## *Stock Selection Guide*

| Company | Microsoft | | Date | 02/02/23 |
|---|---|---|---|---|
| Prepared by | LEWIS | | Data taken from | BI Stock Data |
| Where traded | NAS | Industry | Software - Infrastructure | |
| Capitalization --- Outstanding Amounts | | | Reference | |

| Preferred ($M) | | 0.0 | % Insiders | % Institution |
|---|---|---|---|---|
| Common (M Shares) | | 7,473.0 | 6.2 | 61.8 |
| Debt ($M) | 60,114.0 % to Tot Cap | 24.7 | % Pot Dil | 0.3 |

**Symbol: MSFT**

## 1  VISUAL ANALYSIS of Sales, Earnings, and Price
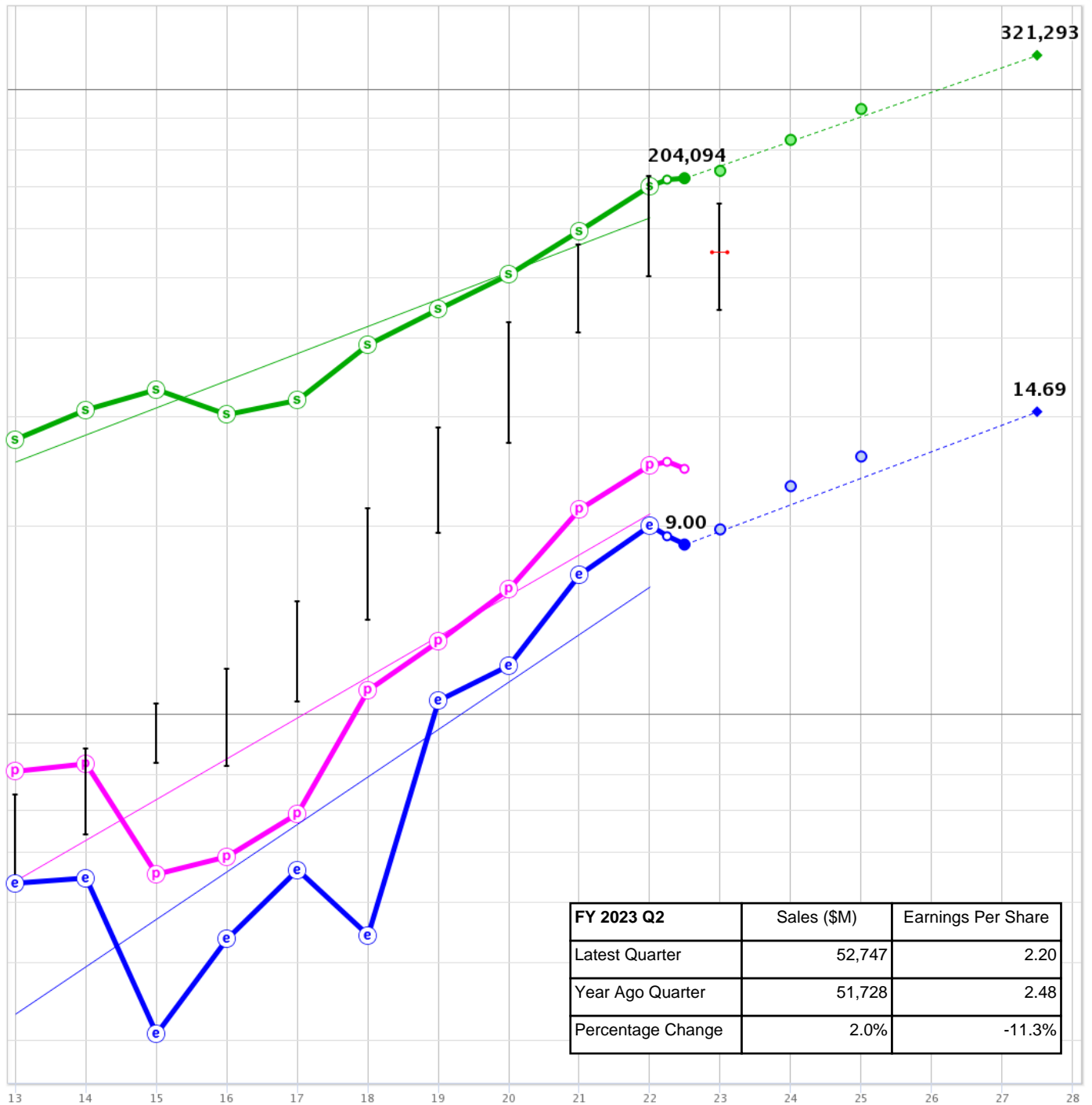


| FY 2023 Q2 | Sales ($M) | Earnings Per Share |
|---|---|---|
| Latest Quarter | 52,747 | 2.20 |
| Year Ago Quarter | 51,728 | 2.48 |
| Percentage Change | 2.0% | -11.3% |

| | | | | |
|---|---|---|---|---|
| (1) Historical Sales Growth | 10.5% | (3) Historical Earnings Per Share Growth | | 19.1% |
| (2) Estimated Future Sales Growth | 9.5% | (4) Estimated Future Earnings Per Share Growth | | 10.3% |

## 2 EVALUATING Management

<div align="right">**Microsoft**</div>

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Last 5 Year Avg. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| % Pre-tax Profit on Sales | 34.7% | 32.0% | 19.8% | 23.1% | 25.7% | 33.1% | 34.7% | 37.1% | 42.3% | 42.2% | 37.9% |
| % Earned on Equity | 28.0% | 24.8% | 13.2% | 21.9% | 30.0% | 20.6% | 40.8% | 38.1% | 45.0% | 44.2% | 37.7% |
| % Debt To Capital | 16.5% | 20.1% | 30.6% | 42.7% | 54.4% | 49.7% | 43.4% | 37.5% | 32.3% | 26.9% | 38.0% |

## 3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

**CLOSING PRICE** 264.60 (02/02/23)    **52-WEEK HIGH** 315.95    **52-WEEK LOW** 213.43

| | A | B | C | D | E | F | G | H |
|---|---|---|---|---|---|---|---|---|
| Year | Price | | Earnings | Price Earnings Ratio | | Dividend | % Payout | % High Yield |
| | High | Low | Per Share | High A / C | Low B / C | Per Share | F / C * 100 | F / B * 100 |
| 2018 | 102.7 | 68.0 | 2.13 | 48.2 | 31.9 | 1.65 | 77.5 | 2.4 |
| 2019 | 138.4 | 94.0 | 5.06 | 27.4 | 18.6 | 1.80 | 35.6 | 1.9 |
| 2020 | 204.4 | 130.8 | 5.76 | 35.5 | 22.7 | 1.99 | 34.5 | 1.5 |
| 2021 | 271.7 | 196.3 | 8.05 | 33.7 | 24.4 | 2.19 | 27.2 | 1.1 |
| 2022 | 349.7 | 241.5 | 9.65 | 36.2 | 25.0 | 2.42 | 25.1 | 1.0 |
| AVERAGE | | 146.1 | | 33.2 | 22.7 | | 30.6 | |
| CURRENT/TTM | | | 9.00 | 35.1 | 23.7 | 2.72 | 30.2 | |

| AVERAGE PRICE EARNINGS RATIO: 27.9 | CURRENT PRICE EARNINGS RATIO: 29.4 |
|---|---|

## 4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

**A HIGH PRICE - NEXT 5 YEARS**

Avg. High P/E   25.0   X Estimate High Earnings/Share   14.69   =   Forecasted High Price $   367.3

**B LOW PRICE - NEXT 5 YEARS**

(a) Avg. Low P/E   20.0   X Estimate Low Earnings/Share   9.58   =   Forecasted Low Price $   191.6

(b) Avg. Low Price of Last 5 Years   146.1

(c) Recent Market Low Price   196.3

(d) Price Dividend Will Support   $\frac{\text{Indicated Dividend}}{\text{High Yield}} = \frac{2.72}{2.43\%} = 112.1$

Selected Forecasted Low Price $   196.3

**C ZONING**   using 25%-50%-25%

Forecasted High Price   367.3   Minus Forecasted Low Price   196.3   =   171.1   Range.   25% of Range   42.8

Buy Zone   196.3   to   239.0

Hold Zone   239.0   to   324.6

Sell Zone   324.6   to   367.3

Present Market Price of   264.60   is in the   **HOLD**   Zone

**D UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)**

$\frac{\text{High Price} \quad 367.3 \quad \text{Minus Present Price} \quad 264.60}{\text{Present Price} \quad 264.60 \quad \text{Minus Low Price} \quad 196.3} = \frac{102.73}{68.35} = 1.5$   To 1

**E PRICE TARGET**   (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

$\frac{\text{High Price} \quad 367.3}{\text{Closing Price} \quad 264.60} = 1.3883 \quad X \quad 100 = 138.83 - 100 = 38.8$   % Appreciation

## 5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

**A**   $\frac{\text{Indicated Annual Dividend} \quad 2.42}{\text{Closing Price} \quad 264.60} = 0.0103 = 1.0\%$   Current Yield

**B AVERAGE YIELD - USING FORECAST HIGH P/E**

$\frac{\text{Avg. \% Payout}}{\text{Forecast High PE}} = \frac{30.6\%}{25.00} = 1.2\%$

**AVERAGE YIELD - USING FORECAST AVERAGE P/E**

$\frac{\text{Avg. \% Payout}}{\text{Forecast Average PE}} = \frac{30.6\%}{22.50} = 1.4\%$

**C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E**

| | |
|---|---|
| Annualized Appreciation | 6.8 % |
| Average Yield | 1.2 % |
| Annualized Rate of Return | 8.0 % |

**COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E**

| | |
|---|---|
| Annualized Appreciation | 4.6 % |
| Average Yield | 1.4 % |
| Annualized Rate of Return | 5.9 % |