

# Goldman Sachs Technology & Internet Conference

## Company Participants

- Peter Klein, CFO

## Other Participants

- Heather Bellini, Analyst, Goldman Sachs
- Unidentified Participant, Analyst, Unknown

## Presentation

### Heather Bellini {BIO 2268229 <GO>}

All right, I think we are ready to get started. Good morning, everybody, for day two of our global tech conference. We are thrilled to have Peter Klein who is the CFO of Microsoft with us this morning. The format, Peter and I are going to go through a series of questions, then we are going to open it up to all of you to see if you have any questions you want to throw at him and we will start from there.

### Peter Klein {BIO 5820282 <GO>}

Good morning.

### Heather Bellini {BIO 2268229 <GO>}

Thank you for coming.

### Peter Klein {BIO 5820282 <GO>}

Thanks for having me. It is great to be here.

### Heather Bellini {BIO 2268229 <GO>}

All right, tablets. And there is a shoutout because I see a handful of people with Surfaces out there.

### Peter Klein {BIO 5820282 <GO>}

Awesome.

### Heather Bellini {BIO 2268229 <GO>}

Peter, thank you for that. The trend does seem though to be moving to smaller size form factors, right? There has been a lot of interest in things like the Mini, the 7-inch Fire, the Nexus 7. Can you talk to us about what Microsoft needs to do, if anything, to kind of capitalize on the 7-inch trend?

**Peter Klein** {BIO 5820282 <GO>}

Yes, yes, that is great. We are really set up for that. The notion of flexibility and scalability of the operating system is actually intrinsic to our vision and our strategy. We talk a lot about devices and services and when we say devices and services, we mean a set of experiences that are complete, that are compelling and they are consistent across a whole range of form factors and devices, including size of form factor.

And you can see that in some of the things that we have done with Windows Phone 8 and Windows 8. Clearly, now we share the same kernel and so you have the same core code base driving form factors from 4 inches all the way up to 27 inch all-in-one and everything in between. If you think about our developer platform, we have done a lot of the hard work so that now applications can scale up or down depending on the size of the form factor.

So core to our vision of delivering a set of services across form factors is the scalability of the operating system. And so I think we are really well set up to deliver the most sort of versatile set of experiences across form factors whether that is 4 inch, 5 inch, 7 inch, 8 inch, 10 inch, 13 inch. And along with our partners in the ecosystem, we will work through that based on underlying demand.

And so one of the strengths of our ecosystem has always been versatility and flexibility and having a variety of form factors at a variety of price points. And so we have sort of been set up for these kinds of dynamics because, as you and I have talked about in the past, the trend towards new kinds of form factors and devices and experiences is beginning and continuing and what the ultimate sort of form factors will be is uncertain. But we are well set up to respond to demand as we see it.

**Heather Bellini** {BIO 2268229 <GO>}

And with the new Windows PCs that we have seen out in the market and there is a lot more I know coming after I met with Tammy a few weeks ago. And you look at the tablet form factors that are coming to market, how do you guys think about how this will change the course of the consumer PC landscape? So there is consumer PCs and then overall compute, kind of what do you see all these things doing to the different growth rates?

**Peter Klein** {BIO 5820282 <GO>}

Yes. Well we are certainly encouraged. As we have talked about, it is early in the launch of Windows 8 and this was a fundamental reimagining of experiences for both work and play and so that impacts the consumer experience a lot. We are very

encouraged by the work that is going on as we speak. We have talked about we have almost doubled the number of certified systems and there is a lot of great work going on across the ecosystem. Hopefully people will get to see those as they come to market. We have kind of shown them throughout the ecosystem. Acer, HP, Dell, Lenovo, they are all bringing great 10 inch, 13 inch touch laptops to market.

I think you will see going forward more price points. You will start to see maybe some lower priced, \$599, tablets, ultrabooks, touch ultrabooks coming to market on Clover Trail and other architectures. Because I think over time we are very encouraged by what the ecosystem is delivering. Now we have been very clear that the thing we need to do is to continue to bring compelling devices, touch experiences, touch first experiences at all the right price points and I think if we do that well, that will have a positive impact on what we see in the consumer PC market. But that remains to be seen.

**Heather Bellini** {BIO 2268229 <GO>}

The vertical integration is -- I mean you have been doing hardware with Xbox for a while. But when we think of Microsoft kind of three to five years down the road based on the comments you just made and the different form factors, is Microsoft going to become more vertically integrated over time?

**Peter Klein** {BIO 5820282 <GO>}

Well it is hard to speculate going forward. There are certainly things we are doing now obviously with Surface that gives us an opportunity to do some things in the tablet market that we think benefits the whole ecosystem and we have learned a lot from what we have done with Surface and we can bring back that learning to the rest of the ecosystem. So I think it is fair to say that we will always look at what makes the most sense from a vertical integration perspective, as well as an ecosystem perspective.

Obviously with Xbox it made a ton of sense and that has been very successful. I think with Surface obviously that gives some great learning and some great examples of what you can do with Windows 8 that is obviously very focused on the ecosystem as well.

**Heather Bellini** {BIO 2268229 <GO>}

So it is it a question of if the ecosystem performs for Microsoft, then maybe the notion of vertical integration isn't going to be as important going forward or do you kind of feel like you're always going to have to have skin in the game whether it is on the tablet side or on the phone side?

**Peter Klein** {BIO 5820282 <GO>}

Yes, I think it will always be a balance because there is always things we can do like with Surface that I think are good for the ecosystem, good for customers and benefit

the whole ecosystem. But there will always be a strong ecosystem play as well.

**Heather Bellini** {BIO 2268229 <GO>}

There is a school of thought that would say consumers don't want to multi-home, meaning they want to have their tablets and smartphones be part of the same operating platform because of the benefits they might get of sharing the content across multiple devices if they are not say Web-based apps. I was wondering what your -- how Microsoft feels about that.

**Peter Klein** {BIO 5820282 <GO>}

Yes. Well I agree with that. Actually I would even take it a step further. It is broader than just tablets and smartphones. I think it is all devices from phones, to tablets, to PCs and in the living room as well. And it is probably broader than just contents or operating system platform. It is just about the experiences and so when we think about those complete set of experiences that people want, that is what we are sort of trying to deliver again with sort of a similar developer platform. We are getting closer and closer every day for the developer platform that people can develop once and run it anywhere from sort of any form factor for everything that we deliver.

If you think about some of the services that we deliver, whether it is Xbox Live or SkyDrive for storing content, SmartGlass where you can take your entertainment and your games from the TV to your phone if you happen to be leaving. I agree that the ecosystem play where you have a set of consistent experiences, not just content. But the overall experience whether you are at work or at play across all the devices. So that is core to sort of our vision.

**Heather Bellini** {BIO 2268229 <GO>}

So if you think about that and you think about -- you obviously have dominant share in PCs today, you have great share in the living room with Xbox, phones and tablets. And I know that the lines are blurring between all these types of devices. People would say you are really coming from behind in those two areas. What is Microsoft -- what should we watch for, kind of what is Microsoft hoping for to make -- to try and see that dynamic change because the view is that people don't want to multi-home, then you need to kind of -- we need to see some share increases in some of these other areas to kind of come up to where you are in other device factors.

**Peter Klein** {BIO 5820282 <GO>}

No. I think that is right and we are obviously very focused on that. For part of the ecosystem, we come from a point of strength when you think about where we are in the living room and where we are on sort of PCs and laptop and we want to sort of take advantage of that. But to your point, what people should look for and obviously that what we are focused on is delivering the same set of compelling experiences across all form factors and we are pleased with the progress we have made in phones with Windows Phone 8. We are starting to see some traction there this last holiday season. So we are very focused on that. And obviously with Windows 8 early

on, we are very focused on delivering both touch and touch laptops and tablet experiences that are really compelling and that is a key area to look for our success.

**Heather Bellini** {BIO 2268229 <GO>}

We get asked a lot what alternatives does Microsoft have if you don't start to see the share change in things like phones and things like tablets. Can you walk us through kind of the different alternative or how you think about what your alternatives might be or how we should think about it as investors?

**Peter Klein** {BIO 5820282 <GO>}

Yes. It is hard to say because I am not sure what alternatives. I mean we are obviously -- it is very early in sort of this new generation and so we have got a bold project now with sort of how we thought about the ecosystem, how we thought about Windows 8 and how we think about sort of that operating system driving these changes. And so for us, we are very focused on continuing the success we have with PCs, taking that to tablets and phones with Windows Phone 8 and with Windows 8 and continuing on the places where we are having great success like Xbox and delivering and continuing to deliver great entertainment experiences.

**Heather Bellini** {BIO 2268229 <GO>}

What we get asked a lot is in terms of alternatives are what could Microsoft do to make it cheaper. Does that mean getting more vertically integrated so that you can be more aggressive on price points and then kind of making money on the lifetime value of the customer, then we might think about it that way going forward or is it cutting the price to the OEMs, which I am not sure is material enough to make a big difference in terms of what the end price would be. But I think people are trying to think of -- again, if you look at consumer compute share, the share has kind of leveled off here. But for it to go back up and just benefit from the (inaudible) effect you are talking about. What could you do -- like what is the plan B?

**Peter Klein** {BIO 5820282 <GO>}

Yes. That is a great question. I would say it is less plan B than how you execute on the current plan. I am a big believer in price differentiation and customer segmentation and I think you are right. I think there are different price points for different use cases and for different sets of customers. And so what we aim to do as we continue to evolve this generation of Windows is to make sure we have the right set of experiences at the right price points for sort of all customer segments.

So I think about it -- it is probably more nuance than just do you lower prices or raise prices. It is more about do you have the right set of experiences at the right price point for a given scenario or a customer segment. I think that -- it is less a plan B and it is more just how do you tweak your plan, how do you bring new things to market to make sure you have the right offerings at the right price point.

**Heather Bellini** {BIO 2268229 <GO>}

The other area that gets a lot of focus is the end of life of XP and we have until April of next year I guess for that to happen. How do you think about -- you guys have mentioned a little over 50% of people have --

**Peter Klein** {BIO 5820282 <GO>}

60%.

**Heather Bellini** {BIO 2268229 <GO>}

60% now are on Windows 7. How do you think about the tail that is left between now and call it 12 months from now?

**Peter Klein** {BIO 5820282 <GO>}

Yes, I would expect a lot of that tail to continue to migrate to Windows 7 between now and when the end of life of XP is. And it is an interesting question how that is going to impact the business PC market. How many of those are upgrades on current hardware, how much of those will happen on new hardware. It is hard to predict. I think it will be a mix. What we are seeing to date is a lot of these upgrades happening on existing hardware, which is good for our enterprise business.

**Heather Bellini** {BIO 2268229 <GO>}

Is it different than what you have seen in the past?

**Peter Klein** {BIO 5820282 <GO>}

It is probably a little bit more, probably a little bit more. Enterprises are starting to get very interested in Windows 8. Typically when we launch a new operating system, particularly one that has the degree of change that Windows 8 does, consumers sort of adopt first and then enterprise will take a look at it. And there are some interesting things we are seeing starting with new enterprise applications that people are building.

So it will be interesting to see how it plays out. As we have talked about, our volume licensing or our EA business on Windows has been very strong the last few quarters. I think a lot of that is this sort of upgrade cycle to Windows 7 on the existing hardware and I think over time you'll start to see people buying new hardware as they upgrade as well.

**Heather Bellini** {BIO 2268229 <GO>}

How would you think about the PC replacement rate right now? What you are saying would imply that it is actually lengthening even further than what we have seen or

am I mistaking your comment?

**Peter Klein** {BIO 5820282 <GO>}

Yes, I would say it is not sort of intrinsically lengthening. At a point in time, we might see people taking advantage of upgrading to Windows 7 on existing hardware and then over time upgrade that to new hardware. So I don't want to sort of imply a new trend. It's I think more of a point in time scenario.

**Heather Bellini** {BIO 2268229 <GO>}

Now you have also come out and said we are going to get more frequent Windows updates and it sounds like maybe it is going to be every 12 months or so. So you really should start to see your ELA business in Windows, your deferred portion I would imagine start to be a bigger driver of that business going forward and maybe make it more untethered from PC shipments as we have all known it to be in the past.

**Peter Klein** {BIO 5820282 <GO>}

Yes. That could be. I mean I can't sort of predict exactly what will happen. I think that is a very viable expectation.

**Heather Bellini** {BIO 2268229 <GO>}

Okay. Feedback from enterprise customers thus far, what they like about Windows 8? Again, I think, like you said, the adoption is going to be on the consumer side first. But any initial thoughts, even the ones that maybe have gotten their hands on Pro as kind of (inaudible).

**Peter Klein** {BIO 5820282 <GO>}

Yes. It's early. There's a very high degree of interest. People are very interested in having an experience that is very compelling for their users. But is very comforting to them from a security and manageability perspective. So I think we are having lots of great conversations about it. We have got some great early examples of use cases of how enterprises are adopting Windows 8. And I think early on, what we are seeing is both for certain types of their workforce, a lot of the mobile workforce, field workforce and telecom companies like British Telecom is using it for their field workforce, Emirates Airlines is using it for their crew to deliver applications for the in-flight experience.

So you are starting to see people experiment with it on both usage scenarios for their types of workers, as well as new applications. Then there is people who are just getting performance benefits from it. We have said a lot, one of the things I noticed right away when I started using Windows 8, it is simply -- even without all the new innovations -- it is just a better Windows 7, it is very (inaudible), it is very fast, it is very

fluid. So I think you are seeing enterprises is starting to experience that. But again it is very early and I think that will play out over time.

**Heather Bellini** {BIO 2268229 <GO>}

Is there anything they have said thus far about developing or there is a lot of apps that get developed internally and when you think about app development for touch, how have the developers talked about that experience thus far?

**Peter Klein** {BIO 5820282 <GO>}

Yes. So both ISEs and corporate developers are pretty excited about building new classes of apps that are touch-based natively and also take -- benefit from the cloud as well because that is sort of the new paradigm. So I think you see a lot of excitement from corporate developers to build new LOB apps. I think it will be a while before a lot of the existing legacy are sort of replatformed for touch. But all the new development people are really thinking about touch.

**Heather Bellini** {BIO 2268229 <GO>}

Has this helped when you have been -- again, knowing that it is still early days. But with Windows Phone 8, have you noticed that having things like Pro for example or with Windows 8 as a SKU being out that you have now been able to drag Windows Phone 8 into the conversations with corporate customers, especially if they are trying to decide what to do with BlackBerry (multiple speakers)?

**Peter Klein** {BIO 5820282 <GO>}

Yes, I can say personally anecdotally I don't have sort of a broad swath of data across the Company. But certainly the conversations I have had with customers that is an increasing part of the dialogue absolutely.

**Heather Bellini** {BIO 2268229 <GO>}

And is there -- what do you think Microsoft's strengths are to kind of try and convert some of those customers over to you versus say iPhone or an Android device?

**Peter Klein** {BIO 5820282 <GO>}

Yes, I think it is two things. I think it is both front end and back end. I think sort of the set of applications and experiences you get from productivity and collaboration and communication all the way to the sort of well-understood manageability and security I think is a very compelling story for enterprises and that tends to be -- those two things tend to be the drivers of the conversation that we have.

**Heather Bellini** {BIO 2268229 <GO>}



I think another thing that people have been wondering about lately, without naming any names specifically. But the strategy you have to help support the PC ecosystem broadly based. Can you walk us through kind of some of the things that make you decide how you might support a partner in need?

**Peter Klein** {BIO 5820282 <GO>}

Yes, I think we have a long history of participating and in supporting the ecosystem and that takes different forms. Oftentimes, it takes the form of co-marketing, sometimes in helping with development in the ecosystem and so I think in sort of a very dynamic industry, I think our ability to support the ecosystem, particularly the ecosystem that is innovating on our devices and platforms, is a good thing and something we will continue to do.

**Heather Bellini** {BIO 2268229 <GO>}

How do you do that without upsetting the other people?

**Peter Klein** {BIO 5820282 <GO>}

It has always been a balance. This has been going on for a long time. We are broadly supportive of the Windows ecosystem and that broad base and it is open to sort of the whole ecosystem. So I think everybody understands that.

**Heather Bellini** {BIO 2268229 <GO>}

And RT, or I should say just Surface RT, what lessons have you learned? It has been on the market now for a few months. Kind of if you would name -- like kind of list for us kind of the top two or three things you learned both -- things you could work on and things that you were very happy with from the launch and the initial feedback.

**Peter Klein** {BIO 5820282 <GO>}

I think with Surface RT, there is a couple things that we really learned and part of it stems from our approach. As you know, we had a very controlled launch and part of the reason for that is so we could really observe and sort of understand the experience launching a new product, new operating system, new architecture, our own device. So that was limited to our stores and our online and some limited geographies.

And one of the things that we learned from that is that people really need to touch and see and play with it to really understand. There is a lot we did to build awareness. But observing people coming into the stores and seeing it and playing with is super important and so what we have done is to broaden the reach of what we are doing on distribution, get it out there in more geographies, in third-party retail so people can actually come in, touch it and play with it and really get the full experience so that they really understand that. And so we are going to take that and

now broaden that and of course, with the recent introduction of Pro, we will start with a little bit more expanded distribution and continue to expand capacity.

I think the other thing that we have learned because RT was a new type of operating system and a new architecture is seeing how people use it and taking that learning to actually continuing to update and make updates to the operating system, which was part of the design principle to begin with because those benefits benefit the whole ecosystem. So the learning from Surface helped -- when we see software and hardware integrated very closely, it helps us really understand some of the core experiences. We can build that back into the operating system over time and then that benefits the whole ecosystem as well.

So we learned a lot about distribution, we learned a lot about the need for people to experience it. We learned a lot about how to continually make the operating system better.

**Heather Bellini** {BIO 2268229 <GO>}

Should we expect your retail strategy -- I mean you have a good number, not a huge number of retail stores, of Microsoft retail stores. How do we think about your retail footprint going forward and how important is this?

**Peter Klein** {BIO 5820282 <GO>}

It is important because it is a great place for people to, particularly as we reimagine some of our experiences, it is a great place for people to get a very good exposure to those devices, those experiences to the whole ecosystem. And I think you should expect us to continue to roll those out similar to how we have in the past. We did a little bit more this year because of the new Windows 8 and the new devices that we have out and so we will continue on a path much like that. It is measured, it is executed well. But we will continue to expand the exposure people get to our devices and services.

**Heather Bellini** {BIO 2268229 <GO>}

Okay. I am going to pause for a second and see if there is any -- there is a question right here and then I was going to switch gears a little bit. There is two questions, three.

## Questions And Answers

### Q - Unidentified Participant

Heather, Peter. Good morning. AJ (inaudible), Cornerstone Capital Management. I have to admit, while listening to the presentation and listening to the story over time, I still am not very clear as to what the hardware strategy is. The core I remember of Microsoft and seeing some of the applications of Microsoft live years and years ago, even on lap phones and 3G phones early on, was there was a lot of great software

properties, there was a lot of opportunity to expand those software properties and to grow the base outside of Windows. But now this hardware strategy seems to disintermediate the current vendors and I am not really sure what the strategy is with hardware at Microsoft. So a bit more detail, please.

**A - Peter Klein** {BIO 5820282 <GO>}

Sure. And when you say hardware, I assume you are talking more on the tablet and PC side more than the gaming side. I think of it as more additive than anything else. As technology evolves and as innovation happens, the ability to work closely between the boundaries of software and hardware allows us to innovate in ways that we couldn't before and as I said before, that innovation benefits the whole ecosystem and so our ability to deliver some unique experiences in hardware I think is very interesting. It shows what the full power in certain scenarios of what a Windows 8 can do. But it also benefits the whole ecosystem.

And so I understand that that is a balancing act and in fact, the ecosystem has always been about balance. But there is amazing work going on across the whole ecosystem that I think is benefiting from a lot of the things that we are all doing to think about how we bring Windows 8 to market and what kinds of experiences that you will see. And I think over time -- remember, it is very early in Windows 8. I think over time, you will start to be very impressed by what is emerging broadly from the ecosystem across form factors and sizes.

So as the market has evolved, it has gotten more diverse. The set of experiences have changed and I think the whole ecosystem is evolving with that and I think we play a part in that and the hardware strategy allows us to build a nice little business. But most importantly, it benefits the whole ecosystem.

**Q - Heather Bellini** {BIO 2268229 <GO>}

While we are bringing the mic, I know there is a question over here, I am just going to ask one while we are waiting for the mic to get over there. A lot of questions about Office on iOS. What do you have to do to get it there, what are the reasons why you wouldn't bring it there ultimately when you think about how that would maximize profit for that division?

**A - Peter Klein** {BIO 5820282 <GO>}

Well I am sure you can imagine sort of the trade-offs, we think about it a lot. I mean we have a history of cross-platform delivery broadly in productivity whether it is Office on the Mac or whether it is certain experiences that apply that customers really want cross-platform whether that is e-mail, communications, notetaking. So we deliver all those products cross-platform, Exchange, ActiveSync, SharePoint, OneNote. And a whole bunch of things. And importantly, with the Web applications, you can access office documents, do some light editing on any device and on any browser. So I think there is a lot of things that we are doing to sort of meet that need and then we will continue to think about other things going forward.

**Q - Heather Bellini** {BIO 2268229 <GO>}

Are there things you are waiting to see before you make that decision?

**A - Peter Klein** {BIO 5820282 <GO>}

Not specifically, I mean not more than we always do. We are always observing the marketplace, we are always observing customer behavior. We are always trying to observe customer demand and we will evaluate those trade-offs as we see that evolve.

**Q - Heather Bellini** {BIO 2268229 <GO>}

I think the mic is over here.

**Q - Unidentified Participant**

Thanks. Hosted virtual desktops, not a huge market today. But quite a lot of momentum, doubled I think last year. If that momentum were to continue, would that surprise you and would it in any way change your strategy with regard to participating in the virtual desktop market and do you see that potentially, were it to grow in the long term, a bridge over the OS moat?

**Q - Heather Bellini** {BIO 2268229 <GO>}

And wait, Peter, before you answer, if we can move the mics, there are several questions over here. So trying to make sure we get in as many questions as possible.

**A - Peter Klein** {BIO 5820282 <GO>}

No. I appreciate that.

**Q - Heather Bellini** {BIO 2268229 <GO>}

Go ahead.

**A - Peter Klein** {BIO 5820282 <GO>}

I will stretch and dance a little bit. The way I think about virtualization and virtual desktop, I feel great about our sort of long-term strategy and how we think about sort of virtualization end-to-end from applications to devices to infrastructure. So I am not sure -- we will obviously watch and see how things evolve and we will always evolve our strategy. But we have a long-term strategy and I think it is fairly unique and compelling when it comes to how we think about virtualization all up and how data as well as applications are delivered, whether that is virtual or real. But we will continue to watch that. It has proven to be -- it is sort of a controlled market. It has probably been that way for the last few years. But we will continue to watch that as I am sure you will.

**Q - Unidentified Participant**

Peter, a question for you, a little bit circling back on the enterprise maybe tablet specific strategy. So 60% of the folks are on Win 7. So obviously it is an opportunity for another 40%. A lot of those folks are probably going to be entertaining other

form factors, potentially iPads. On the other hand, Android has been a dud in the enterprise so far. The iPad has obviously got some traction. The problem is HP and Dell, two legacy corporate suppliers of (inaudible) desktop servers, notebooks, showing a lot of waning interest in being in the business at all.

With Android not having a big, let's say, foothold in enterprise yet, trying to counter the iPad. But with Dell and HP kind of on the sidelines, why not be very aggressive, take the Surface Pro, multiple devices, LTE connectivity, other things that you can go in and lead that way and kind of prevent Google or Android from being an alternative there and kind of getting a good win share there?

**A - Peter Klein** {BIO 5820282 <GO>}

That's a great question. I agree with you. I think it is a great opportunity for new form factors in the enterprise. I think we have a great story there. And I think it is going to be both. I mean I think Surface Pro is a very interesting product for that and we are starting to have lots of great conversations with enterprises. But I think the ecosystem broadly is going to bring great tablet and touch experiences to enterprises. I don't want to sort of comment on sort of specific vendors. But I do think across the board. And inclusive of HP and Dell and Acer and Lenovo and Asus, the whole ecosystem sees that opportunity and I think are going to bring some compelling devices to address that opportunity that you noted, which I tend to agree with completely. And Surface Pro will be a big part of that.

**Q - Heather Bellini** {BIO 2268229 <GO>}

I think there is one right here.

**Q - Unidentified Participant**

Hi. Peter. I had a couple questions about Bing. First of all, take us back to the beginning of that thought process. What was the goal in mind when you created the search engine? And the second question is what are sort of the metrics of success or failure for that product? Are you looking for it to sort of drive a ton of revenue on its own or are you looking for it to bring a lot of business to your hardware?

**A - Peter Klein** {BIO 5820282 <GO>}

Both. So the thought process behind Bing was a couple things. One, we see a massive business opportunity and there is a lot of natural things about the technology sort of underlying that that were very natural for us. At the same time, it is a very strategic asset because it does a couple of things. It is an engine, sort of a machine learning engine that makes all of our services better and it is a corpus of data, it is a corpus of Web data. Both of those assets are very rare things and both of those accrue to all of our other properties. And so we're looking for both.

Bing, we think there is a real good business opportunity there. We have been focused a lot on increasing our share and increasing our monetization, managing our costs and improving our financial performance, which we have been able to do much better the last year or so. And so we feel good about that, lots more to do. At the same time, you can see Bing crossing -- I talked before about our devices and

services strategy and how these experiences cross all of our devices and we see Bing more and more an intrinsic part of what the experience that you get on all of our devices and how that plays in it.

Then the last thing is it gives us scale in the cloud, which we have been able to leverage and deliver commercial cloud services. And so you take all that together -- and the last thing would be big data. That machine learning engine allows -- works into some of our commercial services on big data. So it is a very strategic asset, it is a very big business opportunity and so it delivers both of those things for us.

**Q - Heather Bellini** {BIO 2268229 <GO>}

I was going to switch gears to entertainment and devices for a second. There is a lot of excitement around smart TVs, about streaming content in general and I am just wondering what else can you do with Xbox to help make this the living room, which we have been waiting for to get revolutionized for a long time, what can Xbox do even more than it is doing today to help -- to hit that goal?

**A - Peter Klein** {BIO 5820282 <GO>}

Yes. It's a great point. I agree with you. I see that opportunity and I think some of the things we have been doing in Xbox have been sort of unique and leading along that way. For a while now, we have thought of Xbox as a much more broader platform than just gaming. Xbox Live is a unique and powerful asset, over 45 million users now and we have got -- the Xbox install base is now over 75 million. But more importantly, we have brought a lot of entertainment content to that platform and the engagement in entertainment content is actually growing faster even than gaming on the server.

So I think what you will see us doing as recently as this week making some announcements some increased entertainment. We think of the Xbox Live platform as an entertainment platform and really thinking about the TV and that channel into the TV is a very broad entertainment platform, which again then accrues to the other devices that we have because you can take that seamlessly from your TV to your smartphone or to your tablet.

**Q - Heather Bellini** {BIO 2268229 <GO>}

So people who aren't gamers, who don't think of Xbox as a way to just get that TV content, they think of Xbox as a gaming console, how do you change that, the tenor of those conversations with consumers? So for people that might not ever play again, what opportunity do they have to leverage Xbox without ever necessarily wanting to play a shoot them up game?

**A - Peter Klein** {BIO 5820282 <GO>}

Yes. And that has absolutely been sort of the path we have been walking down the last couple of years. Obviously we have a core set of -- sort of a gaming community, which is always super valuable and it is great. We continue to serve that very well. And it has taken some time and frankly we started early. So we feel like we have a leading position of thinking about Xbox as a platform more broadly than gaming

and that honestly just takes time. You have to build the right set of content, you have to make people aware of that content and we will continue down that path. But it is a long journey, which is why we started early to sort of broaden how people think about the platform.

**Q - Heather Bellini** {BIO 2268229 <GO>}

What about assets like Skype, when you think about transforming the living room? How do you think of some of these other assets that you have bringing those into the fold?

**A - Peter Klein** {BIO 5820282 <GO>}

Oh, it's core (inaudible).

**Q - Heather Bellini** {BIO 2268229 <GO>}

And even things like Bing, I mean (multiple speakers).

**A - Peter Klein** {BIO 5820282 <GO>}

Absolutely. If you think about all the apps we have, it is core to that and sort of bringing those set of experiences to the living room, I think Skype is a great example. I have always thought Skype will be very compelling there. But whether it is Skype or Bing or other things, bringing those sets of experiences to the living room and then having them cross other parts of your life I think is very compelling. It is core to our strategy.

**Q - Heather Bellini** {BIO 2268229 <GO>}

Any other questions? I have got one last one if -- there is one right here.

**Q - Unidentified Participant**

Peter, could I just ask on -- back to your point I think about price -- just having the right products kind of at the right price points? Do you think there are fundamental things that have to change with the supply chain in order to get there, i.e., you go back to the holiday season of last year and there just wasn't enough touch panel supply for Windows 8 or the hinge makers, for example, for some of these hybrid detachable devices just didn't have enough capacity and the supply chain wasn't in place or do you think it is an issue more with the actual operating system and with the OEMs in terms of getting the OEMs to buy in more to something like Windows RT where it is a lower cost platform, lower cost processor and therefore you have the ability to really kind of hit those lower end price points. How do you think about those two things?

**A - Peter Klein** {BIO 5820282 <GO>}

Yes. It is a great question. I think it is a little bit of both. I mean I think it is always going to be some function of the supply chain and how the supply chain evolves for a new way of thinking. I think some of it goes not just to the operating system. But to the chip architectures and the innovation that is happening on the silicon side. So I

think it sort of end-to-end as we evolve and get more into the cycle of Windows 8. I think you will see all those things.

**Q - Heather Bellini** {BIO 2268229 <GO>}

With that, we are out of time. Thank you, everyone, for coming. Thank you, Peter.

**A - Peter Klein** {BIO 5820282 <GO>}

Thank you very much. Thank you.

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