UBS Global Technology Conference

Company Participants

- Amy Hood, CFO

Other Participants

- Brent Thill, Analyst, UBS

Presentation

Brent Thill {BIO 1556691 <GO>}

All right. Thank you for joining. We have, I think, a fantastic software lunch. We got a chance to hear from Christian and now you're going to hear from Amy Hood. Amy has been the CFO since May of 2013. Microsoft stock is up 60% since she took over. So I know you're not measuring yourself on that exact metric.

Amy Hood {BIO 18040963 <GO>}

No.

Brent Thill {BIO 1556691 <GO>}

But it's nice to note. She joined in 2002 and held various roles across the business, which has resulted, now, in her taking over as the CFO. So thank you, Amy, for joining.

Amy Hood {BIO 18040963 <GO>}

Thank you, Brent, for having me.

Brent Thill {BIO 1556691 <GO>}

I think this is one of your first sell-side events. We appreciate you --

Amy Hood {BIO 18040963 <GO>}

Maybe -- actually, not maybe. It's I think my first ever in my history at Microsoft, 13 years. My first sell-side conference.

Questions And Answers

Q - Brent Thill {BIO 1556691 <GO>}

The one shift that we've seen -- and I'll go through some questions. And please, again, I've got the iPad. I don't meant to sound like a broken record. But you can ask questions and I'll ask questions of this or I go to my questions. Please ask any questions that you have.

The shift that we've seen -- and I started my career as a developer in Microsoft so, in the early 1990s, I'm dating myself -- but there's a big shift that's gone on, at least that we've felt is just independent of the Company, which is you go through Silicon Valley, everyone believes in what Satya is doing from a product perspective and then what you're doing on the operational perspective. You have done quite a bit. Can you just talk a little bit about what's happened since both of you have effectively taken over, what the change has been?

A - Amy Hood {BIO 18040963 <GO>}

Well I think, like all things, it's probably both overstated and understated in certain respects. We've been working on our cloud transition. I think we took our first Exchange customer where we hosted their mail for them in 2007. It may have been 2006. And so, we've been at many things for a very long time, strategically, that I think maybe are paying off differently in the past couple of years. And there's things that I think feel very new at the Company in the past, probably, two years.

I do think what Satya very deeply brings is a focus on where we have a unique reason to exist. The word that we call those are our ambitions. There are three of them. For ease, they're also our reporting segments now so it sort of makes it more cleanly aligned. That's resulted in great focus on the engineering side in terms of where are we going to spend our money, where are we going to put our engineering talent. And where are we going to focus our execution muscle, which we think is very good.

When you're a CFO in that environment, it's very helpful because you can sort of continue to have conversations about focus and execution and efficiency and process reinvention. So I do spend a lot of time on that. And together, I think what his product vision and the holistic nature of it for us; he's very future-minded. It's a very clear vision of where the Company ought to be in a year, in three years, in five years. That's very helpful when you're a resource allocator, which is my fundamental job in life.

Then, you add to that trying to think about excellence in execution all the way through the customer-facing salesforce. And we've done a lot of work in our selling transitions in the past couple of years in terms of what do you want your salespeople selling and why. There are natural ways to do that. I love salespeople in some regards. They're very easily motivated and change behaviors quite easy. Whereas, in the marketing side, it could be a harder transition in terms making the motivations more clear.

But it's very clear. We've sold better. We've sold the future. We've deployed the future. And done it, I think, better than some of peer group. And I feel good about that. And I think what you can say is that doesn't happen by two people being focused on it happening. It happens when we have a senior leadership team that meets for hours every week -- literally, every week -- to talk about if we're driving the business in the right direction. You can course-correct very quickly when you meet as often as we do.

Q - Brent Thill {BIO 1556691 <GO>}

You've done a great job in the transition. What have been the easier things to move and what are still the challenges as you see in front of you in terms of this transition?

A - Amy Hood {BIO 18040963 <GO>}

Oh, they're no different than we talk about on the earnings call every quarter. I think we continue to focus on the cloud transition. How quickly can you make it? How aggressively can you think about customers being ready? How can you make them more ready? There's a real balance there. We run a hybrid environment. Most of customers run a hybrid environment. And so, being able to make sure we get customers through that transition in a healthy way is always a balance. But we try to make it as easy as possible and aggressively as possible.

And I guess that transition is going as well as one would expect when you have as large of a customer base as we have. So I feel quite good about that. And we're still -- you think about that in terms of our ambitions; that's our first and second ambition. Build the intelligent cloud and reinvent productivity in business processes. Those two fundamentally say what our job is in the transition.

And so, I think we get it. I think customers understand where we're going. They understand the roadmap. And so, I always feel like we're making good progress on that. I always, of course, see places you can do better. So that's just the nature of, probably, how my mind works.

The third ambition, more personal computing, we've been clear we're going through that transition. We're about four-and-a-half months into the launch of Windows 10. We feel very good about it, feel good about the progress we've made in our hardware portfolio for holiday this year both in the margin profile of that hardware portfolio and in its competitiveness and innovation. So that feels very good.

The early signs out of our search business, in terms of its correlation to Windows 10, feel very good. But that's the earliest transition, I would say. If you think about a fundamental business concept of taking every customer interaction you have and thinking about it in terms of lifetime value, that's the easiest way to think about what we're doing as a company, period. You say, "What's Microsoft up to?" Taking every customer relationship we have and turning it into a lifetime value annuity construct.

And so, we've been doing that longer in the intelligent cloud and in business process. Think about that as Office and the server business. And we're newer to it,

frankly, in Windows. But Windows 10 is absolutely the best insight into what that looks like when you think about an annuity equation of a consumer on a PC.

Q - Brent Thill {BIO 1556691 <GO>}

When you look at the new Microsoft, it's a lot more open. You talk to executives, whether it's Dropbox. And they say, "We love them."

A - Amy Hood {BIO 18040963 <GO>}

They don't always say that, I don't think.

Q - Brent Thill {BIO 1556691 <GO>}

No. But when you think about what's happened in some of the key partnerships that may have been a little more friction in the past, the friction is a lot -- it's a lot smoother now.

A - Amy Hood {BIO 18040963 <GO>}

I thought you were going to pick Red Hat. That was a better example.

Q - Brent Thill {BIO 1556691 <GO>}

Well in Red Hat, exactly. So if you go to Red Hat. But when you think about where are you at in this evolution with the partner ecosystem; are you through the big ones you want to be through? Is it --?

A - Amy Hood {BIO 18040963 <GO>}

I would think about it a little differently. Brent. Assume every time I think about whether or not partnerships make sense or what type of environment to have, assume we're optimizing for customers and developers every time. Every time. And think about it last is whether I decide somebody is a friend or not a friend. Everybody needs to work together to make customers' experience the best it can be.

And so, I think that's what Satya has very cleanly brought as an environment. And you see Peggy Johnson, who heads BizDev, is executing on that every day. Most of leadership team has pretty deep relationships across the industry, at this point. And so, if you think about from the customer out as opposed from Microsoft sort of out, it's a better understanding of why we're doing what we're doing.

And so, the importance of working with Red Hat, the importance of working with SAP, the importance of working with Oracle or Google or, the list is long, Salesforce. It's because it matters in terms of customer experience. And so, when you take that lens, it's actually quite easy to understand why we would work the way we work.

Q - Brent Thill {BIO 1556691 <GO>}

Just going into some of the segment lines. On personal computing, it's your largest business as a % of revenue. The margins will fluctuate around and I know you're

myopically focused on cost. So when you think about the opportunity in efficiency, where you do think the biggest opportunity is for you on the personal computing line for improving the efficiency of --?

A - Amy Hood {BIO 18040963 <GO>}

It's interesting you asked the question that way. I don't think I am as focused on cost in the way that you think I am. What I think about is what's the most efficient way to run a business we've chosen to be in and how can we do that better every day. All businesses that we're in have different margin profiles. So I think about what's the right margin profile for that business and how do we best get there. And sort of that's probably the maniacal way I think about it.

And so, in more personal computing, it's you have to manage at a slightly more granular level because of the nature of the components. So in the Surface business, you think about the gross margin inherent in the product and the value prop it has to be able to generate the right returns. In the OEM business, I would think quite differently about efficiency. Efficiency, there, is taking three or four operating system teams on the OpEx side, putting them on one team. And having them effectively work better. That is both more efficient and far less costly. But frankly, the benefits are far broader than the fact that we can cut costs. We have a logical ecosystem interface through the store, through universal apps.

And so, I tend to think about why -- there's a peer group that makes sense and then there's also the why. Then, if you manage those two things, you, frankly, find it far easier to have culture change on cost because people know why they're doing it; not a CFO showing up saying, "You need to be cheaper." That's the absolute worst way to have cost-cutting happen. It needs to happen because it makes you a winner, not because you want to be cheaper. Being a winner is what motivates people these days.

Q - Brent Thill {BIO 1556691 <GO>}

When you look at the entry into some of these new hardware solutions, one of the questions I get is you look at the service book, pretty compelling. I bought the Microsoft Band 2, some really compelling features for running and golf and so many features that I think are opening up a broader TAM. But how do you control ensuring that you're not cannonballing into this; that you're kind of gradually going in so you can control --?

A - Amy Hood {BIO 18040963 <GO>}

Yes. It's funny. Most of the feedback I'm getting now is; where is the supply? So it's funny you asked about cannonballing anywhere. Currently, the feedback is, "I'd love to see the Surface Book terabyte in stock for holiday" or "I'd love to see the i7."

And so, what I think of is -- you picked two funny examples. The bigger issue is how do you think about what unique value prop you have in the market and how many do you think you can sell and how do you get an efficient supply chain down to where the supply and demand balance can be effectively controlled.

How do you stage-gate? There's no need to do annual budgeting in a company when you work like that. It can be stage-gated. Hardware is the perfect example of where we have that process. You make progress, you get more funding. You don't make progress, there's no need to have more funding. And so, that's a good behavior because it rewards positive outcomes. And so, I think, instead of thinking about that as a control mechanism, think about it as when you meet your commitment to the Company, you get to bet a little bigger.

And you've seen that. We've been willing with the transition from Surface Pro to Surface Pro 3 to Surface Pro 4 and Surface Book. The margin profile is better the device. The specs are very compelling. The price to value is a very compelling offer. Reviews have gotten better. General social sentiment is pretty high. So I feel very good about how we've sort of stage-gated our entry into some of these markets.

And that's been a learning. I do understand that was not our approach a couple of years ago. And when you do it that way, your risk-reward balance is in the right place instead of a bit off-kilter.

Q - Brent Thill {BIO 1556691 <GO>}

You did see pretty big margin improvement in the last quarter in this business. Is that sustainable? How do you think about what we saw last quarter versus how we think about --?

A - Amy Hood {BIO 18040963 <GO>}

Yes. Part of that's a portfolio transition. As we've focused our phone portfolio, you'll see margin improvement. I continue to think we can see margin improvement because we do improve the whole portfolio of margin across every hardware product. And so, while you may see step functions based on mix -- so, we've taken some exposure to phone off -- you'll see bigger improvements in those quarters. But I would expect general improvement across successful hardware product launches. You design premium products, you can earn premium margin.

Q - Brent Thill {BIO 1556691 <GO>}

Shifting to the productivity business, process business. The biggest question I get is; how far can the Office franchise go? And I know you keep putting more into Office to make it more compelling.

A - Amy Hood {BIO 18040963 <GO>}

And charging more. You put more in and you charge more.

Q - Brent Thill {BIO 1556691 <GO>}

E5?

A - Amy Hood {BIO 18040963 <GO>}

Yes.

Q - Brent Thill {BIO 1556691 <GO>}

So yes, if you could just walk through how you think about what's happening here, the impact of E5 coming, I think, in December.

A - Amy Hood {BIO 18040963 <GO>}

It goes on the price list in December, yes. Let's talk about Office in general and continuing to expand the definition. It's why we didn't say reinvent Office. The ambition is not to reinvent Office. The ambition is to reinvent productivity and business processes. That's a very broad and very expansive total addressable market ambition.

And so, I think of Office. And whether now I call it Office 365, just because I think about Office in its holistic version, we're adding new things to the umbrella we call Office. And that's analytics. It's security. Some of you may have seen we did a reasonably-sized security announcement this morning out of D.C. in terms of talking about how we're thinking about that. We're probably one of the biggest investors in security that nobody understands is in the security business. And the third pillar is voice.

And so, when you think about that, those are very new TAM markets for us and very logical extensions of what our salesforce knows and does quite well. And so, when you can take an effective salesforce with good relationships and add modules, easy way to think about, to the selling motion, we can do so reasonably efficiently. Not a ton of marginal cost. But a ton of marginal revenue opportunity. And those are good for us when you think about the logic of extension.

Adjacencies tend to make sense for us when done that way. Some are more adjacent. Some are slightly less. But that's why the framework works. And it's why you've seen us make a lot of acquisitions recently in some of the enterprise businesses where we can take something that's not quite at scale, very quickly turn it around and relaunch it. And get it into the channel quite quickly.

Q - Brent Thill {BIO 1556691 <GO>}

The Dynamics product line seems really exciting; back office, front office. When you think about things you can do there, can you just help us understand what you think are some of the interesting low-hanging fruit in that business?

A - Amy Hood {BIO 18040963 <GO>}

Well I think, in general, when you think about moving our entire business application business onto the Azure platform, which is what we are doing. And think about what that says about your ability to understand workflows of any type and what workflows can you apply that logic to, I think the opportunity is pretty expansive. When you hear Satya or Scott Guthrie talk about it, they'll say; look at anything that has a workflow to it and say is there an opportunity for us to be in that business. Far beyond, what you think of as like the general ledger; accounts payable, accounts receivable. That's a pretty narrow vision of what business process can be. And so, for

us, I do think it is a pretty expansive view of when you understand how to do that in your platform. The opportunity to add nodes above it at the SaaS layer seems pretty marginally cheap on the cost side and marginally positive on the revenue side.

Q - Brent Thill {BIO 1556691 <GO>}

It seems like there's a lot left in this category. And there's maybe a lot of questions I get about; how much is left? But it seems like from your response there's --

A - Amy Hood {BIO 18040963 <GO>}

Well I think in some ways, it's about us expanding our own ambition in this spot. We've spent so much time talking about the transition of Word, Excel. And Power Point to Word, Excel. And Power Point in the cloud. I think sometimes you talk yourself into the narrowness of the vision. And it's why I think it's so important for us all to understand what we're trying to do in that umbrella.

The umbrella is to add TAM, to take as many users as we can and transition, to add new users that weren't possible before because of the IT demands. And sell all of them more stuff. I mean at good margins. And so, in that, frankly, when we narrowed our own vision, I think it actually was maybe the actual big misstep from a couple years ago. And instead, talk about the expansive of our vision and what's possible given the assets we have, the knowledge we have. And the customers we already know.

Q - Brent Thill {BIO 1556691 <GO>}

Shifting to the third business, intelligent cloud.

A - Amy Hood {BIO 18040963 <GO>}

Yes.

Q - Brent Thill {BIO 1556691 <GO>}

The server numbers have been, database server operating system numbers, have been fantastic. You're taking share. You've disrupted some very large vendors in that space. Can you walk through what you're seeing? Why this is happening? Just give everyone just a little bit of your perspective on --

A - Amy Hood {BIO 18040963 <GO>}

It's interesting. This is a business that can grow a lot. I mean I just look and say we have a good vision. We have a highly-compelling value prop. And I feel like we're competitively well-positioned amongst many, many vendors that exist in this space. And it's so early in the game.

And I think we've done a good job of taking our existing customers and existing product lines -- we'll call that our perpetual business, for lack of a great term for it -- and done a good job of taking share, to your point. If people were going to stay on-prem, I think we've done a good job of taking share, also switching people to

premium workloads and, on occasion, raising price in those sort of prop to core transitions people talk about. So those are all very good execution things.

But this is the place, I think, where there's more new, fundamentally new, workloads being created. And that's probably what's more exciting to me than many other things. It's things we couldn't even dream were possible are now possible in this segment. When you think about the investments in machine learning, you think about the extent analytics can be used, you think about how much more we can learn from sensors and technology and what the vastness -- like when you say -- Satya, we laugh, because he's like, "Every business is a software business today."

That, to me, is very compelling because it means wherever we thought our addressable market was up to this point has been too constrained. And so, we're really constrained by our ability to execute and do so well and do so consistently. And so, this team has done a great job. I mean this team is not lacking for people writing nice things about them. So I love that about us.

But given the segments that we can make progress in, there is a lot of room for us to continue to be ambitious here. And I think that's a statement I would make in general. I mean I think this is a place where the pace of the transition is quickening, which I think people have kind of seen in the last couple quarters. It's felt that way, I think, in the market. It feels that way to us. The pace is sort of picking up. Even in a macro environment that feels a little unsettling, I think, globally, it still feels like the pace is picking up of the cloud transition; people's interest, people understanding how it could impact their business fundamentally.

Q - Brent Thill {BIO 1556691 <GO>}

You've always felt that that's additive to the cloud, not subtracting.

A - Amy Hood {BIO 18040963 <GO>}

Yes. I've always felt that.

Q - Brent Thill {BIO 1556691 <GO>}

Can we talk about --

A - Amy Hood {BIO 18040963 <GO>}

You don't do what we've done for 10 years and thought it wasn't additive. Just to point out the obvious. I mean there are things you do because they're defensive and there's things you do because you know it's opportunistic. People thought we were doing, I think, the cloud for defensive reasons. It's not. It's because, ultimately, your TAM is simply larger. Period. And so, I think that's maybe the distinction in the world view that I have.

Q - Brent Thill {BIO 1556691 <GO>}

You got out in front of this before a lot of other large software companies that --

A - Amy Hood {BIO 18040963 <GO>}

I guess. We were behind some and ahead of some. So I'm never confused on that. I mean there's people that were ahead and we were catching up. And we're ahead in places and other people are further behind. And those environments can change. The important thing is if we don't stay aggressive and focused, I don't want be that article, whenever that one is.

Q - Brent Thill {BIO 1556691 <GO>}

Can we talk just a little bit about, in the public cloud you're the clear number-two. There is one better ahead of you.

A - Amy Hood {BIO 18040963 <GO>}

Yes, on the infra.

Q - Brent Thill {BIO 1556691 <GO>}

With AWS. A common question we get is; how do you think about this --?

A - Amy Hood {BIO 18040963 <GO>}

Yes. I think this is a good question because we laugh -- listen; real estate in Seattle is a very vibrant place, currently. We have two fundamental winners that feel like winners in the commercial cloud business. When you say there's breakaways, I don't feel left out of the breakaway in the commercial cloud business itself.

I think Amazon -- and Satya did a good job, I think, in his earnings comments this quarter, talking about what he's seeing technically; that both of us, we have different world views. But we're both share-gainers in this space and the TAM is growing quickly. And so, we don't see -- I think, in the past 12 months, I feel like our trajectory has changed a bit. You've seen it in terms of how we've talked, with Azure. I haven't had to change our trajectory talk on Office 365. It's always been positive and we've gotten credit for it, which I appreciate.

But I think the trajectory change has been the number of conversations we have with customers, now, around Azure that are proactive, where we're not the one bringing it up. And that is a difference. And I feel good about it. I think our pace of innovation has really sped up there. But I'm not confused about where AWS is in terms of share in the infra, in infra space.

Q - Brent Thill {BIO 1556691 <GO>}

I have one other question then we'll go to the question line. We have double-digit questions. So a lot of questions. OpEx has remained flat for quite some time and projected, I think, to be down slightly. Can you just talk about the balance of what you're doing on investing for growth and cutting?

A - Amy Hood {BIO 18040963 <GO>}

Yes. First of all, we've been very transparent that we've gotten 3-ish points of help from FX. So I've been transparent. I will remain transparent. We've gotten help, like the rest of the world has, from FX for the past 11 months because I think the bottom dropped out of the euro around December 20. It seems to recall around my birthday so that's how I think about the euro. And so, we'll continue to have that benefit right through this quarter. Now, that gets harder next calendar, assuming that there is any stability at all in exchange rates.

Now, outside of that, you've asked sort of how do I think about investing versus, quote-unquote, cutting. I think, first, we will continue to have that balance. What's nice about the new reporting segments going all the way through to operating profit as the profit measure is you can actually see where we're putting money in the OpEx level versus where we may be getting more efficient. And so, you saw, this quarter, in the intelligent cloud, listen we're growing revenue at double digits on a constant-currency basis, we should be investing in sales capacity, in consumption capacity because, otherwise, frankly, we're not taking advantage of what is a clear opportunity for us to have revenue growth. So that's an important concept. And I think we'll continue to do that as long as we see the opportunity to take share and grow our business.

At the same time, in the other segments, you've seen us be able to move resources around more or reduce them. You've seen that we've been far more efficient on our marketing programs and we've made some efforts on the sales execution to get more efficient and those have been helpful. There's always ways, I think, that we continue to review what else can we do. Can we run this process more efficiently? Can we run it through one engine? And I think we'll continue to go and focus on these things.

But I never want to constrain a revenue growth, where there is opportunity to take share and grow, with some need to meet an OpEx number. It would be very short-sighted of us, given our opportunity sets.

Q - Brent Thill {BIO 1556691 <GO>}

Okay. We have a number of questions so we can go more lightning-round style and you can --

A - Amy Hood {BIO 18040963 <GO>}

All right, yes, no; is this that question round?

Q - Brent Thill {BIO 1556691 <GO>}

No, you can --

A - Amy Hood {BIO 18040963 <GO>}

Yes, no, maybe. You'll get a lot of maybe's is my guess. You're welcome to try.

Q - Brent Thill {BIO 1556691 <GO>}

Can you summarize Microsoft's cloud strategy in just a couple sentences?

A - Amy Hood {BIO 18040963 <GO>}
Yes. Move everyone to it with a higher LTV.

Q - Brent Thill {BIO 1556691 <GO>}
How should we think about your foray into notebook hardware?

A - Amy Hood {BIO 18040963 <GO>}
Foray? Oh, the Surface Book?

Q - Brent Thill {BIO 1556691 <GO>}
First laptop you've built --

A - Amy Hood {BIO 18040963 <GO>}
Okay. Okay, check. Yes, got it.

Q - Brent Thill {BIO 1556691 <GO>}
So do you expect to do other form factors?

A - Amy Hood {BIO 18040963 <GO>}
You should think of it as a concerted effort for us to address a core component. We've had a lot of, a lot of demand for high-end Windows machines from creatives and a good product to do it.

Q - Brent Thill {BIO 1556691 <GO>}
I hope to get it.

A - Amy Hood {BIO 18040963 <GO>}
Yes. We're working fast.

Q - Brent Thill {BIO 1556691 <GO>}
What is Microsoft's perspective with regards to the open versus closed ecosystem? You seem to be embracing more collaboration around open.

A - Amy Hood {BIO 18040963 <GO>}
You're talking to the company who's fundamentally a platform company. We're pretty open. I mean it's weird for me because if I choose closed, I don't know on what basis I would choose that. So we are a platform company. We've always been a platform company. The more open we can be, the better off we generally are.

Q - Brent Thill {BIO 1556691 <GO>}

Microsoft will go through a transition from a license model to a subscription model. You will be hybrid for a while. How long does this take to make that shift over?

A - Amy Hood {BIO 18040963 <GO>}

A different question. There's a technical -- this is a weird one because so much of our enterprise business has always been subscription, when you think about it, in terms of how the accounting construct was. So moving from a perpetual subscription to a cloud-based subscription doesn't look any different. So the P&L doesn't have an impact in that way.

The only place it's the cleanest is our Office consumer business because we had a purely perpetual business recognized upfront to a business that's a subscription. And I think we've talked about that transition and we finally were at a place this quarter where we got a tailwind from the subscription as opposed to headwind from the perpetual change.

The technical question you're asking, on the infrastructure side, in terms of the pace of that transition from on-prem to hybrid to a pure cloud, I mean that's a transition that's a long one for a company.

Q - Brent Thill {BIO 1556691 <GO>}

Can you talk about the relationship with Apple?

A - Amy Hood {BIO 18040963 <GO>}

Yes. Do you want me to, now, talk about it or is this the lightning round?

Q - Brent Thill {BIO 1556691 <GO>}

No. You don't have to give one -- yes.

A - Amy Hood {BIO 18040963 <GO>}

No. We have worked with Apple for -- we have a long history of working with Apple. I'm very proud of the new Office for Mac release. If you guys are running the 2011 version, you should move. 2016 is a monumental improvement. So I should just say, it's terrific. We were onstage at their last event. It's been a long time since that's happened. And I feel good about that.

So if we're going to build great productivity software and we want our users to use our productivity software, it will be important to ship it cross-plat. And that's always been true for us. Again, if you think about the thing I said at the very beginning, if you talk about caring about a customer first instead of starting with like a Microsoft lens all the time, your answer will be; of course, we have a good relationship with Apple. It would be crazy not to.

Q - Brent Thill {BIO 1556691 <GO>}

Just so you don't think I'm crazy. Mike Tyson and the Jedi master are in the house.

A - Amy Hood {BIO 18040963 <GO>}

My God, that's so good. If the Jedi master is here, I'm very excited for Star Wars. So we are alike.

Q - Brent Thill {BIO 1556691 <GO>}

So Jedi master's question is; how do you think about moving beyond into things like the automotive market? You were in the auto segment. But is there something that you can do there that --?

A - Amy Hood {BIO 18040963 <GO>}

There are many verticals, auto is one of them, where I say to myself what is the opportunity for things like the number of sensors that will be embedded in machines of all sorts -- autos are a great example -- and our ability to help in that ecosystem. So I do think you'll see us have a focus on certain verticals, especially. Not in the way that people are sitting here thinking, "Oh my God, she's lost her mind. She's going to do a driverless car." That's not what I'm saying. I'm saying there are opportunities in industry segments where the amount of data and sensor inputs make a perfect sense for us reinventing business processes and enabling very different experiences inside an automobile or whatever else you'd like to reinvent on that front.

Q - Brent Thill {BIO 1556691 <GO>}

I think this question just goes back to open. But I'll ask it anyway. Just as it relates to Linux on Azure, it's growing as a %, it feels like.

A - Amy Hood {BIO 18040963 <GO>}

It is.

Q - Brent Thill {BIO 1556691 <GO>}

And before, it was probably not referred to as a friend. Now it is being referred to as more friendly. Can you talk about what's changed this view? I think I know the answer.

A - Amy Hood {BIO 18040963 <GO>}

No. It's the same thing. Again, if you're trying to build an environment -- and this is about big developers instead of maybe an end user enterprise customer that we've talked about so far -- if what you care about is having developers love the platform you're building and have it be flexible for them for the scenarios they want to use, of course, of course we will work with many Linux providers to make sure Azure works for them.

Q - Brent Thill {BIO 1556691 <GO>}

Okay. A lot of talk in the industry about analytics, big data. You guys have made a number of acquisitions. You've unveiled Power BI. It seems a little bit easier to use. You don't have to tether it to all kinds of different technologies. Is this starting to have an impact? Does this show up on the CFOs radar at all?

A - Amy Hood {BIO 18040963 <GO>}

On my radar? It does. You have to remember we have a very big analytics business when you think about it holistically. Between the investments of BI and SQL, between us owning one of the most-used front ends in Excel, we have a very interesting opportunity to grow our analytics business. I feel like the product suite -- we have a terrific leader in that business, a guy named James Phillips, who's just doing awesome work. And I'm very excited about our opportunity to increase the share we have there in analytics. E5 will be a very good vehicle for us to do that.

Q - Brent Thill {BIO 1556691 <GO>}

Phone question. There's a lot of focus on market share. How do you think about where you want to be in that market share war?

A - Amy Hood {BIO 18040963 <GO>}

The best example is to say; what are we launching? We launched the 950 and 950XL. They're premium products at the premium end of the market, made for Windows fans. And we'll have a business phone as well. It's a focused approach. I think we're not confused on what that growth will look like and should look like. We're focused on doing it in a smart way and we're focused on the people who love our products and our experience. So this is where -- if the mobility of the experience is important, then we'll probably be in that segment in the phone is the premium in the business segment for us.

Q - Brent Thill {BIO 1556691 <GO>}

After Satya was named CEO, he commented that all the businesses needed to be able to stand on their own.

A - Amy Hood {BIO 18040963 <GO>}

Yes.

Q - Brent Thill {BIO 1556691 <GO>}

Does this apply to the phone business as well?

A - Amy Hood {BIO 18040963 <GO>}

Yes. It's a funny question. Every business we're in has to ultimately stand on its own. The important question is; how do you define a business? At what level you define it? But the answer is yes. Once we've defined a business, it absolutely needs to stand

on its own. Otherwise, you're confusing yourself on the motivation on the business itself.

Q - Brent Thill {BIO 1556691 <GO>}

Just another like four other questions on mobile. How do you think about the strategy of what you're doing? Obviously the subscription is growing across platforms. It can have a big attach. I know I'm an Office 365 subscriber and can deploy it anywhere.

A - Amy Hood {BIO 18040963 <GO>}

You can.

Q - Brent Thill {BIO 1556691 <GO>}

What else is going to help on the mobile side, from your perspective?

A - Amy Hood {BIO 18040963 <GO>}

I didn't totally follow the question. I think what you're saying is do I believe the mobility of an experience is important. You've seen us say it's important. We've now bought Acompli, Wunderlist, Sunrise, MileIQ. Those are all terrific productivity experiences, cross-plat, that allow you, which is a common scenario for people to have an Android or an iPhone, iOS phone. And a Windows PC. If you want -- well, I don't know whether there's any more common profile -- be having that experience be consistent, gorgeous. And accrue is incredibly important to us.

You can look at -- I mean it's very funny all the articles that have come out on how we own more of your iPhone space than we used to on your mobile phone. It's because of these beautiful experiences that we've put together that are accruing back to Office. It's a very good thing to have people want to use your apps. That is what we mean by mobile first. It doesn't have to mean we sell a phone. Let me be super clear on that.

Q - Brent Thill {BIO 1556691 <GO>}

Another question from the audience. Could you envision the scenario where Azure really accelerates and maybe can play catch-up to AWS as the lead rider up beyond the peloton?

A - Amy Hood {BIO 18040963 <GO>}

Yes. Let me answer that question two ways. Number one, while I know everybody wants me to focus on just the size of my Azure cloud, you'll never see me do it because our business is the commercial cloud all up from the SaaS to the IaaS and the PaaS layer. Literally, we won't talk it about it separately. And so, mentally, I know people want to do it that way. It's probably not going to happen.

That being said, what's important is we are growing very fast. I don't know how else I am supposed to grow faster. It's a very big number. And I feel very good about the

momentum we have on the Azure side of the business. So do I envision a place where, over the long haul, with the amount of TAM that exists to be captured in this business there can be two very big players? I absolutely believe there can be two very big commercial cloud players, given the size of this market.

Q - Brent Thill {BIO 1556691 <GO>}

A question around the entertainment business. Is the TV still important in this world? What's the opportunity for Xbox in terms of financial relevance in Microsoft?

A - Amy Hood {BIO 18040963 <GO>}

Number one, XBOX is financially relevant to Microsoft. So people should not be confused about the journey of improvement we have been on in the past few years in the Xbox business. So I will just simply say that.

Next, I don't think about it as much about the TV. I think about the importance of gaming. I would actually, literally, very specifically talk about the importance of gaming to us. You've seen the investments we've made. You've seen us talk about gaming and it's important across all form factors for us, via the PC, via the phone, via the console itself. And I think we've done a very good job of taking what was something that was sort of sat outside the Windows ecosystem and made it part of the Windows ecosystem so that gaming value accrues back to the ecosystem and to the developers who work there.

And so, for me, entertainment is too broad of a question. I would say gaming is fundamentally important. The brand, Xbox, is still an incredibly powerful brand. Gaming PCs are amongst the most lucrative businesses to be in. Gaming, as a category, is quite profitable. And I feel good about sort of how we've changed the landscape of what that looks like as a company and was incredibly excited at the Code.org announcement yesterday where Minecraft will be one of the two fundamental experiences every young and aspiring coder across the globe will get to work in. We are super proud of the relevance that has to us. And so, gaming is a very interesting opportunity in as much as it attracts young people to the ecosystem.

Q - Brent Thill {BIO 1556691 <GO>}

The last question on iPad was; when you just look external, companies that inspire you that you feel you would like to bring aspects of that to Microsoft?

A - Amy Hood {BIO 18040963 <GO>}

There's so many. Gosh, where would I start? I am deeply inspired by the focus on the customer that people like Pixar have, how cleanly they know who their audience is. And how deeply they focus on it. I am always inspired by companies that look -- I'll give you a funny example, maybe. I think GE has done a really interesting job of changing how they think about the businesses they're in. I always find that to be very inspiring, when people can take a lens that's sort of been applied to them from the outside world and really change about what their asset is they have in life and getting back to what that matters.

There's companies, even locally, that I think we learn a lot from. Starbucks; Starbucks has a very clear vision of their reason for existing on the planet. When you talk to them, there are 300,000 people who can tell you why they exist. Literally, 300,000. Consistently. The culture is so deeply understood in every part of their being. I think that is such a monumental testament to the consistency of a strategy and culture. And I think we're working really hard on that. But we've got a ways to go because we run a pretty diverse business. But I look and there's tons of them.

And in tech, you could pick tons of people. Like, I think Mark's here, right? Garret. I'm like shameless in saying that I learned a lot from how they talked about their transition years ago and I think they did a terrific job.

And so, I have to tell you I am not afraid to beg, borrow, steal, learn and that's just been a cultural norm we have to have. If somebody does something better, then let's just -- let's learn how they did it and do better. And I think that's a culture thing that people have to appreciate as different. We call it sort of always learning is the cultural principle we have.

And so, that's why I laughed when you asked me the question. There are so many things I look and say I've learned in the past two years that we can do better and the list is sort of very long. And it always should be. Like, as a leader, if you're not thinking you can do something better, do something different, try it again, take a different approach, then you're probably too proud or too clueless, both of which are bad. That would be unfortunate.

Q - Brent Thill {BIO 1556691 <GO>}

Thank you, Amy.

A - Amy Hood {BIO 18040963 <GO>}

All right. Well thank you for having me. Thanks, everybody.

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