

# Sanford C Bernstein Strategic Decisions Conference

## Company Participants

- Kevin Turner, COO

## Other Participants

- Mark Moerdler, Analyst, Sanford Bernstein

## Presentation

### Mark Moerdler {BIO 16855032 <GO>}

Good morning. My name is Mark Moerdler. I apologize for my voice. I have been just trying to get it back over the last couple of days and talking a lot. So I apologize for it in advance.

So it is my great pleasure to welcome Kevin Turner, Chief Operating Officer of Microsoft. As Chief Operating Officer, Mr. Turner is responsible for the strategic and operational leadership of Microsoft's worldwide sales organization, including consumer channels, marketing, services organization, online advertising, sales or corporate support organizations, anything relating to sales, anything related indirectly or directly to it, as well as corporate operations and internal information and technology.

Microsoft asked that I read quickly the following safe harbor statement. Before we get started, Microsoft would like to inform you that this presentation does contain forward-looking statements, which are predictions, projections or other statements about future events. These statements are based on their current expectations and assumptions that are subject to risk and uncertainty. Actual results could materially differ because of factors discussed in Microsoft's earnings press releases and the comments made during the presentation, as well as the risk factors listed in the Microsoft SEC filings. Microsoft does not undertake any duty to update any forward-looking statements.

And with that, it is my distinct pleasure to ask Kevin to come up and share a couple words. And by the way, on your seat, you are going to find white cards. If you have questions, please write them on the card. People will pick them up and hand them up to us. Thank you.

### Kevin Turner {BIO 5265779 <GO>}

Thanks, Mark, I appreciate it.

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**Mark Moerdler** {BIO 16855032 <GO>}

My pleasure.

**Kevin Turner** {BIO 5265779 <GO>}

Well. Good morning. Good morning. There we go. All right, it's great to be here and it's great to be able to talk a little bit about the Microsoft story and what we are up to, which I think is very timely. We have got a lot happening in our Company. There is a lot happening certainly in the industry and having someone that has been in technology and around technology for a very long time, I think this is one of the most exciting times certainly that I have ever seen as it relates to the amount of change, the velocity of change and the volume of change. So there is a lot to get to and a lot to talk about. I am going to jump into it.

Before I do that, I want to say thank you to Mark and thank you to all of you for allowing us the opportunity to come here. We appreciate the opportunity to be able to bring you up to speed a little bit on our business and talk a little bit about context, as well as hearing any questions or feedback you may have for us.

The Company is around a little over 37 years old and in tech terms, that is an old company in some respects. In other respects, we are a very young company and we have always been, at our core, a software company and Bill believed in the magic of software and the possibilities of software and we long had this aspiration that he crafted of having a PC on every desk and in every home. And that dream and aspiration mostly has been fulfilled, particularly in mature markets. In emerging markets, it is happening very rapidly.

The transition that we are on right now and the transformation that we are in the middle of is around this idea of becoming a devices and services company. And it doesn't mean we are going to make all the devices. But it does mean the way we monetize, what is important to us changes from a device perspective. It also means that we will make some of the devices that we are getting into some of the devices area. And you saw us launch Surface and Surface Pro. We have long had Xbox and we have long had some mice and keyboard and some other hardware elements. But you saw us take a different stance particularly of late as it relates to devices and where we are going.

And it is a broad range of devices and we want to light up, still having software at the core, great experiences across those devices. And to be able to do that, we believe services is one of the big monetization levels and levers that we will use across consumers and businesses. And we have been hard at work for a long, long time candidly on our services business and we have not -- I wouldn't say we've been out and evangelized and articulated what that story is from a services perspective. But I'm here today, at least from a perspective of the enterprise really ground you in what's going on in the services business at Microsoft and where are we. Because I think this has been about, I would say, more than seven to eight years in the making

and it is really maturing in a very nice way. And I will talk about that and get into that in a moment.

So we have a very diverse and balanced business. This is not a chart you see from us very often. But it is a chart that I like to use. I like to use for a couple of reasons. One, we are really the only technology company out there seeking end-users and consumers all the way up to the biggest customers and governments in the world. And that is something, as you see this chart here, 53% of our business goes to enterprise, 21% consumer and online and then we have an OEM number, which certainly there is a lot of consumer in that particular segment as well. But that is how we account for it. Then small and medium-sized businesses at 6%.

The other thing you can see here is from a product and services perspective and anytime I talk about this, it blows people away. This chart used to look, a long, long time ago, it was predominantly Windows, then Office, then everything else. As you can see from this particular chart, Windows is now our third-biggest business and we have a couple of other businesses ahead of Windows and I would say that we are pretty proud of the diversity of this portfolio.

The Office division is not just the Office product. In fact, the last three record holders in our Company in terms of speed to \$1 billion from a product perspective live in this particular segment of the chart -- Office, Exchange, SharePoint, Office 365. There are some very big complementary products in that particular segment.

The server and tools business continues to explode and we continue to grow share. You all see the share numbers. We are growing share, cross-virtualization, hypervisors, systems management, database. Those areas, very, very healthy, now make up 26% of our Company and continue to grow very nicely. Windows is still 25%, entertainment devices at 13% and Bing in the online area at 4%.

And if you look at the geographic basis, we count it -- the way we count it is really North America, the US and Canada together, as well as rest of world. And I would tell you that this chart continues to change and will continue to be more balanced from a global perspective. But the business is very, very balanced and diverse. We operate in 191 countries around the world and we have over 1.5 billion people that use our products every day. So it is a very global company from that perspective. But whether you slice it on customers, products and services or geographically, we believe we have a very balanced business, which positions us well both in good times and tough times.

Now if I would have been here at this conference a year ago on this day, I would've said, ladies and gentlemen, we are right on the eve of the largest single innovation plan portfolio rollout re-imagination in the history of our Company. We basically are about to launch every single product solution and service in our portfolio in a 12-month window.

I stand here today to tell you we did that. And it feels really, really good. And so we launched and landed in market an unprecedented wave of innovation this past 12 months and something that we are going to continue to build on for the years to come. And it has been very, very foundational for us as an organization.

Now when you think about the opportunity we have in the marketplace, we really see four market-driven trends that I want to talk about and then I want to talk about how we are answering those. And my specific pivot today will be around how we are answering those in our commercial business, particularly with the enterprise and business to business -- cloud, social, mobility and Big Data. There is no secrets there; there is no surprises there. Those are very, very popular business themes that customers are all seeking answers to, that our partner ecosystem is also seeking an answer to and that is what we have been hard at work on as it relates to really ginning up our business and our go-to-market to take advantage of those.

Let me jump into the cloud first. When you look at the Microsoft cloud, I think the first thing you have to do is you have to have context that we have been in the cloud a long time and we have been in the cloud specifically around consumer services for a long time. And if you look at some of the momentum we have today with 400 million plus people using Outlook.com, formerly named Hotmail, 46 million people subscribing to Xbox LIVE, 460 million MSN customers that use the product on a regular basis. Skype has over 300 million active users that average 100 minutes a month. And now we feel one-third of all long-distance traffic in the world, run internationally, runs through this particular network.

SkyDrive, a relatively new and younger cloud service for us, now has over 250 million users growing very, very rapidly. The strength that we have in these consumer cloud services are serving us extremely well in our commercial cloud service. And that is what I am going to pivot to. If you looked at our commercial cloud service business, the fastest-growing product in the history of Microsoft to \$1 billion, first was Windows; second was Office; third came SharePoint. I will talk about SharePoint in a moment. But this year that we are in, Office 365 became the fastest-growing product in the history of Microsoft to \$1 billion. We are growing our seats 5 times what we were year-over-year and this is a business that is exploding and accelerating across all segments and it is one that we feel very, very good about.

We have also been very active and hard at work in signing up some of the most important and sophisticated customers around the world and that is government and we have got a lot of government momentum, including here in the US. But going outside the US into Canada, India, Australia, the UK, France, Germany, Switzerland, Mexico. We have got some very big lighthouse wins that we are winning in government in taking that to business in a very strategic way.

We feel like when you see our cloud solutions that we have got the most enterprise-grade and enterprise-credible cloud out there specifically around productivity. And 50% of the Fortune 500 are already actively using our platform and infrastructure as a service with Azure. So we have got some real momentum that is manifesting itself

into real numbers in the business cloud space and it is one that again we feel pretty good about.

So let me take you through some detail here about what are you doing in the business cloud services, what do you offer the enterprise customer, what are they buying because I think this is really important for you to have context around. We have three distinct types of cloud. We have a private cloud environment and that includes hosted, hosted by a partner and it also includes customer-hosted. So we have a great private cloud environment. We have a public cloud environment with our own cloud and specifically Windows Azure where we run the majority of everything we have in our public cloud on Azure and then we have probably the most popular cloud that we offer is the hybrid cloud. It makes a very unique story about our cloud situation and other people. We are not trying to push people to our cloud; we are trying to build the cloud on customer terms. We take customers to the cloud at their pace. And so we offer both behind the firewall and outside the firewall cloud environments.

And when you think about it, let me talk about private cloud for a moment because this is an area again that has really changed over the last three years. We got a little bit of a late start as it relates to virtualization. We are now in a situation where we are (inaudible) very, very strong market share, we are growing every quarter and the dominant guy is losing every quarter as it relates to virtualization. And the game all changed when we launched Windows Server 2012. When we put Windows Server 2012 in market, we have a superior piece of technology all across the technology measurements and metrics that people check. And we are a third the price of the other guy. So the share momentum that we have in this private cloud space is all driven off of a better product and a better price.

When you get a better product and a better price, I tell our own team you better grow share. And that is precisely what we have been doing quarter after quarter after quarter in this particular space and we are growing at twice the rate of the other guy. And as I said, every quarter, as the share numbers come out, we go up, they go down. And that is something that again we like to see from a market share perspective.

When you look at the public cloud environment, you have to think about it in terms of three different distinct types of services that we offer. One is productivity and collaboration. I talked about the success of Office 365, Yammer, Skype, SharePoint, Lync and Exchange also fall in that particular space. So we have got a unified communications cloud, a collaboration cloud, a productivity cloud and the ability to host those services publicly or privately for people as they so choose.

In the business solution area, on our dynamics platform, again, we have both on-premise, as well as CRM online and ERP online, something we are very excited about for our dynamics portfolio.

In the infrastructure and platform as a service, it is all about Azure, Windows Azure and SQL Azure. And we started with a really forward-looking transformational approach as it relates to platform as a service. We really stepped out there and took that platform as a service head on and delivered that with Azure. Then we came back recently and added our infrastructure as a service. So the most forward-looking of all of the clouds that we have is Azure from a platform as a service perspective. And we have some very big customer wins and important customer wins in that space that we are also very proud of.

Now one of the strategic advantages we have in our portfolio is the ability to have common identity, the virtualization, common management, as well as a common development environment. If a customer has Active Directory and System Center completely deployed, we have the ability to take them to the cloud whenever they so choose and the ability to have that done where they can have a single sign-on, sign in and they don't care whether the data is hosted in the public cloud, the private cloud or the hybrid cloud, they have unique provisioning and identity management with our platform and with our solutions.

And think about it. The majority of our customers have Active Directory and System Center. So we have a really powerful flywheel, if you will, to continue to gain momentum in the enterprise cloud space. And we think we are very well-positioned.

This is not a three-year roadmap. This is what I am selling today in markets. This is what is driving our enterprise business in a big way. The Microsoft enterprise-grade cloud, we have spent a long time working very hard on making sure that we really put the investments in building this cloud out the right way. We have got globally redundant data centers in all the important geographic theaters around the world. We have both secondaries and primaries. We have got massive networks built to work on latency in places like Australia and South Africa and other hard-to-get to places. We have got a whole bunch of advancing compliance and regulatory initiatives underway.

This is one of the hardest areas because the compliance and regulatory environment from a cloud service perspective changes very, very rapidly and it is different by geography around the world. Even within Europe, yes, they have the EU model cloud. But even within Europe, the different countries have different requirements as it relates to data sovereignty, data protection, data privacy and what we do with the cloud.

One of the things I am most proud of here is we just launched last week a cloud in China. We have the first commercial and enterprise-grade cloud. We have a partner there in China that we just launched and kicked off last week. And we are very excited about the potential in China for a lot of reasons. One, for monetization reasons. There is no piracy in the cloud. The cloud is a beautiful thing from that perspective.

The other thing that the cloud does is it allows people to stay current. One of our biggest problems is a lot of people have our product solutions and services. But they are running old versions. In the cloud, we take care of that for them.

The third thing the cloud does is when you sell in the cloud, you now have someone's mission-critical environment that you are taking care of and looking after. So it gives you -- what we have seen is it gives you a unique perspective to be able to grow your share of wallet with that customer. Microsoft still has a relatively low share of wallet on enterprise spend because we are software, not hardware, in the enterprise. And when you think about our potential to grow that share of wallet, we see it coming from the reliance on cloud services. Getting people on our cloud services is great for us on being able to keep them current, keep them patched, allow them to experience the latest and greatest functionality, all the different things that go along with that.

I will talk about security in a moment. But it is an important area in growing of importance for everybody globally and those companies not working on it should be. That is how strongly we feel about it. And we know that the cloud saves people money. The ability not to have to procure data center space, run power, run fiber, get gear, bring it up, all those things are now put on somebody who has scale. And certainly from a Microsoft data center perspective, we have a lot of scale.

Now I get asked a lot about security and again, I am somebody who has been in IT and around IT for a very long time. One of the things that I like to do each year is I look at this report, it's a third-party report, it is put out by a company called Secunia and you can look it up online. But one of the unique things about this report. And I study it every year, is it tracks the number of vulnerabilities that are out in the marketplace from the top software and technology firms.

This past year, the non-Microsoft vulnerabilities accounted for 86% of the vulnerabilities in the most popular programs. When you look at that, that is a chart that has really changed over the year and one of the things that I think is pretty cool when you think about it is this idea of having the top companies and their vulnerabilities. So if you looked this past year, in the past 12 months, which company would you say had the most vulnerability? Well it was Google. Who had the second most? It is Apple. Who had the third most? It is Adobe. Then it is Mozilla and then it is Microsoft.

This is a chart, ladies and gentlemen. that is quite profound and interesting on a couple of dimensions. One, our global footprint relative to the other four guys is significantly larger if you added all of them up by a multiple. So we have a lot bigger market share and a lot more potential chance for exposure than the other guys. The reality is we had fewer vulnerabilities than the other guys.

Now this is no accident or mistake. We have been investing in security and the importance of trustworthy computing for many, many years, more than 13 years. As an organization, we have been investing in that initiative. A part of that you could say

is out of necessity. Whatever it is, we have got a big head start in this particular space and we only see the cyber security areas continuing to escalate, continuing to elevate as it relates to the importance of what is happening out there.

We are not satisfied or happy with 131 vulnerabilities over the last 12 months. Precisely the opposite. We want to drive that number down further and further and further. But we are really the only company out there doing that. Everybody else is going the other way and we are continuing to go the other way. And we are going to continue to go in opposite directions on that and invest in what we think is a very, very important area.

Now the other area about the cloud that we get asked a lot about is what about Office, what is going to happen to Office as it relates to this cloud and where things go there. Well the new release of Office is a cloud service. It has got the full Office apps available in the cloud and off-line. It is always up-to-date as it relates to the cloud with features and what we are able to drive there from a product and product performance standpoint. And it allows you to sign in to any device and your documents, your spreadsheets, your Word documents, your OneNote can roam with you regardless of what device you use. It is per user now across Windows, tablets, PCs and Macs and that ability to see the side-by-side installation of the old version and the new version we think has been very, very helpful in helping this product get embraced. And so we are pretty excited about this new Office and where we have gone as a cloud service and it has been very well-received by our customers.

Let me talk about the next big megatrend that we are embracing and it is social. And it is specifically enterprise social. Now you know the success of SharePoint. It was the fastest-growing product in the history of the Company to \$1 billion after Office. And we have had wild success with SharePoint the product. It became the Facebook, if you will, of the enterprise. In fact, over 85% of the companies in the Fortune 500 use it and more than that use it in the Fortune 2,000. When you look at where we have taken that particular platform, we have broadened it and this new release of SharePoint is an exciting one and I will touch on that in a moment.

We bought a company a while back called Yammer, which has very good penetration, again, allowing for collaboration, group feeds and technology and information sharing in the Yammer product and we like where we are -- we are pretty well-positioned in this space. And if you look at what has happened, we are seeing great increases in the Yammer product and portfolio and those continue to sustain and accelerate as we integrate that product into SharePoint and into our collaboration and productivity story.

We have got strong penetration with our unified communications solution called Lync. Yesterday, we announced something very strategic in this space. We announced Lync to Skype integration. So the ability to do presence, sharing, voice calls from Lync to Skype, Skype to Lync, B2C, C2B communication exists now on the platform. Very, very strategic for us again from a social and collaboration perspective.



When you think about it, this enterprise social space is a hot space. It was really borne of the idea that most enterprises want to get people to work better together behind the firewall and that is why SharePoint was so wildly successful. The new version, the contemporary version of enterprise social says, hey, that is important. But I also want to make sure I collaborate and work well outside the firewall. I want to extend deeper into my customers and into my partners.

The new release of SharePoint does something very unique. Within that release of SharePoint that we just launched, we now have hooks built in for Facebook integration, Twitter, LinkedIn, the ability for a company to take those external data feeds, run those through the system using our CRM product, using all of our collaboration tools, SharePoint, the new release of Office, the new release of Exchange and what we do with Lync and Skype and bring a whole new powerful experience on enterprise social to the table.

This is a hot area. This is an area that most every company will give you a seat at the table to understand how can you help me get in front of this social phenomenon that is happening to companies. Everybody wants to connect outside the firewall now in addition to inside the firewall. And we believe with these latest and greatest solutions and the integration of Yammer, we have got a very, very uniquely positioned product to take advantage of that. So I look for this business to be of growing importance long term and we are going to drive that very hard in our commercial business.

Next, let me talk about mobility. There is no secret it is a mobile first world that we are moving to around. And we have been hard at work on the mobile story. We've still got a lot of work to do to continue to grow our mobile business. But one of the things we are proud of is we are making traction, we are making traction in the mobile space. It starts with the quality of the OS.

For the first time in external surveys. And this one was done by PC Magazine recently, we are now ranking ahead of iOS. We have been ahead of Android for a while. We are now ahead of iOS as it relates to customer satisfaction and readers' choice. That has never happened on our platform before. It is happening now. And so we feel very good about Windows Phone 8 and what we have been able to do there.

As a result of that, we are seeing some market pickup. We are growing at 5 times the smartphone market rate right now worldwide and globally, 5 times. And we have become the number three phone OS. We still have a long, long way to go in this space. But we are seeing positive momentum, positive traction. We have got countries like Mexico, Italy, Poland, Spain and others, Portugal, where we have really big share in these countries with the phone OS and we are going to continue to bring that out more and more globally and again, continue to grow share in this space.

When you think about the mobile ecosystem for Microsoft though, it is broader than just phone. The new Windows 8 platform gives us the opportunity with our technology to really explode the mobile ecosystem into new form factors, into detachables, into wearables, into convertibles, into two-and-one, into all kinds of tablets, slates, embedded devices, point-of-sale registers, ATM machines, kiosks. We are bringing this particular OS and what we are able to do uniquely across this entire ecosystem and spectrum.

And we have got some pretty unique technologies like SmartGlass, which now offer the ability for you to watch a movie on any device on your phone, pause it, resume it on your tablet or your slate from the same location, pause it and resume it and finish watching it from the same location on your TV, all with consistent motions across our platform. And that is something again -- this mobile ecosystem is something that we are nurturing to continue to grow. We see it as a very, very important area for us to continue to invest in.

Now one area that we continue to work on is this area of mobile and office and productivity across the mobile devices. We not only have the best productivity experience on the Windows mobile platform. We now offer it available through Web apps on iOS and Android as well. So the ability for them to get those Web apps on those platforms is something that we are pretty excited about again with this new release of Office. We offer the same fidelity, viewing and editing capabilities in the cloud across all platforms and it is something that we are going to continue to nurture as well.

The second area that we are really helping enterprises is in the area of management. Every company is struggling with how do I get my arms around this, bring your own device to work, all these new different devices showing up in the workplace. The new release of System Center not only manages our devices, it also helps you manage the other guys' devices. We now manage iOS and Android devices as well on our systems management platform. Again, this is something that enterprises are really seeking and looking for us to help them drive and explode that particular trend.

Another trend is Big Data. No secret with the cloud, with mobile devices and smart devices, the proliferation of social, there is a big, big demand on Big Data, Big Data, BI analytics. What is the Microsoft position in this particular space? Well let me give you a couple of notes that you may not know about our platform. Our SQL premium offering is growing at over 20% and that is a consistent growth rate that we are continuing to drive on that platform. We lead benchmarks like TPC-E now. We are being able to get energy and efficiency and effectiveness from a database. We are at the top of those TPC-E benchmarks. SQL is growing double digit all up from a revenue growth perspective in the last quarter and that has been a consistent trend for us. Excel certainly is the most widely used BI tool and will continue to be. We don't see that changing in the foreseeable future. And SQL Server is now the most widely deployed database in the world by far.

So when you look at all the databases out there, the number one deployed database in the world is now SQL Server. We have been growing share in that SQL business quarter after quarter after quarter. Why? Because we have a really good product and we have a better value proposition. When you bring those two things to the market, you can grow market share and that is precisely what we have been doing in this enterprise space.

Now when you think about Big Data, what is the Microsoft approach and it is pretty simple? We have this idea that there is these massive amounts of data that is being created. We want to help companies take that data, turn it into information, take the information, turn it into knowledge. And more importantly turn the knowledge and turn it into decisions. And it is all about having access and being able to drive that across devices, being able to have powerful engaging tools that people are familiar with and being able to connect across your entire platform, across structured and unstructured data is a very important part of Big Data and analytics.

Now when you think about our offerings specifically, we have a couple core things that we drive. Number one, we want to drive insights through this integration with Excel and Hadoop. We have made a big bet on Hadoop and being able to be completely aligned with Apache gives us the unique position in this area of BI and Big Data and analytics. And we now have Hadoop on Windows from Hortonworks. We also have the ability to manage and spin up Hadoop clusters on Windows Azure now and the ability to make that seamless and easy for customers is something we have worked hard on this past year.

We have a SQL Server 2012 parallel data warehouse SKU and we also have an HDInsight Server SKU. So we have got a couple of SKUs for private cloud environments or behind the firewall environments that we can really spin up some nice, great, very friendly opportunities for people to really embrace Big Data and analytics in a very unobtrusive way. Then certainly we have got great tools wrapped around Excel and SQL Server with HDInsight service. And the ability to either put that on Azure or bring those services to the behind the firewall private cloud environment.

So we have got a really exciting Big Data story again all built around value and effectiveness. And that is our strategy for continuing to grow share in that space. When we come in and compete with the other guys, it is really about here is the value we can bring you and here is what we cost and our value proposition and model is such that it is very, very compelling for enterprises to continue to look at Microsoft for the enterprise in a different unique way. And so we're working hard on strengthening this position, our position in the enterprise.

And one of the things that I saw recently, which I thought was pretty cool, was there was a survey that was put out by a third party recently. And the question was which IT megavendor will be critical and indispensable to your organization's IT environment in the future. I like that word indispensable. It's an interesting word.

If you look at it, 2012 is really that, what I would say, green or (fuqua) color. 2013 is the dark blue. You can kind of see what happens there with some of the technology companies and where they are going. When you go through this list and you look at it, this is what enterprise customers are saying independently about the prospects of Microsoft in the enterprise. 45% in 2013 thought we would be indispensable to their organization's IT environment going forward. And that is not a secret. That is not a surprise. We have been hard at work on building and nurturing this enterprise business for a long, long time. And that is why that share -- those share opportunities continue to resonate and show that.

Now the cloud momentum we have is quite substantial, ladies and gentlemen. We have all -- I mean big companies around the world have had global rollouts of our cloud services and have been very happy on our cloud services. The acceleration and momentum we have in this space is one we are going to continue to see, we continue to expect to see and again, we are right in the midst of transforming our Company around that.

Now let me talk about Windows 8. Windows 8 was a very, very bold piece of innovation that we did this past year. And we could have done a lot of different things with Windows 8. We could've made our phone a big tablet. We probably could have done that and got it in market sooner than we did. The reality is we chose a different point of view. We chose the point of view that says we need to reinvent an ecosystem. And I just want to highlight some of these changes that went into Windows 8 as a reminder for you.

Number one, it is the very first time in the history of operating systems that a touch first and touch-centric UI has been created. We did that with Windows 8. We landed a whole new client-side programming and app model because we used to be completely limited to dotnet. Now you can develop in the language of your choice on Windows, Java, C++, CSharp and dotnet as long as you use HTML5 and our browser.

We also said let's roll out a new app store and we did that. We did it in 135 countries. We also said let's add support for ARM and system-on-a-chip, as well as Intel and x86. We did that. No other OS in the history runs across both. We are the only one. We also said let's design and sell first-party hardware. We did that with Surface and Surface Pro. We anchored on the Microsoft account. So now when you sign into a Windows product after you get to Windows 8, you have one sign-on and your background, your images, your digital memory, your cloud, your data, your security, your preferences, your spreadsheet, your documents, your pictures follow you regardless of the device.

We also said let's redefine and transform our entire OEM ecosystem and our silicon ecosystem at the same time around touch. And that transformation is happening and it is happening -- we would like it to happen faster. But it is happening in real time. We also said let's inspire a whole new level of devices and creativity with the platform. That is just now beginning. These new form factors for two-in-ones, for convertibles, for detachables, where it is going from an embedded standpoint is just

now exploding. The design wins continue to come in and go up in this particular area.

And we have said, you know what, let's listen and make sure that we take feedback and we have done that. We have been analyzing the telemetry of Windows 8 and Windows 8.1, which will come out and there will be a big preview on that at the end of June, has a lot of the learnings that we have learned. And Windows 8.1 is not a service pack, ladies and gentlemen; it is a new release loaded with new functionality, new enablement because we have a foundation and a different point of view. So we have all of the safety, all of the security that enterprises love built into the OS. In addition to, for the very first time in our history, we now have a consistent user experience across the phone, the tablet, the slate, the laptop, the desktop and the TV with Xbox TV.

And so the ability to bring that live tile UI is something we took a long-term approach on and it is one that we feel very good about. But make no mistake, when you reinvent an entire. And I didn't say reinvigorate, I said reinvent an entire ecosystem, it is going to take some traction. It is going to take some determination, persistence and time to be able to drive that. And that is what we are working on.

Now the thing that I would share with you is that at Microsoft. And I have been there -- it will be eight years in August -- and I have been really hard at work on the execution mechanisms of the Company, we have been consistently working on our predictability both from an innovation standpoint and from an execution standpoint and we have made tremendous progress on that. If you look at our numbers and you look at our share growth and where we have done, that track record speaks for itself and it is one that we are very proud of. We have a foundation where execution is strategic in Microsoft today. We have a foundation where innovation has been strategic and will continue to be going forward.

One of the things that I think is really profound is if you look at our history and where we are as a company, this innovation that we had -- the last 12 months was a record amount of innovation. The next 12 months, ladies and gentlemen. is even bigger. We are again doubling down on innovation. There is more products, more solutions, more services coming to market in the next 12 months, stuff I didn't even get to today, than we had in the last 12 months. So that innovation machine, that innovation execution is just ramping up into this devices and services world in a big, big way and we feel very, very good about that position.

So with that, I think I would like to conclude. But let me conclude with a couple of remarks and then we will open it up for some questions. Number one, we are in the midst of this journey to devices and services. We don't think we are in the last chapter; we are not in the first chapter either. We have been on this journey a while. But we still have a lot of work to do. We have got a lot of work to do in devices, we have got a lot of work to do in services. But we are a company that is building that out in a thoughtful way as we reinvent the Company around the strength of the enterprise, the value that we get from consumer and bringing the best of both those worlds together to get the synergies is what makes Microsoft very unique.

With that, I would like to thank you again for the time and the opportunity and we will open it up for questions.

## Questions And Answers

### **Q - Mark Moerdler** {BIO 16855032 <GO>}

So Kevin, since we have only a couple minutes, I will give you a couple of quick questions. I'm going to fire them at you and see if we can get through them. So Adobe is making the transition to subscription. They started first via incenting and now they are no longer going to be selling a licensed version. This is the last version. Does Microsoft see that they can drive the move to subscription within Office simply by a functional incentive or do you have to do more?

### **A - Kevin Turner** {BIO 5265779 <GO>}

I think we are going to continue to offer both. We see the opportunity for us to continue to drive the Office product the standard way we always have. But there is a bigger and bigger uptake of the services side. So I think you will see us continue to do both.

### **Q - Mark Moerdler** {BIO 16855032 <GO>}

As you know, I have been bullish on the Office 365 opportunity. As head of sales for Microsoft, can you talk about the opportunity from the clients' point of view?

### **A - Kevin Turner** {BIO 5265779 <GO>}

You bet. I think it gives clients a unique opportunity to save money because it allows us to take a lot of the commodity IT and the commodity overhead from them and pull it into our environment. It allows us to keep them current. It allows us to ensure that we don't have any piracy and that they are always licensed correct. It allows us to allow clients to take advantage of the latest and greatest technology and that is what I think the cloud service offers.

### **Q - Mark Moerdler** {BIO 16855032 <GO>}

How do you keep the client churn down?

### **A - Kevin Turner** {BIO 5265779 <GO>}

You have got to earn their trust and do a great job for them because they have so many choices today, the customers vote by what they buy and there is no -- there are consortiums out there like the Research Board. We have gone up dramatically in our customer satisfaction levels, particularly in enterprises and accounts, by really deeply getting in there and earning the right to be their trusted advisor and that is what we have got to continue to do.

### **Q - Mark Moerdler** {BIO 16855032 <GO>}

How much do you think the approaches you have taken are going to affect bringing down piracy in emerging markets?

**A - Kevin Turner** {BIO 5265779 <GO>}

Well the quicker we ramp to cloud services, the better we will be able to get in front of a lot of the piracy that exists in those markets. We also have other initiatives going on where we are working with governments on the importance of IP and a lot of those strategic initiatives and we are seeing some progress. But make no mistake, that is an uphill climb in emerging markets on piracy reduction.

**Q - Mark Moerdler** {BIO 16855032 <GO>}

Windows 8 has had a lukewarm reception. What is your perspective on the performance? What can you do to stimulate that further?

**A - Kevin Turner** {BIO 5265779 <GO>}

I think we have got to keep listening to customers. I think 8.1 is a big step forward for us. I think the ecosystem has got to hurry. We need more touch devices. Where we have a touch device in market, the customer satisfaction on that device and that operating system is the highest of any OS we have ever released. Where we have a non-touch device, it is not.

So the reality is the ecosystem has got to reinvent itself; that includes Intel. We need Haswell, we need Braswell, all their future chip architecture helps us and we have got to have great form factors and great devices coming from the OEMs.

**Q - Mark Moerdler** {BIO 16855032 <GO>}

And do you see ARM part of that plan going forward? (Multiple speakers).

**A - Kevin Turner** {BIO 5265779 <GO>}

We are going to strategically continue to look and invest in ARM. We like the ARM architecture for the battery life, for the thinness of the device. It allows us to continue to broaden -- as the phone becomes more popular, it helps us broaden our platform.

**Q - Mark Moerdler** {BIO 16855032 <GO>}

Focus 365 and the cloud has been discussed for years. Why is now the time?

**A - Kevin Turner** {BIO 5265779 <GO>}

Momentum and scale. I mean we have Coca-Cola worldwide, McDonald's worldwide. We have big, big companies that have gone with us that are running the service at scale and it is great to see that service mature, it is great to see the value that we can bring and it lights up a whole new productivity experience.

When I get somebody on our Office 365. I can take them to that enterprise social space or that unified communication space with Lync and Skype very seamlessly and

elegantly and I couldn't do that before.

**Q - Mark Moerdler** {BIO 16855032 <GO>}

What are your expectations for Xbox One?

**A - Kevin Turner** {BIO 5265779 <GO>}

Excited about Xbox One. It is a whole new way and level of entertainment for us, particularly in the living room. We are excited about the content deals that we have struck. We are excited about the opportunities we have to continue to really take that living room entertainment experience across mobile, across the devices and take that to a completely new level for Microsoft.

**Q - Mark Moerdler** {BIO 16855032 <GO>}

Two more and then I think we are going to get pushed off the table here. To focus on Azure, how differentiated is the offering of Azure today from the competition? Why do you think you are going to win there?

**A - Kevin Turner** {BIO 5265779 <GO>}

Well what we started with was platform as a service. We didn't start with infrastructure as a service. Infrastructure as a service is a real commodity business. It is an important area. But it is not where we started.

We started at the platform level, which is something the other guys don't have and so there is a strategic advantage to having a platform as a service that complements the infrastructure as a service. That is quite differentiated. We have common management, we have common tools, we have a common development environment. We have got a lot of reasons and assets on why we will win in that space. But the reality is we have a different point of view in that space than the other guys and while the commodity infrastructure as a service is important, it is not the thing that we are building our business around.

**Q - Mark Moerdler** {BIO 16855032 <GO>}

Beautiful. My last one, in your presentation, you noted Big Data is a trend that Microsoft is well-positioned for. How do you compete against Open Source in that world?

**A - Kevin Turner** {BIO 5265779 <GO>}

Well we embraced Hadoop. So we embraced Hadoop. We run those Hadoop clusters on our platform and we think that that is a strategic way for us to embrace the Open Source element plus provide our unique intellectual property around it. And I think that again is the Microsoft of today that maybe wasn't the Microsoft 10 or 15 years ago. But today is a new day. We have embraced devices and services and Big Data.

**Q - Mark Moerdler** {BIO 16855032 <GO>}



I think I can squeeze one more in quickly. The Microsoft Surface has had limited distribution to date. We understand that corporate clients are not able yet to buy through the traditional channels. Where should we think about this going forward?

**A - Kevin Turner** {BIO 5265779 <GO>}

Stay tuned. It is coming to more and more retail locations. It is coming to more and more channels and we are building our supply chain. It is a whole new area for us as a company and it is one that we are being thoughtful on. But we are bringing it out strategically and it will continue to go broader and broader.

**Q - Mark Moerdler** {BIO 16855032 <GO>}

Excellent. I very much appreciate it. Thank you for joining us.

**A - Kevin Turner** {BIO 5265779 <GO>}

Thanks for having me on.

**Q - Mark Moerdler** {BIO 16855032 <GO>}

Thank you.

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