

BofA Securities Global Technology Conference

Company Participants

- Yusuf Mehdi, Corporate Vice President and Consumer Chief Marketing Officer

Other Participants

- Bradley Sills, Analyst, Bank of America Merrill Lynch

Presentation

Bradley Sills

Good morning. Thanks everybody for joining. I'm delighted to be welcoming Microsoft to the conference here on stage. I'm Brad Sills, Senior Analyst covering large cap software, including Microsoft. We're very fortunate today to have Yusuf Mehdi, who is Consumer Chief Marketing Officer and Corporate Vice President. Thank you so much Yusuf for joining us.

Yusuf Mehdi {BIO 1823106 <GO>}

Thanks Brad.

Bradley Sills

Great to have you here.

Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. Thank you.

Questions And Answers

Q - Bradley Sills

So, why don't we just start Yusuf with a little bit of your background and your role at Microsoft as Chief Marketer for the Consumer?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. Great.

Q - Bradley Sills

Please.

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah, it's great to see everybody. Good morning. Yeah, in Microsoft the role I play is, I run essentially product marketing, product management for most all of the consumer products at the Company that includes Windows, our surface device portfolio, Microsoft 365 Consumer and then, most notably, of late, Bing and Edge and all of our AI, consumer AI efforts.

Q - Bradley Sills

Wonderful. And why don't we just start high-level when we think of Microsoft, we think of the enterprise. So maybe if you could just touch on kind of the state of the Microsoft brand with the consumer and where the key focus area is.

A - Yusuf Mehdi {BIO 1823106 <GO>}

Sure. As a whole with Microsoft, we are fortunate to have a very strong brand on a worldwide basis. We have great strength in the enterprise as you know, and that translates over into the consumer space, because people are people as we say. So they use our software at work and at home. And we have excellence in certain categories of productivity and creativity, we're well-known, and then and now we're coming in new areas obviously with Windows we've got strength, and then with Bing and Edge.

Q - Bradley Sills

Wonderful. Great. And we saw the launch of the new Bing early this year, and I thought the demo was impressive. And wanted to just get your thoughts on what was the motivation behind that? What are the use cases you're going after with Bing and Search?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Sure. Well, you know, the big opportunity that we saw with the launch of the new Bing is that, there are roughly about 10 billion search queries that happen every day, and at least a half of those by our account go unanswered. So people aren't getting the answers to the questions they want. These are things like longer travel queries, more sophisticated research. And so, we saw an opportunity to marry the power of AI with Bing and create a new interface to go after that, and start to solve some of those problems for customers. And we're seeing some good success already early on with that.

Q - Bradley Sills

Wonderful. Wonderful. And we'd love to get your -- your comments on the OpenAI partnership and the integration there with Bing, and in general across Microsoft, if you could.

A - Yusuf Mehdi {BIO 1823106 <GO>}

Sure.

Q - Bradley Sills

Please.

A - Yusuf Mehdi {BIO 1823106 <GO>}

You know, as many of you may know, we have a very tight relationship with OpenAI that dates back now multiple years to about 2019. We've worked together with them to start from the foundation. So we've helped [ph] provide the cloud power behind the phenomenal work that they've done in AI through large language models with Azure. We've built the supercomputer that powers all of that training and the inferencing. These are very high end, sophisticated computers. There were special work done for that, we did that work.

And then, more recently now with Bing, we've worked together, we've built a proprietary technology inside of Microsoft that we call, code name, Prometheus. This is a proprietary way that we have to access the large language model, access the AI, and get the most out of it. So essentially, think about taking the power of the Web Index, our understanding of the Internet and of web pages which is only essentially two companies that really have that kind of power. And we can now more intelligently call, access the AI, refine the answers and get that back. And we've worked together with OpenAI in a number of ways on that. From ChatGPT, we made an announcement on our Developer Conference last week that we are now going to enable with them the ability to use search within ChatGPT, just like we have with Bing. Today with Bing we have a very differentiated offering, which is you can only access the AI to answer questions, but we can call [ph] the Internet. That means we can reference things, it means we have more timely data.

And so, those are our real strengths, and that we're continuing to partner with ChatGPT. And then the final thing is, we announced with them a common plug-in architecture. So, as third-parties want that, they'll come in right on this new emerging platform, when people right -- developers got to plug-in, they'll run on Bing and on ChatGPT and for that matter on all of our co-pilots at the Company.

Q - Bradley Sills

Wonderful. And at the time of the launch for the new Bing, you referred to the next-generation LLM from OpenAI that was coming, that's more tailored for search. Would love to get any more color on that please, if you could elaborate.

A - Yusuf Mehdi {BIO 1823106 <GO>}

Sure, yeah. At the time we were essentially were running on an early version of GPT-4. So, if you already -- its recent memories, but we were -- at the time GPT-3 was out, we had more advanced results and people were asking why your result is so great. It's because we had been working on an early version. So that's what we were referring to, OpenAI confirmed that about a month or so later after they announced it.

Q - Bradley Sills

Got it. And what has the results been so far in terms of the relevance of Bing since you've had this integration with OpenAI?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah.

Q - Bradley Sills

Please.

A - Yusuf Mehdi {BIO 1823106 <GO>}

So, yeah, since the -- since the -- and it's only been about 4.5 months. But since the launch, we've had a bunch of great progress and milestones on that. First-off, and just from in terms of usage, Bing has now surpassed the 100 million daily active users, which by all accounts of any kind of product in the Internet is a super impressive number. In the world of the Internet search, it's not that much. We're still single-digit -- single-digit player, which means we have a lot of upside. But 100 million daily active is pretty impressive. We've seen our mobile traffic, increased forex, and we've seen a lot of pickup now in usage of it.

We're seeing new users come. I think back, early on, we had millions of new users come and try Bing that hadn't before. So it's really, I think in our minds started a new day in search and the new round of competition.

Q - Bradley Sills

Wonderful. Thank you. And, there were some enhancements to the Prometheus model as part of this Bing overhaul earlier this year. Could you elaborate on what Prometheus is and what were some of those changes?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. Prometheus is a little bit of some of what I was mentioning earlier, it's our proprietary method for accessing the Bing search index. We've used it effectively to do a couple of things, one is to get better answers in search. So what will happen is you -- let's say today you call an AI and -- ChatGPT or something else, you get back an answer that gets created from the AI. We're able to check that against the search index to understand, hey is that -- is that really something from there? We can -- we can use search data to make the answer, help the answer get more relevant, and we can footnote it.

The other thing we've done is, we've actually used AI in the converse, and we've applied it to our search ranker. And for those of you who follow Search closely, improvements in search ranking is very tough, it's been 20 years for us and Google. The largest increase I think in at least a decade if not longer came after we applied the AI sort of techniques to the search ranker. And so, now our results, I would say rival Google's results in terms of relevancy.

Q - Bradley Sills

Interesting. Okay. Great. And you demoed some new use cases when you rolled-out the new Bing. Are there any use cases that have surprised you that you've seen more that perhaps maybe you didn't expect. And, just any commentary you can make on how some of these new use cases for search are coming in with Bing.

A - Yusuf Mehdi {BIO 1823106 <GO>}

Sure. Yeah, couple of different things like we said, first-off, I said about half of the queries that we see in Search today go unanswered. And those were things like travel, like more sophisticated travel planning, deeper shopping research, sort of advanced kind of research. Those things we're seeing now in the early data. The people are in fact doing better queries. And so, I think it's kind of nuance. So like when you're in Search, people might say, search [ph] for foundry bikes, when people are in a chat -- in a chat interface, they might say hey, help me plan a trip to Kenya, two-week trip to Kenya. So it's different questions, different answers. So we're seeing people do more sophisticated travel analysis and planning as one example.

We've seen a lot of people do much more research, historical discovery of information and content that they hadn't done before because it's the ease-of-use is now there. So, we've seen some changes in those things. The big takeaway though is, in the chat, when we see people chat, the vast majority of what they're trying to do is search specific stuff. So, if there was a question before we launched about whether the new AI and the new chat would revolutionize search, that has proven out at least in our data.

Q - Bradley Sills

Wonderful. Okay, great. And when you think about the advantages Microsoft has here in Search, the dataset that you're leveraging, if you could provide a little bit of color as to what that is, and -- from your seat, yeah.

A - Yusuf Mehdi {BIO 1823106 <GO>}

Sure, yeah. The -- so we have a -- I would say we have a couple of really clear advantages. One is the OpenAI, AI foundation model. It's very clear. That is by far the best most advanced model that's out there. And we've seen that through various testing. So, number one, we're getting to leverage the most advanced AI foundational model.

Second thing is, because of our Bing web index, and like I said there is really only two big search web indexes out there, we have a unique opportunity to be able to marry sort of daily crawling, up-to-date information, deep search understanding with the AI. That's a very unique thing that we can do.

And then thirdly, we -- because we're more of a challenger or if you will, we have smaller share, we're very focused on the new emerging customer needs and we can take more, we can take more steps to be innovative. So, the user experience that we've done with chat, what we're doing with Search on the search page itself, and

then the integration that we're doing with that like we've announced Windows Copilot, we've put Bing on the Windows task bar, so 0.5 billion people now can get access to -- one click access to chat. Those are some unique strengths that we can bring to help people with their searches.

Q - Bradley Sills

Wonderful. Thanks, Yusuf. And at the time of the launch you referenced the convergence of the browser, chat and search. If you could elaborate on on that and how you see that direction?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. One of the things that we see is most people don't distinguish between their browser and their search engine. They think of it as one concept, right? And obviously when you go in, I'm sure as you all use the Internet, you go into the URL address bar and you type in. What we're doing is, we're doing really deep integration of that search and chat capability in Edge, so that -- so that you get what we think of as your copilot for the web. Which means that, as you go anywhere on the Internet, not just on Bing.com or some other site.com, but anywhere on the web, if I would say, do you want to apply AI to the page you're looking at, so for example, you go to page you say, hey tell me what this page is, summarize a long PDF or, tell me the ingredients for this recipe, with one click on Bing, we can now read that page with the power of AI. And if you want, you can then go outside the Internet and access additional information. So for example, you can say, hey, read this third quarter report or financial earnings from company X, give me this key takeaways, compare their earnings in the last quarter against another company and put it in a table for me. And you can do -- you can literally do that all anywhere on the web on any type of content. That's an incredible merger. And we're very unique in doing that right now.

Q - Bradley Sills

Wonderful. Thank you. And what kind of impact have you seen from the new Bing and Edge on search volumes and engagement?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah.

Q - Bradley Sills

Please.

A - Yusuf Mehdi {BIO 1823106 <GO>}

So couple of things. Like I said, our daily active users now have surpassed 100 million. We were sort of on that -- we were on a path of growth, but that has certainly picked up since we launched the new Bing. Likewise, our Edge browser has been growing share for the last eight quarters in a row, that's continued. If anything, we see when people use the new Edge with chat, they spend more minutes on it, and they use it even more.

So, all of the early signals -- and this is still early data, but all of the early signals are very positive. And particularly when we see people use chat, we see them search more, we see them come back more frequently. And so, the early signals are good, and now as we start -- are starting to scale more broadly, we'll see how that, you know, expands out.

Q - Bradley Sills

Great. Thank you. Thank you. And, when you think about Microsoft's advantage -- and we're all -- lot of focus this week on AI and LLMs, what is Microsoft's advantage in training LLMs, your own internal LLMs?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. So again, we use OpenAI a lot for the LLM. So they do a lot of the training. We work with them a bit as we said on the Azure infrastructure, the super computers. We do a lot with our Responsible AI. So, there's a lot of techniques we've done. We have an incredible Responsible AI at the group, at the company, across many dimensions from emphasis to researchers to scientists to user experience designers, we collaborate with OpenAI on some of that as well.

Q - Bradley Sills

Yeah. Sure.

A - Yusuf Mehdi {BIO 1823106 <GO>}

And then of course, we have the web index and the search index. And so a lot of the learnings we have there, we're able to work with OpenAI on the training of LLMs.

Q - Bradley Sills

Great. And if you could comment on some of the challenges when -- faced when training LLMs, data quality bias, user privacy, how do you see those challenges, and how is Microsoft and your partnership with Open AI, how are you addressing that?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. So, both us and OpenAI are really committed to having a super quality offering in the content, in the AI. And so all -- in all of the training, there's a lot of thought and care that has been put into making sure that quality content is essentially clearly in there. Content that is of suspicious then gets ranked appropriately. And then again, we do a lot of training to protect against sort of bad actors. We don't want people to use the AI to cause harm, self harm and harm in otherwise sort of bias against people.

So, there's a lot of work that has been put in between ourselves and OpenAI to make sure we have really an inclusive and equitable solution.

Q - Bradley Sills

Wonderful. Great. And how does Bing -- how do you approach the balance between personalization and privacy with Search through Bing?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Well, we think privacy is a very personal thing. And so, for us, privacy is built-in by design in all of our products. And we've put that work into the way we designed the service, how we gather data, how we store data, so all of that is in there. I think first and foremost privacy is of the utmost thing for us. And so, we protect against that. Within that constraint, then we can start to build a real personal experience for people.

Q - Bradley Sills

Wonderful. Great. Thank you. And ten years ago you had the launch of Cortana. Curious to get your perspective on how Cortana fits in here with ChatGPT and the Microsoft AI portfolio.

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. You know, I think Cortana and other sort of like agents were early forerunners of different interfaces to try and access content. Where we are today with the new Bing and in partnership with ChatGPT is, we have really now a much more advanced powerful system that can in fact answer questions or in the case of some of the work we're doing now with even Windows and with Microsoft Edge can take action on your behalf. And so, the tech there is really much, much more advanced. And I think is sort of the future where I -- we see things going.

Q - Bradley Sills

Great. And maybe if you could talk about the Bing Image Creator, which is powered by OpenAI. What are some of the possible monetization opportunities there?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah.

Q - Bradley Sills

Please.

A - Yusuf Mehdi {BIO 1823106 <GO>}

So, yeah, I think two different things probably we could take in turn. There is Bing Image Creator. For those of you who don't know, Bing Image Creator is a service where you can essentially create images, just by typing in words. So you can say like for example I've used this, I'm doing a home remodel design, so I've said, help me design a mid-century modern living room that has brass and wood and whatever, and it will come back with a picture. And then I could say, oh hey, make that rounded, and let's change the color from black to white, and they can do that.

It's an incredible thing. Since we've launched that, we've had hundreds of millions of people -- images now created, and it's probably one of the most exciting features that we've seen. So, we've put that in chat. So the ability to iterate, so if you guys haven't at all tried it, bing.com, go up there now and go into chat in creative mode, although we've just launched in all the modes, and try it, and say create an image of xyz, and you can see the power of it. Then -- and that's a great feature.

Then separately, I think the question you're probably after, right, is like a broader thing, what's going on with monetization, what are the opportunities there? We -- it's obviously super early days. Two, I think of monetization sort of innovation happening in two sort of segments. There is what happens on the classic search page, where in there we're seeing as we get more relevant answers, we're able to kind of use traditional search advertising, and that's doing really well. Then there is the chat interface where obviously it's a different user experience. It's cleaner, you know there's more chat. And so, it doesn't make sense to have a lot of answers there with a lot of advertisements.

And obviously one of the things people are liking about chat is that you don't have all the blue links that you can get right to the answer you want and then go find. So, we are right now experimenting a lot with our content publisher partners and with advertisers on what is the ad opportunity within the chat window. And we're finding good things. So we're finding the ability to, for example have links to more content, that's one thing that's been very unique with what we've done with Bing, unlike any other services, we put citations and footnotes. We're also having richer answers in some cases, we're testing. And we're testing the ability to potentially have right ads on to page, and we're flighting all that now.

As you can imagine, advertiser demand is very high for this, because they know this is where there's a lot of action. And it's still very early to say how it will play out. But my guess is that -- my sense is a couple of things. One, you will see fewer ads, but they'll be much more relevant. And they'll have much higher click-through rate. And I think it will be a very disruptive experience to traditional search, which for us is all goodness, because again we're -- earlier we're happy to engage with a new and improved search experience, but we're in the -- we're in the beginnings of that process.

Q - Bradley Sills

Wonderful. Thank you. Thank you, Yusuf. And why don't we shift gears to Windows and the PC business? What are some of the key focus areas for consumer in the roadmap for Windows?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. Windows broadly?

Q - Bradley Sills

Yeah, please.

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. So, couple of different things, so I'll just start and just kind of give an update on Windows. We are now at an all-time high in terms of Windows usage and engagement. You know, I think where over a 1.4 billion people use it monthly, a huge majority of that uses it daily. We've seen usage of Windows go up, we've seen use cases since the pandemic go up. The pandemic had many bad things, but one small silver lining is we saw people return to use the PC, and they rediscovered the value of the PC.

Previously, all of us live a lot on our phones. People started to use the PC for things like video conferencing, not just for work, but for home-use, right, we're seeing [ph] digital family, online shopping went up, telemedicine went up, I mean the grocery delivery. And so people since the pandemic has sort of subsided, people have continued to do those use cases because of that. And so that -- the value of the PC probably has never been higher. And that has been one of the great things that we've seen.

More recently with Windows 11, we've made great strides to make that much more Cloud-powered, and now as we're starting to talk about AI-powered. So, a couple of things. On the cloud-powered side, it's hard to believe but Windows 10 did not require a log or sign in. But imagine using your iPhone and not signing in with an ID, you couldn't imagine it right? I think the phone wouldn't make any sense. Maybe you can make a phone call, but that would be about it.

But Windows, until Windows 11 by 1.5 year ago, we didn't require that. Now that we do, we're seeing the use of Windows change dramatically. People are now -- and we have a very high log in, sign in rate. Now we can give you a personalized news feed. We have Widgets now, which is a new platform for people that do development, that's much more personalized. People are able to back up their content. They can run their files. All these things that you take for granted on your phone, we've brought to the PC, and so the value of the PC has gone up quite a bit.

So that's been one thing we've done, much more Cloud-powered, much more service-enabled with Windows. We're also then most recently-announced that we're now enabling you to be able to send messages from your phone, be it either on Android or an iPhone. So if you've always wanted to have your text messages come in to your PC, you can now do that. That's a huge thing that I've always wanted. We still have more work to do, you can't necessarily do group messages, but you can do the individual messaging.

Q - Bradley Sills

That's great.

A - Yusuf Mehdi {BIO 1823106 <GO>}

And then most recently the AI has now come in. And so, we announced at Build two weeks ago, Windows Copilot. Windows Copilot is essentially powered by Bing, so

you get all of the power of the Internet, all of the power of the intelligent agent, but now within Windows, and so, just like I referenced with the Edge example, you can use your PC experience and ask a questions to -- about what's going on things on your desktop to take advantage. And you can take what we call actions, like you can do in Edge.

So, now with your Windows, if you've -- if you've ever sort of say, hey, how do I put this thing in dark mode, you can just pull up Windows Copilot and say put my PC in dark mode, put me into Focus mode, because I have to work now, and it will arrange your Windows, dial-in your playlist. And so, everyone who didn't know how to use Windows is now going to be a power user of Windows, because you now have the Windows Copilot which you can just talk to, and it will take action on your behalf.

Q - Bradley Sills

Wonderful. That's exciting. Great. Thank you for that.

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. I can't wait for that myself.

Q - Bradley Sills

Yeah. And why don't we -- if we could talk about the interplay with Xbox Game Pass in Windows and what's on the roadmap there for the convergence of those two?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Sure. Yeah. One of the things that's been great as we look at our Xbox business as we've seen a lot of obviously great success on the console and gaming and online gaming, we're seeing a lot of success now with gaming on the PC. PC has always been a home to obviously gaming, it's the platform for games. But now with Xbox, we're starting to really see some progress there. We've brought our Game Pass subscription service that lets you play games across console and PC.

In fact, we almost doubled the total number of countries now that have Game Pass on the PC. We've seen that tick-up quite a bit. We've got some great experiences there with an Xbox app on Windows, so you can keep track of your friends, your gamer profile, all of your gamers stats, and so that has all come together. So, we're seeing -- we're seeing really good progress there on the PC.

Q - Bradley Sills

Great. Great. And why don't we shift to devices? Surface tablet, laptop, where is the focus on the product line? Anything on the roadmap there as well, yeah, please?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. So we're -- we're really focused on the core of our Surface portfolio, which is primarily the Surface laptop and the Surface Pro, our two-in-one. You know, the Surface Pro continues to be really an unrivaled and unique product on the

marketplace. It's the only two-in-one as we'd like to talk about it. It is the tablet that can replace your laptop. So you have a full tablet, you have an incredible screen with pen, you have access to all of Windows on that. That is a big focus for us. We'll continue to improve on that. Performance has gotten better, we've had 5G capabilities on it now. So you can move around. And now with Windows 11, you can take advantage of it. It is by far the best devices for mobile professionals and for creatives.

On the laptop, we've continued to do a lot of work to build more and more powerful laptops that again give you that real incredible computing experience with Windows. And so, that's really been the big focus. And yeah, we're -- the innovation trend continues. I can't talk about things that are coming in the future, but, suffice it to say that if you're a Surface fan, there's a few Surfaces out there, you're going to want to continue to use it.

Q - Bradley Sills

That's great. Thank you. And on the Q3 earnings call you called out some elevated inventory levels there. If you could elaborate on that, please.

A - Yusuf Mehdi {BIO 1823106 <GO>}

Sure.

Q - Bradley Sills

Yeah.

A - Yusuf Mehdi {BIO 1823106 <GO>}

So, you know, what happened because of the pandemic there has been sort of ebbs and flows on PC purchases, how the PC market has gone. One of the things that's -- one of the things that happened is, people bought a lot of PCs, I think in advance of they were thinking of return. And so we saw elevated inventory channel levels. Sell-through has continued. So sell-through has continued sort of steady. But obviously what's happening is we're seeing retailers want to work down the inventory levels. And so the way that, that impacts us is, short-term there is less sell-in, the sell-through continues, and it's working its way through.

Q - Bradley Sills

Great, great. I think you're also -- you have responsibility [ph] for Skype.

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yes.

Q - Bradley Sills

Okay. Great. And there's clearly an investment being made there. Any commentary on where those key investment areas are for Skype, and how does that fit into the broader consumer portfolio?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. I think the way to think about it, and I'm going to take a step back from that, like, in terms of communications, consumer communications, we really have a couple of different assets. We have Teams that you use a lot for work, but we now have Teams for consumer, and that has been growing nicely in terms of monthly active users; it's still early. We have Skype as you referenced, which is something we've had for traditional that still has a very loyal fan base.

And then we have this product called GroupMe, don't know if you have GroupMe, but if you have kids, they all use GroupMe because it's a huge hit in college. Those three products, what we're just looking at doing is, increasingly bringing them together on a common platform and architecture, while still respecting the user experience that people love on each of these things, right? So with GroupMe, people, college kids love the simplicity of it. With Skype, people love the ability to call friends and family from across international lines. And Teams consumer now is really becoming a great place for communities, where people come together with communities.

We have brought a lot of the new Bing and AI into those products. So, getting to Skype specifically which you asked about, we've -- one of the things we've done with Bing and AI is we've put essentially a chatbot in Skype. And so, if you are talking with your family, for example, and you're planning a night-out or a trip, you can call the Bing Chatbot and say, hey, Bing, tell me great places to travel. And Bing will put that together and drop it in the chat window. So while you're chatting with your family, you can actually call the chatbot to help you. It's like having an intelligent assistant or a concierge or a butler help you while you're conversing. And, we see that expanding as we add the capabilities.

Q - Bradley Sills

Okay, wonderful. And, how does Microsoft think about some of the overlap between Skype and Teams, or is it truly complementary as you're describing there?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. I think we see it as a complementary on the core infrastructure right, so the communications, the idea of having one contact list. We think of the user experiences being unique and distinct for those. And like I said, Teams is focused increasingly more on some communities work, getting groups of people to do that, Skype is more sort of point-to-point family, much more for international expansion.

Q - Bradley Sills

Wonderful. And maybe just a higher-level question. When you think about the Microsoft brands, again, a lot of enterprise association, how does that benefit Microsoft in the consumer with Windows PCs and some of the other offerings you talked about?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. Well, so -- our strength in enterprise and network is that we are the tools and the devices, the software, the devices that people use every day for their work that -- that becomes a real reason that people then want to come and use it in their home life. And so that provides a nice virtuous cycle. And conversely, when we sell our service devices in particular that people love, they come and they want to bring those into work.

Q - Bradley Sills

Right.

A - Yusuf Mehdi {BIO 1823106 <GO>}

I see that -- I see it with my kids who are now working, and they'll have a laptop that they got from work, I won't say from where, and then of course I'll buy them the Surface for their birthday, and they're like, dad, this is awesome, and like, we'll take that into work.

Q - Bradley Sills

Right.

A - Yusuf Mehdi {BIO 1823106 <GO>}

Like what we're not allowed to, in some cases, I'm not allowed to, we have a -- I would [ph] be thinking like gosh, I wish I could use my Surface. And so -- and then vice-versa, I've had people who have a computer at home and then they love the Surface they got at work. So that flywheel for us of consumer to commercial is a very unique thing. And again, like all of us, we have jobs and we have personal lives. Being able to use a single device, being able to use a single productivity suite, an email, a browser, that virtuous cycle of work to consumer and back really benefits us in terms of being able to better meet customer needs.

Q - Bradley Sills

Got it. Got it. And maybe shifting to Xbox a little bit. The strategy has always been, you can play games from anywhere on any device, it's less console-centric strategy. If you could just comment on how you see the convergence of the Game Pass with the PC, and how that fits in with that overall strategy.

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. I mean, I think you said it well for -- we believe that the future of gaming -- well, right now, there's three different gaming silos. There's games on your phone, games on your PC, and games on the console. Historically those have been three different worlds, and frankly different audiences. We -- our vision for Xbox is that you should be able to play the games you want, with the people you want, on the devices you want. And so what we've done is, we've built much more of a cloud gaming solution that can now work across all those devices.

And so, and we're taking all of the steps, so like I mentioned earlier, having Game Pass give you the ability to play games on the PC and the console. So you buy them once and you can run them across both those platforms. And so, we're building that capability. We're bringing the Xbox app out to all those platforms.

Q - Bradley Sills

Wonderful. Great. And, when you think about Microsoft Studios, what are some of the things you're excited about that you can talk about here that might be coming?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. I mean there's a lot of -- there's a lot of great games coming. There is a big one that's coming up. I don't how much we've talked about it, so I probably won't mention it. But it's coming up shortly. And the team has been playing that game a lot, and we're pretty excited about it. I think it's -- it will be a sort of a great look forward in terms of what gaming can do.

Q - Bradley Sills

Great.

A - Yusuf Mehdi {BIO 1823106 <GO>}

You know, as a whole, the Studios team does a really fantastic job building next-generation content. It is the fastest form of growing entertainment, and we think that the ability to expand upon that with AI will improve quite a bit.

Q - Bradley Sills

Great. And how do you see the convergence of gaming with the Metaverse and the enterprise, potentially? I think with the talent base that you have there, engineering talent you could see, you could apply a lot of that, you could deploy some of those resources towards the Metaverse. So, curious to get your perspective on how you see that playing out. And where is the talent base for the Metaverse within Microsoft? And is there overlap between the gaming franchises in those applications?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. I mean, I think from a technology perspective, there is a lot of -- a lot of games, not all the games, but a lot of games are about world development, character development. So, the techniques in terms of how you do the programming, how you do the design of that software to develop, that is applicable in the Metaverse. And then of course, we have all of our own work that we've done in the enterprise space, to build sort of digital twins, if you will. And so, yeah, I think there's a lot of relevance there.

Q - Bradley Sills

Wonderful. We're running short on time here. But, any other comments Yusuf that you'd want to make, any kind of closing comments on kind of the state of the Microsoft consumer brand across multiple franchises?

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. I think what I would say is that, one of the thing -- we've probably been at the best place we've been in our consumer business in a while because of the -- we see of opportunity of AI to really transform everything we've done. We talked about Windows and how Windows Copilot, it will be the operating system that I think will lead the way with AI and assistance in a way that you haven't seen before. And that's because, some of our competition either doesn't have that capability in-house or it's not in their interest to disrupt their own current search model.

The second thing is with Microsoft 365 we didn't talk a lot about that, but that's our Productivity Suite, that's not just Microsoft Word and PowerPoint, and we're going to bring Microsoft 365 Copilot to that, so that you can talk to Excel and have it do things on your behalf. But we're also now using things like designer, which is, I think of it as sort of equivalent to a canvas, but with more powerful capabilities for design and creatives. We're early in the testing of that, but that's already we've already crossed a lot of users on that as well. So, we see that coming.

And then with the new Bing and Microsoft Edge, that is really the big thing, that's the big opportunity. It's a huge market, it's a huge TAM. We have first-mover. We don't have any of the innovator's dilemma, and we're excited to meet customer needs and to go out and get some of those things. So I would say broadly across Windows, our devices, what we're seeing with Microsoft 365, it is super early days in the Internet, super early days with the development of AI, and we're quite excited about what we're going to be able to do with it.

Q - Bradley Sills

It's very exciting, Yusuf. Thank you so much for joining us at the conference.

A - Yusuf Mehdi {BIO 1823106 <GO>}

Thanks very much.

Q - Bradley Sills

Great to have you here.

A - Yusuf Mehdi {BIO 1823106 <GO>}

Yeah. Thank you.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in

connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2024, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.