



Microsoft Corp

Recommendation



Equity Analyst **S. Kessler**

Price

\$65.86 (as of Mar 31, 2017 4:00 PM ET)

12-Mo. Target Price

\$67.00

Report Currency

USD

Investment Style

Large-Cap Growth

UPDATE: PLEASE SEE THE ANALYST'S LATEST RESEARCH NOTE IN THE COMPANY NEWS SECTION

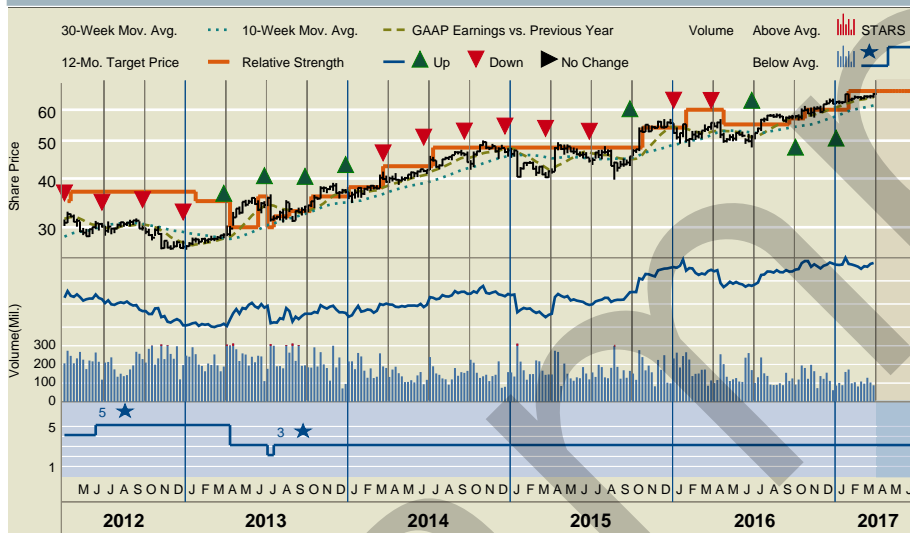
GICS Sector Information Technology
Sub-Industry Systems Software

Summary Microsoft, the world's largest software company, develops PC software, including the Windows operating system and the Office application suite. In June 2016, the company announced its largest planned acquisition, of professional social media company LinkedIn, for \$26.2 billion.

Key Stock Statistics (Source CFRA, S&P Global Market Intelligence, Vickers, company reports)

52-Wk Range	\$66.19– 48.04	Oper. EPS 2017E	2.97	Market Capitalization(B)	\$509.098	Beta	1.08
Trailing 12-Month EPS	\$2.13	Oper. EPS 2018E	3.28	Yield (%)	2.37	3-Yr. Proj. EPS CAGR(%)	10
Trailing 12-Month P/E	30.9	P/E on Oper. EPS 2017E	22.2	Dividend Rate/Share	\$1.56	S&P Quality Ranking	A-
\$10K Invested 5 Yrs Ago	\$23,443	Common Shares Outstg. (M)	7,730.0	Institutional Ownership (%)	74		

Price Performance



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

Analysis prepared by Equity Analyst **S. Kessler** on Jan 27, 2017 01:43 PM, when the stock traded at **\$65.69**.

Highlights

- With the April 2014 acquisition of Nokia's Devices and Services (NDS) business, revenues rose 12% in FY 14 (Jun.) and 8% in FY 15. Devices were becoming more important, but that changed after Satya Nadella became CEO. MSFT moved to sell and write-down NDS and announced the planned purchase of professional social networking company LinkedIn for \$26.2 billion. Revenues declined 2% in FY 16, and we see gains of 4% in FY 17 and 8% in FY 18. Cloud offerings have been aiding growth.
- MSFT's gross margin was 69% in FY 14, 65% in FY 15, and 62% in FY 16, down from 74% in FY 13, given a shift towards devices and the cloud. We think gross margins bottomed in FY 16, without NDS, and with cloud prices gaining traction. We see the EBITDA margin continuing to widen, after they narrowed in FY 15, given restructuring actions.
- We project MSFT will generate EPS of \$2.97 in FY 17 and \$3.28 in FY 18. MSFT reported non-GAAP EPS of \$2.63 to \$2.65 in FY 13 to FY 15, and \$2.79 in FY 16. We foresee notable share repurchases and dividend increases.

Investment Rationale/Risk

- We expect nearer-term overall growth to be restrained by considerable exposure to PCs, notwithstanding the focus on a "mobile-first, cloud-first" strategy. The strong U.S. dollar also has had a negative impact. In June 2015, MSFT released the Windows 10 operating system, but we do not expect notable related financial benefits yet. We see opportunities related to the pending LinkedIn purchase, but think monetization of synergies could be elusive.
- Risks to our recommendation and target price include lower-than-projected PC sales, prolonged weakness in the global economy, and issues related to the pending purchase of LinkedIn. Also, with the new focus on mobile and cloud, we see margins as vulnerable.
- Our 12-month target price is \$67. Peers recently had a median forward P/E of 21.6X and a P/E-to-growth of 2.2. Using those multiples and averaging the outputs resulted in our target. We also note strong cloud opportunities, as well as substantial financial flexibility that is being used to fund growth and capital returns to shareholders.

Analyst's Risk Assessment

LOW	MEDIUM	HIGH
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Our risk assessment balances our view of the company's financial strength with our concerns about a sluggish recovery in enterprise IT spending, market share losses in smartphones and mobile devices, and difficulties inherent in releasing new products in a timely manner.

Revenue/Earnings Data

Revenue (Million U.S. \$)					
	1Q	2Q	3Q	4Q	Year
2017	20,453	24,090	--	--	--
2016	20,379	23,796	20,531	20,614	85,320
2015	23,201	26,470	21,729	22,180	93,580
2014	18,529	24,519	20,403	23,382	86,833
2013	16,008	21,456	20,489	19,896	77,849
2012	17,372	20,885	17,407	18,059	73,723

Earnings Per Share (U.S. \$)

2017	0.60	0.66	E0.70	E0.69	E2.97
2016	0.57	0.62	0.47	0.39	2.10
2015	0.54	0.71	0.61	-0.40	1.48
2014	0.62	0.78	0.68	0.55	2.63
2013	0.53	0.76	0.72	0.59	2.58
2012	0.68	0.78	0.60	-0.06	2.00

Fiscal year ended Jun. 30. Next earnings report expected: Late April. EPS Estimates based on CFRA Operating Earnings; historical GAAP earnings are as reported in Company reports.

Dividend Data

Amount (\$)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.360	Jun 14	Aug 16	Aug 18	Sep 8 '16
0.390	Sep 20	Nov 15	Nov 17	Dec 8 '16
0.390	Nov 30	Feb 14	Feb 16	Mar 9 '17
0.390	Mar 14	May 16	May 18	Jun 8 '17

Dividends have been paid since 2003. Source: Company reports.

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

Microsoft Corp



Business Summary January 27, 2017

CORPORATE OVERVIEW. Microsoft is the world's largest software maker, primarily as a result of its near-monopoly position in desktop operating systems and its Office productivity suite. The combination of these two strongholds poses a formidable barrier to entry for competitors, in our opinion. MSFT has used the strong cash flows from these businesses to fund research and development of other markets, including enterprise servers, home entertainment consoles, and Internet online advertising.

In July 2013, MSFT announced a restructuring to better integrate its offerings and to focus on its new mission of Devices and Services. In September 2013, the company announced its intent to purchase Nokia's (NOK) Devices and Services business for \$7.2 billion. The deal closed in April 2014.

The new operating segments, or engineering groups, are Operating Systems, Devices and Studios, Application and Services, and Cloud and Enterprise. This realignment is designed for better internal and external product development and delivery. The stated goal is to make sure MSFT remains a market share leader in each of these areas.

The Operating Systems Group spans all operating systems across all devices. The Devices and Studio Group includes all devices, as well as games, music, video and entertainment. The Application and Services Group encompasses productivity and communications technologies. The Cloud and Enterprise Group is responsible for offerings related to data centers, databases, and enterprise IT tools.

CORPORATE STRATEGY. With the purchase of NOK's device business and intellectual property, we saw MSFT getting further into the device market than it had been in the past. The company had been slowly shifting its business strategy from a PC-centric computing environments to a platform in which diverse devices will access information via the Internet and mobile devices.

Businesses and their users have continued to be MSFT's stronghold. We see this in the dominance of Office productivity applications and penetration of Windows in companies. We also see the focus on productivity in its tablets.

However, after Satya Nadella became CEO in February 2014, he articulated a company mantra of "mobile-first, cloud-first." We have seen Nadella restructure and write-down MSFT's mobile phone hardware operations and assets and announce the proposed purchase of LinkedIn for \$26 billion.

FINANCIAL TRENDS. MSFT's revenues grew from \$70 billion in FY 11 to \$85 billion in FY 16, after writing down its mobile phone business. In FY 13, FY 14 and FY 15, MSFT posted operating EPS of \$2.63 to \$2.65 each year. MSFT's EPS increased to \$2.79 in FY 16. MSFT took restructuring and impairment charges amounting to \$7.6 billion in FY 15 and \$1.1 billion in FY 16.

MSFT closed FY 16 with \$113 billion in cash and short-term investments, with debt of \$54 billion.

Dividends have been increased consistently over the past decade or so. MSFT also announced a \$40 billion share repurchase plan in September 2013. This plan replaced the \$40 billion share repurchase plan put in place in 2008, which was to expire in September 2013. The new plan does not have an expiration date.

Corporate Information

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Officers

Chrmn J.W. Thompson **COO & EVP** J. Courtois

CEO S. Nadella **EVP & CFO** A.E. Hood

Pres & General Counsel
B.L. Smith

Board Members

W. H. Gates, III	R. G. Hoffman
T. L. List-Stoll	G. M. Morfit
S. Nadella	C. H. Noski
H. G. Panke	S. E. Peterson
C. W. Scharf	J. W. Stanton
J. W. Thompson	P. Warrior

Domicile
Washington

Founded
1975

Employees
114,000

Stockholders
109,479

Microsoft Corp



Quantitative Evaluations

Fair Value Rank	2+	1	2	3	4	5
		LOWEST				HIGHEST

Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

Fair Value Calculation **\$60.00** Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that MSFT is slightly overvalued by \$5.86 or 8.9%.

Investability Quotient Percentile	100
	LOWEST = 1 HIGHEST = 100

MSFT scored higher than 100% of all companies for which a Report is available.

Volatility	LOW	AVERAGE	HIGH
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Technical Evaluation **NEUTRAL** Since February, 2017, the technical indicators for MSFT have been NEUTRAL.

Insider Activity	UNFAVORABLE	NEUTRAL	FAVORABLE
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Expanded Ratio Analysis

	2016	2015	2014	2013
Price/Sales	5.84	4.89	4.49	4.07
Price/EBITDA	18.33	13.64	12.14	10.53
Price/Pretax Income	25.21	24.74	14.02	11.71
P/E Ratio	29.64	37.56	17.67	14.49
Avg. Diluted Shares Outstg (M)	8,013.0	8,254.0	8,399.0	8,470.0

Figures based on calendar year-end price

Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	-8.83	3.56	5.33	6.48
Net Income	37.77	-12.93	-7.13	0.74

Ratio Analysis (Annual Avg.)

	2016	2015	2014	2013
Net Margin (%)	19.69	19.38	21.85	25.17
% LT Debt to Capitalization	36.16	26.68	21.41	15.85
Return on Equity (%)	22.09	20.87	24.04	33.30

Company Financials Fiscal Year Ended Jun. 30

Per Share Data (U.S. \$)	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Tangible Book Value	6.45	7.26	7.61	7.35	5.93	5.22	3.76	2.84	2.43	2.71
Cash Flow	2.83	2.13	3.13	2.98	2.32	3.02	2.40	1.90	2.07	1.57
Earnings	2.10	1.48	2.63	2.58	2.00	2.69	2.10	1.62	1.87	1.42
Core Earnings	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Dividends	1.39	1.21	1.07	0.89	0.76	0.61	0.52	0.50	0.43	0.39
Payout Ratio	66%	82%	41%	34%	38%	23%	25%	31%	23%	27%
Prices:High	64.10	56.85	50.05	38.98	32.95	29.46	31.58	31.50	35.96	37.50
Prices:Low	48.04	39.72	34.63	26.28	26.26	23.65	22.73	14.87	17.50	26.60
P/E Ratio:High	31	38	19	15	16	11	15	19	19	26
P/E Ratio:Low	23	27	13	10	13	9	11	9	9	19

Income Statement Analysis (Million U.S. \$)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenue	85,320	93,580	86,833	77,849	73,723	69,943	62,484	58,437	60,420	51,122
Operating Income	27,170	33,572	32,131	30,103	30,714	29,927	27,363	23,255	25,877	19,964
Depreciation	5,878	5,400	4,245	3,339	2,758	2,766	2,673	2,562	1,872	1,440
Interest Expense	1,243	781	597	429	380	295	151	58.0	NA	Nil
Pretax Income	19,751	18,507	27,820	27,052	22,267	28,071	25,013	19,821	23,814	20,101
Effective Tax Rate	15.0%	34.1%	20.7%	19.2%	23.8%	17.5%	25.0%	26.5%	25.8%	30.0%
Net Income	16,798	12,193	22,074	21,863	16,978	23,150	18,760	14,569	17,681	14,065
Core Earnings	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Balance Sheet & Other Financial Data (Million U.S. \$)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Cash	113,036	96,451	84,941	76,214	62,044	51,591	36,726	29,907	21,171	6,111
Current Assets	139,660	124,712	114,246	101,466	85,084	74,918	55,676	49,280	43,242	40,168
Total Assets	193,694	176,223	172,384	142,431	121,271	108,704	86,113	77,888	72,793	63,171
Current Liabilities	59,357	49,858	45,625	37,417	32,688	28,774	26,147	27,034	29,886	23,754
Long Term Debt	40,783	27,808	20,645	12,601	10,713	11,921	4,939	3,746	1.00	Nil
Common Equity	71,997	80,083	89,784	78,944	66,363	57,083	46,175	39,558	36,286	31,097
Total Capital	112,780	110,390	110,429	94,544	78,307	69,004	51,114	43,304	36,287	31,097
Capital Expenditures	8,343	5,944	5,485	4,257	2,305	2,355	1,977	3,119	3,182	2,264
Cash Flow	22,676	17,593	26,319	25,202	19,736	25,916	21,433	17,131	19,553	15,505
Current Ratio	2.4	2.5	2.5	2.7	2.6	2.6	2.1	1.8	1.5	1.7
% Long Term Debt of Capitalization	36.2	25.2	18.7	13.3	13.7	17.3	9.7	8.7	NM	Nil
% Net Income of Revenue	19.7	13.0	25.4	28.1	23.0	33.1	30.0	24.9	29.3	27.5
% Return on Assets	9.1	7.0	14.0	16.6	14.8	23.8	22.9	19.3	26.0	21.2
% Return on Equity	22.1	14.4	26.2	30.1	27.5	44.8	43.8	38.4	52.5	39.5

Data as originally reported in Company reports.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.



Microsoft Corp

Sub-Industry Outlook

Our fundamental outlook for the Systems Software sub-industry for the next 12 months is neutral. We expect revenues to increase at a modest pace in the coming quarters, in line with the overall information technology (IT) industry. IDC projected worldwide software growth of 6% in 2016, up from a flat comparison in 2015, and we see comparable gains in 2017. We see growth coming from enterprises, as companies upgrade/spend on data center infrastructure. We think systems software spending will be impacted by more interest in cloud computing, where we related opportunities (e.g., new revenues) and risks (pricing pressures). However, we see slow PC unit sales at best, reflecting the category's weakness and challenges related to mobile.

From a corporate client perspective, we see potential benefits from a refresh cycle, as companies upgrade their aging computers along with operating systems to Microsoft's newer offerings, including Windows 10, which was released in July 2015. We note emerging markets have lower average selling prices than the global enterprise market segment.

We think sales of operating systems for servers will increase at a single-digit rate during the next 12 months. We also see moderate growth in virtualization software, as companies seek ways to reduce rising operational costs for their data centers caused by the proliferation of servers. We project that the virtualization software market will continue to experience stable, yet somewhat uninspiring, growth.

We think the systems software sub-industry will benefit from increased merger and acquisition activity in the IT industry, as many enterprise IT companies have been positioning themselves as

"one-stop shops" that provide comprehensive solutions. We think these companies will try to strengthen their offerings in cloud and security software, given the growing interest in broad and flexible functionality. In addition, many software companies have strong balance sheets with significant amounts of cash, in our view, and many have been buying back shares.

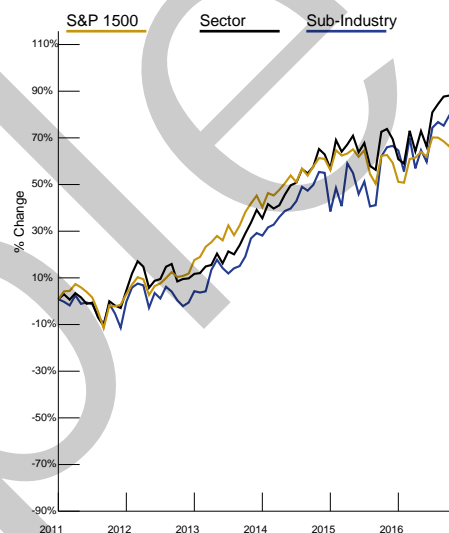
In 2016, the S&P 1500 systems software index increased 10.5%, very comparable to the increase of 10.6% for the S&P 1500. In 2015, the S&P 1500 sub-industry index appreciated 7.5%, versus a decline of 1.0% for the S&P 1500.

--Scott Kessler

Industry Performance

GICS Sector: Information Technology
Sub-Industry: Systems Software

Based on S&P 1500 Indexes
Five-Year market price performance through Apr 1, 2017



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

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

Sub-Industry : Systems Software Peer Group*: Systems Software - Larger Cos.

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price(\$)	52 Week High/Low(\$)	Beta	Yield (%)	P/E Ratio	Fair Value Calc.(\$)	S&P Quality Ranking	IQ %ile	Return on Revenue (%)	LTD to Cap (%)
Microsoft Corp	MSFT	509,098	65.86	66.19/48.04	1.08	2.4	31	60.00	A-	100	19.7	36.2
CA Inc	CA	13,254	31.72	34.99/29.12	1.36	3.2	17	30.30	B	96	19.1	26.6
Check Point Software Tech	CHKP	17,955	102.66	104.35/74.34	1.06	Nil	25	112.30	NR	79	41.6	NA
CommVault Systems	CVLT	2,245	50.80	57.55/40.83	0.36	Nil	NM	43.40	NR	74	NM	NA
Dell Technologies CI V	DVMT	50,278	64.08	65.78/45.02	NA	Nil	NM	NA	NR	72	NM	80.0
Fortinet Inc	FTNT	6,636	38.35	38.56/28.08	1.70	Nil	NM	NA	NR	77	2.5	NA
Oracle Corp	ORCL	193,432	44.61	46.99/37.62	1.42	1.7	21	51.30	A-	99	24.0	43.8
Red Hat Inc	RHT	15,871	86.50	87.91/68.54	1.00	Nil	62	NA	B+	97	9.7	35.2
ServiceNow Inc	NOW	2,413	87.47	94.72/61.43	0.51	Nil	NM	86.00	NR	52	NM	56.8
Software AG ADS	STWRY	2,976	9.91	10.85/7.88	1.69	1.0	19	NA	NR	NA	16.1	13.4
Symantec Corp	SYMC	20,402	30.68	31.10/16.25	0.94	1.0	9	27.90	B	61	NM	37.5
Tableau Software 'A'	DATA	2,931	49.55	62.53/41.41	NA	Nil	NM	26.50	NR	44	NM	NA
TiVo Corp	TIVO	2,191	18.75	23.40/15.06	1.51	Nil	54	22.10	C	26	5.7	34.0
Trend Micro ADR	TMICY	6,094	44.33	44.44/32.95	0.84	1.9	27	NA	NR	38	18.7	NA
VMware Inc 'A'	VMW	11,451	92.14	93.05/49.76	1.18	Nil	33	106.90	B+	88	16.7	15.6

NA-Not Available NM-Not Meaningful NR-Not Rated. *For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.



Microsoft Corp

Analyst Research Notes and other Company News

March 1, 2017

Microsoft has appointed Samer Abu Ltaif as its president for the Middle East and Africa (MEA) region. Abu Ltaif, who joined Microsoft in 2004, has held many senior roles within the organization including regional director for enterprise and partner group across MEA. Most recently, he was the Regional General Manager of Microsoft Gulf. A key part of Abu Ltaif's role will be to drive the digital transformation agenda of the region across governments, enterprises, developers and small and medium businesses. Abu Ltaif will continue to be based in Dubai. He takes over the reins from Microsoft corporate vice president, Ali Faramawy, who has headed the region for thirteen years. Faramawy, in turn, takes on a newly announced global role as the head of the Emerging Markets Digital Transformation Organisation which has been established within Microsoft.

January 29, 2017

10:50 am ET ... S&P CAPITAL IQ REITERATES HOLD OPINION ON SHARES OF MICROSOFT CORP. (MSFT 65.42***): We raise our 12-month target by \$7 to \$67. Peers have a median forward P/E of 21.6X and P/E-to-growth of 2.2. Using modest premiums given MSFT's market and cash positions leads to our target. We increase our EPS estimates, by \$0.02 to \$2.97 for FY 17 (Jun.) and \$0.05 to \$3.28 for FY 18. MSFT posts non-GAAP Dec-Q EPS of \$0.83 vs. \$0.76 (including the December LinkedIn purchase), \$0.04 over the Capital IQ estimate. Non-GAAP revenues rose 2% (4% with neutral forex), with phone restructuring/divestiture efforts, and Intelligent Cloud up 8% (10%). We think MSFT is fairly valued. /S. Kessler

January 25, 2017

Microsoft Corporation has named Kevin Scott to a newly created role of chief technology officer (CTO) for the company. This is an expansion of Scott's new role at LinkedIn as senior vice president of Infrastructure. As Microsoft's CTO, Scott will drive strategic, cross-company initiatives to maximize Microsoft's impact with members and customers. Scott joins Microsoft's Senior Leadership Team, reporting directly to Microsoft Chief Executive Officer Satya Nadella. Scott will continue to play an active role at LinkedIn as senior vice president of Infrastructure and remain a member of LinkedIn's executive management team. #Prior to his role as senior vice president of Engineering and Operations at LinkedIn, Scott held a number of engineering leadership roles at Google and AdMob. Scott is an adviser to several Silicon Valley startups, an active angel investor and founder of the nonprofit organization Behind the Tech.

January 17, 2017

09:18 am ET ... S&P CAPITAL IQ REITERATES HOLD OPINION ON ADSS OF BAIDU, INC. (BIDU 176.48***): BIDU announces Dr. Qi Lu as Group President and COO, in charge of products, technology, sales, marketing and operations. Before BIDU, Lu was Microsoft's (MSFT 63 ***) Global EVP and led its Office business, and previously was President of the Online Services Group. Before MSFT, Lu was at Yahoo (YHOO 42 ****) as an EVP, and before was the SVP in charge of search and advertising technologies. Lu left MSFT in September for health reasons related to a biking accident, per a report from Recode we have not confirmed. We think this is a positive for BIDU, given Qi's background. /S. Kessler

November 9, 2016

10:38 am ET ... S&P CAPITAL IQ SEES TRUMP PRESIDENCY HAVING NEUTRAL IMPACT ON TECHNOLOGY SECTOR (MSFT 59.98***): We think a Donald Trump presidency coupled with a Republican-controlled Congress makes his proposal for a "repatriation of corporate profits held offshore at a one-time tax rate of 10 percent" as much more likely. We see many large U.S. IT firms potentially benefiting, with increasing domestic growth investment, stock buybacks, and dividend payouts. However, we note that Trump's hard stances related to trade could negatively impact the sector, which in '15 generated a higher percentage of non-U.S. revenues than all but the Energy sector (58% for IT vs. 44% for S&P 500). /S. Kessler

October 21, 2016

10:21 am ET ... CFRA REITERATES HOLD OPINION ON SHARES OF MICROSOFT CORP. (MSFT 59.98***): We raise our 12-month target by \$3 to \$60. Peers have a median forward P/E of 22X and a P/E-to-growth ratio of 2.0. Using these and averaging the outputs results in our target. We lower our EPS estimates for FY 17 (Jun.) to \$2.95 from \$3.23 and FY 18 to \$3.23 from \$3.43. MSFT posts Sep-Q non-GAAP EPS of \$0.76 vs. \$0.70, \$0.08 above our estimate. Revenues rose 3% (5% with constant forex), with Intelligent Cloud up 8% (10%) and More Personal

Computing down 2% (1%). We see MSFT executing well, but believe the FY 17 P/E of 20X is appropriate. The indicated dividend yield is 2.6%. /S. Kessler

October 17, 2016

Microsoft manager Harish Naidu will be the company's chief technology officer. Phong Nguyen will be the executive vice president of product management. The new hires follow last week's announcement that the medical director of Seattle Children's Hospital, Dr. Ivor Horn, joined Accolade as chief medical officer. The new executives join a team of data scientists, technologists and clinicians who are trying to re-engineer how consumers navigate and manage health care.

September 21, 2016

09:59 am ET ... S&P GLOBAL REITERATES HOLD OPINION ON SHARES OF MICROSOFT CORP. (MSFT 57.53***): We raise our 12-month target by \$2 to \$57. Peers have a median forward P/E of 20X and P/E-to-growth of 1.9. Using these multiples and averaging the outputs results in our target. Also, MSFT announces a new \$40 billion share repurchase, reaffirming it is "on track" to complete its current \$40 billion buyback by year-end. Additionally, MSFT announces an increase in its annual dividend by 8%, to \$1.56 from \$1.44, implying a yield of 2.7%. We see these indicated allocations as supporting the stock and valuation. As of June, MSFT had \$113 billion in cash and short-term investments. /S. Kessler

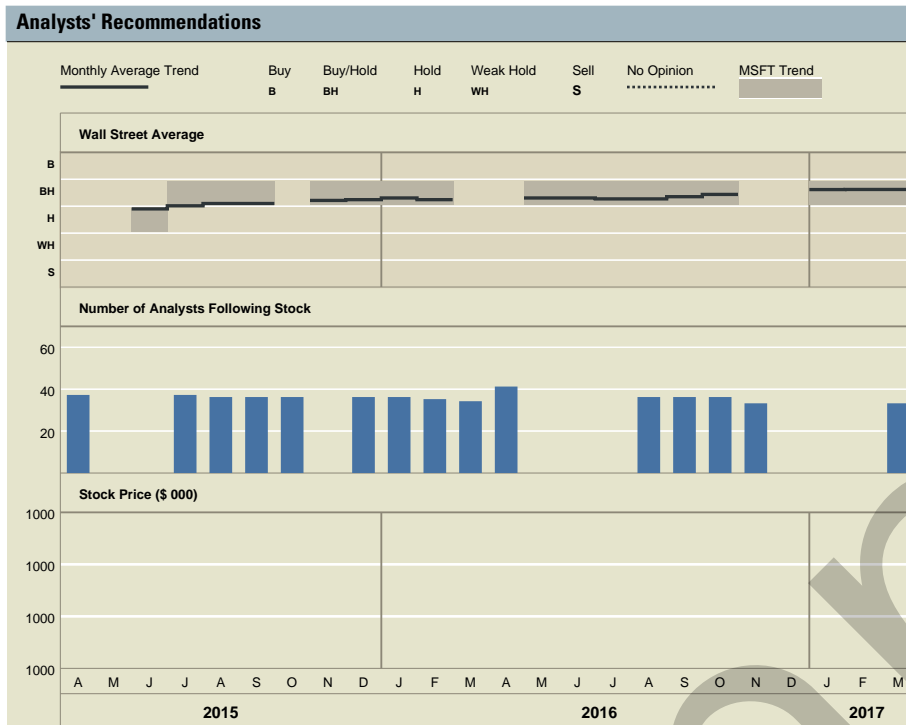
August 16, 2016

Microsoft announced the appointment of Sriram Rajamani as the new managing director of its India lab, effective August 1, 2016. Based in Bangalore, Sriram will spearhead Microsoft India's continued focus on research, innovation and collaboration with the scientific community. He replaces Chandu Thekkath, who previously was managing director of the lab for 02 years. Prior to joining the India lab, he headed the Software Productivity Tools group within Microsoft's Redmond research lab.

July 21, 2016

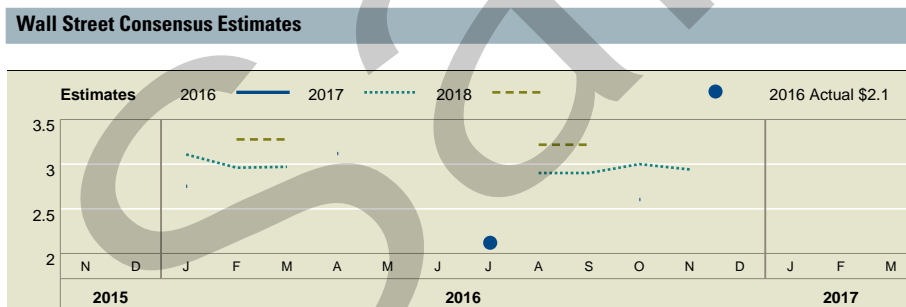
09:39 am ET ... S&P GLOBAL REITERATES HOLD OPINION ON SHARES OF MICROSOFT CORP. (MSFT 53.09***): We keep our 12-month target of \$55. Peers have a median forward P/E of 19X and a P/E-to-growth ratio of 1.9. Using these multiples and averaging the outputs result in our target. We raise our FY 17 (Jun.) EPS estimate to \$3.23 from \$2.96 and set FY 18's at \$3.43. MSFT reports non-GAAP Jun-Q EPS of \$0.69 vs. \$0.62, \$0.11 over our estimate and the Capital IQ consensus. Revenues rose 2% (5% adjusting for forex), led by Intelligent Cloud up 7% (10%), showing notable sequential acceleration, but Personal Computing fell 4% (2%). MSFT benefited from a lower tax rate than we expected. /S. Kessler

Microsoft Corp



Of the total 34 companies following MSFT, 34 analysts currently publish recommendations.

	No. of Recommendations	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	16	47	16	0
Buy/Hold	6	18	7	0
Hold	9	26	9	0
Weak Hold	0	0	0	0
Sell	1	3	1	0
No Opinion	2	6	3	0
Total	34	100	36	0



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2018	3.29	3.99	3.04	31	20.0
2017	2.98	3.13	2.85	32	22.1
2018 vs. 2017	▲ 10%	▲ 27%	▲ 7%	▼ -3%	▼ -10%
Q3'18	0.78	0.87	0.71	21	84.4
Q3'17	0.70	0.75	0.65	28	94.1
Q3'18 vs. Q3'17	▲ 11%	▲ 16%	▲ 9%	▼ -25%	▼ -10%

A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

Wall Street Consensus Opinion

BUY/HOLD

Companies Offering Coverage

- Over 30 firms follow this stock; not all firms are displayed.
- Arete Research Services LLP
 - Argus Research Company
 - Atlantic Equities LLP
 - BMO Capital Markets Equity Research
 - Barclays
 - BofA Merrill Lynch
 - Canaccord Genuity
 - Citigroup Inc
 - Cowen and Company
 - Deutsche Bank
 - Eugene Investment & Securities Co Ltd.
 - Evercore ISI
 - FBN Securities, Inc.
 - Financiele Diensten Amsterdam
 - Goldman Sachs
 - Griffin Securities
 - Hilliard Lyons
 - JP Morgan
 - Jefferies LLC
 - MKM Partners LLC
 - Macquarie Research
 - Morgan Stanley
 - Morningstar Inc.
 - Oppenheimer & Co. Inc.
 - Pacific Crest Securities-KBCM
 - Piper Jaffray Companies
 - RBC Capital Markets
 - Raymond James & Associates
 - Sanford C. Bernstein & Co., Inc.
 - Stifel

Wall Street Consensus vs. Performance

For fiscal year 2017, analysts estimate that MSFT will earn US\$ 2.98. For the 2nd quarter of fiscal year 2017, MSFT announced earnings per share of US\$ 0.66, representing 22% of the total annual estimate. For fiscal year 2018, analysts estimate that MSFT's earnings per share will grow by 10% to US\$ 3.29.

Microsoft Corp

Glossary

STARS

Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (STock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Capital IQ Quality Ranking

(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Capital IQ's earnings and dividend rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	D In Reorganization
NR Not Ranked	

EPS Estimates

CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

Core Earnings

Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

12-Month Target Price

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

CFRA Equity Research

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Abbreviations Used in Equity Research Reports

CAGR - Compound Annual Growth Rate
CAPEX - Capital Expenditures
CY - Calendar Year
DCF - Discounted Cash Flow
DDM - Dividend Discount Model
EBIT - Earnings Before Interest and Taxes
EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization
EPS - Earnings Per Share
EV - Enterprise Value

FCF - Free Cash Flow
FFO - Funds From Operations
FY - Fiscal Year
P/E - Price/Earnings
P/NAV - Price to Net Asset Value
PEG Ratio - P/E-to-Growth Ratio
PV - Present Value
R&D - Research & Development
ROCE - Return on Capital Employed
ROE - Return on Equity
ROI - Return on Investment
ROIC - Return on Invested Capital
ROA - Return on Assets
SG&A - Selling, General & Administrative Expenses
SOTP - Sum-of-The-Parts
WACC - Weighted Average Cost of Capital

Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).

Qualitative Risk Assessment

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:

★★★★★ 5-STARS (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ 4-STARS (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ 3-STARS (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ 2-STARS (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★☆☆☆☆ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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Qualitative STARS recommendations are determined and assigned by equity analysts. For reports containing STARS recommendations refer to the Glossary section of the report for detailed methodology and the definition of STARS rankings.

Quantitative Stock Reports:

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

STARS Stock Reports and Quantitative Stock Reports:

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STARS Stock Reports:

Global STARS Distribution as of December 30, 2016

Ranking	North America	Europe	Asia	Global
Buy	38.9%	31.5%	40.6%	37.9%
Hold	51.3%	47.1%	41.7%	49.4%
Sell	9.8%	21.4%	17.7%	12.7%
Total	100%	100%	100%	100%

Analyst Certification

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