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Strauss Zelnick
Chief Executive Officer
Take-Two Interactive

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Moderator: John C. Williams
President and Chief Executive Officer
Federal Reserve Bank of New York
Chair, The Economic Club of New York

Introduction

Chair John C. Williams

Good afternoon everyone and welcome to our meeting today. This is the 765th meeting of The Economic Club of New York. I'm John Williams. I'm the President and CEO of the New York Fed and Chair of the Club for a few more hours – the Chair of the Club part. Recognized as the premier nonpartisan forum in the nation, The Economic Club of New York stands as the leading platform for discussion on economic, social, and political matters. For more than a century, the Club has hosted over 1,000 preeminent guest speakers contributing to our tradition of excellence.

I'd like to extend a warm welcome to the students who are joining us virtually from Rutgers University, NYU Stern School of Business and the Graduate Center. We are also joined by members of the largest-ever Class of 2024 Fellows – a select group of diverse, rising, next-gen business thought leaders.

It's my honor today to welcome our guest today, the Chair and CEO of Take-Two Interactive, Strauss Zelnick. Strauss, a partner at ZelnickMedia since 2001, became Chair of Take-Two back in 2007 and CEO in 2011. Prior to forming ZelnickMedia, Strauss was President and CEO of BMG Entertainment, a \$4.7 billion music and entertainment company. And before that, Strauss was President and CEO of Crystal

Dynamics, a producer and distributor of interactive game software. And he spent four years as President and COO of 20th Century Fox, where he managed all aspects of worldwide motion picture and distribution business. Additionally, he served as Chair of the Board for CBS Corporation from 2018 to 2019.

So the format today is a conversation, and I'm honored to be moderating. As a reminder, this conversation is on the record as we do have media online and in the room. Time permitting, and we will make sure there's time for this, we'll take audience member questions from those of you in the room. So please plan your questions. So without further ado, please join me in welcoming Strauss to the stage for the discussion.

Conversation with Strauss Zelnick

CHAIR JOHN C. WILLIAMS: Thank you so much for joining us today. I've been looking forward to this conversation.

STRAUSS ZELNICK: Thank you. It's great to be here. Small room, so I hope you all have questions planned, and you're allowed to keep eating. They don't say that when you come to these lunches. It's okay. You can keep eating.

CHAIR JOHN C. WILLIAMS: So let me just start out with Take-Two Interactive. So this

is about interactive entertainment. Your career is in entertainment broadly with all different forms of entertainment. So can you talk a little bit about what does it mean for entertainment to be interactive? And how has this segment of entertainment been evolving over recent years?

STRAUSS ZELNICK: So it's just a fancy word for video games. And we say interactive entertainment because some of the titles that we and others create aren't exactly games. So interactive means that as opposed to linear entertainment which you take in and you sit back, interactive entertainment is where you lean forward and you engage.

So in terms of the scale of the business, I think that's the question you're asking, this comes as a surprise to some people depending on your demographic. Interactive entertainment is about \$180 billion annual business, and that's divided almost evenly between so-called console games and mobile games. And I'll stop there.

How many of you play video games? Okay, how many of you play console or PC games? How many of you play mobile games? Got it. Okay, so 50, 60% of the people here. So that's about \$180 billion business. It is second only in entertainment businesses to all forms of television, so broadcast television, connected television, that's every kind of television. It's about a \$300 billion business and dwarfs businesses like box office, which is \$30 billion, recorded music, which is \$29 billion, and books,

which is about \$78 billion. So it's a big business, and growing more rapidly than any other entertainment business, including connected television.

CHAIR JOHN C. WILLIAMS: That's great context. So, you know, one thing that comes up in entertainment is we're going to talk a lot about AI, we're going to talk about a lot of new technologies and these things, but also we see a lot of things that have been around a long time. So you've got a new Star Wars-themed launch earlier this month. And so I have to, okay, so you were trying to gauge kind of different generations here. I am of the generation where I was a teenager during Star Wars. It's still a huge franchise.

How do you connect with the younger crowd that's looking for entertainment, interactive entertainment, and kind of the people who have been enjoying kind of certain franchises for many decades, which your company is famous for? Some of your franchises have been around a long time. So how do you make sure that you're reaching all these targets in an engaging way?

STRAUSS ZELNICK: So we do address all audiences. So we have games like NBA 2K and WWE 2K, which are rated for everyone and appeal to kids and adults. And then we have adult-oriented titles like Grand Theft Auto, which is the biggest entertainment franchise ever created, and then stuff in between. Our mobile games in general are

available to all audiences. Mobile games tend to skew older and more female. Console games tend to skew younger and more male. But the business is basically 55/45 male/female.

And the average age of an interactive entertainment consumer is 37. So this is, it's not really what people expect. I think most people think of – people who are frankly older – think of video game players as young men and that's just not the nature of the business anymore. It's pretty much America's pastime.

CHAIR JOHN C. WILLIAMS: Well, you mentioned America's pastime, but we're a big exporter of entertainment around the world. I mean we're still the center of most entertainment in countries abroad. Is that a big part of your business too in terms of exporting?

STRAUSS ZELNICK: It is, although – it's a great point – interactive entertainment is about, companies like ours are basically, derive their revenues from the U.S. and Western Europe. However, China is a massive market. China also has some limitations on what non-Chinese companies can purvey in markets. So we need to get approvals. We need to have a local partner. And also the tastes in the Asian market are different in certain instances than tastes in Western markets.

So, unlike say the motion picture business, which is really U.S.-centric, interactive entertainment also has a strong local presence throughout Asia in addition to Western companies that purvey their products worldwide. We do see international markets growing more rapidly.

CHAIR JOHN C. WILLIAMS: Well, one thing, if you play interactive video games, one thing you can recognize is you get on that game any time of the day, you'll be playing with players from all parts of the globe depending on what time of day it is and what game you're playing.

STRAUSS ZELNICK: That's actually a key point that interactive entertainment is a social activity. It's not just an entertainment activity. And for people who play multi-player games, they actually engage with people, as you said, and create communities. So my mom, I'm not going to tell you her age – she looks great for her age, I'll have you know – she plays bridge. She's a bridge player. And she plays bridge online and she plays with friends, and they are her online bridge friends and her actual friends. Now, she's never met them in person, and she is unlikely to, but they're her friends. And it enhances her life because otherwise she's basically playing with the same local group. This way her world expands. And it's true of teenagers as well. For many teenagers, engaging with their friends over video games during play is actually a huge part of their social lives.

CHAIR JOHN C. WILLIAMS: So one thing that we talked about earlier was you mentioned interactive means video games, but your companies, your activities go far beyond video games. So talk a little bit more about the broader portfolio of your own companies.

STRAUSS ZELNICK: Well, ZMC, I think you're referring to ZMC. ZMC invests at the intersection of media and technology. So pretty much everything we do is informed by, and we hope supercharged by technology. This was a really novel idea, amazingly, in 2001 when we started the firm. A pretty obvious idea today but it may be even more exciting today than it ever was.

So we have businesses that are relatively pure technology businesses. We have a company that enables local creators to purvey their wares broadly and enhance their revenue. We have a ticketing technology business. We have a live events business. In fact, I'm going to visit our live events business in Tennessee right after lunch. So we have an array of businesses in and around media, entertainment, communications, and technology.

CHAIR JOHN C. WILLIAMS: And how much is technology transforming entertainment? I mean we talk about video games where you see it, but more generally, it seems like we've seen a revolution in the production and delivery of entertainment around the

world.

STRAUSS ZELNICK: And it's just beginning. You know, if you ask, I mean I'm sort of both a traditional entertainment executive because that's where I came from. I came from the movie business originally. And I'm a new media executive because I chair a technology and entertainment company today that's very much exposed to the latest in technology. So I sort of see both.

But if you grabbed, and they're all around here basically, grabbed sort of a sitting CEO of a linear entertainment company and asked him about the Golden Age of Entertainment, I think most of them, if they're being honest, would say that's behind us. That was 1925 to 1995. And I disagree. I think the Golden Age of Entertainment is in front of us because of everything that technology will allow us to do. And I think it's the most exciting time in media.

And I've been saying it for a long time, and until generative AI came along, I think this seemed a little more interesting than it will now, but I've been saying no matter how much data you think consumer and enterprise will need in what, five years from now, you're wrong. It'll be more. Now everyone believes that. Nvidia's stock performance reflects that. But I think what you're seeing in generative AI is just scratching the surface of what we will require and want in terms of data and basically all companies of course

become media companies in that context.

CHAIR JOHN C. WILLIAMS: Well, maybe we should jump right into the AI topic. It's been the topic of the Club's conversations over the last 18 months or longer. It's the number one topic. As a person who has played video games for a long time, there's been AI in video games and in related kind of consumer products for a long time. They've gotten fancier and more sophisticated. But how do you see AI affecting your companies, the industry, and generative AI? Is this a game changer or is it just another evolution in the industry?

STRAUSS ZELNICK: I'm so glad and shocked that you asked that question about AI. And completely coincidentally, I have a visual aid, but just because I thought it was a possibility. Are you all familiar with the Gartner Hype Cycle? And if you're not, you're going to be shortly.

So basically this is a hype cycle that the Gartner Group set. First is the trigger, that's the new thing coming along. Now as you pointed out, AI was not new to us in the interactive entertainment business. That's how our business was built. Then you get to this, sort of the inflated expectation phase very quickly. This happened with, obviously, with Internet 1.0 that peaked in 1999, for those of you who remember that. I don't know, you could put SPACs, anyone remember SPACs? Anyone lose some money on SPACs?

Anyway, my opinion is we're not here. We're here. And as great a company as Nvidia is, I would just argue that a \$3.22 billion, trillion market cap when you have \$50 billion up from \$12 billion in annual, it leaped up pretty recently, that's, I don't know, maybe I'm mistaken but that just strikes me as we're somewhere around here. And it is a great company, make no mistake about it.

Following that, you get to the valley of disillusionment, which is, okay, things aren't living up to the hype that was expressed and now we think it's all over. I don't think we're going to have a deep valley of disillusionment. But obviously so much money has been poured into AI that we're not going to escape this valley either. Then we go to enlightenment, which is, oh, some of the stuff is really, really working. I'll put Nvidia in that. But I think there'll be other companies too. And then finally productivity, which it just becomes part of the landscape. And you can apply this to, let's make it easy for everyone, because I think the best analogy to what you're seeing in AI now is electricity.

So if you go back to the 1880s and you read newspaper headlines, which you can do, when electricity was just becoming a big thing, every company was describing itself as an electricity company no matter what they made. And they were like we have electricity; we can use electricity. Every company changed the name of their company to something-the electricity company. It was a huge competitive advantage. And I would note that today it's less of a competitive advantage to have electricity.

And I think that's where AI is going to land. I think it's going to be commoditized. I think it's going to affect every business to one degree or another. And you won't even notice. I think the bulk of the value will accrue to a handful of really huge companies, most of which probably already exist. And I think a huge amount of value will be destroyed between the peak that we're at now and the trough. But ultimately there'll be a lot of productivity. That's my broad discourse on AI.

Now, in terms of where we're at, we're sort of at the beginning of what generative AI can do for us. We're already creating levels with generative AI which makes us more efficient. I think a lot of mundane technological tasks will be handled by generative AI. And I think also some of our consumer-facing experiences will be positively influenced by generative AI. As an example, for those of you who play video games, you can interact with characters and, you know, talk to them. You're typing usually, but they're talking back to you. And all of that dialogue that's coming at you is scripted by writers and recorded by humans. All of it.

So for a game like Grand Theft Auto 5, which is 100 hours, single player game, imagine the thousands of lines of dialogue that had to be written and recorded. Now you can imagine a situation where we actually train AI models to basically embed the plot, the characters, where you have to go, but the actual interaction is the actual dialogue that can be created on the fly. It'll feel more naturalistic. We should have voice recognition

as well, in two minutes. And you're going to find out that, you know, when you play the video game, you have a very different experience than Barbara does. And you can play it again and have a different experience. So I think it's going to very much enhance what we can do.

CHAIR JOHN C. WILLIAMS: And when you think about, kind of all the investments in AI and you talked about this whole, kind of the hype of AI, I have this quote from you that said that your mission is to make Take-Two Interactive the most innovative, creative and efficient entertainment company in the world. I mean how do you make sure with everybody talking about AI that you're also the most creative and innovative company as well as very efficient and sophisticated in the ways that you just talked about, how AI can improve, you know, reduce the time and cost of coding and some of this other stuff.

STRAUSS ZELNICK: Yes, I mean we have to be super practical because of the three parts of our mission, the most important one is, be the most creative. We need to make hits. So we use technology in service of creating hits. For better or for worse, we don't do basic research. We do applied research only. And so our innovations are all in service of trying to make more hits.

CHAIR JOHN C. WILLIAMS: So when you think about the state of demand for your products and the state of the consumer, turning to the economy a little more broadly,

how are you feeling about demand for your products, for the video games but more broadly in the technology realm? And what kind of indicators are you looking at to understand what consumer demand is likely to be in, maybe, you know, later in the years?

STRAUSS ZELNICK: I'm feeling cautiously optimistic. So I said, when asked during the pandemic, that I thought – I was asked about where demand would go – I thought that post-pandemic demand would be reduced from the demand during the pandemic, but obviously greater than pre-pandemic. And that's exactly what happened. Despite that, I think all of us, ourselves included, got a little fat and happy during the pandemic when people were stuck at home, so demand for at-home entertainment just exploded. And all of us got out a bit over our skis and had to retrench a little bit, which is always incredibly painful.

In 2022, we saw the mobile market decline for the first time in its history, and the console market was down as well. In '23, things stabilized and we're seeing modest, small growth in 2024. So broadly, we feel okay about demand. Remember, in things like entertainment these are not things you need. These are things you want or don't want. So even if broad demand is strong, if you put out bad stuff no one wants it. And even if demand is a bit muted, if you put out great stuff people will come out for it. But obviously we prefer a robust market.

And we're seeing that in the mobile market now. And it was sort of ushered in by a big hit brought to market – not by us sadly – by one of our competitors, called Monopoly Go, which is a massive hit from Scopely. And then we have had some good results as well with Match Factory, which is blowing up for us and other hits. We just released Star Wars: Hunters, which also looks really good. The backdrop seems to be more friendly, and I think that's a result of the consumer now returning.

And I think that's in general what's going on in the economy. I don't know how you feel about that. But I sort of feel like the consumer is there. Despite inflation, the consumer is there. The economy is relatively strong. And I expect to have a pretty good holiday season. We're not a holiday-driven business particularly, but I think most people who sell to consumers would say that we're heading into a pretty good season.

CHAIR JOHN C. WILLIAMS: The consumer has definitely been resilient throughout this.

STRAUSS ZELNICK: Well, it doesn't hurt that there's was a lot of stimulus.

CHAIR JOHN C. WILLIAMS: That's true. You know we think about what economists call the superstar economy in entertainment. And that there are a few huge stars, like Taylor Swift today is the story, but there's been huge stars in film, in blockbuster hits, people super successful in the far-right tail of the distribution and, you know, far less of that at

the left tail of the distribution. How is technology changing that? Is it making it easier for people to break through? Is it fundamentally the same issues we had 100 years ago? How do you think about what's happening in the entertainment industry, what you've watched over your career? Is technology making it more of a winner-take-all world? Or how do you think about that?

STRAUSS ZELNICK: It's a sophisticated question because the answer is sort of a little of both. The truth is the entertainment business has always been a Top 10 business. It really still is. So the bulk of the value goes to the Top 10 players in every entertainment business there is at any given time. And it's hard, really, really hard to become a Taylor Swift because there are still gatekeepers in addition to the natural barrier of talent and the enormous competition that's there.

But you're right. At the same time, there is an ability to address the market that didn't exist before because you actually can go direct. So we all know a story of a book that became a best seller that was self-published. I think *Bridges of Madison County*, if I'm not mistaken, started off, I think there was a great story that that book was, they approached like 50 publishers and all declined. I think ultimately it was self-published to begin with, if I'm not mistaken and became a massive hit.

Well, that wasn't a possibility 20 years ago. There was no Amazon. You couldn't self-

publish. But today, you want to self-publish, it's possible that no one shows up for you, but you can do it. You want to make a video and you want to post it on you YouTube, have at it, you can do it this afternoon. Someone could be, this is an on-the-record thing so I don't know, we could be on TikTok now, right now. I can't imagine anyone on TikTok has any interest in this conversation, but you never know.

That is right that you can now address the market creatively in a way that you couldn't before, but audiences are still aggregated in certain places with gatekeepers involved. We are a gatekeeper, for example. And force of capital, the ability to actually decide what to do and what not to do, curation, the expertise associated with experience around creation, all of those things do matter. Never mind the capital required to actually, for example, Taylor Swift, you know, there's a lot of capital required to bring that tour to consumers. It's incredibly expensive to do that, and difficult, really, really difficult.

CHAIR JOHN C. WILLIAMS: And when you think about moving from the platforms with these massive investments in terms of, say video games on a standard console platform versus making smaller gains in maybe mobile or things, does that open up more opportunities for smaller players? Or is it basically kind of the same economics at play?

STRAUSS ZELNICK: Oh, no, a mobile game is a lot cheaper to create. And if you wanted to sort of create a game in a garage, it's nearly impossible to do that competitively with a console or PC game. Nearly impossible, nothing's impossible, but nearly impossible. With a mobile game, you still could, but you still need a lot of money to market the game.

So I'll give you an example. Match Factory, we spent, I think, \$80 million on user acquisition in the fourth quarter – which we told our shareholders because it tanked our numbers – because it was a big, successful game. But you don't get back that marketing money right away. It comes back over a period of time. And so you need a lot of money. You may not need a lot of money to make Match Factory in the first place, but you certainly need a lot of money to turn it into a hit and support it as a hit.

The days of free acquisition of players, those days are gone. That was the nature of mobile in the beginning. It no longer is. And for console, you know, to make a competitive console or PC title, you probably need a couple hundred people minimum – we have way more than that – working on a title for, oh, I don't know, three years, really absolute minimum to come to market. And then you have to market it like a major motion picture. You could spend, I mean minimally \$50 million and easily quite a bit more to market the title in the first place. So this is not like a garage, you and I are not going to do this after, like ah, let's go do this, make a video game. It's not happening.

Unless you had a couple hundred million dollars on you to do that, to pursue that project.

CHAIR JOHN C. WILLIAMS: And when you think about the demographics, you did a quick poll of the people here. I mean how are the demographics of interactive entertainment changing, and how people get their entertainment? You mentioned people who just watch TV or traditional film. I mean how do you see that evolving in the future? Like who is going to be playing video games in the future? Is it everybody?

STRAUSS ZELNICK: Everyone who is here, who is still above ground will continue to play video games. Because we consume for the rest of our lives the entertainment we fall in love with at the age of 17. So if you think about it, think about the music you listened to when you were 17. When you're alone and you want to listen to music, that's what you're listening to. That's just the way it is.

So while the average age of a player, as I mentioned, is about 37, you don't stop playing video games when you turn 38. And someone else comes into the cohort. And so we, that's why we have tailwinds in the business, the cohort is going to continue to grow until it reaches its natural asymptote. So the average age of a broadcast television viewer is mid-60s for example. So there'll be a time, depending on how our population evolves, where I would imagine the average age is 50s, something like that. So there's

plenty of room to be had in the cohort.

CHAIR JOHN C. WILLIAMS: And what's the advice I should give my grown son who likes to say after watching me lose over and over against some enemy that, dad, you've gotten too old for this? You need to put the controller down.

STRAUSS ZELNICK: Does he say that to you?

CHAIR JOHN C. WILLIAMS: He has said that to me, yes. But I didn't stop.

STRAUSS ZELNICK: Your son is totally wrong. You can get better at any given time. And you asked what advice you should give him? I don't know. Does he take your advice? My sons do not. But I mean you can get better at any time. And it's great, I mean you're living proof, you did not grow up with video games I'm guessing.

CHAIR JOHN C. WILLIAMS: No, I did not. I had Dungeons and Dragons so it was a similar kind of background.

STRAUSS ZELNICK: Did you play Dungeons and Dragons?

CHAIR JOHN C. WILLIAMS: Yes, this is no surprise to anybody here. Yes, I did. I was

an avid...

STRAUSS ZELNICK: Do you still, by the way?

CHAIR JOHN C. WILLIAMS: I do not play Dungeons and Dragons.

STRAUSS ZELNICK: Some people still do.

CHAIR JOHN C. WILLIAMS: No, but video games, you know, multi-player video games basically have a very similar kind of social experience.

STRAUSS ZELNICK: That's what they're based on, in fairness. The same people who created video games in the beginning were people who loved to play Dungeons and Dragons. Now they have this new technological landscape on which to play.

CHAIR JOHN C. WILLIAMS: And it's a massive global industry too. So we've talked about AI. We've talked about video games. We've talked about...

STRAUSS ZELNICK: The hype cycle...

CHAIR JOHN C. WILLIAMS: We've talked about that. But you've actually covered a lot more besides video games and technology in your career. So one of the things is

you've written some books and one recent, about fitness. And I was wondering if you could talk to people about this challenge between sitting around playing video games and watching TV and actually getting exercise and going outside. So talk a little bit about your perspective on that.

STRAUSS ZELNICK: First of all, I don't, I mean I don't preach on any of these topics because I think there's room for any number of interests. And some people have interest in physical exercise and some do not, and I don't ever want to be a scold. I am not of the view that entertainment, electronic entertainment is bad for people. There are people who can take that position.

And let's put it in context, the media day, believe it or not, now is 13 hours. Now, there's a lot of parallel media consumption going on there, but it's a really long media day. The average household in America is devoting over four hours, four to five hours to linear programming, to all forms of television, and about an hour and a half a day to interactive entertainment. That's the difference.

So one way to look at it is there's plenty of room for growth for interactive entertainment. The other way to look at it is, you know, consumers spend a lot of time engaging with audiovisual media, and I don't think that will ever change. My own view is that it's a really good idea to get exercise too, and I think most people share that view. I think

there's a lot more to be done particularly in this country to get people out there exercising. But I don't think that that is at the expense of consuming media. I think you can do both, and will do both, by the way.

CHAIR JOHN C. WILLIAMS: And how do you think about, just in listening to you I just think about virtual reality and us all running around with these headsets.

STRAUSS ZELNICK: Yeah, not happening.

CHAIR JOHN C. WILLIAMS: Why not?

STRAUSS ZELNICK: Well, you just, I think, with the pantomime I think you've explained why not. Because we don't really like having vision and hearing-occluding headsets on. And because we don't consume media and entertainment in a solitary way. We're sitting around with other people. So we're always with other people, and we like to be with other people.

I think there's some really interesting advances occurring with regard to VR that actually does have a role in certain areas of our life – military for example, medical for example. Some training, especially where you have to synthesize an experience that you don't want to have for the first time in the real world, like flying for example.

But when you get into entertainment, you know, we don't need an experience that has that much fidelity if it's at the expense of being able to engage with another person. And the problem with VR, as we're experiencing it now, just now, is you need a very expensive rig. You need dedicated space. And it makes most people nauseated within about 20 minutes, like 99% of the population. And how many of you have tried VR? Just raise your hand. Keep your hand up. How many of you tried VR and really, really liked the experience? Yeah, we're getting like three. How many of you, come on, three...I'll take your half as a three. Okay, how many of you who enjoyed the experience have engaged with your VR rigs within the last week?

Audience: Vision Pro...

STRAUSS ZELNICK: Yes. Absolutely. That counts. So two people in the room. I mean it's not that many people. But I think that's an example of what's going on, which is for a really avid consumer, a really avid consumer, it's a pretty cool experience. My experience at least so far is it has not proven to be durable, that people engage with the experience for a while and then move away from it for all the reasons that I said. It's solitary. It's clunky. It's expensive. You need dedicated space, and it can make you nauseated. But I think that will change.

It won't change because of technology changing the way a vision and hearing-occluding

headset makes you feel. It will change because, like Vision Pro, you're going to have the ability to engage with the real world at the same time. Now that will make it less effective as a VR device, but it'll make it more acceptable as a device we can engage with. Also the form factor will obviously change. And if we get to a point where we're dealing with contact lenses, for example, I can imagine much broader adoption than if we're dealing with a headset or even glasses.

CHAIR JOHN C. WILLIAMS: Okay, so I'll ask one final question on this, same theme, and then open it up to the group to ask questions on any topic that you'd like. So your companies have to make big investments based on what you're expecting the consumer to want, what the technology will be, how the consumer will want to interact with it, whether it's on consoles or streaming or whether it's VR or whatever it is. So talk a little bit, you've been in the entertainment industry for quite some time. You've seen a lot of change, a lot of innovation. How do you make sure that you're balancing staying ahead of the curve, meeting the consumers, taking the consumers where they're going, and yet not having big mistakes? Talk a little bit about that given it's a very innovative sector.

STRAUSS ZELNICK: Well, we try not to take risk on a market. So, for example, we wouldn't invest in something hoping that a market exists several years from now. We will let other people blaze those trails. So at Take-Two, for example, everything we

make, you know, we have to believe that at least there's a potential for an audience. We're not going to invest hoping that an audience springs up. But you're right, every time we make a new game based on new intellectual property, we're taking a huge risk because that thing, you know, didn't exist before by definition. And people may or may not show up for it. So we have to balance investing in new intellectual property with bringing sequels to market which are much more predictable.

And in other areas in which we invest, it's kind of the same thing. We're reasonably conservative in terms of what is actually out there that we can deliver, what audience is actually out there to which we can deliver? And then we're very aggressive on creating the thing itself that needs to be innovative. Because the biggest hits are by definition, by their nature, unexpected. And if all you do is bring something that's derivative to market, you're likely to fail, and you certainly will not bring the biggest hits to market.

CHAIR JOHN C. WILLIAMS: I remember years ago; everyone was going to be watching 3D TV. Do you remember? And we were all going to be watching that. And then everything was supposed to be designed for that. But for the same kind of reasons, that didn't take off.

STRAUSS ZELNICK: Well, that's an example, first of all, it's ___. But it's also kind of forgetting history because 3D has been tried numerous times and we just don't seem to

care about 3D as consumers. I mean it's been tried since the 1950s, and 3D has always been a novelty. It's never been sort of a durable ongoing business.

And I mean I do remember the whole RealD explosion. You could have the hype cycle applied to that as well. You're absolutely right. There was a period of time where I think RealD had a huge market cap based on a belief that all movies would have to use their technology. And for a period of time, this is going back, I want to say about ten years, there were a bunch of 3D movies, and some of them were really fun. And then, you know, we're, like, thank you, we don't need that.

And in interactive entertainment as well, even though we're, we're really looking at a 2D screen that is expressing a 3D experience. We seem to be okay with that. We don't need it to be a 3D experience, or want it to be for that matter, because it seems to be a bit disorienting.

CHAIR JOHN C. WILLIAMS: So this is great. So I'll open it up to questions. I just realized I have another, but there's a whole bunch of hands. So we'll bring the mike around. We'll start with this table and move around the room.

QUESTION: Thank you very much for that. On behalf of my ten-year old son and identical twin girls that are nine...

STRAUSS ZELNICK: You're asking for someone else; I get it...yes...

QUESTION: Well, they are my proxy. I use them to test out all this new stuff because I don't know how to use those monitors and things like that as well as they do. But help me help them in my war with my wife over video games.

STRAUSS ZELNICK: You've already, you just lost...like help me in your war with your wife. Who do you think I am? Like I've been married for 34 years, I have my own issues.
(Laughter)

QUESTION: You know, it's sort of like, you know, football and video games are just viewed as these really dangerous things for kids. But then I see my kids and I've sort of snuck in their Nintendo and they're playing Minecraft with their friends. And they do interact and it is social. I'm trying to sell that.

But there's this whole image, right, that for kids it's somehow, it's like there's all this evil out there in interactivity and somehow some bad guy is going to sneak in there and get in the way of things or there's Spyware. Or educationally somehow it's too fast for their brains at a young age and it makes them not interested in reading if they do the thing, you know, that whole thing. Because this is the next generation coming in. And I'm a believer, I tell my wife, like, look, this is computer programming. I mean you play a video

game; you're learning how to compute. You need to do this. This is really, really important. So what are your thoughts on how you address that, I would call it negative PR or just kind of that impression that's out there, and how we break that down.

STRAUSS ZELNICK: Well, let's take the second part first because that's the easier one. That's the layup. The nature of interactive entertainment is that it actually does train us to do fast twitch exercises. So, for example, all fighter pilots, all fighter pilots today played video games growing up. And it actually helped hone their reflexes and allowed them to do that activity effectively. And there are a lot of benefits to actually engaging with fast twitch experiences. That's for sure the case.

But the question that your wife poses is a sophisticated one and a complex one. And the first is that it's perfectly reasonable to be concerned about age-appropriate content, which is why we take that so seriously. We have all of our titles, like everyone else, rated by the ESRB here, but other ratings organizations throughout the world, and we're highly compliant. And as an industry, we are the most compliant industry. So we have actual sort of mystery shoppers who go out and make sure that if you're the wrong age for our content, it's not available to you. And our compliance level is higher than motion pictures, higher than television for example. And that's really important to us.

And equally the notion of bad actors using technology to access children is a terrifying

notion. And there are technological preventions for that, and there's a lot of regulation around that, and we're supportive of that for obvious reasons. I'm a parent as well. I do believe you should monitor your kids' activities online. I do believe you have an obligation as a parent to make those choices. When my kids were teenagers, I let them play video games if they were interested, and I limited their exposure to any kind of content – electronic or otherwise – that wasn't like schoolwork, to about an hour a day. Because that was the choice my wife and I made.

But within that hour a day, we were pretty wide open about what the kids could consume because we trusted them and we trusted that we gave them enough exposure to the real world that they could distinguish between fiction and reality and that they would make wise choices. But I respect any parent's decision about what content should be supplied to their kids. And I think, as I said, we have an obligation to get engaged. We cannot leave that to someone else.

So I probably largely come down on the side of your wife on this one. You can tell her that. But I do think that video games are great and they actually do train us to do really cool things, like flight simulators, they're amazing.

CHAIR JOHN C. WILLIAMS: I think we had another one here, yes, go ahead.

QUESTION: So I think your point about the biggest hits being the most unexpected is really interesting. And so how do you think about capital allocation against that backdrop in terms of investing in new IP versus sequels or PC versus mobile?

STRAUSS ZELNICK: So our business is about 50/50 console-PC and mobile, and our investment doesn't entirely track that because it's much cheaper to make a mobile game than it is a console game. On the other hand, the hit ratio as a mobile are a lot lower so we have to do a bit more mobile than console to continue to move forward. And some of our competitors don't really invest in new IP at all for this reason. They allocate capital to stuff that's tried and true. And that's fine except all entertainment properties have the K-curves eventually.

So if you're just betting on existing franchises, at some point in the future you don't have anything. You've burnt the furniture along the way. There's no place to sit. And we're willing to allocate capital and take that risk even though we have flops now and then. Now, we have the highest hit ratio in the business – knock wood – because of our strategy. Be the most creative. Be the most innovative. Be the most efficient. And we really believe in it, and we will invest behind that.

In terms of the actual, we don't actually disclose percentages, but if you take a look at our release schedule, you know, it's kind of 60% franchises that already exist, 40% new

IPs. But in the fullness of time, it'll probably be less than that because the new IPs are more likely to fail than the existing franchises.

And the unexpected thing is really, that's the hardest thing to do. Right? Because in the entertainment business, when someone is pitching you a project that they want you to invest lots of money in, they always come to you and say, you know, it's sort of a cross between...it's a cross between Star Wars and Forrest Gump. And, you know, you can anchor your thinking in something that's already existed. But the truth is, since I used the title, there was no precedent for Forrest Gump, if you remember that movie. Like we'd never seen anything like that before. It took a lot of guts to green light that movie and spend money on it. And it was a huge hit.

The example from my career is, when I was at Fox we made what turned out to be the highest grossing comedy of all time, some of you may remember it, "Home Alone." And "Home Alone" went into production at Warner Brothers. And, in fact, it started production. And on the third day of production, Warner Brothers shut the title down. And we got a call from the director who said – Chris Columbus – do you want to pick this project up? And we were like, we thought about it for a few hours. Now remember, this is what we were dealing with. We were dealing with a story, no name actors, basically there were only a couple like minor actors in secondary roles. And it was about a kid being left home alone at Christmas and that was going to make you laugh. And no one

ever heard of the kid. So we were like, yeah, okay, we'll do it. But that turned out to be this massive hit, but it was totally unexpected.

QUESTION: Can you go into more detail about China and is there opportunity ahead in Africa and India?

STRAUSS ZELNICK: These are great questions. I am a big believer in China specifically and the rest of Asia more broadly, and it's a huge area of emphasis. We have the number one PC Sports title in China, which is NBA 2K online. We have a great relationship with Tencent and other companies there, and we are happy to observe the regulations. I do think right now we're in a mode where more titles are being approved. This tends to be a bit of a curve in China. Sometimes more titles are being approved, sometimes fewer. And I'm hopeful that that will be a trend. It's hard to call. There are approvals required in other countries in Asia. For example, Vietnam recently introduced approvals. That's a big growth market that we're excited about. We're excited about Indonesia and other markets there.

But you raised another really interesting topic, which is there's this massive population in India and in Africa, and everyone has phones. Everyone. They may not have PCs. They certainly don't have video game consoles. But they do have phones. And like everyone else, they love interactive entertainment. Now they're open to buy, they're

consumer open to buy. Given GDP and given average income, it's very different than the consumer open to buy, say in the U.S. And we have to tailor our offerings accordingly and we're finding ways to do that by sort of geo-limiting what we offer and what it costs.

I'm hopeful that we can vastly expand our market in India, Africa, and Asia in the next eight years. And I've actually charged one of our international executives with actually stating milestones and growing the business. As I mentioned earlier, 80% of Western entertainment companies' revenue comes from the U.S. and Western Europe. That will change. And if we aren't there at the forefront changing it, it'll change anyhow. It's just that we won't be, we will no longer be a leader. So we have to figure out how to do it.

QUESTION: Thank you so much. You mentioned your view earlier that your belief is AI is or will be commoditized. As a leader of a business in an industry which will be vastly impacted by AI, is your view that you should be hiring the brightest minds and engineers to develop your own internal AI products that are bespoke for your products? Or is your view that some startup or third-party entity is going to develop a great product which could then be licensed to you and you can be, you can have a very useful product that you don't necessarily have developed the CapEx on internally?

STRAUSS ZELNICK: So if history is any guide, it'll be both. So the video games are

created on, they're called video game engines, which essentially is a toolkit that you build a video game on. We have proprietary engines that we've created. So Rock Star, one of our biggest labels, actually uses its own internal engine. 2K uses an internal engine. We also license engines from others. So we do both.

And in certain instances, if the technology is closely enough tied to the creative experience, you'd want it to be proprietary. But in many instances, you're quite happy to license from the outside. I suspect that will continue. We certainly do not have the view that we must create all of our tools in-house because it's not what we do. We create entertainment. We don't create tools.

QUESTION: Hello, Strauss. Fred Hochberg. Some people have made the analogy with TikTok, if I can ask you about that. It would be like 30, 40 years ago letting the Soviet Union buy CBS or ABC. So part of the question is, is that fair? And B, with restrictions on TikTok, what are the unintended consequences for us as we clamp down on TikTok and don't let Americans use it?

STRAUSS ZELNICK: Look, something like 60% of young people get their news from TikTok. So I don't think the analogy is unfair at all. And, as you know, we've had foreign ownership restrictions on broadcast media forever. We did not extend those to cable. We did not extend those to connected television. You know, just as a matter of

legislative reality, that choice was not made.

So that leads to the second question, which is having not done that, is it fair? So the truth is, if you're concerned about what's going on, on broadcast television, should you be equally concerned about other forms of media that speak to a broad swathe of our populace? Yes, why wouldn't you be? That's the same thing.

But I am very concerned when people say things like ban TikTok or force a sale. I mean one of the best things about America is freedom of speech. Our founding fathers, in my opinion, properly said that the distinction between a durable democracy and the lack thereof is freedom of the press. Whatever your politics are, if you take a look at what has gone on in this country in the last six to eight years, can you imagine how that would have looked in the absence of the freedom of the press. So to say I'm going to ban this, you know, no matter what "this" is, I think that's very problematic.

To say that maybe we should have regulations around media businesses that purvey news, I'm not sure that's a bad thing at all. And so I think we're going to have to find some middle ground. I actually don't think that banning TikTok would survive a constitutional challenge for example. Fred, you're pretty close to this sort of stuff. Closer than I. But I suspect we'd agree that it wouldn't survive a constitutional challenge, despite the makeup of the court currently.

QUESTION: Thank you. So then where would you say that the onus of media literacy lies? Is that a little bit with the companies, with parents, I know we're talking about people who are maybe quite on in their years that might need some too, but where does that...

STRAUSS ZELNICK: Can you define what you mean by media literacy for me?

QUESTION: Sure. Yes, so in the context of the last question, the ability to fact-check your news sources, if we are talking about TikTok, that example. Or perhaps children using games, maybe they have their parents, they can talk about what's real and what's not within the context of those games. I know those are two very different examples.

STRAUSS ZELNICK: No, I think they're both good examples. Look, you know, I don't believe in black and white about most things in life. So even the last comment I made about freedom of the press, you know, does not allow someone right here to scream, oh, my God, there's a bomb. It could cause a panic and have someone get trampled. That's already been tested in the courts. That's not legal. You can't do that. So I don't mind some restrictions on distribution of content or on expression depending on just how severe the impact of the speech is and the consequences if you fail to regulate speech. It's hard to find a path there.

And so what the media and entertainment industry has typically done is self-regulate so that the government doesn't need to step in, so it doesn't get tested. And that's where we think our industry has done so well and needs to continue to do well. So I think the onus falls squarely on the companies in terms of taking responsibility for what you purvey. And if you fail to take responsibility, then you probably deserve the consequences.

Because I think, you know, depending on what's going on, if the wrong people are consuming your products, for example, and you don't choose to do anything about it, well, eventually we're going to be in a place where the legislature or the courts will say, okay, this has gone too far. This is too far over the edge. This is no longer protected speech. And that's the issue.

So I think we ought to, I think as an industry we want our speech to be protected. All of it. And the only way that we can ask for that responsibly is to self-govern, appropriately. And I'm really proud – I've had to do this in every entertainment business there is over the course of my career I've testified in front of Congress many times on the topic – I'm really proud of the way we do it. Not everyone does it the way we do it.

CHAIR JOHN C. WILLIAMS: Last question.

QUESTION: Really great discussion. Thank you. You mentioned “Home Alone” and the movie industry. Can I get insights on what you think the impact of gen AI is there and possibly displacing certain groups like writers?

STRAUSS ZELNICK: Oh, I don’t think good writers will be displaced at all. I really don’t. I think depending on what is being written, there may be some displacement. And I think maybe the best analogy, maybe you won’t agree, is commercial photography. So 25 years ago, if you wanted to make a print ad campaign, you had to hire photographers and it was really expensive and you had to fly people to locations. And then companies like Getty Images and Shutterstock came along, and for a lot of less bespoke campaigns, you could license much more cheaply. And as a result, a whole lot less money was spent on photographers. But great photographers still exist.

So I think the bar will go up. In other words, I think what generative AI will do is make it easier to do stuff that’s easier and won’t do anything at all to make harder stuff easier to create. And what that means is that, and this is true in every field, as we get smarter, as we get better, as we get more productive, life is more competitive. You’ve got to up your game, and that’s the history of humanity. The good news, though, is that everyone’s life is lifted because productivity benefits everyone.

So, you haven’t asked this, and I’ll try not to devote too much time to it. But there’s a lot

of hysteria now about how generative AI is going to steal our jobs. Generative AI is going to make your jobs better because you're going to get to work on more interesting stuff and do less mundane stuff. And the example I like to give is 150 years ago – I'll do this a pop quiz because we're at the Economic Club, I bet you know the answer – 150 years ago in America, what percent of the U.S. workforce was engaged in agriculture, which is to say farming? Anyone? 75? Anyone else? 65ish?

And today we feed all of America with our agriculture and we export a lot of food as well. What percent of the U.S. workforce is engaged in agriculture? What's that? Keep going. Two, 2%. I have not run into anyone in recent memory who said it's terrible, I can't get a job as a farmer. You know, we improved people's lives with technology. That is the history of technology. We create jobs. Productivity creates economic value. It actually creates more jobs. But the jobs change. I would argue, you know, if we can get rid of mundane activities and increase employment with more complex activities, it's a good thing for everyone.

CHAIR JOHN C. WILLIAMS: As long as economists have really good jobs.

STRAUSS ZELNICK: Our economists are going to be fine.

CHAIR JOHN C. WILLIAMS: Okay, we're almost out of time. I did get a bunch of

questions from members. One thing I was surprised that hasn't really come up is intellectual property. You talked about investment in that, but concerns about, you know, the ability to protect intellectual property through patents, copyrights, things like that in your businesses. Has that gotten easier? I mean we used to hear about this a lot. Is this something that's become less of an issue, more of an issue?

STRAUSS ZELNICK: No, it's more of an issue with generative AI. We're going to have to dive in and there will have to be legislation on that topic. What's interesting is if you create something with generative AI, though, it's already been established by the U.S. Copyright Office, as I understand it, that you can't protect it. So one of the issues, and sort of saying, oh, I don't need a writer, I'll just use a model, is you won't be able to protect that. And the second thing is, of course, we're not going to use...to Brett's question earlier, we're not going to use someone else's model unless it's licensed. We're not going to be in the business of infringing on people's intellectual property. Obviously we don't want ours infringed upon. So yes, there will be legislation around that. It's not simple. It's going to be complex.

CHAIR JOHN C. WILLIAMS: Well, thank you so much. It's been a terrific conversation.

STRAUSS ZELNICK: Thank you. Thanks for having me.

CHAIR JOHN C. WILLIAMS: In the last one minute we have, we have one more event before the June break. On June 25th, we have a Signature Luncheon with my colleague, Governor Lisa Cook of the Federal Reserve Board. And then we're going to take a short break for summer. So please be on the lookout for the robust list of events that will surely be taking place in the fall. We always keep our calendars listed on the website. So please review that and add any events you want to attend or invite others to attend with you to your calendar.

Let me take just a moment to recognize those of the 376 members of our Centennial Society who are joining us today as their contributions continue to be the financial backbone of support for our Club. And thank you all for attending today. We look forward to seeing you again soon. And for those of you in the room, please enjoy your lunch. Thank you.