

software. It develops and sells software products for a wide range of computing environments in consumer and enterprise markets.. Hardware products include Nokia mobile phones, the Xbox video game console, and Surface tablet. Revenue sources in fiscal 2014: Devices and Consumer, 43.4%; Commercial, 57.1%; Corporate

99,000 at 6/30/13. Stock owners: William H. Gates, 3.6%;, other offs. & dirs., 1%; BlackRock, Inc., 5.3%; Steven A. Ballmer, 4.0% (10/14 proxy). Chairman: John W. Thompson. CEO: Satya Nadella. Inc.: Washington. Addr.: One Microsoft Way, Redmond, Washington 98052-6399. Tele.: 425-882-8080. Internet: www.microsoft.com.

Past Est'd '12-'14 ANNUAL RATES Past 10 Yrs. to '17-'19 of change (per sh) 5 Yrs. Revenues "Cash Flow 12.0% 11.0% 9.0% 10.5% 8.5% 10.5% 28.0% 8.5% 13.5% Earnings Dividends Book Value 8.0%

101466

4828 2999

20639

8951

37417

114246

7432 2000

23150 13043

45625

112439

Current Assets

Accts Payable Debt Due

Current Liab

Unearned Revenue Other

Fiscal Year Ends	QUART Sep.30	ERLY REV Dec.31	/ENUES (\$ Mar.31	mill.) A Jun.30	Full Fiscal Year
2011	16195	19953	16428	17367	69943
2012	17372	20885	17407	18059	73723
2013	16008	21456	20489	19858	77811
2014	18529	24519	20403	23382	86833
2015	23201	26000	23500	24299	97000
Fiscal	EARNINGS PER SHARE AB _Full .				
Year Ends	Sep.30	Dec.31	Mar.31	Jun.30	Fiscal Year
2011	.62	.77	.61	.69	2.69
2012	.68	.78	.60	.67	2.72
2013	.53	.76	.72	.66	2.65
2014	.62	.78	.68	.55	2.63
2015	.54	.70	.64	.65	2.53
Cal-	QUARTERLY DIVIDENDS PAID =				Full
endar	Mar.31	Jun.30	Sep.30	Dec.31	Year
2010	.13	.13	.16	.16	.58
2011	.16	.16	.16	.20	.68
2012	.20	.20	.20	.23	.83
2013	.23	.23	.23	.28	.97
2014	.28	.28	.31		

Software giant Microsoft Corp. got a good start to fiscal 2015. Revenue and earnings for the September period topped our estimates, reflecting better performances than we had envisioned from the Computer and Gaming, and Phone Hardware businesses in the Devices and Consumer segment. On point, interest remains high in Xbox and its ecosystem, and Surface Pro 3 seems to have acquired the right set of attributes to attract a fairly wide range of users. Meanwhile, the Commercial segment continued to show its traditional strength, benefiting from Corporate America's adoption of cloud computing architecture. Indeed, the combination of Azure (infrastructure) and Office 365 should remain potent in this arena.

The Devices and Consumer group is

headed in the right direction, in our view. That said, the progress may not show up in Microsoft's overall financial performance this year, largely reflecting the drag associated with the acquisition of Nokia Devices & Services. Still, the company intends to manage the Phone Hardware business with the intent of improving its profitability over time, so the effect should lessen going forward. In terms of the Windows operating system, the stated strategy is to broaden its reach, extending it to devices costing less than \$200. Clearly, the average selling price will suffer some in the consumer arena, but the strategy helps set the stage for the next release of the operating system, Windows 10, wherein developers can target a broad market without having to write multiple applications. Meanwhile, Office 365 is gaining popularity with consumers, as they have come to favor the benefits of the subscription service. Elsewhere, Microsoft is upping its game in Xbox/Kinect. Although the recent acquisition of game developer Mujang (Minecraft) figures in here, the company is also refocusing its efforts with its established franchises, such as Halo.

What about Microsoft stock? Its current valuation tends to already incorporate some of the improvements we envision for the near term, suggesting new commitments to these untimely shares can be deferred. However, if the stock is already owned, the position should be maintained. Charles Clark November 14, 2014

(A) Fiscal year ends June 30th. (B) Diluted earnings. Quarters may not add to total. Excl. nonrec. items: '98, d3¢; '99, 1¢; '01, d26¢; '02, d23¢; '03, d5¢; '04, d29¢; '05, d4¢;

\$2.44 a share.

'12, d72¢; '13, d7¢. Next earnings report, late January. (C) In millions, adjusted for stock split. Sept., and Dec. ■Dividend reinvestment plan (D) Includes intangibles. In 2014: \$20.1 billion, available. Special dividend of \$3.00 a share paid December 2, 2004.

Company's Financial Strength Stock's Price Stability A++ 85 Price Growth Persistence 55 **Earnings Predictability** 85

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