

From: Makinson, John
Sent: Monday, October 29, 2012 3:14 AM
To: Penguin Group (global)
Subject: Penguin Random House

Dear Colleague,

The news pages have, as we all know, been filled with speculation about the future of Penguin ever since last week's report in the Financial Times about talks between Penguin and Random House. The subsequent news coverage – some of it accurate but much of it not – has caused understandable concern and anxiety right around the company. So our priority has been to bring this period of uncertainty to a rapid close, and let everyone know of our plans for the company's future.

We are now able to do that. Bertelsmann and Pearson, the parent companies of these two great publishing organisations, have announced that we shall be merging to create the leading – and emphatically the best – trade publishing company in the world.

The new company will be called Penguin Random House and will comprise all the English, Spanish and Portuguese language interests of the Penguin Group and of Random House. Bertelsmann will own 53 per cent of the shares and Pearson will hold the remaining 47 per cent. I will be the Chairman of the new company and Markus Dohle, the CEO of Random House, will be the Chief Executive. Markus and I are clear about our respective roles and will begin work later this week on the design of this new creative enterprise.

So why did we want to do this and what kind of company are we hoping to create?

I have been discussing the likelihood and the opportunity of consolidation in the book publishing industry with Marjorie and my colleagues in the Penguin management team for several years now. We didn't have to do this right now, of course. We could have waited. But

in any industry it's always right to lead the process of consolidation rather than to follow. That way you get to pick the most attractive partner and steal a march on everyone else. I have always thought that Random House would be far and away the best partner for Penguin, not just because of its reach and our obvious complementarity, but because of the outstanding quality of its publishing. We are different businesses with distinct cultures but we have a similar heritage and, as Marjorie said in her note, a shared commitment to intellectual independence and publishing excellence.

The announcement we are making today might have seemed less surprising two years from now, perhaps as unavoidable even as the hurricane that is heading up the Eastern seaboard as I write this. But Allen Lane has taught us all that fortune often favours the brave; and he certainly didn't build the world's most famous publishing brand by thinking incrementally about how our industry would develop.

It is going to be a while before this merger can take effect. It could take up to a year to clear all the regulatory hurdles but we'll be able to do some planning while that process is underway. Markus and I will have joint responsibility for thinking about the future shape of the company. We will integrate only where we think it really makes sense and we'll make every effort to choose the best person for each job in the combined company. I promise to send you regular updates on our progress.

I have no doubt that some authors, agents and customers will express concern to many of us that this merger will reduce choice and competition. I believe, and so I know does Markus, that exactly the opposite will happen. The publishing imprints of the two companies will remain as they are today, competing for the very best authors and the very best books. But our access to investment resources will also allow Penguin Random House to take risks with new authors, to defend our creative and editorial independence, to publish the broadest range of books on the planet, and to do it all with the attention to quality that has always characterized both Penguin and Random House.

We must never be an arrogant or a complacent company but we do need to be confident – confident in managing the transition to a digital economy, confident in taking advantage of the opportunities available to us in emerging markets, confident in how we innovate and invest.

Above all, we must make this new company THE place to be - for people who want to work in our crazy and compelling industry, for authors and their agents who are looking for the finest home for their books, and for readers who might want to pick up a bestseller one day and a little known Classic the next. None of this will be easy. We will need to forge a personality for this company, drawing on the strengths of our two parents and on the legacies of our two publishing companies, but shaping a working culture that is forward looking and imaginative, global in scope and yet local in focus, friendly and informal.

It will take us a while to get there. New companies take time to mature, however glorious and distinguished their antecedents. But I have no doubt that we have everything that we need - the authors, the imprints, the brands, the scale and the people – to make this a company of which we can all be proud.

My best,

John