

# Microsoft Corporation

**Recommendation** **STRONG BUY** ★★★★★

**Price** USD 216.51 [as of market close Nov 13, 2020] **12-Mo. Target Price** USD 261.00

**Report Currency** USD

**Investment Style** Large-Cap Growth

**Equity Analyst** John Freeman

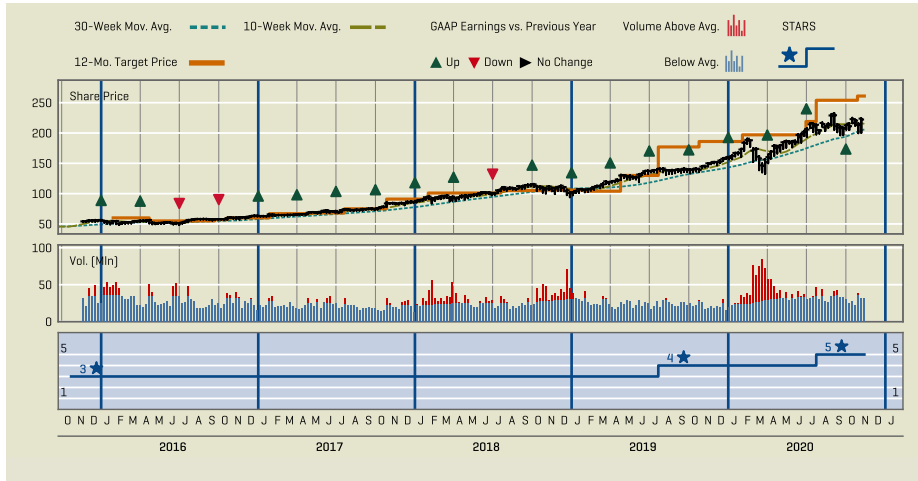
**GICS Sector** Information Technology  
**Sub-Industry** Systems Software

**Summary** Microsoft is the world's largest software company. It is best known for Windows and Office and is rapidly expanding into cloud services such as Azure.

**Key Stock Statistics** [Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports]

52-Wk Range	<b>USD 231.65 - 135.42</b>	Oper.EPS2021E	<b>USD 6.99</b>	Market Capitalization[B]	<b>USD 1636.92</b>	Beta	<b>0.92</b>
Trailing 12-Month EPS	<b>USD 6.2</b>	Oper.EPS2022E	<b>USD 8.48</b>	Yield [%]	<b>1.03</b>	3-yr Proj. EPS CAGR[%]	<b>20</b>
Trailing 12-Month P/E	<b>34.93</b>	P/E on Oper.EPS2021E	<b>30.97</b>	Dividend Rate/Share	<b>USD 2.24</b>	SPGMI's Quality Ranking	<b>A-</b>
USD 10K Invested 5 Yrs Ago	<b>44824.0</b>	Common Shares Outstg.[M]	<b>7,564.00</b>	Institutional Ownership [%]	<b>70.0</b>		

**Price Performance**



Source: CFRA, S&P Global Market Intelligence

Past performance is not an indication of future performance and should not be relied upon as such. Analysis prepared by John Freeman on Oct 28, 2020 10:42 AM ET, when the stock traded at USD 205.22.

**Highlights**

- We forecast a 3-year revenue CAGR of 15%, driven primarily by: 1) Azurecloud - we estimate at 14% of FY 20 (Jun.) revenue and set to grow 40%+ annually through '22 as enterprises move more legacy apps move to the cloud, especially those built on MSFT's .NET framework; 2) Office - about 22% of revenue, benefiting from the cloud shift tailwind kicking in now that SaaS (Office 365) is 2x license/support revenue; 3) LinkedIn - about 7% of revenue, projected to grow 15%+ through '23 with new services, monetization strategies, and opportunities for ad revenue; 4) Xbox - consoles and related video game content and services, we estimate at 9% of revenue, with growth accelerating to 20%+ through '22 due to higher demand and engagement due to people sheltering at home and refreshed console hardware set to ship in by the end of '20.
- We see gross and operating margins improving to 73% and 46%, respectively, by '22, as hardware decreases as a percentage of revenue and cloud services continue to gain scale efficiencies.
- We forecast '21 EPS of \$6.99, '22 EPS of \$8.48, and '23 EPS of \$10.03 and also expect continued steady increases over time to its dividend that presently yields ~1%.

**Investment Rationale/Risk**

- Our Strong Buy is primarily based on MSFT's continued success in all of its cloud-based businesses, including SaaS (i.e., "365") versions of Office, Dynamics, SharePoint, Teams, as well as Azure cloud services, LinkedIn, Bing, and Xbox-Live -- the sum of which now close to 60% of MSFT revenue. As cloud grows, MSFT is likely to reap greater scale efficiencies with operating margin expanding from 37% in '20 to 46% by '23. Our Strong Buy is secondarily based on the stability of Windows and the expanding profitability of that cash cow franchise. Last but not least, we note strong early positions in emerging areas with tremendous upside such as AI/cognitive computing and augmented/virtual reality [AR/VR] for both gaming apps and industrial use cases.
- Given MSFT's sheer size and related macroeconomic sensitivity, we see the greatest risk from a more prolonged and/or greater negative impact from Covid-19 that drags topline growth. MSFT's strong balance sheet offers more downside cushion than most large cap stocks in any sector, in our view.
- Our \$261 target is the product of our 2022 EPS forecast of \$8.48 and a 30.8x multiple [2-year mean, +10% due to a strong balance sheet and a 1% dividend yield].

**Analyst's Risk Assessment**

LOW	MEDIUM	HIGH
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Our risk assessment balances our view of the company's leading global franchises, Windows, Office, SQL-Server, X-Box, and LinkedIn, considerable growth and success in cloud with "365" applications and Azure, and balance-sheet strength, with challenges related to PC growth, disruption from mobile computing, and MSFT's sheer size and the "law of large numbers problem".

**Revenue/Earnings Data**

Revenue (Million USD)	1Q	2Q	3Q	4Q	Year
2021	37,154	--	--	--	--
2020	33,055	36,906	35,021	38,033	143,015
2019	29,084	32,471	30,571	33,717	125,843
2018	24,538	28,918	26,819	30,085	110,360
2017	21,928	25,826	23,212	25,605	96,571
2016	20,379	23,796	20,531	20,614	91,154

**Earnings Per Share (USD)**

	1Q	2Q	3Q	4Q	Year
2023	--	--	--	--	E 10.03
2022	E 1.95	E 2.04	E 2.15	E 2.34	E 8.48
2021	1.82	E 1.67	E 1.68	E 1.82	E 6.99
2020	1.38	1.51	1.40	1.46	5.76
2019	1.14	1.08	1.14	1.70	5.06
2018	0.84	-0.82	0.95	1.14	2.13

Fiscal Year ended Jun 30. EPS Estimates based on CFRA's Operating Earnings; historical GAAP earnings are as reported in Company reports.

**Dividend Data**

Amount (USD)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.5600	Sep 15	Nov 18	Nov 19	Dec 10 '20
0.5100	Jun 17	Aug 19	Aug 20	Sep 10 '20
0.5100	Mar 09	May 20	May 21	Jun 11 '20
0.5100	Dec 04	Feb 19	Feb 20	Mar 12 '20

Dividends have been paid since 2003. Source: Company reports  
**Past performance is not an indication of future performance and should not be relied as such.**  
Forecasts are not reliable indicator of future performance.

# Microsoft Corporation

## Business Summary Oct 28, 2020

**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 company has three operating segments: Productivity and Business Processes [which accounted for 33% of FY 18 (Jun.) revenues], Intelligent Cloud (29%), and More Personal Computing (38%). We think it is noteworthy that in FY 15, the More Personal Computing segment accounted for 46% of revenues.

Productivity and Business Processes includes Office, LinkedIn, and Dynamic CRM offerings. Intelligent Cloud includes server and cloud offerings like Azure. More Personal Computing includes Windows, gaming, Surface and digital advertising products and services.

**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 buy LinkedIn for \$26 billion in December 2016. In June 2018, MSFT announced the proposed acquisition of software developer platform company GitHub for \$7.5 billion. MSFT's M&A strategy has been focused on market and product enhancements and growth. Nadella's changes have helped MSFT notable revenue growth and contributed to significant stock appreciation.

**FINANCIAL TRENDS.** MSFT's revenues grew from \$78 billion in FY 13 to \$110 billion in FY 18. Over the same period, earnings before taxes [excluding unusual items] increased from \$27 billion to \$36 billion.

MSFT closed FY 18 with \$134 billion in cash and short-term investments, with debt of \$82 billion.

Dividends have been increased consistently over the past decade or so. MSFT also announced \$40 billion share repurchase plans in September 2008, September 2013, and September 2016.

## Corporate information

### Investor contact

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### Telephone

425-882-8080

### Fax

N/A

### Website

www.microsoft.com

### Officers

#### CEO & Director

S. Nadella

#### Independent Chairman

J. W. Thompson

#### Corporate VP of Finance & Administration and Chief Accounting Officer

A. L. Jolla

#### CTO and Executive VP of Technology & Research

J. K. Scott

#### President & Chief Legal Officer

B. L. Smith

#### Executive VP and President of Microsoft Global Sales, Marketing & Operations

J. Courtois

#### Executive VP & CFO

A. E. Hood

#### Chief Technology Officer

N. Coleman

### Board Members

A. M. Sorenson

P. S. Pritzker

C. W. Scharf

P. Warrior

E. N. Walmsley

R. G. Hoffman

H. F. Johnston

S. E. Peterson

J. W. Stanton

S. Nadella

J. W. Thompson

T. L. List-Stoll

### Domicile

Washington

### Auditor

Deloitte & Touche LLP

### Founded

1975

### Employees

163,000

### Stockholders

91,674

## Microsoft Corporation

Quantitative Evaluations					Expanded Ratio Analysis						
<b>Fair Value Rank</b>	1	2	3	4	5						
	LOWEST			HIGHEST							
	Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued [1] to most undervalued [5].										
<b>Fair Value Calculation</b>	<b>USD</b>	<b>219.24</b>	Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that MSFT is undervalued by USD 2.73 or 1.26%								
<b>Volatility</b>	LOW	AVERAGE	HIGH								
<b>Technical Evaluation</b>	<b>BULLISH</b>	Since November, 2020, the technical indicators for MSFT have been BULLISH"									
<b>Insider Activity</b>	UNFAVORABLE	NEUTRAL	FAVORABLE								
	<b>Price/Sales</b>					2020	2019	2018	2017		
	Price/EBITDA					10.93	8.25	6.96	5.59		
	Price/Pretax Income					23.96	19.04	17.10	14.54		
	P/E Ratio					29.48	23.77	21.07	18.05		
	Avg. Diluted Shares Outstg. (M)					35.33	26.47	46.30	21.21		
	Figures based on fiscal year-end price					7683.00	7753.00	7794.00	7832.00		
	<b>Key Growth Rates and Averages</b>										
	<b>Past Growth Rate [%]</b>						<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>		
	Net Income						12.85	20.21	29.43		
	Sales						13.65	13.98	8.85		
	<b>Ratio Analysis [Annual Avg.]</b>										
	Net Margin [%]						30.96	25.72	25.22		
	% LT Debt to Capitalization						38.02	42.69	41.30		
	Return on Equity [%]						40.14	34.00	32.19		

Company Financials Fiscal year ending Jun 30										
Per Share Data [USD]	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Tangible Book Value	8.97	6.88	5.08	5.51	6.45	7.26	7.61	7.35	5.93	5.22
Free Cash Flow	5.94	4.99	4.19	4.05	3.15	2.90	3.26	2.93	3.49	2.90
Earnings	5.76	5.06	2.13	3.25	2.56	1.48	2.63	2.58	2.00	2.69
Earnings (Normalized)	4.31	3.47	2.73	2.22	2.04	2.11	2.05	2.04	2.06	2.01
Dividends	2.04	1.84	1.68	1.56	1.44	1.24	1.12	0.92	0.80	0.64
Payout Ratio [%]	34.00	35.00	77.00	46.00	54.00	81.00	40.00	34.00	38.00	22.00
Prices: High	204.40	138.40	102.69	72.89	56.85	50.04	42.29	35.78	32.95	29.46
Prices: Low	130.78	93.96	68.02	50.39	39.72	40.12	30.84	26.26	23.79	22.73
P/E Ratio: High	35.50	27.40	48.20	22.40	22.20	33.80	16.10	13.90	16.50	11.00
P/E Ratio: Low	22.70	18.60	31.90	15.50	15.50	27.10	11.70	10.20	11.90	8.40
Income Statement Analysis [Million USD]										
Revenue	143,015	125,843	110,360	96,571	91,154	93,580	86,833	77,849	73,723	69,943
Operating Income	52,959	42,959	35,058	29,331	27,188	28,172	27,886	27,497	27,956	27,161
Depreciation + Amortization	12,300	11,600	9,900	7,800	5,878	5,400	4,245	3,339	2,758	2,537
Interest Expense	2,591	2,686	2,733	2,222	1,243	781.00	597.00	429.00	380.00	295.00
Pretax Income	53,036	43,688	36,474	29,901	25,639	18,507	27,820	27,052	22,267	28,071
Effective Tax Rate	16.50	10.20	54.60	14.80	19.90	34.10	20.70	19.20	23.80	17.50
Net Income	44,281	39,240	16,571	25,489	20,539	12,193	22,074	21,863	16,978	23,150
Net Income (Normalized)	33,128	26,900	21,247	17,386	16,320	17,388	17,239	17,283	17,488	17,248
Balance Sheet and Other Financial Data [Million USD]										
Cash	136,492	133,832	133,664	132,901	113,041	96,391	85,146	76,410	62,044	51,371
Current Assets	181,915	175,552	169,662	162,696	139,660	122,797	114,246	101,466	85,084	74,918
Total Assets	301,311	286,556	258,848	250,312	193,468	174,472	172,384	142,431	121,271	108,704
Current Liabilities	72,310	69,420	58,488	55,745	59,357	49,647	45,625	37,417	32,688	28,774
Long Term Debt	59,578	66,662	72,242	76,073	40,557	27,808	20,645	12,601	10,713	11,921
Total Capital	200,414	188,785	170,226	183,238	126,538	115,467	112,987	95,234	79,138	70,221
Capital Expenditures	15,441	13,925	11,632	8,129	8,343	5,944	5,485	4,257	2,305	2,355
Cash from Operations	60,675	52,185	43,884	39,507	33,325	29,668	32,502	28,833	31,626	26,994
Current Ratio	2.52	2.53	2.90	2.92	2.35	2.47	2.50	2.71	2.60	2.60
% Long Term Debt of Capitalization	38.00	41.90	48.10	45.80	32.70	24.10	18.30	13.20	13.50	17.00
% Net Income of Revenue	31.00	31.20	15.00	26.40	22.50	13.00	25.40	28.10	23.00	33.10
% Return on Assets	11.26	9.85	8.61	8.26	9.24	10.15	11.07	13.03	15.20	17.43
% Return on Equity	40.10	42.40	19.40	31.90	27.00	14.40	26.20	30.10	27.50	44.80

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

# Microsoft Corporation

## Sub-Industry Outlook

Our fundamental outlook for the Systems Software sub-industry for the next 12 months is positive. However, our company-specific outlooks differ for its three largest constituents: Microsoft (MSFT), Oracle, (ORCL), and ServiceNow (NOW), which as a whole, account for 96% of the total market capitalization of the 11 constituents of the S&P 1500 Systems Software Sub-Industry (MSFT alone accounts for 84%). We have Buy and Strong Buy ratings for NOW and MSFT, respectively, with both companies benefitting from and leading two key secular trends in enterprise IT: digital transformation and the ongoing migration to cloud computing. We maintain a Sell rating for ORCL as the migration to cloud computing will continue to be deflationary for ORCL, in our opinion. Cloud cannibalizes both ORCL's legacy client-server applications and the underlying database for sales of new licenses, upgrades, and maintenance contracts.

For some, the notion of System Software as a distinct market segment is becoming less relevant today than it was 15 years ago. This includes sales of new licenses, upgrades, and maintenance/support contracts for operating systems, database software, application server software, middleware for linking legacy apps together, and related infrastructure software, as well as subscription revenue from Platform-as-a-Service (PaaS) and Infrastructure-as-a-Service (IaaS) cloud offerings (e.g., Amazon AWS, Microsoft's Azure, and Google Cloud). Systems Software makes up about 44% and 38% of MSFT's and ORCL's revenue, respectively. Application Software, on the other hand, contributes up about 25% and 47% of revenue for MSFT and ORCL, respectively. The System Software sub-industry has been hit by the deflationary pressures of open source alternatives and the scale efficiencies of cloud deployment, partially offset by the recent explosive growth of PaaS and IaaS cloud offerings.

According to IDC, the System Software sub-industry was \$240B in 2019, with a trailing 5-year CAGR of about 5%. However, revenue from traditional on-premises software (i.e., sales of

licenses, upgrades, and maintenance), which accounted for 74% of that total, grew only about 1% per year since 2014. In contrast, PaaS and IaaS cloud subscription revenue grew 33% per year over the same period, to hit \$65B in 2019 (26% of the total). Moving forward, we expect annual declines in the mid- to high single-digits for traditional system software revenue through 2025, and we project a 3-year revenue CAGR for PaaS/IaaS at 32% and a 5-year CAGR of 28%.

The two largest constituents in this sub-industry, MSFT and ORCL, have engaged in a considerable degree of equity share repurchases in the last two years. This is especially true for ORCL, which had spent over \$60B since 2017 when tax reform was enacted that encourages stock buybacks.

The S&P 1500 Systems Software sub-industry index has risen 25.6% year-to-date (YTD) through July 24, 2020, outperforming the overall S&P 1500 by 27.1% over the same period, driven primarily by the outperformance (29.1% YTD return) of the largest constituent, MSFT, and the third largest constituent, NOW (53.1% YTD return), partially offset by the 4.3% YTD return of the second largest constituent ORCL.

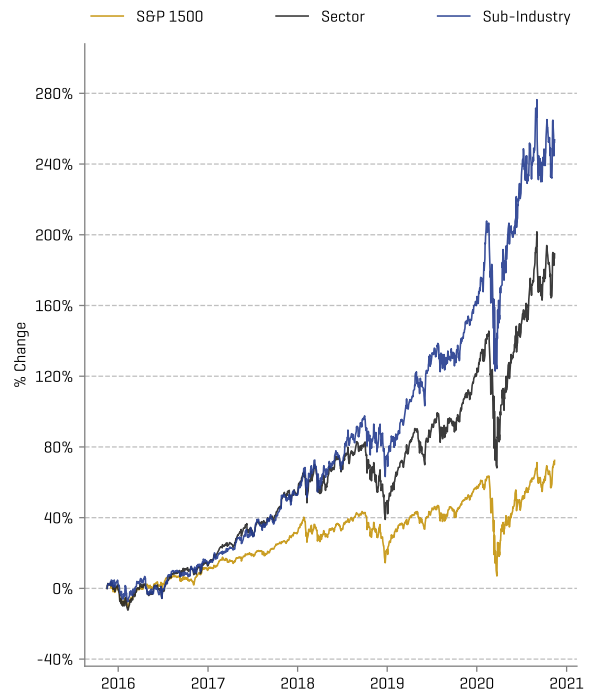
/ John Freeman

## Industry Performance

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

Based on S&P 1500 Indexes

Five-Year market price performance through Nov 14, 2020



NOTE: A sector chart appears when the sub-industry does not have sufficient historical index data.

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.

Source: CFRA, S&P Global Market Intelligence

## Sub-Industry: Systems Software Peer Group\*: Systems Software

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price	Stk. Mkt. Cap. [M]	30-Day Price Chg. [%]	1-Year Price Chg. [%]	P/E Ratio	Fair Value Calc.	Yield [%]	Return on Equity [%]	LTD to Cap [%]
<b>Microsoft Corporation</b>	<b>MSFT</b>	<b>NasdaqGS</b>	<b>USD</b>	<b>215.44</b>	<b>1,628,833.0</b>	<b>-3.3</b>	<b>46.2</b>	<b>37.0</b>	<b>219.24</b>	<b>1.0</b>	<b>40.1</b>	<b>38.0</b>
Check Point Software Technologies Ltd.	CHKP	NasdaqGS	USD	116.25	16,298.0	-8.6	0.4	21.0	132.66	N/A	22.5	0.8
Cloudflare, Inc.	NET	NYSE	USD	64.15	19,713.0	7.4	294.5	NM	N/A	N/A	-22.4	1.4
CrowdStrike Holdings, Inc.	CRWD	NasdaqGS	USD	137.30	30,130.0	-10.1	164.0	NM	N/A	N/A	-34.9	N/A
Fortinet, Inc.	FTNT	NasdaqGS	USD	113.60	18,441.0	-13.0	14.0	61.0	131.76	N/A	28.0	2.2
Oracle Corporation	ORCL	NYSE	USD	56.45	169,965.0	-7.4	0.4	18.0	56.86	1.7	57.8	81.9
Oracle Corporation Japan	QCLC.F	OTCPK	USD	106.15	13,698.0	N/A	20.6	30.0	N/A	N/A	27.1	N/A
Palo Alto Networks, Inc.	PANW	NYSE	USD	251.96	23,927.0	-1.0	3.6	NM	N/A	N/A	-19.9	74.7
ServiceNow, Inc.	NOW	NYSE	USD	509.78	99,433.0	-1.6	100.8	160.0	368.62	N/A	38.7	33.1
VMware, Inc.	VMW	NYSE	USD	138.46	58,171.0	-10.7	-16.5	9.0	147.82	N/A	128.4	27.8
Zscaler, Inc.	ZS	NasdaqGS	USD	140.06	18,615.0	-9.3	212.5	NM	N/A	N/A	-29.0	64.0

\*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.

NA-Not Available; NM-Not Meaningful.

Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

# Microsoft Corporation

## October 28, 2020

10:21 AM ET... CFRA Maintains Strong Buy Rating on Shares of Microsoft, Inc. [MSFT 213.25\*\*\*\*\*]:

We maintain our Strong Buy and raise our target by \$7 to \$261 based on strong Q1 FY 21 (Jun.) results, driven primarily by a cloud-shift tailwind gaining momentum now that cloud subscriptions are ~60% of revenue, and secondarily by Xbox, up 30% YoY -- surprisingly strong just before the November 11 launch of the new Xbox Series X, with completely re-designed hardware for a much more immersive and compelling experience, in our view. Our \$261 target is the product of our '22 EPS forecast of \$8.48, up by \$0.04, and a 30.8x multiple [2-year mean, +10% due to a strong balance sheet and a 1% dividend yield]. Q1 revenue of \$37.2B beat consensus by \$1.4B and was up 12% YoY; EPS of \$1.82, +32% YoY, beat by \$0.27. We also raise our EPS forecasts for '21 to \$6.99 (+\$0.03) and for '23 to \$10.03 (+\$0.14), driven by our projected 3-yr. revenue CAGR of 15%, and our forecasted expansion of operating margin to 47% in '23, vs. 37% for FY 20 and 43% for Q1 '21, as cloud delivery begins reaping considerable economies-of-scale. / John Freeman

## August 03, 2020

08:54 AM ET... CFRA Adds Microsoft to the High-Quality Capital Appreciation Portfolio [MSFT 205.01\*\*\*\*\*]:

We are adding MSFT to the portfolio on the belief that the company remains well-equipped to thrive with or without a 'second wave' of the pandemic. Either way, we think the difficult macroeconomic environment that could lie ahead will force enterprises to devote a greater emphasis on cloud migrations, which play to MSFT's strengths, as cloud subscriptions recently topped ~60% of total revenues. Benefits from MSFT's indelible brands (Azure and Office 365) should drive attractive growth and profitability, with a projected a 3-year CAGR (FY 20 to FY 23) for revenues of 14% and EPS of 20%, on a wider operating margin from 37% to 45% during the same time frame. MSFT will replace Gentex [GNTX 27 \*\*\*] in the High-Quality Capital Appreciation Portfolio. Shares of GNTX were downgraded on the belief that the company's recently issued outlook could set a high bar for sales and margins to achieve in future quarters, especially when factoring in the potential risk of prolonged weakness from automakers. / David Holt

## July 24, 2020

08:11 AM ET... CFRA Upgrades Shares of Microsoft Corporation To Strong Buy From Buy [MSFT 211.75\*\*\*\*\*]:

We upgrade to Strong Buy from Buy and raise our target by \$35 to \$254 based on Q4 FY 20 (June) results, which in our view is quite strong despite Covid-19. It appeared to also hit commercial revenue (~70% of total vs. consumer) moderately across the board, but is increasingly offset by the cloud transition tailwind building momentum with subscription revenue at ~60% of total, 23% growth in RPO [a leading indicator of cloud subscription growth], and accelerating traction in several digital transformation sub-trends with considerable long-term potential (e.g., HoloLens for industrial apps and use cases). Our \$254 target is the product of our 2022 EPS forecast of \$8.44, and a 30.1x multiple [2-year mean, +10% due to a strong balance sheet and a 1% dividend yield]. Q4 FY 20 revenue of \$38.0B beat consensus by \$1.5B and was up 13% YoY and EPS of \$1.46 beat consensus by \$0.09 and was up \$0.08 YoY. We raise our EPS forecasts by \$0.03 to \$6.96 for 2021 and by \$0.16 to \$8.44 for 2022, and we initiate 2023 at \$9.89. / John Freeman

## June 30, 2020

10:26 AM ET... CFRA Maintains Buy Rating on Shares of Microsoft, Inc. [MSFT 198.44\*\*\*\*\*]:

We maintain our Buy rating and raise our target to \$219 from \$197 as we increasingly view MSFT as likely benefitting more from the surge in telecommuting than we had expected, especially the cloud (i.e., 365) versions of Office and related Teams and SharePoint apps for collaboration. Our \$219 target is the product of our new FY 21 (Jun.) EPS forecast of \$6.93, up from \$6.60, and a 31.6x multiple [two-year mean, +15% due to \$54B/\$138B net/gross cash positions, formidable competitive advantages, and 1% dividend yield]. We also raise our EPS forecasts by \$0.03 to \$5.79 for '20 and by \$0.30 to \$8.28 for '22. We are now more confident in our projected three-year revenue CAGR of 14%, driven by our forecast of 27% annual growth through '22 for "Commercial Cloud" (primarily Azure, Office/Dynamics 365), which was 38% of Q3'20 revenue and was up 39% YoY. Gross margin for Commercial Cloud is still 2% below corporate at 69%, but it is expanding rapidly, +4% YoY in Q3'20, as Azure generates greater scale efficiencies. / John Freeman

## May 04, 2020

08:57 AM ET... CFRA Maintains Buy Rating on Shares of Microsoft Corporation [MSFT 174.57\*\*\*\*\*]:

We maintain our Buy and our \$197 target based on FY 3Q 20 (Jun.) results we viewed as quite strong despite Covid-19's negative impact on discretionary spending, on ad-revenue (primarily Bing), on the overall economy, and on the supply chain for Windows PC's and Surface products as MSFT warned in Feb. Our \$197 target is the product of our FY 21 EPS forecast of \$6.60, down from \$6.72, and a 29.9x multiple [2-year mean, plus a 15% premium due to a strong balance sheet and a 1% dividend yield]. 2Q 20 revenue of \$35.02B beat consensus by an impressive \$1.32B, representing 15% YoY growth; EPS of \$1.40 beat consensus by \$0.13 and was up 23% YoY. We lower our FY 20 EPS forecast to \$5.76 from \$5.85, FY 21 to \$6.60 from \$6.72, and FY 22 to \$7.98 from \$8.02. Total Commercial Cloud revenue (i.e., Azure, Office/Dynamics 365) was up 39% YoY to \$13.2B (38% of total), with Azure up 59%, while Remaining Performance Obligation (RPO - a leading indicator for subscription businesses) of \$89B was up 24% YoY. / John Freeman

## February 03, 2020

08:19 AM ET... CFRA Maintains Buy Rating on Shares of Microsoft, Inc. [MSFT 170.23\*\*\*\*\*]:

We maintain our Buy and increase our target to \$197 from \$186 following very strong top and bottom line results for FY 2Q 20 as MSFT continues to benefit from its cloud transition tailwind with YoY revenue growth for Office 365 Commercial at 27%, Dynamics 365 at 42%, and Azure cloud, which we estimate is now on a \$21B+ annual run rate, up a remarkable 62% YoY. Our new \$197 target is the product of our now higher FY 21 EPS forecast of \$6.72 [up from \$6.54] and a 29.3x multiple [extrapolated 3-year trend]. 2Q 20 revenue of \$36.91B beat consensus by an impressive \$1.22B, representing almost 14% YoY growth; EPS of \$1.51 came in above consensus at \$1.32 and was up 37% YoY. We increase our FY 20 EPS forecast to \$5.85 from \$5.56, FY 21 to \$6.72 from \$6.54, and FY 22 to \$8.02 from \$7.91. We also note that Remaining Performance Obligation (RPO - a good leading indicator for subscription businesses) for commercial cloud offerings (i.e., Azure, Office 365, and Dynamics 365) was up 30% YoY. / John Freeman

## October 24, 2019

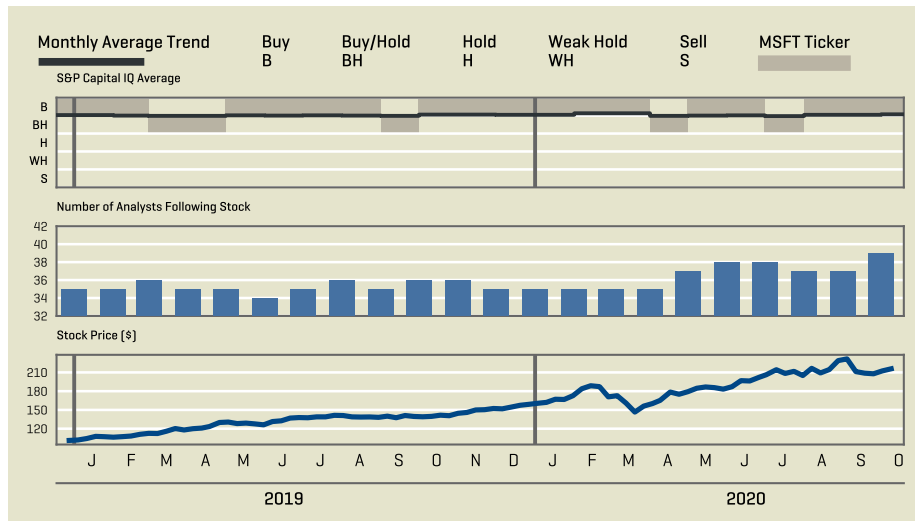
08:00 PM ET... CFRA Maintains Buy Rating on Shares of Microsoft, Inc. [MSFT 139.60\*\*\*\*\*]:

We maintain our Buy rating and increase our target to \$186 from \$177 given the strengthening fundamentals that produced very strong September-quarter results and demonstrated more evidence that, even at its present size and \$140b+ annual revenue run rate, MSFT will continue to benefit from its cloud transition tailwind for revenue growth and operating leverage and is innovating at a faster pace than it has in decades, in our view. Our new \$186 target is the product of our now higher FY 21 EPS forecast of \$6.54 [up from \$6.19] and a 28.5x forward multiple [three-year trend extrapolation]. September-quarter revenue of \$33.06b [vs. consensus at \$32.2b] was up 14% y/y, and EPS of \$1.38 was up 21% y/y, beating consensus by \$0.14. We increase our FY 20 EPS forecast to \$5.56 from \$5.45, and we initiate our FY 22 EPS estimate at \$7.91. Our projected three-year revenue and EPS CAGRs are now 14.5% and 19%, respectively, up from 12% and 15% previously. / John Freeman

Note: Research notes reflect CFRA's published opinions and analysis on the stock at the time the note was published. The note reflects the views of the equity analyst as of the date and time indicated in the note, and may not reflect CFRA's current view on the company.

# Microsoft Corporation

## Analysts Recommendations



## Wall Street Consensus Opinion

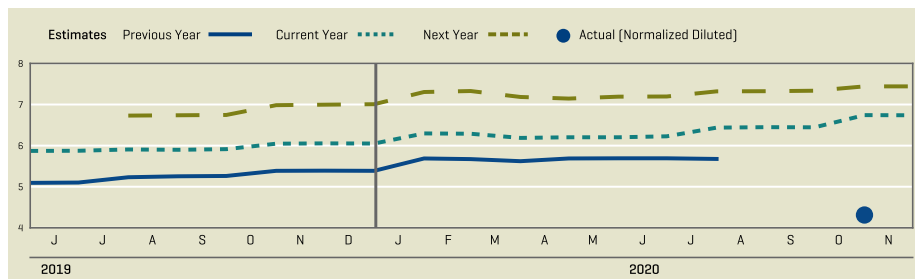
Buy

## Wall Street Consensus vs. Performance

For fiscal year 2021, analysts estimate that MSFT will earn USD 6.74. For fiscal year 2022, analysts estimate that MSFT's earnings per share will grow by 10.44% to USD 7.44.

	No. of Recommendations	% of Total	1 Mo.Prior	3 Mos.Prior
Buy	24	62	23	23
Buy/Hold	8	21	9	8
Hold	3	8	3	4
Weak hold	0	0	0	0
Sell	0	0	0	0
No Opinion	4	10	4	2
Total	39	100	39	37

## Wall Street Consensus Estimates



Fiscal Year	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2022	7.44	8.40	6.78	34	29.09
2021	6.74	7.14	6.51	35	32.13
<b>2022 vs. 2021</b>	<b>▲ 10%</b>	<b>▲ 18%</b>	<b>▲ 4%</b>	<b>▼ -3%</b>	<b>▼ -9%</b>
Q2'22	1.84	1.96	1.74	18	117.76
Q2'21	1.63	1.73	1.57	27	132.43
<b>Q2'22 vs. Q2'21</b>	<b>▲ 12%</b>	<b>▲ 13%</b>	<b>▲ 11%</b>	<b>▼ -33%</b>	<b>▼ -11%</b>

Forecasts are not reliable indicator of future performance.

Note: A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence 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.

**Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.**

# Microsoft Corporation

## Glossary

### STARS

Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor 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, we have 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 [MSCI AC Asia Pacific Index, MSCI AC Europe 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 Global Market Intelligence's Quality Ranking

[also known as **S&P Capital IQ Earnings & Dividend Rankings**] - Growth and S&P Capital IQ Earnings & Dividend Rankings stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence's earnings and dividend rankings for common stocks, which are designed to capulize 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	C	Lowest
B+	Average	D	In Reorganization
NC	Not Ranked		

### EPS Estimates

CFRA's 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, EPS estimates reflect either forecasts of equity analysts; or, the consensus [average] EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. 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.

### 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 Fair Value.

### CFRA Equity Research

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### Abbreviations Used in 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 & 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].**

### 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 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 notable 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 is 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 notable 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 MSCI AC Europe Index and the MSCI AC Asia Pacific Index, respectively.

# Microsoft Corporation

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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.

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### STARS Stock Reports:

Global STARS Distribution as of June 28, 2019

Ranking	North America	Europe	Asia	Global
Buy	34.4%	29.0%	41.1%	33.5%
Hold	56.1%	54.8%	46.4%	54.6%
Sell	10.5%	16.2%	12.5%	11.9%
Total	100.0%	100.0%	100.0%	100.0%

### Analyst Certification:

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