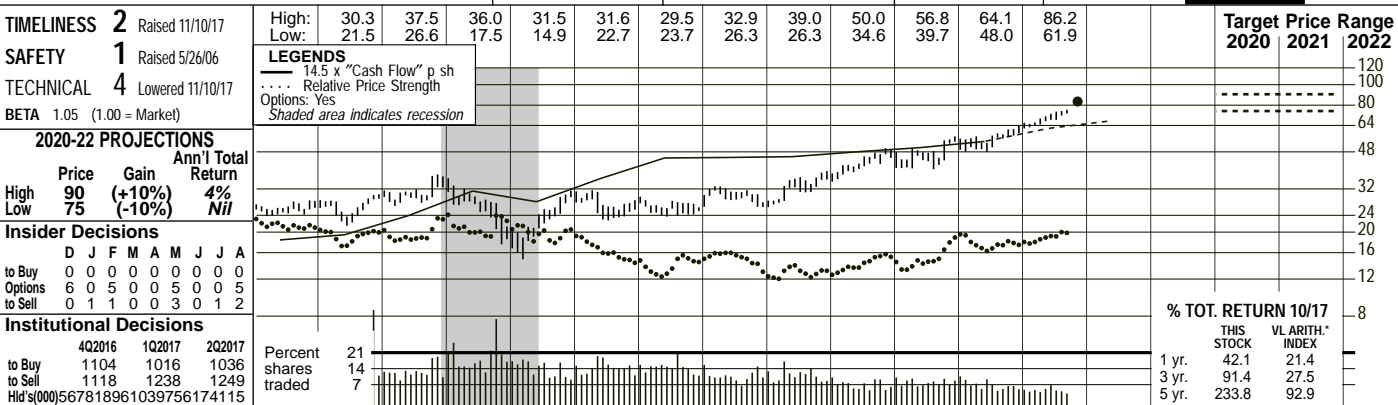


# MICROSOFT NDQ-MSFT

RECENT PRICE **83.18** P/E RATIO **26.0** (Trailing: 26.4 Median: 14.0) RELATIVE P/E RATIO **1.27** DIV'D YLD **2.0%**

**VALUE LINE**



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	<b>13.90</b>	Revenues per sh <sup>A</sup>	<b>17.25</b>
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	4.26	<b>4.65</b>	"Cash Flow" per sh	<b>5.75</b>
.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	<b>3.25</b>	Earnings per sh <sup>B</sup>	<b>4.25</b>
--	--	.08	.16	.32	.34	.40	.44	.52	.52	.64	.80	.89	1.12	1.24	1.44	1.56	<b>1.64</b>	Div'ds Decl'd per sh <sup>E</sup>	<b>2.20</b>
.10	.07	.08	.10	.08	.16	.24	.35	.35	.23	.28	.28	.51	.67	.74	1.07	1.05	<b>1.00</b>	Cap'l Spending per sh	<b>1.00</b>
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	<b>10.05</b>	Book Value per sh <sup>D</sup>	<b>11.25</b>
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	<b>7550</b>	Common Shs Outst'g <sup>C</sup>	<b>7100</b>
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	<b>19.0</b>
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	<b>1.20</b>
--	--	.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	<b>2.7%</b>

**CAPITAL STRUCTURE as of 9/30/17**  
 Total Debt \$85475 mill. Due in 5 Yrs \$22300 mill.  
 LT Debt \$76255 mill. LT Interest \$2275 mill. (46% of Cap'l)

Leases, Uncapitalized \$572.0 mill.

No defined benefit pension plan  
 Pfd Stock None

Common Stock 7,714,600,000 shs. as of 10/20/17

MARKET CAP: \$642 billion (Large Cap)

51122	60420	58437	62484	69943	73723	77811	86833	93580	91964	96657	<b>105000</b>	Revenues (\$mill) <sup>A</sup>	<b>122500</b>
39.1%	40.6%	39.2%	42.9%	42.8%	41.9%	40.3%	38.0%	36.5%	37.6%	39.4%	<b>39.5%</b>	Operating Margin	<b>40.0%</b>
1440.0	2056.0	2562.0	2673.0	2766.0	2967.0	3755.0	5212.0	5957.0	6622.0	8778.0	<b>10000</b>	Depreciation (\$mill)	<b>10000</b>
14065	17681	14569	18760	23150	23171	22453	22074	21885	22329	24084	<b>24975</b>	Net Profit (\$mill)	<b>31000</b>
30.0%	25.8%	26.5%	25.0%	17.5%	18.6%	19.6%	20.7%	23.3%	18.8%	20.2%	<b>22.0%</b>	Income Tax Rate	<b>23.0%</b>
27.5%	29.3%	24.9%	30.0%	33.1%	31.4%	28.9%	25.4%	23.4%	24.3%	24.9%	<b>23.8%</b>	Net Profit Margin	<b>25.3%</b>
16414	13356	22246	29529	46144	52396	64049	68621	74854	80303	95324	<b>100000</b>	Working Cap'l (\$mill)	<b>125000</b>
--	--	3746.0	4939.0	11921	10713	12601	20645	27808	40783	76073	<b>76000</b>	Long-Term Debt (\$mill)	<b>75000</b>
31097	36286	39558	46175	57083	66363	78944	89784	80083	71997	72394	<b>75750</b>	Shr. Equity (\$mill) <sup>D</sup>	<b>80000</b>
45.2%	48.7%	33.6%	36.8%	33.8%	30.3%	24.7%	20.3%	20.6%	20.3%	17.0%	<b>17.0%</b>	Return on Total Cap'l	<b>21.0%</b>
45.2%	48.7%	36.8%	40.6%	40.6%	34.9%	28.4%	24.6%	27.3%	31.0%	33.3%	<b>33.0%</b>	Return on Shr. Equity	<b>39.0%</b>
33.0%	37.7%	25.5%	30.7%	31.5%	25.3%	19.0%	14.7%	15.0%	15.7%	16.9%	<b>16.5%</b>	Retained to Com Eq	<b>19.5%</b>
27%	23%	31%	24%	22%	28%	33%	40%	45%	49%	49%	<b>50%</b>	All Div'ds to Net Prof	<b>50%</b>

**CURRENT POSITION 2016 2017 9/30/17 (\$MILL.)**

Cash Assets	96526	132981	138471
Receivables	17908	19792	14561
Inventory (Avg Cst)	2902	2181	3211
Other	7376	4897	4788
Current Assets	124712	159851	161031
Accts Payable	6591	7390	6866
Debt Due	7484	10121	9220
Unearned Revenue	23223	34201	22778
Other	12560	12914	12751
Current Liab.	49858	64527	51615

**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 124,000 at 6/30/17. Stock owners: William H. Gates, 1.3%; other offs. & dirs., 0.2%; The Vanguard Group, 6.8%; BlackRock, Inc., 6.0%; (10/17 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 '15-'17 of change (per sh)**

Revenues	10.0%	8.0%	7.5%
"Cash Flow"	10.5%	5.5%	8.5%
Earnings	8.5%	2.5%	8.0%
Dividends	15.0%	16.5%	9.5%
Book Value	9.5%	7.5%	2.0%

**Microsoft's earnings report for its fiscal first quarter made for good reading.** (Years end June 30th.) From an operational standpoint, the software and cloud infrastructure and application services giant continued to experience good demand for its cloud offerings, with revenue growth from *Office 365* and *Dynamics 365* helping to drive the Productivity and Business Processes segment forward. In terms of revenue, LinkedIn was also a positive factor, though the recent acquisition remained a drag on the segment's operating profit (inclusive of acquisition-related amortization). Meanwhile, the Intelligent Cloud segment saw server products and cloud services revenue progress some 17%, with that from cloud platform *Azure* advancing 90% and associated compute usage more than doubling. Finally, the interest in *Windows 10* remained active, with revenue from commercial products and cloud services contributing nicely to the performance of the More Personal Computing segment. Elsewhere, Microsoft's search business continued to progress based on revenue per search and search volume.

**We have some adjustments to our estimates for this fiscal year.** Although we have left our revenue target unchanged, it appears that Microsoft's profit margins may well turn out to be slightly wider than we had previously envisioned, reflecting the scale economies that it is starting to experience in its range of cloud business, particularly with its *Azure* platform. So even though the company will have to continue making the investments in cloud infrastructure in order to meet the burgeoning customer demand, we have added \$0.08 a share to our call for the year, bringing it to \$3.25.

**What about Microsoft stock?** Importantly, the company is showing tremendous strength in the keenly competitive commercial cloud business, indicating it is having increasing success bringing customers onto its cloud infrastructure/platform. That said, MSFT shares' current valuation accounts for much of the company's prospects we see over both the near- and longer-term. Nonetheless, if this high-quality stock is already owned, we would continue to hold onto it, for now.

**Fiscal Year Ends**

Quarterly Revenues (\$ mill.) <sup>A</sup>	Full Fiscal Year
Sep.30 Dec.31 Mar.31 Jun.30	Fiscal Year
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 24538 <b>28200</b> <b>25250</b> <b>27012</b>	<b>105000</b>

**Fiscal Year Ends**

Earnings per Share <sup>AB</sup>	Full Fiscal Year
Sep.30 Dec.31 Mar.31 Jun.30	Fiscal Year
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 .84 <b>.84</b> <b>.77</b> <b>.80</b>	<b>3.25</b>

**Charles Clark**  
 November 10, 2017

(A) Fiscal year ends June 30th.	'13, d7c; '15, d\$1.17; '16, d70c; '17, d37c.	(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++
(B) Diluted earnings. Quarters may not add to total. Excl. nonrec. items: '01, d26c; '02, d23c; '03, d5c; '04, d29c; '05, d4c; '12, d72c;			Stock's Price Stability	70
			Price Growth Persistence	65
			Earnings Predictability	95