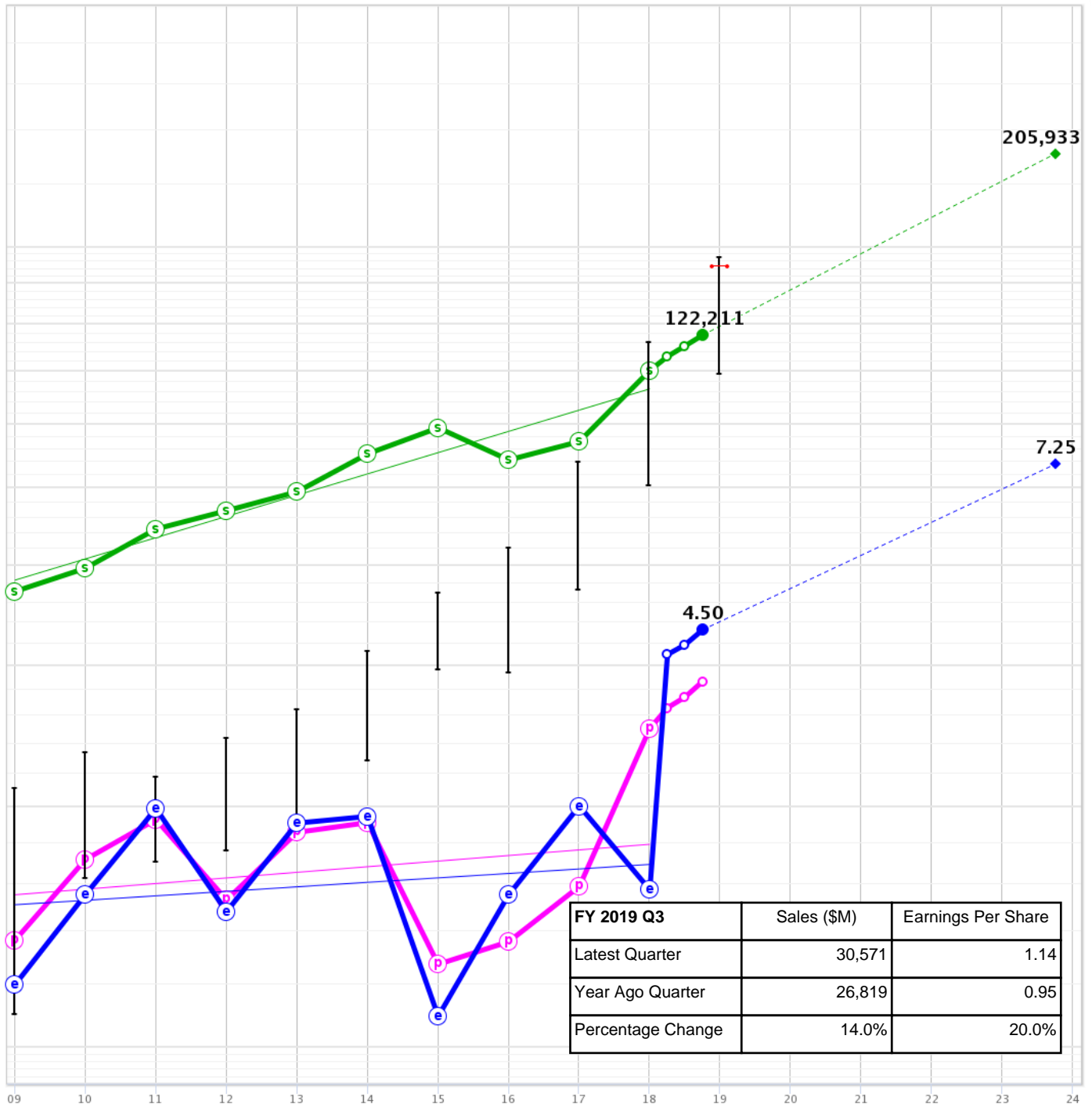


|  |           |                 |                           |
|--|-----------|-----------------|---------------------------|
| Company                                | Microsoft | Date            | 05/06/19                  |
| Prepared by                            | ARUMUGAM  | Data taken from | BI Stock Data             |
| Where traded                           | NAS       | Industry        | Software - Infrastructure |
| Capitalization --- Outstanding Amounts | Reference |                 |                           |
| Preferred (\$M)                        | 0.0       | % Insiders      | % Institution             |
| Common (M Shares)                      | 7,744.0   | 6.0             | 117.2                     |
| Debt (\$M)                             | 73,100.0  | % to Tot Cap    | 43.5                      |
|  |           | % Pot Dil       | 0.9                       |

# Stock Selection Guide

Symbol: MSFT

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



- |                                   |       |  |       |
|-----------------------------------|-------|--|-------|
| (1) Historical Sales Growth       | 6.3%  | (3) Historical Earnings Per Share Growth       | 1.3%  |
| (2) Estimated Future Sales Growth | 11.0% | (4) Estimated Future Earnings Per Share Growth | 10.0% |

## 2 EVALUATING Management

Microsoft

|                         | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | Last 5 Year Avg. |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------------------|
| Pre-tax Profit on Sales | 33.9% | 40.0% | 40.1% | 30.2% | 34.7% | 32.0% | 19.8% | 23.1% | 25.7% | 33.1% | 26.7%            |
| % Earned on Equity      | 36.5% | 39.4% | 39.5% | 24.4% | 28.0% | 24.8% | 13.2% | 21.9% | 30.0% | 20.6% | 22.1%            |
| % Debt To Capital       | 12.7% | 11.4% | 17.3% | 15.3% | 16.5% | 20.1% | 30.6% | 42.7% | 54.4% | 48.0% | 39.2%            |

## 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** 128.15 (05/06/19)

**HIGH THIS YEAR** 131.37

**LOW THIS YEAR** 93.96

|                                    | 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  |
| 2014                               | 42.3  | 30.8 | 2.63      | 16.1                               | 11.7      | 1.07      | 40.7        | 3.5          |
| 2015                               | 50.0  | 40.1 | 1.48      | 33.8                               | 27.1      | 1.21      | 81.8        | 3.0          |
| 2016                               | 56.9  | 39.7 | 2.10      | 27.1                               | 18.9      | 1.39      | 66.2        | 3.5          |
| 2017                               | 72.9  | 50.4 | 2.71      | 26.9                               | 18.6      | 1.53      | 56.5        | 3.0          |
| 2018                               | 102.7 | 68.0 | 2.13      | 48.2                               | 31.9      | 1.65      | 77.5        | 2.4          |
| AVERAGE                            |       | 45.8 |           | 30.4                               | 21.7      |           | 64.5        |              |
| CURRENT/TTM                        |       |      | 4.50      |                                    |           | 1.84      | 40.9        |              |
| AVERAGE PRICE EARNINGS RATIO: 26.0 |       |      |           | CURRENT PRICE EARNINGS RATIO: 28.5 |           |           |             |              |

## 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 7.25 = Forecasted High Price \$ 181.2

### B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 17.3 X Estimate Low Earnings/Share 4.31 = Forecasted Low Price \$ 74.6

(b) Avg. Low Price of Last 5 Years 45.8

(c) Recent Market Low Price 50.4

(d) Price Dividend Will Support  $\frac{\text{Indicated Dividend}}{\text{High Yield}} = \frac{1.84}{3.50\%} = 52.6$

Selected Forecasted Low Price \$ 74.6

### C ZONING using 25%-50%-25%

Forecasted High Price 181.2 Minus Forecasted Low Price 74.6 = 106.6 Range. 25% of Range 26.6

Buy Zone 74.6 to 101.2

Hold Zone 101.2 to 154.5

Sell Zone 154.5 to 181.2

Present Market Price of 128.15 is in the **HOLD** Zone

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

$\frac{\text{High Price} - \text{Present Price}}{\text{Present Price} - \text{Low Price}} = \frac{181.2 - 128.15}{128.15 - 74.6} = \frac{53.03}{53.55} = 1.0$  To 1

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

$\frac{\text{High Price} - \text{Closing Price}}{\text{Closing Price}} = \frac{181.2 - 128.15}{128.15} = 1.4138$  X 100 = 141.38 - 100 = 41.4 % 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**  $\frac{\text{Indicated Annual Dividend}}{\text{Closing Price}} = \frac{1.65}{128.15} = 0.0144 = 1.4\%$  Current Yield

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

$\frac{\text{Avg. \% Payout}}{\text{Forecast High PE}} = \frac{55.9\%}{25.00} = 2.2\%$

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

$\frac{\text{Avg. \% Payout}}{\text{Forecast Average PE}} = \frac{55.9\%}{21.15} = 2.6\%$

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

Annualized Appreciation 7.2 %  
Average Yield 2.2 %  
Annualized Rate of Return 9.4 %

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

Annualized Appreciation 3.6 %  
Average Yield 2.6 %  
Annualized Rate of Return 6.3 %