Investors should note that income from such investments, if any, may fluctuate and that the value of such investments may rise or fall. Accordingly, investors may receive back less than they originally invested. Investors should seek advice concerning any independent financial advice regarding the suitability and/or appropriateness of making an investment or implementing the investment strategy discussed in this document and should understand that statements regarding future prospects may not be realized.

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MSFT's gross margin was 69% in FY 14, 65% in FY 15, and 62% in FY 16, down from 74% in FY 13. We see gross margins bottoming in FY 17, 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.

- 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, 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 $2.78 in FY 16. We foresee notable share repurchases and dividend increases.

- 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.

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.

Stock Report | November 9, 2016 | NNM Symbol: MSFT | MSFT is in the S&P 500

Microsoft Corp

S&P Capital IQ
Recommendation: HOLD
S&P Capital IQ 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

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

<table>
<thead>
<tr>
<th>52-Wk Range</th>
<th>Selling Price</th>
<th>S&amp;P Oper. EPS 2017E</th>
<th>2.95</th>
<th>Market Capitalization(B)</th>
<th>$468.664</th>
<th>Beta</th>
<th>1.08</th>
</tr>
</thead>
<tbody>
<tr>
<td>$61.37–48.04</td>
<td>$60.17 (as of Nov 09, 2016 4:00 PM ET)</td>
<td>S&amp;P Oper. EPS 2018E</td>
<td>3.23</td>
<td>Yield (%)</td>
<td>2.59</td>
<td>S&amp;P 3-Year EPS CAGR (%)</td>
<td>9</td>
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<tr>
<td>$28.8</td>
<td>P/E on S&amp;P Oper. EPS 2017E</td>
<td>20.4</td>
<td>Dividend Rate/Share</td>
<td>$1.56</td>
<td>S&amp;P Quality Ranking</td>
<td>A-</td>
<td></td>
</tr>
<tr>
<td>$25,715</td>
<td>Common Shares Outstg. (M)</td>
<td>7,785.0</td>
<td>Institutional Ownership (%)</td>
<td>73</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

- 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.

Investment Rationale/Risk

- 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.

Please read the Required Disclosures and Analyst Certification on the last page of this report.

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This document is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek independent financial advice regarding the availability and/or appropriateness of making an investment or implementing the investment strategies discussed in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such investments, if any, may fluctuate and that the value of such investments may rise or fall. Accordingly, investors may receive back less than they originally invested. Investors should seek advice concerning any impact this investment may have on their personal tax position from their own tax advisors. Please note the publication date of this document. It may contain specific information that is no longer current and should not be used to make an investment decision. Unless otherwise indicated, there is no intention to update this document.
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 12, 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.
Microsoft Corp

Quantitative Evaluations

S&P Capital IQ Fair Value Rank
Analysis of the stock's current worth, based on S&P Capital IQ’s proprietary quantitative model suggests that MSFT is slightly overvalued by $5.27 or 8.8%.

Investability Quotient
MSFT scored higher than 100% of all companies for which an S&P Capital IQ Report is available.

Volatility
Since July, 2016, the technical indicators for MSFT have been BULLISH.

Insider Activity
For further clarification on the terms used in this report, please visit www.spcapitaliq.com/stockreportguide

Company Financials Fiscal Year Ended Jun. 30

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 0.0
Pretax Income 19,751 18,507 27,820 27,052 22,267 21,761 17,882 17,131 20,101 13,598
Effective Tax Rate 15.0% 34.1% 20.7% 19.2% 23.8% 17.5% 25.0% 25.8% 30.0% 30.0%
Net Income 16,798 12,193 22,074 21,863 16,978 23,150 18,760 17,131 20,101 13,598
S&P Capital IQ Core Earnings 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 193,694 176,223 172,384 162,384 142,431 121,271 108,764 90,784 83,753 73,171
Current Liabilities 59,357 49,858 45,625 37,417 32,688 26,774 22,267 20,013 19,621 20,101
Long Term Debt 40,783 27,808 20,645 12,601 10,713 8,921 8,921 7,439 7,439 7,439
Current Equity 71,997 60,638 58,968 52,424 49,064 42,657 37,523 32,321 32,321 31,062
Total Capital 112,780 110,390 110,429 110,429 108,764 90,784 77,888 63,753 63,171 63,171
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 30.2 25.2 18.7 13.3 13.7 17.3 9.7 8.7 NM
% Net Income of Revenue 19.7 13.0 25.4 28.1 23.0 33.1 30.0 29.3 27.5
% Return on Equity 22.1 14.4 14.0 16.6 14.8 23.8 22.9 19.3 25.0 21.2

Expanded Ratio Analysis

Price/Sales 5.65 4.89 4.49 4.07
Price/EBITDA 17.75 13.64 12.14 10.53
Price/Pretax Income 24.41 24.74 14.02 11.71
P/E Ratio 28.70 37.56 17.67 14.49
Avg. Diluted Shares Outstg (M) 8,013.0 8,254.0 8,399.0 8,470.0

Key Growth Rates and Averages

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 20.73 17.50 26.60

Figures based on calendar year-end price

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.

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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 2015. 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 Nov 5, 2016

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.


<table>
<thead>
<tr>
<th>Peer Group</th>
<th>Stock Symbol</th>
<th>Skt.Mkt. Cap. (Mil. $)</th>
<th>Recent Stock Price($)</th>
<th>52Wk High/Low($)</th>
<th>Beta</th>
<th>Yield (%)</th>
<th>P/E Ratio</th>
<th>Fair Value Calc.(S)</th>
<th>S&amp;P IQ %ile</th>
<th>Return on Revenue (%)</th>
<th>LTD to Cap (%)</th>
</tr>
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<tbody>
<tr>
<td>Microsoft Corp</td>
<td>MSFT</td>
<td>468,664</td>
<td>60.17</td>
<td>61.37/48.04</td>
<td>1.08</td>
<td>2.6</td>
<td>29</td>
<td>54.90</td>
<td>A-</td>
<td>100</td>
<td>19.7</td>
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<td>CA Inc</td>
<td>CA</td>
<td>13,262</td>
<td>31.74</td>
<td>34.99/25.18</td>
<td>1.36</td>
<td>3.2</td>
<td>17</td>
<td>32.40</td>
<td>B</td>
<td>97</td>
<td>19.1</td>
</tr>
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<td>Check Point Software Tech</td>
<td>CHK</td>
<td>14,628</td>
<td>84.78</td>
<td>89.98/71.64</td>
<td>1.06</td>
<td>Nil</td>
<td>21</td>
<td>94.10</td>
<td>NR</td>
<td>79</td>
<td>42.1</td>
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<td>CommVault Systems</td>
<td>CVLT</td>
<td>2,310</td>
<td>52.25</td>
<td>56.28/29.41</td>
<td>0.36</td>
<td>Nil</td>
<td>NM</td>
<td>42.90</td>
<td>NR</td>
<td>74</td>
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<td>Dell Technologies</td>
<td>DVMT</td>
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<td>49.37</td>
<td>50.89/45.02</td>
<td>NA</td>
<td>Nil</td>
<td>69</td>
<td>NA</td>
<td>NR</td>
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<td>31.75</td>
<td>37.48/23.16</td>
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<td>NA</td>
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<td>ORCL</td>
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<td>39.55</td>
<td>42.00/33.13</td>
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<td>1.5</td>
<td>19</td>
<td>46.10</td>
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<td>99</td>
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<td>RHT</td>
<td>14,080</td>
<td>76.79</td>
<td>84.44/59.59</td>
<td>1.00</td>
<td>Nil</td>
<td>65</td>
<td>NA</td>
<td>B+</td>
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<td>ServiceNow Inc</td>
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<td>91.28/46.00</td>
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<td>71.00</td>
<td>NR</td>
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<td>NM</td>
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<td>Software AG ADS</td>
<td>STWRY</td>
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<td>9.05</td>
<td>10.73/6.68</td>
<td>1.69</td>
<td>1.1</td>
<td>17</td>
<td>NA</td>
<td>NR</td>
<td>NA</td>
<td>16.0</td>
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<tr>
<td>Symantec Corp</td>
<td>SYMC</td>
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<td>25.72/16.14</td>
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<td>23.80</td>
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<td>Tableau Software A*</td>
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<td>98.80/36.60</td>
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<td>Nil</td>
<td>NM</td>
<td>31.40</td>
<td>NR</td>
<td>71</td>
<td>NM</td>
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<td>23.70/9.50</td>
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<td>36</td>
<td>18.90</td>
<td>C</td>
<td>22</td>
<td>NM</td>
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<td>Trend Micro ADR</td>
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<td>4,557</td>
<td>32.24</td>
<td>44.21/31.05</td>
<td>0.84</td>
<td>2.6</td>
<td>27</td>
<td>NA</td>
<td>NR</td>
<td>40</td>
<td>17.2</td>
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<td>9,565</td>
<td>76.97</td>
<td>79.15/43.25</td>
<td>1.18</td>
<td>Nil</td>
<td>29</td>
<td>91.20</td>
<td>B+</td>
<td>89</td>
<td>19.0</td>
</tr>
</tbody>
</table>

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.
S&P Capital IQ Analyst Research Notes and other Company News

November 9, 2016
10:38 am ET ... S&P CAPITAL IQ SEE S 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 57.52**). We raise our 12-month target by $4 to $57. Peers have a median forward P/E of 20X and P/E-to-growth of 1.8. 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 appointed the announcement 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 51.49***). 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.

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 the company to become CEO of the securities unit at financial-services firm Citadel. He will join Citadel after a short transition period.

MICROSOFT CORP. (MSFT 53.09***): We keep our 12-month target of $55. 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. 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 as of March. /S. Kessler

MICROSOFT CORP. (MSFT 52.12***): 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

MICROSOFT CORP. (MSFT 50.09***): We keep our 12-month target of $55. 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

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 1.8. 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

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 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

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.
Microsoft Corp

Analysts’ Recommendations

<table>
<thead>
<tr>
<th>Monthly Average Trend</th>
<th>Buy</th>
<th>Buy/Hold</th>
<th>Hold</th>
<th>Weak Hold</th>
<th>Sell</th>
<th>No Opinion</th>
<th>MSFT Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>BH</td>
<td>H</td>
<td>WH</td>
<td>S</td>
<td>NO</td>
<td></td>
</tr>
</tbody>
</table>

Wall Street Average

Number of Analysts Following Stock

Stock Price ($ 000)

Of the total 34 companies following MSFT, 34 analysts currently publish recommendations.

<table>
<thead>
<tr>
<th>No. of Recommendations</th>
<th>% of Total</th>
<th>1 Mo. Prior</th>
<th>3 Mos. Prior</th>
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</thead>
<tbody>
<tr>
<td>Buy</td>
<td>15</td>
<td>44</td>
<td>15</td>
</tr>
<tr>
<td>Buy/Hold</td>
<td>6</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>Hold</td>
<td>8</td>
<td>24</td>
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</tr>
<tr>
<td>Weak Hold</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Sell</td>
<td>3</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>No Opinion</td>
<td>2</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td>34</td>
</tr>
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</table>

Wall Street Consensus Estimates

Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Years</th>
<th>Avg Est.</th>
<th>High Est.</th>
<th>Low Est.</th>
<th># of Est.</th>
<th>Est. P/E</th>
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</thead>
<tbody>
<tr>
<td>2018</td>
<td>3.24</td>
<td>3.88</td>
<td>3.06</td>
<td>30</td>
<td>18.6</td>
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<tr>
<td>2017</td>
<td>2.96</td>
<td>3.22</td>
<td>2.83</td>
<td>32</td>
<td>20.3</td>
</tr>
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</table>

2018 vs. 2017

<table>
<thead>
<tr>
<th></th>
<th>▲ 9%</th>
<th>▲ 20%</th>
<th>▲ 8%</th>
<th>▼ -6%</th>
<th>▼ -8%</th>
</tr>
</thead>
</table>

Q2’18

|        | 0.86    | 0.94    | 0.80    | 20       | 70.0     |

Q2’17

|        | 0.78    | 0.86    | 0.74    | 29       | 77.1     |

Q2’18 vs. Q2’17

|        | ▲ 10%   | ▲ 9%    | ▲ 8%    | ▼ -31%   | ▼ -9%    |

Wall Street Consensus Opinion

BUY/HOLD

Companies Offering Coverage

Over 30 firms follow this stock; not all firms are displayed.

- Arete Research Services LLP
- 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.
- Goldman Sachs
- Griffin Securities, Inc.
- 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
- RBC Capital Markets
- Raymond James & Associates
- Sanford C. Bernstein & Co., Inc.

Wall Street Consensus vs. Performance

For fiscal year 2017, analysts estimate that MSFT will earn US$ 2.96. 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 9% to US$ 3.24.

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.

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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 internal STARS (Stock Appreciation Ranking System), S&P Capital IQ 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 capsize 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 S&P Capital IQ 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 S&P Capital IQ definition are employee stock option grant expenses, pension costs, restructuring costs 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 S&P Capital IQ 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

Abbreviations Used in S&P Capital IQ Equity Research Reports
CAGR - Compound Annual Growth Rate
CAPEX - Capital Expenditures
FY - Fiscal Year
DCF - Discounted Cash Flow
DDM - Dividend Discount Model

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 S&P Capital IQ 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 S&P Capital IQ 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:
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STARS Stock Reports:
S&P Global Equity Research - Global STARS Distribution as of June 30, 2016

<table>
<thead>
<tr>
<th>Ranking</th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>24.8%</td>
<td>17.8%</td>
<td>30.0%</td>
<td>23.7%</td>
</tr>
<tr>
<td>Hold</td>
<td>48.0%</td>
<td>57.5%</td>
<td>45.0%</td>
<td>49.6%</td>
</tr>
<tr>
<td>Sell</td>
<td>27.4%</td>
<td>24.4%</td>
<td>25.0%</td>
<td>26.7%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Quantitative Stock Reports:
The rankings for Quantitative reports have a fixed distribution based on relative weightings as described in the Glossary section of the report.

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