University of Connecticut

Student Managed Fund

Microsoft Corporation

October 20, 2025

Software and Services
NYSE: MSFT
Recommendation: BUY

Headquarters: Redmond, Washington USA
Current Price: $516.79
Target Price: $561.69

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COMPANY STATISTICS

Market Cap ($ Bn):	$3,869
Enterprise Value ($ Bn):	$3,887
52-Week Range:	$344.79-$555.45
Dividend Yield:	0.64%
FCF Yield (LTM):	1.94%
P/E (Current):	38.05x
P/Book (Current):	11.27x
Return on Equity (2024):	32.44%

Business Model

Founded in 1975 and headquartered in Redmond, Washington, Microsoft Corporation (MSFT) is one of the world's leading technology companies, providing software, hardware, and cloud-based services globally. In 2025, Microsoft served hundreds of millions of users and enterprises across more than 190 countries through its digital platforms and solutions. The company operates through three primary segments: Productivity and Business Processes, Intelligent Cloud, and More Personal Computing. The Productivity and Business Processes segment includes Office, Microsoft 365, LinkedIn, and Dynamics. The Intelligent Cloud segment delivers Azure cloud services, server products, and enterprise solutions. The More Personal Computing segment encompasses Windows, Surface devices, gaming (including Xbox and Activision Blizzard), and search and advertising through Bing.

Industry Outlook

Growth in the Cloud Computing Industry– The global cloud computing industry continues to expand rapidly as enterprises accelerate digital transformation and migrate workloads to the cloud. In fiscal 2025, Microsoft Azure maintained double-digit revenue growth, driven by strong demand for scalable infrastructure. The industry's growth trajectory, projected at a CAGR of around 15% through 2030, reflects increasing adoption of hybrid environments unique to Microsoft's offerings. As Amazon's cloud infrastructure AWS stagnates in growth, Microsoft's trials of Azure have led enterprises to more willingly adopt their vertically integrated model. This model strengthens customer retention and cross-platform efficiency.

Recurring Revenues in the Productivity Software Space— The shift toward subscription-based services continues to transform Microsoft's business model, with recurring service revenue now accounting for over 75% of total sales. The Microsoft 365 suite has seen consistent user and enterprise adoption. Businesses are prioritizing secure, collaborative, and cloud-connected work environments, boosting Microsoft's commercial subscription base. The productivity software market is expected to grow at a CAGR of roughly 14% through 2030, and Microsoft's bundled offerings position it to outpace industry growth while sustaining high operating margins.

AI Investments and Intelligent Innovation— Artificial intelligence represents the next major growth driver for Microsoft and the broader technology sector. Microsoft's strategic investments in OpenAI, Copilot, and Azure AI services have embedded AI across its product ecosystem. Microsoft has already seen a return with a 39% growth in Q4 of 2025 for their AI-integrated product Azure. The global AI market, projected to expand at a CAGR exceeding 35% through 2030, positions Microsoft to capture significant value through enterprise adoption of generative AI and automation.

Valuation and Performance

The Software and Services industry maintains a positive outlook considering its recurring revenue structure, penetration in enterprise markets, and AI integration opportunities. Utilizing a discounted cash flow analysis, Microsoft (MSFT) has a fair stock price value of $561.54, with a forecasted growth rate of 3% and WACC of 9.26%, providing 8.68% upside to investors over ten years with the current price at $516.79.

Key Competitive Advantages

Installed Base of Users with High Switching Costs–Microsoft's business model benefits from a large, highly integrated installed base across Windows, Office, Azure, and enterprise solutions. Being embedded at multiple points in the enterprise and consumer workflow creates high switching costs, ensuring strong customer retention and recurring revenue streams. User adoption of one product reinforces engagement with others, generating consistent cash flow that supports ongoing innovation and investment. Microsoft operates near-monopolies in an integrated product portfolio, ensuring high margins and profitability long-term.

Vertical Integration Across Products and Services—Microsoft's vertical integration spans cloud infrastructure, productivity software, operating systems, developer tools, gaming, search and social media advertising, and AI products. These synergies across the technology stack enable the company to deliver seamless solutions in sticky industries and maintain tight control over the end-to-end customer experience. Integration also facilitates bundling opportunities, cross-selling, and enterprise-wide deployments that strengthen customer loyalty.

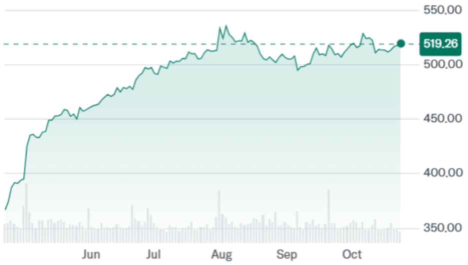
AI-Driven Insights and Innovation—Microsoft leverages AI across its ecosystem to enhance product functionality and customer value. AI-powered features in Microsoft 365, Azure, and Dynamics enable personalized experiences, predictive analytics and security enhancements. To support their AI and cloud infrastructure, Microsoft plans to invest $80 billion over the course of 2025 to expand their data center network, which already spans over 300 centers in 36 countries.

Investment Thesis

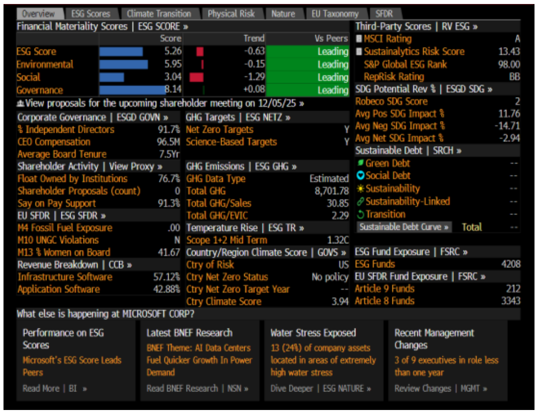
Investment Recommendation: **BUY**

S&P/Moody's Rating: **AAA**

6M Stock Price



ESG Score



Summary and Recommendation

Through its scale and integrated ecosystem, Microsoft has cemented its position as a global technology leader. By leveraging its connected product and service ecosystem, Microsoft captures value across multiple layers—from Azure and Microsoft 365 to Windows, GitHub, and Xbox. Revenue growth is supported by its diversified segments: Productivity and Business Processes (36%), Intelligent Cloud (43%), and More Personal Computing (21%). Strong adoption of subscription services, cloud infrastructure, and AI solutions positions Microsoft to outpace overall industry growth.

Buy Rating: Microsoft is a strong buy at its current price, offering upside potential to a fair value of $561.69. The company's leadership in cloud computing, productivity software, and AI, combined with its integrated ecosystem and recurring revenue model, supports sustainable growth and high switching costs. Continued innovation and strong execution position Microsoft for long-term value creation and shareholder returns.

Discounted Cash Flow

Valuation Assumptions	Range	Selected
WACC / Discount	7-10%	9.26%
Long-Term Growth Rate	2-4%	3%
Fair Price (USD)		$561.69
Upside		8.68%

Sensitivity Analysis of Implied Share Price

Perpetuity Growth Rate	Discount Rate: 8.26%	8.76%	9.26%	9.76%	10.26%
2.00%	585.53	556.62	531.81	510.32	491.53
2.50%	605.98	573.34	545.64	521.88	501.29
3.00%	630.32	592.96	561.69	535.16	512.39
3.50%	659.78	616.31	580.52	550.56	525.14
4.00%	696.15	644.57	602.92	568.63	539.92