Presentation

Operator

Welcome to Microsoft's Fiscal Year 2013 First Quarter Earnings Conference Call. [Operator Instructions] Today's call is being recorded. If anyone has any objections, you may disconnect at this time. And I would now like to turn the call over to Bill Koefoed, General Manager, Investor Relations. Bill, you may begin.

William A. Koefoed
Former General Manager, Investor Relations

Thanks, Gabrielle, and thank you, everyone, for joining us this afternoon. As usual, with me today are Peter Klein, Chief Financial Officer; Frank Brod, Chief Accounting Officer; and John Seethoff, Deputy General Counsel.

On our website, microsoft.com/investor, is our financial summary slide deck, which is intended to follow our prepared remarks and provides a reconciliation of differences between GAAP and non-GAAP financial measures. Note that all growth comparisons we make on the call today will relate to the corresponding period of last year. Unless specified otherwise, all impacted numbers for the current quarter have been adjusted for the $1.2 billion revenue deferral related to the Windows Upgrade Offer and Windows 8 presales to OEMs and the $189 million revenue deferral primarily related to the Office Offer.

As a reminder, we will post today's prepared remarks to our website immediately following the call until the complete transcript is available. Today's call is being webcast live and recorded. If you ask a question, it will be included in our live transmission, in the transcript and any future use of the recording. You can replay the call and view the transcript at the Microsoft Investor Relations website until October 18, 2013.

During this call, we will be making forward-looking statements that are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that are 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 this conference call and in the Risk Factors section of our Form 10-K, Form 10-Qs and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

Okay, and with that, I'll turn the call over to Peter.

Peter S. Klein
Former Chief Financial Officer

Thanks, Bill, and thanks, everyone, for joining us. Our first quarter revenue was flat year-over-year at $17.4 billion, reflecting solid growth in multi-year licensing but a slowdown in transactional revenue. Our transactional revenue, which includes our OEM business, was impacted by a challenging PC market, normal purchasing slowdown in advance of upcoming product launches and tough economic condition, particularly in Europe. This impact was offset by growth in multi-year licensing revenue, which benefited from healthy renewal of enterprise agreements as customers continue to make long-term commitments to the Microsoft platform.

Our productivity and infrastructure offerings remain a top priority for CIOs. In productivity, our collaboration and communication solutions continued to perform well, with double-digit revenue growth this quarter. In the data center, our virtualization capabilities and hybrid cloud scenarios are enabling enterprises to move to the modern data center on their term. And on the data platform, we are well positioned to take share as customers increasingly turn to SQL Server 2012 for their mission-critical workloads and business intelligence needs.

As part of our ongoing focus to increase the overall value we bring to our customers, we are enhancing our unique hybrid IT capabilities with targeted acquisitions like StorSimple and PhoneFactor. Acquisitions of industry-leading solutions like these accelerate our ability to help CIOs better manage their environments.

As I mentioned earlier, the PC market was challenged this quarter. In addition to a tough economic environment and competitive pressures, OEMs drew down their Windows 7 inventory as they began the transition to Windows 8. Our partners are building an incredible breadth of hardware. To date, we have certified over 1,000 unique Windows 8 systems, including beautiful new tablets, convertibles, laptops and all-in-ones, and there will be more to come.

As I look at where we are, we have kicked off the largest launch wave in our history, and in the 12-month period, we will have refreshed nearly all of our major products. With these launches, you are seeing the investments we've made over a number of years converge. And more importantly, you are seeing us execute on our commitment to deliver devices and services that people love and businesses need.

Whether we build our own devices, as we have chosen to do with Xbox and Surface, or work with our partners to develop stunning new Windows devices, we will continue to offer consumers and businesses wide-ranging choices so that every user can get exactly what they want at the price that is right for them. With Windows 8 and our cloud services, we will delight users with an integrated experience across their devices. Right out of the box, Windows customers will be connected to unique communications, productivity and entertainment services from both Microsoft and our partners.

Services like SkyDrive, which allows users to store and manage their data online, or the recently announced Xbox Music, which brings entertainment to the forefront, users can access their content seamlessly from any device at any time. With the new Office, which will be made available in the coming months, we will enable productivity scenarios that take full advantage of the hardware coming to market, including new mobile form factors with touch and pen capabilities. And with Skype, Yammer and other services, we put social directly into productivity and collaboration.

Within the enterprise, CIOs are using technology to drive their business strategy forward. Whether it's making employees more productive, unlocking key business insights or managing a growing number of devices, we are uniquely positioned to address their needs. Our products are scalable and flexible and provide the lowest total cost of ownership.

As we enter this new era at Microsoft, there's incredible opportunity for our partners, developers and customers, and we are well positioned for sustained profit growth in the future.

With those thoughts, I'll hand it back to Bill for more details on our results, and then I'll come back to provide some thoughts on our outlook for the second quarter and full fiscal year 2013.

William A. Koefoed
Former General Manager, Investor Relations

Thanks, Peter. First, I'm going to review our overall results and then I'll move on to the details by business segment. Revenue for the quarter was flat at $17.4 billion. Operating income was $6.7 billion, down 7%. Earnings per share was $0.65, a decline of 4%. Cash flow from operations was roughly flat at $8.5 billion. Foreign exchange had a $257 million or 2-percentage-point negative impact to revenue this quarter, but the impact to net income was immaterial.

From a geographic perspective, this quarter we saw tough conditions in Europe where revenue declined mid-single digits. In emerging markets, PCs were roughly flat as significant deceleration from the growth rates we had been seeing previously. Our enterprise business in emerging markets continued its double-digit revenue growth.

When looking at our revenue mix, consumer and business transactional revenue declined, which is typical ahead of launches. Multi-year licensing revenue remained strong with 15% growth, representing roughly 45% of our total revenue for the quarter. When adjusted for the $1.9 billion cumulative impact of the Windows and Office revenue deferrals, unearned revenue was $17.7 billion, up 13%. Our contracted-not-billed balance was roughly $20 billion.

Now let's move on to the PC market. We saw the overall PC market decline this quarter in advance of the launch of Windows 8 and in part due to competitive pressures and the challenging macroeconomic climate

I noted earlier. Business outperformed consumer, and emerging markets outpaced developed markets, although at a reduced rate.

Moving to the results for the Windows Division, revenue declined 9% and lagged to the PC market due to OEM inventory drawdown prior to the Windows 8 launch and the ASP dynamics of emerging markets relative to developed markets. We have discontinued the bridge to the PC market as Windows 8 will be a platform across a broad set of form factors. As we go forward, we will provide updated information and metrics about our business performance in the new context.

The shape of Windows revenue this quarter was nonlinear as revenues slowed down dramatically in the first 2 months, driven by the weak PC market dynamics. Revenue accelerated in September as OEMs started to build up for Windows 8 launch demand. Windows 8 OEM presales revenue was roughly $800 million, approximately 40% higher than Windows 7 presales revenue in the comparable launch quarter.

This quarter, volume licensing revenue grew double digits, and our Windows 7 enterprise deployments continued to grow, though at a slower rate than last quarter.

On Tuesday, we announced pricing, market availability and open pre-orders for Surface. Next week, on October 26, we will launch Windows 8 and Surface. With a modern user interface, ability to support multiple form factors and a rich platform to build apps, Windows 8 opens up significant opportunities for partners, developers and customers.

Now we'll move on to the Microsoft Business Division where revenue grew 1%. Business revenue grew 3%, and within that, multi-year licensing revenue grew 8%. Reflecting the PC market dynamics, consumer revenue declined 8%.

Last week, we released to manufacturing the new Office and announced it will be generally available in the third quarter of fiscal year 2013. The new Office has a fresh look and touch-friendly interface that lights up on Windows 8 devices. Since the customer preview in July, millions of people have downloaded the preview or signed up for the service, and we feel great about the feedback and positive response from users. The new Office is also in the cloud and features social enterprise capabilities with SharePoint, Yammer and Skype. It is our most comprehensive Office release ever.

Our productivity server offerings continue to perform well. Exchange, SharePoint and Lync collectively grew double digits again this quarter. Lync revenue grew at an impressive rate of over 40% as enterprises chose our unified communications platform for their communication and collaboration needs.

Dynamics revenue grew mid-single digits, and within that, Dynamics CRM revenue grew over 30%. This quarter, we announced key milestones to our ERP portfolio with updates to Dynamics GP and NAV. Both these releases deliver great value to customers and partners through faster and more efficient implementation and compelling application functionality.

Now let's move to Server & Tools, which posted another solid quarter with over 20% bookings growth and 8% revenue growth. Enterprise Services grew 13%, and multi-year licensing revenue grew 19%, driven by new customers who are investing in our product wave. Transactional revenue declined this quarter, driven in part by a slower server hardware market and customers switching to multi-year licensing.

In the data center, we are seeing strong adoption of our platform across cloud, on-premise and hybrid scenarios. System Center revenue grew more than 20%, and we launched Windows Server 2012 in September, with increased management and virtualization capabilities. Customers like Acer, Equifax and Volkswagen Financial Services are already using its robust set of technologies and features, including network virtualization, live migration and continuous availability.

We continue to gain virtualization share, as customers like PALA and the City of Barcelona switch from VMware to Hyper-V at System Center to build private clouds with increased efficiencies and higher savings. In the public cloud, we continue the pace of innovation and announced the release preview of Windows Azure Mobile Services, which connects Windows 8 apps to the cloud back-end hosted in Windows Azure.

As Peter mentioned, over the past few weeks, we announced the acquisitions of StorSimple and PhoneFactor, which will enhance our position in data storage and device management.

In our data platform business, SQL Server revenue continued to grow double digits. SQL Server Premium revenue grew more than 20% as customers continued to deploy it for their mission-critical workloads and business intelligence needs. By combining the power of SQL Server, SharePoint and Office, CIOs can create scalable, self-service BI platforms. Users can leverage these platforms to analyze and interact with data in bold, new ways, make real-time decisions and gain insights from big data. We are seeing how SQL Server 2012 has raised the bar and positioned us to grow faster than the competition.

Next, I will move on to the Online Services Division where revenue grew 9%. Online advertising revenue was up 15%, driven primarily by rate improvement in search offset in part by a decline in display revenue. Operating performance improved by $150 million or 29%. Increasingly, users are finding better search results at Bing. In blind tests, nearly 2 in 3 users chose Bing's Web search results over Google's results, and over 10 million users have visited the Bing It On Challenge, where they can compare Bing and Google head-on.

In the Entertainment & Devices Division, revenue declined 1%. While the console market was tough, Xbox maintained its strong share and had 49% of the U.S. market for the quarter. This holiday season, we have a great lineup of games, headlined by Forza Horizon and Halo 4 and complemented by a rich catalog of Kinect games. We continue to see strength in Xbox LIVE where membership grew over 15%.

This week, we announced Xbox Music, which leverages the cloud to integrate the music experience across the tablet, PC, phone and TV and has a worldwide catalog of over 30 million songs. Xbox Music is the most comprehensive service available. It provides users unlimited streaming music on Windows devices, lets them play music based on similar artists and styles and allows them to purchase songs and albums. There's no other music service out there today that matches the capabilities of Xbox Music.

We are excited about the upcoming launch of Windows Phone 8. We have a strong device lineup and breadth of operators across key markets. We will share more about Windows Phone 8 at our event on October 29.

Moving on to Skype. This quarter, 120 billion minutes of calls were made on the Skype network, an increase of 58%. We continue to make progress with the integration of Skype into our portfolio of products and have announced the upcoming federation between Lync and Skype, which will allow users to access their contacts through a common interface. Skype is also central to communications in the new Office, and Skype calling is included in the upcoming Office 365 subscription service.

I will now cover the remainder of the income statement and share some expectations going forward. Cost of goods sold increased 10%, primarily due to Nokia platform payments, inclusion of Skype costs, growth in cloud infrastructure and Enterprise Services. As we look forward, excluding Surface, we expect COGS to grow high single digits for the full fiscal year.

Operating expenses grew 2% to $6.5 billion. For the full fiscal year, we are reaffirming our guidance for operating expenses of $30.3 billion to $30.9 billion. Other income this quarter was $226 million, driven by the gain from the MSNBC sale. Other income includes dividend and interest income offset by interest expense and the net cost of hedging. In the current low interest rate environment, we expect these items to generally offset for the remainder of the year.

This quarter, our tax rate was approximately 19%. For the full fiscal year, we expect our effective tax rate to be 19% to 21%. Adjusting for the impact of the Windows Upgrade and Office Offers, we expect unearned revenue will roughly follow historical sequential growth patterns for the second quarter.

We expect capital expenditures for the full fiscal year to be roughly $3.5 billion. This quarter, we returned $2.9 billion to shareholders in buyback and dividends and raised the dividend 15% to $0.92 per share annually.

Now I will turn it back to Peter for our revenue outlook.

Peter S. Klein
Former Chief Financial Officer

Thanks, Bill. For the remainder of the call, I'll discuss our revenue expectations for the second quarter and full fiscal year 2013. Starting with Server & Tools. Product revenue, including transactional and multi-year licensing, is about 80% of the division's total revenue, and Enterprise Services is the remaining 20%.

As we noted last quarter, our customers are moving from transactional purchasing to premium products and multi-year licensing agreements. We expect product revenue to grow high single-digits for the second quarter and low double-digits for the full fiscal year, and we expect Enterprise Services revenue to grow low double-digits for the second quarter and mid-teens for the full fiscal year.

In the Microsoft Business Division, multi-year licensing revenue, which is approximately 60% of the division's total, should grow low double digits for both the second quarter and full fiscal year. Excluding the Office deferral, transactional revenue, which is the remaining revenue in the division, should grow low single-digits in the second quarter and mid-single digits for the full fiscal year.

As a reminder, when updating your Q2 models, you should defer between $850 million and $950 million of revenue related to presales into the channel and the Office Offer. Amounts deferred for presales will be recognized upon general availability, while amounts deferred to the Office Offer will be recognized upon delivery, redemption or the expiration of the program in the fourth quarter of fiscal year 2013.

Moving on to Entertainment & Devices Division. While we have been maintaining our share leadership position, the console market continues to be challenged. As a result, we expect revenue to decline low teens in the second quarter but to grow low single digits for the full fiscal year.

In the Online Services Division, we look to build upon improvements in share and search monetization. For the second quarter and full fiscal year, we expect revenue growth to be consistent with the dynamic seen in the first quarter.

In the Windows Division, as a reminder, second quarter growth will reflect the recognition of $800 million of revenue from first quarter presale partially offset by roughly $100 million of additional deferred revenue related to the Windows Upgrade Offer. Remember that the Upgrade Offer expires at the end of February, at which time we'll recognize all remaining deferred revenue.

Looking forward, we eagerly anticipate the launch of Windows 8. We are bringing a new range of capabilities and scenarios to Windows. And with support of system-on-chip architecture, we are moving beyond the traditional PC to the widest range of Windows hardware we have ever seen. New hardware will debut next week and will broaden over the coming months.

With Windows 8, we are giving developers a modern platform in which they can build rich, immersive apps unlike any the Windows ecosystem has seen. The Windows Store offers developers attractive financial terms and broad reach. And with its grand opening next week, the Windows Store will have a strong lineup of apps. Just as with the hardware, the lineup of apps will become more robust over time.

In addition to delivering Windows 8 next week, we will also launch Surface. Designed to be the ultimate stage for Windows, Surface allows users to seamlessly transition between consumption and creation and is an example of the substantial innovation that is enabled by Windows 8. We are hard at work manufacturing the devices and will ramp production over time.

October 26 only marks the beginning of a journey we will take together with our partners and developers. Our collective success will be evident over time as we change the way people experience the power of technology.

With that, I'll turn the call over to Bill, and we'll take some questions.

William A. Koefoed
Former General Manager, Investor Relations
Thanks, Peter. And with that, Peter and I will take some questions. [Operator Instructions] Gabrielle, can you please go ahead and repeat your instructions?

Question and Answer

Operator

[Operator Instructions] Our first question does come from Rick Sherlund with Nomura.

Richard G. Sherlund
Nomura Securities Co. Ltd., Research Division

On the Windows & Windows Live Division, there was no real guidance for the year. You just said you'd recognize all remaining deferred revenue. Can you just help us understand what the variables are that we should be thinking about other than what the PC market grows out? And by PC market, I think we need to define that as all Windows 8 compatible devices, including tablets. So are there mix shift issues, the price you realize on a tablet versus traditional notebook? What are kind of the variables we should be thinking about in terms of how to model Windows & Windows Live revenues for the year?

William A. Koefoed
Former General Manager, Investor Relations

Yes. That's exactly right. I mean one of the exciting things about Windows 8 is how it really redefines sort of how people think about devices and the experiences they get across those devices. And up until now, it's sort of narrowly been defined as, say, PCs or tablets, and customers have been forced to choose and make trade-offs frankly of what they get. With Windows 8, you can kind of get whatever you want at whatever price point you want. So if you want a convertible with touch and pen and integration with your line of business apps, whether you want a tablet for great information and communications and entertainment, whether you want a touch Ultrabook, all of those things come into play and all those things are available with Windows 8. And I think over time, we're going to see how that plays out and that's the opportunity for us. And it's really a factor of thinking about how all those are going to play against each other.

Operator

Our next question comes from Heather Bellini with Goldman Sachs.

Heather Anne Bellini
Goldman Sachs Group Inc., Research Division

Just to Rick's question a little bit more specifically, and I was on another call before this. Maybe you said it, but can you give us a sense of your expectations for Surface in the quarter? Or, if you can't do that, can you give us a sense for what pre-orders were thus far just to give us a sense of how that's ramping out of the gate and what your expectations are for that?

William A. Koefoed
Former General Manager, Investor Relations

Yes. I mean right now, we're focused on our launch, both of Surface and Windows 8 next week. And so that's really what we're excited about and the opportunity to show people all the great devices, all the great capabilities. And so we're not talking about that now. As we mentioned on the call, we're working hard on production, we're ramping production. We're excited about what we've heard so far, the feedback has been great, the reviews have been really good. I think that demonstrates what we've been talking about, the capabilities and experiences that Windows 8 delivers across various form factors.

Operator

Our next question comes from Adam Holt with Morgan Stanley.

Adam Hathaway Holt
Morgan Stanley, Research Division

I'm going to shift to the Server & Tools Business. The billings were a little bit better than we thought, but the recognized revenue in the forward guide was a little bit lighter than we had been looking for. And I just wanted to drill into some of the expectations for the forward guidance. Are you assuming the transactional environment remains weak? Do you still think you can outpace the transactional piece in terms of your business? And what should we be thinking about in terms of the convergence of billings and recognized revenue?

William A. Koefoed
Former General Manager, Investor Relations

Yes. What we are continuing to see is that the migration from transactional revenue to multi-year licensing agreements, which is great because it's one of the things that's driving the business, which is the vision we have for the roadmap, the resonance that has with our customers, and so they're making long-term commitments to the platform. And so it's is one of the reasons we gave you the bookings number and the multi-year licensing revenue number of 20% and 19% because that's what you're seeing. And so as that's growing faster than the transactional, you'll see the bookings and the backlog grow and the recognized will follow over time. So that's really the thing to watch for in Server & Tools, and we're continuing to be very bullish on that opportunity sort of across the board, whether that's through Windows Server, System Center, what we're doing in the private cloud and public cloud and certainly with SQL Server. So that trend that we're seeing in the migration to the multi-year licensing agreements is driving that business both now and for the long term.

Peter S. Klein
Former Chief Financial Officer

Yes. And just to build on that, this is one of the strongest bookings quarters we've had in the last several years. So, again, for a $19 billion business to have over 20% bookings growth, we feel, obviously, in addition to the -- all the products that have coming -- that have come so far this year, I think we feel pretty excited about the opportunity in that business.

Operator

Our next question comes from Mark Moerdler with Sanford Bernstein.

Mark L. Moerdler
Sanford C. Bernstein & Co., LLC., Research Division

So question, given the slowdown in the PCs, how should we think about the change or what's going on in the Windows adoption process? Are we seeing continuation at the current rate or is there some proportional slowdown in the rollout of Windows 7?

Peter S. Klein
Former Chief Financial Officer

We saw -- we continue to see -- if you're talking about enterprise adoption, we continue to see that grow this quarter, although at a slower rate than we have in past quarters. But that opportunity remains very large. We're over 50% deployed, and remember the end of life for XP is about 1.5 years away. So that remains a great opportunity for us that we see continuing on.

Mark L. Moerdler
Sanford C. Bernstein & Co., LLC., Research Division

But it is slowing a bit?

Peter S. Klein
Former Chief Financial Officer

It did this quarter.

William A. Koefoed
Former General Manager, Investor Relations

It did, yes, just this quarter. And it's a summer quarter, so I don't know that I would read too much into just one period.

Operator

Our next question comes from Walter Pritchard with Citi.

Walter H Pritchard
Citigroup Inc, Research Division

Just to follow on with some launch questions. So there's sort of 2 changes here to the business that we'll see going forward. One is the hardware piece in Windows, and the other is what looks like a pretty big ramp-up on the retail side with some store presence. Understanding that the latter's probably in your guidance, can you just remind us on the store side where you're allocating the expenses? And as that presence potentially grows over time, how you expect that to impact your financials? And then on Surface, should there be anything we think about other than sort of a price times the unit and make a margin assumption or any other nuances around the way you account for Surface in your financials?

Peter S. Klein
Former Chief Financial Officer

First question was about the retail stores and where that's showing up...

Walter H Pritchard
Citigroup Inc, Research Division

Yes, where the expenses are.

Peter S. Klein
Former Chief Financial Officer

Got it. The expenses are incorp, and they show up a little bit in COGS and a little bit in operating expenses. And, sorry, what is the second part of your question?

Walter H Pritchard
Citigroup Inc, Research Division

Just on Surface. I mean is there anything else we should be thinking about in terms of how to model the impact of Surface? We know the price. We can make a unit assumption, we can make a margin assumption. Is there any deferrals, any OpEx impact, any warranty...

Peter S. Klein
Former Chief Financial Officer

No, you're thinking about it right.

Operator

Our next question comes from Kash Rangan with Merrill Lynch.

Kasthuri Gopalan Rangan
BofA Merrill Lynch, Research Division

As you enter the world of the new form factors, since you're coming a little bit behind relative to Apple, what is the right way to think about your differentiation relative to the consumer market opportunity for tablets and the enterprise market opportunity for tablets?

Peter S. Klein
Former Chief Financial Officer

Well, I think one of our differentiations is we give everybody what they want for the purpose that they want it. When I talk to CIOs, for example, in enterprises, one of the things they're really excited about is that Windows 8 devices give them a chance for their employees, the users of the technology, to have the

devices they want and bring to work, that they get the kind of manageability, security, integration with their line of business apps that they want. So I think there's a big differentiation in the enterprise across all the form factors, especially tablets that are increasingly coming into the workplace. On the consumer side, I think there's a range, not only a range of price points and different kinds of form factors, but also unique and differentiated set of services and experiences that come with the device, including Office, including SkyDrive, including Xbox Music. So I think across the board, you see similar differentiation both in the enterprise and on the consumer.

Operator

Our next question comes from Brent Thill with UBS.

Brent John Thill
UBS Investment Bank, Research Division

Peter, if Surface is successful, shouldn't the COGS be well above the high single-digit growth for the fiscal year? I'm just curious why you excluded it. Are you just waiting to see how the traction is before you give us more guidance, or what is the explanation for that?

Peter S. Klein
Former Chief Financial Officer

Yes, that's exactly right. We'll see how it goes.

Operator

Our next question comes from John DiFucci with JPMC.

John Stephen DiFucci
JP Morgan Chase & Co, Research Division

I have a question on the deferred revenue for -- specifically for the Windows business, even if you exclude the adjustments, deferred revenue for this business increased in the quarter, and you normally -- or actually, you always see a seasonal decline. I guess can you talk a little bit about that, what we seeing there? Is this tied to multi-year deals in this business now or is it something you do with some of these adjustments maybe we're not accounting for correctly?

Peter S. Klein
Former Chief Financial Officer

Yes, no, great. It's -- it actually is that. It's multi-year licensing deals growing double -- continuing to grow double digits, so that's what's driving the deferred there. So it -- that's one sort of example of how enterprises are continuing to see value in adopting Windows.

Operator

Our next question comes from Colin Gillis with BGC Financial.

Colin William Gillis
BGC Partners, Inc., Research Division

Looking at the Server & Tools line again, when the results first printed, we were asked quite a bit if that was showing any weakness in the enterprise spend environment. It sounds like a lot of that was just driven by the rotation of multiple-year contracts. But can you talk about the marketplace right now? And if the marketplace is weakening, do you find that to be an advantage given the cost preferences in that line?

Peter S. Klein
Former Chief Financial Officer

It definitely is the migration from transactional licensing. Irrespective of weak market, strong market, we've got a great value proposition. It does play very well in tough macroeconomic times because one of our great value propositions is the savings and efficiencies people get from using integrated technology

across their stack at a really good price performance characteristic. So I would say we feel great about our value proposition, in any environment, does play well in a tough macro environment. But what we're seeing now in the financials -- this is why we highlighted the bookings growth and the multi-year licensing growth -- is related more towards the migration from the transactional business.

Operator

Our next question comes from Philip Winslow with Crédit Suisse.

Philip Alan Winslow
Crédit Suisse AG, Research Division

I just have a question on just the margins of Surface. Just kind of a high level, don't want to know the exact margin percentage, but how did you sort of price Surface relative to BOM? I mean, obviously, you guys have talked about and sort of including implied revenue amount for Windows license, did you also take into account sort of a, call it a weighted-average attach rate of Office for a device, and then you add on a gross margin for the hardware? Just kind of how you built up to that? And then just kind of at a high level, what was sort of the pricing thoughts behind Surface? Was it to drive just adoption of the platform? Was it to actually make this a business? And does it change at all kind of near term versus longer term?

Peter S. Klein
Former Chief Financial Officer

Yes. As with any pricing decision, it's really about the value proposition you have for your customers and the degree of capabilities and value you're delivering to them at a variety of price points for what they want. And that's really fundamentally what drives all of our pricing decisions. Do we have a really compelling value to offer our customers for the capabilities that we're delivering? And that's what we do across all our business, and that's what drives our economic performance.

Operator

And our next question comes from Ed Maguire with CLSA.

Edward Everett Maguire
CLSA Americas, LLC, Research Division

Looking at how you're beginning to combine product and services with Office, Office 365 for home and then the bundling of services with Windows RT, looking forward, is this going to change the way that you allocate what might have been transactional revenues in the past to a combination of transactional and services revenues?

Peter S. Klein
Former Chief Financial Officer

Yes. Generally, that is correct as we move to more delivery as services, that will show up as services revenue as opposed to transactional revenue. That's correct.

William A. Koefoed
Former General Manager, Investor Relations

But I do think it's just a -- it's a long-term trend, and you saw that in the commentary that we made around our Server & Tools business. But we're having people that are making longer-term commitments to Microsoft, and that shows up in our annuity business in Server. It shows up in things like Office 365 where people are having a subscription service. It shows up in things like Xbox LIVE, which you've seen happening over the last couple of years. So, Ed, I think you've got it right that we're seeing a lot more people that are committing to a longer-term relationship with Microsoft, which is clearly what we're striving toward.

Operator

Our next question comes from Brad Reback with Stifel, Nicolaus.

Brad Robert Reback
Stifel, Nicolaus & Company, Incorporated, Research Division

Peter, historically, the transactional aspect of MBD has followed the PC market roughly. Is there any reason to think that that's not the case here for the final 3 quarters?

Peter S. Klein
Former Chief Financial Officer

Yes. In general, there's 2 things that impact the transactional business of MBD. One is the PC market and the other is product cycles. So one of the things we also see right in the period right before a launch of a new product from the transactional side and businesses is a slowdown, and also it does track the PC market. So those are the 2 things to keep an eye on.

Operator

Our next question comes from Raimo Lenschow with Barclays.

Raimo Lenschow
Barclays Bank PLC, Research Division

Historically, if you -- when you have the launch of a Windows product, there was a big uptick especially on the consumer side. Now this time around, it's obviously different form factors that are playing in, and consumers need to get used to it. How do you think about the momentum we should see in terms of the first quarter out, the second quarter out, et cetera?

Peter S. Klein
Former Chief Financial Officer

Well, without giving you specific guidance, we're certainly very excited about the capabilities that comes with Windows 8 and the excitement that comes from that, and we're excited to talk about that at the launch next week. I think I'm encouraged by what we saw from the Windows 8 sell-in that we've seen so far that 40% growth over the comparable period last time. So we'll just keep an eye on that and watch as we get further into the launch.

Operator

Our final question comes from Gregg Moskowitz with Cowen.

Gregg Steven Moskowitz
Cowen and Company, LLC, Research Division

This is somewhat of a follow-up to Raimo's question. Over the past several months, many of those reviewing Windows 8 for PCs, while praising the significant innovation behind the OS, have also continued to focus on the dual interfaces and the adjustment that users will have to make. Is that something that causes you concern just when it comes to initial adoption levels of Windows 8? Just wondering how you think about that.

Peter S. Klein
Former Chief Financial Officer

Not a lot. I hear the feedback, and as a user, we sort of have gotten used to it very quickly. At Microsoft, when we do innovation historically across our products, often times there's new things that come. And I understand initially, people look at those things. And what we've seen over time is that those innovations have delivered way more value, way more productivity and way more -- better usability. And so I'm very confident that, that is even more true with the great technology and capabilities and experiences that we have with Windows 8.

William A. Koefoed
Former General Manager, Investor Relations

And I think you seen that in the reviews of people who have used it over a longer period of time. And again, for those of you who will be hopefully using it early, you'll see that show up in your experience as well.

Okay, so that's going to wrap up the Q&A portion of today's earnings call. We look forward to seeing many of you at the numerous events and conferences in which we'll be participating in this quarter. For those of you unable to attend in person, these events will generally be webcast, and you will be able to follow along at microsoft.com/investor. Please contact us if you need additional details. Thanks again for joining us today, and have a great day.

Operator
And that does conclude today's conference. Thank you very much for your participation. You may disconnect at this time.