
From: Eugene Kim </O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=7B1951ECC94F4D7FAB0133BCCB1867AB-EUGENE KIM>
To: Tim Stuart; Kevin Gammill; Kendra Goodenough; Sarah Bond; Ben Decker; Ryan Cooper (CORPDEV); Jamie Lawver; Christian Staples (CORPDEV)
CC: David Hampton; Luca Di Mauro; Anna Chen; Louis Aghanwa
Sent: 11/1/2019 4:34:00 AM
Subject: RE: Project Phoenix - Preliminary Discussion Materials re: Scarlett Exclusivity

Team –

As promised, I'm also attaching the latest draft of the SA memo. This draft incorporates Phil's feedback from our session last week, as well as some minor formatting tweaks.

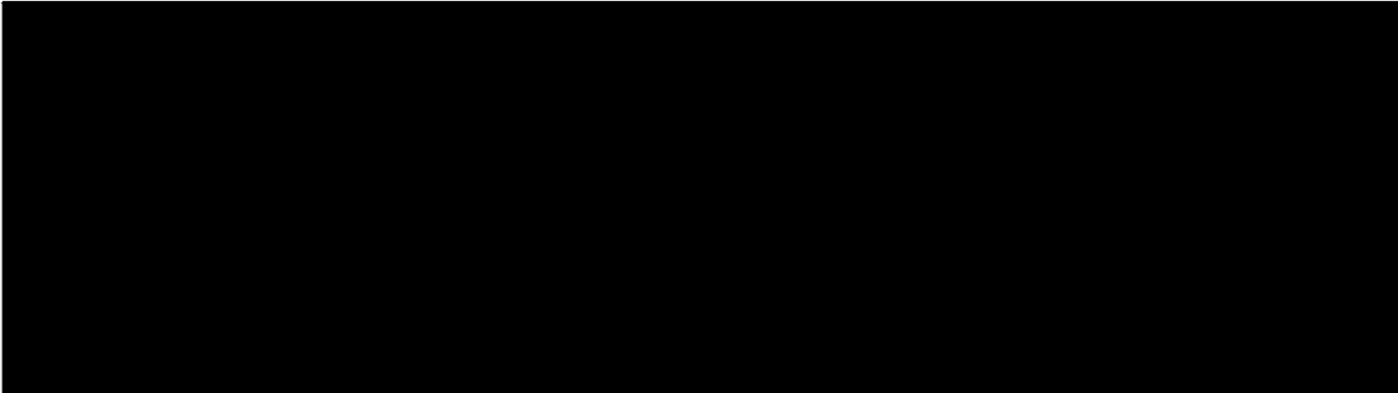
I'm also attaching a slightly updated version of the discussion materials for everyone's reference.

Thanks,
Eugene

From: Eugene Kim
Sent: Thursday, October 31, 2019 6:06 PM
To: Tim Stuart <timstu@microsoft.com>; Kevin Gammill <kgammill@microsoft.com>; Kendra Goodenough <Kendra.Goodenough@microsoft.com>; Sarah Bond <Sarah.Bond@microsoft.com>; Ben Decker <Ben.Decker@microsoft.com>; Ryan Cooper (CORPDEV) <Cooper.Ryan@microsoft.com>; Jamie Lawver <Jamie.Lawver@microsoft.com>; Christian Staples (CORPDEV) <Christian.Staples@microsoft.com>
Cc: David Hampton <dhampton@microsoft.com>; Luca Di Mauro <Luca.DiMauro@microsoft.com>; Anna Chen <Yilun.Chen@microsoft.com>; Louis Aghanwa <Louis.Aghanwa@microsoft.com>
Subject: Project Phoenix - Preliminary Discussion Materials re: Scarlett Exclusivity

Team –

In advance of tomorrow's discussion, please find a short set of discussion materials attached. I plan to share the revised SA memo later this evening.



We look forward to a healthy discussion tomorrow – please let us know if you have any feedback or questions in advance of our discussion.

Thanks,
Eugene

Eugene Kim | Microsoft Corporation
Gaming Business Planning & Strategy

O: 425.722.6857 | E: euk@microsoft.com

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By the Gaming Leadership Team | November 2019

1. | Market Opportunity & Our Strategy

In 2018, the gaming industry generated \$170 billion in total revenue, larger than the global home video (\$50 billion), movie box office (\$47 billion), and music industries (\$47 billion) combinedⁱⁱ. The game industry continues to grow—software and services revenue is projected to grow 11% annually through 2022—and yield healthy profit margins, ~30% for platforms and publishers in aggregate. One in three people in the world plays video games, 2.4 billion globally. In the next decade, we estimate that the number of worldwide gamers will grow to exceed 4 billion. Asia drives nearly half of industry revenue and worldwide gamersⁱⁱⁱ. Today, Microsoft accounts for just under 7% of the game industry^{iv}, implying significant headroom for growth.

Gamers increasingly play on multiple devices, with mobile seeing nearly universal adoption. Games are often bound to certain device categories however, a byproduct of legacy relationships and technical limitations. The recent success of *Fortnite* illustrates the latent demand for more fluid access to games across devices, as is typical in other entertainment categories. We believe the industry will reorganize, moving from a device-centric paradigm to one that orients around the gamer.

Microsoft has the opportunity to expand our presence in a large and growing industry by powering this transformation, including establishing relationships with more gamers on more endpoints in more geographies. Our strategy is to enable gamers to play the games they want, with the people they want, anywhere they want. This requires:

- **Content:** to attract & engage gamers across our platform & services
- **Community:** to create an ecosystem for discovery, purchase, and engagement
- **Cloud:** to provide ubiquitous content access and presence across endpoints

2. | Accelerating Our Strategy

The Role of Content

The Gaming CSA continuously evaluates opportunities to accelerate the growth of our business. Similar to other industries such as video, where investment in securing IP is projected to grow 30-50% in 2018-2020,^v having access to relevant content is one of the single most important drivers in both console growth (where an exclusive AAA release accounts for a 2-4% console share shift in the US and a 1-3% shift worldwide) and [REDACTED]

[REDACTED] For this reason, we believe that the following investment areas would yield outsized returns:

Growth Opportunities

Proven Content to Accelerate Xbox Game Pass

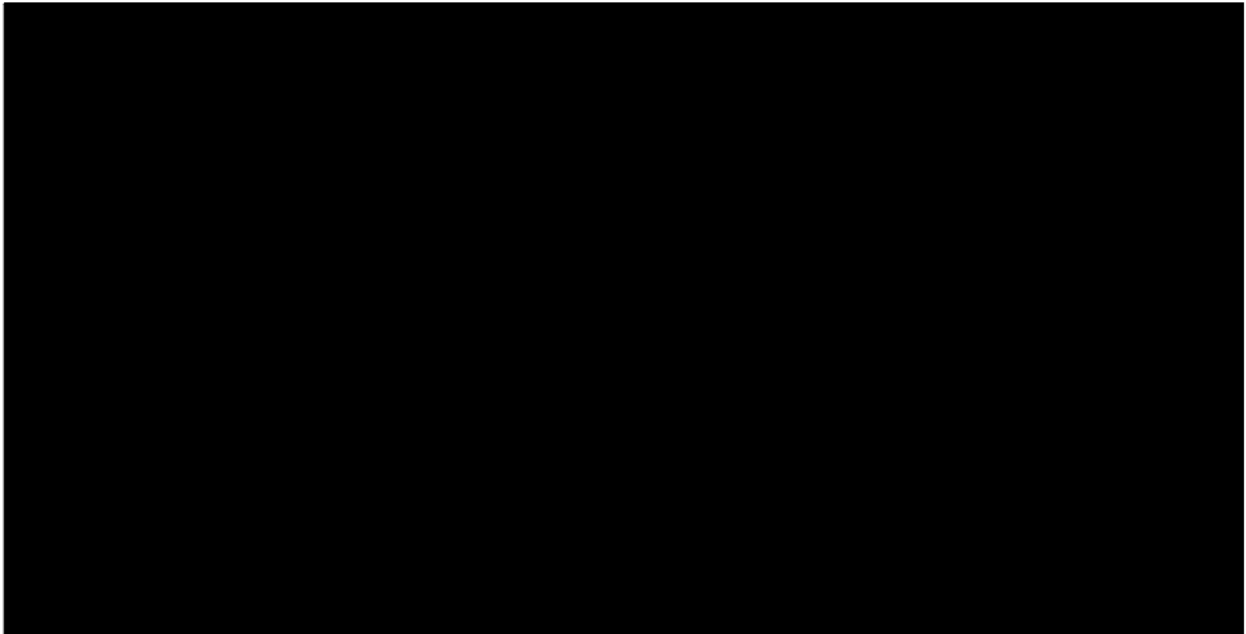
We believe gaming will follow the trajectory of other consumer entertainment verticals such as music and video, where subscriptions are the primary growth driver. We are investing to meet this demand through Xbox Game Pass, which provides subscribers with access to more than 100 games across console & PC for a monthly fee. [REDACTED]

[REDACTED]

TAM Expansion

- **Mobile Segment Growth:** Today, mobile gaming captures more than 40% of total industry revenue, generating over \$72 billion in 2018. The segment has grown double digits year over year and is expected to generate over \$100 billion by 2022ⁱ. Further, ~95% of the 2.4 billion worldwide gamers participate in mobile gamingⁱⁱⁱ. Currently, Microsoft does not have a meaningful presence in mobile, presenting significant opportunity to grow. [REDACTED]
- [REDACTED]

3 [REDACTED]



[redacted] owns a diverse suite of gaming franchises [redacted]
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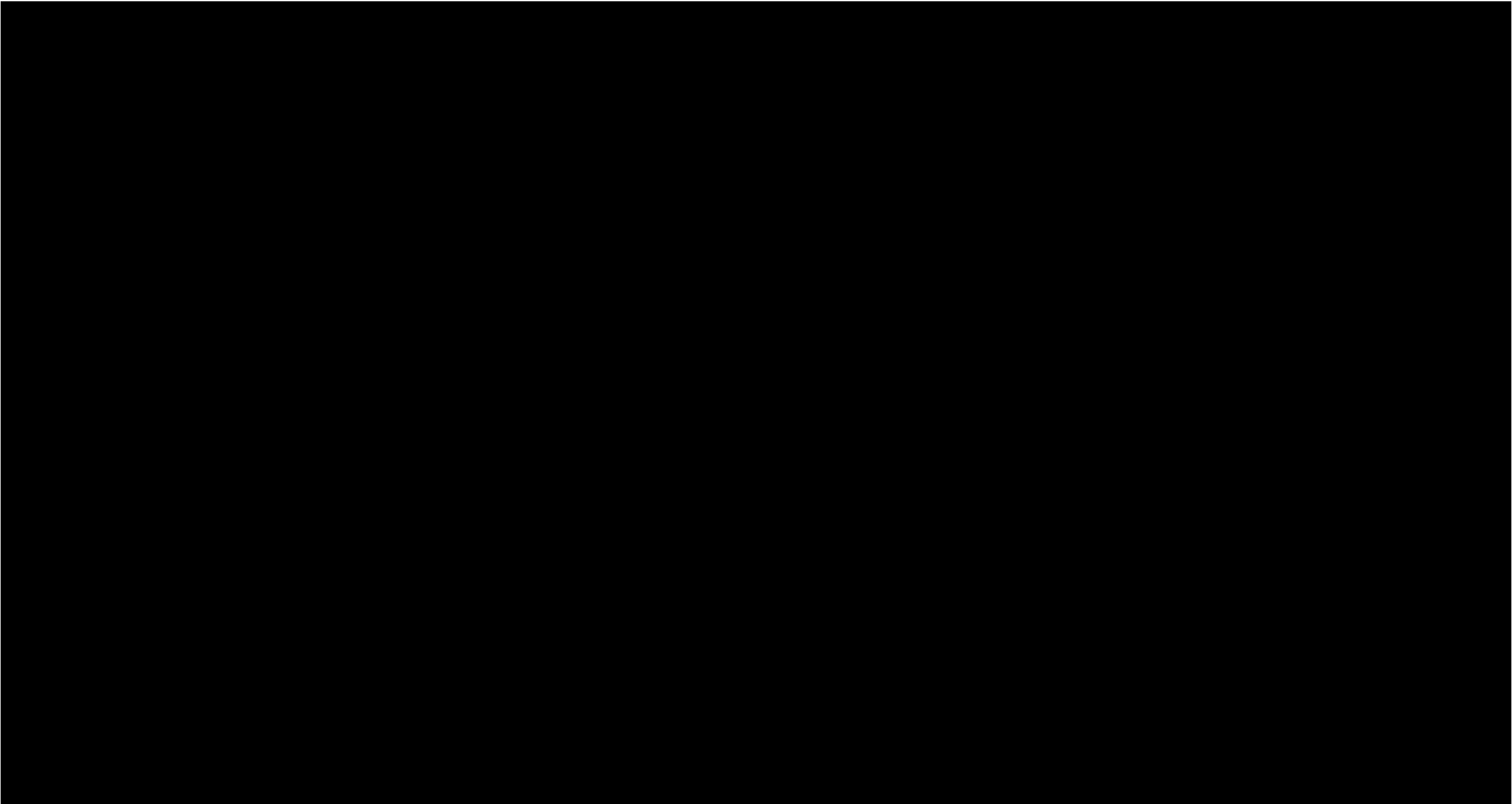
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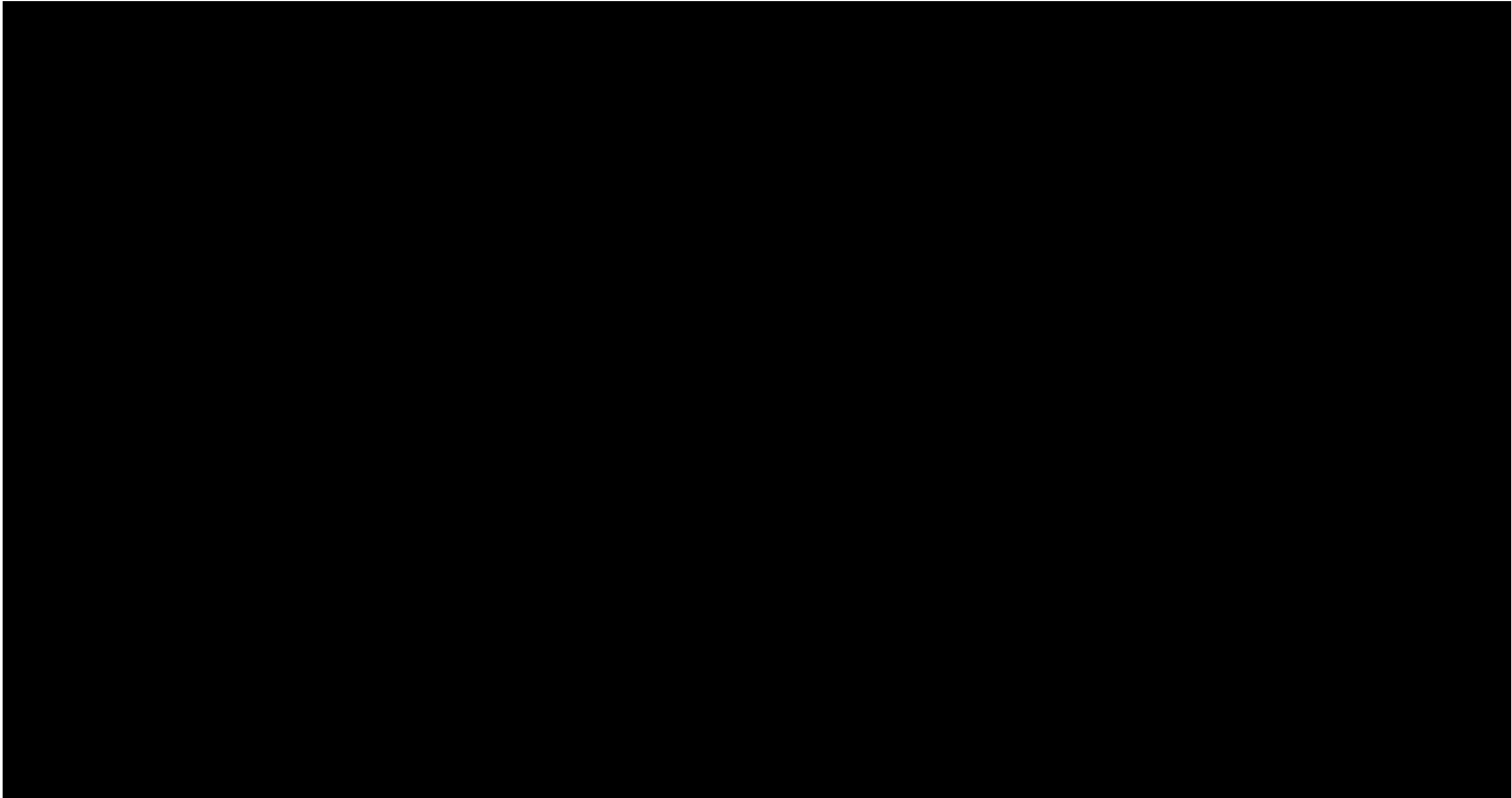
vi [REDACTED]

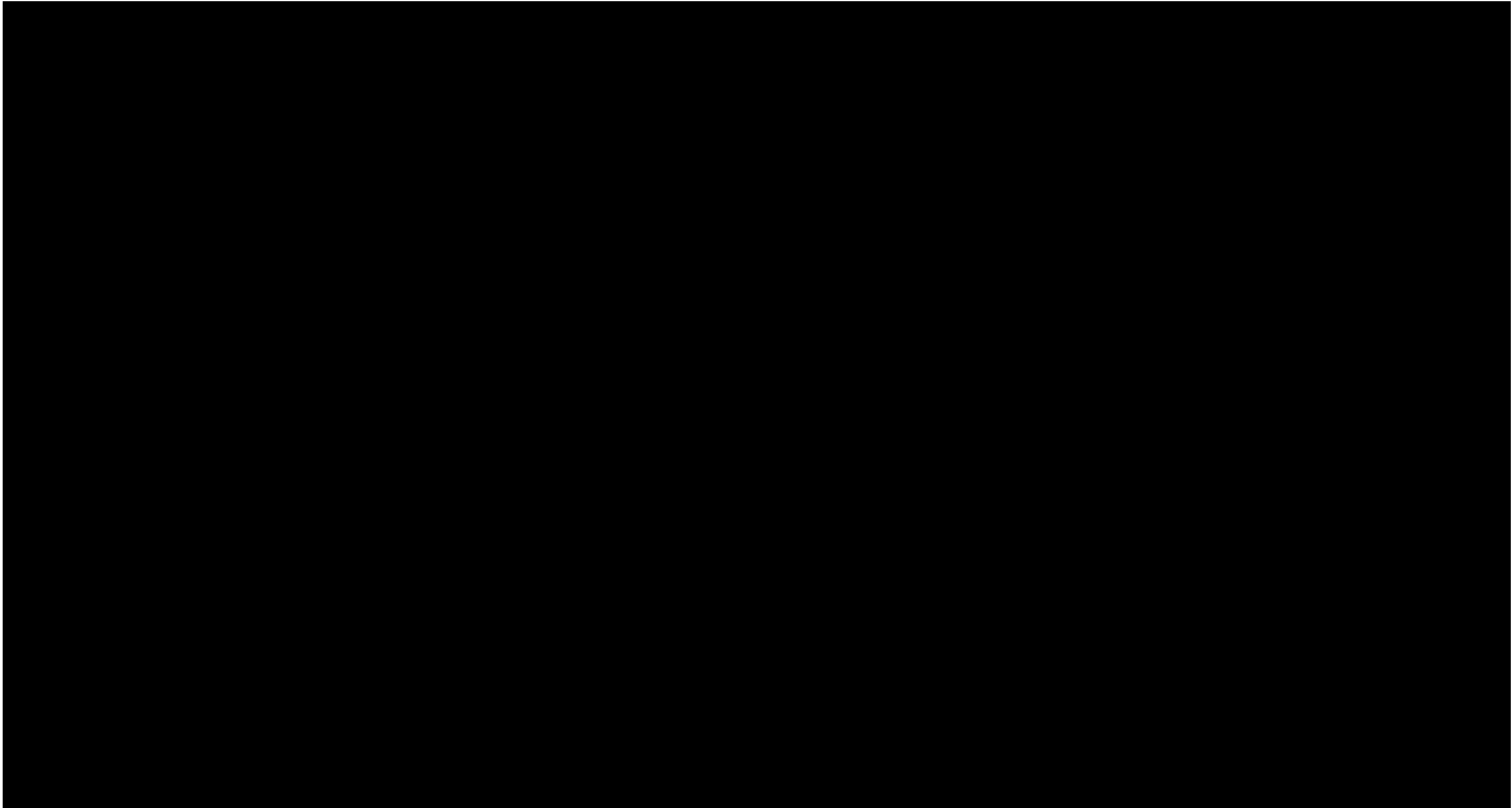
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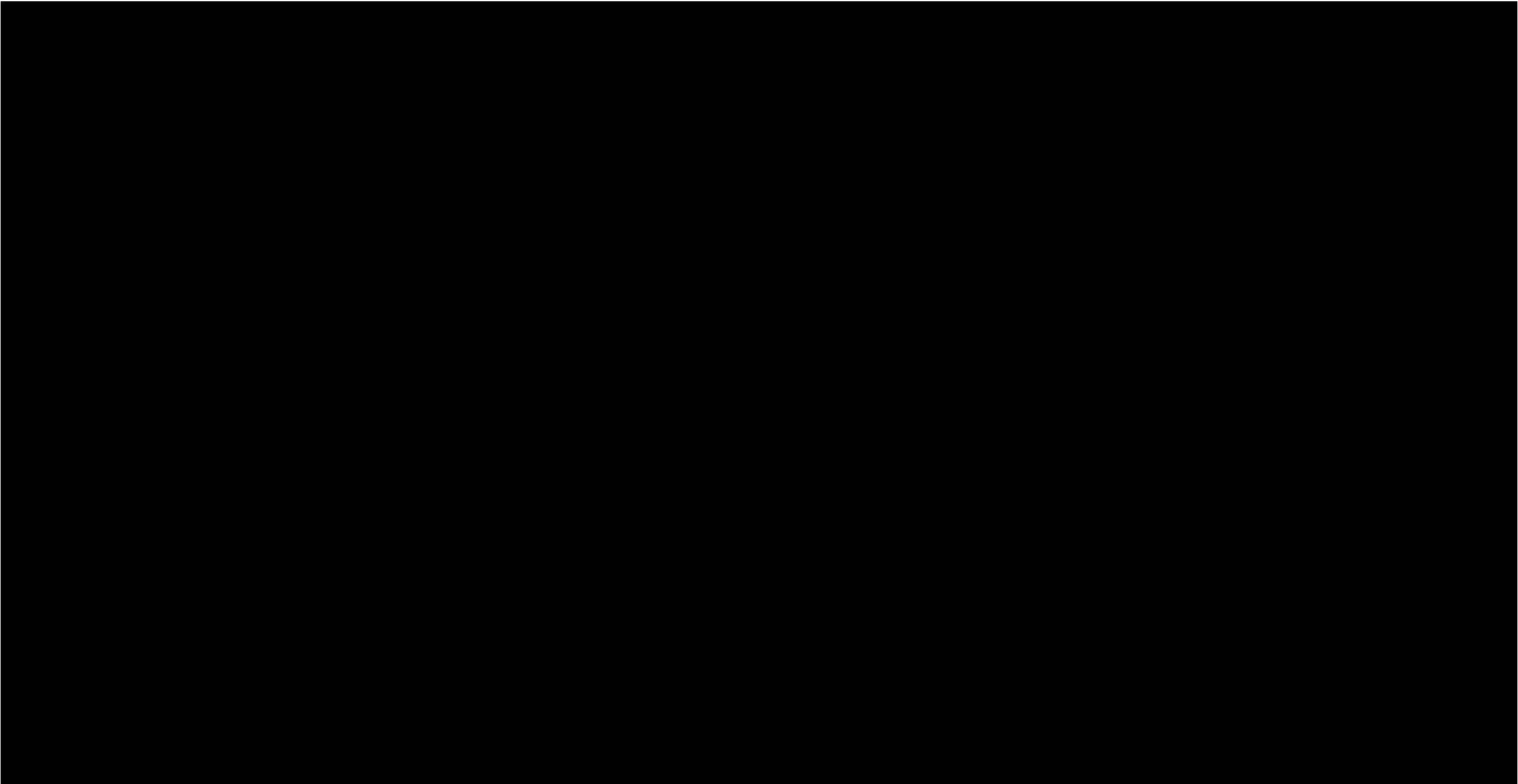


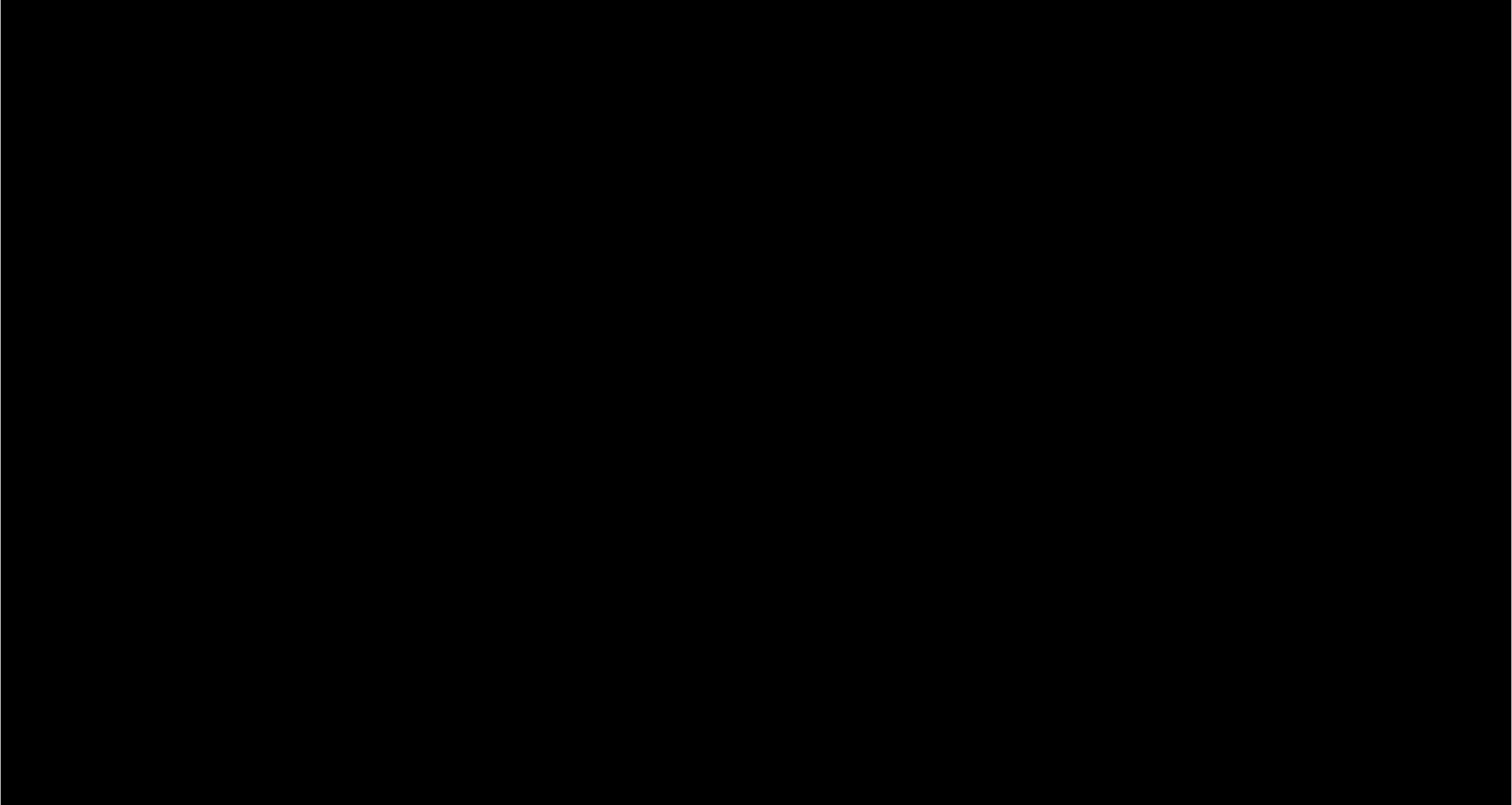
\\Denali_ExchangeOnly_NOTEAMS\Lawver, Jamie\Jamie.Lawver@microsoft.com-4.pst\Top of Personal Folders\Jamie.Lawver@microsoft.com
(Primary)\Top of Information Store\Inbox\RE: Project Phoenix - Preliminary Discussion Materials re: Scarlett Exclusivity











Graveyard

