Deutsche Bank Technology Conference

Company Participants

- Dave O'Hara, Executive Vice President, Commercial Chief Financial Officer

Other Participants

- Brad Zelnick, Deutsche Bank

Presentation

Brad Zelnick {BIO 16211883 <GO>}

Okay. I think we're live. Welcome back, everybody. I'm Brad Zelnick with the Deutsche Bank software team. Really delighted to be here for hosting this session with Microsoft, where we have the company's Executive Vice President, Chief Financial Officer of its Commercial Business, Dave O'Hara. Dave, welcome.

Dave O'Hara

Thank you, Brad.

Brad Zelnick {BIO 16211883 <GO>}

Thanks for being here. Format of this will be a 35-minute-or-so fireside chat or as long as we last. I've got a bunch of prepared questions to ask Dave and if there's time, maybe we'll -- I'll keep my eyes on my phone, on my inbox. If you have any questions, I'll try to weave them into the conversation, again, if we have time. But with that, Dave, let's jump right into it.

If you don't mind, maybe for those that are less familiar with you, your title, can you explain your role and what it is that you do at Microsoft?

Dave O'Hara

Sure. I'm the Commercial CFO for Microsoft, which is just what it means, which is CFO for all of our commercial business. People ask me, what is -- tell me what's in the commercial business and I say, anything that's not in consumer, which is true and it's a fairly accurate framing. So it's all of -- it's Azure, it's Office, it's Windows Commercial, it's SQL, it's all of the commercial stuff and then I also have Corp Dev.

Questions And Answers

Q - Brad Zelnick {BIO 16211883 <GO>}

(Question And Answer)

Excellent. Thank you for that. Maybe if we could talk -- macro environment is on everybody's mind. Maybe if we could just reflect on last quarter, the company sounded very confident in the strong momentum in the commercial business, but did call out some softening, specifically in the small to medium business segment and we're now two months into Q1. Has anything changed in terms of the trends that you're seeing there? And also several other software companies have come out and spoken about larger sale cycle delays in large enterprise type deals. Is this something that Microsoft is beginning to see as well?

A - Dave O'Hara

Well, I would say at a macro level, I think everybody is still trying to figure it out and understand where the world is going. But for us, we were -- as you noted, we had a good Q4, we had a really good bookings number. Our -- record bookings number for us and we've had a few quarters of that in a row. And so we like to see that -- we see that as a sign of future strength. And so we feel good about where we're at and we feel like long term, the cloud is just going to continue to expand.

On the SMB side, we saw a little bit of a pullback, but even with that, we still saw a good growth. It was just probably a tick less than we might have otherwise expected. We still have the same outlook. I think -- like I said, I think everybody is still trying to figure it out, but I also think that people are looking at this as an opportunity to really transform and they're investing accordingly.

Q - Brad Zelnick {BIO 16211883 <GO>}

That makes sense. And to your point, on commercial bookings, you've now had three quarters in a row with greater than -- or 35% or greater commercial bookings growth at constant currency and led by large long-term Azure commitments. And I can imagine this does give you some degree of visibility and confidence in the business trajectory for the year. But what do you think is driving customer's confidence in making these large type of commitments, especially in these times?

A - Dave O'Hara

Well, I think one, first and foremost is, we can show them how they can save money by investing in cloud technology and investing in the future. And so they look at it as an opportunity to take your OpEx down. When we look at a company, we really think the opportunity for us is basically anything they spend on OpEx, like everything ultimately can be automated and everything ultimately can run better in the cloud. And so we just make that pitch to him.

I think the other thing is we just have a good lineup of products. Cloud started out as infra, but it's much more than that now and we have solutions that all up and down the stack. And so I think the reason that they're willing to make commitments is one is, if they make a long-term commitment and a big commitment, they're going to get

a better deal from us, and they know that; and two is, they're just kind of at the point where I think they just feel like it's ask the question of, does this make sense? They know it makes sense. The question is, how fast can they move and how efficiently can they move? And so we're seeing lots of people make big investments and lots of people come in with big ideas.

Q - Brad Zelnick {BIO 16211883 <GO>}

Yes. I'm always, I guess, surprised, not surprised when I hear of these massive nine-figure multi-year strategic commitments with the world's most known brands. But when we think about Azure, obviously there's demand that falls into that category all the way down to smaller innovative type companies looking to do more with less and some of what you talked about. But how reliant is Azure growth on larger long-term deals? And is it fair to think about Azure is driving customer's spend on other Microsoft products as well, like Power Platform, Dynamics, Office, like how have these customer conversations evolved in terms of pulling through more and more of the portfolio?

A - Dave O'Hara

Yes. We start out talking about the Microsoft Cloud. So when we go in and make a pitch to a customer, we talk about all the offerings that we have. In Azure, as you noted is a good entree, because it's infrastructure and at some level, the companies are better off starting there. But there are so many offerings beyond that Power Apps, Dynamics, any of the database offerings. And so we really look at it -- I think that's the reason they wanted to sign a long-term relationship; one is, not only do they get a better deal; two is, they get more of a roadmap and they can understand where they're going long term as opposed to just doing a transaction.

So it's really about a deep partnership. We have that conversation with lots and lots of customers and I get involved in lots of deals as well. And so many of the CEOs start out by saying, I don't want a transaction, I want a partnership and that's what we're looking for too is a long-term partnership. And throughout that partnership, they end up using a lot of our technology, not just Azure. Azure is often just a starting point.

Q - Brad Zelnick {BIO 16211883 <GO>}

Got it. Makes perfect sense. And overall Azure growth rates remain very impressive, but there's still healthy debate around the trajectory from here over the next couple of years as just the revenue base just gets larger and larger and I appreciate you're not going to give us long-term guidance. But can you walk us through the inputs and process of how Microsoft itself thinks about capacity planning and the visibility you feel you have to overall commercial demand?

A - Dave O'Hara

Yes. I mean, it's a very different world obviously than we had even five years ago because our CapEx number is much more meaningful, much larger. But we also feel like we have way better signal into how much we should be spending on CapEx, because we have these long-term contracts, we have deep conversations with

customers, we have the biggest global footprint from a cloud perspective, that's all signal, that all tells us where we think the world is going. And so to build a data center, it takes a long time and so you have to be fairly accurate. And -- but not only that, you have to continue to drive efficiency.

So how we think about the long-term growth of Azure, it's a unique market in the sense that you have three super deep-pocketed players who are willing to do what it takes to win a customer. And so I feel like from a pricing perspective, it's always very competitive and we'll do whatever it takes to be competitive and continue to grow share. So pricing is always, for lack of a better description, under pressure, but we feel like we're charging a fair price and customers believe we're charging a fair price. So pricing -- there's probably pressure on that side.

On the hardware and software side, there are definitely efficiencies of scale. And so we've seen some of that through some of the margin expansion that we've been able to achieve over the years, it's just the efficiency. So you might have price pressure on the top 10, you might have bigger contracts which result in more predictable revenue, you have all the efficiencies on the hardware and software side and then you get the benefits of scale across all the OpEx that we're spending. And so all of that, we sort of -- every quarter, we pull all of that together and say, here's where we're at in our cloud business, but it really starts at the Microsoft Cloud. So not just any one product, it's the Microsoft Cloud and making that work across all of those inputs and intakes.

Q - Brad Zelnick {BIO 16211883 <GO>}

You mentioned the CapEx cycle. The capital that you're deploying in Microsoft Cloud today, how do we think about that like just in terms of -- I'm not -- I don't want to get into the accounting and the changes in depreciation, things like that, but just more from a capacity planning standpoint, like how far ahead are you thinking and is the company looking at?

A - Dave O'Hara

Well, we have a rolling three-year plan in how we think about CapEx. But really, it's about the next 18 months in terms of what you can control. So it's best to have a directional thinking on how we think about three years out, 18 months out. We do a lot of planning and then we adjust as we go and what we've seen over the last five years is each year, we have to adjust up a little bit. On the other hand, you get way more VMs out of a machine these days, you get -- you can store way more servers in a data center, the chips are much better. And so you can process -- there's a lot more consumption that can be run through a data center today than two, three, four, five years ago and so we get all those efficiencies as well. So you have to factor all of that into the planning process and to say where do we think we're going to be. And then, you have to get smarter about how you provision land and there's -- it's -- I feel like we're so much more sophisticated in that process than we were when we started -- it's been really fun to see.

Q - Brad Zelnick {BIO 16211883 <GO>}

Awesome. Maybe to pivot the industry cloud, I feel like the message we've heard coming out of Microsoft, it has signaled really strong adoption around what you're doing in vertical market specific offerings. How important is that to the longer-term Azure strategy? And is this an area where we should expect to see more investment maybe similar to what we've seen in healthcare with Nuance?

A - Dave O'Hara

Yes, sure. So on the industry clouds, really for those that are familiar, the industry clouds are really onboarding to Azure is how we should think about it because they're industry-specific but it's not super deep functionality. It's not like we're creating a vertical product that goes and competes with the ecosystem. It's really just industry -- some industry functionality that runs on Azure and gets people onboarded under our cloud. So those are all being well received, but even, as an example, when we announced our sustainability cloud, Judson and I jumped on with some CEOs from Europe. And then we jumped on a call with some CEOs from the U.S. and just said, hey, here's what we're doing, all good news. And they're like, hey, where's the reporting for X, Y and Z? And so people just want the stuff that's very specific to their company into their industry and we'll continue to work with the ecosystem to deliver that.

At Nuance, I spent a ton of time at Nuance both pre and post acquisition and still spend a ton of time there. Nuance was unique to us in the sense that we do have a very strong ecosystem play, always have, always will. And Nuance was both an app and a platform. It's a platform in the sense that Epic embeds it and Cerner embeds it and other healthcare providers embed it. And so it provides very specific functionality that the ISVs can use to make their solution better. And so the thing we liked about that is, it's not a vertical app, it's really a platform app, but it's very industry-specific. And I think we will take the opportunity to build all of those that we can. Because I think as long as we're enabling the ecosystem and are providing specific functionality, maybe they can't -- don't choose not to build on their own then that's all good news and I think, we're seeing that show up.

So would we do more stuff like Nuance? I think to the degree that we can have something platformy that works with the ISV community and provides differentiation that they want, yes, absolutely.

Q - Brad Zelnick {BIO 16211883 <GO>}

Any industries that stand out as rich opportunities?

A - Dave O'Hara

Well, I think the six that we have for industry clouds are all seen as an area of focus for us. And so think about any of them retail, financial services, manufacturing whatever, healthcare sustainability. I think the other one is nonprofit, as they look at our friends. And so I think all of those are big and broad opportunities for us to partner closely with the ecosystem.

Q - Brad Zelnick {BIO 16211883 <GO>}

Cool. Dave, maybe to pivot to a different topic, today's Microsoft really embraces interoperability and open standards and ultimately, to drive customer benefit. And unsurprisingly, I think Microsoft's multi-cloud value prop is very clear with capabilities such as Azure Arc, as an example. Can you talk philosophically about the balance between interoperability versus proactively partnering with great companies, like a Databricks, for example, that ultimately drive customer success?

A - Dave O'Hara

Sure. When you look back on it, it's been a bit of an evolution. I think when we first got into the cloud game and it was us and AWS and some other vendors that have been around a while too. It was seen as, you go win a customer and then the customer runs in your cloud and it quickly became apparent that, that probably wasn't going to be the way that it all played out that customers wanted choice, they wanted the opportunity to run the business, they wanted on whichever clouds they wanted.

And candidly, if you start six years behind your competitor, then it benefits us to have a multi-cloud environment because that way if people are running some workloads on AWS and some on us and some on GCP, then our job is to make that run as efficiently as possible. And Azure Arc really does that. What it allows people to do is run Azure services across a variety of clouds, including all the public clouds. And so I think multi-cloud is definitely here to stay. I think the onus is on the public cloud providers to make that work as seamlessly as they can and we'll continue to invest in that. And so in the early days, it was like, hey here's our cloud, here's their cloud, which one you want? And now it's like, hey, here's how to best run your business and I think it's much better story for customers.

Q - Brad Zelnick {BIO 16211883 <GO>}

No doubt, it's playing out to customer's benefit and we pick that up all the time. Maybe along similar lines, it was surprised to see or at least for me to see, for sure, your announcement of an Oracle cloud managed database service for Azure. Can you talk about the size and scope of this specific opportunity and just more generally how Microsoft thinks about co-opetition?

A - Dave O'Hara

Yes, I think Satya in particular is very, very committed to unique assistant play and we should be able to partner with almost any company and almost any instance if it's in the best interest of the customer. And we've been -- we've done business with Oracle for decades actually, and Judson who runs our -- who runs sales for us, he came from Oracle and so he's got long-standing relationships there. I think Oracle has a great offering and a great database offering. So I think having those database offerings run on Azure cloud is the good thing.

And we just got together and we said, hey we have a common set of customers that would like to see this happen, let's make it happen. And it really wasn't a difficult conversation to have. We just felt like if you do this and we do that and it all works out for the customer, then that's the good thing. The Databricks partnership is a pretty deep partnership for us. Our partnerships can run from sort of marketing

partnerships to sort of API partnerships. It's something that's more deeply integrated or even to something like Databricks that actually sells on our paper. And so we just -- depending on the company and depending on the opportunity, I think we're open to having partnership conversations with basically anybody.

Q - Brad Zelnick {BIO 16211883 <GO>}

No doubt. Maybe while we're on the data topic, Cosmos DB data volumes have been growing at over 100% for four quarters now, and that state of volume is growing very nicely as well. How does Microsoft think about data services creating affinity and stickiness in the cloud and as well how should we think about the cost of delivering data in terms of services over time?

A - Dave O'Hara

Sure. Well, data is a big play for us, always has been. I mean, way back in the day when Microsoft got into the business with SQL, that was sort of our -- that was the big leap into data. And I think everything that we do now, sort of builds on that history. And for a cloud offering, infra is great, storage is great, but if you can't do something with the data, it's not really going to make a difference. And so we spend a bunch of time and money on making our data products and offerings better and more targeted toward customers. And I think we see that in the growth.

I think for us, the stickiness comes from the collection of services, not any one service. And so I don't -- data is probably more sticky than average, but in the end, what they really want is all of their products to work together across the whole cloud.

And so from a consumption perspective, there -- some companies use data a lot more than others and so it just depends. In terms of cost, I think we have a fair value prop for our data services. But again, we look -- when somebody signs a multi-billion dollar contract with us and a multi-year multi-billion dollar contract, there's a piece of that, that's data. And so, as I noted earlier, we look at it across the whole Microsoft Cloud. And we just need to make sure that we are competitive in the market, and I think we are, and I think we'll continue to drive costs down. I think the most surprising thing to me in the last few years has been how quickly with the combination of software and hardware we've been able to take cost out of the model and which allows us to pass better pricing on to customers, and I think they're all seeing that and benefiting from that.

Q - Brad Zelnick {BIO 16211883 <GO>}

No doubt. Can we pivot to talk about Office? So yes, switching to Office 365 commercial, in specific, the company's noted moderation in SMB new deal volume recently. How much of recent seat growth is being driven by SMBs versus larger enterprise customers and how much runway is left for each of these customer segments to maintain seat growth over the medium term?

A - Dave O'Hara

Sure. Well, there's a few things that work with Office. Office, obviously, has deep penetration into the enterprise. On the other hand, we're continuing to add

functionality to Office that benefits customers. And so even though it might be deeply penetrated, we have other offerings, whether it's Teams or Security or any other, the new offerings that we've come out with lately. And so I think from an enterprise perspective, we have room to grow. Our E5 penetration still has room to grow.

From an SMB perspective, it's that accounts for a large chunk of our new users, but I think it'll continue to account for a large chunk of our new users. And so it's the -- as we look at building the Office business, it's a combination of both, new offerings and new suites for the enterprises, but also sort of simpler more straightforward offerings for SMBs and frontline workers. And I think both of them are growth opportunities. So our job is to just add as many customers as we can and get them the most value that we can and some combination of that P times Q is the Office business.

Q - Brad Zelnick {BIO 16211883 <GO>}

So we've talked a little about the Q, maybe a little more on the P. There's healthy debate around ARPU as the driver of Office 365 growth. E5 seats were up I think 60% year-over-year this past quarter, now account for 12% of the installed base. How should we think about penetration from here? To what extent will SMB and frontline SKUs offset this uplift? And is ARPU likely to be a meaningful growth driver going forward?

A - Dave O'Hara

I think the combination of ARPU and seat growth will be our growth driver. And so you might say, ARPU might be up a tick, down a tick, seat growth might be up a tick, down a tick, but when you figure the two out, then that's where we're going to be. And then you throw in the new offerings that we have, some of which just come with the Office product like Teams and others, which we might charge for separately. I think that adds to the growth as well.

Even with Teams, as you think about Phone and as you think about Room and Events, there's lots of opportunity for even growing within Teams. And so it's a combination of all those things that I think ultimately results in the revenue number. It's not like we're sort of pulling switches to hit a specific target. We're just trying to add the most value that we can and as many seats as we can and like I said, some combination of that along with the new offerings is our number.

Q - Brad Zelnick {BIO 16211883 <GO>}

Maybe on that basis, like if we look out way on the horizon in terms of the things that you could sell into that base and the problems you can solve, what might you be able to point to that perhaps suggest that investors are just completely underestimating how much Microsoft can deliver into that office space and to new customers and solve more and more beyond Teams and some of the things that we already know that --

A - Dave O'Hara

Yes. I think if you just look at Teams and Security as two examples of markets that were either nascent or basically didn't exist 5, 10 years ago. Both of those are really good example. There is an exec once who told me the story a long time ago about how that exec was running Office and how he felt like, it had kind of been tapped out and that was when I think it was like $5 billion business and Jack Welch of all people said, you're just thinking about it wrong. Like, you just need to redefine your market.

And so I think with Office and Windows in modern work, we're constantly redefining our market and redefining what we can deliver to customers. But I think we have a good signal and I think we have a good idea what customers want and I think we can meet that and I think we've seen that over the last few years.

Q - Brad Zelnick {BIO 16211883 <GO>}

Makes sense. Can we maybe double click on Teams? I mean, it's just become so prevalent in just the way the world has evolved over the last few years, hybrid work becoming the standard. I can tell you from my own team, our regular updates from around the world, I've got folks in London, on the West Coast, in New York and we used to gather remote by the way, which is pretty cool. If you haven't seen it, you probably should check it out. It gives a nice feel to it. But just double-clicking a little bit more into Teams, as we've settled into this new normal, how do you think about Teams from here and where the greatest opportunities lie ahead?

A - Dave O'Hara

Yes. I think it's -- so right now, we're just having a quick conversation before this and he said, hey one thing I don't like about Teams. And so that is the most common thing that any of us do, hey, let me give you one piece of advice on Teams. And so it's ubiquitous, lots of people use it, lots of people love it, but everybody's always got that one little thing and why do you do this. And so I think there's always opportunity to improve the product and Jeff Teper runs Teams and I had dinner with Jeff, I think Saturday night and talked about real-time feedback for any of us who do our jobs.

Like every time we have an SLT meeting with Satya, we're on Teams and the minute there's a glitch like boom. And so if any of us think that we're on all day every day, you're not compared to Jeff. But Jeff just takes it all with a smile and says, that's great feedback, we'll go work on it. And so I think we get lots of feedback on Teams and lots of feedback on how to improve it both at a macro level and at a micro level and I noted your feedback, Brad. Thanks.

Q - Brad Zelnick {BIO 16211883 <GO>}

I think when I told that to you, I said it was more of a limitation of how we've at Deutsche Bank implemented Teams.

A - Dave O'Hara

It was you -- I think your exact words were, it's more about how bankers think than how Teams work.

Q - Brad Zelnick {BIO 16211883 <GO>}

Yes.

A - Dave O'Hara

So the -- but I do think, Phone is a great opportunity. I mean, people have PBX that are 30 years old. I think we can go in and offer a much more affordable and effective solution. As an example, in the hybrid world, events are much more online than they are in person. And so I think all of those are opportunities for us to continue to build out Teams.

Q - Brad Zelnick {BIO 16211883 <GO>}

It seems like it's definitely the future. Want to turn to Security, which you mentioned has a tremendous opportunity. I think Microsoft today is technically the largest security company out there in the industry by the measures and growth and scale that you've shared with us. But the integrated nature of security and what you offer is I think a key differentiator. How do you leverage this during the sales process? And what are Microsoft and Charlie Bell's aspirations in Security? Like what's at stake here and how big of a monetizable opportunity do you see in Security?

A - Dave O'Hara

Sure. Well, there's a few things about the Security market. And we came out with the -- I think we announced that we had $15 billion in revenue. And I think we also announced that we're investing $20 billion in Security the next five years, which actually that might be low. But we're going to spend a lot. We think it's a great opportunity. The thing about security market is it's just constantly evolving, like when you think you've solved one thing, there's five more right behind it. And so it's not static in any way, shape or form. And I don't think you're ever done building security offerings. And so I think that opportunity will literally just continue to evolve through many, many years. The thing with us is that we have, I think the best signal of any company on the planet just by virtue of all the products.

And so we can see some of this coming before other people see it coming, and I think that puts us in a great position. I mean even if you look at some of the stuff with the war in Ukraine and some of the stuff that Brad, Smith and his team have talked about. I mean, we have signal on virtually any security threat around the globe. And so I think that's a good opportunity. I also think that we're just -- because of our history in the enterprise and because of our global reach, we're very trusted by customers. And so when we talk to them about Security and we talk to them about Security as part of our integrated offering, they listen and they want to learn more about it. And I just think that it's literally an untapped market because it's always changing and there's always new threats and we have great signal.

So I think we'll just continue to build out big, very helpful offering for our customers in the Security space. It's going to be -- I wouldn't even try to estimate what the TAM will be five years from now.

Q - Brad Zelnick {BIO 16211883 <GO>}

Is M&A a priority in Security?

A - Dave O'Hara

I think we're always looking at M&A. And I've told people like, I'm not really a CFO, which is true. It's factually correct. I'm more of a deal person, but I do think that M&A is hard. Everybody loves the deal and loves getting a deal done, but then comes the hard work of integrating it and how do you think about integrating the technology and how you think about integrating the Teams. And so I think we've gotten really selective, appropriately selective on the deals that we do.

If you look at Nuance, we spent a lot of time on that as we took a very thoughtful approach in terms of how do we think about platform versus apps, how do we think about industry, how do we think about Teams. If you look at Activision, that's another big deal. So I think what you see with us is as being more thoughtful and more selective in doing deals that are more strategic, because we just know there's such an investment to get them -- to make them work. All that said, we'll build security offerings, we might buy some, we might partner with some companies. I think the market is -- I think there's lots of room to float a lot of boats in Security.

Q - Brad Zelnick {BIO 16211883 <GO>}

Helpful. And by the way, when I prepared for today, I didn't fully appreciate the extent to which you spent time on deals and how much of a responsibility that is. Just maybe a general question, I know you're not going to give us your shopping list and I know that you've got your hands full right now with Activision pending. But is there anything else that you can share maybe even in terms of the things that we shouldn't expect Microsoft to do? Areas that -- where they're characteristically or functionally that are philosophically antithetical to Microsoft's future is?

A - Dave O'Hara

Sure. I would describe it this way. So Satya always starts out, whenever we're talking about whether it's building a product or acquiring a company or whatever, he's like, tell me what the TAM is. Is it growing? Is it growing faster than our TAM? Because we have fought hard to get the growth rates with Microsoft to where they are today. And you don't want to buy a bunch of deals that are going to slow you down. And so that's a key question, like what's the TAM? Is it growing or not growing? Is this acquisition going to accelerate us or is it going to slow us down? How do we think about the culture of the team? Is the team going to be a cultural fit? Do we have permission to play there? Like, is somebody going to look at it and say, hey, all of that makes sense?

And so I think we just got more thoughtful about what filters through. And I think before -- historically, we might have done a lot of product acquisitions, a lot of tuck-ins and we still do some of those, but now I think we're probably just looking for stuff that differentiated, strategic and impactful. And so we're buying fewer companies, maybe slightly larger, but they need to fit culturally and they need to fit strategically

and they probably are going to be adjacent to something we're already doing, because I just don't think we're going to run that far afield.

Q - Brad Zelnick {BIO 16211883 <GO>}

It sounds sensible and it's helpful to hear you articulate that. Maybe just as I kind of step through some of the parts of the portfolio, as we think about Power platform, Dave, you now have over 25 million monthly active users, which is obviously very impressive. How does Microsoft make Power platform as relevant to customers as Office is?

A - Dave O'Hara

I think by making it easier to use and making it as helpful as we can. And so in the end, everybody who wants to be a coder, should be a coder and the simpler we can make it to go build your own apps, however app -- however big that app or however small that app might be, then we'll get more users. And so, for us, it's about continuing to make it easy to use, effective for them to use. But also to sort of do it in a standardized way that you're not going to end up with a bunch of one-off apps. And so I think that's our challenge is continue to give people the tools they need to go, build out the apps that they need, but do it in a way that all hangs together. And so that's the job of Power platform and we'll continue to work on that. I think that's in a baseball parlance, that's early innings, in terms of where that's going to go.

Q - Brad Zelnick {BIO 16211883 <GO>}

It's a massive opportunity for sure and can't see why it's not Microsoft's right to really continue.

A - Dave O'Hara

I think that's one where we have permission to play.

Q - Brad Zelnick {BIO 16211883 <GO>}

For sure, for sure. Play on the field, to the baseball analogy. I wouldn't be doing my job as a CFO of the business if I didn't ask you about margins. With all this growth ambition and innovation comes the need for investment. So within the commercial business, how do you prioritize spend as you manage down to operating margins? Are there still Microsoft Cloud gross margin improvements that we will see and adjusting through accounting changes and things like that? And how do you think about commercial margins longer term?

A - Dave O'Hara

Yes. So when people think about margins, a lot of times they're thinking about cost, but really the biggest impact on margins is pricing and the biggest impact on pricing is being able to provide differentiated value. So to the degree that we can continue to build up stack and provide differentiated value, I think customers will be willing to pay for that, and I think that will help us with margins. I think margin also depends on mix, like as we've seen with some of our SaaS apps that have better margins, as Azure grows in proportion to that, maybe the margins get squeezed a

little bit but on the other hand, maybe we get better pricing out of some of the other apps or maybe we just drive costs out of the model through efficiencies on software or hardware. All of those things come into the mix, but we're focused on, not margin itself, but all of the components of margin that drive margin and we just work those as much as we possibly can to make them as good as we can and then the margin is really an outcome. So the short version is, we feel good about where we're at on margin. We think there's still opportunities to improve that and we'll keep working on that.

Q - Brad Zelnick {BIO 16211883 <GO>}

And because you've brought up pricing, can you just remind us philosophically, if anything has changed, especially as you think about the other main cloud competitors out there from a platform perspective, what the philosophy is? And if at any point in time, like what would trigger any change in that strategy or philosophy as it relates to the pricing for cloud infrastructure?

A - Dave O'Hara

Well, we're -- our pricing strategy is that we're going to provide value and we're going to take share. And so we're going to continue to be competitive in the market from a price perspective and we're going to continue to take share. And so I think because I've been asked by analysts before, like, jeez, it feels like you have room on price. And we're like we feel good about where we're at on price and customers feel good about where we're at on pricing. And as long as we're growing share and as long as we're continuing to expand revenue and margins, I think we're doing the job.

Q - Brad Zelnick {BIO 16211883 <GO>}

Makes perfect sense. We're almost out of time. I'm going to ask you one last question, which is the sort of magic open-ended question of what haven't we talked about? What do you feel is misunderstood? What would you like to tell us about Microsoft's commercial business that maybe we haven't touched on?

A - Dave O'Hara

Well, I think our commercial business is pretty well understood. I think what's maybe -- maybe it's harder for folks who have thought about it as a variety of offerings and less about Microsoft Cloud. And for us, it really is about the Microsoft Cloud and when we talk to customers about it, they get that story, especially the C-suite they get that story that it all needs to be integrated, but I still think that there's a little bit of legacy out there where people think about Microsoft as products as opposed to cloud offering. And so we're getting that story told. We also get customers that come in. I mean, where they just say, hey, my business needs to be completely transformed, let's start over. And so in that case, we'll start with ideation about what do you really need to rebuild your business and what do you mean to be ready for the next 20 years. And so I don't know that, that is appreciated maybe as it could be, but that's fine too because I think it shows up when customers succeed and do well. So we'll get there.

Q - Brad Zelnick {BIO 16211883 <GO>}

Awesome. Well, with that, I think we're about out of time. Dave, thank you so much. It's really great to see you, and thanks for participating in this year's conference.

A - Dave O'Hara

Thanks for having us, Brad.

Q - Brad Zelnick {BIO 16211883 <GO>}

Awesome.