

Microsoft Corporation Ticker: MSFT Sector: Technology Industry: Business Software & Services	Intrinsic Value: \$79.57 Current Price: \$49.58 Stop Loss: \$38 Upside Review: \$65	TTM P/E:18.39 Forward P/E: 17.2 Beta: 0.73	Market Cap: \$408.68B Dividend Yield: \$1.24 (2.5%) 52 Week Range: \$34.63 – 50.05
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**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.

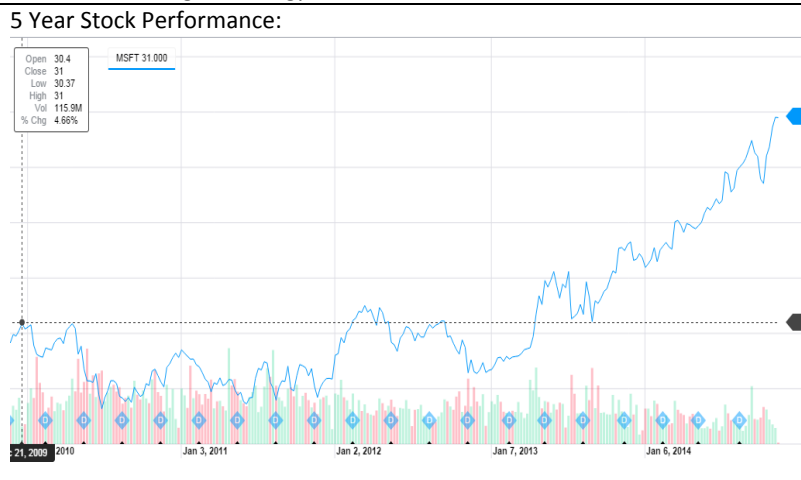
**Competitive Analysis:** Microsoft is meeting business customers' needs in the public cloud in order to overtake AWS, including accommodating all 3rd party platforms and services as an IaaS cloud provider. The future holds the opportunity for Microsoft to gradually shift customers to Microsoft platforms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

**Competitor Comparison:**

Direct Competitor Comparison					
	MSFT	AAPL	GOOG	ORCL	Industry
Market Cap:	408.68B	669.65B	369.30B	180.97B	588.31M
Employees:	128,000	92,600	51,564	122,000	1.04K
Qtrly Rev Growth (yoy):	0.25	0.12	0.20	0.03	0.21
Revenue (ttm):	91.50B	182.80B	67.91B	38.50B	198.59M
Gross Margin (ttm):	0.67	0.39	0.58	0.61	0.57
EBITDA (ttm):	33.26B	60.45B	19.96B	16.83B	14.31M
Operating Margin (ttm):	0.31	0.29	0.23	0.39	0.07
Net Income (ttm):	21.37B	39.51B	12.89B	10.95B	N/A
EPS (ttm):	2.55	6.45	19.00	2.39	0.19
P/E (ttm):	19.44	17.70	28.65	17.07	28.52
PEG (5 yr expected):	2.82	1.31	1.34	1.46	1.77
P/S (ttm):	4.47	3.62	5.45	4.69	2.97

Information from: Bloomberg, Value Line, S&P Net Advantage, Yahoo

**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 Yiyang Wang (Nov 15, 2014)