Microsoft Corporation is an American multinational technology company which produces computer sottware, consumer electronics, personal
computers, and related services. Its best known software products are the Microsoft Windows line of operating systems, the Microsoft Office suite, and the Internet Explorer and Edge web browsers. Its flagship hardware products are the Xbox video game consoles and the Microsoft Surface lineup of touchscreen personal computers. Microsoft ranked No. 21 in the 2020 Fortune 500 rankings of the largest United States corporations by total revenue; it was the world's largest software maker by revenue as of 2016. It is considered one of the Big Five companies in the U.S. information technology industry, along with Google, Apple, Amazon, and Facebook.
Address: ONE MICROSOFT WAY, REDMOND, WA, US
Financials Date: Jun 30, 2022

## Industry: SERVICES-PREPACKAGED SOFTWARE

## Executive Valuation Summary



Distance to Price

| Previous Close | Target |
| :---: | :---: |
| 250.66 | Price Target |
|  | $13.70 \%$ |


| Valuation Measures |  | Model Assumptions |  |
| :---: | :---: | :---: | :---: |
| Market Cap | 1.84T | Valuation Date |  |
| Trailing P/E Ratio | 25.62 | WACC | 9.46\% |
| Forward P/E Ratio | 24.10 | EBITDA Multiple | 17.5 |
| PEG Ratio | 1.80 | Assumed Tax Rate | 21.00\% |
| Enterprise Value / EBITDA | 17.58 | Implied EV / EBITDA | 23.10 |
| Enterprise Value / Sales | 8.89 | Implied EV / FWD Sales | 8.69 |
| Price / Sales Ratio | 9.30 | Implied Price / FWD Sales | 8.92 |
| Z-Score Adjustment |  | Peer Comparison Summary |  |
|  |  | Name EV/EBITDA | EV/Sales |
| -0.95 |  | Microsoft Corporation 17.58 | 8.89 |
| Trading Channel Adjustmen |  |  |  |

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| Fiscal Year | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Fiscal Period | FY | FY | FY | FY | FY | FY | FY | FY |
| Revenue | 143.0B | 168.1B | 198.3B | 210.7B | 241.0B | 275.7B | 315.4B | 360.8B |
| Revenue Growth derived from Quarterly Model | NaN | 17.53\% | 17.96\% | 6.25\% | 14.40\% | 14.40\% | 14.40\% | 14.40\% |
| Cost of Goods Sold (COGs) | 46.1B | 52.2B | 62.7B | 67.4B | 78.2B | 89.5B | 102.4B | 117.2B |
| \% of Sales | 32.22\% | 31.07\% | 31.60\% | 32.00\% | 32.47\% | 32.47\% | 32.47\% | 32.47\% |
| Gross Profit | 96.9B | 115.9B | 135.6B | 143.3B | 162.8B | 186.2B | 213.0B | 243.7B |
| \% of Sales - Derived from Quarterly Model | 67.78\% | 68.93\% | 68.40\% | 68.00\% | 67.53\% | 67.53\% | 67.53\% | 67.53\% |
| Operating Expenses (SG\&A) | -44.0B | -45.9B | -52.2B | -67.6B | -76.3B | -87.3B | -99.8B | -114.2B |
| \% of Sales - Derived from Quarterly Model | -30.75\% | -27.33\% | -26.35\% | -32.11\% | -31.65\% | -31.65\% | -31.65\% | -31.65\% |
| Operating Income (EBIT) | 53.0B | 69.9B | 83.4B | 75.6B | 86.5B | 98.9B | 113.2B | 129.5B |
| Interest Expense | OK | OK | OK | OK | OK | OK | OK | OK |
| Other Income | 77M | 1B | 333M | 0 | 0 | 0 | 0 | 0 |
| Total Other Income | 77M | 1B | 333M | 532M | 532M | 532M | 532M | 532M |
| Pretax Income (EBT) | 53.0B | 71.1B | 83.7B | 76.1B | 87.0B | 99.5B | 113.7B | 130.0B |
| Income Tax Expense | 9B | 10B | 11B | 16.0B | 18.3B | 20.9B | 23.9B | 27.3B |
| Tax Rate | NaN | NaN | NaN | 21.00\% | 21.00\% | 21.00\% | 21.00\% | 21.00\% |
| Net Income | 44.3B | 61.3B | 72.7B | 60.2B | 68.7B | 78.6B | 89.8B | 102.7B |
| Operating Income (EBIT) | 53.0B | 69.9B | 83.4B | 75.6B | 86.5B | 98.9 B | 113.2B | 129.5B |
| Depreciation \& Amortization (D\&A) | 12.8B | 11.7B | 14.5B | 15.0B | 17.2B | 19.6B | 22.5B | 25.7B |
| \% of Sales | 8.95\% | 6.95\% | 7.29\% | 7.12\% | 7.12\% | 7.12\% | 7.12\% | 7.12\% |
| EBITDA | 65.8B | 81.6B | 97.8B | 90.6B | 103.6B | 118.6B | 135.6B | 155.2B |
| Diluted EPS | 5.76 | 8.04 | 9.65 | 12.02 | 13.75 | 15.72 | 17.99 | 20.58 |
| Diluted EPS Growth |  | 39.57\% | 19.93\% | 24.58\% | 14.37\% | 14.40\% | 14.40\% | 14.40\% |


| Discounted Cash Flow Analysis | 2023 | 2024 | 2025 | 2026 | 2027 | Normalized |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| EBITDA | 90.6B | 103.6B | 118.6B | 135.6B | 155.2B | 155.2B |
| Less: D\&A | -15004930.7K | -17165901.8K | -19638090.4K | -22466317.2K | -25701857.8K | -43871070.7K |
| EBIT | 75.6B | 86.5B | 98.9B | 113.2B | 129.5B | 111.3B |
| Less: Taxes | -15878832.0K | -18159066.6K | -20774288.3K | -23766147.3K | -27188886.1K | -23373351.4K |
| NOPAT | 59.7B | 68.3B | 78.2B | 89.4B | 102.3B | 87.9B |
| Plus: D\&A | 15.0B | 17.2B | 19.6B | 22.5B | 25.7B | 43.9B |
| Less: CapEx | -25612248.7K | -29300858.2K | -33520691.7K | -38348254.7K | -43871070.7K | -43871070.7K |
| Less: (Increase) / Decrease in NWC | 7.6B | 6.1B | 6.3B | 7.2B | 8.3B |  |
| Unlevered Free Cash Flow | 56.7B | 62.2B | 70.6B | 80.7B | 92.4B | 87.9B |
|  |  |  |  |  |  |  |
| Discount Period | 0.5 | 1.5 | 2.5 | 3.5 | 4.5 | 4.5 |
| Discount Factor | 0.956 | 0.873 | 0.798 | 0.729 | 0.666 | 0.666 |
| PV of Unlevered Free Cash Flow | 54.2B | 54.3B | 56.3B | 58.8B | 61.5B |  |


| Fiscal Year | 2023 | 2023 | 2023 | 2023 | 2024 | 2024 | 2024 | 2024 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Fiscal Period | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Revenue | 50.1B | 51.6B | 53.5B | 55.4B | 57.4B | 59.3B | 61.2B | 63.1 B |
| Revenue Growth | 10.61\% | -0.27\% | 8.41\% | 6.89\% | 14.44\% | 14.93\% | 14.39\% | 13.89\% |
| Cost of Goods Sold (COGs) | 50.1B | 51.6B | 53.5B | 55.4B | 57.4B | 59.3B | 61.2B | 63.1B |
| \% of Sales | 10.61\% | -0.27\% | 8.41\% | 6.89\% | 14.44\% | 14.93\% | 14.39\% | 13.89\% |
| Gross Profit | 34.2B | 35.1B | 36.4B | 37.6B | 38.8B | 40.1B | 41.3B | 42.5B |
| \% of Sales | 68.18\% | 68.06\% | 67.94\% | 67.82\% | 67.71\% | 67.59\% | 67.47\% | 67.36\% |
| Operating Expenses (SG\&A) | -16098.5M | -16638.4M | -17178.2M | -17718.0M | -18257.8M | -18797.7M | -19337.5M | -19877.3M |
| \% of Sales | -32.12\% | -32.25\% | -32.10\% | -31.96\% | -31.83\% | -31.71\% | -31.59\% | -31.48\% |
| Operating Income (EBIT) | 18.1B | 18.5B | 19.2B | 19.9B | 20.6B | 21.3B | 22.0B | 22.6B |
| Interest Expense | 0.0K | 0.0K | 0.0K | 0.0K | 0.0K | 0.0K | 0.0K | 0.0K |
| Other Income | 83.3M | 83.3M | 83.3M | 83.3M | 83.3M | 83.3M | 83.3M | 83.3M |
| Total Other Income | 83.3M | 83.3M | 83.3M | 83.3M | 83.3M | 83.3M | 83.3M | 83.3M |
| Pretax Income (EBT) | 18.2B | 18.6B | 19.3B | 20.0B | 20.7B | 21.4B | 22.0B | 22.7B |
| Income Tax Expense | 3.8B | 3.9B | 4.0B | 4.2B | 4.3B | 4.5B | 4.6B | 4.8B |
| Tax Rate | 21.00\% | 21.00\% | 21.00\% | 21.00\% | 21.00\% | 21.00\% | 21.00\% | 21.00\% |
| Net Income | 14.3B | 14.7B | 15.2B | 15.8B | 16.3B | 16.9B | 17.4B | 18.0B |
| Operating Income (EBIT) | 18.1B | 18.5B | 19.2B | 19.9B | 20.6 B | 21.3 B | 22.0 B | 22.6 B |
| Depreciation \& Amortization (D\&A) | 3.6B | 3.7 B | 3.8B | 3.9B | 4.18 | 4.2B | 4.4B | 4.5 B |
| \% of Sales | 7.12\% | 7.12\% | 7.12\% | 7.12\% | 7.12\% | 7.12\% | 7.12\% | 7.12\% |
| EBITDA | 21.6B | 22.1B | 23.0B | 23.8B | 24.7B | 25.5B | 26.3B | 27.1B |
| Diluted EPS | 1.91 | 1.95 | 2.03 | 2.11 | 2.19 | 2.26 | 2.34 | 2.42 |
| EPS Growth | -29.74\% | -21.40\% | -8.29\% | -5.03\% | 14.65\% | 15.96\% | 15.31\% | 14.70\% |

## Revenue Projection




Gross Profit Margin Projection


Cash Projection


