MICROSOFT CORPORATION

NASDAQ: MSFT · Information Technology — Software & Cloud · 6 August 2026

Report Date: 6 August 2026 · Analyst: Debjit Mukherjee, Student Equity Research Analyst | Vireo Capital Research

RATING	PRICE TARGET	CURRENT PRICE	UPSIDE / DOWNSIDE
HOLD	USD 504	USD 488.63	+3.2% price | +3.9% total

MARKET CAP	52-WEEK HIGH	52-WEEK LOW	NEXT EARNINGS
~USD 3.64tn	USD 553.72	USD 349.20	Q1 FY2027 — late Oct (unconfirmed)

P/E (FWD)	FY2026 REVENUE	OPERATING MARGIN	FCF MARGIN
25.1x	USD 331.8bn (+18%)	46.8%	20.2%

Price and market data as of 5 August 2026. Fiscal year ends 30 June. Total return is price return plus the 0.74% dividend yield. Segment operating income as reported by the company.

1. INVESTMENT THESIS

Thesis 1. Microsoft is three businesses with genuinely different economics, so a single valuation for the group describes nothing real.

Thesis 2. Four years of extraordinary operating progress have produced almost no additional free cash, because the capital programme has absorbed all of it.

Thesis 3. The capex guidance cut is the first concrete evidence of discipline, and it is the swing factor for the whole thesis.

Microsoft has just reported one of the best quarters in its history, and our rating remains HOLD. Both points can be true. Our fair value is $504 against a market price of $488.63, giving 3.2% price upside and 3.9% with the 0.74% dividend. The Street expects $561 and rates the shares Strong Buy, implying about 15% upside. Reaching that level would require Microsoft to turn its backlog into cash faster and more efficiently than it has managed so far.

The quarter itself was excellent. Q4 FY2026 revenue, reported on 29 July, reached $90.0bn, up 18% and above the $87.6bn expected. Adjusted EPS was $4.74 against $4.33. Azure growth increased to 43% from 40%, with roughly 45% guided for September, and Azure crossed $100bn of annual revenue after growing 41% for the year. For FY2026, revenue was $331.8bn and operating income $155.2bn, taking the operating margin to 46.8% — its highest level in the company's modern history.

The cash-flow figures tell a less comfortable story. Microsoft generated $65.1bn of free cash flow in FY2022 and $67.0bn in FY2026, even though revenue increased 67% and operating income 86% between them. The reason is the rise in capital spending, from $23.9bn to $115.9bn, which now equals 34.9% of revenue; the free-cash-flow margin has fallen from 32.9% to 20.2%. That does not mean the strategy will fail, and the investment may prove one of Microsoft's best decisions. But the valuation has to answer whether the future benefit justifies the cash being spent today.

The strongest argument against our view is the backlog. Commercial remaining performance obligations increased 84% to $678bn, more than two years of revenue already under contract, and few companies of this size have comparable visibility. Contracted revenue is not delivered revenue or profit: Microsoft still needs data centres, people and further investment before it earns from that backlog, and that is the same spending which has kept free cash flow almost unchanged. We would become more positive if the backlog began producing materially more cash without another major rise in capex. Until then, the price already assumes the investment programme succeeds.

BULL CASE vs. BEAR CASE

KEY BULL CASE	KEY BEAR CASE
Azure at 43% and accelerating, ~45% guided; past $100bn annual revenue	Free cash flow of $67.0bn against $65.1bn in FY2022 — four flat years
Capex guidance cut to ~$175bn from ~$190bn — first sign of discipline	Capex at 34.9% of revenue and 5x FY2022; the cut may prove temporary
Commercial RPO +84% to $678bn, over two years of revenue contracted	GAAP EPS +32% flattered by $0.67 of OpenAI gains; ex-item growth 22%
Operating margin 46.8%, a record; SOTP at $537 is 10% above market	DCF at $404 is 17% below market; four turns off the Cloud multiple inverts the call

Sources: Microsoft Q4 FY2026 results (29 July 2026) and FY2022–FY2026 filings; company capital-expenditure guidance.

2. COMPANY OVERVIEW

Microsoft is made up of three very different businesses. Productivity and Business Processes includes Microsoft 365, Office, LinkedIn and Dynamics, and mainly sells subscriptions to businesses, which makes its revenue dependable because customers use these products every day. Intelligent Cloud includes Azure, server products and enterprise services; it earns from computing, storage and business workloads, is now Microsoft's main source of growth, and is responsible for most of the new investment in data centres. More Personal Computing includes Windows, devices, gaming and search advertising. It is the oldest and slowest-growing part of the company, and its revenue is now moving backwards.

The FY2026 figures show the difference between the divisions. Productivity generated $140.0bn of revenue, up 16%, and $83.9bn of operating income at a 59.9% margin. Intelligent Cloud generated $137.8bn, up 30%, and $57.0bn of operating income, up 28%. More Personal Computing generated $54.1bn, down from $54.6bn, and $14.4bn of operating income at a 26.6% margin — earning that profit from a shrinking business.

The main change is on the cost side. Operating cash flow has more than doubled, from $89.0bn in FY2022 to $182.9bn in FY2026, but most of the additional cash has gone into infrastructure rather than back to shareholders. Capital spending now equals roughly a third of revenue, and on calendar-2026 guidance it could approach half, against only 12.0% in FY2022. The spending cannot be stopped suddenly, because Microsoft must build Azure capacity before customers can use it: the company is spending years ahead of some of the revenue. The three divisions also do not need the same level of investment. Productivity is relatively light on capital and produces a 59.9% operating margin; Intelligent Cloud consumes most of it, because it requires data centres, servers and energy; More Personal Computing needs much less and contributes less each year. A single group-wide capital figure therefore describes none of the three accurately, and the same objection applies to a single valuation for the whole company. The investment case comes down to one question: will the data centres being built today produce lasting free cash flow?

3. INDUSTRY AND COMPETITIVE LANDSCAPE

The cloud market is growing quickly. Gartner expects public-cloud spending to reach $850bn in 2026, up 21.3% on 2025. Synergy Research puts cloud infrastructure spending at $129bn in Q1 2026 alone, up 35% year on year as companies increased AI budgets. AWS, Azure and Google Cloud together accounted for 63% of global cloud infrastructure spending in the quarter, at 28%, 21% and 14% respectively. The market is concentrated but the competition is intense: the providers compete on price for basic computing and try to differentiate through software and services.

Microsoft is gaining ground. Azure grew 43% in the quarter against 40% previously, with roughly 45% expected in September, and has passed $100bn of annual revenue on 41% full-year growth. Those figures suggest Azure is winning new business rather than simply retaining existing customers. Microsoft's main advantage is the breadth of its customer base: it can sell Azure alongside Microsoft 365, security products and business software, and a company already running on Microsoft may find it easier to add Azure than to move to a different provider. That gives Microsoft pricing power across the package, although basic computing remains highly competitive.

The biggest competitive issue is the spending race. Microsoft has reduced calendar-2026 capex guidance to about $175bn from $190bn. Alphabet has moved the other way, raising its guidance to $195-205bn, and Amazon is also investing heavily. If all three build too much capacity, they may be forced to compete more aggressively on price. Microsoft's decision to reduce spending is therefore a positive sign rather than a sign that it is giving up ground.

Microsoft is losing ground in More Personal Computing, but the decline is gradual. Revenue fell from $54.6bn to $54.1bn and declined 4% in Q4. We value the division at 12x operating income, the lowest multiple in the group, because its revenue is shrinking and it does not deserve a premium.

Microsoft trades at the lowest forward multiple of the large technology companies in this comparison, and carries the highest capital burden. It trades at 25.1x forward earnings against about 30.5x for Alphabet, 29x for Amazon and 38x for Apple, having held 32-37x itself through FY2023-25. On 2026 guidance its capex equals roughly 49% of revenue, against about 42% for Alphabet and 25% for Amazon: the lowest multiple in the group carries the highest spending intensity. Alphabet is the clearest comparison. Google Cloud grew 82% in the latest quarter, but Alphabet's free cash flow turned negative at minus $5.9bn after $44.9bn of quarterly capex, and it raised its 2026 guidance rather than cutting it. This desk rates Alphabet HOLD at $384, Amazon BUY at $275 and Apple HOLD at $302. Microsoft is the only company in the group to have cut its spending guidance while trading at the lowest multiple, and that combination supports a HOLD rather than a REDUCE.

COMPARABLE COMPANY ANALYSIS

Company	Ticker	Fwd P/E	This desk	Fair value	Note
Microsoft	MSFT	25.1x	HOLD	$504	Subject. Capex ~49% of CY2026 guided revenue; only hyperscaler to cut guidance
Alphabet	GOOGL	~30.5x	HOLD	$384	Cloud +82% but FCF negative at minus $5.9bn; 2026 capex guidance raised to $195-205bn
Amazon	AMZN	~29x	BUY	$275	AWS plus advertising; ~$200bn CY2026 capex, lowest intensity at ~25%
Apple	AAPL	~38x	HOLD	$302	Premium multiple on slower growth; multiple benchmark, not a capex peer

Forward P/E as of 5 August 2026. Fair values and ratings are this desk's own published coverage, not consensus. The set is deliberately narrow, and the narrowness is the point. Alphabet and Amazon are the only two companies running a capital cycle of comparable scale and character, which is the variable this report is about; Apple is carried as a large-cap multiple benchmark rather than an operating peer. A wider set of software names would raise the count without improving the comparison, since none of them faces the capital question. Every fair value shown is this desk's own published work rather than a consensus figure, which is why the set stops where the coverage does. Capex intensity is stated on calendar-2026 guidance; on FY2026 actuals Microsoft's capital expenditure was 34.9% of revenue. Source: company filings and guidance.

4. FINANCIAL ANALYSIS

Microsoft's growth has accelerated. Revenue increased from $198.3bn in FY2022 to $211.9bn, $245.1bn, $281.7bn and $331.8bn in FY2026, with annual growth rising from 6.9% to 17.8%. The operating margin improved from 42.1% to 46.8%. Microsoft is earning more operating profit from each dollar of revenue than at any point in recent history.

Gross margin tells a different story. It was 68.4% in FY2022, rose to 69.8% in FY2024 and fell to 67.9% in FY2026. The decline matters because it shows that delivering cloud and AI services is becoming more expensive. Microsoft has protected the operating margin through scale and cost control, but the underlying cost of providing its services is rising.

Reported earnings need examining carefully. FY2026 GAAP EPS was $17.95, up 32%, but included $4,963m — $0.67 per share — of gains on the OpenAI investment; without it, growth was 22%. The quarter was helped too. Discrete items added $0.27 to diluted EPS, including a $3.2bn gain on the Anthropic investment and lower retirement costs, partly offset by XBOX impairments. The reported $4.74 therefore contained about $0.27 of non-operating help, and the underlying improvement was smaller than the headline suggested.

THE CAPITAL PROGRAMME — FY2022 to FY2026 ($bn)

Fiscal year	Operating cash flow	Capital expenditure	Free cash flow	FCF margin	Capex / revenue
FY2022	89.0	23.9	65.1	32.9%	12.0%
FY2023	87.6	28.1	59.5	28.1%	13.3%
FY2024	118.5	44.5	74.1	30.2%	18.1%
FY2025	136.2	64.6	71.6	25.4%	22.9%
FY2026	182.9	115.9	67.0	20.2%	34.9%

Source: Microsoft FY2022–FY2026 filings. This is the single most important table in the report.

Operating cash flow has doubled and free cash flow has not. Microsoft has used almost all of the extra cash its businesses generate to build new infrastructure. The free-cash-flow margin has fallen by more than twelve percentage points while capex has risen from 12.0% to 34.9% of revenue. Microsoft may be making the right long-term decision, but investors should not value the company on cash it is not currently producing.

FINANCIAL SUMMARY

Metric	FY2023A	FY2024A	FY2025A	FY2026A	FY2027E	FY2028E
Revenue ($bn)	211.9	245.1	281.7	331.8	n/f	n/f
Revenue growth (%)	6.9	15.7	14.9	17.8	n/f	n/f
Gross margin (%)	68.9	69.8	68.8	67.9	n/f	n/f
Operating income ($bn)	88.5	109.4	128.5	155.2	n/f	n/f
Operating margin (%)	41.8	44.6	45.6	46.8	n/f	n/f
Net income ($bn)	72.4	88.1	101.8	133.7	n/f	n/f
Diluted EPS ($)	9.68	11.80	13.64	17.95	19.50	n/f
Operating cash flow ($bn)	87.6	118.5	136.2	182.9	220.0	262.0
Capital expenditure ($bn)	28.1	44.5	64.6	115.9	165.0	175.0
Free cash flow ($bn)	59.5	74.1	71.6	67.0	55.0	87.0
FCF margin (%)	28.1	30.2	25.4	20.2	n/f	n/f
Capex / revenue (%)	13.3	18.1	22.9	34.9	n/f	n/f

FY2023A-FY2026A: Microsoft 10-K filings (SEC EDGAR). FY2027E and FY2028E operating cash flow and capital expenditure are the explicit-period inputs to the discounted cash flow in Section 5; free cash flow is derived from them. FY2027E diluted EPS of $19.50 is the input to the relative valuation. Remaining forward lines are marked n/f because this desk does not publish a full forecast model for Microsoft. Note that free cash flow is modelled to fall in FY2027 before recovering, which is the arithmetic of the capital programme rather than a view on demand.

The capex guidance cut matters more than the revenue beat. Microsoft now expects calendar-2026 capex of about $175bn rather than $190bn, the first clear reduction after four years of rising spending. Q4 capex including finance leases was still $41.0bn, up 69% year on year, so the cut changes the direction of spending rather than the level. It will help the valuation only if it lasts; if spending returns to $190-200bn, free cash flow may stay flat into FY2028.

The backlog provides some balance. Commercial remaining performance obligations rose 84% to $678bn, more than two years of contracted revenue, which shows demand exists. It does not tell us how profitable that revenue will be, or how much more Microsoft must spend to deliver it. Those are the questions that decide whether free cash flow improves.

5. VALUATION

Why sum-of-the-parts

Microsoft is valued sum-of-the-parts because a single discount rate applied to blended free cash flow treats Intelligent Cloud, Productivity and More Personal Computing as one business, and they are not. A 59.9%-margin software franchise, a hyperscaler compounding at 43% and a declining Windows and devices operation do not share a cost of capital or a growth rate, and a blended multiple describes none of them. Under Vireo's standard for segment-valued businesses the sum-of-the-parts carries 60% of the target, the relative multiple 20% and the discounted cash flow 20%.

The DCF is retained deliberately rather than discarded. It is the method most sensitive to the capital programme, and on a company whose defining feature is that capital programme it functions as the floor and the sanity check — but it is not what sets the call.

The three methods

Intelligent Cloud is valued at 30x its $57.0bn of FY2026 operating income, or ~$1.71tn. The multiple is rich and is earned: Azure is compounding at 43% and segment profit at 28%. Productivity & Business Processes is valued at 25x its $83.9bn, or ~$2.10tn, on a 59.9% operating margin and one of the most durable franchises in enterprise software. More Personal Computing is valued at 12x its $14.4bn, or ~$0.17tn; revenue fell 4% in Q4 and the segment earns no premium. That totals $3.98tn of enterprise value, and adding $20.0bn of net cash — stated conservatively, already net of $16.5bn of operating-lease liabilities — gives $537 per share across 7,453m diluted shares, about 10% above the market.

The discounted cash flow gives $404. It models operating cash flow compounding from $220bn in FY2027 to $395bn by FY2031 with capital expenditure plateauing near $185bn, a path that assumes the spending both continues and eventually stops rising, discounted at a 9.5% WACC with 4% terminal growth. At 17% below the market price it is the least flattering of the three, and it is the one that reflects the capital cycle most directly.

The relative multiple gives $507, applying 26x to FY2027E EPS of $19.50. Microsoft traded between 32x and 37x through FY2023–25 and sits at 25.1x today, so the de-rating has already happened; the market is not obviously euphoric here.

PRICE TARGET DERIVATION

Methodology	Weight	Implied Price	Key Assumptions
Sum-of-the-parts	60%	USD 537	Intelligent Cloud 30x on $56,972m · Productivity 25x on $83,879m · MPC 12x on $14,386m; plus net cash $20,017m; 7,453m diluted shares
Relative multiple	20%	USD 507	26x FY2027E EPS of $19.50; currently 25.1x forward, versus 32–37x in FY2023–25
Discounted cash flow	20%	USD 404	OCF $220bn to $395bn FY2027–31; capex plateau ~$185bn; WACC 9.5%; terminal growth 4%
BLENDED PRICE TARGET	100%	USD 504	$536.53 x 0.60 + $507 x 0.20 + $403.96 x 0.20 = $504.11, rounded to $504 · +3.2% price, +3.9% total return

Weights follow Vireo's house standard for segment-valued businesses — 60% sum-of-the-parts / 20% relative / 20% DCF — confirmed for this name. This supersedes the 40/30/30 weighting used in the independent version of this note, which produced $488. The three method outputs are unchanged; the entire difference in the target is the reweighting.

Why the methods disagree

The spread between $537 and $404 is $133 on the same company in the same quarter, and the gap is the argument. The sum-of-the-parts prices the segments on what they earn today at multiples the market pays for businesses of that quality and growth. The discounted cash flow prices what is left after the infrastructure is paid for, and on a business spending 34.9% of revenue there is much less left. The difference between them is the value of growth that has been contracted and capitalised but has not yet appeared as cash.

The return hurdle settles it. The US 10-year Treasury yields 4.62%, implying a cost of equity near 10.1% on a five-and-a-half point equity risk premium. Our expected total return is roughly 3.9%. That is a HOLD — not because the business is faltering, which it plainly is not, but because the price already reflects a successful outcome to the capital cycle. The Street's $561 requires Azure to hold near current growth, the backlog to convert profitably, capex to stay contained and the multiple to hold. Each is plausible; all four together is a demanding set.

Stress test

Bear — capex climbs toward $200bn and Azure decelerates; segment multiples compress to 26x/22x/10x. Base — capex plateaus near $185bn and Azure compounds as guided, giving $504. Bull — the guidance cut marks a genuine peak and the $678bn backlog converts; multiples expand to 34x/28x/14x. Restated at the 60/20/20 weighting, the bear case is $419, some 14.3% below the market, and the bull case is $590, about 20.8% above it. The published 40/30/30 figures of $394 and $583 are superseded; the segment multiples and drivers behind them are unchanged.

Single-variable tests show how finely balanced the base case is. Restated at 60/20/20: raising the WACC to 10.5% gives $491, cutting terminal growth to 3% gives $493, valuing Intelligent Cloud at 26x rather than 30x gives $486, valuing Productivity at 22x gives $484, and using an FY2027 EPS of $18.50 cleaned of one-off gains gives $499. Every one of those is a defensible assumption, and four of the five leave a return below the 4.0% base case. We read that asymmetry as a warning rather than a verdict — hence HOLD rather than REDUCE, but with no appetite to add.

6. CATALYSTS

The first catalyst is the Q1 FY2027 result, expected in late October. Microsoft reported Q1 FY2026 on 29 October 2025, so late October is a reasonable working assumption until the company confirms. The key question is whether Azure can hold close to the 45% guided.

The next test is calendar-2026 capex against the ~$175bn guidance. This is the number most likely to decide the investment case. Spending at or below the guide would support a recovery in free cash flow; spending closer to $190-200bn would suggest the reduction was temporary.

Azure growth is the next indicator. It is running at 43% with roughly 45% expected in September. A slowdown is not the base case, but it is the main risk. If growth settles at 35%, Intelligent Cloud operating income could be about $46.4bn rather than $57.0bn. At 30x that reduces the division's value by about $318bn, or $43 per share, and at a 60% weighting it takes about $26 off the target.

The next changes in the OpenAI and Anthropic investment marks could affect reported earnings. These added $0.67 per share to FY2026 EPS and $0.27 to the Q4 result. They are not part of normal operations, so a reversal could weaken reported earnings without the business having changed.

Backlog conversion is another test. Every 1% of the $678bn backlog recognised as revenue is $6.78bn. At a 30% operating margin that produces about $2.0bn of operating income, or roughly $0.27 per share before tax and reinvestment. The conversion rate matters more than the headline size of the backlog.

7. RISKS TO OUR THESIS

The biggest risk is a lower valuation for Intelligent Cloud, because it accounts for 60% of the target. If the multiple falls from 30x to 28x, the blend falls to $495 and leaves only 1.3% upside. At 26x it falls to $486, slightly below the current price. A 10% fall in segment operating income reduces the target to $490, and a 20% fall reduces it to $477. Four turns off the multiple, or a fifth off segment profit, removes the entire investment case. Continued Azure growth with segment profit growing at least 28% would weaken this risk.

Capital spending may not settle. If it returns to $190-200bn rather than holding near the $175bn guide, Microsoft would spend an additional $15-25bn a year, roughly $2-3 per share of free cash flow before any extra revenue. The guidance cut is encouraging, but it is one piece of evidence rather than a pattern.

Azure growth may slow as the comparison base builds and companies become more careful with AI budgets. On the arithmetic above, a fall from 43% to 35% would take about $26 per share off the target.

The recent rise in capex will produce higher depreciation over the next two to three years, even if spending stops rising. The $115.9bn spent in FY2026 alone implies annual depreciation of $7.7-11.6bn if written off over ten to fifteen years, or roughly $1.00-1.55 per share before tax. That cost arrives whether or not future capex falls.

Investment gains may not continue. OpenAI-related gains added $0.67 to FY2026 EPS and discrete items $0.27 to the Q4 figure, and neither came from normal operations. Their absence could make FY2027 comparisons look weak even where the business has not deteriorated.

Competition is intensifying. Alphabet plans $195-205bn of capex in 2026 and Amazon is investing heavily. If all three build capacity at once, they may have to compete more aggressively on price. Microsoft's large customer base protects its share, but not necessarily its margin.

8. ESG NOTE

The main ESG question is whether Microsoft can expand its AI data centres while meeting its environmental commitments, and the answer is becoming less certain. Emissions rose 25% in FY2025 as the data-centre network expanded, reaching about 34 million tonnes of carbon dioxide equivalent. Water withdrawal was 13,266 million litres against consumption of 8,170 million litres. Microsoft has made progress, replenishing more than 14.2 million cubic metres and cutting data-centre water intensity by 25% from its 2022 level, and it still aims to be carbon-negative and water-positive by 2030 (Microsoft FY2025 Environmental Sustainability Report). The difficulty is that those targets require more renewable energy, efficient cooling and carbon-removal purchases at the same time as the company is spending heavily on computing capacity. The issue is financially relevant because electricity shortages, limited water and planning restrictions can delay data centres and raise their cost. The 2030 promise was made before this spending cycle, and the cycle is now putting it under far greater pressure.

9. MANAGEMENT AND OWNERSHIP

Satya Nadella has been chief executive since 2014 and is also chairman. Amy Hood has been chief financial officer since 2013 and joined Microsoft in 2002. This is a long-standing leadership team at a company running its largest investment programme. Nadella and Hood guided the move into cloud computing, and they are now responsible for showing that the AI and data-centre spending produces acceptable returns. Their experience counts in their favour, but it also means the people who committed the capital are the people who must prove it earns.

Microsoft is owned mainly by large institutions. Institutional ownership is reported between 71.7% and 81.6% depending on the source, and insider ownership between 0.03% and 6.0% depending on whether former executives are included. The difference matters. Former chief executive Steve Ballmer holds 333.25m shares, or 4.49% of the company, and Vanguard holds 9.63%. Counting only current directors and officers, insider ownership is very small; including former executives, it is closer to 6%. We use the narrower figure because it better describes the ownership of the people currently running Microsoft. The practical consequence is that the shares move when institutions change their view on Azure, capex and free cash flow. There is no meaningful current-insider signal to read, and no unusually large short position whose covering could force the price higher. Any further gain will most likely require institutional investors to become more confident that the spending programme is close to its peak.

MANAGEMENT TEAM

Name	Role	Background
Satya Nadella	Chairman & Chief Executive Officer	CEO since 2014, chairman since 2021. Joined 1992. Led the shift to cloud, subscriptions and now the AI capital programme.
Amy Hood	Executive Vice President & Chief Financial Officer	CFO since 2013; joined 2002. Has overseen every capital-allocation decision of the cloud era, including the current build-out.

Insider Ownership: ~0.03% (officers and directors) / ~6.0% (incl. former executives) | Institutional: 71.7%–81.6% | Dividend Yield: 0.74%

Leadership per Microsoft investor-relations disclosures. Ownership per WallStreetZen (71.68% institutional), GuruFocus (81.55% institutional, 6.02% insider, as at 10 July 2026) and Benzinga; Ballmer and Vanguard holdings per GuruFocus. Aggregators differ on the treatment of former executives, and the basis is stated in the text. Short interest is omitted rather than estimated: the principal aggregator discontinued the series in 2026 and no reliable current figure was available at the time of writing.

10. CONCLUSION

Microsoft is performing better than ever. Revenue growth has reached 18%, Azure has passed $100bn of annual revenue and continues to accelerate, and the operating margin has reached a record 46.8%. Nothing in the results suggests the business is weakening. The concern is the price. The shares already assume the investment in AI and data centres will succeed, and that success has not yet appeared in free cash flow, which is only slightly higher than four years ago despite roughly $250bn of cumulative capital spending.

Our valuation gives 60% weight to the sum-of-the-parts, 20% to the relative multiple and 20% to the DCF, producing a fair value of $504.11 against $488.63 — 3.2% price upside and 3.9% including the dividend. That return sits well below an estimated 10.1% cost of equity. The capex reduction is the first sign that spending may have peaked, which supports HOLD rather than REDUCE, but it is not yet proof that free cash flow will recover. We would wait for another quarter of restraint and a clear improvement in cash generation before adding. Rating: HOLD. Price target: USD 504.

ANALYST CERTIFICATION

I, Debjit Mukherjee, Student Equity Research Analyst, Vireo Capital Research, certify that the views expressed in this report accurately reflect my personal views about Microsoft Corporation and its securities. I have not received and will not receive direct or indirect compensation related to the specific recommendations expressed herein. This report represents my independent analysis based on publicly available information.

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