Morgan Stanley Technology, Media & Telecom Conference

Company Participants

- Amy Hood, EVP & CFO
- Keith Weiss, Analyst

Other Participants

- Unidentified Participant, Analyst, Unknown

Presentation

Keith Weiss {BIO 6993337 <GO>}

Thank you, everyone, for joining us this morning. My name is Keith Weiss. I run the software group here at Morgan Stanley and we are very pleased to have with us Amy Hood, CFO of Microsoft, which obviously I'm sure everyone knows.

Before we get started, I'm going to read a couple of disclaimers from both Morgan Stanley and Microsoft. So from the Morgan Stanley side of the equation, please note that all important disclosures, including personal holdings disclosures and Morgan Stanley disclosures appear on the Morgan Stanley public website at www.morganstanley.com\researchdisclosures or at the registration desk.

From the Microsoft side of the equation, before we begin, Microsoft may make some forward-looking statements. Please feel free to make any forward-looking statements as (inaudible) during this presentation and you should refer to their SEC filings for the risk factors related to their business and that's true whether you are here in person or listening in on the Web.

So with that out of the way, Amy, thank you very much for joining us. It's always a pleasure having you. So I think you are the biggest company that I've presented to us far. You have the biggest purview and I think one of the key questions on everyone's mind is we all believe in the secular trends that are going on in this business. We all see what's going on in the cloud. We all see some product stories that we really like. What we are trying to figure out is whether the spending environment is sustaining (inaudible) execute on. So I want to take advantage of your purview as being sort of the biggest company that I have here. What are you seeing? What are you seeing in terms of IT budgets overall and what people are willing to spend on software and some of the key technologies other than [ph] software?

Amy Hood {BIO 18040963 <GO>}

Just at a very high level on the macro, I would say we talked a little bit about it on the earnings call -- seems like a long time ago always -- but China, Brazil, Russia and Japan, in particular for us, continue to look the way they look, which was -- continues to be difficult to execute in for various reasons. They are all slightly different. The rest of the world actually looks the same. Q2 was like we expected it to be. That doesn't mean it was terrific or bad. It just means it was as we expected.

So I don't think I've seen much change in that. But what I would say is, in terms of spending environment, there's two things we tend to focus on. Mostly it's focusing on what we control. I will be super clear about that. I know that everybody wants to ask about the macro. Frankly it is what it is. No matter be it good or bad. So most days, all I talk about with our salesforce, as well as our management team is focusing on execution. There's a lot of share to be taken by us. I'm a key believer where we are in our product cycle. We've got a lot of strong value prop. Feel very good about our positioning with that and so if the field remains focused on doing that and selling great value as opposed to oil prices, which they can't help on, versus selling, which they are deeply hopeful on, we are in a good spot.

And secondly, I think in any cycle what's most interesting now and I think there's a lot of buzzwords about it. But digital transformation at its heart would say we are about to enter a world -- maybe we are already partially deeply in the cycle -- where OpEx and COG spend for many companies that historically wasn't tech-based is now tech-based. So even if your overall spend -- overall budgets at many, many companies in many, many industries don't grow, the amount that the world needs to spend on IT to modernize its systems to take advantage of what tech exists in the world is quite high. The pace at which they do that, we will see. But the value in the return for every company in the world becoming a digital company is certainly very high.

Keith Weiss {BIO 6993337 <GO>}

The way that all these businesses are sourcing that technology is changing a lot as well and where Microsoft comes into the equation I think most fully is with Azure where you really kind of change the dynamic on how we are going to deliver, compute and storage services on top of that. I think one of the key questions that investors are trying to figure out is, within the intelligent cloud, your intelligent cloud (inaudible), when we think about the amazing growth we've been seeing in Azure, 140% growth in the most recent quarter, is that going to be additive to the overall equation or is that going to come at some point at the expense of (inaudible) where you would have sold as a Windows server on premise just shifting to becoming Azure revenue or is there -- is it additive to the equation?

Amy Hood {BIO 18040963 <GO>}

I think that's why most people -- it's so funny -- while I do get asked those questions in terms of what's your COG growth and what's your on-prem growth, as a company, I deeply focus basically on the overall growth. We want to incent cloud selling, of course. But at the same time for us it's about going at the pace the customer wants to go. So whether that's on-prem, a hybrid-type story or doing all new data [ph] in the cloud and so in the intelligent cloud segment, it was a focus on growing double digits. That's certainly a share-taker across the board with that type of number.

You are right. Most of the growth -- not most -- some of the growth is from the cloud and some is on-prem. A lot of the new scenarios I just talked about in terms of the IT spending macro question you just asked are deeply applicable in this question as well. There are simply scenarios that weren't possible before that are now possible with Azure amongst other solutions and that certainly is additive.

Over the long term, if you were to assume, of course, could every bit of compute be done most efficiently in the cloud. Under that assumption, of course, you could say, yes, the on-prem business goes away. It's a very long curve. Customers have very different time periods on that. We also have on-prem solutions that have a lot of cloud attributes, whether that's people server that does auto backup. It looks a little bit like edge of your cloud. And so I think the traditional lines people thought about, especially for us, I think will be a little different and I think that's okay. That's why I tend to focus at the top and say, if your overall opportunity is growing, your value prop is good, you can take share. That's why I think we are pretty confident in our ability to grow overall at the rates we talk about.

Keith Weiss {BIO 6993337 <GO>}

So we were talking about Azure. We were talking about how it's changing the way Microsoft delivers services. But the overall intelligent cloud growing. One of the things you mentioned that I wanted to dig into a little bit is something that I'm really excited about in the Microsoft story is hybrid cloud. When we talk to particularly executives at larger organizations, it's definitely not an either/or. It's not private or public cloud. It's a hybrid. And when we are talking about the competitive environment for cloud in terms of the large-scale vendors, (inaudible) services and Google are the players most people see as really being part of that marketplace. And I think Microsoft has a real competitive advantage when we are talking about hybrid cloud. You are the only one of the three vendors that has significant technologies on both sides of the house. How does Microsoft look to leverage out of that? How do you look to leverage what you've done in on-premise to make hybrid cloud a reality for your customers?

Amy Hood {BIO 18040963 <GO>}

I think it really starts with -- often times we get asked you really weren't born in the cloud and how do you overcome that. One of the great things actually about having a very large and very thoughtful enterprise business already before we made this decision, which has now been a long time frankly, to begin the push into the cloud was that we had great coverage globally of sellers, of infrastructure, of talented technical leaders who can go to accounts and help them on their journey. We've had a lot of investment in that front for many, many years. And so frankly having customers that already trust you is not a hindrance in our situation to helping those customers make the transition in a thoughtful way.

And so I think not only am I excited about the value prop, which you talked about. This is the one I always use just because I think the next releases of SQL will have many of those attributes which I think will point to many people and say what's my journey like and you say this is a terrific interim step if you start thinking about the value of a hybrid cloud where you are going to run what you run and you might run some things in the cloud. You might move some workloads to the cloud. You may not. And being able to manage that and secure that environment is something that we are relatively confident in our value prop to do to IT and ultimately to the decision-makers as well.

But I don't like people to forget we have a terrific salesforce, large and very capable and you've seen them be able frankly to grow revenues substantially in our commercial business without adding a lot of cost structure. So I think we are really proud of that and I think that does give us a good structural advantage as we continue to push new innovations whether on-prem, in the cloud or on a hybrid model out globally.

Keith Weiss {BIO 6993337 <GO>}

Another differentiation in your (inaudible) you actually have software as a service components as well, both through stuff like Dynamics CRM online. But also the biggest (inaudible) franchise out there in terms of Office 365. So wanted to drill down on Office 365 a little bit. The (inaudible) on Office 365 is a stabilization of that Office franchise whereas three, four years ago, I think most people saw a much bigger threat from stuff like Google given their online status. With Office 365, you have a very strong offering (inaudible). You did [ph] a lot of that competitive threat [ph] from Google because you can get online productivity suite from Microsoft now.

It's really gone further than that. That has now become a real growth opportunity for you guys. Can you talk to us about how, one, you've been able to expand the base with Office 365 and two, how you've been able to improve monetization of that base with the upsell path [ph] that comes with Office 365?

Amy Hood {BIO 18040963 <GO>}

Sure. I think it's important first of all -- I love your questions because they are always like we thought you sucked. But you did better than that. So I'm trying hard to understand --

Keith Weiss {BIO 6993337 <GO>}

That's basically how we do an upgrade now [ph].

Amy Hood {BIO 18040963 <GO>}

Yes, I understand that construct. What I would say generally is we've been growing -- that's why we covered it -- we've been growing our installed base across Office, Exchange, SharePoint and what we call Lync or Skype for Business for a couple years now adding to that and continuing to expand. I tend to think of that as more than protecting the base. It's growing the base. At the same time -- and that's been happening -- it's not just at the small business layer, it's also adding seats inside enterprises for which some of our solutions weren't as applicable and we've been able to create SKUs that expand that coverage model. And you need to remember, even if those are at lower ARPU, the ARPU on those seats before was zero.

So I do think when you are able to expand, even if that's at a lower ARPU, if it's a new seat, that's net new revenue growth for us. I think that's an important concept no matter what the workload is across what I think of as a broad Office franchise.

And you pointed -- so if I think about, in life, you want to increase your queue and increase your pay, right. So we've been able to increase the quantity of seats. You also over time want to increase your ARPU. The ARPU growth, which you've seen on the cloud side, has been from an increasing mix of what we call our E3 SKU. But think of that as a more fully featured SKU, including Office and the other workloads across comms, messaging, security, etc. But the good news. And what we are excited about with E5, is some newer workloads. You mentioned SaaS-like opportunities. We actually have a few of those. Some of them tend to land in things you think of as an intelligent cloud. But our mobility solution, EMS, for security and management is a SaaS-like business in terms of margins.

Our analytics suite, whether that's Power BI or other analytics tools, is a very SaaS-like margin. That's an E5. Then again some security features are in E5 and then finally VoIP is in E5. And so those are really very new markets for us in terms of opportunity and in the language of P times Q, which I tend to use a lot, it would raise the ARPU of many of those seats that we've talked about. It's early. We just put that on the price list December 1 and so while I'm excited about the pipeline and it continues to build, that ARPU kind of builds over time as we continue to see sales cycles come to fruition.

Keith Weiss {BIO 6993337 <GO>}

This week outside of just the Morgan Stanley conference, you also have the RSA conference going on in San Francisco. So obviously a lot of focus on security and it seems like Microsoft has been increasing focus on security, whether it's through the security functionality of the E5 Suite. I was reading in the Wall Street Journal, you guys just set up a new security center to manage security. When we are thinking about Microsoft and security, should we be thinking about it in terms of this is what you need to do in terms of almost like a marketing spend in terms of people that have confidence in your products, or is security a market opportunity for Microsoft, (inaudible) selling individual products and increasing monetization behind [ph]?

Amy Hood {BIO 18040963 <GO>}

At the heart of your question, you are really asking do I think of security as a standalone vertical or do I think of it deeply horizontally. I do think the way we generally both think about it and the way you see it in our products is more horizontal than vertical. But that doesn't mean you’re selling motion is not vertically minded in terms of the value proposition directly to customers. I will give you an example. Windows 10, especially from an enterprise value prop, one of its strongest pillars in terms of customer adoption and some of the early success we've seen is absolutely the security pillar.

And so while I don't say, by the way, buy Windows 10, it's a security business. Windows 10 deployment in the enterprise often times is about a more secure operating system. And so I think that's probably a very good example of the distinction. But I understand the nature of your question. It's certainly an opportunity when people ask how do I best secure my business. And you can go down solutions, whether it's Windows 10 deployment, EMS solutions, EDP, of course and then you kind of go down a list and that solution would look a little like you'd buy a slightly higher end SKU of Office 365 to make sure you have the highest security protocols. You'd buy a Windows 10 Enterprise on top of pro licenses. So in a math equation, that looks like higher ARPU. But it tends to be a more horizontal and broad approach as opposed to selling just as a security solution as our major motion.

Keith Weiss {BIO 6993337 <GO>}

Got it. Shifting to Windows 10, the enterprise side of the equation and the security side of the equation, (inaudible) in terms of the DoD adopting Windows 10 in a relatively fast fashion. We tend to think of the operating system adoption taking place over an extended period of time. How many (inaudible) enterprise adoption? Are you actually seeing more broadly an accelerated pace of adoption of Windows Enterprise across enterprises [ph] because of that security functionality?

Amy Hood {BIO 18040963 <GO>}

I don't know that I could tell you precisely what the sole root cause is. I think security is a reasonable assumption based on the correlation of the feedback we get. Our enterprise deployment motion, which includes proof of concept, tend to deploy [ph], which is the standard protocol in IT for this motion, is about 140% ahead of where Windows 7 was at the same time, which most people think of as a very successful enterprise rollout plan.

So I feel good about that progress. It's still early. I'm excited. The field is focused and I feel like customers -- there's a lot of pull from customers as well to do proof and understand the value prop (inaudible). I think we are certainly encouraged by the pace on that side, especially when you think of Windows 7 as a pretty healthy benchmark.

Keith Weiss {BIO 6993337 <GO>}

Got it. On the first side of the equation in terms of the consumer PC market, the consumer PC market still looks pretty weak out there. The units aren't growing. It looks like Q1 could be another difficult quarter. How do you guys think about that in terms of the Windows 10 cycle? I think there's definitely investor expectations that Windows 10, a new better operating system, helps spur that marketplace. Is it disappointing that we are still not in consumer PC growth or is this really too early for that to come back?

Amy Hood {BIO 18040963 <GO>}

No. We made a decision, which was to provide a free upgrade in place. A free upgrade in place and we have over 200 million active devices that have been upgraded means that you have -- there is an impact, of course, on -- if you want Windows 10, you have to buy a new PC. That's been the motion up until this cycle. We made an active choice not to have that be the motion, to have more people frankly become fans of Windows 10 than Windows 8 and the way you build more fans is to have more exposure. And so I think that active decision probably had some impact in the PC market. But, at the same time, I think we have more people running Windows 10 and more feedback, more excitement, more developer excitement because of the choice we made in terms of the upgrade path.

In terms of the PC market, I don't think my expectation with the PC market would be much different from the markets generally. We are pretty aligned in terms of our expectations. We've seen some ARPU increases in H1, especially on the consumer side from some pricing changes we made. So we certainly have a higher RPL and you've heard other vendors talk about it too. There's been a shift to more premium devices in the consumer segment as well. I don't think we are the only person who would say that. And so that does help on ARPUs in terms of overall revenue.

Keith Weiss {BIO 6993337 <GO>}

One of the other interesting dynamics that come out is alternative ways that you are monetizing Windows 10. I think the most discreet one (inaudible) in terms of (inaudible) that there is not a search that's going through to Bing from Windows 10 devices well ahead of what you are seeing in previous devices. Can you tell us how durable do you think that trend is in terms of Bing? Are there other avenues of that monetization that we should be thinking about that just having that new operating system will help you get to?

Amy Hood {BIO 18040963 <GO>}

Yes, I do think -- I most often get asked about Bing or the search business and we are very proud of the progress in that business. Not only is it profitable. Marginal improvements have been very good. Our ability to grow -- that's a team that frankly suffered from many negative notes from you and others on their psyche for a long time and so I'm incredibly proud of the progress they've made. This is an important strategic business for us. Most people underappreciate what a search business really is in terms of the competencies and skill sets which they have. It's really the core of what many people think of as a digital agent strategy.

It's also Cortana, our Cortana analytics product, which is now an enterprise product, came from much of the technology in the Bing team. So beyond the actual search growth, which we feel good -- again, some of the search growth is driven by the choice we just talked about on the Windows side, which was to upgrade the base.

Upgrading the base, including the new browser, Edge, which performs better than IE. So the Edge strategy does encourage search differences. We've been pleased with our RPFs and so I feel very good about our ability to sustain that as the active device number grows in terms of our profitability and frankly share.

Now the second one that you would think about is our gaming business. So we've talked a lot about bringing gaming to PCs. Outside of search, PC gaming is one of the most interesting post-monetization -- once you buy a PC, what do people spend on directly or indirectly? Search is certainly one. Gaming is another. And so our ability to bring an incredibly strong brand in Xbox to a subscription idea that crosses from the console to the PC to whatever device you choose to do whether it AR/DR [ph] as well. You have to think about having that brand in that franchise to expand. And so it's not truly PC monetization. But that's at its core is to be able to make that transition with our efforts.

Keith Weiss {BIO 6993337 <GO>}

Got it. And the last thing (inaudible) personal computing I want to make sure we touched on is the mobile side of the equation and (inaudible) a lot of guys had thought of mobile as a potential Achilles' heel for Microsoft, that you saw Google and Apple really taking a lot of share away. They are taking the key user interface into mobile phones with their operating system. But then on the flipside of the equation, Microsoft has become a lot more ubiquitous on other platforms. Now you have Office. That's available on other platforms. Cortana is available on other platforms. Is mobile -- having that mobile interface, having that marketshare on the phones itself, is it as important today as it was two, three years ago, or are you guys more confident in your ability to maintain that connection with the customer with the application services despite the operating system?

Amy Hood {BIO 18040963 <GO>}

We get asked this with relative frequency. Obviously, I tend to focus exactly the way we talk about our mission and our ambitions in this effort. The mobility of the experience is what matters the most to us across any screen of any size. And so whether that be no screen in many instances from an IoT construct, all the way to the largest screens, which is what we will ship with Surface Hub, which is the big large-screen video meeting room situation. If the mobility of those experiences are familiar to you and what you work on your desktop, is what you work on your phone, it's what you interface with on your wrist, what you interface with on a large screen -- we feel very good about our relevancy in a market where time is split amongst many, many, many input nodes, I'll say it that way, interactive nodes, even the long-term construct as opposed to a shorter-term construct of a phone.

And so I think that remains our focus. It remains where the majority of our investment is. That doesn't mean that we won't continue -- we shipped the 950, the 950 XL and holiday [ph] and it said performed as well or better than we thought. But I think the main focus is strategically the core. It's having the experiences you know and love whether you are an end-user, in IT or a dev to be across all platforms.

We bought Xamarin this week or last. It kind of all blends. It must have been last week because today's like Monday or Tuesday and so what's important is for that to say, listen, we are going to be relevant in mobile for dev and for app dev, you write it once, run it anywhere and have it back up to Azure. That's a great plan conceptually. I like that. That's what mobile experience is like.

Keith Weiss {BIO 6993337 <GO>}

I want to shift gears to the margin side of the equation. When you were talking about Microsoft gross margins, it's a complex equation because you have mix shift on one hand that's the driving force of some lower margin businesses. But the margins within those segments are improving really well. The area we are seeing the most improvement in that gross margin segment is on the cloud side of the equation. The question I get most often is guys trying to figure out the gross margin profile of Azure in particular. Where are we today, where are we heading? Help me answer that question for investors. How should we think about the framework of Azure gross margins, where they are heading and where they could ultimately be?

Amy Hood {BIO 18040963 <GO>}

I think we talk a lot about our commercial cloud gross margins all up and I think that is hard. People want the number and then it's confusing once you get it because it's a blend of two very different businesses, different lifecycles. So I understand the nature of the question and why it's hard for people.

On Azure, in particular, we have made substantial progress over the past couple of years in our Azure gross margin profile. I look and have no confusion about our ability to continue to improve those margins and I can see very clearly how AWS gets to where they are and so it seems mathematically correct. The trajectory we are on, I understand where they are. I understand where we are in our lifecycle. So I feel good about where we are heading with the Azure profile given our relative size.

And on the Office 365 side, on the margin, those have been improving as well. It's a much -- I actually don't want to make it sound old -- but that's a big business for us already. Those margins have improved substantially as well. They've gotten to the point now where the improvements will be less, quote/unquote, substantial because you are getting to the point where you should be. You are at scale. So we've got room to improve for sure and I'll make sure my team doesn't hear me say they've done a good job on this one as well. But this is a good progress. But I feel confident there's more we can do.

I think you and I have talked about that before as well on the Office 365 side too cleanly [ph]. I should also be clear, I think about the Azure business, there's sort of the IS [ph] cash margin profile. And then there's some of the more SaaS-like attributes whether that's BI or in analytics -- have very different margin profiles than what I would say is store and compute, or looks like store and compute. So I feel good about our trajectory in all of those.

Keith Weiss {BIO 6993337 <GO>}

Then on the OpEx side of the equation. So it's a slightly more softened question on that, you guys have done a remarkable job of keeping OpEx under control and having a really tight focus on OpEx over the past two years. And a question I get is the durability of that. How long can OpEx remain no growth to very low growth at Microsoft, or at some point do you guys have to flip a switch and really start to go into investment mode? So actually question two is when we are thinking about OpEx growth under pacing revenue growth, how long is that actually durable for?

Amy Hood {BIO 18040963 <GO>}

It's why I think the new segment and the reason we've gone to operating income in those segments. So it's more obvious to everyone where we are investing versus the top line by segment because it's incredibly important. In our intelligent cloud segment, you saw this quarter we are investing in operating expenses because we are growing the top line substantially. I have no issue with investing in salespeople and engineering to expand our TAM and to grow revenue.

That's not -- I would only feel badly if I said no to those. Those are growth businesses with growth profiles and with a large ability to take share. Investing in those businesses and holding people accountable to that, that is an easy decision. Everywhere else, we've done I think a good job of moving and saying what can we do differently, what can we stop doing, what can we move those dollars better to have a higher return. Whether the ROI on that dollar is in the wrong place, I can move it. That's certainly a lot of work we've done over the past 2.5 years. I guess almost 3 that I've been on the job. And we will continue to do that. There's still room -- always room to do that and optimize.

There's also continuing to get more efficient with every dollar. How can we take out layers, how can we move resources, how can we make it easier, how can we --? Those are also good choices. And it's a pretty nuanced answer and it's why we run the business the way we run it, which is we want -- each segment has its own dynamic. Each business needs to be run with that in mind and so I am pretty focused on continuing to increase the ROI of every single dollar and looking at every business on its own to see structural improvement and a path to be one or two.

Keith Weiss {BIO 6993337 <GO>}

Excellent. I have a bunch more questions I want to get to. But I want to also leave time for the audience. Any questions from the audience before I keep going?

Questions And Answers

Q - Unidentified Participant

Thanks. Amy, two questions. So just you are viewing margins (inaudible) the trade-off you have in your core business. So just to make sure I understand correctly, within

MPC, which is (inaudible) for 265 [ph] and intelligent cloud with incremental growth driven by Azure. What is the right expectation for margins right now? And I ask that with this on my mind. Number one, they are lower margin than (inaudible) traditional over time. But they were scaled [ph] and at the same time, I think Microsoft is a company that's trying to invest for growth and not just be short-term-oriented. I don't want to get over my skis on margin expectation.

A - Amy Hood {BIO 18040963 <GO>}

Yes, by segment, you are right. Office is frankly PBP, productivity and business processes. Yes. It is probably the cleanest one. That business in its traditional form is 95% plus at the growth level. The new business even at scale won't get to that point even if it's -- I don't know how many businesses in life do. So I don't view that as a negative at scale. SaaS business, it will be a very high margin business. But it won't be 95% and so you are right. The blended rate of those will come down. The absolute dollar growth, of course, can be quite good.

Intelligent cloud has many of those same attributes. It's slightly more complicated because the delta is larger at the sustaining level. SaaS sustaining margins are far higher than IaaS and PaaS sustaining margins, to your point the scale margins. So you are right, it has the same high traditional margin, a lower sustained gross. And so the outcome of those would be lower growth than PBP. But certainly at the same level, very good cash flow/real dollar growth as you think about those.

NPC obviously has the widest discrepancy because it's got the hardware businesses in it. I will use Xbox as an example, a more traditional razor and blade model, all the way up to the OEM business, which is at the opposite end of the margin spectrum. And so structurally those have -- you'll see bigger gaps year-to-year and so I think that's the one thing I would say structurally is the NPC segment has the most volatility in terms of ability to jump. The others, because they are so annuity-based, you are not likely, nor am I to be very surprised by the margin curve behind those businesses.

NPC in addition to having large deltas in its sustaining margins over time also is a non-annuity business at its core, meaning transactional and recognized at a transactional basis and so you have more volatility at the revenue line as well as at the margin line. So that one is. And I understand it for most people, the most difficult to get the curve -- the sustaining curve on. It doesn't have the same attributes as the rest of our commercial entity.

Q - Unidentified Participant

(inaudible)

A - Amy Hood {BIO 18040963 <GO>}

Well you've seen us invest OpEx in intelligent cloud mostly. I don't think you've seen it in the same way in the other segments. Been able to reallocate or reuse most resources and we've been moving investment from NPC to intelligent cloud (technical difficulty).

A - Keith Weiss {BIO 6993337 <GO>}

(inaudible) a lot of stock (inaudible) dividend yields close to 3% today and you have a ton of cash. But all that cash is sitting offshore. So when we put together our model, we have you guys having to take down significant debt to fund -- the US operations to fund repurchases and that dividend on a going-forward basis. Is that sustainable? Can you continue to have the (inaudible) of having to take down debt to fund those obligations?

A - Amy Hood {BIO 18040963 <GO>}

We are a AAA-rated company, one of the few that remain. I feel confident I could raise money if I was AA+, AA or whatever. I generally tend to think about it -- this is a decision around total shareholder return and we thought about how best to do that. Investing in our core is obviously principle number one and running that most efficiently as we can, growing inorganically where it makes sense, returning dividends at a thoughtful yield and finally repurchasing shares.

I feel very proud of frankly the progress we've made across all those fronts to contribute to total shareholder return. It's a big focus for us as a management team, as well as a broader company priority and I think we've been able to, I think, execute strong pricing on the bonds and feel very good about borrowing at less than the yield on the stock after tax and makes good sense. Feel good and optimistic about our growth (inaudible) trajectory. So I certainly think we've got $14 billion-ish -- look at Chris to make sure -- left in the repurchase that we committed to get done by the end of the year. So here we are.

A - Keith Weiss {BIO 6993337 <GO>}

Excellent. Well that takes us to the end of the time. Thank you very much, Amy, for joining us (inaudible).

A - Amy Hood {BIO 18040963 <GO>}

Thanks, all. I enjoyed the fire alarm as well.