COMPANY RESEARCH SHEET

Microsoft

The Lost Decade and the Comeback Nobody Bet On

For thirteen years the stock was dead money while the company stayed hugely profitable. Microsoft is the cleanest illustration in market history of the gap between a good business and a good stock.

FOUNDED
1975 · Redmond

THE MOAT
Enterprise lock-in

LEGENDARY SCORE
9.6 / 10

AT A GLANCE

The Story in Nine Lines

Origin	Founded 1975 by Bill Gates and Paul Allen on the bet that software would matter more than machines
The masterstroke	Licensed MS-DOS to IBM in 1980 while keeping the right to license it to every other manufacturer
The peak	Worth roughly half a trillion dollars at the 1999 dot-com top, at over 100x earnings
The lost decade	Stock essentially flat from 2000 to the mid-2010s; missed search, music, mobile and social
The label	A 2012 Vanity Fair article, "Microsoft's Lost Decade", cast it as the Sears of technology
The turn	Satya Nadella became CEO in February 2014 and declared the company "mobile-first, cloud-first"
The moat	Enterprise ecosystem lock-in, carried out of Windows and rebuilt, larger, around Azure
The result	$2 trillion in 2021, briefly the world's most valuable company in 2024, $4 trillion in 2025
Status	Public (Nasdaq: MSFT) · Redmond, Washington · FY2025 revenue $281.7B

THE MOAT

Enterprise Lock-In, Rebuilt for the Cloud

The world's businesses run on Microsoft. Windows, Office, and the Exchange and Active Directory systems that quietly power corporate IT are woven so deeply into how organisations operate that replacing them is a project measured in years and fortunes, not weeks. Employees know the tools. IT departments are built around them. For a large enterprise, switching costs are close to prohibitive.

That lock-in, originally built around Windows, was successfully extended into the cloud, which is why Nadella's pivot worked: he carried the captive enterprise base from the old fortress into the new one. Microsoft took a moat built for the desktop era and rebuilt it, larger, for the cloud and AI era. That is the rarest feat in business, not defending an old moat but digging a new one before the old one runs dry.

The puzzle at the centre of Microsoft

Through the entire lost decade, Microsoft never stopped making money. Windows and Office printed cash. Billions were paid in dividends. By the conventional measures of a business, it was thriving.

And yet the stock was dead, because the market had decided its best days were behind it. Resolving that contradiction teaches one of the deepest lessons in investing: the gap between a good business and a good stock, and what it actually takes to close it.

THE MELTDOWN

Thirteen Years of Dead Money

Buy Microsoft at its peak around the end of 1999 and hold, and you would have waited roughly thirteen to sixteen years simply to get back to even on the share price. Through that entire stretch the company grew its revenue and profits substantially. The business got bigger. The stock did not move.

The dead money was not caused by a failing business. It was caused by a collapsing valuation. At the bubble peak Microsoft traded at more than a hundred times earnings, a price that assumed perfection forever. The lost decade was largely the long, grinding deflation of that multiple back to sanity, even as earnings rose underneath it.

Meanwhile the company's instinct to protect Windows at all costs caused it to miss, or deliberately smother, nearly every important new wave: search, digital music, and catastrophically, mobile. Windows Vista shipped in 2007 and became a punchline. Internally, a brutal system of ranking employees against one another made the safe, Windows-protecting choice the only rational career move.

Decision Point — 2012

Microsoft is enormously profitable, throwing off cash from Windows and Office and paying billions in dividends. Its stock has gone nowhere for more than a decade while Apple and Google soared. The press calls it the Sears of technology. You are an investor. What is this?

A) A dying fossil to avoid. The missed waves prove it is finished.

B) A cash machine whose stock is dead because it was once wildly overpriced.

C) Impossible to tell without knowing who will run it next.

The consensus chose A and missed one of the great mega-cap returns of the era. The truth was closer to B and C together: a great business at a now-modest price, one leadership change away from a historic comeback.

THE LEGENDARY SCORECARD

Eight Categories, Scored Out of Ten

Founder Vision	10/10	"A computer on every desk", and a software-first
Innovation	9/10	Missed a decade of waves, then led the cloud
Execution	10/10	The cloud pivot is among the best-executed in
Moat	10/10	Enterprise lock-in, carried from Windows into
Capital Allocation	9/10	Wasteful Ballmer-era bets; superb reinvestment
Wealth Creation	10/10	From ~$250B to ~$4T in roughly a decade
Durability	9/10	Deeply entrenched; faces AI-platform and
Historical Importance	10/10	Put a computer on every desk; now powers cloud

OVERALL LEGENDARY
9.6

The definitive corporate reinvention.

Editorial verdict on the standard eight-category scale. The overall is a judgment, not a weighted average.

TIMELINE

Microsoft in Dates

1975	Founded by Bill Gates and Paul Allen.
1980	Licenses MS-DOS to IBM, keeping the rights to license it widely. Microsoft collects a toll on almost every PC sold.
1985	Windows 1.0 ships. Windows 95 follows a decade later and turns the toll into a near-monopoly.
2000	Gates steps down as CEO; a court orders an antitrust breakup, later overturned and settled.
2007	Windows Vista is widely panned. Mobile is treated as a threat to Windows rather than the future of computing.
2009–12	Market cap near lows, stock flat for a decade. Vanity Fair names it the "lost decade".
2014	Satya Nadella becomes CEO. "Mobile-first, cloud-first." Office goes onto the iPhone.
2021	Crosses $2 trillion in market value.
2024	Briefly overtakes Apple as the most valuable company in the world.
2025	Crosses $4 trillion. Azure passes $75B a year. FY revenue $281.7B.

WHAT EVERYONE GOT WRONG

The Consensus, and the Reality

"The stock is dead, so the business must be dying."
Reality: The lost-decade stock was dead largely because it had been absurdly overpriced in 1999. Earnings rose the whole time. The multiple, not the company, was deflating.

"Microsoft is a permanent fossil."
Reality: The Sears-of-technology verdict felt obviously correct in 2012 and became one of the worst calls of the decade.

"Dominance is permanent. Then: decline is permanent."
Reality: Investors made the same mistake twice in opposite directions, pricing the monopoly as forever and then the irrelevance as forever. Both extremes were expensive.

LESSONS IN ORDER OF DEPTH

Mind · Method · Money

ON THE SURFACE **Method**

Carry your moat into the new era instead of defending the old one. Nadella moved the captive enterprise base built around Windows into the cloud rather than dying to protect the desktop. The trader's analogue is adapting your edge as the market regime changes, instead of clinging to the setup that used to work.

BELOW THE SURFACE **Money**

Price is everything. The identical company made one investor wait thirteen years for nothing and made another many times their money, and the only difference was the price and the sentiment at purchase. Separate "is this a great company?" from "is this a great price?", and act most boldly when a great company is hated.

BELOW THAT **Mind**

Beware the comfort of profitability. Microsoft's lost decade was so dangerous precisely because the company kept making money, which let it ignore its growing irrelevance. The trader's parallel is a strategy that is still mildly profitable but quietly decaying. Comfort is the enemy of honest reassessment.

AT THE DEEPEST LEVEL **The question**

When something you have built stops working, do you defend it harder, or do you have the humility to change what you are? Microsoft was saved the moment a leader was willing to say that the old identity, the thing that had made the company great, was now the thing holding it back.

KEY NUMBERS

The Figures Worth Remembering

FOUNDED **1975**	FOUNDERS **Gates & Allen**	LOST DECADE **2000 mid-2010s**
PEAK MULTIPLE, 1999 **over 100x earnings**	THE TURN **Nadella, Feb 2014**	AZURE REVENUE **$75B+/yr (FY25)**
FY2025 REVENUE **$281.7B**	$2 TRILLION **2021**	$4 TRILLION **2025**

Current figures are fast-moving and should be checked against live data. Nothing in this sheet is investment advice.

READ THE FULL STORY

Microsoft: The Lost Decade and the Comeback Nobody Bet On

The full story, the alternative timeline where the board picked an empire defender, and the Mind · Method · Money reading are on the site and in the Greatest Companies book.

completetradersedge.com · Greatest Companies — 51 companies, one framework