# Jefferies Software conference

## Company Participants

- Christopher C. Capossela, Chief Marketing Officer and Executive Vice President

## Other Participants

- Brent Thill, Analyst, Jefferies
- Unidentified Participant

## Presentation

### Brent Thill {BIO 1556691 <GO>}

Welcome back. I going to say would never be in this position with out Microsoft. I started as the developer in the 90s on Microsoft platform at a little bank [ph] called Piper. So thanks for being here, Chris.

### Christopher C. Capossela {BIO 6054036 <GO>}

My pleasure.

### Brent Thill {BIO 1556691 <GO>}

Chris has spent a cool 31 years at Microsoft. I think we were talking before, one of the things he did was help Bill Gates in his presentations has some great, great stories. So done a lot, and maybe we'll just address the headline today of the reduced guidance and I think that was mainly due to FX and no other reason. So think everyone just love to get this out of way.

### Christopher C. Capossela {BIO 6054036 <GO>}

Sure.

### Brent Thill {BIO 1556691 <GO>}

High level what are you seeing on the macro, what was today's announcement? And we also have Brett Iversen, Brett raise your hand, he runs IR here as well. So thanks and his team mates. Thank you gentlemen for being here.

### Christopher C. Capossela {BIO 6054036 <GO>}

Brett. Thanks for having me, obviously, it's great to get a chance to talk with all of you and be here today. As you mentioned, my name is Chris Capossela. I'm the Chief Marketing Officer at Microsoft. I also run -- so I do marketing for all of the products at the company, but I also get to run a couple of our sales organizations that are on the sort of consumer sales side. So talking to retailers around the world and then all of our direct sales where somebody just comes to our website or our digital storefront and buys an Xbox or Azure, believe it or not we do a lot of Azure direct. So that's a little bit about my responsibility. I'd say if you saw the 8-K today, it was purely -- it was purely foreign currency (Technical Difficulty), continued to strengthen the dollar essentially is what we talked about in that filing. And we're obviously incredibly bullish on just about everything else that we have. That's one thing we can't control. It's important for us to focus on the things that are in control. But we're not immune to the macro environment that everybody I think is seeing and so, Amy, and the team decided that, it's important to our file that 8-K with a little bit of additional detail on foreign exchange that we're seeing. But broadly speaking, I don't think we could feel much more bullish about our position. There is no doubt we're not immune to the macro economic factors that the -- that the world sees. We've certainly seen continued supply chain challenges in which -- for our OEM partners and for own (technical difficulty) Is a headwind for us to deal with. But we deal with it, that's the part of running a business. Doing a lot of works of matching up supply and demand on on the PC side and currency fluctuation, how much we do about that and so I think that's about it.

## Brent Thill  {BIO 1556691 <GO>}

Great. Thank you. Maybe a little bit of your day-to-day. It's a big role, where are you spending your time?

## Christopher C. Capossela  {BIO 6054036 <GO>}

Well, there is sort of three big things we -- that my team focuses on. And I'd say that this would be exactly the same for everybody on the senior leadership team, all of Satya's direct reports, but probably most of them would give some version of this. A big part of what I spend my time on is driving growth after the company. Satya and Amy are very clear and -- on our ambitions to continue to grow really well despite our size. And so a big part of what my team does is to look for those growth opportunities. We do all of the business planning for the company and close partnership with finance. So pricing and licensing and build management, our business models that we run, that transition from traditional device based business models to consumption based and subscription-based and transaction based to ad based, like advertisers (technical difficulty) people do that.

That trend -- those transitions are a big part of my team's time, how do we transition to the future business models. I spoke a lot of time on culture, believe it or not building a culture, people who behave the way we want them to behave and have the skillset that like we category creation is a big part of the culture. So rather than just shipping features in an existing product, finding ways to create a brand new category the world hasn't really discovered yet. Building that category and having a Microsoft product in that category, Microsoft Viva would be (technical difficulty)

where that's an employee experience category and now we have a suite of products in this space. Game Pass, Xbox Game Pass would be an other example there weren't really any cloud-based subscriptions for gamers that was a brand category. So culture is another big part and then of course brand. Because if I were the CMO and needed to take a (inaudible) brand love, creating fans for the company, that's a big (techncial difficulty). Those will be -- those would be three, that if you were fly on the wall at my staff meeting or if you are on one-on-one with Satya, you'd hear we talk about these three.

## Brent Thill  {BIO 1556691 <GO>}

What do you think the thing is opportunity is what you said, when you think about we keep hearing this as -- if we are going to and dip more difficult environment...

## Christopher C. Capossela  {BIO 6054036 <GO>}

Yeah.

## Brent Thill  {BIO 1556691 <GO>}

That there is a seam of consolidation that ultimately, what you can do as a platform is pretty powerful, like we authored a pretty big deep dive on Power Apps, and everyone's like I had no idea like, oh my gosh, I didn't know you could build these apps for the mass market and -- and you look at what's happening with Azure, what's happening with Office. Can you just talk about what you're seeing as it relates to these comments from your clients and broader platform?

## Christopher C. Capossela  {BIO 6054036 <GO>}

Yeah, it's a big -- it's obviously a really big question. We're in essentially ten different businesses that we call customers (Technical Difficulty) apply at. It's really hard to pick a couple of to focus on. But I'll pick two that I think are somehow under talked about because they're -- that we're very excited about. One would be security and you look at vendors consolidation, average commercial fortune 1,000, probably had (technical difficulty) security vendors, that they're paying. And so when times get hard and people are looking at vendor consolidation, security is an obvious place and our end-to-end security portfolio that was really, really offensive and it's not focused on Microsoft tech, focused on customers tech. So we secure other clouds. We secure other productivity solutions, be our security platform, if you bought nothing from Microsoft, but all of your tech from everybody else, security actually might be and you would start with as a Microsoft Suite even if none of them are writing any Microsoft technology, then I think security for me is one that, as I look into FY (technical difficulty) it's probably one of the biggest most exciting (technical difficulty).

Second one I'll throw out there that people don't (technical difficulty) is the data space. For us, I would say it's not just data, but it's also analytics and it's also governance, and we put these three things together and what we call the Microsoft Intelligent Data Platform and the products themselves, there is a whole variety of it.

But I think the data estate is where so many more companies are now realizing they have to start as they digitally transform, start with the State and they're turning to fewer and fewer companies for help bringing that to the cloud and modernizing it.

And then once you have that data stayed in place then something like power apps, the power platform becomes a (technical difficulty) unlock value, but if you force me to pick two, I'd say, security and data two of the ones I'm most excited about. If you let me do a third, I'd throw in gaming because there are 3 billion people (technical difficulty) digital games and our opportunity to bring that expertise across devices not just the console, we love consoles, but if you look at all the consoles sold compared all of the iPhone sold, very small number. So bringing gaming to iOS, Android, many, many other devices and having it be cloud powered. We're one of the few companies as this cloud platform. Right now, you can go to xbox.com/play and you can stream Fortnite to just about any device and that's us putting Fortnite in our data center and letting you play in five seconds. That's a -- five years ago that would have been unthought -- unheard of. And so I'd throw in gaming.

## Brent Thill  {BIO 1556691 <GO>}

That's great. We were having dinner last night and our head of infrastructure was mentioning to Brett, he was at your headquarters he's like I want to want to talk about Office and then you're like how about Azure will talk -- let's talk about Azure. Everyone was talking about Azure including lot of your employees, so how does Azure tie into this and you've come a long way, you also have a very large competitor in front of you with AWS. Give us a sense of what the landscape looks like there?

## Christopher C. Capossela  {BIO 6054036 <GO>}

Yeah, I mean just in terms of importance, it is the -- it is the foundation for every other (technical difficulty) we have and Xbox doesn't do well without Azure, right. The whole cloud streaming (Inaudible) all based on the Azure infrastructure. So, you should just think of it as the oxygen that the company runs on. And Azure in itself has multiple businesses to it. Obviously, there is the infrastructure that's growing incredibly well and we're gaining share and were predicted to gain more share, which we're very humbled by and we have to execute really well, but there is wonderful growth on the infrastructure. I mentioned, obviously the data was one of the ones I mentioned, that's obviously foundation to Azure and Azure has. There's still a lot of opportunity to move workloads from on-prem to cloud and we find that sort of the gateway into the cloud and they're doing new things on them. Running premium workloads, SAP on it, obvious (technical difficulty) happy to be the market leader at workload, but getting Tier 1 cloud workloads (technical difficulty) is another huge opportunity.

So, if you just look at infrastructure, you just look at lift and shift (technical difficulty), you just like Tier 1 workloads, then you add data on top, you add gaming on top, you add business on top. It is the backbone of the entire Microsoft and we're very bullish that we can now grow Azure (technical difficulty). We love that it's consumption base. I don't think people will be able to build very powerful consumption (technical

difficulty), we've done that and we love that business model as we only (technical difficulty) customers. The number of $100 million plus Azure contracts as over doubled year-over-year (technical difficulty). So we are seeing bigger and bigger investments for a long-term contracts where people won't just pay for this segment. We want to extend it because we see that this is going to take a while, digitizing my entire company, embedding on and so longer contracts, bigger contracts, those we think really healthy and off the right track even if there is wonderful (technical difficulty) not just data (technical difficulty).

## Brent Thill {BIO 1556691 <GO>}

We were 20% cloud as a firm, we're obviously financial services, so we're going to move a little slower, maybe the most, but our goal is to get 50%, 60% and our Head of Infrastructure has noted that even if things slowed in the macro and we had a slower IT budget that would not slow, because we are going to physically just shut down data centers move workloads to you and other. So when you think about ultimately where we're at in this journey and it seems that one of the questions we get is again any tougher environment, can you just gain share relative to what's happening with some of the legacy infrastructure?

## Christopher C. Capossela {BIO 6054036 <GO>}

Of course, we would certainly say for sure. Like there's still a lot of legs in just the straightforward business of enterprises moving on premise to cloud, and not every industry is going to move at the same pace. But honestly that's kind of the -- what I say, we're betting on that to happen. Real value is once somebody does that, now what do they do. What are the premium workloads that they add on top. Because just shifting your Linux servers and Windows servers to the cloud it's fine, we love that, if you like that business, but it does and unlock the value. It's really looking at what is the data state that you have, what's your data strategy, your data governance strategy, there is a lot more than just turning off your data center and having that exact same data center run in one of our regional data centers. So I think that's sort of just the starting on, that's kind of getting to first base in a baseball metaphor. The real value -- the real margin is obviously the other thing.

## Brent Thill {BIO 1556691 <GO>}

My favorite, Microsoft product is (inaudible) Teams.

## Christopher C. Capossela {BIO 6054036 <GO>}

So yeah, these guys get tired of me video bombing them in on Teams, but...

## Brent Thill {BIO 1556691 <GO>}

I don't think you just goes up.

## Christopher C. Capossela {BIO 6054036 <GO>}

It's just show up, yeah.

## Brent Thill  {BIO 1556691 <GO>}

I see. But it seems like there is so much more room to go think about audio, video, I'm using it for internal calling, I'm not using it for external, but there is a big opportunity that there is obviously a big opportunity for external video. You look at what runway that you have there. Can you talk about the next engines of what powers Teams?

## Christopher C. Capossela  {BIO 6054036 <GO>}

Yeah. Well you know speaking of vendor consolidation, obviously a lot of customers have looked at, this is what I spent on Slack, this is what I spend on Zoom. This is what I spent on Google. I don't need to do that. With Microsoft, you essentially have Microsoft 365 and that presses those three vendors into one vendor and that's -- so that dynamic has fueled a lot of our growth something like 270 million monthly active users now. I think I was the latest number we can imagine the higher since we announced that number. Some of that vendor consolidation is driving that. Obviously COVID has driven a lot of that. The product has gotten far better. I think the people don't get about Teams is that it's not just a Slack and Zoom and sort of Google replacement or vendor consolidation opportunity, what we're seeing more and more now is people adding what we call Teams Rooms. So taking up for average conference room in your -- in your facility, which might have 5 or 10 people in it and making that a Teams room. So a remote person can experience a meeting really, really well, seeing everybody in the room as if they're sitting in the front row. They may not have that we are weird bird's eye camera that shoots the room and if they're not in the room, all you see is that we are -- that weird corner shot. So Teams rooms is a big opportunity that we in the hybrid world more and more customers are looking to (technical difficulty) far better. Their physical (inaudible). Teams phone, the ability to use the Internet essentially to take voice calls, so you can reach anybody on any device, whether inside your company or outside your company. Assign somebody a phone number, that's theirs, handle all of that and obviously if you are looking at any building, why would you put SDN in that building, why not just use the infrastructure.

So those would be a couple of obvious ones beyond just chat and meetings. The last one would be essentially business process automation in the Teams itself. So when I approve an expense reported at Microsoft, I'm not getting an email, I'm not going to expense tool, I'll literally just get a notification in Teams. I click on it. When I do a learning modules do training inside the company, it happens with inside of Teams Viva [ph] learning, which is inside of Teams. So taking business processes like expense management, like approvals, like training you know, et cetera. And having those be built in Teams with third parties bringing thousands of applications, that's obviously a new growth opportunity, (technical difficulty).

## Brent Thill  {BIO 1556691 <GO>}

Let me turn it over to my partner Joe, who we call Cyber Joe, he does a lot of security work for us. I'm sure he's going to want to follow up on the Security thread and thanks so much for being part of the conference.

## Unidentified Participant

Awesome, thanks. Yeah, maybe just starting on the security element, you mentioned it as the number one focus area. Microsoft has certainly evolved and really, really improved over the last five years. How is that messaging changed and you view yourselves as a security provider or more of a fiduciary responsibility to secure your own products given such a large attacks (inaudible)?

## Christopher C. Capossela  {BIO 6054036 <GO>}

Yeah, it's a great question. We sort of think of it in two ways, first there is what we would call sort of foundational security that we have to build into every single product. So if you buy a Windows 11 PC today it's far more secure than a Windows 8 PC was. We just have Microsoft Defender built in to that Windows Windows -- that windows experience and that would be foundational. If you buy Microsoft 365 from us, it comes with security baked into it. And then we think of advanced security, where we basically can build and sell solutions to customers, who want to secure all of their devices no matter who they buy it from. They want to secure all their employee identity, no matter if they're using Azure Active Directory or some other solution. They want to secure all of their employee data, whether it's created a Microsoft tools or in somebody else's tools. They want to secure all their applications and most of those applications are for Microsoft like there are thousands of applications the companies have. So think of it as foundational data for the products we build, foundational security for the products we build and then think of it as advanced security solutions that will secure any cloud from any vendor, any application, any piece of data, any identity any device and that's where we obviously see huge additional growth on top of what we already do in, let's say, Windows 11. And that's where, when we talk about being a (inaudible) security vendor, the largest vendor in the world, that's where that money is coming. Not Windows 11 on my home PC, which is super secure.

So that's how would say. There is an additional layer that you know all about which is the role we have in watching the cyber attacks that are happening around the world and then contacted government leaders and enterprise customers to share the threat intelligence that we're seeing 24 trillion signals a day. I think we're looking at to see, patient state bad actors, all sorts of thing. And that goes even beyond our revenue growth or our products, and that is a little bit of a responsibility of the position we have as a public cloud to make sure that we're keeping patients safe and we do that by working hand-in-hand with governments around the world. That's a, I guess a third layer to what you asked.

## Unidentified Participant

And what's the next journey for the security business? Is it awareness making your customers even aware of what's possible with Microsoft, because maybe five years

ago, they didn't think any of this, but ever come to fruition or is there a product area investment that you need to build out more?

## Christopher C. Capossela  {BIO 6054036 <GO>}

I think the biggest thing people don't understand is that we can actually secure other clouds. So that's probably a big opportunity for us to do, sort of a marketing and storytelling and selling perspective. It isn't just about securing Microsoft 365. If you're running things on somebody else's cloud, we have security solutions for you. I think that's a big go do as we would say for me and my team and and Judson, who is our Commercial Sales leader. The other obvious one is the vendor consolidation, just see (technical difficulty) and that's a big opportunity.

## Unidentified Participant

You mentioned I think number three was gaming I'm a customer...

## Christopher C. Capossela  {BIO 6054036 <GO>}

Well three, are you may be picked three. So I chose gaming, but

## Unidentified Participant

But I mean you clearly have put a ton of investment dollars and that business has done very, very well. What's the future of that business look like over the next couple of years?

## Christopher C. Capossela  {BIO 6054036 <GO>}

Yeah. The thing -- I mean there's many things to love about the gaming business, but one thing maybe folks here don't understand is what a multi-dimensional business from a business model perspective and amount of (technical difficulty) perspective. Because you typically think of gaming as, oh, yeah, there is a console that some applies, then you attach a few games onto it and that's the gaming business. In fact that was the gaming business. But today of course the --the variety of ways (technical difficulty) is making, got the console, you've got games, you've got transactions. I mean look at game like Fortnite, it is a free game and yet they generate huge amounts of revenue from actions in the game. You look at something like a Candy Crush, it's a free to play game and yet, tremendous revenue associated with it. You look at gaming subscriptions, where 25 million Game Pass subscriptions, I think was the last number that's it amazing business model.

So, I think one of the things I love about it is that there is multiple ways to monetize and it's a very rich ecosystem perspective, we love that. Content is certainly incredibly important. See us looking to do acquisitions like the Activision, one that we've announced, like the Bethesda and ZeniMax when we already did. Content is just everything. Community is really important. Most people don't understand that gaming is very, very social. The days or somebody sort of playing alone in their

basement are kind of over where people do that, but it's far more of a social experience where people want to come home from school, they want to play games with their friends, while they talk to them. So a safe community is super important and then of course the move to the cloud is very, very like we've got strong head start. So when you think about gaming, think about content, think about safe communities and think about cloud. And that's the recipe that we use to put the game at the center and we talk about it has led to play the games they love with the people they love and the devices they love.

## Unidentified Participant

Other than gaming, on the consumer side, you said you run the sales organizations and the digital motion, where are you guys spending marketing dollars your investment dollars? What are you most excited about and how resilient can that be if there is a recession?

## Christopher C. Capossela  {BIO 6054036 <GO>}

Yeah, so consumer demand is definitely very spiky. We've seen it over the past few years. Commercial demand on devices has been really strong and we predicted it to be very strong. Emerging market consumer has been very consistent, but developed market consumer has been quarter-to-quarter, if you got look at the last 12 quarters, it's always up and down. And I bet that that will certainly continue. We always have need to spend money on windows, it's such the fabric of so many thing from downstream. But I think if you were to look at how I'll spend marketing money in the coming year, you'll see on the consumer side, you'll continue to see investments in gaming, you'll continue to see some investments in Windows. I think you'll see a shifting of our investments to what we would consider the post sale monetization opportunities on the windows.

And so for us, that means, things like Game Pass for the PC, that means Microsoft 365 the consumer versions. I think, these things like Edge, Edge our browser continues to take share on the (technical difficulty) that leads to bigger queries (technical difficulty) advertising revenue for us. So if you just ask me the question about marketing spend, I think you'll see a subtle shift in some of the post-sale modification opportunities with knowing that the supply chain challenges are there. Knowing that consumer demand is spiky, that has been. In one quarter it looks great, the next quarter, you think wow, it's very. And so I would predict those spikes will continue and our opportunity is perhaps a little bit on the post sale (technical difficulty) with the edge progress, really excited to be a big advertising customer. We're not immune for the impact of the economy has on ads if (technical difficulty) ad companies suffer, but luckily we're incredibly diversified. So we can usually make (Technical Difficulty) ups and downs on part of our business.

## Unidentified Participant

Same question on the commercial side, maybe outside of Azure where you guys shifting investment dollars?

### Christopher C. Capossela  {BIO 6054036 <GO>}

Yeah, you know. I think I already tipped the hand on this one. Security is -- will be a big focus for us, what we call modern work, which you all will (technical difficulty) Microsoft (technical difficulty) for us. Can't ever Azure, I would have picked my (technical difficulty) probably be top three marketing. But there are some great things we could do without spending money that actually drive great growth in power platform from Azure.

### Unidentified Participant

Unfortunately, I think we're out of time. But, Chris, really, really appreciate the time today.

### Christopher C. Capossela  {BIO 6054036 <GO>}

My pleasure. Thanks for having me.

### Unidentified Participant

Thanks Brett.