



Microsoft Corp. (MSFT)

Updated January 30th, 2025, by Aristofanis Papadatos

Key Metrics

Current Price:	\$426	5 Year CAGR Estimate:	7.4%	Market Cap:	\$3.2 T
Fair Value Price:	\$319	5 Year Growth Estimate:	13.0%	Ex-Dividend Date:	2/20/25
% Fair Value:	133%	5 Year Valuation Multiple Estimate:	-5.6%	Dividend Payment Date:	3/13/25
Dividend Yield:	0.8%	5 Year Price Target	\$588	Years Of Dividend Growth:	23
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	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 13th, 2023, Microsoft acquired Activision Blizzard, a leader in video game content, for \$68.7 billion.

In late January, Microsoft reported (1/29/25) financial results for the second quarter of fiscal 2025 (its fiscal year ends June 30th). The company grew its revenue 12% over the prior year's quarter. Growth came from Intelligent Cloud and Productivity & Business Processes, which grew 19% and 14%, respectively. Sales of Azure, Microsoft's high-growth cloud platform, grew 31%. Earnings-per-share grew 10%, from \$2.94 to \$3.23, and exceeded the analysts' consensus by \$0.13. Microsoft has exceeded the analysts' consensus in 24 of the last 26 quarters. Surprisingly, the stock shed -4% after the earnings release due to management's guidance for potential volatility in Azure's revenue in the third quarter. We view such volatility as benign and 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
EPS	\$2.65	\$2.79	\$3.08	\$3.88	\$4.75	\$5.76	\$7.97	\$9.21	\$9.81	\$11.80	\$13.30	\$24.50
DPS	\$1.24	\$1.44	\$1.56	\$1.68	\$1.80	\$1.99	\$2.19	\$2.42	\$2.66	\$2.93	\$3.32	\$5.08
Shares¹	8,027	7,808	7,708	7,677	7,643	7,571	7,608	7,506	7,467	7,472	7,400	7,000

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
Avg. P/E	17.0	18.1	20.2	22.1	23.7	27.4	28.3	32.2	27.3	32.0	32.0	24.0
Avg. Yld.	2.7%	2.9%	2.5%	2.0%	1.6%	1.3%	1.0%	0.8%	1.0%	0.8%	0.8%	0.9%

¹ In millions.

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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 32.0. If it trades at fair valuation level in 2030, it will incur a -5.6% 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%

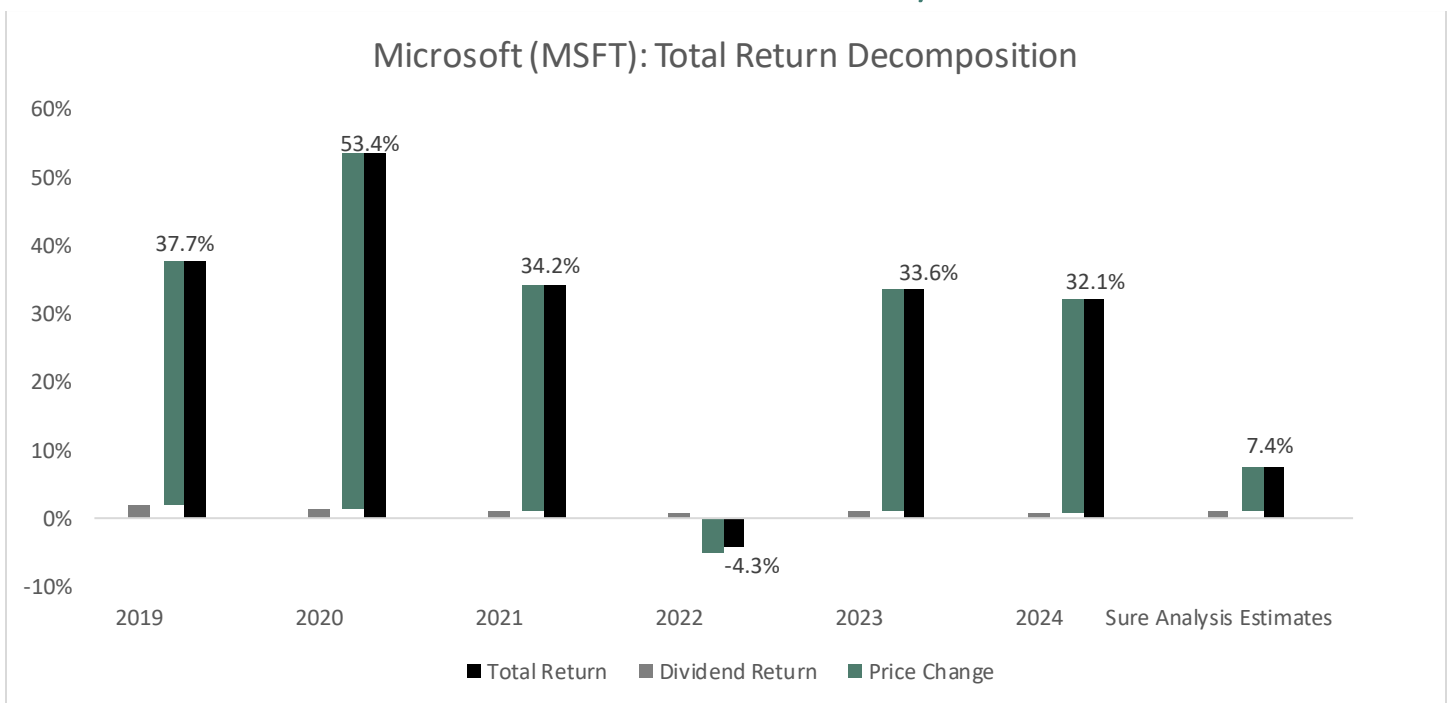
Microsoft has been a solid income investment throughout the last decade. The dividend payout ratio has never risen substantially above 50%, and the fact that Microsoft has one of the strongest balance sheets in the world means that the dividend is very safe. However, the below-average yield makes Microsoft 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 7.4% average annual return over the next five years thanks to 13.0% earnings growth and its 0.8% dividend, partly offset by a -5.6% 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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