
*Business Systems Division
3 Year Business Outlook*

February 14, 1995

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Plaintiff's Exhibit

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Agenda

- ◆ Long Term Objectives
- ◆ How will we get there?
 - ◆ Current Business Status
 - ◆ Market Trends
 - ◆ Competition
 - ◆ Novell, Oracle, Lotus, Netscape
- ◆ The base case outlook
- ◆ The Opportunities
- ◆ Product Strategy
- ◆ Financial Forecasts
- ◆ Risks
- ◆ Appendices

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Mission

- ◆ Provide a total platform for solving business problems
- ◆ Become the leader in distributed computing
- ◆ Own the Internet infrastructure

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Objectives and Goals

- ◆ Financial
 - ◆ FY99 Server Revenue: \$3.0 Billion
 - ◆ FY99 Server Responsibility Margin: \$2.0 Billion
- ◆ Market
 - ◆ FY99 Win NT Servers shipped: 1 Million units, #1 in share
 - ◆ FY99 Database Server revenue: \$700M, #2 in share
 - ◆ FY99 Messaging revenue: \$500M, #1 in share
- ◆ Operations and Execution
 - ◆ FY99 PSS Net Expense: < 1.0% of Net Revenue
 - ◆ Globalization: Single world-wide binaries

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Current Business Status

(\$ Thousands)	December		
	Actual	Plan	%
Servers			
Net Revenue	\$388,131	\$262,868	47.7%
Responsibility Margin	\$188,700	\$33,876	457.0%
Workstation			
Net Revenue	\$72,900	\$28,970	151.6%
Responsibility Margin	\$38,199	(\$16,877)	-326.3%
Total BSD			
Net Revenue	\$461,031	\$291,838	58.0%
Responsibility Margin	\$226,898	\$16,998	1234.8%
Cost/Head *	\$134	\$132	2.0%
Contingent Staff Expenses *	\$14,807	\$12,279	20.6%
External Product Dvlpmt *	\$5,203	\$16,874	-69.2%

	December		
	Actual	Plan	Appr'd
Headcount *	1,135	1,229	1304
Contingent Staff *	429	313	N/A

- ◆ BSD Net Revenue 58% over plan
- ◆ Responsibility margin now solidly in the positive
- ◆ Cost/head over because of unbudgeted mgmt bonuses and NMC relo
- ◆ Contingent staff variance offset by low outsourced product development

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Current Business Status

Highlights

- ◆ Gained Industry Respect
 - ◆ VAR acceptance (breadth grows 600 to 1948 in MSUS)
 - ◆ Enterprise acceptance (NTS winning in 39% of accounts, MSUS survey)
- ◆ Lack of Novell Execution: Changing strategy, Abandoned app servers
- ◆ Win NT Workstation: Sales climbing
- ◆ Internet Server: Solid product with great performance and matched features
- ◆ Improved operational efficiencies
 - ◆ More consistent QFE, localization, documentation
 - ◆ Info distribution, release date distribution, BSDPush
 - ◆ Tightened integration with OCU, ECU, field, WWPMS (eg. enterprise strategy presentation, flights)

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Current Business Status: LORGS

• Status at named accounts

	NTS file/print	Exchange	SMS	SQL	SNA
Winning	93	16	41	61	50
Fighting	117	162	165	115	117
Losing	30	62	34	64	73
Total	240	240	240	240	240

	NTS file/print	Exchange	SMS	SQL	SNA
Winning	39%	7%	17%	25%	21%
Fighting	49%	68%	69%	48%	49%
Losing	13%	26%	14%	27%	30%
Total	100%	100%	100%	100%	100%

Source US Field Survey (240 companies out of 1300 largest accounts), 2/96

- Still fighting in most cases
- Surprised somewhat by Exchange acceptance rate so far

See Appendix for list of accounts and details on losses

• BSD TechDesk (bsdpush)

	July	Aug	Sept	Oct	Nov	Dec	Jan
% <48 hrs	78%	87%	89%	90%	91%	84%	92%

Product	Questions	% <48 hrs
NTS	1045	82%
NTW	548	91%
SMS	537	82%
SNA	353	95%
Internet	196	90%
BO	235	93%
Messaging	2493	90%
SQL	797	78%
Other	429	96%
Total	6633	88%

- Goal is 90% <48 hours
- Averaging 55 questions/day incoming
- 29% strongly agree that quality of service is excellent; 64% agree

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Current Business Status: Reviews and News

◆ Reviews

	NTS	SQL	Exchange	SMS	SNA	Total
Won	19	10	1	5	2	43
Tie	5	3	7	2	0	11
Lost	2	1	1	7	0	11

Sept. 1994 - Dec 1995

- ◆ 1/3-1/2 WE PR team on reviews. F/T reviews person/product, 3 at launch.
- ◆ NTS 3.5 lost Infoworld to NetWare and won with NTS 3.5.1. Won best DS in Computerworld and Comm Week
- ◆ SMS is losing to Norton Administrator for Networks
- ◆ Exchange wins email, loses groupware

◆ News

	12/94	12/95
Winning BSD	10	22
Tied BSD Articles	7	9
Losing BSD	1	2

Articles in LAN Times, PC Week, Infoworld, Information Week, Computerworld, Communications Week

- ◆ Weekly calls to 35 editors
- ◆ Weekly talking points.
- ◆ Defuse negative articles to at least a tie.
- ◆ Host 6 full-day editor briefings/mo. Quarterly analyst tours.

Source: W-E study, 2/96. See appendix for reprints of articles and talking point summaries

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Current Business Status

Lowlights

- ◆ Reset on OFS plans: Ripple through to directory services
- ◆ SQL Server
 - ◆ Lacks ease of use at low end, scalability at high end
 - ◆ Out-sold and Out-marketed by Oracle
- ◆ Exchange shipping delays
- ◆ Win NT SUR product issues
 - ◆ Win 95 compatibility
 - ◆ Lack of size reduction
- ◆ Client Access Licenses
- ◆ Internet: lack of merchant, news, media and proxy servers

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Current Business Status (cont'd)

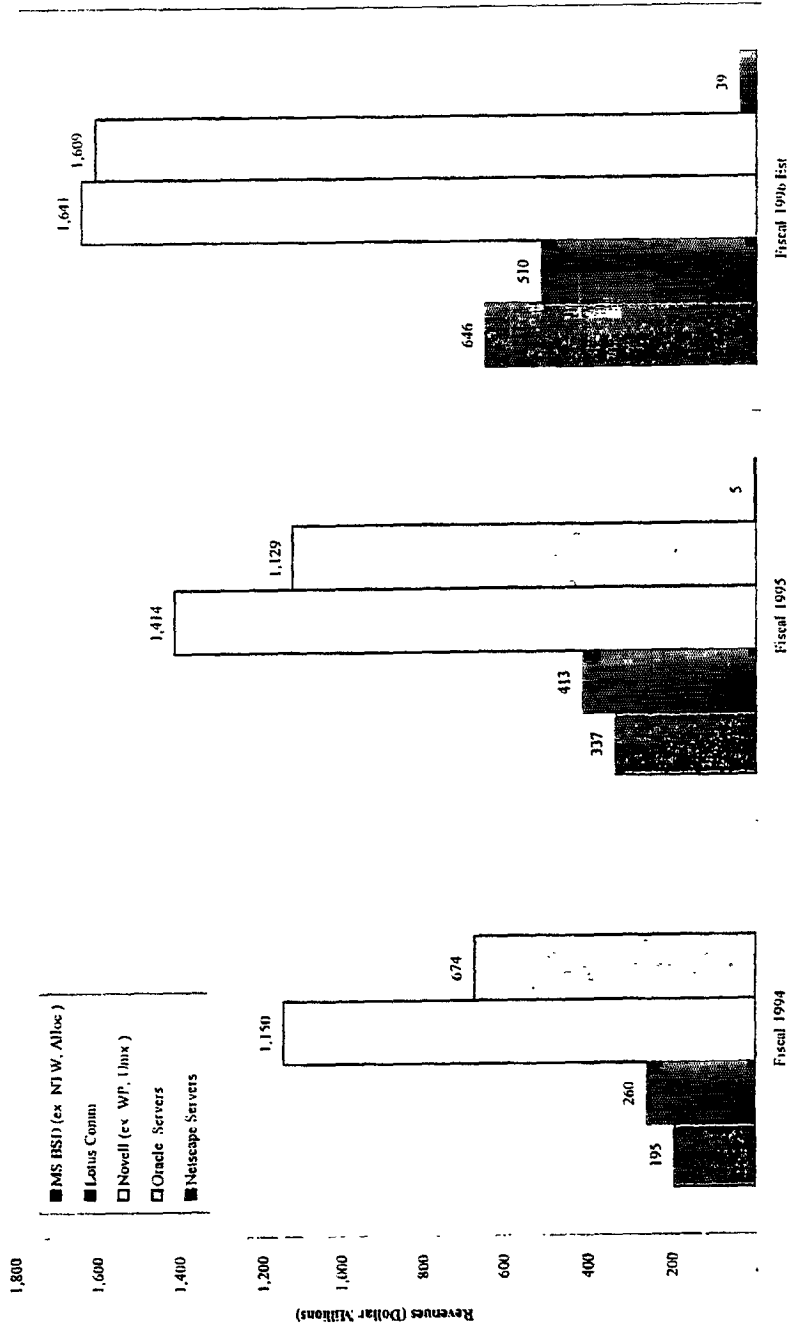
Lowlights

- ◆ Systems Management Server
 - ◆ Confusing, complex product
- ◆ Lack of a small business server
- ◆ Localization issues
 - ◆ SQL, SMS, NTFS
 - ◆ Broader localization coverage needed (e.g., EE)
- ◆ Execution issues
 - ◆ APAC operations
 - ◆ SQL performance benchmarking in customer sites
 - ◆ Competitive and customer-scenario sales tools
 - ◆ Timely, concise internal and external publishing/response (BSDPush)
- ◆ PSS revenue only covers 44% of expense

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Market Overview and Trends: Revenue



- BSD Servers is 14.5% of FY96 revenue share (vs. Oracle/Novell/Lotus/Netscape)
 - Oracle growing strongly (43% FY95-96) and Novell still growing (16% FY95-96)
- (src: Oracle: Morgan Stanley, Lotus, Novell: Montgomery, Netscape: Goldman Sachs. See reports in Appendix and restated pro formas)



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Market Trend and Overview: Hardware

	FY95		FY96		FY95-96 % Growth
	Shipments	% of Market	Shipments	% of Market	
Dell	18,000	1.5%	22,500	1.5%	25%
IBM	98,500	8.0%	140,000	9.3%	42%
ZDS	9,000	0.7%	12,000	0.8%	33%
NCR	26,000	2.1%	32,350	2.2%	24%
Compaq	197,500	16.1%	275,000	18.3%	39%
Digital	32,000	2.6%	60,000	4.0%	88%
HP	82,500	6.7%	135,000	9.0%	64%
Unisys	3,490	0.3%	4,603	0.3%	32%
Others	42,500	3.5%	50,000	3.3%	18%
Total Server vendors [1]	509,490	41.6%	731,453	48.6%	44%
Desktops as servers [2]	408,593	33.4%	396,390	26.4%	-3%
DSPs [3]	306,028	25.0%	375,948	25.0%	23%
Total [4]	1,224,111	100.0%	1,503,791	100.0%	23%

• Specific servers growing 35% taking share from desktops used as servers [2]

• DSPs supply primarily small businesses with non-brand-name machines [5]

Notes: [1] from OEMs rep estimates, [2] Compaq estimate, [3] estimate from SDRG market, [4] Checks with IPR, Dataquest estimates, [5] Larryen estimate

Market Trends and Overview: Server OS

	Revenue (\$M)		Revenue Share		Licenses		License Share	
	FY95	FY96	FY95	FY96	FY95	FY96	FY95	FY96
Microsoft - New Server	\$101	\$222	9%	17%	144,129	365,881	12%	25%
Novell Netware 4.x - New Server	\$178	\$431	16%	34%	157,009	380,000	13%	26%
Novell Netware 3.x - New Server	\$514	\$309	46%	24%	555,480	350,000	45%	24%
Total NetWare - New Server	\$692	\$740	62%	58%	712,489	730,000	57%	49%
Banyan	\$72	\$60	6%	5%	9,681	8,000	1%	1%
OS/2 Lan Server	\$52	\$46	5%	4%	94,598	82,800	8%	6%
OS/2Notes-Rdbms	\$3	\$2	0%	0%	50,000	40,000	4%	3%
SCO	\$172	\$179	15%	14%	188,000	195,520	15%	13%
Other UNIX	\$23	\$25	2%	2%	48,500	53,350	4%	4%
TOTAL - New Servers	\$1,116	\$1,273	100%	100%	1,247,397	1,475,551	100%	100%
Microsoft - Exist Server Upg	\$18	\$27			64,752	153,895		
Novell Netware - Exist Server Upg	\$316	\$364			499,932	300,000		
TOTAL - Existing Server Upg	\$334	\$392			733,770	863,125		
Total - All Servers	\$1,450	\$1,665						

	Total Revenue		New Licenses	
	FY95	FY96	FY95	FY96
Microsoft	\$119	\$249	144,129	365,881
Novell	\$1,009	\$1,104	712,489	730,000
Other	\$323	\$312	390,779	379,670
Total	\$1,450	\$1,665	1,247,397	1,475,551

- Novell new units flat, shift from 3.x to 4.x happens in FY96
- Overall market growing 1.3 to 1.5m units. Most of unit growth was in NTS
- 35% of NetWare 4.x revenue is upgrade; 30% of NetWare 3.x is upgrades (20% minor versions, 10% addl. users). (src: Chuck Philips, MSCo).

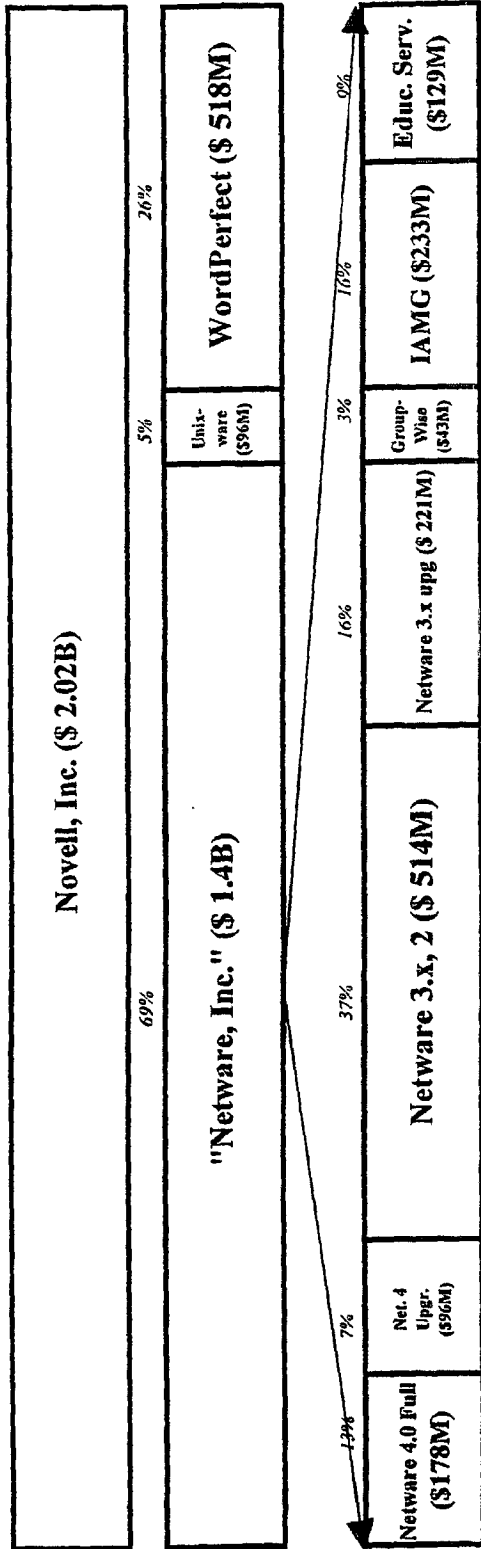
Notes: Includes FG and OEM. Please detailed estimates and sources in NTS Appendix and tie to FY96 MYR "yellow book" estimate.

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Competition - Novell FY95 Restated



IAMG	FY95
Managewise	30 13%
SAA	77 33%
LAN Workplace	63 27%
Telephony	10 4%
NetWare mobile	10 4%
MFR	22 10%
NetWare NFS	15 6%
Netware for host print	5 2%
NetWare for DEC access	2 1%
Other	
Total	233 100%

- IAMG is lucrative
- Groupwise FY95-FY96 growth is 76%

Data Source: Morgan Stanley Analyst Report (C. Phillips), January, 1996/Montgomery Securities (D. Reardon) - Restated to match Microsoft fiscal calendar
 IAMG Data from Chuck Phillips, Morgan Stanley

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Competition- Novell Networking

Strengths

- ◆ Product
 - ◆ Performance
 - ◆ NDS
 - ◆ Groupwise tie to NetWare
- ◆ Marketing
 - ◆ Channel still sells NetWare by default
 - ◆ Starting to working with enterprise resellers
- ◆ Management
 - ◆ IAMG + Training = \$362M
 - ◆ "NetWare Inc" healthy today

Weaknesses

- ◆ Products
 - ◆ No application server strategy
 - ◆ Lack of NDS aware applications
- ◆ Marketing
 - ◆ Changing strategy, credibility
- ◆ Business Management
 - ◆ Excess inventory in distribution causing sell through incentives
 - ◆ Management flux

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Market Overview and Trends: Database

Oracle Workgroup Breakdown by Revenue		
	FY 95	FY 96
Windows NT	\$ 8,094	\$ 87,090
OS/2	\$ 32,377	\$ 37,324
NetWare	\$ 121,414	\$ 124,414
Total Workgroup	\$ 161,886	\$ 248,828

Oracle Workgroup Breakdown by Units		
	FY 95	FY 96
Windows NT	3,373	36,287
OS/2	13,480	15,552
NetWare	50,589	51,839
Total Workgroup	67,452	103,678

Revenue Per Server (including CALs)		
	FY 95	FY 96
Microsoft	\$ 1,488.12	\$ 1,266.20
Oracle - Unix	\$ 9,301.70	\$ 9,449.02
Oracle - Wkgrp NT	\$ 2,400.00	\$ 2,400.00
Sybase - Unix	\$ 7,100.00	\$ 7,100.00
Informix - Unix	\$ 2,600.00	\$ 2,600.00
IBM DB/2	\$ 2,600.00	\$ 2,600.00
Average	\$ 3,981.80	\$ 3,672.65

	FY 95	FY 96	Growth
Revenue Microsoft	\$ 60,065	\$ 118,449	97%
Oracle - Unix	\$ 825,768	\$ 1,149,001	39%
Oracle Workgroup	\$ 161,886	\$ 248,828	54%
Personal Oracle	\$ 28,568	\$ 43,911	54%
Proprietary	\$ 112,445	\$ 153,688	37%
Oracle	\$ 1,128,667	\$ 1,609,333	43%
Sybase	\$ 479,800	\$ 488,200	2%
Informix	\$ 305,400	\$ 434,800	42%
IBM DB/2	\$ 67,000	\$ 73,700	10%
	\$ 2,040,932	\$ 2,724,482	33%

	FY 95	FY 96	Growth
Licenses Microsoft	40,363	93,547	132%
Oracle - Unix	88,776	121,600	37%
Oracle Workgroup	67,452	103,678	54%
Personal Oracle	72,324	111,167	54%
Proprietary	5,622	7,684	37%
Oracle	234,175	344,130	47%
Sybase - Unix	67,740	68,761	2%
Informix - Unix	144,526	207,048	43%
IBM DB/2	25,761	28,346	10%
	512,565	741,831	45%

- ◆ DBMS market is healthy (33% growth, FY95 to FY96)
- ◆ Oracle outselling us on units and most of the growth going to Oracle (FY95/96 growth was \$500M, total market growth \$700M) because average revenue per unit is higher
- ◆ Oracle workgroup switching to NT (src: Compaq, Mbrown, Morgan Stanley)

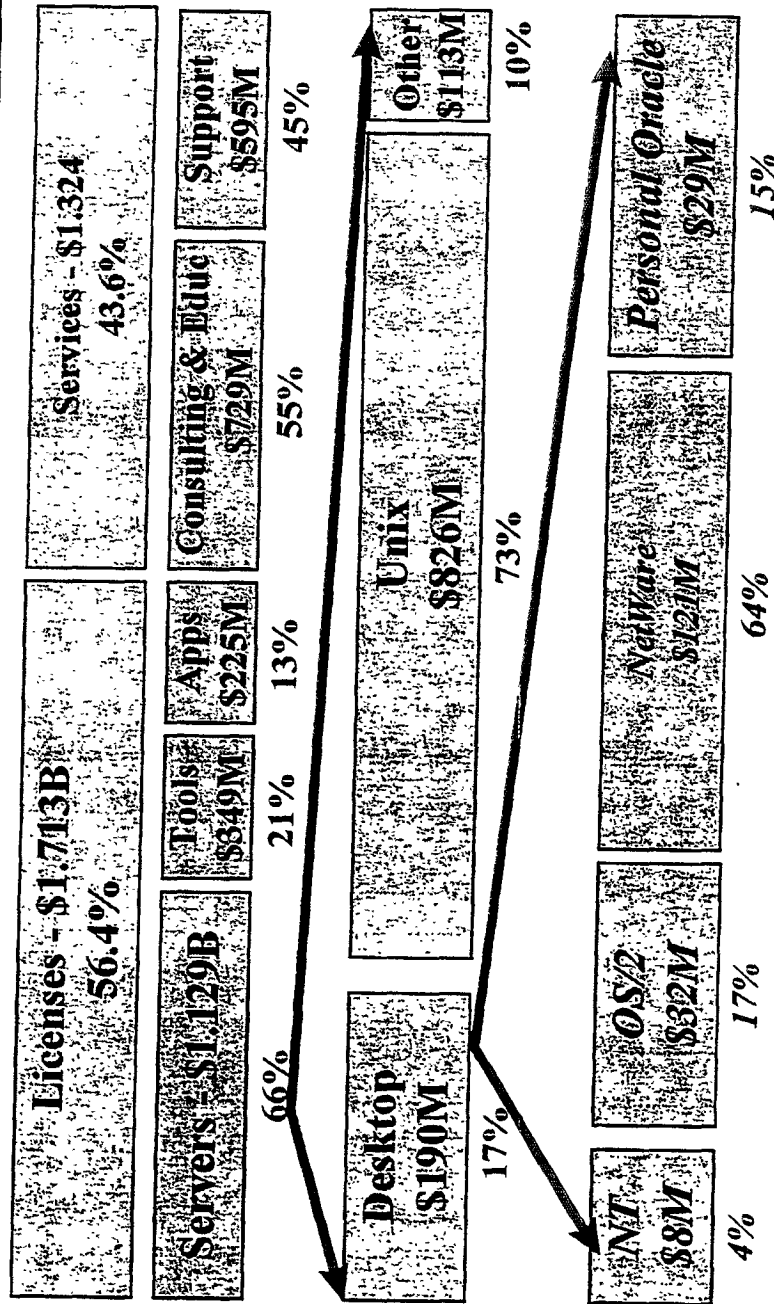
Please detailed estimates and sources in SQL Appendix

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Competition - Oracle - FY95 \$3.038B



- Desktop unit larger than our SQL Server business in FY95
- Shipped Enterprise version on NT in Oct; committing to sim ship
- Most of personal Oracle is given away (src, Morgan Stanley)

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Competition- Oracle

Strengths

- ◆ Product
 - ◆ Strong fundamental technology (row locking, parallel server)
 - ◆ Comprehensive product line (servers, tools, applications)
- ◆ Marketing
 - ◆ Two-tiered pricing and sales model
 - ◆ Large and knowledgeable sales/consulting force
- ◆ Business Management
 - ◆ Solutions-oriented sell, soup-to-nuts provider
 - ◆ Good margins

Weaknesses

- ◆ Products
 - ◆ Core technology requires know- legible technical support (high cost of ownership)
 - ◆ Breadth of products (Office)
- ◆ Marketing
 - ◆ Competes with partners (ISVs)
 - ◆ Channel relationships
- ◆ Business Management
 - ◆ Direct sales model dependent on high margins

Market Trends and Overview - Messaging

	Messaging Revenue		Growth	Percent of Total	
	FY95	FY96		FY95	FY96
Messaging Revenue					
Microsoft	\$75,720	\$102,855	35.8%	16.3%	16.8%
Lotus cc:Mail	\$113,214	\$124,536	10.0%	24.4%	20.4%
Lotus Notes	\$231,145	\$307,422	33.0%	49.9%	50.3%
Lotus Total	\$344,359	\$431,958	25.4%	74.3%	70.7%
GroupWise	\$43,333	\$76,467	76.5%	9.4%	12.5%
Total	\$463,412	\$611,280	31.9%	100.0%	100.0%

	Mailboxes		Growth	Percent of Total	
	FY95	FY96		FY95	FY96
Mailboxes					
Microsoft	382,233	379,562	-0.7%	6.0%	4.1%
Lotus cc:Mail	2,313,000	2,719,800	17.6%	36.2%	29.1%
Lotus Notes	2,004,600	3,173,100	58.3%	31.3%	34.0%
GroupWise	1,696,200	3,059,775	80.4%	26.5%	32.8%
Total	6,396,033	9,332,237	45.9%	100.0%	100.0%

- 1) MSMail revenues does not include PSD/DAD allocations
- 2) Factored in estimated 18% decrease due to 12/14 Lotus price reduction for Notes client (src revenues from MSCo, Montgomery reports, see Appendix for reports)

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Competition - Lotus

Strengths

- ◆ Product:
 - ◆ Will win on groupware
 - ◆ Inter-enterprise support
 - ◆ Internet support in R4
 - ◆ Improved scalability over R3
- ◆ Marketing & Sales
 - ◆ Effectively using perception of solid, established product--great references
 - ◆ 9MM+ installed base to upgrade
 - ◆ IBM reported to have invested \$200MM in Notes R4 launch
 - ◆ Increasing Business Partner & vertical industry teams by 100% in CY96
- ◆ Business Mgmt:
 - ◆ IBM adding to sales/service force presence (both direct sales force and ISSC)
 - ◆ Aggressive dealing- anything to get the business

Weaknesses

- ◆ Product:
 - ◆ Not complete messaging system
 - ◆ No SMTP or X.400 MTAs (end of CY96)
 - ◆ No integrated group scheduling
 - ◆ Lacking infrastructure- memory req's, scalability, management tools
 - ◆ Trying to force-fit internet support into Notes
- ◆ Marketing & Sales:
 - ◆ Confusing client message
 - ◆ Channel conflict- Business partners losing business to IBM ISSC
- ◆ Business Mgmt:
 - ◆ Revenue impact from price decrease

Competition - Novell GroupWise

Strengths

- ◆ Product
 - ◆ NetWare, NDS integration
 - ◆ Leadership in client-side features, telephony integration
- ◆ Marketing & Sales
 - ◆ Well trained sales force
 - ◆ VARs motivated to move GroupWise into NetWare base
- ◆ Business Mgmt:
 - ◆ Strong channel, especially SMORG
 - ◆ Extension of IAMG (add-on) strategy

Weaknesses

- ◆ Product
 - ◆ Unclear delivery schedule for XTD
 - ◆ Only on NetWare
 - ◆ No integration with other server applications or desktop apps
 - ◆ Limited and proprietary development environment and tools
- ◆ Marketing & Sales:
 - ◆ Novell strategy shifts have hurt credibility
- ◆ Business Mgmt:
 - ◆ No server suite to sell against BackOffice

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Competition- Netscape

Strengths

- ◆ Product
 - ◆ Multi-platform
 - ◆ Leveraging Internet Protocols
 - ◆ Broad server family
- ◆ Marketing
 - ◆ Internet = Netscape
 - ◆ Changing all of the rules of the business
 - ◆ Every Navigator points to their site
- ◆ Management
 - ◆ Cash reserves
 - ◆ Focus for Anti-MS sentiment


Weaknesses

- ◆ Products
 - ◆ Performance
 - ◆ Weak enterprise features
 - ◆ Not an applications platform (yet)
- ◆ Marketing
 - ◆ No relationship with traditional channel
- ◆ Business Management
 - ◆ Lack of developer relations process
 - ◆ Risk of missed expectation

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Plan Going Forward



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Market Trend and Overview: Growth

Units

	FY95	FY96	FY97	FY98	FY99	CAGR
Intel Server hardware	1,224,111	1,503,791	1,804,549	2,111,322	2,428,020	17%
Non-Intel Server	323,911	386,225	415,192	431,800	440,436	4%

(src: FY95/96 MYR96, OEM, FY97-fy99 are estimates)
 (Non-Intel includes Sun, HP-UX, AIX, Other Unix, OS/400, Ultrix, OSF/1, VMS)

Revenue (\$K)

	FY95	FY96	FY97	FY98	FY99	CAGR
Server OS	\$1,449,603	\$1,665,005	\$1,770,568	\$1,871,077	\$2,078,797	8%
Database	\$2,012,364	\$2,680,571	\$3,600,007	\$3,996,007	\$4,447,556	18%
Messaging	\$463,412	\$611,280	\$751,874	\$962,399	\$1,231,871	26%

Units

	FY95	FY96	FY97	FY98	FY99	CAGR
Server OS--New	1,247,397	1,475,551	1,662,013	1,931,998	2,278,289	16%
Database--New Servers	440,241	630,664	848,311	952,142	1,100,763	20.4%
Messaging--Mailboxes	6,396,033	9,332,237	12,510,996	16,485,407	18,746,851	26.2%

- o New Intel servers grow at 17% vs. overall PC market at 13%
- o Database server selling prices falling even as database servers grow
- o Messaging/groupware is highest growth segment at 26%

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3 Year Revenue Outlook - Base Case

WW BSD Revenue - Base Case

Win NT Workstation
 Finished Goods
 OEM Win NT Workstation
 Total Win NTW

Servers
 Finished Goods
 Windows NT Server
 SQL Server
 Backoffice
 Mail
 Exchange
 Sys Mgmt Server
 SNA Server
 Internet Server
 Other Business Systems
 Total Server FG
 OEM
 Other
 Mail/Exchange Allocations
 Manuals/Recur Maint
 Total Servers
 Total BSD

Growth Rates			CAGR
Fiscal Years	96-97	96-99	
95-96	197.7%	139.7%	34.7%
	642.4%	379.5%	252.6%
	228.5%	177.2%	107.3%
	111.4%	57.1%	49.6%
	67.3%	118.1%	91.5%
	872.0%	54.5%	37.1%
	15.1%	-30.4%	-31.5%
	N/A	521.6%	221.6%
	198.5%	43.9%	46.0%
	95.3%	45.8%	46.0%
	N/A	4341.5%	540.0%
	101.9%	17.6%	17.8%
	105.6%	63.5%	60.5%
	10.6%	4.0%	5.8%
	73.6%	13.3%	7.8%
	-145.7%	432.6%	181.7%
	87.8%	49.8%	50.0%
	106.2%	76.3%	65.4%

	Revenue					
	FY94	FY95	Est. FY96	FY97	FY98	FY99
	\$28,665	\$59,708	\$177,761	\$426,083	\$262,805	\$434,184
	\$2,299	\$4,436	\$32,936	\$157,915	\$764,968	\$1,443,528
	\$30,964	\$64,145	\$210,697	\$583,998	\$1,027,773	\$1,877,713
	\$28,910	\$110,294	\$233,144	\$366,355	\$540,266	\$780,844
	\$32,641	\$57,830	\$66,722	\$210,907	\$408,363	\$679,592
	\$0	\$7,451	\$72,423	\$111,875	\$142,976	\$186,593
	\$60,115	\$75,720	\$87,134	\$60,607	\$39,535	\$27,953
	\$0	\$0	\$15,721	\$97,717	\$288,092	\$522,949
	\$0	\$13,753	\$41,056	\$59,094	\$86,868	\$127,696
	\$3,038	\$7,346	\$14,349	\$20,922	\$30,539	\$44,615
	\$0	\$0	\$278	\$12,365	\$37,732	\$72,988
	\$27,405	\$24,600	\$49,660	\$58,401	\$68,679	\$80,767
	\$152,109	\$296,994	\$610,487	\$998,243	\$1,643,048	\$2,523,996
	\$33,260	\$34,783	\$38,473	\$40,018	\$42,158	\$45,510
	\$77,507	\$99,334	\$155,108	\$175,745	\$195,540	\$194,193
	\$9,383	\$5,638	(\$2,578)	(\$13,730)	(\$32,274)	(\$57,609)
	\$272,259	\$426,749	\$801,490	\$1,200,277	\$1,848,472	\$2,706,091
	\$303,223	\$490,893	\$1,012,187	\$1,784,275	\$2,876,246	\$4,583,804

◆ Server FG revenue growth up 61%, driven by SQL, Exchange and NTS.

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FG License Forecast - Base Case

WW BSD FG Licenses Base Case

	Growth Rates			CAGR
	95-96	96-97	96-99	
New Licenses	256.9%	0.0%	-17.5%	
Upgrades	213.6%	319.1%	76.2%	
	237.9%	129.7%	36.8%	

Windows NT Workstation
Windows NT Workstation

	Licenses					
	Est. FY94	FY95	FY96	FY97	FY98	FY99
New Licenses	75,721	212,845	759,612	759,612	569,709	427,282
Upgrades	55,381	165,829	520,025	2,179,332	1,197,906	2,846,913
	131,102	378,674	1,279,637	2,938,944	1,767,614	3,274,195

New Licenses
Windows NT Server - Servers
Windows NT Server - Clients
SQL Server - Servers
SQL Server - Clients
Backoffice - Servers
Backoffice - Clients
Mail - Servers
Mail - Clients
Mail - AddOns, Upgrades
Exchange - Servers
Exchange - Clients
SMS Server - Servers
SMS Server - Clients
SNA Server - Servers
SNA Server - Clients
Internet Server - Server
Internet Server - Client
Other Business Systems
Total New User

	132.1%	60.0%	52.2%
	227.2%	66.6%	58.3%
	89.7%	111.3%	71.3%
	146.2%	150.0%	121.1%
	877.5%	60.1%	35.7%
	647.6%	54.9%	34.3%
	8.7%	-30.9%	-40.7%
	-17.8%	-30.8%	-40.3%
	21.0%	-20.0%	-20.0%
	N/A	782.5%	276.9%
	N/A	1642.5%	379.1%
	73.5%	50.0%	50.0%
	275.5%	50.0%	50.0%
	131.3%	50.0%	50.0%
	183.8%	50.0%	50.0%
	N/A	4500.0%	532.5%
	N/A	4500.0%	532.5%
	-21.1%	20.0%	20.0%
	143.6%	75.7%	72.0%
Total Upgrades	230.7%	33.3%	41.8%
Total Server FG	155.7%	68.0%	67.3%

Upgrades

Total Upgrades
Total Server FG

Total BSD FG

	30,209	127,254	295,397	472,636	708,954	1,042,182
	126	774,298	2,533,614	4,221,282	6,613,689	10,048,329
	24,070	33,567	63,665	134,530	205,416	320,064
	0	184,386	453,917	1,134,792	2,757,544	4,908,427
	0	2,468	24,124	38,611	48,264	60,330
	0	36,200	270,642	419,293	524,116	655,145
	57,630	65,537	71,268	49,274	26,875	14,855
	591,858	382,233	314,170	217,547	119,990	67,010
	455,395	409,148	495,036	396,029	316,823	253,458
	0	0	5,458	48,167	126,660	292,269
	0	0	65,392	1,139,456	4,959,248	7,190,909
	0	11,851	20,560	30,840	46,260	69,390
	0	266,083	999,088	1,498,632	2,247,948	3,371,922
	1,918	7,735	17,890	26,835	40,253	60,379
	4	83,592	237,238	355,857	533,786	800,678
	0	0	200	9,200	25,300	50,600
	0	0	3,000	138,000	379,500	759,000
	109,270	38,433	30,324	36,389	43,867	52,400
	1,270,480	2,422,785	5,900,982	10,367,368	19,724,291	30,017,327
Total Upgrades	170,633	392,425	1,297,695	1,729,192	2,545,429	3,699,924
Total Server FG	1,441,113	2,815,210	7,198,617	12,096,560	22,269,720	33,717,251
Total BSD FG	1,572,215	3,193,884	8,478,254	15,035,504	24,037,335	36,991,446

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Can we make our forecast?

- ◆ Novell has never shipped more than 60K/month
- ◆ Where does NTS growth come from?
 - ◆ Grow the market
 - ◆ Application Servers
 - ◆ Take share from Novell
- ◆ Where does server application growth come from?
 - ◆ Grow the market
 - ◆ Take share from the competition
 - ◆ Focus on SQL Server and Exchange; price & volume
 - ◆ Plan doesn't assume new categories e.g. storage mgmt



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Revenue Market Share - Base Case

	Revenue (\$K)				CAGR	Percent of Total					
	FY95	FY96	FY97	FY98		FY99	FY95	FY96	FY97	FY98	FY99
Server OS											
Microsoft	\$118,553	\$249,077	\$407,707	\$592,644	50%	8.2%	15.0%	23.0%	31.7%	40.7%	
Novell	\$1,008,533	\$1,103,928	\$1,044,937	\$954,196	-7%	69.6%	66.3%	59.0%	51.0%	43.3%	
Banyan	\$72,216	\$59,674	\$59,077	\$58,486	-1%	5.0%	3.6%	3.3%	3.1%	2.8%	
OS/2 Lan Server	\$52,265	\$45,747	\$48,034	\$50,436	5%	3.6%	2.7%	2.7%	2.7%	2.5%	
OS/2 - App Svr	\$3,068	\$2,454	\$2,405	\$2,357	-2%	0.2%	0.1%	0.1%	0.1%	0.1%	
SCO	\$172,328	\$179,221	\$181,013	\$182,824	1%	11.9%	10.8%	10.2%	9.8%	8.9%	
Other - Unix	\$22,640	\$24,904	\$27,394	\$30,134	10%	1.6%	1.5%	1.5%	1.6%	1.6%	
Total	\$1,449,603	\$1,665,005	\$1,770,568	\$1,871,077	8%	100.0%	100.0%	100.0%	100.0%	100.0%	
Database											
Microsoft	\$60,065	\$118,449	\$244,470	\$451,256	84%	3.0%	4.4%	6.8%	11.3%	16.5%	
Oracle (no Pers'l)	\$1,100,099	\$1,565,422	\$2,097,666	\$2,202,549	14%	54.7%	58.4%	58.3%	55.1%	52.0%	
Sybase	\$479,800	\$488,200	\$590,722	\$649,794	12%	23.8%	18.2%	16.4%	16.3%	15.3%	
Informix	\$305,400	\$434,800	\$591,328	\$620,894	14%	15.2%	16.2%	16.4%	15.5%	14.7%	
IBM DB/2	\$67,000	\$73,700	\$75,821	\$71,514	-4%	3.3%	2.7%	2.1%	1.8%	1.5%	
Total	\$2,012,364	\$2,680,571	\$3,600,007	\$3,996,007	18%	100.0%	100.0%	100.0%	100.0%	100.0%	
Messaging											
Microsoft	\$75,720	\$102,855	\$158,324	\$327,627	75%	16.3%	16.8%	21.1%	34.0%	44.7%	
Lotus cc:Mail	\$113,214	\$124,536	\$118,309	\$94,647	-28%	24.4%	20.4%	15.7%	9.8%	3.8%	
Lotus Notes	\$231,145	\$307,422	\$368,907	\$422,706	18%	49.9%	50.3%	49.1%	43.9%	41.2%	
Lotus Total	\$344,359	\$431,958	\$487,216	\$517,353	9%	74.3%	70.7%	64.8%	53.8%	45.0%	
GroupWise	\$43,333	\$76,467	\$106,334	\$117,419	18%	9.4%	12.5%	14.1%	12.2%	10.3%	
Total	\$463,412	\$611,280	\$751,874	\$962,399	26%	100.0%	100.0%	100.0%	100.0%	100.0%	

GroupWise and NetWare are highly correlated
 Competitor revenues continue to grow

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Unit Market Share - Base Case

	Units					CAGR	Percent of Total					
	FY95	FY96	FY97	FY98	FY99		FY95	FY96	FY97	FY98	FY99	
Server OS												
Microsoft	144,129	365,881	569,197	826,758	1,185,940	48%	11.6%	24.8%	34.2%	42.8%	52.1%	
Novell	712,489	730,000	702,196	702,909	677,482	-2%	57.1%	49.5%	42.2%	36.4%	29.7%	
Banyan	9,681	8,000	7,920	7,841	7,762	-1%	0.8%	0.5%	0.5%	0.4%	0.3%	
OS/2 Lan Server	94,598	82,800	86,940	91,287	95,851	5%	7.6%	5.6%	5.2%	4.7%	4.2%	
OS/2 - App Svr	50,000	40,000	39,600	39,200	38,800	-1%	4.0%	2.7%	2.4%	2.0%	1.7%	
SCO	188,000	195,520	197,475	199,450	201,444	1%	15.1%	13.3%	11.9%	10.3%	8.8%	
Other - Unix	48,500	53,350	58,685	64,554	71,009	10%	3.9%	3.6%	3.5%	3.3%	3.1%	
Server OS--New	1,247,397	1,475,551	1,662,013	1,931,998	2,278,289	16%	100.0%	100.0%	100.0%	100.0%	100.0%	
Database												
Microsoft	40,363	93,547	179,475	260,647	388,057	61%	9.2%	14.8%	21.2%	27.4%	35.3%	
Oracle	161,851	232,963	312,170	327,779	344,168	14%	36.8%	36.9%	36.8%	34.4%	31.3%	
Sybase	67,740	68,761	83,200	91,520	96,096	12%	15.4%	10.9%	9.8%	9.6%	8.7%	
Informix	144,526	207,048	246,387	248,358	250,746	7%	32.8%	32.8%	29.0%	26.1%	22.8%	
IBM DB/2	25,761	28,346	27,079	23,838	21,696	-9%	5.9%	4.5%	3.2%	2.5%	2.0%	
Database--New Servers	440,241	630,664	848,311	952,142	1,100,763	20%	100.0%	100.0%	100.0%	100.0%	100.0%	
Messaging												
Microsoft	382,233	379,562	1,357,002	5,079,238	7,257,919	167%	6.0%	4.1%	10.8%	30.8%	38.7%	
Lotus cc:Mail	2,313,000	2,719,800	2,870,900	2,296,720	1,084,050	-26%	36.2%	29.1%	22.9%	13.9%	5.8%	
Lotus Notes	2,004,600	3,173,100	4,230,800	4,847,792	5,817,350	22%	31.3%	34.0%	33.8%	29.4%	31.0%	
GroupWise	1,696,200	3,059,775	4,052,294	4,261,658	4,587,532	14%	26.5%	32.8%	32.4%	25.9%	24.5%	
Messaging--Mailboxes	6,396,033	9,332,237	12,510,996	16,485,407	18,746,851	26%	100.0%	100.0%	100.0%	100.0%	100.0%	

○ Unit share outpaces revenue share for us

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Opportunities

- ◆ Multi-tier family
- ◆ Small Business Server (SAM) vs. NTS
- ◆ “SQL-workgroup” vs “SQL-enterprise”
- ◆ SQL site license
- ◆ NTS Pricing and packaging
- ◆ More add-ons
- ◆ Overall pricing issues

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Family -- Small Business Server (SAM) vs. NTS

Product	<ul style="list-style-type: none"> • Easy to install, everything in one box <ul style="list-style-type: none"> • NTS, E-mail, Fax, Modem pooling, telephony • Plus Wizards for common administrator tasks, Client administration utility and an Internet connection wizard • Tiered SKUs: 5, 10, 25 and 50 • Everything available separately for MORG/LORG • A single server that runs in an administratorless environment that provides an easy to use small business platform for information sharing and communications
Positioning	
Price	<ul style="list-style-type: none"> • >= \$700 premium over NTS <ul style="list-style-type: none"> 5: \$1200 25: \$4500 10: \$2000 50: \$9000
Promotion	<ul style="list-style-type: none"> • End-user: Seminars, vertical pubs • Channel: Business opportunity seminars
Place	<ul style="list-style-type: none"> • Retail/mass merchant • Micro-VAR

◆ Incremental \$265M in FY99

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Family -- "SQL-workgroup" vs "SQL-enterprise"

- ◆ Could be done in SQL 6.5
- ◆ e.g., DTC in enterprise edition
- ◆ Incremental \$130M in FY99
- ◆ Advantages: More upside, easier to position against competitors' high/low products
- ◆ Questions: Sales efficiency

◦ See Appendix for assumptions/detail

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SQL Site License -- Original Proposal

	FY95	FY96	FY97	FY98	FY99
Base case	\$60,065	\$118,449	\$244,470	\$451,256	\$735,570
SQL Site License <i>with cannibalization</i>	\$49,375	\$45,097	\$102,706	\$118,500	\$197,500
Total without cannibal	\$293,845	\$569,756	\$569,756	\$569,756	\$933,070
Total with cannibal	\$289,567	\$553,962	\$553,962	\$553,962	\$881,580

- ◆ Assumes company pays \$500K per version for unlimited use of clients and servers
- ◆ New contracts: 125 in FY97, 300 in FY98, 500 in FY99
- ◆ Cannibalization is 5% in FY97, 10% in FY98, 20% in FY99
- ◆ Advantages: sales efficiency
- ◆ Questions: will people move to later versions? What about LORGs who make de-centralized purchasing decisions?



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SQL Site License -- Modified Proposal

	FY95	FY96	FY97	FY98	FY99
Base case	\$60,065	\$118,449	\$244,470	\$451,256	\$735,570
Yearly SQL Site License with cannibalization	\$49,375	\$45,097	\$152,081	\$167,875	\$365,375
Total without cannibal	\$293,845	\$619,131	\$619,131	\$619,131	\$1,100,945
Total with cannibal	\$289,567	\$603,337	\$603,337	\$603,337	\$1,049,455

- ◆ Assumes company pays \$500K per year for unlimited use of clients and servers (any version)
- ◆ Advantages: similar sales efficiency but doesn't require re-selling with new versions
- ◆ Questions: Will people pay for this? No better for de-centralized LORGs.

◆ Will close on this before FY97 sub planning concludes

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NTS Pricing and Packaging

- ◆ Low-end file server offering (SUR timeframe)
 - ◆ \$360 for 5-user server offered worldwide
 - ◆ Hard-limited, no server apps allowed, no IIS
- ◆ Increase revenue for the rest of the business
 - ◆ Raise prices \$100 (revenue to MSFT) for NTS
 - ◆ Take the naked out of retail, primary retail SKU is 10-user NVP
 - ◆ Justification
 - ◆ Hedge against CAL erosion caused by IIS (prepare for server capacity based pricing)
 - ◆ Today lower than Novell, and we'll add a new 5-user SKU
 - ◆ Raises the platform price for Netscape
 - ◆ Incremental \$126M in FY99

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More add-ons

- ◆ Should we add an a-la-carte “IAMG” strategy? Or should we put into base product and raise price?
- ◆ Go a-la-carte to establish value
 - ◆ Exchange Fax Server
 - ◆ Stand-alone Fax Server
 - ◆ NNTP Connector
 - ◆ etc

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3 Year Revenue Outlook - Stretch

	Growth Rates			Revenue						
	Fiscal Years		CAGR	Est.						
	95-96	96-97	96-99	FY94	FY95	FY96	FY97	FY98	FY99	
WW BSD Revenue - Stretch										
Finished Goods	197.7%	139.7%	34.7%	\$28,665	\$59,708	\$177,761	\$426,083	\$262,805	\$434,184	
OEM Win NT Workstation	642.4%	379.5%	252.6%	\$2,299	\$4,436	\$32,936	\$157,915	\$764,968	\$1,443,528	
Total Win NTW	228.5%	177.2%	107.3%	\$30,964	\$64,145	\$210,697	\$583,998	\$1,027,773	\$1,877,713	
Servers										
Finished Goods										
Windows NT Server	111.4%	71.0%	41.7%	\$28,910	\$110,294	\$233,144	\$398,082	\$519,601	\$662,656	
SQL Server	67.3%	164.7%	98.4%	\$32,641	\$57,830	\$96,722	\$256,004	\$489,413	\$755,222	
Backoffice	872.0%	54.5%	37.1%	\$0	\$7,451	\$72,423	\$111,875	\$142,976	\$186,593	
Mail	15.1%	-30.4%	-31.5%	\$60,115	\$75,720	\$87,134	\$60,607	\$39,535	\$27,953	
Exchange	N/A	521.6%	221.6%	\$0	\$0	\$15,721	\$97,717	\$288,092	\$522,949	
Sys Mgmt Server	198.5%	43.9%	46.0%	\$0	\$13,753	\$41,056	\$59,094	\$86,868	\$127,696	
SNA Server	95.3%	45.8%	46.0%	\$3,038	\$7,346	\$14,349	\$20,922	\$30,539	\$44,615	
Internet Server	N/A	4341.5%	540.0%	\$0	\$0	\$278	\$12,365	\$37,732	\$72,988	
Other Business Systems	101.9%	17.6%	17.6%	\$27,405	\$24,600	\$49,660	\$58,401	\$68,679	\$80,767	
SAM Server	N/A	N/A	N/A	\$0	\$0	\$0	\$30,687	\$203,543	\$493,994	
SQL Lite Server	N/A	N/A	N/A	\$0	\$0	\$0	\$0	\$70,875	\$200,175	
Total Server FC	105.6%	81.2%	73.3%	\$152,109	\$296,994	\$610,487	\$1,106,354	\$1,977,851	\$3,175,608	
OEM										
Total Server OEM	10.6%	4.0%	5.8%	\$33,260	\$34,783	\$38,473	\$40,018	\$42,158	\$45,510	
Other										
Mail/Exchange Allocations	73.6%	13.3%	7.8%	\$77,507	\$89,334	\$155,108	\$175,745	\$195,540	\$194,193	
Manuals/Recur Maint	-145.7%	432.6%	181.7%	\$9,383	\$5,638	(\$2,578)	(\$13,730)	(\$32,274)	(\$57,609)	
Total Servers	87.8%	63.2%	61.2%	\$272,259	\$426,749	\$601,490	\$1,308,398	\$2,183,276	\$3,357,702	
Total BSD	106.2%	87.0%	72.9%	\$303,223	\$490,893	\$1,012,187	\$1,892,386	\$3,211,049	\$5,235,415	

◆ Base case plus: SAM, SQL family, SQL site license, Win NTS price increase

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FG License Forecast - Stretch

WW BSD FG Licenses Stretch	Growth Rates			Licenses						
	Fiscal Years	95-96	96-97	96-99	Est.	FY95	FY96	FY97	FY98	FY99
New Licenses	256.9%	0.0%	-17.5%		75,721	212,845	759,612	759,612	569,709	427,282
Upgrades	213.6%	319.1%	76.2%		55,381	165,829	520,025	2,179,332	1,197,906	2,846,913
	237.9%	129.7%	36.8%		131,102	378,674	1,279,637	2,938,944	1,767,614	3,274,195
New Licenses	132.1%	60.0%	52.2%		30,209	127,254	295,397	434,825	556,529	708,670
Windows NT Server - Servers	227.2%	66.6%	58.3%		126	714,298	2,533,614	3,995,066	5,444,571	6,720,877
Windows NT Server - Clients	89.7%	111.3%	71.3%		24,070	33,567	63,665	134,655	189,966	282,314
SQL Server - Servers	146.2%	150.0%	121.1%		0	184,386	453,917	1,134,792	2,678,794	4,640,677
SQL Server - Clients	877.5%	60.1%	35.7%		0	2,468	24,124	38,611	48,264	60,330
Backoffice - Servers	647.6%	54.9%	34.3%		0	36,200	270,642	419,293	524,116	655,145
Backoffice - Clients	8.7%	-30.9%	-40.7%		57,630	65,537	71,268	49,274	26,875	14,855
Mail - Servers	-17.8%	-30.8%	-40.3%		591,858	382,233	314,170	217,547	119,990	67,010
Mail - Clients	21.0%	-20.0%	-20.0%		455,395	409,148	495,036	396,029	316,823	253,458
Mail - AddOns, Upgrades	N/A	782.5%	276.9%		0	0	5,458	48,167	126,660	292,269
Exchange - Servers	N/A	1642.5%	379.1%		0	0	65,392	1,139,456	4,959,248	7,190,909
Exchange - Clients	73.5%	50.0%	50.0%		0	11,851	20,560	30,840	46,260	69,390
SMS Server - Servers	275.5%	50.0%	50.0%		0	266,083	999,088	1,498,632	2,247,948	3,371,922
SMS Server - Clients	131.3%	50.0%	50.0%		1,918	7,735	17,890	26,835	40,253	60,379
SNA Server - Servers	183.8%	50.0%	50.0%		4	83,592	237,238	355,857	533,786	800,678
SNA Server - Clients	N/A	4500.0%	532.5%		0	0	200	9,200	25,300	50,600
Internet Server - Server	N/A	4500.0%	532.5%		0	0	3,000	138,000	379,500	759,000
Internet Server - Client	-21.1%	20.0%	20.0%		109,270	38,433	30,324	36,389	43,667	52,400
Other Business Systems	N/A	N/A	N/A		0	0	0	0	0	0
SAM Server	N/A	N/A	N/A		0	0	0	38,358	213,246	437,649
SAM Clients	N/A	N/A	N/A		0	0	0	191,791	1,599,345	4,376,486
SQL WRK Server - Server	N/A	N/A	N/A		0	0	0	0	105,000	255,000
SQL WRK Server - Clients	N/A	N/A	N/A		0	0	0	0	0	0
Total New Licenses	143.6%	75.1%	77.3%		1,270,480	2,422,785	5,900,982	10,333,615	20,751,138	32,905,017
Upgrades	230.7%	31.4%	39.2%		170,633	392,425	1,297,635	1,705,463	2,449,492	3,497,042
Total Server FG	155.7%	67.2%	71.6%		1,441,113	2,815,210	7,198,617	12,039,078	23,200,630	36,402,059
Total BSD FG	165.5%	76.7%	67.3%		1,572,215	3,193,884	8,478,254	14,978,022	24,968,245	39,676,253

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Overall Pricing Issues

- ◆ Select waterfall
- ◆ Maintenance
- ◆ Embedded



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Aggressive actions

- ◆ Novell: Get super small resellers -- Safe and sound guarantee
- ◆ If you install a server, Microsoft will stand behind you
- ◆ Training, support, sales incentives
- ◆ Could use 5-user or SAM to launch
- ◆ 80,000 resellers x \$1000 investment = \$80M
- ◆ Oracle
- ◆ Create the Oracle SWAT Team-- dedicated database specialist team that attacks benchmarks, etc. to win business (100 People)
- ◆ Notes
- ◆ Put a screen capture plus audio on CD into publications to get an Exchange end-user/admin experience everywhere
- ◆ Netscape
- ◆ Been there, done that... perhaps there is more we can do.....

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Overall Product Strategy

- ◆ Win best of breed for each product.
- ◆ Build server family: Small Business through Enterprise.
- ◆ Ease of use focus everywhere
 - For small and large customers
 - Not just administration
- ◆ Evolve the platform to subsume the Internet
 - Internet applications rely on Win NT
 - Platform evolution/leadership for Internet based applications.
- ◆ Broaden product offering
 - Transactions, media, fax

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FY Product Focus

<p>FY96</p>	<ol style="list-style-type: none"> 1. Establish Win NT Server as the stable, corporate-tested, cost-effective alternative. 2. Jump start corporate migrations to Win NT Workstation. 3. Ship Exchange, get the MS-Mail upgrades in high gear, and win the reviews. 4. Make Internet Information Server the no-brainer Web publishing platform. 5. Maintain current growth rates for other BackOffice server applications. 6. Expand support for Internet protocols. 7. Simplify user interfaces across the server products.
<p>FY97</p>	<ol style="list-style-type: none"> 1. Launch the Shell Update Release of Win NT Server and Workstation. 2. Establish Exchange as the standard for corporate messaging. 3. Target the SMORG market with the small business server. (SAM) 4. Broaden Internet Server Family: Catapult, Media Server, News Server, ... 5. Availability Cluster product (NTS and SQL) 6. New version of Exchange: small and Internet focused (HTML everywhere, IE 3.0 client)
<p>FY98</p>	<ol style="list-style-type: none"> 1. Launch Cairo and the Cairo wave of server apps. 2. Unified console for managing multiple server applications 3. Extreme focus on simplicity (hardware interactions, UI, options, etc.) 4. Scaling Cluster product (NTS and SQL) 5. Storage management server application
<p>FY99</p>	<ol style="list-style-type: none"> 1. Ship Windows NT Hollywood (customer satisfaction release plus P7 support). 2. Hollywood wave of BackOffice applications 3. Continued expansion into home (entertainment, etc.)

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Product Plan

	FY96	FY97	FY98	FY99
Q1	<p>Jul - Sep 95</p> <p>FPNW</p>	<p>Jul - Sep 96</p> <p>SNA 3.0 SNA Host Print Svr SMS 1.2 (Minor upg) BackOffice 2.5 Internet Access Svr 1.0 WinNT 4.0 SP1</p>	<p>Jul - Sep 97</p> <p>WinNT 4.0 SP5</p>	<p>Jul - Sep 98</p> <p>Internet Information Svr 4.0</p>
Q2	<p>Oct - Dec 95</p> <p>Win NT Bus Kit Vol 2 Win NT 3.51 SP2 Win NT 3.51 SP3 EXSMN</p>	<p>Oct - Dec 96</p> <p>MacShare Client Internet Information Svr 2.0 WinNT 4.0 SP2 Falcon 1.0</p>	<p>Oct - Dec 97</p> <p>NTW Client NIS Client Internet Information Svr 3.0</p>	<p>Oct - Dec 98</p> <p>NTW "Hollywood" NIS "Hollywood" Internet Information Svr 3.5</p>
Q3	<p>Jan - Mar 96</p> <p>Exchange 4.0 Server Exchange 4.0 Client Internet Information Svr 1.0 Win NT 3.51 SP4 SNA 2.11 Svr Pk. 1</p>	<p>Jan - Mar 97</p> <p>Exchange 5.0 "SP" BackOffice 3.0 Small Business Server 1.0 Win NT 4.0 SP3 Clustering 1.0 SMS "Capit"</p>	<p>Jan - Mar 98</p> <p>Exchange Server 6.0 SMS "Ruby" SNA Server "Cairo" Small Business Server 2.0 SQL Server 7.0</p>	<p>Jan - Mar 99</p> <p>Small Business Server 3.0 SQL Server "Hollywood" SNA Server "Hollywood" SMS Server "Hollywood" Exchange "Hollywood"</p>
Q4	<p>Apr - Jun 96</p> <p>Win NT WSJR Win NIS SJR SQL 6.5 FPNW SJR EXSMN SJR MacBath Client Win NT 3.51 SP5 BackOffice 2.0 (Upd)</p>	<p>Apr - Jun 97</p> <p>Internet Access Server 2.0 Win NT 4.0 SP4</p>	<p>Apr - Jun 98</p> <p>BackOffice "Cairo"</p>	<p>Apr - Jun 99</p> <p>BackOffice "Hollywood"</p>

Note: Dates shown here are for US-English software RTM

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Localization Strategy

- ◆ “No compile” and concise docs to minimize cost.
- ◆ Move FE core development, test, and s/w localization to Redmond and gradually integrate with US team to accelerate progress toward single binaries where practical.
- ◆ Develop and adopt tools for HTML production, testing.
- ◆ Work closely with key subs to strengthen their technical support resources for beta testing and general customer support.

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Localization Strategy

- ◆ Increase localized languages based on business need
 - ◆ Win NTW
 - ◆ Added Czech, Russian, Polish & Hungarian in NT 4.0. Greek and Turkish is a timing/resource question.
 - ◆ Thai, Bidi (Hebrew, Arabic) - proposal to invest in Bidi team
 - ◆ Back Office
 - ◆ Current Servers are only localized to German, French and Japanese
- ◆ Reduce deltas based on business case and cost assessment
- ◆ Continue to improve product world-readiness addressing specific issues today (e.g., SQL, SMS)

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BSD PSS Perspective

- ◆ Highlights
 - ◆ Hotfix resolution time improvement (79% fixed < 2 weeks)
 - ◆ Improved electronic support (eg. via Internet)
- ◆ Lowlights
 - ◆ Not recovering cost (52% recovery in US, 36% Int'l)
 - ◆ Average length per incident is too long (122 minutes)
- ◆ Response
 - ◆ Detailed analysis of the situation underway
 - ◆ Simplify high touch product areas (ie. setup)
- ◆ Opportunities
 - ◆ Reducing the average BSD SR time/incident from 2 hours to 1.75 hours could save \$4.5M annually in the US.
 - ◆ Increasing the international PSS cost recovery from 32% to 40% could save \$3.8M annually.

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3 Year Headcount Outlook

Business Systems Division
February 13, 1996

Business Unit	Dec FY96	FY96	FY96	FY97	FY98	FY99	CAGR Fcast '96 - '99
	Actuals	Fcast	Revised Plan	Fcast	Fcast	Fcast	
Win NT Development	217	233	248	248	268	281	6.5%
Exchange Dev & Test	263	269	280	280	275	280	1.3%
SNA Server Dev	17	17	17	17	17	17	0.0%
SMS Development	37	56	60	60	62	65	5.1%
Ireland & Japan	96	93	110	110	103	105	4.1%
BSD Marketing	80	85	98	98	103	108	8.3%
Release Mgmt & Test	251	286	314	314	336	353	7.2%
UA & Courseware	121	126	127	127	135	141	3.9%
Program Mgmt	53	66	68	68	73	77	5.3%
Total (Regular Heads)	1,135	1,231	1,322	1,322	1,372	1,428	5.1%
Onsite temps and contractors	429	435	313	440	462	479	3.3%
Total Division	1,564	1,666	1,635	1,762	1,834	1,907	4.6%

Product Group Organization View

- ◇ FY97 headcount budget unchanged from FY96
- ◇ 4% growth rate into FY98 and FY99
- ◇ Highest growth in Win NT dev and testing

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3 Year P&L Outlook - Total BSD

Business Systems Division
February 28, 1996

(\$M)

	Dec FY96 Actuals	FY96		FY97		FY98		FY99		CAGR		Year over Year	
		Esst	Plan	Esst	Esst	Esst	Esst	Esst	Esst	Esst	Esst	Esst	Esst
Gross Revenue (1)	477	1,012	704	1,874	3,195	5,224				72.8%	85.1%	70.5%	63.5%
Revenue Adjustments	(16)	(27)	(28)	(50)	(23)	(114)				62.3%	87.9%	45.7%	56.0%
Net Revenue	461	985	677	1,824	3,172	5,110				73.1%	85.0%	71.2%	63.7%
Costs of Revenue	45	98	101	172	231	357				53.8%	75.4%	34.5%	54.3%
Gross Margin	416	887	575	1,652	2,891	4,753				75.0%	86.1%	75.0%	64.4%
Operating Expenses													
People	60	124	125	144	159	170				11.1%	16.0%	10.5%	7.0%
Infrastructure	19	40	44	47	51	55				11.1%	16.0%	10.4%	7.0%
Contingency Staff	15	32	21	34	36	39				6.4%	4.2%	8.2%	6.8%
Product Development	6	19	33	24	27	31				17.5%	23.9%	16.1%	12.7%
Marketing	43	140	138	263	380	527				55.6%	87.9%	41.3%	38.8%
Other	1	2	1	2	2	2				10.0%	10.0%	10.0%	10.0%
Product Support Services	12	67	71	54	48	23				-29.9%	-19.1%	-11.3%	-52.0%
Bad Debt & Taxes	5	11	7	12	13	15				10.0%	10.0%	10.0%	10.0%
R&D Shared Resources	8	16	13	19	22	25				15.0%	15.0%	15.0%	15.0%
Total Operating Expenses	189	452	453	598	739	887				25.2%	32.4%	23.6%	20.0%
Responsibility Margin	227	436	122	1,054	2,152	3,866				107.0%	141.8%	104.2%	79.7%
Net Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%							
Cost Of Revenue	9.8%	9.9%	15.0%	9.4%	7.4%	7.0%							
Gross Margin	90.2%	90.1%	85.0%	90.6%	92.6%	93.0%							
Marketing	9.3%	14.2%	20.4%	14.4%	12.2%	10.3%							
PSS	6.9%	6.8%	10.5%	3.0%	1.5%	0.5%							
Other	41.0%	45.8%	67.0%	32.8%	23.7%	17.4%							
Responsibility Margin	40.2%	44.2%	18.0%	57.8%	68.9%	75.7%							

◆ Contingent staff based on 3.3% CAGR plus inflation
 ◆ Marketing declines from 14% of net revenue in FY96 to 10% in FY99
 ◆ Product development grows at 17% annually
 ◆ Support H/C grows 15%/yr., plus 3% increase in \$/head

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3 Year P&L Outlook - Servers

Business Systems Division - Servers Only
February 14, 1996

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	Dec FY96 Actuals	FY96 Est	FY96 Plan	FY97 Est	FY98 Est	FY99 Est	CAGR Fest '96-'99	Year over Year		
								Fest '96-'97	Fest '97-'98	Fest '98-'99
Gross Revenue (1)	402	801	630	1,308	2,183	3,358	61.2%	63.2%	66.9%	53.8%
Revenue Adjustments	(14)	(21)	(25)	(36)	(64)	(99)	67.4%	69.3%	79.2%	54.7%
Net Revenue	388	780	605	1,273	2,119	3,259	61.0%	63.1%	66.5%	53.8%
Costs of Revenue	38	78	87	123	200	304	57.2%	57.2%	62.9%	51.8%
Gross Margin	351	702	518	1,150	1,919	2,955	61.4%	63.7%	66.9%	54.0%
Operating Expenses										
People	59	124	124	143	158	169	11.0%	15.9%	10.4%	6.9%
Infrastructure	19	40	44	46	51	55	11.0%	15.9%	10.4%	6.9%
Contingency Staff	15	32	21	33	36	39	6.4%	4.2%	8.2%	6.8%
Product Development	6	18	33	21	24	27	13.7%	18.7%	13.7%	8.7%
Marketing	38	110	120	179	254	332	44.7%	63.2%	41.8%	30.7%
Other	1	2	2	2	2	2	10.0%	10.0%	10.0%	10.0%
Product Support Services	27	54	50	47	29	4	-57.8%	-11.9%	-39.5%	-85.9%
Bad Debt & Taxes	5	10	6	10	12	13	10.0%	10.0%	10.0%	10.0%
R&D Shared Resources	(7)	(14)	(27)	(16)	(19)	(22)	15.0%	15.0%	15.0%	15.0%
Total Operating Expenses	162	374	373	467	547	619	18.3%	24.8%	17.2%	13.0%
Responsibility Margin	189	328	145	683	1,372	2,336	92.4%	103.1%	100.8%	70.3%
Net Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%				
Cost Of Revenues	9.7%	10.0%	14.5%	9.6%	9.4%	9.3%				
Gross Margin	90.3%	90.0%	85.5%	90.4%	90.6%	90.7%				
Marketing	9.7%	14.1%	19.8%	14.1%	12.0%	10.2%				
PSS	6.9%	6.9%	8.3%	3.7%	1.3%	0.1%				
Other	41.7%	47.0%	61.6%	36.7%	25.8%	19.0%				
Responsibility Margin	48.6%	42.1%	23.9%	53.7%	64.7%	71.7%				

- ◆ Contingent staff based on 3.3% CAGR plus inflation
- ◆ Marketing declines from 14% of net revenue in FY96 to 10% in FY99
- ◆ Product development grows at 14% annually
- ◆ Support H/C grows 15%/yr., plus 3% increase in \$/head

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Risks

- ◆ The incremental “opportunities” are not backed by complete business plans yet and may change as they are developed.
- ◆ HTTP has no CALs - jeopardizes business model
 - ◆ Connectors could force no CAL model onto Server apps
 - ◆ OEM cannibalization
 - ◆ NDS becomes defacto standard
 - ◆ NTW used as a low-end F/P server and as an application server
- ◆ BackOffice license being split across multiple systems

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