

## UBS Global TMT Virtual Conference

### Company Participants

- Judson Althoff, EVP of Worldwide Commercial Business
- Karl Keirstead, Analyst

### Presentation

#### **Karl Keirstead** {BIO 1542979 <GO>}

Well good afternoon, everybody. It's Karl Keirstead at UBS.

Super happy to have Microsoft keynoting the 2020 Virtual UBS TMT Conference. Especially delighted to have Judson Althoff here, who is the Executive Vice President of Worldwide Commercial Business.

Judson can elaborate, but think of Microsoft as having a consumer element, a commercial element. Judson essentially heads up the entire go-to-market effort for that commercial side. So a pretty critical role here.

In terms of format, we'll go for about 40 minutes. If any of you have questions, you can use your question link. I can read them in front of me. Or if you prefer, you can email me directly at karl.keirstead@ubs.com, and we'll take them that way.

So with that, Judson, thanks for carving out some time during your day to spend with myself and our clients.

#### **Judson Althoff** {BIO 18004989 <GO>}

Absolutely, Karl. Thanks for having me.

### Questions And Answers

#### **A - Karl Keirstead** {BIO 1542979 <GO>}

Yes. Terrific. Well, Judson, why don't we start with something near and dear to your heart?

That's the sales effort at Microsoft.

I think everybody sort of only knows that you took the organization through a sales reorg about 1.5 years ago. But I feel like investors totally forgot about this because the execution has been so brilliant that they assume that whatever you did was just

tinkering, and it didn't really have any discernible impact because the results were so phenomenal. But my guess is that there may be more behind the scenes. So it might be a nice opportunity for you to describe the reorg, exactly what you did. And in your judgment, how it turned out.

## **A - Judson Althoff** {BIO 18004989 <GO>}

Sure. And thanks for the flattering way that you set that up. I mean, high-level perspective is we believe we're on a journey here, and we're working pretty hard in our transformation, and we still have a long way to go to be the company we want to be.

But yes, it's been several years now. But we had gone through a pretty major go-to-market restructuring. And changing the model that 50,000 people to work in every day is an interesting thing to do. Because much as you would note, we couldn't exactly call up Wall Street and say, "Hey, could you all kind of look the other way for a couple of quarters? Trust us, everything is going to be just fine." We had to deliver against our current long-range plan whilst effectively changing the engines on the plane and flying it at the same time.

But we had five pillars to our approach that I'll cover briefly because I know we have a number of questions to get through in our short period of time.

The first pillar was an industry pillar, to get laser-focused on organizing by industry. In a period of time in the evolution of compute and the high-tech industry where customers are trying to transform digitally, it was sort of an obvious direction to become far more industry-aligned. Because if you want to help someone through a transformation, you have to know their business well.

Digital transformation has to be business-led followed by technology. Technology has to be the servant of that transformation. And so us getting deep across top industries, the obvious ones, financial services, health care, manufacturing, retail and also the public sector as well. Super critical for us to realign our focus by industry.

We also had a tech pillar, which might seem obvious, but Microsoft pre-Satya and sort of pre-transformation had really atrophied in a lot of our innovation. And Satya was very quick early on in his CEO tenure to point out that ours is an industry that doesn't respect any tradition but rather respects only innovation. And so we, Karl, effectively had to go back to school. We had to retrain a lot of our folks. We had to, unfortunately, let go of a lot of sales overlay roles in exchange for hiring in developers into our sales organization, our customer-facing groups, so that we could effectively roll up our sleeves and write code right alongside of our customers.

So there was a bit of a tech renaissance, if you will, by solution area. We compete in our commercial sector in five main areas: The modern work technologies that you all use each and every day; our business applications portfolio; the core apps and infrastructure, think lift, shift, modernized to the cloud there; data and artificial intelligence; and of course security, which underpins it all. But those five core areas

for us were areas where we had to retrain a lot of folks, hire in a lot of new folks, and like I said, kind of go back to school.

The third pillar of it was to invest in a world-class customer success organization. You can think of this as nonbillable consulting, people who live with the customer beyond the deal. And in a consumption economy, which the cloud really is, these roles are super critical because you have to do more than just sell in a design concept, you have to help a customer really adopt cloud services and evolve. And our customer success organization has been pretty critical to that evolution over the last several years.

Last two pillars. Fourth one seems like a means to an end, honestly, when we did it. But now I am wickedly grateful for the investments we made here because with the pandemic, it has served us incredibly well, and that is to roll out what we call a digital sales force.

We see the first three things I mentioned are pretty expensive to do. Organizing by industry is the best way to talk to a customer, but it's the most expensive way to talk to a customer. Hiring developers into your sales force are expensive assets. And nonbillable consulting, well, implies that you're not making money on those resources. So expensive things to do with your higher-end clients.

The only way to offset that was to get a digital sales engine, connecting our digital marketing to our digital sales resources, having a system feed qualified and intelligence-driven leads into our inside sales teams, providing next-best action, real-time sales coaching, objection handling, all using our own tech to sort of feed the machine was the way we address the scale needs of the business.

And then the fifth pillar was reimagining our partner model, getting IP to run on our platform that we would effectively then represent and sell as if it was our own by vertical. And so the power of like pulling on a health care ISP and say, "Hey, listen, we're not only going to help you put your product on our platform, we're actually then going to turn around and help you sell it and measure our people's success on the same," has been hugely beneficial to us.

So those five pillars of our transformation have really driven how we've restructured the force. As you've noted, it's been a Herculean change management effort. And we thankfully have been able to deliver some pretty strong results at the same time.

**A - Karl Keirstead** {BIO 1542979 <GO>}

And then COVID hit, Judson. And I'm sure it ended up stressing everything that you built. So maybe you could elaborate a little bit on how the commercial enterprise through SMB sales motion suddenly changed with COVID, besides the obvious that all your sales executives and reps are working from home. So how has COVID stressed the sales motion at all at Microsoft?

**A - Judson Althoff** {BIO 18004989 <GO>}

Yes. Look, I think it's put pressure on all of us, frankly, Karl. And I would say that first up, we feel very privileged to be in an industry that is, frankly, one where you can just flick a switch and pretty well-run the business remotely. We can build the product remotely. We can service our customers remotely. We can collaborate effectively as an organization remotely. And so we consider ourselves lucky.

And the way our business is shaped throughout it has been, again, pretty strong throughout because we are basically the enablers of remote and digital work right now. And we say that from a position of humility because, look, there are very, very much some stressed industries right now, stressed segments. I think if we look at the areas where we see a blemish in our business, it's because downstream of that, there's a very stressed customer. And so we're super respectful of that and continue to hope for a strong recovery once we get out of these pandemic conditions.

But that said, to be precise about the answer to your question, look, our folks have been stressed on all ends of the spectrum, from rolling out remote work services, voice/video capabilities, persistent chat, collaboration tools, to the security requirements for the same because once you digitize everyone's work environment, you inherently make it more vulnerable to cyber-crime. Sadly, bad actors haven't slowed down during the pandemic. They've operated very opportunistically. So it's kept our security folks on pins and needles, working with customers proactively and reactively throughout the same.

And then effectively enabling remote everything, remote customer engagement, remote factory operations. And the internal operations themselves have had to become 100% digital, much as I alluded to in that digital pillar. At first we built it out, we build out infrastructure and tools and capabilities so that we could call on the breadth markets or mid-market customers and SMB, but now effectively all selling is digital selling.

And it's pretty cool the way it works. I mean, we queue up demand signals from all of our digital marketing efforts. The folks who work in our digital sales organization basically get a queue of 100 phone calls they can make any given day. The cognitive reasoning services tell them who to call first, how to handle the objections. We have sentiment analysis on the calls that customers allow us to record. So we know how well we're doing and how well we're tracking towards meeting their needs. And so we've been blessed with all of that.

And we're turning around and helping customers with the same because the technologies that Microsoft uses internally are the very same ones we sell externally.

## **A - Karl Keirstead {BIO 1542979 <GO>}**

Got it. And Judson, what are you communicating to your army of sales folks about the timing of a return to a more normal, call it, pre-pandemic sales motion, flying and dining again, back in the office? What's the internal Microsoft messaging about when that is likely to happen? It's important because when giants like Microsoft start returning to normal, it can be a cue in terms of when, broadly speaking, we might enter some recovery scenario. So I'm just curious what you're doing.

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**A - Judson Althoff** {BIO 18004989 <GO>}

Yes. It's a great question. So look, first and foremost, we are working with governments around the world to adhere to local law and policy because, again, Microsoft operates in over 150 countries. And there's not just one return-to-work moment or return to the workplace moment, there are multiple.

And so I could have customers in Singapore, in India that are meeting face-to-face with their Microsoft counterparts and managing the public health requirements locally in accordance with the policy of the land. But here in our headquarters environment in Redmond, Washington, we've stated that we will not open up our corporate campus for normal operations until July. We've given our employees that kind of a notification just so that they can continue to prepare for a remote work environment.

Interestingly enough, coming out of it, though, it's a fascinating data science problem. And the beauty of what we've built with this Microsoft 365 platform, Teams being the interface that so many people use in the enterprise, is that it all sits on top of an elaborate graph database that we could mash up with other systems of record. So like if you're in sales, we would mash up your productivity data with sales results. If you're in engineering, we would mash up your productivity with code check-in and check-out. And we can actually measure that 80% of our folks are as productive or more so pre -- than they were pre-pandemic.

So we will use that data to rethink corporate travel, rethink corporate real estate. We're encouraging our customers to do the same. And the cool part about it, as I said, is you can be very data-driven in how you make those decisions.

**A - Karl Keirstead** {BIO 1542979 <GO>}

Yes. That's super helpful, Judson. And maybe now I'd love to ask you a few questions about the customer conversations you're having these days, what the environment feels like. So maybe I'll open with a general question about how large enterprise spending priorities have changed since COVID.

I think it's pretty obvious that the initial month or two were very much about enabling remote access. So Microsoft obviously saw Teams usage spike, et cetera. But with the passage now of eight months, where are we now, Judson, in November, December? What does it feel like are the key priorities as your big customers are preparing for 2021?

**A - Judson Althoff** {BIO 18004989 <GO>}

Yes. I'd say the two things that are really different now than they were pre-pandemic is just the overall sense of urgency and agility and the ruthlessness of how every investment needs to come back to an impactful outcome, right? And look, any good CEO pre-pandemic would have been saying, "Hey, look, newsflash, Judson, those two things were super important all of the time, pandemic or not." But the criticality of, I think, what everyone faces right now is placing increased focus on those two

dimensions. And there's certainly a lot of energy on how do we go faster? How do we make sure everything we do is impactful? The frivolity of anything that was interesting or nice to have is often cast by the wayside.

But one thing that's very clear is that technology is being seen as the answer to pretty well any of the questions being asked about how to modernize. Like if it looked remotely good to get out of your data center pre-pandemic, it looks really good to get out of your data center now. If it looked interesting to digitize processes, factory automation scenarios, connect your oT capabilities to IoT and simulate how to improve manufacturing scenarios, if any of that looked remotely interesting pre-pandemic, it looks very, very interesting now, because frankly, it's the only way to operate. It's the only way to produce goods at scale.

And so we're seeing really increased focus on all of those efforts. Our people are extraordinarily busy helping customers across really three primary dimensions, I would say, Karl. One is this notion of all of the back-end digital twinning as we call it, modeling through data and machine learning any business process that can be modeled or automated or done in a lights-out capacity, whether that be a factory or a curbside pickup optimization model, huge bodies of work on building products and running processes in a digital, lights-out capacity.

The second category is a bit of what I mentioned to you in terms of Microsoft's internal use of digital selling and support. Again, I always say, if you're not engaging with your customers in an omnichannel capacity today, you're probably not engaging with them at all. And that's very much the case with the bulk of the work that we're doing, whether that be proactive or reactive handling of customer engagement, largely data-driven efforts to achieve that.

And then the other category is the one I mentioned just a moment ago, which is the productivity of the employee base and the empowerment of the employee base through modern assets and measuring the same very analytically using insight services. So those are sort of the three categories, and we've just added intensity of increased agility and impact on bottom line results.

### **A - Karl Keirstead {BIO 1542979 <GO>}**

Got it. So maybe, Judson, we'll hit a little bit on one of those drivers around getting out of your own data center faster because that would obviously be a significant positive for the party of Microsoft Suite that, as you're aware, tech investors put undue focus on, which is Azure, given how central it is to you and Satya and the rest of the team.

So Judson, where do you think we are in that evolution of, post-COVID, big enterprises stepping back, deciding that they need to change their on-prem/cloud mix, make it more cloud? So the planning, whiteboarding phase. And then some of them have gone a little bit faster and have actually made deal commitments to Azure or Amazon or whomever. And then the third step is those deals actually going live in a way that it consumes compute/storage resources, and we on the outside actually

see it in the form of Azure revenue. So where are we in that journey? Because that would help frame what the Azure outlook might look like.

**A - Judson Althoff** {BIO 18004989 <GO>}

Yes. I sort of liken these things to sporting events. And I would say if you're a hockey fan, which is a three-period game, I'd say we're probably entering first intermission, sort of the end of the first period, if you will. And I would say that the way I sort of justify that explanation is as follows.

The first movers have moved. The first movers are actually starting to recognize scale results associated with the investments that they've made. And if you are an e-commerce platform today other than the Amazon ecosystem, you're likely running those assets on Azure today and you're seeing the results. You're seeing it pan out in terms of your top line revenues and the ability to scale enormously. And so we are seeing customers that did move early realizing the gains and the impacts and the promise of that cloud transformation.

There have also been a ton of learnings associated with that first period. That's why I kind of use the intermission term, if you will, because there is a little bit of a, okay, so that was maddening and crazy and intense. What did we learn from it? And how are we advising clients moving forward?

And things like enterprise control planes and audit and security capabilities that more effectively allow customers to gracefully look at that transformation and actually even look at hybrid computing as an end state rather than a -- you're sort of a step along the way in a journey. Hybrid is becoming an architecture that's here to stay, which is good for us because look at Microsoft, we've been doing hybrid before hybrid was cool or even called hybrid. And so lots of work going on there today.

And I would say in terms of where you look at future growth coming from that, we're at a point where there's some very consultative ways in which we're engaging with customers right now, based on our learnings, that excite us about our portfolio and our unique differentiation around sort of what will be the second and third chapters of growth in the cloud.

And it starts probably with a less than obvious bit of advice that we extend to customers these days, which is: Hey, look. There's probably a chunk of your application portfolio that you shouldn't move to the cloud. Which, as a big purveyor of cloud platforms, you go, "Well, that seems counterintuitive, Judson."

The reality of the situation is, if you look at where business processes are evolving and you come back to this notion that technology should always be the servant of the business, application obsolescence and letting go of some of those assets is an important pressure point for opening up the economic flywheel for future innovation.

From there, there's also a portion of the portfolio that should not just be lifted and shifted and modernized per se, but rather thought of in terms of new low-code, no-code capabilities and infusing it into the way people do frontline work.

With Teams, we have the ability to integrate our low-code, no-code technology that we call Power Apps so that end users can actually have a hand in designing the workflow and the processes that they use to complete their task each and every day. And that serves them productively far better than taking old school legacy, bespoke applications and simply moving them to the cloud. Because look, if the application didn't inspire productivity when it ran in your data center, it's not going to do any better running in ours. And so that rethink on low-code, no-code capabilities, modernized UI through Teams, super helpful.

We also then look at our Dynamics portfolio as a way of offering up first-party SaaS applications that obsolesce legacy technologies at much lower cost. There's a massive third-party ecosystem of SaaS offerings out there, certainly some of which compete with Microsoft at that biz apps layer but then also work on our cloud platform.

There's a modern app dev revolution as well, a pro-dev revolution. And it's the biggest reason why we acquired GitHub because we're seeing a tremendous amount of momentum in that realm. There's the data and analytics estate that we really have to help customers get in order because it's the foundation for innovation and then the cybersecurity play.

So there's seven elements of a consultative, methodical plan not only helps customers focus and accelerate their progress. It's actually quite differentiated relative to our approach and the assets and the value that we can bring to the discussion.

**A - Karl Keirstead** {BIO 1542979 <GO>}

That makes sense. And I appreciate the hockey analogy. You're talking to a Canadian, Judson, so that hits home.

I've got two questions related to Azure. One is, in terms of Microsoft's competitiveness relative to AWS and Google Cloud, do you think the COVID crisis and these changes in enterprise priorities have in any way changed the competitive dynamics among the big three cloud infrastructure vendors? Has it lent an advantage to Microsoft in any way worth calling out to the group today?

**A - Judson Althoff** {BIO 18004989 <GO>}

Yes. Look, I think the fact that Microsoft has had trusted relationships with these customers for a very long time has helped. It's certainly in the mindset of a customer who's had a fair bit of Microsoft infrastructure in place historically. When pressured by upper management to say, "Hey, listen. We need to go to the cloud, and we need to go to the cloud now. And so whichever direction you thought you were headed in, please just go faster," that is beneficial to us.



I think the investment we've made in hybrid capabilities also helps because it then becomes not a zero-sum decision. In other words, it's not all in the cloud or all in your data center. There is a logical conclusion that says there's a balance between the two. And so I think our focus there has helped. The investment we've made in data services that extend from what may have been your existing SQL server investment with us into the cloud, also helping that journey.

And then the governance models that we have. Because Microsoft itself is a 45-year-old company, and we've been through our own transformation, right? And as a result of that, have built a lot of governance capabilities for how a Fortune 500 company needs think about this kind of transformation. And so offering that back up to customers, I think, has been hugely beneficial.

**A - Karl Keirstead** {BIO 1542979 <GO>}

Got it. And maybe, Judson, maybe just to continue this discussion a little bit. The way that some investors think is that the server product category that Amy and Mike disclosed is often viewed as sort of the flip side of Azure, where if big organizations reduce their on-premise footprint and migrate those workloads to Azure, you gain there, but you might lose a little bit on products like Windows server or SQL server database that are on-premise. So do you think about it the same way? And how do you manage that on-premise server product bucket to ensure that it can stay resilient as large customers like UBS migrate more aggressively to the cloud?

**A - Judson Althoff** {BIO 18004989 <GO>}

Yes, it's a great question. I'd say the top line answer, Karl, is look, we're customer-focused in terms of the outcome that they're trying to achieve. And so as a result of that, there, of course, is some shift from on-prem to cloud, right? And we're not trying to artificially dictate any of that. In other words, there's no on-prem meter inside of Microsoft that says, "Whoa, whoa, whoa. Let's not accelerate to the cloud too fast because it's going to shift this business model." We want to go as fast as our customers want to go.

And so inherently, there will be some shift, socket per socket, workload per workload. In other words, if you had an on-prem workload that ran on a certain number of Windows server and SQL server licenses in your data center and you're moving them to the cloud and are moving that workload to the cloud, that, of course, will be a shift. That stated, when I mentioned earlier that hybrid compute architectures are here to stay, let me give you a little bit more of an example because I actually think it's TAM-expansive. It's not 100% shift, but rather TAM-expansive.

Satya for a long time has talked about the intelligent edge, the intelligent cloud. The latter, I think pretty well understood. The former, certainly confusing when it was first uttered. People were like, "What the heck is the edge? What do you mean?" And people, I think understood the edge when you talked about a cell phone in your pocket or maybe even a wearable or maybe to get their heads around an IoT center. But increasingly, we're putting the ability to compute at scale and reason at scale at the edge. We're increasingly making that a reality for customers.

So if you look at the announcements we've made on 5G and our Azure stack capability, there are scenarios where reasoning at the edge and having compute at the edge and then deciding when you round-trip to the cloud for model propagation makes a lot of sense for customers, whether that be addressing precision agriculture, where the idea that ubiquitous connectivity on the farm is just not a reality, or whether factory operations in locations where you want to have a private 5G network, right? Being able to reason at the edge will be an important part of compute architectures moving forward.

Obviously, as we look outside the U.S., data sovereignty, data residency concerns will further propagate the need for the edge as would defense and intelligence scenarios need to dictate the same. And so you'll see, of course, growth of the cloud organically. You'll see some shifting from that on-premise state on a workload-by-workload socket basis. But you also will see TAM-expansive movement in those edge compute scenarios. Hopefully...

**A - Karl Keirstead** {BIO 1542979 <GO>}

Hey, Judson, this might be unfair to ask you to quantify that. But if you had to think of what hybrid means on-premise, cloud, edge, and you had to think out five to ten years as to what the mix of a typical large enterprise spend might be, are you able to bracket essentially what the end state might look like, call it, in ten years? Or is that too challenging a task?

**A - Judson Althoff** {BIO 18004989 <GO>}

It's super hard, and let me explain why because I'm genuinely not trying to avoid the question. I'd love it if there was a yard stick or a meter.

But this gets to the belief that our opportunity is clearer than the total sum of the high-tech industry opportunity as it is defined today. There very much will be this notion of digital COGS moving forward. The idea that, somehow, inside of a Kroger grocery store compute capability because you're serving up ads at the shelf edge and you're engaging with your customers with on-the-spot promotions as they're walking through the store is a part of a COGS environment that does not exist today, except in that Kroger example, does not exist at scale. And so as you see more and more retail environments become truly digitized and truly omnichannel, as you see more factories become digitized.

The number of factories on the planet that have full-on digital twins that can simulate their operations at infinite scale, drive down carbon, drive down cost, drive down water consumption, it's probably less than 2% of the world's factories today. And so that is edge expansion, TAM expansion that is pretty material right now because the bulk of the way the world's industrial companies operate today is in a nondigitized capacity. And so as we continue to learn about the applicability of those hybrid intelligent edge scenarios, so goes the expansive nature of our TAM.

**A - Karl Keirstead** {BIO 1542979 <GO>}

Got it. Maybe the last broadly demand question I'd love to ask you, Judson. Clearly, Microsoft now, as most big enterprise software firms do, drives a huge portion of your revenues from larger enterprises like UBS. But Microsoft in particular has a long tail of SMB that are very big Microsoft customers as well. That, unfortunately during this economic crisis, has been the -- that tail has been hurt. And Amy has been candid on the last several Microsoft calls that, that the SMB sector has dragged growth down a little bit.

I'm just wondering if you could address how Microsoft in the sales organization is dealing with that SMB segment. And is there anything you can do from a sales go-to-market motion to sort of bring that back? Or is it a function of, frankly, waiting for the economy to improve and getting a snapback in that customer segment?

**A - Judson Althoff** {BIO 18004989 <GO>}

Yes. It's a good one. The -- I think the first thing to start with is what is SMB, right? I mean, SMB is sort of the -- a segment of segments. And it's important -- I think I always start with the basis of understanding where Microsoft competes in the commercial frame, and frankly, where we don't and what is more of an extension of a consumer base than anything else.

If you think about the very S of SMB, the very small of SMB, look, the bulk of our commercial revenue is derived outside of that. And so if you think about companies that are zero to ten in terms of employees, look, as I mentioned earlier, very humbly stated and stated from the position of privilege, those folks are going through a lot right now. And we have a lot of empathy for what those customers are experiencing.

That piece of our business looks a lot like our consumer business, though, more so than it does our commercial enterprise business. And so whilst that very S of SMB may be compressed, we're actually seeing pretty decent growth outside of that very S of SMB, largely because, once again, if you thought it was a good idea to digitize your business pre-pandemic, it's an imperative to do it now. No business is 100% resilient, but digital businesses are more resilient than those that are not.

If you took a drive down the street and you look at the small businesses that are open, it's largely because they figured out delivery. They've figured out relationships with the DoorDashes of the world. And they've figured out a way to stay engaged with their customers and make it such that their employees can continue to work safely and remotely. And those that have closed shop have not. And again, with some deliberate caution here and notion of privilege, we're the purveyors of what makes all of that possible.

And so we, of course, are discounting quite a bit to support, just keeping those entities afloat. But as they continue to get through this pandemic and come out the other side, we expect that sector of our business to thrive. And it's -- like I said, it's growing today, maybe not growing quite what it used to pre-pandemic, but we're bullish on the future.

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**A - Karl Keirstead** {BIO 1542979 <GO>}

Got it. So Judson, we've talked a little bit about Azure, which is key to Microsoft story, but the other product that's quite central that you and Satya have been talking a lot about that's also increasingly in the conversation is Teams. So maybe I'd love to ask you, Judson, two things. One is why is Teams so central to Microsoft? And then secondly, a more timely question, and that's your interpretation of the Salesforce-Slack merger and what it might mean for your Teams growth going forward.

**A - Judson Althoff** {BIO 18004989 <GO>}

Yes. Great question. So we love Teams. And we love Teams for, I think, more reasons than most understand. I think people get largely that Teams equals Slack plus Zoom. Teams is both the voice and video capability and the persistent chat, sharing capabilities that are inherent in Slack and in Zoom when you combine the two together. We love it for that, but frankly, we love Teams for far more than that.

And we actually believe that Teams is the UX or user experience of the future. Teams is the way in which people will want to work. It's not just about what you do in Teams. It's about what you integrate into Teams and has the potential of effectively being a new Windows for us. Teams is cross-platform, completely open. It runs on any form factor and the usability in the mobile form factor and the PC-class, large-screen form factor, both are growing materially. And we're bullish about both. Like the App Store ratings for the Teams app are off the charts in terms of quality.

And what that does, when combined with third-party applications as well as what we call our low-code, no-code capabilities, Power Apps or our Power platform, is it creates a new surface area for what we call the citizen developer. The person who carries that mobile device around and goes, "Wow, I have to climb a telephone pole or an electric pole to service this utility, and then afterwards, somehow write it all down in a notebook and perhaps somebody transports it into an Excel document. Gosh, if I'm savvy enough to make a PowerPoint presentation, I'm savvy enough to make a simple app that can dock into my Teams environment so that I can digitize the way in which I work." And this citizen dev movement is something that we are cheering on, we are helping to propagate materially because we think Teams can become that end user compute platform of the future.

We think it's pretty differentiated. The Slack acquisition by Salesforce, to give them some credit, that was an intelligent thing to do because persistent chat is becoming a modality. To think that you're going to have a CRM application, which is Salesforce's core, that doesn't have chat capabilities in it would be arcane. And so for them to have Slack as an asset to help that modality and their business applications platform makes sense, so much so that it's exactly what we've been doing for a couple of years now with Teams and our Dynamics offering and hundreds of third-party applications, as well as, like I said, there's no-code, low-code capability that is so inherent in the citizen dev movement.

**A - Karl Keirstead** {BIO 1542979 <GO>}

Got it. But does a more muscular Slack under the Salesforce umbrella, more resources, the ability to be upsold into the Salesforce base, does it, Judson, make them a more formidable rival in the collaboration space?

**A - Judson Althoff** {BIO 18004989 <GO>}

Yes and no. It certainly makes -- it makes their own assets modernized if you think about it. If you are a sales cloud user or a marketing cloud user or a service cloud user and Slack becomes more integrated into those environments, it makes that asset stickier for them, and certainly on the dynamics front, strengthens the competitive dynamic between our offerings and theirs.

But from a productivity play standpoint, Salesforce really doesn't have a broad-scale productivity offering. And I would offer up -- and this is probably a Judson opinion more so than a Microsoft opinion per se, but I will offer up broadly that it actually is a distraction because it takes -- like Salesforce is not going to be in the same kind of sales pursuits that we are in when we're driving a workplace modernization or an employee empowerment effort with a customer.

**A - Karl Keirstead** {BIO 1542979 <GO>}

Okay. And Judson, we don't have too much time for questions, but I did just get one that is such a perfect segue from this conversation that I have to ask it. And that is -- I'll read out loud to you.

Do you see Microsoft getting more directly involved in enterprise telephony? Or will you continue to lean heavily on carrier and UCaaS partners going forward?

**A - Judson Althoff** {BIO 18004989 <GO>}

Yes, it's a good question. We don't see that as zero sum, quite frankly. We had great partnerships with the telco providers around the world. We actually see those relationships strengthening. As they look to take their own network assets to the cloud and modernize the same, our platform actually becomes more of the plumbing for how telcos operate. Certainly in this edge cloud paradigm that I described earlier, telcos are essential.

The voice and video payload will be something we perfect through Teams, and telcos know that. It's not just a Microsoft thing, frankly. It's whether you use Cisco WebEx or whether you use Zoom or BlueJeans or any other things that are out there today, the idea that somehow that's going to be a telco offering versus just something that comes over the top is just a market reality. And I think the telcos see that, and so they're looking to monetize outside of the core end-user experience.

So look, there's no successful Teams strategy or Microsoft strategy that excludes telcos. In fact, we see the need for even stronger partnerships there moving forward.

**A - Karl Keirstead** {BIO 1542979 <GO>}

Got it. If we have time for one more, I'll sneak in one more. A completely different question, Judson, just to keep you on your toes. An investor asking whether Microsoft has any plans to create its own chip to compete with Apple's M1 chip, or for that matter, do what AWS did and produce chips for the use in Azure VMs?

**A - Judson Althoff** {BIO 18004989 <GO>}

Well, yes. So we do have our hand in our own chip design already through Xbox. And the xCloud offering is actually a very interesting one that we're pretty excited about. The gaming ecosystem is one of those crossover realms between consumer and commercial that's super exciting for us and a high-growth area of the business.

I can't comment on what we'll do in the space. Apple's move was certainly a very interesting one. We're studying it. The partnerships that we have, though, in this realm, from the open AI efforts that we have to our relationship with Intel and the Arm developments that we have certainly point to the need to have advanced capabilities here. Whether we build it first-party or have an ecosystem of third-party partners is sort of yet to be disclosed.

**A - Karl Keirstead** {BIO 1542979 <GO>}

Excellent.

Judson, why don't we end it there?

Thank you, to you and Mike Spencer and the IR team for agreeing to keynote our event and spend as much time as you have with our clients.

So on behalf of UBS, Judson, thanks so much for you carving out time today for us.

**A - Judson Althoff** {BIO 18004989 <GO>}

Thanks, Karl. My pleasure.

**A - Karl Keirstead** {BIO 1542979 <GO>}

Okay. Bye-bye.

**A - Judson Althoff** {BIO 18004989 <GO>}

Thank you. Bye.

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