

Jefferies Interactive Entertainment Virtual Conference

Company Participants

- Tim Stuart, Xbox CFO, General Manager Finance and Operations

Other Participants

- Alexander Joseph Giaimo, Analyst, Jefferies LLC, Research Division
- Brent John Thill, Analyst, Jefferies LLC

Presentation

Brent John Thill {BIO 1556691 <GO>}

Welcome, everyone. My name is Brent Thill. I run the software group at Jefferies. I'm joined by Alex, my partner, who runs the gaming segment for us. We want to welcome you and bring in Tim Stuart from Microsoft. Tim's the CFO and runs a lot of other things related to the gaming business inside Microsoft. He's been there a short 18 years and six months, and he has phenomenal experience. We know the Masters is kicking off on ESPN on the other side of this, so Tim is very confident, we'll hold a higher court than Tiger Woods.

Tim, thanks for joining. We're obviously riding the launch here. Maybe just bring us up to speed on the strategy this cycle, what you're seeing so far. You won't take my money right now. So everyone's asking, when are we actually going to be able to get these?

Tim Stuart {BIO 20382118 <GO>}

Yeah, I wish I had some handouts for the show here. No, I think that it's a very unique time in gaming in general, as we know, with the pandemic going on and other things. But also, as you look over the last four or five years, just a very big change in gaming. We think about subscriptions, when you think about digital, when you think about new consoles, I love where we're at in terms of how we got here.

So your point is exactly right. Two days ago, we launched Xbox Series X and Xbox Series S. It's our biggest launch we've ever done in terms of units and geographies and our overall footprint and activations. So super excited about where we're at. And I love the price points, and I love the SKU profile we picked, \$499 on the top end for Xbox Series X, the world's most powerful console. And then we have Xbox Series S, I like to call it the world's best value in gaming, really to bring forward a lot of those purchasers that would normally wait for price points to come down. We feel like we want to remove some of that friction, bring forward a lot of those users, bring forward a lot of those people that would come late in the generation. And maybe

that contributes a little bit to your inability to find a console now. But really, out of the gate, launched with the right price point, the right power profile and the right content offerings that differentiate us.

So I like where we're at. I like the launch and I love how it sets up -- and we can talk about this later. I love how it sets up Game Pass and game streaming and really kind of starting where our strategy will go for Microsoft in the future.

Brent John Thill {BIO 1556691 <GO>}

Many ask what makes this round different? You are a lover of golf, it seems like. You're going into this round versus last round. What is different about this round that you've tried I to work on going into this?

Tim Stuart {BIO 20382118 <GO>}

Yes. We always look for technological shifts to launch new consoles. And when you look at these consoles, it's things like fast load times. I have an Xbox Series S right here next to my PC. I won't play it right now. When we think about getting into games almost instantaneously. When you think about raytracing, you think about RDNA, you think about running a game at 120 frames a second and 4K. It's the technology around these boxes that really is magical.

And unleashes, really, creatives and content creators to really reach new things we haven't seen before in terms of fidelity, in terms of how things look and how things play, number of players you can put on a screen, a number of things you can load much quicker. So, a, I love the technology that we're ushering in; b, it's the experiences. It's things like we have Xbox All Access, which is the ability for us to combine Game Pass plus a hardware purchase into a \$24.99 a month, a \$34.99 a month subscription. So you can get hardware plus services together, which is something unlike we haven't had in the past. And so now we can sell through new distribution, we can sell through Telstra in Australia. We can sell through mobile operators here in the U.S. So I love that pricing differentiation.

And then lastly is Game Pass, something we haven't had in the past. With Game Pass, you can get in for \$9.99 a month. And if you're a new to the console player, you can get hundreds of great games out of the gate with the console that you've purchased, which is something we haven't had in the past. So the ability for someone to get into a console to play games that you -- look amazing and have never been seen like this before and have access to a content catalog that is bigger than we've ever had, I think, is going to be kind of the one, two, three punch of why this console's going to be very different than the past.

Brent John Thill {BIO 1556691 <GO>}

There's obviously incredible demand. You had a sold-out of all the preorders. And I think everyone's kind of asking how you think about the ongoing supply that you can bring to the market. Can you just give us a high level -- I know you're not going

to give specifics, but just high level, how you're meeting this incredible demand from your side?

Tim Stuart {BIO 20382118 <GO>}

Yes. It's something we look at all the time. You wish you had supply to meet the huge demand. I think what we've seen over the last generation and then heading into now is -- and part of this demand profile is, frankly, gaming is just exploding. It's a \$200 billion a year industry. And so kids, adults, male, female, young, old, whatever it is, are games. And so that drives that demand profile, which we love to see.

From a supply perspective, you're absolutely right. For Q2, we gave guidance at our last earnings call of a zone that we'll be in. And we'll, frankly, be within that zone because we know the supply profile that we're having. I think we'll continue to see supply shortages as we head into the post-holiday quarter, so Microsoft's Q3, calendar Q1. And then when we get to Q4, all of our supply chain continuing to go full speed heading into kind of the pre-summer months.

And that's where I start to -- I expect to see a little bit of the demand -- the supply profile, meeting the demand profile. You'll be outside of a holiday window. We'll have supply cranking over the next, what, four, five, six months. And that's when I expect to see really that demand profile start to be met, which will be really, really great. And really, what that's going to do is, once we get into that world of a great high end, call it, a great high-powered console, plus that lower-end SKU for value, I think we're going to start to see some real velocity kick up, which I'm really excited to see.

Brent John Thill {BIO 1556691 <GO>}

You got a lot of help with the rest of Microsoft. When you think about the impact that Azure and the rest of the stack is giving you, one of the questions we continue to get is the impact of the cloud and how the cloud is going to play into the future of gaming and in what your parent is doing to enable you to get to where you want. Can you just talk about where we're at today with the cloud? And where do you think we're at 3 to 5 years out, how impactful is cloud gaming going to be?

Tim Stuart {BIO 20382118 <GO>}

Yes. Yes. I think -- so number one on the -- I'll say on the Microsoft side, having an Azure cloud, having a first-party cloud is going to give us something that's uniquely differentiated versus anybody else in this space. Kind of the combination of our content pipeline plus Game Pass, plus the cloud, which gives us the ability to stream games to, I'll say, any end points that can take a signal is going to be massively differentiated versus others in the industry. So I love that perspective. And I love having kind of that Microsoft drive with our geographic footprint with Azure. So I think point one is going to be, that's going to be so great.

Azure also gives us the ability to reach something like 80% of the gamers in the world will be within an Azure-served zone. It allows us to go into Africas and Indias and stream games into places that are not console-first and maybe not even PC-first, but they're for sure mobile-first. And that's going to be a very, very unique place to be, which Microsoft gives us the ability to go do. I'll say in addition to that -- I'm going to kind of jump your question a little bit. Is 5G. 5G, combined with Azure in those regions, will be a huge bonus for us, which is we can now hit those markets with low-latency gaming with compute that's happening pretty close to those gamers with that Azure data center. And that will usher in new distribution models, but more importantly, it will give us that ability to go drive a mobile-first customer or a mobile kind of main customer.

If you think about console market being: 200 million or 300 million players; the PC markets, 200 million or 300 million players; that mobile market is billions plus. And Brent, to your question, how important is that audience? I think Microsoft's scale, our ability to go from -- we're 15 million Game Pass subscribers today to 25 million, 50 million, 100 million is going to require that mobile audience to be achieved by us. And that's where we're going to have to have a content pipeline that supports that amount of users. But to your question, having that cloud streaming ability will be needed to go reach customers at that scale for sure.

Brent John Thill {BIO 1556691 <GO>}

Well, another question just around kind of the content. And you -- your division got the largest acquisition of the year, \$7.5 billion, obviously, a key component. Can you just talk to us about what's happening in the content industry? And what you think is happening? Some of the larger players have said they're going to raise prices. Any thought around just content and then the ability to actually raise prices given all the dynamics that seem right for that type of backdrop to do that?

Tim Stuart {BIO 20382118 <GO>}

Yes. It's -- from a content perspective, it's a great time to be a content owner, for sure. And you can look at valuations as one example of these companies. But more importantly, it's the -- two things are happening, number one is gaming has never seen this many players as it does today, okay. So just from an engagement standpoint, it's a great place to be.

Number two is, I like to say in the old days -- which ends up being like three years ago. But in the old days, it was us and Sony or Nintendo walking to these content creators and talking about deals or future content pipeline. And now you're in a world with Google and Facebook and Amazon and Tencent, Sony, Nintendo, Microsoft, you're in a world where there's much more demand for content pipeline and which from a -- I'll say, from a publisher perspective, is great when you think about the economics that they can drive. And that's on the point about economics on our side, but it's just ability for us for them to go chase high demand from platform owners.

From a consumer standpoint, if you're a game creator, games are getting more expensive to create. They're driving revenue growth as well, and they're looking for opportunities to go create more monetization for the support of that content creation. And that's when you see a little bit of the game pricing going up. So your example is \$60 going to \$70 on some games. But also, when we think about Game Pass on our side, it's another outlet for our content creators to go find new users, to find a way to monetize those users that may not have played their games.

So the example I give here is for Grand Theft Auto, which has been in Game Pass. You sell the game for \$60. There are users that wouldn't have paid \$60 for that game. But now that it's in Game Pass, they are finding new users that otherwise wouldn't have played that game. And these games are excellent at post-sale monetization, right? They're selling maps and skins and weapons and missions and things like that. They have the ability to find new users. They have an ability to find great monetization models for those new users, and that's driving revenue upside for them as well. So they're expanding their sort of top of funnel through Game Pass offerings.

But Brent, to your point, exactly, I think that they're seeing high demand, high engagement. Content is such a cornerstone of what gaming is, right? We all want to play the games. And they're finding unique opportunities to either raise price or find monetization opportunities as well. The kind of the side joke I'll give is, the last time there was a price increase was, what, seen or eight years ago or something. So time value of money says, says it's about time anyway. But that's kind of a side point.

Brent John Thill {BIO 1556691 <GO>}

That's great. I guess last question for you, and I'll turn it over to Alex. Just at a high level, what is, from your perspective, living on the inside, what are the things that you see and feel that we can't feel? Like what is kind of the most exciting thing from your perspective that you would bring?

We get to watch a lot of these great companies like yourself, but we really don't get a sense of what it's like to be at the 12th hole at Augusta, if you will. What's it like? What are you most excited about? And then I'll turn it to Alex.

Tim Stuart {BIO 20382118 <GO>}

Yes. I think the thing that I'm most excited about from a -- I'll say, from a -- from an Xbox or Microsoft landscape, is our ability to have an offering that can move off console to chase new customers. In the past, where we had just a console lens, the console space, again, you're kind of locked into that console market, if you will.

Game streaming and ability to serve up a AAA-quality game to an Android device, to a PC without a GPU, to a smart screen is going to be, I think, an unlock for gamers unlike what we've seen in the past. The ability for a user who wasn't going to buy a console can now participate in the AAA-console-quality game market I think it's going to be a really, really unique experience. It's going to create a lot of new

gamers, too, that may have been used to playing Candy Crush or something on their phone. They can now play AAA-quality games on their device with a controller just bound to it or whatnot.

So I think from the inside, I see usage happening through our game streaming. Just - we've only just launched it effectively. But I see users playing more, buying more, playing on the go. And I think that's going to be an awesome experience that will unlock a lot for Microsoft and for our Game Pass subscriber base.

Brent John Thill {BIO 1556691 <GO>}

Great job, Tim. Good luck with the rest of this. And thanks for your time. I'll turn it to the better half of the presentation with Alex.

Tim Stuart {BIO 20382118 <GO>}

Great.

Alexander Joseph Giaimo {BIO 20428248 <GO>}

Yes. Thanks, Brent, and thanks again, Tim, for joining. And to the folks on the line, if you do have a question for Tim, you could ask it directly through the Zoom portal, and we'll make sure to get it relayed. But Tim, I want to go back to your comments on Game Pass, right? You keep expanding the amount of games in the bundle. You have this partnership with EA Play now. So just curious if you're seeing a larger opportunity on the subscription side now than you've had in the past and the processes to lean into that.

Tim Stuart {BIO 20382118 <GO>}

Yes, that's a great question. Game Pass is our North Star strategy. It's the, how do you get customers in a subscription model? And then how do you have a content pipeline that supports all the games that they want to play? Now of course, we love supporting games outside of Game Pass as well. That's still the Xbox business model.

But we see unique opportunity here. You, probably like me, have five or six consumer subscriptions, whether it's Hulu or Netflix or Spotify or whatever it is. And we see that to be a world now where consumers are used to and more than happy to pay and play in those kind of examples. So unlike the past decade, I think we see a world where consumers are ready to go down that business model approach. I don't think we were in a world 10 years ago to really see that. So I think that's number one uniquely important about the time that we live in.

Number two is the partnership that we have with our partners across the industry, inclusive of EA Play. I love EA Play coming into Game Pass, and users get it for free. They get to be able to participate in EA Play as we build out our content pipeline. And this is going to be a little bit of a bridge to the acquisition that -- with Bethesda.

But my point here is, we will need to have a content pipeline that supports future success state. If Netflix, of course, they assume success in Netflix, but if they looked at content pricing or content pipeline today, should or could or would they have been more acquisitive on the first-party side to bring content in sooner from a first-party landscape? But as we see success growing in Game Pass, we're going to need to have a content pipeline, both through a rent: we partner with partners in the industry; and through a buy.

We'll need to have first-party content that we can launch day and date, not unlike Orange is the New Black or Stranger Things and House of Cards, boom, boom, boom. We want to have that from our first-party landscape as well. So that's one of the places that we're being a little bit more active in, as you've seen with Bethesda and some of the acquisitions we've done over the last couple of years.

Alexander Joseph Giaimo {BIO 20428248 <GO>}

Yes. And how do you balance that mix, right? So on the first-party publishing side, you have a lot of fantastic content. Obviously, Halo, everyone is highly anticipating that launch next year. You've been doing acquisitions. But then you also -- you're also a distribution platform for the third-party publishers out there. So kind of how do you balance the mix between priorities and the shift that dynamic?

Tim Stuart {BIO 20382118 <GO>}

Yes, that's a great question and something we balance a lot because as a platform -- and this is Microsoft DNA as well, for us to be successful, our partners have to be successful. And so we want to be in a world where something like Game Pass can live alongside stand-alone games or live alongside -- if customers want to buy a \$60 or \$70 game in that post-sale monetization, that's great. We want our partners to be successful on the platform.

And so it's something we think about a lot. And our conversations in the industry is, do you find more consumers in a Game Pass-type example? And if so, and you can monetize those users better through a deal specifically with us, maybe that's the right windowing opportunity. You have a \$60 or \$70 launch, and then you window into Game Pass to go hit another revenue stream downstream. Or for first party, we want to have first-party content be a driver of why people want to subscribe to Game Pass. And again, if I can get someone into a \$9.99 a month or \$14.99 a month subscription and first-party content is the reason they did that, I can monetize the consumer a lot higher. The -- as you say, the economics are better if they're on a subscription for a long-term as opposed to maybe buying a game once a year or otherwise.

And that we share that revenue. I'm not making a point about business model here or our deals. But Game Pass creates a revenue stream from which we can go create a content pipeline through deals or otherwise through our content creators. But I think the specific answer to your question is, we need the Activisions, the Ubisofts, the EAS, the Take-Twos, the Epics, all the way down to indie creators to be successful on the platform. So we want Game Pass to be net additive to them. And if they choose

not to be in Game Pass, we want to create a platform that finds the maximum number of users that can spend the maximum number of dollars for them. And we want Activision, EA, Take-Two, Ubi to be highly successful on the platform regardless of the direction they choose to go.

Alexander Joseph Giaimo {BIO 20428248 <GO>}

And even before the Bethesda acquisition, you had been acquiring a handful of smaller, independent studios. Just curious, are you still looking at more studios? What do you look for when you approach these teams? And just what's the overall maybe M&A priority right now?

Tim Stuart {BIO 20382118 <GO>}

Yes. I think the short answer to still looking is we will continue to be acquisitive. We'll continue to look around the industry to find who has the great IP, who are great leaders, who has great product development, who can we rely on and say, we need a AAA game launching in FY '24 Q1 for Game Pass. Let's line that -- let's line the road map up to go land that -- plan that perspective. So we'll continue to look at. In the past, Bethesda was a little bit of a different lens to what we've done in the past, whether it's Ninja Theory or Obsidian or inXile, some of the smaller studios that had great IP. Bethesda gave us a great sort of launch with -- I'll say, launch into a big, let's call it, group of content, a big catalog of content that we can use for Game Pass.

And we said this as part of the announcement. When we think about Bethesda, it's going to be the continuing to allow -- I'll say allow, but continue to sell their games on the platforms that they exist today, and we'll determine what that looks over time and will change over time. I'm not making any announcements about exclusivity or something like that. But that model will change. But really, it's about how do you take that content and put it into a service like Game Pass to drive that subscription of the North Star metric? So I think the long -- the short answer to your question is we'll continue to look at content, we will continue to look at bolstering our first-party studios. And as always, if the right value is there with the right content creators with the right IP, we'll continue to look at opportunities like that.

Alexander Joseph Giaimo {BIO 20428248 <GO>}

That's helpful. And then we touched on this earlier, but with the news that some of the third-party publishers are going to be raising pricing on their AAA titles, maybe all titles, does Microsoft follow suit in terms of your first-party published content? How do you think about pricing compared to where it was? I think the last time prices went up was actually two console refreshes ago. But what are your thoughts there?

Tim Stuart {BIO 20382118 <GO>}

Yes. I think we're not making specific announcements on first-party pricing yet. So we'll do that sort of in due time. But again, if -- I think if publishers can find a price point that works for their audience, defines a price point that works for the

maximization of, I'll say users and revenue, because you want to drive engagement. I talk about engagement equals currency a lot. Engagement is the ability for you to drive wholesale monetization, to drive activation of your content, to drive sort of hours in your service.

Because these games are becoming, as we all know, they're becoming ecosystems under their own -- or onto their own. Call of Duty wants to keep a Call of Duty player and monetize them down the road. FIFA wants to keep a FIFA player in their ecosystem and monetize down the road. So I think we'll look at publishers to make the right decision for their content. If they can drive a premium price point or a higher price point, I think that's warranted. And I'd say, your point is exactly right. Prices have not gone up in -- what, for a couple of generations now, so it's not unheard of to see things like this going on.

And to the point earlier, content creation costs go up. And these publishers and content creators, including ourselves, want to make sure you're driving the right gross margin profiles, the right earnings profiles of what it takes to build these new, awesome, amazing games. And you want to make sure you have a good top line to support that.

Questions And Answers

Q - Alexander Joseph Giaimo {BIO 20428248 <GO>}

Right. And one of the questions we're getting from the audience is, do you think the future of video games will be 100% cloud gaming? And obviously, you just released a piece of hardware, so that's certainly been your focus. But is there a time frame or a specific amount of years in which you think cloud gaming can really become mainstream? And maybe what are the limitations right now that's preventing that?

A - Tim Stuart {BIO 20382118 <GO>}

My joke here is, I think I've said this is the last console generation for 15 years or so, and it always makes sense from an economics and a technology standpoint to launch one. I think it's a question we think about a lot. One of the things that we go through when we're developing a new console is, does the technology makes sense to launch something new? Does the market demand or want something new? So you think about the new ones we've launched just this week, raytracing, RDNA, near instant load times, those kind of things are all ushered in now with the silicon develop -- the silicon that enables that to happen. So we think that it's the right time to launch based on the price points and based on the tech now.

I think as you look forward a decade, cloud streaming will become more mainstream. It will become more about how users play. And this is why I love the connection we have to Azure. It's our ability to go chase that opportunity, to go chase that market as users shift from console-first to, let's call it, we call it mobile-first, but really what I mean is console-unlocked-first. I think that's going to be a more active way that people play. Now that being said, if there's an opportunity for another console to have local compute under a TV, and that's the best way to play on your 65-inch

OLED at 120 frames a second, we will continue to look at that. And if that is still the right and best way for high-value gamers to play or users that want to play with the top fidelity, we'll continue to look at that, of course.

But as I look at the next decade, and this is more of a longer term play, I believe it's going to shift more into a cloud streaming world. When I look at latency now, it's in a place where it makes games fun, you can play. And I'll make a little bit of a bridge point back to 5G. 5G rollout here allows, I think, game streaming to hit two things, one of which is geographic expansion. When you think about going into Africa and India, Southeast Asia, 5G allows that technology stream from the cloud to really be exciting and a great user experience.

And number two is latency. You can play games at a far faster clip. You can have much lower latency with 5G. And partners that we see in the mobile industry, the mobile operator side, are looking for that differentiated experience. They're looking for the things they can upsell to their unlimited data plans or their 5G data plans. Some of the first calls we got, as I mentioned, were from mobile operators in the world, looking to partner with us on our game streaming tech with Project xCloud to deliver game streaming over their networks. They need that differentiation. Much like YouTube or Netflix ushered in kind of 4G and LTE, I think game streaming is going to usher in that 5G landscape. So I'm kind of bouncing your question a little bit, but I think the 5G ecosystem is -- presuming success, which I do, is going to usher in a world where the console market will not be as needed to play the games you want to play.

Q - Alexander Joseph Giaimo {BIO 20428248 <GO>}

That's helpful. And another question we're getting from the line here is with the acquisition of Bethesda, is the plan to make certain Bethesda franchises, like Fallout and DOOM, exclusive to Xbox? Or will you still support cross-platform play?

A - Tim Stuart {BIO 20382118 <GO>}

Yes. The goal here is, we're -- I'll say it from a cross-platform perspective. Microsoft is a platform. We're one of the first to really support Minecraft, Roadblock, Fortnite across platforms. So we highly encourage cross-platform play, simply from this landscape of, if it's good for the gaming ecosystem, it's good for us, classic rising tide lifts all boats.

What we'll do in the long run is we don't have intentions of just pulling all of Bethesda content out of Sony or Nintendo or otherwise. But what we want is we want that content, in the long run, to be either first or better or best or pick your differentiated experience, on our platforms. We will want Bethesda content to show up the best as -- on our platforms. Yes. That's not a point about being exclusive. That's not a point about we're being -- adjusting timing or content or road map. But if you think about something like Game Pass, if it shows up best in Game Pass, that's what we want to see, and we want to drive our Game Pass subscriber base through that Bethesda pipeline. So again, I'm not announcing pulling content from platforms one way or the other. But I suspect you'll continue to see us shift towards a first or better or best approach on our platforms.

Q - Alexander Joseph Giaimo {BIO 20428248 <GO>}

That helps. And then one question we're getting a lot, and maybe you can just answer from a high level. But folks are just curious how the economics work behind some of these partnerships, right? So a company like EA that you guys put on Game Pass, are they compensated based on usage? Is it sort of a flat fee based on subs. Maybe just from a high level, if you can touch on that a bit.

A - Tim Stuart {BIO 20382118 <GO>}

Yes. There's a couple of lenses on this question, which are interesting. I'd say the first is as Xbox, we have revenue streams with these companies across the board. So think about third-party store or advertising or Game Pass, we have ways to monetize our consumers in broader ways than just doing Game Pass relationships. So the deals will all be different across our partners. Because you could say -- and this isn't me talking about EA specifically, come into Game Pass and you'll get a different rev share or something on the digital transaction side. Or come into Game Pass, and we'll have just a direct payment relationship. Or come into Game Pass, and you'll have the ability to go acquire new customers that you haven't seen before and drive post-sale monetization with those customers.

So there's going to be unique differences between the partner that we're working with and what they want to see out of the relationship. But we do have a -- Game Pass does drive a brand-new revenue stream. Our job as a platform is to create a world where those revenue streams create revenue-sharing opportunities for our publishers, for our developers and for us. And so while I won't highlight EA or somebody specifically, we do have a world where we create revenue streams. As they're successful, we're successful and vice versa, and we'll continue to go build out higher revenue profiles that we can make sure we participate and share with our publishing partners.

Q - Alexander Joseph Giaimo {BIO 20428248 <GO>}

And you have this financing option now for the first time, right? So kind of lowering the upfront cost to acquire one of these consoles. Is there any early observation by maybe the uptick you're seeing there? Is this going to create a situation in which maybe the installed base scales more quickly than previous cycles, just given the fact that it's a bit more affordable?

A - Tim Stuart {BIO 20382118 <GO>}

Yes. I think that's a great question. So when you think about -- what you're talking about is Xbox All Access. And so for the audience, that is the ability to buy a piece of hardware plus Xbox Game Pass Ultimate sort of subscription service for a monthly price. So \$24.99 a month in the U.S. for Xbox Series S or \$34.99 for Xbox Series X.

And what I love about this is a couple of things. Number one is, it differentiates ourselves versus competition. So it's not something that Playstation has in a very material way. Game Pass gives us the ability to provide a content bundle that can be

paid off over time. And it's not a financing deal. It's more of a -- thinking about it like a hardware subscription. So I love that perspective from a differentiation lens.

I love the ability for a customer who may not have wanted to spend \$500 or \$300, or whatever the price point is, to come in and join Xbox for a low monthly rate. So I think we're removing the barriers to entry. We're taking some friction out of the ecosystem there. And lastly is distribution. We're seeing great uptake from something like Telstra in Australia is a great example. So they're world-class, as many global operators are, about selling hardware plus service bundles. But clearly, they do this with mobile phones plus their subscription service, so their data plans. So we are going into a much broader footprint from a distribution landscape with these audiences. And so someone that walks into a Telstra or a T-Mobile, a Verizon or AT&T, they can now buy a sort of hardware plus services plan unlike anything they've seen before versus that kind of big outlay upfront.

So excitement's there. I think we're seeing some uptake there, which is great. A little bit of a short-term lens of, if you're someone looking to demand -- or supply is tight right now, demand is high. So you're going to get a lot of people just click and buy, buy, buy. But I think in the long run, this Xbox All Access, hardware plus services bundle is going to be a great opportunity for us to go reach new customers and continue to differentiate versus competition in this space.

Q - Alexander Joseph Giaimo {BIO 20428248 <GO>}

Another question we're getting is for an update with the strategic partnership you signed with Sony on the cloud. Maybe just what's the opportunity there?

A - Tim Stuart {BIO 20382118 <GO>}

Yes. I think -- and I won't comment specifically about Sony, not to get on a-- not to make the -- not to deflect the question. But what I would say is Microsoft as a platform provider, that's our DNA. If Sony or I'll say Nintendo or EA or I'll pick anybody, frankly, that doesn't have a first-party cloud sees the future of where the business is going -- and I'll call it cloud streaming. You're going to have to have a cloud provider that serves up to those customers.

Again, Microsoft invested billions of dollars in this space to have an some awesome Azure landscape and Azure geo footprint. And if there's something like -- a partner without that, I think you're going to need a cloud to go reach those audiences. Especially if you're -- in this example, like Sony, you're a hardware operator, which doesn't have a cloud and the ability of where the markets -- or where the market is going, I think you're going to need a cloud provider to do that.

So we, as a cloud provider, would happily take publishers or developers or hardware ecosystems into the -- into our ecosystem and serve to our customers. Clearly, Microsoft has heritage in the video game space, so we know what that partnership looks like. Phil Spencer and Scott Guthrie have a great partnership internally at Microsoft between the two. And I think it's a good place to be. But we can sell -- sell our cloud opportunities for partners that may want to look for that opportunity as well.

Q - Alexander Joseph Giaimo {BIO 20428248 <GO>}

That's helpful. And we do have about five minutes left, so I'll try to get to the remaining questions I'm seeing. But one question is around the relevance of Game Pass as free to play rises in popularity, right. And obviously, you make money through free-to-play games in other ways. But just curious, does that impact the uptick or the take rate, so to speak, that folks are willing to pay on the subscription side and just the balance between engagement and how that might impact the subscription model?

A - Tim Stuart {BIO 20382118 <GO>}

It's a good question. One of the things that's up to us is to make it so Game Pass can coexist in the world of free to play as well. And I would say, interestingly, free to play is more of a -- it's a game mechanic as well. Games are designed to be free to play from the beginning. It's not like, generally speaking, you should take a game that's been designed for an upfront purchase with PSM and just turn it into free to play. The games that work the best are designed that way from the beginning.

What I would say though is, interestingly, many players in Fortnite or other free-to-play games, Rocket League or Roadblocks, et cetera, many of them spend actually more dollars overall than they would have if they bought the game for \$30 or \$40 or \$50 just because of the way they play. And I think free to play is an interesting game mechanic. It's less about playing the game for free. It's just more about how they increase top of funnel.

So it's up to us as a platform and the owners of Game Pass to create a reason where maybe we put a free-to-play game in Game Pass. Maybe you get a certain amount of in-game currency. You get a unique skin or a differentiated experience by being a Game Pass subscriber. So I think what you'll see from us is the sort of the cohesiveness between a free-to-play world and a Game Pass world, where actually, I want to be a Game Pass subscriber and still play the free-to-play games because I get something that's unique or I get value or I get some in-game currency or whatever. So I think that you'll see from us a world where they exist together, and I think you'll see a net additive place across the platform.

Q - Alexander Joseph Giaimo {BIO 20428248 <GO>}

Maybe one last question, but now that the consoles are out, how does your job change or what priorities changed? Where do you shift your focus over the next couple of years as you're sort of in the early stages of the console refresh here?

A - Tim Stuart {BIO 20382118 <GO>}

Yes. For us, it's all about growth. It's all about how do you go find new customers. I like to talk about Microsoft-level relevance, and of course, we're relevant today. But it's the going from what is a console ecosystem to expanding into that billions of gamers around the world ecosystem. That's the growth opportunity that we see at Xbox within Microsoft. And so of course, we're going to play to win in console. Of course, we're going to drive that place. Of course, we're going to make it the best

place to place to play for consumers and the best place to monetize for our publishers and partners.

But our job as Xbox and gaming at Microsoft is to look for those growth opportunities. How do you go sell Game Pass to 100 million players? How do you sell it into India and Africa? How do you sell it to mobile-first consumers? That's really how my job changes. Are we getting a content pipeline that can support that? Are we getting an Azure footprint that can support that? Are we getting a go-to-market model, a strategy, price points that can support that.

So I think from us, that's what you should expect is, as we grow to that non-console audience, how do you go chase that -- those hundreds of millions of new gamers that we haven't seen in the past. And that's what gets me most excited. That's what gets me out of bed each morning. That's what I love coming in to work to do is growing the business and finding those consumers that we've never seen before. And how do we partner with players in the industry to go do that. That's Microsoft's core DNA. That's how we win as a platform. And I think that's really the sort of North Star that we're chasing.

Q - Alexander Joseph Giaimo {BIO 20428248 <GO>}

Very good. I think we'll -- we can wrap there. We want to thank Tim for joining. This has been super informative, and we appreciate it for joining the dialogue. And thanks, everyone on the line, for listening.

A - Tim Stuart {BIO 20382118 <GO>}

Great. Thanks, Brent. Thanks, Alex, for having me. This is great. I wish we had done this in person, but it's great to talk to your audience here today.

Q - Alexander Joseph Giaimo {BIO 20428248 <GO>}

Sounds good. Take care, everyone.

A - Tim Stuart {BIO 20382118 <GO>}

Thanks.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT

2024, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.