

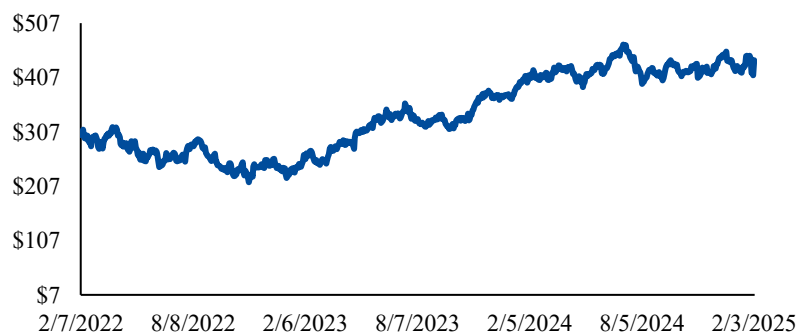
Q2/25 Review – Microsoft continues to deliver on AI products while growing revenue in 365 and Azure, recommending YUSIF maintain weighting with 19.2% upside



Quarterly Review

- Microsoft beat street earnings forecasts with \$3.23 in diluted EPS,
- The market reacted negatively, potentially due to non-AI Azure revenue bottoming out the guidance range and observed margin compression stemming from AI infrastructure investment
- Revenue growth was driven by Microsoft 365 Commercial Cloud (+16%) and Azure Cloud services (+31%), OpenAI commitment to Azure was cited as another main source of growth
- Rollout of Fabric is reported to be successful with over 19,000 paid customers such as Hitachi, Johnson Controls, and Schaeffer
- Microsoft-backed OpenAI and SoftBank launched "SB OpenAI Japan" to develop "Cristal Intelligence," with SoftBank investing \$3B annually in AI integration
- **Our original thesis on Microsoft is as follows:**
 - *Microsoft's Integrated ecosystem contribute to its moat. Its Office 365 products benefit from a robust network effect, and further integrations with generative AI will increase revenue per user and user engagement*
 - *Microsoft's leadership is committed to long-term growth. Under Satya Nadella's leadership, Microsoft has continued to grow its leadership in the technology industry*
- **Recommendation:** We suggest that YUSIF maintain our weight in Microsoft. Introduction of new AI and AI-adjacent software will result in continued revenue growth in the coming quarters. Microsoft's Leadership is committed to the company's bet on generative AI, and proved to us that they can develop and deploy products in the sector with the rollout of Fabric. Even outside of AI, 365 seats continue to grow, and the previous acquisition of LinkedIn contributes steadily to top-line.

3-year stock chart



Price (29-Jan-2025) USD \$415.06
Target Upside +19.2%
Ticker NASDAQ:MSFT

Scenario Analysis



Key Market Metrics

Company Description:

Microsoft Corporation develops, manufactures, licenses, supports, and sells software, electronics, personal computers, and related services. Services include cloud-based solutions that provide customers with software, services, platforms, and content, and provide solution support and consulting services.

Stock Metrics:

Market Cap (USD): ~3.09T
Shares Outstanding: ~7.4M
52 Wk Range: \$385.58 - \$468.35
Dividend Yield: 0.81%

Valuation Metrics (LTM):

ROIC - 19.5%
ROE - 34.3%
P/E - 30.0x
EV/EBITDA - 19.3x

Industry Group - TMT

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Discounted Cash Flow Model

Revenue assumption for 2025E under the Intelligent Cloud segment was adjusted from 22% to 20%. This change comes from the segments 19% growth from last quarter (Q2 of FY2024). The future potential for Microsoft to continue to capture and monetize Azure keeps the 20% growth figure in-tact. Revenue for Q3 of FY2025 was guided to be 19%-20% in this segment as well. The effective tax rate was also adjusted from 19% to 18%. This change comes from the company recording 6-months ended tax rate in December 2024 and December 2023 being 18% as well as guidance for the next quarter to be the same. Additionally, Microsoft recently disclosed an anticipated negative impact to F2Q25 (December) diluted EPS of 9 cents/share due to an impairment charge of ~\$800M relating to its January-2021 minority investment in Cruise.

(In \$ Millions)	2018A	2019A	2020A	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenues:															
Productivity and Business Processes	35,865	41,160	46,398	53,915	63,364	69,274	77,728	88,610	97,471	106,243	114,743	122,775	130,141	135,347	139,407
% Growth		14.76%	12.73%	16.20%	17.53%	9.33%	12.20%	14.00%	10.00%	9.00%	8.00%	7.00%	6.00%	4.00%	3.00%
Intelligent Cloud	32,219	38,895	48,366	60,080	75,251	87,907	105,362	126,434	149,193	172,317	196,442	220,015	237,616	253,061	263,184
% Growth		20.72%	24.35%	24.22%	25.25%	16.82%	19.86%	20.00%	18.00%	15.30%	14.00%	12.00%	8.00%	6.50%	4.00%
More Personal Computing	42,276	45,698	48,251	54,093	59,665	54,734	62,032	65,134	68,065	70,787	73,265	74,730	76,225	77,749	79,304
% Growth		8.09%	5.59%	12.11%	10.30%	(8.26%)	13.33%	5.00%	4.50%	4.00%	3.50%	2.00%	2.00%	2.00%	2.00%
Total Revenues:	110,360	125,753	143,015	168,088	198,280	211,915	245,122	280,178	314,728	349,348	384,449	417,520	443,982	466,157	481,895
% Growth		13.95%	13.73%	17.53%	17.96%	6.88%	15.67%	14.30%	12.33%	11.00%	10.05%	8.60%	6.34%	4.99%	3.38%
Cost of Revenues:															
Product	(15,420)	(16,273)	(16,017)	(18,219)	(19,064)	(17,804)	(15,272)	(18,212)	(20,457)	(22,708)	(24,989)	(27,139)	(28,859)	(30,300)	(31,323)
% of Revenue		12.94%	11.20%	10.84%	9.61%	8.40%	6.23%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
Service and Other	(22,933)	(26,637)	(30,061)	(34,013)	(43,586)	(48,059)	(58,842)	(67,243)	(75,535)	(83,844)	(92,268)	(100,205)	(106,556)	(111,878)	(115,655)
% of Revenue		20.78%	21.18%	21.02%	20.24%	21.98%	24.01%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%
Total Cost of Revenues:	(38,353)	(42,910)	(46,078)	(52,232)	(62,650)	(65,863)	(74,114)	(85,454)	(95,992)	(106,551)	(117,257)	(127,344)	(135,415)	(142,178)	(146,978)
% of Revenue		34.12%	32.22%	31.07%	31.60%	31.08%	30.24%	30.50%	30.50%	30.50%	30.50%	30.50%	30.50%	30.50%	30.50%
Gross Profit	72,007	82,843	96,937	115,856	135,630	146,052	171,008	194,724	218,736	242,797	267,192	290,176	308,567	323,979	334,917
Gross Profit Margin	65.25%	65.88%	67.78%	68.93%	68.40%	68.92%	69.76%	69.50%	69.50%	69.50%	69.50%	69.50%	69.50%	69.50%	69.50%
Operating Expenses:															
Research and Development	(14,726)	(16,876)	(19,269)	(20,716)	(24,512)	(27,195)	(29,510)	(39,225)	(40,915)	(41,922)	(42,289)	(45,927)	(48,838)	(51,277)	(53,008)
% of Revenue		13.44%	13.42%	12.32%	12.36%	12.83%	12.04%	14.00%	13.00%	12.00%	11.00%	11.00%	11.00%	11.00%	11.00%
Sales and Marketing	(17,469)	(18,213)	(19,598)	(20,117)	(21,825)	(22,759)	(24,456)	(28,018)	(30,843)	(33,887)	(36,907)	(40,082)	(42,622)	(44,751)	(46,262)
% of Revenue		15.83%	14.48%	13.70%	11.97%	11.01%	10.74%	10.00%	9.80%	9.70%	9.60%	9.60%	9.60%	9.60%	9.60%
G&A Expenses	(4,754)	(4,885)	(5,900)	(5,107)	(5,111)	(7,575)	(7,609)	(8,125)	(8,498)	(9,083)	(9,996)	(10,856)	(11,544)	(12,120)	(12,529)
% of Revenue		4.31%	3.88%	4.13%	3.04%	2.58%	3.57%	2.90%	2.70%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%
Total Operating Expenses:	(36,949)	(39,974)	(44,767)	(45,940)	(51,448)	(57,529)	(61,575)	(75,368)	(80,256)	(84,892)	(89,192)	(96,865)	(103,004)	(108,148)	(111,800)
Operating Income	35,058	42,869	52,170	69,916	84,182	88,523	109,433	119,356	138,480	157,905	178,000	193,312	205,564	215,831	223,117
EBIT Margin (%)	31.77%	34.09%	36.48%	41.59%	42.46%	41.77%	44.64%	43.60%	43.50%	45.20%	46.30%	46.30%	46.30%	46.30%	46.30%
Income Tax	18,000%	16.00%	16.51%	14.70%	17.04%	19.00%	19.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
NOPAT	28,748	36,010	43,557	59,638	69,837	71,704	88,641	97,872	113,554	129,482	145,960	158,516	168,562	176,981	182,956
Add: Depreciation and Amortization	10,261	11,682	12,796	11,686	14,460	13,861	22,287	19,612	22,031	24,454	26,911	29,226	31,079	32,631	33,733
% of Revenue		9.30%	9.29%	8.95%	6.95%	7.29%	9.09%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Less: Capital Expenditures	(11,632)	(13,925)	(15,441)	(20,622)	(23,886)	(28,107)	(44,477)	(51,273)	(52,874)	(57,642)	(63,434)	(68,891)	(73,257)	(76,916)	(79,513)
% of Revenue		10.54%	11.07%	10.80%	12.27%	12.05%	18.14%	18.30%	16.80%	16.50%	16.50%	16.50%	16.50%	16.50%	16.50%
Add / (Less): Changes in NWC	(586)	234	3,861	1,657	(2,401)	(3,262)	2,451	2,802	3,147	3,493	3,844	4,175	4,440	4,662	4,819
% of Revenue		-0.5%	0.2%	2.7%	(1.21%)	(1.54%)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Unlevered Free Cash Flow	50,055	61,851	75,655	93,603	105,782	110,410	157,856	171,559	191,606	215,073	240,150	260,808	277,338	291,190	301,021
% Growth		23.57%	22.32%	23.72%	13.01%	4.37%	42.97%	8.68%	11.69%	12.25%	11.66%	8.60%	6.34%	4.99%	3.38%
PV of Unlevered Free Cash Flows								158,851	164,272	170,732	176,518	177,501	174,770	169,906	162,632

Perpetuity Growth Method	
Cumulative PV of UFCF	1,355,181
% of Enterprise Value	32.89%
Terminal Value	
Final Year UFCF	301,021
Perpetuity Growth Rate	2.00%
Terminal Value:	5,117,349
PV of Terminal Value	2,764,745
% of Enterprise Value	67.11%
Total Enterprise Value	4,119,925
Plus: Cash & ST Investments	75,543
Less: Total Debt	(49,381)
Less: Preferred Stock	
Less: Non-Controlling Interest	
Total Equity Value	4,146,087
Diluted Shares Outstanding	7,434
Implied Share Price	\$ 558
Current Share Price	\$ 415.06
Implied Margin of Safety	34.37%

Exit Multiple Method	
Cumulative PV of UFCF	1,355,181
% of Enterprise Value	36.49%
Terminal Value	
Final Year EBITDA	256,850
EV/EBITDA Multiple	17.0x
Terminal Value:	4,366,451
PV of Terminal Value	2,359,057
% of Enterprise Value	63.51%
Total Enterprise Value	3,714,238
Plus: Cash	75,543
Less: Total Debt	(49,381)
Less: Preferred Stock	0
Less: Non-Controlling Interest	0
Total Equity Value	3,740,400
Diluted Shares Outstanding	7,434
Implied Share Price	\$ 503
Current Share Price	\$ 415.06
Implied Margin of Safety	21.22%

Comparable Companies Analysis

Company Name	Equity Value (\$M)	Enterprise Value (\$M)	EV / Revenue			EV / EBITDA			P / E			Leverage Debt/EBITDA
			LTM	2025E	2026E	LTM	2025E	2026E	LTM	2025E	2026E	
Apple Inc.	\$3,548,938	\$3,504,369	8.9x	8.4x	8.1x	25.5x	24.2x	23.6x	36.9x	31.9x	30.7x	0.6x
Oracle Corporation	\$481,720	\$570,443	10.4x	9.3x	8.3x	25.5x	17.6x	15.7x	41.4x	25.8x	22.4x	4.2x
Alphabet Inc.	\$2,506,153	\$2,442,212	7.2x	6.3x	5.6x	19.8x	14.1x	12.4x	26.6x	22.7x	20.3x	0.2x
Salesforce, Inc.	\$328,349	\$327,770	8.8x	7.9x	7.2x	34.3x	21.0x	19.4x	55.3x	29.9x	26.1x	1.2x
Maximum	\$3,548,938	\$3,504,369	10.4x	9.3x	8.3x	34.3x	24.2x	23.6x	55.3x	31.9x	30.7x	4.2x
75th Percentile	\$2,766,849	\$2,707,751	9.2x	8.6x	8.2x	27.7x	21.8x	20.5x	44.9x	30.4x	27.3x	1.9x
Median	\$1,493,936	\$1,506,327	8.8x	8.2x	7.7x	25.5x	19.3x	17.6x	39.2x	27.9x	24.3x	0.9x
Average	\$1,716,290	\$1,711,198	8.8x	8.0x	7.3x	26.3x	19.2x	17.8x	40.1x	27.6x	24.9x	1.6x
25th Percentile	\$443,377	\$509,775	8.4x	7.5x	6.8x	24.1x	16.7x	14.9x	34.3x	25.0x	21.9x	0.5x
Minimum	\$328,349	\$327,770	7.2x	6.3x	5.6x	19.8x	14.1x	12.4x	26.6x	22.7x	20.3x	0.2x

Microsoft Corporation	\$3,085,549	\$3,116,907	11.9x	10.6x	9.4x	21.9x	19.3x	17.2x	33.3x	30.0x	26.0x	0.7x
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Company Name	Revenue Growth		EBITDA Growth		Net Income Growth		EBITDA Margin			Return Metrics (LTM)		
	2025E	2026E	2025E	2026E	2025E	2026E	LTM	2025E	2026E	ROIC	ROA	ROE
Apple Inc.	5.4%	3.7%	5.4%	2.7%	15.6%	4.1%	34.7%	34.7%	34.4%	45.4%	22.5%	136.5%
Oracle Corporation	11.1%	12.6%	44.9%	12.4%	60.8%	15.0%	40.7%	53.0%	52.9%	10.2%	7.5%	124.9%
Alphabet Inc.	14.9%	10.9%	140.4%	13.9%	16.9%	12.1%	36.3%	44.4%	45.6%	21.1%	16.5%	32.1%
Salesforce, Inc.	11.3%	9.8%	163.3%	8.0%	84.8%	14.6%	25.7%	37.7%	37.1%	6.4%	5.0%	10.2%
Maximum	14.9%	12.6%	163.3%	13.9%	84.8%	15.0%	40.7%	53.0%	52.9%	45.4%	22.5%	136.5%
75th Percentile	12.2%	11.3%	146.1%	12.8%	66.8%	14.7%	37.4%	46.5%	47.4%	27.2%	18.0%	127.8%
Median	11.2%	10.3%	92.7%	10.2%	38.9%	13.4%	35.5%	41.0%	41.4%	15.7%	12.0%	78.5%
Average	10.7%	9.2%	88.5%	9.3%	44.5%	11.5%	34.3%	42.5%	42.5%	20.8%	12.9%	75.9%
25th Percentile	9.7%	8.2%	35.0%	6.7%	16.6%	10.1%	32.5%	37.0%	36.4%	9.3%	6.9%	26.6%
Minimum	5.4%	3.7%	5.4%	2.7%	15.6%	4.1%	25.7%	34.7%	34.4%	6.4%	5.0%	10.2%

Microsoft Corporation	12.0%	13.6%	13.7%	12.2%	11.0%	15.3%	54.3%	55.1%	54.5%	19.5%	14.6%	34.3%
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