Morgan Stanley Technology, Media & Telecom Conference

Company Participants

- Keith Weiss, Analyst
- Qi Lu, EVP

Other Participants

- Unidentified Participant, Analyst, Unknown

Presentation

Keith Weiss {BIO 6993337 <GO>}

We're very pleased to kick off the TMT conference with Qi Lu, EVP of Application Services -- Dr. Qi Liu, with Microsoft. Before we get started, I'm just going to read a brief (technical difficulty).

Both I and Microsoft may make forward-looking statements in the presentation. You should refer to Microsoft's SEC filings for risk factors relating to their business and disclosures at the end of our research and found on our website for the appropriate Morgan Stanley disclosures. So with that out of the way, thank you very much for joining us.

And I thought a good place to start would be at a high level, talking about the broader devices and services strategy. When you guys think about that strategy, there's been a lot of different pieces that come into place for the past couple of years. Does Microsoft have all the pieces in place today to execute on that strategy?

Qi Lu {BIO 21085704 <GO>}

Thank you very much Keith for (technical difficulty) important questions. And to get it started, I would like to provide you the audience with a little bit of context on how we think about Microsoft and how we think about (technical difficulty) forward.

First, is we view our industry is at the formative (technical difficulty). There is a few massive tidal waves that are driving and shaping our industry, very, very important (technical difficulty) matters. There's really four things (technical difficulty). One is, computing moving to the cloud. And this is once in several decade (technical difficulty) paradigm shift from mainframe to client server, client server to the cloud. That's a massive change (technical difficulty) creating another opportunity for a

different type of (technical difficulty) product and (technical difficulty). That's number one.

The second is the (technical difficulty). Moving substantially beyond PC, or the desktop/laptop, the cloud (technical difficulty) mobile [ph] devices. Third is social communications. This used to be, in the last couple decades, the digital connection between human beings typically is e-mail. But now, the digital connections goes way beyond e-mails, with rich content and also the ends of those digital connections are often mobile devices. That's the third (technical difficulty).

Fourth one is equally important which is big data (technical difficulty) because the cost of capture (technical difficulty) digital observations and the cost of processing those digital data become cheaper and cheaper. And as we all know, having business innovation, product innovation at this point about, it's so many new patterns and using new products to businesses, (technical difficulty) starting [ph] to plan and discover (technical difficulty). Turns out if you use big data in the (inaudible) and if people follow (inaudible) then they can take it a ways any pattern that are stable, that a human being can tell a difference. The old machine (technical difficulty). And that creates this massive opportunity because you can systematically, using technology to discern patterns and use those to drive innovations on (technical difficulty) businesses.

So those are the major tidal waves that are still in the early stage of adoption, shaping our industry. Financial model can be (technical difficulty) we're here today in San Francisco. Before the large earthquake (inaudible) (technical difficulty) shape the city, after the big wave the city is, probably just our industry is in that place. So we view that as the content, stand up to look at [ph] Microsoft.

Our founding DNAs go back to the days of Bill, Paul Allen, Steve. And a common [ph] core is, we're a do-more company. Meaning that, we produce products and services that enable individuals, businesses, organizations, to appear more accomplished. It doesn't matter, whichever human undertaking you set out to do, the Microsoft products and services enable you to accomplish more.

If you take that length to say, we're fundamentally in the do-more category, in the old last three decades, computing contained a [ph] sort of client server for every home to every desk which is Microsoft's early vision, which is a great vision. Deliver PC for every desk, every home. We change the world. And now computing can deliver everywhere. Digital connection between human beings goes way beyond e-mail.

And also, all of computing is moving away and beyond client server, into cloud. (technical difficulty) big data. We get to ride these major tidal waves. Take the do-more category (technical difficulty) substantially new level. So at the core, to answer your question now, do we have what it takes? (Absolutely), because (technical difficulty) our core business which is to enable people or organizations to accomplish more. Now, we have the opportunity to ride these tidal waves. (To double down on) core, renew it. And elevate it. So it can enable not only individuals

to do things in office. But on the go, at home. Our opportunity as a company is substantially bigger. When you look at all the assets you have, not just the technological assets, the human (capital) assets. But our (inaudible) assets, especially the Microsoft (inaudible).

Our relationship with enterprise customers, our relationship with professionals, we take all these in combination. The answer is emphatically yes, because we have what it takes to take our company from where we are today, renew it. And elevate it. And we truly have strong belief the second phase of Microsoft is going to be substantially stronger one with a larger footprint. It's going to have a business impact, an economic impact. And a world impact for our customers (technical difficulty).

Questions And Answers

A - Keith Weiss {BIO 6993337 <GO>}

(technical difficulty) investors about the prices (technical difficulty) (versus) strategy. I think investors have a relatively optimistic view on the services side. They like Microsoft's position with enterprise. They are very optimistic upon, on what you guys have done across (Q5) and what you have done with Azure. I think where guys are a little more doubtful or have a little more pessimistic, is the mobile devices side.

So the question to you would be, why does Microsoft have to do mobile devices? Why not just leave mobile devices to Apple, to Google, with Android, you could just focus on the parts that you guys are more optimistic (technical difficulty) enterprise (technical difficulty) cloud services and all (technical difficulty)?

A - Qi Lu {BIO 21085704 <GO>}

Yes. That's a great question, Keith. First of all, it's important enough for me to re-state our company's strategy going forward. And in particular, Satya Nadella, our new CEO, made it very clear. Microsoft needs to (slide) in the cloud first and the mobile first (inaudible), strategically very important for us. There's a couple things in your question I want to emphasize.

One is, our industry is at the phase whereby vertical integrations, particularly innovations that happen across the boundary of device hardware, operating systems, (technical difficulty). And application services tend to drive (greater innovations), (technical difficulty) to take economic advantage. So from value creation standpoint, having the ability to go end-to-end is a key part of (technical difficulty) Microsoft deliver unique value proposition to our customers to drive innovations. That's one.

The second is, in terms of the ability to capture economic (values), as you look at today, the dominant business models are able to capture substantial (inaudible) economic values, (technical difficulty) few that are major. One is (technical difficulty) has been shown by Google and Microsoft, are able to drive substantial economics. The second is selling to enterprise, which Microsoft has a very strong presence. And so, they sell devices. And if you look at the cost (be the globe) (technical difficulty)

fiscal years, the companies tend to drive a lot of economic values around those mainly (inaudible). So it's a combination of driving innovation, creating values. And being able to in a position to capture economic value.

So strategically, being strong in mobile devices is very important for Microsoft.

A - Keith Weiss {BIO 6993337 <GO>}

You mentioned the new CEO on board at Microsoft, the first time that a non-founder (technical difficulty) CEO at Microsoft. I was wondering if you could give us your impressions of the new boss? What do you think of his leadership style. And what do you think of his ability to execute? And what changes might we expect from the new boss at Microsoft going forward?

A - Qi Lu {BIO 21085704 <GO>}

First of all, (technical difficulty) speak on my behalf and I think that I speak on the behalf of the senior management team. We're just as thrilled to have Satya as our -- be at the helm and taking leadership role as the Company's new CEO. That's number one.

The second is, at the personal level, I have the opportunity to work with Satya for a number of years and we worked together closely in different capacities. And I can tell you I hold very, very high regard for Satya (as a leader) and am very excited about the future opportunity to partner with Satya very, very closely, taking our company going forward.

Specifically, there's a lot of things Satya has already hit the ground running, driving a lot of forward progress. And you will see us focusing a lot more (driving) clarity. We have our strategy, device and services. But fundamentally use device and services (need) to deliver what we call a high value (scenario). Especially (I'll do) more experiences for individuals, for businesses. Driving clarity and (find the) alignment. The company needs to be far more aligned. We made an organization change in July last year, where we called it (One Microsoft organization) model. But still, a lot of work need to go (into) so that across the Company our resources, our business initiative, are fully, fully aligned.

And also, driving (intensity), the face of forward progress. So there's a lot of excitement and energies going forward.

A - Keith Weiss {BIO 6993337 <GO>}

At the analyst day at the end of the last year, you talked about one of the values of cloud services is the ability to immediately observe what the customer does. And puts it there, the capabilities of a cloud scale infrastructure to use those machineries you were talking about to change the face of innovation, to bring out new services faster. You were talking about this earlier. Where are we likely to see that initially from Microsoft? What kind of offerings or services might we see that first emerge in?

A - Qi Lu {BIO 21085704 <GO>}

Okay. So that's a serious question. When (the same) product is moving from a on-premise (world) or into a cloud (world), for example the Office Suite, moving to the cloud to become (Office 365), there's a number of important benefits. This particular aspect is the way you bring that up is, really above the ability, the new ability to drive (hard innovations). Because worst that come (cloud) (technical difficulty) deliver the services, there's a few new important dimensions of innovation capability. One is the pace of product update and experience innovations. In the old on-premise world, many people familiar with Office product. We ship new versions every few years. And in reality it takes IT department (inaudible) issue a lot of efforts to upgrade.

So there is actually usually only a percentage of customers actually get the benefit of new product. Once you move to the cloud work, you always immediately get the benefit from new innovations and new experiences. But much more importantly, cloud (inaudible) services the software has a way to immediately observe customer behavior. So we can respond to customer needs in a far more agile way. Our entire relation is going sort through a profound change so that we can follow along with continuous developments. We have continuous deployment, continuous quality, continuous intelligence, using business intelligence inform us in his planning, driving all the new values for customers on a steady basis.

The most important thing that (technical difficulty) going forward would be (inaudible) source of cloud innovation. It's the (technical difficulty) patterns and to convert those patterns into what we call the high-value enterprise (graphs). So they happen to be important today, we have another conference as we speak the same day, (it must be) the SharePoint conference so we could announce a number of new products. And one thing (inaudible) is for the first time we announced to the world the ability of one called Office (Graph).

This is, just think about this, many, many graphs, the highlighted graphs (inaudible). What Office Graph is, is, we look at the user behaviors and the (price), some of the communication exchange on SharePoint and the documents that they use. And to connect documents with the people. You can say -- ah, this Power Point, you will go to this product called (Alzerol), you can assign your (inaudible), it conditions all your information. You can say, this document, my manager present it to his boss two weeks ago and (inaudible) my colleague says they like it.

So you think about there's like a (buzz feed) like capabilities that tell you what's trending, what's important, which customer have seen this report. And this is really the (technical difficulty) (improvised) look of what Office Graph (technical difficulty). And you think about is maybe, may be other graph we can imagine. 35 years ago the (inaudible) people publish research paper about a $1 trillion enterprise high value graphs.

But once you move to the cloud you have that opportunity to observe deep patterns, innovation (paradigm). It's a fundamental shift from writing new software, shipping

new services, of (building graphs) and then using (graphs) as fundamental driver. Driving new innovation. Not just for Microsoft, for (I3) customers.

So this is just the beginning. I think really the beginning we're moving into different era of driving innovation. Super, super excited because we do have to look forward. If you just look at Facebook, LinkedIn, what Facebook has is a really who-knows-who graph. Think about what they are able to deliver in terms of value to their customers. And enterprise value (inaudible).

LinkedIn is really this (pure graph), people connecting to professional relationships. Microsoft Office 365 will be in position to discover surface generation (technical difficulty) many, many high value enterprise (graph, professional graphs) and use those to drive innovation. So today is really the beginning, the SharePoint conference, the announcing the availability of the Office Graph for (inaudible) opportunity.

A - Keith Weiss {BIO 6993337 <GO>}

Great segue into, I want to start drilling down a little bit into some of the individual business units you have responsibility for, starting with Office. Office 365 has been a big part of (inaudible) over the past (year and) (technical difficulty) bigger parts start going forward. What should we think about the release date in Office 365 on a going-forward basis. And maybe the release that (guys) are most (anticipating) is the potential of having Office on iOS. How should investors be thinking about that (inaudible)?

A - Qi Lu {BIO 21085704 <GO>}

Yes, Keith, I think this is a question -- I believe actually, we got the financial (technical difficulty) we -- let me maybe answer your iOS questions first, then talk about the release cadence then.

So as a principle, we look at two (technical difficulty) (factors) for us to decide what to ship on what platforms and what timeframe. There's really two factors, okay. The first factor is, whether there is genuine customer, interpret customer needs. And whether we are in a position to deliver great experience for a customer, that's number one.

The second factor is whether we can do that, that basic economic (inaudible) Microsoft. And those are the two things we look at. And with regard to the Office Suite product, a portion of product -- for example, OneNote (technical difficulty) (Sync), type, OneDrive. They're all available on non-Microsoft Windows platforms already, on iOS (nine). So (inaudible) phones and tablets. So that's important just to make it clear.

The other is, we also have another (version) of core applications, namely Word, Power Point, Excel, Outlook. Those products, today they are available on Windows, Mac OS, they're also available on the Web. So if you use an iPad, if you want to use Office, you can use the web version as well. But those products were primarily designed for mice and a keyboard, for the desktop mode. So we have been working

on touch-first version of those co-apps. And we're going to make those applications available for Windows devices and non-Windows devices. But exactly what timetables (the when and how) you have to again go back to these two facets. Are we in a position to truly be able to deliver the great experience to serve our customer's (needs). And whether we can do that (inaudible).

So that's how we think about this. And then to take a step back to connecting what I earlier said, our company's fundamentally about deliver true (inaudible) experience for our customers. And we view those really as great opportunities, because the more (modem) device that are out there, the better it is for Microsoft to have, to be able to reach more customers, delivered high value experience to them. Particularly in touch (modem) device (world) and you can have additional capability to go beyond the experience that we have.

For example, most of those (modem) devices will have camera, right? How many times we see people taking picture of what's on a white board, or taking picture of slides on a screen? And we will have the opportunity to make far easier for you to capture this information over (inaudible). So we generally view those as opportunities. But what (inaudible) if, (in matters) as I mentioned. So that's one part.

The other part about release cadence, that's sort of very, very important. I want to emphasize it. (technical difficulty) to fundamentally change our engineering capability, moving to a new order whereby we're always (striving and wishing) and to be able to accelerate the pace of our heartbeat. It is fundamentally important. And the net of it is, we're moving toward whereby we can ship our services on a continuous basis. And also getting a position where we can shift client (bids) on quarterly (basis).

So we're not quite there yet. This is a (long, hard point) (inaudible) to go to but that's a fundamental shift, which dramatically raise our company's capability to drive innovation at the much more greater level. So there's a lot of important activities (inaudible).

A - Keith Weiss {BIO 6993337 <GO>}

(technical difficulty) remains one of the best (as far as) product areas for Microsoft. And one that we hear some of the most positive feedback from enterprise customers around. Can you talk about what's really resonating with these customers and how big that business is today? Where are the further areas that it can go into. And maybe also touch on how Skype plays to that overall (opportunity)?

A - Qi Lu {BIO 21085704 <GO>}

So this is indeed the one area we are super, super excited about. One is, as we all know, the communication products and experiences and really moving upwards in a sense that a lot of people are still using e-mail. But voice and video communications is a lot richer. But there's a lot of opportunity to systematically (raise) that expense. That's number one. The second is, our (length in this) is going very, very strong. And all the (inaudible) revenues will be disclosed is (only the other one bidding down) revenue. And the (polling) -- so, very, very high post (inaudible).

Same time, we also have a very strong asset in Skype. And you should fully expect the world, the future world to (link in Skype), (link to operate) each other so that our customers, our users, will be able to (prove) the rich audio/video communication whether you're at work or at home. So there's a lot of opportunity for that.

But more importantly, we see this area whereby it's tremendous opportunity to deliver more innovation values. But combine the large -- today's, the digital communication, digital meetings, (is still) far away from being a truly satisfying, satisfactory experience So let me, I'll give you something that's based on some of the statistics we say from our Lync customers.

On average, it takes more than 10 minutes to get a meeting started, because you're always (fumbling) the dongle and all those (inaudible) things. And I don't know about you -- if you have an adjoining a conference call on others, it's almost a guarantee, there's always somebody forgot to unmute. And they keep talking, then oops, forgot to unmute, they have to repeat themselves. So the meeting experience is far, far from being satisfied. We see those fantastic opportunities both to drive innovations and some of the things we've been planning on (inaudible). How about we just focus on, you can start a meeting instantly, any time you join a meeting, it starts. You don't have to fumble around.

And how about in the future you could have a meeting, you don't have to repeat yourself. Let's just start from there. And then think about the meetings. I give you one example, there is a (subtle thing) in the (inaudible) in San Francisco called (Epsolac). They have a -- have a client. And we have meetings but all the information we talk about, let's say two people talking about making (chip plus data), everything you talk about (inaudible) that's one swipe away. As you talk, it can swipe information for what you're talking about. Need to (share the last thing). And if you annotate the comments, (technical difficulty) fantastic opportunity for us at Microsoft to take the asset what we have. But truly take the experience as of today to a much, much higher level and we see a lot of opportunity to drive not just experience benefit. But also drive economic value for our customers and for (our company).

A - Keith Weiss {BIO 6993337 <GO>}

Another good segue. I want to make sure, I'm going to open up for questions from the audience, I want to make sure we touch on all the relevant provisions before that. A little over a month ago at the meeting with Dave O'Hara who worked with you, you made a comment that really resonated with me around the Bing asset that you guys have. Talking about Bing as being one the few search technologies out there that are really able to be at-scale and be large enough (technical difficulty) business on all elements, what's going on, not just (technical difficulty) Internet but also what's going on with (technical difficulty) organizations. Become an (affluent) technology for information technology on a going-forward basis. With that in mind, it is something that's a little of what you're talking about, bringing in these other areas of information into a meeting presentation, for instance.

On the other hand, when I talk to investors, we hear a lot about the (technical difficulty) ability to (technical difficulty) out Bing, something that hasn't been

profitable for you guys for a while. Perhaps just a distraction. Can you talk about the wisdom of whether or not it would make sense to spin out Bing? What does it bring to Microsoft and how hard would it be -- is this one you guys would ever (inaudible), something that's really a possibility?

A - Qi Lu {BIO 21085704 <GO>}

That's a question that (inaudible) right over there. So the strategic pieces for Bing, there is several dimensions Keith, I want to be able to comment on.

One is, if you look at the search engine technology, at the core it's about building the digital connective tissues to organize the worlds of information. So for Bing, (some of the numbers) we see tens of trillions of (new URLs) at any given day, we discover tens of billions of new URLs a single day. And because as a -- outside our industry overall are digitizing everything that we do. So although the product is manifesting in the form of giving keywords, getting URL, listing URL (inaudible). But the capability is really the digital connective tissues organizing information, organizing digital experiences.

So it's fundamentally important as the ingredient for Microsoft and for our industry to drive innovations, build next generation digital experiences. For example in the device arena, can already see our smartphones, the way people seek information may not be typing in URLs and get; typing keywords and getting URLs. Particularly let's say if you use a smart watch. You're not going to type keywords and click on URLs. What you will do probably just speak to it, or using other ways to (inaudible). But you can use search as a fundamental technology for organizing information, (give us) information based on its ability to understand using (inaudible) focus of human being (inaudible) information.

So there's a lot of opportunity for us to use Bing as an ingredient to differentiate Microsoft devices in the (mix of) core services. For example in Office, we have the Office Agave deliver new experiences as part of Office Suite. And the Bing's already delivering a lot of new value, will see us deliver more and more values in those regard.

So that's one important fact. The second is Bing as a business. As we look around across the -- our entire industry, search is a very, very potent (inaudible) (ability). There's actually very few as helpful as Search. And we don't have to go very far to look at in the United States, Google, Microsoft, are able to drive economic revenue growth using search engine. And in China, there is actually for example a company called (inaudible) 65 and they are able to use search as economic model, to extract potential value. So search is a very, very important capability for Microsoft in our quest to drive device and service strategy to be able to capture economic values.

And also, most importantly is, search as the ingredient in drive fundamentally innovations to take Microsoft experiences from there. But particularly to do more experiences. Because we have, when we started with the Bing innovations, we have a different point of view to begin with. We say, people search for information, is always in a (inaudible). Your inspiration to search for information is always in the context of

accomplish something. So for Bing experiences we always want to build (experiences) to say not only are you getting information but you also get the contents (technical difficulty) (media) information and you also had the opportunity to do the activities right there.

So (our mantra has always been), let's organize the world of information differently, to enable our users to accomplish task, get stuff done. So the Bing experience, the Bing capabilities is a fundamentally consistent with our do-more spirit for take our company to (technical difficulty).

The last thing I want to mention is, fundamentally we as an organization, are hard-core committed to make our Bing investment, the economical, viable endeavors because in many ways you could think about the best invention we as a society, as human being has come up with so far is this (inaudible) market. This market is, is a fabulous (technical difficulty). Once you make something economically viable and the organization would try and drive innovation. So the entire Bing organization is very much committed in making Bing an economically-viable endeavor and then we're very, very (pretty) proven so far because we've been gaining market shares. Since we launched the Bing search engine, every month (technical difficulty) (since June) 2009 we've been gaining market share in the United States. And it would be (technical difficulty) Bing service across the globe.

So very pleased about progress we've made so far. The net of it is, it's a fundamentally-important piece of technology for Microsoft, to take where we are today (technical difficulty) Microsoft. Second is, it's strategically important for us to capture economic values (inaudible).

A - Keith Weiss {BIO 6993337 <GO>}

To put a point on it, in terms of the profitability and the route to profit, profitability, do the targets remain the same in terms of the levels of share? I mean, you can remind us what those levels are of market share that you need to be, to reach profitability. And what kind of timeline for the (technical difficulty) are you thinking about when we'll get (technical difficulty)?

A - Qi Lu {BIO 21085704 <GO>}

So to just talk about the specific timeline. So we have to talk about given the fixed cost for you to invest in the operating expenses and the setup fee, because search is one of those (classic) you have very high (inaudible) cost and the (modular) cost of serving extra customers is actually very low. So in the United States, it takes roughly about somewhere between 20 to 22 points of market share. And depending on the different expense can also, in case -- meaning we could (turn on your investment postures) and we want to invest you know, with our (sustainably gained) shares. Be in position to drive more innovation. And also drive those innovation for our devices, also this business. At the same time, be able to drive economic (inaudible) to make it economically viable endeavors.

Maybe -- that's what I wanted to mention a couple of things. One is, the search economics is all volume-driven, as you know. Search is one of those products,

volume scale is magic. The largest, the more the scale is the product gets better. People say that I could search (inaudible) any time for the search box, I think audience knows and (inaudible) knows what you are about to type. And that feature alone is driven by scale. Essentially the more people use it, the quality of suggestion gets better. So that's number one.

The second is, the more scale is, the more economic yield, the high economic yield. First (inaudible) inquiry you're able to make more revenues. Just because search is (inaudible) spend, always sold out, there's a strong market (to price it). But the more volume you have, the more economic yield. So we've been driving volumes organically for our own (inaudible). Also through distribution of partners, there's a couple things I want to mention. One is being able to probably know this -- Bing is a partner for Apple Siri. So we've been providing Siri backfill, we've been serving billions of queries already. And (whatever increase) to that, the Apple customers, Apple (inaudible) so far, that's all customer satisfaction and zero complaint. That's awesome, awesome to know.

The second is, Amazon Kindle devices, Bing's also the default search for that. There's a lot of opportunities because on a global basis, there's only two (inaudible) as I said. From a technological standpoint, it's the foundation, it's organizing the digital fabric for outstanding innovation on (inaudible). Economically, it is strong as a value extractor that (technical difficulty). And we're very, very pleased that Microsoft are able to invest in that technology and to grow it. It is a (novel) opportunity for us to drive more volume organically so the solution (inaudible) and we drive a better product and a better yield (technical difficulty).

A - Keith Weiss {BIO 6993337 <GO>}

I've been asking my questions too long already so I want to make sure we open it up to questions from the audience. Any questions from the audience?

Q - Unidentified Participant

Can you name (technical difficulty)?

A - Qi Lu {BIO 21085704 <GO>}

As I said, our strategy has been deliver high value scenarios and through devices and services. That's number one. The second is, our core is, Do More, because that's our founding DNA. And third is, we're going to try a lot more clarity, (technical difficulty) become a strategy and it would drive a lot more alignment across the Company. And also, the velocity, the intensity, is -- the industry is moving at the very, very fast pace. And our company's opportunity for the next phase. And a truly vast one. So you will see us move with a lot of (pace forward) of energy and speed and intensity with clarity, (technical difficulty) alignment. So that will be, that's the strategy. The focus on Do More, the focus on getting the (highlight scenario) (technical difficulty).

A - Keith Weiss {BIO 6993337 <GO>}

Question up here in the front?

Q - Unidentified Participant

Might sound a little bit outrageous, thinking about how you matched up (technical difficulty) not, doesn't have a presence yet. (technical difficulty) might make sense for Apple and Microsoft to merge?

A - Qi Lu {BIO 21085704 <GO>}

So I will, I will not directly answer the last part of your question. That's (technical difficulty). But the first part of the question is important. The Microsoft in bread and butter is our do-more work (technical difficulty). Microsoft experience in many ways is our brand. And our relationship with enterprise customers was professional. (technical difficulty) Microsoft experiences our longevity of the investment in technology and R&D capability.

The areas we need to do a lot more is on the end user side, on the consumer side. In my organization, one of the key things I'm pushing hard is that we have to drive innovations, drive much faster pace of innovations so there our products, our quality, the simplicity, the ease of use. And our product also needs to appeal to the young generations. Those are the other areas we need to do a lot more work. But we have fundamental strengths and we have a lot of base ability to execute it, around those.

A - Keith Weiss {BIO 6993337 <GO>}

I wanted to get in, in our last couple minutes. Going back to the search business and relationship with Yahoo!, CEO Marissa Mayer has expressed frustration with Microsoft, their partnership in the past. More recent commenting a little more favorable. Do you think that's going to be a durable relationship for Microsoft going forward?

A - Qi Lu {BIO 21085704 <GO>}

So first of all, we have a ten-year, excuse me, partnership between Microsoft and Yahoo!. And that's a very, very important relationship (between our two companies). And we are very, very committed of working together as strong partners to drive innovations for both companies and drive value, that's number one. The second is, if you pay attention to Yahoo!'s official comments in the quarterly earnings, you will find that Yahoo! always expressed they are pleased with the business performance, they are pleased with the partnership, because that's very important.

And so this is about driving innovation and as we all know, (technical difficulty) today is (ill-informed). Keywords. URLs. Our mobile devices, there's a lot of opportunities. We see Yahoo as a partner to innovate together because we hear the same (inaudible). The more innovation Yahoo! is able to drive, the better it is for Yahoo! customers. And the better it is for the Bing platform. As I said, on a global basis, there's only two games in town. So we're motivated, together, to drive innovation, to drive more value. And we see we will continue on that strategic (inaudible) serving both our companies well.

A - Keith Weiss {BIO 6993337 <GO>}

I'll do one last question to wrap it up. And really talking about the synergies between the search business and mobile, how important is WinPhone 8 adoption to really have mobile emerge as a big value driver on the search side of the business for Microsoft?

A - Qi Lu {BIO 21085704 <GO>}

So there's a natural synergy between mobile devices and search. Because if you look at what you use a phone typically to do, it's a lot of times you use the phone to accomplish important day-to-day tasks. And part of be able to (inaudible) accomplish your day-to-day tasks is finding information, seeking information. So we see phone is a Do-more device. And search is really the gateway to enable users to collect the information you want. That's (digital experiences). It just has specific user experiences, is not going to be the same as you type in keywords and getting URL.

And Apple Siri in many ways is a good example of the new kind of experiences you value by blending search technology and the mobile phone device (four factors) of usage and modality to take the experience to the next level. So we are actively investing a lot of technological capabilities. And if you look at the Windows Phone today you see a lot of experience for example, Local Scout, the recommendations for applications and services. All those are different ways of using search technology to deliver more value. And we're at the very, very early phase to have (inaudible) we're pretty confident we're able to drive a whole lot more user value, economic value at the same time.

A - Keith Weiss {BIO 6993337 <GO>}

And that takes us to the end of our presentation. Thank you very much for joining us, Qi.

A - Qi Lu {BIO 21085704 <GO>}

Thank you.

A - Keith Weiss {BIO 6993337 <GO>}

That was great.

A - Qi Lu {BIO 21085704 <GO>}

Great talking to you. Thank you.