Why Microsoft Is a Great Dividend Stock

Description

Microsoft ([NASDAQ: MSFT](#)) has everything an investor would want in a [dividend stock](#). The company pays a healthy $0.51 per share dividend while it earned $1.71 per share in its most recent quarter.

That's a healthy ratio of paying out to shareholders while also keeping money on hand for investment. What's more important, though, is the foundation on which Microsoft has built its business. The company has completed a major shift of much of its business model, and that makes it a long-term buy for your [retirement portfolio](#).

What has Microsoft done?

Transformation is hard. When a company succeeds in making money in one way, it's very difficult to transition to doing so another way. Microsoft, under CEO Satya Nadella, has managed to do just that by changing its business in a number of ways.

First, the company took most of its software products — Office, most notably — and made them subscription-based. Consumers pay an annual fee for access to programs like Word, Outlook, and PowerPoint, which locks in recurring revenue.

Under the company's old model, it sold these programs outright. That allowed businesses or individuals to pay a larger fee up front but hold onto the software longer before upgrading. Now, subscribers pay a more modest fee each year and get updates for free.

That gives the company predictable revenue. Its cloud business follows a similar model, though that's a newer division and an area Nadella has grown himself, not one he revived.

The second biggest change for the company was that it stopped acting like it had a monopoly. For many years, Windows was essentially the only affordable game in town. Yes, **Apple** existed, but Macs were expensive and not a true alternative for most people.

Android, the advent of cheap tablets, and the rise of smartphones that could do computer-like things

are what ended the Windows monopoly. Consumers could avoid Windows and the Office suite, which greatly weakened Microsoft's business.

Former CEO Steve Ballmer was slow to adapt. He continued business as usual, though he did start to enact some changes late in his tenure. Nadella embraced the new reality, taking the company's products and put them on any platform that would have them. In addition, he quickly acknowledged the failure of Windows 8, dropped the failed Windows phone, and embraced inexpensive Windows-based tablets.

Nadella changed the company into a modern, nimble technology giant with a locked-in revenue base and the ability to sell its products across multiple platforms.

Microsoft is built for the long term

Microsoft has increased its dividend by over 50% over the last five years, and it's reasonable to believe that will continue because the company has such a strong foundation. Nadella is an inspiring leader who understands why his company has been successful.

"It was a record fiscal year for Microsoft, a result of our deep partnerships with leading companies in every industry," said Nadella in the company's fourth-quarter earnings release.

> *Every day we work alongside our customers to help them build their own digital capability — innovating with them, creating new businesses with them, and earning their trust. This commitment to our customers' success is resulting in larger, multi-year commercial cloud agreements and growing momentum across every layer of our technology stack.*

Notice how Nadella put the focus on the customer. That's a sign that he fully understands Microsoft needs to serve its audience above everything else. Investors can't ask for anything better. You have a company with solid recurring revenue, multiple products people want and need, and a leader who understands that you have to constantly evolve. That powerful combination should deliver steady growth, somewhat predictable results, and steady dividend payouts.

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