
Samsung Revenue Share Renewal

Exec / BC Review
May 26th, 2020

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Ex. No.

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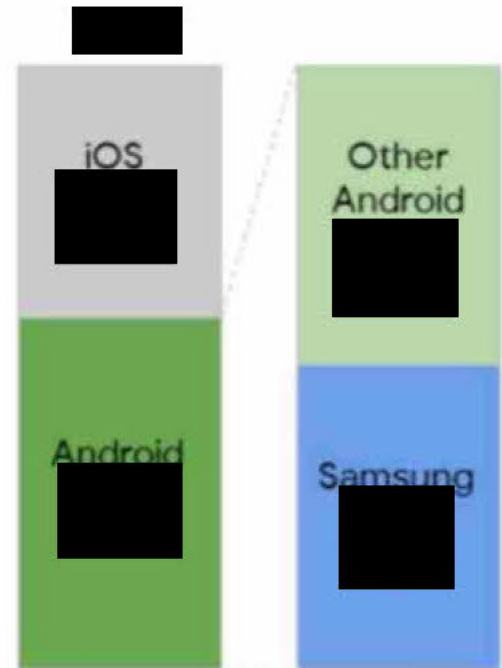
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Android share trend poses significant revenue risk to Google, with Samsung representing largest risk and opportunity



2019 Global Mobile Revenues
Dist & Org Search Ads, Play, Display⁽⁴⁾

Android share under significant pressure in key segments:

- Share in \$400+ tier has dropped below [REDACTED] in key geos; US saw a [REDACTED]/y drop in installed base in Q1'2020. Samsung sales in this tier/geos went down from [REDACTED] in 2016 to [REDACTED] last year
- Samsung makes [REDACTED] less margin per device than Apple even on premium phones, while Google is making [REDACTED] margin from premium Samsung devices in US⁽¹⁾

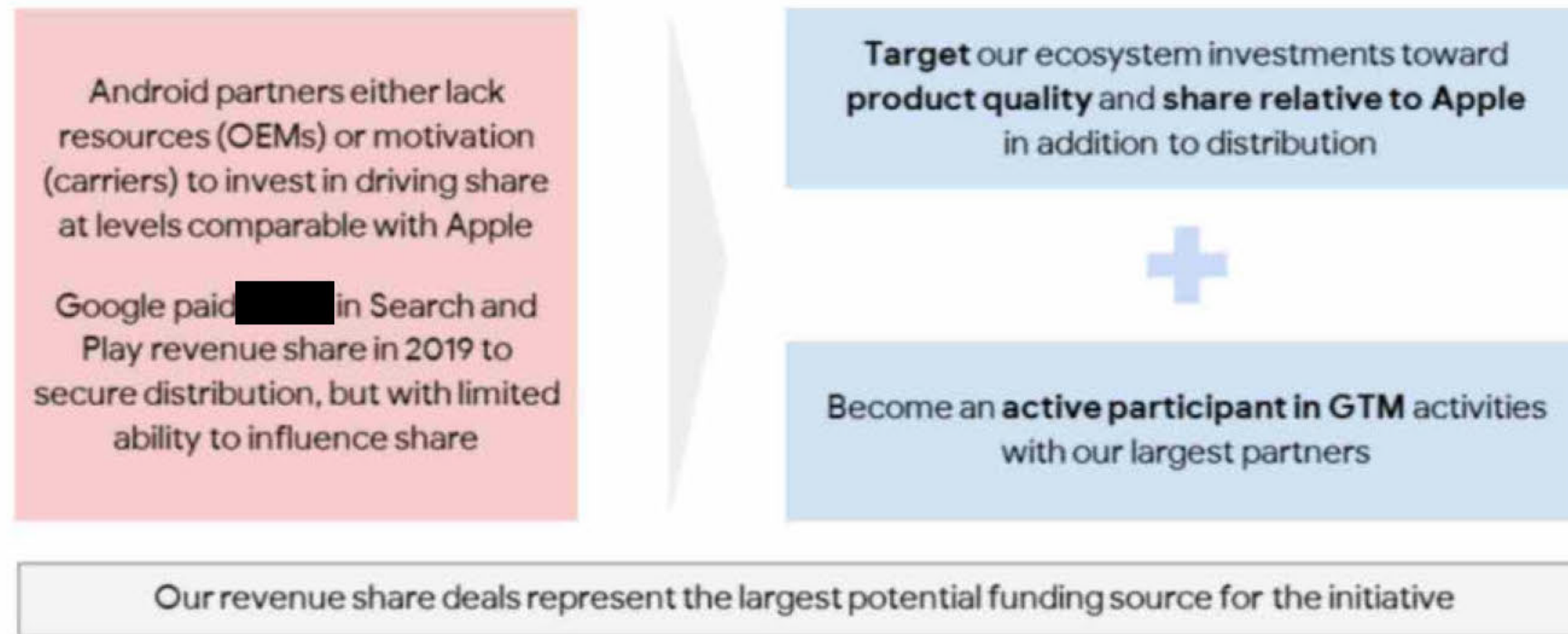
What is at risk:

- If current market trend is not reversed, [REDACTED] of incremental LTV margin⁽³⁾ is at risk from users switching to iOS from Android
- If Samsung holds current share through 2024, Google is estimated to earn [REDACTED] in revenue⁽²⁾ via Samsung devices over [REDACTED] years

(1) Heavy discounts in Q4'19 likely widened the gap (2) Includes Covid-19 adj. of 60% reduction to search revenue growth from pre-Covid reteam forecast (3) Captures potential services (Search, Play, Youtube & Display) margin lost to Google if recent negative market share trends continue, compared to a scenario where 2019 market share continued (range due to low and high "Current Trajectory" scenarios). LTV is based on a theoretical construct and the output is not a precise value. These numbers are not a complete representation of value and/or profitability, in that they do not include the complete set of resources / investments required to build and maintain the products. They are also built to guide specific decisions and are not appropriate for guiding investments outside of these specific scenarios (e.g. Google level investments, decisions for another product area) (4) Includes Distribution and Organic Search Revenue, Play Apps and Games. Also included is an estimate of Play Ads, Youtube, and Display revenue allocated to OEM based on 28DA. Samsung search revenue from Plus+, other search revenue from Querynet; Play data from Talon tables, Youtube and Display data from Querydata tables

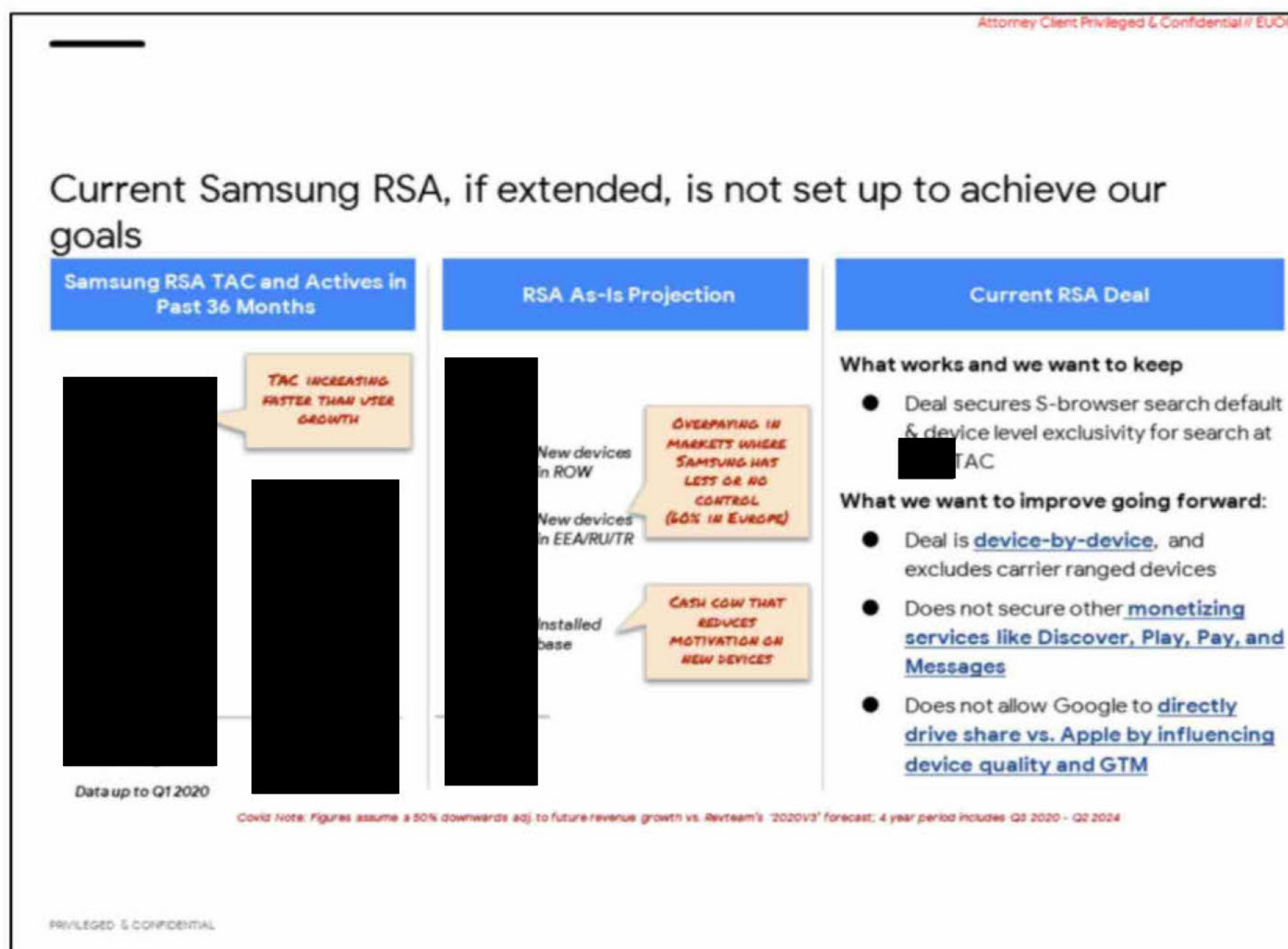
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We have kicked off a broad initiative to drive Android share;
Our commercial framework with Samsung will play a pivotal role



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Play DCB revshare = [REDACTED]
Search revshare = [REDACTED]



Carrier ID revenues: [REDACTED] in TAC that we are paying carriers on Samsung devices

[REDACTED]
January was [REDACTED] April was [REDACTED] (down [REDACTED])

Update commitment schedule

[REDACTED]

**** Note: Believe they just documented what they've always done as the requirements ****

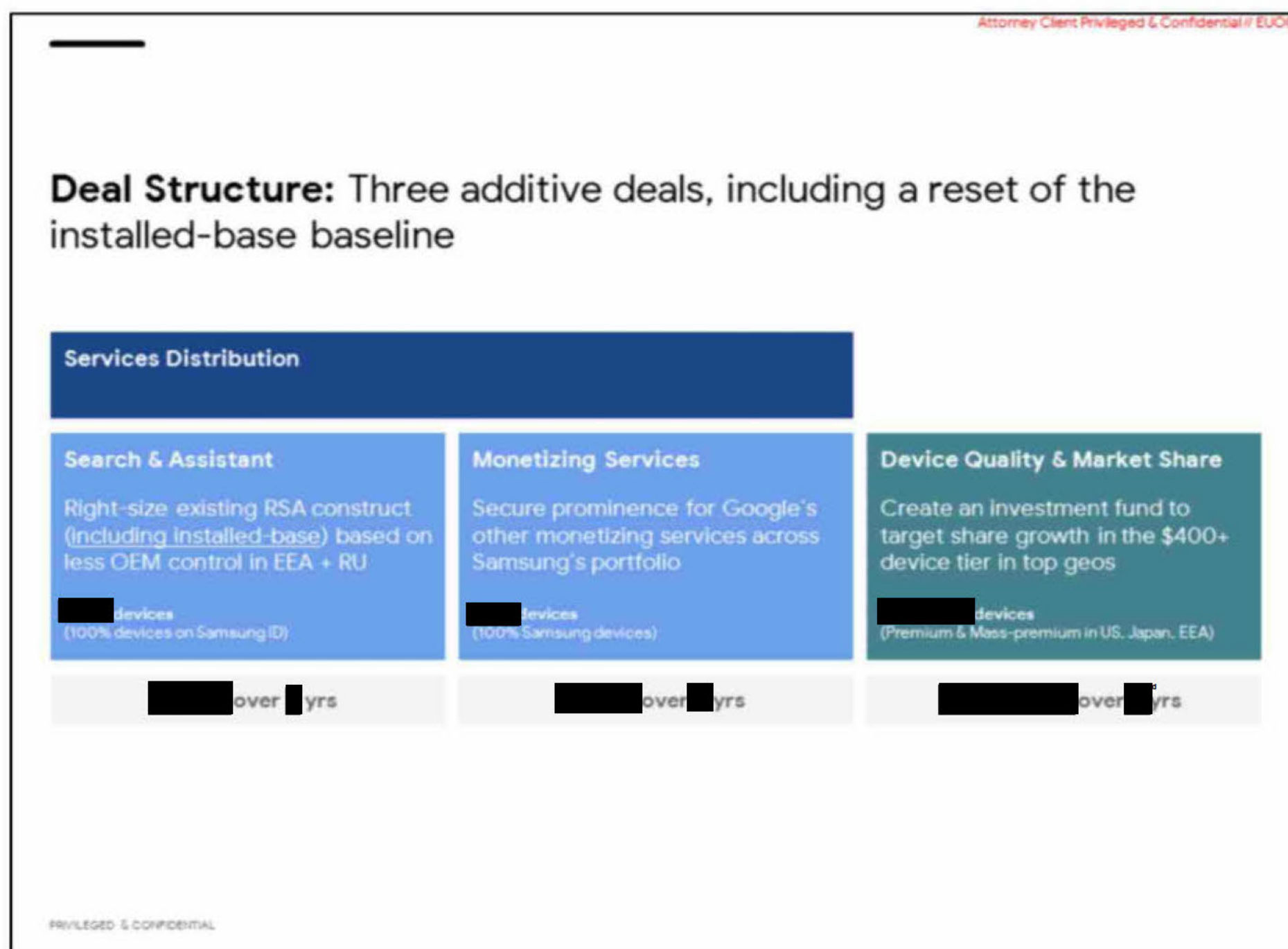
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Goal: Evolve RSA into master commercial agreements that drive core distribution, increased monetization and market outcomes

2017 RSA	Proposed New Deal (Year Term)
<ul style="list-style-type: none">● Search & Assistant distribution & prominence● Device-by-device● No Google control over quality or GTM● Daydream distribution	<ul style="list-style-type: none">● Search & Assistant protections with platform alignment outside of EEA/RU● Platform distribution of Discover, Messages, Pay, Play, Chrome in hotseat● Samsung commitment to updates & streamlined experience on devices in \$400+ tier in key geos● Google direct influence over up to in GTM spend
total deal size over yrs if renewed as is	based on market share outcomes

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Search & Assistant deal: Similar to current RSA, with added platform protections for Browser and Assistant

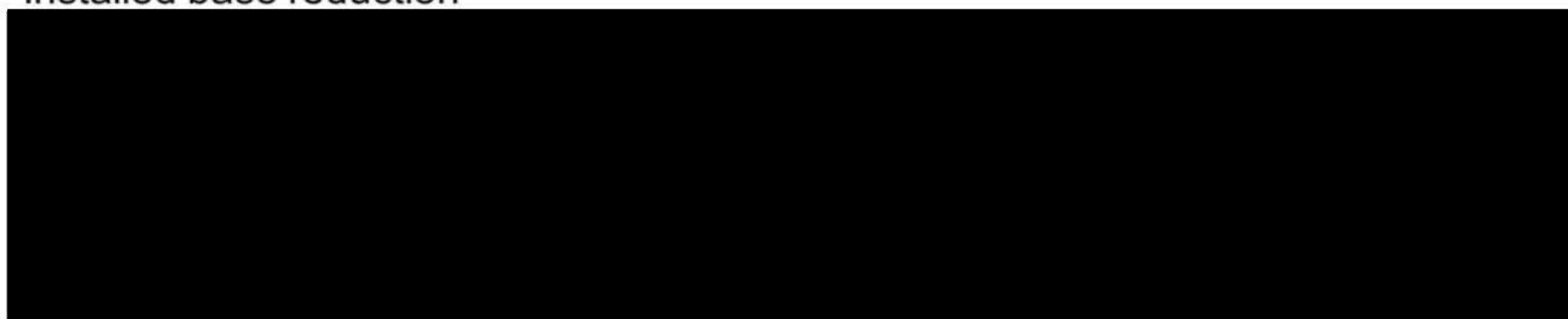
Monetizing Services: Standalone deal to distribute/promote Play, Discover, Messages, Pay

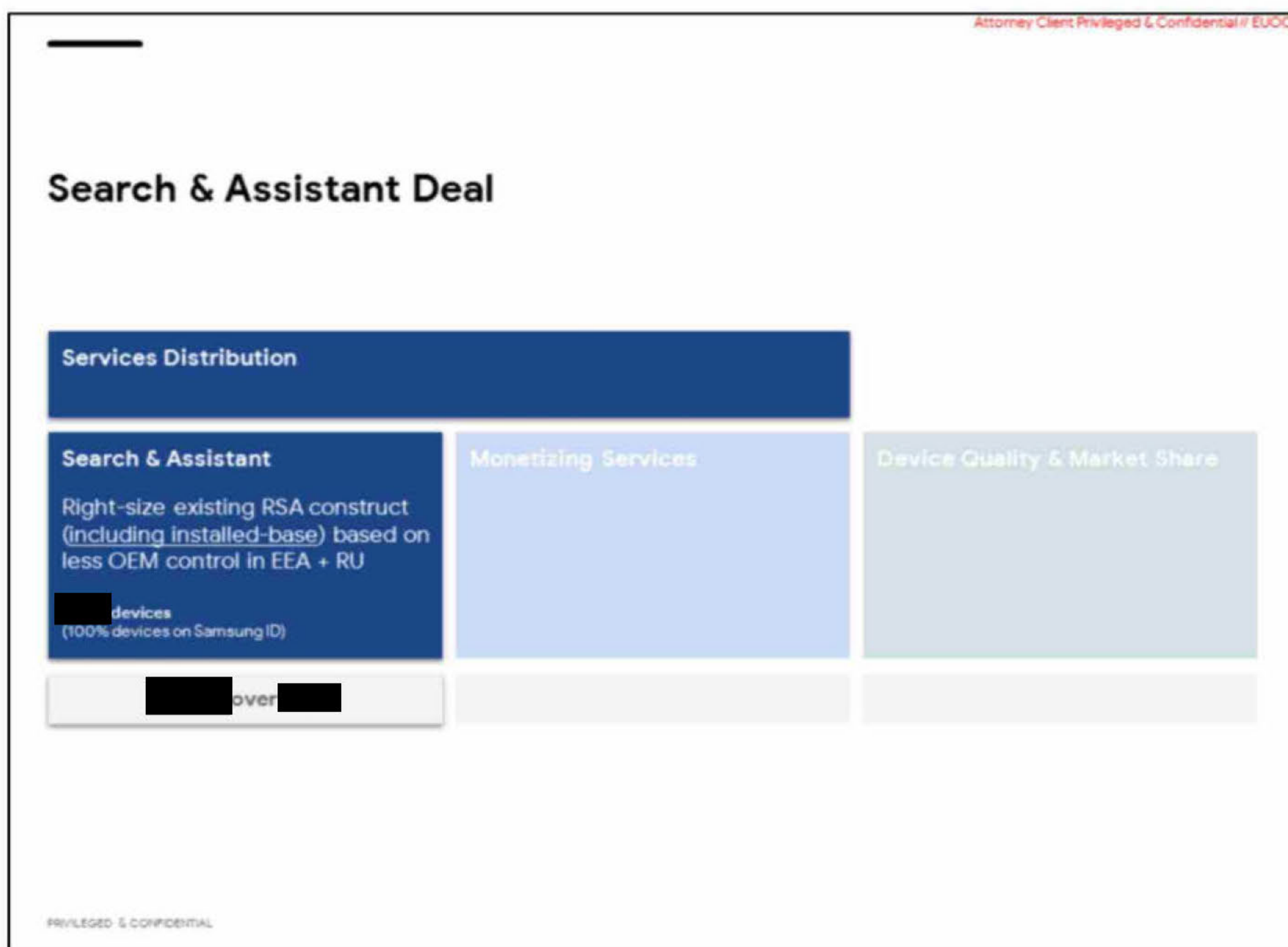
Shareforce Investment: Custom program focused on driving share against iOS by (i) improving key aspects of user experience and (ii) deeper collaboration on GTM activities

We have received a Samsung term sheet. More on that later

Have not engaged at all with them on terms

Installed base reduction





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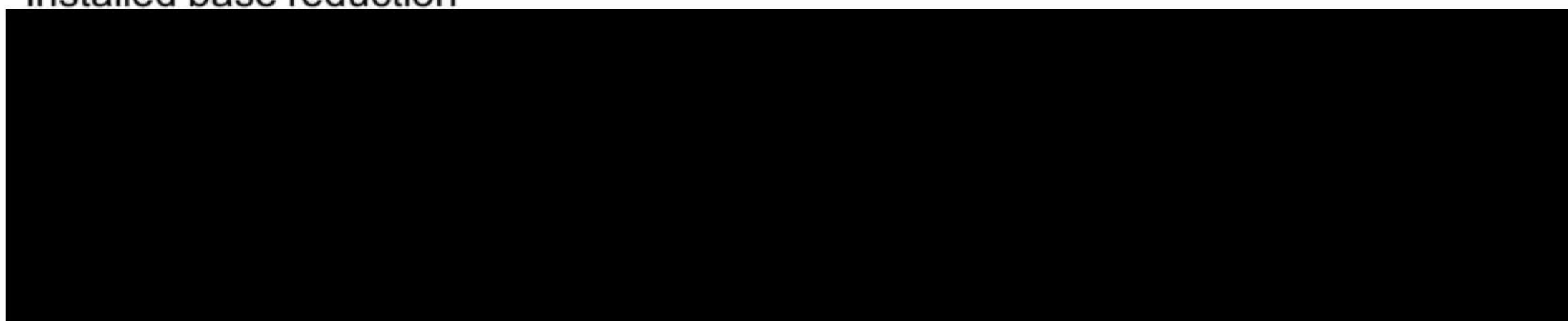
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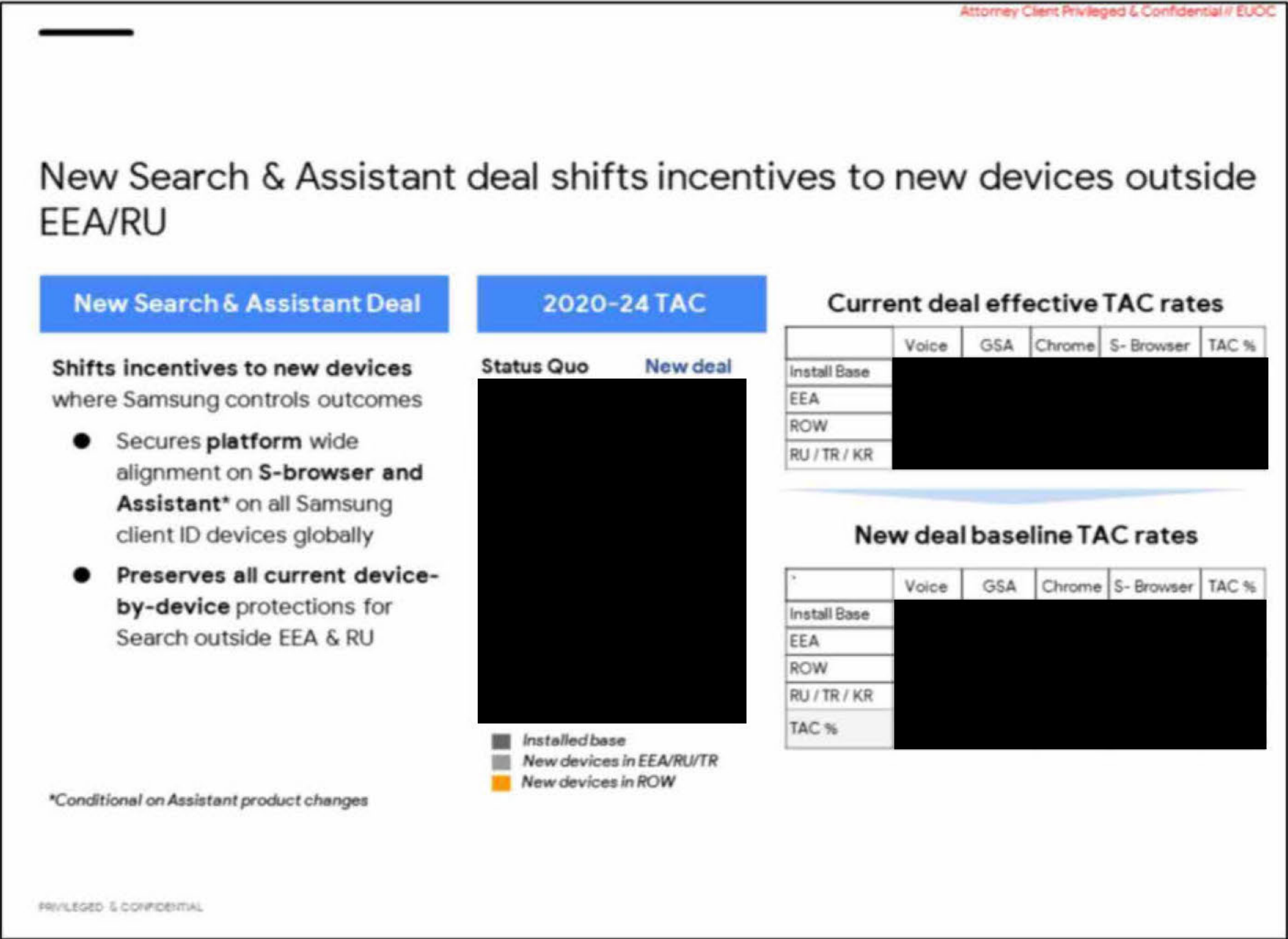
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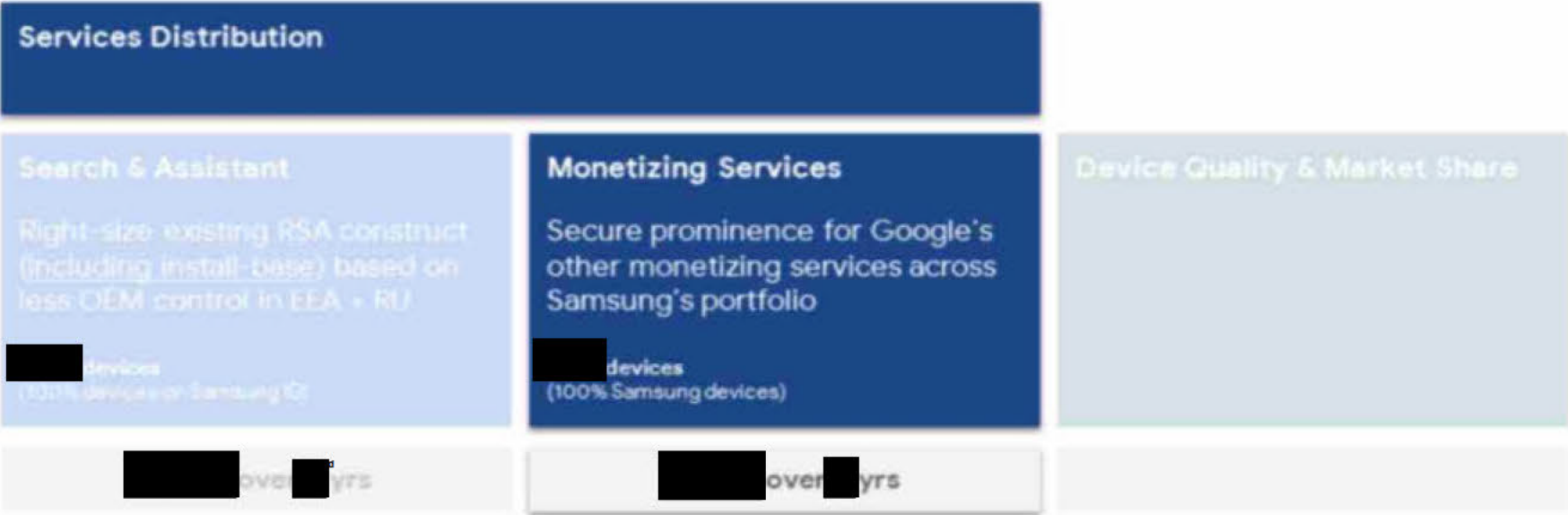


We are making parts of the deal platform-wide (where possible)
Elsewhere, we are maintaining device by device.

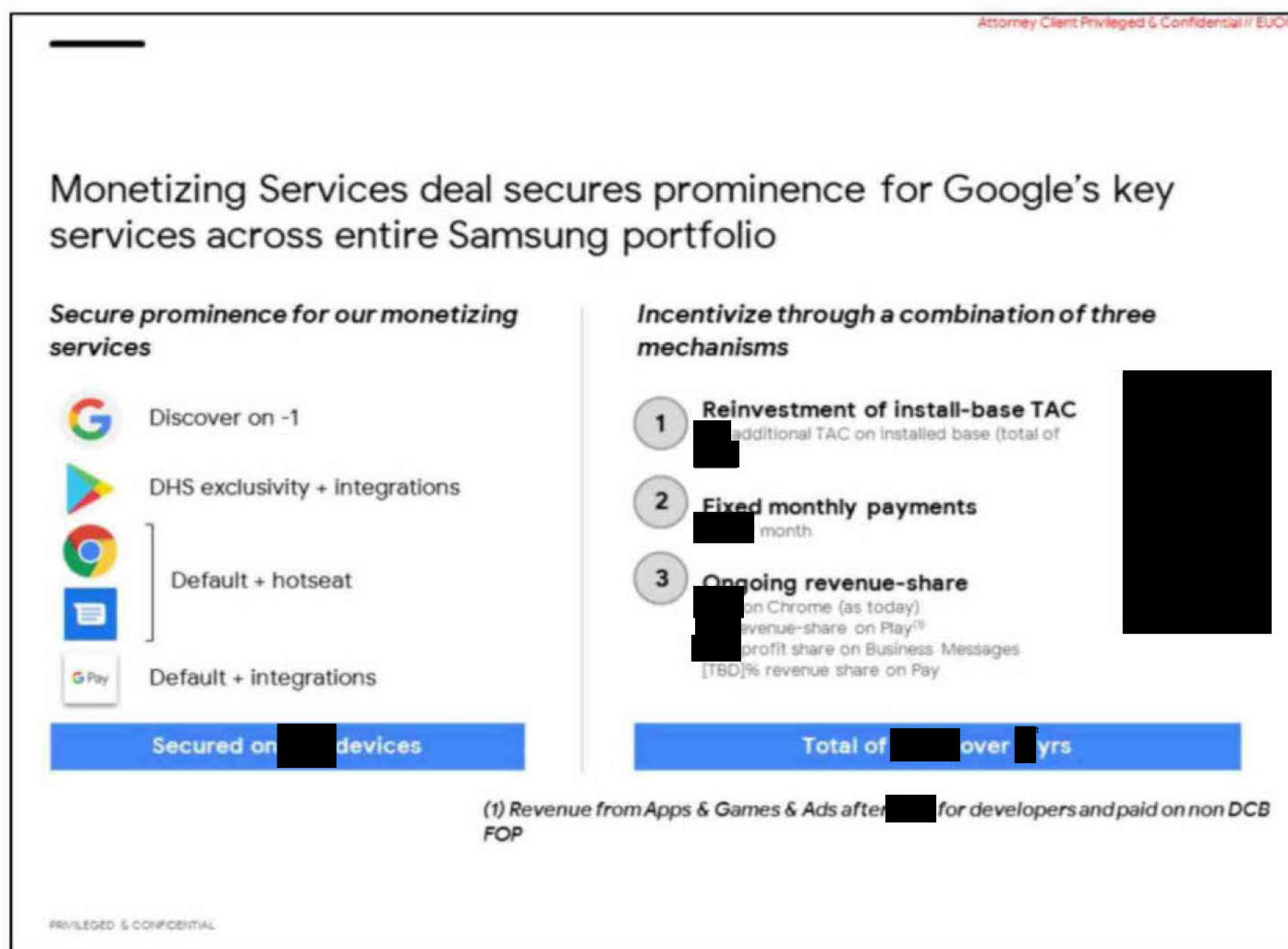
We are deconstructing the current search revenue share deal and building it back up to be surgically architected to get key protections on the maximum number of devices possible given the constraints as they exist. This is the first building block of the overall strategy.

This was a monolithic deal.... If a device has certain characteristics (with a Samsung client ID), you get paid this generic percentage on all access points.

Monetizing Services Deal



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Building block #2... all Samsung devices. All client ID's.

Note: [REDACTED]

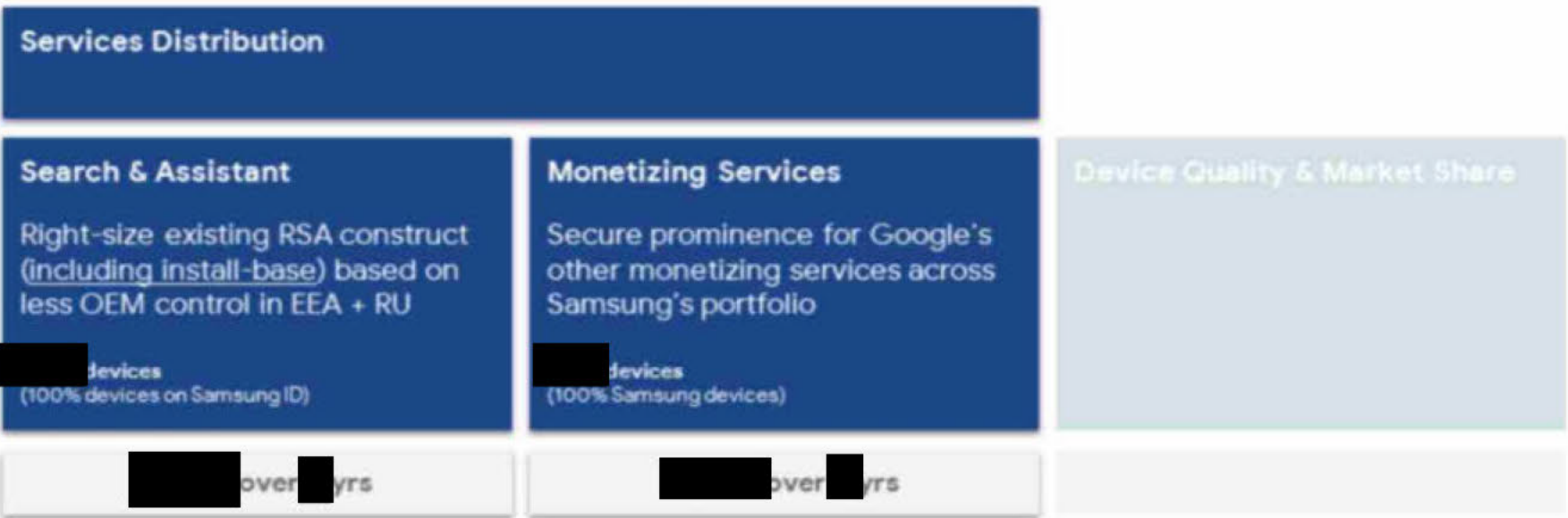
[REDACTED]

On Pay: "It will be difficult to assess in the near term. They have no monetization model and while they are running experiments soon in some markets (like India) they won't be able to build out a LTV for some time."

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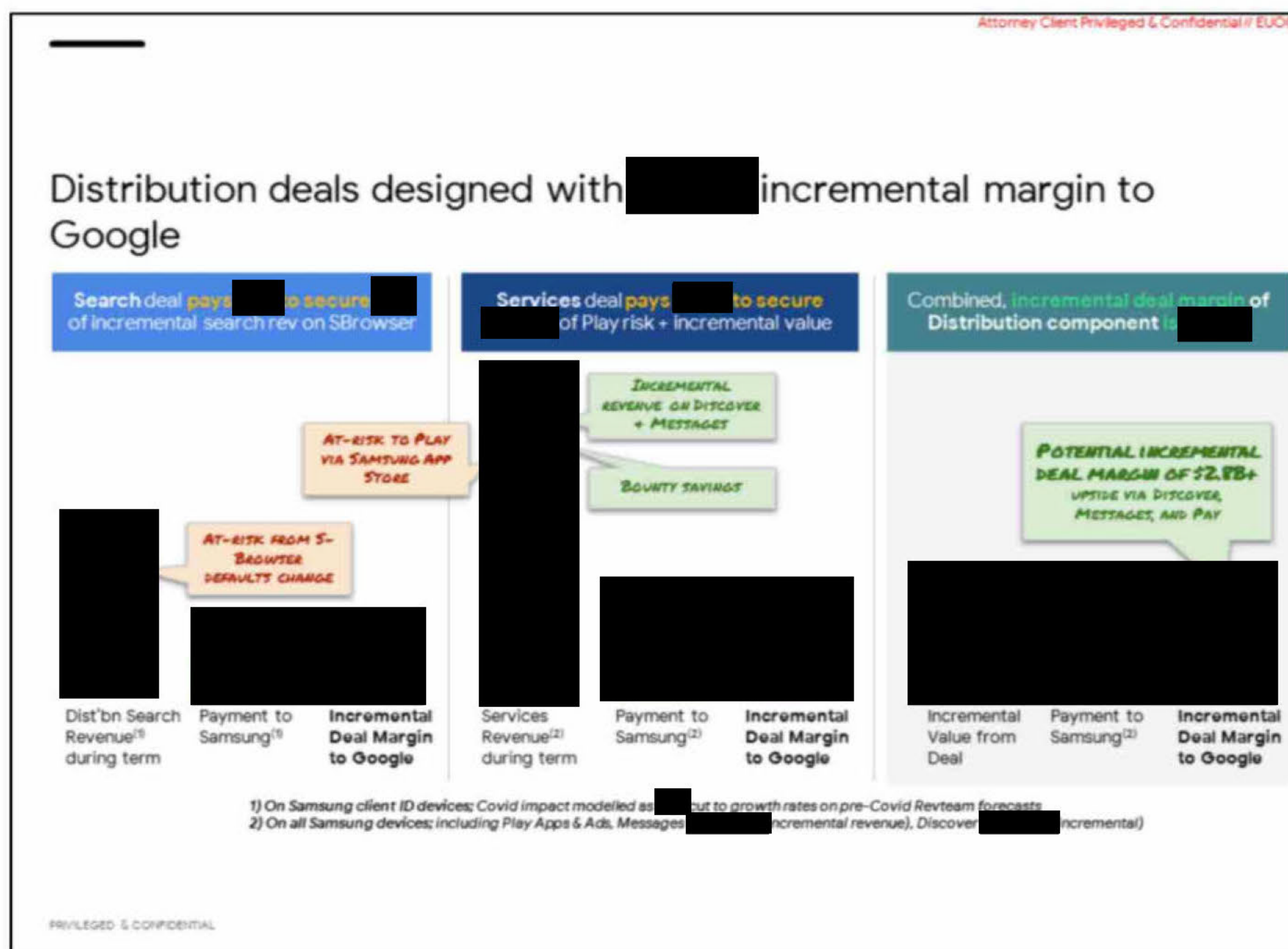
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Summary: Services Distribution



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In total, these 2 deals add up to [redacted] over [redacted] years and create broad product & services alignment.



[REDACTED] (distribution search): = [REDACTED] (Widget) + [REDACTED] (Voice) + [REDACTED] (S-browser)

[REDACTED] grey = [REDACTED] Play + [REDACTED] from Chrome

Then rest is uplift or savings: [REDACTED] risk protections for Play, [REDACTED] savings from standalone deal bounties and then [REDACTED] uplift in value from Discover and Messages. We didn't include uplift from Pay to be conservative

If we apply traditional methods of analysis and an assessment of incrementality to the first two deals, they are each exclusively incremental at the "payment/marginal" level.

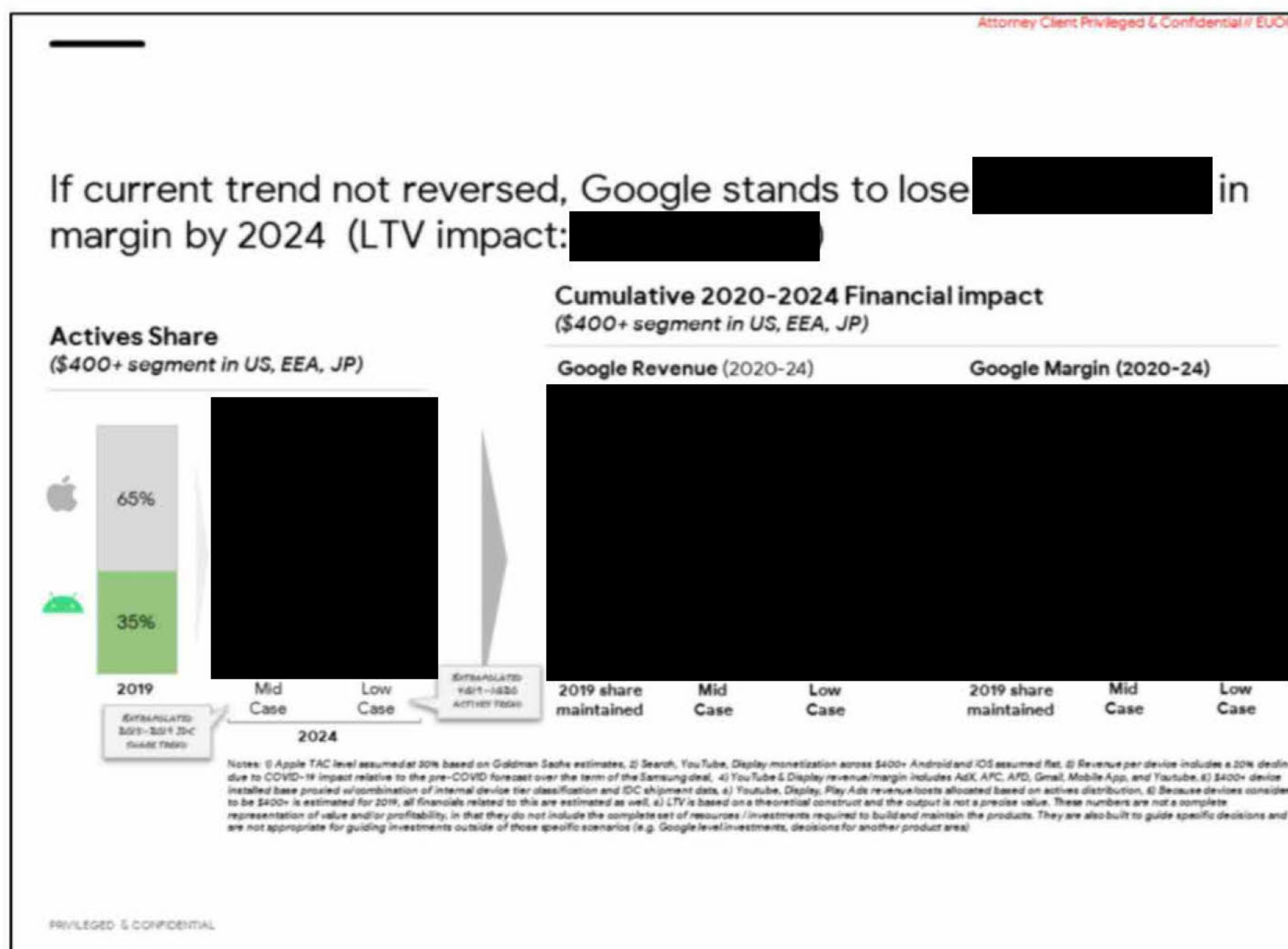
We are not looking for headroom to negotiate deal 1 and 2.

We can put this money toward driving share/outcomes in deal 3.



If Samsung commits to the first two deals... we can then also offer them our vision for full partnership and collaboration via the 3rd deal.

Note this deal is only for their mass premium and premium devices, the iPhone fighters, in key markets like US, Japan and Europe. There is a specific reason we need to zero in on these devices. Jamie alluded to it earlier on what is happening to Android share in these categories and to Samsung in particular.



Let's directly translate Android's projected share loss into economic impact to Google.

Of the [REDACTED] margin loss in 2024, [REDACTED] comes from Search, [REDACTED] comes from Play and [REDACTED] comes from Youtube and other services

If we lose share, we lose Play revenue, and our search TAC goes up to whatever the Apple rate is. We still get search revenue; it's just more expensive. As more and more traffic flows through Apple, it "just" means we have less control a la Windows over the integrity of the search business on an alternate platform.

Revenue	Forecast Assumptions	2019	2020	Redacted	Deal Term
Search	Redacted				
Revenue					
Play					
Revenue					
Display					
Revenue					
TOTAL Search, Play, and Display Revenue on All Samsung Devices				Redacted	

NOTES: 1) Covid adj: Figures assume a

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 downwards adj. to future revenue growth vs. Revteam's '2020V3' forecast

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