

# Microsoft Corp Annual Shareholders Meeting

## Company Participants

- Amy E. Hood, Executive VP & CFO
- Bradford L. Smith, President & Chief Legal Officer
- Dev Stahlkopf, Secretary
- John Wendell Thompson, Independent Chairman
- Michael Spencer, General Manager of IR
- Satya Nadella, CEO & Director

## Other Participants

- Mari Schwartzer, Director of Shareholder Activism and Engagement, NorthStar Asset Management, Inc.
- Natasha L. Lamb, Managing Partner and MD, Arjuna Capital, LLC

## Presentation

### Operator

Today's presentation may contain forward-looking statements, which are any predictions, projections or other statements about future events based on current expectations and assumptions. Actual results may differ materially from these forward-looking statements because of a variety of risks and uncertainties about our business, which are discussed today or described in our filings with the Securities and Exchange Commission, including our Forms 10-K and 10-Q. We do not undertake any duty to update forward-looking statements.

(presentation)

### John Wendell Thompson {BIO 15832126 <GO>}

Welcome. I'm John Thompson, Chair of the Board of Microsoft. This is the first year we're holding our annual meeting in an all-virtual format. We strive to make the meeting as inclusive as possible by offering our shareholders the same opportunities to participate as provided at the in-person portion of our past meetings.

In addition to the live webcast of the Annual Shareholder Meeting, shareholders have the option to view the meeting via Microsoft Teams on the Investor Relations website. The Team's broadcast will use Microsoft Translator and Azure service that uses cognitive services for real-time translation in several languages. We appreciate your participation today.

I'd like to share with you the presenters for today's meeting. First, I will be joined by Satya Nadella, our Chief Executive Officer; Amy Hood, our Executive Vice President and Chief Financial Officer; Brad Smith, our President and Chief Legal Officer; and Dev Stallworth -- I'm sorry, Dev Stahlkopf, our Corporate Vice President and General Manager and Corporate Secretary. Dev will address the business portion of the meeting. Amy by -- followed by Amy, who will address the financial results. And finally, Satya will reflect on our progress over the past year and our opportunities that lie ahead. Following his remarks, we'll have an opportunity for Q&A. But first, let's attend to a few formalities.

If you're a shareholder and wish to ask a question, you can submit your question at any time on the virtual meeting website. We believe and will address any and all questions that you have during the session. We will post questions and answers, if applicable, to Microsoft's business page of the Investor Relations website. The polls are open and will close in a few moments after the presentation of our business matters.

The Board of Directors has appointed Broadridge Financial Services as -- to serve as our Inspector of elections. A representative of Broadridge is present and will be participating as the inspector.

This past year offered another record year for financial performance. And Microsoft delivered strong results for our shareholders, including a return of \$30.9 billion in the form of purchases -- repurchases of shares and dividends. We celebrate these successes and look forward to more opportunities ahead as we remain committed to the long-term interest of Microsoft's shareholders.

As part of our ongoing commitment to creating a balanced and effective Board with diverse viewpoints and deep industry expertise, we regularly add directors to infuse new ideas and fresh perspective to the boardroom. This year's Board nominees represent a wide range of backgrounds and experiences. We believe our diversity of experience, perspectives and skills contribute to the Board's effectiveness in managing risk and providing guidance to management that positions Microsoft for long-term success in a dynamically changing business environment.

Of our 13 Board nominees, 11 are independent, which includes our Board chair and all committee members. We believe in the value of listening to our shareholders. And over the past several years, feedback from shareholders has helped the Board evolve Microsoft's executive compensation program and further enhance shareholder rights. Shareholder feedback also helps us provide our -- prioritize our efforts to enhance our transparency on workplace issues and other topics.

As we look to the year ahead, we remain excited about the opportunities Microsoft has in terms of its business, shareholder value creation and positive impact at a global scale. Thank you for your trust, the trust you place in us. And the opportunity to serve us and the company. Now I'd like to introduce the nominees for the Board of Directors who are here with us today.

First of all, Bill Gates, our co-Founder; Reid Hoffman, Co-Founder of LinkedIn; Hugh Johnson, Chair of the Audit Committee; Teri List-Stoll, a member of the Audit Committee and the Governance and Nominating Committee; Sandy Peterson, Chair of the Compensation Committee and a member of the Governance and Nominating Committee; Penny Pritzker, Chair of the Regulatory and Public Policy Committee; Charlie Scharf, a member of the Compensation Committee and the Governance and Nominating Committee; John Stanton, a member of the Audit Committee and the Regulatory and Public Policy Committee; Arne Sorenson, who is joining us via Microsoft Teams. And a member of the Audit Committee; Padma Warrior, a member of our Compensation Committee; and we have a new nominee on the Board, Emma Walmsley.

Following the election this morning, the Board will consider Emma's committee appointments. And lastly, Chuck Noski and Helmut Panke are not seeking reelection. I personally want to thank Chuck and Helmut, as does the full Board, for the many contributions they made over the past 16 years. Each have brought tremendous wisdom and judgment to our Board, including in the vital roles Chuck played as the Chair of the Audit Committee. And Helmut has played as the Chair of the Regulatory and Public Policy Committee.

To better understand our Board's unique skills and perspectives, I encourage our shareholders to view the latest Director Video Series segment with Hugh Johnson. The complete series will be available for review on our Investor Relations website.

Also here with us today are Mike Thompson and Chris Weber representing Deloitte & Touche, our independent auditors.

And now I'd like to call the 2019 Annual Shareholder Meeting to order. I'll be serving as the Chair of the meeting and Dev will be serving as the Secretary. As Chair of the meeting, I've adopted an agenda that will govern the order of the business and the rules of conduct for the meeting. Copies of the agenda and the rules are available on the virtual meeting site, as well as the annual meeting page in the Investor Relations website. The rules of conduct also govern the Q&A session. Dev will now report the notice of the meeting, the proxies received and present the matters to be voted on. Dev?

**Dev Stahlkopf** {BIO 20589252 <GO>}

Thanks, John. Welcome, everyone. I'll walk us through the short formal meeting. Then, as John said, you'll hear from Amy and Satya, followed by a Q&A session.

The Notice of the Meeting and Internet availability of the proxy materials were mailed by Broadridge Corporation beginning October 22, 2019. And it went to all shareholders of record as of October 8, 2019. As a result, this meeting is being held pursuant to proper notice. We have received proxies representing more than 86% of the roughly 7.6 billion shares of the company's stock that are eligible to vote. This means we have a quorum present. And the meeting is duly constituted and will proceed.

Today, we have 3 management proposals and 2 shareholder proposals for you to consider. They were all described in the proxy statement for today's meeting.

The first item is the election of directors. The following 13 people have been properly nominated by the Board: Bill Gates; Reid Hoffman; Hugh Johnston, Teri List-Stoll, Satya Nadella, Sandy Peterson, Penny Pritzker, Charlie Scharf, Arne Sorenson, John Stanton, John Thompson, Emma Wamsley and Padma Warrior. The Board recommends a vote for each of them.

The second item is an advisory vote to approve executive compensation, as disclosed in the company's proxy statement. The Board recommends a vote for this proposal.

The third item, we ask that you ratify selection of the company's independent auditor, Deloitte & Touche, for fiscal year 2020. The Board recommends a vote for that proposal.

The fourth item is a shareholder proposal requesting a report on employee representation on the Board of Directors. The shareholder proposal and its supporting statement are set forth in the proxy statement. The proposal has been submitted by NorthStar Asset Management. I recognize Mari Schwartzer, Director of Shareholder Activism and Engagement with NorthStar Asset Management, for a period of 3 minutes. Operator, please open Mari's line.

## **Operator**

Mari, your line is now open.

## **Mari Schwartzer {BIO 20356237 <GO>}**

Thank you. Good morning. My name is Mari Schwartzer of NorthStar Asset Management, a socially responsible investment firm based in Boston and the beneficial owner of 75,575 shares of Microsoft's common stock. Today, I'm presenting shareholder Proposal #1.

For the past several years, Microsoft has repeatedly come under fire from employees who have spoken out against projects that they believe go against the values of our company. Employees have protested the company's work with ICE amid a national outcry over the separation of immigrant children from families. But our company declines any connections to ICE. Employees have demanded that Microsoft halt the military HoloLens project, which an employee letter described as crossing the line into weapons development. But our CEO confirmed continuation of the project.

A year ago, employees urged Microsoft not to bid on the Department of Defense JEDI project, a cloud computing contract that is described by many as a war cloud, yet our company successfully pursued it. Not only that. But employees have also alleged gender discrimination and sexual harassment within our company, including

a pending class-action lawsuit potentially of thousands of female engineering and IT professionals claiming pervasive practices of discrimination.

As long-time investors in Microsoft, we fear that our company has not responded sufficiently to these concerns from employees, crucial stakeholders in our company. Continually ignoring employee concerns is a long-term risk to our company and shareholder value. The potential loss of key leaders, engineers and IT professionals reduces our company's strength in our dynamic and competitive industry.

Our employees are the driving force of our company. But if their trust in management falters, Microsoft may suffer.

To remedy this, we suggest allowing and encouraging representation on the Board by nonmanagement, nonexecutive employees. We believe that employee representation on the Board may provide a key tool to ensure that employees, our most crucial resource, remain fully engaged in the long-term growth of our company and help to ensure operational excellence. We urge shareholders to vote in favor of Shareholder Proposal #1. Thank you.

**Dev Stahlkopf** {BIO 20589252 <GO>}

Thank you, Mari. The Board recommends a vote against the proposal for the reasons stated in the company's proxy statement. We believe that all candidates for the Board of Directors should be evaluated by the same standards and criteria, whether or not they're a company employee. And the Board is already deeply engaged on providing oversight of workplace culture and the employee experience, including receiving direct feedback from employees through anonymous polls.

The fifth and final item is a shareholder proposal requesting a report on gender pay gap. The shareholder proposal and its supporting statement are set forth in the proxy statement. The proposal was submitted by Arjuna Capital, which has a video presentation in support of the proposal. I recognize Natasha Lam, Managing Partner with Arjuna Capital, for a period of 3 minutes.

**Natasha L. Lamb** {BIO 18796096 <GO>}

Good morning. My name is Natasha Lamb. And I move Proposal #2 on behalf of Arjuna Capital, asking for a report on gender and racial pay equity.

Arjuna Capital first engaged Microsoft on pay equity in 2016. Importantly, I would like to acknowledge Microsoft's leadership at the time, when our company took a critical first step by publishing statistically adjusted equal pay for equal work numbers, assessing the pay of men and women performing similar jobs.

Microsoft has since closed the equal pay gap and now reports women earn 100% of the compensation received by men and minorities earn 100% of the compensation received by their white counterparts, yet this statistically adjusted number is only half

the story. The other half is median pay disclosure, which is the specific objective of this proposal.

Median pay is an unadjusted raw measure used by the Organization for Economic Co-operation and Development, the OECD, to assess not only equal pay. But equal opportunity. Women who work full-time in the U.S. make \$0.80 on the dollar versus men on this basis. African-American women make \$0.60 on the dollar. And Latina women make \$0.55. Gaps in median pay is literally the definition of the gender pay gap.

So while adjusted equal pay gaps measure whether women and people of color are being paid commensurate with their peers for the work that they're doing today, median pay gaps measure whether these groups are holding as many high-paying jobs within companies, that is whether there is equal opportunity.

Given the importance of this measure, disclosure of median pay is now mandated in the United Kingdom. For Microsoft's U.K. operations, our company reported a 7.9% hourly median pay gap and a 13% bonus median pay gap. Yet notably, our company has not published median information for its global operations.

Transparent disclosures that tell the whole story of gender and racial pay equity are essential to investors as they create accountability and drive change toward not only equal pay but equal opportunity. That change is in service to a more diverse company and leadership. And therefore, better performance.

Thank you. So much for your time and support of Proposal #2 on gender and racial pay equity.

**Dev Stahlkopf** {BIO 20589252 <GO>}

Thank you, Natasha. We received many questions from shareholders on this proposal and appreciate the interest. However, the Board recommends a vote against the proposal for the reasons stated in the company's proxy statement.

At Microsoft, we care deeply about gender pay equity. While we share the proponent's commitment to the issue, we believe the disclosures and processes they are suggesting would have the company focus on data that's not a useful measure of our direction or success. We believe our current disclosures, programs and initiatives provide significant transparency and create specific internal accountabilities to help the company address gender pay gap concerns.

The discussions of the matters for shareholder consideration is now closed. And the polls are now also closed. I'll share with you the preliminary voting tabulation.

First, all 13 nominees on the ballot to become a director are elected with over 98% of the votes cast. They'll serve until the next Annual Shareholders' Meeting and until their successors are elected and qualified.

Proposal 2, the advisory vote on executive compensation has been approved by more than 76% of votes cast.

Proposal 3, ratification of the company's auditor, Deloitte & Touche, has been approved by over 96% of the votes cast.

The shareholder proposal on employee representation on the Board of Directors was not approved, receiving less than 5% of votes cast.

Finally, the shareholder proposal on gender pay gap was not approved, receiving less than 30% of votes cast. We expect to post the details of the final voting results on all of these matters on our Investor Relations website later today. We'll also report the results in a Form 8-K that will be filed with the Securities and Exchange Commission within 4 business days.

With that, we've completed the formal portion of the meeting and the meeting is now adjourned. Let me hand it over to our Chief Financial Officer, Amy Hood.

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

Thank you, Dev. Hello, everyone. And thank you for joining us today.

2019 was a record year for Microsoft. Revenue grew 14% to over \$125 billion. Operating income grew 23%. And earnings per share grew 22%. We again saw strong execution across all geographies and continued customer demand for our differentiated products and services.

To further enhance our talent and capabilities in strategic growth areas, we completed 19 acquisitions in FY '19. We welcome GitHub, the largest platform for the developer community to Microsoft, enabling us to bring our tools and services to new audiences while enabling GitHub to grow and retain its developer-first ethos.

And we purchased Glint, which brings employee insights alongside LinkedIn's workforce insights to create a powerful solution to help customers attract, retain and develop the best talent.

In gaming, we completed the acquisitions of 5 new studios to bolster our first-party content and fast-growing subscription services. As we continued to invest in M&A and organic growth, we also retained our commitment to capital return, which for fiscal 2019, included a total cash return of \$30.9 billion.

In September, we announced a new \$40 billion buyback authorization as well as an 11% increase in our quarterly dividend. Now let me share a few highlights from the last fiscal year.

Our commercial cloud business grew 43% to surpass more than \$38 billion in revenue. We saw strong growth across 3 key services. Office 365 grew 33%, Azure grew 72%; and Dynamics 365 grew 47%. Importantly, we also delivered on our commitment to make significant improvement in the commercial cloud gross margin percentage, which expanded to 63%, up 5 points year-over-year.

Through the sustained efforts of our engineering, sales and marketing teams, material improvement in our Azure IaaS and PaaS gross margins drove the commercial cloud gross margin expansion.

Our server products and cloud services business reached over \$32 billion and grew 25%, driven by continued customer demand for our trusted and differentiated hybrid solutions. From both the technology and licensing perspective, we are enabling our customers to digitally transform at their own pace.

Now let's turn to progress across our Microsoft 365 offering.

Our Office business again, saw double-digit revenue growth as we reached even more commercial and consumer users by helping customers around the world, regardless of how small or large, be more productive and collaborative. We continued to see healthy commercial and consumer demand for Windows 10, increasing our base of active Windows 10 devices and contributing to growth in our Search business. And in Surface, revenue grew 23% as we innovated across our existing portfolio with our new Surface Pro and Surface laptop devices. And we further expanded our family of category-creating devices with Surface Go, Surface Hub 2 and Surface headphones. In gaming, revenue exceeded \$11 billion. And we saw strong momentum in our Game Pass subscription services as well as a record number of Xbox Live monthly active users, which increased to 65 million with a record number of mobile and PC users.

Now a few comments on our current fiscal year. First, as we do at the start of each fiscal year, we updated our investor metrics based in part on feedback from all of you. We now disclose the commercial remaining performance obligation, which better reflects commitments our customers are making across all contract types. And in gaming, we updated our metric to disclose Xbox content and services revenue growth as the key performance indicator for the long-term health of the gaming business across content, community and cloud.

And second, we're off to a strong start in fiscal '20 with double-digit top and bottom line growth in Q1, a result of our consistent execution and ongoing investment in high-growth areas. For the full year, we expect double-digit revenue and operating income growth with operating margins up slightly year-over-year.

We could not deliver these results without the incredible contributions of the nearly 150,000 Microsoft employees around the world. While there is always more to do, we are pleased with the continued progress we are making on diversity inclusion.



And including our ability to recruit, retain and engage the people we need to deliver on our mission.

Looking forward, we believe the highest shareholder value comes from creating differentiated, high-value scenarios for every organization and person to achieve more. We'll continue to invest in our future against strategic opportunities like cloud through AI and GitHub, business applications through Dynamics, Power Platform and LinkedIn, Microsoft 365 through Teams, Security and Surface, as well as gaming.

We focus on the right secular technology trends, invest in structurally growing markets. And we're confident that our competitive differentiation and world-class talent positions us for continued growth as we remain focused on our customers' success.

With that, please join me in welcoming our Chief Executive Officer, Satya Nadella.

**Satya Nadella** {BIO 3224315 <GO>}

Thank you. So much, Amy. Thank you. And thank you to all our shareholders joining us today on our first-ever virtual shareholder meeting. Thank you for your continued commitment and investment in Microsoft.

I'm proud of what we have accomplished this past fiscal year and energized by our opportunity ahead. Our mission to empower every person in every organization on the planet to achieve more has never been more important. Our platform and tools help make small businesses more productive, multinationals everywhere more competitive, nonprofits more effective. And governments more efficient. They improve health care and educational outcomes and amplify human ingenuity.

Take Dr. Raymond Campbell, who's bringing health care to rural communities in South Africa with an Azure-powered backpack. Shinobu-san, who taught herself machine learning to digitally transform a small restaurant in Ise, Japan, where she works. And Dr. David Kellerman, a university teacher in Sydney, Australia, who's using our platforms to connect students in his classroom and online. The world's leading companies from AT&T to Walgreens Boots Alliance to (Geo) in India are choosing Microsoft to accelerate their digital transformations. Every day, we work alongside customers like these to help them build their own digital capability, innovating with them, creating new businesses with them and earning their trust. And we're delivering differentiated value to customers of all sizes in every industry across every layer of the technology stack.

We are building Azure as the world's computer to address -- compute the customers' real-world operational sovereignty and regulatory needs with more compliance certifications and more data center regions than any other cloud provider. Azure is the only cloud that extends to the edge, enabling everything, from smart factories to modern, compliant banking, to precision medicine. Azure has limitless data and analytics capabilities, enabling our customers to apply the power of quantum computing today and has the most comprehensive portfolio of AI tools

so developers can embed the ability to see, hear, respond, translate and reason into their applications. Those of you who are watching today can use those capabilities for real-time translation of my remarks in 6 languages. In a world where every company is a digital company, developers will play an increasingly wider role in value creation and growth across every industry.

We are building the most complete tool chain for developers, from visual studio to GitHub, which is used by more than 40 million developers, including the majority of the Fortune 50.

We are empowering citizen developers with Power Platform. Now anyone can make better decisions using self-service analytics, build a mobile app, automate a business process or even create a virtual agent with no coding experience.

Dynamics 365 gives customers a 360-degree view of their business and enables every function inside of the organization to move from reactive, siloed transactional processes to proactive, repeatable, predictable business outcomes. We are enabling our customers to bridge the physical and digital worlds with our mixed reality applications and HoloLens 2, the most advanced intelligent edge device available.

LinkedIn creates an economic opportunity for every member of the global workforce. And our comprehensive talent solutions help every organization attract, retain and develop the best people in a competitive jobs marketplace.

Microsoft 365 brings together Office 365, Windows 10 and Enterprise Mobility and Security and empowers everyone, enterprises, small businesses, students and first-line workers. We are infusing AI across Microsoft 365. Presentations are more accessible in PowerPoint. Videos are more searchable in Stream, e-mails more relevant in Outlook. And meetings are more inclusive in Teams.

Microsoft Teams has had a breakout year. It brings together everything a team needs: Chat, voice, meetings, collaboration, with the power of Office apps and business process workflows. And we are bringing it to first-line workers in every industry, from health care to hospitality to retail and manufacturing. Our expanding family of Surface devices continues to create new categories benefiting the entire OEM ecosystem.

Finally, we're transforming how games are distributed, played and viewed for more than 2 billion gamers worldwide, from our new game streaming service Project xCloud to Minecraft Earth, to our fast-growing subscription service, Game Pass -- Xbox Game Pass. None of this progress and impact is possible without trust, both trust in our technology. And more importantly, trust that our customers have a partner whose business model is fundamentally aligned with their success.

We believe privacy is a human right. We are investing to protect customers in today's zero trust cybersecurity environment. We are building AI responsibly, taking a

principled approach. And we are working to create a more sustainable future where everyone has access to the benefits and opportunities created by digital technology.

In closing, we will continue to innovate boldly, invest in the right secular trends. And work to earn our customers' trust every day. I've never been more optimistic about our opportunity to empower the 7 billion people on the planet through the power of technology. Thank you very much.

(presentation)

## Questions And Answers

### **A - Michael Spencer** {BIO 1986631 <GO>}

Welcome to the Q&A portion of the meeting. I'm Mike Spencer, Head of Investor Relations at Microsoft.

I'm Joined by Satya, Amy and John, also joining us is Brad Smith, our President and Chief Legal Officer. We want to thank you for all the questions you submitted in advance and during the meeting. We'll try to get to as many as we can.

As we review the submissions, there were several in the same topic. So we've selected a representative question from those topics to answer today. If we don't get to your question in the meeting today, we will post a document with responses on our Investor Relations website after the meeting. So let's go ahead and get started.

We received the most questions asking why the Board recommended a vote against the shareholder proposal on gender pay quality. Since Dev addressed this matter during her remarks, we'll start with a question on the composition of the Board.

We had several shareholders ask about the number of directors who are independent versus insiders, the male-to-female ratio and the number of Board members with backgrounds in finance and investment firms rather than in technology. John, could you explain the factors considered in electing nominees to the Board?

### **A - John Wendell Thompson** {BIO 15832126 <GO>}

Certainly. We've had a wonderful change or transformation of the Board just as the company has transformed. The company is committed to a substantial majority of independent directors as well.

We look for a diverse set of skills, experiences and perspectives. And we actively seek qualified women and individuals from minority organizations who can truly help build a stronger Board. The Board has 8 members, of which -- most of which are backgrounds in technology. And we have a number of other Board members who are from other very, very important areas of the industry.

The slate today has 38% women, more than 54% gender and ethnic diversity. And 2 of our committee chairs are in fact women. So I think we've made great progress in diversifying. And quite frankly, enhancing the Board overall.

**A - Michael Spencer** {BIO 1986631 <GO>}

Great. Thanks, John. Next question is for Satya. One anonymous shareholder asked about how we are preparing for quantum and edge computing.

**A - Satya Nadella** {BIO 3224315 <GO>}

It's a great question. Maybe I'll take the edge question first. From day 1, when we built out Azure and designed Azure, we had an architectural principle that we will build out a distributed computing fabric that includes the cloud and the edge. And that's why we even talk about the paradigm we are going through as intelligent cloud and intelligent edge.

Today, on the cloud side, we have 54-plus data center regions, more regions than any other public cloud provider, just to bring all of the compute capacity to where customers need it. Then we extend it to the Edge. So with Azure Sphere, every microcontroller can be a compute node of Azure. And with Azure Connect, you can now have cameras that are smart with compute as well. Then all the way to Azure Stack. And now, in fact, we have now taken even one more step with Azure Arc, which brings a control play across all of the clouds and all of the edge infrastructure that is available. So we're very excited about what we are doing there architecturally to meet the customer needs.

Around quantum, again, we're taking the same approach, which Microsoft always brings to any technology layer, which is a platform approach. For example, we just announced Azure Quantum, where we are now going to have a variety of hardware, whether it's ion trap or superconducting hardware from us and others. Then on top of that, we are building the software tool chain. In fact, we're excited about how Q# is being used already on classical computers to really do quantum-inspired work. In fact, Cleveland Clinic, I was able to do some of the things that they were never able to do before, using quantum-inspired algorithms on top of classical computers. So I think that there's a lot of benefit to the approach we are taking. And we're excited about the future.

**A - Michael Spencer** {BIO 1986631 <GO>}

Great. Thanks, Satya. The next question is for Amy on capital return. Well (Moconnath P.) asked, are you going to increase dividends in the future?

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

Thanks, Mike. As you know, we really do think about capital allocation holistically with 4 priorities. The first and most important for us is continuing to invest in long-term innovation and product differentiation. And so our first priority is always to invest in ourselves for long-term growth. The second priority is to think through inorganic options to help accelerate or expand our TAM and addressable market, again, for long-term shareholder return. Then we think about the 2 other

distributions, either through dividends or shareholder buyback. We've done both of those, as you know, over the years and remain committed to using all 4 of those vehicles for long-term shareholder return.

**A - Michael Spencer** {BIO 1986631 <GO>}

Great. Thanks, Amy. Now we have a live question. There was one anonymously submitted about the investment Microsoft made in a company by the name of AnyVision. Brad, could you help provide some background on that investment.

**A - Bradford L. Smith** {BIO 1721351 <GO>}

Sure. AnyVision is an Israeli company that's really at the cutting-edge of some technologies that involve facial recognition. M12, which is Microsoft's venture capital arm, made a \$10 million investment in AnyVision. And because of the sensitivity of facial recognition technologies when M12 made that investment, they secured a commitment from AnyVision that they would adhere to our principles around facial recognition. One of those principles says that it won't be used for mass surveillance, especially mass surveillance outside certain safeguards that really involve the protection of human rights and the application of the rule of law.

NBC has reported from Israel that AnyVision's technology is being used on the West Bank and on the Gaza Strip in ways that have raised real questions about whether our principles are being complied with. Now AnyVision has told us privately. And they've stated publicly, that they, in fact, are complying with our principles. But because of the seriousness of the issue, I think it's fair to say, we decided to exercise our audit rights under the investment.

One of the things that M12 did was negotiate to exercise audit rights, if needed, if any serious issues arose. So at Microsoft, we retained the former Attorney General of the United States, Eric Holder, as well as a team of former federal prosecutors to, as I would say, get to the bottom of this. And we'll either satisfy ourselves that, in fact, AnyVision's technology is being used in conformance with our principles. And if so, we'll stand publicly and say that, that is in fact what AnyVision is doing. But if our audit shows something different, if we're not able to get to the bottom of this to our satisfaction, then we've been clear. And we won't continue with the relationship we have.

**A - Michael Spencer** {BIO 1986631 <GO>}

Great. Thanks, Brian. Another one for Satya. John D. Asked, how large can the cloud computing business be for Microsoft?

**A - Satya Nadella** {BIO 3224315 <GO>}

That's -- Amy talked about how we're investing across the entire length and breadth of the tech stack with the opportunity ahead, which is about increasing digitization everywhere. If you look at it in our own context, whether it's xCloud or Azure infrastructure, to us, that's a one continuous sort of spectrum of opportunity.

But perhaps one way for investors to think about what's happening with cloud computing at large is to think about what the total spend in technology today is. It's around 5% of GDP. On a secular basis, I think it's going to be 10%, which is it's going to double in the next 10 years. And that's because every industry, whether it's in retail, whether it's in health care, whether it's in manufacturing, they're all being transformed by digital technology. And this technology stack we have and the platform approach Microsoft has means we will be able to participate in that 10%, on the doubling of tax spend. But more importantly, really helping the global economy grow because of digital technology. And that's what I think is the way to think about our opportunity.

**A - Michael Spencer** {BIO 1986631 <GO>}

Great. Thanks, Satya. The next question is for Brad. Diana L. asked, what is Microsoft's strategy to promote products that help ensure the security of elections in the U.S.A.?

**A - Bradford L. Smith** {BIO 1721351 <GO>}

Well we're really doing 3 things to promote the security of elections, not only in the United States. But really in the 76 democratic nations around the world.

The first is to protect candidates and campaigns, political parties and think tanks. We have a program called Account Guard. It's now being used by 65,000 accounts in 26 countries. We've trained 1,300 campaign professionals so that they can better secure their e-mail and defend against potential hacking or leaking of e-mails by foreign adversaries. It's something that's already, I think, making an important difference for the people who use Microsoft 365 in the realm of elections.

The second thing we're focused on is protecting voting, protecting elections. So we have a program, a solution now called ElectionGuard. We've open-sourced it. It really is next-generation election technology. We're excited because you're going to see the first pilots of it in some U.S. elections early in the new year.

Then the third thing we're focused on is addressing the problems of disinformation. We've partnered with and supported an initiative called NewsGuard. And I'd encourage everybody who is watching to give it a try because it's really simple to use. Just do a search for News Guard, you can download the add-in for your browser. And the next time you do a search on Bing or another popular search engine, what you're going to find is next to your results, you're going to see a green icon if it's a reliable news organization, regardless of what political party or affiliation it might be associated with. But if it's an organization that trained journalists have identified as a consistent source of fake news, you're going to see a red icon instead. So think of it as an easy-to-use roadmap for people so you know what kind of organization is putting out the news you're reading.

**A - Michael Spencer** {BIO 1986631 <GO>}

Great. Thanks, Brad. John, this next question is for you. So if you could help address. Courtney W. asked about the CEO compensation ratio of 249:1 and why there is such a large wage gap between Satya and the median of employees' compensation.

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**A - John Wendell Thompson** {BIO 15832126 <GO>}

Well first and foremost, the Board believes that Satya, as well as many of our investors, quite frankly, has done just an amazing job. And so the compensation strategy is attached to or tied very much to the performance of the company.

If you were to think about Satya and the company and its progress over the last few years, market capitalization growth has gone from \$302 billion when Satya became CEO to \$850 billion today. We're just over \$1 billion, I'm sorry, today.

Strategic leadership has been transformed as well. The notion that we're going to have a cultural expansion or change in this company would not have happened were it not for Satya, quite frankly. And strong execution of his vision around an intelligent cloud has clearly been the driver of growth for this company. And while many people think that we are of significant revenue scale and operating margins and what have you, the reality is we are. And we are, in large part, because Satya and the team have driven that performance over the last 5 or six years.

One of the things that people don't recognize, however, is the competitive shortfall that we might have against some other companies in the industry. But while our comp for many people may be different, the reality is we have other benefit programs that are much, much better. For example, while the average employee has about \$172,000 contract, if you will, the health care benefits are substantial. And those are important to people in this economy as the world has changed around health care.

So I think we're in great shape. And I think Satya, quite frankly. And his team have done an amazing job over the last five years.

**A - Michael Spencer** {BIO 1986631 <GO>}

Great. Thanks, John. Helpful. For Satya, we had a shareholder ask, with Microsoft as a leader in the cloud computing business, what plans do you have to expand the platform to be open source, which would allow more people to contribute more apps?

**A - Satya Nadella** {BIO 3224315 <GO>}

Yes. We are very, very excited about the open-source community. In fact, Microsoft is the largest contributor to Linux and many other open-source projects. And we are very committed to it.

So one of the fundamental things that I think about. And in fact, it goes back to the very origin of the company, is we build tools for developers. We are very passionate about it, from Visual Studio to GitHub to Azure DevOps to Azure PlayFab, we believe we have the best tool chain for any developer to be able to build their applications on any cloud.

So that's, I think, the fundamental commitment you can expect from Microsoft. In a world where every company is becoming a software company and a digital company, the developers are very key. And their productivity is very key. And building the best tool chain for them is not some side business for us. It's a mainstream passion for Microsoft.

**A - Michael Spencer** {BIO 1986631 <GO>}

Got it. Thank you, Satya. We have another question here for Satya. An anonymous shareholder asked, will Microsoft be significantly investing in development of AI tools for the health care industry?

**A - Satya Nadella** {BIO 3224315 <GO>}

Again, we're very excited about both the opportunity to help all participants in the health care industry, whether it's from the provider side to the insurance side and the pharma companies, everyone to be able to use digital tools and digital technologies, in particular, AI. So some of the things that we are doing, for example, around bringing the best speech capabilities to do medical transcriptions in partnership with the company, Nuance. And then to reduce physician burden, is a great example of the type of innovation. Even the work we're doing with Novartis around bringing AI tools for their research capabilities around Life Sciences is another example. So we are, yes, absolutely bringing AI tools. But most importantly, again, putting AI tools in the hands of people across the industry in health care, who are going to make a real difference.

**A - Bradford L. Smith** {BIO 1721351 <GO>}

And I think there's another aspect that's interesting here, because whether it's health care or really our customer set more broadly, it's both the commitment to provide AI tools. But also to help provide AI skills. So we're expanding our programs to work with customers so that they can train their employees to use the tools. And we're also partnering with customers to really enhance the spread of AI ethics.

One of the things that we're not surprisingly finding -- and I think the question on AnyVision reflected this -- is people want to have confidence that AI is going to be used in an ethically responsible manner. And in a world where we're providing tools to customers, our customers want to at least get the best of what we've learned so far about how to create ethical principles. And we're doing more of that across Microsoft. We now have a responsible AI standard. But it really gives us the opportunity to not just serve customers. But work in partnership with them. We share what we've learned. We get to then work and share with them what they're learning as well.

**A - Michael Spencer** {BIO 1986631 <GO>}

Great. Thank you, both. This is our last question for Brad. Claire W. asked, how are we factoring in the impact of climate change into our business planning?

**A - Bradford L. Smith** {BIO 1721351 <GO>}



It's maybe the question of the next 3 decades, if not beyond. And in reality, we've already taken a number of steps to factor climate issues into our business planning, whether it's where we locate data centers, how we access renewable energy, access to water and the like. But that's really just the beginning.

When we look back at the last 10 years, I think there's a number of steps that we feel are important then that we can build on. Microsoft became really the first large company in the United States to become carbon-neutral. That was in 2012. And that applies to all of the company and its operations. We became one of the first companies to create an internal carbon tax. And this isn't just a shadow price. It is a real price that all of our business units pay when they consume carbon.

Last year, Satya made the decision that we would increase that price. We almost doubled it, it's now \$15 a tonne. And Amy and I have worked together. And that money is being used to take a lot of the steps that we've taken in the recent past, whether it's now having on this campus, everything here comes from green energy. We've been increasing the green energy that is being used by our data centers around the world. We're now constructing data centers that are getting to the point of recycling almost all of their water. But at the same time, I would say that when we look at everything we have done, science tells us one thing above all. Everything we have done is insufficient to meet the needs of the future. And that's not just a statement about Microsoft. I think that is a statement about every company in every industry, in every country around the world.

So the real question, as we look to the 2020s, is how do we raise our ambition? That is what we're committed to doing. And for Microsoft, I think it really means 2 things. Number one, you'll see us undertake early in the new year, a new initiative, a much bigger initiative, that is going to be something that we invest in with continuous improvement over the next several years. And it's going to focus on 4 areas: Reduction in carbon; better use of water; reduction of waste; and our impact on biodiversity, the ecosystems of the world. And a big part of what we'll do will be improved further. We'll move faster to reduce our use of carbon. We'll have a wide variety of new measures that we'll start talking about in January. That's our first ambition.

But I actually think our second ambition is really the bigger and more important one. The world will not solve this problem without new technology. It will take a wide variety of new technology. It will take major investments in research and innovation. And what we recognize is that digital technology is an enabling technology for everything that's needed. Digital technology is something that all of our customers can use to address their own environmental footprint.

It may start with something as straightforward as helping them move to the cloud and moving to a clean cloud that is using renewable energy with something like Azure. But fundamentally, it is about unleashing the power of digital technology. It is, if you will, something that I think builds on our mission statement.

Our goal for the next decade needs to be to create digital technology that will empower every organization to build a more sustainable planet that humanity needs. And I think for all of us, frankly, for all of our employees, this is a cause that we embrace.

**A - Michael Spencer** {BIO 1986631 <GO>}

Great. Thanks, Brad. And thank all of you for joining me today. This concludes the Q&A session of the meeting. We'd like to thank you for your participation in today's meeting. If you would like more information, please visit our Investor Relations website. Thanks. And have a great day.

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