

Microsoft

(MSFT)

Price (9-7-2018) \$108.21
Fair Value \$142.66
52-Week Range \$72.92 - \$112.78
Market Cap (US\$ m) \$829,800

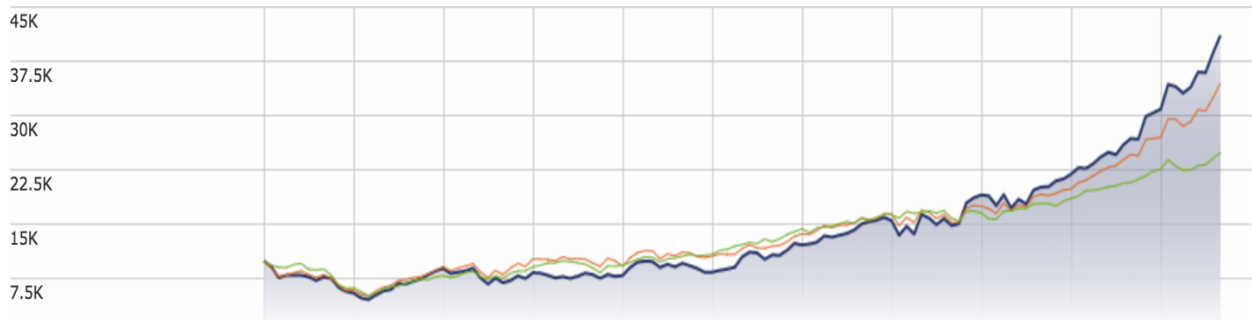
Analyst Information
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Company Overview

Microsoft is a technology company that was founded in 1975 by Bill Gates. They offer a wide array of services that are world renown such as Microsoft Office, and the Windows operating system. Throughout the year they have continued to pivot their models from IaaS to PaaS. They have three business segments: Productivity and Business Processes, Intelligent Cloud, and More Personal Computing.

Year	2016	2017	2018	2019	2020
EPS	\$2.56	\$3.25	\$2.13	\$4.31	\$5.03
P/E	36.8	30.2	51.28	25.2	
Revenue	\$91,154	\$96,571	\$110,360	\$124,396	\$136,434
P/B	6.8	7.4	10.0		
ROE	22.09%	29.37%	21.37%		
ROA	9.08%	9.75%	6.63%		

MSFT Software - Infrastructure S&P 500 TR USD



Company Information

Microsoft is a company based in the United States. They provide companies with IT solution for companies small and large. Some of these solutions include products such as Microsoft Office 365 which serves as small as a single consumer to large business. Microsoft is also in the market of ERP where they sell software that improves business processes. Other from those other offerings some other Microsoft products include operating systems; cross-device productivity applications; server applications; business solution applications; desktop and server management tools; software development tools; video games; and training and certification of computer system integrators and developers. They also design, manufacture, and sell devices, including PCs, tablets, gaming and entertainment consoles, other intelligent devices, and related accessories, that integrate with our cloud-based offerings.

Some of the competitors for Microsoft include companies that participate in the software and application IBM, SAP, Google, Amazon, and Oracle.

Valuation

With the emergence of big data and cloud-based offering, Microsoft is prime for significant growth in these new emerging technology markets. These two markets are estimated to be valued at \$300 billion in cloud computing in 2021 and \$4 trillion in Artificially intelligence according to Gartner research. CEO Satya Nadella serves as the perfect visionary in these fields as he has worked on cloud-based projects for most of his career at Microsoft. Currently Microsoft Azure is the second in market share in public cloud computing with Amazon Web Service as the Clear Leader. The past two years Azure has gained significant market share overtaking IBM as the clear favorite to challenge AWS. What makes Microsoft undervalue in this area is people fail to take into account Microsoft large ecosystem of products. For many companies when the time comes to update their legacy system Microsoft will be the prime choice for smaller and mid-size companies. The ease of staying in the same software environment and the ease of integration amongst their existing system will be the main driver of Microsoft market penetration. This year has been a particularly strong year for Microsoft in commercial Cloud computing. From 2017 there was a 56% increase in sales totaling \$23.2 billion. Commercial cloud computing comprises Azure, Dynamic 365, and Office 365. Server products and cloud services revenue increased 21%, driven by Azure revenue growth of 91%.

During the 2017-year Microsoft acquired LinkedIn and GitHub. These two companies continue to support goal as the number 1 cloud vendor. The two acquisitions will enhance the Microsoft ecosystem of product making it costlier for companies to switch to other vendors.

LinkedIn contributed revenue of \$5.3 billion which was a significant increase from its previous fiscal year where

Its revenue was \$3 billion

When looking at the financials of Microsoft we see a very healthy and strong company. Starting with its liabilities their current ratio is 2.9. In the case of a sudden economic downturn, they are able to pay current outstanding debt with ease and weather the storm. They do have a decent amount of long-term debt, but this mostly due to the acquisition of LinkedIn.

In terms of growth, Microsoft has constantly exceeded in this area. They have kept a very strong operating margin of 32%. Their revenue growth shows great promise, especially for a company as large as it is. From 2017 to 2018 they saw a YOY revenue growth of 22.69%. The five-year average for revenue growth is 7.23% and should continue to grow as they continue to penetrate and develop in current emerging technology markets.

Risk

With significant growth potential, there is a significant risk of not living up to expectation. Many of Microsoft Competitors are some of the largest companies in the world by market capitalization. With cloud computing and services being a hot field currently, significant capital is being invested by companies such as Google, and Facebook to become clear market-leaders. Currently, Amazon is the largest leader, with AWS but Microsoft Azure has been a clear strong competitor.

Management

The current Chief Executive Officer of Microsoft is Satya Nadella. He has been working for Microsoft for the past 20 years and most notably working in divisions that focus on the cloud. Many of the board members at Microsoft have significant experience in the technology sector such as John Thompson who served as an executive for Symantec and IBM.

Valuation Modeling

Look at DCF Model sheet