



NUCLEUS
RESEARCH

Microsoft

Expectation relative to market segment

Outperform

Technology Segment
Enterprise Applications

Ticker Exchange Bloomberg
MSFT NASD NH NUC <GO>

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Continued growth of Azure cloud adoption and its ecosystem, competitive value-for-price in business applications with the Dynamics 365 Suite and Power Platform, and the emergence of Teams as the leading remote conferencing and collaboration tool position Microsoft to outperform competitors.

Price 1/21/2021 \$225.16
52 week range \$132.52 - \$232.86

COMPANY

Microsoft offers cloud-based solutions that provide customers with software, services, and content over the Internet by way of shared computing resources located in centralized data centers. Examples of cloud-based computing services offered include Microsoft Office 365, Microsoft Dynamics 365, Windows Azure, Bing, Teams, and Skype. Cloud revenue is earned primarily from usage fees, advertising, and subscriptions. It operates globally and serves businesses of all sizes but focuses primarily on the enterprise.

MARKET POSITION



MARKET

The public cloud (and adjacent cloud services) market has seen tremendous growth in the past year, supercharging an already well-documented trend toward adopting cloud as the primary IT infrastructure paradigm. This growth doesn't look to stop as organizations of all sizes continue to increase investment in digital infrastructure and application modernization. Microsoft is in a strong position to capitalize on this momentum with Azure and its ecosystem of offerings. The wave of investment in infrastructure extends to the applications space, as organizations use the period of disruption to modernize and outfit themselves to support more online operations; particularly as customer-facing activities have moved online, organizations have had to rethink digital sales and engagement channels, leading to an uptick in customer experience and business intelligence spending. Again, with the Dynamics 365 Suite and Power BI it is consistently near the top of customer short-lists and should maintain strong performance into the longer-term.

RELATIVE SOLUTION COST

AWS	110%
Salesforce	110%
Microsoft	100%
Oracle	90%
Workday	90%

Relative cost to a customer based on typical mid-sized deployments during the past 6 months.

CUSTOMER PERCEPTION

> 95 Positive

Analyst estimate based on feedback from customers and prospects during the past 6 months

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COMPETITION

In the public cloud domain, Microsoft trails only AWS by an increasingly slim margin; while it may never catch up to AWS in market share or customer headcount, it has successfully carved out a differentiated and long-lasting position as a cloud provider. Winning high-profile contracts from the US government and showing continued rapid quarterly growth provide evidence of Azure's immediate and long-term value. In the business applications space, Microsoft has established itself as a major vendor in the newly defined "customer experience" space (expanding from customer relationship management to include all aspects of customer-facing activities including marketing and customer service), competing primarily with Salesforce, Oracle, and other full-suite vendors who target enterprise customers. It has made strides in the back office as well with Dynamics 365 for Finance and Operations gaining notable adoption and mindshare among customers. It has created a compelling solution (and a vibrant customer/user ecosystem) around Power BI, its business intelligence/analytics solution, and we have noted an uptick in adoption from customers this year. It isn't close to supplanting Tableau as the de facto enterprise analytics tool, but it does offer comparable functionality at a dramatically more affordable price point, so the long-term potential is clear. Microsoft has found a new golden goose to add to its (already gleaming) flock with Teams, the collaboration and conferencing tool. It quickly overtook Slack and Zoom as the go-to enterprise tool enabling video and voice conferences, project management and collaboration, as well as inter-office chat. It's a simple value proposition delivered on a proven, enterprise-grade platform with Microsoft's world-class reputation (and technical prowess) behind it and has driven significant growth since its release last year which looks set to continue.

OUTLOOK

Over the next six months, Nucleus expects Microsoft to perform strongly compared to the rest of the market. It has the benefit of being a market leader in several discrete areas including cloud, business applications, and collaboration (and productivity with Office 365 which will continue to be a mainstay), most significantly. The market continues to trend toward increased IT investment, particularly in cloud modernization and application upgrades as customers look to minimize future business disruption and enable more agile, modern channels for engaging with customers and monetizing those interactions. The Azure cloud and its associated services will continue to deliver predictable and significant growth. It has the least margin for error in business applications with so many strongly performing vendors in the space (it faces particularly stiff competition from Salesforce in this sphere) but will at a minimum maintain its relative position in the market and looks likely to gain prominence.