

# Microsoft Corporation

US CORE HOLDING\*

Recommended since 11.05.20

04.07.2022



Country	US	Market capitalization (bn)	USD	1967,4
Sector	Technology	Free float		98,5%
Factset	MSFT-US	Closing price	USD	259,58
ISIN	US5949181045	ESG Risk score*	13,8	Low risk

Perf. since reco. (%)	
Microsoft Corporation	39,0
Sector	29,5



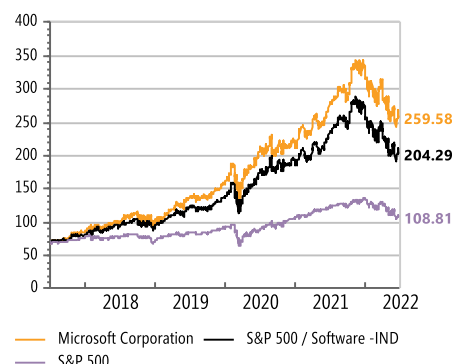
\*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely 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 \$168bn in FY 2021. 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

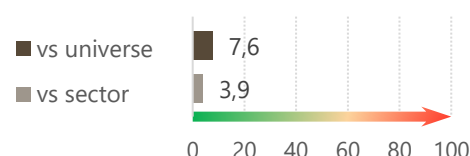
## Investment case

- For the past few years, Microsoft has been structured into three key business units: Productivity and Business Processes (PBP), which accounted for 32% of sales in FY 2020 (N.B. the group's fiscal year runs to end June), Intelligent Cloud (IC – 35.8%) and More Personal Computing (MPC – 32.2%). 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 12-15% a year over the next three years. 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 18-24% a year over the next three years. 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 3-5% a year over the next three years.
- 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.

## 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). Piracy of the group's licences represents a not insignificant risk, particularly in emerging economies. 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.
- The company is at low risk of experiencing material financial impacts from ESG factors, due to its low exposure and strong management of material ESG issues.

## ESG risk vs. universe & sector (percentile)\*



Source: Sustainalytics

## Valuation\*\* in USD

Current price	Value Bordier Scenario
260	298

Our scenario assumes US 10-year yields of 3.5%, sales growth averaging 11-6% a year out to 2032 and growth in the EBIT margin stabilising at around 43.6% by 2025.

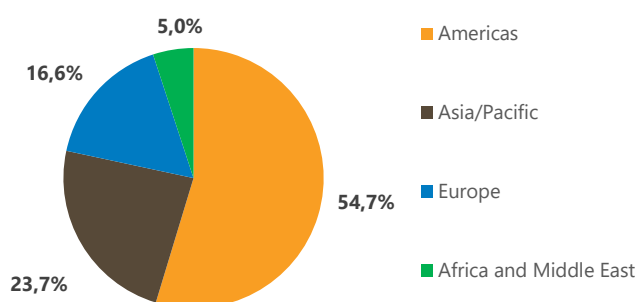
\*\*) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

## "Bordier Core Holding" indicators

In millions of USD	2020	2021	2022e	2023e	2024e
<b>Sales revenue</b>	<b>143 015</b>	<b>168 088</b>	<b>196 663</b>	<b>224 196</b>	<b>251 099</b>
<b>Sales growth %</b>	<b>13,6%</b>	<b>17,5%</b>	<b>17,0%</b>	<b>14,0%</b>	<b>12,0%</b>
<i>o/w organic</i>	<i>0,0%</i>	<i>17,5%</i>	<i>17,0%</i>	<i>14,0%</i>	<i>12,0%</i>
<b>EBIT adjusted</b>	<b>52 959</b>	<b>69 916</b>	<b>82 336</b>	<b>94 803</b>	<b>107 390</b>
<b>% of sales</b>	<b>37,0%</b>	<b>41,6%</b>	<b>41,9%</b>	<b>42,3%</b>	<b>42,8%</b>
<b>Net income</b>	<b>44 281</b>	<b>61 271</b>	<b>70 411</b>	<b>80 923</b>	<b>91 622</b>
<b>Adjusted EPS</b>	<b>5,76</b>	<b>8,05</b>	<b>9,26</b>	<b>10,72</b>	<b>12,14</b>
Adjusted EPS growth	13,9%	39,7%	15,0%	15,7%	13,2%
<b>Capex/Sales</b>	<b>10,8%</b>	<b>12,3%</b>	<b>12,2%</b>	<b>12,3%</b>	<b>11,7%</b>
Free cash-flow	45 234	56 118	60 349	68 130	76 016
<b>FCF/Sales</b>	<b>31,6%</b>	<b>33,4%</b>	<b>30,7%</b>	<b>30,4%</b>	<b>30,3%</b>
Dividend per share	2,04	2,24	2,46	2,70	2,97
<b>Dividend yield</b>	<b>1,0%</b>	<b>0,8%</b>	<b>0,9%</b>	<b>1,0%</b>	<b>1,1%</b>
<b>ROCE - WACC</b>	<b>29,9%</b>	<b>35,9%</b>	<b>33,4%</b>	<b>31,4%</b>	<b>29,0%</b>
<b>ROE (%)</b>	<b>37,4%</b>	<b>43,2%</b>	<b>40,6%</b>	<b>38,8%</b>	<b>36,7%</b>
<b>Net debt/Ebitda</b>	<b>-111,3%</b>	<b>-88,5%</b>	<b>-97,8%</b>	<b>-106,9%</b>	<b>-116,3%</b>

Source: Factset, Bordier estimates

## Sales breakdown - 06/2021



## Ratios

	Microsoft Corporation	S&P 500	Market
<b>PE (x)***</b>		Software	S&P 500
2021	33,6	34,5	21,2
2022e	28,0	26,1	16,8
2023e	24,2	22,6	15,4
<b>P/B (x)***</b>			
2021	14,3	12,5	4,5
2022e	11,2	9,1	3,6
2023e	9,3	7,7	3,3
<b>Beta (2Y, daily) vs market:</b>			1,01

\*\*\*) 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

26.07.2022: Earnings Q4-2022 - 26.10.2022: Earnings Q1-2023

24.01.2023: Earnings Q2-2023

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

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## 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 &amp; 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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