

Buy

ELECTRONICS

Results Review

Microsoft Corp (MSFT.O)

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Market Analysis

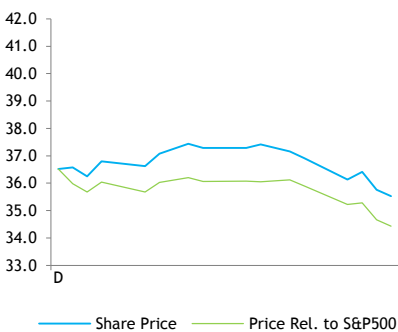
Price	£35.53
Target Price	£28.00
Target Return	-21.2%

Market Data 15/04/2014

52 Wk Hi-Lo	\$38.94-26.46
Market Cap (MM)	299,036.8
Shares Out (MM)	8,416.5

Performance (%)	1W	1M	1Y
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Price Perf	-0.6	-8.2	-5.0
Rel S&P500	-0.7	-9.7	-4.5



Applicable Disclosures

Analyst certification and disclosures available at the end of the report.

Key Estimates	12/2009	12/2010	06/2011E	06/2012E
Sales (MM)	60,420.0	61,024.2	62,854.9	64,740.6
EPS	£1.87	£1.89	£1.95	£2.00
DPS	£0.44	£0.46	£0.47	£0.48
CAGR EPS 3Y	15.9%	10.0%	1.3%	2.3%
P/E	12.4x	14.3x	18.3x	17.7x
Debt/Total Asset	0.0%	0.0%	0.0%	0.0%
Op. FCF/Sales	nm	nm	nm	nm

Key Margins	12/2009	12/2010	06/2011E	06/2012E
Gross Margin	83.2%	84.9%	84.9%	84.9%
EBITDA Margin	44.1%	45.0%	45.0%	45.0%
EBIT Margin	40.6%	41.4%	41.4%	41.4%
Net Income Margin	30.1%	30.7%	30.7%	30.7%

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Investment cases

Lorem Ipsum is simply dummy text of the printing and typesetting industry. Lorem Ipsum has been the industry's standard dummy text ever since the 1500s, when an unknown printer took a galley of type and scrambled it to make a type specimen book. It has survived not only five centuries, but also the leap into electronic typesetting, remaining essentially unchanged. It was popularised in the 1960s with the release of Letraset sheets containing Lorem Ipsum passages, and more recently with desktop publishing software like Aldus PageMaker including versions of Lorem Ipsum..

Key catalysts

Contrary to popular belief, Lorem Ipsum is not simply random text. It has roots in a piece of classical Latin literature from 45 BC, making it over 2000 years old. Richard McClintock, a Latin professor at Hampden-Sydney College in Virginia, looked up one of the more obscure Latin words, consectetur, from a Lorem Ipsum passage, and going through the cites of the word in classical literature, discovered the undoubtable source. Lorem Ipsum comes from sections 1.10.32 and 1.10.33 of "de Finibus Bonorum et Malorum" (The Extremes of Good and Evil) by Cicero, written in 45 BC. This book is a treatise on the theory of ethics, very popular during the Renaissance. The first line of Lorem Ipsum, "Lorem ipsum dolor sit amet..", comes from a line in section 1.10.32.

Company analysis

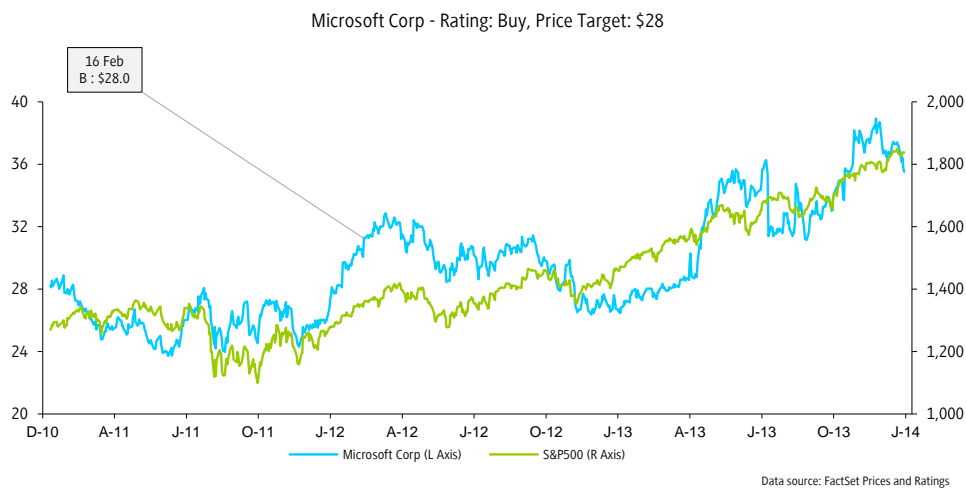
It is a long established fact that a reader will be distracted by the readable content of a page when looking at its layout. The point of using Lorem Ipsum is that it has a more-or-less normal distribution of letters, as opposed to using 'Content here, content here', making it look like readable English. Many desktop publishing packages and web page editors now use Lorem Ipsum as their default model text, and a search for 'lorem ipsum' will uncover many web sites still in their infancy. Various versions have evolved over the years, sometimes by accident, sometimes on purpose (injected humour and the like).

INCOME STATEMENT	2010A	2011E	2012E	2013E	2014A	2015A
Year Ended Dec (USD mn)						
Net Sales	61,024	62,855	64,741	66,683	na	na
Cost of Goods Sold	12,304	12,673	13,054	13,445	na	na
Gross Income	51,795	53,349	54,950	56,598	na	na
SG&A (incl. R&D)	26,024	26,805	27,609	28,437	na	na
thereof R&D	na	na	na	na	na	na
Other Operating Expenses	0	0	0	0	na	na
Other Operating Income	na	na	na	na	na	na
EBITDA	27,445	28,269	29,117	29,990	na	na
Depreciation & Amortization	2,181	2,247	2,314	2,383	na	na
thereof Depreciation	1,485	1,530	1,576	1,623	na	na
thereof Amortization	696	717	738	760	na	na
EBIT	25,264	26,022	26,803	27,607	na	na
Interest Expense	0	0	0	0	na	na
Earnings before Tax	25,264	26,022	26,803	27,607	na	na
Income Taxes	6,506	6,702	6,903	7,110	na	na
Minority Interest Expense	0	0	0	0	na	na
Net Income before Discontinued Operations	18,758	19,321	19,900	20,497	na	na
Discontinued Operations	0	0	0	0	na	na
Net Income available to shareholder	18,758	19,321	19,900	20,497	na	na

BALANCE SHEET	2010A	2011E	2012E	2013E	2014A	2015A
Year Ended Dec (USD mn)						
Assets						
Total Current Assets	45,875	47,252	48,669	50,129	na	na
Cash & Short Term Investments	25,103	25,856	26,632	27,431	na	na
Accounts Receivable	14,417	14,849	15,295	15,753	na	na
Inventory	1,045	1,076	1,109	1,142	na	na
Other Current Assets	5,311	5,470	5,634	5,803	na	na
Property& Plant & Equipment (net)	6,622	6,821	7,025	7,236	na	na
Investments - Other	6,989	7,199	7,415	7,637	na	na
Investments - in Unconsolidated Subsidiaries	na	na	na	na	na	na
Receivables - Long Term	0	0	0	0	na	na
Intangible Assets	14,939	15,387	15,848	16,324	na	na
Deferred Taxes - Asset	1,007	1,037	1,068	1,100	na	na
Other Assets	1,794	1,848	1,903	1,960	na	na
Total Assets	77,226	79,543	81,929	84,387	na	na
Total Current Liabilities						
Total Current Liabilities	31,706	32,657	33,637	34,646	na	na
ST Debt & Curr Portion LT Debt	0	0	0	0	na	na
Accounts Payable	4,280	4,408	4,540	4,677	na	na
Income Taxes Payable	3,446	3,549	3,656	3,765	na	na
Other Current Liabilities	23,981	24,700	25,441	26,204	na	na
Long-Term Debt	0	0	0	0	na	na
Provisions for Risks & Charges	na	na	na	na	na	na
Pension Provisions	0	0	0	0	na	na
Deferred Taxes - Liability	na	na	na	na	na	na
Other Liabilities	7,024	7,235	7,452	7,676	na	na
Non-Equity Reserves	0	0	0	0	na	na
Total Liabilities	38,730	39,892	41,089	42,322	na	na
Preferred Stock (Carrying Value)	0	0	0	0	na	na
Total Common Equity	38,496	39,651	40,840	42,065	na	na
Common Stock/Ordinary Capital	66,677	68,677	70,737	72,859	na	na
Capital Surplus	na	na	na	na	na	na
Retained Earnings	-29,390	-30,272	-31,180	-32,115	na	na
Equity Reserves	0	0	0	0	na	na
Revaluation Reserves	0	0	0	0	na	na
Other Appropriated Reserves	na	na	na	na	na	na
Unappropriated (Free) Reserves	na	na	na	na	na	na
ESOP & Unreal. Capital Gains	1,209	1,246	1,283	1,322	na	na
ESOP Guarantees - Cmn Stk	0	0	0	0	na	na
Unrealized For Exch Gain(Loss)	286	295	304	313	na	na
Unreal Marketable Sec Gain(Loss)	923	951	979	1,009	na	na
Treasury Stock	0	0	0	0	na	na
Total Shareholders Equity	38,496	39,651	40,840	42,065	na	na
Minority Interest	0	0	0	0	na	na
Total Liabilities & Shareholders Equity	77,226	79,543	81,929	84,387	na	na

CASH FLOW	2010A	2011E	2012E	2013E	2014A	2015A
Year Ended Dec (USD mn)						
Operating						
Net income CF	18,758	19,321	19,900	20,497	na	na
Depreciation & Amortization	2,181	2,247	2,314	2,383	na	na
Deferred Taxes	na	na	na	na	na	na
Other Non-Cash Items	835	860	886	912	na	na
Funds from Operating Activities	22,766	23,449	24,152	24,877	na	na
Extraordinaries	0	0	0	0	na	na
Change in Working Capital	162	167	172	177	na	na
Net Operating Cash Flow	22,928	23,616	24,324	25,054	na	na
Investing						
CAPEX	3,376	3,477	3,581	3,689	na	na
Acquisitions & Investments	22,365	23,036	23,727	24,439	na	na
Increase in Other Assets	na	na	na	na	na	na
Acquisitions	na	na	na	na	na	na
Increase in Investments	22,364.8	23,035.8	23,726.9	24,438.7	na	na
Disposal of Fixed Assets and Investments	29,418	30,300	31,209	32,146	na	na
Disposal of Fixed Assets	0	0	0	0	na	na
Sale of Investments	29,418	30,300	31,209	32,146	na	na
Other Investing Activities (uses)	0	0	0	0	na	na
Other Investing Activities (sources)	0	0	0	0	na	na
Net Cash Flow from Investments	-4,866	-5,012	-5,163	-5,318	na	na
Financing						
Dividends paid	4,260	4,387	4,519	4,654	na	na
Change in Debt	0	0	0	0	na	na
Change in Capital Stock	-9,589	-9,877	-10,173	-10,479	na	na
Other Financial Activities	127	131	135	139	na	na
Exchange Rate Effect	145	150	154	159	na	na
Miscellaneous Funds	0	0	0	0	na	na
Net Cash Flow from Financing	-13,576	-13,984	-14,403	-14,835	na	na
Increase (Decrease) in Cash & ST Invest	4,485	4,620	4,759	4,901	na	na
Operating Free Cash Flow	-33,721	-34,732	-35,774	-36,848	na	na
PER SHARE DATA	2010A	2011E	2012E	2013E	2014A	2015A
Year Ended Dec (USD mn)						
Number of Shares Basic	9,896.1	10,193.0	10,498.7	10,813.7	na	na
Number of Shares Diluted	10,046.7	10,348.1	10,658.6	10,978.3	na	na
Current number of shares outstanding	na	na	na	na	na	na
EPS	1.89	1.95	2.00	2.06	na	na
EPS Diluted	1.98	2.04	2.10	2.16	na	na
DPS	0.46	0.47	0.48	0.50	na	na
BVPS	4.21	4.33	4.46	4.60	na	na
CFPS	2.42	2.49	2.57	2.65	na	na
FCFPS	na	na	na	na	na	na
MARGINS	2010A	2011E	2012E	2013E	2014A	2015A
Year Ended Dec (USD mn)						
EBITDA Margin	45.0%	45.0%	45.0%	45.0%	na	na
EBIT Margin	41.4%	41.4%	41.4%	41.4%	na	na
EBT Margin	41.4%	41.4%	41.4%	41.4%	na	na
Net Margin	30.7%	30.7%	30.7%	30.7%	na	na
Operating FCF Margin	-55.3%	-55.3%	-55.3%	-55.3%	na	na

Applicable disclosures



Distribution of Investment Ratings		
Rating	Recommendation Universe*	Portion of these provided with investment banking services**
Buy	47.5%	44%
Hold	31.1%	33%
Sell	21.3%	11%

FactSet Partners (the Firm) employs a rating system based on the following:

Buy: Expected to produce a total return of 15% or better in the next 12 months.

Hold: A Fairly valued; total return in the next 12 months expected to be $\pm 10\%$.

Sell: Stock is expected to decline by 10% or more in the next 12 months.

Rating Suspended: FactSet Partners has suspended the rating and/or price target, if any, for this stock, because there is not a sufficient fundamental basis for determining a rating or price target. The previous rating and price target, if any, are no longer in effect and should not be relied upon.

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