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THE DANA VIEWPOINT

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*October 30, 2019*

*Dow: 27,187*

## **Microsoft**

Even as Microsoft and Apple vie for the title of the largest company by market capitalization in the S&P 500 Index, Microsoft has garnered little attention over the last few years. It did not even merit a letter in the FAANG (Facebook, Apple, Amazon, Netflix, Google) acronym. But Microsoft is arguably the one company that has brought about the greatest changes in society in the past fifty years. Its founder, Bill Gates, is possibly the most important entrepreneur since Henry Ford. Most businesses communicate using Outlook and Word, compile and analyze data using Excel, and develop and present ideas and goals using PowerPoint. Bill Gates' story would seem to confirm that entrepreneurs are born, not made. He has an insatiable hunger for knowledge and advancement, and has set as a goal for his remaining years, the wholesale improvement of the human condition.

Bill Gates celebrated his 64th birthday this week. He founded Microsoft in Albuquerque, not Seattle, when he was 19. He created his first company, called Traf-o-Data, when he was in high school. The goal of that company was to process collected traffic data at a lower cost than competitors. The company did not succeed; yet real entrepreneurs do not accept failure, but move on to the next project. Microsoft became a success in the late 1970's and was challenged by Apple in the 1980's, as Apple developed the GUI, or graphical user interface. Undeterred, Microsoft developed Windows in the 1980's and was able to drive Apple close to bankruptcy in the 1990's. Fortunately, they made a deal in 1997 that helped save Apple and has allowed consumers to enjoy their numerous developments.

The Dana Large Cap Equity Strategy was a holder of Microsoft when the Strategy was initially implemented in 1999. The Strategy has bought and sold the Company three times since then, and has held the Company in the Strategy since 2015. Since mid-2015, Microsoft has more than tripled its stock price, with annualized gains of over 30%, placing it in the top five percent of the S&P 500 Index in performance over that period. The Company is currently held in all of the large cap Dana strategies.

What have we learned as a result of following and owning Microsoft over a period of twenty years? Success is a combination of leadership and execution. The leadership of the Company must see where resources should be deployed to succeed in the future, and then must execute on its plan to take advantage of market opportunities. One does not work without the other. Even successful companies will have missteps, and their stock price will go sideways or down for an extended period of time. Microsoft

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missteps include buying an online advertising company in 2007 for \$6 billion dollars and Nokia's phone business for \$7 billion, both ultimately written off. As their business lines continued to evolve, Microsoft laid off approximately 20% of its employee base between 2014 and 2016. In our dynamic economy, even successful companies must evolve or wither.

Over the last three years, Microsoft has focused significantly on business services and cloud computing. Providing services to businesses has been a faster growing segment and has helped supplant the slow-growing, low-margin legacy businesses at Microsoft. Microsoft has grown to be the second largest supplier of cloud computing services behind Amazon, and that business is projected to grow revenues to six times their current level over the next five years. Cloud computing services are one of the most highly profitable businesses as well, with gross profit margins of 40-70%. Microsoft was just announced as the winner of a U.S. Department of Defense contract that could provide \$10 billion of revenue over the next ten years. Amazon was previously thought to be the front runner for the business.

If anyone has an interest in how Bill Gates has pivoted personally from Microsoft to philanthropy, we recommend the Netflix documentary *Inside Bill's Brain*. He is as persistent in tackling world problems as he was in leading Microsoft.

**Random Thought for October 2019:** "I really had a lot of dreams when I was a kid, and I think a great deal of that grew out of the fact that I had a chance to read a lot."

Bill Gates

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