

Inside Microsoft: Last Quarter's Progress.

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A year ago Microsoft's CEO Satya Nadella summarized the effect of the pandemic and lockdowns with the attention grabbing phrase "two years' worth of digital transformation in two months". The company continued to post strong results the rest of the year, as people moved into a "remote everything" lifestyle. The big question remains, "how long will this last?" As vaccinations rolled out and economies started reopening, Wall Street wondered what would happen to the growth seen at tech companies like Microsoft. This past quarter's results certainly seem to show that the digital transformation is not slowing down, not yet anyway. Revenue grew 19%, the largest quarterly revenue growth rate since 2018, with almost every single business segment reporting growth.

We'll focus on just a couple of those segments here. Teams, which started out as just a Zoom type competitor but has expanded to become a broader collaborative platform, doubled its active users from a year ago. Pre-COVID, Teams had 20 million users. By mid-May of 2020, that number grew to 75 million. This past quarter, it hit 145 million. Microsoft has really focused on innovating the platform, adding 300 new features in the past year and 100 new capabilities in 2021 alone. Even in countries that are having people return to the workplace, Teams users' are growing.



Dynamics 365, which is software to help businesses with everyday operations such as sales, customer service, HR, and supply chain management, has continued to show steady growth, this quarter accelerating to 45% growth. Nadella made the comment that not only is Dynamics 365 taking market

share from its competitors but it is often being used in addition to competitors' existing sales or resource planning software instead of replacing it completely.

Over Nadella's reign as CEO, Microsoft has held a lot of cash and has not been shy at spending that cash to buy other companies. This trend continued this quarter. It closed on its ZeniMax acquisition, adding iconic games to GamePass, Microsoft's subscription gaming service. Gaming revenue continued its strength from last quarter when the new Xbox was unveiled, with revenues increasing 50% from a year ago. Microsoft announced the acquisition of Nuance, a speech recognition and AI software company for the healthcare industry. At \$16 billion, this is the biggest deal the company has made since buying LinkedIn in 2016. The hope would be that Microsoft can become a larger player in the healthcare industry, and use Nuance's technology as an introduction into the Microsoft cloud universe while also using the technology in other industries.

The dramatic acceleration in tech that began a year ago has not slowed down. Microsoft has a clear path ahead to steady growth, both in revenues and in share price.

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