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Kian Sadeghi, Investment Analyst
Erik Skoronski, Portfolio Manager
Sina Hadjiahmadi-Ardakani, Investment Analyst

Return on Investment

Current Share Price	\$203.51
Target Price	\$239.00
Dividend Yield	1.00%
Holding Period Return	18%
Conviction Rating	3

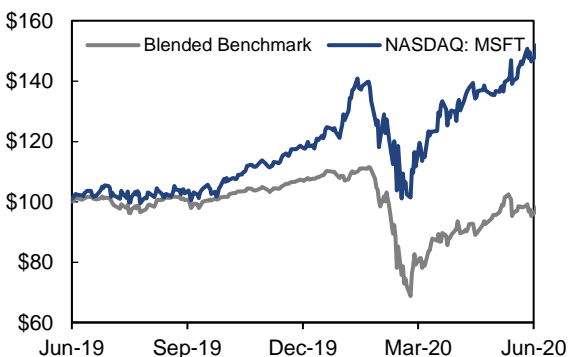
Market Profile

52-Week Range	\$132.31 - \$203.51
Market Capitalization (US\$B)	\$1,543
Net Debt (US\$B)	(\$54)
Enterprise Value (US\$B)	\$1,489
Beta (5-Year Monthly)	0.93

Metrics

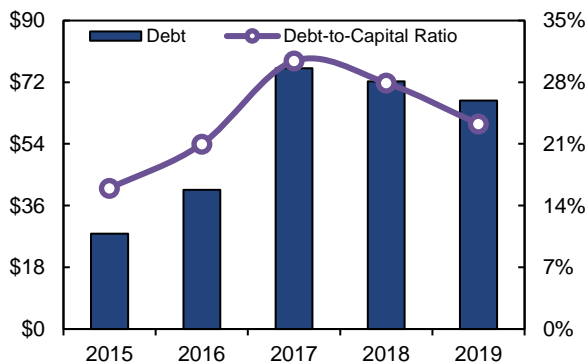
	2019A	2020E	2021E
Revenue (US\$B)	\$141	\$156	\$175
EBITDA (US\$B)	\$55	\$63	\$65
EPS	\$5.07	\$5.53	\$5.70
EV/EBITDA	21.4x	18.7x	18.1x

Holding Period Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

Figure 1: LHS Debt (US\$B) vs. RHS Debt-to-Capital Ratio



Source: Company Filings

Business Description

Microsoft Corp. (NASDAQ: MSFT) is a technology company that develops, licenses, and supports a variety of software products, devices, and services. MSFT operates under three business segments: (1) Productivity and Business Processes; (2) More Personal Computing; and (3) Intelligent Cloud. The Company designs, manufactures, and sells devices, such as personal computers, phones, tablets, gaming consoles, and related accessories, all of which are integrated with its cloud-based systems. Additionally, MSFT offers cloud-based solutions to consumers with its software, platforms, content, and consulting and support services.

Balance Sheet Strength

MSFT's balance sheet is a continual point of strength for the Company. MSFT's advantageous debt structures and maturities allow it to maintain high-levels of activity. The Company holds a significant debt figure of US\$62.9B while maintaining a debt-to-equity ratio of 54.9%. MSFT holds a negative net debt position of ~US\$17.9B, while short-term debt totals to US\$3.7B, corresponding to 2.72% of the Company's total cash position (US\$137.6B).

MSFT continues to sustain this level stability, without experiencing adverse effects on its growth trends. Cash has grown by an average of 7.7% over the last five years, while equity has grown by 8.3% over the same period, including an increase of 17.8% over the last two years. Overall, debt has decreased by 6.2% over the last three years, whereas MSFT's debt-to-capital ratio has decreased by an average of 10% during the timeframe, indicating an overall reduction in the use of debt capital. The Company has been able to accomplish this while paying out 9.9% of total cash through dividends, including an average dividend of US\$1.59 per share, over the course of the last five years, led by a payout of US\$1.80 per share in 2019.

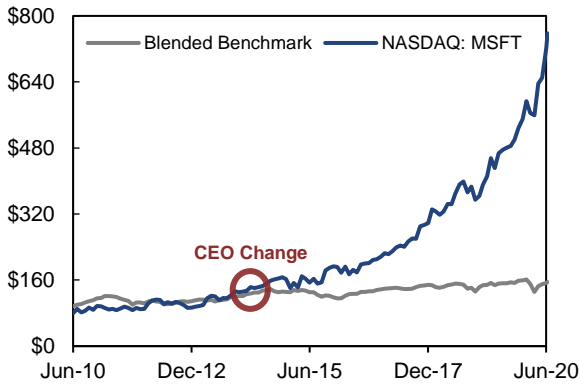
Overall, the continuous stability of MSFT's balance sheet demonstrates its financial strength and economic efficiency. The CPMT believes that there are minimal concerns regarding the Company's ability to fulfil existing debt obligations going forward.

Competitive Advantage

One of MSFT's greatest advantage comes from its strong balance sheet and cash flow generation, enabling it to acquire more businesses. Notable acquisitions that highlight the Company's growing integration into most industries is demonstrated by its recent acquisition of ADRM Software and Metaswitch Network. ADRM Software provides large-scale industry data models, which will be combined with MSFT's Azure to allow users to create intelligent data lakes. This will enable users to compile data from multiple lines of business within any organization.

On the other hand, Metaswitch Network is a provider of virtualized networks that will give Azure's cloud system a software to run its virtualized communications and applications. Overall, the Company's integration of different technologies within the sector has enabled it to continuously enhance and create unique solutions to the technology industry's evolving needs.

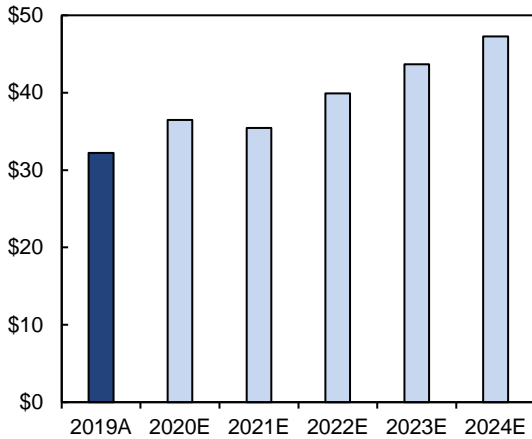
Figure 2: Trading Performance Since CEO Change⁽¹⁾



(1) Indexed to \$100

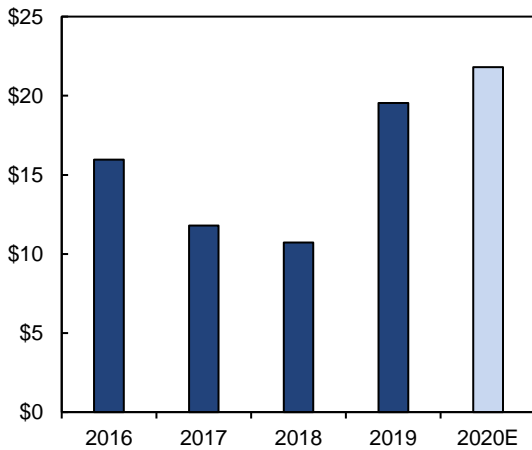
Source: S&P Capital IQ

Figure 3: Free Cash Flow Generation (US\$B)



Source: Company Filings, CPMT Estimates

Figure 4: Share Repurchases Over Time (US\$B)



Source: Company Filings

Growth Opportunities

Beyond acquisitions for product developments, MSFT's ability to form strategic partnerships allows for tremendous growth opportunities. It is projected that the online gaming market is in its early stages of a long-term trend of robust growth due to the environment's rapid innovation and popularity. Accordingly, the Company recently announced that it will close Mixer's services (a gaming platform), as a result of partnering with Facebook Gaming. This move enables the Company to bring its xCloud to the Platform, enabling viewers to immediately play the games that others are streaming, with a few simple clicks. Moreover, MSFT's partnership expansion with Walgreens Boots Alliance (NASDAQ: WBA) will deliver personalized healthcare and improved retail experiences to its customers. WBA will use MSFT's Power Platform and Dynamics 365 Customer Insights to gain detailed views on its customers. The CPMT sees these developments in a favourable light, as the Company's expansion into many industries supports the secular growth trends of MSFT's services and products.

Management Team

MSFT's management team is led by CEO Satya Nadella, who has held the position for over six years while serving in the Company for over two decades. Nadella's previous leadership roles in the Company's enterprise and consumer businesses have enabled him to progress MSFT's development with all users' needs in mind. During Nadella's time as the CEO, the Company has returned US\$101.6B to shareholders in the form of share repurchases and US\$82.9B in dividends. Alongside the stock's outperformance of over 400% when compared to the overall market, the CPMT maintains its original view that MSFT's quality management continues to create value for shareholders.

Risks

Recent political tensions have raised many concerns around the sustainability of MSFT's contracts with all levels of governments in the U.S. For instance, the Senate is considering freezing 50% of the U.S. Army's funds for an Integrated Visual Augmentation Systems program (worth a total of US\$901mm). US\$641mm of this fund was awarded to MSFT for the development of HoloLens. Moreover, numerous American politicians have called for the removal of the Company from federal government contracts after its refusal to finalize the sale of its facial recognition software to U.S. police departments. This was a result of the Company's demand that there should exist clear laws governing the technology's use. Since MSFT's cloud contract with the pentagon alone is worth ~US\$10B, the CPMT will monitor these developments and assess their sensitivity to the Company's valuation and future outlooks. Currently, the CPMT supports management's view that such tensions do not impose any material damages to MSFT's operations and outlook given their lack of action.

Valuation and Investment Thesis

A five-year DCF with a WACC of 5.44% was used to arrive at MSFT's \$239 target price. A 50/50 blend of the Gordon growth model (assuming a 2.0% perpetual growth rate) and a peer group median 28.2x EV/EBITDA exit multiple. In accordance with this financial valuation, the CPMT maintains its original thesis on the name, as the Company continues to meet the mandate, in addition to holding a high potential for growth. As the world continues to move towards digitalization in many aspects, MSFT's relationships, brand, and high-quality offerings are expected to continue to thrive.