



# Second Quarter Fiscal Year 2025 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

Appendix

*All growth comparisons in this presentation relate to the corresponding period of last fiscal year unless otherwise noted. We have recast certain prior period amounts to conform to the way we internally manage and monitor our business. Numbers may not foot due to rounding.*

# FY25 Q2 Financial Summary

(\$ in billions, except per share amounts)

	FY25 Q2	Growth	CC Growth*
Productivity and Business Processes	\$29.4	14%	13%
Intelligent Cloud	\$25.5	19%	19%
More Personal Computing	\$14.7	0%	0%
<b>Revenue</b>	<b>\$69.6</b>	<b>12%</b>	<b>12%</b>
<b>Gross margin</b>	<b>\$47.8</b>	<b>13%</b>	<b>12%</b>
Gross margin percentage	69%	0 pts	
<b>Operating income</b>	<b>\$31.7</b>	<b>17%</b>	<b>16%</b>
Operating income percentage	45%	2 pts	
<b>Net income</b>	<b>\$24.1</b>	<b>10%</b>	<b>10%</b>
<b>Diluted earnings per share</b>	<b>\$3.23</b>	<b>10%</b>	<b>10%</b>

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

# Quarterly Commercial Highlights

## Investor Metrics

	FY24 Q2	FY24 Q3	FY24 Q4	FY25 Q1	FY25 Q2
Commercial bookings growth (y/y)	17% / 9%	29% / 31%	17% / 19%	30% / 23%	67% / 75%
Commercial remaining performance obligation (in billions)	\$222	\$235	\$269	\$259	\$298
Commercial revenue annuity mix	96%	97%	97%	98%	97%
Microsoft Cloud revenue (in billions)	\$33.7	\$35.2	\$36.9	\$38.9	\$40.9
Microsoft Cloud revenue growth (y/y)	24% / 22%	24% / 23%	22% / 23%	22%	21%
Microsoft Cloud gross margin percentage	72%	72%	70%	71%	70%

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

## Commercial business

- Commercial bookings increased 67% (up 75% CC) year-over-year driven by Azure commitments from OpenAI as well as strong execution across our core annuity sales motions
- Commercial remaining performance obligation of \$298 billion, up 34% (up 36% CC) year-over-year
- Commercial revenue annuity mix of 97%, up 1 point year-over-year with continued shift to cloud

## Microsoft Cloud

- Microsoft Cloud revenue of \$40.9 billion, up 21% year-over-year
- Microsoft Cloud gross margin percentage decreased year-over-year to 70% driven by scaling our AI infrastructure

Microsoft Cloud includes Microsoft 365 Commercial cloud, Azure and other cloud services, the commercial portion of LinkedIn, and Dynamics 365.

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.

# FY25 Q2 Other Financial Highlights

<b>Cash returned to shareholders</b>	<ul style="list-style-type: none"><li>• Returned \$9.7 billion to shareholders with \$6.2 billion in dividends and \$3.5 billion in share repurchases</li></ul>
<b>Operating expenses</b>	<ul style="list-style-type: none"><li>• Operating expenses were \$16.2 billion, up 5% year-over-year driven by investments in cloud engineering</li></ul>
<b>Other income and expense</b>	<ul style="list-style-type: none"><li>• Other income and expense was \$(2.3) billion driven by our share of the loss from OpenAI, which is accounted for under the equity method, and the impairment charge from our Cruise investment</li></ul>
<b>Effective tax rate</b>	<ul style="list-style-type: none"><li>• Effective tax rate of 18%</li></ul>
<b>Capital expenditures</b>	<ul style="list-style-type: none"><li>• Capital expenditures including assets acquired under finance leases were \$22.6 billion to support demand in our cloud and AI offerings. Of our cloud and AI capital expenditures, more than half was for long-lived assets. Cash paid for property and equipment was \$15.8 billion.</li></ul>
<b>Cash flow</b>	<ul style="list-style-type: none"><li>• Cash flow from operations was \$22.3 billion, up 18% year-over-year driven by strong cloud billings and collections, partially offset by higher supplier, employee, and tax payments</li><li>• Free cash flow was \$6.5 billion, down 29% year-over-year reflecting higher capital expenditures to support our cloud and AI offerings</li></ul>

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

# FY25 Q2 Business Highlights

 <p><b>Productivity and Business Processes</b></p>	<ul style="list-style-type: none"><li>• Microsoft 365 Commercial products and cloud services revenue increased 15% driven by Microsoft 365 Commercial cloud revenue growth of 16% (up 15% CC)</li><li>• Microsoft 365 Consumer products and cloud services revenue increased 8% driven by Microsoft 365 Consumer cloud revenue growth of 8%</li><li>• LinkedIn revenue increased 9%</li><li>• Dynamics products and cloud services revenue increased 15% (up 14% CC) driven by Dynamics 365 revenue growth of 19% (up 18% CC)</li></ul>
 <p><b>Intelligent Cloud</b></p>	<ul style="list-style-type: none"><li>• Server products and cloud services revenue increased 21% driven by Azure and other cloud services revenue growth of 31%</li></ul>
 <p><b>More Personal Computing</b></p>	<ul style="list-style-type: none"><li>• Windows OEM and Devices revenue increased 4%</li><li>• Xbox content and services revenue increased 2%</li><li>• Search and news advertising revenue excluding traffic acquisition costs increased 21% (up 20% CC)</li></ul>
<p><b>Additional Business Highlight</b></p>	<ul style="list-style-type: none"><li>• Total AI revenue surpassed \$13 billion in annual run rate, which is calculated as current quarter revenue multiplied by four</li></ul>



# Productivity and Business Processes

## Overview

### Investor Metrics

	FY24 Q2	FY24 Q3	FY24 Q4	FY25 Q1	FY25 Q2
Microsoft 365 Commercial cloud revenue growth (y/y)	20% / 18%	17%	15% / 16%	15% / 16%	16% / 15%
Microsoft 365 Commercial seat growth (y/y)	9%	8%	7%	8%	7%
Microsoft 365 Consumer cloud revenue growth (y/y)	8%	8%	7%	6% / 7%	8%
Microsoft 365 Consumer subscribers (in millions)	78.4	80.8	82.4	84.4	86.3
LinkedIn revenue growth (y/y)	9% / 8%	10% / 9%	10% / 9%	10% / 9%	9%
Dynamics 365 revenue growth (y/y)	26% / 23%	22% / 21%	19% / 20%	18% / 19%	19% / 18%

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

### Total Revenue

- Revenue grew 14% (up 13% CC) driven by Microsoft 365 Commercial cloud

### Operating Income

- Gross margin dollars grew 13% (up 12% CC) and gross margin percentage decreased slightly driven by scaling our AI infrastructure
- Operating expenses grew 6% driven by investments in cloud engineering
- Operating income grew 16% (up 15% CC)

\$ in billions



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

### Microsoft 365 Commercial

- Microsoft 365 Commercial products and cloud services revenue grew 15%
- Microsoft 365 Commercial cloud revenue grew 16% (up 15% CC) with Microsoft 365 Commercial seat growth of 7% which was driven by small and medium business and frontline worker offerings, as well as growth in revenue per user
- Microsoft 365 Commercial products revenue grew 13% driven by the Windows Commercial on-premises components of Microsoft 365 suite sales and an increase in transactional purchasing with the launch of Office 2024

### Microsoft 365 Consumer

- Microsoft 365 Consumer products and cloud services revenue grew 8%
- Microsoft 365 Consumer cloud revenue grew 8% driven by Microsoft 365 Consumer subscriber growth of 10% to 86.3 million with mix shift to Microsoft 365 Basic

### LinkedIn

- LinkedIn revenue grew 9% driven by growth across all lines of business – Marketing Solutions, Talent Solutions, Premium Subscriptions, and Sales Solutions
- LinkedIn sessions grew 9% with record engagement

### Dynamics

- Dynamics products and cloud services revenue grew 15% (up 14% CC) driven by growth in Dynamics 365, partially offset by a decline in Dynamics on-premises products
- Dynamics 365 revenue grew 19% (up 18% CC) driven by growth across all workloads



# Intelligent Cloud

## Overview

### Investor Metrics

	FY24 Q2	FY24 Q3	FY24 Q4	FY25 Q1	FY25 Q2
Azure and other cloud services revenue growth (y/y)	33% / 31%	35%	34% / 35%	33% / 34%	31%

### Trended Revenue Growth

Server products revenue growth (y/y)	3% / 2%	6%	2% / 3%	(1)%	(3)%
Enterprise and partner services revenue growth (y/y)	1% / 0%	(9)%	(7)%	(1)% / 0%	(1)%

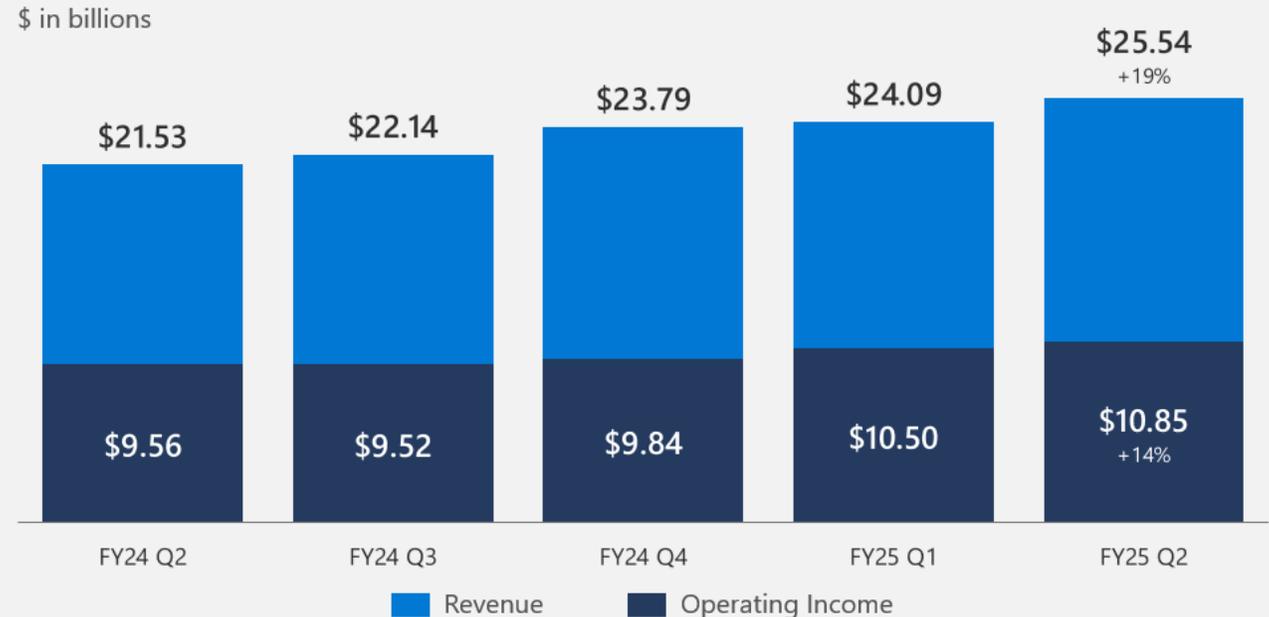
Growth rates include non-GAAP CC growth (GAAP % / CC %).

### Total Revenue

- Revenue grew 19% driven by Azure

### Operating Income

- Gross margin dollars grew 12% (up 13% CC) and gross margin percentage decreased driven by scaling our AI infrastructure
- Operating expenses grew 10% driven by investments in cloud engineering
- Operating income grew 14%



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 21%
- Azure and other cloud services revenue grew 31% driven by demand for our portfolio of services, including 13 points from our AI services which grew 157%
- Server products revenue declined 3% driven by a decrease in transactional purchasing and a prior year comparable that benefited from purchasing ahead of Windows Server 2012 end of support

### Enterprise and Partner Services

- Enterprise and partner services revenue declined 1% with growth in Enterprise Support Services more than offset by a decline in Industry Solutions



# More Personal Computing Overview

## Investor Metrics

	FY24 Q2	FY24 Q3	FY24 Q4	FY25 Q1	FY25 Q2
Windows OEM and Devices revenue growth (y/y)	4%	2%	(1)% / 0%	2%	4%
Xbox content and services revenue growth (y/y)	61% / 60%	62% / 61%	61%	61%	2%
Search and news advertising revenue (ex TAC) growth (y/y)	6% / 4%	8%	15% / 16%	18% / 19%	21% / 20%

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

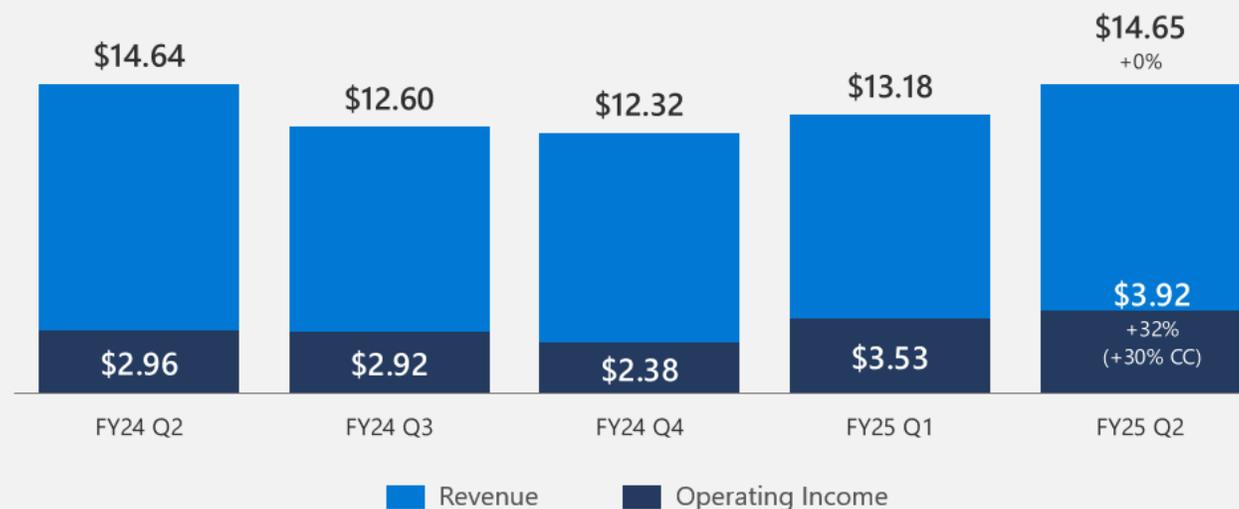
## Total Revenue

- Revenue was relatively unchanged

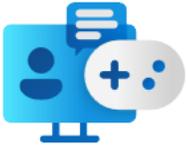
## Operating Income

- Gross margin dollars grew 13% (up 12% CC) and gross margin percentage increased driven by sales mix shift to higher margin businesses and improvement in Gaming and Search and news advertising
- Operating expenses decreased 1% primarily driven by Gaming
- Operating income grew 32% (up 30% CC)

\$ in billions



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 OEM and Devices

- Windows OEM and Devices revenue grew 4% as commercial inventory builds drove growth in Windows OEM, partially offset by a decline in Devices

### Gaming

- Gaming revenue declined 7% (down 8% CC)
- Xbox content and services revenue grew 2% driven by growth in Xbox Game Pass
- Xbox hardware revenue declined 29%

### Search and News Advertising

- Search and news advertising revenue excluding traffic acquisition costs grew 21% (up 20% CC) driven by higher search volume and higher revenue per search

# 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
<b>2023 As Reported (GAAP)</b>	<b>\$62,020</b>	<b>\$42,397</b>	<b>\$15,365</b>	<b>\$27,032</b>	<b>\$21,870</b>	<b>\$2.93</b>
<b>2024 As Reported (GAAP)</b>	<b>\$69,632</b>	<b>\$47,833</b>	<b>\$16,180</b>	<b>\$31,653</b>	<b>\$24,108</b>	<b>\$3.23</b>
Percentage Change Y/Y (GAAP)	12%	13%	5%	17%	10%	10%
<b>Constant Currency Impact</b>	<b>\$171</b>	<b>\$181</b>	<b>\$(25)</b>	<b>\$206</b>	<b>\$14</b>	<b>\$0.00</b>
Percentage Change Y/Y Constant Currency	12%	12%	5%	16%	10%	10%

*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
<b>2023 As Reported (GAAP)</b>	<b>\$25,854</b>	<b>\$21,525</b>	<b>\$14,641</b>
<b>2024 As Reported (GAAP)</b>	<b>\$29,437</b>	<b>\$25,544</b>	<b>\$14,651</b>
Percentage Change Y/Y (GAAP)	14%	19%	0%
<b>Constant Currency Impact</b>	<b>\$142</b>	<b>\$(22)</b>	<b>\$51</b>
Percentage Change Y/Y Constant Currency	13%	19%	0%

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 Gross Margin

Three Months Ended December 31, 2024

	Percentage Change Y/Y (GAAP)	Constant Currency Impact	Percentage Change Y/Y Constant Currency
Productivity and Business Processes	13%	(1)%	12%
Intelligent Cloud	12%	1%	13%
More Personal Computing	13%	(1)%	12%

## Segment Operating Expense

Three Months Ended December 31, 2024

	Percentage Change Y/Y (GAAP)	Constant Currency Impact	Percentage Change Y/Y Constant Currency
Productivity and Business Processes	6%	0%	6%
Intelligent Cloud	10%	0%	10%
More Personal Computing	(1)%	0%	(1)%

## Segment Operating Income

Three Months Ended December 31, 2024

	Percentage Change Y/Y (GAAP)	Constant Currency Impact	Percentage Change Y/Y Constant Currency
Productivity and Business Processes	16%	(1)%	15%
Intelligent Cloud	14%	0%	14%
More Personal Computing	32%	(2)%	30%

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, 2024

	Percentage Change Y/Y (GAAP)	Constant Currency Impact	Percentage Change Y/Y Constant Currency
Commercial bookings	67%	8%	75%
Commercial remaining performance obligation	34%	2%	36%
Microsoft Cloud revenue	21%	0%	21%
Microsoft 365 Commercial products and cloud services revenue	15%	0%	15%
Microsoft 365 Commercial cloud revenue	16%	(1)%	15%
Microsoft 365 Commercial products revenue	13%	0%	13%
Microsoft 365 Consumer products and cloud services revenue	8%	0%	8%
Microsoft 365 Consumer cloud revenue	8%	0%	8%
LinkedIn revenue	9%	0%	9%
Dynamics products and cloud services revenue	15%	(1)%	14%
Dynamics 365 revenue	19%	(1)%	18%
Server products and cloud services revenue	21%	0%	21%
Azure and other cloud services revenue	31%	0%	31%
Server products revenue	(3)%	0%	(3)%
Enterprise and partner services revenue	(1)%	0%	(1)%
Windows OEM and Devices revenue	4%	0%	4%
Gaming revenue	(7)%	(1)%	(8)%
Xbox content and services revenue	2%	0%	2%
Xbox hardware revenue	(29)%	0%	(29)%
Search and news advertising revenue excluding traffic acquisition costs	21%	(1)%	20%

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)	2024	2023	Percentage Change Y/Y
<b>Net Cash from Operations (GAAP)</b>	<b>\$22,291</b>	<b>\$18,853</b>	<b>18%</b>
Additions to Property and Equipment	\$(15,804)	\$(9,735)	*
<b>Free Cash Flow</b>	<b>\$6,487</b>	<b>\$9,118</b>	<b>(29)%</b>

*\*Not meaningful.*

*Free cash flow is included as an additional clarifying item to aid investors by providing additional insight into our operational performance and help clarify trends affecting our business. 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.*

