

Company: Microsoft	Ticker: MSFT Current Price: \$507	Industry: Technology	Subcategory: Software and Technology
Target Price:\$587.80 Stop Loss: \$408.54 52W H/L: \$344.79 - \$555.45	TTM P/E: 36.09x F. P/E: 21x EPS: \$14.06 Legging in: 1.5% allocation on 11.18 remainder will allocated after NVIDIA earnings 11.19	Beta: 1.07 Credit Rating: AAA Rating Outlook: Stable	Market Cap: \$3.47T Avg. Vol : 12B Dividend Yield: 3.64%

Company Background

Global leader in enterprise software, cloud computing, and artificial intelligence, serving individuals, businesses, and governments worldwide. The company operates across three core segments: Productivity & Business Processes, which provides cloud-based productivity and collaboration tools with strong recurring revenue; Intelligent Cloud, its fastest-growing and most profitable segment driven by Azure's global infrastructure, AI services, and enterprise platforms; and More Personal Computing, which includes Windows, devices, gaming, and consumer software. Across more than 100 countries and 221,000 employees, the ecosystem spans 1.5B+ Windows users, 400M+ LinkedIn users, Azure datacenters in 60+ regions, and an Xbox platform reaching over 120M monthly active users. Together, these businesses anchor the company's presence in enterprise workflows, cloud and AI adoption, and consumer digital engagement.

Industry Outlook:

The global software and cloud infrastructure industry is experiencing steady expansion as enterprises modernize IT systems and adopt AI at scale. Public cloud spending is projected to rise from ~\$596B in 2024 to ~\$723B in 2025, supported by ongoing migration from on-premise workloads to hybrid and multicloud environments. AI is becoming a major growth engine across productivity, analytics, automation, and developer workflows, driving increased demand for data platforms, APIs, and hyperscale cloud services. Cloud providers benefit from recurring subscription models and improving unit economics as new datacenter capacity is utilized, though AI infrastructure build-outs temporarily lift costs before stabilizing margins. Growth is further supported by the rise of edge computing and AI-enabled PCs, with Copilot devices expected to make up ~31% of the PC market in 2025. Regional adoption varies North America leads cloud and AI spending, Europe grows under tighter regulatory frameworks, and Asia-Pacific shows rapid ecosystem expansion. Overall, the industry remains a durable, high-growth sector driven by cloud migration, AI adoption, and scalable subscription revenue models.

Investment Thesis:

AI-Compute Integration: Azure AI workloads outpacing overall cloud growth. Custom silicon + NVIDIA alignment improve long-term efficiency.

Stability & Long-Term Performance: Strong multi-cycle ROIC and resilient cash flows. Supports confidence in long-term valuation.

Cloud & Enterprise Growth: Azure growing ~29% YoY with rising AI contribution. Global region expansion drives durable demand.

Subscription Revenue & Ecosystem Retention: 98% annuity mix provides predictable recurring revenue. 400M+ Microsoft 365 seats reinforce enterprise lock-in.

Financial Structuring & Competitive Advantage: Valuation: Microsoft trades at a premium, but we see it as an attractive premium due to stronger cash-flow stability and lower forecasting risk versus Google.

Financial Stability: Stronger balance sheet in the sector with low leverage and top-tier FCF margins; peers rely more on debt or ops.

Industry Positioning: Broader enterprise footprint and higher customer stickiness vs Google; NVIDIA-based AI stack easier to scale than Google's TPU ecosystem.

Investment Risks:

- **Infrastructure constraints:** Limited access to power, land, and GPUs could slow Azure/AI capacity; heavy AI capex may pressure margins.
- **Security & privacy:** Cyberattacks, outages, evolving data/AI regulations, and reliance on third-party code increase operational and compliance risk.
- **Regulatory exposure:** US/EU scrutiny on pricing, bundling, and data use may alter product design; non-compliance can lead to fines or restrictions.
- **Competitive pressure:** Intense cloud and AI competition, rapid shifts toward AI PCs and open models, and cheap/free alternatives may squeeze pricing power.
- **Partner dependence:** Heavy reliance on OpenAI and OEM/channel partners introduces execution and roadmap risk if access terms change.
- **Talent & global operations:** AI/engineering talent shortages, chip and infrastructure bottlenecks, and complex global AI compliance slow scaling and deployment.

Takeaway From Last Earnings:

- Revenue \$77.7B, up 18% YoY; EPS \$4.13, up 23%.
- Microsoft Cloud hit \$49.1B, up 26%; Azure grew ~40%.
- Intelligent Cloud was the main driver (\$30.9B, +28%).
- Productivity & Business Processes grew 17%; More Personal Computing up 4%.
- Commercial bookings surged 112% on large Azure deals.
- Capex remained very elevated due to AI/datacenter build-outs.
- Management reiterated strong AI demand but noted ongoing capacity constraints.

• Q2 guidance: \$79.5–80.6B revenue (14–16% growth)

Income Statement (in Bil, except ratios)	09/30/2025	06/2025	06/2024	06/2023	06/2022	06/2021
Revenue	293.81	281.72	245.12	211.92	198.27	168.09
Revenue Growth %	15.59%	14.93%	15.67%	6.88%	17.96%	17.53%
Gross Profit	202.04	193.89	171.01	146.05	135.62	115.86
Gross Profit Margin %	68.76%	68.82%	69.76%	68.92%	68.40%	68.93%
Operating Income	135.94	128.53	109.43	88.52	83.38	69.92
Operating Margin %	46.27%	45.62%	44.64%	41.77%	42.06%	41.59%
EBIT	127.22	123.37	107.57	88.29	83.69	71.32
EBIT Margin %	43.30%	43.79%	43.88%	41.66%	42.21%	42.43%
EBITDA	167.05	151.37	127.57	101.79	98.29	82.22
EBITDA Margin %	56.86%	53.73%	52.04%	48.03%	49.57%	48.91%
Net Income	104.91	101.83	88.14	72.36	72.74	61.27
Net Profit Margin %	35.71%	36.15%	35.96%	34.15%	36.69%	36.45%
Basic EPS	14.10	13.70	11.86	9.72	9.70	8.12
Diluted EPS	14.06	13.64	11.80	9.68	9.65	8.05
Normalized EPS	13.93	13.60	11.82	9.81	9.20	7.97
Total Dividends per Share	3.32	3.24	2.93	2.66	2.42	2.19

DCF and Analyst Opinion:		Comps Analysis																																																																																		
<p>Debt/Equity: 3.09% debt / 96.91% equity</p> <p>Avg FCF Margin: 25%</p> <p>Cost of Debt: 4.29%</p> <p>Tax Rate: 16.96%</p> <p>Cost of Equity: 8.00%</p> <p>WACC: 7.86%</p> <p>Perpetuity Growth Rate: 3.50%</p>		<table border="1"> <thead> <tr> <th>Company Name</th> <th>Description</th> <th>Market Cap (Bn)</th> <th>EV (Bn)</th> <th>EBITDA (Bn)</th> <th>EV/EBITDA</th> <th>P/E TTM</th> <th>5YR Avg. ROIC</th> <th>Gross Margin</th> <th>Net Margin</th> <th>5Yr Beta</th> <th>Credit Rating</th> </tr> </thead> <tbody> <tr> <td>Microsoft Corporation (NASDAQ:MSFT)</td> <td>Microsoft is a global leader in software, cloud infrastructure, and AI, operating through major platforms including Windows, Azure, and Microsoft 365. The company benefits from recurring subscription revenue, enterprise stickiness, and accelerating demand for AI workloads. 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Relative Performance	YTD	1 year
Microsoft	21.06%	23.20%
Technology Sector	24.5%	25.6%
S&P 500	13.4%	13.2%

ESG Risk Rating Assessment



Highest Controversy Level (1 = Low, 5 = Severe)

2 Moderate

Incidents: Operations, Business Ethics, Customer, Society & Community

ESG Risk Rating

