

Microsoft Corporation (MSFT)

\$202.54 (As of 07/23/20)

Price Target (6-12 Months): **\$214.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/30/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: A

Summary

Microsoft's fiscal fourth-quarter results benefited from momentum in Azure, impressive Teams user growth led by work-from-home, online learning wave and tele healthcare trends. Solid uptake of Surface devices and Xbox Game Pass aided growth. The company is also gaining from growing user base of its different applications including Office 365 commercial, and Dynamics. Moreover, Azure's expanding customer base is a key catalyst. Furthermore, it is well poised to expand the total addressable market through acquisitions of GitHub and Flipgrid. Notably, its shares have outperformed the industry on a year-to-date basis. However, macroeconomic weakness in job market and lower spend on advertising due to coronavirus pandemic are likely to weigh on LinkedIn and Search revenues. Also, delays in consulting business are anticipated to limit growth.

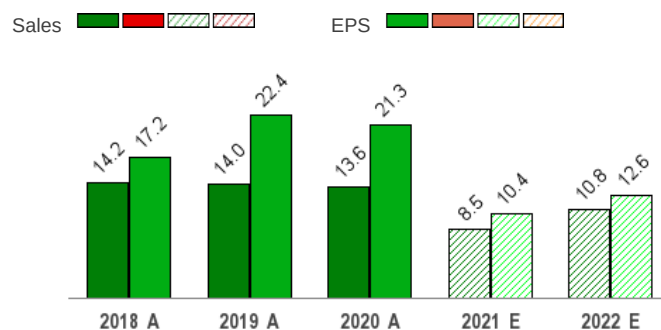
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$216.38 - \$130.78
20 Day Average Volume (sh)	34,849,564
Market Cap	\$1,536.0 B
YTD Price Change	28.4%
Beta	0.93
Dividend / Div Yld	\$2.04 / 1.0%
Industry	Computer - Software
Zacks Industry Rank	Top 45% (114 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.8%
Last Sales Surprise	4.0%
EPS F1 Est- 4 week change	1.9%
Expected Report Date	10/28/2020
Earnings ESP	0.9%
P/E TTM	35.2
P/E F1	31.9
PEG F1	2.6
P/S TTM	10.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	39,892 E	44,664 E	42,080 E	44,443 E	171,982 E
2021	35,899 E	40,563 E		40,466 E	155,204 E
2020	33,055 A	36,906 A	35,021 A	38,033 A	143,015 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.65 E	\$1.79 E	\$1.72 E	\$1.85 E	\$7.16 E
2021	\$1.52 E	\$1.58 E	\$1.55 E	\$1.68 E	\$6.36 E
2020	\$1.38 A	\$1.51 A	\$1.40 A	\$1.46 A	\$5.76 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/23/2020. The reports text is as of 07/24/2020.

Overview

Redmond, WA-based Microsoft Corporation is one of the largest broad-based technology providers in the world. The company dominates the PC software market with more than 80% of the market share for operating systems. The company's Office 365 application suite is one of the most popular productivity software globally. It is also now one of the two public cloud providers that can deliver a wide variety of infrastructure-as-a-service (IaaS) and platform-as-a-service (PaaS) solutions at scale.

Microsoft's products include operating systems, cross-device productivity applications, server applications, business solution applications, desktop and server management tools, software development tools and video games. The company also designs and sells PCs, tablets, gaming and entertainment consoles, phones, other intelligent devices, and related accessories. Moreover, through Azure, it offers cloud-based solutions that provide customers with software, services, platforms and content.

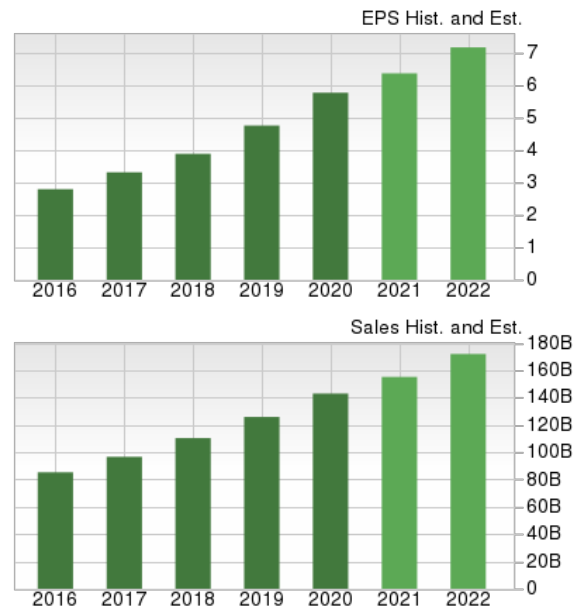
Microsoft reported revenues of \$143.02 billion in fiscal 2020. The company reports operations under three segments: Productivity & Business Processes, Intelligent Cloud and More Personal Computing.

Productivity & Business Processes accounted for 32.5% of fiscal 2020 revenues. The segment offers productivity and collaboration tools and services including Office 365, Dynamics business solutions, Teams, Relationship Sales solution, Power Platform and LinkedIn.

Intelligent Cloud, which include Azure cloud services, contributed to 33.8% of fiscal 2020 revenues.

On October 25, 2018, the company completed the acquisition of GitHub, which provides a collaboration platform and code hosting service for developers, for \$7.5 billion.

More Personal Computing represented 33.7% of fiscal 2020 revenues. The segment comprises mainly the Windows, Gaming (Xbox hardware and Xbox software and services), Devices (Surface, PC accessories, and other intelligent devices) and Search (Bing and Microsoft Advertising) businesses.



Reasons To Buy:

- ▲ Microsoft has a dominant position in the desktop PC market, with its operating systems being used in the majority of PCs worldwide. This is particularly true of the enterprise where the company generates much of its revenue and profits. But enterprise computing is undergoing changes with companies increasingly opting for the BYOD (bring-your-own-device) model. This has allowed competing platforms from Apple and Google with their strong mobile ecosystems to increase penetration at the enterprise. So, Microsoft is introducing new and improved Surface devices that could encourage enterprises to stick with Windows as they move toward BYOD and cloud computing. Microsoft's advantages in this respect are two-fold. First, the company has a very large installed base of Office users. Most legacy data are based on Office, so enterprises are usually reluctant to use other productivity solutions. Second, the BYOD model is dependent on security and cloud integration, both of which are Microsoft's strengths. As a result, Microsoft has been largely successful at retaining enterprise customers, which holds promise.
- ▲ Microsoft has doubled down on the cloud computing opportunity. In the cloud computing era, information and applications are increasingly stored, managed and protected in the cloud, from where only necessary amounts are accessed by devices of varying shapes, sizes, weights, functions and portability. As a result, software providers are increasingly offering their tools as-a-service based on subscriptions for specified periods. Further, Azure's increased availability in 58 regions globally, is expected to have strengthened Microsoft competitive position in the cloud computing market, dominated by Amazon's Amazon Web Services. Notably, Azure revenues surged 50% at constant currency on a year-over-year basis in fourth-quarter fiscal 2020, driven by robust growth in consumption-based business.
- ▲ Moreover, ongoing expansion in Microsoft Teams subscriber base is aiding the company in strengthening position in the enterprise communication market against Slack and Zoom. The company has enhanced its workspace communication offering — Teams — with a slew of new capabilities enabling users to work from home seamlessly amid the coronavirus crisis. These initiatives are expected to drive subscriber base, which in turn is likely to bolster top-line performance in the quarters ahead. Markedly, Teams has been witnessing a surge in usage owing to the coronavirus-induced demand. Moreover, out of Fortune 100 companies, 93 have implemented Microsoft Teams. Notably, 69 organizations with more than 100,000 users leverage Teams, and over 1800 organizations with more than 10,000 users have selected Teams. The uptick can be attributed to coronavirus-led work-from-home, stay-at-home, telehealth and online learning wave.
- ▲ Microsoft is one of the three largest providers of gaming hardware. Its Xbox console was one of the first gaming devices of its kind. Microsoft supplemented the hardware with a number of popular video game titles. It also introduced the Xbox Live online gaming service, which enabled subscribers to play online Xbox games with each other and download new games directly onto the device. Non-gaming applications, such as Facebook, Twitter, Netflix, Last.fm, Sky, Canal and Zune were also made available through Xbox Live. Markedly, Gaming revenues increased 66% at cc in fiscal fourth quarter, driven by increased engagement led by stay-at-home wave. Xbox content and services revenue increased 68% at cc year over year, driven by solid growth in Xbox Game Pass subscriber base, third-party transactions and *Minecraft*. Notably, *Minecraft* recorded a new high of nearly 132 million monthly active users during the fiscal fourth quarter.
- ▲ Management execution has been good in recent times. This has helped Microsoft build cash and short-term investments balance of \$136.53 billion as of Jun 30, 2020, compared with \$137.63 billion as of Mar 31, 2020. As of Jun 30, 2020, total debt (long-term plus current portion) was \$63.33 billion compared with \$66.61 billion as of Mar 31, 2020. This translates to net-cash position of \$73.2 billion as of Mar 31, 2020, compared with \$63.77 billion as of Mar 31, 2020. The strong cash balance provides the flexibility required to pursue any growth strategy, whether by way of acquisitions or otherwise.
- ▲ We believe efforts to reward shareholders through share buybacks and dividend payments deserve a special mention. In the fiscal fourth quarter, the company returned \$8.9 billion to shareholders in the form of share repurchases and dividends. Also, the company reported operating cash flow of \$18.7 billion in fourth-quarter fiscal 2020, compared with \$17.5 billion in the fiscal third quarter. Free cash flow came in at \$13.9 billion, compared with \$13.7 billion reported in the fiscal third quarter. The increasing cash flow trend reflect that the company is making investments in the right direction and is expected to help it sustain current dividend payout (0.36) level at least in the near term.

The enterprise refresh cycle, new subscription model, Azure and strength in Teams and Gaming segment will continue to generate sizeable cash flows.

Reasons To Sell:

- ▼ Our immediate concern about Microsoft is regarding the softness in the core computing market. The company is dependent on this market for the largest chunk of its revenue. Microsoft continues to be impacted by the tablet and mobile cannibalization of computers. This is a secular negative for the company and the future growth of Windows is greatly dependent on its ability to build position in mobile devices, particularly tablets. Moreover, stiff competition from Android and Chrome at multiple price points with Apple making things difficult at the high end, remain a headwind.
- ▼ Microsoft is the dominant provider of operating systems into the PC market. So, any new player, or any technology advancement in the space, unless by Microsoft itself, results in market share erosion. While Google Chromebooks/Android tablets and Apple Macintosh/iPad are splitting the market, Microsoft's opportunity lies in its ability to transition rapidly to a cloud and mobile focus. To date, the sales of many Microsoft products are tied to the attach rates of its Windows OS, but as more of its products are made available under an as-a-service model (like Office 365) on even competing platforms, there can be new revenue streams compensating for the loss of Windows licensing fees. The transition period is not likely to be easy and execution will be key.
- ▼ Microsoft is seeing increased competition from all quarters. Particularly, Google seems to be present in all its markets. Although Google's focus has in the past been on search and online advertising, while Microsoft's has been on selling its software, the two companies are increasingly pitted against each other because of the conditions in the market. Google is seeing tremendous success, with its Android OS emerging as the leading platform for smartphones and increasingly, tablets. Its Chromebooks are also seeing a good deal of success. Moreover, Apple's Macintosh has a loyal customer base, which is an additional pressure in the high-end computing market, while its iPads are tough competition in the tablet segment. Although Microsoft's Azure has been steadily gaining market traction for quite some time now, but Amazon's cloud computing arm, Amazon Web Services, leads the cloud computing space, which is a major headwind. Also, the gaming console market is also extremely competitive since Sony and Nintendo are equally strong. Moreover, there is severe price competition in this market and successful gaming titles are a must in order to push sales.
- ▼ Coronavirus crisis-induced macroeconomic weakness is a headwind. Weak job market and lower spend on advertising are likely to weigh on LinkedIn and Search revenues at least in the near term. Moreover, decline in on-premises business, owing to sluggishness in transactional business across small and medium businesses is anticipated to affect growth. Also, Office consumer revenues are expected to bear the brunt of decline in transactional business.
- ▼ We note that the Microsoft currently has a trailing 12-month Price/Book (P/B) ratio of 13.41X. This level compares unfavorably to some extent with what the industry saw over the last year. Additionally, the ratio is higher than the average level of 11X and is near the high end of the valuation range in this period. Consequently, valuation looks slightly stretched from a P/B perspective.

Microsoft faces stiff competition in the cloud market from Amazon Web Services and its dominant position in the PC market continues to be challenged.

Last Earnings Report

Microsoft Q4 Earnings Beat Estimates, Azure Strength Drives Top Line

Microsoft reported fourth-quarter fiscal 2020 non-GAAP earnings of \$1.46 per share, which beat the Zacks Consensus Estimate by 5.8%. The bottom line also surged 7% on a year-over-year basis (up 9% at constant currency or cc).

Revenues of \$38.03 billion improved 13% from the year-ago quarter (up 15% at cc). Further, the top line surpassed the Zacks Consensus Estimate by 3.95%.

Robust execution and better-than-expected demand from customers for commercial cloud offerings drove the quarterly results. Solid uptick in Teams on the back of coronavirus-led work-from-home, stay-at-home, telehealth and online learning wave, remained noteworthy.

Moreover, strong Commercial business positively impacted earnings and revenues. Commercial bookings increased 12% year over year (12% at cc), courtesy of robust renewal implementation and growth in big, long-term Azure contracts. Commercial remaining performance obligation came in at \$107 billion, up 23% year over year at cc. Commercial revenue annuity mix was 94%, increasing 4% year over year, driven by ongoing shift to cloud infrastructure.

Commercial cloud revenues were \$14.3 billion, surging 30% year over year (up 32% at cc).

Segmental Details

Productivity & Business Processes segment, which includes the Office and Dynamics CRM businesses, contributed 30.9% to total revenues. Revenues increased 6% (up 8% at cc) on a year-over-year basis to \$11.75 billion.

Office Commercial business (products + Microsoft 365 & related cloud services) revenues were up 5% from the year-ago level (up 7% at cc). Office 365 commercial revenues climbed 19% (22% at cc), driven by strong installed base growth and average revenues per user (ARPU) expansion. Office 365 Commercial seats improved 15%, driven by improving mix from Microsoft 365.

Office Commercial products revenues declined 34% on a year-over-year basis reflecting ongoing customer shift to cloud-based offerings compared with multi-year on-premises agreements. Also, sluggishness in transactional licensing, across small and medium businesses affected performance.

Office Consumer products and cloud services revenues increased 6% (up 7% at cc), driven by growth in Office 365 subscription revenue. However, "transactional weakness" limited growth. Office 365 Consumer subscribers came in at 42.7 million, up from 39.6 million reported in the prior quarter, benefiting from the coronavirus crisis-led increased demand courtesy of work-from-home wave.

Dynamics business improved 13% (up 15% at cc). Dynamics 365 revenues surged 38% (40% at cc). Dynamics adoption is improving with companies like Walgreens Boots Alliance, Chipotle, BNY Mellon, FedEx, selecting the application to securely digitize critical business processes.

LinkedIn revenues advanced 10% from the year-ago quarter (up 11% at cc), driven by 27% growth in LinkedIn sessions. LinkedIn usage was up with professionals watching more amount of LinkedIn Learning content. However, coronavirus crisis-induced weakness in job market significantly affected bookings in Talent Solutions business.

Microsoft is gaining from expanding user base of different applications including Microsoft 365 E5 and Teams. Both solutions continue to witness record adoption. The uptick can be attributed to coronavirus-led work-from-home, stay-at-home, telehealth and online learning wave. Notably, the company did not provide daily active user base of Microsoft Teams, which came in at 75 million in the prior quarter.

Nevertheless, management noted that "69 organizations now have more than 100,000 users of Teams, and over 1800 organizations have more than 10,000 users of Teams."

The company is also witnessing significant demand for Windows 10 PCs, with minutes spent in Windows 10 marking an increase of more than 55% year over year.

Intelligent Cloud segment, which includes server, and enterprise products and services, contributed 35.2% to total revenues. The segment reported revenues of \$13.37 billion, up 17% (up 19% at cc) year over year.

Server product and cloud services revenues rallied 19% year over year (up 21% at cc). The high point was Azure's revenues, which surged 47% year over year (up 50% at cc), driven by robust growth in consumption-based business.

On-premise server products revenues remained flat (up 1% at cc). The better-than-expected performance was driven by solid renewal execution, and ongoing uptake of hybrid solutions and premium server versions.

Further, enterprise mobility installed base revenues improved 26% to more than 147 million seats.

Enterprise service revenues remained flat (up 2% at cc) in the reported quarter, on account of growth in Premier Support Services. However, delays in consulting limited growth.

More Personal Computing segment, which primarily comprises Windows, Gaming, Devices and Search businesses, contributed 33.9% to total revenues. Revenues were up 14% (up 16% at cc) year over year to \$12.91 billion, driven by work-from-home, web-based learning and online gaming trends.

Quarter Ending 06/2020

Report Date	Jul 22, 2020
Sales Surprise	3.95%
EPS Surprise	5.80%
Quarterly EPS	1.46
Annual EPS (TTM)	5.75

Windows revenues increased 6% courtesy of growth in Windows Commercial and Windows OEM. Windows commercial products and cloud services revenues increased 9% year over year (up 11% at cc), on the back of higher customer adoption of Microsoft 365 offerings and robust improvement in advanced security solutions. However, sluggishness in transactional licensing limited growth.

Windows OEM revenues improved 7% on a year-over-year basis, primarily due to improved supply in April.

Windows OEM non-Pro revenue advanced 34%, on robust consumer demand driven by remote working and online learning wave, and gains from improved supply scenario in April "from unfulfilled fiscal third quarter demand."

However, Windows OEM Pro revenue declined 4%, owing to coronavirus crisis-induced slowdown in small and medium businesses in May and June, which more than offset gains from improving supply in April.

Search advertising revenues, excluding traffic acquisition costs (TAC), declined 18% (down 17% at cc). Reduced spend on advertising by industries severely impacted by coronavirus-induced economic crisis led to the decline.

Surface revenues improved 28% (up 30% at cc) from the year-ago quarter to \$1.72 billion, driven by remote work and online learning-led demand increase, and strength across consumer and commercial segments.

Gaming revenue increased 64% (up 66% at cc) driven by increased engagement led by stay-at-home wave. Xbox content and services revenue increased 65% (up 68% at cc) year over year, driven by solid growth in Xbox Game Pass subscriber base, third-party transactions and *Minecraft*. Notably, *Minecraft* recorded a new high of nearly 132 million monthly active users during the reported quarter.

Operating Results

Non-GAAP gross margin increased 10% (12% in cc) to \$25.7 billion, driven by revenue growth in Intelligent Cloud and More Personal Computing. Non-GAAP gross margin (in percentage terms) of 68% contracted 200 basis points (bps) on a year-over-year basis, driven by unfavorable sales mix.

Commercial cloud gross margin was 66%, up 1 percentage point year over year. This can be attributed to improvement in Azure gross margin.

Operating expenses surged 13%, including \$450 million charge pertaining to re-alignment of digital strategy involving closer of Microsoft Store brick-and-mortar stores.

Operating margin contracted 200 bps on a year-over-year basis to 35%.

Productivity & Business Process operating income declined 9% (down 5% at cc) to \$3.97 billion. Intelligent Cloud operating income surged 19% (up 22% at cc) to \$5.34 billion. More Personal Computing operating income rallied 15% (up 19% at cc) to \$4.09 billion.

Balance Sheet & Free Cash Flow

As of Jun 30, 2020, Microsoft had total cash, cash equivalents, and short-term investments balance of \$136.53 billion, compared with \$137.63 billion as of Mar 31, 2020. As of Jun 30, 2020, long-term debt (including current portion) was \$63.33 billion compared with \$66.61 billion as of Mar 31, 2020.

Operating cash flow during the reported quarter came in at \$18.7 billion compared with \$17.5 billion reported in the previous quarter, owing to solid cloud billings and collections. Free cash flow during the quarter was \$13.9 billion, compared with \$13.7 billion reported in the prior quarter.

In the reported quarter, the company returned \$8.9 billion to shareholders in the form of share repurchases and dividends.

Guidance

For first-quarter fiscal 2021, Productivity and Business Processes revenues are anticipated between \$11.65 billion and \$11.9 billion, backed by low-double-digit growth in Dynamics and mid-single-digit revenue growth in LinkedIn. Weak job market and lower spend on advertising are likely to weigh on LinkedIn and Search revenues.

Strong upsell opportunity for Microsoft E5 and momentum in Office 365 is expected to drive growth in Office commercial. However, decline of 30% in on-premises business, owing to sluggishness in transactional business across small and medium businesses is anticipated to affect growth.

Office consumer revenues are expected to remain unchanged on a year-over-year basis as growth in subscription-based offerings offset the decline in transactional business.

Intelligent Cloud revenues are anticipated between \$12.55 billion and \$12.8 billion. Azure's revenue growth is likely to reflect continued strength in the consumption-based services. Solid momentum in Microsoft 365 suite is expected to drive growth. However, increasing size of the installed base is anticipated to limit growth.

More Personal Computing revenues are expected between \$10.95 billion and \$11.35 billion. The company anticipates OEM revenues to decline in low teens owing to weakness across small and medium businesses. Windows commercial products and cloud services revenues are expected to grow in "healthy double-digits" driven by solid Microsoft 365 momentum and advanced security solutions. Surface revenues are anticipated to increase in the "mid-teens" year over year. Search advertising revenues, excluding TAC, are anticipated to decline "in the low 20% range."

Gaming revenues are anticipated to be up in the high-teens year over year on momentum in user engagement.

Management expects COGS between \$10.75 billion and \$10.95 billion, and operating expenses in the range of \$10.7 billion to \$10.8 billion.

Recent News

On Jul 23, Microsoft and MSCI Inc. announced strategic alliance in a bid to speed up innovation across investment industry. Microsoft's strength in cloud and AI technologies combined with MSCI's expertise in investment decision support tools are expected to aid MSCI enhance client experience.

On Jul 17, Microsoft inked a five-year strategic partnership deal with Halliburton and Accenture to accelerate Halliburton's digital transformation. Per the deal, Microsoft's cloud platform Azure will help Halliburton enhance customer offerings and drive digital transformation.

On Jul 13, Microsoft and Samsung Electronics announced collaboration in a bid to accelerate digital transformation of the real estate and property management industries. The aim of the partnership is to drive enhanced building operations and maintenance and improve experiences for residents.

On Jul 13, Microsoft's Xbox Game Studios and Asobo Studio announce that Microsoft Flight Simulator will be launched on Aug 18. The service can be pre-ordered on Windows 10 or pre-install with Xbox Game Pass for PC (Beta version).

On Jul 12, Microsoft announced the spin-off of Xiaoice, the AI chatbot, into a separate company.

On Jul 8, Microsoft introduced Together mode feature to Teams in a bid to make video meetings lively and dynamic and enhance user experience. Instead of focusing on individuals in neat squares in different backgrounds, the Together mode removes the backgrounds and condenses all the participants into a shared space resembling an auditorium.

On Jun 30, Microsoft announced the launch of a new program aimed at equipping 25 million people around the world with the latest digital skills. The new initiatives to aid high-risk communities develop skills and find employment are expected to expedite economic recovery.

On Jun 26, Microsoft announced that it will permanently shut down all brick-and-mortar Microsoft Stores as part of rethinking digital retail strategy. The company operated more than 80 Microsoft Stores spread across the United States, Canada, Australia, Puerto Rico, and the U.K. The company anticipates this move to result in a pre-tax charge, pertaining to asset write-offs and impairments, of nearly \$450 million or 5 cents per share, which will be accounted for, in fourth-quarter fiscal 2020 ending Jun 30, 2020.

On Jun 25, Microsoft announced a partnership with Hitachi to facilitate process automation of manufacturing facilities and boost efficiency in logistics operations. Under the multi-year partnership, the companies will jointly work on offering manufacturing productivity, predictive maintenance and logistics optimization solutions to customers across Japan, Southeast Asia and North America, powered by several Microsoft cloud services.

On Jun 22, Microsoft announced that it is closing the operations side of Mixer. The company has teamed up with Facebook to help Mixer community to shift to Facebook Gaming platform.

On Jun 18, Microsoft announced the acquisition of ADRM Software — a provider of large-scale industry-specific data models — that are leveraged by companies as information blueprints. ADRM's industry data models will aid Microsoft to aid its clientele accelerate digital transformation with robust business-critical analytics capabilities.

On Jun 17, Microsoft declared a quarterly dividend of 51 cents per share payable on Sep 10, to shareholders as on Aug 20.

On Jun 11, Microsoft and Adaptive Biotechnologies rolled out ImmuneCODE database in an effort to accelerate research and drive development of novel vaccines, diagnostics and therapeutics.

On May 19, Microsoft unveiled a slew of solutions and product enhancements at Build 2020 conference, including Azure Synapse Link, responsible ML tools in Azure Machine Learning, and updates to Fluid Framework and Teams apps. The company also launched industry-specific Microsoft Cloud for Healthcare to offer enhanced experience, insights, and care. Moreover, the company announced the acquisition of Softomotive to gain advanced robotic process automation (RPA) capabilities.

On May 18, Microsoft and Sony Semiconductor Solutions announced collaboration to offer AI-driven smart cameras and aid businesses enterprises generate new business opportunities.

On May 18, Microsoft and FedEx announced collaboration to deliver an enhanced commerce experience and help businesses with shipment tracking and visibility into the supply chain.

On May 15, Microsoft announced collaboration with UnitedHealth Group to launch ProtectWell Protocol and App to aid employers in bringing employees back to workplace in a secure setting.

On May 14, Microsoft inked deal to acquire Metaswitch Networks, a virtualized network software provider, in a bid to expand presence in 5G edge cloud computing market.

On Apr 27, Microsoft and C3.ai teamed up to enhance C3.ai's customer experience and improve sales performance. C3.ai has implemented Dynamics 365 Sales and Microsoft Teams to boost remote selling by streamlining sales operations, and collaborate on a real time basis, and create new business avenues.

Valuation

Microsoft shares are up 28.4% in the year-to-date period and 44.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 23.2% and 14.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 30.2% and 24.4%, respectively.

The S&P 500 index is up 2% in the year-to-date period and 9.9% in the past year.

The stock is currently trading at 32.2X forward 12-month earnings compared with 31.95X for the Zacks sub-industry, 26.41X for the Zacks sector and 23.06X for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.13X and as low as 15X, with a 5-year median of 23.15X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$214 price target reflects 34.02X forward 12-month earnings.

The table below shows summary valuation data for MSFT

Valuation Multiples - MSFT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	32.2	31.95	26.41	23.06
	5-Year High	36.13	32.4	26.41	23.06
	5-Year Low	15	18.62	16.72	15.25
	5-Year Median	23.15	25.11	19.33	17.52
P/S F12M	Current	9.81	7.3	4.01	3.62
	5-Year High	11.04	8.01	4.01	3.62
	5-Year Low	3.47	3.88	2.32	2.53
	5-Year Median	6.04	5.62	3.14	3.02
EV/Sales TTM	Current	10.26	8.34	4.67	3.22
	5-Year High	10.88	8.34	4.67	3.46
	5-Year Low	2.74	3.19	2.59	2.15
	5-Year Median	6.1	5.8	3.62	2.85

As of 07/23/2020

Industry Analysis Zacks Industry Rank: Top 45% (114 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Apple Inc. (AAPL)	Neutral	3
Amazon.com, Inc. (AMZN)	Neutral	3
salesforce.com, inc. (CRM)	Neutral	4
Alphabet Inc. (GOOGL)	Neutral	3
International Business Machines Corporation (IBM)	Neutral	4
Oracle Corporation (ORCL)	Neutral	3
Sony Corporation (SNE)	Neutral	3
VMware, Inc. (VMW)	Neutral	3

Industry Comparison Industry: Computer - Software				Industry Peers		
	MSFT	X Industry	S&P 500	AAPL	AMZN	ORCL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	B	D	C
Market Cap	1,535.95 B	1.66 B	22.58 B	1,609.69 B	1,489.62 B	171.11 B
# of Analysts	14	4	14	12	14	12
Dividend Yield	1.01%	0.00%	1.81%	0.88%	0.00%	1.72%
Value Score	C	-	-	C	D	B
Cash/Price	0.09	0.07	0.06	0.06	0.03	0.26
EV/EBITDA	25.24	17.58	13.13	20.50	39.17	11.59
PEG Ratio	2.56	2.76	3.04	2.73	5.48	1.26
Price/Book (P/B)	12.98	5.67	3.15	20.52	22.82	13.45
Price/Cash Flow (P/CF)	26.91	23.72	12.33	24.34	44.54	11.92
P/E (F1)	31.85	31.98	22.09	30.08	147.78	13.81
Price/Sales (P/S)	10.74	4.38	2.41	6.01	5.03	4.38
Earnings Yield	3.14%	2.87%	4.30%	3.33%	0.68%	7.25%
Debt/Equity	0.57	0.15	0.76	1.14	0.36	5.44
Cash Flow (\$/share)	7.53	1.18	7.01	15.26	67.05	4.68
Growth Score	B	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	18.74%	9.72%	10.82%	9.79%	102.38%	9.05%
Proj. EPS Growth (F1/F0)	10.38%	4.45%	-9.01%	3.83%	-12.17%	4.87%
Curr. Cash Flow Growth	17.66%	7.44%	5.47%	-3.74%	31.33%	-2.42%
Hist. Cash Flow Growth (3-5 yrs)	11.99%	8.71%	8.55%	7.40%	49.26%	-0.39%
Current Ratio	2.52	1.54	1.31	1.50	1.08	3.03
Debt/Capital	36.24%	22.84%	44.41%	53.18%	26.42%	84.48%
Net Margin	30.96%	6.84%	10.46%	21.35%	3.56%	25.94%
Return on Equity	39.45%	11.53%	15.13%	64.49%	17.83%	72.76%
Sales/Assets	0.50	0.63	0.54	0.81	1.42	0.37
Proj. Sales Growth (F1/F0)	8.52%	2.91%	-2.06%	0.96%	25.29%	0.22%
Momentum Score	A	-	-	A	C	C
Daily Price Chg	-4.35%	-0.65%	-0.20%	-4.55%	-3.66%	-0.45%
1 Week Price Chg	-5.05%	0.00%	3.82%	0.42%	-7.44%	-4.34%
4 Week Price Chg	1.10%	1.22%	6.02%	1.79%	8.42%	2.26%
12 Week Price Chg	13.02%	16.16%	10.03%	26.41%	20.72%	5.27%
52 Week Price Chg	44.47%	12.96%	-2.89%	79.39%	51.31%	-4.34%
20 Day Average Volume	34,849,564	159,512	2,026,477	30,793,488	5,594,288	13,446,250
(F1) EPS Est 1 week change	1.95%	0.00%	0.00%	0.00%	0.14%	0.00%
(F1) EPS Est 4 week change	1.95%	0.00%	0.15%	0.24%	5.28%	-0.25%
(F1) EPS Est 12 week change	3.03%	-5.50%	-3.24%	2.03%	-24.63%	-2.23%
(Q1) EPS Est Mthly Chg	3.11%	0.00%	0.00%	0.24%	0.79%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	A
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.