

# Microsoft Corp

**Recommendation**



**Price**

\$62.84 (as of Jan 06, 2017 4:00 PM ET)

**12-Mo. Target Price**

\$60.00

**Report Currency**

USD

**Investment Style**

Large-Cap Growth

Equity Analyst **S. Kessler**

**UPDATE: PLEASE SEE THE ANALYST'S LATEST RESEARCH NOTE IN THE COMPANY NEWS SECTION**

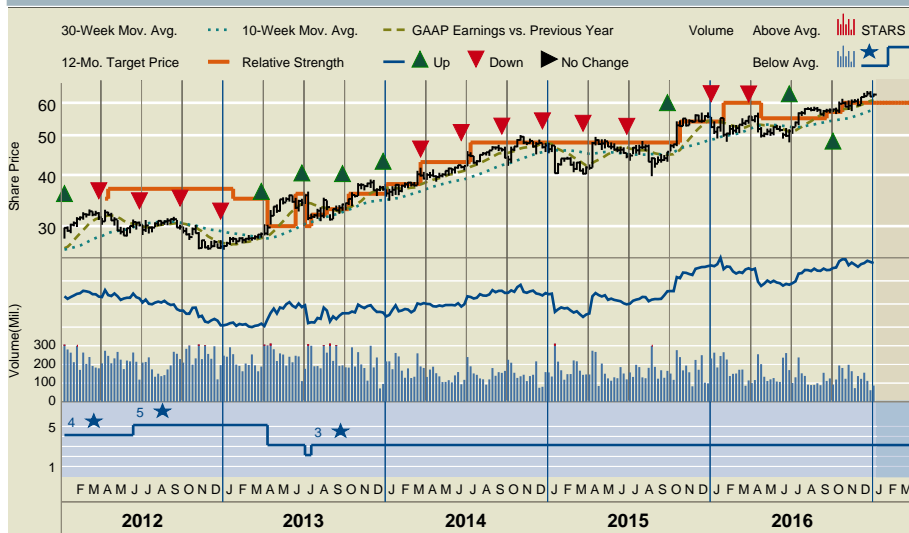
**GICS Sector** Information Technology  
**Sub-Industry** Systems Software

**Summary** Microsoft, the world's largest software company, develops PC software, including the Windows operating system and the Office application suite. In June 2016, the company announced its largest planned acquisition, of professional social media company LinkedIn, for \$26.2 billion.

**Key Stock Statistics** (Source S&P Capital IQ, Vickers, company reports)

52-Wk Range	<b>\$64.10– 48.04</b>	S&P Oper. EPS 2017E	<b>2.95</b>	Market Capitalization(B)	<b>\$489.461</b>	Beta	<b>1.08</b>
Trailing 12-Month EPS	<b>\$2.09</b>	S&P Oper. EPS 2018E	<b>3.23</b>	Yield (%)	<b>2.48</b>	S&P 3-Yr. Proj. EPS CAGR(%)	<b>9</b>
Trailing 12-Month P/E	<b>30.1</b>	P/E on S&P Oper. EPS 2017E	<b>21.3</b>	Dividend Rate/Share	<b>\$1.56</b>	S&P Quality Ranking	<b>A-</b>
\$10K Invested 5 Yrs Ago	<b>\$25,685</b>	Common Shares Outstg. (M)	<b>7,789.0</b>	Institutional Ownership (%)	<b>72</b>		

**Price Performance**



Past performance is not an indication of future performance and should not be relied upon as such.

Analysis prepared by Equity Analyst **S. Kessler** on Oct 21, 2016 02:58 PM, when the stock traded at **\$59.87**.

**Highlights**

- With the April 2014 acquisition of Nokia's Devices and Services (NDS) business, revenues rose 12% in FY 14 (Jun.) and 8% in FY 15. Devices were becoming more important, but that changed after Satya Nadella became CEO. MSFT moved to sell and write-down NDS, and announced the planned purchase of professional social networking company LinkedIn for \$26.2 billion. Revenues declined 2% in FY 16, and we see gains of 2% in FY 17 and 6% in FY 18. Cloud offerings have been aiding growth.
- MSFT's gross margin was 69% in FY 14, 65% in FY 15, and 62% in FY 16, down from 74% in FY 13, given a shift towards devices and the cloud. We see gross margins bottoming in FY 17, without NDS and with cloud prices gaining traction. We see the EBITDA margin widening from FY 16 to FY 18, after narrowing in FY 15, given restructuring actions.
- We project MSFT will generate EPS of \$2.95 in FY 17 and \$3.23 in FY 18. MSFT reported non-GAAP EPS of \$2.63 to \$2.65 in FY 13 to FY 15, and \$2.79 in FY 16. We foresee notable share repurchases and dividend increases.

**Investment Rationale/Risk**

- We expect nearer-term overall growth to be restrained by considerable exposure to PCs, notwithstanding the focus on a "mobile-first, cloud-first" strategy. The strong U.S. dollar also has had a negative impact. In June 2015, MSFT released the Windows 10 operating system, but we do not expect notable related financial benefits yet. We see opportunities related to the pending LinkedIn purchase, but think monetization of synergies could be elusive.
- Risks to our recommendation and target price include lower-than-projected PC sales, prolonged weakness in the global economy, and issues related to the pending purchase of LinkedIn. Also, with the new focus on mobile and cloud, we see margins as vulnerable.
- Our 12-month target price is \$60. Peers recently had a median forward P/E of 22X and a P/E-to-growth of 2.0. Using those multiples and averaging the outputs resulted in our target. We also note strong cloud opportunities, as well as substantial financial flexibility that is being used to fund growth and capital returns to shareholders.

**Analyst's Risk Assessment**

<b>LOW</b>	<b>MEDIUM</b>	<b>HIGH</b>
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Our risk assessment balances our view of the company's financial strength with our concerns about a sluggish recovery in enterprise IT spending, market share losses in smartphones and mobile devices, and difficulties inherent in releasing new products in a timely manner.

**Revenue/Earnings Data**

Revenue (Million U.S. \$)					
	1Q	2Q	3Q	4Q	Year
2017	20,453	--	--	--	--
2016	20,379	23,796	20,531	20,614	85,320
2015	23,201	26,470	21,729	22,180	93,580
2014	18,529	24,519	20,403	23,382	86,833
2013	16,008	21,456	20,489	19,896	77,849
2012	17,372	20,885	17,407	18,059	73,723

**Earnings Per Share (U.S. \$)**

2017	0.60	E0.78	E0.71	E0.70	E2.95
2016	0.57	0.62	0.47	0.39	2.10
2015	0.54	0.71	0.61	-0.40	1.48
2014	0.62	0.78	0.68	0.55	2.63
2013	0.53	0.76	0.72	0.59	2.58
2012	0.68	0.78	0.60	-0.06	2.00

Fiscal year ended Jun. 30. Next earnings report expected: Late January. EPS Estimates based on S&P Capital IQ Operating Earnings; historical GAAP earnings are as reported in Company reports.

**Dividend Data**

Amount (\$)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.360	Mar 15	May 17	May 19	Jun 9 '16
0.360	Jun 14	Aug 16	Aug 18	Sep 8 '16
0.390	Sep 20	Nov 15	Nov 17	Dec 8 '16
0.390	Nov 30	Feb 14	Feb 16	Mar 9 '17

Dividends have been paid since 2003. Source: Company reports.

Past performance is not an indication of future performance and should not be relied upon as such.

# Microsoft Corp

## Business Summary October 21, 2016

**CORPORATE OVERVIEW.** Microsoft is the world's largest software maker, primarily as a result of its near-monopoly position in desktop operating systems and its Office productivity suite. The combination of these two strongholds poses a formidable barrier to entry for competitors, in our opinion. MSFT has used the strong cash flows from these businesses to fund research and development of other markets, including enterprise servers, home entertainment consoles, and Internet online advertising.

In July 2013, MSFT announced a restructuring to better integrate its offerings and to focus on its new mission of Devices and Services. In September 2013, the company announced its intent to purchase Nokia's (NOK) Devices and Services business for \$7.2 billion. The deal closed in April 2014.

The new operating segments, or engineering groups, are Operating Systems, Devices and Studios, Application and Services, and Cloud and Enterprise. This realignment is designed for better internal and external product development and delivery. The stated goal is to make sure MSFT remains a market share leader in each of these areas.

The Operating Systems Group spans all operating systems across all devices. The Devices and Studio Group includes all devices, as well as games, music, video and entertainment. The Application and Services Group encompasses productivity and communications technologies. The Cloud and Enterprise Group is responsible for offerings related to data centers, databases, and enterprise IT tools.

**CORPORATE STRATEGY.** With the purchase of NOK's device business and intellectual property, we saw MSFT getting further into the device market than it had been in the past. The company had been slowly shifting its business strategy from a PC-centric computing environments to a platform in which diverse devices will access information via the Internet and mobile devices.

Businesses and their users have continued to be MSFT's stronghold. We see this in the dominance of Office productivity applications and penetration of Windows in companies. We also see the focus on productivity in its tablets.

However, after Satya Nadella became CEO in February 2014, he articulated a company mantra of "mobile-first, cloud-first." We have seen Nadella restructure and write-down MSFT's mobile phone hardware operations and assets and announce the proposed purchase of LinkedIn for \$26 billion.

**FINANCIAL TRENDS.** MSFT's revenues grew from \$70 billion in FY 11 to \$85 billion in FY 16, after writing down its mobile phone business. In FY 13, FY 14 and FY 15, MSFT posted operating EPS of \$2.63 to \$2.65 each year. MSFT's EPS increased to \$2.79 in FY 16. MSFT took restructuring and impairment charges amounting to \$7.6 billion in FY 15 and \$1.1 billion in FY 16.

MSFT closed FY 16 with \$113 billion in cash and short-term investments, with debt of \$54 billion.

Dividends have been increased consistently over the past decade or so. MSFT also announced a \$40 billion share repurchase plan in September 2013. This plan replaced the \$40 billion share repurchase plan put in place in 2008, which was to expire in September 2013. The new plan does not have an expiration date.

## Corporate Information

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msft@microsoft.com

**Website**  
<http://www.microsoft.com>

### Officers

**Chrmn** **COO & EVP**  
J.W. Thompson J. Courtois

**CEO** **EVP & CFO**  
S. Nadella A.E. Hood

**Pres & General Counsel**  
B.L. Smith

### Board Members

W. H. Gates, III	T. L. List-Stoll
G. M. Morfit	S. Nadella
C. H. Noski	H. G. Panke
S. E. Peterson	C. W. Scharf
J. W. Stanton	J. W. Thompson
P. Warrior	

**Domicile**  
Washington

**Founded**  
1975

**Employees**  
114,000

**Stockholders**  
109,479

# Microsoft Corp



## Quantitative Evaluations

<b>S&amp;P Capital IQ Fair Value Rank</b>	2+	1	2	3	4	5
		LOWEST				HIGHEST
		Based on S&P Capital IQ's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).				

**Fair Value Calculation** **\$60.20** Analysis of the stock's current worth, based on S&P Capital IQ's proprietary quantitative model suggests that MSFT is slightly overvalued by \$2.64 or 4.2%.

<b>Investability Quotient Percentile</b>	100
	LOWEST = 1 HIGHEST = 100
	MSFT scored higher than 100% of all companies for which an S&P Capital IQ Report is available.

<b>Volatility</b>	LOW	AVERAGE	HIGH
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**Technical Evaluation** **NEUTRAL** Since December, 2016, the technical indicators for MSFT have been NEUTRAL.

<b>Insider Activity</b>	UNFAVORABLE	NEUTRAL	FAVORABLE
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## Expanded Ratio Analysis

	2016	2015	2014	2013
Price/Sales	5.84	4.89	4.49	4.07
Price/EBITDA	18.33	13.64	12.14	10.53
Price/Pretax Income	25.21	24.74	14.02	11.71
P/E Ratio	29.64	37.56	17.67	14.49
Avg. Diluted Shares Outstg (M)	8,013.0	8,254.0	8,399.0	8,470.0

Figures based on calendar year-end price

## Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	-8.83	3.56	5.33	6.48
Net Income	37.77	-12.93	-7.13	0.74

## Ratio Analysis (Annual Avg.)

Net Margin (%)	19.69	19.38	21.85	25.17
% LT Debt to Capitalization	36.16	26.68	21.41	15.85
Return on Equity (%)	22.09	20.87	24.04	33.30

## Company Financials Fiscal Year Ended Jun. 30

Per Share Data (U.S. \$)	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Tangible Book Value	6.45	7.26	7.61	7.35	5.93	5.22	3.76	2.84	2.43	2.71
Cash Flow	2.83	2.13	3.13	2.98	2.32	3.02	2.40	1.90	2.07	1.57
Earnings	2.10	1.48	2.63	2.58	2.00	2.69	2.10	1.62	1.87	1.42
S&P Capital IQ Core Earnings	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Dividends	1.39	1.21	1.07	0.89	0.76	0.61	0.52	0.50	0.43	0.39
Payout Ratio	66%	82%	41%	34%	38%	23%	25%	31%	23%	27%
Prices:High	64.10	56.85	50.05	38.98	32.95	29.46	31.58	31.50	35.96	37.50
Prices:Low	48.04	39.72	34.63	26.28	26.26	23.65	22.73	14.87	17.50	26.60
P/E Ratio:High	31	38	19	15	16	11	15	19	19	26
P/E Ratio:Low	23	27	13	10	13	9	11	9	9	19

## Income Statement Analysis (Million U.S. \$)

Revenue	85,320	93,580	86,833	77,849	73,723	69,943	62,484	58,437	60,420	51,122
Operating Income	27,170	33,572	32,131	30,103	30,714	29,927	27,363	23,255	25,877	19,964
Depreciation	5,878	5,400	4,245	3,339	2,758	2,766	2,673	2,562	1,872	1,440
Interest Expense	1,243	781	597	429	380	295	151	58.0	NA	Nil
Pretax Income	19,751	18,507	27,820	27,052	22,267	28,071	25,013	19,821	23,814	20,101
Effective Tax Rate	15.0%	34.1%	20.7%	19.2%	23.8%	17.5%	25.0%	26.5%	25.8%	30.0%
Net Income	16,798	12,193	22,074	21,863	16,978	23,150	18,760	14,569	17,681	14,065
S&P Capital IQ Core Earnings	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

## Balance Sheet & Other Financial Data (Million U.S. \$)

Cash	113,036	96,451	84,941	76,214	62,044	51,591	36,726	29,907	21,171	6,111
Current Assets	139,660	124,712	114,246	101,466	85,084	74,918	55,676	49,280	43,242	40,168
Total Assets	193,694	176,223	172,384	142,431	121,271	108,704	86,113	77,888	72,793	63,171
Current Liabilities	59,357	49,858	45,625	37,417	32,688	28,774	26,147	27,034	29,886	23,754
Long Term Debt	40,783	27,808	20,645	12,601	10,713	11,921	4,939	3,746	1.00	Nil
Common Equity	71,997	80,083	89,784	78,944	66,363	57,083	46,175	39,558	36,286	31,097
Total Capital	112,780	110,390	110,429	94,544	78,307	69,004	51,114	43,304	36,287	31,097
Capital Expenditures	8,343	5,944	5,485	4,257	2,305	2,355	1,977	3,119	3,182	2,264
Cash Flow	22,676	17,593	26,319	25,202	19,736	25,916	21,433	17,131	19,553	15,505
Current Ratio	2.4	2.5	2.5	2.7	2.6	2.6	2.1	1.8	1.5	1.7
% Long Term Debt of Capitalization	36.2	25.2	18.7	13.3	13.7	17.3	9.7	8.7	NM	Nil
% Net Income of Revenue	19.7	13.0	25.4	28.1	23.0	33.1	30.0	24.9	29.3	27.5
% Return on Assets	9.1	7.0	14.0	16.6	14.8	23.8	22.9	19.3	26.0	21.2
% Return on Equity	22.1	14.4	26.2	30.1	27.5	44.8	43.8	38.4	52.5	39.5

Data as originally reported in Company reports.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

# Microsoft Corp

## Sub-Industry Outlook

Our fundamental outlook for the Systems Software sub-industry for the next 12 months is neutral. We expect revenues to increase at a modest pace in the coming quarters, in line with the overall information technology (IT) industry. IDC projects worldwide software growth of 6% in 2015, up from a flat comparison in 2014. We see growth coming from enterprises, as companies upgrade/spend on data center infrastructure. We think systems software spending will be impacted by more interest in cloud computing, where we related opportunities (e.g., new revenues) and risks (pricing pressures). However, we see slow PC unit sales at best, reflecting the category's weakness, and challenges related to mobile.

From a corporate client perspective, we see potential benefits from a refresh cycle, as companies upgrade their aging computers along with operating systems to Microsoft's newer offerings, including Windows 10, which was released in July 2015. We note emerging markets have lower average selling prices than the global enterprise market segment.

We believe sales of operating systems for servers will increase at a single-digit rate over the next 12 months. We also see moderate growth in virtualization software, as companies seek ways to reduce rising operational costs of their data centers caused by the proliferation of servers. We project that the virtualization software market will continue to experience stable, yet somewhat uninspiring growth.

We believe the systems software sub-industry will benefit from increased merger and acquisition activity in the IT industry, as many enterprise IT companies have been positioning themselves as "one-stop shops" providing comprehensive

solutions. We believe these companies will try to strengthen their offerings in cloud and security software given the growing interest in broad and flexible functionality. In addition, many software companies have strong balance sheets with significant amounts of cash, in our view, and many have been buying back shares.

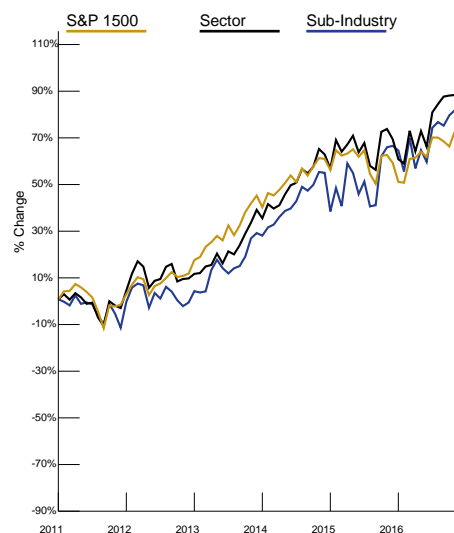
In the three quarters of 2016, the S&P 1500 systems software index increased 5.7%, compared with an increase of 6.6% for the S&P 1500. In 2015, the S&P 1500 sub-industry index appreciated 7.5%, versus a decline of 1.0% for the S&P 1500.

--**Scott Kessler**

## Industry Performance

**GICS Sector: Information Technology  
Sub-Industry: Systems Software**

Based on S&P 1500 Indexes  
Five-Year market price performance through Jan 7, 2017



**NOTE:** All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

Past performance is not an indication of future performance and should not be relied upon as such.

## Sub-Industry : Systems Software Peer Group\*: Systems Software - Larger Cos.

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price(\$)	52 Week High/Low(\$)	Beta	Yield (%)	P/E Ratio	Fair Value Calc.(\$)	Quality Ranking	S&P IQ %ile	Return on Revenue (%)	LTD to Cap (%)
<b>Microsoft Corp</b>	<b>MSFT</b>	<b>489,461</b>	<b>62.84</b>	<b>64.10/48.04</b>	<b>1.08</b>	<b>2.5</b>	<b>30</b>	<b>60.20</b>	<b>A-</b>	<b>100</b>	<b>19.7</b>	<b>36.2</b>
CA Inc	CA	13,868	33.19	34.99/25.18	1.36	3.1	17	35.20	B	96	19.1	26.6
Check Point Software Tech	CHKP	15,258	87.24	89.98/71.64	1.06	Nil	22	105.70	NR	79	42.1	NA
CommVault Systems	CVLT	2,336	52.85	57.25/29.41	0.36	Nil	NM	48.30	NR	74	NM	NA
Dell Technologies CI V	DVMT	44,558	56.79	57.65/45.02	NA	Nil	NM	NA	NR	74	NM	80.0
Fortinet Inc	FTNT	5,366	31.01	37.48/23.16	1.70	Nil	NM	NA	NR	76	0.8	NA
Oracle Corp	ORCL	166,722	38.45	42.00/33.13	1.42	1.6	18	50.50	A-	99	24.0	43.8
Red Hat Inc	RHT	13,541	73.80	82.73/59.59	1.00	Nil	56	NA	B+	97	9.7	35.2
ServiceNow Inc	NOW	2,265	82.10	89.79/46.00	0.51	Nil	NM	68.60	NR	50	NM	45.6
Software AG ADS	STWRY	2,796	9.13	10.85/6.93	1.69	1.1	17	NA	NR	NA	16.0	15.1
Symantec Corp	SYMC	16,632	25.01	25.72/16.14	0.94	1.2	7	NA	B	71	NM	37.5
Tableau Software 'A'	DATA	2,661	44.98	90.99/36.60	NA	Nil	NM	22.50	NR	70	NM	NA
TiVo Corp	TIVO	2,448	20.95	23.70/15.06	1.51	Nil	36	26.80	C	23	NM	48.7
Trend Micro ADR	TMICY	5,092	37.04	42.23/31.05	0.84	2.3	31	NA	NR	40	17.2	NA
VMware Inc 'A'	VMW	10,128	81.50	83.00/43.25	1.18	Nil	31	103.00	B+	88	15.0	15.9

NA-Not Available NM-Not Meaningful NR-Not Rated. \*For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

**Analyst Research Notes and other Company News****November 9, 2016**

10:38 am ET ... S&P CAPITAL IQ SEES TRUMP PRESIDENCY HAVING NEUTRAL IMPACT ON TECHNOLOGY SECTOR (MSFT 59.98\*\*\*): We think a Donald Trump presidency coupled with a Republican-controlled Congress makes his proposal for a "repatriation of corporate profits held offshore at a one-time tax rate of 10 percent" as much more likely. We see many large U.S. IT firms potentially benefiting, with increasing domestic growth investment, stock buybacks, and dividend payouts. However, we note that Trump's hard stances related to trade could negatively impact the sector, which in '15 generated a higher percentage of non-U.S. revenues than all but the Energy sector (58% for IT vs. 44% for S&P 500). /S. Kessler

**October 21, 2016**

10:21 am ET ... CFRA REITERATES HOLD OPINION ON SHARES OF MICROSOFT CORP. (MSFT 59.98\*\*\*): We raise our 12-month target by \$3 to \$60. Peers have a median forward P/E of 22X and a P/E-to-growth ratio of 2.0. Using these and averaging the outputs results in our target. We lower our EPS estimates for FY 17 (Jun.) to \$2.95 from \$3.23 and FY 18 to \$3.23 from \$3.43. MSFT posts Sep-Q non-GAAP EPS of \$0.76 vs. \$0.70, \$0.08 above our estimate. Revenues rose 3% (5% with constant forex), with Intelligent Cloud up 8% (10%) and More Personal Computing down 2% (1%). We see MSFT executing well, but believe the FY 17 P/E of 20X is appropriate. The indicated dividend yield is 2.6%. /S. Kessler

**October 17, 2016**

Microsoft manager Harish Naidu will be the company's chief technology officer. Phong Nguyen will be the executive vice president of product management. The new hires follow last week's announcement that the medical director of Seattle Children's Hospital, Dr. Ivor Horn, joined Accolade as chief medical officer. The new executives join a team of data scientists, technologists and clinicians who are trying to re-engineer how consumers navigate and manage health care.

**September 21, 2016**

09:59 am ET ... S&P GLOBAL REITERATES HOLD OPINION ON SHARES OF MICROSOFT CORP. (MSFT 57.53\*\*\*): We raise our 12-month target by \$2 to \$57. Peers have a median forward P/E of 20X and P/E-to-growth of 1.9. Using these multiples and averaging the outputs results in our target. Also, MSFT announces a new \$40 billion share repurchase, reaffirming it is "on track" to complete its current \$40 billion buyback by year-end. Additionally, MSFT announces an increase in its annual dividend by 8%, to \$1.56 from \$1.44, implying a yield of 2.7%. We see these indicated allocations as supporting the stock and valuation. As of June, MSFT had \$113 billion in cash and short-term investments. /S. Kessler

**August 16, 2016**

Microsoft announced the appointment of Sriram Rajamani as the new managing director of its India lab, effective August 1, 2016. Based in Bangalore, Sriram will spearhead Microsoft India's continued focus on research, innovation and collaboration with the scientific community. He replaces Chandu Thekkath, who previously was managing director of the lab for 02 years. Prior to joining the India lab, he headed the Software Productivity Tools group within Microsoft's Redmond research lab.

**July 21, 2016**

09:39 am ET ... S&P GLOBAL REITERATES HOLD OPINION ON SHARES OF MICROSOFT CORP. (MSFT 53.09\*\*\*): We keep our 12-month target of \$55. Peers have a median forward P/E of 19X and a P/E-to-growth ratio of 1.9. Using these multiples and averaging the outputs result in our target. We raise our FY 17 (Jun.) EPS estimate to \$3.23 from \$2.96 and set FY 18's at \$3.43. MSFT reports non-GAAP Jun-Q EPS of \$0.69 vs. \$0.62, \$0.11 over our estimate and the Capital IQ consensus. Revenues rose 2% (5% adjusting for forex), led by Intelligent Cloud up 7% (10%), showing notable sequential acceleration, but Personal Computing fell 4% (2%). MSFT benefited from a lower tax rate than we expected. /S. Kessler

**July 11, 2016**

Microsoft Chief Executive Officer Satya Nadella announced a broad reorganization of the company's senior executive ranks as long-time Chief Operating Officer Kevin Turner prepares to leave for another job. Instead of naming a new COO, Nadella appointed two executives to divvy up the sales responsibilities and report to him. Jean-Philippe Courtois will be in charge of global sales, marketing and operations spanning Microsoft's 13 business areas. Judson Althoff will lead the worldwide commercial business, including

government and small and medium-sized businesses. Other executives already reporting to Nadella will take on parts of Turner's job, with Chris Capossela leading worldwide marketing, Kurt DelBene leading IT and Chief Financial Officer Amy Hood taking over the sales and marketing team's finance group, which had been separate. Turner is leaving Microsoft after more than a decade at the company to become CEO of the securities unit at financial-services firm Citadel. He will join Citadel after a short transition period.

**July 8, 2016**

Microsoft Corporation announced the resignation of Kevin Turner as Chief Operating Officer.

**July 5, 2016**

Microsoft announced that Cindy Rose has joined Microsoft UK and will take over as Chief Executive Officer on November 1, 2016 from Michel Van der Bel who will move into a new role to be announced at a future date. Rose joins from Vodafone UK, where she was Managing Director of the Consumer Division. Rose will be responsible for all of Microsoft's product, service and support offerings across the United Kingdom continuing the company's transformation into the leading productivity and platform company for the mobile-first, cloud-first era. Whilst Rose joins Microsoft on July 1, 2016, Michel Van der Bel will continue to have full responsibility of the business until November 1, 2016, when Rose will officially take over.

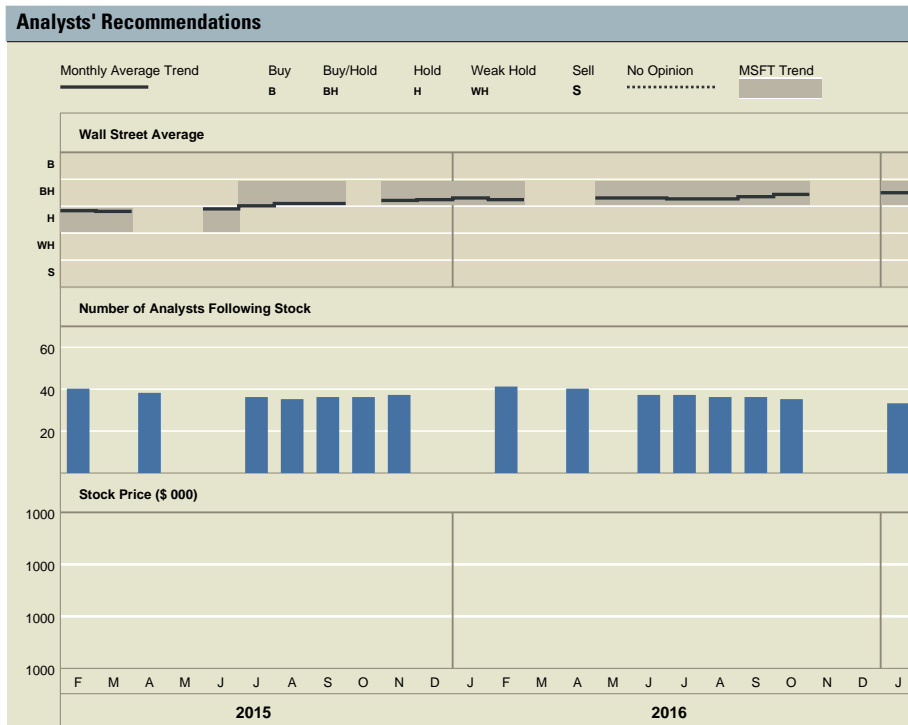
**June 13, 2016**

10:08 am ET ... S&P GLOBAL REITERATES HOLD OPINION ON SHARES OF MICROSOFT CORP. (MSFT 51.48\*\*\*): MSFT announces the pending purchase of LinkedIn (LNKD 131, NR) for \$26.2 billion or \$196/share. We note a substantial premium from LNKD's closing price of \$131, but a discount from the \$256 price reached last November. Using Capital IQ estimates, the deal values LNKD at a P/E of 57X and a P/E-to-growth ratio of 2.0, substantial premiums to peer medians. We see opportunities as MSFT's looks to leverage LNKD's content and tools, but risks related to the size of the deal and recent questions about LNKD's growth. MSFT had \$105 billion in cash/short-term investments as of March. /S. Kessler

**May 25, 2016**

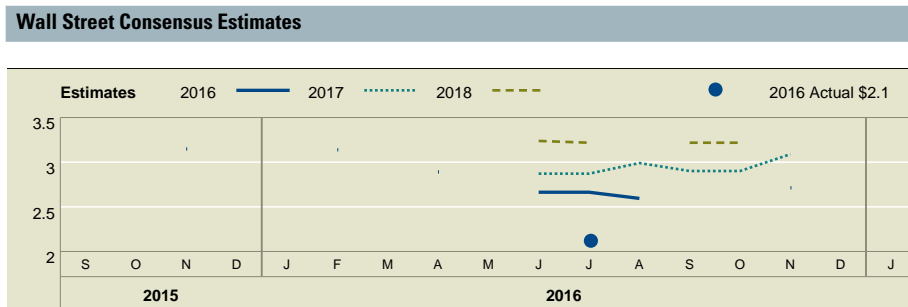
11:37 am ET ... S&P GLOBAL REITERATES HOLD OPINION ON SHARES OF MICROSOFT CORP. (MSFT 52.12\*\*\*): MSFT announces plans to further streamline and downsize its phone hardware business, focusing now on the smartphone area, impacting up to 1,850 jobs and resulting in a restructuring charge of some \$950 million. We see these actions being largely completed by the end of '16. This follows last week's announcement to sell "entry-level feature phone assets" for \$350 million. We think this will essentially mark the end of MSFT's participation as a provider of phone hardware, after a considerable and unsuccessful purchase of Nokia's Devices and Services business some two years ago. /S. Kessler

# Microsoft Corp



Of the total 35 companies following MSFT, 35 analysts currently publish recommendations.

	No. of Recommendations	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	14	40	0	15
Buy/Hold	8	23	0	6
Hold	8	23	0	8
Weak Hold	0	0	0	0
Sell	2	6	0	3
No Opinion	3	9	0	2
<b>Total</b>	<b>35</b>	<b>100</b>	<b>0</b>	<b>34</b>



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2018	3.27	3.99	3.06	31	19.2
2017	2.98	3.61	2.84	32	21.1
<b>2018 vs. 2017</b>	<b>▲ 10%</b>	<b>▲ 11%</b>	<b>▲ 8%</b>	<b>▼ -3%</b>	<b>▼ -9%</b>
Q2'18	0.86	0.94	0.80	21	73.1
Q2'17	0.79	0.86	0.76	29	79.5
<b>Q2'18 vs. Q2'17</b>	<b>▲ 9%</b>	<b>▲ 9%</b>	<b>▲ 5%</b>	<b>▼ -28%</b>	<b>▼ -8%</b>

A company's earnings outlook plays a major part in any investment decision. S&P Capital IQ organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

### Wall Street Consensus Opinion

**BUY/HOLD**

### Companies Offering Coverage

- Over 30 firms follow this stock; not all firms are displayed.
- Argus Research Company
  - Atlantic Equities LLP
  - BMO Capital Markets Equity Research
  - Barclays
  - BofA Merrill Lynch
  - CLSA
  - Canaccord Genuity
  - Citigroup Inc
  - Cowen and Company
  - Deutsche Bank
  - Eugene Investment & Securities Co Ltd.
  - Evercore ISI
  - FBN Securities, Inc.
  - Financiele Diensten Amsterdam
  - Goldman Sachs
  - Griffin Securities
  - Hilliard Lyons
  - JP Morgan
  - Jefferies LLC
  - Korea Investment & Securities Co., Ltd.
  - MKM Partners LLC
  - Macquarie Research
  - Morgan Stanley
  - Morningstar Inc.
  - Nomura Securities Co. Ltd.
  - Oppenheimer & Co. Inc.
  - Pacific Crest Securities-KBCM
  - Piper Jaffray Companies
  - RBC Capital Markets
  - Raymond James & Associates

### Wall Street Consensus vs. Performance

For fiscal year 2017, analysts estimate that MSFT will earn US\$ 2.98. For the 1st quarter of fiscal year 2017, MSFT announced earnings per share of US\$ 0.60, representing 20% of the total annual estimate. For fiscal year 2018, analysts estimate that MSFT's earnings per share will grow by 10% to US\$ 3.27.

## Glossary

### S&P Capital IQ STARS

Since January 1, 1987, S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, S&P Capital IQ Equity Research has ranked Asian and European equities since June 30, 2002. Under proprietary STARS (STock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

### S&P Capital IQ Quality Ranking

(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Capital IQ's earnings and dividend rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	D In Reorganization
NR Not Ranked	

### S&P Capital IQ EPS Estimates

S&P Capital IQ earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, S&P Capital IQ EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by Capital IQ, a data provider to S&P Capital IQ Equity Research. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

### S&P Capital IQ Core Earnings

S&P Capital IQ Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

### S&P Capital IQ 12-Month Target Price

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including S&P Capital IQ Fair Value.

### S&P Capital IQ Equity Research

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### Abbreviations Used in S&P Capital IQ Equity Research Reports

CAGR - Compound Annual Growth Rate  
 CAPEX - Capital Expenditures  
 CY - Calendar Year  
 DCF - Discounted Cash Flow  
 DDM - Dividend Discount Model  
 EBIT - Earnings Before Interest and Taxes  
 EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization

EPS - Earnings Per Share  
 EV - Enterprise Value  
 FCF - Free Cash Flow  
 FFO - Funds From Operations  
 FY - Fiscal Year  
 P/E - Price/Earnings  
 P/NAV - Price to Net Asset Value  
 PEG Ratio - P/E-to-Growth Ratio  
 PV - Present Value  
 R&D - Research & Development  
 ROCE - Return on Capital Employed  
 ROE - Return on Equity  
 ROI - Return on Investment  
 ROIC - Return on Invested Capital  
 ROA - Return on Assets  
 SG&A - Selling, General & Administrative Expenses  
 SOTP - Sum-of-The-Parts  
 WACC - Weighted Average Cost of Capital

### Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).

### S&P Capital IQ Qualitative Risk Assessment

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the S&P U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

### STARS Ranking system and definition:

#### ★★★★★ 5-STARS (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

#### ★★★★☆ 4-STARS (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

#### ★★★☆☆ 3-STARS (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

#### ★★☆☆☆ 2-STARS (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

#### ★☆☆☆☆ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

### Relevant benchmarks:

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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### Quantitative Stock Reports:

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

### STARS Stock Reports and Quantitative Stock Reports:

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### STARS Stock Reports:

#### Global STARS Distribution as of September 30, 2016

Ranking	North America	Europe	Asia	Global
Buy	25.0%	29.3%	16.1%	24.6%
Hold	50.6%	53.7%	77.4%	54.7%
Sell	24.4%	17.0%	6.5%	20.7%
Total	100%	100%	100%	100%

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