

MICROSOFT CORPORATION (NASDAQ: MSFT)

FORM 10-K ANNUAL REPORT - FISCAL 2024

SELECTED EXCERPTS FOR INVESTMENT ANALYSIS

Filing Date: July 31, 2024

Fiscal Year Ended: June 30, 2024

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BUSINESS OVERVIEW

Microsoft Corporation develops, licenses, and supports a wide range of software products, services, and devices. Our platforms and tools help drive small business productivity, large business competitiveness, and public-sector efficiency. They also support new startups, improve educational and health outcomes, and empower human ingenuity.

We operate through three segments: Productivity and Business Processes, Intelligent Cloud, and More Personal Computing. Our products include operating systems; cross-device productivity applications; server applications; business solution applications; desktop and server management tools; software development tools; and video games.

Strategic Focus Areas: - **Artificial Intelligence:** Integrating AI capabilities across all product lines and services - **Cloud Computing:** Expanding Azure platform and hybrid cloud solutions - **Digital Transformation:** Enabling organizations to modernize operations and workflows - **Security:** Providing comprehensive security solutions across cloud and on-premises environments

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal 2024 Financial Performance Summary

Total Revenue: \$245.1 billion (increased 16% from fiscal 2023) **Operating Income:** \$109.4 billion (increased 23% from fiscal 2023) **Net Income:** \$88.1 billion (increased 20% from fiscal 2023) **Diluted Earnings Per Share:** \$11.80 (increased 20% from fiscal 2023)

Fiscal year 2024 was marked by continued momentum across our three segments, driven by strong demand for our cloud services, productivity applications, and AI-powered solutions.

Segment Performance Analysis

Productivity and Business Processes: \$69.3 billion revenue (12% increase)

- Microsoft 365 Commercial products and cloud services revenue increased 13% - Microsoft Teams usage continuing to expand globally with 320 million monthly active users - LinkedIn revenue increased 10% with member growth reaching 1 billion users - Dynamics 365 revenue increased 19% driven by continued digital transformation initiatives

Intelligent Cloud: \$87.9 billion revenue (19% increase)

- Azure and other cloud services revenue increased 31% - SQL Server products and cloud services revenue increased 5% - Windows Server products and cloud services revenue increased 2% - Enterprise Services revenue increased 3%

More Personal Computing: \$54.7 billion revenue (17% increase) - Windows Commercial products and cloud services revenue increased 11% - Windows Consumer revenue increased 4% - Xbox content and services revenue increased 50% - Surface revenue decreased 11% due to continued market headwinds - Search and news advertising revenue increased 23%

ARTIFICIAL INTELLIGENCE STRATEGY

Microsoft's AI strategy centers on building the most comprehensive AI platform, spanning infrastructure, models, tools, and applications. We continue to invest in AI research and development while democratizing access to AI capabilities.

Key AI Initiatives

Microsoft Copilot: Our AI-powered assistant integrated across Microsoft 365, Windows, and Edge - Copilot for Microsoft 365 adopted by over 65% of Fortune 500 companies - Copilot usage driving increased customer engagement and productivity gains - Expanding Copilot capabilities to additional business applications and workflows

Azure AI Platform: Comprehensive cloud-based AI services and infrastructure - Azure OpenAI Service providing enterprise access to large language models - Azure Machine Learning platform supporting custom model development - Cognitive Services offering pre-built AI capabilities for developers

AI Infrastructure Investment: - Increased capital expenditure to \$44.5 billion in fiscal 2024, primarily for cloud and AI infrastructure - Expanding global datacenter footprint to support AI workloads - Partnership with NVIDIA and other hardware providers for specialized AI computing

RISK FACTORS

Technology and Development Risks

Rapid Technological Change: The technology industry is characterized by rapid change and the constant introduction of new products and services. Our future success depends heavily on our ability to develop innovative products and services.

Artificial Intelligence Risks: - AI systems may produce biased, inaccurate, or harmful outputs - Regulatory scrutiny of AI technologies may impact development and deployment - Competition in AI capabilities from other technology companies - Data privacy and security concerns related to AI training and inference

Cybersecurity and Data Privacy

Security Threats: We face constant cyber threats targeting our systems, products, and customer data. Successful cyber attacks could result in: - Theft of intellectual property and confidential information - Disruption of business operations and customer services - Regulatory penalties and legal liabilities - Damage to reputation and customer trust

Data Privacy Regulations: We are subject to varying data privacy laws across global jurisdictions: - European Union General Data Protection Regulation (GDPR) - California Consumer Privacy Act (CCPA) and related state laws - Evolving international data localization and cross-border transfer requirements - Potential conflicts between different regulatory frameworks

Competition and Market Position

Intense Competition: We compete with companies of various sizes across all our businesses: - **Cloud Computing:** Amazon Web Services, Google Cloud Platform, and other providers - **Productivity Software:** Google Workspace, Slack, Zoom, and specialized applications - **Operating Systems:** Apple macOS, Google Chrome OS, and various Linux distributions - **Gaming:** Sony PlayStation, Nintendo, and emerging cloud gaming platforms

International Operations and Geopolitical Risks

Global Operations Complexity: We derive significant revenue from international markets, exposing us to various risks: - Foreign currency exchange rate fluctuations - Changes in international trade policies and tariffs - Political instability and economic uncertainty - Compliance with diverse regulatory requirements

China Market Challenges: - Regulatory restrictions on technology transfers and data handling - Competition from domestic Chinese technology companies

- Potential impacts from U.S.-China trade tensions - Cybersecurity regulations affecting cloud services operations

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG)

Environmental Sustainability

Carbon Negative by 2030: Microsoft has committed to being carbon negative by 2030 and removing all historical emissions by 2050.

Key Environmental Initiatives: - Achieved carbon negativity in fiscal 2024, two years ahead of schedule - \$1 billion Climate Innovation Fund supporting breakthrough climate technologies - 100% renewable energy across all datacenters and campuses achieved in fiscal 2024 - Water positive commitment to replenish more water than we consume by 2030

Social Impact and Responsibility

Digital Skills and Inclusion: - Microsoft Digital Skills Initiative providing free learning resources - Accessibility features integrated across all products and services - Support for nonprofit organizations through technology grants and donations - AI for Good program applying AI to solve global challenges

Corporate Governance

Board Oversight: Strong independent board oversight of strategy, risk management, and executive compensation - 11 of 12 board members are independent - Regular executive sessions without management present - Annual board and committee effectiveness assessments

FINANCIAL POSITION AND CAPITAL ALLOCATION

Balance Sheet Strength

Cash and Short-term Investments: \$75.0 billion as of June 30, 2024 **Total Debt:** \$47.5 billion

Shareholders' Equity: \$206.2 billion **Total Assets:** \$512.2 billion

Capital Allocation Strategy

Research and Development: \$29.5 billion investment in fiscal 2024 (12% of revenue) - Focused on cloud computing, AI, security, and productivity solutions - Increased investment in AI research and development capabilities - Support for open source and academic research partnerships

Shareholder Returns: - Quarterly dividend of \$0.75 per share (10.4% increase from prior year) - \$16.1 billion in share repurchases during fiscal 2024 - Consistent track record of returning capital to shareholders through economic cycles

Strategic Investments and Acquisitions: - Selective acquisitions to enhance technological capabilities and market presence - Strategic partnerships with technology companies and startups - Investment in emerging technologies and business models

FORWARD-LOOKING STATEMENTS AND OUTLOOK

Growth Drivers and Strategic Priorities

AI Integration and Monetization: - Expanding Copilot adoption across enterprise and consumer segments - Developing new AI-powered products and services - Enhancing Azure AI platform capabilities and market reach

Cloud Infrastructure Expansion: - Continued investment in global data-center footprint - Enhanced hybrid cloud and edge computing capabilities - Focus on industry-specific cloud solutions and vertical markets

Digital Transformation Acceleration: - Supporting organizations' modernization efforts across industries - Expanding partner ecosystem and marketplace offerings - Integration of security, compliance, and governance capabilities

Key Financial Expectations

Revenue Growth: Continued double-digit growth expected across cloud and productivity segments **Operating Leverage:** Improving operating margins through scale and efficiency gains **Capital Investment:** Sustained infrastructure investment to support long-term growth **Cash Generation:** Strong free cash flow generation supporting capital allocation priorities

COMPETITIVE ADVANTAGES AND MARKET POSITION

Technology Platform Integration

Comprehensive Technology Stack: End-to-end solutions spanning infrastructure, platform, and application layers **Cross-Product Synergies:** Integration benefits driving customer adoption and retention **Enterprise Relationships:** Deep customer relationships built over decades of partnership

Innovation Capabilities

Research and Development Excellence: Leading investment in breakthrough technologies **Talent Acquisition:** Attracting top technical talent in competitive markets **Partner Ecosystem:** Extensive network of technology and channel partners

Scale and Financial Resources

Global Infrastructure: Worldwide datacenter presence supporting local and global customers **Financial Strength:** Strong balance sheet enabling strategic investments and acquisitions **Market Position:** Leadership positions in multiple large and growing technology markets

This excerpt represents selected portions of Microsoft Corporation's Form 10-K filing and should not be considered a complete analysis. Investors should review the complete filing available on the SEC's EDGAR database for comprehensive information.

Source: Microsoft Corporation Form 10-K filing with the Securities and Exchange Commission