

Microsoft Corporation FY 2025 Annual Report

June 30, 2025

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I. Executive Summary

Microsoft delivered exceptional results in FY 2025, achieving record revenue of \$257.6 billion, a 15% increase year-over-year (YoY), driven by robust growth in cloud and AI through Azure, alongside steady performance in Productivity and Gaming segments. Net income reached \$97 billion, up 11% YoY, despite margin pressures from AI infrastructure investments. The company returned \$36 billion to shareholders, balancing growth and returns.

II. Key Financial Metrics

- **Revenue:** \$257.6 billion, up 15% YoY (from \$224 billion in FY 2024).
- **Net Income:** \$97 billion, up 11% YoY (from \$87 billion).
- **EPS (Non-GAAP):** \$12.90, up from \$11.70 last year.
- **Gross Margin:** \$177 billion, 69% margin, up 12% YoY.
- **Operating Income:** \$120 billion, up 13% YoY.

III. Income and Expenses

- **Revenue Growth Drivers:**
 - **Productivity & Business Processes:** \$111 billion, +11% YoY, driven by Microsoft 365 and Dynamics growth.
 - **Intelligent Cloud:** \$95 billion, +19% YoY; Azure grew 32% with significant AI contributions.
 - **More Personal Computing:** \$51.6 billion, +16% YoY; Xbox content surged 60% post-Activision acquisition.
- **Operating Expenses:** \$57 billion, up 11% YoY, reflecting cloud engineering and Activision integration costs.
- **Cost of Revenue:** \$80 billion, 31% of revenue.
- **R&D, Marketing & Sales, General & Admin:** \$30 billion, \$22 billion, and \$6 billion respectively.
- **Tax:** \$22 billion.

IV. Balance Sheet Highlights (as of June 30, 2025)

Cash and total assets remain strong, with significant investments in AI infrastructure reflected in increased CapEx. (Detailed figures available in the 10-K filing.)

V. Cash Flow Statement Summary

- **Operating Cash Flow:** Estimated at \$130 billion, reflecting strong profitability.
- **Investing Activities (CapEx):** \$80 billion, primarily for AI and cloud infrastructure.
- **Financing Activities:** Returned \$36 billion to shareholders via dividends and share buy-backs.

VI. Credit Quality

Not applicable for a non-bank corporation.

VII. Strategic and Operational Updates

- **AI & Cloud Leadership:** Azure's 32% growth underscores Microsoft's dominance in AI-driven cloud services.
- **Gaming Growth:** Xbox content and services grew 60%, bolstered by the Activision Blizzard acquisition.
- **Productivity Tools:** Microsoft 365 and Dynamics saw 11% growth, enhanced by AI features.

VIII. Market Conditions and Outlook

- **Market Conditions:** Strong demand for AI and cloud services, though infrastructure costs pressure margins.
- **Management Commentary:** Azure growth expected to stabilize at 3031% in FY 2026.
- **Risks:** High AI CapEx and margin pressure; mitigated by operational efficiency.

IX. Shareholder-Related Information

- **Dividends & Buybacks:** \$36 billion returned to shareholders in FY 2025.

X. Visual Interpretation

A Sankey diagram illustrates the flow of \$257.6 billion in revenue through segments: Productivity & Business Processes (\$111B), Intelligent Cloud (\$95B), and More Personal Computing (\$51.6B). Gross profit of \$177B (69% margin) leads to an operating profit of \$120B (47% margin), with expenses including cost of revenue (\$80B), operating expenses (\$57B), R&D (\$30B), marketing & sales (\$22B), general & admin (\$6B), and tax (\$22B). Net profit stands at \$97B (38% margin).

XI. Summary Takeaways

Microsoft's FY 2025 performance cements its leadership in the AI and cloud era, with Azure driving significant growth. Productivity tools and gaming also performed strongly. Despite AI infrastructure costs impacting margins, Microsoft maintains robust cash flow, shareholder returns, and a balanced growth strategy.

