Instructor: Dr. Ridha Esseghair | 2026



Microsoft (MSFT) Valuation Presentation

Presented By:

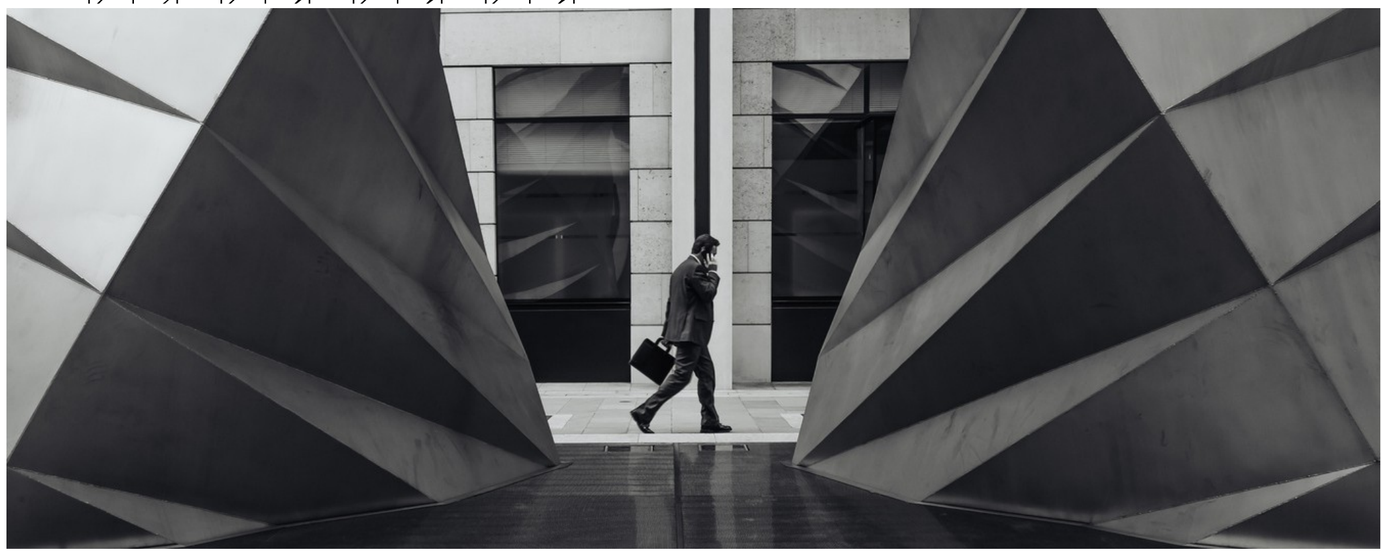
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Agenda



01. Team Presentation
2. Executive Summary
3. Company Overview
4. Historical Performance
5. Key Drivers & Assumptions
6. Forecast & Valuation Charts
7. DCF Valuation
8. Sensitivity Analysis &Relative Valuation
9. Conclusion & Recommendation

Microsoft (MSFT)



Executive Summary

Base-case DCF implies $362.84/sh vs $459.00 reference price → -21% downside.

Equity value ≈ $2.77T (EV ≈ $2.72T); net cash ≈ $51.4B; diluted shares ≈ 7,434mm.

Trading comps imply ~$430–$537/sh; precedents ~$553–$705/sh

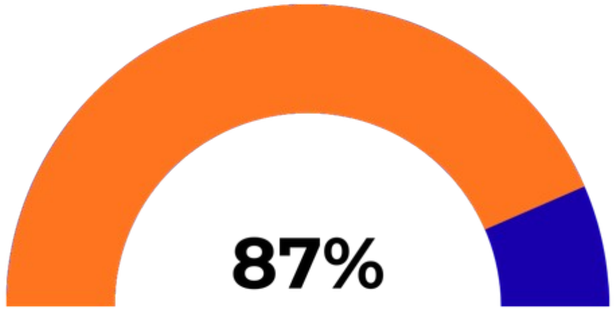
Key assumptions: WACC 8.10% | Terminal growth 2.00% | tax rate ~17.6%.

FY2025A scale: Revenue $281.7B | EBITDA $162.7B | CFO $136.2B.

Terminal value represents the majority of EV (≈84% in the base case), making WACC/g sensitivities central.

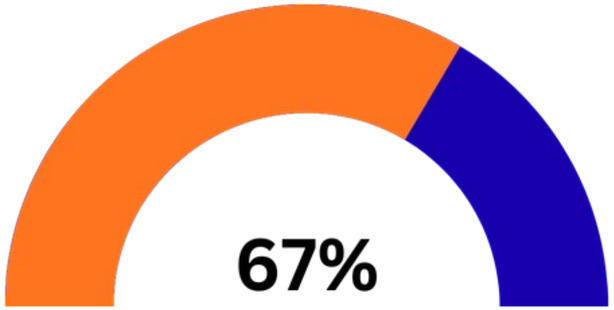
Company Overview

Microsoft is driven by enterprise software & cloud (Productivity & Business Processes, Intelligent Cloud) with More Personal Computing more cyclical. The model forecasts growth by FY2030.



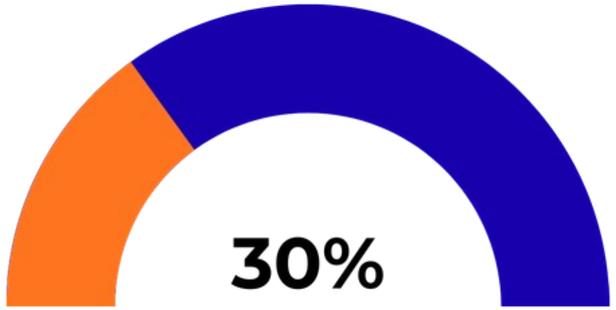
Terminal value share of Enterprise Value

The valuation is terminal-value driven, so the conclusion depends heavily on WACC and terminal growth



Gross Margin

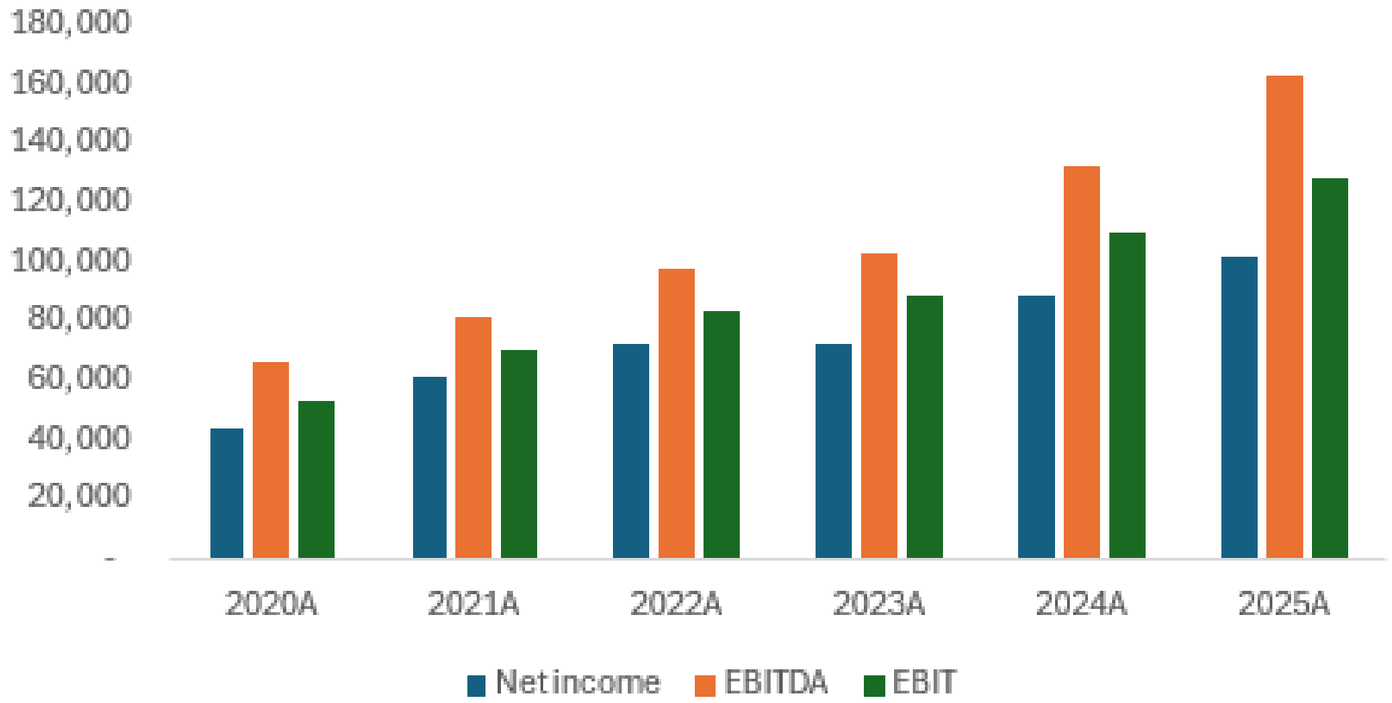
Microsoft converts roughly two- thirds of revenue into gross profit, showing strong pricing power and scalable software/cloud economics



D&A as % of CapEX

Depreciation runs at roughly one- third of capex, which supports the idea that Microsoft is in a heavy reinvestment phase

Income Statement (Key Trends)



EBIT

EBIT FY2025A: $128.5B. EBIT expanded faster than revenue, showing operating leverage and scale efficiencies.

Net Income

Net income FY2025A: $101.8B. Taxes modeled as stable and interest items are secondary to operating earnings.

Revenue

Revenue grew from $143.0B (FY2020) to $281.7B (FY2025), reflecting strong top-line momentum.

Balance Sheet (FY2025A)

As of FY2025A (June 30)

$619.0B

Total Assets

Scale-up supported by internal cash generation.

Balance sheet expansion reflects cloud/infrastructure investment and strong cash generation.

$275.5B

Total Liabilities

Manageable leverage + substantial liquidity.

Net cash (cash – debt) adds to equity value in the DCF bridge.

$343.5B

Shareholders' Equity

Net cash supports EV → equity bridge.

Flexibility for CapEx, strategic M&A, and shareholder returns.



Microsoft (MSFT)

Cash Flow Statement (FY2025A)

As of FY2025A (June 30)



Operations

Financing FY2025 capital returns: buybacks ≈ $18.4B; dividends ≈ $24.1B.

Investing FY2025 CapEx (PP&E additions) ≈ $64.6B; investment cycle is a key FCFF sensitivity.

Important Notes

Strong cash conversion: FY2025 operating cash flow ≈ $136.2B

DCF Key Assumptions

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Assumptions & Drivers

All figures in USD millions unless stated		Average	2020A	2021A	2022A	2023A	2024A	2025A	2026F	2027F	2028F	2029F	2030F	Term
Days in Period			365	365	365	365	365	365	365	365	365	365	365	365
Cost of Revenue (Percent of Revenues)		31.23%	32.2%	31.1%	31.6%	31.1%	30.2%	31.2%	31%	31%	31%	31%	31%	31%
Tax Rate (Percent of EBT)		16.38%	16.5%	13.8%	13.1%	19.0%	18.2%	17.6%	17.60%	17.60%	17.60%	17.60%	17.60%	17.60%
Receivable Days (Sales Basis)	*(Days)*	84	82	83	81	84	85	91	91	92	88	87	85	84
Inventory Days (COGS Basis)	*(Days)*	13	15	18	22	14	6	4	6	6	6	4	4	4
Payable Days (COGS Basis)	*(Days)*	107	99	106	111	100	108	115	116	116	115	113	100	100
CAPEX (Percent of Revenues)		14.91%	10.8%	12.3%	12.0%	13.3%	18.1%	22.9%	20%	20%	20%	18%	17%	15%
Research and development		12.43%	13.5%	12.3%	12.4%	12.8%	12.0%	11.5%	11.5%	11.5%	11.5%	11.0%	11.0%	11.0%
Sales and marketing		11.08%	13.7%	12.0%	11.0%	10.7%	10.0%	9.1%	9%	9%	9%	8%	8%	8%
General and administrative		3.14%	3.6%	3.0%	3.0%	3.6%	3.1%	2.6%	2.5%	2.5%	2.5%	2%	2%	2%
Interest expense (Percent of Revenues)		1.20%	1.80%	1.39%	1.03%	0.90%	1.20%	0.90%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
Interest Income (Percent of Revenues)		1.27%	1.60%	1.30%	1.10%	1.40%	1.30%	0.90%	1.27%	1.27%	1.27%	1.27%	1.27%	1.27%

- We used a driver based structure, with operating items primarily scaling with revenue.
- Cost of revenue maintained near **31%** of revenue, supporting a stable gross margin profile.
- Effective tax rate fixed at 17.6%, to reflect a normalized and sustainable tax environment.

- Receivable days remain elevated initially and improve gradually, reflecting **conservative** cash conversion
- assumptions. Inventory days remain minimal and stable, consistent with a software driven business model.
- Payable days trend **downward** toward long term normalization, reducing supplier financing benefits.

- Capital expenditures modeled **above** historical levels in the near term due to cloud and AI investments, then decline toward
- terminal maturity.
  R&D remains around **11.5%** of
- revenue, supporting continued innovation.
  Sales and marketing declines toward 8%

DCF Key Assumptions

Microsoft (MSFT)

Revenue Assumption

	2020A	2021A	2022A	2023A	2024A	2025A	2026F	2027F	2028F	2029F	2030F	Term
Productivity and Business Processes	46,398	53,915	63,364	69,274	106,820	120,810	134,099	147,509	160,785	173,648	185,803	194,164
% growth (Base)	--	*16%*	*18%*	*9%*	*54%*	*13%*	*11%*	*10%*	*9%*	*8%*	*7%*	*5%*
Conservative							*8.0%*	*7.0%*	*6.0%*	*5.0%*	*4.0%*	*2.5%*
Base							*11.0%*	*10.0%*	*9.0%*	*8.0%*	*7.0%*	*4.5%*
Optimistic							*13.0%*	*12.0%*	*10.0%*	*9.0%*	*8.0%*	*5.0%*
Intelligent Cloud	48,366	60,080	74,965	87,907	87,464	106,265	125,393	145,456	165,819	185,718	204,289	216,547
% growth	--	*24%*	*25%*	*17%*	*-1%*	*21%*	*18%*	*16%*	*14%*	*12%*	*10%*	*6%*
Conservative							*14.0%*	*12.0%*	*10.0%*	*9.0%*	*8.0%*	*5.0%*
Base							*18.0%*	*16.0%*	*14.0%*	*12.0%*	*10.0%*	*6.0%*
Optimistic							*22.0%*	*19.0%*	*16.0%*	*14.0%*	*12.0%*	*7.0%*
More Personal Computing	48,251	54,093	59,941	54,734	50,838	54,649	57,928	60,824	63,257	65,155	67,110	68,452
% growth	--	*12%*	*11%*	*-9%*	*-7%*	*7%*	*6%*	*5%*	*4%*	*3%*	*3%*	*2%*
Conservative							*3.0%*	*2.0%*	*1.0%*	*1.0%*	*1.0%*	*0.5%*
Base							*6.0%*	*5.0%*	*4.0%*	*3.0%*	*3.0%*	*2.0%*
Optimistic							*8.0%*	*7.0%*	*6.0%*	*5.0%*	*4.0%*	*2.5%*
Total Revenue	**143,015**	**168,088**	**198,270**	**211,915**	**245,122**	**281,724**	**317,420**	**353,789**	**389,861**	**424,520**	**457,202**	**479,163**
% growth	--	*18%*	*18%*	*7%*	*16%*	*15%*	*13%*	*11%*	*10%*	*9%*	*8%*	*5%*

- Revenue is projected at the business segment level, consistent with Microsoft's reporting structure.
- A scenario analysis approach is applied, incorporating conservative, base, and optimistic cases to reflect uncertainty in future growth.

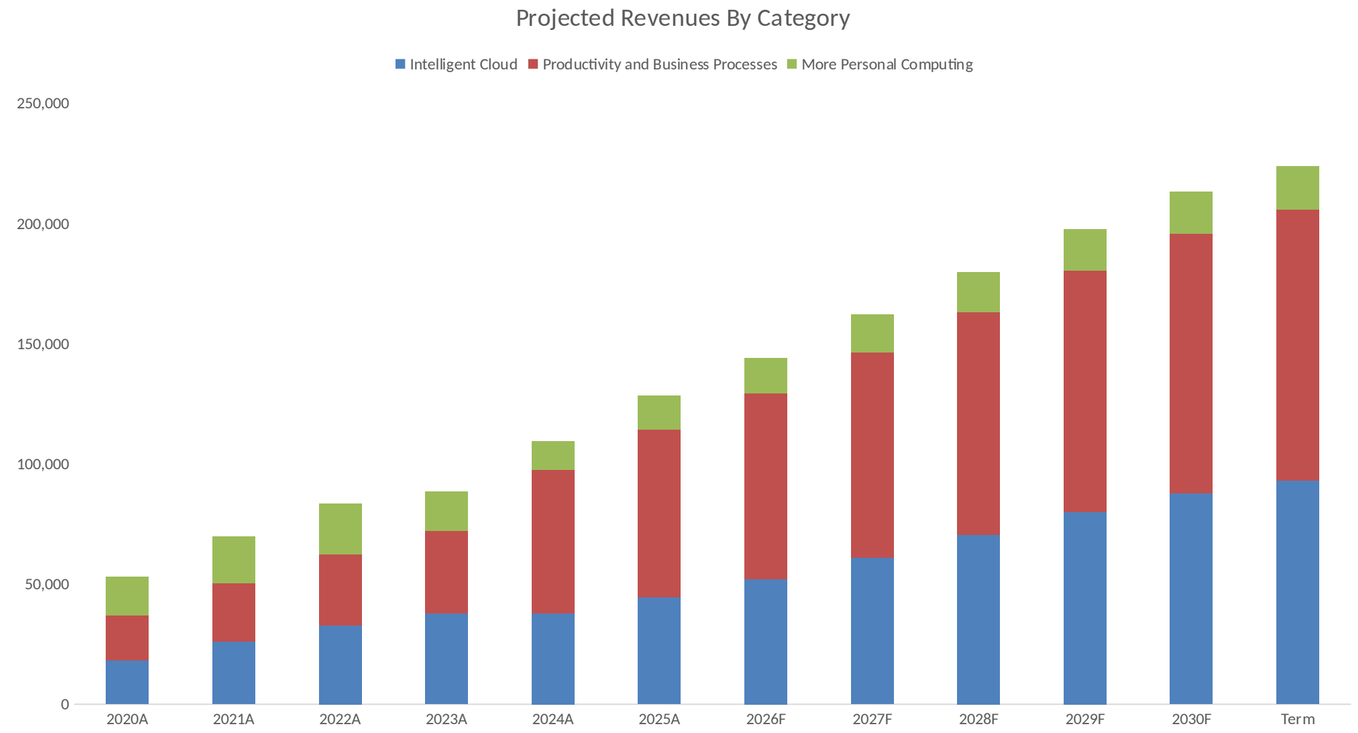
- Intelligent Cloud is assumed to be the main growth driver, supported by Azure expansion and AI related demand.
- Productivity and Business Processes shows stable growth driven by recurring subscription revenues.
- More Personal Computing grows at a lower rate due to its more mature and cyclical end markets.

Scenario analysis enables sensitivity testing and illustrates the impact of different growth assumptions on total revenue and valuation.

Forecast & Valuation Charts

Microsoft (MSFT)

Revenue by Segment (USD Bn)



Key takeaways

- Growth led by enterprise & cloud segments; consumer segment more cyclical.
- CapEx remains elevated near-term to support cloud/AI then normalizes.
- DCF is the intrinsic anchor; comps are market checks; precedents reflect control value.

DCF Valuation

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ENTERPRISE VALUE

Manual Method	2,646,487
XNPV Function	2,645,965

ENTERPRISE VALUE

PV of Discrete	*16%*	432,870
PV of Terminal	*84%*	2,213,616
Enterprise Value	*100%*	2,646,487

EQUITY VALUE

Enterprise Value	**2,645,965**
Less: Net Debt	51,414
Equity Value	**2,697,379**

EQUITY VALUE PER SHARE

Equity Value		2,697,379
Shares Outstanding	*(FD (000))*	7,434
Equity Value	*($/sh)*	**362.84**

- implied equity value of approximately $362.84 per share under the base case.
- Terminal value represents 84% of total enterprise value, as a result, the DCF valuation is a bit sensitive to WACC and long term growth assumptions.
- Terminal value sensitivity analysis therefore forms a key component of the overall valuation range.

- A LTM EV to EBITDA multiple is applied to terminal year EBITDA. This results in an implied equity value of approximately $604.60 per share.
- The terminal value represents roughly 87% of enterprise value. The valuation is therefore highly sensitive to the selected exit multiple, in th mean time the actual EV/EBITDA

ENTERPRISE VALUE

Manual Method	4,244,975
XNPV Function [2]	4,244,013

ENTERPRISE VALUE

PV of Discrete	*13%*	544,024
PV of Terminal	*87%*	3,700,951
Enterprise Value	*100%*	4,244,975

EQUITY VALUE

Enterprise Value	4,244,013
Less: Net Debt	51,414
Equity Value	4,295,427

EQUITY VALUE PER SHARE

Equity Value		4,295,427
Shares Outstanding	*(FD (000))*	7,434
Equity Value	*($/sh)*	577.81

Sensitivity & Relative Valuation

Trading Comps

Implied range: ~$430–$537/sh
Minority, liquid-market pricing; sensitive to rates/sentiment.

Precedent Deals

Implied range: ~$553–$705/sh
Higher due to control premium and synergy expectations.

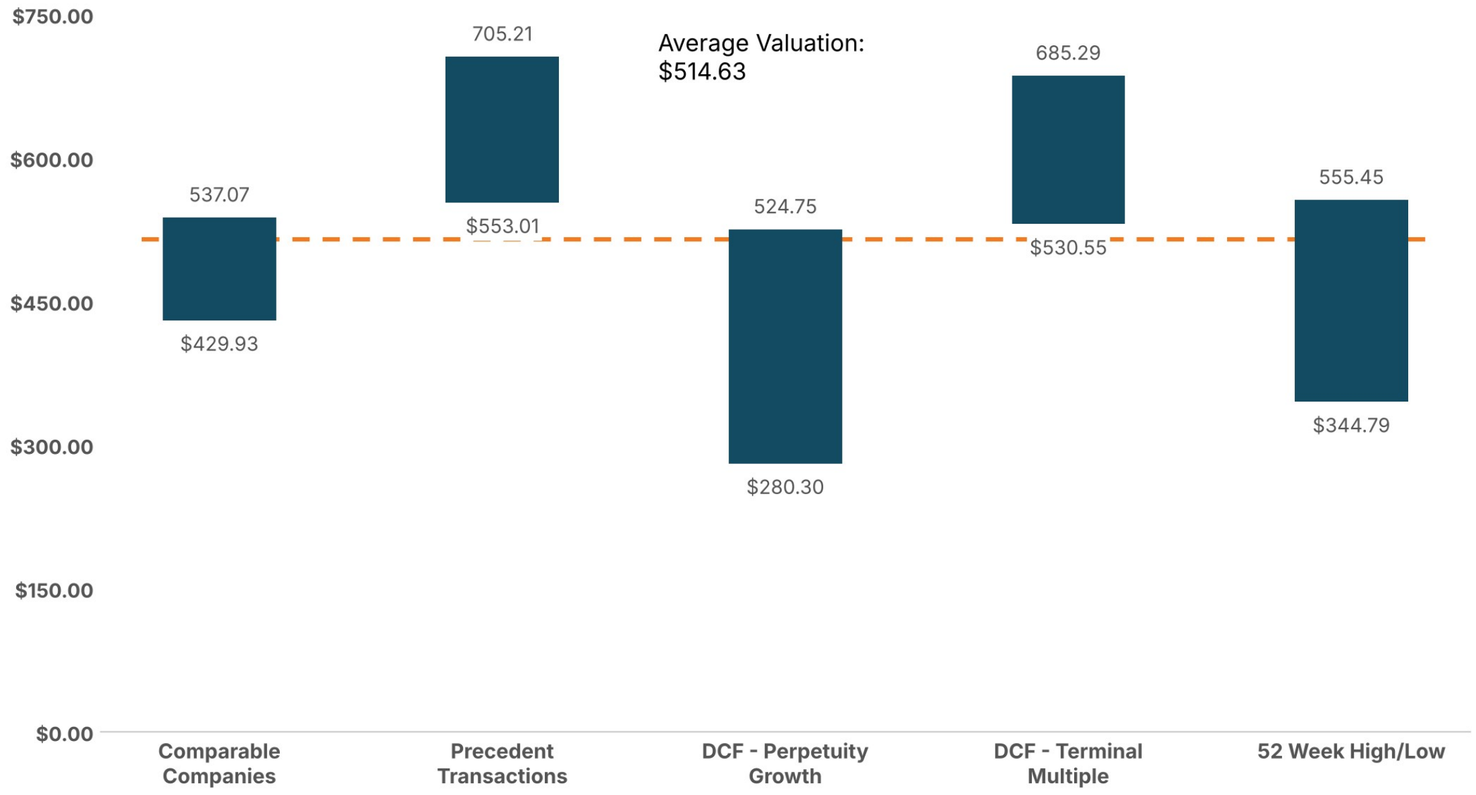
Sensitivity

WACC ±1
Terminal growth ±1%
Revenue growth ±5%
CapEx path is a major FCFF sensitivity.

Equity Value per Share

WACC \ Perpetuity Growth Rate	1.0%	1.5%	2.0%	2.5%	3.0%
9.1%	280.30	294.46	310.61	329.19	350.81
8.6%	299.37	315.82	334.75	356.76	382.67
8.1%	321.14	340.42	362.84	389.24	420.78
7.6%	346.23	369.07	395.96	428.09	467.14
7.1%	375.44	402.84	435.57	475.35	524.75

Valuation Range and Investment Decision



- The analysis indicates an average implied value of approximately $515 per share,
- above the current market trading range. DCF with terminal multiple provides the highest valuation, while
- perpetual growth DCF offers a more conservative estimate. Trading comparables and precedent
- transactions support the intrinsic valuation range.
  Supported by strong fundamentals and long term cloud and AI growth drivers, the valuation implies a **BUY** recommendation.



Conclusion & Recommendation

Microsoft (MSFT)



Under base-case assumptions, the DCF implies intrinsic value below the reference market price. We treat DCF as the primary anchor for intrinsic value, use trading comps as a market reasonableness check, and view precedent valuation as a strategic/control overlay.

01. Recommendation

- **Underperform** / Overvalued: DCF $362.84 vs $459 →
- **~21%** downside Price is within trading comps ($430–$537) but **above intrinsic DCF**

02. Key Drivers

- Azure/cloud growth + AI monetization
- Margin/opex discipline (operating leverage)
- CapEx normalization →
- FCFF WACC sensitivity

03. Key Risks

- **Macro slowdown** hitting enterprise IT spend
- **Cloud/AI competition** pressuring margins
- **Higher rates / WACC** compressing value

04. Catalysts

- **Azure re-acceleration** + AI workload monetization
- **Operating leverage** from scale + controlled opex
- **Faster CapEx normalization** boosting FCFF

Thank You

