

Goldman Sachs Communacopia + Technology Conference

Company Participants

- Judson Althoff, Executive Vice President and Chief Commercial Officer

Other Participants

- Analyst
- Kash Rangan, Analyst, Goldman Sachs

Presentation

Kash Rangan {BIO 22837283 <GO>}

Wow, what a day. What a day. We are off to an incredible start, especially with Microsoft here with us. Before we get started with everything, thanks so much for your support. I think this is turning out to be an incredible conference. I'm told this is the largest Goldman Sachs Investor Conference ever. It certainly feels that way and your energy, your enthusiasm, your participation is greatly appreciated. And all that is possible only if you've got good content and so that we owe you for the content. I'm just here asking the questions and you're going to generate a ton of insights.

Judson, why don't you introduce yourself? You've got a big title, I'm told, from some of my contacts that you are a rising star at Microsoft. Tell us about your responsibilities and then we'll jump into some questions.

Judson Althoff {BIO 18004989 <GO>}

Thanks, Kash. Look, I am responsible for Microsoft's Commercial business, which is a fancy way of saying I'm responsible for everything we sell, service and support to our large corporate enterprise customers, all the way down to small, medium-end businesses and governments around the world. And I've been with Microsoft now a little over nine years. Over the time I've been at the company, largely responsible for our go-to-market strategy, our sales force and our delivery teams around the world.

Questions And Answers

Q - Kash Rangan {BIO 22837283 <GO>}

Got it. And I happen to -- you guys should all check it out, there is this YouTube video. You are the star of the show and you talked a lot about how you plan to approach fiscal '23 with your partners. It's called Inspire '23. Is that Inspire '23?

A - Judson Althoff {BIO 18004989 <GO>}

Right.

Q - Kash Rangan {BIO 22837283 <GO>}

I got to tell you, I felt fired up after watching that Youtube video and he is the star of the show and you introduced your industry heads and they bring in their customers whatnot.

So despite the looming uncertainty with the macro, et cetera, you guys sound you were bullish and I thought, okay, man these guys are bullish and then Satya comes over after you and he sounds equally bullish. What's going on in Microsoft? Why -- you put up good numbers. From your seat, what we've been seeing with respect to demand trends, the nature of customer conversations that makes you so bullish about the future?

A - Judson Althoff {BIO 18004989 <GO>}

Well, thank you for calling all of that out and thank you for the kind words. Look, a big headline underneath Microsoft Inspire this year was this notion of digital perseverance. And we made a big point of talking to our customers about the need to pivot from resiliency to perseverance. Obviously, navigating the pandemic was all about frankly getting through it. And we helped customers with a lot of technology that help them survive the pandemic. And this pivot from resiliency is about moving from surviving to thriving.

Resiliency is basically a fancy word for what do you do when bad things happen to you. Perseverance is a little bit more forward looking and how do you think about planning for the future, which resonates right now in these uncertain times. And the reality of the situation is I think a lot of people thought they would come out of the pandemic to blue skies and rainbows that obviously hasn't happened. The economic environment is arguably the most uncertain we've seen in decades. And to me, the only way to navigate uncertainty is continued and accelerated innovation.

So we're pretty excited about that because we believe the Microsoft Cloud is the most comprehensive and trusted cloud in the industry. And we also think that it is, frankly, the spend less do more cloud, which comes at a very opportune time for us.

If you think about it macro level, customers right now are still trying to solve the same problems they were trying to solve before this economic crisis unfolded. CEOs are trying to thread the needle on productivity and employees satisfaction. They're trying to get a grips with their supply chain and find some level of resiliency and predictability in their supply chain. We've got to solve the world's sustainability challenges and every CEO is being asked what they're doing for net zero.

And then on top of that, cybercrime is on the rise. The bad guys aren't slowing down and so threats are coming from everywhere, even nation states. And preparing your enterprise to be able to tackle those things is a very difficult -- very difficult thing.

And so all of that happens on top of having to find a way to solve for it, while spending less money. And we feel like technology has a role most certainly and if technology has a role Microsoft most definitely has a role.

Q - Kash Rangan {BIO 22837283 <GO>}

Yeah. We'll dig into the specifics of that. But I do -- and we were talking about it when we caught up in before the group meeting, something to the effect that there is inflationary forces in the economy, but tech is deflationary. That's something that Satya Nadella talks about on the conference call. Help -- if you don't mind level set as on what is the implication of what you guys have been talking about? Tech is deflationary. The economy is going to inflation. What can you do at a super high level for the economy, because you're \$200 billion revenue company, you're big and have influence in all corners of the economies? If you don't mind dig into that statement, a little bit and tell us what it means?

A - Judson Althoff {BIO 18004989 <GO>}

Sure. Well, look, we are still in the very infancy of the digital age in terms of real technology adoption. And what I mean when I say that is despite the progress you've seen by a lot of the companies that invest in the cloud and SaaS companies, the adoption curve across enterprises in a way that every person has a unique opportunity to participate in the digital economy is still very nascent. Strictly speaking, the frontlines aren't connected to the boardroom, in most cases. And we believe we have technology that can really change that.

Teams, most of you know it as a tool for voice, video and persistent chat. Teams for us is a platform, platform and socket for future innovation that has the ability to take information that you otherwise might just have at the core distributed down to the front lines and at the front lines in turn provide a digital feedback loop to your boardroom. That democratized experienced, technology bringing new efficiency and at the same time, simplification to business models is a massive opportunity that is really, frankly, only in its infancy of being tapped.

You can talk about it in that sense. You can also talk about it in terms of industry, real industry adoption of digital capabilities by vertical. How financial services companies operate? How health care institutions connect physicians to patients? All once again still in its infancy. And so technology can of course make those processes more efficient and optimize them and bring more people into the fold so that all have an opportunity. So in fact, you talked about it being a deflationary force, technology can lower the cost and make more efficient just about any business process you can conceive.

Q - Kash Rangan {BIO 22837283 <GO>}

Got it. So in an environment where financing costs are going higher because of higher rates whatnot. The fact that tech actually makes money from our perspective, should hold us in good stead right? And that was the point that our Chief Economist, Jan Hatzius was making in the morning at 7:30. He calls for a soft landing and we did ask him about the role of technology in GDP improvement. He is definitely more optimistic than you would imagine.

And Judson, looking at a little bit more big picture, lot of our clients have been thinking about where we are in cloud adoption, digital transformation. Are you seeing any changes with CIO budgets? Has anything changed with respect to appetite for IT in your conversations?

A - Judson Althoff {BIO 18004989 <GO>}

Yeah, sure. Look, I think that the current climate will pressure the conversation around any digital effort and I believe actually for the right reasons, because I think some of the early-stage digital initiatives were largely predicated on this notion that anything in the cloud must be better. So move whatever you have from wherever it is right now to the cloud and good things will happen. And so I think any good conversation with the CFO will sort of stimulate the pressure on real digital transformation versus a sort of cloud window washing. So...

Q - Kash Rangan {BIO 22837283 <GO>}

Cloud window washing. I like that.

A - Judson Althoff {BIO 18004989 <GO>}

So where do we -- where we see opportunities there. Well, once again, I come to the strength of the portfolio that we have, of course, we have a really strong cloud platform. We look at the cloud platform itself Azure as serving three communities, developers, infrastructure teams and data and AI teams. On the developer side, we've seen tremendous strength in adoption there, the GitHub acquisition is help. Even our competitors use our tool chain. And so the developers use and love your tool chain, they're most likely -- or its more likely to deploy on your platform.

On the core infrastructure side, I think we've gotten ahead of some of the sovereignty challenges that exist around the world in the reverse globalization trend. And we've invested in hybrid capabilities there that make for a lasting solutions. And then on the data side, we have a very broad portfolio that extends from our existing SQL Server-based and customers have a lot of their data dependency on Microsoft already. So if we can help them modernize that move into the cloud in a way that they can use AI to reason over it and get real business benefit out of it. We can provide digital strategies that really drive outcomes for businesses. And those are the ones that I think are going to pass that CO [ph] test, if you will. So we're the best-of-suite cloud, if you think about it.

If you look at what's in the Microsoft Cloud, you'd need the best of AWS, the best of Google, the best Sales Force, the best of Zoom, the best Okta, the best CrowdStrike. And you'd have to hope like hell that some integrator wove that together for you perfectly to get what you can get from the Microsoft Cloud. So we're going to do all of these things and we're going to lower customer spend and increase our share at the same time.

Q - Kash Rangan {BIO 22837283 <GO>}

So I'm glad you didn't say the best of Goldman Sachs in that, so that would have been a concerning thing. But I did want to ask you a little bit about de-globalization.

What can Microsoft help customers with respect to onshoring de-globalization? Because I thought that was a bit of a negative but you make it sound like it -- you could do something for these customers.

A - Judson Althoff {BIO 18004989 <GO>}

Well, look, I guess, yeah, I should be clear and firm, like I don't personally love reverse globalization. I think a lot has been gained in society by having the world think of itself as a connected place and where I think we're kind of all citizens of the planet at the end of the day. So I don't love the trend. But if you look at the fact of the matter, our customers have to navigate it. Our customers have to navigate operating in a multinational sense and having their data and operations distributed around the world. And so we've had to really think through, how do you do that effectively. And so we've invested in EU data boundaries, so that if you're operating in the EU, your data stays within EU. We support and care for your business in the EU within the sanctity of EU boundaries.

We've invested in confidential compute and encryption capabilities that you can operate on the data in an encrypted sense. We've worked with governments like France and Germany and Singapore on truly software and air-gapped capabilities for more stringent scenarios, also in China where some of the policies are more rigid in terms of what's allowed to be mobile and not all whilst at the same time still trying to leverage cloud scale economics, which is a shared principle, if you think about it.

And so that's an investment we made over this last year that I feel pretty good about in terms of us being ready for where the world is headed, whether we like where the world is headed or not. I mean our job at the end of the day is to provide enabling and empowering technology to help our customers succeed in the current business climate and that's why we've done what we've done.

Q - Kash Rangan {BIO 22837283 <GO>}

That's great. So you've got the most expansive -- you've got the most expansive commercial product portfolio at Microsoft. It's dizzying in terms of what it can do. LinkedIn, Microsoft 365, Azure, those are like multi, multi-billion dollar business, multi tens of billions of dollars of businesses. Whether it's that big, how do you build synergies across these products? And how do you even cross-sell? It sounds like an insurmountable task of monumental complexity. How do you do this?

A - Judson Althoff {BIO 18004989 <GO>}

No, it's a fantastic question actually. And it's actually one works really, I think spending some time on for this audience because like this came up as well as on a run of the roundtable. So I apologize in advance that anybody who was in there it would be a boring answer for you, because...

Q - Kash Rangan {BIO 22837283 <GO>}

Nothing is boring. You are a good speaker.

A - Judson Althoff {BIO 18004989 <GO>}

But, look, I think we've trained you all to think about our business in solution areas and where our competitors lineup, whether that be our modern work portfolio, our business applications portfolio, the solution areas that operate across our cloud platforms, across data, infrastructure and developer and our cyber business. And we're competitive in all of those and well integrated in all of them.

But our real power comes in, what we can do when we bring those assets together for a customer. And so, even in our go-to-market approach, we have a consultative engagement model and methodology that we teach our people that effectively has us selling into every room of the house that the customer has in order to create integrated value chains.

I'll give you a good example. I mean Coca-Cola is a very good customer of ours across not only the central entity, but also the 250 distributed bottlers around the world. And I think it's because we've been able to do great work to establish a technology framework to build synergies between what they do on their cloud platform and how that connects with folks in their daily lives. And so we talk about that in the form of business applications that are connected to Teams in ways in which you can collaborate in Teams connect it back to your business process. And that integrated value is something that's really quite unique to the Microsoft Cloud that our competitors really can't provide in terms of differentiation. So the more that we provide those synergies across the rooms in the house to deliver more integrated value, the more relevant we become to our customers.

Q - Kash Rangan {BIO 22837283 <GO>}

And that's how -- and customers, do customers see it that way the way you're explaining it? Or more customers are going to see it the way you're explaining?

A - Judson Althoff {BIO 18004989 <GO>}

(Multiple Speakers) They do. But look, I think the opportunity here is for us to make sure that business value is being realized with every technology investment that is made. And the portfolio certainly helps us in that regard. But the industry focus we've had investing in verticals, we've invested in financial services, health care, manufacturing, sustainability. We've invested in defense and intelligence for public sector, education and public services. And our vertical solutions really helped to wire together all of the assets that we have in a way that they make more tangible sense for our customers. But they don't have to do that wiring.

Take the health care example, right? I could show up at a health care institution and say, hey, let me talk to you about Teams and collaboration or I can show up and say, hey, let me help you with patient-physician engagement and creating richer and more lasting wellness programs for the patients for whom you care. And the Nuance acquisition we made is a very clean example of that because we can provide AI solutions to strengthen that relationship to get to a deeper understanding of prognosis of the patient, leverage the longitudinal care record and all of the data that we have an Azure to drive better wellness outcomes than ever before. So it's

about composing those solutions that operate horizontally in a vertical way to create more value for our customers.

Q - Kash Rangan {BIO 22837283 <GO>}

Got it. Excellent. What could go wrong here? What could be the roadblocks and problems with digital transformation?

A - Judson Althoff {BIO 18004989 <GO>}

Well, look, I think the problems that everyone faces today around skill shortage. And pressures on budgets are very real. And so it's our job to kind of help customers navigate that. It's one of the reasons why we've invested so much in skilling. You mentioned LinkedIn earlier, I mean we do really believe in this notion of workplace health trends and helping people continue to amass their skills and modernize their skills to meet the demands of society. And so we're deeply invested in that. So skills is definitely a hurdle that every customer has to overcome in order to get to that end state.

And we encourage and invest in strong skilling and re-skilling plans to make sure that we're helping people there. And one example would be the low-code no-code platform that we have that we call Power Apps. Effectively, if you can make a PowerPoint presentation, you can make a Power App. And we've done things like show up at a factory floor and run a Power Apps clinic for 26,000 frontline workers.

Q - Kash Rangan {BIO 22837283 <GO>}

Yeah. It's Allison Taylor, right? I mean she's still still doing the...

A - Judson Althoff {BIO 18004989 <GO>}

Exactly. So you can teach people that actually understand the process flow and the business flow better than anyone else because they're on the front lines and teach them how to use citizen dev capabilities to build the solutions that they take on. You can overcome that skills gap. But it's a very real one. The budget gap is one as well. And look, here's where we make a lot of forward-looking investments in our customers.

If you think about even our fourth quarter earnings call, we talked about record number of nine figure and 10-figure deals. With every one of those deals and the strategic framework comes in investment plan where Microsoft leverages its balance sheet to invest in resources to help with the migration and invest in dollars for partners to come help drive acceleration and innovation. And so helping customers with that, helping customers accelerate the pace of innovation, that's going to be the key for us in this coming year.

Q - Kash Rangan {BIO 22837283 <GO>}

Got it. Got it. I'm going to do a quick pulse check. I always keep the mic so far away from me. Quick pulse check to see if anybody has any questions. If you do, just raise your hand, we'll try to -- it's not even possible for me to see the raised hands

because there's so many of us here. Pardon me if I'm missing any raised hands. Okay, there you go.

Q - Analyst

Could you talk a little bit about the ecosystem and where it is and how you see that evolving over the next five to six years?

A - Judson Althoff {BIO 18004989 <GO>}

The enterprise ecosystem, again?

Q - Analyst

Yes.

A - Judson Althoff {BIO 18004989 <GO>}

Can you give me a little bit more?

Q - Analyst

Just looking to partners. But you talked about verticalization and other ways that you're addressing parts of the enterprise. To what extent, I mean, obviously, a huge extent that Microsoft looks to an ecosystem, but where is it and where do you see it going?

A - Judson Althoff {BIO 18004989 <GO>}

Yeah, sure. So super important for us because fundamentally, we are a partner-oriented company, right? And so you can look at this across two major horizontal dimensions and then sort of strike it vertically. Horizontally speaking, we're working on building the skills and capacity base across the systems integrator ecosystem, either the large globals like the centers and EYs and KPMGs and PwCs of the world or the smaller local players that focus in a given geography. We're really deeply invested in building their skills out across our cloud platform to help them further advance customers. So it's a big deal for us because transparently, we don't look to build our own services organization to be any larger than it already is today. And we do sort of tip of the spear work, we'll prime large digital transformations, but we really want that ecosystem to flourish. So we invest richly in it.

The second dimension is across the IP base and it's broad and expansive as the Microsoft Cloud portfolio is. We'll never be all things to all people especially when it comes to the verticals. And so in each vertical, there are ISVs that matter more to our customers and health care is the Epics and Cerners of the world and manufacturing, it's everyone from the PTCs to the Rockwells to the Siemens of the world and making sure that they have deep integrations into our portfolio, and that those integrations are more seamless for our customers are critical because it kind of comes full circle back to the adoption curve that we talked about just a moment ago. The more software-oriented these solutions can be, the more frictionless their adoption can be

and so the forward investments we make in the same are critical to our success. But we're deeply, deeply focused on ecosystem health.

Q - Kash Rangan {BIO 22837283 <GO>}

Thank you. Any other question before I -- please go ahead.

A - Judson Althoff {BIO 18004989 <GO>}

Can we get you a microphone?

Q - Analyst

Okay. Thank you so much. So thank you for your time. So the first one, everybody companies today's talk more about the multicloud strategy, yes. And I'm saying the strategy -- Microsoft's strategy is very open to interoperability in terms of infrastructure, in terms of the partners, something like that. How do you think in terms of the strategy for the next years in terms of that? Multicloud and interoperability with the other's cloud, something like that?

A - Judson Althoff {BIO 18004989 <GO>}

Yeah. Look, the number one thing for us is to serve the customer, right, and to meet the customer where they are. And so of course, that means that as much as we try to provide pervasive value across the Microsoft cloud, customers will make decisions that are non-Microsoft decisions, and we need to still serve their needs, and we have an accountability to make them successful. And so whether that means that you may see data running in one cloud, then applications running in another and having strong interoperability there. We're committed to taking our customers successful in that regard.

And you've seen that even in some of the new technology portfolio that we've released. For example, our security portfolio runs across cloud. Our incident and event management solution. We call it Sentinel, operates across AWS, across Google Cloud Platform and across Azure and across a customer's on-prem environment because we know that if we want to commit to securing that infrastructure, we've got to do it across the totality of their environment.

And like we've also made very bold partnerships in market. SAP is our largest partner. We also have a portion of our portfolio that competes with SAP. We most recently announced a very unique partnership with Oracle. None of the other hyperperscale cloud companies have a relationship with Oracle. We have a model with them where you can run applications on Azure and directly connect back into the Oracle Cloud infrastructure for your data environment. And it's a unique engineering partnership as well as a unique go-to-market partnership.

So we've demonstrated pretty openly that we're committed to heterogeneous standards and helping our customers really because that's what it's all about. They'll never be as much, to my chagrin, there'll never be a single customer that is 100% Microsoft. And so if we're here to try to advance their success.

Q - Kash Rangan {BIO 22837283 <GO>}

Microsoft.

A - Judson Althoff {BIO 18004989 <GO>}

What's that?

Q - Kash Rangan {BIO 22837283 <GO>}

Microsoft, 100% Microsoft.

A - Judson Althoff {BIO 18004989 <GO>}

Yeah. Well, even there, we use some tech from our partners. But at the end of the day, we're an SAP customer, for example, and we're an Adobe customer. So we use third-party technology inside of Microsoft. So it would be crazy for us to assume that some customers might not. But look, we're dedicated to it. We resource it. We have - like I have people inside of my organization that are actually compensated to work with companies that compete with us. So we think it's a key part of making our customers successful.

Q - Kash Rangan {BIO 22837283 <GO>}

Judson, I'm curious, I mean this is something that just came to mind here. If you have and if you're willing to share your perspectives on the data, database, data analytics, data warehousing segment of the software universe. I know Satya has called out how Cosmos DB is on fire, triple-digit growth rate, that sort of thing. What is happening on the Microsoft data ecosystem? Can you give us your perspective what to read into what's happening with data warehousing, databases, unstructured data, structured data, RDBMS, document databases? So many things that are happening. It's fascinating to be the database market has gotten the slowest growth market in software to the fastest growth market in software? What's happened? What is Microsoft's stake there?

A - Judson Althoff {BIO 18004989 <GO>}

I spent a lot of time in databases in my life, so I feel reasonably qualified to answer that question. Look, first of all, I'm glad customers are investing in data strategies more so now than we've seen in the last several years, and I feel like we are well positioned to help them. And I say it that way because a good question came up in one of my breakout sessions earlier today around the future of analytics and AI. And I think customers are realizing that if you expect AI to empower your business or to somehow improve a workflow inside of your organization or somehow improve how you engage with your customers, the first thing you have to get right is your data strategy, because no system can be any more intelligent than the data over which it reasons.

If you don't invest in your data strategy and you put tons of money into your AI strategy, all you're going to do is make mistakes with more confidence than ever before. So like data as a foundation matters. Microsoft's fairly uniquely positioned

here because we do have such a massive relational customer base with SQL Server. We have leading socket share there and even leading revenue share there. And so helping our customers migrate that data to -- that estate to the cloud with the intentionality of getting value out of it, right? And sort of value-driven cloud migration with the notion of impacting business outcomes, super key.

You mentioned Cosmos DB which is a multimodal multi-master database for cloud-native applications. Walmart depends upon it, for example, to run their e-commerce environment and it's the largest of any kind in the world. And it effectively allows you to have a self-healing, self-scaling database of enormous global scale at really a lower cost structure than you would have seen with the traditional Oracle Exadata environment.

And then on the analytics side...

Q - Kash Rangan {BIO 22837283 <GO>}

Did they switch from Exadata to Cosmos DB running the cloud?

A - Judson Althoff {BIO 18004989 <GO>}

(Multiple Speakers) The third piece of the stool though is the analytic warehouse, right? And so here with Synapse, we have growing strengths there, a lot of customers adopting Synapse. But across the data chasm, we also have strong partnerships back to the question earlier. We have a great partnership with Oracle. We have a great partnership with Databricks, a great partnership with Mongo and a great partnership with Snowflake.

Our aim here is to help customers harness their data estate and really see it from the operational side through to the analytical side so that they can reason over it to drive better outcomes. That will manifest itself in business opportunity for Microsoft and for our partners. But most importantly, it will manifest itself in better outcomes for our customers.

Q - Kash Rangan {BIO 22837283 <GO>}

Yeah. No, that's -- it's a great perspective. But I was curious, what's happening to the former most starchy piece of the software market now turned the most active, vibrant, and I really gained from that perspective that you had to share with us.

Moving on to unless there aren't any raised hands. I want to move on to -- if I can just finish my question, and I'll come to you because I'm thinking right through it here. We'll come to you in a second. Microsoft 365. Quite a few of us have been using Teams, maybe all the time or some of the time. What are you doing with the Teams product? Where are you investing in the functionality? And what are you telling your customers specifically leverage within Teams and then after that?

A - Judson Althoff {BIO 18004989 <GO>}

Yeah. Sure, sure. Look, I think my aim for all of you is to understand that Teams is a platform not just a tool for voice, video and chat. And we see a rich opportunity for customers to think about a new generation of applications that we call collaborative applications that can bring new value to any kind of distributed workflow across their enterprise. If you think about it, the art and science of efficiency is coming together and aggregating multiple ideas and perspectives into one common fluid execution machine. And with Teams as a platform, we can really bring that to life, and we're doing this in really three ways, you can think of it.

First, you'll see us create our own first-party collaborative applications. We just launched the first of these in Veeva sales. We announced it a couple of months ago. It's GA, October 2. But Veeva sales is a customer engagement platform that sits on top of any system of record, even Salesforce, and allows you to collaborate on a customer engagement. It's inclusive of Customer 360 data, next best action, objection handling, sentiment analysis that leverages AI across the data that you have about your customer to better serve your customer. And it's all brought together with Teams as the UX. Teams is the operating system, if you will.

So it's a new socket of growth for Microsoft. It's also a new canvas for developers and ISVs to paint upon. So you see companies like Workday and ServiceNow and Adobe, creating new application extensions for Teams, not just like here's my app inside of Teams, but actually new workflows and new distributed ways of collaborating inside of Teams that unlocks value for the customer.

So great value for the customer because they get inherent value out of increased collaboration interaction and the data-driven ways in which they can empower their employees in a quantifiable way because we also measure that outcome through Veeva Insights. Great opportunity for partners to build new collaborative applications on the Teams scaffolding and, of course, expanded suite value for Microsoft and more value out of Teams for our customers. Of course, we'll pay back in dividends for share gains for Microsoft.

Q - Kash Rangan {BIO 22837283 <GO>}

Yeah. I noticed in your Inspire speech, you had some scenarios where Teams integrates with GitHub capabilities. So all the collaboration extends out to the developer, not just the...

A - Judson Althoff {BIO 18004989 <GO>}

The developers are working in that same collaborative environment to become more and more productive.

Q - Kash Rangan {BIO 22837283 <GO>}

Got it. Let's go to your question, please. Thank you.

Q - Analyst

So I want to position this question in a way that you'll answer it. So a lot of pretty older industrial companies weren't sort of built with having a smooth IT operation, let's say. Does -- at some point, the cloud business become chunkier and sort of -- and more sort of expensive to manage as you deal with these older -- sort of the low-hanging fruit in a way? And then as some of these older companies, it becomes a huge -- really heavy lift to get stuff on to the cloud and to really do that. Is that -- because it seems like you're in the position it is really in a usual position where a company as big as you is growing as fast as you.

A - Judson Althoff {BIO 18004989 <GO>}

Yeah. So two or three ways to think about it, maybe. I will always profess that if all you're going to do with the cloud is take what you have and move out of your data center and into the cloud, it is a bad idea. It just is. You might gain a little bit because server and storage utilization in the cloud is more effective than server and storage utilization in your data center. But the real gains you get from innovation will not happen until you think about how to leverage digital capability in a more differentiated way to drive your own business outcomes.

So certainly, if you are in that sort of dodgy industrial base and tunnel vision IT and saying, well, okay, let's just move out of the data center and into the cloud, there's not going to be a lot of progress there, and you will have limited on productivity gains and real scale there.

I think though that if you look at the opportunity to reinvent and rethink how those organizations operate today, we're actually quite passionate about the industrial base and the manufacturing base and the opportunity we have. One of the questions that came up in an earlier dialogue as well is this notion of the industrial metaverse. And look, before, you all roll your eyes...

Q - Kash Rangan {BIO 22837283 <GO>}

I was waiting to ask you that question. I was just...

A - Judson Althoff {BIO 18004989 <GO>}

Before all you roll your eyes on this metaverse thing because like if I told you all aside and did individual interviews on the metaverse, like we all kind of have different opinion about it, people, 100 people into a room, you get 100 different answers about what the metaverse is and will anybody ever get any real value out of it. To simplify, I look at it in kind of three buckets, and Kash and I were talking about this earlier. There's the consumer metaverse. My avatar buys Kash's avatar of...

Q - Kash Rangan {BIO 22837283 <GO>}

You buy me a beer, you'd rather have a real beer.

A - Judson Althoff {BIO 18004989 <GO>}

I'd rather have the real beer than have my avatar buy your avatar a beer, but like there'll be a monetization thing there in the consumer metaverse. There's the

commercial meters, where people will have more engaging and experiential collaboration in the metaverse, and I do think that there's an opportunity there to bring people from around the world with different perspectives to collaborate. But where I actually have the most amount of passion is in this thing I call the industrial metaverse, and we have real tangible outcomes we're driving with customers today.

And so think of it as combining sets of technologies, IoT capabilities where you come in and create a sensor fabric for any industrial process, any manufacturing environment, any supply chain or logistics scenario. You have that sensor fabric, feed large-scale cloud-based analytics solution, a large data store. And then you reason over top of it with machine learning and create what we call digital twins of those environments and simulate outcomes. If you think about it, if you make anything or you move anything, you create a carbon footprint.

If I can simulate that for you infinitely in the cloud before you make it and before you move it, I can help you create a better product, more cost effectively with lower carbon footprint and lower water utilization, more sustainably than ever before. And we see real progress happening today with companies like Coca-Cola, Unilever, AB InBev, GM, Grupo Bimbo across industry of being able to model these processes, save energy, reduce waste and these solutions pay for themselves. And so if you take the cloud as a tool to solve for that, I think you would say that we are on the very, very beginning of the curve of adoption and growth of what we can do long-term to have the cloud really drive business outcomes and outcomes for society that really matter.

Q - Kash Rangan {BIO 22837283 <GO>}

I have a question on a topic that I'm petrified. I don't know much about it. And I'm not (Multiple Speakers) -- and many of my clients know that I do not really like security, but it's a hot topic, it's hugely relevant and things have changed since I gave up my interest in security 12, 13 years back. What are customer conversations in security like these days? Why is it so important?

A - Judson Althoff {BIO 18004989 <GO>}

I think you're right. There are a lot of customers that are -- every customer is concerned about their security buster. Some are more concerned than others. I think we're in a new world where cyber activities driven at the nation state level and preparing customers to defend against that is hard work. The posture that we take with our customers is the only way to navigate it is with a zero trust methodology. And that has to be pervasive across everything you do from your identity backplane to your endpoint management, to your cloud application security models and even how you look at threat intelligence and your event and incident management capabilities.

It's why we're so passionate about needing to have all of those assets be part of the Microsoft Cloud because the mere active wiring together any part of what I just described, creates a vulnerability because it's at the scene that you find a lot of the attack vectors that exist out there today. So security is inherent in every product we build, but we also have added capabilities across endpoints, identity backplanes,

cloud app models, event and incident management, because our customers demand it and need it in the world today.

So look, it is a huge body of work for us to make sure that we empower our customers to be successful in the digital era because digital businesses are, of course, more vulnerable to cyber crime than traditional ones. But if we think if you take that zero trust posture, because it is as much of a culture and how you operate as a company as it is technology, but you couple that together with a strong cyber foundation, you can get to a place where your institution is secure.

Q - Kash Rangan {BIO 22837283 <GO>}

I'm less insecure about security after it. Anybody else with a last opportunity to pose a question of Judson? If not, I have one final one for you. We zoom back out a little bit. What are we underappreciating with respect to a product or a market that Microsoft is participating in that you don't get enough questions from us and really take into it even your customers don't know that, oh, you've got this unbelievable product or say what could we be talking about in the next few years that we're not talking about today?

A - Judson Althoff {BIO 18004989 <GO>}

Sure. Yeah. I think it comes back to one of the questions you asked earlier, which is how do we traverse the complex customer environment and how do we weave together everything we have to create unique business value. And I made the comment earlier, like I feel like we train this community to think about Microsoft 365 and how competitive that is, how competitive Azure may be or Dynamics and how competitive our security offerings might be. And of course, great for you all to measure us against the share that we take in each one of those categories. But the combined value of the whole of what we can bring through the Microsoft Cloud, I think, is something that is really underestimated.

If you look at our very best customer relationships, they are those that have leveraged the power of our portfolio, not just discreetly in all the categories we compete, but to bring it together in a way in which new innovation is unlocked. Maybe bridge two of these, for example, I talked about Teams as a platform and citizen development and power platform. And I talked about the industrial metaverse.

So Unilever is a company we've been working with for five years now, digitizing their factories, and we digitized more than 100 of their factories around the world. And of course, the industrial metaverse assets are allowing them to run more efficiently and more effectively and more sustainably than ever before. But the power in which the way that industrial metaverse, digital twins connect back to Teams as a platform for their frontline workers is helping them with everything from skills evolution and skills development, employee satisfaction and worker retention through to how the Boardroom can conceive more capability on the front lines to drive a more effective and more efficient Unilever over time.

And so like in order to sort of compose like what is the value of that, you'd have to think about the collaboration environment, you'd have to think about the low-code no-code environment. You'd have to think about the business applications portfolio. You'd have to think about the cloud and the data. Look, the Microsoft offerings all of those things together. And we're at our best when we marry up our portfolio of intellectual property with our customers' business needs, and that's what we're going to go do.

Q - Kash Rangan {BIO 22837283 <GO>}

Yeah. So commercial cloud is \$100 billion run rate business, roughly like commercial cloud?

A - Judson Althoff {BIO 18004989 <GO>}

I don't know whether I'm allowed to say but...

Q - Kash Rangan {BIO 22837283 <GO>}

It's in my model. It's in my model. I just have not seen it in the last week or so.

A - Judson Althoff {BIO 18004989 <GO>}

(Multiple Speakers) back to help you.

Q - Kash Rangan {BIO 22837283 <GO>}

It's roughly. What I wanted to say was it's not too often that you see a \$100 billion-ish running business growing 25%, 30%. Here's the man that made it happen. So thank you for getting us excited about technology, getting us excited about everything in general. Thank you.

A - Judson Althoff {BIO 18004989 <GO>}

Thank you very much. Thanks, Kash.

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.