SLT/General: chat transcript

Chat description: none provided

Chat type	SkypeTeams
Private chat	no
Transcript timezone	(UTC) Coordinated Universal Time
Transcript start	2022-06-09 19:34:54
Transcript end	2022-06-09 19:34:54
Transcript participants	3
Initial participants	[redacted]

Timestamp	Sender	Viewers	Message text	Data	Reactions
2022-06-09 19:34:54	[redacted] m	3	**@SLT**, attached are three (3) documents related to your discussion at the June 15th Board meeting. Thank you, BonitaA Topic: Board of Directors Meeting – State of the Business Date/time: June 15, 8:00 – 10:30 am PT Pre-read docs, in order: FY22 Q4 State of the Business ReportMicrosoft's Corporate Strategy memoMicrosoft's Growth Strategy: Plan of Record memo	Thread topic: State of the Business Chat Thread Hash: 00716F76897264B0759F7F931C92B23E (1654803294816) Attachment: FY22 Q4 State of the Business Report (Final).pdf Attachment: Microsoft's Corporate Strategy memo (June 2022 - Final).docx Attachment: Microsoft's Growth Strategy - Plan of Record memo (June 2022 - Final).docx	

Nickname	Name	Surname	E-mail	Source PID	Type
[redacted]	Bonita Armstrong		[redacted]		
	Phil Spencer				
	SLT				

Microsoft

State of the Business

June 2022

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Q4 state of the business update – Commercial business

Overall: Q4 Commercial revenue is tracking behind budget with full quarter gap expected across a few solution areas. We see risk in ACR given recent deceleration across Strategic and Major accounts as well as continued softness in Dynamics 365 new business. E5 upsell at midterm/anniversary is trending well and on track for Q4. Strong MACC pipeline with significant large deals expected to support good bookings growth. Field is focused on strong execution in June to drive conversion of upside opportunities to closure, accelerating ACR by increasing usage in key accounts, and landing July 1 renewals on time. Geographies with highest risk of missing Q4 budget are Greater China (COVID-19 lockdown), Central & Eastern Europe (war in Russia) and United Kingdom (MW Cloud and D365 softness)

Commercial bookings: Expected to exceed expectations on a strong prior year comparable. Bookings growth will be impacted by recent strengthening of USD. Need continued focus on on-time renewals execution and closing large committed Azure deals within the quarter

Modern Work & Security: Office Commercial net revenue is expected to land below budget driven by lower commitment levels on pipeline vs prior years. Office 365 Commercial seats is expected to continue growing [redacted] driven by E5, SMB, and Frontline Workers. Windows Commercial is expected to land behind budget. Teams MAU has been trending down and landed at [redacted] in April even as we continued to take share of collaboration minutes from Zoom on Win 10/11 PC. In Security, EMS, our management and security product, continues to grow driven by both increase in subscribers and ARPU and is expected to land above budget. Key focus for the remainder of Q4 is on pipeline conversion (renewals, midterm, E5), compete motions (Google, Zoom, SFDC/Slack, Okta, CrowdStrike, Proofpoint) and accelerating Viva and Win365 trial conversion

Azure, C&E Licensing: Expected to land below budget primarily driven by Licensing and Azure. Azure growth decelerating in Q4 across Strategic and Major accounts driven by lack of new workload generation across both accounts. Strategic slowdown largely concentrated to ~79 accounts that have been exhibiting weakness month over month. [redacted] primarily driven by weakness in new business across Windows Server and SQL which carries more in quarter recognition

Dynamics 365/Biz Apps: Projected to miss Q4 revenue budget due to lack of consistency in sales execution across geographies; pipeline softness coming into Q4 is further exacerbated by deal slippage. Current GTM focus on consistent sales play execution and seller productivity. Power Platform continues to have strong performance across revenue and usage base (MAU now 24.1M)

LinkedIn: Q4 revenue is expected to be slightly under the budget, with growth expected at [redacted]

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Q4 state of the business update – Consumer business

Overall: Supply chain and the impact of inflation on consumer demand (and therefore ad spend) have impacted our results this quarter. Factory lockdowns and shipping logistics issues have persisted thru May due to COVID-19 in China and our OEM results reflect that. LinkedIn and Bing have been impacted by ad spend patterns

Windows OEM: Expected to miss budget in commercial and consumer. Windows 11 continues to ramp and reached over [redacted] monthly active devices in mid-May. Overall, PC market is roughly flat with strength in commercial and consumer growth markets offset by continued consumer mature market weakness. OEMs continue to build inventory when possible and we are watching closely how factories recover. Share gains from Q3 expected to sustain across all segments in Q4

Search and News: SANE ex TAC is tracking just below Q4 Budget with [redacted] growth Y/Y. SANE O&O business is expected to grow [redacted] as we are continuing to see share gains with Edge (June browser share expected to be [redacted] Our outlook for Q4 assumes some ongoing softness from macroeconomic conditions, with consumer demand concerns (inflation, recession) and supply chain issues, where advertisers may not have the physical goods to sell or line of sight to when products can leave China and reach consumers

M365 Consumer: Revenue is expected to miss Q4 budget by [redacted]. With fewer PC activations than expected, it drives weakness in perpetual sales. Microsoft 365 subscribers are expected to exit Q4 at [redacted] with gross adds from PC led motions lagging expectations. Selling Microsoft 365 outside of new PC sales and activations remains a focus area for the team, which includes working with Windows on product changes within Win10 given size of that active user base. Product experiences and new premium value for Microsoft 365 remain in focus, as does driving attach of our lower priced OneDrive/Storage offering

Devices: Despite being able to deliver double digit growth in Q4, net revenue will miss budget. Execution remains strong in commercial, with sales teams focusing on moving on-hand inventory thru May, as most our Q4 fresh device builds are tied to orders that need to land in the first half of June

Gaming: Revenue is expected to miss budget mostly due to 3P transactions and Game Pass ARPU. We have seen a decline in 3rd party engagement hours and decline in user spend across the 3P portfolio given significant title movement due to covid production cycles. Subs remain below plan although we are hoping to show some growth in the quarter from new offers post our public Showcase on June 12. Console market share is strong and captured #1 share in key markets over the past two quarters

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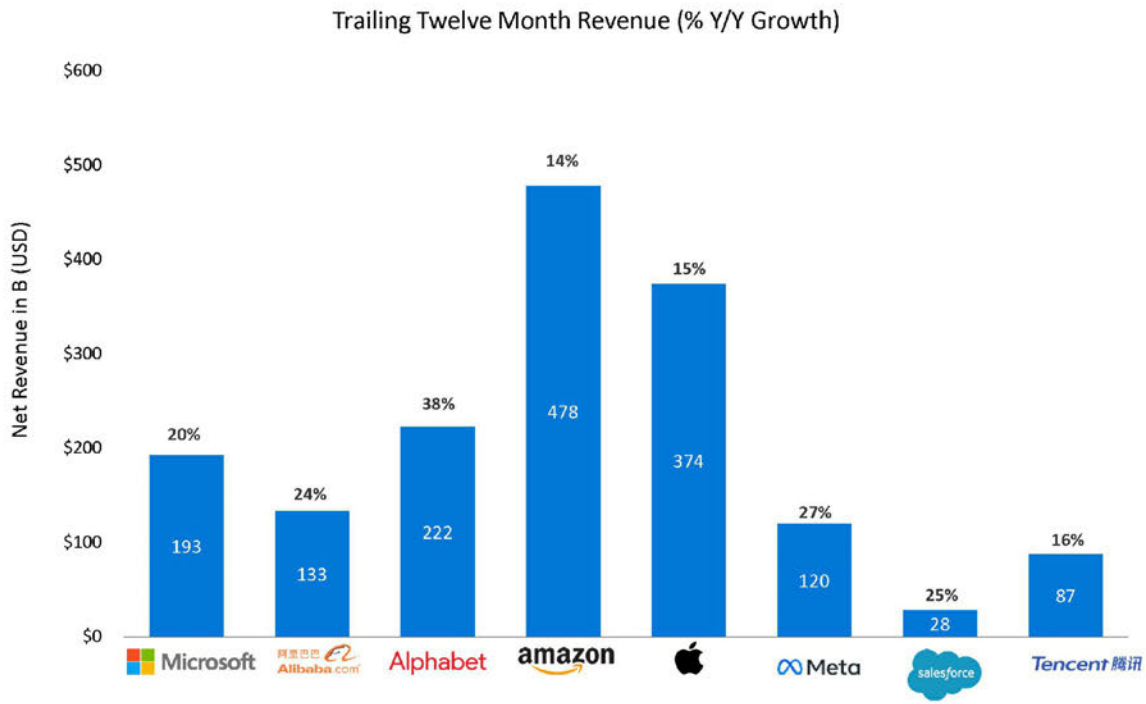
Section 2: Peer Analysis

Peer segment revenue

Tech peers continued to deliver significant revenue growth at large scale



Revenue breakdown, TTM ($B)

Company	Breakdown detail	3/31/22	Y/Y %
Microsoft	Productivity and Business Processes	61.5	21%
	Intelligent Cloud	71.7	28%
	More Personal Computing	59.4	12%
	Microsoft	**192.6**	**20%**
Alibaba.com	Core Commerce	115.9	25%
	Cloud Computing	11.7	30%
	Digital Media	5.0	9%
	Innovation	0.7	-9%
	Alibaba	**133.3**	**24%**
Alphabet	Google Advertising, ex TAC	172.2	40%
	Google Cloud	21.0	46%
	Google Other	28.3	19%
	Google "Other Bets"	1.0	38%
	Alphabet	**222.5**	**38%**
amazon	Stores	378.0	9%
	AWS	67.1	38%
	Advertising	32.7	42%
	Amazon	**477.7**	**14%**
	iPhone	194.6	17%
	iPad	31.7	7%
	Mac	36.5	8%
	Hardware	262.8	14%
	Services	71.3	18%
	Wearables, Home, Accessories	39.3	12%
	Apple	**373.5**	**15%**
Meta	**Meta**	**119.7**	**27%**
salesforce	Subscription and Support	26.0	24%
	Professional Services & Other	2.0	39%
	Salesforce	**27.9**	**25%**
Tencent 腾讯	Value Added Services (Games)	45.6	12%
	Advertising	13.2	3%
	FinTech and Business Services	21.0	1%
	Other	7.7	nm
	Tencent	**87.5**	**16%**

Note: Alphabet revenue adjusted to exclude traffic acquisition costs (TAC).

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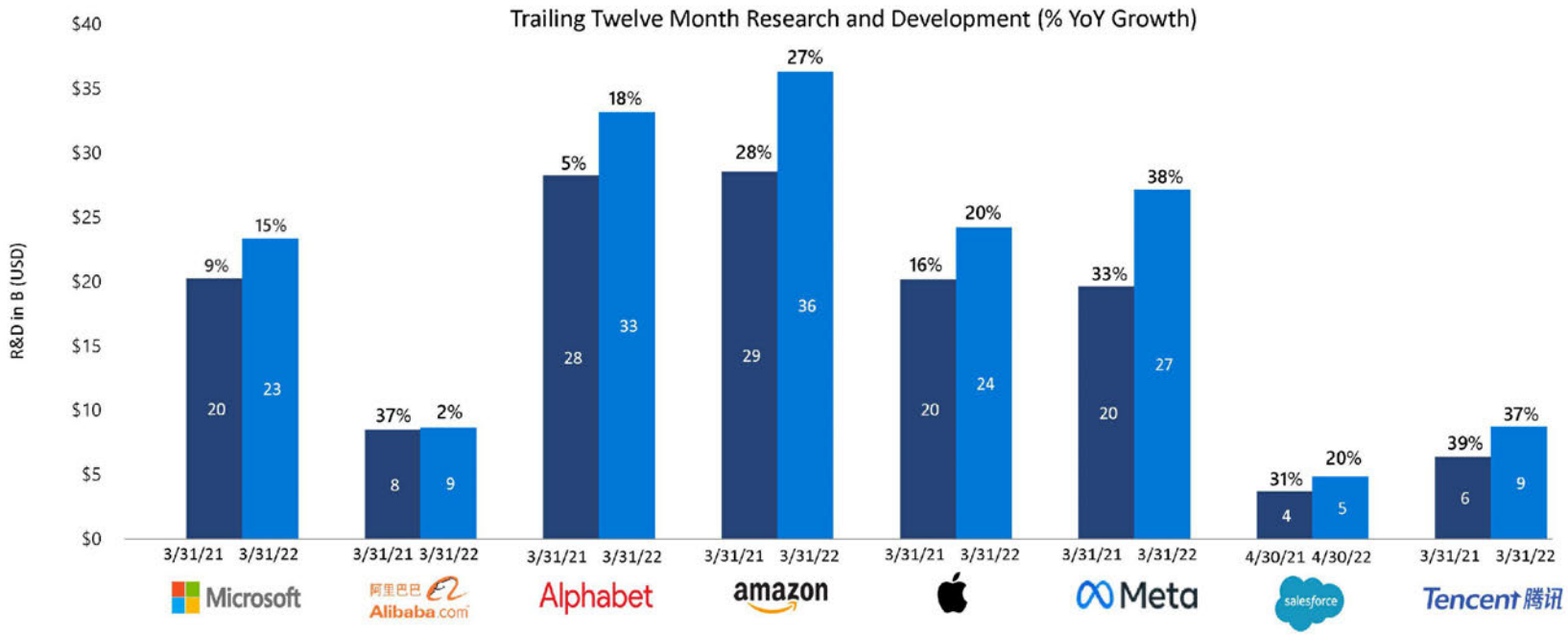
Peer R&D

Investment in R&D continues to significantly grow across tech peers



Amazon reports "Technology and Content" instead of R&D. For comparability we exclude our estimate of technology costs related to AWS COGS. Content costs relate to curation of products on its retail websites. We estimate approximately 25% of the R&D spend shown above is from AWS.
Tencent R&D is converted to USD

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[redacted]

CONFIDENTIAL BUSINESS INFORMATION PURSUANT TO 15 U.S.C. § 18a(h)

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[redacted]

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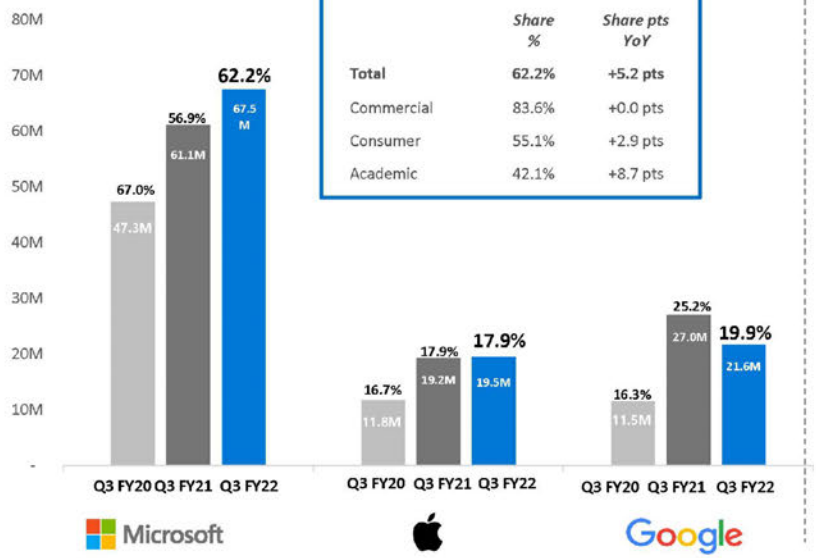
Windows market share | FY22 Q3

- Continued strong PC demand (~140% higher than pre-pandemic) and record shipments with 100M+ units shipped in each of last eight quarters
- Total Windows share growth in all segments and amplified due to market shift towards Commercial segment and Consumer Emerging Markets, both holding higher Windows share
- Consumer Developed Markets share gains in <$500 due to preference shift to Windows 11, excessive Chromebook inventory while share pressure remains in >$800, mainly from Macs
- Apple continues to invest in M-series – added M1 chip to iPad Air and announced new version of M1 series for desktops
- Google continues to lose share as it clears excessive Chromebook inventory; potential move up the price stack ($300-$500) is a key watch area

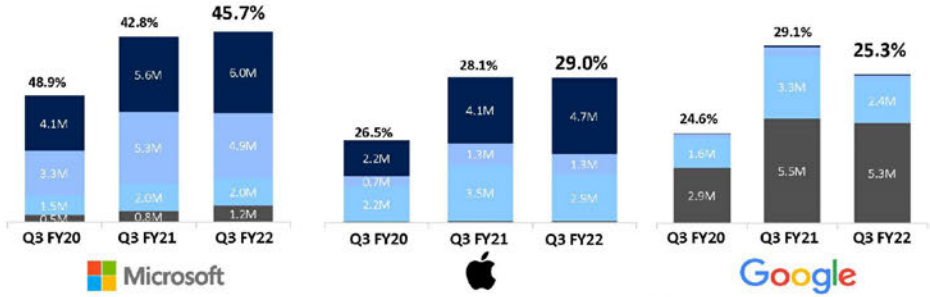
>9" WW Device Unit Shipments (M) and Share %



Q3 FY22
WW Windows Share

	Share %	Share pts YoY
Total	62.2%	+5.2 pts
Commercial	83.6%	+0.0 pts
Consumer	55.1%	+2.9 pts
Academic	42.1%	+8.7 pts

>9" Consumer DM Device Unit Shipments and Share %



Q3 FY22
Consumer DM Windows Share

	Share %	Share pts YoY	FY22 Target Share pts YoY
Total	45.7%	2.9%	+3 pts
>$800	55.9%	-1.3%	+2 pts
$500-$800	77.3%	2.2%	+2 pts
$300-$499	27.9%	4.8%	+5 pts
<$300	18.7%	5.7%	+3 pts

Windows Share Definition for ≥ 9" Devices = PC Equivalents (Desktops + Notebooks + Ultraslims + Convertibles)+ Detachables + Large slates
Windows share includes OEM and Surface; Large Android slates are included in this definition
Source: FY22 Q3 (April) Final DMI Forecast

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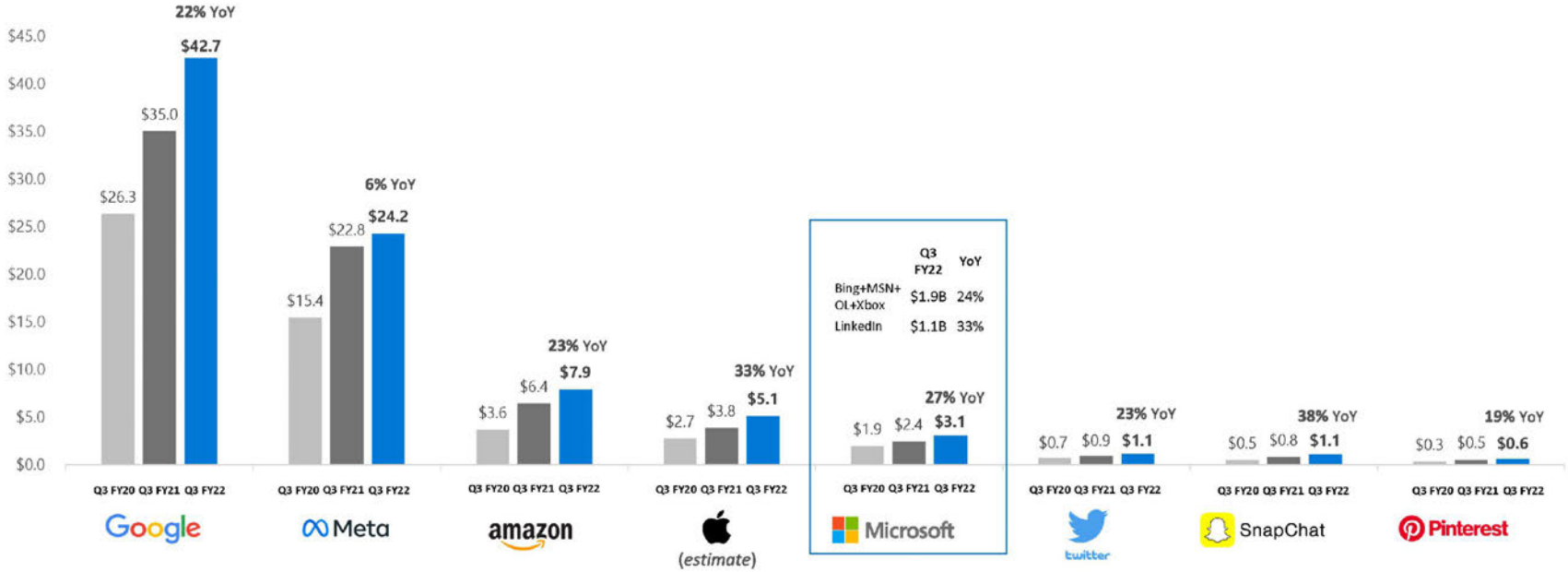
Advertising market share | FY22 Q3

MSFT Ads excluding Traffic Acquisition Costs grew faster than Google and META. Apple iOS privacy update continues to impact advertising industry with varying degrees of impact with META seeing significant impact. Following 2021 strength, the Online Ad Market decelerated in 2022 as we lap the covid recovery from 2020 and 2021 with most big players missing consensus estimates.



- Advertising revenue for Google, Meta, and Microsoft excludes traffic acquisition cost. For others, traffic acquisition cost is immaterial
- Apple advertising revenue are triangulated / estimated from Apple Services revenue / Google distribution traffic acquisition cost reported in their earnings. Apple advertising revenue is predominantly traffic acquisition cost paid by Google for default search engine on Apple devices

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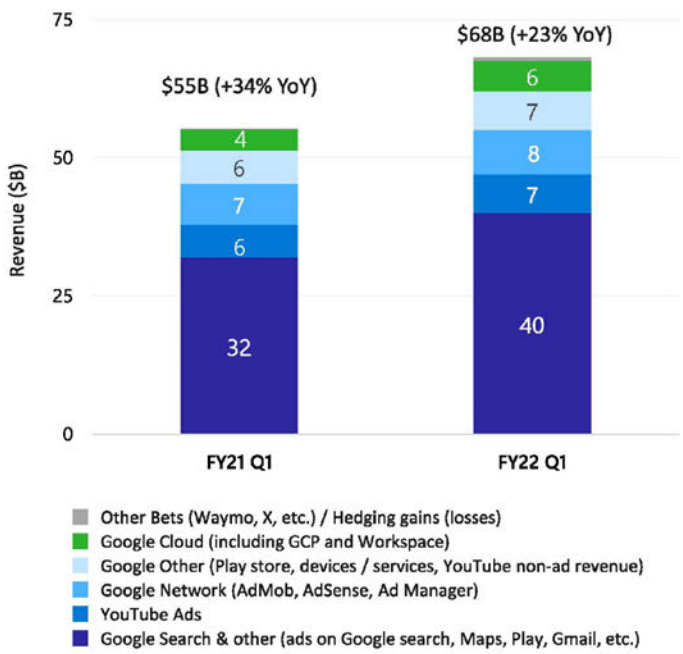
Alphabet reported slower growth from ecommerce slowdown and global uncertainty

Alphabet
Google

Quarterly Performance



Note: Financials are not in constant currency.

Recent updates

Overall

- Alphabet reported quarterly revenues of $68B, up 23% YoY but lower than FY21 Q1 YoY growth of 34%
- Alphabet also announced plans to repurchase $70B worth of stock

Advertising

- Total advertising revenue was $55B, up 22% YoY, driven by travel recovery, but hindered by slowed ecommerce demand and uncertainty from the Ukraine war

Google Cloud

- Cloud revenue was $6B, up 44% YoY, but with an operating losses of $0.9B
- Google will buy cyber defense company Mandiant for $5B, which will become part of GCP
- Announced largest publicly available machine learning cluster based on 1P TPU v4 chip. Google has used TPUs in data centers since 2015 and made them available for customers via GCP in 2018

Other news

- YouTube Shorts, a competitor to TikTok, now has 30B views per day, a 4x increase YoY
- Waymo is offering driverless rides to employees in San Francisco in addition to driverless rides for the public in Arizona; Wing fulfilled 50K+ commercial deliveries in Q1, a 3x increase YoY
- Teased new virtual and augmented reality features at I/O conference: Glasses that provide live audio-to-text translations, immersive views in Maps, and Scene Exploration tool that overlays info (e.g., reviews) on real world items
- The EU passed the Digital Services Act, which requires social media companies to better police their platforms

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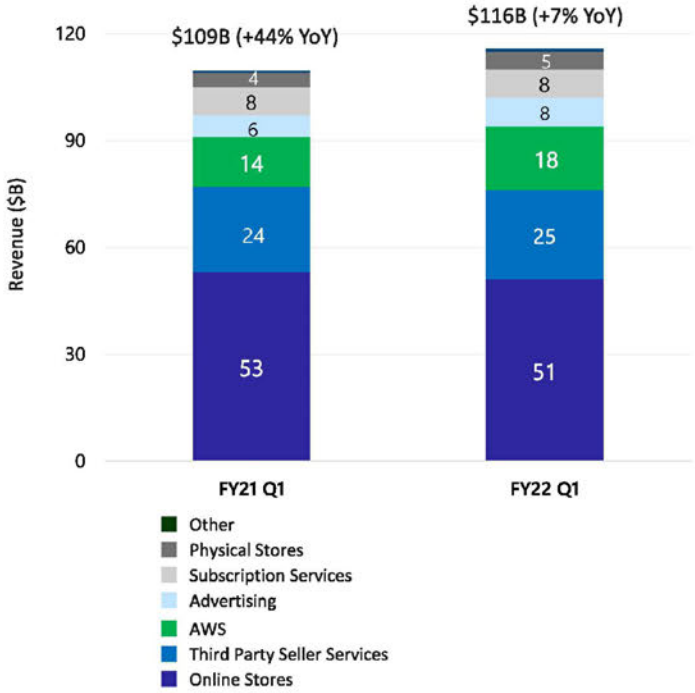
Amazon experienced first loss in 7 years, driven by higher costs; AWS revenue continues to grow

Quarterly Performance



Note: Financials are not in constant currency.

Recent updates

Overall

- Amazon reported quarterly revenues of $116B, a 7% increase YoY
- Experienced a quarterly loss of $4B, its first quarterly loss in 7 years. The loss was driven by costs from transportation, inflation, excess labor, and fulfillment overcapacity
- The net loss also includes a $7.6B pretax valuation loss in non-operating expense from Rivian

Amazon retail

- Amazon is launching Buy with Prime, a service that enables Prime customers to access Prime benefits (e.g., fast shipping, free returns) on the sites of participating merchants
- Closing all 68 physical retail bookstores due to underperformance

AWS

- Revenue was $18B, up 37% YoY and reaching an annualized run rate of $74B
- Secured new agreements with Telefonica, Verizon, Boeing, MongoDB, and the National Hockey League
- Launched 16 "local zones" in the U.S., which are infra deployments located near demand to reduce latency. AWS plans to launch an additional 32 zones across 26 countries
- Continues pursuing custom silicon after unveiling general-purpose Graviton3 in December. Graviton3's performance is 25% better for compute and 3x better for machine learning compared to Graviton2. The Graviton series was first launched commercially in 2018

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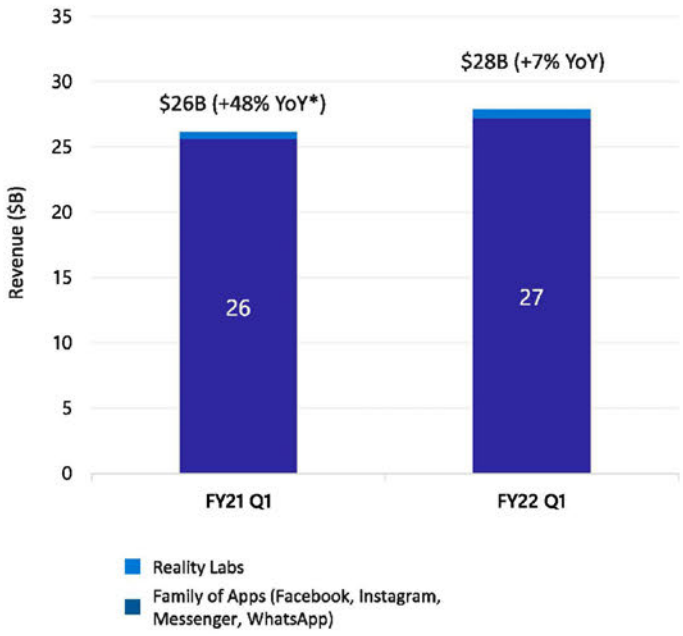
Meta reported slower growth driven by ecommerce slowdown, advertising signal loss and advertiser uncertainty

Meta

Quarterly Performance



Note: Financials are not in constant currency.
*Unusually high growth rate between Q2 2020 and 2021 revenue is driven by 2020 sales depression caused by the pandemic

Recent updates

Overall

- Total quarterly revenue was $28B, up 7% YoY but lower than FY21 Q1 YoY growth of 48%. The growth deceleration was driven by ecommerce slowdown, ad targeting challenges, and advertiser uncertainty from the Ukraine war
- Guidance for Q2 revenue was $28-30B, implying -4 to +3% % YoY change, and reflects continued headwinds from Q1

Facebook Family of Apps (Facebook, Instagram, Messenger, WhatsApp)

- Ad revenue was $27B, up 6% YoY. Focus areas in advertising are video monetization, evolving ads systems to do more with less data (e.g., Conversions APIs), and AI & machine learning
- Managed signal loss from Apple's App Tracking Transparency update by making it easier for users to engage directly with businesses to enable Meta to collect 1P data
- In March, Family of Apps MAUs was 3.6B, up 6% YoY
- Reels was 20%+ of time spent on Instagram, while video was 50% of time spent on Facebook

Reality Labs

- Total revenue was $0.7B, up 30% YoY, and driven by Quest 2 headset sales. The segment experienced an operating loss of $3B
- Launching a web version of Horizon workrooms later this year enabling creators to sell tools within the platform. Horizon has ~300K+ users after launching in 2021 in North America
- Releasing a work-focused headset later this year ("Project Cambria"). The device will blend VR with the real world and will feature facial tracking
- Due to revenue headwinds, eliminating or postponing some Reality Labs projects to prioritize hardware and metaverse

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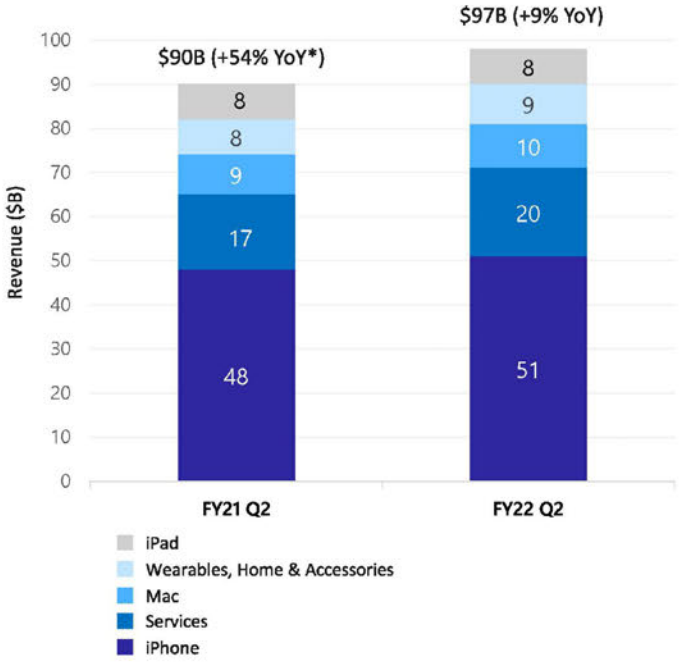
Apple new product launches exclusively feature Apple-designed silicon

Quarterly Performance



Note: Financials are not in constant currency.
*Unusually high growth rate between Q2 2020 and 2021 revenue is driven by 2020 sales depression caused by the pandemic

Recent updates

Overall

- Apple reported quarterly revenues of $97B (up 9% YoY) and its highest installed base of active devices ever at 1.8B+ devices
- Apple will repurchase $90B in shares, and will raise dividends 5% to $0.23 per share

Products

- iPhones grew 5%, Macs grew 15%, Wearables, Homes, and Accessories grew 12%, and Services grew 17%; iPads declined -2% YoY due to supply constraints
- New products introduced this quarter include iPhone SE, desktop Mac Studio and Studio Display, and a new iPad Air
- These releases all use Apple silicon: Mac Studio uses M1 Ultra, iPhone SE uses A15 Bionic, and the new iPad Air uses M1 chips. Apple first introduced its 1P silicon in 2020
- M1 Ultra is made from two interconnected M1 Max that act as one system on a chip and has 90% higher multi-threaded performance than Intel's leading Core i9-12900K and uses ~100 fewer watts
- Previewed new mixed-reality headset to its board of directors

Services

- Apple launched Apple Business Essentials, a SMB device management subscription service
- Apple will launch Tap to Pay, which allows merchants to use iPhones to accept contactless credit and debit cards, Apple Pay, and other digital wallets without payment terminals

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Section 3: EIP and Externally Reported Metrics

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Externally reported investor metrics

	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22
Commercial				
Commercial Bookings Growth	30%/25%	11%/14%	32%/37%	28%/35%
Commercial Remaining Performance Obligation (USD$B)	141	137	147	155
Commercial Revenue Annuity Mix	95%	95%	94%	96%
Microsoft Cloud Net Revenue (USD$B)	19.5	20.7	22.1	23.2
Microsoft Cloud Gross Margin (%)	70%	71%	70%	70%
Productivity and Business Processes				
Office Commercial Products and Cloud Services Revenue Growth	14%/10%	20%/15%	18%/16%	14%/14%
Office Consumer Products and Cloud Services Revenue Growth	5%/3%	18%/15%	10%/8%	15%/15%
Office 365 Commercial Seat Growth	15%	17%	17%	16%
M365 Consumer (Paid) Subscribers (M)	50.2	51.9	54.1	56.4
LinkedIn Revenue Growth	25%/23%	46%/42%	42%/39%	37%/36%
Dynamics Products and Cloud Services Revenue Growth	26%/22%	33%/26%	31%/29%	29%/29%
Intelligent Cloud				
Server Products and Cloud Services Revenue Growth	34%/29%	34%/29%	35%/33%	29%/32%
More Personal Computing				
Windows OEM Revenue Growth	-3%	10%	25%	11%
Windows Commercial Products and Cloud Services Revenue Growth	20%/14%	12%/10%	13%/14%	14%/19%
Xbox Content and Services Revenue Growth	-4%/-7%	2%/0%	10%/10%	4%/6%
SAN ExTAC Revenue Growth	48%/45%	40%/39%	32%/32%	23%/25%
Surface Revenue Growth	-20%/-23%	-17%/-19%	8%/8%	13%/18%

- ***Commercial Bookings*** grew 28% (up 35% CC) year-over-year, driven by strong execution across our core annuity sales motions
- ***Microsoft Cloud Revenue*** grew 32% (up 35% CC) year-over-year, mainly driven by LinkedIn, Azure, and Enterprise Mobility
- ***Microsoft Cloud Gross Margin percentage*** decreased slightly year-over-year to 70%. Excluding the impact of the change in server useful life, gross margin percentage increased roughly 3 points driven by improvement in cloud services, partially offset by sales mix shift to Azure and other cloud services
- ***Office 365 Commercial Seats*** grew 16% driven by small and medium business (SMB) and frontline worker growth
- ***Server Products and Cloud Services*** grew 29% (up 32% CC) driven by growth in consumption-based service
- ***Surface Revenue*** grew 13% (up 18% CC) driven by Pro and Laptop
- ***Windows OEM revenue*** grew 11% driven by continued growth in the commercial PC market, which has higher revenue per license
- ***Xbox Content and Services*** grew 4% (up 6% CC) on a strong prior year comparable, with growth in first-party titles and Xbox Game Pass subscriptions partially offset by declines from third-party titles

Note: Surface, Windows OEM, Office Consumer Products and Cloud Services, and SAN ex TAC include updated definitions approved in August 2021, so numbers might slightly differ from reported in Q4FY21; External investor metrics are reported in GAAP and non-GAAP Constant Currency growth (GAAP %/ CC%), while EIP and internal financial metrics reflect C$ (which assume constant dollar FX rates);
CC – constant currency

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Externally reported momentum statements

	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22
Productivity and Business Processes				
Office 365 Commercial Revenue Growth	25%/20%	23%/21%	19%/19%	17%/20%
Office Commercial Products Revenue Growth	-8%/-11%	-13%/-14%	-17%/-17%	-28%/-25%
Dynamics 365 Revenue Growth	49%/42%	48%/45%	45%/44%	35%/38%
Intelligent Cloud				
Azure and Other Cloud Services Revenue Growth	51%/45%	50%/48%	46%/46%	46%/49%
Azure Consumed Revenue Growth (C$)	52%	55%	54%	53%
Enterprise Mobility + Security Seat Growth	29%	30%	28%	25%
Server Products Growth	16%/12%	14%/13%	6%/6%	5%/7%
Enterprise Services Growth	12%/9%	9%/8%	8%/7%	5%/6%
More Personal Computing				
Windows OEM Pro Revenue Growth	-2%	36%	30%	18%
Windows OEM Non-Pro Revenue Growth	-4%	-23%	20%	-1%
Xbox Hardware Revenue Growth	172%/163%	166%/162%	4%/3%	14%/16%

- ***Office 365 Commercial revenue*** grew 17% driven by Office 365 Commercial seat growth of 16% as well as growth in revenue per user
- ***Office Commercial Products revenue*** declined 28% reflecting continued customer shift to cloud offerings and transactional weakness due to transition from our Open License program to our Cloud Solution Provider program
- ***Azure and Other Cloud Services revenue*** grew 46% (up 49% CC) driven by strong demand for our consumption-based services
- ***Server products revenue*** grew 5% (up 7% CC) driven by demand for our hybrid solutions, including Windows Server and SQL Server running in multi-cloud environments, partially offset by transactional weakness due to transition from our Open License program to our Cloud Solution Provider program
- ***Enterprise Mobility + Security Seats*** grew 25% to over 218 million seats
- ***Xbox Hardware Revenue*** grew 14% (up 16% CC) driven by console volume growth (up 48%) as console demand continues to exceed supply, partially offset by average revenue per user impact from higher Series S mix

Note: External investor metrics are reported in GAAP and may include non-GAAP Constant Currency growth (GAAP %/ CC%), while EIP and internal financial metrics reflect C$ (which assume constant dollar FX rates); CC – constant currency

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Section 4: Customer solution areas (CSA) overview

Infrastructure strategy and priorities

Ambition	Azure is the cornerstone of our cloud strategy and a core driver of Microsoft's future. We continue to expand our global footprint, add new features, and introduce differentiated capabilities, while prioritizing customer trust. We have invested heavily to gain traction with enterprises, established ISVs (SAP, VMware, RedHat, etc.), and made investments to increase our reach with new markets such as IoT and new buyers with Operators. Our ambition is to be the world's computer. We want to transition from being the trusted public cloud for enterprises to becoming the ***trusted, ubiquitous cloud to edge platform for all organizations and all applications.*** **We know we are winning when: we consistently win Tier-1 infrastructure workloads**

Current Priorities for FY22

- **Migrate customer infrastructure and applications:** Drive migration of customers' on-prem workloads to the cloud, leaning on our differentiated Hybrid Benefit offer, Azure Migration program, and partnerships with SAP and VMware
- **Win new hybrid customers:** Enable customers to govern, manage, and secure their entire digital estate across Azure, on-premises and edge, as well as build new cloud native apps with Azure Arc
- **Build customer confidence:** Improve customer confidence with reliability, service availability, and capacity needed to support business critical workloads
- **Drive connections between CSAs to support Azure growth:** Use our development tools and business application offerings to drive affinity towards Azure

Long Term Needle-Moving Opportunities

- **Win at the edge of the cloud:** Develop consistent infrastructure, products, and business models to win the edge
- **Grow cloud native apps:** Deliver highly scalable Azure Kubernetes Service infrastructure and Azure services that spans cloud to edge
- **Embrace emerging digital sovereignty needs:** Develop the technology, GTM, and partners required to support in-country data-residency, data sovereignty, and low-latency needs
- **Develop cutting-edge silicon chips:** Design first-class silicon chips to underpin our cloud and AI efforts

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Data & AI strategy and priorities

Ambition	To empower customers to transform their businesses by harnessing the power of Data & AI with limitless scale, performance, security, and possibilities in AI powered applications, analytics, and governance solutions. Over the next 3 years, our ambition is to add $10 billion in revenue to the Data and AI businesses, growing the business to $26 billion in revenue. **We know we are winning when: our share of organizations' data estates is growing**

Current Priorities for FY22

- **Accelerate SQL migration to Azure:** Drive customer migrations from on-prem SQL data estates to the cloud
- **Drive preference for Azure managed databases for new cloud-native applications:** Lead with Azure Cosmos DB for modern application development
- **Win with Analytics:** Establish Azure Synapse as the analytics hub for every organization and acquire/grow new analytics projects. Migrate legacy analytics projects (e.g., Teradata, Oracle) to Azure Synapse and Hadoop to Azure Databricks
- **Accelerate AI adoption:** Drive AI attach to apps using pre-trained Cognitive Services (e.g., speech transcription, machine translation) and enable custom machine learning (ML) with advanced Responsible AI and MLOps capabilities using Azure ML

Long Term Needle-Moving Opportunities

- **Deliver the "Data Cloud":** Create a new data platform category by integrating databases, analytics, AI, and data governance into a comprehensive offering that further differentiates against point players such as Snowflake
- **Establish Microsoft as the de-facto leader in AI:** Deliver a strong product and GTM execution to assert our strengths in key areas, such as state of the art AI (e.g., OpenAI), comprehensive stack (across SaaS and PaaS) and responsible AI tooling
- **Drive MR and Metaverse initiatives:** Strengthen leadership in Mixed Reality and drive commercial success with Microsoft Mesh

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Digital and Application Innovation strategy and priorities

Ambition	The Digital & Application Innovation CSA, newly created in FY22, creates the next major growth lever for Azure, going beyond migration and modernization to drive cloud-first, AI-first solutions built with Microsoft. Our ambition is to power digital innovation for traditional enterprises and "born in the cloud" companies alike and enable them to meet customer, market, and employee demands. To win in this $69 billion (by FY24) market, we will win the hearts and minds of application developers and empower digital-savvy leaders everywhere to differentiate with technology. **We know we are winning when: every developer project starts with GitHub and grows into our full Dev SaaS suite**

Current Priorities for FY22

- **Accelerate Developer Velocity:** Capture application developers' loyalty with GitHub and Visual Studio regardless of their current cloud provider
- **Reimagine enterprise applications:** Bring more enterprise and "line of business" applications to Azure and Power Platform with platform-as-a-service and low-code offerings
- **Invent intelligent cloud-native apps:** Expand revenue and market share in the Kubernetes and serverless markets
- **Drive authentic developer engagement:** Win the hearts and minds of developers and improve their perception of Microsoft and Azure, especially of our open-source support

Long Term Needle-Moving Opportunities

- **Win "born in the cloud" customers:** Change Azure and Microsoft product truth, perception, and adoption for "born in the cloud" companies (e.g., B2C ISVs, gaming studios, etc.)
- **Invent for the future with AI-first digital solutions:** Make AI an integral and mainstream part of application innovation for all
- **Disrupt and win the communications PaaS market dominated by Twilio:** Bring integrated communication and collaboration to all applications with Azure Communication Services and Teams
- **Drive market innovation with cloud-based software tools:** Expand the Developer Tools market with new cloud-based offerings such as software development systems, AI-powered developer tools, and cloud-scale testing

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Biz Apps strategy and priorities

Ambition	To grow Biz Apps to [redacted] We aim to empower customers to transform their business with data-first, AI-driven, collaboration-centric business applications which bring together the value of full Microsoft Cloud – Dynamics 365, Power Platform, Microsoft 365 (M365), LinkedIn, Data & AI, and Azure **We know we are winning when: we are leading innovation in business applications and growing share**

Current Priorities for FY22

- **Land first app:** Accelerate customer acquisition (across Dynamics 365 and Power Platform) to increase the customer base from which to expand
- **Realize app value:** Increase paid usage rate to guard from renewal risk and convert Power Platform users to paid
- **Workload expansion:** Build workload expansion muscle to unlock revenue opportunity reflective of the breadth in product portfolio
- **Digital selling:** Build product-led customer acquisition vehicle to unlock discovery-led purchases (i.e., Trial to Paid) and augment organizational and departmental discovery

Long Term Needle-Moving Opportunities

- **Align product and GTM strategy to five lines of business (LOBs) and their respective buyers:** Customer Experience (CRO & CMO), Customer Service (CCO), Supply Chain (CSCO/COO), Finance (CFO), and IT (CIO)
- **Streamline product portfolio** and lead with the value of Microsoft Cloud to each LOB by offering a single "hub" system of record application and 1-2 "spoke" applications that accrue to Microsoft's strength in Modern Work, Data & AI, and Common Data Platform
- **Accelerate business growth through category excellence:** Deepen domain expertise and relationships with BDMs through specialized sellers, global system integrators, and ISVs
- **Digital selling:** continue to leverage product-led customer acquisition vehicle to capitalize on Modern Work and Azure install base

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Modern Work strategy and priorities

Ambition	Hybrid work represents the biggest change to the way we work in a century and will require a new operating model spanning people, places, and processes. We are the only cloud that supports everything an organization needs to successfully make the shift. We're transforming Modern Work from a productivity tools business to a cloud-powered growth machine focused on helping people and organizations thrive in this new era – targeting [redacted] **We know we are winning when: We are gaining traction with Small Business, Digital Natives, EDU segments for our cloud solutions**

Current Priorities for FY22

- Continue to drive **Core** (Dark-to-Cloud and Office 365-to-Microsoft 365) and improve **E5 performance** (E3-to-E5)
- **Monetize Teams usage** through Rooms and Phone. Establish Teams as a platform for business process with **collaborative apps**.
- Shore up **Windows commercial value** and respond to **Chromebook threat**
- **Viva:** [redacted]
- Continue to **grow seats:** SMB Cloud [redacted]
- **Grow share** versus Google, Zoom, Cisco, and Slack/Salesforce

Long Term Needle-Moving Opportunities

- **Grow Employee Experience** with Viva
- **Grow Cloud PC** with Windows 365
- **Grow Converged Communications** with Rooms, Phone, Events, and Teams Enterprise
- **Create a vibrant Collaborative Apps Ecosystem** with both Line-of-Business and ISV solutions
- **Modernize for the long term** thru Land-and-Expand, Discover-Try-Buy, and Digital Selling
- Develop **new TAM** opportunities in Space, Events, and Sales

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Security, Compliance, Identity, and Management strategy and priorities

Ambition	Microsoft Security delivers an end-to-end portfolio of capabilities inclusive of security, compliance, identity, device management, and privacy, protecting not just Microsoft's products and services, but devices, users, workloads, and services across clouds, platforms, and operating systems. Since becoming a CSA, our business has grown at [redacted] in revenue in FY21 and tracking to [redacted] in FY22, making Microsoft the biggest security vendor in the world. We protect [redacted] We aspire to make the world a safer place for all. We want to reshape security and empower every user, customer, and developer with an "easy button" security cloud that protects them with end-to-end, simplified solutions from the edge to the cloud. With the broadest portfolio integrating 50+ categories, best of breed leadership in 19 Analyst reports, insights from 24 trillion signals and the secular trends such as the accelerating adoption of hyperscale cloud services, the increasing role of AI, and customers' shift from best-of-breed to best-of-suite security, we are well positioned for continued growth toward our FY25 target of over [redacted] **We know we are winning when: customers choose us for their end-to-end multi-cloud/multi-platform security needs**

Current Priorities for FY22

- **Deliver revenue and growth goals for FY23 with a focus on driving usage**
- **Deliver End-to-End Security with Category Excellence:** Build a best-of-breed and best-of-suite, simplified end-to-end solutions focusing on threat protection, modernizing security operations, advanced Identity, information protection and device management enabling customers to improve their security posture
- **Protect across Multi-Cloud, Multi-Platform:** Build best-of-breed solutions for the largest market opportunity across cloud, devices, and operating systems
- **Reinforce Microsoft's perception as a leader in cyber security:** Drive thought leadership with our scale with AI and human intelligence, noting our dual role as a software platform and a security solution provider

Long Term Needle-Moving Opportunities

- **Modernize GTM:** Offer digital-first engagements across the customer journey and make it easy to discover, try, buy, and use our solutions through web, in-product, and traditional sales (direct and channel)
- **Expand to New Markets and Customers:** Capture new customer segments (e.g., SMB, Frontline worker, Consumer, developers) and markets (e.g., Security-as-a-Service/Managed Services, Privacy, Verifiable Credentials, Network Security, Industry Clouds)

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Gaming strategy and priorities

Ambition	We are on a mission to bring the joy and community of gaming to everyone on the planet. We deliver this vision by putting players at the center, enabling you to play the games you want, with the people you want, anywhere you want. Our ambition is to reach industry leadership, as defined by global revenue, by 2030. This implies doubling our total revenue during that timeframe. **We know we are winning when: we are the first choice for gamers to play when, how and where they want**

Current Priorities for FY22

- **Accelerate Global Xbox Console Growth:** Drive Xbox console penetration in traditional markets and grow share in new geographies
- **Accelerate Xbox Game Pass Growth on PC:** Provide a solid foundation for PC developer tools, build a strong PC experience for players, and leverage distribution and marketing opportunities
- **Accelerate Growth for Game Creators:** Focus on strengthening and bolstering developer tools, partnerships, and infrastructure

Long Term Needle-Moving Opportunities

We are making the following key investments, to accelerate our vision and position us to achieve industry leadership by 2030:

- **Player Reach:** Extend the Xbox ecosystem to more players, across cloud and devices, to reach players globally
- **Business Model Diversity:** Empower creator success and reduce access barriers for players by offering the full breadth of business models, across transactions (Store), subscriptions (Game Pass), and advertisements
- **Game Breadth:** Attract content of all types, by being the platform of choice for creators globally

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Professional Social Network strategy and priorities

Ambition	In order to provide economic opportunity for every member of the global workforce, LinkedIn builds a large and active community, then sells services to those in it who receive significant economic value. We have more than [redacted] of whom use the platform on a weekly basis. LinkedIn drove [redacted] in revenue (C$) in FY22 Q3, and we are expecting to deliver [redacted] total revenue ($C) [redacted] in FY22. LinkedIn will play a pivotal role in helping our members and customers navigate macro trends, leading to [redacted] growth in sessions and an adjusted accountability margin (C$) of [redacted] in FY22. Our investments in building a trusted platform, enabling equity and diversity in hiring, shaping the future of B2B commerce, and connecting members to knowledge and opportunity will help us scale our impact in FY23 and beyond. **We know we are winning when: we expand audience and engagement across our professional social network**

Current Priorities for FY22

- **Develop active communities of creators:** Invest in tools to encourage the creation of conversations that lead to opportunity and the distribution/discovery of valuable professional content, driving a viral loop which leads to mimicry and more creation
- **Deliver customer value:** Position LinkedIn as the most strategic partner to companies of all sizes as they navigate trends in the workplace, such as hiring diverse and inclusive workforces, transforming and retaining internal talent, and operating in an increasingly digital / hybrid world
- **Invest in foundations:** Ensure the site is performant and accessible globally, facilitates safe and trusted conversations, and drives equitable outcomes. Create frictionless customer journey flows to make it easier for customers to do business with us

Long Term Needle-Moving Opportunities

- **Embrace quality professional hires and skills-based hiring:** Disrupt and scale recruitment by proving the efficacy of skills-based hiring and developing certifications/assessments in our learning business
- **Shape the future of B2B commerce:** Invest in building the de-facto Identity platform for B2B marketers by combining LinkedIn and customer data in a privacy-first way. Build a commerce platform that empowers professionals to monetize their expertise
- **Create, co-develop, and license original first-party content:** LinkedIn's professional context may enable us to produce and distribute high-value niche professional content profitably

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Modern Life strategy and priorities

Ambition	The ambition of the Modern Life solution area is to empower people to make the most of their time. In this new era of the PC, we envision serving over 1.5 billion people daily with productivity devices, software and services across work, life, education, and play via an integrated and personalized Windows + experience. **We know we are winning when: Developers choose our store as the place to reach customers with the highest ROI; We have multiple apps with 100M+ DAU on mobile platforms**

Current Priorities for FY22

- **Windows 11 PC Growth:** Increase units and share, grow usage minutes, and continue to popularize the Windows development platform through new OS innovations. Surface devices to inspire the ecosystem and set the premium bar for quality and innovation
- **Microsoft Plus Services Attach:** Grow attach and usage of Microsoft and 3rd party services such as Microsoft 365 Personal/Family, Xbox Game Pass, and Microsoft Edge/Bing through integration on Windows 11

Long Term Needle-Moving Opportunities

- **Move Windows 11 increasingly to the Cloud:** Build on Windows 365 to enable a full Windows operating system streamed from the cloud to any device. Use the power of the cloud and client to enable improved AI-powered services and full roaming of people's digital experience
- **Custom Silicon:** Ensure the competitiveness of the entire Windows ecosystem and Surface hardware through investments and partnerships in Silicon
- **Explore inorganic growth opportunities:** Explore inorganic growth opportunities through partnership or acquisition of popular daily active use experiences

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Search, Advertising, News, Edge (SANE) strategy and priorities

Ambition	We aim to engage hundreds of millions of global consumers daily with compelling search and content services, supported by a powerful monetization platform for advertisers and publishers. We seek scale by creating solutions and content services to engage a global audience, increased relevance in Digital Advertising through an industry leading ad platform, and to maintain our ability to attract and retain the world's best AI talent, much of which is currently within this CSA. **We know we are winning when: we become a top choice for advertisers based on our deep, scaled consumer engagement; engagement and share on our browser is growing with both consumer and businesses**

Current Priorities for FY22

- **Drive greater usage of our services:** Increase usage of Bing, News, and Edge WW by creating high quality, global, trustworthy, and personalized experiences that people engage with daily. Focus on integrated verticals that differentiate our offerings (e.g., shopping)
- **Expand services to the Windows shell:** Introduce consumers to content experiences in the shell alongside increased user adoption of Windows 11
- **Build on core monetization platform:** Meet consumer and advertiser needs through vertical ad products, integrated coupons/rebates within existing advertising channels and automation in campaign setup. Grow Microsoft Audience Network to reduce dependency on 3rd party cookies

Long Term Needle-Moving Opportunities

- **Grow capabilities of monetization platforms:** Connect PromoteIQ, XandR and Microsoft Advertising Network to provide seamless monetization service for retailers and publishers; create services that encourage sign-in and data sharing; build products for Video and grow on 1st party supply
- **Explore inorganic growth opportunities:** Continue to explore inorganic growth opportunities that would address gaps in advertiser demand (international and native), supply (mobile), and data assets (cookie blocking and mobile)
- **Experiment with new services:** Attract new users through local news coverage and opening new value prop and surface area for Creators; Xpay as the payment system for 1B+ PC users

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Appendix | Metrics Definitions

SLT Scorecard metrics definitions (1/8)

Metric	Definition
Revenue	Measured by non-GAAP Microsoft Accounting Policies (MAP C$) which assumes FY22 constant dollar (C$) foreign exchange rates (e.g., 1.10 USD-EUR); uses Net Revenue for Azure, LinkedIn, Microsoft Consulting Services, and GitHub and billed revenue for all other businesses.
Operating Income	Measured by non-GAAP Microsoft Accounting Policies (MAP C$) which assumes FY22 constant dollar (C$) foreign exchange rates (e.g., 1.10 USD-EUR) and excludes integration, impairment, and restructuring charges
Commercial Cloud Net Revenue	Based on Net Revenue (MAP C$) for commercial cloud-based solutions, including Office 365 commercial, Microsoft Azure, Dynamics 365, and other cloud properties
Commercial Cloud Subscribers	Represented as paid seats for current or new per-user SaaS cloud services primarily in commercial customer segment. Note: the same subscriber in one service may be counted again in other services
Teams Monthly Active Users	Unique monthly active users of Teams in Enterprise, Corporate, SMB and Education (i.e., all customer segments). Teams MAU excludes Teams for Life to avoid double counting the same Teams subscribers
Windows OEM Revenue	Revenue from sales of Windows licenses sold through the OEM channel
Game Pass Subscribers	Metric measures the cumulative EOP (end of period) count of Paid Subscribers to Game Pass Ultimate, Game Pass Console and Game Pass PC
LinkedIn Sessions	Number of times logged-in members visit LinkedIn, separated by 30 min. of inactivity; includes mobile and desktop

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SLT Scorecard metrics definitions (2/8)

Metric	Definition
Commercial Bookings	For commercial products and cloud services, sum of Y/Y revenue growth, plus change in balance of unearned revenue plus the change in contracted not billed balance
Commercial Remaining Performance Obligation	Commercial portion of revenue allocated to remaining performance obligations, which includes unearned revenue and amount that will be invoiced and recognized as revenue in future periods
Commercial Revenue Annuity Mix	Percentage of sales where revenue is recognized over more than one period
Commercial Cloud Gross Margin (%)	Gross margin percentage for our commercial cloud business
Office Commercial Products and Cloud Services Revenue	Revenue from Office Commercial products and cloud services, incl. O365 subscriptions, the O365 portion of M365 Commercial subscriptions, and Office licensed on-premises, comprising Office, Exchange, Sharepoint, MS Teams, O365 Security and Compliance, and Skype for Business, and related CALs
Office Consumer Products and Cloud Services Revenue	Revenue from Office Consumer products and cloud services, including Microsoft 365 Consumer subscriptions and Office licensed on-premises
LinkedIn Revenue	LinkedIn revenues, as measured using GAAP accounting + any intracompany revenue share
Dynamics Products and Cloud Services Revenue	Revenue from Dynamics products and cloud services, incl. D365, a set of cloud-based applications across ERP and CRM, Dynamics ERP on-premises, and Dynamics CRM on-premises
Server Products and Cloud Services Revenue	Revenue from Server Products and cloud services, incl. Azure; SQL Server, Visual Studio, System Center related CALs, and GitHub
Windows Commercial Products and Cloud Services Revenue	Revenue from Windows Commercial products and cloud services, comprising volume licensing of the Windows OS, Windows cloud services, and other Windows commercial offerings
Xbox Content and Services Revenue	Total Gaming Net Revenue excluding Hardware (console/ Accessories). Reported in Mercury: Sum of all Gaming Net Revenue minus Xbox Hardware Net Revenue
SAN ExTAC	Revenue from search and news advertising excluding traffic acquisition costs ("TAC") paid to Bing Ads network publishers and news partners
Surface Revenue	Revenue from Surface devices and accessories
M365 Consumer Subscribers	The monthly Office 365 consumer active subscription count (excluding university) reflecting growth from new adds and churn from cancellations and non-renewals.
Office 365 Commercial Seats	Number of O365 Commercial seats at end of period where seats are paid users covered by an O365 Commercial subscription

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SLT Scorecard metrics definitions (3/8)

Metric	Definition
Office 365 Commercial Revenue Growth	Revenue from Office 365 Commercial products and cloud services, incl. O365 subscriptions, the O365 portion of M365 Commercial subscriptions, comprising Office, Exchange, SharePoint, MS Teams, O365 Security and Compliance, Skype for Business, and related CALs
Office Commercial Products Revenue Growth	Revenue from Office Commercial licensed on-premises products
Dynamics 365 Revenue Growth	Revenue from cloud services - D365, Powerapps and Power Automate, a set of cloud-based applications across ERP and CRM. (Net Revenue USD).
Azure and Other Cloud Services Revenue Growth	Azure Standalone, as well as Cloud and Enterprise SaaS Net Revenue YoY growth
Azure Consumed Revenue (C$)	Measure of invoiced Azure usage with adjustments for fraud and credit offers.
Enterprise Mobility + Security Seat Growth	The year-over-year (YoY) seat growth percentage across the Enterprise Mobility + Security (EMS) suite plus some related EMS add ons/standalones, including government and academic
Server Products Revenue	Revenue from C+E licensing, including SQL Server, Windows Server, and Other Licensing products, and GitHub
Enterprise Services Growth	Enterprise Services includes Premier Support Services and Microsoft Consulting Services, assist customers in developing, deploying, and managing Microsoft server and desktop solutions and provide training and certification to developers and IT professionals on various Microsoft products
Windows OEM Pro Revenue Growth	Revenue from sales of Windows Pro licenses sold through the OEM channel, which primarily addresses demand in the commercial market
Windows OEM Non-Pro Revenue Growth	Revenue from sales of Windows non-Pro licenses sold through the OEM channel, which primarily addresses demand in the consumer market
Xbox Hardware Revenue Growth	Xbox Hardware Net Revenue (Xbox console and accessories)

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SLT Scorecard metrics definitions (4/8)

Metric	Definition
Azure: Infrastructure, Data & AI, Digital & Application Innovation	
Total Azure Consumed Revenue	Measure of invoiced Azure usage with adjustments for fraud and credit offers
Azure and Other Cloud Services Revenue Growth	Azure Standalone, as well as Cloud and Enterprise SaaS Net Revenue YoY growth
Server Products and Cloud Services Revenue	Revenue from Server Products and cloud services, incl. Azure; SQL Server, Visual Studio, System Center related CALs, and GitHub
Server Products Revenue	Revenue from C+E licensing, including SQL Server, Windows Server, and Other Licensing products, and GitHub
Azure Annual Interruption Rate - Reboots	Number of reboots customer would expect to see if ran 50 VMs for a year
Azure Customer Support Experience	Average of the responses to the 5-star (5 = "Very Satisfied" and 1 = "Very Dissatisfied") customer support feedback question, "How satisfied are you with the Microsoft Support Experience?" asked after each support experience
Direct Azure Consumed Revenue	Value of Azure Consumed Revenue $ (excluding Dual Credit, Deal Registration and Power Platform Consumed Revenue) that is generated through the Direct channel on a monthly basis
GitHub Developers	The registered developers statistic counts the number of user accounts that exist as of a given date on GitHub that have not been deleted. Spammy users are removed from this calculation
Cloud Revenue Share	Cloud revenue share of the top three cloud providers (Azure, AWS, GCP). For Azure use Azure Standalone net revenue in USD (IaaS and PaaS), AWS – revenue from earnings report, GCP – estimated split from revenue published in earnings report
Windows Server on Cloud Unit Share	Windows Server unit share mix (actual vCore hours or implied via SPLA)
SQL on Cloud Unit Share	SQL unit share mix (actual vCore hours or implied via SPLA)

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MSFT-2R-11409719

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SLT Scorecard metrics definitions (5/8)

Metric	Definition
BizApps	
Dynamics Products and Cloud Services Revenue	Revenue from Dynamics products and cloud services, incl. D365, Power Apps and Power Automate; a set of cloud-based applications across ERP and CRM, Dynamics ERP on-premises, and Dynamics CRM on-premises. Consistent with Externally reported metrics . (Net Revenue USD)
D365 Revenue Growth	Revenue from cloud services - D365, Powerapps and Power Automate, a set of cloud-based applications across ERP and CRM. (Net Revenue USD).
Dynamics 365 MAU	D365 Total Monthly Active usage. Includes paid and non-paid. Does not include Power Apps or Power Automate.
BizApps Customer Support Satisfaction	Average monthly customer support satisfaction rating (5-point scale) across BizApps (D365 & Power Platform)
Direct D365 Revenue	Revenue from Online services from Cloud services - D365, Powerapps and Power Automate a set of cloud-based applications across ERP and CRM. (Billed Revenue Const$)
Business Applications Market Share	BizApps usage & revenue share of the top competitors
Modern Work	
Office Commercial Products and Cloud Services Revenue	Revenue from Office Commercial products and cloud services, incl. O365 subscriptions, the O365 portion of M365 Commercial subscriptions, and Office licensed on-premises, comprising Office, Exchange, Sharepoint, MS Teams, O365 Security and Compliance, and Skype for Business, and related CALs
Office Commercial Products Revenue Growth	Revenue from Office Commercial licensed on-premises products
Office 365 Commercial Revenue Growth	Revenue from Office 365 Commercial products and cloud services, incl. O365 subscriptions, the O365 portion of M365 Commercial subscriptions, comprising Office, Exchange, SharePoint, MS Teams, O365 Security and Compliance, Skype for Business, and related CALs
Office 365 Commercial Seats	Number of O365 Commercial seats at end of period where seats are paid users covered by an O365 Commercial subscription
M365 End User NPS	Net Promoter score across all segments for users using M365. Metric used in customer experience programs which measures the loyalty of customers to a Company or product.
Direct Customers Net Paid Seat Adds	Number of Net Paid Seat Adds (NPSA) with Microsoft M365 (net paid addition and losses) excluding Windows, EMS, and Power BI
Teams Share of Comm. Collab. Minutes on Win10/11	Microsoft Teams / Total competitor and 1P monthly mins (R-28). Includes Win32, UWP, Centennial, and websites on Win10/11 devices
WXPOO Share of Comm. Productivity Minutes on Win10/11	Minutes using Microsoft Office WXPOO (Word, Excel, PowerPoint, Outlook, and OneNote) divided by total minutes of WXPOO and Google Workspace (Docs, Sheets, Slides, Gmail, and Keep) on Win10/11

EIP | Tier 1 External KPIs and CSA-specific metrics | Share

SLT Scorecard metrics definitions (6/8)

Metric	Definition
Security, Compliance, Identity and Management	
Security Net Revenue	Net Revenue for Security, inclusive of M365 Security and Security standalones + Azure Security ACR
Identity / Azure Active Directory (AAD) MAU	Unique users who have logged into an application through Azure Active Directory (MAU – monthly active users)
Enterprise Mobility + Security Seats	The monthly paid seat count for current or new user SaaS cloud services in the commercial Enterprise Mobility + Security (EMS) suite plus some related EMS add ons/standalones, including government and academic.
Security Customers Installed Base	Number of customers that own Microsoft Security solutions
Web-Direct Net Paid Seat Adds	Number of Net Paid Seat Adds (NPSA) of with Security, Compliance, Identity or Management workloads sold thru Direct
Okta Share of Managed Accounts	% of Managed accounts with at least one Okta detection
Azure Active Directory Share of Managed Accounts	% of Managed accounts with at least one Azure Active Directory detection
CrowdStrike Share of Win10/11 Devices	% Commercial Windows 10/11 MAD that have CrowdStrike components detected
Microsoft Defender for Endpoint of Win10/11 Devices	% Commercial Windows 10/11 MAD that have Microsoft Defender for Endpoint components detected
Proofpoint Share of Exchange Online Mail Recipients	% of mail recipients that are protected by Proofpoint
Microsoft Defender for Office 365 Share of Exchange Online Mail Recipients	% of mail recipients that are protected by Microsoft Defender for O365
Symantec Endpoint DLP	% Commercial Windows 10/11 MAD that have Symantec DLP components detected
Microsoft Endpoint DLP	% Commercial Windows 10/11 MAD that have Microsoft DLP components detected

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SLT Scorecard metrics definitions (7/8)

Metric	Definition
Gaming	
Xbox Content and Services Revenue	Total Gaming Net Revenue excluding Hardware (console/ Accessories).
Xbox Hardware Revenue Growth	Xbox Hardware Net Revenue (Xbox console and accessories)
Xbox MAU	The monthly count of unique authenticated users using an Xbox network-enabled platform where presence information is available.
Game Pass Subscribers	Metric measures the cumulative EOP (end of period) count of Paid Subscribers to Game Pass Ultimate, Game Pass Console and Game Pass PC
Safety complaints reported by new users	Percentage of new to network users who were active in the week following activation and reported safety/toxicity related event
Console Gen9 Share	Relative market share between Xbox Series X|S and PlayStation 5 in key markets. Nintendo Switch and Gen8 consoles are excluded
Modern Life	
Office Consumer Products and Cloud Services Revenue	Revenue from Office Consumer products and cloud services, including Microsoft 365 Consumer subscriptions and Office licensed on-premises
Surface Revenue	Revenue from Surface devices and accessories
M365 Consumer (Paid) Subscribers	The monthly Office 365 consumer active subscription count (excluding university) reflecting growth from new adds and churn from cancellations and non-renewals.
M365 Consumer Productivity Services MAU/MPU	De-duped Monthly Active & Protected MSAs of Productivity Services: WXP, OneDrive, Family Safety, Teams, Editor BX across ALL platforms
Surface NPS	General population Win10/11 NPS (YTD) on Surface devices excluding Go/Laptop Go
Windows & Surface Market share <$500	All-up devices share in >9" devices across price bands (<$500) and customer segments - Commercial, Consumer, Academic
Windows & Surface Market share >$500	All-up devices share in >9" devices across price bands (> $500) and customer segments - Commercial, Consumer, Academic
WXPO Share of Consumer Productivity Minutes on Win10/11	Microsoft Productivity WXP / (Total competitor and 1P) monthly mins on Win10/11 Consumer Devices (R28-Day)
WW EDU Windows Share	Market Share of K-12 + Higher Education devices
Windows and Surface Consumer GTM7 Share	All-up devices share in >9" across price bands, limited to GTM7 countries (Australia, Canada, France, Germany, Japan, UK, US)

EIP | Tier 1 External KPIs and CSA-specific metrics | Share

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SLT Scorecard metrics definitions (8/8)

Metric	Definition
LinkedIn	
LinkedIn Revenue	LinkedIn revenues, as measured using GAAP accounting + any intracompany revenue share
LinkedIn Adjusted Accountability Margin	LinkedIn GAAP Operating Income, including depreciation and amortization, adjusted for Microsoft accounting standards and PPA ("Purchasing Price Adjustments")
LinkedIn Sessions	Number of times logged-in members visit LinkedIn, separated by 30 min. of inactivity; includes mobile and desktop
LinkedIn WAU (Weekly Active Uniques)	Number of unique members that visited the site at least once during the selected week
Talent Solutions Market Share	Total Market defined as combined revenue for top 13 players as proxy for total market size globally; LinkedIn's share is calculated based on our revenues divided by the total market
Marketing Solutions Market Share	Total Market defined as B2B native advertising spend (excludes Search); LinkedIn's share is calculated based on our revenues divided by the total market
Sales Solutions Market Share	Total market defined as combined revenue of top 15 players in the rep-facing sales intelligence space; LinkedIn's share is calculated based on our revenues divided by the total market
Learning Solutions Market Share	Total Market defined as spending on online, off-the-shelf content for B2B buyers; LinkedIn market share defined as our revenues divided by combined revenues of Top 6 players given fragmentation of overall online learning market

SANE	
SAN ExTAC	Revenue from search and news advertising excluding traffic acquisition costs ("TAC") paid to Bing Ads network publishers and news partners
Search or Content consumers Daily Active Users (DAU)	Organic DSQ (non-editorially driven search > 0; search can be text, speech or visual) or click/read content (scroll page with view port change of 50% and dwell time >1 seconds) on a Bing/Content services powered page
Total Microsoft Browser Minutes Share on Windows 10/11	Edge (Spartan & Anaheim) + IE browser minutes / total browser minutes on Win10/11 Devices (PC+T, WW, all segments)
Bing US PC (click) Share	% Bing transfers to web sites vs. transfers from all core search engines in US.

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Microsoft Memo

To: Board of Directors and Senior Leadership Team

From: Satya Nadella

Date: June 7, 2022

Re: Microsoft's Corporate Strategy

The world has changed irreversibly. Beyond the pandemic there will be great challenges and greater expectations, not just from customers and partners but from the world itself, which has never needed Microsoft more. This places Microsoft at a historic intersection of tremendous opportunity as well as responsibility toward the world around us. It has never been more critical to connect the potential of technology with what the world needs from technology.

This context supports our aspiration to become a $500 billion revenue business by FY2030 while still growing revenues at per annum ("p.a.") or more at that time. We intend to achieve this goal by implementing an evolving strategy that is growth oriented and consistent with our enduring mission and culture. We believe this ambition and approach will help us deliver in excess of 10% annual returns to our shareholders over that timeframe. In fact, our strong momentum allows us to set an even higher ambition for the near to medium term: "20/20" which stands for 20% revenue growth and 20% operating income growth for FY2022 and beyond.

To achieve our aspirations, we need to identify and focus on the right opportunities and capture them using our differentiated strategy: a common tech stack and go-to-market capability supporting a diversity of businesses and business models. In practice this comes together at the Customer Solution Area ("CSA") level which is our organizing framework for driving and measuring progress across all priorities. CSAs are broadly grouped into two primary businesses: Microsoft Cloud which encompasses our commercial CSAs and Microsoft Plus for our consumer CSAs.

Microsoft Cloud is the primary driver of our existing strong trajectory. Given its importance to the company our overriding priority is to take all necessary steps to support our Microsoft Cloud ambition which is to consolidate and maintain our growth and leading position in commercial cloud. Beyond this ambition we seek to further augment Microsoft Cloud's growth by expanding into natural adjacencies so we can more fully meet our customers' needs. And these needs grow as they become more tech intense businesses themselves.

In Microsoft Plus our ambition is to grow our consumer franchise with products that meet customers where and how they spend their time and which augment their experience on Windows. We are building on our existing strength in Gaming and Professional Social Network, and growing our penetration of other consumer services on our Windows PC base. Beyond that, we remain vigilant for a breakthrough that could accelerate our consumer progress by taking advantage of secular trends in consumer behavior and business models.

Underpinning all of our business is our Azure Core – the set of cloud computing and AI capabilities that will support our products and future innovation. We take a comprehensive view of this system across

applications, platforms, infrastructure and silicon, and from cloud to edge. This system level thinking will allow us to lead into the future with a Core that is performant, cost-effective, and competitive.

Our go-to-market ("GTM") capability is where our CSAs meet our markets. In commercial, we are evolving our GTM to be more relevant to industries, a broader range of business decision makers and to embrace digital-first sales motions. In consumer, we are widening our range of offers and business models to differentiate our Windows experience.

This document "Microsoft's Corporate Strategy" and its companion document "Microsoft's Plan of Record" together outline our current strategy. This document covers the strategy for the Company as a whole whereas the second document focuses on each key element of our business – our CSAs and important cross-Company capabilities.

Both documents are "living" and are iterated continuously.

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INTRODUCTION

The world has changed irreversibly. Beyond the pandemic there will be great challenges and greater expectations, not just from customers and partners but from the world itself, which has never needed Microsoft more.

We are at a crossroads: the world in 2022 looks nothing like the world of 2019. Geopolitically, socially, economically — the global order is in flux. The world's economy is at risk. Inflation is at a 40-year high. Supply chains are stretched and getting reconfigured. Globalization is under threat. At the same time, it is increasingly clear that we are entering a new technological era with the potential to power 10x or 100x improvements across every sector of society.

This places Microsoft at a historic intersection of tremendous opportunity, as well as responsibility toward the world around us. It's never been more critical to connect the potential of technology with what the world needs from technology. It is in times like this that our ability to stay grounded in our sense of purpose and identity is of the utmost importance. Our mission and the pillars that uphold it have never been more urgent or more relevant.

Our mission and culture have been adequately tested over time. They remain enduring and serve as pillars for our overall Company framework. They are essential to Microsoft's long-term competitive advantage, and essential to our customers and partners in the communities where they live.

Technology is the world's most malleable resource for confronting over-constrained problems, and Microsoft is the world's most respected steward of digital technology. That makes us uniquely suited to engage with these complex problems and empower our customers and partners to do the same.

Our CSA framework is how we create value where our mission intersects our worldview. Microsoft Cloud and Microsoft Plus each represent our belief that the collective value we bring to our commercial and consumer customers is more than each individual CSA.

While Microsoft arguably possesses the most complex portfolio of businesses relative to other hyperscale technology peers, we derive advantage from the fact that this portfolio of durable digital businesses and diverse business models is built on a common tech stack and common operating model. We continue to learn from a broader range of trends in the market and will innovate at all layers of the stack on behalf of our customers.

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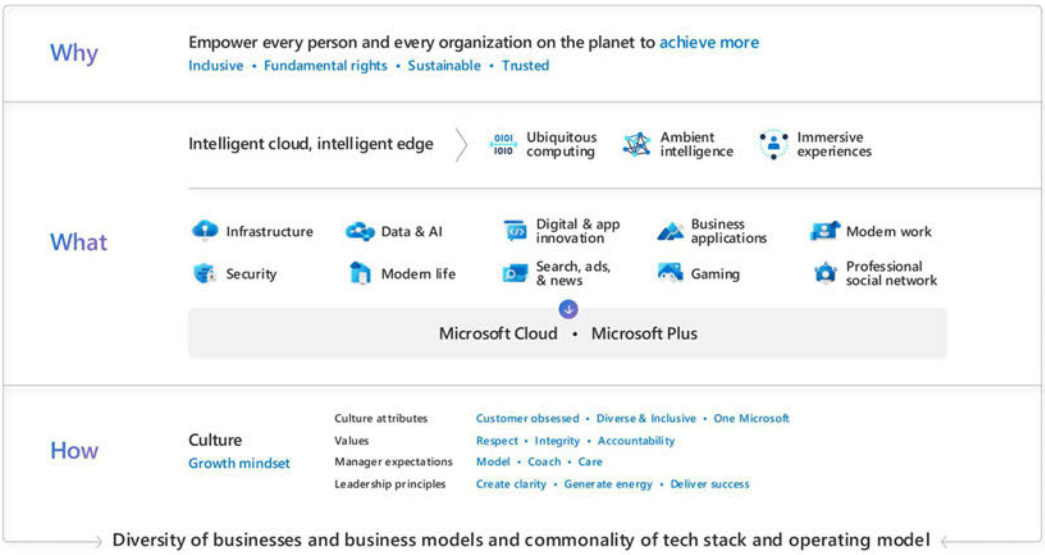
Exhibit 1: Microsoft's mission, worldview and culture



1. MICROSOFT'S OPPORTUNITY

Our long-term financial ambition is to grow at more than 10% p.a. through this decade to become a $500 billion revenue business by FY2030 while still growing revenues at 10% p.a. or more at that time. As we scale, we have the opportunity to grow earnings faster than revenues which enables us to deliver returns commensurate with shareholder expectations.

Doing this will require us to continue to attract, retain and excite new users and new developers.

Our markets and the secular trends driving them

Our TAM is more than adequate to support our ambition. Our existing product portfolio addresses $2.2 trillion of the ~$4.0 trillion global technology landscape. This $2.2 trillion is referred to as "Microsoft Core TAM" (Total Addressable Market). Of this Core TAM, 46% is commercial spend inclusive of public sector and the remaining 54% is consumer spend including advertising spend on consumers.

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Exhibit 2: Core TAM is $2.2 trillion split nearly equally between commercial and consumer

Note: MSFT's revenue breakdown is calculated by summing CSA revenues that are classified as either commercial or consumer.
Source: Corporate Strategy Analysis, IDC, Gartner, Company Filings

Looking forward, the technology shifts with which we are aligned provide us with huge tailwinds. We are living in the era of intelligent cloud and intelligent edge and it is being driven by massive technological shifts across ubiquitous computing, AI, and immersive experiences. These forces will transform every organization and create innovations that our evolving world will require.

At the ubiquitous computing layer, tier-1[1] cloud-native workloads, new models of cloud and edge computing, game and app streaming, autarky or sovereignty, Web3 and decentralized computing are powering major transformations in infrastructure.

The application tier is being reshaped by AI advances across large-scale multimodal models as platforms, deep reinforcement learning, cloud and edge AI, agents, robotics, and responsible AI.

And at the experience layer, fundamental changes to human-computer interfaces are driving new feedback loops between creators, content, commerce, and communities. We are already seeing examples today like video-first experiences, the creator economy, hybrid work, collaborative business process apps and Teams, and the metaverse (spanning commercial, enterprise, and industrial).

Enterprise value will be created as these shifts become mainstream. In the coming years, tech spending as a percentage of world GDP will double from 5% to 10% and beyond as the world's COGS and Opex are increasingly digitized, and technology moves from a back-office cost center to a defining feature of every product and service.

The technology sector's output will increasingly become the input for every other sector. From communications and commerce to logistics, financial services, energy, healthcare, and entertainment, digital technology will power the rails of the entire global economy as every company becomes a software company itself. Every organization will need to harness these forces to build their own digital tech intensity so they can create proprietary technology required to generate durable competitive

[1] Tier 1 workloads are defined as mission-critical workloads to the running of businesses. Examples include real-time transactions and streaming of content to end users.

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advantages. Microsoft seeks to drive economic growth that is inclusive for every country, company, community, and person as these technology advances unlock opportunities for every agent.

The decade ahead will be defined by waves of swift and sweeping change, and Microsoft has a favorable position along the arc of progress, and our bold ambitions reflect the mindset we must inhabit if we are to continue bending that arc.

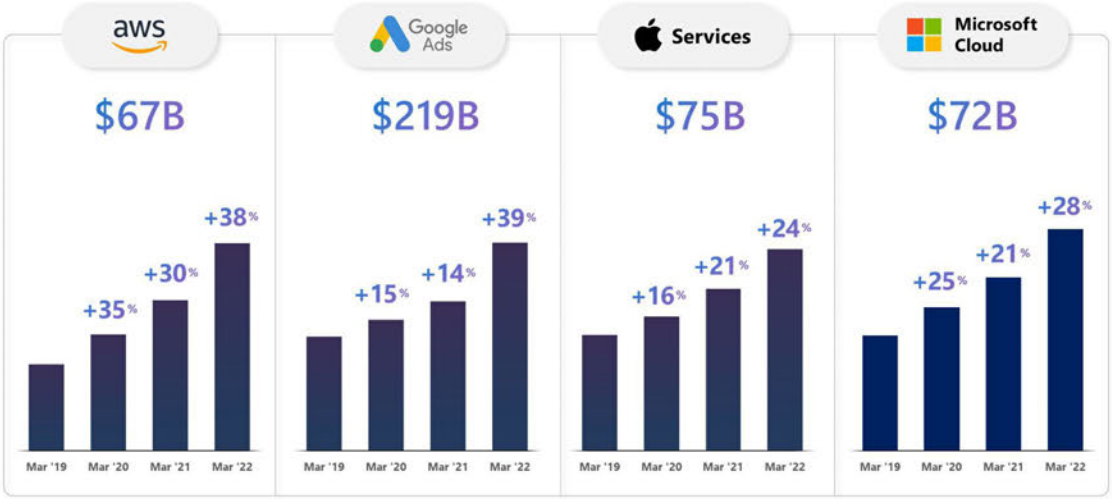
Our immediate opportunity

Our longer term aspiration is based on durable growth through the decade. In the near term, we are targeting 20% revenue growth and 20% operating income growth ("20/20").

We believe that our 20/20 ambition is appropriate now given our expansive TAM, alignment with secular trends and our competitive positioning. Along with our major competitors, we have shown that it is possible to drive profitable growth at the 20/20 level.

Amazon Web Services, Google Advertising, and Apple Services are all leaders in their respective markets and each has accelerated annual revenue growth to between 20-40% in recent years. We too have delivered this type of growth at scale by providing increasing value to our customers through the Microsoft Cloud.

Exhibit 3: Accelerated growth at scale is the new norm



Source: Company financials

2. OUR ORGANIZING FRAMEWORK AND PRIORITIES

Theory of the firm

Microsoft derives competitive advantage by operating a diversity of businesses and business models which are built on a common technology stack and monetized via a set of shared go-to-market

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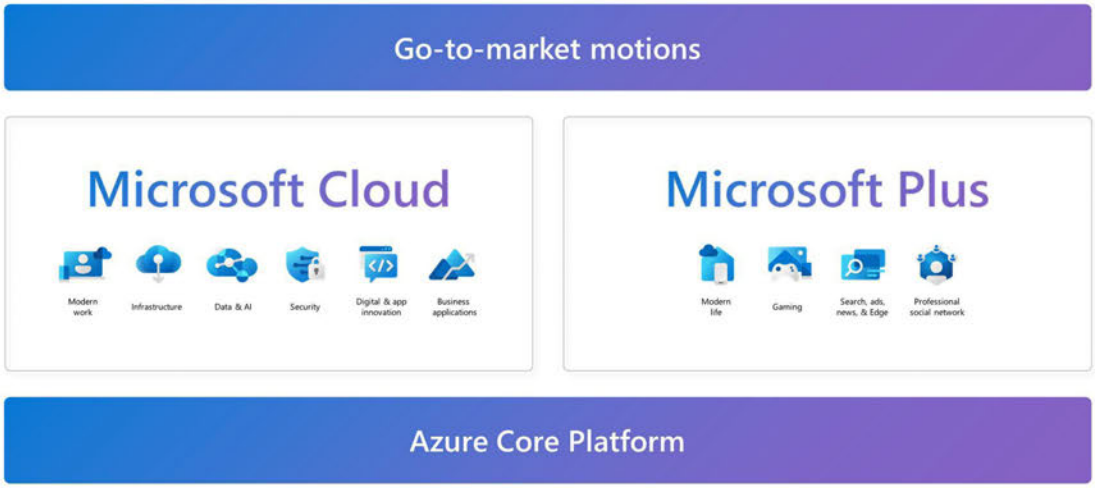
capabilities. We believe this approach will allow us to continue to attract, retain, and excite new users and new developers over the long term.

Exhibit 4: Microsoft's organizing framework



Our organizing framework has the following primary elements:

- Customer Solution Areas: We operate our business via CSAs. These are grouped broadly into Microsoft Cloud which comprises our commercial CSAs and Microsoft Plus which comprises our consumer CSAs.
- Core Platform: The Azure Core Platform is our common technology stack and supports the full breadth of our business. The Core Platform comprises computing, storage, networking, databases, and AI capabilities, from cloud to edge and in all regions of the world.
- Our shared GTM model includes our commercial field, our partners, digital-first sales motions, and our consumer monetization capabilities.

For each of these we maintain and iterate a set of needle moving priorities[2] that we call the Last Known Good ("LKG"). We believe that execution of these priorities is essential to our maintaining progress towards our longer term aspirations and our near term 20/20 goal. We track progress against each of these priorities via specific metrics and targets which are grounded in a combination of the recent performance of relevant competitors and overall potential.

The LKG itself is iterated regularly based on the competitive landscape and opportunities arising from secular trends. In addition to growth opportunities within our existing CSAs we are constantly searching for net new areas of growth through organic and inorganic expansion. As such, the number of CSAs has grown from 6 in FY2018 to 10 today.

[2] We define a needle moving priority as an initiative that can generate or impact at least $10 billion of new revenue by FY2030.

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Microsoft Cloud

Currently, our strongest businesses are in the commercial space. Microsoft Cloud includes the following CSAs: Azure (our Infrastructure, Data & AI, and Digital and Application Innovation CSAs); Modern Work; Security, Compliance, Identity, and Management ("SCIM"); and Business Applications.

We have the most complete set of commercial cloud offerings in the marketplace, addressing commercial and public sector customers' digital transformation needs at all layers of the stack. Even amidst macroeconomic uncertainty, surveys consistently show that more CIOs plan to increase their share of spend with Microsoft than with any other vendor[3]. Our Microsoft Cloud businesses are also well aligned to, and benefit from, the ongoing shift to cloud computing and software-as-a-service accelerated by COVID. We expect these businesses to drive the bulk of our revenue growth over the next decade.

However, we cannot rest on our laurels. **Maintaining our growth and leading position in commercial cloud is our *overriding priority*** and our execution must continue to be world-class. We will seek to drive differentiation and ecosystem growth while remaining well aligned with secular industry trends.

We set long-term visions (i.e., "we know we are winning when") and medium-term growth targets for Microsoft Cloud CSAs. These priorities help us stay focused in our planning and executions. By achieving these priorities, we will accelerate our growth and exceed investor expectations.

[3] Morgan Stanley Quarterly CIO Surveys. In the CY21 Q4 CIO survey, in net, more than 40% of CIOs identified Microsoft as the vendor they expect to increase share of IT spend with most over the next three years vs. ~13% for Amazon, and ~3% for Google.

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Exhibit 5 Microsoft Cloud CSAs & LKG priorities

Microsoft Cloud

We know we are winning when	FY22E revenue	[redacted]	Key LKG items	Competitive benchmark[1]
1 **Infrastructure:** We consistently win Tier-1[2] infrastructure workloads	$34B		• Tier 1 workloads • Intelligent Data Platform, AI Differentiation, Nuance • Digital Natives, Dev SaaS • System Architecture leverage across first party SaaS and Device workloads	• AWS: 36% • GCP: 59%
2 **Data & AI:** Our share of organizations' data estates is growing	$17B			
3 **Digital & app innovation:** Every developer project starts with GitHub and grows into our full Dev SaaS suite	$4B			
4 **Modern work:** We are gaining traction with Small Business, Digital Natives, EDU segments for our cloud solutions	$67B		• Win 11/Windows 365 • E3→E5 • SB • Viva • FLW/emerging markets	
5 **Security:** Customers choose us for their end-to-end multi-cloud/multi-platform security needs	$18B		• Suite of E2E multi-cloud/platform solution • At-scale specialized GTM & deployment	• Okta: 65% • CrowdStrike: 61% • PANW: 29%
6 **Business applications:** We are leading innovation in business applications and growing share	$5B		• D365: S&M, Contact Center as a Svc, Supply chain • Power platform and CDP	• Salesforce: 24% • Workday: 22%
7 We become the cloud partner for leading edge companies pioneering "next wave"[3] of cloud growth				
8 Teams is the leading platform for collaborative apps and experiences (meetings, calls, chat, content collaboration, business process)				

1. Q3 FY22 data unless noted otherwise
2. Workloads that are most critical to our customers' core businesses processes
3. Future categories of cloud services featuring high volume and performance requirements (e.g., digital biology, autonomous transportation)

Source: Corporate Strategy analysis, Central Finance Team

We are currently addressing the following important questions for our Microsoft Cloud:

- *How can Modern Work better address the needs of Gen Z users and Digital Native companies?* Gen Z users and Digital Native companies tend to use simple, lightweight, collaboration-first applications from companies who scale through freemium business models and bottom-up adoption within companies. Our relatively low share in these segments presents a long-term risk to our overall Modern Work business. We have made acquisitions (e.g., Clipchamp) and created new products (e.g., Loop) to cater to these groups. We are looking to leverage our AI capabilities to leapfrog competitors in developing next-gen productivity tools.

- *Are we winning the right workloads and customers to maintain and improve on Azure's strong #2 position in IaaS/PaaS?* Infrastructure as a Service and Platform as a Service ("IaaS"/"PaaS") are foundational to Microsoft Cloud. Azure is a strong #2 to AWS in IaaS/PaaS, ahead of Google Cloud Platform. Our overall Microsoft growth ambition requires us to at least maintain this #2 position. As a starting point and to stay competitive we must ensure we are staying on the efficient frontier of performance and cost in IaaS/PaaS. As the market grows, we will need to be more relevant in industry-specific offers and win the Tier 1 workloads of our core segment of large enterprises, which are digitally transforming. Beyond that we will need to orient our

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capabilities and go-to-market towards the future as new, fast growing digital native companies become an increasingly important element of the overall market.

- *What are the next AI-first, large scale workloads that compose the Windows and Azure infrastructure into one holistic AI fabric/app model?* As we look towards ubiquitous computing and ambient intelligence, new scenarios and richer experiences enabled by AI and seamless delivery across cloud and edge will emerge. We will need to identify what AI-first experiences will drive significant or even population-scale demand and make sure that we build and deliver integrated solutions accordingly. An example is our physician assistance tools from Nuance which use AI to help record physician-patient interactions and augment interpretation of diagnostic tests such as medical images. We need to ensure that solutions such as these benefit from and enhance our product differentiation and that we have the right motions and business models for these products.

Microsoft Plus

The consumer technology space is large and represents a clear growth vector for the Company. The synergy between commercial and consumer can help us remain relevant to people who bring the same expectations for a seamless and intuitive product experience from their personal lives to their professional lives. And with our existing assets, consumer business models can efficiently grow operating margins as they scale.

Microsoft Plus represents our collection of consumer CSAs: Gaming, Professional Social Network, Modern Life, and Search, Advertising, News and Edge (SANE). Our long term aspiration for Microsoft Plus is to deliver a range of differentiated experiences, serving consumers where they choose to spend their time and allowing them the convenience of availability on their devices of choice.

Our overarching priorities in Microsoft Plus are (a) to continue to build on the success of our strongest consumer businesses in Gaming and Professional Social Networking, (b) drive more growth and value from Modern Work and SANE through differentiated experiences for our 750 million Windows consumer users, and (c) continue to maintain the health and competitiveness of the Windows ecosystem.

We recognize that some of our consumer businesses are not well-positioned relative to long-term secular trends. For example, we are not yet well enough positioned relative to time spent on mobile devices. We continue to remain vigilant for potential breakthroughs, including embracing disruptive trends such as the rise of the creator economy, video-first applications and assessing inorganic plays that can help position us better in the future.

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Exhibit 6: Microsoft Plus CSAs & LKG Priorities

Microsoft Plus

We know we are winning when	FY22E revenue	[redacted]	Key LKG items	Competitive benchmark[1]
9 **Gaming:** Be the first choice for gamers to play when, how and where they want	$17B		• xCloud • Game Pass adoption	• EA: 18% • Activision Blizzard: -22%
10 **Professional social network:** Expand audience and engagement across our professional social network	$14B		• Talent Solution • B2B ads • Identify the next big opportunity	
11 **Modern life:** Developers choose our store as the place to reach customers with the highest ROI; We have multiple apps with 100M+ DAU on mobile platforms	$15B		• PC backup • Outlook ad • Teams Consumer • Win 11 • Consumer security	
12 **Search, ads, news & Edge:** Become a top choice for advertisers based on our deep, scaled consumer engagement; Engagement and share on our browser is growing with both consumer and businesses	$12B		• Differentiated browser/search • Shell/mobile • 1st party ad network	• Google: 22% • Meta[2]: 6% • Amazon: 23%
13 Windows expands the PC and acts as a seamless integrative hub for all our products and services for 1.4B+ users			• Win 11 adoption	• Apple PC shipment share: 18% (0pts y/y) • Google PC shipment share: 20% (-5pts y/y)

1. Revenue growth in Q3 FY22 unless otherwise noted. Updates are ongoing as earnings are released.
2. Meta advertising revenue growth includes Traffic Acquisition Costs ("TAC"). Alphabet and Amazon revenue growth figures exclude TAC.
Source: Corporate Strategy analysis, Central Finance Team

We are currently addressing the following strategic questions in Microsoft Plus:

- *What new experiences can create net new demand for Windows?* The tight integration of custom silicon and Windows creates an opportunity for us to deliver AI-first, best-in-class Windows experiences which can give rise to new usage scenarios and attract new users and developers to Windows. In addition, these experiences could increase preference for and usage on Windows, driving Plus opportunities as a whole.

- *What is the next big growth engine for Professional Social Network?* LinkedIn is a strong mobile-first application and a clear leader in its category. The business has grown strongly through the pandemic and continues to perform well. However, the potential is even greater, with several potentially large and durable growth vectors including expansion of types of professionals using the platform and new uses for the platform such as B2B marketing and sales.

Cross-CSA capabilities

Our operating model relies on capabilities that span CSAs, broadly across two categories: technology platform and GTM. There is a virtuous cycle where each CSA brings greater scale to these capabilities and the greater scale allows each CSA to be a more efficient and differentiated business. We have 5 priorities that will propel this virtuous cycle.

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Exhibit 7: Cross-CSA capabilities

	We know we are winning when:
Go-to-market motions	14 **Product-led growth and digital-first GTM:** Our products are naturally discovered, purchased, and deployed without friction, generating rich usage that drives demand for the next workload
	15 **BDM and industry solutions:** Our products address the biggest business transformation challenges of every room in the house, in every key industry
Azure Core Platform	16 **Consumer-grade product development, infrastructure, and ethos:** Our products are chosen, loved, and shared by end users and those users in turn become the biggest, most influential sellers to their own networks
	17 **Zero distance with developers:** Our products optimize for developer time to success and rise to the top of their mindshare
	18 **Next generation systems architecture- silicon to experiences:** Our products are built on and benefit from a reinforcing end-to-end systems architecture

We are currently addressing the following strategic questions:

- *How can we move faster to adopt product-led growth and digital-first GTM?* We need to drive efficiency into our GTM motions both to support our pace of growth and to drive operating leverage as we scale. Digital first sales motions are key to this and are closely linked to how the product experience is conceptualized and developed from the outset. This in turn relies on establishing the right consumer-grade product development mindsets and supporting infrastructure. These programs are being driven across the Company.

- *What is our approach to establishing and maintaining differentiation by industry?* While there are significant opportunities for horizontal solutions which are relevant to all industries (e.g., security), there is a growing need for industry-specific data models and solutions, almost all of which we will deliver via close partnerships with ISVs. We are sharpening our focus on Industry Clouds as the primary vehicles for delivering industry functionality, with a goal to drive further adoption of the broader Microsoft Cloud. We are actively identifying the most critical scenarios in each industry and the critical ISVs we can partner deeply with to deliver them.

- *How can we leverage our common tech stack (i.e., cross-entire-system architecture from silicon to OS to application and device) to remain competitive in both cost and functionality across Cloud, Windows and Edge?* We have a potential competitive advantage if we can bring together our range of commercial and consumer 1P experiences, our advanced AI capabilities and our devices ecosystem. As we innovate our Azure Core we are taking a holistic systems view across applications, devices, platforms, infrastructure and silicon; and from cloud to edge. Over time we believe this approach will yield benefits, allowing rich AI-first experiences to be offered in cost-effective and highly performant ways to users across devices of their choice.

3. BRINGING IT ALL TOGETHER: OUR PATH TO FY2025 AND BEYOND

We have outlined our aspiration, our organizing framework, and the priorities for each key element of our business. We have detailed the metrics and 3-year targets we use to track progress. Projecting forward, if we were to achieve those targets our business would double from ~$200B in FY2022 to

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almost $400B by FY2025. This would place us ahead of our 20/20 target and well on the way to achieving our $500B aspiration for FY2030.

Given the different starting points and growth rate expectations for each CSA, Microsoft's composition will change as we grow. By FY2025 the Company will comprise a range of strong and significant businesses with durable growth potential into the future. In addition, over the coming years we may add new CSAs which could further contribute to growth beyond FY2025. We remain vigilant for organic or inorganic opportunities.

Exhibit 8: FY2022-FY2025 Growth Profile

	CSAs	FY2022E revenue	
Microsoft Cloud	Infrastructure	$34B	$55B
	Data & AI	$17B	
	Digital & app innovation	$4B	
	Modern work	$67B	
	Security	$18B	
	Business applications	$5B	
Microsoft Plus	Gaming	$17B	
	Professional social network	$14B	
	Modern life	$15B	$27B
	Search, ads, news & Edge	$12B	
Core Capabilities	Across all CSAs: Product-led growth, BDM & industry solutions, consumer grade product ethos, zero distance with devs, next gen system architecture – silicon to apps	--	
	Total =	~$200B	

[redacted]

Our Path Forward

Tech intensity is growing in all sectors of the economy and we are well positioned to capitalize on strong, durable secular trends. As the world moves into an uncertain future, the potential opportunities in both Microsoft Cloud and Microsoft Plus remain significant but subject to great change. We are confident in our ability to achieve growth by taking a long term view of our business and keeping a close eye on secular trends. There will be immense opportunities in the quarters ahead and we will need to be poised and well-positioned to pursue them with ambition.

Our immediate priority is to drive profitable growth at the 20/20 level by investing prudently in our core businesses and driving differentiation and operating leverage through our cross-CSA capabilities. Beyond this, we seek to secure our longer term growth potential by placing the right expansive bets now.

While technological and market trends will come and go, our mission and cultural values are constant. These are the anchors upon which we build our Company's future and the energy that fuels our ability to empower people and organizations across the planet.

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APPENDIX: The Complete Last Known Good

This is the current list of "needle moving" priority plays for the Company. We define a needle moving play as one that has the potential to generate at least $10 billion incremental revenue by FY2030.

Note that the companion memo to this one, "Microsoft's Plan of Record", has detail on the objectives and strategies for each of these priorities.

Microsoft Cloud

	We know we are winning when:	Needle moving opportunities	
1	**Infrastructure:** Consistently win Tier-1[1] infra workloads	• Aim to be the primary cloud for Tier 1 workloads in a multi-cloud, multi-edge world • Drive preference for Azure via DevOps/Dev Tools & BizApps & Teams	• Grow the edge • Azure for Operators • OpenAI to have best-in-class in AI models as platforms
2	**Data & AI:** Our share of organizations' data estates is growing	• Intelligent Data Platform – operational databases, analytics/AI, data governance	• HoloLens, and AR/VR • Nuance
3	**Digital & app innovation:** Every developer project starts with GitHub and grows into our full Dev SaaS suite	• Grow VS and GitHub usage • Increase developer preference for Azure • DevSecOps, Developer Cloud (dev/test, DevBox), GitHub AE, AI enhanced SW dev • Win cloud-native ISVs	• Drive PaaS for cloud native apps anywhere • Enable Teams to be a distribution channel of choice for developers in the Enterprise • ACS • Digital Native Segment
4	**Modern work:** We're gaining traction with Small Business, Digital Natives, EDU segments for our cloud solutions	• Invest in health of Windows ecosystem (Win 11) • Modernize & expand MW install base esp. via Teams adoption • Grow user monetization (E3->E5, O365->M365) • Grow Voice • Teams for Business Process	• Viva • Cloud PC • Digital Events • Modern Productivity Apps • Focus on SB (Teams Essentials) • Collaboration-first Applications • Metaverse: Mesh for Teams and Gaming, Digital Twins
5	**Security:** Customers choose us for their end-to-end multi-cloud/multi-platform security needs	• Build out suite of end-to-end, multi-cloud/platform solution • Modernize and scale specialized GTM	• Drive deployment and usage • Evaluate automated professional services • Verifiable Credentials
6	**Business applications:** We are leading innovation in business applications and growing share	• SaaS Apps: D365 (integrated w/ Power/Teams/Azure, including Nuance-augment Contact Center as a Service) • Power Platform & Customer Data Platform (CDP) • Automation Platform	• Nuance as part of our Microsoft Cloud for Healthcare • Business Sovereignty (SANE PromoteIQ/MSAN+D365 Customer Insights)
7	Be consistently chosen as the cloud partner for leading edge companies pioneering the "next wave"[2] of cloud growth		
8	Teams is the leading platform for collaborative apps and experiences (meetings, calls, chat, content collaboration, business process)		

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Microsoft Plus

	We know we are winning when:	Needle moving opportunities	
9	**Gaming:** Be the first choice for gamers to play when, how and where they want	• Build out xCloud and drive Game Pass adoption and monetization • Add differentiated Content experiences	• Evaluate a range of both inorganic and organic moves
10	**Professional social network:** Expand audience and engagement across our professional social network	• Grow B2B advertising network with deeper community engagement • Continue to expand Talent Solutions business	• Expand Firstline worker and skill-based hiring • Become B2B commerce platform • Productize data capabilities
11	**Modern life**: Developers choose our store as the place to reach customers with the highest ROI; We have multiple apps with 100M+ DAU on mobile platforms	• Build and scale out Teams Consumer • Launch Windows 11, and continue innovation in OS and devices	• Consumer security
12	**Search, ads, news & Edge**: Become a top choice for advertisers based on our deep, scaled consumer engagement; Engagement and share on our browser is growing with both consumer and businesses	• Differentiate browser/search • Grow distribution though shell/mobile	• Build 1st party ad network • Grow XPay
13	Windows expands the PC and acts as a seamless integrative hub for all our products and services for 1.4B+ users		

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Microsoft Memo

To: Board of Directors and Senior Leadership Team

From: Satya Nadella

Date: June 7, 2022

Re: Microsoft's Growth Strategy: Plan of Record

This document "Microsoft's Plan of Record" is a companion to "Microsoft's Corporate Strategy", and together these documents outline our current strategy.

In the document "Microsoft's Corporate Strategy" we outline our overall mission, worldview, culture, aspirations, strategy, organizing framework and priorities. We seek to become a $500 billion revenue business by FY2030 while still growing revenues at 10% per annum ("p.a.") or more at that time. We intend to achieve this goal by implementing an evolving strategy that is growth oriented and consistent with our enduring mission and culture. We believe this ambition and approach will help us deliver in excess of 10% annual returns to our shareholders over that timeframe. In fact, our strong momentum allows us to set an even higher ambition for the near to medium term: "20/20" which stands for 20% revenue growth and 20% operating income growth for FY2022 and beyond. To achieve our aspirations, we need to identify and focus on the right opportunities and capture them.

This document "Microsoft's Plan of Record" goes one level deeper into the plan and priorities for each key element of our business – our Customer Solution Areas ("CSAs") and important cross-Company capabilities. In addition, we include a few strategic questions for each priority area that help to drive us to better positioning and performance. Both the list of questions and our answers will continue to evolve.

Both documents are "living" and are iterated continuously.

MICROSOFT CLOUD

We are currently the #1 provider in commercial cloud. **Maintaining our growth and leading position in commercial cloud is our *overriding priority*** and our execution must continue to be world-class. We will seek to drive differentiation and ecosystem growth while remaining well aligned with secular industry trends. The first order of business is to ensure that we remove any barriers to efficient execution to maintain this position. Beyond that, we are working actively to identify and pursue opportunities related to each Microsoft Cloud CSA. The initiatives that can help us retain our strong trajectory can be organized into eight top priorities including six that are CSA-oriented and two that operate across CSAs.

Exhibit 1: Microsoft Cloud Needle Moving Priorities

Microsoft Cloud

	We know we are winning when:	Needle moving opportunities	
1	**Infrastructure:** Consistently win Tier-1[1] infra workloads	• Aim to be the primary cloud for Tier 1 workloads in a multi-cloud, multi-edge world • Drive preference for Azure via DevOps/Dev Tools & BizApps & Teams	• Grow the edge • Azure for Operators • OpenAI to have best-in-class in AI models as platforms
2	**Data & AI:** Our share of organizations' data estates is growing	• Intelligent Data Platform – operational databases, analytics/AI, data governance	• HoloLens, and AR/VR • Nuance
3	**Digital & app innovation:** Every developer project starts with GitHub and grows into our full Dev SaaS suite	• Grow VS and GitHub usage • Increase developer preference for Azure • DevSecOps, Developer Cloud (dev/test, DevBox), GitHub AE, AI enhanced SW dev • Win cloud-native ISVs	• Drive PaaS for cloud native apps anywhere • Enable Teams to be a distribution channel of choice for developers in the Enterprise • ACS • Digital Native Segment
4	**Modern work:** We're gaining traction with Small Business, Digital Natives, EDU segments for our cloud solutions	• Invest in health of Windows ecosystem (Win 11) • Modernize & expand MW install base esp. via Teams adoption • Grow user monetization (E3->E5, O365->M365) • Grow Voice • Teams for Business Process	• Viva • Cloud PC • Digital Events • Modern Productivity Apps • Focus on SB (Teams Essentials) • Collaboration-first Applications • Metaverse: Mesh for Teams and Gaming, Digital Twins
5	**Security:** Customers choose us for their end-to-end multi-cloud/multi-platform security needs	• Build out suite of end-to-end, multi-cloud/platform solution • Modernize and scale specialized GTM	• Drive deployment and usage • Evaluate automated professional services • Verifiable Credentials
6	**Business applications:** We are leading innovation in business applications and growing share	• SaaS Apps: D365 (integrated w/ Power/Teams/Azure, including Nuance-augment Contact Center as a Service) • Power Platform & Customer Data Platform (CDP) • Automation Platform	• Nuance as part of our Microsoft Cloud for Healthcare • Business Sovereignty (SANE PromoteIQ/MSAN+D365 Customer Insights)
7	Be consistently chosen as the cloud partner for leading edge companies pioneering the "next wave"[2] of cloud growth		
8	Teams is the leading platform for collaborative apps and experiences (meetings, calls, chat, content collaboration, business process)		

1. Workloads that are most critical to our customers' core businesses processes
2. Future categories of cloud services featuring high volume and performance requirements (e.g., digital biology, autonomous transportation)

1. Infrastructure

We are currently a strong #2 player in the public cloud space, capturing 16% of an opportunity that is ~$211 billion today. The opportunity is projected to grow at 21% per annum to ~$650 billion by 2030 as cloud adoption grows from its early state. We believe the public cloud market (IaaS/PaaS) is currently divided roughly as follows: Azure 16%, Amazon AWS 38%, and Google GCP 8%. Our priority is to maintain growth above the market rate to extend our lead over GCP and close the gap with AWS.

- **Plan of Record**: In addition to competing for the migration of customers' existing on-prem workloads to Azure we are focused on winning *new, cloud-native, high value / Tier 1* and *open-source software workloads* on Azure, including the new-to-the-world workloads which arise as the cloud itself evolves. We are moving from a centralized set of structures to a multi-cloud, multi-edge distributed compute model where compute is ubiquitous and decentralized, and where customers expect to be able to use multiple cloud vendors. We seek to develop the right products, infrastructure, and business models to drive adoption and monetization of the edge as this part of the cloud is built out and operationalized. We will need to be customer-centric with data platforms/services, applications, and security/management so we can become the primary cloud in

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multi-cloud, multi-edge scenarios, allowing us to be the preferred provider for the highest value-adding elements of any solution.

We also have an opportunity to drive greater connection between our CSAs and Azure. As software spend approaches 10% of GDP, every company will effectively be a software company and will have developers who are driving this digitization. We are bridging the gap from code to cloud by making infrastructure a part of the development lifecycle and in turn, creating a virtuous cycle between our strong developer tools. This makes it increasingly easy for developers to choose our cloud and edge infrastructure. Likewise, as the world continues to digitize enterprise processes, our Business Applications offerings align with our cloud.

As we build to the future, we are mindful of the need to remain innovative and competitive up and down the technology stack to ensure we are well placed to serve our broad base of customers and win Tier 1 workloads. At the base of our stack, our custom silicon efforts will help us remain cost and feature competitive with our peers. Our efforts will be a mix of internal and partnership approaches with existing silicon players but ultimately, we will need to become a first-class provider of chipset designs, especially the most critical chips given our scale in the cloud. Furthermore, our silicon efforts in cloud, alongside client, will help us achieve an end-to-end system from client-to-cloud that creates consistent developer platforms and seamless user experiences. This will require building a full stack of capabilities from silicon to middleware to devices and ultimately, applications. If successful, this will allow us to create differentiation for our cloud platform, client/edge devices, and our 1P applications (e.g., PC xCloud, Win365) that leverage our cloud and edge.

Further up the stack we will enable a world of ambient intelligence by innovating on the data estate and AI models. Our work with OpenAI and internally with large language models allows us to innovate around AI performance and business model as AI models become platforms themselves.

- **Strategic questions we are assessing**:
    - *Are we gaining share in enterprises' Tier 1 workloads? How well are we attracting Digital Natives (any "born in the cloud" company) and their Tier 1 workloads?* Digitally transforming enterprises account for the majority of current cloud spend and will still account for ~40% of the incremental cloud spend until FY2025. In this segment, we have the strongest brand, capabilities, and the most complete vision. However, we will need to cater solutions and GTM to their needs that often vary by industry. Digital Natives is the fastest growing segment and will represent more than one third of the IaaS/PaaS market by FY2025. Furthermore, working with Digital Natives allows us to drive innovations and create new capabilities in Azure, which will enable us to provide greater differentiation with Digital Transforming customers. Given our product and GTM strengths in B2B, it is natural that we prioritize B2B Digital Natives who seek to gain customer traction by partnering with us. Beyond this we are also rethinking how we attract Digital Natives more broadly. Programs led by our Microsoft for Startups ("MfS") team such as Founders Hub allow a wide breadth of startups to sign up more quickly and adopt Azure while the MfS Pegasus program provides more in-depth support.
    - *How can we ensure we are designing from cloud to client as one system and across the stack from silicon through middleware to application? How do we maximize our investments and partnerships to benefit our entire end-to-end systems?* Compared with our hyperscale

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peers, our advantage lies in the full stack across cloud and client. We need to holistically design our system from silicon to applications to create and enhance differentiation and attract high value and volume workloads. Our approach will combine our proprietary innovations and the assets of our silicon partners.

2. Data & AI

The Data & AI CSA addresses customers' needs to capture, organize, analyze, and extract insights from disparate data sources. The need for data & AI solutions is expected to grow considerably as data volumes grow tremendously: 8x larger in 2024 than in 2015. The Data & AI TAM is expected to reach ~$155 billion by FY2025, growing at 16% CAGR (FY2022-2025), including spending on operational databases, analytics (e.g., BI), data governance, and AI. Our priority is attracting customers' data, as well as analytics and AI on their data to our platform.

- **Plan of Record**: The Azure Data & AI CSA aims to serve all modern data estate and artificial intelligence needs for our customers. This will be achieved by creating an industry leading end-to-end Data Platform that removes the data silos and complexity customers experience today, and an AI Platform that helps customers build and infuse AI capabilities into their applications.

  Our Intelligent Data Platform has 3 major elements: Operational Databases (e.g., Azure SQL, Cosmos DB), Analytics & BI (e.g., Synapse, Power BI), and Data Governance (e.g., Purview). To capitalize on our strengths, we plan to be competitive in each category of the Data Platform, tightly integrate our data offerings to form a complete Data Platform, and tightly integrate our Data Platform with Microsoft's complete Cloud to create competitive differentiation and accelerate our customers' digital transformation.

  Our AI strategy has two major pillars, Pre-trained AI and Custom Machine Learning, to help customers unlock insights and drive their digital transformation using AI. This will be supported by a strong end-to-end portfolio of AI solutions, insight and process apps, and a low code platform that seamlessly work together to drive automated, predictive insights and action, and do not require custom, expensive implementation support. Our capabilities here have been enhanced through the addition of Nuance's 3,000 TB of vertical-specific data and 1B daily interactions.

  Customer data in Dynamics 365 Customer Insights can be mapped and analyzed using operational data (from Cosmos DB and others) in Synapse as both systems are Common Data Model aware. Customers can use M365 and Teams to collaborate live using a range of powerful capabilities that satisfy any business need. Ultimately, all data and insights generated from these top layers feed back to the Data Platform, creating a virtuous cycle.

- **Strategic questions we are assessing**:

  - *Which parts of the Data and AI stack are most naturally gravitating towards cloud-agnostic approaches and how are we positioned?* Cloud agnostic vendors (e.g., Snowflake, Databricks, MongoDB) are growing share across the Data and AI stack including operational databases, extract-transform-load and data warehouses / lakehouses. These vendors carry a competitive advantage in the ability to focus on a single solution and they also often feature a core open-source offering, which results in strong affinity from developers and data teams. Across our Data and AI services, we seek to create competitive advantage by

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innovating across the cloud stack and optimizing across workloads through integrations across the Data Platform, AI Platform, and the Microsoft Cloud.

- *As data workflows change due to the emergence of in-warehouse transformation, how should we evolve our data platform strategy to improve our position with data teams?* Data teams face real challenges in making sense of their massive data estates. They spend up to 80% of their time extracting, transforming and loading data (ETL). To address this inefficiency, data teams are beginning to load their data directly into data warehouses / data lakehouses and then use open-source tools to perform data transformation natively in-warehouse. With Azure Data Factory and Azure Synapse Analytics, we are investing to build out our data transformation capabilities but more can be done.

- *How can we provide organizations with a more seamless, end-to-end experience from our Data Platforms to AI Platform?* Data teams strive for agility in generating business insights from their data estates and a single pane of glass across data analytics, data governance and production ML. To address these needs, we are bringing our ML capabilities closer to our data platforms. Azure Machine Learning powers Synapse Analytics so customers can generate ML-based insights directly from their data warehouse. Further, Azure Machine Learning will soon have a deep integration with Purview to enable end-to-end governance of customers' ML models and model training data.

3. Digital & Application Innovation

The Digital & Application Innovation CSA has been operational since the start of FY2022. The CSA aspires to serve the ever-increasing need for software development and building digital solutions across industries. The CSA will enable developers, from professional to "citizen" developers, to increase the speed with which they modernize existing applications in the cloud and build digital-first, cloud-native applications. In addition to developers, the CSA will need to gain the support of the C-Suite in driving their company's digital strategies.

To date we have made investments in end-to-end developer tools (GitHub, Visual Studio, PowerApps, Azure), Teams, and open-source developer communities. By bringing these together we capture ~12% of the $37 billion digital and application innovation opportunity across customers and technology partners ("ISVs"). The TAM is expected to reach ~$69 billion by FY2025, growing at 23% CAGR (FY2022-2025). We expect growth in this space to be durable at high levels given the secular trend of every company becoming a software company and hence the need for every company to have its own developer force. As such we see an opportunity for this CSA to become a significant business and are innovating around our offer and monetization approach to maximize our growth.

- **Plan of Record**: We seek to build on the momentum of GitHub, Visual Studio, and PowerApps to continue to win developers as customers and ISVs. We aim to increase usage of our developer tools and drive standardization of developer ops (GitHub and Visual Studio), simplify deployment of apps to Azure (e.g., GitHub Actions to Azure), drive consumption of Azure PaaS services for running apps anywhere (on-prem, edge, multi-cloud) using Azure Arc, and accelerate Line of Business app distribution with Teams. In addition, coordination with the Data & AI CSA allows us to help developers accelerate their application development with easy-to-use managed databases. DevSecOps, which integrates Security and Compliance as part of the DevOps process, is an emerging opportunity as customers increasingly feel it is an essential part of their overall security posture.

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Bringing together our DevOps (GitHub) and Security assets, combined with a concerted GTM between this and the Security CSAs will help us pursue this growth opportunity.

We also have a significant growth opportunity in bringing software development and testing to the cloud. Our Developer Cloud will allow us to compete for existing spend that currently goes to on-premises developer workstations and dev/test servers. Furthermore, once these activities have moved to the cloud we can provide additional capabilities for cloud DevOps with GitHub AE, data residency, security, compliance, and identity. All of this will be enabled with the ease, convenience, and security of a fully native Azure service in GitHub. This is a clear example of how we can provide developers with easy-to-use cloud services that run on Azure without making developers have to choose and provision Azure resources.

We have strengths in delivering these solutions with enterprises which are digitally transforming, and established ISV cohorts. Digital Natives represent a very large but relatively untapped opportunity for us. It is imperative that we target and win Digital Natives, and our focus at least initially is on B2B digital natives where we are well placed to win. More broadly, developers at Digital Natives of all forms value GitHub's open-source ecosystem, scalability and simplicity, and GitHub's identity as a Digital Native company itself. We must continue to enhance GitHub with new offerings (e.g., Actions, Codespaces, Copilot) that help developers improve their productivity. Also, enabling developers to seamlessly choose Azure-based cloud services from within GitHub will allow us to drive consumption among Digital Natives.

- **Strategic questions we are assessing**:
    - *What is the path to making our Dev Cloud a large SaaS business?* A fully managed SaaS offering would bring together key tools and capabilities for developers, eliminating the cost and complexity of their existing on-prem dev workstation and servers. We can expand Dev Cloud to Windows and Dynamics 365, which would enable other types of "Developers" who work in engineering and data intensive areas around Windows and Dynamics. In addition, we can enhance our Dev Cloud value proposition with best-in-class experiences underpinned by innovations such as Copilot, an AI-enabled tool that can understand language and automatically generate codes and therefore has the potential to significantly reduce coding time.
    - *What is the expansive growth vision for GitHub to address and enable new audiences and scenarios? What new Azure-hosted services like GitHub Actions can we birth as natural extensions of the developer experience on GitHub (e.g., DevSecOps)?* GitHub already has an active developer community. As software grows in importance to all companies, GitHub is uniquely positioned to become a collaboration surface for new and existing audiences. We can see the world where every project starts with a GitHub subscription. We need to be attuned to customer needs and continue to release innovations such as GitHub Actions and Codespaces.
    - *How do we best participate in the high-growth area of PaaS services that are agnostic of cloud provider – with Snowflake and Databricks as leading examples?* Developers are increasingly choosing best-of-breed solutions from cloud agnostic ISVs. We need to be artful in when and how we deliver on customers' needs across cloud environments, partner with cloud-agnostic ISVs, and build differentiated and integrated offerings on Azure.

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- *How can we be better positioned to benefit from open-source business models, across both existing tools and potential new offers?* Developers have clear affinity for open-source projects and consequently open-source based business models. We can build on our open-source strength across Visual Studio Code and GitHub and evaluate where and when it is most appropriate to take an open-source based approach as we serve developers.

4. Modern Work

Our comprehensive workplace productivity solution set remains the clear leader in the Modern Work category, allowing us to capture 14% share of a Core TAM of ~$460 billion. Our position has only been enhanced as COVID has accelerated and permanently changed organizations' need for integrated tools for remote collaboration. We look to maintain double-digit growth through 2030 and beyond.

- **Plan of Record**: Our primary driver is to modernize and expand our installed base and upselling customers to premium (E3 -> E5) and more comprehensive suites (Office 365 -> Microsoft 365).

  We are sharpening our focus on Windows, which in some way helps drive nearly half our Company's revenue overall. In the commercial space our priority is to drive Windows 11 adoption. In the consumer and education spaces we are taking on Chromebooks with the integration of Teams into Windows 11.

  We are pursuing new customers and new categories across a few efforts. We are addressing Small Business ("SB") which we define as customers with less than 25 employees. We recently launched Teams Essentials, a standalone offering targeted specifically at Small Businesses and have a three-pronged SB growth plan to build on top of existing product on-ramps (Teams, Security, OneDrive, Windows 365, and Office), optimize our Direct and Cloud Solution Provider sales motions, and create new channels with Windows and Telco partnerships. We have released versions of Teams for frontline worker ("FLW") scenarios (e.g., hospital shift scheduling) and for emerging market users.

  We are creating a new category of hybrid cloud/on-premises personal computing ("Cloud PC"). Our Windows 365 product aims to help organizations remotely manage devices by allowing users to access a full Windows PC experience via their browser and could alter the way that Windows experiences are accessed across devices.

  Our most expansive opportunity is to go beyond tools to help organizations better support their employees, offering digital solutions for the $7 trillion companies spend to support the $50 trillion they spend on paying people. We are at the start of this journey, where examples today include enabling digital events using the Teams platform and our newly released Microsoft Viva suite of solutions for employee experience that build on our capabilities in knowledge, corporate learning, and workplace analytics.

- **Strategic questions we are assessing:**

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- *Existing Engines: How do we continue to augment our value proposition in the core to compete against point solutions more effectively? How can we help customers drive adoption of our products across their organizations?* We are seeing increased occurrence of customers paying for multiple solutions including Microsoft 365 license. We need to evolve our value proposition to more effectively meet our customers' needs. This is more important than ever in times when customers are looking for ways to cut costs. E5 is our core engine for premium growth and ARPU expansion. While Security has been a strong pillar enabling E5 adoption, we will require similar success from Teams Voice and Power BI/Analytics to enable our full growth potential.

- *Growth Bets: How can we ensure that our new bets (e.g., Viva, Window 365, Teams Rooms) are growing fast enough to achieve their full potential? What can we offer in Viva beyond workplace analytics and LinkedIn learning? What are we doing to scale Windows 365 and Teams Rooms?* Our new bets focus on new markets (e.g., employee experience, business process, Cloud PC) accelerated by the new world of work. The shift to hybrid work represents a once-in-a-generation opportunity, but efficient execution will take orchestration across the entire Company: from engineering to sales to marketing to operations to customer success. We are still in the early stages of defining and crystalizing Microsoft Viva and Windows 365 offerings and strategy. In addition to workplace analytics and learning, other potential pillars to Viva include connection/communications and knowledge.

- *Underpenetrated Segments: How is Essentials performing and can it provide us with the basis for a broader play in SB? Are we executing effectively relative to the potential in the Front Line Worker market?* SB and FLW are large, underpenetrated segments. Teams Essentials is built with SB and FLW in mind and is our leading offer to accelerate our momentum in these spaces.

- *New Audiences: How can we better address the needs of Gen Z users and Digital Native companies in our core product categories? How can LinkedIn and GitHub help us develop collaboration-first applications that appeal to these audiences?* Gen Z users and Digital Native companies tend to use simple, lightweight, collaboration-first applications from companies who scale through freemium business models and bottom-up adoption within companies. Our relatively low share in these segments presents a long-term risk to our overall Modern Work business. We have made acquisitions (e.g., Clipchamp) and created new products (e.g., Loop) to cater to these groups. We are also rethinking our GTM and evaluating the potential for LinkedIn and GitHub to accelerate our ambitions.

- *Long Term Bets: One important yet still nascent opportunity is the "Metaverse", an augmented set of digital experiences to enable richer and more immersive scenarios for users. We have plays in industrial settings and in enterprise and consumer scenarios.* Mesh is our platform for Metaverses. Our objective is to be the *open platform* of choice for developers seeking to create their own Metaverses and we will help kickstart Mesh via our own scale use cases around Teams meetings and in Gaming. In industrial settings, our Digital Twins Metaverse initiative brings together our cloud, data, AI, IoT, and citizen developer tools to allow industries to model their real-world operations in virtual space. For enterprise and consumer scenarios, our HoloLens and Mesh initiatives are creating secure and

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collaborative augmented and virtual reality solutions using intelligent services, best-in-class hardware, and cross-platform tools.

5. Security, Compliance, Identity, and Management ("SCIM")

Our SCIM CSA allows us to address the ~$68 billion market opportunity that encompasses both securing our own platforms for customers and protecting our customers' entire estates across their different clouds and device platforms. We are well placed as AI and hyperscale cloud services increasingly become the most effective way to combat the rapid growth of cyberattacks and compliance risk. With ~$19 billion in revenue we are already a leader with a strong range of products and services across Microsoft 365 and Azure.

- **Plan of Record**: Our greatest opportunity is to increase our penetration with our existing installed base by delivering end-to-end security that is both best-of-breed and best-of-suite. While our success to date has been limited to Modern Work and Azure, there are also opportunities to evolve our solutions to truly protect across multi-cloud, multi-platform, heterogeneous environments, and 3rd party apps, as well as to reach new customer segments in Firstline, Developer, SB, and consumer. On multi-cloud, we have recently taken some first steps by extending Defender protection to AWS and GCP.

  Along with these product investments we will continue to evolve our GTM. We have made progress creating a new, specialized go-to-market that builds on Microsoft 365 and Azure selling motions. Our next focus will be to simplify and modernize our GTM by offering digital-first engagements across the customer journey and make it easy to discover, try, buy, and use our solutions through web, in-product, and traditional sales (direct and channel). We also need to make sure that solutions are being deployed, utilized and loved by customers.

  We have a natural adjacency into professional services which are being demanded by customers who seek an easier way to manage their security efforts. This adjacency would double our addressable TAM. We are exploring ways to enter this area by leveraging automation to improve the cost structure. We have recently announced our first offerings here with Microsoft Defender Experts for Hunting and Defender Experts for XDR. We are also seeking to expand into new categories such as employment verification through Azure AD Verifiable Credentials, and into addressing targeted vertical needs through industry cloud solutions. In addition, our custom silicon efforts can help to further enhance our security differentiation.

- **Strategic questions we are assessing**:

  - *What is our plan to grow SCIM to a $100 billion business by 2030?* SCIM aspires to grow to $50 billion by FY2025 and it has the potential to reach $100 billion by FY2030. We need to ensure that we remove barriers to its growth including bringing organizational clarity and filling out our product suite.

  - *What are SCIM's distinctive growth drivers, independent from Windows and Azure?* In its current state, customer additions are driven by Windows and Azure. For SCIM to sustain accelerated growth in the medium to long term we will need to invest in its multi-cloud and multi-platform capabilities.

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- *What are we doing on driving deployment of what we are selling?* Many of our customers are paying for our security offerings as part of our suite motions but deployment is lagging subscriptions. We need to ensure we are removing any barriers to deployment and evolving our value prop to promote adoption of our solutions.

- *Which other parts of the SCIM landscape do we need to start to address (e.g., network security, additional managed services)?* While we have potentially the broadest set of capabilities in the market today, we still have gaps in our offer relative to customers' end-to-end needs and we will seek to fill these gaps over time by building, partnering, and potentially acquiring.

6. Business Applications

Today we capture ~4% of the ~$145 billion Business Applications space. Historically this space has been siloed across categories and focused more on reporting than intelligence. In the future we see that Business Applications will need to be data-first vs. application-first, aggregating data from various sources, drawing insights using advanced analytical techniques, and predicting and automating business processes using AI/ML. Given the breadth of our Dynamics 365 platform and the work we have done to integrate it with Microsoft 365, LinkedIn, and Azure, we are unlocking new productive scenarios for customers and seeing accelerating growth and meaningful progress in the marketplace.

We focus our Business Applications products on six "line of business" personas or "rooms of the house": Customer Service (CCO), Finance (CFO), Supply Chain (CSCO/COO), Marketing (CMO), Sales (CRO), and IT (CIO). Our strategy for each room of the house is to deliver a single "hub" system-of-record application that manages, executes, and tracks foundational business processes within a specific line of business, and 1-2 "spoke" apps that seamlessly integrate with existing biz apps to enhance core data and business processes. This strategy allows us to play within the existing landscape of ERP solutions present at a customer, creating and capturing new value without relying on a "forklift" replacement of those existing solutions.

We have two broad areas within our Business Applications CSA: SaaS Applications; and Data and Marketplace Applications.

- **Plan of Record**: Our opportunity in SaaS Applications is to reinforce the differentiated value we can deliver to customers when we combine our broad array of services and make it easy for them to adopt and benefit from those combinations. An example is making Dynamics 365 and Power Platform available for customers to use within Teams to drive automation of business processes. This allows us to grow overall with the adoption of Teams and provide functional differentiation for Teams to further spur growth. Another is to reinforce Dynamics' ability to store business data within a Common Data Model ("CDM") that easily integrates with Azure Synapse, allowing organizations to leverage Azure's AI capabilities and drive further Dynamics adoption.

  We are pursuing several expansive growth opportunities within SaaS applications. Our Customer Data Platform ("CDP") allows companies to gather their customer data into a place where it can be easily accessed, visualized, and utilized. We are also investing to deliver solutions to support our customers' business sovereignty requirements by bringing together two sets of products: CDP/Dynamics Customer Insights and our Search, Advertising, News, Edge ("SANE") solutions

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PromoteIQ, which allows customers to offer world-class search and advertising on their own customer facing websites, and our Microsoft Audience Network, which allows customers to place ads on Microsoft 1P and partner 3P websites. Together these products enable customers to start taking end-to-end control of their customer data and insights. Eventually, if combined with payments or at scale logistics capabilities, these assets could form the core of a broader Commerce platform.

We will also enable our customers' transformation with a broader platform for automation, built on top of our Dynamics 365 platform and our Power Platform tools.

We have made our BizApps CSA the "tip of our spear" as we embark on digital transformation journeys with customers. These transformations start by customers digitizing business processes and we win by bringing the totality of Microsoft's breadth of products and services to bear. These processes are often industry specific, and we will need to invest even more in industry specific ecosystem capabilities. In addition, we are adding several hundred sellers across all industry verticals to deliver specific solutions to customers.

- **Strategic questions we are assessing**:
    - *How can we continue to change the game vs entrenched competitors e.g., new business models, industry focused solutions?* As we aim to accelerate customer acquisition and grow our customer base, we need to push the envelope of the market. For example, SaaS represents a paradigm shift in the software market, the next paradigm shift can be industry focused solutions or new pricing models. Ultimately, we have to find ways to gain adoption without requiring intense systems integration which is slow and expensive for customers.
    - *What more can we do to attract and enable the top ISVs that help substantiate our value proposition for priority industries, and where will we need to build/acquire?* Having a vibrant ISV ecosystem is crucial to our industry-oriented offerings. We need to ensure that we attract the top ISVs in each priority industry and sub industry, integrate their offerings with our services to provide strong industry-relevant solutions and services, and provide co-selling opportunities for ISVs' solutions with our enterprise customer base. In some cases, we will need to build our own capabilities or even acquire.
    - How can we best leverage Nuance's capabilities to advance our position in relevant industries/functions? Nuance has differentiated services in healthcare with 77% of U.S. hospitals using their applications to help physicians record patient interactions and better interpret imaging data for diagnoses. Nuance also augments contact center interactions with customers. We are actively integrating these capabilities into our Microsoft Cloud for Healthcare and our Dynamics Contact Center as a Service offerings, with the associated go-to-market capabilities to drive market adoption.

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7. **Be consistently chosen as the cloud partner for leading edge companies pioneering "next wave" of cloud growth**

We believe the "next wave" of cloud growth will be driven by companies in important nascent spaces which have the potential to develop a very large demand for cloud services and expand the contours of cloud performance requirements. Winning in this "next wave" is critically important for us to remain a relevant and competitive cloud player well into the future. In addition to sustaining cloud growth as existing demand drivers mature, the demands on cloud performance could have valuable consequent benefits to a range of other scenarios outside of these spaces.

We seek to evolve our technology stack to meet the demands of the most challenging and high value workloads they require. Six areas represent priorities for us including three nascent verticals (digital biology, autonomous transport, and sustainability & climate), and three horizontal functionals (AI, gaming metaverse, and crypto/Web 3.0). Each of these areas has enormous potential as can be seen from a few examples that are preparing for launch in 2022: population scale blood tests to detect cancer at Stage 1 or 2 based on machine learning of DNA mutations, autonomous vehicles trained using large scale AI models to operate a grocery home delivery route in a busy town without humans focused on driving, and virtual meeting spaces like the Nth floor where ad hoc "water cooler" interactions can take place with colleagues distributed all over the world. Each of these spaces is still far from reaching its full potential and importantly, no cloud player is yet the de facto leader in any of these spaces. With strategic patience, we have as much of an ability to win as anyone.

We have created a targeted list of specific companies within each of these spaces that we will engage with. We will learn how these spaces are evolving and identify opportunities as we progress. Many of the companies are already generating large cloud demand which we can target and our early wins in these spaces are confirming the demand for Microsoft to participate.

8. **Teams is the leading platform for collaborative apps and experiences (meetings, calls, chat, content collaboration, business process)**

We aim for Teams to become the new growth opportunity for end-user value across people's work and personal lives. Currently our Teams ~265 million Monthly Active Users ("MAU") remains work-oriented and PC-driven. We aspire to reach 1 billion+ MAU relevant to users across their work and personal lives, and across their PC and mobile endpoints.

We envision for Teams to be the leading platform for collaboration through 1P and 3P applications and services. From Asana to Zendesk, there are over 1,000 third-party apps available in the Teams App Store. And companies in every industry, including CBRE, CVS Health, and the National Health Service in the United Kingdom have built custom line of business apps within Teams, bringing business process directly into flow of work.

We are adding new growth engines to meet the demands of hybrid work with Teams Rooms, Teams Phone, and Microsoft Veeva. Teams Rooms is bridging the gap between people working remotely and those in the office with innovations like Front Row.

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MICROSOFT PLUS

Microsoft Plus represents our collection of consumer CSAs: Gaming, Professional Social Network, Modern Life, and Search, Advertising, News and Edge (SANE).

Our long term aspiration for Microsoft Plus is to deliver a range of differentiated experiences, serving consumers where and how they choose to spend their time and allowing them the convenience of availability on their devices of choice.

Our overarching priorities in Microsoft Plus are (a) to continue to build our success in Gaming and Professional Social Networking, (b) drive more growth and value from Modern Work and SANE through differentiated experiences for our 750 million Windows consumer users, and (c) continue to maintain the health and competitiveness of the Windows ecosystem.

Beyond these areas we recognize that some of our consumer businesses are not well-positioned relative to long-term secular trends. We remain vigilant for potential breakthroughs, including embracing disruptive trends and assessing inorganic plays that can help position us better in the future.

Exhibit 2: Microsoft Plus Priorities and LKG

Microsoft Plus

	We know we are winning when:		LKGs
9	**Gaming:** Be the first choice for gamers to play when, how and where they want	• Build out xCloud and drive Game Pass adoption and monetization • Add differentiated Content experiences	• Evaluate a range of both inorganic and organic moves
10	**Professional social network:** Expand audience and engagement across our professional social network	• Grow B2B advertising network with deeper community engagement • Continue to expand Talent Solutions business	• Expand Firstline worker and skill-based hiring • Become B2B commerce platform • Productize data capabilities
11	**Modern life**: Developers choose our store as the place to reach customers with the highest ROI; We have multiple apps with 100M+ DAU on mobile platforms	• Build and scale out Teams Consumer • Launch Windows 11, and continue innovation in OS and devices	• Consumer security
12	**Search, ads, news & Edge**: Become a top choice for advertisers based on our deep, scaled consumer engagement; Engagement and share on our browser is growing with both consumer and businesses	• Differentiate browser/search • Grow distribution though shell/mobile	• Build 1st party ad network • Grow XPay
13	Windows expands the PC and acts as a seamless integrative hub for all our products and services for 1.4B+ users		

9. Gaming

Gaming has proven resilient during COVID, with record levels of engagement across the industry. We capture ~7% of the overall ~$234 billion Gaming Core TAM, of which ~85% comes from content and services. Generating $17 billion in revenue, Xbox is one of the leaders in gaming.

- **Plan of Record**: Our opportunity is to evolve the gaming business by building out our game streaming (xCloud) and content subscription services (Game Pass) from our console base. As such, we aim to accelerate the adoption of Game Pass among PC and mobile gamers. Expanding our advertising capabilities will provide developers with more monetization offerings and reduce barriers to entry in emerging markets, broadening the Game Pass funnel. We will also continue to invest in content through partnership and M&A as we have done recently.

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Longer term, we can build on our position in gaming to participate in the broader media and entertainment spaces. We are embracing Creators by providing them with the tools and infrastructure they need to publish on our platform and are exploring opportunities to evolve our gaming platforms to enable metaverse experiences, starting by using Mesh to generate compelling in-game scenarios that allow more immersive and connected experiences to gamers.

- **Strategic questions we are assessing**:
    - *How do we ensure we have the business model diversity in Gaming to drive software-like margins?* There is a plethora of diverse distribution channels for games. We have created innovative models such as subscription (i.e., Game Pass) to meet the expectation of customers of being able to play games anywhere, anytime. We will need to continue to evolve our business model to adapt to the evolving landscape and improve our margins.
    - *How can we help Game Pass become successful without relying on the Windows ecosystem?* Game Pass subscription has been driven by Windows users. Game Pass is a key initiative for changing the business model of Gaming business, and for Game Pass to have sustainable, long-term growth, it needs to have traction with other platforms.

10. Professional Social Network

LinkedIn is the leader in the professional social networking space and captures 16% of the ~$87 billion Core TAM which primarily represents consumer subscription services and advertising revenues. As COVID has reshaped the job market for millions of individuals, LinkedIn has helped connect the world's professionals to economic opportunity. Consumer activity and B2B advertising continue strong recovery from COVID, with Weekly Active Users, consumer subscription revenues, and Marketing Solutions revenues showing double digit growth this year. With measurable value creation for our customers exceeding revenue growth in recent years, we have an opportunity to share in more of that value going forward.

- **Plan of Record**: Our opportunity in LinkedIn is to grow the consumer ecosystem through member engagement. Active communities are at the center of LinkedIn's ecosystem, enabling members to connect with each other to find opportunity. We are investing in capabilities that enable Creators to manage their content, grow, and engage with their audiences (e.g., Live, newsletters, stories analytics). We are supporting private communities by enabling online audio and video Events. We are investing in self-serve pages to help companies engage with their communities. This improved member engagement will in turn allow us to grow our B2B advertising business which is the core of our monetization mechanism.

  With "The Great Reshuffle" underway, a period where employees and employers seek new opportunities and talent at a heightened pace, we are also focused on enabling our talent marketplace to drive more confirmed hires by making it more efficient and equitable. We are expanding our talent marketplace to more effectively embrace first-line workers and skills-based hiring.

  In the long term we see several opportunities to deliver new sources of customer value. We believe we can become the definitive platform for B2B commerce by facilitating discovery and discussion of B2B products and services. We are also exploring opportunities to translate our leading data

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capabilities into platform business opportunities through metered access to our Economic Graph data and productization of LinkedIn's state of the art database technology: LIquid.

- **Strategic questions we are assessing**:
    - *What is the next big growth engine for Professional Social Network?* LinkedIn is a strong mobile-first application and a clear leader in its category. The business has grown strongly through the pandemic and continues to perform well. However, the potential is even greater, with several potentially large and durable growth vectors including expansion of types of professionals using the platform and new uses for the platform such as B2B marketing and sales.

11. Modern Life

We capture ~5% of the ~$306 billion Core TAM in Modern Life, which is comprised of spend on operating systems and devices. In operating systems, the health of the Windows ecosystem is central not only to this CSA but to our success across all of consumer and productivity. We have effectively grown activations of new consumer Windows devices and successfully added more Microsoft 365 paid subscribers, which are up ~18% year over year. We aim to continue innovating in OS and devices, helping people to be productive, entertain and express themselves, and unlock their creativity. The launch of Windows 11 has been a seminal moment for Windows and for Microsoft as a whole. In devices, although demand for PCs has recently been buoyed by the need for more home devices due to COVID restrictions, we face challenges across our existing product portfolio from strong competitors like Google and Apple, and we lack presence in mobile.

- **Plan of Record**: We aspire to reinvent and transform our consumer productivity offers and position Windows as the place for "Creators". Windows 11 helps deliver on this ambition by bringing even more productivity and creator capabilities into the core Windows shell, adding new capabilities for creators to publish content to Bing, unlocking new form factors, and deeply integrating with Surface.

  Teams consumer builds on the same architecture as our core Teams product and we see natural opportunities for third-party developers to build and deliver value on this platform. We are also exploring pathways to broaden our other services, grounded in a core aspiration to help people make the most of their time (e.g., personal productivity and time management, enhanced personal security and privacy, and learning).

  We are evaluating a range of inorganic growth opportunities here and in our Search, Advertising, News, Edge CSA.

- Strategic questions we are assessing:
    - *How do we grow free usage and convert the traffic into advertising and subscription revenue?* This is partly a process of "grinding the funnel" and also a process of altering our product design ethos to permit easier monetization via natural usage flows.

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- *Can we drive more clarity around our Product Market Fit ("PMF") plays and pre-PMF bets?* We need to experiment but we also need to be guided by data to allow us to re-deploy resources to where we see PMF taking off.

12. Search, Advertising, News, Edge ("SANE")

We capture ~2% of the $560 billion Core TAM in SANE. With $10 billion in revenue, we are a large digital advertising business, and our products are competitive: the Bing search engine and the Chromium-based Edge browser are fully modern, performant, and deliver high-quality user experiences. However, we remain relatively sub-scale compared to our main competitors. We seek scale in this CSA to leverage our existing strong capabilities, position ourselves well for the future evolution of consumer business models, and to maintain our ability to attract and retain the world's best AI talent, much of which is currently within this CSA.

- **Plan of Record**: Our primary objective is to create differentiated and personalized content, search and shopping scenarios to drive greater usage intensity from our existing hundreds of millions of users. We will increase usage of Bing and Edge by differentiating our products for high value consumer needs (e.g., making Edge the best browser for shopping). In addition to improved differentiation, we aim to create more usage and attract new consumers via enhanced integration into the Windows shell as part of Windows 11. We aim to grow the capabilities of our core monetization platforms through PromoteIQ, Microsoft Advertising Network product expansions, and the ongoing development of our core search platform. Our acquisition of a demand side platform, Xandr, allows us to bind these together into a holistic offer to customers. To stay in line with industry evolutions we plan to remove our dependency on third-party cookies and drive towards an ID-based system that increases signed-in usage and integration with industry solutions. Finally, we continue to assess opportunities in the mobile space to grow engagement with consumers.

  We are exploring two areas that could become core pillars of our strategy. First, we seek to achieve a step change in the scale of our advertising business and see business sovereignty as a potential accelerant (see BizApps section). Second, as part of our Windows 11 launch, we announced our posture regarding the "Open Web", taking the side of local publishers and small creators who too often have their business models damaged by "aggregator" businesses who act as middlemen, directing traffic only when paid a sufficient amount. We feel we can help redress this imbalance and tap into an underlying consumer need for local, relevant, and timely content while providing economics that better support the creators of such content.

- Strategic questions we are assessing:

  - *How do we convert our product quality into greater share?* Increasingly we are succeeding in closing the product experience gap with our large competitors as measured by objective user feedback. In some cases our product experiences are rated the best. However, our share does not reflect this as there are a range of structural impediments each of which is hard to overcome. However, we are seeing steady improvements over time.

  - *How can we more effectively drive browser share within our install base?* This is a high impact lever for us given the size of our install base and even small gains from "grinding the funnel" can result in large operating margin gains.

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13. Windows expands the PC and acts as a seamless integrative hub for all our products and services for 1.4B+ users

Ensuring the health, competitiveness, and continued innovations of the Windows ecosystem is central to our continued success.

There are currently more than 1.3 billion active Windows devices, with ~750 million owned by consumers. Our priorities are to maintain the competitiveness of the Windows ecosystem and to grow the adoption, engagement and monetization of our applications that rely on the ecosystem. Adoption of Windows 11 will both provide better experiences for users and monetize our applications and services more effectively. We have significant room to improve the adoption and monetization of key high-value services on Windows PCs, including Gaming (Game Pass on PC), OneDrive ("Backup your PC"), consumer productivity (M365 consumer subscription) and advertising through the browser and feed.

Continuing to innovate in our Surface devices and underlying silicon will be important to upgrading the performance of Windows. We will also begin moving to an ARM-based silicon-oriented model to ensure the functionality of Windows remains first class.

- Strategic questions we are assessing:
    - *What new usage scenarios can we create via close integration of Windows and silicon, paving the way for Windows share gain as a result?* New PC usage scenarios may emerge with developments in AR/VR, Gaming, metaverses, and AI. Demand for PC will evolve in terms of growth and performance as a result. The integration of custom silicon and Windows creates an opportunity for us to deliver best-in-class performance and new experiences while enhancing cost competitiveness. We need to investigate what scenarios are likely and identify the solutions and offerings that we need to develop to capture evolving needs.
    - *How can we guide the Windows ecosystem to transition to ARM architecture and competitive System on a Chip+ Operating System ("SoC+OS")?* SoC+OS allows for close integration between silicon and Windows to enable superior performance to energy consumption ratio. ARM architecture will power an increasing share of PCs on account of its many advantages (e.g., power efficiency, flexibility). Almost all of Windows devices are currently on x86. We need to guide the ecosystem to move to ARM in a manner that prioritizes optimizing price/functionality for customers while minimizing disruptions to our partners.

CROSS-CSA CAPABILITIES: CONTINUE TO INNOVATE TO ATTRACT, RETAIN, AND EXCITE NEW END-USERS AND NEW DEVELOPERS

Our operating model relies on capabilities that span CSAs, broadly across two categories: technology platform and GTM. There is a virtuous cycle where each CSA lends scale to these capabilities and the greater scale allows each CSA to be a more efficient and differentiated business. We have five5 priorities that will propel this virtuous cycle.

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Exhibit 3: Capabilities across CSAs

	We know we are winning when:
Go-to-market motions	14 **Product-led growth and digital-first GTM:** Our products are naturally discovered, purchased, and deployed without friction, generating rich usage that drives demand for the next workload
	15 **BDM and industry solutions:** Our products address the biggest business transformation challenges of every room in the house, in every key industry
Azure Core Platform	16 **Consumer-grade product development, infrastructure, and ethos:** Our products are chosen, loved, and shared by end users and those users in turn become the biggest, most influential sellers to their own networks
	17 **Zero distance with developers:** Our products optimize for developer time to success and rise to the top of their mindshare
	18 **Next generation systems architecture- silicon to experiences:** Our products are built on and benefit from a reinforcing end-to-end systems architecture

14. Product led growth and digital first GTM

We continue to evolve our product development and go-to-market motions to be more modern and customer-centric across customer segments. Consumers and enterprise users are becoming more tech savvy. The way they discover, experience and purchase products are increasingly through digital channels first. To keep up with rising expectations and get ahead of the curve, we seek to align product development and GTM so our products become the largest source of sustainable and scalable growth.

- Strategic questions we are assessing:
    - *How can we move faster to support digital-first motions for commercial customers?* We will drive efficiency into our GTM motions both to support our pace of growth and to drive operating leverage as we scale. Digital first sales motions are key to this and are closely linked to how the product experience is conceptualized and developed from the outset. This in turn relies on establishing the right consumer-grade product development mindsets and supporting infrastructure. These programs are being driven across the Company.
    - *What motions and product changes should we implement to match how very small businesses of <25 FTEs (VSBs) buy?* Zoom and Google have outpaced us in the SB segment by catering their products and GTM to FSBs (e.g., digital first, freemium). To continue pushing the envelope on our growth opportunity in FSB, we will need to thoughtfully evaluate and invest in new product value that addresses FSB's needs and develop motions that align with how SBs buy. While we develop 1P assets, we will also explore partnership and M&A opportunities to bridge gaps where it makes sense.

15. BDM and industry solutions

Most enterprises are still at the early stages of digital transformation. As they move forward in their digital transformation journey, they seek solutions that cater to their specific needs. While there are significant opportunities for horizontal solutions which are relevant to all industries (e.g., security), there is also a growing need for industry-specific offers which could comprise as much as 50% of the overall

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market. AWS and GCP are increasingly aligning their product development and GTM to key industry verticals. We have initiated similar efforts while balancing our strength in horizontal solutions.

We have a significant opportunity to deliver the full Microsoft Cloud to our customers with a growing range of solutions tailored to industry and functions. We have a differentiated set of services that work well together and can be offered in flexible combinations to provide seamless solutions to a range of customer needs. We find that leading with these industry offers allows us to win and creates customer interest in many of our interconnected cloud services including Azure, Microsoft Security, Power Platform, GitHub/Visual Studio, Dynamics 365, Microsoft 365, and LinkedIn.

We are launching "Industry clouds" to create a cohesive experience for specific industries that enables customers to accelerate their digital transformation. These clouds will deliver industry-relevant cloud solutions that we build through deep-integrations with industry-leading ISVs or in some cases build ourselves. We have already launched Industry clouds for Healthcare, Non-profit, Financial Services, and Retail. Manufacturing and Sustainability are planned for the coming year.

- Strategic questions we are assessing beyond those already outlined in the Biz Apps CSA section:
    - *What is our approach to establishing and maintaining differentiation by industry?* While there are significant opportunities for horizontal solutions which are relevant to all industries (e.g., security), there is a growing need for industry-specific data models and solutions, almost all of which we will deliver via close partnerships with ISVs. We are sharpening our focus on Industry Clouds as the primary vehicles for delivering industry functionality, with a goal to drive the adoption of the broader Microsoft Cloud. We are actively identifying the most critical scenarios in each industry and the critical ISVs we can partner deeply with to deliver them.
    - *Where do we have product gaps that need to be filled 1P, and which ISVs do we need to partner with deeply?* We aim to present a complete "Microsoft Cloud for [Industry]" vision that represents leading industry-relevant solutions and capabilities. To deliver this complete vision, we enable a set of vertically aligned partners (SIs and ISVs) and invest in select 1P assets such workflows and connectors. While ISVs can engage at different levels of the stack, we need to partner deeply to help them build solutions that use as much of the full Microsoft Cloud as possible.

16. Consumer-grade product development, infrastructure, and ethos

As customers become increasingly used to consumer grade experiences in their personal and professional lives, we need to infuse world-class consumer product sensibilities into our existing product development processes. This is essential to allow us to retain existing customers and attract new users. We will need to create the type of infrastructure that enables world-class consumer product development to take place – supporting data-led design and the rapid prototype-measure-iterate cycles that are necessary for success. In turn this will help grow the right product development ethos across our engineering and design teams. This infrastructure and associated ethos will also be helpful in some non-consumer product areas, helping us to make our products easier to sign up to and consume.

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- Strategic questions we are assessing:

    - *Can we move faster in building products that permit modern digital-first sales motions and "5 seconds to wow"?* Consumer expectations continue to shift to seamless digital experiences. Modern digital-first and digital-native companies have accelerated time to market and product iterations. We are in the process of transforming our mindset and modernizing our tools and sales motion.

    - *How can we enable the broader organization to adopt some of our existing best practices and systems, and learn from the best practices elsewhere?* Some teams at Microsoft have led the adoption of consumer product development best practices. We need to embrace these practices more broadly as well as learn the leading-edge practices validated by others to leapfrog our progress.

17. Zero distance with developers

The role of developers is more important than ever. We have seen a surge in developer numbers across many industries, especially citizen developers. The number of developers in non-tech companies has grown faster than in tech companies. In a digital-first company, the developer workflow influences how the entire company works. Fusion teams of professional developers and domain experts will be integrated across all functions and all disciplines. "Zero distance" with developers is key to democratizing and accelerating digital transformation. We have an end-to-end and comprehensive toolchain for developers including GitHub, Azure, Visual Studio and Power Platform, enabling developers to innovate rapidly. Products like Copilot help developers to do their best work more efficiently. It is important that we stay attuned to the evolving needs of developers as we evolve our products, services and capabilities.

Strategic questions we are assessing:

- *How can we remain well informed about emerging developer trends and behavioral patterns, especially from those who are not in our core market segments?* Our strength in GitHub and VS Code can provide us with good signal that we can use to help inform product development and innovation decisions.

- *Where do we see opportunities for new platforms that developers can benefit from?* As an example, Mesh will need to attract Metaverse developers to ensure its success.

18. Next generation systems architecture- silicon to experiences

Continuing to innovate in silicon is key to ensuring the competitiveness of our cloud and device offerings. Our competitors, including AWS with their Graviton server chips, GCP with their TPU, and Apple with their M series have illustrated how custom silicon can result in differentiation for their ecosystems. Our priority is to ensure the competitiveness of Azure and Windows individually but also collectively. To do this we will take an end-to-end systems approach to our roadmap, encompassing application, middleware, infrastructure, and silicon. We will bring our scale in cloud and client, gaming and AI to take full advantage of recent evolution in silicon technology that allow re-use of silicon IP across edge and cloud, and allow us to combine our own silicon IP with IP from 3rd party suppliers. Microsoft can develop consistent tools and enable differentiated experiences by leveraging client and server capabilities in tandem. This approach will be the most cost effective, allowing us to leverage 3rd

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party supplier scale and invested capital while focusing our investments in the areas where we can bring scale.

- Strategic questions we are assessing:
    - *How can we leverage our common tech stack (i.e., cross-entire-system architecture from silicon to OS to application and device) to remain competitive in both cost and functionality across Cloud, Windows, and Edge?* We have a potential competitive advantage if we can bring together our range of commercial and consumer 1P experiences, our advanced AI capabilities and our devices ecosystem. As we innovate our Azure Core we are taking a holistic systems view across applications, devices, platforms, infrastructure and silicon; and from cloud to edge. Over time we believe this approach will yield benefits, allowing rich AI-first experiences to be offered in cost-effective and highly performant ways to users across devices of their choice.

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