<u>The Outlook: Jan. 20, 2021</u>

Microsoft: elephants <u>can</u> dance . . . with partners, sometimes.

A long time ago, a very seasoned corporate lawyer made a remark to a less-seasoned investment manager, on the subject of partnerships: "I've been helping people set up business partnerships my whole career," he said. "I wish I could be optimistic about them, but I can't. The day you set up a new partnership is the first day of the countdown toward its breakup."

It sounded pretty cynical back then, too. But we've been reminded of it twice this year, already. Here was the first headline, from 2 weeks ago:

Why the Amazon, JP Morgan, Berkshire Hathaway Partnership Collapsed: "Health Care Was Too Big a Problem!"

The first sentences under this headline explained it all, and will be a treat for any among us who've worked at giant companies:

> *Amazon.com Inc., JPMorgan Chase & Co. and Berkshire Hathaway Inc. set out three years ago to join and transform health care. Instead, they struggled to solve even fundamental challenges, such as understanding what some kinds of care actually cost, obtaining basic data from each other, staff turnover, fuzzy goals and unexpected competition . . . with each other. After sinking at least $100 million into the joint venture, the 3 companies announced its termination today.*

At Outlook we often praise the drive and innovation of free-market, capitalistic companies and people. They deserve praise, but a deeper perspective might come from paraphrasing Winston Churchill's famous remark about democracy: "Democracy is the worst form of government except for all the others." Like this: "Big capitalist companies are the most inefficient organizations on earth except for all the others—particularly government organizations—which usually make them look good *by comparison*." Nobody who has actually worked in the private sector—especially in really big companies in the private sector—ever says, "At my company we never got bogged down in bureaucracy, wasted tons of money or made colossal mistakes."

So with all those warning bells ringing in our ears, here is the second headline, a couple of days ago:

Microsoft Announces New Partnership with GM's Cruise!

The essence of this story is that Microsoft, Honda and others are putting $2 billion into GM's "fully-autonomous vehicle" project, which is housed in a division named "Cruise." Microsoft contributes part of the money and all of its world-class expertise in cloud services, artificial intelligence and software engineering . . . and in return becomes GM's vendor-of-choice, in those categories, whenever "fully-autonomous vehicles" go into mass production.

At Outlook we think this is a smart partnership, and will probably pay off very well. What's the difference between Doomed Partnership One and Smart Partnership Two?

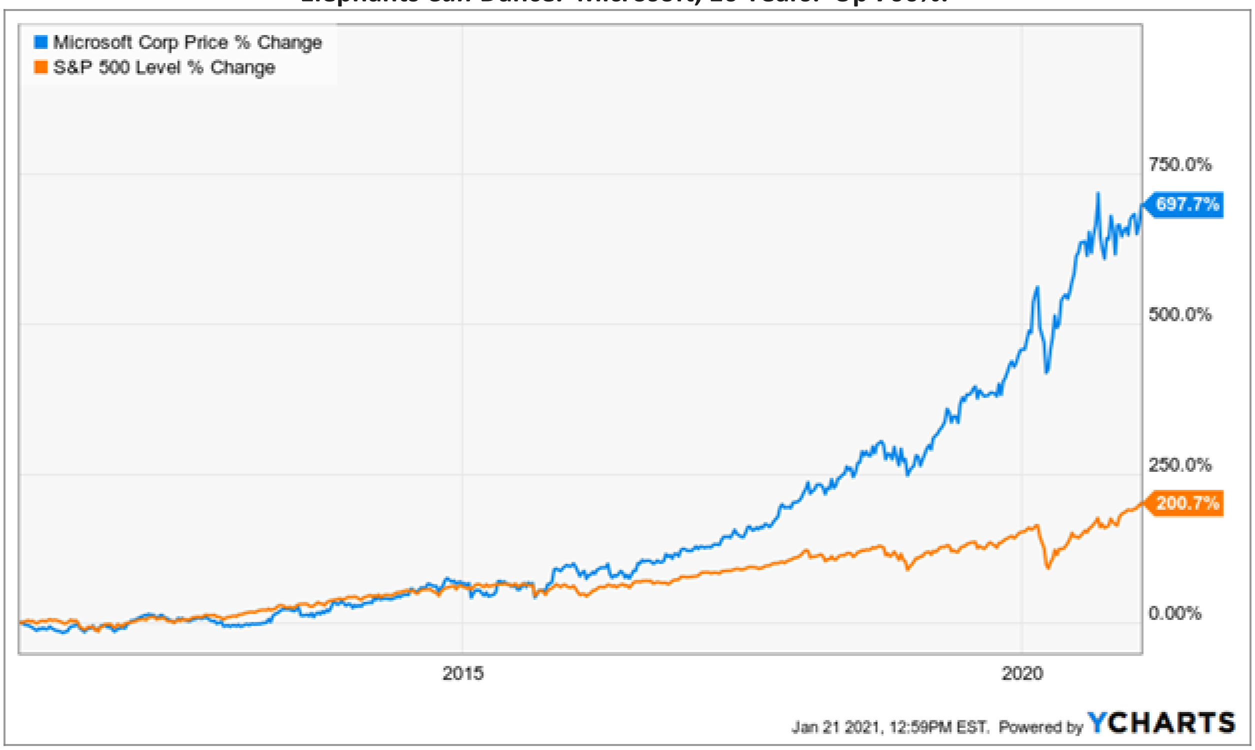
As is often the case with complex-sounding issues, the answer is pretty simple, and was right in front of the hopeful partners' eyes from the beginning, in both cases. The 3 giants—Amazon, Morgan and

Berkshire—weren't health-care companies or health-care experts, regardless of how much they were spending on employee health benefits every year. One of them—Amazon—isn't in the health-care business but *has* been in the business of making grandiose announcements every year or so, naming the latest giant, old industry which it's entering and plans to dominate pretty fast. But ego and expertise are different things.

The Microsoft and GM plan is very different indeed. Both companies are contributing what they do best to this partnership—the reasons they exist, pretty much. The only risk to this venture is if "fully-autonomous vehicles" turn out to be pie-in-the-sky: that is, just too hard and costly to do. Only 3 – 5 years ago, that was a bet which might go either way . . . but not anymore. Every new generation of vehicles has been taking steady steps toward "autonomous," even if "fully-autonomous" is still somewhere out toward the horizon. And Microsoft's products and services are being bought and used with each of those steps.

Here's Microsoft's 10-year chart: a remarkable picture of a giant company which, like old Lou Gerstner's re-invented IBM decades ago, is proving that "elephants *can* dance." The market knows it, and Microsoft's valuation is fairly cheerful . . . but not silly. At Outlook we plan to hang onto this company for a good while.

Elephants *Can* Dance. Microsoft, 10 Years: Up 700%.



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