

**PENGUIN RANDOM HOUSE LLC
2020 DISTRIBUTOR EFFICIENCY PROGRAM (DEP) &
2020 ADULT FREEDOM INCENTIVE PLAN**

There are 2 options for Adult Mass Market incentive earnings for Mass Merchandise Distributors, DEP and Freedom Incentive Plan. Distributors who service the Mass Merchandiser Market that elect to participate in the Freedom Incentive Plan for Adult product (see Appendix B) must do so by 1/15/2020. Otherwise, the **account will be put on the DEP.**

PENGUIN RANDOM HOUSE ADULT & CHILDREN'S DEP Mass Market (MM) & Digest (DG) INCENTIVE PLANS:

1. **Eligibility:** All MM & DG title purchases (except select product types – contact your rep for details) will participate in the plans to receive additional discount.
2. **Sell-Through:** All MM & DG units (except select product types – contact your rep for details) will participate for sell-through calculations.
3. **Plans:** There will be separate sell-through % calculations for Adult & Children's.
4. **Business Blends:** Business blends are required. The "business blend" is defined as the breakdown of an account's net sales among the Mass Merchandiser, Bookstore, and Education & Library markets. There will be an audit and update of the business blends each year in October to be applied to the following fiscal year.
5. **Calculation:** Efficiency incentives are paid in the form of credits issued annually, and are calculated on net dollar billing at retail.
6. **Returns Qualifier:** Eligibility to earn the efficiency discount is contingent on current-calendar year first-quarter unit returns not exceeding 35% of the total prior-calendar year returns.
7. **Credit:** The account must be in good credit standing with Penguin Random House. Accounts deemed not in good credit standing by the Penguin Random House credit department forfeit any and all rights to incentives earned as a result of this program. Customers cannot deduct any estimated or anticipated incentive claim prior to the actual incentive credit being issued by Penguin Random House.
8. **In-Store Service:** The distributor must notify Penguin Random House in writing by January 15, 2020 of any changes in the percentage of its net MM business in the mass merchandise market in which in-store service is performed. Penguin Random House reserves the right to not pay any incentive on its business in accounts where in-store service is not provided.

Sell-Through Component

The grid below illustrates the incentive discount that a distributor can earn at various sell-through levels.

	Year-End Incentive - % of MM Net Retail		
Sell-Through %	Mass Merch	Bookstore	Education & Library
60.0%	1.0%	N/A	N/A
62.0%	2.0%		
63.0%	3.0%		
64.0%	4.0%		
65.0%			
71.0%		1.0%	1.0%
76.0%			2.0%
80.0%		2.0%	3.0%
85.0%	4.0%		

The following conditions can affect the incentive payment:

- Penguin Random House LLC reserves the right to not pay incentive to accounts where in-store service is not provided.
- For each late monthly payment to Penguin Random House, there will be a 1/12 deduction in the incentive payout. No incentive deductions can be taken at any time.

PENGUIN RANDOM HOUSE LLC RESERVES THE RIGHT TO CHANGE TERMS OF SALE AT ANY TIME.
<http://www.penguinrandomhouse.biz/bookellers/>

PENGUIN RANDOM HOUSE LLC

2020 ADULT FREEDOM INCENTIVE PLAN FOR MASS MERCHANDISE DISTRIBUTORS

FREEDOM PLAN QUALIFICATION:

All mass merchandise distributor companies can qualify for the plan provided they meet the conditions below:

1. All new title orders for all formats must be submitted to Penguin Random House by the established due dates. (Please contact your Penguin Random House Sales Director for details on order due dates).
2. The Penguin Random House frontlist and backlist must receive the appropriate support in the designated retail outlets, as merited by history, sale trends, and marketplace opportunities.
3. Hot-selling titles are to be replenished in the key retail accounts.
4. The account must be in good credit standing with Penguin Random House. Accounts deemed not in good credit standing by the Penguin Random House credit department forfeit any and all rights to incentives earned as a result of this program. Customers cannot deduct any estimated or anticipated incentive claim prior to the actual incentive credit being issued by Penguin Random House.
5. Operations: The mass merchandise distributor is fully responsible for performing the necessary operational functions whether they are performed by the payer of record to Penguin Random House and/or contracted out to a third party. This includes: making our product store-ready, meeting street dates, access to distributor templates, reorder replenishment, proper merchandising and product presentation. Title inventory information must also be made available upon request or via a direct feed.

SECTION I: Each mass merchandise distributor elects to participate in one of two offerings: a) bestseller positioning OR b) sales efficiency. Accounts will be eligible to receive additional year-end discounts as follows:

a. Mass Market Bestseller Positioning (Total = up to +5% of mass market net billings at retail):

- +4%: provided that the account agrees to the sixty (60) mandatory bestseller slots, eighteen (18) "support title" slots, and six (6) "wild card" slots as outlined by the Penguin Random House Sales Director. Note that if there is a significant title shift during the year, Penguin Random House reserves the right to revise the slotting based on historical sales.
- +1%: provided that the account's sales efficiency is greater than 65%. Sales efficiency is defined as net mass market units divided by gross units.
- The qualifying months for bestseller listings are January 2020 through December 2020.

b. Sales Efficiency (Total = up to +5% of mass market net billings at retail):

- Up to +5%: Based upon the actual sell-through percentage in mass market units outlined below.

<u>Sell-Through %</u>	<u>Incentive</u>
60	1.0%
61	2.0%
63	3.0%
64	4.0%
65	5.0%

SECTION II: Program Titles

- a. A mass merchandise distributor may earn 15 cents per participating unit ordered from the following programs: 1) Pure Gold; 2) Program titles. For information on eligible titles within these categories, please speak with your sales representative. The qualifying orders are for planogram and major author distributions. Titles that are value priced are not eligible for this incremental incentive. It should be noted that some titles may only be eligible for designated periods of time while others may qualify for the entire year. To participate in program title incentives, a customer must distribute at least 100% of its business to the mass merchandise market (as specified in the business blend affidavit). Penguin Random House may add to or amend this list at any time. Program titles will also qualify for payments under Section I.

The following conditions can affect the incentive payment:

- Penguin Random House LLC reserves the right to not pay incentive to accounts where in-store service is not provided.
- For each late monthly payment to Penguin Random House, there will be a 1/12 deduction in the incentive payout. No incentive deductions can be taken at any time.

PENGUIN RANDOM HOUSE LLC
2020 ADULT FREEDOM INCENTIVE PLAN FOR MASS MERCHANDISE
DISTRIBUTORS

Account Designation

Distributor Name: _____

Account #: _____

(please check one)

_____ 60 titles, mandatory bestseller slotting; 18 titles, support title slotting;
and 6 titles, wild card slotting

OR

_____ Efficiency sliding scale

Submitted by: _____ Date: _____
Name

Signature

Please return to: Julia Neves (jneves@penguinrandomhouse.com or Fax: 212.572.2611)

Internal Processing: Chris Zimpleman (czimpleman@penguinrandomhouse.com or Fax: 212.414.3398)