J.P. Morgan 49th Annual Global Technology, Media and Communications Conference

Company Participants

- Alysa Taylor, Business Applications and Global Industry, Marketing

Other Participants

- Mark Murphy, Analyst, JPMorgan

Presentation

Operator

Okay. Good Afternoon, Everyone. I'm Mark Murphy, Enterprise Software Analyst with JPMorgan. And we are thrilled, it is a great pleasure to be here today with Alysa Taylor, who is Corporate Vice President of Business Applications and Global Industry for Microsoft.

Alysa, thank you so much for joining us.

Alysa Taylor

Thank you. Thank you, Mark. It's a pleasure to be here. Really appreciate.

Mark Murphy {BIO 18840231 <GO>}

The pleasure is all ours. Before we get started, I do want to just mention to the audience, we may have time toward the end to take a couple of questions. And you should be able to do that using a question button that I believe will be right below the video feed on your screen.

So, Alysa, with that, perhaps we can begin here with just a brief introduction of your background and your role at Microsoft.

Alysa Taylor

Sure. Happy to do that. So, I've been at Microsoft for a number of years. I actually started in our developer division, way back when[ph]. And then moved to run our Azure division. So, it was at the time of cloud and enterprise in the US subsidiary. And then four years ago moved to be the product marketing -- the Global Product Marketing lead for Dynamics 365. So, right as we were moving from an on-prem business into a cloud business and really sort of what we call mainstreaming the

business, moving it out of a kind of end-to-end business unit into a more functional model. So, I was brought in to run the Product Marketing for Business Applications, which is inclusive of Dynamics 365 and our Power platform.

And then expanded the portfolio into our Global Industry unit as well. So, I have responsibility for Business Applications, Global Industry, and as of this week have also assumed responsibility for our data, AI, and mixed reality business unit as well.

Questions And Answers

Q - Mark Murphy {BIO 18840231 <GO>}

Okay. Very well-rounded and expanding as we speak. That's great to hear. So, Alysa, maybe we can begin just on the economy and IT demand. I was thinking back to about a year ago when the pandemic was taking hold and Dynamics had solid momentum, but Microsoft was mentioning that there was this slowdown in new projects that had some of the longer times such as Dynamics. And so my question to you is if you were looking through that lens of these longer lead time projects, are you sensing any type of improvement today? Is it heading back towards normal? Is it -- could it be pushing back above normal just with all the stimulus out there and the economic rebound that we're seeing?

A - Alysa Taylor

It's a great question. So, I'd say -- there's two things that I'll lay out for you. One is, where -- when we started -- the starting of Dynamics 365, we took a very intentional approach to take what were big monolithic CRM and ERP systems and actually converged those, rebuild them on the Microsoft Azure platform and break them into very modular functions across sales, marketing, service, finance, operations, and commerce. And we did this very intentionally for two reasons.

One was knowing that organizations needed faster time to value. And the organizations with the rate of change didn't have 5 or 10-year deployment cycles. And so, really moving to what our customers needed which was kind of very specific functional applications that could be deployed very quickly. And so, we started on that journey like I said four years ago. And then when the pandemic hit, I think we looked at what was a historical view when it was these big CRM or ERP deployments and those historically would because it took so long and a longer lead times and that type of stuff would be put on hold.

But the most interesting thing happened with the pandemic, which was that organizations needed completely new digital capability. So, if you think about curbside pickup or contactless shopping, that didn't exist, right? And so, actually, we saw the exact opposite happen of what we have historically seen with business applications. We actually saw an accelerated momentum to people rapidly adopting cloud-based commerce systems, new modern supply chains being able to engage customer service that had to move completely to a remote, that entire customer service departments were shut down and moved into a remote capacity. And cloud-based applications are needed to be able to facilitate that ongoing customer

interaction, whether it be sales or service. And so, we actually saw an acceleration of our customer base and our business in the pandemic, which was very counter[ph] to what traditional business applications that's seen in the past.

And the last thing I'll say is, as we saw this, we actually partnered with the economists to quantify what we were seeing in the market. And they actually came back in a recent study that we just published this week with 70% of organizations actually invested and accelerated their digital capabilities because of the pandemic. And they actually quantify that, in the first three months of the pandemic $15 billion a week was being poured into these new digital capabilities. So, really sort of was, it validated what we've seen with our customer base of this acceleration and then sort of showing that it is a real trend of both what companies are investing in and the dollars they are investing in.

Q - Mark Murphy {BIO 18840231 <GO>}

So, okay. Interesting. So, it sounds like this modular approach is really resonating. If you look at what's happening a little more broadly, do you feel as though you're seeing customers reigniting some of the very big transformational projects if to any extent if some of those were held off on a bit last year? Any of that reigniting and/or are there any other kinds of patterns or signals that you see emerging today in this environment?

A - Alysa Taylor

I think it's always a balance of both. We see both, right? So, you see organizations that particularly, where they have on-prem systems understanding the value of cloud and allowing cloud-based services to drive more agility with their operations, with their customer base. And so, you do see organizations sort of modernizing their ERP systems, modernizing their supply chain or their customer service environment from either line of business or on-prem competitive basis. So, you do see those big transformational projects happening and then you do see where organizations need new capabilities.

Chipotle is a great example of a customer that invested in the customer data platform, which was Dynamics 365 Customer Insights. They have other systems of record but using Dynamics 365 Customer Insights to be able to connect into those systems of record to be able to create a 360-degree view of their customer base so they could actually create an entirely new loyalty program. So, that's -- you see both modernization and investing in new capabilities kind of happening simultaneously.

Q - Mark Murphy {BIO 18840231 <GO>}

And when we look at how that was translating, recently into the numbers. In the March quarter, Dynamics 365 growth accelerated to 40% in constant currency and there was this comment about particular strength in Power apps and the finance operations offering, which was a new insight. When we think about that business line, it's roughly the scale of a Workday or a ServiceNow right, but it's growing faster here at about 40%. What do you attribute that type of acceleration doing? Were there any particular workloads or verticals where you are seeing pronounced strength?

A - Alysa Taylor

Yes. And so you -- when you look at our growth rate, we are growing, from a growth rate standpoint, faster than any of our major competitors. And we are newer to the market, right? I said Dynamics 365 is 4.5 years old, but we're very pleased with our growth rates. Even more so when you look at 97% of the Fortune 500 are using our business applications, products in some capacity. So our customer adoption and the associated revenue, we are very excited about both.

It is also a strategic asset in the Microsoft Cloud. And so, when you ask about particular workloads, I think there's two ways I would answer. One is, we see adoption because of the ability to have, if you think about the Microsoft Cloud with the -- our Hyperscale cloud platform being Microsoft Azure, our extensibility in our tooling layer being Power Platform, Visual Studio, GitHub and our application layer being Microsoft 365 and Dynamics 365, these cloud services are all constructed and integrated in very unique ways where we share data, business processes, and the ability to have global scale all wrapped with security and compliance. And so, that -- being able to have that integration is something that we see customers really gravitate to.

And then the breadth of our portfolio. We've invested heavily. We started in two towns, we're now in six, very large expansive towns. And we have products that are both what I would call core systems of record and then like what I talked about which are fully[ph] Customer Insights, where we have products that are augmenting existing -- other investments that customers have. And so, the breadth of our portfolio across customer engagement, finance, operations, commerce, customer data platform, as well as, business intelligence, RPA, and low-code no-code really is what's given us our growth is the offerings across all of those large major towns.

And then lastly, what I would say is, in the earnings when we decided things like our operations portfolio, that's very much what we were just talking about the pandemic, where people are investing in commerce capabilities to be able to modernize their supply chain, to be able to do things like curbside pickup, that's where you see growth in those areas. We also saw very heavily in our customers -- on our service lines as well, being able to do remote service was a very unique workload to the pandemic that people heavily invested in.

Mercedes-Benz USA is a great example where they used Dynamics 365 Remote Assist to be able to, you know in a mixed reality environment collaborate with subject matter experts around the world and be able to communicate with their customers in a completely augmented way. So, that kept their service department up and running when you couldn't physically be in the same location. And so, those types of workloads are what are really fueling our acceleration in our growth.

Q - Mark Murphy {BIO 18840231 <GO>}

Yeah. The range of these use cases and how quickly companies pivoted, it's just amazing. There is so much in that portfolio and you mentioned Power platform which I want to come back to in just a moment, because I think there's is a lot to talk about

there. But there is one other element I think of what you've been doing with the applications, there was this comment about proactive versus reactive business systems, that vision has been pretty intriguing to us. Can you help us understand what is involved there in making these systems become more proactive? Are you talking about the cognitive services? Are you talking about machine learning predictions and algorithms? And maybe you could just help us understand some of those scenarios that you're making possible.

A - Alysa Taylor

Absolutely. I talked about our vision for business applications was a modern portfolio of these very specific purpose-built applications. But really what underpins that is what I would call a data-first approach, which is very, very different. Then if you think about business applications, they've historically been -- I talked about the system of record, right? It's forms of data, input data into a system. We really want to turn that on its head and start with the data-first approach, which means that you're able to ingest large amounts of data and then have the application be in service of that data.

And so, having you know a comment what we did with Dynamics is when we broke it down into these modular functions marketing, sales, service, finance, others, we underpinned it with a common data service, which we call Dataverse and that allows you to adopt at the time of need, have a data platform that spans all applications including Power Platform and Teams. And so, the data then is aggregated, you can apply intelligence over that data. And then the application because it's in service of the data does exactly what you say, if becomes proactive. You can service things up, like you can understand -- you can use cognitive services to be able to understand call sentiment in a call center, knowing that you have the cognitive services is reacting to the transcripts and knowing that the person on the other line might not be the happiest person that you're dealing with. You have the ability to see the entire lifecycle of the customer, all the touchpoints and then be able to use -- happy application service up things like what you would do to be able to proactively help them move that forward in their customer service, complaint or request.

And so, that's a very different world of business applications. It's using data and intelligence and putting not in the hands of the customer service, sales or field service, somebody on the supply chain to be able to predict things like customer sentiment, what you should be selling a customer, what might be happening on a supply chain that may be potentially harmful to a supply chain? That's the new world of applications that are proactive, that are in service of the data that use intelligence to be able to really empower people in a very unique way. And that's what we're doing with Dynamics and our -- this data-first approach with intelligence and having this new modern intelligent applications that are proactive in nature.

Q - Mark Murphy {BIO 18840231 <GO>}

It sounds like a very skillful way that you are leveraging a lot of the common core services that are up and down the Microsoft stack. The -- and I think we're starting to understand that Power Platform is one of those, is going to become one of those layers. Interestingly, in our most recent Microsoft partner survey, these Power

Platform products rated almost as strong as Azure in terms of the product momentum that Microsoft partners are seeing. We were surprised by that. And so, I think we have some understanding, it spans across RPA, low-code no-code, virtual agents, Power BI is in there so, you have analytics. But how would you describe, if it's possible to do so, the role of those products in the future to just -- to someone in the audience who hasn't put their hands on them yet in this Power platforms. What do they look like? What's their role going to be? And what's driving this growth?

A - Alysa Taylor

Absolutely. You could tell me how I do here. But when we think about the Power Platform, it goes back to what I was saying, which is if you sort of take this data-first approach, the same data service that I talked about with Dynamics underpins both Teams and the Power Platform. And when you -- what we aim to do with the Power Platform is very simply put the tools in the hands of those closest to the problem.

And what that means is, if you think about a -- the old world of application development, it was very much a -- developers and enterprise developers, they would have to, over a long period of time, build out an enterprise application to meet the need of an organization. And there are more apps needed than there are developers. There is still scarcity in the market of developers.

And so, things like Power Apps, which is our low-code no-code development platform. What it does is, it does -- it makes those that have -- that are closest to the problem, whether you see something like, if I look at T-Mobile. T-Mobile is a great example of when the pandemic shutdown the stores and they went to limited capacity, they had to do resource planning, putting employees where they were needed the most in stores and being able to manage those capacity constraints. The operations manager built an application using Power Apps to do just that. So, he wasn't waiting for an enterprise developer or central IT to build an application that would have taken months if not years. It happened in days. And it was the operations manager that was able to do that. And so, that is the example of putting the tools in the hands closest to the problem and that's Power Apps from a low-code no-code.

Power BI is the same thing. It's about aggregating data, disparate data sources and having people like financial analyst be able to very easily aggregate that data and then analyze it, visualize it, and be able to act on that data as the business intelligence, and same thing, it's in a very citizen, analyst, having people that aren't considered developers, be able to use these tools to be able to analyze and visualize and act on the data.

And then Power Automate is our robotics process automation and business process automation tooling, and the same exact, you're hearing a theme here right, which is allowing people, end-users to be very quickly able to automate manual tasks, things that take a lot of time and drain productivity. And so, being able to in a very quick and easy way, in an if-then type statement to be able to automate data and take out a lot of that repetitive nature that happens in organizations every day. And so, that's Power Automate. And we announced at -- in the springtime, making Power Automate available to all windows users. So, really getting out -- that tool out into the hands of

those users to be able to automate whatever tests they deem as manual and repetitive.

And so, when you think about why you're seeing -- my guess is, why you're seeing the sentiment, the survey is that it is very viral[ph] in nature and we have explosive[ph], we're doubling our monthly active user base across the Power Platform on a regular basis and those users, right, are then -- then organizations are then standardizing on these tools because they have such a groundswell of users using them.

Q - Mark Murphy {BIO 18840231 <GO>}

That's the best explanation I've heard of the Power Platform. So, thank you for helping to make that become tangible. I want to switch gears a bit because a big portion of your role includes Global Industry concept, and I've noticed that you have been talking about an industry-first cloud focus at Microsoft. And I think part of what you had mentioned in the past is the concept of vertical-specific data models. Many of us are trying to understand this, what does that notion mean? Why is this being done and sort of what do you have to engineer to enable it?

A - Alysa Taylor

Yes. We've always had a very industry-first approach as a company. But what we haven't had is, what I would call sort of the product -- the vertical product capability to bring that to life. And so, our first instantiation of that was the Microsoft Cloud for Healthcare that we came to general availability in the fall. And you're precisely right, it is not about another product that is a healthier product. It's about data models, connectors, apps, and workflows that are very specific to that vertical. And so, an example of that is Virtual Business in Healthcare, right? Again, back to kind of the world of virtual care exploded overnight.

And so, with the Microsoft Cloud for Healthcare, you can actually use a -- the portal's capability in Microsoft Power Apps to be able to aggregate patient data, to be able to understand kind of all of the inputs of the data and then have a workflow, a predetermined workflow that brings that into Microsoft Teams so that the caregiver or the clinician can actually see all the patient information, have it at their fingertips and then actually create in Teams a virtual visit. And these predetermined -- so, rather than having to build that, these workflows and these common data models allow you to very easily stand up a patient portal, be able to have the workflows to bring that into Teams to be able to see that data and then stand up a virtual consult. And so, that's the type of what -- that type of capabilities that we are building and we came to general availability, the Microsoft Cloud for Healthcare, and then we've announced four other industry clouds all with that same capability.

In retail, being able to do curbside pickup and contactless shopping. In manufacturing, how do you build out a digital factory? And how do you do out-of-the-box process -- process automation on your factory floor looking at not-for-profit and having discrete donor management capabilities. And then in financial services, doing things like loan management and doing the workflows for how you actually take loan origination and then move it very quickly through the loan lifecycle,

increasing -- decreasing the lead times to getting a loan originated into the hands of those that are the -- that are doing the lending.

And so that type -- those are the type of workflows and very specific vertical capabilities that we're bringing to market with the Microsoft Cloud for industry. And the way to think about it is, it is those workflows and APIs and connectors bring that vertical relevance across the Microsoft Cloud, and that's very unique. Like if you look at somebody like Salesforce, they have a industry cloud but it sits on their CRM system, right? Versus our industry approach is lighting up the entirety of the Microsoft Cloud Services and integrating all of that vertical relevance and capability across your cloud platform, your business process layer, and your collaboration layer.

Q - Mark Murphy {BIO 18840231 <GO>}

I see. Okay. So, that's the core differentiation. So, Alysa, since you mentioned patient portals in Healthcare, maybe that's a pretty good segue to try to talk about the proposed acquisition of Nuance, which as I was thinking again, it proves again despite everyone's best efforts no one is able to accurately predict Microsoft's next move in terms of M&A. And so, no one has predicted really any of these in the past. So, there is something you're seeing here that must be helping you to accelerate that roadmap. And I'm wondering, so is that going to be completely specific to Healthcare or could you not take some of Nuance's core IP[ph] for instance, and they're very strong in voice recognition. Can that not help to strengthen Azure's voice recognition, right? And I believe with Nuance also biometric user authentication, can you not take that and apply it across many verticals?

A - Alysa Taylor

Absolutely. So, if you just -- I'll start with Healthcare, then I'll go into what the other expanded use cases. So, in Healthcare, as we talked about how do we enable physicians, like how do we enable physician productivity. I talked about this with the Power Platform so it is the very common theme. There is a lot of heavy lifting that caregivers have to give in terms of transcription. And so what Nuance does in a very unique way is bring in their transcription services and this notion of ambient intelligence to be able to not only improve the clinician and physician productivity but also use intelligence to be able to provide greater care. And so, it's really what we -- and I'm glad we're keeping you on your toes with acquisitions. But when you really think about where we want to acquire, it's acquiring for the future and what can we do that provides unique value for Healthcare institutions going forward. And so, this notion of both physician productivity and better care, Nuance has just an incredible ability to do that in the Healthcare space.

Now, to your point, they have also a very rich portfolio of voice recognition, voice transcription, and bio-recognition that plays into a large set of scenarios. I've talked about customer service but how do you do transcription and voice recognition to improve things like your interaction between the customer service agent and the customer. How -- we have a set of fraud Dynamics 365 Fraud Protection using their Nuance's capabilities to really augment that portfolio and predict fraud before it happens. And so, their securities and biometrics is an incredible asset into kind of

coming together to help organizations be predictive, bolstering security, and fraud protection.

And then, sort of largely across the transcript capabilities, an enormous amount of capability both in our productivity suite as well as integrating in with Dynamics and Azure communication Services. So, there is a lot of different things that we can do with the enterprise workloads known as the enterprise portfolio of Nuance and then they're driving portfolio in the Healthcare side really helping us meet the needs of the future overall[ph] Healthcare organizations.

Q - Mark Murphy {BIO 18840231 <GO>}

So -- Well, since you mentioned meeting the needs of the future, can you maybe provide us just a bit of a window into some of the key investment areas in business applications that you are most excited about moving forward? It sounds like there's a whole range of initiatives. And we always get this question of where do you want to invest most heavily into Dynamics. And I think people tend to think of it as more in ERP or more in CRM, but the reality is, you're touching on so many other areas including commerce and such a range of use cases. What are you most excited about?

A - Alysa Taylor

Well, I think, the thing that I'm most excited about is the world of what we would historically call back office and front office, right, which is CRM and ERP is lower[ph]. And so, for an organization to be able to serve their customers, you have to digitally connect all aspects of your business, right? You have to be able to connect your back-end operations to your front-end experiences. In retail, this notion of bridging the digital and physical worlds. And you have to be able to get the information real-time in the hands of your employees. And then you have to have this great feedback loop into your products and services that you're building.

And so, you can't do that if you're just investing in one area or the other. And so, that's why you see us investing in all aspects of what I would call the customer experience, the operations piece, as well as, the integration into the employee experience and tooling to make sure that there is a feedback loop into things like product development. And so, that what we call -- it's called a digital feedback loop. It's the ability to connect all facets of an organization and that's where -- why we're investing in all of these areas, because we believe that organizations that do that are the most agile and the best positioned to be future proof and serve their customers in the best way possible. And so, that's where and why we are investing.

And so, some of the things, the new areas that you asked around customer journey orchestration is something that we just recently announced and that's the ability to connect all of the marketing signals into the sales environment and be able to do things like real-time attribution and real-time targeting of a customer. Really highly personalizing the acquisition layer and then bringing that seamlessly into how you either digitally sell or into bringing again into the physical sale as well.

Intelligent Order Management is another area of investment for us. Again, it's around kind of that modern supply chain and giving visibility both to the supplier and the end consumer the lifecycle, when you order our product to when it is in your hands, all this sort of -- those updates of where it is in the lifecycle. And that's very important both to the customer and to the end -- the consumer and the end customer. And so, Intelligent Order Management is an area that we also are bringing to market.

And so, it's these -- it's all in that vein of these very proactive intelligent applications that connect across the entirety of an organization and it's really this notion of being digital-first and helping organizations be digital-first. And so, we'll continue to invest both in acquisitions like Nuance and building features like customer journey orchestration and intelligent order management.

Q - Mark Murphy {BIO 18840231 <GO>}

So, there is so much happening there. It's a lot to wrap our minds around. The -- seeing that we have maybe just a couple of minutes left, I was wondering if you want to try to close the loop on this discussion by just underscoring the key areas of structural advantage or the core differentiators for Microsoft as you think about this holistically across these key areas of business apps and Power Platform?

A - Alysa Taylor

Thank you for the opportunity to do that. Yes, I would say there are two things that I would want to underscore, which is this notion of a modern set of business applications that allow organizations to break down their data silos to be -- to have proactive applications that enable them to be digital-first in years. Like that's -- at the end of the day, that is what we aim to do and it helps organizations to be more agile, take cost out of the system and ultimately and most importantly, serve their customers better. And so, we're doing that across Dynamics, the Power Platform, it's this notion of like data-first application that is highly proactive and intelligent and allows organizations to be more agile and better -- and ultimately better serve their customers. And so, that's what we are doing on the business application side, and then bringing that to life through an industry-relevant (inaudible).

Those -- I think those are the things that I would want people to understand. That's what our strategy is, and where we're -- where we aim to both invest from a product standpoint and how we serve our customers.

Q - Mark Murphy {BIO 18840231 <GO>}

Well, Alysa, I can't thank you enough. You have provided incredible clarity of thoughts and truly help to enable us to understand how quickly Microsoft is moving in all these areas and really make it tangible and bring it to life. So, thank you so much for carving out this time with us, and we certainly hope that one year from today, we'll be able to do this event back in person in a physical format in Boston. And we look forward to learning about the enhancements that you've got between now and then. So, thank you again, and hope you have a wonderful night.

A - Alysa Taylor

Thank you for having me. It's been a pleasure.