



# Microsoft Corp. (MSFT)

Updated May 9<sup>th</sup>, 2025, by Aristofanis Papadatos

## Key Metrics

|                             |       |  |       |                                  |         |
|-----------------------------|-------|--|-------|----------------------------------|---------|
| <b>Current Price:</b>       | \$438 | <b>5 Year CAGR Estimate:</b>               | 6.8%  | <b>Market Cap:</b>               | \$3.2 T |
| <b>Fair Value Price:</b>    | \$319 | <b>5 Year Growth Estimate:</b>             | 13.0% | <b>Ex-Dividend Date:</b>         | 5/15/25 |
| <b>% Fair Value:</b>        | 137%  | <b>5 Year Valuation Multiple Estimate:</b> | -6.1% | <b>Dividend Payment Date:</b>    | 6/12/25 |
| <b>Dividend Yield:</b>      | 0.8%  | <b>5 Year Price Target</b>                 | \$588 | <b>Years Of Dividend Growth:</b> | 23      |
| <b>Dividend Risk Score:</b> | A     | <b>Sector:</b> Information Technology      |       | <b>Rating:</b>                   | Hold    |

## Overview & Current Events

Microsoft Corporation, founded in 1975 and headquartered in Redmond, WA, develops, manufactures, and sells software and hardware to businesses and consumers. Its offerings include operating systems, business software, software development tools, video games and gaming hardware, and cloud services. Microsoft's market capitalization is \$3.2 trillion, compared to annual underlying earnings power of \$88 billion.

On October 13<sup>th</sup>, 2023, Microsoft acquired Activision Blizzard, a leader in video game content, for \$68.7 billion.

In late April, Microsoft reported (4/30/25) financial results for the third quarter of fiscal 2025 (its fiscal year ends June 30<sup>th</sup>). The company grew its revenue 13% over the prior year's quarter. Growth came from Intelligent Cloud and Productivity & Business Processes, which grew 21% and 10%, respectively. Sales of Azure, Microsoft's high-growth cloud platform, grew 33%. Earnings-per-share grew 18%, from \$2.93 to \$3.46, and exceeded the analysts' consensus by \$0.24. Microsoft has exceeded the analysts' consensus in 25 of the last 27 quarters. The report did not reveal any business deceleration amid the ongoing global trade war. Microsoft appears essentially immune to this headwind and hence we still expect record earnings-per-share of about \$13.30 this year.

## Growth on a Per-Share Basis

| Year                      | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024    | 2025           | 2030           |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|----------------|----------------|
| <b>EPS</b>                | \$2.65 | \$2.79 | \$3.08 | \$3.88 | \$4.75 | \$5.76 | \$7.97 | \$9.21 | \$9.81 | \$11.80 | <b>\$13.30</b> | <b>\$24.50</b> |
| <b>DPS</b>                | \$1.24 | \$1.44 | \$1.56 | \$1.68 | \$1.80 | \$1.99 | \$2.19 | \$2.42 | \$2.66 | \$2.93  | <b>\$3.32</b>  | <b>\$5.08</b>  |
| <b>Shares<sup>1</sup></b> | 8,027  | 7,808  | 7,708  | 7,677  | 7,643  | 7,571  | 7,608  | 7,506  | 7,467  | 7,472   | <b>7,400</b>   | <b>7,000</b>   |

After years of solid growth, Microsoft had a hard time growing its profits during 2011-2015. After a change in its management and a strategic shift towards cloud computing and mobile, Microsoft has reinvigorated growth. The tech giant has grown its earnings-per-share at an 18.1% average annual rate over the last decade.

Microsoft's cloud business is growing at a rapid pace thanks to Azure, which has been growing tremendously. The Office product range, which had been a low-growth cash cow for years, is showing strong growth rates as well after Microsoft changed its business model towards the Office 365 software-as-a-service (SaaS) system. Due to low variable costs, the company should be able to maintain a solid earnings growth rate for the foreseeable future. An additional growth driver is artificial intelligence, as Microsoft has begun to prove that it can monetize its leadership in this booming field.

The markets Microsoft addresses continue to grow, with cloud computing and artificial intelligence being the most compelling. This means that Microsoft will most likely be able to grow its top line even without any market share gains. Given also margin expansion, we expect 13% average annual growth of earnings-per-share over the next five years.

## Valuation Analysis

| Year             | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now         | 2030        |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| <b>Avg. P/E</b>  | 17.0 | 18.1 | 20.2 | 22.1 | 23.7 | 27.4 | 28.3 | 32.2 | 27.3 | 32.0 | <b>32.9</b> | <b>24.0</b> |
| <b>Avg. Yld.</b> | 2.7% | 2.9% | 2.5% | 2.0% | 1.6% | 1.3% | 1.0% | 0.8% | 1.0% | 0.8% | <b>0.8%</b> | <b>0.9%</b> |

<sup>1</sup> In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Microsoft is marked by several distinct valuation periods. In the 1990's and early 2000's, it was not uncommon to see shares trade north of 30- or 40-times earnings. From 2003 through 2008 shares regularly traded in the 20 to 25 times earnings range. From 2009 through 2014, a 10 to 15 multiple was typical. And lately, 20 times earnings and above has once again become the norm, as growth has picked up extensively. Our view is that an above average multiple of 24.0 is warranted for the business, especially considering the strong balance sheet. The stock is now trading at a nearly 10-year high price-to-earnings ratio of 32.9. If it trades at fair valuation level in 2030, it will incur a -6.1% annualized drag.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 47%  | 52%  | 51%  | 43%  | 38%  | 35%  | 27%  | 26%  | 27%  | 25%  | 25%  | 21%  |

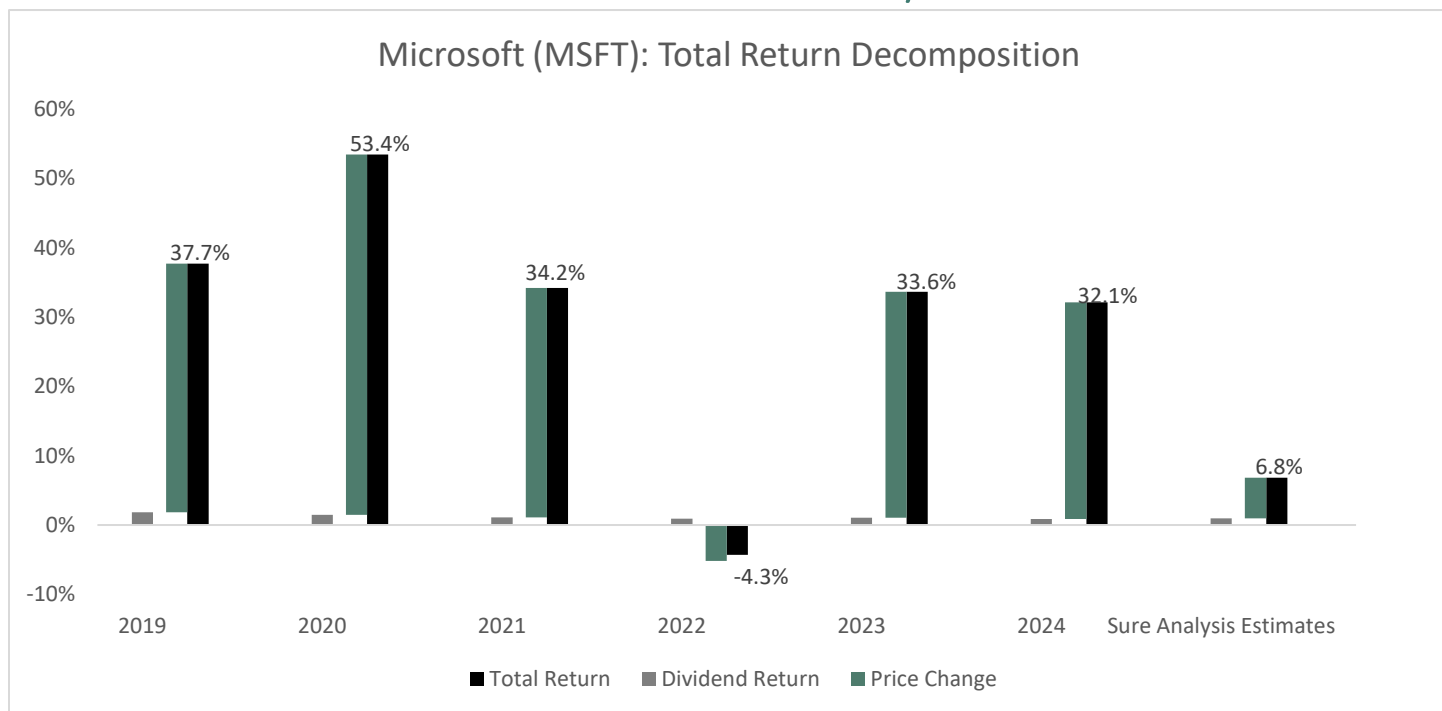
Microsoft has been a solid income investment throughout the last decade. The dividend payout ratio has never risen substantially above 50%, and the fact that Microsoft has one of the strongest balance sheets in the world means that the dividend is very safe. However, the below-average yield makes Microsoft less suitable as an income stock today.

Microsoft has a wide moat in the operating system & Office business units and a strong market position in cloud computing and artificial intelligence. It is unlikely that the company will lose market share with its older, established products, whereas cloud computing and AI are such high-growth industries that there is enough room for growth for multiple companies. Microsoft has a renowned brand and a global presence, which provides competitive advantages. The company is relatively resilient against recessions, and its AAA-rated balance sheet makes it a low-risk business.

## Final Thoughts & Recommendation

Microsoft had been a low-growth cash cow throughout the majority of the last decade, but a focus on cloud computing, mobile and AI has reinvigorated its growth. The stock has nearly doubled off its bottom in late 2022 but it has not become overvalued, as AI is probably a game changer. Microsoft could offer a 6.8% average annual return over the next five years thanks to 13.0% earnings growth and its 0.8% dividend, partly offset by a -6.1% valuation headwind. The stock maintains its hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2015  | 2016  | 2017  | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024   |
|------------------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|
| Revenue          | 93580 | 91154 | 96571 | 110360 | 125843 | 143015 | 168090 | 198270 | 211915 | 245122 |
| Gross Profit     | 60542 | 58374 | 62310 | 72007  | 82933  | 96937  | 115860 | 135620 | 146052 | 171008 |
| Gross Margin     | 64.7% | 64.0% | 64.5% | 65.2%  | 65.9%  | 67.8%  | 68.9%  | 68.4%  | 68.9%  | 69.8%  |
| SG&A Exp.        | 20324 | 19198 | 19942 | 22223  | 23098  | 24709  | 25220  | 27725  | 30334  | 32065  |
| D&A Exp.         | 5957  | 6622  | 8778  | 10261  | 11682  | 12796  | 11690  | 14460  | 13861  | 22287  |
| Operating Profit | 28172 | 27188 | 29331 | 35058  | 42959  | 52959  | 69920  | 83383  | 88523  | 109433 |
| Op. Margin       | 30.1% | 29.8% | 30.4% | 31.8%  | 34.1%  | 37.0%  | 41.6%  | 42.1%  | 41.8%  | 44.6%  |
| Net Profit       | 12193 | 20539 | 25489 | 16571  | 39240  | 44281  | 61270  | 72738  | 72361  | 88136  |
| Net Margin       | 13.0% | 22.5% | 26.4% | 15.0%  | 31.2%  | 31.0%  | 36.5%  | 36.7%  | 34.1%  | 36.0%  |
| Free Cash Flow   | 23724 | 24982 | 31378 | 32252  | 38260  | 45234  | 56120  | 65149  | 59475  | 74071  |
| Income Tax       | 6314  | 5100  | 4412  | 19903  | 4448   | 8755   | 9831   | 10978  | 16950  | 19651  |

## Balance Sheet Metrics

| Year                     | 2015 | 2016 | 2017 | 2018 | 2019 | 2020  | 2021  | 2022  | 2023  | 2024  |
|--------------------------|------|------|------|------|------|-------|-------|-------|-------|-------|
| Total Assets (\$B)       | 174  | 193  | 250  | 259  | 287  | 301   | 334   | 365   | 411   | 512   |
| Cash & Equivalents (\$B) | 6    | 7    | 8    | 12   | 11   | 13.6  | 14.2  | 13.9  | 34.7  | 18.3  |
| Acc. Receivable (\$B)    | 18   | 18   | 22   | 26   | 30   | 32.0  | 38    | 441   | 48.7  | 56.9  |
| Inventories (\$B)        | 3    | 2    | 2    | 3    | 2    | 1.9   | 2.6   | 3.7   | 2.5   | 1.2   |
| Goodwill & Int. (\$B)    | 22   | 22   | 45   | 44   | 50   | 50.4  | 57.5  | 78.8  | 77.3  | 146.8 |
| Total Liab. (\$B)        | 94   | 121  | 163  | 176  | 184  | 183.0 | 191.8 | 198.3 | 205.8 | 243.7 |
| Accounts Payable (\$B)   | 7    | 7    | 7    | 9    | 9    | 12.5  | 15.2  | 19    | 18    | 22    |
| Long-Term Debt (\$B)     | 35   | 53   | 86   | 76   | 72   | 63.3  | 58.2  | 49.8  | 47.2  | 51.6  |
| Total Equity (\$B)       | 80   | 72   | 88   | 83   | 102  | 118.3 | 142   | 167   | 206   | 268   |
| D/E Ratio                | 0.44 | 0.74 | 0.98 | 0.92 | 0.71 | 0.54  | 0.41  | 0.30  | 0.23  | 0.19  |

## Profitability & Per Share Metrics

| Year             | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 7.0%  | 11.2% | 11.5% | 6.5%  | 14.4% | 15.1% | 19.3% | 20.8% | 18.6% | 19.1% |
| Return on Equity | 14.4% | 27.0% | 31.9% | 19.4% | 42.4% | 40.1% | 47.1% | 47.2% | 38.8% | 37.1% |
| ROIC             | 10.7% | 17.1% | 17.0% | 10.0% | 23.5% | 24.9% | 32.1% | 34.9% | 30.8% | 30.7% |
| Shares Out.      | 8,027 | 7,808 | 7,708 | 7,677 | 7,643 | 7,683 | 7,608 | 7,540 | 7,472 | 7,469 |
| Revenue/Share    | 11.34 | 11.38 | 12.33 | 14.16 | 16.23 | 18.61 | 22.09 | 26.30 | 28.36 | 32.82 |
| FCF/Share        | 2.87  | 3.12  | 4.01  | 4.14  | 4.93  | 5.89  | 7.38  | 8.64  | 7.96  | 9.92  |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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