# Microsoft

**Investment Thesis 2026 02 03**

Microsoft is a technology company that provides suites of integrated products to businesses and individuals. Its products and services are primarily focused on facilitating productivity. All of its lines of business performed well in fiscal 2025 and have continued to perform well in 2026. In the most recent quarter, revenue was up 17% and growth in Asure was 39%.

The movement to the cloud continues, but artificial intelligence has supplanted it as the driving economic force behind technology development. Microsoft is well capitalized and well positioned to exploit this latest transition in technology development, particularly with its position as the number two cloud computing company and its long-term focus on building quality business productivity tools and comprehensive sets of integrated enterprise software that can be used to manage every aspect of running and growing a business. If I worry about anything relative to MSFT and AI, it is that Co-Pilot (which is the AI tool/interface Microsoft has built) seems less good and less elegant than ChatGPT, Claude, Gemini. Also, Microsoft bet big on Open-AI. It is looking like Open-AI won't be the winner among AI models. Claude (Anthropic) is clearly winning in coding and in business-specific workloads like financial analysis. Microsoft is investing in and working with Anthropic now, but the investment in Open-AI and ChatGPT might not pay off as Microsoft originally thought.

Over the last 10 years, Microsoft has averaged 15% annual revenue growth and 24% annual earnings growth. I own Microsoft because:

- Azure continues to grow at over 30% a year.
- The company continues to innovate integrated enterprise software solutions like Teams and Dynamics 365.
- Their focus on AI and their ability to productize advances in technology should provide the next layer of competitive advantages across their product portfolio, especially their business productivity tools and their cloud offerings.

**Prospects over the next 9 to 12 months**

The average analysts' price target for MSFT is $612, with a high of $730 and a low of $450. My fair price is $569.27. It is based on an EPS of $14.81, an earnings growth rate of 14%, and a PE of 25. MSFT is currently ~8.4% of our portfolio. I don't plan on selling any of our position, nor do I plan to buy additional shares. If someone were looking for an entry point, $398 (a 30% discount from my fair value) should provide a good margin of safety.

| MICROSOFT CORPORATION (XNAS:MSFT) | $ 393.67 | 69.15% | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | TTM | 10 year | 5 year | 1 year | current trend |
| Revenue Mil | 85,688 | 95,652 | 118,459 | 134,249 | 153,284 | 184,903 | 204,094 | 227,583 | 261,802 | 305,453 | 305,453 | 15% | 13% | 17% | 0.00% |
| Net Income | 16,768 | 9,544 | 33,541 | 44,323 | 51,310 | 71,185 | 67,449 | 82,541 | 92,750 | 119,262 | 119,262 | 24% | 14% | 29% | 0.00% |
| Earnings Per Share USD | 2.10 | 2.71 | 2.13 | 5.06 | 5.76 | 8.05 | 9.65 | 9.68 | 11.80 | 13.64 | 15.98 | 23% | 14% | 16% | 17.16% |
| Operating Income | 20,875 | 24,399 | 38,884 | 49,323 | 60,155 | 78,628 | 82,815 | 100,533 | 117,711 | 142,559 | 142,559 | 24% | 16% | 21% | 0.00% |
| Operataring Income Per Share | 2.61 | 3.12 | 4.99 | 6.36 | 7.83 | 10.33 | 10.98 | 13.45 | 15.76 | 19.10 | 19.10 | 25% | 17% | 21% | 0.04% |
| Book Value Per Share USD | 9.10 | 11.63 | 11.19 | 13.94 | 16.35 | 20.26 | 23.31 | 29.70 | 38.70 | 46.21 | 52.64 | 20% | 23% | 19% | 13.91% |
| Free Cash Flow USD Mil | 27,559 | 33,284 | 31,903 | 40,580 | 50,436 | 60,693 | 59,618 | 67,445 | 70,031 | 77,412 | 77,412 | 12% | 6% | 11% | 0.00% |
| Free Cash Flow Per Share | 3.44 | 4.25 | 4.09 | 5.23 | 6.56 | 7.98 | 7.91 | 9.03 | 9.38 | 10.37 | 10.37 | 13% | 7% | 11% | 0.04% |
| Working Capital | 80,303 | 106,951 | 111,174 | 106,132 | 109,605 | 95,749 | 74,602 | 80,108 | 34,448 | 49,913 | 50,185 | -5% | -15% | 45% | 0.54% |
| Return on Invested Capital % | 14.18 | 15.46 | 10.49 | 22.69 | 23.90 | 30.80 | 33.23 | 28.96 | 29.23 | 27.48 | 29.22 | 23.64 | 29.94 | 28.36 | 28.35 |
| Return on Assets % | 11.2 | 11.5 | 6.5 | 14.4 | 15.1 | 19.3 | 20.8 | 18.6 | 19.1 | 18.0 | 19.9 | 15.5 | 19.2 | 18.6 | 19.0 |
| Return on Equity % | 27.0 | 31.9 | 19.5 | 42.4 | 40.1 | 47.1 | 47.2 | 38.8 | 37.1 | 33.3 | 34.4 | 36.4 | 40.7 | 35.2 | 33.9 |
| Operating Margin % | 29.8 | 30.4 | 31.8 | 34.1 | 37.0 | 41.6 | 42.1 | 41.8 | 44.6 | 45.6 | 46.7 | 37.9 | 43.1 | 45.1 | 46.2 |
| Shares | 8,013 | 7,832 | 7,794 | 7,753 | 7,683 | 7,608 | 7,540 | 7,472 | 7,469 | 7,465 | 7,462 | -1% | 0% | 0% | -0.04% |
| | | | | | | | | | | | | | | | |
| $54.90 | Future EPS | | | | | | | | | | | | | | |
| $1,372.60 | Future price | | | | | | | | | | | | | | |
| $569.27 | Sticker price | | | | | | | | | | | | | | |
| $341.56 | 40% discount | | | | | | | | | | | | | | |