AZ STOCKS
Stocks from A to Z

Microsoft Corporation

From Windows to AI: the price of reinventing an empire

DEEP DIVE

November 2026

COMPANY PROFILE

Microsoft Corporation

THESIS

From Windows to artificial intelligence. Microsoft combines enterprise software, Microsoft 365, Azure and a growing bet on AI. The analysis assesses the quality of the business, its growth opportunities, the investment risks and what the company is really worth.

THE COMPANY

Microsoft was founded in 1975 by Bill Gates and Paul Allen. Its turning point came in 1980, when IBM chose it to supply the operating system for its first PC and Microsoft kept the right to license it to other manufacturers.

Since FY2027 it reports two segments: Agents and Infra (Azure, commercial Microsoft 365, Dynamics, LinkedIn, GitHub and security) and Devices and Consumer (Windows, devices, Xbox, search and consumer Microsoft 365).

TARGET PRICE
USD 596

UPSIDE / DOWNSIDE
+11.8%

SECTOR
Technology

EXCHANGE
NASDAQ

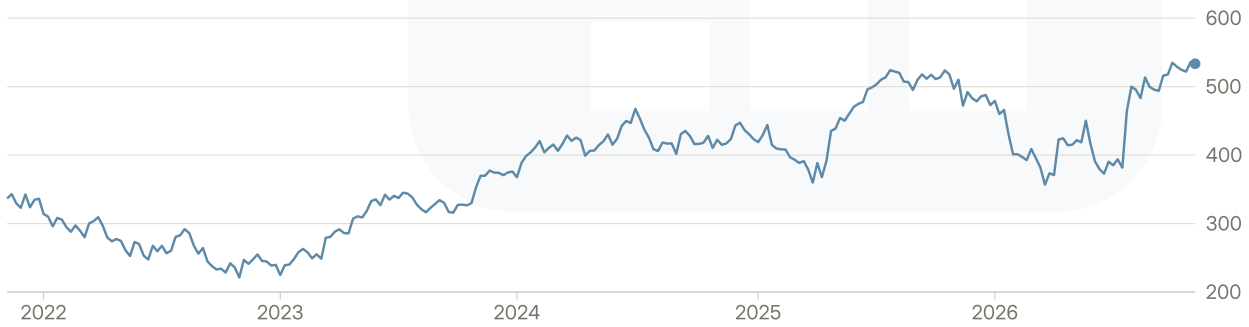
CURRENCY
USD

LAST UPDATED
November 2026

MARKET DATA AS OF 2026-11-06

PRICE	52-WEEK RANGE	5-YEAR CHANGE	BETA (5Y)
USD 533.32	349.20 – 559.15	+58%	1.04

WEEKLY SHARE PRICE, LAST 5 YEARS



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SECTION 01

Introduction

Microsoft was founded on **April 4, 1975 by Bill Gates and Paul Allen**, two friends who shared a rather ambitious vision for the time: that one day there would be a computer in every home and on every desk.

Interestingly, Microsoft was born even before the personal computer market as we know it existed. Its first product was a version of the BASIC programming language for the Altair 8800, one of the first commercial microcomputers. In fact, the original name was *Micro-Soft*, a combination of the words *microcomputer* and *software*.

The real turning point, however, came in 1980, when IBM chose Microsoft to supply the operating system for its first personal computer. Gates made a decision that would prove fundamental to the company's history: **instead of selling the software exclusively to IBM, Microsoft kept the rights to license it to other manufacturers**.

That decision laid the foundations of one of the most profitable business models in history. As personal computers became popular, Windows became the dominant operating system and Office established itself as the productivity standard for businesses and consumers.

For decades, Microsoft was essentially that: **Windows and Office**. An extraordinary business, with high margins, strong barriers to entry and a cash-generating ability that was hard to match.

But the tech world started to change. The arrival of smartphones, the growth of the internet and the birth of cloud computing threatened to shift the industry's center of gravity. Microsoft, which had dominated the personal computer era, was not necessarily guaranteed leadership in the next one.

The transformation came with **Satya Nadella, who became CEO in 2014**. Under his leadership, Microsoft stopped thinking of Windows as the center of its ecosystem and began to prioritize the cloud, subscriptions and enterprise services.

Office evolved into Microsoft 365, Azure became one of the world's leading cloud infrastructure providers and the company broadened its ecosystem through acquisitions such as LinkedIn, GitHub and, more recently, Activision Blizzard.

The result was a very different Microsoft from the one that depended on selling Windows and Office licenses. Today, a large part of its business is backed by recurring revenue, enterprise contracts and services deeply embedded in its customers' operations.

However, **the most important transformation may be happening right now**.

Artificial intelligence is driving a new stage of growth. Microsoft is looking to monetize it on several fronts: selling computing capacity through Azure, adding Copilot to its productivity applications and offering tools so that companies can build and deploy their own AI systems.

The opportunity is clearly enormous, but it also has a downside. Historically, Microsoft was seen as one of the best examples of an *asset-light* business. That is changing. Building data centers, buying GPUs and developing AI infrastructure are transforming the capital intensity of the business.

We also saw this in the Alphabet and Meta reports. The big question for these companies is practically the same: **will they be able to earn high enough returns on these investments to justify the enormous capital they are committing?**

Let's start digging into every detail of this great company.

SECTION 02

Business model

During FY2026 (ended 06/30/2026) Microsoft reported under three segments. Since FY2027 it groups them into two, Agents and Infra and Devices and Consumer, but the breakdown by business is still the best way to understand how it makes money:

1. PRODUCTIVITY AND BUSINESS PROCESSES

This is the segment with the highest operating profit. It includes commercial and consumer Microsoft 365, LinkedIn and Dynamics. In FY2026 it generated USD 139,996 million in revenue and almost USD 83,900 million in operating income, a margin close to 60%. Microsoft 365 Commercial alone was a USD 101,997 million business. Its strength lies in recurring subscriptions, integration between applications and the cost of migrating data and processes to another platform.

Growth no longer depends so much on adding users as on raising ARPU. Seats grew 6% in FY2026, while Microsoft 365 Commercial cloud grew 17%. The difference reflects a mix shift towards E5 (the most complete enterprise plan of Microsoft 365) and the monetization of Copilot.

LinkedIn contributed USD 19,817 million and grew 11%. Dynamics, with USD 9,006 million, grew 15% and Dynamics 365 18%. It is smaller than Salesforce in CRM, but it benefits from the integration Microsoft can offer compared with Salesforce.

2. INTELLIGENT CLOUD

Intelligent Cloud is the main growth driver. It billed USD 137,791 million in FY2026, +30%, and Azure and other cloud services grew 41%. The segment includes Azure, GitHub cloud services, Health and Life Sciences cloud services, virtual desktop, SQL Server, Windows Server, Visual Studio and enterprise services.

Azure's economics are different from Office's. A large part of the revenue is *consumption-based*: more compute, storage, inference, training, databases or networking means more billing. This gives Azure an enormous TAM, but it also means it needs much more capital. AI demand still exceeds available capacity, and Microsoft is trying to speed up the delivery of infrastructure, improve CPU/GPU utilization and monetize each new unit of capacity as soon as possible.

GitHub is especially strategic. It is not only a repository and collaboration platform; it is also one of the main AI distribution points for developers through GitHub Copilot. The integration between GitHub, Visual Studio, Azure and third-party models creates a *funnel* that is hard to replicate for a competitor that only has infrastructure or only has developer tools.

3. MORE PERSONAL COMPUTING

This is the least attractive segment in terms of growth, although it has assets with enormous network effects. In FY2026 it billed USD 54,052 million, -1%. Xbox accounted for USD 21,790 million, Windows and Devices USD 17,084 million and Search advertising USD 15,176 million.

Windows keeps a dominant position on the desktop, with estimates of roughly 76% of global desktop operating system share in September 2026. However, the PC market is mature and cyclical. The value of Windows lies less in growing units and more in being a layer of distribution, identity, security and enterprise compatibility.

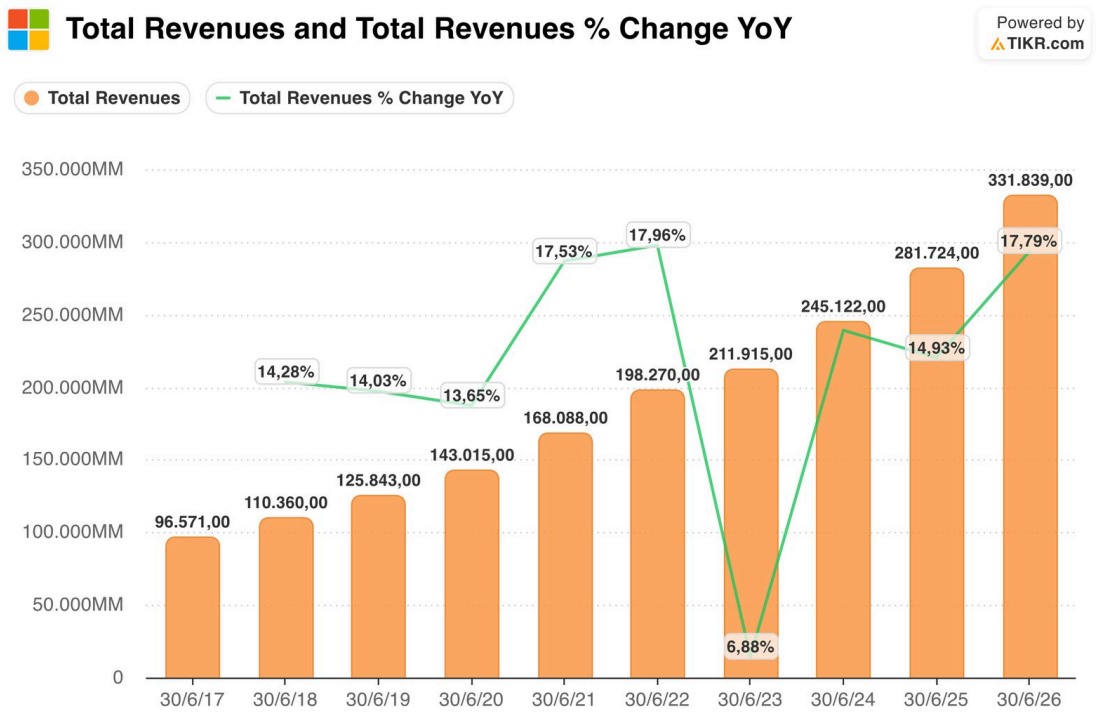
Xbox is going through a weaker period. Xbox content and services fell 5% in FY2026 and hardware keeps shrinking. The Activision Blizzard acquisition broadened the catalog and the ability to monetize content across multiple platforms, but the segment still competes against Sony, Nintendo, Valve and Tencent, among others. Search, on the other hand, grew 12%, although Bing is still very far behind Google: roughly 5.3% of global search share versus almost 90% for Google in September 2026.

SECTION 03

Business quality

Microsoft combines several features that rarely appear together: recurring revenue, switching costs, economies of scale, network effects, its own distribution, a gigantic installed base and a financial position able to fund investments that few competitors can match. As I mentioned at the beginning, the asset-light nature of the business has changed. The quality is still extraordinary, but the incremental return on capital becomes a much more important variable than it was only a few years ago.

REVENUE



Source: Tikr.

Revenue went from USD 96,571 million in FY2017 to USD 331,839 million in FY2026, a CAGR of roughly 14.7%. Growth was mostly organic, although there were acquisitions such as LinkedIn, GitHub and Activision Blizzard.

It is quite impressive that a company of this size can keep growing at double-digit rates. FY2026 accelerated to 17.8%, from 14.9% in FY2025, driven by Microsoft Cloud.

Recurrence is high. Microsoft 365, Azure, Dynamics, security, LinkedIn subscriptions and Game Pass generate subscription or continuous-consumption revenue. In addition, the *commercial remaining performance obligation* reached USD 678,000 million at the end of FY2026, +84%, a figure that gives visibility over future contracted revenue, although not all of it is recognized in the short term.

LATEST RESULTS: FIRST QUARTER OF FY2027

On October 29 Microsoft reported results for the quarter ended September 30, 2026, the first under its new reporting structure.

Revenue was **USD 92,300 million, +19% year over year**, and operating income reached USD 45,900 million (+21%), with an operating margin close to 50%. Net income was USD 36,600 million, although it includes the impact of OpenAI: excluding it, earnings per share grew 18%.

The cloud was once again the highlight. **Azure billed USD 33,200 million and grew 48%**, while Microsoft Cloud reached USD 63,900 million (+30%). The commercial remaining performance obligation reached **USD 677,000 million, +73%**, and around 30% of that amount would be recognized over the next twelve months.

The other side of the story was also still there. Capex for the quarter was USD 45,200 million including finance leases (USD 39,400 million in cash) and free cash flow came in at around USD 18,600 million, against operating cash flow of USD 58,000 million. For the second quarter, the company expects revenue of USD 96,000 to 97,100 million, Azure growth of 49-50% in constant currency and capex above USD 50,000 million.

The new segments

From FY2027 Microsoft stopped reporting its three historical segments and moved to two:

- **Agents and Infra**: brings together Azure, commercial Microsoft 365, Dynamics, LinkedIn, GitHub, security and the rest of the enterprise business. In the quarter it billed USD 76,800 million (+25%) with operating income of USD 40,600 million.
- **Devices and Consumer**: includes Windows, devices, Xbox, search and advertising, and consumer Microsoft 365. It billed USD 15,500 million (-3%) with operating income of USD 5,400 million.

The company also started disclosing Azure revenue in dollars, something the market had been asking for years. The change makes clearer something that was already suspected: **more than 80% of revenue and practically all of the growth now come from the enterprise business**, while the consumer side is a mature business that contributes cash but not growth.

VERTICAL ANALYSIS OF THE FINANCIAL STATEMENTS

- **Income Statement**

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Income Statement — % of revenue												
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	(35.5%)	(34.8%)	(34.1%)	(32.2%)	(31.1%)	(31.6%)	(31.1%)	(30.2%)	(31.2%)	(32.1%)	**(31.2%)**	**(31.2%)**
Gross Profit	**64.5%**	**65.2%**	**65.9%**	**67.8%**	**68.9%**	**68.4%**	**68.9%**	**69.8%**	**68.8%**	**67.9%**	**68.8%**	**68.8%**
Selling General & Admin Expenses	(20.7%)	(20.1%)	(18.4%)	(17.3%)	(15.0%)	(14.0%)	(14.3%)	(13.1%)	(11.7%)	(10.4%)	**(11.7%)**	**(12.7%)**
R&D Expenses	(13.5%)	(13.3%)	(13.4%)	(13.5%)	(12.3%)	(12.4%)	(12.8%)	(12.0%)	(11.5%)	(10.7%)	**(11.4%)**	**(11.9%)**
Total Operating Expenses	**(34.2%)**	**(33.5%)**	**(31.8%)**	**(30.8%)**	**(27.3%)**	**(26.3%)**	**(27.1%)**	**(25.1%)**	**(23.2%)**	**(21.2%)**	**(23.2%)**	**(24.6%)**
Operating Income	**30.4%**	**31.8%**	**34.1%**	**37.0%**	**41.6%**	**42.1%**	**41.8%**	**44.6%**	**45.6%**	**46.8%**	**45.7%**	**44.2%**
Interest Expense	(2.3%)	(2.5%)	(2.1%)	(1.8%)	(1.4%)	(1.0%)	(0.9%)	(1.2%)	(0.9%)	(0.9%)	**(1.0%)**	**(1.0%)**
EBT Incl. Unusual Items	**31.0%**	**33.1%**	**34.7%**	**37.1%**	**42.3%**	**42.2%**	**42.1%**	**44.0%**	**43.9%**	**50.0%**	**46.0%**	**44.4%**
Income Tax Expense	(4.6%)	(18.0%)	(3.5%)	(6.1%)	(5.8%)	(5.5%)	(8.0%)	(8.0%)	(7.7%)	(9.7%)	**(8.5%)**	**(7.8%)**
Net Income	**26.4%**	**15.0%**	**31.2%**	**31.0%**	**36.5%**	**36.7%**	**34.1%**	**36.0%**	**36.1%**	**40.3%**	**37.5%**	**36.6%**
EBITDA	38.4%	40.7%	43.4%	45.6%	48.1%	49.4%	48.1%	52.8%	55.6%	58.5%	**55.6%**	**52.9%**

Source: author's analysis based on Tikr data.

Gross margin went from 64.5% in FY2017 to a peak of close to 69.8% in FY2024, before falling back to 67.9% in FY2026. This is not commercial deterioration in the traditional sense: Microsoft is adding a larger share of Azure and AI, businesses that today carry depreciation, energy and infrastructure costs. At the same time, operating margin rose from 30.4% to 46.8% in ten years because SG&A and R&D grew much more slowly than sales as a percentage of revenue. SG&A fell from 20.7% to 10.4% of sales and R&D from 13.5% to 10.7%.

GAAP net margin reached 40.3% in FY2026, but it includes investment gains, especially the impact of OpenAI. To assess operating capacity I prefer to look at EBIT and FCF.

- **Balance Sheet**

Fiscal year Balance Sheet — % of total assets	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Total Cash And Short Term Investments	**53.1%**	**51.6%**	**46.7%**	**45.3%**	**39.0%**	**28.7%**	**27.0%**	**14.7%**	**15.3%**	**10.1%**	**13.4%**	**19.2%**
Total Receivables	**9.0%**	**10.2%**	**10.3%**	**10.6%**	**11.4%**	**13.8%**	**14.1%**	**13.2%**	**12.6%**	**14.3%**	**13.4%**	**13.6%**
Inventory	0.9%	1.0%	0.7%	0.6%	0.8%	1.0%	0.6%	0.2%	0.2%	0.2%	**0.2%**	**0.4%**
Total Current Assets	**65.0%**	**65.5%**	**61.3%**	**60.4%**	**55.2%**	**46.5%**	**44.7%**	**31.2%**	**30.9%**	**27.4%**	**29.8%**	**36.1%**
Net Property Plant And Equipment	12.1%	14.0%	15.3%	17.6%	21.2%	24.0%	26.7%	30.2%	37.1%	44.5%	**37.3%**	**32.5%**
Long-term Investments	2.4%	0.7%	0.9%	1.0%	1.8%	1.9%	2.4%	2.9%	2.4%	3.8%	**3.0%**	**2.7%**
Goodwill	14.0%	13.8%	14.7%	14.4%	14.9%	18.5%	16.5%	23.3%	19.3%	15.8%	**19.5%**	**18.7%**
Other Intangibles	4.0%	3.1%	2.7%	2.3%	2.3%	3.1%	2.3%	5.4%	3.7%	2.5%	**3.8%**	**3.4%**
Total Assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total Current Liabilities	**22.3%**	**22.6%**	**24.2%**	**24.0%**	**26.6%**	**26.1%**	**25.3%**	**24.5%**	**22.8%**	**22.3%**	**23.2%**	**24.2%**
Long-Term Debt	30.4%	27.9%	23.3%	19.8%	15.0%	12.9%	10.2%	8.3%	6.5%	4.1%	**6.3%**	**8.4%**
Capital Leases	3.1%	3.7%	4.3%	5.5%	6.4%	6.9%	6.9%	7.9%	9.8%	10.4%	**9.3%**	**8.4%**
Total Liabilities	**65.0%**	**68.0%**	**64.3%**	**60.7%**	**57.5%**	**54.4%**	**49.9%**	**47.6%**	**44.5%**	**41.7%**	**44.6%**	**47.6%**
Total Equity	**35.0%**	**32.0%**	**35.7%**	**39.3%**	**42.5%**	**45.6%**	**50.1%**	**52.4%**	**55.5%**	**58.3%**	**55.4%**	**52.4%**
Total Debt	**38.2%**	**33.8%**	**30.2%**	**27.3%**	**24.7%**	**21.5%**	**19.3%**	**19.1%**	**18.1%**	**17.0%**	**18.1%**	**19.0%**
Net Debt	(14.9%)	(17.8%)	(16.5%)	(18.0%)	(14.4%)	(7.2%)	(7.7%)	4.4%	2.8%	6.9%	**4.7%**	**(0.2%)**

Source: author's analysis based on Tikr data.

The most visible transformation is in PP&E. Net PP&E went from roughly 12.1% of assets in FY2017 to 44.5% in FY2026. At the same time, cash and short-term investments fell from 53.1% to 10.1% of assets. Microsoft did not lose liquidity because of a weak business: it reallocated capital to physical infrastructure.

We will look at the company's liquidity and debt position in detail later on, in the analysis of the main ratios.

- **Cash Flow Statement**

Fiscal year Cash Flow — % of revenue	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Net Income	**26.4%**	**15.0%**	**31.2%**	**31.0%**	**36.5%**	**36.7%**	**34.1%**	**36.0%**	**36.1%**	**40.3%**	**37.5%**	**36.6%**
Total Depreciation & Amortization	**8.1%**	**9.0%**	**9.2%**	**8.6%**	**6.5%**	**7.4%**	**6.4%**	**8.2%**	**9.9%**	**11.8%**	**10.0%**	**8.7%**
Stock-Based Compensation	3.4%	3.6%	3.7%	3.7%	3.6%	3.8%	4.5%	4.4%	4.3%	3.7%	**4.1%**	**4.1%**
Cash from Operations	**40.9%**	**39.8%**	**41.5%**	**42.4%**	**45.7%**	**44.9%**	**41.3%**	**48.4%**	**48.3%**	**55.1%**	**50.6%**	**47.6%**
Capital Expenditure	(8.4%)	(10.5%)	(11.1%)	(10.8%)	(12.3%)	(12.0%)	(13.3%)	(18.1%)	(22.9%)	(34.9%)	**(25.3%)**	**(20.3%)**
Cash Acquisitions	(26.9%)	(0.8%)	(1.9%)	(1.8%)	(5.3%)	(11.1%)	(0.8%)	(28.2%)	(2.1%)	(0.5%)	**(10.3%)**	**(8.6%)**
Cash from Investing	**(48.4%)**	**(5.5%)**	**(12.5%)**	**(8.5%)**	**(16.4%)**	**(15.3%)**	**(10.7%)**	**(39.6%)**	**(25.8%)**	**(42.0%)**	**(35.8%)**	**(26.7%)**
Total Debt Issued	**45.9%**	**6.5%**	–	–	–	–	–	**12.1%**	–	–	**4.0%**	**2.4%**
Total Debt Repaid	**(13.3%)**	**(15.8%)**	**(3.2%)**	**(3.9%)**	**(2.2%)**	**(4.6%)**	**(1.3%)**	**(11.9%)**	**(3.2%)**	**(0.9%)**	**(5.3%)**	**(4.4%)**
Repurchase of Common Stock	(12.2%)	(9.7%)	(15.5%)	(16.1%)	(16.3%)	(16.5%)	(10.5%)	(7.0%)	(6.5%)	(6.7%)	**(6.8%)**	**(9.5%)**
Common Dividends Paid	(12.3%)	(11.5%)	(11.0%)	(10.6%)	(9.8%)	(9.1%)	(9.3%)	(8.9%)	(8.5%)	(8.0%)	**(8.5%)**	**(8.8%)**
Cash from Financing	**8.7%**	**(30.4%)**	**(29.3%)**	**(32.2%)**	**(28.8%)**	**(29.7%)**	**(20.7%)**	**(15.4%)**	**(18.4%)**	**(15.8%)**	**(16.5%)**	**(20.0%)**
Free Cash Flow	32.5%	29.2%	30.4%	31.6%	33.4%	32.9%	28.1%	30.2%	25.4%	20.2%	**25.3%**	**27.3%**

Source: author's analysis based on Tikr data.

Cash from operations reached USD 182,935 million in FY2026, equivalent to 55% of sales. That is a big increase from 41% in 2017. However, capex jumped to USD 115,948 million, 34.9% of revenue, and that is why FCF fell to USD 66,987 million, 20.19% of sales. This is the core of the analysis: the operating business generates more cash than ever, but a growing share is reinvested before it reaches the shareholder.

FINANCIAL RATIOS

- **Growth**

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Growth												
Revenue growth		14.3%	14.0%	13.6%	17.5%	18.0%	6.9%	15.7%	14.9%	17.8%	**16.1%**	**14.6%**
EBIT growth		19.5%	22.5%	23.3%	32.0%	19.3%	6.2%	23.6%	17.4%	20.8%	**20.6%**	**17.5%**
Diluted EPS growth		(34.5%)	137.6%	13.8%	39.8%	19.9%	0.3%	21.9%	15.6%	31.6%	**23.0%**	**17.9%**
Change in diluted shares (dilution / buybacks)		(0.5%)	(0.5%)	(0.9%)	(1.0%)	(0.9%)	(0.9%)	(0.0%)	(0.1%)	(0.2%)	**(0.1%)**	**(0.4%)**

Source: author's analysis based on Tikr data.

Microsoft grew at double digits in nine of the last ten years. The only exception was FY2023 (+6.9%), when companies cut back on software and cloud spending. Since then growth has picked up again, reaching 17.8% in FY2026, with an average of 16.1% over the last three years.

The most interesting point is that **EBIT grew faster than sales**: 20.6% a year on average over the last three years. In other words, the company kept gaining scale even in the middle of an investment phase. The share count, on the other hand, barely moved: buybacks are enough to offset dilution, but they do not reduce the number of shares as at other companies.

- **Profitability**

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Profitability												
Gross margin	64.5%	65.2%	65.9%	67.8%	68.9%	68.4%	68.9%	69.8%	68.8%	67.9%	**68.8%**	**68.8%**
SG&A % revenue	20.7%	20.1%	18.4%	17.3%	15.0%	14.0%	14.3%	13.1%	11.7%	10.4%	**11.7%**	**12.7%**
R&D % revenue	13.5%	13.3%	13.4%	13.5%	12.3%	12.4%	12.8%	12.0%	11.5%	10.7%	**11.4%**	**11.9%**
EBIT margin	30.4%	31.8%	34.1%	37.0%	41.6%	42.1%	41.8%	44.6%	45.6%	46.8%	**45.7%**	**44.2%**
EBITDA margin (EBIT + D&A)	38.4%	40.7%	43.4%	45.6%	48.1%	49.4%	48.1%	52.8%	55.6%	58.5%	**55.6%**	**52.9%**
Net margin	26.4%	15.0%	31.2%	31.0%	36.5%	36.7%	34.1%	36.0%	36.1%	40.3%	**37.5%**	**36.6%**
Stock-based compensation % revenue	3.4%	3.6%	3.7%	3.7%	3.6%	3.8%	4.5%	4.4%	4.3%	3.7%	**4.1%**	**4.1%**
Effective tax rate	14.8%	54.6%	10.2%	16.5%	13.8%	13.1%	19.0%	18.2%	17.6%	19.4%	**18.4%**	**17.5%**

Source: author's analysis based on Tikr data.

EBIT margin went from 30.4% in FY2017 to 46.8% in FY2026, and EBITDA margin from 38.4% to 58.5%. That is a huge improvement for a company of this size. It is mainly explained by the lower weight of SG&A (from 20.7% to 10.4% of sales) and, to a lesser extent, R&D.

Gross margin, however, stopped rising. It reached 69.8% in FY2024 and fell to 67.9% in FY2026, because of higher data center depreciation. It is the first sign in the numbers that the business is becoming more capital intensive.

Stock-based compensation stays at around 3.5-4.5% of sales, a reasonable level compared with other tech companies.

- **Cash flow and reinvestment**

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Cash flow & reinvestment												
Cash from operations % revenue	40.9%	39.8%	41.5%	42.4%	45.7%	44.9%	41.3%	48.4%	48.3%	55.1%	**50.6%**	**47.6%**
FCF margin (TIKR FCF / revenue)	32.5%	29.2%	30.4%	31.6%	33.4%	32.9%	28.1%	30.2%	25.4%	20.2%	**25.3%**	**27.3%**
FCF conversion (FCF / net income)	123.1%	194.6%	97.5%	102.2%	91.6%	89.6%	82.2%	84.0%	70.3%	50.1%	**68.1%**	**75.2%**
Capex % revenue	8.4%	10.5%	11.1%	10.8%	12.3%	12.0%	13.3%	18.1%	22.9%	34.9%	**25.3%**	**20.3%**
D&A % revenue	8.1%	9.0%	9.2%	8.6%	6.5%	7.4%	6.4%	8.2%	9.9%	11.8%	**10.0%**	**8.7%**
Capex / D&A	1.0x	1.2x	1.2x	1.3x	1.9x	1.6x	2.1x	2.2x	2.3x	3.0x	**2.5x**	**2.2x**
D&A % beginning net PP&E		32.7%	32.1%	28.0%	20.6%	20.6%	15.4%	18.2%	18.1%	17.0%	**17.8%**	**17.9%**
Acquisitions % revenue	26.9%	0.8%	1.9%	1.8%	5.3%	11.1%	0.8%	28.2%	2.1%	0.5%	**10.3%**	**8.6%**

Source: author's analysis based on Tikr data.

This is probably the most important table in the report. Operating cash flow rose from 40.9% to 55.1% of sales, the highest of the decade. However, **capex went from 8.4% of sales in FY2017 to 34.9% in FY2026**, which is why the free cash flow margin fell from 32.5% to 20.2%.

The capex / D&A ratio shows the same thing from another angle: Microsoft invests three times what it depreciates. That means depreciation will keep rising over the next few years, putting pressure on margins, even if capex stabilizes.

The conversion of profits into cash (FCF / net income) fell to 50.1%, against more than 80% historically. Part of that drop is the investment, and part is explained by the accounting gains linked to OpenAI, which increase profit but not cash.

- **Working capital**

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Working capital												
Receivables days (DSO)	84.8	87.6	85.6	81.7	82.6	92.7	99.7	100.4	101.2	119.5	**107.0**	**102.7**
Inventory days (DIO)	23.2	25.3	17.5	15.0	18.4	21.8	13.9	6.1	3.9	4.8	**4.9**	**10.1**
Payables days (DPO)	78.7	82.0	79.8	99.3	106.0	110.7	100.3	108.3	115.2	145.5	**123.0**	**116.0**
Cash conversion cycle (DSO + DIO − DPO)	29.3	30.9	23.4	(2.5)	(4.9)	3.8	13.3	(1.8)	(10.1)	(21.2)	**(11.0)**	**(3.2)**
Deferred revenue % revenue	27.6%	29.6%	29.6%	27.4%	26.3%	24.4%	25.4%	24.6%	23.9%	22.8%	**23.7%**	**24.2%**
Operating NWC % revenue	(16.8%)	(16.9%)	(15.3%)	(15.4%)	(14.4%)	(11.6%)	(9.9%)	(9.7%)	(10.1%)	(5.8%)	**(8.6%)**	**(9.4%)**

Source: author's analysis based on Tikr data.

Microsoft operates with negative working capital: customers pay in advance (deferred revenue is close to 23% of sales) and the company pays its suppliers over increasingly long periods. Days payable rose from 79 to 146, which took the cash conversion cycle to -21 days in FY2026. In other words, **customers and suppliers finance part of the growth**.

The only point to watch is the increase in days receivable (from 85 to 120), which reflects the larger weight of big enterprise and cloud contracts.

- **Returns on capital**

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Returns on capital												
NOPAT = EBIT × (1 − normalized tax rate)	23,984	28,666	35,127	43,304	57,169	68,181	72,384	89,482	105,096	126,935	**107,171**	**92,416**
Invested capital = debt + equity − cash & ST inv.	50,337	36,562	54,953	63,922	94,010	140,193	174,408	290,786	361,098	494,357	**382,080**	**292,168**
ROIC = NOPAT / average invested capital		66.0%	76.8%	72.9%	72.4%	58.2%	46.0%	38.5%	32.2%	29.7%	**33.5%**	**40.9%**
ROIC incl. cash = NOPAT / average (debt + equity)		16.2%	19.6%	22.3%	26.9%	29.1%	27.3%	27.4%	25.6%	24.7%	**25.9%**	**26.8%**
Pre-tax ROIC = EBIT / average invested capital (reference)		80.7%	93.9%	89.1%	88.5%	71.2%	56.3%	47.0%	39.4%	36.3%	**40.9%**	**50.1%**
ROE = net income / average equity		19.4%	42.4%	40.1%	47.1%	47.2%	38.8%	37.1%	33.3%	34.0%	**34.8%**	**38.1%**
ROA = net income / average total assets		6.5%	14.4%	15.1%	19.3%	20.8%	18.6%	19.1%	18.0%	19.4%	**18.8%**	**19.2%**

Source: author's analysis based on Tikr data.

ROIC (after-tax operating profit over invested capital, excluding cash) is extraordinary, but it has been falling: it went from more than 70% between FY2019 and FY2021 to 29.7% in FY2026. The reason is clear: invested capital went from USD 140,000 million in FY2022 to almost USD 494,000 million in FY2026, while NOPAT rose from USD 68,000 to 127,000 million.

If we include cash within capital, ROIC has been much more stable, between 25% and 29%, because Microsoft used the cash it had accumulated to fund the investments.

For me, this is one of the most important variables of the whole investment thesis: Microsoft still earns very high returns, but invested capital is growing faster than the profits it produces. This does not necessarily mean that the new investments are destroying value, since there is a time lag

between building the infrastructure and monetizing it. But we cannot assume either that Microsoft will automatically recover its previous ROIC levels.

- **Leverage and liquidity**

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Leverage & liquidity												
Net debt (debt − cash & ST inv.)	(37,374)	(46,156)	(47,377)	(54,382)	(47,978)	(26,349)	(31,815)	22,309	17,619	51,970	**30,633**	**6,747**
Net debt / EBITDA	(1.0x)	(1.0x)	(0.9x)	(0.8x)	(0.6x)	(0.3x)	(0.3x)	0.2x	0.1x	0.3x	**0.2x**	**(0.0x)**
Interest coverage (EBIT / interest expense)	13.2x	12.8x	16.0x	20.4x	30.0x	40.7x	44.4x	36.7x	53.0x	50.4x	**46.7x**	**45.0x**
Debt / (debt + equity), book	52.1%	51.4%	45.8%	41.0%	36.7%	32.0%	27.8%	26.7%	24.6%	22.6%	**24.6%**	**26.7%**
Current ratio	2.92	2.90	2.53	2.52	2.08	1.78	1.77	1.27	1.35	1.23	**1.29**	**1.48**

Source: author's analysis based on Tikr data.

Until FY2023 Microsoft had more cash than debt. Since the Activision Blizzard acquisition and the rise in capex, it has moved to net debt of USD 52,000 million in FY2026 (including leases), which is only 0.3 times EBITDA. Interest coverage is 50 times.

The current ratio fell from 2.92 to 1.23, reflecting that the company stopped accumulating liquidity and put it into infrastructure. **I do not see this as a problem**: with more than USD 180,000 million of annual operating cash flow, Microsoft has no liquidity or solvency risk at all.

- **Shareholder returns and valuation**

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Shareholder returns & market valuation (TIKR, at fiscal year end)												
Dividends + buybacks % FCF	75.3%	72.6%	87.2%	84.2%	78.2%	78.0%	70.7%	52.7%	59.4%	72.7%	**61.6%**	**66.7%**
EV / EBITDA	13.4x	15.9x	18.0x	22.8x	24.7x	19.3x	24.6x	25.9x	23.8x	19.9x	**23.2x**	**22.7x**
EV / revenue	5.1x	6.5x	7.8x	10.4x	11.9x	9.6x	11.8x	13.7x	13.2x	11.6x	**12.8x**	**12.0x**
P/E	20.9x	45.7x	26.2x	34.9x	33.3x	26.4x	35.0x	37.7x	36.3x	28.5x	**34.2x**	**32.8x**
FCF yield (FCF / market cap)	5.9%	4.3%	3.7%	2.9%	2.8%	3.4%	2.3%	2.2%	1.9%	1.8%	**2.0%**	**2.3%**

Source: author's analysis based on Tikr data.

Microsoft returns between 60% and 85% of its free cash flow through dividends and buybacks. In FY2026 it was 72.7%.

As for valuation, the stock ended FY2026 at 19.9 times EBITDA and 28.5 times earnings, below its five-year average (22.7x and 32.8x). The FCF yield, on the other hand, is at its lowest of the decade (1.8%), precisely because free cash flow is depressed by capex. That is the central tension in the valuation: multiples on earnings look reasonable, but multiples on cash do not.

SECTION 04

Management and capital allocation

Satya Nadella became CEO of Microsoft in February 2014, the company's third chief executive after Bill Gates and Steve Ballmer. In 2021 he was also named Chairman of the Board.

Born in Hyderabad, India, in 1967, Nadella joined Microsoft in 1992 after working at Sun Microsystems. Before becoming CEO he held several positions within the company, most notably leading the Cloud and Enterprise business, where he played a key role in the development of Azure.

His arrival marked one of the most important strategic shifts in Microsoft's history. When Nadella took over, Microsoft still depended heavily on Windows and Office, while its position in some of the main technology trends, especially smartphones and cloud computing, was relatively weak.

Nadella drove a transformation based on three pillars: prioritizing the cloud, moving away from Windows as the center of the ecosystem and building a business model focused on subscriptions and enterprise services.

One of the most telling examples was his decision to bring Office to Apple and Android devices, in contrast with Microsoft's historical strategy of using its applications to strengthen Windows.

He also pushed an acquisition policy that considerably broadened the company's ecosystem. The most important deals include LinkedIn (USD 26,200 million in 2016), GitHub (USD 7,500 million in 2018) and Activision Blizzard (USD 68,700 million in 2023).

More recently, Nadella positioned Microsoft as one of the main players in generative artificial intelligence, through its partnership with OpenAI and the integration of AI capabilities into Azure, Microsoft 365, GitHub and other platforms.

The results of this transformation are hard to argue with. Since he arrived, Microsoft has multiplied its revenue, significantly increased its profitability and gone from being seen as a mature company to once again being one of the leading innovators in the tech industry.

However, **this new stage also represents one of the biggest challenges of his tenure**.

Building the infrastructure needed to develop and sell artificial intelligence is forcing Microsoft to make unprecedented capital investments.

Nadella has already shown that he can successfully transform Microsoft's business model. Now he will have to show that he can turn these extraordinary investments into attractive returns for shareholders.

OTHER KEY MEMBERS OF THE MANAGEMENT TEAM

Amy Hood, Executive Vice President & CFO

She has been CFO since 2013 and is one of the people most responsible for Microsoft's financial discipline and capital allocation.

Under her watch, the company funded major acquisitions, kept a solid financial position and built a consistent dividend and share buyback policy.

Her role is especially relevant today, as Microsoft has to balance extraordinary investments in AI infrastructure with Free Cash Flow generation and shareholder returns.

Judson Althoff, CEO of the Commercial Business

Althoff is one of the most important figures in Microsoft's relationship with its enterprise customers.

His responsibility is the commercial organization and driving the adoption of Microsoft's different solutions among large companies and organizations.

His role is key to monetizing the investments in Azure, Microsoft 365, Dynamics and Copilot, using existing commercial relationships to increase product penetration and average revenue per customer.

Scott Guthrie, Executive Vice President, Cloud + AI

Guthrie was one of the main architects of the growth of Azure and Microsoft's cloud business.

His area is of extraordinary strategic importance, since it includes much of the infrastructure and technology platforms on which the company's artificial intelligence strategy is built.

Microsoft's ability to expand its infrastructure, improve its efficiency and keep Azure competitive will be decisive in justifying today's high capex.

Rajesh Jha, Executive Vice President, Experiences + Devices

Jha has led much of the development of Microsoft's productivity and collaboration products, including Microsoft 365, Teams and Windows.

His responsibility is especially relevant because Microsoft has an enormous installed base of business users to which it can introduce new, higher-value features and services.

Monetizing Copilot within Microsoft 365 is one of the main growth opportunities of this ecosystem.

Mustafa Suleyman, CEO of Microsoft AI

Suleyman joined Microsoft in 2024, after co-founding DeepMind, later acquired by Google, and Inflection AI.

His arrival reflects how much importance Microsoft places on developing its own artificial intelligence capabilities, beyond its partnership with OpenAI.

His work is linked to the development of consumer AI products and to strengthening Microsoft's own technology capabilities.

This matters because, although the OpenAI partnership is a competitive advantage, it also creates a degree of technological and commercial dependence.

Asha Sharma, CEO of Microsoft Gaming

In February 2026 Phil Spencer retired after 38 years at the company, and Asha Sharma, who had been leading CoreAI, took charge of Microsoft Gaming. It is a clear signal of where the division wants to go: less reliance on hardware and more focus on content, subscriptions, multiplatform distribution and the use of AI.

ASSESSMENT OF THE MANAGEMENT TEAM

I believe **the management team is one of Microsoft's main strengths**, especially because of its proven ability to adapt the company to technological change.

The transformation led by Nadella is an example of how a dominant company in a mature industry can reinvent itself without losing its historical competitive advantages.

I would also highlight the continuity of figures such as Amy Hood, Scott Guthrie and Rajesh Jha, who went through much of this transformation and know the business deeply.

However, not every capital allocation decision can be judged yet. The LinkedIn and GitHub acquisitions strengthened the enterprise ecosystem, while deals such as Activision Blizzard need their long-term economic returns to be monitored.

The same applies, on an even larger scale, to the investments in artificial intelligence.

CAPITAL ALLOCATION

In terms of capital allocation, the change over the last two years is huge. For much of the previous decade, Microsoft used most of its free cash flow for dividends and buybacks, with capex at around 10-13% of sales. In FY2026 capex was 34.9% of revenue, and the company expects calendar year 2026 to close with investments of USD 170,000 to 175,000 million.

Even so, Microsoft kept paying dividends (which it has been raising every year) and buying back shares, although buybacks today are barely enough to offset dilution from stock-based compensation. The diluted share count remains stable at around 7,430 million.

The balance sheet is still one of the strongest in the market (with an AAA credit rating). That gives Hood and Nadella something few competitors have: the ability to fund the AI investment cycle with their own cash, without having to take on heavy debt or issue shares.

The main challenge for management is to keep a high return on invested capital.

In this respect, I would pay special attention to the evolution of ROIC, the conversion of profits into Free Cash Flow and the ability to monetize the AI infrastructure.

SECTION 05

Competitive position

Industry

Microsoft does not compete in a single industry. It is, at the same time, a hyperscaler, an enterprise software company, a productivity platform, a cybersecurity provider, a digital advertising business, a developer platform and one of the largest video game developers. Looking at an average "software" multiple misses much of its competitive reality.

1. Cloud, Azure and AI infrastructure

The cloud infrastructure market is going through a new acceleration driven by GenAI. Synergy estimated USD 143,000 million of enterprise spending on cloud infrastructure services in Q2 2026 alone, +43% year over year. AWS kept a 28% share, Azure 20% and Google Cloud 15%. The gap between the three leaders narrowed and Microsoft and Google grew faster than AWS.

Azure's advantage is not being the absolute leader in IaaS, but its enterprise distribution. A CIO who already uses Entra, Windows Server, SQL Server, Microsoft 365 and GitHub has incentives to consolidate workloads on Azure. The weakness is that AWS keeps a larger market share and a very strong cloud-native culture, while Google has its own AI capabilities, TPUs and data analytics. Oracle competes in databases and enterprise workloads, and the neoclouds target GPU compute specifically.

The TAM keeps expanding. Gartner projects USD 42,000 million of spending on AI-optimized IaaS in 2026, +96%, and USD 66,000 million in 2027. More broadly, global IT spending would be USD 6.37 trillion in 2026, +14.2%. Microsoft is exposed to one of the fastest-growing areas within that budget, although being part of that growth requires reinvesting a lot of capital.

2. Microsoft 365, collaboration and Copilot

In productivity, direct competitors include Google Workspace, Zoom, Salesforce, Cisco and a new generation of AI-first applications. However, the real competitive unit is not Word versus Docs or Teams versus Zoom. Microsoft sells a bundle that combines email, documents, meetings, storage, compliance, security and now Copilot. That raises switching costs and lowers the cost of buying and integrating for large companies.

The disruptive risk is that agents change the way we interact with work. If users interact with an agent that writes documents, analyzes data and runs processes, the importance of each traditional application could shrink. Microsoft is trying to get ahead of this by building the agent into its own suite. That strategy can defend the moat, but it can also cannibalize part of the value of the traditional interface.

3. Dynamics, Power Platform and enterprise applications

Dynamics competes with Salesforce in CRM, SAP and Oracle in ERP, ServiceNow in workflows and Workday in enterprise applications. Salesforce is still the CRM leader, with a 20% global market share in 2025 according to IDC, while Microsoft was around 4%. So Dynamics does not dominate its category the way Office or Windows do.

The opportunity is cross-selling. Power Apps, Power Automate, Fabric, Azure, Teams and Copilot allow Dynamics to integrate with the rest of the stack. For a customer that already pays for Microsoft 365 and Azure, the incremental cost of adopting Dynamics can be lower than adding another vendor. The main challenge is that Salesforce, SAP and ServiceNow have very deep products and their own commercial relationships.

4. Cybersecurity

Gartner estimates that global information security spending will reach roughly USD 244,000 million in 2026, +11.6%. Rivals include Palo Alto Networks, CrowdStrike, Okta, Zscaler, Fortinet, Cisco, Google/Mandiant and others.

The moat here is distribution and data. The risk is concentration: a security failure at such a widespread provider has a larger systemic impact, and some customers prefer a multi-vendor architecture.

5. GitHub and developer tools

GitHub competes with GitLab, Atlassian, the hyperscalers and AI-native tools. Its advantage is the network effect of repositories, developers and open source. GitHub Copilot adds monetization on top of that network and can raise switching costs if it is integrated with repositories, CI/CD, models and Azure. The risk is that agents become indifferent to the repository and capture the relationship with the developer through another interface.

6. Windows and devices

Windows keeps roughly three quarters of the global desktop, but it competes with macOS, ChromeOS and Linux. The PC industry has little growth and is highly sensitive to replacement cycles. IDC projects a sharp contraction in shipments in 2026 and stabilization only by 2028. That is why I see Windows more as a distribution and enterprise monetization platform than as a product in itself.

7. Gaming

The global video game market would reach USD 213,900 million in 2026, +6.1%. Console would account for USD 46,900 million, PC USD 45,900 million and mobile USD 121,100 million. Microsoft competes with Sony and Nintendo in consoles, Valve in PC distribution, Tencent and other developers in content, and with multiple subscription and cloud gaming services.

Xbox has an exceptional asset in IP and content after Activision Blizzard, Bethesda and Mojang, but its hardware is losing volume.

8. Search and advertising

Bing is still a challenge. In September 2026, Google had close to 89.9% of global search share and Bing 5.3%. Microsoft's advantage is not in displacing Google, but in using Edge, Windows, Copilot, distribution agreements and LinkedIn data to monetize an incremental audience. Search advertising grew 12% in FY2026, above the segment's growth.

MOAT

- **Switching costs:** migrating email, identity, documents, permissions, processes, security and enterprise data is costly and risky.
- **Network effects:** Windows, GitHub, LinkedIn and the partner and developer ecosystem get better with scale.
- **Distribution:** Microsoft can introduce a new product within Windows, Microsoft 365, Azure, Teams, GitHub or Dynamics without building distribution from scratch.
- **Economies of scale:** few competitors can fund more than USD 100,000 million a year in capex and run a global network of data centers.
- **Bundling and integration:** the ability to combine software, cloud, security and AI increases its share of the customer's budget and reduces complexity for the customer.
- **Data and enterprise context:** Microsoft Graph, LinkedIn, GitHub and organizational data can improve agents and copilots.

Porter's five forces

- **Rivalry = High**
  AWS, Google, Salesforce, Oracle, SAP, Apple, Sony and AI-native players compete in different categories.
- **New entrants = Medium**
  Entering AI apps is easy; replicating enterprise distribution, a global cloud and compliance is very hard.
- **Supplier power = Medium/High**
  GPUs, energy and networking are relevant bottlenecks in the AI era.
- **Buyer power = Medium**
  Large companies have bargaining power, but switching costs and *bundles* reduce potential migrations.
- **Substitutes = Medium/High**
  Open source, specialized SaaS and agents can replace parts of the stack, although not necessarily the whole.

SWOT

- **Strengths:** Enterprise distribution, switching costs, balance sheet, global cloud, GitHub/LinkedIn, ecosystem and margins.
- **Opportunities:** Copilot/agents, Azure AI, cybersecurity, GitHub monetization, Dynamics cross-selling, future normalization of capex.
- **Weaknesses:** Rising capex, lower asset turnover, weak Xbox, Bing with low share, reliance on third parties for chips.
- **Threats:** AWS/Google, AI, regulation, cyberattacks, infrastructure obsolescence, lower returns on AI.

SECTION 06

The bulls vs. the bears

Microsoft does not have a debate as extreme as other companies I have analyzed, but there are two very different readings of what is happening with its capex.

What do the bulls say?

The first argument is that **demand exceeds supply**. Azure is growing at almost 50% on a base of more than USD 130,000 million annualized, and the company still says it is capacity-constrained. The contracted backlog of USD 677,000 million is the best proof that the investments are not being made blindly: much of that capacity already has a customer.

The second argument is distribution. Microsoft does not need to convince anyone to try a new product: it can add Copilot and agents inside tools that hundreds of millions of people already use every day at work. No AI competitor has that kind of access to the enterprise customer.

The third is that **capex is not forever**. The bulls argue that once the infrastructure is built, the business will again show its ability to generate cash: operating margins are still close to 50% even with rising depreciation, and when capex normalizes, free cash flow could double.

What do the bears say?

The bears start from the same place, but reach the opposite conclusion. Microsoft is investing more than a third of its sales in assets that depreciate over five or six years. If AI demand slows or compute prices fall, the company will be left with a lot of installed capacity and very high depreciation. **Free cash flow in FY2026 was USD 67,000 million, practically the same as in FY2022**, with sales 67% higher.

The second argument is the concentration in OpenAI. A significant part of the backlog is linked to contracts with OpenAI, a company that still loses a lot of money and that has also diversified its compute suppliers towards Oracle, Amazon, Google and others.

Third: the monetization of Copilot is still not as clear as that of Azure. If agents end up replacing traditional applications, Microsoft could be cannibalizing part of the per-user licensing business that made Office so profitable.

And fourth, the valuation: at close to 30 times earnings, the price already reflects that much of this is going to go well.

SECTION 07

Valuation

To put numbers on everything we have seen, I built **a ten-year discounted cash flow (DCF) model** with two methods to calculate the terminal value: **perpetuity growth** and **exit multiple on EBITDA**.

As we saw throughout the report, **the main uncertainty is not only how much revenue will grow, but how much capital Microsoft will need to sustain that growth and what return it will earn on those investments**. That is why capex is the variable that took me the most work.

Model inputs and assumptions

Both methods share the following **assumptions or drivers**:

2. Operating drivers by scenario (explicit forecast)

Driver	Δ vs Base	FY2024A	FY2025A	FY2026A	3Y avg	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E	FY2036E
Forecast year #						*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Revenue growth ▸ selected scenario		15.7%	14.9%	17.8%	**16.1%**	**19.3%**	**20.0%**	**21.5%**	**16.0%**	**14.0%**	**12.0%**	**9.0%**	**8.0%**	**6.5%**	**5.5%**
Best case	2.0%					21.3%	22.0%	23.5%	18.0%	16.0%	14.0%	11.0%	10.0%	8.5%	7.5%
Base case						19.3%	20.0%	21.5%	16.0%	14.0%	12.0%	9.0%	8.0%	6.5%	5.5%
Worst case	(3.5%)					15.8%	16.5%	18.0%	12.5%	10.5%	8.5%	5.5%	4.5%	3.0%	2.0%
Gross margin ▸ selected scenario		69.8%	68.8%	67.9%	**68.8%**	**66.5%**	**66.0%**	**66.0%**	**66.5%**	**67.0%**	**67.5%**	**68.0%**	**68.0%**	**68.0%**	**68.0%**
Best case	1.0%					67.5%	67.0%	67.0%	67.5%	68.0%	68.5%	69.0%	69.0%	69.0%	69.0%
Base case						66.5%	66.0%	66.0%	66.5%	67.0%	67.5%	68.0%	68.0%	68.0%	68.0%
Worst case	(2.0%)					64.5%	64.0%	64.0%	64.5%	65.0%	65.5%	66.0%	66.0%	66.0%	66.0%
EBIT margin ▸ selected scenario		44.6%	45.6%	46.8%	**45.7%**	**47.5%**	**47.0%**	**46.5%**	**46.5%**	**46.5%**	**46.5%**	**46.5%**	**46.5%**	**46.5%**	**46.5%**
Best case	2.5%					50.0%	49.5%	49.0%	49.0%	49.0%	49.0%	49.0%	49.0%	49.0%	49.0%
Base case						47.5%	47.0%	46.5%	46.5%	46.5%	46.5%	46.5%	46.5%	46.5%	46.5%
Worst case	(5.0%)					42.5%	42.0%	41.5%	41.5%	41.5%	41.5%	41.5%	41.5%	41.5%	41.5%
Capex % of revenue ▸ selected scenario		18.1%	22.9%	34.9%	**25.3%**	**42.0%**	**38.0%**	**32.0%**	**27.0%**	**23.0%**	**20.0%**	**18.0%**	**16.5%**	**15.5%**	**15.0%**
Best case	(2.0%)					40.0%	36.0%	30.0%	25.0%	21.0%	18.0%	16.0%	14.5%	13.5%	13.0%
Base case						42.0%	38.0%	32.0%	27.0%	23.0%	20.0%	18.0%	16.5%	15.5%	15.0%
Worst case	3.0%					45.0%	41.0%	35.0%	30.0%	26.0%	23.0%	21.0%	19.5%	18.5%	18.0%

Source: author's analysis.

Year 1 of the model is FY2027, which ends in June 2027.

For **revenue growth** in the base case I start at 19.3% in FY2027, in line with the first quarter (+19%) and with second-quarter guidance. For FY2028 and FY2029 I project an acceleration, to 20% and 21.5%, as new Azure capacity comes online, and from FY2030 I assume a gradual slowdown (16%, 14%, 12%) to 5.5% in FY2036. Microsoft is already a company with more than USD 330,000 million in sales, and sustaining double-digit growth for ten years in a row would be extraordinary even for Microsoft.

Gross margin dips slightly in the first years (from 67.9% to 66%) because of higher data center depreciation and the larger weight of Azure, and recovers towards 68% as installed capacity is better utilized. **EBIT margin** stays at around 46.5-47.5%: Microsoft keeps showing that it can offset depreciation with discipline in operating expenses.

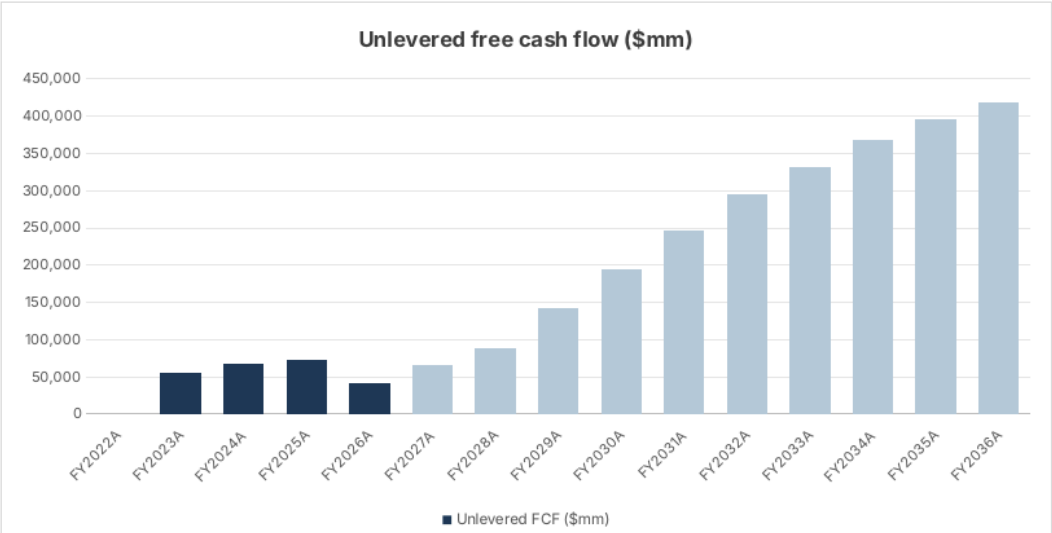
Capex is the central variable. In FY2026 it was 34.9% of sales. For FY2027 I assume 42% (measured as cash capex, excluding finance leases), in line with the first quarter and company guidance, and then a gradual normalization to 15% in FY2036. That level is still well above the historical 10-13%, because I believe Microsoft will not go back to being the asset-light business it was a decade ago.

What does each scenario mean?

- The **base case** assumes that Microsoft successfully monetizes the infrastructure it is building, although without sustaining today's growth rates indefinitely.

- The **best case** adds two points of growth per year, slightly higher margins and capex two points lower. It is the scenario in which Azure keeps gaining share, Copilot reaches meaningful penetration and the investments pay off faster than expected.
- The **worst case** takes away 3.5 points of growth and five points of EBIT margin, and adds three points of capex. It is the scenario in which AI demand slows, competition pushes compute prices down and Microsoft ends up with more capacity than it needs. Even so, it is not a crisis scenario: Microsoft is still an excellent company, just with a lower return on invested capital.

With these assumptions, free cash flow recovers gradually as capex becomes a smaller share of sales:



Source: author's analysis.

Discount rate (WACC)

To bring the projected cash flows to the present, I calculated the discount rate as follows:

5. Discount rate (WACC)

		Value
Risk-free rate		4.9%
Equity beta (levered)	x	1.04
Equity risk premium		4.2%
Country risk premium		–
Cost of equity		9.3%
Pre-tax cost of debt		5.0%
Tax rate (debt tax shield)		18.2%
After-tax cost of debt		4.1%
Market value of equity	$ mm	3,960,434
Total debt	$ mm	128,813
Debt / (Debt + Equity)		3.2%
Equity / (Debt + Equity)		96.8%
WACC		9.1%

Source: author's analysis.

I used a risk-free rate of 4.9%, a beta of 1.04 and an equity risk premium of 4.2%, which gives a cost of equity of 9.3%. Since debt represents only 3.2% of the capital structure, **the WACC comes out at 9.1%**.

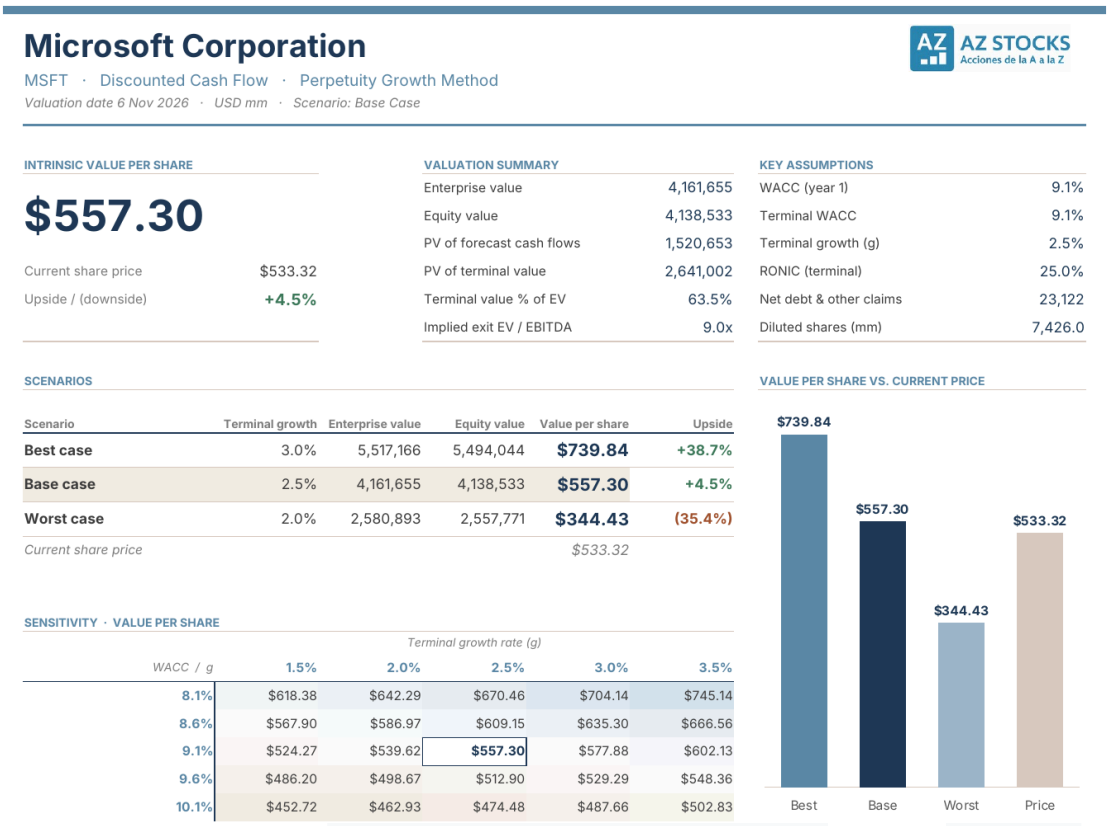
To go from Enterprise Value to Equity Value I subtracted debt (including leases) and added cash and investments, which gives net debt and other claims of USD 23,122 million. The diluted share count is 7,426 million.

What is Microsoft worth? The two methods and what they say

Method 1: Perpetuity growth

For this method I assumed **a perpetual growth rate of 2.5%** after the projection period, with a return on new invested capital of 25%.

With that growth rate and a WACC of 9.1%, we get an Enterprise Value of USD 4,161,655 million and an Equity Value of USD 4,138,533 million. Divided by the shares outstanding, the intrinsic value is **USD 557.30 per share**.



Microsoft Corporation

MSFT · Discounted Cash Flow · Perpetuity Growth Method

Valuation date 6 Nov 2026 · USD mm · Scenario: Base Case

AZ STOCKS Acciones de la A a la Z

INTRINSIC VALUE PER SHARE

$557.30

Current share price	$533.32
Upside / (downside)	+4.5%

VALUATION SUMMARY

Enterprise value	4,161,655
Equity value	4,138,533
PV of forecast cash flows	1,520,653
PV of terminal value	2,641,002
Terminal value % of EV	63.5%
Implied exit EV / EBITDA	9.0x

KEY ASSUMPTIONS

WACC (year 1)	9.1%
Terminal WACC	9.1%
Terminal growth (g)	2.5%
RONIC (terminal)	25.0%
Net debt & other claims	23,122
Diluted shares (mm)	7,426.0

SCENARIOS

Scenario	Terminal growth	Enterprise value	Equity value	Value per share	Upside
Best case	3.0%	5,517,166	5,494,044	$739.84	+38.7%
Base case	2.5%	4,161,655	4,138,533	$557.30	+4.5%
Worst case	2.0%	2,580,893	2,557,771	$344.43	(35.4%)
Current share price				*$533.32*	

SENSITIVITY · VALUE PER SHARE

Terminal growth rate (g)

WACC / g	1.5%	2.0%	2.5%	3.0%	3.5%
8.1%	$618.38	$642.29	$670.46	$704.14	$745.14
8.6%	$567.90	$586.97	$609.15	$635.30	$666.56
9.1%	$524.27	$539.62	$557.30	$577.88	$602.13
9.6%	$486.20	$498.67	$512.90	$529.29	$548.36
10.1%	$452.72	$462.93	$474.48	$487.66	$502.83

VALUE PER SHARE VS. CURRENT PRICE

Source: author's analysis.

In the **best** case, the value per share is **USD 740**, and in the **worst** case **USD 344**.

The sensitivity table shows how the result changes if we modify the WACC or the perpetual growth rate:

With a WACC of 8.6% the value rises to USD 609, and with 9.6% it falls to USD 513. In other words, half a point of discount rate moves the valuation by almost 10%. **That is why the result of a DCF should not be read as an exact number, but as a range that depends on the assumptions.**

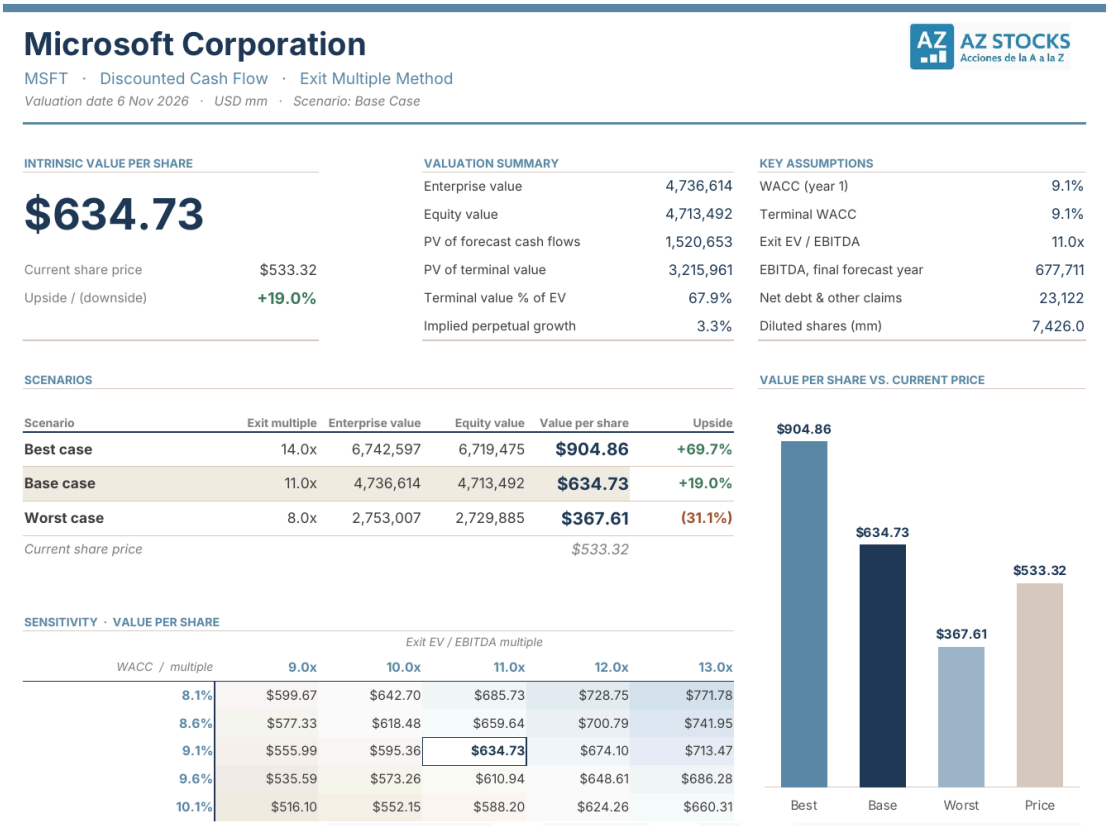
Method 2: Terminal EBITDA multiple

For this method I used the following multiples on the EBITDA of the last projected year:

- Best case: 14x
- ***Base case: 11x***
- Worst case: 8x

These are much lower multiples than today's (Microsoft currently trades at close to 20 times EBITDA), but what we are valuing here is the Microsoft of 2036: a company that would no longer be growing at double digits and therefore should not carry a growth-company multiple. In fact, the 11x multiple implies a perpetual growth rate of 3.3%, a reasonable figure for a company of this quality.

With that multiple we get an Enterprise Value of USD 4,736,614 million and an Equity Value of USD 4,713,492 million, equivalent to **USD 634.73 per share**.



Microsoft Corporation

MSFT · Discounted Cash Flow · Exit Multiple Method

Valuation date 6 Nov 2026 · USD mm · Scenario: Base Case

AZ STOCKS Acciones de la A a la Z

INTRINSIC VALUE PER SHARE

$634.73

Current share price	$533.32
Upside / (downside)	+19.0%

VALUATION SUMMARY

Enterprise value	4,736,614
Equity value	4,713,492
PV of forecast cash flows	1,520,653
PV of terminal value	3,215,961
Terminal value % of EV	67.9%
Implied perpetual growth	3.3%

KEY ASSUMPTIONS

WACC (year 1)	9.1%
Terminal WACC	9.1%
Exit EV / EBITDA	11.0x
EBITDA, final forecast year	677,711
Net debt & other claims	23,122
Diluted shares (mm)	7,426.0

SCENARIOS

Scenario	Exit multiple	Enterprise value	Equity value	Value per share	Upside
Best case	14.0x	6,742,597	6,719,475	$904.86	+69.7%
Base case	11.0x	4,736,614	4,713,492	$634.73	+19.0%
Worst case	8.0x	2,753,007	2,729,885	$367.61	(31.1%)
Current share price				*$533.32*	

SENSITIVITY · VALUE PER SHARE

Exit EV / EBITDA multiple

WACC / multiple	9.0x	10.0x	11.0x	12.0x	13.0x
8.1%	$599.67	$642.70	$685.73	$728.75	$771.78
8.6%	$577.33	$618.48	$659.64	$700.79	$741.95
9.1%	$555.99	$595.36	**$634.73**	$674.10	$713.47
9.6%	$535.59	$573.26	$610.94	$648.61	$686.28
10.1%	$516.10	$552.15	$588.20	$624.26	$660.31

VALUE PER SHARE VS. CURRENT PRICE

Source: author's analysis.

In the **best** case, the value per share is **USD 905**, and in the **worst** case **USD 368**.

Reading the two methods together

For the target price I take the average of both methods in the base case: **USD 596 per share**, about 12% above the current price (USD 533.32). Both methods give values above the price, although the margin of safety is moderate.

What is interesting is the asymmetry between scenarios. If the investments deliver what the company expects (best case), the potential is between 39% and 70%. If AI demand slows (worst case), the fall could be about 33%. **At this price the market is already assuming that the investment cycle will go well**.

A note on buybacks: I did not include future share buybacks in the model. Today they are practically just enough to offset dilution, so their impact on value per share is smaller than in other years.

SECTION 08

Conclusion

Microsoft is, in my opinion, one of the highest-quality businesses in the market. Few companies combine such a solid competitive position, recurring revenue, extraordinary margins, a high return on invested capital and so many growth opportunities.

It also has an advantage that few competitors can replicate: **the ability to monetize artificial intelligence across practically its entire ecosystem**. From Azure to Microsoft 365, GitHub or its cybersecurity solutions, the company has multiple ways to take advantage of this technological revolution. The latest results confirm it: Azure growing at 48% with more than USD 33,000 million per quarter is something that seemed impossible only a few years ago.

However, as we saw throughout the report, **Microsoft is ceasing to be the asset-light business we knew**. The enormous investments in data centers, GPUs and AI infrastructure are transforming its capital structure and creating new uncertainties.

Although I believe Microsoft has many tools to make these investments pay off, it still has to show that its revenue growth can translate into high enough Free Cash Flow.

Because **growing thanks to artificial intelligence is one thing, and creating economic value thanks to it is quite another**.

Personally, **I have been a Microsoft shareholder since 2022 and I used this year's declines to add to my position**.

It is a company I consider excellent for a long-term portfolio, both for the quality of its businesses and for its ability to adapt to technological change. However, I also think it is important to distinguish between the quality of a company and the price we pay for it.

My valuation gives a **target price of USD 596 per share**, against a share price of USD 533.32. In other words, under my assumptions the stock trades about 11% below its intrinsic value.

I am still optimistic about Microsoft's future and I think it is an excellent company to hold for many years. However, at current prices the opportunity seems less attractive to me than during the previous corrections. I would not sell, but I would not add at this price either.

There are three variables I will follow closely: Azure growth against the capacity being added, the evolution of capex as a percentage of sales and, above all, ROIC. If the return on capital stabilizes while capex starts to come down, the thesis gets much stronger.

Because Microsoft's success over the next decade will not depend only on how much it grows thanks to AI, but on how much value it manages to create with all the capital it is investing.

Alan



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