

JPMorgan Global Technology, Media and Telecom Conference

Company Participants

- Judson Althoff, President Microsoft North America
- Sterling Auty, Analyst

Other Participants

- Unidentified Participant, Analyst, Unknown

Presentation

Sterling Auty {BIO 2070271 <GO>}

Hi, everyone. My name is Sterling Auty; I am the software technology analyst here at JPMorgan. Very happy to have with us Judson Althoff, who is the President of Microsoft Americas. I'm going to turn the microphone over to Judson, just an introduction, a little bit of background. I am going to start in terms of a few questions. And then I want to bring the audience questions in as quickly as possible.

So with that, Judson?

Judson Althoff {BIO 18004989 <GO>}

Hi. thanks, Sterling. So good morning, everybody. And thanks for spending the time with us today. I am thrilled to be here. Just by way of introduction, I have been with Microsoft just a little over a year now. I spent 14 years prior to that at Oracle and several years at EMC. So I have been in the enterprise software space my entire career.

I came to the Company because I am really thrilled about where we are headed as an organization. I believe our future stands to be much brighter than even our storied past. And we have got just a fantastic portfolio of intellectual property to bring to bear in a set of markets across the IT industry that are booming from devices, the cloud, big data and data analytics and social.

And we have assets that allow us to capitalize on value like no other company across those markets. So thrilled to be here and excited to get through the session today.

Sterling Auty {BIO 2070271 <GO>}

All right, sounds good. Maybe for a way of setting context, can you give us an overview of how the North American sales organization is structured?

Judson Althoff {BIO 18004989 <GO>}

Sure, sure. So in North America, we run about a \$25 billion business across 8000 folks. And structured really into four major categories. We have our consumer business, we have a midmarket -- small-medium -- business segment, a large corporate enterprise segment and a public sector organization.

Sterling Auty {BIO 2070271 <GO>}

When you look across that structure, how do you evaluate the success? Is there key metrics that you are really using to run that business?

Judson Althoff {BIO 18004989 <GO>}

Yes, quite a few actually. We would have everything from what you would expect from a financial P&L outlook on each one of the businesses, as well as a fairly robust scorecard that gives us leading indicators as to where our business is headed around growth markets, like devices and services in the cloud and what our growth penetration is relative to share. So we manage across three operating mechanisms for each one of those businesses.

Sterling Auty {BIO 2070271 <GO>}

So you and I were talking a little bit before, this is kind of the question that you would expect. Okay, you have seen some management changes in terms of at the CEO level. Has that led to any changes in terms of how you look at your business? Then we will kind of flip it around and ask your views around from a high level. But any changes in terms of new management, in terms of the way that you are running that business?

Judson Althoff {BIO 18004989 <GO>}

Yes, sure. So look, I guess the right way to start off is to say that we are all thrilled to have Satya Nadella as our new CEO. We think he brings a tremendous amount of credibility to our Company from the commercial and enterprise side, given that his tenure with the Company has really been focused around our server products, our cloud products, our applications in the cloud. And we are really excited about everything he brings to bear for our commercial businesses as they have been really the mainstay for growth and profitability for the Company.

That stated, it is a big company, right? And to state that we have seen dramatic change in the first 100 days of a new CEO would, frankly, be a little lofty. But we are very excited about the direction the Company is headed in. And we think Satya brings great energy and background from the technology side.

Sterling Auty {BIO 2070271 <GO>}

I think everyone would agree. It would be difficult to see a dramatic changeover across such a large organization. But I think some investors really want to understand what -- from the method of running the Company, what are some of the differences that you see?

Judson Althoff {BIO 18004989 <GO>}

Sure. So I think it is important to talk a little bit about our consumer businesses and our enterprise businesses. And how one sort of transcends to the other. Satya has actually spoken pretty openly about this already in his initial days as CEO.

Now what we want to really create on the consumer side of our business is virally consumable cloud services that sort of transcend into monetizable value in the enterprise. So you will see us continue to invest in the consumer side of our business. But with much more focus on consumption-oriented cloud services that accrue towards commercial value in the enterprise. And they sort of create that brand loyalty and customer loyalty and stickiness of the services long run, with a focus again on growing our commercial businesses.

Sterling Auty {BIO 2070271 <GO>}

I think last year, there was kind of the branding around the One Microsoft reorganization. Is there anything in that context that really changed about how you go to market?

Judson Althoff {BIO 18004989 <GO>}

Yes. That is actually a really good topic to spend some time on, frankly, because I have seen dramatic change even in the first year that I have been here at the Company. When I joined Microsoft, we had a lot of product silos. And in fact, when I first sat down with Satya's predecessor, Steve. And my boss, Kevin Turner who is our COO, we talked a lot about the strength we had by product category.

But frankly, our limitations towards monetizing those with our customers and bringing more customer value was sort of grounded in the fact that we had all of these products silos and really not a huge effort of stringing them together to create better value.

So the One Microsoft effort, frankly, is a journey. I would say we are well started on that journey. Maybe we are now down to maybe like three or four Microsofts instead of 22 Microsofts when I started from a product standpoint. But what it allows us to do is really capitalize on better opportunity in the marketplace in a differentiated capacity. And let me explain what I mean by that.

There are four major growth trends that we see that are really driving the IT industry right now. First of all, the explosion of all of the heterogeneous device form factors and manufacturers. Second, the here and now of the cloud, the explosion of cloud services.

Third, the explosion of data. It has been exploding for decades, ever since I have been in this industry. But we continue to see the hockey stick curve on data, as well as how you actually get value out of that data through big data and analytics. Then sort of the social fabric that sort of weaves all of those together.

If you looked at how we went to market even just a year ago, we would pursue customers very much along those silos and we would say, well, let's try to dream up a big data project together. Let's figure out how to enable your mobile device strategy.

But frankly, that actually underpinned our value in each of those categories and actually underrepresented the strength that we bring to bear, because our secular competitors in each one of those markets would show up with the next bright, shiny object and it sort of minimizes our ability to compete.

But when we show up as One Microsoft and we say instead of having a social media project, because frankly, the world doesn't need just additional communications channel. We all get enough email and text messages and voicemails. To just have a siloed enterprise social project really, frankly, doesn't bring a lot of business value to a company.

But when you weave social into a fabric of cloud services such that when someone is in a CRM application and they are getting enterprise collaboration out of that application while they are in that work stream, you actually do get tangible business value out of that and value that is returned pretty quickly to the shareholders.

That differentiates Microsoft. We are one of the only companies in the industry that has assets across all of those areas. So by going to get to market as One Microsoft with a solutions approach, we have a much more compelling and differentiated value proposition than we ever have had before.

Sterling Auty {BIO 2070271 <GO>}

But when you look across those elements -- I completely agree in terms of that integration. But there still has to be a starting point to the discussion.

Judson Althoff {BIO 18004989 <GO>}

Sure.

Sterling Auty {BIO 2070271 <GO>}

So where do you see, in terms of your customer set within your organization, where is the most frequent starting point on that discussion to then take it through that integrated approach?

Judson Althoff {BIO 18004989 <GO>}

Yes. That's a good question. I would say that there is probably not a singular starting point. Frankly, we actually try to coach our sales force not to have a singular starting point and show up with a canned pitch. But rather be much more consultative in our approach to understanding what job it is they are trying to accomplish.

It varies quite a bit by industry. In financial services, healthcare, manufacturing, you have -- if you just sort of talk about the cloud motion, for example, you have a different propensity to want to move to the cloud with different speeds, depending on those markets.

We would love to always help our customers make that journey to the cloud because the efficiencies that it brings, the new collaboration capabilities that it brings and the return to shareholder value that it brings. But at the same time, highly-regulated industries don't have the propensity to want to move there, just because of all of the complications around security and data privacy.

So look, it is a consultative approach to a starting point. And it typically -- one of those four pillars will lead to the discussion. It just sort of depends on the industry and the unique customer situation.

Sterling Auty {BIO 2070271 <GO>}

So in terms of the situations that you've seen success in that sales approach, does it kind of bypass the RFP process? Meaning you get away from that point-to-point feature-to-feature competition?

Judson Althoff {BIO 18004989 <GO>}

Yes. So that is a good point to spend some time on as well. I will give you a couple examples. So we are working with a relatively large airline. And through the course of their own inquiries and RFPs, we started the discussion around a device portfolio.

And they are like, well, listen, what we want is a set of devices for our flight attendants to be able to do transactions in the cabin. We also want a cockpit digital pilot book rather than the big briefcases they carry around all the time.

So what was issued to us was actually a device RFP. And frankly, if we would've just shown up with our bright, shiny objects versus everybody else's bright and shiny objects, we probably would've lost the opportunity. But by actually sitting down with a customer and having a much broader conversation about what are the experiences

that you really want the flight attendants to be able to have? What is the customer interaction that you want to be able to have?

Being able to provide connectivity real-time to backend systems and applications such that when the flight attendant walks down the aisle and says hi, Mr. Jones, thanks for being such a valued customer of ours. Because of all the miles you have flown today, we are going to offer you a complimentary meal upgrade; those are the types of things that provide stickiness through to our customers' customers. And also allow us to provide differentiated value.

Sterling Auty {BIO 2070271 <GO>}

How do you -- given you've got such a broad product portfolio, how do you balance that type of sales approach versus from a top-down, from top management down looking at the different businesses going, geez, we should be seeing more opportunity and more growth out of this area versus that area? So how do you balance that?

Judson Althoff {BIO 18004989 <GO>}

Yes. It is a broad portfolio. And we are responsible from everything from phones and Xboxes to enterprise software running in the cloud. And to try to educate a salesforce on how to appropriately position all of those products at the right time for the right customer is a difficult thing.

So the go-to-market approach we had is one of continually readying our generalist salesforce to have a broad understanding of the full portfolio, while backing them up with subject matter experts around the product areas at specialty. So that we go to market with more effective intelligence around the product areas.

Sterling Auty {BIO 2070271 <GO>}

Listen, I am all for Xbox in the workplace. So if you see my boss wandering around, if you could convince him, that would be wonderful.

Judson Althoff {BIO 18004989 <GO>}

Yes. We hear that a lot. We want to replace the company foosball table with Xbox.

Sterling Auty {BIO 2070271 <GO>}

Exactly. Let's actually take a step up to the high level. When we think about IT spending and the cyclical nature of it, from my aspect it felt like the US economy stagnated during 2013.

What are you hearing from customers in terms of their spending appetite? Before we get to what's the things that you see them putting in place, just -- do you see them

more eager to spend? And what types of projects? Or are they a little cautious. And why?

Judson Althoff {BIO 18004989 <GO>}

What is interesting, we're cautiously optimistic about the IT market right now. But it is a tale of two entirely different markets. On-premise software, the traditional server market. And the traditional PC market: relatively stagnant; flat to single-digit up and down quarter by quarter. Cloud market: on fire.

And that is actually representative of our numbers and our financials. We're actually relatively pleased, frankly, on how much we are growing in the traditional markets right now, because we are growing in a flat to up or down slightly market. We have seen 7% worldwide overall growth in our software in commercial markets.

I would add, though, that developed countries such as the United States, significantly higher than that. So what that indicates is that we're taking share from our traditional secular competitors.

Like we have grown 15% in databases year over year. Our nearest competitor is growing low, low single digits. So it's indicating we're taking share in those markets.

The same could be said for Windows. We are seeing strong growth there, indicating that Windows is still the most popular work environment for operating systems.

In the cloud, it is explosive growth, triple-digit growth. We have doubled our cloud businesses across Office 365, our productivity software in the cloud.

We have doubled our CRM business. And we have doubled our Azure business in infrastructure and platform as a services side. And on some fairly big numbers. Office 365 is now at a \$2.5 billion run rate.

So the fundamentals are incredibly healthy. But again it is a tale of two very, very different markets.

Sterling Auty {BIO 2070271 <GO>}

But are those markets connected? You think that explosive growth, especially like in cloud, etc., has some pull-through effect on some of the others?

Judson Althoff {BIO 18004989 <GO>}

I do. I think it actually is representative of Microsoft's growth and the health in our own balance sheet, because of the fact that when companies are making on-premise investments today they are making them with the future in mind. They are making them with the thought that they may eventually go to the cloud; they may eventually roll out to hybrid environments and support both.

So having singular code lines that work in both environments is sort of table stake for continued investments in the IT market. And we are, again, fairly uniquely differentiated in that regard.

Sterling Auty {BIO 2070271 <GO>}

Let's talk a little bit about Office 365. And then I want to bring the audience questions in. What is the way that you position this to enterprise, especially those that obviously already have on-premise versions of the Exchange, Office, etc.? What is the value proposition that you present to them?

Judson Althoff {BIO 18004989 <GO>}

Yes. Again it depends on the customer situation. We are -- we've been trying to get out of the practice of showing up with the canned pitch and more into the process of understanding business value and really anchoring with line-of-business decision-makers around productivity, unified communications. And social. And the cloud.

So when we show up to a traditional on-premise customer typically it's about functionality. What kind of business value are they trying to harvest out those types of applications? With a nudge to the cloud is the way I would call it, because we view the cloud as being the future, not just for us. But also for our customers long term.

As I stated earlier, though, depending on the industry you run into different propensities to move faster. We feel like we have made investments both in the financial services realm and in healthcare, sort of the two hardest -- healthcare, government. And financial services, probably the three hardest markets to penetrate in the cloud.

We feel like we have made substantial investments there to make it easier for those customers to go to the cloud. But still there is a hesitancy around data privacy and protection in those markets that keep them from moving forward with the same velocity as you would in traditional commercial markets and smaller businesses.

So the conversation starts from the anchoring around the business value and the functionality that they get from the applications, with the notion of getting greater efficiencies and collaboration in the cloud.

Sterling Auty {BIO 2070271 <GO>}

In terms of the points that you can really spark that discussion, how much of that is coming around contract renewals versus other points that you can begin that discussion?

Judson Althoff {BIO 18004989 <GO>}

Yes. Contract renewals certainly provide a moment to have a customer conversation. We try not to have that be the defining moment, quite frankly, in terms of our customer dialog.

Typically, the conversations about getting more value out of your productivity environment come from thinking about the sort of work environment that our customers have. You take the device market and what customers are trying to do with tablets and phones and conference room systems; and you talk about experiences that tie together the value of being in the cloud by being able to annotate notes in the boardroom, take them on a road in the tablet, further annotate them on your tablet. And have those same notes on your phone; and being able to tie those to real business applications running into the cloud.

That is actually what tends to spark the interest in wanting to make the move, when you show tangible value versus just a, hey, we're going to do the same thing you've always done only it's going to be in the cloud. That tends not to resonate terribly well with customers. So that is how the conversations have to evolve.

Sterling Auty {BIO 2070271 <GO>}

All right, let me take -- we have one question here coming in from online, then I want to take from the audience. The question coming from online says: what can really move the bottom line for Microsoft going forward in your new product investments over the near term, meaning over the next one and three years?

Judson Althoff {BIO 18004989 <GO>}

Yes. So a couple of things. Probably the biggest thing for us this next coming year is going to be on the data side. We have a great new product release with SQL Server 2014 that frankly will allow us to have a no-excuses database for the first time in the Company's history.

What I mean by that is that we can legitimately go to companies of all sizes and say: SQL Server can be the only database you'll need as a company. We can scale from our standard edition product that has a great value prop on the low end all the way through the premium version of the product and handle the most complicated enterprise workloads.

That, coupled with in-memory capabilities and Hadoop capabilities provide a really unique value there that will allow us to take share from our competitors at a significant pace this coming year. We have already been on that path for the last couple of years. But we see a much more aggressive approach towards doing that the next fiscal year, which for us starts in July.

The second thing is the growth in the cloud around enterprise workloads with Azure. We have seen explosive growth with Azure, nearly 200% on average worldwide. And that has come across both traditional infrastructure as well as platform as a service.

Again, we feel like we're fairly uniquely differentiated there because we are -- with some great respect for Amazon's early investments and Google's entrenchment from the consumer side -- we're really one of the only companies that has the ability to provide classic infrastructure as well as first-party fast applications and third-party support for enterprise applications running in the cloud. You may have taken note of the SAP announcement we made on Monday, as well as almost a year ago now an announcement with Oracle: we can legitimately support the world's applications running on Azure. So we expect that to be a huge growth area for us next year.

We will see continued growth at Office 365, again fastest growing product that we have had in the Company's history. We expect that to continue. But that will be joined with growth on Azure, growth on the datacenter services side. And also strong growth in CRM. We are doubling our CRM business year-over-year. We actually expect that to pick up pace, because we have got some great new releases of that product line and we are taking share from competitors there as well. So healthy, healthy cloud businesses.

Sterling Auty {BIO 2070271 <GO>}

All right, great. Questions from the audience? Yes?

Questions And Answers

Q - Unidentified Participant

So just to follow on the Office 365. So it seems like your opportunity with customers that are in the SMB and big market that maybe are not on Software Assurance or Enterprise Agreement already, it seems like that's a huge opportunity.

A - Judson Althoff {BIO 18004989 <GO>}

It is.

Q - Unidentified Participant

Can you help us -- can you sort of size that opportunity? Can you help us like how many customers do you guys have in the Office franchise that are in that bucket or help us to (multiple speakers)?

A - Judson Althoff {BIO 18004989 <GO>}

Do you want to repeat that?

A - Sterling Auty {BIO 2070271 <GO>}

Exactly. For the benefit of the webcast: can you help size and frame the opportunity for Office 365 in that SMB and midmarket, where they may not be on Software Assurance or an ELA?

A - Judson Althoff {BIO 18004989 <GO>}

It's actually the highest growth market that we see for Office 365. We have tremendous penetration, actually, on the upper end of the enterprise right now.

More than 50% of our enterprise customers have already moved to Office 365. Actually a higher percentage of the seats in the enterprise have been penetrated on Office 365. So we expect to see good, healthy growth there.

But the explosive growth that we are expecting is to come from the SMB. And it's basically due to the penetration that we see right now, which is relatively low -- which kind of surprises us, frankly. You would think that small and medium businesses would have a faster propensity to want to move to the cloud.

But what we found is that this is the base of customers that was on a very traditional Windows XP platform that have recently migrated and upgraded. And now the opportunity to go back and position Office 365 through syndication and through volume partners, like a partnership we have announced earlier this year with GoDaddy gives us huge upside and opportunity.

We have somewhere around 4 million users today. But that's, the way we view it, somewhere around 7% or 8% of the addressable market right now. So a lot of upside that we expect to gain this year through syndication partners.

Q - Unidentified Participant

Can you walk through the trade-off between on-premise deployment of Exchange and Office and what is purchased there versus if you use a cloud offering, what are you forgoing on the on-premise side?

A - Sterling Auty {BIO 2070271 <GO>}

So the question is: can you compare or contrast or tell you -- what are you forgoing in terms of the cloud deployment versus an on-premise in certain situations, Exchange, etc.?

A - Judson Althoff {BIO 18004989 <GO>}

Yes. Predominantly, it is datacenter investments, everything from servers and storage to the folks that manage that on a continual basis and manage the upgrade cycles. You get much faster time-to-market on more current releases; you have much less infrastructure to manage; and you are far more nimble at going to the next great features that come out with the product.

Q - Unidentified Participant

I meant for Microsoft.

A - Judson Althoff {BIO 18004989 <GO>}

Oh, what are we forgoing? Very little if any, very little.

We have some higher COGS associated with managing the datacenter infrastructure that our customers no longer manage. But from a licensing standpoint and conversion over to the subscriptions that we manage with Office 365, it's fairly even.

Q - Unidentified Participant

(inaudible - audience question)

A - Sterling Auty {BIO 2070271 <GO>}

Yes, can you elaborate on the idea of developing personal clouds that would help the enterprise cloud opportunity?

A - Judson Althoff {BIO 18004989 <GO>}

Yes.

Q - Unidentified Participant

(inaudible - audience question)

A - Sterling Auty {BIO 2070271 <GO>}

And how does Nokia advance that opportunity?

A - Judson Althoff {BIO 18004989 <GO>}

Sure. Maybe we will start with Nokia and then get into the -- what we are calling the snackable, more virally consumable consumer apps.

So Nokia. Look, we bought Nokia really for three main reasons. First of all, it gives us a fantastic leapfrog in hardware design that would have otherwise taken us much longer to get through organically.

Secondly, much greater supply chain capability and distribution capability. Nokia has got capability of delivering relatively low-cost products to all corners of the earth on a very profitable basis. That again would have taken Microsoft years to get to at an organic pace.

The third thing which really, I think, gets to the anchor point of your question is that it gives us the ability, through being able to provide first-party hardware on all form factors from the phone to the tablet to the large conference room system and everything in between, it gives us the ability to actually design software for all of those form factors, to create a better user experience, whether that user be a consumer or a commercial-based customer.

And that experience is what we're really after, quite frankly, whether it's on our first-party hardware or third-party OEM hardware or, frankly, even a competitor's platform. What we are trying to do is create services that are sticky, that start from the consumer level, that are largely freemium at the consumer level.

If you think of services like OneNote and OneDrive and Skype, we are investing in creating better affinity circles around those snackable applications such as they accrue towards better commercial value.

In other words, if folks grow up understanding and using the power of our stylus and inking through OneNote connectivity and synching through one drive in the cloud, all tied together with a conferencing system in Skype that allows instantaneous meetings and discussions, that's an experience that they grow up with in, in the education environment and the consumer environments that they come to expect in the enterprise. So that is a bit of how we see those services flowing and transcending and accruing into commercial value.

A - Sterling Auty {BIO 2070271 <GO>}

Maybe a follow-on to that, one of the questions we just got here online I think hits it, which is: what has been the experience so far in terms of Office for the iPad? As you think about that tablet form factor, is there an opportunity? What you think about the expansion into other, outside of iOS, meaning Android, etc.?

And do you get a sense, when you look across all the different tablets that are out there, what percentage of them actually have the horsepower to run an Office suite?

A - Judson Althoff {BIO 18004989 <GO>}

It's a very good question, because actually the end part of it has actually been one of the big limiters on when and how and where we would deploy Office on a tablet. We have seen fantastic response on Office for the iPad. It has been highly regarded as the best app ever made for the iPad.

Customers love it, both on the consumer side as well as the commercial side. It's actually helping to drive consumption of Office 365 for our enterprise customers. Because of the way we license Office 365 basically allows you to have multiple devices on a singular license. And so customers are actually getting more value and consuming down the cloud services that we've sold to them by being able to both run on a tablet form factor and a PC laptop form factor.

So tremendous success there. I can't really comment right now publicly about where we might be headed in terms of supporting other platforms, other than to say that, again, our strategy is to provide more virally consumable services that then accrue to enterprise value.

And we look at it mostly from a share-of-eyeball play. In other words, in a device use that has greater share of human beings' eyeballs will be the ones that we try to target over time with our services.

A - Sterling Auty {BIO 2070271 <GO>}

Other questions? Yes?

Q - Unidentified Participant

You talked about SQL Server and the new plans for 2014. Can you just talk about what growth rate (inaudible) in the SQL Server as of the last couple years. And how you see that market going forward?

A - Sterling Auty {BIO 2070271 <GO>}

What has the growth rate been like over the last couple years in the SQL Server business. And what kind of trajectory do you see?

A - Judson Althoff {BIO 18004989 <GO>}

Yes. So it has been a steady increase in growth rate over the last couple of years. SQL for several years now has had the unit share superiority versus Oracle and IBM.

However, last year we saw for the first time ever in addition to unit share actually revenue share gains, because the value customers are getting into the product in the 15% realm in terms of growth, which is pretty fantastic when you consider the growth rate of the overall database market now being mid-single digits. So indicating pretty fantastic share growth.

With the release of SQL 2014, the product we just announced about a month ago, we actually see even further gains. Beyond the growth rates we have seen, we see the ability to actually take share at a much higher rate because of the enterprise workloads that we can support, that previously could only be run on either IBM or Oracle's database in a UNIX environment. We believe we can migrate to SQL 2014. And all but really effectively mainframe workloads we can run on SQL 2014.

A - Sterling Auty {BIO 2070271 <GO>}

Question here.

Q - Unidentified Participant

(inaudible - audience question)

A - Judson Althoff {BIO 18004989 <GO>}

So I think we have announced it. There will be an announcement in a couple of hours, actually. So yes, you will hear later today that we are going to be announcing the next-generation Surface product.

A - Sterling Auty {BIO 2070271 <GO>}

Other questions? One of the questions that I had is: you look at the opportunity; you mentioned mobility, etc., especially now that you have got Office available on other form factors. Do you already have the infrastructure in place?

So as I think about working remotely -- so I am here at the conference; I have all my models in Excel back on a shared drive. Is the infrastructure there in place where instead of a VPN or some other, that I can come through the cloud, synch, to have that synching capability back and forth. And do it in a way that a regulated industry like financial services or healthcare actually require?

A - Judson Althoff {BIO 18004989 <GO>}

That is a really good question. In fact, I live that a bit every day. It's funny; even on the trip out here, you kind of start to expect things as services being consistently available, things like Wi-Fi on airplanes. Where three years ago it was hit or miss, now when you get on an airplane if there is no Wi-Fi, you get mad.

That was my experience yesterday. I was trapped on a tin can for five and a half hours with no access.

But the good news is based on the environment this is the only computer I haul around, is my Surface. Because it is a full functioning laptop; it is a tablet. I can use it as a pen form factor tablet or I can use it as a laptop replacement.

And everything that I do synchs automatically to the cloud. I have local copies that the instant I have any connectivity, they stream back up and resynchronize. And it is all done through fairly intense security algorithms as well, given my level within the Company.

So yes, we have tested that out through financial services, regulatory concerns, as well as healthcare regulatory concerns in the cloud that we manage is secure for those purposes.

A - Sterling Auty {BIO 2070271 <GO>}

Okay. Then just last question that's coming from online. With the different products, I guess when you think about innovation and driving that cool factor, where do you think in terms of product portfolio and where it's headed?

A - Judson Althoff {BIO 18004989 <GO>}

Yes. Again, we are thrilled with where we are headed and we are thrilled with our position in terms of intellectual property in this market right now. We feel like we've got a fantastic collection of assets.

And we're not resting on our laurels. We put nearly \$10 billion of R&D into the portfolio on an annual basis.

So we see growth very much in the same areas that I articulated: in these consumable, viral, freemium applications on the consumer side; and tons of growth in really three areas on the commercial side. One on the front end of productivity, from productivity through enterprise social and unified communications in that. And CRM.

We see huge growth in platform as a service through what we will recognize in Azure; and then huge growth on the data side with SQL 2014, and Power BI and the analytics capabilities that we provide out to the common user every day.

So the good news is we see great growth in just about every major aspect of the portfolio right now.

A - Sterling Auty {BIO 2070271 <GO>}

Fantastic. Judson, thank you so much for joining us today.

A - Judson Althoff {BIO 18004989 <GO>}

Thanks a lot, Sterling. Thank you, everybody.

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