

Microsoft Corp To Acquire LinkedIn

Company Participants

- Amy Hood, CFO
- Brad Smith, President and Chief Legal Officer
- Chris Suh, General Manager of IR
- Jeff Weiner, CEO
- Satya Nadella, CEO

Other Participants

- Brad Reback, Analyst, Stifel Nicolaus
- Brent Thill, Analyst, UBS
- Ed Maguire, Analyst, CLSA
- Heather Bellini, Analyst, Goldman Sachs
- Kash Rangan, Analyst, BofA Merrill Lynch
- Mark Marcon, Analyst, Robert W. Baird & Co.
- Michael Turits, Analyst, Raymond James
- Philip Winslow, Analyst, Credit Suisse
- Ross MacMillan, Analyst, RBC Capital Markets
- Walter Pritchard, Analyst, Citigroup
- Zane Chrane, Analyst, Sanford C. Bernstein & Co.

Presentation

Operator

Welcome to the Microsoft LinkedIn conference call.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the call over to your host, Mr. Chris Suh, General Manager of Investor Relations for Microsoft. Thank you. You may begin.

Chris Suh {BIO 17955231 <GO>}

Good morning. And thank you for joining us today. On the call with me today are Satya Nadella, Chief Executive Officer, Jeff Weiner, Chief Executive Officer of LinkedIn; Amy Hood, Chief Financial Officer; and Brad Smith, President and Chief Legal Officer.

On our website, microsoft.com/investor, is a slide deck which follows today's presentation. As a reminder, today's call is being webcast live and recorded. If you ask a question, it will be included in our live transmission, in the transcript and in any future use of the recording. You can replay the call and view the transcript on the Microsoft Investor Relations website until June 13, 2017.

During this call, we will be making forward-looking statements, which are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in today's press release, in the comments made during this conference call. And in the Risk Factors section of today's presentation slides, or Form 10-K, Form 10-Q and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

And with that, I'll turn the call over to Satya.

Satya Nadella {BIO 3224315 <GO>}

Thank you, Chris. Thank you for joining us. Before turning to the news about this deal, Jeff and I wanted to take a moment to express our condolences and sympathies for the victims and people of Orlando. There should be no place in the world for violence and hatred exhibited this weekend.

Let me turn to the information we wanted to share with you this morning. This deal brings together the world's leading professional cloud and the world's leading professional network. Let's start by going through some of the deal specifics. Microsoft will acquire LinkedIn for \$196 per share in an all-cash transaction value at approximately \$26.2 billion inclusive of LinkedIn's net cash. LinkedIn will retain its distinct brand, culture and independence; Jeff Weiner will remain CEO, report to me and join the Microsoft team and leadership team. Reid Hoffman has stated his full support for the transaction, which the LinkedIn Board recommended unanimously in his intention to vote all his shares in accordance with the Board's recommendation. And we expect this transaction to close by this calendar year.

As I think about acquisitions, it is important to call out how I think about them in terms of the dimensions that we evaluate. First, is this an asset that will expand our opportunity? Specifically, does it expand our total addressable market? Is this an asset that's riding the secular technology trends and is this core to who we are and our core mission as well as sense of purpose and structural position? And when I look at those three dimensions, LinkedIn really checks all the boxes.

It starts with the mission; LinkedIn and Microsoft share a mission. When we talk about Microsoft mission, we talk about empowering every person and every organization and the planet to achieve more. There is no better way to really realize that mission than to connect the world's professionals to make them more productive and successful. That's really what this merger and this acquisition is about. So let me, with

that, turn it over to Jeff to talk a little bit about the vibrancy of the LinkedIn asset, as we see it today.

Jeff Weiner {BIO 5642386 <GO>}

Yes. Thanks, Satya. So on the next slide, we've captured in a bit of the highlights in terms of our ongoing progress and momentum with regard to the membership now up to north of 433 million; worth calling out there, China remains our fastest growing and not surprising, given the size of the addressable opportunity there. One in five of the world's knowledge workers and students, pre-professionals, if you will, reside within China so that continues to be a focus area for us.

105 million monthly actives and that year-over-year growth rate reflects an acceleration, not only in mobile but desktop as well. A byproduct of the recent investment we made in the re-imagination of our mobile application. And you can see the carryover effect in terms of the growing engagement in the section below that. Mobile now accounts for about 60% of our traffic and we continue to expect that to grow. Then lastly with regard to our revenue and results, Talent Solutions comprises roughly two-thirds of our overall business. You can see in 2015, it was up 41% year over year. And sponsored content within our Marketing Solutions line continues to be the fastest-growing business at scale.

Satya Nadella {BIO 3224315 <GO>}

Great, thank you, Jeff. The opportunity ahead for us is to realize this mission that both Jeff and I referenced. And that's the most exciting part. And the way we do that is by driving the product usage and engagement across LinkedIn, Office 365 and Dynamics, that's really truly become the core of what Microsoft does. And we'll accelerate that engagement and usage through a variety of different business models: subscriptions for individuals, subscriptions for organizations as well as advertising. So that's really the opportunity ahead.

When you think about the total addressable market, it goes up by 58% but to give you a bit of a feel for it, you should think about how Dynamics, for example, gets enhanced with LinkedIn Recruiter, how Dynamics get enhanced with Sales Navigator and Social Selling. How you can take some of the learning solutions of LinkedIn and then build out the full learning management solutions. The marketing solutions that LinkedIn has and our distribution. Then of course, not to forget Office 365 usage which is at the core of Microsoft and the LinkedIn usage. So this is how we realize the total addressable market and our share of this total addressable market is just 9%. So we see plenty of opportunity going forward.

Now, we already have a great position here. Some of the numbers in this slide, I think, are well known to you. We have over 1.2 billion users of Office, now over 300 million active devices running Windows 10; 70 million MAU, or monthly active users of Office 365. Dynamics is 8 million paid seats. Now you take all of that and look at LinkedIn, 433 million members, 105 million monthly active users. And all of the other data you see on this slide.

Now, besides the numbers though, what's underneath that is this rich information graph. What we have at Microsoft today is what we refer to as the Microsoft graph where people and their relationships, their calendars, their work artifacts, their projects as well as what's inside of business systems, whether it be leads and prospects; all of that is connected as one information graph. Of course, LinkedIn has a similar graph. It is about the professional network. It's about you, your job history, your skills, the people you know in your profession; and if you connect these two graphs, that's when the magic starts to happen in terms of how digital work gets completed. We really can transform the life of professionals in terms of completing it and let me just turn it over to Jeff to talk a little bit about some of the vision he has shared here.

Jeff Weiner {BIO 5642386 <GO>}

So one of the things both Satya and I are excited about is when you combine Microsoft's corporate graph with LinkedIn's professional graph, we think we're going to be able to take a very substantial leap forward in terms of the realization of our vision, which is creating economic opportunity for every member of the global workforce and we're going to do that through the development of the world's first economic graph. That's a digital mapping of the global economy.

For those of you a little less familiar with this, it's something at LinkedIn we've been talking about for several years now. The economic graph envisions a profile on LinkedIn for every one of the three billion members of the global workforce; a digital representation for every company in the world, somewhere in the order of between 60 and 70 million companies when you include small and medium-size businesses. A digital representation for every one of the job availabilities made possible by those companies on the order of 20 million-plus; a digital reflection representation of every skill required to obtain those jobs; and through our Lynda acquisition, the course work to make that possible.

A digital profile for every university or higher educational organization, vocational training facility that enables people to acquire the skills they need to get the jobs offered by those companies. Then lastly, a publishing platform that facilitates the sharing of professionally relevant knowledge between individuals, companies and universities to the extent they are interested in doing so.

The goal is then to take a step back and to allow capital, all forms of capital: intellectual capital, working capital and human capital, to flow to where it can best be leveraged. And in so doing, help transform and lift the global economy. We now believe through this combination, we're going to be better positioned to make that possible.

Satya Nadella {BIO 3224315 <GO>}

Great. And so let me now take you through a couple of illustrations to bring this home. I want to start, in fact, with talking about more of usage of Office 365 and LinkedIn and how that will get lit up and really help drive engagement on both sides.

Take the most obvious one, which is the profile. LinkedIn essentially becomes the social fabric across all of Microsoft, whether it is in Outlook, in Excel or Skype or PowerPoint or Word or SharePoint. Now you have the ability, whenever you're looking up a contact, not only to see that contact with the information that's contained in active directory. But you can get at the full richness of their information in the professional network and who are all the others in their professional network.

So that's what we mean by the social fabric of your digital work and Office 365. Another scenario is something I'm very, very excited about is the newsfeed. It's the fastest-growing engagement part of LinkedIn; this is where there's fantastic traction on the mobile usage with the new flagship app. And it's already a very relevant feed based on what the LinkedIn profile contains, which is you, your skills, your profession, your company. And your industry. But just imagine now, that feed being informed even by the projects you're currently working on; the calendar information, essentially all the meetings into the next month that you have; the relevance of that feed, bringing some of the AI and machine learning technology for Microsoft to improve that on a continuous basis and drive engagement. Then of course, the ad monetization that goes with it, which is one of the fastest-growing businesses in LinkedIn. So we are very, very excited about the newsfeed and what it can do.

Of course, the next one is Cortana. Just imagine you are walking into a meeting and Cortana now wakes up and tells you about the people you are meeting for the first time but tells you all the things that you want to know before walking in and meeting someone because it has access to the professional network. Cortana is about knowing everything about you, your organization, the world. And now, the professional network. So really being able to reason about all of that and be your personal digital assistant, that's truly the best professional digital assistant is a fantastic opportunity.

So those are some of the end-user benefits that drive intensity of usage across Office 365, in particular. And inside of LinkedIn itself. But it's just not just about that because it's also about business process usage, whether it be CRM, whether it be HR, whether it be Talent Management and learning. So I wanted you to get a bit of a feel for that because I want Jeff to go over some of these business process things that we can do with LinkedIn and Dynamics and other products.

Jeff Weiner {BIO 5642386 <GO>}

Thanks, Satya. So historically, at LinkedIn, for us, our overarching value proposition is connecting to opportunity. That holds for both members and customers. And Satya just touched on a few of the examples of how we will be able to create additional value for members.

I'm going to now turn towards customers. And historically, it's been about several different areas of focus. Hire, market, sell and learn. And we think this combination has the opportunity to tap new addressable markets that Satya mentioned earlier and create true differentiation in the marketplace.

Let's start with Social Selling. It's something we've been focused on now for a couple of years through our Sales Navigator tool. It provides business intelligence to salespeople and enables them to take selling to social selling. What does that mean specifically? It means being able to identify exactly the right prospect by virtue of leveraging data flowing through LinkedIn on a proprietary basis. It's connecting with that prospect, turning cold calls into warm prospects by virtue of leveraging your network to get the introduction, which can make all the difference in the world.

It's tapping and understanding of who that prospect is, to best engage with them and reach out to them. And all of this is done in service of greater sales efficacy and closing the deal. Now we will be able to take that business intelligence tool, Sales Navigator, deeply integrate that into Dynamics and CRM and we believe we can change the game that way. So that would be one example.

Turning now to organizational insights and transformation. And this is going to be a fun one for us. We have, arguably, the most unique and proprietary set of insights in the world of recruiting and as a result of that, we've been able to transform and disrupt the way recruiting works, specifically, able to scale what we call passive candidate recruiting, which has disrupted the industry in a significant way.

We are also able to provide insights to customers and a showstopper, historically, has been what we call talent inflow and outflow. So you'll sit down with a company and their executive team and CEO at a executive briefing. And we will show them where their talent is going in terms of the competition. And where the talent is coming from. Just briefly and anecdotally, it is always fun to see the response because when it's green and there's a lot of talent coming in from the competition, the CEO says, this is the greatest day I've ever seen. I love this and when it's red, they're like, this can't be right. I'm not losing talent to the competition. And it just speaks to the importance of that kind of proprietary insight.

When you take Microsoft's assets, specifically in this case, volumetrics and this acquisition that enables you to understand all kinds of business intelligence within an organization that speaks to productivity, whether it's sales productivity, organizational effectiveness throughout the organization, you can start to paint the picture of how we can create a platform here. How we can create a stack here. And by virtue of Microsoft's deep relationships and workflow throughout the world, in terms of their enterprise customers, we can change the game in that regard.

Then lastly, this is one that I think Satya and I would rate pretty highly on the excitement scale. We're both very passionate about learning. And I think, share a clear conviction and vision in terms of the fact that the days in which a professional or any member of the global workforce, for that matter, could acquire a skill or certification, have a job for the rest of their lives, that's over, if not coming to an end. People are going to need -- and that's by virtue of the pace and acceleration of innovation. People need access to always on learning and continuous education. So they can be trained for the jobs that are and will be and not just the jobs that once were.

So how can we expand the LinkedIn footprint here? Through our acquisition of Lynda, we picked up a world-class entity and the creation of course work that we believe could transform learning development. Now imagine that course work deeply integrated throughout Microsoft's ecosystem and one example, specifically, we're excited about is integrating learning alongside some of the most popular productivity apps anywhere in the world, Excel, PowerPoint and Word.

Now visualize a new tab added to Office called Learning. And you will start to get a sense of the power of this. The image that you're seeing there is something we're really excited about. It's actually a new proprietary technology that is a contextual overlay. So that when you are in these Microsoft products, you're going to be able to see who you can tap within your network, within the entire broader ecosystem, freelancers and the actual course work itself. I will leave you with this. Six of the top 25 courses on Lynda are related to Microsoft product. So excited about this opportunity.

Satya Nadella {BIO 3224315 <GO>}

That's great, Jeff. Thank you. Hope that gives you a real feel for how, between LinkedIn, Office 365 and Dynamics, we can create to a tremendous amount of value for the customers of each of these products by doing these tasteful integrations that bring together business process, productivity, collaboration and the professional network and transform or reinvent productivity in business process.

But the value goes behind that. We, of course, are going to use the Microsoft field and distribution channels to scale the LinkedIn business, reach more audiences and customers. We have a scaled cloud infrastructure; we fully expect LinkedIn to be able to use that stack. Bing will have the best people search and professional search capabilities; the LinkedIn feed inside of Windows done tastefully, will also improve engagement. Then also for developers, there is a set of APIs over at LinkedIn that we will expose through Azure and our tools to drive even developer engagement. So plenty of other opportunities as well.

So with that, what I want to do is, I want to really transition now to Brad to talk about the regulatory approach as well as then later Amy to talk about the transaction overview. So Brad, over to you.

Brad Smith {BIO 1721351 <GO>}

Thank you, Satya. A few words on the regulatory situation. First, as we noted in the slides, we plan to obtain regulatory approval in the United States, the European Union and Canada before we close the transaction. There will be a small number of additional countries where we will need to obtain regulatory approval before implementing the transaction in those particular countries. I did want to note that we've concluded that regulatory approval is not going to be required in Japan, South Korea or China.

Then second, as we noted in the slides we are confident about our prospects for obtaining regulatory approval by the end of this calendar year. We are really confident for three reasons. Number one, this merger is what antitrust lawyers would term highly complementary. There's not any significant overlap between the products and services of the two companies, indeed, LinkedIn's strength, as you've heard, is in its professional network. And related Talent and Marketing Solutions. Microsoft is in their productivity software, cloud platform and the like.

Second, it's clear we have an opportunity at Microsoft to use our complementary assets to expand LinkedIn's business. Third, there's a real opportunity, as you've heard, to deliver strong benefits to consumers. It really benefits through innovation and these new scenarios to the many hundreds of millions of people around the world who can get more in their lives out of this work together. So that's how we see that and let me pass this to Amy.

Amy Hood {BIO 18040963 <GO>}

Thanks, Brad. As you've heard from Satya and Jeff, we're excited about the new scenarios that are only possible as we connect the professional world. And we're confident that our joint product and go-to-market opportunities accelerate long-term growth in new, complementary addressable markets.

Let me first speak to a few details of the transaction. Under the terms of the definitive agreement, we've agreed to acquire LinkedIn for \$196 per share in an all-cash transaction. That is approximately \$26 billion, inclusive of LinkedIn's net cash. The transaction has been unanimously approved by the Boards of Directors of both Microsoft and LinkedIn. Reid Hoffman, the Chairman, Co-Founder and controlling shareholder of LinkedIn, has stated he will vote all his shares in accordance with their Board's recommendation.

We expect transaction to close by the end of the calendar year during the Second Quarter of our FY17, subject to approval by LinkedIn's shareholders and the satisfaction of certain regulatory approvals and other customary closing conditions. We will finance this transaction primarily through new debt issued prior to close, which we intend to raise opportunistically during favorable market windows.

Our primary objective with the combination is to accelerate our topline growth across LinkedIn's core business as well as Office 365 and Dynamics. Additionally, we expect at least \$150 million annually in cost synergies as we naturally combine two public company entities. Near-term, in Microsoft's FY17 and 2018, we anticipate this transaction will be slightly dilutive, about 1% to non-GAAP EPS, based on the expected close date. By FY19 and less than two years after close, we spent this transaction to be accretive to non-GAAP EPS. In this context, non-GAAP does include stock-based compensation expense, consistent with Microsoft's reporting treatment. But excludes the anticipated impact of purchase accounting adjustments as well as integration and transaction-related expenses. We'll provide an update on the EPS impact after the transaction closes.

Now let me turn to the topic of capital allocation. We will continue with our approach, which is to balance our high-priority investments to drive our long-term growth and to meet our commitment to return cash to our shareholders. We will continue our share repurchase plan and, today, reiterate our intention to complete the current \$40 billion authorization by the end of the calendar year on the same timeframe as previously committed.

We currently plan our reporting results for LinkedIn, post-acquisition, in our Productivity and Business Processes segment. Additionally, we will introduce relevant key performance indicators nearer to the close, consistent with our treatment of other businesses.

As both Satya and I have said consistently, we evaluate new markets and opportunities through three lenses. First, we ask ourselves whether an opportunity will expand our addressable market and does that TAM have structural tailwind? Second, does this then align with our core business and overall sense of purpose where we can take a leadership role? And finally, with our ownership, can we generate meaningful revenue and profit growth? The addition of LinkedIn to Microsoft meets this high bar.

With that, let me turn it back to Satya.

Satya Nadella {BIO 3224315 <GO>}

Thank you, Amy. Today's an exciting day. It is the bringing together of the world's professional cloud and the world's professional network. Jeff and I are looking forward to what we can do together to make a bigger difference in the world together for our customers. Now let's open it up for questions. Over to you, Chris.

Chris Suh {BIO 17955231 <GO>}

Great. Thank you. We will now move to the Q&A portion of the call. Operator, please repeat your instructions.

Questions And Answers

Operator

(Operator Instructions)

Brent Thill, UBS.

Q - Brent Thill {BIO 1556691 <GO>}

Thanks. Satya, you've had a tougher track record in large M&A; why is this deal different? And for Jeff, one of key concerns has been the growth rate of the company has been decelerating. Why are you confident in that re-acceleration?

A - Satya Nadella {BIO 3224315 <GO>}

Thanks, Brent. The way I think about M&A acquisitions, Brent, is those three dimensions I talked about. What is the total addressable market opportunities? Any deal helping us getting to new markets or more successfully operate within markets. Second, is there secular tailwinds, both in terms of usage as well as technology? Then third, is this something that's at the core of Microsoft? Is this something that we can really bring together, both our structural position as well as what we focus our best execution against? And when I look at it in that dimension, this really -- LinkedIn acquisition checks all those boxes.

If you look at the combination of Office 365, LinkedIn and Dynamics, I mean, that's at the core of who we are. And our move to the cloud, that's where we have our momentum and then you combine it with another born-in-the-cloud asset which is a network asset, because I really strongly believe that it's not just about software-as-a-service but it's software-as-a-service coupled with the network which has multiple sites that give you the best long-term monetization opportunities.

Look at even how we are talking about CRM; it's not just about CRM. But it's CRM with social selling. It is not just about HCM; it is HCM with Talent Management Solutions and Recruiting from LinkedIn. Those to me are the transformative things that we can now do and that's what gives me the optimism.

The other thing that also we talked about and I've -- with Jeff, is the structure. Because, of course, we have learned from the past. I want us to have LinkedIn retain its culture, its brand, the way they go about building this network and do that independently while achieving the integrations for our customers and we can do that. I mean, if you look at even all the scenarios Jeff and I painted, the loosely coupled integration. This is not about changing the core of LinkedIn; it's about bringing the best of LinkedIn and the best of Microsoft and our executional handicap on this is, in fact, a lot lower than any of the others that you have talked about in the past. So let me turn it over to Jeff for the other part.

A - Jeff Weiner {BIO 5642386 <GO>}

In terms of the growth prospects, I would think about it at least on two dimensions, both of which we alluded to in the materials we presented. The first is with regard to the overall network and member experience and the second is with regard to the customer experience and the business opportunity.

On the former, there's a meaningful opportunity for scale here by virtue of the alignment. So you take our network, our 433 million members thus far today, about 100 million-plus monthly actives. And you seamlessly integrate throughout Microsoft's global footprint of over a billion customers, a billion customers that contextually are as relevant as it gets in terms of our addressable opportunity. And you think about bringing that social layer, the power of connections, professional identity, to specific properties, specific assets like Outlook, Calendar, Office, Windows, Skype, Dynamics. And we are both very excited about where we can take that part of the business.

So that would be almost foundational in a sense because each time we more deeply engage a member, we're in a position where we are going to have greater profile completeness, where there will be higher connection density, higher liquidity of content within that member's feed, more top of the funnel action in terms of premium subscriptions; more marketing solutions or ad sales inventory; more data that can be targeted by the customers that are looking for it. So that's one component of this.

The second component and dimension is on the customer front. I think Satya just did a really nice job of talking through higher market, sell, learn, all of these opportunities that we're already in but become much bigger and a higher probability of success, given how deeply Microsoft is already present within our customer base and their customer base. So we're not just expanding the footprint there. We're going deeper into the workflow. That workflow is going to create more value, potentially less churn. So those -- that would be a construct in terms of thinking it through.

Q - Brent Thill {BIO 1556691 <GO>}

Thank you.

A - Chris Suh {BIO 17955231 <GO>}

We'll take the next call, please.

Operator

Mark Moerdler, Sanford C. Bernstein & Company.

Q - Zane Chrane {BIO 18757161 <GO>}

Hello. This is Zane Chrane in for Mark. Thanks for taking my question. Just had a question about your commercial cloud revenue guidance. You previously guided to \$20 billion annualized run rate by FY18. How does this acquisition impact the guidance for the commercial cloud given that it integrates so closely with Dynamics and Office 365?

And second question is, you've done a ton of work with machine learning and predictive analytics. How do you see this helping to increase the value proposition or willingness to pay both for Office customers (and as) LinkedIn, as you integrate those three offerings? Thank you.

A - Satya Nadella {BIO 3224315 <GO>}

So let me take the second part and then I'll even ask Amy to talk about it and then Jeff to add, if needed. When I think about the opportunity, when it comes to machine learning and analytics, it is tremendous opportunity for us. Think about the org analytics that we have today inside of Office 365, it is one of the big differentiators of what we call Office 365 E5. And this is about being able to take that Microsoft Graph and then bring insights at the next level.

Now you combine that with the professional graph. I mean, this is what Jeff was describing with all of the insights they have inside of this proprietary database, called the LinkedIn Database. And the combination of the two can give a lot of data and information and that's where we've -- some of our best machine learning and AI work will happen.

The other piece that I'm very excited about is the newsfeed. I mean, I go every day to LinkedIn newsfeed. It is already, really, a very relevant newsfeed because it knows my profile. It knows where I work, my organization, my industry. But just imagine now, you take that and combine it with this additional vector such as my projects, my calendar, all the people and companies I'm going to meet over the next month, now that relevance problem, again, is where we are well-suited to solve that. That's broader natural language understanding; it is about applying the machine learning at scale and this is where I think that we can, in fact, drive that relevance and then the ad targeting to the next level. So I'm very, very excited about the opportunity that on analytics, business process and AI. So let me turn over the question on forecast --

A - Amy Hood {BIO 18040963 <GO>}

Let me take the question on \$20 billion annual revenue run rate by FY18. That goal for us did not contemplate this type or scale of M&A. So as I stated in April, we remain on track and confident in our ability to meet that goal. And in fact, today, I'm more confident because of the deep alignment into, really, what is the core strength of this Company, which has been around for productivity and business process. So I do think this should accelerate our momentum beyond what we've talked about as our goal for FY18.

Q - Zane Chrane {BIO 18757161 <GO>}

Great. Thank you very much

A - Chris Suh {BIO 17955231 <GO>}

We'll take the next question, please.

Operator

Heather Bellini, Goldman Sachs.

Q - Heather Bellini {BIO 2268229 <GO>}

Hi, great and I apologize because I was jumping on and off. Congratulations on the announcement. Was wondering if you could share with us the enterprise sales strategy that you had at LinkedIn, obviously, before this announcement? And if you can talk a little bit about what -- if -- how you're going to leverage Microsoft's Enterprise sales force in order to reach the maximum vision. I'm just wondering what type of cross-pollination we might be thinking about. Thank you.

A - Jeff Weiner {BIO 5642386 <GO>}

Yes. We have two primary channels. We have our field sales force at LinkedIn and we have online, or self-serve, which is going to maximize leverage. And we are always trying to get at that leverage wherever possible. Some of these solutions really require that kind of human interaction and that kind of support. So Talent Solutions, within Talent Solutions, specifically our flagship recruiter product, is the core of that business.

We've got a strong enterprise sales footprint, 40,000 enterprise customers plus, 40,000-plus. And we are looking forward to potentially expanding the products in their bag, that we can take to market. And Satya talked a little bit about human capital management and that continuum, that goes beyond passive candidate recruiting. It goes beyond active job searches and there's so much more we can be doing there. And of course, learning and development has also been able to leverage that sales footprint. And we're excited about the opportunity to expand there as well.

We have an ad sales force that brings our Marketing Solutions to customers and we're going to be in a position now where we can unlock additional inventory from within Microsoft's ecosystem. Sponsored content is already our fastest-growing business at scale. So there should be additional opportunities there.

And we've got Sales Navigator and of course, Microsoft has Dynamics. And we think there's going to be significant opportunities there to take that to the next level. In terms of the proprietary solution it's possible through the combination of our business intelligence tools and the data flowing through LinkedIn and Dynamics as a CRM capability and full-service solution.

A - Satya Nadella {BIO 3224315 <GO>}

I'm very, very excited about the potential here of thinking of what Microsoft does with Dynamics and Office 365 and our channels as fundamental accelerants to the core sales motion that LinkedIn already has. So as we plan the integration, that's clearly going to be one of the big dimensions where we can really drive a lot of increased growth for both sides.

Q - Heather Bellini {BIO 2268229 <GO>}

Great. Thanks.

A - Amy Hood {BIO 18040963 <GO>}

Thanks, Heather.

A - Chris Suh {BIO 17955231 <GO>}

We will take the next question, please.

Operator

Mark Marcon, Robert W. Baird.

Q - Mark Marcon {BIO 1750332 <GO>}

Thanks for taking my question and congratulations to everybody. Two questions. One would be, are there any performance metrics that the deal is predicated on, in terms of either engagement, usage growth, member growth, et cetera, prior to the close? Then secondly, just as it relates to the member experience, is it expected that the member experience is going to change materially in terms of who you could allow into your network?

A - Satya Nadella {BIO 3224315 <GO>}

Let me start and then Jeff, you should add and Amy, you can add as well. First of all, the -- we will all -- we will have KPIs that we will talk about in terms of how we track progress and mark progress once the deal is closed and that we get close to that, we will talk more about that.

But one of the things that's very important to us is whether it be Office 365, whether it's Dynamics or now LinkedIn, what's paramount is really usage and satisfaction. So that's what's LinkedIn has had a culture of member first and I talk about customer first and customer (obsession), when it comes to our products. We measure it by, as I said, usage and satisfaction and engagement intensity. And that's what's going to be driving our product agenda because monetization is naturally built into that intensity of usage and that's how we will go.

So I don't expect anything to change per se. But things will get enhanced so there's no new gates for memberships. If anything, we would want to say that more value to being a LinkedIn member. There's more value to being an Office 365 customer and more value to being a Dynamics customer; that's how I see it.

A - Amy Hood {BIO 18040963 <GO>}

To Mark, your specific questions on any issues prior to close in terms of KPIs that Company has to meet. No. It's just based on the customer, the vote of shareholders of LinkedIn as well as the customary closing conditions.

Q - Mark Marcon {BIO 1750332 <GO>}

Great, thank you.

A - Chris Suh {BIO 17955231 <GO>}

Thanks, Mark. We will take the next question, please.

Operator

Ed Maguire, CLSA.

Q - Ed Maguire {BIO 5286879 <GO>}

Hi, thanks for taking my question and congrats on the deal. I wanted to ask about the different analytic competencies between LinkedIn and Microsoft. Wondering what your roadmap is for integrating some of the different pieces across the portfolio? And also just looking at the different offerings, how you're monetizing this. Do you see the combination as a way to improve upselling or pricing, or really, just as a way to reinforce the core value prop of the offerings to both customer bases?

A - Satya Nadella {BIO 3224315 <GO>}

I will start with the analytics piece. The core capability of being able to create value or the graph comes from being able to do machine learning and AI at scale. That's really what this next wave of technology innovation is about. But in order to be able to do that, you need data and the LinkedIn represents that, when it comes to the professional network, it's the leading professional network. Microsoft Graph, which is the data under Microsoft 365 and Dynamics represents the other side of it.

And so your ability to add intelligence and insights and the ability for people to, most importantly, take intelligent action gets very enhanced. And that's where we will sell the solutions, whether it be org analytics, whether it be analytics around recruiting, whether it be analytics around sales efficiency. Those are the things which people want and we are really, really excited about driving that piece. And I forget what's the second part of your question?

A - Amy Hood {BIO 18040963 <GO>}

I think he was talking really about how to add economic value and what I would say, Ed, is it really falls into two basic buckets. One, many of the analytic scenarios that Satya and Jeff walked through are net-new. That isn't about upselling, per se, in the way we've historically talked about it. It is about adding new TAM and adding new revenue and adding new subscription value.

Now, the second component, which we've talked about is some of the core -- some of our core analytics value props that we have today in Office 365, in our highest ARPU product, right? So this is also about our confidence in terms of being able to continue to raise the ARPU per seat and being able to upsell to E5 and continue to add value both in this current skew in the market over time as well as going forward.

Q - Ed Maguire {BIO 5286879 <GO>}

Great, thank you.

A - Chris Suh {BIO 17955231 <GO>}

We will take the next question, please.

Operator

Kash Rangan, Bank of America.

Q - Kash Rangan {BIO 22095432 <GO>}

Hi, thank you very much. I've always been dreaming of logging into my workspace with a Facebook, LinkedIn type of a landing page and then doing (the work net points). It looks like that vision might come true with this interesting combination. Congrats to guys. I can envision that Office is going to look a whole lot different in the next one to two years.

The question for you is for the Microsoft side, what specific portions of the LinkedIn product portfolio do you feel that you could get the most synergies through way of easy wins, such as your distribution. And secondly, how worried should we be with respect to security implications? LinkedIn operates more on a public basis whereas Office 365 is more of a private network within the enterprise. As you bring these two worlds together, how you going to be navigating through what information is actually allowed to be exposed from public networks versus not and how that might actually change your view of synergies longer-term? Thank you very much.

A - Satya Nadella {BIO 3224315 <GO>}

Thanks, Kash. Overall, first, let me address the second part. The key here is that we keep these two worlds separated because there's public information, there's tenant information which is the customer's own data. And nothing gets linked. Nothing gets connected without customers opting in, without provisioning of IT principles around it. So in other words, customers decide what to connect. And we believe customers will connect these, because of the value it generates for them. But even when it generates the value it's their data, it is their insights. So we are very, very clear. And very, very principled about how we will approach security.

Now, the second thing is in terms of the value we create and what's the easy wins. And I think, just take LinkedIn itself. I mean, the first thing is the additional distribution for LinkedIn with -- forgetting even any connections and integrations, just making LinkedIn more naturally available, one click away from your contacts, one click away in your e-mail, one click away in your browser, one click away in Cortana. Those are all things that we immediately hope to do because when we think about Windows and Office, that's where the world's professionals are. A billion-plus users that are every day using these tools and so that's the most natural place.

Then we can go to that newsfeed piece that you are excited about, that I am excited about. Even there, the ability for you to take your calendar information and share it with your newsfeed and the newsfeed uses AI to make it more relevant. That's the kind of things that we would see going on in the very beginning. So lots of good quick wins, which we hope to get a fast start on and then as we do deeper integration, customers will have more value but always, the customers that are in control and that's going to be our core principle.

Q - Kash Rangan {BIO 22095432 <GO>}

Very exciting. Thanks a lot.

A - Amy Hood {BIO 18040963 <GO>}

Thanks, Kash.

A - Chris Suh {BIO 17955231 <GO>}

We will take the next question, please.

Operator

Philip Winslow, Credit Suisse.

Q - Philip Winslow {BIO 6300579 <GO>}

Thanks, guys, for taking my question and congrats to both parties here. Satya, you've talked a lot about, not just today. But previously on the Office graph and delve as well as just Microsoft as a platform Company, especially when you look at Azure.

When you think about what LinkedIn brings to the table here and the potential of the APIs, which there were some (changes to you) from LinkedIn last year but if you put those together, those APIs together with APIs from Microsoft and at Azure, maybe talk about the platform component of this, ISVs, third-party developers, even Enterprise developers, et cetera? Thanks.

A - Satya Nadella {BIO 3224315 <GO>}

I've always said that the most strategic Microsoft app API, even for Azure developers, is the Microsoft Graph and now we have one more, which is LinkedIn Economic Graph, because, really, the way to think about cloud platforms is these networks, these information graphs that where you can expose them to developers.

Then also give them all the cloud infrastructure, that's when you can create higher value, just being in any one part doesn't maximize the value. Whenever Amy and I think about even our capital, we think about Azure, we think about the higher-level services in our Enterprise Mobility Suite, our Office 365, Dynamics and now, LinkedIn. That combination of these high-level services that also have APIs, along with the infrastructure services, is what gives Microsoft Cloud the most unique monetization capability and long-term return capability and that's essentially how we will approach it

A - Amy Hood {BIO 18040963 <GO>}

Thanks, Phil.

A - Chris Suh {BIO 17955231 <GO>}

We will take the next question, please.

Operator

Walter Pritchard, Citi.

Q - Walter Pritchard {BIO 4672133 <GO>}

Hi, thanks. Amy, I'm wondering if you could talk about -- you've guided to flat OpEx and you've had a very tight control on OpEx. And I'm wondering if this at all changes your philosophy around that with buying assets that are growing faster. Maybe you need to invest more and then just generally the concept of buying innovation versus investing in innovation, how you are thinking about the trade-off there as you have that pretty controlled OpEx?

A - Amy Hood {BIO 18040963 <GO>}

Thanks, Walter. Let me first start by saying, we've spent, really, the past two-and-a-half years focused on moving, actually, our OpEx, from lower-growth areas to higher-growth areas. We've done that consistently and that's resulted, as an output, in a more controlled view on OpEx.

We have many high-growth areas that we have invested aggressively in, in the past two years: Azure, Office 365, analytics, machine learning and you go down that list and it is about pivoting the Company. So to me, LinkedIn is just another in a list of organic or inorganic opportunities to pivot the structurally growing areas where we have a structural competitive advantage. I feel very good about that but I don't view it as any different, very transparently, than the two years we've spent working hard and all the employees at Microsoft have worked hard to change our trajectory on all these things. So I don't view it as, frankly, any different in terms of setting ourselves up for long-term growth in the areas where we have very high-growth rates across our commercial cloud, Bing. And other places.

A - Chris Suh {BIO 17955231 <GO>}

Thank you, Walter. We will take the next question, please.

Operator

Ross MacMillan, RBC Capital Markets.

Q - Ross MacMillan {BIO 1994797 <GO>}

Thanks so much and congratulations on the deal. Satya, Talent Solutions is about two-thirds of LinkedIn and that's grown as an independent business. I'm just curious, would it benefit Microsoft to integrate that with Microsoft Human Capital Management software offering to truly leverage that within your customer base? And if so, do you have those required pieces for that HCM software category? Thanks.

A - Satya Nadella {BIO 3224315 <GO>}

Yes, no we -- that's a very exciting opportunity for us. We have Dynamics today, that obviously participates across CRM and ERP and HCM categories in a very light way, I would say today. So to me being able to take what LinkedIn has done with the Recruiter and Talent Management Solutions. And looking at what are the natural ways to expand into Dynamics is going to be the next set of things that we will do.

But the one thing that you may not recognize is we -- when you think about business process applications, one of the key things is it's a lot of, what I would call, extensions and customizations that get built. We have one of the richest tools chains for that. When you look at Azure and PowerApps and Visual Studio, those are the places where, whether you're extending, quite frankly, your SAP or Dynamics or any SaaS application, that's where we see a lot of activity on our cloud. So that's another growth piece for us which comes very naturally as we think about business process meets LinkedIn.

Q - Ross MacMillan {BIO 1994797 <GO>}

Amy, I just had a quick follow-up if I could. Just curious on your financial assumptions around modest dilution. Did you have any different revenue growth assumptions for LinkedIn relative to current consensus? I wondered if you could maybe make any comments around that? Thank you.

A - Amy Hood {BIO 18040963 <GO>}

Sure, Ross. In general, for the period to which I've guided, which is 2017 and 2018, on dilution, very, very little difference between their core consensus numbers and what we've assumed.

Q - Ross MacMillan {BIO 1994797 <GO>}

Thanks very much.

A - Chris Suh {BIO 17955231 <GO>}

Thanks, Ross.

A - Amy Hood {BIO 18040963 <GO>}

Thanks, Ross.

A - Chris Suh {BIO 17955231 <GO>}

We will take another question, please.

Operator

Brad Reback, Stifel.

Q - Brad Reback {BIO 3441314 <GO>}

Great. Thanks very much. Amy, is there a minimum amount of net cash you need to run the business going forward?

A - Amy Hood {BIO 18040963 <GO>}

Actually, we've -- good question, Brad. I feel very confident with the amount of net cash that we have in order to continue to aggressively invest on the capital side, both in terms of building out our commercial cloud infrastructure and being

competitive as well as giving us plenty of flexibility in terms of any types of M&A we would like to do and continuing our focus on cash returned to shareholders.

Q - Brad Reback {BIO 3441314 <GO>}

Great. Thanks very much.

A - Chris Suh {BIO 17955231 <GO>}

So I think we have time for one more question, please.

Operator

Michael Turits, Raymond James.

Q - Michael Turits {BIO 1720659 <GO>}

My congrats also and thanks very much. Amy, a quick question for you. If \$150 million gets you that 4 points, it looks like, of additional EBIT margin expansion over time, what are your thoughts on how much -- what the operating margins could eventually look like for LinkedIn? And when you think about those -- that expansion, how much can you get out of putting their infrastructure onto the cloud platform and the impact of maybe cutting back on some of that CapEx and associated depreciation?

A - Amy Hood {BIO 18040963 <GO>}

Thanks for the question. First, I should say, my focus, really, in this acquisition, as I said my comments, is about first and foremost, topline revenue growth and accretion to our other businesses. That is the philosophy. It's the rationale for members and it's the rationale for adding value to customers and ultimately, adding to profit growth at our bottom line.

In terms of assumptions on our operating margins, we've basically taken the comments that they've made very publicly in terms of focusing on that improvement. We've made some natural assumptions about combining two public company entities. And I think in terms of making progress, I think our abilities which, really, Jeff covered really well in terms of leveraging our sales models and our -- Satya talked about the Dynamics sales force, we will be able to make good, solid progress here. But it will come with a combination of high expectations for revenue growth and expansion and then the natural follow-on of scale to operating margins.

A - Chris Suh {BIO 17955231 <GO>}

Thanks, Michael. So this wraps up our Q&A. Thanks for joining us today. While we're in Northern California talking about empowering professionals, our Xbox teams are in Southern California talking about empowering gamers. We encourage everyone to check out their press briefing, which just started on Xbox.com. Thanks again for joining us.

A - Amy Hood {BIO 18040963 <GO>}

Thanks all.

A - Satya Nadella {BIO 3224315 <GO>}

Thank you very much.

A - Jeff Weiner {BIO 5642386 <GO>}

Thanks, guys.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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