KeyValue

GLOBAL RESEARCH

Equity Research

ANALYSIS OF MICROSOFT CORPORATION INC.

DATE:
21/11/2024

Keyvalueam.com

Microsoft

Buy: $528,16(24,72%)

Equity Research Division
01/12/2024

Summary

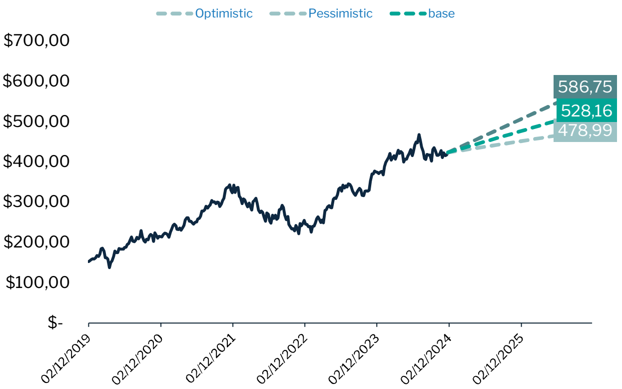
UNITS

Country	United States	
Sector	Software	
Current Price	423	$
Target Price	528	$
Upside	25%	%
Ticker	MSFT	
Stock Exchange	NASDAQ	
Shares Outstanding	7.471	m
Market Capitalization	3.163.670	m
EPS (2024)	11,8	$

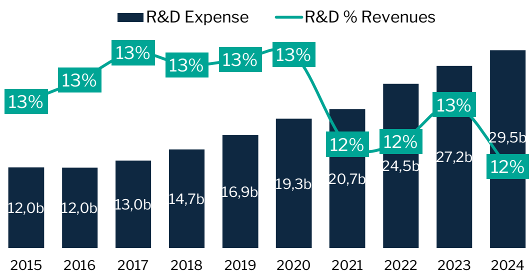

Analyst
Giulio Sighieri


Team Leader
Alessandro Bindi

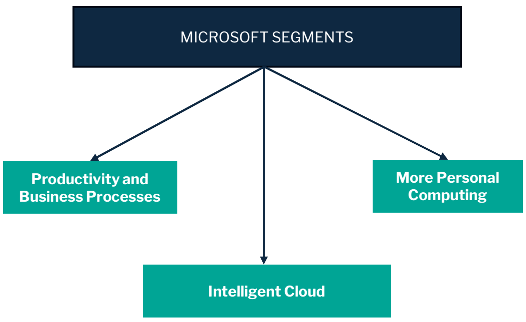

Head of Equity Research
Marco Tempestini



Source: Team Analysis



Source: Company data, Team Analysis



Source: Company data, Team Analysis

INVESTMENT SUMMARY

We issue a BUY recommendation for Microsoft with a one-year target price of $528.16, presenting a 24,7% upside potential from Microsoft's closing price of $423,46 on November 30th, 2024. The target price is based on a Discounted Cash Flow (DCF) method and supported by Relative Valuation. Our recommendation rests on the following key elements, including its (1) leading position and (2) strong reputation and dimensions, other than its (3) operation in a progressively digitized world and (4) core business segments.

GREAT LEADER IN A GREAT POSITION

Microsoft stands as a global powerhouse, leading the way in technology — especially software — innovation. Its diverse product portfolio includes software, cloud computing, artificial intelligence, gaming and hardware, positioning the company uniquely to capitalize on emerging trends while maintaining strong market shares across its core segments.

The company's flagship products, such as Windows, Azure and Microsoft 365, have become essential tools and standards for both businesses and the majority of individual consumers, due to the robust features and their balanced quality/price ratio.

Additionally, Microsoft engages in strategic investments in AI, sustainability and gaming, underlining its commitment to the long-term growth and value creation, aiming to acquire more and more market shares around the globe.

The business also leverages its scale, innovation and ecosystem integration to solidify its position as a trusted company for digital transformation. This approach allows Microsoft to meet the growing demand for technological solutions and personal-use software effectively.

Microsoft stands in a great position: the world is becoming increasingly digitized; gaming and AI trends are really trustworthy and able to get their piece of the market. Microsoft has the resources to lead this evolution and maximize its potential.

BIGGEST SOFTWARE COMPANY

Microsoft holds the title of the largest software company in the world, with a total market capitalization of $3.1T. This achievement is the result of a long history, which began in 1975, when Bill Gates and Paul Allen started the company in a small garage in Redmond. Over time, Microsoft faced numerous challenges and difficulties, which ultimately shaped it into the company we know today.

Looking at its competitors in the industry, Microsoft is primarily followed by Google (Alphabet), Oracle, SAP, Adobe, and IBM. Among these, the only company with a market capitalization comparable to Microsoft's is Alphabet, valued at $2.1T.

Microsoft's immense success stems from its ability to develop high-quality products that the market demands, integrating them into a unified ecosystem and continuously updating and improving them through consistent investment. Among these, particularly noteworthy are the products that have made Microsoft known worldwide, such as Windows (the most widely used operating system in the world, with a 72% share in the desktop sector), Microsoft Office (which includes the most commonly used business software like Word, Excel, and PowerPoint), and now Azure (a cloud platform with a growing 22% market share). Its dominance remains undisputed, and its significant investments in promising sectors (such as gaming and generative AI) have strong potential to further consolidate its position, ensuring that Microsoft continues to set the standards for global software.

A PROGRESSIVELY DIGITIZED WORLD

The world we live in is getting increasingly digitized, day by day. If we take a look at the data, we see that:

- **Online businesses**: in 2024, worldwide retail e-commerce sales have reached $6.3T
- **Internet users:** in 2024, people using internet reached 5.7 billions, and it's expected to grow
- **Cloud usage:** in 2024, the demand for cloud infrastructure is expected to meet a 20% growth
- **Digital advertising:** in 2024, digital advertising is expected to reach a 70% of global ad investments
- **AI expectation:** worldwide AI market size is expected to show a CAGR of 28.46% from 2024 to 2030

In this increasingly digitized world, Microsoft stands at the forefront of technological transformation, providing the tools and platforms essential for enterprises and individuals. The rise of cloud computing, artificial intelligence, and remote work has amplified the need for integrated, scalable solutions and Microsoft has responded with innovations like Azure, Microsoft 365 and AI-driven tools such as Copilot. These technologies enable businesses to streamline operations, individuals to enhance productivity, and societies to adapt to a rapidly changing environment.

CORE BUSINESS SEGMENTS SUMMARY AND THEIR POTENTIAL

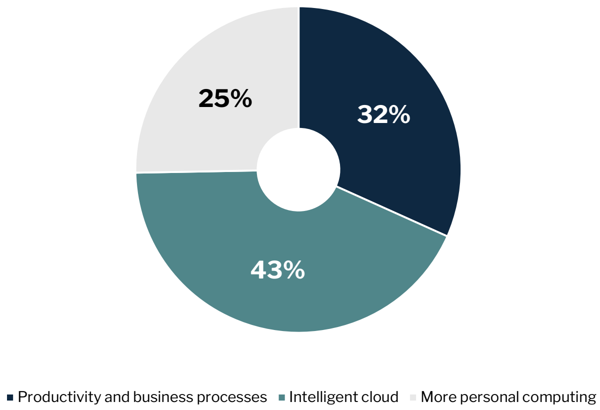
Microsoft divides its business into three main segments:

Productivity and Business Processes: This includes all the products designed by Microsoft for businesses and productivity. The increasing demand for efficient, well-integrated, high-quality productivity software for companies makes this segment extremely solid and promising.

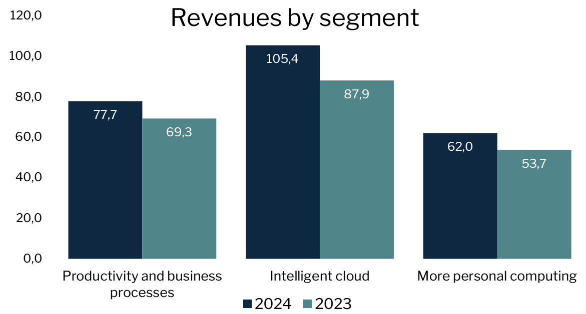
Intelligent Cloud: This is Microsoft's cloud segment, with Azure as its crown jewel. The growing demand for integrated and cloud-based systems, driven by the need for productivity and efficiency, positions Microsoft perfectly to ride and lead this wave.

More Personal Computing: This segment includes all products aimed at personal use of technology. It is perhaps the company's biggest bet, but the gaming sector and generative AI for personal use are components that can deliver significant results if managed effectively, as Microsoft has been doing.

Business Model



Source: Team Analysis, Company Data



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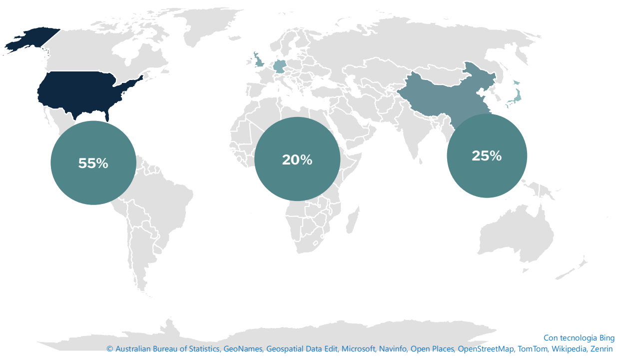


Source: Team Analysis, Company Data

OVERVIEW

Microsoft Corporation is an American multinational technology company, headquartered in Redmond, Washington. Founded in 1975, Microsoft is renowned for its software products such as Windows and Microsoft Office, but it also plays a leading role in cloud computing, artificial intelligence and gaming. Microsoft distributes its products and services through a wide range of channels, including direct sales to enterprise customers, online platforms, partnerships with resellers, distributors, and OEMs.

BUSINESS SEGMENTS & GEOGRAPHIC REACH

Microsoft develops its business across three central segments, each deserving individual attention:

Productivity and business processes

This segment focuses on products designed to provide technology and resources that help customers create a streamlined, efficient and effective works environment through software and platforms. It primarily targets businesses and institutional clients, for whom these tools are essential for their operations.

Intelligent cloud

This segment delivers a competitive, highly functional and user-friendly cloud service designed for professional use. The flagship product here is Azure, which enables the seamless management of various data, files and documents. Microsoft is heavily investing in integrating cloud services with artificial intelligence to set a new market standard and develop a big advantage against its competitors.

More personal computing

This segment emphasizes making technology more personal, productive, tailored and enjoyable, aiming to enhance the overall user experience through improved software. It also ventures into entertainment with gaming and hardware with Surface products. In particular, this segment focuses on retail customers as its primary audience.

This allows us to highlight the uniqueness of Microsoft's business model: no other company covers so many segments simultaneously, showcasing Microsoft's capabilities and leadership in its industry.

Analyzing the business on a geographical level, Microsoft distributes its products and services worldwide, with a particular focus on the Americas. It is estimated that:

- **Americas**: 55% of total revenues
- **APAC**: 25% of total revenues
- **EMEA**: 20% of total revenues

Looking at individual countries, revenues are primarily generated in the United States (accounting for 50%), followed by China (estimated at 20%) and the United Kingdom (12%).

Given the importance of the U.S. within the technology sector and the recent developments in Artificial Intelligence centered there, it is expected that the future growth of software technology will remain geographically structured in this way, with a slow but existent growth on emerging markets such as China.

COMPANY STRATEGY

Microsoft's strategy is built on its mission: "*empower every person and every organization on the planet to achieve more.*" To achieve this goal, Microsoft focuses on technological innovation, market expansion and integration of its software products with a strong emphasis on sustainability and security.

Innovation and technological integration lie at the core of the company's operations, ensuring its continued leadership in the industry. These elements involve various aspects, including:

Customer Base: Microsoft diversifies its customer base across businesses, institutions and individual consumers. A significant portion of its total revenue comes from enterprises and institutional clients, particularly through work products like Azure and Microsoft 365. Continuous innovation is key to the business, ensuring that the company remains ahead of competitors and sustains, if not expands, its customer base.

Markets: Microsoft distributes its products and services globally, catering to both developed and emerging markets. The company aims to maintain its stronghold in developed markets, which are nearing saturation, while increasing market share in emerging markets that are experiencing rapid digitalization and an increasing need for business and institutional solutions.

Strategic Investments: Microsoft is currently in a period rich with opportunities that it cannot afford to miss, leading to significant investments in:

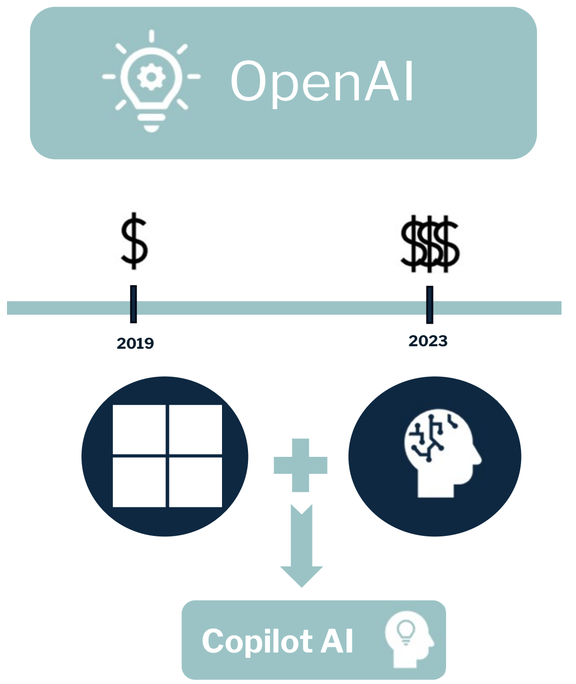
- *Artificial Intelligence:* to integrate its products with generative AI, the company is allocating substantial resources to gain a competitive edge and deliver optimal AI solutions for both work and non-work usage.
- *Gaming:* the company is considerably investing in this sector through acquisitions of renowned companies and the development of new titles, aiming to expand its market share and drive the industry's growth.
- *Cloud Services*: Microsoft is making strategic investments to solidify its dominance in this segment by meeting the growing demand for cloud services through Azure.

Distribution: Microsoft distributes its products through a variety of channels to reach diverse customer segments. These include OEMs (such as Dell, HP, and Lenovo), direct sales for enterprise clients via Microsoft's partners, online sales through various marketplaces (mainly Microsoft Store), as well as independent distributors and resellers, targeting retail consumers through physical retail outlets.

Security: Microsoft makes significant investments in the security of its products, as they are threatened by potential cyberattacks that could undermine trust in the company by putting user data and experience at risk.

Acquisitions and Partnerships: as demonstrated by the acquisition of Activision Blizzard Inc. in the gaming sector and the partnership with OpenAI for artificial intelligence, Microsoft leverages acquisitions and partnerships to expand its market share and gain competitive advantages over its rivals.

Artificial Intelligence, OpenAI and Copilot AI



Nowadays the field of **artificial intelligence** is arguably the most promising sector, leading many companies worldwide to invest significant resources in its development.

Generative artificial intelligence (LLM - Large Language Model) is a groundbreaking technology with the potential to revolutionize how we work and live, enhancing quality, productivity, and efficiency for both businesses/institutions and individual consumers. Microsoft recognizes this opportunity: integrating one of the best AI solutions on the market, such as **OpenAI's ChatGPT**, into its productivity and workplace software can give the company a significant edge over competitors and position it as the frontrunner in the AI race. This vision has driven Microsoft to establish a relationship with OpenAI as early as 2019, anticipating future developments. Specifically:

- 2019: Microsoft invested $1 billion in OpenAI, enabling it to leverage Microsoft Azure's cloud infrastructure to train its LLM models in order to develop a groundbreaking tool capable of transforming the technology landscape.

- January 2023: following the incredible success of ChatGPT 3.5, released in December 2022, Microsoft decided to extend its partnership with OpenAI through a multi-year $10 billion investment. This investment solidified Azure as the exclusive platform for model training and allowed the integration of AI capabilities into applications like Microsoft 365.

Through this partnership with OpenAI, Microsoft is gaining a substantial competitive advantage, not only by implementing ChatGPT within the Azure cloud but also through the development of Microsoft 365 Copilot, which integrates OpenAI's models into the company's productivity applications, enhancing both efficiency and user experience.

The use of this technology spans all Microsoft sectors, starting with "Productivity and Business Processes" for corporate applications, extending to "More Personal Computing" for an enhanced user experience, and encompassing "Intelligent Cloud" within Azure.

Productivy and business processes & Intellinget cloud depper focus

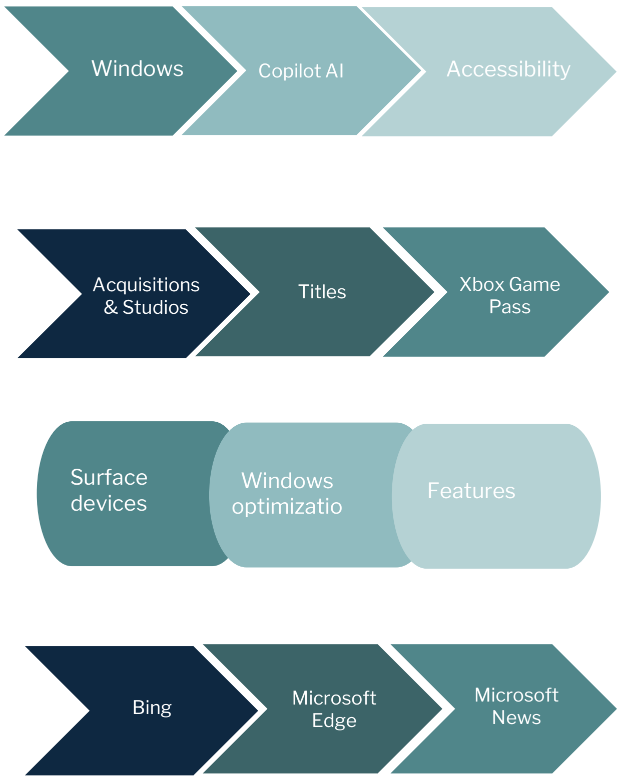
The "Productivity and Business Processes" and the "Intelligent Cloud" segments generated $77.7 billion and $105.4 billion in revenue respectively in 2024. A detailed analysis of both segments follows:

Productivity and Business Processes: with a focus on productivity, communication and information management products and services, Microsoft offers key solutions such as Office and LinkedIn, both of which are now essential in the workplace. In this segment, the company competes with Google, Zoom and other major players, while maintaining a very high market share, particularly with the Office suite.

Intelligent Cloud: focusing on cloud products and services designed to support businesses and developers, this segment is divided into two subcategories:

- *Server Products and Cloud Services:* it includes platforms such as GitHub and Azure, cloud solutions that optimize Windows systems to enhance IT productivity and efficiency.
- *Enterprise and Partner Services:* This includes support for the development, deployment and management of Microsoft server and desktop solutions, along with specialized consulting services in strategic planning and the development of specific applications. Competition in this segment primarily comes from AWS, IBM and Oracle. However, unlike Microsoft, these competitors do not offer an integrated hybrid product able to scale effectively for businesses of all sizes.

More Personal Computing



The "More Personal Computing" segment generated revenues of $62.4 billion in 2024, the lowest among the three segments. However, it is also the one for which Microsoft is most well-known. The "More Personal Computing" segment covers different areas:

Windows and Copilot: Microsoft's renowned operating system has been the most widely used globally for decades, holding a 70% share of the global operating system market, followed by MacOS at 15%. Windows is favored by both businesses and individuals for being accessible, cost-effective, user-friendly, efficient and compatible with most existing software. Windows is now significantly enhanced with the integration of Copilot, an AI-based assistant powered by OpenAI models, deeply embedded into the operating system to assist users with daily tasks.

Gaming: it is one of the most popular and promising industries today, where Microsoft has been investing for years to increase its market share and drive growth. The company's projects in this sector span multiple lines:

- *Titles*: Microsoft develops games both internally and through external studios, offering them as part of Xbox Game Pass (or via traditional sales), a subscription service providing access to a vast library of games. Among its renowned titles are Sea of Thieves, Forza Motorsport and Halo.
- *Acquisitions*: Microsoft has captured a significant portion of the gaming market through strategic acquisitions of major gaming companies. Notably, Activision Blizzard Inc. and Mojang Studios, which have produced iconic games such as Call of Duty and Minecraft, respectively.
- *Consoles and Hardware*: Microsoft competes in this space through its physical gaming platform. The company manufactures the iconic Xbox (historic rival of PlayStation) and ensures, through investments and partnerships, that Windows remains the preferred operating system for gaming, offering superior compatibility, ease of game development and efficient distribution.

Devices: In the hardware sector, Microsoft competes with its Surface product line, designed for versatile use, from home to professional applications. These devices are optimized for the Windows operating system and other Microsoft features.

Search Engine and Browser: Microsoft is also the creator and owner of Bing and Microsoft Edge. Bing is a well-known search engine, while Edge has transformed from being one of the most underutilized and criticized browsers to significantly improving after a revamp. As of 2024, Edge holds 8% of the U.S. browser market.

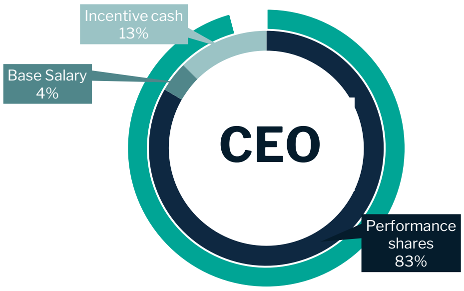
Management

LinkedIn

Microsoft acquired LinkedIn in 2016 for $26.2 billion in cash, aiming to integrate its professional network with Microsoft's cloud solutions, expanding services for businesses and professionals. The acquisition has driven substantial growth, with revenues rising from $2.27 billion in 2017 to $16.37 billion in 2024, supported by premium subscriptions, advertising and other offerings.
LinkedIn continues to show strong performance, with projections of $4.29 billion in revenue for the first quarter of 2025. This sustained growth underscores LinkedIn's importance within Microsoft's ecosystem, strengthening its position in professional services and enhancing its value.

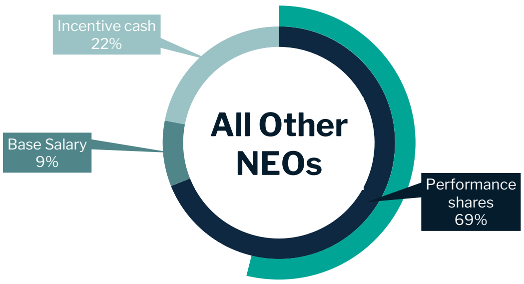
Activision Blizzard Inc.

In January 2022, Microsoft announced the acquisition of Activision Blizzard Inc., finalized in October 2023 for $75.4 billion in cash. The deal brought popular franchises like Call of Duty, World of Warcraft and Candy Crush into Microsoft's portfolio, significantly expanding its presence in the gaming sector.
In the second quarter of 2024, the first full quarter post-acquisition, Microsoft's gaming segment revenue rose 49% year-over-year to $7.1 billion, with Activision Blizzard contributing 55% of the 61% growth in Xbox content and services revenues. This acquisition has cemented Microsoft's position as a leading player in the gaming industry and aligns with its strategy to grow its market share through high-profile franchises.



95,80% At Risk

Source: Team Analysis, Company Data

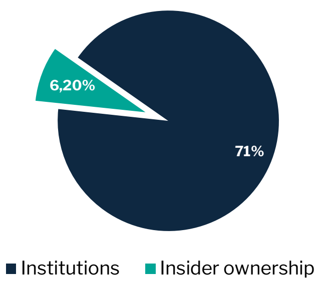


53,80% At Risk

Source: Team Analysis, Company Data

Position	Minimum Ownership Value
CEO	15x base salary
NEOs	5x base salary

Main shareholders percentage



CAPITAL ALLOCATION

Microsoft's management employs a highly strategic approach to capital allocation, carefully balancing investments in innovation, acquisitions, shareholder returns and operational efficiency.
In 2024, approximately 12% of revenue, totaling $29.5 billion, was allocated to **research and development** (R&D). This substantial investment underscores Microsoft's commitment to maintaining leadership in emerging technologies like artificial intelligence, cloud computing and gaming.
The company's strategic acquisitions, such as the $75.4 billion purchase of Activision Blizzard and the multi-year partnership with OpenAI, have been pivotal in expanding its market share and technological capabilities.

Microsoft also places significant emphasis on **shareholder returns**, consistently dedicating 25% of its net income to dividends in recent years. Moreover, the company has implemented robust share buyback programs, including a $60 billion repurchase plan executed between 2021 and 2024. In September 2024, Microsoft announced a new $60 billion buyback program to be carried out over the next few years, reflecting confidence in its strong cash flow generation and market position.

Under the leadership of **CEO Satya Nadella**, who took charge in 2014, Microsoft has achieved remarkable growth, with the company's market value increasing by 1,365%. This impressive performance highlights the effectiveness of its capital allocation strategy in driving innovation, enhancing shareholder value and maintaining its competitive edge in a dynamic technology landscape.

EXECUTIVE OFFICERS AND COMPENSATION

At the heart of Microsoft's transformation and growth is **Satya Nadella**, **CEO** since 2014. Joining Microsoft in 1992, Nadella brought a wealth of experience from leading several key divisions within the company, including the development of Windows Server, the enterprise cloud business, and Bing. His tenure as head of the Cloud and Enterprise group was pivotal, laying the groundwork for Azure's rapid growth. Under his leadership, Microsoft has made landmark acquisitions, including LinkedIn, GitHub, and Activision Blizzard, which highlight the company's focus on promising segments. Nadella's ability to align Microsoft's resources with emerging technologies, such as AI and cloud computing, has positioned the company as a leader in the tech industry.
Supporting Nadella is **Amy Hood, CFO** since 2013 and the first woman to hold this role at Microsoft. Having joined the company in 2002, Hood has fortified Microsoft's financial position during volatile market conditions, ensuring sustainable growth through prudent financial strategies. Her close partnership with Nadella ensures seamless execution of the company's long-term vision. Another key member of the leadership team is **Brad Smith, President** and guiding figure for Microsoft's corporate policies. With decades of experience at Microsoft, Smith has led initiatives on privacy, cybersecurity, and sustainability, strengthening the company's relationships with governments, organizations and stakeholders worldwide.

Additional **executives** include:
- Kathleen Hogan, Chief Human Resources Officer (CHRO)
- Takeshi Numoto, Chief Marketing Officer (CMO)
- Christopher Young, EVP of Business Development, Strategy, and Ventures
- Judson Althoff, Chief Commercial Officer (CCO)

The Board of Directors, elected by shareholders, works closely with the CEO and top management to provide strategic oversight. On transformative initiatives such as AI integration and acquisitions, the Board collaborates with executives to refine vision, assess investments and mitigate risks, ensuring Microsoft remains a leader in the global tech landscape.
Microsoft's **executive compensation**, governed by the Compensation Committee, reflects its commitment to long-term value creation and performance. Over 95% of the CEO's target compensation and over 50% for other named executives are performance-based, ensuring alignment with the company's goals and shareholder interests. The pay mix includes base salaries, cash incentives, and performance stock awards tied to metrics that promote operational and strategic success. Key elements on the compensation system include:
- *Equity Ownership:* CEO is required to hold Microsoft stocks valued at 15 times his base salary to ensure alignment with shareholder interests
- *Clawback policy:* compensation can be recovered in cases of financial restatements or misconduct, ensuring accountability
- *Performance criteria:* high annual performance requirements are set to maintain a focus on deliver value
- *Long-term equity awards:* all long-term incentive plans are exclusively equity-based, emphasizing sustained performance over speculative gains
- *Risk mitigation:* speculative trading of Microsoft securities is strictly prohibited

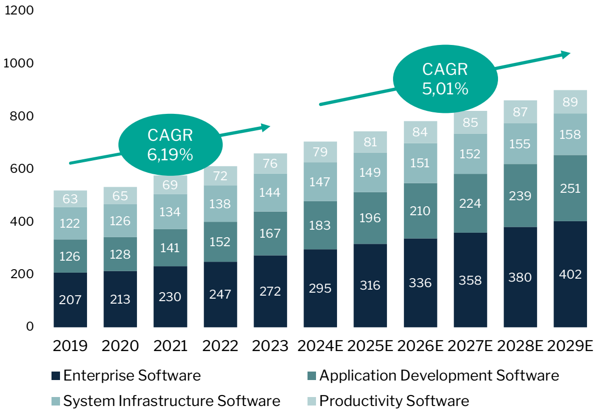
This structured approach ensures executive remuneration remain competitive within the industry while driving consistent, sustainable growth aligned with Microsoft's strategic goals.

MAIN SHAREHOLDERS

Microsoft's **shareholder base** is predominantly composed of institutional investors, owning approximately 71% of the company's outstanding shares. The most notable among these are The Vanguard Group, Inc. (8.95%), BlackRock, Inc. (7.30%), and State Street Corporation (4%).

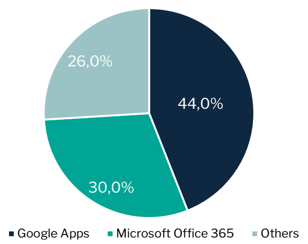
In terms of **insider ownership**, corporate executives and directors collectively hold approximately 6.2% of the outstanding shares. Among the key insiders, Satya Nadella (CEO) leads with 0.01%, followed by Brad Smith (President) at 0.007%, and Amy Hood (CFO) at 0.006%. While their holdings are relatively small in comparison to institutional investors, they reflect a direct financial alignment with the company's long-term success.

Revenue in the Software market Worldwide (in billion U.S. dollars)



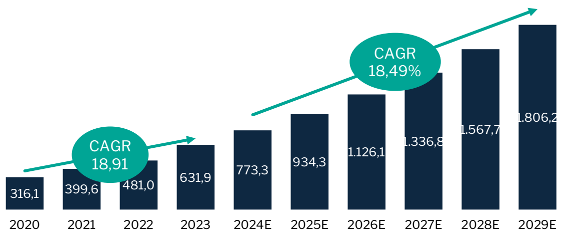
Source: Statista market insights, Team Analysis

Market share of major productivity software worldwide in 2024



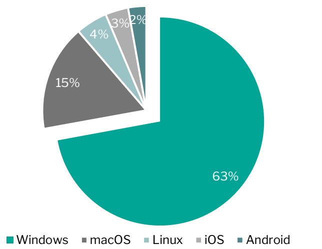
Source: Statista market insights, Team Analysis

Revenue of the Cloud Computing industry worldwide from 2020 to 2029 (in billion U.S. dollars)



Source: Statista market insights, Team Analysis

Market share held by the leading computer operating systems in 2024



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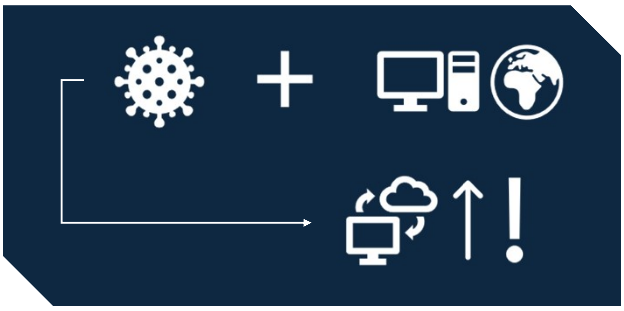


Source: Statista market insights, Team Analysis

SOFTWARE MARKET GROWTH

The software industry has shown exponential growth over the last 20 years, driven by the ever-increasing demand for technology in today's world. Currently, significant investments are being made in the development of artificial intelligence, cloud-based software and, more broadly, the metaverse.

The growth margin is expected to remain very high, considering the significant potential for expansion not only in already developed and established markets but, above all, in emerging industrial markets, which are continuously demanding business solutions.

In this sector, Microsoft holds the title of one of the most important companies globally, positioning it to manage and develop the right products for the ongoing evolution.

With a predominant geographical focus on the United States (the leading nation in the sector, accounting for 44% of the global software market), this market is projected to experience robust growth, with an expected compound annual growth rate (CAGR) of 5% between 2024 and 2029, driving the market to a minimum estimated value of $896 billion by the end of the forecasted period.

This leadership is reinforced by a strong presence of established companies and a dynamic ecosystem of startups, setting the pace for the rest of the world.

The sector's growth is fueled by accelerating digitalization, advancements in artificial intelligence and the rising demand for cloud services, all of which are reshaping how businesses and consumers interact with technology.

PRODUCTIVITY, CLOUD AND PERSONAL COMPUTING INDUSTRIES

The productivity, cloud computing and personal computing industries represent the backbone of today's digital-first world, where efficiency, scalability and user-centric innovation are paramount. Together, these sectors are shaping the modern technological landscape, enabling individuals and businesses to adapt to an increasingly connected and digitized environment.

Productivity Industry

The productivity industry is at the forefront of enabling collaboration and streamlining workflows. Tools like Microsoft Office 365, Google Workspace and Adobe Creative Cloud have become indispensable across industries. These platforms are increasingly adopting cloud-based solutions, enabling real-time collaboration and seamless access across devices. The integration of AI technologies, such as predictive text and automated scheduling, is further enhancing productivity and user experience. As businesses continue to embrace remote and hybrid work models, the demand for versatile productivity tools is set to grow exponentially.

Cloud Computing Industry

Cloud computing has revolutionized how data is stored, accessed, and utilized. Giants like Amazon Web Services (AWS), Microsoft Azure and Google Cloud Platform dominate this space, offering services from data storage to advanced machine learning models and holding, respectively, 31%, 25% and 10% of the total cloud market share. Key trends such as hybrid and multi-cloud strategies, edge computing and heightened cybersecurity measures reflect the growing complexity and opportunities within this sector. With a market projected to exceed $1000 billion globally in the coming years, cloud computing is central to digital transformation for businesses of all sizes.

Personal Computing Industry

The personal computing industry continues to evolve, driven by innovation in hardware and software. Companies like Apple, Microsoft and manufacturers such as Dell, HP and Lenovo are investing heavily in AI integration and enhanced portability. While the market experienced a surge during the pandemic, it now focuses on high-performance devices tailored for gaming, professional applications and casual use. Furthermore, the growth of gaming PCs and next-gen graphics capabilities highlights the demand for powerful, versatile devices. In this industry, Microsoft remains the leader by providing the most used operating system in the entire world.

Microsoft as the best company when it comes to synergy between these industries

Microsoft exemplifies the synergy between these industries, integrating productivity tools, cloud services and personal computing innovations to create an interconnected ecosystem. Products like Microsoft 365, Azure and Surface devices demonstrate how these sectors can work in harmony to deliver seamless, efficient and scalable solutions.

UNDERLYING MACROECONOMICS FACTORS

Software market's global growth is heavily influenced by several **macroeconomic** factors. The increasing adoption of digital technologies, driven by businesses' need to enhance efficiency and reduce operational costs, plays a pivotal role. Cloud-based solutions are in high demand as companies seek scalable and flexible systems to support their operations. Additionally, the heightened focus on data privacy and cybersecurity has accelerated the adoption of software solutions designed to ensure regulatory compliance and protect sensitive information. The COVID-19 pandemic further amplified this trend, as businesses transitioned to remote work and online models, necessitating robust digital infrastructure. IT spending by software enterprises surged by 72% between 2020 and 2023, reaching $913 billion, with the growth trajectory expected to continue. These factors collectively create a favorable environment for the sustained expansion of the software market in the coming years.

External Analysis

SWOT ANALYSIS

S — Strengths

- Global leader in the software industry
- Skilled management capable of handling critical situations and capitalizing on opportunities
- Strong distribution channels
- Highly diversified customer base
- One of the largest companies in the world

W — Weaknesses

- Overexposure to the computer market
- Ongoing need for innovation
- Exposure to cybersecurity risks
- Unsuccessful acquisitions

O — Opportunities

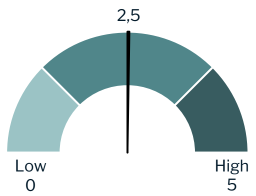
- Development and integration of artificial intelligence into its products
- Acquisitions and partnerships (including OpenAI and Blizzard)
- Gaming sector
- An increasingly digitized world

T — Threats

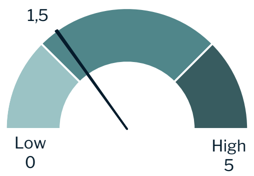
- Intense industry competition
- Shifts in customer preferences
- Open-source software and piracy
- Macroeconomic risks, such as recessions or currency fluctuations
- Failure in the AI race

5 PORTER'S FORCES

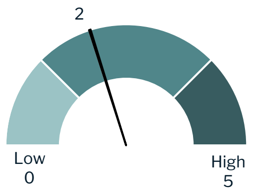
BARGAINING POWER OF SUPPLIERS



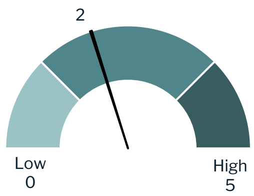
BARGAINING POWER OF BUYERS



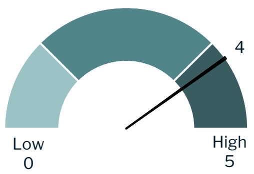
THREAT OF NEW ENTRANTS



THREAT OF SUBSTITUTE PRODUCTS



COMPETITIVE RIVALRY



Bargaining power of suppliers

Microsoft's suppliers hold moderate bargaining power, especially in critical areas like hardware components. For example, the company depends on Nvidia for GPUs, which are essential for AI training and data center operations. Nvidia's advanced technology and limited competition in high-end GPU manufacturing give it significant leverage. Additionally, disruptions in the supply chain, as seen during global crises, can amplify supplier power, making it vital for Microsoft to diversify its sourcing strategy and maintain strong relationships. On the other hand, Microsoft's scale and long-term contracts with suppliers provide some balance, as it can negotiate favorable terms due to its vast purchasing power.

Bargaining power of customers

Microsoft's customers wield low bargaining power due to the diversified nature of its clientele, ranging from individual consumers to multinational corporations. The company's dominance in key markets, such as operating systems (Windows) and productivity tools (Office), creates a near-monopoly in certain areas, making it difficult for buyers to switch or negotiate. However, large enterprise clients and governments may exert some influence, particularly when negotiating bulk licenses or custom solutions. The company mitigates this by offering bundled services, like Microsoft 365, which provide integrated solutions that are hard to replace.

Threat of new entrants

The moderate threat of new entrants is mitigated by several factors. High capital requirements, extensive research and development needs and the dominance of established players like Microsoft, Google, and Amazon create substantial barriers to entry. New entrants must also overcome brand loyalty and ecosystem stickiness, as Microsoft's integration of products like Azure, Office and Windows fosters customer dependency. However, technological innovation or niche-focused startups could disrupt specific segments, particularly in emerging areas like AI or specialized software solutions. Acquisitions of smaller firms by larger companies further consolidate the market, reducing the threat of entirely new players.

Threat of substitute products

The moderate threat of substitute products arises from the diverse range of competitors across Microsoft's business segments. For instance, Google Workspace offers an alternative to Office, while AWS and GCP rival Azure in cloud services. However, Microsoft's ability to integrate its software and hardware offerings into a unified ecosystem provides a strong competitive advantage. This seamless integration appeals to both retail and enterprise customers, making it challenging for substitutes to fully replicate the value Microsoft delivers. Additionally, Microsoft's competitive pricing strategies and continuous innovation, such as incorporating AI capabilities through Copilot, help mitigate the threat of substitutes.

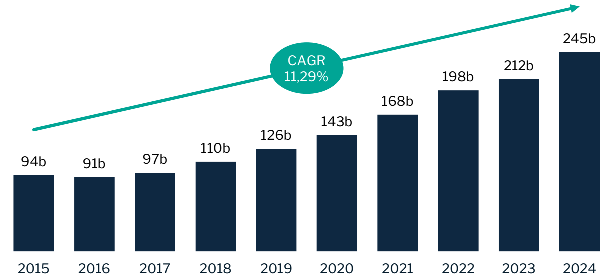
Competitive rivalry

The intense competitive rivalry in Microsoft's core segments is driven by major players like Amazon, Google, Apple and Salesforce, all of which invest heavily in R&D to push technological boundaries. AWS dominates the cloud market, while Google Workspace competes with Office in productivity tools. The overlapping nature of these companies' offerings amplifies competition as each expands its ecosystem. To maintain its position, Microsoft focuses on innovation, integrating AI into Azure and Microsoft 365, and acquiring companies like Activision Blizzard to strengthen its gaming portfolio. Its success relies on agility, strategic partnerships, and customer-focused innovation.

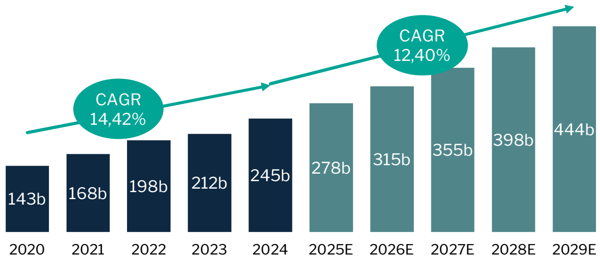
Source: Company data, Team Analysis

Financial Analysis

Total Revenues



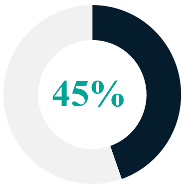
Source: Company data, Team Analysis



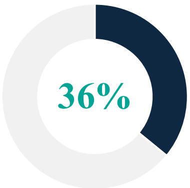
Source: Company data, Team Analysis

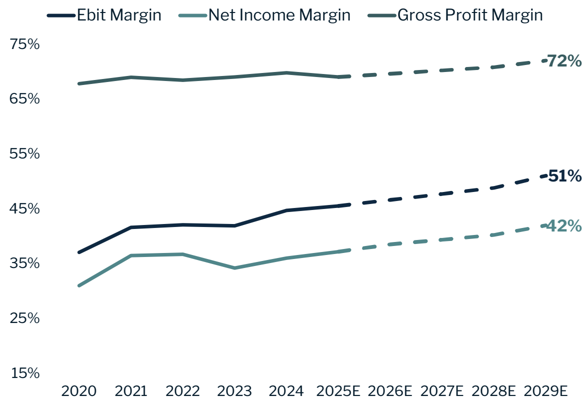
Gross Profit Margin

Ebit Margin



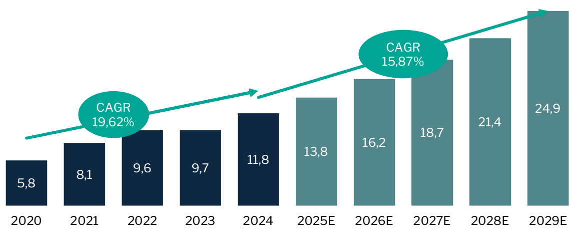
Net Income Margin



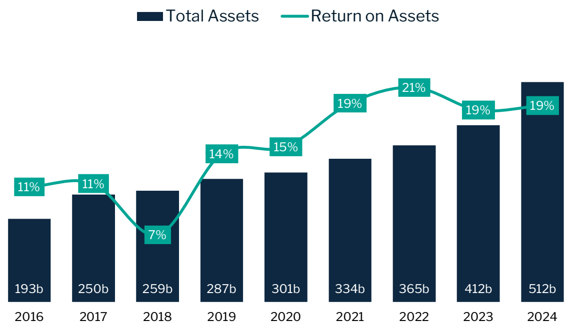


Source: Company data, Team Analysis

EPS



Source: Company data, Team Analysis



INCOME STATEMENT

Performace Review

From 2015 to 2024, Microsoft demonstrated consistent and steady growth with minimal volatility, achieving an average YoY growth of 10.7% and a CAGR of 14.3% from 2019 to the present. Revenues increased from $93.58 billion in 2015 to $245.12 billion in 2024, reflecting the company's solid expansion.

Additionally, Microsoft significantly improved its net income margin, rising from 13% in 2019 to 31% in 2024, despite a dip in 2022 that was subsequently fully recovered.

Future Growth Scenarios (2025-2029)

For the period from 2025 to 2029, Microsoft's revenue growth is projected across three possible scenarios: base, pessimistic, and optimistic. Each scenario reflects varying levels of Microsoft's capabilities and innovations, as well as the influence of competition, macroeconomics factors and customer preferences.

Base Scenario

In the base scenario, Microsoft is expected to sustain solid revenue growth with an estimated CAGR of 12.4% from 2025 to 2029. Under this projection, Microsoft is anticipated to capitalize on the opportunities currently emerging in the software sector (AI, Gaming and Cloud), maintaining its role as an industry leader. However, it is not projected to gain a sufficient competitive edge to fully outpace its competitors.

Revenues are expected to reach $444 billion by 2029, accompanied by a year-over-year growth rate that gradually declines in percentage terms over time. This scenario is underpinned by the company's strong market position and its ongoing investments aimed at capturing the opportunities offered by the evolving software landscape.

Pessimistic Scenario

In the pessimistic scenario, Microsoft experiences slower growth due to challenges in keeping up with competitors in key areas like AI, Gaming, and Cloud. Despite its strong leadership, intense competition and rapid innovation from rivals could lead to a loss of market share and reputation. Revenue CAGR from 2025 to 2029 is projected at 10.9%, with revenues potentially reaching more than $415 billion by 2029. However, Microsoft is expected to retain its dominant position due to its established market strength.

Optimistic Scenario

In the optimistic scenario, Microsoft fully capitalizes on market opportunities, leveraging either faster execution or superior innovation in its products and services to gain a decisive edge over competitors. This would place the company in a position of significant strength, with an expected revenue CAGR of 13.67%, potentially surpassing $468 billion by 2029.

Margins

Over the years, Microsoft has significantly increased its profit margins, largely due to the nature of the software industry, which allows for high margins thanks to its scalability.

The Gross Profit Margin has shown a steady upward trend, increasing from 65% in 2018 to 70% in 2024. This growth highlights Microsoft's ability to optimize costs by leveraging the scalability opportunities inherent to the software sector.

The EBIT Margin rose from 34% in 2019 to 45% in 2024, reflecting Microsoft's strong capability in expense management and revenue growth.

The Net Income grew at a CAGR of 24.58% starting in 2015, reaching $88 billion from a base of $12 billion. Currently, the Net Income Margin stands at 36% of total revenue, a substantial improvement from 13% in 2019.

Regarding the Free Cash Flow (FCF) Margin, the company has increased it from 21% in 2015 to 26% in 2024. However, this represents a decline from 32% in 2022. While this indicates relative stability, the decrease is primarily attributed to Microsoft's significant investments in recent years, including the partnership with OpenAI and the acquisition of Activision Blizzard Inc.

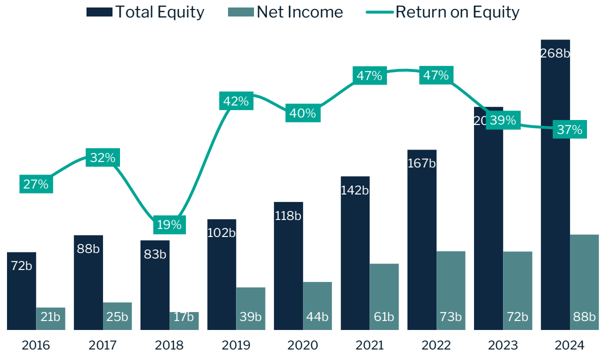
Looking at how much of the Net Income the company converts into FCF, we observe a decline in the Profit Quality Ratio, from 162% in 2015 to 72% in 2024. Expectations suggest it will rise again, reaching 87% by 2029. These numbers indicate a reduced ability to convert earnings into free cash flow. However, this should be considered in light of the aforementioned investments, evidenced by approximately $69.5 billion spent on acquisitions in 2024 and an increase in CapEx as a percentage of revenue, from 12% in 2021 to 18% in 2024.

EPS

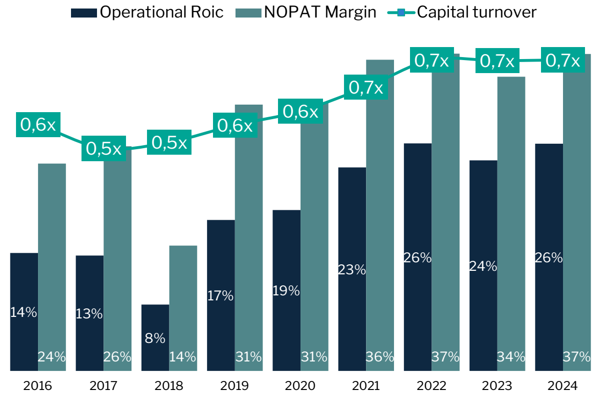
Microsoft has achieved impressive growth in its EPS (Earnings Per Share) from 2015 to 2024, with a CAGR of 26%, increasing from $1.5 to $11.8 per share. This remarkable growth reflects the company's dedication to creating value for its shareholders. Projections indicate that Microsoft will continue this trajectory, reaching $24.9 EPS by 2029, driven by an estimated CAGR of 15.87% for the period starting in 2025.

This anticipated growth is not only supported by Microsoft's historical trend but also by the strong expectations for its future performance in the software sector.

Microsoft's ROA (Return on Assets) has increased from 11% in 2016 to 19% in 2024, and it is expected to remain stable through 2029. This growth highlights the company's improved efficiency in utilizing its assets. The significant 4% increase between 2020 and 2021 can be attributed to the COVID-19 pandemic, which accelerated global digitalization, a demand to which Microsoft responded effectively.



Source: Company data, Team Analysis



Source: Company data, Team Analysis

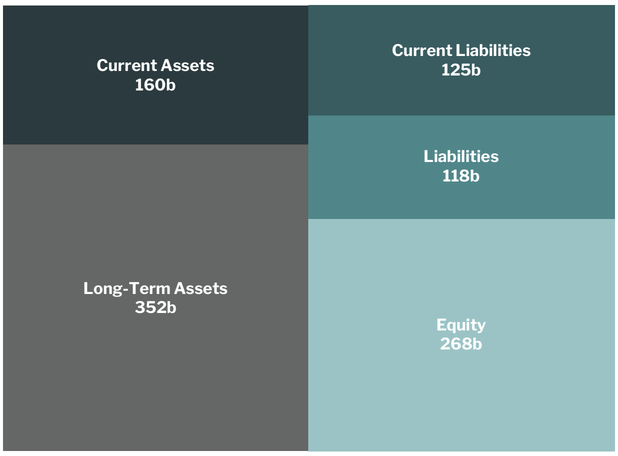
The **ROE** (Return on Equity) has exhibited more variation compared to ROA. It began at 27% in 2016, peaked at 47% during the 2021-2022 period, and subsequently adjusted to 37% in 2024. These fluctuations reflect changes in profitability and equity management, with the peak aligning with Microsoft's exceptional performance during the pandemic. As market conditions normalize, the ROE is anticipated to decline slightly in the coming years but will remain at a strong and competitive level, demonstrating the company's sustained ability to generate returns on shareholder equity.

The **ROIC** (Return on Invested Capital) provides a deeper view of Microsoft's efficiency in using capital to generate profits. It is calculated by multiplying the NOPAT Margin (Net Operating Profit After Tax Margin) by the Capital Turnover. The NOPAT Margin measures how much profit remains after operating expenses and taxes for every dollar of revenue, while the Capital Turnover evaluates how effectively the company generates revenue from its invested capital.

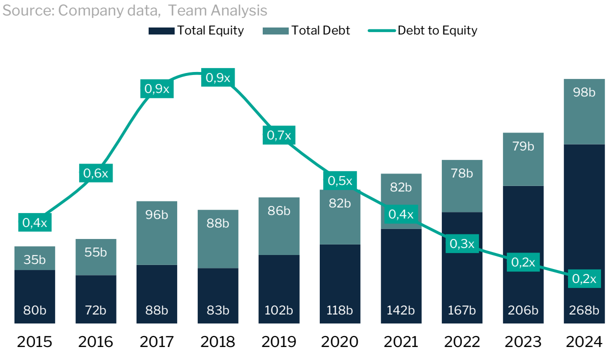
From a starting point of 14% in 2016, Microsoft's **operational ROIC** increased to a notable 26% in 2024. This growth reflects improved profitability and operational efficiency, particularly during the pandemic, when the company effectively leveraged increased demand.

The **NOPAT Margin** rose from 24% in 2016 to 37% in 2024, showcasing Microsoft's ability to enhance operational profitability through scalability and cost optimization. Meanwhile, the Capital Turnover metric remained stable, reflecting consistent capital efficiency over time.

BALANCE SHEET



Source: Company data, Team Analysis



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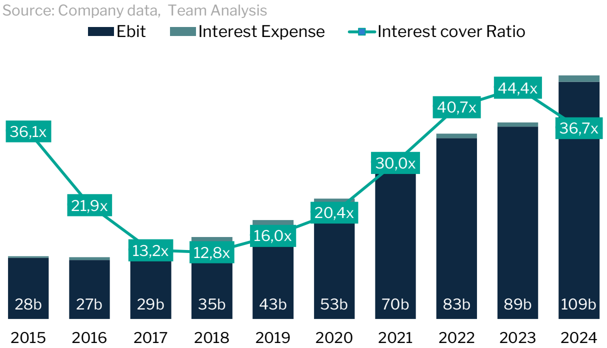


Source: Company data, Team Analysis

Microsoft's balance sheet reflects exceptional financial stability and strength. With total assets of $512 billion (comprising $160 billion in current assets and $352 billion in long-term assets), the company has a substantial resource base to support its operations and strategic investments. The current assets, which exceed current liabilities by $35 billion, yield a current ratio of 1.28, demonstrating prudent liquidity management and the ability to meet short-term obligations with ease.
The capital structure is equally robust, with $268 billion in equity, representing approximately 52% of the company's total resources. This high level of equity showcases strong internal capitalization and a limited reliance on external financing. Total liabilities stand at $243 billion, with a balanced distribution between current liabilities ($125 billion) and long-term liabilities ($118 billion), reflecting Microsoft's careful management of long-term debt and its associated risks.

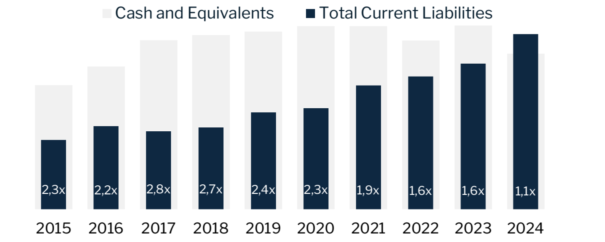
In summary, the balance sheet highlights Microsoft's excellent resource management, strong liquidity, and solid solvency. This financial stability enables the company to aggressively pursue innovation, acquisitions and other strategic initiatives without compromising its financial health, other than obligations, without having to resort to external financing.

Debt-to-Equity Ratio Analysis
The debt-to-equity ratio has gradually decreased over time, from 0.4x in 2015 to 0.2x in 2024, showing financial stability and a solid structure. This decline reflects Microsoft's reduced reliance on debt relative to equity, indicating minimal risks of illiquidity or unsustainability in both the short and long term. A notable peak of 0.9x occurred in 2017 and 2018, primarily driven by an increase in debt related to strategic financing decisions.
The sharp rise in debt during 2017—when total debt grew from $55 billion in 2016 to $96 billion in 2017, including $44.34 billion in new issuances—was largely due to the acquisition of LinkedIn and Microsoft's strategy of leveraging relatively low interest rates. Despite this increase, debt levels have remained stable since 2017, averaging approximately $86.125 billion annually. Meanwhile, total equity has risen significantly, from $88 billion in 2017 to $268 billion in 2024, demonstrating a strong and consistent growth trajectory.
Microsoft's financial robustness now enables a flexible strategy focused on substantial investments in key areas such as AI, Gaming and Cloud services, ensuring its competitive positioning in a rapidly evolving market.

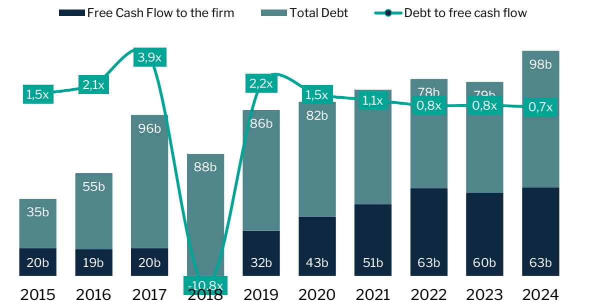
Interest Expense and EBIT dynamics
When analyzing interest expenses relative to EBIT, a clear trend emerges. EBIT has grown significantly from $28 billion in 2015 to $109 billion in 2024. Meanwhile, interest expenses have risen at a slower pace, from $781 million in 2015 to $2.983 billion in 2024. As a result, Microsoft's interest cover ratio (EBIT/Interest Expense) has improved dramatically, starting at 12.8x in 2018 and reaching 36.7x in 2024 after peaking at 44.4x in 2023.

The slight drop in the interest cover ratio between 2023 and 2024 is due to higher interest expenses in the latter year. This increase stems from debt financing secured during a period of rising interest rates, reflecting broader market trends. Nonetheless, the company's ability to cover interest payments remains exceptionally strong, demonstrating its financial resilience.

Quick Ratio

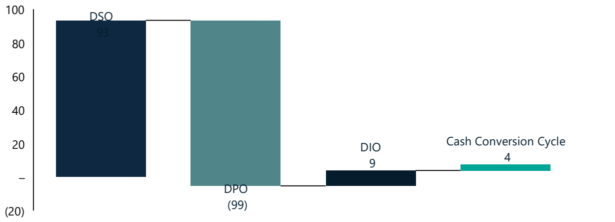


Source: Company data, Team Analysis

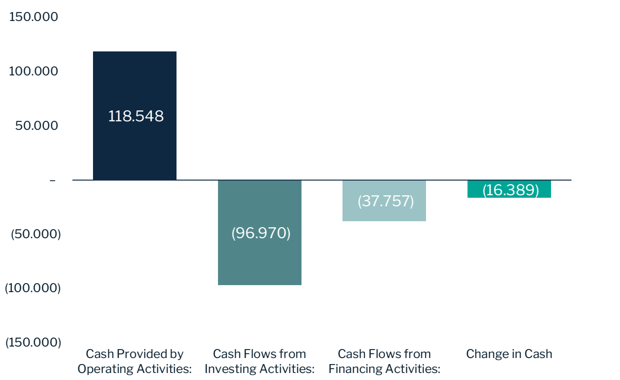


Source: Company data, Team Analysis

Cash Conversion Cycle

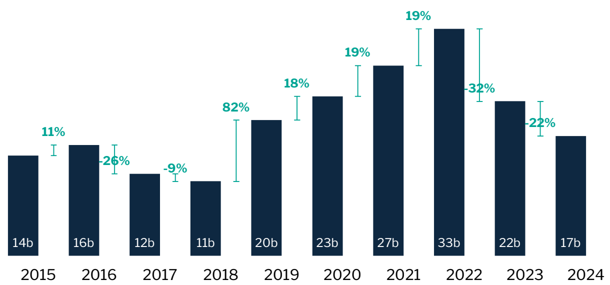


Source: Company data, Team Analysis



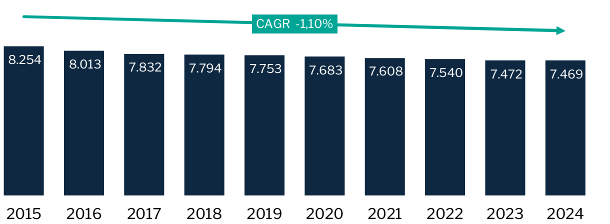
Source: Company data, Team Analysis

Repurchase of Common Stock



Source: Company data, Team Analysis

Diluted Shares Outstanding



Source: Company data, Team Analysis

Quick and Current ratio analysis

Microsoft's quick ratio from 2015 to 2024 shows stability until 2019, averaging around 2.5x, followed by a decline to 1.1x in 2024. Despite the drop, the ratio demonstrates that Microsoft still holds more cash than short-term liabilities. This decrease reflects strategic liquidity use, particularly to drive growth in the software sector, which has surged since the COVID-19 pandemic.

The decline is largely due to the $75.4 billion cash acquisition of Activision Blizzard Inc., underscoring Microsoft's reliance on liquidity to fund projects and maintain competitiveness. Rather than signaling weakness, the trend highlights a deliberate strategy to leverage cash for short- and long-term investments, though it remains essential to monitor for future changes.

The current ratio, slightly higher at 1.3x in 2024, aligns with expectations as it includes less liquid short-term assets. Together, these metrics reflect sound liquidity management and a focus on strategic growth.

Debt to free cash flow analysis

To analyze Microsoft's financial strength, the Debt to Free Cash Flow (Debt/FCF) ratio serves as an excellent indicator. This metric, calculated by dividing total debt by the company's FCF, reveals how many years it would take for the company to repay its entire debt using its Free Cash Flow. In this regard, Microsoft shows an improving trend: the ratio decreased from 1.5x in 2015 to 0.7x in 2024, despite total debt increasing from $35 billion in 2015 to $98 billion in 2024. This signifies a significant rise in Free Cash Flow, which grew from $20 billion in 2015 to $63 billion in 2024.

A notable outlier occurred between 2017 and 2018, during which Microsoft reported negative FCF of $7.04 billion. This anomaly should not be interpreted as a structural issue within the company but rather as the result of extraordinary events, including the Tax Cuts and Jobs Act of 2017 ($13 billion tax), a 3% increase in Capex compared to the previous year, elevated interest expenses and a higher level of debt.

Cash Conversion Cycle analysis

Microsoft shows a CCC that has significantly decreased, dropping from 26 days in 2015 to 4 days in 2024. This highlights a substantial improvement in the company's cash conversion cycle, although the collection period still exceeds the payment period by 4 days.

The DSO of 93 days, which reflects the time needed to collect payments, is fairly typical for a company of Microsoft's size. However, it remains an area that could be optimized.

The DPO of 99 days indicates that the company can delay payments to suppliers for an average of 99 days. This showcases strong negotiation capabilities, allowing Microsoft to hold onto liquidity for a longer period compared to other companies.

The DIO of 9 days highlights Microsoft's business model, where physical inventory is minimal. As a result, inventory turnover is extremely quick.

CASHFLOW STATEMENT

Microsoft's Cash Flow Statement is overall very positive. The trend of cash generated from operating activities has shown continuous growth since 2015, except for 2023, a year when the value slightly declined compared to the previous year (approximately 1.6%), with an average CAGR for the 2015-LTM period of 13.73%. This trend demonstrates the company's ability to generate significant and substantial cash flow through its core business. This is not only the result of an increase in market demand for software in recent years but also a confirmation of a solid and effective operational management system.

CAPEX expenditures have also followed a sustained upward trend, reaching approximately $44.5 billion in 2024, marking a year-over-year increase of more than 58.24%, due to significant investments in cloud and server infrastructure. Also noteworthy is the unprecedented increase in the "cash acquisition" item, which in 2024 amounted to nearly $70 billion due to the acquisition of Actvision Blizzard Inc. Together, these items contribute to a total cash outflow from investing activities of nearly $100 billion for 2024, a figure already on the rise for Microsoft's second quarter of 2025, amounting to over $112 billion. Having a CAPEX at these levels is highly positive, as it reflects the company's commitment to maintaining its infrastructure updated and at the cutting edge of innovation.

The cash flows in the "Cash from Financing" section show significant outflows starting in 2018 with $33.59 billion, slowing down in 2023 when they dropped to $43.94 billion from $58.88 billion in 2022. From 2019 to 2023, Microsoft focused on repaying its debt without issuing new debt, although the most substantial years in this regard were the preceding biennium (2017 and 2018), with repayments amounting to $12.86 billion and $17.38 billion, respectively. This indicates Microsoft's commitment to carefully managing its debt and optimizing its capital structure as much as possible. In 2024, debt repayments rose to just over $29 billion, with a further increase anticipated in 2025, as they are already at the $34 billion level.

Microsoft's buyback program dynamics reveal the management's strategy of repurchasing shares during periods when they are undervalued or, in any case, priced below what is expected in the near future. This approach reflects the company's aim to provide, as much as possible, value to its shareholders. Indeed, if we look at when Microsoft carried out its significant share repurchases, these are concentrated between 2019 and 2022. In 2019, the stock experienced a period of stagnation from June to October, before entering a strong expansion phase. In 2020, the COVID-19 pandemic led to a 30% drop in the stock's value, prompting the management to support the stock again. Finally, in 2022, uncertainty and recessionary expectations contributed to a general market decline, which also affected Microsoft, leading the company to respond by purchasing additional shares.

Validating this upward trend in buybacks is the corresponding decrease in shares outstanding, which have fallen from 8.2 billion in 2015 to 7.5 billion. By doing so, the company increases its earnings per share, supporting its long-term value growth.

Valuation

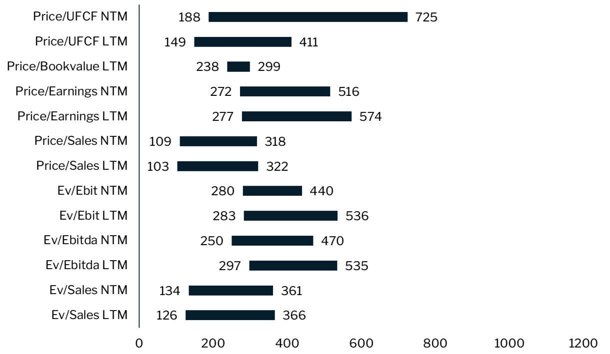
Weighted Average Cost of Capital		
Risk free rate (R_f)	4,06%	(1)
Country risk premium	0,39%	(2)
Equity risk premium (R_m - R_f)	4,99%	(3)
Equity Beta	0,89	(4)
Cost of Equity (K_e)	8,89%	
Cost of debt	4,65%	(5)
Tax rate	15,14%	
After-tax Cost of Debt (K_{dt})	3,94%	
Capital Structure		
Equity	97%	
Debt	3%	
Weighted Average Cost of Capital	8,74%	

DCF VALUATION

We estimate a WACC of 8,74% for Microsoft. To determine the cost of debt, we add Microsoft's debt rating-implied corporate spread to the risk-free rate. To reflect Microsoft's global operations, we use a revenue-weighted spread plus the risk-free rate (US5y), adjusted based on regional revenue distribution. The cost of equity is calculated using the CAPM formula, incorporating a revenue-weighted equity risk premium. The Beta is derived from a direct correlation with the MSCI WORLD, as we believe this benchmark aligns more closely with Microsoft' global reach and its potential market movements.

We expect the terminal growth rate to stabilize at 4% after 2029 based on (1) projected real GDP growth in core markets, (2) Growth of the industry, and (3) long term inflation goals of company' main countries of operation. We see potential upside for the terminal growth rate based on the possible favorable market position and economic conditions. This will result in further appreciation of the share price far beyond our target price. Our terminal value also implies an exit EV/EBITDA multiple of 22,5x.

SCENARIOS	BEAR CASE	BASE CASE	BULL CASE
"Productivity and business processes" segment	Competitors develop equally effective alternatives with faster and superior innovation compared to Microsoft's products.	Microsoft maintains its market leadership through the strong monopoly of its business solutions.	Microsoft strengthens its position by integrating AI, improving product quality, and competing on price.
P&BP's Revenue CAGR	**+12% YoY**	**+14% YoY**	**+15% YoY**
Expansion of Cloud services	Competitors capture market share with superior cloud innovation and better AI integration.	Microsoft maintains a strong position in the cloud segment due to Azure's quality, improving in line with competitors.	Microsoft achieves undisputed leadership or matches AWS through innovation and enhanced AI integration.
Cloud's Revenue CAGR	**+12,5% YoY**	**+13,5% YoY**	**+15,5% YoY**
Innovation and integration in generative AI	Microsoft falls behind due to missed opportunities in gaming and Windows-Copilot integration.	Microsoft retains its market position through gaming innovation and AI-enhanced Windows improvements.	Microsoft strengthens its market position by advancing gaming and dominating competitors with an AI-integrated operating system.
PC's Revenue CAGR	**+11,5% YoY**	**+13% YoY**	**+13,5% YoY**
Price target MSFT	**478,99**	**528,16**	**586,75**
% Change from current price	**13%**	**25%**	**39%**



RELATIVE VALUATION

The multiples valuation conducted on Microsoft does not seem to yield results in line with expectations nor close to the conclusions drawn from the cash flow analysis and the DCF. This is due to the fact that significantly smaller companies compared to the tech giant Microsoft were considered (among them SAP, Adobe, Oracle, and IBM, while Alphabet, also included, shows equity value and enterprise value figures more comparable to Microsoft). The reason for this lies in our decision to focus only on companies that significantly share Microsoft's business model. Due to their relatively smaller size, the multiples observed are overall lower than those of Microsoft, which, without further investigation, could suggest an overvaluation of the stock compared to the sector.

We decided not to include companies like Amazon or Apple in this analysis, which, although comparable in size, share only a partial overlap with Microsoft's business model, specifically regarding operating systems and cloud computing, respectively.

With these premises, the price emerging from the multiples valuation is $296, implying a potential downside of approximately 28.7% compared to the current price. Microsoft appears overvalued across all multiples compared to the average of its competitors: in a "normal" scenario, this would suggest that the stock has a valuation higher than what is considered appropriate within the sector.

Qualitative Factors	
Unique business model	☑
Operates globally	☑
Diversified customer base	☑
Capable of Growing	☑
Competitive advantages	☑
Pricing Power	☑
Leading Market position	☑
Capable Management	☑
Recession resistant	☑
Immune to disruption	☑

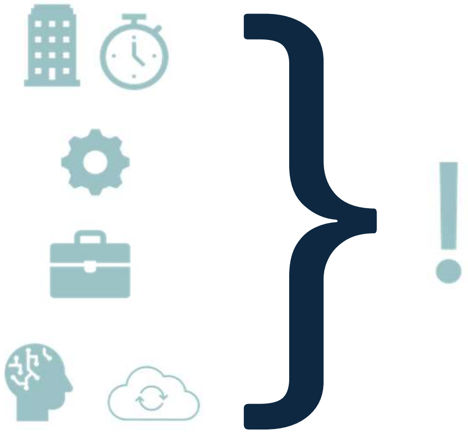
Quantitative Factors	
Debt/Equity <0.8	Yes
Ebit/interst exp. >5	Yes
Revenue 5y CAGR > 5%	Yes
ROIC 5y Avg > 15%	Yes
FCF/Net income > 80%	NO
Ebitda 5y CAGR > 7%	Yes

Microsoft's unique business model spans all major software segments, unmatched by competitors. With global operations and a diversified client base, it is well-positioned for growth. Strong product quality, integration, and pricing power secure its market leadership, driven by strategic management. Microsoft also shows resilience to recessions and market disruptions due to the essential demand for its offerings.

From a quantitative perspective, Microsoft showcases a strong financial structure with low debt levels, excellent ROIC, and minimal interest expenses relative to EBIT. The company also boasts a high revenue and EBITDA CAGR over the past five years, meeting most quantitative criteria. However, Microsoft falls short on the FCF/Net Income ratio > 80%: in 2024 the company reported 73%, which is slightly lower than the average value of 86.1% between 2019 and 2023. This dip is primarily due to a 58.2% increase in CapEx during 2024, reflecting strategic reinvestment rather than inefficiency. This metric warrants monitoring but does not undermine the company's solid financial foundation.

We reiterate our BUY recommendation for Microsoft with a 12-month target price of $528.16, presenting an 24,7% upside potential on the closing price of $423,46 on November 30th, 2024. To confirm the robustness of our DCF and to incorporate the investment risks outlined in the next section, we performed a sensitivity analysis and a scenario analysis.

Investment risks



1) Strategic and competitive risks

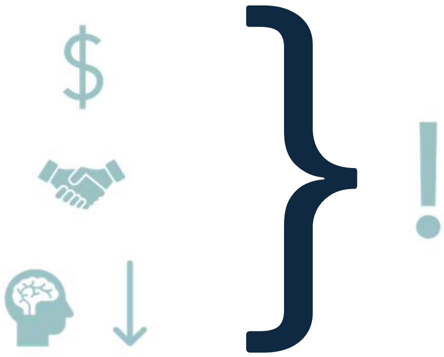
a) Competition in the tech sector: the technology industry is characterized by both global giants and small specialized firms. With relatively low barriers to entry and rapid evolution, constant innovation is crucial for Microsoft to maintain its competitive edge.

b) Ecosystem-Based Competition: Microsoft competes directly with companies like Apple and Google in creating platform-based ecosystems. These ecosystems integrate products and services seamlessly, offering customers enhanced security, ease of use, and productivity while fostering loyalty.

c) Business Model Competition: Microsoft's core business models face fierce competition and rapid changes:

- Cloud Services: major competitors are heavily investing to offer competitive cloud solutions.
- AI: the fast-growing AI market represents a crucial opportunity for Microsoft to stay relevant in what is considered the third industrial revolution.
- License-Based Model: Microsoft relies on software licensing, which demands substantial R&D investments to remain competitive.
- Free Services Funded by Advertising: competitors offering free applications supported by advertising pose a challenge to Microsoft's paid services.
- Open-Source Software: rival companies distribute open-source software to reduce development costs, monetizing through ads or integrated services, directly competing with Microsoft's proprietary software.

d) Cloud and AI-Related Risks: Microsoft's significant investments in cloud infrastructure and AI integration come with high costs, reducing operating margins. Success in these areas hinges on delivering innovative, fully integrated solutions across devices, attracting third-party developers and by offering competitive pricing.



2) Risk Relating to the evolution of the business

a) Significant investments in products and services may not deliver expected returns: MSFT consistently invests in innovative products and services to maintain leadership and drive growth. However, these investments come with inherent uncertainty regarding their returns. Commercial success depends heavily on customer perception of value in new offerings. If customers fail to see sufficient value, some products may not achieve the profitability initially anticipated, potentially impacting overall performance.

b) Acquisitions, Joint Ventures, and strategic alliances could negatively impact the business: acquisitions and partnerships are critical to Microsoft's long-term growth strategy. While they offer opportunities to expand capabilities and market reach, they also present risks, such as integration challenges, unsatisfactory returns, and delays in realizing expected benefits. If these initiatives fail to meet expectations, they could adversely affect Microsoft's financial performance and operational stability.

c) Impairment of amortizable intangible assets could reduce earnings significantly: Microsoft's investments in acquisitions and intangible assets are made with the expectation of generating future returns. However, if events or changes in circumstances render these assets unrecoverable, the company may be forced to record substantial impairments. Such write-offs could result in a significant reduction in reported earnings, adversely affecting shareholder value and market confidence.

3) Cybersecurity, data privacy and platform abuse risks

Microsoft faces significant risks related to cybersecurity, data privacy, and platform abuse, which could harm its revenues, increase costs, or damage its reputation and competitive position. Constant threats from hackers and malicious organizations target both Microsoft's IT systems and customer data, making security a critical focus for maintaining trust and market competitiveness. The company invests heavily in developing defensive measures to protect its products, services, and customer data, as failures in this area could lead to reputational harm and reduced revenues. Additionally, misuse of Microsoft's products or platforms could further harm its image, requiring costly investments to monitor and control such activity. Lastly, the rapid evolution of AI introduces its own risks; unsuccessful development or failure to meet expectations in this key area could lead to loss of market competitiveness and erode customer trust.

4) Operational Risks

Microsoft faces substantial operational risks that could disrupt its services and product offerings if its infrastructure is not adequately managed. Ensuring the quality and reliability of its products is critical, particularly for business customers, as any significant defects or compatibility issues with third-party services could harm its reputation. Supply chain challenges also pose a threat, as certain components critical to products like Xbox, Surface, and datacenter development are limited in availability, potentially slowing production and innovation, especially in AI. Additionally, manufacturing defects in hardware products could lead to recalls, increased costs, and customer dissatisfaction, underscoring the importance of maintaining operational excellence and supply chain resilience.

5) General risks

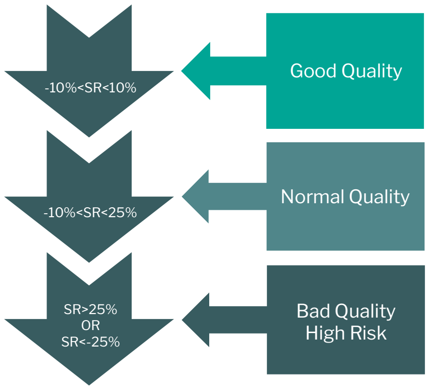
Microsoft faces several general risks that could significantly impact its business performance and future growth. Damage to its brand or reputation, whether through product failures, data breaches, or controversies, could erode customer trust and reduce revenue. Economic or market downturns, such as recessions or shifting consumer demand, create additional challenges that may affect sales and profitability. Furthermore, the company's global footprint exposes it to geopolitical risks and catastrophic events, such as earthquakes or conflicts, particularly in regions critical to its operations and supply chains. These risks could lead to disruptions in production, delays in deliveries, and additional costs.

Finally, the company's ability to attract and retain top talent is crucial to sustaining its competitive edge. As innovation and leadership heavily rely on skilled employees, ensuring a compelling working environment and competitive compensation remains a priority for long-term success. Each of these risks underscores the need for robust risk management strategies to safeguard Microsoft's global operations and market position.

APPENDIX

SLOAN RATIO

	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	LTM
Net Income	44.281	61.271	72.738	72.361	88.136	90.512
Cash Flow from Operations	60.675	76.740	89.035	87.582	118.548	122.145
Cash Flow from Investing	(12.223)	(27.577)	(30.311)	(22.680)	(96.970)	(112.674)
Total Assets	301.311	333.779	364.840	411.976	512.163	523.013
Sloan Ratio	**-1,38%**	**3,63%**	**3,84%**	**1,81%**	**13,00%**	**15,50%**
Interpretation	Good Quality	Good Quality	Good Quality	Good Quality	Normal Quality	Normal Quality



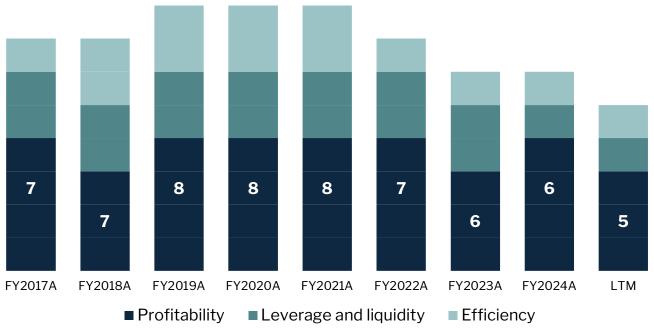
The profits reported in the income statement, along with revenue, are among the key financial metrics closely monitored by investors, as they directly influence the short-term performance of the stock price. However, this focus can place pressure on management, pushing them to adopt accounting practices aimed at meeting market expectations, potentially resulting in profits that may not be sustainable in the long run. Provisions, being subject to discretionary estimates, are one of the areas where more aggressive management can intervene.

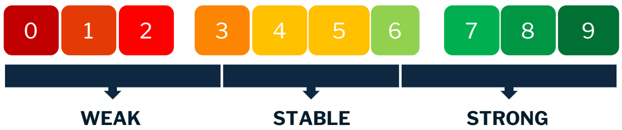
Sloan highlighted that companies with a high level of accruals, meaning a high proportion of provisions, tend to generate lower stock returns compared to those with a lower provision ratio. The Sloan ratio, which represents the percentage of provisions relative to total assets, is thus a useful indicator for assessing the quality of a company's earnings.

The company's Sloan Ratio falls between -25% and -10%, or between 10% and 25%, placing it in an intermediate zone. This figure indicates a growing reliance on provisions, which requires some attention. While the current level does not represent an immediate risk, the situation could deteriorate if this trend continues. We recommend that investors closely monitor upcoming quarterly results, as further increases in provisions could affect the future sustainability of earnings.

PIOTROSKI F-SCORE

Piotroski F-Score





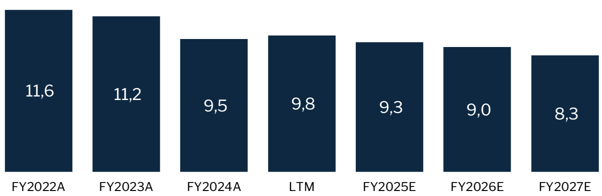
The Piotroski F-Score is a fundamental analysis tool developed by accounting professor Joseph D. Piotroski to assess a company's financial health. This score comprises nine financial criteria, divided into three main categories: profitability, operational efficiency, and capital structure. Each metric within these categories is assigned one point if it meets certain favorable conditions, resulting in a cumulative score that ranges from 0 to 9.

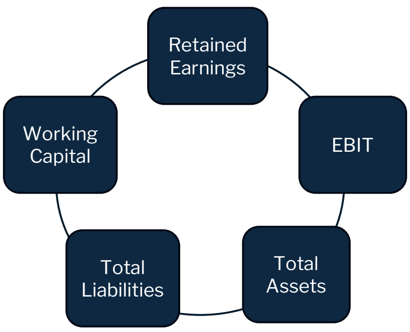
Over the past 20 years, a stock selection strategy within the S&P 500 that used a Piotroski F-Score greater than 6 and included annual rebalancing would have outperformed the S&P 500, achieving a compound annual growth rate (CAGR) of 14.8%. This superior performance highlights how the Piotroski F-Score can enhance returns within a value investing strategy, demonstrating its effectiveness in selecting financially strong companies relative to the broader market.

Our analysis indicates that the company's Piotroski F-Score in 2024 is within the optimal range of 7 to 9, reflecting a strong financial position and robust fundamentals. This high score suggests the company excels across profitability, operational efficiency, and capital structure management. In this context, we consider the investment risk to be limited, as the financial indicators demonstrate effective management and resilience. With this strong foundation, the company is well-positioned for sustainable growth, making it an attractive option for value-focused investors.

ALTMAN Z-SCORE

Z-score





	Historical				Projected		
	FY2022A	FY2023A	FY2024A	LTM	FY2025A	FY2026A	FY2027A
1.	0,5	0,4	0,3	0,3	0,4	0,4	0,5
2.	0,1	0,1	0,1	0,1	0,1	0,1	0,1
3.	0,2	0,2	0,2	0,2	0,2	0,2	0,2
4.	16	15	13	13	13	12	11
5.	0,54	0,51	0,48	0,49	0,47	0,46	0,44
Z-score	**11,6**	**11,2**	**9,5**	**9,8**	**9,3**	**9,0**	**8,3**
Interpretation	Safe zone	Safe zone	Safe zone	Safe zone	Safe zone	Safe zone	Safe zone

The Altman Z-score is a predictive financial metric designed to assess the likelihood of a company's insolvency within the next two years. Developed to anticipate bankruptcy risk, Altman's model has demonstrated an accuracy rate of 95% one year before bankruptcy, decreasing to 72% two years before and 52% three years before.

This formula measures the "distance" between a company's financial ratios and those typical of distressed companies. A high Z-score indicates a lower risk of failure, while a low score signals higher risk, providing investors and analysts with a key parameter to evaluate a company's creditworthiness and financial stability.

Based on our analysis, the company is in a safe zone, with a low risk of default in the short to medium term. This high score indicates a solid financial structure and a stable capacity to generate operating cash flows. Assets are efficiently utilized, and leverage is maintained at manageable levels, making this company an attractive option for investors seeking stability and resilience to market shocks. This positioning inspires confidence in the company's management reliability and long-term sustainability.

INCOME STATEMENT														
Ammounts in million	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	LTM	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
Revenues	96.571	110.360	125.843	143.015	168.088	198.270	211.915	245.122	254.190	278.213	314.659	354.621	398.240	444.037
% YoY Growth	*5,9%*	*14,3%*	*14,0%*	*13,6%*	*17,5%*	*18,0%*	*6,9%*	*15,7%*	*3,7%*	*13,5%*	*13,1%*	*12,7%*	*12,3%*	*11,5%*
Cost of goods sold	(34.261)	(38.353)	(42.910)	(46.078)	(52.232)	(62.650)	(65.711)	(74.114)	(77.911)	(86.246)	(95.656)	(105.677)	(116.286)	(124.330)
Gross Profit	**62.310**	**72.007**	**82.933**	**96.937**	**115.856**	**135.620**	**146.204**	**171.008**	**176.279**	**191.967**	**219.003**	**248.944**	**281.954**	**319.707**
% YoY Growth	*6,7%*	*15,6%*	*15,2%*	*16,9%*	*19,5%*	*17,1%*	*7,8%*	*17,0%*	*3,1%*	*12,3%*	*14,1%*	*13,7%*	*13,3%*	*13,4%*
SG&A expenses	(19.942)	(22.223)	(23.098)	(24.709)	(25.224)	(27.725)	(30.334)	(32.065)	(32.794)	(31.995)	(35.242)	(38.654)	(42.213)	(44.404)
R&D expenses	(13.037)	(14.726)	(16.876)	(19.269)	(20.716)	(24.512)	(27.195)	(29.510)	(30.395)	(33.386)	(37.130)	(41.136)	(45.399)	(48.844)
Other operating expenses	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Operating Income	**29.331**	**35.058**	**42.959**	**52.959**	**69.916**	**83.383**	**88.675**	**109.433**	**113.090**	**126.587**	**146.631**	**169.154**	**194.341**	**226.459**
% YoY Growth	*7,9%*	*19,5%*	*22,5%*	*23,3%*	*32,0%*	*19,3%*	*6,3%*	*23,4%*	*3,3%*	*15,7%*	*15,8%*	*15,4%*	*14,9%*	*16,5%*
± Non-operating income(ex	2.792	4.149	3.415	2.668	3.516	2.380	2.631	1.337	721	721	2.506	2.506	2.506	2.506
– Interest Expense	(2.222)	(2.733)	(2.686)	(2.591)	(2.330)	(2.047)	(1.995)	(2.983)	(3.039)	(1.243)	(1.346)	(1.449)	(1.552)	(1.758)
Pretax Income	**29.901**	**36.474**	**43.688**	**53.036**	**71.102**	**83.716**	**89.311**	**107.787**	**110.772**	**126.065**	**147.792**	**170.212**	**195.296**	**227.208**
– Tax Provision	(4.412)	(19.903)	(4.448)	(8.755)	(9.831)	(10.978)	(16.950)	(19.651)	(20.260)	(22.692)	(26.603)	(30.638)	(35.153)	(40.897)
Net Income	**25.489**	**16.571**	**39.240**	**44.281**	**61.271**	**72.738**	**72.361**	**88.136**	**90.512**	**103.373**	**121.189**	**139.574**	**160.142**	**186.310**
% YoY Growth	*24,1%*	*-35,0%*	*136,8%*	*12,8%*	*38,4%*	*18,7%*	*-0,5%*	*21,8%*	*2,7%*	*17,3%*	*17,2%*	*15,2%*	*14,7%*	*16,3%*
Ebit	29.331	35.058	42.959	52.959	69.916	83.383	88.675	109.433	113.090	126.587	146.631	169.154	194.341	226.459
Depreciation & Amortization	7.800	9.900	11.600	12.300	10.900	14.600	13.500	20.000	23.462	25.039	26.746	28.370	29.868	28.862
Ebitda	**37.131**	**44.958**	**54.559**	**65.259**	**80.816**	**97.983**	**102.175**	**129.433**	**136.552**	**151.626**	**173.377**	**197.524**	**224.209**	**255.321**
% YoY Growth	*12,3%*	*21,1%*	*21,4%*	*19,6%*	*23,8%*	*21,2%*	*4,3%*	*26,7%*	*5,5%*	*17,1%*	*14,3%*	*13,9%*	*13,5%*	*13,9%*

INCOME STATEMENT DRIVERS														
	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	LTM	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
Cost of sales % Rev.	*35,5%*	*34,8%*	*34,1%*	*32,2%*	*31,1%*	*31,6%*	*31,0%*	*30,2%*	*30,7%*	*31,0%*	*30,4%*	*29,8%*	*29,2%*	*28,0%*
SG&A % of Rev.	*20,7%*	*20,1%*	*18,4%*	*17,3%*	*15,0%*	*14,0%*	*14,3%*	*13,1%*	*12,9%*	*11,5%*	*11,2%*	*10,9%*	*10,6%*	*10,0%*
R&D expenses % of Re	*13,5%*	*13,3%*	*13,4%*	*13,5%*	*12,3%*	*12,4%*	*12,8%*	*12,0%*	*12,0%*	*12,0%*	*11,8%*	*11,6%*	*11,4%*	*11,0%*
D&A % of revenues	*8,1%*	*9,0%*	*9,2%*	*8,6%*	*6,5%*	*7,4%*	*6,4%*	*8,2%*	*9,2%*	*9,0%*	*8,5%*	*8,0%*	*7,5%*	*6,5%*
Cost of debt % Revenu	*2,3%*	*3,1%*	*3,1%*	*3,2%*	*2,8%*	*2,6%*	*2,5%*	*3,0%*	*3,1%*	*2,9%*	*3,1%*	*3,4%*	*3,6%*	*4,1%*
Effective tax Rate	*14,8%*	*54,6%*	*10,2%*	*16,5%*	*13,8%*	*13,1%*	*19,0%*	*18,2%*	*18,3%*	*18,0%*	*18,0%*	*18,0%*	*18,0%*	*18,0%*
EPS	3,3	2,1	5,1	5,8	8,1	9,6	9,7	11,8	12,1	13,8	16,2	18,7	21,4	24,9
% YoY Growth	*27,0%*	*-34,7%*	*138,1%*	*13,9%*	*39,7%*	*19,8%*	*0,4%*	*21,8%*	*2,7%*	*14,2%*	*17,2%*	*15,2%*	*14,7%*	*16,3%*
Diluted Shares Outstan	7.832	7.794	7.753	7.683	7.608	7.540	7.472	7.469	7.471	7.471	7.471	7.471	7.471	7.471
Dividends per Share	1,56	1,68	1,84	2,04	2,24	2,48	2,72	3	3,08	0	0	0	0	0
Payout Ratio	*47,9%*	*79,0%*	*36,4%*	*35,4%*	*27,8%*	*25,7%*	*28,1%*	*25,4%*	*25,4%*	*25,0%*	*24,4%*	*23,8%*	*23,2%*	*22,0%*

BALANCE SHEET														
Amounts in millions	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	LTM	FY2025A	FY2026A	FY2027A	FY2028A	FY2029A
Total Cash	7.663	11.946	11.356	13.576	14.224	13.931	34.704	18.315	20.840	67.698	133.839	219.552	303.593	406.372
Short Term Investments	125.238	121.718	122.476	122.916	116.032	90.818	76.552	57.216	57.589	57.216	57.216	57.216	57.216	57.216
Cash & short-Term Invest.	**132.901**	**133.664**	**133.832**	**136.492**	**130.256**	**104.749**	**111.256**	**75.531**	**78.429**	**124.914**	**191.055**	**276.768**	**360.809**	**463.588**
Accounts Receivable	22.431	26.481	29.524	32.011	38.043	50.361	57.888	67.424	55.548	65.380	73.316	81.563	89.604	97.688
Inventory	2.181	2.662	2.063	1.895	2.636	3.742	2.500	1.246	1.626	2.587	2.870	3.170	3.489	3.730
Other Current Assets	5.183	6.855	10.133	11.517	13.471	10.832	12.613	15.533	14.323	19.475	18.880	21.277	19.912	26.642
Total Current Assets	**162.696**	**169.662**	**175.552**	**181.915**	**184.406**	**169.684**	**184.257**	**159.734**	**149.926**	**212.356**	**286.120**	**382.778**	**473.813**	**591.648**
Net PP&E	30.289	36.146	43.856	52.904	70.803	87.546	109.987	154.552	173.391	198.430	224.547	251.498	278.977	303.399
Other Non-Current Assets	22.205	17.357	25.122	23.141	28.859	40.086	49.846	78.657	80.322	78.657	78.657	78.657	78.657	78.657
Goodwill	35.122	35.683	42.026	43.351	49.711	67.524	67.886	119.220	119.374	100.381	100.381	100.381	100.381	100.381
Total Assets	**250.312**	**258.848**	**286.556**	**301.311**	**333.779**	**364.840**	**411.976**	**512.163**	**523.013**	**589.825**	**689.705**	**813.315**	**931.828**	**1.074.085**
Accounts Payable	7.390	8.617	9.382	12.530	15.163	19.000	18.095	21.996	22.768	25.874	29.654	33.817	36.049	39.786
Short Term Debt	1.049	3.998	5.516	3.749	8.072	2.749	5.247	2.249	2.249	2.249	2.249	2.249	2.249	2.249
Other Current Liabilities	47.306	45.873	54.522	56.031	65.422	73.333	80.807	101.041	90.183	105.721	116.424	138.302	143.366	155.413
Total Current Liabilities	**55.745**	**58.488**	**69.420**	**72.310**	**88.657**	**95.082**	**104.149**	**125.286**	**115.200**	**133.844**	**148.326**	**174.368**	**181.664**	**197.448**
Long Term Debt	76.073	72.242	66.662	59.578	50.074	47.032	41.990	42.688	42.868	42.868	42.868	42.868	42.868	42.868
Other non-current Liabilities	30.783	45.400	48.144	51.119	53.060	56.184	59.614	75.712	77.222	75.712	75.712	75.712	75.712	75.712
Total Liabilities	**162.601**	**176.130**	**184.226**	**183.007**	**191.791**	**198.298**	**205.753**	**243.686**	**235.290**	**252.424**	**266.906**	**292.948**	**300.244**	**316.028**
Total Equity	**87.711**	**82.718**	**102.330**	**118.304**	**141.988**	**166.542**	**206.223**	**268.477**	**287.723**	**337.401**	**422.799**	**520.367**	**631.584**	**758.057**
Total Liabilities and Equity	**250.312**	**258.848**	**286.556**	**301.311**	**333.779**	**364.840**	**411.976**	**512.163**	**523.013**	**589.825**	**689.705**	**813.315**	**931.828**	**1.074.085**

BALANCE SHEET DRIVERS														
Accounts Receivable % Rev.						*25%*	*27%*	*28%*	*22%*	*23,5%*	*23,3%*	*23,0%*	*22,5%*	*22,0%*
Inventory % COGS						*6%*	*4%*	*2%*	*2%*	*3,0%*	*3,0%*	*3,0%*	*3,0%*	*3,0%*
Other Current Assets % Rev.						*5%*	*6%*	*6%*	*6%*	*7,0%*	*6,0%*	*6,0%*	*5,0%*	*6,0%*
Accounts Payable % COGS						*30%*	*28%*	*30%*	*29%*	*30,0%*	*31,0%*	*32,0%*	*31,0%*	*32,0%*
Other CL % Revenues						*37%*	*38%*	*41%*	*35%*	*38,0%*	*37,0%*	*39,0%*	*36,0%*	*35,0%*
Book Value / Share						2231%	2775%	3611%	3869%					
TBV / Share						1175%	1735%	1637%	1904%					
Total Debt						78.400	79.441	97.852	96.838					

INDICATORS

	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	LTM	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
Margins														
Gross Profit Margin	65%	65%	66%	68%	69%	68%	69%	70%	69%	69%	70%	70%	71%	72%
EBITDA Margin	38%	41%	43%	46%	48%	49%	48%	53%	54%	55%	55%	56%	56%	58%
EBIT Margin	30%	32%	34%	37%	42%	42%	42%	45%	44%	46%	47%	48%	49%	51%
Net Income Margin	26%	15%	31%	31%	36%	37%	34%	36%	36%	37%	39%	39%	40%	42%
Free Cash Flow Margin	20%	-6%	26%	30%	31%	32%	28%	26%	26%	30%	32%	36%	33%	36%
Profitability														
Return on Assets	11%	7%	14%	15%	19%	21%	19%	19%	17%	19%	19%	19%	18%	19%
Return on Equity	32%	19%	42%	40%	47%	47%	39%	37%	33%	34%	32%	30%	28%	27%
Return on invested capital	11%	6%	14%	15%	19%	21%	18%	19%	18%	19%	19%	18%	18%	19%
Growth														
Operational Roic	13%	8%	17%	19%	23%	26%	24%	26%	24%	26%	27%	29%	31%	34%
NOPAT Margin	26%	14%	31%	31%	36%	37%	34%	37%	36%	37%	38%	39%	40%	42%
Capital turnover	0,5x	0,5x	0,6x	0,6x	0,7x	0,7x	0,7x	0,7x	0,7x	0,7x	0,7x	0,7x	0,8x	0,8x
Reinvestement rate (5%)	38%	66%	29%	27%	21%	19%	21%	19%	20%	19%	18%	17%	16%	15%
Reinvestement rate (10%)	75%	131%	58%	54%	43%	38%	41%	38%	41%	39%	36%	34%	32%	29%
Liquidity														
Current Ratio	2,9x	2,9x	2,5x	2,5x	2,1x	1,8x	1,8x	1,3x	1,3x	1,6x	1,9x	2,2x	2,6x	3,0x
Quick Ratio (Acid Test)	2,8x	2,7x	2,4x	2,3x	1,9x	1,6x	1,6x	1,1x	1,2x	1,4x	1,8x	2,1x	2,5x	2,8x
Activity														
Asset Turnover	0,4x	0,4x	0,4x	0,5x	0,5x	0,5x	0,5x	0,5x	0,5x	0,5x	0,5x	0,4x	0,4x	0,4x
DSO	77	81	81	79	76	81	93	93	88	87	80	80	78	77
DPO	76	76	77	87	97	100	103	99	105	103	106	110	110	111
DIO	24	23	20	16	16	19	17	9	7	8	10	10	10	11
Cash Conversion Cycle	24	28	25	7	(5)	0	8	4	(10)	(8)	(15)	(19)	(21)	(24)
Leverage														
Debt to Equity	0,9x	0,9x	0,7x	0,5x	0,4x	0,3x	0,2x	0,2x	0,2x	0,1x	0,1x	0,1x	0,1x	0,1x
Debt to Capital	0,5x	0,5x	0,4x	0,3x	0,3x	0,2x	0,2x	0,1x	0,1x	0,1x	0,1x	0,1x	0,1x	0,1x
Debt to free cash flow	3,9x	-10,8x	2,2x	1,5x	1,1x	0,8x	0,8x	0,7x	0,7x	0,5x	0,4x	0,4x	0,3x	0,3x
Debt / EBITDA	2,1x	1,7x	1,3x	1,0x	0,7x	0,5x	0,5x	0,3x	0,3x	0,3x	0,3x	0,2x	0,2x	0,2x
Coverage														
Interest cover Ratio	13,2x	12,8x	16,0x	20,4x	30,0x	40,7x	44,4x	36,7x	37,2x	101,8x	108,9x	116,7x	125,2x	128,8x

VALUATION

Weighted Average Cost of Capital	
Risk free rate (Rf)	4,06% (1)
Country risk premium	0,39% (2)
Equity risk premium (Rm - Rf)	4,99% (3)
Equity Beta	0,89 (4)
Cost of Equity (Ke)	8,89%
Cost of debt	4,65% (5)
Tax rate	15,14%
After-tax Cost of Debt (Kdt)	3,94%
Capital Structure	0
Equity	97%
Debt	3%
Weighted Average Cost of Capital	8,74%

(1) Based on the current US5y

(2) W.average of CRPs according to the revenue divided by geographical area

(3) W.average of ERPs according to the revenue divided by geographical area

(4) Based on a 5 year weekly correlation with the S&P 500

(5) Based on weighted average historical cost of debt

Discounted Cash Flow		Projected				
Amounts in millions, except per share amount	Units	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
EBIT	$	126.587	146.631	169.154	194.341	226.459
% YoY Growth	%	16%	16%	15%	15%	17%
Taxes	$	(22.692)	(26.603)	(30.638)	(35.153)	(40.897)
Tax Rate/Ebit	%	18%	18%	18%	18%	18%
NOPAT	$	**103.895**	**120.029**	**138.516**	**159.188**	**185.562**
+ Depreciation and Amortization	$	25.039	26.746	28.370	29.868	28.862
D&A % of Revenues		9,0%	8,5%	8,0%	7,5%	6,5%
± Changes in working capital	$	5.318	6.860	15.096	302	728
% YoY Growth current Assets		33%	35%	34%	24%	25%
% YoY Growth current Liabilities		7%	11%	18%	4%	9%
– Capital expenditures	$	(50.078)	(52.863)	(55.321)	(57.347)	(53.284)
Capex % of Revenue		18%	17%	16%	14%	12%
Unlevered Free Cash Flows	$	**84.175**	**100.772**	**126.661**	**132.011**	**161.867**
Discount rate	%	8,74%	8,74%	8,74%	8,74%	8,74%
Discount period		0,1	1,1	2,1	3,1	4,1
Discount factor		0,99	0,91	0,84	0,77	0,71
Present Value of Unlevered Free Cash Flow	$	**83.597**	**92.033**	**106.376**	**101.955**	**114.962**

DCF Value - Perpetuity Growth	
NPV of UFCF 2025 - 2029	498.924
PV of Terminal Value	3.612.208
Implied Enterprise Value	**4.111.132**
Less: Debt	96.838
Add: Cash	20.840
Add: short-term investments	57.589
Implied Equity Value	4.092.723
Diluted shares	7.471
Implied Value Per Share	547,81

Method	**Weight**
Exit Multiple	70%
Perpetuity growth rate	30%

	Perpetuity growth Rate					
Wacc	402	3,50%	3,75%	4,00%	4,25%	4,50%
	8,5%	388,63	406,62	426,63	449,00	474,20
	8,7%	369,88	386,03	403,90	423,76	445,98
	9,0%	352,85	367,42	383,46	401,20	420,92
	9,2%	337,31	350,52	364,98	380,91	398,52
	9,5%	323,08	335,09	348,20	362,57	378,38

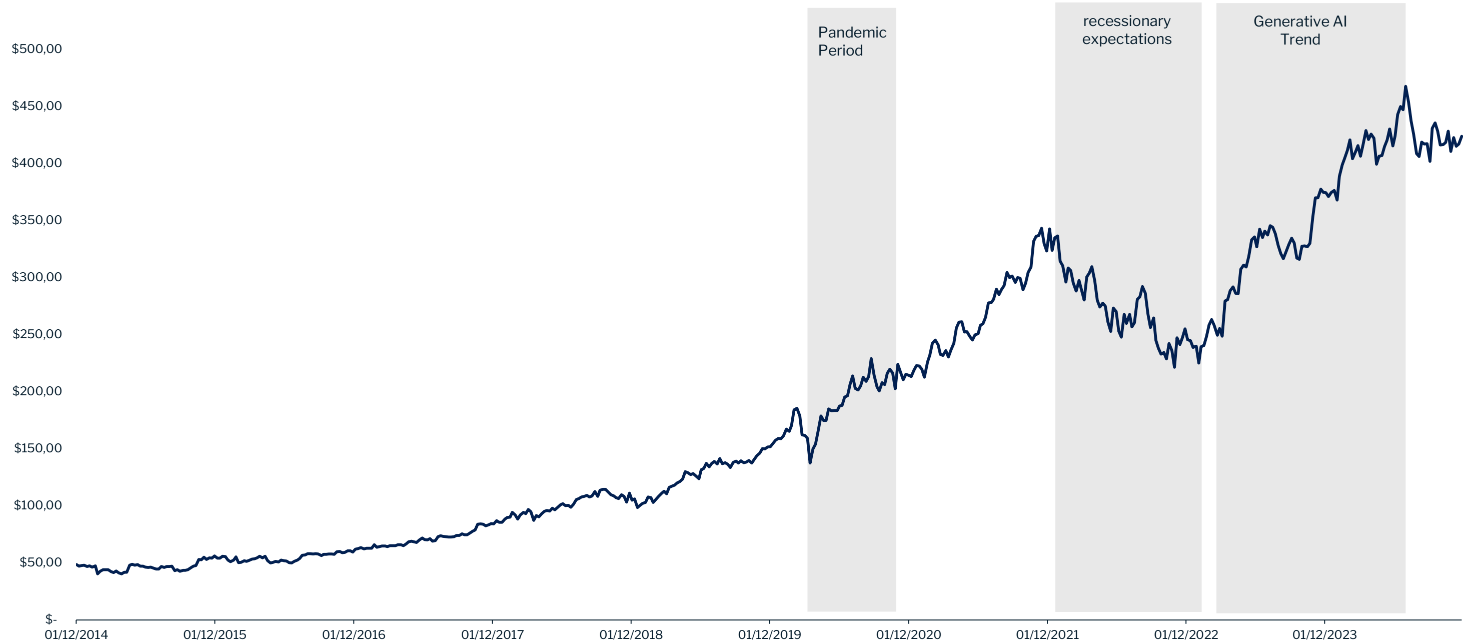
	Exit Multiple					
Wacc	610	22,0x	22,3x	22,5x	22,8x	23,0x
	8,5%	604,24	610,37	616,50	622,64	628,77
	8,7%	598,85	604,92	611,00	617,07	623,15
	9,0%	593,52	599,54	605,56	611,57	617,59
	9,2%	588,25	594,21	600,18	606,14	612,10
	9,5%	583,05	588,95	594,86	600,76	606,67

RELATIVE VALUATION

Enterprise Value Multiples	LTM	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
EV / Revenue	12,5x	11,4x	10,1x	9,0x	8,0x	7,2x
EV / Ebitda	23,3x	21,0x	18,4x	16,1x	14,2x	12,5x
EV / Ebit	28,1x	25,1x	21,7x	18,8x	16,4x	14,1x

Equity Value Multiples	LTM	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
Price / Sales	12,4x	11,4x	10,1x	8,9x	7,9x	7,1x
Price / Earnings	35,0x	30,6x	26,1x	22,7x	19,8x	17,0x
Price / BV	11,0x	9,4x	7,5x	6,1x	5,0x	4,2x
Price / UFCF	47,5x	37,6x	31,4x	25,0x	24,0x	19,5x

Trading Comparables	Equity	Enterprise	Ev / Sales		Ev / Ebitda		Price / sales		Price / Earnings		Price / Book	Price / UFCF	
Company	Value	Value	LTM	NTM	LTM	NTM	LTM	NTM	LTM	NTM	LTM	LTM	NTM
SAP	252.799	251.885	29,4x	23,3x	29,4x	23,3x	7,6x	6,9x		37,3x	6,2x	24,0x	48,8x
Adobe	221.583	220.146	10,5x	9,5x	27,06x	19,03x	10,58x	9,57x	42,61x	25,31x	15,40x	34,0x	24,3x
Alphabet	2.119.198	2.055.257	6,1x	5,4x	16,7x	12,5x	6,2x	5,6x	22,9x	20,0x	6,7x	45,7x	23,1x
IBM	189.543	236.049	3,8x	3,7x	16,4x	13,7x	3,0x	2,9x	30,0x	19,7x	7,7x	17,8x	16,8x
Oracle Corp	509.155	583.212	10,8x	9,8x	26,7x	18,6x	9,5x	8,5x	47,4x	28,6x		49,2x	64,6x
Equity Value	1.857.904	1.838.299	2.722.798	2.263.565	2.722.798	2.263.565	1.652.663	1.631.699	2.525.441	2.413.739	1.733.971	2.374.632	2.575.632
Diluted shares	7.471	7.471	7.471	7.471	7.471	7.471	7.471	7.471	7.471	7.471	7.471	7.471	7.471
Implied Share price	249	246	364	303	364	303	221	218	338	323	232	318	345
					0	0	0	0	0	0	0	0	0
High	366	361	535	470	535	470	322	318	574	516	299	411	725
Low	126	134	297	250	297	250	103	109	277	272	238	149	188



Disclosures