Morgan Stanley Technology, Media & Telecom Conference

Company Participants

- Amy Hood, EVP & CFO

Other Participants

- Keith Weiss, Analyst, Morgan Stanley

Presentation

Keith Weiss {BIO 6993337 <GO>}

So we'll get started with our first lunchtime keynote with Amy Hood, CFO of Microsoft. Before we get started, I have a lot of safe harbor to read, okay, from Microsoft. Microsoft may make some forward-looking statements during this presentation and you should refer to their SEC filings for the risk factors related to their business. This is true whether you're here in person or listening on the web. From Morgan Stanley, please note, all important disclosures including personal holding disclosures and Morgan Stanley disclosures appear on the Morgan Stanley public website at www.morganstanley.com/researchdisclosures or at the registration desk.

So with that out of the way, Amy, thank you very much for joining us once again.

Amy Hood {BIO 18040963 <GO>}

Thank you for having me.

Keith Weiss {BIO 6993337 <GO>}

So there has been a lot happening in Microsoft over the past year since we've been talking on the stage. I guess, the biggest one being the addition of LinkedIn. But also a lot more subtle changes like improved gross margins. Can you walk us through your perspective on what have been some of the biggest changes we've seen in Microsoft over the past year and what are you most excited about going into the next year?

Amy Hood {BIO 18040963 <GO>}

It's interesting, I think, maybe what you perceive as a lot of changes, I would probably describe it's just accelerating a bit on the vision that we've had as a team. Strategy hasn't changed, our ambitions haven't changed, our goals haven't changed, I think, in many ways. The only thing that you've seen is probably a bit more aggression in that transformation to make sure we're accelerating through it which is an important phase. I think with confidence comes some acceleration. Trying to think -- Satya, it will be three years for him this month. And it's getting close to four for me. And with that, I think some stability and excitement about the future and confidence and what we can achieve and that's probably what I would say.

Keith Weiss {BIO 6993337 <GO>}

Got it. When I talk to investors, the area of the story that I spend the most time on is intelligent cloud. And (inaudible) one fundamental debate has been the most time talking about is server and tools versus Azure. So maybe you can start with the conversation, server product revenue had a really nice quarter last quarter, up 7% constant currency. How do you think about the durability of that on-premise portion of the business longer-term. Is this something that could sustain over the next year, over the next three years?

Amy Hood {BIO 18040963 <GO>}

It's interesting. I know people tend to focus on the component tree and I tend to focus on all of server products and services number. So many reasons. Number one that all up number takes out the temporal impact of the timing of a transition, not annuity this, annuity that, crowd this, on-prem that, hybrid, different mechanisms of licensing. And so for me the long-term goal is quite clear, right, to build a hybrid server business, server and services business that's primarily annuity based.

And so with that the number of the -- so the KPI of server products and services tends to resonate at be the cleaner. There will be many customers and in many geos who run the server products on time longer than others for various reasons regulatory, geo-political et cetera. And so worrying about the pace of the transition is not a thing I spend a lot of time on, frankly. I spend a lot more time making sure we have the capabilities both for our -- and most of our customers are hybrid customers. So for hybrid solutions or cloud solutions could be as capable of supporting the Company's journey that they want to go on, not our journey we want to go on. And I think that's probably better suited to pleasing customers and we really tend to focus on it all up.

This quarter it was there, we talked a little bit about the fact that Sequel and Windows launches, both actually went a little better than we thought when that happened. You do you see that on-prem KPI be a little better. But over the long term the most important thing to me is continue to pivot it to an annuity business which is long-term commitments by customers to our platform and our products and then continue to break new TAM ground with many of the cloud solutions.

Keith Weiss {BIO 6993337 <GO>}

Got it. I do think that's a good segue into sort of the second part of the question that investors have is when you -- some of work went into the on-premise environment versus selling into the cloud environment, how does the opportunity, the monetization opportunity change for Microsoft? Are you going to be able to make up in terms of broader monetization what you're losing in what was a hugely high gross margin business in on-premise?

Amy Hood {BIO 18040963 <GO>}

It's why I think we focus so much on dollar profit growth whether that is a gross or the operating line because, number one, you're right, if you just said like-for-like, if you sold the exact same server standard SKU and somebody chose to run it in the cloud versus on on-prem, there's clearly a distinction and the cost that we would bear. But that's not actually what's happening. Instead of you selling, you sell 1.3 or 1.6 or 2 point some number, multiple of that in terms of new data needs, new workloads created, new opportunities for compute or insight. And so while the one-for-one substitution would clearly not be as interesting it's just not how the world is evolving. The pace of the opportunity grows, the pace of that expansion it's I think sort of a once in a every decade construct maybe, maybe longer.

Keith Weiss {BIO 6993337 <GO>}

Could you remind me about the framework of what percentage of customers coming over to Azure, what percentage of that is net new business versus visiting business transitioning over?

Amy Hood {BIO 18040963 <GO>}

It's hard to say one for one that you know that this file/print server that used to run on-prem is now being run as the file/print workload. It's not exactly how the math would work. So the way I tend to think about it is looking to say, hey, topline revenue has been growing double digits in that server products and cloud business, margins are getting better all up, we know the market is growing, we know we're taking share within that and so overall I tend to feel pretty good as opposed to do a one-for-one like switch.

Keith Weiss {BIO 6993337 <GO>}

Got it. Then on the competitive environment, when we're talking about that sort of global scale, public cloud, utility, if you will, most people talk about you, Amazon Web Services and Google Cloud Computing, the big vendors in that space. How do you see that competitive dynamic having shifted over the past year, how do you see that evolving on a going forward basis?

Amy Hood {BIO 18040963 <GO>}

I think maybe the distinction in a year later is less in those three players than, I think, were there before and continue to be there and quite aggressive as you would expect. And maybe some of the people that have entered a little bit later, I think, the IBM cloud gets a lot of mention with very large customers, you see that both in the press and in some of the workload solutions they talked about. Probably Allee is incredibly successful across China and other very large interesting markets globally.

And so I often say it's not the three, although I think you would put them in the clear leader camp, it would be actually that from a global perspective there is probably even more players than the three that you've seen a year later.

Keith Weiss {BIO 6993337 <GO>}

Got it. It's interesting that you bring up IBM because I think one of the differentiations that I often talk to about Azure versus AWS or a Google is is actually you guys have an install base, that you have a broad distribution channel like IBM does, install base. Has that advantage -- that sort of install base advantage, has that become more so invented over the past year as people move from that net new environment, new workloads to more thinking about how we're going to do that hybrid environment longer term?

Amy Hood {BIO 18040963 <GO>}

Yes, I think, the distinction may in fact be twofold. Number one is, we've always been hybrid from the start. We ourselves run a hybrid environment inside the company, most of our large customers are after that from the beginning. And so, I do think that sort of just how we're built architecturally and from a customer centricity perspective. The other thing about having an install base, usually the customer connection and relationship, our enterprise sales force, I think, has been underappreciated in its transition from really selling what we would think of as desktop-based workload, selling Windows and some version of Office through to selling really full infrastructure stacks. (inaudible) the transition to do that and the capabilities, I'm really proud of that group and all they've done to transition that without really adding, we've added some sales capability at the technical high end, most of it has been re-training. And new job fills.

Keith Weiss {BIO 6993337 <GO>}

Got it. One last quick question and then we'll shift gears to productivity and business process. Amazon recently lowered prices, you guys recently lowered prices. How should we be thinking about that on a going forward basis, sort of just the pricing dynamic going on on a go-forward basis?

Amy Hood {BIO 18040963 <GO>}

It's been a pricing dynamic there for many, many years -- to the point. I think you should think it's a competitive market. All of us tend to want to move up the stack in terms of adding premium services. Our premium services are growing faster than the core business for us. Part of that is volume, part of it also obviously would be the impact of price. You don't see the same impact at the higher end where there's more differentiation or maybe more commitment on analytics or insight. And so, I don't describe the pricing dynamic as something that is new or that I would think to be temporal. But I do you think what you'll see is an effort to continue to move people up the stack in terms of capability. You are not just really running -- you don't want to be in the business of running, I think, just core storage and compute.

Keith Weiss {BIO 6993337 <GO>}

So more and more the value, goes up the chain.

Amy Hood {BIO 18040963 <GO>}

Yes.

Keith Weiss {BIO 6993337 <GO>}

Got it. So shifting gears to productivity and business process. I think the biggest change obviously since last time we've spoken is that now LinkedIn is in that set of overall business. Where and when should investors be looking to see the initial sort of benefits of bringing LinkedIn on board and having LinkedIn part of the Microsoft ecosystem?

Amy Hood {BIO 18040963 <GO>}

I think you'll start to see -- the earliest benefits probably in the co-selling of some of their, what I would call, business solutions. And you may have noticed in Satya's comments this quarter he really grouped LinkedIn along with our dynamics business in terms of how to talk about the offers. You'll see, I think, the Sales Navigator product, which is one of LinkedIn's core products have some and find some added benefit in having our dynamic sales force to be able to sell that as well.

I think our ability to leverage each other's sales forces for some of that work will be a good thing and quite tangible in terms of adding quota is not the most complicated change to make in terms of integration.

The next places you'll start to see it will be in office in terms of some of the integrations and insights that you'll be able to learn through outlook for some of the experiences if you're running the modern clients. And when I say modern clients, I mean Office 365 ProPlus, which is what we call the subscription form as opposed to the pure client perpetual licenses. You'll see some of the first integrations come there. The pace has been quite encouraging. We need, I think it's once a month to go through the technical roadmap, integration roadmap together. Their former head of engineering, Kevin Scott is now the CTO for our Company, which I think is a great position in terms of integration and being able to do product roadmap together. He's already made a big impact and we enjoy having him in our meetings on Fridays.

So I think I'm pretty excited about what's possible both with the Dynamics business. But also in the broader office businesses well growing our core -- I mean the business is growing quickly. First thing -- fight club, is what they said, first real fight club, it's sort of just don't mess with it. You want to keep the core growing and are doing a great job of that, the team is good. They are motivated. Jeff is a great leader, inspiring to be around, yes, good.

Keith Weiss {BIO 6993337 <GO>}

Speaking of don't mess with it, the other side of the equation is substantial for cost savings. And I think the investors have thought about potential cost savings arising from being able to run their application on your backend about savings to distribution and now dynamic CRM is much more of a distribution channel for them on a going forward basis. How should the investors think about the timeframe for achieving those efficiencies or should be a little bit more cautious because --

Amy Hood {BIO 18040963 <GO>}

You should assume I'm not focused on it.

Keith Weiss {BIO 6993337 <GO>}

Okay.

Amy Hood {BIO 18040963 <GO>}

I'm focused on growing the top line revenue and accelerating that business and its potential with ours, to add more customers, to increase their impact, to have it grow faster, to accelerate our business, to have the integration and technical integration to deliver customer value go well. We will do the smart things in terms of sharing quota. You'd call that a cost synergy, to me that's a revenue generator.

Can we do and share accounting teams, I'm sure, we can and we will share accounting team. We will have one internal audit team. The smart things will happen and we're pretty good at that type of activity and I'm just deeply, deeply focused on driving revenue growth. This deal was not done for cost savings. The deal was done to drive the topline.

Keith Weiss {BIO 6993337 <GO>}

Shifting gears to Office 365, particularly Office 365, the commercial side of the business. I think last quarter you had 49% constant currency growth. By our calculations, this is becoming one of the biggest drivers of gross profit dollar growth within the overall business. We're trying understand sort of where this fits into the broader sort of path of $20 billion in commercial cloud that you guys have been talking about. So really on two sides of the equation, price and quantity. When it comes to the price, where are we in kind of SKU uplift? We have that tiering, E1, E3, E5, how far along the path have we gone?

Amy Hood {BIO 18040963 <GO>}

It's interesting. We talked about we're about 60% premium mix in our E-Suite. But what's interesting about that is it really talks about E3 as being premium, even though we've now got versions of something E4 like and now E5 like with the security analytics and voice PSTN conferencing in the higher SKU and so that 60%, we've talked about is really primarily the mix from E1 to E3. Most of the ARPU lift that you've seen over the past three years is primarily attributable to that first mix shift to the E3 SKU. And so, there's lots of room for us to continue to move people even further up the skew sack, to also add standalone components like analytics that have actually done quite well, standalone as of some book security component. Then move them to E3 as well. So I think we may -- Chris might have been talking about this, do I need another metric, because it's sort of premium-premium. We will continue to add tiers. And so E3 probably won't seem quite as premiums any more as we continue to add layers in the stack.

Keith Weiss {BIO 6993337 <GO>}

Any color you could give us in terms of what is the core functionality that are (appointive Office) stack, is it analytics, is it security, what is it something we're starting to hear a lot of that?

Amy Hood {BIO 18040963 <GO>}

Right now I would say just in terms of those business decision makers and CIOs both analytics and primarily security tend to be the pool right now into that upper E5 SKU, it's top of mind for everybody. It tends to actually be quite price competitive to its peers in terms of value both on a standalone basis and then if you were to buy the SKU giving you optionality into other workloads as you see fit. It's still pretty compelling as a bundle/seat. And so I would probably say stack ranking them security is the biggest pool currently, then probably analytics. Voice is always going to be a trailer, it's a more complex workload. You're less likely to deploy it sort of all at once across all your seats. So it tends to be something people opt-in through branch and other deployments that we've been encouraged. Obviously, we run on it. But we've been encouraged by large deployment.

Keith Weiss {BIO 6993337 <GO>}

And just double clicking real quickly on that analytics, analytics is something that we talked about a lot over the past 10 years with Microsoft and it seems like Office 365 has been a vehicle that's really starting to sort of enable that distribution. Is it just that, is it just a much better vehicle for enabling distribution or is it really sort of where the products come where the markets (multiple speakers)?

Amy Hood {BIO 18040963 <GO>}

I think it's a lot of things. Most of the analytic solutions required a near PhD to operate for a long period of time. And so when we kept seeing the optimism around analytics, I actually think some of the solutions were still pretty complex in terms of being able to bring that type of insight down to an ease of use that's more similar to Excel. Most people still use their number one insight tool and analytic tool that continues to be our Excel product. And so the more you have our solutions like Power BI or Analytics inside, sequel databases, looking fields from a user and integration perspective, more like Excel than less like Excel, I think the more you'll find that broad-based coverage analytics type solutions will be more interesting to people.

Keith Weiss {BIO 6993337 <GO>}

Then on the key side of the Ps and Qs in terms of quantity, where are we in terms of the base migration? And still with that, I think if you can give us some samples along the way. But how far along -- particularly when we get to some of the regulated industries like as (Azek, Morgan Stanley), are they coming close to sort of coming on board with Office 365?

Amy Hood {BIO 18040963 <GO>}

Let me take the first question and then the second on regulated industry. The first question, which is where are we in the queue, I guess, about two years ago, it seems like just yesterday Keith, we had the analyst briefing and in that, I should look an install base chart, I can see it in my mind. And we talked about the path we're all with the install base exchange in particular, we talked about Office as well. I felt really good about the projections we laid out nearly two years ago and where we're today in terms of both install base growth and the penetration of the install base in the transition. So both components of that queue I feel quite good about. And you say where's the queue coming from, the next queue as opposed to the transition queue. The next queue tends to be still coming from the small to mid-sized customer segment, often people who couldn't afford the capital expenditure upfront to deploy some of these solutions. The other place has actually been adding, the term is odd, we call it deathless, the worker. But adding some of the employees even in large enterprises where one to one computing constructs didn't exist in the same way in terms of a PC and so we actually are seeing decent coverage of those, especially for the non-office components of the suite Exchange, SharePoint and some of the comps components. So that's in the other big queue of overall driver and then the install base transition I think, it's gone actually pretty, pretty on plan is the term I would use to maybe even a little better than we had hoped.

Keith Weiss {BIO 6993337 <GO>}

Got it. Then to the regulated industry (multiple speakers).

Amy Hood {BIO 18040963 <GO>}

Oh, sorry. I think this is interesting. It's a little bit like the CIO survey that you guys all do. You every year or every six months ask people do you have any intent to move to the cloud and they are sort of the adamant I'll never do it. But the I'll nevers tend to go down with every CIO survey. I tend to think regulated industries we're seeing that transition. The level of security insight, the level you're seeing, actually the geopolitics play an interesting component for regulated industries as well. We run different models. Germany we have a tenant based model, we've got a different model in China, we run through a company called 21Vianet, we've got owned and operated data centers as well. All of these are meaningful components to moving right-delated industries, I would say, further. But I tend to view it more as a time series as opposed to there's one day that everybody will decide today is my day, tend to move different workloads over time and so, I don't know, I remain hopeful about sensors as a person --

Keith Weiss {BIO 6993337 <GO>}

We are working on it.

Amy Hood {BIO 18040963 <GO>}

You guys are working on it.

Keith Weiss {BIO 6993337 <GO>}

I got a Surface tab already, different division. In terms of the quantity question, is piracy becoming a part of this at all, is Office 365 helping to winnow that down at all or is that still --?

Amy Hood {BIO 18040963 <GO>}

Interesting, I get asked that a lot. I do think in certain geos, it's never -- I wouldn't say -- I think, it probably resonates funny. I don't think of that as oh, I now have an antipiracy product. I think about it more as what value can you put in a subscription such that paying for it feels like good value. And I do think we've made some progress on that front, specifically in some of the geos you would expect. We also frankly had a lot of piracy. It's not just geo-based, many people pirate and don't know frankly that they are. And so a lot of the small and mid-size businesses in particular tended to have piracy challenges and I do think you could think about that. It's not the language I would normally use. But it is certainly a way to think about it in terms of having paid SMB growth could be a little bit of a proxy for that.

Keith Weiss {BIO 6993337 <GO>}

Some perhaps under licensing more so --

Amy Hood {BIO 18040963 <GO>}

Under licensing would be a preferred term I would use.

Keith Weiss {BIO 6993337 <GO>}

Last segment, more personal computing, just seen, I think, a lot of investors, I won't say don't focus on. But don't think of as an area of potential adds anymore. But that being said the Windows OEM business has been growing single digits over the past couple of quarters and a lot of that's come from the strength in the commercial side of the business. Can you give us an update on where are we on that LinkedIn cycle? What's the ability for that commercial cycle to grow that overall Windows OEM business?

Amy Hood {BIO 18040963 <GO>}

I'm happy you asked me about Windows. You seem to not get asked about it very often. And you're right. I do feel like people -- either I'm not telling the story well enough, which I take as feedback because nobody asks or I think you're right. Over time, people just began to focus on our big investments and big growth returns and that has been, frankly. And we set ourselves up for that by talking about the commercial cloud target and I think all the energy frankly externally. And we have lot of internal energy on too to get to that goal. Windows is really interesting. Windows 10, when it launched and we did the free upgrade process primarily for consumers, we were really encouraged by how many and the types of feedback we were getting. But more importantly was the feedback we were getting from commercial customers. The security value prop and the management value prop of Windows 10 is clearly resonating on the number of proof of concepts, the number of earlier deployments, the number of transitions, what I would describe as pull as opposed to push in terms of customer demand. We clearly feel it inside the enterprise, the Windows 10.

Our deployment has been encouraging , especially -- and the way you would see that we tried to change the KPI in the summer to be more similar. So you had like -- we do the office services and product KPI, which is the combination of on-prem and cloud, do the same thing in the server one and there's a new one, Windows commercial products and services, it does the same thing. It basically takes the volume licensing component of the Windows, which would be on prem and add some of the cloud components like advanced threat protection and other SKUs which you would hear us call believe it or not we have a Windows E5 just to make things confusing. But from customer perspective it's easier to name things the same. Those things all go into that metric. That metric has been growing, I think, like 6% this last quarter. It's a combination of excitement around Windows 10, the security value prop, the commitment, I think, companies are making and I do think you're starting to see it in terms of OEM commercial demand. We've seen it in, I think, the industry in terms of shipments -- PC shipments and we shouldn't -- and have in the commercial business tended to be around that number. We're slightly higher than it right at this minute. But it should trend pretty close on the commercial side. But yes we are. I'm very encouraged.

And you have to understand when you sell Windows what you're really selling is a modern desktop environment. A modern desktop environment also allows us to talk to customers about why you should be become modern office, why you should be upgraded to the most recent solutions. Number one, many of our customers own them; number two, when you upgrade and deploy on the new Windows version, you should and are more secure and I think it's allowed us to sort of expand the dialog beyond, you need a new PC with a TPM chip, it's now easier on a secure environment. And these are the components of doing that which I think you're starting to see.

Keith Weiss {BIO 6993337 <GO>}

I want to make sure that we talk about CapEx and some of the balance sheet items as well. When you think about -- you made some comments last summer about the growth in CapEx spending having a peak. Can you help us understand sort of where that comment comes from, is it a utilization comment, is it a build out comment, is it just in terms of sort of how you see the end demand working out?

Amy Hood {BIO 18040963 <GO>}

It's definitely not demand driven. What I mean by that is, demand seems to be there. So it's far more driven by infrastructure improvements. I mean, it's actually twofold when we talk about efficiency improvements. One is just the software and continuing to invest on the software side toward increasing how much stuff you can fit in a unit of things. And so, we spend a lot of time seeing how much stuff we can jam into a unit.

The other concept is how cheap is a unit, right, I would say, that's also through the Moore's Law construct. But it also happens when you standardize all your component tree across a very broad business. So not only are, in certain instances, hardware prices coming down, not everywhere, in some places, hardware prices are coming down when you run workloads that are everything from search with Bing all the way up to very high level AI Azure SKUs and you are able to run them on a consistent architecture, your cost has come way down. I'm not dual sourcing any piece of network equipment, right. And so think of it almost as supply chain improvement is sort of a simplistic way of thinking about it. All of those things have actually been encouraging. We're in those geos which I think is another aspect to your question. That being said, we're not laying down a bunch of concrete in advance of meeting it. So even though you are in a geo, you still got to lay down more concrete pads and water cooling systems as you need it. We're not building that stuff in advance.

So well, I think people like oh, you must be everywhere in the world, aren't you done buying land or you done hauling in -- away lots of dirt, no, we're not. It's just you more can be just in time. So I don't have a long lead in terms of the stand versus seeing the demand curve, which is a good thing. It just brings the working capital issues down.

Keith Weiss {BIO 6993337 <GO>}

Got it. I am going to sneak in one more before open up to the audience. Probably the second most asked question I get from investors is the sustainability of very low OpEx growth. You guys have been talking about that sort of moving from underperforming investments into better performing investments for quite some time. Is there still meat on the bone in being able to do that?

Amy Hood {BIO 18040963 <GO>}

There is always -- this is funny. I get asked this question so often, I'm going to cover off the all forms I get it asked in. Number one, do you solve for zero. No. I do not solve for zero, I don't solve for it, I don't think about it, not the frame I use. So that's the best way I get asked, it's like you just sit there and circular reference your way into zero, no.

Do I solve for inflation, no, I don't solve for inflation, don't solve for a number. I will tell you what I solve for is the ROI of every single one of the $31 billion-ish in operating expense that we fund. While if you ask anybody of Microsoft could they spend more money, all of them would say yes, all of them, right. They should say that, right, they should say, yes, I got so many terrific innovative, interesting, awesomely impactful ideas that you ought to get me more money. And they all say I love that, I love that energy, right, that comes with that and I listen to some really fascinating arguments, some are terrific, some are less terrific. But the energy to grow is what I hear about. Then, my job is to take those dollars, every one of them. And ask myself if we're putting it in the right place and on the right time horizon.

From what I would call horizon zero, which is like right this minute, do we have the right promo in place, do we have the right SKU pricing, do we have the right channel incentives, all the way to Horizon 3, which is much more like research-based work done out of our MSR, Microsoft research facility. Some of that looks very academic pursuits to many, deeply important. It's what, I think, made us the leader in some technologies like FPGA and putting that into data centers.

So the answer is if I feel like it can drive topline revenue growth, if I feel like the return on those actual ROI of the dollar or the return on the invested capital, which is another dollar we spend a lot on is above the hurdle rate we have the competencies to achieve it. We're going to spend -- and so I never know what that number will be until I feel like I've looked under every pillow cushion and found that there is nothing left for me to find. Right now when I looked up the pillows on the couch, there's still some pennies in there and we can move on and the market changes, right. You can always retrain teams, you can move salespeople, geos sometimes aren't as healthier or are as healthy. You can move salespeople, you can change incentive plans. And there is tons of mechanisms to use and I think we've grown far more sophisticated. And I think what you always want to keep in mind is you never want some world due on OpEx that's very short term to dictate the amount of ambition we have and I would say the ambition that we have is high.

And our ability to achieve it is really good. And so the confidence with which you spend money changes when that environment looks that way. That being said, people would probably say I'm cheap and so it's okay. I mean that's the way your CFO shouldn't be. They should become tough and difficult and kind-hearted. But like 65% of the time. But that's my job, to keep you all in mind and have a high bar. But it doesn't mean I'm solving for zero. Just everybody's is squared away, doesn't mean it wouldn't be zero, just means I am not solving for zero.

Keith Weiss {BIO 6993337 <GO>}

So a couple of minutes to take a few questions from the audience. You have any? Okay, perfect. So I wanted to ask this question. (inaudible)

Amy Hood {BIO 18040963 <GO>}

Pretty fast with Keith.

Keith Weiss {BIO 6993337 <GO>}

Exactly. When we think about capital return, people ask me about the durability of capital return given that you have to take on debt in order to do it. And one of my favorite quotes is from you using as long as people give me dollars at 2%, I will keep on back my 3% dividend yield stock. Your interest rates are coming up and interest rates overall are coming up. So is that dynamic going to be durable over time?

Amy Hood {BIO 18040963 <GO>}

Let me say these things. While I am proud of my AAA rating, it's not a thing I solve for. We just got back in the market rating dead. And so I think I've always viewed the return of capital as a priority. We've been returning in excess of our free cash flow and far in excess of our free cash flow, gosh, couple of years at this point. The commitment that we made at the Board level and from Satya and I wish to bring down the net cash balance of the Company and return it to shareholders both through buyback and dividend, we've done that and I'm really proud of it. I think that was a great decision. And I think going forward, you'll continue to see a balanced view. We accelerated the pace to get the balance down. I still view that as an important component along with continuing to invest in ourselves and continue to invest capital in growing the business. But I don't -- it's not interest rate driven in the way that you are thinking about it per se. I mean, even if interest rates rise a little bit, there is still room to borrow and have it make sense for us and you'll continue to not see that as a constraint, in my mind, it's a math equation.

Keith Weiss {BIO 6993337 <GO>}

And just in terms of sort of on the political side of the equation, there's lot of uncertainty around taxes and repatriation and the like. Does that impact any of your near-term decision making on capital allocation. Do you wait for staff (multiple speakers)?

Amy Hood {BIO 18040963 <GO>}

We have been advocating for structural tax reform for many and varied administrations, what I would say. This one, we will watch, we will see what various proposals get discussed. And as it gets closer -- if it gets closer and as it gets closer, we'll be able to tell you how it would impact what we do all day.

In the interim, we've not been a company to wait on tax reform to return capital, I mean, you've seen it. I mean we've basically said it made sense to return capital, it made sense to buy back stock. We borrowed to do it, we haven't waited for structural tax reform. It's not been a reason to wait for me or for the Board or for Satya who cares deeply about the topic. I'm sure for others, waiting could make more sense, it's a more meaningful delta. But for us, our capacity to borrow plus the ability to invest in ourselves, I don't feel like we have to wait to be able to do any of the things that I feel super passionate about which is mainly continuing to grow. And if there is ways to grow, I don't feel like waiting for this administration or any other, it's a good tactic.

Keith Weiss {BIO 6993337 <GO>}

Excellent. Well thank you very much, Amy, for joining us. It's a great conversation.

Amy Hood {BIO 18040963 <GO>}

Thank you, Keith. Thanks, everybody.