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**From:** David Hampton </O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=9A520AFFB0DE4014A9414763A9D35C25-DAVID HAMPT>  
**To:** Gaming Business Planning & Strategy  
**Sent:** 11/10/2020 5:09:35 PM  
**Subject:** FW: Request for Strategy Approval: Sega  
**Attachments:** Gaming CSA -- Strategic Framing Memo -- SEGA vF.docx

Game on

**From:** Phil Spencer <philsp@microsoft.com>  
**Sent:** Tuesday, November 10, 2020 8:11 AM  
**To:** Amy Hood <amyhood@microsoft.com>; Satya Nadella <satyan@microsoft.com>  
**Cc:** Anna Chen <Yilun.Chen@microsoft.com>; Bill Duff <billduff@microsoft.com>; Christian Staples (CORPDEV) <Christian.Staples@microsoft.com>; Damon Baker <Damon.Baker@microsoft.com>; David Hampton <dhampton@microsoft.com>; Greg Sivinski (CELA) <Greg.Sivinski@microsoft.com>; Haiyan Zhang <Haiyan.Zhang@microsoft.com>; Jerret West <Jerret.West@microsoft.com>; Linda Norman (CELA) <lnorman@microsoft.com>; Matt Booty <mbooty@microsoft.com>; Michael Wetter (CORPDEV) <mwetter@microsoft.com>; Paul Lee (XBOX) <Paul.Lee@microsoft.com>; Rod Chang <rchang@microsoft.com>; Ryan Cooper (CORPDEV) <Cooper.Ryan@microsoft.com>; Sarah Bond <Sarah.Bond@microsoft.com>; Tim Stuart <timstu@microsoft.com>; Xuan Liu <Xuan.Liu@microsoft.com>  
**Subject:** Request for Strategy Approval: Sega

I'm writing to request Strategy Approval to approach Sega Sammy regarding a potential acquisition of their Sega gaming studios. For context, Bill and I have reviewed the business case for acquiring Sega and are both supportive. We believe that Sega has built a well-balanced portfolio of games across segments with global geographic appeal, and will help us accelerate Xbox Game Pass both on and off-console. Please find the attached memo and bullets below for additional detail on our strategy to prioritize our next acquisition target, a brief overview of Sega's gaming portfolio, and the value drivers for the potential acquisition.

[REDACTED]

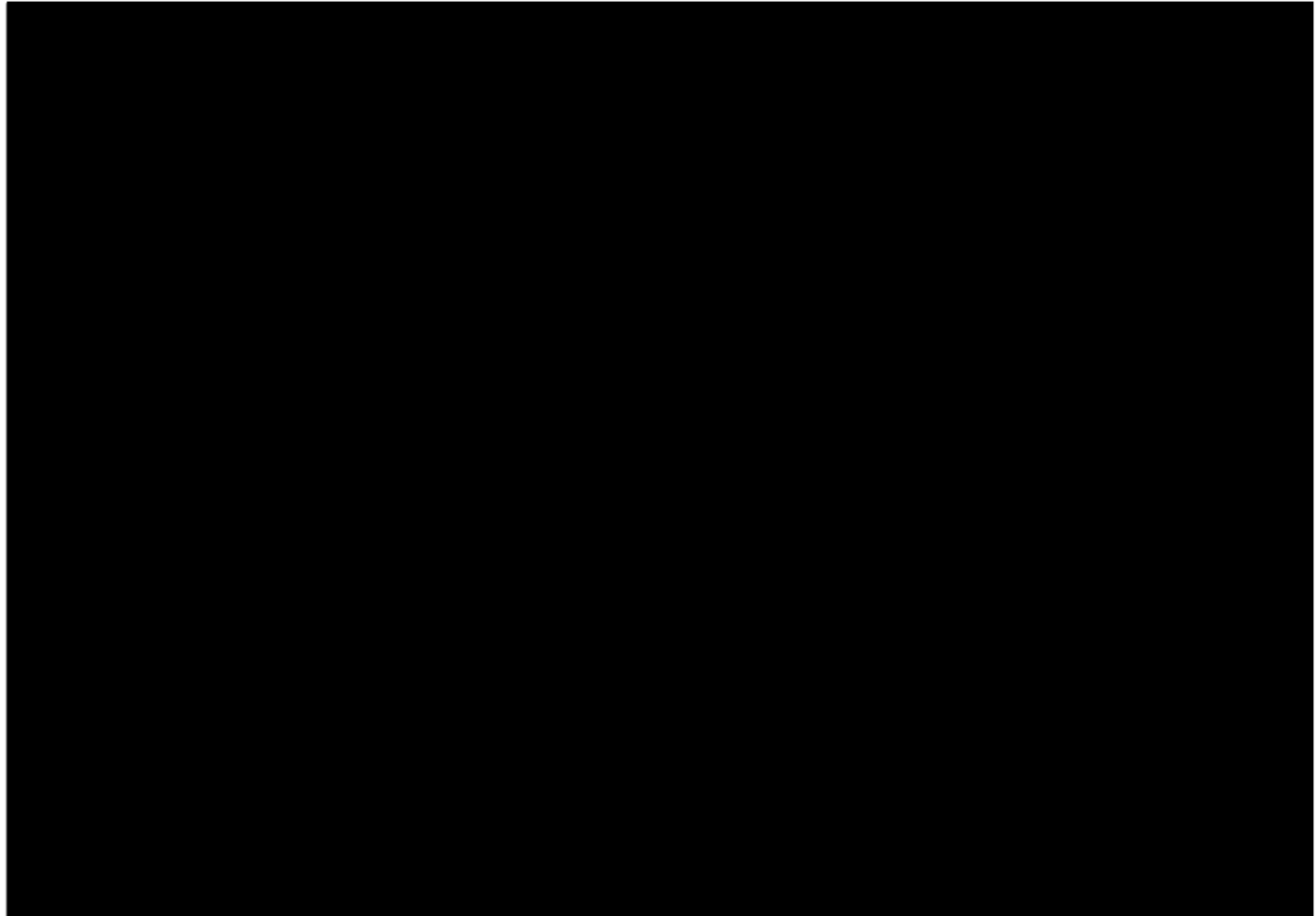
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

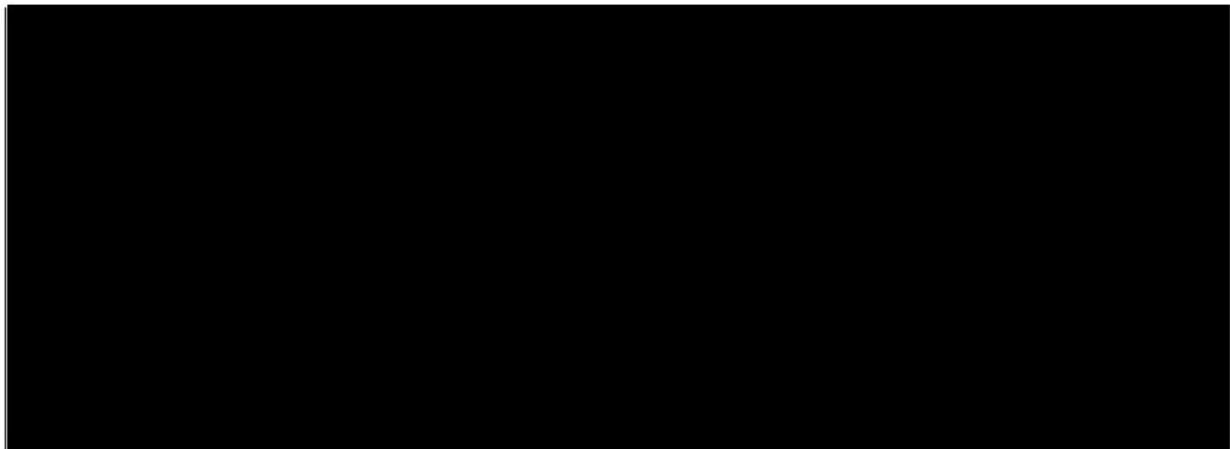
[REDACTED]



## 1. | STRATEGY OVERVIEW

A more detailed overview of the game industry, our strategic thesis, and how we are accelerating Xbox Game Pass growth can be found in the appendix of this paper. However, our perspective on growth remains unchanged and is grounded in the following:

- The game industry is large and growing; in 2019, the industry generated \$182 billion<sup>1</sup> in total revenue; —larger than the global home video, movie box office, and music industries combined — and continues to grow. Today, 1 in 3 people in the world plays games, 2.6 billion<sup>2</sup> in total. Microsoft, which accounts for 5% of global gaming revenue and players, has significant headroom for growth in this rapidly expanding market<sup>3</sup>.
- Our opportunity is to expand our presence through driving the industry paradigm shift from being device-centric to player-centric. To aid this transformation, we are making “needle moving” investments in Xbox Game Pass, supported by Xbox Series X / Series S, and xCloud.
- Differentiated content, the primary engine behind subscription growth, remains a key accelerant to helping us realize our ambition.
- Our content portfolio continues to reach more gamers across devices in North America and Europe. However, there is still opportunity to reach further than our primary addressable audiences.

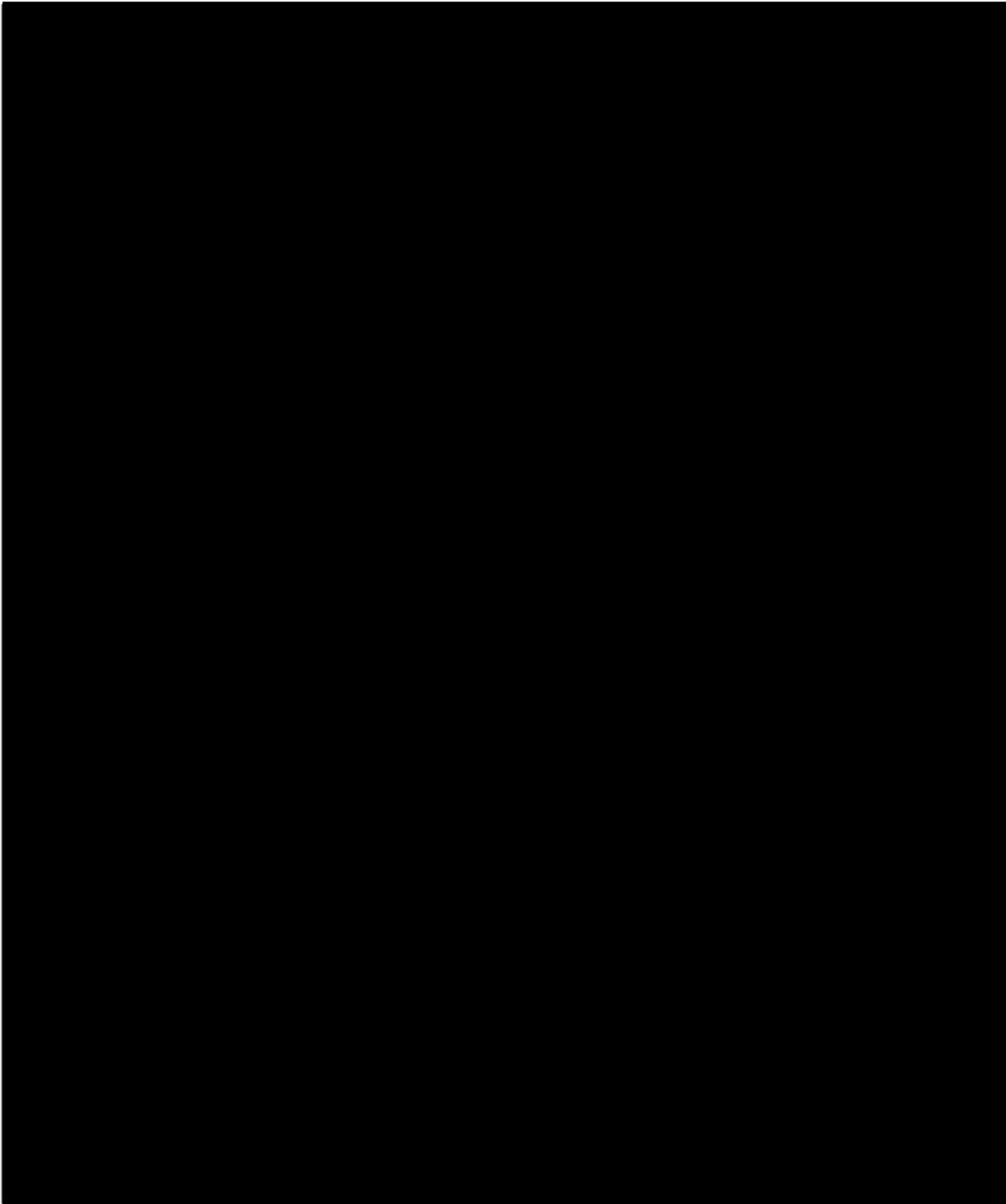


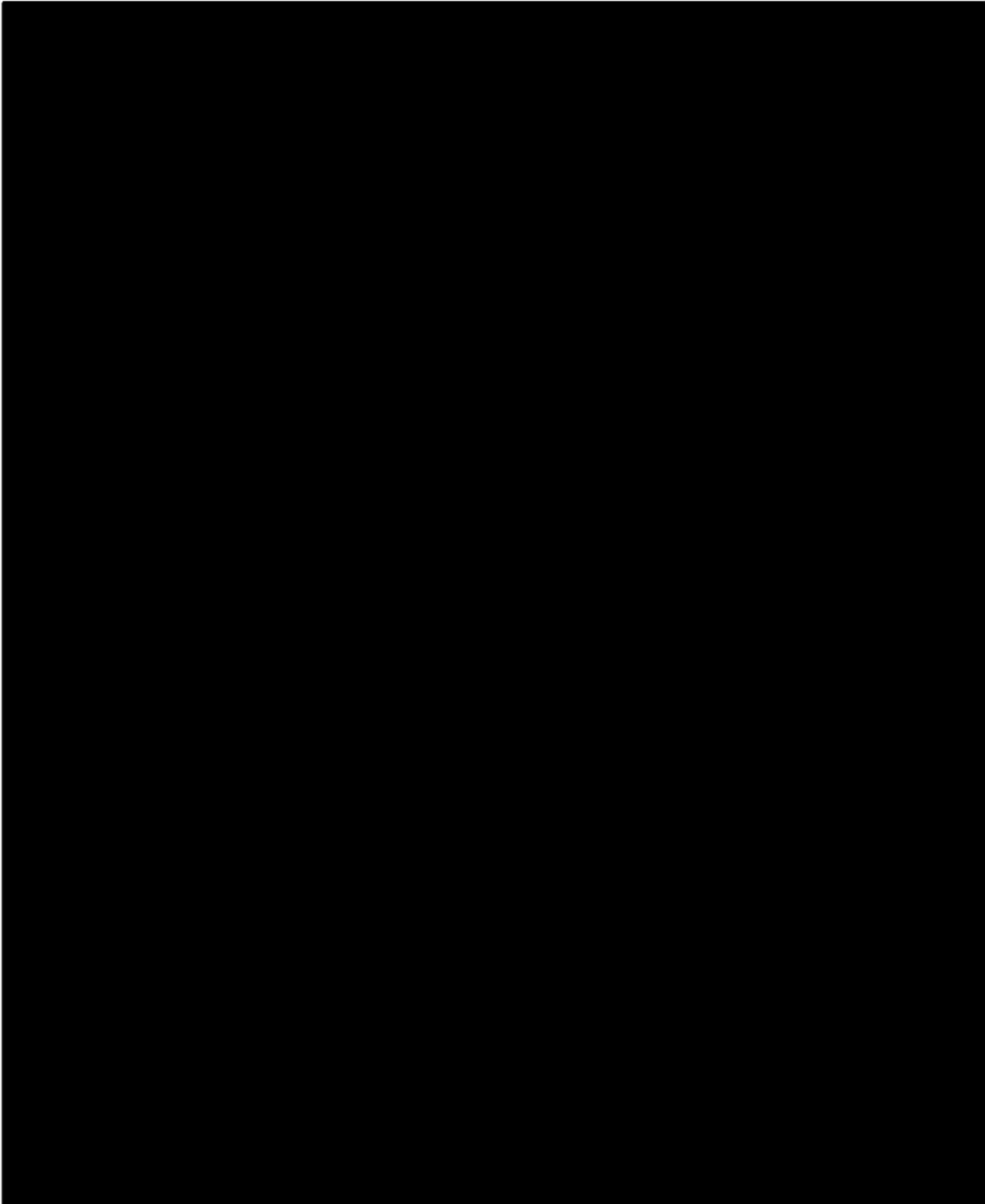
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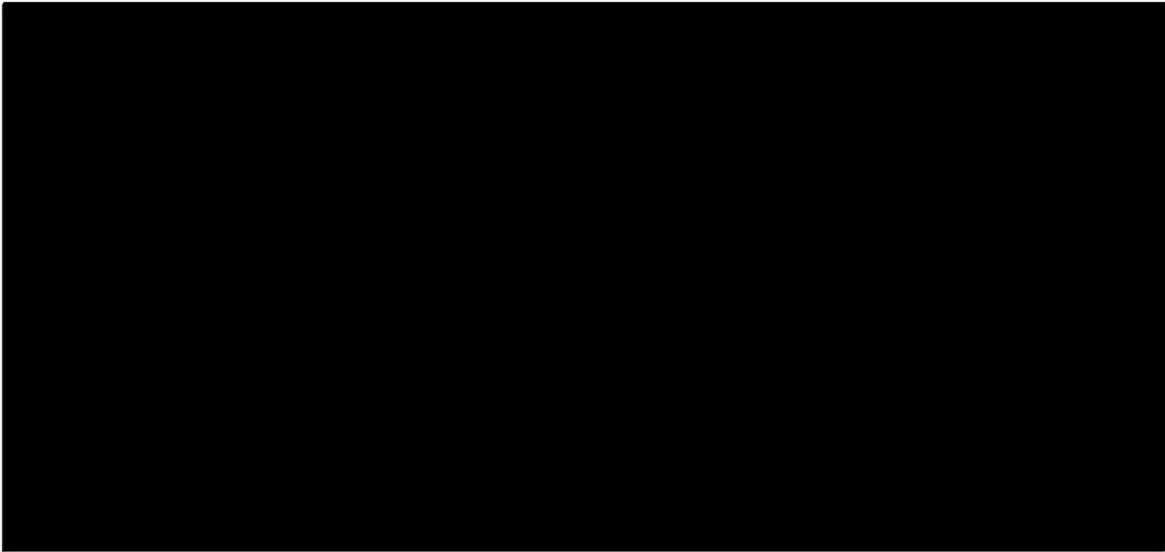
<sup>1</sup> Consensus analyst estimates, public filings, internal analysis (“CY2019 Game Industry Sizing”).

<sup>2</sup> Analyst estimates, internal analysis (“CY2019 Gamer Value”).

<sup>3</sup> Public financial disclosure, equity research, internal analysis (“CY2019 Game Industry Profit Pools”).

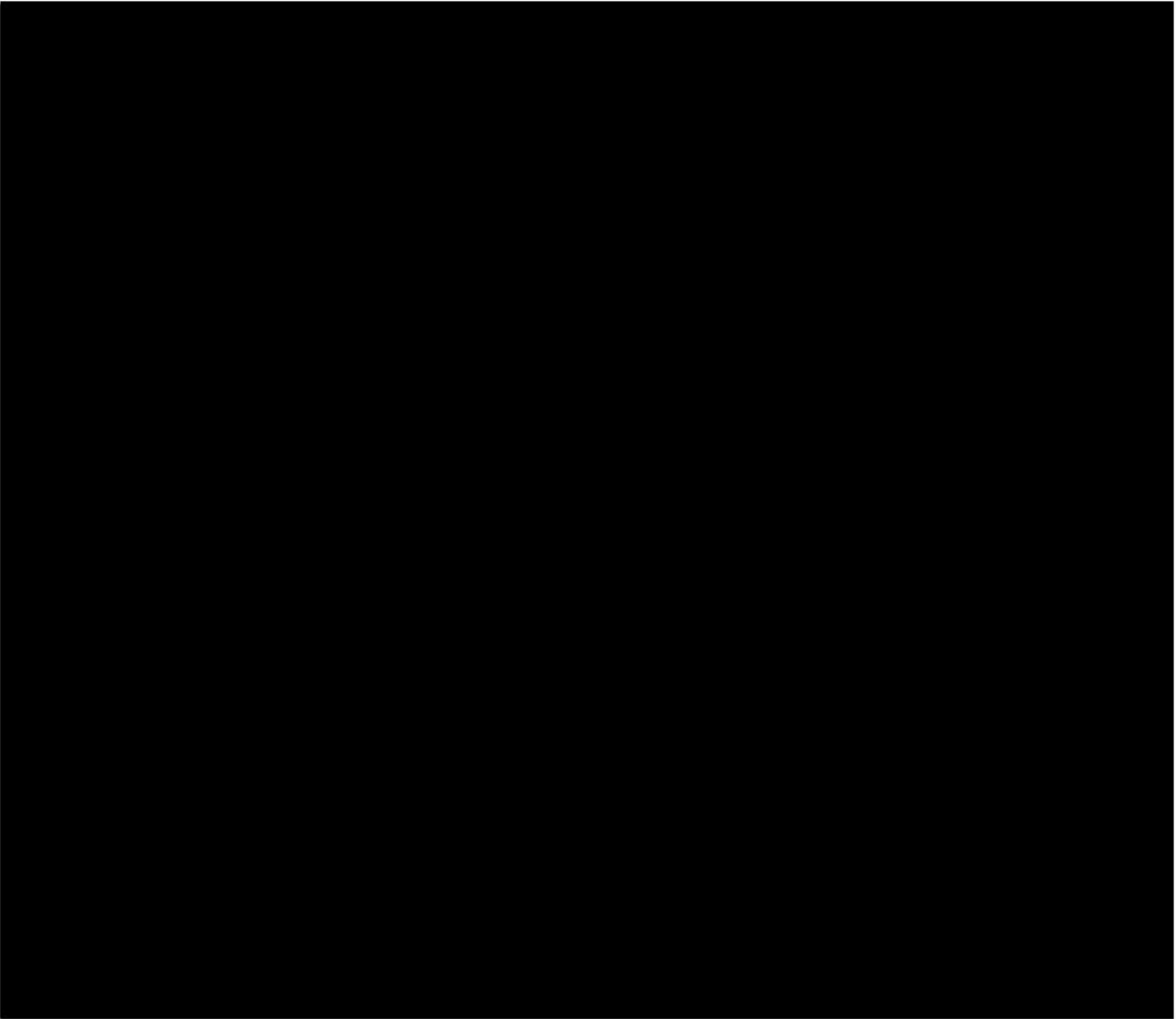






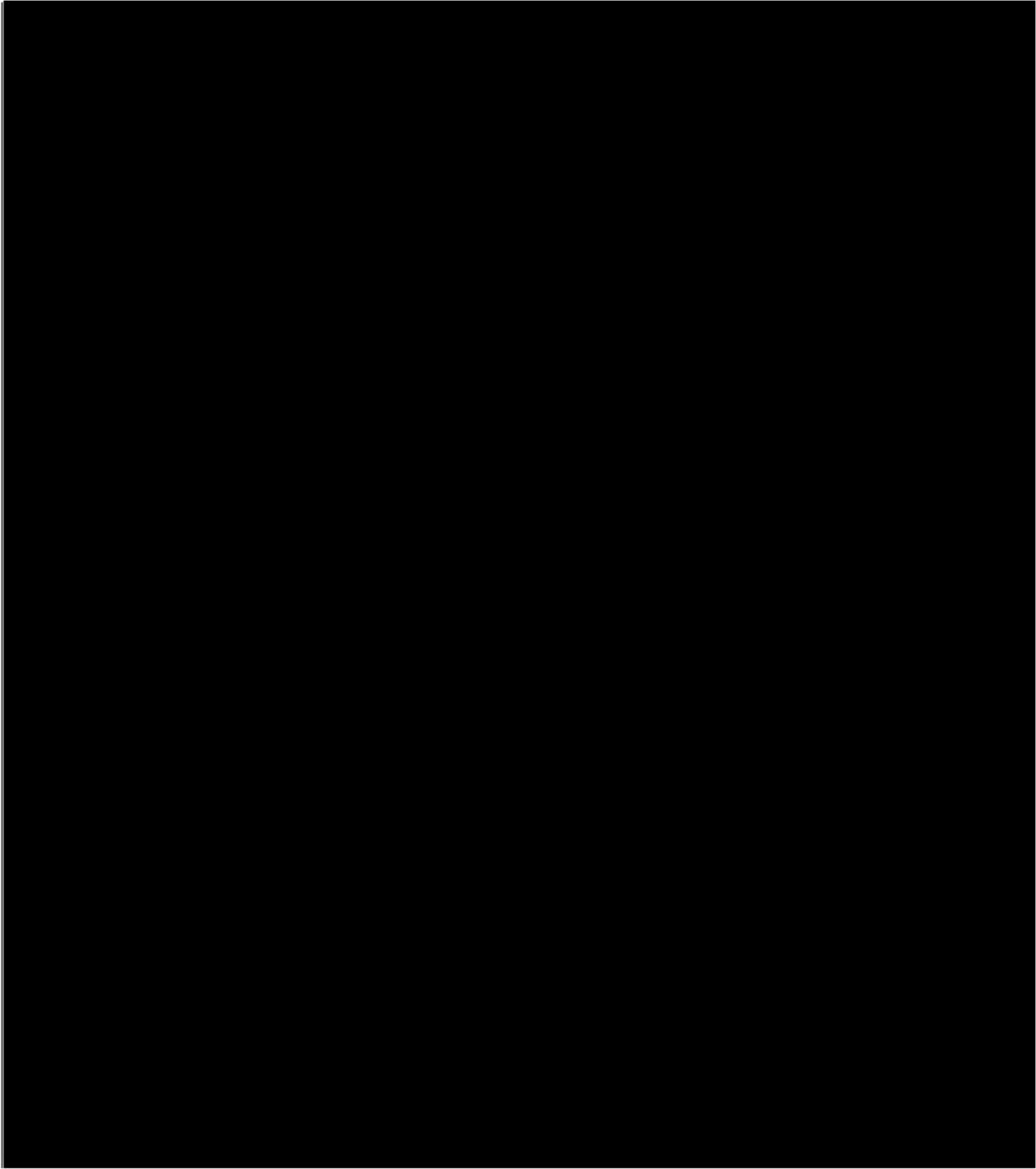
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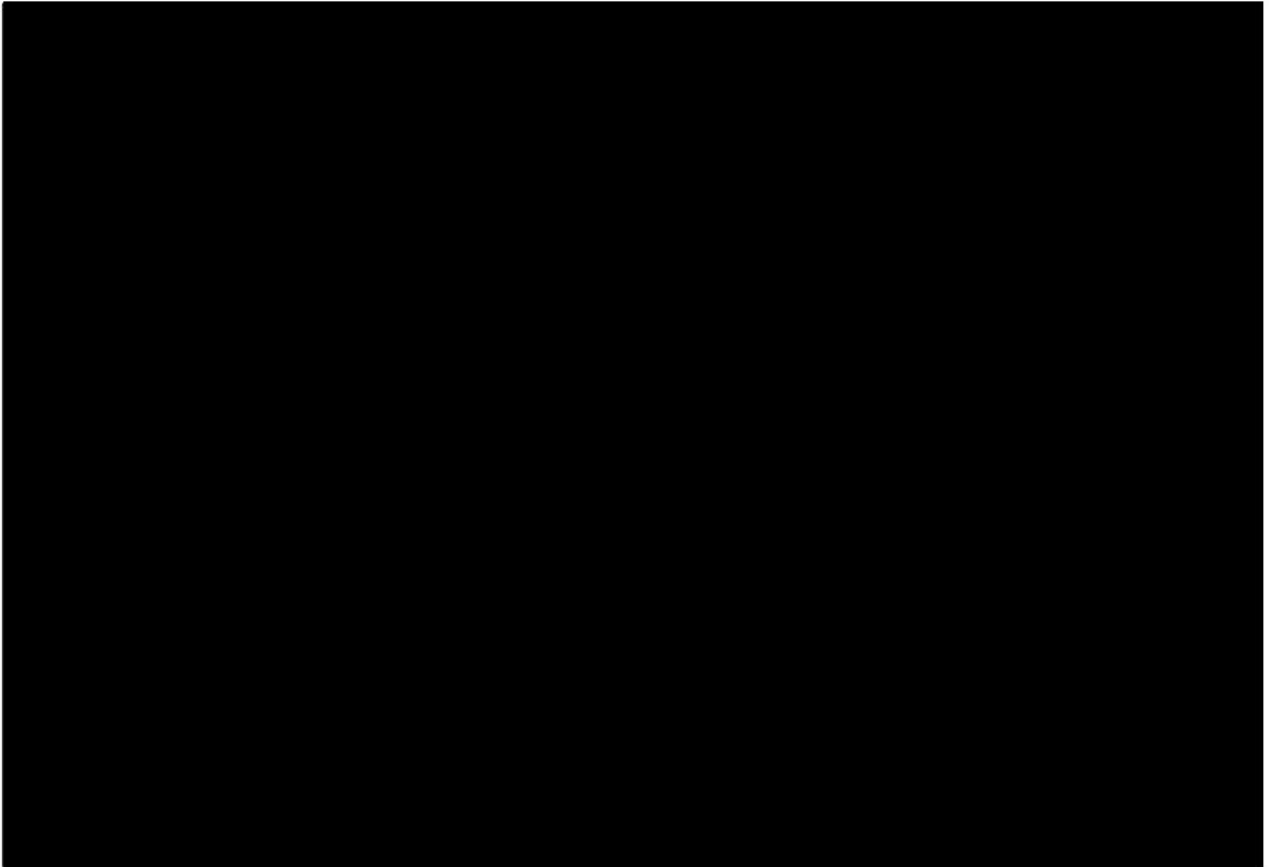


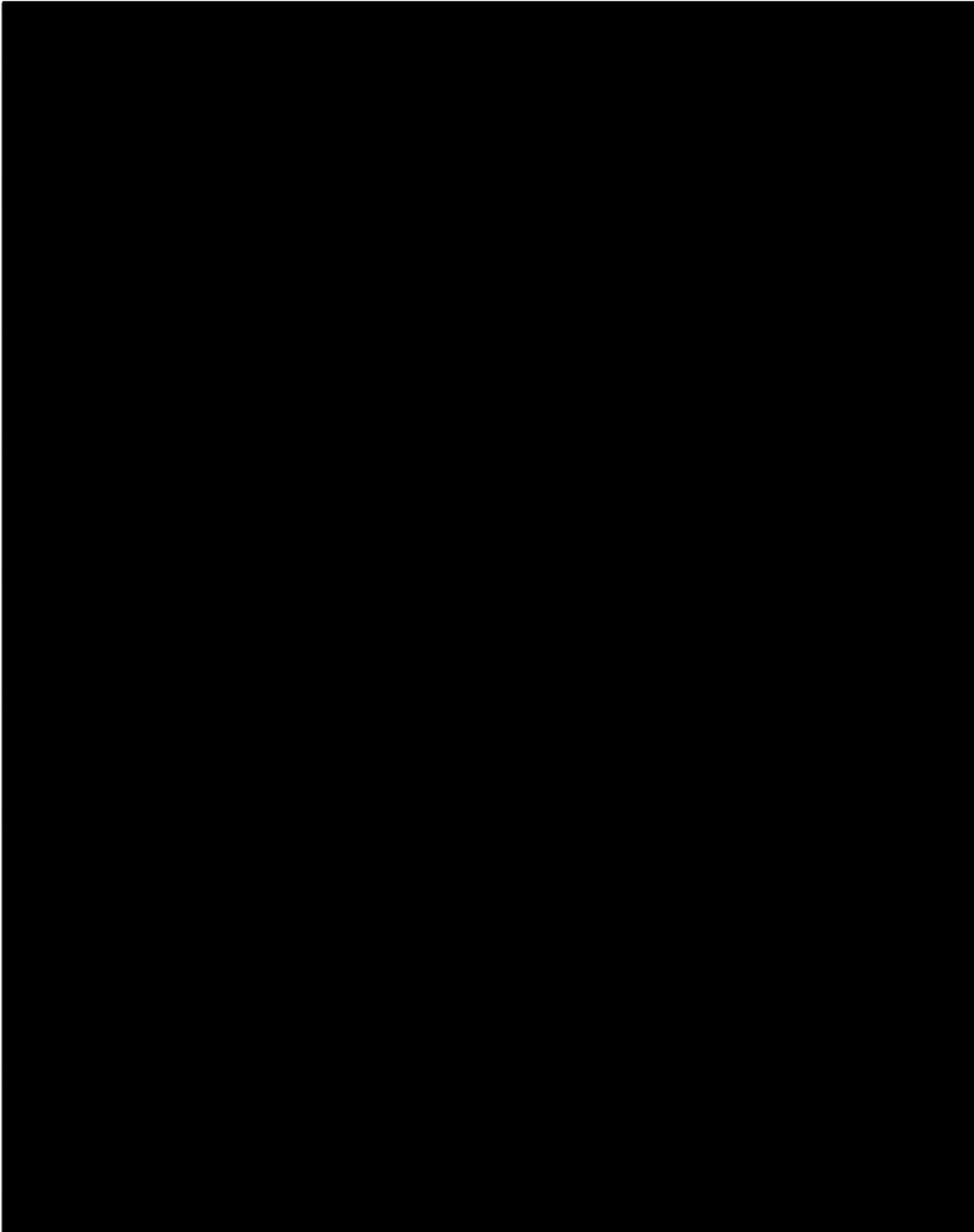
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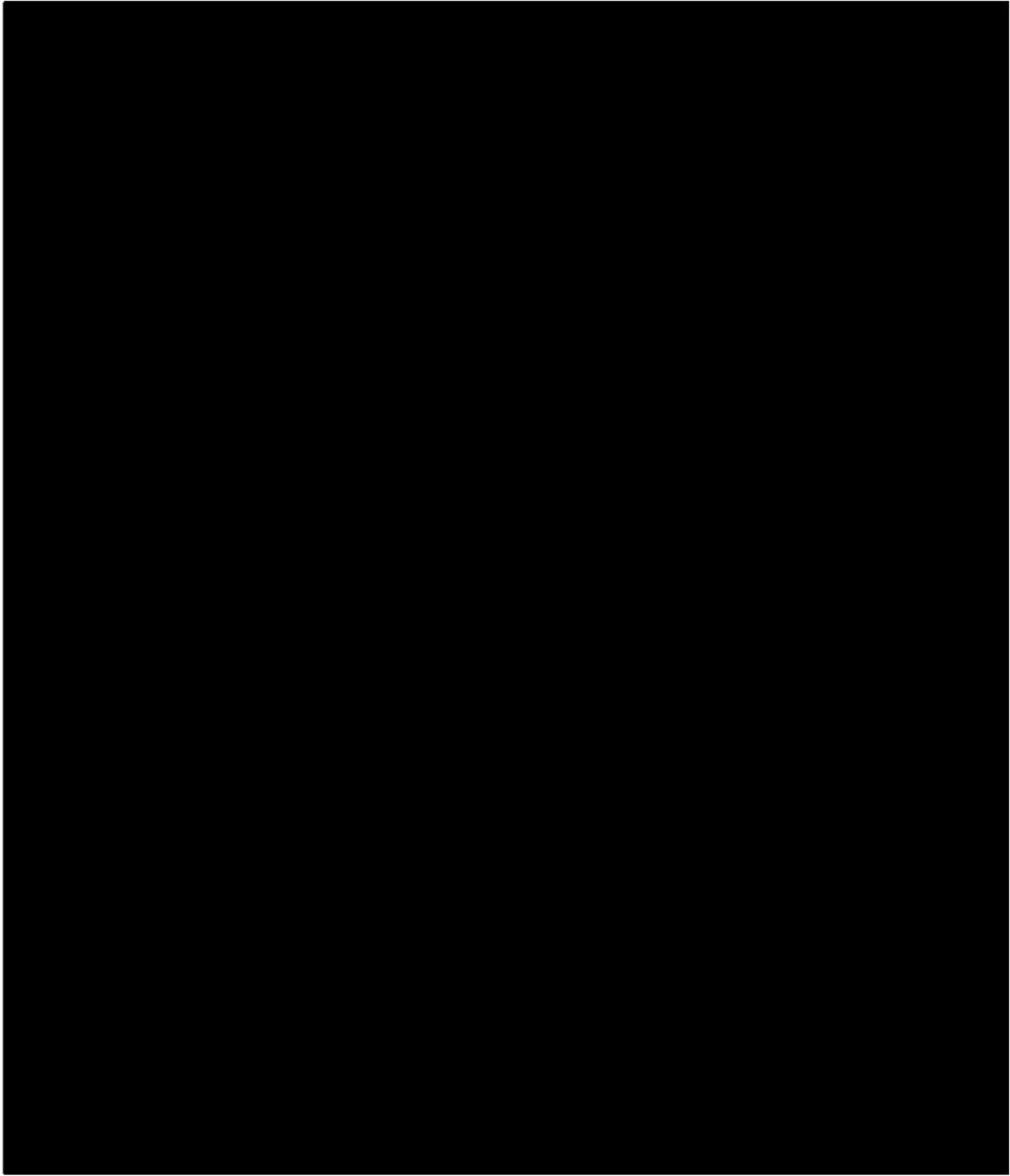


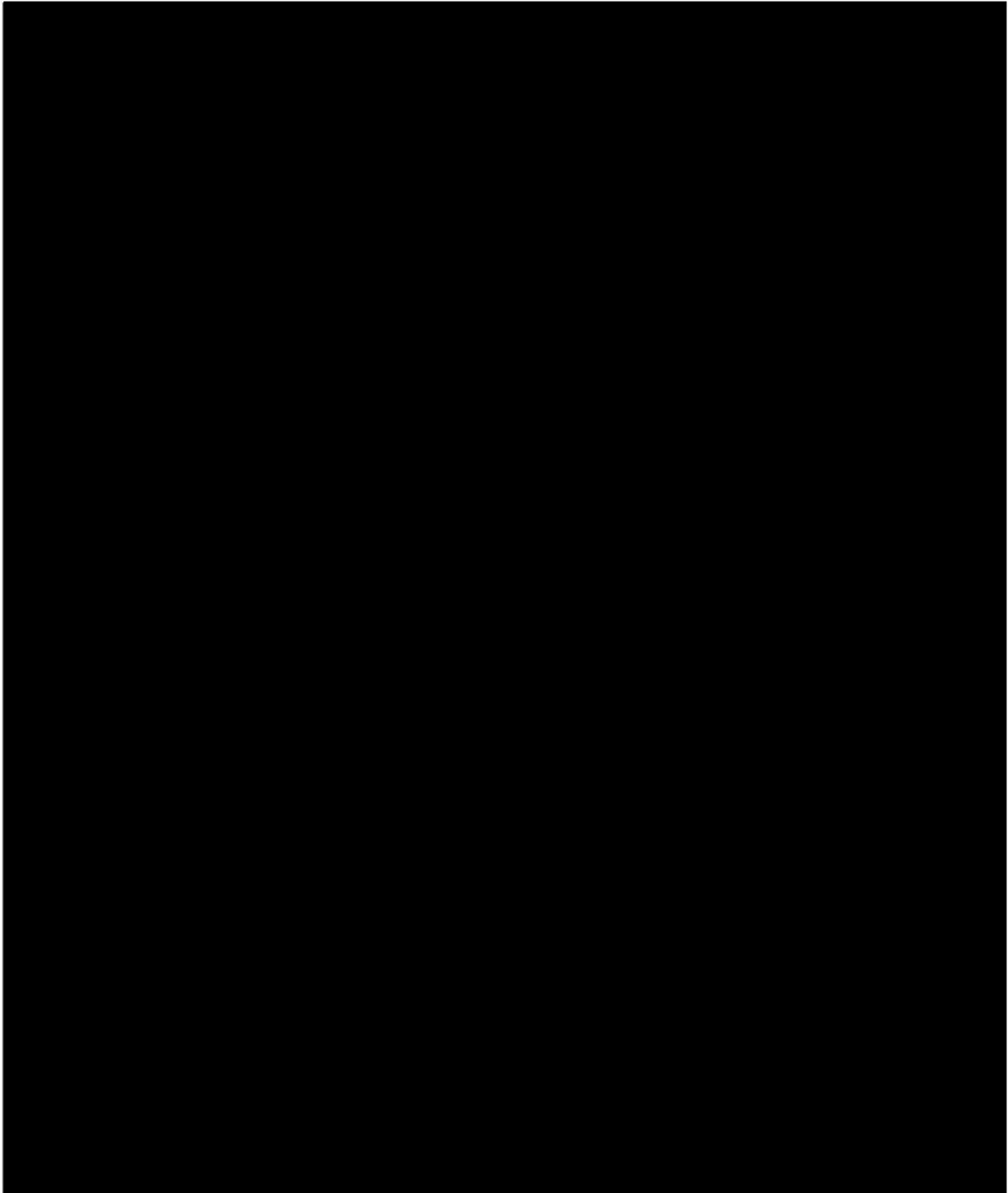


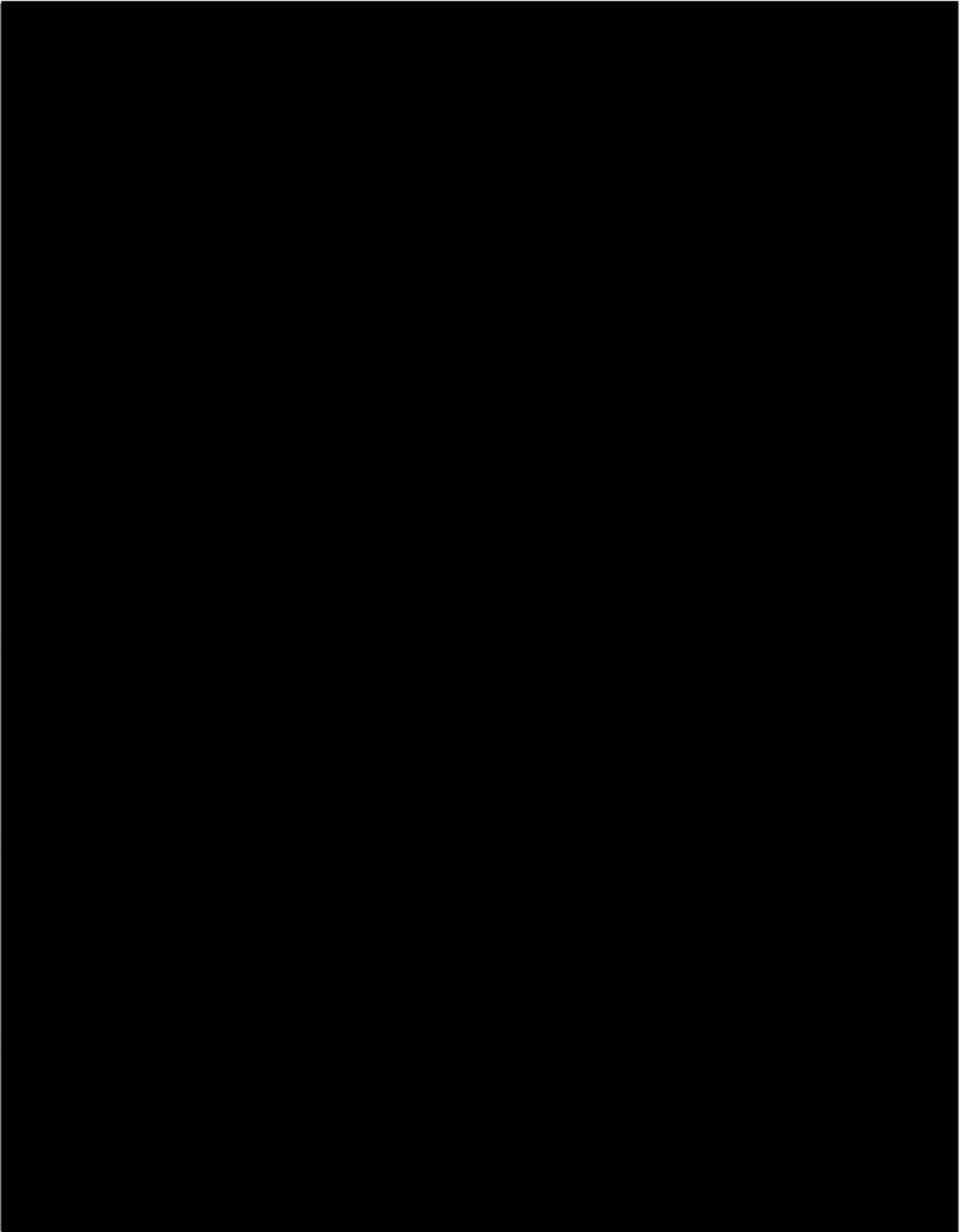


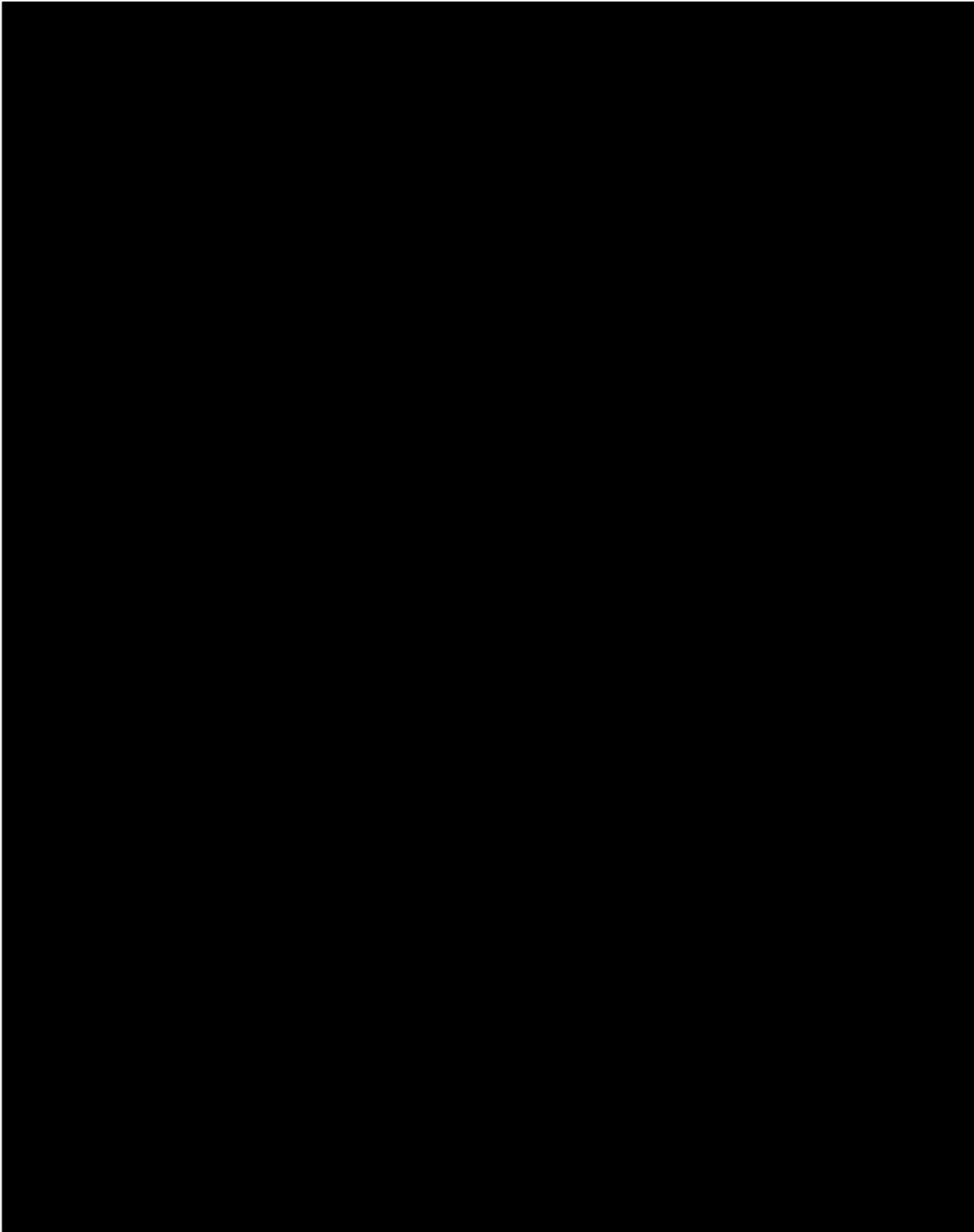


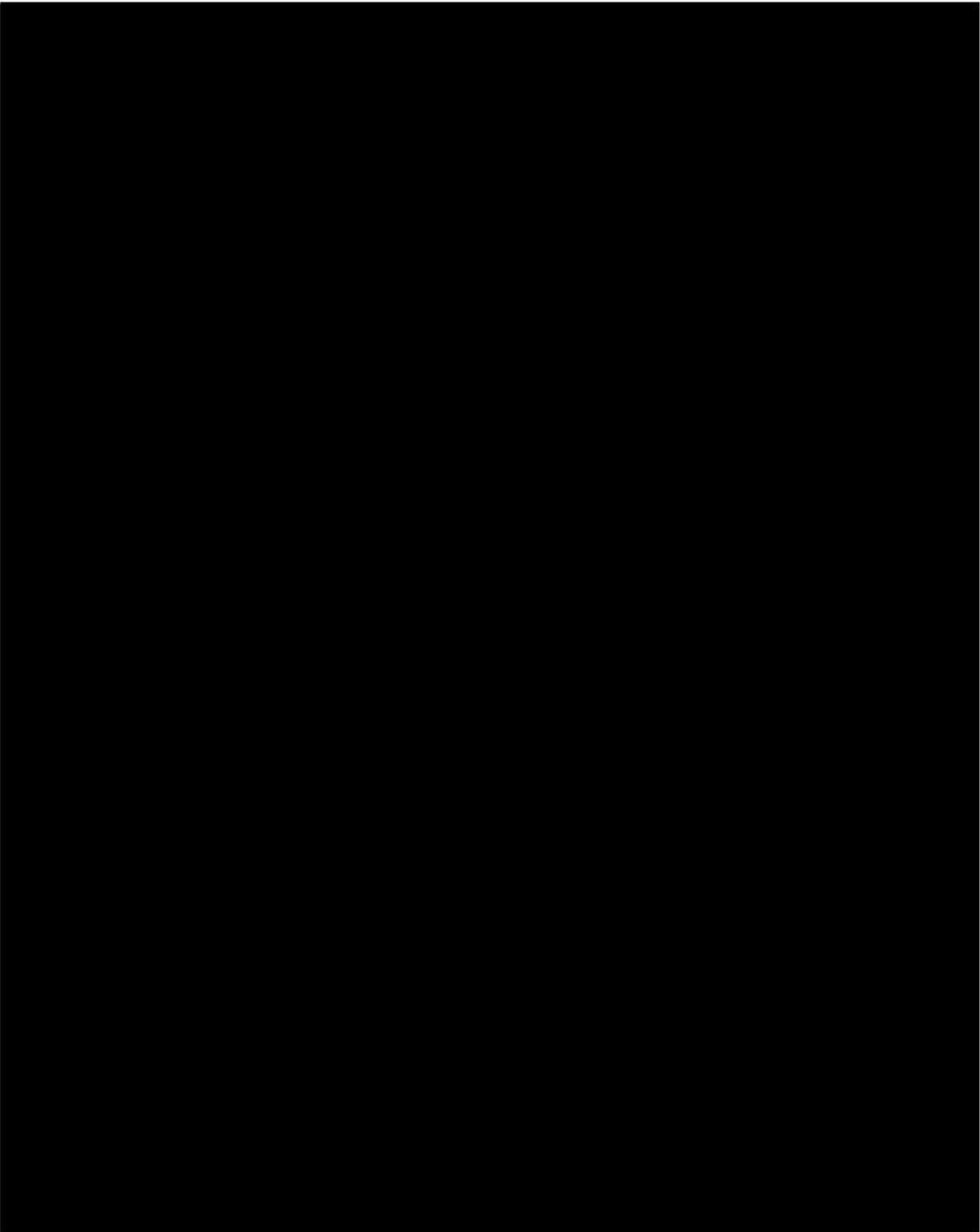


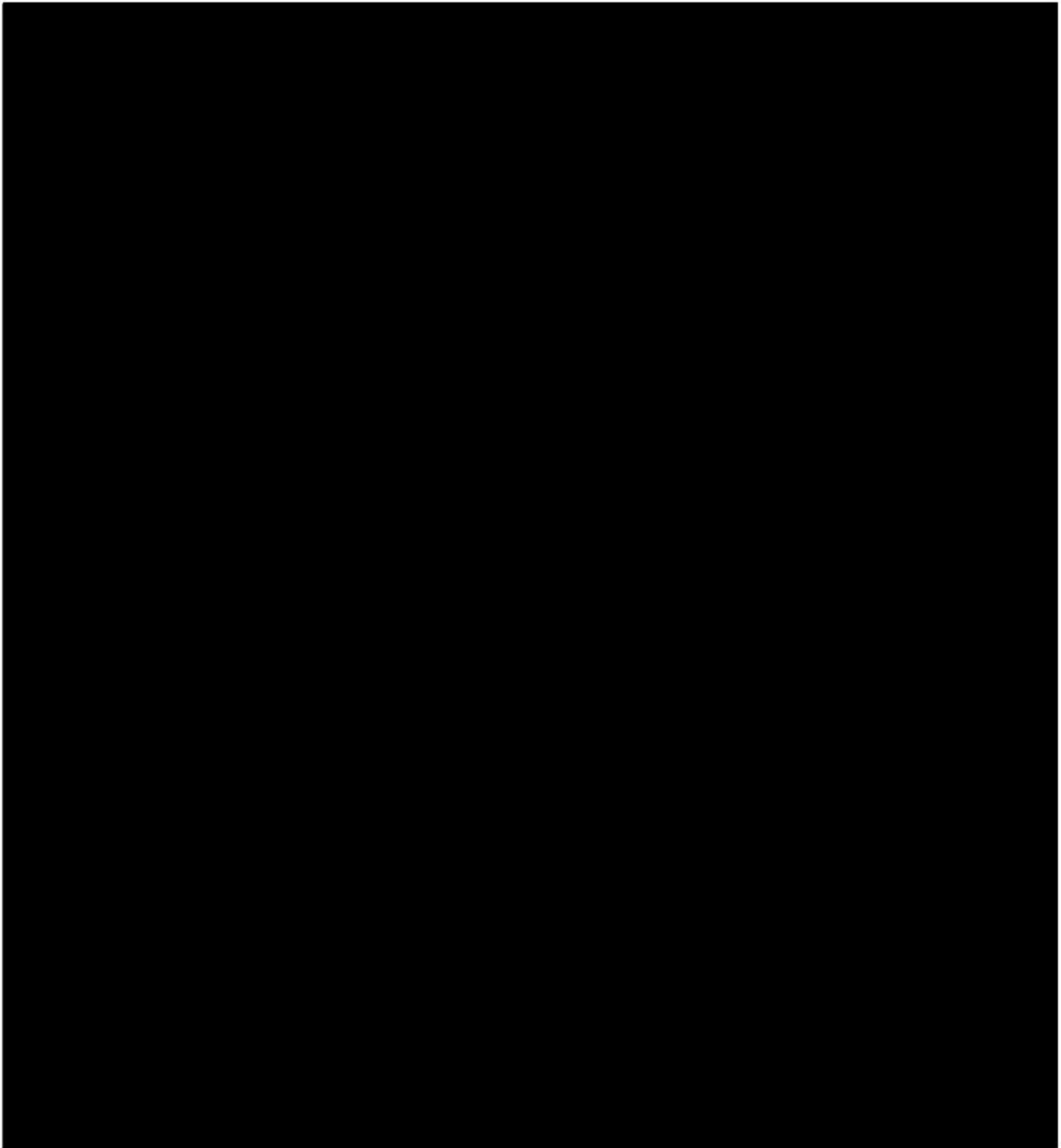
















## 9.2. | Xbox Game Pass State of the Union

Xbox Game Pass is a leading content subscription service in gaming with nearly 15 million subscribers. We believe there is a nearly [REDACTED] subscriber opportunity globally, with more than [REDACTED] potential subscribers in our primary geographies. Achieving our subscriber ambitions is predicated on our ability to create value for our members and partners, beginning with continued investment in content. To that end, Xbox Game Pass faces 3 primary content dynamics:

1. **Need for Differentiated Content.** For gaming, differentiated content means investing in content that is (i) exclusive to the service, to differentiate relative to other services, (ii) blockbuster in scale, to attract and engage users, and (iii) released on a "day-and-date" basis (i.e. releases in the service on the day it launches), to maximize the value of the content to subscribers.
2. **Expanding Beyond Console.** Console is a proven subscriber onramp for Xbox Game Pass, but the total opportunity is limited by the active installed base of Xbox consoles. PC and cloud dramatically expand our market opportunity; addressing that opportunity requires differentiated content that is attractive to players in those segments.
3. **Limited Content Supply.** Different than other entertainment markets, the supply of attractive games is structurally limited. Long development cycles, progressive industry consolidation, and high average engagement per title translate into a reduced content supply in gaming relative to music or video. This complicates our ability to rent differentiated content across console, PC, and cloud.

