**Microsoft Cloud Strength Powers Record First Quarter Results**

**REDMOND, Wash. — October 24, 2018 —** Microsoft Corp. today announced the following results for the quarter ended September 30, 2018, as compared to the corresponding period of last fiscal year:

* Revenue was $29.1 billion and increased 19%
* Operating income was $10.0 billion and increased 29%
* Net income was $8.8 billion and increased 34%
* Diluted earnings per share was $1.14 and increased 36%

“We are off to a great start in fiscal 2019, a result of our innovation and the trust customers are placing in us to power their digital transformation,” said Satya Nadella, chief executive officer of Microsoft. “We’re excited to help our customers build the digital capability they need to thrive and grow, with a business model that is fundamentally aligned to their success.”

Microsoft returned $6.1 billion to shareholders in the form of dividends and share repurchases in the first quarter of fiscal year 2019, an increase of 27% compared to the first quarter of fiscal year 2018.

"Our record results for Q1 reflect our commitment to long-term strategic investments and consistent execution to drive revenue growth and operating margin expansion,” said Amy Hood, executive vice president and chief financial officer of Microsoft. “We see continued demand for our cloud offerings, reflected in our commercial cloud revenue of $8.5 billion, up 47% year over year.”

Revenue in Productivity and Business Processes was $9.8 billion and increased 19% (up 18% in constant currency), with the following business highlights:

* Office commercial products and cloud services revenue increased 17% (up 16% in constant currency) driven by Office 365 commercial revenue growth of 36% (up 35% in constant currency)
* Office consumer products and cloud services revenue increased 16% (up 17% in constant currency) with continued growth in Office 365 consumer subscribers to 32.5 million
* LinkedIn revenue increased 33% (up 33% in constant currency) with record levels of engagement highlighted by LinkedIn sessions growth of 34%
* Dynamics products and cloud services revenue increased 20% (up 20% in constant currency) driven by Dynamics 365 revenue growth of 51% (up 49% in constant currency)

Revenue in Intelligent Cloud was $8.6 billion and increased 24% (up 24% in constant currency), with the following business highlights:

* Server products and cloud services revenue increased 28% (up 28% in constant currency) driven by Azure revenue growth of 76% (up 76% in constant currency)
* Enterprise Services revenue increased 6% (up 6% in constant currency)

Revenue in More Personal Computing was $10.7 billion and increased 15% (up 15% in constant currency), with the following business highlights:

* Windows OEM revenue increased 3% (up 3% in constant currency) driven by OEM Pro revenue growth of 8%
* Windows commercial products and cloud services revenue increased 12% (up 12% in constant currency) driven by an increased volume of multi-year agreements
* Gaming revenue increased 44% (up 45% in constant currency) with Xbox software and services revenue growth of 36% (up 36% in constant currency) mainly from third-party title strength
* Search advertising revenue excluding traffic acquisition costs increased 17% (up 17% in constant currency)
* Surface revenue increased 14% (up 14% in constant currency)

**Business Outlook**

Microsoft will provide forward-looking guidance in connection with this quarterly earnings announcement on its earnings conference call and webcast.

**Quarterly Highlights, Product Releases, and Enhancements**

Every quarter Microsoft delivers hundreds of products, either as new releases, services, or enhancements to current products and services. These releases are a result of significant research and development investments, made over multiple years, designed to help customers be more productive and secure and to deliver differentiated value across the cloud and the edge.

Here are the [major product releases and other highlights](https://aka.ms/MSFTFY19Q1ProductReleaseList) for the quarter, organized by product categories, to help illustrate how we are accelerating innovation across our businesses while expanding our market opportunities.

**Webcast Details**

Satya Nadella, chief executive officer, Amy Hood, executive vice president and chief financial officer, Frank Brod, chief accounting officer, Carolyn Frantz, deputy general counsel and corporate secretary, and Michael Spencer, general manager of investor relations, will host a conference call and webcast at 2:30 p.m. Pacific time (5:30 p.m. Eastern time) today to discuss details of the company’s performance for the quarter and certain forward-looking information. The session may be accessed at <http://www.microsoft.com/en-us/investor>. The webcast will be available for replay through the close of business on October 24, 2019.

**Constant Currency**

Microsoft presents 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 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 average exchange rates from the comparative period rather than the actual exchange rates in effect during the respective periods. All growth comparisons relate to the corresponding period in the last fiscal year. Microsoft has provided this non-GAAP financial information to aid investors in better understanding our performance. The non-GAAP financial measures presented in this release should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with generally accepted accounting principles (GAAP).

**Financial Performance Constant Currency Reconciliation**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Three Months Ended September 30,** | | | |
| ($ in millions, except per share amounts) | **Revenue** | **Operating Income** | **Net Income** | **Diluted Earnings per Share** |
| **2017 As Reported** | **$24,538** | **$7,708** | **$6,576** | **$0.84** |
| **2018 As Reported** | **$29,084** | **$9,955** | **$8,824** | **$1.14** |
| Percentage Change Y/Y | 19% | 29% | 34% | 36% |
| **Constant Currency Impact** | **$27** | **$105** | **$158** | **$0.02** |
| Percentage Change Y/Y Constant Currency | 18% | 28% | 32% | 33% |

**Segment Revenue Constant Currency Reconciliation**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Three Months Ended September 30,** | | |
| ($ in millions) | **Productivity and Business Processes** | **Intelligent Cloud** | **More Personal Computing** |
| **2017 As Reported** | **$8,238** | **$6,922** | **$9,378** |
| **2018 As Reported** | **$9,771** | **$8,567** | **$10,746** |
| Percentage Change Y/Y | 19% | 24% | 15% |
| **Constant Currency Impact** | **$38** | **$14** | **$(25)** |
| Percentage Change Y/Y Constant Currency | 18% | 24% | 15% |

**Selected Product and Service Revenue Constant Currency Reconciliation**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Three Months Ended September 30, 2018** | | |
|  | **Percentage Change Y/Y (GAAP)** | **Constant Currency Impact** | **Percentage Change Y/Y Constant Currency** |
| **Office commercial products and cloud services** | **17%** | **(1)%** | **16%** |
| **Office 365 commercial** | **36%** | **(1)%** | **35%** |
| **Office consumer products and cloud services** | **16%** | **1%** | **17%** |
| **LinkedIn** | **33%** | **0%** | **33%** |
| **Dynamics products and cloud services** | **20%** | **0%** | **20%** |
| **Dynamics 365** | **51%** | **(2)%** | **49%** |
| **Server products and cloud services** | **28%** | **0%** | **28%** |
| **Azure** | **76%** | **0%** | **76%** |
| **Enterprise Services** | **6%** | **0%** | **6%** |
| **Windows OEM** | **3%** | **0%** | **3%** |
| **Windows commercial products and cloud services** | **12%** | **0%** | **12%** |
| **Search advertising excluding traffic acquisition costs** | **17%** | **0%** | **17%** |
| **Surface** | **14%** | **0%** | **14%** |
| **Gaming** | **44%** | **1%** | **45%** |
| **Xbox software and services** | **36%** | **0%** | **36%** |

**About Microsoft**

Microsoft (Nasdaq “MSFT” @microsoft) enables digital transformation for the era of an intelligent cloud and an intelligent edge. Its mission is to empower every person and every organization on the planet to achieve more.

**Forward-Looking Statements**

Statements in this release that are “forward-looking statements” are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors such as:

* intense competition in all of our markets that may lead to lower revenue or operating margins;
* increasing focus on cloud-based services presenting execution and competitive risks;
* significant investments in new products and services that may not achieve expected returns;
* acquisitions, joint ventures, and strategic alliances that may have an adverse effect on our business;
* impairment of goodwill or amortizable intangible assets causing a significant charge to earnings;
* legal changes, our evolving business model, piracy, and other factors may decrease the value of our intellectual property;
* claims that Microsoft has infringed the intellectual property rights of others;
* the possibility that we may fail to protect our source code;
* cyberattacks and security vulnerabilities that could lead to reduced revenue, increased costs, liability claims, or harm to our reputation or competitive position;
* disclosure and misuse of personal data that could cause liability and harm to our reputation;
* the possibility that we may not be able to protect information stored in our products and services from use by others;
* abuse of our advertising or social platforms that may harm our reputation or user engagement;
* excessive outages, data losses, and disruptions of our online services if we fail to maintain an adequate operations infrastructure;
* government litigation and regulatory activity relating to competition rules that may limit how we design and market our products;
* potential liability under trade protection, anti-corruption, and other laws resulting from our global operations;
* laws and regulations relating to the handling of personal data that may impede the adoption of our services or result in increased costs, legal claims, fines, or reputational damage;
* the dependence of our business on our ability to attract and retain talented employees;
* claims against us that may result in adverse outcomes in legal disputes;
* additional tax liabilities;
* quality or supply problems;
* exposure to increased economic and operational uncertainties from operating a global business, including the effects of foreign currency exchange;
* catastrophic events or geo-political conditions that may disrupt our business;
* adverse economic or market conditions that may harm our business;
* changes in our sales organization that may impact revenues;
* the development of the internet of things presenting security, privacy, and execution risks;
* issues about the use of artificial intelligence in our offerings that may result in competitive harm, legal liability, or reputational harm; and
* damage to our reputation or our brands that may harm our business and operating results.

For more information about risks and uncertainties associated with Microsoft’s business, please refer to the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors” sections of Microsoft’s SEC filings, including, but not limited to, its annual report on Form 10-K and quarterly reports on Form 10-Q, copies of which may be obtained by contacting Microsoft’s Investor Relations department at (800) 285-7772 or at Microsoft’s Investor Relations website at <http://www.microsoft.com/en-us/investor>.

All information in this release is as of September 30, 2018. The company undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the company’s expectations.

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Note to editors: For more information, news and perspectives from Microsoft, please visit the Microsoft News Center at <http://www.microsoft.com/news>. Web links, telephone numbers, and titles were correct at time of publication, but may since have changed. Shareholder and financial information, as well as today’s 2:30 p.m. Pacific time conference call with investors and analysts, is available at <http://www.microsoft.com/en-us/investor>.

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| --- | --- | --- | --- |
| **MICROSOFT CORPORATION** |  |  |  |
|  |  |  |  |
| INCOME STATEMENTS | | | |
| (In millions, except per share amounts)(Unaudited) | | | |
|  |  |  |  |
|  | **Three Months Ended September 30,** | | |
|  |
|  | **2018** |  | **2017** |
| Revenue: |  |  |  |
| Product | **$17,299** |  | $14,298 |
| Service and other | **11,785** |  | 10,240 |
| Total revenue | **29,084** |  | 24,538 |
| Cost of revenue: |  |  |  |
| Product | **3,649** |  | 2,980 |
| Service and other | **6,256** |  | 5,298 |
| Total cost of revenue | **9,905** |  | 8,278 |
| Gross margin | **19,179** |  | 16,260 |
| Research and development | **3,977** |  | 3,574 |
| Sales and marketing | **4,098** |  | 3,812 |
| General and administrative | **1,149** |  | 1,166 |
| Operating income | **9,955** |  | 7,708 |
| Other income, net | **266** |  | 276 |
| Income before income taxes | **10,221** |  | 7,984 |
| Provision for income taxes | **1,397** |  | 1,408 |
| Net income | **$8,824** |  | $6,576 |
| Earnings per share: |  |  |  |
| Basic | **$1.15** |  | $0.85 |
| Diluted | **$1.14** |  | $0.84 |
| Weighted average shares outstanding: |  |  |  |
| Basic | **7,673** |  | 7,708 |
| Diluted | **7,766** |  | 7,799 |
| Cash dividends declared per common share | **$0.46** |  | $0.42 |

|  |  |  |  |
| --- | --- | --- | --- |
| COMPREHENSIVE INCOME STATEMENTS | | | |
| (In millions)(Unaudited) | | | |
|  |  |  |  |
|  | **Three Months Ended September 30,** | | |
|  |
|  | **2018** |  | **2017** |
| Net income | **$8,824** |  | $6,576 |
| Other comprehensive income (loss),  net of tax: |  |  |  |
| Net change related to derivatives | **(45)** |  | (106) |
| Net change related to investments | **(261)** |  | (288) |
| Translation adjustments and other | **(55)** |  | 293 |
| Other comprehensive loss | **(361)** |  | (101) |
| Comprehensive income | **$8,463** |  | $6,475 |

|  |  |  |  |
| --- | --- | --- | --- |
| BALANCE SHEETS | | | |
| (In millions)(Unaudited) | | | |
|  |  |  |  |
|  | **September 30, 2018** |  | **June 30, 2018** |
| **Assets** |  |  |  |
| Current assets: |  |  |  |
| Cash and cash equivalents | **$15,137** |  | $11,946 |
| Short-term investments | **120,743** |  | 121,822 |
| Total cash, cash equivalents, and short-term investments | **135,880** |  | 133,768 |
| Accounts receivable, net of allowance for doubtful  accounts of **$319** and $377 | **17,390** |  | 26,481 |
| Inventories | **3,614** |  | 2,662 |
| Other | **7,311** |  | 6,751 |
| Total current assets | **164,195** |  | 169,662 |
| Property and equipment, net of accumulated  depreciation of **$30,953** and $29,223 | **31,430** |  | 29,460 |
| Operating lease right-of-use assets | **6,734** |  | 6,686 |
| Equity investments | **2,034** |  | 1,862 |
| Goodwill | **35,855** |  | 35,683 |
| Intangible assets, net | **7,579** |  | 8,053 |
| Other long-term assets | **9,792** |  | 7,442 |
| Total assets | **$257,619** |  | $258,848 |
| **Liabilities and stockholders' equity** |  |  |  |
| Current liabilities: |  |  |  |
| Accounts payable | **$8,511** |  | $8,617 |
| Current portion of long-term debt | **6,497** |  | 3,998 |
| Accrued compensation | **4,271** |  | 6,103 |
| Short-term income taxes | **2,341** |  | 2,121 |
| Short-term unearned revenue | **26,704** |  | 28,905 |
| Other | **7,953** |  | 8,744 |
| Total current liabilities | **56,277** |  | 58,488 |
| Long-term debt | **69,733** |  | 72,242 |
| Long-term income taxes | **28,936** |  | 30,265 |
| Long-term unearned revenue | **3,538** |  | 3,815 |
| Deferred income taxes | **1,977** |  | 541 |
| Operating lease liabilities | **5,652** |  | 5,568 |
| Other long-term liabilities | **5,539** |  | 5,211 |
| Total liabilities | **171,652** |  | 176,130 |
| Commitments and contingencies |  |  |  |
| Stockholders' equity: |  |  |  |
| Common stock and paid-in capital - shares  authorized 24,000; outstanding **7,680** and 7,677 | **71,303** |  | 71,223 |
| Retained earnings | **17,279** |  | 13,682 |
| Accumulated other comprehensive loss | **(2,615)** |  | (2,187) |
| Total stockholders' equity | **85,967** |  | 82,718 |
| Total liabilities and stockholders' equity | **$257,619** |  | $258,848 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| CASH FLOWS STATEMENTS | | | | | | | |
| (In millions)(Unaudited) | | | | | | | |
|  | |  | | |  |  | |
|  | | **Three Months Ended September 30,** | | | | | |
|  | |
|  | | **2018** | | |  | **2017** | |
| **Operations** | |  | | |  |  | |
| Net income | | **$8,824** | | |  | $6,576 | |
| Adjustments to reconcile net income   to net cash from operations: | |  | | |  |  | |
| Depreciation, amortization, and other | | **2,837** | | |  | 2,499 | |
| Stock-based compensation expense | | **1,107** | | |  | 973 | |
| Net recognized gains on investments and derivatives | | **(240)** | | |  | (523) | |
| Deferred income taxes | | **(247)** | | |  | (53) | |
| Changes in operating assets and liabilities: | |  | | |  |  | |
| Accounts receivable | | **9,194** | | |  | 7,949 | |
| Inventories | | **(956)** | | |  | (1,023) | |
| Other current assets | | **(677)** | | |  | (318) | |
| Other long-term assets | | **21** | | |  | (278) | |
| Accounts payable | | **(395)** | | |  | (407) | |
| Unearned revenue | | **(2,441)** | | |  | (1,806) | |
| Income taxes | | **(1,091)** | | |  | 661 | |
| Other current liabilities | | **(2,322)** | | |  | (2,164) | |
| Other long-term liabilities | | **43** | | |  | 354 | |
| Net cash from operations | | **13,657** | | |  | 12,440 | |
| **Financing** | |  | | |  |  | |
| Repayments of short-term debt, maturities of 90 days   or less, net | | **0** | | |  | (3,710) | |
| Proceeds from issuance of debt | | **0** | | |  | 3,954 | |
| Repayments of debt | | **0** | | |  | (1,169) | |
| Common stock issued | | **360** | | |  | 307 | |
| Common stock repurchased | | **(3,744)** | | |  | (2,570) | |
| Common stock cash dividends paid | | **(3,220)** | | |  | (3,003) | |
| Other, net | | **(780)** | | |  | (150) | |
| Net cash used in financing | | **(7,384)** | | |  | (6,341) | |
| **Investing** | |  | | |  |  | |
| Additions to property and equipment | | **(3,602)** | | |  | (2,132) | |
| Acquisition of companies, net of cash acquired,  and purchases of intangible and other assets | | **(245)** | | |  | (179) | |
| Purchases of investments | | **(19,551)** | | |  | (32,961) | |
| Maturities of investments | | **5,214** | | |  | 5,226 | |
| Sales of investments | | **15,231** | | |  | 23,036 | |
| Securities lending payable | | **0** | | |  | 106 | |
| Net cash used in investing | | **(2,953)** | | |  | (6,904) | |
| Effect of foreign exchange rates on cash and cash   equivalents | | **(129)** | | |  | 26 | |
| Net change in cash and cash equivalents | | **3,191** | | |  | (779) | |
| Cash and cash equivalents, beginning of period | | **11,946** | | |  | 7,663 | |
| Cash and cash equivalents, end of period | | **$15,137** | | |  | $6,884 | |
| SEGMENT REVENUE AND OPERATING INCOME | | | | | | |
| (In millions)(Unaudited) | | | | | | |
|  |  | |  |  | | |
|  | **Three Months Ended September 30,** | | | | | |
|  |
|  | **2018** | |  | **2017** | | |
| **Revenue** |  | |  |  | | |
| Productivity and Business Processes | **$9,771** | |  | $8,238 | | |
| Intelligent Cloud | **8,567** | |  | 6,922 | | |
| More Personal Computing | **10,746** | |  | 9,378 | | |
| Total | **$29,084** | |  | $24,538 | | |
| **Operating Income** |  | |  |  | | |
| Productivity and Business Processes | **$3,881** | |  | $3,006 | | |
| Intelligent Cloud | **2,931** | |  | 2,137 | | |
| More Personal Computing | **3,143** | |  | 2,565 | | |
| Total | **$9,955** | |  | $7,708 | | |