



Div %	Div \$	Current Price	Current Multiple	Market Cap	Beta
.88%	\$2.24	\$257.35	38.11x	\$1.9T	.8

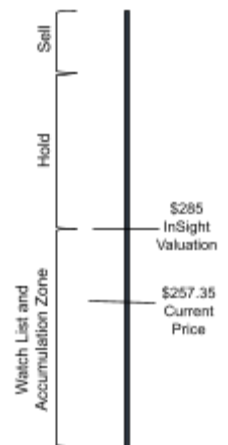
## Analyst Report: Microsoft Corp

TICKER: MSFT

### EXECUTIVE SUMMARY

Microsoft Corporation is a technology company. The Company develops, licenses, and supports a range of software products, services and devices. The Company's segments include Productivity and Business Processes, Intelligent Cloud and More Personal Computing. The Company's products include operating systems; cross-device productivity applications; server applications; business solution applications; desktop and server management tools; software development tools; video games, and training and certification of computer system integrators and developers. It also designs, manufactures, and sells devices, including personal computers (PCs), tablets, gaming and entertainment consoles, phones, other intelligent devices, and related accessories, that integrate with its cloud-based offerings. It offers an array of services, including cloud-based solutions that provide customers with software, services, platforms, and content, and it provides solution support and consulting services.

Metric	InSight Score (out of 5)
Solvency Debt Service and Income	
Corporate Efficacy Return on Equity, Historic Growth	
Growth Revenue Growth, Cash Flow	
Return of Capital Dividend Growth, Buybacks	
Total Return Aggregate vs. Current P/E	



### COMPANY HIGHLIGHTS

InSight think Microsofts EPS for 2021 will be above \$7.50/sh and will rise to above \$8.75 in 2022.

MSFTs core business is performing well and there are several acquisitions and developments in the cloud, gaming, and AI space that look promising. We think the key spaces we will be looking at is:

1) the Cloud business, grew 50% in FY Q2 '21 to what we estimate now to be 17% of total revenue 2) The Core Business in Office, was about ~22% of revenue, while we expect the office revenue to shrink as part of the total, we continue to expect this core business to perform. 3) strong Social Networking revenue from LinkedIn, ~7% of revenue, we think this group can see some of the most dynamic growth in both revenue and usebase. ~22% revenue growth is anticipated in the next two years. 4) Xbox consoles and game content/services, ~10% of revenue, we are anticipating strong numbers as the console business enters into its new cycle with 'Series X.' Growth in this group is accelerating to +25% through '23 as the result of both the new product cycle and the big lift off from COVID and Christmas in 2020.

- We estimate Azure Cloud to be +17% of revenue total revenue by 2023 as MSFT gets more of their legacy services hosted on Azure we think that becomes the real driver of value for MSFT.
- We expect gross revenue to get to ~75% and operating margins to grow to 50% in '23
- The loss leader Xbox hardware will decline and the higher margin games and cloud business will take over, raising overall margins and revenue in tandem.
- InSight thinks the core business is strong and we expect that to add some stability to MSFTs growth over the coming years. We think that Office stabilizes this business and gives it a cash flow edge over its peers.
- The acquisition of Nuance is exciting - for some time we have felt that the AI business was the natural extension of the cloud business and something that MSFT lacked
- For years critics of MSFT have noted that it trailed its peers at AMZN and Alphabet in the AI and machine learning business, this high priced acquisition answers those questions for us.
- We think that the dividend is secure and we expect the growth to be maintained. Additionally, we are content with the acquisition pace at its current rate.

Div %	Div \$	Current Price	Current Multiple	Market Cap	Beta
.88%	\$2.24	\$257.35	38.11x	\$1.9T	.8

## SECTOR OVERVIEW

Microsoft is in the Software Sector and is a major bellwether in the technology industry. They are the second largest components of the technology index and trails only AAPL. It is currently close to 20% of the total index. Its inclusion in a portfolio should not be considered diversification from technology or software, or even the border market. WE hold the company as a pure play in the cloud and software space we still feel is in early innings and we enjoy the low beta the company has demonstrated.

## IMPACT INSIGHT (ESG)

### +A Rating

**Environmentally** - Microsoft has been a leader in domestic and international commitments to reduce its carbon footprint. Microsoft founder and chairman Bill Gates has become a voice in the green movement and has challenged his company to be a trailblazer. In many of the companies we review a commitment to get to carbon neutrality is the goal, Microsoft's commitment is to having a negative carbon footprint by 2030. We think the momentum to move clients to the cloud, then ensuring that that cloud is run efficiently is a clear path to Microsoft's goals.

**Socially** - Microsoft is an exemplar of diversity among its board of directors, of the 11 members of the board, 7 represent women or people of color. Microsoft has a commitment to diversity and inclusion and has taken several steps to enshrine that in the corporate protocols. As a global technology company MSFT has a vested stake in building and maintaining an incredibly diverse corporate face.

**Governance** - There are few red flags in microsoft's governance. They routinely report numbers and a predictable and standard way. There are few surprises in their balance sheet quarter over quarter. There is some national call for large tech companies to be broken up because of anti-competitive behavior, but few seem to target MSFT on the product ecosystem, or LinkedIn in the calls for Social Media reform.

#### DISCLAIMER:

Past performance is not an indication of the future performance and should not be relied upon as such.

The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but InSight Research cannot guarantee its accuracy and completeness, and that of the opinions based thereon. Data and opinions here are a reflection of the aggregate of several sources and provided via 1) Standard & Poor, a division of The McGraw-Hill Companies, Inc., 2) individual companies filings directly with the SEC, and 3) other third-party data providers. InSight Research is a division of InSight, Corp.

This research report contains opinions and is provided for informational purposes only. You should not rely solely upon the research herein for purposes of transacting securities or other investments, and you are encouraged to conduct your own research and due diligence and to seek the advice of a qualified securities professional before you make any investment.

None of the information contained in this report constitutes or is intended to constitute a recommendation by InSight, Corp of any particular security or trading strategy or a determination by InSight, Corp that any security or trading strategy is suitable for any specific person. To the extent any of the information contained herein may be deemed to be investment advice, such information is impersonal and not tailored to the investment needs of any specific person.

NAICS is the North American Industry Classification System which provides the Sector, Subsector, and Industry Group structure used in this report. As many companies are diversified, the companies may also operate or be compared to peers in other industry segments than the ones listed.