

Inside Microsoft: Last Quarter's Progress.

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Outlook first invested in Microsoft during the first month or so of the pandemic. Since then, the company's growth just keeps surging ahead. It had another fantastic quarter, with all business areas growing and contributing to a 22% revenue growth, even higher than 3 months ago. It made almost \$20 billion in free cash flow and returned 60% of that to shareholders. Its cloud business continues to set records and gain customers: last quarter alone saw the percentage of Fortune 500 companies using Microsoft's hybrid cloud services grow from 75% to 78%. Microsoft's cloud also continues to gain market share on Amazon's cloud. Back in 2018, Amazon Web Services had a 48% market share while Microsoft had 15%. Now, AWS stands at 32% with Microsoft at 22%. Its no surprise that with quarterly results like these, Microsoft surpassed Apple as the most valuable public company last Friday.

Microsoft vs. Apple: Revenue and Market Cap Growth



The latest intense period of digital transformation began during the pandemic, where CEO Nadella famously said he saw “2 years of transformation in 2 months”, but it clearly isn't stopping yet. The problems of today's world are making companies value technology and software that can help solve their own problems faster. Nadella noted in the earnings call this quarter that digital technology helps businesses in an inflationary world. The more technology and information at a company's fingertips, the more likely it is to run an efficient and productive business, offsetting some of the rising costs which they can't avoid.

Not only are there more opportunities for growth in the traditional cloud from companies switching more and more on-premise servers and databases to the cloud, but there is also opportunity in “industry clouds”. Unlike the general-purpose public cloud, an industry cloud has services and applications that are optimized for specific uses within a certain industry. For example, Microsoft teamed up with SAP to deliver a cloud with specific applications for supply chain management under Microsoft’s Cloud for Manufacturing. Microsoft is working on creating clouds for multiple industries right now, including healthcare, retail, and pharmaceutical. A lot of businesses in these industries are hesitant to move everything to the cloud because they rely on homegrown applications used for decades or industry-specific software. If industry clouds become successful, it can help shift more business to the cloud.

It’s been fun to watch Microsoft’s growth in the 18 months since we bought it, both in actual business results and in its stock price. Despite it now becoming the most valuable company in the world, we think this growth isn’t over yet.