
From: David Hampton </O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=9A520AFFB0DE4014A9414763A9D35C25-DAVID HAMPT>
To: Jerret West
Sent: 12/4/2019 9:34:30 PM
Subject: FW: Board Report Success-Thank you!
Attachments: Q2 BoD 2020 - State of the Business - Gaming.pptx

JFYI, quarterly Board report for the Gaming CSA (customer solution area...think division).

This includes:

- Topline statements from each of Microsoft's 7 CSAs. This is a quick way to get a pulse on the Company (slide 2)
- Performance of Gaming's SLT scorecard metrics (slides 4-6)
- Recent movements from primary Gaming competitors (slide 7)

Happy to answer questions.

From: Amber Yang <Xiaodan.Yang@microsoft.com>
Sent: Wednesday, December 4, 2019 1:22 PM
To: Robert Scheibeck <Robert.Scheibeck@microsoft.com>; Matt Attaway <matt.attaway@microsoft.com>; David Hampton <dhampton@microsoft.com>
Subject: Board Report Success-Thank you!

Hi team,

I wanted to let you know that the Board session took place earlier today and it was a great success. The quality of the slides stood out. According to Kurt, two board members commented separately with broad nodding of heads both times that this was the best session ever.

I wanted to thank you for your strong partnership on this report!

Best,
Amber Yang
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Q2 BoD 2020 - State of the Business - Gaming.pptx

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State of the Business

December 2019

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Slide 1 Notes

Each month, Kurt DelBene's Corporate Strategy team prepares two presentations that capture the state of Microsoft's business: a business overview presentation (presented to the SLT and shared with the Corporate Vice Presidents) measuring our progress against key indicators, and a competitive report (shared with the entire company) capturing major competitive developments in the markets in which Microsoft competes.

The business overview presentation is prepared in close partnership with Amy Hood's team and data science leads in each engineering division. The competitive report is prepared in collaboration with competitive intelligence leads within our product groups across engineering, marketing, and sales. Together, these presentations provide the Company with both an inward-looking view of our performance and an external view of the challenges and opportunities Microsoft faces.

This report draws on this work, as well as input from the Customer Solution Area leads, to provide the Board an overview of the business. This edition is based on data through October 2019, unless otherwise noted.

State of the Business

Modern Workplace: Our FY20 growth priorities remain E5 seats, SMB seats, and Teams engagement. We continue to see strong growth in these areas, but as there are steep growth curves in H2, we need to accelerate our progress in these areas even further to maintain our long-term growth aspirations.

Modern Life: Surface is selling well, driven by strong Pro and Laptop performance; we are looking to the Holiday season to see how the new lineup lands. Office 365 customer acquisition continues to be an area of concern.

Search, Advertising, and News: Revenue will miss target as volume challenges from Edge performance continue; we are pushing rate aggressively to offset volume decline as much as possible. Focus is on successful Edge Chromium launch in Q3 and Q4.

Business Applications: We see strong growth in usage across Dynamics 365 and Power Platform. Dynamics customer adds have slowed down due to a weak sales pipeline in the second quarter, which is being addressed through improvements in sales execution.




Apps & Infra / Data & AI: Ongoing strong demand for our Azure services and strong response to our priority motions around helping customers migrate to and innovate in the cloud. Azure Consumed Revenue (ACR) is tracking closely to budget, driven by Strategic and SMC-C accounts.

Gaming: Third party performance (primarily transactions) continues to be weaker than expected. Game Pass subscriptions are growing in line with expectations, with strong engagement on key content.

LinkedIn: All "Core 4" metrics (Sessions, Engaged Quality Members, Revenue and Adjusted AM) are currently tracking above target but expect FY20 Adjusted AM to be slightly under target as activity related to the Azure migration ramps up.

Gaming



	Status
Content and Services Revenue (C\$M) ^{YTD}	
Xbox Live MAU (M) ^{EOP}	
Xbox Game Pass Subscriptions (M) ^{EOP}	

Slide 3 Notes

In Gaming, we are pursuing an expansive opportunity – from the way games are created and distributed to how they are played and viewed. Our key growth bets are in:

- Content:** exclusive game content and creation of content subscriptions;
- Community:** playing, watching, and communicating about games; and
- Cloud:** streaming of game content to new endpoints and services for game developers.

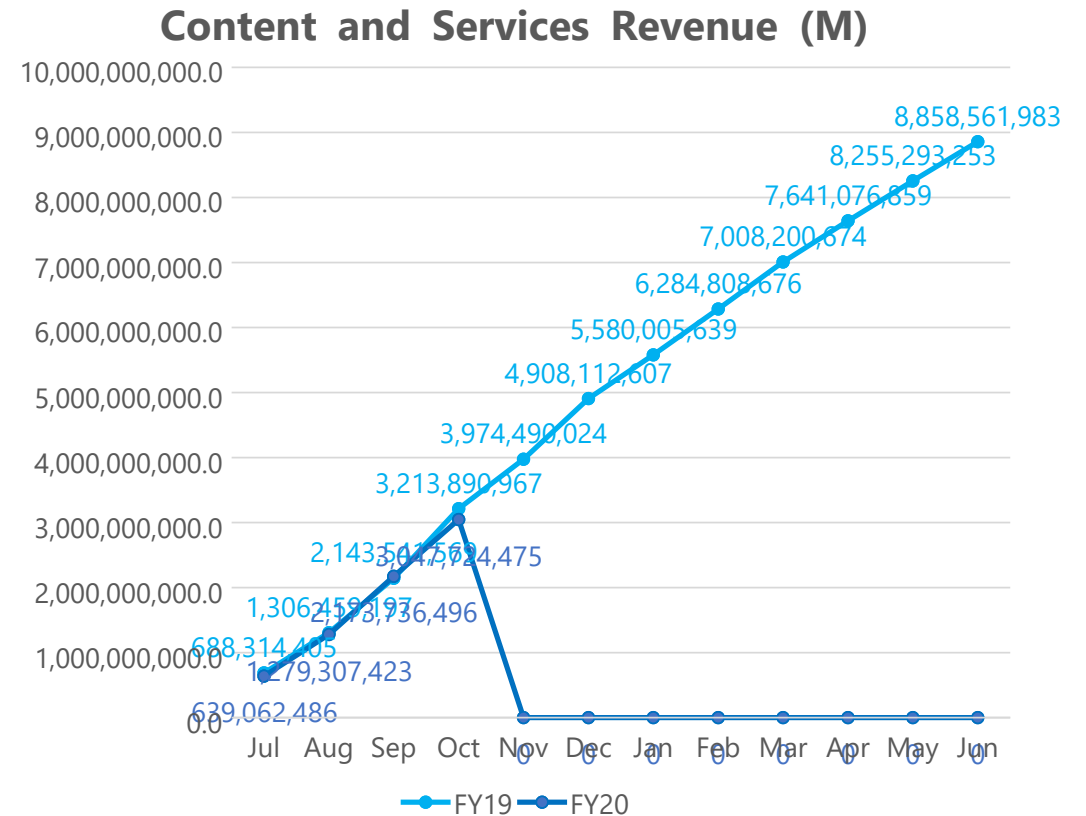
We are pursuing a multi-platform strategy by building on our strong Xbox platform and creating a subscription-based streaming service, enabling users to access content across a range of other platforms and devices.

Content and Services Net Revenue

October 2019

Total Gaming Net Revenue excluding Hardware (console/accessories); the sum of all Gaming Net Revenue minus Xbox Hardware Net Revenue.

FY20 Actual	\$3,048M
FY19 Actual	\$3,214M
YoY	-5.2%
MoM	N/A



Source: MS Analytics

Slide 4 Notes

Content and Services Net Revenue represents the primary growth opportunity for our Gaming business. We focus on Content and Services for two primary reasons: 1) it excludes the hardware business, which is cyclical in nature and highly dependent on the life-cycle of the console generation, and 2) it indicates future growth potential beyond the console platform.

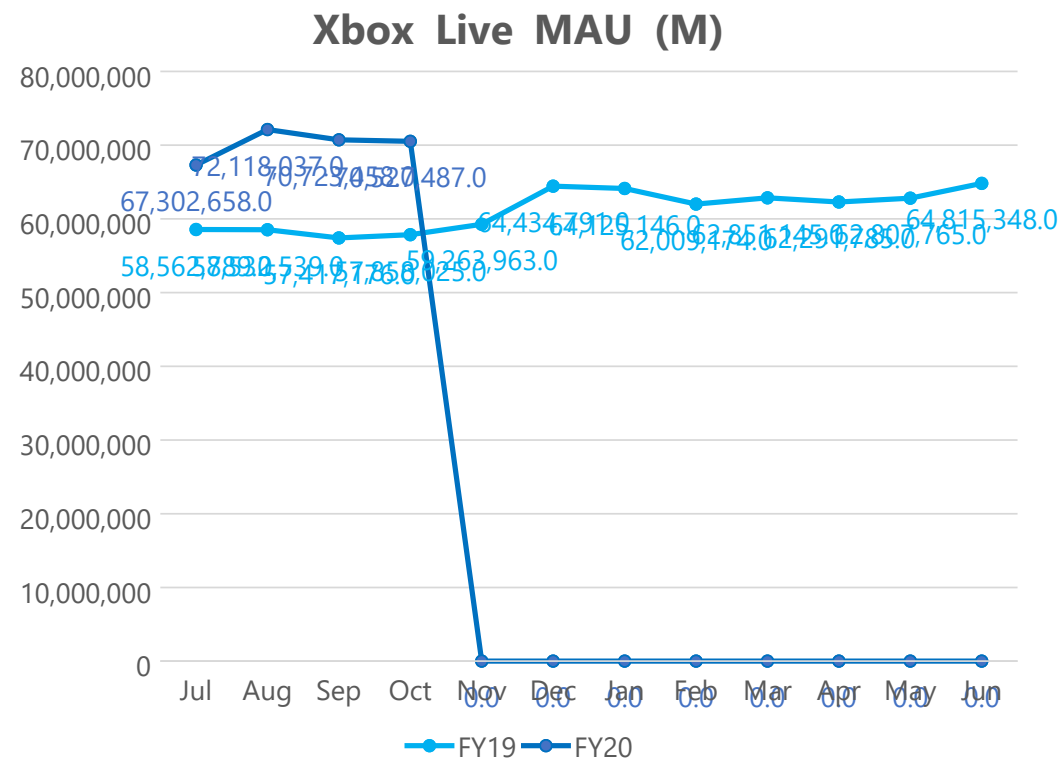
Year-to-date Content and Services Net Revenue is below target. The core driver of this decline is a dip in our third-party transactions business, primarily driven by Fortnite. Excluding Fortnite, our third-party transactions business has grown on a year-to-date basis. Underperformance in third-party transactions was partially offset by overperformance in our first-party Xbox Game Studios business, primarily driven by Minecraft. We are working to rebuild topline revenue through first-party attach opportunities, specifically Xbox Game Pass and Xbox Live Gold Subscriptions, as well as Xbox Game Studios with an exciting H2 content lineup.

Xbox Live MAU

October 2019

Xbox Live authenticated users using at least one of the ten Live enabled components where presence information is available during the reported calendar period.

FY20 Actual	70.53M
FY19 Actual	57.86M
YoY	+21.9%
MoM	-0.3%



Source: MS Analytics

Slide 5 Notes

Xbox Live is an essential building block in our goal to provide a cross-platform set of experiences for gamers, and it is also the base of our Gaming attach business. We measure Xbox Live usage by Monthly Active Users (MAU) based on the count of gamertags across all platforms.

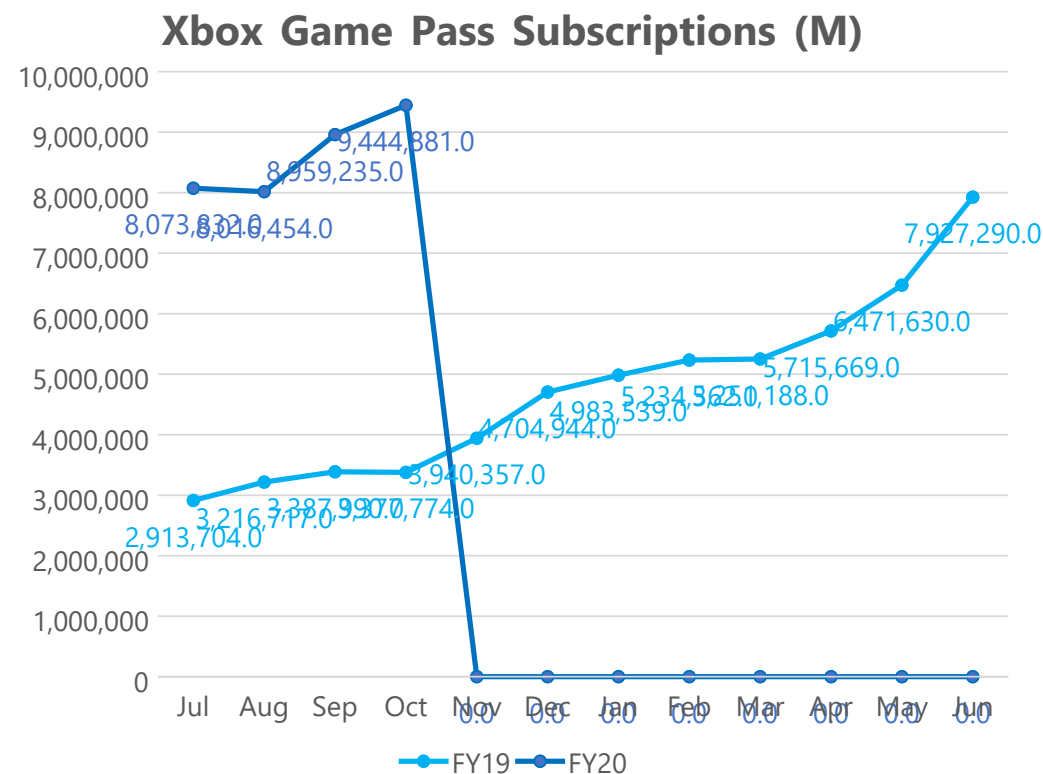
Xbox Live MAU exceeded target by +7.3 million (or 11.5%) in October FY20, driven by strong Minecraft MAU growth on Mobile and Windows.

Xbox Game Pass Subscriptions

October 2019

Measures the cumulative end-of-period count of Paid Subscribers for Game Pass Ultimate, Game Pass Console, and Game Pass PC. It reflects net growth from new adds, win-backs, churn (billing, cancellations, non-renewals), and net locks.

FY20 Actual	9.44M
FY19 Actual	3.38M
YoY	+179.6%
MoM	+5.4%













Source: MS Analytics

Slide 6 Notes

Game Pass Subscriptions are a key growth driver for the Gaming business. From a financial point of view, these subscriptions are on a critical path of moving toward a recurring revenue model (SaaS) that reduces the cyclical noise of console generations and title launches. From a customer point of view, they provide the ability to move seamlessly between watching a game (Mixer) and playing a game without additional transactional friction (playing will be instant when combined with our forthcoming Game Streaming offering).

Game Pass Subscriptions were materially in line with plan in October FY20, and there was strong engagement with new AAA content (Outer Worlds). In addition, acquisition through our Spotify promotion helped to close the gap from the previous quarter.

Gaming: Competitive Overview

<p>Sony confirmed PlayStation 5 will launch holiday 2020</p> <p>PS Now's price decreased from \$19.99 to \$9.99 per month on October 1</p>		<p>Stadia Founder's Edition will launch on November 19, but it could take up to 2 weeks to reach buyers</p> <p>Announced that an internal studio in Montreal will develop exclusive first party titles for Google Stadia</p>	 
<p>Switch Lite sold nearly 2 million units in its first 10 days</p> <p>Switch's launch in China, in partnership with Tencent, is in the works but no date has been announced</p>		<p>Arcade launched on September 19 with 100+ titles for \$4.99 per month</p> <p>Arcade is included in iOS13 and allows family sharing across all Apple devices, including Apple TV</p>	
<p>Increased its stake in Supercell, publisher of the hit mobile game <i>Clash of Clans</i>, to 51%</p> <p>Acquired 29% stake in Funcom, the Norway-based developer of the PC game <i>Age of Conan</i></p>		<p>"Shroud," #3-ranked streamer, joined "Ninja" to become the latest major Twitch streamer to defect for Microsoft's Mixer</p>	
<p>Launched a beta test of Remote Play Together, a Steam service that enables gamers to play shared-screen games over the internet</p>		<p><i>Fortnite's</i> digital revenue fell to its lowest point since 2017</p> <p>Headquarters expansion could add up to 2,000 new employees</p>	
<p><i>Call of Duty: Modern Warfare</i> earned \$600 million in its first weekend, the best launch for this console generation</p> <p><i>Call of Duty: Mobile</i> reached 100 million downloads in its first week</p>		<p>Electronic Arts (EA) titles are returning to Steam, eight years after EA launched its PC digital store (EA Origin)</p> <p>Project Atlas, an AI-powered cloud streaming service, opened sign-ups for its technical trial</p>	

Slide 7 Notes

Gamers increasingly engage with content in a variety of contexts across multiple devices. As games become more complex with a diversity of business models, the demand for cloud services and developer tools to power these experiences also grows.

As currently structured, content and services are largely “locked” to device endpoints. We anticipate that this dynamic will invert, moving toward a user-centric paradigm where content and experiences follow users. Given our assets in Content, Community, and Cloud, Microsoft is well-positioned to lead this transition. Microsoft launched its xCloud Preview streaming service on October 14.

In addition to our traditional console competitors (e.g., Sony, Nintendo, Electronic Arts), major technology competitors also have a significant gaming footprint, including but not limited to:

- **Amazon:** Twitch, Amazon Web Services
- **Apple:** iOS App Store, Apple Arcade
- **Google:** Google Play, YouTube, Google Cloud Platform, Google Stadia
- **Tencent:** League of Legends, WeGame, Tencent OS (Android “fork”), Start streaming service

In the near-term, we believe the following areas merit closer observation:

- **Content Subscriptions:** Multiple players have launched or are planning to launch content-based subscriptions (led by Microsoft’s Xbox Game Pass), as Gaming begins to resemble other entertainment categories. Apple Arcade, a curated mobile gaming subscription program, launched on September 19 for \$4.99/month, and Ubisoft launched PC subscription Uplay Plus on September 3 for \$14.99/month. Google launched Google Play Pass, a subscription service for a catalog of apps and games, on September 23 for \$4.99.
- **Cloud Gaming:** Major technology players are jostling to lead the shift to cloud-native gaming, led by Microsoft, Google, Amazon, and Tencent.
- **Console:** Primary console players are gearing up for a next generation of releases, led by Sony’s PlayStation 5 and Microsoft’s Project Scarlett.