

## Microsoft Cloud Strength Drives Fourth Quarter Results

**REDMOND, Wash. — July 25, 2023** — Microsoft Corp. today announced the following results for the quarter ended June 30, 2023, as compared to the corresponding period of last fiscal year:

- Revenue was \$56.2 billion and increased 8% (up 10% in constant currency)
- Operating income was \$24.3 billion and increased 18% (up 21% in constant currency)
- Net income was \$20.1 billion and increased 20% (up 23% in constant currency)
- Diluted earnings per share was \$2.69 and increased 21% (up 23% in constant currency)

"Organizations are asking not only how – but how fast – they can apply this next generation of AI to address the biggest opportunities and challenges they face – safely and responsibly," said Satya Nadella, chairman and chief executive officer of Microsoft. "We remain focused on leading the new AI platform shift, helping customers use the Microsoft Cloud to get the most value out of their digital spend, and driving operating leverage."

"We delivered a solid close to the fiscal year driven by Microsoft Cloud quarterly revenue of \$30.3 billion, up 21% (up 23% in constant currency) year-over-year," said Amy Hood, executive vice president and chief financial officer of Microsoft.

### Business Highlights

Revenue in Productivity and Business Processes was \$18.3 billion and increased 10% (up 12% in constant currency), with the following business highlights:

- Office Commercial products and cloud services revenue increased 12% (up 14% in constant currency) driven by Office 365 Commercial revenue growth of 15% (up 17% in constant currency)
- Office Consumer products and cloud services revenue increased 3% (up 6% in constant currency) and Microsoft 365 Consumer subscribers grew to 67.0 million
- LinkedIn revenue increased 5% (up 7% in constant currency)
- Dynamics products and cloud services revenue increased 19% (up 21% in constant currency) driven by Dynamics 365 revenue growth of 26% (up 28% in constant currency)

Revenue in Intelligent Cloud was \$24.0 billion and increased 15% (up 17% in constant currency), with the following business highlights:

- Server products and cloud services revenue increased 17% (up 18% in constant currency) driven by Azure and other cloud services revenue growth of 26% (up 27% in constant currency)

Revenue in More Personal Computing was \$13.9 billion and decreased 4% (down 3% in constant currency), with the following business highlights:

- Windows OEM revenue decreased 12%
- Devices revenue decreased 20% (down 18% in constant currency)

- Windows Commercial products and cloud services revenue increased 2% (up 3% in constant currency)
- Xbox content and services revenue increased 5% (up 6% in constant currency)
- Search and news advertising revenue excluding traffic acquisition costs increased 8%

Microsoft returned \$9.7 billion to shareholders in the form of share repurchases and dividends in the fourth quarter of fiscal year 2023.

## Fiscal Year 2023 Results

Microsoft Corp. today announced the following results for the fiscal year ended June 30, 2023, as compared to the corresponding period of last fiscal year:

- Revenue was \$211.9 billion and increased 7% (up 11% in constant currency)
- Operating income was \$88.5 billion GAAP and increased 6%, and \$89.7 billion non-GAAP and increased 8% (up 14% in constant currency)
- Net income was \$72.4 billion GAAP and decreased slightly, and \$73.3 billion non-GAAP and increased 6% (up 11% in constant currency)
- Diluted earnings per share was \$9.68 GAAP and increased slightly, and \$9.81 non-GAAP and increased 7% (up 12% in constant currency)
- GAAP results include the Q2 charge, a \$1.2 billion negative impact to operating income, explained in the Non-GAAP Definition section below

The following table reconciles our financial results for the fiscal year ended June 30, 2023, reported in accordance with generally accepted accounting principles (GAAP) to non-GAAP financial results. Additional information regarding our non-GAAP definition is provided below. All growth comparisons relate to the corresponding period in the last fiscal year.

	Twelve Months Ended June 30,			
	Revenue	Operating Income	Net Income	Diluted Earnings per Share
(\$ in millions, except per share amounts)				
<b>2022 As Reported (GAAP)</b>	<b>\$198,270</b>	<b>\$83,383</b>	<b>\$72,738</b>	<b>\$9.65</b>
Net income tax benefit related to transfer of intangible properties	-	-	(3,291)	(0.44)
<b>2022 As Adjusted</b>	<b>\$198,270</b>	<b>\$83,383</b>	<b>\$69,447</b>	<b>\$9.21</b>
<b>2023 As Reported (GAAP)</b>	<b>\$211,915</b>	<b>\$88,523</b>	<b>\$72,361</b>	<b>\$9.68</b>
Severance, hardware-related impairment, and lease consolidation costs	-	1,171	946	0.13
<b>2023 As Adjusted</b>	<b>\$211,915</b>	<b>\$89,694</b>	<b>\$73,307</b>	<b>\$9.81</b>
Percentage Change Y/Y (GAAP)	7%	6%	(1)%	0%
Percentage Change Y/Y Constant Currency	11%	12%	5%	6%
Percentage Change Y/Y (As Adjusted)	7%	8%	6%	7%
Percentage Change Y/Y (As Adjusted) Constant Currency	11%	14%	11%	12%

## 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](#) for the quarter, organized by product categories, to help illustrate how we are accelerating innovation across our businesses while expanding our market opportunities.

## Environmental, Social, and Governance (ESG)

To better execute on Microsoft's mission, we focus our Environmental, Social, and Governance (ESG) efforts where we can have the most positive impact. To learn more about our latest initiatives and priorities, please visit our investor relations [ESG website](#).

## Webcast Details

Satya Nadella, chairman and chief executive officer, Amy Hood, executive vice president and chief financial officer, Alice Jolla, chief accounting officer, Keith Dolliver, deputy general counsel, and Brett Iversen, vice president 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 July 25, 2024.

## Non-GAAP Definition

*Q2 charge.* In the second quarter of fiscal year 2023, Microsoft recorded costs related to decisions announced on January 18th, 2023, including employee severance expenses of \$800 million, impairment charges resulting from changes to our hardware portfolio, and costs related to lease consolidation activities.

*Transfer of Intangible Properties.* In the first quarter of fiscal year 2022, Microsoft transferred certain intangible properties from our Puerto Rico subsidiary to the United States. The transfer of intangible properties resulted in a net tax benefit of \$3.3 billion in the first quarter of fiscal 2022, as the value of future United States tax deductions exceeds the current tax liability from the United States Global Intangible Low-Taxed Income tax.

Microsoft has provided non-GAAP financial measures related to the Q2 charge and the transfer of intangible properties to aid investors in better understanding our performance. Microsoft believes these

non-GAAP measures assist investors by providing additional insight into its operational performance and help clarify trends affecting its business. For comparability of reporting, management considers non-GAAP measures in conjunction with GAAP financial results in evaluating business 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 GAAP.

### 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 GAAP.

### Financial Performance Constant Currency Reconciliation

#### Three Months Ended June 30,

(\$ in millions, except per share amounts)	Revenue	Operating Income	Net Income	Diluted Earnings per Share
<b>2022 As Reported (GAAP)</b>	<b>\$51,865</b>	<b>\$20,534</b>	<b>\$16,740</b>	<b>\$2.23</b>
<b>2023 As Reported (GAAP)</b>	<b>\$56,189</b>	<b>\$24,254</b>	<b>\$20,081</b>	<b>\$2.69</b>
Percentage Change Y/Y (GAAP)	8%	18%	20%	21%
<b>Constant Currency Impact</b>	<b>\$(755)</b>	<b>\$(607)</b>	<b>\$(430)</b>	<b>\$(0.06)</b>
Percentage Change Y/Y Constant Currency	10%	21%	23%	23%

#### Twelve Months Ended June 30,

(\$ in millions, except per share amounts)	Revenue	Operating Income	Net Income	Diluted Earnings per Share
<b>2022 As Reported (GAAP)</b>	<b>\$198,270</b>	<b>\$83,383</b>	<b>\$72,738</b>	<b>\$9.65</b>
<b>2022 As Adjusted</b>	<b>\$198,270</b>	<b>\$83,383</b>	<b>\$69,447</b>	<b>\$9.21</b>
<b>2023 As Reported (GAAP)</b>	<b>\$211,915</b>	<b>\$88,523</b>	<b>\$72,361</b>	<b>\$9.68</b>
<b>2023 As Adjusted</b>	<b>\$211,915</b>	<b>\$89,694</b>	<b>\$73,307</b>	<b>\$9.81</b>
Percentage Change Y/Y (GAAP)	7%	6%	(1)%	0%
Percentage Change Y/Y (As Adjusted)	7%	8%	6%	7%
<b>Constant Currency Impact</b>	<b>\$(7,177)</b>	<b>\$(5,269)</b>	<b>\$(4,061)</b>	<b>\$(0.54)</b>
Percentage Change Y/Y Constant Currency	11%	12%	5%	6%
Percentage Change Y/Y (As Adjusted) Constant Currency	11%	14%	11%	12%

## Segment Revenue Constant Currency Reconciliation

	Three Months Ended June 30,		
(\$ in millions)	Productivity and Business Processes	Intelligent Cloud	More Personal Computing
<b>2022 As Reported (GAAP)</b>	<b>\$16,600</b>	<b>\$20,804</b>	<b>\$14,461</b>
<b>2023 As Reported (GAAP)</b>	<b>\$18,291</b>	<b>\$23,993</b>	<b>\$13,905</b>
Percentage Change Y/Y (GAAP)	10%	15%	(4)%
<b>Constant Currency Impact</b>	<b>\$(322)</b>	<b>\$(303)</b>	<b>\$(130)</b>
Percentage Change Y/Y Constant Currency	12%	17%	(3)%

We have recast certain prior period amounts to conform to the way we internally manage and monitor our business.

## Selected Product and Service Revenue Constant Currency Reconciliation

	Three Months Ended June 30, 2023		
	Percentage Change Y/Y (GAAP)	Constant Currency Impact	Percentage Change Y/Y Constant Currency
<b>Microsoft Cloud revenue</b>	<b>21%</b>	<b>2%</b>	<b>23%</b>
<b>Office Commercial products and cloud services</b>	<b>12%</b>	<b>2%</b>	<b>14%</b>
<b>Office 365 Commercial</b>	<b>15%</b>	<b>2%</b>	<b>17%</b>
<b>Office Consumer products and cloud services</b>	<b>3%</b>	<b>3%</b>	<b>6%</b>
<b>LinkedIn</b>	<b>5%</b>	<b>2%</b>	<b>7%</b>
<b>Dynamics products and cloud services</b>	<b>19%</b>	<b>2%</b>	<b>21%</b>
<b>Dynamics 365</b>	<b>26%</b>	<b>2%</b>	<b>28%</b>
<b>Server products and cloud services</b>	<b>17%</b>	<b>1%</b>	<b>18%</b>
<b>Azure and other cloud services</b>	<b>26%</b>	<b>1%</b>	<b>27%</b>
<b>Windows OEM</b>	<b>(12)%</b>	<b>0%</b>	<b>(12)%</b>
<b>Windows Commercial products and cloud services</b>	<b>2%</b>	<b>1%</b>	<b>3%</b>
<b>Xbox content and services</b>	<b>5%</b>	<b>1%</b>	<b>6%</b>
<b>Search and news advertising excluding traffic acquisition costs</b>	<b>8%</b>	<b>0%</b>	<b>8%</b>
<b>Devices</b>	<b>(20)%</b>	<b>2%</b>	<b>(18)%</b>

## 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 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;
- 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, professional, marketplace, or gaming platforms that may harm our reputation or user engagement;
- 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 reputational or competitive harm, or legal liability;
- excessive outages, data losses, and disruptions of our online services if we fail to maintain an adequate operations infrastructure;
- quality or supply problems;
- government litigation and regulatory activity relating to competition rules that may limit how we design and market our products;
- potential consequences of trade and anti-corruption laws;
- potential consequences of existing and increasing legal and regulatory requirements;
- 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;
- claims against us that may result in adverse outcomes in legal disputes;
- uncertainties relating to our business with government customers;
- additional tax liabilities;

- an inability to protect and utilize our intellectual property may harm our business and operating results;
- claims that Microsoft has infringed the intellectual property rights of others;
- damage to our reputation or our brands that may harm our business and operating results;
- adverse economic or market conditions that may harm our business;
- catastrophic events or geo-political conditions, such as the COVID-19 pandemic, that may disrupt our business;
- exposure to increased economic and operational uncertainties from operating a global business, including the effects of foreign currency exchange and
- the dependence of our business on our ability to attract and retain talented employees.

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 June 30, 2023. 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>.

**MICROSOFT CORPORATION**

**INCOME STATEMENTS**

(In millions, except per share amounts) (Unaudited)

	<b>Three Months Ended June 30,</b>		<b>Twelve Months Ended June 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Revenue:				
Product	<b>\$16,853</b>	\$17,956	<b>\$64,699</b>	\$72,732
Service and other	<b>39,336</b>	33,909	<b>147,216</b>	125,538
Total revenue	<b>56,189</b>	51,865	<b>211,915</b>	198,270
Cost of revenue:				
Product	<b>3,871</b>	4,357	<b>17,804</b>	19,064
Service and other	<b>12,924</b>	12,072	<b>48,059</b>	43,586
Total cost of revenue	<b>16,795</b>	16,429	<b>65,863</b>	62,650
Gross margin	<b>39,394</b>	35,436	<b>146,052</b>	135,620
Research and development	<b>6,739</b>	6,849	<b>27,195</b>	24,512
Sales and marketing	<b>6,204</b>	6,304	<b>22,759</b>	21,825
General and administrative	<b>2,197</b>	1,749	<b>7,575</b>	5,900
Operating income	<b>24,254</b>	20,534	<b>88,523</b>	83,383
Other income (expense), net	<b>473</b>	(47)	<b>788</b>	333
Income before income taxes	<b>24,727</b>	20,487	<b>89,311</b>	83,716
Provision for income taxes	<b>4,646</b>	3,747	<b>16,950</b>	10,978
Net income	<b>\$20,081</b>	\$16,740	<b>\$72,361</b>	\$72,738
Earnings per share:				
Basic	<b>\$2.70</b>	\$2.24	<b>\$9.72</b>	\$9.70
Diluted	<b>\$2.69</b>	\$2.23	<b>\$9.68</b>	\$9.65
Weighted average shares outstanding:				
Basic	<b>7,434</b>	7,474	<b>7,446</b>	7,496
Diluted	<b>7,467</b>	7,506	<b>7,472</b>	7,540



# COMPREHENSIVE INCOME STATEMENTS

(In millions) (Unaudited)

	Three Months Ended June 30,		Twelve Months Ended June 30,	
	2023	2022	2023	2022
Net income	<b>\$20,081</b>	\$16,740	<b>\$72,361</b>	\$72,738
Other comprehensive income (loss), net of tax:				
Net change related to derivatives	<b>20</b>	(2)	<b>(14)</b>	6
Net change related to investments	<b>(648)</b>	(1,313)	<b>(1,444)</b>	(5,360)
Translation adjustments and other	<b>(71)</b>	(887)	<b>(207)</b>	(1,146)
Other comprehensive loss	<b>(699)</b>	(2,202)	<b>(1,665)</b>	(6,500)
Comprehensive income	<b>\$19,382</b>	\$14,538	<b>\$70,696</b>	\$66,238

BALANCE SHEETS  
(In millions) (Unaudited)

	June 30, 2023	June 30, 2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$34,704	\$13,931
Short-term investments	76,558	90,826
Total cash, cash equivalents, and short-term investments	111,262	104,757
Accounts receivable, net of allowance for doubtful accounts of \$650 and \$633	48,688	44,261
Inventories	2,500	3,742
Other current assets	21,807	16,924
Total current assets	184,257	169,684
Property and equipment, net of accumulated depreciation of \$68,251 and \$59,660	95,641	74,398
Operating lease right-of-use assets	14,346	13,148
Equity investments	9,879	6,891
Goodwill	67,886	67,524
Intangible assets, net	9,366	11,298
Other long-term assets	30,601	21,897
Total assets	\$411,976	\$364,840
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$18,095	\$19,000
Current portion of long-term debt	5,247	2,749
Accrued compensation	11,009	10,661
Short-term income taxes	4,152	4,067
Short-term unearned revenue	50,901	45,538
Other current liabilities	14,745	13,067
Total current liabilities	104,149	95,082
Long-term debt	41,990	47,032
Long-term income taxes	25,560	26,069
Long-term unearned revenue	2,912	2,870
Deferred income taxes	433	230
Operating lease liabilities	12,728	11,489
Other long-term liabilities	17,981	15,526
Total liabilities	205,753	198,298
Commitments and contingencies		
Stockholders' equity:		
Common stock and paid-in capital - shares authorized 24,000; outstanding 7,432 and 7,464	93,718	86,939
Retained earnings	118,848	84,281
Accumulated other comprehensive loss	(6,343)	(4,678)
Total stockholders' equity	206,223	166,542
Total liabilities and stockholders' equity	\$411,976	\$364,840

CASH FLOWS STATEMENTS  
(In millions) (Unaudited)

	Three Months Ended June 30,		Twelve Months Ended June 30,	
	2023	2022	2023	2022
<b>Operations</b>				
Net income	<b>\$20,081</b>	\$16,740	<b>\$72,361</b>	\$72,738
Adjustments to reconcile net income to net cash from operations:				
Depreciation, amortization, and other	<b>3,874</b>	3,979	<b>13,861</b>	14,460
Stock-based compensation expense	<b>2,416</b>	1,997	<b>9,611</b>	7,502
Net recognized losses (gains) on investments and derivatives	<b>44</b>	157	<b>196</b>	(409)
Deferred income taxes	<b>(1,888)</b>	283	<b>(6,059)</b>	(5,702)
Changes in operating assets and liabilities:				
Accounts receivable	<b>(11,244)</b>	(12,634)	<b>(4,087)</b>	(6,834)
Inventories	<b>374</b>	(461)	<b>1,242</b>	(1,123)
Other current assets	<b>(2,419)</b>	(2,570)	<b>(1,991)</b>	(709)
Other long-term assets	<b>(1,548)</b>	(575)	<b>(2,833)</b>	(2,805)
Accounts payable	<b>1,311</b>	2,659	<b>(2,721)</b>	2,943
Unearned revenue	<b>14,224</b>	12,546	<b>5,535</b>	5,109
Income taxes	<b>681</b>	(991)	<b>(358)</b>	696
Other current liabilities	<b>2,762</b>	3,455	<b>2,272</b>	2,344
Other long-term liabilities	<b>102</b>	44	<b>553</b>	825
Net cash from operations	<b>28,770</b>	24,629	<b>87,582</b>	89,035
<b>Financing</b>				
Repayments of debt	<b>(1,000)</b>	0	<b>(2,750)</b>	(9,023)
Common stock issued	<b>512</b>	461	<b>1,866</b>	1,841
Common stock repurchased	<b>(5,704)</b>	(8,757)	<b>(22,245)</b>	(32,696)
Common stock cash dividends paid	<b>(5,054)</b>	(4,632)	<b>(19,800)</b>	(18,135)
Other, net	<b>(167)</b>	(341)	<b>(1,006)</b>	(863)
Net cash used in financing	<b>(11,413)</b>	(13,269)	<b>(43,935)</b>	(58,876)
<b>Investing</b>				
Additions to property and equipment	<b>(8,943)</b>	(6,871)	<b>(28,107)</b>	(23,886)
Acquisition of companies, net of cash acquired, and purchases of intangible and other assets	<b>(341)</b>	(1,263)	<b>(1,670)</b>	(22,038)
Purchases of investments	<b>(11,976)</b>	(4,919)	<b>(37,651)</b>	(26,456)
Maturities of investments	<b>6,766</b>	1,237	<b>33,510</b>	16,451
Sales of investments	<b>5,629</b>	3,225	<b>14,354</b>	28,443
Other, net	<b>(269)</b>	(1,138)	<b>(3,116)</b>	(2,825)
Net cash used in investing	<b>(9,134)</b>	(9,729)	<b>(22,680)</b>	(30,311)
Effect of foreign exchange rates on cash and cash equivalents	<b>(81)</b>	(198)	<b>(194)</b>	(141)
Net change in cash and cash equivalents	<b>8,142</b>	1,433	<b>20,773</b>	(293)
Cash and cash equivalents, beginning of period	<b>26,562</b>	12,498	<b>13,931</b>	14,224
Cash and cash equivalents, end of period	<b>\$34,704</b>	\$13,931	<b>\$34,704</b>	\$13,931

# SEGMENT REVENUE AND OPERATING INCOME

(In millions) (Unaudited)

	Three Months Ended June 30,		Twelve Months Ended June 30,	
	2023	2022	2023	2022
<b>Revenue</b>				
Productivity and Business Processes	<b>\$18,291</b>	\$16,600	<b>\$69,274</b>	\$63,364
Intelligent Cloud	<b>23,993</b>	20,804	<b>87,907</b>	74,965
More Personal Computing	<b>13,905</b>	14,461	<b>54,734</b>	59,941
Total	<b>\$56,189</b>	\$51,865	<b>\$211,915</b>	\$198,270
<b>Operating Income</b>				
Productivity and Business Processes	<b>\$9,052</b>	\$7,236	<b>\$34,189</b>	\$29,690
Intelligent Cloud	<b>10,526</b>	8,808	<b>37,884</b>	33,203
More Personal Computing	<b>4,676</b>	4,490	<b>16,450</b>	20,490
Total	<b>\$24,254</b>	\$20,534	<b>\$88,523</b>	\$83,383

We have recast certain prior period amounts to conform to the way we internally manage and monitor our business.

## **MICROSOFT CORPORATION**

### **FOURTH QUARTER FINANCIAL HIGHLIGHTS**

All growth comparisons relate to the corresponding period in the last fiscal year.

#### **SUMMARY**

Revenue increased \$4.3 billion or 8% driven by growth in Intelligent Cloud and Productivity and Business Processes, offset in part by a decline in More Personal Computing. Intelligent Cloud revenue increased driven by Azure and other cloud services. Productivity and Business Processes revenue increased driven by Office 365 Commercial. More Personal Computing revenue decreased driven by Devices and Windows, offset in part by Search and news advertising.

Cost of revenue increased \$366 million or 2% driven by growth in Microsoft Cloud, offset in part by a reduction in depreciation expense due to the change in accounting estimate for the useful lives of our server and network equipment and a decline in Devices.

Gross margin increased \$4.0 billion or 11% driven by growth in Intelligent Cloud and Productivity and Business Processes and the change in accounting estimate.

- Gross margin percentage increased. Excluding the impact of the change in accounting estimate, gross margin percentage increased slightly driven by improvements in Productivity and Business Processes and sales mix shift, offset in part by declines in Intelligent Cloud.
- Microsoft Cloud gross margin percentage increased 3 points to 72%. Excluding the impact of the change in accounting estimate, Microsoft Cloud gross margin percentage increased slightly driven by improvement in Office 365 Commercial, offset in part by lower Azure and other cloud services margin.

Operating expenses increased \$238 million or 2% driven by a charge related to a non-public preliminary draft decision provided by the Irish Data Protection Commission (the "IDPC matter").

Operating income increased \$3.7 billion or 18% driven by growth in Productivity and Business Processes and Intelligent Cloud and the change in accounting estimate.

Revenue, gross margin, and operating income included an unfavorable foreign currency impact of 2%, 2%, and 3%, respectively.

## SEGMENT INFORMATION

### ***Productivity and Business Processes***

Revenue increased \$1.7 billion or 10%.

- Office Commercial products and cloud services revenue increased \$1.2 billion or 12%. Office 365 Commercial revenue grew 15% with seat growth of 11%, driven by small and medium business and frontline worker offerings, as well as growth in revenue per user. Office Commercial products revenue declined 20% driven by continued customer shift to cloud offerings.
- Office Consumer products and cloud services revenue increased \$54 million or 3%. Microsoft 365 Consumer subscribers grew 12% to 67.0 million.
- Dynamics products and cloud services revenue increased \$236 million or 19% driven by Dynamics 365 growth of 26%.
- LinkedIn revenue increased \$197 million or 5% driven by growth in Talent Solutions, offset in part by a decline in Marketing Solutions.

Operating income increased \$1.8 billion or 25%.

- Gross margin increased \$1.8 billion or 14% driven by growth in Office 365 Commercial. Gross margin percentage increased. Excluding the impact of the change in accounting estimate, gross margin percentage increased 1 point driven by improvement in Office 365 Commercial.
- Operating expenses decreased slightly primarily driven by declines in LinkedIn and Office marketing, offset in part by a charge related to the IDPC matter.

Revenue, gross margin, and operating income included an unfavorable foreign currency impact of 2%, 2%, and 4%, respectively.

### ***Intelligent Cloud***

Revenue increased \$3.2 billion or 15%.

- Server products and cloud services revenue increased \$3.1 billion or 17% driven by Azure and other cloud services. Azure and other cloud services revenue grew 26% driven by growth in our consumption-based services. Server products revenue decreased 1%.
- Enterprise Services revenue increased \$75 million or 4% driven by growth in Enterprise Support Services, offset in part by a decline in Industry Solutions (formerly Microsoft Consulting Services).

Operating income increased \$1.7 billion or 20%.

- Gross margin increased \$2.3 billion or 16% driven by growth in Azure and other cloud services and the change in accounting estimate. Gross margin percentage increased slightly. Excluding the impact of the change in accounting estimate, gross margin percentage decreased 2 points driven by sales mix shift to Azure and other cloud services and lower Azure and other cloud services margin.
- Operating expenses increased \$570 million or 10% primarily driven by a charge related to the IDPC matter.

Revenue and operating income both included an unfavorable foreign currency impact of 2%.

### ***More Personal Computing***

Revenue decreased \$556 million or 4%.

- Windows revenue decreased \$337 million or 5% driven by a decrease in Windows OEM. Windows OEM revenue decreased 12% primarily driven by continued PC market weakness, offset in part by roughly 7 points of benefit from early back-to-school inventory builds. Windows Commercial products and cloud services revenue increased 2% driven by demand for Microsoft 365.
- Devices revenue decreased \$339 million or 20%.
- Search and news advertising revenue increased \$86 million or 3%. Search and news advertising revenue excluding traffic acquisition costs increased 8% driven by higher search volume, as the benefit from the Xandr acquisition was more than offset by the impact from third-party partnerships.
- Gaming revenue increased \$36 million or 1% driven by growth in Xbox content and services, offset in part by a decline in Xbox hardware. Xbox content and services revenue increased 5% driven by growth in third-party content and Xbox Game Pass. Xbox hardware revenue decreased 13% driven by lower volume of consoles sold.

Operating income increased \$186 million or 4%.

- Gross margin decreased \$124 million or 2% driven by a decline in Windows, offset in part by growth in Gaming. Gross margin percentage increased driven by sales mix shift to higher margin businesses.
- Operating expenses decreased \$310 million or 9% driven by declines in Devices and Windows, offset in part by a charge related to the IDPC matter.

Gross margin and operating income both included an unfavorable foreign currency impact of 2%.

## **OPERATING EXPENSES**

- Research and development expenses decreased \$110 million or 2% driven by a decline in Devices, offset in part by investments in LinkedIn.
- Sales and marketing expenses decreased \$100 million or 2% primarily driven by declines in Windows, LinkedIn, and Devices advertising.
- General and administrative expenses increased \$448 million or 26% driven by a charge related to the IDPC matter.

## **OTHER INCOME (EXPENSE), NET**

Other income (expense), net was \$473 million driven by interest and dividends income, offset in part by interest expense.

## **INCOME TAXES**

The current quarter effective tax rate was 19% compared to 18% in the prior year. The increase in our effective tax rate was primarily due to a decrease in tax benefits relating to stock-based compensation.

## **REMAINING PERFORMANCE OBLIGATIONS**

Revenue allocated to remaining performance obligations, which includes unearned revenue and amounts that will be invoiced and recognized as revenue in future periods, was \$229 billion as of June 30, 2023, of which \$224 billion is related to the commercial portion of revenue. We expect to recognize approximately 45% of this revenue over the next 12 months and the remainder thereafter.