

Morgan Stanley Technology, Media & Telecom Conference

Company Participants

- Satya Nadella, CEO & Director

Other Participants

- Keith Weiss, Equity Analyst, Morgan Stanley, Research Division
- Unidentified Participant, Analyst, Unknown

Presentation

Keith Weiss {BIO 6993337 <GO>}

So before we begin, Microsoft may make some forward-looking statements during this presentation. And you should refer to their SEC filings for risk factors relating to their business. And that's true whether you're here in person or listening on the web. Excellent. So Satya, thank you for coming. Welcome to the TMT conference.

Satya Nadella {BIO 3224315 <GO>}

Thank you. So much, Keith. Thanks for inviting me.

Questions And Answers

Q - Keith Weiss {BIO 6993337 <GO>}

So I was having dinner with a portfolio manager last week. And we were talking about Microsoft. And we noted that in your tenure, when you joined Microsoft -- or when you took over the CEO role, Microsoft had a (\$304 billion) market cap. Today, that stands over \$725 billion. And what he said to me, it's hard to believe that one person, that one man's kind of changed the course of the company that -- a company that we were all thinking of as a legacy, tired technology company is now a mobile cloud innovator, right? Someone who's nimble in terms of their innovation. Can you share with us a little bit about how that happened? Because I know it wasn't just you. I mean, I read your book. You talk a lot about the senior leadership team. But you aligned everybody in the right direction. You pointed the ship and got it moving in a much more forward direction than Microsoft had been aimed.

A - Satya Nadella {BIO 3224315 <GO>}

Yes, I mean, a couple of things, Keith. I mean, the way I think about my life at Microsoft is not from the day I became CEO. I've been at Microsoft for 25 years. And

clearly, the responsibility that I have and the accountability that I have is unquestionably more today as CEO than it was before. And so therefore, even trying to take credit for what has happened in the last four years without realizing that the franchises and the bets that Bill and Steve played -- you all know -- is just wrong. Businesses don't get built that way. Things don't -- things that last long take long to build. Even every startup that's successful has had 10 years, 15 years before they even can IPO. So that's the time frames with which I think about. But to your core, one of the things that I've come to realize is that it's -- when everything is going great, when businesses are growing and the core is growing at 20% and more and all of you are celebrating that growth, that's when you really need to watch out because the question is, "What happens after?" Because there's no such thing as a perpetual motion machine. That original concept, idea hit is eventually going to run out of gas. That means you need to have built capability that allows you to get to a new concept long before it's conventional wisdom. In fact, long before many of you will give us permission to even invest. So that means you got to have a management team that knows how to bet on the future long before, in some sense, it's conventional wisdom. And what enables organizations to do that? I believe it's culture. What enables organizations is not just the insight. It's the ability to have that everyday courage to make bets, to learn from mistakes, knowing you're going to make a fair share of it. So it's that art form. If it was just a science, then every company you would talk to would be long-term successful. But it's not. And it's only because I think there's excessive celebration of short-term wins and there is lack of understanding of what is, I think, the real sustainable building of businesses.

Q - Keith Weiss {BIO 6993337 <GO>}

Right. In your book, you talk a lot about the 3 Cs, right, the concepts, capabilities and culture as being the key to success. Can you dig into that a little bit for us on sort of how you apply that? How do you apply that in terms of -- with your senior leadership team to make sure people are focused in that way? And how should we think about those 3 Cs enabling the next \$100 billion coming from Microsoft?

A - Satya Nadella {BIO 3224315 <GO>}

Yes, I mean, it's similar to what, I mean, I just talked about. But here is how I would say it. Somebody said to me, "You got to be careful about talking about culture with investors because the only culture they love is in their yogurt." And so it's sort of such -- you can't plug that into a spreadsheet and have it change something. But it is probably the most important thing because that's what enables you to build capability. I'll give you an example, take silicon. At this point, it's clear as day, whether you are doing things on the edge or doing things on the cloud, you need to have silicon capability. If I look at the sophistication with which the margin structure of whether the cloud business or anything else is going to change is going to be around how smart are you with silicon. Of course, we got started on some of that journey, quite frankly, with our work on Xbox many moons ago. But we don't have like an Xbox silicon team and a cloud silicon team and a different silicon team. We have one capability of people who are able to tape out new silicon which can help us in our innovation. That culture that cultivates great silicon engineers to come, join, work with the silicon industry, too. So it's not just about us building our own. But to shape that ecosystem so that we can be on the frontier of innovation, that, to me, is the most important long-term indicator. That doesn't mean you -- you have to catch

new trends. You're not going to have a perfect batting average. In our case, if you look at our 43 years of history, we've had our fair share of big wins. But we've also had some fair share of our losses. But it's the ability to have capability and a culture that allows you to keep going back every day and making judgment calls and having a high percentage of winning.

Q - Keith Weiss {BIO 6993337 <GO>}

Got it. So let's dig into some of those sort of technology trends and future opportunities that Microsoft's been working on. The first one I want to talk about was artificial intelligence and machine learning. You mentioned before that AI is the ultimate breakthrough in technology. Why? Why do you think of it as kind of that ultimate breakthrough, or certainly one of the biggest new ideas that Microsoft is facing today?

A - Satya Nadella {BIO 3224315 <GO>}

Yes, I mean, in fact, picking up even from your last question and then going to this AI piece, the -- you asked even, what is next for Microsoft? I feel one of the key things that we have done is position ourselves in the core mission of the company and the core business model of the company so that it is really in tune with the times. In 2018, if you have a mission and a business model that is not about creating surplus around you in every community, every country that you operate in, you are not going to have a long-term business. So now having said that, we have plenty of opportunities. And we'll sort of explore those. AI is going to be one of the trends that is going to be the next big shift in technology. It's going to be AI at the edge, AI in the cloud, AI as part of SaaS applications, AI as part of, in fact, even infrastructure. And to me, leading in it, not just to sort of have AI capability that we can exercise. But the ability to democratize it so that every business can truly benefit from it, that, to me, is at least our identity around AI.

Q - Keith Weiss {BIO 6993337 <GO>}

Got it. And I think -- when we talk about AI and machine learning, there's -- in my perspective, there's 2 sort of big sides of the equation. One is the capabilities and technology, having that. But the other is being able to apply it to real business problems. And I think we've talked too often just on one side of the equation. But I want to start there. So in terms of Microsoft and your capabilities, like how are you guiding Microsoft to ensure that you're in the running, that you're the vendor that your customers are looking towards when they think about machine learning, when they think about cognitive services, that they should be coming to your platform versus -- and there's other big competitors out there?

A - Satya Nadella {BIO 3224315 <GO>}

Yes. Twofold. One is, of course, you have to have technology. I mean, if you take even the recent machine reading comprehension test that Stanford did, we were #1 and Alibaba was another #1. So if you look at speech, we hold the WR -- WER record still. Computer vision, some of the first original ImageNet records were held by us. So in some sense, you got to have, whether it's speech, whether it's reasoning, whether it's machine reading or vision, you got to have the capability. And that's something that

we have. And we are applying that in our own applications, if you look at Office 365 and what Cortana is capable of doing. Even this morning, Cortana woke up and sort of talked about a couple of commitments I had made in e-mail about following up. That's actual machine reading and comprehension at work. The long term, though, here is what I feel. Like let's say, there are 2 or 3 other companies that have AI capability-wise. The question that every customer, whether it's a financial services company, whether it's a retailer, whether it is a manufacturer, is going to ask is, "Who do I trust?" Especially in a world where there's going to be transfer learning. One of the largest transfers of wealth can happen if you pick your supply chain wrong. If you do not have fundamental trust with the partners you have, suppliers you have and entrusting them with data, which they are going to then help you reason on top of to create AI has to be one of those very trusted partnerships. And I think that's where having this purity of business model, which we have, which is fundamentally consumption-based or subscription-based, not having all these funky cross-subsidies and marketplace structures and multiple businesses that one side you compete and on the other side you partner. I just think most people are going to see through it. Like recently, I talked to a bank CEO. One of the first questions he asked me, which is pretty stunning to me is, what's the state of your RL?" And I said, wow, this is a bank CEO asking about reinforcement learning. And that means there is real awakening to where AI and the trajectory of AI is going. So therefore, I fully expect them to be asking the hard questions of which technology partners can they really trust in the long-term interest -- whose long-term interests are aligned with their long-term interest.

Q - Keith Weiss {BIO 6993337 <GO>}

Right. Even in the research department of Morgan Stanley, we've talked to a lot of vendors as vendors about machine learning capabilities and artificial intelligence. And over the past few years, I feel like a lot of the conversations are vendors coming to us and saying, "We have these capabilities. What should we do with them?" Right, versus coming to us with real solutions. How are your customers talking to you guys about machine learning, artificial intelligence? How do you bridge that gap between a set of new, innovative, really interesting capabilities, being able to automate parts of the work that no one's ever done before with real business problems of getting it to solve a real domain problem that your customers have?

A - Satya Nadella {BIO 3224315 <GO>}

Yes, I mean -- I think, even there, I would say in the last couple of years, I've seen marked difference in terms of, it's not just technology for technology's sake. And that's why even technology and its evolution is very path dependent. If you take -- you asked in the previous question, "What's differentiated about, say, our speech service or vision service?" One of the most differentiated aspects of it is the ability to customize it. It's not just a generic API that you call. For example, there are certain fast food restaurants using our speech service, which is being trained for the ambient noise of drive-thrus. That's a customized application. So that the order entry into the point of sale is that much more accurate. There is computer vision customization that is happening so that in a manufacturing line when somebody wants to really get highly accurate around detecting defects, they can customize it. So that ability to have a tool chain that makes it possible for businesses to then take their business process and add machine learning and AI and make it that much more

productive and that much more efficient is what, I think, the real innovation is. It's not just having the technology. But to be able to really deliver the deployed solution. And there are 2 approaches to deployed solution. One is to have a very highly consultative sale. There's a place for that. There are lots of partners of ours who are going to do a good job of it. But our job, as traditionally Microsoft has always done, is to bring world-class tools. To me, when I think about what's happening with Visual Studio tools for AI and the ability for developers who are not AI experts. But yet are able to roll in AI into their solutions, that's a place -- just like what happened in client/server and databases, that's how I think about what the world of AI is also going to be.

Q - Keith Weiss {BIO 6993337 <GO>}

Got it. The investor question that I get most often on machine learning/AI is, is it having an impact yet? Is it actually driving new business? Is it accelerating workloads out there in terms of what people are doing? From your perspective, do you think we're there yet of where these capabilities are now actually driving workload growth?

A - Satya Nadella {BIO 3224315 <GO>}

For sure, it is. But it's early days. But let's take what -- most people describe it as IoT. It's fascinating to see the workload path, if you will, of these IoT projects, which is, let's take anything that's on the edge, take even a manufacturing context. You're collecting lots of data. You take that data and you rendezvous it both in the edge as well as in the cloud. Then once you have a lot of data, you reason over that data so that you can do some predictions. Because ultimately, AI translates into 2 things, whether it's some predictive power or analytical power. In this case, let's say you can predict failure. Then right after that, you need to translate that prediction into some action. So then we see growth in something like field service because you then have to get someone who is going to go fix the thing before it's broken. And so that ability to take something which is growth in our edge, to growth in data, to growth in AI tools that are being used for preventive maintenance, to growth in field service, that's happening at scale today. But is it just AI? Is it just data? Is it just business applications? And that's one of the reasons why I like to think about the broader platform effect as opposed to just the narrow application.

Q - Keith Weiss {BIO 6993337 <GO>}

Got it. Shifting gears a little bit. I want to talk about quantum. So the Morgan Stanley research -- tech research team, we put out a report on quantum computing last summer. And I would say the consensus feedback from all our clients was, you guys are crazy. What are you talking about quantum for? Quantum's 5, 10 years out. This is science fiction that you're writing here. Later, it was, I think, two months later, you were on stage at your developer conference, the Build Developer Conference. And you're talking about quantum computing as a real capability that Microsoft's investing a lot in, that Microsoft's going to be bringing capabilities to the field, not in the 5-, 10-year time frame. But something much sooner. Can you help us frame this topic for our audience? Can you help them -- can you help me get them to read my report on quantum computing? Are we there yet? Where are we in terms of sort of getting that technology production-ready?

A - Satya Nadella {BIO 3224315 <GO>}

Yes. When I think about all of the opportunities that we have in front of us, if I look at how people are using our compute in Azure and how compute by itself seems to be insatiable in terms of the need for more of it, or our own feature development in applications, such as Office 365 or Dynamics or Xbox. When I look at all of these, it's clear that we need more compute. We are reaching the limits of current architectures, whether it's the Moore's Law or it's the von Neumann machine itself and its architectural limitations. And so that's where quantum comes in. We have taken the approach where instead of trying to go and solve some narrow problem of quantum to achieve, let's even say quantum supremacy, the real challenge of a quantum computer is always going to be, "Are you going to have enough qubits that can be stabilized in ways that you can do general-purpose compute?" So that means the error correction challenge cannot be so enormous because in the quantum world you're not just going to be able to have that many qubits to do all of the error corrections. So that's the uniqueness of at least our approach. So we've got a fundamental mathematical theory called topological theory. We have a Fields medal winner in it who sort of has done groundbreaking work. We have a couple of world-class physicists who are trying to instantiate that topological matter in a physical way. And so that's these Majorana particles that we are trying to basically discover that exhibit topological matter. Then guess what? We're going to need a complete new computer science stack because this is not what you program previously. And that's interesting because I've not -- when we sort of put the simulator up on Azure is when I started seeing that it's not just our belief that the world needs more compute. There are many, many people who are very, very excited about it, from oil and gas to many other fields who are saying, "Wow. We need to come up with new solutions for some of the big, long-standing computational problems." And you see it in some of the early adoption of the Azure simulator.

Q - Keith Weiss {BIO 6993337 <GO>}

Right. I think one of the -- I mean, there's a -- 2 big differentiators that we saw in the Microsoft approach. One was, just fundamentally, the physics that you guys are looking to approach it are different from most of the other competitors out there. Although in this forum, I don't want to get too much into topological qubits. The other, which is also really interesting, is the fact that you guys have the entire stack, where you're developing across the entire stack. It's not just the hardware. But it's the software on top of it. Can you talk us through sort of that 3-layer approach of the hardware, the interface and sort of the software algorithms on top that actually are going to enable this to get real work done sooner?

A - Satya Nadella {BIO 3224315 <GO>}

Well I mean, it's -- look, I think the first phase of this is for us to build all of these 3 layers. And as I said, I think the key is for us to have fundamental breakthroughs in physics that allow us to stabilize these qubits at scale and then to be able to then build the containers in which you can have a general-purpose computer, which requires breakthroughs even in cryo computing to be able to achieve that. But the place where I think we are going to shine is -- beyond what is going to be groundbreaking work on the physics side, is going to be the software stack. In some sense, this goes back to the very first question. Most companies, in spite of whatever

new technologies and capabilities, have something innate in them. If you look at Microsoft, what we started with was the basic interpreter, whatever, 43 years ago. And it's back to basics in some sense. So we're going to start again with the tool chain for quantum. What's the point of having a quantum computer that only 2 people somewhere can program? You got to be able to have quantum computers that everybody can program against. And that's at least how I think we are going to differentiate.

Q - Keith Weiss {BIO 6993337 <GO>}

Right. What's interesting is, this time, instead of an open underlying hardware or a preexisting hardware infrastructure, you guys also have to develop the hardware infrastructure that you're creating that interpreter and that software language on top of.

A - Satya Nadella {BIO 3224315 <GO>}

That's right. And as a big capital spender today on the cloud side, it's actually pretty logical for us to be on the forefront of not just quantum. There's many, many, many pit stops between now to quantum. And in fact, if you look at even our road map behind in terms of the investments to quantum, they're going to need many dividends of that investment long before quantum.

Q - Keith Weiss {BIO 6993337 <GO>}

Yes. I want to shift gears a little bit to something that you brought up earlier, the idea of trust. I get asked the question a lot of, why does Microsoft -- when Microsoft is competing against Amazon Web Services or Microsoft's competing against Google Cloud compute, why do they win? Is it their technology? Is it the breadth of services? I think there's another aspect within it. Part of it's trust and part of it's understanding your customer's business problem -- business problems and bringing real solutions to them. Can you talk to us about how as a technology industry broadly, you think about trust, maintaining that trust with your end customers, how do you keep on the right side? Because there's a lot of different -- and you talk about that in your book a lot. There's a lot of different forces that are pushing in the wrong direction that sort of make it difficult for you guys to maintain that trust with your customers.

A - Satya Nadella {BIO 3224315 <GO>}

Yes, I do believe, as we sit here in 2018, this probably is the issue of our times and is not going to go away anytime soon. Because if you sort of -- and the reason for it is very straightforward because there's not a walk of life, there is not a sector of our economy anywhere in the world that's not impacted fundamentally by digital technology. And so if you start with that premise, then one of the questions every head of state I meet or a local community leader I meet ask is, "Hi. what does all this mean for us? Whatever you talk about in terms of technology, what -- how do I think about it creating surplus in my own region?" And that's where I feel Microsoft's fundamental grounding in our mission of empowering every person and every organization on the planet to achieve more is super important to me. It's not just a set of words. It guides the choices we make about the businesses we're in, the business models. And as I said, the surplus it creates. So I can sort of go to New York

or Istanbul or anywhere and say, "Here is Microsoft's contribution to your small business productivity, your public sector efficiency, your multinational competitiveness, your educational and health outcomes." Of course, we have an IP-based business. And we need a return. But it's a factor of production to your own creation of wealth and surplus. That, I believe, is going to be what's going to be important in the long term. Because if all you do is collect rent and not create surplus, there's no way people are just going to allow that. I mean, that -- I start there. And it's not about companies being branded as one. It's the core -- or countries being branded, it's about every company being evaluated by their business model and their ability to deliver, I think, long-term surplus that's more evenly spread.

Q - Keith Weiss {BIO 6993337 <GO>}

Okay. The other big part of the equation on trust is security and the ability to ensure to your customers that their data is going to be secure in your cloud, in your environment. When investors think about Microsoft, should we think about Microsoft as a company that secures data, secures users, is inherent in the platform? Or is Microsoft actually a security company? Are you bringing new capabilities that are new SKUs, if you will, new products to the marketplace for providing security more broadly?

A - Satya Nadella {BIO 3224315 <GO>}

I mean, security as a category, if you sort of look at it across what's happening with our offerings in Windows, our offerings in Office 365 or on Azure, it's probably the fastest growing just because cybersecurity is such a massive need across all segments, across all markets. But we don't think of security just as a stand-alone. You even ask, is it securing users, is it securing data? It's everything. It's securing of your data. It's securing of the user. It's ensuring not just security as technology that protects one time. But it's the operational security posture. If you ask me, even with Spectre and Meltdown, one of the things that was just a marked difference was not only our ability to take that issue, which was a processor design issue, come up with a fix and a mitigation, get it deployed, say, in our cloud very rapidly so no customer had to even spend any money. So the operational security posture that allows us to see threats and mitigate the threats is as important as the technology itself. So we are investing very, very heavily. It's also -- security is always going to be an intelligence game. It's not just the technology game. That's why security and operational security go together. We are also going to have a very open ecosystem. So it's not just about us and our technology. But how can we make sure that the overall investment in security is leading to better customer outcomes because I think one of the many -- one of the things that can slow technology down is to have security challenges that slow adoption. And so therefore, there's even responsibility beyond sort of the monetization that we all have.

Q - Keith Weiss {BIO 6993337 <GO>}

Right. When I talk to customers and they talk to me about their progression on Office 365 from E1 to E3 to E5, one of the probably -- the top responses that I get back of what's drawing people up that stack is security, is the discrete security functionalities that you expand with that. So there is a monetization angle. There is a monetization of this security technology that you're deploying into the stack.

A - Satya Nadella {BIO 3224315 <GO>}

Oh, for sure. I mean, as I said, whether it is the -- that migration up from the E1 to E5, whether it's with Windows or Office 365 or what we now describe as Microsoft 365, clearly, security is one of the value propositions. But to your broader point, one of the things that I think has been perhaps a revelation is this move of Office from, "Oh, I used to run Exchange to now Office 365," it's not a one-for-one move. I mean, if I look at the overall market opportunity for what is considered the Office franchise. But more broadly, I think of it as the Windows and Office franchise in today's world. Think about it, in our heydays of client/server, we didn't sell servers to small businesses in India. We did not have that opportunity to penetrate with Exchange or Lync or any of our servers. But whereas now, you can. You can sell subscriptions to small businesses everywhere. You can also have value propositions, whether it is compliance, whether it is security, whether it's voice. Some of the -- a rich capability that is now just, again, possible for us to have across all of these levels. Again, something we never had previously. Also, first line. One of the most interesting things in the last year I've seen is companies really deploying technology with their field service people, with their retail specialists. So that's another. It's not just e-mail for the knowledge worker or collaboration for the knowledge worker. But it's even the first-line worker. In fact, HoloLens, some of the highest volumes of HoloLens as it's being deployed is to the first line. So when I think about that, the growth opportunity for what is Office 365 is a lot bigger than anything that we achieved, even with our high penetration in the client/server world.

Q - Keith Weiss {BIO 6993337 <GO>}

Right. I want to shift gears and talk about some of the recent business performance. And the first topic that I want to talk to you -- great segue, thank you -- was Microsoft Cloud. It's been probably the biggest outperformance of -- in terms of investor expectations over the past two years, in particular what you guys have been able to do in Azure. I think last quarter you saw an acceleration in growth at \$1 billion-plus scale for that business. What's driving that strong kind of return on investment that you guys made? And what's differentiating Microsoft, particularly on the Azure level, versus some really big competitors out there that had a head start in terms -- at least in terms of being out in the marketplace with their Infrastructure as a Service and Platform as a Service capabilities?

A - Satya Nadella {BIO 3224315 <GO>}

Yes, I mean, we -- we are very pleased with the progress we are making on Azure. And I think it starts with having a fundamental differentiated point of view on where is computing going. So we describe this as the intelligent cloud and the intelligent edge because distributed computing, I never believed even multiple years ago that it's somehow going to become one centralized service. But it's going to remain distributed. If you look at -- we talked about AI previously, you need not only inference capability at the edge. But for the new workloads, we need even training capability in the edge because the amount of data that's going to get generated that needs to be reasoned over in real-time to take action will require compute to be where storage is. So when I think about what we are building, when we describe our hybrid computing architecture or this intelligent cloud intelligence, I feel we're, in fact, leading that change today. And now beyond that, I think what you see is the

secular market demand for this type of computing. As every industry and every country is being digitized, the one thing that they need more is that core infrastructure. And we participate at the core infrastructure, both on the edge and in the cloud. We participate in the data layer. We participate in a lot of the higher-level PaaS services, whether they be AI or others. And so therefore, we feel we both not only have a differentiated point of view, we have execution that is differentiated in the marketplace today. And in the long term, we will -- again, just like I talked about Office 365, we had a good business in our server business. But this business is orders of magnitude bigger than what used to be a successful server business.

Q - Keith Weiss {BIO 6993337 <GO>}

Right. I'm going to ask one more question then open it up to the audience to make sure we could take some of their questions. But turning to Office 365, I want to ask you about where you think we are in terms of sort of the progression of that market opportunity. And there's -- in my view, there's 2 dimensions -- there's kind of 3 dimensions. There is the penetration into the traditional office space, of getting people to convert over. There's the expansion of the capability of sort of what you're selling to those guys. But there's a third one that you guys kind of brought into the equation more recently that I don't think a lot of investors are thinking about is Microsoft 365, of it's not just Office, it's going into the Windows space as well and sort of pushing out in that direction. So from your perspective, kind of like what inning are we in? Where are we in terms of sort of building out that Office 365, Microsoft 365 base?

A - Satya Nadella {BIO 3224315 <GO>}

Yes. It's the real question to be asked because we are not trying to just build these as a single SaaS service or even a single operating system. It is about being able to build a rich information model that enables users and groups of users and organizations to be productive, to be able to collaborate, to help, in fact, impact the cultural outcomes of organizations at scale. So when I think about Microsoft 365, it's that ability to have a rich information model about people, their relationships with other people, their schedules, their projects, how are they collaborating. If you think about it, I mean, I would encourage you to use Outlook even on your iOS devices and go and look up a person's contact. You look up the person's contact, not only are you going to see, first of all, all the contact information. You are also going to be able to see their LinkedIn connection. But not just that. There's this beautiful thing called organization. People you work with. You look at that and you say, "Oh, yes, that must be just an org chart view." It's not an org chart view. It's a dynamic view of the colleagues you are, in fact, working on projects. So that creates one of the dreams in all organizations (sort of has) been, how do I create a boundaryless organization? How do I create collaboration? What instigates collaboration? So that's the way we think about it. So we're not building an operating system for a device. We're not building a single app. We are thinking of the users and groups of users and building an operating system for them. Windows is part of it. Windows -- Office is part of it. So is Android. So is iOS devices. We don't care. We want to be able to really help users with their productivity and collaboration and organizations with what they want. So that's the expansive nature. And by the way, security is going to be part of that. So not only is it about productivity. But it's about trust and security as well.

Q - Keith Weiss {BIO 6993337 <GO>}

Right. So it's not about the user interface. This is really about the information underneath it that's tying it all together?

A - Satya Nadella {BIO 3224315 <GO>}

And the user interface is a very important element. After all, I gave the experience example with Outlook. But experiences are being powered by this rich information model and the experiences then reinforce the information model to allow us to create more rich experiences. So that feedback cycle is what's most important.

Q - Keith Weiss {BIO 6993337 <GO>}

Excellent. So I want to take the opportunity to take some questions from the audience. Up front.

Q - Unidentified Participant

Can you talk about how you think about use of cash with respect to shareholder returns versus M&A? You've got \$100 billion to repatriate. It's been 1.5 years since the LinkedIn acquisition. So just how you're thinking about those priorities?

A - Satya Nadella {BIO 3224315 <GO>}

I mean, look, I mean, whether it -- we're always going to have a balanced approach to our capital allocation. When I look at what we have done, even in the last multiple years, whether it is the dividends, the buybacks, the M&A we have done. So for example, take the LinkedIn. I mean, the fact that we are ahead of the plans we stated at the acquisition is super important to us because it's one thing to do M&A. It's a completely different thing to do M&A and then follow through on the plans you stated because that's the true measure of our ability to realize the benefits of spending shareholder money. So I feel good about the way we have had a balanced approach to it. But fundamentally, when I look at the opportunities ahead, I think about -- across our 3 segments, there are 4 big, big opportunities. We talked a lot about Azure and the Azure Edge opportunity. It's massive. And we are in the very early innings of what the world needs in terms of core infrastructure. The opportunity in business applications, which we didn't even talk much yet about. We are a small player in a big market that's growing. And we think of that as another huge place. In fact, one of the big breakthroughs for us, beyond the growth of our Dynamics 365, which even last quarter grew 70%, has been Power BI. We went from nowhere to being now the leader in BI in the cloud. We grew 3 -- by 3x last year. I think we're going to end the year with \$0.5 billion billings annualized run rate, which is tremendous. I mean. So that took investment multiple years. But here we are with some real numbers. Then say -- that was in business applications, now let's go to Office 365. That I think is very clear, Microsoft 365, in terms of, whether it's small business growth, whether it's first-line growth, the richness of applications, the security and gaming. Gaming is another place where fundamentally we are going and trying to build out a gaming service which says, the console is going to be important to us, continue to be the place where the most heaviest gamers are. PC as a gaming device is, in fact, increasing in popularity. And our ability to build Xbox Live

as a network with subscription services, that's another huge opportunity. So to your core question, I think that we can do the best for our shareholders by looking at these expansive opportunities and investing wisely on them. Then having a balance with all the other dimensions, whether it's dividends or buybacks or M&A as it fits with our core strategies.

Q - Keith Weiss {BIO 6993337 <GO>}

Excellent. Let's try to sneak in one last one.

Q - Unidentified Participant

So my question really is around gaming. If you can just spend a little bit more time talking about the gaming opportunity. I know you just touched on it a little bit, the role Microsoft plans to play, not quarter to quarter, longer term, your outlook for e-gaming, Xbox, the technology, what are the core competencies longer term?

A - Satya Nadella {BIO 3224315 <GO>}

Yes, I mean, to us, we're very happy about the core gaming asset that we have. And that asset got built with the loved brand of Xbox as well as PC gaming. One of the things that most people had not recognized is that we are the owners of both of those. And so therefore now that we even have Xbox and Xbox Live, in particular, across these 2 has really helped us grow engagement on Xbox Live. And we'll continue to do so. We now have play-anywhere game subscriptions, which I think is the beginning of what is going to be a transition. Much like what I described with Microsoft 365, is a transition in gaming, where the console is going to be super important, the PC is going to be super important. But ultimately, it's about people and their ability to game anywhere. And that's where we are going. Whether it is with our subscription offerings with Game Pass, whether it's with Mixer, which again is growing very rapidly in terms of just streaming. And so are esports franchises around our first-party games. So I think we have many, many levers there. But fundamentally, it comes from that heritage of having been in the gaming business for multiple decades at this point and built up that capability in a world where now we have the ability to take that and have it service a much broader marketplace than ever before.

Q - Keith Weiss {BIO 6993337 <GO>}

Excellent. Unfortunately, that takes us to the end of our allotted time. But thank you very much for joining us, Satya.

A - Satya Nadella {BIO 3224315 <GO>}

Thank you. So much. Thank you, very, very much.

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