

Raimo Lenschow, CFA	+1 212 526 2712	<a href="mailto:raimo.lenschow@barclays.com">raimo.lenschow@barclays.com</a>	BCI, US	Completed: 26-Oct-21, 20:37 GMT
Frank Surace	+1 212 526-5143	<a href="mailto:frank.surace@barclays.com">frank.surace@barclays.com</a>	BCI, US	Released: 26-Oct-21, 20:37 GMT
Robert Arancio	+1 212 526 7604	<a href="mailto:robert.arancio@barclays.com">robert.arancio@barclays.com</a>	BCI, US	

## Microsoft Corp.

# First Take - Fastest Growth In Years Driven By Strength Across The Board

**Stock Rating/Industry View:** Overweight/Positive

**Price Target:** USD 345.00

**Price (25-Oct-2021):** USD 308.13

**Potential Upside/Downside:** 12%

**Tickers:** MSFT

Microsoft delivered better-than-expected Q1 FY22 results (see difference table below). All three business segments showed revenue ahead of consensus and the all-important Azure growth of 48% (YoY in constant currency) accelerated from previous quarters (45% in Q4 FY21). Strong numbers were expected, and MSFT did not disappoint, but there might be limited follow-through for the shares in the short term. We continue to like the story, and 20% YoY (in cc) revenue growth at the current scale, with even faster profit growth due to leverage, remains very impressive.

Commercial cloud revenue increased to \$20.7bn (+34% y/y) versus the previous quarter of \$19.5bn (+36% y/y). Looking at the different segments within Business and Productivity, Commercial Office and Cloud Services numbers were +18% y/y (+16% cc), versus our expectation of +14.6%. Office 365 commercial revenue was +23% (+21% in cc) compared to our estimate of +20.6%. Consumer Office revenue was +10% y/y (+8% in cc), above our expectation of +7.4%. The Intelligent Cloud segment saw some upside to consensus as well, driven by Server & Tools including Azure, which was up 35% (+33% cc) vs. our +31.0% estimate. Azure growth accelerated to 48% cc growth (on a y/y basis), versus +45% (cc) last quarter. Finally, the MPC segment also drove a beat due to Advertising being up 40% on y/y basis (+39% in cc).

### Summary of Results vs. Our and Consensus Estimates

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### Mentioned Stocks (Ticker, Date, Price)

**Microsoft Corp.** (MSFT, 25-Oct-2021, USD 308.13), Overweight/Positive, CD/CE/D/J/K/L/M/N

**Valuation Methodology:** Our PT of \$345 is based on EV/FCF multiple of 35x and CY23 FCF of \$73bn.

**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** The emergence of cloud computing, virtualization and new non-PC form factors such as tablets and smart phones represent ongoing risks to Microsoft's business model and underlying profitability. Increased investment spend in long-term growth initiatives such as search and mobile could also cause margins to come under significant pressure.

### Ratings and Price Target History:

Microsoft Corp.

Currency=USD



MSFT

Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
15-Sep-2021	304.82		345.00
27-Jul-2021	286.54		330.00
23-Jul-2021	289.67		325.00
28-Apr-2021	254.56		288.00
27-Jan-2021	232.90		269.00
28-Oct-2020	202.68		250.00
23-Oct-2020	216.23		249.00
20-Jul-2020	211.60		234.00
30-Apr-2020	179.21		204.00
30-Jan-2020	172.78		190.00
10-Jan-2020	161.34		175.00
01-Nov-2019	143.72		168.00
24-Oct-2019	139.94		155.00
25-Apr-2019	129.15		152.00
12-Apr-2019	120.95		132.00
31-Jan-2019	104.43		120.00

On 26-Oct-2018, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 121.00.

Source: Bloomberg, Barclays Research

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