# JPMorgan Global Technology, Media and Telecom Conference

## Company Participants

- Tami Reller, Chief Marketing Officer and CFO of Windows Division

## Other Participants

- John DiFucci, Analyst, JPMorgan
- Unidentified Participant, Analyst, Unknown

## Presentation

### John DiFucci {BIO 4099352 <GO>}

Good morning. My name is John DiFucci. I cover software at JPMorgan. Welcome to the JPMorgan 41st Annual JPMorgan Global Technology BDN and Telecom Conference. We're very happy to have with us here today, Tami Reller, who is the Chief Marketing Officer and Chief Financial Officer of the Windows Division from Microsoft. Tami's going to open up with a few opening remarks. And then I will go into Q&A. And at the end of the session, I'll open it up to the audience for questions.

### Tami Reller {BIO 1978866 <GO>}

Great. Well thanks, John, for having me and us. And thanks, everyone, for attending. So before we get started, I needed to make a few comments and a disclaimer.

This presentation does contain forward-looking statements, which are predictions, projections, or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in our earnings press releases and the comments made during this presentation, as well as the risk factors listed in our SEC filings. We do not undertake any duty to update any forward-looking statements.

Okay, step one. So I did want to make just a few opening comments, as John noted. And then, certainly, dive into John's questions and your questions, which I'm happy to take. So with Windows 8, which I think is a good place for us to start, we really did introduce this new experience that redefined what is possible with mobile computing. And Windows 8 was built for a world that blends our work and our personal lives. It was built for a world where we believe people would expect touch-first experiences everywhere. And also, a world that is always on the go and expects to be always connected.

And with the launch of Windows 8. And since the launch of Windows 8, we've seen our partners really deliver more innovation than ever before. And that's across tablets, that's across touch laptops, as well as convertibles. And today, when you walk into retail, you'll find we now have touch laptops for just over $400. And in fact, if you go into a Best Buy today, you'll see one-third of the assortment already is touch. And so, touch really has become an expected standard from customers across the globe. But for sure, in developed markets.

So far, with Windows 8, we've sold more than 100 million licenses. And of course, Microsoft's Surface. We are expanding our line of hardware into more geographies -- now in 29 markets. And of course, the launch of Surface Pro recently has also been a very popular product with our customers.

On the upside, we now have more than 70,000 apps in our online app store. We've had some great recent app adds into the store, including Urban Spoon, twitter, MLB TV, just in time for the baseball season; Museums of the World, Netflix; a great shopping app called Envite, as well as GEEZER, a popular musical -- music subscription service. And we're really just getting started. More touch hardware, more apps coming into the store literally every day.

Then later this year, which we've talked about some, Windows 8 and Windows RT will get even better. What has been code-named Windows Blue will now be officially called Windows 8.1. Windows 8.1 will advance the bold vision that we set forward with Windows 8 to deliver great PCs and tablets with an experience that does allow you to simply do more. So Windows 8.1 will be delivered as a free update to Windows 8 and to Windows RT. And it will be easy to get, right from the Windows start screen through the app store. So very seamless and easy for customers to get Windows 8.1. So this means that customers today, who have Windows 8 or who plan to buy a device in the near future, can seamlessly get the advantages of Windows 8.1.

And also for our enterprise customers, we see Windows 8.1 giving them that much more confidence to be able to deploy Windows 8 devices, whether that's tablets or PCs, as well as really continuing to work on their LOB app designs, which we see them doing. We also highlighted last week, I'll just reemphasize that -- an early look of Windows 8.1 will be available at our Build Conference on June 20 -- starting on June 26 in San Francisco. And so, a preview will be available for anyone to download at that point of Windows 8.1.

So in summary, we feel very good about the direction that we're headed with Windows 8. And our ability to really deliver these continuous updates to customers, whether it's continuous updates through Windows Update, updates through the app store, as well as Windows 8.1, which will be available generally at the end -- near the end, later on in the year, in the calendar year.

Thank you. Your questions, John?

## Questions And Answers

## Q - John DiFucci  {BIO 4099352 <GO>}

Wow. Okay, that was great. Thanks. Thanks, Tami. Then some of my questions you sort of hit on in your opening remarks. And the first one I was going to ask about was PCs. And whenever I think most people in the audience, myself included, when we think about Microsoft, historically. And the way we think about PCs and that drives a big part of Microsoft's business -- the business that you had up with Windows but also Office.

But if you look at what the PC shipment numbers are, which you're fully aware of, IDC and Gartner, I think they said that, last quarter, PCs declined 11% to 14% as far as shipments, something in that neighborhood. And a big part of it was emerging markets too. That was less -- emerging markets shipments were lower than expected. Is it -- are you seeing a change in emerging markets?

Microsoft has obviously expanded Windows and Windows 8 to address other than just PCs. But in emerging markets, have PCs become -- I don't want to say not necessary. But not the first device? Are you seeing trends like that in emerging markets? And how -- and I guess I'll let you address that and how you respond to that.

## A - Tami Reller  {BIO 1978866 <GO>}

Great. Well let me actually take a step back, because I think what's important to note is, I mean, the whole idea with Windows 8 was to go beyond the PC and really to redefine the markets that we can participate in; move from PCs to mobile computing broadly. And that's absolutely the case with what we set out to do with a product. And then what our partners are doing with device innovation.

And what we're seeing is that, in developed markets, the touch assortment is coming to market rapidly. And it's getting better and better in emerging markets. But we have more work to do there. And so there are some different dynamics between developed markets and emerging markets. But it's quickly changing. I mean, even if you look at launch spring-selling season, which we're in now, versus where we were at launch, the touch assortment is so much better. And not just in terms of the number of devices. But the number of devices by price category, by device type. And the number of our OEM partners that are participating in each.

And so we do think that it's so important to look beyond the traditional PC market and to look much broader at mobile computing. And look at that across each of the segments. And even by, as we look to back-to-school and even by holiday, in developed markets, we would expect to see even up to 50% of the sellthrough in developed markets be touched. And emerging markets, the delta between developed markets and emerging markets continues to get smaller, in terms of the overall touch percentage both on shells as well as sellthrough to customers.

## Q - John DiFucci  {BIO 4099352 <GO>}

So are you saying that, in emerging markets anyway, you see less touch sellthrough and more traditional devices?

## A - Tami Reller {BIO 1978866 <GO>}

Slightly. I mean you're just -- you're seeing -- you'll always see a slight -- so far, we've seen a slight lag in the overall touch percentage in emerging markets versus developed markets. But that gap is quickly shrinking. And the overall assortment in emerging markets just is getting better and better every day. You know, our Surface is a good example. I mean, we've had some really strong momentum in China. And the launch of Surface Pro, which was very recent, was also warmly received in China. So that has been terrific to see -- you know, not that China always defines what the rest of the emerging markets might see. But I think it is a good indication of just the type of success that we can have. And our partners can have, with Windows touch and Windows tablets in all markets across the globe.

## Q - John DiFucci {BIO 4099352 <GO>}

Okay. Great. I'm going to skip around a little bit, because you just mentioned Surface. And I guess if you are anticipating a new Surface coming at some point, is there anything, even generally, that we can expect out of Surface? Surface has come out with the first CRT version and then Windows in the Pro version. And there has been mixed reviews. It's interesting -- I was with a client yesterday. And they just said, "This is absolutely a fantastic price." It was an RT device. But I've gotten the opposite response too. What are the areas -- what are the, I guess, characteristics of Surface that you would look to improve upon in the next version?

## A - Tami Reller {BIO 1978866 <GO>}

I think there's a couple things. One is I think the characterization you described with the customer you talked to yesterday does represent what we are finding. Our deep customer satisfaction surveys on the product show that there is very high satisfaction ratings with Surface. That's true on Surface Pro, that's true on Surface RT.

On the software itself, we've done so much to improve Windows RT since the introduction of Surface back in the fall. And you see that in just the continuous updates to the system. And certainly, that applies to the number of apps coming into the store. The quality of the first party apps we've done, significant updates to mail, significant updates to just about every other first party app on the device. That makes a difference. The overall performance of the system, including just firmware updates we can make where the battery life improves, just through the great continuous product improvements coming down through Windows Update. And so I think that's made such a positive difference for Surface RT customers as well as all Windows 8 customers.

So we know that customers love the Surface product. It's been interesting to see, with the introduction of Surface Pro, we've also -- we also -- we knew this was the case, which is, customers wanted to be able to see both products, to look at both of them. And determine sort of which Surface was going to be right for them. That certainly is a dynamic we've seen in markets where we have both products. So far, we only have Surface Pro in a few markets. But that's quickly expanding throughout

the month of May and into June. And so we know that will make a difference for customers to be able to see, evaluate. And then buy the product that is right for them, whether it's Surface RT or Surface Pro.

## Q - John DiFucci {BIO 4099352 <GO>}

Okay. I guess a question on Surface for the future, really RT versus Pro. With Intel coming out with the Haswell chip in June, does that have any impact on even a need for an RT version, if that delivers what it seems strong?

## A - Tami Reller {BIO 1978866 <GO>}

Yes, I mean, I think there's a couple of good questions within your question. So let me tackle them. One is, ARM and how that fits into the Windows roadmap. I mean, we look at -- when we set out to build Windows 8, we knew we were building a product that we wanted to help enable the entire next generation of mobile computing, not just one selling season, not just a year of selling seasons. We needed -- we wanted it and needed it to be a foundation for the future.

And so having the scalability to have both ARM architecture and full capabilities across the Intel architecture were an important piece of that. And that belief has not changed. I mean, we still believe that we want to have and need to have the flexibility of the ARM architecture as well as across Intel. And you know, our relationship and the work that we're doing with Intel has never been stronger. Very excited about the roundup of Atom tablets that have hit the market this season, from just about every one of our big OEM partners. A lot of good response to those tablets, for example. But we also very much want to continue down the path of ARM as well. It gives us much, much more flexibility across the spectrum to have that -- to have all of those options.

Haswell is an interesting topic. We'll start to see -- for back-to-school, we'll start to see Windows 8 devices with the first line of Haswell. So that's exciting to think about the potential for that. And we'll see how that all plays into our Surface roadmap, as we talk more about that in the future.

## Q - John DiFucci {BIO 4099352 <GO>}

Actually, that brings another question. You said in the fall -- and I think Walt Mossberg and others have said, well, we see that in the Wall Street Journal, that if you're going to buy a Windows 8 device, you probably should wait until then. So how do you deal with that? I mean, listen, you're in this business for the long-term. But you also have to manage on a quarter-to-quarter basis too.

## A - Tami Reller {BIO 1978866 <GO>}

Well it's hard to picture a time in technology where there wasn't some influential voice saying, hey, just around the corner are some amazing things. I mean, that's the beauty of technology. And so, of course, are there going to be interesting things around the corner? Absolutely. Are there interesting things in the market today?

I mean, again, you just -- if you just look at -- I mean, we have touch laptops that are just over $400. And these are beautiful mobile touch laptops. And that's, again, the beauty of Windows 8. It can scale from the smallest tablets all the way up to very large screens. And it does so inherent in the product. And so, I -- there are great choices on the market today. And so, if you need a tablet, you need a PC. And you want the power of Windows, is it -- do you have to wait? Absolutely not.

## Q - John DiFucci  {BIO 4099352 <GO>}

Okay. Is -- what kind of -- can you give us any hints as to what these things are going to come out from your partners, as far as the hardware, that will be things that we won't want but say you should wait for?

## A - Tami Reller  {BIO 1978866 <GO>}

Yes. I mean, here's -- maybe I'll just go through the lineup and talk about the variety of devices, some of which are out today, some of which we'll see more of in the future. I mean, if you look at one of the things that we said, is both with Windows 8 today as well as with Windows 8.1, we will enable small tablet form factors.

So whether that's 7 inch, 8 inch, our partners will have choices in what they deliver. And that's true across x86 and true across ARM. And so that's where the lineup will start. Then, of course, you have 10 inch-and-above tablets, which, especially for consumers, as well as business customers who really want to do more on these types of tablets, who cannot just consume and play. But can really get work done and do true multi-tasking, those are great tablets.

Then there's detachables. I mean, there's so many partners who have delivered great detachables. I mean, the HP ENVY x2, I think, is a classic example of just a beautiful detachable that's based on the Atom platform. When the tablet and the base are together, it looks like a Mac Book Air competitor. And yet it detaches and you've got a beautiful tablet. And you've got the full power of x86. So whether you're bringing that into a business environment or using it in everyday life, that's a great choice. So detachables. Many, many out there on the market today. But certainly, sort of more innovation to come in that category.

Then there's convertibles, which don't detach. But really can move into a tablet mode or be used as a full laptop. The Dell XPS 12 is a great example of that; the Lenovo Yoga is another great example of that, both very, very strong sellers. And so those products are available on the market today. And no doubt we'll continue to innovate in those categories.

So convertibles, broadly, if you look at the partner pipeline, you'll just see a lot of interesting convertibles coming down the pipe. And Intel has done some very interesting survey work to ask customers what form factor categories are interesting. And have found that convertibles have a lot of interest -- convertibles and detachables. And their customers are weighing in that they're not quite sure exactly which types of convertibles in those categories are interesting. And so our partners just continue to do a lot of innovation there.

All-in-ones are a fascinating new category, whether it's an 18-inch, 20-inch, or up into 25 or 27-inch, depending upon where you want to -- how portable you want it to be within your home. And whether you want a battery in the device or not. And so, a lot of innovation coming in the all-in-one category. And that is a category of device that was in shorter supply at launch. And we saw a lot of customer demand there. And so, it's nice to be able to have those now out in more volume and more variety for that customer to get what they want in that category.

So all of those continue to be very interesting categories. Then just broadly, touch laptops. I mean to have 11-inch, 12-inch, 13-inch, 14-inch and up to 15-inch touch laptops available and at more and more affordable prices, that's going to make a difference in customer interest in this option too.

## Q - John DiFucci  {BIO 4099352 <GO>}

Okay. Great. Thanks. For the Windows business, this is often a discussion around consumer versus corporate business. And I think within the investment community anyway, the perceived risk is higher in the consumer market. If that's true, there is some concern that that could carry over to the corporate market. And you could see places that are non-Windows-based start to move into the corporate market in a more meaningful way to displace PCs. How do you think about that? The corporate market seems to be really steady right now. But how do you think about that potential risk?

## A - Tami Reller  {BIO 1978866 <GO>}

Well there is certainly multiple ways to look at this opportunity. I mean, we had a very strong enterprise quarter, as we've noted. We've actually had several strong enterprise quarters in Windows with double-digit growth in that segment. And we see it for a couple of reasons. I mean, enterprise customers, they need to both see value in the products that's in-market today, which they absolutely have with Windows 7. And in fact, we're now up to two-thirds of enterprise desktops are deployed on Windows 7, which is a pretty stunning number, just given the sheer amount of time that customers have been working on Windows 7 deployment. It just shows that the value is there and it's been a friction -- as enterprise deployments go, a fairly friction-free process to bring Windows 7 into their environment. So that's all very good.

And so they have to see value in the products that they have today. Then they have to see value in what you're building. And are you innovating fast enough for them to see that there will be ROI in the investments that they are making? I think, just given what we set out to do with Windows 8, the fact that we did what many would describe as more than three years of work in three years, I think that makes a difference.

Then because we have really moved to this continuous product improvement cycle with Windows 8, I mean so far, even with Windows 8 through Windows Update, we've delivered 739 updates. And that doesn't even count these sort of first-party app updates that are coming through the Windows store, which make a difference to

many customers as well. So I think all of that makes a difference to how enterprise customers are looking at it.

But back to your device component of the question, having a broad lineup of x86 tablets and ARM tablets that enterprise customers can look at and say, okay, can I bring these into the enterprise and to do what I need to do? And I think in particular, that's where the x86 tablets play a real role. And you see that. We see that in the number of pilots and the number of evaluations going on. Whether it's HP's tablet, whether it's the Dell XPS tablet that's recently been released, the 10-inch x86 tablet -- you just see these now coming into the mainstream as being piloted across a broad range of enterprise customers.

And really, that's been our focus with our enterprise customers. From the very first time we started talking about Windows 8, we said continue on your Windows 7 deployment path. We have so many customers in the throes of that. And we wanted them to be successful in Windows 7, especially with XP end-of-life just around the corner. And so we said continue with your Windows 7 deployment. Then for Windows 8, we recommend that you evaluate the tablets that are coming out and the new device -- other new device types that are coming out for your business. And then look at the line of business app development work, to take into your next-generation app development work. And that's what we're seeing them do. And we're seeing some very good early success with that.

## Q - John DiFucci {BIO 4099352 <GO>}

Great. Sticking with the corporate business, one thing I think that wasn't broadly noticed on your last call is that you said that you'd have about $4 billion of revenues this year in volume licensing agreements in the Windows business, which is more than any -- and that's something you and I talked about for years. And it was -- that was a lot more than we thought you were going to have this year. Can you talk a little bit about that? Like, we assumed that a big part of that is Software Assurance, which is historically not been a big part of the Windows business. Can you talk a little bit about the dynamics there?

## A - Tami Reller {BIO 1978866 <GO>}

Yes. Absolutely. I mean I think there is -- I'll just take a step back and say that one of the certainly great assets of the Microsoft business is our ability to sell into the enterprise. I mean, our sales force and Kevin Turner's organization does that very well. And they've consistently done that well on the Windows business in, I would say, a getting-better-every-year fashion for quite some time. And you see that reflected in the results. And so, in addition to customers liking our current products and seeing that we can innovate for the future, we have to have a competent sales force, which we absolutely do. And so, that is -- I think that is -- that's what you see reflected in the numbers, for sure.

## Q - John DiFucci {BIO 4099352 <GO>}

So are people or corporations, as they upgrade to Windows 7, are you seeing more corporations upgrade to the Enterprise Edition?

### A - Tami Reller {BIO 1978866 <GO>}

We are. We are. I mean there is a couple things. One is that for customers who invest in the Enterprise Edition, invest in SA, they have to see functionality difference in what we're putting into the Enterprise Edition. And we continue to put more and more capability in there -- which, again, goes to just our ability as an engineering team to not only put consumer value into the software. But put enterprise value into the software. And whether it's the Pro Edition of our product or the Enterprise Edition of our product, we try to be quite thoughtful in ensuring we're doing that work.

I mean, the engineering team, just in the last couple of weeks, did yet again another sort of road tour to go out and visit Enterprise customers, just to make sure we're getting it right for Enterprise customers as we take Windows 8 forward. It's an important, important constituent for us.

### Q - John DiFucci {BIO 4099352 <GO>}

One of the differentiators, I think in Windows 7 anyway, was BitLocker. I mean I think you can get that -- I think it comes with the Ultimate version too. But other than that, it only comes with the Enterprise version. But I think with Windows 8, you're going to be including it with Windows 8 more broadly. So isn't -- I just -- when I heard that, I sort of scratched my head, because it seems to me that that was actually one of the differentiators you're talking about.

### A - Tami Reller {BIO 1978866 <GO>}

Yes. No. It has been. I mean, it's been -- BitLocker has been very popular, which is one of the reasons we wanted to make sure that it was in Pro broadly and could be taken advantage of by even smaller customers. There is advanced encryption that's available in the Enterprise Edition, which we think is very important for our Enterprise customers, with more sophisticated IT capabilities.

Then also, another good example of a capability that's new to Windows 8 and in Enterprise only is Windows 2 Go. So literally with a USB stick, you can take your Windows 8 to any PC, including, of course, the Windows 7 PC. But then any other Windows 8 PC. And so just being able to take your image and your stuff. And be able to go onto any PC, that's a great capability. And just gives a lot of on-the-go and mobile worker scenarios that can be enabled for corporations. So again, another great example of something that's unique to the Enterprise Edition. And obviously, important for our business model as well.

### Q - John DiFucci {BIO 4099352 <GO>}

Okay. Great. I'm going to ask one more question. And then I'm going to open it up to the audience. And the question is going to come back to Windows Blue, which is now called (multiple speakers) Windows 8.1.

### A - Tami Reller {BIO 1978866 <GO>}

Windows 8.1.

## Q - John DiFucci {BIO 4099352 <GO>}

So the fact that you're calling it Windows 8.1 -- there's just been a lot of talk about what this is. And is it a new version? Is it more like a service pack? Is it somewhere in between? Can you just sort of hit that in a little more detail?

## A - Tami Reller {BIO 1978866 <GO>}

Yes. So let me just describe that. I mean, Windows 8.1 is an update. And since launch, we've delivered sort of continuous product improvements and updates through Windows Updates since. And so this is sort of more substantial than what we could deliver on -- in some of those daily and weekly updates. But it is an update, which is why it's called Windows 8.1. It will be for both Windows 8 as well as Windows RT.

We also, though, wanted to make it very, very easy for customers to consume. And so they'll get a notification. But it will be very easy right from the start screen to be able to take control of the user. And bring that update in. So very straightforward in that sense. But yes, it's an update.

## Q - John DiFucci {BIO 4099352 <GO>}

Okay. And you said, I think it's June 26 at the Build conference?

## A - Tami Reller {BIO 1978866 <GO>}

That's right, the preview.

## Q - John DiFucci {BIO 4099352 <GO>}

The preview. When do you think the general public can get their hands on it?

## A - Tami Reller {BIO 1978866 <GO>}

Well we've said later this year. I mean, obviously, we're very sensitive to the timing of holidays. And what that means for getting an update out. And making sure that there will be a lineup of hardware that comes preloaded with Windows 8.1. But even for the hardware at holiday that has Windows 8, we designed it so that's not an issue at all for customers. They can buy any Windows 8 device with confidence and know that they can get Windows 8.1. So we understand when the holidays are. Let me just underscore that.

## Q - John DiFucci {BIO 4099352 <GO>}

Okay. Yes, even I understand that.

## A - Tami Reller {BIO 1978866 <GO>}

Good.

## Q - John DiFucci {BIO 4099352 <GO>}

And just lastly -- and by the way, for Q&A, if you can come up to the microphones in the middle of the room here, anyone in the room that has a question -- both you and Julie Larson Green have described the approach taken with Windows 8.1 as "principled but not stubborn." If you could just expand a little bit on what that exactly means.

## A - Tami Reller {BIO 1978866 <GO>}

Yes. No, absolutely. And Julie has been terrific at using that statement. So I've quoted her on that. And she said that again at Wired. And the idea was, when you have 1.3 billion customers that are using your product, you need to have a vision. You need to have a point of view. And you need to consistently deliver on that. So that you have everyone working on Windows, including the ecosystem, knows where you're headed and can go there with you. But that doesn't mean that you aren't listening consistently and constantly. And across a broad range of listening vehicles to what customers are asking for, what partners are asking for.

And both Julie and I just share that philosophy deeply, which is, you can be principled. And you can have a point of view. And you can be heading in a direction. But you're also constantly listening, learning. And becoming smarter. And that's exactly what we mean. And that's, I think, how the entire Windows leadership team is thinking and operating. And working with each other. And that's why we've been able to deliver as much innovation as we have already since launch. And it really is the foundation for how we think about Windows 8.1 and everything we're going to do following Windows 8.1.

## Q - John DiFucci {BIO 4099352 <GO>}

Great. Thanks. Are there any questions from the audience? I have one here. Just following up on that, you said Windows 8 is the move into mobile. Mobile iOS's update far more rapidly than traditional desktop mobile iOS's -- or mobile OS's update much more rapidly. How are you thinking about the Windows update cycle now that you are pushing into the mobile world? And how will that affect the Enterprise business?

## A - Tami Reller {BIO 1978866 <GO>}

Yes. Thank you. So we have -- I mean, we have these two powerful update vehicles. We have Windows Update, which has been built to scale to -- as large as the Windows base is and will be. And so that's an important vehicle for us to be able to push updates down.

Enterprises have the capability to decide sort of how they onboard those updates. We've also had that capability -- really, back to your point, John, on, as part of our Enterprise capability. Enterprises can decide sort of how often and how they want to bring that into their enterprise, completely, completely their choice.

Then we also have the Windows store capability to update. And so for all of those first-party app experiences, we also then have the ability to bring those updates in. And that can be as frequent as we need, just as Windows Update can be as frequent as we need. Then we have what we are doing with Windows 8.1, which is more of a package set of updates that will deliver to customers where they can say, okay, I'm ready to bring that update into my system.

And so, that again is another vehicle. And so, we think it's quite powerful for the customer, whether it's Enterprise customer or someone using it every day in their whole life to be able to decide, bringing in Windows Updates, bringing in Windows store updates. And then deciding when to bring in a more substantial update onto the system. And that gives us the full capability across all scenarios -- mobile scenarios, more traditional PC, as well as our Enterprise customers.

Good question. Other questions? Would you mind coming up to the mic?

## Q - Unidentified Participant

Can you estimate which part of the Windows Enterprise business is recurring? And how can you make it more sticky, or in other words, completely detach it from many PC type format?

## A - Tami Reller {BIO 1978866 <GO>}

Yes. So in our Enterprise business we don't break out all of that detail. But I can tell you that a substantial portion of our Enterprise business is recurring. Having said that, it is important that we show our innovation pipeline to keep that there. And it really goes to multiple components, which is, the primary OS innovation in the base OS is critical for us. And so being able to just show that there is innovation there.

The innovation that we put specifically in the Enterprise Edition is important. So that Enterprises know there is specific functionality for them. And so that also is an important piece of that. Then, again, sort of the tools that we make for Enterprises that make it easy for them to manage how they're going to bring and manage Windows in their environment, whether that's mobile devices, whether that is some of the updates, whether it's -- what version they have the corporation on, the development tools. So it's all of those. But it ends up being all of those pieces that are, in different proportions, important to every Enterprise customer -- from what we found.

(multiple speakers) I'm sorry. Go ahead.

## Q - Unidentified Participant

One more, if I may. As you are the incoming CFO, how do you think about optimizing the balance sheet in Microsoft? And how would you link that with the shareholder returns in terms of buybacks and divestitures?

## A - Tami Reller {BIO 1978866 <GO>}

Well just to make sure, Amy Hood is our new CFO. So hopefully, you'll get a chance to meet Amy soon. But incredibly talented. So look forward to getting time with Amy. Great. Thank you.

Questions here?

## Q - John DiFucci {BIO 4099352 <GO>}

And this will be the last question.

## Q - Unidentified Participant

Thanks for taking my question. I was in a county meeting just earlier today. And then they are talking about they are only budgeting touch mobile to be only 10% of the (annual vows). Now I understand that the demand has been great. And you guys are budgeting that it's going to be 50% of the entire market demand is going to be touch-based later this year. How are you -- what are you doing in resolving this supply chain bottlenecks and just enable the entire ecosystem to go?

## A - Tami Reller {BIO 1978866 <GO>}

Yes. So a couple of things. One is, we really see that the touch supply is getting so much better -- literally week by week, month by month. And so, the touch supply constraints are rapidly working themselves through. And so we see that this coming holiday, we really will -- especially in developed markets -- reach a tipping point with touch overall, specifically touch laptop. And so, by holiday, we really don't see the type of restrictions that we've seen on the ability of our partners and our retail partners to be able to get touch in the volume that they would like. And that customers are demanding. So I think historically, it's been a challenge. But looking forward, we see a lot of volume and a lot of device assortment for customers to choose from.

## Q - John DiFucci {BIO 4099352 <GO>}

Thank you. And thank you, Tami.

## A - Tami Reller {BIO 1978866 <GO>}

Thank you. So much.