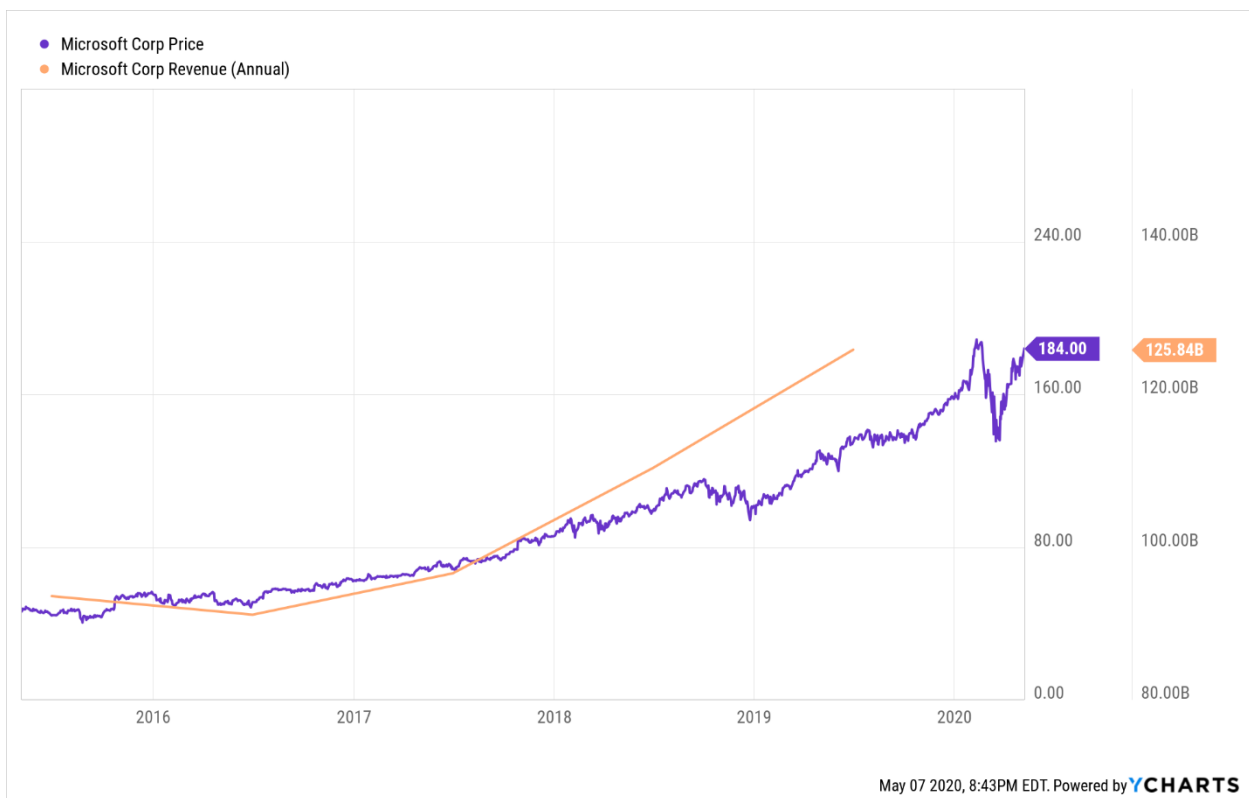


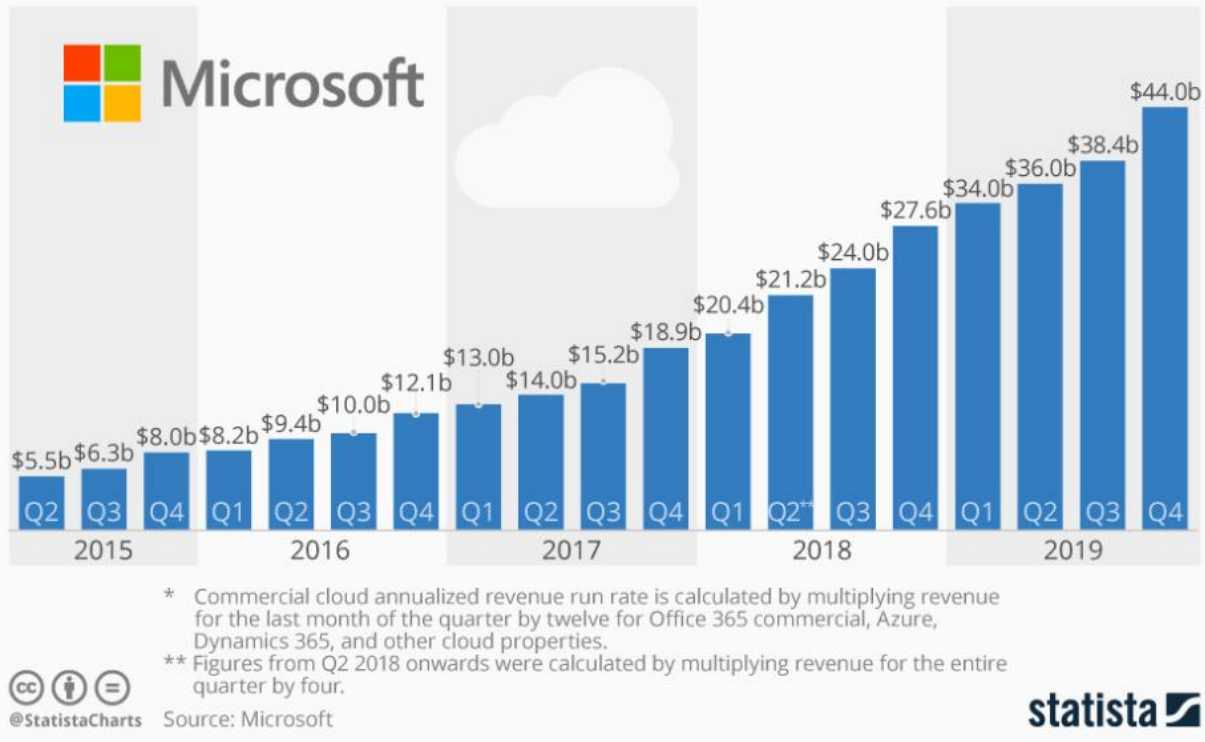
Inside Microsoft: Last Quarter's Progress.

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As a new Outlook holding, we'll summarize Microsoft's overall business model and growth plan before diving into its first quarter results. Originally known as a software for the personal computer business, it relied on its Windows operating system and Office suite of products through most of the 90s and 2000s. It made an unsuccessful attempt to enter the mobile phone business by buying Nokia for around \$5.8 billion in 2013 only to take a \$7.8 billion hit when it shut down the Nokia/mobile phone business unit two years later after it became clear that it wasn't going to compete with Apple and Samsung. That was about a year after current CEO Satya Nadella took the reins. A Forbes article at the time wrote "Nadella still has not put forward a strategy that should encourage anyone that the company will remain relevant long term". Boy was he wrong. Here are Microsoft's revenues and stock price since:



Nadella's strategy once he took over in 2014 was to focus on the cloud, mainly targeting businesses as customers. Over the past 6 years, Microsoft has become one of the leaders in the cloud industry, and has expanded its focus into the edge as well (the cloud being remote storage in data centers, the edge being devices that gather and create data at its source, so cell phones, computers, etc). We can see Microsoft's Commercial Cloud revenue growing consistently since 2015 in the following chart.



As one of Microsoft’s goals for the last few years has been to help drive business mobility and flexibility, the stay at home orders boosted first quarter revenue, which was 15% higher than a year ago. Nadella noted that they experienced “two years’ worth of digital transformation in two months” as people started working, playing, and learning from home.

Microsoft Teams, its video conferencing product, naturally experienced massive growth, becoming the preferred video chat platform for many businesses due to its integration with the Office Suite. Windows Virtual Desktop, just launched in late 2019, tripled its usage as organizations sought secure remote work. Windows 10, its operating system, grew active devices by 30%. Microsoft’s gaming division hit an all-time record engagement with 19 million users of Xbox Live.

The company saw little damage related to COVID-19 overall. The biggest negative impact was on advertising spending, which affected its LinkedIn and Search businesses. It has had to deal with some supply chain constraints, also. It noted that the China supply chain returned back to normal faster than anticipated, so there is hope that will happen in the rest of the world as well.

It was an impressive quarter. Even as the economy starts to return to normal, the trend of “remote everything” should continue to be profitable for Microsoft for years to come.