

Microsoft

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Sustainable Growth Hypothesis:

Microsoft is becoming an increasingly critical part of how enterprises manage their technology ecosystems on the cloud, through its Azure cloud computing platform, and the software and tools that help enterprises to become more productive. The continued shift of workloads to the cloud and their ability to add value for customers (through software and AI) will enable revenues to rise at >10% for a decade, with margins skewed positively. Microsoft will show significant leadership with its climate ambitions, which are material to the business and the planet given the enormous footprint that data centres are likely to have in 20-30 years' time.

1. Growth: How likely is the company to deliver 10% p.a. profit growth over the next decade?

- Microsoft will play a crucial role in facilitating the transition of enterprise technology infrastructures to the cloud. We think it can triple cloud adoption within a decade, from relatively low penetration levels today of around 25%.

2. Resilience: How much control does the company have over its own success?

- Its resilience might be unparalleled. Revenues are subscription-based and switching costs for customers are high. The barriers to competitors reaching similar scale are also incredibly high.

3. Valuation: What is our insight?

- Our insight is that of the power of the competitive position, which is likely to strengthen as customers become more reliant on Microsoft over the next 5-10 years. The duration of the competitive advantage is therefore very long indeed.

4. Products: To what extent will the core products & services create value for society over the next decade?

- Microsoft's products are material to the efficient functioning of society. They improve business productivity, streamline operations, and enhance collaboration. Their important role in society is only likely to increase as society spends more time online. There are other companies that provide a similar service, but few do it on the same scale, with over a billion global users.

5. Practices: Does the company show leadership in its business practices?

- The firm's scale also means it can have a huge influence through its business practices. Its targets for net zero emissions by 2030 and to remove all carbon emissions since the company's founding by 2050 are emblematic of its ambition here, as are its leadership in data ethics and AI.

6. Ambition: What is the company's purpose, and how ambitious are they?

- Microsoft's mission is 'to empower every person on the planet to achieve more' and is inherently linked to its products. However, Microsoft's ambition extends further than just its own operations – it endeavours to empower society to use data and AI responsibly, as well as having leading climate goals that extend both upstream and downstream its value chain.

7. Trust: Should we trust the company with our clients' capital?

- Satya Nadella, Microsoft's CEO and Chair, is key to Microsoft's success, although other members of the board are also impressive, setting a positive tone for the culture and governance of the organisation.

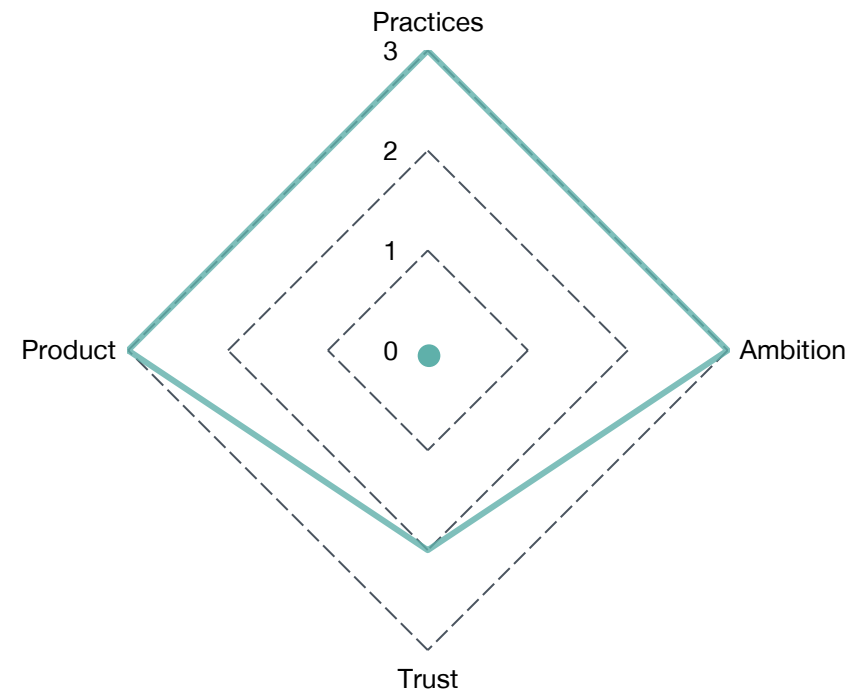
8. Engagement: No company is perfect, what should be our engagement priority?

- We'd like to understand how trade-offs are considered when data privacy conflicts with short-term business goals.

9. Milestones: What developments should we pay most attention to? Where could we be wrong?

- Growing profits 2.5x in a decade when they start at \$90bn requires us to believe that Microsoft will maintain its position as one of the world's most profitable corporations. Given the strength of its starting position, that seems entirely credible. However we are also mindful that this kind of scale attracts regulatory scrutiny, makes customers wary of being too dependent on a single provider, and makes it hard to operate nimbly.

Compass Scores



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