



## Microsoft Q1 Earnings: It's All About the Cloud

### Description

Going into **Microsoft's** ([NASDAQ: MSFT](#)) fiscal fourth-quarter earnings report this summer, the software company already boasted a trillion dollar-plus market capitalization. Despite its massive size at the time, Microsoft's quarterly results still managed to impress, sending shares even higher after the report was released. Ahead of its fiscal first-quarter update in less than two weeks, expectations for the company remain high. With the stock up 38% year to date, the company has a \$1.07 trillion market capitalization and a [price-to-earnings ratio](#) of 28.

Key to Microsoft's strong performance recently has been its momentum in the cloud. Its commercial cloud revenue has been soaring, contributing significantly to the company's consolidated top- and bottom-line revenue growth.

Here are two key metrics investors will want to watch when Microsoft reports its fiscal first-quarter results on Oct. 23.

### Total revenue growth

In Microsoft's fourth quarter of fiscal 2019, the company's revenue increased 12% year over year. While this was above what analysts were expecting, it did mark a deceleration compared to the company's 14% revenue growth in fiscal Q3.

When Microsoft reports its fiscal first-quarter results, investors should look to see whether or not the company's top-line growth will continue to decelerate. Based on management's outlook for the quarter, it will. In the company's [fiscal fourth-quarter earnings call](#), CFO Amy Hood said the company expects fiscal first-quarter revenue between \$31.7 billion and \$32.4 billion. The midpoint of this guidance range implies 10.1% growth.

Management's guidance, however, often proves to be conservative. Analysts, on average, expect Microsoft to report fiscal first-quarter revenue of \$32.2 billion.

Notably, some deceleration would be natural. The company is up against a tougher comparison in its

first quarter of fiscal 2020 than it was in its fourth quarter of fiscal 2019. Revenue in the first quarter of fiscal 2019 increased 19% year over year. That compares with 17% year-over-year growth in the fourth quarter of fiscal 2018.

## Commercial cloud revenue growth

Microsoft's commercial cloud revenue, or revenue from business-facing cloud-based offerings Office 365 commercial, Azure, and Dynamics 365, has been a huge boon to the company's consolidated results recently.

Commercial cloud revenue increased 39% year over year in fiscal Q4 to \$11 billion. Further, this segment's gross margin is expanding rapidly, rising from 57% in fiscal 2018 to 63% in fiscal 2019. In the company's fourth quarter of fiscal 2019, specifically, its commercial cloud gross margin was 65% — up from 59% in the fourth quarter of fiscal 2018.

With the segment growing much faster than Microsoft's overall revenue, and given its expanding gross profit margin, commercial cloud will likely be a major driver of the software giant's earnings growth in fiscal 2020. Investors, therefore, should look hope for more strong growth from the segment.

Microsoft reports its fiscal first-quarter results after market close on Oct. 23.

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