



UConn Graduate Student Managed Fund

Microsoft (NASDAQ: MSFT)

September 27, 2021

Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap	Dividend	Beta
319.04	299.56	305.84	199.62	37.19	2.25T	0.83%	0.88

Company Overview

Microsoft is the world's largest software company (in revenue) and operates three main sectors of business. The Intelligent Cloud generates the largest portion of revenue through Microsoft Azure. Productivity and Business includes Office 365 Commercial and LinkedIn, which are both subscription-based products offered to individuals and corporations. The final region of business is Personal Computing which includes the surface computing products and gaming devices such as X-Box. The company has been successful for the last 45 years and been able to see ahead of its competition by providing cutting edge products and retaining its current client base.

Industry Outlook

Microsoft operates in the broader technology sector. This industry traditionally has high barriers of entry and have a few significantly players that have specialized products in multiple areas. Competitors include Apple, Google, Oracle, Amazon, and IBM, which all have a strong brand presence in this industry. Products in areas such as cloud computing, entertainment, gaming, artificial intelligence, and personal technology are among the popular trends emerging in this industry.

Valuation Assumptions

Implied perpetuity growth rate = 4.5%
 WACC = 8.5%
 Margin of Safety = 7.28%
 Implied Share Price = 319.04

	WACC				
	8.0%	8.5%	9.0%	9.5%	10.0%
3.0%	209.52	205.07	200.74	196.53	192.43
3.5%	225.40	220.59	215.91	211.35	206.91
4.0%	244.47	239.21	234.10	229.13	224.29
4.5%	267.76	261.98	256.34	250.86	245.53
5.0%	296.89	290.43	284.14	278.03	272.07

Terminal Year Free Cash Flow	\$	115,501.2
WACC		8.5%
Terminal Value	\$	3,017,469.9
Implied Perpetuity Growth Rate		4.5%

Investment Thesis

Microsoft has been a strong player in the software market due to its strong brand presence and innovative products. They operate as a digital conglomerate with involvement in many different segments such as entertainment, professional networking, software, and communications. The driving forces of their business is the Azure cloud, which offers a unique subscription model and a growing number of global data storage locations. In 2014, the company also went through a significant change in leadership with the placement of Satya Nadella as CEO. This change has resulted in a renaissance in the company's future and popularity.

Risks

The main risk for Microsoft is within the high evolution rates of products within the tech industry which forces technology companies to quickly create new products. This requires a constant dependency of highly qualified employees and an extensive resource to fund these projects. The pandemic's impact on supply chains and the current chip shortage also contributes towards the product development, specifically for hardware, within this industry.

ESG Considerations

Microsoft has numerous accolades for its commitments to ESG. Furthermore, they have a detailed sustainability report which utilizes Global Reporting Initiative (GRI) Sustainability reporting standards and the UN's human rights standards. According to sustainalytics inc, an independent global ESG and corporate governance research, rating and analysis firm, Microsoft has a low ESG risk rating of 14.6, which shows the company's

PV of Cash Flows	\$	342,770.0
PV of Terminal Value	\$	2,006,754.5
Enterprise Value	\$	2,349,524.5
Plus: Cash and Cash Equivalents	\$	130,334.0
Less: Total Debt	\$	82,278.0
Implied Equity Value	\$	2,397,580.5
Fully Diluted Shares Outstanding		7514.9
Implied Share Price	\$	319.04
Current Stock Price		297.38
Margin of Safety		7.28%