MICROSOFT CORPORATION · VIREO CAPITAL RESEARCH

NASDAQ: MSFT · Software & Cloud · Valuation model · 6 August 2026 · Analyst: Debjit Mukherjee

SNAPSHOT

RATING	PRICE TARGET	CURRENT PRICE	UPSIDE (PRICE)	TOTAL RETURN	MARKET CAP	FWD P/E	EV/EBIT (SOTP impl.)	52-WK RANGE
HOLD	**$504**	$488.63	3.2%	3.9%	$3,641bn	25.1x	0.0x	553.72 / 349.20
FY2026 REVENUE	**OPERATING MARGIN**	**FY2026 EPS**	**FCF (FY2026)**	**FCF MARGIN**	**CAPEX**	**CAPEX / REVENUE**	**NET CASH**	**DIV YIELD**
331,839	46.8%	$17.95	66,987	20.2%	115,948	34.9%	20,017	0.74%

Dividend yield	0.74%

INVESTMENT SUMMARY

HOLD. Fair value $504 (blended $504.12) against $488.63 — 3.2% on price, 3.9% with the 0.74% dividend, against a cost of equity near 10.1%.
Vireo standard for segment-valued businesses: SOTP 60% / relative multiple 20% / DCF 20%. The DCF is retained as a floor and sanity check, not a driver.
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.
Q4 FY2026 beat on every visible line: revenue $90.0bn (+18%) vs ~$87.6bn expected, adjusted EPS $4.74 vs $4.33, Azure +43% accelerating from 40%, past $100bn annual revenue.
The counter-case: free cash flow of $67.0bn against $65.1bn in FY2022, while capex rose from $23.9bn to $115.9bn and now runs at 34.9% of revenue.
The call turns on Intelligent Cloud. Four turns off its 30x multiple, or a fifth off segment profit, removes the entire upside.

KEY CATALYSTS

· Q1 FY2027 results, late October (unconfirmed). Test: does Azure hold near the ~45% guided.
· Calendar-2026 capex against the ~$175bn guide — the number most likely to decide the case.
· Azure trajectory. A fall to 35% takes ~$26/share off the target.
· OpenAI and Anthropic marks: $0.67/share of FY2026 EPS, $0.27 of the Q4 beat.
· Backlog conversion. Each 1% of $678bn is $6.78bn revenue, ~$0.27/share.

KEY RISKS

· Intelligent Cloud de-rating. 28x → $495; 26x → $486 and the call inverts.
· Capex fails to plateau. $190-200bn vs the $175bn guide is $2-3/share of FCF.
· Azure decelerates from 43% as the base builds — ~$26/share.
· Depreciation from $115.9bn of FY2026 capex: $7.7-11.6bn a year, $1.00-1.55/share.
· Investment gains reverse, making FY2027 comparisons look weak.
· Alphabet at $195-205bn and Amazon at scale: capacity that competes on price.

PRICE TARGET SUMMARY — SEGMENT-VALUED BLEND

Methodology	Weight	Implied Price	Commentary
Sum-of-the-parts	60%	$536.53	IC 30x · PBP 25x · MPC 12x on FY2026 segment EBIT, plus $20,017m net cash
Relative multiple	20%	$507.00	26x FY2027E EPS of $19.50; currently 25.1x forward vs 32-37x in FY2023-25
Discounted cash flow	20%	$403.96	OCF $220bn→$395bn FY2027-31, capex plateau ~$185bn, WACC 9.5%, g 4%
BLENDED PRICE TARG	**100%**	**$504.11**	**#ERROR!**

Note: weights follow the Vireo standard for segment-valued businesses, confirmed for this name. Supersedes the 40/30/30 weighting used in the independent version, which gave $488. Method outputs unchanged; the difference is entirely the reweighting.

SUM-OF-THE-PARTS — primary intrinsic method, 60% of target

$m unless stated. Segment operating income as reported, FY2026.

A. SEGMENT BUILD

Segment	FY2026 revenue	FY2026 EBIT	EBIT margin	Multiple (x EBIT)	Value ($m)	% of EV	Basis
Intelligent Cloud (Azure, server, enterprise)	137,791	56,972	41.3%	30x	1,709,160	43.0%	Azure +43%, segment profit +28%; largest profit engine
Productivity & Business Processes (M365, Li	139,996	83,879	59.9%	25x	2,096,975	52.7%	59.9% margin; most durable franchise in enterprise software
More Personal Computing (Windows, devic	54,052	14,386	26.6%	12x	172,632	4.3%	Revenue declining 4% in Q4; no premium earned
Enterprise value	331,839	155,237			**3,978,767**		
Add: net cash					20,017		Stated conservatively, already net of $16,500m of operating-lease liabilities
Equity value		155,237			**3,998,784**		
Diluted shares (m)					7,453		

B. SENSITIVITY — Intelligent Cloud multiple [the load-bearing assumption]

IC multiple	IC value ($m)	SOTP / share	Blended target	vs $488.63	Rating		
30x	1,709,160	$536.53	$504.11	+3.2%	HOLD		
28x	1,595,216	$521.25	$494.94	+1.3%	HOLD		
26x	1,481,272	$505.96	$485.77	-0.6%	HOLD		
SOTP VALUE PER SHARE				**$536.53**	+9.8%		Primary method. Carries 60% of the blended target.

DISCOUNTED CASH FLOW — supporting analysis and floor, 20% of target

$m. Explicit period FY2027E-FY2031E.

$m	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E
Operating cash flow	220,000	262,000	305,000	350,000	395,000
Capital expenditure	-165,000	-175,000	-180,000	-182,000	-185,000
Free cash flow	**55,000**	**87,000**	**125,000**	**168,000**	**210,000**
Discount period	1	2	3	4	5
Discount factor 1/(1+WACC)^t	0.913	0.834	0.762	0.696	0.635
PV of free cash flow	50,228	72,559	95,207	116,856	133,398

ASSUMPTIONS

WACC	9.5%	Cost of equity ~10.1% on Rf 4.62% and ~5.5pt ERP
Terminal growth	4.0%	
Net cash ($m)	20,017	
Diluted shares (m)	7,453	

VALUATION OUTPUT

Sum of PV, explicit period	468,248
Terminal value (Gordon)	3,970,909
PV of terminal value	2,522,431
Enterprise value	2,990,680
Add: net cash	20,017
Equity value	**3,010,697**

Note	Free cash flow falls to $55bn in FY2027 before recovering to $87bn in FY2028. That is the arithmetic of the capital programme, not a view on demand.

DCF VALUE PER SHARE	**$403.96**	-17.3%	The floor. Not a driver of the call.

COMPARABLE COMPANIES — relative multiple, 20% of target

Forward P/E as of 5 August 2026. Fair values are this desk's own published coverage, not consensus.

Company	Ticker	Fwd P/E (x)	This desk	Fair value	Capex/rev (CY26E)	Note
Microsoft	MSFT	25.1x	HOLD	$504	49%	Subject. Only hyperscaler to cut CY2026 guidance
Alphabet	GOOGL	30.5x	HOLD	$384	42%	Cloud +82% but FCF negative at -$5.9bn; 2026 guidance raised to $195-205bn
Amazon	AMZN	29.0x	BUY	$275	25%	AWS plus advertising; ~$200bn CY2026 capex, lowest intensity of the three
Apple	AAPL	38.0x	HOLD	$302	n/a	Premium multiple on slower growth; multiple benchmark, not a capex peer

Peer median (ex-MSFT)	30.5x	
Peer mean (ex-MSFT)	32.5x	

RELATIVE VALUATION

FY2027E diluted EPS ($)	$19.50		
Applied forward multiple (x)	26x		Below the peer median and below MSFT's own FY2023-25 range of 32-37x
Memo: at the peer median	$594.75		Applying the peer median rather than the justified multiple
RELATIVE VALUE PER SHARE	**$507.00**	+3.8%	

Note: The set is deliberately narrow. 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 a large-cap multiple benchmark, not an operating peer.

HISTORICAL FINANCIALS — FY2022 to FY2026

$m unless stated. Source: Microsoft 10-K filings.

INCOME STATEMENT

$m	FY2022	FY2023	FY2024	FY2025	FY2026
Revenue	198,270	211,915	245,122	281,724	331,839
Revenue growth (%)	18.0%	6.9%	15.7%	14.9%	17.8%
Gross profit	135,620	146,052	171,008	193,893	225,465
Gross margin (%)	68.4%	68.9%	69.8%	68.8%	67.9%
Operating income	83,383	88,523	109,433	128,528	155,237
Operating margin (%)	42.1%	41.8%	44.6%	45.6%	46.8%
Net income	72,738	72,361	88,136	101,832	133,749
Diluted EPS ($)	$9.65	$9.68	$11.80	$13.64	$17.95

FY2026 EPS includes $0.67 of OpenAI investment gains; clean growth 22%, not 32%.

CASH FLOW — the capital question

$m	FY2022	FY2023	FY2024	FY2025	FY2026
Operating cash flow	89,035	87,582	118,548	136,162	182,935
Capital expenditure	-23,886	-28,107	-44,477	-64,551	-115,948
Free cash flow	65,149	59,475	74,071	71,611	66,987
FCF margin (%)	32.9%	28.1%	30.2%	25.4%	20.2%
Capex / revenue (%)	12.0%	13.3%	18.1%	22.9%	34.9%

Revenue +67% and operating income +86% since FY2022, and free cash flow is $1.8bn higher. The single most important table in the model.

SEGMENTS — revenue

$m	FY2023	FY2024	FY2025	FY2026
Productivity & Business Processes	94,151	106,820	120,810	139,996
Intelligent Cloud	72,944	87,464	106,265	137,791
More Personal Computing	44,820	50,838	54,649	54,052

SCENARIOS AND SENSITIVITY

All blends at the Vireo segment-valued standard: SOTP 60% / relative 20% / DCF 20%. Price $488.63, yield 0.74%.

A. BEAR / BASE / BULL

Scenario	IC (x)	PBP (x)	MPC (x)	SOTP / share	Blended target	vs price	Comment
Bear	26x	22x	10x	$468.33	$418.80	-14.3%	Capex climbs toward $200bn and Azure decelerates
Base	30x	25x	12x	$536.53	**$504.11**	+3.2%	Capex plateaus near $185bn and Azure compounds as guided
Bull	34x	28x	14x	$604.73	$590.24	+20.8%	Guidance cut marks the peak and the $678bn backlog converts

Note: bear and bull dcf+relative sums are carried from the published 40/30/30 scenario work and restated at 60/20/20. Base case computes live off the method tabs.

B. SINGLE-VARIABLE TESTS (restated at 60/20/20)

Variable	Changed to	Blended target	vs price	Rating	Comment
WACC	10.5%	$491	+0.5%	HOLD	DCF falls; SOTP and relative unchanged
Terminal growth	3.0%	$493	+0.9%	HOLD	DCF falls; SOTP and relative unchanged
Intelligent Cloud multiple	26x	$486	-0.5%	HOLD	Call inverts — the load-bearing assumption
Productivity multiple	22x	$484	-0.9%	HOLD	SOTP falls to ~$503
FY2027E EPS	$18.50	$499	+2.1%	HOLD	Cleaned of one-off gains; relative leg falls to $481

Every one of these is a defensible assumption, and four of the five leave a return below the 3.9% base case. That asymmetry is why the rating is HOLD rather than BUY.

C. INTELLIGENT CLOUD — the load-bearing sensitivity

Case	IC EBIT ($m)	IC multiple	SOTP / share	Blended target	vs price	Rating
Base	56,972	30x	$536.53	$504.11	+3.2%	HOLD
Multiple 28x	56,972	28x	$521.25	$494.94	+1.3%	HOLD
Multiple 26x	56,972	26x	$505.96	$485.77	-0.6%	HOLD
EBIT -10%	51,275	30x	$513.60	$490.35	+0.4%	HOLD
EBIT -20%	45,578	30x	$490.67	$476.59	-2.5%	HOLD

Four turns off the Intelligent Cloud multiple, or a fifth off segment profit, removes the entire investment case.

COLOUR CONVENTION

Blue = hardcoded analyst input · Black = formula · Green = cross-sheet link · Yellow fill = key assumption