

Title:
On Microsoft

Word Count:
1635

Summary:

Microsoft is a difficult situation for me to evaluate. I think the company still has a lot of
There are three core businesses that are already well developed: Windows, Office, and Servers.
The moat in the first two are wide. The Windows moat is huge.
The business model in operating systems is great. You keep upgrading every few years; the hard

Keywords:

MSFT, GOOG, Microsoft, Google, windows, search, games, video, value, investing, investor, stock

Article Body:

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The business model in operating systems is great. You keep upgrading every few years; the hard
I think the new launch (Vista) will be bigger than people expect (eventually) in how it allows

Games

Eventually, video games will be a big business for Microsoft. I hate the economics of the console wars.
I'm sorry to see that Microsoft didn't use its cash pile to buy up an established business here.
The console wars are going well for Microsoft. The two keys to establishing a dominant console are
Nintendo may surprise here. I think the Xbox 360 and Nintendo's new console (Wii) will do very

Search

Long-term I am optimistic about search. I think Google's position is much weaker than most people think.
Search is a very natural cross sell with Windows. That's the direction everything seems to be heading in.
I also think we might see a couple other (largely unknown) search engines gain some share.
I think Google's strength is its brand. Its dominance helps with advertisers more than users.
I expect to see a lot more in the way of intelligent, social search inspired stuff. Years from now

Google is dominant in a different business: helping you find what you know you want to find (but don't know how to find it).

Other Devices

Microsoft wants to perform well on mobile devices and on your TV. Compared to competitors it is a bit late.
The strategy seems to be the one I would favor - to control the point of initial contact where

I expect to see more generic, web-based applications. These will be less profitable for everyone. That should be the strategy. I think that is the strategy. These aren't unrelated businesses to Microsoft. Internationally, there is going to be natural growth for Microsoft's dominant businesses. It will be a long-term trend.

Obsolescence Issues

Overall, I like the future for software a lot more than hardware, because the marginal gains in hardware are diminishing. The question isn't what can be done mathematically in terms of increasing specs; it's what that does to the bottom line. Much of the research that goes in to this area will only serve to bring down prices and benefit consumers. This is especially true in games. The situation in desktop applications is already such that it's not clear how much more computing power is simply not a scarce resource for most individuals sitting at home or in a company. You'll see something here akin to the kind of thing you see in the brokerage business. It won't be a long-term trend. Generally, you'll just see the prices for doing anything electronically come down. That's very true. This is a very long-term trend I'm worried about. It could weigh heavily on a business like Dell.

Management

I think Microsoft's management is absolutely the best in the business. In fact, I think it's one of the best. It would be hard for me to find more than a handful of people I'd rather have managing a business than Microsoft. There is enough of a line between current operations and future investments in the Chairman / CEO. Everyone underestimates Bill Gates. It's easy, because his great triumph came some time ago now. Qualitatively, I think Microsoft scores close to perfectly. I could cite the profitability statistics.

Valuation

Valuation is a bit more troubling. Microsoft is not at the point on an EV/EBIT basis where I'd be worried. The key is earnings growth. I think you have to believe MSFT will have a real future in search of new products. I think that future is there. As far as a truly large cap stock (say \$10 billion or more) it's hard to find a better idea of where MSFT is headed ~ and I like it.

Conclusion

I don't own shares of MSFT. I won't be buying any either. I don't normally own such large stocks. There are a lot of chances to find wild mispricings without much of the future being a concern. However, if I had to own one business with a market cap of more than \$10 billion and hold it for the long term, I'd choose Microsoft.

