

Company	Microsoft	Ticker	MSFT	Current Price	Industry:	Information Technology	Sub-Industry	Systems Software
Target Price	\$330.00	TTM P/E	26.63	\$241.76	Beta	0.92	Mkt Cap	1.8 Trillion
Stop Loss	\$193.41	Forward P/E	38.00		Credit Rating	A	Avg Vol (12M)	7.4 Billion
52 wk High/Low	349.67-213.43	EPS	\$9.28		Rating Outlook	Strong Buy	Div Yield	1.12

Company Background

Microsoft is the world's largest software company. It is best known for Windows and Office and is rapidly expanding into cloud services such as Azure. MSFT has remained active in meta-software (e.g., development kits, emulators, compilers, debugWindows applications: word processor, spreadsheet, e-mail, and, later, category-defining, PowerPoint, Access and SQL Server products Azure (competitive with Amazon AWS in both Infrastructure-as-a-Service (IaaS) and Platform-as-a Service (PaaS) categories) Activision acquisition by Microsoft (Extract business synergies with Xbox)

Industry Outlook

CFRA has a positive fundamental outlook for the S&P 500 Systems Software sub-industry, as we also have for the S&P 500 Application Software sub-industry. Microsoft generates less than 50% of its revenue from the systems software. Enterprises look to cut costs through cloud migration. Four Key Trends in Enterprise Software : Cloud Migration, Digital Transformation, The Rise of Meta-Software, and AI/cloud migration is now at "peak impact." Covid-19 has accelerated these trends as enterprises reacted with aggressive cost-cutting and streamlining for greater operational agility. Massive surge in remote workers and the sudden need to serve customers while minimizing physical contact catalyzed faster cloud adoption and greater investment in digital transformation projects, a.k.a. substituting software for labor.

Investment Thesis

Strong Business Model, Transition to Cloud and competing with AWS, Strong financials, Trillion Dollar company, better ESG ranking than its peers. 12 Month's Target price is 330 and the stock price is set to reach the level once the economy gets into the transition phase from recession. Strong Dividend Yield, EPS, Revenue, EBITDA and net income growth. - Fundamentals of the business are solid which makes the stock a strong buy which is also in sync with many analysts recommendation

Investment Risks

Risk assessment balances of the company's leading global franchises, Windows, Office, SQL-Server, Xbox, and LinkedIn, considerable growth and success in cloud with "365" applications and Azure, and balance sheet strength, with challenges related to PC growth, disruption from mobile computing, and MSFT's sheer size and the "law of large numbers problem."

3-5 takeaways

- Operating profit is 35.8% in 2022 from 25.6% in 2017
- Wide Economic moat over various business segments
- Leaders in Cloud behind AWS
- Strong ESG performance

Financial Performance

	2017	2018	2019	2020	2021
Revenue	96,571	110,360	125,843	143,015	168,088
Operating Profit	24,742	15,928	38,585	44,217	60,249
Net Income	25,489	16,571	39,240	44,281	61,271
Revenue Growth	6.0%	14.0%	14.0%	14.0%	18.0%
EBITDA%	40.6%	42.5%	44.8%	47.4%	49.8%
Operating Profit %	25.6%	14.4%	30.7%	30.9%	35.8%
Net Income Margin	24.9%	25.9%	28.9%	31.2%	35.9%
D/E	108.91	105.79	84.49	69.41	57.95
EPS	3.29	2.15	5.11	5.82	8.12
PE Ratio	22.52	26.90	28.60	35.09	34.20
Current Ratio	2.92	2.90	2.53	2.52	2.09
RoE	29.85	19.45	42.41	40.14	47.08
RoA	11.25	6.51	14.39	15.06	19.30
Dividend per share	1.56	1.68	1.84	2.04	2.24
FCF	31,378.0	32,252.0	38,260.0	45,234.0	56,118.0

Discounted Cash Flow

	2018-21	2022-31
Avg Revenue Growth	14.87	17.96
Avg Gross Margin	67.8%	68.4%
Avg EBITDA Margin	46.1%	50.5%
Avg NOPAT Margin	32.5	36.5
Avg FCF Margin	31.2%	32.9%
Tax Rate		13.1
WACC		9.62
Perpetuity growth rate		3

Analyst Opinion

Buy: 48	Sell: 0	Hold: 2
	Rating	Target
S&P Net Advantage	Buy	330
Bloomberg	Buy	319
Yahoo Finance	Buy	299

Financial Performance

Name (BI Peers)	Ticker	Mkt Cap (USD)	MC to BV	Tot Assets:Y	P/S:Y	P/E:Y	P/FCF:Y	P/S:Y	GM:Y	EBIT/Net Sales:Y	ROE:Y	ROA:Y
Microsoft Corp	MSFT US	1.80T	10.39	364.84B	9.71	28.02	29.55	9.71	68.40%	42.06%	44.78%	19.78%
Oracle Corp	ORCL US	213.48B	-36.34	109.30B	4.58	18.83	38.62	4.58	79.06%	25.74%	--	8.86%
ServiceNow Inc	NOW US	84.73B	18.73	10.80B	21.81	535.89	71.48	21.81	77.05%	4.36%	7.55%	2.53%
VMware Inc - Class A	VMW US	49.36B	352.59	28.68B	4.22	27.48	13.64	4.22	82.33%	18.57%	--	6.88%
Palo Alto Networks Inc	PANW US	48.78B	232.28	12.25B	8.94	--	27.44	8.94	68.76%	-3.43%	-48.19%	-2.09%
Fortinet Inc	FTNT US	43.91B	-69.18	5.92B	17.55	99.21	48.72	17.55	76.57%	19.46%	73.95%	12.16%
Check Point Software Tech	CHKP US	16.18B	5.55	5.90B	7.16	19.20	13.06	7.16	88.48%	41.88%	24.23%	13.88%
Gen Digital Inc	GEN US	14.49B	8.53	6.94B	5.60	17.52	16.17	5.60	85.41%	35.94%	--	13.70%
Splunk Inc	SPLK US	13.83B	-20.22	5.79B	7.49	--	185.43	7.49	72.79%	-42.89%	-105.95%	-16.51%
GitLab Inc - Class A	GTLB US	7.09B	9.11	1.09B	20.21	--	--	20.21	88.13%	-51.04%	--	-21.34%
Trend Micro Inc	4704 JP	7.07B	4.10	3.66B	4.68	23.22	16.77	4.68	77.93%	22.93%	15.68%	8.05%
Hashicorp Inc - Class A	HCP US	5.59B	4.54	1.62B	17.24	--	--	17.24	80.22%	-90.19%	--	-28.05%
Box Inc - Class A	BOX US	4.13B	-7.00	1.39B	4.65	--	17.67	4.65	71.47%	-3.16%	--	-2.85%

Total Return

	Rating	Company	S&P 500	Industry Sect.
YTD		-28	-16	-23
2021		51.21	26.8	33.35
Last 3 years		231	90	180.75
Last 5 years		191	55.6	112.8

CSR Characteristics	Company	Peers
ESG Disclosure score	65.39	32.04
Governance disclosure score	93.74	82.34
Social Disclosure score	31.71	13.26
Environmental disclosure score	70.58	3.44

Prepared by Team Hartford (Month Day, Year) using Bloomberg, S&P Net Advantage, Morning Star, Yahoo Finance