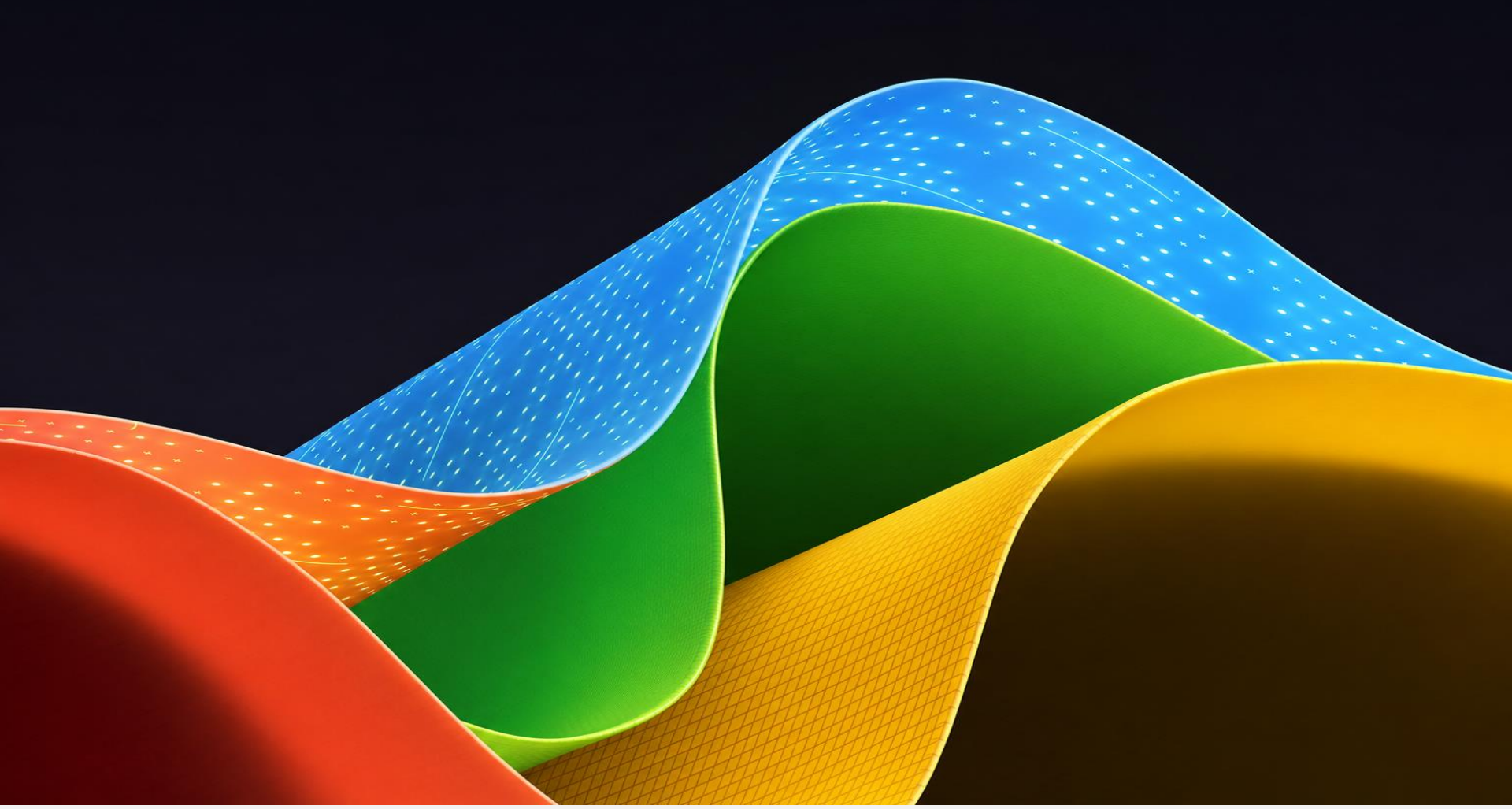

Microsoft

NASDAQ: MSFT
Tech Coverage Group
Husky Traders
Spring ‘26

Meet the Team

Celina Phan
Sector Lead

Akhilan Venkatesh
Analyst

Chetana Linga
Analyst

Ishan Kamran
Analyst

Mei Mei Boghossian
Analyst

Microsoft

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Microsoft

Company Overview

An Overview of Microsoft

Microsoft operates a global technology platform focused on cloud computing, software, and AI solutions

Company Overview

- Eco-system spans cloud computing, enterprise software, productivity platforms, gaming, and professional networking.
- Serves both commercial and public sector clients across digital infrastructure and workflow needs.
- Operates a global business model with deep enterprise penetration

Executive Management

Satya Nadella
Chairman & CEO

Mustafa Suleyman
CEO of Microsoft AI

Amy Hood
Executive VP & CFO

Under their leadership, Microsoft has evolved into a global AI and cloud leader and remains the only company among the 2005 top-10 by market cap still in today's top 10.

Revenue Breakdown

54% — **Productivity and Business Processes**

34% — **Intelligent Cloud**

Azure · NUANCE · Microsoft SQL Server · Windows Server

11% — **More Personal Computing**

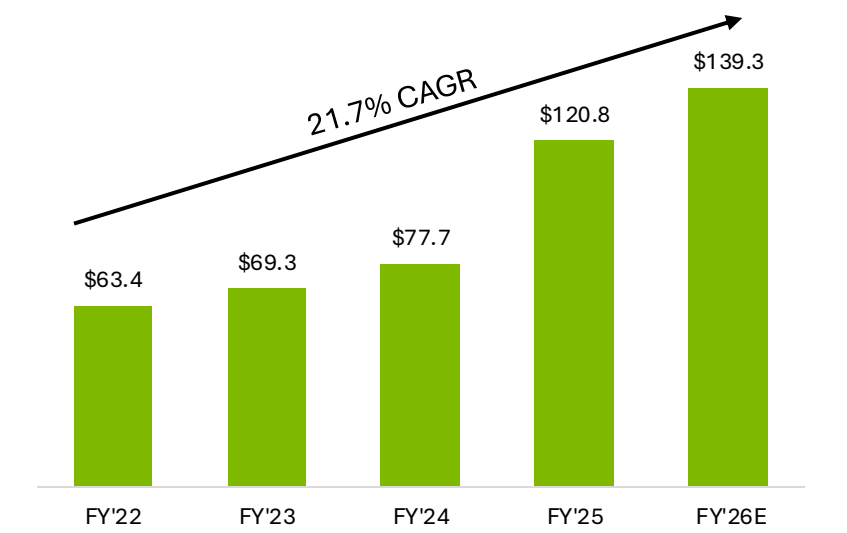
Microsoft Surface · Bing

Sources: Company Filings, Company Website

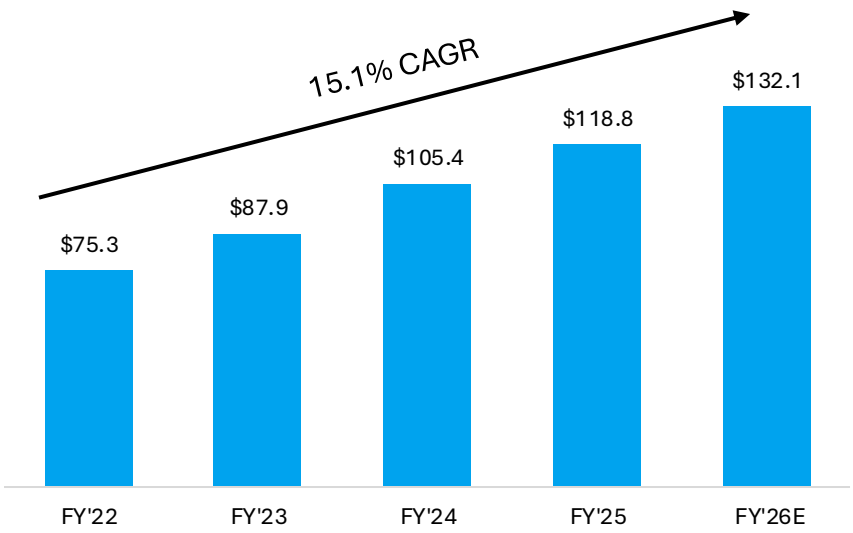
Financials Overview

Accelerating cloud growth and AI expansion underpin Microsoft's long-term earnings power

Productivity & Business Processes Income ($ Bn)



Intelligent Cloud Income ($ Bn)



Fueled by Generative AI adoption, the rise of Agentic AI, and the permanent transition to hybrid and remote work.

FY'25 Profitability Snapshot

Valuation Metrics

3.08T Market Cap	**3.06T** Enterprise Value	**15.8x** EV / EBITDA
24.72x Trailing P/E	**21.46x** Forward P/E	**15.6x** Forward EV / EBITDA

Operating Metrics

Revenue (FY25)	**$ 281.72B**
EBITDA	**$ 162.68B**
Net Income	**$ 101.83B**

39.34% Profit Margin	**29.5%** Return on Equity	**30.27%** Debt/Equity

Sources, Company Filings, FactSet, Yahoo Finance

Microsoft

Industry Overview

The ”SaaS-pocalypse” Narrative

Software stocks have been hammered as AI threatens the per-seat subscription model.

SaaS-pocalypse Timeline

9/04/25

First SaaS bellwether signal when Salesforce posted a **rare revenue miss and weak guidance, signaling slowing seat growth**. “Salesforce Contagion" spreads across the sector.

1/29/26

OpenAI launches Project Operator, an autonomous enterprise agent platform; investors begin pricing **agentic AI as an immediate threat to SaaS** workflow.

2/3/26

Anthropic launches Claude Cowork with legal, financial, and CRM automation plugins. **Software market value drops $300B** in 5 days, with Atlassian plunging 35% in a week.

4/9/26

Cloudflare drops 12%, Snowflake drops 9%, and ServiceNow falls 7% in a session. **Software forward P/E multiples fall below the broader S&P 500** for the first time in history

Equity Repricing since Peak Valuations

-35%	-38%	-65%
Software ETF (IGV) from All-Time High	Microsoft (MSFT) from All-Time High	Oracle (ORCL) from All-Time High

Why Markets are Split

The Bear Case

AI agents can handle legal, financial & CRM workflows autonomously, eliminating the need for hundreds of per-seat SaaS licenses.

The Bull Case

Data gravity protects incumbents. Moving decades of enterprise data to new platforms is slow, expensive, and risky.

The Nuance

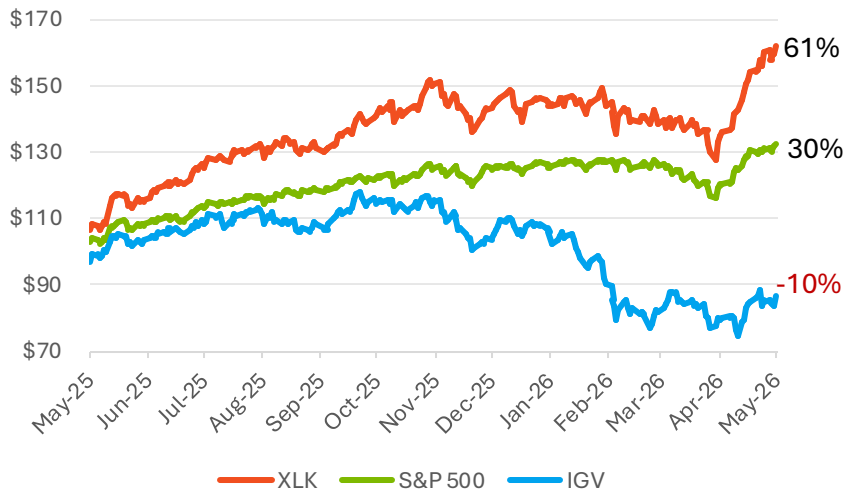
SaaS growth was already slowing before AI. Much of the selloff reflects PE-fueled overvaluation unwinding, not AI disruption.

Sources, Bloomberg, Seeking Alpha, The Wall Street Journal

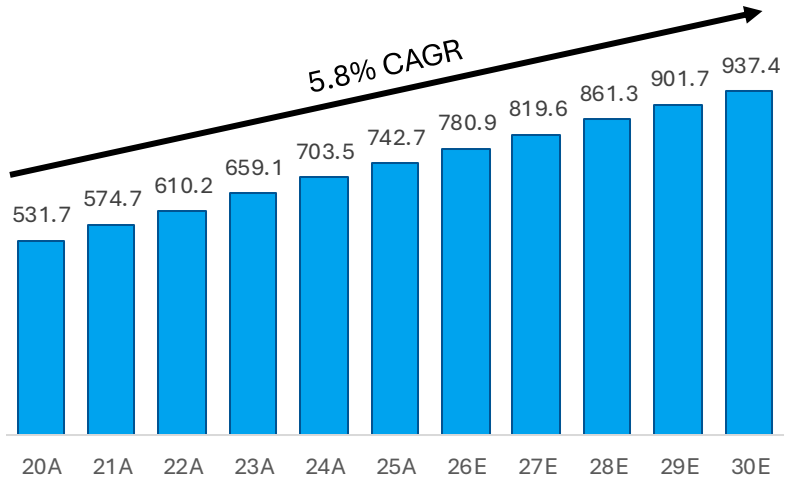
Industry Overview

Microsoft operates within the Software & IT Services subsector, monetizing digital transformation demand through subscription-based software, enterprise technology ecosystems, and long-term cloud adoption trends

S&P 500 vs Technology TTM Return



Software Services Market Size ($Bn)



Key Subsector Growth Drivers	Subsector Headwinds
AI adoption & automation demand	FCF pressure from AI investments
Cloud migration & SaaS expansion	Enterprise budget scrutiny / macro slowdown
Cybersecurity and digital transformation	Talent shortages and rising labor costs

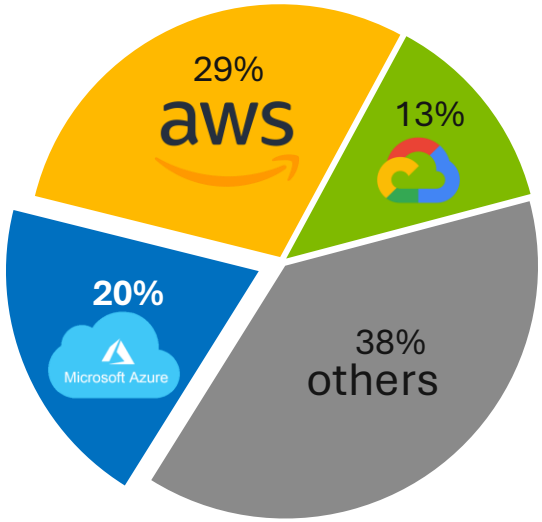
Sources: Earnings Transcript, Statista

Competitive Positoning

Competitive Positioning

Microsoft is positioned as a leader in AI-powered cloud innovation and enterprise productivity.

Cloud Infrastructure Market Share (Q3 2026)



Provider	Quarterly Cloud Revenue	Cloud Growth
Microsoft Azure	$34.7 B (intelligent Cloud segment)	**+40%** YoY Q3 2026
Amazon AWS	$37.6 B	+28% YoY growth
Google Cloud	$20 B	+63% YoY Growth

Microsoft's Competitive Advantages

1. AI Integration

- Owns full AI stack: silicon, models, cloud, and apps
- Copilot infused across Windows, Office, GitHub, Dynamics, and Azure

2. Platform Lock-in

- Deep enterprise embed from daily workflow
- Multi-layered moat
- High switching costs create predictable long-term revenue

3. Order Backlog

- Record $627B in contracted RPO
- Greater than AWS ($364B) & Google Cloud ($462B)
- Multi-year AI commitments

Productivity and Business Processes

Enterprise dominance with unmatched stickiness

- M365 holds ~58% of the enterprise segment
- ~95% of Fortune 500 companies rely on Azure
- ~80%+ utilize M365 for productivity
- ~70% deployed M365 Copilot to automate workflows

Enterprise-Grade Compliance & Security

Azure offers security and compliance features that smaller productivity startups struggle to match

Sources: Microsoft Investor Relations: FY26 Q3 Earnings Release; FY26 Q3 Earnings Presentation. Amazon Investor Relations: AWS Q3 2026 Results. Alphabet Investor Relations: Google Cloud Highlights Q3 2026. Gartner: Cloud Infrastructure Services Market Share, Q3 2026. Statista: Microsoft 365 & Azure Enterprise Adoption Metrics.

Investment Thesis

Investment Theses

Microsoft

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Microsoft's First-Party Silicon

Microsoft's Maia-200 and Cobalt power efficient AI and cloud performance at scale

MAIA 200 – AI Accelerator

Purpose: Optimized for AI inference across Copilot, frontier LLMs, and Azure AI services.

Key Tech: 140B+ transistors on **3nm** process, designed for water cooling.

Result: Internalize AI compute economics and **reduce dependence** on NVIDIA.

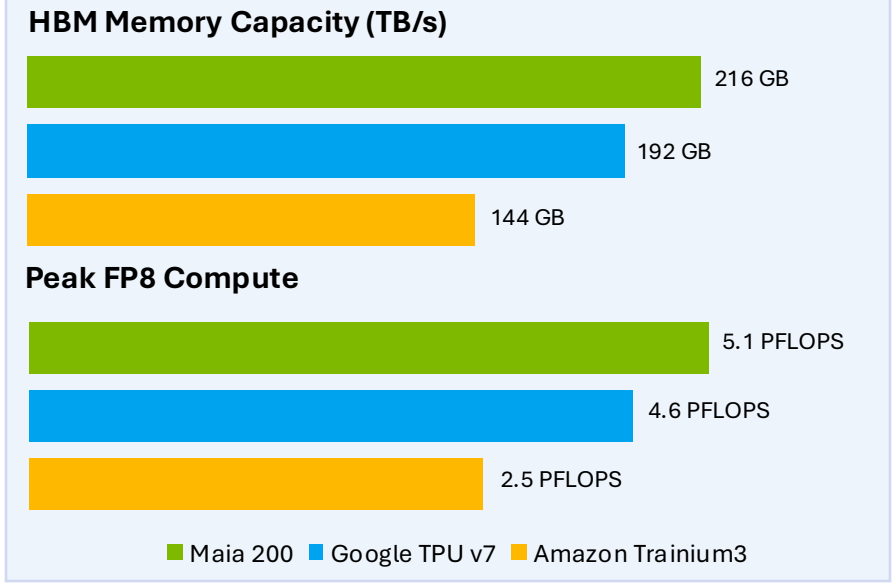
Cobalt – Cloud CPU

Purpose: General-purpose server **CPU** for **managing cloud** servers and infrastructure.

Key Tech: Arm-based **energy-efficient** server technology and custom cloud **accelerators**

Result: Optimized for efficiency and **lower** cloud operating **costs**.

Maia 200 in the Hyperscaler AI Race



3x
Better Performance-per-Dollar

67%
Increased GPU Efficiency

60%
Increase in Image Generation

40%
Improvement in Copilot Processing Rate

Sources: AWS, Company Website, Google Cloud, Earnings Call Transcript

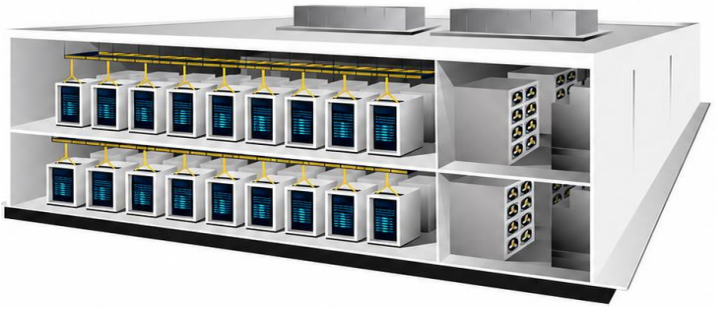
A Unified Network for AI Computing

Microsoft

Connecting global datacenters with next-gen power and infrastructure for AI scale

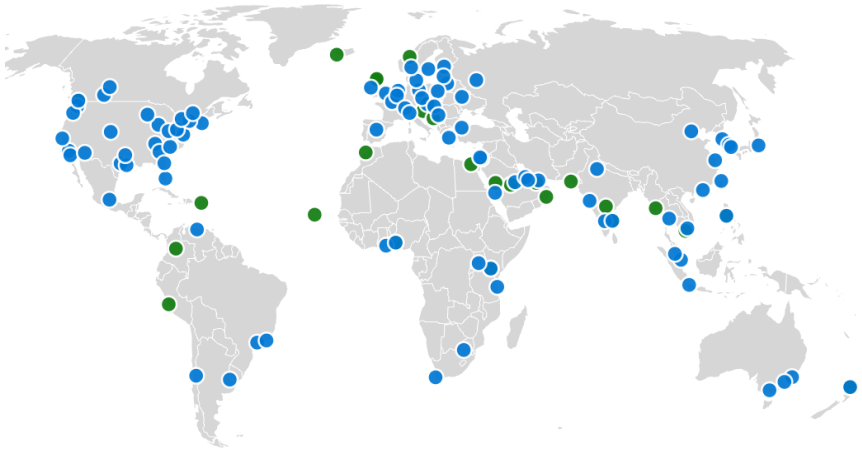
From Datacenters to AI Superfactories

Microsoft's **"superfactory"** is a **connected network** of AI data centers that work together as one system. It lets **computing power** be **shared** across locations to run and train AI models **faster** and at a **larger** scale.



- **High-Speed AI Backbone**
- **Liquid Cooling Innovation**
- **Unmatched GPU Density**
- **Architected for Speed**
- **Maximized Tokens per Watt**
- **Network Topology**

Current Data Center Expansion



Building Control Over AI Energy Supply

Nuclear Power

Renewable Energy

Constellation.

Brookfield

Microsoft's investments in custom silicon, energy, and datacenters **expand Azure AI capacity while lowering unit costs,** enabling faster Intelligent Cloud growth and long-term margin expansion.

Sources: Company Website, Seeking Alpha

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Usage-Based AI Pricing Drives Revenue

Microsoft is well-positioned to capitalize on the explosion in AI usage from its enterprise workflow moat and consumption-based pricing, creating long-term recurring revenue.

Workflow Dominance

Positioning: Embedded across the enterprise software stack across 400K+ companies. High switching costs drive durable monetization.

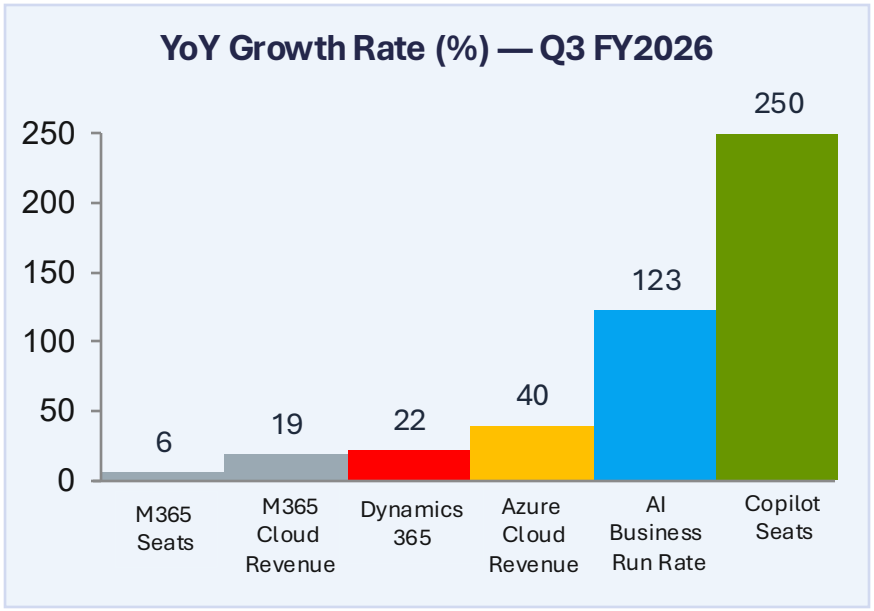
Environment: Agentic AI market size has a ~44% CAGR (2025-2034). Dramatically increasing token consumption across enterprises, with shifts to autonomous workflows.

Result: Microsoft is the lowest-friction, highest-context platform for enterprise agents. Increase in AI usage among current customers, driving organic adoption at scale.

Usage–Based Revenue Engine

Pricing Architecture: M365 Copilot: $30/user/month. Copilot Studio: $0.01/credit (pay-as-you-go). GitHub Copilot transitions to **full usage-based billing 6/1/2026.**

Revenue Driver: ARPU grows even if headcount is flat or decreases. Increase in AI workload intensity becomes a **structural revenue tailwind** with per-transaction upside.



$37B
AI Annual Revenue Run Rate
+123% YoY

20M+
Copilot Paid Seats
Seat Adds +250% YoY

$627B
Commercial RPO
+99% YoY

+40%
Azure Cloud Revenue
Growth (Q3 FY2026)

Sources: Microsoft Investor Relations: FY26 Q3 Earnings Release, FY26 Q3 Earnings Presentation, FY26 Q3 Financial Statements & Metrics. Microsoft Product Documentation: Microsoft 365 Copilot Pricing, Copilot Studio Pricing. GitHub Blog: Transition to Usage-Based Billing (Effective June 2026). Gartner — "Agentic AI Market Forecast (2025–2034)" Statista — "Microsoft 365, Dynamics, and Copilot Adoption Metrics"

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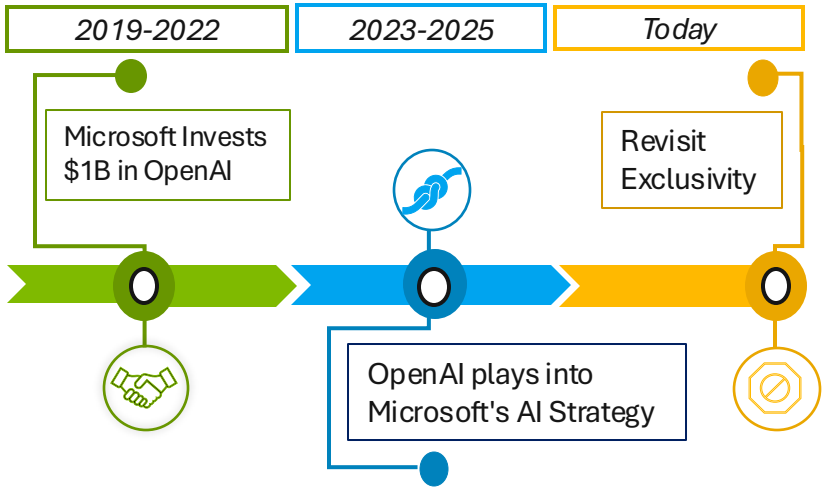
Proprietary Workflow Data Incentive

OpenAI and Microsoft diverging incentivizes Microsoft to leverage proprietary data moat, strengthening their AI strategy

OpenAI and Microsoft's Relationship Timeline



Today's Landscape and Incentives for Microsoft

1) OpenAI Is No Longer The Center of Microsoft's AI Strategy
Microsoft can lean into Azure AI and multi-model capabilities

2) AI Commoditization Necessitates Distinguished Data
Advantage shifts to data competitors can't replicate

Microsoft can leverage proprietary data and multi-model architectures to strengthen long-term AI leadership

Multi-Model Strategy

More Azure Consumption every model on Azure pays MSFT for compute, storage, and inference, regardless of vendor

Workflow Lock-In Teams, Outlook, Excel, and Foundry keep MSFT monetizing even as models rotate

IMPLICATION ▸ ↑ **Intelligent Cloud Revenue**
Every model on Azure pays MSFT compute & inference rent and only Azure pairs that with M365 distribution

Office 365 and LinkedIn Data Moat

LinkedIn provides **1B+** professional userbase provides proprietary hiring, skills, and workplace data

Microsoft Graph gives Copilot **live access** to billions of emails, documents, and workflow interactions

IMPLICATION ▸ ↑ **Productivity & Business Processes Moat**
Live M365 + LinkedIn data makes Copilot stickier inside Outlook, Teams & Excel

Sources: Bloomberg, FactSet, FY25 10K, 10Q, Yahoo Finance, Seeking Alpha, Earnings Call

Data Flywheel Creating a Competitive Edge

Stronger data creates a flywheel driving engagement and Microsoft's enterprise embeddedness provides a competitive edge

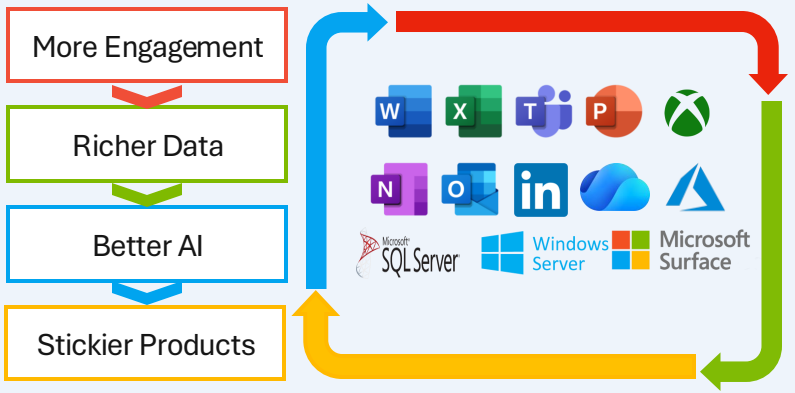
Microsoft's Data Edge Over Competitors

Company	Data Moat	Microsoft's Edge
	• 800M+ weekly users (1M Business) • Massive consumer scale	• Enterprise system ownership • Proprietary work data
	• Strong model reputation • Leader in coding • Wide enterprise adoption	• MSFT owns a major first-party enterprise workflow
	• Consumer search data • 750M Gemini Users • 8M+ enterprise seats	• Enterprise productivity • LinkedIn professional graph
	• Owns workflows • 20M+ Copilot Seats • 1.3B+ LinkedIn Network	Best positioned for proprietary enterprise data through daily workflows

Google vs. Microsoft: Workflow Data Access

Metric		
Enterprise Market Share	58%	32%
Fortune 500 Usage	75%	42%
Migration	58%	42%

Data Flywheel Compounding Engagement



*Microsoft's workflow data advantage enables **AI monetization**, driving Productivity & Business Processes **revenue growth***

Sources: Bloomberg, FactSet, FY25 10K, 10Q, Yahoo Finance, Seeking Alpha, Earnings Call

Microsoft

Valuation

Discounted Cash Flow Analysis

Microsoft

Bridging our investment theses into our assumptions

Investment Thesis	Metric Impacted	Linkage to DCF Assumptions
Full-Stack AI Integration	**Margins**	Higher Intelligent Cloud margins and sustained free cash flow growth from lower infrastructure costs and greater operating efficiency.
High-Bandwidth Memory	**Revenue**	Higher cloud memory revenue growth throughout the forecast period
Product Mix Shift	**Revenue**	Slower post-peak revenue normalization through 2028E–2030E

Implied Share Price:
$572.68
Upside:
37%

12.25%	4.32%	12.16%	1.77	2.0%
CoE	**CoD**	**WACC**	**Beta**	**PGR**

Bloomberg, FactSet

Relative Valuation

Microsoft

At a FY2 EV/EBIT multiple of 11.6x, the implied share price is $578.66 with an upside of 38.17%

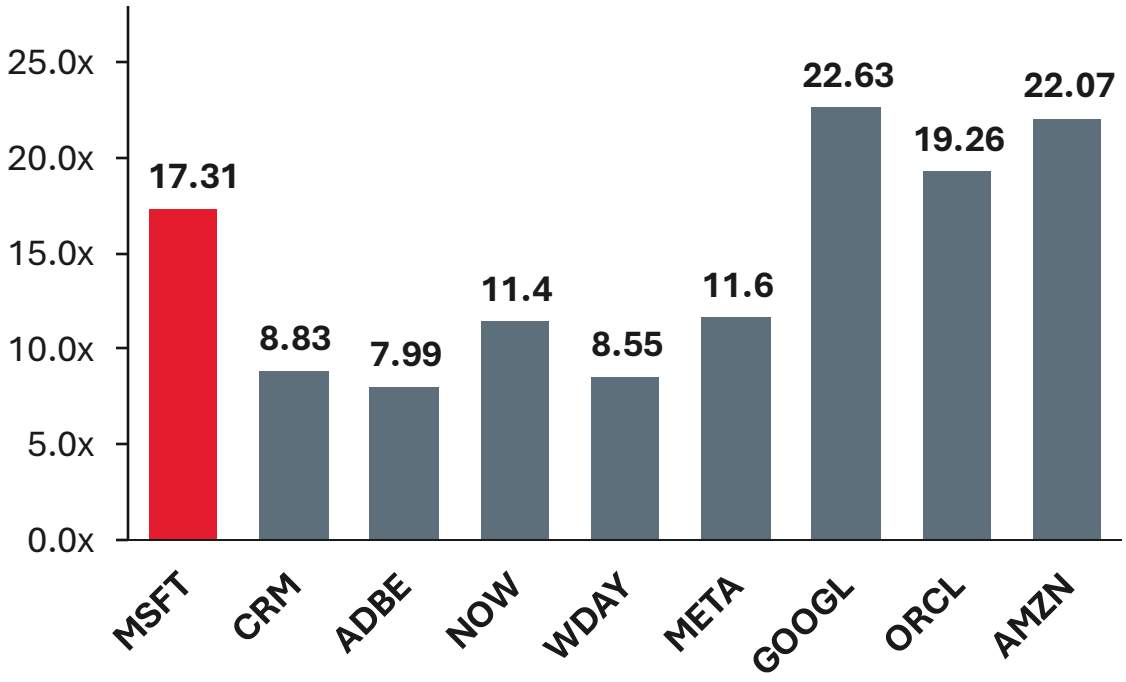
Software Comps

Salesforce
Adobe
ServiceNow
Workday

Tech Comps

amazon Alphabet ORACLE Meta

FY2 EV/EBIT Multiples



Implied Share Price:
$578.66
Upside:
38.17%

8.83%	4.22%	8.77%	1.04	11.6x
CoE	CoD	WACC	Beta	Multiple

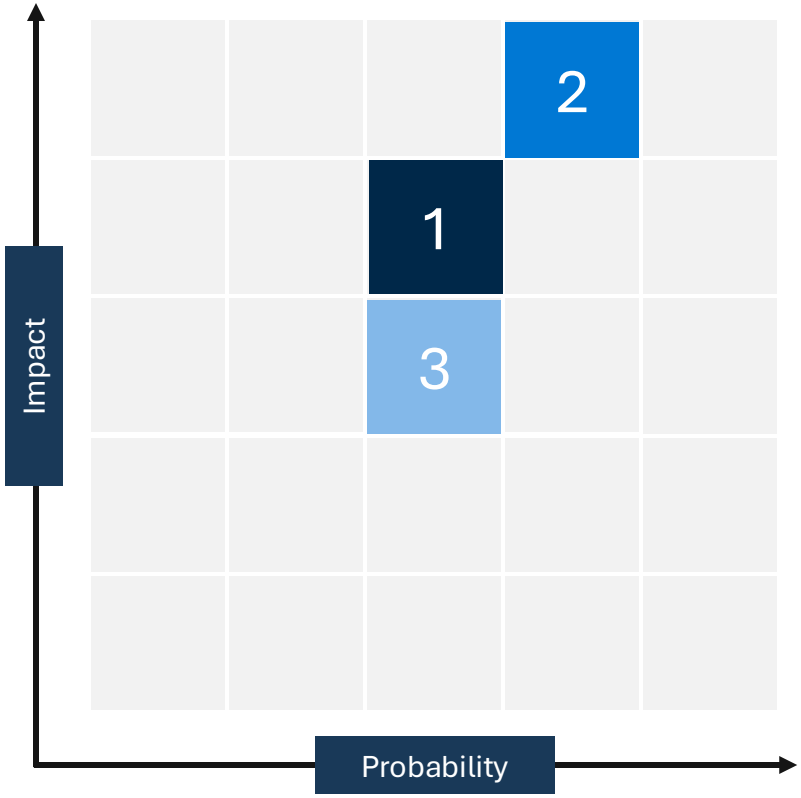
Microsoft

Risks

Investment Risks

Microsoft

Three key downside risks to our BUY recommendation



1 Microsoft's broad AI ecosystem (Azure OpenAI, Copilot, Fabric) faces rising competition from specialized vertical AI firms offering deeper domain expertise and faster performance

2 Microsoft's AI growth remains heavily tied to OpenAI, with ~45% of its $625B commercial cloud backlog linked to OpenAI-related commitments, creating significant concentration risk.

3 Microsoft's ~$190B CY2026 Cap- Ex guidance exceeded consensus by ~$35B, raising concerns that AI spending may outpace near-term monetization and pressure margins

Multilayer Stickiness

Hybrid cloud, identity, security, and compliance create switching costs pure-play AI vendors cannot match

Locked-In Demand

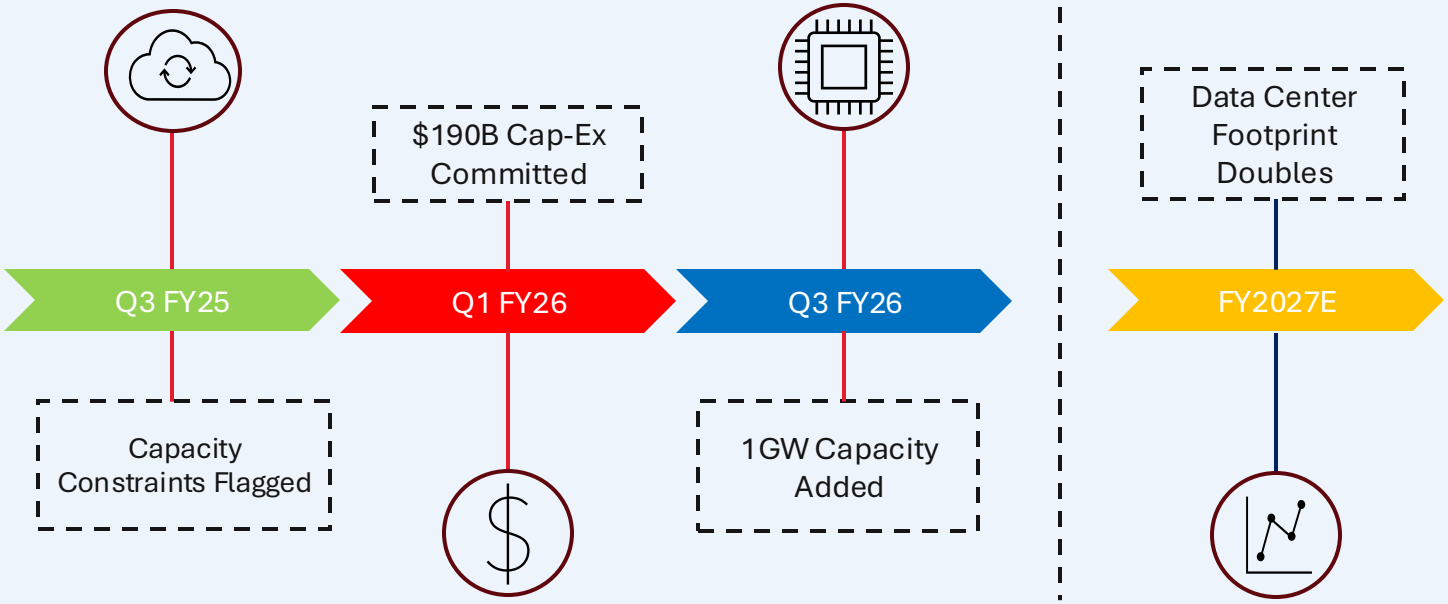
$250B in contracted Azure spend from OpenAI provides a durable revenue floor — independent of any partnership restructuring

Sources: Company Fillings, Bloomberg

Catalysts

Supply Unlocks Demand

Azure demand currently exceeds available supply



Azure grew 40% in Q3 FY2026, beating both Street Account (39.3%) and CNBC (38.8%) consensus — the 5th consecutive quarter of acceleration, against increasingly tough comps

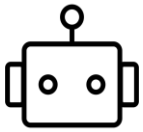
Dock-to-live GPU times cut 20%, 1GW of capacity added in Q3 alone, and Microsoft is on pace to double its data center footprint by 2027 — **Azure growth has been *supply-constrained*, not demand-constrained**

New Application & AI Model Development

Microsoft

Application layer activation converts infrastructure spend into durable, measurable revenue

Copilot Studio agent scale



Q3 FY26 — M365 Copilot paid seats up 250% YoY
↳ per-action revenue replaces seat ceiling
no headcount constraint on upside

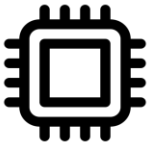
GitHub Copilot billing flip

First full consumption quarter in Q1 FY27, Street has no historical data to model this first earnings print will be the inflection signal

Azure AI Foundry deployments

70% of Fortune 500 actively building; Every inference call, model deployment, and API hit on Foundry bills through Azure

Maia 200 Utilization Ramp



- **FY26 full deployment**; owned silicon drives margin expansion
- Application volume converts Cap-Ex into structural cost advantage

Risk Factors

Enterprise AI spend slowdown delays consumption inflection timeline

OpenAI partnership deterioration disrupts model and application roadmap

What we track each quarter

Co-pilot Studio agent volume + credit revenue growth	GitHub Copilot ARPU vs. prior seat-based baseline
Azure AI Foundry Fortune 500 production deployments	Maia 200 utilization + Azure gross margin trend

GitHub Docs, Company Filings

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Recommendation: BUY
Target Price: $572.68

Microsoft

Appendix