

MICROSOFT CORP (NASDAQ GS: MSFT, Currency: USD) 331.7999 / -0.93% / -3.120104  
 Bloomberg Rating: IG1 Sector: Information Technology Industry: Software Sub-Industry: Systems Software FY End: June 2021 EPS Due: 1/26/2022

**Description**  
 Microsoft Corporation develops, manufactures, licenses, sells, and supports software products. The Company offers operating system software, server application software, business and consumer applications software, software development tools, and Internet and intranet software. Microsoft also develops video game consoles and digital music entertainment devices.

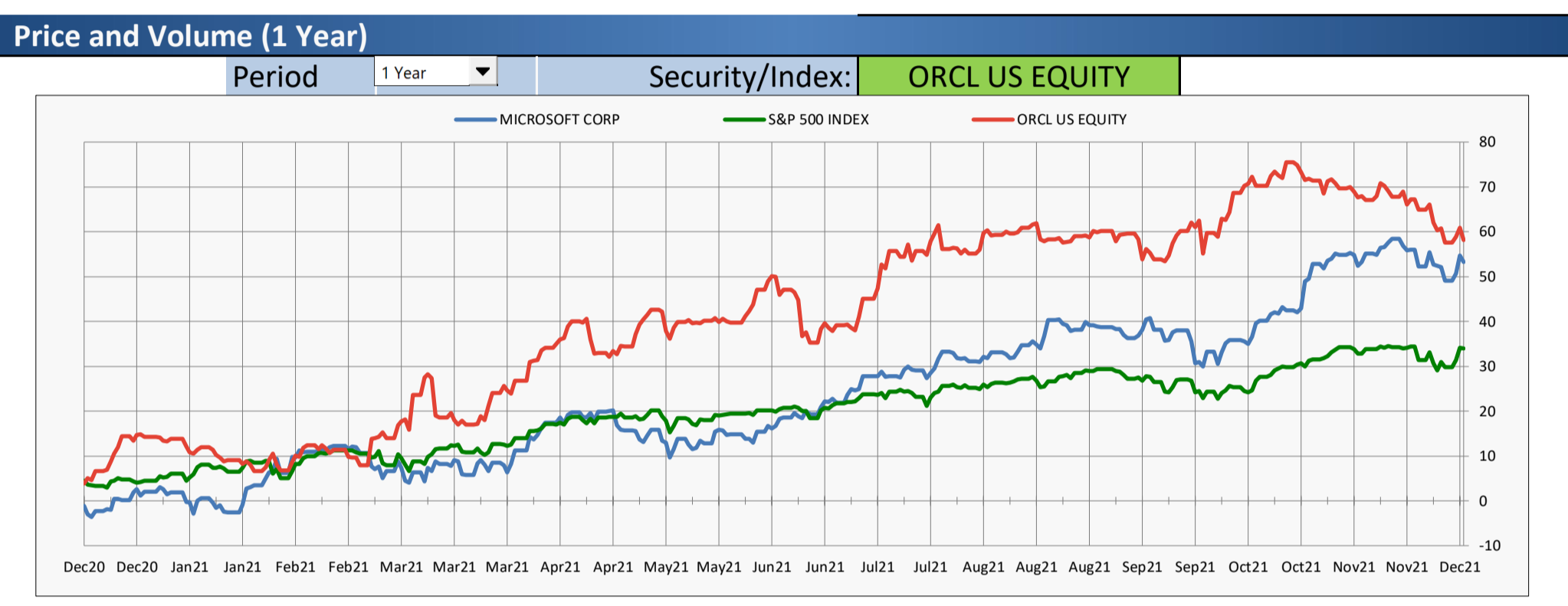
Business Segments (FY: Jun-21)	Revenue
Server Products and Cloud Services	
Office Products and Cloud Services	
Windows	
Gaming	
LinkedIn	
Search Advertising	
Enterprise Services	

Key Statistics	
52-Week Range	209.11 - 349.67
Avg Daily Vol (3 Mo)	25,327,924
Market Value	2,491,147.2
Current Enterprise Val	2,439,467.13
Shares Outstanding (B)	7,507.98 M
Dividend Yield	0.7%
Float %	99.9%
Institutional %	75.1%
Analyst Coverage	48 Analysts
Target Price	362.94
LT Growth Rate	1362.0%
Consensus Rating	4.75
Return on Equity	49.3%

	Actual and Estimate Data		
	LTM	06/2022	06/2023
Revenue	176,251.00	196,721.03	223,647.14
% change y/y		17.0%	13.7%
EBITDA	88,748.00	97,961.92	113,273.83
% Margin		20.0%	15.6%
EPS	8.269633	9.352	10.47
% change y/y		17.3%	12.0%
EV/Sales	11.7x	12.2x	10.7x
EV/EBITDA	23.3x	24.8x	21.4x
P/Sales	14.2x	12.7x	11.1x
P/Earnings	40.1x	35.5x	31.7x
P/Book	16.4x	13.1x	9.7x

Relative Comps	Mkt Cap	PE (NTM)
Microsoft Corp	2491.15 B	35.6x
Check Point Software Techn	14.68 B	15.2x
Oracle Corp	242.07 B	18.5x
ServiceNow Inc	132.91 B	99.2x
Fortinet Inc	52.08 B	73.2x
Palo Alto Networks Inc	51.87 B	69.1x
VMware Inc	47.89 B	15.9x
Splunk Inc	18.79 B	
NortonLifeLock Inc	14.18 B	13.2x
Citrix Systems Inc	10.15 B	16.7x
Mandiant Inc	3.99 B	
Box Inc	3.88 B	25.5x
Trend Micro Inc/Japan	955.60 B	27.1x

Measure:	Sales/Revenue/Turnover			
	2020	2021	2022	2023
Q1 Sep	33055.00	37154.00	45317.00	51287.83
Q2 Dec	36906.00	43076.00	50733.00	57116.96
Q3 Mar	35021.00	41706.00	48144.73	54985.63
Q4 Jun	38033.00	46152.00	52265.57	59329.46
Year	143015.00	168088.00	196721.03	223647.14
Cal Yr	153284.00	183908.00	208815.09	237645.70
Revision	1 Week	4 Weeks	3 Months	6 Months
Qtr End 12/21	0.0%	0.1%	3.7%	6.0%
Qtr End 03/22	0.0%	0.2%	1.5%	3.3%
FY End 06/22	0.0%	0.2%	2.3%	5.2%
FY End 06/23	0.0%	0.2%	3.1%	6.2%



Prices/Volume	
YTD Change	49.18%
6 Month Change	42.81%
3 Month Change	15.6%
1 Year Change	55.9%
Daily Volume	7,936,436
Average Volume 30 Day	27,288,206
Average Volume 3 Month	25,327,924
Average Volume 6 Month	23,842,190
Dividend Yld	0.7%
52 Week Beta	0.98

Measure:	Diluted EPS Bef XO Items			
	2020	2021	2022	2023
Q1 Sep	1.38	1.82	2.71	2.46
Q2 Dec	1.51	2.03	2.32	2.64
Q3 Mar	1.40	2.03	2.17	2.54
Q4 Jun	1.46	2.17	2.37	2.77
Year	5.76	8.05	9.34	10.46
Cal Yr	6.71	9.23	9.64	11.21
Revision	1 Week	4 Weeks	3 Months	6 Months
Qtr End 12/21	0.0%	0.1%	4.9%	-
Qtr End 03/22	0.0%	0.5%	2.3%	-
FY End 06/22	0.0%	0.3%	6.4%	-
FY End 06/23	0.0%	0.5%	4.1%	-

Performance	2013	2014	2015	2016	2017	2018	2019	2020	2021	5 Yr Avg
Price Change	12.9%	20.7%	5.9%	15.9%	34.7%	43.1%	35.8%	51.9%	33.1%	39.7%
S&P 500 INDEX	13.4%	29.6%	11.4%	-0.7%	9.5%	19.4%	-6.2%	28.9%	16.3%	13.6%
Industry (INDU Index)	7.3%	26.5%	7.5%	-2.2%	13.4%	25.1%	-5.6%	22.3%	7.2%	12.5%
Div Yield	3.4%	3.0%	2.7%	2.6%	2.5%	2.0%	1.8%	1.3%	1.0%	1.7%
Financials	06/13 Y	06/14 Y	06/15 Y	06/16 Y	06/17 Y	06/18 Y	06/19 Y	06/20 Y	06/21 Y	5 Yr CAGR
Sales	77,849.0	86,833.0	93,580.0	91,154.0	96,571.0	110,360.0	125,843.0	143,015.0	168,088.0	13.0%
EBITDA	30,519.0	32,971.0	24,118.0	33,700.0	39,215.0	46,904.0	56,348.0	67,798.0	83,729.0	20.0%
EBIT	26,764.0	27,759.0	18,161.0	26,078.0	29,025.0	35,058.0	42,959.0	52,959.0	69,916.0	21.8%
Net Income	21,863.0	22,074.0	12,193.0	20,539.0	25,489.0	16,571.0	39,240.0	44,281.0	61,271.0	24.4%
EPS (Diluted)	2.58	2.63	1.48	2.56	3.25	2.13	5.06	5.76	8.05	25.8%
Dividends per Share	0.92	1.12	1.24	1.44	1.56	1.68	1.84	2.04	2.24	9.2%
Shares for Fully Diluted EP	8,470.0	8,399.0	8,254.0	8,013.0	7,832.0	7,794.0	7,753.0	7,683.0	7,608.0	-1.0%
Book Value per Share	9.48	10.90	9.98	10.64	11.38	10.77	13.39	15.63	18.88	12.2%
Cash & Near Cash	3,804.0	8,669.0	5,595.0	6,510.0	7,663.0	11,946.0	11,356.0	13,576.0	14,224.0	16.9%
Total Assets	142,431.0	172,384.0	174,472.0	202,897.0	250,312.0	258,848.0	286,556.0	301,311.0	333,779.0	10.5%
Working Cap	64,049.0	68,621.0	73,150.0	89,086.0	106,951.0	111,174.0	106,132.0	109,605.0	95,749.0	1.5%
LT Debt	12,601.0	20,645.0	27,808.0	44,814.0	83,870.0	81,935.0	79,107.0	76,205.0	71,453.0	9.8%
Cash Flow-Oper Activities	28,833.0	32,502.0	29,668.0	33,325.0	39,507.0	43,884.0	52,185.0	60,675.0	76,740.0	18.2%
Capital Expenditures	4,257.0	5,485.0	5,944.0	8,343.0	8,129.0	11,632.0	13,925.0	15,441.0	20,622.0	19.8%
Free Cash Flow	24,576.0	27,017.0	23,724.0	24,982.0	31,378.0	32,252.0	38,260.0	45,234.0	56,118.0	17.6%
Ratios	06/13 Y	06/14 Y	06/15 Y	06/16 Y	06/17 Y	06/18 Y	06/19 Y	06/20 Y	06/21 Y	5 Yr Avg
Gross Margin	73.8%	68.8%	64.7%	64.0%	64.5%	65.2%	65.9%	67.8%	68.9%	66.5%
EBITDA Margin	39.2%	38.0%	25.8%	37.0%	40.6%	42.5%	44.8%	47.4%	49.8%	45.0%
EBIT Margin	34.4%	32.0%	19.4%	28.6%	30.1%	31.8%	34.1%	37.0%	41.6%	34.9%
Profit Margin	28.1%	25.4%	13.0%	22.5%	26.4%	15.0%	31.2%	31.0%	36.5%	28.0%
Return on Assets	16.6%	14.0%	7.0%	10.9%	11.2%	6.5%	14.4%	15.1%	19.3%	13.3%
Return on Com Eqty	30.1%	26.2%	14.4%	25.2%	29.8%	19.4%	42.4%	40.1%	47.1%	35.8%
Asset Turnover	0.6	0.6	0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5
Assets/Equity	1.8	1.9	2.2	2.4	2.9	3.1	2.8	2.5	2.4	2.7
Net Inc per 1000 Employee	220.8	172.5	103.3	180.2	205.6	126.5	272.5	271.7	338.5	242.9
Days Sales Out (DSO)	78.0	77.8	73.0	77.4	81.4	80.9	81.2	78.7	76.1	79.7
Acc Pay Turn Days (DPO)	77.6	80.5	76.9	76.8	76.3	75.2	77.6	87.3	95.4	82.4
Current Ratio	2.7	2.5	2.5	2.7	2.9	2.9	2.5	2.5	2.1	2.6
Quick Ratio	2.5	2.3	2.3	2.5	2.8	2.7	2.4	2.3	1.9	2.4
Total Debts/Total Capital	16.5	20.1	30.6	41.0	52.1	51.4	45.8	41.0	36.7	45.4
Total Debt/Total Equity	19.8	25.2	44.1	69.5	108.9	105.8	84.5	69.4	57.9	85.3

Growth Rate (CAGR) Summary				
	1Yr	3Yr	5Yr	10Yr
Sales	17.5%	15.1%	13.0%	9.2%
EBIT	32.0%	25.9%	21.8%	9.9%
EBITDA	23.5%	21.3%	20.0%	10.8%
Net Income	38.4%	54.6%	24.4%	10.2%
EPS (Diluted)	39.8%	55.8%	25.8%	11.6%
Dividends	9.8%	10.1%	9.2%	13.3%
BVPS	20.8%	20.6%	12.2%	10.7%
Free Cash Flow	25.1%	21.1%	18.7%	9.9%
Valuation Summary				
Latest FY	est FQ	5 Year Periodicity: Yearly		
	6/30/2021	High	Low	Avg
P/E (LTM)	34.6x	42.3x	24.0x	32.3x
P/E (NTM)	33.7x	33.7x	19.9x	26.3x
PEG (NTM)	2.5x	2.5x	1.6x	2.1x
P/Bk	14.3x	17.6x	5.8x	11.1x
P/CF	26.6x	32.6x	14.8x	22.2x
P/Sales	12.2x	14.9x	5.4x	9.3x
EV/EBITDA	23.8x	23.8x	12.6x	18.2x
EV/Sales	11.8x	11.8x	5.1x	8.3x
Div Yield	0.8%	2.3%	0.7%	1.4%

**Recommendation**  
 We view Microsoft Corp. (MSFT) as a HOLD based on the robust growth trajectory of its current business fundamentals. However, our rating remains at HOLD based upon potential risks to its elevated valuation levels. We would be inclined to trim our position in the stock on any evidence of a slowdown in its business momentum and / or other risks to its valuation such as a further rise in long term interest rates.

**Fundamentals / Catalysts**  
 Microsoft has experienced strong growth in revenues (15% / yr), operating profit (25% / yr), and adjusted earnings per share (30% / yr) over the past 3 years driven by tremendous growth in its public cloud business (Azure), worker productivity and business application offerings (including Teams, Power BI, Github etc), and its cybersecurity unit. Microsoft has been a primary beneficiary of the hybrid (office/home) work model transition which was likely accelerated by the Covid pandemic. In the most recent quarter, cloud revenue passed \$20 billion (up 36% YoY), conference calls on Microsoft Teams grew 50%, and LinkedIn posted a 60% increase in advertising revenue. Microsoft's cybersecurity solutions are now used by 650,000 customers, up 50% YoY, and has prevented 70 billion attacks. Microsoft's Edge browser has also increased in market share from 4% to a current 8%. Microsoft's CEO, Satya Nadella, expects IT over the next decade to double from the current 5% to 10% of GDP as companies evolve to fit the rapid growing technology.

**Balance Sheet / Cash Flows**  
 Microsoft possesses a pristine balance sheet with a \$51.7b net cash position. (Cash balance \$130.6b vs total debt of \$78.9b). Free Cash Flow (FCF) generation has been exceptionally strong over the past decade (\$30b/yr average) and has accelerated significantly in recent years (\$56b in F2021). Over the past three years, Microsoft has steadily increased its dividends to shareholders (\$15b/yr), accelerated share repurchase activity (\$20b/yr), and made some large transformative acquisitions (including LinkedIn \$26b, Nuance Communications \$20b, and ZeniMax \$8b) enabling them to enter new growth areas including social media, voice recognition, and virtual / augmented reality.

**Valuation**  
 Currently trading at \$323 per share, MSFT is valued at a significant premium to our \$225 Discounted Cash Flow (DCF) price target, and is at the higher end of its historical valuation ranges on a P/E, EV/Sales, EV/Ebitda, and a Free Cash Flow (FCF) Yield basis. Relative Valuation is reasonably favorable, however, as MSFT (33x P/E) is priced at a 20% discount to competitors (42x P/E) in the software/cloud industry.

**Risks**  
 In our view, the biggest risk to MSFT shares is its elevated valuation. Any slowdown in growth, particularly in its fast-growing cloud segment, would likely cause severe valuation multiple compression. It wasn't that long ago, when Microsoft's P/E fell from 50x in the late nineties to just 10x P/E by 2010 as the collapse in the personal computer market led to a huge slowdown in its flagship Windows operating system franchise. It's possible that growth could slow in 2022 as the pandemic related IT spending could have 'pulled forward' demand for Microsoft products and services. Additionally, new (eg Oracle) or increased (eg Amazon's AWS) competition in the cloud industry could slow down Microsoft's growth momentum. Valuation would also be at risk if interest rates were to rise precipitously as future cash flows would need to be discounted at a higher rate.