

5th Annual Wells Fargo TMT Virtual Summit

Company Participants

- Charles Lamanna, CVP, Business Apps & Platform

Other Participants

- Michael Turrin, Analyst, Wells Fargo

Presentation

Michael Turrin {BIO 20079094 <GO>}

Hey, there. Good morning, again. Thanks everyone for joining us for day two of the Wells Fargo's TMT Summit. I'm Michael Turrin, Software Analyst here at Wells. I'm very excited for our next session. I have the privilege of rolling coverage out on Microsoft here recently and joining us today from the largest software company on the planet. I think it's been neck and neck for largest company, but haven't had a chance to check lately, Charles Lamanna, CVP of Business Apps and Platform from Microsoft.

I'll start off with some questions. I have a list in front of me. But if anyone does have something, they'd like to type in, you can shoot me an email at michael.turrin@wellsfargo.com. I'll do my best to add those to the conversation as well. Charles, thank you for joining us today. Certainly appreciate the time.

Charles Lamanna

Yeah. Thanks for having me, Michael. I'm super excited for the discussion. I think, we have a lot of good topics of Microsoft to share.

Michael Turrin {BIO 20079094 <GO>}

I agree. So I mean, maybe in just framing the conversation to start with, we obviously admire just how many end markets, the company has presence. And within these days, maybe just you could help just add some context around your role, responsibilities, key product areas of focus, just to help steer the conversation. And we can just dive in from there.

Charles Lamanna

Absolutely. Sounds good. So I head up what we call the business applications and platform team, which basically maps to Dynamics 365 and Power Platform as our set of products. I lead the product management, as well as the engineering component.

So basically all from design to implementation to servicing of all of those different Cloud offerings. I've been on -- in this area for about 4 years. Before that I worked in Azure for 4 years. And I joined Azure in 2013, when a company I founded was acquired by Microsoft. So I'd say, I slowly moved up stack from infrastructure to PaaS and to now SaaS, with (inaudible) platform.

Michael Turrin {BIO 20079094 <GO>}

So directly sell our software companies to head eventually. I mean, it's great if you can start as an Azure, no question. And the time you started at Azure was pretty darn good too. I have to say, so congrats on that. Let's start with just the evolution of business applications at Microsoft. I mean, Dynamics has been around for some time, but Dynamics became 365 in a more recent period of time. The growth trajectory of Dynamics 365 has really stood out, particularly of late. So can you talk just some more around the evolution of what you're doing with Dynamics? And maybe what's driving some of the recent strengths?

Charles Lamanna

Absolutely. Certainly, as you mentioned Dynamics has been around for a long time at Microsoft. But we went through a bit of a, I'd say, a rapid evolution about sorry, 5 years ago. And that's where we really started with this idea of Dynamics 365 in the future of business applications at Microsoft. The first and biggest piece of that was really just moving our businesses to the Cloud. To be Cloud first and really make it so that these are businesses which are delivered as SaaS products, with easy sign up, easy trials and easier go-to-market compared to say some legacy on premise very heavy CRM and ERP offerings. So that was the first and most important piece. And we're done with that for quite some time now.

The second big thing we did is, we started to reimagine what business applications mean, kind of for the future. So not go build this apps of 2005 or 2010. But the Biz apps of 2020, 2025, 2030. And we thought that really required us to focus on three main themes, which fundamentally change how you adopt and use business applications. First thing being data first. And it's this idea that every single company has this massive amount of data coming from everything, whether it's their e-commerce websites, mobile applications, IoT, you name it. There's just a massive amount of data, which is just different from how Biz apps were in the past, where most data was just entered by humans filling out forms. So there's this idea of large amounts of data and leveraging it in a business application.

Second thing is that once you have all this data, you of course want to go make predictions and use intelligence and AI and natural language understanding, NLU, to get value from that data. And this idea of automation helps with things like reducing costs for delivering customer support by 20% or 25% or improving targeting or upsell or cross-sell in your e-commerce website by 5%, really top line and bottom line moving outcomes for AI, which is very different than just a pure AI platform. It's very tied to the business process.

And the third piece is around collaboration. And it's this idea that in the past, I say, Biz app data and Biz app users kind of lived in little islands throughout the company. But a big push we want to go do is how do we reimagine a world where data is shared across the company and people can work together. So just like you don't want silos of data and silos of lines of business. How can you start to reimagine whether that silos or people either, people can come together and work with the right data in the right place at the right time. So we move to the Cloud. We focus on data, AI and collaboration. And then of course, the third piece which was critical was we built a product portfolio that was easy to adopt and this required us to break down our monolithic CRM and ERP offerings.

So -- gone are the days that people will remember where we had Dynamics, CRM and Dynamics (inaudible) Dynamics AX, two big apps and that did everything in one and was very difficult to implement on premise. In the Cloud, we reimagine that to actually have a bunch of individually adoptable applications, which really span across five main areas for our customers.

Area number one is around customer support. How can we help our customers deliver world-class customer support and we do that with things like Dynamics 365 customer service, Power Virtual Agent, AI Builder, as well as some of our new omni-channel digital voice capabilities. Item number two is around supply chain. And we have core supply chain execution, we have supply chain insights, we have supply chain sustainability capabilities, all is individually adaptable modules, where you don't have to go replace your existing ERP system.

Item number three is around revenue generation. So sales and marketing and commerce offerings. So how do we help our customers generate more revenue, whether it's through digital sales and direct selling, or having a dedicated sales force. Next one is around service centric operations, which is helping our customers move to this new way of doing work and providing services as opposed to just products.

And the last pillar number five is the Power Platform, which really is all about enabling full company digital transformation. So those are really the five main areas, where we decompose CRM and ERP to fit into. And then provided a bunch of little adoptable components, which can replace your core apps or can provide value on top of those core apps.

And that last bit is why we've been able to really accelerate the growth, because gone are the days of having to go to customers and convince them to rip and replace stuff. But instead, we can provide value right in place. And the data really bears it out as being effective, like we shared very recently, Dynamics 365 revenue grew 48% year-over-year, 45% in constant currency, over 70% of that revenue is now in the Cloud. And we have new areas like Power Apps, which are growing at right around 200% year-over-year growth. So a lot of new exciting and rapidly growing products, kind of embracing this idea in the Cloud and embracing this idea of data, AI and collaboration. Maybe a little bit longer answer than you wanted, but I think that's a good left to right view we're having in our Microsoft.

Michael Turrin {BIO 20079094 <GO>}

Now, it sets the stage for planning. And we've heard the intelligent applications in Power Platform mantra quite a bit. So it's good to get some -- you know some more context behind it as well. I want to just go through some of the key pillars that you laid out and start with data in particular. We're hearing a lot around data right now on changing standards, focused on first party data, voice of the customer. Microsoft has customer insights, a position in and around CDP. But can you just talk more around just customer data and what you're doing from the application side there?

Charles Lamanna

Absolutely. I think, like this is an area, which is really interesting right now for so many of our customers, because we have things like IDFA changes on Apple, as well as the move to like the cookie less future in browsers, which is just basically requiring everybody to rethink and replan how you can track and know your customer and how they engage with your digital service areas.

The good news is, basically every company is in some degree of digital transformation. So they actually have a lot of digital touchpoints directly with their customers. And that's where the value is, because that's where the data comes from. So if you have an e-commerce website or mobile app or IoT from your Keurig machine or something like that, that's all information that you can use to start to understand how your customers are using your products, as well as what the next best product to offer to them or next best service to offer to them. As well as I can start to do direct marketing through various different channels like email, message, text messaging or just inside your own product.

So anyway, so I say that's kind of the landscape we are in. And what's great is, with Dynamics 365 Customer Insights, we have a customer data platform or CDP, that our customers can leverage to understand their customers by drawing from all the different data sources they have inside of basically their IT landscape and their customer facing landscape. And the way customer insights works is they can connect to over 50 different systems out of the box, you can very rapidly and easily ingest data, whether it's from your marketing system or say, web analytics or your back end ERP. We can pull all of that data together in real-time to create dedicated profiles of your individual customers.

And these profiles can then we used to change behavior, in terms of how you engage your customer and also can be used across all your different marketing campaigns. And what's great is, it's the data that our customers own. It's not data that is owned by an aggregator or gatekeeper in some form and kept locked behind an advertising infrastructure. It's actually data that our customers own to manage themselves.

So it gives them some degree of independence, which is going to be more and more important as we go through all of these fundamental changes and how you can track and what can be provided in the browser or on mobile devices. And if you

don't do this, you're not going to be effective. And we can see the impact already. I know, over the last couple of quarters, there's been a lot in the news about the impact of the IDFA changes, in particular, when it comes to B2C companies, as well as companies that provide advertising.

Michael Turrin {BIO 20079094 <GO>}

That's great. The other area that you mentioned was automation. And I want to touch on that too. But maybe to start, you can level set with all the Power Platform encompasses. We hear a lot about it. It seems like there are a number of permutations that you can take. So maybe you can just set the stage with where Power Platform currently fits and what the functionality of the platform encompasses today?

Charles Lamanna

Yeah, absolutely. And I like to always start by talking about the Power Platform, by kind of like explaining why it's so important for our customers. Because, if -- there's a lot of great stats out there from IDC and Gartner. They're talking about things like over the next 5 years, there are 500 million new apps they need to be built. And that's more than all the apps built in the last 40 years. Longer than I've been alive. That's a huge volume of apps that need to be built.

Additionally, something like 50% of office work could be automated today, with current technology and tools, if there were just somebody to do it. Or 85% of organizations can't understand their unstructured data. So, basically, what all that means is there's this huge unmet need to go to build solutions to help our customers usually transform.

And of course, the way you would normally solve that is by going and hiring an army of developers. But there's also been a study saying there's a 4 million professional developer shortfall over the next few years, who's going to make that impossible.

Michael Turrin {BIO 20079094 <GO>}

Pretty expensive.

Charles Lamanna

But look at what that means in terms of supply and demand and cost (inaudible) There's just a lot of challenges that are going to happen. And I'd say over the last 20 years, this has been this -- I'd say a little bit naive view that we can solve these challenges. This huge demand and insufficient supply by going and teaching everybody how to write code. Go teach just random people how to write code, go teach people who work in finance to write code, and we've tried that. And it has not been successful at scale. I mean, it hasn't. I mean, it gets worse. Like literally, I used to have that stat that there's a million developers shortfall.

Now we got to update, there's a 4 million developer shortfall. So it grows every year. We think though that there is a way to go solve this. And that's through what we call low code development. Low code development is just a idea that in a visual interactive way, much like how you use Excel and PowerPoint, you can go develop solutions that actually get the job done, that you can go knock out a huge chunk of those 500 million new apps or that 50% of automation.

And our offering in the low-code no-code space is something called the Power Platform. And Power Platform has four main products. Power BI for low-code data exploration, visualization and reporting. Power Apps for low code web and mobile application development. Power Automate for low code workflow automation and robotic process automation. And Power Virtual Agent for low code conversational agents and chatbots.

All four products kind of serve different needs, whether it's analyzing your data acting on it or automating it. But the core idea is the same. Super easy to get started and it can be used by everybody in the company. Business users can leverage it. IT professionals can leverage it. And professional developers can leverage it to either start developing for the first time or start to actually go to code and develop solutions faster than ever.

And if you look at this space, we have nearly 20 million monthly active users on Power Platform today. And it's something that we really started to go big on over the last 3 years or so. Most of the Power Platform didn't even exist 5 years ago. And we think this opportunity is massive. We think basically, everybody on earth could ultimately be a Power Platform user, just like everybody on earth could be a Excel user or Outlook user. And that's kind of how big we think it can really go. And what's exciting for us, if we go look across the Power Platform areas, because we've been in this space for a while. We really have strong credibility. Power BI is far and away the leader, basically on every access and the Gartner Magic Quadrant, when it comes to self service BI.

On Power Apps, Gartner has come out and said, it's the number one low code app development platform. And we just announced that it's over 10 million monthly active users on Power Apps alone. So very big market leading offerings that we have, that we think are going to continue to grow at a very aggressive pace. And like I mentioned earlier, Power Apps is growing at right around 200% year-over-year from a revenue generation perspective as well. And this kind of all complements and extends, what we have insight Dynamics 365. So you can go buy one of our apps if we have it. And if you want to do something that, that doesn't go out of the box can easily build in the Power platform. That is a winning combo.

And that's actually why Dynamics and Power Platform are together inside of Microsoft, because we think they go so closely and so well, when you leverage both because it's all about business process transformation, about business value, business outcomes. In some cases, an app is great for off the shelf. Sometimes there is no app for that, you got to build it yourself, drop into power platform. Tons of

energy there. And that's something that I'd say definitely worth tracking over the next couple of years, is how those kind of that vision continues to accelerate for us.

Michael Turrin {BIO 20079094 <GO>}

It makes a lot of sense. One of the areas that I think investors have become more conscious of is RPA. And Power Automate has a great story around automating repetitive tasks as well. And so I'm wondering, if you can help characterize where Power Automate fits in that discussion? Is the right way to think about that more Microsoft-centric use cases? Or is it broader than that? And I'm just wondering, you could just help level set the vision around what you're doing with Automate?

Charles Lamanna

Yeah, I'd say, our view is that Power Automate today is a broad based automation platform. And that today, we're a market leader from feature capability and adoption perspective. And of course, we're going to have great integration with other Microsoft products, like that's true. That's what's really exciting about being Microsoft, we can build these amazingly.

Michael Turrin {BIO 20079094 <GO>}

Easy for you to do, yeah.

Charles Lamanna

Yeah. Right, it's a lot easier. People are down the hall or across the street to go build those integrations. But absolutely, connectivity to all kinds of systems is key. In fact, Power Automate has over 550 data connectors available out of the box to sales force, service now, workday, SAP, you name it. We probably can connect to it for typical enterprise capability.

We also recently did an integration of a company and even go accelerate that further in the case of Power Automate for more deeper enterprise data connectivity. And also we have Power Automate desktop, which supports UI based automation. The classical RPA, right on Windows. It's included in Windows 11 and it supports all applications on Windows. And there's lots of ways that we do that with accessibility handles and computer vision and AI, but it supports any type of App. And SAP is I think the most used -- SAP UI is probably the most used Power Automate desktop UI automation stuck today.

So definitely, it's a broad based RPA product. And this is a place where we think we really have something unique at Microsoft. And the reason I think that uniqueness is important is because RPA is going through a little bit of a change. Like internally, we call it the move from like RPA to Cloud RPA or RPA to RPA 2.0 or Gartner calls a hyper automation, is this idea of automation just being UI macros, is kind of a gross simplification of what you really want to do on the go deliver business value.

And instead when we talk about Cloud RPA, it's API connectivity. It's deep and integrated AI capabilities. It's the ability to also do UI automation, but also to even go run manage VMs in the Cloud for unintended bots. So people are deep in RPA. That's a key component. We have recently announced Azure Virtual Desktop integration. So you can basically run everything elastically in a scale, with no infrastructure and nothing deployed locally, with Power Automate. We're the only ones in the market that do that today.

We have the most connectors via API of anyone in the market today. So that Cloud RPAs in API space is super key. And that's really what's unlocked. The growth numbers we've seen. We have hundreds of thousands of organizations. Organizations, not people, a lot more people. But hundreds of thousands of organizations using Power Automate today, doing billions of automation actions every month today.

And the reason is because the Cloud RPA delivery mechanism is so easy to get started. That's why we could put Power Automate desktop inside of Windows 11. That's why people anywhere in the world can walk up with the powerautomate.com and build a bot in less than 60 seconds, no infrastructure required. That is really compelling, fast time to value and it's not just on the low edge case, it's at the high end. We have great case studies with companies like Coca-Cola, where they have used our Power Automate to simplify 11 step processes, which costs 10s of millions of dollars and to really replace emails and spreadsheets and phone calls and that type of thing.

And they actually have over 4,000 solutions already deployed to Coca-Cola. So you can really go broad, it's low code so it's accessible. And it scales all the way up to the complex. And we absolutely think that we're going to be a major player there. And look, the most recent Gartner MQ, we show up as a strong leader in RPA as well. And there is a few case studies I saw like JPMorgan, put one out where we're -- I think taught to consideration for RPA vendors as well today. So a lot of great data out there about how Power Automate can be used broadly, as well as narrowly at a lot of our customers.

Michael Turrin {BIO 20079094 <GO>}

Another great stats. A couple of questions have come in from the audience. I want to throw those in. And the first one is actually one that I was -- I think intending to ask, too. I mean, you mentioned, I think service and support very early in terms of the number of things that you laid out for us at the start. You talked about virtual agent we've seen. I mean, we've seen that proliferation of where teams has gotten to. And so the question is, do you have goals in around the contact center? Is that an area that you could see Microsoft investing in more heavily in the future? Or how do you think about contact center, especially next to something like teams?

Charles Lamanna

Yeah. Absolutely. So I'd say, absolutely, that's an area that we look at. And I'd say, like contact center is a way that you implement customer support, as well as how you

implement things even like revenue generation, like a lot of companies have contact centers just for sales purposes. So, but I'd say, contact center is super exciting for us for a few reasons. Number one, we have a lot of great assets in that space already. Dynamics 365 customer service is an app module. It has a lot of market share out there, and it's growing quickly. And it's something that the support agents in a contact center use each and every day to work cases.

Similarly, we also have Power Virtual Agent for automating conversational agents across web chat, as well as social channels and very recently voice. And then we also have a lot of other contact center AI capabilities, which also go help basically our customers automate tasks by their coaching and assisting to support agents, whereby automating and driving self service for the customer themselves. And what's exciting about all this is, it's a 40 plus billion dollar a year TAM, if you go look across customer CEC, CCARs and CCAI, so three big categories over \$40 billion TAM.

And it has two major disruptions happening right now. The first being, it's been a Cloud laggard for a while. And but not anymore, I mean, everybody now has to get this stock to the Cloud. On the last I saw it and it's the majority this is, like from an analyst, the majority of folks still deploy their core contact center infrastructure on premise. That's all going to go to the Cloud, just like everything is. And that's where Teams are super valuable, because we built this amazing call routing, call distribution points of presence around the globe inside of Teams infrastructure. And we're able to build on top of that, as we go think about moving that to the Cloud. So Cloud is a major disruptive item.

Second one is AI. Like AI is a buzzword, if you hear all the time. Inside the contact center, it's probably one of the best places where you can map AI back to business value. Because if you can say automate 20% of customer support requests, that can be a \$0.5 billion return on investment over 5 years for large B2C companies. And it's rare where you find places, where there's such clear yield. One more point of deflection or self service through AI. And like -- an example that would be you call up an airline to change your flight. Instead of having to talk to an agent, you can actually just do it by talking to a bot saying, hey, I want to change my flight, here's my flight number I want you to change to this. If you can, one point can be \$10 million for our large customers.

And every time you make AI better, it's another points and other points and other point. So I would say that is a really exciting focus for us, because you don't usually get those opportunities when it comes to business applications. Usually it's a little more amorphous right. Move to us for your customer support agent experience and it will be better. Well, how do you measure it? What's the return? Here it's very simple. Use our contact center AI capabilities and we can reduce your costs, and we can prove it because your case volume that goes to agents will drop.

That is a very, very exciting challenge for us. And at Microsoft, we have such strong AI assets across what we already built inside of Office, inside of Teams, inside of Azure, as introducing Dynamics that we really can deliver on this promise in a meaningful

way for our customers. So super bullish in there. And Power Virtual Agent is one of the most important examples of the AI automation capabilities that our customers can do. Because, it's a Power Virtual Agent bot, which is going to go service a customer as opposed to a human. So that's kind of where we think the future is going very much in that space.

Michael Turrin {BIO 20079094 <GO>}

Great. And it's amazing how many things you have in your overview. There's another question that came in. It's more just classification or characterization within Dynamics 365 growth. And the question is, is there a way to think about how much of that could be coming from just replacement of on-prem Dynamics? Maybe you can just help us understand where you are in the journey of the transition from, like you said the two products set to 365? Is that mostly complete, or just add some more characterization on the growth?

Charles Lamanna

Yeah. So I think that the data -- the stat that we shared to really highlight. (Technical Difficulty) The first thing, I'd say is the growth is predominantly coming from net new workloads deployed by our customers, not by just migrating on premise workloads. And you can see that really with the two stats that we shared. Number one, over 70% of Dynamics 365 revenue comes from the Cloud. Overall Dynamics comes from the Cloud. So that's a super important stat.

The base is now too small on-prem to really be meaningful to actually go drive the other growth number. Second, being just shy of 50% year-over-year growth. We also can't really do that just by converting our existing customer installed base. And so I'd say the -- really, it's the migration phase is largely over. I'd say, it's much more about to keep this growth up and the growth that we've done over the last 12 months really requires us to be landing Cloud workloads that are new with our customers across those five pillars, I talked about earlier. And those are really the five areas we focus on. And there's a lot of Cloud only workloads there to like Power Platform, Cloud only. if you go look at a lot of our supply chain assets, Cloud only. So I'd say definitely it's Cloud, Cloud, Cloud all day and that's where our big focus is for sure.

Michael Turrin {BIO 20079094 <GO>}

How do you -- I'm just curious how do you prioritize internally given there are so many directions your applications business can evolve towards? We've talked about some of the most significant technology trends out there. And there's probably a long list of things that are underneath that, that you could explore too. So how -- what is the decision process that informs what makes it to the top versus what might fall further down? Is it customer feedback? Is it just some of the data that you're able to analyze? Maybe you can just give us a sense, because like it's amazing and I can't imagine what it looks like from your perspective?

Charles Lamanna

Yeah, I would say like, first and foremost, we live and breathe the customer both quantitatively and qualitatively. We have a fairly large I'd say, like a surprisingly large installed base, where talked about really it's hundreds of thousands across Power Platform and Dynamics 365 of organizations. So we can do some interesting quantitative analysis based on that population to understand what features are being used, where deep customer has to happen that type of thing.

Also on the engineering team side, we work very close with customers. We have things like a Customer advisory Board, a Partner Advisory Council. We have things like power champions in our digital community. So a lot of ways where it's very one to one. So customer is always at the center and has always been informed that we go build.

There's another piece, which is we choose kind of strategically where we want to go. What's the field look like. And those five pillars I'd say we chose those five pillars around customer support, supply chain, service centric operations, revenue generation in Power Platform. Because those are areas where we already have assets at Microsoft, where we think there is a lot of disruption happening in those markets. I was able to talk about contact center, customer support a bit. But if we have a same type of viewpoint across all five pillars, certain disruptions happening. And then item number three is something that we think accrues into the broader Microsoft Cloud story. Because at the end the day like Biz App, we love Biz Apps. But the most important thing is the Microsoft Cloud, the commercial Cloud as we position it. And you can kind of see that a lot of our announcements and a lot of our positions. But we also always are carefully factoring in and how do we contribute back to the overall Microsoft Cloud story. So, those are three main levers we used to choose the five investment areas. Then within those areas, we focus on the customer feedback.

Michael Turrin {BIO 20079094 <GO>}

I mean, you make it sound algorithmic. But it's clearly on that.

Charles Lamanna

Yeah. Because I'm -- I'm a frameworks guy, so I love algorithmic sound. So I may not have a document internally that we used to talk about this (inaudible)

Michael Turrin {BIO 20079094 <GO>}

We would love it, but we know that. That's fantastic. Well, look, I could spend all day kind of chatting through some of the things you're working on. But your time is valuable and we've actually run up on what we allocated for here today. So Charles, this was fantastic. Really appreciate you joining. I wouldn't normally say this, but best of luck to your fighting Irish, given the transition there too. And appreciate the time, for sure.

Charles Lamanna

Absolutely. Thanks for having me, Michael and thanks everybody for tuning in. I look forward to additional Q&A in the future offline. So, thanks.

Michael Turrin {BIO 20079094 <GO>}

Excellent. Thanks, everyone for joining. Much appreciate it.

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