

COMPANY: MICROSOFT

Ticker: MSFT

Country: USA

Year of the report: 2023

Date of analysis: 17.8.2023

Stock price: 320

Currency: USD, all values are in millions of dollars except for per share data

Company activity: software

SUMMARY:

Pros: Income/expenses from regular operations, excellent liquidity, hidden income, adequate distribution of cash-flow, CEO has a vision for new markets related to AI.

Cons: The stock market price already anticipates the future growth of profits.

RATING 2023: At \$320, we note that Microsoft is trading at a P/E of 30 based on its most recent earnings. As a rule, this is the value when we talk about overvaluation, especially if the stock price is at an all-time high at the same time. But two things burn in favor of the purchase: a greater number of sales programs and the excellent management of Satya Nadella.

Voting at the workshop:

BUY: 1

SELL: 2

Value investing indicators

| | | MICROSOFT | MICROSOFT |
|---|---------------|------------|------------|
| VALUE INVESTING ANALYSIS | DESIRED | MSFT | MSFT |
| INDICATORS | VALUE | 17.08.2023 | 20.08.2022 |
| Price/earning (Ø 3 year) | LOW | 35,1 | 32,0 |
| Price/earning (Ø 7 year) | LOW | 52,0 | 49,4 |
| Net profit/book value in % | HIGH | 35% | 44% |
| Ø 7 year net profit/book value in % | HIGH | 22% | 23% |
| Operating profit/ sales in % | HIGH | 42% | 42% |
| Operating profit(Ø 7 year)/sales (Ø 7 year) in % | HIGH | 38% | 35% |
| Dividend/stock price | MODERATE/HIGH | 0,8% | 1,0% |
| Maximum profit drop in last ten years | LOW | -44% | -44% |
| 10-year profit growth (Ø last 3 year/ Ø first 3 year) | MODERATE | 342% | 251% |
| Operating cash flow/net profit | HIGH | 1,21 | 1,22 |
| Research&development/sales | HIGH | 13% | 12% |
| Price/book value | LOW | 11,59 | 11,32 |
| Assets/liabilities | HIGH | 2,0 | 1,8 |
| Current assets/current liabilities | HIGH | 1,77 | 1,78 |
| Market capitalization/long term debt | HIGH | 43,70 | 32,21 |
| Stock price/working capital | LOW | -48,37 | 25,27 |
| Stock price | | 320,00 | 250,00 |
| Stock price/lowest 10 year price | LOW | 10,67 | 8,33 |
| Lowest 10 year price | | 30,00 | 30,00 |
| Highest 10 year price | | 340,00 | 330,00 |
| | | USD | USD |

NOTES: The table shows overvaluation according to Graham's value investing model.

Explanation of indicators:

Price/earning (Ø 3 year): stock price/average profit of the last 3 years

Price/earning (Ø 7 year): stock price/average profit of the last 7 years

Net profit/book value in %: net profit per stock/book value per stock

Ø 7 year net profit/book value in %: average 7 year profit per stock/book value per stock

Operating profit/ sales in %

Operating profit(Ø 7 year)/sales (Ø 7 year) in %

Dividend/stock price: dividend per stock/stock price

Maximum profit drop in last ten years: the biggest year-on-year net profit drop

10-year profit growth (Ø last 3 year/ Ø first 3 year)

Operating cash flow/net profit

Research&development/sales: R&D expenses/sales

Price/book value: stock price/book value per stock

Assets/liabilities

Current assets/current liabilities

Market capitalization/long term debt: market value of the company/long term debt of the company

Stock price/working capital: working capital per stock (current assets minus current liabilities)

Field colours:

The green color indicates a more attractive value of the parameter compared to the previous year.

the red color indicates a less attractive value of the parameter compared to the previous year.

Data

| Growth Profitability and Financial Ratios for MICROSOFT | | | | | | | | | | |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Financials | | | | | | | | | | |
| YEAR | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Revenue USD Mil | 211.915 | 198.270 | 168.088 | 143.015 | 125.843 | 110.360 | 89.950 | 85.320 | 93.580 | 86.833 |
| Gross Margin % | 69% | 68% | 69% | 68% | 66% | 65% | 62% | 62% | 65% | 69% |
| Operating Income USD Mil | 88.523 | 83.383 | 69.916 | 52.959 | 42.959 | 35.058 | 22.326 | 20.182 | 18.161 | 27.759 |
| Operating Margin % | 42% | 42% | 42% | 37% | 34% | 32% | 25% | 24% | 19% | 32% |
| Net Income USD Mil | 72.361 | 72.738 | 61.271 | 44.281 | 39.240 | 16.571 | 21.204 | 16.798 | 12.193 | 22.074 |
| Earnings Per Share USD | 9,7 | 9,7 | 8,1 | 5,8 | 5,1 | 2,1 | 2,7 | 2,1 | 1,5 | 2,6 |
| Dividends USD | 2,6 | 2,4 | 2,2 | 2,0 | 1,8 | 1,6 | 1,5 | 1,4 | 1,2 | 1,1 |
| Payout Ratio % * | 27% | 25% | 27% | 34% | 35% | 76% | 56% | 65% | 81% | 40% |
| Shares Mil | 7.472 | 7.540 | 7.608 | 7.683 | 7.753 | 7.794 | 7.832 | 8.013 | 8.254 | 8.399 |
| Book Value Per Share * USD | 27,6 | 22,1 | 18,7 | 15,4 | 13,2 | 10,6 | 9,2 | 9,0 | 9,7 | 10,7 |
| Operating Cash Flow USD Mil | 87.582 | 89.035 | 76.740 | 60.675 | 52.185 | 43.884 | 39.507 | 33.325 | 29.080 | 32.231 |
| Cap Spending USD Mil | -22680 | -30311 | -27577 | -12223 | -15773 | -6061 | -46781 | -23950 | -23001 | -18833 |
| Free Cash Flow USD Mil | 64.902 | 58.724 | 49.163 | 48.452 | 36.412 | 37.823 | -7.274 | 9.375 | 6.079 | 13.398 |
| Free Cash Flow Per Share * USD | 8,7 | 7,8 | 6,5 | 6,3 | 4,7 | 4,9 | -0,9 | 1,2 | 0,7 | 1,6 |
| Working Capital USD Mil | 80.108 | 74.602 | 95.749 | 109.605 | 106.132 | 111.174 | 95.324 | 80.303 | 74.854 | 68.621 |
| Equity | 206.223 | 166.542 | 141.988 | 118.304 | 102.330 | 82.718 | 72.394 | 71.997 | 80.083 | 89.784 |
| Dividends paid | 19.800 | 18.135 | 16.521 | 15.137 | 13.811 | 12.699 | 11.845 | 11.006 | 9.882 | 8.879 |
| Current assets | 184.257 | 169.684 | 184.406 | 181.915 | 175.552 | 169.662 | 159.851 | 139.660 | 124.712 | 114.246 |
| Current liabilities | 104.149 | 95.082 | 88.657 | 72.310 | 69.420 | 58.488 | 64.527 | 59.357 | 49.858 | 45.625 |
| Income this year/previous year | 0% | 20% | 40% | 14% | 138% | -21% | 29% | 42% | -44% | #DEL/0! |
| Gross profit | 146.052 | 135.620 | 115.856 | 96.937 | 82.933 | 72.007 | 55.689 | 52.540 | 60.542 | 59.899 |

Income statement analysis

| YEAR | 2023 | 2022 | 2021 | 2020 | 2019 |
|---------------------------------|---------|---------|---------|---------|---------|
| REVENUES | 211.915 | 198.270 | 168.088 | 143.015 | 125.843 |
| NET INCOME | 72.361 | 72.738 | 61.271 | 44.281 | 39.240 |
| | - | - | - | | |
| Interest Income | - | 2.094 | 2.131 | 2.680 | 2.762 |
| Pension gains | - | - | - | | |
| Currency gains | - | - | - | | |
| Others | 788 | 302 | 1.401 | - 12 | 653 |
| NON-OPERATING REVENUES | 788 | 2.396 | 3.532 | 2.668 | 3.415 |
| % IN REVENUES | 0% | 1% | 2% | 2% | 3% |
| % IN NET INCOME | 1% | 3% | 6% | 6% | 9% |
| | | | | | |
| Interest expense | - | 2.063 | 2.346 | 2.591 | 2.686 |
| Pension loss | - | - | - | | |
| Currency loss | - | - | - | | |
| Currency translation | - | - | - | | |
| Others | - | - | - | | |
| NON-OPERATING EXPENSES | - | 2.063 | 2.346 | 2.591 | 2.686 |
| % IN REVENUES | 0% | 1% | 1% | 2% | 2% |
| % IN NET INCOME | 0% | 3% | 4% | 6% | 7% |
| | | | | | |
| GENERAL/ADMINISTRATIVE EXPENSES | 7.575 | 5.900 | 5.107 | 5.111 | 4.885 |
| % IN REVENUES | 4% | 3% | 3% | 4% | 4% |
| % IN NET INCOME | 10% | 8% | 8% | 12% | 12% |

NOTES: Low share of non-operating income, expenses. Control of administrative expenses.

Balance Sheet analysis

| YEAR | 2023 | 2022 | 2021 | 2020 | 2019 | % 2023 | % 2022 | % 2021 | % 2020 | % 2019 |
|-----------------------------|---------|---------|---------|---------|---------|--------|--------|--------|--------|--------|
| TOTAL ASSETS | 411.976 | 364.840 | 333.779 | 301.311 | 286.556 | 100% | 100% | 100% | 100% | 100% |
| Cash and equivalents | 111.262 | 104.757 | 130.334 | 136.527 | 133.819 | 27% | 29% | 39% | 45% | 47% |
| Receivables | 48.688 | 44.261 | 38.043 | 32.011 | 29.524 | 12% | 12% | 11% | 11% | 10% |
| Inventories | 2.500 | 3.742 | 2.636 | 1.895 | 2.063 | 1% | 1% | 1% | 1% | 1% |
| Property and equipment | 109.987 | 87.546 | 70.803 | 52.904 | 43.856 | 27% | 24% | 21% | 18% | 15% |
| Goodwill | 67.886 | 67.524 | 49.711 | 43.351 | 42.026 | 16% | 19% | 15% | 14% | 15% |
| Intangibles | 9.366 | 11.298 | 7.800 | 7.038 | 7.750 | 2% | 3% | 2% | 2% | 3% |
| Equity investments | 9.879 | 6.891 | 5.984 | 2.965 | 2.649 | 2% | 2% | 2% | 1% | 1% |
| | | | | | | | | | | |
| LIABILITIES | 205.753 | 198.298 | 191.791 | 183.007 | 184.226 | 50% | 54% | 57% | 61% | 64% |
| Short-term debt | 5.247 | 2.749 | 8.072 | 3.749 | 5.516 | 1% | 1% | 2% | 1% | 2% |
| Long-term debt | 54.718 | 58.521 | 59.703 | 67.249 | 72.850 | 13% | 16% | 18% | 22% | 25% |
| Total debt | 59.965 | 61.270 | 67.775 | 70.998 | 78.366 | 15% | 17% | 20% | 24% | 27% |
| Deferred revenue-short term | - | - | - | - | - | 0% | 0% | 0% | 0% | 0% |
| Deferred revenue-long term | 50.901 | 45.538 | 41.525 | 36.000 | 32.676 | 12% | 12% | 12% | 12% | 11% |
| Deferred revenue-total | 50.901 | 45.538 | 41.525 | 36.000 | 32.676 | 12% | 12% | 12% | 12% | 11% |
| Retirement liabilities | - | - | - | - | - | 0% | 0% | 0% | 0% | 0% |
| | | | | | | | | | | |
| EQUITY | 206.223 | 166.542 | 141.988 | 118.304 | 102.330 | 50% | 46% | 43% | 39% | 36% |
| Common stocks | 93.718 | 86.939 | 83.111 | 80.552 | 78.520 | 23% | 24% | 25% | 27% | 27% |
| Other stockholder equity | - | - | - | - | - | 0% | 0% | 0% | 0% | 0% |
| Income/loss | - 6.343 | - 4.678 | 1.822 | 3.186 | - 340 | -2% | -1% | 1% | 1% | 0% |
| Retained earnings | 118.848 | 84.281 | 57.055 | 34.566 | 24.150 | 29% | 23% | 17% | 11% | 8% |

NOTES: Excellent liquidity, stable financial position of the company, deferred revenues.

Cash Flow Analysis

| YEAR | 2023 06-30 | 2022 06-30 | 2021 06-30 | 2020 06-30 | 2019 06-30 |
|---------------------------------------|------------|------------|------------|------------|------------|
| OPERATING CASH FLOW | 87.582 | 89.035 | 76.740 | 60.675 | 52.185 |
| Depreciation and amortization | 13.861 | 14.460 | 11.686 | 12.796 | 11.682 |
| Impairment | - | - | - | - | - |
| Share-based compensation | 9.611 | 7.502 | 6.118 | 5.289 | 4.652 |
| INVESTING CASH FLOW | - 22.680 | - 30.311 | - 27.577 | - 12.223 | - 15.773 |
| Purchases of investments | - 37.651 | - 26.456 | - 62.924 | - 77.190 | - 57.697 |
| Sales of investment | 47.864 | 44.894 | 65.800 | 84.170 | 58.237 |
| Acquisition of businesses | - 1.670 | - 22.038 | - 8.909 | - 2.521 | - 2.388 |
| Acquisition of property and equipment | - 28.107 | - 23.886 | - 20.622 | - 15.441 | - 13.925 |
| FINANCING CASH FLOW | - 43.935 | - 58.876 | - 48.486 | - 46.031 | - 36.887 |
| Issuances of common stocks | 1.866 | 1.841 | 1.693 | 1.343 | 1.142 |
| Repurchases of common stocks | - 22.245 | - 32.696 | - 27.385 | - 22.968 | - 19.543 |
| Other financial activities | - 1.006 | - 863 | - 2.523 | - 3.751 | - 675 |
| Repayments of debt | - 2.750 | - 9.023 | - 3.750 | - 5.518 | - 4.000 |
| Dividends | - 19.800 | - 18.135 | - 16.521 | - 15.137 | - 13.811 |

NOTES: Half of the cash flow goes for dividends or share buybacks the other half is for investments.

Notes to Consolidated Financial Statements

No comments

Amortization of property, plant and equipment

| YEAR | 2023 | 2022 | 2021 | 2020 | 2019 | |
|-----------------------|---------|---------|---------|--------|--------|--|
| Purchasing value | | | | | | |
| of property&equipment | 163.892 | 134.058 | 111.066 | 87.348 | 71.807 | |
| Year amortization | 11.000 | 12.600 | 9.300 | 10.700 | 9.700 | |
| Amortization period | 15 | 11 | 12 | 8 | 7 | |

Property and equipment is stated at cost less accumulated depreciation, and depreciated using the straight-line method over the shorter of the estimated useful life of the asset or the lease term. The estimated useful lives of our property and equipment are generally as follows: computer software developed or acquired for internal use, three years; computer equipment, two to six years; buildings and improvements, five to 15 years; leasehold improvements, three to 20 years; and furniture and equipment, one to 10 years. Land is not depreciated.

NOTES: Hidden profit. Accelerated amortization

Amortization of intangible assets

| | | | | | | |
|---------------------|-------|-------|-------|--|--|--|
| Purchasing value | | | | | | |
| of intangibles | 23490 | 23577 | 19975 | | | |
| Year amortization | 2500 | 2000 | 1600 | | | |
| Amortization period | 9 | 12 | 12 | | | |

NOTES: No comments

Inventory valuation

NOTES: No comments, low inventory

Acquisitions, dispositions and other adjustments

Activision Blizzard, Inc. On January 18, 2022, we entered into a definitive agreement to acquire Activision Blizzard, Inc. ("Activision Blizzard") for \$95.00 per share in an all-cash transaction valued at \$68.7 billion, inclusive of Activision Blizzard's net cash. Activision Blizzard is a leader in game development and an interactive entertainment content publisher.

On March 4, 2022, we completed our acquisition of Nuance Communications, Inc. ("Nuance") for a total purchase price of \$18.8 billion, consisting primarily of cash. Nuance is a cloud and artificial intelligence ("AI") software provider with healthcare and enterprise AI experience, and the acquisition will build on our industry-specific cloud offerings.

On March 9, 2021, we completed our acquisition of ZeniMax Media Inc. ("ZeniMax"), the parent company of Bethesda Softworks LLC ("Bethesda"), for a total purchase price of \$8.1 billion, consisting primarily of cash. The purchase price included \$768 million of cash and cash equivalents acquired. Bethesda is one of the largest, privately held game developers and publishers in the world, and brings a broad portfolio of games, technology, and talent to Xbox.

NOTES: No comments, moderate acquisitions.

Equity method investments

NOTES: No comments.

Stock option-based payments

| YEAR | 2023 | Average | Current | | | |
|------------------|------|----------------|-------------|--|--|--|
| | | exercise price | stock price | | | |
| Options | 96 | 250 | 320 | | | |
| Restricted units | 0 | 0 | 0 | | | |
| Other options | 0 | 0 | 0 | | | |
| TOTAL OPTIONS | 96 | | | | | |
| NUMBER OF SHARES | 7472 | | | | | |
| % OPTIONS/SHARES | 1% | | | | | |

NOTES: A low proportion of options relative to the number of shares. Option exercise prices slightly below market prices.

Pension and postretirement plans

NOTES: No comments. Company has no pension plans.

Deferred taxes

| YEAR | 2023 | | | | | |
|--------------------------|--------------|--|--|--|--|--|
| | | | | | | |
| | | | | | | |
| Deferred tax assets | 29911 | | | | | |
| Deferred tax liabilities | 10181 | | | | | |
| SALDO | 19730 | | | | | |

Effective income tax rate:

2023: 19%

2022: 13,1%

2021: 13,8%

2020: 16,5%

2019: 10,2%

2018: 54,6%

2017: 8,4%

2016: 15%

2015: 34,1%

Deferred tax assets

Net operating loss carryforwards: 1.441

Deferred tax liabilities

Amortization:

NOTES: No comments. Company has payed normal income taxes.

Segment information

SALES GEOGRAPHICALLY

| YEAR | 2023 | % | 2022 | % | 2021 | % |
|--------------------|----------------|-------------|----------------|-------------|----------------|-------------|
| USA | 106.744 | 50% | 100.218 | 51% | 83.953 | 50% |
| Others | 105.171 | 50% | 98.052 | 49% | 84.135 | 50% |
| TOTAL SALES | 211.915 | 100% | 198.270 | 100% | 168.088 | 100% |

SALES BY PRODUCTS

Revenue, classified by significant product and service offerings, was as follows:

(In millions)

| Year Ended June 30, | 2023 | 2022 | 2021 |
|------------------------------------|-------------------|-------------------|-------------------|
| Server products and cloud services | \$ 79,970 | \$ 67,350 | \$ 52,589 |
| Office products and cloud services | 48,728 | 44,862 | 39,872 |
| Windows | 21,507 | 24,732 | 22,488 |
| Gaming | 15,466 | 16,230 | 15,370 |
| LinkedIn | 15,145 | 13,816 | 10,289 |
| Search and news advertising | 12,208 | 11,591 | 9,267 |
| Enterprise Services | 7,722 | 7,407 | 6,943 |
| Devices | 5,521 | 7,306 | 7,143 |
| Dynamics | 5,437 | 4,687 | 3,754 |
| Other | 211 | 289 | 373 |
| Total | \$ 211,915 | \$ 198,270 | \$ 168,088 |

Our Microsoft Cloud revenue, which includes Azure and other cloud services, Office 365 Commercial, the commercial portion of LinkedIn, Dynamics 365, and other commercial cloud properties, was \$111.6 billion, \$91.4 billion, and \$69.1 billion in fiscal years 2023, 2022, and 2021, respectively. These amounts are primarily included in Server products and cloud services, Office products and cloud services, LinkedIn, and Dynamics in the table above.

ASSETS GEOGRAPHICALLY

| YEAR | 2023 | % | 2022 | % | 2021 | % |
|---------------------|----------------|-------------|----------------|-------------|----------------|-------------|
| USA | 114.380 | 61% | 106.430 | 64% | 76.153 | 59% |
| Ireland | 16.359 | 9% | 15.505 | 9% | 13.303 | 10% |
| Others | 56.500 | 30% | 44.433 | 27% | 38.858 | 30% |
| TOTAL ASSETS | 187.239 | 100% | 166.368 | 100% | 128.314 | 100% |

NOTES: Half of the sales outside the USA, almost 40% of assets outside the USA. Sales have been growing for all products

CEO

CEO: Saty Nadella, od 2014

Youtube: https://www.youtube.com/watch?v=RhwVMt_XCUE , 2023

NOTES: positive

Other

Subsequent events:

NOTES: none

Report of Independent Registered Public Accounting Firm

Revenue Recognition – Refer to Note 1 to the financial statements

The Company recognizes revenue upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company offers customers the ability to acquire multiple licenses of software products and services, including cloud-based services, in its customer agreements through its volume licensing programs.

Income Taxes – Uncertain Tax Positions – Refer to Note 12 to the financial statements

The Company's long-term income taxes liability includes uncertain tax positions related to transfer pricing issues that remain unresolved with the Internal Revenue Service ("IRS"). The Company remains under IRS audit, or subject to IRS audit, for tax years subsequent to 2003. While the Company has settled a portion of the IRS audits, resolution of the remaining matters could have a material impact on the Company's financial statements.

NOTES: positive

Web page of annual report 2023: <https://microsoft.gcs-web.com/static-files/e2931fdb-9823-4130-b2a8-f6b8db0b15a9>