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# PRELIMINARY TRANSCRIPT

FOXA - Twenty-First Century Fox Inc at Jefferies Media & Communications Conference

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## CONFERENCE CALL PARTICIPANTS

**John Janedis**

**Joe Marchese**

## PRESENTATION

**John Janedis**

I think we'll get started. Good morning, everybody. Thank you for joining us. I'm really thrilled to introduce Joe Marchese, President, Advanced Advertising Products, from Twenty-First Century Fox this morning. Previously Joe served as the CEO of TrueX until Fox acquired the company and has been in his current role for about a year.

So, Joe, thank you very much for joining us today. We're going to start with a short video and then go to a deck. So, why don't we --?

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**Joe Marchese**

(video playing) "It's an interesting time overall for the world of media. Everyone is a content producer. But it all begs the question of something I call the denominator problem, and that's that there's still only 24 hours in a day. If we're lucky we sleep for eight of them; we work; we do things that don't involve an opportunity to transfer our attention to an advertisement.

"So despite that in the numerator we can create infinite amounts of content, the denominator is: How much human attention is actually available for advertisers? Because without attention an advertisement can have no effect.

"The goal has to be less ads. It's what consumers are already doing. Historically, advertising was based on a reach frequency model; and the frequency was saying: I need to expose Joe to this ad 20 times, not because I need Joe to watch the ad 20 times, but because I don't know which ones he paid attention to. I'm seeking Joe's attention, and then I'm seeking recall for the message.

"As far as the ads themselves, we're going to an interactive and on-demand world. Where is interactive and advertising on-demand advertising?

"Your typical currency for a video ad, for a 30-second video ad, is the CPM rate, right? That's the cost per thousand. So let's say a typical rate is a $30 CPM; that's $30 per 1,000 video ads shown.

"That means I, Joe, is one consumer. The marketer is paying $0.03 to show me a 30-second video ad.

"Now, from the marketer's perspective, that sounds like a good rate. From Joe's perspective, that's paying me $0.03 for 30 seconds of my time -- or really paying for $0.03 worth of my content for 30 seconds of my time.

"Most consumers should buy back their time. They should go get a DVR; they should ad-block; they should ad-avoid.

"And that's what's happening, right? Because marketing and media buying doesn't properly value human attention. What it's valuing is the potential for human attention.

"If we can move to a world where we can do guaranteed attention, fewer ads, interactive ads, immersive ads, we could raise the rate. And we could move the conversation from a battle between content creators and marketers about lower, lower, lower rates and saying: No, it's about guaranteeing proper human attention; the right audience, someone who is actually in market for goods and services; and a great experience overall -- and higher rates that properly values people's time.

"This isn't a theoretical exercise anymore. You see with all sorts of platforms offering ad-free options, they are searching for that price point where they say at what price would a consumer say: Here's my money, I'll take the ad-free version. That's the price that we have to get to for advertising."

So I figured since this was an analyst gathering that this would be interesting. I want to start by -- I like starting with facts, and I think one is that there's 24 hours in the day. I don't think that's changed.

I did hear one analyst try to say that because of all the screens there's now 31 hours in a day. If that's true, I would appreciate those extra seven hours, because I'm going to learn to crochet, probably play some basketball.

The truth is, though, that what we can do is we can switch tasks very often. It doesn't mean there is more time.

So if we say that the denominator is fixed, then the math equation looks something like this. John Landgraf has now famously said that there is too much content out there. I think the quote gets misinterpreted a lot, but let's take a look at what that means.

What that means is -- this is a graph, just back of napkin, looking at the total number of shows produced, multiplied by the total dollars spent on those shows. That represents a proxy for how much it costs to earn human attention.

Think of it as -- think of the Game of Thrones, the House of Cards, the Empires of the world. What this is showing is that over the past 10 years it cost more and more to garner people's attention.

I'm going to overlay that with over the last 10 years advertising rates. Why this should be confusing to people is that the CPM rate was supposed to be a proxy for what people paid for attention. So why is it costing more for content producers to earn attention, but advertisers are paying the same price for attention?

What this looks like is a structural defect in the market. But one other way to look at it is potentially that there is an undervalued asset.

If you have someone's attention you have an asset that is very valuable. We've all seen what some of the politicians have been able to do with it.

Here's where it starts to get confusing, though. The problem is that in the new world we took old media metrics and brought them in. And people are saying: Okay, well, let's just compare them apples-to-apples.

This was a blog post that went all over the place, done by a prominent VC, that showed that the World Series had 14 million viewers according to Nielsen -- and we won't even get into the fact that's commercial rating versus content rating. And he said: Look, a popular YouTube had an average of 14 million viewers per video over the last month. So he made a chart, and those chart made those two things look the same.

The problem with this is how absolutely ludicrous this is. Before I came from the digital world I thought that it was a TV ratings problem. It was that Nielsen wasn't perfectly accurate.

It wasn't. It was a language problem.

Because those 14 million views was over a 30-day period, so that means that there's 43,000 minutes in a month, so we divide that into the 70 million minutes of viewing. And let's assume lovingly that every one of those views was unique; let's assume that every one of those views was the entire screen.

That means that at any given moment 1,600 people were watching that YouTube video. So really what you could say about that comparison is that another chart might have it look like this: 14 million to 1,600. And again that's the commercial rating; that's how many people were watching the commercials concurrently versus the YouTube video.

What happened was I began to realize that there is really more of a communication problem than there is an actual attention problem, and the market was mis-valuing it. I'll show you one more thing.

The value of attention -- again, going back to: Can you get someone to watch an advertisement? Every platform is going to want to communicate in its largest possible number; so for Facebook and YouTube they will talk about number of views. You can see there, I think that's 25 billion, 23 billion; and then there is Fox way down small there.

However, where in that time frame do you put the advertisement, right? So time-engaged becomes a better proxy for are you able to transfer people's time and attention.

Here's a way to look at that. Now again, some of these are back of envelope because we know how many ads YouTube might show every 7 minutes; they don't show one every time; it's not the full screen; and all ads are not 30 seconds.

Whereas Fox actually puts five-ad ad pods after every 10 minutes, and TV only has one currency, right? It's a full-screen ad for 30 seconds. You can argue all you want over the accuracy or inaccuracy of Nielsen, but it's consistent.

So here's a way to look at it, is that Fox has shown advertisements nearly 100X in terms of time spent with consumers. I can promise you we're not making 100 times what YouTube is making.

So how did we get here? I think this is fun. If you guys have seen The Big Short yet or read the book or lived through it, I would say that advertising is in almost the exact same state that the subprime mortgage market was right before the crash. Let me give you a very simple example as to why.

If I went up to my mother, she knows absolutely nothing about mortgages, and I showed her one piece of paper, one person's income statement, she would say: That person can't pay that mortgage; that's a bad mortgage. But we bundled them all together, we found ways to trade them, got really creative, and it was great.

Advertising. My mother knows even less about advertising. But if I showed her half an impression for half a second with no sound on, she would say: That has zero value. Not it has some value; not it has a little bit of value; it has zero value. Showing the first 2 seconds of an ad over and over again never delivers the actual message.

However, we bundle them up in the trillions; we sprinkle words like programmatic over the top of it; we say it's automated; we say ROI tracking. And all of a sudden we're trading trillions of those impressions for billions and billions of dollars.

That's how the CPM rate has stayed flat over 10 years, and it's literally the exact same thing.

So rather than just complaining, you've see my new boss and a bunch of others at Fox talking a lot about this flight to quality. There will be less ads. I said earlier, and I know it's something we'll talk about, but I think the best thing to happen to advertising this year was Hulu ad free, because it sets a better market for how much advertisers need to be paying for attention, because consumers are becoming bidders for their own attention.

The best thing to happen to advertising in the digital world has got to be ad-blockers. I do have advertising in my title and yet I am 100% for ad-blockers. I wish I could go door to door and help people install them.

With that, I will go to questions.

## QUESTIONS AND ANSWERS

**John Janedis**

Let's make this interactive. If anyone has a question, just shout it out. But why don't I start with that last thought there, meaning the best thing to happen to advertising being Hulu ad free? To what extent does a platform have the ability to correctly predict the incremental cost of ad-free while also maintaining the economics of the current business model?

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**Joe Marchese**

That's not that hard. We know what we make for every impression and for every ad that goes in every pod. We also know what the cost of sales are on those ad products. So we know that if a consumer pays for ad-free and their usage is anywhere within a particular mean, like, it will balance itself out.

But I would go a step further and say that the goal isn't necessarily, though, to load up the exact ad costs again. One thing that we've talked a lot about internally is that, even if we could fill every single ad pod with $40 CPM ads and have five of them in every break, I don't think that's the goal. That would be like perfecting the fax machine right around the time email came about.

I think the better goal is to say: How do we get rid of interruptive advertising? One of the things that I talk about a lot is that we took television models of reach frequency and brought them into a digital world where we didn't need the same thing. If we could build products that were -- as I mentioned in the video -- more immersive, we could have a lower need for frequency.

Just think about it. You don't need to see the Coke ad 15 times.

I think our friend Rich Greenfield famously did a video where he showed that the Audi ad was playing over and over again. That wasn't a mistake. The advertiser bought a frequency; but you didn't need it, because you knew when the person was watching.

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**John Janedis**

A lot of the things you talked about aren't part of the day-to-day dialogue from some media companies. On a practical level, how far away are we from implementation? And would it be sold in the form of an upfront, or how would the sale work?

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**Joe Marchese**

I mean, even today, we -- the term I would use is call it engagement-based advertising. I think that the goal of all advertising is engagement. Television ads are supposed to be engaging, radio ads are supposed to be engaging.

Just in a digital world, we can actually measure when someone is paying attention. If you can use interaction to make message recall higher, that's how we define engagement-based advertising, right: promising an advertiser you had a share of someone's day and attention.

Today, we do that to the tune of tens of millions of dollars. Obviously the goal is to cross a threshold into hundreds, and then obviously making up for the television market.

I guess to answer your question, it is happening today and it is happening at a pretty good clip. This year in the upfronts, it will be something that will be offered to all of the TV advertisers.

If you think about it, one thing that makes intuitive sense is: taking your TV ad and putting it in a streaming interactive environment is analogous to taking your radio ad and putting it in a TV environment. It will work; people could hear it; but you're not using the medium fully.

So what we're saying is -- and we'll do it a lot of it this year in the upfronts -- is say: We'll take your television ad and we'll make the interactive first-person version of it. So in the streaming environments you can do it.

It won't just be -- you have to remember, Twenty-First Century Fox is not just a seller of advertising, but it's a big buyer of advertising. To the tune of eat-your-own-dog-food, we did a big -- we do a lot of work with Twentieth Century Film and Deadpool. We did a lot of work upfront to say: Could we do immersive ads for Deadpool, so you could watch X-Files ad-free? And it was a huge success.

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**John Janedis**

Got it. Okay. We don't hear the word ludicrous often in these conferences, so thanks for that. And related to why you said that, I think one takeaway is that a view on Facebook is very different from a 30-second spot, as you mentioned, on a show like, say, Empire. At the same time, the narrative in the marketplace is that money continues to shift quickly to digital as demonstrated by results from Google and Facebook a few weeks ago.

So given the relative CPMs and the imprecise data, how does that narrative change?

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**Joe Marchese**

Well, I think there is -- the hard part is, again, narrative, because the data is reasonably precise -- if you account for the fact that there is probably billions of dollars in fraud occurring. And that's a complicated subject that we could probably spend an entire talk, just talking about how the fraud happened, and maybe we'll get into it a little bit.

But I think that marketers -- clients have constantly forced agencies to get lower prices. That was always the agency's role, was to get a lower price, right?

And for television it was a commodity, right? It was the entire screen, as I said, for 30 seconds. You could again argue about the accuracy all you want, but there weren't warehouses full of TVs trying to rack up the Nielsen numbers, right?

So all the impressions were equal. It was a commodity. So in a commodity market we can just fight over price.

Along came digital. And they said: Look, we just need a lower CPM rate.

People on the Internet are really smart. They will make whatever you ask of them.

So if you ask them for more impressions, they'll make more impressions. If you've ever been on a website where you have to click through five pages to get through an article, that was to create more impressions.

If we define an impression -- right now the standard of an impression in a digital world is half the ad -- and this is a video, by the way -- half the ad has to be on the screen playing for 2 seconds. That's the definition of an impression. If you define an impression that way and you will pay a publisher as soon as that is reached, why would they make me sit through any more than 2 seconds? It would be asking more of the consumer than they need to ask of them, and it's why quality publishers suffer versus volume publishers.

So I think that the world is going to fork. Now, it's not to say that there isn't value in potentially a 2-second impression. It's just not when you have a 30-second video.

So I think what it will fork into is engagement, and then you'll have reminders in frequency and recency. So I think that there will be value in it, but I think that the market starts to correct as marketers, who have rushed into digital in the volume game, see that their brand health is lower.

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**John Janedis**

Maybe talk about the Trillian's concept of programmatic. How well do marketers appreciate the relative value and engagement of an impression then on a Face Sticker or Google compared to TV? Because it doesn't seem like from where we sit today they actually appreciate that, number one.

And then number two, to your comment around, say, digital, let's have this massive deflationary impact on CPMs in general. Given a large auto marketer or a CPG company, how long is the process to get them to say: Okay, there is more value here? We're willing to forget about the pressure coming in here; we'll pay more here because the engagement is there.

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**Joe Marchese**

Yes, well, I mean, first you can see every year people have said: Oh, TV is going to lose to digital this year; TV is going to lose to digital. And you'll see money does not flow out of TV that fast.

Why is it not flowing out of television? Because it works.

Like, there is a reason why TV works, right? Because of a standard of the impression.

In the digital world -- so going back to the supply/demand problem, like you talked about, there is a flooding of impressions in the digital world. Right? That's where the depressionary value has happened on CPMs.

How is there a flooding of supply? Like, there is more people watching Netflix than ever before; there are more people watching HBO than ever before. There are more people using ad-blockers than ever before; there are more people using DVRs than ever before; and now Hulu has an ad-free option.

And yet there are more impressions in the world than there has ever been. How is supply unrestrained? This is where people should be scratching their heads and marketers should be questioning what they're buying.

There is a point at which -- and this again is why Hulu ad-free is such a good thing to have as an option for consumers. There is a point at which, if the price is too low and the negative impact we're going to have on the consumer experience is too high, then you want to move to the ad-free option. I think that everything will happen in cycles; but as one or two brands show case studies of what they do with attention you'll see a lot more brands move that way.

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**John Janedis**

Sticking with that theme, I'm not going to ask more about measurement. How well are the metrics like engagement and attention measured by Nielsen or others? Or is there a new measurement vehicle to come at some point in the near future?

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**Joe Marchese**

I think they can be measured pretty well by both Nielsen and some of things they're doing with digital ratings. There is also -- I'm a big fan of the company Moat, which does digital analytics and measurement; also looks at nonhuman traffic and bots as a big problem. It also answers the question of viewability.

I think that there will be a mix of what Nielsen already does and then new firms like Moat coming in. I think the really important part is to start measuring attention, because that is what is in limited supply. I think that marketers and agencies who are smart about arbitraging fractual attention will actually start to gain market share and get ahead.

**John Janedis**

Any questions from the audience? Mike?

**Unidentified Audience Member**

You made the comparison about (inaudible), and I understood the analogy. What is the point at which you think that the advertisers(inaudible)?

**Joe Marchese**

Yes. I mean, I think it's started to happen. I think you have actually seen a couple of marketers say, I believe -- and I don't want misquote someone; I'll have to find it -- but the Pepsi CFO was, like: We want to spend more money on digital and yet we can't find premium environments to put it in. I think they begin to realize what's a premium environment.

I think -- again, I hate using a movie as an example, but you guys remember in The Big Short, where they just drive out to the homes and just realize that there is no one in the homes. And it just takes this, like, rather intuitive sense to be, like: Wait, why did no one actually just look?

Think about that with an ad. So you have a 30-second ad. In a spreadsheet, if you play the first 2 seconds of that ad 15 times, that is equal to one 30-second ad.

But now let's try to think about whether or not seeing the first 2 seconds of an ad 30 times tells the same story as one ad for 30 seconds. Why would sound-on not matter?

So I think that what you've started to do is -- I've had lots of conversations with CMOs and heads of agencies, and it's been funny because you can go to a very senior level and they don't want to get into -- is it programmatic, because they just feel like they don't understand it.

I'll be honest. Most of the stuff you don't understand is probably fraud. Like, there needs to be an intuitive nature to how this all works.

There's nothing wrong with programmatic in and of itself. What's wrong with programmatic is how it separates you from what you're buying. When everything you're buying is just in a spreadsheet and bundled up -- again, we know how that ends up.

**Unidentified Audience Member**

Could you expand on your ad-blocker comment more? And also (inaudible), how do you take full advantage?

**Joe Marchese**

Yes. To answer the ad-blocker one first, I think that there's a couple of things that have happened with advertising in the digital world, besides the fact that there is so much of it that's fraudulent and low value. Ad-blockers are very easy to detect. If someone comes to Fox.com and they want to watch Empire, I know if they have an ad-blocker on; and I have the choice to say: Turn off your ad-blocker if you'd like to watch Empire. Or: We're going to let you watch it for now, because we don't have a better ad experience for you.

Which is what we've decided right now. Right now, until we have a better ad experience for the consumer as an option, we're letting them watch.

But we know and we can say: No; please turn that off. Right?

The people who are fighting ad-blockers tooth and nail are probably people who are running ad tech that's tracking in the background, loading up pixels -- which, by the way, costs consumers data, so I don't know how you could argue against their ability to use ad-blockers, because they actually pay mobile data fees when they go visit websites.

And the belief for us as a quality publisher is that people will turn off ad-blockers to watch Brooklyn 99; people will turn off ad-blockers to watch Simpsons. They will not turn off ad-blockers to watch a 2-minute UGC video. They will not turn off ad-blockers for someplace where the average duration of visit for many websites is 37 seconds. They're not going to do that.

So if you can create a trusted list of opt-in -- and again, I think that resetting advertising means that consumer start opting in again, right? They say: Okay, I'm willing to trade my attention for this amount of content, not you guys just bombard me whenever you feel like it. So that's on the advertiser side.

We do with Fox -- I mean, across FX, now National Geographic, Fox Sports, Fox Broadcast, between -- and now you think of all the different platforms. You have set-top box and VOD; you have connected devices like Xbox and Samsung televisions and so forth; and then you've got Web, mobile, tablet.

One thing that is a huge initiative for us is making sure we can unify all of that. Because to be honest, if we can simplify it to -- there's only so many people, and those people only have so much time in the day, and Fox has a very large share of that when you consider it. Again, that one chart that I showed that showed number of views, Snapchat has 10 billion now and climbing, or 7 billion, I don't know; it's a lot of billions. Facebook has a lot of billions of views.

And again there's still 24 hours in a day. One sitting with The Simpsons is 22 minutes of someone's time. Right? That might be the total amount of time that people are spending on these other platforms.

So one thing that we're trying to do is take a unified view of how much audience we have and where, and saying it's not just the right ad to the right person, but it's the right ad format to the right person.

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**John Janedis**

You bought TrueX. Can you talk a little bit about what else you're doing to improve engagement?

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**Joe Marchese**

Yes. Well, they bought me with TrueX. But I would do it again. It was a great deal -- it was a great deal for Fox.

But I don't know that there's anything I can be speculative about, about what we're looking at. I think what we look at is more places we want to partner right now.

Like I mentioned, Moat is -- we want to find who is going to lead in each technology category that we want to be partnered with, so that we're doing both cutting edge ad formats, ad delivery, and measurement. And then of course ROI, because we need to prove out how this works so that advertisers can start buying it in bulk.

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**John Janedis**

You had a slide there where you had the CPM component and then the programming component. So we've talked a lot about advertising, but what about the content? How does the content need to adapt over time if what you're saying is where we're headed?

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**Joe Marchese**

Yes. Something dawned on me the other day I thought was very interesting. It was that a lot of creative -- if you start reducing ad load and interruptions, you're actually going to change the way storytelling is done. You'll hear a lot of creatives talk about writing for Netflix or any noncommercial format versus writing for broadcast or commercial format. And we do think that removing interruptions and reducing ad load is definitely a goal, because you want consumer happiness with the programming.

But there is something that dawned on us that's kind of interesting, which is Birth of a Nation was the darling at Sundance; and it actually ended up going to Fox Searchlight for a reported $17.5 million. It had turned done reportedly a larger offer from Netflix.

When asked why, the filmmakers, they said they wanted a theatrical distribution. But there is something -- and the amount of support that goes behind a theatrical distribution.

What that means if you read between the lines -- and the more I think about what ad-supported media is -- we care that every single human being on earth, if possible, watches Empire. By the way, I have a quota: I have to mention Empire at least four times, otherwise they rebuke my Fox license.

But we care because we're ad supported. Ratings matter, right? That's how it matters.

There is no such care on the other side for an SVOD service. Not only do they not necessarily care, they don't report it.

So there is something interesting about advertising aligning Twenty-First Century Fox with storytellers and the goal of making sure everybody sees it. But what we have to do is make sure that it happens in a way that's consumer friendly.

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**Unidentified Audience Member**

You said you would talk about the fraud.

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**John Janedis**

On that front, is there a credible way to deal with that problem?

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**Joe Marchese**

Yes. I mean, look, there's a lot of companies out there. Besides Moat, there's another one called White Ops which -- funny anecdotal story. They started as they thought they were going to find malware on computers that was stealing credit card information, and then they were going to make a lot of money by showing the banks how to get it off.

They found the malware on the computers and it wasn't doing anything. It wasn't stealing credit cards.

The reason was a stolen credit card number only made a hacker a couple of dollars, right? Because it could get shut down. So that's all stolen credit card numbers.

So they couldn't figure out why this malware was sitting on computers. And the reason why is because every time you shut down your computer or you let it go to sleep, that malware was just clicking around and visiting websites left and right. Because that could make the hacker $10, $20, $30 as it just visits websites that have ads on it.

Now that -- so people think of bot advertising. Part of the problem with fraud is the images that are used, right?

Because the Wall Street Journal has probably done some of the best reporting on how much money is being literally flushed down the toilet -- actually, no, that would be better. How much money is ending up in the hands of criminals in other countries, because that's who is running most of the bot networks.

But the problem is, the imagery is always of a robot sitting at a computer. And then everyone is like: Ha, ha, ha, that doesn't happen.

I see a bunch of computers open in here. I would guess half of them probably have the malware on them. That is not danger to your computer, isn't stealing anything from you, but it is going to surf around and hit websites later to generate ad revenue.

The reason why that's so important is because your computer is a real computer, and you're a real person. So it will register that you visited that website.

The sheer volume of that is incredible. How does it happen? How does it end up there?

Between that and the links at the end of websites that say: Hey, here is other stuff from around the Web. If you've ever wondered why credible-looking sites end up with the oddest of websites and the Also Click Here at the bottom, it's because those sites are usually being used to hide malware.

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**John Janedis**

Okay. Another one for me, then. You talk about one problem being TV let the digital people set the metrics. Is there a way to put that genie back in the bottle?

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**Joe Marchese**

Nope. Nope. No way. I think that -- again, we defined in television, we had a thing called an impression. And an impression was at the end of an ad.

We only had one metric. So we thought: okay, well, this is a fair fight.

And then digital comes about. Digital defines an impression at the beginning of the impression, not at the end, and there is no requirement for it to be the full screen.

So how could we possibly move it backward? I actually think what we need to do is evolve the metrics.

We could say cost per second, or cost per second per times size of screen or share of screen. That might be an interesting one.

One thing I think we want to push for a lot is to say: All right, how about we have a cost per impression viewed through completion? There's things that -- why we call it cost per engagement -- when I was still running TrueX independently I put up a billboard -- I can't wait to find out if I'm still going to be able to do this at Twenty-First Century. But I put a billboard outside of one of the large holding companies.

I said: Why do we call it cost per engagement? And the answer was: Because we thought cost per real impression would be insulting to other media buys.

The tongue-in-cheek there is that I think that you can't win. Digital has defined impression. Impression is defined as: It appeared on the page; it's an impression.

We need to create new metrics that are better representative of quality and actually move to those.

**John Janedis**

Anyone else in the audience?

**Unidentified Audience Member**

Along those lines, how do you go to your advertisers and educate them on the effectiveness and let them help drive the train to bring that value?

**Joe Marchese**

Yes, it's starting. Like I said, it is starting to happen and it's starting to happen in a more meaningful volume.

A lot of it is -- well, there's a couple. One is, again, back to the intuitive nature of one person, one screen, your message; what's the value to you? Right?

The other is television is still the most powerful form of advertising out there for a reason. But that also gives us an amazing amount of an ability to collaborate with people who spend money and work with us on television to say: Okay, and in streaming environments here's the right way to advertise here, and let's work together on what that is.

The other thing is to do purely comparative analysis between what engaged attention looks like versus interruptive passive impressions. So we've done a lot of that work. Those are some of the biggest.

**John Janedis**

All right.

**Unidentified Audience Member**

Quick question, make sure I heard you correctly. You said that you are a proponent of ad-free (inaudible), let's say Hulu -- or let's just say Hulu ad-free. So my question is: Is the premium that the customer pays more than offsets the advertising that you use? Is there a breakeven? How do you think about that?

**Joe Marchese**

Yes; it depends. I mean that analysis would have to be on a person-by-person basis, if someone watches 100 hours a month versus watches 4 hours a month.

But on average that was -- I don't want to get into the details, but yes. You look at DVR -- ad-free option has existed for a long time; DVR is $6 more a month from the cable provider.

And what's interesting is people forget. People didn't -- there was all this outcry over ad-blockers. People forget that DVRing, whether or not you watch the ads, is automatically discounted from the Nielsen rate. So if you DVR something and you watch it on a time delay, it's not getting counted. Right?

So there has been a lot of analysis over -- it's not hard to see how much money you need to make per show, because if you know -- if you see depressing ad prices in a digital ecosystem, for every cent that that ad price goes down, it makes it easier and easier to make it up with the ad-free option to consumer. Right? The bar gets lower and lower.

So why I'm a proponent of ad-free Hulu is it sets the bar where, if the price depresses too far, the consumer has an ad-free option, which is a great user experience. So I look at it as giving the consumer the optionality provides a great place for us to know, like, what we have to reach.

It starts to make us more collaborative with agencies and advertisers, saying: We have to work together to make ads that earn a rate that is equal to what the consumer's opt-out value is. So that's why I am a proponent of it.

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**John Janedis**

One more there. We have one more here.

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**Unidentified Audience Member**

Given the differences in the definitions of impressions, it's no surprise to people in this room that 2 seconds no-sound is counted on Facebook, say. But given the differences, why are so many advertisers trumpeting better return on investment when they move more and more of their funds over to digital?

And given the whole difficulty in reaching the Millennials, how do you see getting around that?

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**Joe Marchese**

Well, if you recall, the ROI question is a very hard one because one thing, as I said before, the Internet is full of very smart people. Whatever you want, they'll create it.

If you told me you want to see ROI on potential truck buyers, I could find people who are likely potential truck buyers. I would then expose them to ads, whether or not the ad had an impact or effect on their purchase behavior.

Basically you end up creating your own ROI. You end up working backwards from people who are likely purchasers. So there's all sorts of interesting data.

The problem on the ROI side is, if I was a consumer, just a pure consumer, and I wanted to write a letter to advertisers, it might be: Dear advertiser, your ROI is not my problem. What that means is if I spend 30 seconds of my time watching an ad and then I don't want to buy the product, I still want the show on the other side of it. Right?

So the cost of advertising should be the cost of borrowing attention. The ROI is your outcome of how good you do with the attention. Is the creative right, is the product the right price, etc.?

The Millennial question I think is a bit of a misnomer. I mean, people say they don't have attention or their attention spans are low. No, they're just better at managing their attention.

But they'll read Harry Potter, all seven books, see all eight movies; will read the Hunger Games, watch Hunger Games. They do watch what we would consider TV shows, but they watch them in obviously OTT environments.

I think reaching Millennials goes back to this resetting of what the deal was. The deal with advertising was always: Hey, we'll subsidize the cost of content, and that was just an understood thing. Then it began to get abused in a digital sense.

So Millennials who were more savvy with how to basically get their time back through ad-free versions or ad-blockers have to be approached in a different way. We're actually seeing some pretty good success with that with the new approaches we're doing right now, with choice ad formats.

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**John Janedis**

We have to stop it there. Thank you very much.

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**Joe Marchese**

Thank you.

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