

UBS Global Technology Conference

Company Participants

- Rajesh Jha, EVP, Office Product Group

Other Participants

- Brent Thill, Analyst, UBS

Presentation

Brent Thill {BIO 1556691 <GO>}

Great. Thanks, everyone, for joining. I think we've saved many of the best presenters for last.

Rajesh Jha {BIO 20129196 <GO>}

Thank you.

Brent Thill {BIO 1556691 <GO>}

So Rajesh Jha, from Microsoft, we're really excited to have you with us today. He joined Microsoft in 1990. Actually, shortly after that, I became a Microsoft developer and that's how I got into this business. So not exactly the same path. But thank you to Microsoft for helping out early on. You report directly to Satya.

Rajesh Jha {BIO 20129196 <GO>}

I do.

Brent Thill {BIO 1556691 <GO>}

Running the Office business. A really important role and big business. Maybe just tell us a little bit about to kickoff. And before I start, I have to wear my IR hat, which -- just in terms of forward-looking statements Microsoft may make, you need to look at the SEC filings and the website for potential disclosures. If you need any of those disclosures, Microsoft's representatives here in the front row. They'll hand those out to you. So just in terms of the disclosures.

Questions And Answers

Q - Brent Thill {BIO 1556691 <GO>}

So with that, maybe just tell us a little bit about your journey from 1990 to now.

A - Rajesh Jha {BIO 20129196 <GO>}

Sure. I mean how much time do we have? I mean I came Microsoft straight out of school, like you said, Brent, in 1990. I thought I was going to be there a couple of years.

But it was great to actually be there these early days when -- I mean the vision was incredibly bold; to democratize computing and put a computer on every desk and every home. That was not as obvious as it seems today. I know we forgot to say computer in every pocket. But you get the idea. It was about democratizing computing.

And I've been in and around Office; so, working on product to really communications, collaboration, cloud services. And actually, specifically the clouds services for more than a decade. The last five years, I've been working on and leading the Office 365 effort for Microsoft, which brought together all the different teams in Office. But also Azure and the Windows guys.

Then, in my new role, as the Executive Vice President for Office Product Group, I'll lead all things Office; the product, services, experiences.

Q - Brent Thill {BIO 1556691 <GO>}

Office is a big banner for many things.

A - Rajesh Jha {BIO 20129196 <GO>}

It is.

Q - Brent Thill {BIO 1556691 <GO>}

Can you just help us unpack what's in that Office box?

A - Rajesh Jha {BIO 20129196 <GO>}

Sure. Yes, sure. I mean I think the heart of Office is what people perceive as the product that runs on their desktops today; Word, Excel, PowerPoint, Outlook, OneNote. But you know now Office, of course, exists on all the platforms, whether it be iOS, Android, Mac, Web.

But Office is more than just the client experiences or user experiences. We've got a bunch of services or back-end servers for services, cloud-hosted. And these are Exchange providing enterprise mail and calendaring, Yammer providing enterprise social. You've got SharePoint doing portals and team collaboration, Skype that does conferencing and meetings and voice. Then we've added Microsoft Teams.

So the best way to think about Office is it's all experiences, end to end, that run on all the devices and delivered either on-prem or in the cloud. And the thing that we've

done now is expanded Office even more into areas like security and analytics and voice and so on. So it's a lot of things, like you said.

Q - Brent Thill {BIO 1556691 <GO>}

There's been a lot of changes just in terms of the product. There's also been a lot of change, at least from our perception, in the culture. And with Satya coming in now and running, can you just talk about how things have changed and what you've felt, maybe over the last couple years, as he's taken the head leadership role?

A - Rajesh Jha {BIO 20129196 <GO>}

Yes, sure. I mean I think Satya did a really good job when he came into his role. He first spent some time building deep conviction about our unique mission and our sensibility. Because you've got to start there and then figure out the culture that gets you towards that mission.

And so, I think we have a bold mission today; empowering every individual, every organization, to achieve more to get to their best potential. So you start with that clarity then you figure out; what are the ambitions? So what are our strategic thrusts that get us there?

And so, from a culture perspective, I would say perhaps the biggest impact was bringing the mindset, a learning mindset or a growth mindset, where it's about being humble, it's about being open-minded, about it's being intellectually curious, trying stuff, not being afraid to fail, learn quickly from failure. That was a pretty big shift. It seems really an obvious thing for us to do. But it was a pretty big shift that he brought to the table. Then, brought a much sharper perspective on customer obsession, being connected to the customer.

Then, I would say under his leadership, the third aspect I would add is, probably more than ever before, working as One Microsoft. So building on each other and getting the efficiencies from that. And as you guys know, things, the business models change so quickly, technology changes so quickly that you've got to have a resilient culture. And so, I do feel pretty good about where we are today.

Q - Brent Thill {BIO 1556691 <GO>}

When you think about this big move that you've had to the cloud, tell us about this journey. Tell us about kind of where you think you are, what's ahead. There's obviously a hybrid world that you guys are still envisioning. But how do we think about the balance between the cloud and the on-prem world?

A - Rajesh Jha {BIO 20129196 <GO>}

Well I mean, for many years now, we have been all-in on the cloud. And for a bunch of different reasons; the rate of innovation. Now you have Microsoft investing in upgrade, migration, deployment and you take the friction away from customers to get to your newest stuff. So the rate of innovation. The ability to provide the best user experiences because your customers all lit up today.

The ability of democratizing the availability for product. So SMBs, small and medium businesses, where I described Office as being so many things, it's super hard for a small business to go put all of that together. And with the cloud delivery you make that possible for them to actually to get to the same experiences that a big enterprise might get to. So there's a lot of stuff that is amazing about the cloud and we are all-in.

But the reality is customers are going to have different constraints on how fast they can move to a cloud. We have some customers that say, "Hey I would like this regulated entity inside my organization to stay on-prem and everybody else can move to the cloud." So they think about hybrid, set up some more on a user basis or a department basis or a site office basis. There are other customers that say, "You know, great. Let's get calendaring and mail and conferencing delivered from the cloud. But I want to keep my portals on-prem." So the Office 365 will let you do hybrid that way too.

So I mean, look, if you're in the business of serving enterprises, you know one size doesn't fit all. So we want to provide the best possible stuff in the cloud. But we have and we fully support hybrid configurations both in Office 365 and Azure. And so, we continue to build on-premise versions of our product. The reality is our cloud versions are getting progressively richer and richer. And so, the gap does exist. But we are servicing our on-prem customers as well.

Q - Brent Thill {BIO 1556691 <GO>}

Back to your one size doesn't fit all. You've also taken different SKUs in Office and given basic low-level features. I subscribe to Office 365 for \$9.99, I believe, or \$10 roughly a month. I don't have the enterprise E5 SKU, which I think brings the price point up to \$35 per user per month with a lot of new feature sets. Can you just talk about how you think about the go to market in terms of the availability? And I think E5 is relatively new. How is that doing?

A - Rajesh Jha {BIO 20129196 <GO>}

Yes. No. It's a great question. So with Office 365 we have, I would say, a very, very competitive product with e-communication, collaboration, security, infrastructure for all our customers. And for enterprises, we call that E1. And it is our best set of experiences. We think that's an area we'll continue to add value all the time. So like we recently launched Microsoft Teams and that's available in E1. So we are committed to our E1 customers, our broadest tank.

But one of the great things that we've seen happen with our business is how customers have opted in, into our premium SKUs. E3 has been in the market for a few years now. And if you take a look at all our premium SKUs, I think our SKU mix today, premium SKU mix, is upward of 60%. And so, they see the value in E3.

And what do we have in E3 that's not in E1? Well we've got the Office client. In E1 you get the web client so you bring your own client. In E3 you get always up-to-date cloud-updated Office client on all the end points. You get security compliance features.

Then, E5 is something that we are very excited about too. It's still early in E5. Our customers are trialing it. And we've seen early interest in all the three key pillars of E5, which is advanced security and compliance, advanced analytics. And voice. And there are lots of capabilities in voice.

So that's how we've set up our SKUs commercially. You could buy a given workload. But most of our customers tend to get the entire suite. They may start with a workload. But they get the entire suite and then we have them -- we add value to our premium tiers.

Q - Brent Thill {BIO 1556691 <GO>}

The role of AI has been a popular topic in the Valley and at this conference.

A - Rajesh Jha {BIO 20129196 <GO>}

Yes.

Q - Brent Thill {BIO 1556691 <GO>}

And when you start to think about all the different applications that you're powering, kind of knowing which the other is doing, what's the role of AI in your initiative going forward?

A - Rajesh Jha {BIO 20129196 <GO>}

It's huge. I mean, look, the first thing, when people tell you they deliver AI, the first thing you've got to wonder is; do they have unique data, do they have unique signals?

In Office, we have billions and billions of data points. As our users interact with our products, they are signaling us. When I share a document with you, Brent, that's a signal. If I email -- if somebody sends me an email and I dwell seven or eight minutes on that email versus my typical minute or two, that's a signal. And all these signals and all the data, what we do with Office 365 is we treat them as the customers' data and customers' signals.

So then what do we do? Now, we've got lots and lots, billions of endpoints of data and signals. Then, we bring in machine learning and AI techniques and natural language processing to give back to the end user or the customer unique insights.

Let me give you a couple examples. Let's say you're editing a document in Word. And you're preparing a report and then you think, "Maybe I want to reuse a chart from a report I had seen somewhere in my work group." And you didn't quite remember who had shared this with you. But you want to reuse one of those charts.

So what we have today as a feature now in Office 365 is called Word Tap. So you're literally one tap onto the ribbon and we use the AI technique to bring all the relevant documents that you've seen in the past that may be interesting to the content that you're writing now. And we auto-bring those things into your right pane. You can

scroll in the right pane. You can tap on the chart that you see and, boom, it's in your Word document. And so, instead of going, leaving Word, going and doing a search, trying to filter your search, trying to remember who sent you that thing, the AI signals brings it back into Word.

And I can give you lots and lots of examples of these things. So I think with AI we are helping the users get time back, get value back, whether in terms of efficiency or automating their tasks.

But I'm also excited about AI from the IT's perspective. A place that we use AI now in Office 365 is what I call the security graph. Again, we see tons and tons of malware thrown at our customers. And I see that in Office. My colleagues see that in Directory and Azure. We see that in Windows. We triangulate all of these signals and then we overlay that in giving our customers, the IT guys, the insights into what the threats are, who are the most targeted users, which devices may have been compromised, suggesting protections.

So when you have lots of data and lots of signals, then you have the opportunity to use ML in AI to give value back to the users and customers. Really excited about what we are doing here. And we've got a bunch of ideas here.

Q - Brent Thill {BIO 1556691 <GO>}

You've scared a lot of business intelligence users with your Power BI bundle and that into some of the broader solutions. So when you think about the standalone BI players doing what you're doing, can you talk about the role of Power BI?

A - Rajesh Jha {BIO 20129196 <GO>}

Yes. I mean I think there's lots of interesting work happening in this area of analytics in the industry. And I mean our vision of Power BI is data science, everybody should be a data scientist. We want to democratize what it means to analyze data, to filter it, to draw insights.

And so, Power BI is, in many ways you should think about it as the next logical step from Excel. I mean you do a lot of analysis in Excel. With Power BI you can do rich dashboarding and you can bind that to the Office data. You can bind that to line of business data. And the spirit of our investments in analytics is time back, money back, value back to end users, democratize data science.

Q - Brent Thill {BIO 1556691 <GO>}

Any stats you can give us just in terms of that initiative? You've been, I think, over the last have been pushing it pretty hard. Are there any other kind of broad data points that you have to kind of support what's happening with Power BI adoption?

A - Rajesh Jha {BIO 20129196 <GO>}

I mean Power BI, today, is a part of E5. And we are still early with E5. It's just over I would say a few months -- maybe been a year in the market. So we are very pleased

with the, like I said, there are three key vision pillars for E5. One is around advanced security and compliance. The other is around analytics. And the third one is around voice.

And each of these three pillars are resonating with our customers. I would say probably security is the one that we've seen the most early adoption. But I'm really pleased with the customer feedback and the opportunity, the market opportunity that each of these three pillars are representing for us today.

Q - Brent Thill {BIO 1556691 <GO>}

Well we've been watching kind of the formation of Dynamics for quite some time with some acquisitions and organic build. And it seems like a really exciting business. It sounds like you're spending a lot more time on that business and doubling down. Can you talk about the relationship between Office 365 and the Dynamics family?

A - Rajesh Jha {BIO 20129196 <GO>}

Yes. I mean it's a lot, lots of -- and we are excited about Dynamics 365. Then, to your question about how do they build on each other. If you are in the context of a Dynamics application you still want to be using the product, really, tools that you're used to.

So in Dynamics, you can embed Excel. You can bind to SharePoint. Right inside of the Dynamics experience you're getting Office experiences. Or you can be in Office and have those things reach out to Dynamics data.

Another thing that we've done, which I think is going to be -- it's going to be super beneficial to our users and customers, is a common notion of collaboration. So what we have done in Azure Active Directory, we have plumbed in the notion of a group. All of us work in the context of different groups. Nobody today in modern society works alone. You always work in the context of groups. And so, we've plumbed that at the lowest layer in Active Directory.

And now, if I have a group for my direct reports or I have a group for a product launch or I have a group dedicated to a given customer, whether you're in Dynamics, whether you're in Outlook, whether you're in Yammer, whether you're in Word, the same group name space shows. So when I go to OneDrive, I can quickly filter all the documents that are related to that group. When I go to Dynamics, I can still see my entire context filtered to the group.

So some of the work that we are doing across Dynamics and Office is at a pretty deep layer. But I think it's foundational in how experience might change. And some of it is where we make the experience just super well integrated across the two.

Q - Brent Thill {BIO 1556691 <GO>}

Skype, it's been -- it's a great asset. You obviously purchased it for a large sum of money.

A - Rajesh Jha {BIO 20129196 <GO>}

Yes.

Q - Brent Thill {BIO 1556691 <GO>}

There has been a lot of questions from investors. Have you been able to truly take the value of that asset and make it as valuable as you could? Can you walk through your ultimate vision for Skype?

A - Rajesh Jha {BIO 20129196 <GO>}

Yes. I mean, actually, if you think about our economic engine with Office 365, I would say our core workloads today are enterprise messaging and calendaring with Exchange and Outlook. We've got, of course, the productivity suite, Office. And SharePoint for storage and portals.

And Skype is a big one for us. I mean, today, with E5 especially, what you get with Skype is you get a single experience that spans voice, video, conferencing, application sharing, presence. And if you look at some of the innovation that has come out recently where you've seen where, today it's an Office 365 feature, which is you can do a Skype broadcast so you can broadcast something out of Skype to your entire organization. But we are going to do transcriptions, a natural language transcription, translation for different languages.

And so, I'm actually quite pleased with the rate of innovation and adoption that we have had with Skype and how deeply it is integrated into our Office go to market.

Q - Brent Thill {BIO 1556691 <GO>}

The Teams launch, a lot of interest. Obviously, your CEO showed up to that presentation.

A - Rajesh Jha {BIO 20129196 <GO>}

He did.

Q - Brent Thill {BIO 1556691 <GO>}

Which highlights it's just probably a really an important thing. There's been a lot of talk about other collaborative solutions in the market, whether it's Slack or HipChat or other solutions.

A - Rajesh Jha {BIO 20129196 <GO>}

Sure.

Q - Brent Thill {BIO 1556691 <GO>}

And maybe tell us a little bit how is Teams different than some of the other products you've had in the past or relatively differentiated to some of the competitors that are

out there.

A - Rajesh Jha {BIO 20129196 <GO>}

That's a great question, Brent. I would first say communication and collaboration is a basic human need. All modern productivity, all economic activity starts with people working together.

But then you start to think about; how do people work together? And there is no one size fits all. If you are an account team that's trying to connect to a bunch of customers and a select set of people inside of your company that's one set of interaction models. If you're a CEO and you're trying to reach your employees and get their feedback, that's another kind of collaboration communication pattern. If you're a bunch of folks getting together, high-energy, trying to launch a product, a bunch of developers writing code.

So with Office 365, what we want to do is we want give you the complete toolkit for collaboration. And we believe that -- I talked about the notion of groups that was being plumbed at a common level. And so, we want to recognize that people collect together in groups. Some groups are open. Some groups are closed. Some groups are super large. Some are more private.

And so, we have a common notion of groups and whether you're collaborating through mail, you are sharing calendar or a notebook, whether you have a set of documents you're sharing, we've got a common plumbing. Yammer understands the themes of the groups. It lets you connect across your network in an open way. Then, with SharePoint we have the ability to go and have an internet portal.

With Teams, what we are doing is we are adding to that toolkit of collaboration with a common fabric. And the Team effort is focused on a bunch of people, bringing a bunch of people together, the content together, the applications that they're working together.

Look, what's differentiated -- I mean, look, Slack has done amazing work and HipChat has been around a long time and it has a loyal following. But what we are doing with Teams is actually building out the collaboration toolkit in Office 365. And it benefits from Office. Day one, it's going to be in 18 languages in 180 countries. Day one, it is going to be compliant. And we've got ISO, CGS, HIPAA data, we've got full compliance.

But most of all, from an end user perspective, it brings the tools right into that experience. When you're in the Teams experience, you can pin a SharePoint page, you can pin in an Excel document. We have 150 different integrations that are possible including Hootsuite and Zendesk and Asana and many others.

And so, overall, I mean just the framing is it's not about Microsoft Teams alone. It's about making Office 365 the best collaboration toolkit. And for our customers who

have been on Office 365, I want to make sure they've got all the different ways that their teams may be collaborating to have the full toolkit there.

Q - Brent Thill {BIO 1556691 <GO>}

OneNote is a great product. Maybe it hasn't had the same level of light on it. There's a lot of Evernote groupies. How do you get the Evernote groupies to get to OneNote?

A - Rajesh Jha {BIO 20129196 <GO>}

Yes. Let me just start pushing that a little bit. Look, Office has got 1 billion users. It's hard to compare something like OneNote or something like Delve with something like Word or Outlook with 1 billion, 0.5 billion users.

But OneNote is actually -- I mean we are seeing great adoption of OneNote in all segments. I mean let me just take ED, for example. I mean if you see the level of inking support in OneNote where you can do math problems. It auto recognizes formulas. We allow teachers now to auto-provision a notebook for every classroom. And so, they are bringing OneNote into their organization and actually introducing the rest of their organization to full Office 365.

You think about the Surface Hub, our new -- not so new anymore -- but our collaboration on big screen interfaces. OneNote is here a whiteboard application in there. And in terms of the migration from Evernote, we released a toolkit sometime earlier this year or maybe late last year and a lot of our users that actually taken advantage of that to move over their digital memories forward into OneNote. OneNote is a pretty key filler of Office today, the Office line business.

Q - Brent Thill {BIO 1556691 <GO>}

This probably ties more into the Dynamics business. But Adobe was here earlier and talked about the partnership with moving their infrastructure to your back end and that you think about those. You've been marketing automation in terms of you helping users use them. Can you maybe talk a little bit about what's happening with Adobe and that partnership?

A - Rajesh Jha {BIO 20129196 <GO>}

Yes. Let me just make a broader point of partnerships. I mean, look, we always start with, all of these discussions, we always start with a couple of things. I mean obvious things. First is; what's the best thing for our mutual customers? And the second thing is; is there a better together opportunity for us to go build out an experience better for both the partners? And with Adobe, that was obvious, an obvious case for us to go do that.

Another one I would point to is Red Hat. What we have done with Red Hat is we have allowed our enterprise customers and given them more choice in how they do hybrid environments. And what is really cool is now Microsoft and Red Hat got together and we give our customers a completely unified support experience. They

don't know whether the support call is being taken by Microsoft or is being taken by Red Hat.

In the same vein I can talk about the stuff that we've done with DocuSign or SAP; Salesforce.com. Salesforce is well-integrated into our product. So I think I would take a broader look at partnerships.

Actually, just to build on that a little bit, Brent, I would say, with Office especially, we have a renewed commitment over the last three, four years to have modern extensibility. Office was always extensible. But we have added modern extensibility. We allow partners to plug in their experiences through our new add-in interfaces. We have REST APIs for Microsoft Graph that let them connect to Office 365. And so, I mean it's a place where you should expect us to continue to do more.

Q - Brent Thill {BIO 1556691 <GO>}

There's a handful questions and there's a common theme around LinkedIn. I know this hasn't closed so you can't probably say too much. But it's pretty powerful when you think about the things you guys could do together and the impact to the Office family.

And I look at the impact to my Outlook application, as an example, of someone leaves a job perhaps get to populate the data where someone changed and their phone number and their email. You're not saying this. I'm saying this.

I mean love this kind of an interview where you're asking the question and answering that too. But I guess just one example. But maybe just your perspective on where you think that will have the biggest impact to your franchise.

A - Rajesh Jha {BIO 20129196 <GO>}

Yes. Look, I'm very excited about LinkedIn. But I really can't say a lot. I mean I'm happy to come back once it's closed as we have to let the process play out and be respectful of the process. But I'm very excited about what we could do.

Q - Brent Thill {BIO 1556691 <GO>}

Okay. I can keep talking about the benefits as I see them.

A - Rajesh Jha {BIO 20129196 <GO>}

Please.

Q - Brent Thill {BIO 1556691 <GO>}

Maybe a little bit about the E5 adoption. What's driving it? How important has voice been?

A - Rajesh Jha {BIO 20129196 <GO>}

Yes. I'm not sure I did a good job explaining the tiering in Office all up. Say, your customer moves to a cloud. Let's say they start with mail and calendar. What that does is it generates a lot of their data and their content into our cloud. And if we do a good job serving their needs and we build confidence with them, they may end up moving something like SharePoint or Skype into the cloud with us. That generates more data that we are the custodians of for them in the cloud.

The next thing our customers want to do is they want to do things like e-discovery to put a legal hold or they want to protect the data. They want to do analytics on the data. And that is what leads them into E3. We do some basic level of data leakage protection and conditional lapses [ph]. And of course, operational security is just built into our Office 365. But you want the advanced analytics. You want the advanced security, well, that's what gets them into E3. Then, there is stuff like advanced threat protection or voice or Power BI that gets them to E5.

So I guess what I'm saying is the more usage we have and the more users we have, the more data we have. The more data we have, the more right we earn to give them premium value as a part of E3 or E5. So that's the basic thesis of how we are adding E5 value.

And like I said, with E5, we have three thrusts. We have security and compliance and we're really excited about the set of stuff that we have been able to bring to our customers there.

Then we have Power BI and something we call MyAnalytics on the analytics side. So if you, for example, I don't know if you guys have seen this capability. But in Office, if you're an E5 user, what you'd be able to see, one of the insights; who are you losing touch with? So we auto-suggest that to you. If you sent out a piece of email -- How many of you have sent out a piece of emails to, let's say, more than 30, 40 people? Many of you? Wouldn't you want to know how many times that got read and what was the read rate on those things?

And we do this in a super -- we're respectful of privacy. So if it's less than five people, we won't give you that insight. But let's say you send it to 20, 30 people, you'd be able to see the read rate. How many replies and forwards are there on your mail? So these are the kind of analytics and insights. That's the second pillar.

And the third one, let me talk a little bit about voice in Office 365 E5. We have lots of voice capabilities that we are excited about. The first thing we do is -- we had conferencing in E3 in Office. But the conferencing we had, our customers, you could do voice conferencing completely based out of the cloud. But your customers would have to bring their own PSTN conferencing in. And now, that is built in into E5. So one-stop shop for all your conferencing needs.

Another one that we are doing is PBX systems. Complicated to manage. Complicated to update. Can now be run completely into the cloud. So that's the other proposition of voice in E5. A third one is, now Microsoft will actually give you

phone numbers and calling plans in many countries. So you think about the value in voice, those are the three components of that value.

Q - Brent Thill {BIO 1556691 <GO>}

And when you say give you a phone number --

A - Rajesh Jha {BIO 20129196 <GO>}

You can get a phone number from Microsoft. In E5, if you do PSTN calling, that's a feature that we have.

Q - Brent Thill {BIO 1556691 <GO>}

Pretty compelling. This is a good question. The role of the file system. Say you launch -- I did this with my new Windows 10 machine and launched it, log in, now, all of a sudden, OneDrive pops up and has all the authentications saved. Can you talk a little bit about that and the importance of OneDrive and where that's headed?

A - Rajesh Jha {BIO 20129196 <GO>}

Yes. I mean so one thing we haven't done a lot is we haven't talked about Office 365 consumer business. We are quite happy with our consumer business. We have 24 million subscribers today for Office 365 on the consumer space. And the value that our users get there is they get a terabyte of storage in OneDrive. And OneDrive is a great integration, as you just mentioned, back into the core devices.

Then, you get on always up-to-date client. All the AI features I talked about start to show only for subscribers. AI features are the kinds of things that we can't easily do for our on-prem customers. And so, that's under the differentiations for us to actually put more value into our cloud.

So I think about OneDrive as a core part of the value proposition for an Office user. If you're a consumer you get a terabyte of storage and up-to-date client as a part of the 365 consumer subscription.

If you're in the enterprise you get OneDrive for business. That has all the compliance capability reliability -- not reliability but geo distribution so you're multinational and you can choose some set of users OneDrive to be in Europe, some set of users OneDrive to be in North America. So those are the capabilities we offer in OneDrive in the commercial space.

Q - Brent Thill {BIO 1556691 <GO>}

There have been several questions around security and specifically around email security and what you're doing there, given that many of these breaches do happen via email.

A - Rajesh Jha {BIO 20129196 <GO>}

Yes. No, email is -- it's the universal communication dial tone. And so, there's always a risk of abuse through email. So one feature that's really resonating for us in E5 today is something called advanced threat protection. And the idea of advanced threat protection is actually quite simple, which is; look, Office 365 will protect you against malware. Of course, that is part of E1.

But there are a lot of threats that are zero day that the malware signatures are not updated for. Or people will send you a bad link. But the link wasn't bad when you got it. The link turns bad later, after the fact. So after the malware has worked through it, they will go and hack the website and then if you click on the link that's when you get phished.

So what the advanced threat protection does is it basically detonates -- you know, I use the word detonate in kind of a symbolic way -- every attachment and every link in a virtual machine to try and see that there is nothing malicious.

But the other thing that we only we can uniquely do -- Now, ATT is available in the market as another offering from a couple of other vendors. But what is something we can uniquely do? Today, the problem with advanced threat protection is if I send you a phishing mail, Brent, your mail is probably going to be delayed five minutes, sometimes seven minutes because a detonation takes time.

What with Office 365 we can do is we'll give you the mail right away. And if you're reading a bunch of mail and you could read the mail right away. If you click on the attachment, the attachment, if you click the attachment before we have been able to detonate and test it, it will say "'this is being scanned'". And if the mail with the attachment was the third thing you were looking at, chances are we've finished detonating it and we've gone and updated your inbox. Your message in your inbox now has the attachment too. So we call this instant delivery. So we deliver it right away. We detonate on the background. Then we update and we write your inbox as soon as we got it. This is the kind of integration of security.

Why are we in the security business in Office 365? Because we have your data. We have your experiences.

Let me give you another example. Threat protection. It's easy for IT to tell all of us, "'Hi. you shouldn't do this. You shouldn't do that.'" But we, because we have the Office surface area, if I'm in Outlook and I'm sending a mail and I'm forwarding an attachment to somebody who's not in my organization, Outlook can detect those business rules and, right there, tell you, "'Hi. this is not what your IT wants. Do you still want to send this anyway? You'll be audited.'" Those are the kinds of things we can do. So there are lots and lots of examples of security value that we've added in Office at all tiers; E1, E3. And E5.

Q - Brent Thill {BIO 1556691 <GO>}

Then, I guess there's a number of questions because likes to the potential partnership, better opportunity to work closely with the third-party security vendors like Proofpoint, Mimecast. Now, how is that relationship working?

A - Rajesh Jha {BIO 20129196 <GO>}

Well mail is -- if you're a customer and if you have some other security vendor that you want to filter your mail, you could do that. You can point your MX record to that other vendor and then have that mail be routed after the vendor is finished and then get it routed Office 365. So that kind of integration is already possible.

What is not easily doable, of course, is the things like I talked about like the instant delivery where because you have to be in operationally closed where the detonation is happening and where the mail is being delivered has to be physically closed in the given data center. Those are the kinds of things that I think we can uniquely do. But basic level of integration with other vendors is totally possible today through just routing the MX record.

Q - Brent Thill {BIO 1556691 <GO>}

There's a question around statistics around Dynamics CRM attaching to broader Office 365's sale.

A - Rajesh Jha {BIO 20129196 <GO>}

Yes. I don't have that off the top of my head. That's a good follow-up for us.

Q - Brent Thill {BIO 1556691 <GO>}

Okay. And the question around subscription versus product. How should we think about this going forward with 365?

A - Rajesh Jha {BIO 20129196 <GO>}

Oh, you mean cloud versus on-premise? Yes. It's a really good question. So let me just give you some anecdotal data first.

About four years ago, I would say -- yes, maybe four years ago, I was talking to bunch of CIOs and they were thinking about moving to the cloud. And their biggest feedback to me was, "Well I can't move to the cloud because you don't have feature X, Y, or Z in the cloud and I get it on-prem."

Today, the discussion is entirely different. Today, they look at things like Microsoft Teams. They took a look at Delve. They took a look at the AI, the threat intelligence graph. And one of that accrues to them if they're not in the cloud.

So today, the cloud is so clearly better in terms of complete solution. It's not that we - like I said, we are committed to our customers to serve them on-prem and allow hybrid. It is just that there is a bunch of AI and ML stuff that's incredibly hard. AI and ML require a lot of compute and a lot of access to the data, lots and lots of signals. It's super hard to lift that cloud infrastructure and move on-prem.

So I think the whole discussion has changed. Now, when I talk to customers, the issue is "Hi. could you now bring some of that cloud value to me on-prem?" And we point to a hybrid configuration for that.

Q - Brent Thill {BIO 1556691 <GO>}

Excellent. Thank you for your time.

A - Rajesh Jha {BIO 20129196 <GO>}

Not at all. Thank you, Brent.

Q - Brent Thill {BIO 1556691 <GO>}

We really appreciate your insight.

A - Rajesh Jha {BIO 20129196 <GO>}

Yes.

Q - Brent Thill {BIO 1556691 <GO>}

Thanks, guys.

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