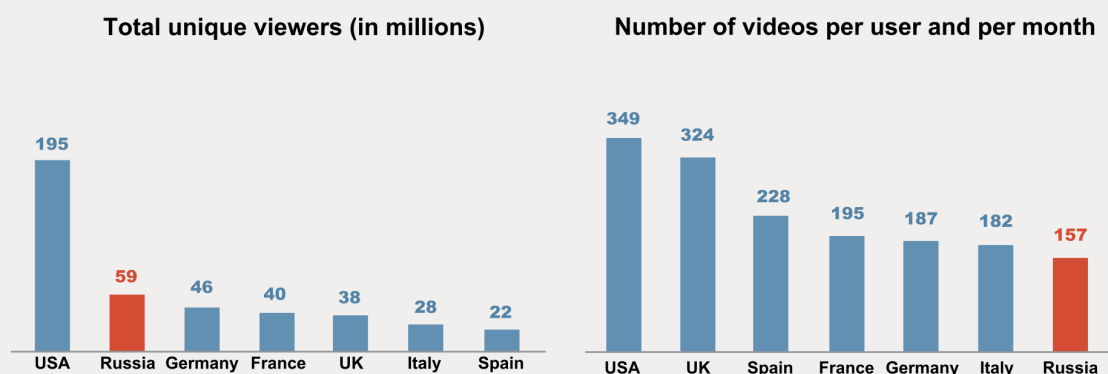
## The Russian online video market

With nearly 60 million monthly viewers in July 2013 according to comScore, Russia has the largest online video audience in Europe with a more than 30% CAGR over the past three years. There is still has a considerable growth potential in terms of videos per viewer (157) and hours per viewer (17 hours per month), based on international comparisons.

The market is expected to grow at an 18% average annual rate for online video audience and 6% in terms of videos per viewer until 2018. Meanwhile, the paid content and in-stream online advertising markets will be boosted by growth in online video inventories from 106 billion views in 2012 to an estimated 292 billion in 2018.

Until recently, Russia's reputation as a haven for pirated content has been deserved to a large extent. In 2012, about five billion online video views involved pirated content, while more than one million unique video file copies were detected – including on some of the most established Russian Internet sites. The damage to Russian and foreign TV companies ranges in the billions of US dollars.

TABLE 1&2 Internet and online video penetration: International comparisons (as of July 2013)



Source: comScore



Coming after years of insufficient legal framework and practice, a new anti-piracy law was enacted in the summer of 2013. The law, which allows a Moscow Court to temporary block access to any illegal content as well as to hyperlinks to such content, has had an immediate impact, with 56 complaints filed and three sites blocked in a mere two months. Among the expected middle or long term effects of the law are increased video consumption via legitimate channels, reduced risks for right owners leading to more content available for online video providers, and increased interest in the segment from advertisers and investors.

## Russia's online video landscape

The market already has seven years of history, but the last three years have been the most active (see Timeline). Today there are more than 20 legal VOD Internet services in Russia.

Launching a Russian YouTube version in 2007, Google was the first major international player to enter the market. In 2012, Viasat expanded its Viaplay online pay-TV service to Russia, while iTunes and Play Store (Google Play) began selling media content in the country that same year. Other players like Amazon, Hulu and Netflix have recently shown interest in and may soon enter the market.

Thus far, the paid model for content has not been very successful in Russia. Only a limited number of viewers are ready to pay for content, while very large amounts of content are available for free on ad-funded sites or via resources with pirated content.

TABLE 3 Ranking of Russian online video players by audience and volume (June 2013)

Ranking	Players	Audience*	Video streams**	Videos per viewer
1	Google Sites	54.0	3,740	69
2	Mail.ru Group	33.6	791	24
3	Gazprom Media	15.9	106	7
4	Yandex Sites	15.0	81	5
5	Tvigle.ru	9.2	104	11
6	Vimeo	9.0	30	3
7	Viacom Digital	6.2	16	3
8	Kinopoisk.ru	6.0	20	3
9	Smotri.com	6.0	46	8
10	ivi.ru	5.3	76	14
11	Zoomby.ru	4.9	23	5
12	Molodejj.tv	4.8	103	22
13	Planeta-online.tv	2.8	14	5
14	Tvzavr.ru	2.2	11	5

\* Unique users, in millions \*\* Number of video streams, in millions

Source: comScore Video Metrix – Although not mentioned in the above rating, V Kontakte.ru (VK.com) has been historically the largest video resource after YouTube. Its popularity was due to the considerable amount of content, including illegal content, made available on the site.


**TABLE 4 Ranking of Russian online video players by audience, excluding UGC sites**

Ranking	Online video players with legal professional content	Audience*
1	Tvigle.ru	8.0
2	Videomore.ru	4.0
3	Molodejj.tv	4.0
4	Zoomby.ru	3.7
5	ivi.ru	3.3
6	Megogo.net	0.9
7	Tvzavr.ru	n/a

\* Unique online video users, in millions, in cities of 100,000 inhabitants and more

Source: TNS, June 2013

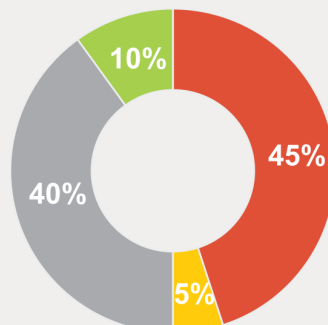
In this context, the advertising model – where the viewer has access to content for free, as in traditional TV – dominates the VOD market. It is the core revenue source for the main non-UGC market players. In this respect, the Russian market has more in common with China than with the US or Europe, where the pay-per-view and subscription models are far more widespread than the advertising one.

## The content market

The Russian digital content market is estimated to currently be worth approximately \$1.4 billion (including the transactional and advertising models). Games account for 97% of the market, video for 2% and music and books for 1%. A historically high level of piracy is the principle explanation for this market structure. The share of online video content is likely to grow in correlation with the legalization of video content on the Internet and in the online game industries. The structure of the Russian digital content market will thus gradually become similar to that of the US, the UK or Japan.

In the online video segment, domestic content accounts for up to 45% of the available titles on average. Among the major Russian copyright owners are Direction Film, Cinema Company CTB, Amedia, CTC Media, All Media (Yellow Black and White), Russian World Vision and others.




**TABLE 5 Estimated split of available video content by origin**


■ Russia   
 ■ UK   
 ■ USA   
 ■ Europe

*Source: market player interviews*

## Online video advertising

Spending on online video ads has developed actively since 2010 and reached \$52 million in 2012, up 120% from the previous year. The market is expected to grow by about 60% annually in the next couple of years. There is a huge potential to tap: TV advertising spending per capita, as well as overall online advertising spending per Internet user, are six times higher in the US than in Russia, while online video advertising spending per online viewer is up to 15 times higher.

Online and mobile video advertising will significantly change the structure of Russia's online advertising market in the mid term, as has already been the case in more advanced

## Investment activity

Based on publicly disclosed transactions, founders, VC and PE funds and strategic investors have invested about \$200 million in the Russian online video market since the first transaction – an investment in Tvigle.ru – was completed in 2007.

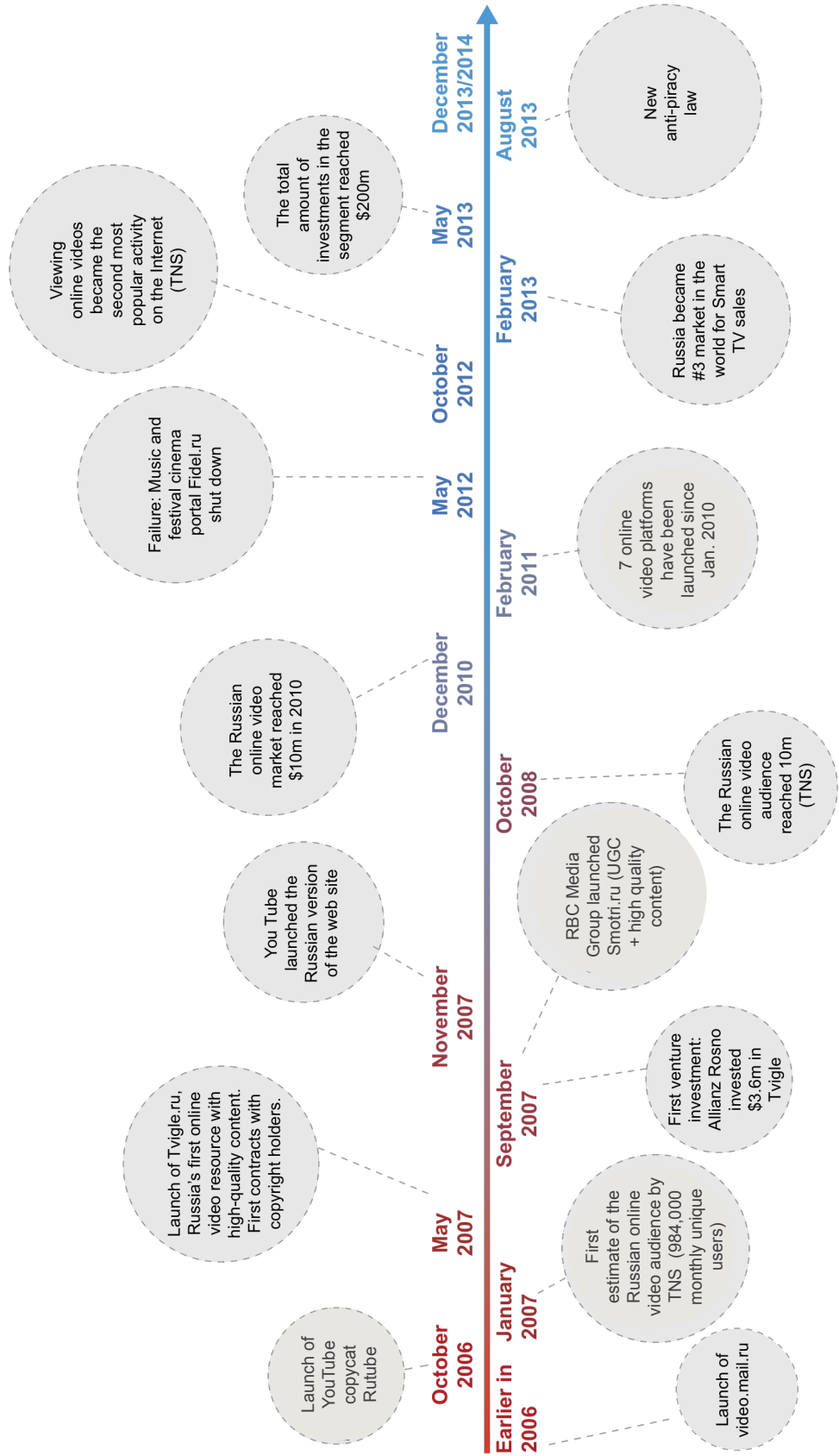
Having just completing its early/venture stage, the sector is now entering the growth stage, with further investments required to scale businesses. However, due to the limited number of Russian funds operating at the growth stage, not all projects will attract funding, which may lead certain sites to cease their activity, radically change their format or be acquired by other players.

The sector remains attractive to VC and PE investors due to its untapped potential – in terms of user base, advertising revenues and new channels, – as well as to the weakness of cable, DVR or content aired on traditional television. In addition, the new anti-piracy legislation is expected to increase the traction of legitimate video resources.

On the other hand, competition is already quite high, while players seem to be excessively dependent on content providers and advertising budgets. Piracy will not instantly disappear, and it will take time for the pay-per-view model to take off.



**THE RUSSIAN ONLINE VIDEO MARKET: TIMELINE (2006-2013)**





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ONLINE VIDEO IN RUSSIA

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# CORPORATE SECTION



corp.tvigle.ru

## ABOUT US

Tvigle pioneered professional online video broadcasting in Russia in 2007, and remains the market leader by monthly reach and advertising revenue. Tvigle offers a vast selection of legal content that can be viewed anywhere and anytime on almost any device.

As well as offering video on demand, Tvigle has Russia's largest partnership network for content syndication, and its Video Publisher platform allows publishers to create and monetize video projects online.



## OUR BUSINESS IN NUMBERS

**No1**

The market leader with **20% share of unique monthly viewers**

**7,500**

More than **7,500 partner websites** and a unique advertising network

**10M**

**10 million people** Tvigle's audience in April 2013

**120M**

**120 million videos** watched every month on Tvigle.ru

## FOUR CORNERSTONES

### PORTAL - TVIGLE.RU

Main portal site focused on broadcasting high-quality content for online viewers with advertising rolls

### PARTNERSHIP NETWORK

Content syndication platform to broadcast our content in the video stream on more than 7,500 partner websites

### VIDEO PUBLISHING PLATFORM

Globally proven cloud based service for mid-sized TV channels and other video intensive media business

### CONNECTED DEVICES

High potential for transactional video on demand (pay-per-view)

## OUR SENIOR MANAGEMENT



### EGOR YAKOVLEV

*Founder, CEO*

- Former sales and marketing director at Amedia, a top-5 Russian TV and media production company
- Former CEO at software developer Computerra, with expertise in IT/computers, print & online publishing sectors



### MAXIM MELNIKOV

*Investor, board member, CEO at Media3*

- 16+ years of successful track record in senior management positions in media business and investment industry
- MBA from Stanford University

## CONTENT PARTNERS



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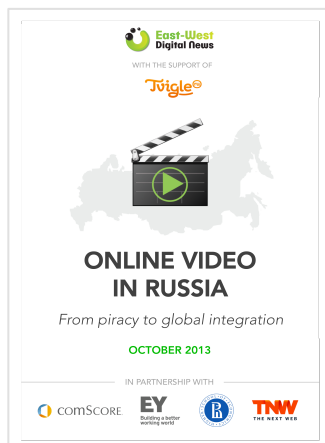


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