Microsoft Cloud Continues to Grow, Powers First Quarter Results

*Commercial cloud annualized revenue run rate reaches $20.4 billion*

**REDMOND, Wash. — October 26, 2017 —** Microsoft Corp. today announced the following results for the quarter ended September 30, 2017:

* Revenue was $24.5 billion and increased 12%
* Operating income was $7.7 billion and increased 15%
* Net income was $6.6 billion and increased 16%
* Diluted earnings per share was $0.84 and increased 17%

“This quarter we exceeded $20 billion in commercial cloud ARR, outpacing the goal we set just over two years ago,” said Satya Nadella, chief executive officer at Microsoft. “Our results reflect accelerating innovation and increased usage and engagement across our businesses as customers continue to choose Microsoft to help them transform.”

Microsoft returned $4.8 billion to shareholders in the form of share repurchases and dividends in the first quarter of fiscal year 2018. During the quarter, the company announced an 8% increase in its quarterly dividend to $0.42 per share.

“Our strong start to the fiscal year reflects the impact of our continued investment in product innovation and sales capacity to capture expanding market opportunities,” said Amy Hood, executive vice president and chief financial officer at Microsoft.

Revenue in Productivity and Business Processes was $8.2 billion and increased 28% (up 28% in constant currency), with the following business highlights:

* Office commercial products and cloud services revenue increased 10% (up 10% in constant currency) driven by Office 365 commercial revenue growth of 42% (up 42% in constant currency)
* Office consumer products and cloud services revenue increased 12% (up 10% in constant currency) and Office 365 consumer subscribers increased to 28.0 million
* Dynamics products and cloud services revenue increased 13% (up 12% in constant currency) driven by Dynamics 365 revenue growth of 69% (up 69% in constant currency)
* LinkedIn contributed revenue of $1.1 billion during the quarter

Revenue in Intelligent Cloud was $6.9 billion and increased 14% (up 13% in constant currency), with the following business highlights:

* Server products and cloud services revenue increased 17% (up 17% in constant currency) driven by Azure revenue growth of 90% (up 89% in constant currency)
* Enterprise Services revenue increased 1% (0% in constant currency) with growth in Premier Support Services offset by declines in custom support agreements

Revenue in More Personal Computing was $9.4 billion and relatively unchanged (down 1% in constant currency), with the following business highlights:

* Windows OEM revenue increased 4% (up 4% in constant currency), ahead of the overall PC market
* Windows commercial products and cloud services revenue increased 7% (up 6% in constant currency) driven by annuity revenue growth
* Search advertising revenue excluding traffic acquisition costs increased 15% (up 15% in constant currency) driven by higher revenue per search and search volume
* Surface revenue increased 12% (up 11% in constant currency) driven by sales of the new Surface Laptop
* Gaming revenue increased 1% (0% in constant currency) with Xbox software and services revenue growth of 21% (up 20% in constant currency) offset by lower hardware revenue

**Business Outlook**

Microsoft will provide forward-looking guidance in connection with this quarterly earnings announcement on its earnings conference call and webcast.

**Webcast Details**

Satya Nadella, chief executive officer, Amy Hood, executive vice president and chief financial officer, Frank Brod, chief accounting officer, John Seethoff, deputy general counsel and corporate secretary, and Chris Suh, general manager of Investor Relations, will host a conference call and webcast at 2:30 p.m. Pacific time (5:30 p.m. Eastern time) today to discuss details of the company’s performance for the quarter and certain forward-looking information. The session may be accessed at <http://www.microsoft.com/en-us/investor>. The webcast will be available for replay through the close of business on October 26, 2018.

**New Accounting Standards**

We adopted new accounting standards related to revenue recognition and leases effective July 1, 2017. The prior periods presented here have been restated to reflect adoption of these new standards.

**Constant Currency**

Microsoft presents constant currency information to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency rate fluctuations. To present this information, current and comparative prior period results for entities reporting in currencies other than United States dollars are converted into United States dollars using the average exchange rates from the comparative period rather than the actual exchange rates in effect during the respective periods. All growth comparisons relate to the corresponding period in the last fiscal year. Microsoft has provided this non-GAAP financial information to aid investors in better understanding the company’s performance. The non-GAAP financial measures presented in this release should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

**Financial Performance Constant Currency Reconciliation**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Three Months Ended September 30,** | | | |
| ($ in millions, except per share amounts) | **Revenue** | **Operating Income** | **Net Income** | **Diluted Earnings per Share** |
| **2016 As Reported** | **$21,928** | **$6,715** | **$5,667** | **$0.72** |
| **2017 As Reported** | **$24,538** | **$7,708** | **$6,576** | **$0.84** |
| Percentage Change Y/Y | 12% | 15% | 16% | 17% |
| **Constant Currency Impact** | **$95** | **$12** | **$28** | **$0.00** |
| Percentage Change Y/Y Constant Currency | 11% | 15% | 16% | 17% |

**Segment Revenue Constant Currency Reconciliation**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Three Months Ended September 30,** | | |
| ($ in millions) | **Productivity and Business Processes** | **Intelligent Cloud** | **More Personal Computing** |
| **2016 As Reported** | **$6,436** | **$6,097** | **$9,395** |
| **2017 As Reported** | **$8,238** | **$6,922** | **$9,378** |
| Percentage Change Y/Y | 28% | 14% | 0% |
| **Constant Currency Impact** | **$24** | **$32** | **$39** |
| Percentage Change Y/Y Constant Currency | 28% | 13% | (1)% |

**Selected Product and Service Revenue Constant Currency Reconciliation**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Three Months Ended September 30, 2017** | | |
|  | **Percentage Change Y/Y (GAAP)** | **Constant Currency Impact** | **Percentage Change Y/Y Constant Currency** |
| **Office commercial products and cloud services** | **10%** | **0%** | **10%** |
| **Office 365 commercial** | **42%** | **0%** | **42%** |
| **Office consumer products and cloud services** | **12%** | **(2)%** | **10%** |
| **Dynamics products and cloud services** | **13%** | **(1)%** | **12%** |
| **Dynamics 365** | **69%** | **0%** | **69%** |
| **Server products and cloud services** | **17%** | **0%** | **17%** |
| **Azure** | **90%** | **(1)%** | **89%** |
| **Enterprise Services** | **1%** | **(1)%** | **0%** |
| **Windows OEM** | **4%** | **0%** | **4%** |
| **Windows commercial products and cloud services** | **7%** | **(1)%** | **6%** |
| **Search advertising excluding traffic acquisition costs** | **15%** | **0%** | **15%** |
| **Surface** | **12%** | **(1)%** | **11%** |
| **Gaming** | **1%** | **(1)%** | **0%** |
| **Xbox software and services** | **21%** | **(1)%** | **20%** |

**Commercial Cloud Annualized Revenue Run Rate**

Commercial cloud annualized revenue run rate is calculated by multiplying revenue for the last month of the quarter by twelve for Office 365 commercial, Azure, Dynamics 365, and other cloud properties.

**About Microsoft**

Microsoft (Nasdaq “MSFT” @microsoft) enables digital transformation for the era of an intelligent cloud and an intelligent edge. Its mission is to empower every person and every organization on the planet to achieve more.

**Forward-Looking Statements**

Statements in this release that are “forward-looking statements” are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors such as:

* intense competition in all of Microsoft’s markets;
* increasing focus on services presenting execution and competitive risks;
* significant investments in new products and services that may not achieve expected returns;
* acquisitions, joint ventures, and strategic alliances that may have an adverse effect on our business;
* impairment of goodwill or amortizable intangible assets causing a significant charge to earnings;
* a change in Microsoft’s ability to earn expected revenues from its intellectual property rights;
* claims that Microsoft has infringed the intellectual property rights of others;
* the possibility that we may fail to protect our source code;
* the possibility that we may not be able to protect information on our products and services from use by others;
* cyber-attacks and security vulnerabilities in Microsoft products and services that could reduce revenue, increase costs, harm us competitively, or lead to liability;
* disclosure of personal data that could cause liability and harm to Microsoft’s reputation;
* abuse of our advertising or social platforms that may harm our reputation or user engagement;
* outages, data losses, and disruptions of our online services if we fail to maintain an adequate operations infrastructure;
* government litigation and regulatory activity that may limit how Microsoft designs and markets its products;
* potential liability under trade protection, anti-corruption, and other laws resulting from our global operations;
* laws and regulations relating to the handling of personal data that may impede the adoption of our services or result in increased costs, legal claims, or fines against us;
* Microsoft’s ability to attract and retain talented employees;
* adverse results in legal disputes;
* additional tax liabilities;
* quality or supply problems;
* exposure to increased economic and operational uncertainties from operating a global business, including the effects of foreign currency exchange;
* catastrophic events or geo-political conditions that may disrupt our business;
* adverse economic or market conditions that may harm our business; and
* changes in our sales organization that may impact revenues.

For more information about risks and uncertainties associated with Microsoft’s business, please refer to the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors” sections of Microsoft’s SEC filings, including, but not limited to, its annual report on Form 10-K and quarterly reports on Form 10-Q, copies of which may be obtained by contacting Microsoft’s Investor Relations department at (800) 285-7772 or at Microsoft’s Investor Relations website at <http://www.microsoft.com/en-us/investor>.

All information in this release is as of October 26, 2017. The company undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the company’s expectations.

**For more information, press only:**

Microsoft Media Relations, WE Communications for Microsoft, (425) 638-7777, [rrt@we-worldwide.com](mailto:rrt@we-worldwide.com)

**For more information, financial analysts and investors only:**

Chris Suh, general manager, Investor Relations, (425) 706-4400

Note to editors: For more information, news and perspectives from Microsoft, please visit the Microsoft News Center at <http://www.microsoft.com/news>. Web links, telephone numbers, and titles were correct at time of publication, but may since have changed. Shareholder and financial information, as well as today’s 2:30 p.m. Pacific time conference call with investors and analysts, is available at <http://www.microsoft.com/en-us/investor>.

|  |  |  |  |
| --- | --- | --- | --- |
| **MICROSOFT CORPORATION** |  |  |  |
|  |  |  |  |
| INCOME STATEMENTS | | | |
| (In millions, except per share amounts)(Unaudited) | | | |
|  |  |  |  |
|  | **Three Months Ended September 30,** | | |
|  |
|  | **2017** |  | **2016** |
| Revenue: |  |  |  |
| Product | **$14,298** |  | $14,968 |
| Service and other | **10,240** |  | 6,960 |
| Total revenue | **24,538** |  | 21,928 |
| Cost of revenue: |  |  |  |
| Product | **2,980** |  | 3,581 |
| Service and other | **5,298** |  | 4,263 |
| Total cost of revenue | **8,278** |  | 7,844 |
| Gross margin | **16,260** |  | 14,084 |
| Research and development | **3,574** |  | 3,106 |
| Sales and marketing | **3,812** |  | 3,218 |
| General and administrative | **1,166** |  | 1,045 |
| Operating income | **7,708** |  | 6,715 |
| Other income, net | **276** |  | 112 |
| Income before income taxes | **7,984** |  | 6,827 |
| Provision for income taxes | **1,408** |  | 1,160 |
| Net income | **$6,576** |  | $5,667 |
| Earnings per share: |  |  |  |
| Basic | **$0.85** |  | $0.73 |
| Diluted | **$0.84** |  | $0.72 |
| Weighted average shares outstanding: |  |  |  |
| Basic | **7,708** |  | 7,789 |
| Diluted | **7,799** |  | 7,876 |
| Cash dividends declared per common share | **$0.42** |  | $0.39 |

|  |  |  |  |
| --- | --- | --- | --- |
| **MICROSOFT CORPORATION** |  |  |  |
|  |  |  |  |
| COMPREHENSIVE INCOME STATEMENTS | | | |
| (In millions)(Unaudited) | | | |
|  |  |  |  |
|  | **Three Months Ended September 30,** | | |
|  |
|  | **2017** |  | **2016** |
| Net income | **$6,576** |  | $5,667 |
| Other comprehensive income (loss), net of tax: |  |  |  |
| Net change related to derivatives | **(106)** |  | (37) |
| Net change related to investments | **(288)** |  | 83 |
| Translation adjustments and other | **293** |  | 118 |
| Other comprehensive income (loss) | **(101)** |  | 164 |
| Comprehensive income | **$6,475** |  | $5,831 |

|  |  |  |  |
| --- | --- | --- | --- |
| **MICROSOFT CORPORATION** |  |  |  |
| BALANCE SHEETS | | | |
| (In millions)(Unaudited) | | | |
|  |  |  |  |
|  | **September 30, 2017** |  | **June 30, 2017** |
| **Assets** |  |  |  |
| Current assets: |  |  |  |
| Cash and cash equivalents | **$6,884** |  | $7,663 |
| Short-term investments (including securities  loaned of **$4,774** and $3,694) | **131,587** |  | 125,318 |
| Total cash, cash equivalents, and short-term   investments | **138,471** |  | 132,981 |
| Accounts receivable, net of allowance for doubtful  accounts of **$285** and $345 | **14,561** |  | 22,431 |
| Inventories | **3,211** |  | 2,181 |
| Other | **4,788** |  | 5,103 |
| Total current assets | **161,031** |  | 162,696 |
| Property and equipment, net of accumulated  depreciation of **$25,523** and $24,179 | **24,809** |  | 23,734 |
| Operating lease right-of-use assets | **6,844** |  | 6,555 |
| Equity and other investments | **5,343** |  | 6,023 |
| Goodwill | **35,389** |  | 35,122 |
| Intangible assets, net | **9,598** |  | 10,106 |
| Other long-term assets | **6,083** |  | 6,076 |
| Total assets | **$249,097** |  | $250,312 |
| **Liabilities and stockholders' equity** |  |  |  |
| Current liabilities: |  |  |  |
| Accounts payable | **$6,866** |  | $7,390 |
| Short-term debt | **8,170** |  | 9,072 |
| Current portion of long-term debt | **1,050** |  | 1,049 |
| Accrued compensation | **4,108** |  | 5,819 |
| Income taxes | **920** |  | 718 |
| Short-term unearned revenue | **22,778** |  | 24,013 |
| Securities lending payable | **203** |  | 97 |
| Other | **7,520** |  | 7,587 |
| Total current liabilities | **51,615** |  | 55,745 |
| Long-term debt | **76,255** |  | 76,073 |
| Long-term unearned revenue | **2,126** |  | 2,643 |
| Deferred income taxes | **5,513** |  | 5,734 |
| Operating lease liabilities | **5,768** |  | 5,372 |
| Other long-term liabilities | **18,173** |  | 17,034 |
| Total liabilities | **159,450** |  | 162,601 |
| Commitments and contingencies |  |  |  |
| Stockholders' equity: |  |  |  |
| Common stock and paid-in capital - shares  authorized 24,000; outstanding **7,720** and 7,708 | **69,419** |  | 69,315 |
| Retained earnings | **19,702** |  | 17,769 |
| Accumulated other comprehensive income | **526** |  | 627 |
| Total stockholders' equity | **89,647** |  | 87,711 |
| Total liabilities and stockholders' equity | **$249,097** |  | $250,312 |

|  |  |  |  |
| --- | --- | --- | --- |
| **MICROSOFT CORPORATION** |  |  |  |
| CASH FLOWS STATEMENTS | | | |
| (In millions)(Unaudited) | | | |
|  |  |  |  |
|  | **Three Months Ended September 30,** | | |
|  |
|  | **2017** |  | **2016** |
| **Operations** |  |  |  |
| Net income | **$6,576** |  | $5,667 |
| Adjustments to reconcile net income   to net cash from operations: |  |  |  |
| Depreciation, amortization, and other | **2,499** |  | 1,816 |
| Stock-based compensation expense | **973** |  | 703 |
| Net recognized gains on investments and derivatives | **(523)** |  | (311) |
| Deferred income taxes | **(53)** |  | 540 |
| Changes in operating assets and liabilities: |  |  |  |
| Accounts receivable | **7,949** |  | 7,187 |
| Inventories | **(1,023)** |  | (867) |
| Other current assets | **(318)** |  | (965) |
| Other long-term assets | **(278)** |  | (93) |
| Accounts payable | **(407)** |  | (443) |
| Unearned revenue | **(1,806)** |  | (1,807) |
| Other current liabilities | **(1,962)** |  | (321) |
| Other long-term liabilities | **813** |  | 443 |
| Net cash from operations | **12,440** |  | 11,549 |
| **Financing** |  |  |  |
| Repayments of short-term debt, maturities of 90 days   or less, net | **(3,710)** |  | (3,390) |
| Proceeds from issuance of debt | **3,954** |  | 24,977 |
| Repayments of debt | **(1,169)** |  | (225) |
| Common stock issued | **307** |  | 241 |
| Common stock repurchased | **(2,570)** |  | (4,362) |
| Common stock cash dividends paid | **(3,003)** |  | (2,800) |
| Other | **(150)** |  | (112) |
| Net cash from (used in) financing | **(6,341)** |  | 14,329 |
| **Investing** |  |  |  |
| Additions to property and equipment | **(2,132)** |  | (2,163) |
| Acquisition of companies, net of cash acquired,  and purchases of intangible and other assets | **(179)** |  | (24) |
| Purchases of investments | **(32,961)** |  | (57,181) |
| Maturities of investments | **5,226** |  | 8,659 |
| Sales of investments | **23,036** |  | 32,323 |
| Securities lending payable | **106** |  | (84) |
| Net cash used in investing | **(6,904)** |  | (18,470) |
| Effect of foreign exchange rates on cash and cash   equivalents | **26** |  | 10 |
| Net change in cash and cash equivalents | **(779)** |  | 7,418 |
| Cash and cash equivalents, beginning of period | **7,663** |  | 6,510 |
| Cash and cash equivalents, end of period | **$6,884** |  | $13,928 |

|  |  |  |  |
| --- | --- | --- | --- |
| **MICROSOFT CORPORATION** |  |  |  |
|  |  |  |  |
| SEGMENT REVENUE AND OPERATING INCOME | | | |
| (In millions)(Unaudited) | | | |
|  |  |  |  |
|  | **Three Months Ended September 30,** | | |
|  |
|  | **2017** |  | **2016** |
| **Revenue** |  |  |  |
| Productivity and Business Processes | **$8,238** |  | $6,436 |
| Intelligent Cloud | **6,922** |  | 6,097 |
| More Personal Computing | **9,378** |  | 9,395 |
| Total revenue | **$24,538** |  | $21,928 |
| **Operating income** |  |  |  |
| Productivity and Business Processes | **$3,006** |  | $2,905 |
| Intelligent Cloud | **2,137** |  | 1,777 |
| More Personal Computing | **2,565** |  | 2,033 |
| Total operating income | **$7,708** |  | $6,715 |