Morgan Stanley Technology, Media & Telecom Conference

Company Participants

- Kurt DelBene, President, Office Division

Other Participants

- Adam Holt, Analyst, Morgan Stanley
- Unidentified Participant, Analyst, Unknown

Presentation

Adam Holt {BIO 1814951 <GO>}

We will go ahead and get started. For those of you I don't know, my name is Adam Holt. And I run the enterprise software research practice at Morgan Stanley. I'm very excited to have Kurt DelBene, the President of the Office Division, to give our next conversation.

Office, as many of you all know from reading our research over the last number of years, has a special place in my heart. And I think the value proposition of Microsoft has really evolved toward the application business over the last few years. So this is a terrific time. And I really appreciate you coming to speak with us about what's happening.

Before we get started, I'm going to read some disclaimers. This presentation contains forward-looking statements, which are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and perhaps some uncertainties. Actual results could materially differ because the factors discussed in our earnings press releases and the comments made during the presentation and the Risk Factors section of our Form 10-K, Form 10-Q and other reports and filings with the SEC. We do not undertake any duty to update any forward-looking statements.

And with that, thank you, again.

Kurt DelBene {BIO 6195791 <GO>}

Thank you. You said that very well.

Adam Holt {BIO 1814951 <GO>}

Well I've done it before. Why don't I start off with a broad brush question? You're standing or sitting, if you will, at the precipice of what I think is the biggest product release that you all have ever had. There are a lot of changes in terms of not just the features and functionality. But also bundling and go to market delivery.

Kurt DelBene {BIO 6195791 <GO>}

Right.

Adam Holt {BIO 1814951 <GO>}

Could you maybe give us the context and talk through what you're doing differently and what maybe you are most excited about in the current product solution?

Kurt DelBene {BIO 6195791 <GO>}

Sure. I think it is probably the most exciting version of Office, certainly from my division in the time that I have been in Office, which is over 15 years.

There's really a few things that I think are different this time around. The first is it's the very first time that we have shipped our desktop applications, our servers. And our services all at the same time. It is a monumental task just to roll that out. We actually shipped our on-premises products, both our desktop applications and our servers at the last part of last year. So that means their enterprise customers can actually ramp up and start deploying those products as of December of last year. But then we followed that on with the consumer launch on the 29th of January. That was a very strong product both in terms of things like it's social connectivity, the ability to be married to the cloud naturally, the default being saving content to the cloud roaming across devices. And also for the very first time, have a subscription service that is part of Office. So customers, consumers can buy Office 365 Home Premium. And they can get Office on up to five of their PCs or their Macs. So it's a pretty natural offering, particularly for consumer families.

Then the third thing really is it's a very strong release for our Office 365 service for businesses. It's both the next generation of all of our server products deployed worldwide at massive scale, Exchange, SharePoint and Lync, our unified communications product. But also it fills out some of the offerings.

So for the first time, we have a very specific offering for small business; we have a very specific offer for medium-sized businesses as well. We put the client in there as an opportunity to people to subscribe to the Office Client for the very first time into our services. And it's really just broadening out that offering. It comes on some very strong momentum for the Office 365 service overall. We now estimate that one in five enterprises are using Office 365. And the rate at which customers are adopting it has really gone -- really accelerated over the last year. We've had 158% increase in the number of small and medium business customers that are taking it on. And the rate at which new customers are on-ramping has tripled over the last year. So strong

release, strong release for traditional customers and very strong release on the services side, too.

Adam Holt {BIO 1814951 <GO>}

That's very helpful. And one of the things you talked about is the move toward subscriptions and the subscription offering on both the consumer and the SMB side. Can you drill down on that a little bit, how you are driving it. And what would you expect subscription adoption to look like?

Kurt DelBene {BIO 6195791 <GO>}

Sure. So as I said, for the very first time, you now have a choice. You can buy the perpetual version of Office, Office 2013, or you can buy it as a subscription either targeted toward the consumer offering with Office 365 Home Premium or Office Pro Plus, which is the same Office 365 Pro Plus, which is the offering to business customers, as well.

The benefits there are, one, the ability to just stream it down to the desktop. You can literally go to Office.com. We will download it for you. If you're not on your own device, you can, in fact, download it if you are visiting relatives, you can essentially have Office go with you.

It also provides us the opportunity to update Office in real time. If we add new features to it, we can just change the images on our servers. We will actually just stream to you the differences between the two, between the image you have today and the image that we have on our servers or in the cloud in the service, that allows us to deploy new capabilities really as quickly as we choose to. And it's an ongoing relationship with the customer. And some new versions come down to them. And it is really changing the nature of our relationship with our customers.

As far as the rate at which we think that customers will adopt the subscription, we're really waiting to see how it is. We think we have a very strong value proposition. The number of PCs that you get, the fact that it works across PCs and Macs, I think is a big value proposition, the fact that you get additional cloud services. So we give you 7 times the amount of storage in the cloud. We give you Skype minutes as part of your subscription. So we really see it as a vessel to add ongoing value there.

But we are going to wait and see and see how it does.

Adam Holt {BIO 1814951 <GO>}

Another element that's different about this release is to Windows 8, you talked a lot about betting on touch and how important touch is to the Windows family. You talk about how you think through touch. And how that's changed this product release?

Kurt DelBene {BIO 6195791 <GO>}

Sure. Well we are excited about Windows 8 being the first operating system that really takes touch and makes it an integral part of the experience. And we have been working with the Windows team from the inception of both of our releases to say we need a version of Office that is really well-tuned to touch. And I think Microsoft overall is making a very big bet on touch. If you go to our stores, the vast majority of the devices there are touch devices. And we are saying that that is the best experience for Office and for Windows.

We didn't just touch-enable the device, though. We took this as an opportunity to look at the Office experience and say it's been a while since we've given it an update. And there is a design aesthetic from Microsoft, sometimes called Metro, the new aesthetic that is part of a Windows Phone that has been in Windows 8 as well. And the idea is to have it be fresh, fluid, the frame around the applications gets minimized. And your content comes forward. So it's really focused on content.

We've introduced motion where motion makes sense. So for instance, if you are in Excel, if your data changes, your charts change, we will actually animate the change in your chart so that you see what those changes are and what kind of impact those had. So for us, it's about really having Windows plus Office be a great experience.

But it's also about a broader investment that I think it's going to be really key in natural user experiences with your PCs. I think more and more you're going to see the touch is going to be the standard way that we interact with PCs. If you go to Best Buy, for instance, go look and see the PCs and how many touch marks there are on them -- PCs that aren't even touch-enabled devices. The expectation from customers is going to be that they are going to watch those touch devices. I know that I just naturally go and touch the device regardless. And I think that is going to be the norm.

But I think you will see natural user experiences in terms of voice interaction with PCs for navigation, for input, et cetera. It's just the beginning -- the tip of the iceberg. But touch is the place where we, as a Company, are very, very invested in.

Adam Holt {BIO 1814951 <GO>}

Why don't we -- I was going to get into the enterprise business and then the SMB and then the consumer. But since we are talking about the products, maybe that's drill into a little bit how you are thinking about the evolution of this product family. Specifically, you talked about natural user experience. But it also seems like the applications are becoming more about expression and doing different things above and beyond just making an Excel spreadsheet. Can you talk about how you think about that and what that means over the next two to three years as the product portfolio evolves?

Kurt DelBene {BIO 6195791 <GO>}

Sure. There's a number of things that I think are really key input areas for us. The first is just the notion that the workplace overall is dynamic and is changing very quickly.

That's why you see us make investments in things like Skype and things like Yammer to allow people to come together and collaborate effortlessly to create ad hoc groups. Those are groups that are beyond the boundaries of your organization. They are about stitching organizations together. They are about organizations talking to individuals. And so a big part of what we're doing is integrating those social capabilities directly into our desktop applications. So for instance, the ability to launch into a Skype session from within Outlook was something that we added in this last release. But also create an infrastructure for organizations via our service to allow really dynamic collaboration. I think that is one key.

I think the second thing is we do continue to think about how we expand the Office business. One of the investment areas we been very intently focused on is note taking. And OneNote has been an application that has been growing in importance for us as part of the Office suite. And it's something where we believe the note taking experience is not just on your PC, it's great on tablets. It's also a place where it needs to be on mobile devices. So if I pull out your phone, I want to take a quick note. I want to have a to do list. You want that to come back to your PC to be able to be used there. But in a lot of cases, that is going to be the capture experience.

Meetings are a place that we really continue to invest in. You saw us purchase a company called PTI, which builds the world's largest capacitive touch displays. And we are really thinking about how do we create great, large meeting experiences there. How do we further adapt our software to work well with touch? How do you use that kind of device to have great meetings both onpremises but at a distance as well?

Then a final thing I think you alluded to is just we are always thinking about, what does self-expression look like in the future? The notion of what a document is, whether it's a spreadsheet or a Word document or a PowerPoint presentation is not going to be the same in the future as it is today. And as we look past this release, we think about what does a document look like in the future. And how can it be more dynamic? How can it bring in content in real time?

We've started doing a bunch of that in terms of bringing content from the web into the release or into the products. But there is a lot more that we can do there.

Adam Holt {BIO 1814951 <GO>}

You started off the answer talking about Skype and Yammer. Can you touch on how those acquisitions and integrations are going?

Kurt DelBene {BIO 6195791 <GO>}

So far, they are going very well. It's always an artform to figure out how do you get the value out of an acquisition and not destroy that jewel that you've purchased. And I think in both cases, we're doing that. Tony Bates for Skype has come on and is leading the Unified Communications Group at Microsoft, a combination of the Lync team and the Skype teams coming together to really drive that unification across

those two products. So the goal there, of course, is to have a great enterprise product that also connects well to the consumer world via Skype and take advantage of the technologies going back and forth.

Similarly, I think in Yammer things are going very, very well. We have really worked on what is the right price point. We announced a decrease in the pricing just so we can get that broadly deployed across all of our business customers. We really are in love with Yammer in that sense. I think David and Adam have come on board and become real leaders in the team. And they are teaching the Office team new things.

The way that they develop software is real-time. They think a quarter ahead and what is that next release going to be. As we move toward subscription, that is how we are more and more thinking about what's the next deployment we can do in service and keep it up to date on an ongoing basis. So so far. So good.

Adam Holt {BIO 1814951 <GO>}

And what has the customer reaction been? Maybe it's a little bit too early on the Yammer side? How are you evolving your go to market to really get social to permeate what everyone does on a daily basis?

Kurt DelBene {BIO 6195791 <GO>}

It has actually been really good. If you think about it, one of the -- we have been evolving the social capabilities of SharePoint for some time and gotten into a pretty rich set of capabilities, particularly in this release. But what was missing was the one, to really have the leadership position in terms of that kind of social collaboration and teaming environment. And two, to have a viral adoption model.

So the whole notion that all you do to get hooked into Yammer is to give them your email address. And that starts a network with your business. It's a great on-ramp. And we've followed that on with there is a business offering. We've figured out how do we bring that into the enterprise relationship, enterprise agreements that our customers have with us. How do we get our broad sales force worldwide to sell Yammer, talk about the social capabilities. And talk about that as an on-ramp to Office 365? But I think you'll see more and more announcements out of all this how Yammer becomes an integral part of the Office 365 service.

Adam Holt {BIO 1814951 <GO>}

Just one more product question before we get to the enterprise. I want to talk about OneNote because I know it is near and dear to your heart.

Kurt DelBene {BIO 6195791 <GO>}

It is.

Adam Holt {BIO 1814951 <GO>}

How do you think about or what can you share with us about how that product has really evolved and grown. And how do you position OneNote versus some of the other stuff on the market like Evernote?

Kurt DelBene {BIO 6195791 <GO>}

Well OneNote has really evolved into being the offering app that you really used day to day. So if I think about, for instance, how do I use OneNote? For every meeting that I have, I have a OneNote page. That OneNote notebook is actually up in the cloud. So I can synchronize it from all of my devices. And actually have it on my PTI board in my Office, as well. And what happens there is everybody comes in and knows they have a whiteboard they can work on. The PTI board has great ink support. And it's just very natural. People go to the whiteboard; they draw on it; and they say, hey, here's what we are thinking about? And through its integration with the rest of Office, once you're done there, you click a button. And it sends that, the results of that to everybody who is in the meeting. We have already autopopulated who are the meeting recipients because we created that document from OneNote.

So that natural complement of, if I'm in a meeting, I use OneNote. If I'm taking notes with my Surface Pro, that's got a great stylus with it. I can just write in my own handwriting. It does things like recognition of that enough to be able to find those notes later on. It doesn't have to be perfect. But it's good enough to actually find what I was referring to at a particular point in time.

So we focused a lot on making sure it is integrated into the key places where you want to take notes. We've done a lot in being able to capture content in various places. And as I've said, it means deploying OneNote or having versions of it that worked in various places, like on mobile devices.

It also means having a great web app. And so like the other Office applications, there is a web version of OneNote so that I can access those notes from everywhere.

But if you think about the kinds of content that people could put in OneNote for later capture, that whole captures scenario of bringing it all together, sharing it with others is ripe for continued innovation.

Adam Holt {BIO 1814951 <GO>}

Terrific. Let's shift to the enterprise business. So the 2010 release was a good release in terms of penetration and adoption from an enterprise perspective. Is that a gating factor at all with the current release will be adopted in the enterprise or not really?

Kurt DelBene {BIO 6195791 <GO>}

I don't think so. You are right. The 2010 was a very, very strong release for us. First, on the consumer side, I think that will be replaced by the 2013 release and by Home Premium -- or Office 365 Home Premium. And that will just transition over pretty quickly.

On the enterprise side, it's really a matter of, even as much demand as we've gotten from 2010, there will be people who will make the decision now to say, well, do I want to go beyond 2010. And do I want to just go to the next release now that that's available? So I think people will reassess that decision point right now.

The second thing we did for the very first time is we allowed people to run 2010 and 2013 or the current release side by side. It's the first time we have enabled that. And so whether you are on 2007 or 2010, you can actually download the new clients. And you can deploy that across your enterprises. And what we think we'll see and from talking to CIOs, there's a lot of interest in this, we will just deploy the new ones and then people will make the choice. If I find there is a particular feature in the new version of Excel, I'll use that. And what we think we will see is people will just stop using the old version of the product because they will like the new one better. And that actually gets us around this issue of if you've got issues around document fidelity and jeez, are you sure it will work, or macros that you are running, well just deploy it and see how people like it. That's the very first time we've been able to do that.

Adam Holt {BIO 1814951 <GO>}

You had really strong bookings on the enterprise side in the most recent quarter in advance of the release. Does that represent a certain amount of pentup demand for the release that you think will continue for a while?

Kurt DelBene {BIO 6195791 <GO>}

I think so. I mean the 2010 release and the current release, 2013, have been very strong from an enterprise perspective. We have seen a lot of demand in some very specific spaces. And there's a bunch of features that are just the must-have upgrade features. And I think that demand will continue.

A few that I would highlight -- certainly Business Intelligence, the partnership that we have had with the SQL team, married with SharePoint as that dashboard in the cloud or dashboard on your intranet, married with Excel, which is already the most popular BI client in the world has been a very strong momentum driver of releases. And I think we're going to see that this time, too.

I think the investments we have made in Unified Communications around Lync have driven very strong adoption as well. Those multi-party HD meetings that exist in this current version, there has been a ton of interest there, the connectivity of Skype, as I mentioned. I think that's has been a driver.

Then the third one that I'd really call out is we may not think of it as the sexiest feature. But the investments we've made around e-discovery and compliance are not matched by anybody else in the industry. And they are incredibly sexy if you are a CIO. They are very exciting, to be able to look across your enterprise and tell me, give me all correspondences about this particular topic, wherever it is, let me see it in a single dashboard; let me archive it in a consistent way; and that is across information and SharePoint or the Exchange, et cetera. That has been a huge piece. And we married that up with another cool feature around data loss protection.

So if I am in Exchange and somebody inadvertently puts a Social Security number in their email or in an attachment to email, we'll warn you that you appear to be sending personal identifiable information outside the organization. And we will allow IT to set a rule that says, hey, you can't send it under that auspices, or just one user and let them send it.

So I think it's going to -- the momentum will continue. But not by luck. But because we are really focused on some key investment areas.

Adam Holt {BIO 1814951 <GO>}

And with the breadth of the release right now and some of the changes that you have made to the client access pricing, do you think you have opportunities to be more successful and drive bigger bundles, drive increased deal sizes, et cetera?

Kurt DelBene {BIO 6195791 <GO>}

I do. I think one of the things we're learning is that with the success of the Office 365 service with customers. And we have had some very strong success, whether it be Tesco or JCPenney being very large customers. We just announced The Red Cross coming onboard, international Red Cross -- very large customers. But also all the way down to some smaller ones, like Helly Hansen, which is a big apparel manufacturer that's particularly popular in the northwest, I'm sure around here as well. But we are seeing very broad appeal for the service at the right price points.

But getting back to your question, I think the nature of our relationship changes with those customers. They bring us in as more strategic partners. They want to talk to us earlier about what the next release holds for them. And it's an opportunity for us to add additional workloads on top. They may start with Exchange; they will move to SharePoint for collaboration. So there's an extension in terms of the workflows that happened. But there's also an extension in terms of the enterprise depth.

I think one of the things that differentiates our service is we have the broadest service in the industry today in terms of the functionality. And we surely have the deepest in terms of it's all of Exchange, it's all of SharePoint and all those features that people love. So I think the relationship becomes a much more collaborative one. And there's a ton of upsell opportunity.

Adam Holt {BIO 1814951 <GO>}

So that's probably a good point to pivot to 365. The release has now been in the market for a few years. One of the original premises was you would expand the total addressable market. You'd get into parts of the small business you hadn't been in, kiosk workers, temporary workers. Can you talk about where you think you are in that evolution? Has that materialized to the extent you thought it would?

Kurt DelBene {BIO 6195791 <GO>}

I think it has. A couple of angles there. The first thing I'd say is it doesn't come for free. You have to really invest in making the ease of use, particularly for small customers, to be just phenomenal. And that's has been a journey for us, a journey with our customers. But I think we've gotten to the point where the onboarding experience is super easy for a small customer. I think we are seeing the results, as I mentioned before, 150% increase in the number of small and medium business customers. And I think you'll see an acceleration of that because for the first time we've got very specific offerings in the small business offering in the midsized business offering for Office 365 this time around.

Adam Holt {BIO 1814951 <GO>}

In terms of you mentioned the kiosk user, it has always been the case that the customers want to cover their entire user base and particularly in retail and in manufacturing, you get a set of users that are not wanting to use the entire set of functionality. They don't want to use the full Office, for instance. And so you've got to have an offering that is at the right price point for those users so that they can buy in for their entire user base.

I think the fact that we get folks on board like JCPenney, like Tesco, American Red Cross show that these are people that are going to be able to use the service for their entire user base. So so far, it's going pretty well.

And there's always going to be some folks that want to use onprem, some folks that want to use cloud-based delivery. But over time, is there any reason to believe that we shouldn't ultimately see Office move to essentially a very close to 100% subscription model that covers both of those deliveries?

Kurt DelBene {BIO 6195791 <GO>}

Well I think it is the one thing that we talk about a bunch and try to figure out exactly where it's going. I think we have aspirations that ultimately it might get there. I think one of the things we are strong at right now is that hybrid environment, which is where we see people using the product most today, keeping some folks onpremises and some folks in the cloud. We make our enterprise agreements really good at supporting that kind of situation. But ultimately we'd love to have everybody in the cloud.

I will say that we love our onpremises business for now. And we can -- every bit of functionality that we put in the cloud version we are running those same bits on

premises. And so we can offer those capabilities to customers, as well.

So I guess I would say ultimately we think everybody will be cloud connected. But it's a journey, too. There has been an incredible amount of development over the last year to two years on international standards for whiteboard, data sovereignty issues. And issues around discovery of content that's in the cloud. And it's a journey with our customers to get them comfortable with moving to the cloud.

Adam Holt {BIO 1814951 <GO>}

And ultimately that would, I would think, also change the way you think about release cycles. So maybe you move from a three-year cadence to almost an iterative cadence of release cycles. Is that the right way to think about it?

Kurt DelBene {BIO 6195791 <GO>}

Yes. It is. We have already gone with Office 365 to the point where we are at a quarterly release cadence. So we already have the mechanisms in place to update the service on a quarterly basis. With the client subscription, as I mentioned, we will have the ability to do that with client bits as well, the desktop version of Office.

I think it will get us to a point where we have a major-minor cadence. Because there are some investments that have to happen that require a great deal of forward investment. When you are structurally changing the underpinning of Exchange or SharePoint or the Office applications, those take a while to develop. And so I think we will get into the short cycle where we can add more features. But then we will have a longer cycle where we really have to intensively change underpinnings of the services.

Adam Holt {BIO 1814951 <GO>}

Okay. Then the follow-on question to that is, do you think you have to be at 100% or close to 100% subscribers to start to see the subscription evolution impact piracy, or do you think you can start to see impacts there at a lower level?

Kurt DelBene {BIO 6195791 <GO>}

Well I think we continue to work on piracy. It is obviously a big issue for us. I don't think it requires us to be at 100%. I think we will see how it does. If we can add additional functionality via the service, that service connected, we have an opportunity to have people who were pirating the software use the service instead.

But we look closely. We can look geographic-wise as to where the subscription offering is going, where it is becoming popular, where it is not. And we can tweak things over time.

I do think it offers a lever for us. But I think it's really early to tell how much success we are going to have there. It's a constant battle with it.

Adam Holt {BIO 1814951 <GO>}

If I shift to more of a consumer discussion, the new offering that enables you to have five different devices, how do you think that evolved the customer value proposition over time? Does that increase the average customer value, or how do you think about that?

Kurt DelBene {BIO 6195791 <GO>}

I think it does. I think it is not the only thing that will be the success of the service. I think you always have the data aspect of the service is a key benefit there, as well. The fact that it goes across devices. But we already know that, as John was mentioning from AT&T as well, how many people here have multiple devices that they use. Certainly in a family, there are more than one or two PCs in a typical family. And that's an opportunity for that service to be really the preeminent offering there.

And so I think we'll wait and see. But I think we also have created a construct that any place that we think we can deliver a service or any place that we think we can deliver a differentiation in the client experience, we can do that more easily through the subscription. And so you'll see us evolve what the subscription offering is over time as a result.

Adam Holt {BIO 1814951 <GO>}

Okay. And another point that you brought up is that those devices can be or Window devices and also Mac devices. Can you talk about how you think about Office relative to the iOS, in addition to the Mac OS?

Kurt DelBene {BIO 6195791 <GO>}

You showed amazing restraint waiting until now to ask that question.

Adam Holt {BIO 1814951 <GO>}

I'm very patient.

Kurt DelBene {BIO 6195791 <GO>}

We have actually done a bunch of work this time around on working grade and iOS devices. And I actually would point that out. I use all of these devices myself because we have core applications that run on the PC and on Mac that we are very proud of. We've actually done a lot of work on iOS devices this time around. And so we have a brand-new version of Outlook web access that works as an application as well that you can download that works off-line that has all the richness of Exchange and calendaring and is a super-rich feature set there.

We have enhanced the web applications pretty substantially, particularly in partnership with Apple. I mean if you look at where they were with the Safari browser in 5.0 versus 6.0, the iOS, there's been a lot of changes there to make those apps work super well on a touch device.

We've also deployed and have built versions of OneNote that are getting better and better on those devices as well. So we don't take it from the point of view of, do we need to have the PC software that is running on a PC running on every single device? We look very much at what is the experience that we're looking to have on those devices and is it a great experience. And so I think we've done a great job on both the consumer side, particularly with web apps that we are building and on the enterprise side as well.

Adam Holt {BIO 1814951 <GO>}

All right. With that, we've got time to take a couple of questions in the audience.

Questions And Answers

Q - Adam Holt {BIO 1814951 <GO>}

One over here on the left. I don't know if there is a microphone close. There is one.

Q - Unidentified Participant

(technical difficulty)

A - Kurt DelBene {BIO 6195791 <GO>}

That's a great question. So the way we do it is we do analysis. And we actually do a bunch of surveys. And you do conjoint analysis and figure out what offering will people want at a particular price point.

And so we played with what are the feature sets of the subscription, for instance, how many PCs does it work against, what are the additional services? Then you just ask consumers, which you would prefer to have. And then they find that price that actually works for people. And so we actually feel pretty good about the price of the 365. I assume you mean the client service versus our business service offerings. We feel good about it. And I think the initial uptake has actually supported the price point that we've set. So we don't have any plans in adjusting that. Obviously, like every business, we look at things over a period of time.

I think it's also when you look at the lifecycle you have to look at it from the perspective of how long people have a PC, when they choose to upgrade that PC. And when they would choose to buy a version of Office with that new PC, as well. And so what you are talking about replacing, actually, is the purchase of a new PC and along with that, Office. And you are trading that in, essentially, for a subscription version. So when you buy the new PC, you know you already have the new Office. All

you do is download that new Office, deactivate your old PC, activate the new PC. And you're off to the races.

And so I really think -- I think customers are getting that. And they're thinking the value proposition in that way. So we feel pretty good about it.

Q - Adam Holt {BIO 1814951 <GO>}

A question on my right. Right there. Just an overall question on service and margins. How important is pricing do you think as a stimulant for touch-enabled devices firstly?

Then secondarily, just on margins, overall, as service becomes a bigger part of the mix overall and marketing is a bigger part of the overall spend, if you educate people on the device, how do you think that evolves over time -- how do you think about margins?

A - Kurt DelBene {BIO 6195791 <GO>}

Yes, okay. So two different questions. One, how do I think about the cost of a touch device as driving demand? I don't think you're going to find I am the expert. I think the Windows guys would probably be able to tell you that more succinctly. But I think it's pretty natural behavior that says you need to have product at all price points. And competitive products actually drive that demand.

I think the demand among consumers so far has actually been fairly healthy. And we see a bunch of PCs coming in at various levels that will actually round out the mix. And I think we'll have a good set of offerings, including offerings that are must-haves at the right price point.

So I would say it obviously is a price issue or at some point it is a price issue. People have to have them at the right price. And I think we are going to have the offerings that are at those right price points.

In terms of how I see margins evolving, I think we see that with the new ability to address new markets, the total margin dollars, the total dollars that we will receive and will go to the bottom line, should be greater. Whether that mix is in terms of our margin percentages, I think that is a point where we will see how that goes. But we do feel confident about the total margin dollars actually being greater.

In terms of how that evolves, I think we're also going to see the mix is going to shift over a period of time as people move toward the service, whether that is the service on the business side or whether that is the consumer service. And I think if you were to model that with growth of the overall pie, I think it's all going to work out fine.

I certainly tell my development team, they say, well, how is this going to work with all the different price points changing and the subscription sets? I said don't worry about it -- build the products that people want. And I think it's all going to work out.

Q - Adam Holt {BIO 1814951 <GO>}

We've got time for one more very quick one, up here.

Q - Unidentified Participant

I'd like to get my Microsoft Excel models on my tablet. When do you think that's going to happen. And can you walk through the pros and cons for your Company about whether you'd like to enable that or how important that is to keep that separate if you want to push the surface sales?

A - Kurt DelBene {BIO 6195791 <GO>}

Well I think we have a great tablet experience of Office. It is called Surface RT. And it's called Surface Pro. And all the tablet devices our OEMs are creating.

As far as when -- I think what you're asking then is, when would you see it on your iPad? I see that is the device that you have got there. I would go back to the comments that I made earlier around we think we have a pretty good cost device experience today. And I don't have anything else that I would comment at this time.

Q - Unidentified Participant

I have to get it over the web onto this? Is that --?

A - Kurt DelBene {BIO 6195791 <GO>}

We actually use the web apps or make the web apps available to both consumer users via SkyDrive and to Office 365 users, as well. So if you have a SkyDrive account, any place that you put an Office document, you will actually have access to the web applications there, as well.

That gets to a point of, if you look at some of these assets that Microsoft has overall, SkyDrive is one where we see a lot of potential moving forward. You think about the connectivity between Windows 8 and SkyDrive, thinking that as your cloud storage, we've certainly made it a part of a subscription offering for Office. So I think in the future you should expect to see us bet on SkyDrive storage as a key element of our strategy of getting everybody to be cloud connected. And you can move anywhere and all your content along with you.

Q - Adam Holt {BIO 1814951 <GO>}

All right. We're about out of time. Thank you, all very much and thank you.

A - Kurt DelBene {BIO 6195791 <GO>}

Well thank you.

Q - Adam Holt {BIO 1814951 <GO>}

That was great.