

Title: Streaming will transform video games just like Netflix changed TV, says Ubisoft

Date: September 26, 2023

Streaming will transform the video games industry just like Netflix revolutionised television and cinema, according to the head of Ubisoft, after the French company struck a transformational cloud-gaming deal with Microsoft. Ubisoft, the creator of console franchises including Assassin's Creed and Tom Clancy's Rainbow Six, last month agreed to acquire streaming rights for Activision Blizzard's portfolio of games as part of Microsoft's bid to secure regulators' approval for its \$75bn takeover of Activision. "When Netflix first said it was going to go into streaming, their shares fell a lot and they were widely criticised," Ubisoft chief executive Yves Guillemot told the Financial Times. "Today we see what they have become," he added. "It's going to be the same with video games but it will take time. But when it takes off, it will happen very quickly." News of the Microsoft deal sent Ubisoft's stock up by as much as 9 per cent in a single day. Nonetheless, its shares have lost almost two-thirds of their value since their most recent peak in early 2021, following a series of delayed launches, underperforming game releases and slow uptake on its subscription service, Ubisoft+. So far, cloud gaming has been slower to take off than many in the industry had predicted owing to both technical and business challenges. A year ago, Google shut down its ambitious Stadia cloud gaming service after it struggled to attract users. Omdia, a research group, estimates that cloud gaming-enabled services, such as Xbox Game Pass Ultimate and PlayStation Plus Premium, will generate \$3.2bn in 2023, making up just 2 per cent of total consumer spending on games. Analysts predict that figure will at least double over the next five years. Ubisoft is more optimistic. "We strongly believe in the next five to 10 years, many games will be streamed and will also be produced in the cloud," Guillemot said. "That's what pushed us to go forward with the [Microsoft] deal." Microsoft's move to hand off a large portion of Activision's cloud gaming rights to Ubisoft won its \$75bn deal an initial nod from the UK's Competition and Markets Authority last week. Approval would pave the way for the gaming industry's biggest-ever acquisition to be finalised next month. A final decision from the UK regulator is pending. Guillemot would not disclose financial details for the

streaming deal, which will involve a "one-off payment" to Microsoft to acquire cloud gaming rights outside the European Economic Area for all Activision's hit games, including Call of Duty, over the next 15 years. Guillemot said those streaming rights -- plus the launch of more powerful mobile technology such as Apple's latest iPhone 15 -- will be key to increasing Ubisoft's market penetration in fast-growing regions outside Europe and the US, where console gaming is not as entrenched. "Countries that need to progress very quickly often jump to new technologies and skip old methods of the old systems," he said, pointing to African adoption of mobile payments. "So we think that [these regions] will move more quickly to streaming and the cloud than others." Paris-based Ubisoft is emerging from a few troubled years, as net bookings fell and debt ballooned. In 2020, the company also faced allegations of sexual harassment and poor HR processes, leading to several high-level dismissals. "It had a big impact," Guillemot said of the sexual misconduct allegations. "We had systems that were not efficient enough." The company is betting that big game launches this year, such as Assassin's Creed Mirage in October, increasing resources focused on its most successful franchises and a \$200mn cost-cutting programme will turn things around. Some analysts have predicted that Microsoft's long-awaited completion of its Activision acquisition will trigger a new wave of games industry consolidation. Ubisoft, which is one of the largest standalone games publishers, has been seen as a potential target. Family-run Ubisoft has forged a partnership with China's Tencent to fortify itself against takeover attempts. A deal last year to increase Tencent's stake in the Guillemot family's holding company bolstered the partners' control over the group. The \$300mn capital injection gave Tencent and the Guillemot family together 25 per cent of the share capital and 30 per cent of voting rights, but dashed investor hopes that Ubisoft could be bought. Guillemot said there "may be possibilities" to increase that stake in the future but they are limited to that 30 per cent ceiling today. "We wanted to work with Tencent to ensure that the board had good control of the company's capital. But that doesn't stop the board from listening to proposals," he said.