Goldman Sachs Research

Equity Research

30 April 2026 | 5:25AM EDT

Microsoft Corp. (MSFT)

Several new milestones to disprove the bear case

MSFT	12m Price Target: **$610.00**	Price: **$424.46**	Upside: **43.7%**

Microsoft is indicated flat after hours post a solid 3QFY (March) report. 3Q revenue of $82.9bn (+18% yoy) was 2% above the Street and non-GAAP EPS of $4.27 (+23% yoy) was 5% above the Street; and we detail key pieces to guidance below. We are constructive on Microsoft's positioning in the AI ecosystem and see a catalyst-rich path in 2H. We see this quarter as a meaningful first step in reversing the stock's multi-quarter period of underperformance as Microsoft disclosed several milestones to directly address medium-term investor concerns:

- **Microsoft guided to Azure acceleration (39-40% cc yoy) in 4QFY, and modest acceleration in 1HFY, alongside a capex guide of $190bn in CY26.** This implies 2HCY26 capex of ~$120bn, a ~45% step up vs. the Street at $82bn. Investors will continue to question the pace of capex adds relative to the pace of Azure improvement. However, unlike last quarter, the mix between 1P and 3P and new capacity coming online is actually supporting both acceleration in 1P app usage and acceleration in Azure sooner than we expected. Datapoints on ongoing supply/demand constraints, cost efficiencies, and MAIA 200 internal silicon also suggest that the medium-term outlook for unit economics in Azure may be more attractive than they were 90 days ago.
- **Microsoft 365 commercial cloud is accelerating even before E7 is generally available, which in turn could drive an even more meaningful revenue tailwind.** Microsoft disclosed 20mn Copilot seats (4% of the M365 installed base), the fastest net adds number qoq since the launch of the product, with weekly copilot engagement now at the same level as Outlook. Our industry conversations suggest the quality of Copilot has improved, including via the WorkIQ integration and better semantic search and indexing. We expect Copilot traction to

BUY

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Key Data

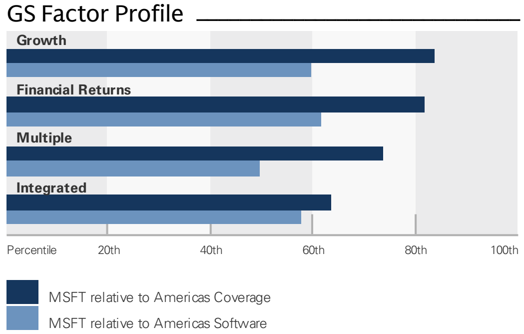
Market cap: $3.2tr
Enterprise value: $3.1tr
3m ADTV: $14.5bn
United States
Americas Software
M&A Rank: 3

GS Forecast

	6/25	6/26E	6/27E	6/28E
Revenue ($ mn) New	**281,724.0**	**329,440.2**	**387,103.7**	**463,474.2**
Revenue ($ mn) Old	281,724.0	328,628.4	388,200.0	462,625.4
EBITDA ($ mn)	156,528.0	193,093.1	241,716.5	312,547.3
EBIT ($ mn)	128,528.0	153,454.1	179,274.5	217,551.8
EPS ($) New	**13.91**	**16.75**	**19.47**	**23.61**
EPS ($) Old	13.83	16.63	19.75	24.08
P/E (X)	30.5	25.3	21.8	18.0
Dividend yield (%)	0.8	0.8	0.9	1.0
Net debt/EBITDA (X)	(0.3)	(0.2)	(0.1)	(0.1)

	3/26	6/26E	9/26E	12/26E
EPS ($)	4.27	4.22	4.67	4.77

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

BUY

Microsoft Corp. (MSFT)

Rating since Jan 21, 2021

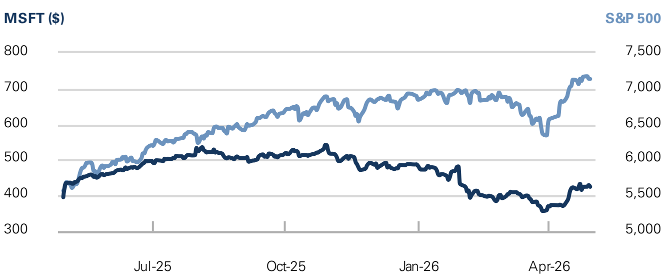
Ratios & Valuation

	6/25	6/26E	6/27E	6/28E
P/E (X)	30.5	25.3	21.8	18.0
EV/EBITDA (X)	19.8	16.1	12.9	10.0
EV/sales (X)	11.0	9.4	8.1	6.8
FCF yield (%)	2.3	2.0	0.9	1.5
EV/DACF (X)	22.1	17.1	14.4	11.1
CROCI (%)	29.6	30.9	28.5	28.2
ROE (%)	33.9	32.0	29.5	28.7
Net debt/EBITDA (X)	(0.3)	(0.2)	(0.1)	(0.1)
Net debt/equity (%)	(15.0)	(9.4)	(4.0)	(2.4)
Interest cover (X)	53.9	52.6	72.9	115.9
Inventory days	4.5	3.6	3.6	3.6
Receivable days	82.2	82.9	81.0	77.7
Days payable outstanding	103.3	114.2	125.6	130.0

Growth & Margins (%)

	6/25	6/26E	6/27E	6/28E
Total revenue growth	14.9	16.9	17.5	19.7
EBITDA growth	20.9	23.4	25.2	29.3
EPS growth	17.9	20.5	16.2	21.3
DPS growth	10.6	9.9	9.9	10.0
Gross margin	68.8	67.7	65.5	64.2
EBIT margin	45.6	46.6	46.3	46.9

Price Performance



	3m	6m	12m
Absolute	(2.1)%	(21.6)%	7.7%
Rel. to the S&P 500	(4.4)%	(24.3)%	(16.1)%

Source: FactSet. Price as of 29 Apr 2026 close.

Income Statement ($ mn)

	6/25	6/26E	6/27E	6/28E
Total revenue	281,724.0	329,440.2	387,103.7	463,474.2
Cost of goods sold	(87,831.0)	(106,274.8)	(133,576.6)	(165,838.3)
SG&A	(32,877.0)	(34,522.8)	(36,248.9)	(38,660.0)
R&D	(32,488.0)	(35,188.6)	(38,003.7)	(41,424.0)
Other operating inc./(exp.)	–	–	–	–
EBITDA	**156,528.0**	**193,093.1**	**241,716.5**	**312,547.3**
Depreciation & amortization	(28,000.0)	(39,639.0)	(62,442.0)	(94,995.4)
EBIT	**128,528.0**	**153,454.1**	**179,274.5**	**217,551.8**
Net interest inc./(exp.)	262.0	266.8	(297.3)	(658.1)
Income/(loss) from associates	–	–	–	–
Pre-tax profit	**126,319.0**	**154,741.9**	**178,977.2**	**216,893.7**
Provision for taxes	(22,442.0)	(29,852.1)	(34,005.7)	(41,209.8)
Minority interest	–	–	–	–
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**103,877.0**	**124,889.9**	**144,971.6**	**175,683.9**
Net inc. (post-exceptionals)	**101,832.0**	**129,372.9**	**144,971.6**	**175,683.9**
EPS (basic, pre-except) ($)	**13.97**	**16.81**	**19.53**	**23.69**
EPS (diluted, pre-except) ($)	**13.91**	**16.75**	**19.47**	**23.61**
EPS (ex-ESO exp., dil.) ($)	**--**	**--**	**--**	**--**
DPS ($)	3.24	3.56	3.91	4.30
Div. payout ratio (%)	23.2	21.2	20.0	18.2
Wtd avg shares out. (basic) (mn)	7,433.8	7,429.0	7,421.5	7,415.7
Wtd avg shares out. (diluted) (mn)	7,467.8	7,454.0	7,446.5	7,440.7

Balance Sheet ($ mn)

	6/25	6/26E	6/27E	6/28E
Cash & cash equivalents	30,242.0	30,736.0	26,713.1	12,148.9
Accounts receivable	69,905.0	79,687.5	92,138.8	105,077.4
Inventory	938.0	1,149.4	1,452.5	1,778.3
Other current assets	90,046.0	83,838.5	62,103.4	66,323.7
Total current assets	**191,131.0**	**195,411.4**	**182,407.8**	**185,328.4**
Net PP&E	229,789.0	338,629.0	524,350.5	718,115.4
Net intangibles	142,113.0	137,986.0	135,086.0	133,086.0
Total investments	15,405.0	33,683.0	33,683.0	33,683.0
Other long-term assets	40,565.0	42,052.0	42,038.3	45,418.3
Total assets	**619,003.0**	**747,761.4**	**917,565.7**	**1,115,631.1**
Accounts payable	27,724.0	38,803.2	53,123.0	65,038.2
Short-term debt	0.0	0.0	0.0	0.0
Current lease liabilities	–	–	–	–
Other current liabilities	113,494.0	123,623.5	138,063.4	158,946.3
Total current liabilities	**141,218.0**	**162,426.7**	**191,186.3**	**223,984.5**
Long-term debt	40,152.0	27,003.5	18,164.5	9,325.5
Non-current lease liabilities	17,437.0	16,703.0	16,703.0	16,703.0
Other long-term liabilities	74,007.0	101,442.2	143,527.2	181,403.7
Total long-term liabilities	**134,306.0**	**148,235.4**	**181,933.3**	**211,494.1**
Total liabilities	**275,524.0**	**310,662.1**	**373,119.7**	**435,478.6**
Preferred shares	–	–	–	–
Total common equity	**343,479.0**	**437,099.3**	**544,446.0**	**680,152.5**
Minority interest	–	–	–	–
Total liabilities & equity	**619,003.0**	**747,761.4**	**917,565.7**	**1,115,631.1**
BVPS ($)	46.21	58.84	73.36	91.72

Cash Flow ($ mn)

	6/25	6/26E	6/27E	6/28E
Net income	101,832.0	129,372.9	144,971.6	175,683.9
D&A add-back	34,153.0	43,999.3	62,442.0	94,995.4
Minority interest add-back	–	–	–	–
Net (inc)/dec working capital	(5,350.0)	(8,324.0)	14,205.9	12,456.8
Others	5,527.0	9,510.0	10,478.4	11,434.2
Cash flow from operations	**136,162.0**	**174,558.2**	**232,097.8**	**294,570.3**
Capital expenditures	(64,551.0)	(112,596.1)	(203,178.5)	(248,883.9)
Acquisitions	(5,978.0)	(1,291.0)	–	–
Divestitures	–	–	–	–
Others	(2,070.0)	(3,232.0)	24,000.0	–
Cash flow from investing	**(72,599.0)**	**(117,119.1)**	**(179,178.5)**	**(248,883.9)**
Dividends paid	(24,082.0)	(26,442.9)	(29,033.0)	(31,911.3)
Share issuance/(repurchase)	(16,364.0)	(21,010.7)	(19,070.3)	(19,500.4)
Inc/(dec) in debt	(8,962.0)	(7,419.5)	(8,839.0)	(8,839.0)
Others	(2,228.0)	(2,072.0)	–	–
Cash flow from financing	**(51,636.0)**	**(56,945.1)**	**(56,942.2)**	**(60,250.7)**
Total cash flow	**11,927.0**	**494.0**	**(4,022.9)**	**(14,564.2)**
Free cash flow	71,611.0	61,962.1	28,919.3	45,686.5
Free cash flow per share (basic) ($)	9.63	8.34	3.90	6.16

Source: Company data, Goldman Sachs Research estimates.

continue to improve as Copilot Cowork is rolled out and given new agentic capabilities, which leverage both the strengths of frontier LLMs and Microsoft's enterprise incumbency.

- **Microsoft gave tangible datapoints on its internal model strategy.** Specifically, MAI is driving cost efficiencies for select AI use cases, including MAI-Transcribe-1 for speed-to-text transcription in Copilot and Teams with a 67% improvement in GPU efficiency, and MAI-Image-2 for image generation in Bing and Powerpoint with up to a 260% improvement in GPU efficiency. These cost efficiencies are also passed on to customers via model usage in Foundry.
- **Microsoft was more explicit on an evolving pricing model between seat count and usage based, in turn catalyzed by a step function higher in Github usage.** Microsoft sees more signs that the Software TAM will be bigger, consistent with our own industry work on Software increasingly driving productivity and capturing share of new budget.

Earnings Recap

Exhibit 1: 3QFY26 Actuals vs. Estimates

$ millions, unless specified	Actual	GSe	3Q26A Street	Actual vs GSe	Actual vs Street
Productivity and Business Processes	$35,013	$34,496	$34,428	1%	2%
%YoY	*17%*	*15%*	*15%*		
Intelligent Cloud	$34,681	$34,407	$34,340	1%	1%
%YoY	*30%*	*29%*	*28%*		
More Personal Computing	$13,192	$12,551	$12,687	5%	4%
%YoY	*-1%*	*-6%*	*-5%*		
Total Revenue	**$82,886**	**$81,454**	**$81,458**	**2%**	**2%**
%YoY	*18%*	*16%*	*16%*		
Operating Income, Adjusted	$38,398	$36,848	$36,869	$1,550	$1,529
% margin	*46%*	*45%*	*45%*	109bps	107bps
% YoY	*20%*	*15%*	*15%*		
Earnings Per Share, Adjusted	**$4.27**	**$4.07**	**$4.07**	**5%**	**5%**
% YoY	*21%*	*18%*	*15%*		
Free Cash Flow (excluding Finance Leases)	$15,803	$18,212	$10,886	-$2,409	$4,917
% margin	*19%*	*22%*	*13%*	-329bps	570bps
% YoY	*-22%*	*-10%*	*-46%*		
Capex	$31,900	$34,776	$34,903	-8%	-9%
%YoY	*49%*	*63%*	*63%*		
% YoY CC - Azure	39%	38%	38%	1%	1%

Source: FactSet, Company data, Goldman Sachs Global Investment Research

Post results, we update our F26E/F27E/F28E revenue forecast to $329/$387/$463 bn from $329/$388/$463 bn, and our F26E/F27E/F28E adjusted EPS forecast to $16.75/$19.47/$23.61 from $16.63/$19.75/$24.08.

Valuation and Key Risks

We increase our 12-month price target to $610 (vs. $600 prior), based on a 28x P/E (unchanged) multiple to Microsoft's SNTM adjusted net income while updating our estimatesor 3QFY results and guidance. Key downside risks include: longer rampor internal silicon which can limit market share gains or gross margin expansion, greater investments in projects outside of expectations (e.g., non-Azure), key leadership changes, and more meaningul shift to custom software that could negatively impact its applications business.

Disclosure Appendix

Reg AC

We, Gabriela Borges, CFA, Callie Valenti, Selina Zhang and Praachi Arora, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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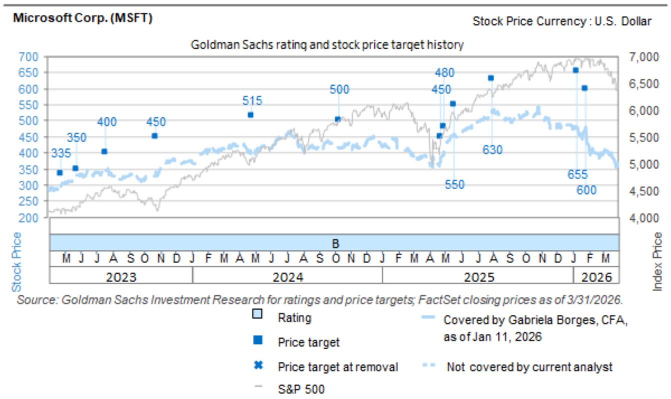
Price target and rating history chart(s)



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Target price history table(s)
Microsoft Corp. (MSFT)

Date of report	Target price ($)	Closing price ($)
29-Jan-26	600.00	433.50
11-Jan-26	655.00	479.28
31-Jul-25	630.00	533.50
20-May-25	550.00	458.17
01-May-25	480.00	425.40
24-Apr-25	450.00	387.30
10-Oct-24	500.00	415.84
26-Apr-24	515.00	406.32
25-Oct-23	450.00	340.67
21-Jul-23	400.00	343.77
26-May-23	350.00	332.89

Price targets shown in table(s) are unadjusted for corporate actions.

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