

sonicfoundry®

2014 Global Lecture Capture Solutions
Market Share Leadership Award



F R O S T & S U L L I V A N



50 Years of Growth, Innovation & Leadership

Market Share Leadership Award Lecture Capture Solutions Global, 2014

Frost & Sullivan's Global Research Platform

Frost & Sullivan is in its 50th year of business with a global research organization of 1,800 analysts and consultants who monitor more than 300 industries and 250,000 companies. The company's research philosophy originates with the CEO's 360-Degree Perspective™, which serves as the foundation of its TEAM Research™ methodology. This unique approach enables us to determine how best-in-class companies worldwide manage growth, innovation and leadership. Based on the findings of this Best Practices research, Frost & Sullivan is proud to present the 2014 Global Market Share Leadership Award in Lecture Capture Solutions to Sonic Foundry.

Significance of the Market Share Leadership Award

Key Industry Challenges

Lecture capture solutions deliver significant value to educational institutions by allowing teaching material to be accessed anytime, anywhere, and by allowing students to learn and revise material at their own pace. In a growing number of cases they are fundamentally changing the way educators teach, for example, in the case of flipped classrooms and MOOCs. However, not all educators support these solutions, and not all coursework and course materials have been adapted to keep pace with the features that LCS enables. Overcoming the rigidity of pedagogy and reluctance of some educators to transition their teaching methods is a key challenge that vendors must overcome.

Once institutions adopt an effective solution, the benefits become expeditiously apparent, causing a 'domino effect' in adoption. Adding further momentum to cross-vertical adoption, growing trends in software-based applications for PCs, and even portable devices, has dramatically broken down the barrier to entry and cost of bringing LCS capabilities into smaller classrooms.

Another key issue is budgetary constraints. Frost and Sullivan's demand analysis shows that negative impacts of the 2009 recession linger in the U.S., the largest consumer of LCS solutions today. Similar constraints hamper investment in Western Europe as well. In emerging countries, there is tremendous potential for LCS adoption given the sheer number of students, classrooms, and educational institutions, but sophistication in terms of IT expertise, budget, and infrastructural issues such as limited broadband continue to encumber adoption. Select markets such as Northern Europe, Australia, and Japan have been relatively immune to this upheaval, and rising markets such as Latin America and the Middle East offer promising new global growth opportunities. Successful vendors are

overcoming regional slowdowns by delivering excellent value to existing customers and growing sales through expansion rather than 'green field' deployments. Successful vendors are also those who take a global approach to their sales footprint, with strong regional partnerships with distributors and system integrators.

Finally, as technology matures and becomes commoditized, and as the full potential of LCS is on the cusp of being realized as the market crosses the proverbial chasm, a growing number of vendors are entering the LCS market in earnest. And as video becomes more critical and vendors from adjacent markets, such as Online Video Webcasting, Enterprise Video Platforms, Learning Management Systems, etc. look for growth opportunities, Education poses itself as a lucrative vertical. K-12 is still an uncertain market, but Higher Education offers abundant opportunity for a growing number of vendors, both regional start-ups and multi-national conglomerates. As prices fall, software becomes more pervasive than specialized hardware solutions, and differentiation on quality is increasingly difficult, incumbent vendors are challenged to grow revenues and maintain market share. Old fashioned quality remains critical to long term success, but positioning, market education, and go to market strategy become increasingly crucial in this situation.

Best Practice Award Analysis for Sonic Foundry

The Frost & Sullivan Award for Market Share Leadership is presented to the company that has demonstrated excellence in capturing the highest market share within its industry. The Award recognizes the company's leadership position within the industry in terms of revenues or units, as specified.

Sonic Foundry's Performance in the Lecture Capture Solutions Market

Frost & Sullivan's research shows LCS to be an energetically growing market that is still nascent by many standards, with less than 5% global penetration in K-12 and less than 10% global penetration in the Higher Education segment. Frost and Sullivan estimates the LCS market earned approximately \$162 million in 2013, up from roughly \$70 million in 2011. This is a function both of rising market revenues and also of a broadening of the definition of LCS solutions as a growing diversity of solutions and components are brought to market to serve this burgeoning opportunity. Sonic Foundry nonetheless continues to stand out as the market leader in this broader ecosystem, with an estimated market share of 14.5% by revenue in 2013. This share is all the more noteworthy because Frost & Sullivan does not factor reseller margins into vendor market share. Sonic Foundry accomplishes a significant percentage of its sales through resellers and distributors, offering them a significant discount on list price to allow for distributors to be price-competitive and yet profitable.

Key Performance Drivers for Sonic Foundry

Mediasite is a best-in-class solution for the lecture capture needs of large and small educational institutions. It provides seamless, automated capture, distribution, and management of lectures, presentations, and campus events. Mediasite automatically captures high-definition video with high-resolution presentation materials from any presentation tool the lecturer may be using, such as laptops, tablets, document cameras, or whiteboards. These rich, high quality presentations offer a far more immersive experience and more effective replay of the lecture compared to simple video recordings. Mediasite can webcast recorded presentations live or on-demand to any computer (PC or Mac) or mobile device (iOS, Android, BlackBerry, and more). Mediasite also provides live streaming for use cases such as commencements, guest speakers, and sporting events. As with most LCS systems, playback is flexible, including the ability to rewind, pause, slow down, or fast forward to critical content; this is important for effective learning and revision. More importantly, Sonic Foundry provides interactive tools during playback such as keyword search, ask a question, polls, bookmark sharing, links to related materials, and chapters - these have a strong positive impact on the efficiency of the learning process.

Captured lectures are accessed using single sign-on through popular LMSes including Blackboard, Canvas, Moodle, and Desire2Learn. Mediasite Enterprise Video Platform, Sonic Foundry's video content management system, provides a central repository to archive, index, manage, secure and track all Mediasite content as well as video content ingested from other recording devices or applications. New capabilities introduced this year, which we will discuss later in this analysis, add personal content creation features to allow users and educators to capture, upload, manage, and publish their own videos into My Mediasite, which adds yet another dimension to the richness of content that can be supplied to the student community and the ease (and low cost) with which this can be accomplished. Finally, Mediasite provides analytics capabilities allowing educational institutions to monitor how the system and its content are being used.

In this section we look at four specific factors that play a particularly strong role in contributing to Sonic Foundry's continued market leadership and its Mediasite product line.

Factor 1: Trusted Solution and High Customer Loyalty

For over a decade, Mediasite has set the standard for lecture capture solutions in Higher Education. Mediasite takes an 'it-just-works' approach to lecture capture, with a high degree of automation and intelligence built into the lecture capture solution. Through extensive integration with complementary systems such as room controls, learning management systems, content management systems, enterprise directories, etc., Mediasite is able to automatically detect and capture all modalities of communication and instruction that an educator or lecturer is using. This ease-of-use and wide support base, combined with excellent quality of experience for students, makes for considerable customer satisfaction and enthusiastic campus-wide adoption of the solution.

As an example, Duke University's School of Medicine used to have five different capture technologies used across its programs, but the faculty could not create and disseminate content effectively and students could not find, and therefore could not use, the video material to enhance their education, pre-exam review, and final results. The school then turned to Mediasite to "live stream educational content anytime, anywhere". By consolidating all capture modes under a single solution umbrella, and by corralling all videos into a single location, Mediasite enabled the school to enhance its curriculum with extensive on-demand lecture content. Furthermore, through extensive indexing capabilities that facilitate video search, students are able to quickly and easily locate relevant content, further improving the usefulness of the system.

As another example, during a pilot test of Mediasite at San Antonio College, which has a student population of 25,000, 97 percent of students felt that "they were more successful having access to on-demand lectures for review". Having experienced the power of lecture capture solutions and the value of on-demand lecture replay for revision and pre-class preparation, there was no going back, and the students pushed the college to incorporate Mediasite into all their classes.

With over 1,200 deployed sites (up nearly 20 percent from approximately 1,000 in 2012), Mediasite continues to see added footprint in new institutions yet derives much of its revenue from existing clients through broadened and upgraded deployments. This customer loyalty bears strong testament to its effectiveness and value. It also bodes well for continued solidity in Sonic Foundry's market position. Through customer outreach events such as Unleash, the global Mediasite User Conference, Sonic Foundry continues to engage its current user community while also continuing to influence new prospects, a critical activity in this market where significant green field opportunity exists worldwide.

Factor 2: Agile Feature Set Resonates With Rapidly Changing Needs

Ongoing research and development have kept Mediasite relevant and enabled the launch of new and innovative features. For example, flipped classrooms are seeing growing popularity. Here, faculty pre-record a series of (typically short) videos that students are required to review before coming to class. Classrooms can then be used for deep-dive discussions and rich interactive education rather than for traditional monologue lecture delivery. Mediasite supports flipped classrooms through rich, high quality, on-demand lecture generation and delivery. As an example, several faculty in the Fox School of Business are implementing the flipped classroom approach because of Mediasite's strength in generating and delivering a library of video content. Mediasite also enables new learning models including distance learning and continuing education, which are increasingly important to traditional colleges and universities.

Traditionally, only about 20 percent of the largest classrooms have accounted for 80 percent of LCS deployments. However, there is growing demand for LCS anytime, anywhere, in every classroom. Recognizing that content creation needs to be democratized, Mediasite introduced a new desktop capture system that allows anyone to create and share videos, lectures, and assignments at a location and time of their own convenience, using webcams or even their iPhone or iPad. My Mediasite adds the ability for users to record, upload, manage, and publish self-created videos campus wide. Built-in analytics capabilities allow faculty to monitor who is viewing their content and to what extent.

Clemson University, a Mediasite user since 2004, recently deployed My Mediasite across a number of schools within its College of Health Education and Human Development. These include disciplines as diverse as the School of Nursing, School of Education, the Department of Public Health Sciences, and the Department of Parks, Recreation, and Tourism Management. Across all these diverse use cases, My Mediasite serves as a single unified solution for faculty to pre-record lectures from their desktops. Students watch recorded lectures prior to class, leaving class time to be dedicated to more dynamic discussions and interactions. As another example, the University of Florida, also a Mediasite customer for nearly a decade recently rolled out My Mediasite campus-wide to rave reviews and positive feedback.

IT departments also favor My Mediasite because it is easy to use, easier to maintain than other software-based alternatives, and because the content is automatically uploaded to Mediasite Enterprise Video Platform so that manual process and oversight requirements are minimal. My Mediasite is also being used for retroactively pulling legacy content such as VHS tapes of lectures into digital, indexed form for ongoing use.

All of the Mediasite recording solutions are backed by Mediasite Enterprise Video Platform, ensuring content is searchable, secure and organized in a single place. Keyword search and indexing remains a key differentiator for Mediasite. Mediasite SmartSearch auto-scans and indexes everything related to an institution's content - speech, slides, video, tags, metadata and transcripts. Since the best video content is useless if it cannot be found when needed, this is the crucial capability that adds tremendous value to a Mediasite investment.

Another recent innovation from Sonic Foundry is Mediasite MultiView, which allows multi-format video capture from multiple sources in a classroom. In the example discussed earlier, Duke School of Medicine leverages Mediasite 7 to "capture, stream, and manage multi-perspective video and add real-life dimension to show complex medical procedures". As another example, Bloomsburg University of Pennsylvania is leveraging the same feature to "uniquely capture and stream multi-perspective videos of classroom projects and faculty research".

By combining the various perspectives and high-priority needs of different roles within diverse organizations, Sonic Foundry is able to better overcome the typical length of sales cycles and the typical siloed deployment that other competitors grapple with.

Factor 3: Global Expansion to Keep Pace with Changing Market Dynamics

Each year, Sonic Foundry has successfully expanded its installed base of universities, community colleges, and technical institutions globally. In growing internationally, the company recognizes that it is crucial to build and leverage an extensive network of regional channel partners to achieve the coveted goal of becoming a highly visible brand and becoming to go-to vendor for large and small institutions in that region or country. The company combines this reseller approach with direct sales to maximize growth potential. Sonic Foundry's success from its global expansion strategy speaks for itself. Sonic Foundry has seen growth not only in the major US market but also globally. For example, Sonic Foundry reportedly saw a 43% growth in billings in Japan and a 25% growth in international billings overall in fiscal year 2013. Europe, the Middle East, and Africa, in addition to Asia Pacific, are seeing energetic growth in Mediasite deployments. Recently, Sonic Foundry announced partnerships with both with Neusoft IT Services and Beijing MC Technology in China, a lucrative market with university numbers and student populations that far outsize any "developed" country.

Sonic Foundry is not only achieving new greenfield deployments but also deepening and broadening its international deployments much as it has done within the United States. For example, the University of Leeds in the UK had earlier tentatively played with lecture capture technology on a limited scale, but chose Mediasite when it sought to create a campus-wide initiative with a single video platform that integrates with its Blackboard learning management system.

Sonic Foundry is also bringing key distributors in house as an integral part of the company. From a business operations and financial perspective, this allows Sonic Foundry to more clearly capture revenues stemming from its business while also enabling new economies of scale.

Specifically, in 2013, Sonic Foundry acquired MediaSite K.K. which was their strategic partner and sole distributor in Japan with over 100 Higher Education customers. The company also acquired MediaMission, the master distributor for Mediasite in the Netherlands. The first European reseller for Mediasite, MediaMission, has facilitated the implementation of Mediasite at more than 60% of the Higher Education institutions in the Netherlands. Together, these acquisitions gave a significant boost to restated 2013 revenues for Sonic Foundry, and they will continue to provide a significant revenue stream to the company while also allowing the restructured company to compete more favorably on price and scale moving forward.

Factor 4: Focus on Scalability, Reliability and Value

As lecture capture deployments mature from early adopters towards mainstream clients, and from siloed implementations to campus-wide deployments, scalability, reliability, and value assume significant importance in vendor selection. Mediasite is built for ease-of-

adoption. This purpose-built platform incorporates automated workflows for the recording, delivery, management, search, and tracking/analytics of video-based instruction. It automatically turns on, automatically captures high-quality images from any tools instructors use to present, automatically indexes presentations, and automatically applies access control protocols to manage ongoing use of the media. Thus, the approach scales very well in terms of learning curve, deployment, and ease-of-adoption by instructors.

In addition to Mediasite's ease-of-use, integration capabilities, and scalability are major contributing factors to customer loyalty. The system is designed to integrate with all leading course management systems, learning management systems, video conferencing systems, asset management systems, etc. This allows each customer to choose a total solution that works best for their institution overall and also for individual schools and departments, while lowering barrier to entry. More importantly, this rich interfacing capability allows Mediasite to serve as a common LCS platform across all deployment scenarios. This unified enterprise-wide deployment is important, since institutions cannot achieve their electronic learning goals with individual siloed deployments. Through a diverse set of features, Mediasite appeals to the diverse needs and priorities of various roles and responsibilities within the educational institution. This comprehensive feature set allows Mediasite to cut through long sales cycles and achieve institution-wide rather than class-by-class deployment.

Mediasite's automated indexing and advanced search capabilities have proven to be "the catalyst for rapid adoption of large-scale, enterprise-wide academic video programs" in a number of universities, including Netherland's Technical University of Delft. TU Delft's Collegerama online learning program has used Mediasite to generate and host over 15,000 hours of video. The size of this number is fairly typical. The University of Florida, also a Mediasite user, currently boasts 16,000 presentations and is seeing video grow by nearly 85% each year while video views are more than tripling year over year.

Mediasite is also enabling colleges themselves to scale up their programs and capacities through innovative learning models. For example, in the Clemson University case described above, the Department of Public Health Sciences can only accept about 10 percent of applicants to its program due to seat limitations. By leveraging Mediasite to flip courses, particularly for required introductory and core courses, the department has been able to grow capacity without compromising on quality or consistency of education. The campus has been able to achieve 25-50% growth in instruction capacity while maintaining high student satisfaction and a very engaged learning experience.

Through its outstanding ability to scale with programs as they grow, diversify and evolve, and also through its tremendous ease-of-use and simplicity of deployment, Mediasite remained the leading Lecture Capture Solution globally in 2013.

Conclusion

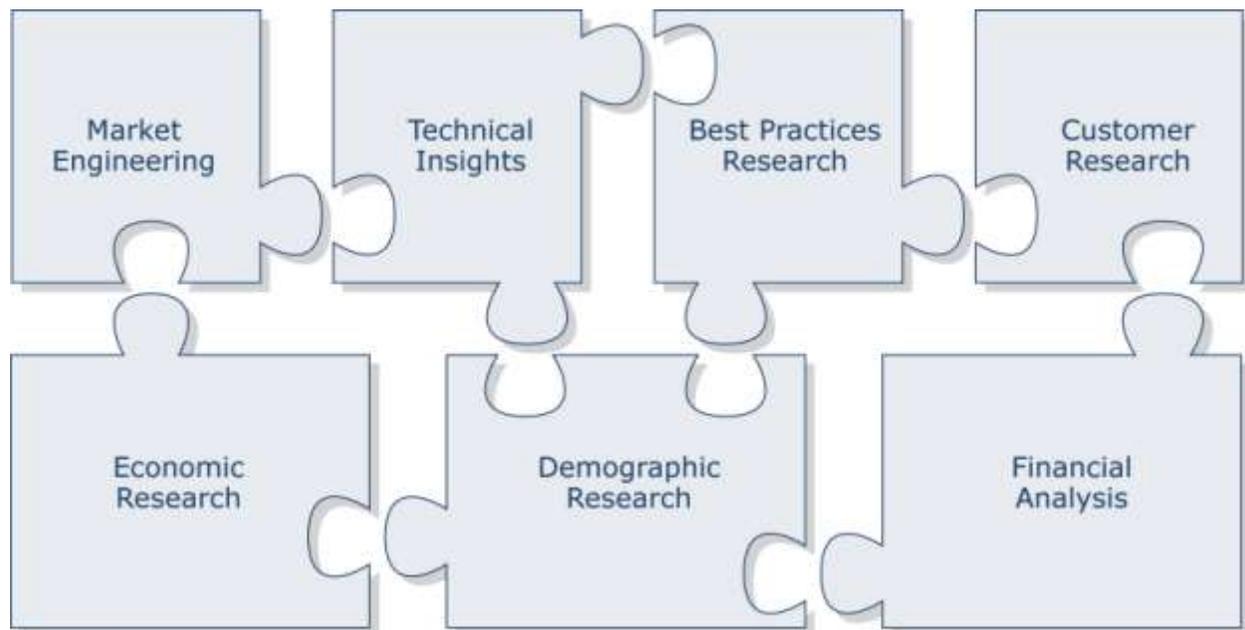
Frost and Sullivan's research finds that Sonic Foundry was the leading vendor by revenue in the global Lecture Capture Solutions market in 2013. This leadership, maintained over the last seven years, is directly linked to the company's excellent product strategy, partnerships and intelligent global expansion. Ultimately, the proof of a solution's success is in the results it delivers. During a trial at San Antonio College, 97% of students cited satisfaction with Mediasite. At the University of Florida, video views have tripled year over year, even as video creation rates have nearly doubled. In stark contrast to these use cases in an advanced market, Mediasite enabled select high school classrooms in rural South Africa to drive pass rates up from a disheartening 26 percent to 100 percent. Through a video-learning initiative between The University of the Free State in Bloemfontein, The Free State Department of Education, and Sonic Foundry, Mediasite was used to record lectures delivered by highly qualified and successful teachers, and replay these for students in failing schools to improve their learning and success.

As the LCS market is maturing in early adopter markets, even as it spreads its reach globally, Frost & Sullivan's research confirms that Sonic Foundry is doing a stellar job of continued innovation and R&D investment in Mediasite to deliver continued differentiation and value to its existing customer base while also re-organizing strategically to best meet global growth challenges. Frost & Sullivan is convinced that this two-pronged strategy will be paramount for the company's future. Based on Frost & Sullivan's independent analysis of the Global Lecture Capture market, Sonic Foundry is recognized with the 2014 Market Share Leadership Award.

Critical Importance of TEAM Research

Frost & Sullivan's TEAM Research methodology represents the analytical rigor of our research process. It offers a 360-degree view of industry challenges, trends, and issues by integrating all seven of Frost & Sullivan's research methodologies. Our experience has shown over the years that companies too often make important growth decisions based on a narrow understanding of their environment, leading to errors of both omission and commission. Frost & Sullivan contends that successful growth strategies are founded on a thorough understanding of market, technical, economic, financial, customer, best practices, and demographic analyses. In that vein, the letters T, E, A and M reflect our core technical, economic, applied (financial and best practices) and market analyses. The integration of these research disciplines into the TEAM Research methodology provides an evaluation platform for benchmarking industry players and for creating high-potential growth strategies for our clients.

Chart 1: Benchmarking Performance with TEAM Research



About Frost & Sullivan

Frost & Sullivan, the Growth Partnership Company, enables clients to accelerate growth and achieve best-in-class positions in growth, innovation and leadership. The company's Growth Partnership Service provides the CEO and the CEO's Growth Team with disciplined research and best-practice models to drive the generation, evaluation and implementation of powerful growth strategies. Frost & Sullivan leverages 50 years of experience in partnering with Global 1000 companies, emerging businesses and the investment community from more than 40 offices on six continents. To join our Growth Partnership, please visit <http://www.frost.com>.