

UBS Global Technology, Media and Telecommunications Conference

Company Participants

- Takeshi Numoto, CVP, Cloud & Enterprise Marketing

Other Participants

- Jennifer Swanson Lowe, Analyst, UBS

Presentation

Jennifer Swanson Lowe {BIO 6926228 <GO>}

Good morning everyone. Thanks for being here. I'm Jen Lowe. I cover the US Software Group at UBS. And with me I have Takeshi Numoto, who is the CVP of Cloud Marketing at Microsoft, so thank you for being here with us today.

Takeshi Numoto {BIO 21693553 <GO>}

Thank you.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

Maybe just before we jump in, it might be helpful to set the stage, if you could just give us a quick overview of your role at Microsoft, and what falls under your purview?

Takeshi Numoto {BIO 21693553 <GO>}

So basically, I'm responsible for worldwide go-to-market of -- directly responsible for many of Microsoft cloud products including Azure, business applications including Dynamics 365, our Power Platform that I think we get to talk about later today. As well as all the developer tooling products like Visual Studio. And then those are sort of products that I'm directly responsible for in terms of marketing responsibilities. I also have sort of what I think of as horizontal responsibilities in terms of what we call business planning, which is all about packaging, pricing and licensing, of sort of the entirety of the Microsoft commercial product portfolio including Microsoft 65 or Office 65 and Windows. As well as the what we call the global demand center, which is basically our marketing operations for the commercial business at Microsoft. So that's -- I have a sort of a direct product responsibility and then two horizontal responsibilities.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

Great. And maybe before we sort of dig into those areas of responsibility, just starting at a high level, one of the biggest questions, I think, all year that people have been trying to figure out is what's going on in the broader environment. We see headlines that seem negative for the macro, but companies like Microsoft, maybe even Microsoft in particular, seem to continue to do very, very well. So can you just talk quickly about the demand trends you're seeing? When you meet with customers, how are they feeling about their plans, just anything?

Takeshi Numoto {BIO 21693553 <GO>}

Yeah, I mean of course, I don't think any company or any business can claim to be immune from the macro trends. But at least in the market that we participate in, we're still seeing really strong momentum. When you think about all the energy and the conversation we get to have with customers, particularly as it relates to their cloud journey, the energy is only intensifying. They are coming out at both from the perspective of how do I save money and drive productivity also to how do I use the cloud as a catalyst for transforming their businesses and moving their business forward. So, both are generating lots of engagement with customers and driving a lot more consumption in the cloud. And so, to me, we're not really seeing sort of a dampening of the demand from -- in the markets that we participate in. And we see -- feel like we're in the right sort of place at the right time from a secular growth trend standpoint.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

And maybe just to round that point out, one of the debates, I don't know if it's an either or but maybe a relative weighting, is the pod offers a lot of advantages. There's strategic advantages in agility and being able to do new things you couldn't do before. There's also things like cost savings, moving CapEx to OpEx, that kind of decision. Are the conversations equally weighted between those strategic and forward thinking versus trying to drive down costs? Is there one that maybe is more dominant than the other or any shifting?

Takeshi Numoto {BIO 21693553 <GO>}

Not really. I think it's sort of -- it's really, equally weighted. When you think about lots of migration discussions, a lot of customers then start their cloud journey thinking about migration as a way to save cost, to drive productivity, maybe increase agility. And if there because of the rich history we have with things like Windows Server and SQL Server, we basically get to provide a big economic advantage, we're basically 5x cheaper for example, versus AWS in a lot of these migration scenarios. So that is A set of entry points and some customers start there. And then there is another set of customers that starts far more on the, yeah, I really want to innovate, change my business processes, get into our new business processes or our new -- innovating new applications and how do I do that using cloud native technologies.

And often times, a lot of the conversations that start in the migration sort of lead to these, what I think of as the innovation agenda too. And the cost of some customers, sort of plan for both at the same time and do it much more of a strategic partnership

with Microsoft that basically says, hey, I really want a cloud journey partner that I'd partner deeply with both on migration and innovation side and that's continuing to drive much larger top down deals.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

Great. And maybe just following up on that, I mean Azure has been a star performer for Microsoft for a number of years now. We're seeing the scale get bigger and bigger and bigger, but we're still -- growth rate's still hovering around 60%, which is pretty fantastic. From your perspective, just to start, where are we in terms of Azure adoption? Are we still early, mid-cycle, late? How far along are we? How much more could there potentially be to go?

Takeshi Numoto {BIO 21693553 <GO>}

In terms of sort of the journey to the cloud, I still believe we're in early innings and have lots of opportunities ahead. The -- even if you just think about the other opportunities and pipelines, we see -- we just continue to see tremendous amount of growth. And I think you've seen Amy talk about increasing number of large deals we get to do and that trend doesn't seem to be declining. So I think we're still early.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

And maybe just to focus on the large deal point since that was something Amy did call out specifically on the last earnings call. When we were doing our diligence on the space a couple of years ago, we would hear AWS is getting these big megadeals. Microsoft is getting there, but in some cases, you didn't even want those megadeals because of the composition of services. If you look at the deals you're doing now, these big deals, how do those tend to -- what are they? I mean are they still pretty compute and storage heavy? Are you starting to see more premium services in those types of deals? And maybe contrasting it to a couple of years ago where maybe those deals weren't profitable or viewed as, as profitable as you would like or potentially profitable, do those start to look different or you look at those differently in a way that just as you drive down costs and increase the portfolio?

Takeshi Numoto {BIO 21693553 <GO>}

I mean, from a profitability standpoint, I think in Q1, our commercial cloud Microsoft overall, Microsoft cloud commercial gross margin, I think was at what 66%, 4 point improvement year-over-year, in large part driven by improvement in Azure. So that's an area we continue to improve in, particularly as we scale up and can start realizing some of the efficiencies from the infra investments we've already made. And for us that's sort of ongoing, sort of subject of focus for us and something we'll continue to plug-in at. But we are seeing far larger deals and that I think is also in line with what the larger market trends are, as customers look to use cloud in a much more aggressive way.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

And maybe within that -- like a year ago or maybe 18 months ago, Satya used to talk about premium services growing significantly better over -- as an Azure overall. Presumably, that's continued.

Takeshi Numoto {BIO 21693553 <GO>}

Yeah, I mean, when you think about the overall revenue mix, it is true that sort of the compute and storage network sort of your, what you would think of as the more infrastructure pieces are a big chunk of it. But from a growth rate standpoint, premium services, whether it be data services, AI, IoT, analytics, security, those are certainly outgrowing the core from a growth rate perspective by a significant amount.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

And maybe just drilling into that, because premium services does encompass a lot, AI has been a huge focus, but we've also seen data points suggesting momentum around databases in the cloud in different flavors. Security has obviously been a big focus. Are there any areas in particular that seem to be resonating with customers or performing a lot better than maybe they were 12 months ago? Just any additional detail would be interesting.

Takeshi Numoto {BIO 21693553 <GO>}

Well, certainly data services continue to accelerate, whether it be -- and when you think about some of the documented third party benchmark data, whether you look at multitudes of giga on published data as an example, whether both on database side or relational database side and also on the analytics side with the data warehouse, we are seeing us being able to deliver substantial price performance benefits to our customers and that's translating into more customer leads, more engagements and therefore more consumption, that's one area. And so we've actually had additional announcement that build on this momentum. At Ignite, we announced a new service called Azure Synapse, which really Synapse Analytics which basically is taking the next step in data warehouse to be able to handle both unstructured and the structured data with a very comprehensive workbench that -- it's getting great customer feedback.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

And so we at UBS IT on stage earlier or yesterday, and one of this VMware [ph] obviously have said publicly where we've got a big commitment to Microsoft. And one of the things that they had a very strong point of view on was, as we start to move our applications over to the cloud, they were very negative on the concept of lift and shift and said, lift and shift doesn't work. You have to bring it over. You have to refactor. Otherwise, you're going to have the same issues. As the provider of Azure, how are you seeing companies successfully make that transition as they move their own applications over? Is it a lot of lift and shift? Are you seeing new workload development? Are they consuming more of those premium services as they rebuild

their own applications? It just -- this seems like a big focus. So how are you seeing that play out from your perspective?

Takeshi Numoto {BIO 21693553 <GO>}

Yeah, I think customers really want to plan out their IT estate overall and I think that has multiple pieces. There are applications that you just want to migrate, lift and shift and just get driving efficiency infrastructure and getting out of some of the nightmares or headaches that you may have had on-prem. That is one element of it. And then there also the aspect of, hey, how do I develop, modernize my IT infrastructure, develop new applications and that comes into the picture as well. So I don't think it's one of the other, at most times customers think about being able to take advantage on both sides.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

And one of the other points they made was that learning that skill set around refactoring applications and modernizing and bringing them over, they said the first few were painful. But now that we -- obviously, they have an incentive to say that they've learned a lot and it's going really well, but I think it is. They said once they got the first few, it got a lot easier, and they could start bringing more over, go faster, they've got the muscles built up. If you -- again going back to where we are in that adoption curve, do you -- as you look at your customers, how many of them do you think are kind of hitting that, they've got the muscles, and now it's just executing versus still that learning phase of how do we even do this in the first place?

Takeshi Numoto {BIO 21693553 <GO>}

Well, I think every customer's journey is somewhat unique, particularly it's also a function of, we think, oftentimes in cohorts like when did that a given customer start their cloud journey and some customers are well into their end of the year. And so they've gotten quite deep and some customers are still in early years. And so I think that comes to the results in different prospects for different customers. But what we are seeing though is this notion of, I now have acquired some cloud skills and I actually want to extend that inclusive of ability to manage my own on-prem or environments and other places. And that's why we've gotten so much interest in some of the hybrid and multi-cloud investments we have announced at Ignite around what we call Azure Arc, which is sort of a collection of technologies where if you've learned to manage and set policies on resources in Azure, you can on board, your own on-premise resources or resources in other cloud and sort of bring it under the control plane from Azure, so you can manage it and set policies against it in a consistent way. And that's gotten a lot of interest, partially because we have enough customer base now that actually are skilled up enough in Azure, and being able to want to extend that skill set to manage other environments.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

And that's a good segue because that was one of the things I do want to talk about, was in particular Azure Arc. And we've seen Google announced Anthos as well. I

mean just to start and to put context around it, how would you sort of compare and contrast what you're looking to do with -- or maybe not compare and contrast. So let's talk about -- I don't want to put you on the spot to talk too much about Anthos, but I'm sure you're very familiar with it. But I think people are trying to understand, is this like Anthos? Is this something different? How would you sort of describe Arc and how it fits into the multi-cloud strategy?

Takeshi Numoto {BIO 21693553 <GO>}

I think the way you're even asking the question is quite indicative, it's like for some of the other players I think the -- their approach to hybrids often equated with one product. So AWS hybrid is often equated with Outposts or for Google hybrid is equated with one offering called Anthos. And for us, hybrid has always been a huge differentiator and we think about it very holistically from identity to management, security to even database technologies, developer tools. So it's a much more comprehensive thing and it's not one thing. Arc is only one of the things we sort of do in terms of being able to set, manage resources and services in a consistent way. But, I think sort of the overall posture and the aperture is very, very different.

And for AWS, my perception is they're very focused on managing their own resources. So Outposts is a piece of hardware you have to buy from AWS and what else you can use out there's, you can't run AWS services on customer's existing hardware. And it always has to be connected and controlled by AWS. So it doesn't support things like if you have a regulatory environment or governance issues and you want to run things in a disconnected phase, you can't do that. So it's a very sort of focused approach on essentially AWS resources. And for Google, I see it as being very much focused on containers whereas customers not everything runs in containers, customers need to run virtual machines too, they need to manage servers too. And so our approach is more comprehensive -- reflecting sort of the years of investment we made in this space.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

And I guess one of the questions people always try and figure out is, so we're -- we came from this old generation of technology, which is basically predicated on, once people are on my platform, I never want them to leave. And so now we've moved to this world of, people can leave. I want to convince them to stay. But I guess as you think about building business models, what gets you comfortable with the idea that once they come and -- they'll stay and sort of making things like Arc work in a way that you don't run the risk of getting into a price war or any of these other -- what makes people stay? What do you think as the areas of stickiness?

Takeshi Numoto {BIO 21693553 <GO>}

Actually for us this openness is a key portion of how we want to continue to attract customers and trust our platform. And so, even in our support for containers in Arc, we support not just one container, we support many containers, whereas Anthos for example requires you use just GKE. And so like for us, we think of our ability to be

able to be broad and very open-tented is actually a huge customer value proposition, and one that enables us to attract more customers.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

Great. So maybe just sort of extending to the other side of the hybrid world, looking at the on-prem business, I think one of the things that has continued to surprise positively is the ongoing strength of the traditional licensing business because everyone just assumed it's either or we're seeing both, which is fantastic. But I'd be curious to get your perspective, why are people still buying on-prem licenses? And is there a point at which it becomes incompatible to continue to see the growth you are seeing in Azure and still grow the on-prem business?

Takeshi Numoto {BIO 21693553 <GO>}

Well, for us, one of the things that have been a very helpful construct both for our business and for our customers is this notion of an Azure Hybrid Benefit. The fact that you can buy licenses that excessively have optionality and option value for being able to essentially consume services in the cloud at a discounted rate. Basically essentially has helped us encouraged customers to continue to renew our software licenses and also pave the way for them to use Azure in a very natural and linear way. And so that's worked really great for us as a way to basically keep both balancing growing on both sides.

And the other factor on the service business is an increase in premium mix. We talked about premium mix both in the services sense, but we're seeing in the software sense as well. So instead of Windows Server standard increasingly customers by Windows Server data center because they're using more virtualization technologies and running more virtualized machines in the same node and that essentially drives premium mix up and we see the same thing on SQL server where the SQL server enterprise edition mix is going up and that's also helping on the revenue side as well.

And then on the sort of the server -- server software license revenue side, there are two set of temporal impact too in the sense that we've had end of service in the support for SQL server 2008, that happened earlier in the year and that sort of prompted, a set of purchases that may not be durable. And then we've also -- this I think Q1 is the last quarter in which we had GitHub on-prem acquisitions, GitHub on-prem revenue sort of recounted towards at the software license and this is the last quarter in which it's not in the baseline. Moving forward, it will be, so it will normalize a little bit.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

Okay. And maybe just to double-click on the hybrid use benefits, as customers look to take advantage of that program or look at that as a way to get comfortable buying today and then have a vision for the future, what's sort of the horizon on that? I mean are people buying with the view that, hey, maybe in five years as we move to the

cloud, but I want that flexibility? Or is it a bit more immediate or spectrum? I'd just be curious and to see it.

Takeshi Numoto {BIO 21693553 <GO>}

Again, I think this whole sort of -- the benefits actually quite durable in the sense that if you want to run Windows Server or SQL server, the way to pay for that IP even in the cloud is to continue to renew your software assurance and that's kind of the balance we've struck. So, we think of the hybrid benefit sort of impact as being quite durable over time.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

Okay, okay. Maybe switching to another part of the business, another reporting unit. So Power Platform is something that falls under your purview, and there's a lot of different pieces there. There's been a lot of new announcements there. But maybe at a high level, what is the Power Platform? Because I know it encompasses a lot, but maybe just to start there, why is it sort of carved out as its own distinct entity?

Takeshi Numoto {BIO 21693553 <GO>}

Great. So Powerful Platform comprises of products like Power BI, Power Automate, per virtual bot, we just released recently and Power Apps. And these are all products are characterized by what we would call a deep support for effectively Power users and citizen developers. When you think about the application needs of the world, we believe in the next five years, more applications will be created, than perhaps in the last 40 years. And when you think about tech companies, actually more developers being hired outside of tech companies than in tech companies. The need to grow application to support different business processes and front-line issues is just only going to explode.

And so then the scarce resource that non-tech companies do hire in terms of professional developer capacity you have to be really leveraged. And Power Apps, Powerful Platform is unique in the sense that it enables sort of Power users to develop their own applications, subject matter expertise closest to the business process, closest to the business issues to develop applications that really addresses their needs, while also basically leveraging the scarce professional developer capacity every organization you have and the two work in tandem, and that's one of the key differentiations of Power Platform as being kind of the so-called no code, low code product platform, but also has -- is built in a way that's very synergistic with all the deep professional developer capabilities Microsoft provides with Azure.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

And one of -- I think one of the attractive aspects of the Power Platform is it seems pretty easy to use, pretty end user-centric. I go to Build and I see a demo, and I think I could do it. I probably couldn't but I at least pretend I could. But -- so it is very much designed to appeal to the user, but the user may or may not be the ultimate

decision-maker on whether this is something to be purchased. So can you just -- who do you sell to in the organization? Is it -- it's -- well, who is the buyer?

Takeshi Numoto {BIO 21693553 <GO>}

Well, before we talking about the buyer, I think it's actually really important to talk about how we earn usage. And so one of the first things that that makes -- gives -- maximizes our opportunity for end users to become familiar with our Power Platform products is that many of those capabilities are seeded with Office 65. So every -- Office 65 comes with some basic capabilities of a Power App or of a Power Automate, then people can start automating basic tasks within their Office 65 environment or do basically create a simpler applications using SharePoint as an example. And so that really get customers and end users going and sort of inducted in how you use these, very easy to use capabilities to start building applications. And then that essentially then allows us to sort of then say to whether it's central IT and say, hey, there is a wealth of usage, that's happening. Would you like to essentially create more business applications and last mile applications using this in a way that's highly manageable by IT, that's one central IT sales motion, and that -- it's successful in many places.

And then there are other cases where we go talk to the line of businesses and then say okay well, you're really trying to help with a given front-line or sort of subject matter expertise problem and here's how you can help and we have a collection of both what we think of as departmental sales as well as our centralized IT sales. And both are sort of synergistic with each other basically.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

And I think there was a data point out there that there's 2.5 million users on Power Platform currently. And if I understand it, a lot of it sort of happens -- I mean the purchase decision is, as we talked about, sort of made at a certain level of the organization, and then people sort of organically come to it and build. What are sort of the points that sort of get that flywheel going? Is it people just discovering the product? Is it someone sort of providing that education and getting people familiar with it, what the value is? How do people sort of build that excitement and get the programs going and drive that adoption?

Takeshi Numoto {BIO 21693553 <GO>}

Well, I guess like there are multiple entry points. But for example if you sort of, if I recall the history of Power BI as an example, that Power BI was the first Power Platform product. That really built its momentum based on lots of customers trying to service for on the web for free and we've built -- had a very strong community, that essentially software perpetuated. The product excitement, I think they can do in building dashboards and sharing that. And so that was one way that where it really took off. And the fact that we also created an offering with office 65 and E5 that included Power BI also sort of essentially tried to create end user excitement with the sales motion that was a little bit in the traditional Office 65 sales motion piece.

And then when you think about newer Power Platform products like Power Automate or Power Apps, a lot of that is coming from organic usage first and foremost from within office 65 tenants where customers start using effectively the limited versions of Power Automate and Power Apps, that comes with an Office 65 subscription. And then that we get the usage going into more sophisticated scenarios that then gives us an opportunity to upsell to a fuller versions of the product.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

Okay. And since you touched on it, so you have the Automate capabilities. You've got some of the technologies around virtual agents that you rolled out. Would seem a little bit more sophisticated than Power -- I mean not the Power BI actually but a little bit more AI-ey. And I guess where do you -- because there's companies that build their whole practices around automating that functionality. You guys have made it sort of easy to consume. Where do you see Microsoft's role within markets like RPA? Do you want to be the market? Do you see areas that make the most sense and areas that pure plays can innovate? How does that kind of come together?

Takeshi Numoto {BIO 21693553 <GO>}

I think we are -- we tend to go after very horizontal broad markets, and there is always room for different players to add value on top or do more targeted solutions for given industries or given business processes and that's kind of existed forever in different markets when you even think about the history of Office. And so I don't think it's any different there. The one of the key advantages that we bring to the table versus the sort of the traditional low-code -- no-code, low-code kind of tooling, is that, with them, you start with something and then you want something really sophisticated, you kind of hit a brick wall, you have to redo the app all over again using a different set of tech.

Power platform is built natively on all the underlying capabilities of Azure. So if you want to go beyond what Power App platform products can do, you have a very synergistic path to basically dip into sort of unlimited flexibility that Azure provides to extend those abilities without redoing your applications all over again. And this is what I talked about earlier in -- is there is an important element of creating that synergy with between basically the citizen developer, the power user that is essentially the subject matter expertise using application and solve their problem, being able to work closely and synergistically with professional developers who can essentially deliver Azure based solutions in APIs that can be consumed by Power Apps or Power Platform products in general.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

Okay. Great. And I still have a bunch, but I know we've already got a couple of questions from the audience. So maybe I'll ask one more, and then if people want to send it in, I'll look at these, too. Maybe just around Dynamics. I guess, I assume -- so I think just going back to the history of Great Plains in Microsoft way back and the history of Microsoft in the application space.

Takeshi Numoto {BIO 21693553 <GO>}

You can ask Satya about that.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

I'm sure it's for you. But maybe just to sort of look at where you are today, because it is -- the story in the last 18 to 24 months feels to be very different than the traditional story of Microsoft in applications. So if we look at where you are today, where do you see the natural fit for Microsoft? Because you clearly partner with SAP and have strong relationships in the enterprise space with SAP running on Azure. Traditionally, it's been more middle-market oriented, but you also do see some large organizations using Microsoft. So where's the natural home for Dynamics? Where are you really looking to win with that product?

Takeshi Numoto {BIO 21693553 <GO>}

Well I mean only Microsoft is a business larger than a \$1 billion, growing well over 40%, get somehow sort of talked about as a needing to find a place, it's already a large business, a SaaS business growing 41% year-over-year. It's pretty substantial and we're really excited about it. It is worth noting that the journey we've gone, when you think about dynamics of old Great Plains, Solomon, Navision, Axapta sort of -- and then we also had a homegrown, Microsoft homegrown CRM product. But we're -- all the assumptions are very much on-prem. And so starting with Dynamics 65, we sort of put ourselves on our journey of making all of our capabilities natively cloud based, natively Azure based, cloud applications and also unifying the application.

So that we actually have a suite of SaaS offerings that worked well together that can manage different business processes, whether it'd be marketing or sales or commerce or operations and finance and made it such that you can consume just the pieces you want, but also can extend it. So you can actually get the full picture as you expand the business processes covered by the SaaS application. So that whole strategy and shift I think has really been catalytic and driving much more accelerated growth.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

Okay. Great. So we have a couple from the audience, so I'll hit on those. And again, if there's others, feel free to send them in. And one is around where we are on the CapEx buildout for Azure. There was a huge wave of CapEx invested a couple of years ago. It seems to have been a bit more run rate. I think people have gotten data points from different suppliers that things may be -- hyperscalers may be buying less. Obviously, you guys seem to feel pretty good about what you're seeing. But maybe you could talk a little bit about how -- and this might fall -- so this falls a little bit outside of what you focus on, too. But I -- how you think about the process of the CapEx buildout with Azure, any sort of change in how that looks, what you're investing in. To the extent that, that falls in areas that you look at, I'd be -- there's some interest.

Takeshi Numoto {BIO 21693553 <GO>}

Well, from a CapEx standpoint, we want to continue to be very, very close and driven by customer signal. And so we continue to put efforts into basically shorten things, shorten our supplying team just as an example, so that we can be as sort of just in time so to speak, in terms of delivering additional capacity as humanly possible. But our goals are to really make sure that we're essentially serving customer needs and how do we actually stay just in ahead of it enough so, but not too far ahead and having that agility is what we continuously work on.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

Okay. Great. And maybe just to round it out, I mean I think the message is it's not a change in sort of how the company is investing into Azure or any sort of signal that there's a change in demand. I think it seems like it's more of a change in how tightly you manage and what the lead times are, and yes.

Takeshi Numoto {BIO 21693553 <GO>}

Yeah. It's been an ongoing improvement and how we can actually make it as, to manage it as closely as possible. But at least in my role I'm certainly not feeling constrained to serve customer needs.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

Okay. Great. And then the other question is around SAP. And SAP had talked about making a very big commitment to Microsoft, and so that's sort of out there. But maybe -- and I'll kind of broaden the question out a little bit. But first is, what are you seeing in terms of moving to SAP workloads to Azure and then maybe broadening it out just Tier 1 workloads in general? What are you starting to see in terms of those moving over to Azure?

Takeshi Numoto {BIO 21693553 <GO>}

So we're certainly have a deep partnership with SAP in the Embrace project that we announced recently, they're certainly leading with Azure as the preferred cloud as they help customers basically set their journey from on-prem SAP to SAP HANA on Azure in the cloud. And so that's sort of a tremendous opportunity for us and one that we see lots of both existing growth as well as future growth opportunities. And as it relates to Tier 1 workloads, SAP is just one of the examples where we're increasingly getting these Tier 1 workloads that drive a significant consumption and that's also highly correlated with the increase in number of large deals. When you have a big enterprise deal that's large, oftentimes that is catalyzed by a Tier 1 workload and our strategic alignment with the customer. And so those all go hand in hand.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

And maybe a related one to that, SAP is one example, but we've seen Microsoft partner with a lot of software vendors. Adobe is one. We have ServiceNow presenting next. They're one. How are those relationships coming about? Are those companies approaching Microsoft and say -- looking at ways to potentially reinvent how their infrastructure is operating? Or is Microsoft going out and advocating for these companies to work more closely with Microsoft? Maybe it's a mix? But I'd just be curious because it -- there seems to be a bunch of them now.

Takeshi Numoto {BIO 21693553 <GO>}

Yeah. So it's certainly a mixture of both. But one of the things that it's important to note is, in conferences like this in a -- in press people also there is oftentimes, a very sort of narrow comparison that people want to do between AWS versus Azure or Google, GCP versus Azure, but in many cases, customers need when they think about their journey to the cloud, they need a lot more than infrastructure. And the fact that Microsoft gets to have a conversation broadly from M65 to Dynamics 65 to Azure in a collection of capabilities, we can deliver comprehensively, puts us in a very different dialog with the customer. And then that also provides for a lots of opportunities for ISVs to participate in that dialog, both from an Azure utilization of Azure in delivery of their service but also integration with things like Office 65 and the user experience that they can deliver in the day to day work of 200 million plus monthly active users of Office 65.

And so those collection essentially enables us to have a conversation with ISV partners that says, while not only do you have an opportunity to align with us from a, what cloud would you use to deliver your service. But you can have a -- more comprehensive dialog of how would you integrate with teams, how would you integrate with office 65, how would you integrate with directory in a way that effectively furthers your value to your customers. And that's -- and then we have programs like programmatic approach to support co-sell with ISV partners that's also another part of the facility, how it's easier to -- for these ISVs to get this also lined in their joint sales motions with Microsoft.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

And that's a good segue because we've got another question. And that was somebody asking about Teams. And I can't believe I didn't think about it. But yes, I mean obviously, Teams has been an area that Satya is pretty focused and talks about quite a bit. So can you just give us a quick update on Teams, the momentum you're seeing, maybe some of the partnerships? Because there has been a bunch that we see.

Takeshi Numoto {BIO 21693553 <GO>}

Yeah. We recently announced updated DAU numbers I think from 20 million and we continue to see loss momentum. And we also announced a set of new capabilities in Ignite to Internet is something that we continue to invest significantly in both in R&D and go to market.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

Okay. And actually just on that, because if I -- just having gone to a lot of industry events over the last six months, Salesforce talks that Teams integration. Workday, there's a lot of excitement around Teams integration. Is that a particular push? Or is that -- like I mean we talked about sort of broadly where there's sort of push versus pull in the partnership, but it feels like that one in particular has been very visible. So is that a fair observation that a lot of these companies that even don't partner with Microsoft in other ways seem to really be finding a lot -- is that customer-led? Or is that sort of part of Microsoft's broader push to evangelize Teams as part of the platform?

Takeshi Numoto {BIO 21693553 <GO>}

Well, we think of Teams, as a great place for people to come together and collaborate and have business process be infused into the way we people work together. So it is natural for me ISVs to want to integrate with Teams because then one of the I think in the text world the economical, there has been a sort of economical separation of structured business processes and adhoc work world of collaboration and communication and Teams basically gives u a harnessed for the two to come together. And so that does give us a lot of opportunity to invite ISVs to participate.

Jennifer Swanson Lowe {BIO 6926228 <GO>}

Okay. Great. Okay. Great, well, I think that's basically our time, so we will wrap it up there. Thank you, everyone. Thank you.

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