

# Microsoft Corporation (NASDAQ: MSFT)

Sector: Technology



Current Price	Target Price	52-Week High	52-Week Low	P/E	Market Cap.	Div. Yield
\$51.54	\$64.64	\$56.85	\$39.72	37.16	\$417.6B	2.8%

## Business Description

Microsoft Corporation is a software publisher, hardware producer, and cloud services company for both consumer and commercial customers. In the software segment, the company's core business includes licensing its Microsoft Windows operating system and Microsoft Office productivity suite. In the hardware segment, the company produces, markets, and sells personal computers, tablets, and smartphones. Recently, the company has heavily invested in cloud services with its Intelligent Cloud segment. The Intelligent Cloud segment includes IaaS, PaaS, and SaaS services with its Microsoft Cloud, Microsoft Azure, and Microsoft Office 365 products.

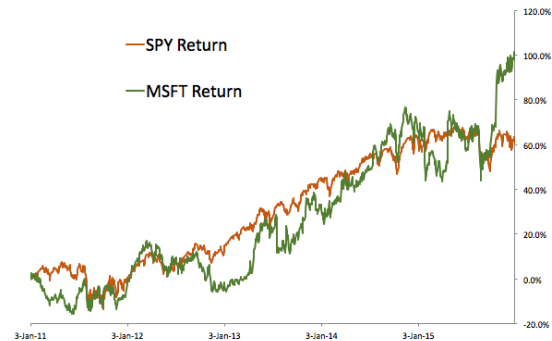
## Industry Trends

The software publishing industry, and the technology sector in general, has seen a rapid movement towards cloud computing over the past 5 years. Cloud computing includes three main services: Infrastructure-as-a-Service (IaaS), Platform-as-a-Service (PaaS), and Software-as-a-Service (SaaS). Legacy IT products such as servers and on-site storage are becoming obsolete as the cloud continues to take hold. 2015 was a pivotal year as movement to the cloud for companies has reached record growth rates. In addition, due to the proliferation of computing devices, consumers are expecting greater integration between devices and software. Therefore, software and hardware companies such as Microsoft must continually work on creating products that can be used seamlessly across devices.

## Investment Thesis

Microsoft has been a leader in software, information technology services, and consumer electronics for years. Microsoft has a competitive position in each of these markets as exemplified in its top market share of 20.8% in the software industry. The company's core business of licensing software to consumers and businesses remains strong with strong growth in its Windows 10 operating system and Office 365 software. The company is also well positioned to grow from the trend in cloud computing as its Azure platform offers a unique cloud computing platform, leading to growth rates in excess of 140% YoY. Microsoft's newest Surface Book and Surface Pro products will allow Microsoft to capitalize on the trend towards more mobile computing devices. Furthermore, Microsoft's Xbox video game platform will benefit from the tremendous growth in the video game industry. Lastly, Microsoft continues to invest in new technologies such as the Microsoft HoloLens, which should benefit Microsoft as these new industries develop further.

## 5-Year Share Price Performance



## Competitors

Microsoft's competitors vary across its various business segments. In the software industry Microsoft faces competition from Oracle, Google, IBM, Apple, among others. In the cloud computing space, Microsoft's major competitors are Amazon, IBM, Salesforce, and Google. In computing and gaming hardware Microsoft competes against Apple, Sony, Nintendo, Samsung, Dell, HP, etc. Microsoft's phone hardware segment mainly competes against Apple, Samsung, and LG.

## Risks

The market for software, devices, and cloud-based services is very dynamic and highly competitive. Consumers' preferences can change rapidly and Microsoft faces strong competition in all of its business segments, providing the opportunity to lose market share in these industries. In order to stay at the forefront of these industries, Microsoft will need to continue investing in these devices and infrastructure, which could drive operating costs higher and decrease operating margins. In the case of recession, Microsoft would suffer as a producer of normal goods as consumers and businesses purchase fewer Microsoft products and services, as they will have less discretionary income. Similarly, Microsoft's international operations provide a significant portion of revenue, presenting a vulnerability to currency exchange rates. An appreciation of the dollar would hurt revenues, a likely scenario should the Federal Reserve raise interest rates.

## Corporate Social Responsibility

	MSFT	Ind. Avg.	Y/N
ESG Score	35.54	19.07	Y
Environmental Score	18.60	24.03	N
Governance Score	66.07	49.91	Y
Social Score	43.86	23.39	Y
Equal Opportunity Policy	1.00	0.80	Y
Comm. Spending (% of EBITDA)	3.1%	1.3%	Y
Score			5/6