

Microsoft Corporation

US CORE HOLDING*

Recommended since 11.05.20

09.01.2025



Country US	Market capitalization (bn) USD 3193,9	Perf. since reco. (%)
Sector Technology	Free float 98,5%	Microsoft Corporation 127,4
Factset MSFT-US	Closing price USD 424,56	Sector 119,9
ISIN US5949181045	ESG Risk score* 14,2 Low risk	



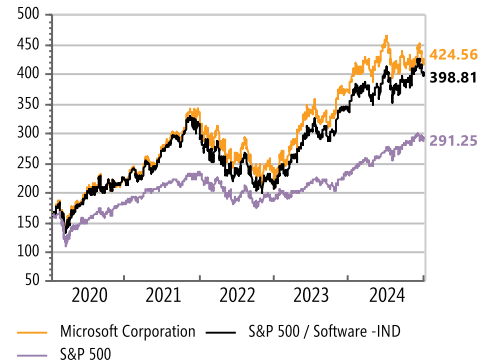
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely 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 \$245bn in FY 2024. 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

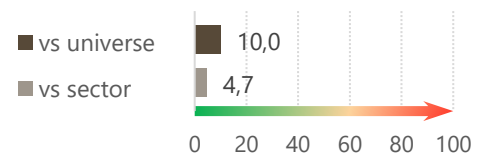
Investment case

- 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^e. 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.
- The cloud remains a central driver of Microsoft's strategy. Azure continues to benefit from the growing adoption of cloud services by enterprises, driven by increasing demands for digital transformation and AI-based solutions. The integration of OpenAI models and the deployment of Copilot across Microsoft's offerings enhance the platform's appeal, boosting both customer value and average revenue per user. This innovation-focused approach solidifies Microsoft's position as a dominant leader in cloud computing and artificial intelligence.

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). 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.
- Microsoft faces scrutiny over anticompetitive practices, posing regulatory and reputational risks.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in USD

Current price	Value Bordier Scenario
425	501

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

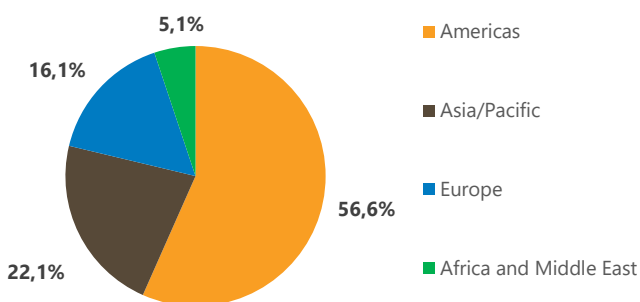
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"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%
<i>a/w organic</i>	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	37,1%	31,0%	30,6%	28,4%	25,9%
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 - 06/2024



Ratios

	Microsoft Corporation	S&P 500 Sector	S&P 500 Market
PE (x)***		Software	S&P 500
2023	24,9	38,3	23,5
2024e	43,9	35,3	24,9
2025e	35,3	31,2	21,7
P/B (x)***			
2023	10,7	12,6	4,8
2024e	13,6	10,9	5,1
2025e	12,8	8,7	4,6
Beta (2Y, daily) vs market:	1,05		

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

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%.

Agenda

29.01.2025: Earnings Q2-2025 - 29.04.2025: Earnings Q3-2025
29.07.2025: Earnings Q4-2025

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

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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