

<b>Company:</b> Microsoft Corporation	<b>Ticker:</b> MSFT	<b>Price:</b> \$242.98	<b>Industry:</b> Technology	
Target Price: \$256.37	TTM P/E: 26.18x	Beta (3Y): 1.17	Market Cap: 1.8T	
Stop Loss: \$205.09	Forward P/E: 25.69x	Credit Rating: AAA	Avg. Vol. (3M): 28,294,779	
52 Week High/Low: \$349.67/\$213.431	EPS (22 FY): \$9.29	Rating Outlook: Stable	Div. Yield: 1.10%	

#### Company Background:

Microsoft is a dominant software company with a focus on three business segments: Productivity and Business Processes, Intelligent Cloud, and More Personal Computing. Productivity and Business includes Office 365, LinkedIn, and Dynamics 365, which are subscription-based products that have seen growth due to the large user base. The Intelligent Cloud, which has the highest ceiling, has seen growth by consumption and shift from on-prem through Microsoft Azure. Personal Computing includes the Windows operating system, the Surface product line, Xbox console, and Bing. The company continues to be successful with an elite management team that has been with the company for decades and remains to be an excellent company due to its strong recurring revenues and large client base that touches all fields.

#### Industry Outlook:

Microsoft competes in several different industries, which includes gaming, cloud computing, personal computing, operating systems, social networking, and news. The gaming industry has experienced tremendous growth due to the impact of Covid, where the industry noticed a 21% growth in revenue in that year alone. Mergers and acquisitions continue to push the gaming industry, and the opportunity to acquire Activision Blizzard will put Microsoft towards the top with the likes of Sony and Nintendo. Both operating systems and cloud computing are displaying positive trends in revenue, which is primarily drawn from licensing and applications consumed. Cloud computing has transformed in recent years with a continued shift in sets of cloud-based intelligent business applications and is expected to keep evolving in the future.

#### Investment Thesis:

Microsoft is a powerhouse in the technology industry that offers products, services, and cloud computing capacities for consumers and businesses. Their business is in 95% of fortune 500 companies and generates growing recurring revenue. Microsoft's cloud service Azure generates revenue through Office 365 (SaaS) through overall user growth, boosting consumption and revenue for Azure (PaaS & IaaS). The company is positioned to capture trends in cloud computing and gaming. Microsoft has continuously increased its operating margin, ROE, and ROIC, paid back debt, and increased its dividend in the last five years. Trading at a discount in the market, this is an excellent entry into a fantastic long-term business.

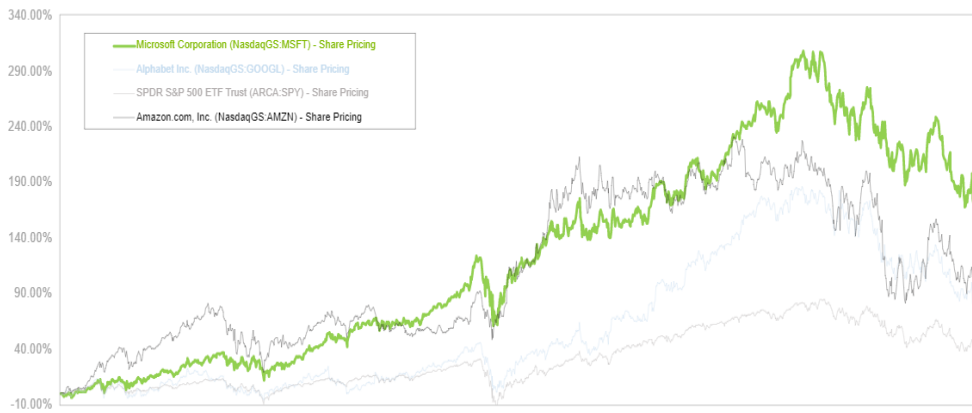
#### Investment Risks:

Fierce competition across all markets may reduce profitability. Growth and sustained dominance are reliant upon large investments across business segments returning value. Operational pitfalls including server outages and platform failures may decrease customer trust and loyalty. Constant cyber threats may expose vulnerabilities and reveal confidential customer data. Intellectual property, such as patents, copyrights, and trademarks, are crucial to maintaining a competitive advantage.

#### 3-5 takeaways from last quarter investor call transcript:

- Amidst the chaos and disappointment for many tech companies brought about by rate hikes, Microsoft has remained resilient, posting first-quarter revenue of \$50.1 billion, up 11% year-over-year. The total beat an estimate of \$49.8 billion from analysts
- Microsoft's cloud business and related offerings continue to grow at a rapid pace, with revenue for its cloud segment up 24% YOY, and Intelligent Cloud segment revenue up 20% YOY
- Across Microsoft's core business segments, demand remains resilient, with Productivity and Business Processes having a 9% increase in revenue YOY, and overall "healthy demand" for Microsoft's commercial business
- More niche segments such as LinkedIn and Dynamics are also growing at a fast clip of 17% and 15% YOY, respectively
- The only segment that experienced deceleration was More Personal computing, which was expected given the slowdown in PC sales and gaming trends

#### 5-Year Financial Performance:



#### Discounted Cash Flow Valuation:

\*Cash excludes marketable securities\*

WACC	9.0%
Perp Growth	3.5%
<b>Terminal Value</b>	<b>2,160,429</b>
PV of Terminal Value	1,288,193
PV First 5 Years FCF	611,951
<b>Enterprise Value</b>	<b>1,900,144</b>
- Debt	(77,136)
+ Cash	22,884
<b>Equity Value</b>	<b>2,000,164</b>
Diluted Shares Outstanding	7,455
<b>Intrinsic Value</b>	<b>\$ 268.32</b>
Current Price	\$ 242.98
<b>Margin of Safety</b>	<b>10.43%</b>

#### Relative Valuation (Direct Comps & Historical):

Metrics	Equity Value	Implied Valuation
Average	1644456.59 \$	220.60
Median	1621745.3 \$	217.55
Low	1067489.008 \$	143.20
Max	1993023.064 \$	267.36

Historical Microsoft EV/EBITDA	2200012.019 \$	295.13
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#### Total Return % / ESG Analysis:

	MSFT	Tech	SPY
YTD	-26.53%	-23.83%	-16.10%
3 Years	67.75%	53.25%	28.93%
5 Years	194.42%	110.15%	54.26%

**ESG: MSCI AAA (top 8%) – Bloomberg – Leading in environmental, social, & governance**