

Microsoft Corp - Financial and Strategic Analysis Review

Publication Date: Nov-2023

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Company Snapshot

Key Information

Microsoft Corp, Key Information	
Web Address	www.microsoft.com
Financial year-end	June
Number of Employees	2,21,000
NASD	MSFT
Source : GlobalData	

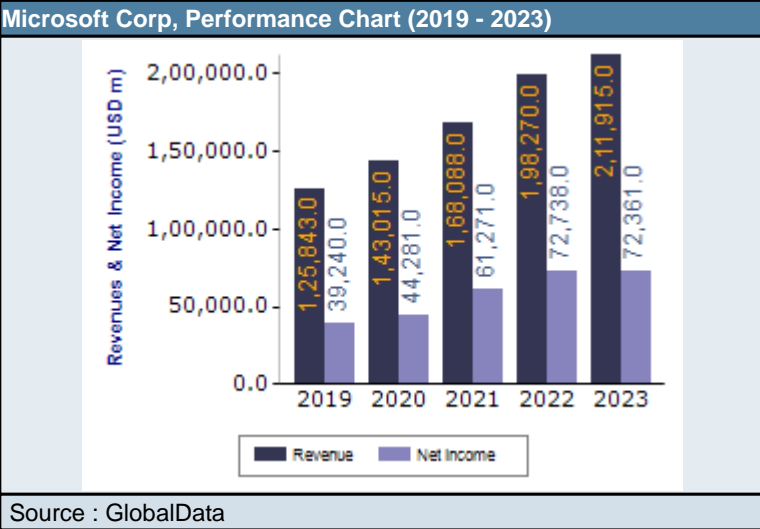
Key Ratios

Microsoft Corp, Key Ratios	
P/E	37.99.00
EV/EBITDA	26.19
Return on Equity (%)	35.09
Debt/Equity	0.31
Operating profit margin (%)	41.76
Dividend Yield	0.71
Note: Above ratios are based on share price as of 24-Nov-2023	
Source : GlobalData	

Share Data

Microsoft Corp, Share Data	
Price (USD) as on 24-Nov-2023	369.85
EPS (USD)	9.81
Book value per share (USD)	27.75
Shares Outstanding (in million)	7,472
Source : GlobalData	

Performance Chart



Company Overview

Microsoft Corp (Microsoft) is a developer and provider of software products, services, and devices. The company offers a comprehensive range of operating systems, cross-device productivity applications, server applications, software development tools, business solution applications, desktop and server management tools, video games, and training and certification services. It also designs, manufactures, and sells hardware products, including PCs, tablets, gaming and entertainment consoles, and other intelligent devices.

SWOT Analysis

Microsoft Corp, SWOT Analysis	
Strengths	Weaknesses
High Liquidity	Legal Burden
Technological Innovation	Lack of Presence in Mobile/Tablet Market
Integrated Distribution Model	
Opportunities	Threats
Microsoft's Focus on Cloud Computing	Intense Competition
Partnerships and Agreements	Cyberattacks and Security Vulnerabilities
Investments in Data Center Infrastructure	Foreign Exchange Risks
Source : GlobalData	

Financial Performance

The company reported revenues of (US Dollars) US\$211,915 million for the fiscal year ended June 2023 (FY2023), an increase of 6.9% over FY2022. In FY2023, the company's operating margin was 41.8%, compared to an operating margin of 42% in FY2022. In FY2023, the company recorded a net margin of 34.1%, compared to a net margin of 36.7% in FY2022.

The company reported revenues of US\$56,517 million for the first quarter ended September 2023, an increase of 0.6% over the previous quarter.

## Key Information

Microsoft Corp, Key Information			
Corporate Address	One Microsoft Way, Redmond, WA, 98052, United States	Ticker Symbol, Stock Exchange	MSFT [NASDAQ]
Telephone	+1 425 8828080	No. of Employees	2,21,000
Fax		Fiscal Year End	June
URL	www.microsoft.com	Revenue (in USD Million)	2,11,915.0
Industry	Consumer Goods, Energy and Utilities, Financial Services, Pharmaceuticals and Healthcare, Technology, Media & Telecom		
Locations	Algeria, Argentina, Australia, Austria, Belgium, Bosnia and Herzegovina, Botswana, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Finland, Germany, Greece, Hong Kong, Hungary, India, Ireland, Israel, Italy, Japan, Jordan, Kuwait, Latvia, Luxembourg, Malaysia, Malta, Mexico, Namibia, Netherlands, New Zealand, Norway, Pakistan, Philippines, Poland, Qatar, Romania, Russia, Saudi Arabia, Singapore, Slovakia, Slovenia, South Africa, South Korea, Sri Lanka, Sweden, Taiwan, Thailand, Trinidad and Tobago, United Arab Emirates, United Kingdom, United States		
Source : GlobalData			

Source : GlobalData

## Company Overview

Microsoft Corp (Microsoft) is a developer and provider of software products, services, and devices. The company offers a comprehensive range of operating systems, cross-device productivity applications, server applications, software development tools, business solution applications, desktop and server management tools, video games, and training and certification services. It also designs, manufactures, and sells hardware products, including PCs, tablets, gaming and entertainment consoles, and other intelligent devices. The company provides a broad spectrum of services, including cloud-based solutions, solution support, and consulting services. Microsoft markets, distributes, and sells its offerings through original equipment manufacturers, distributors, resellers, online marketplaces, Microsoft stores, and other partner channels. The company operates data centers in the Americas, Europe, and Asia-Pacific. Microsoft is headquartered in Redmond, Washington, the US.

## Microsoft Corp - SWOT Analysis

### SWOT Analysis - Overview

Microsoft Corp (Microsoft) is a provider of software and hardware products. High liquidity, technological innovation, strong financial results, and integrated distribution model are the company's major strengths, even as legal burden and lack of presence in mobile/tablet market remain causes for concern. The focus on cloud computing, strategic partnerships and agreements, and strategic acquisitions are likely to offer growth opportunities to Microsoft. However, intense competition, cyberattacks and security vulnerabilities, and foreign exchange risks could affect its business operations.

### Microsoft Corp - Strengths

#### Strength - High Liquidity

High liquidity places Microsoft at an advantage, enabling it to capture potential opportunities arising in the market. In FY2023, the company's liquidity position was healthy and stable and its current ratio at 1.8 in FY2023 remained mostly unchanged over that in previous year. Its current assets grew 8.6% from US\$169,684 million in FY2022 to US\$184,257 million in FY2023, whereas its cash and short-term investments grew 6.2%. Microsoft focuses on investing in US dollar denominated securities. However, it also invests in foreign currency-denominated securities to diversify risk. The company's equity investments stood at US\$9.9 billion in FY2023, up from US\$6.9 billion in FY2022. The company's liquidity position remained stronger than that of most of its major competitors. Its current ratio was above that of its major competitors such as Datatec Ltd, and Apple Inc, which reported current ratio of 1.1, and 1.0, respectively, during the review period.

#### Strength - Technological Innovation

The R&D arm of Microsoft focuses on reinventing productivity and business processes, creating more personal computing, and building an intelligent cloud platform. The company's research activities aim at the development of products and services, and intellectual property and future investments. It operates Microsoft Research, which is one of the biggest research organizations in the world and works with leading universities to propel the best in class in software engineering and a wide scope of different disciplines. The company's major R&D facility is in Redmond, the US. It also operates other R&D facilities in other parts of the US and around the world. As of June 2023, the company employed 72,000 people in the R&D department. In FY2023, the company incurred expenses of US\$27,195 million on R&D, which as a percentage of revenue, stood at 12.8%, up from 12.4% in FY2022. At the end of FY2023, it had a portfolio of more than 70,000 US and international patents issued and over 19,000 pending patent applications.

#### Strength - Integrated Distribution Model

Microsoft markets and distributes its products through three major channels: Original Equipment Manufacturers (OEMs), direct, and distributors and resellers. The OEMs integrate its software into PCs, tablets, servers, smartphones, and other intelligent devices and sell directly to end-users. The Windows operating system, pre-installed in several computing devices, is the largest component of the OEM business. The second major group of OEMs includes system builders, which are smaller PC manufacturers. These system builders obtain Microsoft software for pre-installation and local distribution essentially through Microsoft distributors, rather than having a direct agreement or relationship with Microsoft. The major OEM clients include Dell, Hewlett-Packard, and Lenovo. The company licenses its products and services through Licensing Solution Partners (LSPs), distributors, Value-Added Resellers (VARs), system builder channels, and retailers. LSPs sell its products and services to large organizations; distributors resell to VARs; and VARs serve small and medium-sized organizations. The company distributes retail packaged products to independent non-exclusive distributors, authorized replicators, resellers, and retail outlets. Microsoft distributes hardware products through third-party retailers and Microsoft Stores. It licenses its products and services directly to several leading organizations through enterprise agreements and enterprise services contracts, with sales support from system integrators, independent software vendors, web agencies, and partners that advise organizations on licensing the products and services.

#### Strength - Financial Performance

The financial growth of Microsoft continued and once again the company reported a strong financial year in FY2023. The company reported revenue of US\$211,915 million in FY2023, up 6.9% from US\$198,270 million in FY2022, reflecting the growth of Intelligent Cloud and Productivity and Business Processes. Azure and other cloud services aided by the growth in Intelligent Cloud business whereas growth in Productivity and Business Processes was driven by positive sales in Office 365 Commercial and LinkedIn. Microsoft's profitability remained strong in FY2023. The company's effort to keep operating expense under control helped it in retaining operating margin mostly unchanged in last two years. The company's operating result for FY2023 was aided by growth in Productivity and Business Processes (with 15% growth in operating income) and Intelligent Cloud (with 14% growth in operating income). Microsoft's operating margin at 41.8% was way better than that of its close peers Apple (30.3%), Alphabet (26.5%), Accenture (15.1%), and Hewlett Packard Enterprise Co (2.5%).

## Microsoft Corp - Weaknesses

### Weakness - Legal Burden

Lawsuits could result in huge penalties and affect the company's brand image. As of June 30, 2023, Microsoft accrued aggregate legal liabilities of US\$617 million. Although the company intends to defend these matters, according to Microsoft's estimation any adverse outcomes from these suits could result in the company paying fine of approximately US\$600 million in aggregate. Some of these lawsuits include a lawsuit filed against Microsoft in June 2023 by The Federal Trade Commission in the U.S. District Court for the Northern District of California. In its lawsuit, The Federal Trade Commission sued Microsoft to stop the company from finalizing its US\$69 billion acquisition of the video game giant, Activision Blizzard. This legal action is part of the federal government's efforts to block the largest consumer technology deal. Previously, the FTC took legal action to block the deal, stating concerns about its potential impact on competition in different segments of the video game market. Similarly, a subsidiary of the company, Microsoft Mobile Oy has been a defendant in 45 lawsuits filed in the Superior Court for the District of Columbia by individual plaintiffs who allege that radio emissions from cellular handsets caused their brain tumors and other adverse health effects. In 2018, the Irish Data Protection Commission (IDPC) began investigating a complaint against LinkedIn as to whether LinkedIn's targeted advertising practices violated the European Union General Data Protection Regulation (GDPR) and in April 2023, the IDPC handed LinkedIn a non-public preliminary draft decision alleging GDPR violations and proposed a fine.

### Weakness - Lack of Presence in Mobile/Tablet Market

Microsoft has limited presence in the mobile and tablet market. While the company has made efforts with products such as Windows Phone and Surface tablets, it has struggled to compete effectively with well-established players including Apple's iOS and Google's Android. This gap might also limit the company's ability to fully capitalize on the growing trend of mobile-centric workflows and cloud-based services. Such lack of strong market penetration in the mobile and tablet sector can hinder Microsoft's ability to provide a seamless and integrated user experience spanning devices, potentially affecting its overall ecosystem and market reach.

## Microsoft Corp - Opportunities

### Opportunity - Microsoft's Focus on Cloud Computing

The company focuses on enhancing the intelligent cloud and intelligent edge platform. Microsoft's focus is on helping customers to maximize the value of their digital investments through the extensive capabilities of the Microsoft Cloud. It has taken several initiatives to further enhance its penetration in the segment. In November 2023, the company launched its Azure Israel cloud region. The new Israel Central data center region incorporates Azure availability zones, providing customers with increased resiliency for applications. Through this, Microsoft could expand its global cloud infrastructure, and support the digital transformation efforts of businesses in the region. In the same month, the company along with Zure teamed up with Basware to create a solution in the Microsoft Azure cloud computing platform. Under this agreement, the company will assist Basware in drafting responses to customer inquiries. It enables Basware to leverage ChatGPT technology through Microsoft Azure's OpenAI service within Basware's own Microsoft Azure environment. In October 2023, the company through its Africa Transformation Office entered into a partnership with Terragon to support its cloud capabilities. This partnership will contribute to Microsoft's efforts to become the preferred and trusted partner for cloud innovation on the continent. Additionally, it will assist businesses on the continent in harnessing the power of cloud technology. In September 2023, the company announced a collaboration with SimActive to demonstrate a cloud solution. Under this collaboration, Microsoft would provide a cloud-based solution for real-time data processing, analysis, and decision-making for global defense and intelligence to showcase the integration of data streams from various remote and autonomous sensors. In August 2023, Microsoft expanded cloud security posture management capability to Google Cloud platform. This will provide advanced posture management capabilities with full visibility across cloud and hybrid resources from agentless scanning, integrated contextual insights from code, identities, data, internet exposure, compliance, and attack path analysis, among others. In July 2023, the company expanded its partnership with Dynatrace to make it easier for joint customers to accelerate their cloud migration and optimization initiatives. The Dynatrace platform is now offered as an Azure-native service in various global regions, making it easily accessible to Microsoft customers through the Azure Portal. Customers can use their Microsoft Azure Consumption Commitment (MACC) to buy the Dynatrace platform via the Azure Marketplace, streamlining the purchasing process and contract management.

### Opportunity - Partnerships and Agreements

Microsoft forged various strategic partnerships recently that could help in driving its growth. In November 2023, the company expanded its collaboration with Atos to help its customers accelerate the deployment of Microsoft 365 Copilot and generative AI. Under this partnership, Microsoft will enhance customer experiences and streamline various aspects of business operations. In the same month, the company announced a multi-year agreement with Oracle to accommodate the rapid expansion of AI services. Under this agreement, Microsoft will leverage Oracle Cloud Infrastructure (OCI) AI infrastructure, in addition to Microsoft Azure AI infrastructure, for the inferencing of AI models. This will broaden customer access and enhance the speed of many of its search results. In October 2023, the company and Airtel entered into a partnership to enable phone calls through Microsoft Teams. The introduction of this innovative solution aims to empower



India's workforce, unlocking a new level of productivity, collaboration, and efficiency. It is set to transform the future of work in the country. It will empower enterprises to initiate and receive calls with external users through the Teams. In the same month, the company entered into an agreement with Ingram Micro to support digital transformations for not-for-profit organizations in Australia and New Zealand. Under this agreement, Microsoft would provide relevant, affordable, and innovative solutions to assist non-profits in addressing the world's most significant challenges. In September 2023, the company and Majesco entered into a partnership to drive digital transformation for insurers. Through this partnership, the company aims to offer endpoint security and advanced generative AI models to its clients, ensuring the highest quality customer experience. In July 2023, the company entered into a partnership with Birlasoft to establish a generative AI Centre of Excellence. The partnership aims at speeding up value creation and encouraging innovation in the implementation of Generative AI, facilitating the development of state-of-the-art enterprise solutions for various industries. The Generative AI Centre of Excellence will harness the strengths of Birlasoft's industry expertise and Microsoft Azure OpenAI Service. The collaboration is intended to function as a hub for Birlasoft and Microsoft experts to facilitate research, training, and collaboration. In July 2023, the company, Anthropic, Google, and OpenAI announced the formation of the Frontier Model Forum. This is a recently established industry organization dedicated to ensuring the safe and responsible advancement of frontier AI models. The Frontier Model Forum will use the technical and operational knowledge of its member companies for the betterment of the entire AI ecosystem. This includes enhancing technical evaluation and benchmarks, besides creating a public repository of solutions to uphold industry standards and best practices. In June 2023, the company announced the launch of a new program in partnership with NowVertical Group Inc to provide early integration to Azure OpenAI's capabilities through NOW's SMART HUB. By incorporating NOW's secure language-based computational platform, businesses can promptly gain valuable insights and interpret unstructured textual data for tailored applications without requiring external data transfers. The integration of AI through SMART HUB seamlessly merges Azure OpenAI's models into NOW's current data and computational ecosystem.

### Opportunity - Investments in Data Center Infrastructure

The company focuses on investing in data center infrastructure to deliver innovative services and solutions. This initiative also aims to enhance scalability, enabling Microsoft to efficiently manage increasing data volumes and user demands, thereby maintaining a competitive edge in the dynamic technology landscape and supporting global expansion plans. In November 2023, the company announced its plans to invest US\$1.4 billion to expand its data center infrastructure in Mount Pleasant, Wisconsin. This investment could offer Microsoft the chance to strengthen its presence in the region, improve its services, and contribute to local economic and community development. In July 2023, the company signed expanded 5-year agreement with Securitas for data center security. The agreement encompasses risk management, comprehensive security technology as a system integrator, specialized safety and security resources, guarding services, and digital interfaces. Additionally, it includes global account management. Under this agreement, Microsoft aims to provide outstanding security solutions. In January 2023, the company announced the acquisition of Fungible, a provider of composable infrastructure. Fungible's technologies facilitate high-performance, scalable, and secure disaggregated datacenter infrastructure. The Fungible team will integrate with Microsoft's datacenter infrastructure engineering teams, concentrating on delivering various DPU (Data Processing Units) solutions, network innovations, and hardware system advancements. This new business inclusion is likely to help Microsoft in enhancing its technologies and offerings including offloading, improving latency, increasing data center server density, and optimizing energy efficiency. It is also expected to help the company in reducing costs. Microsoft is likely to use Fungible's DPU tech to provide strong structural support to Azure.

### Microsoft Corp - Threats

#### Threat - Intense Competition

The globalized nature of software market increases the intensity of rivalry with regard to cost reduction, which exerts greater pressure on profit margins of organizations in the industry. Cloud technology, big data, IoT, medical devices, and transport and analytics applications have been the significant software trends in recent years. Microsoft competes with Amazon, Google, IBM, Oracle, Salesforce.com, SAP, and VMware in the cloud computing market. It also faces competition from software and global application vendors, including Cisco Systems, Apple, Google, Facebook, Okta, IBM, Slack, ADOBE, Proofpoint, and Symantec. Although Microsoft maintains a dominant market position in the desktop business software market, recent solutions from Google Apps for Business provide a credible alternative to Microsoft Office. In the console segment of the gaming industry, Microsoft's Xbox faces competition from Sony's PlayStation and Nintendo's 3DS. Considerable similarities in their products will lead to price-based competition among these three companies. With entry of Google into the gaming industry through the acquisition of game developers and development of its own cloud gaming service, Stadia could further intensify rivalry. In June 2023, Accenture Plc and Google Cloud announced that they would help organizations reinvent their businesses with generative AI to unlock new growth opportunities. In March 2023, ADOBE Inc introduced Firefly, a new family of creative generative AI models.

#### Threat - Cyberattacks and Security Vulnerabilities

The constantly evolving cyberthreats could disrupt the security of the company's systems and business applications, impair

its ability to provide services to its customers and protect the privacy of their data. Hackers and organizations, including state-sponsored organizations continuously develop and deploy malicious software or exploit vulnerabilities in hardware, software, and other infrastructure to gain access to organizations' networks and datacenters. According to Internet Crime Complaint Center's (IC3) Internet Crime Report 2022, IC3 received 800,944 complaints with losses of over US\$10.3 billion. It received an average of over 652,000 complaints per year during the last five-year period. The IC3 received 32,538 complaints related to tech support fraud, which resulted in loss of around US\$806 million, accounting for a 132% increase in loss over that in 2021. It received 21,832 Business Email Compromise (BEC) complaints with adjusted loss of over US\$2.7 billion. The number of ransomware related complaints stood at 2,385 that caused adjusted financial loss of over US\$34.3 million.

#### Threat - Foreign Exchange Risks

Microsoft operates worldwide and is exposed to fluctuations in foreign exchange rates. The company reports financials in the US dollar and therefore, its revenue is exposed to the volatility of the US dollar against other functional currencies, as it conducts business operations in over 100 countries. A significant part of its revenue is also denominated in other currencies such as the Canadian dollar, Japanese Yen, Australian dollar, Euro, and British pound. The major elements exposed to exchange rate risks include the company's investments in overseas subsidiaries and affiliates and monetary assets and liabilities arising from business transactions in foreign currencies. In FY2023, the company reported a loss of US\$207 million from foreign currency translation adjustments, compared to US\$1,146 million in FY2022. To minimize risks from currency fluctuations, the company could involve in foreign exchange hedging by entering into foreign exchange forward contracts. However, there could be no assurance that such measures would limit the impact of movements in exchange rates on the company's results of operations.

**NOTE:** The above strategic analysis is based on in-house research and reflects the publishers opinion only