

MICROSOFT NDQ-MSFT

RECENT PRICE **102.94** P/E RATIO **23.1** (Trailing: 24.6 Median: 14.0) RELATIVE P/E RATIO **1.38** DIV'D YLD **1.8%** VALUE LINE



2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	© VALUE LINE PUB. LLC	21-23
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	14.38	16.40	Revenues per sh ^A	22.50
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	5.28	6.05	"Cash Flow" per sh	8.50
.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	3.88	4.45	Earnings per sh ^B	6.50
--	.08	.16	.32	.34	.40	.44	.52	.52	.64	.80	.89	1.12	1.24	1.44	1.56	1.68	1.84	Div's Decl'd per sh ^E	3.00
.07	.08	.10	.08	.16	.24	.35	.35	.23	.28	.28	.51	.67	.74	1.07	1.05	1.52	1.50	Cap'l Spending per sh	1.50
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	10.78	12.15	Book Value per sh ^D	17.75
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	7677.0	7600.0	Common Shs Outst'g ^C	7350.0
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	22.1		Avg Ann'l P/E Ratio	23.0
1.77	1.49	1.36	1.22	1.17	1.06	.98	.89	.83	.60	.66	.63	.74	.86	.95	.99	1.11		Relative P/E Ratio	1.30
--	.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%	2.0%		Avg Ann'l Div'd Yield	2.0%

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Revenues per sh ^A	22.50
60420	58437	62484	69943	73723	77811	86833	93580	91964	96657	110360	124750	Revenues (\$mill) ^A	165000						
40.6%	39.2%	42.9%	42.8%	41.9%	40.3%	38.0%	36.5%	37.6%	39.4%	41.1%	42.0%	Operating Margin	43.5%						
2056.0	2562.0	2673.0	2766.0	2967.0	3755.0	5212.0	5957.0	6622.0	8778.0	10261	11500	Depreciation (\$mill)	15000						
17681	14569	18760	23150	23171	22453	22074	21885	22329	24084	30267	34350	Net Profit (\$mill)	47500						
25.8%	26.5%	25.0%	17.5%	18.6%	19.6%	20.7%	23.3%	18.8%	20.2%	17.0%	17.0%	Income Tax Rate	17.0%						
29.3%	24.9%	30.0%	33.1%	31.4%	28.9%	25.4%	23.4%	24.3%	24.9%	27.3%	27.5%	Net Profit Margin	28.8%						
13356	22246	29529	46144	52396	64049	68621	74854	80303	95324	111174	120000	Working Cap'l (\$mill)	150000						
--	3746.0	4939.0	11921	10713	12601	20645	27808	40783	76073	72242	75000	Long-Term Debt (\$mill)	75000						
36286	39558	46175	57083	66363	78944	89784	80083	71997	72394	82718	92500	Shr. Equity (\$mill) ^D	130000						
48.7%	33.6%	36.8%	33.8%	30.3%	24.7%	20.3%	20.6%	20.3%	17.0%	20.4%	21.5%	Return on Total Cap'l	24.0%						
48.7%	36.8%	40.6%	40.6%	34.9%	28.4%	24.6%	27.3%	31.0%	33.3%	36.6%	37.0%	Return on Shr. Equity	36.5%						
37.7%	25.5%	30.7%	31.5%	25.3%	19.0%	14.7%	15.0%	15.7%	16.9%	21.2%	22.0%	Retained to Com Eq	20.0%						
23%	31%	24%	22%	28%	33%	40%	45%	49%	49%	42%	41%	All Div'ds to Net Prof	46%						

CAPITAL STRUCTURE as of 12/31/18
 Total Debt \$66137 mill. Due in 5 Yrs \$24000 mill.
 LT Debt \$69653 mill. LT Interest \$2275 mill. (43% of Cap'l)

Leases, Uncapitalized \$1492 mill.
 No defined benefit pension plan Pfd Stock None
 Common Stock 7,683,000,000 shs.
 MARKET CAP: \$791 billion (Large Cap)

CURRENT POSITION
 2017 2018 12/31/18
 (SMILL.)
 Cash Assets 132981 133768 127662
 Receivables 19792 26481 19680
 Inventory (Avg Cst) 2181 2662 1961
 Other 4897 6751 7571
 Current Assets 159851 169662 156874
 Accts Payable 7390 8617 7563
 Debt Due 10121 3998 3516
 Unearned Revenue 34201 28905 24285
 Other 12914 16965 14954
 Current Liab. 64527 58488 50318

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 2018: Productivity & Business Processes, 32%; Intelligent Cloud, 30%; More Personal Computing, 38%. R&D, 13.3% of 2018 revenues. Employed 131,000 at 6/30/18. Stock owners: William H. Gates, 1.3%;, other offs. & dirs., 0.1%; The Vanguard Group, 7.5%; BlackRock, Inc., 6.4%; (10/18 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 '16-'18	Full Fiscal Year
of change (per sh)				
Revenues	10.0%	8.0%	12.0%	93580
"Cash Flow"	10.5%	5.5%	14.0%	91964
Earnings	8.5%	2.5%	15.0%	96657
Dividends	15.0%	16.5%	14.0%	110360
Book Value	9.5%	7.5%	12.5%	124750

Fiscal Year Ends	QUARTERLY REVENUES (\$ mill.) ^A	Full Fiscal Year
	Sep.30 Dec.31 Mar.31 Jun.30	
2015	23201 26470 21729 22180	93580
2016	21660 25506 22156 22642	91964
2017	22334 26066 23557 24700	96657
2018	24538 28918 26819 30085	110360
2019	29084 32471 30000 33195	124750

Fiscal Year Ends	EARNINGS PER SHARE ^{AB}	Full Fiscal Year
	Sep.30 Dec.31 Mar.31 Jun.30	
2015	.65 .77 .62 .62	2.65
2016	.70 .77 .63 .69	2.79
2017	.76 .83 .73 .75	3.08
2018	.84 .96 .95 1.13	3.88
2019	1.14 1.10 1.02 1.19	4.45

Cal-endar	QUARTERLY DIVIDENDS PAID ^{EM}	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2015	.31 .31 .31 .36	1.29
2016	.36 .36 .39 .39	1.50
2017	.39 .39 .42 .42	1.62
2018	.42 .42 .42 .46	1.72
2019		

Microsoft delivered good financial results for the December period. The high-technology giant reported revenue and earnings of \$32.48 billion and \$1.10 a share, differing little from our estimates of \$32.5 billion and \$1.09. Strength was generally evident across each of its business segments (Productivity and Business Processes, Intelligent Cloud, and More Personal Computing). That said, the company's continued success in the cloud arena remained a common theme. Microsoft has been benefiting from larger and longer-term customer commitments to Azure, the company's cloud platform. This, in turn, has led to a wider gross margin in its overall commercial cloud business, coming in at 62% in the December quarter, compared with 57% in the year-ago period. The improvement reflects of a wider range of higher-valued products and services being sold on the platform and increased operating leverage as more workloads move onto Azure. Elsewhere, consumers continued adopting Office 365 at a quick pace, and Microsoft's gaming business posted a good holiday season, benefiting from related software and services.

The latest financial and operating results demonstrate that Microsoft continues to execute well, and that its customers are finding value in its products and services as they make the move to cloud architecture and cloud services. Moreover, Microsoft stands in contrast with some of its major competitors, given its scale in the technology arena and the long-standing business relationships it has established over time. That said, we do not diminish the competition that Microsoft faces in the cloud business. Rather, we again note the company's business is advancing rapidly, particularly for an organization of its size, and management appears intent on fully realizing the opportunity presented by the cloud. **What about Microsoft stock?** The company's longer-term prospects remain quite favorable, in our view. That said, the shares are currently trading near the valuation noted in our November report, so they remain a long way from being on the bargain table. Accordingly, those subscribers considering a new commitment should exercise some degree of caution.

Charles Clark February 8, 2019

(A) Fiscal year ends June 30th. (B) Diluted earnings. Quarters may not add to total. Excl. nonrec. items: '02, d23c; '03, d5c; '04, d29c; '05, d4c; '12, d72c; '13, d7c; '15, d\$1.17; '16, d70c; '17, d37c; '18, d\$1.75. Next earnings report mid-April. (C) In mill., adjusted for stock split. (D) Includes intangibles. In 2018: \$35.7 billion, \$4.65 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.

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Company's Financial Strength A++
Stock's Price Stability 80
Price Growth Persistence 75
Earnings Predictability 90

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