Wells Fargo Tech Summit

Company Participants

- Amy E. Hood, Executive VP & CFO

Other Participants

- John Richard Shrewsberry, CFO & Senior EVP, Wells Fargo & Company
- Philip Alan Winslow, Senior Analyst, Wells Fargo Securities, LLC, Research Division
- Unidentified Participant, Analyst, Unknown

Presentation

John Richard Shrewsberry {BIO 2348729 <GO>}

Good morning. Good morning, everybody.

I don't know who picked the music. But my teenage son would love that if he were here. He's -- (Phil's) got a quirky sense of humor when it comes to music.

So welcome, everybody, to our technology summit, our first annual technology summit. We have an industry vertical equity research conference of about this size probably every week, every 2 weeks maybe, some place in the world. This one, however, is more special than all of the others because of what technology means to Wells Fargo. So in addition to having 60 or 70 of our important clients that our research analysts publish on and 150 or 200 investors who care most about them, we also have the technology leadership from Wells Fargo here to interact with both sides to help people know what we're doing with technology. And it just -- it pops up everywhere in our business. We're obviously a big financial services firm. But we're a technology firm. And we're in the middle of a huge technology transformation, like most big companies, big legacy companies. We have major technology transformation going on in our infrastructure and our security. We have major technology transformation going on in how we deal with our customers through digital and through mobility. And we have major technology transformation going on in our use of data and analytics and AI because we possess reams and reams of data about 70 million customers in our company. So everybody who's here and in different parts of the technology stack or the technology value chain are important to us. And there's a rich back-and-forth in terms of how this works.

So we've got a great lineup for you today. We've got a lot of -- I mentioned that we've got Wells Fargo leaders here. So our CTO, Scott Dillon, is here. Our CIO, Ravi Radhakrishnan, is here. Our Chief Marketing Officer, for those of you who care about digital, Jamie Moldafsky, is here. Our Chief Innovation Officer, Steve Ellis, is here. And there are others as well. So there's a lot of back-and-forth that can happen.

So the first of our speakers today, who will be fireside chatted by Philip Winslow, our research analyst -- is that a verb, fireside chatted -- is Amy Hood, my counterpart, the CFO at Microsoft. So please welcome Amy Hood to the stage.

Philip Alan Winslow {BIO 6300579 <GO>}

Okay. Thanks, John. (inaudible) All right. I'm glad we've got the heaters on here. It's...

Amy E. Hood {BIO 18040963 <GO>}

Me too. Maybe -- yes, turn it up.

Philip Alan Winslow {BIO 6300579 <GO>}

Well yes, when we planned this conference, the goal was to have 2 forces of nature come. And it was winter and Amy Hood. So I'm glad they both made it. So Amy, thank you for taking the time. It's really -- it really means a lot to us that you agreed to keynote at our inaugural conference. And you came out here and -- or you're standing up here freezing with me. It's like the -- and just think I almost turned the heat down.

Amy E. Hood {BIO 18040963 <GO>}

Yes.

Questions And Answers

Q - Philip Alan Winslow {BIO 6300579 <GO>}

But the -- and just to get things started, it's a shocker. But I might want to talk about Azure and commercial cloud and Office 365, just to start with. And obviously you guys adjusted your goal of $20 billion in ARR in commercial cloud. You said that, two years ago when you actually hit that target early, faster than you'd anticipated -- I guess the question, just from -- to kind of start things out here, is like how do you just see that growth trending in the coming years? Because obviously it's been going faster than expected.

A - Amy E. Hood {BIO 18040963 <GO>}

Yes. I think a couple of things when we set the target April or May two years ago, was that -- I think we had certainly an understanding of what the TAM expansion opportunity was. And we knew with a good amount of confidence what Office 365's transition would look like. You saw that when we talk to people. We were very close on what we thought the installed base would move, where we thought the % within the installed base that would transition to the cloud over two years. So I would say that portion was not as unknown. I think in many ways, for us, the bigger question was how quickly the transition on the customer side would happen. We felt pretty confident we could execute for Azure; and be competitive; and have an interesting story and a differentiated one, including the fact that we were committed to hybrid from the beginning in our architecture. So for us, I think it was more a pacing of the market. And I do think things have gone pretty quickly on the customer side in terms of -- even you heard John talk about how important it is to Wells Fargo. There's hundreds and hundreds of those stories. And I think the pacing has probably been the bigger surprise. And I feel very good about our execution, obviously. But it's a -- it's as much about a market opportunity as it is about our executions in the line.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

Got it. Well let's break it down into the sort of the 2 buckets of commercial cloud. And we'll start first with Office. And you've talked about this on the call, I guess, almost two years ago. And I think about of just Office 365 subscription growth more than outpacing the sort of the offsetting declines on the license side. And let's think about -- this is a question I get a lot. It's, "But what about, like, Azure?" Because there was Office license, Office 365. Azure, there's some replacement. But there's also a lot of net expansions. So how do you think through this in terms of sort of like the forward growth here and where we are in that process?

A - Amy E. Hood {BIO 18040963 <GO>}

Yes, I've always explained these as being just fundamentally different transitions. Office 365, even when we designed the pricing model 7 or eight years ago, when I had a different job as the Office CFO, this goes -- it's a very long world view in terms of Office. Office was really about the opportunity that's a seat business. When you sell something by the seat, the opportunity to say you're going to have a transition from a license to a subscription is pretty clear. You have a certain number of information workers in the world. You know which ones you meet today with a license, you know which ones you don't. That's new seats. And you knew which ones you transition. And that's the transitioning seats. And so we could very easily say there were going to be 2 drivers. There was going to be installed base growth by new seats that we weren't able to reach in a paid model before. And then there was going to be the transition of customers which -- and both of which ultimately would lead to having ARPU expansion possibilities. So that one, I think the transition was quite clear. You take one seat. You move it. If it happened to be paid upfront, then they got to pay me over 3 or four years. And the math was pretty clean in terms of being able to predict what that looks like. The distinction with Azure is that I actually think what you're seeing is -- for us and for others, you're seeing on-prem growth and cloud growth as people decide how they want to run their infrastructure, including the investments they've made over the past. That to us looks like, particularly for SQL and even for Windows, continued license growth even through this "transition" because it's not a transition. This is really just people continuing to add investment to their technology bucket of spend to digitize whatever process that is, whether it's a business process for marketing environment or sales. And you can kind of go on down the list. For me, that's why I think we bring people back to that singular KPI because I really am indifferent, as long as it meets the customer need for their infrastructure and platform if they buy on-prem licenses or buy Azure stuff. The one thing I cared differently about this year than, I think, in the past is we're really focused on Azure consumption as opposed to just a billing cycle, which is an important distinction. You always recognize revenue based on consumption. You don't get to recognize revenue just for selling something. And so really focusing on that motion with customers to make sure they're successful is a really important pivot that we've taken.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

Yes. Actually, maybe just to double click on that for a second: Obviously, you've made some changes to the sales force to incentivize that focus on consumption. And you talked about on the earnings call as sort of -- it's deeper customer relationships. You have to know your customer more. How do you think about the process of -- it's almost like a bit of a culture change from pushing product. So to speak . Not that sales team would ever do that. But pushing product actually focusing on consumption. So how do you put that into the sales force, into the model?

A - Amy E. Hood {BIO 18040963 <GO>}

Well I think, let me break it down. There's a couple things that we've done with the sales force for this year. We started really in July with the largest sales force change we've had in certainly as long as I've been at the company, which in a few weeks will be 15 years, which is just shocking. Time flies when you're having fun, I guess. And what we did was really fundamentally change how we go to market for all customer types. At the high end, that's meant adding a lot of resources that are technical. And when I say technical, I mean you would probably not see the distinction between them and someone that works in Redmond writing lines of codes that's typical. They are fully capable of implementing and doing most project start-up costs -- costs meaning efforts. They're capable of getting projects off the ground. They're capable of demoing all deep Azure functionalities. That type of person was not someone that we, frankly, had at Microsoft and used in that way. We tended to use that type of person, that type of talent in either our service business, our consulting arm or obviously in one of our engineering teams. So that large investment is meant fundamentally to be about consumption. And so that's how people are paid. They're not paid on selling a contract of Azure. They're not on bookings. But they're paid as customers are successful, meaning they get projects up and running. The meter starts spinning on Azure. And that's when they get rewarded. And so if you think about the life cycle of making a customer successful, you absolutely start there. You'd invest with technical expertise to help them on their journey. You'd pick the right projects that matter to them. You'd show ROI through hands-on effort to get projects up to speed. Then you'd see our person and them be rewarded with a successful outcome. So that's why I'm pretty wedded to the concept that this is of different ways that we should be rewarding our people because it's more cleanly aligned structurally to customer success, which is ultimately in a consumption-based business customer success is all that matters because it builds on itself over time.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

Got it. (inaudible). Well let's focus back on Office for a second here. I'm going to make a statement. I'm going to read a statement here. And I want you to tell me where sort of I'm right or where I'm wrong. And so it is Office 365 might be halfway past the point, in terms of adoption, that 50% in the installed base. But Microsoft is still in the early stages of migration to premium SKUs, i.e. E1 to E2, to -- sorry, E3, the E5 and maybe even E7 one day. And that's going to last through the next 5, 10 years. So where am I right. And where am I wrong in that statement?

A - Amy E. Hood {BIO 18040963 <GO>}

You're right in that structurally you're through. What we would say is the model we have in the seat businesses in particular, like this one, is you move a customer. Then once active directory is deployed and they have the most recent services in general, churn goes down, which ultimately raises effective pricing. And you have SKU transitions as people -- and as we continue to build high-value products and as customers see the benefit of that product, they move and tend to move up the SKU tiering, not all. You'll have tons of customers that don't need the functionality. (inaudible) tons that are finding their just right place. But the logic is correct, that does build on itself. The reason it tends to have a longer tail is simply accounting because we tend to sign 3-year agreements. So by the time you actually get everybody through a 3-year cycle of the new SKU, you finally have the ASP lift fully implemented across the spectrum. So it tends to come. And it comes slowly but tends to have a pretty consistent trajectory.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

Got it. Then let's stick with through the Office ecosystem and talk about LinkedIn, the acquisition, obviously a very big deal for Microsoft. How are you thinking about folding LinkedIn into just your go-to-market strategy this year and sort of going forward?

A - Amy E. Hood {BIO 18040963 <GO>}

I think you've -- number one, let me start with I'm incredibly pleased with how it's gone. It's been a -- it will be a year next week or the week after since we closed the transaction. And we're ahead of every financial targets that we set for ourselves. And so that feels good. Their employees are pleased, meaning they're happier than they used to be. That's actually a terrific thing in terms of retention of employees. So we're thrilled with that. And we've seen a bit of a revenue reacceleration, which we talked about last quarter in the results. When you see those things, you feel very good about the strong starts of what is an incredibly important decision that we all made and then what is a very important financial investment we've made. The way that you'll start to see it and you've already seen it -- and there are little things. And frankly, I think that's what you'll have to get used to a little bit on this one, is you'll start to see integration in the experiences themselves: whether it's going into Word and seeing LinkedIn integration on resume building; whether it's Sales Navigator integration with CRM solutions for more social selling; whether it's maybe incremental HR efforts by LinkedIn to sell more to their existing customer base. I think you'll see it as we both have really functioning, thoughtful sales teams that I'm really fine bumping into each other a little bit, because they work actually just fine that way. And so instead of trying to jam 2 sales forces together and let them -- and disrupt basically customer momentum, we've made an active choice to not do that. And there's a -- there are tons of examples where we buy companies to integrate sales forces. This is not one of them, certainly not, given the momentum in the -- and I think really to some of the unique attributes of each. So you'll see it show up and across Office, across Dynamics. And within LinkedIn will be the most tangible side. But you won't probably see large big-bang moments. It's not really LinkedIn culture. And nor did ours, as much anymore. You'll just see thoughtful integration that customers will care about show up in products every few months.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

(inaudible). Okay, we spent a fair amount of time on the revenue side of commercial cloud and Office. I mean one thing that jumped out at me last quarter outside of hitting the $20 billion in ARR was the jump in commercial cloud gross margin. It's 500 bps quarter-to-quarter, 800 bps year-over-year. And one of the questions I got is how much of that is related to, let's say, the mix between Office 365 and Azure; or just a mix shift between, call it, the standard services and the premium -- to premium services within there. And...

A - Amy E. Hood {BIO 18040963 <GO>}

This is actually pretty clean, it's mostly Azure. Because while Office continued to have gross margin improvement, in fact all the services did last quarter that are in, whether it's Dynamics, any of the underlyings, the mix shift, which we think to Azure because it's the highest grower, we -- so it's mix shift to Azure. And yet you're still seeing gross margins get better. So this one is the math's pretty clean. It's Azure gross margin improvement. Now part of that is premium services mix. But part of it also is just the cost per -- the cost to the infrastructure improvements across the hardware and the software work. So I feel very good about that team's effort. They were very proud last quarter, I think, for many reasons. I think it felt like, on every earnings call, I would get asked pejoratively about their margin structure. And so when we said kind of 6 quarters ago that we expected material gross margin through all of last year and then did it again in Q1, I think they feel like, "Hi. when are they going to stop asking?" And I said, "Well keep going up. I'll let you know."

Q - Philip Alan Winslow {BIO 6300579 <GO>}

Yes, great. And I guess, okay. So scale is an important part, obviously, of Azure. So when you think about just scrolling this forward here, obviously you've got premium SKUs in 365. You've got new premium services in Azure. You have scale in Azure. How do you think about just the gross margin of commercial cloud going forward? What are the puts and takes really of getting continued improvement there?

A - Amy E. Hood {BIO 18040963 <GO>}

This is one where I spend a lot of time on the component because, while we talk about commercial cloud gross margin all up, which is the cleanest way with our revenue, which is I think I have one big cloud business and what should it look like at scale, the actual management technique is quite different. The teams work quite differently. So you want to focus on where can Office 365 margins get to. Where can Dynamics margins get to as a service. Where can LinkedIn ultimately -- at LinkedIn, when you clean out Amwork's 82, 83, 84, I mean, it's a pretty structurally high-gross-margin business. Then you go to look at Azure's premium services and then their more IaaS-type layers. And we manage each toward its best-in-class goals. The outcome will only be a matter of the mix of the revenue that ultimately exists. So while I continue to believe we have room for it to grow, it's really more about what the makeup of the revenue looks like. And so what you'll see going forward is Azure will continue to grow as a piece of that, which will put some structural downward pressure on it. But you'll see all of them probably continue to increase, which is what you want to see from a pricing and competitiveness standpoint.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

All right. Well we've spent a lot of time talking about Office and Azure. But I want to switch gear to this other little business called Windows. And I think Microsoft might be known for that. But one of the things that's really struck me over the past several quarters here is, if you look at the growth of Windows revenue versus just of the PC market, I mean, Microsoft excluded had been out-punching PC market. And I get the similar thing. I get the question from clients, saying, "Okay, is this attached? Is this piracy? Is this ASP mix shift towards the premium SKUs? Then is this sustainable?" So maybe if you can walk us through what's been going on that's driven that outperformance and how you -- we should think about it going forward.

A - Amy E. Hood {BIO 18040963 <GO>}

Let me put up our Windows business into 2 things. We have funny names for it: pro and then non-pro. Let's call that commercial and consumer effectively for this moment. Our commercial PC business, otherwise known as pro, in general has outperformed the market by a bit. That tends to be a little bit of attach of pro doing a little bit better. But that one doesn't vary terribly far from the market. You might -- and if it does, we usually comment that it could be some inventory-related stuff. Like, this quarter we had a bit of pre buy. The pro number was a little high a couple points. They'll come back. People would ask, "How do you know?" Well there aren't that many buyers of PC licenses in the world. So when you see them move a little bit in a funny pattern, you can kind of guess you got a couple weeks of inventory at a specific OEM. So that one, when you see it move very far from commercial PCs, which over a long period of time, have kind of been single-digit growers. I mean, even when -- with the exception of year -- a couple years back when we had that "end of XP, get a new computer" moment, outside of that, it has been very steady, steady through some of the macro changes; steady even when, the different regions, it's kind of low single digits. The consumer side is far more volatile. This quarter was the first time they've actually been more in-line. The consumer business itself tends to have a bigger ASP difference. There are more SKUs in our consumer business than there are on the commercial business. The commercial business, we got about 2; and they're not that different. And so you don't tend to have a ton of ASP movement on commercial. So on consumer is where you tend to see the big ASP differences. So devices have been pretty healthy at the higher end of the market. When you see that happen, it tends to mean there's higher ASPs associated. And you'll see a big delta between what units look like and what our revenue looks like. If -- I'll give you the opposite. If low-end units were strong, which happened a couple years ago, the opposite will be true. You'll see the revenue be far below unit growth. And it tends to be about pricing tiers, more than anything else, where we have a wide difference in pricing based on the -- you can think of it based on the price of the device. It's spec-ed by -- the devices are by spec. So if you think low-end shifts, low-end devices, you think low price. And if you think a lot of power, you think a high one in consumer.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

Got it. Now obviously Office 365 has been a phenomenal success. I think everybody in this tent would agree with that. Walk us through what is the opportunity of -- well, what is Microsoft Office 365? And what is the opportunity there?

A - Amy E. Hood {BIO 18040963 <GO>}

Microsoft 365, I think, is our realization that from a customer perspective what they want is a modern experience on a machine -- just for a second. Whatever machine that is. And that modern experience will be defined by a few characteristics. It would -- and most importantly for many CIOs or CTOs, it would have a modern security plan and modern management tools, like in here -- I'm sorry. I couldn't hear you before very well. That's nice. And so you're thinking about modern security and modern management. People tend to think about Office and Windows quite separately, as well as EMS products actually that are built out of our cloud and enterprise divisions. Really the experience of a modern workplace or a modern desktop or a modern even phone experience for Office is foundationally about capabilities that don't just come from Office 365. And so we finally said, well, why don't we sell the thing that customers actually ask us about, which is, "Wait, what's the most secure environment to have?" And we would say, well, that's Windows 10 and Office 365. And that combination when deployed together is more secure than any component. And so we've started to call that thing Microsoft 365. You would also in our and in my world refer to the devices as being modern or not. So does it have natural language ability understanding. Does it have natural input like gesture or gaze. Does it take 10 inputs. So think about it in the broadest sense of the word as if you wanted a modern computing experience and wanted to interact with a device through either your normal keyboarding touch time. But whether it's gaze, whether it's voice or whether it's ink, it should have all those attributes, as should all the applications that sit on a modern device. And what you'd find historically is we have certain apps that are optimized for ink, certain apps that have not been. If you want to have a terrific modern experience, you have to have all the apps and the OS and the device optimized for that to have it really make a meaningful difference to you and how you think about computing. And so when you think about Microsoft 365, think about the broadest, most inclusive, consistent experience between application and the OS; and that they build on each other, including the device and its specs.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

Yes. Now you made a comment there about device, sort of, whatever. You're thinking about being in, I'd say, a flashback to build, obviously the keynote being the intelligent edge. And it was talking about containerization of micro services on the -- all devices. It can be a car. It can be a thermostat. It links back to the Azure or IoT edge. What is the opportunity there? Because obviously we hear about IoT. We hear about intelligent devices. Where does Microsoft play into this? And what do you sort of bring to the table that, I'd say, maybe some of your competitors don't?

A - Amy E. Hood {BIO 18040963 <GO>}

Well you'd say most of the endpoints. What people still want is a secure, manageable endpoint, especially if it's going to collect any amount of sensing data. Do you want to be able to update it. How secured do you want it to be. That story, for us, is both a Windows 10 story as well as an Azure IoT story around the connectivity of those devices back to a data source. And so I feel actually quite good about the investments we've made. And when I think about IoT or any endpoint -- and when we say edge, think about it in the broadest term, right, whether it's a PC, which is the right way to interpret it; whether it's a phone; whether it's a sensor; or frankly, whether it's the edge of your network. It would say that compute needs to reside where it needs to reside for the application to work its best. Even Azure Stack has -- right -- even Azure Stack has another way of talking about having an edge. And so for us, I think it's a pretty -- it's a world view, more than I think of it as any specific product. It's that all products should make it possible for you to run and compute and assess data and capture data and then analyze data no matter the environment, right? You think it could be -- for gaming it may need to be close, although latency times are getting good enough that may not need to be the case. For Azure Stack it's a realization that -- we always cruise ships -- it was the best visualization for people to understand it's clearly not connected. So it's a good way to think about what's important about having compute where it needs to be.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

Got it. I got a bunch more questions. But I'm going to ask one more and then open up to the audience. And Richard, I was hoping you could -- my associate, could grab the mic and then, as people raise their hand, walk around through them. But one of the questions that I've been thinking about and I've asked you over the years has been to sort of the life cycle of just the operational efficiency at Microsoft. I mean I think everybody in this room agrees that, over the past, I guess, 4-plus years now, I guess 18 quarters, I think, as CFO -- it's going to be your 18th quarter...

A - Amy E. Hood {BIO 18040963 <GO>}

Yes, I know. I couldn't count. But I'm...

Q - Philip Alan Winslow {BIO 6300579 <GO>}

Yes. And so you've just finished 18 and going on 19.

A - Amy E. Hood {BIO 18040963 <GO>}

Yes.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

So let's keep the streak alive. So -- but the -- when I think that, the operational efficiencies, I kind of talked about the life cycle of it being the first part was just focusing on just the cost structure. Where are we spending too much. Where are some things that need to be divested. Then there is a period of allocation. We'll call it that, less note, no (inaudible) other sort of higher-return areas. Then we've hit a point where when that started to fade that we kind of inched back towards more, call it, normalized investment growth. How do you think about where we are in that life cycle and in the process of, just call it, operational efficiency at Microsoft?

A - Amy E. Hood {BIO 18040963 <GO>}

I tend to give it slightly -- it's something like that. But I tend to think it's not as much of a life cycle as a constant effort on all fronts, which is -- the first thing you said is really about picking the businesses we're in. That's the first one. Which businesses should you be in. Why you should -- why, how. That can change, markets change, competitive landscapes change. And suddenly maybe it's something that doesn't make as much sense as it used to. We still watch for that so we'll make sure that makes sense. But you're right, a lot of that, I would say, is are we in the right businesses, I feel like it's behind us. The next piece, which is really continuing to focus on being more efficient in how and what we do. We've done a ton of that work I think that was maybe easier to approach. But I would say that was one we're pretty focused on still. We, like every company on Earth, have an opportunity to reinvent many of our processes, do them digitally; be more efficient in how we build software, how we ship software, how we sell software or hardware. So I feel like I still have opportunities there to run a more efficient operation. But fundamentally more than about efficiency, it's about the customer experience being better. I tell people all the time I -- most of the efficiency work we do now is focused on making a better customer outcome, whether it's how many commerce systems do you need as a company so that it does recognize you when you call; how many different customer interfaces. You want to have it -- or how modern should your build environment be for engineers. All of those things matter because the customer, whether it's an internal employee or whether it's an external customer who pays us money, benefits when we do thoughtful, efficient work, as opposed to saying, "Oh, I see costs to cut." It's just not a good frame for a successful company. Then I tend to also think we've been a bit more of an investor this year in key places. But that was true years before, I just -- I think, if you look at intelligent cloud. And we did some search investments there. And I feel great about how that's paying off at the top line. As long as we see things pay off at the top line, I really don't feel constrained in terms of investing to do that. Because if we invest operating expense, we see it land as very strong revenue growth, including share growth, at the top. We know we've got structural gross margin improvement coming. That's a good leverage model for us, especially in the subscription business where the gift that keeps sort of on giving is the top line. And that model, I feel like -- I don't feel constrained in any way as long as we continue to execute the spend thoughtfully. We have to. The industry is aggressive. We need to be aggressive. We've got a good world view. We're executing well. The team is good. And when you feel all those things, the last thing you want to be is not aggressive. So I don't feel terribly worried about it. And I think whatever hope people have inside the company that my willingness to be aggressive on that front will be coupled with stopping the former 2 items, they know me now well enough that's not how I work, because that's simply not how excellent companies work. I remind them sort of I am a deep believer in strategic patience but execution urgency. So if you believe in those 2 things, you can both understand where you're going, invest patiently, invest in the right things, watch them pay off. So if you're not doing well, let's fix it. That's -- that means. That's not hard. That's just fun stuff, I mean, for me.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

Yes. I'm going to totally steal that line, by the way. It's like...

A - Amy E. Hood {BIO 18040963 <GO>}

Well it's a good way to think about in general. So confusing the two is super important. If you actually have a really thoughtful strategic plan and you're executing poorly, that can be interpreted inside the company as a bad strategy. You -- then you change course. It's a really -- and it wastes time. It wastes cycles. And more importantly, it wastes energy of your people. And the opposite could also be true.

You can have a bad strategy and bad execution. Then you just say, "No, no. I'm right. Just let me fix this thing." That takes too much time. You're very far away from where you need to be positioned as a company. And they're both really, really can be damaging. And so I spend a lot of time with teams thinking about making sure we're distinguishing between the two. It ultimately makes you much faster and much better positioned for customer success. So it kind of -- it's an important frame as we think about expense growth.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

Great, awesome. Well I'll take, last 10 minutes here, some question from the audience. So raise your hand if you have one. And (Rich) will walk over with the mic. Otherwise, I'll continue. (Alex), in the front?

Q - Unidentified Participant

Maybe if you -- Amy, if you can go into the competitive dynamics in public cloud. Obviously, Amazon was first, they're larger. You've come up and done a great job. And you've got good enterprise. And on prem as well is taking advantage. Then maybe talk about where Google may or may not be in pricing and stuff like that.

A - Amy E. Hood {BIO 18040963 <GO>}

Yes. Thanks, (Alex). It's -- I get asked that question a lot. Let me talk about sort of what I've seen. I think I feel very good about how we've executed given I think where we were a few years ago with AWS. I think structurally we've done a very good job being aggressive on the investment. We've done a very good job finding our differentiation through hybrid from the beginning. In fact, we're using some of our strengths in the enterprise to focus there and try to be successful with many of the sales investments we already had. I think this past year has been a trajectory changer for us on that front with Amazon. That being said, trust me, if you live in Seattle, you feel the energy of 2 successful companies being there. If you're looking for core systems engineers, we have most of them. I mean I -- in the Seattle region. It is a hotbed of the world view of where the public cloud is going, where private cloud is going. I -- it's a -- it's just a fun place to be, frankly, to feel that. So take my comments about our progress in the spirit of an incredibly successful pairing of companies executing incredibly well; executing with, I do think, a mutual focus on customer success; and frankly, a not terribly different view of where the world is going. So let me start by saying that. And you see it at most customers. I see it in most partners, ISVs. I feel like we've even made progress in the start-up community, which we knew would be a harder one for us. And that's been a bit of a new cycle. And I feel great. Then let's talk about Google, who I think we've been talking about seeing them in this market for years. But I would say we've seen more of them in the past few quarters than we'd seen before. It's not surprising. I think they're making a good effort. I think Diane Greene is an excellent leader and an established enterprise CEO. I know that's probably not a title in the job she has. But that is who she is. She's always been a winner. She's always been successful. So I kind of look and say I absolutely expect them to continue to be aggressive. I absolutely expect to see them at customers. I do think they -- we may not see them in the same way, in any level of the same way that we see Amazon at customer presence. It's very different. But I would say we certainly see them more than we used to. I would also say those comments are pretty U.S. and Europe centric. And so I think, if you were to maybe go to the APAC region, you'd probably say -- instead of probably putting Google in that third slot, you'd probably aggressively be asking me about Ali. It's different world view. I think, when we sit in this half with the world, we tend to think of the 3 companies I just named being the most successful in this region. That's certainly true. In Europe you see a very similar frame. If you went to Africa, certainly in China, increasingly in India and across Asia, you'd probably see Alibaba have a different view of moving outside of China; well funded, well capitalized, certainly aggressive, many of the same attributes, understanding of the cloud, understanding that they'd like to take things outside the -- of their home region. So that's the only thing I would add competitively to the landscape on a global basis.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

Got it. All right, I think we have time for one more question before we have to get Amy away from the -- the wind here in front.

A - Amy E. Hood {BIO 18040963 <GO>}

It's not that -- it's actually -- it's the humming. So I -- it's just a hard white noise I'm hearing. So I'm just making up whatever question you ask me.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

It's like, "I think I heard this."

A - Amy E. Hood {BIO 18040963 <GO>}

I think you said something about Office.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

So one from -- one more from the audience. Otherwise, I'll -- we do, yes.

Q - Unidentified Participant

With the topic of tax reform looming, I would be curious about the prospects of cash repatriation, what that would mean for Microsoft. And specifically, could it change how you think about your M&A strategy?

A - Amy E. Hood {BIO 18040963 <GO>}

It would -- let me be clear, it won't change how we think about our M&A strategy. We -- when we see assets that make sense to us; when we feel they're fundamental to growing our business; when we feel we're a better owner than someone else because of where they sit, how they fit, that is what will dictate whether a deal makes sense to us. That's always been through a bit like we didn't want to wait for a tax reform to return capital. I don't want to wait for a tax reform to buy smart assets. And many assets won't make any more sense or any less sense in a new environment. It's just not, I think, how we are structured to think about the world. And when it comes to how we think about spending, I think in general, as it -- our biggest capital spend is data centers. Data centers need to be built where they need to be built. So it's less about is there an incentive to build one place versus in other. Data centers need to be built where customers or data privacy, data residency, where maybe national boundaries need to be respected. So think of it less about, well, I'm going to spend a lot more capital because a tax reform. It's just -- or if I had to borrow before. It's -- our borrowing cost is not a big hindrance to us as a large cap with our credit rating. So I've never really thought of it in those regards more than anything. It's fundamentally about strategy for us. And where our customers need us to be.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

All right, well, we're 5 minutes out from the one-on-ones and (a few tracks) starting. So Amy, thank you for sitting up here.

A - Amy E. Hood {BIO 18040963 <GO>}

Thanks. Thank you, everyone.

Q - Philip Alan Winslow {BIO 6300579 <GO>}

(inaudible) The good news is they have a fireplace in your one-on-ones suite.