

## JPMorgan Tech Forum

### Company Participants

- Tami Reller, CFO and Chief Marketing Officer, Windows Division

### Other Participants

- John DiFucci, Analyst, JPMorgan Chase & Co.

### Presentation

#### John DiFucci {BIO 4099352 <GO>}

Good afternoon. It is afternoon now. And my name is John DiFucci. Thanks for coming to the JPMorgan Tech Forum at CES. I'm -- I cover software at JPMorgan. We're very happy to have with us this afternoon Tami Reller. Tami's the Chief Financial Officer, Chief Marketing Officer and runs the business of Windows for Microsoft. So we're really happy to have Tami here with us today. We also have Todd McCommon and Lisa Nelson from IR in the audience. I'm going to turn it over to Tami, who's going to have some brief remarks. And then I'm going to move into Q&A. Tami?

#### Tami Reller {BIO 1978866 <GO>}

Great. So thank you, John. And thank you JPMorgan for having us here. And thanks, everyone, for attending both here and I know there's a webcast as well.

So before we get started, I do just want to briefly read something that I think you've probably heard before. So this presentation contains forward-looking statements, which are any predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and perhaps some uncertainties. Actual results could materially differ because of factors discussed in our earnings press releases and the comments made during the presentation, in the risk factors section of our Form 10K, Form 10Qs and other reports and filings with the SEC. We do not undertake any duty to update any forward-looking statements. Thank you.

All right. So with that out of the way, I did want to just take a few minutes, perhaps. And then we'll jump into questions, John. And talk a little bit about Windows 8 and give some broader context.

I mean, as we think about Windows 8 as a Company, it certainly is what we would describe as a big, ambitious change and perhaps one of the biggest for Microsoft. Certainly from a Windows perspective, it's the biggest change and the biggest

endeavor, the biggest project since Windows 95. And it wasn't just a big, ambitious change for us. It was something that we needed to and wanted to take the ecosystem on that journey with us.

And as we think about that change, we really think back to how we described Windows 8, which is Windows Reimagined. And when we talked about Windows Reimagined, it was from the chipset to the user experience. But there's a lot in-between that. We expanded chipsets. We gave -- we paved the way for new form factors, a brand new developer platform. And with that, engagement with developers; again, apps and the store. Then, of course, the user experience. So a tremendous amount of change. And with that, we really did again bring the ecosystem along with us.

I thought I'd take a moment and just give you an update on where we are with progress with Windows 8. We -- during our Q1 earnings call we talked about the Windows 8 ramp and we talked about that being roughly in line with Windows 7. We then also talked about at the end of October, or the end of November, excuse me, that we had reached the 40 million license mark, which was also roughly similar to Windows 7 ramp.

And today I'd like to also announce that we have reached the 60 million license mark with Windows 8. And again, roughly in line with where we would have been in Windows 7. In fact, you may recall that back during our Q2 earnings, back in the Windows 7 launch time period, we talked about 60 million. So we feel good about what we have been able to accomplish with the ecosystem.

So much more; so much more opportunity ahead. But certainly, looking back, we're pleased with what we were able to accomplish with the project and what we were able to accomplish with the ecosystem heading into launch and in this first selling season. And clearly, with a project this ambitious, it's not just one selling season; it will be the product of multiple selling seasons and more progress to come.

So John, questions you might have?

## Questions And Answers

### **Q - John DiFucci** {BIO 4099352 <GO>}

Great. Tami, I guess the first question, that data you just talked about, the 60 million licenses sold, can you just specifically say exactly what that is? Because I've talked to people and some people say, well, it means every since the launch. Some people talk about other things. So if you could just clarify exactly what that means.

### **A - Tami Reller** {BIO 1978866 <GO>}

Yes. And it is very straightforward and it's similar to -- it's identical, in fact, to how we talked about Windows 7 licenses. So it's OEM. It's sell into OEMs for new PCs, as well as upgrades. So it's upgrades and OEM licenses.

**Q - John DiFucci** {BIO 4099352 <GO>}

Okay. Okay. Great. So you talked about change and there's been a lot of change; not just in the product. But also in the team. Or just recently with Steven Sinofsky leaving.

**A - Tami Reller** {BIO 1978866 <GO>}

Sure.

**Q - John DiFucci** {BIO 4099352 <GO>}

Can you talk a little bit about that? You're the Chief Financial Officer, the Chief Marketing Officer and then, when Steven left, you took over the business of Windows and Julie Larson-Green is taking over the technology side.

**A - Tami Reller** {BIO 1978866 <GO>}

That's right.

**Q - John DiFucci** {BIO 4099352 <GO>}

So can you just talk about what's happened now that the dust has sort of settled? Are there any other changes that that has, I guess, in effect sort of occurred?

**A - Tami Reller** {BIO 1978866 <GO>}

Yes. No. I mean. And I'm glad you asked about that. I mean, the -- I think what's important for this room and this audience to know is that the team focused on really avoiding distractions and just getting set up to drive things forward, to drive the business forward and to drive the Windows agenda forward.

I mean, there is an incredibly deep bench in Windows; not only at the senior leadership level. But across the organization. And it's a team that is used to delivering very, very big, complex projects together and in working across Microsoft to bring teams together. And so, I think that's the real important thing to know, is that the bench is incredibly deep and they know how to work together. They have proven success in delivering projects together.

I mean, I feel very fortunate in having a great partner in Julie. And we know -- we've been working together. We know how to work together, the whole team does. And so, we are moving forward and did move forward fast after the change.

**Q - John DiFucci** {BIO 4099352 <GO>}

So I guess since Steven left, you were there. Julie was there. I mean, has anything below you changed as far as structure?

**A - Tami Reller** {BIO 1978866 <GO>}

I mean, there's been some changes because we needed to get things aligned. Less so in my world. A little bit more in engineering. But it's the same players.

**Q - John DiFucci** {BIO 4099352 <GO>}

Okay.

**A - Tami Reller** {BIO 1978866 <GO>}

It is the same players who know how to work together. And I would describe it as largely a day of distraction and then people went back to the projects that they're working on, which we won't talk about that today.

**Q - John DiFucci** {BIO 4099352 <GO>}

Okay. Going back to some of those numbers and what they mean and sort of gauging the Windows 8 launch. And it sounds like at least the numbers are similar to what happened with Windows 7.

**A - Tami Reller** {BIO 1978866 <GO>}

Right.

**Q - John DiFucci** {BIO 4099352 <GO>}

And we all know that Windows 7 is a very successful product. But MPD has published some data in late November that said -- and they actually said Windows 8 retail sales were off to a slow start. I don't -- retail sales. I'm not sure how important that is. But I guess what's your comment on that? And we've heard some -- I guess there's been some other PC food chain executives at this event saying different things. There's been some confusion anyway. I think someone told me Michael Dell talked about confusion among the consumers with Windows 8. So I guess what's your assessment on the success of the launch of Windows 8 so far and where it's going?

**A - Tami Reller** {BIO 1978866 <GO>}

Sure. I mean, I think there's -- I mean, you all know this because you watch the industry. But the PC industry and the device industry at large, I mean it's a very large ecosystem and so there's always a lot of numbers and a lot of different ways to slice the data. We certainly have sort of all of our points of view on sort of how we look at the market, how we look at how we're doing in the marketplace.

I think what's really interesting to look at is what we found customers asking for and experiencing during these first few months. And what we knew we would want to do. And what we have done, is to just really watch those trends very, very carefully. What our customer is asking. What's the awareness of Windows 8? What's the interest in Windows 8? What's the purchase intent around Windows 8? What are they experiencing at retail? What are they experiencing when they buy a PC and get it set up? What are the usage levels? I mean, we wanted to make sure that we were sort of very open to just watching exactly what was happening and evolving what we needed to evolve.

And there's so many interesting things to talk about there. One of them is what -- where there was demand at retail. And I think we all had a strong sense that unique

touch devices, particularly touch laptops and tablets, convertibles, would be in high demand. The level of demand I think surprised a lot of people. And frankly, the supply was too short. I mean, there was more demand than there was supply in the types of devices that our customers had the most demand for. And there was some misalignment between where products were distributed and where there was demand, etc. And so, there were some adjustments that were made real time. There are some adjustments that are still happening.

And frankly, there's a lot of the tablets that are just coming to market now. I mean, many of x86 tablets are just coming to market now. Some of the Windows RT tablets did not get the type of distribution that perhaps would have been ideal. And so, there's all of those dynamics which are really important to take into consideration.

The thing I would also say is on the usage side of Windows 8. It's been very interesting and rewarding to watch the usage patterns of customers as they start to use the product. I mean, it's pretty phenomenal when you look at sort of day one usage of Windows -- with Windows 8 customers, is a number of the key features, let me describe it as that, of the product get used within the first 24 hours. Several of the key functions are used -- over 90% of the time are used, whether that's search, whether that's share, whether that's launching an app from the start screen. 84% of customers go to the desktop on the very first -- within the first 24 hours.

You also, then, start to watch the pattern over the next several days and you just see how much they start to -- continue to grow and use the product over time. And that was always our belief, which is we wanted the product to be easy to start to learn and then fun to just keep engaging with and learning more. And indeed, we're seeing that and watching that closely.

**Q - John DiFucci** {BIO 4099352 <GO>}

Okay. So I mean, there have been mixed reviews out there on the product itself. But as you said earlier, it really requires -- and it's something that you actually promoted early on, the reimagining of the product. Even the use of the product --.

**A - Tami Reller** {BIO 1978866 <GO>}

Right.

**Q - John DiFucci** {BIO 4099352 <GO>}

From the customer. So they really have to learn how to use it. So I guess there have been some reviews that have been sort of negative out there but, at the same time, anything that's really very different takes time.

**A - Tami Reller** {BIO 1978866 <GO>}

It does.

**Q - John DiFucci** {BIO 4099352 <GO>}

So I guess, in your view at this point, I mean, I'm sure you had a different gauge on or a band of how you hoped this would progress. Where you are right now, I guess are you within that band and where are you within that band? Are you in the middle of the band? Are you somewhere a little better or a little worse than you had hoped you'd been right now and how do you expect this to progress from here?

**A - Tami Reller** {BIO 1978866 <GO>}

Right. I mean, there's certainly no shortage of conversation about Windows 8. That's one thing I was -- I would summarize it that way, which is there's a lot of conversation about the product. And I think the -- what's been important to us is to really watch how customers have the opportunity to explore the product.

I mean, the other thing that we're finding, which is probably not surprising but just worth articulating, is that it's important for customers to get their hands on the product and that's indeed what we're seeing at retail, which is they want time with the product.

We also know -- at launch we talked about -- you might recall we talked about 1,000 systems. 1,000 unique systems had been certified for Windows 8. One thing that's different from the Windows 7 launch is that, post-launch, we're now up to more than 1,700 systems. So I mean, that's an incredible amount of sort of new systems that are coming in, which also means customers have a lot of choice. And so, they are essentially evaluating a new OS and they are then having the opportunity to look at quite a diverse set of hardware options.

And so, again, that takes some time for customers to digest and make and make choices. And so, we work at getting better and better at helping customers with that journey and making sure that, whether it's our retail partners or whether it's our OEM partners, how do we help them help customers on that journey. And some of it just takes time. I mean, you imagine, just as time progresses you then have a family member or a coworker who then has the system who can describe some things to you, etc. And so that, of course -- that, of course, will help start the flywheel further.

**Q - John DiFucci** {BIO 4099352 <GO>}

So the quantity of systems out there that have been certified for Windows sounds really high based on historical --.

**A - Tami Reller** {BIO 1978866 <GO>}

And it is.

**Q - John DiFucci** {BIO 4099352 <GO>}

Trends or historical data. But how satisfied are you with the -- I guess quality of -- I mean, do they -- do the products today really exhibit the ability to really put Windows 8 forward in the kind of way that you want it to and/or what should we expect from the next, like, wave of new products coming out?

**A - Tami Reller** {BIO 1978866 <GO>}

Yes. I mean, we said this at launch. And in fact, I think Mike and Julie said it during the launch event, which is with Windows 8 we have the best PCs that have ever been built and that's true. We have the best PCs in market that have ever been built. And with these new certifications, more and more to come.

We, I think collectively as an ecosystem and as an industry, want more and more touch assortment. Like, if we say sort of what do we want more of and what does the market want more of from us of, it's more touch assortment. And that's certainly tablets. That's certainly convertibles, touch laptops, touch laptops at great prices, all-in-ones, all-in-ones at great prices. I mean, all of those are proving to be high demand items. And so, that's still a partial to-do for the industry, is to just continue to deliver on all of that. But again, even in this month, during this show, you've seen a lot of new devices in the touch category come to market; or at least announced to come soon.

**Q - John DiFucci** {BIO 4099352 <GO>}

Okay. Great. So sticking with the hardware, last month you announced -- I'm going to move to Surface a little bit.

**A - Tami Reller** {BIO 1978866 <GO>}

Yes.

**Q - John DiFucci** {BIO 4099352 <GO>}

You announced that you're increasing production of Surface on ARM and expanding distribution to third party --.

**A - Tami Reller** {BIO 1978866 <GO>}

Right.

**Q - John DiFucci** {BIO 4099352 <GO>}

Retail stores. It's really early. But can you comment on that? Are you seeing any success or early success there?

**A - Tami Reller** {BIO 1978866 <GO>}

Yes. I mean, Surface has been such an exciting product for us to be able to announce and announce as part of really our Windows 8 journey. And we made a very explicit decision initially to launch this first-time product into our own stores so that we could have the opportunity to really watch and watch carefully and learn and just get things right. And so, that was terrific to be able to do that and it was very rewarding just to be able to see customer reaction directly.

We always had it in our plan to then start conversations with retailers about bringing Surface into broader distribution. What we found when we started to have those

conversations is they did want to do what retailers don't often do. And that is to get a product into -- onto shelves very, very quickly. And in some cases, it was a matter of days. And so, we did have the opportunity then to see Surface in a few retailers for a few days of the holiday, which was great. And so, I know -- that was helpful to us as we now prepare for the selling seasons to come. So we were pleased and I think it's safe to say that we're pleased.

**Q - John DiFucci** {BIO 4099352 <GO>}

Okay. Great. Just sticking with Surface for a second, now we have Surface Pro coming out

**A - Tami Reller** {BIO 1978866 <GO>}

We do.

**Q - John DiFucci** {BIO 4099352 <GO>}

Which -- I mean, from my perspective anyway, it's coming from the strength of Microsoft, which is the PC. And that's really -- it's going to be more PC-like than the RT version. But I guess what are your expectations relative to your experience with the -- with RT?

**A - Tami Reller** {BIO 1978866 <GO>}

Yes. I mean, we're very excited about Surface Pro, which will start to hit the market in the weeks ahead and we'll talk more about that in the near term. And you described it well, which is it's a PC that also does an incredible job as a tablet. I mean, it's a Core i5. So the performance is terrific and yet it has so many of the great attributes of Surface, including touch cover, type cover, the kick stand, all of the great hardware design that we've talked about with Surface. So we're excited to be able to offer customers, both consumers and business customers, two choices.

**Q - John DiFucci** {BIO 4099352 <GO>}

Okay. Great. And I'm going to ask one more question on Windows 8 and then I'm going to go to something that's near and dear to my heart, anyway. I guess can you tell us anything about Windows 8 adoption among corporations?

**A - Tami Reller** {BIO 1978866 <GO>}

Right. So -- exactly. And we've talked a little bit about this. But I think it's worth recapping and then I can give an update on Windows 7 deployment, which I think is important, too, in this context.

I mean, from the start we have talked about our expectation that Windows 7 in a corporation would live alongside Windows 8 devices in a fine fashion and that's exactly how we built the product. And we believed. And we're seeing that come true, that Windows 8 adoption would predominantly happen for two reasons. One is Windows 8 apps would be interesting to a corporation and they'd be building on the developer platform and therefore bring Windows 8 devices into either scenarios



or lines of business or work groups that were going to use a new app. And we're seeing a lot of interest in that.

Then the second. And perhaps even more obvious, is when new Windows 8 devices are brought in; specifically tablets. And I think as we think about some of the x86 tablets that are starting to come to market now, indeed, we're seeing that interest level pick up. And there's been some very visible stories, whether it's Emirates, who's done some great work on one of HP's tablets and Windows 8 and Windows 8 apps. I mean, a really, really great app for their flight crew. We've seen the Department of Defense, which made a very big bet, visible bet on Windows 8 last week. And so some great early success with Windows 8.

And yet, Windows 7 deployment remains really the big activity still in enterprises. And in fact, we're now well past the 60% mark with deployment. And how we measure that, because I sometimes get that question, is we measure all of the desktops -- we look at all the desktops across or all the PCs across our commercial customers and then measure the percentage of deployment on those PCs. So that's what I'm talking about when I say 60%, because we have well over 90% of enterprises that are on their Windows 7 journey. But when you look at the actual desktops, it now well over 60%. So great progress.

**Q - John DiFucci** {BIO 4099352 <GO>}

Okay. And when you define the enterprise or the corporate customers, I've heard mixed things throughout the years.

**A - Tami Reller** {BIO 1978866 <GO>}

We use different words, you mean.

**Q - John DiFucci** {BIO 4099352 <GO>}

Yes. Or different people use different words, too, at Microsoft.

**A - Tami Reller** {BIO 1978866 <GO>}

Yes.

**Q - John DiFucci** {BIO 4099352 <GO>}

So when I think of the enterprise, I think there's the consumer and then I think of the enterprise and the enterprise has the enterprise, the midmarket and the small business. And even in the small business, some of those small businesses really act like consumers --.

**A - Tami Reller** {BIO 1978866 <GO>}

That's right.

**Q - John DiFucci** {BIO 4099352 <GO>}

But some of the more like small businesses.

**A - Tami Reller** {BIO 1978866 <GO>}

That's right.

**Q - John DiFucci** {BIO 4099352 <GO>}

When you're talking enterprise are you including the small business in there?

**A - Tami Reller** {BIO 1978866 <GO>}

So I tend to say enterprise to mean our top 2,000 customers.

**Q - John DiFucci** {BIO 4099352 <GO>}

Okay.

**A - Tami Reller** {BIO 1978866 <GO>}

Then commercial or business to mean broader across the business segment much more broadly.

**Q - John DiFucci** {BIO 4099352 <GO>}

Okay.

**A - Tami Reller** {BIO 1978866 <GO>}

And we also know that small businesses, even midmarket businesses are going to sometimes do as consumers do and they will be interested in those types of devices, which I think is -- speaks well to what Windows 8 does well, which is it does work and it does play and it brings it all together and let's you -- whatever device you're on, you can do what you need to do for work and do what you need to do for the other parts of your life.

**Q - John DiFucci** {BIO 4099352 <GO>}

So commercial would include a part of the small business anyway.

**A - Tami Reller** {BIO 1978866 <GO>}

That's right.

**Q - John DiFucci** {BIO 4099352 <GO>}

Okay. Great.

**A - Tami Reller** {BIO 1978866 <GO>}

Yes. And essentially any organization with more than 5 PCs.

**Q - John DiFucci** {BIO 4099352 <GO>}

Okay. Okay. Great. Then, you talked about Windows 8 operating alongside Windows 7. And I've heard people talk about that, too. And at JPMorgan we use Windows -- well, I'm on Windows 7 now. But I think we're -- not everybody is quite there yet. But I think most people are.

But people are using tablets to -- that are not Windows based to connect into our systems and use it. Is there an advantage with Windows 8 tablets as far as integration into the systems of JPMorgan or anyplace else beyond let's say the iPad or something else like that?

**A - Tami Reller** {BIO 1978866 <GO>}

Yes. I mean, we're working hard to make sure that is the case. And whether it's a Windows RT Tablet and the capabilities that we have to bring that into your corporate environment and be able to do what you need to do, yet not have all of the IT taxed upon that. Or an x86 tablet, which is going to act just like a PC.

And what we feel so strongly about is that whether it's IT that's making a decision on behalf of the end user, or whether it's the end user who we believe should be able to have choice, we want to be able to sort of bridge that divide and give the end user exactly what they'd like in a device and an experience. And yet be able to offer IT the types of things that they're trying to achieve. And we often talk about that as sort of best of both worlds.

**Q - John DiFucci** {BIO 4099352 <GO>}

Okay. Okay. Great. And one thing that I just thought of that I've heard people say from Microsoft is talking about piracy. Now, piracy we all know is rampant and especially is rampant in emerging markets. But I've heard --.

**A - Tami Reller** {BIO 1978866 <GO>}

Some more than others. Some emerging markets more than others.

**Q - John DiFucci** {BIO 4099352 <GO>}

Yes. And -- but, is there something with Windows RT especially, or even tablets, that will -- do you believe could reduce the piracy?

**A - Tami Reller** {BIO 1978866 <GO>}

I mean, sure. There definitely is some unique elements of Windows RT which changed the piracy dynamic. We definitely think that the value of Windows RT is in -- mostly in other areas other than that business objective. And so, we can -- and I say that because we continue to work on a number of programs with our partners, both our OEM partners, as well as the retail partners, to make sure that we get genuine into the hands of more customers and that's the primary objective.

We often -- it often gets talked about as piracy. We tend to talk about it as we want to make sure we get genuine Windows into the hands of more customers, because oftentimes customers don't even know the explicit choice that they're making or not making. And so, we want to make sure that we do everything we can to get genuine Windows on as many devices as possible and, in particular, certain emerging markets, China most especially. And to give customers that much better experience; more secure. I could go on and on. But there's just so many benefits of being genuine. And frankly, working with our OEM partners is one of the most important things that we can do. And we've made some progress with Windows 8. More progress to make.

**Q - John DiFucci** {BIO 4099352 <GO>}

Is -- but is there a certification process or something that -- technology driven that would make it more difficult to pirate RT?

**A - Tami Reller** {BIO 1978866 <GO>}

I mean, that is true. That is true. And so, we'll see how that works out.

**Q - John DiFucci** {BIO 4099352 <GO>}

Yes. We'll see how it works out. I mean, even -- they may not know half the time. But I was actually in China when Windows 7 was coming out and you could buy Windows 7 for \$1.12 at a store. But anyway, that's another story.

**A - Tami Reller** {BIO 1978866 <GO>}

Yes. More work to do.

**Q - John DiFucci** {BIO 4099352 <GO>}

Tami, one more --.

**A - Tami Reller** {BIO 1978866 <GO>}

Did you buy one? That's the key --.

**Q - John DiFucci** {BIO 4099352 <GO>}

I didn't. I didn't. Actually, I didn't, no. I would never do that.

**A - Tami Reller** {BIO 1978866 <GO>}

\$1.11. That was your drop-dead price, right?

**Q - John DiFucci** {BIO 4099352 <GO>}

I guess the last question here. Microsoft -- I get asked this often. Microsoft as a hardware vendor. You've -- there was a lot speculation you might come out with a phone at one point. You came out with the Surface tablets. Is there -- should we be

thinking that perhaps you might come out with an ultrabook? Could you come out with a phone sometime?

**A - Tami Reller** {BIO 1978866 <GO>}

I think -- the thing I would say here is it's really important for us to do well with Surface. We are very, very focused on that. And we often get asked this question, which I think is important for me just to talk about for a minute. And we did talk about it when we first talked about Surface. We talked about it again when we launched Surface, which is Surface we really believed would help us be smarter and better about this -- breaking down any seams that might exist between the OS and hardware and certainly make us just wiser overall on devices.

But it's a business. We got into this business as a business. This isn't a short-term adventure and it's not something we take anything but very seriously. And we're very pleased with what we've accomplished so far for Surface. But there's much more opportunity ahead. And so, we're focused on these two great devices in Surface RT and Surface Pro and sort of what that brings for us and that's our focus.

**Q - John DiFucci** {BIO 4099352 <GO>}

Okay. Okay. Tami, thank you very much.

**A - Tami Reller** {BIO 1978866 <GO>}

Thank you. Yes. Thank you, everyone.

**Q - John DiFucci** {BIO 4099352 <GO>}

Thanks a lot.

**A - Tami Reller** {BIO 1978866 <GO>}

Thank you.

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