Stock Selection Guide

Company	Microsoft			Date	08/04/22	
Prepared by	LEWIS		Data taken from		BI Stock Data	
Where traded	NAS	Industry	Software - Infrastructure			
Capitalization --- Outstanding Amounts			Reference			
Preferred ($M)			0.0	% Insiders	% Institution	
Common (M Shares)			7,504.0	6.2	71.7	
Debt ($M)	61,270.0	% to Tot Cap	26.9	% Pot Dil	0.4	

Symbol: MSFT

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

FY 2022 Q4	Sales ($M)	Earnings Per Share
Latest Quarter	51,865	2.23
Year Ago Quarter	46,152	2.17
Percentage Change	12.4%	2.8%
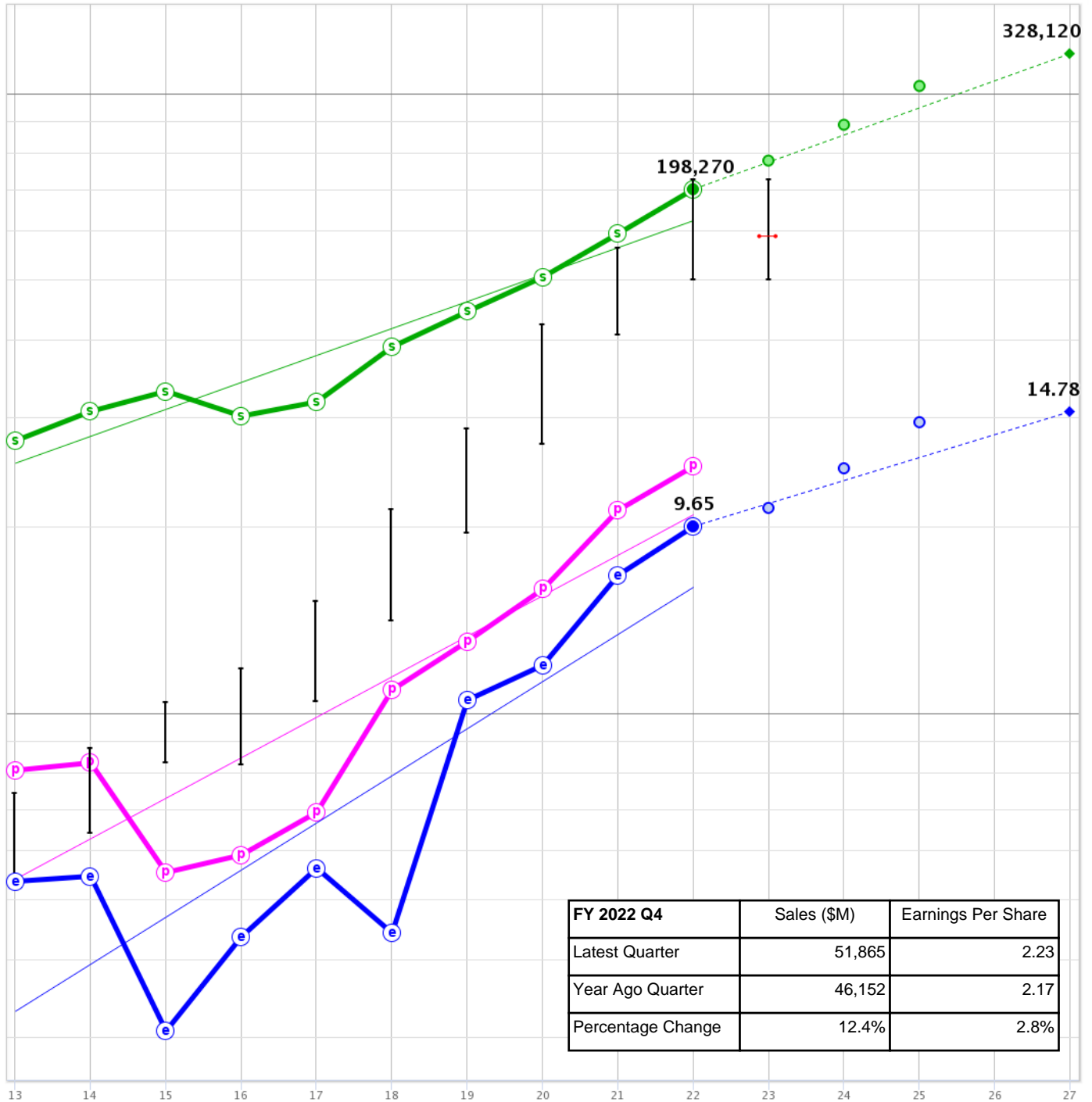
(1) Historical Sales Growth	10.5%	(3) Historical Earnings Per Share Growth	19.1%
(2) Estimated Future Sales Growth	10.6%	(4) Estimated Future Earnings Per Share Growth	8.9%

2 EVALUATING Management

	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 283.65 (08/04/22)   **52-WEEK HIGH** 349.67   **52-WEEK LOW** 241.51

	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		40.0	
CURRENT/TTM			9.64			2.48	25.7	
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   30.0   X Estimate High Earnings/Share   14.76   =   Forecasted High Price $ 442.9

B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E   21.1   X Estimate Low Earnings/Share   9.58   =   Forecasted Low Price $ 202.1

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

(c) Recent Market Low Price   196.3

(d) Price Dividend Will Support $\dfrac{\text{Indicated Dividend}}{\text{High Yield}}$ = $\dfrac{2.48}{2.43\%}$ =   102.2

Selected Forecasted Low Price $ 195.0

C ZONING   using 25%-50%-25%

Forecasted High Price   442.9   Minus Forecasted Low Price   195.0   =   247.9   Range.   25% of Range   62.0

Buy Zone   195.0   to   257.0

Hold Zone   257.0   to   380.9

Sell Zone   380.9   to   442.9

Present Market Price of   283.65   is in the   **HOLD**   Zone

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

$\dfrac{\text{High Price} \quad 442.9 \quad \text{Minus Present Price} \quad 283.65}{\text{Present Price} \quad 283.65 \quad \text{Minus Low Price} \quad 195.0}$ = $\dfrac{159.28}{88.65}$ =   1.8   To 1

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

$\dfrac{\text{High Price} \quad 442.9}{\text{Closing Price} \quad 283.65}$ =   1.5615   X   100   =   156.15   -   100   =   56.2   % 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 $\dfrac{\text{Indicated Annual Dividend} \quad 2.42}{\text{Closing Price} \quad 283.65}$ =   0.0087   =   0.9 %   Current Yield

B AVERAGE YIELD - USING FORECAST HIGH P/E

$\dfrac{\text{Avg. \% Payout}}{\text{Forecast High PE}}$ = $\dfrac{46.3 \%}{30.00}$ =   1.5 %

AVERAGE YIELD - USING FORECAST AVERAGE P/E

$\dfrac{\text{Avg. \% Payout}}{\text{Forecast Average PE}}$ = $\dfrac{46.3 \%}{25.55}$ =   1.8 %

C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation	9.3 %
Average Yield	1.5 %
Annualized Rate of Return	10.9 %

COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E

Annualized Appreciation	5.9 %
Average Yield	1.8 %
Annualized Rate of Return	7.7 %