



Microsoft Presentation

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What does Microsoft do?

- Founded in 1975, Microsoft is a technology company
- Microsoft develops and supports software
- Microsoft also designs and sells devices, including PCs, tablets, gaming consoles
- Microsoft products include:
 - Windows operating system
 - Microsoft Office
 - Bing search engine
 - Microsoft Teams, Skype, LinkedIn, GitHub
 - OneDrive, Intelligent Cloud products such as SQL Server, Windows Server, Azure
 - Dynamics



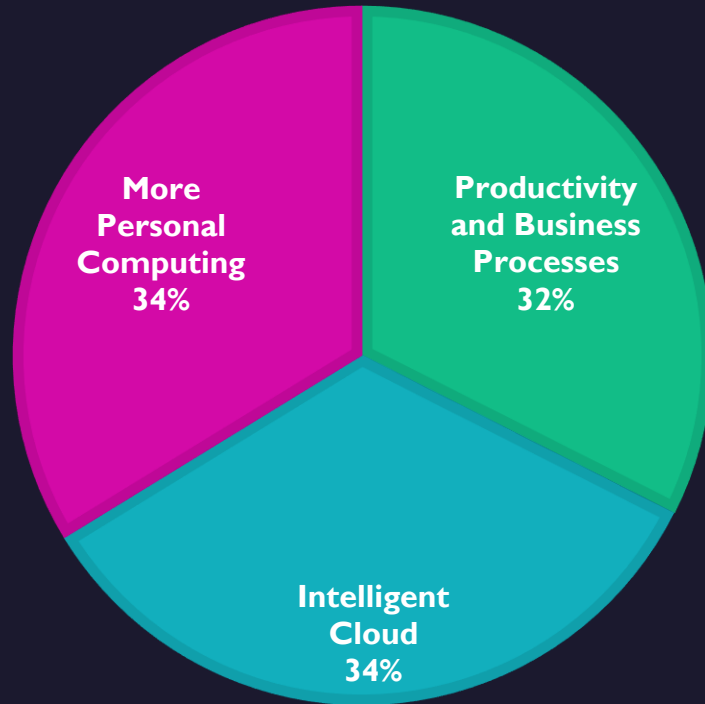
Operating Segments

- Productivity and Business Processes
 - Office and Office 365, Teams, Skype, LinkedIn, Dynamics, OneDrive
- Intelligent Cloud
 - SQL Server, Windows Server, Visual Studio, GitHub, and Azure
- More Personal Computing
 - Windows, Surface, PC accessories, Xbox and Search

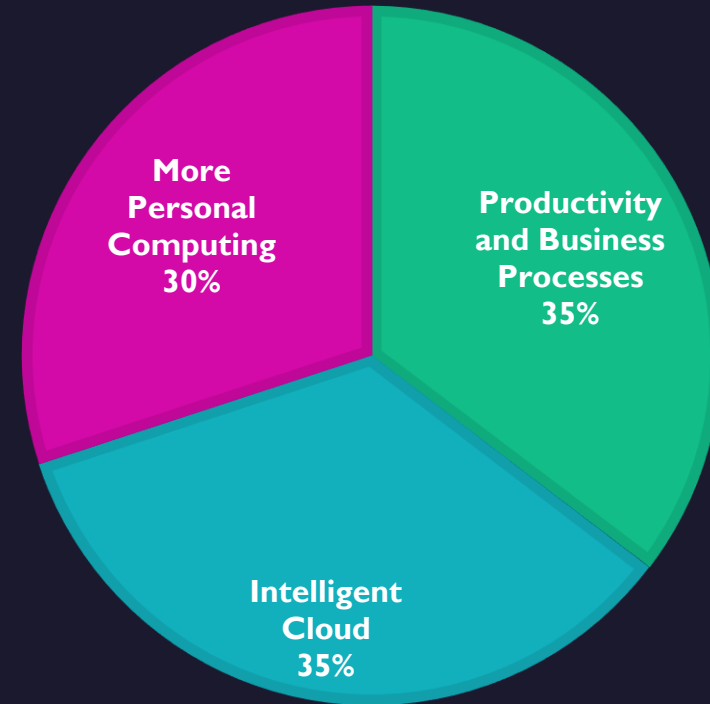


Segment Analysis

SALES

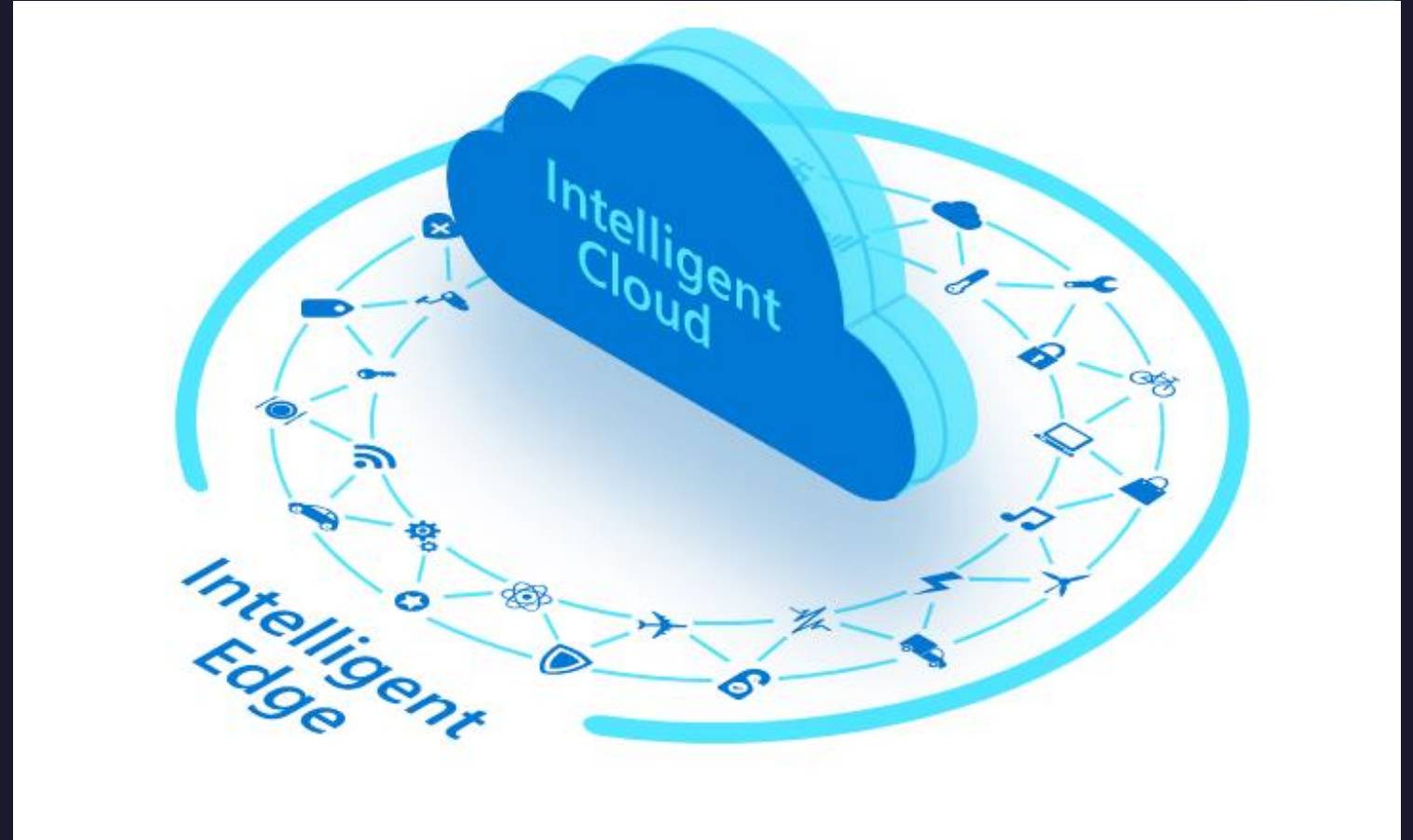


OPERATING INCOME



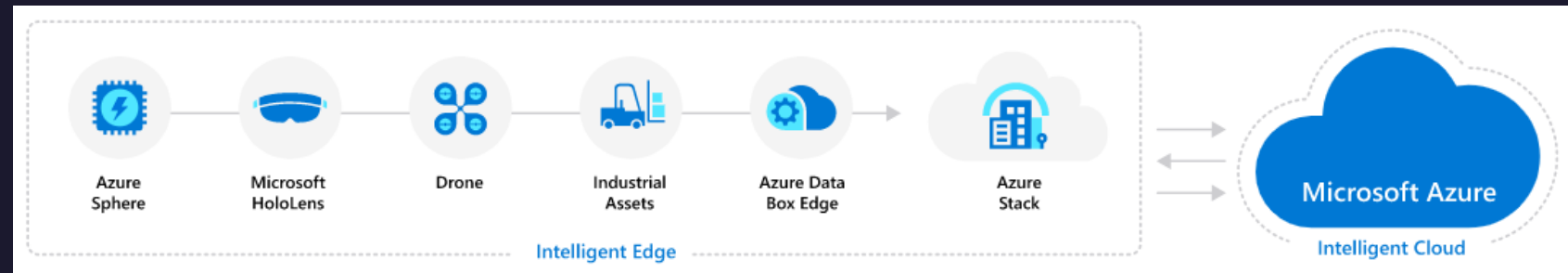
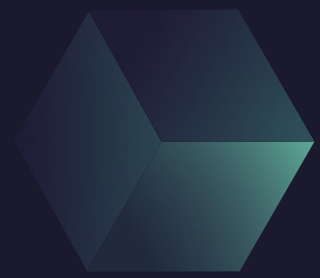
Intelligent cloud and Intelligent edge

- The intelligent cloud is enabled by the public cloud and artificial intelligence (AI) technology
- The intelligent edge is an expanding set of connected systems and devices that gather and analyze data



Azure

- Azure Sphere creates end-to-end device security
- Azure Edge analyses data with AI-enabled computing before transferring it to Azure
- Azure Stack an extension of Azure to on-premises and deploy hybrid applications
- Microsoft Azure in Intelligent Cloud processes data with AI; receives data from and feed data back to Intelligent Edge



How does Microsoft make money?

- Microsoft's revenue is largely driven by the selling of user licenses and subscriptions of its software products
- Microsoft also derives revenue from the selling of advertising and hardware



Major Profit Drivers

- Reach new users in new markets
- Add value to product offerings particularly to improve worker productivity and communication, and make businesses more competitive and efficient
- Expand range of product offerings (new products), for example cloud-based services
- Disruptive technology trends for example AI



Competitors

- Apple, Google, Facebook, Amazon, Oracle, Zoom, IBM, SAP, Sony, Nintendo
- Linux operating system for computer servers
- Apple as a platform provider, and distributes versions of its pre-installed application software, such as email and calendar products, through its PCs, tablets, and phones
- Google as competing search engine to Bing, as a platform provider (Android), and provides a productivity suite to compete with Office
- Azure faces diverse competition from companies such as Amazon, Google, IBM, Oracle

Competitive Advantages

- Windows operating system
- Office product range
- Range of cloud-based products including Azure, Office 365, Dynamics 365
- AI and machine learning
- Intelligent Cloud and Intelligent Edge products including hardware such as HoloLens 2
- Huge Customer base
- Competitively priced products
- Trust and Reputation



Opportunities

- Technology makes users more productive, more efficient, more competitive
- Latest technology is a must-have for businesses and other users
- Volume of data is increasing with 50 billion connected devices coming online by 2030, more than double the number today
- Computing is becoming embedded in the world, in every place and every thing. This era of the intelligent cloud and intelligent edge is shaping the next phase of innovation
- Organizations will increasingly need to build their own proprietary technology solutions to compete and grow. Microsoft will work in partnerships with these organizations such as retailers, healthcare providers, and manufacturers

Risks

- Competition in the technology sector
- Competition among platform-based ecosystems (PC vs tablet vs smartphone)
- Open source software (free and deriving revenue from advertising)
- Cyberattacks and Security of Microsoft products
- Copyright issues
- Breakdown of trust / reputation
- Ability to attract and retain qualified employees

	FY2020	FY2019	FY2018	FY2017	FY2016	FY2015	FY2014	FY2013	FY2012	FY2011	CGR	FY17-20
Revenue	143,015	125,843	110,360	96,571	91,154	93,580	86,833	77,849	73,723	69,943	8%	9%
Operating Income	52,959	42,959	35,058	29,331	27,188	28,172	27,886	26,957	28,496	27,161	8%	13%
Net Income	44,281	36,830	30,267	25,732	21,434	21,687	27,820	27,052	28,704	27,259	6%	15%
EPS	\$5.76	\$4.75	\$3.88	\$3.29	\$2.67	\$2.63	\$2.64	\$2.62	\$2.78	\$2.64	9%	17%
Operating Cash Flow	60,675	52,185	43,884	39,507	33,325	29,668	32,231	28,833	31,626	26,994	9%	15%
Capital Expenditure	(15,441)	(13,925)	(11,632)	(8,129)	(8,343)	(5,944)	(5,485)	(4,257)	(2,305)	(2,355)	23%	21%
Free Cash Flow	45,234	38,260	32,252	31,378	24,982	23,724	26,746	24,576	29,321	24,639	7%	14%
Conversion Rate	102%	104%	107%	122%	117%	109%	96%	91%	102%	90%		
FCF Growth Rate	18%	19%	3%	26%	5%	(11%)	9%	(16%)	19%			
EPS Growth Rate	21%	22%	18%	23%	2%	(0%)	1%	(6%)	5%			
Share Price	\$203.51	\$133.96	\$98.61	\$68.93	\$51.17	\$44.15	\$41.70	\$34.54	\$30.59	\$26.00		
PE Ratio Trailing	35	28	25	21	19	17	16	13	11	10		
PEG	1.7	1.3	1.4	0.9	12.6	(44.3)	20.7	(2.3)	2.1			13

Indicative Valuation										
Discount Rate	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
10-Year Bond Rate	1.0%	1.0%	1.0%	1.5%	2.0%	3.0%	4.0%	5.0%	5.0%	5.0%
MSFT Risk Premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Discount Rate	6.0%	6.0%	6.0%	6.5%	7.0%	8.0%	9.0%	10.0%	10.0%	10.0%
Growth Rates	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Free Cash Flow	7.5%	12.5%	10.0%	10.0%	7.5%	7.5%	7.5%	6.5%	6.5%	6.5%
Required Rate of Return										10.0%
Growth Rate										5.5%
Terminal Discount Rate										4.5%
Free Cash Flow Forecast	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Free Cash Flow	48,627	54,705	60,175	66,193	71,157	76,494	82,231	87,576	93,269	99,331
Terminal Value										2,207,359
Adjusted Free Cash Flow	48,627	54,705	60,175	66,193	71,157	76,494	82,231	87,576	93,269	2,306,691
Discount Factor	0.943	0.890	0.840	0.788	0.737	0.682	0.626	0.569	0.517	0.470
NPV	45,874	48,687	50,524	52,185	52,429	52,186	51,468	49,830	48,245	1,084,701
NPV Sum	1,536,129									
Cash/(Debt) Adjustment	0									
Valuation	1,536,129									
Shares Outstanding	7,571									
Valuation per Share	\$202.90									