

Evercore ISI Inaugural Technology, Media and Communications Conference

Company Participants

- Christopher C. Capossela, Chief Marketing Officer and Executive Vice President, Marketing and Consumer Business

Other Participants

- Kirk Materne, Analyst, Evercore ISI

Presentation

Kirk Materne {BIO 5771115 <GO>}

Hi. Good morning and good afternoon depending on where you are. It's Kirk Materne with the Evercore Software Research team. We're really excited to have Chris Capossela with us from Microsoft. Chris is the Head of Marketing at Microsoft and we're delighted to host him for a fireside chat.

There is an opportunity to ask questions. I'll run through some Q&A with Chris and then I'll open it up to your questions, so please use the Q&A function within the Zoom Webinar to ask questions and I'll relay them to Chris if we have time at the end.

So, Chris, thanks for doing this. I was hoping maybe just to level set, because I'm sure not everybody has the chance to meet you before. You can just give us some idea of your background and your roles and responsibilities at Microsoft.

Christopher C. Capossela {BIO 6054036 <GO>}

(technical difficulty) I'm pleased to have the opportunity to participate in the chart. As you mentioned, I am the Chief Marketing Officer at Microsoft. I have a fancy title, Executive Vice President. I get to work directly with Satya Nadella, he is my boss; Amy Hood, obviously our CFO is a key peer of mine and partner of mine in our daily work here at the company.

I look after marketing for all of our products. So that means all the things you would associate with marketing, I think, products positioning, messaging, naming. We also do all the pricing and licensing and sort of the business models for all of our products inside of marketing with very close partnership with finance. Obviously, things like advertising and communications, PR, analyst relations, all of those types of things, events, our websites. I also get to look after three different sales forces; the

sales force that calls on advertisers, like myself, to compete with Google, with our Bing ad products. That's a very large business that doesn't get a lot of attention, but that's an exciting business for us.

The sales -- and other sales force that we run is our retail sales force that calls on retail partners like a Best Buy or a Walmart or Amazon all around the world to sell our consumer products through their stores.

And then, finally, the Microsoft Stores team is in my sort of arena [ph], which is the team that runs microsoft.com and we do billions of dollars of Xbox transactions and Surface of Windows and Office.

So I work, kind of, under two hats; marketing for the whole company, and then some more consumer-related or advertising-related sales teams are what I do. I've been at Microsoft for almost 30 years, which is kind of crazy. I joined right out of college and I've done jobs in engineering, believe it or not. I was computer science and economics major, operations sales and marketing.

Kirk Materne {BIO 5771115 <GO>}

That's great. That's great. 30 years at one company. I think it's going to be -- not too many of us will be able to accomplish that. So that's super. Chris, given you stay in a lots of -- lot of parts of the business, I was hoping maybe we'd start on commercial and then toggle back to consumer and not to flip flop back and forth too often.

Christopher C. Capossela {BIO 6054036 <GO>}

Yeah.

Kirk Materne {BIO 5771115 <GO>}

So maybe I'll start with commercial, because I think from an investor perspective that obviously gets a lot of attention. And one of the things you all obviously play into or a lot of the themes around digital transformation, whether it's cloud, AI and you have products within all of those areas really that can help address those opportunities and frankly challenges first for a lot your customers, but how do you think about putting together marketing messages that help your clients think about the challenges, but actually have products that really address them today, meaning there is almost like where you want to talk about sort of the -- how do you not boil the -- clients want to boil the ocean, but the reality is you have to address these things on sort of step-by-step basis. So how do you think about that broadly? Maybe just to start and then we'll dive in a little bit.

Christopher C. Capossela {BIO 6054036 <GO>}

Yeah. So, I mean, I am hearing a decent amount of noise from some construction outside of my house. Sorry, again, I just sort of pulled this mic closer. Can you hear me okay?

Kirk Materne {BIO 5771115 <GO>}

Yeah. We're good. Thanks. Yeah. That's good. We hear a little vibration, but all good.

Christopher C. Capossela {BIO 6054036 <GO>}

If it's probably a little louder, my apologies.

Kirk Materne {BIO 5771115 <GO>}

No problem.

Christopher C. Capossela {BIO 6054036 <GO>}

I would say that figuring out your marketing message is always -- it's always sort of a big challenge. Satya has made my job relatively straightforward in that he's made it really clear that he wants us to be the empowerment company, the empowerment brand. So he said many times, if you want to be a cool kid, don't come to work for Microsoft. If you want to make our customers cool, come work for Microsoft. So we really try to put the customer at the center of our marketing. And that means figuring out what customers want to talk about.

If you look at the way we go-to-market, what we have what we call 10 solution areas or customer solution areas, which is where all our marketing and all our sales activities are organized around. Our solution area might include something like data and AI and it include something like Modern Work, the tools we use to collaborate every day. It could something like security.

So we have five or six of these that are very commercially-oriented and three or four of these that are very consumer-oriented and there is some overlap between them. But having that clarity on what are the addressable markets you participated and that customers want to talk to you about, do you have differentiation in each one of these, and is there growth associated with each one, we ask those questions in designing these sort of 10 solution areas. Now we have 10. In a couple of years, maybe we'll have 12 or 13. The 10 that we have can drive huge amounts of growth, but we're always looking for that next year, whereas the next \$20 billion of growth going to come from, not the next \$5 billion of growth.

So I would say, the short answer I can give you is that we do a lot of work to figure out the solution areas where we have differentiated technology that applies to a customer problems that has a large total addressable market where we're actually a relatively small share player, so we can grow pretty dramatically.

Does that context make sense, Kirk?

Kirk Materne {BIO 5771115 <GO>}

Yes. No, that helps. I think, I'm just trying to think about how you approach that, because there's obviously different opportunities and then different sort of ways you might want to go-to-market for each of the different products that I think it helps clearly.

Christopher C. Capossela {BIO 6054036 <GO>}

You will see our messaging change --

Kirk Materne {BIO 5771115 <GO>}

Yeah.

Christopher C. Capossela {BIO 6054036 <GO>}

That can happen quickly, but the core solution areas that we compete in have some dev -- app developer, sort of app developer go-to-market, infrastructure go-to-market. Those types of things will be pretty consistent year-over-year-over-year. And when I think about FY22, there is no doubt that for us a big, big priority is going to be security, a big, big priority is going to be helping companies return to more of a hybrid work model in the way they approach work, what we call modern work and so hybrid is going to be a big focus. And then, of course, the Windows PC is going to be a huge focus and that cuts across a few different solution areas.

Kirk Materne {BIO 5771115 <GO>}

That's helpful. And so within that context, I guess, on the commercial side, over the last few years, obviously with the shift to the cloud, it's interesting you all obviously have more per user pricing and serve the on sort of the Office 365, Microsoft 365 area, but then you have consumption-based pricing when it comes to Azure. When you think about -- because you are involved on the pricing side, how do you think about that? I mean, we wrote a report earlier this week about some of the opportunities you guys have in things like voice and security and people were like, well, how big they could be? Well, how big they could be and how you are all pricing. It could be different, meaning it's part of a broader solution, so how do you all think about pricing on, maybe, the Microsoft 365 side and then how maybe do you think about differently when it comes to consumption-based pricing with something like Azure?

Christopher C. Capossela {BIO 6054036 <GO>}

Yeah. It's such a big question about any of that. We have a lot of team that literally focuses on this as their full time job and it's been amazing to see us transition from the original Microsoft, where our pricing and licensing in our entire business model was very optimized for software to physical distribution of goods, literally like boxed software and seller-led transactions, much more of a push model, sort of a supply-led model and with the move to the cloud 10, 12 years ago, we've realized, obviously, a lot of customers talk to us about this all the time. With the move to the cloud, you sort of start to realize though that's sort of device-based model is really going to

shift. It's going to become far more digital and it's going to really evolve to a user subscription model and a consumption-based model, both of which have more of a pay-as-you-go, use first and pay later, so freemium becomes really, really important.

And most of our services, you can get started with for free and then eventually we ask you to pay a subscription or pay-as-you-go. And that's required a huge amount of engineering and, of course, it's less supply-led and it's much more demand-led. Customers just expect to come to microsoft.com and be able to stand up on Azure virtual machine using whatever operating system they want just by swiping a credit card and getting started, not even actually paying for the first 30 or 60 days, or they want to be able to take their existing Windows server license and just be able to move that server to our cloud without having to re-buy that license and those are all really sophisticated business model things that we've developed over the past bunch of years.

Spot pricing has become a reality for us. If we don't have somebody using all of our capacity at a particular time of day, we now algorithmically will change the price of what a VM or a cost if you're willing to be evacuated from that VM for somebody who is paying the higher price to have access to about 24/7. So the consumption models are very, very sophisticated and the user subscription models, I think, are a little more straightforward for people to understand.

But, Kirk, one of the cool things, I know -- I got a hunch you want to nerd out on this today, because this is an area I absolutely love. One of the very cool things is, we're starting to see blends between these two things. So, for example, when you buy Microsoft 365 user-based subscription, you get a certain amount of our Power Platform technology, Power Apps, Power BI, et cetera, but it is game. It is governed and limited, and if you need more compute, let's say, you need more powerful servers or more powerful cores to power your Power BI, then you would then buy consumption on top of what you already own from your user-based subscription, so you sort of surge your capability for that part of the 365 subscription.

And so, I actually think that in future you're going to see far more blending. It won't be as simple as, well, that's a user-based model, oh that's a consumption-based model. I think you will get a lot for user-based, but if you want more like more compute then you'll search for a period of time, pay us the consumption, then you'll be done with that surge, maybe you're closing the books for a quarter and you need more Power BI juice, so to speak, and that means that customers really, I think, will have much more of a blend to work with. So the business model of the company, it's just -- I think, it's totally fascinating and it has moved to user-based and consumption-based, but I think you should expect more of a blend over time as opposed to just the simple binary choice.

Kirk Materne {BIO 5771115 <GO>}

Yeah. That's really helpful. I think it's interesting to see that we are having some activities on both ends of it, it might become more important for most software companies over time. I think we share with a lot of the bigger names talking about

that. Maybe just one quick follow-up on sort of the Microsoft 365 side, because you mentioned security being one of the areas that you guys are focusing on, also from a marketing perspective. So when it has a -- when you have a new product that perhaps people aren't as aware of -- with -- for Microsoft like security and some of the offerings in that area, I think probably for a voice and some other areas in there, how do you think about price? I mean, do you try to lead with low prices to kind of get people on it and try it out? I guess, I'm sure the marketing strategy and the pricing strategy has to go hand-in-hand. So, yeah, how do you -- is that a fair assumption? And when we think about these things, I know you all are obviously trying to drive -- dive deeper into -- yeah, do you use pricing or do you use aggressive pricing that -- not to fool people or anything, but just to give to try it out, so that they can understand also the power of the platform at a broader -- from a broader perspective.

Christopher C. Capossela {BIO 6054036 <GO>}

The cool thing about the cloud is that, there is sort of an expectation that there is a freemium approach for just about everything. And so even -- almost no matter how cool you look at it and that we compete with, there is an element of, hey, you're going to be able to get some things for free and then over time the companies like us try to earn the right to have you sort of pay for something.

In the case of some of our big products, as it relates to security to your exact question, we know from talking to customers, if customers buy email from us through Microsoft 365 or their buying obviously Word, Excel, PowerPoint, they expect that to come with some level of security. They don't expect us to say, hey, you bought an email from us, but we've -- it's totally insecure email and now you have to buy our security product too.

So in the case of security, what we tried to do is to say for a lot of our core workloads, if you buy email from us, if you buy Windows from us and you're willing to buy that on an enterprise level, that's going to come with security built into it. It's kind of crazy for us to sell you email that's insecure. It doesn't mean that it has every security capability that we could possibly think of, but it's certainly going to include, let's say, secure email and then there may be more sophisticated things.

For us, we think of security, we also think about compliance and we think about management and identity as all sort of one solution area. A lot of companies think of security as one thing, we actually think it's a little bit broader than that. So if you buy email from us, you're going to get a good level of security, but you might not get all the compliance capabilities that you want for legal discovery or for the sophisticated compliance needs that a larger company might need and then that would be an additional products with a higher price.

So I think about it. We think about security specifically that way. We shouldn't sell you an insecure operating system and say here is Windows, it's not very secure enough, pay us more to secure it. We're going to have a base level of security in there. Then

there is always going to be another tier that you may want to buy into depending on your threat posture around security and compliance.

Kirk Materne {BIO 5771115 <GO>}

Okay. That's helpful. Another thing I want to touch upon it from the commercial side is obviously sort of the verticalization of the business, you all have been building out, really not only marketing but products that go after addressing sort of the last mile, if you will, of business transformation in certain verticals and obviously some of that last mile might be the most important stuff when it gets down to it for the business person. So from a marketing perspective, do you -- how are you thinking about that? Where are you in terms of verticalizing products, obviously most your products are horizontal by nature, but obviously adding in vertical functionality and then speaking, I'd imagine, directly to the business owner, not just the IT person, it was something that, I think, would unlock new pools of spend for you all as we go forward. So can you just talk about that generally? Thanks.

Christopher C. Capossela {BIO 6054036 <GO>}

Yeah, it's such a good one. Thank you for asking. The -- I would say, as soon as Satya pushed to the company to focus much more on empowerment, Judson or Jean-Philippe, our sort of sales leaders, they were the ones who really said, hey, if we're serious about that, we need to get far deeper and understand how Azure can be applied to the financial services industry, how Azure can be applied to the healthcare industry, to the retail industry, et cetera.

So, for us, it was sort of a natural transformation from taking very horizontal products like Microsoft 365, like Azure, like Dynamics 365, the Power Platform, et cetera, and starting to dig more deeply partnered with the biggest companies in the world in each one of these industries and understand how we can make our horizontal platform the platform that they build on. And one of the first things you hear is, of course, that we need the best ISVs in the world who have very specialized needs or very specialized solutions to be building on the Microsoft Cloud.

So I would say that, as you think about what we're doing in industries we've -- generally available right now is the Microsoft Cloud for healthcare. We are in public preview with the Microsoft Cloud for retail and the Microsoft Cloud for financial services. We've announced the Microsoft Cloud for manufacturing and the Microsoft Cloud for non-profit. Those are not yet in public preview. But you see us taking our horizontal cloud assets partnering with very important ISVs by vertical and then going to market in a way where our sales and marketing is far more tuned to the problems customers have. I don't think you'll ever see us be a deeply vertical software company, it's always going to be, hey, these are the horizontal platforms we have and we have incredible partners that we can go-to-market with. And as those partners win, so does the Microsoft Cloud. And that I think is the key thing for investors to understand. It's still very much a horizontal play for us, but we are doing more to make sure our solutions and our partners' solutions meet the needs of the biggest industry verticals that have the biggest compute needs, shall I say.

I'm not sure if that gets to your core question, but do feel free to ask a follow-up.

Kirk Materne {BIO 5771115 <GO>}

No, I think it helps and actually it kind of dovetails with another one, which would be, as you mentioned, having ISVs adopter platform build on top of your platform, yeah, developers go hand-in-hand with that obviously and obviously GitHub was an important acquisition, I think, in terms of getting to the crux of talking to developers, perhaps, a little bit more directly. Where do you think you are in that journey with -- I mean, look, Microsoft has always had tons of developers, but I'd say the first maybe tranche of big Internet companies was built on maybe another platform. I think, going forward, you obviously want the next big tranche to be on yours. Kind of, how do you -- where do you think you are in that journey with developers? What's been going right? What are some of the things are going to differentiate you, I guess, from a marketing pricing perspective over the next couple of years?

Christopher C. Capossela {BIO 6054036 <GO>}

Yeah. I mean, as you said, our very first product as a company was a product for developers is a basic programming products and Windows, of course, succeeded in large part, because developers chose to build their applications for Windows. And, now, I'd sort of say that a lot of our cloud success with Azure has actually been enterprises taking their existing infrastructure and migrating that infrastructure to the cloud.

The next opportunity for us or very big opportunity for us is to actually make the Microsoft Cloud the platform of choice for ISVs and developers, not just ISVs but also developers at every enterprise company in the planet and you know there is no doubt that the developer, the software developer is sort of the creator of this part of the greater economy. And so we were really excited with the GitHub acquisition, because it's essentially lead business application if you want, it's almost of the SaaS tool that every developer wants to use and it's the collaboration tool that every developer uses.

And so if you think about the tech sector not being the sector that has the most developers, it's really going to be every large company, every more -- more companies are hiring developers than high tech. If you look at all the industries, right, if you go to talk to the automotive industry, their hiring huge numbers developers; talk to the energy industry, huge numbers of developers. So, for us, the developer as an audience is a super, super interesting business opportunity for us.

GitHub is the business application. It is the CRM tool of the sales person and so it's just absolutely core to what we're doing. I'm really happy. I would say the company is really happy with the growth of GitHub over the past couple of years. The technology integration between GitHub and Microsoft products did really good, but GitHub has also maintained its own identity, which I think is really, really important and that's done a wonderful job as a sort of the CEO inside of Microsoft are working for Scott Guthrie, who runs a huge, huge part of our engineering stack.

So, I'd say, look, we are really pumped about GitHub. This is the year, I think, where we're going to tell more of the developer tool chain story, because it's not just GitHub, Visual Studio is incredible set of tools for developers and we're really happy with the way that business is growing. It's growing really, really healthily. We have a whole low-code series of technology called the Power Platform. We think the no-code low-code developer is a sort of ignored developer and we want to serve them super well with Power Apps and the Power Platform integrated into the rest of the Microsoft Cloud. So I think FY22 is going to be a big, big year for Microsoft catering to the needs of ISV developers, but also enterprise developers using this entire tool chain from Visual Studio to Power Platform to GitHub to all the Azure services geared towards developers.

Kirk Materne {BIO 5771115 <GO>}

That's helpful. I was going to ask a question on the low-code no-code opportunity, so I'm glad you touched on, because I want to make sure I get to consumer too, because I feel like us in the financial industry might sure change your consumer products by two months. So --

Christopher C. Capossela {BIO 6054036 <GO>}

We didn't even talk about hybrid work in Teams and Microsoft 365.

Kirk Materne {BIO 5771115 <GO>}

I don't have so much time. So I think --

Christopher C. Capossela {BIO 6054036 <GO>}

Our commercial business is quite broad, which is actually one of the reasons customers choose us. It's because very, very broad cloud approach that we have.

Kirk Materne {BIO 5771115 <GO>}

I don't want to leave that [ph]. We have a couple of questions still we want to try to get to.

Christopher C. Capossela {BIO 6054036 <GO>}

Okay.

Kirk Materne {BIO 5771115 <GO>}

So first on gaming and consumer. Let's just talk about Xbox and Game Pass is really set up to change, I think, the way people consume content and you have obviously acquired a number of studios to build out your own content, there is third-party content. Just I guess -- like, because you run marketing and pricing and the consumer market, they both go hand-in-hand. What is kind of the strategy with

Game Pass and how is it going thus far? It seems to be going pretty well, so just more if you could touch upon that?

Christopher C. Capossela {BIO 6054036 <GO>}

Yeah, thanks. Thanks. I'm a huge gamer fan, I am a huge gamer myself and I just absolutely love how committed we are to this business. For those of you who aren't really familiar with, the gaming is a massive business and it used to be the gaming world was sort of split between sort of the PC gamers, who were die hard PC-only, and console gamers, who loved their particular console, whether it is Xbox or PlayStation or Switch or the Wii, or what have you.

But what we've seen, as the technology has gotten better and better, gamers actually game across many platforms. They don't just play on their console or just play on their PCs. So we've really tried to change the business model of the way we approach gaming to put the gamer more epicenter, so that our promise is that, hey, you can play the games that you love with the people that you love, because social is a big, big part of gaming communities, it's a big part of it, across the devices that you love. So with Game Pass, you basically pay a monthly fee for access to hundreds of games. You don't have to buy the game if you don't want to, you can just play that game and you can play it on the console that was built for or the PC that was built for.

But we're also -- with our highest tier subscription, we are now hosting consoles in our own data centers and streaming those games to a variety of endpoints, even in an Android phone and soon we're going to be testing on the iPhone and the iPad and to the browser as well as of course Windows PC, so you can think of it as games streaming to many, many endpoints, really billions of different endpoints. And so it's less console-centric or PC-centric, it's far more gaming-centric and the latest number we've announced is 18 million Game Pass subscribers worldwide. We've only been at it a relatively short period of time, so we're thrilled with that growth.

As you saw, Kirk, our Q3, our gaming revenue grew 50%, which is kind of crazy. Some of that's driven by the new console Xbox Series X and Series S, but a lot of it frankly is driven by subscriptions and content and services on top of those subscriptions.

And I'll just to share a couple of crazy stats. One of things we've been blown away with is that, I can look at someone before they are a Game Pass subscriber and after they are a Game Pass subscriber and we're finding that once somebody subscribes they're spending 20% more time playing games. So they go even deeper into gaming. They're playing 30% more genres, so they're exploring just like a Netflix person might explore documentaries or comedy even if they were an action flick person. 30% more genres and they're playing 40% more games overall, including games that are outside of the subscription. And so for game developers, Game Pass is an awesome way for them to take their content and get it in front of gamers. It's not just, hey, the consumer wins and the publishers lose. This is a real win-win model and we're pretty excited about that.

Probably more than you wanted on Game Pass. I love it.

Kirk Materne {BIO 5771115 <GO>}

No, no. That's great. It's great. I'm sure you have some parents breaking into a cold sweat as you talk about the amount of game play, but --

Christopher C. Capossela {BIO 6054036 <GO>}

It's a huge --

Kirk Materne {BIO 5771115 <GO>}

I realize it's beyond just the millennials. I understand that. So I was kidding. I do want to ask a couple of questions just because we have a minutes away [ph] of time and I have a couple of --

Christopher C. Capossela {BIO 6054036 <GO>}

Of course.

Kirk Materne {BIO 5771115 <GO>}

I could circle back on if I want to be mindful of people that made of the opportune or taking the advantage of emailing in. So can you just talk about -- I mean, the question is on sort of GitHub driving conversion to Azure, can you talk about how that's going? And what you see? Because I think when you bought GitHub, it wasn't just about the GitHub revenue by itself, it's really about what you said earlier, the community driving better awareness of Azure, your technical capabilities within IaaS and PaaS, so can you just talk about that a little bit in terms of how GitHub and Azure, the interplay between the two?

Christopher C. Capossela {BIO 6054036 <GO>}

Yeah. So the engineering teams have worked together to do some really beautiful things where you -- right from the GitHub, you can take advantage of a whole bunch of Azure services. You can also take advantage of a whole bunch of our security services. So from any GitHub, you can actually run a bunch of Microsoft Security Services on your code to figure out if the code you're about to use in your product or in your -- inside your company is secure and that's kind of a beautiful secondary example that it's not just sort of these Azure core developer services, it's also our security services that we can bring to GitHub.

And then, the opposite is also true, where you can start in a Microsoft, a traditional Microsoft product like Visual Studio and of course that's deeply integrated into GitHub. So there is sort of rows working in both directions, if you will. For GitHub users, they have very easy, intuitive, seamless access to Microsoft technology; and if you're using Microsoft technology, GitHub is the natural destination for your code to

be able to share it. We've done a whole bunch of cool things where you can stand up your own developer rig from our cloud working with GitHub, you'd be surprised how time-intensive it is for a developer to set up a cost of dev box, believe it or not to have just the tools that they want. We're actually doing that as a cloud dev box, so you could then pick that up at any time and as a developer you're not spending two days getting that dev box just right, and that's all obviously being instantiated in our cloud and deeply integrated into GitHub.

So I think we've only scratched the surface of what's possible here. If you want to use GitHub and not use any of Microsoft services, of course, you can continue to do that, that will be very important to continue to respect that, about the GitHub community, but we want to make it just drop dead easy, if you do.

Kirk Materne {BIO 5771115 <GO>}

That's super helpful. No, I think it's a great combination. I appreciate the comment about the independence of GitHub too. It's obviously super important to you guys. I think you've been very forthright about that since you bought it, which I think is important. (multiple speakers) you don't play games with developers, they have long memories. So

Christopher C. Capossela {BIO 6054036 <GO>}

Exactly right.

Kirk Materne {BIO 5771115 <GO>}

Very smart on your part. Well, next one was just around sort of voice and UCaaS as an opportunity for you all and how you think about marketing, but also pricing for some of the services you have from a phone and voice perspective. Can you just touch upon that a little, about maybe the strategy behind that versus partnering in competing, because there is a lot of other vendors and there is some of what you obviously partnered with. So how are you thinking about that?

Christopher C. Capossela {BIO 6054036 <GO>}

Yeah. I mean, just from a competitor lens, there is no doubt that Cisco is still the competitor or the company we see the most of on the voice side. Zoom is obviously very popular for video conferencing, but not so much on mature voice side. So most of the customers we're talking with all the time these days are really talking about their Cisco technology. There -- the phones that they have, obviously the routers, the switches, the telephony that they've built there. And so we're doing a lot of work to make it very easy for you with Microsoft teams, because this is really where teams shines, it's not just for video conferencing, it's not just for persistent chat, it actually lets you do all of these workloads for video conferencing to persistent chat to telephony to being able to make IP-based phone calls to not have to have the telephony infrastructure that many companies use or have had traditionally.

Often companies want to explore this when they are building a new facility, moving to a new location, it's on a rapid replace, it's said, hey, I want to take this set of employees that work in this field office and we want to just make sure they don't have to have any of the traditional infrastructure. Can we please just do it in teams. So this coming year you'll hear us making a lot more noise and having more offerings, frankly, around people who still want a physical phone, but it might not be connected to the traditional telephony network, they want to connect it to a 100% IP-based network and they just wanted to meet extension of Teams.

And so I think that will be more to come on that. I don't have anything to enhanced in terms of pricing or licensing, but I would say that this is a really rich area of investment for companies. We think we're going to deliver a lot of value here and we think we should monetize that value. It shouldn't be something that's just a sort of freebie, so to speak.

But consider Teams at the center of this strategy. As I think you know, we've got about 145 million daily active users of Teams now, which is double -- almost double a year ago and the rate of innovation that the Microsoft Teams team has come -- has released it to the world has just been absolutely fantastic. So expect more from us in the area of voice, phones, meeting rooms, along with our partners to build a lot of those devices with us.

Kirk Materne {BIO 5771115 <GO>}

That's super. So I'm getting the notification, we got a few minutes left. I'm going to sneak one last one in there, just because I think it's a little bit of a higher level question and I was just kind of curious about it, based on some of your commentary. Low-code no-code, Power Platform, you have Dynamics, you have more verticalization going on. I mean, it seems to me that the nature of the business application market might change over time and there's a lot of ways that I think you all can help that come about citizen developers, business users or from a vertical perspective, I guess, just do you think that's fair? I mean, I think I understand where you all are going with that. It is that how you're thinking about marketing, maybe longer-term around sort of what you historically maybe call business applications, meaning that there is going to be some business applications that frankly the company has developed themselves, that don't necessarily come out of more codified horizontal solutions. Sorry, I only give you 60 seconds or so to answer that, but just kind of curious on that.

Christopher C. Capossela {BIO 6054036 <GO>}

I think you're on to it, Kirk, and that's exactly right. I think the days of like the Salesforce CRM ThinkTool are sort of passe, it's much more modular in these days. We have something like 26 different Dynamics 365 modules that are very specific to a field service. There is a field service module that you can adopt, integrate it into your data estate, integrate it into the tools that people use on their mobile phone, in many case it will be a Microsoft Teams solution. So I think you're right that this is much more about sort of a data plan that you're then attaching modules onto to solve a particular business process or business application as opposed to the

traditional monolithic solution and that's one of the reasons Dynamics 365 is -- grew 45% for us last quarter year-over-year. This is a business that's on the rise, it's much bigger than it was just a couple of years ago and we're really starting to see our industry-specific approach go hand in hand with Dynamics 365, our data platform and our citizen developer tools, those all come together and I think are really virtuous cycle that if I could be bold I don't think our competitors have quite understood yet and customers are really embracing.

Kirk Materne {BIO 5771115 <GO>}

That's helpful. No, it's going to be interesting to see how that plays out, but you can see the sort of the concentric circles overlapping and having a really interesting I think next few years around how apps sort of progress from here. So I appreciate that answer and I'm glad I'm not barking up the wrong tree frankly. So going good here.

We are literally at time. So, Chris, thanks very much for joining us. I have just mentioned that Brett Iversen and James Ambrose from IR were on with us. So if you have any follow-up questions for Chris, please follow up directly with the Microsoft IR team. Otherwise, thank you all for joining us for the events. And if you have any follow-up questions for me at Evercore, feel free to reach out directly. Otherwise, enjoy the rest your day.

Christopher C. Capossela {BIO 6054036 <GO>}

Thanks, everyone.

Kirk Materne {BIO 5771115 <GO>}

Thank you.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2024, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.