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To: Phil Schiller [REDACTED] Eddy Cue [REDACTED]
CC: Matt Fischer [REDACTED]
BCC:
Subject: Netflix
Attachments:
Sent: 07/25/2018 02:04:36 AM 0000 (GMT)

Phil & Eddy,

Matt and I met with Bill Holmes from Netflix (among others) today to hear the results of their IAP test in ten countries. Here were the takeaways, *as they conveyed them* :

The good news: Netflix saw significant incremental volume from IAP: 37% of the subscribers we captured were incremental to what they would have captured via web alone

The bad news: Apple IAP customers have much shorter lives due to voluntary churn than non-IAP customers—resulting in our incremental customers being worth 30% as much as subscribers they capture themselves

The bottom line: When you factor in our commission (12% net of transaction costs) and our incremental customers' shorter lives, IAP is modestly profitable (+4%) for them, but this may be optimistic (e.g., it excludes the US, which is large and less likely to be incremental). Netflix compared their 4% profit to our 15% commission and suggested that we have an uneven balance of trade.

We pointed out a host of problems with Netflix's analysis, but they don't really matter because this was just a prelude to a negotiation on their part. Netflix suggested ways we might lower our commission, which we shot down forcefully. Netflix also proactively made clear that they have no intention of joining TV App.

We steered the conversation to the positive things we can do together to reduce voluntary churn, increase engagement for all their customers (whether IAP or otherwise), and continue to generate incremental subscribers. The next step is for us to reconvene in a week or two to discuss these ideas, with the goal of reaching agreement on something that preserves their participation in IAP on principled terms prior to the expiration of their existing deal in early September.

Please let us know if you have questions or suggestions on any of this.

-Peter

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