

Google

PEX & BC review:

**Google Distribution
on Android Framework**

As presented at BC

June 2019

Privileged & Confidential – Reflects Advice of External EU Counsel

Ex. No.

UPX1077

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Executive Summary - We are fine-tuning Android Search Rev share **Confidential** to protect Google from key strategic risks

Update: RSA spend and enrollment behind the target we set with 2016 BC approval

- 2016 BC approval targeted **Confidential** Android base coverage at **Confidential** of Total Search Distribution Revenue via Android. Due to device by-device nature of the deal, we are (1) not getting protection on some devices and (2) getting very limited traction in the "bonus" tier that is supposed to align OEMs with Google's xPA priorities

Since 2016, Android dynamics changed and we have higher exposure of Search and Play revenue than before

- Chinese OEMs and Samsung are actively investing in creating own app and services ecosystems; Microsoft and Amazon pursuing distribution deals on devices not covered by RSA; and Android market share is under pressure in developed carrier led geos

Ask: Spend **Confidential** in total in 2020 (**Confidential** to status quo) growing to **Confidential** in 2023 across Search and Play for carriers and **Confidential** OEMs to secure platform protections for Search, and Play and critical apps protections on more devices

- Introduce a new platform tier of RSA to secure browser defaults and assistant DHS exclusivity & gesture at scale
- Offer up to **Confidential** Play rev share to OEMs (**Confidential** to key CN OEMs, **Confidential** to smaller OEMs), spending **Confidential** in 2020 and up to **Confidential** in 2023 (steady state) in addition to the bonus tier of current RSA to secure Play exclusivity, Android upgrades, and distribution for critical apps (Comms suite, Pay, Photos, Gmail, Gcal, Discover suite)
- Offer additional **Confidential** of Search & Assistant revenue share to most strategic partners (for total of **Confidential** and **Confidential** for carriers) to incentivize clean UI devices with full set of Google apps

Note: Total Search Distribution Revenue Via Android Forecast includes Non-RSA Partner Dist. Rev

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Rewind back to 2016 BC Approval: Goal to secure more access points / Assistant / security updates / apps across more devices

Key "Gets"	Detail of the "Gets"	Key Terms / Outcome
Set additional access points	Secure 3 rd party browser defaults (not covered by MADA) on more devices (in 2016 [Confidential] devices were covered)	What worked: [Confidential] activations [Confidential] actives have protections for: <ul style="list-style-type: none"> ● Search Exclusivity (DHS in EU) ● Search defaults on 3P browsers ● Assistant DHS exclusivity ● Feed [Confidential] f activations) ● Security updates
Ensure security updates	Accelerating security updates is an Android ecosystem imperative	
Account for Assistant considerations	- Assistants increasingly seen as a future platform - Amazon heavily investing in Alexa & globally pursuing distribution partnerships w/ Android OEMs & Carriers (US/CA, UK, ID, LATAM, IN)	
Cover strategic regions	Expand & grow coverage in key regions (JP, KR, IN, ID, LATAM)	
Get distribution for additional apps	Secure defaults for 6 apps, critical for user experience (Mail, Photos, Calendar, Gboard, Messages, Duo) for additional [Confidential] of revenue	





In 2016, BC approved TAC to increase up to [Confidential] of Total Android Distribution Revenue in 2016-2023 assuming 100% Android devices would be covered by RSA [Confidential] would be in the bonus tier:

(\$ in billions)
BC Approved TAC
% of Forecasted Distribution Revenue
TAC Actuals
% of Actual Distribution Revenue

Confidential

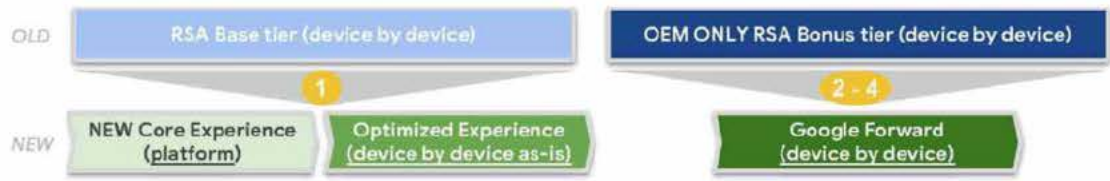
*Carrier and Samsung negotiations took longer than expected, so the anticipated shift in TAC to Carriers did not materialize

Since 2016, ecosystem dynamics have changed and competition has increased. Gaps in coverage exist.

- | | | |
|--|--|---|
| <div style="background-color: #0070C0; color: white; padding: 5px; border-radius: 5px; text-align: center; margin-bottom: 10px;"> 1 Search and Assistant </div> <div style="background-color: #0070C0; color: white; padding: 5px; border-radius: 5px; text-align: center; margin-bottom: 10px;"> 2 Play / Android </div> <div style="background-color: #0070C0; color: white; padding: 5px; border-radius: 5px; text-align: center; margin-bottom: 10px;"> 3 Other apps </div> <div style="background-color: #0070C0; color: white; padding: 5px; border-radius: 5px; text-align: center;"> 4 Android reach [Carriers] </div> | 


 | <ul style="list-style-type: none"> ● EC ruling created opportunity for rivals to secure full Search exclusivity on devices in EEA ● Microsoft and Amazon actively pursuing deals for Bing/Alexa on devices not covered by RSA (e.g. Bing is a default search on Xiaomi & Vivo in India; Alexa is prominent on LG/Moto Prime phones) ● Chinese OEMs have alternative stores preloaded on Confidential of Android devices, and have a meaningful overlap with Play offering; Huawei working on their own OS ● Samsung ramped up investments into their own store with S10 launch ● If Play is less relevant for OEMs, MADA protections may be at risk (leading to higher TAC) ● Chinese OEMs have Confidential services overlap with GMS apps and are at an inflection point on expanding their services outside China & India, e.g. Xiaomi made Confidential in service revenue in India in 2018 ● iOS users expect cohesive set of services incl. Messages, Photos, Music, Mail, etc. and view lack of unified offering on Android as a deterrent for switching ● Android share is under pressure in US (lost 6ppt in 2018; 2% DAU decline), and developed markets where most of the last year Android gains were driven by Huawei; Huawei ban puts ~250M shipments at risk over 2yrs |
|--|--|---|

NOTES: 1) Based on MagicEye study of Android One devices, controlling for user, device, and geo

New proposed structure (GDAF): Offer partners choice of 3 tiers of Google experience



Split protections into 2 separate components (platform and device-by-device) to get browser and assistant coverage on 100% of Android devices, and full RSA coverage in the higher tier

Find financially responsible way to (1) support OEMs via services revenue and (2) align OEMs with Google's vision of Mobile on Android, including app distribution, upgrades, UX, apps, deep integration with Google services (e.g. Assistant, Feed, Camera/Photos, Pay, Comms)

No incremental TAC %, higher 2023 spend only due to increased coverage

Confidential incremental revenue share in 2023 for Google forward devices + Confidential for devices with Play protection only

OEMs: We are proposing a 3-tiered deal framework that can be customized for individual partner via the fallbacks:




NEW

Core Experience (platform)	Optimized Experience (device level, conditional on Core)	Google Forward (device, conditional on Optimized)
<p>Browser search revenue share on GSA Widget overall Search rev share</p> <ul style="list-style-type: none"> ● OEM browser search defaults (waived in EEA) ● Assistant DHS, hotword and gesture exclusivity ● No search exclusivity 	<p>Search revenue share (as TODAY base)</p> <ul style="list-style-type: none"> ● Full exclusivity for Search & Assistant incl. Visual Search (+DHS icon for Assistant) ● Defaults for Feed (minimum shared) & Gboard 	<p>Search (as TODAY bonus) Play revenue share of spend for Oppo/Vivo/Xiaomi; for selected smaller OEMs**</p> <ul style="list-style-type: none"> ● Google apps as defaults for all key functions (i.e., Photos, Comms, Pay, Gmail, Calendar, etc.) ● Play as primary/ exclusive source of 3p downloads ● All access points for Search/Assistant/Lens ● Deeper product/ technical collaboration ● Google has approval over final UI ● Google retains rights to evolve the program over time
<p><small>*Also includes Transition; **We pay on Google-portion of Non-DCB Apps & Games Revenue & Play ads excl. transaction costs; Lower (4%) Play revenue share to be offered to LG, Entoro, Sony, Asus and other smaller OEMs;</small></p>		

OS Upgrades and Play Exclusivity

Google approves the UX/SW experience, subject to change by Google, which today includes: deep integrations for Assistant, Clean UI, Defaults/ exclusivity for Comms, Pay, Photos, News/Podcast, Gmail, GCal)

Search & Play revenues are top priority for Google forward tier
All gets incremental to Optimized tier; Google can update asks during the deal

	[P0] Optimized for Search & Play monetization 	Best Assistant experience on Android 	Cohesive phone experience 
Core gets	<ul style="list-style-type: none"> ● Core Search & Play provisions (e.g. Hotword, Discover, Play DHS exclusivity) 	<ul style="list-style-type: none"> ● SW integrations (e.g. gestures, lockscreen, visual cues, core app defaults (Gmail, Calendar)) 	<ul style="list-style-type: none"> ● UI & app preloads approval ● Defaults for preloaded GMS apps + no app duplication ● Google reserves right to evolve the list
Potential negotiation	<ul style="list-style-type: none"> ● Play full exclusivity ● Play FOP during setup ● Letter upgrades on low end devices 	<ul style="list-style-type: none"> ● BOM impacting integrations (e.g. dedicated button) 	<ul style="list-style-type: none"> ● Non-trivial eng work (e.g. AR/VR) ● Missing critical features (e.g. Photos in some goes) ● Carrier blocking (Comms in US)

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Guiding principles

P0: Core Search and Play provisions are non-negotiable. We reserve the right with OEMs to also request implementation of additional revenue generating features (e.g. Play FOP setup in OOB)

P1: Assistant integrations are top priority. Only negotiable items are provisions where OEM BOM is impacted (e.g. HW buttons, DSP integrations, etc.). Waiving such provisions will result in a lower pay-out for the partner

P1: Cohesive phone experience (i.e. UI and app preload approval): Non-negotiable (including no duplication of GMS apps). Google reserves the right to change/evolve the list of requested apps based on feature availability (e.g. Comms in JP), or changed priorities (e.g. require Camera integration, GPay additional features, etc. in the future)

How are we spending the **Confidential** in 2023: Protecting Search, Assistant, Play and getting **Confidential** clean, Google forward devices

1&2 Revenue at Risk Hedging: **Confidential** (Confidential search - Confidential Play)

1 Search & assistant **Confidential**

2 Play on Oppo/Vivo/Transsion **Confidential**

- Hedge **Confidential** non-covered revenue **Confidential** of browser and **Confidential** Europe revenue)
- Secure **critical Assistant access points** **Confidential** of Assistant invocations) on incremental **Confidential** devices
- Hedge **Confidential** non-covered Play revenue for the CN OEMs which are not likely to agree to UI/apps requirements

3&4 Google forward devices: **Confidential** (Confidential search + Confidential Play)

- **Xiaomi (112M actives)**: **Confidential** in Search + **Confidential** in Play in lieu of individual bounties
- **Non CN OEMs** **Confidential** actives): **Confidential** in Search + **Confidential** in Play in lieu of individual bounties
- **Carriers** **Confidential** actives): **Confidential** in Search to get clean devices (likely Pixel) and help incentivize them to sign up to spend **Confidential** in co-marketing

We propose investing **Confidential** per device to get **Confidential** devices with best of Google experience on Android **Confidential** in 2023 in total)

Confidential

Strategic

Aligns rapidly growing CN OEMs with Google before they pass the pivotal moment in 1P services growth (e.g. Xiaomi generated **Confidential** revenue from 1P services and ads in IN/ID)

Promotes Android and Google by advancing cleaner, more secure, fresher UX

App efficiency

Per device** and operational savings by consolidating standalone bounties:

Xiaomi: GFD is **Confidential** more expensive than app bounties, but adds Play, Clean UI, Photos, Gmail and Gcal protections

LG: **Confidential** savings per device after 2020 (GFD is **Confidential** more expensive vs. app bounties until button deal runs out)

Other non CN OEMs: **Confidential** savings per device (incl. HW button)

Additional potential upside (not part of the deal model)

Confidential in marketing by carriers (might require **Confidential** to manage)

Confidential revenue uplift for Google Forward devices via Search & Play

Clean devices are **Confidential** more likely to attract iOS switchers

Search protections on **Confidential** more actives, plus **Confidential** Google
forward actives would cost Google incremental **Confidential** in 2023

Confidential

Other OEMs includes rampdown from Huawei RSA devices

Overall economic impact (expected case): Total incremental payment will reach **Confidential** in 2023 **Confidential** from Play; **Confidential** Search)

2-year term

Confidential

Mandated carrier reinvestment is **Confidential** in each year
Other OEMs includes rampdown from Huawei RSA devices

Overall economic impact (Expected Case): Total incremental TAC payment will reach **Confidential** in 2023

Confidential

Other OEMs includes rampdown from Huawei RSA devices

1&2: We plan to spend **Confidential** to cover **Confidential** in key financial risks for Search and Play in addition to current deals
(2023F estimates)

Confidential

GDAF's Google Forward Tier protects against Play risk with OEMs, complementing Hug and Banyan

Play has 3 key ecosystem players to consider, and our risk mitigation strategies are catered to each:

	Users	Developers	OEMs
Risk Mitigation	Loyalty program	Hug (reviewed at BC earlier this year)	Banyan & GDAF
Mechanism	User incentives	Developer incentives	<i>Contractual and financial incentives</i>

Confidential

Shift to ultra-premium prominent in developed geos; **Confidential**

Confidential

drove share gain for Android

Confidential

Today: Two core agreements (MADA, RSA) supplemented with an array of subsequent deals & programs

MADA

Non monetary barter. Access to Google apps in exchange for placement and security updates

RSA

Revenue share (2 tiers). Premium placement, defaults + exclusivity for Search & Assistant; Feed and Gboard intended, but carved out of most of the devices

Confidential

Other Deals

Various (bounties, etc.). Mostly cover preload gaps and access points not covered by MADA and RSA

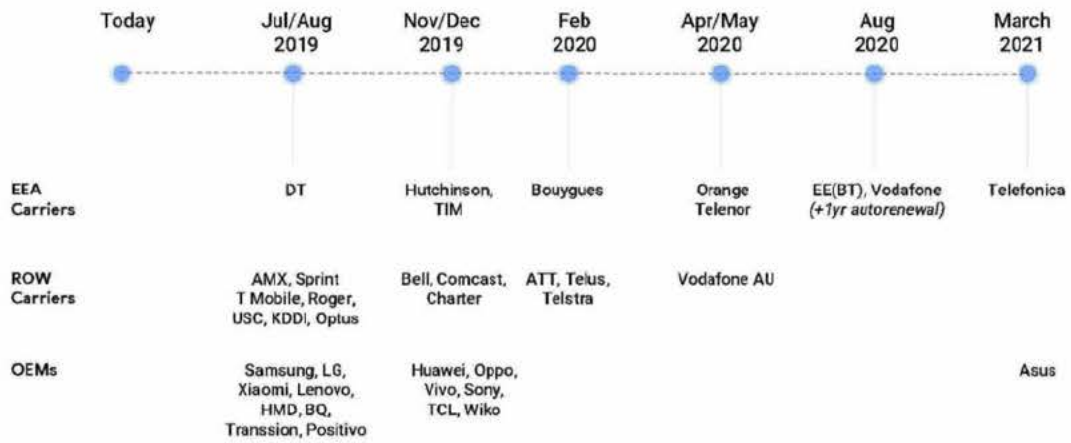
In the current world, each partner deals with multiple teams / deals to build an end-to-end view of how to work with Google

Introduction to what Android core commercial agreements are, and their basic premise

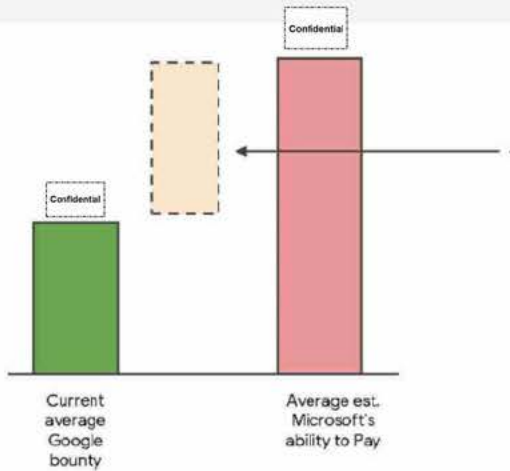
Recap: RSA Deal terms - BC approved (non Samsung) 31/10/16

	RSA Base tier (device by device)	RSA BONUS tier (OEM ONLY, device by device)
Preloads	MADA (11 GMS apps)	MADA(11 GMS apps) + Messages (opt), Gboard, Calendar
Exclusivity	Search: Full exclusivity (DHS in Europe) Assistant: DHS + OOB gesture & hotword exclusivity	Search: Full exclusivity (DHS in Europe) Assistant: DHS + OOB gesture & hotword exclusivity
Defaults	MADA (Assistant) Search: OEM browser default Chrome: Default browser (optional) Apps: None	MADA (Assistant) Search: OEM browser default Chrome: Default browser (optional) Apps: All relevant defaults
Placement	MADA (DHS placement for QSB, Play & Google Folder) Search: Feed on -1 (carved out of ^{Confidential} of RSA devices)	MADA (DHS placement for QSB, Play & Google Folder) Search: Feed on -1 Apps: Duo on DHS
Safety	90d security freshness (now also covered by MADA)	90d security freshness (now also covered by MADA)
Consideration	^{Confidential} Search & Assistant ads revenue (OEMs / carriers)	^{Confidential} of all Search & Assistant ads revenue
Uptake	^{Confidential} Android activations, ^{Confidential} actives	^{Confidential} Android activations, ^{Confidential} actives

RSA Timelines: Current RSA deals starting to expire, giving us opportunity to re-think and optimize the terms



In EEA: We recommend continuing RSA deals to ensure Google distribution



Not recommended: Only relying on activation bounty is not a sufficient deterrent to prevent rivals from buying out search exclusivity and browser defaults

top OEM's revshare comes from EEA. Taking away these funds will further incentivise OEM deals w/ rivals

Continuing RSA (GDAF) ensures:

- **Platform tier:** *Negates rival's ability to cherry-pick devices for exclusivity*
- **Browser defaults:** *Continues to secure 3P browsers**
- **Assistant, Discover and other apps:** *Valuable 'Gets' even in the choice screen scenario*
- **Downside protection:** *Incentive alignment as no payout to partners if Google not chosen by users*

Confidential

Worst case scenario: Devices with exclusive rival providers for search, assistant and browser

MSFT / AMZN distribution:

- **Search app exclusive on device**
- **Exclusive search widget + icon placement on DHS**
- **Competitor launcher set OOB with all search access points set to competing search service**
- **Browser default and exclusive on device**, with competitor search service as default
- **Assistant icon on DHS and enabled** with OOB hotword and gesture
- **-1 screen** controlled by competitor search app / feed



Estimated average rival offering ->>

Confidential

GDAF: 3-tiered RSA structure, aiming to give partners more incentives to go all Google while securing key access points

New terms	Core Experience PLATFORM	Optimized Experience DEVICE BY DEVICE	Google Forward DEVICE BY DEVICE
Preloads	MADA	MADA + GBoard	MADA + Google defined payload; Google has approval on all preloads: PAI used
Exclusivity	Assistant: DHS + OOB gesture & hotword exclusivity	Search: Full exclusivity Assistant: Full exclusivity	Google exclusivity and defaults for all preloaded apps; use stock Android UI; No apps with APK install rights
Defaults	Search: No exclusivity OEM browser default Chrome: Default browser (optional)	Search: OEM browser default Chrome: Default browser (optional) Gboard: Default	
Placement & Gestures	MADA Search: Feed on -1 required (shared tab with partner default okay) Assistant: Powertap	MADA Search: Feed on -1 required (shared tab with <u>Google default as fallback</u>) Assistant: icon on DHS + powertap	MADA Search: Feed on -1 Assistant: icon on DHS, enhanced integrations (<i>Google defined payload e.g. dedicated button</i>)
Play	MADA	MADA	Exclusivity
Safety & Updates			60d security freshness, last 2 letter updates

1&2: We plan to spend **Confidential** to cover **Confidential** in key financial risks for Search and Play in addition to current deals

Hedged Details ('23F)

- 1 Search in 3P Browser
- 1 Search in Europe
- 1 Assistant
- 2 Play on CN OEMs

Confidential

[High risk/Immediate] Google as 3P browser default could be replaced, exposing **Confidential** of annual Google distribution revenue (e.g. Bing is already default on some Vivo/Xiaomi devices in India partially contributing to **Confidential** search rev decline in 2018*)

[High risk/mid term] Without offering further incentive, rivals can get full exclusivity for search widgets and browsers exposing **Confidential** of Google revenue in '23F (high risk, but Google likely to win some portion back)

[High risk/mid term] **Alexa** could be preloaded and deeply integrated (icon on DHS, hotword, hardware affordance - access points that account for **Confidential** of Android's Google Assistant queries). This already happens on **Confidential** Amazon Prime devices (growing **Confidential** y/y)

[High risk/mid term] With a vibrant CN developer community and heightened geopolitical concerns, there is increased pressure for **Huawei** and other CN OEMs to double down on their own app stores putting **Confidential** of Play revenue at risk

NOTES: * Per user search revenue decline also driven users moving search into apps (e.g. video search into Tik Tok) and lower searchiness on non-Chrome (e.g. UC browser)

3&4: We propose investing **Confidential** in getting **Confidential** devices promoting best Google experience on Android **Confidential** per device)

3&4 Strategic Reasons

- Aligns rapidly growing CN OEMs with Google before they pass the pivotal moment in 1P services growth (e.g. Xiaomi generated **Confidential** revenue from 1P services and ads in IN/ID)
- Promotes Android and Google by advancing cleaner, more secure, fresher UX

Confidential	System crashes*	Confidential	Battery efficiency**
	GMS app usage uplift		User NPS scores

* Xiaomi A-One devices vs. same-spec'd Xiaomi MIUI devices; **Varies by button

3&4 Efficiency

Per device** and operational savings by consolidating standalone bounties:

- **Xiaomi**: GFD is **Confidential** expensive than app bounties, but adds Play, Clean UI, Photos, Gmail and Gcal protections
- **LG**: **Confidential** per device after 2020 (GFD is **Confidential** expensive vs. app bounties until button deal runs out)
- **Other non CN OEMs**: **Confidential** per device (incl. HW button)

3&4 Additional potential upside (not part of the deal model)

- **Confidential** in marketing by carriers (might require additional 1-2 HC to manage)
- **Confidential** revenue uplift for Google Forward devices via Search & Play
- Clean devices are **Confidential** more likely to attract iOS switchers (observed in Western Europe)

So how do partner economics work?
(Illustrative Example: Xiaomi in 2020)

Confidential