



Stock Story: Microsoft

Scaling to new heights in the cloud

Microsoft is the largest enterprise software vendor in the world. The company founded in 1975 has a broad suite of product offerings, with diversified exposure across many industry verticals. Microsoft is one of the three dominant providers of large-scale public cloud computing outside China and is a market leader in office productivity tools, infrastructure software and PC operating systems. While Microsoft has a strong presence across commercial and consumer markets, it generates most of its sales from commercial customers.

Enterprises around the world are still at the early stages of a multi-year shift towards adapting, modernising and infusing their businesses with digital innovations – often described as digital transformation. Microsoft is positioned as a key beneficiary of this disruptive trend thanks to its commercial cloud businesses, including Microsoft Azure.

Azure is competitively advantaged with its hyperscale infrastructure footprint, breadth of capabilities and enormous R&D engine supporting rapid innovation cycles. These characteristics are incredibly difficult to replicate. Microsoft is able to leverage these capabilities across its broader portfolio, as a flywheel to commercialise innovations such as artificial intelligence (AI). AI has seen tremendous progress in recent years and has the potential to further accelerate innovation and productivity. Microsoft has moved rapidly to integrate and roll out new AI features and products to capture this opportunity from Azure through to business applications and productivity software.

Within office productivity software, Office 365 and Teams expand the addressable market through innovations like Copilot AI, expanded use cases in collaboration, new users such as front-line workers, and deeper opportunities in verticals like healthcare and retail. Microsoft's opportunities span other areas including analytics, application development, and business applications like customer insights and enterprise resource planning. Its enterprise incumbency and its status as a trusted partner enable the company to cross-sell its product portfolio and deliver a suite of integrated solutions to customers.

While the cloud opportunity is astounding, a significant part of Microsoft's business is still derived from its traditional on-premises software. Microsoft's Server products, including Windows Server and SQL Server, continue to offer the traditional perpetual licensing software model. However, these are not pure on-premises businesses, as they can also be deployed in the cloud or as part of hybrid landscapes, and therefore ought not to be viewed in isolation from Azure. In other words, we view these businesses as likely to remain resilient. Similarly, Windows, the world's dominant PC operating system, offers flexible deployment options from on-premises to the cloud.

In summary, we believe Microsoft possesses strong moat characteristics in an industry at the early stages of a substantial growth opportunity. Digital technology-led disruption is accelerating and Microsoft is at the frontier.

By Adrian Lu, Investment Analyst

Source: Company filings



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