

June 30, 2022

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Return on Investment

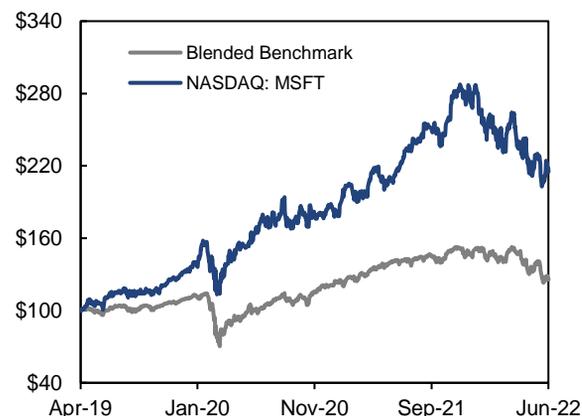
Current Share Price	\$256.83
Target Price	\$287.00
Dividend Yield	0.93%
Implied Return	13%
Conviction Rating	3

Market Profile

52-Week Range	\$241.51 - \$349.67
Market Capitalization (US\$B)	\$1,921
Net Debt (US\$B)	(\$27)
Enterprise Value (US\$B)	\$1,894
Beta (5-Year Monthly)	0.93

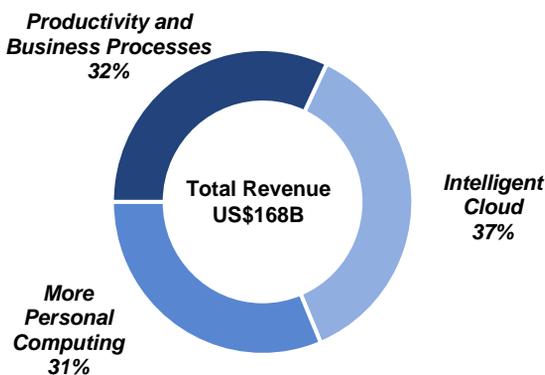
Metrics	2022E	2023E	2024E
Revenue (US\$B)	\$198	\$220	\$237
EBITDA (US\$B)	\$89	\$101	\$109
EPS (US\$)	\$9.30	\$10.54	\$12.18
EV/EBITDA	21.3x	18.8x	17.4x

Holding Period Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

Figure 1: Revenue Segmentation FY2022



Source: Company Filings

Business Description

Microsoft (NASDAQ: MSFT) 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. MSFT also offers cloud-based solutions to consumers with its software, platforms, content, and support services. MSFT employs 181,000 people with headquarters in Redmond, Washington.

Industry Overview

MSFT operates in the information technology sector where the Company creates and distributes media to consumers and business globally. Over the next five years, the sector is expected to grow in line with the economy at an annualized rate of 2.5% resulting in US\$2.2T in annual U.S. revenues. This industry is under intense competition with numerous large competitors such as Apple (NASDAQ: AAPL), Alphabet (NASDAQ: GOOGL), and Amazon (NASDAQ: AMZN) competing for market share in various niches such as cloud computing or productivity software.

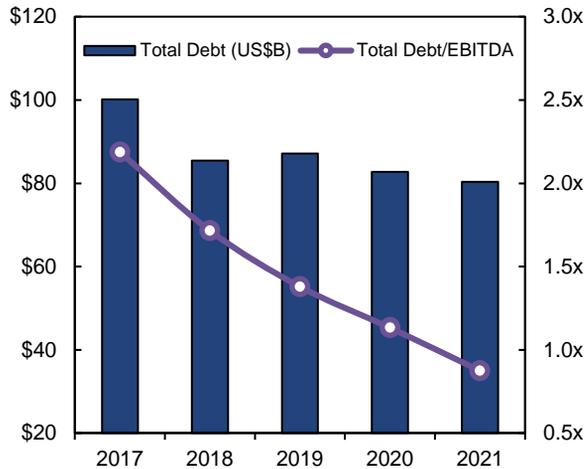
Activision Blizzard Acquisition

On January 18, 2022, MSFT announced the acquisition of Activision Blizzard (NASDAQ: ATVI) for US\$95.00 per share in an all-cash transaction valued at US\$68.7B. The acquisition will accelerate the growth in MSFT's gaming business across mobile, PC, console, and cloud, as well as provide building blocks for the Company's entrance to the metaverse. The acquisition will bolster MSFT's Game Pass portfolio with plans to launch ATVI's games, which include Warcraft, Diablo, Overwatch, Call of Duty, and Candy Crush into MSFT's gaming subscription service. The Fund originally held ATVI due to its leading market position within the e-sports industry, promising content pipeline, and top-tier franchises which currently has ~372mm monthly active users. However, the CPMT divested ATVI in September 2021 due to uncertainty about management following sexual harassment lawsuits. The Fund believes the acquisition will mitigate the risks surrounding ATVI's management as the ATVI management team will report internally to the MSFT management team who will ultimately drive the Company's success.

Original Investment Thesis

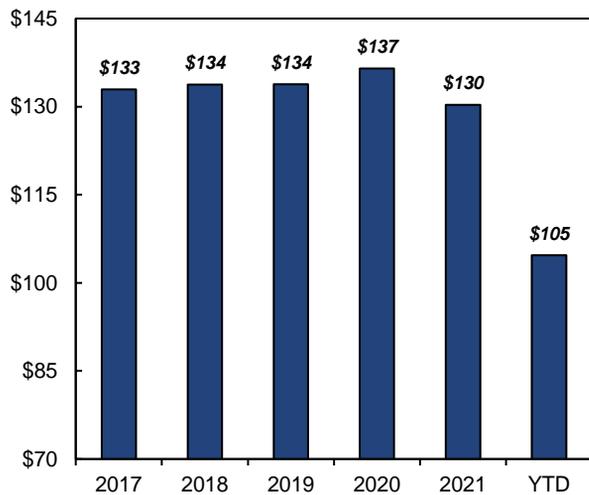
The CPMT entered a position in April 2019 based on MSFT's strong alignment with our mandate points. MSFT Windows OS is deeply embedded in enterprises and personal computing globally, which has allowed the Company to build valuable relationships with other organizations and a brand of delivering high-quality ubiquitous products. The Fund believes that MSFT will outperform the market as a result of its competitive advantages in cloud computing, artificial intelligence, machine learning, and augmented reality. Furthermore, the Company's creation and deployment of software that improves business processes and communication coupled with its ~140mm installed user base has created an economic moat which the CPMT believes will drive sustainable growth for the Company.

Figure 2: LHS Debt vs RHS LTM Debt/EBITDA Ratio



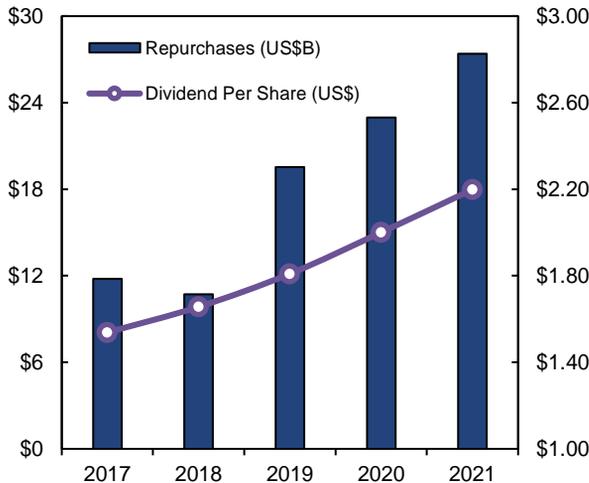
Source: Company Filings

Figure 3: Cash & Cash Equivalents (US\$B)



Source: Company Filings

Figure 4: LHS Repurchases vs RHS Dividend Per Share



Source: Company Filings

Mandate Fit

Quality Management: MSFT’s management team is led by CEO Satya Nadella, who has held the position for over eight years and served in the Company for over three decades. Nadella’s previous leadership roles in the Company’s enterprise and consumer businesses have enabled him to progress MSFT’s development with accessibility for all users in mind. The management team has continued to provide value by returning US\$72B in dividends and US\$108B in stock repurchases over the last five years.

Competitive Advantage: MSFT holds an advantage over its competitors through its network effect resulting in added value for customers. This is enabled by the Company’s patents and proprietary software that make their products familiar in homes across the world. As a result of its legacy product bundles, the Company’s market share in office products and operating software has been further boosted during the work from home environment. The Company also has a wide moat for its Intelligent Cloud segment, which is driven by high switching costs and cost advantages for products like Windows and Azure. Lastly, MSFT’s expansion in the gaming segment positions it to take advantage of current e-sports and metaverse trends.

Strong Balance Sheet: As of March 31, 2022, the Company had US\$78B of total debt on its balance sheet, offset by US\$104B of cash & short-term investments resulting in a net cash position of US\$26B. MSFT has maintained a healthy LTM current ratio of 2.0x and a LTM Debt/EBITDA of 0.8x. MSFT is rated AAA and Aaa by S&P and Moody’s, respectively. The Company’s healthy balance sheet enables it to take on more strategic acquisitions such as ATVI.

Growing Free Cash Flow: MSFT has increased their EBITDA margin from 36% in 2016 to 48% in 2021, which has resulted in a strong FCF CAGR of 17.6% over the past five years. The Company has also increased their dividend per share from US\$1.41/share in 2016 to US\$2.20/share in 2021 (7.8% 5-year CAGR). As of March 31, 2022, the Company had US\$48.5B remaining on its US\$60B share repurchase program.

Risks

Due to MSFT’s global operations, the Company is subject to major foreign exchange headwinds through currency fluctuations which could have a material impact on the share price. Furthermore, the enterprise software industry is subject to intense competition through disruptive technology, which could negatively impact the Company’s long-term growth prospects if it is unable to maintain its leadership position. Lastly, MSFT has material risks surrounding failed transformative acquisitions or failed strategic campaigns as it attempts to scale within certain verticals (such as gaming) which may negatively impact profitability margins.

Valuation & Investment Thesis

MSFT was valued using a 2023E EV/EBITDA multiple of 21x on the Fund EBITDA estimate. The multiple is a slight premium to the competitive peer group (NASDAQ: AMZN, INTU, ADBE, AAPL, GOOG, META; NYSE: CRM) accounting for MSFT’s strong economic moat, which can be attributed to the Company being a top vendor for numerous enterprise software such as Azure, Office, and GitHub. Furthermore, MSFT is also a market leader in other technology verticals such as networking through LinkedIn, and video games through Xbox and the pending ATVI acquisition. The Fund currently holds MSFT at a conviction of 3, which is the maximum any single name can be held at.