**Business Summary:** Microsoft Corporation develops, licenses, markets, and supports software, services, and devices worldwide. The company’s Devices and Consumer (D&C) Licensing segment licenses Windows operating system and related software; Microsoft Office for consumers; and Windows Phone operating system. Its Computing and Gaming Hardware segment provides Xbox gaming and entertainment consoles and accessories, second-party and third-party video games, and Xbox Live subscriptions; surface devices and accessories; and Microsoft PC accessories.

**Industry Trends:** All big industry shifts have been driven by new computing platforms, from the PC to client-server to the Internet. For servers, storage, and networking equipment to behave like one big “machine,” where applications can assume massive scalability, the entire infrastructure must be virtualized and centrally controllable.

**Investment Thesis:** Microsoft has strong potential to gain continuous growth for the next 3-5 years. Currently, they just strengthen the leading position in the clouding computer. Besides, the acquisition of Nokia Operation department will be a great help for them to expand smartphone market which is highly related with their clouding technology.

**Competitive Analysis:** Microsoft is meeting business customers’ needs in the public cloud in order to overtake AWS, including accommodating all 3rd party platforms and services as an IaaS cloud provider. The future holds the opportunity for Microsoft to gradually shift customers to Microsoft platforms and services in the cloud (PaaS).

**Pros:**
- They achieved Strong growth (128%) for their cloud-related products
- Their big strength in its Software-as-a-service contributing its winning position in cloud war
- Jump in the Surface-related revenue 908 m (last quarter) vs 400 m (last year).

**Risk Factors:**
- Intense competition in all of Microsoft’s markets
- Significant investments in new products and services that may not be profitable
- Microsoft’s continued ability to earn expected revenues from its intellectual property rights

**Total Return Estimates**
- 3 Yr FV Reversion: 11.43%
- 5 Yr FV Reversion: 9.22%

**Key Valuation Assumptions**
- Est Revenue Growth: 10.00%-5%
- WACC: 8.2%
- Expected Inflation: 1.7%
- Terminal Growth Rate: 3.5%
- 10 Yr Risk Free Rate: 4.00%
- Equity Risk Premium: 6.24%
- Tax Rate: 22.00%

**Key Financial Data**
- Est 2014 EPS: 3.35
- Est 2015 EPS: 3.47
- 3-5 Yr Est EPS Growth: 4%
- PEG (TTM): 1.87
- Credit Quality: A+
- ROE: 29%
- ROA: 11.43%
- Price/Book: 4.54
- Price/Cash Flow: 12.7
- Debt/Equity: 25.2%
- Current Ratio: 2.5
- Quick Ratio: 2.3

**CSR Characteristics**
- Human Rights: 0/0
- Business Ethics Policy: 1/1
- ESG Disclosure: 33.47/27.79
- Equal Opportunity: 1/1
- Emission Reduction: 1/1
- Environment Disclosure Score: 18.60/22.02

Prepared by Yiyan Wang (Nov 15, 2014)