

7 Mile Advisors

Enterprise Technology Partner Ecosystems: Microsoft's Narrow Focus as an Enterprise Technology Vendor

August 2020



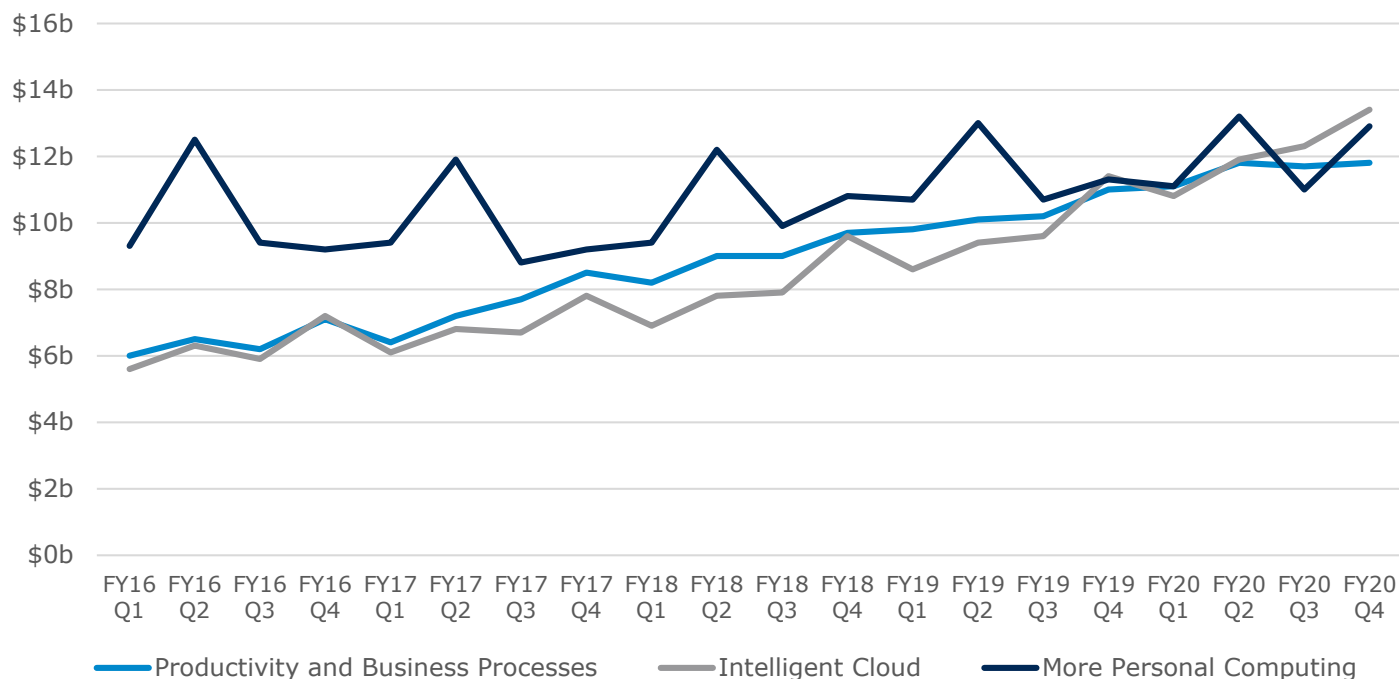
Market Overview

COVID-19 is pushing many businesses to rethink their operations and technology standards - according to a survey by IFS, most businesses are doubling down on investments in enterprise technology as a result of the pandemic. 50% of respondents to the survey reported that they plan to increase spending, and another 20% responded that they would keep spending around current levels (1). With workforces transitioning to a work from home model, businesses are being forced to reevaluate the adoption of technologies to keep operations at pre-pandemic levels. Many organizations realize that investments into digital infrastructure are of higher priority than ever, with some executives indicating that companies could face serious consequences if investments into digital capabilities are not made.

Some of the largest providers of enterprise technology include Microsoft, AWS, Google, Adobe, and Salesforce. While most of these companies are providing tailored solutions, like customer relationship management (CRM) or enterprise resource planning (ERP) systems, many have backgrounds outside of enterprise technology. AWS, as one business unit within Amazon, was founded as an e-commerce platform that developed an internal data management system later marketed as AWS. Similarly, Google's history is that of a consumer-focused internet search engine. Microsoft, on the other hand, has remained true to its roots of developing hardware and software for personal and enterprise use.

According to a survey by IFS, about 50% of respondents anticipate increasing spend on enterprise technology in light of COVID-19.

Quarterly Revenue by Business Segment

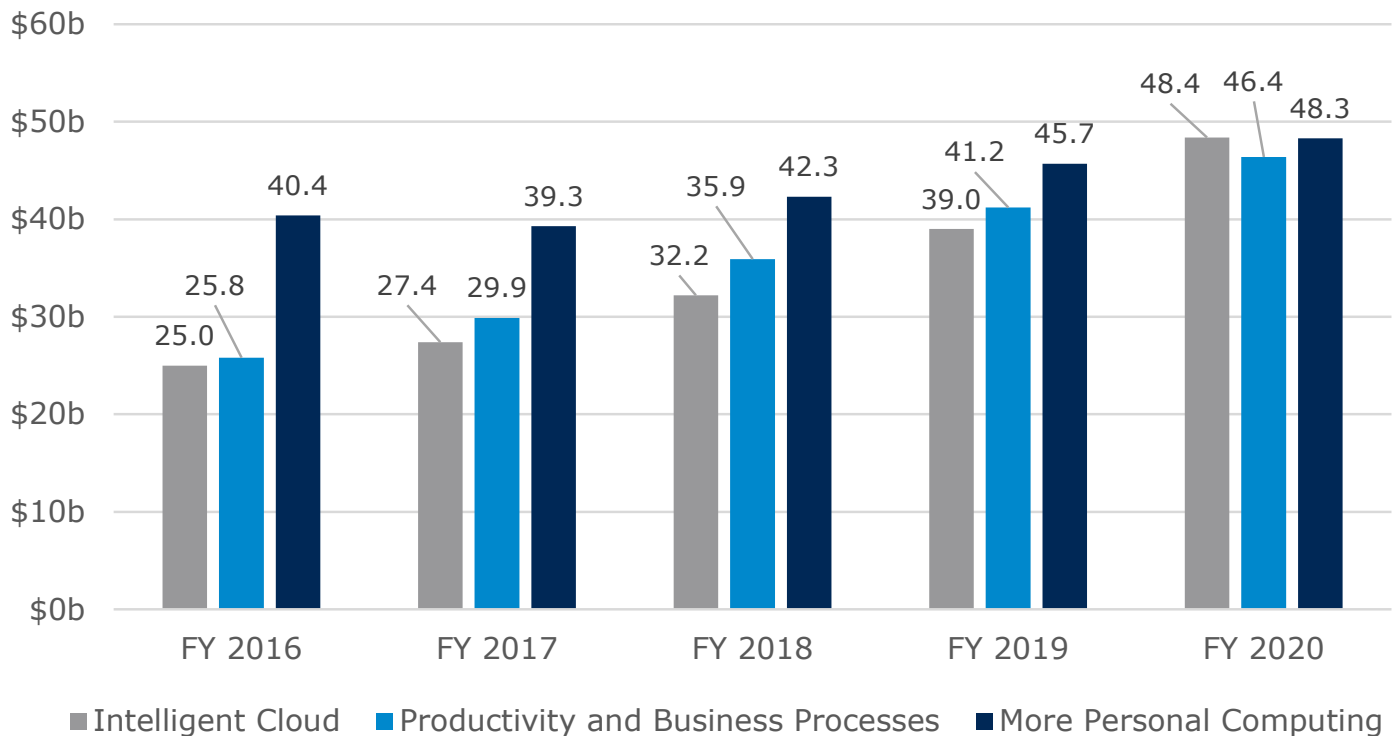


*FY: Microsoft's fiscal year runs from July 1st to June 30th

Source (2)

The dedication to enterprise products is a critical differentiator for Microsoft, driving strong financial performance. In fact, over the last 3 years, Microsoft grew revenue 14%+ YoY, while exhibiting double-digit EBITDA growth, bringing EBITDA margins to a solid 46%, a direct reflection of the growing user base the company is reporting on. Office 365 recorded more than 180 million users in the commercial space, while Microsoft EMS and Outlook apps both exceeded 100 million users in FY 2019. By division, the company saw a 15% and 21% growth in Productivity and Business Processes and its Intelligent Cloud offerings respectively (2). Office, Commercial, and Dynamics revenues increased by 13% and 15% respectively, while Microsoft's cloud offering showed 21% revenue growth in FY 2019.

Annual Revenue by Business Segment



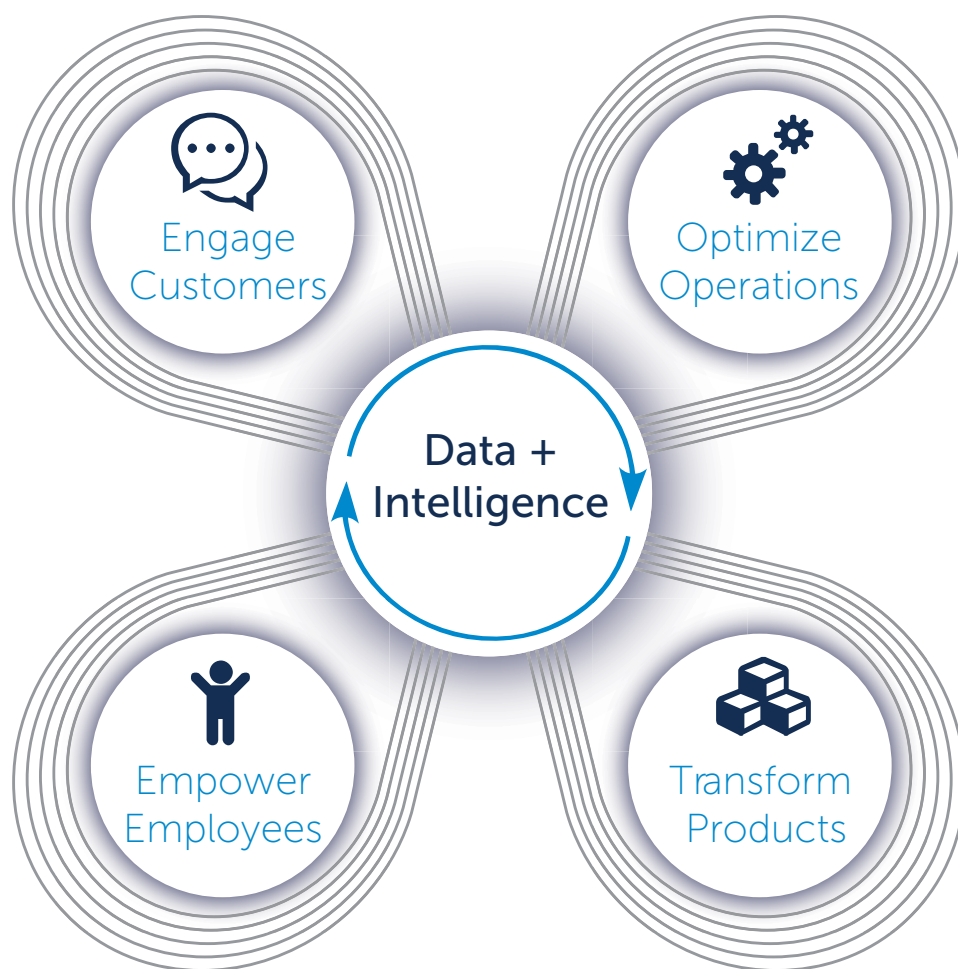
*FY: Microsoft's fiscal year runs from July 1st to June 30th

Source (2)

Microsoft's Intelligent Cloud revenue has almost doubled between FY 2016 and FY 2020 - growing from \$25b in 2016 to \$48.4b in FY 2020.

The Microsoft Ecosystem is uniquely positioned to deliver a holistic set of solutions, enabling the next generation of business. Its digital feedback loop allows an end-to-end connection of data and analytics for any kind of business application, from customer interaction to back-end operations. Microsoft's full-cycle approach to products and services allows it to be specifically tailored to enterprise clients that are incentivized to utilize as many of Microsoft's offerings as possible, as they are tightly integrated. "Its offerings cover both devices and clouds, including non-Microsoft operating systems and devices. With its 'Intelligent cloud, intelligent edge' strategy, the Microsoft ecosystem combines the virtually limitless computing power of the cloud with intelligent devices at the edge. This platform has established a powerful foundation for building immersive and transformational business solutions. Blending the physical and digital world as a mixed reality, the Microsoft ecosystem realizes the vision of the future and remains well positioned during this ever-changing digital age (3)."

Digital Feedback Loop



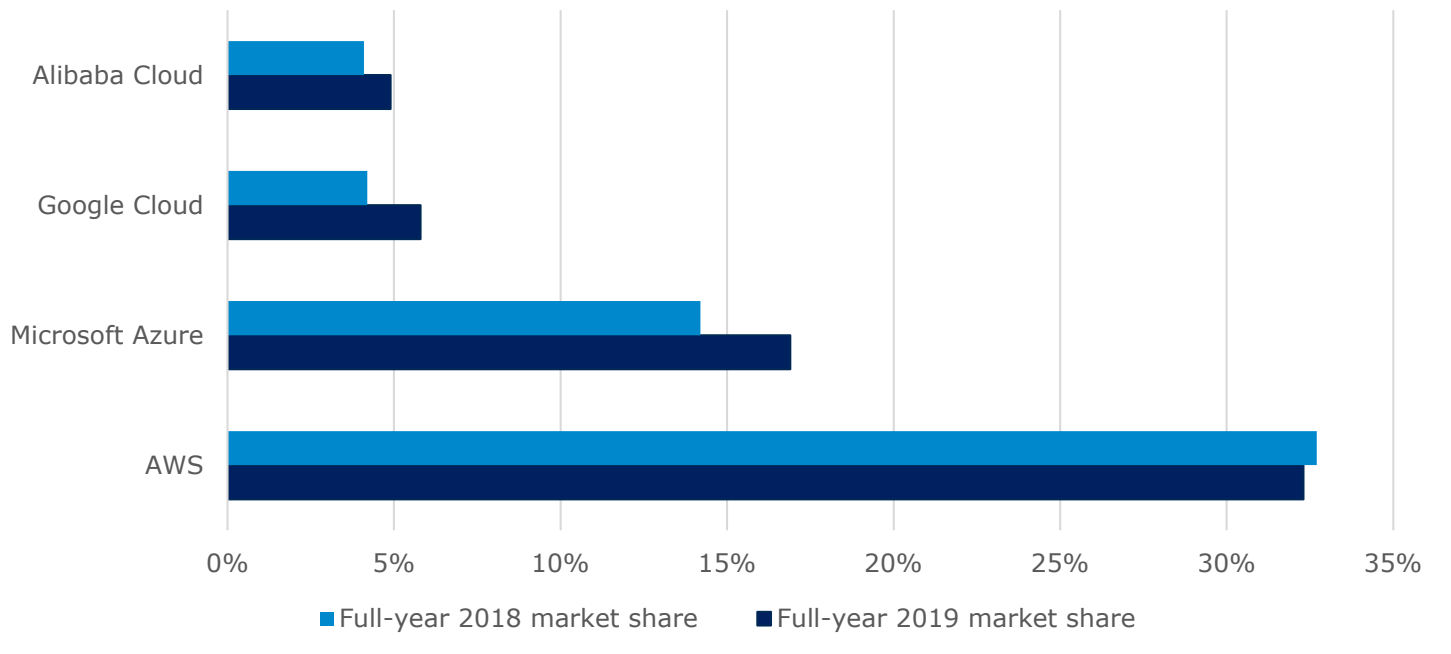
- 1 Data**
Capture Digital signal across business
- 2 Intelligence**
Connect and synthesize data
- 3 Action**
Improve business outcomes

The background of the slide is a blurred office scene. In the foreground, a person's arm is visible, holding a blue can with the '7 MILE ADVISORS' logo. The rest of the office, including desks, chairs, and other people, is out of focus. A solid blue vertical bar is positioned to the left of the main text.

Microsoft offers
a complete
technology set
from collaborative
applications to cloud
computing enabling
the next generation
of business.

Microsoft was an early provider of cloud computing and is now a clear leader among Infrastructure as a Service (IaaS) providers with Azure, a cloud computing platform for building, deploying, and managing services and applications. While AWS remains the leader in the cloud marketplace, serving about a third of the overall market, it is losing contracts due to competition among large retailers, grocers (Whole Foods acquisition), and more recently healthcare providers, demonstrating that the cloud war is well underway. Microsoft remains narrowly focused on enterprise technology solutions and saw accelerated market share growth between 2018 (14%) and 2019 (17%) (4). A major win for Microsoft came with the nomination for the Joint Enterprise Defense Infrastructure (JEDI) contract worth up to \$10 billion over the next 10 years (5). The contract helped Microsoft to solidify its position within the cloud market as it beat its comp set in AWS, IBM, Oracle, and others.

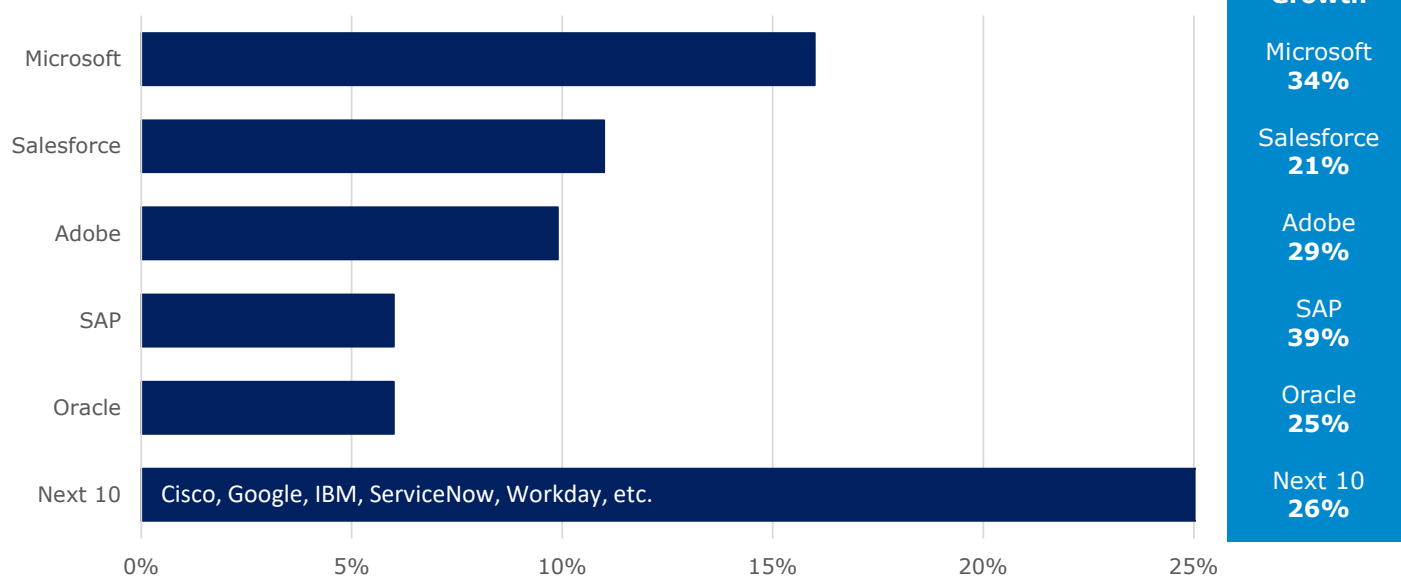
Cloud Provider Market Shares



Source (4)

Microsoft leads the way in the Enterprise SaaS Software market share with the remarkable growth of 34%.

Enterprise SaaS Market Share



Source (6)

Microsoft is a rising player in the cloud marketplace and surely a front runner in all things enterprise technology. As of 2019, Microsoft had the largest market share in the Enterprise Software as a Service (SaaS) space with over 16% and an annual growth rate of 34% (6). Here, the company is benefiting from its deep ties to enterprise clients and the interconnectivity and flexibility of the Microsoft Dynamics suite.

Dynamics 365, another major platform offered by Microsoft, consists of a number of business intelligence applications, including CRM and ERP solutions, that allow enterprise clients to take a proactive stance on business operations by applying artificial intelligence. Further, the applications allow a variety of departments, such as sales and customer service, finance, marketing, and operations, to interconnect and share insights across applications. It comes as no surprise that Dynamics also integrates into Azure, providing a common data storage for all applications.

Microsoft Power Apps, another area of accelerated growth, consists of a platform that allows for rapid software and application development. The platform allows for the creation of customized solutions that are directly connected to data stored in a variety of locations, including the underlying data platform and various on-premise or cloud sources. The applications are built in a low code environment that enables end users to actively participate in the creation of the customized end solutions.

The race to the cloud is well underway and a high priority for Microsoft going forward, but expect Microsoft to round out its solution set in a parallel race to be an all-inclusive solutions provider; an equally critical race with vendors such as Google, Adobe, and Salesforce who are shifting away from their core businesses and rapidly adding solutions across the IT stack. Already a market leader in cloud, collaboration apps, ERP and CRM, data, analytics, and ML / AI, Microsoft could shift into areas such as marketing automation, commerce, and content in a head-to-head battle with Adobe and Salesforce - the company already introduced tools such as Dynamics 365 Commerce. There is speculation that Microsoft is in the process of developing a single-tenant e-commerce platform, similar to Shopify.

How does this impact the Partner Ecosystem?

Microsoft is one of the world's largest technology providers and therefore one of the top vendor ecosystems for enterprise technology.

So how is MSFT's positioning as a vendor impacting the partner ecosystem and what implications does the broader MSFT portfolio have on M&A within its partners?

Microsoft is at the forefront of the cloud war with Azure and a clear #2 only behind AWS. Microsoft's early start, in collaboration with Microsoft Office and database in Microsoft SQL Server, gave it an initial inroad to the enterprise technology market and a head start on building out a robust partner ecosystem with .NET developers. Not only is Azure a leader in cloud computing, but Microsoft Teams, launched in 2017, Office 365, launched in 2017, and Dynamics 365, launched in 2016, are all leading cloud products and applications in their respective categories enabling workforces to work nimbly and remotely. Teams alone passed 75 million daily active users in the spring of 2020. As Microsoft continues to rise as a leader in the industry and as organizations of all sizes undertake multi-million-dollar projects to shift towards cloud environments and applications, partners are experiencing enormous demand for their services driving investment and overall M&A activity. 7MA is tracking consistent deal activity in the Microsoft space over recent years, as shown on page 9, and anticipates this to increase even more quickly with the acceleration of cloud adoption due to COVID-19.

7 Mile
Microsoft
Transactions

 BELATRIX

SADA
systems
Microsoft Services Business

 **intellinet.**

Globant 

 **core**
BUSINESS TECHNOLOGY SOLUTIONS

 **FPT** Software



sonoma
PARTNERS


 **NETSERVE365**

 **AgileThought**
















magna 

Recent M&A Activity

Date	Seller	Buyer	Description
7/30/2020	 applied CLOUD SYSTEMS		Applied Cloud Systems is a provider of Microsoft consultancy services based in Carnegie, Pennsylvania. The company provides Microsoft cloud technologies including Azure, Dynamics 365, Office365, and Power Platform.
7/28/2020	 NEWSIGNATURE		New Signature, an award-winning Microsoft Partner, is exclusively focused on Microsoft technologies, with an integrated offering across all three of Microsoft's business clouds: Azure, Microsoft 365, and Dynamics 365.
7/14/2020	 MCA CONNECT	 RIORDAN, LEWIS & HADEN Equity Partners	MCA Connect is a cloud consulting firm and Microsoft Gold Partner with focus on Microsoft Dynamics 365 in the manufacturing industry. The company was founded in 2002 and has about 200 employees.
6/30/2020		 GRYPHON INVESTORS	3Cloud is an operator of a technology consulting firm based in Downers Grove, Illinois. The company provides gold-certified Microsoft Azure technology consulting, Azure expert managed service, cloud strategy, design, implementation, acquisition, and ongoing managed services to its clients across various industries.
6/2/2020			Founded in 2010, CloudMonix is the developer of a cloud-based monitoring and automation platform for managed service providers and software development teams.
5/29/2020	 Beringer TECHNOLOGY GROUP		Beringer Technology Group is an IT services provider and Microsoft Gold Partner. Headquartered in New Jersey and founded in 1993, the firm offers a variety of products including Azure, Dynamics, Power BI, and various support services. Tech-Keys is backed by Evergreen Services Group.
5/20/2020	 borninthecloud		Born In the Cloud is an Azure-focused cloud security company. The company specializes in cybersecurity threat detection, prevention and response, and cloud-native MDR service, which incorporates the Microsoft Azure Sentinel security information.
4/16/2020	 Tidestone SOLUTIONS		Tidestone Solutions is a team of business process experts that offers ERP software solutions that employ Microsoft Dynamics GP and Microsoft Dynamics 365 to a variety of industries. The company specializes in software implementations, training, upgrades, custom development, and business process consulting.
3/2/2020	 vNEXT Plus digital, Plus humain		vNext is a digital consultancy with headquarters in France. As a Microsoft Cloud Partner, the firm offers managed cloud services and solutions to its clients.
11/12/2019	 RIGHTPOINT		Rightpoint is an operator of a digital agency and technology consultancy firm. The company offers information technology consulting and creative agency services which enable the clients to drive business results by solving strategic problems while also specializing in employee engagement, customer experience, custom application development, cloud strategy, and customer relationship management.

Recent M&A Activity Continued

Date	Seller	Buyer	Description
7/21/2019			AgileThought is a provider of information technology services. The company provides custom information technology products, system integration, computer programming and services.
3/5/2019	 Microsoft Services Business		SADA Systems is a provider of cloud-based services. The business unit offers cloud transformation, consulting, cloud platform migration, custom application development, infrastructure services, managed services, user adoption, and change management services to customers.
10/29/2018			Headquartered in Vancouver, British Columbia, Sierra Systems is a leading IT services and consulting firm offering a full range of IT consulting, systems integration, and application managed services across Canada.
4/10/2018			US-based Valorem specializes in digital strategy consulting and the implementation of Cloud, Analytics, and differentiated user experiences.
3/12/2018			Sonoma Partners is a provider of customer relationship management consulting services. The company's services include consultation on significant depth in life sciences manufacturing, industrial equipment manufacturing, and wholesale and distribution, enabling clients to enhance their business productivity through professional advice.
1/10/2018			Northwest Cadence is a provider of devops, analytics and artificial intelligence services on the Microsoft cloud. The company focuses on developing and delivering software using tools and technology with the help of a team of knowledgeable professionals, enabling clients to receive fast and scalable applications.
10/25/2016			10th Magnitude is a provider of cloud-based solutions that harness the power of Microsoft Azure. The company's services include data center transformation, site reliability engineering, and application modernization that combines elements from multiple deep cloud competencies, providing clients a more agile, customer-focused and operationally efficient platform.

Resources

1. [ZD.Net: Enterprise technology investment post COVID-19](#)
2. [MSFT: Annual Report 2019](#)
3. [Azure – Driving Growth in Microsoft Ecosystem](#)
4. [Canalys: Cloud market share Q4 2019 and full-year 2019](#)
5. [Microsoft snags hotly contested \\$10 billion defense contract, beating out Amazon](#)
6. [Kinsta : Cloud Market Share](#)
7. [Microsoft Is Doing A Great Job Keeping Its Complex Partner Ecosystem Happy](#)
8. [Arbela - Understanding the Microsoft Ecosystem and Its Advantages - Part 1](#)
8. [New IDC Spending Guide Shows Continued Growth for Digital Transformation in 2020, Despite the Challenges Presented by the COVID-19 Pandemic](#)
9. [Microsoft Ecosystem: a brief overview](#)
10. [A Complete Guide to Microsoft's Digital Feedback Loop](#)
11. [Today on Technology: Your Online Guidebook on Digital Transformation](#)
12. [Survey: Despite steady growth in digital transformation initiatives, companies face budget and buy-in challenges](#)
13. [Microsoft may be targeting the e-commerce store hosting space](#)

About 7 Mile Advisors

7MA provides Investment Banking & Advisory Services to the Business Services and Technology Industries globally. We advise on M&A and private capital transactions and provide market assessments and benchmarking. As a close-knit team with a long history together and a laser focus on our target markets, we help our clients sell their companies, raise capital, grow through acquisitions, and evaluate new markets. All securities transactions are executed by 7M Securities, LLC, member FINRA / SIPC. For more information, including research on the M&A markets, visit www.7mileadvisors.com.



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