

Company: Microsoft Corp. Ticker: MSFT Current price: \$249.01 Industry: Information Technology Sub-industry: Systems Software			
Target Price: \$268.2	TTM P/E: 27.21	Beta: 0.39	Market Cap: \$1.88T
Stop Loss: \$200	Forward P/E: 26.44	Credit Rating: Stable	Avg Vol (12M): 29.65 Million
52 Week High/Low: \$344.3/ \$212.83	EPS: 9.28	Rating Outlook: Stable	Dividend Yield: 1.08%

Company Background:

Microsoft Corp (Microsoft) develops, licenses, and supports software products, services, and devices. The company offers a comprehensive range of operating systems, cross-device productivity applications, server applications, software development tools, business solution applications, desktop and server management tools, video games, and training and certification services. Since taking over as CEO in 2014, Satya Nadella has reinvented Microsoft into a cloud leader such that it has become one of two public cloud providers that can deliver a wide variety of PaaS/IaaS solutions at scale. Additionally, Microsoft embraced the open-source movement and has largely transitioned from a traditional perpetual license model to a subscription model. The company has also enjoyed great success in upselling users on higher priced Office 365 versions, notably to include advanced telephony features. These factors have combined to drive a more focused company that offers impressive revenue growth with high and expanding margins.

Industry Outlook:

In an increasingly “cloud world”, the distinction between application and systems software becomes fuzzier and less relevant from an investor’s perspective, as the client-server era’s clear demarcations dissolve into an increasingly distributed and functionally federated micro-services architecture. Not to mention the fact that Microsoft and Oracle, which together make up 95% of the S&P 500 System Software sub-industry by market cap, generate less than 50% of their revenue from what would be considered "systems software" Software industry growth had been accelerating as many enterprises delayed projects and cut spending due to the initial uncertainty at the start of the Covid-19 pandemic. We forecast S&P 500 Software Industry revenue for 2022 to grow 14% Y/Y, primarily driven by cloud migration and Covid-19-related digital transformation projects and partially hindered by declining revenue from sales of legacy client server software licenses and maintenance and support, which are now falling faster as enterprises look to cut costs through cloud migration and other rationalizations

Investment Thesis:

As Microsoft has a very strong multifaceted business model with global outreach, it can effectively adapt to a changing technological landscape. Microsoft has produced consistent growing dividends for its shareholders through overall company-wide success. The company’s executive and investment board consists of a motivated and experienced management team focusing their overall compensations on equity and stock positions for overall long term progression. Microsoft has strong potential for continued profitability and growth for the long term through its current business model and adoptions through M/A’s. We believe Microsoft is currently undervalued and that is a strong buy for a long term position.

3-5 take away from last quarter investor call transcript:

1. Q1 F.Y. 2023 Earnings Call: *Brett Iversen - Microsoft Corp.. - Vice President*
 “At the total company level, we continue to expect double-digit revenue and operating income growth on a constant currency basis. Revenue will be driven by around 20 percent constant currency growth in our commercial business driven by strong demand for our Microsoft Cloud offerings. That growth will be partially offset by the increased declines we now see in the PC market.”
2. Q1 F.Y. 2023 Earnings Call: *Satya Nadella - Microsoft Corp.. - CEO and Chairman*
 “We’re helping customers save time and money with our end-to-end suite, spanning low-code/no-code tools, robotic process automation, virtual agents, and business intelligence”
3. “In a world facing increasing headwinds, digital technology is the ultimate tailwind. We’re innovating across the entire tech stack to help every organization, while also focusing intensely on our operational excellence and execution discipline.”

Financial performance:					Analyst Opinion			
	2019	2020	2021	2022	Buy:	Hold:	Sell:	
Revenue	\$125.84M	\$143.01M	\$168.08M	\$198.27M		Rating	Target	
Operating Profit	42M	52.95M	69.91M	83.38M	S&P Net Advantage	Strong Buy	\$330	
Net Income	39.24M	44.28M	61.27M	72.73M	Morningstar	Buy	\$320	
Revenue Growth (%)	13.65%	17.53%	17.96%	15.22%	Yahoo Finance	Buy	\$296	
EBITDA%	20.34%	24.1%	19.9%	14.06%	Total Return %			
Net Income Margin	12.4%	27.73%	15.7%			MSFT	Industry Sec	S&P 500
D/E	.57	.42	.3	.26	YTD	-22.76%	-27.76%	-16.19%
EPS	\$5.06	\$5.76	\$8.05	\$9.65	2021	-20.89%	-26.51%	-13.66%
PE Ratio	26.75	27.21	38.25	27.69	Last 3 years	19.57	12.22%	9.15%
Current Ratio	2.8	2.58	2.25	1.84	Last 5 years	25.89%	18.21%	9.92%
ROE	30.2%	31.4%	26.7%	29.1%	CSR Characteristics			
ROA	8.8%	9.2%	8.9%	9.2%		MSFT	Industry	
Dividend/share					ESG Disclosure	15.24	15.88	
FCF	21.151M	25.290M	53.32M	48.09M	Governance Disclosure Score	5.3	6.72	
					Social Disclosure Score	8.4	7.32	
					Environmental Disclosure Score	1.5	2.22	

Relative Competitive Valuation Snapshot:

Company Information		Financial Metrics		Valuation Metrics			Operational Metrics			
Ticker	Firm	Market Cap	Total Assets	P/Sales	P/B	P/E	Gross Margin	EBIT Margin	ROE	ROA
GOOG	Alphabet	1.17T	358.25B	4.343	4.64	18.36	56.1%	33.23%	26.41%	18.74%
IBM	International Business Machines	126.41B	125.85B	2.095	6.29	86.28	53.78%	20.26%	6.49	0.97%
APPL	Apple Inc.	2.15T	352.75B	5.59	42.45	22.11	43.31%	33.11%	160.9%	28.1%

-Prepared by MSFRM Fund 2 (DATE) using Bloomberg, S&P Net Advantage, Morningstar, Yahoo Finance