

## Microsoft Corporation

US CORE HOLDING\*

Recommended since 11.05.20

09.04.2024



Country	US	Market capitalization (bn)	USD	3195,6	Perf. since reco. (%)	
Sector	Technology	Free float		98,5%	Microsoft Corporation	127,4
Factset	MSFT-US	Closing price	USD	424,59	Sector	110,0
ISIN	US5949181045	ESG Risk score*	15,2	Low risk		



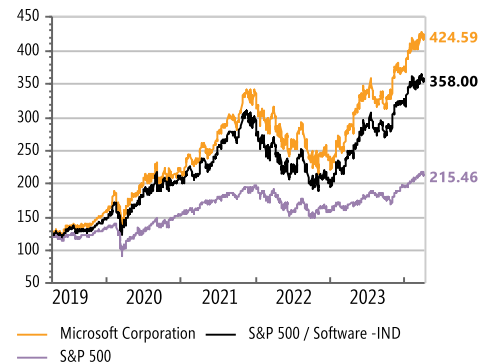
\*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

## Profile

Founded in 1975, Microsoft has become the world's leading software vendor, generating revenue of over \$198bn in FY 2022. Operating in more than 190 countries, Microsoft leads in a number of software market segments: cloud infrastructure (Azure), productivity applications, operating systems, business applications, internet services, databases, games and other hardware.

## Market - competition - positions - barriers to entry

The digitalisation of the economy entails a generational shift for the IT industry, culminating in a new way of deploying technological infrastructure and software applications. Cloud subscriptions are increasingly replacing licences and on-premise installations. Microsoft is ideally placed to ride this wave with Azure (cloud), not to mention its innovative applications.



Source: Factset

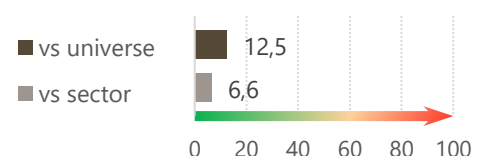
## Investment case

- For the past few years, Microsoft has been structured into three key business units: Productivity and Business Processes (PBP), which accounted for 33% of sales in FY 2023 (N.B. the group's fiscal year runs to end June), Intelligent Cloud (IC – 41%) and More Personal Computing (MPC – 26%). Each of these roughly equal-sized business units groups together a cluster of Microsoft's traditional or innovative solutions and applications. PBP includes all the group's office applications, such as Office and Office 365, for both consumers and businesses, as well as services, Dynamics solutions and the LinkedIn business social network. Revenue in this business unit is set to grow at around 6-10% a year for 2023-2025<sup>e</sup>. IC spans server products and cloud services, enterprise services and, above all, fast-growing Azure cloud services. Revenue in this segment is set to grow at around 15-18% a year. Lastly, MPC encompasses the Windows operating system, including Windows OEM (for consumers and businesses), Windows commercial solutions, Surface tablets, gaming (Xbox content and services) and search engine advertising revenue. This more mature segment could see revenue growth of 1-5% a year.
- Microsoft has an extensive portfolio of strategic solutions and applications, all positioned at the intersection of digitalisation of the economy and adoption of cloud services. More specifically, Microsoft has managed to steer its strategy over the years to leverage this trend to maximum advantage. Azure is able to reap the full benefits of the global shift towards multiple cloud strategies (not forgetting the group's Azure Stack hybrid cloud architectures), while Microsoft's particular relationship with corporate CIOs is proactively driving the digital transformation of their businesses.
- Microsoft's investment in AI makes it a leader, with management ready to capitalize on emerging trends. The company stands out as an essential platform for high-performance computing and model delivery (partnerships with OpenAI, collaborations with Meta and other start-ups), a gaming platform, cybersecurity, as well as a renewal in productivity thanks to innovations such as Copilot and the integration of AI-based tools to improve all its services. This diversified, AI-focused position offers an attractive investment opportunity.

## ESG - risks and key points

- Notable key risks include competition in the desktop productivity market for both businesses and consumers: Microsoft will need to continue to pursue a policy of sustained investment in its traditional products (Office and Windows). Piracy of the group's licences represents a not insignificant risk, particularly in emerging economies. Lastly, while AWS is still the number one provider of public cloud services, Azure remains highly competitive, though things could slow down in this segment in the medium term.
- The company is at low risk of experiencing material financial impacts from ESG factors, due to its low exposure and strong management of material ESG issues.

## ESG risk vs. universe &amp; sector (percentile)\*



Source: Sustainalytics

## Valuation\*\* in USD

Current price	Value Bordier Scenario
425	470

Our scenario assumes US 10-year yields of 3.5%, a pic of the sales growth at 16% in 2027 and growth in the EBIT margin stabilising at around 43% by 2027.

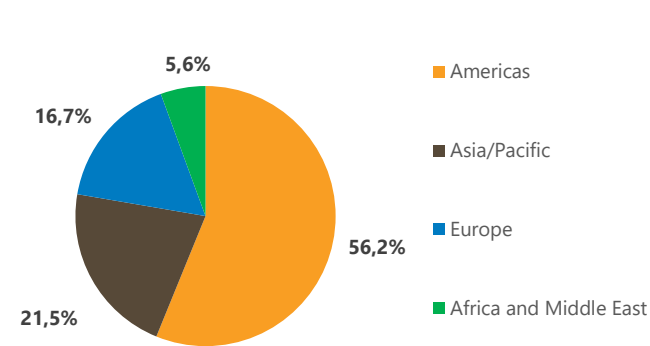
\*\* The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of USD	2022	2023	2024e	2025e	2026e
Sales revenue	198 270	211 915	243 702	277 821	318 105
Sales growth %	18,0%	6,9%	15,0%	14,0%	14,5%
o/w organic	18,0%	6,9%	15,0%	14,0%	14,5%
EBIT adjusted	83 383	88 523	105 342	120 617	137 503
% of sales	42,1%	41,8%	43,2%	43,4%	43,2%
Net income	72 738	72 361	89 881	102 864	117 218
Adjusted EPS	9,21	9,68	12,03	13,77	15,69
Adjusted EPS growth	13,2%	5,1%	24,2%	14,4%	14,0%
Capex/Sales	12,0%	13,3%	17,6%	16,6%	15,7%
Free cash-flow	65 149	59 475	63 382	76 365	89 719
FCF/Sales	32,9%	28,1%	26,0%	27,5%	28,2%
Dividend per share	2,48	2,72	2,97	2,97	2,97
Dividend yield	1,0%	0,7%	0,7%	0,7%	0,7%
ROCE - WACC	36,8%	30,8%	30,3%	28,2%	25,6%
ROE (%)	41,7%	35,1%	36,5%	34,6%	32,4%
Net debt/Ebitda	-56,2%	-62,5%	-63,4%	-72,4%	-86,8%

Source: Factset, Bordier estimates

Sales breakdown - 06/2023



Governance and ownership structure

Since 2014, CEO Satya Nadella.

Key shareholders (if any):

The Vanguard Group, Inc.: 7.78% / Capital Research & Management Co. 7.36% / SSgA Funds Management, Inc. 4.09%.

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements)

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Glossaire

ESG Risk Score

B&Cie attache une importance particulière au caractère durable des entreprises faisant l'objet de recommandations d'investissement. Notre sélection de titres intègre en conséquence les risques relatifs aux questions Environnementales (E), Sociales (S) et de Gouvernance (G). Ceci s'appuie sur la recherche de Sustainalytics, leader mondial de l'analyse extra-financière, dont la méthodologie vise à identifier les controverses ou risques significatifs et à évaluer les risques E, S et G d'une entreprise par rapport à son secteur et à l'univers d'investissement. Le score correspondant s'exprime en percentile: plus le score de risque global est bas, plus le risque est faible au sein de l'univers considéré.

b-Digital & b-Transition

Au-delà de l'approche géographique et sectorielle classique dans la gestion d'actifs, nous considérons chez B&Cie que des tendances structurelles façonnent le monde de demain. Nous en identifions principalement deux: la poursuite de la Digi-globalisation de l'économie et la Transition économique, en particulier énergétique. Sélectionner et investir dans les acteurs de ces transformations doit permettre, selon nous, de construire des portefeuilles plus résilients et plus performants sur le long terme. Les recommandations d'investissement relatives à la première portent le label b-Digital; celles relatives à la seconde portent le label b-Transition. Il est possible qu'une recommandation concerne simultanément les deux thématiques; elle porte alors les deux labels.

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