UBS Global TMT Virtual Conference

Company Participants

- Corey Sanders, Corporate Vice President, Microsoft Cloud, Industry and Global Expansion

Other Participants

- Karl Keirstead, UBS

Presentation

Karl Keirstead {BIO 1542979 <GO>}

Well, thank you everybody for joining day three of our three-day UBS Tech Conference. I'm probably most excited about the lineup of the software companies on day three not just Microsoft obviously, but we've had MongoDB, Zoom, Informatica DataStax and DocuSign this afternoon, so really high quality lineup of software companies. But I would say led by a relatively large market cap company up in the Seattle area. So Corey, thanks for joining us. And for everybody listening, if you do have any questions, you'd like (Technical Difficulty) direct to Corey. There is a question bar in front of you, you're welcome to use I'll see it. If you'd prefer reach out to me directly on my email and I'll curate them and pepper Corey with a few investor questions towards the end.

So with that Corey, welcome. And maybe you want to take a minute to describe your role at Microsoft for those that haven't met you yet.

Corey Sanders {BIO 16695509 <GO>}

Yeah, absolutely. Thanks Karl and thank you so much for having me. So I'll explain my action, my current role, but then also maybe explain my previous role to give a little bit of framing, because I actually just changed roles here in the last couple of weeks. My current role is a team called the Microsoft Cloud for industry and global expansion team, I am on the engineering side, I report to Scott Guthrie, and I'm accountable for sort of the delivery of all of our industry solutions, and partnerships and our global expansion and deployments around the world.

And so, it's been, but like I said, I've been enrolled for a couple weeks. So, I'll answer as best I can in that regard. Previous three years, I reported the Judson Althoff, who's our Chief Commercial Officer -- Chief Revenue officer, excuse me, and I was responsible for sort of the go-to-market strategy and the technical delivery for all of our solution areas from Azure dynamics and so, had to have a good sort of amount of experience in that area. And then prior to that, I actually was in engineering as

well building up the original Azure VM compute stack. So then a little bit all over the place here at Microsoft but excited to be here.

Questions And Answers

Q - Karl Keirstead {BIO 1542979 <GO>}

(Question And Answer)

That makes you interesting to everybody, Corey.

A - Corey Sanders {BIO 16695509 <GO>}

Yes, exactly maybe too interesting.

Q - Karl Keirstead {BIO 1542979 <GO>}

Obviously not everybody on Scott's team needs to do these sessions in a red polo. So I'm glad you've got an exception.

A - Corey Sanders {BIO 16695509 <GO>}

That's right. I'm actually I don't think we're allowed to wear red polos. It's confusing, if anyone but Scott wears a red polo, so it's been banned.

Q - Karl Keirstead {BIO 1542979 <GO>}

All right. Corey, maybe before we dive into Azure and some of the individual product areas at Microsoft, let's kind of keep it a little higher level for a little bit and ask just broadly, what you're seeing out there in the IT spending environment. And sort of the spirit of the question is something that, tech investors are trying to grapple with especially at year-end as they look out to a New Year and pick the right stocks and understand what trends might have been terrific in the last 18 months post COVID, but then maybe the mix of shifting and the priorities are changing for the next 18 months and that's obviously very important for everybody to get right in their stock portfolio. So maybe I'll start there, how do you think the IT spending priorities are changing?

A - Corey Sanders {BIO 16695509 <GO>}

Yeah. I think and we've seen this for the last months, maybe even years, particularly accelerated by the unfortunate output of the pandemic. We've seen a big focus and a push towards digital transformation on every front, right, and I think with a particular focus on cloud to enable that type of digital transformation. This includes certainly productivity and the change of productivity as sort of our conversation right now and I can remember having done these three years ago and everyone was in a conference room. And so, just the changes in sort of how we approach productivity and engage and work with each other, both inside and outside companies has fundamentally changed and has a fundamental dependency on cloud.

And so, but that's just the beginning, right, I think that we've seen push towards all aspects of digital transformation sort of spawning from them, right. The way in which people work, the way in which people engage changes, the way in which people buy, the way in which people want to use its services and experiences, the way in which people want to build their solutions even. Even the concept of building new technology has fundamentally changed. And so this is where I do see the sort of digital transformation has been has accelerated and incredible rate across sort of all of the companies involves, right, which I think has been exciting in a very unfortunate time period. But I think that expansion has been really something to focus on.

Now, I think, when I look at sort of Microsoft in the context of that, I think, one of the other things that as part of that customers are looking for is with sort of that expansion of digital transformation understanding how those components come together, right, and this is where I do think when we talk with customers. The conversation on Microsoft Cloud has also really sort of accelerated over the last two years, right. This isn't just one conversation on productivity and one conversation on infrastructure, and one conversation on business apps. The conversation is around how all these products come together.

Again, whether it's all our software or often times our software with partner solutions intermix, and you mentioned some of those partners as other folks you're talking with even during the session. And that is actually I think that another big change in the dynamic that we're seeing is that sort of how these solutions come together to deliver outcome is going to be a key focal point for both us and our customers as part of it.

Q - Karl Keirstead {BIO 1542979 <GO>}

And Corey, within all those various projects that are part of this digital transformation, where there some in your judgment that were made an immediate priority in the 6-12 months after the pandemic hit that now might in their lifecycle sort of be leveling out? And conversely where their priorities that were put on hold that were kind of hit hard in the 6-12 months that are now having their day in the Sun and are finally getting funded?

A - Corey Sanders {BIO 16695509 <GO>}

Yeah. So I think that there's probably two parts to this answer, I think part one is, it's really dependent upon the customer and the business that they're in, right. So like, you could -- I mean, it's sort of and this is where my new industry role is so exciting, because it is so different retail, obviously anyone in retail that didn't have a vibrant online opportunity for purchasing and engaging and support and all of that, it was an immediate and critical need to figure that out right. And so whereas you may find some elements of let's say financial services maybe had less of that immediate sort of we need to completely rework how we're selling our products, right. And so the difference in that could very much be dependent upon those customers and the businesses that they're in.

I do think there has been the obvious ones, collaboration technology, I would say, security. There has been a few that have really popped up in sort of that were

immediate requirements I think across the entire landscape, right. With the fact that everyone was working from home, you need to make sure that all collaboration capabilities work, your tooling all worked and your securities models were all able to deliver upon those experiences and that all was very immediate. I would say there was immediate spike, but I wouldn't say it's necessarily leveling off, because in some ways just expectations are changing, right. If we all remember the first six months, it was just could we get on a meeting together and it worked, right. But now it's very much conversation of I want to be in a meeting and I want to be able to transact this work and understand the data, and look at all of this in one single screen.

And so just the expectations of what it means to work collaboratively are continuing to go up with it, right. And so, while I do think they were those spikes, I think they're sort of that increased focus. There were some things that got delayed. There absolutely were some things and again it was customer-focused and customer-centric, and a lot of those are now starting to come back, I'll use retail as my example as well, frontline workers, right, sort of a focus on the frontline worker experience, when all the stores were closed, it maybe could be put off a little bit. But now with sort of a lot of retail back open that sort of priority has actually reaccelerated as a big area of focus.

So, yeah, so I think there's a little bit of both industries, really specific there. And I do think there was a big spike, but even those big spikes I think, with sort of uncertainty about when the pandemic and when things "go back to normal" if there even is an original normal, I think the expectations on collaborative work are just increasing, everyone's expecting more.

Q - Karl Keirstead {BIO 1542979 <GO>}

Let's go back maybe to a point you made earlier in response to my question where you mentioned that you, in fact, partner with a lot of those companies that I mentioned we're doing fireside chats with today. So maybe the broader question is, how all of these IT spending changes are changing Microsoft's partner ecosystem. Are you making any shifts, you and the team on that front?

A - Corey Sanders {BIO 16695509 <GO>}

Yeah. Absolutely. I think the big focus when we look at sort of our partner ecosystem and our opportunity, and this is actually a somewhat true even from our customer conversations, is shifting to not just selling our products, but actually going in and building together and building out solutions. And if you look at some of the most exciting partner announcements that I believe that we've had and some coming up, just some examples, (inaudible) oil and gas. I'll say, Amadeus in travel, BlackRock for hosting, Aladdin Services in Azure. They all are co-build experiences. For all of them, we are bringing in resources, engineering teams to work together with the experts in these fields to be able to basically take our expertise in things like collaborative applications and things like infrastructure expertise or data and AI and bring that expertise to the folks who know oil and gas better than us, who know, financial services better than us, who know all of those elements better than us.

And so those types of partnerships and us basically co-building and then co-selling has been a big shift for us. And one that I -- it's in fact what I'm really excited about my new job, because that's really where the magic happens is bringing the expertise from the two sides and bring that together, example even with our most recent Kyndryl announcement. And how do we bring sort of this strong expertise that they've had in their industries and markets with our capabilities and our horizontal services and sort of bringing them to life. And so it's definitely changing and changed a lot and we continue to see this opportunity as we work with these partners.

Q - Karl Keirstead {BIO 1542979 <GO>}

Got it. Okay, good perspective. Let's maybe use this as a jumping off point to some of the individual revenue segments within Microsoft and maybe we'll talk about the one that everybody wants to talk about, which is Azure, congrats, by the way amazing success. And it sounds like you got your start in your Microsoft career as an engineer on the Azure VM side, which has turned into a pretty big business, so congrats to you and your team there.

A - Corey Sanders {BIO 16695509 <GO>}

Thank you.

Q - Karl Keirstead {BIO 1542979 <GO>}

I wanted to ask you a couple of specific questions on Azure, one is the tough one for us on the outside to figure out and that is how to model the conversion of these big multi-year Azure commitments to actually, usage and therefore Azure revs. I guess the supposition is that it probably takes some time that you sign a contract today, and you probably really don't see the usage, the sweet spot of that usage curve maybe for another 12 to 18 months, but I'd love to ask you Corey for your perspective about how that process works so that everybody listening can do a sharper job trying to model Azure revenues going forward.

A - Corey Sanders {BIO 16695509 <GO>}

Yeah. I guess, the short answer is to your point, it's complex, right. And I think it's complex, because it's actually very much tied to the customer, and their goals and expectations and to your point even sort of from the previous discussion their prioritization, right. And what I mean by that is, it can go from a range of anywhere to they sign a deal and they have to get out of a data center in a year, because that lease is up. And so, they're incented to heavily move quickly with that data center, but then there may be other elements where they're transforming their business, they're inventing a new business model, which is going to take time to not only build, but then even scale, right. They may start small in one region and grow.

And so with -- and every big customer and every big deal is typically a set of these types of engagements that will sort of, add up to their consumption on the cloud. And so, it is very, very hard to model frankly, and I don't envy those who have to do it. The points that I'd have -- maybe that I'd add that hopefully are helpful. One is, look, going back to the previous point in general there's urgency from customers.

There's urgency and there's passion around making these changes, more so than I've seen since I've been in Azure which was 15 years ago was when I moved into the Azure team in the original product line. And so it just energy around moving it's very, very high. And so, we see a lot of passion around going quickly one something is signed sometimes even starting before it signed, right. I mean, the ability with a consumption service, you can start months before you sign and then move forward with those types of deals.

The other thing from our side that I'd say is it does take time like you said, but we have a bigger investment that we continue to make in sort of two elements there. One is the resources we bring to these customers, right. We bring sort of engineering resources called our cloud solution architects in with the customers immediately upon signing again sometimes before signing and before a single dollar of consumption is spent and we work with the customer, because the steps that they need to take are pretty involved, right. They need to look at their reliability, they need to look at their security, they need to look at how their costs are going to work, they need to look at their operations right they're teams typically need to be educated and have learning and skilling.

And so we have a framework that we built out called the well architected framework that we continually improve, which is really all focused on again customers getting them to get the value that they wanted to get when they sign that contract as fast as possible. So there's work to do, we are shifting it to the left as we like to say and getting customers deploying as fast as possible, but it will always take time because those are always both people and technology efforts that need to be made to get the full advantage.

Q - Karl Keirstead {BIO 1542979 <GO>}

And I guess it's those people elements that might be the constraint these days because a hot topic on the street and the media is the fact that there's a labor shortage in such a bid out there for engineers these days. Are you seeing any examples, Corey? Where sort of the struggle for talent and the lack of people is constraining, the ability of Microsoft's large customers to ramp their use of Azure as fast as they'd like, or has it not reached that acute level yet.

A - Corey Sanders {BIO 16695509 <GO>}

Yeah. I would say from a at least from my experience is. I think workforce shortage has not had that impact, but I will say and this has been true, I think since the cloud started, I think skilling is an area of acute attention for us. I mean, it's an area that we invest significant amounts of money to go in and help customer's skill because it is going to be different, it's going to feel different. And so, my experience is less about sort of having the people it's more around making sure that we're helping people take the full advantage and understand and learn and look, it's the as I'm sure everyone on this call appreciates, it is a fast moving market and that's kind of the point, right? There's a lot of new technology coming out all the time, and we're really invested with customers, to make sure they're keeping up because it's in our best interest and their best interest to do so.

Q - Karl Keirstead {BIO 1542979 <GO>}

Got it. Corey, another part of the Azure story that's tough for us on the outside, to get to get a handle on is what the mix of services looks like on Azure. I think everybody's impression is that as customers on board, there's probably a pretty heavy use of AzureVM compute, and storage called at the core infrastructure and then as they become more mature Azure users, they graduate to the premium services, but we really don't have a good sense for what that mix looks like or within the premium services, what are the more popular bigger buckets can you opine on that a little bit?

A - Corey Sanders {BIO 16695509 <GO>}

Yeah, absolutely. I think maybe two points that I'd say, one is from my experience, at least it's less about sort of a maturity curve, and it's more about a customer need, right. And that kind of even comes back to my previous, a large customer that I work with, I have two parts of the customer that I'm working with simultaneously, one is I need to close this data center can you get me onto your VMware service in Azure as quickly as possible and we're going to stay there for a while, right. So, how do I do that? How do I get that done? Because I got to get out of this lease, right.

And in parallel, I'm talking with them about their manufacturing line, and how we can leverage IoT and data to modernize it and enable them to be able to use AI to predict outcomes of the manufacturing line. And so at the exact same time, the same company, same maturity position, very different conversations based on their needs, right. And so, I do think it's there's a big element of just customer need and what's pushing the market and how, right. And so I think that's at least one keep component. It's less about a nine month in customers move from IAAS as to PAAS, it's actually not like that. It's there are even within customers workloads that are 100% PAAS from day one, their workloads that are IAAS and never moved the PAAS. And so that it's also what makes I think the mix hard to predict. You can't sort of see a curve on it, right? It's in some ways per customer. And then you said so to further the specific areas. I think that an AI (Multiple Speakers) absolutely data and AI has been really a sort of one that's we've seen sort of a gigantic shift in focus for customers.

And I think the realization and sort of a digital transformation push, starts with a conversation on. I got a lot of data and I don't really know what I'm supposed to do with it. And so the conversation around sort of getting the data up into the cloud and enabling sort of modern analytics, based solutions enabling AI based predictive capabilities. These are almost always a part of any digital transformation discussion, right. No matter whether it's retail customer information or whether it's oil and gas, seismic information, or whether it's, manufacturing IoT based information. The data strategy is a part of the discussion. And so that is a really big area of focus and attention force.

Q - Karl Keirstead {BIO 1542979 <GO>}

So, maybe let's hit right on that actually, because that's a hot topic for tech investors,

A - Corey Sanders {BIO 16695509 <GO>}

Yeah. It should be. That's good.

Q - Karl Keirstead {BIO 1542979 <GO>}

Even today. I've had Mongodb, Informatica fireside chats. Yesterday, I did fireside with the CEO Ali of Data Bricks, the day before that with Mike Scarpelli at Snowflake.

A - Corey Sanders {BIO 16695509 <GO>}

I think I know all these folks actually.

Q - Karl Keirstead {BIO 1542979 <GO>}

In many cases, their products live on Azure. Sure that.

A - Corey Sanders {BIO 16695509 <GO>}

In all cases, I think that you just mentioned. They all have services on Azure, yes.

Q - Karl Keirstead {BIO 1542979 <GO>}

All of them seem to be doing fairly well. So it's pretty clear to everybody, that super interesting is happening around the data AI space. But maybe where I can ask you to weigh in a little bit is how Microsoft's own products compete with all these vendors. So, on the one hand, you're a partner with all of them largely because they all want to run on Azure, but on the other hand, you're not just going to sit back and sort of seed that market to all those vendors and merely collect the compute resource consumption, you're going to chase that opportunity too. So how do you compete actually with all these partners of yours in this big opportunity Corey?

A - Corey Sanders {BIO 16695509 <GO>}

Yeah. I mean and it's going to sound, maybe a little bit repetitive, but it all starts with the customer, right and making sure that we're delivering the capabilities that the customer wants and needs, right. And so, as you mentioned sort of all of those products that you mentioned, we have some products that you could argue compete, but they all compete which is the element right of those discussions.

And so the opportunity to support our customers on the path that they want to go, if they have experience in a love of snowflake enabling snowflake, but enabling it with power BI right and enabling it into sort of teams collaboration with power BI and supporting that customer on that part of the journey is a great outcome for us for the customer for snowflake right. And so, we're certainly going to continue to do those partnerships and make sure these services run great on our infrastructure and then have integration across the entire stack. Data AI is a giant surface area even just the product that you just mentioned is even just that as a subset, right of the surface area of what customers are trying to do with compliance, with analytics, with spark with operational data, right it is a very complex and broad surface area.

And our real strength comes in and being able to offer solutions across that entire surface area being able to offer integration with third parties, when customers would prefer them and being able to offer great first party solutions when they prefer just buy from us or they're already using our services and solutions, right? So, I think it's in some ways kind of a kind of a complex answer. But that's again coming back to that's the reality of our customers' environments, right. They may have reasons, they may have passions for each one of those services, and I do think that end-to-end story is really our strength. And our willingness to partner across each one of those customers and partners -- excuse me, and so I'd love you to hear whether those partner said, the same thing about us and about me, but we can maybe take that privately.

Q - Karl Keirstead {BIO 1542979 <GO>}

They did. So, maybe a couple more on Azure. So this is taking you back Corey to your early Microsoft days when you are helping to build out the Azure VM suite. But I think if you asked the average tech investor today, they would argue that there's little to differentiate, compute resources, rented so to speak on Azure versus AWS EC2 versus Google Cloud, compute, but you are part of the team that actually built that Azure VM suite. So, my guess is, you would probably disagree with the notion that they're all the same. So maybe it what I'd love to ask you, is what's actually different about Azure on that core compute side.

A - Corey Sanders {BIO 16695509 <GO>}

Yeah. And I think they're absolutely is differentiation in the core compute, I think that there are certainly elements that you'd probably argue would be commoditized. But frankly, I would probably -- with any service there's elements that are commoditized and elements that are differentiated. The places where I think we offer some really unique value, and we see a lot of interest on in that sort of specific component of core compute is actually some of our GPU capabilities and our VM interconnect capabilities. Like, we've seen with the growth of sort of the data and AI story that I just mentioned one of the elements of that is being able to run complex AI solutions.

And our AI stacks bands from sort of really self service, super easy to deploy cognitive services all the way down to really scale-out computing for super custom requirements, and we've seen our -- the customer requirements part of the story is of course, dependent upon having the right GPUs, having the right VM interconnect, having the right connectivity. And our infiniband based connectivity has continued to be a big differentiator for us in the market. We see this as a really big positive, we see a sort of the opportunity for both HPC and AI based solutions, but that's just one you could go surrounding that storage performance and the different tiers of storage capabilities and sort of the ease of use. And then I actually think networking ease of use is becoming a really important differentiator in that part of the stack. How easy is it to leverage networking and use it with your hybrid environment? This is something we see all the time actually particularly from banks that I work with that sort of the networking is very complex and so getting that, right, and simple is a big differentiator and I would argue is deep in the infrastructure.

Q - Karl Keirstead {BIO 1542979 <GO>}

That's good.

A - Corey Sanders {BIO 16695509 <GO>}

Yeah, maybe one thing, I'll add you super fast. Of course, the bigger points of differentiation are the fact that at this point we also find people don't make decisions on infrastructure only, right. As everything we just talked about, right? You don't want your HPC or you're AIVM's to be running in different cloud than your data services and you want your data services in the same cloud with your insight experiences in your same cloud with your collaboration experience. And so more and more we're seeing that like for us at least the Microsoft Cloud is a differentiator all the way down into what VMs are going to go by. And so that is also an element that I would probably add to the conversation. So my answers are so long, hopefully, that's helpful.

Q - Karl Keirstead {BIO 1542979 <GO>}

No, no. Okay. I'm going to ask you one more Azure question.

A - Corey Sanders {BIO 16695509 <GO>}

Okay.

Q - Karl Keirstead {BIO 1542979 <GO>}

So, when we listen to April and Brett, they don't disclose Azure gross margins, but they've discussed how they have improved over time and one of the sources of improvement are efficiency gains inside Azure. So you were one of those guys, sleeves rolled up in the weeds, so can you give everybody listening, an example of an efficiency gain that still left in Azure, that might sort of, squeeze a little bit more margins out of all those servers. It seems impossible that you haven't squeezed the lemon to the maximum yet, but kind of what's left, that might be an efficiency gain, as maybe just give us one example Corey.

A - Corey Sanders {BIO 16695509 <GO>}

Yeah. I mean, look I think, just like sort of innovation in any space there is always going to be an opportunity for innovating in these areas, right? I mean, certainly sort of the scale and the magnitude and sort of the amount of efficiency gained may sort of vary over time, but there's always opportunity to gain and part of that is with our work with providers, right? When you think of sort of the work and the improvements that are happening at a chip level at a memory level and sort of a networking level, all of these elements come together in how we are using our resources in the most optimal way. And some of it is even AI based.

How are we understanding customers usage in the right ways and making sure we're making decisions based on that is then optimizing either power consumption or placement protocols, that is going to result in us saving money. And it is an ongoing effort, it is an effort that requires constant innovation and work, but I think it's an exciting effort, right? And I think it's, especially for people down deep in the stack, it's a fun place, because given the scale that we're working in the joke that we always

make is, it doesn't take a big change to have a big impact. And so this is something that I do think, we do an effort on, we do planning twice a year and margin is a big component of decisions that we make around what features we're taking and what work we're putting in place and how that will apply to the bottom line quite literally, so, yeah.

Q - Karl Keirstead {BIO 1542979 <GO>}

Super helpful. Let's leave Azure for a moment and talk about another exciting product area, and that's teams, Cory. We everybody listen is trying to figure this out. There's a number of variables, collaboration with such a huge priority as you even said earlier. As we look in the next 18 months will that fade a little bit, will it flattened out. That's one thing we're trying to figure out, we're trying to figure out how Microsoft teams versus Zoom versus WebEx versus Salesforce, Slack, how that competitive environment's going to play up? Maybe you could set the framework for us with your views on how usage and adoption of teams is changing and what you see in the next year or two?

A - Corey Sanders {BIO 16695509 <GO>}

Yeah. So there's probably a few areas that are worth touching upon sort of like you already said the growth and sort of expansion of teams usage over the last two years has been somewhat mind-blowing. I mean, I think it's been super exciting to see it and sort of watch it and even going back to my previous role since it runs all on Azure and VMs right, like, it's the whole company is behind this, right? And it's just such an exciting place for all of us to be. And I think sort of the latest numbers nearly 250 million now as of our Q4 FY21. For sort of your question, which is about sort of okay, so great that's a big number, but where do we go from here, right?

And I think there's probably a few areas. One is there is still an opportunity to grow the user base, right? And one of the things that I already even mentioned with frontline workers is the ability to sort of think about, how are we enabling use retail right shifts, and how we enabling walkie-talkie usage. And how are we bringing some of these capabilities such that teams is an experience that literally every employee at a company can use which and we'll use, right? And then we'll love, right?

And so this is work that needs to happen and it's it ties back into with my industry charter, because the work is industry-specific, right? There's different requirements for someone who's working on an oil rig and someone who's working in a local store. And so we've got to work through those requirements and deliver upon it independently. So that's an opportunity for base that I think we could grow. I think there's also a lot of opportunity for us to increase value and then resultantly increase revenue per user, right? And this is some of the things that I've even already talked about in collaborative applications, right. Enabling some of these partners that we already talked about to have collaborative experiences in the team's environment. Enabling those teams integrate with additional services, like voice, right, or contact center, right? And enabling sudden some of those capabilities to really shine as part of that team's experience.

And then perhaps the other area that I think is really important is continue to expand on our trust and security story when it comes to teams and then across the entire platform. This is a big reason why people choose teams is they believe in the trust that we're offering they'd believe in the support. And so I think that's a -- it's a really good opportunity for us to both continue to add value and, of course, continue to gain revenue as part of people buying those new services.

Q - Karl Keirstead {BIO 1542979 <GO>}

Got it. Let's hit on the most recent teams announcement where just last week, I think you announced teams' essentials. So that's clearly targeted downstream at small midsize businesses. The stated price points $4 per user per month. Can you describe what the strategy is there, I was hosting Zoom a couple hours earlier Corey, I certainly ask them what they thought of essentials, but I'd love to ask you?

A - Corey Sanders {BIO 16695509 <GO>}

I thought I should have watched that, yeah, and maybe you can again tell me offline. But look, I think so I mentioned a little bit about just the expanding of the base and when you look at sort of teams essentials, I think it's another opportunity to do that. Small businesses are different, right. Their requirements are different, their needs are different. And I think with teams essential we see a big opportunity for those companies that are 25 employees or less, right. That they're looking for some sort of meeting capability, with again, all of the aspects of data expect from Microsoft around sort of trust and so on but are not yet ready to purchase the broader O365 or MP65 suite.

And so this capability to sort of team standalone we think is quite appealing to be able to offer that platform to those to those smaller business customers and enable a lot of the other points that I mentioned around sort of expanding out to other collaboration changes that they may want to make in their business, but offering the platform offering the meetings experience is really a great opportunity for us and I think can offer a lot of value to a market that is looking for that value right now.

Q - Karl Keirstead {BIO 1542979 <GO>}

Look, Corey, how would you robut the view that Microsoft is taking teams for at least, for this customer segment from $3 to $4 per user per month, is the difference that's not the same product that essentials is actually a beefed-up version of what you would otherwise get for free. Is that correct?

A - Corey Sanders {BIO 16695509 <GO>}

That's right. I mean there's quite a bit more value, group video calls for up to 30 hours, group chat, file-sharing, right. These and even calendaring like, these are the capabilities are well beyond just I can call one person and talk with them, right. I mean, the concept is focused on what a small business needs and the small business needs more than just person to person phone calls, right. And so that's really the strategy and that would be my rebuttal if that was told to you in the other call.

Q - Karl Keirstead {BIO 1542979 <GO>}

Let's talk about Office. Obviously, one of the franchises inside Microsoft's portfolio. The bigger news there is that Microsoft has elected to as of March 1st raise the price points across not all but some important SKUs. So maybe you could help frame that, why do you think this was the right time for Microsoft to make that move and Corey as you've been interfacing with customers, like what's the reaction to the price increase? Is it a little bit of pushback? Is it a shoulder shrug? What's happening in terms of the reaction?

A - Corey Sanders {BIO 16695509 <GO>}

Yeah. So with the price increase and just to share a little bit of background, we've actually not increased the Office 365 price since June of 2011, right. And so, pretty astounding time period. And yet over that time period, over the last four years, since Microsoft 365, we've added 24, like distinct full apps, including teams, power apps, power BI, power automate. And so, it there's always this deep conversation that we have about how we're adding value and how the price point matches the value that we're adding and it's a constant conversation, decision point that needs to be met.

And, of course, our primary goal is about getting the right value to customers, but then making sure that it is at the right competitive price point. And so, that's kind of the background at least on the changes and again sort of the -- I think the timing of those changes. From a broader customer perspective, and it's, I want to be careful about speaking holistically about every customer in the world, but with the customers that I work with the conversations are so much broader than one seat pricing, right? We are again, even coming back to my previous discussion the conversations are always about the full Microsoft cloud there were about this element of dynamics and this element of power apps, and this element of M365 and this element of Azure and this element of data.

And so, these conversations are really around what are the out outcomes that the customers are getting and then what's the total ROI for that type of outcome. Like, I'm not saying price isn't important for customers, but the price conversation is much less line item by line item it's much more what am I paying Microsoft and what is the ROI that I'm going to get from that. And those conversations this is sort of a blip, right, because the conversations are so much bigger and so much broader. And again, I want to be careful saying that doesn't mean there aren't customers that are going to want to have a conversation about this. I want to be realistic about that, but at least the conversations I've had, there always bigger broader and much more of a total ROI conversation then they are line item, price items.

Q - Karl Keirstead {BIO 1542979 <GO>}

Got it. Perfect. We've probably only got five more minutes. So let me take a couple of questions. So one that came in Corey, I'll just read it back to you. And it references I think a customer anecdote you made about wanting to get out of a data center and move on to VMware on Azure. So the question is, why would a customer lift and shift onto VMware on Azure without actually rewriting the underlying code or data to take advantage of what the cloud can offer?

A - Corey Sanders {BIO 16695509 <GO>}

Yeah. I mean, actually going back to, I don't know four questions ago or five questions ago. I mean, primary reason is both skill set and then dependent tooling. I mean, this is customers and this is why it's always so hard to make generalized statements that some customers have built a really extensive toolset dependency chain on products like VMware, right. And this is why the partnership with VMware is fantastic and VMware offers a lot of modernization capabilities on top with their container based solution.

So I want to be careful say in VMware isn't a modern solution like they're offering those capabilities on top, and so you can modernize in that way and customers have that dependency and some customers don't have that dependency and then they will look at some of the other services capabilities. And so, it is really about sort of the customer starting point, their skill set, what they're comfortable with and what they're built into their environment that is going to dictate some of the first steps they take. And this is why these partnerships again so critical, because they're all about just helping customers in their journey, with whatever starting point they're on and those starting points are often times going to be different partners in different places and VMware has a fantastic partner in this regard offering modernization, but also offering really fast lift and shift capabilities for customers who have deeply invested in VMware, which are many, customers.

Q - Karl Keirstead {BIO 1542979 <GO>}

Exactly. Okay, maybe I'll finish with another question on a subject, we haven't hit on and that's the sort of the core Windows franchise and the spirit of the question is, that Microsoft done a great job over the last five, ten years taking a lot of its traditional businesses and essentially moving them to the cloud, moving them off of traditional license maintenance models to one that's more radical subscription and usage-based. But a large portion of the core Windows business is still sort of that Windows OEM upfront license sale. So I'd be curious, what Microsoft is doing to try to take the Windows business into the cloud and radical subscription era? And two things I've noticed recently that seemed to be efforts would be Azure virtual desktop as the way to marry windows and Azure and then I think Microsoft has recently launched a cloud PC product that might have that same effect. Can you touch on the traction you're seeing so far, on those products and who they might be disrupting?

A - Corey Sanders {BIO 16695509 <GO>}

Yeah. And, the combination of those two products is actually a pretty exciting set of solutions that we offer. Especially given even I think question one, which was this digital transformation movement with security and trust as sort of a central point. It is created a lot of demand for cloud-based desktops, right, to be able to run your desktop in the cloud, to be able to leverage that to create a zero trust environment on your local machine, right and we found many, many customers have built dependencies around that. And then with the expectation that it integrates with your collaboration capabilities, like teams, like Office365 et cetera.

And so this has been a big shift and I think the pandemic is this has been actually one of your sort of big spike questions that we've seen from the pandemic which is, how do I get all of my employees into a virtual environment in the cloud from my desktop to create this zero trust opportunity on-premise -- excuse me, in the hub.

And so that's what sort of these solutions really offer and the combination of the two of them offer again this full range, even sort of taking the previous question and applying it here Windows 365 offers really actually exciting and new way to run sort of windows experience including apps and data and settings all sort of automated and managed by the cloud, right, and it's just a fantastic way to truly get that windows-based experience natively in the cloud. As a virtual desktop, is one that we've seen a huge amount of traction and excitement around, and particularly around our strong partnerships with Citrix and again VMware, in offering their solutions natively in a cloud experience, for those customers who use them, who love them, who want to grow on top of them, and allows them to be able to deploy those experiences directly on Azure infrastructure with a scalable and cloud-based expectations.

So that range again gives customers choice that allows customers to pick and it accelerates their movement to that digital motion, which is again offering sort of windows based experiences in a fully scalable and cloud-based way.

Q - Karl Keirstead {BIO 1542979 <GO>}

Corey, I could talk to you for another hour, but unfortunately, we got to cut it here and I'm sure you've got a day job that you need to get back to anyway.

A - Corey Sanders {BIO 16695509 <GO>}

Sooner or later, yeah, exactly. Thanks for carving out time for us and thanks, April and Brett for enabling Corey to attend the conference and tell the Microsoft story to UBS' clients. So thank you all and happy holidays.

Thanks a lot.

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