

Microsoft

Analyst Report

University of Connecticut
2018-2019 Student Managed Fund
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Date: 4/26/2019

Purchase Price: \$106.19

Recommendation: Buy

Ticker: MSFT, NASDAQ

Headquarters: Redmond, WA

Current Price: \$129.50



Build the intelligent
cloud platform



Create more personal
computing



Reinvent productivity and
business processes

Business Overview

Business Description

Microsoft is a leader in the technology industry, with business lines spanning several different sub-industries. The company is most well-known for its Windows operating system and suite of office productivity software known as Microsoft Office. A recently available cloud subscription service known as Office 365 has further developed this software suite. However, Microsoft offers a range of both software and hardware products beyond these key categories, including:

Software

The company develops, markets, supports, and licenses a variety of business and consumer software. These products include system, server applications, business and consumer applications, developer tools, and inter/intranet software. In addition, Intelligent Cloud applications, AI development, and other cloud management software have rapidly been growing as a part of the company's product mix.

Hardware:

Video Game consoles and their respective software markets, Surface product line, and Cortana smart devices.

Figure 1: Revenue by Segment

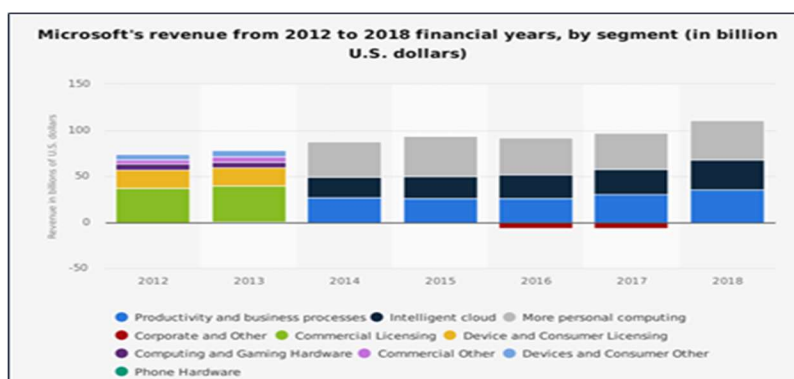
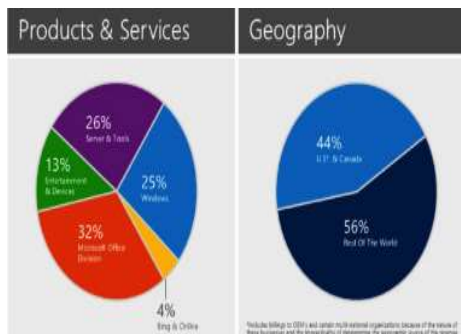


Figure 2: Product/Services and Geographical Breakdown



Historical Performance:

Attached is a chart of stock performance over a five-year period against a scaled S&P 500 index (SPX).



Key Business Segments:

Productivity and Business Processes

The products comprising this segment include several key acquisitions and core software offerings including: Office Commercial, Office consumer, Office 365, LinkedIn, Dynamics, and Dynamics 365. Microsoft has embraced the notion that the computing experience is not bound to one device at one point in time anymore. Users have expanded to a set of different products, often being used simultaneously, that must be interconnected through work, home and in between. To continue delivering value to consumers, the company must continuously offer innovative services. Moreover, AI is being further leveraged to create a more personalized and responsive user experience. Microsoft Teams has also begun to facilitate a common canvas across workplace functions to streamline teamwork and productivity. The growth of subscription-based cloud products has helped businesses of varying scales implement these products and make digital security a simpler task.

Figure 3: Productivity and Business Services

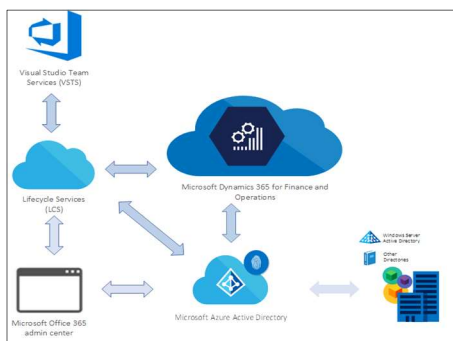
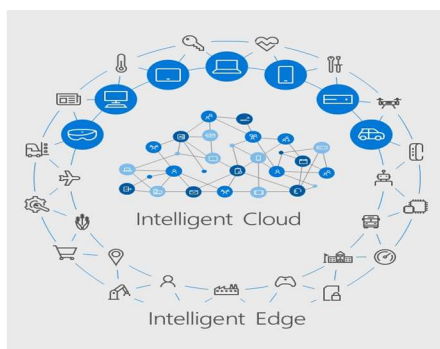


Figure 4: Cloud Services



Intelligent Cloud

Microsoft is strongly positioned to be the choice provider of cloud technology as more businesses embark on their digital transformations. The company is reaching this position through investments in datacenters and other similar infrastructure. The Microsoft Azure platform offers unparalleled cloud storage, developer productivity, AI capabilities, and security systems that smoothly integrate into other Microsoft products. These new options allow clients to move Microsoft SQL Servers from on-site storage locations to a managed cloud instance and to utilize existing AI through this platform. The Azure Machine Learning tools also allow for simple to advanced AI modeling and data science.

Figure 5: Microsoft Windows



Figure 6: 2018 Revenue Growth of Segments

Revenue Type	2018 Result
Commercial Cloud	56% growth to \$23.2B
Office Commercial	11% growth
Office Consumer	11% growth
LinkedIn	Contributed \$5.3B
Server Products/Cloud Services	21% growth
Gaming	14% growth
Surface	16% growth
Search advertising	16% growth
Xbox software/services	20% growth
Total	14% growth

Figure 7: MSFT Dividend History

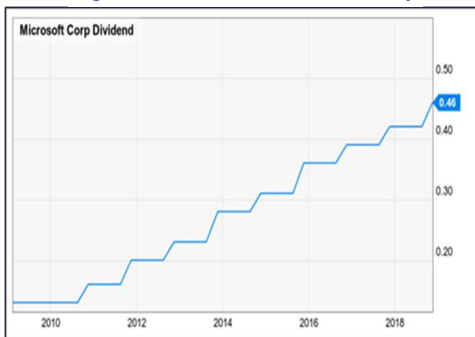
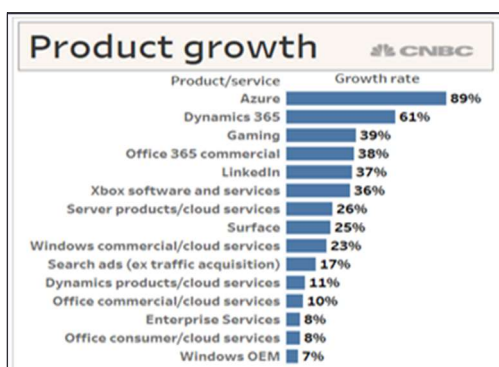


Figure 8: Product Growth Y/Y Change Three Months Ended June 2018



More Personal Computing

This segment is primarily driven by Windows 10 and its user-centric experience. The operating system empowers consumers through a range of AI-first features including voice-activated commands through Cortana, immersive 3D content, and augmented reality experiences. In addition, cloud sharing and co-authoring tools are natively offered through OneDrive. There are three key ways that Windows 10 will create growth opportunities for Microsoft, including: an original equipment manufacturer ecosystem, a first-party premium device portfolio, and monetization through gaming, services, subscriptions, and search advertising. The Xbox One console is also strongly positioned in the gaming industry and is part of an engaged network through Xbox live and PC gaming.

Financial Success

Strength Across Segments

Microsoft has been enjoying strong financial results across several lines of business. In addition to Office related products, server products, gaming, premium hardware products, and commercial cloud revenue have all grown at a faster rate. Commercial cloud has particularly been a star performer, achieving 56% growth.

This expansion has largely been driven by Microsoft's primary commercial cloud product, Azure. This product category is responsible for over \$20 billion in revenue in 2018 and is on pace to rapidly attain market share by challenging Amazon Web Service's dominance. Microsoft's existing relationships as a supplier of enterprise software have clearly benefited it in building a middle position in cloud computing.

In terms of direct returns to investors, the company has also continued a pattern of strong performance. It has given \$21.5 billion back to investors in the past year either through dividends or share buybacks. This has been facilitated by a strong free cash flow generation of over \$23 billion. The company's EBIT margin of 32% is particularly remarkable given its overall revenue growth of 14% and even more rapid growth in its more cutting edge segments. While it holds debt exceeding \$80 billion, its superb cash balance of over \$130 billion supports the company's high creditworthiness. Through its strong financial situation, Microsoft is well situated to continue investment in its variety of growing revenue segments and continue its market dominance long into the future.

Figure 9: Database, Storage, and Backup Software Market Share
(Source: IBISWORLD.com)

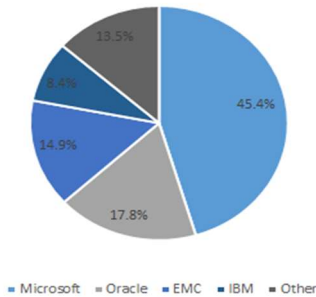


Figure 10: General Software Publishing Market Share

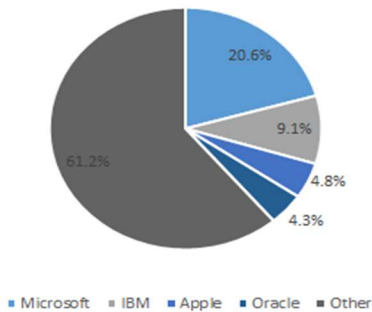
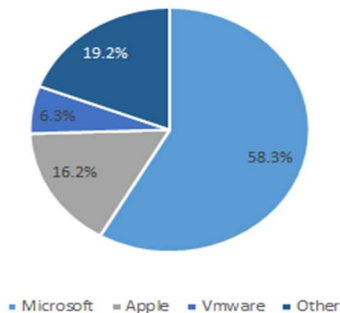


Figure 11: Productivity/Business Processes Market Share



Industry Overview

Database, Storage, and Backup Software Publishing

Microsoft competes in this market through two major products: Microsoft SQL Server and SQL Azure. Microsoft SQL Server is a database management server that is particularly designed to work with Windows. The main players in this industry develop and provide database management and storage software. In addition, businesses in this industry create middleware that links business analytics software and the databases this software utilizes. This industry is situated for strong future growth as corporate reinvestment into software infrastructure increases. Many of the key customers in this industry are small businesses that do not already have the expensive systems necessary in place. Microsoft holds a 45.4% market share in this industry.

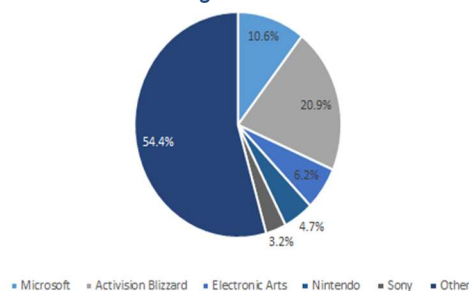
Software Publishing

Software publishers distribute licenses to consumers who pay for the right to use the software on their personal computers. Microsoft is a major player in this industry and competes with several major product groups including: Office 365, Dynamics ERP, and Dynamics CRM. This industry has strong potential for growth as the number of households with computers exceeds 95% and private hardware and software investment continues to grow. Microsoft is the largest player in this industry with a market share of 20.6%.

Productivity/business processes

Companies in this industry develop and distribute operating systems for computers along with productivity software like spreadsheet creators and word processors. Microsoft is by far the dominant player in this industry through its Windows operating system and corresponding set of Office products. The company initially gained ubiquity with its operating system through horizontal integration achieved by partnerships with original equipment manufacturers. Microsoft has a market share of 58.3% in this industry, which is more than three times larger than its nearest competitor.

Figure 12: Video Game Software Publishing Market Share



Video Game Software Publishing

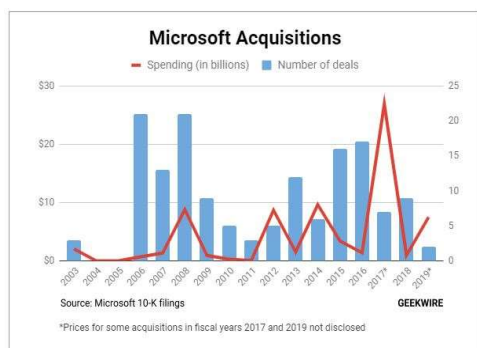
Software publishers distribute video games to consumers, along with producing, developing, and supporting this software. Microsoft is a major player in this industry and competes through in-house development studios and its Xbox platform. This industry has strong potential for growth as disposable income increases consumer spending and as new mediums for consumption widens the video game audience. Microsoft is a large player in this industry with a market share of 10.6%.

Investment Thesis

Diverse and Interconnected Product Mix

Microsoft has added significant value to its diverse product mix through the interconnectivity of its products and services. Throughout the company's history, it has been successful in developing products that encourage purchases of multiple offerings. Currently, Microsoft sells its market leading 365 software, which encourages hardware purchases as well as cloud storage and other company offerings. We believe this continued interconnectivity of products and services will add more and more value to Microsoft and its unique product mix.

Figure 13: Acquisition Cost and Number



Successful Acquisitions

Over the last several years, Microsoft has consistently adapted to market trends through successful acquisitions. This ability to recognize industry trends and adjust their offerings is essential in providing long term value for the company. Recently, Microsoft acquired Azure to enter the cloud computing industry alongside Amazon, Google, and other technology giants. In 2018, Azure revenue increased 56%, while last quarter it grew by 73%. Other successful acquisitions include GitHub in the coding and developing market and Xbox Gaming Studios, which continues to produce popular video games and host E-Sport tournaments, another growing market.



Figure 14: WACC Calculation

WACC	
Risk Free Rate	2.65%
Market Risk Premium	6.90%
Beta	1.04
Cost of Equity	9.83%
Cost of Debt	2.4%
Debt Weight	9.90%
Equity Weight	90.1%
Tax Rate	17%
WACC	9.0471%

Figure 15: Share Price Calculation

Implied Equity Value and Share Price	
PV of Cash Flows	\$ 172,065.6
PV of Terminal Value	\$ 720,527.3
Enterprise Value	\$ 892,592.9
Less: Total Debt	81,935
Less: Preferred Securities	-
Less: Noncontrolling Interest	-
Plus: Cash and Cash Equivalents	133,768
Implied Equity Value	\$ 944,425.9
Fully Diluted Shares Outstanding	7672.0
Implied Share Price	\$ 123.10
Current Stock Price	105.25
Margin of Safety	17.0%

Culture of Innovation

Microsoft encourages a culture of innovation that improves the internal development of the company and external community around it. It is involved in several projects with the potential to change entire industries. It is applying its machine learning from spam filters to create an HIV vaccine, developing seeing AI apps to assist over 10 million people with eyesight issues, and more. The success of any of these projects will add significant value to the company. It even has innovation centers specifically created to help its employees achieve unparalleled creativity. Externally, Microsoft hosts coding competitions to encourage innovations and secure the best talent around.

Valuation

Discounted Cash Flow Model

The discounted cash flow model arrived at an intrinsic value of \$123.10. This value was calculated using a weighted cost of capital (WACC) of 9%, which was determined by using the costs and weights of equity and debt. A perpetuity growth rate of 3.5% was used to mimic the expected GDP growth in the coming years.

Key Assumptions

Some key assumptions that were factored into the model were revenue growth and cost reduction, leading to better operating margins. We expect the cloud-computing segment to continue to grow in revenue and help decrease costs, as it requires less capital to maintain. In addition, as Microsoft's products and services continue to become more interconnected, we expect their sales of software and hardware to both rise.

Sensitivity Analysis of Implied Share Price					
\$	WACC				
	7.5%	8.0%	9.0%	9.5%	10.0%
\$ 123.10					
2.5%	139.83	127.24	107.88	100.29	93.71
3.0%	152.61	137.50	114.86	106.16	98.71
3.5%	168.58	150.04	123.10	113.01	104.47
4.0%	189.12	165.72	132.99	121.10	111.20
4.5%	216.50	185.88	145.08	130.81	119.14

Figure 16: Microsoft Risk Management

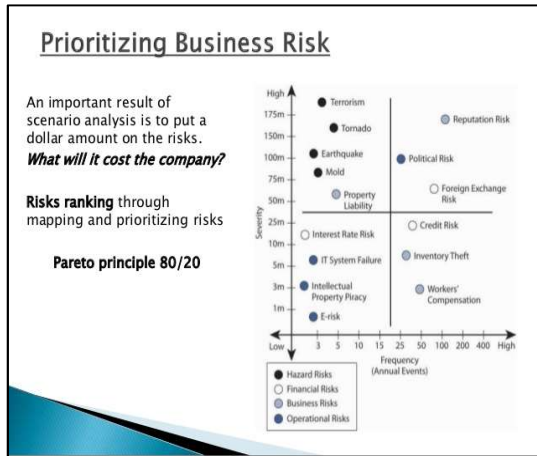


Figure 17: Microsoft's Main Competitors



Risks

Investment returns may not be satisfactory

Technology investments are speculative by nature and success depends on a variety of factors. The main tangible risk is that customers may not perceive the new offerings as valuable and decrease purchasing. However, this dynamic environment and associated hit-or-miss nature of investments in it is an existential reality for all competitors. By prioritizing intelligent cloud acquisitions, Microsoft positions itself well in an area of high potential overall.

Cyber attacks

Maintaining the security of IT systems and customer data is an ongoing challenge with a dynamic legal environment. Regulation of data management processes is ongoing both in the United States and abroad. However, Microsoft adheres strongly to EU regulations and leads the pack in terms of this compliance. In addition, the level of control Microsoft exerts over its data centers makes it easier to accommodate international laws.

Competition from similar firms

A variety of competitors in the industries Microsoft competes in could introduce disruption or new innovations that the company does not anticipate. However, Microsoft's integration between product lines allows it to nimbly adapt to and outpace competitors.

Appendices

Appendix A: Discounted Cash Flow Model

MSFT												
Discounted Cash Flow Analysis												
	Historical Period					Projection Period					CAGR	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2015-2020E	
Productivity and Business Processes Revenue	\$ 26,976.0	\$ 26,430.0	\$ 25,792.0	\$ 29,870.0	\$ 35,865.0	\$ 42,679.4	\$ 49,934.8	\$ 57,425.1	\$ 64,890.3	\$ 72,028.3		
Intelligent Cloud Revenue	\$ 21,735.0	\$ 23,715.0	\$ 24,952.0	\$ 27,407.0	\$ 32,219.0	\$ 37,696.2	\$ 43,350.7	\$ 48,986.3	\$ 54,374.7	\$ 59,812.2		
More Personal Computing Growth	\$ 38,460.0	\$ 43,435.0	\$ 40,410.0	\$ 39,294.0	\$ 42,276.0	\$ 45,658.1	\$ 49,767.3	\$ 53,748.7	\$ 57,511.1	\$ 60,961.8		
Total Revenue	\$ 87,171.0	\$ 93,580.0	\$ 91,154.0	\$ 96,571.0	\$ 110,360.0	\$ 126,033.7	\$ 143,052.8	\$ 160,160.0	\$ 176,776.2	\$ 192,802.2	11.80%	
% growth		7.4%	-2.6%	5.9%	14.3%	14.2%	13.5%	12.0%	10.4%	9.1%		
Cost of Revenue	\$ 27,078.0	\$ 33,038.0	\$ 32,780.0	\$ 34,261.0	\$ 38,353.0	\$ 41,966.9	\$ 45,921.4	\$ 50,248.5	\$ 54,983.3	\$ 60,164.2		
Gross Margin	\$ 60,093.0	\$ 60,542.0	\$ 58,374.0	\$ 62,310.0	\$ 72,007.0	\$ 84,066.7	\$ 97,131.4	\$ 109,911.5	\$ 121,792.9	\$ 132,638.0		
SG&A	20,488.0	20,324.0	19,198.0	19,942.0	22,223.0	24,749.0	27,375.8	29,848.7	32,061.6	34,004.2		
R&D	11,381.0	12,046.0	11,988.0	13,037.0	14,726.0	16,617.1	18,897.8	21,266.0	23,517.1	25,573.3		
Impairment and Restructuring	0.0	0.0	1110.0	306.0	0.0	0.0	0.0	0.0	0.0	0.0		
Total Operating Expenses	\$ 31,869.0	\$ 32,370.0	\$ 32,296.0	\$ 33,285.0	\$ 36,949.0	\$ 41,366.1	\$ 46,273.6	\$ 51,114.8	\$ 55,578.7	\$ 59,577.5		
EBIT	\$ 28,224.0	\$ 28,172.0	\$ 26,078.0	\$ 29,025.0	\$ 35,058.0	\$ 42,700.6	\$ 50,857.8	\$ 58,796.8	\$ 66,214.2	\$ 73,060.6		
Taxes	5,829.4	9,611.4	5,187.3	4,282.7	5,959.9	7,045.6	8,391.5	9,701.5	10,925.3	12,055.0		
Change in Deferred Taxes	(312.00)	555.00	2,255.00	(3,308.00)	-	(162.00)	(162.00)	(162.00)	(162.00)	(162.00)		
NOPLAT	\$ 22,082.6	\$ 19,115.6	\$ 23,145.7	\$ 21,434.3	\$ 29,098.1	\$ 35,493.0	\$ 42,304.3	\$ 48,933.3	\$ 55,126.9	\$ 60,843.6		
Plus: Depreciation & Amortization	5,212.0	5,957.0	6,622.0	8,778.0	10,261.0	12,182.6	14,464.1	17,172.9	20,388.9	24,207.3		
Plus: Stock Option Tax Benefit	2,446.000	2,574.000	2,668.000	3,266.000	3,940.000	4,451.6	5,029.6	5,682.6	6,420.4	7,254.0		
Gross Cash Flow	\$ 29,740.6	\$ 27,646.6	\$ 32,435.7	\$ 33,478.3	\$ 43,299.1	\$ 52,127.2	\$ 61,798.0	\$ 71,788.8	\$ 81,936.2	\$ 92,304.9		
Increase in Net Working Capital	(5,114.0)	(804.0)	(4,141.0)	4,124.0	(2,697.0)	(2,380.0)	(2,380.0)	(2,380.0)	(2,380.0)	(2,380.0)		
Increase in investments and other assets	1,193.0	(354.0)	4,674.0	4,015.0	1,497.0	2,205.0	2,407.4	2,959.7	2,616.8	2,337.2		
Increase in Net Prop, Plant & Equip	3,020.0	1,720.0	3,625.0	5,378.0	5,726.0	3,893.80	4,068.56	4,538.27	4,720.93	4,589.51		
Dep/Amort	5,212.0	5,957.0	6,622.0	8,778.0	10,261.0	12,182.63	14,464.13	17,172.89	20,388.94	24,207.28		
Increase in Long term deferred revenue	(248.0)	(87.0)	(4,346.0)	3,798.0	(1,172.0)	(411.00)	(411.00)	(411.00)	(411.00)	(411.00)		
Stock Option Tax Ben	4,315.0	8,641.1	4,840.5	1,056.4	6,230.5	5,016.70	5,157.04	4,460.24	4,384.19	5,049.74		
Gross Investment	8,377.9	15,073.1	11,274.4	27,149.5	19,845.5	20,507.1	23,306.1	26,340.0	29,319.8	33,392.7		
Free Cash Flow	\$ 21,362.6	\$ 12,573.5	\$ 21,161.2	\$ 6,328.8	\$ 23,453.6	\$ 31,620.1	\$ 38,491.9	\$ 45,448.8	\$ 52,616.4	\$ 58,912.2		
WACC	9.0%											
Discount Period												
Discount Factor												
						1	2	3	4	5		
						0.92	0.84	0.77	0.71	0.65		
Present Value of Free Cash Flow						\$ 29,009.3	\$ 32,397.8	\$ 35,094.8	\$ 37,274.8	\$ 38,288.9		

Appendix B: Income Statement

In Millions of USD except Per Share	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
12 Months Ending	06/30/2009	06/30/2010	06/30/2011	06/30/2012	06/30/2013	06/30/2014	06/30/2015	06/30/2016	06/30/2017	06/30/2018
Income Statement										
Revenues										
Revenues	58,437.0	62,484.0	69,943.0	73,723.0	77,849.0	—	—	—	—	—
Product Revenue	—	—	—	—	—	72,948.0	75,956.0	67,336.0	63,811.0	64,497.0
Service Revenue	—	—	—	—	—	13,885.0	17,624.0	23,818.0	32,760.0	45,863.0
Total Revenue	—	—	—	—	—	86,833.0	93,580.0	91,154.0	96,571.0	110,360.0
Operating Expenses										
Total Operating Expenses	38,074.0	38,386.0	27,205.0	34,430.0	—	—	—	—	—	—
Cost of Goods Sold	12,155.0	12,395.0	15,577.0	17,530.0	20,385.0	—	—	—	—	—
R & D Expenditures	9,010.0	8,714.0	9,043.0	9,811.0	10,411.0	11,381.0	12,046.0	11,988.0	13,037.0	14,726.0
Sales/Marketing/Advertising Expenses	12,879.0	13,214.0	13,940.0	13,857.0	15,276.0	15,811.0	15,713.0	14,635.0	15,461.0	17,469.0
Write-Down/Impairment of Assets	—	—	—	—	—	—	10,011.0	—	—	—
Restructuring Charges	330.0	—	—	—	—	—	—	—	306.0	0.0
Other One-Time Charges	—	—	—	—	—	—	—	1,110.0	—	—
General and Administrative Expenses	3,700.0	4,063.0	4,222.0	4,569.0	5,013.0	4,677.0	4,611.0	4,563.0	4,481.0	4,754.0
Merger/Acquisition Expense	—	—	—	—	—	127.0	—	—	—	—
Gross Profit	—	—	54,366.0	56,193.0	57,464.0	59,755.0	60,542.0	58,374.0	62,310.0	72,007.0
Operating Income	20,363.0	24,098.0	27,161.0	21,763.0	26,764.0	27,759.0	18,161.0	26,078.0	29,025.0	35,058.0
Impairment of Goodwill	—	0.0	—	6,193.0	—	—	—	—	—	—
Cost of Products Sold	—	—	—	—	—	16,681.0	21,410.0	17,880.0	15,175.0	15,420.0
Cost of Services	—	—	—	—	—	10,397.0	11,628.0	14,900.0	19,086.0	22,933.0
Total Cost of Revenues	—	—	—	—	—	27,078.0	33,038.0	32,780.0	34,261.0	38,353.0
Non-Operating Expenses										
Other Non-Operating Income	—	-915.0	-910.0	-504.0	—	—	—	—	—	—
Other Non-Operating Expenses	542.0	—	—	—	—	—	—	—	—	—
Income Tax Expense (Benefit)	5,252.0	6,253.0	4,921.0	5,289.0	5,189.0	5,746.0	6,314.0	5,100.0	4,412.0	19,903.0
Income Before Income Taxes	19,821.0	25,013.0	28,071.0	22,267.0	27,052.0	27,820.0	18,507.0	25,639.0	29,901.0	36,474.0
Other Non-Operating (Income)/Expense - Net	542.0	—	—	—	-288.0	-61.0	-346.0	439.0	-876.0	-1,416.0
Earnings										
Dividends Per Share	0.52	0.52	0.64	0.80	0.92	1.12	1.24	1.44	1.56	1.68
Basic EPS	1.63	2.13	2.73	2.02	2.61	2.66	1.49	2.59	3.29	2.15
Weighted Avg. Shares - Basic	8,945.0	8,813.0	8,490.0	8,396.0	8,375.0	8,299.0	8,177.0	7,925.0	7,746.0	7,700.0
Diluted EPS	1.62	2.10	2.69	2.00	2.58	2.63	1.48	2.56	3.25	2.13
Weighted Avg. Shares - Diluted	8,996.0	8,927.0	8,593.0	8,506.0	8,470.0	8,399.0	8,254.0	8,013.0	7,832.0	7,794.0
Net Income	14,569.0	18,760.0	23,150.0	16,978.0	21,863.0	22,074.0	12,193.0	20,539.0	25,489.0	16,571.0

Source: Bloomberg

Right click to show data transparency (not supported for all values)

Appendix A: Cash Flow Statement

In Millions of USD except Per Share	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
12 Months Ending	06/30/2009	06/30/2010	06/30/2011	06/30/2012	06/30/2013	06/30/2014	06/30/2015	06/30/2016	06/30/2017	06/30/2018
Cash Flow										
Net Income - CF	14,569.0	18,760.0	23,150.0	16,978.0	21,863.0	22,074.0	12,193.0	20,539.0	25,489.0	16,571.0
Depreciation And Amortization - CF	2,562.0	2,673.0	2,766.0	2,967.0	3,755.0	5,212.0	5,957.0	6,622.0	8,778.0	10,261.0
Deferred Income Taxes - CF	762.0	-220.0	2.0	954.0	-19.0	-331.0	224.0	2,479.0	-829.0	-5,143.0
Stock Based Compensation	1,708.0	1,891.0	2,166.0	2,244.0	2,406.0	2,446.0	2,574.0	2,668.0	3,266.0	3,940.0
Other Non-Cash Items	—	—	—	—	—	—	—	—	—	—
Change in Inventories	—	-44.0	-561.0	184.0	-802.0	-161.0	-272.0	600.0	50.0	-465.0
Change in Accounts Payable	—	844.0	58.0	-31.0	537.0	473.0	-1,054.0	88.0	81.0	1,148.0
Change in Accounts Receivable	2,215.0	-2,238.0	-1,451.0	-1,156.0	-1,807.0	-1,120.0	1,456.0	562.0	-1,216.0	-3,862.0
Change in Deferred/Unearned Revenue - ST	-1,017.0	561.0	2,292.0	2,757.0	2,332.0	2,586.0	152.0	2,565.0	3,820.0	5,922.0
Change in Other Current Assets	-422.0	464.0	-1,259.0	493.0	-129.0	-29.0	62.0	-1,212.0	1,028.0	-952.0
Change in Other Current Liabilities	-3,371.0	451.0	-1,146.0	410.0	146.0	1,075.0	-624.0	-179.0	356.0	798.0
Impairments	—	—	—	—	0.0	0.0	7,498.0	630.0	0.0	0.0
Tax Benefit From Exercise of Stock Option-Oper	-52.0	-45.0	-17.0	-93.0	-209.0	—	—	—	—	—
Change in Other Assets	-273.0	-223.0	62.0	-248.0	-478.0	-628.0	346.0	-1,110.0	-917.0	-285.0
Change In Other Liabilities	1,673.0	1,407.0	1,294.0	174.0	1,158.0	1,014.0	1,599.0	-406.0	-118.0	-20.0
Total Cash Flows From Operations	19,037.0	24,073.0	26,994.0	31,626.0	28,833.0	32,502.0	29,668.0	33,325.0	39,507.0	43,884.0
Gain (Loss) On Sale of Investments and Mkt Sec	683.0	-208.0	-362.0	-200.0	80.0	-109.0	-443.0	-223.0	-2,073.0	-2,212.0
Impairment Of Goodwill-CF	—	0.0	0.0	6,193.0	—	—	—	—	—	—
Tax Paid	—	—	—	—	—	—	—	-298.0	1,792.0	18,183.0
Capital Expenditures	-3,119.0	-1,977.0	-2,355.0	-2,305.0	-4,257.0	-5,485.0	-5,944.0	-8,343.0	-8,129.0	-11,632.0
Proceeds From Investments	25,997.0	22,578.0	22,777.0	45,275.0	57,594.0	65,366.0	85,861.0	115,341.0	164,394.0	143,937.0
Purchases of Investments	-36,850.0	-30,168.0	-35,993.0	-57,250.0	-75,396.0	-72,690.0	-98,729.0	-129,758.0	-176,905.0	-137,380.0
Acquisition of Business	-868.0	-245.0	-71.0	-10,112.0	-1,584.0	-5,937.0	-3,723.0	-1,393.0	-25,944.0	-888.0
Other Investing Activities	-930.0	-1,502.0	1,026.0	-394.0	-168.0	-87.0	-466.0	203.0	-197.0	-98.0
Total Cash Flows From Investing	-15,770.0	-11,314.0	-14,616.0	-24,786.0	-23,811.0	-18,833.0	-23,001.0	-23,950.0	-46,781.0	-6,061.0
Dividends Paid	-4,468.0	-4,578.0	-5,180.0	-6,385.0	-7,455.0	-8,879.0	-9,882.0	-11,006.0	-11,845.0	-12,699.0
Increase In Short-Term Borrowings	1,178.0	—	—	—	—	—	—	—	—	—
Increase (Decrease) Short-Term Borrowings -Net	1,178.0	-991.0	-186.0	0.0	0.0	500.0	4,481.0	7,195.0	-4,963.0	-7,324.0
Increase In Long-Term Borrowings	4,796.0	4,167.0	6,960.0	0.0	4,883.0	10,350.0	10,680.0	13,884.0	44,344.0	7,183.0
Decrease In Long-Term Borrowings	-228.0	-2,986.0	-814.0	0.0	-1,346.0	-3,888.0	-1,500.0	-2,796.0	-7,922.0	-10,060.0
Issuance of Common Stock	579.0	2,311.0	2,422.0	1,913.0	931.0	607.0	634.0	668.0	772.0	1,002.0
Repurchase of Common Stock	-9,353.0	-11,269.0	-11,555.0	-5,029.0	-5,360.0	-7,316.0	-14,443.0	-15,969.0	-11,788.0	-10,721.0
Effect of Exchange Rates On Cash	-67.0	-39.0	103.0	-104.0	-8.0	-139.0	-73.0	-67.0	19.0	50.0
Other Financing Activities	-19.0	10.0	-40.0	0.0	-10.0	-39.0	362.0	-369.0	-190.0	-971.0
Net Change In Cash	-4,263.0	-571.0	4,105.0	-2,672.0	-3,134.0	4,865.0	-3,074.0	915.0	1,153.0	4,283.0
Cash and Cash Equivalents (End of Period)	6,076.0	5,505.0	9,610.0	6,938.0	3,804.0	8,669.0	5,595.0	6,510.0	7,663.0	11,946.0
Cash and Cash Equivalents (Beg of Period)	10,339.0	6,076.0	5,505.0	9,610.0	6,938.0	3,804.0	8,669.0	5,595.0	6,510.0	7,663.0
Tax Benefit From Stock Options - Financing	52.0	45.0	17.0	93.0	209.0	—	—	—	—	—
Total Cash Flows From Financing	-7,463.0	-13,291.0	-8,376.0	-9,408.0	-8,148.0	-8,665.0	-9,668.0	-8,393.0	8,408.0	-33,590.0

Source: Bloomberg

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Appendix B: Balance Sheet

In Millions of USD except Per Share	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
12 Months Ending	06/30/2009	06/30/2010	06/30/2011	06/30/2012	06/30/2013	06/30/2014	06/30/2015	06/30/2016	06/30/2017	06/30/2018
Balance Sheet										
Cash and Equivalents	6,076.0	5,505.0	9,610.0	6,938.0	3,804.0	8,669.0	5,595.0	6,510.0	7,663.0	11,946.0
Accounts Receivable - Trade	11,192.0	13,014.0	14,987.0	15,780.0	17,486.0	19,544.0	17,908.0	20,636.0	22,431.0	26,481.0
Inventories	717.0	740.0	1,372.0	1,137.0	1,938.0	2,660.0	2,902.0	2,251.0	2,181.0	2,662.0
Deferred Income Tax Asset (Short-Term)	2,213.0	2,184.0	2,467.0	2,035.0	1,632.0	1,941.0	—	—	—	—
Other Current Assets	3,711.0	2,950.0	3,320.0	3,092.0	3,388.0	4,392.0	5,461.0	6,061.0	5,103.0	6,751.0
Allowance For Doubtful Accounts	451.0	62.0	333.0	389.0	336.0	301.0	335.0	392.0	345.0	377.0
Short-Term Investments	25,371.0	31,283.0	43,162.0	56,102.0	73,218.0	77,040.0	90,931.0	106,730.0	125,318.0	121,822.0
Total Current Assets	49,280.0	55,676.0	74,918.0	85,084.0	101,466.0	114,246.0	122,797.0	142,188.0	162,696.0	169,662.0
Noncurrent Assets										
Long Term Investments	4,933.0	7,754.0	10,865.0	9,776.0	10,844.0	14,597.0	12,053.0	10,431.0	6,023.0	1,862.0
Accumulated Depreciation	7,547.0	8,629.0	9,829.0	10,962.0	12,513.0	14,793.0	17,606.0	19,800.0	24,179.0	29,223.0
Property Plant & Equipment - Net	7,535.0	7,630.0	8,162.0	8,269.0	9,991.0	13,011.0	14,731.0	18,356.0	23,734.0	29,460.0
Deferred Income Tax Asset (Long-Term)	279.0	—	—	—	—	—	—	—	—	—
Other Intangible Assets	1,759.0	1,158.0	744.0	3,170.0	3,083.0	6,981.0	4,835.0	3,733.0	10,106.0	8,053.0
Goodwill	12,503.0	12,394.0	12,581.0	13,452.0	14,655.0	20,127.0	16,939.0	17,872.0	35,122.0	35,683.0
Other Noncurrent Assets	1,599.0	1,501.0	1,434.0	1,520.0	2,392.0	3,422.0	3,117.0	5,119.0	6,076.0	7,442.0
Total Assets	77,888.0	86,113.0	108,704.0	121,271.0	142,431.0	172,384.0	174,472.0	202,897.0	250,312.0	258,848.0
Accounts Payable - Trade	3,324.0	4,025.0	4,197.0	4,175.0	4,828.0	7,432.0	6,591.0	6,898.0	7,390.0	8,617.0
Current Portion of Long-Term Debt	—	—	0.0	1,231.0	2,999.0	0.0	2,499.0	0.0	1,049.0	3,998.0
Short-Term Borrowings	2,000.0	1,000.0	—	—	—	2,000.0	4,985.0	12,904.0	9,072.0	0.0
Accrued Compensation/Postretirement Oblig	3,156.0	3,283.0	3,575.0	3,875.0	4,117.0	4,797.0	5,096.0	5,264.0	5,819.0	6,103.0
Deferred/Unearned Revenue (Short-Term)	13,003.0	13,652.0	15,722.0	18,653.0	20,639.0	23,150.0	23,223.0	20,177.0	24,013.0	28,905.0
Other Current Liabilities	4,826.0	3,113.0	4,700.0	3,965.0	4,242.0	7,464.0	6,647.0	7,279.0	7,684.0	8,744.0
Income Taxes Accrued/Payable	725.0	1,074.0	580.0	789.0	592.0	782.0	606.0	580.0	718.0	2,121.0
Total Current Liabilities	27,034.0	26,147.0	28,774.0	32,688.0	37,417.0	45,625.0	49,647.0	53,102.0	55,745.0	58,488.0
Long Term Debt	3,746.0	4,939.0	11,921.0	10,713.0	12,601.0	20,645.0	27,808.0	40,557.0	76,073.0	72,242.0
Deferred Income Taxes (Liabilities)	0.0	229.0	1,456.0	1,893.0	1,709.0	2,728.0	1,295.0	6,313.0	5,734.0	541.0
Deferred/Unearned Revenue (Long-Term)	1,281.0	1,178.0	1,398.0	1,406.0	1,760.0	2,008.0	2,095.0	2,016.0	2,643.0	3,815.0
Other Noncurrent Liabilities	6,269.0	7,445.0	8,072.0	8,208.0	10,000.0	11,594.0	13,544.0	17,819.0	3,549.0	5,211.0
Provision For Taxation	—	—	—	—	—	—	—	—	13,485.0	30,265.0
Total Liabilities	—	39,938.0	51,621.0	54,908.0	63,487.0	82,600.0	94,389.0	119,807.0	162,601.0	176,130.0
Accumulated Other Comprehensive Income	—	—	—	1,422.0	1,743.0	3,708.0	2,522.0	1,794.0	627.0	-187.0
Retained Earnings (Accumulated Deficit)	-22,824.0	-16,681.0	-6,332.0	-856.0	9,895.0	17,710.0	9,096.0	13,118.0	17,769.0	13,682.0
Shares Outstanding	8,908.0	8,668.0	8,376.0	8,381.0	8,328.0	8,239.0	8,027.0	7,808.0	7,708.0	7,677.0
Common Stock & APIC	62,382.0	62,856.0	63,415.0	65,797.0	67,306.0	68,366.0	68,465.0	68,178.0	69,315.0	71,223.0
Total Shareholders Equity	39,558.0	46,175.0	57,083.0	66,363.0	78,944.0	89,784.0	80,083.0	83,090.0	87,711.0	82,718.0
Shares Authorized	24,000.0	24,000.0	24,000.0	24,000.0	24,000.0	24,000.0	24,000.0	24,000.0	24,000.0	24,000.0
Total Liabilities and Shareholders Equity	77,888.0	86,113.0	108,704.0	121,271.0	142,431.0	172,384.0	174,472.0	202,897.0	250,312.0	258,848.0

Source: Bloomberg

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