

Microsoft keeps chugging as pandemic continues

January 26 2021, by Matt O'brien



The logo of Microsoft is displayed outside the headquarters in Paris, Friday, Jan. 8, 2021. As the pandemic raged through the U.S., Microsoft's business continued chugging ahead and beat Wall Street expectations for the last three months of 2020, powered by ongoing demand for its workplace software and cloud computing services as people worked from home. The company on Tuesday, Jan. 26, 2021 reported fiscal second-quarter profit of \$15.5 billion, up 33% from the same period last year. (AP Photo/Thibault Camus, file)

As the pandemic raged through the U.S., Microsoft's business continued chugging ahead and beat Wall Street expectations for the last three months of 2020, powered by ongoing demand for its workplace software and cloud computing services as people worked from home.

The company on Tuesday reported fiscal second-quarter profit of \$15.5 billion, up 33% from the same period last year.

In a statement Tuesday, CEO Satya Nadella called it "the dawn of a second wave of digital transformation sweeping every company and every industry."

Net income of \$2.03 per share beat Wall Street expectations.

The software maker posted revenue of \$43.1 billion in the October-December period, up 17% from last year and also beating forecasts.

Analysts surveyed by FactSet were expecting Microsoft to earn \$1.64 per share on revenue of \$40.2 billion for the fiscal quarter.

The coronavirus pandemic sparked a massive shift to the cloud and to Microsoft that won't likely be reversed once the crisis is over, said Daniel Elman, an analyst at Nucleus Research. Consumer-facing businesses were forced to adapt to new ways of engaging with their customers digitally, and many of those businesses looked to Microsoft for the apps and services to ease that shift.

"So many people are already familiar with the Microsoft user interface that it's a comfortable option," Elman said.

Revenue from Microsoft's productivity segment, which includes its Office suite of workplace products such as email, grew by 13% in the quarter ending in December, to \$13.4 billion. Its cloud computing

business segment grew 23% to \$14.6 billion.

The most visible sign of that growth has been the rise of Microsoft's workplace communications tool Teams, which has vied with Zoom and Slack as a must-have service for remote workers in the pandemic. Software pioneer Salesforce, already a rival for Microsoft in selling customer relations software, announced in December it was buying Slack in a \$27.7 billion deal that could give Microsoft tougher competition when it closes later this year.

Microsoft's personal computing business segment also grew by 14% to \$15.1 billion. Some of that stemmed from holiday gadget sales and Windows licenses for new computers sought by homebound workers, but the biggest boost to the segment was from the release of Microsoft's new Xbox Series X console. Xbox gaming revenue grew 40% over the same time last year.

"In the near term it's more people at home playing games," said Logan Purk, an analyst at Edward Jones who said the Xbox gains contributed to a "near-perfect" quarter for Microsoft. A shortage of consoles ahead of the holidays could also sustain some of that growth in the months ahead because of pent-up demand, he said.

Elman said Microsoft was helped by having fewer supply chain problems than Sony's new PlayStation 5. In 2020, both companies introduced their first new systems since 2013.

"I don't think they're going to unseat Sony and become the No. 1 console again, but it will do a good job of closing the gap," Elman said.

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Citation: Microsoft keeps chugging as pandemic continues (2021, January 26) retrieved 2 May 2024 from <https://techxplore.com/news/2021-01-microsoft-chugging-pandemic.html>

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