



# Stock Study

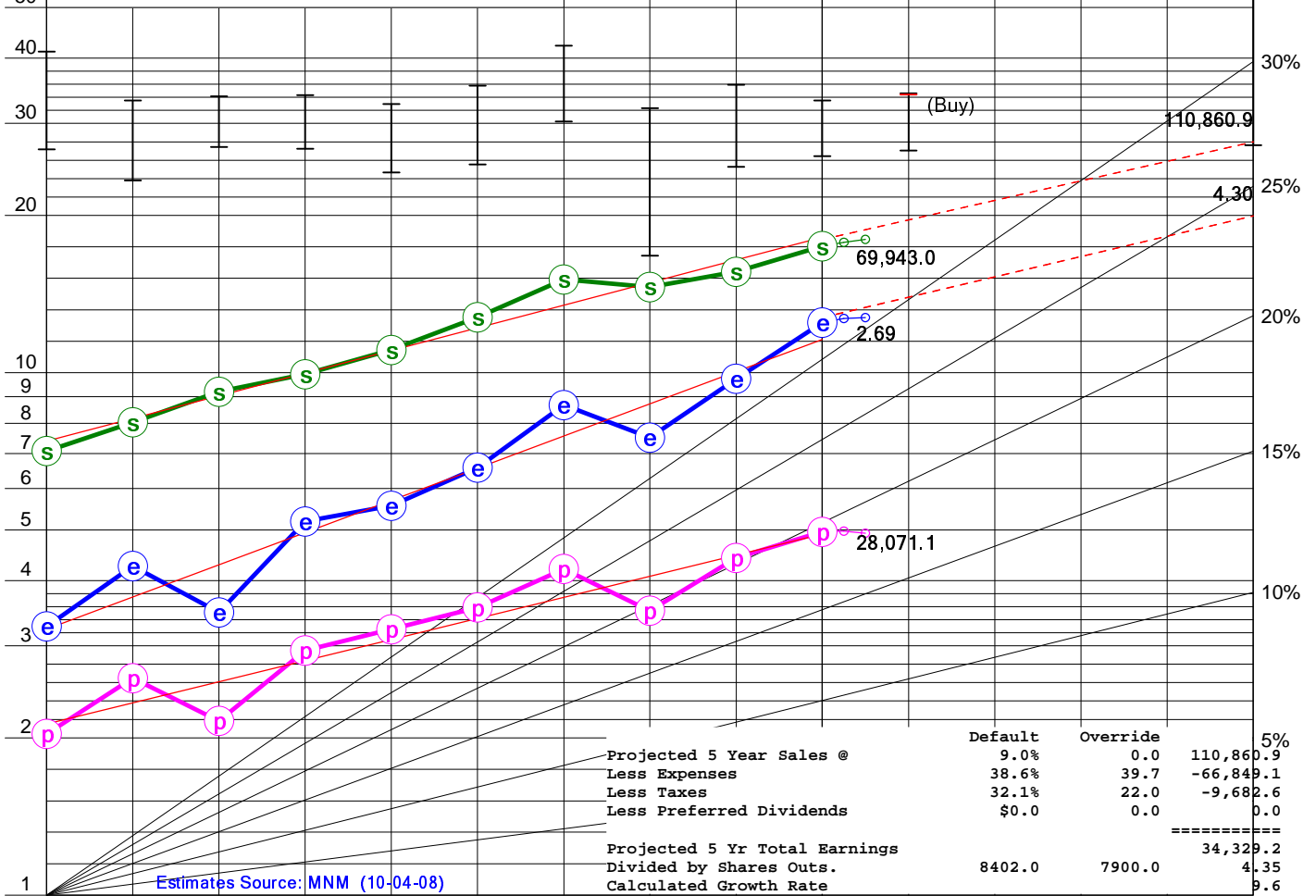
Company	MICROSOFT CORPORATION	Price Date	02/03/12
Study by	MG	Data Date	02/01/12
Sector	Technology	Data Source	stkCntrl
Industry	Software - Infrastructur	Reference	
Preferred(\$M)	0.0		
Common(M Shares)	8,402.0	% Insiders	10.4
Debt(\$M)	11,932.0	% Institutions	68.4
% Debt to Tot.Cap.	17.2	Quality	3.2 (Take Stock)

## 1 Growth Analysis

NAS: MSFT

FY 2012 Q2 (Ended 12/31/2011)  
RECENT QUARTERLY FIGURES

	SALES (\$M)	EARNINGS PER SHARE (\$)
Latest Quarter	20,885.0	0.78
Year Ago Quarter	19,953.0	0.77
Percentage Change	4.7%	1.3%



(1) Historical Sales Growth	10.5 %	(3) Historical Earnings Per Share Growth	15.2 %	www.iclub.com
(2) Estimated Future Sales Growth	9.0 %	(4) Estimated Future Earnings Per Share Growth	9.4 %	
(5) Sales Growth R	0.97	(6) Earnings Per Share Growth R	0.94	

## 2 QUALITY ANALYSIS

Company **MICROSOFT CORPORATION**

(**MSFT**)

02/03/12

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	5 YEAR AVG.	TREND UP / DOWN
<b>A</b> % Pre-tax Profit on Sales	40.6	45.8	33.1	41.8	41.2	39.3	39.4	33.9	40.0	40.1	38.6	UP
<b>B</b> % ROE (Beginning Yr)	<del>17.2</del>	19.1	13.2	16.2	26.9	36.1	57.5	41.6	47.3	50.5	46.6	UP
<b>C</b> % Debt to Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.4	10.5	20.6	8.1	UP

## 3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

CURRENT PRICE (P/E) **30.24 (11.0)** 52-WEEK HIGH (P/E) **30.40 (11.1)** 52-WEEK LOW (P/E) **23.65 (8.6)**

Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield
1 2007	31.5	22.2	1.42	22.2	15.6	0.390	27.5	1.8
2 2008	37.5	26.9	1.87	20.1	14.4	0.430	23.0	1.6
3 2009	28.5	14.9	1.62	17.6	9.2	0.500	30.9	3.4
4 2010	31.6	22.0	2.10	15.0	10.5	0.520	24.8	2.4
5 2011	29.5	23.1	2.69	11.0	8.6	0.610	22.7	2.6
6 AVERAGE		21.8		17.2	11.7		25.8	
AVERAGE P/E RATIO		14.5	PROJECTED P/E RATIO		10.1	TTM EPS		2.75
CURRENT P/E RATIO		11.0	PEG RATIO		1.1	FTM EPS		3.01
RELATIVE VALUE		75.9	PROJ. RELATIVE VALUE		69.3	AVG TTM + FTM EPS		2.88

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

### A FUTURE HIGH PRICE ANALYSIS -- NEXT 5 YEARS

Selected High P/E ~~17.2~~ **15.0** X Estimated High Earnings/Share **4.30** = Forecast High Price \$ **64.5**

### B FUTURE LOW PRICE ANALYSIS -- NEXT 5 YEARS

(a) Sel. Low P/E ~~11.7~~ **9.0** X Estimated Low Earnings/Share **2.69** = \$ **24.2**

(b) Average 5-Year Low Price = **21.8**

(c) Recent Severe Low Price = **22.0**

(d) Price Dividend Will Support = Present Divd. ÷ High Yield = **0.800 ÷ 0.034 = 23.8**

Selected Estimated Low Price = \$ **24.2**

### C PRICE RANGES

Forecast High Price **64.5** - Estimated Low Price **24.2** = Range **40.3** 25% of Range = **10.1**

BUY (Lower 25% of Range) = **24.2** to **34.3**

MAYBE (Middle 50% of Range) = **34.3** to **54.4**

SELL (Upper 25% of Range) = **54.4** to **64.5**

Current Price **30.240** is in the **Buy** Range

### D REWARD/RISK ANALYSIS (Potential Gain vs. Risk of Loss)

(Forecast High Price **64.5** - Current Price **30.240**) ÷ (Current Price **30.240** - Estimated Low Price **24.2**) = **5.7** To 1

## 5 TOTAL RETURN ANALYSIS

### A CURRENT YIELD

Present Full Year's Dividend \$ **0.800** ÷ Current Price of Stock \$ **30.240** = **2.6 %** Present Yield or % Returned on Purchase Price

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

Avg. % Payout **25.8** ÷ Forecast High P/E **15.0** = Avg. Yield **1.7**

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

Avg. % Payout **25.8** ÷ Forecast Avg P/E **12.0** = Avg. Yield **2.2**

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

Average Yield **1.7 %** + Annual Appreciation **16.4 %** = Compound Annual Total Return **18.1 %**

### D % PROJECTED AVERAGE RETURN - USING FORECAST AVERAGE P/E

Average Yield **2.2 %** + Annual Appreciation **11.3 %** = Projected Average Total Return **13.4 %**

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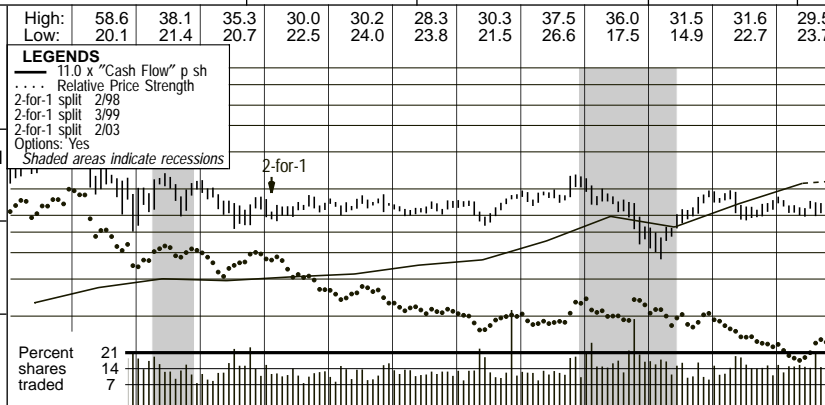
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# MICROSOFT NDQ-MSFT

RECENT PRICE **27.16** P/E RATIO **9.7** (Trailing: 9.9 Median: 20.0) RELATIVE P/E RATIO **0.66** DIV'D YLD **2.9%**

**VALUE LINE**

**TIMELINESS** 2 Lowered 11/4/11  
**SAFETY** 1 Raised 5/26/06  
**TECHNICAL** 3 Lowered 10/28/11  
**BETA** .85 (1.00 = Market)



**2014-16 PROJECTIONS**  
 Price **55** Gain **(+105%)** Ann'l Total Return **22%**  
 High **45** Low **45** (+65%) **16%**

**Insider Decisions**  
 D J F M A M J J A  
 to Buy 0 0 0 0 0 0 0 0 0  
 Options 5 2 2 0 0 2 0 2 0  
 to Sell 5 2 5 0 0 3 0 3 1

**Institutional Decisions**  
 4Q2010 1Q2011 2Q2011  
 to Buy 841 889 777  
 to Sell 858 810 906  
 Hlds(000) 493802052750395321128

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	© VALUE LINE PUB. LLC	14-16
Revenues per sh <sup>A</sup>	.63	.92	1.18	1.47	1.93	2.25	2.39	2.65	3.00	3.39	3.72	4.40	5.45	6.60	6.56	7.21	8.35	<b>9.40</b>	Revenues per sh <sup>A</sup>	<b>12.75</b>
"Cash Flow" per sh	.18	.28	.41	.59	.84	.99	1.09	1.07	1.12	1.15	1.27	1.34	1.65	2.16	1.92	2.47	3.09	<b>3.25</b>	"Cash Flow" per sh	<b>4.50</b>
Earnings per sh <sup>B</sup>	.15	.21	.33	.45	.70	.85	.90	.94	.97	1.04	1.16	1.20	1.42	1.87	1.62	2.10	2.69	<b>2.80</b>	Earnings per sh <sup>B</sup>	<b>3.75</b>
Div'ds Decl'd per sh <sup>E</sup>	--	--	--	--	--	--	--	--	.08	.16	.32	.34	.40	.44	.52	.52	.64	<b>.80</b>	Div'ds Decl'd per sh <sup>E</sup>	<b>1.24</b>
Cap'l Spending per sh	.05	.05	.05	.07	.06	.09	.10	.07	.08	.10	.08	.16	.24	.35	.35	.23	.28	<b>.30</b>	Cap'l Spending per sh	<b>.35</b>
Book Value per sh <sup>D</sup>	.57	.73	1.02	1.58	2.69	4.05	4.48	4.87	5.69	6.89	4.49	3.99	3.32	3.97	4.44	5.33	6.82	<b>7.50</b>	Book Value per sh <sup>D</sup>	<b>11.25</b>
Common Shs Outst'g <sup>C</sup>	9408.0	9408.0	9632.0	9880.0	10218	10218	10566	10718	10718	10862	10710	10062	9380.0	9151.0	8908.0	8668.0	8376.0	<b>8000</b>	Common Shs Outst'g <sup>C</sup>	<b>7000</b>
Avg Ann'l P/E Ratio	28.2	29.1	33.0	42.8	49.8	NMF	35.3	32.4	26.1	25.8	22.9	21.7	19.9	16.3	13.4	13.1	9.6	<b>9.40</b>	Avg Ann'l P/E Ratio	<b>13.0</b>
Relative P/E Ratio	1.89	1.82	1.90	2.23	2.84	NMF	1.81	1.77	1.49	1.36	1.22	1.17	1.06	.98	.89	.83	.59	<b>.66</b>	Relative P/E Ratio	<b>.85</b>
Avg Ann'l Div'd Yield	--	--	--	--	--	--	--	--	.3%	.6%	1.2%	1.3%	1.4%	1.4%	2.4%	1.9%	2.5%	<b>2.9%</b>	Avg Ann'l Div'd Yield	<b>2.5%</b>

**CAPITAL STRUCTURE as of 9/30/11**  
 Total Debt \$11927 mill. Due in 5 Yrs \$6750 mill.  
 LT Debt \$11927 mill. LT Interest \$345 mill.  
 (17% of Cap'l)

Leases, Uncapitalized \$481.0 mill. (6/30/2011)  
 No defined benefit pension plan  
 Pfd Stock None  
 Common Stock 8,410,000,000 shs.

**MARKET CAP: \$228 billion (Large Cap)**

CURRENT POSITION (\$MILL.)	2010	2011	9/30/11
Cash Assets	36788	52772	57403
Receivables	13014	14987	10153
Inventory (Avg Cst)	740	1372	2270
Other	5134	5787	5445
Current Assets	55676	74918	75271
Accts Payable	4025	4197	3719
Debt Due	1000	--	--
Unearned Revenue	13652	15722	14345
Other	7470	8855	7479
Current Liab.	26147	28774	25543

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11
Revenues	13.5%	15.0%	11.5%
"Cash Flow"	10.5%	13.0%	12.5%
Earnings	11.0%	12.0%	12.0%
Dividends	--	21.5%	17.0%
Book Value	5.0%	-4.5%	15.0%

Fiscal Year Ends	QUARTERLY REVENUES (\$ mill.) <sup>A</sup>				Full Fiscal Year
	Sep.30	Dec.31	Mar.31	Jun.30	
2008	13762	16367	14454	15837	60420
2009	15061	16629	13648	13099	58437
2010	12920	19022	14503	16039	62484
2011	16195	19953	16428	17367	69943
2012	17372	21000	17750	18878	75000

Fiscal Year Ends	EARNINGS PER SHARE <sup>AB</sup>				Full Fiscal Year
	Sep.30	Dec.31	Mar.31	Jun.30	
2008	.45	.50	.47	.45	1.87
2009	.48	.47	.33	.34	1.62
2010	.40	.74	.45	.51	2.10
2011	.62	.77	.61	.69	2.69
2012	.68	.81	.63	.68	2.80

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>E</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2007	.10	.10	.10	.11	.41
2008	.11	.11	.11	.13	.46
2009	.13	.13	.13	.13	.52
2010	.13	.13	.16	.16	.58
2011	.16	.16	.20		

**BUSINESS:** Microsoft Corp. is the largest independent maker of software. It develops and sells software products for a wide range of computing devices. Also sells the Xbox video game console. Revenue sources in fiscal 2011: Microsoft Business, 31.7% of total; Windows & Windows Live, 27.2%; Server and Tools, 24.4%; Entertainment & Devices, 12.7%; Online Services, 3.6%; Other, .4%. Re-

**Microsoft continues to run well operationally.** Indeed, save for the Online Services Division, which still faces challenges, the software giant's major reporting segments each showed respectable results for the first quarter of fiscal 2012. (Years end June 30th.) *Windows 7* continues to extend its reach into the PC market, though growth at the retail end is being limited by the popularity of tablets and smartphones. Nonetheless, the business PC upgrade cycle should remain in place through mid-2012, at least, with the strongest demand coming from the emerging markets. The Server and Tools group is benefiting from the uptick in corporate spending on software and services and its broad positioning in the datacenter. A new version of *Windows Server* should also be a positive this year. Meanwhile, *Office 2010* and customer adoption of *Lync*, *SharePoint*, and *Exchange* remain on the upswing, propelling the Microsoft Business Division forward. Finally, *Xbox/Kinect* continues to find favor with families and gamers, and the duo looks set to have a good holiday season. In addition, the Skype acquisition was recently closed, and the En-

search and development: 12.9% of 2011 sales. Employed 90,000 at 6/30/11. Stock owners: William H. Gates, 7.2%;, other offs. & dirs., 4.9%; BlackRock, Inc. 5.2% (9/10 proxy). Chairman: William H. Gates. CEO: Steven A. Ballmer. Incorporated: Washington. Address: One Microsoft Way, Redmond, Washington 98052-6399. Telephone: 425-882-8080. Internet: www.microsoft.com.

ertainment and Devices group will be used as a base to start weaving its services into Microsoft's communication ecosystem. **Market support for these shares remains lukewarm.** As we have mentioned on previous occasions, the company is clearly engaged and is making some headway in higher-growth businesses, such as mobile communications and Internet search. A new release of *Windows Phone* has generally found good reviews, and Microsoft and partner Yahoo! are working to improve the revenue generated per search (RPS). However, competition is very keen in both arenas, so progress here is likely to be measured. On the other hand, *Windows 8* is coming down the pike, and the new operating system should have wide appeal, given that it will support new form factors, such as tablets. Adding it all up, our estimates for 2012 are little changed, and we still view timely MSFT stock as being of most interest for the intermediate time horizon. The company should continue returning cash to stockholders via an active share-buyback program and hefty dividend increases.  
 Charles Clark November 18, 2011

(A) Fiscal year ends June 30th. (B) Primary earnings through fiscal '97, then diluted. Quarters may not add to total. Excl. nonrec. items: '98, d3c; '99, 1c '01, d26c; '02, d23c; '03, d5c; '04, d29c; '05, d4c. Next earnings report due late Jan. (C) In millions, adjusted for stock splits. (D) Includes intangibles. In 2011: \$12.6 billion, \$1.50 a share.

(E) Dividends historically paid in March, June, Sept., and Dec. Dividend reinvestment plan available. Special dividend of \$3.00 a share paid December 2, 2004.

Company's Financial Strength	A++
Stock's Price Stability	90
Price Growth Persistence	30
Earnings Predictability	85