



Second Quarter Fiscal Year 2021 Results

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This presentation contains forward-looking statements, which are any predictions, projections, or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in today's earnings press release, in the comments made during the conference call, and in the Risk Factors section and other sections of our Form 10-K, Forms 10-Q, and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update forward-looking statements.

Agenda



Financial Summary and Highlights

Quarterly Business Highlights

Segment Financial Overview

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Q2 Financial Summary

FY21 Q2	(billions, except per share, GM % and OI %)	Growth	CC growth*
Productivity and Business Processes	\$13.4	13%	11%
Intelligent Cloud	\$14.6	23%	22%
More Personal Computing	\$15.1	14%	13%
Revenue	\$43.1	17%	15%
Gross margin	\$28.9	18%	16%
Gross margin percentage	67%	1 pts	
Operating income	\$17.9	29%	26%
Operating income percentage	42%	4 pts	
Net income	\$15.5	33%	29%
Diluted earnings per share	\$2.03	34%	31%

* See Appendix for reconciliation of GAAP and non-GAAP measures, including constant currency ("CC").

Based on the carrying amount of server and network equipment included in property and equipment, net as of June 30, 2020, the effect of the change in estimated useful life for FY21-Q2 was an increase in operating income of \$787 million and net income of \$649 million, or \$0.09 per diluted share.

All growth comparisons in this presentation relate to corresponding period of last fiscal year unless otherwise noted. Numbers may not foot due to rounding.



Quarterly Commercial Highlights

Investor Metrics	FY20 Q2	FY20 Q3	FY20 Q4	FY21 Q1	FY21 Q2
Commercial bookings growth (y/y)	31% / 30%	7% / 12%	12%	23% / 18%	19% / 11%
Commercial remaining performance obligation (in billions)	\$90	\$89	\$107	\$107	\$112
Commercial revenue annuity mix	89%	92%	94%	93%	93%
Commercial cloud revenue (in billions)	\$12.5	\$13.3	\$14.3	\$15.2	\$16.7
Commercial cloud gross margin percentage	67%	67%	66%	71%	71%

Growth rates include non-GAAP CC growth (GAAP % / CC %).

Commercial business

- Commercial bookings grew 19% (up 11% CC) year-over-year driven by consistent execution across our core annuity sales motions
- Commercial remaining performance obligation of \$112 billion, up 24% (up 22% CC) year-over-year
- Commercial revenue annuity mix of 93%, up 4 points year-over-year with continued shift to cloud

Commercial cloud

- Commercial cloud revenue of \$16.7 billion, up 34% (up 32% CC) year-over-year
- Commercial cloud gross margin percentage of 71%, up 4 points year-over-year primarily due to the change in accounting estimate for the useful life of server and network equipment. Excluding this impact, improvement in Azure gross margin was mostly offset by sales mix shift to Azure.

Commercial cloud includes Office 365 Commercial, Azure, the commercial portion of LinkedIn, Dynamics 365, and other cloud properties.
Includes non-GAAP constant currency ("CC") growth. See Appendix for reconciliation of GAAP and non-GAAP measures. Growth rates in GAAP and CC are equivalent unless otherwise noted.



Other Financial Highlights

Cash returned to shareholders	<ul style="list-style-type: none">Returned \$10 billion to shareholders, up 18% year-over-year, with \$5.8 billion in share repurchases and \$4.2 billion in dividends
Operating expenses	<ul style="list-style-type: none">Operating expenses were \$11 billion, up 3% year-over-year, driven by continued investments in cloud engineering and commercial sales, partially offset by COVID-related savings
Other income and expense	<ul style="list-style-type: none">Other income was \$440 million driven by interest income and net gains on investments including mark-to-market gains on our equity portfolio, partially offset by interest expense
Effective tax rate	<ul style="list-style-type: none">Effective tax rate of 16%
Capital expenditures	<ul style="list-style-type: none">Capital expenditures including assets acquired under finance leases were \$5.4 billion to support growth in our cloud offerings. Cash paid for property and equipment was \$4.2 billion.
Cash flow	<ul style="list-style-type: none">Cash flow from operations was \$12.5 billion, up 17% year-over-year. Excluding 16 points for payments related to a tax audit settlement, cash flow from operations grew 33%, driven by strong cloud billings and collections.Free cash flow of \$8.3 billion, up 17% year-over-year. Excluding 24 points for the tax payments noted above, free cash flow grew 41%, reflecting the timing of cash paid for property and equipment.

Quarterly Business Highlights



Productivity and Business Processes

- Office Commercial products and cloud services revenue increased 11% (up 9% CC) driven by Office 365 Commercial revenue growth of 21% (up 20% CC)
- Office Consumer products and cloud services revenue increased 7% (up 6% CC) and Microsoft 365 Consumer subscribers increased to 47.5 million
- LinkedIn revenue increased 23% (up 22% CC)
- Dynamics products and cloud services revenue increased 21% (up 18% CC) driven by Dynamics 365 revenue growth of 39% (up 37% CC)



Intelligent Cloud

- Server products and cloud services revenue increased 26% (up 24% CC) driven by Azure revenue growth of 50% (up 48% CC)



More Personal Computing

- Windows OEM revenue increased 1%
- Windows Commercial products and cloud services revenue increased 10% (up 8% CC)
- Xbox content and services revenue increased 40% (up 38% CC)
- Surface revenue increased 3% (up 1% CC)
- Search advertising revenue excluding traffic acquisition costs increased 2% (up 1% CC)



Productivity and Business Processes

Overview

Investor Metrics	FY20 Q2	FY20 Q3	FY20 Q4	FY21 Q1	FY21 Q2
Office Commercial products and cloud services revenue growth (y/y)	16% / 18%	13% / 15%	5% / 7%	9%	11% / 9%
Office Consumer products and cloud services revenue growth (y/y)	19% / 20%	15% / 17%	6% / 7%	13%	7% / 6%
Office 365 Commercial seat growth (y/y)	21%	20%	15%	15%	15%
Microsoft 365 Consumer subscribers (in millions)	37.2	39.6	42.7	45.3	47.5
Dynamics products and cloud services revenue growth (y/y)	12% / 15%	17% / 20%	13% / 15%	19% / 18%	21% / 18%
LinkedIn revenue growth (y/y)	24% / 26%	21% / 22%	10% / 11%	16%	23% / 22%

Growth rates include non-GAAP CC growth (GAAP % / CC %).

Total Revenue

- Revenue grew 13% (up 11% CC) driven by Office 365 and LinkedIn

Operating Income

- Gross margin dollars increased 13% (up 11% CC). Gross margin percentage was relatively unchanged as the increase from the change in accounting estimate for the useful life of server and network equipment was offset by increased usage of Office 365 Commercial and a mix shift to cloud offerings.
- Operating expenses grew 4% (up 3% CC) driven by investments in commercial sales, Teams marketing, and cloud engineering, partially offset by COVID-related savings
- Operating income grew 19% (up 17% CC)

Includes non-GAAP constant currency ("CC") growth. See Appendix for reconciliation of GAAP and non-GAAP measures. Growth rates in GAAP and CC are equivalent unless otherwise noted.





Productivity and Business Processes

Highlights

Office Commercial

- Office Commercial products and cloud services revenue grew 11% (up 9% CC) on a strong prior year comparable that included roughly 3 points of on-premises benefit, primarily from transactional strength in Japan
- Office 365 Commercial revenue grew 21% (up 20% CC) driven by Office 365 Commercial seat growth, up 15%, and growth in revenue per user
- Office Commercial products revenue declined 26% (down 27% CC) reflecting continued customer shift to cloud offerings from on-premises annuity and continued transactional weakness, as well as impact from the strong prior year comparable

Office Consumer

- Office Consumer products and cloud services revenue grew 7% (up 6% CC) driven by Microsoft 365 Consumer subscription revenue, on a strong prior year comparable that included roughly 7 points of benefit from transactional strength in Japan
- Microsoft 365 Consumer subscribers increased 28% to 47.5 million

LinkedIn

- LinkedIn revenue grew 23% (up 22% CC) driven by strong advertising demand in our Marketing Solutions business
- LinkedIn sessions grew 30% with record levels of engagement

Dynamics

- Dynamics products and cloud services revenue grew 21% (up 18% CC)
- Dynamics 365 revenue grew 39% (up 37% CC)



Intelligent Cloud

Overview

Investor Metrics	FY20 Q2	FY20 Q3	FY20 Q4	FY21 Q1	FY21 Q2
Server products and cloud services revenue growth (y/y)	30% / 32%	30% / 32%	19% / 21%	22% / 21%	26% / 24%

Growth rates include non-GAAP CC growth (GAAP % / CC %).

Total Revenue

- Revenue grew 23% (up 22% CC) driven by Azure

Operating Income

- Gross margin dollars grew 29% (up 27% CC). Gross margin percentage increased with the change in accounting estimate for the useful life of server and network equipment. Excluding this impact, gross margin percentage increased slightly with improvement in Azure, partially offset by sales mix shift to Azure.
- Operating expenses grew 12% (up 11% CC) driven by investments in Azure, partially offset by COVID-related savings
- Operating income grew 43% (up 41% CC)



Includes non-GAAP constant currency ("CC") growth. See Appendix for reconciliation of GAAP and non-GAAP measures. Growth rates in GAAP and CC are equivalent unless otherwise noted.



Intelligent Cloud

Highlights

Server Products and Cloud Services

- Server products and cloud services revenue grew 26% (up 24% CC)
- Azure revenue grew 50% (up 48% CC), driven by strong demand for our consumption-based services
- Server products revenue grew 4% (up 3% CC) driven by hybrid and premium solutions, partially offset by continued transactional weakness as well as a strong prior year comparable that included roughly 4 points of benefit from the end of support for Windows Server 2008
- Enterprise Mobility installed base grew 29% to over 163 million seats

Enterprise Services

- Enterprise Services revenue grew 5% (up 4% CC) with growth in Premier Support Services

Trended Revenue Growth

	FY20 Q2	FY20 Q3	FY20 Q4	FY21 Q1	FY21 Q2
Azure (y/y)	62% / 64%	59% / 61%	47% / 50%	48% / 47%	50% / 48%
Server products (y/y)	10% / 12%	11% / 12%	0% / 1%	(1)%	4% / 3%

Growth rates include non-GAAP CC growth (GAAP % / CC %).



More Personal Computing

Overview

Investor Metrics	FY20 Q2	FY20 Q3	FY20 Q4	FY21 Q1	FY21 Q2
Windows OEM Pro revenue growth (y/y)	26%	5%	(4)%	(22)%	(9)%
Windows OEM non-Pro revenue growth (y/y)	4%	(10)%	34%	31%	24%
Windows Commercial products and cloud services revenue growth (y/y)	25% / 27%	17% / 18%	9% / 11%	13% / 12%	10% / 8%
Surface revenue (in millions)	\$1,976	\$1,340	\$1,724	\$1,553	\$2,045
Xbox content and services revenue growth (y/y)	(11)% / (9)%	2%	65% / 68%	30%	40% / 38%
Search advertising revenue (ex TAC) growth (y/y)	6% / 7%	1%	(18)% / (17)%	(10)% / (11)%	2% / 1%

Growth rates include non-GAAP CC growth (GAAP % / CC %).

Total Revenue

- Revenue grew 14% (up 13% CC) driven by Gaming

Operating Income

- Gross margin dollars grew 11% (up 9% CC). Gross margin percentage decreased driven by mix shift to Gaming.
- Operating expenses decreased 10%, primarily driven by reductions in marketing and retail store expenses, as well as COVID-related savings
- Operating income grew 25% (up 22% CC)



Includes non-GAAP constant currency ("CC") growth. See Appendix for reconciliation of GAAP and non-GAAP measures. Growth rates in GAAP and CC are equivalent unless otherwise noted.



More Personal Computing

Highlights

Windows

- Windows OEM revenue grew 1% driven by consumer PC demand, on a strong prior year OEM Pro comparable that benefited from Windows 7 end of support
- Windows OEM Pro revenue declined 9%
- Windows OEM non-Pro revenue grew 24%
- Windows Commercial products and cloud services revenue grew 10% (up 8% CC) driven by demand for Microsoft 365

Devices

- Surface revenue grew 3% (up 1% CC)

Gaming

- Gaming revenue grew 51% (up 50% CC)
- Xbox content and services revenue grew 40% (up 38% CC) driven by strength from third-party titles, Xbox Game Pass subscriptions, and first-party titles
- Xbox hardware revenue grew 86% driven by the Xbox Series X|S launch

Search

- Search advertising revenue excluding traffic acquisition costs grew 2% (up 1% CC) with improved customer advertising spend

Appendix

Reconciliation of GAAP and Non-GAAP Financial Measures

Our presentation of second-quarter performance includes non-GAAP financial measures. The following slides provide reconciliations between the GAAP and non-GAAP financial measures presented:

- Constant currency reconciliations
- Cash flow reconciliation

Constant Currency Reconciliation

Three Months Ended December 31,

(\$ in millions, except per share amounts)	Revenue	Gross Margin	Operating Expenses	Operating Income	Net Income	Diluted Earnings per Share
2019 As Reported (GAAP)	\$36,906	\$24,548	\$10,657	\$13,891	\$11,649	\$1.51
2020 As Reported (GAAP)	\$43,076	\$28,882	\$10,985	\$17,897	\$15,463	\$2.03
Percentage Change Y/Y (GAAP)	17%	18%	3%	29%	33%	34%
Constant Currency Impact	\$494	\$452	\$69	\$383	\$379	\$0.05
Percentage Change Y/Y (non-GAAP) Constant Currency	15%	16%	2%	26%	29%	31%

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

Constant Currency Reconciliation

Segment Revenue

	Three Months Ended December 31,		
(\$ in millions)	Productivity and Business Processes	Intelligent Cloud	More Personal Computing
2019 As Reported (GAAP)	\$11,826	\$11,869	\$13,211
2020 As Reported (GAAP)	\$13,353	\$14,601	\$15,122
Percentage Change Y/Y (GAAP)	13%	23%	14%
Constant Currency Impact	\$173	\$168	\$153
Percentage Change Y/Y (non-GAAP) Constant Currency	11%	22%	13%

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Constant Currency Reconciliation

Segment Gross Margin

Three Months Ended December 31, 2020

	Percentage Change Y/Y (GAAP)	Constant Currency Impact	Percentage Change Y/Y (non-GAAP) Constant Currency
Productivity and Business Processes	13%	(2)%	11%
Intelligent Cloud	29%	(2)%	27%
More Personal Computing	11%	(2)%	9%

Segment Operating Expense

Three Months Ended December 31, 2020

	Percentage Change Y/Y (GAAP)	Constant Currency Impact	Percentage Change Y/Y (non-GAAP) Constant Currency
Productivity and Business Processes	4%	(1)%	3%
Intelligent Cloud	12%	(1)%	11%
More Personal Computing	(10)%	0%	(10)%

Segment Operating Income

Three Months Ended December 31, 2020

	Percentage Change Y/Y (GAAP)	Constant Currency Impact	Percentage Change Y/Y (non-GAAP) Constant Currency
Productivity and Business Processes	19%	(2)%	17%
Intelligent Cloud	43%	(2)%	41%
More Personal Computing	25%	(3)%	22%

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

Constant Currency Reconciliation

Selected Product and Service Information

Three Months Ended December 31, 2020

	Percentage Change Y/Y (GAAP)	Constant Currency Impact	Percentage Change Y/Y (non-GAAP) Constant Currency
Commercial bookings	19%	(8)%	11%
Commercial remaining performance obligation	24%	(2)%	22%
Commercial cloud revenue	34%	(2)%	32%
Office Commercial products and cloud services revenue	11%	(2)%	9%
Office 365 Commercial revenue	21%	(1)%	20%
Office Commercial products revenue	(26)%	(1)%	(27)%
Office Consumer products and cloud services revenue	7%	(1)%	6%
LinkedIn revenue	23%	(1)%	22%
Dynamics products and cloud services revenue	21%	(3)%	18%
Dynamics 365 revenue	39%	(2)%	37%
Server products and cloud services revenue	26%	(2)%	24%
Azure revenue	50%	(2)%	48%
Server products revenue	4%	(1)%	3%
Enterprise Services revenue	5%	(1)%	4%
Windows OEM revenue	1%	0%	1%
Windows OEM Pro revenue	(9)%	0%	(9)%
Windows OEM non-Pro revenue	24%	0%	24%
Windows Commercial products and cloud services revenue	10%	(2)%	8%
Gaming revenue	51%	(1)%	50%
Xbox content and services revenue	40%	(2)%	38%
Xbox hardware revenue	86%	0%	86%
Surface revenue	3%	(2)%	1%
Search advertising revenue excluding traffic acquisition costs	2%	(1)%	1%

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

Cash Flow Reconciliation

	Three Months Ended December 31,		
(\$ in millions)	2020	2019	Percentage Change Y/Y
Net Cash from Operations (GAAP)	\$12,516	\$10,680	17%
Additions to Property and Equipment	\$(4,174)	\$(3,545)	*
Free Cash Flow (non-GAAP)	\$8,342	\$7,135	17%
Impact of the Tax Audit Settlement	\$1,720	\$0	*
Net Cash from Operations as Adjusted (non-GAAP)	\$14,236	\$10,680	33%
Free Cash Flow as Adjusted (non-GAAP)	\$10,062	\$7,135	41%

* Not meaningful.

Free cash flow is included as an additional clarifying item to aid readers of the financial statements in further understanding the Company's performance. This non-GAAP financial measure should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

