

Deutsche Bank Technology Conference

Company Participants

- Alysa Taylor, Corporate Vice President, Industry, Apps, and Data Marketing

Other Participants

- Brad Zelnick, Analyst, Deutsche Bank

Presentation

Brad Zelnick {BIO 16211883 <GO>}

Great. Hi, everybody. Welcome back. I'm Brad Zelnick, Software Equity Research Analyst here at Deutsche Bank. And I'm really delighted for this session to be joined by Alysa Taylor, Microsoft Corporate Vice President, Industry, Apps, and Data Marketing. Alysa, welcome, and thanks for joining us.

Alysa Taylor

Thanks, Brad. Thank you so much for having me today.

Brad Zelnick {BIO 16211883 <GO>}

For certain. So the format of this session is a fireside chat. And I believe you can submit questions in your browser and if time permits, we'll try to work those into the conversation.

But with that, let's just dive right in. For starters, Alysa, your role touches on a lot of exciting things happening at Microsoft. Can you help us understand what exactly you're responsible for, the rationale for bringing all of these things together and where you spend your time?

Questions And Answers

A - Alysa Taylor

Absolutely. So if you know Microsoft, we are functionally aligned. So we have engineering leadership, sales leadership, product marketing leadership, finance leadership, that really is organized by our commercial solution areas. And so, I have the pleasure of being responsible for product -- global product marketing for three of our business units.

So our data and AI business, our business applications division, as well as our global industry. And we'll talk a little bit more about, I know, specifically about business applications. But if you think about the world in which we live in today with so much of everything that we do becoming a very data-centric culture and then the data flowing into business applications in unique ways and enabling organizations to do new interesting things with -- across their business, and then having that in a very vertical component. That's why those business units make sense to have one leader across all three. The synergies really are what we're seeing in the marketplace today.

Q - Brad Zelnick {BIO 16211883 <GO>}

Thank you for that context. And just to jump right into Dynamics 365, today is now north of a \$3 billion run rate business growing over 40%, which is really impressive considering it's less than five years old. And if we were to come back in, let's say, another three or five years and it's still compounding at a similar rate, what needed to have happened to sustain this level of success? And maybe asked differently, can you share what makes you optimistic for the future and the ability to take market share on a sustained basis and how will you measure that?

A - Alysa Taylor

Absolutely. And so we've been on this journey we announced Dynamics 365. It will be five years this fall and we started with the vision of the Microsoft Cloud. I mean it's very akin to what I just talked about around why the business units that I manage are closely related. But if you start with what is the Microsoft Cloud and what's the vision we've been building as a company, it's really to make sure that we have the world -- the world's largest and most comprehensive and trusted cloud, starting with our hyperscale global infrastructure, Microsoft Azure, our data in AI services, the ability at the developer layer to extend all of those experiences to take the data, to be able to analyze it, create new experiences to automate it.

And then having an application layer that is both extensible and is supported by that global hyperscale platform, and that application layer in the Microsoft Cloud is Microsoft 365 and Dynamics 365. And so that has always been the vision to build the world's most trusted and comprehensive cloud and doing that, we knew how important the business application layer was.

And so if I rewind to five years ago, we had a set of on-premise assets in the ERP and CRM space, and we knew that we had to completely re-imagine how we thought about applications and we started by effectively breaking down the big monolithic silos of ERP and CRM, creating modular services that were built on Microsoft Azure and threaded throughout with the integration into Teams and into Outlook and extensibility through our developer platform. And we then set out on a journey to really create all of the business functions all the way from marketing, sales, service, finance, operations, supply chain that an organization needs to run their business.

And so that's the intentional journey that we've been on, and we've grown from, back in the day, we were a single-digit largely on-prem business to now we are predominantly cloud with consecutive growth quarter-over-quarter and we just announced last quarter 49% cloud growth.

Q - Brad Zelnick {BIO 16211883 <GO>}

(Multiple Speakers) great [ph]. It's been an amazing journey in just about five years, and we look forward to great things ahead. And as we think maybe more broadly, I've been a student of the industry for many years. Long ago, applications and analytics were two separate disciplines, and I think today, the world seems to be evolving in a direction where apps are so much more intelligent more often have embedded analytics and decisioning.

So take CRM, for example, seems to be evolving from a sales management system of record to proactively helping sellers sell. So with this explosion of data and maturing AI capabilities, we're seeing many high growth innovators bolting on to systems of record to drive engagement productivity and optimizing outcomes. Can you talk about where we are in the evolution of business apps and maybe the value or importance of data-driven applications, and what more can we expect in the future as these stats come together?

A - Alysa Taylor

Absolutely. Yes, you asked what is our journey and what are we most excited about. And you've just articulated the enthusiasm we have for the future business applications because it's fundamentally changing. When I talk about we started to build a comprehensive set of services, it's really those services now are moving from what are very reactive systems where you sort of input data in and that data is static and is very sort of user-driven to this world where you can actually aggregate data and your business application becomes a analytical system, that you can then apply intelligence to and you move it from a reactive state to a proactive state. And that's the beauty of what we are building with Dynamics 365 and the Power Platform, is that ability to aggregate data from all kinds of disparate sources, analyze that data within the system, be able to automate and act on that data, all within the construct of a business application.

So to your example, it no longer becomes a salesperson inputting in their opportunities, but using that system to tell them what leads should they prioritize, what for -- what parts of their forecast are at risk, even being able to embed cognitive services, so we're -- so, you can actually analyze your interactions with your customers and know what's at risk or where you'd want to do different cross-sell, upsell, where you may have other people that you want to network within. So it really becomes less of this sort of system of record and this tool that empowers individuals in a very proactive way to do their jobs every day.

Q - Brad Zelnick {BIO 16211883 <GO>}

That makes a lot of sense, Alysa. And as investors and analysts, we like to follow the business cycle and understand the spending patterns and a common investor debate this past year has been around the relative priority of front office versus back office application investments and you're in a great position to see what customers are doing. So, what are you seeing across the Dynamics portfolio in that regard? And maybe can you speak about why it's so important that Microsoft has an integrated

value proposition that spans from both? And I know you touched on that a little bit already, but I'd love to hear more.

A - Alysa Taylor

Yeah, that's -- you're absolutely right. The lines between front office and back office have blurred, and they're doing that -- that blurring is happening because it really, again if I go back to sort of the historical traditional CRM and ERP, those systems really never talk to one another. But if you think about where -- how quickly every industry is evolving, if you even just take retail and you zoom into retail and you look at curbside pick-up as a service now that every retailer has to offer in this world today, you can't do that with just front office systems and back office systems, right, because you have to be able to understand real-time inventory visibility, you have to be able to do alerts to those that are on the frontlines servicing the customers and the world of digital and physical has completely emerged. And so you have to know your customer in a virtual environment and be able to bring that into the physical environment.

And customer expectations are that there is -- I'm a customer and no matter if I interact with you online or interact with you in-store, that you know me, and you can have two discrete disparate systems servicing that. And so that's why we've moved very much into a functional model and I will say the key in the secret to Dynamics 365 is we have individual services by function. Like I said sales, service, marketing, finance, supply chain, operations and commerce. But there is a common data service that threads throughout, which is what we call data verse and that common data service allows you to be able to have your supply chain visibility seamlessly flow in through your commerce systems, into your sales and into your service applications. So there is no more silos between those functions and that's through the core value prop of ours is breaking down those traditional silos and enabling a data-first AI-first set of applications that serve every business need.

Q - Brad Zelnick {BIO 16211883 <GO>}

I think it's intuitive why that would resonate still well with customers and prospects. Maybe as we kind of round out the value proposition and as we think about Dynamics and extend into Power Platform, you've talked about the app gap in the past and the demand for apps outstripping the world supply of software developers in it. It sounds like Power Apps have a lot of momentum right now. How should we think about the population of citizen developers in the world and perhaps Microsoft's role in expanding that population?

A - Alysa Taylor

Yeah, there is two fundamental things that are happening in the industry right now. The app gap is one, which is every organization has a unique set of needs and you start with the base functions. But the reality is to run a business every day, you have very specific applications that you need to run that business. And the rate in which all industries are evolving and the market is evolving, you don't have years to build enterprise applications anymore. It's just too -- the landscape changes too quickly.

And so, plus there is the scarcity of resources in terms of the number of developers. And so what you see is this term citizen developer but though it's really those that are closest to the problem, how do you empower them with the tools to be able to solve the challenges and (inaudible). And that's actually, you touched on Power Apps, but we have a portfolio called the Power Platform, which is Power Apps allows you to build unique applications very quickly in a low-code no-code way, leveraging connectors to data sources, bringing that data into data verse and being able to very quickly stand up applications.

But the other services that are in the power Platform allow you to take that same data and be able to automate it as well as analyze it with Power Automate and Power BI. So it's an entire system of low-code no-code tools to enable the citizens of the world to be able to take care of the challenges ahead of them. And the reason we're investing so much in this area is because we want to make sure that people can rapidly respond to what's in front of them and empower everyone in an organization to be able to have that -- those tools to give them the services they need. And it's just -- it's all in pursuit of making sure organizations have all the services they need to be successful.

Q - Brad Zelnick {BIO 16211883 <GO>}

Makes a lot of sense. Alysa, as we, maybe, dig a little bit further into Power Platform and some of the other aspects of it, I think RPA, you've got some really strong technology there. But how might we think about Microsoft's aspirations in the RPA space and how would you characterize the market's maturity and ultimately, the size of the market opportunity? Because I think some might debate that and maybe just as to how big beyond might be some of the more obvious examples, like accounts payable or accounts receivable, which I have often heard a lot of success, whether it'd be Microsoft or other RPA providers. I mean, can we really ultimately automate away the role of the typical knowledge worker? Am I going to wake up and -- what is automation going to mean for me?

A - Alysa Taylor

Well, I think it's about -- our goal is to empower individuals, definitely not to automate them away. But if you think about what organizations need to do is, it's actually about freeing up people to do higher-value tasks. And there is so much in the system that is -- that can be automated to give people the ability to focus on those higher-value tasks, so they're more productive. And so that's really what -- when you think about RPA what that enables people to do and it's not just about accounts receivable or paper-based process. It's really about any function across any organization when there are highly manual repeatable tasks being able to automate those.

It also helps with legacy-based systems. So how do you actually sort of automate tasks that where you have systems that were -- it's very difficult to be able to extract that data out of those systems. And so we think RPA and a Power Automate, which is our Microsoft Cloud service, just has huge potential to make individuals more productive and also help organizations win, back to the comment I made about the scarcity of resources really being able to help organizations adapt where they might

not have frontline workers to be able to take on some of those tasks. And so it's just - it's a really nice way for organizations to become more efficient and to become more productive.

Q - Brad Zelnick {BIO 16211883 <GO>}

That makes a lot of sense. And Alysa maybe if I could, I'd like to talk a little bit about the go-to-market approach. Microsoft has a vertical oriented approach to the market, but in fairness, I think that's common across the industry. What makes your approach different? And is it more about product? Is it go-to-market or perhaps even unique partnerships that you have in specific verticals?

A - Alysa Taylor

Well, I think it's -- I would say that it's all of the above. We've talked a lot today and hear about product and what we've been investing in on the product side and the product strategy. But conversely, on the go-to-market side, we've both at Microsoft really re-imagined our product strategy hand-in-hand with our go-to-market strategy.

And if we think about how we want to service our customers. It's about being able to start with the time of need, whether that be how an organization is rethinking and making their sales force more proactive as we talked about or building the digital contact center of the future and rethinking their customer experience, starting with customer service, all the way to how they get supply chain visibility and modern commerce systems.

So really being able to start with an organization at the time of need because that's the other -- if we go back to this notion of where we were 5, 10 years ago with CRM and ERP, those were, as I mentioned, big monolithic systems that took years to implement. And we, again, we're trying to get to the fastest time to value for our customers. And so having these modular applications allows an organization at the time of need to be able to adopt.

And then as they -- and if they choose to expand into other functions, we've built them in a way that allows you to start with an application, very easily add the next service, the data as I talked about data verse connects those applications and we have a go-to-market that's all around making sure that organizations are able to realize value from that application and then add additional workloads as they see fit.

And so to do this, we've invested very heavily in our sales field. Year-over-year, we've added incremental -- significantly added incremental sales. We have built out an ecosystem that we think is world-class and continuing to invest very heavily in our ISPs to be able to bring in that complementary both vertical and micro-vertical expertise to round out the portfolio.

And then also investing in our customer success and making sure that our -- the organizations, all the way that we serve, all the way from pre-sales to post-sales feel very supported by Microsoft in our ecosystem. So there is just -- there has been equal investment on the engineering side and building out the product strategy as

there has been on the go-to-market side to make sure that we're serving our customers in the best way possible.

Q - Brad Zelnick {BIO 16211883 <GO>}

All key ingredients in making it all work and the ecosystem, mind you, a very impressive set of partners. I don't want to say second to none because I'll be offending other companies out there, but clearly a distinction from Microsoft for sure.

Alysa, I'd love to ask you a bit just about future trends as we look to the future, we continue to hear about COVID accelerating digital transformation and investors have been trying to distinguish changes in behavior that are more enduring versus those which might be more short-lived and I get that the pandemic is by no means behind us, but what are you seeing along these lines in terms of customer behavior and intent? And how do you expect it to translate to end [ph] demand?

A - Alysa Taylor

Yeah, I think COVID, in many ways, accelerated organizations' need to build a strong digital foundation because it's just so many of the -- we talked curbside pickup, contactless shopping, the disruptions we've seen in the supply chain market, like those organizations that had a strong cloud digital foundation are the ones that have weathered the storm, the best.

Great example that I was talking about is Patagonia. Patagonia shut down both their stores and their factories to be -- to make sure that their employees, both in-store and in their factories were safe. And then they reopened with a very modern distribution center and they were able to do that in a very short period of time. We worked very closely with them on their supply chain system as well as their commerce system and their in-store point of sale to be able to bring employees back in a very safe way, and also serve their customers in a safe way, and use their retail stores as the fulfillment centers versus having factories with large amounts of people working very closely together using the smaller footprint of the store to be able to dropship.

So I think COVID has very unique circumstances like what Patagonia had to face. But I think pervasively, every organization has come to realize that to be future proof or whatever is next, it's really incumbent on them to build a digital foundation that allows them to react very quickly. And so I think things that we will see that will go into the future is how do we make sure that the physical and digital worlds are seamless because I think the -- a bunch of the digital capabilities that have been stood up are here to stay. I think we'll always be mindful of physical environments and spacing and footfall traffic and how do you monitor those physical spaces. We talked about automation and making sure that employees are as productive and as efficient as they possibly can be. And so I think the investments in automation will persist.

And then how quickly supply chains were disrupted and continue to be disrupted, and so we are making sure that you have a supply -- you have supply chain visibility,

you have very responsive commerce systems. These are all things that we continue to see organizations invest in because it's just -- I don't think we go back to the world that we were two years ago and so organizations are having to adopt and having to continue to make sure they're anticipating what's next.

Q - Brad Zelnick {BIO 16211883 <GO>}

I think there's no doubt, experiences will continue to be more digital, more mixed reality. I think the future is bright and exciting, and it's great to see how Microsoft is able to help customers in delivering those types of experiences.

I had a couple of questions, maybe along those lines. I was surprised when I saw you have responsibility for mixed reality but realize some of the use cases are pretty cool. How are customers like Kroger or I noticed Mercedes-Benz or even Chevron using HoloLens with Dynamics to drive better business outcomes?

A - Alysa Taylor

Yeah, now I use two of those examples because I think they're good contrast of kind of organizations investing for the future and then organizations that had to react to COVID and will build into the future. Chevron was -- Chevron, if you think about the need to service oil -- the oil mines that are in the fields, how you do that, it's very difficult to fly in people to be able to do onsite service. And so they invested pre-COVID in being able to use HoloLens and Dynamics 365 Remote Assist to be able to do remote service and allowing their technicians to collaboratively work on servicing their oil rigs and in very, very remote, I mean like, when you talk about remote, very remote places. And so that -- Chevron is -- was sort of ahead of the curve of how do we make sure that we can be as efficient as possible and react very quickly because obviously when there is issues with an oil rig in -- it does, fairly timely, it becomes disastrous, right?

So their response time is incredibly critical and so using mixed reality to be able to do that. And then if you look at what Mercedes-Benz did, that was in response to COVID-19, which is they were not able to have technicians fly into service vehicles. And so, using again HoloLens and Dynamics 365 mixed reality applications, both Remote Assist and guides which is our training platform to be able to bring together technicians to service vehicles and to be able to communicate with the vehicle owner. And so this is just a really unique way of evolving their service capabilities. And I think we will again see that persist into the future because what it does is that allows people to real-time -- have real-time collaboration, be able to knowledge share and communicate with customers wherever they are.

And so that's a value add that Mercedes has now that they will continue to invest in and I think we saw the shutdown of the service plans and people not being able to get on a plane to help really accelerate that. And so the mixed reality portfolio in Dynamics is just another way for us to do, we talked about data-first. Using all forms of data, whether that be operational data, transactional data, observational data, bring all of that data together to be able to create those -- create an understanding of your customers, of your supply chain, of your employees and really using that data in a way to be able to analyze it and then garner insights from it. And so it's all forms

of data and that's why mixed reality is part of -- a very strategic part of our portfolio, and one that helps us serve customers like Mercedes-Benz, Kroger and Chevron in very unique ways.

Q - Brad Zelnick {BIO 16211883 <GO>}

Yeah, that's very cool. I actually had the privilege of seeing some of Mercedes' new EV lineup just the other day here in New York, it was very interesting to see how they do in the EV market against the dominant player there. Maybe just one last one, we've talked about data, data, data, and I believe you've mentioned this data verse and the single data model. Is there anything more to understand how much of that is just the underlying fabric upon which everything you're doing relies and makes everything possible and bringing this overall platform solution available and for customers? Is there anything more that you can tell us about? And is it something that maybe one day can be productized and monetized on its own?

A - Alys Taylor

Well, I'll give you a little preview of where we're headed on that -- on our data cloud services because if you think about the data needs of every organization, it's about having an analytical data store that takes unstructured data and then is able to combine that unstructured data using a common data model for you to be able to analyze it.

And our analytical data service is Azure Synapse -- Microsoft Azure Synapse. If you then think about what is the operational data services that are a -- that comprise and convert -- bringing that operational data both structured and unstructured. One of our operational data services is data verse and that is our low-code no-code. So it's a very -- think about it as a managed service that allows you in a very controlled aligned entity way to be able to easily build new applications with Power Apps, be able to automate the data with Power Automate, be able to combine data across services like Dynamics 365.

And then you have obviously our Azure SQL as our hero enterprise operational data service and then Cosmos DB to be able to build cloud-native applications. So if you think about the analytical data services and Synapse, the operational data services and having the right operational data services and then wrapping [ph] that with all the compliance and governance that we have with Microsoft Purview. And so that's really the kind of the construct of our data cloud that you'll hear us talk more and more about of how they all comprised to the -- what we believe is the most comprehensive set of data services and how organizations can garner value by having a common data model that allows that data to either be in an operational structured form, but then also be able to have unstructured data in Synapse and have this data kind of all be part of the Microsoft Cloud data services.

Q - Brad Zelnick {BIO 16211883 <GO>}

That makes perfect sense. And that was...

A - Alys Taylor

(Multiple Speakers) We'll talk more and you'll hear us talk more and more about the Microsoft data and cloud services and how these all work together. But I wanted to give you a sense of how data verse fits into that overall strategy and picture.

Q - Brad Zelnick {BIO 16211883 <GO>}

We look forward to it. And with that, Alysa, thank you so much for joining us. Do you have any final thoughts or anything to leave us with? Because I think we're close to being about out of time.

A - Alysa Taylor

I think we didn't touch on industry. I think that's something you'll see us more and more. We've introduced our first set of industry clouds. But when we talk about the Microsoft Cloud being able to make sure that the Microsoft Cloud is relevant for every industry is an area that we will continue to invest in as well.

So I would say I -- thank you so much for having me. It's always a pleasure to talk about what we're doing across business applications, all of the great discussion we had around the ability of organizations to leverage data in new ways, and what we're building to the future, and then I just think that industry, for us, and making all of these cloud services industry-relevant is another area you'll continue to see us invest in.

Q - Brad Zelnick {BIO 16211883 <GO>}

Awesome. Well, with that, thank you so much for being here, and thanks everybody for joining. We hope to see you soon. Have a great day.

A - Alysa Taylor

Thank you.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2024, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.