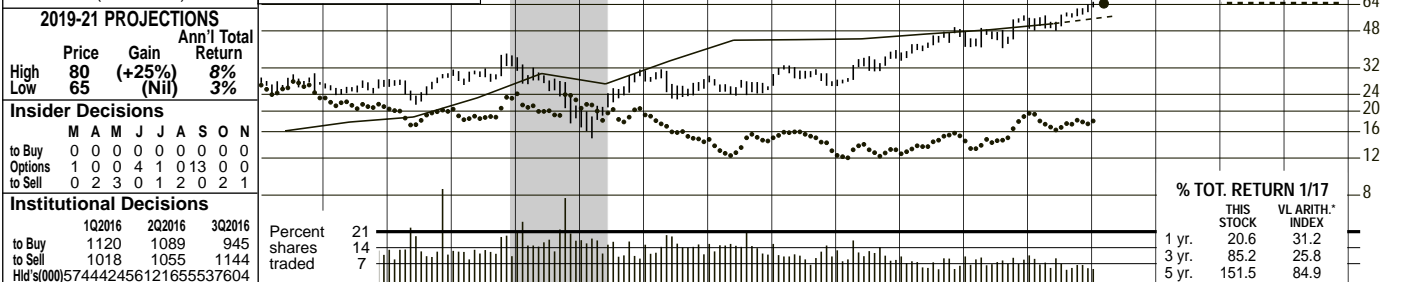


MICROSOFT NDQ-MSFT

RECENT PRICE 64.65 **P/E RATIO** 21.9 (Trailing: 22.2 Median: 14.0) **RELATIVE P/E RATIO** 1.10 **DIV'D YLD** 2.4% **VALUE LINE**

TIMELINESS 4 Lowered 2/3/17	High: 28.3 30.3 37.5 36.0 31.5 31.6 29.5 32.9 39.0 50.0 56.8 64.1	LEGENDS 14.0 x "Cash Flow" p sh Relative Price Strength Options: Yes Shaded area indicates recession	Target Price Range 2019 2020 2021 120 100 80 64 48 32 24 20 16 12 8
SAFETY 1 Raised 5/26/06	Low: 23.8 21.5 26.6 17.5 14.9 22.7 23.7 26.3 26.3 34.6 39.7 48.0		
TECHNICAL 3 Lowered 9/30/16			
BETA 1.00 (1.00 = Market)			



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
2.25	2.39	2.65	3.00	3.39	3.72	4.40	5.45	6.60	6.56	7.21	8.35	8.80	9.34	10.54	11.66	11.78	12.70	Revenues per sh ^A	15.70
.99	1.09	1.07	1.12	1.15	1.27	1.34	1.65	2.16	1.92	2.47	3.09	3.12	3.15	3.31	3.47	3.71	4.05	"Cash Flow" per sh	5.15
.85	.90	.94	.97	1.04	1.16	1.20	1.42	1.87	1.62	2.10	2.69	2.72	2.65	2.63	2.65	2.79	2.95	Earnings per sh ^B	3.95
--	--	--	.08	.16	.32	.34	.40	.44	.52	.52	.64	.80	.89	1.12	1.24	1.44	1.53	Div'ds Decl'd per sh ^E	2.05
.09	.10	.07	.08	.10	.08	.16	.24	.35	.35	.23	.28	.28	.51	.67	.74	1.07	.75	Cap'l Spending per sh	.60
4.05	4.48	4.87	5.69	6.89	4.49	3.99	3.32	3.97	4.44	5.33	6.82	7.92	9.48	10.90	9.98	9.22	8.75	Book Value per sh ^D	9.45
10218	10566	10718	10718	10862	10710	10062	9380.0	9151.0	8908.0	8668.0	8376.0	8381.0	8328.0	8239.0	8027.0	7808.0	7600	Common Shs Outst'g ^C	7000
NMF	35.3	32.4	26.1	25.8	22.9	21.7	19.9	16.3	13.4	13.1	9.6	10.4	11.2	14.0	17.0	18.1		Avg Ann'l P/E Ratio	18.0
NMF	1.81	1.77	1.49	1.36	1.22	1.17	1.06	.98	.89	.83	.60	.66	.63	.74	.86	.96		Relative P/E Ratio	1.12
--	--	--	.3%	.6%	1.2%	1.3%	1.4%	1.4%	2.4%	1.9%	2.5%	2.8%	3.0%	3.0%	2.7%	2.9%		Avg Ann'l Div'd Yield	2.8%

CAPITAL STRUCTURE as of 12/31/16		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		19-21
Total Debt	\$84371 mill.	44282	51122	60420	58437	62484	69943	73723	77811	86833	93580	91964	96500	Revenues (\$mill) ^A	110000						
LT Debt	\$59306 mill.	39.2%	39.1%	40.6%	39.2%	42.9%	42.8%	41.9%	40.3%	38.0%	36.5%	37.6%	37.5%	Operating Margin	39.0%						
LT Interest	\$1630 mill.	903.0	1440.0	2056.0	2562.0	2673.0	2766.0	2967.0	3755.0	5212.0	5957.0	6622.0	7650	Depreciation (\$mill)	8000						
(47% of Cap'l)		12599	14065	17681	14569	18760	23150	23171	22453	22074	21885	22329	23000	Net Profit (\$mill)	28000						
Leases, Uncapitalized	\$572.0 mill.	31.0%	30.0%	25.8%	26.5%	25.0%	17.5%	18.6%	19.6%	20.7%	23.3%	18.8%	20.0%	Income Tax Rate	20.0%						
No defined benefit pension plan		28.5%	27.5%	29.3%	24.9%	30.0%	33.1%	31.4%	28.9%	25.4%	23.4%	24.3%	23.8%	Net Profit Margin	25.5%						
Pfd Stock	None	26568	16414	13356	22246	29529	46144	52396	64049	68621	74854	80303	87000	Working Cap'l (\$mill)	95000						
Common Stock	7,727,529,820 shs.	--	--	--	3746.0	4939.0	11921	10713	12601	20645	27808	40783	60000	Long-Term Debt (\$mill)	44000						
as of 1/20/17		40104	31097	36286	39558	46175	57083	66363	78944	89784	80083	71997	66500	Shr. Equity (\$mill) ^D	66250						
MARKET CAP: \$500 billion (Large Cap)		31.4%	45.2%	48.7%	33.6%	36.8%	33.8%	30.3%	24.7%	20.3%	20.6%	20.3%	19.0%	Return on Total Cap'l	26.0%						
CURRENT POSITION (SMILL.)		31.4%	45.2%	48.7%	36.8%	40.6%	40.6%	34.9%	28.4%	24.6%	27.3%	31.0%	34.5%	Return on Shr. Equity	42.5%						
2015	2016	12/31/16												Retained to Com Eq	20.5%						
2015	2016	12/31/16												All Div'ds to Net Prof	52%						

BUSINESS: Microsoft Corp. is the largest independent maker of software. It develops and sells software products for a wide range of computing environments in consumer and enterprise markets. Hardware products include the Xbox video game console and Surface tablet. Revenue sources in fiscal 2016: Productivity & Business Processes, 28.8%; Intelligent Cloud, 27.2%; More Personal Computing, 44.0%. R&D, 13.0% of 2016 revenues. Employed 114,000 at 6/30/16. Stock owners: William H. Gates, 2.5%; other offs. & dirs., 0.5%; The Vanguard Group, 6.1%; BlackRock, Inc., 5.6%; (10/16 proxy). Chrmn: John Thompson. CEO: Satya Nadella. Inc.: Washington. Addr.: One Microsoft Way, Redmond, Washington 98052-6399. Tel.: 425-882-8080. Internet: www.microsoft.com.

Microsoft's earnings report for its fiscal second quarter made for good reading. (Years end June 30th.) The software and cloud services giant reported revenue and earnings of \$26.1 billion and \$0.83 a share, inclusive of the recent acquisition of LinkedIn (completed on December 8th), but excluding the effect of *Windows 10* revenue deferrals. Our revenue and earnings estimates, which did not include LinkedIn, were \$25.1 billion and \$0.78 a share. On a non-GAAP basis, LinkedIn added \$228 million to the top line, but penalized net income by \$100 million, or about \$0.01 a share. The latest financial report showed that the company is continuing to make progress with *Windows 10* and the associated ecosystem, while also meeting the burgeoning demand for its cloud infrastructure and higher-valued services.

Microsoft's overall strategy is becoming increasingly effective. Although its three reporting segments Productivity and Business Processes, Intelligent Cloud, and More Personal Computing are important in their own right and give investors a way to measure financial performance, it is becoming clear that these business units do not stand alone, but are intertwined. True, the swift adoption of *Office 365* in the commercial and consumer arenas, the rapid increases in compute time on Microsoft's cloud platform *Azure*, and the rising corporate interest in *Windows 10* are certainly meaningful. However, the interplay that is developing between each segment's operations suggests that the company is making good headway in its transition from a traditional software vendor selling perpetual license agreements and maintenance to one that is meeting the changing needs of its customers, as the secular move to cloud architecture and computing pushes inexorably forward.

What about Microsoft stock? The shares have had a good run over the last three and half years, making new commitments to the untimely issue less attractive, at this juncture. That said, those subscribers already holding the high-quality stock may want to continue to do so, since the company's business strategy should continue benefiting current shareholders over time.

Charles Clark February 10, 2017

(A) Fiscal year ends June 30th. (B) Diluted earnings. Quarters may not add to total. Excl. nonrec. items: '01, d26c; '02, d23c; '03, d5c; '04, d29c; '05, d4c; '12, d72c; '13, d7c;	'15, d\$1.17; '16, d70c. Next earnings report, mid-April. (C) In mill., adjusted for stock split. (D) Includes intangibles. In 2016: \$17.9 billion, \$2.29 a share.	(E) Dividends historically paid in March, June, Sept., and Dec. Dividend reinvestment plan available. Special dividend of \$3.00 a share paid December 2, 2004.	Company's Financial Strength A++ Stock's Price Stability 75 Price Growth Persistence 65 Earnings Predictability 90
---	--	---	---