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Microsoft | North America

Infrastructure Monetization – Still Early Days in the AI Cycle

GenAI demand well ahead of supply has yielded swiftly ramping Capex forecasts in our Microsoft model over the past year. However, our Monetization per Megawatt and Capex-Implied Azure forecasts suggest revenues estimates may be inappropriately lagging, leaving room for upward revisions. OW.

Key Takeaways

- Along with our Hyperscaler Capex Deep Dive, we analyze Microsoft cloud revenues relative to datacenter capacity, and come away bullish on upside potential.
- Our analysis suggests Microsoft is deploying AI datacenter capacity well ahead of near-term monetization, based on our Microsoft cloud revenue estimates.
- Microsoft's installed datacenter footprint could scale from ~5GW in FY24 to ~20GW by FY28, based on our estimates.
- Declining revenue per MW through FY29 well accounts for increasing capital intensity and suggests the potential for additional upside to estimates
- Overall, Microsoft's existing AI infrastructure footprint may be capable of supporting significantly higher long-term revenue estimates than currently expected.

Framework for Analyzing Microsoft's AI Infrastructure Monetization. Following up on our deep dive into Hyperscaler Capex (see How Much Capacity Will $2 Trillion of Hyperscaler Capex Bring By '27? (17 May 2026)), we ran an exercise to frame Microsoft's cloud and AI infrastructure expansion through the lens of 'revenue per megawatt' (MW) of datacenter capacity, which is becoming increasingly relevant as hyperscalers scale AI infrastructure at unprecedented levels. We estimate Microsoft's cloud ecosystem currently generates ~$20-30 million of annualized

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Microsoft (MSFT.O, MSFT US)

Software | United States of America

Stock Rating	**Overweight**
Industry View	**Attractive**
Price target	**$650.00**
Shr price, close (May 26, 2026)	$416.03
Mkt cap, curr (mm)	$3,097,343
52-Week Range	$555.45-356.28

Fiscal Year Ending	06/25	06/26e	06/27e	06/28e
EPS ($)**	13.64	17.35	19.71	24.03
Prior EPS ($)**	-	-	-	-
P/E	36.5	24.0	21.1	17.3
EPS ($)§	-	16.78	19.42	22.87
Div yld (%)	0.7	0.9	1.0	1.1

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
** = Based on consensus methodology
§ = Consensus data is provided by Refinitiv Estimates
e = Morgan Stanley Research estimates

QUARTERLY EPS ($)

Quarter	2025	2026e Prior	2026e Current	2027e Prior	2027e Current
Q1	3.30	-	3.72a	-	4.69
Q2	3.23	-	5.16a	-	4.88
Q3	3.46	-	4.27a	-	4.84
Q4	3.65	-	4.21	-	5.30

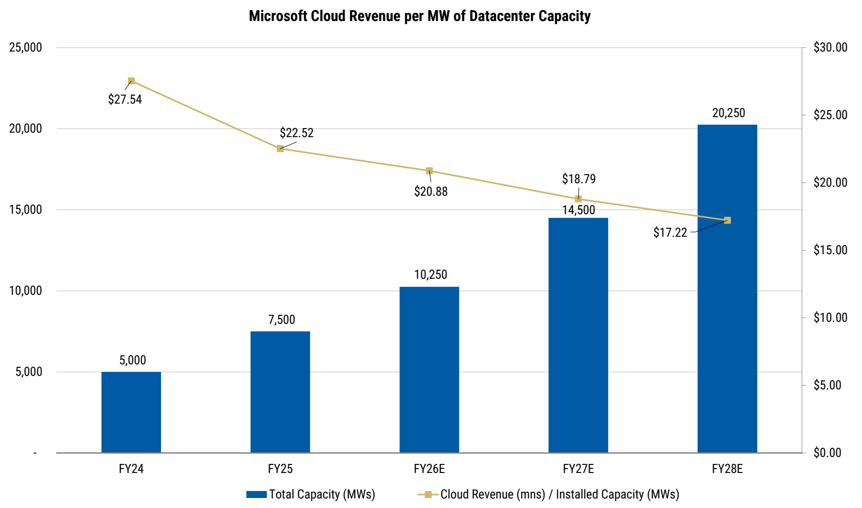
e = Morgan Stanley Research estimates, a = Actual Company reported data revenue per MW of datacenter capacity, with our forecasts suggesting a decline to closer to high-teens by FY28 (see Exhibit 1). Our revenue build for Microsoft Cloud includes Azure and other cloud services, M365 Commercial Cloud, Dynamics 365, and commercial LinkedIn revenue, reflecting our view that Microsoft's datacenter footprint increasingly supports a unified cloud and AI platform across Azure and multiple 1st party applications (rather than just Azure/Azure AI).

Installed Capacity Assumptions Reflect Forward AI Demand Positioning. Importantly, our framework assumes the denominator reflects total installed and available datacenter capacity rather than currently utilized load. In our view, this distinction is important given the current stage of the AI infrastructure cycle, as all of the hyperscalers are aggressively investing in and deploying capacity ahead of anticipated Cloud/AI usage. Since Microsoft does not directly disclose installed power capacity, we triangulated our estimates using available news reports and blog posts, with further incremental capacity additions largely based on management's comments regarding cloud/AI infrastructure expansion (i.e., *'All up, we added another gigawatt of capacity this quarter'* from the F3Q26 earnings call). Under our assumptions, Microsoft's installed datacenter footprint expands from approximately 5GW in FY24 to roughly 20GW by FY28 after exiting CY25 with roughly 7-9GW, supported by management's recent comments: *'We will increase our total AI capacity by over 80% this year, and roughly double our total datacenter footprint over the next two years, reflecting the demand signals we see.'* This increase in capacity also reflects both traditional cloud growth and the significantly higher power intensity associated with generative AI training and inference workloads.

Declining Revenue per MW Suggests Infrastructure Deployment Is Running Ahead of Monetization. One of the more notable takeaways from our analysis is that revenue per MW declines over the next few years despite substantial expected growth in AI demand and cloud revenue ***(revenue per MW should decrease with higher capital intensity AI infrastructure increasing in mix, but the declines account for this and paint our estimates as conservative still)***. We do not interpret this dynamic as evidence of a deteriorating monetization opportunity, but rather an indication that 1) Microsoft is deploying AI-specific capacity ahead of the associated monetization cycle and 2) our forecasts likely prove conservative. Said differently, our framework suggests Microsoft is building for a future level of AI demand that has not yet fully materialized in current revenue estimates. This dynamic is consistent with management commentary surrounding AI capacity constraints and long-duration infrastructure planning cycles, particularly given the lead times associated with power procurement, datacenter construction, networking, and GPU deployment. Since our model assumes substantial capacity additions ahead of utilization and monetization, the embedded revenue conversion potential of Microsoft's installed infrastructure footprint may not yet be fully reflected in our revenue estimates today. To the extent AI adoption accelerates faster than expected, inference workloads scale more rapidly, or software attach across Copilot, Azure, Dynamics, GitHub, and M365 (more broadly) improves, Microsoft could potentially generate materially higher revenue per unit of deployed power capacity over time without requiring the same level of incremental infrastructure investment. In that scenario, the company's existing datacenter footprint could support significantly greater revenue productivity than our current assumptions imply.

The datacenter capacity estimates presented herein are based on publicly available information, third-party industry sources, and internal assumptions, and have not been verified nor confirmed by Microsoft. Actual installed capacity, utilization levels, and future deployment plans may differ materially from our estimates.

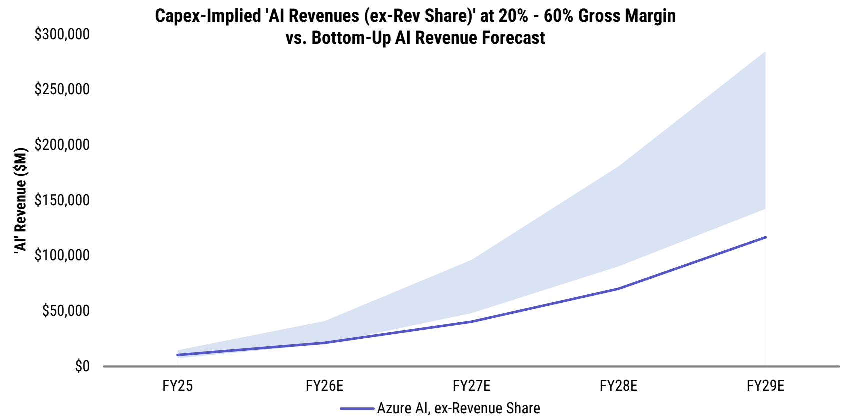
Exhibit 1: We Estimate Microsoft's Revenue per MW Declines as the Company Accelerates DC Capacity Expansion, Supporting Upside to Our Revenue Estimates Over Time



Source: Morgan Stanley Research, Company Data *Assuming Datacenter Capacity for Microsoft Represents Installed Capacity || Cloud Revenue = M365 Commercial Cloud + Dynamics 365 + Commercial LinkedIn + Azure and Other Cloud Services*

Supporting Our Above Exercise With Our Latest Capex-Implied AI Revenue Analysis – We See Meaningful Upside to Azure As Long as Azure AI Gross Margins >15-20%: Our assumption for capex has consistently been revised higher. Therefore, we continue to lean on our capex driven forecast model to yield our sustained bullish conclusions about the trajectory of Azure growth, which continues to suggest significant upside to our forward Azure forecasts. Our capex model sizes the implied contribution from Azure AI based on the capital expenditures dedicated to AI-related initiatives. We compare the capex-implied Azure AI forecasts, assuming various gross margin levels, with the Azure AI estimates in our MS model. Consistently repeated on the most recent earnings calls, capex (and corresponding infrastructure) is not just allocated for new Azure demand, as Microsoft must support its 1st party applications, internal R&D/Research efforts, internal training, and a replacement capex cycle. Management has also been vocal for some time that a significant portion of capex is for longer duration assets like land and buildings, which could generate revenue for >15 years. We had previously contemplated this split between short-lived and long-lived capex, and already allocated a significant portion of capex to non-AI cloud (i.e. 1st party apps) as well as AI businesses like Copilot (non-Azure AI). **Net**, **We See Meaningful Upside to Azure As Long as Azure AI Gross Margins >15-20%** Our latest analysis, which utilizes our latest total capex estimates and Azure revenue estimates post-F3Q26 earnings (see 3Q26 Results – Onto Newer and Better Things (30 Apr 2026)), suggests further upside to our current Azure estimates based on our Capex-Implied framework.

Exhibit 2: Capex-Implied Azure AI Revenue Potential is Well Ahead of Our Azure AI Forecast



Source: Morgan Stanley Research

Exhibit 3: Back of the Envelope Compute Math Suggests Microsoft AI Server Capex Implies ~98.2 Million H100 Equivalents by FY29

($ in Millions)	FY25	FY26E	FY27E	FY28E	FY29E
Total Capex	**$88,200**	**$145,432**	**$250,038**	**$312,596**	**$375,126**
YoY Growth	*58%*	*65%*	*72%*	*25%*	*20%*
Cash Capex	$64,551	$110,034	$193,138	$242,018	$290,507
YoY Growth	*45%*	*70%*	*76%*	*25%*	*20%*
Non-Cloud Capex	**$4,725**	**$6,999**	**$11,154**	**$13,598**	**$16,023**
YoY Growth	*27%*	*48%*	*59%*	*22%*	*18%*
Data Center Cash Capex	**$59,826**	**$103,035**	**$181,983**	**$228,420**	**$274,484**
YoY Growth	*47%*	*72%*	*77%*	*26%*	*20%*
% of Total Capex	*93%*	*94%*	*94%*	*94%*	*94%*
PPE Acquired Under Capital Lease	$23,649	$35,398	$56,900	$70,578	$84,618
Capital Lease as % of Cash Capex	*40%*	*34%*	*31%*	*31%*	*31%*
Total Data Center Capex	**$83,475**	**$138,433**	**$238,883**	**$298,998**	**$359,103**
YoY Growth	*61%*	*66%*	*73%*	*25%*	*20%*
Total Monetizeable Data Center Capex	**$72,963**	**$124,822**	**$220,069**	**$274,787**	**$331,097**
Total Cloud Capex Intensity	34%	48%	70%	71%	69%
Non-AI Cloud Capex Intensity	14%	13%	13%	12%	12%
M365 Copilot Capex Intensity	47%	42%	37%	33%	29%
Azure AI Capex Intensity	396%	413%	438%	318%	231%
Segment-level Capex					
Non-AI Cloud Capex	$30,796	$35,227	$41,034	$48,424	$57,667
Internal AI Training Capex (Non-Monetizable)	$1,000	$2,000	$3,000	$4,000	$5,000
Internal R&D/Research Capex (Non-Monetizable) 1.5% of Total Data Center Capex	$1,252	$2,076	$3,583	$4,485	$5,387
Replacement Capex (55% of 6yr prior Data Center Capex [Servers] + 45% of 15 year Prior [Building])	$8,260	$9,535	$12,231	$15,726	$17,619
Microsoft 'AI Capex' (Monetizable)	$42,167	$89,595	$179,035	$226,363	$273,429
M365 Copilot Capex	$1,054	$1,676	$2,385	$3,055	$3,562
Azure AI Capex	$41,113	$87,919	$176,650	$223,309	$269,868

Note: M365 Copilot capex intensity assumes the intensity is maps to the capex intensity of Microsoft Cloud at similar revenue scales (i.e. FY14-19).

Server-Related AI Capex	$27,920	$57,795	$118,709	$150,344	$180,861
Chip Version	H/B100	B1/B200	Rubin	Rubin	Rubin Ultra
Cost per Chip ($)	$37,500	$43,750	$62,500	$62,500	$181,250
Impl. Chips Purchased	744,527	1,321,040	1,899,351	2,405,510	997,855
Ratio of Compute to H100s	1.5x	2.5x	11.0x	11.0x	46.0x
Impl. H100 Equivalents Purchased	1,116,790	3,302,599	20,892,861	26,460,609	45,901,344
Cumulative H100 Equivalents	**1,601,778**	**4,904,377**	**25,797,238**	**52,257,846**	**98,159,190**

Note: Grossing up cost per chip to account for "fully-loaded" server cost, which assumes 80% of the server cost is attributable to the cost of the chip.

Microsoft Cloud Revenues, ex-Revenue Share	**$216,375**	**$261,274**	**$316,067**	**$387,924**	**$481,250**
Non-AI Cloud Revenues	$203,757	$236,031	$269,310	$308,556	$352,386
Bottom-Up AI Revenues (Copilots + Azure AI, ex-rev share)	$12,618	$25,243	$46,757	$79,368	$128,864
M365 Copilot	$2,227	$3,961	$6,389	$9,166	$12,146
Azure AI, ex-Revenue Share	$10,391	$21,282	$40,367	$70,202	$116,718
Azure AI, Total	$12,097	$25,669	$49,419	$86,202	$141,218
Total Azure (MSe)	$75,428	$105,605	$149,423	$209,338	$291,186

'Monetizable' Azure AI Capex	**$41,113**	**$87,919**	**$176,650**	**$223,309**	**$269,868**
Incremental Depreciation Waterfall					
FY23	$22	$22	$22	$22	$22
FY24	$1,965	$1,965	$1,965	$1,965	$1,965
FY25	$2,460	$4,920	$4,920	$4,920	$4,920
FY26		$5,392	$10,785	$10,785	$10,785
FY27			$11,188	$22,376	$22,376
FY28				$14,143	$28,286
FY29					$17,092
Incremental Depreciation	$4,447	$12,299	$28,879	$54,210	$85,445

Note: Assumes capex splits half between infrastructure needs (build and lease data centers) depreciated over 15 years and the remaining half for servers (GPU and CPU) depreciated over 6 years. Further, assumes 50% linearity for Capex in first year.

Source: Morgan Stanley Research

Exhibit 4: More Confidence in Model Conservatism; Material Upside Likely

AZURE AI EX-REV SHARE	FY25	FY26E	FY27E	FY28E	FY29E
Capex-implied 'Azure AI ex-Revenue Share' Revenues @ 20% GMs	$7,412	$20,499	$48,132	$90,350	$142,408
Capex-implied 'Azure AI ex-Revenue Share' Revenues @ 30% GMs	$8,471	$23,427	$55,009	$103,258	$162,752
Capex-implied 'Azure AI ex-Revenue Share' Revenues @ 40% GMs	$9,882	$27,332	$64,177	$120,467	$189,877
Capex-implied 'Azure AI ex-Revenue Share' Revenues @ 50% GMs	$11,859	$32,798	$77,012	$144,561	$227,853
Capex-implied 'Azure AI ex-Revenue Share' Revenues @ 60% GMs	$14,823	$40,998	$96,265	$180,701	$284,816
Note: Assumes depreciation constitutes ~75% of COGS while power, labor, etc. constitute the difference.					
Capex-implied 'Azure AI ex-Rev Share' Upside @ 20% GMs	-29%	-4%	19%	29%	22%
Capex-implied 'Azure AI ex-Rev Share' Upside @ 30% GMs	-18%	10%	36%	47%	39%
Capex-implied 'Azure AI ex-Rev Share' Upside @ 40% GMs	-5%	28%	59%	72%	63%
Capex-implied 'Azure AI ex-Rev Share' Upside @ 50% GMs	14%	54%	91%	106%	95%
Capex-implied 'Azure AI ex-Rev Share' Upside @ 60% GMs	43%	93%	138%	157%	144%

TOTAL AZURE AI (GMS % of ex-Rev Share)	FY25	FY26E	FY27E	FY28E	FY29E
Capex-implied 'Total Azure AI' Revenues @ 20% GMs for ex-Rev Share Azure AI	$9,117	$24,886	$57,184	$106,350	$166,908
Capex-implied 'Total Azure AI' Revenues @ 30% GMs for ex-Rev Share Azure AI	$10,176	$27,814	$64,060	$119,258	$187,252
Capex-implied 'Total Azure AI' Revenues @ 40% GMs for ex-Rev Share Azure AI	$11,588	$31,719	$73,228	$136,467	$214,377
Capex-implied 'Total Azure AI' Revenues @ 50% GMs for ex-Rev Share Azure AI	$13,564	$37,185	$86,063	$160,561	$252,353
Capex-implied 'Total Azure AI' Revenues @ 60% GMs for ex-Rev Share Azure AI	$16,529	$45,385	$105,316	$196,701	$309,316
Note: Assumes depreciation constitutes ~75% of COGS while power, labor, etc. constitute the difference.					
Capex-implied 'Total Azure AI' Upside @ 20% GMs	-25%	-3%	16%	23%	18%
Capex-implied 'Total Azure AI' Upside @ 30% GMs	-16%	8%	30%	38%	33%
Capex-implied 'Total Azure AI' Upside @ 40% GMs	-4%	24%	48%	58%	52%
Capex-implied 'Total Azure AI' Upside @ 50% GMs	12%	45%	74%	86%	79%
Capex-implied 'Total Azure AI' Upside @ 60% GMs	37%	77%	113%	128%	119%

TOTAL AZURE (GMS % of ex-Rev Share)	FY25	FY26E	FY27E	FY28E	FY29E
Capex-implied 'Total Azure' Revenues @ 20% GMs for ex-Rev Share Azure AI	$72,448	$104,822	$157,188	$229,487	$316,876
Capex-implied 'Total Azure' Revenues @ 30% GMs for ex-Rev Share Azure AI	$73,507	$107,750	$164,064	$242,394	$337,220
Capex-implied 'Total Azure' Revenues @ 40% GMs for ex-Rev Share Azure AI	$74,919	$111,655	$173,232	$259,604	$364,345
Capex-implied 'Total Azure' Revenues @ 50% GMs for ex-Rev Share Azure AI	$76,895	$117,121	$186,068	$283,697	$402,320
Capex-implied 'Total Azure' Revenues @ 60% GMs for ex-Rev Share Azure AI	$79,860	$125,321	$205,321	$319,837	$459,284
Note: Assumes depreciation constitutes ~75% of COGS while power, labor, etc. constitute the difference.					
Capex-implied 'Total Azure' Upside @ 20% GMs	-4%	-1%	5%	10%	9%
Capex-implied 'Total Azure' Upside @ 30% GMs	-3%	2%	10%	16%	16%
Capex-implied 'Total Azure' Upside @ 40% GMs	-1%	6%	16%	24%	25%
Capex-implied 'Total Azure' Upside @ 50% GMs	2%	11%	25%	36%	38%
Capex-implied 'Total Azure' Upside @ 60% GMs	6%	19%	37%	53%	58%

Source: Morgan Stanley Research

Going One Step Further… Decomposing Blended Revenue per MW: AI Mix Shift Likely Driving Lower Aggregate Revenue Productivity. One important nuance within our Revenue per MW framework above (Exhibit 1) is that aggregate datacenter revenue productivity should not necessarily remain stable as hyperscalers increasingly deploy AI-oriented infrastructure. GenAI workloads are materially more power-intensive than traditional cloud compute, with GPU-heavy training and inference clusters likely generating structurally lower revenue per MW than mature general-purpose cloud workloads, particularly in the early stages of deployment and utilization ramp. As a result, we believe it is important to separate the economics of Microsoft's broader cloud footprint from the incremental AI-specific infrastructure currently being deployed at scale. Microsoft generated approximately ~$28mn of cloud revenue per MW in FY24, which we view as largely reflective of a pre-AI or primarily non-AI cloud mix. Under a simplifying assumption that Microsoft's core cloud business continues generating roughly similar revenue productivity over time, the decline in blended revenue per MW embedded in our forecasts can be interpreted as the partial impact of an increasing mix of AI infrastructure capacity.

Importantly, this analysis suggests that our current forecasts may already embed a meaningful impact from lower-productivity AI infrastructure deployment, which is still in the early days. Said differently, the decline in blended revenue per MW in the above analysis likely reflects the significantly higher capital and power intensity associated with AI workloads, and may support further revenue upside to our estimates going forward. To that end, to the extent Microsoft ultimately drives stronger inference utilization, higher software attach, or improved monetization across Azure AI and Copilot offerings, revenue productivity on incremental AI capacity could ultimately prove higher than what is currently embedded in our estimates.

Under this framework, the implied monetization profile of incremental AI capacity appears relatively conservative vs. current market pricing for GPU infrastructure and neocloud bare-metal offerings.

Exhibit 5: Implied AI Revenue per MW Based on Blended Revenue Mix Analysis

($ in mns)	FY24	FY25	FY26E	FY27E	FY28E
Total Capacity (MWs)	5,000	7,500	10,250	14,500	20,250
$/MW	$27.5	$22.5	$20.9	$18.8	$17.2
Cloud & AI Revenue	$137,700	$168,900	$214,061	$272,521	$348,734
Azure AI Revs	$3,872	$12,097	$25,669	$49,419	$86,202
M365 Copilot Rev	$794	$2,227	$3,961	$6,389	$9,166
Total AI Revenue	$4,666	$14,324	$29,630	$55,808	$95,368
Core Cloud	$133,034	$154,576	$184,432	$216,713	$253,367
$/MW	$27.5	$27.5	$27.5	$27.5	$27.5
MWs	**4,831**	**5,613**	**6,697**	**7,869**	**9,200**
% of Total Capacity	*97%*	*75%*	*65%*	*54%*	*45%*
Total AI		$14,324	$29,630	$55,808	$95,368
IMPLIED $ / MW		**$7.59**	**$8.34**	**$8.42**	**$8.63**
MWs (MSFT AI)	169	1,887	3,553	6,631	11,050
$ Rev / MW (CRWV)		**$10.00**	**$9.61**	**$10.63**	**$10.62**
$ Rev / MW (NBIS)	**$10.23**	**$8.22**	**$8.67**	**$8.87**	**$8.97**

Source: Morgan Stanley Research, Company Data *Note CRWV & NBIS FYs are December End vs. MSFT's June End* **Rev / MW calculations for CRWV & NBIS are based on revenue in the period / average MW in the period (average beginning and ending MW)**

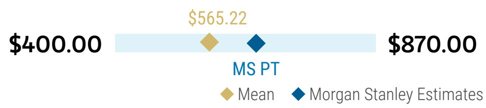
Risk Reward – Microsoft (MSFT.O)

Durability of Earnings Growth & AI Leadership Not Priced-In

PRICE TARGET $650.00

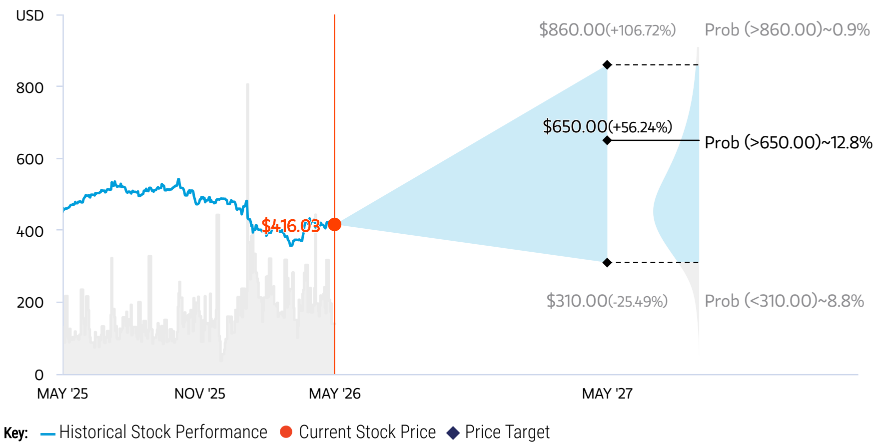
30x Base Case CY27e EPS of $21.76. 30x PE is a slight premium to large cap software peers, 1.5x PEG is relatively in line with MSFT historical PEG while a premium to peers, justified by Microsoft's strong positioning and strong execution.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

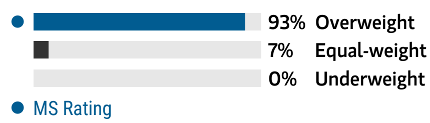


Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 26 May 2026. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- Strong positioning for public cloud adoption & AI, large distribution channels and installed customer base, and expanding margins supports EPS growth. Weaker cyclical environment improves as cloud optimizations complete - LT trends remain durable.
- Teens revenue growth, opex discipline and strong capital return lead to durable mid- to high-teens total return profile long term.
- At ~30x CY27e GAAP EPS, the durability of Microsoft's earnings growth and the company's premium return profile remains underpriced. Multiple expansion and positive estimate revisions will come from greater than expected strength in commercial businesses including Azure.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

New Data Era:	*Positive*
Pricing Power:	*Positive*
Secular Growth:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $860.00

~35x Bull Case CY27e EPS: $24.42

Azure, O365 & Robust Contribution from AI Drive Top-Line Growth. Acceleration in Azure growth, adoption of higher priced M365 Commercial SKUs and continued seat growth, and robust adoption of Azure AI services and Microsoft AI Copilots across business lines drive mid-teens revenue CAGR in the coming years. Operating margins expand to ~49.3% by CY27 and CY27e EPS is $24.42. ~35x PE represents a premium to large cap software peers, but roughly inline with Hist Avg PEG at ~1.4x given >20% EPS CAGR.

BASE CASE $650.00

~30x Base Case CY27e EPS of $21.76

Azure, M365 & Ramping Contribution from AI Drive Top-Line Growth. Durability of Azure growth, adoption of higher priced M365 Commercial SKUs and continued seat growth, and ramping adoption of Azure AI services & Microsoft AI Copilots across business lines drive low-teens rev CAGR ahead. Operating margins expand beyond ~47.3% by CY27 and CY27e EPS is $21.76. 30x PE is a premium to large cap software peers, given strong positioning and execution. 1.5x PEG is inline with MSFT historical PEG.

BEAR CASE $310.00

~16x Bear Case CY27e EPS: $19.70

Macro, Scale & Limited AI Adoption Drives Top-Line Growth Deceleration. Azure growth continues deceleration given scale, while M365 reaches penetration and adoption of Azure AI services & Microsoft AI Copilots across business lines remains limited. This drives low double-digit rev CAGR. Operating margins only expand to ~45.3% by CY27 from gross margin pressure and CY27e EPS is $19.70. ~16x PE is a discount to large cap software peers and a discount on a PEG.

Risk Reward – Microsoft (MSFT.O)

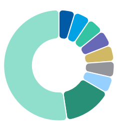
KEY EARNINGS INPUTS

Drivers	2025	2026e	2027e	2028e
Azure Revenue Growth (%)	29.7	30.2	26.4	22.4
Server Products On-Prem Growth (%)	(2.0)	(1.0)	(1.0)	(1.0)
Gross Margins (%)	68.8	67.7	66.2	65.7
Operating Margins (%)	45.6	46.6	46.9	47.7
GAAP EPS Growth (%)	15.6	27.2	13.6	22.0

INVESTMENT DRIVERS

- Sustainability of commercial growth, cloud momentum, improving cloud margins
- Improving PC data points

GLOBAL REVENUE EXPOSURE



0-10%	APAC, ex Japan, Mainland China and India
0-10%	India
0-10%	Japan
0-10%	Latin America
0-10%	MEA
0-10%	Mainland China
0-10%	UK
10-20%	Europe ex UK
50-60%	North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

3/5 BEST	24 Month Horizon	1/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Cloud adoption accelerates, with Azure as convincing winner
- AI leadership results in substantial revenue contribution over-time
- Operational efficiencies leading to greater than anticipated economies of scale and margin expansion

RISKS TO DOWNSIDE

- Weak macro impacting IT spending
- On-premises cannibalization by Cloud
- Increased investments hurt margin expansion
- AI adoption proves limited

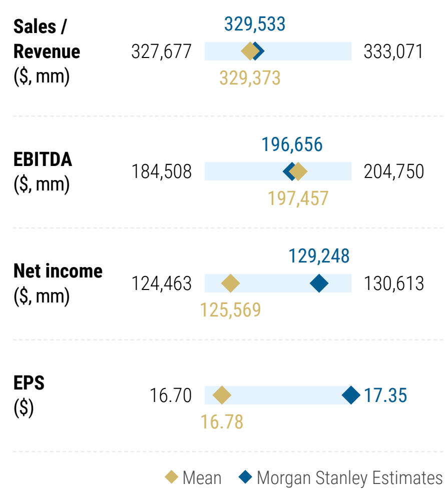
OWNERSHIP POSITIONING

Inst. Owners, % Active	52.7%
HF Sector Long/Short Ratio	2x
HF Sector Net Exposure	25.3%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Jun 2026e



Source: Refinitiv, Morgan Stanley Research

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

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(as of April 30, 2026)
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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1546	42%	467	51%	30%	709	44%
Equal-weight/Hold	1568	43%	358	39%	23%	715	44%
Not-Rated/Hold	4	0%	0	0%	0%	1	0%
Underweight/Sell	555	15%	84	9%	15%	202	12%
Total	3,673		909			1627	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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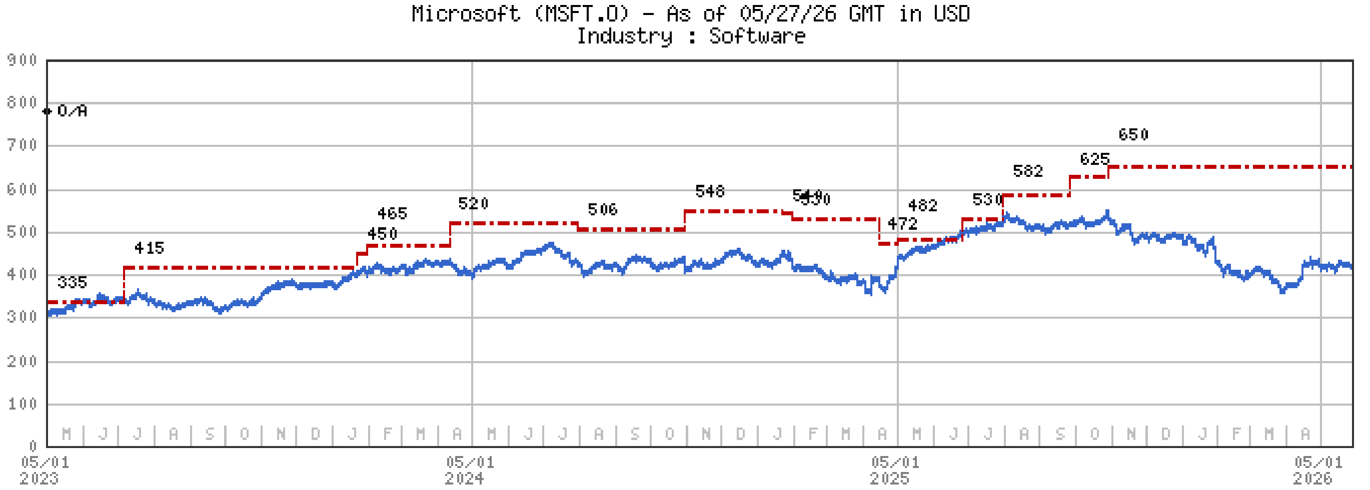
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 5/1/21 : O/A

Price Target History: 4/28/21 : 300; 7/28/21 : 305; 9/14/21 : 331; 10/27/21 : 364; 1/26/22 : 372; 7/12/22 : 354; 10/14/22 : 325; 10/26/22 : 307; 4/26/23 : 335; 7/6/23 : 415; 1/23/24 : 450; 1/31/24 : 465; 4/11/24 : 520; 7/31/24 : 506; 10/31/24 : 548; 1/22/25 : 540; 1/30/25 : 530; 4/15/25 : 472; 5/1/25 : 482; 6/26/25 : 530; 7/31/25 : 582; 9/26/25 : 625; 10/30/25 : 650

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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INDUSTRY COVERAGE: Software

COMPANY (TICKER)	RATING (AS OF)	PRICE* (05/26/2026)
Chris Quintero		
BILL Holdings Inc (BILL.N)	E (06/10/2025)	$34.90
Blackline Inc (BL.O)	O (09/29/2024)	$28.87
Descartes Systems Group Inc (DSGX.O)	O (01/15/2026)	$70.58
Manhattan Associates Inc. (MANH.O)	E (10/21/2025)	$139.67
Navan Inc (NAVN.O)	O (11/24/2025)	$19.13
SPS Commerce Inc (SPSC.O)	E (11/11/2025)	$53.55
Vertex Inc. (VERX.O)	O (01/17/2024)	$13.06
Elizabeth Porter, CFA		
Amplitude Inc. (AMPL.O)	O (01/15/2026)	$6.84
Autodesk (ADSK.O)	O (08/23/2024)	$238.23
Figma Inc (FIG.N)	E (08/25/2025)	$21.96
Five9 Inc (FIVN.O)	E (10/10/2022)	$22.79
Freshworks Inc (FRSH.O)	E (10/18/2021)	$9.04
GoDaddy Inc (GDDY.N)	E (07/19/2021)	$88.99
HubSpot, Inc. (HUBS.N)	O (03/21/2023)	$197.99
Klaviyo, Inc (KVYO.N)	O (04/29/2026)	$14.46
LegalZoom.com Inc (LZ.O)	U (07/28/2022)	$6.40
Liveramp Holdings Inc (RAMP.N)	E (01/13/2025)	$37.66
NICE Ltd. (NICE.O)	O (10/16/2023)	$94.16
RingCentral Inc (RNG.N)	E (08/08/2023)	$42.55
Sprinklr Inc (CXM.N)	E (07/19/2021)	$5.30
Sprout Social Inc (SPT.O)	E (11/17/2020)	$6.84
Twilio Inc (TWLO.N)	O (02/24/2025)	$189.65
Wix.Com Ltd (WIX.O)	O (01/13/2025)	$55.33
Zeta Global Holdings Corp (ZETA.N)	E (08/01/2024)	$19.65
ZoomInfo Technologies Inc (GTM.O)	E (02/01/2024)	$3.50
Josh Baer, CFA		

Asana Inc (ASAN.N)	U (05/20/2025)	$6.58
Box Inc (BOX.N)	E (05/21/2024)	$25.62
CCC Intelligent Solutions Holdings Inc (CCC.O)	O (11/13/2024)	$4.62
Commerce.com Inc. (CMRC.O)	++	$2.91
Coursera, Inc. (COUR.N)	E (04/22/2026)	$5.29
DigitalOcean Holdings Inc (DOCN.N)	O (01/16/2025)	$160.72
Docebo Inc. (DCBO.O)	E (05/12/2025)	$17.37
DocuSign Inc (DOCU.O)	E (01/16/2024)	$49.32
Lightspeed Commerce Inc. (LSPD.N)	E (02/18/2021)	$8.82
monday.com Ltd (MNDY.O)	O (08/12/2025)	$76.83
Nebius Group NV (NBIS.O)	E (01/15/2026)	$208.06
Sabre Corp (SABR.O)	E (03/16/2021)	$1.62
ServiceTitan Inc (TTAN.O)	O (01/20/2026)	$62.71
Toast, Inc. (TOST.N)	O (12/16/2021)	$23.32
Via Transportation Inc (VIA.N)	O (01/20/2026)	$14.44
Zoom Communications (ZM.O)	E (10/11/2022)	$100.09
Keith Weiss, CFA		
Adobe Inc. (ADBE.O)	E (09/24/2025)	$240.49
Atlassian Corporation PLC (TEAM.O)	O (01/13/2020)	$84.92
Cloudflare Inc (NET.N)	O (12/02/2024)	$217.54
CoreWeave (CRWV.O)	E (04/22/2025)	$105.89
Intuit (INTU.O)	O (02/26/2025)	$304.35
Microsoft (MSFT.O)	O (01/13/2016)	$416.03
Oracle Corporation (ORCL.N)	E (01/15/2019)	$193.06
Salesforce, Inc. (CRM.N)	O (12/21/2023)	$179.08
Samsara Inc (IOT.N)	E (03/23/2023)	$31.16
ServiceNow Inc (NOW.N)	O (09/24/2025)	$99.92
Shopify Inc (SHOP.O)	O (04/19/2024)	$104.90
Workday Inc (WDAY.O)	E (02/19/2025)	$124.02
Meta A Marshall		
Check Point Software Technologies Ltd. (CHKP.O)	E (10/16/2023)	$131.08
CrowdStrike Holdings Inc (CRWD.O)	O (03/10/2026)	$671.55
Fortinet Inc. (FTNT.O)	U (09/02/2025)	$133.96
Gen Digital Inc. (GEN.O)	E (06/07/2024)	$24.76
Netskope, Inc. (NTSK.O)	O (10/13/2025)	$12.12
Okta, Inc. (OKTA.O)	O (12/02/2024)	$93.81
Palo Alto Networks Inc (PANW.O)	O (10/10/2017)	$256.75
Qualys Inc (QLYS.O)	U (02/09/2021)	$102.31
Rapid7 Inc (RPD.O)	E (08/11/2015)	$7.19
SailPoint Inc (SAIL.O)	O (09/02/2025)	$15.87
SentinelOne, Inc. (S.N)	E (12/02/2024)	$18.56
Tenable Holdings Inc (TENB.O)	E (12/02/2024)	$25.82
Varonis Systems, Inc. (VRNS.O)	E (01/26/2026)	$31.05
Zscaler Inc (ZS.O)	E (04/22/2026)	$184.60
Sanjit K Singh		
Akamai Technologies, Inc. (AKAM.O)	O (01/12/2026)	$148.21
Appian Corp (APPN.O)	E (04/30/2026)	$21.67
C3.ai (AI.N)	U (01/04/2021)	$9.59
Datadog, Inc. (DDOG.O)	O (01/12/2026)	$223.65
Dynatrace Inc (DT.N)	E (02/13/2024)	$40.60
Elastic NV (ESTC.N)	O (12/16/2024)	$54.41
GitLab Inc (GTLB.O)	E (01/12/2026)	$26.77
JFrog Ltd. (FROG.O)	O (12/21/2023)	$73.01
MongoDB Inc (MDB.O)	O (04/12/2023)	$307.35
PagerDuty, Inc. (PD.N)	E (01/24/2024)	$7.19

Palantir Technologies Inc. (PLTR.O)	E (02/04/2025)	$136.60
Snowflake Inc. (SNOW.N)	O (06/24/2025)	$177.60
UiPath Inc (PATH.N)	E (09/07/2022)	$11.09

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.