

MICROSOFT CORPORATION (MSFT)

April 22nd, 2026

Information Technology - Enterprise Services

Stock Rating

BUY

Investment Thesis

We recommend a **BUY** rating for Microsoft Corporation (MSFT) with a target price of \$470, implying 11% upside from \$432. Microsoft is the most defensively positioned way to own AI exposure, with a \$281 billion revenue base that grows at double digits with or without AI tailwinds. Trading at 23.89x forward earnings, its lowest Magnificent Seven multiple after two years of underperformance, we believe the market is mispricing the durability of Microsoft's non-AI business while undervaluing its AI optionality.

Drivers of Thesis

- Even if Azure growth decelerates materially, P&B alone generates \$120 billion in high-margin recurring revenue growing at high single digits, providing an earnings floor most pure-play cloud or AI peers cannot match.
- Microsoft's commercial backlog of \$625 billion, with the non-OpenAI portion growing at 28% organically is already contracted at a scale no competitor approaches. A single enterprise AI adoption generates revenue across Azure, Copilot, GitHub, and Dynamics simultaneously.
- The July 2026 M365 price increase of 10 to 33% and Copilot at only 3.3% penetration create FY2027 P&B growth acceleration that requires no AI bull scenario to materialize.

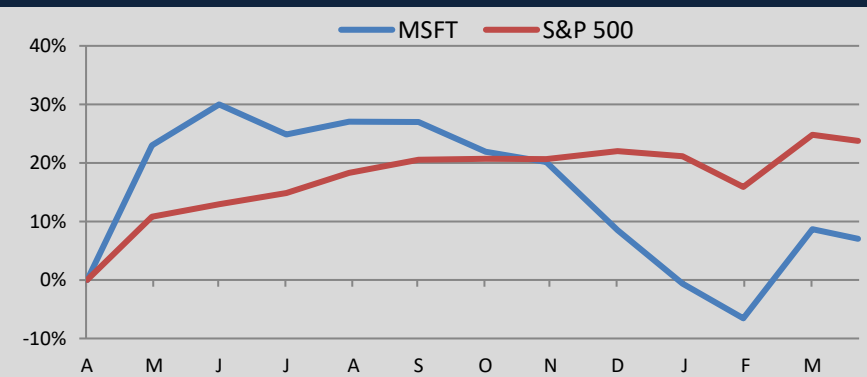
Risks to Thesis

- Sustained CapEx at \$100+ billion largely into short lived assets creates massive depreciation amounts which compress gross margins.
- Approximately \$280 billion of the \$625 billion RPO is attributable to cash-flow negative OpenAI. Financial deterioration at OpenAI simultaneously hits Azure revenue and Microsoft's \$135 billion equity stake, making this a highly correlated risk.
- Google Cloud growing at approximately 35% poses the most credible threat to Azure's share gain narrative. Our IC CAGR of approximately 28% through FY2028 assumes continued share gains

Earnings Estimates

Year	2023	2024	2025	2026E	2027E	2028E
EPS	\$9.72	\$11.86	\$13.70	\$16.48	\$19.01	\$22.52
HF est.				\$16.60	\$18.06	\$21.31
growth	0.21%	22.02%	15.51%	21.37%	8.45%	17.07%

12 Month Performance

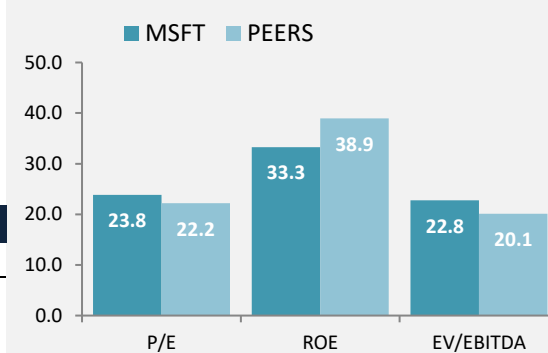


Target Price	\$470
Henry Fund DCF	\$473.46
Henry Fund DDM	\$424.67
Relative Multiple	\$453.95

Price Data	
Current Price	\$432.91
52wk Range	\$555.45 – 356.28
Consensus 1yr Target	\$594.02

Key Statistics	
Market Cap (B)	\$3,149.65
Shares Outstanding (M)	7,433
Institutional Ownership	76.30%
Beta	1.01
Dividend Yield	0.86%
Est. 5yr Growth	16.30%
Price/Earnings (TTM)	26.54
Price/Earnings (FY1)	23.89
Price/Sales (TTM)	10.36

Profitability	
Operating Margin	46.67%
Profit Margin	39.04%
Return on Assets (TTM)	18.00%
Return on Equity (TTM)	33.28%



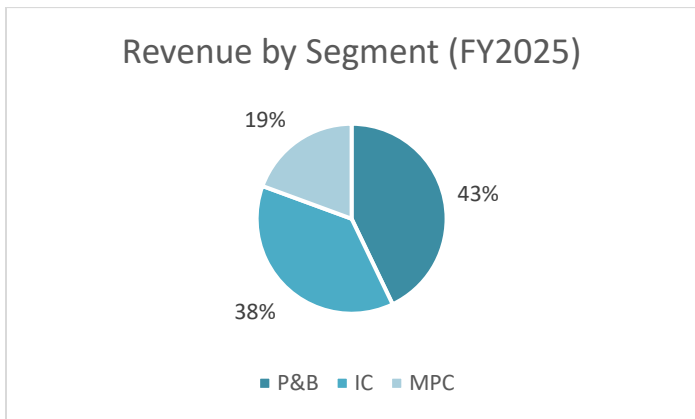
Company Description

Founded in 1975, Microsoft Corporation is a global technology leader headquartered in Redmond, Washington, generating \$281.7 billion in revenue in FY2025. The company operates across three segments: Productivity and Business Processes (P&B), including Microsoft 365 and LinkedIn, Intelligent Cloud (IC), anchored by its Azure platform, and More Personal Computing (MPC), spanning Windows, Xbox, and Bing.

COMPANY DESCRIPTION

Founded in 1975 by Bill Gates and Paul Allen, Microsoft Corporation is a global technology leader headquartered in Redmond, Washington. In FY2025 the company generated \$281.7 billion in revenue, growing approximately 15% year over year, across three reporting segments: Productivity and Business Processes (P&B), including Microsoft 365, LinkedIn, and Dynamics, Intelligent Cloud (IC), anchored by its Azure cloud computing platform, and More Personal Computing (MPC), spanning Windows, Xbox, Bing, and Surface devices.

Microsoft serves customers ranging from individual consumers to the largest Fortune 500 enterprises across approximately 50 markets worldwide, with revenue split roughly equally between the United States at approximately 51% and international markets at 49%. The company is one of only two AAA-rated corporations in the United States and the second largest company in the world by market capitalization at approximately \$3.15 trillion. What makes Microsoft structurally unique is the degree to which its product ecosystem reinforces itself. Azure is more compelling to an enterprise already running Microsoft 365 and Active Directory. Copilot is embedded in tools billions of workers already use. GitHub Copilot is the dominant AI coding tool by adoption. As AI spending accelerates across the enterprise, Microsoft is often the default beneficiary rather than a vendor that must be competed for.¹



Productivity and Business Processes

Productivity and Business Processes (P&B) generated \$120.8 billion in FY2025, growing approximately 13% year over year. This segment is the bedrock of our thesis regardless of how the AI debate resolves, carrying the

highest gross margins in the portfolio and growing through a combination of seat expansion, pricing power, and Copilot monetization that does not require AI infrastructure returns to materialize.

The July 2026 M365 commercial price increase of 10 to 33% across all enterprise tiers flows into FY2027 revenue with high fidelity given enterprise lock-in and no credible at-scale alternative. We forecast segment growth accelerating from 11% in FY2026 to 13% in FY2027 driven by this pricing tailwind alone. Microsoft 365 Copilot paid seats reached 15 million growing 160% year over year, yet overall paid seat penetration remains at only 3.3% of the installed base, with more than 90% of the Fortune 500 now using Microsoft 365 Copilot in some form, meaning the monetization ramp has years of runway ahead entirely independent of the AI infrastructure debate.³ We forecast an 8.49% CAGR for P&B over the forecast horizon, which we view as conservative given these tailwinds. LinkedIn continues growing in the high single digits, though Talent Solutions remains pressured by a soft hiring market.³

Intelligent Cloud

Intelligent Cloud (IC) generated \$106.3 billion in FY2025, growing 26% year over year, and is on pace to become the largest segment in the portfolio. Azure grew 39% in Q2 FY2026 at the high end of guidance, with Q3 FY2026 guided at 37 to 38%.³ For context, AWS grew approximately 20% in the comparable period.

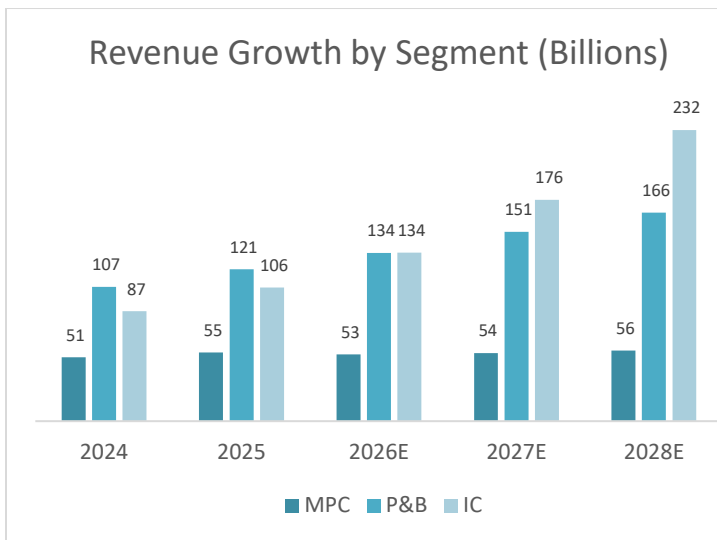
Critically, AI services contributed 16 percentage points of Azure growth in Q4 FY2025, implying the core non-AI Azure business grew independently in the high teens.³ Even in a bear scenario for AI spending, cloud migration and digital transformation remain structural demand drivers that predate the AI cycle. Azure holds approximately 21% global cloud infrastructure market share behind AWS at approximately 30%, leaving substantial runway for continued share gain.⁴ We model Azure growth decelerating from 39% to approximately 28% in FY2026 as supply constraints persist, before accelerating to 33% in FY2027-2028 as capacity additions come online, then gradually declining toward 20% by FY2032 as the law of large numbers takes effect.

More Personal Computing

More Personal Computing (MPC) generated \$54.6 billion in FY2025, growing approximately 7%. The segment

comprises Windows, Search and News Advertising, Devices, and Gaming. Its role in our thesis is not as a growth driver but as a stability contributor, generating steady cash flow without requiring any AI-driven inflection. Management guided MPC to decline in Q3 FY2026 as Windows OEM faces headwinds as the Windows 10 end of support tailwind normalizes.³

Gaming is the most dynamic subsegment. Microsoft has exited the console hardware war and is focused on Game Pass subscriptions, cloud gaming, and cross-platform distribution of first-party titles following the \$69 billion Activision Blizzard acquisition in FY2024.⁵ Near-term gaming revenue is guided to decline in the mid to high single digits against an elevated Activision comparable before recovering. Search advertising is guided to grow in the high single digits in Q3 FY2026 with AI-driven engagement gains in Bing and Edge providing gradual improvement from a low base.³ We anticipate a next-generation Xbox console release in FY2029, consistent with Microsoft's approximate 7-year console cycle, which historically drives a step-up in hardware revenue and Game Pass subscriber additions before normalizing.



Cost Structure Analysis

Product Cost of Revenue

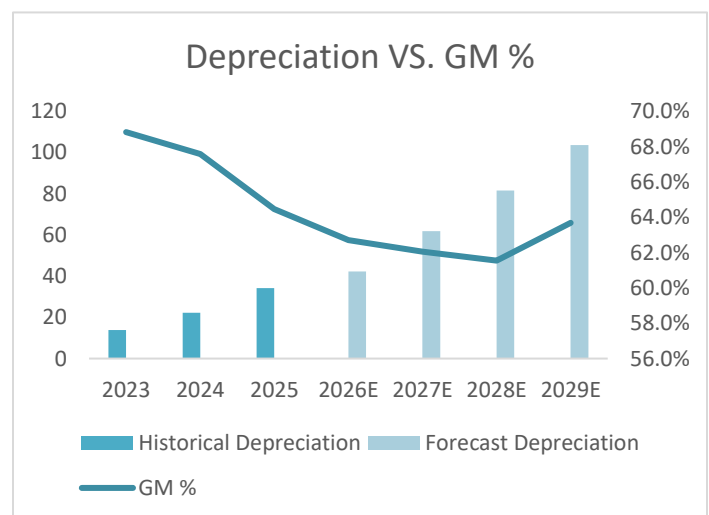
Microsoft reports cost of revenue across two lines, cost of product revenue and cost of service and other revenue. These have fundamentally different cost structures and must be analyzed separately. Cost of product revenue covers Windows OEM, Surface hardware, Xbox consoles, and on-premises licenses. We allocate approximately 10%

of total depreciation from this line, reflecting that virtually all of Microsoft's capital-intensive server and data center assets support the service business rather than product. On this basis, our ex-depreciation product cost ratio runs at approximately 22.43% of product revenue historically, consistent with the structural shift away from hardware toward higher-margin Windows OEM and on-premises licenses that management describes each quarter. We hold this at approximately 15 to 16% throughout the forecast as the hardware mix continues to decline gradually.

Service and Other Cost of Revenue

Cost of service and other revenue covers Azure, Microsoft 365 subscriptions, LinkedIn, Dynamics 365, Xbox Game Pass, and Search. We allocate approximately 90% of total depreciation to from line, reflecting that virtually all of Microsoft's capital-intensive server, GPU, and data center assets support the service business. On an ex-depreciation basis, service costs run at approximately 26.0% of service revenue historically, and we forecast it at 20.0% reflecting the operating leverage inherent in the cloud business before the AI depreciation cycle is layered on top. We hold this ratio flat throughout the forecast, which we view as conservative given Hood's consistent language about ongoing efficiency gains in Azure and M365 Commercial cloud appearing as a partial offset to margin pressure every quarter.³ Upside to our gross margin forecast exists if utilization rates on AI infrastructure normalize faster than expected and drive the service cost ratio below our flat assumption in the outer forecast years.

Depreciation and Gross Margin Recovery



Target Market and Strategic Positioning

The gross margin compression from 70.8% in Q2 FY2025 to 68.6% in Q2 FY2026 is almost entirely a depreciation story concentrated in service costs, not an underlying cost efficiency problem.² Hood confirmed on the Q2 FY2026 call that margins on GPU hardware improve over time as utilization rises on already-depreciated assets, and that most GPU contracts are sold for the entire useful life of the hardware, meaning depreciation and revenue are essentially matched.³ Our model transitions the short-lived asset capex mix from two-thirds in FY2026 toward 50/50 in FY2028, reducing the annual depreciation burden per dollar of capex.

Microsoft competes across three distinct markets simultaneously. In enterprise software and productivity it holds a near-monopoly position through Microsoft 365, which has over 450 million paid commercial seats and no credible at-scale alternative for large enterprises.³ In cloud infrastructure it is the number two provider globally at approximately 21% market share, competing primarily against AWS and Google Cloud.⁴ In developer tooling it holds a dominant position through GitHub, which now has over 180 million developers and is growing at the fastest rate in its history.³ Across all three markets Microsoft's strategic positioning is identical. Embed deeply into enterprise workflows, raise switching costs, and then expand wallet share through adjacent products. The AI cycle accelerates this playbook because enterprises adopting AI default to the tools they already use.

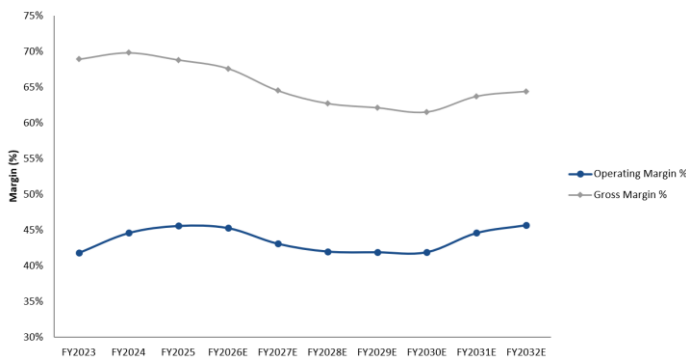
Competitive Differentiation

Microsoft's primary differentiation from peers is full stack depth. AWS is a superior infrastructure provider but has no productivity software or developer ecosystem. Google has strong infrastructure and productivity software but lacks depth in enterprise applications, identity management, and developer tooling. Salesforce and SAP have deep enterprise application expertise but no cloud infrastructure or productivity suite. Microsoft is the only vendor that competes credibly across all of these dimensions simultaneously, which is why a single enterprise AI adoption decision generates revenue across Azure, Copilot, GitHub, and Dynamics at the same time. No competitor can replicate this cross-selling dynamic, and it becomes more valuable as AI workloads require tighter integration across the full technology stack.

Competitive Moat and Switching Costs

Microsoft's competitive advantage is not any single product but instead the integration cost of leaving its ecosystem entirely. An enterprise running Azure Active Directory, Microsoft 365, Azure compute, Dynamics, GitHub, and Power BI faces a migration cost that is multiples of any individual software contract value. Every workload added to the Microsoft stack raises the floor on future revenue retention, and this dynamic compounds independently of whether AI spending accelerates or disappoints. Hood has described Azure as supply constrained for multiple consecutive quarters, meaning

Operating & Gross Margin, FY2023–FY2032E



Additional Company Analysis

Revenue Model and Pricing Structure

Microsoft generates revenue through three primary mechanisms: subscription fees, consumption-based pricing, and transactional licensing. Subscription revenue is the largest and most predictable component. This includes Microsoft 365 commercial seats, LinkedIn Premium, Dynamics 365, and Xbox Game Pass. Consumption-based revenue is the fastest growing component. This is primarily Azure where customers pay for compute, storage, and networking used. Transactional revenue includes on-premises server licenses, Office perpetual licenses, and Surface and Xbox hardware. The mix is shifting structurally toward subscription and consumption, which carry higher margins and better revenue visibility than transactional licensing. This shift is the underlying driver of margin improvement independent of the AI cycle and is why the business compounds earnings even in periods of modest reported growth.

demand is exceeding capacity, which is a signal of structural rather than cyclical demand strength.³

Beyond contractual lock-in, Microsoft benefits from a behavioral moat that competitors cannot replicate regardless of product quality or pricing. Enterprise workers have used Word, Excel, Outlook, and PowerPoint throughout their academic and professional careers, creating deeply embedded cognitive familiarity that makes switching genuinely disruptive at the organizational level. An IT department migrating from Microsoft 365 to a competing suite is not just changing a contract, it is asking thousands of employees to relearn fundamental daily workflows, introducing productivity losses and internal resistance that most organizations are unwilling to absorb. Microsoft's deeply discounted academic licensing programs ensure the next generation of enterprise workers enters the workforce already fluent in Microsoft tools, continuously refreshing this behavioral moat without incremental marketing spend. AWS and Google Cloud cannot replicate this dynamic regardless of how competitive their infrastructure or productivity offerings become.

Business Model Viability and Sustainability

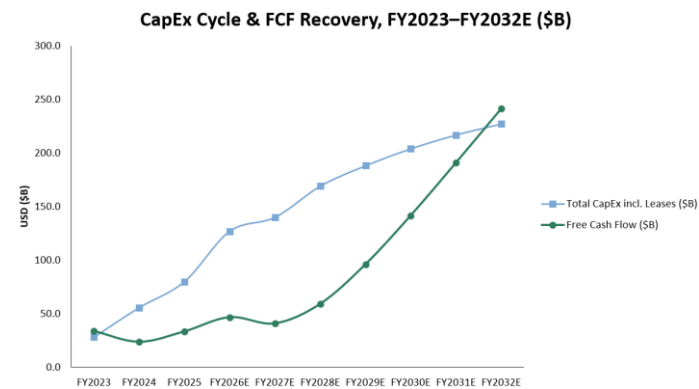
Microsoft's business model is among the most durable in large-cap technology for three reasons. First, its revenue base is overwhelmingly recurring. Subscription and consumption revenue, which renews automatically and compounds with seat and usage growth, represents the vast majority of total revenue and is growing as a share over time. Second, its cost structure has genuine operating leverage. As software revenue scales, incremental margins are high because the marginal cost of adding a seat or serving an additional query is near zero once infrastructure is in place. Third, its capital allocation is self-funding. Microsoft generates sufficient operating cash flow to fund both its \$80 billion plus annual capex program and \$12 to \$13 billion in annual shareholder returns without accessing debt markets, an advantage very few technology peers can match. These characteristics make Microsoft's business model more resilient in a downturn than pure-play AI or cloud peers whose economics depend entirely on continued growth momentum.

Balance Sheet and Financial Strength

Microsoft's balance sheet is among the strongest in corporate America. The company holds \$94.6 billion in

cash and short-term investments against \$40.1 billion in long-term debt.¹ It is one of only two AAA-rated corporations in the United States, a distinction that reflects both the quality of its earnings and the predictability of its cash generation. In FY2025, Microsoft generated \$136.2 billion in operating cash flow, comfortably covering \$64.6 billion in capital expenditures, \$24.1 billion in dividends, \$18.4 billion in share repurchases, and \$6.0 billion in acquisitions simultaneously without accessing debt markets.¹ This financial strength is directly relevant to our thesis. In a scenario where AI spending disappoints and peers face capital constraints, Microsoft can sustain its infrastructure buildout and continue returning capital to shareholders without modification. The balance sheet is not just a safety net, it is a competitive weapon that allows Microsoft to out invest peers through an uncertain cycle while maintaining the flexibility to pursue acquisitions or accelerate shareholder returns as conditions evolve.

Capital Expenditure Intensity



Microsoft spent \$37.5 billion on capital expenditure in Q2 FY2026, with approximately two-thirds allocated to short-lived assets including GPUs and CPUs.³ Hood guided that the short-lived asset mix will remain similar to Q2 in Q3 FY2026, and our model holds two-thirds short-lived through FY2026 before transitioning toward 50/50 in FY2028. The key free cash flow inflection point in our model is FY2028 to FY2029, where free cash flow accelerates from \$68.9 billion to \$104.7 billion. Even if normalization is delayed, P&B's pricing-driven growth provides a buffer that pure-play AI peers do not have.

Debt Maturity Analysis

Fiscal Year	Payment (\$B)
2026	\$ 3,000
2027	\$ 9,250
2028	\$ -
2029	\$ 2,054
2030	\$ -
Thereafter	\$ 34,902
Total	\$ 49,206

As of June 2025, Microsoft carried \$43.2 billion in long-term debt with a current ratio of 1.77. Microsoft is one of only two AAA-rated U.S. corporations, providing access to capital markets on favorable terms regardless of the rate environment. Near-term maturities are well covered by operating cash flow and pose no refinancing risk.¹

ESG Analysis

Microsoft holds a sector-leading environmental, social, and governance profile relative to Magnificent Seven peers. On the environmental front, the company has committed to carbon neutrality and becoming water positive by 2030, though the AI infrastructure buildout creates tension given GPU-dense data center power demands, which Microsoft is addressing through long-term renewable energy agreements. On the social front, diversity and inclusion initiatives and a pledge to train 2 million workers globally in AI skills are the primary commitments. On governance, robust data privacy policies, anti-corruption controls, and independent board oversight meet the highest institutional standards. Environmental, social, and governance quality is an increasingly relevant factor for large institutional allocators, where Microsoft's profile compares favorably to peers given its long-standing commitments and public reporting transparency.¹

RECENT DEVELOPMENTS

Recent Earnings Announcement

Microsoft reported Q2 FY2026 results on January 28, 2026. Revenue of \$81.3 billion grew 17% year over year, beating consensus of \$80.3 billion. Non-GAAP earnings per share of \$4.14 beat estimates of \$3.97 by 5.3%. Azure grew 39%, Microsoft Cloud crossed \$50 billion in quarterly revenue

for the first time, and operating income of \$38.3 billion grew 21%.³ Despite beating every headline metric, the stock declined approximately 10% driven by the \$37.5 billion capital expenditure figure and gross margin compression to 68.6%. This market reaction illustrates exactly the dynamic our thesis exploits. Near-term capital expenditure noise is obscuring a fundamentally sound and growing business. Q3 FY2026 guidance calls for revenue of \$80.65 to \$81.75 billion and Azure growth of 37 to 38% in constant currency.

Effective July 1, 2026, Microsoft is raising list prices across its entire commercial M365 suite by 10 to 33% by tier.² This is the company's most significant pricing action in several years and the clearest expression of our thesis. Microsoft's installed base is deeply embedded in enterprise workflows with no credible at-scale alternative, meaning this pricing-driven revenue acceleration in FY2027 exists entirely independent of how the AI spending debate resolves.

OPENAI

Microsoft's relationship with OpenAI represents the AI upside optionality embedded in our thesis. Following restructuring in October 2025, Microsoft holds a 27% equity stake in OpenAI, with the fair value remeasured upward in Q2 FY2026 following OpenAI's conversion to a public benefit corporation, producing a \$7.6 billion non-cash GAAP gain. The equity stake on the balance sheet increased from \$15.4 billion at June 30, 2025 to \$21.2 billion as of December 31, 2025. This is roughly a 10x return on cumulative investment of \$13.8 billion, with exclusive rights to OpenAI models through 2032.³ OpenAI has committed \$250 billion to Azure cloud services, and Microsoft is the only cloud provider permitted to offer OpenAI models via API until at least 2030. If OpenAI continues scaling, Microsoft captures infrastructure revenue, model licensing revenue, and equity appreciation simultaneously.

The primary risk is concentration. OpenAI is currently cash-flow negative at approximately \$20 billion in annualized revenue, and financial deterioration would create a simultaneous Azure revenue shortfall and equity stake impairment. Hood addressed this directly on the Q2 FY2026 call, noting that the majority of GPU contracts including those for Microsoft's largest customers are sold for the entire useful life of the hardware, meaning much of the OpenAI-related revenue risk is already hedged at the contract level.³ Even so, our core thesis does not

depend on OpenAI. Microsoft began hedging this dependency further by integrating Anthropic's Claude models into Office 365 Copilot in September 2025, signaling a deliberate multi-model strategy.³

Activision Blizzard Integration

Now in its second full fiscal year post-acquisition, Activision's portfolio including Call of Duty, World of Warcraft, and Candy Crush is fully integrated into the More Personal Computing segment. The acquisition created an elevated revenue comparable suppressing reported gaming growth through FY2026, with the strategic value playing out longer-dated through Game Pass content enrichment, mobile gaming exposure via King, and predictable subscription engagement from annual franchise releases.

INDUSTRY TRENDS

AI Diffusion Favors Incumbents

Gartner forecasts worldwide AI spending will reach \$2.52 trillion in 2026, growing 44% year over year, with generative AI model spending expected to grow 80.8%. Simultaneously, Gartner characterizes 2026 as the trough of disillusionment, noting enterprise AI will increasingly be sold by incumbent software providers rather than purchased as new initiatives.⁸ This is central to our thesis. Enterprise buyers seeking AI embedded in existing workflows default to Microsoft 365 Copilot, Azure AI Foundry, and GitHub Copilot. The disillusionment phase may actually accelerate Microsoft's relative share of enterprise AI wallet compared to pure-play AI vendors.

Broad IT Spending Growth

Global IT spending is expected to reach \$6.15 trillion in 2026, up 10.8%, with data center spending surpassing \$650 billion and server spending growing 36.9% year over year.¹⁰ Even non-AI portions of this growth, including software growing 14.7% and IT services growing 8.7%, benefit Microsoft's P&B and MPC segments directly. This illustrates the breadth of Microsoft's exposure to the overall IT spending cycle, reinforcing our thesis that Microsoft grows with or without AI acceleration.

MARKETS AND COMPETITION

How the Industry Got Here

The enterprise technology industry has undergone two transformational shifts in the past fifteen years. The first was the migration from on-premises software licensing to cloud-delivered services beginning around 2010, which restructured the competitive landscape entirely. Vendors that failed to transition lost relevance while Microsoft, Amazon, and Google emerged as the dominant hyperscalers. The second shift began in 2022 with the public release of large language models. This is the AI-driven replatforming currently underway. Every layer of the enterprise technology stack is being rebuilt around AI capabilities, from infrastructure to applications to developer tooling. Microsoft's position today is a direct product of having successfully navigated the first transition under Nadella's leadership beginning in 2014, and the company is now better positioned than any peer to capitalize on the second.

Industry and Competitive Dynamics

The enterprise technology industry is best understood as several overlapping markets rather than a single competitive landscape. In cloud infrastructure, three hyperscalers dominate globally with AWS at approximately 30% market share, Azure at approximately 21%, and Google Cloud at approximately 12%, with the remainder fragmented across Oracle Cloud and smaller regional providers.⁴ This is not an equilibrium market. All three hyperscalers are aggressively investing to capture on-premises workloads migrating to cloud and to take share from each other, with Azure growing fastest among the top three at 39% in Q2 FY2026 compared to AWS at approximately 19% and Google Cloud at approximately 35%.³ In enterprise productivity software Microsoft holds a near-monopoly position with over 450 million paid commercial seats and no competitor approaching meaningful scale. In developer tooling GitHub dominates with over 180 million developers. In enterprise applications Microsoft competes against Salesforce, SAP, Oracle, and ServiceNow depending on the workload. No single competitor contests Microsoft across all of these

dimensions simultaneously, which is the structural foundation of its superior margin profile relative to peers.

Porter's Five Forces

Threat of New Entrants - Low

Building a hyperscale data center network requires tens of billions in annual capital expenditure, years of construction lead time, and access to scarce power and land. The five largest hyperscalers committed an estimated \$660 to \$690 billion in combined infrastructure spend in 2026 alone, a figure new entrants cannot approach.¹¹ Barriers to entry are prohibitively high and rising.

Supplier Bargaining Power - Moderate and Rising

Nvidia's near-monopoly on AI accelerators gives it significant pricing power, reflected in the gross margin pressure all hyperscalers are experiencing. Microsoft is partially mitigating this through its Maia 200 custom silicon program, which delivers over 30% improved total cost of ownership versus third-party hardware, but Nvidia retains meaningful near-term leverage.³

Buyer Bargaining Power - Low

Large enterprises standardized on Microsoft 365, Azure, and GitHub face practical migration costs that exceed any pricing concession a competitor could offer. The behavioral and contractual switching costs described in the additional company analysis section structurally limit buyer leverage across Microsoft's most important customer segments.

Threat of Substitutes - Low to Moderate

Google Workspace remains the most credible substitute for Microsoft 365 but has made limited inroads in large enterprise precisely because of behavioral switching costs. AI-native startups building vertical point solutions represent a longer-dated substitution risk that Microsoft is addressing by embedding AI into existing products rather than offering it as a standalone layer.

Competitive Rivalry - Moderate

AWS, Azure, and Google Cloud compete aggressively on price and performance for new cloud workloads. Rivalry is moderate in productivity and developer tooling given Microsoft's dominant installed base positions. The overall

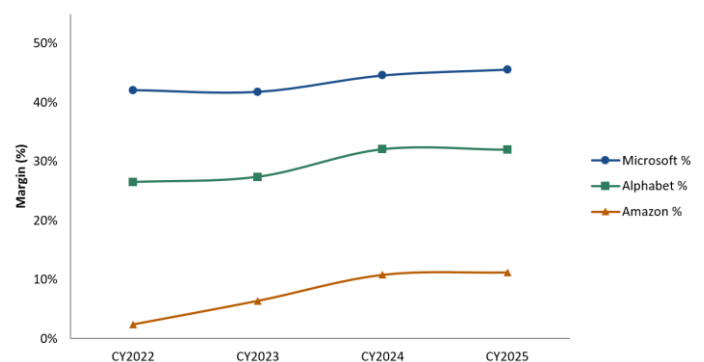
conclusion is that Microsoft competes in a structurally attractive industry where the forces of competition are most intense in the market where Microsoft is currently growing fastest.

Life Cycle, Growth Prospects, and Disruption Risk

Gartner estimates only 25 to 30% of enterprise workloads have migrated to the cloud, sustaining double-digit industry growth for years independent of AI spending levels.⁸ Enterprise software markets are more mature but are being reinvigorated by AI-driven ARPU expansion as vendors embed agentic capabilities into existing seat licenses. The most credible disruption risk is AI-native competitors building vertical point solutions that bypass the horizontal enterprise software layer.

Peer Comparisons

Operating Margin: MSFT vs. GOOGL vs. AMZN (%)



Peer Group Selection

Microsoft's revenue diversity means no single company is a perfect comparable. We use a tiered peer group. Amazon and Alphabet as primary hyperscaler peers, and Salesforce and Oracle as enterprise software peers. Each captures a different dimension of Microsoft's business and together they provide a complete picture of how Microsoft is valued relative to the markets it competes in.

Valuation and Profitability

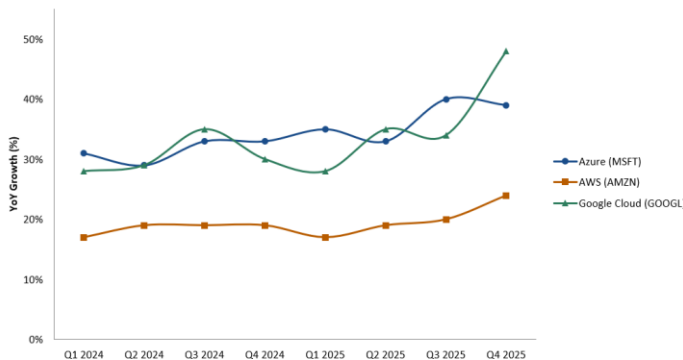
Microsoft's 45.6% operating margin is the highest among all scaled peers and reflects the structural advantage of its software-heavy revenue mix. Amazon's consolidated 11.2% operating margin is heavily diluted by its low-margin retail and logistics business, making direct comparisons misleading. AWS alone carries a 35.4% TTM operating

margin, more comparable but still below Microsoft's blended figure despite AWS being a pure-play cloud business. Alphabet's 32.9% operating margin reflects the drag of its Other Bets segment and Waymo investments, which included a \$2.1 billion employee compensation charge in Q4 2025 alone. The margin gap between Microsoft and all peers is structural rather than cyclical, driven by the high incremental margins on software seat additions and operating leverage embedded in the Microsoft 365 and Azure businesses. Salesforce's 75.3% gross margin is the highest in the peer group, reflecting its pure software model with minimal infrastructure cost, though its 21.5% operating margin reveals the heavy sales and marketing spend required to grow a CRM business without Microsoft's installed base distribution advantage.

Microsoft trades at 25.1x trailing earnings and 22.1x forward earnings. On a forward basis this represents a discount to Amazon at 25.9x and Alphabet at 26.2x despite Microsoft generating superior margins across every profitability metric. Oracle at 19.4x forward earnings is the only peer trading at a lower multiple, though Oracle's negative free cash flow and aggressive debt-funded cloud buildout make that discount warranted. Salesforce at 15.0x forward earnings reflects the market's skepticism about its AI monetization trajectory relative to peers. This is also shown in its 23% drop in stock price TYD. Microsoft's forward multiple discount to Amazon and Alphabet despite superior margin quality is the central mispricing our thesis exploits.

Cloud Infrastructure

Cloud Revenue Growth: Azure vs. AWS vs. Google Cloud

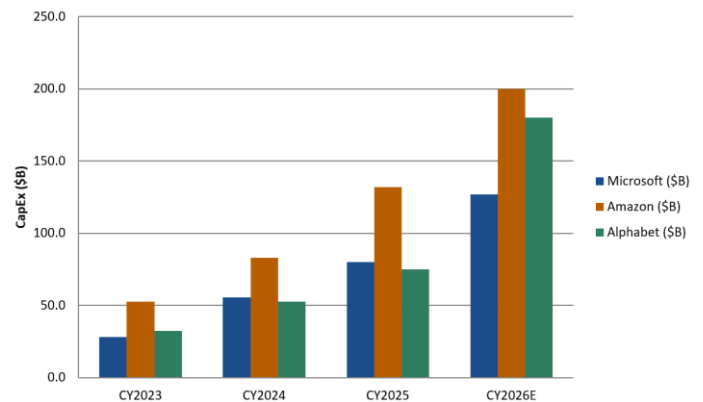


Azure is growing at 39% in Q2 FY2026, nearly double AWS's full year growth rate of 20%, from a base now only modestly smaller than AWS's \$128.7 billion. Google Cloud is growing fastest among the three at 48% in Q4 2025 but from a significantly smaller base with an annualized run

rate of approximately \$70 billion versus Azure's estimated \$135 billion plus. Google Cloud's Q4 operating margin of 30.1% demonstrates the business is maturing, though it remains well below Azure's estimated 42% segment operating margin. AWS retains the largest installed base and deepest enterprise relationships built over fifteen years, making it the benchmark against which Azure's share gains are measured. At current growth differentials Azure is closing the gap with AWS meaningfully each quarter, and the enterprise software integration advantage Microsoft holds over both AWS and Google Cloud provides a structural tailwind to continued share gain that neither competitor can easily replicate.

Growth and Capital Allocation

Hyperscaler Annual CapEx, CY2023–CY2026E (\$B)



The capital allocation table reveals the starkest differentiation in the peer group. Amazon is spending \$131.8 billion in capex against \$139.5 billion in operating cash flow, leaving only \$11.2 billion in free cash flow and committing to approximately \$200 billion in 2026 capex per CEO Andy Jassy's guidance. Alphabet is spending \$91.4 billion in capex with \$175 to \$185 billion guided for 2026. Both are front-loading infrastructure investment at a pace that leaves minimal near-term free cash flow. Microsoft's \$71.6 billion in free cash flow on \$64.6 billion of capex demonstrates that despite its own aggressive buildout, its software revenue base generates enough operating cash flow to fund infrastructure investment and still return capital to shareholders simultaneously, a balance neither Amazon nor Alphabet is currently achieving. Oracle's negative free cash flow reflects the same infrastructure buildout dynamic but from a far weaker starting balance sheet, making its investment cycle considerably more financially strained than Microsoft's. Salesforce's minimal capex and \$14.4 billion free cash flow with a 6.74% buyback yield illustrates the cash generation potential of a

pure software model, which is directionally where Microsoft's free cash flow profile trends as its own capex cycle normalizes in FY2028 and beyond.

Stock Performance

Microsoft has underperformed meaningfully relative to peers over the past two years, returning approximately 12% in 2024 and approximately 15% in 2025, trailing Alphabet and the broader S&P 500. This underperformance is entirely attributable to the capital expenditure and margin compression narrative rather than any deterioration in revenue or earnings growth, which has remained at approximately 15% annually throughout this period. Among the peer group, Microsoft now offers the most compelling combination of earnings growth, margin quality, and relative valuation. At 22.1x forward earnings it trades at a discount to Amazon at 25.9x and Alphabet at 26.2x despite generating higher margins than either. The convergence of a depressed relative valuation, an upcoming pricing-driven growth catalyst in FY2027, and a free cash flow recovery story anchored to capex normalization makes Microsoft the most asymmetric risk reward in the peer group at current prices.⁹

ECONOMIC OUTLOOK

Interest Rates and Federal Reserve Policy

The 10-year Treasury yield currently sits at 4.26%, with the Fed Funds rate at 3.50% following rate cuts in the second half of 2025. The Henry Fund consensus expects the 10-year yield to decline to approximately 4.20% over the next six months and toward 3.96% over two years, reflecting gradual Fed easing as inflation moderates. Recession probability is placed at 20% over the next twelve months.

For Microsoft this outlook is constructive in two ways. First, our WACC of 9.19% is anchored to the 10 year treasury, meaning even a modest decline toward the Henry Fund consensus of 3.96% adds approximately \$10 or \$15 to our DCF implied price, a macro tailwind not embedded in our base case. Second, elevated rates have disproportionately penalized long-duration growth assets and are a partial explanation for Microsoft's two years of relative underperformance. Rate normalization represents a re-rating catalyst independent of fundamental business performance.

GDP Growth

Real GDP grew 2.3% in Q4 2025, decelerating from 4.4% in Q3 2025, with the Henry Fund consensus expecting growth to moderate further to approximately 3.95% over six months and 2.60% over two years as prior monetary tightening continues filtering through the economy. Microsoft's revenue mix is meaningfully insulated from a moderate slowdown. P&B's \$120 billion subscription base represents largely non-discretionary enterprise spending that has historically proven resilient through downturns, as mission-critical productivity software is among the last costs enterprises cut. Azure consumption carries more cyclical sensitivity but the \$625 billion contracted backlog provides a significant buffer. The most direct recession impact would fall on LinkedIn Talent Solutions, already under pressure from a soft hiring market, and MPC hardware, neither of which is material enough to impair our core thesis.

Inflation

CPI inflation currently sits at 2.30%, with the Henry Fund consensus expecting it to remain near 3.06% over six months before moderating toward 2.92% over two years, staying modestly above the Fed's 2% target throughout the forecast horizon. This persistent but contained inflation environment is broadly constructive for Microsoft. Data center construction costs and power contracts benefit from inflation remaining stable rather than re-accelerating, supporting our capex normalization timeline. The July 2026 M365 price increase of 10 to 33% is itself an inflationary pass-through that expands P&B revenue faster than cost in FY2027 independent of the macro environment. The primary risk is a re-acceleration above consensus, which would delay Fed cuts and keep the discount rate environment unfavorable for long-duration assets including Microsoft.

VALUATION

Revenue Growth Assumptions

		Revenue Multiplier						
		0.90	0.93	0.97	1.00	1.04	1.07	1.11
Deprec Years AMT	\$ 473.46							
	3.0	327.49	351.60	376.70	402.83	430.03	458.33	487.79
	4.0	362.81	386.91	412.01	438.14	465.34	493.65	523.11
	5.0	384.00	408.10	433.20	459.33	486.53	514.84	544.30
	6.0	398.13	422.23	447.33	473.46	500.66	528.97	558.43
	7.0	408.22	432.32	457.42	483.55	510.75	539.06	568.52
	8.0	415.78	439.89	464.99	491.12	518.32	546.63	576.08
	9.0	421.67	445.78	470.87	497.01	524.21	552.51	581.97

Revenue growth assumptions are grounded in management guidance as a primary anchor, cross-referenced against FactSet consensus estimates, with analyst deviations in segments where our thesis differs from consensus. Our primary differentiated assumptions are IC acceleration in FY2027-2028 driven by supply constraint resolution, and P&B acceleration in FY2027 driven by the M365 pricing action. Our total company revenue CAGR of approximately 19% through FY2032 is driven by Intelligent Cloud growing from 26% in FY2026 toward 31% in FY2027 before decelerating to 20% by FY2032, grounded in Azure's 39% Q2 FY2026 growth and the non-OpenAI RPO growing 28% organically.³ P&B accelerates from 11% in FY2026 to 13% in FY2027 on the M365 pricing tailwind. The revenue multiplier and depreciation years sensitivity table shows that at 6 year depreciation and base case revenue our model implies \$473. Compressing depreciation life to 3 years drives the implied price to \$402, while extending to 9 years at a 1.07 revenue multiplier pushes it to \$552, illustrating that the depreciation assumption is nearly as impactful as revenue itself.

Operating Expense and Margin Assumptions

We hold ex-depreciation product costs flat at 15.8% and service costs at 20.0% of their respective revenue bases throughout the forecast. The COGS sensitivity table reveals an important asymmetry, a 450 basis point improvement in service COGS adds approximately \$45 to our implied price while the same improvement in product COGS adds only approximately \$10. This confirms service cost efficiency is the dominant margin driver and validates our focus on depreciation normalization rather than product cost improvement as the primary margin recovery mechanism.

		Service COGS%							
		\$473.46	-24.52%	-23.02%	-21.52%	-20.02%	-18.52%	-17.02%	-15.52%
Product COGS%	-20.27%	420.82	435.51	450.20	464.89	479.58	494.26	508.95	
	-18.77%	423.68	438.37	453.06	467.75	482.43	497.12	511.81	
	-17.27%	426.54	441.23	455.92	470.60	485.29	499.98	514.67	
	-15.77%	429.40	444.09	458.77	473.46	488.15	502.84	517.52	
	-14.27%	432.26	446.94	461.63	476.32	491.01	505.69	520.38	
	-12.77%	435.11	449.80	464.49	479.18	493.86	508.55	523.24	
	-11.27%	437.97	452.66	467.35	482.03	496.72	511.41	526.10	

WACC, CV Growth, and CV ROIC

		WACC							
		\$ 473.46	8.44%	8.69%	8.94%	9.19%	9.44%	9.69%	9.94%
CV Growth NOPLAT	1.75%	499.74	477.94	457.70	438.88	421.33	404.92	389.57	
	2.00%	513.90	490.81	469.44	449.61	431.15	413.94	397.86	
	2.25%	529.20	504.68	482.05	461.10	441.66	423.57	406.70	
	2.50%	545.79	519.68	495.65	473.46	452.92	433.86	416.13	
	2.75%	563.84	535.93	510.33	486.78	465.03	444.90	426.21	
	3.00%	583.55	553.62	526.26	501.17	478.07	456.76	437.02	
	3.25%	605.16	572.93	543.59	516.77	492.17	469.54	448.64	

		CV ROIC							
		\$ 473.46	31%	36%	41%	46%	51%	56%	61%
CV of NOPLAT	1.00%	305.31	340.75	375.82	410.63	445.26	479.76	514.15	
	1.50%	321.33	357.71	393.49	428.85	463.93	498.79	533.49	
	2.00%	339.58	377.03	413.61	449.61	485.19	520.47	555.52	
	2.50%	360.57	399.24	436.74	473.46	509.62	545.38	580.83	
	3.00%	384.93	425.03	463.61	501.17	538.01	574.32	610.24	
	3.50%	413.59	455.35	495.19	533.74	571.38	608.35	644.81	
	4.00%	447.76	491.51	532.86	572.59	611.18	648.92	686.04	

The CV growth and WACC sensitivity table is the most important long-term valuation driver. At our base case of 2.50% CV growth and 9.19% WACC the model implies \$473. The model is considerably more sensitive to CV growth than WACC, with a 50 basis point increase in CV growth adding approximately \$30 versus \$20 for a 25 basis point WACC reduction. Even at the most conservative combination of 1.75% CV growth and 9.94% WACC the model implies \$389, suggesting meaningful downside protection at current levels. The CV ROIC table corroborates this, showing our base case implies approximately 40% CV ROIC, consistent with Microsoft's historical returns and durable competitive positioning.

Valuation Model Results

Our DCF and Economic Profit models converge on \$473.46. Our DDM of \$424.67 is around the current price but we do not rely on it as a primary valuation given Microsoft's low payout ratio during an aggressive reinvestment cycle makes it structurally ill-suited. Our relative valuation using forward P/E implies \$453, reflecting Microsoft's discount to peers despite superior margins. We anchor our recommendation on the DCF.

Differentiation from Consensus

Microsoft trades at approximately \$430 while our DCF implies \$473, and the gap comes down to one core disagreement. The market is treating the current capex cycle as persistent while we model it as transitional. We believe the market is anchoring on this compressed free cash flow rather than the \$102.7 billion we forecast by FY2029 as the capex mix normalizes. Additionally, the market appears to be valuing Microsoft primarily as an AI infrastructure story, meaning any doubt about AI

monetization timelines gets reflected in the stock. We are separately valuing P&B's \$120 billion subscription base growing through the July 2026 pricing increase as a durable earnings floor that justifies a price above \$430 regardless of how the AI debate resolves. The most legitimate explanation for the remaining gap between our intrinsic value and the current price is OpenAI concentration risk. Approximately 45% of the \$625 billion RPO is attributable to a single cash-flow negative counterparty, and the market may be applying a haircut to that backlog that our model does not fully capture. We view this as a known and monitored risk rather than a thesis-breaker.

KEYS TO MONITOR

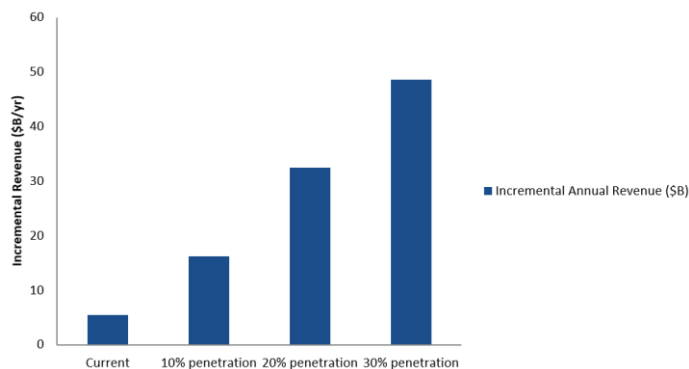
Bull Case Catalysts

The most important positive monitor is Azure supply constraint resolution translating into re-accelerating growth. Hood confirmed that allocating all incoming GPU capacity entirely to Azure would have produced growth above 40%.³ If Azure sustains growth above 40% for two or more consecutive quarters in FY2027 we would revise our Intelligent Cloud CAGR upward, pushing our DCF implied price significantly higher. This is the single variable most worth monitoring quarterly.

The second catalyst is the July 2026 M365 pricing increase flowing through FY2027 results. If P&B segment growth reaches 13% or above in FY2027 as we forecast, it validates the non-AI earnings floor central to our thesis and demonstrates Microsoft's revenue growth is durable regardless of how the AI monetization debate resolves. Failure to achieve this threshold would be more concerning than an Azure miss because it would call into question the pricing power assumption underpinning our entire P&B forecast.

Third, if paid Copilot seats reach 7 to 10% of the installed base within the next four quarters, AI monetization is compounding faster than our conservative 3.3% penetration assumption implies, creating upside to both P&B revenue and operating margin forecasts.

Copilot Penetration — Incremental Annual Revenue (\$B)

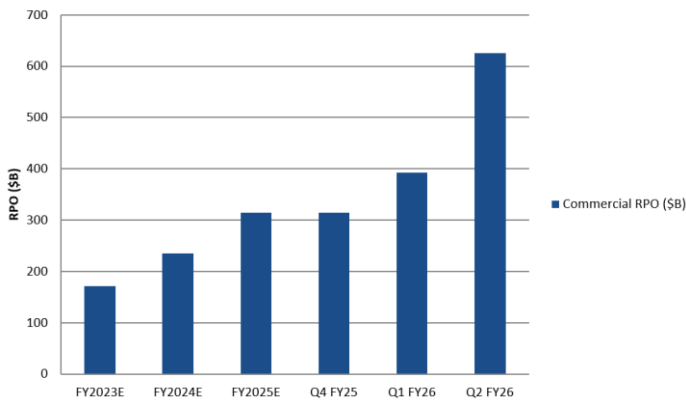


Bear Case Risks

The most critical negative monitor is capex normalization failing to materialize on our expected timeline. Our entire free cash flow recovery thesis depends on capex as a percentage of revenue showing a credible declining trend by FY2028. If this normalization does not occur and management provides no clear guidance toward moderation, we would reduce our target price and place the BUY rating under review. The capex sensitivity table confirms that sustained elevated capex materially compresses our implied price, with the most stressed scenario in our sensitivity analysis falling below the current price of \$430, representing the threshold at which the risk reward of the investment becomes unfavorable.

The second risk is Azure growth decelerating below 30% on a sustained basis. Google Cloud growing at 48% in Q4 2025 is the most credible competitive threat to our share gain assumption. Two consecutive quarters below 30% would push our DCF implied price down and place the recommendation under review pending management commentary.

The third and most binary risk is OpenAI financial deterioration. Any public indication of financial distress including a down-round financing event or meaningful reduction in Azure consumption would require immediate reassessment of both Intelligent Cloud revenue and the \$135 billion equity stake simultaneously.

Microsoft Commercial RPO (\$B)


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REFERENCES

- ¹ Microsoft 10-K / Annual Report (balance sheet, cash figures, AAA rating, geographic revenue)
- ² Microsoft M365 pricing announcement (July 2026 price increase)
- ³ Microsoft Q2 FY2026 Earnings Call Transcript (Azure growth, RPO, Copilot seats, Hood commentary, GPU contracts, Maia 200, OpenAI restructuring)
- ⁴ Synergy Research Group (cloud market share figures, AWS 30%, Azure 21%, GCP 12%)

⁵ Microsoft Activision Blizzard acquisition press release or 10-K

⁶ <https://www.srgresearch.com/>

⁸ Gartner (AI spending \$2.52 trillion, 25-30% workload migration figure)

⁹ FactSet (consensus target price, peer valuation data)

¹⁰ Gartner (global IT spending \$6.15 trillion, data center and server growth figures)

¹¹ Company earnings releases / press reporting (combined hyperscaler capex \$660-690 billion)

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		Beta							
		\$ 473.46	0.71	0.81	0.91	1.01	1.11	1.21	1.31
Risk Free Rate	3.5000%	744.99	663.45	596.75	541.22	494.29	454.14	419.42	
	3.7500%	702.08	628.51	567.77	516.81	473.46	436.17	403.77	
	4.0000%	663.45	596.75	541.22	494.29	454.14	419.42	389.12	
	4.25%	628.51	567.77	516.81	473.46	436.17	403.77	375.38	
	4.5000%	596.75	541.22	494.29	454.14	419.42	389.12	362.47	
	4.7500%	567.77	516.81	473.46	436.17	403.77	375.38	350.31	
	5.0000%	541.22	494.29	454.14	419.42	389.12	362.47	338.84	

		Revenue Multiplier							
		\$ 473.46	0.90	0.93	0.97	1.00	1.04	1.07	1.11
Deprec Years AMT	3.0	327.49	351.60	376.70	402.83	430.03	458.33	487.79	
	4.0	362.81	386.91	412.01	438.14	465.34	493.65	523.11	
	5.0	384.00	408.10	433.20	459.33	486.53	514.84	544.30	
	6.0	398.13	422.23	447.33	473.46	500.66	528.97	558.43	
	7.0	408.22	432.32	457.42	483.55	510.75	539.06	568.52	
	8.0	415.78	439.89	464.99	491.12	518.32	546.63	576.08	
	9.0	421.67	445.78	470.87	497.01	524.21	552.51	581.97	

		CapEx multiplier							
		\$ 473.46	45%	55%	65%	75%	85%	95%	105%
2027 CapEx Inc	10.5%	508.63	504.77	499.99	494.02	486.52	476.98	464.75	
	12.0%	504.47	499.96	494.36	487.34	478.45	467.07	452.35	
	13.5%	500.26	495.08	488.62	480.48	470.12	456.77	439.33	
	15.0%	496.01	490.13	482.77	473.46	461.54	446.06	425.66	
	16.5%	491.70	485.10	476.80	466.26	452.68	434.93	411.33	
	18.0%	487.34	479.99	470.72	458.89	443.55	423.37	396.29	
	19.5%	482.93	474.80	464.52	451.33	434.14	411.35	380.53	

		Tax Rate							
		\$ 473.46	0.14	0.16	0.18	0.20	0.22	0.24	0.26
ERP	3.65%	656.58	641.33	626.07	610.81	595.53	580.24	564.94	
	4.10%	599.87	585.87	571.86	557.84	543.81	529.78	515.73	
	4.55%	551.38	538.46	525.52	512.57	499.62	486.66	473.69	
	5.00%	509.49	497.49	485.48	473.46	461.44	449.41	437.37	
	5.45%	472.94	461.75	450.55	439.35	428.14	416.92	405.70	
	5.90%	440.79	430.32	419.84	409.35	398.86	388.36	377.86	
	6.35%	412.31	402.47	392.63	382.78	372.92	363.06	353.19	

		WACC							
		\$ 473.46	8.44%	8.69%	8.94%	9.19%	9.44%	9.69%	9.94%
CV Growth NOPLAT	1.75%	499.74	477.94	457.70	438.88	421.33	404.92	389.57	
	2.00%	513.90	490.81	469.44	449.61	431.15	413.94	397.86	
	2.25%	529.20	504.68	482.05	461.10	441.66	423.57	406.70	
	2.50%	545.79	519.68	495.65	473.46	452.92	433.86	416.13	
	2.75%	563.84	535.93	510.33	486.78	465.03	444.90	426.21	
	3.00%	583.55	553.62	526.26	501.17	478.07	456.76	437.02	
	3.25%	605.16	572.93	543.59	516.77	492.17	469.54	448.64	

		CV ROIC							
		\$ 473.46	31%	36%	41%	46%	51%	56%	61%
CV of NOPLAT	1.00%	305.31	340.75	375.82	410.63	445.26	479.76	514.15	
	1.50%	321.33	357.71	393.49	428.85	463.93	498.79	533.49	
	2.00%	339.58	377.03	413.61	449.61	485.19	520.47	555.52	
	2.50%	360.57	399.24	436.74	473.46	509.62	545.38	580.83	
	3.00%	384.93	425.03	463.61	501.17	538.01	574.32	610.24	
	3.50%	413.59	455.35	495.19	533.74	571.38	608.35	644.81	
	4.00%	447.76	491.51	532.86	572.59	611.18	648.92	686.04	

		Azure Rev Multiplier							
		\$ 473.46	85.00%	90.00%	95.00%	100.00%	105.00%	110.00%	115.00%
CapEx Multiplier	60.00%	398.50	426.01	455.36	486.66	520.02	555.55	593.37	
	65.00%	394.61	422.12	451.47	482.77	516.13	551.66	589.48	
	70.00%	390.24	417.74	447.09	478.40	511.76	547.29	585.11	
	75.00%	385.30	412.81	442.16	473.46	506.82	542.35	580.17	
	80.00%	379.72	407.22	436.58	467.88	501.24	536.77	574.59	
	85.00%	373.38	400.89	430.24	461.54	494.90	530.43	568.25	
	90.00%	366.16	393.67	423.02	454.32	487.68	523.21	561.03	

		Service COGS%							
		\$ 473.46	-24.52%	-23.02%	-21.52%	-20.02%	-18.52%	-17.02%	-15.52%
Product COGS%	-20.27%	420.82	435.51	450.20	464.89	479.58	494.26	508.95	
	-18.77%	423.68	438.37	453.06	467.75	482.43	497.12	511.81	
	-17.27%	426.54	441.23	455.92	470.60	485.29	499.98	514.67	
	-15.77%	429.40	444.09	458.77	473.46	488.15	502.84	517.52	
	-14.27%	432.26	446.94	461.63	476.32	491.01	505.69	520.38	
	-12.77%	435.11	449.80	464.49	479.18	493.86	508.55	523.24	
	-11.27%	437.97	452.66	467.35	482.03	496.72	511.41	526.10	

Microsoft Corporation

Balance Sheet

Fiscal Years Ending Jun. 30	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Assets:																	
Current Assets:																	
Cash and cash equivalents	6,510.00	7,663.00	11,946.00	11,356.00	13,576.00	14,224.00	13,931.00	34,704.00	18,315.00	30,242.00	51,042.99	75,271.57	90,219.66	127,445.38	172,673.00	239,615.31	318,566.74
Short-term investments including securities loaned	106,730.00	125,318.00	121,822.00	122,463.00	122,951.00	116,110.00	90,826.00	76,558.00	57,228.00	64,323.00	67,056.73	69,906.64	72,877.67	75,974.97	79,203.91	82,570.07	86,079.30
Total cash, cash equivalents, and short-term investments	113,240.00	132,981.00	133,768.00	133,819.00	136,527.00	130,334.00	104,757.00	111,262.00	75,543.00	94,565.00	118,099.72	145,178.21	163,097.33	203,420.36	251,876.91	322,185.38	404,646.05
Accounts receivable, net of allowance for doubtful accounts	18,277.00	22,431.00	26,481.00	29,524.00	32,011.00	38,043.00	44,261.00	48,688.00	56,924.00	69,905.00	74,562.10	88,436.20	105,373.57	127,492.46	152,551.53	178,239.06	203,729.51
Inventories	2,251.00	2,181.00	2,662.00	2,063.00	1,895.00	2,636.00	3,742.00	2,500.00	1,246.00	938.00	1,561.33	1,561.33	1,561.33	1,561.33	1,561.33	1,561.33	1,561.33
Other current assets	5,892.00	5,103.00	6,751.00	10,146.00	11,482.00	13,393.00	16,924.00	21,807.00	26,021.00	25,723.00	29,196.86	34,629.65	41,261.95	49,923.21	59,735.79	69,794.46	79,775.95
Total current assets	139,660.00	162,696.00	169,662.00	175,552.00	181,915.00	184,406.00	169,684.00	184,257.00	159,734.00	191,131.00	223,420.01	269,805.40	311,294.18	382,397.36	465,725.55	571,780.23	689,712.84
Property and equipment, net of accumulated depreciation	18,356.00	23,734.00	29,460.00	36,477.00	44,151.00	59,715.00	74,398.00	95,641.00	135,591.00	204,966.00	285,170.31	364,966.28	442,326.29	513,082.69	573,511.72	640,931.21	705,830.84
Operating lease right-of-use assets	6,300.00	6,555.00	6,896.00	7,379.00	8,753.00	11,088.00	13,148.00	14,346.00	18,961.00	24,823.00	34,536.37	44,200.30	53,569.20	62,138.36	69,456.79	77,621.83	85,481.68
Equity and other investments	10,431.00	6,023.00	1,862.00	2,649.00	2,965.00	5,984.00	6,891.00	9,879.00	14,600.00	15,405.00	16,829.96	18,386.73	20,087.51	21,945.60	23,975.57	26,193.31	28,616.19
Goodwill	17,872.00	35,122.00	35,683.00	42,026.00	43,351.00	49,711.00	67,524.00	67,886.00	119,220.00	119,509.00	119,509.00	119,509.00	119,509.00	119,509.00	119,509.00	119,509.00	119,509.00
Intangible assets, net	3,733.00	10,106.00	8,053.00	7,750.00	7,038.00	7,800.00	11,298.00	9,366.00	27,597.00	22,604.00	18,010.00	15,109.00	13,075.00	11,224.00	9,842.00	8,748.44	7,654.89
Other long-term assets	3,416.00	6,076.00	7,442.00	14,723.00	13,138.00	15,075.00	21,897.00	30,601.00	36,460.00	40,565.00	39,011.52	46,270.56	55,132.34	66,705.13	79,816.24	93,256.17	106,592.99
Total assets	193,468.00	250,312.00	258,848.00	286,556.00	301,311.00	333,779.00	364,840.00	411,976.00	512,163.00	619,003.00	736,487.18	878,247.27	1,014,993.52	1,177,002.15	1,341,836.87	1,538,040.19	1,743,398.44
Liabilities and stockholders' equity																	
Current liabilities:																	
Accounts payable	6,898.00	7,390.00	8,617.00	9,382.00	12,530.00	15,163.00	19,000.00	18,095.00	21,996.00	27,724.00	29,276.83	34,724.49	41,374.96	50,059.94	59,899.39	69,985.61	79,994.44
Short-term debt	12,904.00	9,072.00	-	-	-	-	-	-	6,893.00	-	-	-	-	-	-	-	-
Current portion of long-term debt	-	1,049.00	3,998.00	5,516.00	3,749.00	8,072.00	2,749.00	5,247.00	2,249.00	2,999.00	3,000.00	9,250.00	-	2,054.00	-	3,490.20	3,490.20
Accrued compensation	5,264.00	5,819.00	6,103.00	6,830.00	7,874.00	10,057.00	10,661.00	11,009.00	12,564.00	13,709.00	17,149.67	20,340.79	24,236.47	29,323.93	35,087.64	40,995.91	46,858.85
Income taxes	580.00	718.00	2,121.00	5,665.00	2,130.00	2,174.00	4,067.00	4,152.00	5,017.00	7,211.00	8,768.05	9,448.89	11,030.12	13,338.46	16,062.23	20,045.22	23,606.46
Short-term unearned revenue	27,468.00	24,013.00	28,905.00	32,676.00	36,000.00	41,525.00	45,538.00	50,901.00	57,582.00	64,555.00	76,655.76	90,919.43	108,332.39	131,072.36	156,835.07	183,243.90	209,450.10
Other current liabilities	5,949.00	7,684.00	8,744.00	9,351.00	10,027.00	11,666.00	13,067.00	14,745.00	19,185.00	25,020.00	23,653.26	28,054.53	33,427.55	40,444.30	48,393.77	56,542.60	64,628.91
Total current liabilities	59,357.00	56,745.00	58,488.00	69,420.00	72,310.00	88,657.00	95,082.00	104,149.00	125,286.00	141,218.00	158,503.56	192,738.12	218,401.48	266,293.00	316,278.10	374,303.43	428,028.95
Long-term debt	40,557.00	76,073.00	72,242.00	66,662.00	59,578.00	50,074.00	47,032.00	41,990.00	42,688.00	40,152.00	46,745.55	54,760.90	63,067.22	71,577.10	79,734.00	88,549.27	97,169.89
Long-term income taxes	-	13,485.00	30,265.00	29,612.00	29,432.00	27,190.00	26,069.00	25,560.00	27,931.00	25,986.00	25,986.00	25,986.00	25,986.00	25,986.00	25,986.00	25,986.00	25,986.00
Other long-term liabilities excluding long-term income taxes	-	3,549.00	5,211.00	7,581.00	10,632.00	13,427.00	15,526.00	17,981.00	27,064.00	45,186.00	59,426.81	76,055.54	92,176.64	106,921.60	119,514.45	133,564.03	147,088.51
Long-term unearned revenue	6,441.00	2,643.00	3,815.00	4,530.00	3,180.00	2,616.00	2,870.00	2,912.00	2,602.00	2,710.00	4,110.08	4,874.86	5,808.50	7,027.76	8,409.09	9,825.06	11,230.17
Deferred income taxes	1,476.00	5,734.00	541.00	233.00	204.00	198.00	230.00	433.00	2,618.00	2,835.00	4,928.69	7,184.95	9,818.79	13,003.83	16,839.27	21,625.78	27,262.68
Operating lease liabilities	-	5,372.00	5,568.00	6,188.00	7,671.00	9,629.00	11,489.00	12,728.00	15,497.00	17,437.00	28,218.79	36,114.93	43,770.02	50,771.66	56,751.37	63,422.81	69,844.89
Total liabilities	107,831.00	162,601.00	176,130.00	184,226.00	183,007.00	191,791.00	198,298.00	205,753.00	243,686.00	275,524.00	327,919.48	397,715.30	459,028.65	541,580.96	623,512.27	717,276.38	806,611.08
Stockholders' Equity																	
Common stock and paid-in capital	68,178.00	69,315.00	71,223.00	78,520.00	80,552.00	83,111.00	86,939.00	93,718.00	100,923.00	109,095.00	109,095.00	109,096.50	109,096.50	109,097.00	109,097.50	109,098.00	109,098.50
Retained earnings / deficit	2,282.00	17,769.00	13,682.00	24,150.00	34,566.00	57,055.00	84,281.00	118,848.00	173,144.00	237,731.00	302,819.20	374,782.97	450,215.36	529,671.19	612,574.11	715,012.81	831,035.85
Accumulated other comprehensive income	1,537.00	627.00	(2,187.00)	(340.00)	3,186.00	1,822.00	(4,678.00)	(6,343.00)	(5,590.00)	(3,347.00)	(3,347.00)	(3,347.00)	(3,347.00)	(3,347.00)	(3,347.00)	(3,347.00)	(3,347.00)
Retained earnings / deficit, including accumulated other comprehensive income	3,819.00	18,396.00	11,495.00	23,810.00	37,752.00	58,877.00	79,603.00	112,505.00	167,554.00	234,384.00	299,472.20	480,531.97	555,964.86	635,421.19	718,324.61	820,763.81	936,787.35
Total stockholders' equity	71,997.00	87,711.00	82,718.00	102,330.00	118,304.00	141,988.00	166,542.00	206,223.00	268,477.00	343,479.00	408,567.70	480,531.97	555,964.86	635,421.19	718,324.61	820,763.81	936,787.35
Total liabilities and stockholders' equity	179,828.00	250,312.00	258,848.00	286,556.00	301,311.00	333,779.00	364,840.00	411,976.00	512,163.00	619,003.00	736,487.18	878,247.27	1,014,993.52	1,177,002.15	1,341,836.87	1,538,040.19	1,743,398.44

Microsoft Corporation
Historical Cash Flow Statement

Fiscal Years Ending Jun. 30	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Net income / loss	20,539.00	25,489.00	16,571.00	39,240.00	44,281.00	61,271.00	72,738.00	72,361.00	88,136.00	101,832.00
Adjustments to reconcile net income to net cash from operations										
Depreciation, Amortization & Other	6,622.00	8,778.00	10,261.00	11,682.00	12,796.00	11,686.00	14,460.00	13,861.00	22,287.00	34,153.00
Stock-based compensation expense	2,668.00	3,266.00	3,940.00	4,652.00	5,289.00	6,118.00	7,502.00	9,611.00	10,734.00	11,974.00
Net recognized losses / gains on investments and derivatives	(223.00)	(2,073.00)	(2,212.00)	(792.00)	(219.00)	(1,249.00)	(409.00)	196.00	305.00	609.00
Deferred income taxes	2,479.00	(829.00)	(5,143.00)	(6,463.00)	11.00	(150.00)	(5,702.00)	(6,059.00)	(4,738.00)	(7,056.00)
Changes in operating assets and liabilities										
Accounts receivable	562.00	(1,216.00)	(3,862.00)	(2,812.00)	(2,577.00)	(6,481.00)	(6,834.00)	(4,087.00)	(7,191.00)	(10,581.00)
Inventories	600.00	50.00	(465.00)	597.00	168.00	(737.00)	(1,123.00)	1,242.00	1,284.00	309.00
Other current assets excluding inventories	(1,212.00)	1,028.00	(952.00)	(1,718.00)	(2,330.00)	(932.00)	(709.00)	(1,991.00)	(1,648.00)	(3,044.00)
Other long-term assets	(1,110.00)	(917.00)	(285.00)	(1,834.00)	(1,037.00)	(3,459.00)	(2,805.00)	(2,833.00)	(6,817.00)	(2,950.00)
Accounts payable	88.00	81.00	1,148.00	232.00	3,018.00	2,798.00	2,943.00	(2,721.00)	3,545.00	569.00
Other current liabilities excluding accounts payable	(179.00)	356.00	798.00	1,419.00	1,346.00	4,149.00	2,344.00	2,272.00	4,867.00	5,922.00
Other long-term liabilities	(406.00)	(118.00)	(20.00)	591.00	1,348.00	1,402.00	825.00	553.00	749.00	(975.00)
Unearned revenue	2,565.00	3,820.00	5,922.00	4,462.00	2,212.00	4,633.00	5,109.00	5,535.00	5,348.00	5,438.00
Income taxes	(298.00)	1,792.00	18,183.00	2,929.00	(3,631.00)	(2,309.00)	696.00	(358.00)	1,687.00	(38.00)
Changes in operating assets and liabilities	610.00	4,876.00	20,467.00	3,866.00	(1,483.00)	(936.00)	446.00	(2,388.00)	1,824.00	(5,350.00)
Net cash from operations	33,325.00	39,507.00	43,884.00	52,185.00	60,675.00	76,740.00	89,035.00	87,582.00	118,548.00	136,162.00
Adjustments to reconcile net income / loss to net cash from operations	12,786.00	14,018.00	27,313.00	12,945.00	16,394.00	15,469.00	16,297.00	15,221.00	30,412.00	34,330.00
Net cash from / used in financing	(8,393.00)	8,408.00	(33,590.00)	(36,887.00)	(46,031.00)	(48,486.00)	(58,876.00)	(43,935.00)	(37,757.00)	(51,699.00)
Proceeds from issuance / repayments of short-term debt, maturities of 90 days or less, net	7,195.00	(4,963.00)	(7,324.00)	-	-	-	-	-	5,250.00	(5,746.00)
Proceeds from issuance of debt	13,884.00	44,344.00	7,183.00	-	-	-	-	-	24,395.00	-
Cash premium on debt exchange	-	-	-	-	(3,417.00)	(1,754.00)	-	-	-	-
Repayments of debt	(2,796.00)	(7,922.00)	(10,060.00)	(4,000.00)	(5,518.00)	(3,750.00)	(9,023.00)	(2,750.00)	(29,070.00)	(3,216.00)
Common stock issued	668.00	772.00	1,002.00	1,142.00	1,343.00	1,693.00	1,841.00	1,866.00	2,002.00	2,056.00
Common stock repurchased	(15,969.00)	(11,788.00)	(10,721.00)	(19,543.00)	(22,968.00)	(27,385.00)	(32,696.00)	(22,245.00)	(17,254.00)	(18,420.00)
Common stock cash dividends paid	(11,006.00)	(11,845.00)	(12,699.00)	(13,811.00)	(15,137.00)	(16,521.00)	(18,135.00)	(19,800.00)	(21,771.00)	(24,082.00)
Other	(369.00)	(190.00)	(971.00)	(675.00)	(334.00)	(769.00)	(863.00)	(1,006.00)	(1,309.00)	(2,291.00)
Net cash from / used in investing	(23,950.00)	(46,781.00)	(6,061.00)	(15,773.00)	(12,223.00)	(27,577.00)	(30,311.00)	(22,680.00)	(96,970.00)	(72,599.00)
Additions to property and equipment	(8,343.00)	(8,129.00)	(11,632.00)	(13,925.00)	(15,441.00)	(20,622.00)	(23,886.00)	(28,107.00)	(44,477.00)	(64,551.00)
Acquisition of companies, net of cash acquired, and purchases of intangible and other assets	(1,393.00)	(25,944.00)	(888.00)	(2,388.00)	(2,521.00)	(8,909.00)	(22,038.00)	(1,670.00)	(69,132.00)	(5,978.00)
Purchases of investments	(129,758.00)	(176,905.00)	(137,380.00)	(57,697.00)	(77,190.00)	(62,924.00)	(26,456.00)	(37,651.00)	(17,732.00)	(29,775.00)
Maturities of investments	22,054.00	28,044.00	26,360.00	20,043.00	66,449.00	51,792.00	16,451.00	33,510.00	24,775.00	16,079.00
Sales of investments	93,287.00	136,350.00	117,577.00	38,194.00	17,721.00	14,008.00	28,443.00	14,354.00	10,894.00	9,309.00
Securities lending payable	203.00	(197.00)	(98.00)	-	(1,241.00)	(922.00)	(2,825.00)	(3,116.00)	(1,298.00)	2,317.00
Net change in cash and cash equivalents before effect of exchange rates on cash and cash equivalents	982.00	1,134.00	4,233.00	(475.00)	2,421.00	677.00	(152.00)	20,967.00	(16,179.00)	11,864.00
Effect of foreign exchange rates on cash and cash equivalents	(67.00)	19.00	50.00	(115.00)	(201.00)	(29.00)	(141.00)	(194.00)	(210.00)	63.00
Net change in cash and cash equivalents	915.00	1,153.00	4,283.00	(590.00)	2,220.00	648.00	(293.00)	20,773.00	(16,389.00)	11,927.00
Cash and cash equivalents, beginning of period	5,595.00	6,510.00	7,863.00	11,946.00	11,356.00	13,576.00	14,224.00	13,931.00	34,704.00	18,315.00
Cash and cash equivalents, end of period	6,510.00	7,663.00	11,946.00	11,356.00	13,576.00	14,224.00	13,931.00	34,704.00	18,315.00	30,242.00

Microsoft Corporation
Forecasted Cash Flow Statement

<i>Fiscal Years Ending Jun. 30</i>	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Operating Cash Flows							
Net Income	122,801.56	132,337.07	154,483.10	186,812.80	224,960.72	280,744.73	330,621.89
Depreciation	42,295.69	61,079.03	79,363.43	99,190.58	120,272.41	121,858.21	131,115.53
Change in Short-term investments including securities loaned	(2,733.73)	(2,849.91)	(2,971.03)	(3,097.30)	(3,228.94)	(3,366.17)	(3,509.23)
Change in Accounts receivable, net of allowance for doubtful account:	(4,657.10)	(13,874.10)	(16,937.37)	(22,118.89)	(25,059.07)	(25,687.54)	(25,490.45)
Change in Inventories	(623.33)	-	-	-	-	-	-
Change in Other current assets	(3,473.86)	(5,432.79)	(6,632.30)	(8,661.27)	(9,812.57)	(10,058.67)	(9,981.49)
Change in Accounts payable	1,552.83	5,447.67	6,650.46	8,684.99	9,839.45	10,086.22	10,008.83
Change in Accrued compensation	3,440.67	3,191.11	3,895.68	5,087.46	5,763.72	5,908.27	5,862.94
Change in Short-term unearned revenue	12,100.76	14,263.67	17,412.96	22,739.98	25,762.71	26,408.82	26,206.20
Change in Other current liabilities	(1,366.74)	4,401.27	5,373.02	7,016.75	7,949.46	8,148.83	8,086.31
Change in Other long-term liabilities excluding long-term income tax	14,240.81	16,628.73	16,121.10	14,744.97	12,592.84	14,049.59	13,524.47
Change in Long-term unearned revenue	1,400.08	764.78	933.64	1,219.26	1,381.33	1,415.97	1,405.11
Cash Provided or used from Operating Activities	184,977.63	215,956.53	257,692.69	311,619.32	370,422.06	429,508.26	487,850.11
Investing Cash Flows							
Change in Property and equipment	(122,500.00)	(140,875.00)	(156,723.44)	(169,946.98)	(180,701.43)	(189,277.69)	(196,015.17)
Change in Operating lease right-of-use assets	(9,713.37)	(9,663.92)	(9,368.91)	(8,569.16)	(7,318.43)	(8,165.03)	(7,859.86)
Change in Equity and other investments	(1,424.96)	(1,556.77)	(1,700.77)	(1,858.09)	(2,029.97)	(2,217.74)	(2,422.88)
Change in Goodwill	-	-	-	-	-	-	-
Change in Intangible assets, net	4,594.00	2,901.00	2,034.00	1,851.00	1,382.00	1,093.56	1,093.56
Change in Other long-term assets	1,553.48	(7,259.04)	(8,861.77)	(11,572.79)	(13,111.11)	(13,439.93)	(13,336.82)
Change in Income taxes	1,557.05	680.84	1,581.23	2,308.35	2,723.77	3,982.99	3,561.24
Change in Long-term income taxes	-	-	-	-	-	-	-
Change in Deferred income taxes	2,093.69	2,256.26	2,633.84	3,185.04	3,835.44	4,786.52	5,636.89
Change in Operating lease liabilities	10,781.79	7,896.14	7,655.09	7,001.64	5,979.70	6,671.44	6,422.09
Cash Provided or used from Investing Activities	(113,058.33)	(145,620.49)	(162,750.73)	(177,601.00)	(189,240.04)	(196,565.90)	(202,920.95)
Financing Cash Flows							
Change in Short-term debt	-	-	-	-	-	-	-
Change in Current portion of long-term debt	1.00	6,250.00	(9,250.00)	2,054.00	(2,054.00)	3,490.20	-
Change in Long-term debt	6,593.55	8,015.35	8,306.32	8,509.88	8,156.90	8,815.27	8,620.62
Change in Common stock and paid-in capital	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Change in Accumulated other comprehensive income	-	-	-	-	-	-	-
Share Buybacks	(30,121.94)	(30,231.00)	(46,246.89)	(71,863.51)	(103,912.31)	(137,575.79)	(171,370.50)
Dividends Paid	(27,591.41)	(30,142.30)	(32,803.81)	(35,493.46)	(38,145.49)	(40,730.24)	(43,228.35)
Cash Provided or used from Financing Activities	(51,118.31)	(46,107.45)	(79,993.88)	(96,792.60)	(135,954.40)	(166,000.05)	(205,977.72)
Change in Cash	20,800.99	24,228.59	14,948.08	37,225.73	45,227.61	66,942.31	78,951.44
Cash at Beginning of Period	30,242.00	51,042.99	75,271.57	90,219.66	127,445.38	172,673.00	239,615.31
Cash at End of Period	51,042.99	75,271.57	90,219.66	127,445.38	172,673.00	239,615.31	318,566.74

Microsoft Corporation
Common Size Income Statement

Fiscal Years Ending Jun. 30	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenues																	
Product	73.87%	66.08%	58.44%	52.50%	47.58%	42.28%	36.68%	30.53%	26.42%	22.70%	18.26%	17.47%	16.83%	16.75%	16.50%	16.29%	16.10%
Service and other	26.13%	33.92%	41.56%	47.50%	52.42%	57.72%	63.32%	69.47%	73.58%	77.30%	81.74%	82.53%	83.17%	83.25%	83.50%	83.71%	83.90%
Total revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of revenue																	
Product	-18.89%	-14.80%	-13.04%	-12.00%	-10.30%	-10.14%	-8.89%	-7.75%	-5.32%	-3.58%	-2.88%	-2.76%	-2.65%	-2.64%	-2.60%	-2.57%	-2.54%
Service and other	-9.81%	-11.58%	-12.41%	-12.81%	-12.97%	-13.98%	-15.42%	-16.79%	-15.82%	-15.47%	-16.36%	-16.52%	-16.65%	-16.66%	-16.71%	-16.76%	-16.79%
Depreciation, amortization, and other	-7.26%	-9.09%	-9.30%	-9.28%	-8.95%	-8.95%	-7.29%	-6.54%	-9.09%	-12.12%	-13.18%	-16.04%	-17.49%	-18.07%	-18.31%	-15.88%	-14.95%
Total cost of revenue	-35.96%	-35.48%	-34.75%	-34.10%	-32.22%	-31.07%	-31.60%	-31.08%	-30.24%	-31.18%	-32.42%	-35.32%	-36.80%	-37.38%	-37.63%	-35.20%	-34.28%
Gross margin	64.04%	64.52%	65.25%	65.90%	67.78%	68.93%	68.40%	68.92%	69.76%	68.82%	67.58%	64.68%	63.20%	62.82%	62.37%	64.80%	65.72%
Research and development	-13.15%	-13.50%	-13.34%	-13.41%	-13.47%	-12.32%	-12.36%	-12.83%	-12.04%	-11.53%	-11.30%	-11.08%	-11.08%	-11.08%	-11.08%	-11.08%	-11.08%
Sales and marketing	-16.06%	-16.01%	-15.83%	-14.47%	-13.70%	-11.97%	-11.01%	-10.74%	-9.98%	-9.11%	-8.65%	-8.22%	-7.81%	-7.42%	-7.05%	-6.69%	-6.36%
General and administrative	-5.01%	-4.64%	-4.31%	-3.88%	-3.57%	-3.04%	-2.98%	-3.57%	-3.10%	-2.56%	-2.31%	-2.08%	-1.87%	-1.68%	-1.51%	-1.36%	-1.23%
Total operating expenses	-34.21%	-34.18%	-33.48%	-31.76%	-30.75%	-27.33%	-26.35%	-27.15%	-25.12%	-23.20%	-22.26%	-21.37%	-20.78%	-20.17%	-19.64%	-19.13%	-18.66%
Operating income / loss	29.83%	30.37%	31.77%	34.14%	37.03%	41.59%	42.06%	41.77%	44.64%	45.62%	45.32%	43.31%	42.45%	42.45%	42.74%	45.66%	47.06%
Other income / expense, net	-0.48%	0.91%	1.28%	0.58%	0.05%	0.71%	0.17%	0.37%	-0.67%	-1.74%	2.49%	0.13%	0.11%	0.09%	0.08%	0.07%	0.06%
Income / loss before income taxes	29.34%	31.28%	33.05%	34.72%	37.08%	42.30%	42.22%	42.14%	43.97%	43.88%	47.82%	43.44%	42.56%	42.54%	42.81%	45.73%	47.12%
Provision for income taxes	-5.59%	-4.57%	-18.03%	-3.53%	-6.12%	-5.85%	-5.54%	-8.00%	-8.02%	-7.74%	-9.56%	-8.69%	-8.51%	-8.51%	-8.56%	-9.15%	-9.42%
Net income / loss	23.75%	26.71%	15.02%	31.18%	30.96%	36.45%	36.69%	34.15%	35.96%	36.15%	38.26%	34.76%	34.05%	34.03%	34.25%	36.58%	37.69%

Microsoft Corporation
Common Size Balance Sheet

Fiscal Years Ending Jun. 30	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Assets:																	
Current Assets:																	
Cash and cash equivalents	7.14%	7.94%	10.82%	9.02%	9.49%	8.46%	7.03%	16.38%	7.47%	10.73%	15.90%	19.77%	19.89%	23.22%	25.29%	31.22%	36.32%
Short-term investments including securities loaned	117.09%	129.77%	110.39%	97.31%	95.97%	69.08%	45.81%	36.13%	23.35%	22.83%	20.80%	19.38%	16.06%	13.84%	12.06%	10.70%	9.81%
Total cash, cash equivalents, and short-term investments	124.23%	137.70%	121.21%	106.34%	95.46%	77.54%	52.84%	52.50%	30.82%	33.57%	36.70%	38.15%	35.95%	37.06%	38.35%	41.98%	46.13%
Accounts receivable, net of allowance for doubtful accounts	20.05%	23.23%	24.00%	23.46%	22.38%	22.63%	22.32%	22.98%	23.22%	24.81%	23.23%	23.23%	23.23%	23.23%	23.23%	23.23%	23.23%
Inventories	2.47%	2.26%	2.41%	1.64%	1.33%	1.57%	1.89%	1.18%	0.51%	0.33%	0.49%	0.41%	0.34%	0.28%	0.24%	0.20%	0.18%
Other current assets	6.46%	5.28%	6.12%	8.06%	9.53%	7.97%	8.54%	10.29%	10.62%	9.13%	9.09%	9.09%	9.09%	8.09%	8.09%	9.09%	9.09%
Total current assets	153.31%	168.47%	153.74%	139.50%	127.30%	109.71%	85.58%	86.95%	65.17%	67.64%	69.60%	70.86%	68.61%	69.66%	70.81%	74.51%	78.63%
Property and equipment, net of accumulated depreciation	20.14%	24.58%	26.69%	28.99%	30.87%	35.53%	37.52%	45.13%	55.32%	72.75%	88.83%	95.85%	97.50%	93.47%	87.32%	83.52%	80.47%
Operating lease right-of-use assets	6.91%	6.79%	6.06%	5.86%	6.12%	6.60%	6.63%	6.77%	7.74%	8.81%	10.76%	11.61%	11.81%	11.32%	10.57%	10.11%	9.75%
Equity and other investments	11.44%	6.24%	1.69%	2.11%	2.07%	3.56%	3.48%	4.66%	5.96%	5.47%	5.24%	4.83%	4.43%	4.00%	3.65%	3.41%	3.26%
Goodwill	19.61%	36.37%	32.33%	33.40%	30.31%	29.57%	34.06%	32.03%	48.64%	42.42%	37.23%	31.39%	26.34%	21.77%	16.20%	15.57%	13.62%
Intangible assets, net	4.10%	10.46%	7.30%	6.16%	4.92%	4.64%	5.70%	4.42%	11.26%	8.02%	5.61%	3.97%	2.88%	2.04%	1.50%	1.14%	0.87%
Other long-term assets	3.75%	6.28%	6.74%	11.70%	9.19%	8.97%	11.04%	14.44%	14.87%	14.40%	12.15%	12.15%	12.15%	12.15%	12.15%	12.15%	12.15%
Total assets	212.24%	259.20%	234.55%	227.71%	210.68%	198.57%	184.01%	194.41%	208.94%	219.72%	229.42%	230.65%	223.72%	214.42%	204.30%	200.42%	198.75%
Liabilities and stockholders' equity																	
Current liabilities:																	
Accounts payable	7.57%	7.65%	7.81%	7.46%	8.76%	9.02%	9.58%	8.54%	8.97%	9.84%	9.12%	9.12%	9.12%	9.12%	9.12%	9.12%	9.12%
Short-term debt	14.16%	9.39%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.73%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Current portion of long-term debt	0.00%	1.09%	3.62%	4.38%	2.62%	4.80%	1.39%	2.48%	0.92%	1.06%	0.93%	2.43%	0.00%	0.37%	0.00%	0.45%	0.40%
Accrued compensation	5.77%	6.03%	5.53%	5.43%	5.51%	5.98%	5.38%	5.20%	5.13%	4.87%	5.34%	5.34%	5.34%	5.34%	5.34%	5.34%	5.34%
Income taxes	0.64%	0.74%	1.92%	4.50%	1.49%	1.29%	2.05%	1.96%	2.05%	2.56%	2.73%	2.48%	2.43%	2.43%	2.45%	2.61%	2.69%
Short-term unearned revenue	30.13%	24.87%	26.19%	25.97%	25.17%	24.70%	22.97%	24.02%	23.49%	22.91%	23.88%	23.88%	23.88%	23.88%	23.88%	23.88%	23.88%
Other current liabilities	6.53%	7.96%	7.92%	7.43%	7.01%	6.94%	6.59%	6.96%	7.83%	8.88%	7.37%	7.37%	7.37%	7.37%	7.37%	7.37%	7.37%
Total current liabilities	65.12%	57.72%	53.00%	55.16%	50.56%	52.74%	47.96%	49.15%	51.11%	50.13%	49.37%	50.62%	48.14%	48.51%	48.15%	48.77%	48.90%
Long-term debt	44.49%	78.77%	65.46%	52.97%	41.66%	29.79%	23.72%	19.81%	17.42%	14.25%	14.56%	6.62%	13.00%	13.04%	12.14%	11.54%	11.08%
Long-term income taxes	0.00%	13.96%	27.42%	23.53%	20.58%	16.18%	13.15%	12.06%	11.39%	9.22%	8.09%	6.82%	5.73%	4.73%	3.96%	3.39%	2.96%
Other long-term liabilities excluding long-term income taxes	0.00%	3.68%	4.72%	6.02%	7.43%	7.99%	7.83%	8.49%	11.04%	16.04%	18.51%	19.97%	20.32%	19.48%	18.20%	17.40%	16.77%
Long-term unearned revenue	7.07%	2.74%	3.46%	3.60%	2.22%	1.56%	1.45%	1.37%	1.06%	0.96%	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%
Deferred income taxes	1.62%	5.94%	0.49%	0.19%	0.14%	0.12%	0.12%	0.20%	1.07%	1.01%	1.54%	1.89%	2.16%	2.37%	2.56%	2.82%	3.11%
Operating lease liabilities	0.00%	5.56%	5.05%	4.92%	5.36%	5.73%	5.79%	6.01%	6.32%	6.19%	8.79%	9.48%	9.65%	9.25%	8.64%	8.26%	7.96%
Total liabilities	118.30%	168.37%	159.60%	146.39%	127.96%	114.10%	100.01%	97.09%	99.41%	97.80%	102.15%	104.45%	101.18%	98.66%	94.93%	93.47%	91.96%
Stockholders' Equity																	
Common stock and paid-in capital	74.79%	71.77%	64.54%	62.40%	56.32%	49.44%	43.85%	44.22%	41.17%	36.72%	33.96%	28.65%	24.05%	19.87%	16.61%	14.22%	12.44%
Retained earnings / deficit	2.50%	18.40%	12.40%	19.19%	24.17%	33.94%	42.51%	56.08%	70.64%	84.38%	84.33%	98.43%	99.23%	96.49%	93.25%	93.17%	94.74%
Accumulated other comprehensive income	-1.69%	0.66%	-1.98%	-0.27%	2.23%	1.08%	-2.36%	-2.99%	-2.28%	-1.19%	-1.04%	-0.88%	-0.74%	-0.61%	-0.51%	-0.44%	-0.38%
Retained earnings / deficit, including accumulated other comprehensive income	4.19%	19.05%	10.42%	18.92%	26.40%	35.03%	40.15%	53.09%	68.36%	83.20%	83.29%	126.20%	122.54%	115.76%	109.37%	106.95%	106.80%
Total stockholders' equity	78.98%	90.83%	74.95%	81.32%	82.72%	84.47%	84.00%	97.31%	109.53%	121.92%	127.27%	126.20%	122.54%	115.76%	109.37%	106.95%	106.80%
Total liabilities and stockholders' equity	197.28%	259.20%	234.55%	227.71%	210.68%	198.57%	184.01%	194.41%	208.94%	219.72%	229.42%	230.65%	223.72%	214.42%	204.30%	200.42%	198.75%

Microsoft Corporation
Value Driver Estimation

Fiscal Years Ending Jun. 30	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2029E	2030E	2031E	2032E
NOPLAT:																	
EBIT	27,188.00	29,608.83	35,347.08	43,253.85	53,284.41	70,302.01	83,871.98	89,102.83	110,065.66	129,364.18	146,596.64	166,444.39	194,553.11	235,378.40	283,441.20	353,493.95	416,200.48
- ADJ TAXES	(5,202.73)	(4,272.03)	(19,674.23)	(4,313.85)	(8,801.20)	(9,673.40)	(11,010.91)	(16,906.70)	(20,131.80)	(22,999.81)	(29,319.33)	(33,288.88)	(38,910.62)	(47,075.68)	(56,688.24)	(70,698.79)	(83,240.10)
+ Change in Deferred Taxes	2,479.00	(829.00)	(5,143.00)	(6,463.00)	11.00	(150.00)	(5,702.00)	(6,059.00)	(4,738.00)	(7,056.00)	2,093.69	2,256.26	2,633.84	3,185.04	3,835.44	4,786.52	5,636.89
NOPLAT	24,464.27	24,507.80	10,529.84	32,477.00	44,494.21	60,478.61	67,159.07	66,137.13	85,195.86	99,308.37	119,371.00	135,411.78	158,276.32	191,487.76	230,588.40	287,581.68	338,597.28
EBIT																	
Revenue	91,154.00	96,571.00	110,360.00	125,843.00	143,015.00	168,088.00	198,270.00	211,915.00	245,122.00	281,724.00	321,028.33	380,763.48	453,687.60	548,920.84	656,813.05	767,411.15	877,160.69
COGS	(32,780.00)	(34,261.00)	(38,353.00)	(42,910.00)	(46,078.00)	(52,232.00)	(62,650.00)	(65,863.00)	(74,114.00)	(87,831.00)	(104,067.21)	(134,472.41)	(166,936.45)	(205,163.94)	(247,145.38)	(270,162.72)	(300,699.97)
SG&A + R&D	(31,186.00)	(32,979.00)	(36,949.00)	(39,974.00)	(43,970.00)	(45,940.00)	(52,237.00)	(57,529.00)	(61,575.00)	(65,365.00)	(71,459.17)	(81,369.73)	(94,147.28)	(110,740.91)	(128,966.77)	(146,817.52)	(163,683.35)
Implied Interest on Leases		277.83	289.08	294.85	325.41	386.01	488.98	579.83	632.66	836.18	1,094.69	1,523.05	1,949.23	2,362.40	2,740.30	3,063.04	3,423.12
EBIT	27,188.00	29,608.83	35,347.08	43,253.85	53,284.41	70,302.01	83,871.98	89,102.83	110,065.66	129,364.18	146,596.64	166,444.39	194,553.11	235,378.40	283,441.20	353,493.95	416,200.48
Tax Rate	0.23	0.23	0.20	0.31	0.19	0.20	0.21	0.21	0.21	0.21	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Cost of Debt	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
ADI TAXES																	
Provision for income taxes	5,100.00	4,412.00	19,903.00	4,448.00	8,755.00	9,831.00	10,978.00	16,950.00	19,651.00	21,795.00	30,700.39	33,084.27	38,620.77	46,703.20	56,240.18	70,186.18	82,655.47
Tax on Other Income / expense, net	102.73	(204.98)	(287.45)	(225.26)	(14.32)	(233.64)	(70.26)	(163.90)	347.31	1,029.21	(1,600.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)
Tax on Implied Interest on Leases	-	65.01	58.68	91.11	60.53	76.04	103.17	120.60	133.49	175.60	218.94	304.61	389.85	472.48	548.06	612.61	684.62
ADI TAXES	5,202.73	4,272.03	19,674.23	4,313.85	8,801.20	9,673.40	11,010.91	16,906.70	20,131.80	22,999.81	29,319.33	33,288.88	38,910.62	47,075.68	56,688.24	70,698.79	83,240.10
Change in Deferred Taxes	2,479.00	(829.00)	(5,143.00)	(6,463.00)	11.00	(150.00)	(5,702.00)	(6,059.00)	(4,738.00)	(7,056.00)	2,093.69	2,256.26	2,633.84	3,185.04	3,835.44	4,786.52	5,636.89
Invested Capital (IC):																	
Operating Working Capital	(13,334.27)	(9,123.65)	(10,841.80)	(13,328.92)	(13,124.37)	(14,702.67)	(13,475.00)	(11,017.26)	(14,930.05)	(21,858.29)	(27,626.93)	(32,107.44)	(38,327.28)	(46,693.30)	(56,279.95)	(67,297.94)	(77,840.21)
Net PPE	18,356.00	23,734.00	29,460.00	36,477.00	44,151.00	59,715.00	74,398.00	95,641.00	135,591.00	204,966.00	285,170.31	364,966.28	442,326.29	513,082.69	573,511.72	640,931.21	705,830.84
Other Operating Working Capital	708.00	19,839.00	18,235.00	24,629.00	24,375.00	29,012.00	41,413.00	50,203.00	75,801.00	79,420.00	77,734.44	91,041.07	106,599.13	124,470.57	143,387.52	161,636.35	180,639.54
Invested Capital (IC):	5,729.73	34,449.35	36,853.20	47,777.08	55,401.63	74,024.33	102,336.00	134,826.74	196,461.95	262,527.71	335,277.82	423,899.91	510,598.14	590,859.97	660,619.28	735,269.62	808,630.17
Operating Assets																	
Normal Cash	6,404.73	6,785.35	7,754.20	8,842.08	10,048.63	11,810.33	13,931.00	14,889.74	17,222.95	19,794.71	22,556.34	26,753.50	31,877.35	38,568.70	46,149.51	53,920.44	61,631.74
Accounts receivable	18,277.00	22,431.00	26,481.00	29,524.00	32,011.00	38,043.00	44,261.00	48,688.00	56,924.00	69,905.00	74,562.10	88,436.20	105,373.57	127,492.46	152,551.53	178,239.06	203,729.51
Inventories	2,251.00	2,181.00	2,662.00	2,063.00	1,895.00	2,636.00	3,742.00	2,500.00	1,246.00	938.00	1,561.33	1,561.33	1,561.33	1,561.33	1,561.33	1,561.33	1,561.33
Other Current Assets	5,892.00	5,103.00	10,146.00	11,482.00	13,393.00	16,924.00	21,807.00	26,021.00	25,723.00	29,196.86	34,629.65	41,261.95	49,923.21	59,735.79	69,794.46	79,775.95	
Operating Assets	32,824.73	36,500.35	43,648.20	50,575.08	55,436.63	65,882.33	78,588.00	87,884.74	101,413.95	116,360.71	127,876.64	151,380.68	180,074.20	217,545.71	259,998.15	303,515.29	346,698.54
Operating Liabilities																	
Accounts Payable	6,898.00	7,390.00	8,617.00	9,382.00	12,530.00	15,163.00	19,000.00	18,095.00	21,996.00	27,724.00	29,276.83	34,724.49	41,374.96	50,059.94	59,899.39	69,985.61	79,994.44
Accrued Compensation	5,264.00	5,819.00	6,103.00	6,830.00	7,874.00	10,057.00	10,661.00	11,009.00	12,564.00	13,709.00	17,149.67	20,340.79	24,236.47	29,323.93	35,087.64	40,995.91	46,858.85
Income Taxes	580.00	718.00	2,121.00	5,665.00	2,130.00	2,174.00	4,067.00	4,152.00	5,017.00	7,211.00	8,768.05	9,448.89	11,030.12	13,338.46	16,062.23	20,045.22	23,606.46
Short-term Unearned Revenue	27,468.00	24,013.00	28,905.00	32,676.00	36,000.00	41,525.00	45,538.00	50,901.00	57,582.00	64,555.00	76,655.76	90,919.43	108,332.39	131,072.36	156,835.07	183,243.90	209,450.10
Other Current Liabilities	5,949.00	7,684.00	8,744.00	9,351.00	10,027.00	11,666.00	13,067.00	14,745.00	19,185.00	25,020.00	23,653.26	28,054.53	33,427.55	40,444.30	48,393.77	56,542.60	64,628.91
Operating Liabilities	46,159.00	45,624.00	54,490.00	63,904.00	68,561.00	80,585.00	92,333.00	98,902.00	116,344.00	138,219.00	155,503.56	183,488.12	218,401.48	264,239.00	316,278.10	370,813.23	424,538.75
PPE	18,356.00	23,734.00	29,460.00	36,477.00	44,151.00	59,715.00	74,398.00	95,641.00	135,591.00	204,966.00	285,170.31	364,966.28	442,326.29	513,082.69	573,511.72	640,931.21	705,830.84
Long-Term Operating Assets																	
Intangible Assets	3,733.00	10,106.00	8,053.00	7,750.00	7,038.00	7,800.00	11,298.00	9,366.00	27,597.00	22,604.00	18,010.00	15,109.00	13,075.00	11,224.00	9,842.00	8,748.44	7,654.89
Other Long-term Assets	3,416.00	6,076.00	7,442.00	14,723.00	13,138.00	15,075.00	21,897.00	30,601.00	36,460.00	40,565.00	39,011.52	46,270.56	55,132.34	66,705.13	79,816.24	93,256.17	106,592.99
Operating lease right-of-use assets		6,300.00	6,555.00	6,686.00	7,379.00	8,753.00	11,088.00	13,148.00	14,346.00	18,961.00	24,823.00	34,536.37	44,200.30	53,569.20	62,138.36	69,456.79	77,621.83
Long-Term Operating Assets	7,149.00	22,482.00	22,050.00	29,159.00	27,555.00	31,628.00	44,283.00	53,115.00	78,403.00	82,130.00	81,844.52	95,915.94	112,407.63	131,498.33	151,796.60	171,461.41	191,869.71
Long-Term Operating Liabilities																	
Long-term Unearned Revenue	6,441.00	2,643.00	3,815.00	4,530.00	3,180.00	2,616.00	2,870.00	2,912.00	2,602.00	2,710.00	4,110.08	4,874.86	5,808.50	7,027.76	8,409.09	9,825.06	11,230.17
Long-Term Operating Liabilities	6,441.00	2,643.00	3,815.00	4,530.00	3,180.00	2,616.00	2,870.00	2,912.00	2,602.00	2,710.00	4,110.08	4,874.86	5,808.50	7,027.76	8,409.09	9,825.06	11,230.17
Free Cash Flow (FCF):																	
NOPLAT	24,464.27	24,507.80	10,529.84	32,477.00	44,494.21	60,478.61	67,159.07	66,137.13	85,195.86	99,308.37	119,371.00	135,411.78	158,276.32	191,487.76	230,588.40	287,581.68	338,597.28
Change in IC	28,719.61	2,403.85	10,923.88	7,624.55	18,622.70	28,311.67	32,490.74	61,635.22	66,065.76	72,750.11	88,622.10	86,698.23	80,261.83	69,759.31	74,650.33	73,360.55	
FCF	24,464.27	(4,211.81)	8,125.99	21,553.13	36,869.66	41,855.91	38,847.40	33,646.39	23,560.65	33,242.61	46,620.89	46,789.68	71,578.10	111,225.93	160,829.09	212,931.35	265,236.73
Return on Invested Capital (ROIC):																	
NOPLAT	24,464.27	24,507.80	10,529.84	32,477.00	44,494.21	60,478.61	67,159.07	66,137.13	85,195.86	99,308.37	119,371.00	135,411.78	158,276.32	191,487.76	230,588.40	287,581.68	338,597.28
Beginning IC		5,729.73	34,449.35														

Microsoft Corporation

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:

Risk-Free Rate	4.25%
Beta	1.01
Equity Risk Premium	5.00%
Cost of Equity	9.30%

ASSUMPTIONS:

10 year treasury
factset
henry fund

Cost of Debt:

Risk-Free Rate	4.25%
Implied Default Premium	0.16%
Pre-Tax Cost of Debt	4.41%
Marginal Tax Rate	20%
After-Tax Cost of Debt	3.53%

YTM on 10 year bond

Market Value of Common Equity:

Total Shares Outstanding	7,433.00
Current Stock Price	\$426.21
MV of Equity	3,168,018.93

MV Weights

98.12%

Market Value of Debt:

Short-Term Debt	-
Current Portion of LTD	2,999.00
Long-Term Debt	40,152.00
PV of Operating Leases	17,437.00
MV of Total Debt	60,588.00

1.88%

Market Value of the Firm

3,228,606.93

100.00%

Estimated WACC

9.19%

Fiscal Years Ending Jun. 30	2026E	2027E	2028E	2029E	2030E	2031E	2032E
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DCF Model:

Free Cash Flow (FCF)	46,620.89	46,789.68	71,578.10	111,225.93	160,829.09	212,931.35	265,236.73
Continuing Value (CV)							4,785,276.78
PV of FCF	42,696.38	39,243.79	54,980.85	78,243.42	103,613.61	125,632.57	2,823,382.44
Value of Operating Assets:	3,267,793.06						
Non-Operating Adjustments							
Excess Cash	10,447.29						
Short-term investments including securities loaned	64,323.00						
Equity and other investments	15,405.00						
Short-term Debt	-						
Current portion of LT Debt	(2,999.00)						
Long-term Debt	(40,152.00)						
Operating lease liabilities	(17,437.00)						
Value of Equity	3,297,380.35						
Shares Outstanding	7,433.00						
Intrinsic Value of Last FYE	443.61						
Implied Price as of Today	473.46						

EP Model:

Economic Profit (EP)	95,240.28	104,594.11	119,312.79	144,555.20	176,278.43	226,859.65	271,013.63
Continuing Value (CV)							4,050,007.16
PV of EP	87,223.02	87,725.95	91,647.01	101,689.35	113,566.80	133,850.47	2,389,562.74
Total PV of EP	3,005,265.35						
Invested Capital (last FYE)	262,527.71						
Value of Operating Assets:	3,267,793.06						
Non-Operating Adjustments							
Excess Cash	10,447.29						
Short-term investments including securities loaned	64,323.00						
Equity and other investments	15,405.00						
Short-term Debt	-						
Current portion of LT Debt	(2,999.00)						
Long-term Debt	(40,152.00)						
Operating lease liabilities	(17,437.00)						
Value of Equity	3,297,380.35						
Shares Outstanding	7,433.00						
Intrinsic Value of Last FYE	443.61						
Implied Price as of Today	473.46						

<i>Fiscal Years Ending</i>	2026E	2027E	2028E	2029E	2030E	2031E	2032E	
EPS	\$ 16.60	\$ 18.06	\$ 21.31	\$ 26.17	\$ 32.21	\$ 41.36	\$ 50.43	
Key Assumptions								
CV growth of EPS	2.50%							
CV Year ROE	40.28%							
Cost of Equity	9.30%							
Future Cash Flows								
P/E Multiple (CV Year)								13.79
EPS (CV Year)								\$ 50.43
Future Stock Price								\$ 695.62
Dividends Per Share	3.75	4.13	4.55	5.02	5.53	6.10	6.72	
Discounted Cash Flows	3.43	3.46	3.49	3.52	3.55	3.58	3.61	373.28
Intrinsic Value as of Last FYE	\$ 397.90							
Implied Price as of Today	\$ 424.67							

Microsoft Corporation

Relative Valuation Models

Ticker	Company	Price	EPS		P/E 26	P/E 27	Est. 5yr			EV	EBITDA	
			2026E	2027E			EPS gr.	PEG 26	PEG 27		EV/EBITDA	
GOOGL	Alphabet Inc. Class A	303.33	11.42	13.36	26.55	22.70	14.5	1.84	1.57	3,768,143	219,616	17.16
AMZN	Amazon.com, Inc.	204.79	7.77	9.42	26.36	21.74	18.6	1.42	1.17	2,545,693	205,901	12.36
AAPL	Apple Inc.	264.35	8.46	9.29	31.26	28.46	11.2	2.79	2.54	3,890,780	160,669	24.22
META	Meta Platforms Inc Clas	643.22	29.74	34.48	21.63	18.65	19.2	1.13	0.97	1,701,724	142,548	11.94
NVDA	NVIDIA Corporation	187.98	4.68	7.77	40.13	24.18	42.1	0.95	0.57	3,504,606	135,309	25.90
TSLA	Tesla, Inc.	411.32	1.99	2.62	207.21	157.02	65.9	3.14	2.38	1,557,611	15,513	100.41
			Average		29.19	23.15	Average	1.62	1.36	Average		18.32
ORCL	Oracle Corporation	156.17	7.38	7.90	21.17	19.78	48.2	0.44	0.41	572,676	36,606	15.64
CRM	Salesforce, Inc.	187.79	11.76	13.15	15.97	14.28	34.6	0.46	0.41	330,854	17,112	19.34
SAP	SAP SE Sponsored ADR	205.20	8.53	10.00	24.05	20.51	17.9	1.34	1.15	283,995	15,733	18.05
			Average		20.40	18.19	Average	0.75	0.66	Average		17.68

MSFT	Microsoft Corporation	\$426.21	16.60	18.06	25.7	23.6	17.6	1.5	1.3	3730785	188892.33	19.75
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Implied Relative Value:

PEERS

P/E (EPS26)	\$	338.60
P/E (EPS27)	\$	328.42
PEG (EPS26)	\$	218.07
PEG (EPS27)	\$	208.07
EV/EBITDA (2026)	\$	445.13
Average	\$	307.66

MAG 7

P/E (EPS26)	\$	484.53
P/E (EPS27)	\$	417.96
PEG (EPS26)	\$	473.38
PEG (EPS27)	\$	432.55
EV/EBITDA (2026)	\$	461.36
Average	\$	453.95

Microsoft Corporation
Key Management Ratios

Fiscal Years Ending Jun. 30	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Liquidity Ratios:																	
Current Ratio	235%	292%	290%	253%	252%	208%	178%	177%	127%	135%	141%	140%	143%	144%	147%	153%	161%
Quick Ratio	222%	279%	274%	235%	233%	190%	157%	154%	106%	116%	122%	121%	123%	124%	128%	134%	142%
Operating Cash Flow	56%	71%	75%	75%	84%	87%	94%	84%	95%	96%	117%	112%	118%	117%	117%	115%	114%
Working capital	\$ 80,303	\$ 106,951	\$ 111,174	\$ 106,132	\$ 109,605	\$ 95,749	\$ 74,602	\$ 80,108	\$ 34,448	\$ 49,913	\$ 64,916	\$ 77,067	\$ 92,893	\$ 116,104	\$ 149,447	\$ 197,477	\$ 261,684
Asset-Management Ratios:																	
TATO	47%	39%	43%	44%	47%	50%	54%	51%	48%	46%	44%	43%	45%	47%	49%	50%	50%
Fixed Asset TO	497%	407%	375%	345%	324%	281%	266%	222%	181%	137%	113%	104%	103%	107%	115%	120%	124%
AR TO	499%	431%	417%	426%	447%	442%	448%	435%	431%	403%	431%	431%	431%	431%	431%	431%	431%
DSO	73.18	84.78	87.58	85.63	81.70	82.61	81.48	83.86	84.76	90.57	84.77	84.77	84.77	84.77	84.77	84.77	84.77
AP TO	475%	464%	445%	457%	368%	344%	330%	364%	337%	317%	355%	387%	403%	410%	413%	386%	376%
Financial Leverage Ratios:																	
Debt to Equity	74%	98%	92%	71%	54%	41%	30%	23%	19%	13%	12%	13%	11%	12%	11%	11%	11%
Equity Multiplier	269%	285%	313%	280%	255%	235%	219%	200%	191%	180%	180%	183%	183%	185%	187%	187%	186%
Profitability Ratios:																	
Return on Equity (NI/Beg TSE)		36%	19%	47%	43%	52%	51%	43%	43%	38%	36%	32%	32%	34%	35%	39%	40%
Gross Margin	64%	65%	65%	66%	68%	69%	68%	69%	70%	69%	68%	65%	63%	63%	62%	65%	66%
Operating Margin	30%	30%	32%	34%	37%	42%	42%	42%	45%	46%	45%	43%	42%	42%	43%	46%	47%
Net Profit Margin	24%	27%	15%	31%	31%	36%	37%	34%	36%	36%	38%	35%	34%	34%	34%	37%	38%
Return on Assets		12%	7%	14%	15%	19%	21%	19%	19%	18%	18%	16%	16%	17%	18%	19%	20%
Payout Policy Ratios:																	
Dividend Payout Ratio (Dividend/EPS)	57%	48%	80%	37%	36%	28%	26%	29%	26%	25%	23%	23%	21%	19%	17%	15%	13%
Total Payout Ratio ((Divs. + Repurchases)/NI)	125%	92%	141%	85%	86%	72%	70%	58%	44%	42%	47%	46%	51%	57%	63%	64%	65%
Share Repurchase Ratio	74%	46%	65%	50%	52%	45%	45%	31%	20%	18%	25%	23%	30%	38%	46%	49%	52%