UBS Global Technology Conference

Company Participants

- Jeff Teper, VP of Corporate Strategy

Other Participants

- Unidentified Participant, Analyst, Unknown

Presentation

Unidentified Participant

Good morning, everyone. Thanks for joining day two. It wouldn't be a tech conference at UBS without the rain so we are two for two but it doesn't seem too bad out there right now. Thanks again for being here.

A couple of announcements for today. At 10:45 we are going to do an upstart panel. You are going to hear from five of the most interesting upstart stories that are private so a good chance to hear what is going on in the private world. And tonight, we are going to have our CIO team for drinks as well as a number of executives that are presenting today. So please join us at 5 o'clock, casual drinks, dinner and then prior to that time we will have our CIO panel so you can ask our internal guys what they are spending on and our priorities internally.

I am really excited to have Jeff Teper here with us this morning from Microsoft. There is no question he will be inducted into the software hall of fame at some point. He has been with Microsoft for 22 years and he actually was on the team that hired the current CEO, Nadella, to the Company. He was instrumental in helping Satya come from Sun Microsystems to Microsoft to help work on the server products. So Jeff was actually a very instrumental force in bringing him to the Company.

In addition to doing that, I think he has been coined the Founding Father of SharePoint where he spent almost 14 years on that product, grew it into a multibillion-dollar product line and has also worked on a number of acquisitions including multibillion-dollar deals of FAST and Yammer and I think there are other things that he has probably worked on, maybe the Minecraft deal which my kids love by the way.

But from just a perspective we will keep this short in terms of the interaction and open it up to your questions as well.

Jeff, thanks again for being here and thanks for getting my career kick started too in the early '90s. I was a Microsoft developer so I wouldn't be here without Microsoft. So thanks for that.

Considering you have been at the Company for basically over two decades, I think it would be interesting for you to maybe open up and give a sense of how the culture has changed and certainly how it has changed now with the new executive management team versus what you saw in the past.

Jeff Teper {BIO 16954031 <GO>}

Yes, sure. Thank you, again for having me. We are sorry we brought the clouds with us but we are a cloud company and bringing the cloud everywhere.

So Microsoft, I think as people know has always been a pretty intense passionate change the world kind of company and it is interesting just thinking about it this morning, when I joined, people said to you guys are a desktop company. That is what you do, you are a desktop. You can't possibly be an enterprise company, a server company. You have no server revenue and so forth. But we sort of kept fighting and we believed we could build better products, we could get the biggest partner ecosystem innovating around us and we kept pushing and pushing and we ultimately obviously succeeded there thanks to a lot of hard work.

I think what Satya has kind of done is bring us full circle that he has brought that balance in the tone of on the one hand being very grounded in reality but there is a ton of very strong competitors out there who have different strengths and weaknesses and market positions, some places are hinged [ph] pretty strong, other places we have more work to do.

But he also is incredibly optimistic that just like 20 years ago when we saw what the PC could do, now we look at trends like the Internet of Things and Big Data and just trillions of dollars of opportunities going to be created. And so I think what Satya has done is kept us grounded in reality but that still that change the world passion, optimism that you need to keep plugging away. And people ask me a lot about the culture in the last six months or so and I think everybody at Microsoft has got an extra spring in their step and you see it in the product launches, you see it in the stock price, you see it in the tone you get from customers and partners. So it has been fantastic.

Unidentified Participant

As my role as Deputy Director of Investor Relations, I must make this statement before we start. Microsoft may be making forward-looking statements that may predict and projections about the future. Actual results could materially differ because of risk and uncertainties. Please review the regulatory filings that describe these risks and uncertainties.

Jeff Teper {BIO 16954031 <GO>}

Thank you for saying that so I didn't have to.

Unidentified Participant

So from just a product development perspective maybe since you were an engineer and you spent a lot of time building products, how is the development process changing? It seems like you are becoming quicker and more relevant than perhaps even just a couple of years ago.

Jeff Teper {BIO 16954031 <GO>}

This obviously didn't change overnight. This had been in process for several years but if you think about it what we used to do is bring in a bunch of our top customers, get their feedback and for a few months, come up with a plan for the new version of Office and the new version of Windows. And we knew the market really couldn't digest a new version of one of our products more than every two, three years. In fact, the IT leaders at most of the companies you all work with would say they couldn't digest things except every five to seven years. They would often skip a release of Office or Windows because they didn't want to deploy it and to be bothered with it.

So we have this two, three, maybe five to seven year feedback loop where employees in a bank would get new capabilities, they would decide whether they liked them or not and they would give us feedback and then getting the next release and we were masters that that. I think we take a lot of pride that we were able to execute with thousands of engineers, land it all on one day with a high quality product for billions of people but that is not the playbook anymore.

The playbook is to get things out literally every day and get feedback and react and change where we are going to invest. Look, we've got 100 people on this but everybody seems to be using this feature. Let's take those people and pour gasoline on the fire of what is landing well in the marketplace.

So for the team it is so much more fun because you don't throw things -- it is like dropping a note in a bottle and sending it around the world in the old model. Now you can get things out there and I think the best proof point for us if you look at the Office 365 blog and the Azure blog, every week in some ways it is almost overwhelming for customers but boy, we would love to be erring on this side than the side of this multi-year feedback glip [ph].

Azure is shipping something every day, literally hundreds of new features for Azure and 365 have come out over the last several months.

Unidentified Participant

When you look at the commercial business it is a $50 billion business and it is growing high single digits to low double digits. When you look at the rest of your peers, you are basically left in the dust when you look at the big peer groups of mega cap software in terms of the growth rates. I think part of this is you did make

the pivot to cloud a lot sooner. I don't think people believed you guys and it certainly is showing up in the financials. And I am just curious if you could talk about the size of investment, how long you have been making this just to give people a sense that this isn't you just woke up and all of a sudden you're in the cloud. This is something that you have been doing for quite some time.

Jeff Teper {BIO 16954031 <GO>}

Yes, maybe I will just start with a little story. Again, as part of the development we used to bring in our top customers, we called it technology advisory program and so at about 2011, early 2011, we had one of those events where senior IT people from companies like folks in the room, other companies came in to Redman. We had about 100 people in the room talking about what we would do for the next version of Office and I got up and gave the keynote and said we've got some ideas but we want your feedback. And we said we have had a cloudish version of Office called Business Productivity Online Services which was you could think of as a hosting play rather than a cloud play. But we wanted to go to the cloud and we asked the people in the room how many of you are going to the cloud and 10% of the room raised their hand. And I said no, no, no, I don't mean this year but in three; to five-year time horizon. Another few hands went up and that is sort of when it would hit me that innovator's dilemma story that our customers were going to be a trailing indicator on the market. That the IT people in the room were not going to tell us when the market had turned, they were going to tell us after it had turned. And we actually -- that motivated us to go invest even faster.

We literally after that meeting had the let's not listen to our customers right now discussion and we shifted to what we now term cloud first which was instead of making the server every three years, running it in the cloud, we are going to go build the cloud every day and grab a piece out of it and make a server out of it and so we have been at this or several years. I think you all have seen our run rate now is about $4.5 billion in cloud revenues for Office 365 and Azure, lots of new services. Just this week we announced the Office 365 Video Service between Azure and Office 365.

We are spending about a comparable amount in CapEx so in that sort of $4 billion, $5 billion range for the cloud and I think there is massive economies of scale here and you will see there is really going to be three mega cloud companies between us and Google and Amazon. And in terms of the IP creation focused on the business customer, we are far ahead I think in our focus and revenue investment. And you see it. We are -- we have had five consecutive quarters of triple-digit revenue growth in the cloud and so this is we are really excited about it but it has been a five-year journey from meetings like that where we realized we needed to invest ahead of our customers, not behind them.

Unidentified Participant

I think everyone is kind of curious about Bill Gates' involvement and before we started this you mentioned that you were at a recent meeting with Bill and I am just curious if you can bring this into the equation of how he is helping you all shape this as well. Because he obviously called on Ray Ozzie early on kind to (inaudible) and

kind of wake-up the organization around the move to the Internet. What is his involvement?

Jeff Teper {BIO 16954031 <GO>}

As Bill has said in interviews, Satya is in charge, he is the CEO but Bill is brilliant. Pat [ph], he sees things with such clarity and he would say his timing, he will be early when he calls what is going to happen but his directionality is incredible. And so Satya has asked him and Bill is excited to engage on product roadmap kind of work where we were talking before about using our access tools to create applications. It is incredible how many billions of little apps have been built on Excel or Access or SharePoint or SQL Server and that sort of long tail of business solutions is incredible and that happens to be a place of amazing passion for Bill because hey -- he wrote, he somehow jammed a version of the basic language in what we think of as virtually no memory on this first microprocessor chip.

And so he will get and engage with the development team on what the experience should be like for building these new cloud mobile social apps and so I don't know it is a day or two a week but he will come in and do product reviews and as Satya has said to us both publicly and privately, nobody makes you bring your A game like a meeting with Bill. He may not always the right on everything, he is probably right on most things but boy, you go into that meeting having thought things through and even if it never comes up in a meeting with Bill, technical work business work has been done with so much rigor because he motivates us all to excel at the level that he excelled.

Unidentified Participant

I think most investors have noticed the change on the product side but also operationally with what Amy has done and I know this may be a little bit away from your domain. But when you think about the discipline that she brings to the financials and the things she is doing around the cost containment, I'm curious if you could give us a sense of being part of that executive team and her role as well?

Jeff Teper {BIO 16954031 <GO>}

For many years I was on the other side where I was one of the engineering guys going to Amy saying I need more money and she would say, I don't think you need more money, let's walk through it and most of the time she was right. But in terms of the cloud, she actually gave us a lot of money and I think that is why we are where we are.

I think there are sort of three things in looking at how Amy and the finance leadership team works and how they support Satya. One is there is incredible rigor around the spending that she -- there is a lot of scrutiny about every dollar should be spent well but not so -- just from the standpoint of financial performance but for freeing up investment for things that need more gasoline if you will like the cloud. So one is the financial discipline has been great.

Two is she and Satya are sort of mind melded on the leaner we are the faster we are and so there are some things that we have to do at massive scale like build all these data centers. There's other things like if we are going to go build some cool new mobile apps, you don't want 100 people on those. That team was going to be too slow and so just the culture, being tight for speed not just for cost savings is important.

Then lastly, she and Satya have been clear that part of the work we did and we did some layoffs over the course of the year which were difficult, wasn't really motivated by EPS optimization. It was partially motivated by freeing up investment for new things, organic and inorganic because any student of history in the technology industry will see that the mistake companies made from one generation to the next is not taking spend off legacy products and customer segments and putting it on new things fast enough. And if your investment level is a function of just your profit, you may not invest enough. And Amy and Satya, Satya came in very clear look, I want to double down on some of these things. Some of these trends like the Internet of Things is going to be huge. I want to invest more than the models would allow me to invest and so they talked about it and she said great. Let's put some pressure on the existing business to free up investment capital.

Unidentified Participant

You frame everything cloud first, mobile first. What are the proof points that you're making progress?

Jeff Teper {BIO 16954031 <GO>}

Yes. In cloud the evidence is I think pretty clear at this point that Office 365, Azure doing well. The thing that I think we are most proud of is the pace of new product innovations. We have an enterprise management suite that lets you manage in all mobile devices from any vendor, any platform. We have a video service I mentioned. We introduced Internet of Things work, We have Big Data work, some we have done on our own, some where we are hosting Open Source, things like Hadoop, where people a couple of years ago wouldn't have an imagined Microsoft running and making money hosting Open Source software.

And so in the cloud side I think there's a lot of proof points both in the revenue and the product.

On mobile, there you have to really stay up to date because in the last few months we have done a lot of things like you might have seen just in the last week or two, the new office for the iPad and iPhone announcement, the commitment to not only Android phones and but Android tablets for Office and it is free. You can create documents on these phones and tablets. It works with our storage, it works with Dropbox, the user interface and then the new phone I think we did some very novel work. So we really want to make sure the billions of Office users can get access to their content anywhere they go and we have got new versions of Office, new versions of Skype. We have a pretty broad pipeline of new mobile first experiences coming out that you will continue to see like the Office announcement. So I think in

the last year we have done a better job redefining our success in mobile is the number of people using our software regardless of what platform it is.

Unidentified Participant

Steve Ballmer recently told Charlie Rose in an interview in hindsight he wished he would have done mobility a lot earlier. What do you need to do now to get back in the game considering the market share is low single-digit?

Jeff Teper {BIO 16954031 <GO>}

Yes, I think first we have got to redefine mobility is the mobility of the user across all devices and not just necessarily our mobile platform. We have a great mobile platform. We are investing in it but I think if we -- if somebody has got a Windows PC and an iPhone and they love our software, when they go buy their next PC, tablet, phone, they are going to say you know the new version of Office is amazing I love it or the new version of Skype. Wow, they have done some unique things on the surface, on the Lumia phone. Let me think about that.

So I think Satya has really emphasized is the challenger mind set, let's get people to love our products and we will pull them back to our platform.

One of the stories -- I don't if -- you know this from -- because you are following us in the '90s but the first version of Excel was done for the Mac and not for Windows. The first version of the Office bundle was done for the Mac and not Windows. The first version of the Office bundle was done for the Mac and not Windows. Bill was pretty clear. Look, we have an apps business, we have a platform business, our apps business to be successful, it has to be great everywhere. We do unique work on apps, people will prefer our platform and the flywheel will go.

We are sort of back to those roots where -- and I think an early proof point I would give of that we are on our third round of the surface and I think you can see it is a product hit and a financial hit at this point. We had good news in the earnings last quarter about doing $900 million in surface tablets and it took us a bit to figure out the right form factor and positioning but this positioning of the tablet that can replace your laptop, that has unique things that the other platforms don't have like the pen integration with one note and so forth, I think is the model. So killer apps, available on any platform and then ultimately the flywheel of platform differentiation will happen again.

Unidentified Participant

I get a lot of questions about Azure. And correct me if I am wrong. But it is a collection of I believe over 40 different distinct products, maybe higher now.

Jeff Teper {BIO 16954031 <GO>}

I can't keep track anymore.

Unidentified Participant

But so in terms of just summing up what you are doing there, I think you said what a lot of the industry analysts and a lot of what we have seen is it has become a three horse race between Amazon, Google and yourself and it is interesting that the others aren't involved in this conversation. But where is Azure going? How should we think about this over the next couple of years?

Jeff Teper {BIO 16954031 <GO>}

It is interesting for me on this job where I was on the engineering side for so many years and I came into the team and there are some brilliant financial economics folks in the team that I got to lead. And I sort of intuitively knew the economies of scale of the cloud would trump things because you watch the technology industry and you see Moore's Law and what happened with a microprocessor and so forth. But as I stepped into the role, people showed me the math in great detail and the economies of scale are pretty massive and you are starting to see that in storage for example versus three years ago.

You can now buy for $6.99 a month, a subscription to Office that gives you basically unlimited storage. We have gone from companies offering 10 gigs of storage to 20 gigs of storage to a terabyte of storage and now the big guys will give it to you essentially for free.

Every photo my family has ever taken is now in the cloud, not just the good ones but every one because I don't have to think about it anymore. And so the economies of scale, the ability of people to invest billions today and tens of billions of dollars in the coming decade or two will really limit the number of players who can be economically viable and that gives us a foundation for a pretty broad product line. And I think the thing that I get most excited about Azure is the size of the addressable market because you mentioned the 40 products. We can now be in management, in Big Data, in video and in all of these categories whether we do it ourselves with our own IP or whether we host Open Source software that the community has created or we work with our partner ecosystem, we are not going to build pharmaceutical clinical trials applications. But we can now participate more in that market as those things get hosted on Azure. So we want to have the most horizontal first-party apps but we want to have the very best platform for all sorts of business models Open Source, high-end. You have seen us do deals everybody from Docker to SAP to Oracle to Salesforce, we are working with everybody and I think that is very customer friendly but from our business perspective, it really expands the addressable market versus where we were in just the server world.

Unidentified Participant

In terms of where Amazon is going versus where you are going and Google, can you maybe give us a quick snapshot of how you think directionally you will all coexist or where you think your strong suit will be?

Jeff Teper {BIO 16954031 <GO>}

Yes, Google is obviously got a very strong position in consumer service. Take YouTube as obviously a great franchise that there will be other people streaming video but YouTube is at scale, the kind of scale we are talking about for a cloud platform and productivity, they have for entertainment if you will or video entertainment. Amazon has got a strong position in commerce.

So we are all going to play in this mix of business and consumer and so forth but really I think we stand apart in business services, business platform in the cloud and one of the things Satya did if folks followed it is he clarified our mission as a Company as the productivity and platform Company and so the number of people working with partners, working with customers in the enterprise segment at Microsoft dwarfs Google and Amazon.

It is not just the billions of dollars in the datacenter, the other guys are spending billions of dollars too to host Open Source stuff and that will be a business where the three of us compete. But we are also spending billions of dollars in unique IP on top of that or around that that is monetizable by differentiated gross margin. And so I don't think -- Amazon has some first-party products but mostly they are hosting virtual machines of Linux or Windows but they don't create as much new IP as we have created with say Power BI or Office 365. So I think in not only our go to market but our product development we are going to differentiate as the leading business cloud service.

Unidentified Participant

Just maybe on that point, it seems like you are -- I don't want to put words in you guys mouth but it seems like you are narrowing your focus meaning you are putting bigger bets on maybe fewer things. Is that fair?

Jeff Teper {BIO 16954031 <GO>}

Yes, I think that is fair.

Unidentified Participant

And it seems like there has been this pivot where maybe you threw a bunch of investments at consumer but there has been questions about the refocus which seems like business makes sense but what about the consumer business? How do you think about those investments and where do you want to go with them?

Jeff Teper {BIO 16954031 <GO>}

We have been more focused as a productivity and platform company. We want to be careful about not -- just being an enterprise company. We have used this phrase, dual use products. So take Skype. Kids Skype with their friends, meetings are discussed over Skype. We just rebranded our Lync offering, Skype for Business in the

last week or two and we love that model. A free version of Skype that is the best video chat product in the world we are going to continue to make it better, bring it to other platforms, lots of innovation.

We did this Skype translation service which is pretty neat. You can speak in one language and out comes another language in real time. We have speech tech that is ahead of Google and Apple there that let us do that. And so we are very focused on this dual use.

He didn't say we are a business company, he said we are a productivity and platform company and this focus on dual use lets us get the broad adoption and emotional appeal of the consumer or user but with products that are also applicable at work and can be monetized at work. We are going to make an enormous amount of money as tens of billions of dollars of enterprise telecommunications gets disrupted by software in the cloud.

The Lync business transforms Skype for Business is an enormous business opportunity but part of the go to market for it is going to be that a bunch of people are using Skype free and they come into the office and they are familiar and they love it. So the consumer scenarios have a play in these dual use applications.

There is one other and this was very targeted and Satya clarified this early on, if you look -- video, books, music not so much of a focus but there is one other category that we've called out special which is gaming. We have an incredible franchise in gaming. We bought another one but people will ask us how does gaming relate? And there is really two things. One is if you look on PCs and phones, people spend an enormous amount of time on gaming. They spend a lot of time on communications and productivity and surfing the web but gaming is pretty key.

So for the future of Windows and our platform, we need killer gaming experiences for differentiation but also technology. It turns out a lot of our cloud guys, some of our best cloud people cut their teeth in Microsoft on Xbox Live building Xbox Live because there is nothing like having to build first-person shooter massively multiplayer games getting the latency down of when I pull the trigger, I want the other guy to die instantaneously. It turns out that same technology is useful for real-time Internet of Things data streaming. It is kind of the same TCI/IP sockets-based stuff over on reliable Internet networks anyway.

So -- but for the most part the core of Microsoft overwhelmingly and fortunately the investment is on productivity and platforms with an eye to dual usage because we know what people adopt in their personal life is so important to what they want in their professional life.

Unidentified Participant

It makes sense. I have a seven and a nine-year-old and they are addicted to Minecraft so --.

Jeff Teper {BIO 16954031 <GO>}

That was pretty well -- people had to talk to somebody who used it and once they did, they realized it was an unbelievable franchise.

Unidentified Participant

And it just goes back to -- I have asked them what they want to do when they grow up and they say they want to be Apple developers because they hold the Apple device but in the case of being in Minecraft, that may create -- you want to get to a younger audiences as well that could effectively that is going to grow up because I think that the fear is that there is in the consumer world it is an Apple driven environment and ecosystem and this is a way for you to --.

Jeff Teper {BIO 16954031 <GO>}

It is. Minecraft is a development tool. People build worlds out of it and if we can get eight-year-old girls and boys building worlds and getting inspired by creating content digitally, as they grow up they will want to create in PowerPoint or Visual Studio. And in addition to being one of the few gaming franchises that doesn't have to be freemium, Minecraft can actually charge money. It turns out it is a great business and with lots of upside. So anyway.

Unidentified Participant

One of the questions we get is the capital allocation is more of a question for Amy but there has been questions about the dividend growth slowing a little, the buyback has obviously gone up. But you have had times where you have done big M&A but you have probably done more tuck-in M&A than you have big deals and some of the big deals have gone okay, some of them haven't gone so great. But how will M&A play a role in the new Microsoft?

Jeff Teper {BIO 16954031 <GO>}

I think the leadership team at Microsoft is pretty deep students of the track record on M&A, ours, others what has gone well and so very thoughtful. This is probably where I spend about one-third of my time in my job is actually M&A. We meet with Amy every two weeks and we are pretty structured. This is something that I worked on with her when I came into the role is we look at the addressable market, we look at what categories we are going to be in and as you said, we are more focused here. We look at our strategy and we rate our organic investment is it going to allow us to participate enough and succeed? Then we get to the things we could potentially buy.

And we look at those and we literally every two weeks we sit down and walk the list and talk about build, buy, partner, compete, cooperate and so forth. And there is an enormous amount of rigor on it. This is a tough subject to talk about because I'm not going to foreshadow anything whatsoever other than to say we are being really

thoughtful and we think M&A will have a role in the mix and we are spending a lot of time on what would be the opportunity.

Unidentified Participant

Do you think you are more open to doing things now realizing -- I think everyone kind of pulls out their phones and looks at page one or page two iPhone apps and looks that just in your personal life the application portal [ph]. These are some important assets that have come from nowhere and it would be tougher to build those brands rather than you could just -- (multiple speakers).

Jeff Teper {BIO 16954031 <GO>}

You mentioned at the beginning, part of my background so I built this product SharePoint. It was the leading collaboration in portal product and a couple of times once in 2008 and then 2012, these categories got hot, enterprise search and then enterprise social later and it is so much easier to build than buy. And every engineer, anybody in an engineering tech company always wants to build because they can always build it better and integrating somebody else's code is hard and so forth.

So the inertia about doing these things is tough but in 2008, I said look, search is just like on the Internet and Internet search is going to be a big deal and there was three or four companies out there. We bought the right one, HP unfortunately bought the wrong one that I think people know this story. And the FAST team that we bought in 2008 is still the leader in enterprise search and is the team that has done -- people may have seen this announcement we made a few months ago about this concept called the Office Graph and this Delve module for Office. It lets you based on all of the activity in your organization, it shows you relevant content regardless of where it lives. It is a pretty amazing experience.

Satya has sort of sometimes called it Pinterest for documents. That is not quite the description the team would use but anyway the team uses language that people don't understand in five seconds and Satya's words are probably better. And so FAST was a great acquisition. Yammer down here we had visited the offices yesterday before coming here, $1 billion acquisition, propelled us to the leader in enterprise social. That was a category where people were worried, Jive, the market was going to take off, Jive was worth a lot more than they are now, Salesforce had been this product Chatter. And we said look, we could build it but we are not going to get there fast enough. Yammer has got the best product, they have this freemium adoption motion that works really well, let's go by them. We instantly became the leader in enterprise search, integrated -- enterprise social, became integrated in Office 365.

So yes, as we look at hot categories like mobile apps, like the Internet of Things, security, we definitely are open but we know there are some like FAST and Yammer that have gone quite well. We have also done some that have not gone well for a variety of reasons either this strategy wasn't grounded enough or the execution wasn't quite right or the cultural fit wasn't there. And so I think we are a lot more -- we have more war wounds about the key ingredients of a successful acquisition.

And that was when Satya pitched me on taking this job, that was one of the things. He said you have done two of them and you know how hard they are and so you will make sure we do some as opposed to none that maybe engineers would like to build everything themselves but you will make sure that we do ones that we can actually land.

Unidentified Participant

Any questions from the audience?

Questions And Answers

Q - Unidentified Participant
(inaudible-audience question)

A - Jeff Teper {BIO 16954031 <GO>}
It is a smart move on their part with some of the new continuum features they have done between an iPhone and the Yosemite version of Mac OS. But they are taking two completely different operating systems and integrating them. What we are doing with Windows 10 that we have talked about is making one operating system, one store, one marketplace, one developer platform with tuned experiences for different device sizes, everything from an embedded Internet of Things to a phone to a tablet to these large what we call perceptive pixel monitors that are 80 inches and so forth. And so I actually think we are ahead of them. They are integrating their two things which is a good move on their part but they are two different things and those seams will show through to end-users. Whereas what we have done we can really go to the developer community and say there is a marketplace of 1 billion devices running Windows and the API is exactly the same regardless of what size device it is. Whereas Apple will have to say we have got this Swift programming language for the iOS devices and we've got objective C for the Mac devices and I actually think we are ahead of them there but they have really improved their story with the 8081 [ph] release in Yosemite. So we study intensely what they have done.

Q - Unidentified Participant
(inaudible-audience question)

A - Jeff Teper {BIO 16954031 <GO>}
Yes. It will be a bit of both. There are some categories where there is just less differentiation and there will be more intense price competition. And sorry, we know our cost structure pretty well and where it is going over the next couple of years. We also are getting better and better at upsell and conversion. I think one of the things we have that they don't have is a broader set of high gross margin products that we can upsell people to. So this enterprise mobility suite that we have to do, systems management over all your devices, this is a huge business for us and it is built on the backs of System Center which is a $1 billion plus business that we have had for years.

So we know how to sell enterprise management, you sell it per user and you make a lot of money doing that. It is a great business.

Google doesn't have one of those, Amazon really doesn't have one of those and so we can think about the -- storage and compute are as we are seeing going as close to zero as they can and we are managing our costs so that we cannot lose money there but at the same time part of the calculus we have is that we have the ability to upsell those same customers some premium services. And so you have seen us in storage for example and on the productivity side, we did lead what we did with one drive, we led ahead of Dropbox and Google and Apple and Amazon. If you look back on what we have done with blog storage and compute and Azure, there have been places we have fast followed within a nano second and there has been places where we have been slightly ahead and they have fast followed.

I think you will see everybody there in these more base services at pricing parity but for us we get excited about two things. One, we are going to be at scale so we are going to be able to make -- we should be able to make money. We have 19 data centers. That is double Amazon, six times Google in the enterprise space so we can put storage closer to the customer and that lets you make more money because you don't have to pay for as much bandwidth and so forth. But also we have this upsell opportunity that I don't think they have to the same degree in the enterprise space. Pricing is going to be intense there.

Q - Unidentified Participant

Thanks, Jeff. We are out of time. We really appreciate you being here.

A - Jeff Teper {BIO 16954031 <GO>}

Great. Thank you.