

Cowen Technology, Media & Telecom Conference

Company Participants

- Vikas Mehta, Director, IR

Other Participants

- Gregg Moskowitz, Analyst, Cowen and Company
- Unidentified Participant, Analyst, Unknown

Presentation

Gregg Moskowitz {BIO 5721834 <GO>}

Okay, we're going to get started. Thank you very much. I am Gregg Moskowitz and I cover infrastructure software for Cowen. Thanks for coming out to the 42nd annual C&C conference for Cowen.

With me here is Vikas Mehta. I'm very pleased to have Vikas here. Vikas, of course, is Director of IR for Microsoft. Vikas does spend most of the time in the corporate side of the house and so we are going to be focusing the content on enterprise and that, of course, includes cloud as well.

So with that, I'm just going to turn it over to Vikas for a safe harbor.

Vikas Mehta {BIO 22371851 <GO>}

Good morning, everyone. Thank you for this opportunity. We are very excited to be here. I'm very thrilled to represent Microsoft over here.

I would like to remind everyone that we will be making forward-looking statements that will be predictions and projections about the future. Actual results could materially differ because of risks and uncertainties. Our regulatory filings describe these risks and uncertainties.

With that, we can get started.

Gregg Moskowitz {BIO 5721834 <GO>}

Perfect. It's been a few months since Satya, of course, took over as CEO and certainly his First Quarter in that capacity was a very solid one, your fiscal Q3. But really I'm just curious, given that you have been at the Company for quite a while now actually,

just in terms of how you would sort of characterize the environment today within Microsoft, specifically inclusive of the morale, just from your vantage point.

Vikas Mehta {BIO 22371851 <GO>}

That's a good question. From day one as CEO, Satya has infused a ton of energy into the Company. Microsoft is going through one of the most transformation phases of the Company ever and Satya is leading from the front.

He is helping us focus on customers' relentless need to be broad [ph] in our innovation, to embrace the challenge and mindset. Satya. So far, is a fantastic leader. He is driven, thoughtful. And forward-looking. And under his leadership we are focusing on things that are uniquely differentiated, especially in filing this mobile-first, cloud-first world. Overall, I would say that there's a lot of excitement and enthusiasm as well as a renewed sense of purpose at the Company.

Gregg Moskowitz {BIO 5721834 <GO>}

Perfect. Then one segment that I just wanted to touch on before we get into the business areas or business units. Commercial licensing did decelerate a little bit last quarter, although some of that was due to the subscription and multi-year licensing. Just wondering if you could talk a bit more about that as well as what to expect going forward.

Vikas Mehta {BIO 22371851 <GO>}

Yes, I think the trends that you mentioned are really important to understand before you get into that specific question. The first trend is a move from on-premise to the cloud. And what this does to our P&L is that it moves revenue from our commercial licensing segment to our commercial other segments.

The second important trend is the mix shift from transactional licensing to annuity, which includes subscriptions. What this does is that it essentially pushes out the revenue recognition into future time periods.

If you take these two trends into account, the correct way to look at the performance would be to look at the commercial revenue all up. And secondly, to triangulate this all-up commercial revenue with our unearned revenue balance and our contracted not-built [ph] balances. So if you look from that particular lens, then you would see that commercial revenue all-up grew 7%, pretty healthy.

Our unearned revenue balances grew 14% year-over-year, which was higher than what we had expected. And our contracted not-built balance is at a very strong \$22 billion-plus at this point of time. So I would say that we are seeing a strong adoption from the enterprises and they are investing in our long-term roadmap.

Gregg Moskowitz {BIO 5721834 <GO>}

Perfect. So let's actually that's helpful. Let's actually turned to Azure, which has just been a tremendous success story for Microsoft. When you look at Azure, what services are most in demand today?

Vikas Mehta {BIO 22371851 <GO>}

I think, as you pointed, Azure is growing at a very fast pace. Just the last quarter Azure revenues grew over 150 [ph]%. This growth is driven by both new customer adoption, as well as increase in usage from existing customers.

And especially if you see that, the growth is coming from enterprise and enterprise ISVs. This is across a couple of important pillars. First of all, our infrastructure services and hybrid services are growing at a pretty fast pace. Just in that we are seeing scenarios by test and dev, storage backup recoveries for some of the important hybrid scenarios.

We are also seeing a good growth and a high level of interest for our premium offerings. We just announced our enterprise mobility suite recently and the other offering which has been doing well is the StorSimple storage appliance offering. But if you look underneath, an important aspect is that we have a very strong structural advantage in the enterprise and, hence, we are seeing the success.

And this is twofold. First of all, we are the only providers who can have a common management layer, a common layer across both on-premise and the cloud with regards to identity, virtualization, management. And application development. Secondly, if you think about the comprehensive portfolio that we have, Office 365 helps in extensively different [ph] scenarios for Azure, for IT. And this attention (inaudible) Azure. I would say it's early days. But we are still really encouraged.

Gregg Moskowitz {BIO 5721834 <GO>}

Okay, perfect. And I know I've asked you this before. But just kind of curious if there's any additional trends at this point. You mentioned new (inaudible) existing. But just roughly how should we think about the amount of workload that are coming onto Azure being incremental versus cannibalistic from an on-trend standpoint?

Vikas Mehta {BIO 22371851 <GO>}

I think that is a great question and even before I answer that, if you take a quick history lesson, it's interesting to note that if you look at last 30 years and all the technology revolutions that have happened think about the eight years of the rise of the PC or the 1990s with the explosion of Internet or the 2000s with the consolidation with virtualization the low-cost options always drove IT spending.

And not only that, IT spending as a percentage of GDP has risen through this timeframe. The reason is that the contraction that has happened because of these low-cost options was more than offset by the newer scenarios. And if you look at the cloud, a similar phenomenon is happening.

Cloud accelerates innovation because of speed, scale, flexibility. And cost advantages. Even from my personal experience, I stood on the Azure finance team four years back. And if I look back, the long-range planning that we had done we were really bullish at that time. But if I look back, we had still not envisioned a number of things or scenarios that we are seeing right now.

Azure increases over addressable opportunity 3x and there are a number of places where we are getting an additional incremental benefit. We were earlier able to address only the software components. Now we can address hardware as well as services. Now we can also address (inaudible) and open closed workloads.

In markets like China, we are the first service which is a multinational public provider over there. There are newer scenarios like the Internet of Things, media mobility, big data that are really providing an incremental boost. So I say that it's a boundary-less opportunity for us and with the growth of digitization of data, explosion of devices, we feel a great opportunity ahead of us.

Gregg Moskowitz {BIO 5721834 <GO>}

Perfect. Just last month actually I think you announced a couple of new services at Azure, ExpressRoute and Azure Files. Maybe just talk about that briefly and what that brings to the Azure platform.

Vikas Mehta {BIO 22371851 <GO>}

We think we had a ton of important announcements recently at (inaudible). But if you look at our business model it's focused on three things: infrastructure services that drive adoption, hybrid services that help enterprises move to the cloud. And premium offerings that help us differentiate in the market.

The second announcement, a lot of them will emphasize on the hybrid services aspect. And if you look at the opportunity it's really massive. According to Gartner, nearly 50% of large enterprises will have hybrid deployments by 2017. So we are investing in the enterprise side and especially on the hybrid scenarios. So services like ExpressRoute and Azure Files are great examples of that.

ExpressRoute actually helps enterprise create a private connection between their data centers and Azure with providers like British Telecom, Verizon, AT&T. And it provides a fast, secure. And a reliable connection. It doesn't go through Internet and drives a number of hybrid scenarios.

Similarly, Azure Files is streamlined storage. Think about it as a shared drive where applications running on Azure can share files within multiple DMs [ph]. This describes a number of hybrids scenarios like SN Dev [ph], lift and shift, or diagnostic. So overall I would say that it's very encouraging and pace of innovation has been very fast.

Gregg Moskowitz {BIO 5721834 <GO>}

Great. One other one I wanted to ask you about was actually the new site recovery, which really has enhanced the asset recovery in the cloud through Azure. We have now seen recently actually some other players as well are putting a couple of competitors announced cloud-based DR. I just wanted to get a sense from you about how that competitive landscape is shaping up and really just how big of an opportunity this may be for Microsoft going forward.

Vikas Mehta {BIO 22371851 <GO>}

I would say business continuity and uptime are really critical for enterprises. What we have seen traditionally is that these solutions, the disaster recovery solutions, have been limited to mission-critical applications. And that is because it's very expensive and, second, it's very complex.

Cloud provides the real disruptive and a value creation opportunity with regards to disaster recovery. So what we have done with Azure site recovery services is that we have given enterprises an option to recover and replicate their DMs in case of an outage from their primary data center through Azure providing an automated fail alert.

There are three very important differentiators we have over here. The first is that the automation tools are really good, which makes it easy for creating the solutions. The second is that we take a lot of costs out and help in sort of managing the infrastructure so that our end and make it cheaper for the IT department.

Finally, we have made a job that is simple and reduced a lot of complexity. So our goal here is that we not only want enterprises to have disaster recovery for the mission-critical applications. But we want them to have a comprehensive solution set they can extend to all the applications in their portfolio.

Gregg Moskowitz {BIO 5721834 <GO>}

Great, one last one on Azure before we move on to another topic. And that's another service called RemoteApp that just went into preview last month. So I know you have, clearly, a good partnership with Citrix; just wondering if you would sort of talk to this product. And to what extent I guess the question is to what extent does this actually compete with their offerings?

Vikas Mehta {BIO 22371851 <GO>}

Yes. So desktop management strategy from our perspective is to help IT centrally manage their top environments where we provide security, reliability. And flexibility in a way that IT can be productive and can help its users access data anywhere from any device at any particular time.

On the on-premise side, we have been very successful with our remote desktop server offering. In fact, it is over \$1 billion business for us and our customers have been consistently asking us to have a similar service in the cloud. So with Azure RemoteApp we provide the functionality where IT can manage all their Windows-based applications centrally and enable the users to access it across their devices whether they are Windows, iOS, or Android-based.

Now the two advantages that we provide here is, first of all, it helps IT reduce costs. They can scale it up or scale it down depending on the need and don't need to invest in expensive infrastructure. Secondly, the user is accessing the applications two levels [ph]. The applications are running on their machines itself rather than in the cloud.

And considering this is a cloud service, we will be trading very fast and essentially bringing innovation on a regular basis. But finally I would say that we will be partnering with Citrix in this area. They have been long-term partners with us and will continue that.

Gregg Moskowitz {BIO 5721834 <GO>}

Okay, let's move actually to people. Certainly there has been a just a really, I would just call it, steady Eddie there. It just, frankly, consistently puts up healthy growth; you continue to sort of grow faster in the market there.

More recently you've seen, as part of SQL Server 2014, there are new in-memory (inaudible) capabilities. So maybe just sort of talk about what this means from a performance standpoint when you look at this product, as well as kind of where you potentially see new customer demand coming from as a result of those capabilities.

Vikas Mehta {BIO 22371851 <GO>}

I think you're right. SQL Server 2012 has been a fantastic success for us. We have delivered higher than the market through trades consistently and have been taking share from the few competitors in this area.

SQL Server 2014 builds on the success of SQL Server 2012. It helps us extend into hybrid scenarios. But most importantly, it helps us in rounding out same-memory capabilities. And here we have three important differentiators.

The first one is that the in-memory capabilities are built right in SQL Server. There is no need to buy additional hardware or software. The second is there's no need to really write any applications, which some of our competitors push you to do.

Finally, the in-memory capabilities are such that they are compatible with the prior technologies as well. So I would say it is the lead shift in the industry and we are seeing very good initial customer feedback.

If you think from a performance standpoint, it depends on the workload that you are running. But what we have seen from our customers is that for their OLTP workloads they are seeing up to 30 times performance improvement. And if you think about data warehousing for their in-memory column store, they are seeing almost up to 100 times performance improvement versus the disk-based traditional options they had.

I would say from a pickup standpoint, especially Tier 1 and mission-critical customers are going to be find this a very useful service that we are providing. And they will be the ones that will be the first movers investing just because of the bigger bang for the buck for them.

Gregg Moskowitz {BIO 5721834 <GO>}

That's terrific. Let's actually turn maybe now to Office 365. We have been really bullish on Office 365 for quite a while now.

Having said that, would not have thought that you would have been at 4.5 million subscribers this soon. And so really just kind of love to hear you talk, Vikas, about how you've been able to amass so many subscribers in such a short period of time.

Vikas Mehta {BIO 22371851 <GO>}

Certainly. Office 365 has been off to a great start, our consumer offering. Office 365 Home Premium, which we launched over a year back, has had fairly [ph] success. In just the first 100 days it reached 1 million subscribers. And now that we have had a year of the service it has already reached 4.4 million subscribers.

I think that there are two important drivers in this cost adoption. The first is the value proposition of the service itself and the second is the ease of access of the go-to-market strategies here.

In terms of the value proposition for Office 365 subscriptions, for starters it is an always up-to-date offering and we provide that subscription offering as well. We pack in a lot of additional services like extra storage for one drive as well as five minutes [ph]. And in addition to that, recently we made Office on iPad available exclusively to Office 365 subscribers. So we keep adding more and more value to the Office 365 subscriptions to make it a compelling choice.

Secondly, if you think about the ease of access, we have made it available worldwide. It is available in more than 141 markets and we have made it available through most of the retailers. Think about Best Buy, Staples, Amazon.com.

We have also been aggressive with our cloud campaigns and our cloud first deal promotions. Finally, we have made it available as a second SKU we released called Personal, which is available for \$70. I would say that it's early days. But there is more

than 1 billion users of Office. But the transition is on its way and we feel really good about it.

Gregg Moskowitz {BIO 5721834 <GO>}

Great and you mentioned Office on iPad. It's now been a few months since that announcement. That is something that many people, myself included, have been hoping for quite a while. But what has the uptake been? Just wondering if you could sort of characterize the uptake relative to what Microsoft's internal expectations, perhaps, were when you made the announcement.

Vikas Mehta {BIO 22371851 <GO>}

The announcement of Office on iPad was a part of our mobile-first cloud-first vision. We have been shifting the view from sort of a device-centric view to a user-centric view, where we want to delight our users wherever they are on whatever devices they have. And so it was all about accelerating the adoption of Office 365 that drove this decision.

If you think about Office on iPad specifically, it has been off to a good start since launching. Just in the first week it had more than 12 million downloads and now we have over 27 million downloads. It has received really very favorable reviews and even on the App Store for iOS it is on one of the top downloaded lists.

Overall, we feel really encouraged. But I'd say that this reinforces our belief that Office 365 is an important vehicle for our customers to access our services and we will be pushing that over time.

Gregg Moskowitz {BIO 5721834 <GO>}

All right. Then also, if you look at Office more broadly, you mentioned over 1 billion users. Obviously that includes free includes pirated versions, unfortunately, as well as paid-for versions. But your total office consumer revenues on-premise, I should say perpetual, actually did quite well last quarter.

And it was interesting to me because we had three quarters in a row where Office consumer revenue was down 20%-plus year-over-year. Last quarter it was plus 15%. So maybe you could just kind of review the reasons for why there was such a big turnaround last quarter.

Vikas Mehta {BIO 22371851 <GO>}

I would say that, first of all, Office innovation has been resonating with our customers and especially on the Office 365 side. If you look at the total revenue Office 365 and Office on-prem, it grew over 28%. If you just look at the Office on-prem side of it, it grew 15% and there were two important drivers here.

The first one was we had great performance in our attach and the second one was there was higher sales in Japan. For Japan, specifically we saw an increase in sales because people were accelerating their purchases ahead of an upcoming national sales tax increase. And even if you exclude that, the growth in Office revenue was better than the underlying PC market, highlighting that we had a great attach motion going on.

So I would say innovation as well as our sales efforts are guiding that.

Gregg Moskowitz {BIO 5721834 <GO>}

As you look out. And I know you don't guide to line items specifically but just from the high-level standpoint, do you think that you can directionally continue to sort of outgrow the PC market when you look at on-prem Office or total Office revenues, for that matter?

Vikas Mehta {BIO 22371851 <GO>}

I would say that we have guided to the numbers. So I would not comment specifically on the numbers. But I would say we feel really good about our Office 365 motion. That is where we will be focusing a lot in terms of innovation, in terms of our marketing campaigns. And we feel really good about the early adoptions and early signs right now.

Gregg Moskowitz {BIO 5721834 <GO>}

Great. Then if you look at it from a mix standpoint. So Office 365 is now over 15 and this is a metric from one quarter prior. But now over 15% of Office licenses sold, which again very impressive given the time span that we are looking at. Kind of wondering from a longer-term perspective if we were to sort of look out three to five years, for instance, how should we be thinking about this from a mix standpoint?

Vikas Mehta {BIO 22371851 <GO>}

I would say overall, including all the customer segments consumer, SMBN. And enterprise, because we address all these at a high level we are seeing good signs right now in terms of the sort of mix shift. But these are early days. So it's too early to comment on that.

I'd say that our long-term vision would be to move all the customers to the cloud offering. But in the medium to short term we will be working with our customers in their journey to move to the cloud. And we will help them move at their own pace on their own terms.

If you think about the consumer segment, we are as I mentioned earlier, we are looking at the compelling options with all the additional services, the cross-functional aspects of the service. For the small and medium services, or small and

medium businesses we are providing enterprise-grade services at low cost. Again, making it compelling.

For the enterprises, we are providing hybrid options. We are even structuring the enterprise agreements such that it's easier for them to move the cloud. So I would say again it is a journey with the customers and we will work with them in terms of the move.

Gregg Moskowitz {BIO 5721834 <GO>}

Okay, perfect. One other question on Office 365 and then I want to open it up to the audience. You talked about the cost earlier on go-to-market and sort of the successful strategy there and how you have placement with most of the big retailers.

From an OEM perspective, you've had a very good partnership with Dell now for quite a while, although not, at least as of this date, not with HP and Lenovo for instance. And I guess I'm kind of wondering why not, because to me it seems almost unquestionably a win-win for both Microsoft and the big OEMs. So just kind of wondering why just Dell today and really, more importantly, how should we think about this going forward.

Vikas Mehta {BIO 22371851 <GO>}

I don't have anything new to announce today from that perspective. But I'd say partnerships with OEMs are extremely important. Even for new PCs, we provide free trials for Office, which helps tremendously. And in general, partnerships are extremely important to drive reach, especially for small and medium businesses and consumers.

We work with our telco partners, for example. And through syndication we provide a number of Office 365 offerings, for example, or we have partnerships recently announced with GoDaddy, which enables us to reach a broader base of SMB customers. Similarly we announced a partnership with DocuSign helping customers get a richer experience and a comprehensive solution.

So I would say partnerships are extremely important. We will keep working on those and making the reach easier from that standpoint.

Gregg Moskowitz {BIO 5721834 <GO>}

Perfect, that's great. So with that, why don't I pause and take any questions?

Questions And Answers

Q - Unidentified Participant

(inaudible)

A - Vikas Mehta {BIO 22371851 <GO>}

I'd say let me take the first part of the question, which is how does and let me repeat the question how does the move to the cloud change the Company and how it's working. Second is what is the impact on sort of the operating margin, if you may.

If you look at the first aspect, fundamentally moving to cloud means a shift in the DNA of the Company. It is a different business model. It is a different way of working.

There are a number of new skill sets that you need to build. You need to manage infrastructure at the scale. You need to be fast and integrative in terms of your product development. You need to be agile in terms of innovation.

For example, if you think about the earlier software world, we did not have to invest in data centers. Our sales motions, to a large degree, were through channel partners so now providing the services directly to a customer creates different dynamics.

It creates dynamics where you need to be really focused on the customer experience. You need to be focused on the services aspect; the SLAs, uptime, etc., become extremely critical. So with regards to that we had to build a lot of these new capabilities like building a supply chain management process, building an agile development framework, building a team that can manage these data centers at scale in a world-class fashion.

It also changes the sales promotions considerably, because earlier the relationships were, say, a peer relationship with a customer whereas peers we would go and understand and renew the deal. Whereas now it is an ongoing relationship with the customer where we have to be we have to stay in tune with their needs and keep innovating the product as well as offer them new services in the correct way. So it fundamentally shifts how we operate as a company for sure.

And if you look at the second part of your question, how does this scale to operating margin, I would say an important way to look at this particular dynamic is to look at operating margin dollars rather than operating margin percentage. The reason is that it's a different business model. Earlier we were selling software, which did not have any cost of goods sold. But now we operate data centers, which are capital intensive.

But if you think from an operating margin dollar perspective, this the move to the cloud offers a significant opportunity. Just for Azure, as I mentioned, it is a 3 times bigger addressable opportunity. Earlier we were able to only address software. But now we are able to address hardware and services and monetize that as well.

It creates newer scenarios. There is a lot of innovation, new innovation that happens. So I would say from an operating margin dollar perspective it is definitely accretive to us.

Q - Unidentified Participant

(inaudible)

A - Vikas Mehta {BIO 22371851 <GO>}

I would say that our initial success wave had been with enterprise predominantly, because enterprises already have these existing solutions so we saw great success in the first wave. But now we are seeing great success in the SMB side also.

The SMB opportunity is very unique in the sense that over 85% of all customers from SMB are the ones who have never used our server offerings. Office software productivity suites is very popular and is used across the board. But when you think about our server offering, like Exchange, SharePoint. And Lync, these are pretty extensive solutions if you are a small or a midsize company.

But now with Office 365 it becomes extremely affordable with pricing ranging from anywhere between \$4 per user per month to \$22 per user per month. So it provides this opportunity for SMB. So we have seen a great adoption there. And the most important stat I would share is that a lot of this is sort of net new opportunity, 85% of these customers have never used server workloads before.

Q - Unidentified Participant

(inaudible)

A - Vikas Mehta {BIO 22371851 <GO>}

That is a good question. I would say the SMB customers, as I said, Office is predominantly used across the board. But for an email solution they use hosted email to some extent. Again, which is all exchange servers mostly. So we were able to reach them through our service provider. But now we can provide them a much better experience with Exchange Online.

Some of the other solutions could also like if you are a very small-sized company typically they end up using consumer offerings, which are don't offer the enterprise features. So I would say from both those perspectives, being able to directly reach the customer with Exchange Online rather than through the hosted providers are part of providing a much richer experience with an enterprise offering rather than pushing them to a consumer offering is definitely a great opportunity.

Q - Gregg Moskowitz {BIO 5721834 <GO>}

Great, other questions?

Q - Unidentified Participant

(inaudible)

A - Vikas Mehta {BIO 22371851 <GO>}

The question is what are the parts around Nokia? We acquired Nokia devices and services business and we are excited about the business.

As a company, our vision is around mobile-first and cloud-first; that is where we see a lot of opportunities. It's about connected devices and continuous services. And in that framework we feel that Nokia fits in really well for Microsoft.

It provides us with this rich set of capabilities around design of hardware. It provides us rich supply chain as well as go-to-market functionality. And it has an outstanding retail play also. So as we expand our hardware business across phones, tablets. And PCs. And work with our providers and OEMs, we feel that Nokia is a great opportunity for us.

Q - Gregg Moskowitz {BIO 5721834 <GO>}

Other questions? I was wondering if you could actually maybe just talk about the big data opportunity with Power BI, etc.. And just how we might see that show up over time in Microsoft financials.

A - Vikas Mehta {BIO 22371851 <GO>}

Yes, I think one of the most important revolutions that we are seeing is with regards to data. In the prior world we saw two important revolutions. One was improving productivity. It was through collaboration, communication, etc. And the second one was with regards to automation tools and making it easier for IT.

The current revolution that we see in the future is with regards to working data inside. If you think from a sort of macro perspective, just with the number of devices increasing, the storage on them exploding, there is a ton of data out over there but what is lacking is the ability to mine that data and create insights.

So our strategy around big data has been twofold. One is to help make big data accessible. And by that what I mean is create a platform where you can run these technologies like Hadoop and scan process from huge scale-up data inexpensively. We have made Hadoop available on Windows Azure, or now we call it Microsoft Azure. And there's also tight integration with SQL Server.

The second part of it is with regards to converting it into insight. We have rich functionality with Power BI, which works very seamlessly with Excel and PowerPoint and creates a solution on the top of that. It has rich integration with SharePoint to create portals. It has very rich integration with SQL Server, which provides enterprises the reliability and security they need.

So from that perspective I would say that we have a twofold strategy to create a platform for big data and that helps then word [ph] that data into insights with our Power BI tools. In addition, we recently announced the SAP deal. In addition to sort of running SAP applications on Azure, we also announced the integration of Business Objects with Power BI, further democratizing insight for our customers.

Q - Gregg Moskowitz {BIO 5721834 <GO>}

Great, that actually takes me to a little bit of a segue. I wanted to just spend a minute or two, if we could, on the Dynamics business. The growth has been a bit slower over the past few quarters. From everything we hear, Dynamics CRM online continues to go extremely well. But wondering if you could talk about that business as well as Dynamics AX on the ERP side.

A - Vikas Mehta {BIO 22371851 <GO>}

I would say from a high-level perspective we feel that the move to the cloud is a really important move, which helped move step a lot of our services. In addition to Azure, CRM Dynamics online is also a definite beneficiary here. If you think about the tight integration that we offer between Office 365, Dynamics CRM, Azure, that's definitely a positive for us.

And you see that in terms of sort of the attach to the Fortune 500 companies, you see it in all these cloud services being adopted at the same time rather than being one-off. So I would say, from a CRM perspective, it's definitely about pushing our cloud offering and being aggressive there.

From an ERP perspective, I would say we have been focused on specific verticals. Dynamics AX is a classic example of that where we have focused on the retail opportunity and we are seeing good momentum over there. So I would say from an overall perspective we feel enthused about the opportunity here.

Q - Gregg Moskowitz {BIO 5721834 <GO>}

Perfect. Any other questions? Let's actually close with one last we will do a big picture question, if we could. And it's really something that you touched on very briefly because of one of your earlier answers and that relates to the Internet of Things.

Obviously we are starting to see really the sign of this opportunity beginning to explode. There is an open debate over obviously how fast it progresses. But when you think about Microsoft and their assets, I would love to hear from you just how big of a player in the Internet of Things could Microsoft become over time.

A - Vikas Mehta {BIO 22371851 <GO>}

I would say the opportunity is multifold for us. If you think from just a computing perspective, Azure is a platform which helps connect all those devices. So at the end of the day as devices, whether they are with screens or without screens, call it Internet of Things, Azure is definitely a big beneficiary.

The second is around operating system itself, where you can think about Windows embedded. We've had a successful business in that side and you see us play in sort of think about the automobile market or the other terminals which don't have screens. And we have been very successful in that site. So it's extending that.

We talked a lot about that and (inaudible) recently where Windows is the operating system that can cater to this Internet of Things revolution. And so if you create across both on the devices side with operating systems and with regards to connecting them with Azure.

Q - Gregg Moskowitz {BIO 5721834 <GO>}

That's terrific. Vikas, with that I think we are out of time. But thank you very much.

A - Vikas Mehta {BIO 22371851 <GO>}

Thanks a lot.

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