



Microsoft



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Microsoft Sees Big Future in the Cloud

Price \$309.16

Growth Holding

October 22, 2021

- 2nd largest company in the world.
- Extensive product offerings, from cloud computing to software, to hardware.
- Large network of relationships, pulling in diverse clients away from competitors.
- Leverage economies of scale to implement massive amounts of new data centers for Azure.
- Regulatory and legislative scrutiny could slow growth and increase costs.

Investment Thesis

Microsoft (MSFT) is consistently one of the largest companies in the world and perhaps has some of the widest reach. Microsoft was made famous by its operating system technologies, which aligned with IBM's original Personal Computer (PC), which was easily cloned and allowed Microsoft (and Intel) to take a leadership position in the PC industry. Still, Windows tops the charts as the most used piece of software globally.

Microsoft has begun to see a renaissance, with more and more money being put toward moving the company away from operating systems, toward cloud, consumer, and entertainment products. This has revitalized growth making MSFT a good choice for capital appreciation in our opinion.

Products and R&D

Microsoft is most famous for the Windows consumer operating system and its assortment of add-ons such as the Microsoft Office suite. However, it also maintains a significant presence on the development side of software, now owning Github and Visual Studio, which is estimated to be the world's most used program development environment.

Skype has seen a resurgence since the COVID-19 pandemic, and Microsoft Teams got a boost from the new work from homeworld.

Microsoft has begun to manufacture hardware in recent years after the failure of the Windows Phone. Most successfully with the Microsoft Surface series of tablet computers.



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Microsoft shifted away from its consumer product offerings, shutting down all Microsoft Store locations during the COVID-19 pandemic, and divesting from store-front retail operations. Instead, Microsoft has focused on its cloud businesses that have intense competition with IBM, Google, and Amazon. It has proven successful, with Microsoft being able to leverage the trust that many firms have for the operating systems Microsoft has made into a successful new relationship in the cloud. Cloud computing services have seen a revenue increase of 34%, driven by Azure's growth of 51%.

Acquisitions

Currently, most money goes toward expanding cloud offerings, with much of the cash flow generated in 2021 toward capital expenditures.

However, Microsoft maintains a level of investment in up-and-coming companies and acquiring other companies to bolster their product offerings. Some famous examples of investment include Apple and Akamai.

Microsoft has purchased several 5G/IoT network firms, and several entertainment companies. Some of these include AT&T's 5G network cloud, Zenimax media, LinkedIn, and Github.

Risk

MSFT has recently divested away from consumer retail, and Surface purchases are down 20% from the pandemic demand surge, likely a sign of things returning to normalcy.

MSFT has been at the center of previous antitrust probes with only a modest disruption. While regulatory and legislative scrutiny is likely not as harsh on Microsoft, Microsoft is in the same category as those currently under scrutiny.

Quarterly Results and Metrics

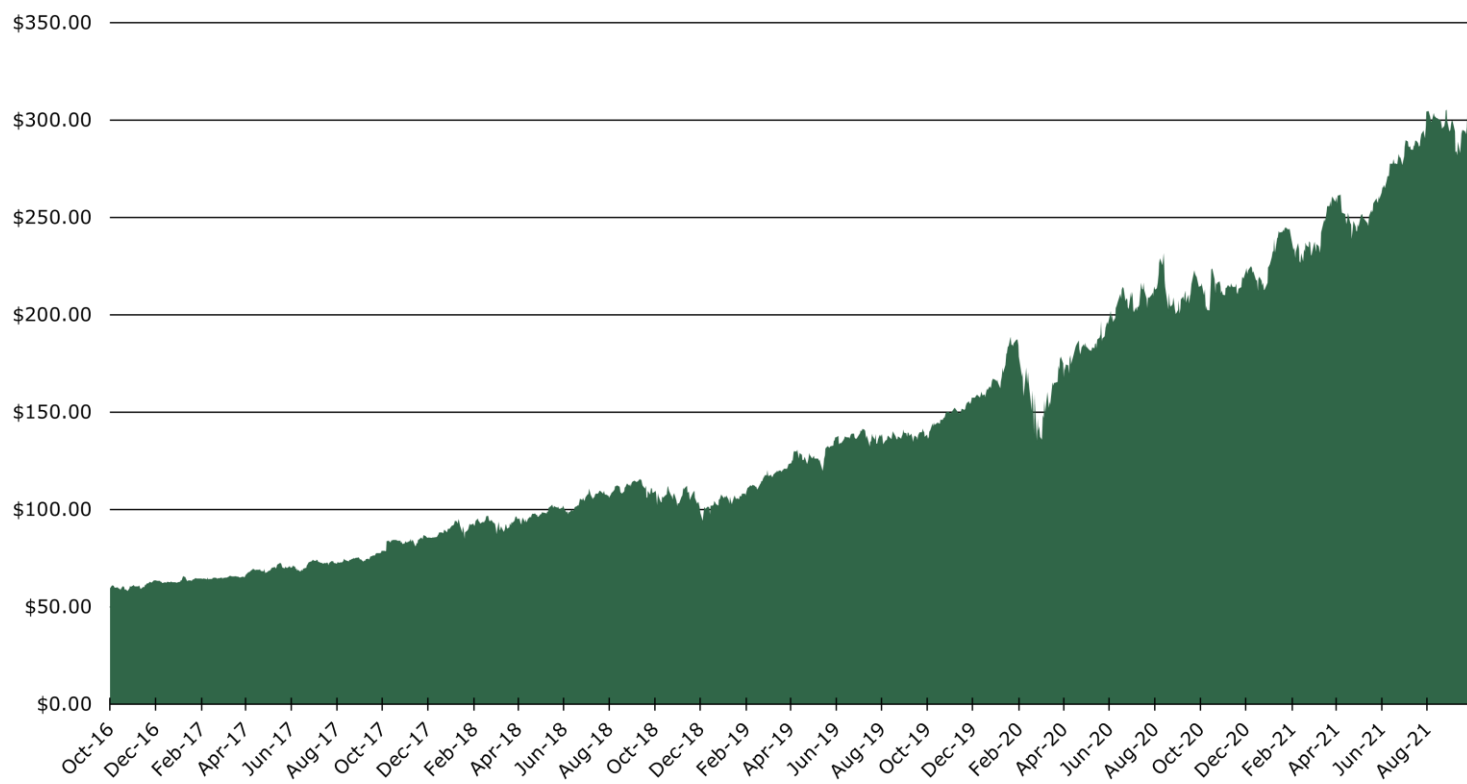
Microsoft has seen a 21% increase in revenue year over year, and a 47% increase in earnings per share year over year, returning 16% more cash to investors year over year.

They have successfully leveraged trust in Microsoft on an enterprise-level to siphon away some of the competitor's cloud computing customers toward Microsoft's Azure service.



Estimated Next 12 Months	EV/EBITDA	Price-to-Sales	Price-to-Earnings
Facebook (FB)	11.9	6.8	21.1
Tencent Holdings (TCEHY)	18.7	6.0	25.3
Apple (AAPL)	20.5	6.3	25.9
Alphabet (GOOG)	15.6	6.6	26.8
Microsoft (MSFT)	22.8	11.5	33.0
Netflix (NFLX)	35.6	8.5	50.8
Amazon (AMZN)	19.2	3.2	52.7
Twitter (TWTR)	26.6	8.7	57.1
Snap (SNAP)	100.6	20.5	103.0

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