

CONVERSATIONS WITH MIKE MILKEN



Bobby Kotick

CEO, Activision Blizzard

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Mike Milken: Bobby, thank you for joining us.

Bobby Kotick: Mike, thank you for having me.

We've known each other a long time. I forget whether you were 19 or 20 when we first met.

Nineteen.

And I think you're one of the longest-serving CEOs in America and you're only 57. Bobby, where did you get this entrepreneurial spirit?

My grandfather founded a title insurance company and he was a real entrepreneur. He had a Depression-era mentality, so I think he had his Bar Mitzvah money when he was 90. But he was really the entrepreneurial inspiration in my life and also probably the hardest-working person that I've ever known. He was very philanthropic, and the way that he invested philanthropically was almost on a door-to-door basis. If he ever met

anybody in the work environment or someone like a gardener or a taxi driver who was disadvantaged, he would buy them a house; when he passed away, we found that he had 60 houses that he had either bought or had mortgages on for different people in the Bronx and Queens where he lived. I think my grandfather probably had more of an influence on me and my thinking than almost anyone in my life.

So one of the things Bobby that I want to cover early, and I've actually never discussed this with you over the last almost 40 years: is that true that Steve Jobs came to see you or talk to you when you were at the University of Michigan as a sophomore and told you to drop out of school and work on your software? Is that a true story?

Oh, it's completely true. Howard and I had an office that was on top of a Burger King because it was the cheapest rent we could find. At that point, I think we had about a hundred software developers, engineers, and programmers. We were working on the software for the Apple II that Apple was contracting with us to develop for two new Apple II computers they were building called the Apple II GS and the Apple II C. Steve came to Ann Arbor. I don't think it was only to visit with us, but he came to visit with us and he came to our offices. The first thing he said was we had to move offices because the smell of the Burger King in the basement was wafting through the elevator into our offices and he thought it smelled disgusting. He focused mainly on us moving our offices.

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Then he wanted to have dinner and it was at a vegetarian restaurant. I couldn't go because I had a make-up class. He was infuriated. He couldn't believe that I was in school. He said I have an obligation and a commitment to Apple to make this software and that I can't have any distractions; and school was a distraction. When I told him I was studying the history of art, he got even more infuriated and said that he would rip up the contract with us if I didn't quit school. He was relentless in making sure that I actually did quit school. He would call and ask about whether or not I was in classes. Now, I hadn't actually told my parents I had quit school until about six months later, but he influenced my decision. One day I have every intention of fulfilling my obligation to my parents and finishing my degree.

So you founded this company, you were 18 years old, 19 years old. You have a visit from Steve Jobs at that point in time, and you decide you're leaving school to build your company. How do you think about the path of your life, Bobby?

As you know, my life didn't really change from my visit from Steve Jobs. My life really changed in June of 1983 when I found myself at the Cattle Baron's Ball in Dallas, Texas, seated next to these two people that look like they belong on the top of a wedding cake: Steve and Elaine Wynn. Within a very short amount of time, Steve became our backer, investor, and mentor. In Steve's mind, the most important person he thought I needed to meet to be able to really transform my business was you. So he was intent upon ensuring

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at some point shortly after our meeting, that you and I had the chance to meet. I was very fortunate that people like you and Steve Wynn and Steve Ross all took an interest in my success and provided opportunities for me to learn and grow and develop as a business person.

Let's take you back to 1983, Bobby. It was a really interesting period of time. Steve Ross had bought Atari in 1981; by 1983 it was on the verge of losing almost a half a billion dollars. Mattel

went into Intellivision and many people thought Mattel was going to go bankrupt. Sumner Redstone had gone into video games and he tried to convince you to leave Activision and come and run his video game company that he ended up losing more than a half a billion dollars. What did all these media companies do wrong when it came to the idea of video games? And as you step back today, except for maybe Microsoft, because they make their own game systems and have bought a series of companies, none of the companies were successful that were formed at that period of time. Why weren't they successful in this interactive media?

Film and television is entirely about suspension of disbelief that comes from the audience having an emotional connection with a character on the screen. That compelling story is told through the lens of these characters that you connect to. Video games are the opposite of that experience. They're all about empowering you, the player, to have this visceral experience, whether it's driving a car, unleashing your inner rock star or unleashing your inner soldier. But it isn't at all about a story or a character on a screen that you develop an emotional connection with. It's a fundamentally different skill in how you actually create content.

The other thing I would say is that it's a very technical business and we're an unusual combination of skills. We're both a platform and we're also a creative, professionally produced content company. The barriers to entry in our business continue to get higher and higher. If you think about Call of Duty as a franchise today. It's played in 196 countries. Over the last 10 years, we've probably invested \$2.5 billion dollars in Call of Duty content, and that is not an easy thing to duplicate.

When you talk about being a technology company, one of the things that struck me is an understanding of your relationships and the desire to engage. I know you believe strongly that this is the future. Do you actually believe that people feel self-actualization when they're playing these games?

Well, think about where we are as a company today: over 400 million players with very high levels of daily average engagement across 196 countries. When you think about that scale, other than Facebook and YouTube and WeChat, there isn't a bigger network of media consumption that exists anywhere in the world. Twitter is not as big. Snapchat is not as big. ESPN is a fifth of the size of our network. The thing that I think uniquely connects these people to the experience is in part that ideal of self-actualization. And I think the thing that differentiates our medium from almost any other, including sport, is that anyone can participate. I do think, however, there's a difference between playing a soccer video game and self-actualization, and playing a video game that isn't based on anything other than the video game. The reason is there's still that moment when you're playing a sports video game that you're reminded that you may be able to play the sport video game, but you're never going to play the professional sport.

“Early on we made a decision that many of the heroes would be different gender. We'd have different races and ethnicities, different backgrounds. Our mission is connecting and engaging the world through epic entertainment. We're finding we have a unique way to break down these racial and cultural barriers and really engage people through the lens of a game.”

In our video games, and in our organized competition, you have the ability to be the most successful Call of Duty player or Overwatch player. There isn't going to be a reminder that some physical manifestation of that game is not something that you're going to be able to do. I think true self-actualization and sense of accomplishment and purpose and meaning comes from games like Overwatch and Call of Duty, where you can be the best in the world and you don't need to have any specific physical prowess. There are more people in the world who can master and become professional video

game players than there are in sport. I think video games, and e-sports in particular, have a much broader spectrum of people who can actually overcome their hopelessness and their despair, what they might feel in terms of being ostracized from their peers, and they can do it in a way where they can get that same sense of meaning and joy and accomplishment and purpose that comes from sport. That's why I actually think that when you look out over the next 10 or 20 years, e-sports has so much more potential than professional sports.

As we turn our attention here to discussion of equality across all lines that's been brought to the fore recently, you are obviously very in tune, as your employees are, to the times we live in. I know for very long time you've been a leader in this idea of equality, diversity and inclusion. How have your employees reacted to the events since May 25th in Minneapolis occurred? How has the company supported many of their actions?

We're very fortunate that it didn't take the events of the last few months to drive our employees or our leadership to really think about how we could have an impact on society when it comes to bias and stereotypes. In a game like Overwatch, early on we made a decision that many of the heroes would be different gender. We'd have different

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different races and ethnicities, different backgrounds. What we found is that of the 45 million people have now played Overwatch, we've been able to actually change the way that people think about different cultures and different ethnicities. At the core of what we do our mission is connecting and engaging the world through epic entertainment. What we're finding is we have a unique way to break down these racial and cultural barriers and really engage people through the lens of a game. It's very different than what you might see in a social network, because the way we connect and engage people is all through joy and fun. I think when you look out

over the next 10 years at what in media is actually going to transform and have an impact on changing people's perceptions of race and religion and ethnicity, games will do more to change people's perceptions than any other medium.

Since the recent events we've just accelerated a lot of the things that we've been doing anyway. We've now got more of a focus on education. As you know, my philanthropy is all anonymous, but I personally have supported a lot of initiatives in K-12 education for students of color who show leadership promise and potential. We're accelerating those investments now. We've created a commercial connection between those things that I do personally and what the company does philanthropically in finding children of color who have leadership potential. Now what we're doing is giving them internship opportunities at the company, but with mentors, with people who can inspire them. We're very fortunate. We have a lot of leaders at the company who are great examples of people of color who have established leadership positions and really are great mentors. We're now adding this new dimension of development and mentoring that I think is going to even enhance the things that we're doing in education.

Around the world, things started to change in January. Being in so many different countries, you started to see what was going on with the coronavirus. How did you protect your employees and their families?

The one thing that our employees know is they're absolutely going to get for themselves and their families the best healthcare. So when this happened, the first thing that we did

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is we sent out an email to all of our employees saying, 'if you contract this disease, call me or text me or email me personally.' I have a team of people who work directly for me – our benefits team – that will make sure you're getting the very best healthcare. The next thing that we did very quickly is we went to every healthcare institution everywhere we operate, and we made sure we knew what the protocols were both for in-patient and out-patient procedures for people who were infected with coronavirus. The next thing we did was

get immediately on top of testing. We have our own PCR [polymerase chain reaction] machines that have been installed in our offices that are actually capable of not just coronavirus PCR testing, but for Influenza A, Influenza B and other viruses and other bacterial infections in a single nasal spray. And we were way ahead of the curve on blood serology testing.

A big part of what we were trying to do was to figure out how anybody who was affected, and not just for our employees and their immediate families, but parents, would

get the best of our healthcare. What we found surprising was that the protocols in a lot of places were really inadequate. And so, we funded programs in almost every community that we operate in to ensure local hospitals had advanced capabilities for convalescent blood transfusions. We focused on making sure that they had adequate ventilators, that they were able to recruit respiratory therapists so that they weren't going to lose respiratory therapists to illness. Then we started looking at antivirals, and we actually funded a trial on a new antiviral that has a lot of promise as an out-patient procedure. And then we started focusing on ensuring there was adequate healthcare in countries that had national healthcare programs that turned out to be lowest-common-denominator healthcare. So in Spain, Germany, Sweden, the UK, we have private doctors who are available for all of our employees; in telemedical they can call them and FaceTime them, they can Zoom call them, or they can telephone them. They all have the cell phone numbers of those doctors.

In the U.S., we were very quick because we already had companies like Heal and Doctors Direct as telemedicine providers, companies like Grand Rounds to provide expert second opinions. What we found is that our employee population is pretty young and pretty healthy. We've had only a half a dozen people who've contracted coronavirus and all are fine. We had a number of people who had parents who were very ill, and unfortunately, a few of them passed away. But overall, I would say if you were to ask our employees, they feel that the company is a company that provides a different level of healthcare and more access to healthcare than any company they've ever worked for.

"We have these huge UV chambers. You put all your outerwear, your phones, your shoes, and we can actually UV disinfect, almost anything."

So, Bobby, I know you've been called by many of the leading medical centers and asked for help both personally and from the company to provide support. You've been a leader in this area. How many of your employees are back at work today?

So in Shanghai, almost everybody is back to work. Korea, we're working on a back-to-work program right now; it's still optional, but people have chosen to come back to work and essential workers across the world. People who support data centers, and it's a small population. We have PCR testing capability at most of our big locations and we'll have nurse practitioners or emergency room doctors there, probably forever. We then have a whole host of new technology protocols. We have a contact tracing app that each day you have to answer a series of questions. If you answer them successfully, it will enable your security badge electronically so that you can access the office. If you don't, we'll

either send you to one of our testing labs or to a testing lab, or we'll create an appointment for you with a telemedicine doctor. And that's every day so we can ensure people are safe before they can go to the office. When you get to the office, we have these huge UV chambers. You put all your outerwear, your phones, your shoes in them, and we can actually UV disinfect almost anything. They're the size of an elevator. You can order food now from your desk that will be directly delivered to you so you don't have to go to the cafeteria or go out. And we UV all of the packages that the food is packaged in. As I said, we have healthcare professionals onsite, and then we've reconfigured the spaces so that we've got not just social distancing, but Plexiglass dividers. We've got different levels of cleaning than what we've ever had, so we have ionizers throughout all of the facilities.

So Bobby, when you say back to work, you really mean back to work physically. What has happened with productivity as people have worked from home? When you think about how you create content, interactive content, what is capable that people can do from home in writing code and programming, what do you need to do physically with bringing people together?

So right now, I would say for content that's being released this year where the creative process has already given us the roadmap for what we're creating, we haven't really seen a lot of change. Here and there we've got complications on things like motion capture where we have to put on a suit and be in a facility, or voice actors where you need a voice studio in order to really be effective. We've made some great innovations, like a suit that we can send you to do motion capture at home, or a little voice studio in a box that we can send voice actors at home. Those are things that I think could impact some of the delivery or some of the quality.

Quality assurance is complicated because all of the new content is so confidential that we have to really be able to protect our IP and the confidentiality. Add to that support for new video game systems that are confidential – and there are a few coming out this year – so we will have to get people back to work sometime this summer in safe environments to do quality assurance. That has been complicated, but we're working through that. I would say the longer-term though, we don't really know quite yet what the impact is going to be on creativity. I think that creative environments really do require serendipity, and you have to have environments that allow for physical interaction of people. There may be some great changes and improvements from an inspiration and creativity perspective that happened because of the way that we're working from home, but I think it's too early to know.

Well, Bobby, thank you. We all have responsibilities to make opportunities available to every single person and for everyone to feel they have a chance at the American Dream. I think you have laid out your enormous impact you have by creating your characters, the interaction with their characters, the interaction with the players, what your characters look like, their history, their background, and we look forward to seeing your creativity in the future. Thank you for joining me today.

Thank you, Mike.
