

Goldman Sachs Technology & Internet Conference

Company Participants

- Dave O'Hara, CFO, Application and Services Group, Cloud and Enterprise
- Heather Bellini, Analyst

Other Participants

- Unidentified Participant, Analyst, Unknown

Presentation

Heather Bellini {BIO 2268229 <GO>}

All right. I think we're good to go. Good morning, everybody. Welcome to day two. Thank you for being with us.

We are honored to have Microsoft with us this morning. I greatly appreciate Dave O'Hara being with us. He is the CFO of the Application and Services Group for Cloud and Enterprise. He's got a long title.

Dave O'Hara

Too long a title. We need to clean it up.

Heather Bellini {BIO 2268229 <GO>}

That means you're very busy, lots of responsibilities.

Dave O'Hara

It could mean that.

Heather Bellini {BIO 2268229 <GO>}

All right. Well thank you, again, for taking the time to be with us.

Dave O'Hara

Sure.

Heather Bellini {BIO 2268229 <GO>}

Obviously, there's a large number of people in the room, a mix of generalists and specialists. So maybe you could give us an overview of what falls under your purview?

Dave O'Hara

Sure. Can I jump with the obligatory safe harbor statement?

Heather Bellini {BIO 2268229 <GO>}

Oh, yes. Sorry, yes, please do.

Dave O'Hara

And I'll make it short, which is I may make some forward-looking statements during the presentation. And everybody in the room can just refer to our SEC filings for the latest on the risk factors associated with Microsoft.

Heather Bellini {BIO 2268229 <GO>}

You just made them so happy.

Dave O'Hara

I know it was -- (inaudible).

Heather Bellini {BIO 2268229 <GO>}

I would have read it for you. I'm sorry.

Dave O'Hara

So that's okay. So a little bit about the domain or the businesses that we have in our Group.

So the first one is the Application Services Group. And you should of that, in terms of product names, you can think of that as Office and Skype and MSN and Bing. It's the Application Services Group, essentially the online and on-premise services that we provide to our customers.

The next Group is Cloud and Enterprise, the C&E Group, which is the easiest way is it's the old Server and Tools Group, for those that are familiar with Microsoft. Then, the third one is Dynamics, which is also known as MBS internally. And so, that's the collection of groups that my team helps manage.

Heather Bellini {BIO 2268229 <GO>}

Okay. Great. Very helpful.

If you look back at your go-to-market prior to Satya taking over the reins to now, what have been the biggest changes?

Dave O'Hara

Sure. Just a little bit about Satya, broadly. I mean, he certainly -- I've worked with Satya for -- worked with a for Satya for about 15 years. So I knew him before he was famous. And I would say the good news is Satya is largely the same Satya that he's always been since the beginning.

I think there's a few things that are probably most notable. One -- excuse me. One is just the -- from an employee perspective, I think employees really understand the vision and where we're trying to go. And they understand the strategy. And they're certainly loyal to Satya. They feel a connection to Satya, I think, as sort of a -- it's just a very strong bond in employees.

So employees are invigorated there. Proud to come to work. They're happy to come to work. I think there's a new level of -- or renewed level of energy. And so, that's all goodness.

From a customer's perspective, you asked about go to market, I think Satya's made it super clear that he wants to help customers be successful. And by using the tools and the products that they want to use. And so, you see some of that in some of our cross-platform work. And some of the initiatives that we've taken to help support even other development environments.

And so, from a customer perspective, I think it's -- they just -- we're offering a choice is the best way to say it. And Satya is a lot of the driving force behind that.

I would just say the third thing, just at more of a personal level, it's Satya's constantly challenging everybody's thinking. He challenges your mindset, challenges your assumptions, challenges what I would call the status quo. And so, I think he's just brought sort of a level of urgency and an outlook on life that just says we need to constantly be evolving. We need to constantly be challenging the view of the marketplace.

Heather Bellini {BIO 2268229 <GO>}

Office 365 has been wildly successful. I think you said on your last call over 9 million home and personal users. What are -- how are you thinking about Office 365 changing the typical attach rates to PCs?

Dave O'Hara

Yes. When we think about Office 365 from both a consumer and an enterprise level, we first think about the value prop. And it -- if you look at the way that people used to buy Office before, a lot of times, especially for the consumer, they would Office when they bought a new PC. And as PCs became more durable and became -- had a longer life, oftentimes somebody would buy a PC and not buy another fine for five or six years. And so, they're upgrading Office every five or six years, at least in the consumer side.

And I think Office 365, we spent a lot of time on the value prop and on pricing and how we think about taking that to market. And what we've seen from a consumer perspective is they like the fact that it's constantly being innovated. So instead of getting Office less frequently, they get constant innovation. And they like the fact that it's an online offering. And so we've seen -- we've seen what we consider to be really good attach rates at the consumer level.

As you said, Heather, it's -- we shared on the earnings call last time that we have 9.2 million subscribers in the home and personal. So we feel good about the momentum that we have. We also worked closely with our distribution partners to make sure we get the value prop right, whether it's the retailers or the OEMs or any of our distribution partners.

And so, through all of that, we've seen pretty good adoption and we feel good about where we're at. But lots of room to grow and lots of work to do.

Heather Bellini {BIO 2268229 <GO>}

Okay. And if we flip to the enterprise side for a second, you've also seen a lot of success in terms of adoption of Office 365 in the ELAs is what we've heard a lot of. How do you think about those ramps? So when we talk to customers, a lot of people have gotten it as part of their ELAs. And they're slowly starting to adopt it, starting to roll it out.

How do you see about the ramp for that occurring? And kind of what are the drivers of getting people to actually start kicking in usage?

Dave O'Hara

Sure. Sure, there's a few things on the commercial side One is, we talked about it in the last earnings call, that as the -- of the EA agreements, as the enterprise agreements are renewed 45% of those renewed is Office 365, which is a huge number. And just by comparison, the quarter before that, that number was like a third. So it was a big jump.

And so, we're seeing a pretty good sized jump in that. I think it's -- I think there's a few things going on. One is, as you mentioned, enterprises are starting to adopt it. But they don't -- it isn't necessarily a choice, a binary choice, where they do on-prem or cloud. A lot of times, they'll just do Office 365 for a division or a group and get up

to speed. And then they'll roll it out further. And so, I think we're seeing a good transition and a good mix of online and on-premise being shifted to cloud.

I also think it's something that fits very naturally into our sales motion. So our sales team knows how to sell it. They know how to position it. And they know how to go out and land those deals. And that's part of the acceleration.

Heather Bellini {BIO 2268229 <GO>}

How do we think about the lifetime value of the customer, if they're already on subscription, on an enterprise agreement where they're paying you on an annual basis, they adopt Office 365, what's the potential for Microsoft to generate higher lifetime value? Is it they're buying a higher-end Office SKU? Are they attaching other things to it?

Walk us through how to think about, as people shift from the traditional ways they support the software to moving to Office 365, what the opportunities are?

Dave O'Hara

Sure. So lifetime value is the right way to think about. Let me talk about EA first and then maybe non-EA.

When you look at an EA customer, if they're moving from on-premise Office to Office 365, we do think there's an opportunity to up-sell. And we've seen that up-sell showing up in some of our numbers in terms of the mix. So we think from an Office perspective, we think there's a chance to up-sell.

Heather Bellini {BIO 2268229 <GO>}

What is that sell, specifically, in that scenario?

Dave O'Hara

Well there's -- if you look at our SKU mix, our hero SKU, as we call it, is Office 365 Premium. And Office 365 Premium is the one that the field talks about the most. And the one that the field has the most success in landing. And so, a lot of times we'll see an up-sell to Premium when we're out talking about 365 and on-prem.

So from an EA perspective, we do think there's an opportunity for an up-sell there. There's also an opportunity to add in other products, like your enterprise mobility suites, which we sell a -- which we sell as an add-on to 365. We're seeing really good traction on that.

And so, we think that getting people to the cloud allows us to go out and sell more cloud offerings. So there's a transition which is, we give them a choice of on-prem or

the cloud. And then once we get them on the cloud, I think there's an opportunity to up-sell.

Heather Bellini {BIO 2268229 <GO>}

And that's for your people, your customers already on an annuity --

Dave O'Hara

That's for people already on an EA.

Heather Bellini {BIO 2268229 <GO>}

It's not about the transactional people.

Dave O'Hara

That's right. For those that aren't on an EA, for our non-annuity folks, whether they're enterprise or consumer, again, we think the upside that previously they would typically get a copy of Office when they bought a machine. And now they'll have a perpetual copy of Office, which is stickier. And, over the lifetime value of that customer, it offers us a higher revenue opportunity.

It does come with higher COGS, obviously. But it -- the higher COGS on our side results in lower cost to the customer. So it certainly increases the value prop. And over the lifetime of that customer, there's higher absolute profit dollars for us, as well. And so, we feel like we're in a good position to take advantage of that.

Heather Bellini {BIO 2268229 <GO>}

And you mentioned Office 365 Premium as the SKU the sales force kind of goes after the most. What are the top two or three features in that, that is resonating, that's getting people to make that jump?

Dave O'Hara

Sure. So from an Office 365 perspective, the broad -- let me talk a little bit about how we think about the SKU, the business SKU. So we have the enterprise. We have the Premium SKU. We also have the business SKUs at the lower end. So we spend a lot of time thinking about the offerings within specific SKUs.

And so, there are some people who want online if they can get basic online, Business Essentials, as we call it, which is basically Office online with all of the offerings that go with that. You move up in the SKU. And then you have the Business SKU, which is essentially fully installed Office. And we have that offering for businesses. Then we have the Premium SKU, which is essentially the combination of the two.

And we have those at various price points. The first offering is \$5 per user per month. The second offering is \$8.25 per user per month. And the third is \$12.50 per user per month, I think. And so, we step up through that. And there's a lot of people that want that flexibility of having the online version of having the online version or the installed version.

Heather Bellini {BIO 2268229 <GO>}

Okay. Dropbox was here yesterday. And, obviously, you're at very different realms of business maturity. But they mentioned one of the most significant partnerships they've done to date has been with Microsoft and with Office. And I'm just -- if you can just help us all understand the decision for Microsoft to partner with a company like Dropbox, given, I mean, the millions and millions you already have using OneDrive? How do we think about your decision to do that?

Dave O'Hara

Sure. It's a good question. And not an easy decision to make. It goes back to what I said at the beginning about Satya's focused on customers and offering customers choices. Dropbox has done a great job of growing and getting penetration in the same customers that are using Office 365. And we thought that it was important to offer them choice.

The one -- the other thing I would about the Dropbox partnership, because we do consider it important and strategic for us, is it's not sort of -- it's not a marketing announcement. It's a genuine partnership where we have our development teams collaborating and making the integration as seamless as possible. We want that to really work. And work well, in a customer environment. And so we spent -- we spend the time and money to get that right.

And so, that Dropbox partnership is a deep partnership. We do offer OneDrive. OneDrive is growing like crazy, as well. And so, we feel good about our OneDrive offering. But there are customers out there who use Dropbox and don't do -- don't use OneDrive. And we wanted to be able to reach all of those customers.

So for us, it was more about the partnership and what customers wanted. And less about the competition. We still have OneDrive and Dropbox both out selling in the marketplace. And that'll continue for a long, long time. So, we felt it was better to offer a choice.

Heather Bellini {BIO 2268229 <GO>}

Okay. Great.

Dave O'Hara

And you'll see that theme throughout a lot of the moves that Microsoft is making today.

Heather Bellini {BIO 2268229 <GO>}

Okay. I was going to shift gears a little bit. And talk about Azure. And I was just wondering if you could help, for everyone here, just kind of compare and contrast Azure versus AWS and Google Compute, or the Google cloud, in general?

Dave O'Hara

Sure. so, from an Azure perspective, that's obviously a super-competitive space. It's important for us to play there. And I sense -- there aren't too many companies on the planet who can play well in that space.

And so, we made a lot of investments in Azure. And I think that even some of the surveys that have come out recently have shown that Azure customer satisfaction continues to grow. We continue to get market penetration. People see it -- while we gave our competitors a head start, I think we're doing a really good job of catching up with Azure.

And so, we feel really good about where the stack is. You'll see a lot of the same things in Azure, as well, which is, we've forged partnerships with the important companies. I mean, it's not -- you're not required to run SQL, as an example. We support a multiple -- we support multiple databases through Azure. And so, we want to -- we announced our deal with Docker, as another example.

And so, we think it's -- not only do we need to have the toolset to keep up, we need to support multiple development environments. And multiple partnerships in that, as well. And I think that's we are seeing good traction with it.

Heather Bellini {BIO 2268229 <GO>}

And where do you see -- if you're sitting down with Satya and he is asking you to go through kind of an overview of the competitive landscape, how do you look at those other cloud providers. And see where you need to catch up, or where you feel you're ahead? Can you share with us kind of in both -- on both spectrums?

Dave O'Hara

Sure. So Scott Guthrie talks -- Scott Guthrie is the person who leads Cloud and Enterprise for Microsoft. Scott likes to talk about Azure competes in a -- there's a few things we need to do to really compete in the cloud. One is we need hyperscale. And hyperscale is, to say the least, expensive. But it's very important. And so, people need to have the wherewithal, financially. And also the mindset to say we're going to invest and we're going to compete. So Scott likes to talk about how do we think about hyperscale. And we think we're one of the few companies out there that can really do that.

The second thing that I already alluded to is just hybrid in terms of supporting multiple development environments, supporting multiple databases, supporting whatever toolsets that the users want to use. And hybrid is -- hybrid is deep. That's been -- we've made moves in that in the last year or two to really get us into a hybrid environment. And we've made a couple of acquisitions that we've announced that we think can help support other development environments. And so, hybrid is the second piece that is important.

Then, the third piece is what Microsoft, I think, does super well, which is enterprise. And enterprise stability and security.

And so, we bring all of those to the cloud offering. I just think when you look at the number of companies across the planet that could do that, there aren't very many. Certainly Amazon and Google are among those. But we feel like Microsoft is pretty well positioned to capture that.

Heather Bellini {BIO 2268229 <GO>}

Well and it -- if you look at it, there's obviously the infrastructure as a service market you're going after, the platform as a service market. Is there an inherent advantage that Microsoft, versus those other two players, because you have database applications. And you've got mail applications that you've built and own yourself that are already in wide use, where infrastructure people worry it's kind of a race to zero in terms of pricing? But where you'll be able to really benefit is having, maybe, higher PaaS share, just given your existing footprint?

Dave O'Hara

Yes. That's a really good point. I would even expand on that a little. And I would say there's a few things that we work in our favor. One is, we have relationships with all those companies. I mean, we already have sales people in those accounts. They're using our products, as you point out. And we think that's helpful.

We also know we need to earn the business. So as we look at that, we're continuing to develop those products.

So I think it's -- and then the third piece, which you also touched on, which is I firmly believe that when you look at tech companies across the planet, if you look at all of the assets Microsoft has, we have a very strong base of assets to build on. And so, we're seeing that. And I think that it's hard to find a company that brings more assets to market from a technology perspective than Microsoft does.

But we still feel like we have to earn that business every day. And so, I think those are all things that are goodness for us and work in our favor. But by no means does that make it -- sort of does that make it a layup. We still have to work hard to win those customers.

Heather Bellini {BIO 2268229 <GO>}

We were just -- Red Hat had an earlier session. And one of the things that came up was people talking about kind of what's been done on the security front over the last 12 months to get people more comfortable with cloud adoption. And whether it's who gets to hold the encryption keys. Can you talk a little bit about how people are becoming increasingly more comfortable with security aspects of moving stuff through a public cloud?

Dave O'Hara

Yes. That's been, certainly, an evolution. I think even a few years ago, it would have never been foreseen that people would be willing to do that. But I think security has improved. I think people have just gotten more used to the environment.

I think that CIOs have understand that there's cost benefits to storing things in the cloud. But it's always a bit of a tradeoff, which is they see the goodness in it. They just needed to be comfortable that we were going to take care of their data. And I think that -- Microsoft has a strong reputation for taking care of customer data. And so, it seems -- sometimes it seems like it flipped overnight. It didn't really flip overnight for those of us that have been investing in the cloud for years and years and years. It took a long time to get here.

And now I feel like we can -- we have the tools. And we have the software. And we have the confidence of the CIOs to make those investments. But it's been a long time coming.

Heather Bellini {BIO 2268229 <GO>}

Okay. Being the CFO of a Group where you're trying to compete with two other really big heavyweights that have a lot of financial wherewithal, trying to do hyperscale. And dealing with a pricing environment that you have in Azure, for example, with competitive moves, how do you do that and keep Amy happy?

Dave O'Hara

Keep Amy happy? I would say this, that we -- for us it's -- as you mentioned, it's both infrastructure as a service, platform as a service. And also the apps that are built on top of that. And we think that core infrastructure is, obviously, very important to be able to meet customer needs. But the real value add is when you can get into the apps that run on top and you have -- you just have better margins inherently built in.

And so, if you look at 365, as an example, if you look at CRM Online, as an example, both of those are offerings that are built on top and will have better margins over the life of the customer.

And so, we do think there's always that layer, that sort of infrastructure layer that maybe will -- where pricing will be more under pressure. But we feel like as long as we keep adding apps on top of that, the margin mix will be there.

Heather Bellini {BIO 2268229 <GO>}

Okay. Bing -- another area in your domain that I think it was mentioned on one of the last couple of calls that this segment would be profitable in fiscal '16. How do you get there? Is it a combination of revenue and continued cost cuts? I mean, you guys have been very good at kind of reducing the cost of that business. You've got some market share gains, as well, continued market share gains.

How do you think about that, the dynamic between both of those, revenue growth and cost, being a factor in getting there?

Dave O'Hara

Sure. So a little bit on Bing. I mean, it's exactly what you said, which is it's a scale game. And we've increased our market share significantly. I think our most -- the most recent US market share had us at 19.7% share on Bing.

And so, it is a little bit about scale. It's a little bit about building the confidence in the advertisers to spend on the platform. And it's taken us a while to get there. But that shows up in the revenue per search, which has been going up consistently for the last several years. Our search revenue grew 23%, I think, Q2. And we -- so. And the search revenue growth is both a combination of the increase in volume. And the increase in the revenue per search.

We do a really good job of managing costs. But we also understand there that we're investing for the long haul. And we need the basic underlying platform to work.

So what you'll see is, what we will see is continued revenue growth, some continued user growth. And continued cost management. And that all gives us the confidence that we're going to be running a profitable search business in FY '16.

Heather Bellini {BIO 2268229 <GO>}

Mobile -- the transition to mobile's been -- I mean, it's a positive for Google. But it's also a headwind in terms of the type of CPC you can get. How do we -- walk us through the mobile -- Bing mobile strategy.

Dave O'Hara

Yes. The Bing mobile strategy. Obviously, we have -- there's Bing on Microsoft mobile devices.

Heather Bellini {BIO 2268229 <GO>}

Right.

Dave O'Hara

That's an obvious one. We also forge partnerships, as needed. We have the Yahoo partnership which everybody knows a lot about.

Heather Bellini {BIO 2268229 <GO>}

Yes.

Dave O'Hara

We have a partnership with Amazon where we have Bing on Kindle devices. We have a partnership with Apple where Bing powers the back end Siri searches.

And so, it -- so you need -- we need to be good on our own devices. We need to be good on -- we need to be good in our partnerships. And we also need to be good in the future. And so, you'll see Windows 10, we're doing more work than ever. And better work than ever to make sure that Bing is embedded in sort of all the Microsoft fabric and the Microsoft offerings.

And so, I think the combination of all those things will help us continue to grow. I -- to your point of mobile search is a very different business. It has different pricing. And different economics. But we really see that as augmenting our existing business. And so, we see it as additive.

Heather Bellini {BIO 2268229 <GO>}

Right. Mindy, when she was still at the Company, gosh, probably, I don't know, maybe it was three or four years ago, talked about it wouldn't have made sense for Bing to bid on the Apple iOS search agreement, predominantly because what you would have had to have paid out would have cost you more than the revenue you were taking in, given revenue per search wasn't there.

A lot has changed since then. Revenue per search has obviously gone up quite a bit. Does that change when you guys -- does your view change now when you think about being able to get those types of big partnerships?

Dave O'Hara

Well those big partnerships, always -- there's a bit of nuance to them, as well as science. And so, from our perspective, we -- we still need deals that make economic sense. We just do. And we're not in the business of doing underwater search deals. And so, we will do whatever deals make economic sense for us.

I think that when you look at a partnership like that, using Apple as an example, you would have to say, okay what impact does the deal itself have. And then what impact does it have on our existing economics? For example, doing a deal with Apple, does that increase your own revenue per search?

Heather Bellini {BIO 2268229 <GO>}

Right.

Dave O'Hara

And so, there's a broader conversation around the economics that needs to happen. But I would just say we're very grounded in doing distribution deals that make economic sense.

Heather Bellini {BIO 2268229 <GO>}

How do you try and determine the increase in share you might get as a result of deals like that? When you're evaluating any deal, how do you think about that?

Dave O'Hara

It's a little bit of science and a little bit of art. And you're doing it and saying, what impact do we think that will have and why. And what impact does it have on traffic and bit density and how do we think about pricing?

And so, it's really just having people who have worked on the business for years and years, smart people who I trust implicitly to come in with their best judgment and say, here's what we think the impact will be. And usually you're going to -- you can peg it to a range. You're not going to get it exactly right. But you can have a general sense of where it's going to come out.

Heather Bellini {BIO 2268229 <GO>}

Right. So if there is a Windows plus Bing SKU, right, that's relatively new for sub-\$250 machines, how -- to the extent -- and I don't know if you've had enough time in the market with some of these to see. But the key to those for a lot of people will be on what percentage of people actually change the default search from Bing to something else. Is there anything you can share with us to date, based on what you've seen?

Dave O'Hara

We haven't -- it's early days. So I would say we -- our data is still coming in. We haven't released any data on that yet. But again, we think of it as a longer-term strategy. The Windows with Bing SKU is sort of the first step. We'll see more with Windows 10. And we just really feel like Bing is doing a -- we're going to do a better job of integrating Bing in all the Microsoft experiences.

Heather Bellini {BIO 2268229 <GO>}

I want to pause for a second and see if there are any questions in the audience?

Questions And Answers

A - Heather Bellini {BIO 2268229 <GO>}

Quiet group this morning. Okay, I wanted to switch to ad tech. How do you feel Microsoft positions in ad tech?

A - Dave O'Hara

Microsoft's position in ad tech. Well I would say -- there's -- in ad tech, there's always been this debate about where is the power? Is it with the publishers? Is it with the demand side? How do we think about it?

I would just say that Microsoft, by virtue of our position in software and in online, is one of the biggest publishers on the planet. So we feel like we're well positioned as a publisher in ad tech.

We've done, I think, a decent job of monetizing our -- of monetizing that position. We can do a better job of monetizing that position. So I feel like, as a large publisher, we have the opportunity to grow our ad tech business even more.

We do see ad tech as just part of the bigger puzzle. I mentioned earlier that we have a -- what I would consider a bevy of assets. And I think that's true. And we just need to come up with an ad tech strategy that capitalizes on that with that -- within the broader Microsoft strategy.

So we feel good about where we're at in ad. We feel good about our progress in search. And we feel good about our opportunity to monetize as a publisher.

A - Heather Bellini {BIO 2268229 <GO>}

Okay. Satya has said that he wants Microsoft to be relevant to dual users, right. And I believe he said people who use technology for work or school. And how it impacts their digital lives. How does that feed into the investment that you're making, investment for acquisitions?

A - Dave O'Hara

Sure, good question. So dual users. Dual users implies that we need to be -- it goes back to the same theme, which is, that implies that we need to be good on other people's devices, as well as our own.

And so, we've done some things to make that happen. Probably the most notable that people have seen recently is our acquisition of Accompli, which resulted in the

Outlook app for mobile, which was written about -- last week it was written a lot about. And we feel good about Accompli as an example of a good acquisition we can do that leverages our existing position already. And builds on it.

And so, that would be an example of how we are looking to be dual user across both home and work. And what that -- how that might show up. So I would say Accompli is a good example. And there are other examples out there that we'll continue to pursue.

A - Heather Bellini {BIO 2268229 <GO>}

How does Mojang fit in?

A - Dave O'Hara

How does Mojang fit in?

A - Heather Bellini {BIO 2268229 <GO>}

Yes.

A - Dave O'Hara

Mojang fits in because driving -- I would say, first of all, not my area of expertise. But I would explain -- because Windows is outside of my domain -- but I would just say it this way. The Mojang acquisition was about driving deeper usage of Windows. And making Windows more interesting to a targeted group of Windows users, specifically gamers.

And so, I think that that is another example of where you can take something that -- a broad product and make it more vertical. And I think any time you can make products more vertical and more specific, it probably gives you a little more -- it gives you an ability to get better and deeper margins.

A - Heather Bellini {BIO 2268229 <GO>}

Okay. I wanted to make sure we touched on Skype, given that falls under your domain. There's applications, obviously, Messenger, there's WhatsApp, there's LINE. How does Skype fit into this kind of evolving category?

A - Dave O'Hara

Yes --

A - Heather Bellini {BIO 2268229 <GO>}

And what do you see as the future?

A - Dave O'Hara

Yes, I mean, talk about a competitive space, that's -- communications is a super, hyper-competitive space. I think Skype -- the Skype acquisition has been good for us. It's taught us a lot about communications as a category. And we've learned a lot from that.

If you look at what we're doing with Skype for Business -- it used to be called Lync -- I think that's leveraging a lot of the learnings that we got out of Skype. So the Skype acquisition has been helpful in that way. And then it helps us think about communications, more broadly. But, again, super-competitive space.

And I think it -- we need to continue to innovate. I think messaging is an important part of that. And so -- but it's only one part of it. We really think about communications more broadly.

We also need to continue to innovate in that space. If you look at some of the things we're doing with Skype translator, I think that's an example of where we can do some things to continue to significantly add value.

I would also just say the Skype brand has a lot of value within communications, as well. And we just need to build on that brand.

A - Heather Bellini {BIO 2268229 <GO>}

And when you think of kind of WhatsApp being able to get to, I don't know, maybe it's over 700 million users now are able to get online, what are the stats on Skype usage?

A - Dave O'Hara

I'm going to look at my IR guy. I don't think we've disclosed those recently. Skype -- if you go back and track -- if you go back and track in time, Skype has had historically hundreds of millions of users. And Skype continues to have hundreds of millions of users. But I don't think we break that out separately.

A - Heather Bellini {BIO 2268229 <GO>}

Okay. And when you think about pivoting, I mean, none of these guys, really, have figured out how to monetize these businesses yet. Can you kind of -- how do you think about leveraging the existing portfolio of Microsoft assets to enable you to leverage this, either directly or indirectly?

A - Dave O'Hara

Right. Well I think the key -- the key for that is really to get the products to work well together. And to be able to, quote/unquote cross-sell and up-sell. I say "quote/unquote" because sometimes you just aren't able to price it. So just to get them to work together and to use -- and to function well together and get users using more than one product is super helpful.

I do think we have sort of an increased focus on post-sale monetization, how do we think about that. A lot of that is largely through advertising. Some of it's through subscriptions. And so, we're focusing on, one, is getting the products to work well together and to cross reference across those products. And then a deeper focus on wholesale monetization.

A - Heather Bellini {BIO 2268229 <GO>}

I'm going to check for the audience one last time before we wrap it up. We've got about two minutes left.

All right.

A - Dave O'Hara

You're (inaudible) exactly the same response my team has when I do a Q&A with them. So it's all (inaudible).

Q - Unidentified Participant

(technical difficulty).

A - Dave O'Hara

So I'll just repeat the question. Does Bing distinguish itself in any way, or is it a different flavor of ice cream?

So one is there's a core offering you need to do in search. The algorithm -- the results need to make sense, right? And so, we've spent a lot of time just making sure that we have good curation.

And so, in some ways, you could argue, hey, it's search, search is search, right? We try to differentiate it a little bit, both in the user experience and we also try to differentiate in terms of, it's a small point. But even like the presentation of the search where we have a photo instead of a blank white page.

And so, I think, really, it's a lot the same with nuanced differences is how I'd probably describe it. So we invest heavily in the platform to try to create some differentiation.

A - Heather Bellini {BIO 2268229 <GO>}

Thank you. So much.

A - Dave O'Hara

All right. Thank you, everybody.

A - Heather Bellini {BIO 2268229 <GO>}

Appreciate it. Thanks, Dave.

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