

Inside Microsoft: Last Quarter's Progress.

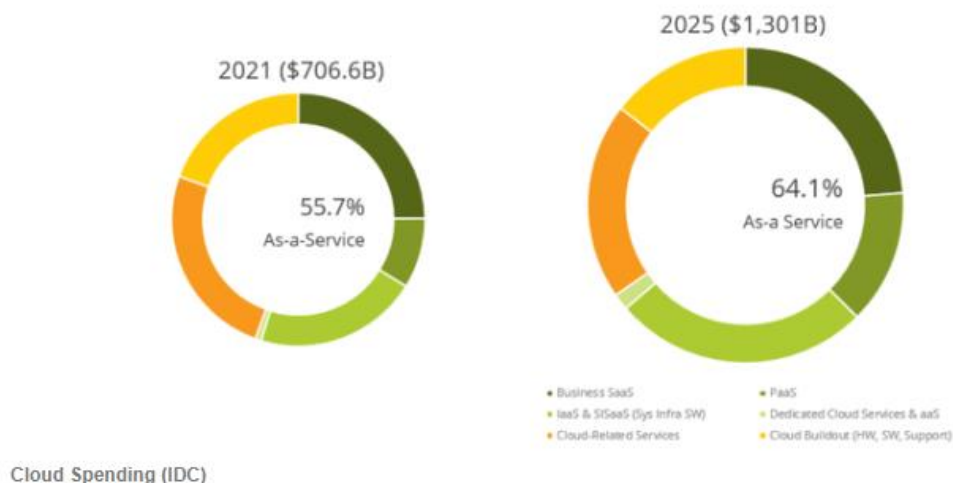
Jul. 29, 2022

Microsoft reported a solid quarter, with revenue growing 12%, making growth above 10% the new normal for the company. There were pockets of weakness: a stronger US dollar that negatively affected earnings, China's lockdowns, and PC market weakness, although PC's are still at a higher level than pre pandemic. Overall, business was strong and management expects the strength to continue next year (its fiscal year operates from July through June).

Microsoft gained market share in its data and AI (Artificial Intelligence), Dynamics, Teams, and security businesses. Its cloud business continued to run the ship with revenue surpassing the \$25 billion mark for the quarter, nearly half of Microsoft's total revenue. Azure, Microsoft's cloud platform, won a record number of \$100 million-plus and \$1 billion-plus deals this quarter. 10 new data center regions are opening up this year. It announced last week that it would adopt Oracle database workloads onto the platform. This is an example of the reasons Azure has been so successful. Microsoft has embraced a multi-cloud environment from the beginning, allowing customers to choose the best services across cloud providers that works for their specific company needs. Through this new service, there is no need for employees to be skilled on both platforms—they simply use Azure to get the power of two clouds together.

This approach helps explain why Microsoft had such a strong quarter and expects more strong quarters ahead despite the current economic environment. Satya Nadella, Microsoft's CEO, has long touted the expectation that IT spending as a percent of GDP will increase significantly over the next decade or so. A recent report from a top market research company supports this theory (see graphic below). So far in 2022, spending in cloud-based infrastructure has vastly outpaced non-cloud investments at 17% versus 9% growth.

Worldwide Whole Cloud Outlook



When asked about how Microsoft was able to bag those \$100 million plus deals given the current backdrop, Nadella noted that expectation again, saying that companies spending money to fortify themselves with digital technology actually helps them in this environment be more productive and cost

effective. He also notes, “We have every layer of the tech stack, whether its infrastructure, data, hybrid work, security, business processes support. In each one of these, we have best-of suite value and best-of-category products. If you are a company looking for a long-term digital partner where you can use and scale the technology on your own terms, you’re going to go with Microsoft”. Nadella and his team are aggressively pursuing market share gains, and this quarter’s performance made it clear they are succeeding.