

Citi Global Technology Conference

Company Participants

- Chris Capossela, EVP, Chief Marketing Officer
- Walter Pritchard, Analyst

Other Participants

- Kevin Statler, Analyst, Unknown
- Unidentified Participant, Analyst, Unknown

Presentation

Walter Pritchard {BIO 4672133 <GO>}

I'm Walter Pritchard, the software analyst here at Citi. And thank you, everybody, for joining us for our last session, which is with Microsoft. We have Chris Capossela, who is the Executive Vice President and Chief Marketing Officer.

I thought we would start out, Chris, maybe you could just give us -- you have been with the Company a long time. You have had tours through a few areas, mostly Office is my recollection. But maybe you could give us a little background on your tenure at Microsoft and then we will dive into some business questions.

Chris Capossela {BIO 6054036 <GO>}

Yes, great. So thanks so much for having me, everyone.

As Walter said, my name is Chris Capossela. I am the CMO and I have been at Microsoft for 24 years, which is shocking to me. I grew up in Boston, Massachusetts. And got a job right out of college with Microsoft and I have done just a ton of different jobs at the Company. Marketing has been a big focus. But also product development and some sales. I was Bill's speech assistant in the late 1990s, which was a great job.

About 18 months ago, Satya, our new CEO, became CEO. And one month into his tenure, he asked me to move jobs from where I was to take on the CMO role. And so, yes, it's been an incredible run for 17 months or so.

Walter Pritchard {BIO 4672133 <GO>}

Got it, got it. So I guess I wanted to start out, there has been a lot of changes we have seen at the Company in the last 18 months, as you have highlighted, with Satya

Nadella taking over as CEO. Maybe you could take your marketing hat off because I know a lot of it is messaging and things like that. But some of it is actual real changes going on at the Company. Maybe you could just articulate to us from the inside what the change has been and then I'd like to dive down into some of the businesses. But start off with that.

Chris Capossela {BIO 6054036 <GO>}

Yes, I think, first of all, you just have a new -- you have a totally different CEO and he is only the third CEO in the history of the Company. So a lot of it is cultural change, a lot of change that he wants to bring about with the way Microsoft employees come to work every day, the attitude that they bring, the mindset that they bring.

And so, I think the first thing is just this culture change around encouraging everyone to have a growth mindset, to be curious, to always be learning, to not think you know the answer, to not try to be the smartest person in the room. And in a culture that has historically been quite strong in that dimension, that's a huge shift for us to go through. So that's shift number one, I would say. And it's the most fundamental one.

The second area is really around reinventing all of our businesses, making sure we love the businesses that we're in, making sure the businesses that we are in actually accrue to a single company, not wanting to be a conglomerate or a set of eight different businesses that really have nothing to do with each other.

And so, we spend a lot of time coming up with the three bold ambitions that we have for the Company that we think are multi-year, multi-product release ambitions. But that we think really hang together for the Company itself. And I think reinventing the way we do business, the businesses we're in. And obviously how we make money, moving to the cloud, et cetera. Those would be the ones that are at the forefront of our thoughts every day.

Walter Pritchard {BIO 4672133 <GO>}

Okay. So I want to talk through each of those -- the three points of the bold ambition. I think a lot of us that have looked at Microsoft for a long time have almost thought about Microsoft as ultimately the Windows company. For a long period of time, it was everything that happened at Microsoft accrued back to Windows.

Can you talk about -- I mean, we have seen some very deliberate moves to, for example, put Office on other platforms, which would probably not have been done 10 years ago, or run Linux in Azure, which probably Linux was like a third rail 10 years ago at Microsoft.

Can you just talk about what is the role of Windows as we move forward? Is it still the focus that it was before or how do you guys think about it?

Chris Capossela {BIO 6054036 <GO>}

Well I would say a couple of things. The notion of Microsoft, to understand us and what we're doing from a business perspective, it is really pretty simple. We are a platform company and we are a productivity company.

So everything that we do in the realm of Office and Skype and OneNote and Word and Excel and Outlook and all those things fits squarely in the notion of productivity.

When it comes to platforms, there are really two very simple ones. We have the cloud platform, which is fueled by Azure. And then we have the devices platform, which is fueled by Windows. And there will be many times where Windows -- our device platform, our productivity stack. And our cloud platform can be better together and just be phenomenal soup to nuts.

But there will be plenty of times where our cloud platform is going to do things that are independent of Windows. So the fact that we have a lot of Azure workloads running on Linux or we support Docker or we support Hadoop or we support any development language you want to write in, that actually has nothing to do with Windows at all. It all has to do with the cloud platform itself.

So I think if you think about it in those three tiers -- the cloud platform, the productivity stack. And then the devices platform, you can see that those are the three foundations for the Company. Many times they stack up perfectly and you get the best of all three world combining. But many times there are going to be things that we do on one that don't really apply to another. And that's okay. We are comfortable with that.

Walter Pritchard {BIO 4672133 <GO>}

Okay, got it. So to talk a little bit about where we are at, I think one of the tenets of the bold ambition is create a more personal computing.

Chris Capossela {BIO 6054036 <GO>}

Yes, more (multiple speakers)

Walter Pritchard {BIO 4672133 <GO>}

I think we've thought of that as a PC -- the Company has outlined a goal of, I think, 1 billion Windows 10 devices by 2018.

Chris Capossela {BIO 6054036 <GO>}

Yes.

Walter Pritchard {BIO 4672133 <GO>}

And we have gotten used to, I think, measuring your PC business on the basis of Windows licenses sold and so forth. So as we think about how you are measuring that business, what would be success in that business over the next, say, three or four years? Is it traditional kind of revenue, PC-related revenue, or is there something else?

Chris Capossela {BIO 6054036 <GO>}

First of all, the bold ambition is this notion of much more personal computing than we have today. And when we say personal computing, we are not talking about the personal computer. We are actually talking about the human being.

And if you think about for our definition, mobility is not about a single device. It is not about a laptop or a tablet or a phone. It's literally about creating computing that is incredibly personal to you. So no matter where you go, no matter what device you're using, whether it is a band that you wear on your wrist, whether it's a phone, a tablet, something you wear on your head from a glasses perspective, those devices need to be tailored to you. They need to understand who you are. You need to be able to have all of that information at your fingertips, regardless of the device.

So it's not personal computing as in PC. It is personal computing as human focused, human-based computing. But it is going to be lots and lots of different devices.

Success for us, we've said with Windows 10, in two years we want to have 1 billion Windows 10 active devices, connected to Windows 10, using Windows 10 on a regular basis. That gives you a little bit of a sense that for us, of course we care about revenue, profit, share. But we also care about usage. Fundamentally, we have to be more focused on how many people are using our stuff every day and how happy they are using our stuff. And if we get a lot of very happy people, then the revenue, the profit, the share, we think that will follow. We think lots of good things will happen.

So a core power metric for us is Windows 10 devices. That's not a PC statement.

Walter Pritchard {BIO 4672133 <GO>}

Right.

Chris Capossela {BIO 6054036 <GO>}

That will be phones, that will be tablets, that will be laptops, that will be desktops, that will be big surface hubs, that will be Xbox. Xboxes today run Windows. And so every time we sell an Xbox, we are actually creating a Windows active device that hopefully people love it. It is their gaming device in their living room. It is not a separate animal. It is literally a Windows device.

So the device shape and size is going to change in the next four years. What is not going to change is our desire to have lots and lots of very happy and very actively using Windows customers.

Now once you use Windows, if you are a Windows 10 user, there are other things we care about. It isn't just selling you a device that has a Windows license embedded in it. Because if you are actively using the product, we care about things like what kind of browser are you using. What is our share of our browser versus Google's browser versus Firefox?

So we've put a lot of work into Microsoft Edge, this new browser that comes with Windows 10. And we are seeing that the Edge usage is higher on Windows 10 than IE usage was on Windows 8 and Windows 7. That's net positive for Microsoft. That's more queries being executed through Bing, that's more ad revenue flowing through Edge. And that's obviously a revenue source for us independent of the Windows device. Or I shouldn't say independent; I should say post sale of the Windows device.

Query share, another big one. So we have invested heavily in Cortana, who is a personal digital assistant that is built into Windows 10. And she can help you do all sorts of different things -- look up information, remind you of things, find things for you. And as you use Cortana, you're not using the Bing or the Google query engine you were probably using 15 minutes ago. And the more people fall in love with Cortana and use Cortana, the more we are able to essentially capture that query share from Google.

So it's not just about the Windows license or the Windows device; it's all of the things that people do on that device that we are able to do a better job with a newer version of Windows and with new devices that we will introduce with our partners.

Walter Pritchard {BIO 4672133 <GO>}

Got it. And I think -- we had Intel on early in the morning here, showing off some new form factors. And I think most investors pretty clearly understand where you are going with the traditional PC form factors, even the tablet, where they showed off some sort of --

Chris Capossela {BIO 6054036 <GO>}

2 in 1s.

Walter Pritchard {BIO 4672133 <GO>}

2 in 1s, some Surface -- almost third-party Surface-type devices, which look great. I think there is still an investor question out there on the phone form factor, where you've to some degree retrenched from the market, to some degree left the door open to go back into that market.

And I am wondering if we were to fast-forward three to five years from now, we have you back on stage, what is your -- what does Microsoft's footprint look like in the phone market? Again, let's call them the standard phone, not a hybrid, not a -- just a plain old phone.

Chris Capossela {BIO 6054036 <GO>}

Four to seven inch.

Walter Pritchard {BIO 4672133 <GO>}

Yes, four; to seven-inch touchscreen phone. What is the Microsoft role in that market three to five years from now?

Chris Capossela {BIO 6054036 <GO>}

Yes. We have definitely retrenched. I wouldn't say we have modestly retrenched.

Walter Pritchard {BIO 4672133 <GO>}

Sure.

Chris Capossela {BIO 6054036 <GO>}

We have massively retrenched. And I think that's appropriate for where we are.

For us in the next couple of years, we are really going to focus on building phones that obviously showcase Windows 10. But we're going to try to build phones for two audiences. We're going to build phones for our Windows fans. If you love Windows 10, you love your Windows 10 tablet or Surface or laptop, we want to have a beautiful phone for you, something you would be incredibly proud of that's going to have the same experience across your devices. The same apps will run on the phone as run on your Windows 10 laptop or tablet and it is going to feel incredibly natural. And we think the Windows fans really want a wonderful Windows phone that will be a premium flagship phone.

We're also going to build phones for businesses. We know business customers want a very, very secure phone that is incredibly good at calendar management, at email, at productivity, at Skype for Business, et cetera.

And so, we think those two segments are segments we can focus on and build a much, much better solution and much better business than we have today. Four years from now, too hard to predict. I think we have too much to do in front of us right now to get back in the game with the two audiences that we think we can serve incredibly well. And then we will see how things evolve and we will take it one step at a time.

But obviously, we want to be in the phone space. We're excited about the phones we are delivering this holiday for those customer segments. But we are just going to have to work and make them huge fans and see what comes next.

Walter Pritchard {BIO 4672133 <GO>}

Got it. Then on the -- related to the Intel presentation, I think one thing they mentioned is much more of a collaborative effort between Microsoft and Intel with Win 10 than we have seen in a while here. In terms of tangible benefit of -- I think we hear this from other partners of Microsoft, since you had the Win 8 generation where it was a little bit confusing as to what Microsoft was looking to do. And now you have clarified that to some degree.

What does that enable Microsoft to do or to do with partners that you weren't able to do in the Win 8 generation with devices and the consumer experience?

Chris Capossela {BIO 6054036 <GO>}

I think the partnership with Intel, as well as Dell and HP and Lenovo and Acer and Asus and the whole Windows ecosystem, has been far more collaborative. It has been far more building the work -- the products together much earlier.

So working with Intel on Skylake, working with -- I think you said maybe a Lenovo, really nice Lenovo device earlier today, or whose ever it was. We have just been partnering earlier in the design process and the engineering process than we did with Windows 8. And even Windows 7, frankly.

And so, I think that builds an element of confidence with the partners that we are sure we will compete in some spaces. Some of our OEM partners build Android devices or Chromebooks. But by and large there is a lot of vested interest that we both have or all of us have in tremendous success on Windows 10 itself.

I also think it sends a broader message to other technology partners that Microsoft is very serious about being a great partner at the same time that we are happy competing in certain spaces that we might compete with some of these partners. So whether it is Box or Salesforce, there has been a lot of examples that Satya has really done a wonderful job showing. But there is more upside to partnering in areas A, B. And C where we can work together. And just let's compete in D and it's okay. We're not going to worry about D. We're just going to compete. But in the meantime, let's do the best we can with A, B. And C.

And that mentality has really, I think, resonated with Silicon Valley. It has resonated certainly with the press. And hopefully it is going to show in the partnerships that we do.

Walter Pritchard {BIO 4672133 <GO>}

Got it. So as a bridge to the next topic which I want to talk about, which is productivity, I did want to talk about Salesforce in the CRM area. Satya has highlighted that area more. We have also seen the partnership activities. I think ultimately you look at Office 365 and Outlook as where a lot of information workers spend their day.

Is the CRM market one that is a must win for Microsoft? It has historically been more of a -- a business off to the side that is -- the Dynamics business is a nice business. But not a core market for the Company. How should we think about that, that CRM market. And the customer front-end apps market today versus where it was, say, three or five years ago under different leadership?

Chris Capossela {BIO 6054036 <GO>}

I do think we have an opportunity to really make it far more mainstream than it has been in the past. I certainly think that if you look at the Azure business, the Azure business today is a platform business. But more and more you're going to see us creating finished apps that utilize all that Azure has to offer.

So in many ways, I think of ERP and CRM as near-finished line of business apps that run on Azure and take advantage of all that Azure can bring to the table.

Walter Pritchard {BIO 4672133 <GO>}

Right.

Chris Capossela {BIO 6054036 <GO>}

So in that sense, it is not just about sales force automation or it is not just about the supply chain. It is actually bringing the power of many of the Azure services, like our Cortana Analytics Suite, to the data that a CRM system or an ERP system creates.

And from that perspective, we can differentiate our CRM solution because of how it takes advantage of our analytics solution in a way that nobody else does. And that, I think, makes it more than just -- it's that fifth business over there and that team over there manages it.

Not anymore. We really -- we are mainstreaming it. It is actually part of the way we think about how Azure is going to change. It's not just going to be a set of building blocks. It's going to be a set of building blocks with a bunch of great near-finished or finished line of business apps that take advantage of it. And that's an area for us to do better.

Walter Pritchard {BIO 4672133 <GO>}

So that would be the existing -- it's not just CRM. But the Dynamics ERP portfolio, all that.

Chris Capossela {BIO 6054036 <GO>}

Absolutely, both of them. I put both of them in that category, for sure.

Walter Pritchard {BIO 4672133 <GO>}

Got it. Then, talking just right at the heart of the productivity franchise --

Chris Capossela {BIO 6054036 <GO>}

Okay.

Walter Pritchard {BIO 4672133 <GO>}

-- you guys have done a great job on getting Windows -- or Office 365 into the core selling notion of the Company. I think you talked about roughly one-third of the installed base or 25% and 35% of the installed base is now on that product.

Chris Capossela {BIO 6054036 <GO>}

Yes.

Walter Pritchard {BIO 4672133 <GO>}

And I think investors spend a lot of time trying to understand the financial implications of that. And I'm not going to go into that with you, because you're not Amy Hood. But I guess the presumption would be that if you create value and that there is new -- scenarios that are valuable, the financial implications will follow.

So can you help us understand with Office 365 how that is changing how your very large installed base of productivity users are using your capabilities?

Chris Capossela {BIO 6054036 <GO>}

I think there is two ways to think about it. One is just the notion of getting people to be current on all our latest software is incredibly valuable for us and for them, getting them out of the drudgery of having to roll out updates and figure out how to keep machines fresh and up to date and safe and secure. There is a real benefit to the cloud in just making sure people have the latest and greatest of everything we have to offer.

From our mainstream Office 365 customers, there are new areas that we are going into that will allow them to see a lot more value from the solution than they do today and new licensing opportunities for us to expand how much of our share of wallet we get, that today they are paying to maybe five, six, seven different vendors that we can essentially consolidate.

Security is a big area for us with Office 365. Enterprise data protection is coming for Office 365 and we think that will be a really critical thing. Nobody wants to have what happened to Sony happen to them. And so doing a great job securing your data, securing your email, securing your documents with a level of sophistication that nobody has really done yet I think is one expansion opportunity for Office 365.

Another one would be data visualization, data analytics. Our Power BI solution we're bringing to Office 365 has a new tier that people can step up to. And there is a huge amount of interest around these types of solutions to get more insights from the huge amounts of data that people have.

Then, real-time collaboration with Skype for Business would be the third. There is a lot of frustration with the way meetings happen today. There is a lot of wasted time. There is a lot of wasted money in doing these solutions from multiple different vendors so that you could have people remotely working together no matter where they are in the world.

When I think of Office 365 in the commercial space, I think you can see us expanding into security, you'll see us expanding into data visualization and analytics. And you'll see us expanding into real-time collaboration. All of those form a new step up for our Office 365 customers that they don't have today. But they have the opportunity to buy into and implement.

Walter Pritchard {BIO 4672133 <GO>}

So premium SKUs.

Chris Capossela {BIO 6054036 <GO>}

Premium SKUs. Then, the last thing I would say is there is a whole bunch of workers who are not office workers today that we haven't really done a great job penetrating.

You think of somebody who drives a delivery truck and has a tablet that they are carrying around on their route. We haven't really licensed Office 365 to those people. You think of contract workers who might work seasonally for maybe tax season in a finance department; we haven't really done a good job reaching those people.

So I would say there is a whole set of workers that don't have the same needs as a full-time employee who comes to the office every day. And we think there's opportunities for us to reach those -- a broader set of workers that we haven't done today. And probably a much, much lower-priced offering. It doesn't have nearly the full functionality of what you and I might use on a daily basis. But there is some new - I think there is some addressable types of users that we haven't gotten to yet.

Walter Pritchard {BIO 4672133 <GO>}

Got it, okay. Then one thing, we were out at your -- well, actually in our hometown in San Francisco, the Build conference. And one thing that was talked about with Office that really hasn't been articulated I think as much in the past was Office as a platform, that I could start a company with a few of my friends and we could write an app that would run on the Office platform.

So I think I understand conceptually how that works. But how do you monetize that?

Chris Capossela {BIO 6054036 <GO>}

Yes. We would likely monetize -- well, it depends on the solution. You could see us monetizing that through the cloud services that you use to build that app.

Walter Pritchard {BIO 4672133 <GO>}

Okay. So I build it on Azure and -- okay.

Chris Capossela {BIO 6054036 <GO>}

Exactly, that's one model. You can say to build an Office application, you use Azure in the following ways. Here is the set of services that we use. And they are metered services, like most of the Azure services. And you wouldn't be paying per user, of course. It wouldn't be part of the Office sales motion; it would just be an additional cloud --

Walter Pritchard {BIO 4672133 <GO>}

Buy and compute or (multiple speakers)

Chris Capossela {BIO 6054036 <GO>}

Totally, buy and compute, that's exactly right. Or buying analytics services, if you had that kind of a solution.

And I think there is a tremendous amount of data that people have in their Office 365 implementations. There is a lot of unstructured data that is really, really valuable and there is an opportunity to write applications that harness that. And that is what we typically refer to when we talk about the Office graph or building Office apps.

Walter Pritchard {BIO 4672133 <GO>}

Got it, okay. As a transition topic before we talk about Azure and that business, I wanted to talk about just developers and Microsoft. And I think there is the famous video of Steve getting all sweaty up on stage, yelling developers, developers, developers. And there is no doubt that the developer has been a core sort of constituent that the Company has been built on the back of over the last couple decades.

Chris Capossela {BIO 6054036 <GO>}

Yes.

Walter Pritchard {BIO 4672133 <GO>}

When you look at where we are today with software development, it seems like we have started this process of refragmentation of software development. From five years ago, it was .NET and Java. It was -- at least in the corporate markets. And you have lots of new ways of writing software. I have lots of different options as a developer.

How do you get your slice of that market or get the kind of -- do you have to get the kind of slice of that market that you had in the past or is that market now so much bigger that people write for Amazon, they write for all these other platforms. And the market is so much bigger that now your piece of that pie still a good market?

Chris Capossela {BIO 6054036 <GO>}

I think we'd definitely like to make that piece of the pie much bigger for us, for sure. You do -- obviously, it's a totally different world in that you have got -- as we look at the world, you have got a device platform, competing device platforms.

Walter Pritchard {BIO 4672133 <GO>}

Sure.

Chris Capossela {BIO 6054036 <GO>}

And a developer writing something specifically for a device, an iOS device, an Android device, a Windows device. And there clearly Windows 10 is our big bet. Getting a huge installed base of Windows 10 to attract developers to it is the reason we made the upgrade for free for Windows 7 and Windows 8 users.

So you have got your developers that target a device and you have got your really three big device ecosystems. And then you have got the cloud platforms and really there is two -- it's a two-horse race between AWS and Azure, at least in our mind. Certainly, there are other players. But I think if I were a betting man, I would certainly be betting on those two to really be the two fundamental leaders.

And there it is a more complicated scenario because you have got workloads that you are able to move to the cloud without touching it with a single line of code. You have line of business apps that today run on a Linux server; you can move that Linux server to Azure. We will run it for you; it runs unchanged. You don't have to touch it.

But if you are building something from scratch and if you are building an e-commerce platform for your company, your website, if you are the next Facebook,

you are not just porting workloads. You are literally starting from scratch. And that's where I think people start with a cloud-first mentality and they are looking to build on Azure or AWS and the device becomes quite secondary. They're going to have a bunch of different front ends based on what they want to target. But it's really the back end, the cloud platform, that becomes critical.

So for us, getting line of business apps on Azure, getting big ISVs targeting Azure, making sure their stuff works phenomenally on Azure, that's really important to us and that's a major, major focus for the Company. I think most people think developer and they think Windows.

Walter Pritchard {BIO 4672133 <GO>}

Sure.

Chris Capossela {BIO 6054036 <GO>}

We actually think cloud as much as we think Windows.

Walter Pritchard {BIO 4672133 <GO>}

I think that's fair. I think that's fair. So I guess as I observe it, we don't have all these numbers, I guess, in clean comparisons. But we have a pretty good sense of how large AWS is. We have a decent sense as to how large Azure is. And I think we are talking about an AWS business that is probably four or five times larger today and growing at a pretty healthy pace and releasing services at a forward pace.

At the same time, Microsoft has a very healthy set of enterprise relationships that Amazon doesn't have. And so, as we think about how that market, especially in the enterprise space plays out, how do you go to battle in that space with, again, a competitor who is very much in the lead today. But you very much having the relationships with the customers that they want to have?

Chris Capossela {BIO 6054036 <GO>}

Yes, I think you have to leverage the assets you have. But you can also learn from the other players in the market.

And so for us, having the Azure toolset advance at a really rapid rate is something that Scott Guthrie and the team have just done a phenomenal job at in the past six to nine months. The rapid rate of innovation that we have had with new services coming to Azure at a rate that our own sales people have a hard time keeping up, it's just been amazing to see.

And I think if you do follow this space, people have been blown away by how fast the team has executed. Great new services, the Enterprise Mobility Suite, the

Operations Management Suite, the Cortana Analytics Suite, the IoT Suite, these are heavy hitting cloud services built on Azure in relatively short order.

We need to do a great job leveraging our enterprise sales force to make sure we're uncovering big Azure opportunities in our top 2,000 accounts. But we also have a massive partner ecosystem that Amazon doesn't have either. We have built our business with a huge partner ecosystem, a breadth ecosystem. And so activating that ecosystem to build their solutions on Azure and to bring Azure to their customers, that's as equally impactful as our enterprise sales force, which is great.

But I think both of them are assets that Amazon probably wishes they had. In the meantime, we are also shoring up our marketing automation. We are shoring up how easy it is to get started just by coming to our website. We are doing a much better job passing -- having the customer come to us, understand what they need, pass them on to telesales at the right time. And frankly emulate what some of the companies who have no sales forces at all do incredibly well, which is a much more of a direct acquisition mechanism with great marketing automation.

I think there is three tiers to it. There is the marketing automation, there is the partner ecosystem. And there is the high-end enterprise sales force. And we have to do all three of them world class to move from number two to starting to close that gap with Amazon.

But I actually -- I am super bullish. I think the team has done an amazing job at this part of the Company in the last year.

Walter Pritchard {BIO 4672133 <GO>}

Yes. So I'm going to follow up with one more on that and then I will -- we will pass it around in the audience if there is any questions. So get thinking.

So on that, I think last year you were -- there was a sales motion to start to integrate Azure into some of the enterprise agreements and there were cloud credits and so forth to get the appetite of customers whet. Can you talk about -- you have entered a new fiscal year here. What more are you doing this year to try to further drive Azure adoption in the enterprise space?

Chris Capossela {BIO 6054036 <GO>}

The biggest thing is bringing great ISV solutions onto Azure. If you want to run Salesforce, you should be able to do it on Azure. If you have been on Oracle, you should be able to have your Oracle databases all running on Azure. If you are a huge Linux shop, you should know that our Linux -- our support for Linux is unparalleled. If you have a container strategy with Docker, you should know that we support that. If Hadoop is your database of choice, we support that as well.

So I think getting broad support for multiple platforms and line of business apps means that Azure isn't just the building blocks. But Azure is actually the engine that runs the applications you care about most. And that for me is a really important sort of metric for us to measure and crank on and shore up any gaps that we have.

Questions And Answers

A - Walter Pritchard {BIO 4672133 <GO>}

Got it. All right, if there is any questions out in the audience, we can have Chris address them.

Q - Kevin Statler

It's Kevin Statler [ph]. So you just made a comment in your presentation about how security is a priority going forward. But if you sit back and you say, why would we bet on a couple thousand engineers that we have had in the last couple years versus stepping up, making an acquisition where you can acquire some talent that has been doing extraordinarily -- great work in other companies, wouldn't you accelerate your move into security, acquiring like a FireEye, as an example? That's just one. There's lots of good [ph] public companies that have thousands of engineers that are maybe moving a little bit further ahead than you guys are.

A - Chris Capossela {BIO 6054036 <GO>}

We think about security in a pretty holistic way, from the device to the application to the file to the server to the data center. And for us to do a fantastic job on security, we have to span all of those different aspects of security. We think we can provide one of the most comprehensive approaches to security that anybody can bring to the marketplace.

We are not at all against the right-sized acquisition in any of our businesses. And if you have looked over the past year or year and a half, I think you have seen us do a lot of relatively modest. But we think high impactful or high impact, acquisitions. And so, I certainly wouldn't rule any type of security acquisition out to get us moving faster, whether it's a tech acquisition or tech talent acquisition. Those tend to be the two that speak the loudest to us as opposed to acquiring a big customer installed base.

We typically want to either get the great talent or get the great technology. I certainly wouldn't rule any of those out. I am not here to announce any sort of acquisition, needless to say. But we are not against it.

A - Walter Pritchard {BIO 4672133 <GO>}

Any other questions out there?

Q - Unidentified Participant

I'm not sure if I said the question correctly. But as far as I understand, AWS' customers are pretty sticky and mainly because of the fact that it is really hard to move from their IS to another solution. So based on that, how are you guys going to attract this Amazon customers going forward? I am sure the market is still large and it is still a lot to cover. But going forward, how are you going to attract them, maybe like getting some tools created for those guys? What kind of forward thinking you have on that?

A - Chris Capossela {BIO 6054036 <GO>}

I mean, I don't think we are on any sort of big campaign to do an Amazon switcher type campaign. We find this audience is one of the most tech savvy audiences you can possibly imagine. So the notion of them splitting their workloads across AWS and Azure is something that is incredibly common. We see it all the time.

We will see someone who is a big AWS customer start to kick the tires with Azure. And if they like it, if they like what they see, they will often actually go to start balancing how much money they spend with Amazon against much money they spend with us. And we have had customers literally tell us I want to move to the state -- from the state where I am today where it is almost all Amazon to a 50-50 mix because I want two suppliers that are battling it out. And if you can prove to me that you can do the things that you say you can do, we are very happy to get to steady-state of half our business with Amazon, half our business with you.

So I don't know that we need to do aggressive switcher tools. Customers are going to pick the workloads that they want to put in which cloud. They're going to pick the different approaches that each of us have. I think most of it is greenfields today and just years of greenfield opportunity ahead of us before I think you have to get to that level of trying to convert. So to speak.

I think we're going to end up in a world where there are two major, major cloud platform providers with finished line of business applications that run on those two clouds for commercial customers. And there is a lot of upside for both of us in that world, I think.

Q - Unidentified Participant

Can you talk a little bit about your Skype business, specifically Skype for Business. And see if you can compare Dynamics? What's the market opportunity there?

A - Chris Capossela {BIO 6054036 <GO>}

Sure. So we have Skype -- the consumer Skype business, which essentially is a free model. And then we monetize on the enterprise side with Skype for Business. And there you are essentially paying for all the IT value that consumers really don't care about. But that enterprises care a lot about.

So that might be quality of service. That might be auditability, logability, discovery, obviously security, those types of things.

When you think about the Skype for Business category, you are really talking about corporate instant messaging, audio conferencing, video conferencing, remote meetings, real-time collaboration. It's all of those spaces blended into one toolset.

And so for us, there is just a huge opportunity for an IP-based solution that a company can use with their existing hardware. They don't need to bring in new devices. It is literally laptops, tablets, phones that can run all this tech. And yet they can make their employees far, far more productive than they are today and, frankly, unplug a lot of the legacy infrastructure that they have.

So whether you start with a new office. And you go to a new office and you don't put the traditional telephony infrastructure in that office and you just go IP based 100%, letting people use their desktops, their laptops, et cetera. And they're using Skype for Business for IM, for audio, for video, for all of that stuff, that is one way to do it.

There is obviously the rip and replace option, which tends to be quite long and quite expensive. We tend to see people running both in parallel for a while. And then start to scale the old stuff down while they fully embrace the new stuff. But it is -- these are big, big businesses that we think could be far more efficient and the experience could be far better than it is.

I think we have all still had that experience of starting a conference call and taking a long time for everybody to get going. We think it takes about 10 to 15 minutes to get one of these meetings up and running, which is just pathetic, particularly when you add a third party in, when it's not someone working just in your company.

And so, there is just a lot of upside to making that experience, reinventing that and making it far, far better. And that's how we think of it.

Q - Unidentified Participant

How big could this business be and who do you compete with?

A - Chris Capossela {BIO 6054036 <GO>}

It's many, many billions of dollars. I think it is -- if you look at all the traditional players in the telephony space, you can make it as big as you want. You can include all of them.

We tend to find we are up against the WebExes, the GoToMeetings, those types of solutions. Google Hangouts would be probably in the mix. Obviously, if you wanted to, you could include FaceTime. There is not really an enterprise version of that, though.

But you are dealing with a big ecosystem of telephony providers, Polycom, Cisco, some of those are our partners. Polycom is a great partner. Some of them we compete more with every day.

A - Walter Pritchard {BIO 4672133 <GO>}

Any other questions out there? So Chris, I wanted to ask you -- again, recognizing you're not Amy Hood. But you do run the marketing budget. So you probably have a decent amount of discretion over spending there. And there has been very tight cost controls in the last 18 or so months at the Company, a lot of it seems like doing more with less.

A - Chris Capossela {BIO 6054036 <GO>}

Yes.

A - Walter Pritchard {BIO 4672133 <GO>}

And doing a pretty effective job there. I am wondering if you could help us understand within the marketing budget how you have held to a tighter budget, what choices you have had to make. And how sustainable is it that you are able at the Company to continue a flattish plus or minus sort of spending in maybe your area specifically.

A - Chris Capossela {BIO 6054036 <GO>}

Oh, it is definitely sustainable. This is not a -- this isn't a one-time thing. I think there is always plenty of ways to do things far more efficiently. You don't have to just say, okay, I had this budget last year. I am launching new products, therefore I need a bigger budget next year. It is not --

A - Walter Pritchard {BIO 4672133 <GO>}

Okay.

A - Chris Capossela {BIO 6054036 <GO>}

It is not how it works.

What you have to do is decide what you invested in that you did a really bad job on and don't invest in that again or find the people who are going to do a better job investing in it. And there is always trade-offs that can be made at a scale of our Company's size.

We are quite blessed with tremendous resources. And so I think you should think that this is a very sustainable approach that we are taking, far more a tight control over where we are putting our money.

I am spending far more heavily on the cloud this year than I spent last year. And the same was true last year. The cloud continues to go up and up and up. And I am funding that by finding areas of inefficiency that I think we can do without. And that's in general a very, very good thing.

So as we move more of our marketing to digital, as more of our marketing gets automated, I think there is a lot of best practices that we can be adopting. It doesn't mean we are not going to spend in a way that matters. It doesn't mean you're not going to see us on TV or see us --

A - Walter Pritchard {BIO 4672133 <GO>}

Sure.

A - Chris Capossela {BIO 6054036 <GO>}

-- as we browse the web. We can still have big impact. But we have to be really disciplined. We have traded off consumer for commercial, very clear. We have traded off devices, phone in particular, of course. And we have dialed up Office 365 and Azure. And that's where -- if you wanted to ask where did it go from and to, that's really where from and to.

It won't always be that way. We have a great ability to reallocate without having to wait for a budgeting process and that's a good thing. That is Satya's senior leadership team is now one team and so it's pretty easy to say, hey, I think this is more important than that. Let's move it. Move the money. And that's good. That's healthy.

A - Walter Pritchard {BIO 4672133 <GO>}

Got it. Okay. Well I will take one last question if there is somebody who has a good one to finish off the day; otherwise, we can leave it there.

All right, well, Chris, thank you very much --

A - Chris Capossela {BIO 6054036 <GO>}

My pleasure.

A - Walter Pritchard {BIO 4672133 <GO>}

-- for coming.

A - Chris Capossela {BIO 6054036 <GO>}

Thanks for having me.

A - Walter Pritchard {BIO 4672133 <GO>}

Thanks, everybody.

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