

Demonstrative Exhibits for the Direct Testimony of Dr. Nicholas Hill

U.S. v. Bertelsmann SE & CO. KGaA, et al.

United States District Court for the District of Columbia

August 8, 2022

**US v. Bertelsmann
1:21-cv-02866-FYP
US DEMONSTRATIVE
4**

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- 2 Merger analysis framework**
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- 5 Market shares and concentration**
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Assignment

- Analyze the likely competitive effects of the proposed merger

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Merger analysis framework

Horizontal Merger Guidelines



U.S. Department of Justice
and the
Federal Trade Commission

Issued: August 19, 2010

- Market definition
- Market shares and concentration
- Competitive effects
- Mitigating factors

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- **The relevant market is the acquisition of US rights to Anticipated Top Sellers**

- **The merger would substantially increase concentration in the relevant market and result in a highly concentrated market**

- **Qualitative and quantitative evidence show that the merger is likely to substantially reduce competition**

- **Potential mitigating factors are unlikely to offset the merger's anticompetitive effect**

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Merger analysis framework: Market definition

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[M]arket definition helps specify the line of commerce and section of the country in which the competitive concern arises.

[M]arket definition allows the Agencies to identify market participants and measure market shares and market concentration.

Anticipated Top Sellers are distinct and face different competitive conditions

Carolyn Reidy
Former President
& CEO, Simon &
Schuster

“[Big 5] are our biggest competitors, especially for books by already bestselling authors and celebrities, since they are the most likely to come up with high advance payments required and are known for their strong editorial and publishing skills.”

Stephen King
Author

“Well, I wanted to stay with Scribner because they had a long and honorable record of people who had published with them like F. Scott Fitzgerald and Hemingway and just, you know, a lot of Thomas Wolfe and people that I idolized, but because they were able to reach into the chain book stores. They had salespeople everywhere. They had a wonderful distribution network, and I realized that I was going to reach book stores from coast to coast and that was great. That was great. They are a muscular firm. They were not going to just be in specialty book stores. They were going to be everywhere.”

Michael Pietsch
CEO, Hachette
Book Group

Q. For books with an advance of \$250,000 or higher, how frequently does Hachette lose to a non-Big 5 publisher?

A. Quite rarely.

Self-publishing is not a reasonable alternative for authors of Anticipated Top Sellers

Andrew Solomon
Author

“Well, I mean, I think self-publishing is the sort of last resort of people who don’t have an adequate relationship with a commercial publisher. I think a commercial publisher sells more books, garners more reviews, gains more attention, does all kind of things.”

Michael Pietsch
CEO, Hachette
Book Group

“Imagine how hard it is for some – for one person who has a book they published entirely on their own to say: Give me your attention. Review my book. Promote my book. And so they simply don’t have access to the general-interest market that we and the other Big 5 publishers address routinely. That’s our business.”

Thomas Rabe
Chairman & CEO,
Bertelsmann

“[S]elf-publishing is a different market category, and we don’t compete directly with it.”

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3. Targeted Customers and Price Discrimination

When examining possible adverse competitive effects from a merger, the Agencies consider whether those effects vary significantly for different customers purchasing the same or similar products. Such differential impacts are possible when sellers can discriminate, e.g. **by profitably raising price to certain targeted customers but not others**. The possibility of price discrimination influences market definition (see Section 4), the measurement of market shares (see Section 5), and the evaluation of competitive effects (see Sections 6 and 7).

For price discrimination to be feasible, two conditions typically must be met: **differential pricing and limited arbitrage**.

Identifying Anticipated Top Sellers

Anticipated Top Sellers are books that received an advance of \$250,000 or more

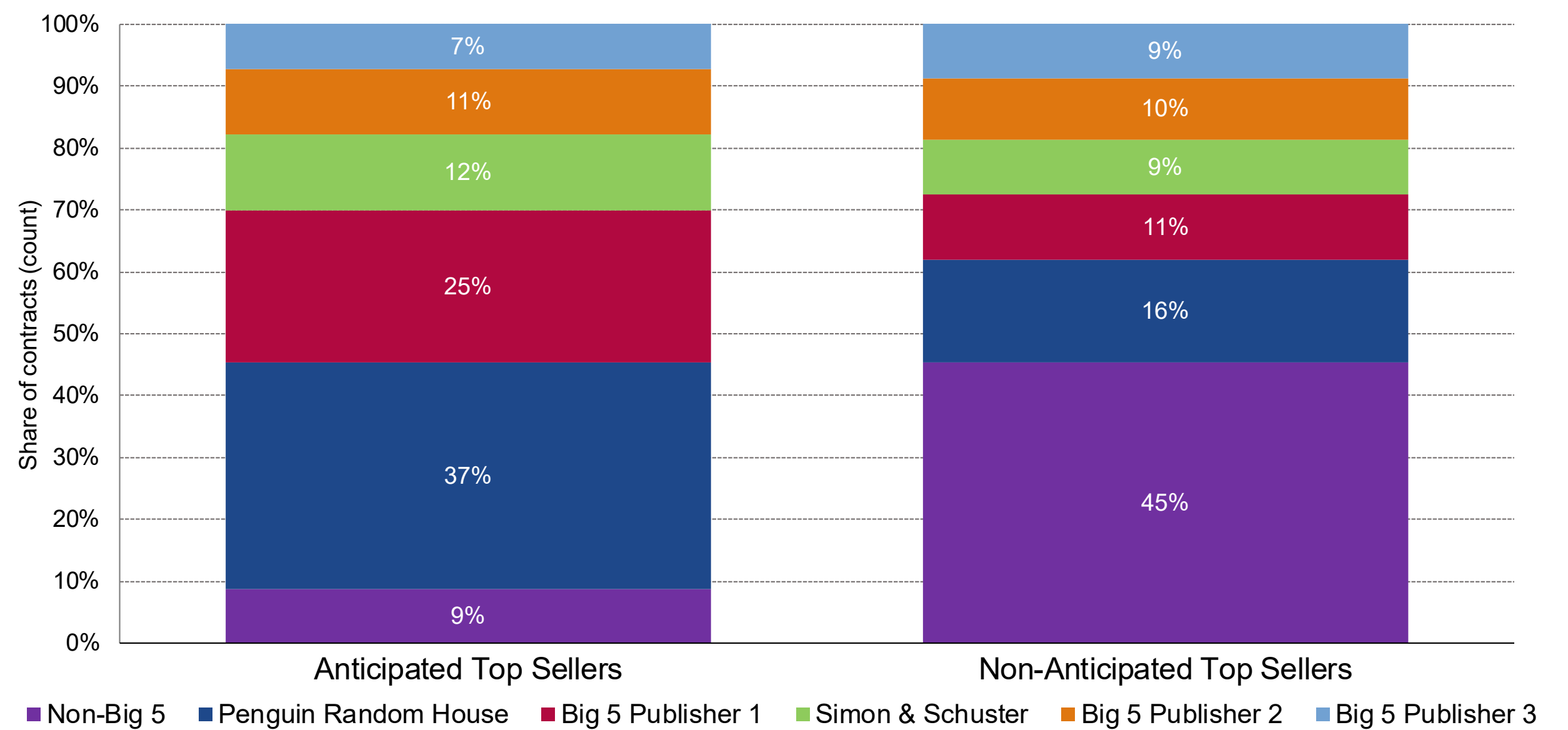
***Publishers Marketplace* deal reports**

- A deal is defined as “significant” or “major” if the advance exceeds \$250,000

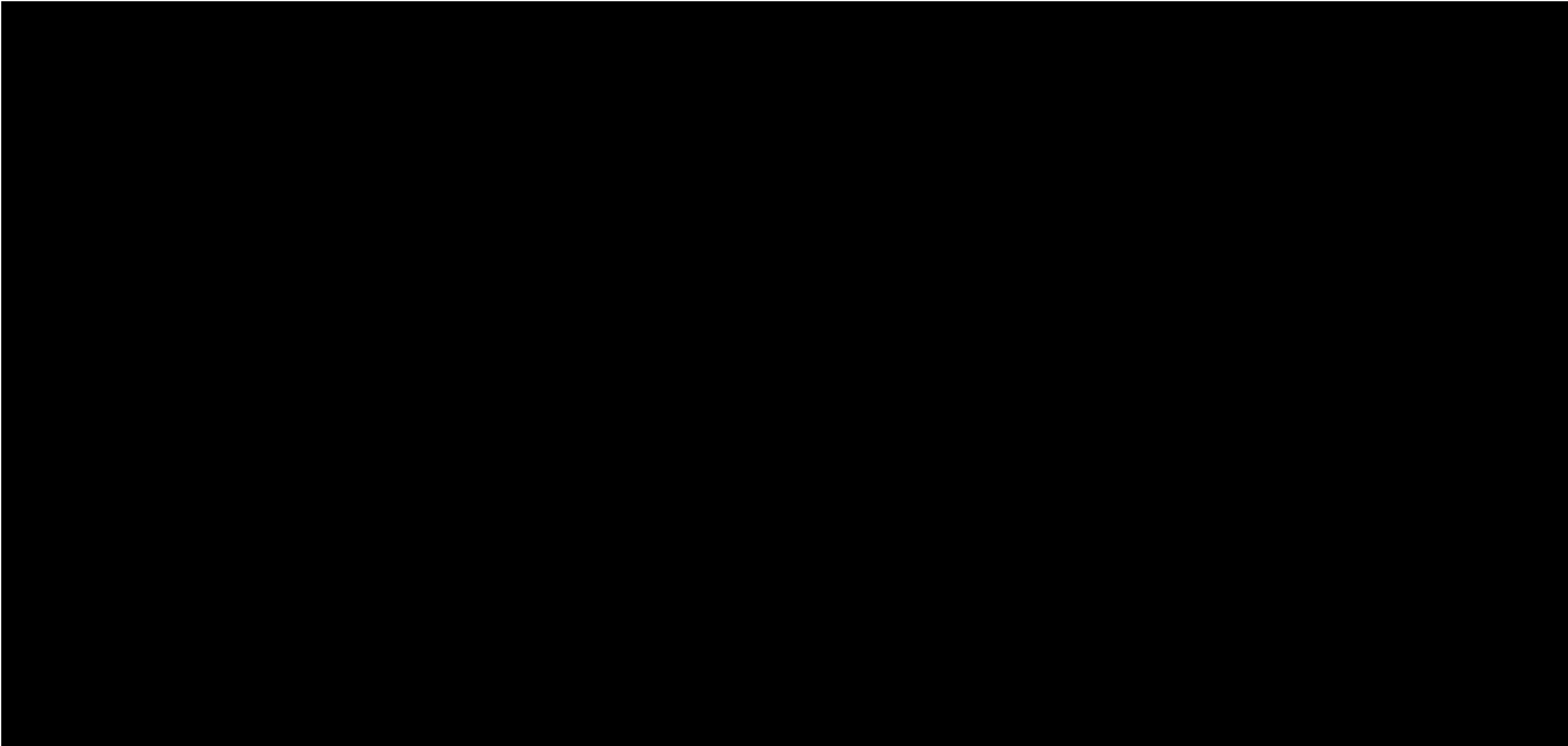
Some publishers use \$250,000 as an internal approval threshold

- Penguin Random House
- Simon & Schuster
- Other publishers

Authors of Anticipated Top Sellers are published differently



Anticipated Top Sellers receive more marketing



Merger analysis framework: Hypothetical Monopsonist Test

Horizontal Merger Guidelines



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Federal Trade Commission

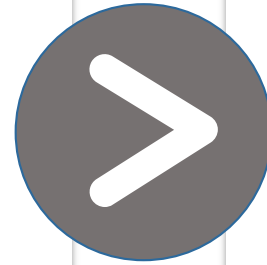
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The Agencies employ the hypothetical monopolist test to evaluate whether groups or products in candidate markets are sufficiently broad to constitute relevant antitrust markets. . . . [and] to identify a set of products that are **reasonably interchangeable** with a product sold by one of the merging parties.

Using aggregate diversion to implement the Hypothetical Monopsonist Test

Critical Diversion:

How much switching to self-publishing would be necessary for the hypothetical monopsonist to not decrease advance significantly?



Actual Diversion:

How much switching to self-publishing would there actually be in event of a significant decrease in advances?

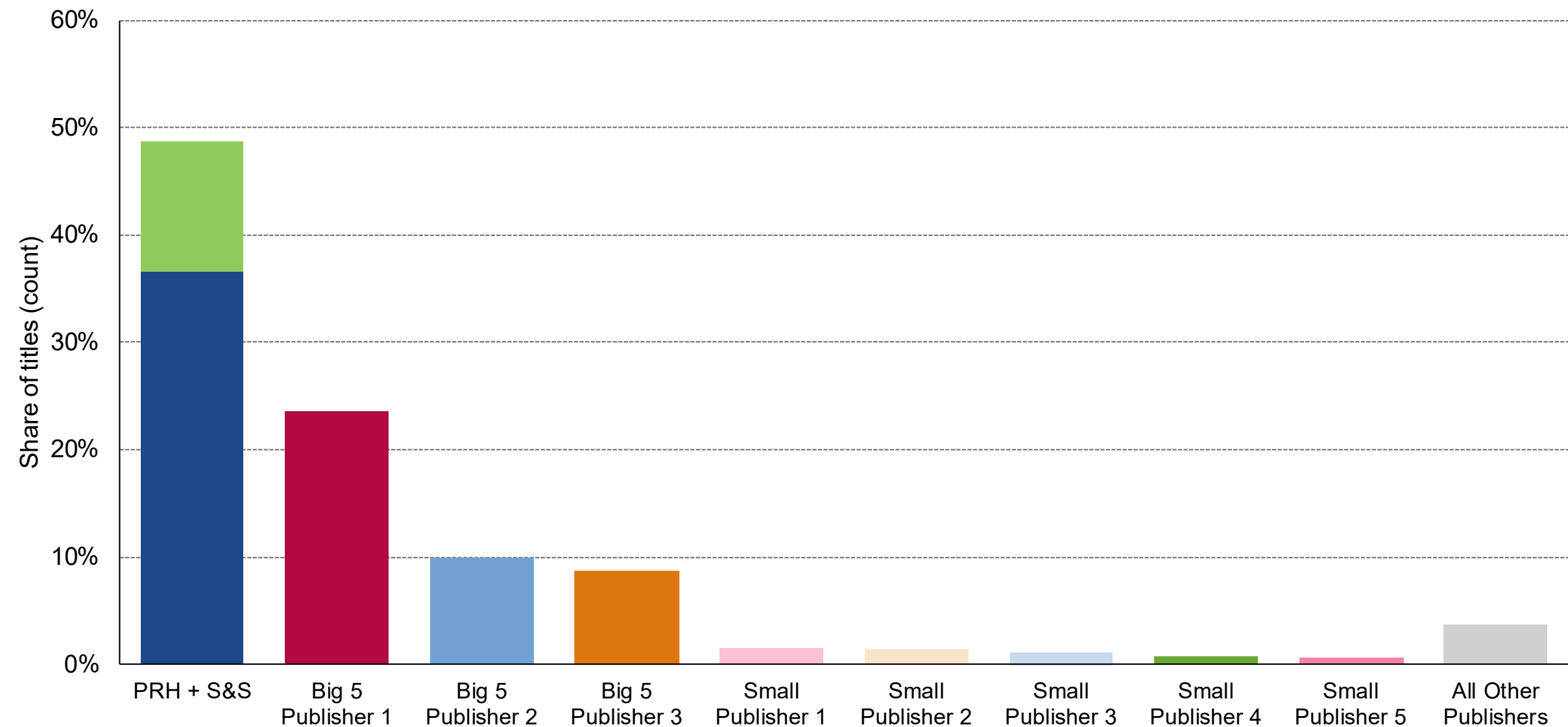
If critical diversion $>$ actual diversion,
then the market is properly defined

The market for Anticipated Top Sellers passes the Hypothetical Monopsonist Test

Party	Aggregate diversion ratio			Passes HMT?
	Critical	Actual (sales revenue)	Actual (win-loss data)	
Penguin Random House	76.7%	8.6%	0.7%	Yes
Simon & Schuster	76.4%	7.4%	0.5%	Yes

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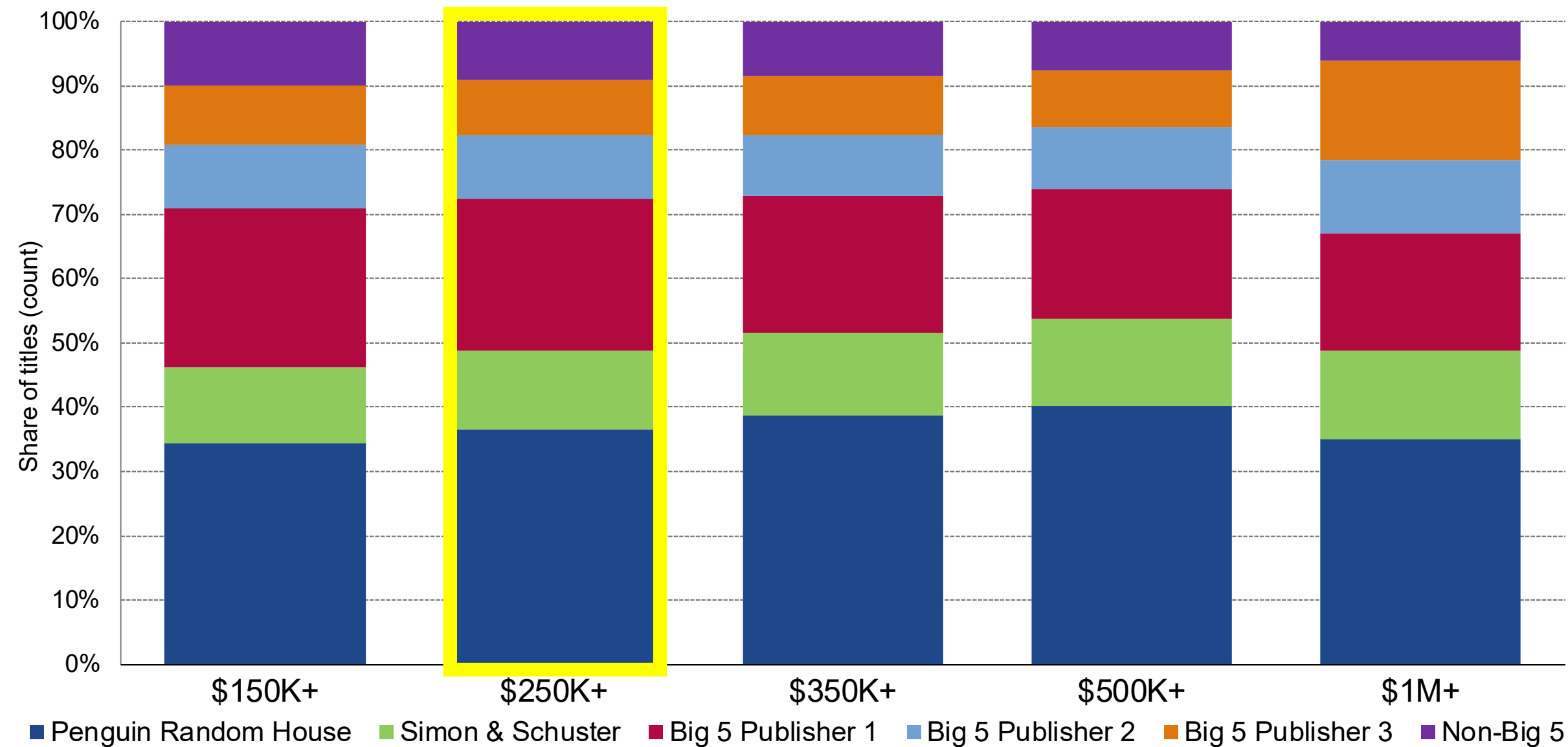
Publisher market shares for Anticipated Top Sellers



Publisher market shares for Anticipated Top Sellers

Publisher	Market share
Merged firm	49%
<i>Penguin Random House</i>	37%
<i>Simon & Schuster</i>	12%
Big 5 Publisher 1	24%
Big 5 Publisher 2	10%
Big 5 Publisher 3	9%
All non-Big 5 publishers combined	9%

Publisher market shares using different advance thresholds



Merger analysis framework: Market shares & concentration

Horizontal Merger Guidelines



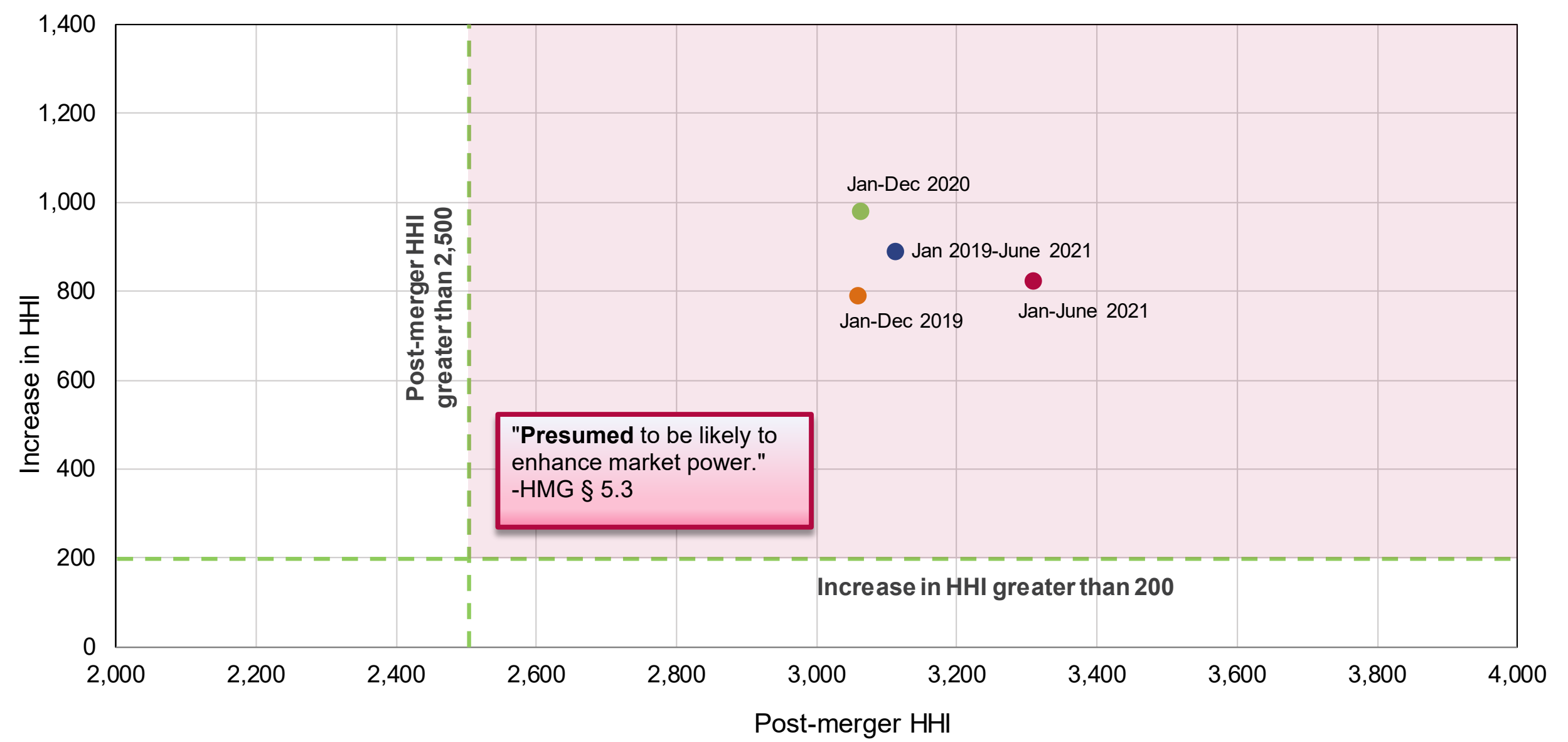
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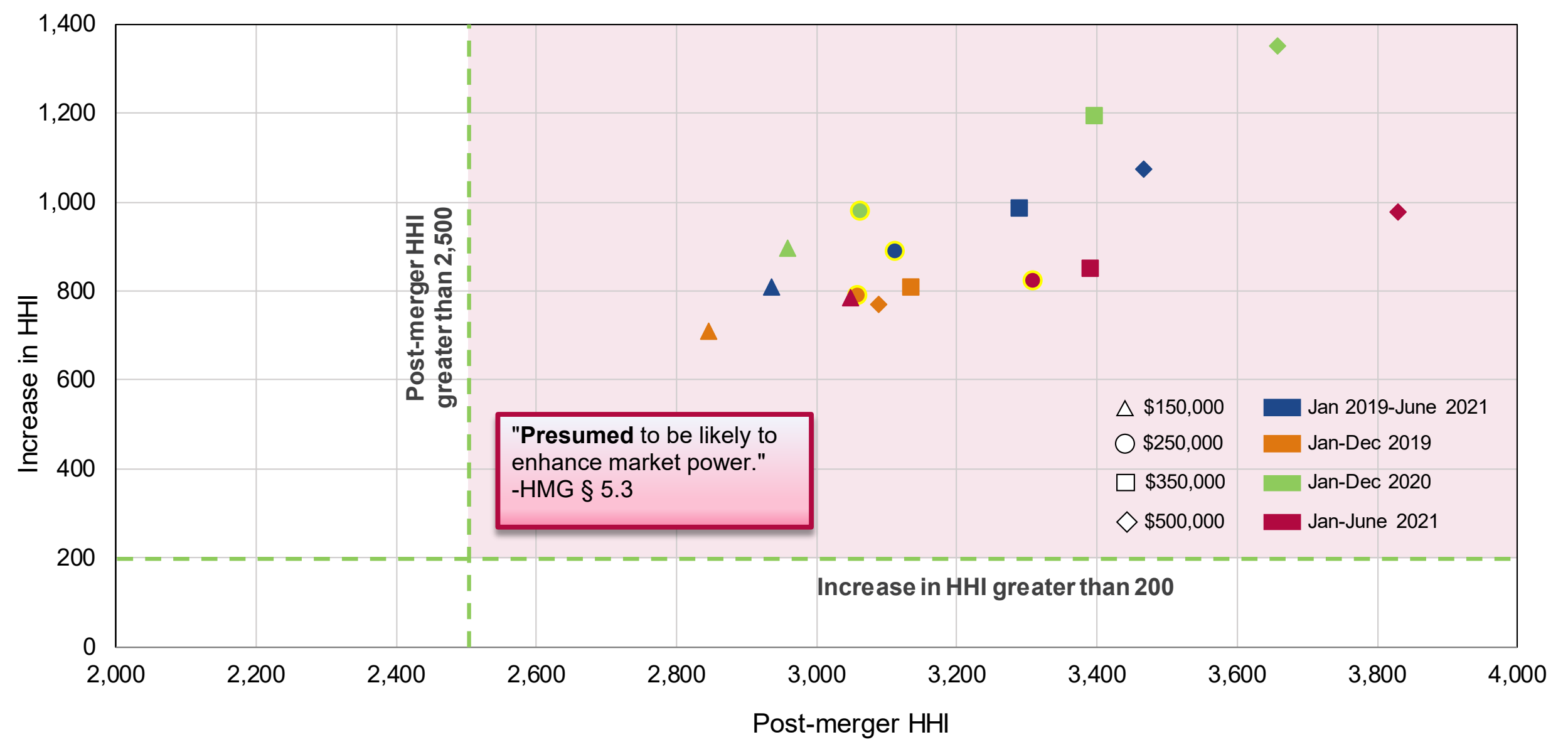
Market concentration is often one useful indicator of likely competitive effects of a merger. In evaluating market concentration, the Agencies consider both the post-merger **level of market concentration** and the **change in concentration** resulting from a merger.

Mergers that cause a significant increase in concentration and result in highly concentrated markets are **presumed to be likely to enhance market power** . . .

Merger is presumed to be likely to enhance market power



Merger is presumed to be likely to enhance market power



Concentration levels for different advance cutoffs

Concentration	\$150K+	\$250K+	\$350K+	\$500K+
Pre-merger HHI	2,127	2,220	2,302	2,391
Increase in HHI	808	891	987	1,075
Post-merger HHI	2,935	3,111	3,289	3,466

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6 Competitive effects

- Unilateral effects
- Coordinated effects

Many industry participants believe that the merger will reduce competition

Literary Agent 1

“I will be very disappointed if this merger is permitted; it’s obviously anticompetitive in every direction.”

Literary Agent 2

“It is a disaster for competition, writers and the industry at large. As someone said there is not enough money in publishing to rally a big lobby to wage a major campaign to have the merger declared a monopoly. This is bad... PRH already far too powerful. Yikes!”

Literary Agent 3

“[The merger is] crazy. I hope it’s blocked because when the 1-2-3 publishers become one it really starts smelling like a monopoly...”

Literary Agent 4

“My fear is that the Big 5 will shrink to the Big 4, however. That will rattle me!”

Stephen King
Author

“I feel that by shrinking the number of big publishers, it makes it more difficult for new writers and midlist writers to get a fair hearing. And if they are heard, I think it makes it more difficult for them to get an advance that they can live on.”

6 Competitive effects

- **Unilateral effects**
- Coordinated effects

Merger analysis framework: Unilateral effects

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The elimination of competition between two firms that results from their merger may alone constitute a substantial lessening of competition.

Extensive qualitative evidence of strong head-to-head competition between the parties

Penguin
Random
House

“Well, [REDACTED] [Editor, S&S] continues her role as imprint-wide nemesis”

Vice President and Editor in Chief,
Penguin Random House Imprint

“We got the book for \$575k! Atria was the underbidder (they are going hard in our categories).”

Senior Vice President and Editor in Chief,
Penguin Random House Imprint



Simon & Schuster

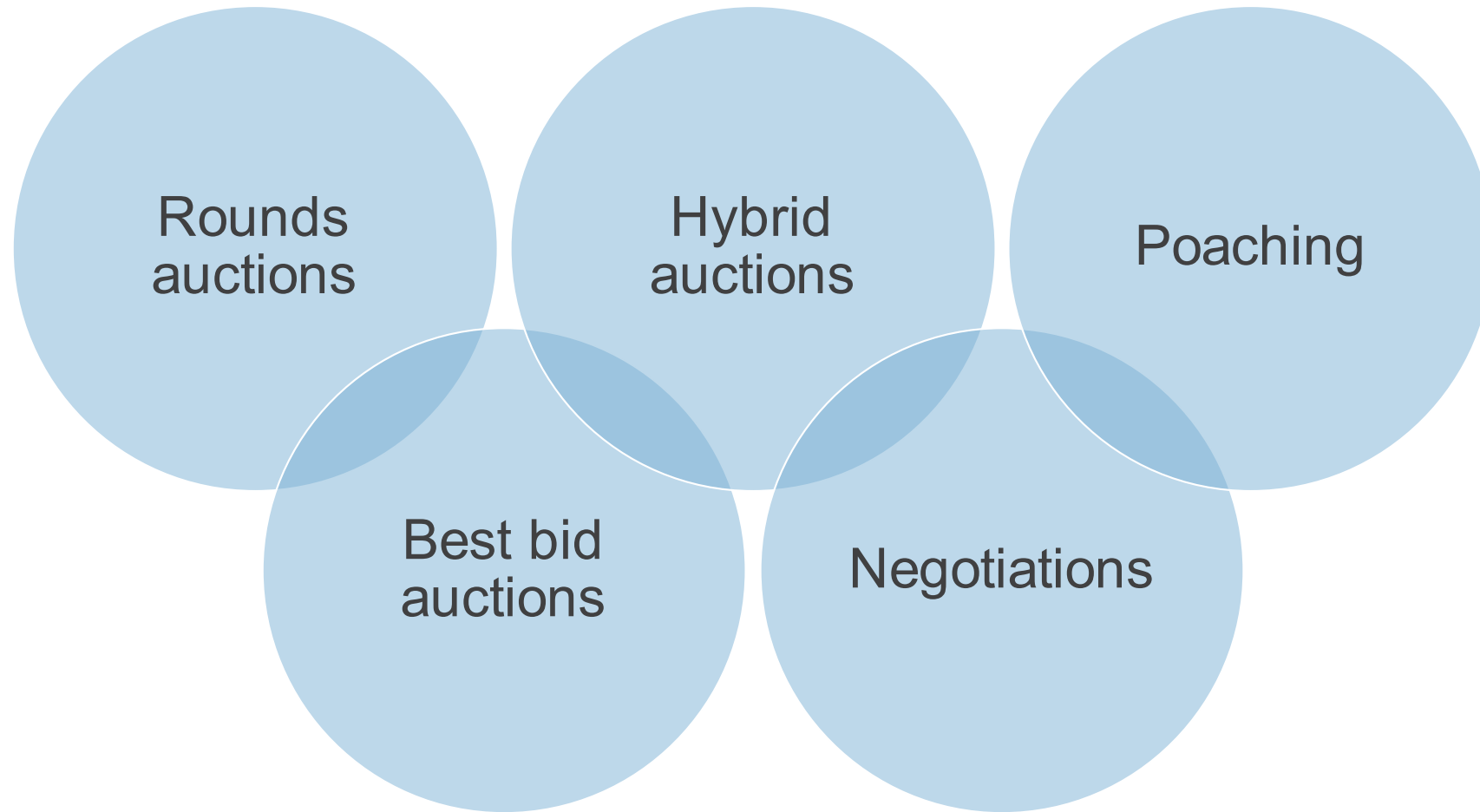
“I’m tired of Clarkson Potter [PRH] being the de facto stop for the biggest in the category. My competitive spirit has been piqued.”

Vice President and Executive Editor,
Simon & Schuster Imprint

“This was the third beauty contest we lost this week to PRH... There may have been a fourth we lost to PRH.”

Jonathan Karp
CEO, Simon & Schuster

Competition is important regardless of how a book is sold



Competition is important for rounds auctions



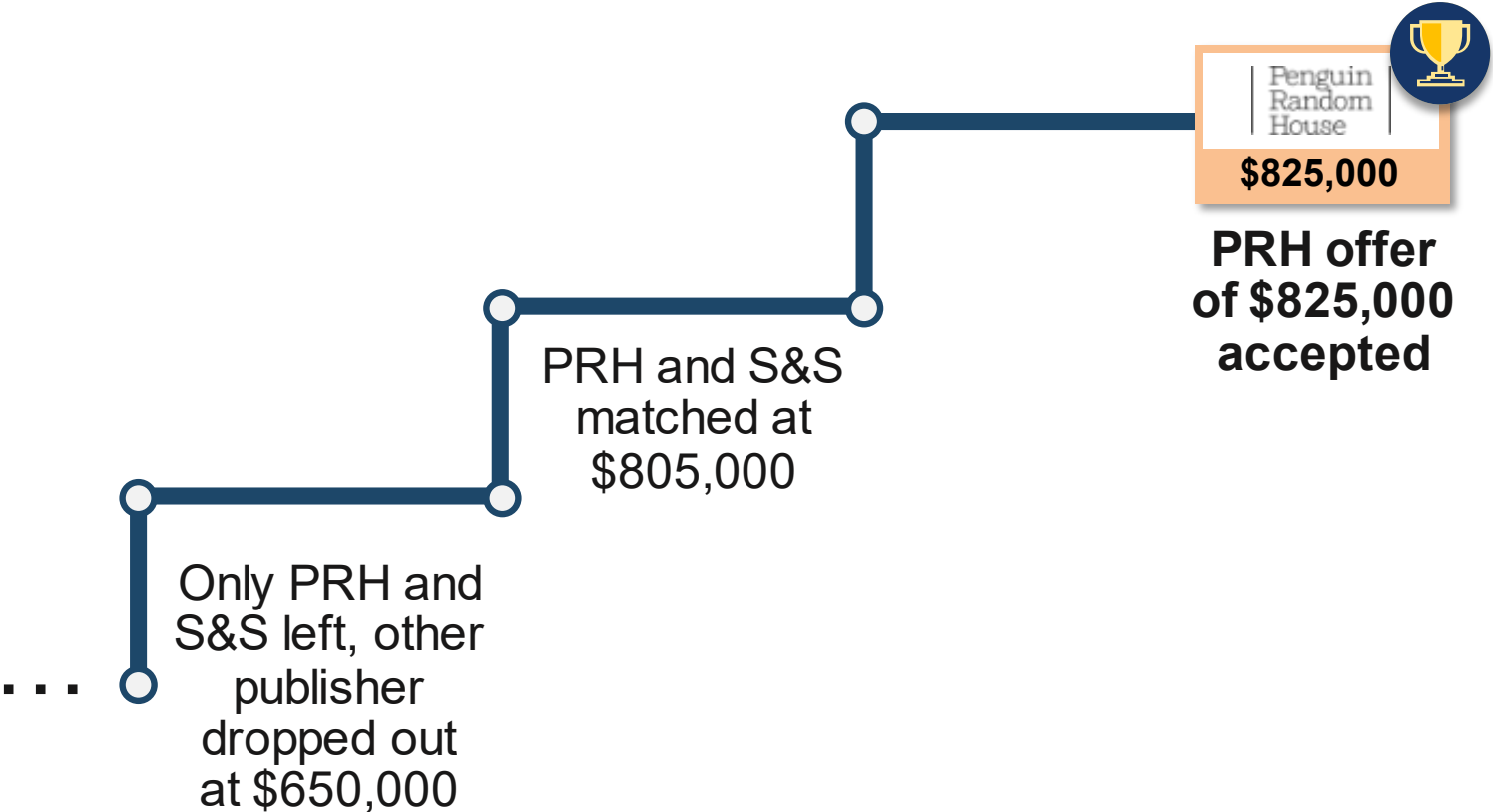
Jonathan Karp
CEO, Simon & Schuster

“We were bidding only against [PRH imprints] for three rounds from \$650,000 onward.”

Q. Let me ask you this. You think that during the last several rounds of this auction, competition between Penguin Random House and Simon & Schuster pushed up the advance from 650,000 to 825,000, correct?

A. That's what happened.

2020 auction for a memoir



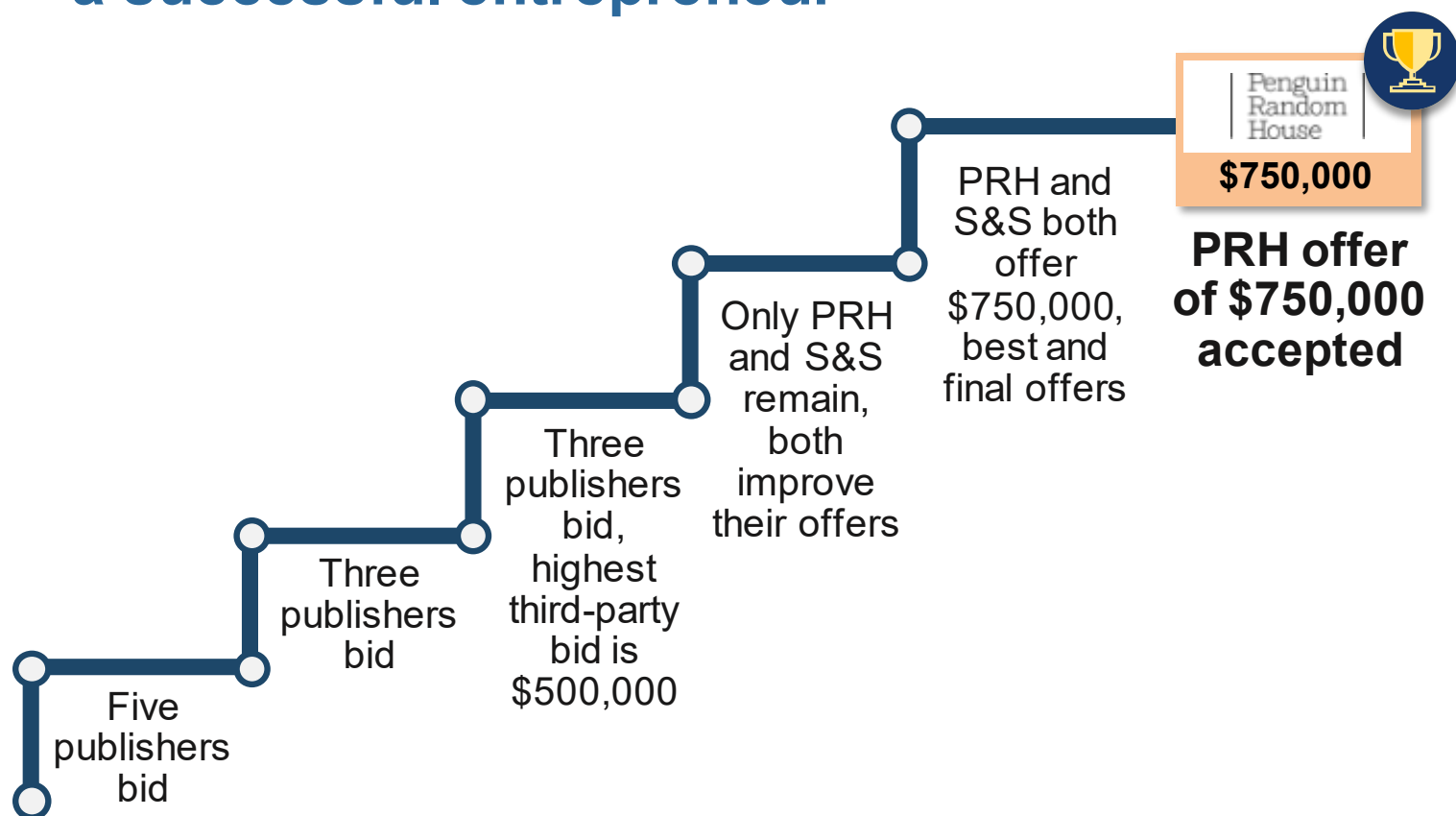
Competition is important for rounds auctions



Jonathan Karp
CEO, Simon & Schuster

“We were even with Penguin Press on [Author] at \$750,000 and lost. Details below. Lots of bidders. That was as high as I wanted to go. I’m at peace.”

2018 auction for a biography of a successful entrepreneur



Competition is important for best bids auctions

2019 auction for a young adult novel

“[REDACTED] best bid for [title] is due tomorrow morning. As there are only three players, she says, I think we can be more guarded in our bidding, like 275/325.”

Vice President and Editor in Chief, Simon & Schuster Imprint

2020 auction for a book by a musician

“[Another editor] and I discussed bringing our offer significantly down yesterday based on the sense I got from [the agent] that she doesn't have many interested bidders.”

Senior Editor, Penguin Random House Imprint

Competition is important for negotiations



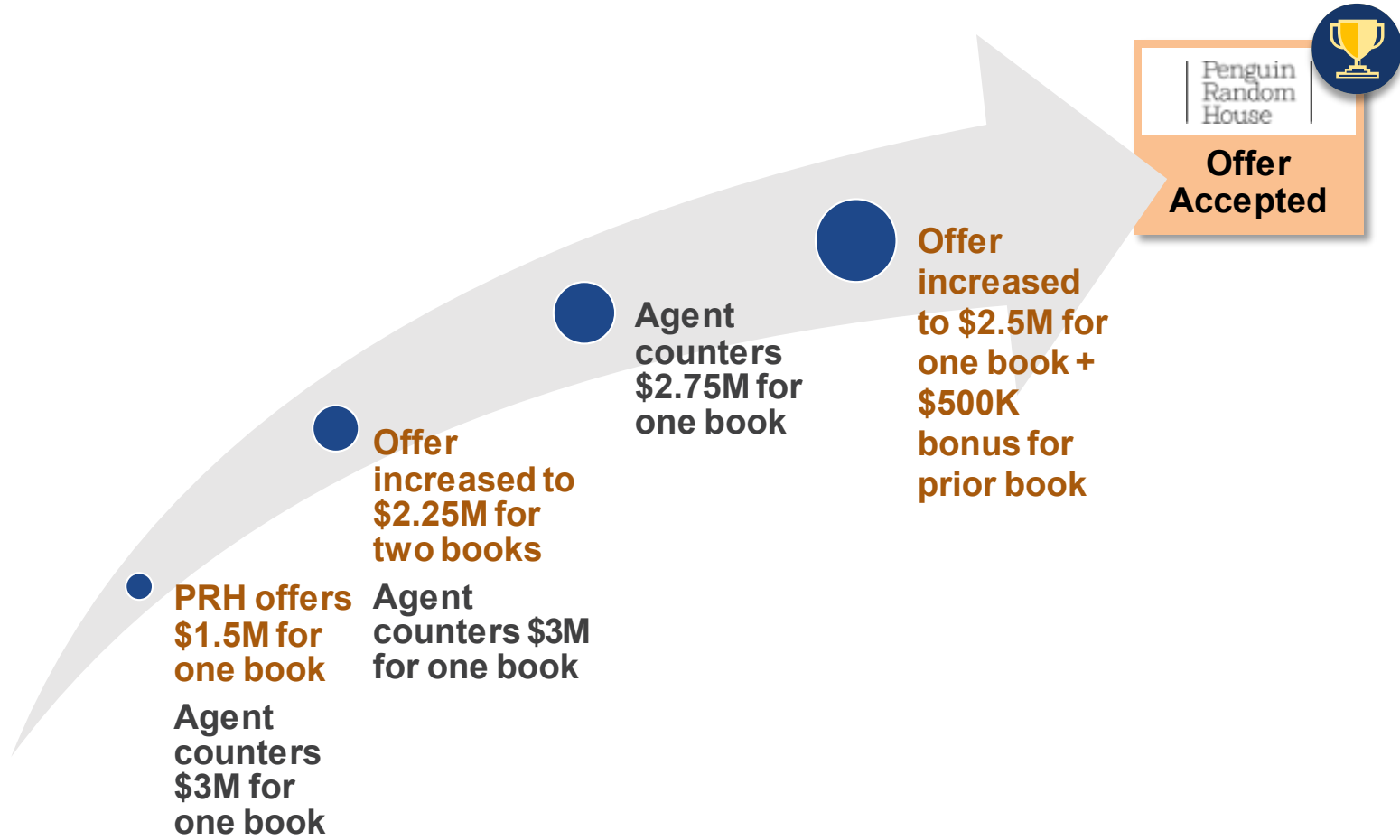
“[The agent] says she is certain she could get over \$3m from Dana Canedy [S&S]”

President and Publisher
Penguin Random House Imprint

“This is definitely more than we want to pay, but we are also cognizant that it may be in line with what someone else would offer him”

Madeline McIntosh
CEO, Penguin Random House U.S.

2021 negotiation for new literary fiction by existing PRH author



Competition is important for negotiations



“I am here to tell you that if this book made its way to 1745 Broadway [Penguin Random House’s address], we are talking 300–400 baseline and if Knopf/not-so-little Random/Doubleday start all going after it, 500–750 easy.”

Vice President, Simon & Schuster Imprint

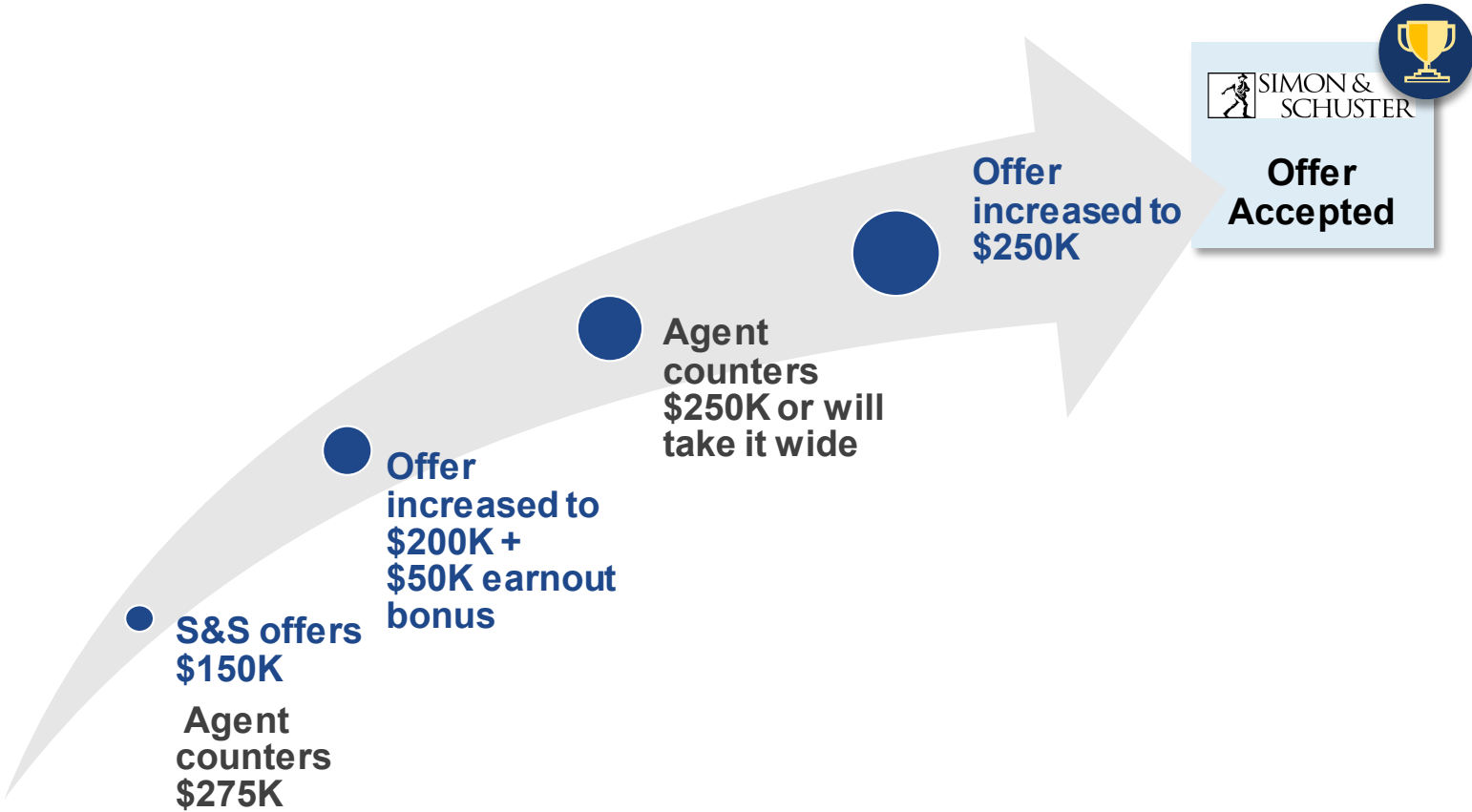
“I’m certain she [the agent] could [get] this and [m]ore on the open market.”

Vice President, Simon & Schuster Imprint

“[T]he agent has come back asking for 250k... or she will go wide tomorrow.”

Executive Editor, Simon & Schuster Imprint

2019 negotiation for a nonfiction book proposal



Poaching established authors

Jennifer Bergstrom
Senior Vice
President and
Publisher, Gallery
Books, Simon &
Schuster

“As we GROW Gallery [Simon & Schuster], one of our mandates is to poach FRANCHISE authors and RESTABLISH [sic] them as BESTSELLERS. We’ve done it with [Author 1] – whose sales have increased book to book and whose ebook sales are soaring, thanks to all our efforts (Take that Putnam [Penguin Random House]) – and I’m thrilled to say we’re about to do it again with [Author 2]... We won [Author 2] in a heated 6-house auction from Ballantine [Penguin Random House].”

Exchange
between
President of
Penguin
Random House
Imprint and
colleague

“We did sort of steal [Author] – from S&S.”

“on stealing her from S&S: SWEET”

“I know RIGHT??!!”

Merger analysis framework: Diversion ratios

Horizontal Merger Guidelines

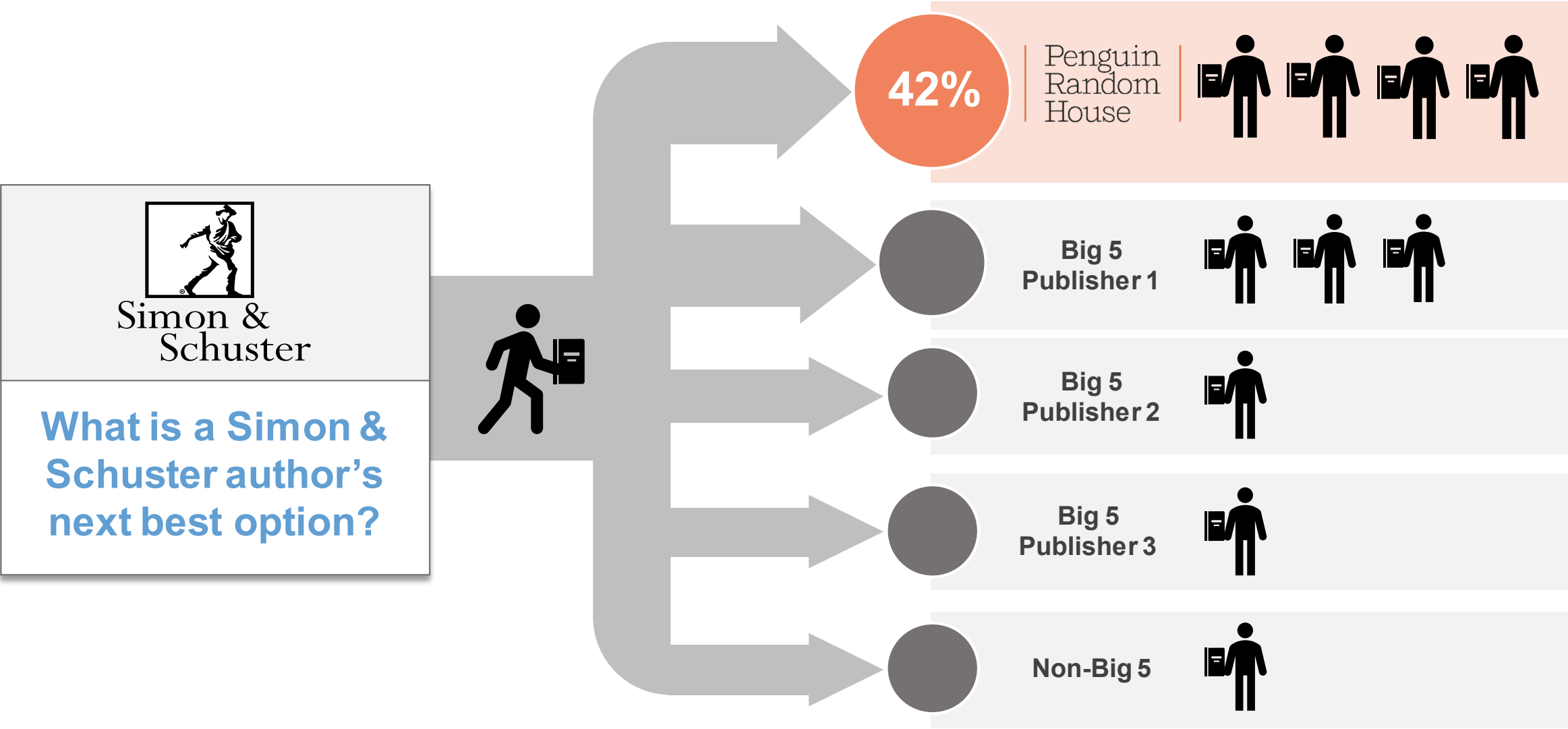


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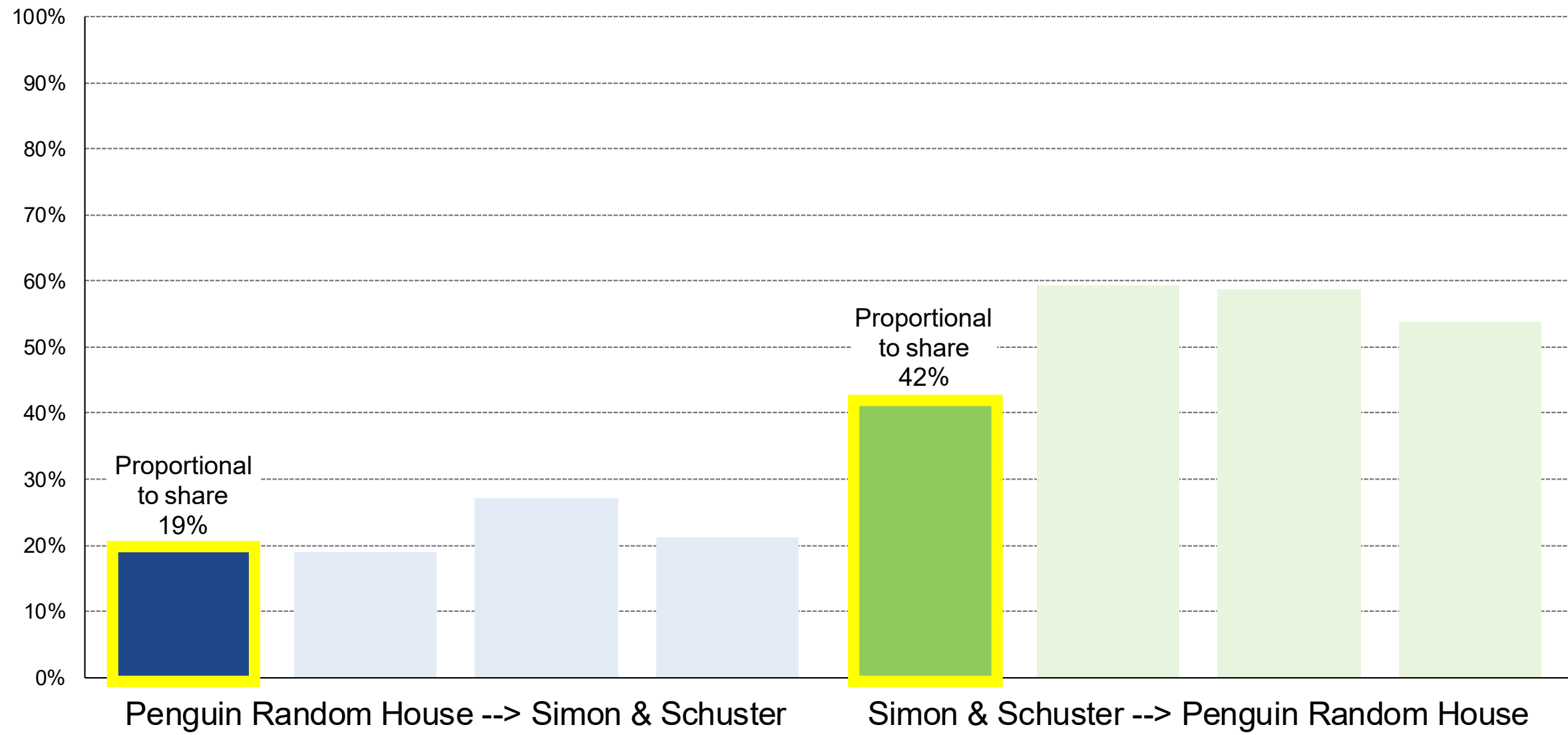
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Diversion ratios between products sold by one merging firm and products sold by the other merging firm can be very informative for assessing unilateral price effects, with higher diversion ratios indicating a greater likelihood of such effects.

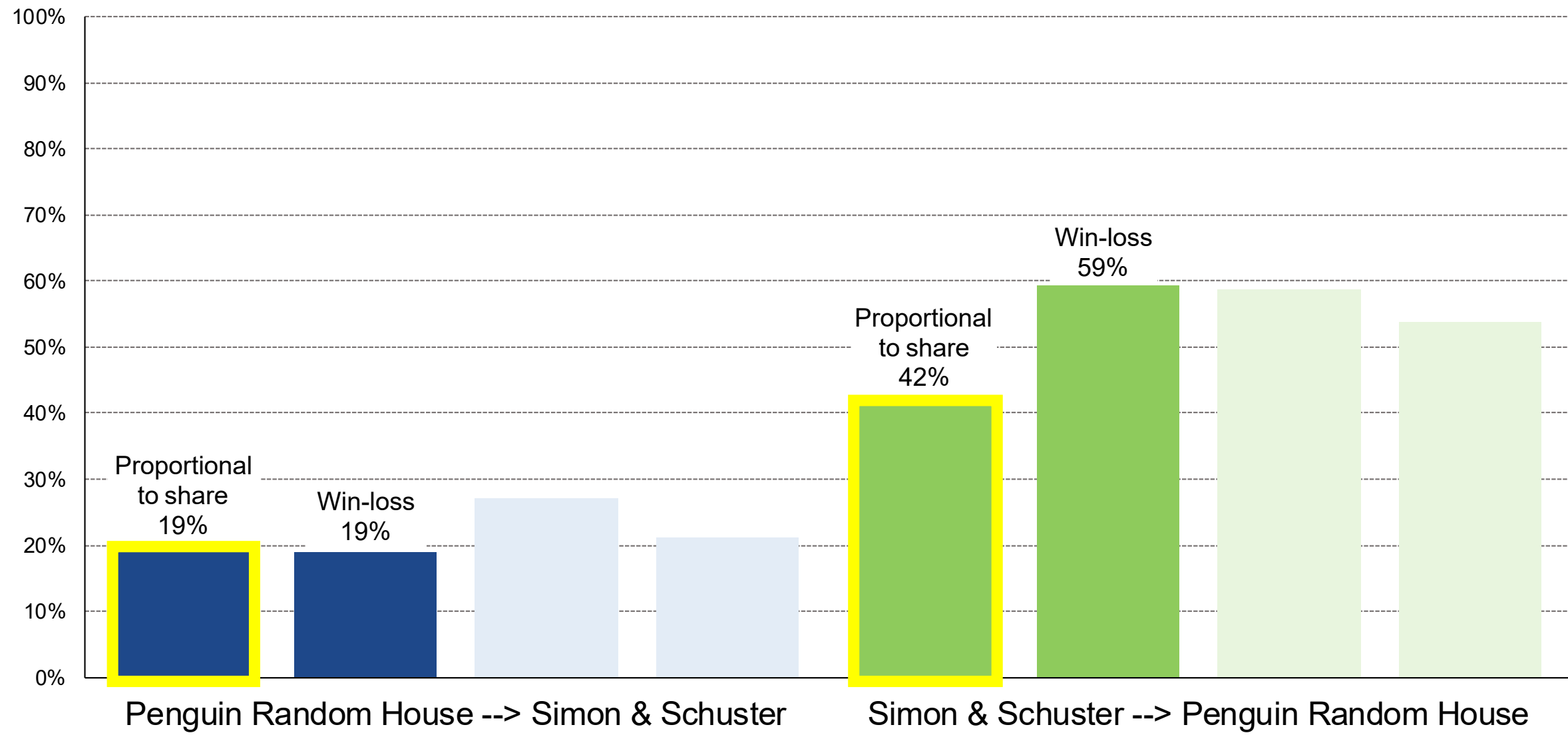
Diversion from Simon & Schuster to other publishers



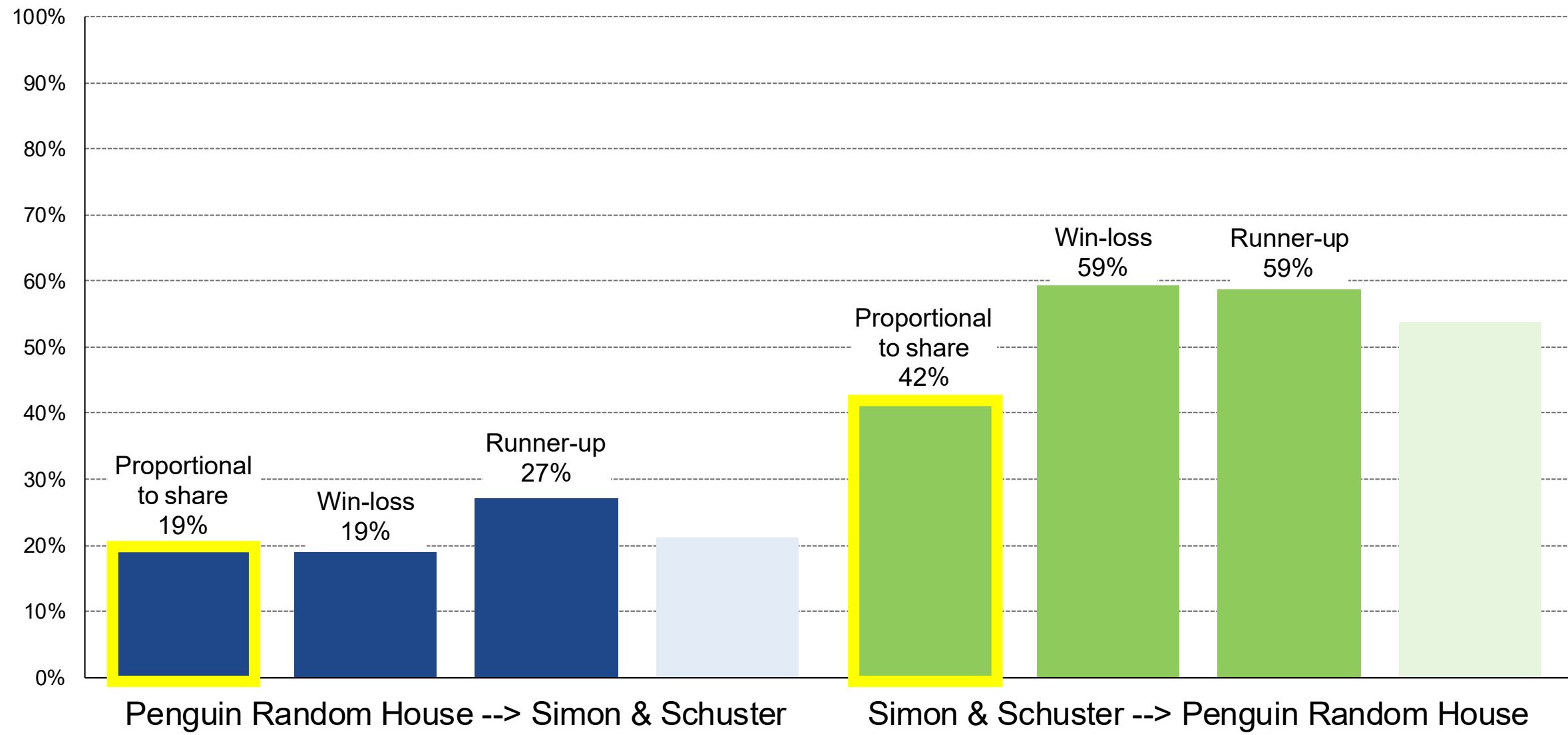
Estimates of diversion using four methodologies



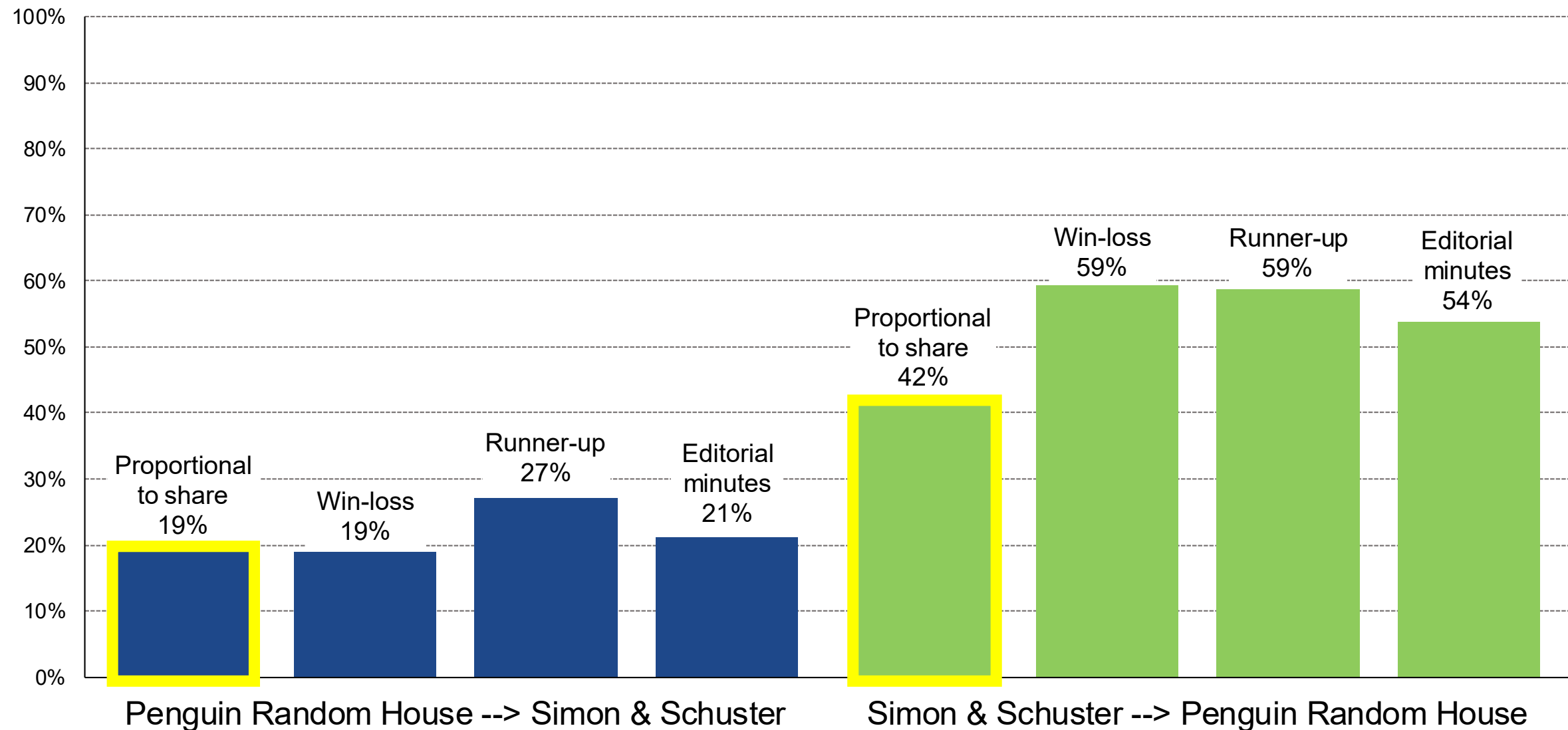
Estimates of diversion using four methodologies



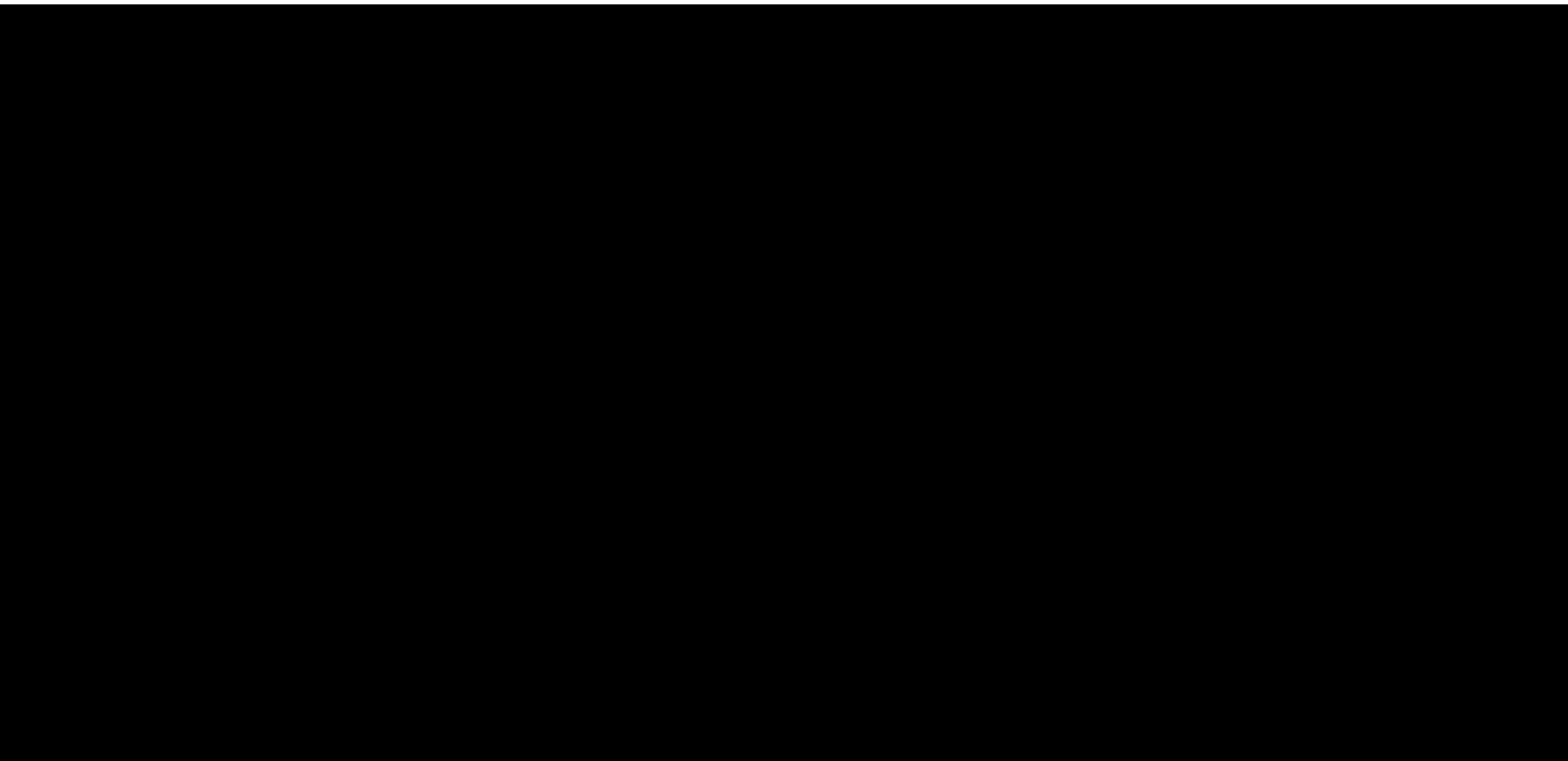
Estimates of diversion using four methodologies



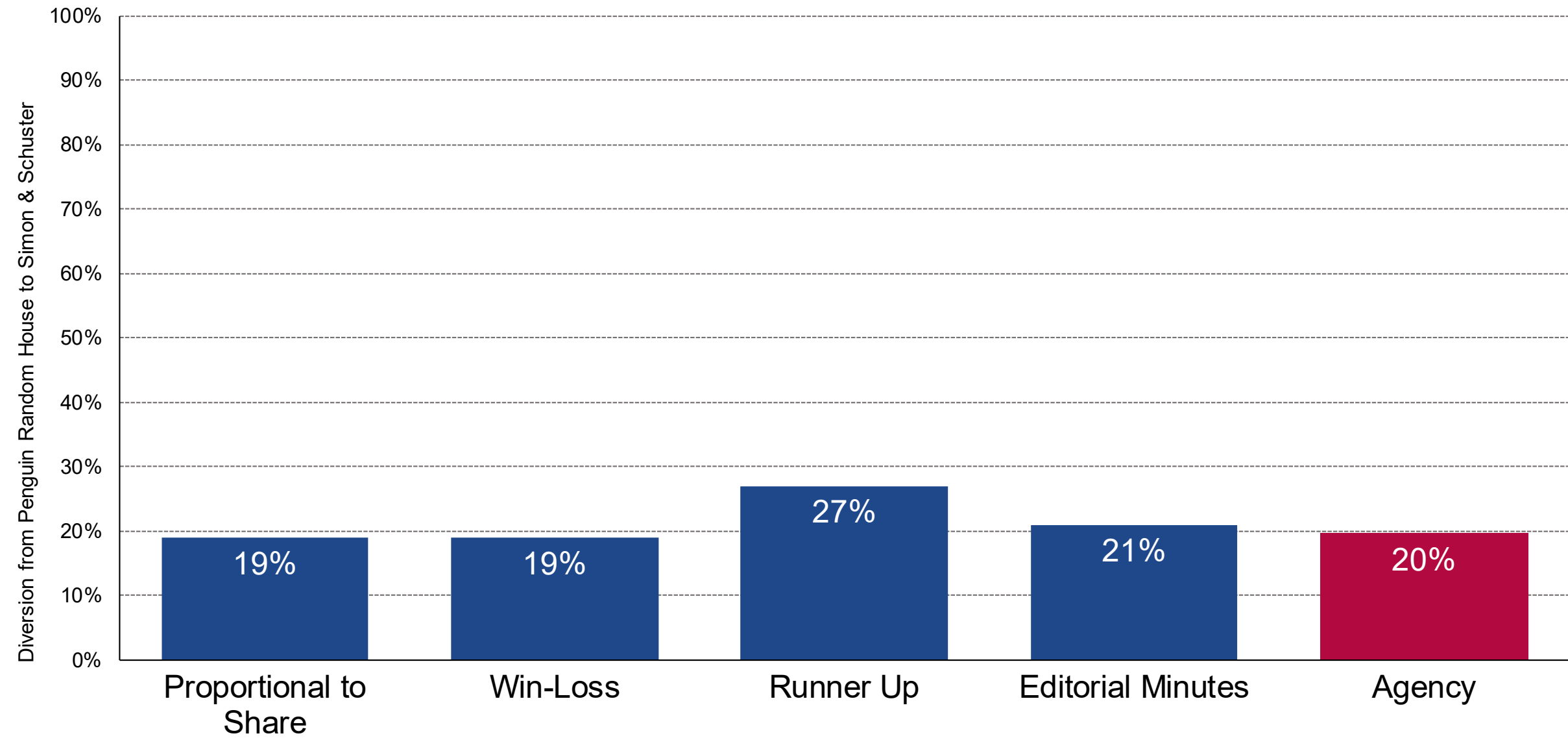
Estimates of diversion using four methodologies



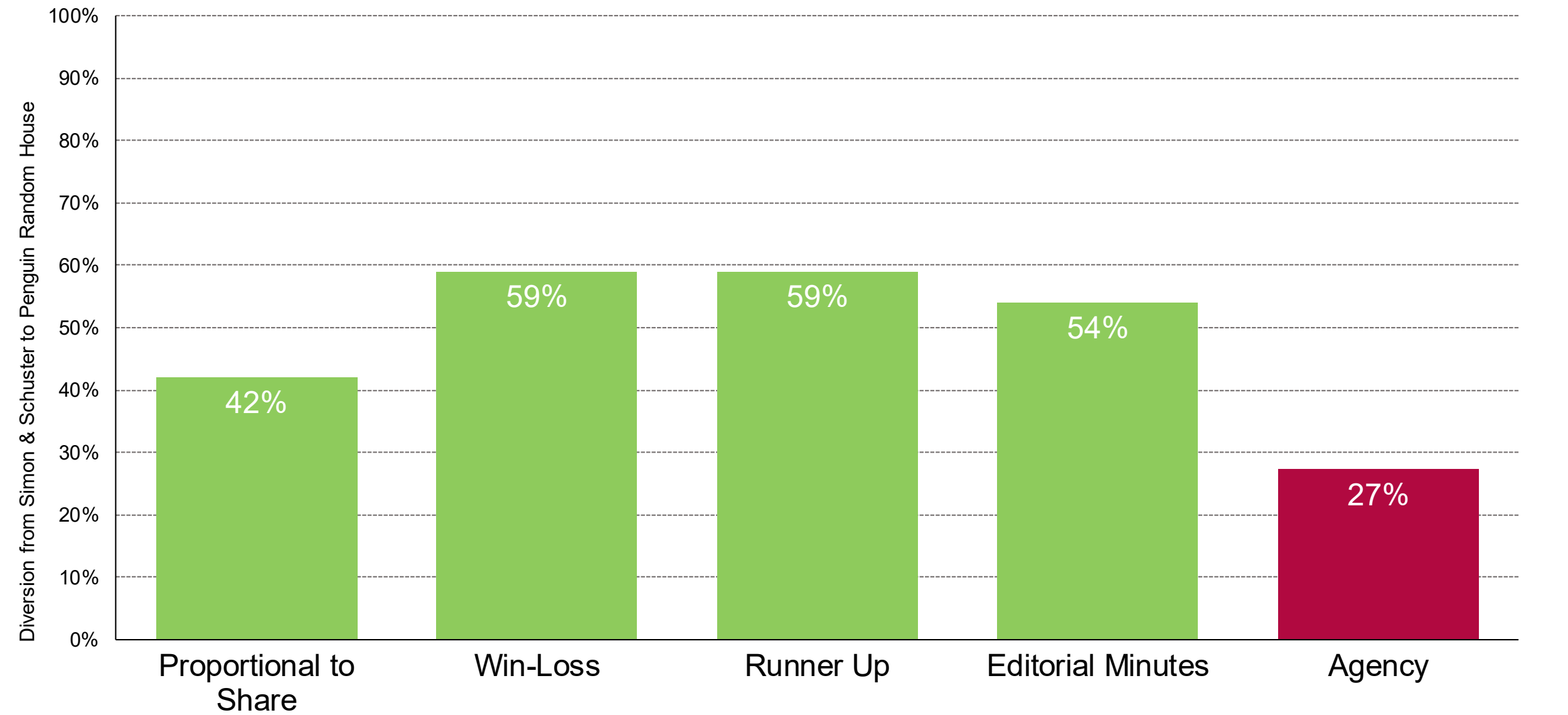
Average contract advance amounts for Anticipated Top Sellers



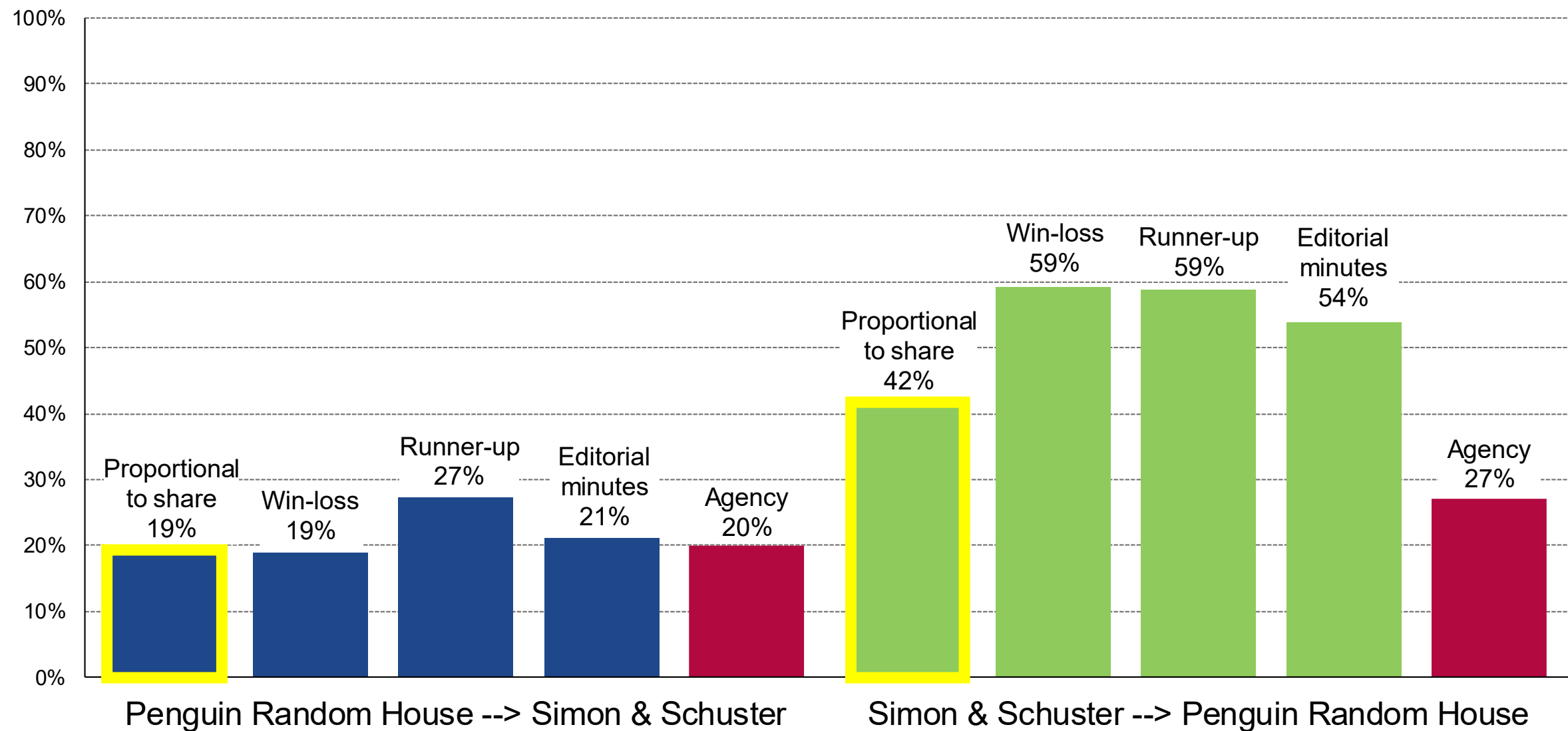
Estimated diversion from Penguin Random House to Simon & Schuster



Estimated diversion from Simon & Schuster to Penguin Random House



Estimates of diversion using five methodologies



Average difference between the second and third highest publisher bids

Competitive situation	Average difference	Average percent difference	Count
All contracts	\$85,070	22.4%	137
Anticipated top seller contracts	\$109,193	20.5%	86

Second-score auction model inputs

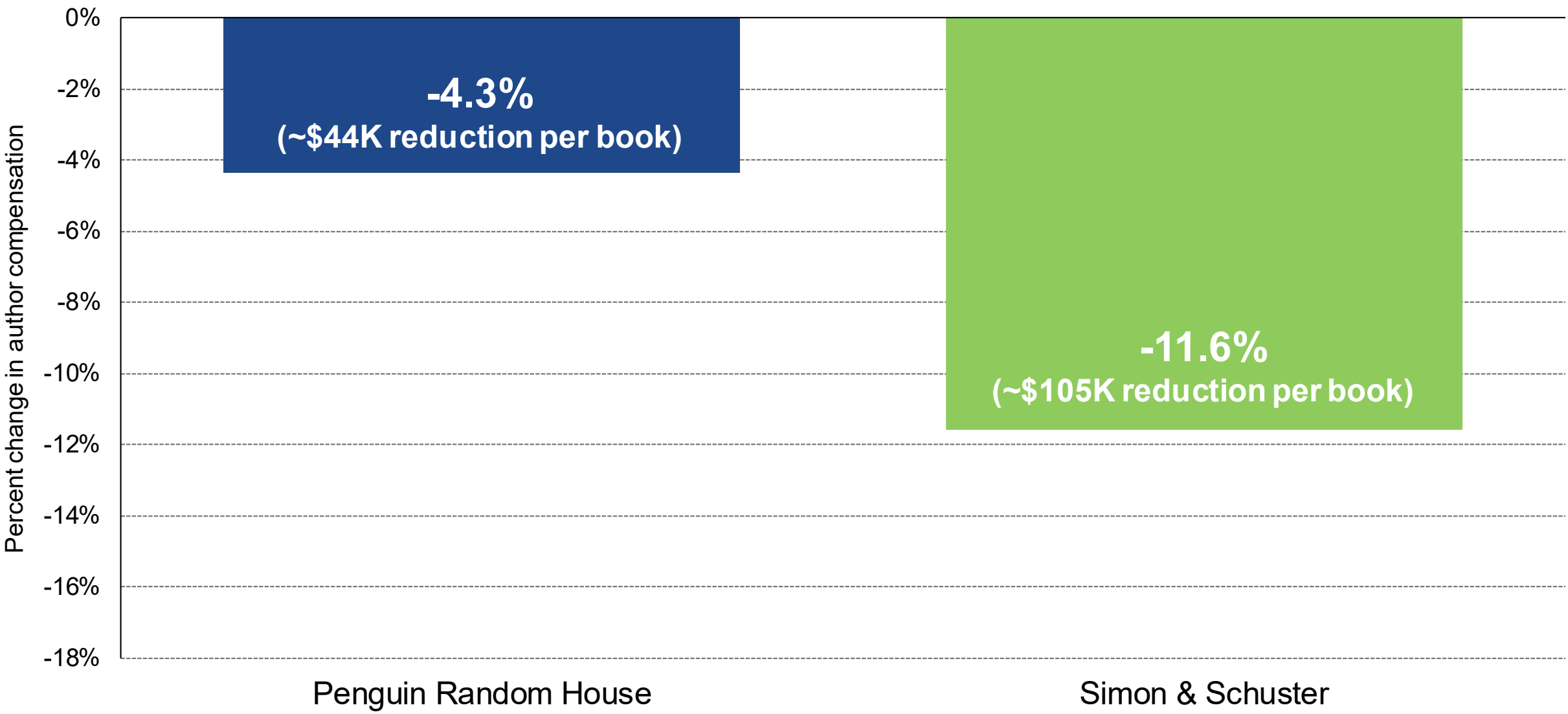
Market Shares

- Used to estimate how often the parties are the top two bidders
- Higher market shares lead to higher diversion and greater predicted harm

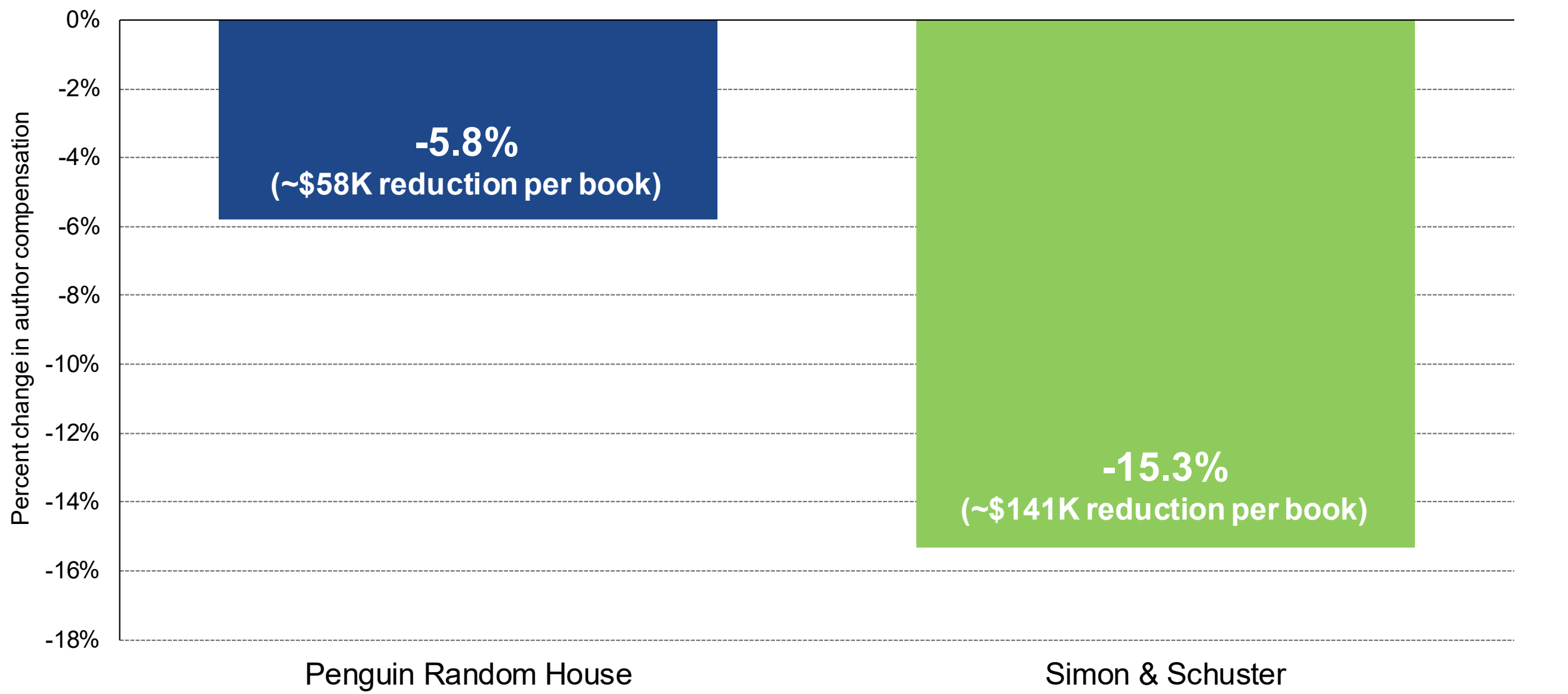
Variable Profit Margins

- Measure how close publishers' bids are to one another on average
- Higher variable profit margins lead to larger variation in bids and greater predicted harm

Baseline second-score auction model results



Second-score auction model results treating direct operating expenses as fixed



Market analysis framework: Upward pricing pressure

Horizontal Merger Guidelines



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In some cases, where sufficient information is available, the Agencies assess the value of diverted sales, which can serve as an indicator of the upward pricing pressure on the first product resulting from the merger.

Gross Upward Pricing Pressure Index (GUPPI) inputs

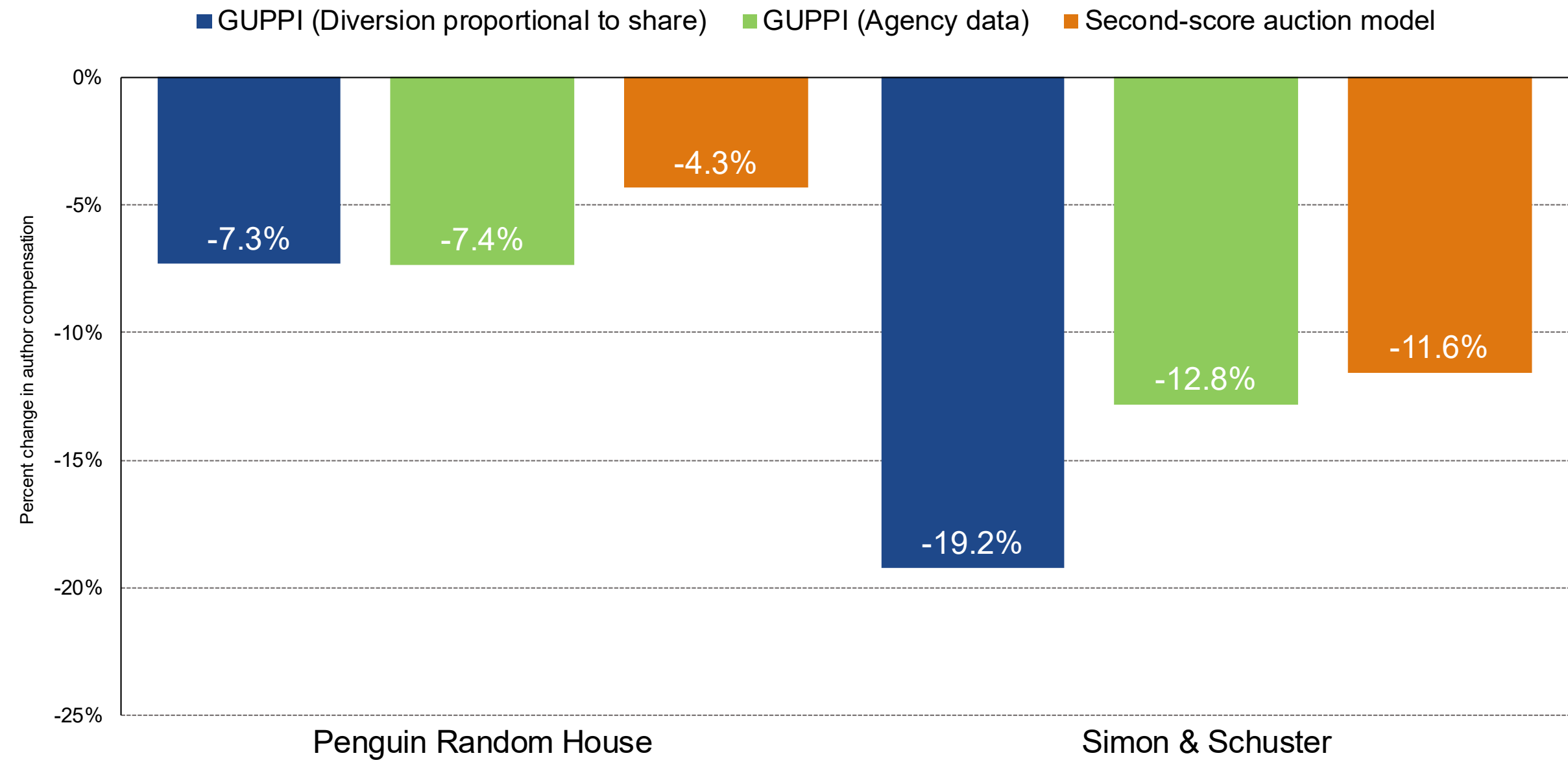
Diversion Estimates

- Higher diversion estimates lead to greater predicted harm

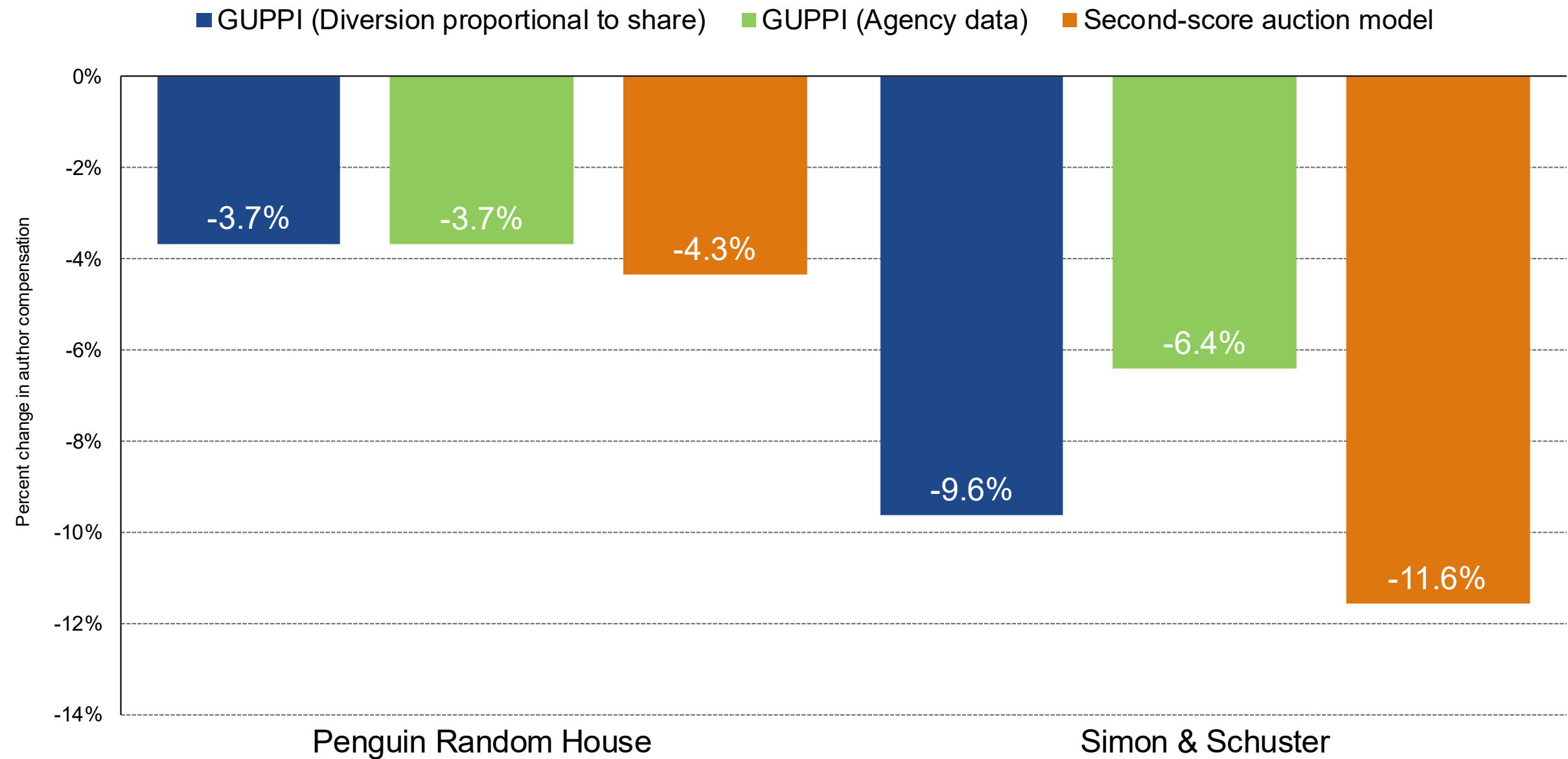
Variable Profit Margins

- Higher variable profit margins lead to greater predicted harm

Unilateral price effects from multi-round bidding GUPPI model



Unilateral price effects from the single-round and hybrid GUPPI models



6 Competitive effects

- Unilateral effects
- **Coordinated effects**

Merger analysis framework: Coordination

Horizontal Merger Guidelines



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Coordinated interaction involves conduct by multiple firms that is profitable for each of them only as a result of the accommodating reactions of the others.

Merger analysis framework: Coordination (cont'd.)

Horizontal Merger Guidelines



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The Agencies are likely to challenge a merger if the following three conditions are all met: (1) the merger would significantly increase concentration and lead to a moderately or highly concentrated market; (2) that market shows signs of vulnerability to coordinated conduct (see Section 7.2); and (3) the Agencies have a credible basis on which to conclude that the merger may enhance that vulnerability.

Market is susceptible to coordinated conduct

History of coordination amongst publishers

- 2009-2010 eBooks price fixing

Small number of significant firms

- Fewer firms simplifies monitoring and detection

Transparency

- Greater transparency aids in monitoring and punishment

Frequency of purchase

- Small, frequent purchases make coordination easier to sustain

Reliance of small firms on the Big 5 publishers for printing and distribution

- Smaller firms' reliance on Big 5 reduces their ability to undercut coordination

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Mitigating factors

- **Entry and expansion**
- Role of literary agents
- Penguin Random House bidding promise
- Efficiencies

- Significant barriers to entry and expansion
- Non-Big 5 publishers are unlikely to mitigate harm through entry or expansion
- Big 5 publishers are unlikely to have an incentive to mitigate harm

The market for Anticipated Top Sellers has significant barriers to entry

BERTELSMANN

“Entry barriers: high (mainly reputation, distribution)”

Penguin
Random
House

“High barriers to entry, no successful startups in the last decade”

“No history of companies starting from scratch achieving profitability in 3-5 year time period”

The market for Anticipated Top Sellers has significant barriers to entry

Michael Pietsch
CEO, Hachette
Book Group

“[i]n 45 years in the business, I haven’t seen a single [new] company set out to compete in this general trade world and achieve it. . . . No one has succeeded in creating a publisher—a publishing entity that is competitive with the Big Five.”

Non-Big 5
Publisher

“[I]t would be impossible for us to get to an even footing with the Big Five in the next three years in competing for books, high – high-end books.”

Stephen King
Author

“If you are saying could a new publisher suddenly show up in the marketplace, they show up all the time and they don't have a great deal of success because they don't have the traction that the Big 5 do. The Big 5 are pretty entrenched.”

- Ability to manage risk
-

- Marketing
-

- Distribution
-

- Reputation

Anticipated Top Sellers are risky

Penguin
Random
House

“By publishing a lot of titles, you can manage your risk because you are not dependent on a few.”

Markus Dohle
CEO, Penguin Random House, Global

“Portfolio business. Size of portfolio helps to even out creative volatility; massive variability in performance of each title.”

 **hachette**
BOOK GROUP

“When competing with non-Big 5 publishers, our biggest advantage is a willingness to take on risk in the form of high advances. We have -- we simply have seen over time that we have much greater capacity for that than smaller publishers do.”

Michael Pietsch
CEO, Hachette Book Group

The Big 5 have large backlists that reduce risk

Penguin
Random
House

“Need strong frontlist to feed backlist.”

Madeline McIntosh
CEO Penguin
Random House,
U.S.

“The fact that we [Penguin Random House] have the largest and richest backlist in the industry is what gives us the latitude to take risks with new acquisitions every day.”

President and
Publisher, Simon
& Schuster
Imprint

“Pulse [S&S] also tends to be conservative given they don’t have the broad backlist to help absorb any unfortunate blows.”

Michael Pietsch
CEO, Hachette
Book Group

“I mean, to build a back-list the size of any of the Big 5, I don't think it's possible or conceivable that any publisher starting now could do it in 100 years. It just takes these massive publishing entities, you know, or these agglomerations of back-lists.”

Marketing is a barrier to entry and expansion

Jonathan Karp
CEO, Simon &
Schuster

Q. So for print books that are new books, why is it the case that the Big Five publishers have a leg up on some of the competition in making sure that those books become bestsellers?

A. Because they can coordinate publicity and distribution and marketing at the time of release.

President & CEO,
Non-Big 5
Publisher

Q. Why do you say that it's very difficult for [non-Big 5 publisher] to compete with Big Five publishers for books with an advance of \$250,000 or higher?

A. Because of the – like I said earlier, the resources the Big Five publishers have to put behind the book for marketing, promotion, publicity, even cover design.

Andrew Solomon
Author

“[The non-Big 5] don't have the same resources. And they don't have the same—they don't have the same resources and by and large, they don't have the same contacts.”

Distribution is a barrier to entry and expansion

Penguin
Random
House

“Large publishers have a structural advantage in dealing with online retailers.”

Michael Pietsch
CEO, Hachette
Book Group

“We have strong relationships with retailers. We have programs in place with major retailers to promote certain of our books that I believe are more -- are stronger than those that smaller publishers who are -- who don't have their -- have big successes as often.”

President & CEO,
Non-Big 5
Publisher

Q. Are there any other reasons . . . why it is very difficult for [non-Big 5 publisher] to compete with a Big Five publisher to acquire a book with an advance of \$250,000 or higher?

A. [I]t's very hard . . . for a smaller company like ours to get distribution into independent book stores.

Reputation is a barrier to entry and expansion

Penguin
Random
House

“Entry barriers: high (mainly reputation, distribution).”

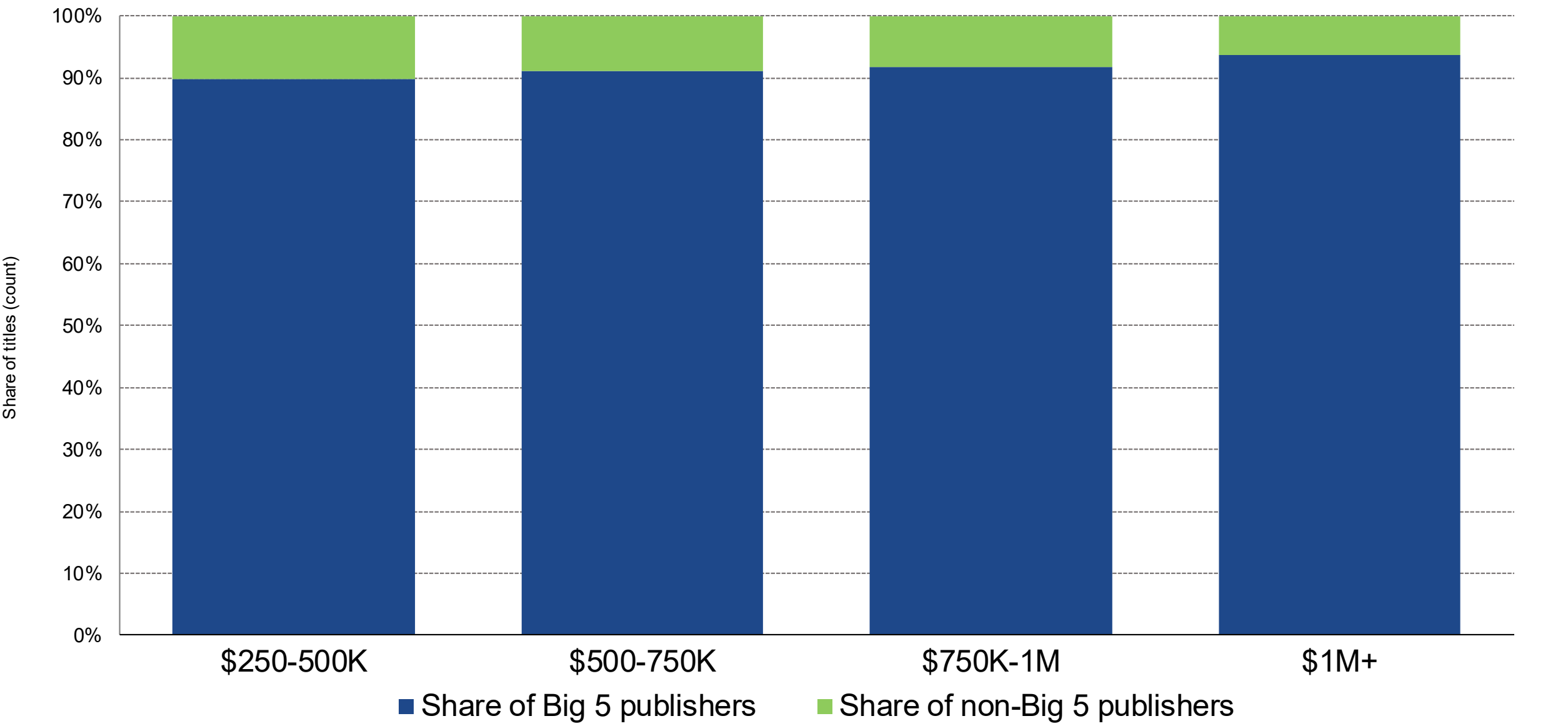
Michael Pietsch
CEO, Hachette
Book Group

“Until you have books that have had a lot of success, it’s hard to attract authors who want to be published by you.”

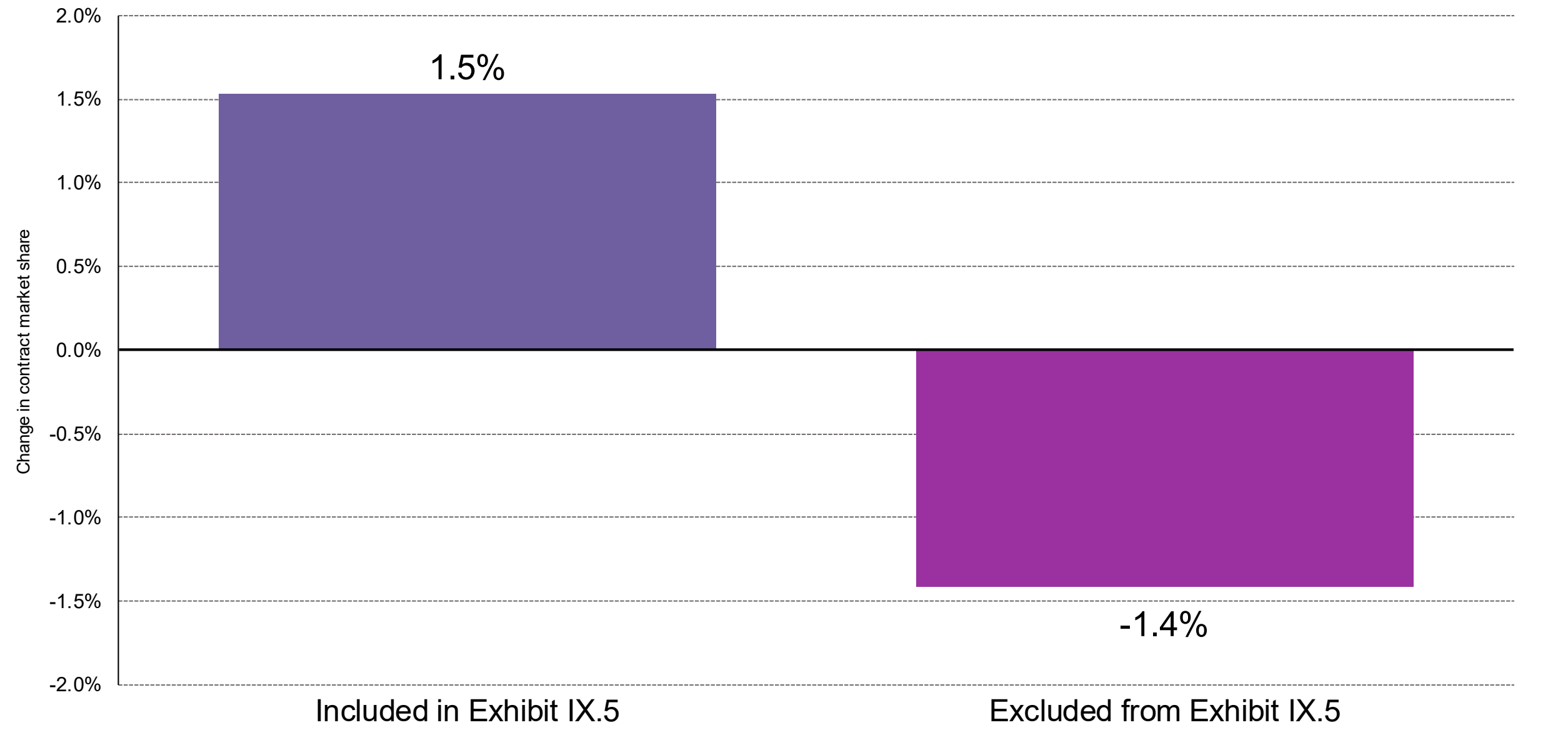
Ayesha Pande
Founder, Ayesha
Pande Literary

“[...] I think it takes a long time for a publisher to establish itself in the industry. A publisher's lasting success, its longevity, depends on them having a substantial list of books that they've published and that continue to receive or generate revenues. And all of these publishers are still too new to have really proven themselves.”

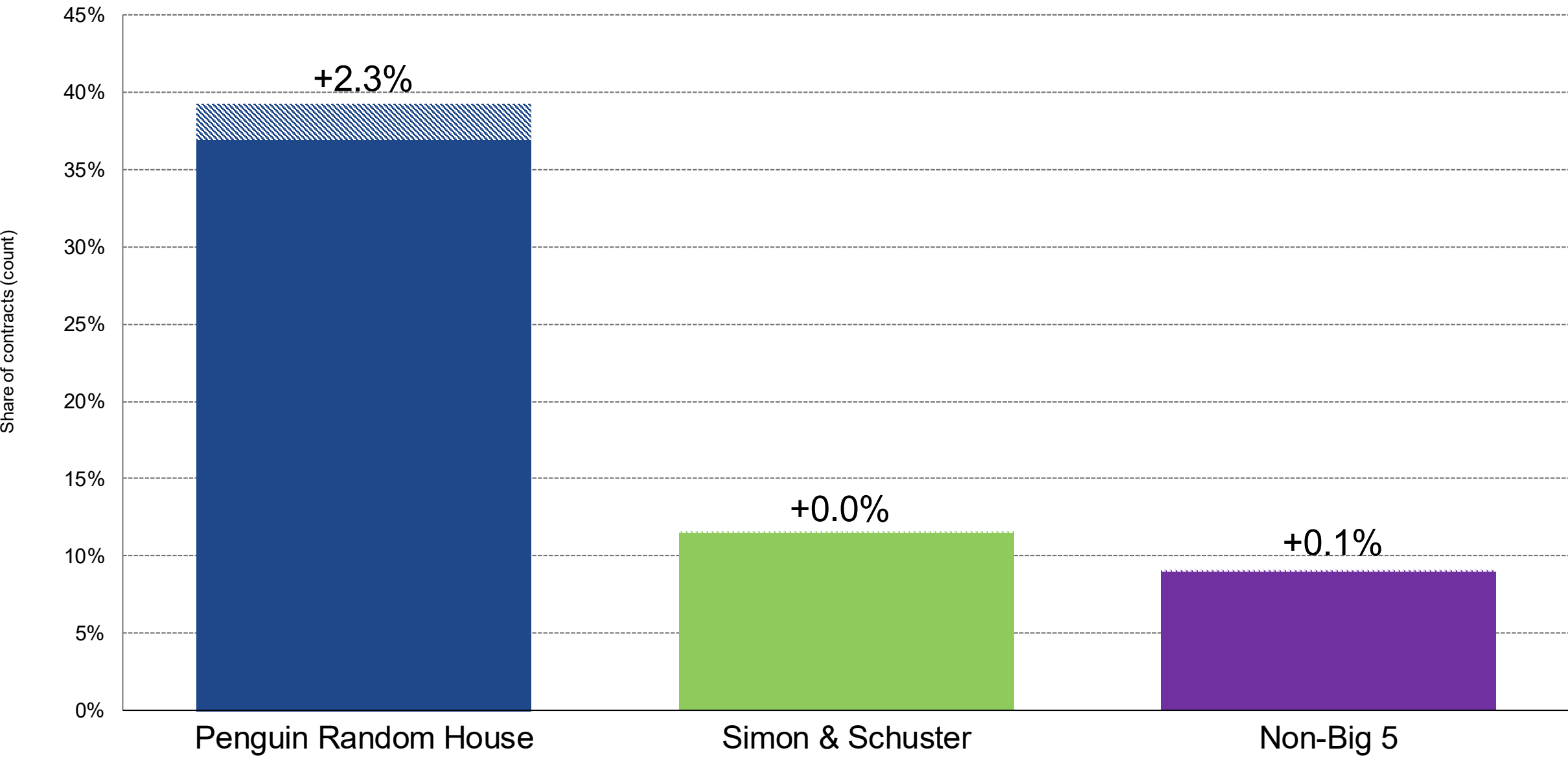
Non-Big 5 publishers have a small share of the market for Anticipated Top Sellers



Non-Big 5 publishers did not significantly expand from 2019 To 2021



Penguin Random House grew from 2019 to 2021



Small publishers rarely compete for Anticipated Top Sellers

Carolyn Reidy
Former President
& CEO, Simon &
Schuster

“[S]maller publishers . . . rarely compete with us in auctions for new properties.”

EVP & Publisher,
Penguin Random
House Imprint

“For higher level advances . . . the smaller publishers tend not to compete . . .”

Literary agent
to Penguin
Random House
Editor

“[A]s I think I may have mentioned before one bidder is from a smaller house . . . [s]o while technically they are still in contention . . . I don’t think they can continue to compete at this level [\$160,000]—so for all intents and purposes, I’d say it’s Penguin plus 3 others who are actually in contention.”

Small publishers are not likely to expand

Q. Does [Publisher A] expect to increase the number of titles it outputs?

A. Not in the [Publisher A] trade division as of now.

Q. Has [Publisher B] considered expanding into adult trade?

A. Not as far as I'm aware, no.

Q. Does [Publisher C] have any plans to expand into publishing outside of the Christian space in the coming years?

A. No.

Q. Are you planning to expand the number of books that [Publisher D] acquires rights to? Like over time, 2022 compared to prior years?

A. No.

Small publishers are not likely to expand

Q. [D]o you believe publishing is a slow growth business?

A. The kind of publishing [Publisher E] does is a slow growth business.

Q. [I]s there any intention of [Publisher F] to try to acquire more books in, like, the coming year or years?

A. No.

Q. And does [Publisher G] intend to increase the number of trade books that it publishes each year?

A. No.

Q. Does [Publisher H] have any plans to increase the number of offers it makes to acquire books for \$250,000 or more?

A. No.

Amazon is not a significant competitor for Anticipated Top Sellers

Penguin
Random
House

“I don’t know of any examples of [Amazon competing with Penguin Random House in auctions to acquire books] ... It would be fair to say that I don’t know of any examples in auctions where Amazon has competed with us in the auction.”

Madeline McIntosh
CEO, Penguin Random House U.S.

“Given [A]mazon[’s] advantages[,] they suck at the book publishing part.”

President & Publisher
Penguin Random House Imprint



Simon & Schuster

“[Amazon] tried, but their publishing did not end up being successful in acquiring major authors.”

Dennis Eulau
EVP, COO, & CFO, Simon & Schuster

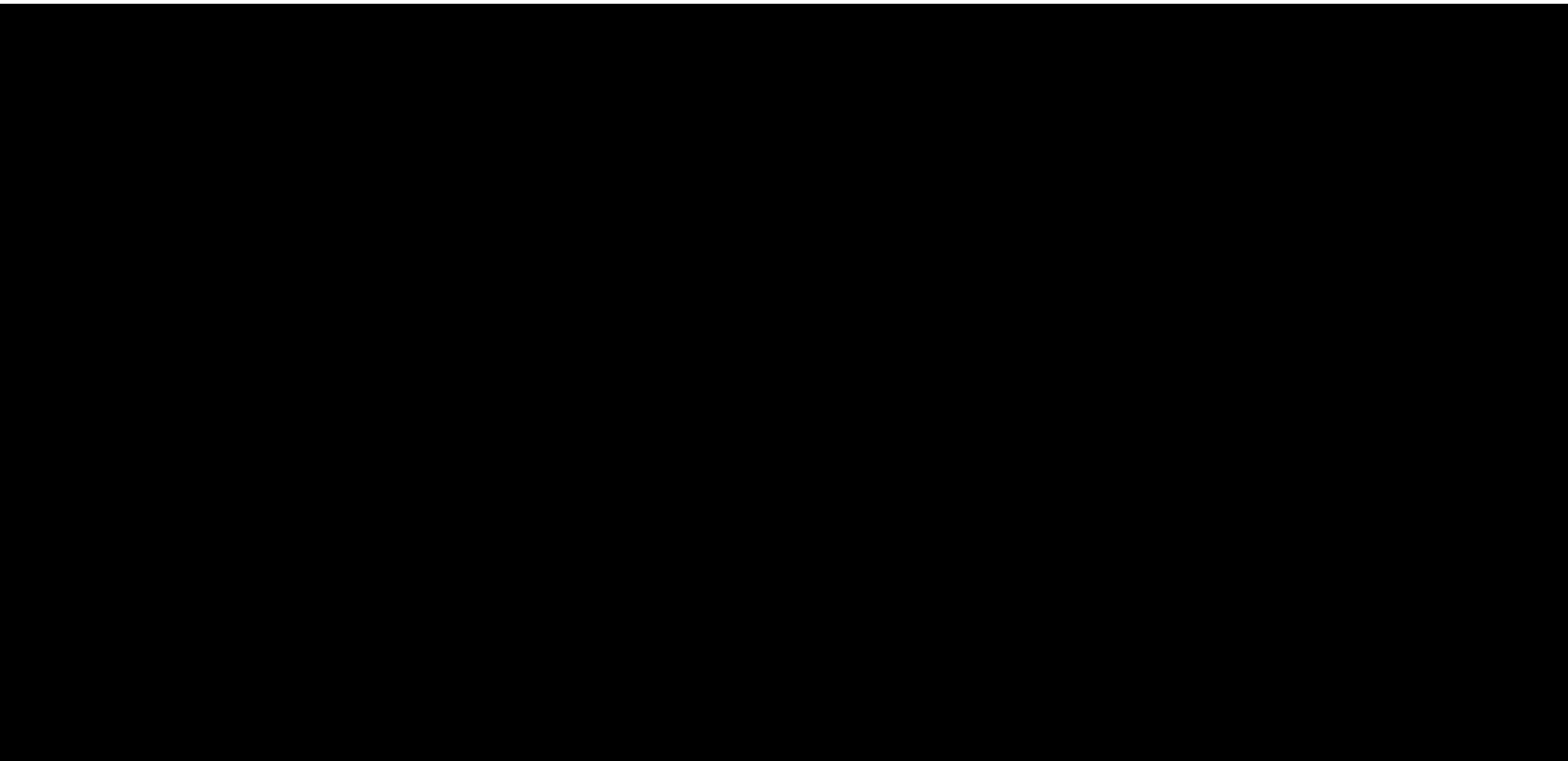
 **hachette**
BOOK GROUP

Q. How frequently does Hachette compete with Amazon to acquire books with an advance of \$250,000 or higher?

A. Extremely rarely.

Michael Pietsch
CEO, Hachette Book Group

Amazon's market share for Anticipated Top Sellers



7

Mitigating factors

- Entry and expansion
- **Role of literary agents**
- Penguin Random House bidding promise
- Efficiencies

Publishers often acquire books for less than they were willing to offer



Simon & Schuster

“I think if we make a bold preempt offer we can keep it out of a competitive environment. At auction I can see this going for well above a million. For our preempt I’d like to get approval up to \$750k, but try to get it for \$500k, but open to other strategies.”

Senior Editor, Simon & Schuster Imprint

“Approved to offer up to 500- so I think start at 350 world.
But happy to discuss the [other] strategies.”

Publisher, Simon & Schuster Imprint

Author accepts \$350,000 offer

“Thanks again for setting the right price, and keeping me from overspending.”

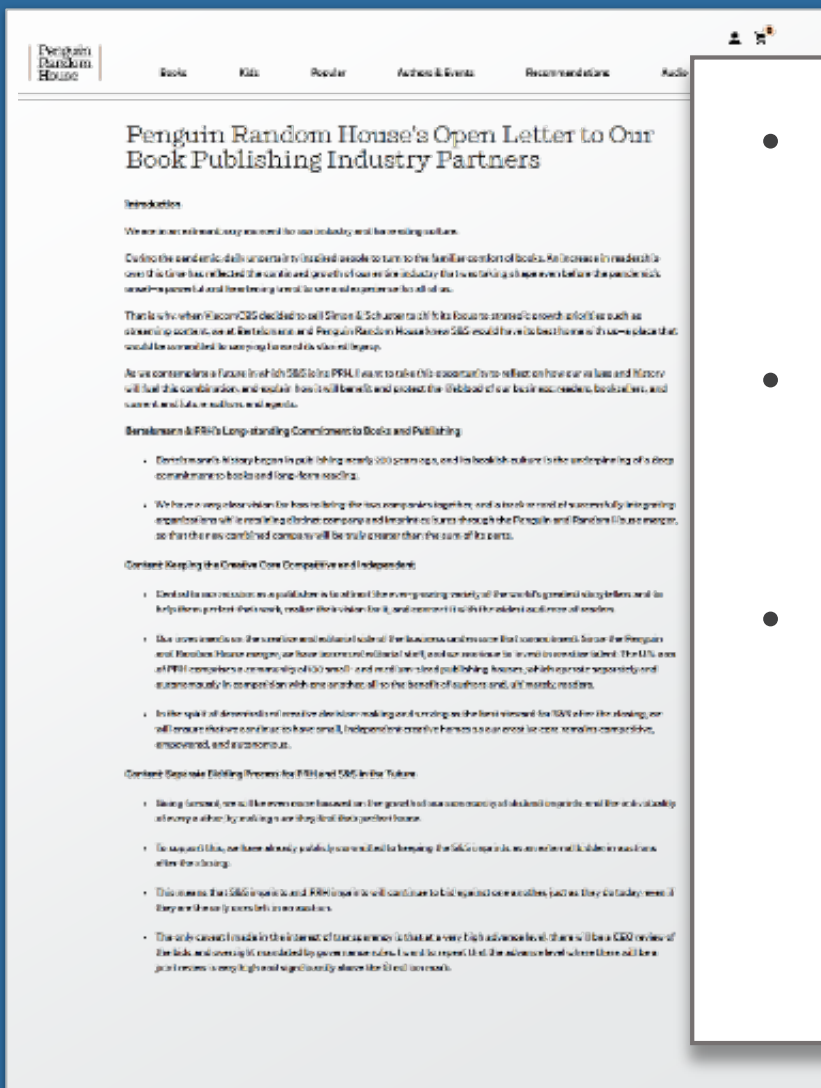
Senior Editor, Simon & Schuster Imprint

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Penguin Random House's bidding promise



- To support this, we have already publicly committed to keeping the S&S imprints as an external bidder in auctions after the closing.
- This means that S&S imprints and PRH imprints will continue to bid against one another, just as they do today, even if they are the only ones left in an auction.
- The only caveat I made in the interest of transparency is that at a very high advance level, there will be a CEO review of the bids and oversight mandated by governance rules. I want to repeat that the advance level where there will be a joint review is very high and significantly above the \$1 million mark.

- Unilateral promise that can be revoked
- There are other methods to reduce internal competition
- Imprints can and do coordinate before and during acquisitions
- No effect on certain acquisition types

Penguin Random House has an incentive to limit competition between its imprints

President,
Penguin Random
House Imprint

- Q.** If an auction is down to only imprints from Penguin Random House, are you able to increase your offer for that title?
- A.** If the only remaining imprints in an auction being conducted by an agent are two Penguin Random House imprints, at that point, we will not continue to bid against the other Penguin Random House imprint.
- Q.** And why will you not continue to bid against the other Penguin Random House imprint?
- A.** Because ultimately we are the same company. So, frankly, we would just be driving up the price of an auction amongst ourselves.

Penguin Random House has an incentive to limit competition between its imprints

President & CEO
Non-Big 5
Publisher

“I've seen the press releases put out by Markus Dohle and how they're going to keep the imprints bidding against each other. But I know if I were leading that company, I would never allow that. I don't know why a CEO of a company would allow multiple imprints to bid against each other.”

The merged firm will have other methods to reduce internal competition

RANDOM HOUSE – CROWN INTEGRATION MEMO

January 17, 2019

Random House

Random House is the name of our group, and there are three main divisions:

- 1) Ballantine/Bantam/Dell
- 2) Crown
- 3) Random House

We are focusing the editorial profiles of each group as follows:

- 1) **Ballantine/Bantam/Dell (BBD)** – Primarily commercial fiction

– Imprints:

- * Publisher: Kara Webb
 - Ballantine Books
 - Bantam Books
 - Dell
 - Delacorte Press

- * Publisher: Scott Shannon
 - Del Rey

Editor: Julian Parra and Hilary Tormon will join BBD.

– BBD will no longer be acquiring prescriptive nonfiction.

– Manda Cochran transferred to the Harmony/Backlist team working under Diana Russ acquiring prescriptive nonfiction to increase our market share in that category.

- 2) **Crown** – Nonfiction, lifestyle, and Christian publishing

– Imprints:

- * Co-Publisher: David Drake and Anna Webster
 - Crown Trade
 - Clarkson Potter
 - Harmony
 - Riddle Books
 - Ten Speed Press

- * Publisher: Tina Constable
 - Convergent
 - Currency
 - Image
 - Minotaur
 - WaterBreak

Random House and BBD will continue to do a house bid, and Crown would bid separately, so the agents will not lose a bid. **Of course, there will be less internal competition with the focused editorial profiles in our three divisions.**

Madeline McIntosh
CEO, Penguin
Random House
U.S.

Q. Is it accurate to say that after the merger of Crown and Random House, the Crown imprints themselves focused less on acquiring fiction than they had previously? Is that accurate?

A. Yes, that's correct.

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BPRH-LIT-000094378

Penguin Random House imprints can and do coordinate before and during acquisitions

Penguin
Random
House

“Existing [PRH] author that for whatever reason is out for competitive bid. We need to coordinate the bid so the imprints are not outbidding each other.”

[REDACTED]

“We [Penguin Publishing] are going to coordinate with the [Random House] side . . . Everyone is agreed to \$1.1M. OK?”

Director of Business Development, Penguin Random House Division

“We think it makes sense at this stage to do an identical best bid.”

President, Penguin Random House Division

“[O]f course we would never poach another PRH author . . . Hilary [PRH editor] is a really good colleague . . . She would never try and poach from you guys.”

EVP & President, Penguin Random House Imprint

7

Mitigating factors

- Entry and expansion
- Role of literary agents
- Penguin Random House bidding promise
- **Efficiencies**