

Equity Research Report: Microsoft Corporation

Business Overview

Microsoft Corporation, founded in 1975, is a global leader in technology, specializing in software, cloud computing, and personal devices. Its extensive product portfolio includes Microsoft 365, Azure cloud services, Windows operating systems, LinkedIn, and Xbox gaming. The company serves a diverse customer base, including large enterprises, government agencies, and small to medium-sized businesses across North America, Europe, and Asia. Microsoft's competitive advantages stem from its integrated solutions, vast global data center network, strategic partnerships like OpenAI, and leadership in AI and hybrid cloud technologies. The company is focused on expanding AI capabilities, enhancing cloud infrastructure, and driving digital transformation. Its recent initiatives include launching Windows 11 with AI features and acquiring Activision Blizzard to strengthen its gaming ecosystem. Microsoft continues to innovate and invest in sustainable, secure, and scalable solutions to maintain its industry leadership.

Market Position

Key financials for Microsoft show a strong growth trajectory with revenue reaching 245.1 billion dollars in FY2024, a 16% increase year-over-year, driven mainly by a 22% rise in cloud services. Gross profit increased significantly to 171 billion dollars, resulting in a healthy gross margin of nearly 70%. Operating income grew by 31%, reaching 110.7 billion dollars, supported by effective cost management despite a 5% rise in cost of revenue. Net income stood at 88.1 billion dollars, with profit margins of 36%, reflecting operational efficiency. Earnings per share slightly improved to 11.86 dollars, indicating solid profitability. The company's balance sheet shows total assets of over 512 billion dollars, with manageable liabilities and a strong equity base. Cash and equivalents remain robust at over 111 billion dollars, ensuring liquidity for future investments and shareholder returns. Overall, Microsoft demonstrates resilient financial health with consistent growth and efficient capital management.

Operating Results

Microsoft's valuation reflects its strong revenue growth driven by cloud services, with FY2024 revenue reaching 245.1 billion and net income at 88.1 billion, supporting a high profitability profile. The company's substantial total assets of 512.16 billion and equity of 268.48 billion indicate a solid financial foundation. Its manageable debt levels, including long-term debt of 42.69 billion and net debt of 48.81 billion, combined with a current ratio of approximately 1.27, demonstrate liquidity and prudent leverage. The consistent growth in assets and stable capital structure suggest resilience and capacity for future investments. Elevated margins, efficient cost management, and diversified revenue streams, particularly in cloud and AI, underpin its valuation. Overall, Microsoft's strong financial health, strategic positioning, and growth prospects justify a premium valuation relative to industry peers.

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

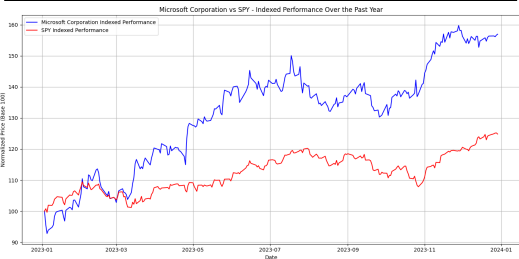
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Report date: 2023-07-27

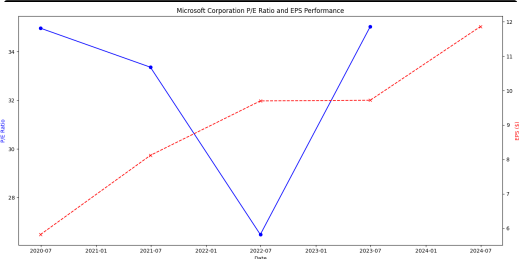
Key data

Rating	B+
Currency	USD
Closing Price (USD)	276.41
Market Cap (USD) (Millions)	3707648.25
52 Week Price Range (USD)	213.43 - 366.78
BVPS (USD)	36.13

Share Performance



PE & EPS



Risk Assessment

Risk assessment for Microsoft highlights three primary areas of concern that shape its overall risk landscape. The first is industry competition and technological disruption, which is particularly intense in the fast-evolving technology sector. The low barriers to entry, rapid innovation cycles, and high volatility mean that established players like Microsoft must continuously invest in research and development to stay ahead. Market entrants, including startups and open-source alternatives, can quickly challenge existing products and business models, increasing the risk of commoditization and shifting user preferences. To mitigate this, Microsoft relies on building robust platform ecosystems, investing heavily in innovation, and leveraging its extensive customer and developer base. Despite these efforts, the rapid pace of technological change ensures that competitive pressures remain a persistent risk. The second significant risk involves cybersecurity and data privacy threats. As a technology company managing vast amounts of sensitive data, Microsoft faces sophisticated cyberattacks from nation-states, organized cybercriminal groups, and supply chain vulnerabilities. These threats can lead to costly data breaches, legal liabilities, regulatory fines, and damage to reputation. The company invests heavily in security infrastructure, threat detection, and incident response to protect against these risks. However, given the increasing complexity and sophistication of cyber threats, these protections may not fully eliminate the risk, making cybersecurity a high-impact, ongoing concern. The third major risk stems from regulatory and legal challenges across multiple jurisdictions. Microsoft operates globally in a landscape marked by evolving laws related to competition, data protection, and AI regulation. The company faces potential fines under GDPR, antitrust investigations, and compliance costs associated with new legal frameworks. These risks can result in product modifications, restrictions, or bans that could materially affect revenue streams. To address this, Microsoft maintains compliance programs and legal oversight, but the rapidly changing legal environment means that uncertainties and potential penalties remain significant. Overall, Microsoft's risk environment is characterized by high stakes driven by rapid technological change, intense competition, sophisticated cybersecurity threats, and complex regulatory landscapes. While the company has implemented measures to mitigate these risks, their persistent and evolving nature requires continuous vigilance and adaptation to sustain its market position and operational resilience.

Competitors Analysis

Competitors_analysis for Microsoft indicates that the company maintains a strong competitive position within its industry. Its financial metrics reveal a pattern of steady improvement and operational resilience. Microsoft's EBITDA Margin has shown consistent growth, reflecting enhanced efficiency and cost management, positioning it favorably against peers, though some competitors still outperform in profitability margins. The EV/EBITDA ratio has fluctuated over recent years, initially high due to growth expectations, but has since stabilized to industry-average levels, suggesting that the company's valuation is now more aligned with its earnings potential. This fair valuation indicates market recognition of Microsoft's stable growth prospects without overvaluation concerns. The company's Free Cash Flow Conversion has improved significantly, demonstrating effective cash management and operational efficiency. This trend underscores Microsoft's ability to translate earnings into cash, a critical factor for sustaining investments and shareholder returns. Its Gross Margin has also consistently increased, highlighting successful pricing strategies and cost controls that bolster operational strength and profitability relative to competitors. The upward trajectory in ROIC further emphasizes efficient capital deployment, with Microsoft generating higher returns on invested capital, reinforcing its strategic focus on value creation. Revenue growth has been steady and resilient, with recent figures showing substantial increases, supporting the company's expansion narrative. This growth, combined with improving margins and cash flow metrics, indicates a healthy and sustainable business trajectory. Overall, Microsoft's financial health appears robust, characterized by operational efficiency, strategic capital allocation, and consistent revenue expansion. Its valuation multiples reflect market confidence, though high expectations imply that any slowdown could impact its market standing. The company's ability to sustain these positive trends will be crucial for maintaining its competitive edge and investor confidence in the future.