

## Deutsche Bank Technology Conference

### Company Participants

- Amy E. Hood, Executive VP & CFO

### Other Participants

- Karl Emil Keirstead, Director and Senior Equity Research Analyst, Deutsche Bank AG, Research Division
- Unidentified Participant, Analyst, Unknown

### Presentation

#### Unidentified Participant

Ladies and gentlemen, please welcome back to the stage, Karl Keirstead.

#### Karl Emil Keirstead {BIO 1542979 <GO>}

Okay. Well thank you, everybody, for -- again, for attending the event. And we're super honored to have the CFO of Microsoft, Amy Hood. Amy, thanks for coming to Vegas to attend our event.

#### Amy E. Hood {BIO 18040963 <GO>}

Thank you. This is definitely not my kind of town. But I'm happy to be here.

#### Karl Emil Keirstead {BIO 1542979 <GO>}

I think it's perfectly appropriate to have Microsoft do the luncheon keynote. I'm not exaggerating to say that Microsoft has been one of the most amazing success stories in enterprise tech in the last five years. I mean, it wasn't that long ago that when we talked about Microsoft, the growth was relatively modest. The story was all about how the smartphone was going to kill Microsoft and the stock was in the 20s. Look at today, where it's a public cloud story, the growth is approaching mid-teens and the stock is at 110. To me, that's amazing. I'm sure behind the scenes, it took a lot of work to make that happen. From the outside, it's just been a fun story to watch, Amy.

#### Amy E. Hood {BIO 18040963 <GO>}

Yes, I would describe it as work. Yes. That's -- so it didn't just happen. But yes, I agree.

#### Karl Emil Keirstead {BIO 1542979 <GO>}

You've got to be proud of the change that's happened at Microsoft.

**Amy E. Hood** {BIO 18040963 <GO>}

I am. I'm proud of the team. The team's done a really nice job. So it's nice to be a part of something like that, to play some small role. But the team has done an amazing job in the past 4.5 to five years in terms of realizing ambitions, setting ambitious goals for what we could be and then, every day, working to achieve them in a culture that allows that achievement. And so it feels great to be there and to still feel as happy and excited to come to work as I felt when I got the job, right? So that's what (technical difficulty) want). So it's fun. Yes.

**Karl Emil Keirstead** {BIO 1542979 <GO>}

That's good.

## Questions And Answers

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

Well you and the Microsoft team have done a lot of good things. But maybe where I'll start our Q&A is on some of the external benefits that have helped you along. For a long (technical difficulty) Microsoft rarely gave any commentary on the earnings calls about sort of the state of the spending backdrop. You didn't want to play the part of being an economist. But the last couple of quarters, Amy, you've gone out of your way, I don't know whether that's the right term. But to voice a view that it feels good out there and that enterprises are spending more robustly. And I just wanted to start off by asking whether that's still the case. And given all your conversations, does it feel as if the factors that drove a fairly robust enterprise spending environment in 2018, do you think that has legs into next year? How does it feel?

**A - Amy E. Hood** {BIO 18040963 <GO>}

Let me back up first. 15 years ago, when I was writing earnings scripts for others to read, we actually did comment on macro and geo spend. And so I don't -- I wouldn't want you to think that's some new thing I was excited to opine on. So I would, first of all, in that theme, which was I meant to make some grand statement by its inclusion, it was simply a statement about how it looks to us as we, from our own unique seat, do business. And within that, I think as I said at the end of July, the important thing is to control the things you can control. So if you say, "Fine. How is IT spend?" It seems like it felt, then, right, fine. But the bigger issue is, what are we doing to execute well no matter what the environment is that you find yourself in? And that is about, really, 2 things, right? How you pick markets and how you execute against that, whether it's engineering, marketing, sales, finance, et cetera. So for me, I feel great about the markets we've chosen. They are amongst the highest growers in the overall market called IT or GDP or whatever spend buckets you want to put it in. And secondly, I feel quite good about our execution within each of those, both product portfolio, competitive positioning and then the day-to-day execution in the market. I think for most of us, the most important thing we can do is set a great example of focusing on

things you can control. And that tends to be, I think, how we all manage inside the company.

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

Got it. Okay, that makes sense. And maybe just to zero in on some of the parts of the Microsoft story. Azure might be less than 10% of the revenues. But it's probably at least half the inbounds I get. So why not start there? So there's a couple of interesting dynamics happening within broadly that Azure bucket, where you have a SaaS or EMS business with a certain growth rate. You've got more consumption-based or core Azure with a certain growth rate. And then we get to a blend. Can you talk a little bit about how those relative growth rates of those 2 pieces are shifting last year and into next year?

**A - Amy E. Hood** {BIO 18040963 <GO>}

Sure. I think maybe it's best, as you point out, just to talk about the dynamics that sit underneath that. Our EMS business, really, if you were in the -- our field organization or at a customer, the Azure EMS business would feel much more like it's part of Office or Microsoft 365. It's sold that way. It's sold on a per user basis. And so when things are sold per user, they tend to have different dynamics. And what you're seeing is simply that dynamic. That is an amazing growth story for us. Our EMS business is probably one of the largest multibillion-dollar franchises that's been built, certainly by us. And it offers such tremendous value to customers. And that's what always sits at the -- I believe any sustainable business is customer value. And EMS certainly offers that. The dynamics of it will ultimately look far more like you think about Office, right? It has SaaS-like margins. It's sold per seat. It'll have installed base growth. It'll have ARPU growth opportunities as we add new features. We use kind of that same lingo, is it E3 or E5. You could apply the same language to that product. So I'm excited about how big it is. I'm surprised -- I'm excited about the value it offers. And we've had good execution. But the dynamics will look different, as will the gross margin structure of that business, which is quite high. Now "the rest" of Azure is about a lot of the things we've always talked about that are so exciting. It represents one of the largest TAM expansion opportunities that I think has ever existed. I see it as continuing to be large and expansive. And every time I spend time thinking about how large it can be, I feel like it can be larger. The applicability and the number of -- and the excitement around development and how often and its utility across every industry and across every country, is high. So that business, I think, is a little different, right? Its TAM isn't set by users, its TAM is set by workloads. And that means it has a bit of a multiplying factor to it as more workloads can be changed or disrupted or transformed, I guess, is the word I'd like to use. That business will -- it has an increasingly large base. And so the growth rate mitigates. But that growth rate, as you all have seen, has remained quite healthy, even as the base has gotten larger and larger.

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

Got it. And Amy, as we think about trying to model Azure, all of us are trying, one thing that we can look to, increasingly now, before, it felt like Azure was, in the early days, a pay-as-you-use model. Now as a lot of large enterprises have become Azure customers and they make large upfront commitments, a lot of those commitments

don't sit on the intelligent cloud revenue piece, they sit on the balance sheet, on unearned revenues and in your backlog. It's certainly tricky to know how much of that backlog and unearned revenue increase is attributable to Azure and very tricky to try to waterfall that into subsequent Azure revenues. But maybe you could comment on sort of how much of that balance sheet uptick is due to Azure commitments. And is there any guideposts you can offer about how to translate that into subsequent Azure revenues? Or is that too tricky?

**A - Amy E. Hood** {BIO 18040963 <GO>}

It's not tricky per se. It's just a different dynamic. If you go back to the conversation we just had, EMS coming off the balance sheet onto the P&L looks just like Office or Dynamics, right? It has all the same mechanisms. It's more like a subscription. Azure, in general, is only recognized when it's used. And so the pacing of that utilization, from the balance sheet to the P&L, can absolutely be at different rates. And so a simplifying fact, I'm sure, is to just have it be ratable, which is fine. But people should know that signing big commitments means nothing to the P&L until it gets used. So having in your mind -- I think you said pay-as-you-go. The way it hits the P&L is quite similar to that, right? It's -- move it over as it gets used. And I think that maybe is not as different of a leap as I think you may make it sound in the tone of the question. And that's why when you talk about the importance of driving utilization or consumption, it's why so much of our motion in our field is focused on customer success. Customer success is the thing that makes the flywheel work in a business like Azure. If projects are picked well, if value is there, if the customer derives value, meters spin. And revenue comes to the P&L. Without that, without customer success, without customer value, without a focus on customer deployment and project picking, you won't have the right dynamic. That's why we spend so much time now investing in our sales force, whether that's technical capability, direct interaction with customers, project by project success and more and increasingly, everything from putting people on the ground to making sure our customer support is world-class. All of these things are what drive customer outcome. So the most direct way for me, as a leader, to make sure things come from the balance sheet to the P&L in this business is to make sure the process is as easy and as smooth for a customer as it could possibly be, as opposed to thinking of it as an accounting construct.

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

Yes. Got it. Okay, that makes sense. And maybe, Amy, moving a little off Azure to the broader, more "on-premise" server product business. That's been another big success story at Microsoft. It's a giant business, with SQL Server and Windows Server. And I suppose a couple of years ago, many would have argued that this business should slowly decelerate as workloads transition successfully into the public cloud model. And yet it's actually -- the growth has hung in there remarkably well, where you just put up a terrific quarter. So as you think about the variables for that business in fiscal '19, what are they? And what gives you the confidence maybe that, that big enterprise server product business can hang in there at something close to the, call it, low to mid-single-digit growth rates that you just put up?

**A - Amy E. Hood** {BIO 18040963 <GO>}

In general, people really want to decomponentize the KPI that I would prefer. The server KPI that we talk a lot about, the server and products and services KPI, is really the mechanism to see our success of our hybrid architecture sold to customers. That is the one that matches both the sales motion and the value prop that customers...

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

This is Azure plus (the business prop)?

**A - Amy E. Hood** {BIO 18040963 <GO>}

It's Azure plus the on-prem component. The reason it's so important to think about them collectively. And then I'll talk about the dynamics that sit underneath the on-prem number specifically, because the sales motion of what customers increasingly want is they want to understand how best to utilize, whether it be on-prem or in the cloud, the value of the architecture they've (built) (technical difficulty). I feel like we were focused on hybrid five years ago when we started talking about it. I think the market has moved to increasingly talk about the value of hybrid. We've been architected it that way from the beginning. That has real customer value to choice, to timing. And as we have seen that value at customers, whether they purchase from me a SQL Server license or whether they ultimately use that SQL Server license through hybrid -- Azure Hybrid Benefits in the Azure data services pool, those are both great outcomes for me, mostly because they're both great outcomes for the customer that's given choice and value to them. The accounting construct that lands it in one place or the other, I'm really happy to follow in a 100% compliant way. But the message is in that first KPI, which says, "People are making a commitment to our vision for compute, for storage, for data." Whether they buy it through one licensing mechanism or through an Azure commit, I'm not as probably focused on as maybe individual model builders would be. That being said, the dynamic most impacting that on-prem number, there are 2. One is the hybrid benefits I just talked about, which add flexibility and price benefit and deep value to customers, because it allows flexibility in using those license rights in the cloud for a small price premium. It is a massive price advantage to customers to utilize those rights when they take those workloads to the cloud. Secondly is premium mix. We've continued to see increasing premium mix, which obviously comes with ARPU increases in on-prem. Some of that is -- in the most recent release, is the value, which we've continued to see. That's been the more consistent driver, I would say, of that on-prem number over time. The newer driver would be the Hybrid Benefits that are now available for

(technical difficulty)

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

Okay. I'd also love to ask (it) about the core Office business at Microsoft. Obviously, that's been another big success story, where I don't think many people years ago, given the size, maturity of that business, would have thought that the commercial Office growth rate could be 10%-plus and staying at that level. So congratulations on that. And I think that you spent part of your career at Microsoft in that unit, didn't you Amy?

**A - Amy E. Hood** {BIO 18040963 <GO>}

Yes, I did. I did. I've spent a long time at Microsoft. So I've almost been in every unit after this many years.

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

Okay. Yes. Well that's been an amazing success. And I wanted to ask you about the sustainability of that, because you're getting, obviously, deeper into the on-prem to 365 shift, deeper into the E1 to E3 shift. So as you look for growth drivers for the Office business in fiscal '19, what are a couple of them that you would encourage us to focus more of our attention on?

**A - Amy E. Hood** {BIO 18040963 <GO>}

Well I'm not sure that it's more per se. The logic when -- and value we offer to customers, we've tended to sell in this particular business through suites. And the investments we've made over the past couple of years have been meant to make those suites work terrific across multiple endpoints, multiple operating systems. So in many people's minds, that would show itself as investment in the mobile applications of each as well as the mobile applications' ability to work across iOS and Android or other devices people use in addition to our Windows experiences. We've also invested in new workloads and new value, which has always been the plan, with what I would say Office 365 but maybe more broadly Microsoft 365. The value that we've added over the past few years has generally been the manageability, security, communications with things like teams or collaboration (tools) (technical difficulty). The value of those -- and I should also add analytics when I think about some of the progress we've specifically made with Power BI in the past year, which has been -- it was probably the best year we've had in that business in a long time. And so I look at those and say, "Wow, that playbook is not a new one for us," it was just to look and say, where can we add value in a suite that has come to mean far more to people than Word, Excel and PowerPoint. Now it represents so many of the tools they use every day to get their job done, whether that's OneDrive, which has had a really terrific year, specifically OneDrive for Business, whether that's the team's momentum we're seeing, especially now that we've launched a more viral motion as well for teams. So -- or whether it's Power BI. So when you start to define and redefine Office as a broad suite of tools, you could see that the concept of saying, "Wow, the installed base couldn't grow." And/or you couldn't charge more per seat. If you add value, you provide good value at the price. And I continue to believe we've added a lot of features that provide great value. If you then say, "Well Amy, I guess that you're adding more and that's really the ARPU story. What's the installed base story?" The installed base story has really been growth in small business, which makes a ton of sense. The ability to access these types of tools and have them be modern and consistent when you didn't have the resources, your IT seems relatively obvious, there's still a lot of runway in that business on a global basis. And I feel quite good about it. The other place where we're excited is what we call the first-line or front-line worker scenarios, which allows us to even grow the installed base inside enterprises. You've seen us talk about the possibilities for HoloLens in that scenario. I think of HoloLens or many other extensions as just another endpoint for Office, where we can reach a new user, a new experience. And some of those will also be mobile-only, which is also a really good opportunity for us,

especially in emerging markets, products like Kaizala, which we tend to think of as a more mobile Office-type product. And emerging markets for us is another way to add installed base.

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

And Amy, you listed a number of those feature add-ons, like Power BI and OneDrive and Teams and Security. Not to force you into picking a favorite. But is there -- are there 1 or 2 of those or perhaps there's others that you're most excited about this coming fiscal year and next?

**A - Amy E. Hood** {BIO 18040963 <GO>}

I think in some ways, when the business is as big as ours is, you want me to have more than 1 favorite. In many ways, they're just -- they go after different opportunities. The opportunity Teams goes after is not the same opportunity Power BI goes after. We have -- and the more value we can bring in these suites, the stickier we know they are and the lower we know churn is. The more workloads that get deployed, which is a real focus for us, the better off and the higher value that (technical difficulty) customer endpoint, which is really what matters.

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

Okay. Maybe, Amy, we flip to gaming, if that's all right. That's in the spotlight more now. When I go to E3 and talk to Phil, he's all jacked up about the future of gaming. Maybe you could talk a little bit about that. I think there's a number of dynamics going on. We need to be careful when we model that sector because Microsoft is coming off of super robust fiscal '18. So we want to be careful about not getting carried away on our growth expectations. But on the other hand, there's some really interesting stuff going on in gaming, namely with cloud gaming, et cetera. So do you mind addressing the outlook there?

**A - Amy E. Hood** {BIO 18040963 <GO>}

Yes. I'll lack maybe some of the passion that Phil has, because when you have grown up in a business and you built it and you spend your life in it, it's -- there's a special sense of connectivity that you get when Phil says it. So I'll do my best Phil impression, because my optimism is equivalent, even if my delivery is not. What I would ask everybody to do is step back a second on gaming. Gaming, in a way, for us, I would urge everybody to think about just as another incredibly interesting workload that exists in the worldview we have of an intelligent edge and intelligent cloud. If you've not had a chance to listen to Satya's partner sort of deck and speeches, I would urge you to spend time, if you want to understand sort of where we're -- what we are fundamentally about, it's understanding the vision we have for the intelligent edge and intelligent cloud. Within that, the way I think about gaming and the way I think I've increasingly thought about gaming is it is another first-party workload, no different from Dynamics or Office, (technical difficulty) (sims), that's made different and more viable and more expressive by being built on a cloud that is intelligent. It's a workload that allows us to build a cloud that's built for different latency expectations, different usage patterns, different levels of 3D, with different levels of interactivity. It's one of the best expressions of a digital transformation of a business,

the way transactions occur, in-product, user-led, user-loved. If I said, "Well what do we want from every product that we ship at Microsoft," it looks exactly the way gaming is. You'd want it to have the same passion and the same emotional reaction that I get from Excel, I want everybody to get from all workloads that we build. Gaming fans love doing it. And there's absolutely no reason people can't feel that expressiveness. Gaming is a great personification of what we're trying to accomplish. We will have endpoints. They will be made better by the enablement of the cloud. We will have developers, which is what you call the gaming cloud, be able to utilize Azure, because we will build the best gaming cloud, because we run a first-party (service). We own -- have great content. We know what developers want. It's the same reason I feel like owning Dynamics makes us a great partner for SaaS platform, the reason Office makes us a great platform for SaaS providers. It makes our cloud better and richer. And I think if I were to grade myself as a CFO, I would have said, "I wish I would have talked about gaming this way for the past five years, because that's absolutely the way we've seen it when we said this is a priority opportunity for us." It also happens to be a pursuit that is played across devices. It's really user-centric that leads itself -- in many ways, it plays to our strength as a platform company. You've seen that in maybe third-party gaming success in the past couple of quarters. It shows itself in our software and services KPI, which I think you're referencing, Karl, I think, when it comes to modeling. When other companies have great success in their games, we, too, can benefit as a platform that people come to, to purchase and interact with Xbox. So it is a business that we've transitioned quite a bit. You'll hear us. And we've done it -- I think maybe -- I don't know if it's been a little over a year, talk about that Xbox services KPI as a really (technical difficulty) (important) one for us. It's about our ability to continue to monetize users and build an incredibly healthy platform. I'm really proud of that team. It's a place that -- I'm not sure if you've gone to many E3 conferences where they talk about AI and our research team. That team is one of the more aggressive adopters of our AI technology and one of the more important partners to our Azure team I've ever seen. It really shows itself in what we're able to provide to customers. I actually -- while I don't spend a ton of my time playing Xbox, it's a team that I'm really happy to advocate for, because they made a world of difference for us.

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

I think Phil would be proud of that impersonation.

**A - Amy E. Hood** {BIO 18040963 <GO>}

It's pretty good. We're a \$10 billion business. I'd better be able to talk about it. That's the goal.

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

Well I have one more for you on that. And that's the cloud gaming front. So if we could zoom in on that, because I know a lot of people in the audience are early stage or maybe further along thinking through how that's going to play out. On the surface, it seems like Microsoft is actually pretty well positioned. You have Azure to leverage. You've got, as you just said, first-party content. You've got long-standing relationships with third-party developers. So it does seem you're well positioned. I think the uncertainty is the time frame for this to evolve. What are your thoughts on



that? I know you're not going to tell us it's going to take off next year. But maybe what are some of the challenges to getting that liftoff? And any sense for when it can become a reality?

**A - Amy E. Hood** {BIO 18040963 <GO>}

Well it's sort of interesting. I actually feel it's quite realistic today when you look at some of the gaming companies globally and their adoption of the Azure platform, even before maybe we've launched very specific tools to help gamers. There's an absolute recognition that the gaming enhances experiences for end users. The cloud enhances gaming experiences for end users. And so the more we can make that easy to use or easy to do for developers, the better off we are. We made some acquisitions in this space with PlayFab, which I think is a great and very interesting and strategically important transaction for us. But you're even starting to see it in the early success of Game Pass, our game subscription. This is an opportunity for us, taking not only our content but others' content, package it and make sure that people are able to play the games they love. But do so in a predictive way. It's why I really do think this is an interesting transitional moment in gaming that you're able to watch quite quickly, both the types of games that are being played. But how they're making money. And the ability to have a commerce platform, have user-centric behavior, have a platform that has broad adoption, have content and have a cloud, I think, will be a strategic advantage for us. And I think you already see it in the KPIs that we (technical difficulty) this year. I feel confident that it's not a long-dated concept.

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

Okay. That's encouraging. Can we flip to GitHub? I thought, super interesting acquisition. Microsoft has indicated pretty publicly that to oversimplify, you're going to leave it alone and be sensitive to that open source GitHub community. On the other hand, obviously, you want to extract some synergies from GitHub. So maybe you could talk through -- it might be premature, given that I don't think the deal is closed yet. But how you plan to do that. Or maybe if you can't go there, broadly what the strategy is.

**A - Amy E. Hood** {BIO 18040963 <GO>}

Yes. Why don't I just raise up just a teeny bit, because I'll talk about -- I'll answer about GitHub. But what you've seen is a pretty consistent logic when it comes to the acquisition space and especially the larger ones. If you said, "Well what, as a team, have Satya and I. And our management team, leadership team, done in terms of large acquisitions together? We did Minecraft, we did LinkedIn. And now we've announced GitHub, which, as you rightly point out, has not closed. If you went down the list and said, "Well what do these have in common on the surface," you might say very little. But what they really have in common is quite a bit. Number one, they're in what I believe to be a structurally important and growing market. No matter which you applied, was it -- was LinkedIn going to be an important and growing part of a professional network and a gig economy or professional identity, as people in their professional identities move more and more online? Of course. Of course it was, on a global basis. Was Minecraft symbolic of an ability to spread gaming across mobile, PC and console in a way that hadn't been possible before? Of course, it was. And is

GitHub representative of what I believe will be the largest growing and one of the largest growing important groups of workers in the world? Yes, developers. Today, modern devs and sophisticated devs view GitHub as their home. And increasingly, I believe growth in developers. And not just incredibly sophisticated developers. But the developers and skills that everybody and every company across the world is going to need to do the type of digital transformation all of us believe is occurring across industries. We will absolutely see a growth in the number of developers who (technical difficulty). And I believe their ability and our ability to support GitHub's mission, to make each of those developers as effective and as educated and as trained and as impactful as they can be, with our tools at Microsoft and Visual Studio, VS Code is one of the most interesting products we've built as a company. And the more we can support and provide our tools and expose our tools to support GitHub's mission in a growing market, that's a great thing. It is a great and valuable thing. And it's beyond that. You say, "Okay. Great. The consistent point you've made is that it's TAM expansive." The additional point I made is these happen to generally also be network communities. If you actually thought about them, they are connected, they tend to be actually reasonably sticky and they tend to have a communal aspect that with more contribution, comes more value. It's why when we talk about how these -- how you get value from them, every time somebody says the word synergy, I get a little nervous, because the absolute most important thing to do in a network community is to have the community guide the future, support why it exists, right, remember why it exists and remember why it grows. And so synergy won't come in the way I think many people normally think of the word. And we didn't apply that logic to either of the prior largest acquisitions we've done either. The next thing I would say is, were we a logical best owner, right? Did we feel like each of these assets were most correlated to who we are as a company? And I felt really strongly about each of these. LinkedIn with professionals, Minecraft with expanding gaming from a strong position (technical difficulty) (at add) and GitHub, because for many many years we are a developer company. And when you're a platform company, you're a developer company. And this (speaks) (technical difficulty) that. And so I feel very good about GitHub. I look forward to it getting closed. I could not be more thrilled with the leader we've chosen. Nat Friedman is absolutely the right person to focus on making GitHub great, keeping GitHub what it is, because what it is, is what we wanted to buy. And I am quite excited about what it brings to us. But more importantly, what it means to the future development for the next (technical difficulty).

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

Okay. That was helpful. Maybe, Amy, in our last 6 or 7 minutes, I'd love to hit you with a couple financial questions, if I could. One of them...

**A - Amy E. Hood** {BIO 18040963 <GO>}

I kind of think those other ones were, too. But you're welcome to ask me this more.

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

Perhaps these ones are slightly more so. So I feel like the messaging from you and the Microsoft team, as we look into fiscal '19 on the broad question of growth and margins, is that it's tilted a little bit more towards the growth camp, where it feels like

a lot of your larger businesses are performing well and this is the year to focus on that rather than focus on driving material operating leverage. And is that, broadly speaking, directionally at least, the right framework for fiscal '19?

**A - Amy E. Hood** {BIO 18040963 <GO>}

I'm not sure that's a new framework. In FY '18, we were pretty focused on growth. We had continued to invest in the areas that we felt had expanding TAMs and strong positions and ability to land as revenue. I don't think that's actually a change for us as I look into '19, where we see expanding TAMs, where we see opportunity, where we feel well positioned. I didn't feel constrained in investing before. And I continue to not feel constrained in investing going forward. If you take a step back and look at the OpEx guidance I gave of 7%, if you think about just cost of living, that is not a massive OpEx number. So I don't think I was meaning to send some deep message that I -- that we're not continuing to focus on what we've always focused on, which is, how can we continue to work the portfolio to get the highest ROI out of -- no matter what the number is we're investing? And if you actually even reflect back on the guidance that I gave in July, we -- and I was very clear to say, I expect FY '19 operating margins to be slightly up. So I'm a believer that this year, the message is actually far more consistent maybe than you would see it as different, which was I feel really good about our execution. I feel great about the markets we're in. I want to make sure we invest to take and capture opportunity as revenue. I want to focus on customer success. I want to see that land as customer satisfaction. I want us to continue to focus on gross margin improvement in each business that we're in. And I want us to stay focused and not lose any passion around making sure every dollar we spend is spent on the most and highest ROI that I see possible. And so I'm not sure my mindset is wildly different. I actually might describe it as I'm pretty consistent.

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

Okay. That's helpful. And maybe time for one more. It's a question I'm getting a little bit lately. And that's around capital allocation, Amy. Do you mind sharing with us your current views around use of cash, apart from the obvious, which is that you'll restart the buybacks post GitHub, which I think we know. But what's the framework that you would encourage us to think about around capital allocation these days?

**A - Amy E. Hood** {BIO 18040963 <GO>}

We've been very consistent on this point. We are a -- we view capital return as a meaningful component of total shareholder return. We've believed that for a long time. Especially in the past few years, we've focused on using both buyback and dividend as the tool to do that or one of the tools. My first and, as you might imagine, mostly daily existence is to focus on how we're investing the capital for organic growth, continuing to look for inorganic opportunities, whether they be small or any other size, you've seen us use that as well, as a tool. And I feel very good about the returns we've gotten from especially our larger acquisitions that we've made inorganically as a use of cash. I don't see any difference in how we've continued to view that. I think it remains an important component that Satya and I as well as the management (technical difficulty) board focus on. But I don't think it's

changed today. It's more a commitment to (technical difficulty) rather than anything else.

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

Okay. That makes sense. Well we've covered a lot of ground. Congratulations again, Amy, on this amazing success story with Microsoft over the last couple of years. And I'm acutely aware that you don't attend that many investor conferences. So I'm honored that you came to Vegas for ours. Thank you.

**A - Amy E. Hood** {BIO 18040963 <GO>}

I was happy to be invited. And I think you've done a really nice job. And so I appreciate your partnership with our Investor Relations team in terms of us making continued progress. But I want to thank everybody. This has been -- I mostly feel privileged to be in the seat I'm in. It's a great company that I get to actually talk about on 125,000-plus people's behalf. And so while it's really nice to be here and represent them, I want to thank you all for both following the story, spending time on us and mostly helping us continue to get better. So it's really important that you continue to give us feedback through our Investor Relations team. That's how we get better at talking about our company. It's how we get better at disclosing the right KPIs. And so either give the feedback to Karl and he'll give it to the team. But it's really important to us to continue to learn and get better. So thanks to everybody for your support. And I'll see everybody soon, I'm sure.

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

Awesome.

**A - Amy E. Hood** {BIO 18040963 <GO>}

Thanks.

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

Thanks, everyone.

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