

## Wells Fargo 7th Annual TMT Summit

### Company Participants

- Tim Stuart, Chief Financial Officer of Xbox

### Other Participants

- Michael Turrin, Wells Fargo

### Presentation

#### Michael Turrin {BIO 20079094 <GO>}

Hey, thanks, everyone. Thanks for joining us for Day-1 of the Wells Fargo TMT Summit here in Sunny Southern California. Very pleased to be helping host the lunch session here with Microsoft. So we have Tim Stuart, who's we were just discussing, has a lot on his plate with everything that's happening in the gaming world, particularly this time of year. So looking forward to the conversation. I'll let you sit first. Then we can (Multiple Speakers)

#### Tim Stuart {BIO 20382118 <GO>}

Yes. Great. It's -- first of all, it's great to be here. Sunny Southern California versus Seattle. I'll take this any day.

#### Michael Turrin {BIO 20079094 <GO>}

Yes.

#### Tim Stuart {BIO 20382118 <GO>}

So it's nice to just kind of look outside and see some sun.

#### Michael Turrin {BIO 20079094 <GO>}

Yes. Thanks for coming on the coast.

#### Tim Stuart {BIO 20382118 <GO>}

Yes. It's great.

#### Michael Turrin {BIO 20079094 <GO>}

So, just -- there's a lot to cover in a limited amount of time, but you've spent a lot of time at Microsoft.

**Tim Stuart** {BIO 20382118 <GO>}

Yes.

**Michael Turrin** {BIO 20079094 <GO>}

So maybe we can just start with, over the past two decades the evolution that you've seen. There are a few different milestones that I think we think about. We think about Satya and Amy and the move towards cloud and Azure.

**Tim Stuart** {BIO 20382118 <GO>}

Yes.

**Michael Turrin** {BIO 20079094 <GO>}

And now we're seeing the advent of AI, and maybe you can just contextualize that advent of AI with your time spent at Microsoft and kind of set the stage.

**Tim Stuart** {BIO 20382118 <GO>}

Yes. That's a good place to start. I've been at Microsoft for 22 years, so I started as an intern. And back then, the big draw was you got to go to Bill Gates' house for a barbecue.

**Michael Turrin** {BIO 20079094 <GO>}

No way.

**Tim Stuart** {BIO 20382118 <GO>}

And that was kind of the big sell back then. But yes, we've seen the kind of Bill Gates to Steve Ballmer to Satya era.

**Michael Turrin** {BIO 20079094 <GO>}

Yes.

**Tim Stuart** {BIO 20382118 <GO>}

And they've all had their moments, and they've all had their unique sort of fingerprints on the company obviously. And where we're at right now, with AI especially, is another one of those moments. It's kind of like the internet moment or

the word processor moment, like really big inflection points for the company, and a place that Microsoft really has a great position in to really change the landscape.

So, I know for gaming, and we'll talk about that in a bit, but it's meaningful for us, but at the highest level for Microsoft, AI is one of the biggest shifts I've ever seen, and a really exciting moment.

## Questions And Answers

**Q - Michael Turrin** {BIO 20079094 <GO>}

(Question And Answer)

If you were an intern 20 years ago, does that mean there's a demo video of you with hair like Satya?

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes. It's great. There's a great Satya with hair picture, I think, out there.

**Q - Michael Turrin** {BIO 20079094 <GO>}

I love that.

**A - Tim Stuart** {BIO 20382118 <GO>}

I also have those and it's been a few years.

**Q - Michael Turrin** {BIO 20079094 <GO>}

That's fantastic.

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes.

**Q - Michael Turrin** {BIO 20079094 <GO>}

So good. So, as far as AI, what it means for you as the CFO of the gaming segment.

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes.

**Q - Michael Turrin** {BIO 20079094 <GO>}

Maybe we can just talk a little bit about the opportunity set. I know there's a lot to go into. We'll zoom back out to the Microsoft perspective as well.

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes. For gaming, I'd say I've never been sort of more excited about a technology shift in the gaming landscape. Maybe the last one we did was when we went from kind of disks and consoles to, let's call it, online games, games as a service. Think like Fortnite, Minecraft, things like that, which really changed the landscape of how people play mobile games being another one. I think AI is one of those inflection points for us.

And there's really two sides of the coin that I think about it from a gaming landscape. One is for the consumer, and one is for the developer, the people creating the games. On the developer side, you think about the millions and millions of dollars in a game spent on localization, scripts, how you think about players moving from point A to point B. And you have-to-have a non-player character or the game have dialogue. AI can take care of all that.

You now say, hey, I need a player to get from A to B. And instead of having to write 1,000 lines of scripting or code, you just have the AI get you from A to B. Things like localization, putting things in new languages. When we think about game testing, a million AI bots can run through a level of Minecraft and find where players get stuck, where they spend money, how they think about a level. So this is, pun intended, game changing for the developer.

**Q - Michael Turrin** {BIO 20079094 <GO>}

Well done.

**A - Tim Stuart** {BIO 20382118 <GO>}

And then the -- thank you. And then the -- I've used that before, by the way. And then for the consumer, when you think about how a player or a person playing a game interacts with AI, we have an example of like, you're in Minecraft and you're playing in a level and you're talking to Hermione from Harry Potter and the Hermione character's an AI -- it's an AI agent that's running through the Hermione scripts, that's from Harry Potter, by the way. And you're having these nice unique moments. So I think for gaming, there's really those two sides, developer, efficiency, speed of creation, and then consumer, kind of love for the game and how it really adapts you.

**Q - Michael Turrin** {BIO 20079094 <GO>}

So let's spend more time on the developer side, because you and I were having a sidebar conversation around this, and the future vision there, to me, is very compelling. It's compelling on both sides, right? But I think intuitively, I don't know if I appreciated how quickly this is evolving. So your view on what AI capabilities can open up from the developer side, in terms of speed, or type of game, or just type of developer?

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes. An example I'd like to give is, there's probably, pick your number, 100,000, maybe game developers in the world, kind of across companies, big and small. And now with AI, and we'll call it like, think like GitHub, or with Copilot, you can generate

code, you can generate instances, you can generate games, you can generate art assets. Hey, I want a tree with snow in the desert, something like that.

What it opens up now is anyone in this room can be a game developer. Whereas before you had to have a unique sort of, call it unique angle. I know how to code or I'm a multiplayer level designer. But now it takes the 100,000 game developers in the world to millions and millions. The barista at your local Starbucks has an awesome idea for a game. They can now use Copilot or they can use AI to go create a great mobile experience.

And so you think about mobile being that kind of first instance of a lot of, I'll call it, AI generated mobile games. Some will break through. You'll find your Flappy Bird, if you remember that game, or Angry Birds, kind of these simple games that really take off, I think you're going to see a really an explosion of the kind of these, we call them citizen creators, people that are not historically game creators that can now make games. And that's going to, I think, create a new wave of multi-platform, unique experiences. Obviously, they're all built on AI.

**Q - Michael Turrin** {BIO 20079094 <GO>}

That's super compelling. We're not going to hold you to a timeline or trajectory in terms of metrics, but thinking how far or close we are to citizen development happening on the gaming side.

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes. The ability for someone to go into ChatGPT or Copilot or something, we're still a little ways away from that. But what we do see is things like art assets. Even I can go out to being an image creator, and I can generate -- create me a CFO in the spirit of Halo that looks like they're playing in a desert or something like that.

**Q - Michael Turrin** {BIO 20079094 <GO>}

You should have brought that.

**A - Tim Stuart** {BIO 20382118 <GO>}

That's a game -- I'm trying to build that game, I haven't really quite found the uniqueness. But those kind of things, I think, will happen sooner than later. So we're already seeing the ideas being generated. And I think we're actually going to see a pretty fast acceleration on putting the art plus the code, plus the level design together. And I think we're going to see some great games coming here in a short while.

**Q - Michael Turrin** {BIO 20079094 <GO>}

That's pretty incredible. So it feels like every part of Microsoft is exploding with newfound opportunities because of AI. So you're the CFO of a significant becoming more significant, and we'll get to why in terms of scale in a minute. But the advocating process with Amy, like how do you ensure that you're getting adequate resources. And what are the kind of puts and takes of what being assessed at the

Microsoft level and making sure that all of these incredible Copilot opportunities can come to life?

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes. The Microsoft level, it's full speed ahead. Satya and Amy across our senior leadership team are putting resources, time, energy, effort into the space and, of course, we talked about this GPU capacity and there's things you got it -- you have to weigh out, but we work through those scenarios. And in the end, it's -- good ideas win, go develop Copilot in Office, go to a Copilot in Outlook, how you think about GitHub with Copilot and that's a great place to be.

We even look at things like Copilot in gaming and while this isn't a broad announcement or anything, you can go into your -- think about your Xbox or your mobile experience and say, I really love Starfield but I'm in the mood for a spooky game and Copilot has a recommendation engine that says, we see you like these kind of games, your friends played these types of games, you should go play Dead Space or some -- pick a game like that.

**Q - Michael Turrin** {BIO 20079094 <GO>}

Yes.

**A - Tim Stuart** {BIO 20382118 <GO>}

So we see like a Copilot like example in gaming as a huge value driver for customers as well. Think, recommendation engines, how you play the games, what you want to play, your friends are playing. I think we'll see some -- from a CFO standpoint, you actually see some monetization opportunities which we can talk about as well, which is, hey, you're getting people into more games, playing more often, which is kind of our secret sauce.

**Q - Michael Turrin** {BIO 20079094 <GO>}

Yes. I mean, choose to answer this question how you may, but I'd be remiss if I didn't at least ask about the thing that everyone was armchair quarterbacking during Thanksgiving, which was just OpenAI and the partnership and the relationship. So just from the Microsoft standpoint, if you can level set for the Group here today, the partnership, the dependence, the cooperation that goes into the Copilot technologies, and just what you'd like to impart.

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes. I think the big thing from my seat, and obviously I'm sort of at arm's length from that specific relationship, but really it's just the partnership the two companies have. Satya talks a lot about, hey, look, we're in the same position we were a few weeks ago, kind of with the ins and outs of what was going on in the news. But in the end, it's a great partnership with companies working well together to develop just awesome technology. So from our seat at gaming, we get to leverage a lot of that tech, and like I said, that's Amy and Satya really pushing a great relationship and

making sure that we invest in the right places to create awesome-awesome AI landscape.

**Q - Michael Turrin** {BIO 20079094 <GO>}

Yes. You've also been busy with another AI. It's with a TV in the middle, ATVI [ph] in Activision, right?

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes. That's good one. That's good, yes.

**Q - Michael Turrin** {BIO 20079094 <GO>}

You can use that one.

**A - Tim Stuart** {BIO 20382118 <GO>}

I'll use that. Yes.

**Q - Michael Turrin** {BIO 20079094 <GO>}

Going forward as well. I mean, that deal was announced, it feels like ages ago, early 2022.

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes.

**Q - Michael Turrin** {BIO 20079094 <GO>}

Finally became official, so maybe given there's been a lot of time that's passed since the initial inception, just help level set for everyone the opportunity set, the focus, the strategic rationale for Activision, and then we can get into kind of the permutations afterwards.

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes. It does seem like it's been a while on the Activision landscape. And you know we went through the process, We worked with the right regional regulators and worked through that thing and thankfully we got to a place that's, I think, a good-good outcome there.

Activision Blizzard King, ABK as we call it sometimes, is really an accelerant to our gaming strategy. I talk a lot about, it's not the strategy, it's part of the strategy. Really for gaming at Microsoft, when we look at what we've done in the last 10 years and where we're going, we think a lot about the cross-platform play, which is, I want to play on all the devices that I have and all the screens that I have.

And I think it's -- that's really when I think it's a sort of holistic -- the holistic lens is the, how do I make sure that we're on Xbox's and I'll say Playstations and Nintendo

Switches in a mobile landscape, how are we on mobile? We can talk about cloud as well. But really at the highest level, it's leveraging what Activision is so good at, which is consoles and PC and mobile.

How do we take that great DNA, make it an accelerant to the IP that we have, leverage the great assets that they have, the expertise that they have, and thankfully we both talk a gaming lens or a gaming language, and even the few, what, months since we've been sort of a united entity, just the speed of which we've integrated and the speed of which we've worked together has been really impressive.

**Q - Michael Turrin** {BIO 20079094 <GO>}

Yes. Can we talk more about the mobile opportunity specifically within Activision, and maybe that's an area where Microsoft has been less penetrated than other areas in the gaming side.

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes.

**Q - Michael Turrin** {BIO 20079094 <GO>}

So, is that one specific aap that you're focused on?

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes. Mobile is -- the most gamers in the world play on mobile. We think about the console landscape, and part of the really evolution of the deal was, hey look, we've got a fixed console audience with Xbox are relatively fixed, but not growing that fast. You've got a couple hundred million kind of console adjustable market. You've got 300 million or 400 million kind of in that PC gamer market. And then you have billions in the mobile market.

And mobile games are hard to make. You have-to-have the DNA. You have to have A-B test. You have to know how to do performance marketing and how you think about getting installs. And we've tried on our own a few times. We've got a great Minecraft mobile experience on iOS and Android and other things. So we've got some foothold. But what Activision Blizzard King does on mobile is impressive.

And what they've done with Candy Crush being one of the biggest ones from King. But also you think about Call of Duty mobile. That's the most players playing is frankly to Call of Duty mobile. I think about what they've done with Blizzard and Diablo and World of Warcraft mobile, they just talked about a BlizzCon a few weeks ago. And like I said Candy Crush.

So they're taking their IP into the mobile landscape and they know how to do it, how to build it, how to iterate quickly. And that's just -- the DNA is gold, and we can then leverage that with our IP and take the learnings in our business and say, okay, how do we go now address these new, frankly, these new -- frankly, these new billion gamers that we've never had a chance to go reach before.



**Q - Michael Turrin** {BIO 20079094 <GO>}

Yes. How does that evolve with what we were talking about earlier in this citizen developer opportunities?

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes.

**Q - Michael Turrin** {BIO 20079094 <GO>}

So now there's a couple of different worlds, right? You have a content creation engine.

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes.

**Q - Michael Turrin** {BIO 20079094 <GO>}

That is well-defined and has built a great library and has strong franchises in many areas. We're talking about a world where development could come from many different forms.

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes.

**Q - Michael Turrin** {BIO 20079094 <GO>}

So talk about how you kind of keep the competitive gap there.

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes.

**Q - Michael Turrin** {BIO 20079094 <GO>}

And it's changed at all in terms of talent or development cycle or how you think about some of these things just as the technologies are shifting.

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes. So I'd start with Microsoft in general is, like, DNA -- we're a platform company in our DNA whether it's Azure or Windows or what have you. And we treat -- we think about gaming in very similar ways. So kind of think about two ends of the spectrum, at the maybe, I don't want to call it lower end, but the more casual end. You've got citizen creators building games that they can launch in our store, on the Xbox platform, in our apps, into xCloud, which is our game streaming service over the cloud, even on mobile.

So you can capture that end of the pipe. And then you've got your high-end, call it AAA game experiences, Halo, and even Minecraft, Call of Duty, Diablo, which is a new one from Blizzard. So I think you've got -- I really think about two ends of the spectrum. And then users can come in or gamers can come into our ecosystem, and they can play a variety of things.

I like to joke, and it's interesting, like why does Netflix not really have a big social experience? You kind of ask yourself. And maybe it's because you don't want people knowing what you're watching, maybe. Do I want people to know I'm watching Tiger King? I don't know if you think Tiger King, but kind of the --

**Q - Michael Turrin** {BIO 20079094 <GO>}

That one's okay.

**A - Tim Stuart** {BIO 20382118 <GO>}

That one's okay? But Tiger King is this great example where, Netflix has this kind of unique experience or unique thing to watch, has a huge draw, creates that topspin, and then you sort of create that viral effect with people. Games are much the same way, and we can talk about Game Pass in a bit.

But when you think about millions and millions of people on a subscription service, you need the variety of games to get excitement, to have -- launch in new geographies. And that's really kind of where I think about that casual, sort of maybe AI created games that you can launch on a platform all the way up to Halo, what is -- House of Cards or Orange is the New Black, those kind of things.

**Q - Michael Turrin** {BIO 20079094 <GO>}

Yes. That's so good. I'll give you a chance just to plug Call of Duty because timing there was also great, right, in terms of becoming a part of Microsoft, before the holidays. Just one of the most well known franchise.

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes. So if you haven't bought Call of Duty: Modern Warfare III launched on November 10, you can get -- I'll let you go do it now on your app if you'd like to go buy it. But, no, a great time to really be with Activision, go through their launch motion. You sort of take it for granted now, but they launch a AAA, hugely successful, millions and millions of gamers game every single holiday. And it's sort of easy to say now that Call of Duty comes every year, but that is a huge feat.

The amount of developers they have, the amount of work they put against it, and so we got to ride that wave with them. And we've known the Call of Duty team for decades, they launched on Xbox 360 in 2005 with Call of Duty 2, and so we've been with them for a while, but those kind of experiences and being with them and learning from them has been very-very valuable.

**Q - Michael Turrin** {BIO 20079094 <GO>}

I mean, you wear many hats, so I can ask you a modeling question too. But just in terms of the model impacts, there are a couple of things that we know in terms of Activision. One is, maybe you can just help level set first party versus third party, and what that means for Microsoft and for investors who are kind of trying to formulate through what Activision looks like standalone versus as a part of Microsoft.

And then we could talk about the margin side too because, remarkable, the company has proven able to protect and sustain margins despite all the innovation that's happening within the company. We take it for granted sometimes, but I'm sure you don't and it's really impressive.

**A - Tim Stuart** {BIO 20382118 <GO>}

It's -- I'd say that's from a lot of hard work, number one. And Amy and Satya have just a great-great focus on driving value, acquiring new customers, whether if you're commercial or consumer, whatever you want to -- whatever we think about what a customer is, and driving operating leverage throughout that, which means smart investments, targeted investments.

We talk a lot about it, the gaming leadership team. One of our most important jobs is resource allocation. Putting the right things on the right bets at the right time. And Satya and Amy are excellent at that as well. Pick the bets. You make sure you fund them to where they need to be funded to be successful. Say no to the right things. Stop doing the right things. And that's just a unique superpower, for sure, of management.

But for us, when we think about the business, gaming as it relates to Microsoft and with Activision, operating leverage and margin expansion, definitely a piece of that puzzle. We think about acquisition, amortization separately --

**Q - Michael Turrin** {BIO 20079094 <GO>}

Sure.

**A - Tim Stuart** {BIO 20382118 <GO>}

-- so you can work that in your models. But at the highest level, you go from what was a lower margin third party entity that we sold on our store to a high margin first party business.

So that's kind of when you think about the Xbox component of Call of Duties -- Call of Duty, you go from, again, that low margin business to high margin business. Then what you do is you also expand and say, we're now driving high margin sales on PlayStation, on Nintendo. World of Warcraft has subscription high margin businesses.

So you're bringing in high margin business into a traditionally more lower margin business when you think about the Xbox's console and hardware. And that's really, maybe lastly, is where we're going in this business is that expansion of operating

leverage, where we think about placing our bets, first party, subscriptions, advertising, those are all high margin businesses that we want to expand into.

And what you'll hear from us more-and-more is a bit of a change of strategy. And again, not announcing anything broadly here, but our mission is to bring our first-party experiences, our subscription services, to every screen that can take a -- that can play a game. That means smart TVs, that means mobile devices, that means what we would have thought as competitors in the past, like PlayStation and Nintendo. We're going to NVIDIA, GeForce Now, their gaming subscription service. I know you have Colette, I think, on tomorrow. You can talk to her about that.

But when we think about taking our businesses to these endpoints, again, it's that high-margin business to new gamers that really Activision allows us to do in a much, I don't want to say easier way, but a much more I'll say fast way to get there versus trying to kind of build on your own.

**Q - Michael Turrin** {BIO 20079094 <GO>}

I think we got the internal pitch on why this one rose to the top.

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes.

**Q - Michael Turrin** {BIO 20079094 <GO>}

So just thinking about how the mix evolves within gaming, more further towards content and services and away from console. Can you just talk about the mix? And then does this change the seasonality to a certain extent of what you'd expect from the gaming business relative to what it has looked like?

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes. Starting with seasonality, one of the things we focused on a lot is kind of more of games, think of games as a service, but really we mean that more often ability for you to talk to your customers.

Think about Fortnite, it was a great example that, really did it well. We did it even early on with Minecraft. But things like Fortnite are less about a holiday bump and more about the, hey, we're launching a Thanos skin around Avengers Endgame in May, , kind of thing. And I know I'll say, as a platform, we love that, also my kids love that. That was a great place to be.

But that's kind of a -- as you think about services and content, services is our North Star, I'll talk about that in a second. But it really smooths things out. You're still going to have a holiday bump, right? You're still going to have consoles that we sell and you're still going to have customers that spend in those time periods.

But even things like Game Pass. We last announced 25 million Game Pass subscribers. It's obviously grown since then. But Game Pass is this millions and

millions of subscribers month in and month out, which for me I love because it's more of a paid annuity as opposed to that, you're betting on those big game launches every quarter or every year. But Game Pass helps us smooth it out as well.

So two things to maybe wrap that point. About six or seven years ago, we stopped giving console volume externally. And at first it was like, what are you doing? You're the Xbox business, you're not giving us consoles. That makes no sense. But it was really the first point of us saying, no, no, it's about content and services. Our business is  $P \times Q$ , more customers, spending more money. And that's really how I think about our model.

So when we talk about content and services externally, that's our KPI. And for that number to go up, you need more gamers, and you need more gamers spending money. And we've really focused on that with our internal teams as a, here's how we grow the business. Go bring more users in and find ways for them to play.

And it goes a little bit to my last point here is about business model, kind of -- we call it business model optimization, but really business model diversity. And if a gamer comes in, they can subscribe to Game Pass, they can buy a game digitally, they can have advertising to fund their gaming that way. And so however they want to monetize, we're trying to find a way for them to spend money, if you will, with us. And we've seen that as a very-very good accelerant in this content and services landscape.

It also helps us, maybe lastly, on geographic expansion. The vision I like to talk about is, we've got xCloud gaming -- game streaming. And so you can subscribe to Game Pass Ultimate, and you can stream hundreds of games to really any endpoint that has a browser experience. And for models like Africa, or India, Southeast Asia, maybe places that are not console first, you can say, hey, do you want to watch 30 seconds of an ad and then get two hours of game streaming?

Africa, the 50% of the population, I think 25 years and younger, with a growing disposable income base, all with cell phones or mobile devices, not a lot of high-end disposable income, just generally speaking. So we can then go in with our own business models and say, there's millions and millions of gamers that we would never have been able to address there, now we can go in with our business models. So that's a long way of saying smooth it out, but really, content and services revenue is that North Star that we're aimed at.

**Q - Michael Turrin** {BIO 20079094 <GO>}

Yes. It's a super a super comprehensive answer. On the last point that you raised, in some of the emerging markets, are we there from a technology perspective? Is it certain types of games that you have to focus on because of latency or just underlying bandwidth constraints? Or maybe help us understand what that is?

**A - Tim Stuart** {BIO 20382118 <GO>}

I think we're largely there.

**Q - Michael Turrin** {BIO 20079094 <GO>}

Okay.

**A - Tim Stuart** {BIO 20382118 <GO>}

Super fast-twitch, like you're not going to be able to stream a 4K, 120 frames a second Forza Motorsport experience to a 65-inch OLED. Not yet.

**Q - Michael Turrin** {BIO 20079094 <GO>}

Sure.

**A - Tim Stuart** {BIO 20382118 <GO>}

So for those kind of experiences, they don't quite exist yet. But for the most part, being a part of Microsoft, and this is kind of an indirect answer, but being a part of Microsoft with our Azure footprint gives us access to about 80% of the gamers around the world. When you think about where Azure data centers are located, how we've built the latency models to work with gaming, how we've worked with our transmit speeds. I'd say the experience is largely there.

So one of the things that we saw when we announced xCloud, this was a couple years ago. And you think about the combination of xCloud plus 5G or high speed mobile internet, was some of our first calls back in were from mobile operators and saying, hey, how do I get xCloud on my network? Because I want to find a way to upgrade people into the high-end data plans as well. And you think about India or Africa or some of those geographies, they may not have the physical kind of footprint to have the traditional fiber or whatever, but they've got 5G rollouts that are happening. And I think we're going to be on the forefront of reaching millions and millions of gamers that otherwise wouldn't have been able to reach in the past.

**Q - Michael Turrin** {BIO 20079094 <GO>}

Another good segue way. So just in terms of streaming. I'm hoping to hit on a couple of points and your answers have been comprehensive enough, I'm confident you can hit on a couple of points at once. But the pricing monetization strategy within -- we see multiple SKUs now, we see the core announcement. So is there sort of a cohort thought behind that, or the pricing strategy and then the points of competitive differentiation, particularly focused on Azure, but anything else you would highlight from what Microsoft has surrounding itself?

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes. So the SKU point, which is a really good one, so we used to have Xbox Live Gold, which is traditionally our multiplayer service, and that was kind of the thing you'd spend money on to play your multiplayer games. And it worked for -- it still works largely now, but think about it like a model that said, in the old days of having a console you'd actually have to pay for multiplayer service. Nowadays, when you -- I talk to my kids or I'll say play younger gamers or even gamers today, the notion of paying for multiplayer service feels a little bit antiquated.

That -- when you play on a mobile device, you generally don't pay for it. When you play on a PC, you generally don't pay for it. So -- but we had millions and millions of players on it. So what we did was we said, hey, look, let's have an entry-level Game Pass SKU called Game Pass Core, basically. And Game Pass Core allows you to migrate what was Xbox Live Gold into a Game Pass catalog. And it's got a subset of our Game Pass catalog. And for those who don't know, Game Pass is our game content subscription service. You know, for \$9.99 a month or \$14 -- \$17.99 a month, you get access to 100 great games. Play it, play as much as you want.

So we've really found a way to migrate that kind of Xbox Live Gold base into Game Pass. And then they see the value of, look, if I upgrade up the SKU pipeline, I can now get access to the full catalog. I can get access to game streaming which is in Game Pass Ultimate are high end SKU. So I'll say from a business model landscape or from my CFO seat ability for us to migrate users up that stack. That's a key value driver for us.

And one of the great things about gaming too is, if you find a way to drive value to gamers and they're paying for that value that they enjoy, it's actually a great relationship. They don't feel like they're being kind of grinded down on the dollars, like I'm paying \$17 a month and I get access to hundreds of games the value is there. And for us we offer most of our games, if not all that we've had before Activision, when a game launches it's included in Game Pass as well. So that's kind of one of the unique value props that we have.

Lastly, I'd say from a Microsoft standpoint, leveraging the platforms that we have to go reach all endpoints, think about Office today, it's on all endpoints. Azure reaches all endpoints. What we do with our service is really reach as many endpoints there. So whether it's our digital store or our platform technology, leveraging our position at Microsoft allows us to move quickly, move with security, move with safety, move with our confidence that we can protect our consumers. We obviously have a trust in safety and security lens that we put on everything we do.

So being in that Microsoft framework really allows us to move with speed and allows us to focus our efforts on what's the best for gamers, what's the best for our business, and leverage Microsoft where we can to do it quickly.

**Q - Michael Turrin** {BIO 20079094 <GO>}

Yes. That's great. I'm pleased you're here now because there's a rich list of topics to check through. We just have a couple of minutes left. So one kind of higher level Microsoft cultural question I have for you is, you're not alone in having been there for multiple decades. It's very often we interface with someone at Microsoft that is maybe rotated around different divisions but has been there for a long time. And it seems like that's even more so the case now because of just the Gravity and all of the amazing bets that the company has placed. But from your perspective internally, can you speak to what keeps the continuity, the longevity, all those things in markets that are hyper-competitive that you're hitting on?

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes. I'll say for me personally, the gaming landscape changes every year. So every day you come in, it's a new battle in a good way. It's a new thing to go solve. Combined with the culture of Microsoft, I was actually on a panel last night, I flew in late last night, but yesterday I was on a panel at the office and it was, I don't know, five or six or seven of kind of my peer CFOs through the company. And we looked on stage and we had something like 250 years of Microsoft experience between the nine or so of us, or something like that.

And you look at that, and I was kind of reflecting later, someone taking a picture and sent it to me. I was reflecting on, why are we all there so long? It's a culture. It's just that what we've seen over the last, for sure, seven or eight years from Satya taking over, was really -- he talks a lot about growth mindset, so I don't want to overuse it, but really, learn it all, be a good listener, with respect, with empathy. And that really feeds through the organizations.

And Satya and Amy, their bar is high, so it's not be weak and do all these things. It's be strong, keep your foot on the gas, be smart at what we do, pivot quickly. But you can do all that with respect. And I think when we look across the table at other people that are at the company, and you look at people that have been around for a long time, they execute well together.

And I -- not to be all sports about it, I happen to like watching sports, but some of the best teams that you see out there are ones that have been around for a while and execute well together, and they do it with respect. They do it with pushback. There's - it's not easy. It's not easy. The bar is high, and you want to keep growing the stock price. You want to keep growing share and EPS, but really that culture is just at the top level. Really what I've seen is just great, and so we stick around because we love it.

**Q - Michael Turrin** {BIO 20079094 <GO>}

Yes. That's a good passion to answer. Just a minute left, so I'll turn it to you for closing remarks. I think the crux of what I'd hope to get is just the major metrics and milestones that you're focused on, and we've touched on a lot, but in three or five years, what you're gauging success by.

**A - Tim Stuart** {BIO 20382118 <GO>}

Yes. Success for us is, we can keep growing that content and services revenue. I'll say multiple -- double-digits, and I don't mean that with Activision, without Activision, because you'll see some movement in comps and stuff. But it's really, if we can grow faster than the market is growing, we are taking share in the gaming market, and that's where we want to be. It's a \$250 billion market. We are not \$250 billion.

And so, early on and not to make -- I'll kind of leave at this point maybe is, we walked into Satya's office, Phil Spencer who runs Xbox and I, we had both taken our jobs about the same time. We've known each other for a decade before that together. We're like, let's go do this gaming thing.



Walked into Satya's office, hey, we're going to spend \$2.5 billion on this thing called Minecraft. He's like -- jokingly, he says a blocky game, you chop down trees like what, \$2.5 billion for this thing. I'll say turns out one of the best acquisitions that have been made, it'd be in history. But he said, I don't want to talk about Minecraft. Tell me why we're in gaming?

And we put the deck down that we had for the acquisition and that was a moment for Satya, Phil, myself, Amy Hood of why is Microsoft in gaming? And that was eight or nine years ago. And the answer really is kind of why it's Microsoft in any business? Big and growing market that we have an ability to take and win share. And that's why we do gaming at Microsoft.

And of course, we can leverage assets. And of course, we need consumer brands at Microsoft that are meaningful. You can't just -- in my opinion, you can't just be all commercial led. You've got to have good consumer lens too. But in the end, it's grow share in a big and growing market. And that's what we're here to do.

**Q - Michael Turrin** {BIO 20079094 <GO>}

That's a good note to close on as any, Tim. Thanks a lot. Really appreciate the time.

**A - Tim Stuart** {BIO 20382118 <GO>}

Thanks for having me. It's great to be in person. And it's good seeing everyone too.

**Q - Michael Turrin** {BIO 20079094 <GO>}

It is nice to be in person.

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