From:	Sarah Bond </O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS /CN=6FDD250A06434681BB95FA813DAB9EE2-SARAH BOND>
To:	Phil Spencer
Sent:	3/24/2020 8:14:23 PM
Subject:	RE: Friday's outside-in Take2

EXHIBIT
PX1063
10/11/22 CB

Yeah. We have made good progress on our psychic mind link :-)

From: Phil Spencer <philsp@microsoft.com>
Sent: Tuesday, March 24, 2020 1:13 PM
To: Sarah Bond <Sarah.Bond@microsoft.com>
Subject: RE: Friday's outside-in Take2

1-2 punch….

From: Sarah Bond <Sarah.Bond@microsoft.com>
Sent: Tuesday, March 24, 2020 1:07 PM
To: Phil Spencer <philsp@microsoft.com>; Peggy Johnson <Peggy@microsoft.com>; Satya Nadella <satyan@microsoft.com>; Amy Hood <amyhood@microsoft.com>; Chris Capossela <Chris.Capossela@microsoft.com>
Cc: Tim Stuart <timstu@microsoft.com>; Bill Duff <billduff@microsoft.com>; Jerret West <Jerret.West@microsoft.com>
Subject: RE: Friday's outside-in Take2

Yes, exactly right thanks Phil.

As of right now, every AAA publisher with the exception of Activision has been in XGP at some time. Take 2's is unique in that their games have a very high rate of in-game monetization – even for a AAA, so in addition to the license fee they saw significant benefit from the increased player based which they saw from XGP. That is why they are not proactively coming to us with suggestions for putting in their largest games.

For all of the AAA, what has helped has been first trying out/learning with one of their smaller games and then moving up to larger franchises. Increasingly for these larger publishers, they also want to see shared benefit in the growth of the subscription, because as Phil says, they do not want to be in the position content providers find themselves in with Netflix. We are in the midst of evolving our deal structures to lean into this – now is the time to make that pivot given our scale and ability to drive growth off-platform.

Best
Sarah

From: Phil Spencer <philsp@microsoft.com>
Sent: Tuesday, March 24, 2020 12:59 PM
To: Peggy Johnson <Peggy@microsoft.com>; Satya Nadella <satyan@microsoft.com>; Amy Hood <amyhood@microsoft.com>; Chris Capossela <Chris.Capossela@microsoft.com>
Cc: Tim Stuart <timstu@microsoft.com>; Bill Duff <billduff@microsoft.com>; Jerret West <Jerret.West@microsoft.com>; Sarah Bond <Sarah.Bond@microsoft.com>
Subject: RE: Friday's outside-in Take2

Great question and Sarah will have comments.

ATVI are the biggest holdout today. EA is now in with EA Access.

I think 3 things are really driving why Take2 and others are "in":

- Trust – Sarah and team have built long trusted profitable relationship with these partners and that matters a lot during transitions. Take 2 bet on XGP, they then backed out and now are back in. The relationship and communication with them is a key.
- XGP works – GTA, as an example for Take 2, is seeing incredible success in XGP from a post-sale monetization standpoint. XGP is at enough scale today that publishers, mostly, see success now so it's proving that virality matters.
- Learning – All of the publishers know change is coming/here and they know they need to learn and adapt. We are a very easy platform to test, just sign a deal, no dev work, and the game is in. Take2 isn't at the scale of ATVI or EA so they have to use agility as a tool more than the bigger pubs.

And of course we are doing deals so get these games so the financials have to work.

Phil

From: Peggy Johnson <Peggy@microsoft.com>
Sent: Tuesday, March 24, 2020 12:50 PM
To: Phil Spencer <philsp@microsoft.com>; Satya Nadella <satyan@microsoft.com>; Amy Hood <amyhood@microsoft.com>; Chris Capossela <Chris.Capossela@microsoft.com>
Cc: Tim Stuart <timstu@microsoft.com>; Bill Duff <billduff@microsoft.com>; Jerret West <Jerret.West@microsoft.com>; Sarah Bond <Sarah.Bond@microsoft.com>
Subject: RE: Friday's outside-in Take2

This was helpful context, Phil, thanks. Of the AAA publishers, who are still holding out on XGP? And why did Take2 jump in early? Was it just higher acceptance of risk profile on subscription, or are they differentiated in some way from other AAA publishers that caused them to do so?

From: Phil Spencer <philsp@microsoft.com>
Sent: Tuesday, March 24, 2020 12:37 PM
To: Satya Nadella <satyan@microsoft.com>; Amy Hood <amyhood@microsoft.com>; Chris Capossela <Chris.Capossela@microsoft.com>; Peggy Johnson <Peggy@microsoft.com>
Cc: Tim Stuart <timstu@microsoft.com>; Bill Duff <billduff@microsoft.com>; Jerret West <Jerret.West@microsoft.com>; Sarah Bond <Sarah.Bond@microsoft.com>
Subject: Friday's outside-in Take2

Friday's SLT outside in is with Take2 (publisher of Grand Theft Auto, Red Dead Redemption, NBA2K, Civilization etc). Thanks to Sarah and team for getting this setup.

In addition to asking them to focus on their view of streaming, subscriptions and next gen consoles, we've asked them to discuss how work from home for a content creation company is working. I want them to start with the WfH learning as I think it could be valuable but hoping to get to a broader conversation.

In terms of subscriptions and the impact on larger publishers I realized that I haven't really done a good job sharing our view on the disruption AAA publishers potentially see and how their role in the industry will likely change with the growth in subscription platforms like Xbox Game Pass. .

We should start with the question of why game publishers exist in the first place. And like many other forms of media the idea of a game publisher was created from an access "moat"; like movie studios locking up theater distribution, album companies locking up radio play, game publisher's scale in physical retail game sales allowed them to secure retail shelf space, in-store promotion and margin structure beyond what any individual studio could dictate when games were primary sold in retail stores. If you were a studio, you needed a AAA publisher to reach a customer at an Egghead software.

This constriction in the access from creator to consumer stayed in place for years and in that time AAA game publishers increased their control. The creation of digital storefronts like Steam, Xbox Store and PlayStation Store eventually democratization access for creators breaking physical retail's lock on game distribution. AAA publishers were slow to react to this disruption. The AAA publishers did not find a way to leverage the moat that physical retail created in the digital realm in a way that had them continue their dominance of the game marketplace. They have not found a way to effectively cross promote, they have not found a way to build publisher brands that drive consumer affinity (the way Disney has in video), they did note create a social platform that would allow them reach beyond their aggregate IP MAU. Without a lock on physical distribution the role of the AAA publisher has changed and become less important in today's gaming industry.

Over the past 5-7 years, the AAA publishers have tried to use production scale as their new moat. Very few companies can afford to spend the $200M an Activision or Take 2 spend to put a title like Call of Duty or Red Dead Redemption on the shelf. These AAA publishers have, mostly, used this production scale to keep their top franchises in the top selling games each year. The issue these publishers have run into is these same production scale/cost approach hurts their ability to create new IP. The hurdle rate on new IP at these high production levels have led to risk aversion by big publishers on new IP. You've seen a rise of AAA publishers using rented IP to try to offset the risk (Star Wars with EA, Spiderman with Sony, Avatar with Ubisoft etc). This same dynamic has obviously played out in Hollywood as well with Netflix creating more new IP than any of the movie studios.

Specifically, the AAA game publishers, starting from a position of strength driven from physical retail have failed to create any real platform effect for themselves. They effectively continue to build their scale through aggregated per game P&Ls hoping to maximize each new release of their existing IP.

In the new world where a AAA publisher don't have real distribution leverage with consumers, they don't have production efficiencies and their new IP hit rate is not disproportionately higher than the industry average we see that the top franchises today were mostly not created by AAA game publishers. Games like Fortnite, Roblox, Minecraft, Candy Crush, Clash Royale, DOTA2 etc. where all created by independent studios with full access to distribution. Overall this, imo, is a good thing for the industry but does put AAA publishers, in a precarious spot moving forward. AAA publishers are milking their top franchises but struggling to refill their portfolio of hit franchises, most AAA publishers are riding the success of franchises created 10+ years ago.

With Xbox Game Pass we've created a new platform for AAA publishers to try to navigate. As we grow more sustained and predictable monetization of gameplay through our subscription platform we will have more insight, revenue stability and incentive to invest in new experiences to continue to drive the subscription momentum. Yves Guillemot's, CEO of Ubisoft, comment to us was with the growth of subscriptions like XGP he will double down on creating value on his existing franchises but cut back on new risk bets as he has no mechanism like XGP that helps amortize the investment risk in any piece of content across an entire subscriber base. UbiSoft and EA are two publishers trying to build a subscription now but kind of like their reaction to Steam 15 years ago they are not moving quickly or boldly enough to scale. They also lacked a platform like Xbox console to launch on top of, launching on Xbox, as we know, gave us access to a large player base, creator base and monetization base. We launched our new subscription platform from the existing device platform.

We've offered to help AAA publishers, and we are with EA Access carried in XGP Ultimate this year (very possible that Ubisoft's subscription comes to XGPU as well) but overall the AAA publishers are too reluctant to put $60 retail at risk to create a more predictable revenue stream and without an existing per user monetization platform they lack real distribution.

On the flipside, the individual studio or smaller publisher's see XGP as an incredible way for a studio to get their IP in front of millions of players, offset risk by selling us an XGP window for their title, and gain the viral exposure that gameplay on our network provides. The vast majority of XGP's early release, non 1P, games are independent studios offsetting their title risk by working with us on a window and doing so successfully. XGP and our ID@Xbox program are two main reasons why we've seen a 3x increase in developers on Xbox this generation compared to the 360 generation.

Circling back to Take2 on Friday. They have supported us with XGP, they were a launch partner and continue to participate, even with their biggest game Grand Theft Auto. They are interested in bringing their second biggest franchise, Red Dead Redemption, to XGP as well. But they are also concerned about the transition and how XGP will impact their long term economics and if they are being honest on Friday this should come up.

Much like how Netflix disrupted video, gaming subscriptions will disrupt the AAA publishers, whether it's our subscription, Apple Arcade or Amazon's coming subscription, this change is coming. Our goal is to find a way to both grow our subscription (which is our new platform) and help the AAA publishers build towards a successful future. For publishers with 2-3 scale franchises that's a difficult transition. Again, taking a clue from Hollywood, it's not clear how a standalone subscale media publisher grows is this world without adapting to new paradigms or getting consolidated but we believe we can help a Take2 by increasing monetizable TAM across more endpoints inside of a global platform like Xbox Game Pass (inclusive of xCloud).

I'm not sure how deep the discussion with Take2 will go on Friday but this would be a good discussion with them. They are living the disruption to their model and we are hoping this will come through. They are a good partner but also leery of these changes. Our team has these discussions with publishers all the time and we always learn from our partners as they try to navigate the moving ecosystems.

Phil