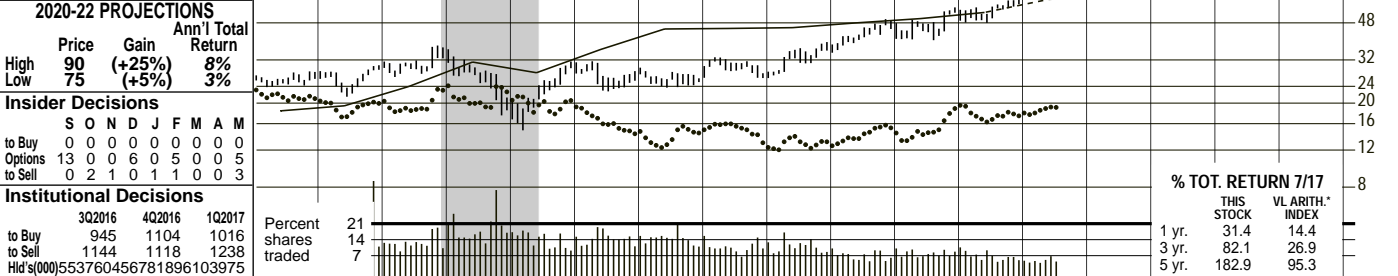


# MICROSOFT NDQ-MSFT

RECENT PRICE **72.58** P/E RATIO **23.6** (Trailing: 23.6 Median: 14.0) RELATIVE P/E RATIO **1.19** DIV'D YLD **2.1%** VALUE LINE

TIMELINESS <b>3</b> Lowered 8/11/17	High: 30.3 37.5 36.0 31.5 31.6 29.5 32.9 39.0 50.0 56.8 64.1 74.4	Target Price Range 2020 2021 2022
SAFETY <b>1</b> Raised 5/26/06	Low: 21.5 26.6 17.5 14.9 22.7 23.7 26.3 26.3 34.6 39.7 48.0 61.9	120 100 80 64 48 32 24 20 16 12 8
TECHNICAL <b>3</b> Raised 8/11/17	LEGENDS 14.5 x "Cash Flow" p sh Relative Price Strength Options: Yes Shaded area indicates recession	
BETA 1.05 (1.00 = Market)		



2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	© VALUE LINE PUB. LLC	20-22
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	12.54	13.90	Revenues per sh <sup>A</sup>	17.25
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	4.27	4.45	"Cash Flow" per sh	5.70
.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	3.08	3.17	Earnings per sh <sup>B</sup>	4.25
--	--	.08	.16	.32	.34	.40	.44	.52	.52	.64	.80	.89	1.12	1.24	1.44	1.56	1.64	Div'ds Decl'd per sh <sup>E</sup>	2.20
.10	.07	.08	.10	.08	.16	.24	.35	.35	.23	.28	.28	.51	.67	.74	1.07	1.05	1.00	Cap'l Spending per sh	1.00
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	9.39	9.65	Book Value per sh <sup>D</sup>	11.25
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	7708.0	7550	Common Shs Outst'g <sup>C</sup>	7100
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	20.2		Avg Ann'l P/E Ratio	19.0
1.81	1.77	1.49	1.36	1.22	1.17	1.06	.98	.89	.83	.60	.66	.63	.74	.86	.95	1.00		Relative P/E Ratio	1.20
--	--	.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%	2.5%		Avg Ann'l Div'd Yield	2.7%

CAPITAL STRUCTURE as of 6/30/17		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Revenues (\$mill) <sup>A</sup>	122500
Total Debt	\$86194 mill. Due in 5 Yrs \$23000 mill.	51122	60420	58437	62484	69943	73723	77811	86833	93580	91964	96657	105000							Operating Margin	40.0%
LT Debt	\$76073 mill. LT Interest \$2275 mill. (51% of Cap'l)	39.1%	40.6%	39.2%	42.9%	42.8%	41.9%	40.3%	38.0%	36.5%	37.6%	39.4%	39.0%							Depreciation (\$mill)	9500
Leases, Uncapitalized	\$572.0 mill.	1440.0	2056.0	2562.0	2673.0	2766.0	2967.0	3755.0	5212.0	5957.0	6622.0	8778	9500							Net Profit (\$mill)	31000
No defined benefit pension plan		14065	17681	14569	18760	23150	23171	22453	22074	21885	22329	24084	24075							Income Tax Rate	23.0%
Pfd Stock	None	30.0%	25.8%	26.5%	25.0%	17.6%	18.6%	19.6%	20.7%	23.3%	18.8%	20.2%	23.0%							Net Profit Margin	25.3%
Common Stock	7,708,000,000 shs.	27.5%	29.3%	24.9%	30.0%	33.1%	31.4%	28.9%	25.4%	23.4%	24.3%	24.9%	22.9%							Working Cap'l (\$mill)	95000
MARKET CAP: \$560 billion (Large Cap)		16414	13356	22246	29529	46144	52396	64049	68621	74854	80303	95324	95000							Long-Term Debt (\$mill)	75000
CURRENT POSITION (SMILL.)		--	--	3746.0	4939.0	11921	10713	12601	20645	27808	40783	76073	76000							Shr. Equity (\$mill) <sup>D</sup>	80000
Cash Assets	85709	96526	132981																	Return on Total Cap'l	21.0%
Receivables	19544	17908	19792																	Return on Shr. Equity	39.0%
Inventory (Avg Cst)	2660	2902	2181																	Retained to Com Eq	19.5%
Other	6333	7376	4897																	All Div'ds to Net Prof	50%
Current Assets	114246	124712	159851																		
Accts Payable	7432	6591	7390																		
Debt Due	2000	7484	10121																		
Unearned Revenue	23150	23223	34102																		
Other	13043	12560	12914																		
Current Liab.	45625	49858	64527																		

**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 2017: Productivity & Business Processes, 32%; Intelligent Cloud, 28%; More Personal Computing, 40%. R&D, 13.5% of 2017 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 W. Thompson. CEO: Satya Nadella. Inc.: Washington. Addr.: One Microsoft Way, Redmond, Washington 98052-6399. Tel.: 425-882-8080. Internet: www.microsoft.com.

ANNUAL RATES		Past 10 Yrs.	Past 5 Yrs.	Est'd '14-'16 to '19-'21
of change (per sh)				
Revenues	11.5%	9.0%	7.5%	
"Cash Flow"	11.0%	7.0%	8.5%	
Earnings	9.0%	4.5%	8.0%	
Dividends	16.5%	17.5%	9.5%	
Book Value	7.0%	12.5%	2.0%	

Fiscal Year Ends	QUARTERLY REVENUES (\$ mill.) <sup>A</sup>				Full Fiscal Year
	Sep.30	Dec.31	Mar.31	Jun.30	
2014	18529	24519	20403	23382	86833
2015	23201	26470	21729	22180	93580
2016	21660	25506	22156	22642	91964
2017	22334	26066	23557	24700	96657
2018	24000	28500	25500	27000	105000

Fiscal Year Ends	EARNINGS PER SHARE <sup>AB</sup>				Full Fiscal Year
	Sep.30	Dec.31	Mar.31	Jun.30	
2014	.62	.78	.68	.55	2.63
2015	.65	.77	.62	.62	2.65
2016	.70	.77	.63	.69	2.79
2017	.76	.83	.73	.75	3.08
2018	.76	.84	.77	.80	3.17

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>E</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	.23	.23	.23	.28	.97
2014	.28	.28	.31	.31	1.18
2015	.31	.31	.31	.36	1.29
2016	.36	.36	.39	.39	1.50
2017	.39	.39			

**Microsoft Corporation ended fiscal 2017 on a strong note.** (Years end June 30th.) As has been the case for the last 12 to 18 months, the high-tech giant continued experiencing strong demand for its cloud infrastructure and related platform services (e.g., Azure), as well as from cloud-based productivity offerings Office 365 (in both the commercial and consumer markets) and Dynamics 365. Specifically, revenues from Microsoft's commercial cloud businesses finished the fiscal fourth quarter at an annual run rate of \$18.9 billion, up 56%. Meanwhile, the gross margin in the commercial cloud arena was 52%, up 10 points, with improvements across each of Azure, Office 365, and Dynamics 365. Windows 10 and its associated ecosystem also performed well versus the general PC market in the June period. This was particularly notable in the commercial arena. Elsewhere, Gaming appears to be shaping up nicely, with good prospects for the holiday season. For its part, Search continued to contribute to corporate results, with advertising revenue advancing 10% (net of traffic acquisition costs).

**Microsoft shares have performed well so far this year.** On balance, investors seemed to take the latest earnings report in stride, though, as support for the stock weakened slightly with the June-period release. Indeed, a period of consolidation may be in order, particularly given the gains recorded in the last six to 12 months. That said, the prospects for Microsoft as a company remain intact. Although investment in the cloud is still required, the company should continue benefiting from the scale of the buildout. Accordingly, revenues and profits from its cloud infrastructure and cloud-based productivity services should remain in rapid growth mode in fiscal 2018. Moreover, Microsoft is demonstrating that it is a very effective competitor in the cloud arena, and will likely continue improving on its position in coming years, as the secular move to cloud architecture unfolds. All things considered, though, new commitments to MSFT shares do not appear overly attractive, given the stock's current valuation. If the shares are already owned, we would advise to continue to hold them.

Charles Clark August 11, 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; '17, d37c. Next earnings report, late October. (C) In mill., adjusted for stock split. (D) Includes intangibles. In 2017: \$35.1 billion, \$4.55 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 95

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