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How did Microsoft join the \$2T market value club? Here's what analysts are saying.



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Microsoft has managed to stay out of the regulatory spotlight that's been shining on cloud competitors Amazon and Alphabet.

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Microsoft Corp. reached a \$2 trillion market capitalization for the first time at the end of June, marking growth that experts believe is tied to the company's string of cloud-computing acquisitions.

In the five-year period after CEO [Satya Nadella](#) took over in 2014, the company's value rose from \$300 billion to \$1 trillion. In the two years since, Redmond-based Microsoft doubled its value, becoming the second company after Apple Inc. to join the \$2 trillion club.

During his time as Microsoft's leader, Nadella has continually expanded the cloud-computing division, Azure, making it a worthy competitor of Amazon Web Services and widening the gap between it and Google Cloud. Microsoft has used its war chest to acquire companies it thinks will enhance its products and services.

Some deals are set in motion after executives fall in love with a product. [The acquisition of ReFirm Labs](#) in early June was a result of [David Weston](#), Microsoft's director of enterprise and operating system security, using Binwalk, the startup's open source firmware, a Microsoft spokesperson said.

And Microsoft hasn't been siloing its recent acquisitions. Instead it's bundled them into services, creating a tether that's harder for customers to undo.

It's about integration, said [Adam Mansfield](#), an adviser for consulting firm UpperEdge. Microsoft has already built a customer base through decades of providing physical products and software, so when it adds new companies to the fold, it can offer them as add-ons for customers already using Microsoft services.

"Everything that they continue to roll out, those have integration points," Mansfield said. "Yes there's competition, but it's an easier selling point when you're already ingrained with the customers through Office 365. Now they (Microsoft) can just add in solutions, which makes it incredibly hard to break off pieces for other vendors."

Staying out of the regulatory spotlight could be aiding the tech giant as well. Amazon.com Inc. and Alphabet Inc., Microsoft's biggest cloud competitors, are facing increased antitrust concerns and litigation at the state and federal levels.

"I think the way it's been able to take advantage of regulatory scrutiny has helped it," said [Tom Forte](#), a senior research analyst at investment firm D.A. Davidson. "Satya has found a way to acquire companies that Apple, Amazon and Google haven't. Now the question is, how big is this window where he's able to do that without facing more heat."

Microsoft has made at least seven acquisitions in the past year to supplement Azure, including major buys of [RiskIQ](#), ReFirm Labs and the AT&T Technology Network Cloud. It also paid \$19.7 billion for Nuance Communications, a company that provides conversational artificial intelligence, largely used by health care providers.

Azure lags behind AWS, but Forte said it's a strong enough No. 2, and far enough ahead of Google Cloud that it's more than OK. Both Forte and Mansfield believe Microsoft's loss of sole ownership of the Joint Enterprise Defense Infrastructure contract won't slow down the company's growth.

Microsoft was awarded the \$10 billion JEDI contract in 2019 by the Department of Defense, which Amazon swiftly filed sued against, alleging political bias in the selection process. The Pentagon [scrapped the plans](#) earlier this month and will instead offer a new contract that will likely be split by Microsoft and Amazon.

Forte said Salesforce.com is a company that's using mergers and acquisitions to grow quickly as well. A report from Nasdaq speculated Salesforce's growth could outstrip Microsoft in the coming decade, thanks in part to Salesforce's \$15.7 billion acquisition of Tableau and its \$27.7 billion deal to purchase Slack.

While Salesforce has had a higher percentage gain in revenue than Microsoft over the past decade, Mansfield thinks Microsoft acquiring Salesforce would be more likely than the latter surpassing the former in value.

"I don't ever see Microsoft slowing down significantly enough for that," Mansfield said.