Special Report

The Microsoft – OpenAI Partnership

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The Microsoft-OpenAI Partnership

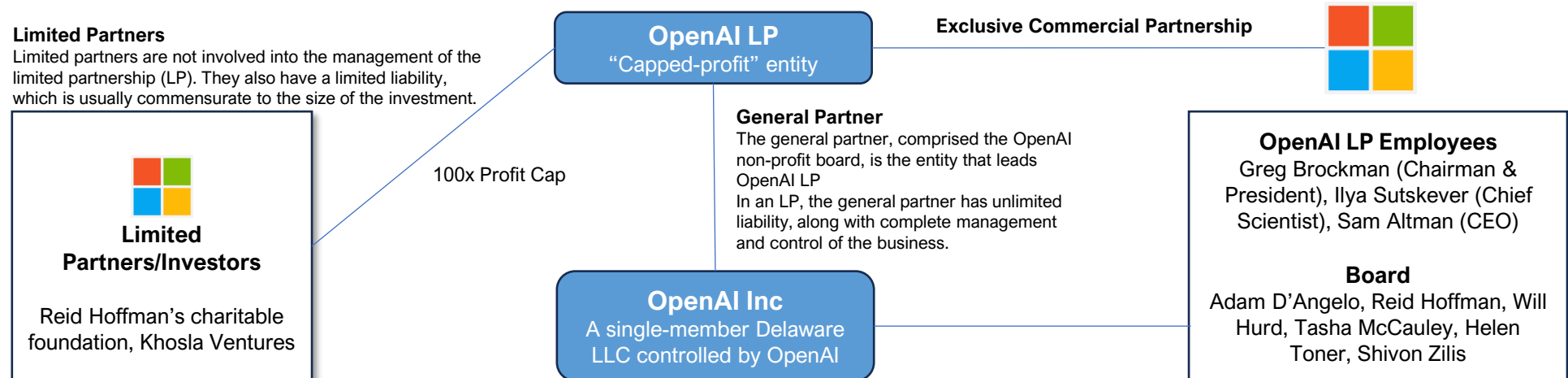Microsoft and OpenAI are in the third phase of their long-term partnership, which began in 2016

Deal Overview

- Microsoft and OpenAI entered a partnership in 2016, with OpenAI committing to use Microsoft's Azure as its primary cloud provider. Both companies saw the potential in collaborating and as a result, Microsoft started investing in OpenAI.

- Microsoft first backed OpenAI in 2019 as the latter transitioned from a non-profit to a hybrid model. Microsoft invested a billion dollar in OpenAI.

- Microsoft's second investment came in 2021. A few sources suggest that Microsoft invested an extra US$ 2 billion since the initial round.

- In 2023, the partnership further strengthened with Microsoft's US$10 billion investment. Sources suggests Microsoft may receive 75% of OpenAI's profits until it secures its investment return and a 49% stake in the company.

Deal Benefits & Synergies

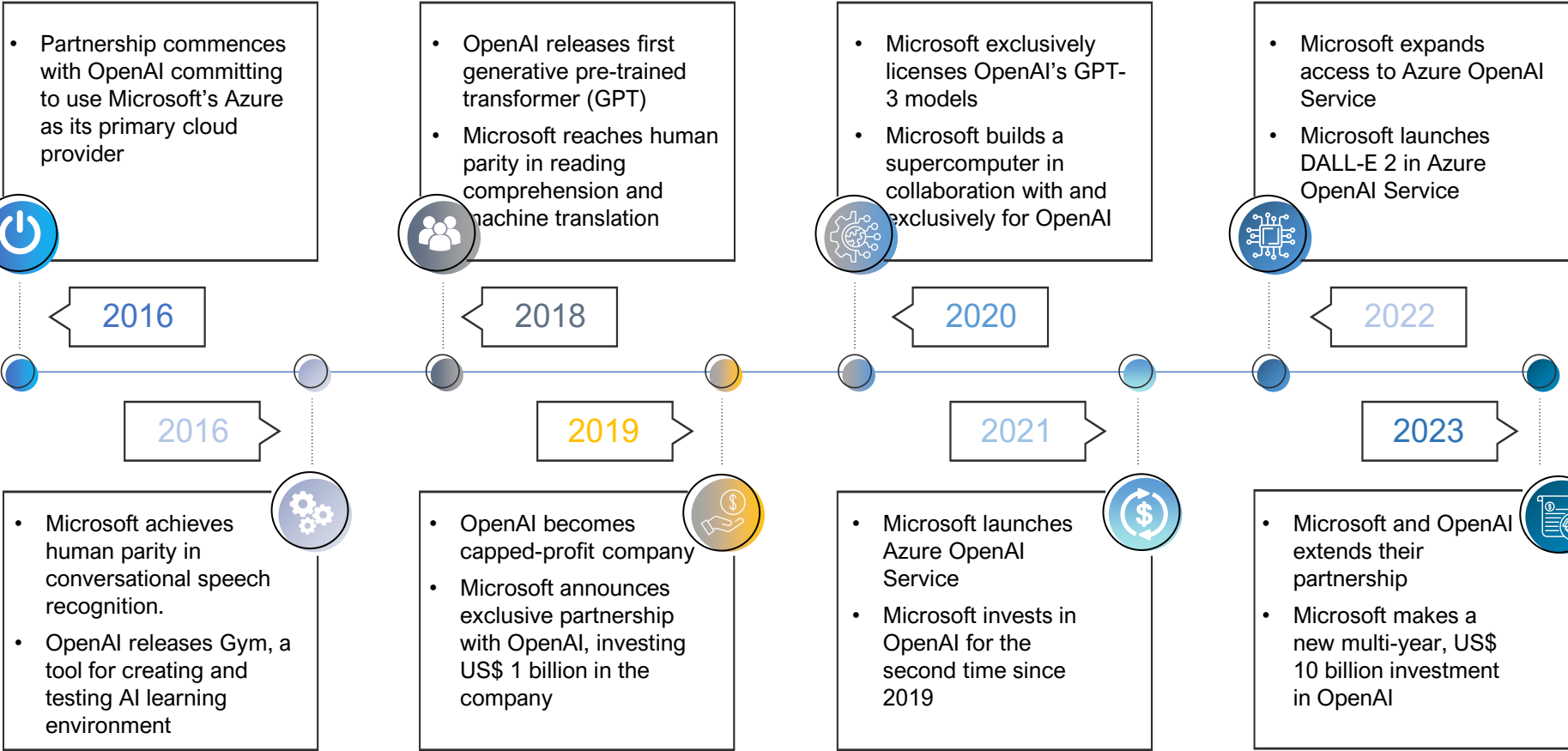| Microsoft	• Access to cutting-edge AI research, technology and some of the best AI talent in the industry • Close working relations with OpenAI, collaborating on research and development projects • Integration of OpenAI's AI models within Microsoft business and product offerings
OpenAI	• Microsoft will be the exclusive provider of cloud computing services to OpenAI • OpenAI's technology to be used to build tools and applications for Microsoft's biggest customers. • Opportunity to collaborate with Microsoft for developing AI supercomputing technologies.

Deal Structure

Limited Partners
Limited partners are not involved into the management of the limited partnership (LP). They also have a limited liability, which is usually commensurate to the size of the investment.

OpenAI LP
"Capped-profit" entity

Exclusive Commercial Partnership

Limited Partners/Investors

Reid Hoffman's charitable foundation, Khosla Ventures

100x Profit Cap

General Partner
The general partner, comprised the OpenAI non-profit board, is the entity that leads OpenAI LP
In an LP, the general partner has unlimited liability, along with complete management and control of the business.

OpenAI Inc
A single-member Delaware LLC controlled by OpenAI

OpenAI LP Employees
Greg Brockman (Chairman & President), Ilya Sutskever (Chief Scientist), Sam Altman (CEO)

Board
Adam D'Angelo, Reid Hoffman, Will Hurd, Tasha McCauley, Helen Toner, Shivon Zilis

Source: Aranca Research

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Microsoft extends the partnership with a US$10 billion investment in 2023

Partnership Timeline

2016
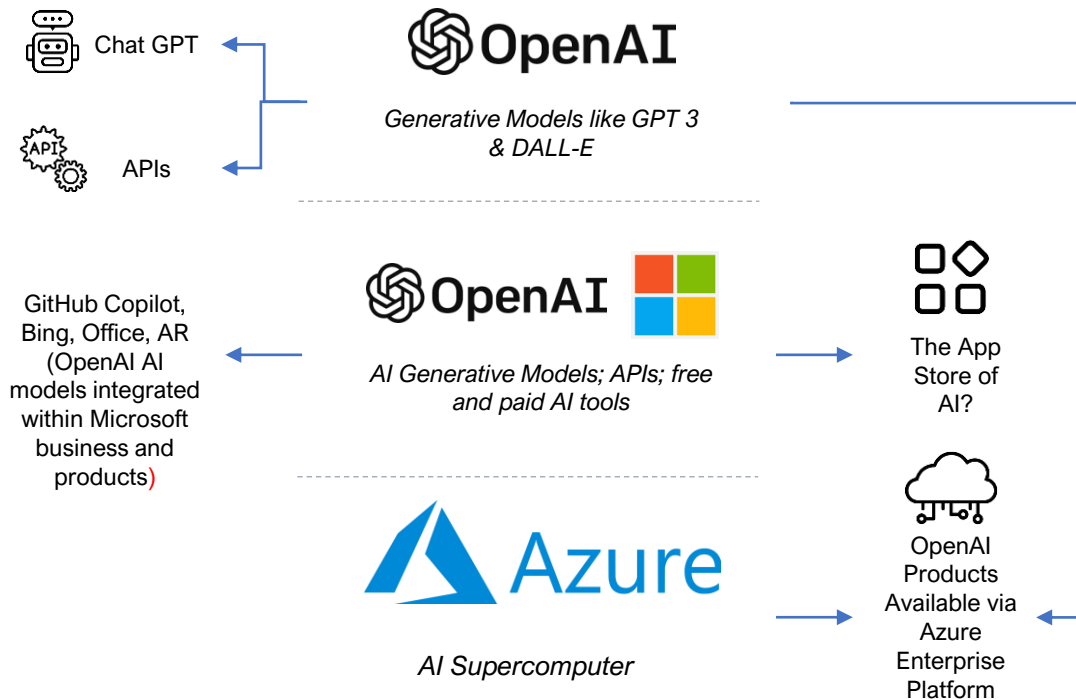- Partnership commences with OpenAI committing to use Microsoft's Azure as its primary cloud provider

2018
- OpenAI releases first generative pre-trained transformer (GPT)
- Microsoft reaches human parity in reading comprehension and machine translation

2020
- Microsoft exclusively licenses OpenAI's GPT-3 models
- Microsoft builds a supercomputer in collaboration with and exclusively for OpenAI

2022
- Microsoft expands access to Azure OpenAI Service
- Microsoft launches DALL-E 2 in Azure OpenAI Service

2016
- Microsoft achieves human parity in conversational speech recognition.
- OpenAI releases Gym, a tool for creating and testing AI learning environment

2019
- OpenAI becomes capped-profit company
- Microsoft announces exclusive partnership with OpenAI, investing US$ 1 billion in the company

2021
- Microsoft launches Azure OpenAI Service
- Microsoft invests in OpenAI for the second time since 2019

2023
- Microsoft and OpenAI extends their partnership
- Microsoft makes a new multi-year, US$ 10 billion investment in OpenAI

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Microsoft, through OpenAI, is developing its Azure AI supercomputer while enhancing Azure Enterprise Platform

Microsoft-OpenAI Model

- Microsoft has a very varied business model that combines social networking (LinkedIn), cloud computing (Azure), gaming (Xbox), productivity (Office), and advertising (Bing, LinkedIn).

- However, a key component of that economic model is Microsoft Azure, the cloud business unit. Along with Amazon AWS, Azure is currently one of the major participants in the cloud sector.

- Since 2016, the relationship between OpenAI and Microsoft has offered the Microsoft Azure team valuable insights into how to construct supercomputers that may aid AI firms in creating unique AI models.

- Microsoft has gained from its partnership with OpenAI: **The development of its cloud AI infrastructure.**

- As the cooperation between OpenAI and Microsoft grows and a whole industry emerges around the need for an enterprise platform to customize these AI models, the Microsoft AI Azure supercomputer may end up being the most important piece of infrastructure for Microsoft in the ensuing decade.

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