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**From:** Phil Spencer </O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=MICROSOFT.ONMICROSOFT.COM-55760-PHIL SPENCER>  
**To:** Chris Capossela; Takeshi Numoto  
**Sent:** 8/6/2020 12:03:02 AM  
**Subject:** RE: random thought

Takeshi, I totally agree that Nintendo is THE prime asset for us in Gaming and today Gaming is our most likely path to consumer relevance. I've had numerous conversations with the LT of Nintendo about tighter collaboration and feel like if any US company would have a chance with Nintendo we are probably in the best position. The unfortunate (or fortunate for Nintendo) situation is that Nintendo is sitting on a big pile of cash, they have a BoD that until recently has not pushed for further increases in market growth or stock appreciation. I say "until recently" as our former MS BoD member ValueAct has been heavily acquiring shares of Nintendo (<https://www.reuters.com/article/us-nintendo-valueact-exclusive-idUSKCN2232VT>) and I've kept in touch with Mason Morfit as he's been acquiring. It's likely he will be pushing for more from Nintendo stock which could create opportunities for us. Without that catalyst I don't see an angle to a near term mutually agreeable merger of Nintendo and MS and I don't think a hostile action would be a good move so we are playing the long game. But our BoD has seen the full writeup on Nintendo (and Valve) and they are fully supportive on either if opportunity arises as am I.

Confidentially we have two fairly active M&A discussions in Gaming right now, Warner Brothers Interactive and ZeniMax. I took ZeniMax to the BoD last week and prior to the BoD discussion I asked Amy and Satya if they wanted me to slow either or both of these given the TikTok discussions and they both emphatically told me "no". They are fine doing all 3 of these if the deals make sense. I won't say WB or Zeni is Nintendo but both are for sale and gettable by us if things align. Biggest obstacle in WB is IP ownership, we wouldn't own any of the IP which hurts long term flexibility and the only obstacle on Zeni is valuation expectations of founders. But I think it's likely one or both of these happen which will help us continue to double down on our Gaming relevance. To give a sense of scale, ZeniMax is about the size of our current first party studios org, so that would be doubling our content asset. Downside is it's more core, less broad, not mobile, more north American/European etc.

I love this discussion and value you looking at the opportunities here. At some point, getting Nintendo would be a career moment and I honestly believe a good move for both companies. It's just taking a long time for Nintendo to see that their future exists off of their own hardware. A long time.... :-)

Phil

**From:** Chris Capossela <Chris.Capossela@microsoft.com>  
**Sent:** Wednesday, August 5, 2020 12:34 PM  
**To:** Takeshi Numoto <Takeshi.Numoto@microsoft.com>; Phil Spencer <philsp@microsoft.com>  
**Subject:** RE: random thought

Great thoughts.

TikTok has really fallen into our lap rather than being something we actively sought out for our consumer business. If you said what is the next best consumer asset that we should spent \$10B to \$30B on, I don't think we'd say it's TikTok/ But the stars have aligned to give us a chance so we should look hard at pursuing it.

As you know, for each of the solution areas, we have a set of companies we'd love to acquire if the timing and terms were right. **They of course have to be willing to sell... and they have to see us as a top company to sell to** (like Mojang did). TikTok has not been on any of these lists so I think it's important to realize the current discussions are ones that developed due to geo-political dynamics and the good fortune we have with a strong, trusted brand that make TikTok look to us as a way to avoid being shut out of the US market by the current administration. You can argue if it wasn't on any of our lists why are we entertaining the idea but I think we never envisioned that this could be really possible and this big acquisition opportunities come along so rarely, that we



can't afford to not pursue the idea. I completely agree with you that it's not as adjacent as a variety of other prosumer/consumer assets that we might like to buy.

I won't "out" Phil on the list of possible gaming acquisitions that we've shared with the board but I will say they are focused on great content companies that would help us improve the Game Pass catalog, deepen our PC and mobile content and help us in regions of the world where Xbox has had less success to date. There have been lots of rumors recently of Microsoft being in talks with a variety of major content players like Warner Brothers, EA, etc.

Chriscap

**From:** Takeshi Numoto <[Takeshi.Numoto@microsoft.com](mailto:Takeshi.Numoto@microsoft.com)>

**Sent:** Wednesday, August 5, 2020 12:16 PM

**To:** Phil Spencer <[philsp@microsoft.com](mailto:philsp@microsoft.com)>; Chris Capossela <[Chris.Capossela@microsoft.com](mailto:Chris.Capossela@microsoft.com)>

**Subject:** random thought

I get that this whole Tic Tok discussion is happening outside the regular core biz discussions, but it really makes me wonder why we would not find targets like Nintendo more attractive, if we want to find a way to increase our consumer exposure and relevance.

Tic Tok or any other social network seem to have little in the way of hard hitting (not conceptual) adjacencies that would help us accelerate its growth (reason of us being a better owner since it will be banned otherwise, does not feel like a sound logic) or have it accelerate our existing CSAs outside SANE (which is one of our weakest CSAs).

With any existing category, making real inroads into it without sufficient critical mass to begin with seem hard, and I think we all know that you can only do this when there is a macro secular shift that can be exploited (eg -- shift to touch in terms of UEX (Apple and Android), or to cloud in terms of app pattern (Azure is now a much bigger infra tech provider than VMware, formerly king of infra on-prem) etc.).

With gaming, while we have been a consistent #2, we have strong franchise, and a secular shift to the cloud (and perhaps immersive MR/VR over time) that can really help us shift our position (both vis a vis Sony but also Steam). And in this context, it feels like Nintendo has such a rich set of franchises that can help us shore up our content franchises that we can then have accrue to the shift we will likely have to the cloud and to MR/VR over time....(and then perhaps even back to social network given the volume of game viewing as content/community – what if thought about AltSpace as our new social network for next gen immersive games)

I suspect you guys have talked about this multiple times, and I get that there are numerous challenges about this target, but thought I would at least share my musing (since it feels more logical than Tik Toc).

Thanks,  
-Takeshi