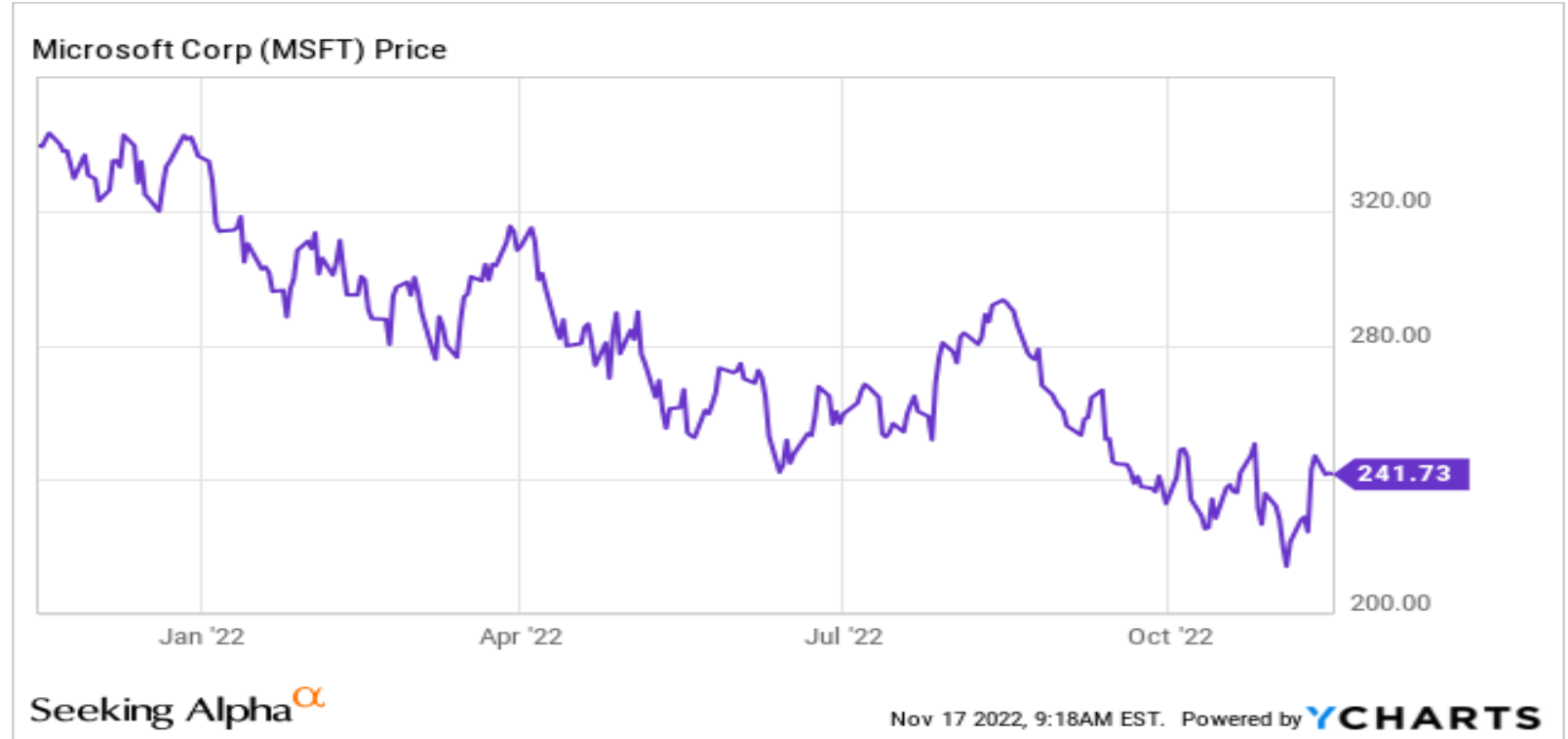


## Valuation / Forecast Analysis

Current Price (NASDAQ: MSFT)	\$248.16
P/E (TTM)	27.57x
52 Wk Range	\$213.43 - \$315.95
Avg. Volume	30,305,703
Market Cap	1.847T
EPS (TTM)	9.00
1yr Target Est	287.27

## Recommendation

Buy & Hold



## Qualitative Analysis

- Microsoft's presents a unique buying opportunity during economic decline given Microsoft's cloud business is rapidly expanding.
- Microsoft is well positioned with a healthy number in relation to free cash flow, which also provides investors with safety.
- Generated \$16.9B in free cash flow, which equates into a free cash flow margin of 33.7%.
- Microsoft's Intelligent Cloud service continued to show impressive growth with a 17.8% increase to \$21.5 billion.
- Recent partnership with Open AI to expand cloud and software services.

**Microsoft Corporation (MSFT)** is one the largest technology companies in world, providing a wide array of services, such as consumer electronics, personal computers, cloud computing services, and more.

## FY23 Q1

- **Revenue** was \$50.1 billion and increased 11%
- **Operating income** was \$21.5 billion and increased 6%
- **Net income** was \$17.6 billion and decreased 14%

## Intelligent Cloud

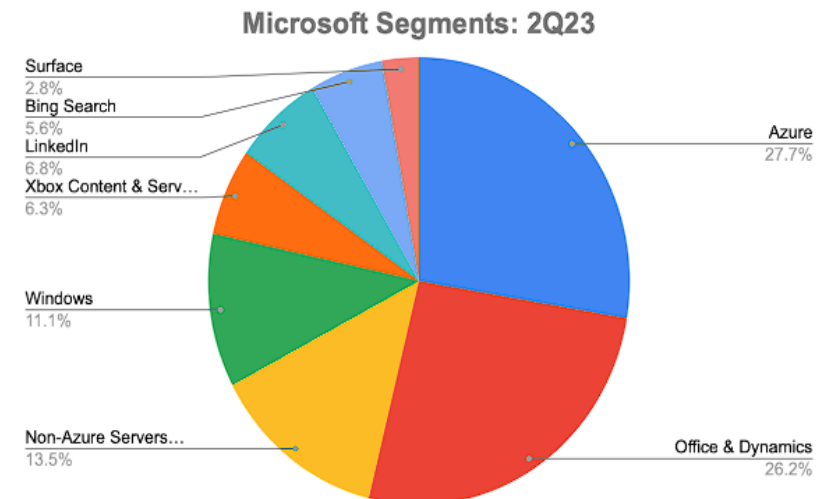
- Server products and cloud services revenues increased 22% driven by Azure and other cloud services revenue growth of 35%

## Productivity & Business Processes

- Office Commercial products and cloud services revenues increased 7% driven by Commercial revenue growth of 11%

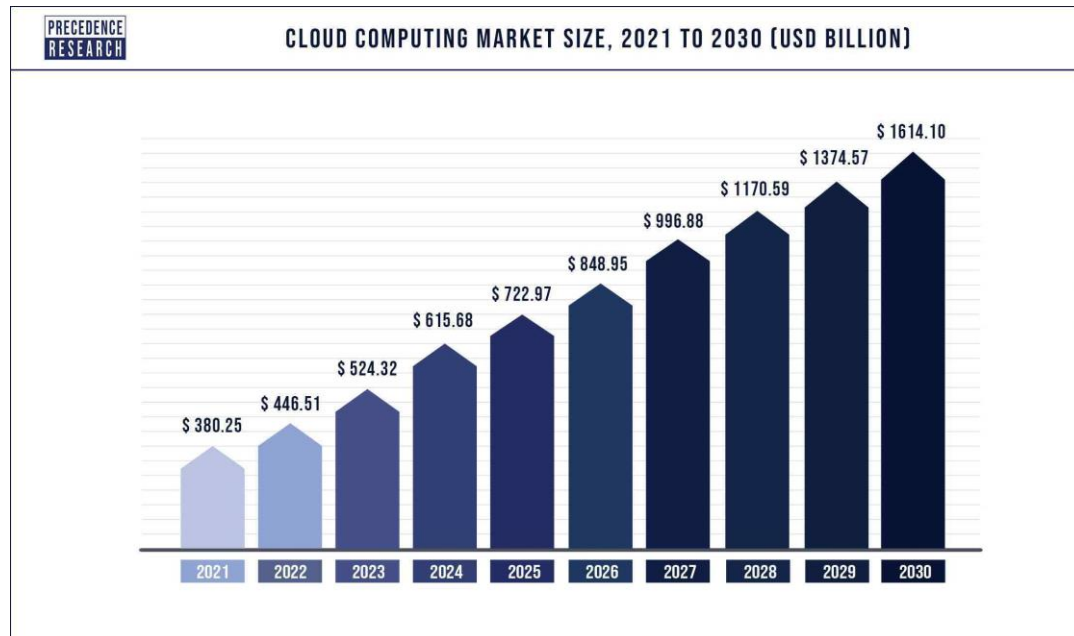
FY23 Q1

(\$ in billions, except per share amounts)	GAAP and CC Results		
	FY23 Q1	Growth	CC Growth
Productivity and Business Processes	\$16.5	9%	15%
Intelligent Cloud	\$20.3	20%	26%
More Personal Computing	\$13.3	0%	3%
<b>Revenue</b>	<b>\$50.1</b>	<b>11%</b>	<b>16%</b>
<b>Gross margin</b>	<b>\$34.7</b>	<b>9%</b>	<b>16%</b>
Gross margin percentage	69%	(1) pt	
<b>Operating income</b>	<b>\$21.5</b>	<b>6%</b>	<b>15%</b>
Operating income percentage	43%	(2) pts	
<b>Net income</b>	<b>\$17.6</b>	<b>(14)%</b>	<b>(8)%</b>
<b>Diluted earnings per share</b>	<b>\$2.35</b>	<b>(13)%</b>	<b>(7)%</b>



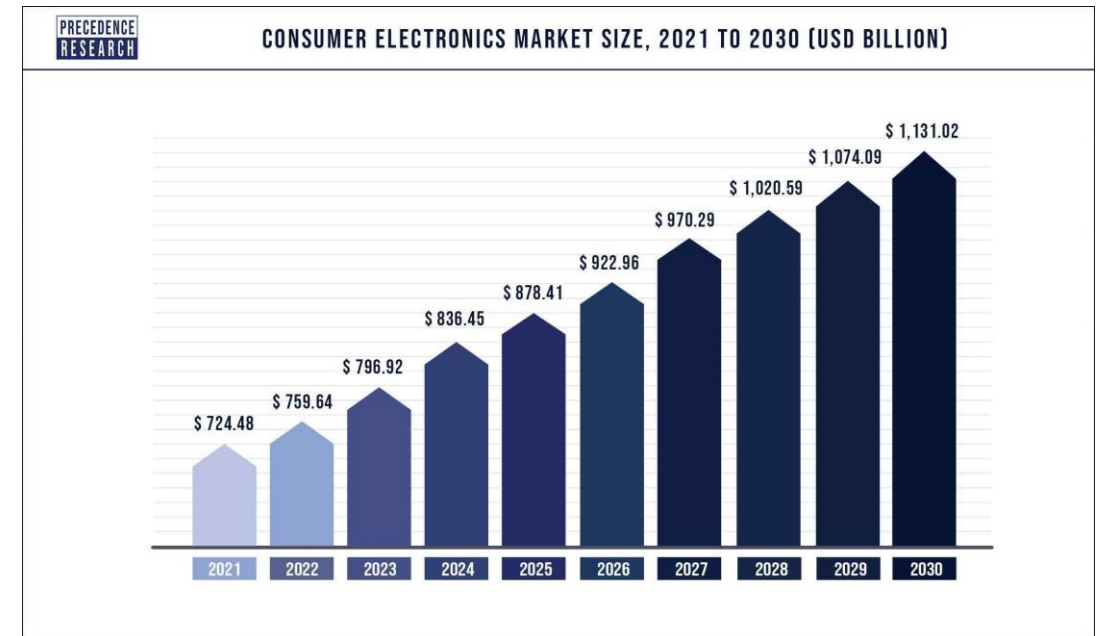
## Cloud Services

- Worldwide end-user spending on public cloud services is forecast to grow 20.7% to total \$591.8 billion in 2023, up from \$490.3 billion in 2022



## Consumer Technology

- The global consumer electronics market size was 729.11B in 2019. The market is projected to grow from \$690B in 2020 to \$990B in 2027 at a CAGR of 5.3% in the 2020-2027 period.





January 2022



February 2022



March 2022



January 2023

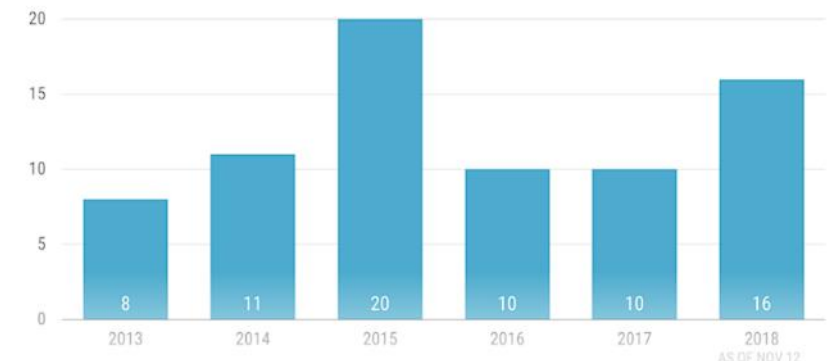
## Microsoft's Shopping Spree Continues

- Microsoft announced a total of 17 deals in 2018 and in Q2 of the same year recorded eight deals, the single quarter with the highest number of acquisitions in Microsoft's history.
- *Recent Acquisition:* Fungible's technologies will help enable high-performance, scalable, disaggregated, scaled-out datacenter infrastructure with reliability and security.
- Microsoft continues to expand via M&A strategy in all areas of business (Cloud, AI, Consumer Technology, etc.) strategically target AI and software.



### Microsoft has acquired 75 companies since 2013

Microsoft acquisitions, 2013 – November 12, 2018



### Strong Core Business Model

Microsoft has a steady revenue growth rate. Microsoft current P/E ratio is comparable to that of the S&P500 over 10 years. (S&P500 P/E ratio 28.6)

### Growth

Microsoft acquisition of Nuance in 2021 for \$19.7B is a great complement to other AI companies they have acquired.

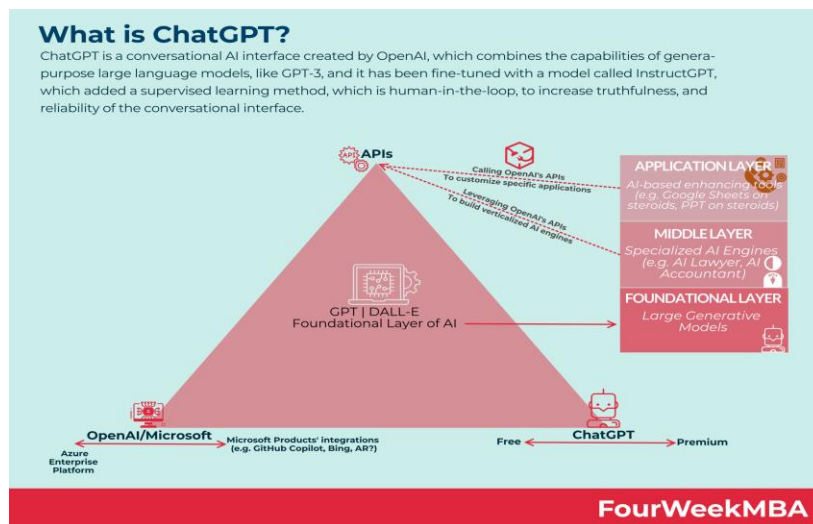
### Brand

Microsoft ranks among the top brands globally. Strong consumer base with multiple streams of revenue from surface tablets to cloud servers.

## OpenAI Investment (ChatGPT)

### Research Labs Providing Utility & Growth

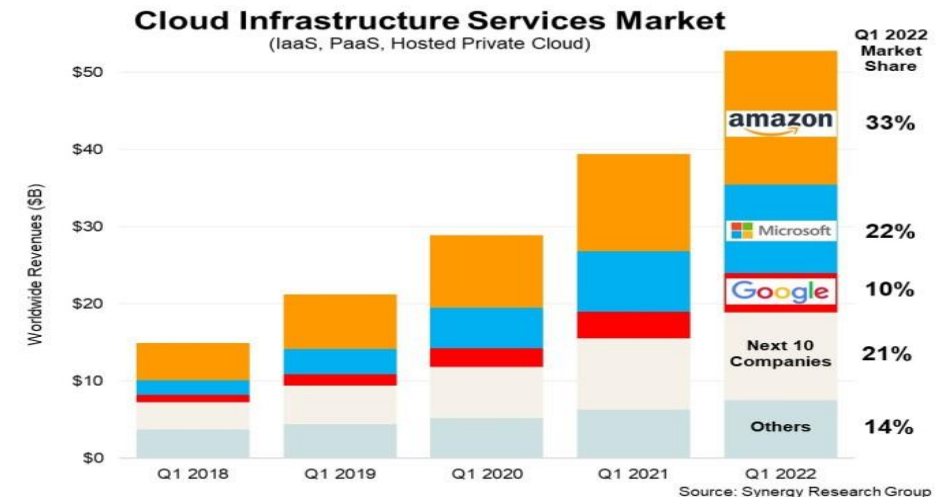
- OpenAI announcing a new professional product. The premium version will be called ChatGPT Professional, and it would come with no unavailability time, faster responses and unlimited messages.
- Revenue is forecasted to be \$200+ million in 2023
- Revenue expectations are \$1 billion in 2024



## Cloud Infrastructure

### Cloud Revenue Growth

- Intelligence Cloud – Azure/non-Azure Servers and services
- Azure is the fastest growing segment in the cloud segment
- Street Est: Azure quarterly revenue of \$7.2-\$7.4B in 2Q21
- Public Cloud TAM: Expected growth from \$157B (in 2022) to over \$600B (in 2027).



# Valuation – Industry Multiples

Company	Share Price	Market Cap	EV	Rev Growth%	Current P/E	FW P/E	EV/EBITDA	PEG Ratio
<b>GOOGL</b>	\$99.37	1.265T	1.19T	17.94%	19.79	18.85	12.60	1.40
<b>AMZN</b>	\$102.24	1.043T	1.22T	14.7%	53.82	46.95	88.36	4.50
<b>APPL</b>	\$145.93	2.311T	2.27T	8.14%	23.88	21.83	25.24	2.47
<b>CRM</b>	\$164.52	164.52T	167.17B	14.19%	14.74	29.41	5.52	1.68
<b>IBM</b>	\$134.39	120.456B	153.24B	-0.02%	22.07	11.78	10.86	1.49
Mean	129.29	579.19	650.018	10.99	26.86	25.764	5.7032	0.4616
Median	134.39	164.52	1.19	14.19	22.07	21.83	12.60	1.49
High	164.52	2.311	2.27	17.94	53.82	46.95	88.36	4.50
Low	99.37	120.456	153.24	-0.02	14.74	11.78	5.52	1.40
<b>MSFT</b>	<b>248.16</b>	<b>1.847B</b>	<b>1.76T</b>	<b>10.38%</b>	<b>27.57</b>	<b>25.45</b>	<b>17.79</b>	<b>2.07</b>

## Inflation

- Potential to see further losses (i.e., investor perspective – beginning of a very long bear market).
- Massive layoff of 5% of workforce.
- Revenue increased 2%, however, profits fell by 12%.

## Weak Environment

- IT and Cloud Computing spending has experienced decline and can continue ripping in Microsoft's core business model with low consumer spending.
- Microsoft's Cloud segment achieved lower growth rates from the prior quarter.
- Annual growth rate for cloud fell below 30% for the first time.

## Timeline on Returns

- OpenAI investment is very recent, and the trajectory of the AI industry is hard to navigate.
- OpenAI is already facing copyright lawsuits and further regulation can severely impact this investment.
- Heavy investment into ChatGPT technology with no clear business model established.



Microsoft is a dominant and well-known brand with a large footprint in the technology sector

Long-term Cloud revenue expected to increase with global demand

Economic headwinds will be temporary

Acquisition of Activision underway

Productivity & Business Processes sector of the business model continues to have healthy linear growth

Major investments in AI related technology which presents the potential for exponential growth