Goldman Sachs Technology & Internet Conference

Company Participants

- Jared Spataro, Corporate Vice President, Microsoft 365, Marketing

Other Participants

- Heather Bellini, Analyst, Goldman Sachs

Presentation

Heather Bellini {BIO 2268229 <GO>}

Okay, thank you everybody. Great to see a full house for Microsoft. We are very pleased to have Jared Spataro with us. He's the Corporate Vice President of Microsoft 365, Marketing. So, thank you for making the trip and spending some time.

Jared Spataro {BIO 17854733 <GO>}

My pleasure. Thank you for having me.

Heather Bellini {BIO 2268229 <GO>}

So, everybody knows that Office 365. Right. Sometimes when we talk about M365 people think we're confused. So it's a huge brand, but walk us through help people understand what is in the product set?

Jared Spataro {BIO 17854733 <GO>}

Sure, thanks. Let's just start, let's break down the components first and then play a little bit about the history. So from a component perspective, Microsoft 365 consists of Office 365, EMS, which is our Enterprise Management Security Suite and Windows and that's the windows commercial value. And we started off, actually kind of there is a small bundle that we call the enterprise cloud suite. It was based on customers looking to buy those things together and we bundle them up and gave them a discount. What we found over time though was the customers, weren't just buying for the discount, they of course appreciate the discount, but increasingly, they wanted to make those purchases together, because they were starting to see real benefits from deploying the technologies together and getting the benefits of lining up the latest versions of the software to enable essentially new scenarios.

So then we took that ECS, that Enterprise Cloud Suite in 2.5 years ago we launched Microsoft 365 as a product proper and over the last two and half years, we've been very busy, not just taking the components and making them better, but also really

working hard across the integration of those components, so that we have a new value prop. And in fact we have a brand new value prop as we think about the software itself.

Heather Bellini {BIO 2268229 <GO>}

Who's the target market for M365?

Jared Spataro {BIO 17854733 <GO>}

Of course our strength is Microsoft has always been IT, I would say. And if I then go into a segment view that puts us into enterprise. But what's really nice about Microsoft 365 and bringing those components together is, we have expanded our target market. So let me talk from a couple of perspectives. First, if we just look at enterprise, the combination of those components allows us, not just to speak to IT, but really speak to the business about business transformation and that's been -- that has really changed our sales motion. I think we'll talk a little bit about that later.

And the second thing that Microsoft 365 has allowed to do, it's allowed us to go into even in enterprise into new areas, so as an example, first line workers people who largely didn't have access to kind of productivity software, previously. And then it's allowed us to go down market into SMB because we're able to bring these services together in a very integrated way and take-out a lot of the management that you had to do through IT departments previously.

So there's Microsoft 365 as a package has allowed us to do a lot of things that we just weren't able to do an on-premise software was the way that we delivered our value.

Heather Bellini {BIO 2268229 <GO>}

So, and as you see enterprises and you rightly pointed out in certain pockets of, if you go outside knowledge workers there were people that may be never had access to office or may be didn't even have a Windows machine that they were using. How has this kind of enabled people to kind of get more of their employee base on to Microsoft's suite of offerings. And can the IT, can the company, kind of pick and choose, okay, it might be E5, it might be E3 or it might be some of their SKUs. So how much mixing and matching is going on as a result of this?

Jared Spataro {BIO 17854733 <GO>}

There is quite a bit of mixing and matching maybe the best example would be to kind of talk to you about what this looks like in a large enterprise. So, if we take a step back and look at a large enterprise and what they're doing, of course, they have their information workers that they're trying to help just be more productive and the things I think all of us would be familiar with. These are people who carry laptops with them, who have access to all the computing power of a laptop and then can go to the cloud.

For a lot of other workers they're, very high value workers. We call them first line workers. They may not kind of every day carry that type of computing device, increasingly they do carry a phone, but they have kind of been left behind by the technology revolution focused on productivity. In the healthcare sector as an example, we have a great customer in St. Luke's regional health care network that we've profile recently and doctors for them, are first line workers.

So these are highly qualified highly paid individuals, and we're able to use Microsoft 365 deliver our value on a phone now, and do so in a way that really helps them to be more productive. What we like to say with Microsoft 365 now as you can license people depending on what they need, and you can connect everyone from the top floor to the shop floor, in other words, you connect everyone across the organization. We think Microsoft 365 is the first platform that really allows us to do that in a productivity sense spanning different worker types. And then just getting to licensing question very specifically, we certainly see people that license really based on the need of the workers. They'd license E3 or E5 for their information workers. We have other licenses called first line licenses and they'll use that for those first line workers. It just depends on what the needs are at the individual worker level.

Heather Bellini {BIO 2268229 <GO>}

And did enterprise customers who are used to getting a new machine getting Windows 10 maybe on that new machine and then either using Office 365 or increasingly using Office 365 like how much of a cultural change is it for enterprise customers to move away from kind of how they used to adopt Windows technology in the past and even Office technology when -- what is it like when they start morphing over to this type of strategy?

Jared Spataro {BIO 17854733 <GO>}

It's a big change. You should underestimate it. Again, the thing we're tapping into with Microsoft 365 is business transformation in general. I think what customer sometimes aren't ready for is how much we will also change their IT operations, because what we do is we're able to remove a lot of the running of servers, a lot of the -- for instance imaging of desktops, a lot of kind of essentially kind of that lower level repetitive work associated with delivering IT services. Now we're able to help those IT professionals focused on really delivering value. It comes at just the right time because IT right now increasingly has that pressure and that desire to be aligned with the business and business objectives.

So we feel like we're riding a wave of demand that starts with this business transformation idea, but also includes kind of tech transformation in these large enterprises.

Heather Bellini {BIO 2268229 <GO>}

So on your most recent earnings call, obviously you had very strong growth in your commercial business. Amy called out some of the drivers of that, but she also specifically highlighted Microsoft 365 is one of the reasons that commercial

bookings growth was ahead of the expectations. So how do we think about the opportunity ahead? And kind of how impactful, this could be?

Jared Spataro {BIO 17854733 <GO>}

Sure. Let's start with just the remainder of some of the baseline stats, because I think that helps to ground everyone. Office 365, we report now, so it's monthly active users and in Q1 of this fiscal year for us, we reported over 200 million monthly active users of Office 365. In Q2, we've reported some numbers on EMS, there we report seats and that was 127 million seats of EMS, that was growing 35% year-over-year.

And then if we get to the third component of Microsoft 365, we have Windows Commercial. We reported that grew 25% year-over-year. So each of the components are growing quite nicely. A new data point that I'll share with you, and with this room that we haven't shared before is that now when we look at Office 365 purchases over a quarter of Office 365 licenses are being purchased through M365 or through Microsoft 365. So in other words, what we're trying to communicate to you is Microsoft 365 as a vehicle now is allowing us to go in and not just sell Office 365, but also sell EMS and to sell Windows.

So when you think of kind of the upside available for us just in pure SKU and revenue terms, that's kind of what it looks like. But there's even more as we think about the value prop, and kind of it resets the value prop conversation for us.

Heather Bellini {BIO 2268229 <GO>}

And it actually makes Windows a subscription business, right. So I know you've got how you guys do Rev Rec for Windows and how that changed over the years, but it makes it so that you're not just paying a monthly subscription now for Office 365, but Windows which probably most people in the room would normally think of if it's just a transactional purchase has started to change.

Jared Spataro {BIO 17854733 <GO>}

Correct. And that's because it would be one thing if we just switch these things over to subscription businesses, but then there is no value. But in each of those categories, we have tried really hard to have cloud value. Office we'll talk more about it, but the intelligent services associated with Office allow us to kind of deliver ongoing value in EMS, again the management is cloud-based and Intelligent based on cloud services and then Windows, just as you indicate and we're able to the real hope for us in Windows with Windows Commercial ends up being security, but there is other end user value like timeline as an example or a cloud-based copy and paste that are simple, but mean a lot of people across devices.

And then of course there is some innovation, we've introduced with things like Windows Virtual Desktop we refer to the WVD that's an area that is cloud-based allows us to really go after this virtualization market with Windows. So, you're exactly right.

Heather Bellini {BIO 2268229 <GO>}

Some people wonder how much of the strength and the success has been the result of the Windows 7 end of life. So can you can you talk with us a little bit about that in terms of the uptake that you've seen the strong growth that you've reported. Is there any way to discern how much of an impact end of life has been?

Jared Spataro {BIO 17854733 <GO>}

Of course, again, just to go back to the data point, Q2, 25% year-over-year growth in billings for Windows Commercial, so that's kind of where we're starting from. Definitely Windows 7 end of life has continue to what they driver for us. I think we'll continue to be as we have even some of those laggards that are catching up, but as we look out there is just real value in Windows commercial that goes well beyond having an end of life moment for us and that's what I'm most excited about with the Windows.

Security really is the anchor. It is the thing that people are excited about, they're starting to recognize that with their OS, that a one and done doesn't work that they have to have security services. They keep them secure and then we have these other values. So as we think -- as we look for a long-term growth, we would say that we see sustained double-digit growth in billings in that Windows Commercial Business which is very exciting for us, not something that people would have thought of a couple of years ago, we see some real strength there.

Heather Bellini {BIO 2268229 <GO>}

And even kind of the EMF strength that you've been seeing, if you go back 10 years ago or even prior to that people would say why would I pay Microsoft for security. Right. And so you had these markets or these companies evolve that we're offering security for Windows devices because corporate would say, I don't want to pay Microsoft to do that. They should be making it secure and you went through this whole debate way back then, but now EMS is central to the story. So how do you seem customer perception evolve now that you've got 127 million users of EMS?

Jared Spataro {BIO 17854733 <GO>}

EMS is just foundational to everything we do. Just to review the components for years, we think about what's in these assets identity, management, security and compliance. Those four components are what make up EMS. As we think about our value prop or M365 all up tapping into kind of digital transformation or business transformation, I divide it into three buckets, there is a bucket for personal productivity kind of helping your end users be productive, no matter who they are and what they do, organizational productivity helping the entire org be more productive. And then finally, this kind of under guarding of security and compliance.

EMS is critical to delivering all three values like it's just super super important. So as you think about identity increasingly doing identity right and identity across all your

investments your IT investments becomes a central investment point for you, it becomes a control plane, we'd like to think of it is. And then even as you get down to management which kind of was boring for a while, people are starting to recognize this cross device, cross platform management super important and your ability with EMS, as an example to manage Windows devices, go across and manage iOS and Android all the devices in your state is really important.

So it for me kind of (inaudible) the value that, we are delivering through the entire suite and that's what makes it so important. And as we go drive kind of Microsoft 365 revenue, that's what you're seeing as people are starting to recognize that they need to invest in this area.

Heather Bellini {BIO 2268229 <GO>}

So if you think about Office 365 you mentioned over 200 million MAUs on your most recent call, the 127 million users of EMF. How do we think about those, should that the GAAP between those numbers converge and should we start to see or should we think about the potential for EMS as being your Office 365 base in totality?

Jared Spataro {BIO 17854733 <GO>}

Absolutely. Let me answer the specific question, and broadening out how you should think about the business. The specific question would be absolutely as you think about those 200 million MAU, we would certainly want to attach EMS to all of them, you can definitely think about the dip in those two numbers as upside. You also should think about a dip between our MAU and our seats for Office 365, because there is a dip there, we don't disclose seats, but there is a delta that you can be calculating.

In general, the pattern that we see would be that we go from components to ME3 so Microsoft 365 E3 and then if we step people up into ME5. And so that's the monetization train we're raiding right now and that's the pattern that we're essentially developing in our sales force, it's caused us to develop a new sales motion entirely to go after it.

Heather Bellini {BIO 2268229 <GO>}

What is the new sales notion?

Jared Spataro {BIO 17854733 <GO>}

Well, that this awesome opportunity. We use to sell kind of just coverage. That's how we did it. Office was essentially I call it WXP, Word Excel PowerPoint, you could add Outlook into that perhaps Mail, but that was the core value prop for productivity from Microsoft. We stepped way beyond WXP, what people think of is Office and so that all sales motion of just coverage coming in and saying, hey, you have a person they need Email, they need Office has now moved into much more of a solution sales kind of oriented thing where we actually are able to walk in and talk again

about personal productivity, organizational productivity and security and compliance.

The upside to that is we're tapping into new budgets, awesome. The downside to that is, there is a little bit longer sales cycle, I'm with you. So there's kind of some balancing for us to do as we go after this new opportunity.

Heather Bellini {BIO 2268229 <GO>}

So when you think about the people who have migrated to Office 365 early, but maybe didn't use EMF. Do you -- have you noticed a trend? Are there any situations you could talk about where people have actually maybe they were using something else for EMF, but they were using Office 365 and then they started converting over and switch right, do you see that happening at all?

Jared Spataro {BIO 17854733 <GO>}

Absolutely, one of the ideas that are the examples that comes to mind for me is National Bank of Canada. Again if I start from kind of what got them motivated, they started, specifically with this idea of business transformation. They are very interested in kind of coming up to the 21st century and everything that they did they were heavy, heavy Office users, just generally, but they were Office users kind of for their office staff not necessarily for the retailers. As we were able to lock them up the stack, they moved into Microsoft 365 as a suite that means going from office and adding again EMS and Windows Commercial.

It also in this particular case, introducing teams and new ways of collaborating within six months that organization went from nothing and kind of no collaboration to 50% of org using teams within nine months they had 80% on. So it's a really nice way of kind of seen and move from being an old profile customer up to kind of where we like to see our customers.

Heather Bellini {BIO 2268229 <GO>}

Amy also talks about that success and the impact that EMS adoption has had on Azure and Azure gross margin. So it's a per seat pricing model. It does seem like there's a lot of runway there for this to continue to see penetration. Is there also an idea over time where you could see upward SKU migration, so that even though someone might be an existing customer paying you $5 per user per month that there is going to be opportunities similar that you have with Office 365 where you can start moving up the SKUs so the existing customers can actually start driving even more incremental revenue.

Jared Spataro {BIO 17854733 <GO>}

Absolutely, with Microsoft 365, the strategy behind it is based on the idea that as we think about someone who is using Microsoft 365, we find that even from out of the gate, they have a higher ARPU then they have lower churn, which is really good. And

then finally, to your point exactly, they have a much higher propensity to over time consumed or what we call our premium SKUs. So E5 and even the components of E5, so it gives us this opportunity to walk them up through the stack and it's just for us it's a golden formula. We love what Microsoft 365 is doing to drive the business.

Heather Bellini {BIO 2268229 <GO>}

Is it -- you talked a little bit about the lower churn that you mentioned, how material is it? And what causes the lower churn?

Jared Spataro {BIO 17854733 <GO>}

Let's go enterprise down to SMB. Enterprise churn is not something that's been a really big problem for us.

Heather Bellini {BIO 2268229 <GO>}

Right.

Jared Spataro {BIO 17854733 <GO>}

But as we move down to the SMB certainly turn to something that is part of just managing the business over time. So Microsoft 365 has helped us because we are delivering new value that goes beyond that kind of Word Excel PowerPoint, we definitely have been able to see it change the kind of the shape of what churn looks like in a positive direction for us.

And then as we just think about overall kind of using Microsoft 365, our efforts in this new sales motion that we've implemented haven't just been on value selling, but they've also been in value realization and we've invested for instance in, we got CSM, he is your Customer Success Managers, lots of tech companies do this, it was new for Microsoft over the last couple of years, and across the stack in our segments, we actually go in and help them realize the value.

When they're using, and we've got great numbers that show this when they're using and getting value of the churn just goes away like they in fact add they go up the stack in terms of SKUs and they add -- over time.

Heather Bellini {BIO 2268229 <GO>}

Right. And again, if we take a look at the security market, typically, it's been a best of breed market right, and I guess how do you think about your ability to compete with all of the point solutions that exist across the various categories?

Jared Spataro {BIO 17854733 <GO>}

So this is a place where it's useful to step back and talk about our strategy with Microsoft 365 in general, while our (inaudible) security, I think it will come up as we

talk about teams, as an example. We are really going after, what I call it no compromise this strategy and that is that we think we can be best-in-class and we think we can be best in integration, that has not been possible before particularly in security as you look at the players out there, most of them are point players, they have gone after best in breed in a particular area, but we see this opportunity to actually do both and to really go after and to make our investments in a way that matter.

As you look at where we've invested in security we start at identity talking about that EMS later, we move up to devices, we go from devices to apps, we move from app to the information in the apps, we got all the way up to the cloud services. And finally we cap all of that with Threat Protection that essentially kind of looks across all of those touch points in your infrastructure. And so in each of the areas, we're trying to invest very deeply, we are committed to being best in class, but in addition to those investments, we're also investing across those areas and the way that we think makes us very differentiated.

Heather Bellini {BIO 2268229 <GO>}

So at Ignite back in September, you had a couple of product announcement, where you had a lot of product announcements, but a couple of were project Cortex also the endpoint manager product that you announced. Any feedback on those so far? And also, is this the evolution, we should be expecting is just more and more of these add-ons into the SKUs?

Jared Spataro {BIO 17854733 <GO>}

Yes, great feedback. Let me talk about endpoint manager. Again, I'd say that management was a place that was sleepy for a while. We feel like it is increasingly becoming strategic as companies recognize, hey the first step in digital transformation business transformation is actually making sure you get your directory right and making sure you manage your devices, right. So, endpoint manager for us, Microsoft endpoint manager brings together in tune and config man, these are two kind of one cloud one kind of on-prem based service and puts them into a single integrated service that was a really big deal for us. The reaction that's been super positive. This project Cortex that you refer to Heather has been a really big one for us. This opens a new market for us and brand new TAM.

It is essentially the idea of knowledge and capturing knowledge within your company. So using AI to actually identify and codified knowledge in a way that's very valuable. One simple example would be taking a whole heap of contracts pointing Cortex at it, you can actually pull out Q&A and so that you can understand what's in those contracts, everything from late fees to deadlines that would be coming up things that you'd usually have to have a human go in and scan for, we can now do that with Cortex.

So that's a whole new investment area, we think of it as brand new TAM for us. And then to answer, your final question, ma'am, we're excited because the way we're pursuing M365, Microsoft 365, is to just look for these TAM expansive opportunities.

Some are adjacent, some push us a little bit further out, but to really bring those into our definition of productivity and we're just saying we're going to expand what productivity looks like by looking at the problems and challenges that customers have.

Heather Bellini {BIO 2268229 <GO>}

What about Windows virtual desktop? You mentioned that before and you I think announced that product back in September of '18, I think if I'm not mistaken. What if you heard from customers there, we had Citrix was here yesterday, I mean, they've got a complementary partnership with you all, but it's a question that comes up a lot in the investment community about kind of how you see that relationship, but also your ambitions with this product?

Jared Spataro {BIO 17854733 <GO>}

Let me do the WVD Windows Virtual Desktop, when we talk about partners, let me talk about in the go-forward strategy. If I first said, WVD it's been an excellent success for us, the defining feature of Windows Virtual Desktop is our ability to change the economics of virtualization. We are able to change the economics, because we can run multiple users on the same virtual machine and do so in a way that's very seamless to those users when you experience you kind of can't believe it. So it just -- it allowed us to deliver virtualization at a different level in terms of pricing. So we love that.

Second, as we always do, we're producing great services but we love to have our partners come in and add on top of those services, that's exactly what we're trying to do with, Citrix, that's been the case since the beginning of time. That's how we run our ecosystem. So we see opportunity, Citrix, certainly sees opportunities to build on top of that WVD service.

And then third the go forward for us as we continue to work with customers who start -- have started to deploy WVD, we get excited because we see this opportunity to really rethink what computing looks like over time. What I mean by that is, if you take a step back and look at for instance being able to buy a fairly low cost hardware on the endpoint, but deliver what would be the equivalent of a $10,000 or $20,000 machines for a virtualized experience, again you can change up the economics of what it looks like to deliver computing power to your end users. So we see that as a long-term opportunity that we're investing in now. So this is a place or space where we see lots of opportunity for us.

Heather Bellini {BIO 2268229 <GO>}

And its interesting because this is a market that I think people were hoping would be a really fast growing market and be a fast follower to server virtualization, and that hasn't happened. I mean it starting to your -- definitely getting better data points around it over the last few years, but what is it that you need to see happen for what you just mentioned right the $200 or $300 boxes right that you put under your desk

to give you the experience that you might be working on an HPC machine, what needs to happen in order for that to become a reality?

Jared Spataro {BIO 17854733 <GO>}

I would say three things, number one, the endpoint itself needs to become virtual like Cloud aware, let's just call it, if I can take a step back has been cloud aware in a way that we can take virtualized services and pop them into the experience in a way that feels native. Today, it is a little bit clunky, you're spending something up, you have some window all of a sudden it looks like a whole new desktop, you might virtualize an app, it doesn't feel like it belongs there. So the endpoints need to get much smarter much more intelligent that what they do.

Number two, the service itself needs to get a bit more finished today, as we look at WVD, it's a way for you to spin up your own virtualization. We think if we want to go after these opportunities a finished service offers kind of a unique spin on this. And the number three, as we think about it, we think that there are some opportunities to really rethink where virtualization can deliver in that new value, what I mean by that is, you have certain sectors like healthcare other places where they have found the value virtualization, and we think there are other places where security, compliance, your desire for instance to deliver kind of a footprint list computing environment wouldn't really matter, but because virtualization has been hard and expenses people have not found that.

So as you do the first two, we actually think there will be new use cases that will evolve. So this very rich fertile soil for us to grow the business, and I'm sure you'll hear more from us over time here.

Heather Bellini {BIO 2268229 <GO>}

I've got a handful more questions, but I do recognize there is a lot of people in the audience and I wanted to check to see if there's any questions from the field, before I could move on.

Jared Spataro {BIO 17854733 <GO>}

Somebody is got to ask me about teams, that's all I care about here, so.

Heather Bellini {BIO 2268229 <GO>}

All right, I'll ask you about Teams.

Jared Spataro {BIO 17854733 <GO>}

Beautiful.

Heather Bellini {BIO 2268229 <GO>}

All right. An increasing area of focus.

Jared Spataro {BIO 17854733 <GO>}

Sure.

Heather Bellini {BIO 2268229 <GO>}

Lot of press, you recently announced I think 20 million DAUs right, back in November.

Jared Spataro {BIO 17854733 <GO>}

That's correct.

Heather Bellini {BIO 2268229 <GO>}

So how has user adoption or engagement track versus your expectations?

Jared Spataro {BIO 17854733 <GO>}

It's been phenomenal. If I'm honest with you. Let me just start with the DAU thing because there's a lot of needling on this. And let me define the DAU. Daily Active User for us is a maximum number of users who taken an intentional action over a 24-hour period, that's really important for me to hit. What we call passive actions do not count. So auto boot does not count, minimizing the window does not count, closing the app does not count, we also do --

Heather Bellini {BIO 2268229 <GO>}

There's a lot of questions about this. I got you, yeah.

Jared Spataro {BIO 17854733 <GO>}

Skype does not count. So when we release our numbers, we just don't feel like we want to get in the weeds of kind of argue with people, but the DAU is very real. We love what we're seeing with Teams. Teams in many ways has become our campus on which to project the best of Microsoft 365, and that's the way for you to think of it.

It is a new opportunity for us to think about what does the operating system of the future really look like, because it puts people at the center, it makes comments or communications, kind of the backplane for how people work together, and then we're layering on business process, we're layering on an integration with line of business systems and sales, I mean it has been truly, truly phenomenal how it's taken off for us. So that's why I want somebody ask me we really love what's happening.

It has become when someone says business or digital transformation, I say Teams even when they don't ask me questions, I say Teams because it's so hard for us as a way to really represent a new way of working.

Heather Bellini {BIO 2268229 <GO>}

And so how have the conversations with enterprises gone? What is it, if you go back a year ago or 18 months ago, this still probably a pretty nascent market for you all and adoption really seems like it's inflected? What's caused that? Has your go-to-market changed? Or your sales people being incented differently? So what is it that's really cause to this inflection?

Jared Spataro {BIO 17854733 <GO>}

There are both internal and external factors. On the external side, again what we see is companies desperately want to find in many ways, a very symbolic and clear way to change how they're working together. Teams allows them to do that, they are able to say, hey, this is a new way of doing things, there's is a form one value prop, there's chat me, call, collaborate and they say, we're going to do certain business processes this way. So it has some kind of symbolic value to companies as they change.

Internally as we started to realize that there was a lot of demand, and that we had a good product market fit because you're always looking for like what's catching fire and we realize wow, this thing is on fire. Of course, we mobilized our resources to go and help customers to adapt. So, we hired a lot more of these customer success managers, so that was a really important set of investments we made. We certainly have worked really hard to do integration between Teams and the rest kind of the productivity elements that people use of the suite. So it's both product investments as well as the type of interactions we have with customers.

Heather Bellini {BIO 2268229 <GO>}

So one of your competitors in this market would highlight limitations of your product and highlight things such as -- you can't have more than 5,000 people in a channel, otherwise you have to have multiple channels and that might defeat the purpose of trying to have seamless communication. How -- what's form? And what isn't? What's real? And what's not in terms of the back and forth, in terms of functionality?

And I guess, why don't we start with that?

Jared Spataro {BIO 17854733 <GO>}

As I think again, think about the form where we thought the hub for teamwork, so there are multiple competitors. If you're trying to do a Teams does you're going to pull together Slack, Zoom, Dropbox and Google, that's kind of the fact of life if you choose not to use Teams. Against each of those competitors we have strengths and we have gaps, and I would just say that we have -- we are super clear on what our gaps are against the leaders in those categories, and we invest every day, every day,

every day to close those gaps. Please don't think that we don't know what those are. We also have real competitive strength, and we're also working really hard to strengthen those things.

Heather Bellini {BIO 2268229 <GO>}

So let's focus on those for a second, so you mentioned there is gaps. So if you had to pick the top two or three, and then kind of what's your development cycle? How fast are you iterating on the product, whereas maybe a year ago, maybe there were six really big gaps you had to overcome and now there might only be three, If I -- help us think through that how the gaps have evolved and how you've been narrowing the gaps? And also what is the -- what's the top one or two value propositions when you're going into a customer that you lead with because you know you're just that far ahead?

Jared Spataro {BIO 17854733 <GO>}

Great. If I were to take Chat and Colab, which is a place that we are behind a year and a half ago, boy my gaps in Chat and Colab and versus the Chat and Colab folks, they are almost non-existent at this point. We still have a couple of very small ones, having to do a scale, you mentioned one of those kind of channel scalability would be an example of one. But I can't think of too many others as I work with customers that are really big differences, even our platform investments as an example, the work we've been doing to make Teams a platform, it's far ahead of those competitors.

If we then take for instance meetings, where we have a company like Zoom it has done really well, we have at small gaps that we've seen that over the course of the last 18 months, we have done a lot for instance in quality and we feel really good about where our quality stands today. Then as we look across the others, the gaps are small and getting smaller is the way we feel.

I will go back to our strategy. Our strategy is really to be best-in-class and to be best of integration to be no compromises that's exactly what we're trying to do. If I go to the question of like what do we say when we walk into a customer what wins the day every time, it ends up being the combination that hub for teamwork that wins every time when we say, hey, watch this, you're going to go from paying someone on chat to bringing in three other people to co-authoring a document, to see each other's faces to finally moving this through an approval workflow. So you can submit your bid, and that's all happens on one platform that is totally differentiated and that's where we are winning, right now.

Heather Bellini {BIO 2268229 <GO>}

Right. So I think that's the other helpful thing is to how do people think about just the paying point of integration, if you didn't go with Teams?

Jared Spataro {BIO 17854733 <GO>}

There are two really big aspects of integration, if you don't go with Teams. First you actually have to find ways to plug your workflow and by that I mean the flow of your work together that's everything from the details of identity and kind of who has access to what to just like, where do we put this thing, and how do we referenced it? That's one very practical bucket of things.

The second very practical bucket of things ends up being security and compliance. How do you create a security and compliance boundary around those things than ensures that you are secure always in all scenarios and compliance with the regulations that matter for you in your industry of your field of work. Those two areas of integration are very expensive. And that's the place that we're investing. That's what our platform is all about.

Heather Bellini {BIO 2268229 <GO>}

Last question I had was just on marketing with Teams. Your marketing strategy at the enterprise level, but also I think you've recently gotten a little bit or maybe double down or got more aggressive on the SMB side. Can you talk us -- walk us through kind of the different ways you're attracting customers?

Jared Spataro {BIO 17854733 <GO>}

You bet. (Inaudible), I think I love working with them as he is very focused on, hey when you find an opportunity, let's double down to use your words and let's really go after and Teams certainly popped up as one of those 12 months to 18 months ago. So as we think about kind of broad air cover, we are investing in resources to do advertising something we don't typically do for an app, when we started to do that, we kick that off, in the NFL prior to the Super Bowl will continue to do that here in the US and we'll expand out to other markets.

That's important because what we find is this category still is just under-known and we need to find a way to make sure people understand what it is and what we can do. Then as we think about attracting people, we've worked really hard on what we call our on-ramps. We have a single place for people to go and sign in, so whether you have a license already, and you don't know it or you don't have a license and you just want to get going with the product, we have been working super hard on a single place to go, if you go to -- Teams at microsoft.com you're sign in and then, we're smart enough to know what to do with you.

If your company has a license for you, we put you right to your Teams experience connected with everyone, if you don't, you will start up a new free tenant and that way of kind of really working the friction out just week after week after week, the process is really an important part of the new Microsoft, and here we are.

Heather Bellini {BIO 2268229 <GO>}

Great. I think we're out of time, Jared. Thank you so much. Appreciate it.

Jared Spataro {BIO 17854733 <GO>}

Thank you.

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