

Subject: Books - Publisher Update
Date: Tue, 15 Dec 2009 21:29:33 -0800
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Steve,

Here is what I have found after meeting with 3 publishers today. Tomorrow, we see 3 more. This will account for over 60+% of the book sales. Nothing scared me or made me feel like we can't get these deals done right away. Clearly, the biggest issue is new release pricing and they want a proposal from us. Everyone was ecstatic to see Apple and what it could mean for their industry.

Many of the answers were the same from every publishers. Below are those -

- worldwide consumer book market - \$40 billion (North America is \$25.1 billion)
- market expected to grow 2.7% annually over the next 3 years
- In the US, consumer books are 42% of the market, education/technical is 58%
- digital sales was 2% last year and will be 4.2% this year - includes ebooks and audio downloads
- books basically have three tiers - hardcover (0-12 months), trade paperback (12 month on), mass market (18 months on)
- each of these tiers has many price points
- most book never go mass market and stay trade
- marketshare

Random House 16.4%

Penguin 11.9

Haper 9.8

Simon & Sch 8.7

Hachette 6.9

- available in ePub format (original book are in InDesign)
- rich metadata is available (author, bio, date written, genre, etc)
- covers and illustrations are in hi-res color
- no ratings are available on books
- previews is usually at least the entire first chapter
- open to providing full search in the book with book preview ala what Amazon does for physical
- many categories currently underserved because of b&w screens - cookbooks, travel, kids, etc
- no one likes text to speech because of audiobooks and have disabled it on Amazon
- no one likes the book lending on Nook; one publisher is participating with a few titles (too limited anyways)
- generally North American rights held by US publishers. UK publishers control UK, Australia, India. Europe is mostly an open territory, with US and UK publishers both able to sell there
- all of them have some iPhone book apps but all agree that it should be in a book store
- their current DRM is 5 device limit but as we explained how FairPlay worked everyone was fine with it; I don't foresee this being an issue as our explanation is rock solid

Exhibit 13
Cue
03/12/13

K. Schroeder
ccr enr ccr

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- redownloads are fine
 - digital wholesale prices are the same as the physical product - roughly 50% of suggested retail price
 - asked about and are interested in doing bundles, especially for series
 - interested in including extra material (video, audio, images) as part of deluxe editions
 - open to promotional opportunities to introduce ebooks
 - pre-order up to 6 months ahead of book launch
 - very happy with level of sales reporting we can provide, which is better than Amazon
- Amazon is definitely not liked much because of selling below cost for NYT Best Sellers and not being upfront on their deal with them (e.g. didn't know about text to speech)
 - Amazon customer mostly all over 45 years old
 - Google was either not liked or indifferent; no one views them as a serious ebook commerce partner; with new settlement being proposed any book in print must opt-in and Google can only show 20% of the content so it is more of a preview
- everyone is interested in ad campaign that is co-funded; biggest issue is they have very small generic marketing funds since they can't charge it back to an author; will think more about the implications but want to do it

Here is some publisher specific data -

Hatchette

- Unhappy with \$9.99 price point, one of three major publishers to announce its intention to hold back ebooks at time of hardcover release (up to four months). Other two publishers are Simon & Schuster and HarperCollins
- Very open to the idea of window of exclusivity for higher priced new release content
- Looking for to propose price points
- 3k titles available as eBooks
- very much focused on bestsellers
- their content is delivered by third-party company based on Austin (also shared by two other major publishers)

RandomHouse

- 12k titles available as eBooks; adding another 10k in the first half of 2010
- doesn't like the \$9.99 price point, but doesn't want or support windowing. hasn't said so publicly
- very aggressive approach to what eBook rights they believe they hold, claiming worldwide rights for 55% of their catalog
- new contracts pay authors the same for physical or digital (30% of revenue); old contracts pay 50% of revenue for digital

Penguin

- 10k titles available as ebooks
- not happy about \$9.99 price point, but hasn't announced a position publicly; clear from the CEO, though, that they don't view a \$9.99 eBook as sustainable model competing with much higher priced physical books
- 20% of their sales come from new releases with wholesale prices above \$10



Next Steps -

- got systems contact to discuss feed and ingestion
- getting sample ePub book files
- set expectation that we need to sign contracts by Jan 15th
- we will send detailed term sheet

--- Eddy

----- end message -----

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