

Equity Research Report: Microsoft Corporation

Business Overview

Microsoft Corporation, founded in 1975, is a leading global technology company specializing in software, cloud computing, and hardware solutions. It serves a broad range of markets including enterprise, consumer, and government sectors worldwide. Its key products include Windows operating system, Microsoft 365 productivity suite, Azure cloud platform, LinkedIn, and Xbox gaming consoles. The company's strengths lie in its extensive product ecosystem, dominant market share in enterprise productivity, and robust cloud infrastructure through Azure. Microsoft's integrated offerings support large clients across industries, reinforcing its leadership in cloud services and productivity tools. The company is focused on digital transformation, AI advancements, and expanding cloud and gaming opportunities. Recent initiatives include acquiring Nuance Communications, launching Windows 11, and investing in mixed reality. Microsoft continues to innovate and form strategic partnerships to sustain growth in a competitive and rapidly evolving industry.

Market Position

Key financials for Microsoft show strong revenue growth, increasing 18% year-over-year to 168.1 billion dollars, driven by cloud services, productivity tools, and personal computing segments. Cloud revenue, especially Azure, grew 27%, highlighting the company's cloud dominance. Gross margins improved to 69%, supported by operational efficiencies and changes in equipment useful life estimates. Operating income rose 32% to nearly 70 billion dollars, while net income increased 38% to 61.3 billion dollars, resulting in a diluted earnings per share of 8.05, up 40%. The company's balance sheet reflects a solid asset base of over 512 billion dollars, with manageable liabilities and a healthy current ratio of approximately 1.28. Cash flows from operations remain robust, supporting ongoing investments, share repurchases, and dividends. Overall, Microsoft's financial position demonstrates resilience, profitability, and strong liquidity, underpinning its strategic growth and market leadership.

Operating Results

Microsoft's valuation reflects its strong financial position, with total assets of 512.2 billion and equity of 268.5 billion, indicating solid asset base and shareholder value. The company's consistent revenue growth driven by cloud and digital services, coupled with improved margins and profitability, supports a high earnings multiple. The manageable leverage, with long-term debt at 42.7 billion and a healthy current ratio of approximately 1.28, underscores financial stability. The significant cash flow generation from high-margin cloud segments enhances its capacity for strategic investments and shareholder returns. Overall, Microsoft's resilient balance sheet, strong profitability, and growth prospects justify a premium valuation, positioning it favorably within the technology sector. The company's diversified revenue streams and operational efficiency further reinforce its long-term growth potential and market confidence.

Summarization

FY (USD mn) 2024		2023	2022	2021	2020
Revenue	245,122	211,915	198,270	168,088	143,015
Revenue Growth	15.7%	6.9%	18.0%	17.5%	13.6%
Gross Profit	171,008	146,052	135,620	115,856	96,937
Gross Margin	0.70	0.69	0.68	0.69	0.68
EBITDA	133,009	105,140	100,239	85,134	68,423
EBITDA Margin	0.54	0.50	0.51	0.51	0.48
FCF	74,071	59,475	65,149	56,118	45,234
FCF Conversion	0.84	0.82	0.90	0.92	1.02
ROIC	22.6%	22.9%	26.6%	23.8%	19.0%
EV/EBITDA	25.88	24.36	19.68	24.64	23.47
PE Ratio	38.51	35.04	26.47	33.37	34.97
PB Ratio	12.64	12.30	11.56	14.40	13.09
CFO	118,548	87,582	89,035	76,740	60,675

FinRobot

Team9 - UOA

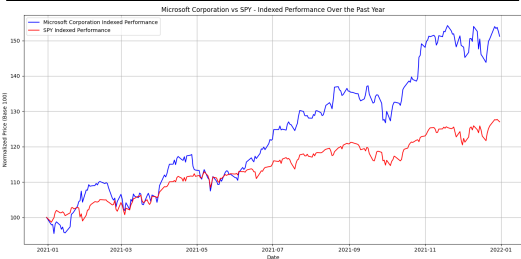
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Report date: 2021-09-03

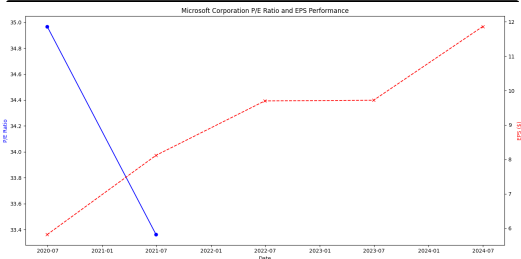
Key data

Rating	B+
Currency	USD
Closing Price (USD)	214.25
Market Cap (USD) (Millions)	3707648.25
52 Week Price Range (USD)	196.25 - 305.84
BVPS (USD)	36.13

Share Performance



PE & EPS



Risk Assessment

Risk assessment for Microsoft highlights several key challenges that the company faces in its operational environment. The technology industry is inherently competitive, with rapid innovation and low barriers to entry creating a highly dynamic landscape. Established firms with extensive R&D resources and agile startups continually disrupt markets, increasing the risk of losing market share. The platform-based ecosystems and network effects further intensify competition, requiring Microsoft to innovate constantly to maintain its position. Additionally, the industry's moderate to high cyclical nature makes Microsoft vulnerable to macroeconomic fluctuations. Economic downturns, inflation, or recession can lead to reduced IT spending by consumers, enterprises, and governments, negatively impacting revenue streams across segments such as hardware, software, and cloud services. This sensitivity to economic cycles underscores the importance of diversification and strategic agility. Cybersecurity threats and data privacy concerns constitute significant operational risks. Evolving and sophisticated cyberattacks, exemplified by incidents like the Solarigate/Nobelium supply chain attack, pose threats to operational continuity and reputation. The company's extensive global operations and reliance on third-party hardware and software components from sole suppliers introduce supply chain vulnerabilities that could disrupt revenue and margins. The financial impact of these risks is amplified by Microsoft's substantial investments in cloud infrastructure and R&D, which are costly and may not generate immediate returns. Regulatory and legal risks also form a critical component of Microsoft's risk profile. The company faces ongoing antitrust scrutiny, government investigations, and the need to comply with complex data protection laws worldwide. These regulatory challenges can impose additional costs, restrict strategic flexibility, and influence market dynamics. Despite these risks, Microsoft's diversified portfolio across productivity software, cloud services, gaming, and hardware provides some downside protection. Long-term contracts, a broad ecosystem of partners, and significant cash reserves bolster its resilience against market volatility and competitive pressures. Overall, Microsoft's risk landscape is multifaceted, requiring continuous strategic adaptation to mitigate industry-specific, macroeconomic, cybersecurity, and regulatory risks effectively.

Competitors Analysis

competitors_analysis for Microsoft indicates a strong and resilient financial position within its sector. The company's profitability, as reflected by stable EBITDA margins, demonstrates effective cost management and operational efficiency, positioning it favorably against peers. Its valuation, indicated by a fluctuating EV/EBITDA ratio, suggests that investors currently assign a premium to Microsoft's growth prospects, although this could imply overvaluation if earnings growth slows. The company's ability to convert earnings into free cash flow has improved, highlighting its financial health and capacity to fund operations, dividends, and investments without excessive reliance on external financing. This cash flow efficiency is a key strength compared to competitors, reinforcing Microsoft's reputation for strong financial discipline. Gross margins have remained stable with slight improvements, underscoring effective pricing strategies and cost controls, which contribute to consistent profitability even amid market fluctuations. The positive trend in return on invested capital indicates that Microsoft is deploying its assets effectively to generate higher returns, a sign of operational excellence and strategic investment. Revenue growth has been steady, with recent periods showing accelerated expansion, driven by successful market penetration, product diversification, and cloud computing growth. This revenue trajectory surpasses many competitors, positioning Microsoft as a leader in its industry. Overall, Microsoft's financial metrics depict a well-managed enterprise with robust profitability, efficient cash flow conversion, and effective capital utilization. Its high market valuation, supported by strong revenue growth and margins, reflects investor confidence in its long-term prospects. However, the elevated EV/EBITDA ratio warrants caution, as it may suggest overvaluation if future earnings do not meet expectations. The company's solid fundamentals and growth trajectory justify a premium valuation, but ongoing monitoring of earnings and cash flow performance is essential to ensure valuation remains aligned with intrinsic value. In summary, Microsoft demonstrates a competitive edge through operational excellence and strategic growth, maintaining a strong position relative to its peers in the technology sector.