



# PBSx Discount Guidance

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This document contains confidential information

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## Goals of the Review

- 1 Share findings from 2017 sell-side rate card review
- 2 Establish criteria for evaluating PBSx discount asks
- 3 Review changes to Finance PBSx deal model
- 4 Update on deal accountability process

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### Context:

Joint effort b/n sales finance (Gabe, Andrey, Ezra), product (Bellack), sell side GSL team (Chris L, Pooja) and Pricing teams (Luis)

### Goals for today:

Share findings from annual rate card review  
Establish criteria for evaluating deals at PBSx  
Review proposed changes to the Finance PBSx deal model  
Agree on requirements for pre-PBSx prep materials

## Problem statement

Majority of asks are approved at PBSx with minimal debate

Some regions have more aggressive discounting practices than others

Lack of clear, specific PBSx discounting guidance: decisions made based on recent case practice

PA/PD discounts offered as a sweetener, 1/3 of PA/PD revenue discounted

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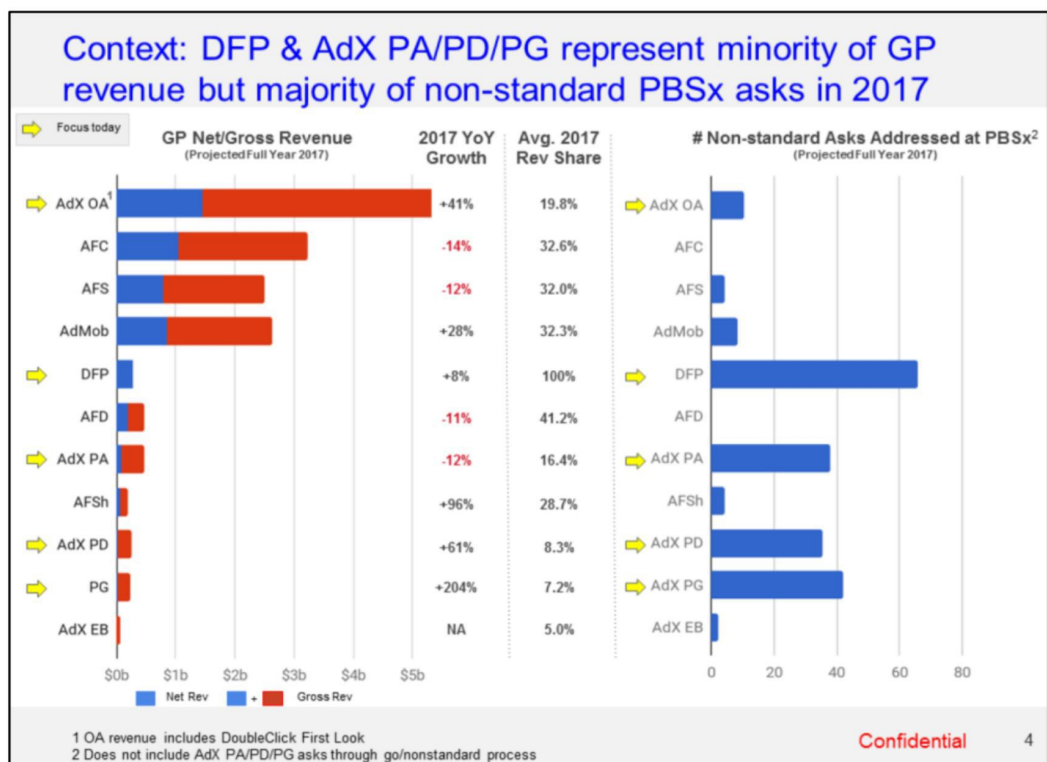
Start with a sample list of the problem statements. This is not exhaustive list.

Minimal debate

Different regional practices

PBSx decisions made based on specific partner situation and recent case practice, but we have not had specific guidance for executives

PA/PD discounts offered as an add-on, with no clear positive revenue impact, and 33% of revenue is already discounted



Context slide with good data: left hand side 2017 revenue by product, right hand side # of non-standard asks

Pause

4 large products with \$13bn revenue have in total around 20-25 exceptions. Discounts concentrated in DFP and Direct AdX deals (PA/PD/PG) --- about 60 discounts for DFP and about 100 in total for PA/PD/PG

Used data through end of June for # nonstandard asks to project forward

AFS Y/Y growth includes AFSMA, growth #s are through 6/21/17

2016 CPMs: OA - \$0.82 :: PA - \$3.49 :: PD - \$3.76 :: PG - \$7.84

DFP accounted for 17% of Global DRX net revenue in 2016. Data on right is from go/xpaar maintained by compliance, DFP asks are aggregated (i.e. if for one pub ask for core DFP discount + DRM discount, just count it as one ask)

For AdX PA/PD/PG # of asks, it is likely that other deal features would have triggered the ask



[https://docs.google.com/spreadsheets/d/1dGn6KJ2\\_xyyGR\\_gz8CaVk7AkXsObBU4aloPfSo6vuY/edit#gid=0](https://docs.google.com/spreadsheets/d/1dGn6KJ2_xyyGR_gz8CaVk7AkXsObBU4aloPfSo6vuY/edit#gid=0)

## Findings from 2017 sell-side rate card review

# No immediate changes to rate cards; Broader strategic reviews of PA/PD/PG ongoing

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| Rate card change needed if:  | Data   |                          |                                       |   |                            | Assessment   |  |
|--|--|--------------------------|---------------------------------------|---|----------------------------|--|--|
| 1 Rate card not relevant and most deals need discounts beyond guidance                                 | Transaction type   | # live pubs <sup>1</sup> | # of live LPS exceptions <sup>2</sup> | # deals lost on price   | Avg rev share <sup>3</sup> | OA: No changes   |  |
|  | OA   | 3,815                    | 13                                    | Not available<br>Anecdotal feedback: very few deals are lost on price alone | 19.8%                      | PA/PD/PG: No changes, broader strategic reviews ongoing    |  |
|  | PA   | 1,346                    | 50                                    |   | 16.4%                      |  |  |
|  | PD   | 1,529                    | 56                                    |   | 8.3%                       |  |  |
|  | PG   | 306                      | 70                                    |   | 7.2%                       |  |  |
| 2 Unlocks additional demand that more than compensates for margin hit                                  | Past deal analysis: OA discounts only justified for a few large pubs w/ low SOW and a clear path to increase SOW by offering lower pricing |                          |                                       |   |                            | Addressable via targeted tiered discounts, not rate card   |  |
| 3 Proactively addresses future changes to product / ecosystem that are certain to reduce product value | Last x-functional review feedback - no immediate need to change rate card (though may need to be more flexible in discounts)               |                          |                                       |   |                            | Little pressure from x-funct stakeholders to make a change |  |

<sup>1</sup> Pubs with non-zero 2017 revenue counted at parent level

<sup>2</sup> For PA/PD/PG, defining an exception as a parent with net revenue discounted by >50% at parent level in Q2, LPS only

<sup>3</sup> Avg. rev share doesn't include buy-side fees, or impact of 9 guarantee deals listed in speaker notes (including 4 Partner Select Video g'tees)

Source: Active OA Tier Deals, PA/PD/PG data

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We did our annual review of the rate cards for display programmatic products:  
Outcome is that we will not be making any changes, but there are some nuances:

- For OA there is no evidence that we need to change the rate cards due to limited amount of exceptions and limited amount of discounted revenue.
- For PA/PD no change to rate card, but broader strategic review ongoing (will explain later)
- For PG also no immediate change, but we will evaluate whether we should change rate card from 90 to 95 in 6 months (BCG study ongoing)

Current partner select deals: CBS (\$1.4M rev YTD, -\$2.3M loss YTD; -\$4.6 expected loss in 2017), Discovery, NFL, Scripps

Other AdX guarantee deals: Indian Railway, Manzoni, Le Monde, Orange, BT Video

For PG, assumption made that OPG has 0 exceptions, so assumed 90% PG across the board for calculation of avg. rev-share (because there is an OPG PG data issue. Looking at recent months, very small portion of OPG PG is discounted)

[https://docs.google.com/spreadsheets/d/173wbJSnv8GLX6EIKYU\\_OjCiUBIKthDUIYs5udUMwj0U/edit#gid=1470893284](https://docs.google.com/spreadsheets/d/173wbJSnv8GLX6EIKYU_OjCiUBIKthDUIYs5udUMwj0U/edit#gid=1470893284)

Used at least \$0.01 of revenue as cut-off for counting in # pubs column. Query here: [https://plx.corp.google.com/script/#a=qo%7Ci=google%253A%253Ascript\\_96\\_0ed11](https://plx.corp.google.com/script/#a=qo%7Ci=google%253A%253Ascript_96_0ed11)

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## Criteria for evaluating PBSx discount asks

## DFP: Focusing Facts

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### Current DFP footprint:

- > Projected 2017 DFP rev: **\$269M** (+11% YoY)
- > Two approval processes:
  - ❑ PBSx for core DFP discounts >20% (29 YTD asks)
  - ❑ Director/VP approval for **waived DFP fees on AdX imps** (38% of LPS pubs benefitting YTD<sup>1</sup>)
    - ❑ **Recommendation:** see appendix [slide](#)
- > Rate card has built in **volume discounts** (higher volume → lower CPM)
- > Two **live DFP discount programs** exist: Projects Viking and Tango (Dolphin discontinued)
- > **Regional differences:** 7% of US+CA DFP pubs<sup>3</sup> have DFP discounts > 40% vs. 56% in EMEA

### Projected 2017 Revenue: % of Total Revenue

|   |               |             |
|---|---------------|-------------|
| Core DFP                                | \$225m        | 84%         |
| Credit for AdX/AFC/AdMob monetized imps | -\$28m        | -10%        |
| DFP Video                               | \$27m         | 10%         |
| DFP Audience                            | \$20m         | 8%          |
| DSM (Sales Manager) <sup>2</sup>        | \$10m         | 4%          |
| DRM (Rich Media)                        | \$5m          | 2%          |
| Data Transfer                           | \$3m          | 1%          |
| Other                                   | \$7m          | 3%          |
| <b>Total</b>                            | <b>\$269m</b> | <b>100%</b> |

### Distribution of DFP discounts by Region

| US+CA Pubs, n=76         |      |        |        |        |
|--------------------------|------|--------|--------|--------|
|                          | <20% | 20-40% | 40-60% | 60-80% |
| % Pubs in Discount Range | 64%  | 29%    | 4%     | 3%     |

| EMEA Pubs, n=75          |      |        |        |         |
|--------------------------|------|--------|--------|---------|
|                          | <20% | 20-40% | 40-60% | 60-100% |
| % Pubs in Discount Range | 13%  | 31%    | 39%    | 17%     |

### 2017 Projected DFP asks:

| Region       | Projected 2017 PBSx Asks | % 2017 DFP Revenue |
|--------------|--------------------------|--------------------|
| EMEA         | 36                       | 21%                |
| AMS          | 20                       | 71%                |
| APAC         | 8                        | 8%                 |
| <b>Total</b> | <b>64</b>                |                    |

<sup>1</sup> Only counting pubs with at least \$1K in 2017 YTD credits, excludes 10 pubs with smaller credit amounts. 113 pubs of 298 on DFP

<sup>2</sup> DSM being deprecated July 2019, and we stopped charging for product August 2017

<sup>3</sup> Looking at top DFP pubs in impression volume for June 2017, discounts do not include waived DFP fees for AdX, EMEA figures inflated by FX changes

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[DFP discounts >20% and waived fees for AdX imps, US+CA+EMEA Viking deck; Dolphin deck, Tango deck](#)

YTD Run rate of ~\$18M in waived DFP fees for AdX impressions for LPS pubs. Roughly half of AdX/AFC/AdMob impressions for LPS pubs on DFP are being credited, so we could give out another ~\$20M annually in waived fees if all the rest of LPS pubs on DFP got waived DFP fees on AdX overnight.

Recommendation: Director/VP approval requirement should be removed - ideally would just be manager approval instead but may not be possible from Compliance standpoint

For Europe where seems like there's a pricing problem. 1) would they be able to just use DFP SB? (Ezra guessing that doesn't have enough functionality) 2) If they're already using adx a lot, DFP bill should be low. Follow up meeting with Luis to discuss

Regional differences, DFP penetration in US is much higher than ROW, fewer new business opportunities

<https://docs.google.com/spreadsheets/d/1zVqWLCT-bzHP15GprajbfAr49->

[gEZicb\\_wosWWwGK2M/edit#gid=0](https://docs.google.com/spreadsheets/d/17YFOYBKkKfxRQx6KoF5uNiejIEwGTyoh0Ijjur7-AXM/edit#gid=0)  
<https://docs.google.com/spreadsheets/d/17YFOYBKkKfxRQx6KoF5uNiejIEwGTyoh0Ijjur7-AXM/edit#gid=0>  
[https://docs.google.com/spreadsheets/d/1dGn6KJ2\\_xyyGR\\_gz8CaVk7AkXsObBU4aloPfSo6vuY/edit#gid=1291637042](https://docs.google.com/spreadsheets/d/1dGn6KJ2_xyyGR_gz8CaVk7AkXsObBU4aloPfSo6vuY/edit#gid=1291637042)

Mention Viking and Tango - bulk discounting approval approach for emerging markets where ratecard pricing much higher than competition

Put box around DSM, footnote that it's being deprecated

Sensitivity in some countries: i.e. competition council approval needed

Try to understand reason why there are so many that are less than \$1K - do some digging - is it bc don't spend much on AdX, or just really small?  
Has pricing thought about things like Data transfer where costs have gone up more, and on core DFP costs have gone down. Data transfer they are looking into moving to cloud and costs will go down. There are 58 pubs with less than \$1K of Credits YTD



## Core DFP Discounts: Recommendation

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|                               | Flip to DFP (new business)   | Existing pubs   |
|-------------------------------|--|---|
| <b>Qualification Criteria</b> | 1) Partner will <b>transition to DFP</b> from competing ad server<br>2) Key publisher in a priority vertical<br>3) Sizeable <b>AdX revenue opportunity</b> exists  | 1) Require <b>firm offer</b> from a <b>direct competitor</b><br>2) Significant risk of losing partner   |
| <b>Discount Guidelines</b>    | 1) Preferable to <b>offer 3-6 months free</b> (avoid offering reimbursement for migration costs). Min contract duration 2 years.<br>2) Discounts >20% to be considered on case-by-case basis if there is <b>sizeable AdX opportunity</b><br>3) Competition counsel approval needed in some cases | <div>                         1) <b>Increases in DFP discounts for existing pubs will require PBSx in all cases:</b> <ul style="list-style-type: none"> <li>Discount &lt; 20%: <b>new process</b>, PBSx approval required if discount increasing</li> <li>Discount &gt; 20%: <b>current process</b>, PBSx approval required in all cases</li> <li>Note: for new business, process remains the same</li> </ul> </div> <div>                         2) <b>Liberalizing approval process</b> for waiving DFP fees on AdX/AFC/AdMob (no approval required if deal doesn't trigger PBSx) <b>Change</b> </div> |
| <b>Other Terms</b>            | 1) DFP min set at 50% of projected volume gives a deal "teeth"<br>2) Volume commitments not recommended (not enforceable, lead to operational complexity)  |   |

\* Action item: EMEA team to review 2 sub-regions with largest discounts by November (Frites & EM)

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1) Only offer steeper discounts vs. current deal for top 10 AdX pub in region - region defined as AMS, EMEA, APAC

Don't forget about DFP - it still accounted for 17% of Global DRX net revenue in 2016

## Supporting Data: ~40% of LPS and ~20% of OPG Partners have Free AdX Impressions on DFP Premium

Free AdX Credits  
DFP Premium & SB  
August 2017

| Core AdServing Revenue & Credits | Core Serving Revenue (\$M) | Free Ad Serving Credit (\$M) | Credit as % of revenue |
|----------------------------------|----------------------------|------------------------------|------------------------|
| Premium                          | 16.2                       | -1.9                         | -11.6%                 |
| Small Business                   | 1.8                        | -0.6                         | -35.9%                 |
| Total                            | 18.0                       | -2.5                         | -14.0%                 |

Free AdX Credits  
DFP Premium Only  
By Channel  
August 2017

| Sales Channel     | Core Serving Revenue (\$M) | Free Ad Serving Credit (\$M) | Credit as % of revenue | # of DFP Partners | # of Partners with Free AdX | Share of partners with Free AdX (%) | Per Month                            | Per Year                             |
|-------------------|----------------------------|------------------------------|------------------------|-------------------|-----------------------------|-------------------------------------|--------------------------------------|--------------------------------------|
|                   |                            |                              |                        |                   |                             |                                     | Value of Paid AdX Impressions* (\$M) | Value of Paid AdX Impressions* (\$M) |
| LPS               | 11.6                       | 1.4                          | 11.9%                  | 250               | 102                         | 41%                                 | 0.9                                  | 11.3                                 |
| OPG               | 4.6                        | 0.5                          | 10.9%                  | 346               | 77                          | 22%                                 | 0.9                                  | 10.5                                 |
| Total DFP Premium | 16.2                       | 1.9                          | 11.6%                  | 596               | 179                         | 30%                                 | 1.8                                  | 21.8                                 |

\* Assuming 20% of DFP impressions are transacted via AdX (LPS)

\* Assuming 30% of DFP impressions are transacted via AdX (OPG)

Note: The free adx impressions do not count towards the volume tiers for core DFP

## Open Auction: Focusing Facts

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### Current OA footprint:

- > Projected 2017 OA gross rev: \$5.5b (+37% YoY)
- > Rate card OA rev share: 20.0%
- > Average OA rev share: 19.8%
- > 30 OA tiering requests, 17 unique partners (2013-2017)
- > 13 active tier deals, only 6 hitting tiers
- > OA is our strategic stronghold with 86% of gross and 93% of net AdX revenue<sup>1</sup>
- > We want to keep discounts to a min, given OA still growing at ~40% YoY

### Scenarios: Rev share impact of activating OA tiers for additional pubs

|                     | Current 6 deals hitting tiers | Current 6 + 3 others <sup>2</sup> | Plus eBay non-US |
|---------------------|-------------------------------|-----------------------------------|------------------|
| % of total OA rev   | 5.4%                          | 8.0%                              | 11.4%            |
| Effective rev share | 19.8%                         | 19.7%                             | 19.6%            |

| Active OA Tier Deals | Threshold for 82.5% Rev Share** | April 2017 OA Revenue | April Rev Share |
|----------------------|---------------------------------|-----------------------|-----------------|
| Weather Channel      | \$4.5M                          | \$7.8m                | 85%             |
| Hearst               | \$2M                            | \$3.5m                | 85%             |
| ESPN*                | \$500K                          | \$2.4m                | 85%             |
| Orange**             | \$167K                          | \$1.0m                | 85%             |
| Fox News             | \$2.5M                          | \$3.1m                | 82.5%           |
| CBS*                 | \$2M                            | \$3.5m                | 82%             |
| Naspers              | \$4M                            | \$3.8m                | 80%             |
| Answers Corp         | \$4.5M                          | \$1.0m                | 80%             |
| Pandora              | \$2.5M                          | \$2.45m               | 80%             |
| eBay U.S.            | \$2M                            | \$1.9m                | 80%             |
| NBCUniversal         | \$1.5M                          | \$1.49m               | 80%             |
| Viacom               | \$2M                            | \$244K                | 80%             |
| Team Media**         | \$800K                          | \$234K                | 80%             |
| News Corp***         | \$4M                            | \$4.9m                | 80%             |
| Turner***            | \$5M                            | \$3.7m                | 80%             |

\*For CBS and ESPN, exceeding threshold unlocks 82% rev share, not 82.5%

\*\*Orange and Team Media tiers are in EUR

\*\*\*News Corp and Turner deals not yet signed

Note: We have assessed OA asks pipeline and expect up to 8 additional deals in next 12 months, with eBay non-US only major deal

<sup>1</sup> Excluding DBM fees

<sup>2</sup> Two tiered OA deals - News Corp + Turner - recently approved and contracts likely to be signed in coming months. eBay US live and very close to tier

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For each product we have 1 slide with facts and 1 with recommendation

Largest product (>\$5N)

30 asks, 17 unique partners, 13 live deals, 6 hitting tiers --- 5% of 5N revenue is discounted, 19.8% is actual rev share vs. 20% rate card.

We expect 3 additional deals to hit tiers soon: eBay Us, Turner, Newscorp, which will bring the % of discounted to 8% and avr rev share to 19.7%.

We have assessed pipeline, expect up to 8 deals, but mostly small.

Want to keep discounts to a min bc we're still seeing great growth. Potential AI: Add Y/Y Growth column to chart on right

YoY growth at top is data through May 2017

Note: For Hearst, all transaction types count towards OA tiers. For Weather Channel, Viacom and NBCU PA counts towards tiers. For Naspers deal, tiers apply to net revenue

<https://docs.google.com/spreadsheets/d/168bwKKowzjpGVsvU9UC1FGHNhHYhlzcfLD05C9H7Kmo/edit#gid=0>

[Link](#) to News & Publishing Pipeline Assessment

| Open Auction Tiered Deals: Recommendation      |   | 2  |
|--|---|--|
|  | Proactive / growth deals (new inventory)  | Already highly saturated pubs  |
| Qualifying Criteria                            | 1) AdX SoW <20%<br>2) \$2M+/month in OA revenue (37 pubs) <sup>1</sup>  | 1) <b>Firm offer</b> from direct competitor<br>2) \$2M+/month in OA revenue (37 pubs) <sup>1</sup> |
| Discount Guidelines                            | 1) OA discounts are <b>last resort</b> , we are <b>holding firm</b> on this position.<br>2) Offer <b>more bespoke tiers</b> tailored to specific partner revenue size/potential <ul style="list-style-type: none"> <li>&gt; <b>New guidance.</b> Previous informal benchmark was 82.5% at ~\$2M, 85% at ~\$4M<br/>             → We could offer e.g. 81% at \$2M, 82% at \$4M, without going to 85%</li> <li>&gt; <b>Gross revenue growth potential</b> is main evaluation criteria<br/>             → 50% for 82.5% rev share (+30% net rev)<br/>             → 100% for 85% rev share (+50% net rev)</li> </ul> <div>Change</div> |  |
| Other Terms                                    | 1) <b>Temporary</b> (max 2 years)<br>2) <b>Raise level of tiers</b> between years 1 + 2 to account for normal growth<br>3) Partner willing to take part in <b>case study</b> to demonstrate AdX effectiveness   |  |
| 1 Based on June 2017 OA revenue (includes DFL) |   | Confidential 12  |

Qualifying criteria vary b/n new deals vs. exinging deals.

Discount guidelines: 80/20 pricing works well,

Previously point 3 in discount guidelines was: 3) Define tiers on case-by-case basis to ensure stretch goals and meaningful increase in net rev (any discount should require YoY growth)

MEETING AI: Look at “standard” OA tiers and see if we need to validate that they “work”, and see if we need to develop high/medium/low thresholds

Firm offer - most we'll get is an email, or it's verbal and our team documents it.

AdX SoW is <20% (rationale: pub has potential to grow vol on Adx, with  $\epsilon > 2$ )

\$1M/month in OA volume (rationale: \$ growth potential is substantial)

1) \$2M/month in OA volume (focus on top 20 partners, large enough to consider “bending rules”)

1) OA discounts are last resort (e.g., consider first non-pricing value-add, PA discounts)

3) Consider discounting non-Google demand only vs. tiering all spend (once product/billing can support)

## PA & PD: Focusing Facts

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### Findings

|                                | Private Auction | Preferred Deals |
|--------------------------------|-----------------|-----------------|
| Proj. 2017 Gross Rev           | \$462m          | \$255m          |
| YoY Growth                     | -13% YoY        | +60% YoY        |
| Rate Card Rev Share            | 20%             | 10%             |
| Exception Rev Share            | 10%             | 5%              |
| Avg. 2017 Rev Share            | 16.4%           | 8.3%            |
| % of 2017 Gross Rev            | 7%              | 4%              |
| % of 2017 Net Rev <sup>1</sup> | 5%              | 1%              |
| # Live Exceptions              | 50              | 56              |
| # Live Partners                | 1,346           | 1,529           |
| # EMEA Live Exceptions         | 31              | 31              |
| # Americas Live Exceptions     | 19              | 30              |
| # APAC Live Exceptions         | 4               | 1               |

- > **Limited evidence** that discounts lead to net revenue positive outcomes
- > ~50% of pubs getting exceptions are generating less than \$100K in monthly PA rev (see below)

| PA Monthly Rev April-May 2017        | <\$10K | \$10K-\$100K | \$100K-\$1M | >\$1M |
|--------------------------------------|--------|--------------|-------------|-------|
| % Exception LPS Pubs in Range (n=50) | 16%    | 32%          | 48%         | 4%    |
| % Standard LPS Pubs in Range (n=235) | 61%    | 28%          | 11%         | 1%    |

### Implications

- > PA and PD discounts usually offered as **add-on**, not because they generate net revenue positive outcome
- > PA/PD discounts benefit the overall relationship, because they allow for **flexibility in negotiations** while we hold firm on OA pricing
- > We should **consider offering less steep discounts**. For PA and PD, in nearly all cases (with very few exceptions), we cut our rev share in half
- > Roughly **a third** of both **PA/PD rev** is already discounted, raising broader questions about the product/pricing strategy

| PD Monthly Rev April-May 2017        | <\$10K | \$10K-\$100K | \$100K-\$500K | >\$500K |
|--------------------------------------|--------|--------------|---------------|---------|
| % Exception LPS Pubs in Range (n=56) | 18%    | 43%          | 32%           | 7%      |
| % Standard LPS Pubs in Range (n=230) | 63%    | 29%          | 7%            | 1%      |

1 Excluding DBM fees

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Pricing PA below OA creates a risk; since pubs can theoretically “invite everyone” to PA, i.e. replicate OA in PA and circumvent OA pricing

We’ve used this as an add-on; now that this is growing faster than OA, we’ve created a problem; we’re focusing on fixing this in 2018 but are keeping status quo for now

PA is down 13% YoY (partly due to removal of GDN on PA) and PD is up 60% YoY - data through end of June  
Look into PA YoY growth w/out GDN

Live Deals #s in regional differences section don’t exactly add up to exception #s in above section because some pubs have exceptions in multiple regions and are therefore double counted in the regional differences section

These are all 2017 #s

[https://docs.google.com/spreadsheets/d/173wbJSnv8GLX6EIKYU\\_OjCiUBIKthDUIYs5udUMwjOU/edit#gid=1946368761](https://docs.google.com/spreadsheets/d/173wbJSnv8GLX6EIKYU_OjCiUBIKthDUIYs5udUMwjOU/edit#gid=1946368761)

> Both are **secondary** products:

- PA is 7% of gross AdX rev and 5% of net<sup>1</sup>
- PD is 4% of gross and 1% of net<sup>1</sup>



**> Limited # of live exceptions, but**

- 50 PA and 56 PD out of 1,300+ partners
- Most exceptions outside of PBSx

**> Regional differences in # of live deals:**

- EMEA: 62 total (31 PD and 31 PA)
- Americas: 49 total (30 PD and 19 PA)
- APAC: 4 total (1 PD and 4 PA)

## Context: Current approval process for PA/PD discounts

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- There are 2 approval paths:
  - Via PBSx with no explicit discount limit
  - Via [go/nonstandard](#) w/ binary option to decrease Google rev share to 10% for PA, 5% for PD/PG
    - Requires regional LPS lead email approval
    - PA/PD are subject to a quarterly limit of deals by region (see below, no limit for PG)
    - If deal team requests both PA + PD discounts for a partner, counts as 1 ask towards quarterly limit
    - Approvals valid for 12 months

|                              | Standard Rev Share | Discounted Rev Share | Quarterly Allocation? |
|------------------------------|--------------------|----------------------|-----------------------|
| Open Auction                 | 20%                | NA                   | No                    |
| Private Auction (PA)         | 20%                | 10%                  | Yes                   |
| Preferred Deals (PD)         | 10%                | 5%                   | Yes                   |
| Programmatic Guaranteed (PG) | 10%                | 5%                   | No                    |

|         | Channel | Region   | Quarterly Allocation |
|---------|---------|----------|----------------------|
| PA / PD | LPS     | Americas | 3                    |
|         | LPS     | EMEA     | 7                    |
|         | LPS     | APAC     | 4                    |
|         | OPG     | Global   | 5                    |
|         | Total   | Total    | 19                   |

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Exception process for non-standard direct AdX deals

If do both PA and PD for one pub, still just counts as 1

For PG, ratecard will change, will force recontracting as part of unification process.

Will be opportunity for Sales to upsell if on 10% paper, but there will be time period where some on 10% and some on 5%.

EMEA - before the last couple quarters, they weren't really using them

<https://docs.google.com/spreadsheets/d/1kJqu49kJSNi40qe7upgghEfM4l-kmGVAnxMfBaBluxl/edit#gid=0>

## PA & PD: Recommendation

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### Recommendation for Immediate Approval Process Change

1. **Maintain go/nonstandard process for now** with same upper limits: 10% for PA and 5% for PD
1. **Update regional approvers and # of quarterly allocations for AMS** to reflect new GP org reality:

### Kick off Broader Strategic Review

1. PM & GSL are kicking off broader review to review:
  - a. Product strategy
  - a. Pricing strategy
  - a. Discounting process & guidance

| Current Region | Current Quarterly PA/PD Allocations | New Region                    | Quarterly PA/PD Allocations | Approver        |
|----------------|-------------------------------------|-------------------------------|-----------------------------|-----------------|
| AMS            | 3                                   | AMS - News & Broadcast        | 2                           | Bonita Stewart  |
|                |                                     | AMS - Search, Commerce & Apps | 2                           | Dave Graham     |
|                |                                     | Brazil                        | 1                           | Sergio Maria    |
|                |                                     | SpLATAM                       | 1                           | Matias Attwell  |
| EMEA           | 7                                   | Canada                        | 1                           | Mladen Raskovic |
| APAC           | 4                                   | EMEA                          | 7                           | Noah Samuels    |
| OPG            | 5                                   | APAC                          | 4                           | Mel Silva       |
|                |                                     | OPG                           | 5                           | Scott Shetter   |

Note: LPS Deal Governance [proposal](#)

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Open question whether 7 is enough for EMEA - 80% of PA revenue coming from exceptions (top heavy), PD it's 44%  
 Political challenges there, so deal teams are using whatever carrots they have

Best practice: If a region runs out of exceptions → they should have planned against their pipeline of renewals

Note from Inna - what is the competition and pricing for similar transaction types???

[https://docs.google.com/spreadsheets/d/173wbJSnv8GLX6EIKYU\\_OjCiUBIKthDUIYs5udUMwj0U/edit#gid=663689877](https://docs.google.com/spreadsheets/d/173wbJSnv8GLX6EIKYU_OjCiUBIKthDUIYs5udUMwj0U/edit#gid=663689877)  
<https://docs.google.com/spreadsheets/d/1kJqu49kJSNi40qe7upgghEfM4l-kmGVAnxMfBaBluxl/edit#gid=326313699>

## PG: Focusing Facts

2

### Findings

|                            | PG        |
|----------------------------|-----------|
| Proj. 2017 Gross Rev       | \$207m    |
| YoY Growth                 | +192% YoY |
| Rate Card Rev Share        | 10%       |
| Exception Rev Share        | 5%        |
| Avg. 2017 Rev Share        | 7.2%      |
| % of 2017 Gross Rev        | 2%        |
| % of 2017 Net Rev          | 1%        |
| # Live Exceptions          | 70        |
| # Live Partners            | 306       |
| # EMEA Live Exceptions     | 34        |
| # Americas Live Exceptions | 33        |
| # APAC Live Exceptions     | 7         |

- > **70 live deals** with exceptions, only one > 95/5
- > 56 of top 100 LPS PG pubs have exceptions (83% of rev)
- > **4 deals** with tiered PG rev share up to 97% have been approved; only TripAdvisor deal is live, CBS deal live soon

### Implications

- > **We will evaluate a rate card change** from 90/10 to 95/5 in next 6 months. Rate card was originally set at 90/10 due to recontracting implications.
  - Expecting results from BCG study
  - Need to review TripAdvisor/CBS performance
- > Two ways to obtain PG discount:
  - Via PBSx (including > 95/5)
  - Via [AdX exceptions process](#) (up to 95/5, no quarterly limit for PG)
- > PG discounts to 95/5 often offered as **add-on**, not because they generate net revenue positive outcome
- > PG discounts often benefit the overall relationship because they allow for **flexibility in negotiations**, while we hold firm position on OA pricing

1 Excluding DBM fees

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TripAdvisor deal signed late July, tier deal started Aug 1. Automated PG tiering solution now ready

Through end of June PG is up 192% Y/Y

4 tiered PG deals have been approved: TripAdvisor, CBS (has taken a long time in Legal, expected to be signed by end of September) + Roku (business need for AdX has diminished, not expected to be signed in near future), Turner (only offered in exchange for DFP Video, Turner won't migrate so deal is off the table)

These are all Q2 2017 #s. Fairfax deal approved >95/5 but Sales team didn't use it PG we want to be careful about discounts - once we change rate card, reference for "discount" should be 95/5 not 90/10

[https://docs.google.com/spreadsheets/d/173wbJSnv8GLX6EIKYU\\_OjCiUBIKthDUIYs5udUMwjOU/edit#gid=1470893284](https://docs.google.com/spreadsheets/d/173wbJSnv8GLX6EIKYU_OjCiUBIKthDUIYs5udUMwjOU/edit#gid=1470893284)

> PG remains a **secondary** product:

- PG is 2% of gross AdX rev and 1% of net<sup>1</sup>

**> Limited # of live exceptions**

- 70 out of 306 partners
- Most exceptions outside of PBSx

**> Regional differences in # live exceptions:**

- EMEA: 34
- Americas: 33
- APAC: 7

PG: Recommendation

2

For Asks up to 95/5:

> Continue to use go/nonstandard workflow (or PBSx if part of a bigger deal)
 

- Quarterly caps do not apply

> Regional approval still required

| Region                            | Approver         |
|-----------------------------------|------------------|
| LPS AMS - News & Broadcast        | Bonita Stewart   |
| LPS AMS - Search, Commerce & Apps | Dave Graham      |
| LPS Brazil                        | Sergio Maria     |
| LPS SpLATAM                       | Matias Athwell   |
| LPS Canada                        | Mladen Raickovic |
| LPS EMEA                          | Noah Samuels     |
| LPS APAC                          | Mel Silva        |
| OPG                               | Scott Sheffer    |

For Asks > 95/5:

Change

We think 95/5 pricing is right, but willing to reward limited # of partners that are early adopters, large spenders, and public endusers

> Proposal: run limited time 6 months (Q4'17 & Q1'18) pricing test

> Named partner list of 20 partners eligible for tiered deals (to be created)

> Expectation: sign 3-5 deals and evaluate results

> Tiers should follow guidance below

> Contract Duration: 12 month max

> Requires approval by Kurt Spoerer, Pooja Kapoor

> Requires partner commitments e.g. participation in case studies (critical)

Volume guidance for tiered PG deals > 95/5

(for reference during deal review; not a blanket approval or program)

| Rev share tier | Min. PG gross revenue (monthly) |
|----------------|---------------------------------|
|                | Rest of 2017 <sup>1</sup>       |
| 4.5%           | \$1M                            |
| 4%             | \$2M                            |
| 3.5%           | \$4M                            |
| 3%             | \$8M                            |

<sup>1</sup> Currently only DBM is supported in GA, other top DSPs are alpha or beta; custom formats in beta for DBM and n/a for other DSPs  
 Note: Median estimate of DFP direct spend: top 20 pubs - \$16M/month ----- [link](#) to direct media spend of top DFP customers

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Limited test pricing for up to 5 reference partners (5 partners in next 6 months; its a selective promotion, looking for reference partners)

Why does X get tiered pricing? It was a promotion for early adopters

Top 20 named partner list + video threshold (set a min)

4 tiered PG deals have been approved: TripAdvisor, CBS, Roku, Turner (CBS recently re-approved and will be signed soon)

Based on June 2017 estimates, there are 13 pubs with at least \$10M in monthly Direct sales revenue (same # of pubs with >\$100M in estimated annual rev)

For TripAdvisor, we got exclusivity for PG deal types, we're getting a joint case study created

Removed: "> Regional approval still required in accordance with LPS Deal Governance proposal (see appendix)"

Removed: "> 2 options: 1: require RD approval & justification OR 2: remove RD approval and require no justification"

Note: May adjust recommended tiers based on regional differences

Luis and Pooja agreed that don't need regional director approval since will be rate

card anyway, no need to add additional points of friction. Pooja has been removed from Simba approvals. Still ask folks to submit through the form for tracking purposes

For now, anyone that has paper saying 90/10 would stay on 90/10, but this would be small # of pubs. We won't proactively message. When we recontract as part of unification project, that's when everyone who's not on 95/5 will move to 95/5, will be in 6-12 months

By the time we're ready to force recontracting, we'll have data from the BCG study and TripAdvisor to drive flat vs tiered go-forward rate card

Currently anyone can get 95/5, just need Simba amendment set up and approved  
Also, as we report how much discount we're giving, we should caveat that 95/5 isn't truly a discount in same way as 95/5 for PD

"Criteria" for tiers:

- Total reservation opportunity based on size of Direct business
- Current PG adoption
- Strategic importance to Google

> Partner commits to move significant Direct spend to PG (comp counsel)

**Target % of PG spend in total direct spend**

- *top 20 pubs*: 10%-20%
- *top 20*: 20%-30%
- *top 20*: 30%-50%
- *top 20*: >50%



## Changes to PBSx deal model

## Launch new Deal Model with only deal specific incremental costs; Will be live in Q4

3

### Example of new deal model P&L

| Summary of Deal Profitability over 24 month contract |               |                |                 |
|--|---------------|----------------|-----------------|
| Total DRX (USD000s)                                  | Proposed Deal | Existing Terms | Change in terms |
| Gross Revenue  | 3,346         | 2,213          | 1,133           |
| TAC (standard revenue share)                         | (2,247)       | (1,429)        | (818)           |
| TAC (above rate card)                                | (104)         | -              | (104)           |
| Net Revenue  | 995           | 784            | 211             |
| Other Cost of Sales *                                | (104)         | (70)           | (35)            |
| Machine Costs  | (248)         | (163)          | (84)            |
| Additional Deal Specific Costs                       | (20)          | -              | (20)            |
| Contribution margin                                  | 623           | 551            | 73              |
| Contribution margin (%)                              | 19%           | 25%            | -6%             |
| Contribution margin if no discount                   | 26%           | 28%            | -2%             |
| Contribution margin dilution (%)                     | -8%           | -4%            | -4%             |
| DFP Impressions (monthly)                            | 350           | 250            | 100             |
| AdX Impressions (monthly)                            | 120           | 75             | 45              |
| AdX % of DFP impressions                             | 34%           | 30%            | 4%              |
| AdX average TAC %                                    | 84%           | 80%            | 4%              |

\*Other cost of sales includes agency incentive fees, credit card costs, spam credits

### Context

- Current deal model uses fully-loaded P&L

- Proposal:** adopt new model, which includes only deal-specific incremental costs (we piloted this approach with Fairfax).

Change

### Deal model information points

- Existing terms presented for renewals to show impact of increased discounts, as well as expected revenue uplift
- Additional TAC vs. rate card clearly shows impact of discount
- Only variable costs that are incremental to deal are included - no allocation for sales costs, product or overhead
- Showing the contribution margin if no discounts or higher revenue shares are provided gives an indication of margin impact
- % of DFP impressions gives indication of 'Share of Wallet'

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Uplift vs Status Quo places more emphasis on the incremental revenue and margin that the deal is bringing

## Include New Discounts Summary Table that allows comparison vs. current terms on Net Revenue Basis

3

### Example of Discount and Terms summary

|                          | Proposed Deal (over life of contract) |                             |                                   | 1 | Existing Terms (over life of contract) |                             |                                   | Delta |                                    |                             |                                   |
|--------------------------|---------------------------------------|-----------------------------|-----------------------------------|---|--|-----------------------------|-----------------------------------|-------|------------------------------------|-----------------------------|-----------------------------------|
|                          | Discount /<br>Rev Share<br>Offered    | Net<br>Revenue<br>(USD000s) | Value of<br>discount<br>(USD000s) |   | Discount /<br>Rev Share<br>Offered     | Net<br>Revenue<br>(USD000s) | Value of<br>discount<br>(USD000s) |       | Discount /<br>Rev Share<br>Offered | Net<br>Revenue<br>(USD000s) | Value of<br>discount<br>(USD000s) |
| Platforms                |                                       |                             |                                   |   |  |                             |                                   |       |                                    |                             |                                   |
| DFP - Core AdServing     | 54%                                   | 201                         | 236                               |   | 35%                                    | 202                         | 110                               |       | -19%                               | -1                          | 125                               |
| DFP Audience - 1st Party | 20%                                   | 25                          | 6                                 |   | 0%                                     | 31                          | 0                                 |       | -20%                               | -6                          | 6                                 |
| Media                    |                                       |                             |                                   |   |  |                             |                                   |       |                                    |                             |                                   |
| Open Auction             | 82.5% TAC                             | 694                         | 59                                |   | 80.0% TAC                              | 452                         | 0                                 |       | 2.5%                               | 242                         | 59                                |
| Private Auction          | 90.0% TAC                             | 76                          | 45                                |   | 80.0% TAC                              | 99                          | 0                                 |       | 10.0%                              | -24                         | 45                                |

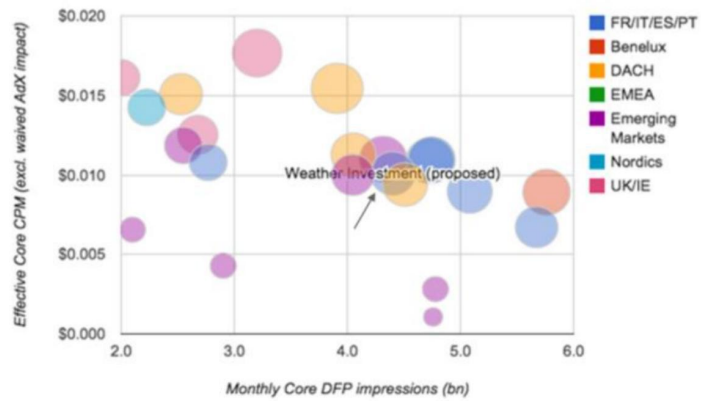
1 Value of discount is the \$ value vs. the rate card, providing clarity on the magnitude of the ask and highlighting products where the ask is largest

2 Delta shows the changes relative to existing terms (for renewals only) - this is useful for assessing the incremental gives to the partner, along with expected change in revenue

## Continue to include comparison of DFP pricing with similar regional deals

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### Comparison of DFP Pricing vs. Deal Size



- The chart plots deal size (in impressions) vs. deal pricing for deals within the region
- The aim is to highlight deals that have terms that wouldn't be justified by size alone

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## Deal Accountability

### 3 initiatives in progress to increase deal accountability

#### Post deal approval form

- Live already ([link](#))
- Each deal team will submit the form to provide data on
  - Contract terms
  - Effective date
  - Deal submission and Simba IDs

#### Regular updates from BC/FMG deals

- All BC/FMG deal teams will be required to provide email updates
  - Performance update every 6 months
  - Live PBSx discussions only if needed

#### Quarterly PBSx Discounts Review

- Sales Finance will launch a quarterly discounts report:
  - Quarterly (1st edition in Oct 2017)
  - 30 mins review with Don, Pooja, Gabe

# APPENDIX

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## Process change proposal: waiving DFP fees on AdX

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### Appendix

#### Current Process ([link](#))

1. Approval requirement varies by country and channel:
  - a. Director for LPS emerging/mature markets
  - b. VP approval for LPS advanced market
  - c. Simon Bolger for OPG
1. Effective discount of waiving DFP fees on AdX **doesn't count** towards 20% DFP discount threshold for PBSx
1. Competition council approval required for deal exceeding two years in length or additional partner commitment of >20% share of impressions in exchange for concession
1. Note: \$ value of waiving DFP fees on AdX is often smaller than one would guess, because waived impressions **do not count** towards DFP volume tiers

Note: [go/platformratecards](#) has mature, emerging, and advanced country categorization  
Note: should update legal team.

#### Proposed Process

1. **NEW:** For LPS, more liberal process:
  - a. For PBSx deals, waiving DFP fees should be listed as non-standard item, and will be approved along with other PBSx asks
  - b. For deals not requiring PBSx, no approval necessary ([more liberal](#))
1. **No Change:** OPG exceptions will continue to require Simon Bolger's approval
1. **No Change:** Effective discount of waiving DFP fees on AdX doesn't count towards 20% DFP discount threshold for PBSx
1. **No Change:** Competition council approval required for deal exceeding two years in length or additional partner commitment of >20% share of impressions in exchange for concession
1. **NEW:** Sales Finance will monitor the # of exceptions (need to establish tracking)

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Run rate of ~\$18M in waived DFP fees for AdX impressions. Roughly half of AdX/AFC impressions for LPS pubs on DFP are being credited, so we could give out another ~\$20M annually in waived fees if all the rest of LPS pubs on DFP got waived DFP fees on AdX overnight.

[https://docs.google.com/spreadsheets/d/1zVqwLCT-bzHP15GprajbfAr49-gEZicb\\_wosWWwGK2M/edit#gid=371301977](https://docs.google.com/spreadsheets/d/1zVqwLCT-bzHP15GprajbfAr49-gEZicb_wosWWwGK2M/edit#gid=371301977)

## PBSx has approved four tiered PG deals to date

| Publisher   | Date Approved | Status  |
|-------------|---------------|---|
| TripAdvisor | 6/13/2017     | Live August 1 with automated billing solution   |
| CBS         | 10/17/2016    | Held up in legal, expected to be signed by end of October                                       |
| Roku        | 8/15/2016     | Business need for AdX has diminished, not expected to be signed in near future                  |
| Turner      | 3/13/2017     | Tiered PG only offered in exchange for DFP Video, Turner won't migrate so deal is off the table |

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4 tiered PG deals have been approved: TripAdvisor, CBS (has taken a long time in Legal, expected to be signed by end of September) + Roku (business need for AdX has diminished, not expected to be signed in near future), Turner (only offered in exchange for DFP Video, Turner won't migrate so deal is off the table)

## LPS Deal Governance Recommendation Summary

| Region/Org          | Sub-Regional Approvals                          | Regional Approvals                               |   | Global Approvals (PBSX)   |
|---------------------|---|--|---|---|
|                     |   | Simba & go/nonstandard                           | Pre-PBSX  |   |
| APAC & EMEA         | No change: LPS manager or director <sup>1</sup> | GTM Director <sup>2</sup>                        | LCS Country Manager + Regional Committee <sup>4</sup>   | No change<br><br>Quorum: Don Harrison, Andrey Donovan, Liz Daly, appropriate PMs, gTech |
| LATAM/CANADA        |   | LPS SpLATAM, Brazil, Canada manager <sup>3</sup> | LCS + LPS SpLATAM, Brazil, Canada managers <sup>5</sup> |   |
| US                  |   | No change: Bonita Stewart                        |   |   |
| Global Partnerships |   | No change: Dave Graham                           |   |   |

1. LPS managers / director delegated approval in Simba for term sheets and deal folders that do not require regional approval
2. GTM Directors: (Noah Samuels for EMEA, Melanie Silva for APAC). Back-up: Sell-side GTM Directors (Thomas Schreiber (EMEA), TBH (APAC; Banks Baker interim). These approvers serve for governance purposes in Simba representing regional sales VP approval authority.
3. Matias Atwell, Sergio Maria, and Mladen Raickovic, respectively
4. Decision authority on regional committee rests with GTM Director, informed by LCS Country Manager and LPS deal teams
5. Aforementioned PBS managers (3) plus LCS country managers reporting to Adriana Norena (SpLATAM), Fabio Coelho (Brazil), or Sam Sebastian (Canada)

**Note:** no change is recommended for OPG deal governance. Escalation and approval rules unchanged

Google

[Proposal](#)

## Competition Counsel Review Requirements

Competition counsel approval required for:

1. Any DFP deal in EMEA
2. Any partner commitment for >35% of impressions monetized through Google
3. Exclusivity or de facto exclusivity (competition counsel recommends that  
**Redacted - Privilege**)
4. Any deal where DFP component alone is loss-making (reference net profit excluding unattributed indirect costs)
5. Waived DFP fees on AdX impressions if: (a) deal term > two years or (b) additional partner commitment of >20% share of impressions required in exchange for concession
6. Any deal involving a cross-product commitment

## DFP Video: Focusing Facts

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### Current DFP Video footprint:

- > Projected 2017 DFP Video rev: **\$27M** (+26% YoY)
- > Directors can approve discounts up to 40% off rate card
- > We had a formal DFP Video pricing program in place called Project Dolphin (originally launched in 2015), which allowed for up to 70% discounts on DFP video vs. rate card in place at time, + funding for migration costs
- > In H1 2016, our video rate card was cut by 40% to match the flexibility that Dolphin had given

41% of pubs<sup>1</sup> are paying over rate card for DFP Video, and 86% have discount <40%

| Global, n=242            | <0% | 0-40% | 40-60% | 60-100% |
|--------------------------|-----|-------|--------|---------|
| % Pubs in Discount Range | 41% | 45%   | 9%     | 4%      |

<sup>1</sup> Only counting pubs with >\$1K in DFP Video rev YTD

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<https://docs.google.com/spreadsheets/d/1DYVB0cGN6ljrxW7q1ZkeQqp0Z398CaYAqt5nnsKkLYU/edit#gid=0>

## PA & PD: Recommendation

Need to review, latest proposal is to stick with current exceptions process (as of July 19th)

**Recommendation for Approval Process Change**

1. **Maintain go/nonstandard process** with same upper limits: 10% for PA and 5% for PD
1. Move to a **points based quarterly limit** by region (i.e. each discounted percentage point equals 1 point)
 

| Region    | Suggested Quarterly Point Allocation |
|-----------|--------------------------------------|
| Americas* | 80                                   |
| EMEA      | 100                                  |
| APAC      | 30                                   |
| OPG       | 30                                   |
1. Quotas for Americas and EMEA designed to catalyze behavior change and force Sales to make trade-offs
1. Update regional approvers to reflect new GP org
  - a. EMEA: replace Ben Faes with Noah
  - b. APAC: replace J. Butteriss with Mel
  - c. **Americas: create separate quotas for Dave and Bonita**
1. We will begin counting PBSx approvals towards quarterly points limit
1. Develop process for tracking points

\* Americas quota still needs to be divided between Dave and Bonita orgs

### Discount Guidance

1. Main criterion for evaluating PA/PD rev share exceptions is whether offering this discount is necessary for the **overall DRX relationship**
1. **More scrutiny** going forward (i.e. require teams to provide **clear rationale** and start tracking performance)
1. Allow **discount flexibility**: regions would be able to approve any discount up to the max discount. See table below for example. (note: no tiering allowed)

|                 |           | "New"        | "New"        | "New"         |              |
|-----------------|-----------|--------------|--------------|---------------|--------------|
|                 | Rate Card | Low Discount | Med Discount | High Discount | Max Discount |
| Private Auction | 80/20     | 83/17        | 85/15        | 87/13         | 90/10        |
| Points required | 0         | 3            | 5            | 7             | 10           |
| Preferred Deals | 90/10     | 92/8         | 93/7         | 94/6          | 95/5         |
| Points required | 0         | 2            | 3            | 4             | 5            |

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If we keep current exception process, we should have separate quotas for PA/PD. Could ask Pooja to still ask them if need to go all the way to max threshold. PBSx should count as well.

Translate past extensions into points in an appendix slide, so teams have a sense for how it compares. We should note that quarterly point allocations require AMS and EMEA to be flat, and actually reduce a bit, force teams to trade-off. If goes to PBSx and it's a two year deal, we will count it towards next year's allocation

- Best practice: If a region runs out of points → they should have planned against their pipeline of renewals

Open question - who approves these PA/PD discounts in future state from Sales Finance side?

Note from Inna - what is the competition and pricing for similar transaction types???

[https://docs.google.com/spreadsheets/d/173wbJSnv8GLX6EIKYU\\_OjCiUBIKthDUIYs5udUMwjOU/edit#gid=663689877](https://docs.google.com/spreadsheets/d/173wbJSnv8GLX6EIKYU_OjCiUBIKthDUIYs5udUMwjOU/edit#gid=663689877)

<https://docs.google.com/spreadsheets/d/1kJqu49kJSNi40qe7upgghEfM4l-kmGVAnxMfBaBluxl/edit#gid=326313699>

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GOOG-DOJ-06877110

## Example of traffic light evaluation

Need to review  
with Mike/Bipin

4

| News Corp                                | Commentary  |
|--|---|
| Alignment with PBSx<br>Discount Guidance | Deal implements tiered OA rev-share at<br>non-stretch levels, and steeper DFP discounts vs.<br>current rates despite being defensive deal |
| Finance Recommendation                   | Supportive  |
| Pros                                     | PBSx has approved deals with similar pricing in<br>past; deal increases likelihood that News Corp<br>stays on DFP                         |
| Cons                                     | Foregoing ~\$5.5M in DRX net revenue w/<br>proposed deal vs. current terms  |



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<https://docs.google.com/spreadsheets/d/1kJqu49kJSNi40qe7upgghEfM4I-kmGVAnxMfBaBluxl/edit#gid=1877733534>



## Data: Approved PA/PD deals

To be moved to appendix

3

- The regions have been utilizing the two PA/PD approval paths with varying frequency

| # Exceptions | Q3 2016        |      |       | Q4 2016   |      |       | Q1 2017   |      |       | Q2 2017   |      |       | Last 12 months |      |       |
|--------------|----------------|------|-------|-----------|------|-------|-----------|------|-------|-----------|------|-------|----------------|------|-------|
|              | go/nonstandard | PBSx | Total | go/nonstd | PBSx | Total | go/nonstd | PBSx | Total | go/nonstd | PBSx | Total | go/nonstd      | PBSx | Total |
| LPS Americas | 2              | 5    | 7     | 5         | 3    | 8     | 2         | 6    | 8     | 3         | 5    | 8     | 12             | 19   | 31    |
| LPS EMEA     | 6              | 2    | 8     | 11        | 11   | 22    | 7         | 9    | 16    | 3         | 8    | 11    | 27             | 30   | 57    |
| LPS APAC     | 0              | 0    | 0     | 2         | 0    | 2     | 2         | 0    | 2     | 0         | 2    | 2     | 4              | 2    | 6     |
| OPG          | 2              | 0    | 2     | 2         | 0    | 2     | 1         | 0    | 1     | 2         | 0    | 2     | 7              | 0    | 7     |

| # Asks  | Q1 2017   |      |       | Q2 2017   |      |       | H1 2017   |      |       |
|---------|-----------|------|-------|-----------|------|-------|-----------|------|-------|
|         | go/nonstd | PBSx | Total | go/nonstd | PBSx | Total | go/nonstd | PBSx | Total |
| Dave    | 0         | 0    | 0     | 1         | 1    | 2     | 1         | 1    | 2     |
| Bonita  | 0         | 4    | 4     | 1         | 2    | 3     | 1         | 6    | 7     |
| Canada  | 0         | 0    | 0     | 0         | 0    | 0     | 0         | 0    | 0     |
| Brazil  | 1         | 0    | 1     | 0         | 0    | 0     | 1         | 0    | 1     |
| SPLatam | 0         | 1    | 1     | 0         | 0    | 0     | 0         | 1    | 1     |

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Recommended allocations (effective beginning Q4): 1 each for CA, BR, SPLA, and 2 each for Dave/Bonita

The table that was cropped out aggregates PA and PD approvals by region, and assigns points based on the 10 percentage point movement on PA from standard 80/20 to 90/10 and 5pp movement on PD from standard 90/10 to 95/5

For group asks, like for Viking and Tango - only counted as one pub in above table

Luis - points structure could potentially create incentive to give discounts to bigger guys, but this may be OK. Should there be a threshold beyond which we should force teams to go to PBSx? Maybe an FYI email should be required. Might make sense for PA but not for PD

<https://docs.google.com/spreadsheets/d/1kJqu49kJSNi40qe7upgghEfM4l-kmGVAnxMfBaBluxl/edit#gid=1871736620>



## 4 Core principles

- 1 Drive incremental gross revenue growth
- 2 Maintain net revenue margins
- 3 Protect Open Auction margins
- 4 Take competitive environment into account

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Could be interesting to try to put some # targets there

## Overview of AdX Transaction Types

- > **Open Auction (OA)**: Standard AdX bidders running on a publisher with no restrictions
- > **DoubleClick First Look (DFL)**: (considered part of OA by eng and for purposes of this review)
- > **Private Auction (PA)**: Separate auction that runs before OA - limited to set of buyers as determined by publisher, only bids that exceed pub price floor are considered
- > **Preferred Deals (PD)**: Fixed price deals - single publisher and single advertiser, no volume commitment; these run before OA/PA
- > **Programmatic Guaranteed (PG)**: Fixed price/volume deals - single publisher and single advertiser
- > **Exchange Bidding in Dynamic Allocation (EB/EBDA)**:

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PA: one pub to many advertisers - limited set of buyers decided on by pub with price floor

PD: one pub to one advertiser - set price but no volume commitments

PG: one to one - set volume and price

# Non-Standard AdX Rev Share Process

## Non-Standard AdX Revenue Share Requests - Exception Process

If you are seeking a rate card pricing exception for the following AdX deal types:

- **Private Auction:** less than 80/20 to 90/10 revenue share
- **Preferred Deals:** less than 90/10 to 95/5 revenue share
- **Programmatic Guaranteed:** less than 90/10 to 95/5 revenue share
- Requests that exceed these thresholds (PA 90/10, PD 95/5, PG 95/5) must be submitted to PBSX for approval.

You may submit a non-standard rev share request via PBSX ~~or~~ the pricing exception process. The exception process requires an amendment to the partner's current AdX agreement. If your deal exceeds your region's quarterly allocation, your regional exception request is rejected, or require a change outside of the above parameters, PBSX approval is required. You may submit your deal for PBSX approval at [go/getapproval](#).

Each region is allowed a specific number of pricing exceptions per quarter for Private Auction and Preferred Deal discounts. Caps no longer apply to Programmatic Guaranteed requests. Bonita Stewart/David Graham (Americas), Ben Faes (EMEA), Jeremy Butteriss (APAC), or Scott Sheffer (OPG) can approve the below rate card exceptions outside of PBSX, up to each region's quarterly exception cap:

Americas: 3 per quarter

EMEA: 7 per quarter

APAC: 4 per quarter

OPG: 5 per quarter

## Review Exceptions Process for Non-Standard PA/PD/PG Deals

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### Current Process:

- > Details: [go/nonstandard](#)
- > 19 quarterly exceptions available for PA/PD
  - EMEA 7
  - Americas 3
  - APAC 4
  - OPG 5
- > No quarterly exceptions limit for PG deals
- > Approval requirements:
  - Email approval from regional VP
  - Form submission
  - Approval from Pooja Kapoor and Kurt Spoerer
  - Simba approval



### Proposal for new Process:

- > Retain process to provide relief to PBSx deal flow
  - > Pooja/Mike/Andrey to follow up
  - > Sales Finance regional delegation and/or GTM teams
  - > Standard quarterly process to review performance of approved deals
  - > Create clear discounting guidance
- Approve deals on case by case basis, remove regional quotas, but maintain global target of max exceptions per quarter (????)

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## OA Pipeline Assessment for Potential Tiered Deals

| Region   | Potential asks for OA tiered deals |
|----------|------------------------------------|
| EMEA     | Bonnier, eBay (non-US)             |
| APAC     | Fairfax (PBSx 6/19)                |
| Americas | Time, Forbes, WebMD, Vox, Vice     |

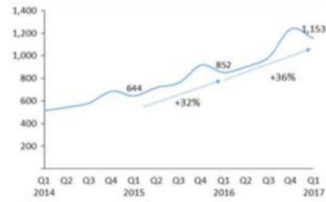
Notes:

- Based on informal feedback from regional VPs
- [Link](#) to News & Publishing pipeline

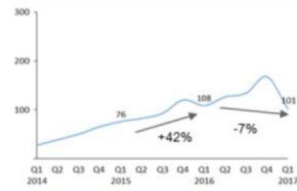
## Evolution of sell-side net revenues by transaction type

### Quarterly gross revenue by transaction type M USD

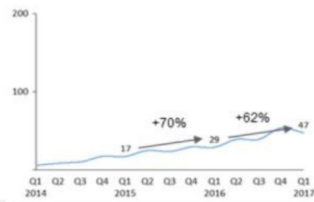
#### Open auction (86% gross rev, 90% net rev)



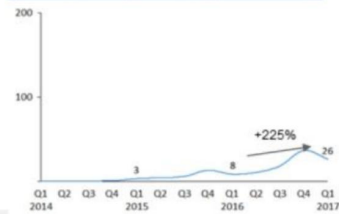
#### Private auction (8% gross rev, 7% net rev)



#### Preferred deals (4% gross rev, 2% net rev)



#### Programmatic Guaranteed (2% gross rev, 1% net rev)



## Top partners by transaction type

### Gross revenue. 2016

| Rank | Partner     | OA spend (\$M) |
|------|-------------|----------------|
| 1    | Ebay        | \$187.1        |
| 2    | IBM         | \$77.0         |
| 3    | Yahoo       | \$75.8         |
| 4    | IAC         | \$63.1         |
| 5    | Time Warner | \$53.6         |
| ...  |             |                |
| 10   | Gannett     | \$32.7         |
| ...  |             |                |
| 20   | Naver Corp  | \$22.37        |
|      |             |                |

| Rank | Partner        | PA spend (\$M) |
|------|----------------|----------------|
| 1    | Ebay           | \$31.6         |
| 2    | IBM            | \$29.8         |
| 3    | 21 Century Fox | \$18.7         |
| 4    | IAC            | \$15.2         |
| 5    | CBS            | \$12.4         |
| ...  |                |                |
| 10   | Answers.com    | \$8.0          |
| ...  |                |                |
| 20   | Walt Disney    | \$5.0          |
|      |                |                |

## Top partners by transaction type

### Gross revenue. 2016

| Rank | Partner        | PD spend (\$M) |
|------|----------------|----------------|
| 1    | Walt Disney    | \$6.6          |
| 2    | Axel Springer  | \$5.5          |
| 3    | Time           | \$5.2          |
| 4    | LAN UK         | \$4.5          |
| 5    | eBay           | \$3.9          |
| ...  |                |                |
| 10   | New York Times | \$3.1          |
| ...  |                |                |
| 20   | Purch Group    | \$1.8          |
|      |                |                |

| Rank | Partner        | PG spend (\$M) |
|------|----------------|----------------|
| 1    | Tripadvisor    | \$3.4          |
| 2    | New York Times | \$3.3          |
| 3    | APAX           | \$3.3          |
| 4    | Advance Pub    | \$3.2          |
| 5    | Vox Media      | \$2.9          |
| ...  |                |                |
| 10   | Garnett        | \$2.2          |
| ...  |                |                |
| 20   | Washington P.  | \$1.6          |
|      |                |                |



In 2016, the number of AdX OA 85/15 asks increased to 12 vs only 3 in 2015

| Year                | Partners with PBSx asks for OA > 80/20                                       | # of Partners | # of Asks* |
|---------------------|--|---------------|------------|
| 2013                | eBay, Gumtree, Fox News, Hearst, Demand Media, Weather                       | 6             | 6          |
| 2014                | Answers, Demand Media, Viacom, CBS, Avito                                    | 5             | 5          |
| 2015                | Weather, Pandora, Turner   | 3             | 3          |
| 2016                | Answers, Fairfax AU, Fox News, Orange, Naspers, CBS, Reddit, Hearst, eBay US | 9             | 12         |
| 2017<br>(as of May) | Hearst, Time Warner, Turner, News Corp                                       | 4             | 4          |

Notes:

- Before 2013, there were no asks for OA rev shares > 80/20
- Source: goto/xpaar
- \* - # of asks > # of partners, due to multiple reviews of same partner
- Not all deals had tiers up to 85/15, but majority of asks had. Full list of asks is here: [Link](#)

Google

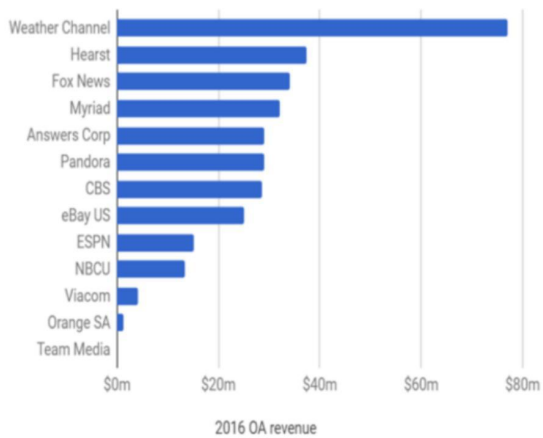
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AdX OA funnel narrative:

- we have approved 30 asks for 22 unique partners (i.e. some partners came to review multiple times) since 2013
- There are 13 live deals with approved non-standard OA pricing
- Of these 13 deals, **only 5 partners are getting 85% and only 2 partners getting 82.5%**, the remaining 6 are at 80%

## 13 Live AdX Deals with OA pricing > 80/20 (Updated May 2017)

2016 OA Revenue for Pubs w/ Tiered OA rev share



OA Tier Details and April Tier Attainment

| Tiered OA Rev-Share    | 80%     | 82-95%        | 85%     | April 2017 OA Revenue | April Rev-Share |
|------------------------|---------|---------------|---------|-----------------------|-----------------|
| <b>Weather Channel</b> | <\$4.5M | \$4.5M-\$6.5M | \$6.5M+ | \$7.8m                | 85%             |
| <b>Hearst</b>          | <\$2M   | \$2M-\$4M     | \$4M+   | \$3.5m                | 85%             |
| <b>Fox News</b>        | <\$2.5M | \$2.5M-\$4M   | \$4M+   | \$3.1m                | 82.5%           |
| <b>Myriad</b>          | <\$4M   | \$4M-\$6M     | \$6M+   | \$3.8m                | 80%             |
| <b>Answers Corp</b>    | <\$4.5M | \$4.5M-\$7M   | \$7M+   | \$1.0m                | 80%             |
| <b>Pandora</b>         | <\$2.5M | \$2.5M-\$4M   | \$4M+   | \$2.5m                | 80%             |
| <b>CBS**</b>           | <\$2M   | \$2M-\$4M     | \$4M+   | \$3.5m                | 82%             |
| <b>eBay U.S.</b>       | <\$2M   | \$2M-\$4M     | \$4M+   | \$1.9m                | 80%             |
| <b>ESPN***</b>         | <\$500K | \$500K-\$1M   | \$1M+   | \$2.4m                | 85%             |
| <b>NBCUniversal</b>    | <\$1.5M | \$1.5M-\$3M   | \$3M+   | \$1.49m               | 80%             |
| <b>Viacom</b>          | <\$2M   | \$2M-\$4M     | \$4M+   | \$244K                | 80%             |
| <b>Orange****</b>      | <\$167K | \$167K-\$333K | \$333K+ | \$1.0m                | 85%             |
| <b>Team Media****</b>  | <\$800K | \$800K-\$1.3M | \$1.3M+ | \$234K                | 80%             |

\*For Myriad deal, tiers apply to net revenue

\*\*For CBS deal, \$2M-\$4M achieves an 82% rev-share, rather than 82.5%

\*\*\*For ESPN deal, \$500K-\$800K achieves an 82% rev-share, and \$800K-\$1M achieves an 84% rev-share

\*\*\*\*Tiers are in EUR

\*\*\*\*\*Note: For Hearst, all transaction types count towards OA tiers.  
For Weather Channel, Viacom and NBCU PA counts towards tiers

Google

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Chart on left only considers Account IDs that are used for the purpose of tier achievement  
Team Media has \$460K of YTD OA revenue in 2017

## AdX discounting by transaction type (Finance analysis)

2016 data

|              | Gross Rev      | Net Rev        | Discount     | Net Rev<br>Discount % | % of Gross<br>Rev from<br>Pubs w/<br>Discounts |
|--------------|----------------|----------------|--------------|-----------------------|--|
| AdX OA       | \$3817m        | \$1024m        | \$10m        | 1%                    | 6%   |
| AdX PA       | \$310m         | \$51m          | \$11m        | 17%                   | 33%  |
| AdX PD/PG    | \$234m         | \$20m          | \$3m         | 14%                   | 30%  |
| Admob        | \$2075m        | \$669m         | \$3m         | 0%                    | 4%   |
| <b>Total</b> | <b>\$6435m</b> | <b>\$1764m</b> | <b>\$27m</b> | <b>2%</b>             | <b>7%</b>                                      |

Source: [Deal activity review](#)

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Preferred deals Status Quo: We paid out \$2.6M in excess TAC to LPS pubs in 2016 due to non-standard PD rev share exceptions, and the number of exceptions has grown steadily last two years

| Region       | # 2015 Exceptions* | # 2016 Exceptions* | # 2017 Exceptions* | % of 2017 Total |
|--------------|--------------------|--------------------|--------------------|-----------------|
| Americas     | 3                  | 24                 | 30                 | 48%             |
| EMEA         | 4                  | 16                 | 31                 | 50%             |
| APAC         | 0                  | 1                  | 1                  | 2%              |
| <b>Total</b> | <b>7</b>           | <b>41</b>          | <b>62</b>          |                 |

| Preferred Deal | 2016 Excess TAC | % of Total Excess TAC |
|----------------|-----------------|-----------------------|
| Americas       | \$1.6m          | 64%                   |
| EMEA           | \$0.9m          | 36%                   |
| APAC           | \$0.0m          | 0%                    |
| <b>Total</b>   | <b>\$2.6m</b>   |                       |

| Region       | Jan-April 2017 Revenue | % of Total |
|--------------|------------------------|------------|
| Americas     | \$26.7m                | 55%        |
| EMEA         | \$18.0m                | 37%        |
| APAC         | \$3.5m                 | 7%         |
| <b>Total</b> | <b>\$48.1m</b>         |            |

\* Exception defined as PD rev share > 92.5% at Parent/Region level for month of April

Setting the stage - 2016 PD revenue was \$160M, 70% from LPS pubs, 70% growth Y/Y. 2017 YTD 61% Y/Y growth.

[https://docs.google.com/spreadsheets/d/17p7nxoAOBdAPzVwnltOWiSC3MePs8\\_NRMr287xVjX28/edit#gid=1341127303](https://docs.google.com/spreadsheets/d/17p7nxoAOBdAPzVwnltOWiSC3MePs8_NRMr287xVjX28/edit#gid=1341127303)

<https://docs.google.com/spreadsheets/d/1CwZgbgE2DgG7m2ZFN3x8eFjDReUikYH Nm10xtlD3l4s/edit#gid=0>

## Recommended Preferred Deal pricing guidelines

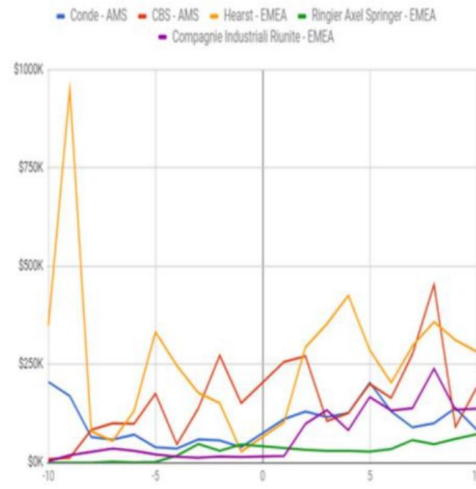
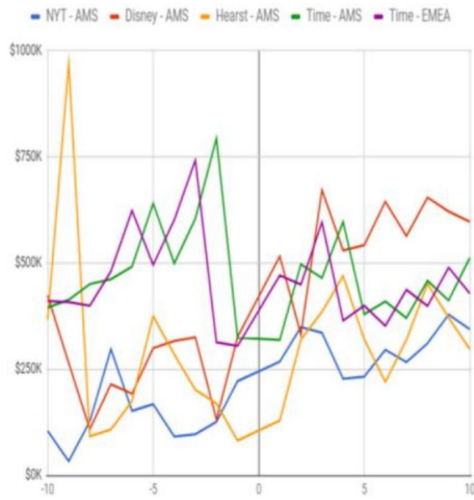
- Decouple PD pricing from PG
  - New DRX template allows for separate pricing
- Analysis has found there is very little correlation between discounts we have granted in the past and an uptick in PD revenue
- New exceptions granted via PBSx and process at go/nonstandard limited to publishers with:
  - a) \$1M+ in PD revenue over the past 12 months (or clear path to get there)
    - 52 publishers currently fit this criteria
      - 19 of these already have a PD rev share exception\*
  - b) Net revenue positive
    - Offer flexibility to discount to 92.5/7.5
- For existing exceptions, Finance will review performance, and only maintain discount for publishers that saw significant uplift when exception was implemented
- Maintain exception process subject to above criteria with two changes
  - Replace regional Sales approvers with Finance
  - Remove quarterly approval quotas by region

\* Exception defined as PD rev share > 92.5% at Parent/Region level for April 2017, 10 of pubs are in OPG so not investigated

[https://docs.google.com/spreadsheets/d/1SNk5nY0IU2EXRLmk0J0S8\\_Lg9lw6GUriTdqJWt3PGzl/edit#gid=412898990](https://docs.google.com/spreadsheets/d/1SNk5nY0IU2EXRLmk0J0S8_Lg9lw6GUriTdqJWt3PGzl/edit#gid=412898990)

Maybe option for 92.5 / 7.5 too. Maybe add something about deals contingent on achieving certain growth threshold, and revert to standard after 1 year if not achieved

Disney and Compagnie Industriale Riunite are the only two of the largest PD pubs that saw a significant uptick in revenue post-rev share change



We paid out \$11M in excess TAC to LPS pubs in 2016 due to non-standard PA rev share exceptions, with EMEA PA TAC % > 86%

| Region       | # 2015 Exceptions* | # 2016 Exceptions* | # 2017 Exceptions* | % of 2017 Total |
|--------------|--------------------|--------------------|--------------------|-----------------|
| Americas     | 9                  | 13                 | 19                 | 35%             |
| EMEA         | 12                 | 17                 | 31                 | 57%             |
| APAC         | 1                  | 3                  | 4                  | 7%              |
| <b>Total</b> | <b>22</b>          | <b>33</b>          | <b>54</b>          |                 |

| Region       | 2016 Excess TAC | Excess TAC as % of Gross Rev** |
|--------------|-----------------|--------------------------------|
| Americas     | \$6.9m          | 3.8%                           |
| EMEA         | \$4.4m          | 6.4%                           |
| APAC         | \$0.2m          | 1.7%                           |
| <b>Total</b> | <b>\$11.4m</b>  | <b>4.4%</b>                    |

| Region       | Jan-April 2017 Revenue** | % of Total |
|--------------|--------------------------|------------|
| Americas     | \$90.4m                  | 68%        |
| EMEA         | \$39.1m                  | 29%        |
| APAC         | \$4.0m                   | 3%         |
| <b>Total</b> | <b>\$133.5m</b>          |            |

\* Exception defined as PA rev share (excluding AdWords demand) > 85% at Parent/Region level for month of April  
 \*\*Excluding AdWords Demand

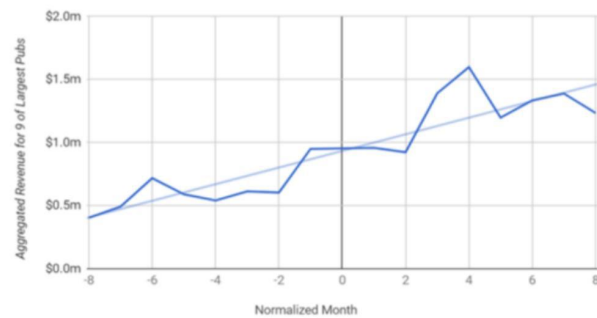
Setting the stage - 2016 PA revenue was \$536M, 75% from LPS, 45% growth Y/Y.  
 2017 YTD 13% Y/Y decline (bc removal of GDN)

[https://docs.google.com/spreadsheets/d/17p7nxoAOBdAPzVwnltOWiSC3MePs8\\_NRMr287xVjX28/edit#gid=1341127303](https://docs.google.com/spreadsheets/d/17p7nxoAOBdAPzVwnltOWiSC3MePs8_NRMr287xVjX28/edit#gid=1341127303)

<https://docs.google.com/spreadsheets/d/1CwZgbgE2DgG7m2ZFN3x8eFjDReUikYH Nm10xtlD3l4s/edit#gid=0>

Looking at 9 of the largest PA pubs, gross revenue increased by 104% in the months following the rev share move from 80-90%

Aggregated Revenue for 9 of Largest Pubs vs. Normalized Month



10 of the top 15 LPS publishers in terms of 2016 PA revenue are on 90/10



## Recommended Private Auction pricing guidelines

- New exceptions granted via PBSx and process at go/nonstandard limited to publishers with:
  - a) \$1M+ in AdWords-Buyer PA revenue over the past 12 months (or clear path to get there)
    - 59 LPS publishers currently fit this criteria
      - 16 of these already have a PA rev share exception\*
  - b) Net revenue positive
    - Offer flexibility to discount to 87.5/12.5
    - Consideration for situations where PA flexibility must be used to appease publishers pushing for more beneficial OA rev shares
- For existing exceptions, Finance will review performance, and only maintain discount for publishers that saw significant uplift when exception was implemented
- Maintain exception process subject to above criteria with two changes
  - Replace regional Sales approvers with Finance
  - Remove quarterly approval quotas by region

\* Exception defined as PA rev share > 85% at Parent/Region level for April 2017

[https://docs.google.com/spreadsheets/d/1SNk5nY0IU2EXRLmk0J0S8\\_Lg9lw6GUriTdqJWt3PGzl/edit#gid=412898990](https://docs.google.com/spreadsheets/d/1SNk5nY0IU2EXRLmk0J0S8_Lg9lw6GUriTdqJWt3PGzl/edit#gid=412898990)

Maybe option for 92.5 / 7.5 too. Maybe add something about deals contingent on achieving certain growth threshold, and revert to standard after 1 year if not achieved

## GP Discounts for Adx/Admob ~27M in 2016, with largest concentration of discounts in AMS and AdX Deals

| 2016 Annual Figure s (M) | AdX OA Gross Rev | AdX OA Discou nt/Net Rev/ Δ | % of AdX OA Gross Rev from Discou nt | AdX PA Gross Rev | AdX PA Discou nt/Net Rev/ Δ | % of AdX PA Gross Rev from Discou nt | AdX PD/PG Gross Rev | AdX PD/PG Discou nt/Net Rev/ Δ | % of AdX PD/PG Gross Rev from Discou nt | Admob Gross Rev | Admob Discou nt/Net Rev/ Δ | % of Admob Gross Rev from Discou nt | AdX/ Admob Discoun t/Net Rev/Δ | % of AdX/A dmob Gross Rev from Discou nt |
|--------------------------|------------------|-----------------------------|--------------------------------------|------------------|-----------------------------|--------------------------------------|---------------------|--------------------------------|---|-----------------|----------------------------|-------------------------------------|--------------------------------|--|
| AMS                      | \$983            | \$10/\$250 (4%)             | 23%                                  | \$174            | \$7/\$28 (20%)              | 37%                                  | \$114               | \$2/\$9 (21%)                  | 42%                                     | \$98            | \$3/\$28 (10%)             | 77%                                 | \$23/\$315 (7%)                | 31%                                      |
| APAC                     | \$319            | \$0/\$91 (0%)               | n/a                                  | \$11             | \$0.2/\$2 (10%)             | 6%                                   | \$18                | \$0.1/\$2 (4%)                 | 14%                                     | \$164           | \$0/\$58 (0%)              | n/a                                 | \$0.3/\$153 (0%)               | 1%                                       |
| EMEA                     | \$558            | \$0/\$153 (0%)              | n/a                                  | \$58             | \$3/\$8 (29%)               | 55%                                  | \$46                | \$1/\$4 (15%)                  | 29%                                     | \$28            | \$0/\$9 (0%)               | n/a                                 | \$4/\$164 (2%)                 | 7%                                       |
| OPG                      | \$1957           | \$0/\$530 (0%)              | n/a                                  | \$67             | \$0.1/\$13 (1%)             | 2%                                   | \$56                | \$0.3/\$6 (5%)                 | 12%                                     | \$1785          | \$0/\$574 (0%)             | n/a                                 | \$0.4/\$1122 (0%)              | 0%                                       |
| Total                    | \$3817           | \$10/\$1024 (1%)            | 6%                                   | \$310            | \$11/\$51 (17%)             | 33%                                  | \$234               | \$3/\$20 (14%)                 | 30%                                     | \$2075          | \$3/\$669 (0%)             | 4%                                  | \$27/\$1764 (2%)               | 7%                                       |

\* PA figures exclude Adwords since PA discounts apply to DBM/AdX Buyers only; Adwords in PA was deprecated in Q1 2017.

\* Net revenue excludes additional payments for guarantee deals (Partner Select, Etermx).

\* MobApps rev splits by region (Admob vs. AdX-App): LPS AMS (34%), LPS EMEA (27%), LPS APAC (77%), OPG (93%), Global (18%).

## List of All Asks for Q1'2017 for PA/PD/PG

|                                | Private Auction | Preferred Deals | Programmatic<br>Guaranteed |
|--------------------------------|-----------------|-----------------|----------------------------|
| Perform Media Group            | 90/10           |                 | 95/5                       |
| Telegraph Media Group          | 90/10           |                 |                            |
| Canadian Broadcast Corporation |                 |                 | 95/5                       |
| Mena Marketplace               |                 | 95/5            | 95/5                       |
| Cars.com, LLC                  |                 |                 | 95/5                       |
| Grupo Globo                    |                 | 95/5            | 95/5                       |
| BBC                            |                 |                 | 95/5                       |
| BBC                            |                 | 95/5            |                            |
| Kakao                          | 90/10           | 95/5            | 95/5                       |
| Bonnier                        | 90/10           | 95/5            | 95/5                       |
| The Guardian                   | 90              |                 |                            |
| Vox Media                      | 90/10           |                 |                            |
| Trinity Mirror                 |                 | 95/5            | 95/5                       |

[Source:](#)

Out/Old

2

## DFP discounts ~3x greater than AdX/Admob in absolute value, with 63% of impressions at >20% discount

|       | Total DFP<br>Gross/Net<br>Rev | Discounts<br>vs. Rate<br>Card | Waived<br>Impression<br>Value | Total<br>Discount | DFP<br>Gross/Net<br>Rev Before<br>Discounts | % DFP<br>Gross/Net<br>Revenue<br>Reduced |
|-------|-------------------------------|-------------------------------|-------------------------------|-------------------|---|--|
| Total | \$221m                        | \$68m                         | \$16m                         | \$83m             | \$304m                                      | 27%                                      |

| % Imps in<br>Discount<br>Range | <20% | >20% -<br><40% | >40% -<br><60% | >60% |
|--------------------------------|------|----------------|----------------|------|
| Total                          | 37%  | 27%            | 26%            | 10%  |

\*Excludes minimum fees and data transfer fees; discount ranges include waived impressions

\*Regional breakout of discounts in appendix

- DFP generated **\$221m** globally in 2016, up 4% y/y (impression growth was 21% Y/Y); this represented 1.7% of GP gross revenue and 5.5% of net revenue
- We have 2 main ways of giving discounts to our partners on DFP
  - Discounting rate card fees:** Estimated global value: **\$68M** (~21%) This represents any discount given vs. current rate card (base rate/video/other) and is the bulk of the overall DFP discount. 63% of impressions globally have a discount higher than the 20% ratecard flexibility allows.
  - Waiving AdX fees:** Global value **\$16M** (~5%). This is generally seen as a great way to incentivize partners and remove barriers for Google monetization as the waived fee is on average only 5% of the net revenue AdX brings in via monetization of those impressions.
- We advise to only allow DFP discounts >20% where we have a clear path to AdX monetization that surpasses the net value discounted. Potentially work with billing/accounting/legal to allow for discount thresholds based on AdX monetized revenue

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## Status of PBSx Discounts by Product

| AdX Deal Type           | Q1'2017 Rev (\$M) | # of LPS Partners | Rate Card Rev Share % | Quarterly Pricing Exception (QPE) Process* | QPE Upward Limit (%) | # of QPE Exceptions (2013-17) | # of PBSx Exceptions (2013-17) | # of Live deals with exception | % of revenue from discounted pubs | Effective Rev Share % |
|-------------------------|-------------------|-------------------|-----------------------|--|----------------------|-------------------------------|--------------------------------|--------------------------------|-----------------------------------|-----------------------|
| Open Auction            | \$1,153M          |                   | 20.0%                 | No   | N/A                  | N/A                           | 18                             | 6                              | 6%                                | 19.7%                 |
| Private Auction         | \$101M            | 287               | 20.0%                 | Yes  | 10.0%                |                               |                                |                                | 33%                               | 16.5%                 |
| Preferred Deals         | \$47M             | 291               | 10.0%                 | Yes  | 5.0%                 |                               |                                |                                |                                   | 9.0%                  |
| Programmatic Guaranteed | \$26M             |                   | 10.0%                 | Yes  | 5.0%                 |                               | 4                              |                                |                                   | 7.6%                  |

\*go/nonstandard: Exception process with quarterly regional quotas  
 Open Auction includes DFL revenue, which was \$51M in Q1'17  
 Exchange Bidding not included (\$9M revenue in Q1'17)

Learnings from previous Programmatic Guaranteed Deals

2

Work in Progress

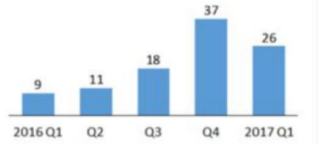
Findings

Implications

PG Deals

Despite high YOY growth, PG is still nascent

PG gross revenue by quarter \$M



PG as % of DFP direct: 1-2%

> xx



## Share of Wallet (top 20 AdX Pubs)

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Summary of recommendations

- Rate card

1. Do not change rate card for Open Auction, Private Auction and Private Deals

a. Limited # of exceptions; strong growth in OA (90% total rev) + most rev undiscounted

b. No evidence that current rate card is not appropriate for vast majority of partners; exceptions are

1. P

REDO AFTER FINANCE ANALYSIS

of PG
- Discounts

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o tiering

1. Quarterly discounting reviews presented by Finance

## Top pubs current PG spend

**Top PG pubs (Q1 2017)**

| Pub         | PG spend monthly spend (Q1 avg.) | % direct imp on PG <sup>1</sup> |
|-------------|----------------------------------|---------------------------------|
| Tripadvisor | \$0.6M                           | 37%                             |
| CBS         | \$0.5M                           | 1%                              |
| Telsta      | \$0.5M                           | 2%                              |
| Apax        | \$0.4M                           | 20%                             |
| Yahoo       | \$0.3M                           | 17%                             |

**Top DFP direct pubs (March 2017)**

| Pub     | Total imp | Media (estimate) |
|---------|-----------|------------------|
| Pandora | 8.1t      | \$64.9M          |
| ESPN    | 5.0t      | \$49.8M          |
| Turner  | 4.6t      | \$45.5M          |
| Time    | 4.6t      | \$43.5M          |
| UOL     | 8.2t      | \$40.6M          |

1 Assumes DFP direct impressions have the same CPM as PG impressions  
2 Assumes \$5 CPM for direct impressions

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## Top DFP reservation pubs (pubs with highest PG spend potential)

### Top DFP direct pubs (March 2017)

#### PG spend if it becomes...

|           | DPF direct spend (median, Mar 2017) | % direct imp on PG (today) | 10% of direct spend <sup>1,2</sup> | 20% of direct spend | 30% of direct spend | 50% of direct spend |
|-----------|-------------------------------------|----------------------------|------------------------------------|---------------------|---------------------|---------------------|
| Top 1-10  | \$34.3M                             | <1%                        | \$3.4M                             | \$6.9M              | \$10.3M             | \$17.1M             |
| Top 1-20  | \$16.4M                             | <1%                        | \$1.6M                             | \$3.3M              | \$4.9M              | \$8.2M              |
| Top 21-50 | \$9.2M                              | <1%                        | \$0.9M                             | \$1.8M              | \$2.7M              | \$4.6M              |

| Price tier | Target pubs  | Min PG gross spend (monthly) |
|------------|--|------------------------------|
| 4.5%       | > top 20 pubs w/ 10-20% direct volume on PG<br>> top 21-50 with 20-30% on PG | \$1.5M                       |
| 4%         | > top 20 with 20-30% on PG<br>> top 21-50 with 30-50% on PG                  | \$3M                         |
| 3.5%       | > top 20 with 30-50% on PG<br>> top 21-50 with >50%                          | \$4.5M                       |
| 3%         | > top 20 pubs move >50% direct volume  | \$8M                         |

<sup>1</sup> Media CPM by publisher estimate based on WebCosts (external provider) and PG data. Average: \$8 CPM  
Source:

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## PG discount guidance expected to have positive impact on net revenue

| PG gross revenue (scenarios) | PG net rate | PG net rev (k) | Loss of DFP revenues <sup>1</sup> | Net impact on net revenue |
|------------------------------|-------------|----------------|-----------------------------------|---------------------------|
| \$1M                         | 5%          | \$50k          | (\$4k)                            | \$46k                     |
| \$2M                         | 4.5%        | \$90k          | (\$8k)                            | \$82k                     |
| \$4M                         | 4%          | \$160k         | (\$15k)                           | \$145k                    |
| \$6M                         | 3.5%        | \$210k         | (\$23k)                           | \$187k                    |
| \$9M                         | 3%          | \$270k         | (\$34k)                           | \$236k                    |

> As long as discounts drive incremental spend on PG (instead of rewarding existing behavior), proposed tiers are expected to generate higher net revenues

> Impact of loss of DFP fees is relatively small vs PG upside, especially for high-cost media (e.g., for \$8 media CPM, PG fees are 40c CPM vs 3c for DFP)

1 Assumptions: Media CPM - \$8; DFP revenues: 3c CPM

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Exceptions on OA rev share should only be considered on large pubs with small SoW in AdX, via tiered deals

*When does it make sense to lower rev share on OA?*

Pub is expected to grow volume significantly if Google lowers its rev share (high elasticity)

**Conditions to consider exceptions**

**Deal design**

**1. AdX SoW < 20%**

(rationale: pub has potential to grow vol on Adx, with  $\epsilon > 2$ )

**2. LPS pub\*, >\$1M/month in OA volume**

(rationale: \$ growth potential is substantial and worth the exception)

> **Tiered rev shares** (rationale: ensures that higher rev share if growth in OA materializes)

> **Non-standard rev share are temporary** (e.g., 1 year deals)

Exceptions on existing clients with high SoW: only consider when there is high level of certainty that client will defect (e.g., firm offer from a competitor)

\* Or OPG pub with similar size as LPS pubs

For pubs with <20% volume on AdX, evidence so far suggests a rev share decrease is value creating ( $\epsilon=2-3$ )

| Publishers<br>@<br>discounted<br>rates | % vol on AdX<br>(before negotiation) |                                      | Price change  |                              | Impact, calculated <sup>2</sup> |            | Impact, estimated by<br>sales <sup>3</sup> |            |
|--|--------------------------------------|--------------------------------------|---|------------------------------|---------------------------------|------------|--|------------|
|  | of total <sup>1</sup>                | of<br>program-<br>matic <sup>4</sup> | Negotiated rate<br>based on gross rev,<br>\$/mo                 | Change in<br>blended<br>rate | Gross rev<br>% change           | Elasticity | Gross rev<br>% change                      | Elasticity |
| ESPN                                   | 1%                                   | ~40%                                 | <\$0.5M: 20%<br>\$0.5-0.8M: 18%<br>\$0.8-1M: 16%<br>> \$1M: 15% | -8%                          | +68%                            | 9          | +137%                                      | 18         |
| The Weather<br>Channel                 | 11%                                  | ~70%                                 | <\$2M: 20%<br>\$2-4M: 17.5%<br>> \$4M: 15%                      | -25%                         | +46%                            | 2          | +100%                                      | 4          |
| Gumtree                                | 17%                                  | ~70%                                 | 15%   | -25%                         | +30%                            | 1          | +43%                                       | 2          |
| CBS                                    | 17%                                  | ~80%                                 | <\$0.5M: 20%<br>\$0.5-0.75M: 17.5%<br>> \$0.75M: 15%            | -21%                         | +105%                           | 5          | +14%                                       | 1          |
| Total blended                          |                                      |                                      |   | -24%                         | +51%                            | 2          | +80%                                       | 3          |

<sup>1</sup> For a given publisher, total inventory volume is assumed to be indicated by impression volume on DFP for that publisher  
<sup>2</sup> Refers to calculated avg monthly gross revenue increase relative to overall growth rates from undiscounted LPS pubs  
<sup>3</sup> Refers to sales team estimate of avg monthly gross revenue increase relative to expected revenue without discounts  
<sup>4</sup> Sales team estimate

## Reducing AdX rev share likely value destroying except in <30% of current volume

| Type of pub                           | Expected elasticity* | Rationale  | % AdX gross rev****   |
|---------------------------------------|----------------------|--|---|
| LPS pubs with < 20% vol on AdX<br>27  | 2 - 3                | > Based on experience with pubs currently at discounted rates**  | Value creating, promotes a step increase in SoW of programmatic |
| LPS pubs with 20-40% vol on AdX<br>14 | ~1                   | > Limited potential increase in vol given higher share already on AdX***   |   |
| LPS pubs with > 40% vol on AdX<br>16  | < 1                  | > Unlikely to have enough programmatic inventory in addition to the one already on AdX to compensate for the price decrease*** |   |
| OPG pubs<br>43                        | ~0                   | > Unlikely to have any programmatic inventory in addition to the one already on AdX  |   |
| <b>Total blended</b>                  | <b>&lt;1</b>         |  |   |

\* For a 25% reduction in price vs today (from current 20% to 15% rev share)

\*\*\*\* Excluding 8 pubs with discounted rates

\*\* Detailed next

\*\*\* Programmatic on avg <50% of total inventory of the publisher



## Tiered rev share should be offered to LPS pubs on a case by case basis

| Tiered rev share* scenario | Segments included                 | Potential impact               |                               |                            |
|----------------------------|-----------------------------------|--------------------------------|-------------------------------|----------------------------|
|                            |                                   | Vol<br>% gross rev<br>change** | Price<br>% revshare<br>change | Rev<br>% net rev<br>change |
| All pubs                   | > LPS pubs with <20% vol on AdX   | 11 - 16%                       | (-3) - (-4)%                  | 7 - 11%                    |
|                            | > LPS pubs with 20-40% vol on AdX | 10%                            | -7%                           | 3%                         |
|                            | > LPS pubs with >40% vol on AdX   | -                              | -7%                           | -7%                        |
|                            | > OPG pubs                        | -                              | -2%                           | -2%                        |
|                            |                                   | 4 - 6%                         | -4%                           | 1 - 2%                     |
| LPS pubs                   | > LPS pubs with <20% vol on AdX   | 11 - 16%                       | (-3) - (-4)%                  | 7 - 11%                    |
|                            | > LPS pubs with 20-40% vol on AdX | 10%                            | -7%                           | 3%                         |
|                            | > LPS pubs with >40% vol on AdX   | -                              | -7%                           | -7%                        |
|                            | > LPS pubs with >40% vol on AdX   | -                              | -7%                           | -7%                        |
|                            |                                   | 4 - 6%                         | -3%                           | 1 - 2%                     |
| High elasticity LPS pubs   | > LPS pubs with <20% vol on AdX   | 11 - 16%                       | (-3) - (-4)%                  | 7 - 11%                    |
|                            |                                   | 3 - 4%                         | -1%                           | 2 - 3%                     |

Risk of negative revenue change if impact of value creating/neutral segments less than value destroying segments

Always revenue positive

- > Tiered rev share should be offered to selective pubs
  - ensures overall net positive impact
- > Pubs to be selected based on % vol on AdX
  - pubs with <20% vol on AdX likely more elastic

\* Rev share, based on publisher's monthly vol: <\$1M: 20%, \$1-2M: 17.5%, >\$2M: 15%

\*\* Given 12.5-25% price difference, and assuming pubs with vol >= 50% of threshold have E = 2-3 (LPS pubs <20% vol on AdX), E = 1 (LPS pubs 20-40% vol on AdX), E=0 (all other pubs)

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**Recommend to keep OA, PA and PD rate card; PA and PD exceptions should be more scrutinized**

|                      | Context  | Recommendations  |
|----------------------|--|--|
| Open Auction (OA)    | <ul style="list-style-type: none"> <li>&gt; ~0.5% deals were discounted; few lost on price</li> <li>&gt; Lower rev share to all pubs would have generated significantly less net rev to Google<sup>3</sup></li> </ul>  | <ul style="list-style-type: none"> <li>&gt; <b>Keep OA rate card</b></li> <li>&gt; Continue to approve exceptions at PBSx<sup>1</sup></li> </ul>   |
| Private Auction (PA) | <ul style="list-style-type: none"> <li>&gt; Despite being easy to discount PA, 2/3 of rev is undiscounted and # exceptions still manageable (5-10 deals/ quarter)</li> <li>&gt; Pricing PA below OA creates a risk - pubs can "invite everyone" to PA, circumventing OA pricing</li> </ul> | <ul style="list-style-type: none"> <li>&gt; <b>Keep PA and PD rate card</b></li> <li>&gt; Use PA discounts strategically (e.g., in lieu of OA discounts)</li> <li>&gt; PD: Negotiate PD and PG prices separately and be stricter on discounts</li> </ul> |
| Preferred deals (PD) | <ul style="list-style-type: none"> <li>&gt; # PD exceptions @ 5% increasing, because many deals negotiated single PD/PG rate<sup>2</sup></li> <li>&gt; PD is more valuable than PG</li> </ul>  | <ul style="list-style-type: none"> <li>&gt; Sales Finance to provide quarterly updates to PBSx on discounts</li> </ul>   |

<sup>1</sup> Reviewing exceptions one-by-one ensures that growth targets are appropriate and ambitious for all deals

<sup>2</sup> For historical reasons, since until recently contractually AdX had a single price for PD and PG

<sup>3</sup> Based on the deals where we offer discounts, we estimate the overall elasticity for the portfolio would be low and lowering rate card margin negative

**Strategic goals: Continue to grow OA at healthy margins;  
move direct spend to programmatic**

**Overall goals**

- > Grow at least in line with the market
- > Optimize for net, not gross revenues (without losing share-of-wallet)
- > Promote move to programmatic
- > *others?*

**By transaction type**

| Transaction types             | Q1 2017 Gross rev. <sup>1</sup> (YoY growth) | Strategic objective  |
|-------------------------------|--|--|
| Open auction <sup>2</sup>     | \$1.2b (+36%)                                | <ul style="list-style-type: none"> <li>&gt; Continue to grow</li> <li>&gt; Maintain margin</li> </ul>  |
| Private auction               | \$101M (-7%)                                 | <i>For discussion</i>  |
| Preferred deals               | \$47M (+62%)                                 | <i>For discussion</i>  |
| Exchange bidding (beta)       | \$10M  | <ul style="list-style-type: none"> <li>&gt; Reduce use of header bidding</li> <li>&gt; Move to % media</li> </ul>                                |
| Programmatic guaranteed       | \$26M (+225%)                                | <ul style="list-style-type: none"> <li>&gt; Accelerate transition from Tags to PG</li> <li>&gt; Move to % media (~5-10x monetization)</li> </ul> |
| Tags (traditional ad serving) | \$55M net rev.                               |  |

<sup>1</sup> Gross revenue minus pub's rev share  
<sup>2</sup> Including DFL - DoubleClick First Look

## Set Programmatic Guarantee rate card at 5%; exceptions to be reviewed in PBSx

[go/gpubs-2018](#)  
**Despite high YOY growth, PG is still nascent**

*PG gross revenue by quarter \$M*



*PG as % of DFP direct: 1-2%*

**No evidence, so far, that rate card at 5% harms adoption for most pubs**

> No major pushback on pricing (only 1 PG exception below 5% in 2017)

> Adoption hurdles:

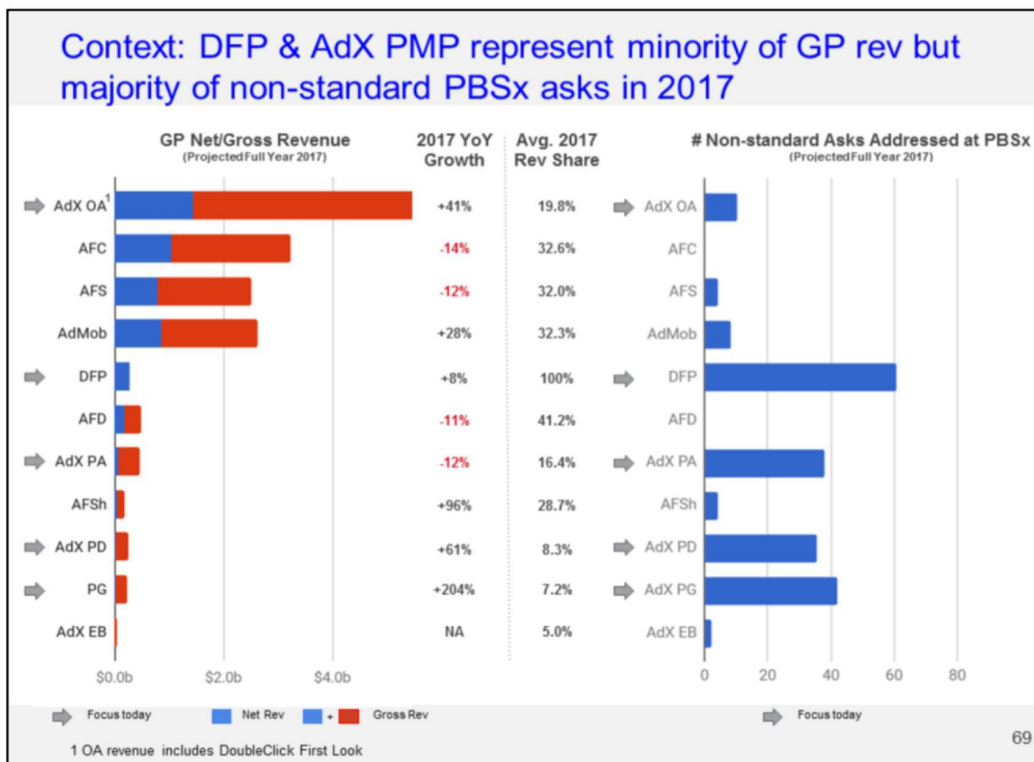
- *Product*: limited support of DSPs and creatives
- *Buy-side availability*: Limited # of buyers using PG
- *Value Quantification*: Pubs unable to quantify value; limited # case studies

> Tiered pricing/ discounting only expected to be needed for top pubs

### **Recommendation:**

> Now: 1) Set PG rate card at 5% + 2) Provide discounting guidance for large PG deals

> Q1 2018: Review pricing with additional market feedback and PG cost saving estimates (project to be done by external consultancy in 2017 H2)



AF Y/Y growth includes AFSMA, growth #s are through 6/21/17

Have CPMs handy in speaker notes. Change label on PG to just call PG because not part of AdX

Put dotted line boxes around OA and PG, and strategic areas in future or something in legend

Definition of AdX transaction types in Appendix

DFP accounted for 17% of Global DRX net revenue in 2016. Data on right is from go/xpaar maintained by compliance, DFP asks are aggregated (i.e. if for one pub ask for core DFP discount + DRM discount, just count it as one ask)

For AdX PA/PD/PG # of asks, it is likely that other deal features would have triggered the ask

[https://docs.google.com/spreadsheets/d/1dGn6KJ2\\_xyyGR\\_gz8CaVk7AkXsObBU4aloPfSo6vuY/edit#gid=0](https://docs.google.com/spreadsheets/d/1dGn6KJ2_xyyGR_gz8CaVk7AkXsObBU4aloPfSo6vuY/edit#gid=0)

## Recommended Changes to PA & PD: Exception Process

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### Current Process

- > **Context:** Process introduced in 2014 to alleviate PBSx approval burden
- > **Details:** [go/nonstandard](#)
- > **Quotas:** 19 quarterly exceptions available
  - EMEA 7
  - Americas 3
  - APAC 4
  - OPG 5
- > **Approval requirements:**
  - Email approval from **regional VP**
  - Form submission
  - Approval from Pooja Kapoor and Kurt Spoerer
  - Simba approval
- > **Duration**
  - Discounts for max 1 year
  - Contracts should not auto-renew

### Proposed Process

- > **Context:** Lack of regional LPS leads post re-org poses a challenge
- > **Recommended changes:**
  - For EMEA and APAC:

Conversations ongoing

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Have regional Sales Finance person to either be a POC in addition to regional director or the POC

## No evidence that the rate card for auction and deals needs to change

1

### Change rate card?

Change needed if:

- 1 Rate card not relevant - most deals need discounts beyond guidance
- 2 Unlocks additional demand that more than compensates margin hit
- 3 Proactively addresses future changes to product/ecosystem that are certain to reduce product value

### Evidence/ data

| Transaction type        | # deals <sup>1</sup> | # exceptions             | # deals lost on price  | Avg rev share |
|-------------------------|----------------------|--------------------------|--|---------------|
| 1 Open auction          | 2,432<br>(2017: 361) | 13<br>(2017: 3)          | Not available<br>anecdotal feedback:<br>very few deals are lost on price alone | 19.7%         |
| Private auction         | 2,432<br>(2017: 361) | 63<br>(2017: 11)         |  | 16.5%         |
| Preferred deals         | 2,432<br>(2017: 361) | 52<br>(2017: 12)         |  | 9.0%          |
| Programmatic guaranteed | 2,432<br>(2017: 361) | Below 5%:<br>4 (2017: 1) |  | 7.6%          |

2 *Past deal analysis:* Only justified for a few large pubs w/ low SOW and a clear path to increase SOW if offered lower pricing

3 *Last x-functional review feedback - no immediate need to change rate card (though may need to be more flexible in discounts)*

### Assessment

Few OA exceptions

✗ PA/PD excep. increasing, but most deals and rev undiscounted

✗ Addressable via targeted tiered discounts, not rate card

✗

<sup>1</sup> Some legacy contracts do not separate PD and PG deals

<sup>2</sup> From 1/1/2017 to 4/20/2017

Source: [OA exceptions](#) [PA/PD/PG exception](#); [avg rev share](#)

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This is a copy of slide 5 - previous version