



# Second Quarter Fiscal Year 2024 Results

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This presentation contains forward-looking statements, which are a predictions, projections, or other statements about future events. The statements are based on current expectations and assumptions that subject to risks and uncertainties. Actual results could materially differ because of factors discussed in today's earnings press release, in the comments made during the conference call, and in the Risk Factors section and other sections of our Form 10-K, Forms 10-Q, and other reports and filings with the Securities and Exchange Commission. We not undertake any duty to update forward-looking statements.

# Agenda

Financial Summary and Highlights

Quarterly Business Highlights

Segment Financial Overview

Appendix

*All growth comparisons in this presentation relate to the corresponding period of last otherwise noted. Numbers may not foot due to rounding.*

# FY24 Q2 Financial Summary

(\$ in billions, except per share amounts)

	GAAP and CC Results			As Adjusted	
	FY24 Q2	Growth	CC Growth	FY24 Q2	Growth
Productivity and Business Processes	\$19.2	13%	12%	\$19.2	13
Intelligent Cloud	\$25.9	20%	19%	\$25.9	20
More Personal Computing	\$16.9	19%	18%	\$16.9	19
<b>Revenue</b>	<b>\$62.0</b>	<b>18%</b>	<b>16%</b>	<b>\$62.0</b>	<b>18</b>
<b>Gross margin</b>	<b>\$42.4</b>	<b>20%</b>	<b>18%</b>	<b>\$42.4</b>	<b>20</b>
Gross margin percentage	68%	1 pt		68%	1 pt
<b>Operating income</b>	<b>\$27.0</b>	<b>33%</b>	<b>30%</b>	<b>\$27.0</b>	<b>25</b>
Operating income percentage	44%	5 pts		44%	3 pts
<b>Net income</b>	<b>\$21.9</b>	<b>33%</b>	<b>30%</b>	<b>\$21.9</b>	<b>26</b>
<b>Diluted earnings per share</b>	<b>\$2.93</b>	<b>33%</b>	<b>30%</b>	<b>\$2.93</b>	<b>26</b>

\* Adjusts for the Q2 charge recorded in the second quarter of fiscal year 2023, including employee severance expenses, impairment charges resulting from changes to our hardware lease consolidation activities.  
See Appendix for reconciliation of GAAP and non-GAAP measures, including constant currency ("CC").

# Quarterly Commercial Highlights

Investor Metrics	FY23 Q2	FY23 Q3	FY23 Q4	FY23 Q1	FY24 Q1	FY2
Commercial bookings growth (y/y)	7% / 4%	11% / 12%	(2)% / (1)%	14% / 17%	17%	
Commercial remaining performance obligation ( <i>in billions</i> )	\$189	\$196	\$224	\$212	\$212	
Commercial revenue annuity mix	96%	96%	97%	96%	96%	9
Microsoft Cloud revenue ( <i>in billions</i> )	\$27.1	\$28.5	\$30.3	\$31.8	\$32.5	\$33.7
Microsoft Cloud revenue growth (y/y)	22% / 29%	22% / 25%	21% / 23%	24% / 23%	24%	24%
Microsoft Cloud gross margin percentage	72%	72%	72%	73%	73%	73%
Growth rates include non-GAAP CC growth (GAAP % / CC %).						

## Commercial business

- Commercial bookings increased 17% (up 9% CC) year-over-year driven by strong execution across our core annuity sales motions and growth term Azure contracts
- Commercial remaining performance obligation of \$222 billion, up 17% (up 16% CC) year-over-year
- Commercial revenue annuity mix of 96% was relatively unchanged year-over-year

## Microsoft Cloud

- Microsoft Cloud revenue of \$33.7 billion, up 24% (up 22% CC) year-over-year
- Microsoft Cloud gross margin percentage of 72% was relatively unchanged year-over-year. Excluding the impact of the latest change in account useful lives, gross margin percentage increased roughly 1 point driven by improvement in Azure and Office 365, partially offset by scaling of

*Microsoft Cloud includes Azure and other cloud services, Office 365 Commercial, the commercial portion of LinkedIn, Dynamics 365, and other cloud properties.*  
*Includes non-GAAP constant currency ("CC") growth. See Appendix for reconciliation of GAAP and non-GAAP measures. Growth rates in GAAP and CC are equivalent unless otherwise indicated.*

# FY24 Q2 Other Financial Highlights

<b>Cash returned to shareholders</b>	<ul style="list-style-type: none"><li>Returned \$8.4 billion to shareholders with \$5.6 billion in dividends and \$2.8 billion in share repurchases</li></ul>
<b>Operating expenses</b>	<ul style="list-style-type: none"><li>Operating expenses were \$15.4 billion, up 3% year-over-year driven by 11 points from the Activision Blizzard acquisition partially offset by 7 points of favorable impact from the prior year Q2 charge</li></ul>
<b>Other income and expense</b>	<ul style="list-style-type: none"><li>Other income and expense was \$(506) million driven by interest expense and net losses on investment offset by interest income</li></ul>
<b>Effective tax rate</b>	<ul style="list-style-type: none"><li>Effective tax rate of 18%</li></ul>
<b>Capital expenditures</b>	<ul style="list-style-type: none"><li>Capital expenditures including assets acquired under finance leases were \$11.5 billion to support cloud and AI offerings. Cash paid for property and equipment was \$9.7 billion.</li></ul>
<b>Cash flow</b>	<ul style="list-style-type: none"><li>Cash flow from operations was \$18.9 billion, up 69% year-over-year driven by strong cloud bill growth on a prior year comparable that was impacted by lower operating income</li><li>Free cash flow was \$9.1 billion, up 86% year-over-year reflecting the timing of cash paid for property and equipment</li></ul>

*Includes non-GAAP constant currency ("CC") growth and free cash flow. See Appendix for reconciliation of GAAP and non-GAAP measures. Growth rates in GAAP and CC are equivalent.*

# FY24 Q2 Business Highlights

 <b>Productivity and Business Processes</b>	<ul style="list-style-type: none"><li>Office Commercial products and cloud services revenue increased 15% (up 13% CC) driven by Commercial revenue growth of 17% (up 16% CC)</li><li>Office Consumer products and cloud services revenue increased 5% (up 4% CC) and Microsoft subscribers grew to 78.4 million<ul style="list-style-type: none"><li>LinkedIn revenue increased 9% (up 8% CC)</li><li>Dynamics products and cloud services revenue increased 21% (up 19% CC) driven by Dynamic growth of 27% (up 24% CC)</li></ul></li></ul>	 <b>Intelligent Cloud</b>	<ul style="list-style-type: none"><li>Server products and cloud services revenue increased 22% (up 20% CC) driven by Azure and Office 365 revenue growth of 30% (up 28% CC)</li></ul>	 <b>More Personal Computing</b>	<ul style="list-style-type: none"><li>Windows revenue increased 9% with Windows OEM revenue growth of 11% and Windows Cloud and cloud services revenue growth of 9% (up 7% CC)</li><li>Devices revenue decreased 9% (down 10% CC)<ul style="list-style-type: none"><li>Xbox content and services revenue increased 61% (up 60% CC) driven by 55 points of net impact from Activision acquisition</li><li>Search and news advertising revenue excluding traffic acquisition costs increased 8% (up 7% CC)</li></ul></li></ul>
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*Includes non-GAAP constant currency ("CC") growth. See Appendix for reconciliation of GAAP and non-GAAP measures. Growth rates in GAAP and CC are equivalent unless otherwise indicated.*



# Productivity and Business Processes

## Overview

### Investor Metrics

Investor Metrics	FY23 Q2	FY23 Q3	FY23 Q4	FY24 Q1	FY24 Q2
Office Commercial products and cloud services revenue growth (y/y)	7% / 14%	13% / 17%	12% / 14%	15% / 14%	1%
Office Consumer products and cloud services revenue growth (y/y)	(2)% / 3%	1% / 4%	3% / 6%	3% / 4%	
Office 365 Commercial seat growth (y/y)	12%	11%	11%	10%	
Microsoft 365 Consumer subscribers (in millions)	67.7	70.8	74.9	76.7	
Dynamics products and cloud services revenue growth (y/y)	13% / 20%	17% / 21%	19% / 21%	22% / 21%	2%
LinkedIn revenue growth (y/y)	10% / 14%	8% / 11%	6% / 8%	8%	

Growth rates include non-GAAP CC growth (GAAP % / CC %).

### Total Revenue

- Revenue grew 13% (up 12% CC) driven by Office 365

\$ in billions



### Operating Income

- Gross margin dollars grew 14% (up 12% CC) and gross margin percentage increased slightly. Excluding the impact of the latest change in accounting estimate for useful lives, gross margin percentage increased roughly 1 point primarily driven by improvement in Office 365.
- Operating expenses decreased 5% (down 6% CC) driven by 5 points of favorable impact from the prior year Q2 charge
  - Operating income grew 26% (up 24% CC)

We have recast certain prior period amounts to conform to the way we internally manage and monitor our business.  
Includes non-GAAP constant currency ("CC") growth. See Appendix for reconciliation of GAAP and non-GAAP measures. Growth rates in GAAP and CC are equivalent unless otherwise indicated.

█ Revenue      █ Operating Income



## Productivity and Business Processes

### Highlights

#### Office Commercial

- Office Commercial products and cloud services revenue grew 15% (up 13% CC)
- Office 365 Commercial revenue grew 17% (up 16% CC) with Office 365 Commercial seat growth of 9%, driven by small and medium business and frontline worker offerings, as well as growth in revenue per user
- Office Commercial products revenue declined 17% (down 18% CC) reflecting continued customer shift to cloud offerings

#### LinkedIn

- LinkedIn revenue grew 9% (up 8% CC) driven by growth business – Talent Solutions, Marketing Solutions, Premium Sales Solutions
- LinkedIn sessions grew 12% with record engagement

#### Office Consumer

- Office Consumer products and cloud services revenue grew 5% (up 4% CC)
- Microsoft 365 Consumer subscribers grew 16% to 78.4 million

#### Dynamics

- Dynamics products and cloud services revenue grew 21%
- Dynamics 365 revenue grew 27% (up 24% CC)

*Includes non-GAAP constant currency ("CC") growth. See Appendix for reconciliation of GAAP and non-GAAP measures. Growth rates in GAAP and CC are equivalent unless otherwise indicated.*



## Intelligent Cloud Overview

### Investor Metrics

Investor Metrics	FY23 Q2	FY23 Q3	FY23 Q4	FY24 Q1	FY24 Q1
Server products and cloud services revenue growth (y/y)	20% / 26%	17% / 21%	17% / 18%	21%	22%

*Growth rates include non-GAAP CC growth (GAAP % / CC %).*

### Total Revenue

- Revenue grew 20% (up 19% CC) driven by Azure

\$ in billions



### Operating Income

- Gross margin dollars grew 20% (up 18% CC) and gross margin percentage was relatively unchanged. Excluding the impact of the latest change in accounting estimate for useful lives, gross margin percentage increased roughly 1 point driven by improvement in Azure, partially offset by scaling our AI infrastructure.

- Operating expenses decreased 8% (down 9% CC) driven by 9 points of favorable impact from the prior year Q2 charge partially offset by investments in Azure

- Operating income grew 40% (up 37% CC)



*We have recast certain prior period amounts to conform to the way we internally manage and monitor our business.  
Includes non-GAAP constant currency ("CC") growth. See Appendix for reconciliation of GAAP and non-GAAP measures. Growth rates in GAAP and CC are equivalent unless otherwise indicated.*

FY23 Q2      FY23 Q3      FY23 Q4      FY24 Q1  
Revenue      Revenue      Revenue      Revenue  
Operating Income      Operating Income      Operating Income      Operating Income



# Intelligent Cloud

## Highlights

### Server Products and Cloud Services

- Server products and cloud services revenue grew 22% (up 20% CC)
- Azure and other cloud services revenue grew 30% (up 28% CC) driven by strong demand for our consumption-based services including 6 points from our AI services
- Server products revenue grew 3% (up 2% CC) driven by continued demand for our hybrid solutions, including Windows Server and SQL Server running in multi-cloud environments
- Enterprise Mobility installed base grew 11% to over 268 million seats

### Trended Revenue Growth

	FY23 Q4	FY23 Q3	FY23 Q2	FY23 Q1
Azure and other cloud services (y/y)	31% / 38%	27% / 31%	31% / 38%	26% / 27%
Server products (y/y)	(2)% / 2%	(2)% / 0%	(2)% / 0%	(1)% / 0%

*Growth rates include non-GAAP CC growth (GAAP % / CC %).*

### Enterprise and Partner Services

- Enterprise and partner services revenue grew 1% (relatively unchanged CC) driven by Enterprise Support Services

*Includes non-GAAP constant currency ("CC") growth. See Appendix for reconciliation of GAAP and non-GAAP measures. Growth rates in GAAP and CC are equivalent unless otherwise indicated.*



## More Personal Computing

### Overview

#### Investor Metrics

	FY23 Q2	FY23 Q3	FY23 Q4	FY24 Q1
Windows OEM revenue growth (y/y)	(39)%	(28)%	(12)%	4%
Windows Commercial products and cloud services revenue growth (y/y)	(3)% / 3%	14% / 18%	2% / 3%	8%
Devices revenue growth (y/y)	(39)% / (34)%	(30)% / (26)%	(20)% / (18)%	(22)%
Xbox content and services revenue growth (y/y)	(12)% / (8)%	3% / 5%	5% / 6%	13% / 12%
Search and news advertising revenue (ex TAC) growth (y/y)	11% / 15%	11% / 13%	8% / 9%	10% / 9%

*Xbox content and services revenue includes the net impact from the Activision acquisition.  
Growth rates include non-GAAP CC growth (GAAP % / CC %).*

#### Total Revenue

- Revenue grew 19% (up 18% CC) driven by 15 points of net impact from the Activision acquisition

#### Operating Income



*We have recast certain prior period amounts to conform to the way we internally manage and monitor our business.  
Includes non-GAAP constant currency ("CC") growth. See Appendix for reconciliation of GAAP and non-GAAP measures. Growth rates in GAAP and CC are equivalent unless*

# Net impact from the Activision acquisition

**FY24 Q2**  
(\$ in billions)

	<b>Net Impact from Activision</b>
<b>Revenue</b>	<b>\$2.08</b>
Purchase accounting adjustments, integration and transaction-related costs	\$0.58
Other cost of revenue	\$0.35
<b>Cost of revenue</b>	<b>\$0.93</b>
<b>Gross margin</b>	<b>\$1.16</b>
Purchase accounting adjustments, integration and transaction-related costs	\$0.55
Other operating expenses	\$1.04
<b>Operating expenses</b>	<b>\$1.59</b>
<b>Operating income (loss)</b>	<b>\$(0.44)</b>

## Activision Acquisition Details

- The Activision acquisition closed on October 1, 2023.
- The net impact from the Activision acquisition results from the date of the acquisition Personal Computing segment.



## More Personal Computing

### Highlights

#### Windows

- Windows OEM revenue grew 11% as PC market volumes continue stabilizing to pre-pandemic levels
- Windows Commercial products and cloud services revenue grew 9% (up 7% CC) driven by demand for Microsoft 365
- Xbox hardware revenue grew 3% (up 1% CC)

#### Gaming

- Gaming revenue grew 49% (up 48% CC) including 44% from the Activision acquisition
- Xbox content and services revenue grew 61% (up 60% CC) of net impact from the Activision acquisition
- Xbox hardware revenue grew 3% (up 1% CC)

#### Devices

- Devices revenue declined 9% (down 10% CC)

#### Search and News Advertising

- Search and news advertising revenue excluding traffic at 8% (up 7% CC) driven by higher search volume with no impact from a third-party partnership

*Gaming revenue and Xbox content and services revenue include the net impact from the Activision acquisition.  
Includes non-GAAP constant currency ("CC") growth. See Appendix for reconciliation of GAAP and non-GAAP measures. Growth rates in GAAP and CC are equivalent unless otherwise indicated.*

# Appendix

# Reconciliation of GAAP and Non-GAAP Financial Measures

Our presentation of second-quarter performance includes non-GAAP financial measures. The following slides provide reconciliations between the GAAP financial measures presented:

- Impact of the Q2 charge
- Constant currency reconciliation
- Cash flow reconciliation

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# Impact of the Q2 charge

Three Months Ended December 31,

	<b>Revenue</b>	<b>Gross Margin</b>	<b>Operating Expenses</b>	<b>Operating Income</b>	<b>Effective Tax Rate</b>	<b>Non-GAAP Income</b>
(\$ in millions, except per share amounts)						
<b>2022 As Reported (GAAP)</b>	<b>\$52,747</b>	<b>\$35,259</b>	<b>\$14,860</b>	<b>\$20,399</b>	<b>19%</b>	<b>\$10,399</b>
Severance, hardware-related impairment, and lease consolidation costs	\$0	\$152	\$(1,019)	\$1,171	19%	\$1,171
<b>2022 As Adjusted (non-GAAP)</b>	<b>\$52,747</b>	<b>\$35,411</b>	<b>\$13,841</b>	<b>\$21,570</b>	<b>19%</b>	<b>\$17,729</b>
<b>2023 As Reported (GAAP)</b>	<b>\$62,020</b>	<b>\$42,397</b>	<b>\$15,365</b>	<b>\$27,032</b>	<b>18%</b>	<b>\$22,032</b>
Percentage Change Y/Y (GAAP)	18%	20%	3%	33%	(1)%	3
Percentage Change Y/Y Constant Currency	16%	18%	3%	30%	(1)%	3
Percentage Change Y/Y (non-GAAP)	18%	20%	11%	25%	(1)%	2
Percentage Change Y/Y (non-GAAP) Constant Currency	16%	18%	10%	23%	(1)%	2

The non-GAAP measures exclude costs recorded in the second quarter of fiscal year 2023 related to decisions announced on January 18th, 2023, including employee severance charges resulting from changes to our hardware portfolio, and costs related to lease consolidation activities. Employee severance was allocated to our segments based on relative belief these non-GAAP measures aid investors by providing additional insight into our operational performance and help clarify trends affecting our business. For comparability, management considers non-GAAP measures in conjunction with GAAP financial results in evaluating business performance. The non-GAAP financial measures should not be for, or superior to, the measures of financial performance prepared in accordance with GAAP.

# Constant Currency Reconciliation

Three Months Ended December 31,

(\$ in millions, except per share amounts)	<b>Revenue</b>	<b>Gross Margin</b>	<b>Operating Expenses</b>	<b>Operating Income</b>	<b>Non-GAAP Income</b>
<b>2022 As Reported (GAAP)</b>	<b>\$52,747</b>	<b>\$35,259</b>	<b>\$14,860</b>	<b>\$20,399</b>	<b>\$16,447</b>
<b>2022 As Adjusted (non-GAAP)</b>	<b>\$52,747</b>	<b>\$35,411</b>	<b>\$13,841</b>	<b>\$21,570</b>	<b>\$17,331</b>
<b>2023 As Reported (GAAP)</b>	<b>\$62,020</b>	<b>\$42,397</b>	<b>\$15,365</b>	<b>\$27,032</b>	<b>\$21,832</b>
Percentage Change Y/Y (GAAP)	18%	20%	3%	33%	33%
Percentage Change Y/Y (non-GAAP)	18%	20%	11%	25%	26%
<b>Constant Currency Impact</b>	<b>\$756</b>	<b>\$643</b>	<b>\$78</b>	<b>\$565</b>	<b>\$51,832</b>
Percentage Change Y/Y Constant Currency	16%	18%	3%	30%	30%
Percentage Change Y/Y (non-GAAP) Constant Currency	16%	18%	10%	23%	23%

We present constant currency information to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency rate fluctuations. This information, current and comparative prior period results for entities reporting in currencies other than United States dollars are converted into United States dollars using the exchange rates in effect during the respective periods. The non-GAAP financial measures presented should not be considered superior to, the measures of financial performance prepared in accordance with GAAP. All growth comparisons relate to the corresponding period in the last fiscal year.

# Constant Currency Reconciliation

## Segment Revenue

Three Months Ended December 31,

(\$ in millions)	Productivity and Business Processes	Intelligent Cloud
<b>2022 As Reported (GAAP)</b>	\$17,002	\$21,508
<b>2023 As Reported (GAAP)</b>	\$19,249	\$25,880
Percentage Change Y/Y (GAAP)	13%	20%
<b>Constant Currency Impact</b>	\$230	\$367
Percentage Change Y/Y Constant Currency	12%	19%

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# Constant Currency Reconciliation

Segment Gross Margin		
	Percentage Change Y/Y (GAAP)	Constant Currency Impact
Productivity and Business Processes	14%	(2)%
Intelligent Cloud	20%	(2)%
More Personal Computing	34%	(2)%
Segment Operating Expense		
	Percentage Change Y/Y (GAAP)	Constant Currency Impact
Productivity and Business Processes	(5)%	(1)%
Intelligent Cloud	(8)%	(1)%
More Personal Computing	38%	0%
Segment Operating Income		
	Percentage Change Y/Y (GAAP)	Constant Currency Impact
Productivity and Business Processes	26%	(2)%
Intelligent Cloud	40%	(3)%
More Personal Computing	29%	(3)%

We present constant currency information to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency rate fluctuations. This information, current and comparative prior period results for entities reporting in currencies other than United States dollars are converted into United States dollars using the exchange rates in effect during the respective periods. The non-GAAP financial measures presented should not be considered superior to, the measures of financial performance prepared in accordance with GAAP. All growth comparisons relate to the corresponding period in the last fiscal year.

# Constant Currency Reconciliation

## Selected Product and Service Information

Three Months Ended December 31, 2023

	Percentage Change Y/Y (GAAP)	Constant Currency Impact	
Commercial bookings	17%	(8)%	
Commercial remaining performance obligation	17%	(1)%	
Microsoft Cloud revenue	24%	(2)%	
Office Commercial products and cloud services revenue	15%	(2)%	
Office 365 Commercial revenue	17%	(1)%	
Office Commercial products revenue	(17)%	(1)%	
Office Consumer products and cloud services revenue	5%	(1)%	
LinkedIn revenue	9%	(1)%	
Dynamics products and cloud services revenue	21%	(2)%	
Dynamics 365 revenue	27%	(3)%	
Server products and cloud services revenue	22%	(2)%	
Azure and other cloud services revenue	30%	(2)%	
Server products revenue	3%	(1)%	
Enterprise and partner services revenue	1%	(1)%	
Windows revenue	9%	0%	
Windows OEM revenue	11%	0%	
Windows Commercial products and cloud services revenue	9%	(2)%	
Devices revenue	(9)%	(1)%	
Gaming revenue	49%	(1)%	
Xbox content and services revenue	61%	(1)%	
Xbox hardware revenue	3%	(2)%	
Search and news advertising revenue excluding traffic acquisition costs	8%	(1)%	

We present constant currency information to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency rate fluctuations. To present this comparative prior period results for entities reporting in currencies other than United States dollars using the average exchange rates from the actual exchange rates in effect during the respective periods. The non-GAAP financial measures presented should not be considered as a substitute for, or superior to, the measures of financial performance in accordance with GAAP. All growth comparisons relate to the corresponding period in the last fiscal year.

# Cash Flow Reconciliation

Three Months Ended December 31,

	2023	2022	Per Change
<b>Net Cash from Operations (GAAP)</b>	<b>\$18,853</b>	<b>\$11,173</b>	
Additions to Property and Equipment	<b>\$(9,735)</b>	<b>\$(6,274)</b>	
<b>Free Cash Flow</b>	<b>\$9,118</b>	<b>\$4,899</b>	

(\$ in millions)

\*Not meaningful.

Free cash flow is included as an additional clarifying item to aid investors by providing additional insight into our operational performance and help clarify trends affecting our financial measure should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.



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