Microsoft Corp New Reporting Standards Conference Call

Company Participants

- Chris Suh, General Manager of IR
- Frank Henry Brod, Corporate VP of Finance & Administration and CAO

Other Participants

- Jay Vleeschhouwer, MD of Software Research, Griffin Securities, Inc., Research Division
- Karl Emil Keirstead, Director and Senior Equity Research Analyst, Deutsche Bank AG, Research Division
- Mark L. Moerdler, Senior Research Analyst, Sanford C. Bernstein & Co., LLC., Research Division
- Ross Stuart MacMillan, Co, RBC Capital Markets, LLC, Research Division

Presentation

Operator

Welcome to the Microsoft's New Accounting Standards and Investor Metrics Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would like to turn the call over to Chris Suh, General Manager of Investor Relations. Chris, please proceed.

Chris Suh {BIO 17955231 <GO>}

Thanks, Rhea. Good afternoon, everyone. And thanks for joining us on the call today. With me today is Frank Brod, our Chief Accounting Officer; and John Seethoff, Deputy General Counsel and Corporate Secretary. Today's call is being webcast live and recorded. If you ask a question, it will be included in the live transmission, in the transcript and in any future use of the recording. You can replay the call and view the transcript at the Microsoft Investor Relations website until August 3, 2018.

During this call, we will be making forward-looking statements, which are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in today's conference call and in the Risk Factors section of our Form 10-K, Form 10-Q and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

On our website, microsoft.com/investor, is our slide deck, which is intended to follow today's discussion. Additionally, you can also find today's 8-K filing and our restated historical results on our website as well as our fiscal 2017 10-K, which was filed yesterday in the current revenue standard.

We will not be discussing any topics other than the new accounting standards on the call today.

Moving to Slide three is our agenda slide. We're holding this call to aid investors in understanding Microsoft's transition to the new accounting standards for revenue and for leases. Today, we'll provide you an overview of the standards, describe the impact to our reported financial results and investor metrics and then close with a discussion about FY '18. We should have some time for questions at the end.

Before I turn the call over to Frank, I'd like to clarify some of the terms that we'll use in today's discussion. We will refer to the accounting standards that were applicable throughout fiscal '17 as the current standard. And we'll refer to the newly adopted accounting standards as the new standard 606 or 842.

To start us off, I'm going to turn the call over to Frank.

Frank Henry Brod {BIO 3446588 <GO>}

Well thank you, Chris. Good afternoon, everyone. On July 1, 2017, we adopted 2 new accounting standards that cover revenue recognition and lease accounting. We chose to adopt the new standards early, primarily to simplify the communication of our results by eliminating the need for non-GAAP revenue reporting.

We have also chosen to early adopt the new leasing standard in order to provide one set of restated financial statements to investors. We will report our results under these new standards beginning with the First Quarter of our fiscal year '18.

Today, we'll walk you through the concepts of these new standards and discuss the impacts to Microsoft financial statements and metrics.

Starting with Slide #5, let's begin with the new revenue accounting standard or ASC 606. This is a global cross-industry standard with a principle-based framework. Under this standard, companies recognize revenue when they have transferred control of products and services and have no further obligations to customers. The software industry is one of the most impacted industries due to the elimination of specific rules governing revenue deferrals.

Under this new standard, software revenue is now recognized upfront. And revenue related to the value of ongoing obligations, such as software updates, must be estimated and deferred.

Moving on to Slide #6. Under the new revenue standard, recognition for many areas of Microsoft's business remain unchanged. This includes revenue for cloud services, hardware, enterprise services and advertising revenue. Also, our cost of revenue does not change. And most importantly, there's no change in our relationship with our customers, our sales practices, our customer billings or our cash flow.

The most material change to our GAAP financials is the move to upfront recognition for Windows 10 OEM revenue. Since the launch of Windows 10 in July of 2015, we have been providing non-GAAP measures to exclude the impact from Windows 10 OEM revenue deferrals from our results. Going forward, the new revenue standard will enable us to eliminate that adjustment and report solely on a GAAP basis.

Another important change for our financials is the shift to upfront revenue recognition for the license component of our on-premises annuity contracts. This shift in recognition impacts our commercial business.

There are other changes to revenue recognition under the new standard that are less impactful at the all of company level but drive changes at the segment and investor metric level. These include the change to primarily upfront revenue recognition for Office consumer on-premises license revenue in Japan, nonvolume-based patent licensing revenue and gaming content revenue, such as Halo 5. We'll discuss these changes and their impact on our reporting in more detail later in the presentation.

In addition to the revenue changes, there are small changes to our expenses. Operating expenses decreased slightly, primarily to reflect the deferral of sales incentives over the life of a contract in the few instances where they were previously recognized entirely in the first year of the contract.

Other income increases slightly to reflect the impact of foreign exchange remeasurement on an increased balance of receivables. And also, our historical tax rate is higher under the new standard, driven by a different geographic mix of our recognized income.

As you will see in our restated financials, we have elected to adopt this standard using the full retrospective method, restating fiscal years 2017 and 2016 to provide greater comparability for the readers of our financial statements.

So starting with Slide #7, I will talk in more detail about the latest changes to revenue. As I previously stated, the most material change to our GAAP financials is a move to upfront recognition of Windows 10 OEM revenue. On the left side of Slide 7, you can see an example of this change.

Under the current standard, we provide investors non-GAAP measures that exclude the impact from Windows 10 OEM revenue deferrals to aid in their understanding of our performance. Under the new standard, we will no longer need to provide this revenue adjustment. And we'll report revenue solely on a GAAP basis. And going forward, 3% of the Windows 10 OEM revenue will be deferred in the More Personal

Computing segment. This relates to our obligation to customers to deliver ongoing security enhancements and the latest features and updates over the life of the Windows 10 devices.

Importantly and as you can see in the example, there is no impact to customer billing or cash flow.

Now to Slide #8 to discuss another important change to our GAAP financials, recognition from a license component of our on-premises annuity contracts.

As a reminder, our on-premises annuity contracts are generally 3-year agreements with annual billings. There is no change to those under 606 and as a result, no changes to our commercial bookings or cash flow.

These on-premises annuity contracts include 2 components, a software license component and a Software Assurance component, which includes various benefits, such as support and rights to latest versions of the software.

Under the current standard, we recognize revenue for both components ratably over the contract term. Under the new standard, recognition for the Software Assurance component will remain ratable or revenue for the license component of these contracts will be recognized upfront, reflecting the completion of the initial software delivery to customers.

This change has 3 key impacts: first, this change results in some revenue from a license component being recognized ahead of customer invoicing, driving an increase in accounts receivable; second, the upfront recognition of this license component revenues drives higher volatility in quarterly revenue and changes the seasonality patterns of our reported revenue within a given year; and third, revenue from the license component that is recognized upfront is no longer recorded in unearned revenue. We'll discuss these impacts in more detail later in the presentation.

Let's move now to Slide #9. To aid in the understanding of the differences between the current and the new revenue standards, we have provided bridges for fiscal year '17 and fiscal year '16 revenue and fiscal year 17's unearned revenue. I'm going to spend a little time walking through those views now.

We'll start with fiscal year '17 revenue. Beginning with the left bar, you'll see that our fiscal year '17 GAAP revenue as reported under the current standard is $90 billion. However, we provide non-GAAP measures to exclude the impact from Windows 10 OEM revenue deferrals. And so many analysts and investors are also familiar with the fiscal year '17 non-GAAP revenue of $96.7 billion, which you will see on the third bar.

The next 2 bars represent the net impact of moving the license component of our on-premises annuity contracts, Office consumer on-premises licenses in Japan, nonvolume-based patent licensing contracts and some gaming content, such as Halo 5, to upfront revenue recognition under the new standard.

Of these changes, the largest impact is in our commercial on-premises annuity business. Under the current revenue standard, fiscal year '17 included recognition of license component revenue from contracts signed in prior years. Under the new revenue standard, all license component revenue from on-premises annuity contracts signed prior to fiscal year '17 has been restated to prior years or to retained earnings. This is represented by the first gray bar.

Additionally, under the new standard, we will recognize revenue into fiscal year '17 for the license component of on-premises annuity contracts that were signed in fiscal year '17. But would have previously been recognized in future years under the current standard. This is represented by the second green bar. And as we previously discussed, there's a 3% revenue deferral for Windows 10 OEM related to the value of software updates represented by the second gray bar.

The net impact of these 3 amounts compared to our total revenue base is small, roughly approximately $100 million decrease in fiscal year '17 revenue when compared to non-GAAP revenue under the current standard.

And now to Slide #10. This slide shows the walk for fiscal year '16 revenue, which includes the same drivers as the prior slide. Under the new standard, the net impact for fiscal year '16 is a decrease to revenue of approximately $800 million versus non-GAAP revenue under the current standard.

In comparing to the prior slide, you see there was less revenue restated to prior periods in fiscal '17 than in fiscal year '16 as the mix of our cloud revenue increases year-over-year and the revenue from the license component of our on-premises annuity contracts decreases, reflecting the transition to the cloud.

And finally, on Slide 11, this third bridge walks between June 30, 2017, unearned revenue balance under the current standard of $44.5 billion and the June 30, 2017, unearned revenue balance under the new standard of $26.7 billion.

The first 2 gray bars represent revenue restated to fiscal year '16 and '17 and retained earnings that would have otherwise been recognized in future periods under the current standard.

The most impactful change is Windows 10 OEM, the first gray bar on the chart, driving a $13.3 billion decrease. The second gray bar represents the license component of on-premises annuity contracts that are no longer recorded to unearned revenue as well as small amounts related to offer consumer licenses in Japan, patent licensing and gaming content.

And lastly, the green bar represents the increase in unearned revenue for the 3% Windows 10 OEM deferral. The net impact of these changes is a $17.8 billion decrease to the total unearned revenue balance. Again, this was restated to prior periods and to retained earnings. Given these changes, on a go-forward basis, unearned revenue growth should reflect the higher mix of Cloud and Software Assurance revenue.

And now it's time to turn the call over to Chris so that he can further expand on the impact the new revenue standard has on our financial statements and investor metrics.

I'll rejoin you later to discuss the new leasing accounting standard.

Chris Suh {BIO 17955231 <GO>}

Thanks, Frank. Let's move to Slide 12. This slide provides an income summary view for fiscal '16 and fiscal '17 of the changes Frank described. In the GAAP view on top, the revenue change is primarily driven by the Windows 10 OEM revenue deferral, which we had previously adjusted for in our non-GAAP reporting.

In the non-GAAP view, the new revenue standard's impact is relatively small. For fiscal '16, the change is approximately $800 million or less than 1% lower. For fiscal '17, the revenue impact is only about $100 million. These revenue changes are due to the factors that Frank described in detail on Slides 9 and 10.

Turning to the rest of the P&L. There are no changes to COGS. So the revenue difference is reflected in the gross margin line. Operating expenses decreased in both fiscal years due to the deferral of sales incentives. These 2 factors resulted in an operating income change of $700 million in fiscal '16 and no change in fiscal '17.

Finally, as Frank stated, our non-GAAP historical tax rate is slightly higher based on the geographic mix of recognized income. As a result, EPS decreased by $0.11 in fiscal '16 and $0.02 in fiscal '17. And again, these changes had no impact on cash flow, billings or bookings.

Moving to Slide 13. In this slide, we've added fiscal '17 growth rates under both the current and new standard. Because the revenue restatement impact is larger in fiscal '16 than in fiscal '17, the growth rates in fiscal '17 are revised higher due to that lower revenue comparable.

Importantly, since the accounting treatment of our Cloud and Software Assurance revenue does not change as the license component of our on-premises annuity contracts decreases, over time, the growth rates between the current and new standard should be identical.

Moving to Slide 14. This slide is a quarterly view of fiscal '17. While the full year is minimally impacted, as Frank mentioned earlier, the new revenue standard results in a more -- in more variability quarter-to-quarter and changes the seasonality pattern of our reported revenue within a given year. Here, you can clearly see this impact.

Revenue has shifted from our first, second and Third Quarters into our Fourth Quarter. Our Fourth Quarter typically experiences the highest volume of on-premises annuity contracts. And you can see that the Q4 impact is the largest revenue dollar change under the new standard. The new seasonality pattern in fiscal '17 is indicative of what we'd expect in fiscal '18 as well.

Now let's turn to our investor metrics. On Slide 16, we created this trended view to highlight important characteristics of our commercial business and provide context as we discuss the impact of 606 on our reporting segments and associated investor metrics.

Billings is a useful view because it's the same under both the current and new accounting standards. This slide shows our commercial billings mix at the company level and then billings mix across 4 commercial product and service metrics. Enterprise Services is included in the total Microsoft Commercial billings but not shown separately because there is no license component for annuity contracts in that business.

We've identified 3 types of billings: transactional, license components of on-premises annuity contracts and Cloud and Software Assurance component of on-premises annuity contracts. I want to highlight a couple of points from these charts. First, our customers' digital transformation and continued adoption of cloud services as well as healthy annuity mix has led to a higher billings mix of Cloud and Software Assurance at the company level in fiscal '17. Second, we talk frequently about our transactional business, which is most impacted by the cloud transition. But also more variable depending on in-quarter sales. Under the new revenue standard, the license component of our on-premises annuity contracts will exhibit similar characteristics. Given increased customer preference for cloud services, both these billing types declined at the total company level.

Now let's look at each of the product metrics. In the Office commercial product and services, you can see clearly the more advanced stage of the transition to Office 365, reflected in the changing mix of billings as we continue to shift customers to the cloud and grow the installed base. Our Dynamics product and cloud services view shows a similar trend, except that there's no transactional business. This chart shows how the shift to Dynamics 365 has impacted the billings mix even in its early stage cloud transition.

For our server products and cloud services billings, there's 2 things here I'd like to highlight. First, the continued innovation across the intelligent cloud and intelligent edge means that our on-premises server business and our Azure cloud both contribute to billings growth. From a mix perspective, Azure billings growth has been tremendous, far outpacing our on-premises growth, resulting in the mix you see here. And second, because of this continued growth of on-premises annuity contract billings, we see the highest mix of billings that are impacted by in-quarter sales and inherently, more variable quarter-to-quarter.

Finally, Windows commercial products and services. This view reflects healthy growth across transactional, license component and Cloud and Software Assurance billings in fiscal '17. As enterprise customers move to Windows 10, there is both installed base growth and higher adoption of our security solutions, resulting in a slightly higher transactional license component mix than the prior year.

Now let's go into the segment views. Starting with Slide 17. In our Productivity and Business Processes segment, we have 3 impacted metrics. In the Office commercial product and services KPI, as I just discussed, the Office 365 transition is our most mature. The growth rate metric is about 1 point higher for the year, which reflects the mix toward the faster-growing Office 365 business.

In Office consumer product and services, the change in growth rate is related to the changes in revenue recognition in our consumer business -- Consumer Office business in Japan that Frank referenced earlier, from ratable to upfront. As we've discussed in prior calls, Japan is a large market for us, where Office has a high attach to PCs. Accordingly, growth rates will be impacted by the performance of Japan's consumer PC market.

I talked about Dynamics on the prior slide. We've seen strong adoption of Dynamics 365 since its release in 2016. I will reiterate that with this change to upfront recognition, our Dynamics product and cloud services metric now reflects the early stages of this cloud transition.

Moving to Slide 18, our Intelligent Cloud segment. I've talked about the billings trend for the server product and cloud services metric already. But let me add some additional context. This restated metric is higher by about 1 point for the full year. But there is more variability quarter-to-quarter. The continued double-digit growth is driven by robust Azure cloud revenue growth combined with growth in the license revenue component of our on-premises annuity contracts as well. But as discussed on Slide 16, the higher mix of transactional and on-premises license revenue when compared to other businesses can result in more variability quarter-to-quarter.

Moving to Slide 19, our More Personal Computing segment. There are 4 metrics impacted. In our OEM business, both Pro and non-Pro metrics are impacted by the 3% Windows deferral that Frank referenced earlier. In our Windows commercial business, as customers upgrade to Windows 10 enterprise, the metric reflects growth driven primarily by this license component revenue growth as our installed base grows and customers increasingly adopt our security solutions.

And for fiscal '17, gaming revenue has a total impact of $24 million as previously deferred gaming revenue, primarily Halo 5, is now recognized upfront under the new standard.

Moving to Slide 20, these are our commercial metrics. First, because there's no change to commercial bookings, commercial billings and cash flow with the new revenue standard, those metrics remain unchanged.

Let's go to the impacted metric, commercial unearned revenue. Frank has walked you through the mechanics of our unearned revenue changes under 606 on Slide 11. With the license component of on-premises annuity contracts removed, the commercial unearned revenue balances now more closely mirror the performance of our Cloud and Software Assurance businesses.

Next, commercial revenue annuity mix. This metric has minimal change as there's no change to the calculation methodology and no changes to customer contracts or billings.

And in fiscal '18, we'll make a couple of changes to our commercial metrics. The first is we're adding commercial cloud quarterly revenue as a new KPI. We finished fiscal '17 at nearly $15 billion. And we're committing to report this quarterly in fiscal '18.

This will take the place of the commercial cloud annualized revenue run rate metric, which we'll report separately until we reach our $20 billion goal during fiscal '18.

And the last change is that we will retire the commercial contracted not billed metric. With the new standard, it is less indicative of commercial bookings performance and less helpful at calculating commercial bookings growth, which we provide to you directly each quarter.

So on Slide 21, this is the complete view of our fiscal '18 investor metrics. We've kept them largely unchanged, except for the 2 I just talked about. These metrics represent important measures of business performance, further transparency into our cloud -- into our progress across our ambitions.

And finally, before I turn it over to Frank, Slide 22, on our cash flows. Here, we provided you a table of our operating and free cash flow performance in fiscal '17. Operating cash flow, free cash flow and their associated growth rates remain unchanged under 606. Now I'll turn it back to Frank who will talk to you about the new leasing accounting standard.

Frank Henry Brod {BIO 3446588 <GO>}

Well thanks, Chris. And we'll turn our attention to Slide #24, where I'll briefly discuss the new leasing accounting standard. As we previously said, we're early adopting this standard in conjunction with the new revenue standard and providing just one set of restated financial statements to reduce the impact on investors.

To enable this, we've implemented the KPMG leasing tool, which is hosted on Azure. Under the lease accounting standard, there are no changes to our income statement, to operating cash flow or to free cash flow, nor are there impacts of the methodology that we use to determine whether a lease is categorized as an operating lease or a financer capital lease.

There will also be no impact to our debt covenants. The new lease standard does drive a change to the balance sheet as the operating leases will now be recorded providing investors enhanced transparency around our lease-related assets and liabilities. And for comparability, we've restated fiscal years 2017 and 2016.

On Slide 25, we have provided an example of the accounting for this new standard. There you can see that we will now record our operating leases related to data centers, offices, research and development facilities, retail stores and various equipment under the operating lease right-of-use assets, other current liabilities and operating lease liability lines in the balance sheet.

This results in a net increase in assets and liabilities of $6.6 billion as of June 30, 2017. And a net increase in assets and liabilities of $5.2 billion as of June 30, 2016.

And as I previously stated, this change will have no impact on our income statement or cash flows. The right-of-use assets and operating lease liabilities are shown on the restated balance sheet included in the 8-K that we filed today as well as on Slide 36 in the supplementary information provided later in this presentation.

And with that, Chris, I'll turn it back to you.

Chris Suh {BIO 17955231 <GO>}

Thanks, Frank. Now I'll turn to the discussion on how the new revenue standard impacts our Q1 and fiscal '18 guidance.

Let's go to Slide 27. Starting here with the Q1 guidance. We compared guidance under the current standard and under the new revenue standard. Here, on the left, you can see the exact guidance we provided on our July 20 earnings call.

On the right, you can see the corresponding translation of that guidance under 606. This is a purely mechanical and direct translation of that guidance to the new revenue standard, not an update on our business in any way.

Based on the changes we've walked you through, there are new revenue ranges for our 3 reporting segments. In productivity and business processes, we expect revenue under the new standard to be $7.85 billion to $8.05 billion, including approximately $1.1 billion of LinkedIn revenue.

In Intelligent Cloud, we expect revenue under the new standard to be $6.55 billion to $6.75 billion. And in more personal computing under the new standard, there is no change to our revenue expectation of $8.6 billion to $8.9 billion.

The new revenue standard does not change our expectations for foreign exchange impact and the cost of revenue.

Finally, on this slide, I'd like to draw your attention to the revenue growth rates we've provided for each segment. As you can see, the year-over-year growth rates are very similar under either the current or the new standard.

Let's turn to Slide 28. Here, there's only one change. And that's in the commercial unearned revenue, which is impacted by the changes previously discussed. We now expect it to be $20.9 billion to $21.1 billion, in line with historical seasonality, which remains the same under the new standard.

Turning to Slide 29 for our full year outlook. The new revenue standard does not change our previous comments about fiscal '18, including our margin commentary. As you prepare to update your models, a couple of points: first, we do not believe that the conversion from the current to the new accounting standard should prompt you to change your full year estimates. So as you focus your work to adjusting the quarters, please review the quarterly seasonality patterns, in particular, for fiscal '17 as a helpful guide.

And with that, let's go to Q&A.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from the line of Karl Keirstead with Deutsche Bank.

Q - Karl Emil Keirstead {BIO 1542979 <GO>}

Frank or Chris, it seems like one of the net effects of these changes is to increase the dependency on the Fourth Quarter, where that's going to have a higher sort of seasonal impact. Now I'm sure inside Microsoft, you've got a pretty crack team that's good at forecasting and setting guidance. But does the 4Q skew force you to change anything internally in terms of your forecasting methodology or Chris, in the way that you guide?

A - Chris Suh {BIO 17955231 <GO>}

Karl, thanks for the question. First, I'll just remind you, there is no change. With the new accounting standard, it really doesn't change anything in terms of how we contract, how we invoice and how we engage with customers. So from that standpoint, from a sales and go-to-market perspective, there is no real change at all in terms of that engagement. So it really is a revenue recognition timing question. And so from that perspective, again, with the new standard, because more revenue will be reported -- because revenue for the license component of those on-prem annuity contracts will be reported in the quarter that it's signed and that -- the volume of activity tends to be heavier in Q4, that's where the revenue will show up. But the underlying mechanics, there's no change. And so there really is no difference in -- from that point of view.

Operator

Our next question comes from the line of Mark Moerdler with Bernstein Research.

Q - Mark L. Moerdler {BIO 16855032 <GO>}

This has been very detailed and helpful presentation. I've got 2 quick questions. Just to quickly confirm, you're saying that we shouldn't really move around -- we shouldn't change our numbers for total year revenue for FY '18. Rather, we should move them around between the quarters. And that we should do it -- does that mean it's in line with what we've seen in FY '16 and '17? Then a quick follow-up.

A - Chris Suh {BIO 17955231 <GO>}

Okay. Thanks, Mark. Thanks for the question. So to answer your question, as we said on the call, the change in the accounting standard, we do not believe, should prompt you to change your full year estimate. But the quarterly seasonality or the spread across quarters does change. And FY '17 provides a pretty good road map from our perspective on how that seasonality would look under the new standard.

Q - Mark L. Moerdler {BIO 16855032 <GO>}

Perfect. Very helpful. Second quick one, can you give us a sense of how large the impact of spreading the sales commission is? And does that change as we go forward for the growth in the subscription revenue going forward?

A - Chris Suh {BIO 17955231 <GO>}

On the -- just to clarify, Mark, you're referring to the sales commission expense impact?

Q - Mark L. Moerdler {BIO 16855032 <GO>}

SG&A expenses in general. But sales commissions, right.

A - Frank Henry Brod {BIO 3446588 <GO>}

Yes, Mark, we saw -- we're seeing a very small impact in the change of the standard on sales expenses. They are -- because our sales incentives today generally align with the way our revenue is brought in, there are some slight changes in there driven by some specific programs where we pay incentives that have a benefit for more than one year. And if the incentives were previously paid for more than one year of a contract, then we have to differ those and take them over the life of the contract. But most of the programs we have in Microsoft actually match to each year's revenue billing. So there is not any (technical difficulty) so you'll see the numbers as you look at the historical change as very modest.

Operator

Our next question comes from the line of Ross MacMillan with Royal Bank of Canada.

Q - Ross Stuart MacMillan {BIO 1994797 <GO>}

Just one from me. When I look at the Q1 revised outlook, the More PC segment is the same. But I would have thought because of the large deferral in Windows, that might have had a bigger impact. Is there something that I'm just not connecting on there? I would have thought that would have had an impact because of the Windows deferral.

A - Chris Suh {BIO 17955231 <GO>}

Yes. So that's a good question, Ross. It's a good clarifier. Under the current standard, we did defer Windows 10 revenue. But that did not get reflected in the More Personal Computing segment, if you recall. The deferral ran through what we call Corporate and Other. And so with the elimination of that non-GAAP adjustment, that has no impact on the More Personal Computing segment. Now under the new accounting standard, there is a new deferral that does hit that segment. But it's only 3% of the Windows 10 OEM revenue.

Operator

Our next question comes from the line of Jay Vleeschhouwer with Griffin Securities.

Q - Jay Vleeschhouwer {BIO 1498201 <GO>}

Your change of guidance range for revenues for PBT and Intelligent Cloud were $250 million and $350 million, respectively, which are very similar to the magnitudes of the restatements for Q1 of '16 and Q1 of '17, according to the new table that you provided. Would you expect therefore that the magnitudes of effect for the remainder of '18, second through Fourth Quarter, would be similar to the restatement magnitudes that you show here on your table for second through Fourth Quarters of '16 and 17?

A - Chris Suh {BIO 17955231 <GO>}

Jay, thanks for the question. I think the best way to think about it. And as the guidance that we gave on the call, was to look at fiscal '17 seasonality spread, which we provided in the materials that we posted on our website, as a good road map for how we think the seasonality in '18 will play itself out. And again, just importantly, that in terms of the total year, the full year number is unchanged from your current estimate from that point of view. But I do think the '17 seasonality would probably be your best guidepost here. Okay, well, I think that wraps up the Q&A portion of today's call. In closing, we hope you found this presentation helpful in understanding the impact of the new revenue accounting standard and the new leasing standard. And please contact us if you have any additional questions. Thank you for joining.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.