

Brux Dugan

Microsoft Corporation

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ACTG 2200 Project 2

Professor Hall, Section 2

November 14, 2023

Part I

1. **10-K SECTIONS:** Form 10-K has four **PARTS** and 15-16 **ITEM** numbers. This is the same for every company. Briefly describe what is typically contained in each **ITEM** number in 1-2 sentences. You may use the reference material “How to Read a 10-K” (<https://www.sec.gov/files/reada10k.pdf>), but you must use your own words to express your understanding. The purpose of this question is NOT for you to describe each **ITEM** in the context of your specific company, but rather to demonstrate that you understand what each **ITEM** typically includes for ANY company. (10 points)

Item 1: This item contains a description of the company's main products and services, any subsidiaries it may own (A subsidiary being a company that is held under another one), and where the company operates. This item includes information that provides a good overarching understanding of how the company operates. This includes recent events, competition, regulations, and other factors that affect the company's operations.

Item 1A: This item contains a ranked list of the most significant risks that pose a threat to the company's operations and investments. These risks may apply to the company specifically or are more general like things that threaten the industry as a whole. This item displays the risks, however not solutions to these risks.

Item 1B: This item contains explanations of comments from the SEC on prior reports that have not been resolved after a long time. Looking at this item would give perspective to how the SEC is viewing unresolved reports from the company. This item may provide possible red flags that would be valuable to a possible investor/analyst.

Item 2: This item contains information about a company's physical assets and real estate. The purpose of this item is to provide stakeholders with an understanding of the company's physical assets, which can be important for assessing a company's financial health, risk factors and operational capabilities.

Item 3: This item contains information about significant ongoing legal proceedings, excluding ordinary litigation. These are most likely large lawsuits that are essential for a company's stakeholders to be informed of.

Item 4: This section doesn't contain any information and is a space holder for the SEC for establishing possible new rules.

Item 5: This item outlines the disclosure requirements for a company's equity securities in a regulatory filing, including details such as market information, the number of shareholders, dividends, stock repurchases, and related information.

Item 6: This item contains the previous 5 years' financial information. This section is broader and has less detailed financial data than other items (item 8).

Item 7: This item contains the company's perspective on the business information of the past financial year. This section may include liquidity and capital resources, key business risks and how they approach them, comparisons of the prior periods' finances, contractual obligations, and critical accounting judgments.

Item 7A: This item contains information about the company's exposure to interest rate risk, currency exchange risk, commodity price risk, or equity price risk. Moreover, information on how the company will approach and manage such risks.

Item 8: This item contains all of the financial and supplementary data. This includes the income statement, balance sheet, statement of cash flows, and statement of stockholders' equity. This data is accompanied by notes explaining the information in these statements.

Item 9: This item is a disclosure necessary if there has been a change in accountants. This contains statements of disagreements with previous accountants. This disclosure is, reasonably, a red flag for investors.

Item 9A: This item contains information about the internal controls over the company's financial reporting.

Item 9B: This item contains information that was required to be reported but has not yet been.

Item 10: This item contains information about the qualifications of the company's directors and executive officers as well as the company's code of ethics.

Item 11: This item contains disclosures about the annual compensation of executive officers as well as the company's compensation policies.

Item 12: This item contains equity disclosures of a company's directors, officers, and large shareholders.

Item 13: This item contains information about director relations as well as disclosure of any directors of the company who are independent.

Item 14: Disclosure of fees provided for accounting services performed throughout the year.

Item 15: List of a company's financial statements and exhibitions like bylaws, contracts, and subsidiaries.

Item 16: Company's summary of 10-K

- 2. COMPANY & BACKGROUND DESCRIPTION:** Describe your company and its business including the background of the company, its lines of business (products) and **market segments, overseas operations**, and any other information in which a potential investor may be interested. Be complete in your answer. You want your reader to have a good understanding of the background of your company and you want your reader to WANT to know more. Prepare the report to entice potential investors. Use the "front end" of the report, ie, Items 1-7 to prepare your answer. A 10-point answer will typically be **at least** one full page long, single spaced, using normal margins. (10 points)

Established in 1975, Microsoft has emerged as a global technology powerhouse, spearheading innovations that transcend the boundaries of computing. With a profound commitment to empowering individuals and organizations worldwide, Microsoft has consistently delivered cutting-edge software, services, and devices that redefine user experiences and drive technological evolution.

Microsoft's extensive product portfolio encompasses a wide array of offerings, spanning operating systems, productivity applications, server solutions, and gaming content. Notable products include the revolutionary Windows 11, Microsoft 365, Azure, and Office 365. The Surface family, featuring devices like Surface Pro and Surface Laptop, highlights Microsoft's dedication to creating first-party devices that foster innovation and stimulate demand within the Windows ecosystem.

In the dynamic world of gaming, Microsoft's strategic investments and acquisitions, including the planned purchase of Activision Blizzard, Inc., underscore the company's commitment to delivering immersive gaming experiences. Subscription services like Xbox Game Pass further demonstrate Microsoft's holistic approach, enabling players to engage seamlessly across PC, console, and mobile platforms.

Microsoft's impact extends across the globe, providing cloud-based solutions, search, news, mapping, and browser services to a diverse and expansive audience. The company's commitment to sustainability is evident in its ambitious goal to become carbon negative, water positive, and zero waste by 2030. This aligns with the growing global emphasis on environmental responsibility.

In May 2023, Microsoft released its Environmental Sustainability Report, showcasing progress made during fiscal year 2022. While overall emissions decreased by 0.5 percent, challenges were noted in Scope 3 emissions, primarily influenced by the operations of suppliers and customer product usage. This transparency reflects Microsoft's dedication to accountability and continual improvement in its environmental impact.

As of fiscal year 2023, Microsoft continues to demonstrate robust financial performance. The company's revenue streams are well-diversified, with significant growth in key segments. Microsoft Cloud revenue increased by an

impressive 22%, Office Commercial products and cloud services saw a 10% boost, and Dynamics products and cloud services revenue increased by 16%. Despite a decline in Windows OEM and devices revenue, strategic areas such as Azure and other cloud services experienced substantial growth.

In the highly dynamic and competitive technology industry, Microsoft's proactive approach involves substantial investments in research, development, and marketing. The company acknowledges the ever-changing landscape shaped by disruptive technologies, evolving user needs, and frequent product introductions. Microsoft's commitment to staying at the forefront is evident in its acquisitions, AI integration, and focus on user-centric features.

The acquisition of Activision Blizzard, Inc. in January 2022 demonstrates Microsoft's strategic foresight in gaming content, aiming to redefine how games are created, distributed, and played. The incorporation of AI, exemplified by Windows Copilot and AI-powered tools in Microsoft Edge, signifies a commitment to enhancing user experiences and productivity.

Microsoft stands as an attractive investment opportunity for those seeking exposure to a technology giant with a proven track record of innovation, global influence, and financial stability. The company's dedication to sustainability aligns with the growing emphasis on ESG considerations. Financially, Microsoft's resilient performance and strategic focus areas position it for sustained growth, making it an appealing prospect for investors seeking long-term value creation.

Ultimately, Microsoft's rich history, commitment to innovation, global reach, and financial strength make it an enticing prospect for investors looking to participate in the dynamic and evolving technology sector. The company's multifaceted approach, combining sustainability, strategic investments, and technological advancements, positions Microsoft as a frontrunner in shaping the future of computing. As Microsoft continues to push boundaries, address industry shifts, and drive positive global impact, investors can anticipate ongoing opportunities for growth and value creation.

- 3. BUSINESS ENVIRONMENT:** Describe the business environment or industry in which your company operates. For example, its competitors, the political and economic climate in which it operates, litigation, risks, contingent liabilities, and any other relevant issues addressed by the 10-K. Include **ALL** risks that are significant and relevant to your company, not all risks that are generic to its industry. Compare your company to a competitor to determine which risks relate only to your company. A 10-point answer will typically be **at least** one full page long, single spaced, using normal margins. (10 points)

Microsoft, a global technology giant, navigates a highly competitive industry, facing multifaceted challenges across legal, regulatory, and operational domains. Microsoft operates in an intricate business environment as revealed by its 10-K filing, focusing on anti-corruption laws, data protection regulations, taxation, intellectual property concerns, litigation, and broader business risks.

In the realm of legal and regulatory challenges, Microsoft underscores the significance of adhering to anti-corruption laws, such as the Foreign Corrupt Practices Act (FCPA). The company acknowledges the potential ramifications of non-compliance, stating, "Laws and regulations relating to anti-corruption and trade could result in increased costs, fines, criminal penalties, or reputational damage." This highlights the tangible risks associated with violations by employees, vendors, or agents.

Data protection laws, a rapidly evolving landscape, pose another critical challenge. Microsoft acknowledges the impact of regulations like the EU General Data Protection Regulation (GDPR) and the EU Whistleblower Directive, stating, "Legal requirements relating to the collection, storage, handling, and transfer of personal data continue to evolve." The company recognizes the potential for fines, legal claims, and reputational damage in the event of non-compliance, emphasizing the complexity introduced by varying implementations across different jurisdictions.

Taxation emerges as a considerable risk, with Microsoft operating globally and subject to diverse tax jurisdictions. The 10-K highlights uncertainties in determining worldwide provision for income taxes, stating, "Significant judgment is

required in determining our worldwide provision for income taxes." Ongoing audits and disputes with tax authorities add layers of complexity, showcasing the company's need to navigate a dynamic tax landscape.

Intellectual property risks are underscored, with Microsoft grappling to protect its innovations globally. Microsoft acknowledges the difficulty in combating unlicensed copying and emphasizes the risk of source code leakage, stating, "If our source code leaks, we might lose future trade secret protection for that code." The challenges include changes in patent laws and potential disputes with licensees, underscoring the ongoing battle to safeguard intellectual property rights.

Litigation and contingent liabilities present yet another layer of complexity. Microsoft acknowledges an array of claims and lawsuits, ranging from product releases to AI services and business transactions. The potential for adverse outcomes, such as significant monetary damages or injunctive relief, is highlighted, underscoring the company's need to manage legal uncertainties.

In the broader business context, Microsoft faces risks associated with economic and market conditions. The company acknowledges the potential impact of factors like inflation, recession, or changes in economic conditions on its revenue. The reliance on an extensive partner and retail network adds vulnerability, with the 10-K stating, "The impact of economic conditions on our partners, such as the bankruptcy of a major distributor, OEM, or retailer, could cause sales channel disruption."

The company also discloses risks associated with its investment portfolio, subject to general credit, liquidity, market, and interest rate risks. Microsoft's recognition of the potential impact of catastrophic events, such as natural disasters, cyberattacks, terrorist attacks, and pandemics, underscores the need for robust business continuity management plans.

Moreover, Microsoft places a premium on its reputation and brands, recognizing their pivotal role in attracting and retaining customers. The 10-K notes that damage to the company's reputation may result from various factors, including product issues, environmental impact, supply chain practices, or public policy positions.

Microsoft's 10-K reveals a business environment rife with challenges, from legal and regulatory complexities to broader operational risks. The company's risk disclosure provides a comprehensive insight into the nuanced landscape in which it operates, emphasizing the need for adaptability, compliance, and resilience in the face of an ever-evolving business environment.

Part II

4. **CURRENT RATIO:** What is the company's **current ratio** for the **current AND prior year** (include the definition of the ratio, and **show all your calculations** for each year)? Explain what the results mean. Is the ratio adequate to meet current obligations? What has been the trend for this ratio from last year – improving or declining? (5 points)

(**Note:** all information to answer this question came from the Company's Balance Sheets, 10-K p. 60)

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} = \frac{184,257,000,000}{104,149,000,000} = 1.77 \text{ Times}$$

As of June 30, 2023 (the Balance Sheet date), Microsoft has a current ratio of 1.77. This means that for every \$1 of current liabilities, the company has \$1.77 with which to pay off those liabilities. This ratio is adequate as it is above 1, meaning that Microsoft can pay off all its liabilities at least once using current assets. This ratio is good, that being said, the ratio could be better in order to absorb unanticipated liquidity shocks and expenses.

This ratio has declined over the last year, as shown here:

$$\text{2023 Ratio} = \frac{184,257,000,000}{104,149,000,000} = 1.77$$

$$\text{2022 Ratio} = \frac{169,684,000,000}{95,082,000,000} = 1.78$$

The fiscal year 2022 current ratio was slightly better than the 2023 ratio. It is vital to note that while the current ratio slightly decreased, this is not necessarily a red flag. Due to interest rate hikes and economic recession fears in the last year it is not unexpected that this ratio could tighten. Looking at the Current portion of long-term debt owed we see a considerable increase from fiscal year 2022 to 2023.

A better way to measure the ability of Microsoft to pay off its current liabilities is by calculating the Quick Ratio, which only includes the following very liquid current assets:

$$\text{Quick Ratio} = \frac{\text{Cash} + \text{Current Investments} + \text{Accounts Receivables}}{\text{Current Liabilities}}$$

$$\text{2023 Quick Ratio} = \frac{34,704,000,000 + 76,558,000,000 + 48,688,000,000}{104,149,000,000} = 1.54$$

Analysis:

The current Ratio for Microsoft's finances is good. While there was a minute decrease from the past fiscal year, macroeconomic pressures prove to lower possible red flags from this decrease. Moreover, the Quick ratio, which measures liquid assets to current liabilities shows that Microsoft can comfortably cover its liabilities. These ratios show relative strength for Microsoft.

5. **INVENTORY:** What inventory valuation method does the company use? What is the company's **inventory turnover ratio** for the **current AND prior year** (include the definition of the ratio, and **show all your calculations** for each year)? **Note:** To calculate the ratio for the prior year, you will need to open up the prior year 10-K. Explain what the results mean. What has been the trend for this ratio from last year – improving or declining? What additional footnote information is disclosed? (5 points)

All ratios are from PRODUCT COGS and Inventory NOT service and other as Microsoft has multiple revenue streams

The inventory turnover ratio shows the number of times the firm sells its average inventory balance during a reporting period. It is calculated as cost of goods sold (COGS) divided by average inventory, which in this case was calculated by averaging the current and prior years inventory.

The inventory valuation method the company used is FIFO. The FIFO inventory valuation method offers benefits such as reflecting current market conditions, simplifying recordkeeping, reducing tax liabilities in inflationary periods, accurately matching costs with revenue, minimizing holding gains, providing a realistic inventory valuation, and aligning with the physical flow of goods.

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold (COGS)}}{\text{Average Inventory}}$$

$$\text{2023 Inventory Turnover Ratio} = \frac{17,804,000,000}{(2,500,000,000 + 3,742,000,000)/2} = 5.70$$

$$\text{2022 Inventory Turnover Ratio} = \frac{19,064,000,000}{(3,742,000,000 + 2,636,000,000)/2} = 5.98$$

The comparison of Microsoft's inventory turnover ratios between 2023 and 2022 reveals a slight decrease from 5.98 to 5.70. This decline suggests that, on average, Microsoft took a bit longer to sell and replenish its inventory in 2023 compared to the preceding year. While a higher inventory turnover ratio generally signifies more efficient inventory

management, the context is critical for a comprehensive interpretation. Factors such as changes in sales strategies, market conditions, or shifts in customer demand could contribute to this variation. It's essential to consider industry benchmarks to determine whether the observed decrease aligns with typical ratios in the technology sector. Additionally, understanding the company's specific circumstances and the reasons behind the change will provide valuable insights. While a slightly lower inventory turnover ratio may raise considerations about working capital and resource allocation, it is essential to conduct a nuanced analysis, considering the broader economic landscape and Microsoft's strategic objectives in managing its inventory. Investors and management alike may view this shift differently, with some interpreting it as a cautious approach and others as a strategic decision aimed at optimizing inventory levels.

6. **PP&E/TOTAL ASSETS:** What depreciation method does the company use? What is the **asset turnover ratio** for the **current AND prior year** (include the definition of the ratio, and **show all your calculations** for each year)? **Note:** To calculate the ratio for the prior year, you will need to open up the prior year 10-K. Explain what the results mean. What has been the trend for this ratio from last year – improving or declining? What additional long-lived asset footnote information is disclosed? (5 points)

The asset turnover ratio indicates how efficiently a company is using its assets to generate sales. A higher ratio suggests better asset utilization, meaning the company is generating more revenue per unit of assets.

The depreciation method used by Microsoft is the straight-line method. The straight-line depreciation model provides simplicity and ease of calculation, making it straightforward for financial reporting. It also ensures a consistent and evenly distributed allocation of an asset's cost over its useful life, facilitating predictable and stable financial statements.

$$\text{Asset Turnover Ratio} = \frac{\text{Total Revenues}}{\text{Average Total Assets}}$$

$$2023 \text{ Asset Turnover Ratio} = \frac{211,915,000,000}{(411,976,000,000 + 364,840,000,000)/2} = 0.55$$

$$2022 \text{ Asset Turnover Ratio} = \frac{198,270,000,000}{(364,840,000,000 + 333,779,000,000)/2} = 0.57$$

The significance of this ratio can vary across industries, making a straightforward determination of its quality challenging without industry context. In certain sectors, such as retail or technology, a higher asset turnover ratio is generally considered favorable, indicating efficient asset utilization. Conversely, industries with capital-intensive operations may have lower ratios. In this case, a downward trend from 0.57 in 2022 to 0.55 in 2023 suggests a potential decline in the company's efficiency in converting assets into revenue, warranting further investigation into the factors influencing this trend and the industry landscape.

7. **LONG-TERM DEBT AND TOTAL LIABILITIES:** What is the dollar value of the company's total long-term debt (sum the current portion of long-term debt with long-term debt)? If the company has no long-term debt, please state this. What is the company's **TOTAL debt/equity ratio** (as defined in class) for the **current AND prior year** (include the definition of the ratio, and show your calculations for each year)? What has been the trend for this ratio from last year – improving or declining? Compare the company's ratio to the industry or to a competitor, and comment on its appropriateness for the company. (6 points)

$$\text{Total Long-Term Debt} = 5,247,000,000 + 41,990,000,000 = 47,237,000,000$$

The debt-to-equity ratio (D/E ratio) shows how much debt a company has compared to its assets.

Total Debt/Equity Ratio = Total Debt/ Stockholders' Equity

2023 D/E Ratio = 47,237,000,000 / 206,223,000,000 = 0.23

2022 D/E Ratio = 47,237,000,000 / 166,542,000,000 = 0.28

The Debt-to-Equity (D/E) ratio for our company has shown improvement, decreasing from 0.28 in 2022 to 0.23 in 2023. This signifies a positive trend as the company has reduced its debt relative to equity, indicating a lower level of financial risk. Comparatively, if the industry average D/E ratio is higher than our current ratio, it suggests that our company has a relatively conservative capital structure and may be better positioned in terms of financial leverage compared to industry peers. This trend reflects a prudent approach to managing our financial resources and maintaining a healthier balance between debt and equity in the context of industry benchmarks.

8. STOCKHOLDERS' EQUITY: List all the **stock** included in the Stockholders' Equity Section of the Balance Sheet (including amounts for any Additional Paid-in Capital). Include each different type of stock, par value, and the number of shares authorized, issued, and outstanding for each. Describe any special features of each type of stock (refer to the Footnotes or Item 7 – MD&A for this information). Based on the information in the 10-K, when did the company pay its last dividend? What was the **per-share dollar amount** of the most recent dividend, and what has been the trend in annual dividends over the past **THREE** years (eg, increasing, decreasing)? (6 points)

The company has the following types of stock outstanding as of June 30, 2023:

- Preferred stock, \$0.01 par value
 - Authorized: 100,000,000 shares
- Common stock, \$0.00000625 par value
 - Authorized: 24,000,000,000
 - Issued: 1,866,000,000
 - Outstanding: 7,429,763,722
- Treasury Stock – 17,568,000,000 shares

Dividends

Issued: August 15, 2023

Yield: 0.78%

Payment: \$0.68

Over the past three years the annual dividends paid has seen a slight increase. This increase is extremely minute and doesn't show signs of volatility.

(Stockholders' Equity Statements, 10-K p. 62)

9. EARNINGS PER SHARE (EPS): What is the company's basic (simple) **earnings per share** (EPS) for common stock for the **current year AND the prior two years**? Where is this information cited in the 10-K? Discuss the three-year trend. (3 points)

2023 Earnings per Share (EPS) = 9.72

2022 Earnings per Share (EPS) = 9.70

2021 Earnings per Share (EPS) = 8.12

***In Note 2 – Earnings per Share P. 70)**

Over the three-year period from 2021 to 2023, Microsoft has demonstrated a consistent upward trend in its Earnings per Share (EPS). This positive trajectory indicates an improvement in the company's profitability on a per-share basis. The consecutive increases in EPS suggest that Microsoft has been successful in growing its earnings over the specified period, reflecting positively on its financial performance, and potentially signaling effective management strategies and operational efficiency. Investors often view a rising EPS as a favorable indicator, indicating the company's ability to generate more earnings for each outstanding share.

Questions 10, 11, and 12 require longer answers and a more in-depth analysis than some of the previous questions. To begin, use the **Financial Statements and Footnotes in Item 8** to complete the table shown below, then use that information and the information from the **MD&A section (Item 7)** to answer the following questions:

(Abbreviate dollar amounts to thousands or millions and use proper notation with \$ signs and commas. **Keep the table on one page in your report and do not split over two pages**)

In Millions Description	Current Year (\$) A	Prior Year (\$) B	\$ Change A - B	% Change (A – B) / B
Revenue	211,915	198,270	13,645	6.88%
Cost of Goods Sold or Cost of Sales	65,863	62,650	3,213	5.13%
Significant Operating Expenses (list separately by adding rows to this table for each operating expense on the I/S)				
Research and Development	27,195	24,512	2683	10.95%
Sales and Marketing	22,759	21,825	934	4.28%
General and Administrative	7,575	5,900	1675	28.39%
Operating Income (in \$)	88,523	83,383	5140	6.16%
Operating Income (as a % of Revenue)	41.77%	42.06%	(0.29%)	(< 1%)
Cash & Cash Equivalents	34,704	13,931	20,773	149.11%
Cash Flows from Operating Activities	87,582	89,035	(1,453)	(1.63%)
Cash Flows from Investing Activities	22,680	30,311	(7,631)	(25.18%)
Cash Flows from Financing Activities	43,935	58,876	(14,941)	(25.38%)

- 10. REVENUES:** Referring to the table above, what factors led to the dollar (\$) and percentage (%) increase or decrease in **Revenue** (or Sales) from the prior year? Use Management's Discussion and Analysis (MD&A, Item 7), to discuss this. (4 points)

In the dynamic and highly competitive markets of software, devices, and cloud-based services, we face competition in innovation and evolving customer preferences. Our investments in cloud, AI infrastructure, and devices may impact operating costs and margins. Moreover, the increased cost of capital can be attributed to some of the decrease in revenue above, Cost of revenue increased \$3.2 billion or 5% driven by growth in Microsoft Cloud. Device manufacturing relies on third-party contractors, and disruptions at critical suppliers may affect product timelines. Success hinges on attracting and retaining skilled employees globally. Foreign exchange rate fluctuations impact revenue and expenses in international operations. Strategic decisions in fiscal year 2023, including workforce reduction and lease consolidation, aimed to align costs with revenue. While these are current struggles, the 2023 fiscal year for Microsoft has seen a lot of positive revenue increases: Revenue increased \$13.6 billion or 7% driven by growth in Intelligent Cloud and Productivity and Business Processes, offset in part by a decline in More Personal Computing, Gross margin increased \$10.4 billion or 8% driven by growth in Intelligent Cloud and Productivity and Business Processes and the change in accounting estimate, Operating income increased \$5.1 billion or 6% driven by growth in Productivity and Business Processes and Intelligent Cloud and the change in accounting estimate.

2023 10-K Item 7, P. 44

- 11. COST OF GOODS SOLD and OTHER EXPENSES:** Referring to the table above, what factors led to the dollar (\$) and percentage (%) increase or decrease in **Cost of Goods Sold** (or Cost of Sales) **AND each of the other Operating Expenses separately listed** on your income statement from the prior year? Discuss each expense separately. As a percent of total revenue for the current year, did Operating Expenses increase or decrease? Use the information in the MD&A section to discuss this. (6 points)

There was a large increase in operating expenses from 2022 to 2023. The analysis on this increase is explained in item 7 P. 44, "Operating expenses increased \$5.3 billion or 10% driven by employee severance expenses, 2 points of growth from the Nuance and Xandr acquisitions, investments in cloud engineering, and LinkedIn." Moreover, the COGS, in this instance Cost of revenue, saw a \$3.2 billion or 5% increase in growth. This increase is attributable to costs in further Microsoft cloud development. These results are the cause for the decrease seen in operating income, and cash flows from operating, financing, and investing activities.

- 12. CASH FLOWS:** Referring to the table above, what factors led to the dollar (\$) and percentage (%) increase or decrease in **Cash & Cash Equivalents** (as shown on the balance sheet) from the prior year? Answer this question by discussing the major cash inflows or outflows from the company's operating, investing, and financing activities from the Statement of Cash Flows. The MD&A section (Item 7) may also be helpful. Based on your analysis, how do you feel about the **SOURCE** of the company's cash flows this year? (6 points)

Cash & Cash Equivalents:

- Office Commercial products and cloud services revenue increased 10%
- Office 365 Commercial revenue Increased 13%
- Office commercial products revenue decreased 21%
- Office Consumer Products and cloud services revenue increased 2%
- Microsoft Consumer subscribers increased 12%
- Dynamic products and cloud services revenue increased 16 %

These increases are attributable to small and medium business and frontline worker offerings, LinkedIn revenue driven by Talent solutions, Dynamics 365 growth of 24%. The declines are attributed to a continued customer shift to cloud offerings from commercial products.

Based on my analysis I am confident in the sustainability of the sources of Microsoft's cash flows this year. The only decline is attributable to a shift from one product line to another. This other product line, cloud services, is a positive

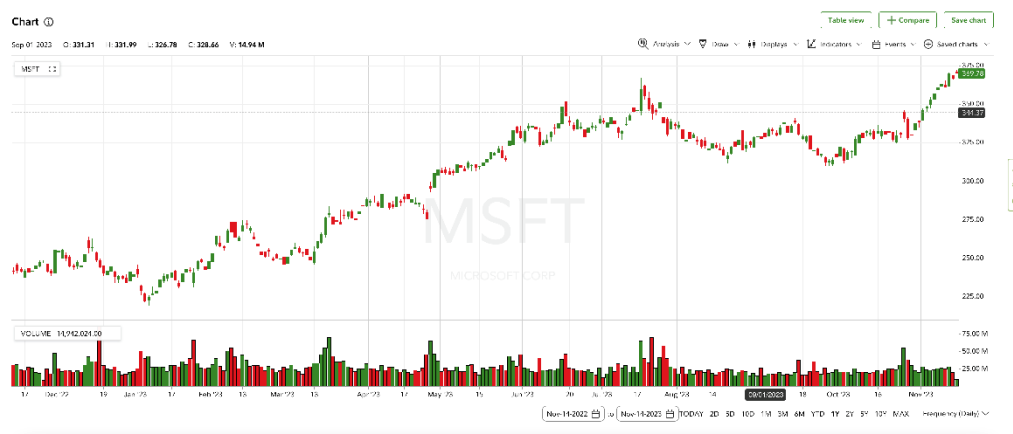
shift as there is a high potential for growth in this sector. All other increases are steady and positive especially given the broader economic pressures.

Item 7, P.45

- 13. STOCK PRICE:** What is the market price of the Company's stock on the day you are preparing this? (Use Google, nyse.com, or nasdaq.com for data, and include the date of your price). Discuss the one-year trend in the stock price. (Optional: Include a price chart in your answer) (3 points)

Price = 367.97

Microsoft has performed very well in the last year, with a near 53% increase in ticker price, relative low volatility, and constant quarterly earnings. Microsoft has proved to be a strong investment for mid-long term investors. Moreover, with a ESG score almost twice as high its industry means, Microsoft excels in all fundamental areas.



- 14. AUDIT REPORTS:** Identify who the company's Auditor is and read their reports. There may be more than one report included in the 10-K; if so, please read and reference each of them. What is the MAIN message of each of the reports? What comfort do the reports give you? (4 points)

Microsoft has engaged Deloitte & Touche LLP, an independent registered public accounting firm, to audit and render an opinion on the consolidated financial statements and internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States).

The report from Deloitte provides an audit opinion on Microsoft Corporation's internal control over financial reporting as of June 30, 2023. The audit, conducted in accordance with PCAOB standards, concludes that the company maintained effective internal control over financial reporting in all material respects. The audit was performed by a public accounting firm registered with the PCAOB, ensuring independence as required by U.S. federal securities laws.

The basis for the opinion is the management's responsibility for maintaining internal control and their assessment of its effectiveness. The audit involved understanding internal control, assessing risks, testing and evaluating the design and operating effectiveness of control, and other necessary procedures. The auditors believe their work provides a reasonable basis for their opinion.

The message also defines internal control over financial reporting as a process designed to provide reasonable assurance about the reliability of financial reporting and the preparation of financial statements. It outlines three key components of internal control: accurate record maintenance, assurance of proper transaction recording, and prevention or timely detection of unauthorized asset activities. It acknowledges the inherent limitations of internal control and the risk that controls may become inadequate in the future due to changing conditions.

Item 9A P.100

- 15. INVESTMENT DECISION:** Would you invest in this company's stock? Why or why not? Be very thorough. While there is no right answer (you can answer either Yes or No), you MUST support your answer with information you obtained from your previous analysis. Perhaps you could use bullets to reference each of the prior questions (2-14) and show how information from each of those questions provides support for your decision. This will include things like competition, litigation, contingent liabilities, risks, current ratio, asset turnover ratio, inventory turnover ratio, debt/equity ratio, stock price, dividend payments, EPS, cash flows, revenue, expenses, net income trends, etc.). In other words, think of this as a summary of your report, and assume the entire purpose of your report was to help you answer this final question. Be thorough for full points. (10 points)

Microsoft has strong financial performance. Microsoft Corporation demonstrates a positive trend in its financial health, as reflected in key ratios. The Debt-to-Equity (D/E) ratio improved from 0.28 in 2022 to 0.23 in 2023, indicating a prudent reduction in debt relative to equity. This positions the company favorably in terms of financial risk. Notably, the current ratio of 1.77 suggests ample liquidity to cover current liabilities, portraying a strong financial position.

The capital structure of Microsoft poses strong buy signs. Comparative analysis with industry benchmarks reveals Microsoft's conservative capital structure, as evidenced by a D/E ratio lower than the industry average (0.23). This conservative approach to financial leverage enhances the company's resilience in the face of economic uncertainties, making it an appealing investment option.

Some ratios pose warning signs. While a slight decline in the asset turnover ratio from 0.57 to 0.55 raises concerns about the efficiency in converting assets into revenue, Microsoft's overall performance remains robust. The nuanced analysis of the industry landscape is crucial for a comprehensive interpretation of this trend.

With a massively globalized company like Microsoft, there are inherent, threatening litigation risks. Microsoft faces multifaceted challenges in legal and regulatory domains, including anti-corruption laws, data protection regulations, and taxation. The company acknowledges the potential consequences of non-compliance, emphasizing the need for a vigilant approach to risk management.

Weighing market conditions and economic risks. The disclosure of risks associated with economic and market conditions underscores Microsoft's awareness of external factors that could impact its revenue. The reliance on an extensive partner and retail network adds a layer of vulnerability, requiring careful consideration by potential investors.

Strategic Initiatives and Industry Positioning. Microsoft's strategic initiatives, such as the acquisition of Activision Blizzard and investments in AI integration, reflect a proactive approach to industry changes. The company's commitment to staying at the forefront of technological evolution positions it as a frontrunner in the dynamic technology sector.

Environmental Sustainability and Corporate Responsibility; Microsoft's dedication to environmental sustainability aligns with growing global emphasis on ESG considerations. The company's ambitious goals to become carbon negative, water positive, and zero waste by 2030 demonstrate a commitment to corporate responsibility.

Ultimately, Microsoft Corporation emerges as an attractive investment opportunity for analysts seeking exposure to a technology giant with a proven track record of innovation, global influence, and financial stability. The company's strong financial performance, conservative capital structure, and commitment to sustainability contribute to its appeal. While acknowledging challenges in asset turnover and regulatory compliance, Microsoft's proactive strategies and market positioning make it a compelling choice for investors seeking long-term value creation. Analysts are advised to monitor industry dynamics and regulatory changes closely, but the overall outlook supports a positive investment stance in Microsoft's stock.

- 16. HYPERLINK and PAGE REFERENCES:** On your cover page, include an active hyperlink to the actual 10-K you used. Use page numbers from your 10-K throughout your report to reference where you obtained various pieces of information in the 10-K. (3 points)