Jefferies Virtual Software Conference

Company Participants

- Scott Guthrie, EVP, Microsoft Cloud, AI Group

Other Participants

- Brent Thill, Jefferies

Presentation

Brent Thill {BIO 1556691 <GO>}

Welcome back everyone. It's Brent Thill from the software team at Jefferies. Very happy to have with us Scott Guthrie, EVP of Microsoft Cloud and AI. Scott, real pleasure. You're coming up on almost a quarter of a century in Microsoft, which has been an incredible journey. Maybe just tell us a little bit of your story about this journey and kind of bring us up to now where we're at with the Microsoft Cloud? Everyone wants to hear kind of your perspective on what's the most important points that you would take away from your perspective.

Scott Guthrie {BIO 15931914 <GO>}

Yeah. It's -- quarter of a century is not a long time. But I've done a lot of different things at Microsoft, but been involved in first Azure and then the Microsoft Cloud broadly, for I guess, 10 years now. And so, kind of brought in early by Satya to work on Azure when he joined the cloud business or the enterprise business in 2011. And (inaudible) routine for a while and then when Satya became CEO, I took over his role, he was the head of what was then called Cloud Enterprise. And it kind of evolved our Microsoft product portfolio since then. And so, I'm responsible now for Microsoft Azure, Dynamics 365, our Power Platform, things like GitHub and Visual Studio and Developer tools, things like HoloLens, our whole Windows operating system and a bunch of other stuff, but it's been a fun ride. And yeah, I think what makes the Microsoft Cloud unique is just the breadth of the portfolio, and so I'll walk through a bunch of those things. And each of them are interesting individually, but when you put them together, that's also when some of the magic happens and we're really excited about how we can kind of drive our customer success forward going in the future.

Questions And Answers

Q - Brent Thill {BIO 1556691 <GO>}

(Question And Answer)

And you have the unique advantage point on clouds and trends 18 months ago. Satya said we saw three years worth of digital transformation in two months. How is this digital transformation evolving? What are you seeing and how do you think about the next year?

A - Scott Guthrie {BIO 15931914 <GO>}

Yeah. I think even before COVID, we were seeing and talking about digital transformation, which is the idea of not just sort of buying technology, but really using technology to change how fundamental you do businesses, and that we really built Microsoft Cloud without in mind, in terms of stitching together whether it's collaboration of employees, whether it's supply chain management, whether it's infrastructure obviously with Azure, whether it's our developer tools business with GitHub and Visual Studio. It's thinking about how can we help organizations transform and then obviously COVID happened. And I would say just a lot of gasoline got poured on that fire of digital transformation, where businesses went from thinking about digital transformation as something that was a priority, but not having to live today to suddenly -- during COVID, it suddenly became -- it is existential to even stay in business.

And so, in the early days, it was retailers trying to figure out how do they significantly accelerate their online and omni-channel experiences so they can open their stores. It was the employees trying to figure out how do we all work from home and collaborate productively where employees are no longer physically ever in an office. And what does the security model look like for that? And how do we make sure we don't -- we keep employee engagement and employees successful. And I think it's evolved more recently to things like supply chain management. How do you get -- how do you adapt your supply chain in the world of lots of gaps and lots of crises that you have to navigate your way through. And I think we're also seeing even now with employees now moving between companies, a lot of companies realizing we need to recruit, we need to retain, we need to kind of keep re-skilling and things like LinkedIn and again our talent management business, I think helps with that.

So I think, we're going to see this continue to evolve. There will be new areas in any given year that I think are the hot spots that are particularly high in focus for companies. But I think in general, COVID has effectively just accelerated this digital transformation change and I think really put technology at the center of literally every company, not just technology companies, but retailers, financial services, manufacturing, consumer products, everyone's trying to figure out, how do I use technology to really reinvent how I do business? So I think that's - it's an exciting time and obviously someone who sells a platform and tools and applications that help with that, it's hopefully a good time also from our business perspective.

Q - Brent Thill {BIO 1556691 <GO>}

When you think of this decentralization theme and the kind of -- the question is around, your views of the importance of Edge Computing and how you see playing a vital role on this going forward?

A - Scott Guthrie {BIO 15931914 <GO>}

Well, I think, one of the trends that's happening, I mentioned a couple of them like on the general retail or supply chain management, where those are key things during COVID where organizations are trying to kind of reinvent how they do things. In some cases that is going to be a case where you're changing your business process, you're using cloud infrastructure, but you're still fundamentally entering data into a screen somewhere, that tracks where that shipment is or tracks how many people -- is that store open or how many people are in the store and the store managers typing it in. And I think the place where we're going in the world is a world where it's all flowing in real time. And the way how many people are in your stores is because you have cameras and those cameras are counting in real time not just how many people are in the store, but like what are they browsing for? What does the shelves look like?

Where -- what items are hot and you need to activate your supply chain because while the inventory hasn't run down yet, it looks like a lot of people are hovering around this area. And what's not hot and what can you deprioritize? How do you do that all in real-time is going to be possible in a world where literally everything has an IP address and where IoT and real-time signals are going to be able to be gathered, accelerated into the cloud and insights are going to be able to be derived from that. And that's a big part of what our portfolio enables and we're starting to see organizations adopt that in deeper ways. And then once you can get that information, I think the organizations are also realizing, how do I push compute back down to the Edge so that we can provide a better experience in the store or provide a better experience in say, a car or vehicle that we sell. How do I provide a better experience inside the home? And that's going to require Edge Computing.

A customer of ours is one example would be someone like VW, the group, which not only makes Volkswagen branded cars, but Porsche and Audi and Skoda and whole bunch of other brands. And they want to know when the car is having a problem before the customer calls them. Much better experience is, hey, we detect there's a problem, we're going to reach out to you and we're even going to say, hey, would you like to schedule an appointment to fix it? And just, click 1 on your correspond in your SMS in terms of if this appointment time works.

How can they kind of enable that type of feedback look, but they're using Azure and the Microsoft cloud inside hard data centers for the central coordination. But they're actually running Azure, starting the vehicles next year actually in the vehicle. And so, literally every one of those VW vehicles, the number one manufacturer of cars in the world will actually be embedded, have an embedded version of Azure was actually running in the car, that's driving that intelligence and driving that customer experience directly at the vehicle. And I think we're going to see that in high volume or high value items like cars, very, very quickly. A lot of -- every manufacturer I think is going there. But over time, we're going to see it in coffee machines.

We're working with folks like Starbucks on, how does the Barista even out with an IoT chip in Starbucks coffee grinder and coffee machine so that Starbucks can flow down new recipes and new tunings into each other coffee shops. That's another example of kind of an IoT workload that's fairly modern, fairly new and we're going to see it

certainly in healthcare and a big part of the acquisition we announced earlier this year with Nuance is around, how do we even enable AI and enable that data with Edge Computing to occur in a doctor's office so that you have a better patient-doctor experience as you're going in and talking to your physician. So, I think we're going to see this trend continue and part of that is going to be again more cloud infrastructure, but also as more things get connected, there's also going to be local compute and local processing at the Edge, and how you do that holistically from a security perspective and from a management perspective and from a trust perspective and then from a developer perspective, are all key things that we're focusing on and we think the Microsoft Cloud makes much better.

Q - Brent Thill {BIO 1556691 <GO>}

If you achieve this vision and you have the Volkswagen bus with Azure in it, I mean, security is going to be of more vital component to this. And I think you spend a considerable amount of dollars and driven a lot attention to your initiatives. Can you just high-level talk about what's happening around security and compliance? And it seems like you've really come a long way at least since we've been covering you for many years, it is no question a big driver.

A - Scott Guthrie {BIO 15931914 <GO>}

Yeah. I mean it's a -- I think there's a couple elements of the security aspect. I think one is just we have to keep investing in our own -- the security of our own products and services given that we are running more and more of the world on top of the Microsoft cloud. And so, doing everything we can to make sure that what we build and run is incredibly secure is table stakes everyone has to do that. I think the other thing that is how do we enable our customers as they're using our products and services, to also use our capabilities so that as they're implementing them, they can have their own business specific logic and behaviors and as they're interoperating [ph] with more products, including non-Microsoft products, how do we be a security vendor to them to help protect them in a broader sense? Because at the end of the day, we can do everything right to protect our products, but if our customers end up misusing them or misconfiguring them or doing something unsafe with them, they can still have problems.

And so, a big part of our focus for the last couple of years has been building out our Microsoft security portfolio. So things like Azure Sentinel or Azure Defender or M365 Defender have gotten out incredibly mature. Gartner and Forrester are two kind of independent analyst firms that kind of rate all the vendors. We're now leaders in five Gartner Magic Quadrants and seven Forrester Waves. No other security vendor out there has 12 leadership positions across so many security categories and that's a big change for us versus where we were say five or six years ago where I don't think we had any. And so, I think that's resonating well both with analysts and in particular with customers. I think we talked about beginning of this year we've passed $10 billion of annual revenue in security products alone and accelerating and growing very, very fast. I think -- and so, you're going to continue to see us investing in those, and I think increasingly it's going to be around even take for example, I know there's a lot of financial analyst watching this conference today. Thinking about compliance inside your organization, how do you identify insider risk? How do you identify potentially behavior of insider trading or things like that? Historically, those are very

bespoke services. There's an awful lot of humans looking at data manually to try to detect that.

With our new compliance tools in office, we help make that a lot easier and we can even kind of detect what devices are accessing data, where was that information shared, et cetera. Those are examples of problems that I think our new TAM that we're creating that solve real customer problems and obviously use technology to make us all more secure. I think the last thing I'll just mention on the security side that I think is resonating well is trust and in a world where you're doing digital transformation, where security is paramount, the ability for us to give you tools that help you be more secure is paramount, but also your trust of Microsoft is paramount. In a world where you're providing your data to a cloud vendor, it's not just your data like a raw data base, but like your real business data of what's your supply chain, what customers data are you connecting with and trust really matters both on the security side, but then also like do you trust your vendor not to use that data for their own purposes. And I think that's an area where we also differentiate ourselves versus a Google or an Amazon or a Facebook that have consumer-facing businesses and use data in different ways, and sometimes do compete directly with a lot of enterprises. And so, yeah, I think that third element is something that also, it's sort of a bit more intangible, but I think definitely resonates when you talk to say (inaudible) who is trying to make not just a technology bed but really a strategic business partner technology bed, they want to know they have that trust.

Q - Brent Thill {BIO 1556691 <GO>}

You're unique against the other vendors you mentioned with this hybrid strategy. The on-prem business has probably all exceeded our expectations in sustaining really good growth. Obviously, Azure has been phenomenal in this concept of hybrid, many of that, how have you kept that on-prem business doing so well and cloud growing? What's happening from your perspective?

A - Scott Guthrie {BIO 15931914 <GO>}

I think one of the things that's been our great strength is the fact that we haven't -- we've had historically, incredibly strong on-premise business, I think 60% of all servers in the world on-premises run Windows server. And we're the number one database vendor with SQL server on-premises as well. And so, yeah, and obviously with Windows client and devices, we're very strong as well when it comes to productivity software and end user software. So, we've had a large, very successful presence there and a lot of trust built up with our customers. And, I think part of the magic we did is make sure that we provide an easy way for customers to keep using those technologies both on-prem. But how do they easily take advantage of cloud and cloud-based technologies as well? And how do we enable seamless ability for them to run in a mode where they're going to be doing both for a long time? And I think, it probably would have been less (inaudible) we're not going to enable cloud and try to keep everyone on prem. You know that 10 years ago we could have done that, but we sort of said, no, we think the world is moving to cloud, it's moving to a more decentralized computing model.

Let's not fight that. Instead, let's really invest in, how do we make sure our on-prem products are really easily moved to cloud and what's some of the unique things that we can do with Azure or with Office 365 or Power Platform or the Dynamics Platform or GitHub where you can really run in this multi-cloud, hybrid mode. And we don't force you to use our cloud. But the level of integration that we have, whether it's around security, whether it's around identity, whether it's around management tools, whether it's around patching and back up and things that IT cares a lot about, has resonated and we've earned our customers trust there. And that's been a big reason both for the success of our Microsoft Cloud, but more importantly it's meant that people still want to keep paying us for the on-prem software because a lot of those capabilities just get better as they move to cloud. And so, it's been kind of I think a win-win where customers are happy and that helps us business-wise as well. Happy customers is always good.

Q - Brent Thill {BIO 1556691 <GO>}

Speaking of what seems to be a happy customer would be, AT&T recently choosing to run its 5G core network on your public cloud. That's a pretty strong testament to say, hey, we're going to bank on you to run the backbone. I guess, there's kind of multiple threads that people want to pull on that which is the other opportunities you could see in Telco after this. Kind of how we're working Azure go, it seems like the answer is it's an all-terrain vehicle and it can go anywhere. Maybe you can address it how you want, but it seems like a big endorsement.

A - Scott Guthrie {BIO 15931914 <GO>}

Yeah. We think so. I mean, if you think about something (inaudible) for a moment, the Telco operator industry all up. I think GSMA has sort of estimated they're going to spend about $1.1 trillion on capital expenditures upgrading their equipment, upgrading their services and with about three-quarters of that being spent on 5G. And so, that's a trend that's sort of independent from movement of Microsoft that's happening in the industry. And I think those operators as we're doing this, they're telling, okay, we're doing lots of capital expenditure and we're having to rebuild and launch new services. They want to be able to do them as efficiently as possible. I think that's a lot of money and they really want agility. And you're thinking about, okay, how can I deploy lots of compute, lots of data centers with high agility, public cloud is correct way to do it. And so, I do think there's this wave of interest or the wave of spending that's coming, and I think part of what we've been working on is how do we make sure we position Microsoft cloud, not just from like a branding perspective, but really from a capability perspective to be the best public cloud for enabling that. And we did a set of acquisitions last year right as the pandemic was starting.

So, I mean some companies sort of cut back on M&A and we in some ways accelerated and said, look, we think 5G is going to be a big thing. And so, we bought Affirmed Networks and Metaswitch which are two companies that provide services to a lot of Telcos that specifically help them run their core networks, which is a space that Microsoft historically does not have a lot of experience. And they brought a tremendous amount of knowledge in and helped us or helping us build these set of capabilities directly into Azure that we think are barely differentiated. I think the AT&T announcement is tremendous endorsement, not just because AT&T is

one of the largest operators in the world, but they're also seen by other operators as a thought leader and a trendsetter. And so, the fact that they're betting on us to kind of run their core network and help really build out that 5G capability, I think is going to help us tremendously as we make them successful. Other operators are reaching in and saying, hey, we love you do something similar. And, I think this is again probably an example of a place where we're continually growing our TAM opportunity or total addressable market opportunity in ways that maybe five years ago, I don't think this would be an area where people even think it was TAM. And now we think this is TAM and it's a lot of TAM and you're going to continue to see us invest aggressively here.

Q - Brent Thill {BIO 1556691 <GO>}

I know this one's hard, but everyone asks (inaudible) cloud Journey, is there any or some analogy that is easy to use? And I don't know how you frame it. But I guess what you just said in Telco, with the trillion dollar opportunity, we've got a long way to go however you slice it. But is there a way that you frame it and kind of where we are at in this journey?

A - Scott Guthrie {BIO 15931914 <GO>}

Well, it's hard because I think as I kind of mentioned on the Telco opportunity, I think, the pie keeps getting bigger and so it's not just that we're kind of like converting the journey. There's the journeys we know about and take, for example, Enterprise IT, I think we're about 20 % of the way there. So there's an awful lot of roadmap ahead of just taking, kind of the more traditional Enterprise Public Cloud workloads that we maybe would have thought of two or three years ago, in terms of moving to clouds, there's lots of upside there. But I think the bigger upside is the new things that have not emerged or not been part of our calculus historically. When People say 20 % of the way there, it's like 5G and operators, it's IoT and in particular, thinking about factory floors and OT and how that data, those systems. Again, that's not traditionally been thought of as part of public cloud. And I think there's new ways of using data, new experiences that are going to get build. And so, I expect new pockets of TAM to emerge in the years ahead. And so, it's an exciting time because there's a lot of opportunity, there's a lot of potential upside. And tying it back to your original question around digital transformation, the great thing is this is directly -- all these investments are helping businesses. And so, you get a great feedback cycle of the more they see business benefit the more they want to invest. And so, I think it's going to be a good set of years ahead and excited for the journey.

Q - Brent Thill {BIO 1556691 <GO>}

Last question from me. You mentioned HoloLens earlier and with one of the roles you oversee and there's been a lot of talk about the metaverse and Zuckerberg talked a lot about it and the next generation of the internet. And I guess you look at your enterprise opportunity and the consumer opportunity here is pretty incredible. I guess, when you framed the metaverse opportunity and what you're doing, is there -- can you just give us a high level quick overview of what you've seen so far?

A - Scott Guthrie {BIO 15931914 <GO>}

Yeah, I mean I think with all these things with AR and VR, we're just at the cusp. And so, I mean I think if you look at what we're doing with HoloLens, for example, with commercial, that's a great example of we're using it for manufacturing, we're using it for healthcare, I mean, doctors can now go on to COVID wards in their office and actually see lots of patients quickly. We have lots of hospital systems here in the U.S. right now that unfortunately haven't used that. That's an example, I said of a leading edge solution, that's still custom, meaning it's not mainstream yet, but you're starting to see people use that. I think as the form factor gets -- moves from kind of goggles to kind of something a little bit more like glasses which is probably where we're going to be in two or three years, that's when you're going to start to see more and more mainstream and this ability to see the world around you and have a socially acceptable set of headgear, and at the same time, being able to see things as a user or be able to kind of have a richer experience is going to transform I think fundamentally how we live life.

And I think, say 15 years ago, we didn't see people with cell phones in restaurants, we saw people talking to each other. But now you go to a restaurant, everyone's on their phone or seems like sometimes. I think this new world we're moving to is going to be the new compute paradigm that we're going to see a lot more people not replace their phone per se, but there're definitely going to be new patterns of experience that 15 years from now, we'll feel very obvious in the same way that today spending a lot of time on your phone feels very obvious. And part of our play is really around, how do we be the best commercial vendor for doing that? There're a lot of commercial applications. You might have seen some of the announcements we're doing with the U.S. Army around a program called IVAS, and so we are focusing on public sector workloads as well. That is a very large contract that's going to push the technology in very challenging ways and help us build better tech from it. And then, there's definitely going to be the consumer aspect and we'll participate in that as well. And each company, I think whether it's us, Facebook, Apple and others is going to play a set of cards and play a set of (inaudible) moves based on their strengths and also where can they add unique value and you'll see that from us as well.

Q - Brent Thill {BIO 1556691 <GO>}

Scott, really appreciate you joining, honor to have you and congrats on all the momentum. Thanks again for being part of the conference.

A - Scott Guthrie {BIO 15931914 <GO>}

Thanks so much for having me and really appreciate it.

Q - Brent Thill {BIO 1556691 <GO>}

Thank you.