MICROSOFT CORP

Microsoft is the world's largest independent software developer. The company was founded on the MS Windows operating system and MS Office business applications suite for PCs. As it has grown, Microsoft has expanded into enterprise software with Windows Server, SQL Server, Dynamics CRM, SharePoint, Azure, and Lync; hardware with the Xbox gaming/media platform and the Surface tablet; and online services through MSN and Bing. Microsoft acquired Skype, the internet VoIP communications service, in October 2011. More than 50% of revenue is generated outside the U.S.

Analyst's Notes

Analysis by Joseph Bonner, CFA, May 1, 2025

ARGUS RATING: BUY

- GenAI spend criticism quiets after strong March quarter
- Microsoft reported 19% EPS growth on 13% revenue growth in fiscal 3Q25. The company continued to see consistent demand through April.
- Azure Cloud within Microsoft's Intelligent Cloud segment is driving robust revenue growth.
- Microsoft is doubling down on generative AI, ramping investments in the area both internally and by diversifying outside investments in AI start-ups.
- We are raising our FY25 EPS estimate to $13.39 from $13.21 and maintaining our FY26 forecast at $15.20.

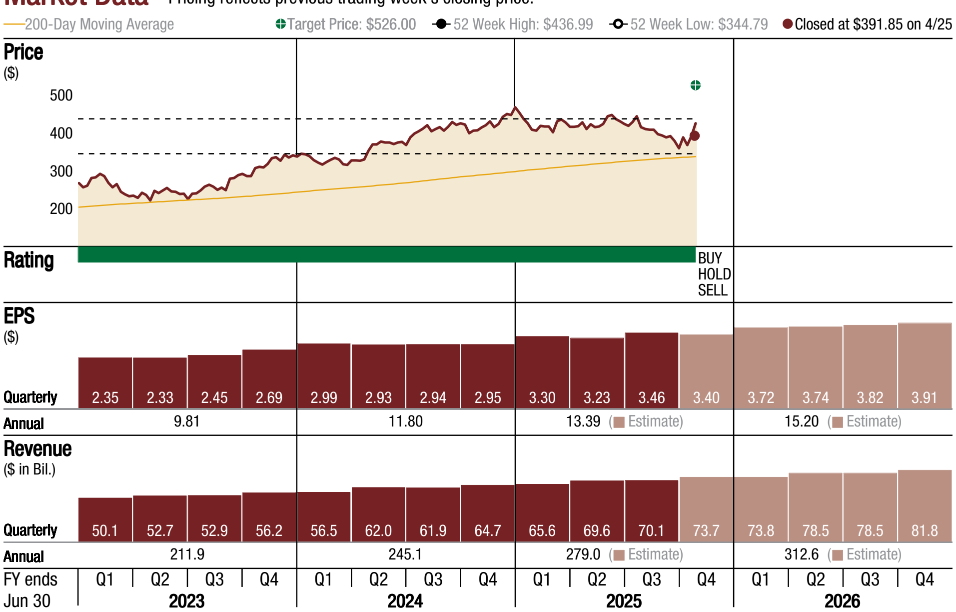
INVESTMENT THESIS

We are maintaining our BUY rating on Microsoft Corp. (NGS: MSFT) with a target price of $526. Microsoft continues to pursue long-term growth through its AI and cloud investments. CEO Satya Nadella sees GenAI as a rare change to a fundamental computing paradigm, and Microsoft is moving to exploit the opportunities opened by Gen AI as quickly as possible, as demand currently outstrips the supply of its cloud services. The company's strong fiscal 3Q and 4Q guidance, may quieted market fears around the ramping costs and investments in Microsoft's GenAI infrastructure as it races against competitors Alphabet and Meta, as well as a host of smaller AI startups, to develop the new GenAI models/applications that may drive the emerging GenAI market as a whole.

Although not immune to macroeconomic challenges (such as declines in the PC OEM market and in digital advertising), Microsoft has about as diversified and strong a set of assets as any company in the technology industry - and may even be seen as a safe haven by investors in uncertain times. The company is one of few names with a complete, integrated commercial product set aimed at enterprise efficiency, cloud transformation, collaboration, and business intelligence. It also has a large and loyal customer base, a substantial cash cushion, and a rock-solid balance sheet.

Market Data

Pricing reflects previous trading week's closing price.



Argus Recommendations

Twelve Month Rating	SELL	HOLD	**BUY**
Five Year Rating	SELL	HOLD	**BUY**
Sector Rating	Under Weight	Market Weight	**Over Weight**

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 73% Buy, 26% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	$425.40
Target Price	$526.00
52 Week Price Range	$344.79 to $468.35
Shares Outstanding	7.43 Billion
Dividend	$3.32

Sector Overview

Sector	Information Technology
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	29.60%

Financial Strength

Financial Strength Rating	HIGH
Debt/Capital Ratio	26.7%
Return on Equity	32.5%
Net Margin	35.8%
Payout Ratio	0.25
Current Ratio	1.27
Revenue	$270.01 Billion
After-Tax Income	$96.64 Billion

Valuation

Current FY P/E	31.77
Prior FY P/E	36.05
Price/Sales	11.71
Price/Book	9.82
Book Value/Share	$43.30
Market Capitalization	$3.16 Trillion

Forecasted Growth

1 Year EPS Growth Forecast	13.47%
5 Year EPS Growth Forecast	12.00%
1 Year Dividend Growth Forecast	10.67%

Risk

Beta	1.00
Institutional Ownership	71.80%

Please see important information about this report on page 7

Analyst's Notes ...Continued

Market concerns over GenAI spending have hit MSFT shares over the last year, as the company trades at or at the low end of averages on some valuation metrics. Microsoft is also one of the only Tech companies in our coverage group that pays a growing dividend that we consider safe.

RECENT DEVELOPMENTS

Microsoft reported results for fiscal 3Q25 (ended March 31) on April 30 after market close. Revenue beat the high end of the company's guidance range by $1.4 billion and consensus by $2.2 billion. Adjusted EPS beat the consensus estimate by $0.25. Management noted on the 3Q call that 'demand signals' across its commercial businesses 'remained consistent' through April (i.e., that Microsoft has not seen a falloff in demand resulting from the new U.S. tariff regime). While we think it is still early days and that the company's More Personal Computing segment is especially vulnerable to both high tariffs and if the macroeconomy turns south, management stressed that Microsoft's productivity focused software is highly relevant in more volatile business conditions. MSFT shares rose a remarkable 9% intraday on May 1, far outpacing the S&P's year-to-date performance and moving closer to par over the last year.

Fiscal third-quarter revenue rose 13% year over year, to $70.07 billion. Negative foreign exchange movements shaved two percentage points from revenue growth. Microsoft Cloud revenue rose 20%, slipping another point sequentially. The Intelligent Cloud segment again led the way in 2Q, with 21% growth, highlighting the traction of the company's Azure cloud and artificial intelligence applications in the market as Productivity and Business Processes increased 11%. Azure and other cloud services grew 33%, slipping two percentage points year over year but continuing to evidence robust demand, with AI services contributing 16 percentage points of growth. Demand for AI services remains higher than available capacity. Microsoft is all-in on continuing to enhance its cloud solutions through integrating new artificial intelligence (AI) systems across its product portfolio, with a particular emphasis on its cloud solutions. The Productivity and Business Processes segment's 11% revenue growth was driven by Microsoft 365 Commercial and Cloud revenue, which was up 12%. The E5 application bundle and Microsoft 365 Copilot, an AI assistant, again boosted ARPU growth which management expects to continue in the June quarter. The More Personal Computing segment saw 6% revenue growth driven by 21% growth in Search and news advertising. Windows OEM and Devices revenue rose 3% due to commercial inventory builds prior to the new U.S. tariff regime.

The consolidated gross margin was 68.7%, down 140 basis points from the prior-year quarter as the company continues to scale its AI infrastructure to meet demand. We expect these elevated infrastructure cost to continue in 2025. Operating income rose 16% to $32 billion, $1.65 billion above the high end of its guidance as operating margin expanded by 110 basis points to

Growth & Valuation Analysis

GROWTH ANALYSIS

($ in Millions, except per share data)	2020	2021	2022	2023	2024
Revenue	143,015	168,088	198,270	211,915	245,122
COGS	46,078	52,232	62,650	65,863	74,114
Gross Profit	96,937	115,856	135,620	146,052	171,008
SG&A	24,709	25,224	27,725	30,334	32,065
R&D	19,269	20,716	24,512	27,195	29,510
Operating Income	52,959	69,916	83,383	88,523	109,433
Interest Expense	-89	215	-31	-1,026	-222
Pretax Income	53,036	71,102	83,716	89,311	107,787
Income Taxes	8,755	9,831	10,978	16,950	19,651
Tax Rate (%)	17	14	13	19	18
Net Income	44,281	61,271	72,738	72,361	88,136
Diluted Shares Outstanding	7,683	7,608	7,540	7,472	7,469
EPS	5.76	8.05	9.65	9.68	11.80
Dividend	1.99	2.19	2.42	2.66	2.93
GROWTH RATES (%)					
Revenue	13.6	17.5	18.0	6.9	15.7
Operating Income	23.3	32.0	19.3	6.2	23.6
Net Income	12.8	38.4	18.7	-0.5	21.8
EPS	13.8	39.8	19.9	0.3	21.9
Dividend	10.6	10.1	10.5	9.9	10.2
Sustainable Growth Rate	27.8	37.0	31.4	28.8	26.8
VALUATION ANALYSIS					
Price: High	$232.86	$349.67	$338.00	$384.30	$468.35
Price: Low	$132.52	$211.94	$213.43	$219.35	$366.50
Price/Sales: High-Low	12.5 - 7.1	15.8 - 9.6	12.9 - 8.1	13.6 - 7.7	14.3 - 11.2
P/E: High-Low	40.4 - 23.0	43.4 - 26.3	35.0 - 22.1	39.7 - 22.7	39.7 - 31.1
Price/Cash Flow: High-Low	27.0 - 15.3	32.4 - 19.6	29.0 - 18.3	30.2 - 17.2	28.6 - 22.4

Financial & Risk Analysis

FINANCIAL STRENGTH	2022	2023	2024
Cash ($ in Millions)	13,931	34,704	18,315
Working Capital ($ in Millions)	74,602	80,108	34,448
Current Ratio	1.78	1.77	1.27
LT Debt/Equity Ratio (%)	35.1	26.5	21.7
Total Debt/Equity Ratio (%)	36.8	29.1	25.0
RATIOS (%)			
Gross Profit Margin	68.4	68.9	69.8
Operating Margin	42.1	41.8	44.6
Net Margin	36.7	34.1	36.0
Return On Assets	20.8	18.6	19.1
Return On Equity	47.2	38.8	37.1
RISK ANALYSIS			
Cash Cycle (days)	-5.2	-5.4	-10.9
Cash Flow/Cap Ex	3.7	3.1	2.7
Oper. Income/Int. Exp. (ratio)	41.6	46.4	37.7
Payout Ratio	25.1	26.7	26.4

Please see important information about this report on page 7

Analyst's Notes ...Continued

45.7%, which management attributed to cost efficiencies across its businesses. Diluted EPS rose 18% to $3.46.

Microsoft will hold its annual Build conference for software developers May 19-22. The company typically announces new or contemplated innovations, products, and features around this conference.

On January 21, in a splashy White House event, Microsoft partner OpenAI announced a project called Stargate aimed at developing new data centers to support that company's GenAI development efforts. As OpenAI's largest investor, Microsoft's absence from the event was somewhat conspicuous, even considering that the Stargate project had already been underway for many months before the announcement. Press reports indicate that Microsoft and OpenAI have been at odds over the amount of compute that Microsoft is willing to allocate to OpenAI, and due to friction between OpenAI staff and Microsoft's in-house AI division, helmed by renowned AI researcher Mustafa Suleyman. Microsoft's blog post around the Stargate event ensured that Microsoft's partnership with OpenAI continues, and particularly its exclusivity to OpenAI's application program interfaces (API's), though Microsoft's provision of compute capacity has changed from exclusive to right of first refusal. While the OpenAI partnership continues through 2030, an eon in GenAI time, it is clear to us that Microsoft has already been hedging its bets on OpenAI for some time, at least since the OpenAI Board turmoil in late 2023. Note the hiring of Mr. Suleyman in March 2024. What is also becoming clearer over time is that, while OpenAI may be most interested in expanding the frontiers of GenAI and its consumer application, ChatGPT, Microsoft may be more interested in the more mundane issue of how GenAI applications can cost-efficiently serve its enterprise customers. In any event, Microsoft's investments in GenAI continue to ramp. In a January 3 blog post, Microsoft announced plans to invest $80 billion to build AI data centers, train AI models, and deploy AI and cloud-based applications globally.

EARNINGS & GROWTH ANALYSIS

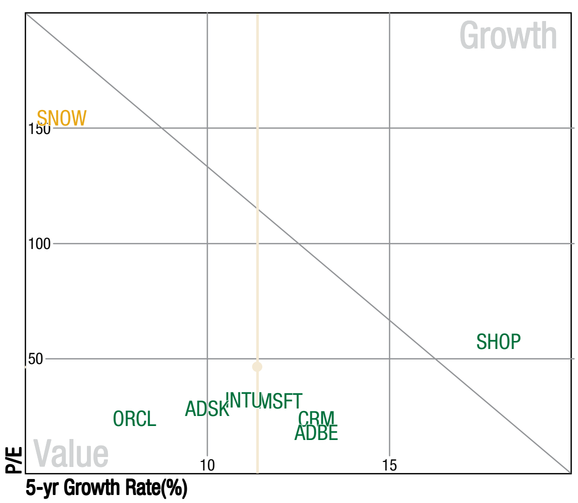
We are raising our FY25 EPS estimate to $13.39 from $13.21 and maintaining our FY26 forecast at $15.20. Our EPS estimates imply 13.5% growth over the next two years. Our long-term earnings growth rate is 12%.

As we have noted, Microsoft continues to invest heavily around scaling the company's AI infrastructure, mainly data centers and servers. Management noted on the 3Q call that Microsoft will continue to grow capex spend in FY26 though at a slower rate than in FY25. For the first nine months that rate was 55%. Microsoft is investing to meet growing demand, acquire share in the new market for AI cloud services, and push the envelope on advancing its partner OpenAI's and its own GenAI applications. The FY26 increase and management's comments that it will be increasing investments in short-lived assets imply that the company will continue to try to catch up to demand in FY26 and that the

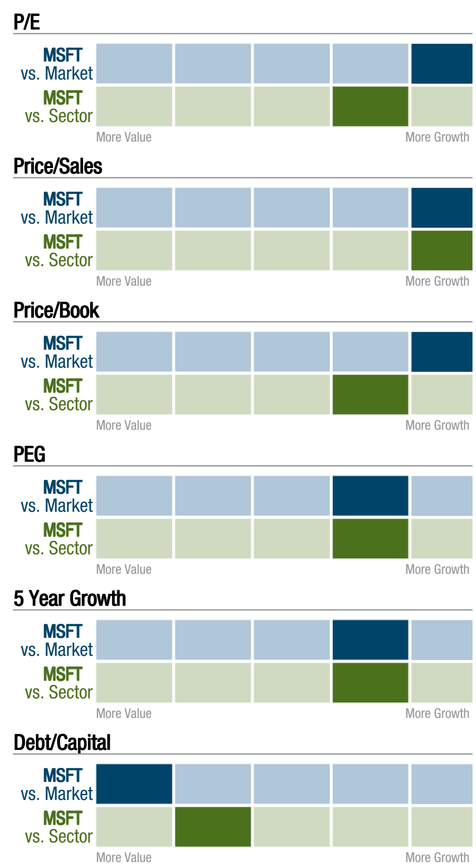
Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare MSFT versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how MSFT stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how MSFT might fit into or modify a diversified portfolio.**



Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
MSFT	Microsoft Corporation	3,161,804	12.0	31.8	35.8	13.5	BUY
ORCL	Oracle Corp.	407,988	8.0	24.2	21.8	15.5	BUY
CRM	Salesforce Inc	258,415	13.0	24.1	16.4	10.2	BUY
INTU	Intuit Inc	174,220	11.0	32.2	17.7	12.2	BUY
ADBE	Adobe Inc	159,667	13.0	18.2	30.6	13.0	BUY
SHOP	Shopify Inc	118,140	18.0	57.7	22.7	25.6	BUY
ADSK	Autodesk Inc.	58,253	10.0	28.6	18.1	13.7	BUY
SNOW	Snowflake Inc	55,247	6.0	154.5	-35.5	54.2	HOLD
Peer Average		**549,217**	**11.4**	**46.4**	**16.0**	**19.7**	



Please see important information about this report on page 7

Analyst's Notes ...Continued

payoff from these investments may be more rapid than its earlier ones. GenAI may indeed be the next computing paradigm, and therefore a critical area of investment. Although the release of the Chinese DeepSeek GenAI model earlier this year created a real hiccup for Microsoft, fears of a cheap Chinese competitor undercutting its AI business have receded.

Azure revenue growth has become a key metric for Microsoft, watched closely by investors. The first step was Microsoft's rapid rollout of new GenAI assistants, 'Copilots,' integrated across its tech stack, particularly in its Azure cloud service, though also including its Bing search engine, among others. Microsoft is now leaping onto the next wave of GenAI, 'Agentic AI,' the use of semi-autonomous GenAI agents that have a deeper understanding of context and can accomplish more complex tasks without the need for human queries and direction.

Microsoft expects to continue making priority investments where it has a 'long-term structural advantage.' We see this as most applicable to enterprise cloud. The company's strategic imperative has been to help businesses and consumers become more productive; Mr. Nadella views the demand for productivity as even greater in a challenging macroeconomic environment and sees an opportunity for Microsoft to take share. Mr. Nadella is also looking to drive 'operational leverage' (read cost cutting), something that was evident in the 3Q25 operating margin expansion despite erosion in gross margin resulting from those GenAI infrastructure costs.

Microsoft sees its Azure cloud as a competitive advantage for enterprise hybrid on-premise/cloud environments. Its new software-as-a-service (SaaS) products from Office 365 to Azure also enable the company to reach small- and medium-sized business customers. Initially, customers may subscribe for Azure cloud computing power and storage and then move onto the AI-powered 'intelligent edge' platforms. Microsoft even introduced an (AI) Model as a service in Azure in December 2023. Mr. Nadella has refocused the company on investments in core commercial business productivity and platform development. This includes business systems such as the company's Azure cloud service, Dynamics 365, SQL Server, Office 365, and new products such as Teams. Meanwhile, traditional stalwarts like Windows have faded, and have essentially been downgraded.

While business productivity is undoubtedly Microsoft's core business, the company has moved aggressively in the separate area of consumer video gaming. Its Xbox series consoles have gone through many upgrade cycles, but management may see the future of videogaming in cloud-subscription games. The new paradigm of cloud subscriptions may depend on a steady stream of new high-quality content. This realization may have led management to acquire a series of videogame content companies, including the small ZeniMax Media acquisition in 2021 and the blockbuster $69 billion Activision Blizzard acquisition in October 2023. Microsoft's videogame strategy may also support possible ambitions around the metaverse, i.e., a fully realized digital world.

Microsoft invested $1 billion in GenAI leader OpenAI in 2019, becoming its preferred partner for commercializing OpenAI technologies. In January 2023, the company announced a new phase in this strategic partnership. Tech industry news site Semafor reported that Microsoft was in discussions regarding an additional $10 billion investment in OpenAI as part of a new funding round, valuing the start-up at a remarkable $29 billion, with 49% ownership. While Microsoft has been silent on the actual terms of the deal, we think that, at a minimum, it is giving OpenAI substantial compute usage credits for its Azure Cloud Services. Indeed, OpenAI's use of Microsoft's Azure Cloud Services creates a key strategic partnership given OpenAI's large and growing demand for compute services. CEO Nadella has made clear that Microsoft is interested in integrating ChatGPT AI across its product portfolio and tech stack, originally in the form of 'copilot' services but also through its Azure Cloud compute service. It announced the general availability of Azure OpenAI Service on January 16, 2023. GitHub Copilot is another AI-powered tool for developers that is also in general release. In March 2023, Microsoft announced plans to launch a cybersecurity copilot, and in October of 2023 announced that an early access program was open to qualified customers. Despite the excitement around ChatGPT, this application is in its infancy (for example, it has been easily fooled and has at times given the wrong answers - something Mr. Altman has readily admitted). However, given the iterative nature of artificial intelligence improvements, what Mr. Nadella calls 'nonlinear improvements in capability of foundation models,' ChatGPT or a follow-on technology could, over time, become both a boon to Microsoft and a threat to other tech industry leaders such as Alphabet/Google. Microsoft's large investments in the technology put it on the right side of history as AI grows in capacity, accuracy, and importance.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Microsoft is High, the top of our five-point scale. Total debt stood at $42.9 billion at the end of fiscal 3Q25 with $3 billion due within the next year. Microsoft had $79.6 billion in cash and near cash, significantly above its level of total debt, which is remarkable; very few companies would be able to retire all their debt in one fell swoop. Trailing 12-month free cash flow was $69.4 billion, down 2% or about $1.2 billion year over year. Microsoft is triple A-rated/stable by the credit agencies with stable outlooks.

Microsoft's quarterly cash dividend is $0.83 per share, or $3.32 annually. The forward dividend yield is 0.73%. Our FY25 dividend estimate is $3.32 and our FY26 forecast is $3.65. The company has consistently raised the dividend over the last five years at a compound annual growth of 10%.

Microsoft repurchased $13.9 billion of its stock in the first nine months of fiscal 2025, so is on pace after buying back $17.25 billion in FY24; $22.25 billion in FY23; $32.7 billion in FY22, $27.4 billion in FY21, and $23 billion in FY20.

MANAGEMENT & RISKS

PC demand has been volatile, impacting Microsoft's key Windows operating system business. Microsoft remains exposed to macroeconomic risk and the risk that enterprises could cut back on technology spending in response to economic weakness. Windows OEM and Devices revenue rose 3% in fiscal 3Q25, driven by the industry building inventories prior to the imposition of the new U.S. tariff regime. Whatever may happen to the tariffs, the inventory build may have pulled forward demand from upcoming quarters. The company's Bing search engine and LinkedIn professional networking website are particularly exposed to volatility in advertising spend due to their high correlation with macroeconomic factors.

Investors in Microsoft face potential losses if the company's

Please see important information about this report on page 7

Analyst's Notes ...Continued

operating performance falls short of expectations. For example, Microsoft took a $7.5 billion write-off for Nokia Devices and Services (NDS), writing down 80% of the purchase price in a little more than a year following the acquisition. The company has also taken additional large write-offs, including the $450 million charge related to the closure of its retail store locations. Microsoft's $1.17 billion fiscal 2Q23 write-off was just one more example. Other risks include the migration of consumers away from the PC to mobile devices that do not use a Microsoft-based operating system (e.g., Apple's iPad); the potential for a prolonged downturn in global software investment spending; the well-publicized security vulnerabilities in the company's products; the possible adoption of Linux and/or other open-source software applications; increased competition in the internet space; and legal risks. The ubiquity of Microsoft systems throughout government and industry has made its systems a prime target for both state and non-state cyber attackers and led to an unfortunate series of successful hacks. Also, the pirating of the company's software in developing markets, such as China and India, is an ongoing problem, and represents huge missed revenue opportunities for Microsoft. Another risk is management's ability to execute its business plan and deliver new products on schedule.

Microsoft is again facing mounting regulatory antitrust pressure in the U.S., EU, and UK. On October 5, 2023, the UK Competition and Markets Authority (CMA) announced a new investigation of cloud services offered by cloud market leader AWS and second-place Microsoft. The UK regulators found that AWS and Microsoft together comprise 70%-80% of the market for cloud infrastructure services in the UK They are focused on the so-called egress fees that cloud services companies charge customers to transfer data out of a particular cloud, the lack of interoperability and portability between different providers, and the committed-spend discount incentives to stay with a given provider. This CMA investigation was followed by a private antitrust lawsuit filed with the CMA in December 2024 claiming unfair competition along the same lines as the investigation, to the tune of $1.27 billion in damages.

On June 25, 2024, the European Commission sent a 'Statement of Objections' to Microsoft alleging in a preliminary finding that Microsoft breached EU antitrust rules by tying its Teams application to its cloud-based Office 365 and Microsoft 365 business productivity software suites. This was exacerbated by relative interoperability disadvantages of competitors versus the Teams integration with Microsoft's software suites. According to the EC, these actions prevented competition to the detriment of the EU. If the EC decides that the allegations against Microsoft are valid, it can make a rule prohibiting the conduct, impose a fine of up to 10% of annual global Microsoft revenue (over $10 billion), and impose other remedies.

The New York Times sued OpenAI and Microsoft for copyright infringement in federal court on December 27, 2023. The Times claims that OpenAI's ChatGPT application was trained using the Times' articles and offered some compelling examples of ChatGPT query answers that were taken from articles verbatim. As with many technological changes, the status of copyright law around generative AI is currently unsettled, and it may take a court ruling to settle the claims of creators big and small regarding the new technology. Media organizations currently seem split between either litigation with or agreeing to license content to purveyors of GenAI models, including OpenAI/Microsoft, with the Times lawsuit the most prominent to date. We see the investigations as more logs on the fire of antitrust and regulatory backlash against big Tech in the U.S. and abroad.

When Microsoft pulled out of the mobile smartphone market, the company gave up on a critically important vector of future growth that underpins the success of tech titans Apple (iOS) and Alphabet (Android). Microsoft has tiptoed back into phone hardware with a handset that runs on Android. Microsoft could one day find itself and its application ecosystem at the mercy of competitors who control mobile systems and devices. The substantial negative initial impact of Apple's App Tracking Transparency change on iOS 14 for competitive platforms like Facebook and Snapchat, while not impacting Microsoft directly, must have sent a shudder through management in Redmond.

While Microsoft may be the second-largest public cloud provider (excluding China), it has about one-half the market share of industry leader Amazon Web Services, according to industry tracker Gartner.

In the case of the Xbox 360, highly aggressive pricing from both Sony and Nintendo may hamper Microsoft's efforts to generate acceptable long-term profits in this area.

The company also faces intense direct competition from Google in many areas, including internet search, operating system software, internet-based software applications, and generative AI. This competition could potentially erode the dominance of Microsoft's core operating system and Office applications. Google has established itself as the dominant online search player and has leveraged its position to move into direct competition with Microsoft with its Chrome internet browser and operating system software. Microsoft has struck back through an alliance between its internet search engine Bing and Yahoo.

Microsoft noted in a regulatory filing in October 2023 that it had received a notice from the IRS stating it owed an additional $28.9 billion in taxes for the years of 2004-2013 plus penalties and interest. If Microsoft is forced to pay this bill, it could have a material impact on the company's finances. However, Microsoft disputes the amounts owed, asserting that the IRS has not accounted for at least $10 billion in taxes already paid, and is appealing the new tax bill. This will probably take several years to resolve.

Microsoft made a key hire in March 2024 when it announced the appointment of Mustafa Suleyman as EVP and CEO of a new organization called Microsoft AI. Mr. Suleyman was most recently a co-founder of AI startup, Inflection AI, and in 2010 a co-founder of DeepMind, an organization that did foundational research in generative AI and was acquired by Alphabet in 2014. Microsoft is also hiring Inflection AI's cofounder, Karen Simonyan, and other staff. In February, Microsoft became an investor in European AI startup, Mistral. While Microsoft's close relationship with generative AI leader OpenAI remains, the company's recent actions indicate that it is also diversifying its bets in the AI space. The management turmoil at OpenAI in November 2023 that led to first the firing and then rehiring of CEO Sam Altman by a new board among mass resignations may have been a wake-up call for Microsoft management that it needs to de-risk its generative AI strategy by diversifying its access to AI models.

COMPANY DESCRIPTION

Microsoft is the world's largest independent software developer.

Please see important information about this report on page 7

Analyst's Notes ...Continued

The company was founded on the MS Windows operating system and MS Office business applications suite for PCs. As it has grown, Microsoft has expanded into enterprise software with Windows Server, SQL Server, Dynamics CRM, SharePoint, Azure, and Lync; hardware with the Xbox gaming/media platform and the Surface tablet; and online services through MSN and Bing. Microsoft acquired Skype, the internet VoIP communications service, in October 2011. More than 50% of revenue is generated outside the U.S.

VALUATION

Microsoft shares have risen 9% in the last year on a total-return basis, compared to a 14% increase for the S&P 500 and an 18.5% increase for the S&P Information Technology Index. With a trailing enterprise value/EBITDA multiple of 20.4, MSFT trades at the low end of the five-year historical range (20.3-24.4). Microsoft's forward enterprise value/EBITDA multiple of 18.3 is 6% above the peer average, below the average 16% premium over the past two years. We are reaffirming our BUY rating with a target price of $526.

On May 1, BUY-rated MSFT closed at $425.40, up $30.14.

Please see important information about this report on page 7

About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

Argus Research Disclaimer

Morningstar Disclaimer

For Residents of Singapore