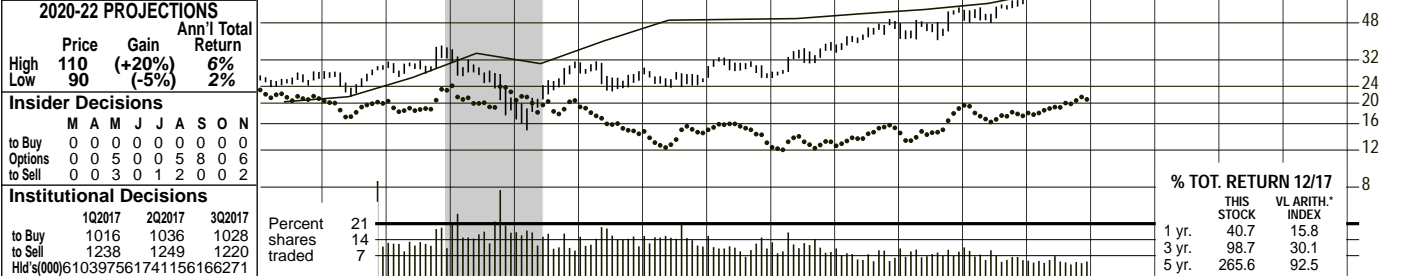


TIMELINESS 2 Raised 11/10/17	High: 30.3 37.5 36.0 31.5 31.6 29.5 32.9 39.0 50.0 56.8 64.1 87.5	Target Price Range 2020 2021 2022
SAFETY 1 Raised 5/26/06	Low: 21.5 26.6 17.5 14.9 22.7 23.7 26.3 26.3 34.6 39.7 48.0 61.9	120 100 80 64 48 32 24 20 16 12 8
TECHNICAL 4 Lowered 2/2/18	LEGENDS 16.0 x "Cash Flow" p sh Relative Price Strength Options: Yes Shaded area indicates recession	
BETA 1.05 (1.00 = Market)		



2020-22 PROJECTIONS		Price	Gain	Ann'l Total Return
High	Low	110	(+20%)	6%
		90	(-5%)	2%
Insider Decisions				
M A M J J A S O N				
to Buy	0	0	0	0
Options	0	0	5	0
to Sell	0	0	3	0
Institutional Decisions				
120217 202017 302017				
to Buy	1016	1036	1028	
to Sell	1238	1249	1220	
Hlds(000)	61039756	61741156	6166271	
Percent shares traded				
	21	14	7	
% TOT. RETURN 12/17				
THIS STOCK VL ARITH. INDEX				
1 yr.	40.7	15.8		
3 yr.	98.7	30.1		
5 yr.	265.6	92.5		

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	14.10	Revenues per sh ^A	18.00
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	4.80	"Cash Flow" per sh	6.25
.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	3.60	Earnings per sh ^B	4.50
--	--	.08	.16	.32	.34	.40	.44	.52	.52	.64	.80	.89	1.12	1.24	1.44	1.56	1.68	Div'ds Decl'd per sh ^E	2.25
.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	10.20	Book Value per sh ^D	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 ^C	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	22.0
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	1.40
--	--	.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	2.3%

CAPITAL STRUCTURE as of 12/31/17		51122	60420	58437	62484	69943	73723	77811	86833	93580	91964	96657	106500	Revenues (\$mill) ^A	128500
Total Debt \$89260 mill. Due in 5 Yrs \$22300 mill.		39.1%	40.6%	39.2%	42.9%	42.8%	41.9%	40.3%	38.0%	36.5%	37.6%	39.4%	40.0%	Operating Margin	40.0%
LT Debt \$73348 mill. LT Interest \$2275 mill. (48% of Cap'l)		1440.0	2056.0	2562.0	2673.0	2766.0	2967.0	3755.0	5212.0	5957.0	6622.0	8778.0	10000	Depreciation (\$mill)	11500
Leases, Uncapitalized \$572.0 mill.		14065	17681	14569	18760	23150	23171	22453	22074	21885	22329	24084	27840	Net Profit (\$mill)	32000
No defined benefit pension plan		30.0%	25.8%	26.5%	25.0%	17.5%	18.6%	19.6%	20.7%	23.3%	18.8%	20.2%	18.0%	Income Tax Rate	20.0%
Pfd Stock None		27.5%	29.3%	24.9%	30.0%	33.1%	31.4%	28.9%	25.4%	23.4%	24.3%	24.9%	26.1%	Net Profit Margin	24.9%
Common Stock 7,699,792,852 shs. as of 1/26/18		16414	13356	22246	29529	46144	52396	64049	68621	74854	80303	95324	100000	Working Cap'l (\$mill)	125000
MARKET CAP: \$715 billion (Large Cap)		--	--	3746.0	4939.0	11921	10713	12601	20645	27808	40783	76073	76000	Long-Term Debt (\$mill)	75000
CURRENT POSITION		31097	36286	39558	46175	57083	66363	78944	89784	80083	71997	72394	76925	Shr. Equity (\$mill) ^D	80000
2016		45.2%	48.7%	33.6%	36.8%	33.8%	30.3%	24.7%	20.3%	20.6%	20.3%	17.0%	18.0%	Return on Total Cap'l	21.5%
2017		45.2%	48.7%	36.8%	40.6%	40.6%	34.9%	28.4%	24.6%	27.3%	31.0%	33.3%	36.0%	Return on Shr. Equity	40.0%
2018		33.0%	37.7%	25.5%	30.7%	31.5%	25.3%	19.0%	14.7%	15.0%	15.7%	16.9%	19.5%	Retained to Com Eq	20.0%
2019		27%	23%	31%	24%	22%	28%	33%	40%	45%	49%	49%	46%	All Div'ds to Net Prof	50%

Microsoft's earnings report for its fiscal second quarter made for good reading. (Years end June 30th.) From an operational standpoint, established trends continued benefiting the software and cloud infrastructure and application services giant, with revenue growth from *Office 365* and *Dynamics 365* helping to drive the Productivity and Business Processes segment forward. In terms of revenue, LinkedIn remained a positive factor, though it continued to be a drag on the segment's operating profit (inclusive of acquisition-related amortization). Meanwhile, the Intelligent Cloud segment continued progressing rapidly, with server products and cloud services revenue moving forward at a strong double-digit clip; cloud platform *Azure* remained on a steep upward trajectory (up 98%). The interest in *Windows 10* stayed active, reflecting growth in the OEM market. Finally, Microsoft had a good holiday season in gaming, and search revenue (excluding acquisition costs) advanced nicely.

We have made some adjustments to our estimates for this fiscal year. We have increased our revenue target \$1.5 billion. In addition, Microsoft's profit margins may well turn out to be slightly wider than we had previously envisioned, reflecting the scale economies that it is experiencing in its range of cloud business, particularly with its *Azure* platform. That said, the company will have to continue making the investments in cloud infrastructure in order to meet the burgeoning customer demand. Finally, Microsoft's blended tax rate for this year will be about 18%, benefiting from the new tax law. In sum, earnings of \$3.60 a share seem in the cards for this year.

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, even with our expanded Target Price Range, 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.

Charles Clark
February 9, 2018

(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;	Next earnings report late April. (C) In mill., adjusted for stock split. (D) Includes intangibles. In 2017: \$35.1 billion, \$4.55 a share.		Stock's Price Stability	75
			Price Growth Persistence	65
			Earnings Predictability	95

To subscribe call 1-800-VALUELINE