Microsoft OEM Sales
FY'96 Midyear Review
Joachim Kempin
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PENGAD-Bayonne, N.J.
GOVERNMENT
EXHIBIT
401

1st Half FY'96 Accomplishments

- Exceeded budget by $288.6 M (61% growth rate!)
- Super OEM participation in Win95 launch
- Run rate for Win95 penetration >60%
- DSP business at $ 137 M (190% growth rate!)
- DT OS monthly billing progress: <80%

Reasons for Growth

- MS-DOS → Win 3.x or Win95
- Win 3.x → Win95
- > NT WS
- > PC units
- > DAD and Consumer SW sales
- More naked systems covered
- Monthly billing

MS-DOS & Win3.x vs. Win95 AR Shipments-1st Half FY'96

in M units*

	MS-DOS & Win 3.1	Win95	Ratio	Total
Multi-National	8.2	8.0	48.7%	16.2
Named Accounts	2.8	2.1	42.5%	4.9
DSP	1.7	1.7	50.0%	3.4
Total	12.7	11.8	48.1%	24.5
Win 95 OEM upgrades	—	1.5	—	1.5
Grand Total	12.7	13.3	—	26.0

* corrected by .9M dual boot units (DEC, Compaq, HP, Toshiba)

Win95 Penetration vs. MS-DOS & Win Units by Segment - 1st Half FY'96

AR Shipments in %*

	July	Aug	Sept	Oct	Nov	Dec	Average
Multi-Nationals	6	35	41	58	62	73	49
Named Accounts	0	48	45	44	50	56	43
DSP	0	70	71	30	35	45	50
Average	4	44	47	53	57	65	48

* corrected by .9M dual boot units (DEC, Compaq, HP, Toshiba)

What We Missed in 1st Half FY'96

- Win OPK and PPK deliveries and quality were not optimal
- Control over start-up screens, MSN and IE placement
- Mice sales is on budget, but might miss 15M total units for FY'96
- Keyboard sales are low and need to be accelerated
- Still too far apart with Compaq consumer division

Trends in Market Share

- Market share shifts in Q4

  US: PB ↓ HP ↗ NEC ↑ Compaq ↑ IBM ↗

  Europe: SNI ↑ Vobis → Escom → HP ↗ Acer ↗

- Compaq still leads in servers (>50%); HP and IBM to catch up
- US Named Accounts are gaining ground (e.g., Fountain, Micron, TI)

x86 PC Consumption Forecast by Region

in M units*

	% 94	FY'94	FY'95	FY'96	FY'97	FY'98	% 98
NA	42.8%	16.4	20.0	23.0	25.7	28.3	38.3%
EU	29.8%	11.4	13.7	16.2	18.8	21.3	28.9%
ROW	27.4%	10.5	13.1	16.6	20.3	24.2	32.8%
Total	100.0%	38.3	46.8	55.8	64.8	73.8	100.0%
Growth%	_	23%	22%	19%	16%	14%	_

* Source Curtisf

x86 OS Analysis for FY'96

- All other competitive licenses <5%
- Largest competition continues to be
  - Piracy
- OS/2 is still alive

Revised 2nd Half FY'96 Goals

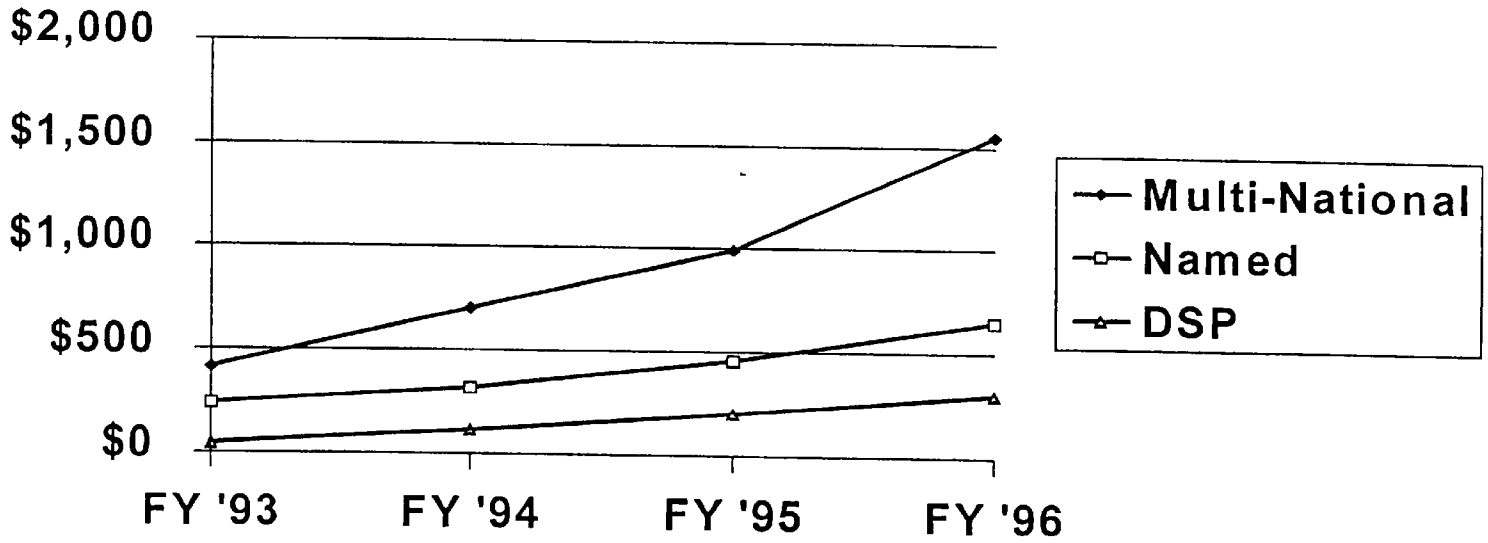
- Exceed $2.5 B in revenue
- Ensure solid OEM support for NTWS 4.0 launch
- Implement phase #1 of doing OEM business via the Internet
- Broaden scope of MDA and have 100% sign-off by April '96
- Make OEMs support our Internet efforts

Exceed $2.5 B in Revenue

- Sales incentives to reach original mouse and keyboard sales goals
- Increase Win95 penetration to 80%+ run rate by end of FY'96
- Encourage bundling of NTWS
- Continue Partnership programs
- Ensure even higher DSP growth

Recap of OEM Revenue by Segment

($ millions)



Implement Phase #1 of Doing OEM Business via the Internet

Goals:

1. Increase OEM business
2. Get closer to DSP customers
3. Run business more efficiently

Months	Phase	Action
3-4	#1	Establish presence and learn how to operate
2-3	#2	Organize and tune for success
12-18	#3	Bring business online
Ongoing	#4	Tune and grow

Broaden Scope of MDA

- Encourages shipping of Windows family
- Ensures the following:
  - building of "PC96" systems
  - preinstallation of up-to-date and localized versions
  - promotion of Windows family by OEMs
- Support each other when working Internet issues
- Improves customer support for Windows-based systems
- Engages OEM in anti-piracy campaign

Make OEMs Support our Internet Efforts

- AMs to take initiative with OEMs
- OEM & MS seamless integration (MDA)
  - Universal Resource Locator links and updates
  - Display IE logo on OEM page
  - Enduser support info links
- We will challenge the AMs!

2nd Half FY'96 Summary

- > $ 2.5 B is the target
- The momentum exists to get there, as long as Win95 adoption continues to increase