

Bank of America Merrill Lynch Global Technology Conference

Company Participants

- Kirk Koenigsbauer, Corporate VP of Office 365 Client Applications

Other Participants

- Gowrishankar Subramanian, VP, BofA Merrill Lynch, Research Division
- Kasthuri Gopalan Rangan, MD and Head of Software, BofA Merrill Lynch, Research Division
- Unidentified Participant, Analyst, Unknown

Presentation

Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Everybody, I can't tell you how delighted I am to welcome Microsoft, very special guest, Kirk. We will let Kirk talk about his background, what he does at Microsoft exactly and how long he's been doing it. I'm pretty sure it's a spectacular career progress. But I also want -- on a separate note, this is Day 3 of the conference. And we really wanted to extend our appreciation for sticking with us over the past three days, attending all the sessions. And it's really the best three days of my professional life. The conference is where companies, investors and we all come together and really splendid, splendid. I will be depressed tomorrow. Seriously, I'm on a high right now. I'm going to be very depressed tomorrow.

Questions And Answers

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

So with that out of the way, Kirk, thank you so much for attending our conference, very much appreciate it. Can you just give us a level set as to what exactly your role at Microsoft is? What you've been doing and what you intend to do in the future?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Great. Yes. I know. I'm still figuring that out. So I run product management for our Microsoft 365 line of products. And so that is a new offering that we introduced in the market. I'm sure we'll talk a little bit about this morning. That includes Office, Windows, Enterprise, our Enterprise Mobility and Security suite and a whole bunch of products associated with that. I've been at Microsoft for, gosh, since 1992. I worked in a bunch of jobs, running engineering teams, running project management teams.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Celebrate your 25th year there?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Well actually, I was at Amazon.com for about three years. So I'm really around 23. But I'm close, getting close, getting close.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

And yes, please, I interrupted you as you were walking through your responsibilities.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Oh, no, that's good. So yes, we're responsible essentially for the portfolio of products around Office, Windows, again, EMS, as we think about introducing this new product called Microsoft 365 across our commercial segments and education segments as well. And it's been a tremendously interesting time the last couple of years at Microsoft and the transformation we're making to cloud. And certainly, Office and the Microsoft 365 offering over the last year are just a big part of fueling that growth. So it's been a fantastic couple of years. Stock's at over \$100, which is pretty darn good. I haven't seen \$100 in a long time so.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Seemed unthinkable 4 or five years back.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes. It's been amazing.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Yes. I remember very smart clients, who will obviously be unnamed, telling me -- very smart clients, that stock will never see \$30. The company will never earn more than \$3, never. It's not like this time frame or something but...

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Satya's done an amazing job. You'd think about, gosh, can one person really have such an impact when the company is so big and there's 100,000 employees and one person can have a tremendous impact.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

One client who is -- again, who will be unnamed, comes up with the best acronyms for stock symbols. And MSFT currently is Miraculous Satya Software Company.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

I've heard that.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Thank you. You know who it is. So thank you. So I know you guys made a very small acquisition a couple of days back.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

What was that?

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Hub. And then it's got something in front of it.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

GitHub, that's right.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Oh, yes, that's right, yes. Can you tell us more -- sorry to put you on the spot. But I'm sure you've been in the know. You've been able to digest this, speak to people at Microsoft. What are your thoughts on this GitHub acquisition?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes. So obviously, it's very fresh. It's very exciting. I think it's been reported. Satya was super passionate about it personally, which was great. When you think about -- at least when we think about in many ways what's fueling the growth at Microsoft and so forth, cloud is certainly a big part of it. The reinvigoration of the developer ecosystem is a big part of it, too. And developers is something Satya's incredibly passionate about at the company and in large part because developers are fueling innovation in so many parts of the industry. It's really at the center of everything, whether it's financial services, health care, retail, manufacturing, you name it. There are people building technology to help move these businesses forward and reimagine them in incredible ways.

And so at Microsoft, we want to make sure that we do everything we can to foster that developer ecosystem. And the opportunity with GitHub was a really incredible one, we thought, to bring together at the company. We also recognize as big an opportunity as we see to help developers better collaborate and share technology and bring forward, that we also have a huge responsibility in this space to continue to maintain the open platform nature of what Git does so that any developer, any tech, any framework that is going to remain a core part of the value proposition of what GitHub does, the fostering and nourishing that community of developers that's there is incredibly important to us. Then running it in many ways like we've run LinkedIn as an independent organization. And that will be a key piece as well. So we're really enthusiastic about it. Obviously, it's early days. But we're very, very bullish about what it can do.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Yes. What Shankar and I were talking about in our note in looking at the deal was we said, ultimately, the developer base is a good on-ramp to the Microsoft Cloud. And when they develop these applications and put it in their (inaudible) and then when they're ready to put it in production in large-scale deployments, there is a path to the Microsoft Cloud. Is that a possible avenue that it could synergize longer term for Microsoft?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

There's definitely opportunity there. But I think first and foremost, we want to really -- and similarly to how we've, I think, approached LinkedIn. We want LinkedIn to grow in and of itself. And some of the results that you see with LinkedIn, as an example, not to sort of switch topics or anything. But the growth just that we saw in the last quarter, it's something like 37%. When previous to the acquisition, I think the quarter before was like 17%. Like we want to do everything we can to drive that business leveraging the strengths of Microsoft similarly with GitHub. If there are assets at Microsoft that GitHub can use, that's fantastic. But I think, first and foremost, it's about the success of GitHub. Then over time, of course, if there's opportunities to help on the Microsoft side, that's fantastic, too. But nourishing that developer ecosystem, the open platform and that community is the priority for sure.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Got it. Got it. Let's shift to your business, the Office business.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes. Great.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

It's a massive business, nearly \$25 billion in annual revenues, larger than many of the independent SaaS companies. So congratulations. You have a really big SaaS business. You have a big IaaS business. Separately, in their own stand-alone merit base, they are the largest 5, 7 businesses in SaaS. So how important -- just level set for us how strategically important, we all talk about Azure IaaS because of the Amazon halo effect. But talk to us about how important really Office 365 is for the company, the strategic relevance?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes. Well I think that maybe there's a couple of different ways to look at it. I think if you hear...

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

And can it be a continued growth business? Because there's a feeling that Office is going to be (topped) out and then it's all like GDP growth, whatnot.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes. I know. I've heard that for 15 years. It's one of those things where I think when people look at the company at the highest level, there are 2 substantive growth drivers. Of course, there's lots of important businesses. But the 2 biggies are really around Azure and then Microsoft 365, which is in many ways the evolution of Office 365. And so I was talking about developers being core to the mission and value proposition of the company, we think that productivity and collaboration is also core to the sort of spirit and soul of what Microsoft really is. We've been in that business for a long time. It's evolved in many, many ways. And Office is kind of at the center of that value proposition. And so from our perspective, it couldn't be more strategic. It couldn't be more important. And I think that it's a very interesting time in the market right now. We are seeing in business environments this sort of new culture of work that's been emerging over the last couple of years. And it's driven by a whole number of shifts in terms of demographic shifts, like the millennial population coming into the market. Something like, by 2020, more than 50% of the population will be millennials. You've got big shifts in the market in terms of how physically work gets done.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

And you're the other 50%?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes, exactly, Gen X, I'm the lost generation. But it's actually changing really the way people work together. The notion of teamwork and collaboration is super different than sort of when I was growing up in the early '90s in the workplace. The notion of sort of the individual hero isn't as important as the success of the team and collaboration. But I think the meta point is that, for the first time in a while, when I go talk to CIOs and information technology leaders in businesses, they are as interested in serving the needs of the end user, the people in the business and getting them engaged, giving them the tools that they want, the modern tools that they sort of experience in their personal lives in the workplace.

And 10 years ago, it was all about security and compliance, of locking things down and structured work. And it's amazing the pressure that this next generation of workers is putting on to BDMs and the business leaders to have great tooling in the workplace. And so that's creating a huge opportunity for us with Office because we feel like we've got this sort of incredible balance of being able to solve and service the needs of end users as they're trying to create things, as they're trying to team and collaborate together, as they're analyzing data, working on a project, whatever it might be. But then also have that on a platform that is secure, that is compliant, that's got the control that folks need.

And so the interesting part here is that, when you think about the cloud transition and sort of looping back to how you started the question or framed the question, many of these workloads have been workloads that have moved to cloud first. And that's in large part why Office 365, I think, has been so successful. We've been able to leverage the broad installed base that we have sort of in the legacy on-prem world and bring that base to the cloud with a workload that's very, very hot for businesses right now. And as you're suggesting, Office has done incredibly well the

last couple of years with Office 365 as the forefront, with the next big step being this Microsoft 365 evolution, too.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

So when we look at the old Office versus the new Office 365, it's not just that Office runs in the cloud. It's a lot more than that. So help us understand, somebody that's deployed Office 365, what is the value they're getting out of it that they could not get from Office 2013 or Office 2010 or Office 2007. I think we're on Office 2010. We're still not on 365. I hope that we will get on it one day. So what is my life going to look like when we upgrade to Office 365?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes, for sure. Well first, at the broadest level, Office 365 has a much more diverse value proposition than many people, I think, think about. It's not just Word, Excel and PowerPoint. It's the secure mail backend that we have with Exchange. It's sort of document sharing and collaboration services with SharePoint and OneDrive. It is real-time communications with Skype for Business, which we have a new product that will essentially supersede that, that we can talk about called Microsoft Teams. There are also a variety of new and emerging workloads as a part of it, whether it's a product called Microsoft Stream or Power BI, they're also a part of Office 365 for analytics and video-based content. It's a really broad set of services to help people be creative, to help people on analytics, to help people with teamwork and collaboration. And that's essentially the broad value proposition.

In addition to that though, we build security and compliance into the product itself. And that's a very, very big driver, by the way, of the growth in moving to cloud and so forth. And we can certainly talk about that. But one of the key parts of the value proposition relative to sort of the old legacy world, one element of it is cloud delivered. And that means a few different things. It means that customers will be up to date on the latest capabilities and value. And that's important because the world's moving quickly and technology is changing and end users want to have the most up-to-date stuff as opposed to, if you were saying, you guys are on 2010 or whatever it is. I mean, literally, that software was built in 2007, we started working on Office 2010. And now...

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

We like to test things. Sometimes it's buggy.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes, exactly. But now like we're literally delivering software on a weekly basis on mobile devices. For our corporate customers, we give them options whether they want to consume the software on a monthly basis or in longer chunks. But essentially, this notion of being always up to date is very, very important, again, both for end-user value. But also just listening to the Cisco conversation a few moments ago, the ability to be able to deliver a secure platform particularly in this world where there's just such a vast array of different threats. The most secure environment is in the cloud these days. I mean, the number of security professionals that we have. We have

thousands of people working on security at scale and being able to deploy that in real-time to our customers, it's just a very powerful value proposition.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Yes. I was intrigued when you said some of the functionality included collaboration, chat and then Teams. You said Microsoft Teams?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Microsoft Teams, yes.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Yes. We've been hearing a lot in the context of the GitHub acquisition, its implication for Atlassian and what Atlassian does, et cetera. So I've had discussions with investors what to make of this whole -- the space that OneDrive is a part of, which is the whole content management, collaboration, folks like Slack and yourself, unified communications folks like RingCentral, et cetera. And your tremendous initiatives to get into their videoconferencing, audio conferencing market. That's a big chunk of your SKU. How do you see those disparate functionalities playing out because we've followed the collaboration market for about 20 years and it's really failed to materialize in a really pretty significant way. But what about it changes now that maybe with Office 365 as the overarching umbrella, what are the chances that all these things come together?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes. No. It has been a space that's been around for a while. It's had many lives. And I think the one that's quite interesting now that's really fueling it is around the notion of messaging-based collaboration is obviously quite hot. And we can talk a little bit about that. But essentially our value proposition to companies is, look, you need the right tool for the right task. And so many CIOs I'll go and talk to will say, gosh, I just want one thing. Can't one thing solve all my collaboration needs? And the reality is, that would be nice. But it's just not really realistic. The nature of project work is so different. You and I could be working on a project together. Maybe it's just a document we're working on or it could be a team of 50 or 100 people working on a project. Projects can last a couple of days. They can last 6 weeks. They can last years. Projects have different centers of gravity. Some are very task-based. Some are document outputs. Some are about innovation and creating new products. So it's a very broad space and people like to work differently it turns out, too.

So our approach has been to deliver with Office 365 this notion of the universal toolkit. So what we mean by that is, we have a variety of different tools for the right type of collaboration project or the culture of a team in terms of how they want to adopt a particular project. So for example, you referenced SharePoint and OneDrive. When people want to work on documents with Office, SharePoint, OneDrive, the Office applications, making those work incredibly well together to do things like real-time collaboration to have sort of seamless workflow to make it easy for you and I to share documents together, to be able to track changes and see what's happening. That's a very important collaboration experience.

There's other important parts you mentioned. Unified communications is really key. We see a tremendous amount of growth of our Skype for Business Online service today, whether it's using instant messaging workload, meetings and collaboration, voice. You talk about the total addressable market or the TAM of some of these spaces. Voice services is a very, very large one, particularly when you think about add-on services like PSTN services and so forth. And so we've been investing deeply in that area for a long time. And that is really coming together quite nicely.

Then in this notion of sort of chat-based experiences, we built this product called Microsoft Teams. We think of Teams as essentially a hub for teamwork, which in many ways has the value proposition you're talking about of bringing it together all in one very unified approach. And Teams absolutely has messaging capabilities. It's threaded, persistent chat, like a lot of the different services that are out there. But what we've done, sort of the magic of that product is the fact that we're integrating these Office services directly into it. And so if you pop open the Teams environment, if you see it, you'll see that Word, Excel and PowerPoint are integrated beautifully into it, like Microsoft OneNote is integrated into it. Power BI is integrated into it. As well as now we are adding our unified communication services. So things like...

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Videoconferencing.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Videoconferencing is a part of it now. You can make a phone call from Teams. You can set up structured meetings or schedule meetings as well as ad hoc meetings. And that canvas or that scaffolding that we have with Teams is one of the reasons why...

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Integrates with calendar.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Integrates with your calendar. You can have a Team calendar associated with it and...

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

And it's got AI built-in.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

And there's a lot of opportunity for AI across all of Office 365. But communications is one of them. We talk about a value proposition of intelligent communications. For example, one scenario we just talked about at the Enterprise Connect conference a couple of months ago, I guess, now is setting up a three or four-way phone call. For most humans, that's actually tricky to do, like how do you -- which buttons do you press on your phone? Now you literally, with Teams, can speak into the Teams UI, whether it's on your phone or in the shell and you can say, hey, let's set up a call

between Kash, Kirk, Victoria and Jonathan. And the AI, the agent behind that will do that for you. Just a very simple example of something that just saves people a whole bunch of time. But the idea of having Box integrated into the experience, there's a ton of work being done.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

I can do this on my smartphone, I don't need a desk phone, right?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

No. Yes, Teams both has PC-based experiences and also has mobile experiences as well.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Yes. I've been telling a lot of people during these presentations that I've not set up my voicemail on my desk phone from eight years back because instructions came in a manual. I said, no way. I still don't know why the whole world of communications has not moved to cell phone, running your capabilities on.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

There's definitely a big transition. I go to businesses, I see fewer and fewer desk phones.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Come to Bank of America, you'll see desk phones.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Still got to get you off Office 2010, it sounds like.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

I know that one of the salient aspects of the Office business has been that revenue growth has been outstripping unit growth. So presumably, there's a lot of upsell that's going on. Can you help us understand where are we in this whole E3 cycle? And from the E3 to E5 upgrade cycle, what are the things that we should be looking for? And what does an enterprise that has deployed E5, what are the business benefits? And what does their life look like, particularly maybe Microsoft has already deployed E5 internally.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Oh, yes, for sure. Well gosh, there's a lot in that question. Let me sort of unpack it a little bit. So at the broadest level, it's obviously a big business, as you referenced. It's complex. There's a bunch of different workloads. But the business model is relatively simple. It's basically a P x Q business model. We want to get as many sockets as we possibly can. That for us...

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

I'm glad you said that because I thought I was missing something. P x Q, that totally resonates.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Super simple, Econ 101. And so we want to drive as many subscribers as we possibly can. We see a tremendous amount of opportunity to continue to have overall installed base expansion of, broadly speaking, the Office set of workloads. We still see growth in the sort of mid; to high single digits, which is fantastic for a business that has as many sockets as it already has. And I'm talking commercial at this point.

And we see opportunities in places like SMB, which is tremendously underpenetrated in terms of what the opportunity looks like ahead. We see opportunity in this category of workers called first-line workers. Office has traditionally gone after the knowledge worker, information worker market. The people in this room, essentially, people that work on PCs that have particular focus for higher needs. But then there's a whole class of workers that we feel like the cloud economics can allow us to target. So for example, whether it's hospitality workers, retail professionals, whether it's flight attendants, health care professionals that don't necessarily sit in front of a PC all day. But absolutely have the needs for scheduling, for collaboration, for task management and so forth. And that we see as a big socket opportunity for us as well.

I'd also say emerging markets for us is an interesting opportunity, particularly as we think about mobile-first, mobile-only markets. We've traditionally targeted PC-centric parts of the business. But we think emerging markets has a tremendous potential as well. Then the second part of that is, of course, not just getting the sockets. But then driving as much ARPU as we possibly can, balancing the share need. Obviously, you don't want to go too far on ARPU because that can impact your share. And so we spend a lot of time thinking about those models.

To your question on where are we on the ARPU side, we continue to see ARPU growth, which has been fantastic to see. A big part of that is the transition from on-prem to cloud. We view that as a part of the P equation in the sense that we have higher LTV from our customers. We're able to deliver more services to them. Of course, there's margin on top of the services that we're delivering as well. And that's fantastic. We still have -- and then there's customers that have sort of purchased our online services that we're moving up to higher tiers. We have roughly 40% of our base still not on E3 and above. And so there's still a tremendous opportunity to move from the sort of E1 and stand-alone workloads of, say, the SharePoint or Exchange to move to E3. That's a big part of the ARPU mix. In fact, that's frankly the biggest part right now of the mix because there's just such tremendous opportunity there. Then as you referenced, there's this thing called E5. E5 is the highest tier of our service for folks that aren't sort of steeped on it. And E5 has a value proposition around, well, some of these voice services that we talked about around communications, analytics services, things like Power BI and some sort of...

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Does it have Teams, Microsoft Teams?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Microsoft Teams is in the E3-oriented services today or some of the services, actually E1 and E3, depending on what it looks like. Some of those services though for calling will be in the E5 tier for sure. Then security and compliance are both big drivers of the E5 value proposition, whether it's sort of threat intelligence, ATP-type services. But also compliance with GDPR has been a really big push. I would say that the world was sort of slow in realizing that this isn't just something that's going to affect European companies. And so particularly in the last 6 to nine months, we've seen big markets like the U.S. wake up to GDPR. But we see -- E5 is about -- we're about three years into the journey on E5. And it's a big factor of ARPU shift as well. But we see a tremendous amount of opportunity going forward.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Is there any resistance to -- for customers to upgrade to E5? What do you usually hear, oh, it's pricey or I don't need the functionality or I'm not ready for it or maybe there's no resistance at all, it's just the issue of educating the customer base.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Well I could say there's no resistance at all. But I think we've been somewhat -- a bit of an old dog who's been on this journey a while with these P x Q businesses. When you introduce these next tiers of service, whether it's, geez, the Office client going from standard to enterprise or Office 365 introducing E3, E4, the E5 shift or this Microsoft 365 shift which has E3 and E5 components as well. There's always an inflection point where you really begin to see hockey stick part of that growth. And I think we're still sort of moving up the curve on the E5 side for sure. But the value proposition around, I would say -- it depends on the customer because we serve so many different customers. Security and compliance for sure are the top workloads that are really driving that E5 value proposition right now. In fact, it's very difficult for me to go visit a customer and not talk about security, not talk about compliance. And there's a lot of fragmentation in that market. We build our security and compliance capabilities right into the product so that's a bit of a unique value proposition. We talked a little bit about AI earlier. That's a key piece of it as well. And that's something that customers are looking to deploy right away right now and the sales cycles on those are faster than, say, the sales cycles on something like voice, where ripping out a PBX and putting in new cloud-based software, that has the longest sales cycle.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

What's wrong with that?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes. Well it comes to like when companies are building new buildings, that's a really natural time or when their contract comes up. And some of these contracts are 6-, 7-

year contracts. When those come up, that's a great time to go in. So the sales dynamics are a little bit different across the workloads. But if you've studied the math on it, we offer relatively sizable discounts on E5, over buying the component stand-alone. So there's absolutely an economic value proposition even if customers aren't interested in deploying right now a particular workload or even a couple of workloads. There's a tipping point where they'll say like, okay, shoot. Maybe I'm not ready to do voice. But I want your analytics capabilities, I want your compliance capabilities and your security stuff, let's just go with E5. And that, we're seeing a lot of that.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Got it. Got it. Yammer several years back, has that made its way into Team or is Team a complete rewrite of what exists with Yammer?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes, I know. Yammer's been a great acquisition for us. It's a part of that universal toolkit that I referenced in terms of the right tool for the right task. If we think about something like, well, the scenarios we walked through. We talked about document collaboration. We talked about Teams and teams of people working together. Yammer is another interesting part of the value proposition and one that I would say has gotten new life breathed into it over the last couple of years as CEOs and leaders of big parts of companies want to be able to get more in touch with employees in the organization. And so they want to be able to have a broad-based communication and a discussion essentially in an organization. And so we think about Yammer as that sort of outer loop of communication that, again, would be used for more community-oriented purposes. So for example, Microsoft, Satya reads a community, a Yammer community. He looks at it. I think he looks at it every day. And any employee can post any question on it. And he responds directly or he'll delegate it to one of his directs. Maybe if it's a legal question, he'll have Brad...

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

A bot.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes, exactly. There's no bots on it right now. But you could have a bot on it, I guess. The idea is to foster that employee connection. But Yammer's done quite well because businesses are really interested in having that vehicle to be able to talk broadly to the organization and have that dialogue, which is really, really different if there's just a small group of us working together on a project. And so we've been quite pleased. We have done a bunch of work on Yammer over the last couple of years. Some of that work is showing up as end-user value. Some of it is infrastructure work in terms of integrating some of the core capabilities around, oh, gosh, group technology to make it integrate easily into -- whether it's Outlook or Teams, whether it's doing things like compliance capability, security capability, all that, single sign-on with the rest of the Office 365 services. There's a bunch of integration work that we've done, too. But a lot of great energy, a lot of great value on mobile devices, of course, very, very key. Some are core -- we're pleased with it.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

It's very different looking product and value proposition, a lot of innovation that has been introduced in the product.

At this juncture, if anybody has a question, just raise your hand. We'll get the mic over to you, just checking to see. I know Shankar on my team definitely has a question or 2. You have a question, right? Okay. You can shout. I'll paraphrase your question. You can ask. Don't be shy. Putting him on the spot. I do this.

Q - Gowrishankar Subramanian {BIO 21876475 <GO>}

Really? (inaudible) Maybe a question on the Enterprise Mobility Suite. And you talked about the installed base, experimental users (inaudible). Can you talk about how that's trending and how the growth rate -- projected growth rate you see for next year, kind of the puts and takes around that?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes. So for the room, just I don't know if everybody heard the question around Enterprise Mobility and Security. It is a big part of Microsoft 365. It's a big part of our business all up. It's seen tremendous growth. Installed base of -- (inaudible) Referenced, we publicly quoted about 65 million, which is great. It grew 55% year-over-year. So the growth is incredibly strong for EMS. EMS has a bunch of different workloads. It's almost a suite of products similar to, say, Office 365.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Can you tell us what exactly EMS is?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes. I figured I could do that. It's got an identity component. So folks who've thought about active directory or Azure Active Directory, that's a key part of it. Identity is very, very core to not just workloads like Office and Microsoft 365. But they're applicable to many businesses that need to set up an identity system. Security has moved to identity. It's no longer the sort of perimeter-based or even for that matter hardware-oriented. It's literally the notion of identity is so core and so essential to security. So that workload is a huge driver of the growth in and of itself, which is great. There are also security and compliance components that are part of EMS, too. There is, for example, Azure -- we just launched with Azure Active Directory an advanced threat protection set of capabilities is one example. Just went to (GA) in the March time frame. There are compliance capabilities as well, Azure Information Protection. So in other words, providing services to help things like data loss, data leakage protection of documents or whatever it might be.

Then the other important component of it is managing devices. And so we talk about modern management with EMS with a service that we have called Intune, which can manage devices of all varieties and flavors, including on iOS and on Android. It has capabilities around things like conditional access and so forth. So it

really is a suite that's around identity, that's around device management, that's around security and compliance. And its business model is one again that the product is sold separately. But also has a very, very natural attach motion to Office 365. And it's one of the reasons why we decided as we launched Microsoft 365 to bake not only Office plus Windows Enterprise. But also the EMS suite into it. And so you're seeing us do a lot of integration work to make that a really sort of seamless experience for customers. And it's a big growth driver for us for sure.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

So by calling it 365, we are denied our vacation? Just trying to be funny.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

This is your 28th one of these?

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Exactly. Like if it's Europe, got to be Microsoft 340.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

That's right.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

The U.S., Microsoft 375, overworked. I'm curious to get your thoughts on -- there was a reorg done at the end of March. What was the rationale for it? And how do things look now post the reorg, objectives?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes, for sure. Yes. We did do -- it was a pretty substantive reorg internally. I don't know if people really care in the outside world. But it was a big deal internally in the sense of we moved...

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

If it's a big deal internally, it is a big deal.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

All right. Got it. I see. Now essentially, when we think about sort of advancing our cloud and platform aspirations broadly, whether it's on the platform and IaaS side or if it's on the SaaS side more, as I mentioned earlier, Azure and Microsoft 365 are sort of the hero products for the company right now. Obviously, there's many other products. But those are key drivers for us. And we created essentially 2 centers of gravity for core engineering at the company.

And one is led by Rajesh Jha. And he runs what's called the Experiences and Devices Group, of which I'm a big part of. And that's all about sort of bringing the product and product ethos and the experiences of this sort of end-user value

proposition that we've been talking a little bit about this morning together. And so it's the Office components, it's the Windows shell and the Windows experience components. There are components of EMS as we talked about. There are also device experiences from our Surface line of products, whether it's big hub devices or the Surface -- the new Surface laptop or Surface Book, whatever it might be. And it's really bringing that whole notion of the experiences together with the devices in one organization. So that's one big part of it.

The other part of it is, of course, the cloud and AI part of the company. Think about that as bringing together all the assets on the platform side and pushing that forward. Again, the GitHub acquisition is sort of important from that perspective as well. It is sort of the center of gravity about how we think about developers and the infrastructure.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

You guys like San Francisco.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes. I like San Francisco.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

The last 2 acquisitions, the most valuable ones have been in San Francisco.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

That's interesting to say. Yes. And so that creates a nice center of gravity there. Those 2 big engineering orgs absolutely work very closely together. For example, we're talking about EMS. Parts of EMS are built in the cloud and AI group, parts of it are built in the E&D group. And so we have a lot of those kinds of experiences. And that's important. So it's not like we're going back to the old days of divisions or anything along those lines. It's still a functionally aligned company. But these 2 centers of gravity will really help us accelerate the ambitions on the cloud side. And I think that's the genesis really.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

I think you mentioned -- oh, yes, there's a question. (Nadi), can you get the mic over the center table.

Q - Unidentified Participant

Just going back for a moment to the discussion about Office P x Q. When you think about the 3-year time horizon, I guess, 2 questions. One, do you think the mid; to high single growth in units is sustainable over that time horizon? Then secondly, if you had to force rank the growth that you think you'll get from units versus pricing, which one is sort of the bigger driver over that, over that period?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes. Interesting. So on the first question, we do anticipate that we'll be able to continue to grow our installed base in this sort of range that we've been in. I think that's a huge opportunity for us. And I talked about some of the drivers of where we think some of that growth will come from. Obviously, there's still some room in the large commercial space and public sector space. But a lot of it will come from these new categories or opportunities that we have around these first-line workers, in SMB and we think emerging markets and so forth.

Then on the ARPU side, again, we continue to have, we feel, a lot of opportunity in that on-prem to cloud shift and shift from E1 stand-alone workloads to E3 will probably be the big driver for us. Then we continue to be quite bullish about the E5 potential in this year, in particular are beginning to see real strength in compliance and security. And we talked a little bit about Teams. We talked a little bit about Skype for Business. The voice and communication space, we also see quite a bit of opportunity going forward.

In terms of dividing out what percentage will come from where, we're not sharing that level of detail here. But I think we have opportunity in both P and in Q to continue to drive the business. With these per-user businesses, there is, of course, as you drive further sockets out, you do get to some big numbers. And so will the growth rates be exactly what they are now 3 to five years from now? Of course, that's going to look a little bit different. But again, the ARPU growth opportunity that we have is, we think, quite substantive.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

Any other question? I just had one final question/observation. I think you mentioned the word Windows once in this whole talk. What's happening with Windows? Tell us about Windows. I mean, we hear a lot about Office 365, Azure. But anything to say, anything to say?

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes, for sure. So I've been talking a little bit about Microsoft 365. And I think that's -- we really, in fact, it's interesting to take a step back. The hero that we're really driving right now when we think about our productivity and collaboration experiences is Microsoft 365. And Microsoft 365 is Office. You've asked me a bunch of Office questions, which is great, love it, take it any day. But Windows is a core part of that and moving people to the Windows enterprise SKUs as well as EMS. And Windows remains as important as ever in terms of delivering a rich endpoint experience on PC devices and increasingly on different types of devices like Surface Hub and so forth. We're doing quite a bit of work between the Office and the Windows engineering teams to make sure that we have a much more, I guess, I would call it coherent, well integrated, symmetrical set of experiences as people are using the Windows shell and are using Office-oriented experiences on those devices.

Rajesh now in his leadership team, there's Windows leaders and Office leaders sitting together and working on the same problems and so forth. So this reorganization, I think, is actually so important for the Windows business and the Office business in that it brings these teams together in a way that Satya's really been

pushing on for years now. But kind of really hardens it in the sense of, hey, there is no Windows business, there is no Office business, there's Microsoft 365. And that's the sort of push that he's really driving for. It's not just this marketing bundle that we ginned up. We've reorganized the sales force. We've reorganized our engineering teams. We are leading with Microsoft 365 as our hero experience. We didn't talk much about it. It's growing triple digits in terms of seats. It is the direction that we're moving in. And Windows is absolutely fundamental to the value proposition of Microsoft 365.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

This is the first product of the company when it started.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes. Good.

Q - Kasthuri Gopalan Rangan {BIO 22095432 <GO>}

On this note, I want to thank you all for sticking with us for three days. This is going to be the third day. And we're going to be wrapping it up in a few hours from now. Special call out to folks that made the trip from Australia, Singapore, Japan. Had one gentleman that took a direct flight from Zurich, 12-hour nonstop. Another person that made a 16-hour trip from Singapore. So we really appreciate your support of the conference. And we heard the feedback last year that if it's just two days, it's not really worth it to fly all the way over. So we added more companies, extended the format, made it three days. Hopefully, next time, it will be a 4-day conference at some point in the future.

There's so many companies that we're creating in tech, creating in software. You look at the pipeline. Kirk, we had yesterday 4 companies, private companies in DevOps/whatever you want to call it, infrastructure. They're all \$100-plus million in revenue, growing 100%. So 2, three years from now, they're all going to be public. And you guys are going to be spending, hopefully, 3, four days with us. A lot of those companies will be software. So really appreciate your support. Again, I'm going to be very depressed tomorrow after this high getting it from this conference. Kirk, thank you very much for taking the time to present, really appreciate your time.

A - Kirk Koenigsbauer {BIO 5905758 <GO>}

Yes. Thank you. Thanks a lot. Yes. Thanks.

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