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IDEA

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Microsoft | North America

4Q26 Results – Growth Thesis Taking Shape

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AlphaSignals Earnings Reaction

Strengthens our thesis	Meaningful upside	Modest revision higher
Impact to our thesis	Financial results versus consensus	Direction of next 12-month consensus EPS

Source: Company data, Morgan Stanley Research

Azure accelerated well beyond the investor hurdle, Copilot net seat adds more than doubled, and operating leverage sustained year-over-year margin expansion and >20% EPS growth. We see our OW thesis playing out at MSFT. At 17.7x FY28 GAAP EPS, we remain OW.

Key Takeaways

- Microsoft's 4Q26 results delivered broad-based upside, with $90.0B revenue (+18% YoY) and operating income of $40.60B beating consensus by 4.2%.
- Azure growth accelerated four points sequentially to 43% (cc), beating the 39–40% guide, with management citing CPU/GPU efficiency and faster build times.
- Azure's outlook strengthened, with guidance for ~45% constant-currency growth in 1Q27 and a reiteration that F1H27 growth should accelerate vs F2H26.
- M365 Copilot reached over 30MM paid seats, up from over 20MM last quarter, as ~10MM net adds beat expectations closer to ~6MM by a wide margin.
- Margins held up despite AI build: gross margin 67.2%, operating margin 45.1%; FY27 calls for double-digit EBIT growth and margins down less than one point.

F4Q26 Delivered the First Proof Point Across Our Azure, Copilot and Margin Thesis. Microsoft's F4Q26 results move the key elements of our investment thesis from expectation to evidence (see Battle of the AI Stack: Infrastructure to Knowledge Workers – Azure and Copilot Are Set to Inflect (21 Jul 2026)). Revenue of $90.0B was 2.6% above consensus, with upside across all three segments driving a 4.2% operating-income beat, while Azure growth accelerated 4pts sequentially to 43% in cc and guidance for approximately 45% growth in F1Q27 supports our view that incremental supply, improving fleet efficiency and faster capacity deployment can sustain stronger growth for longer. At the same time, M365 Copilot moved from product-cycle momentum to scaled enterprise adoption, surpassing 30MM paid seats as net seat additions more than doubled QoQ, while early E7 demand and the expansion of consumption pricing across Copilot, GitHub and Dynamics reinforce our three-pronged ARPU thesis: more Copilot seats, migration into higher-value suites and incremental usage-based monetization. Importantly, these growth inflections are emerging without the margin degradation Bears have feared: operating margin reached 45.1%, approximately 70bps above consensus, and

Microsoft (MSFT.O, MSFT US)

Software | United States of America

Stock Rating	**Overweight**
Industry View	**Attractive**
Price target	**$600.00**
Shr price, close (Jul 29, 2026)	$390.54
Mkt cap, curr (mm)	$2,907,570
52-Week Range	$555.45-349.20

Fiscal Year Ending	06/25	06/26e	06/27e	06/28e
EPS ($)**	13.64	17.94	19.67	24.07
Prior EPS ($)**	-	17.35	19.62	23.86
P/E	36.5	20.8	19.9	16.2
EPS ($)§	-	16.80	19.40	22.77
Div yld (%)	0.7	1.0	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	4.71	4.77
Q2	3.23	-	5.16a	4.86	4.93
Q3	3.46	-	4.27a	4.92	4.89
Q4	3.65	4.21	4.81	5.13	5.09

e = Morgan Stanley Research estimates, a = Actual Company reported data

Microsoft expects FY27 operating margin to decline by less than one point despite continued AI investment and Cloud gross-margin pressure. With F4Q capex in line with our estimate and no material increase in the underlying CY26 investment plan, investors can increasingly focus on the revenue and earnings generated by the build rather than the spending alone. We continue to see a path to sustainable high-teens revenue growth and greater than 20% earnings growth, making 17.7x FY28 GAAP EPS too inexpensive; applying a conservative 1.2x PEG and 25x P/E supports our $600 price target and approximately 40% upside. Our key takeaways from the quarter include:

1) Beats across the Board in 4Q26: Broad-based revenue upside drove a meaningful operating income beat. 4Q revenue of $90.0 billion, up 18% year-over-year and 17% in constant currency, was $2.3 billion, or 2.6%, above both our $87.7 billion estimate and consensus, and $2.2 billion above the high-end of Microsoft's $86.7–$87.8 billion guidance. Within the segments, Productivity and Business Processes revenue of $37.85 billion was 1.7% above our estimate, 1.5% above consensus and $0.55 billion above the high end of guidance; Intelligent Cloud revenue of $39.31 billion was 2.7% above us, 2.8% above consensus and $1.06 billion above the high end; and More Personal Computing revenue of $12.85 billion was approximately 5.5% above both us and consensus and $0.60 billion above the high end. The stronger revenue and gross-margin execution drove operating income of $40.60 billion, up 18%, which was 4.7% above our $38.79 billion estimate, 4.2% above consensus at $38.98 billion and approximately $2.2 billion, or 5.8%, above the midpoint implied by company guidance. Finally, capex of $41.0 billion was essentially in line with our $41.1 billion forecast and 3.2% below consensus at $42.4 billion.

2) Azure Acceleration Moves from Thesis to Numbers: Azure revenue growth accelerated 4pts sequentially to 43% in constant currency, three points above the high-end of management's 39-40% guide and 1-2pts above the 41-42%+ buyside expectation. This came against a prior-year comparison that itself included accelerating growth. More importantly, the strength was not solely a function of newly built capacity. Management attributed the upside to efficiency gains across both the CPU and GPU fleets, as well as process improvements that reduced the time required to bring new infrastructure online. With customer demand continuing to exceed available supply, those incremental efficiency gains and the earlier delivery of new capacity were monetized within the quarter and are locked in for the N12M.

The forward outlook strengthened further. Microsoft guided Azure to ~45% constant-currency growth in 1Q27 and reiterated that growth in F1H27 should accelerate from F2H26, despite exiting FY26 at a significantly higher 43% growth rate than previously expected. This supports our thesis that Azure can sustain stronger topline growth for longer. Better efficiency and capex turning into capacity is stage one – but we see a multi year cycle where MSFT can move from monetising inline with a neocloud on GPUaaS metrics to one where it is able to sell a wider variety of platform and app software.

3) The M365 Copilot Product Cycle Moves from Stride to Scale: Microsoft exited the quarter with over 30 million paid M365 Copilot seats, up from over 20 million last quarter. The resulting approximately 10 million sequential net additions were well ahead of our expectation for approximately 6 million. The supporting adoption metrics suggest this was more than a single-quarter licensing event. Customer satisfaction scores have doubled over the past three quarters, latency declined 25% during Q4, conversations per user nearly doubled year-over-year, and the time required for a deployment to reach high usage has fallen from months to days. The number of customers with more than 50,000 Copilot seats increased more than sevenfold year-over-year, while the number of enterprise customers deploying Copilot to the majority of their information workers increased nearly 75% sequentially.

Monetization is also broadening beyond the standalone Copilot seat. Hundreds of enterprise customers have already purchased millions of E7 seats only two months after launch, and Microsoft is extending usage-based pricing across Cowork, Dynamics and GitHub Copilot. GitHub Copilot revenue accelerated more than 60% sequentially after the new usage-based model took effect, while Dynamics customer-service credit consumption increased fourfold sequentially. **This reinforces the three-part ARPU framework outlined in our assumption note:** Direct M365 Copilot seat adoption; Migration toward higher-value E7 subscriptions; and Consumption-based monetization tied to agents, orchestration and workflow automation.

Management's new expectation that M365 Commercial Cloud revenue growth will accelerate through FY27 is more important than the initial 1Q guide, in our view. It indicates that premium SKU momentum, Copilot adoption, commercial pricing and usage-based monetization should collectively outweigh the lower ARPU associated with incremental frontline-worker and SMB seats.

4) Gross-Margin Headwinds, Operating-Margin and Earnings Tailwinds: The quarter also provided another proof point that Microsoft can manage through the gross-margin pressure associated with the AI infrastructure build. Total company gross margin of 67.2% exceeded consensus by approximately 50 basis points despite the greater mix of Azure, Azure AI and increasingly compute-intensive Copilot usage. Microsoft Cloud gross margin was also better than expected at 65%.

Operating expenses were also well managed with the operating margin reaching 45.1%, approximately 70 basis points above consensus and modestly higher year-over-year. Total headcount declined 2% year-over-year when adjusted for Microsoft's Frontier Lab investments, underscoring the continuing focus on organizational productivity.

For FY27, Microsoft expects double-digit revenue and operating-income growth, mid- to high-single-digit opex growth and operating margins down less than one point. The operating-margin commentary was in line with our preview, where we expected initial guidance for margins to be "down slightly" or "down 1%." We continue to see an upside path to a better actual outcome—and potentially margin expansion—as Azure utilization, model efficiency, usage-based pricing and opex discipline compound through the year.

5) Threading the capex needle: A major concern we had going into 4Q26 was that revenue upside could be offset by another major capex increase. In the event, despite some capex complexity (of which more below), we can keep our underlying

FY27 capex broadly unchanged – enabling investors to focus on the topline improvements.

What We Liked:

- **Azure Accelerated to 43%, and F1Q27 Guidance Calls for Further Acceleration to 45% in cc.** Azure and other cloud services grew 43% in F4Q26, four points faster than F3Q26 and three points above the high end of Microsoft's 39%-40% guidance. Management guided Azure to approximately 45% growth in cc in F1Q27 and reiterated that Azure growth should accelerate during 1HFY27 despite the stronger F4Q26 exit rate. The FQ4 upside was driven in part by CPU and GPU fleet efficiencies and process improvements that brought capacity online earlier than expected, with the incremental capacity quickly monetized. This reinforces that current Azure growth remains principally supply- rather than demand-constrained.
- **M365 Commercial Cloud Growth Is Expected to Accelerate Through FY27.** F4Q26 M365 Commercial Cloud revenue grew 14% on the reported comparison and 16% after adjusting for a two-point prior-year in-period revenue-recognition benefit. For F1Q27, Microsoft guided to approximately 16% growth in cc on an adjusted basis after normalizing for a one-point prior-year recognition benefit, equivalent to approximately 15% reported. Management expects growth to accelerate through FY27 as Copilot, E5, E7 and usage-based billing increasingly contribute to monetization. M365 Commercial seat growth remained 6%, implying that ARPU and product mix continue to account for most of the revenue-growth premium over seats.
- **Microsoft 365 Copilot Paid Seats Exceeded 30MM, with Net Paid Seat Adds More Than Doubling QoQ.** Microsoft disclosed that paid Microsoft 365 Copilot seats surpassed 30MM and that sequential net paid seat additions more than doubled from the prior quarter and came in well ahead of the ~6MM+ bar. Premium offerings including Copilot, E5 and early E7 traction continued to support ARPU growth, while Microsoft is expanding the monetization model from primarily per-seat licensing toward a combination of per-seat and usage-based consumption.
- **Commercial Bookings and RPO Improved and Broadened.** Commercial bookings grew 18% on a normalized basis (11% reported in cc), rebounding materially from the prior quarter's 6% decline in cc. Commercial RPO reached $678B, up 84% YoY and $51B, or approximately 8%, sequentially. Approximately 30% of RPO is expected to be recognized during the next 12 months, with that current portion up 37% YoY.
- **The F4Q26 Beat Was Broad-Based Across Revenue, Gross Margin and Operating Margin.** Revenue of $90.0B exceeded consensus by approximately $2.3B, or 2.6%, with revenue beats across all three segments. Gross margin of approximately 67.2% was around 50 bps above consensus, while operating margin of approximately 45.1% was around 70 bps above.
- **No Big Capex Surprise.** Capex in the Q was inline with our $41bn and the company maintained its guidance for capex to be $190bn ($175bn after incorporating for the lease changes) in CY26 and guided to overall capex

growth YoY in FY27. We had been nervous about MSFT's ability to "thread the needle" on this – but given no dramatic increase, investors can focus on the topline strength.

Areas to Monitor:

- **More Capex Complexity.** Given the raging debate on capex, more complexity here is not welcome, even if we understand it's not 100% by MSFT's choice. The extension of useful lives around DCs means more operating leases and fewer finance leases going forward. This translates into lower overall capex – but the cash costs flow through to COGS, which comes under some incremental pressure – albeit partly offset by longer depreciation cycles. Bottom line, the capex commitment hasn't changed and optically falls to $175bn in CY26 from $190bn – but those costs mainly reappear in COGS. **So, this dollar change reflects the accounting classification—not lower economic investment.** Microsoft said its underlying calendar 2026 investment expectations are unchanged, but the lease-classification change adjusts the reported capex expectation to approximately $175B. The figure therefore should not be characterized as a reduction in Microsoft's economic infrastructure investment - same demand signals, same capacity coming online.

- **F1Q27 MPC Guidance Is Materially Below Consensus, with a Difficult Windows Setup for FY27.** MPC guidance of $12.2B-$12.7B came in ~ $700MM, or >5%, below consensus at the midpoint, and the entire guidance range is below the Street. Microsoft expects Windows OEM and Devices revenue to decline in the low 20s in F1Q27 and in the high teens for FY27, reflecting lower PC demand, higher component costs, device pricing, elevated channel inventory and a difficult comparison against the Windows 10 end-of-support benefit. Search advertising excluding TAC is expected to grow in the mid-single digits, while Xbox content and services is expected to decline in the mid-single digits.
- **4FQ Opex Was Above Guidance and Expectations.** F4Q26 opex of approximately $19.88B was around $500MM above consensus. Microsoft still exceeded operating-margin expectations, but higher expenses vs. guidance were somewhat of an anomaly for Microsoft - something to monitor.
- **FY27 Gross-Margin Pressure.** Azure and AI mix, higher depreciation, infrastructure scaling and increased Copilot usage remain headwinds, even as utilization, pricing and software efficiency improve.
- **Expect Continued RPO Bookings Volatility.** The anniversary of a large prior year commitment will create volatility in this year's bookings and RPO growth.
- **Discrete EPS Items.** The reported non-GAAP EPS beat included a $0.27 benefit from discrete items relative to prior guidance. The underlying result was still ahead, but the full $0.48 consensus beat should not be treated as operational.

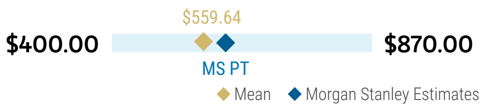
Risk Reward – Microsoft (MSFT.O)

Durability of Earnings Growth & AI Leadership Not Priced-In

PRICE TARGET $600.00

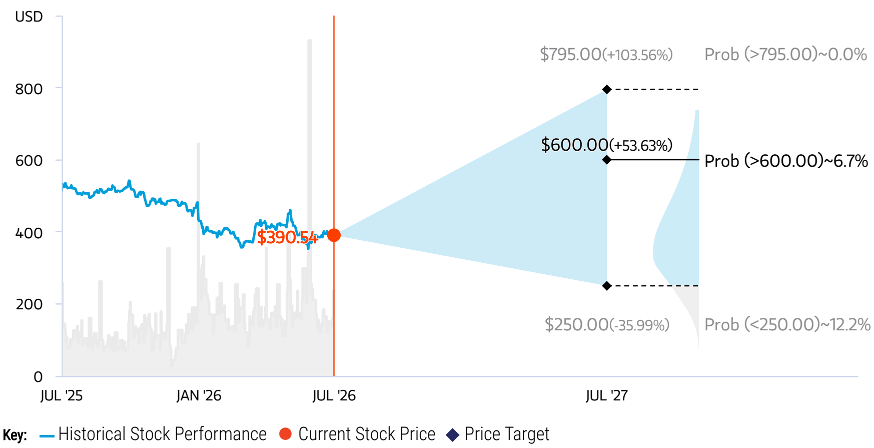
25x Base Case FY28e EPS of $24.07. 25x PE is a slight premium to large cap software peers, 1.2x PEG is a discount to MSFT historical PEG and large-cap software peers.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

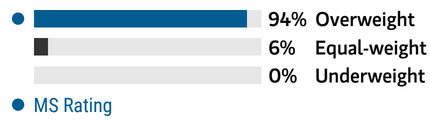


Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 29 Jul 2026. All figures are approximate risk-neutral probabilities 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

- Greater than expected capacity-driven Azure growth inflection and Copilot monetization supports high-teens rev growth.
- Meaningful gross margin % headwinds are offset by operating leverage, yielding 20%+ EBIT growth and >20% EPS growth
- Shares trading at <18x FY28 GAAP EPS too cheap. Overweight

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 $795.00

~29x Bull Case FY28e EPS: $27.65

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 low-20s revenue CAGR in the coming years. Operating margins expand to ~49.0% by FY28 and FY28e EPS is $27.65. ~29x PE represents a premium to large cap software peers, but below MSFT historical avg PEG at ~1.2x given >20% EPS CAGR.

BASE CASE $600.00

~25x Base Case FY28e EPS of $24.07

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 high-teens rev CAGR ahead. Operating margins expand beyond ~46.7% by FY28 and FY28e EPS is $24.07. 25x PE is a premium to large cap software peers, given strong positioning and execution. 1.2x PEG is a discount to MSFT historical PEG.

BEAR CASE $250.00

~11x Bear Case FY28e EPS: $21.85

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 mid-teens rev CAGR. Operating margins only expand to ~45.0% by FY28 from gross margin pressure and FY28 EPS is $21.85. ~12x PE is a discount to large cap software peers and a discount on a PEG.

Risk Reward – Microsoft (MSFT.O)

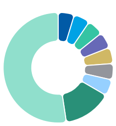
KEY EARNINGS INPUTS

Drivers	Jun 2025	Jun 2026e	Jun 2027e	Jun 2028e
Azure and Other Cloud Services Growth (%)	34.4	40.7	45.1	43.2
M365 Commercial Cloud Growth (%)	15.3	16.4	16.6	17.6
Gross Margins (%)	68.8	67.9	65.7	64.4
Operating Margins (%)	45.6	46.8	46.5	46.7
GAAP EPS Growth (%)	15.6	31.5	9.6	22.4

INVESTMENT DRIVERS

- Sustainability of commercial cloud growth, Copilot growth
- Improving Azure growth, cloud momentum, improving cloud margins

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

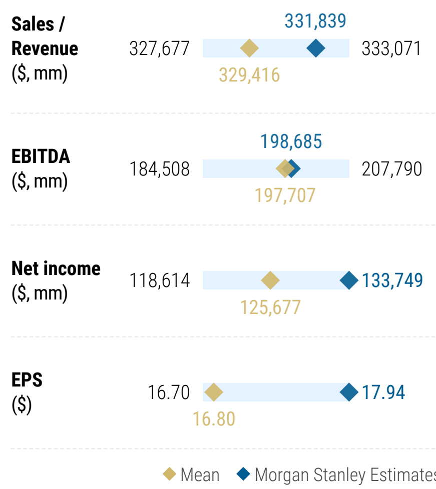
OWNERSHIP POSITIONING

Inst. Owners, % Active	52.5%
HF Sector Long/Short Ratio	2.1x
HF Sector Net Exposure	29.5%

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

Analysis

Exhibit 1: Model Changes

	FQ1:26	FQ2:26	FQ3:26e	FQ4:26e	FY26e	FY27e	FY28e	FY29e
Productivity and Business Processes	**$33.02B**	**$34.12B**	**$35.01B**	**$37.85B**	**$140.00B**	**$157.84B**	**$179.74B**	**$204.50B**
YoY Change	17%	16%	17%	14%	16%	13%	14%	14%
Old Productivity and Business Processes	$33.02B	$34.12B	$35.01B	$37.23B	$139.38B	$155.82B	$175.47B	$197.17B
% Change	0.0%	0.0%	0.0%	1.7%	0.4%	1.3%	2.4%	3.7%
Intelligent Cloud	**$30.90B**	**$32.91B**	**$34.68B**	**$39.31B**	**$137.79B**	**$184.67B**	**$250.26B**	**$340.24B**
YoY Change	28%	29%	30%	32%	30%	34%	36%	36%
Old Intelligent Cloud	$30.90B	$32.91B	$34.68B	$38.28B	$136.77B	$180.47B	$244.17B	$334.32B
% Change	0.0%	0.0%	0.0%	2.7%	0.7%	2.3%	2.5%	1.8%
More Personal Computing	**$13.76B**	**$14.25B**	**$13.19B**	**$12.85B**	**$54.05B**	**$51.26B**	**$53.53B**	**$54.65B**
YoY Change	4%	-3%	-1%	-4%	-1%	-5%	4%	2%
Old More Personal Computing	$13.76B	$14.25B	$13.19B	$12.19B	$53.39B	$53.02B	$54.43B	$56.02B
% Change	0.0%	0.0%	0.0%	5.5%	1.2%	-3.3%	-1.7%	-2.4%
Total Revenue	**$77.67B**	**$81.27B**	**$82.89B**	**$90.01B**	**$331.84B**	**$393.77B**	**$483.53B**	**$599.39B**
YoY Change	18.4%	16.7%	18.3%	17.7%	17.8%	18.7%	22.8%	24.0%
Old Total Revenue	$77.67B	$81.27B	$82.89B	$87.70B	$329.53B	$389.31B	$474.07B	$587.51B
% Change	0.0%	0.0%	0.0%	2.6%	0.7%	1.1%	2.0%	2.0%
Total Gross Margin	**69.0%**	**68.0%**	**67.6%**	**67.2%**	**67.9%**	**65.7%**	**64.4%**	**63.4%**
Old Gross Margin	69.0%	68.0%	67.6%	66.3%	67.7%	65.7%	64.4%	63.4%
New vs. Old	0.0%	0.0%	0.0%	0.9%	0.2%	0.0%	0.0%	0.0%
Operating Expense	**$15.67B**	**$17.02B**	**$17.66B**	**$19.88B**	**$70.23B**	**$75.54B**	**$85.88B**	**$97.19B**
YoY Change	4.9%	5.2%	9.4%	9.8%	7.4%	7.6%	13.7%	13.2%
Old Operating Expense	$15.67B	$17.02B	$17.66B	$19.37B	$69.72B	$74.60B	$84.11B	$95.16B
% Change	0.0%	0.0%	0.0%	2.6%	0.7%	1.3%	2.1%	2.1%
Operating Income	**$37.96B**	**$38.28B**	**$38.40B**	**$40.60B**	**$155.24B**	**$183.27B**	**$225.67B**	**$283.09B**
Operating Margin	**48.9%**	**47.1%**	**46.3%**	**45.1%**	**46.8%**	**46.5%**	**46.7%**	**47.2%**
Old Operating Income	$37.96B	$38.28B	$38.40B	$38.79B	$153.43B	$181.19B	$221.33B	$277.45B
Old Operating Margin	48.9%	47.1%	46.3%	44.2%	46.6%	46.5%	46.7%	47.2%
% Change in Op. Income	0.0%	0.0%	0.0%	4.7%	1.2%	1.1%	2.0%	2.0%
EPS	**$3.72**	**$5.16**	**$4.27**	**$4.81**	**$17.94**	**$19.67**	**$24.07**	**$30.12**
Old EPS	$3.72	$5.16	$4.27	$4.21	$17.35	$19.62	$23.86	$29.83
% Change	0.0%	0.0%	0.0%	14.2%	3.4%	0.3%	0.9%	1.0%
Total Operating Cash Flow	**$45.1B**	**$35.8B**	**$46.7B**	**$55.4B**	**$182.9B**	**$196.1B**	**$235.2B**	**$282.5B**
YoY Change	32%	60%	26%	30%	34%	7%	20%	20%
Old OCF	$45.06B	$35.76B	$46.68B	$45.00B	$172.5B	$207.7B	$248.4B	$298.5B
% Change	0.0%	0.0%	0.0%	23.2%	6.1%	-5.6%	-5.3%	-5.4%
Total FCF	**$25.7B**	**$5.9B**	**$15.8B**	**$19.6B**	**$67.0B**	**$14.5B**	**$6.3B**	**$7.9B**
YoY Change	33%	-9%	-22%	-23%	-6%	-78%	-56%	25%
Old FCF	$25.66B	$5.88B	$15.80B	$15.11B	$62.5B	$14.6B	$6.3B	$7.9B
% Change	0.0%	0.0%	0.0%	30.0%	7.2%	-0.2%	-0.2%	-0.1%
Total Capex	**$34.9B**	**$37.5B**	**$31.9B**	**$41.0B**	**$145.3B**	**$220.1B**	**$274.8B**	**$329.2B**
YoY Change	75%	66%	49%	69%	65%	51%	25%	20%
Old Capex	$34.90B	$37.50B	$31.90B	$41.13B	$145.4B	$250.0B	$312.6B	$375.1B
% Change	0.0%	0.0%	0.0%	-0.3%	-0.1%	-12.0%	-12.1%	-12.2%
Unearned Revenue	**$61.53B**	**$54.04B**	**$53.68B**	**$75.71B**	**$75.71B**	**$76.93B**	**$78.17B**	**$79.45B**
YoY Change					13%	2%	2%	2%

Source: Company data, Morgan Stanley Research estimates

Financials

Exhibit 2: Income Statement

	FY 2022	FY 2023	FY 2024	FY 2025	Sep-25	Dec-25	Mar-26	Jun-26	FY 2026	Sep-26E	Dec-26E	Mar-27E	Jun-27E	FY 2027E	FY 2028E	FY 2029E
Net Revenue	**$198,270**	**$211,915**	**$245,122**	**$281,724**	**$77,673**	**$81,273**	**$82,886**	**$90,007**	**$331,839**	**$90,908**	**$96,157**	**$98,816**	**$107,887**	**$393,768**	**$483,534**	**$599,391**
% YoY Growth	18.0%	6.9%	15.7%	14.9%	18.4%	16.7%	18.3%	17.7%	17.8%	17.0%	18.3%	19.2%	19.9%	18.7%	22.8%	24.0%
% QoQ Growth					1.6%	4.6%	2.0%	8.6%		1.0%	5.8%	2.8%	9.2%			
Net Revenue c.c	$200,277	$219,264	$244,345	$280,595	$76,734	$80,077	$80,576	$89,436	$326,823							
% YoY Growth c.c		9.5%	11.4%	14.8%	17.0%	15.0%	15.0%	17.0%	16.5%							
Cost of Goods Sold	$62,650	$65,863	$74,114	$87,831	$24,043	$25,978	$26,828	$29,525	$106,374	$29,705	$32,715	$34,120	$38,417	$134,957	$171,982	$219,118
% YoY Growth	20%	5%	13%	19%	20%	19%	22%	23%	21%	24%	26%	27%	30%	27%	27%	27%
Gross Profit	**$135,620**	**$146,052**	**$171,008**	**$193,893**	**$53,630**	**$55,295**	**$56,058**	**$60,482**	**$225,465**	**$61,203**	**$63,442**	**$64,696**	**$69,471**	**$258,812**	**$311,553**	**$380,273**
Gross Margin	**68.4%**	**68.9%**	**69.8%**	**68.8%**	**69.0%**	**68.0%**	**67.6%**	**67.2%**	**67.9%**	**67.3%**	**66.0%**	**65.5%**	**64.4%**	**65.7%**	**64.4%**	**63.4%**
Gross Profit Growth	17.1%	7.7%	17.1%	13.4%	17.9%	15.6%	16.4%	15.4%	16.3%	14.1%	14.7%	15.4%	14.9%	14.8%	20.4%	22.1%
Research & Development	$24,512	$27,195	$29,510	$32,488	$8,146	$8,504	$8,915	$9,997	$35,562	$8,270	$8,138	$8,998	$10,580	$35,987	$39,361	$41,907
% of Revenue	12.4%	12.8%	12.0%	11.5%	10.5%	10.5%	10.8%	11.1%	10.7%	9.1%	8.5%	9.1%	9.8%	9.1%	8.1%	7.0%
% YoY Growth	18.3%	10.9%	8.5%	10.1%	8.0%	7.4%	8.7%	13.2%	9.5%	1.5%	-4.3%	0.9%	5.8%	1.2%	9.4%	6.5%
Sales and Marketing	$21,825	$22,759	$24,456	$25,654	$5,717	$6,584	$6,814	$7,595	$26,710	$6,555	$7,501	$7,975	$8,780	$30,812	$36,387	$43,013
% of Revenue	11.0%	10.7%	10.0%	9.1%	7.4%	8.1%	8.2%	8.4%	8.0%	7.2%	7.8%	8.1%	8.1%	7.8%	7.5%	7.2%
% YoY Growth	8.5%	4.3%	7.5%	4.9%	0.0%	2.2%	9.7%	4.3%	4.1%	14.7%	13.9%	17.0%	15.6%	15.4%	18.1%	18.2%
General & Administrative	$5,900	$7,575	$7,609	$7,223	$1,806	$1,932	$1,931	$2,287	$7,956	$2,023	$2,094	$2,104	$2,526	$8,746	$10,136	$12,266
% of Revenue	3.0%	3.6%	3.1%	2.6%	2.3%	2.4%	2.3%	2.5%	2.4%	2.2%	2.2%	2.1%	2.3%	2.2%	2.1%	2.0%
% YoY Growth	15.5%	28.4%	0.4%	-5.1%	7.9%	6.0%	11.2%	14.9%	10.1%	12.0%	8.4%	9.0%	10.4%	9.9%	15.9%	21.0%
One-Time Charges	$0	($1,171)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Operating Expenses	$52,237	$56,358	$61,575	$65,365	$15,669	$17,020	$17,660	$19,879	$70,228	$16,848	$17,733	$19,078	$21,886	$75,545	$85,884	$97,187
% of Revenue	26.3%	26.6%	25.1%	23.2%	20.2%	20.9%	21.3%	22.1%	21.2%	18.5%	18.4%	19.3%	20.3%	19.2%	17.8%	16.2%
% YoY Growth	13.7%	7.9%	9.3%	6.2%	4.9%	5.2%	9.4%	9.8%	7.4%	7.5%	4.2%	8.0%	10.1%	7.6%	13.7%	13.2%
Operating Income	**$83,383**	**$89,694**	**$109,433**	**$128,528**	**$37,961**	**$38,275**	**$38,398**	**$40,603**	**$155,237**	**$44,355**	**$45,709**	**$45,618**	**$47,585**	**$183,267**	**$225,669**	**$283,086**
Operating Margin	**42.1%**	**42.3%**	**44.6%**	**45.6%**	**48.9%**	**47.1%**	**46.3%**	**45.1%**	**46.8%**	**48.8%**	**47.5%**	**46.2%**	**44.1%**	**46.5%**	**46.7%**	**47.2%**
% YoY Growth	19.3%	7.6%	22.0%	17.4%	24.3%	20.9%	20.0%	18.3%	20.8%	16.8%	19.4%	18.8%	17.2%	18.1%	23.1%	25.4%
EBITDA	$97,843	$103,555	$131,720	$162,681	$51,022	$47,473	$48,565	$51,625	$198,685	$55,831	$58,084	$59,027	$62,181	$235,124	$297,254	$381,924
% YoY Growth	19.9%	5.8%	27.2%	23.5%	34.5%	23.4%	19.2%	13.4%	22.1%	9.4%	22.4%	21.5%	20.4%	18.3%	26.4%	28.5%
EBITDA Margin	49.3%	48.9%	53.7%	57.7%	65.7%	58.4%	58.6%	57.4%	59.9%	61.4%	60.4%	59.7%	57.6%	59.7%	61.5%	63.7%
Net Interest(Income and Other Income)	$333	$788	($1,646)	($4,901)	($3,660)	$9,971	$942	$3,444	$10,697	($100)	($136)	($453)	($572)	($1,260)	($3,797)	($6,051)
Pre-Tax Profit (incl. Stock Compensation)	$83,716	$90,482	$107,787	$123,627	$34,301	$48,246	$39,340	$44,047	$165,934	$44,256	$45,573	$45,165	$47,013	$182,007	$221,872	$277,035
Provision / (Benefit) for Income Taxes	$14,269	$17,175	$19,651	$21,795	$6,554	$9,788	$7,562	$8,281	$32,185	$8,851	$9,115	$9,033	$9,403	$36,401	$44,374	$55,407
Tax Rate	17.0%	19.0%	18.2%	17.6%	19.1%	20.3%	19.2%	18.8%	19.4%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Operating Net Income (incl. Stock Comp)	**$69,447**	**$73,307**	**$88,136**	**$101,832**	**$27,747**	**$38,458**	**$31,778**	**$35,766**	**$133,749**	**$35,404**	**$36,459**	**$36,132**	**$37,610**	**$145,606**	**$177,498**	**$221,628**
% YoY Growth	13.3%	5.6%	20.2%	15.5%	12.5%	59.5%	23.1%	31.3%	31.3%	27.6%	-5.2%	13.7%	5.2%	8.9%	21.9%	24.9%
Operating EPS	**$9.21**	**$9.81**	**$11.80**	**$13.64**	**$3.72**	**$5.16**	**$4.27**	**$4.81**	**$17.94**	**$4.77**	**$4.93**	**$4.89**	**$5.09**	**$19.67**	**$24.07**	**$30.12**
% YoY Growth	**14.4%**	**6.5%**	**20.3%**	**15.6%**	**12.5%**	**59.7%**	**23.3%**	**31.7%**	**31.5%**	**28.3%**	**-4.5%**	**14.5%**	**5.9%**	**9.6%**	**22.4%**	**25.1%**

		CY2021	CY2022	CY2023	CY2024	CY2025	CY2026	CY2027	CY2028
Net Revenue	13.4%	**$184,903**	**$204,094**	**$227,583**	**$261,802**	**$305,453**	**$359,958**	**$435,940**	**$537,530**
% YoY Growth		20.6%	10.4%	11.5%	15.0%	16.7%	17.8%	21.1%	23.3%
Cost of Goods Sold		$57,642	$64,984	$68,848	$80,087	$95,954	$118,773	$152,029	$193,589
Gross Profit	13.9%	**$127,261**	**$139,110**	**$158,735**	**$181,715**	**$209,499**	**$241,185**	**$283,911**	**$343,941**
Gross Margin		68.8%	68.2%	69.7%	69.4%	68.6%	67.0%	65.1%	64.0%
Research & Development		$22,248	$26,627	$27,524	$31,170	$33,677	$35,321	$37,395	$40,300
% of Revenue		12.0%	13.0%	12.1%	11.9%	11.0%	9.8%	8.6%	7.5%
Sales and Marketing		$20,865	$22,704	$23,387	$25,180	$25,798	$28,465	$33,292	$39,291
% of Revenue		11.3%	11.1%	10.3%	9.6%	8.4%	7.9%	7.6%	7.3%
General & Administrative		$5,520	$6,964	$7,291	$7,654	$7,465	$8,334	$9,388	$11,115
% of Revenue		3.0%	3.4%	3.2%	2.9%	2.4%	2.3%	2.2%	2.1%
One-Time Charges		$0	($1,171)	$0	$0	$0	$0	$0	$0
Total Operating Expenses	10.3%	$48,633	$55,124	$58,202	$64,004	$66,940	$72,120	$80,074	$90,706
% of Revenue		26.3%	27.0%	25.6%	24.4%	21.9%	20.0%	18.4%	16.9%
% YoY Growth		9.0%	13.3%	5.6%	10.0%	4.6%	7.7%	11.0%	13.3%
Operating Income	16.1%	**$78,628**	**$83,986**	**$100,533**	**$117,711**	**$142,559**	**$169,065**	**$203,836**	**$253,235**
Operating Margin		42.5%	41.2%	44.2%	45.0%	46.7%	47.0%	46.8%	47.1%
% YoY Growth		**30.7%**	**6.8%**	**19.7%**	**17.1%**	**21.1%**	**18.6%**	**20.6%**	**24.2%**
EBITDA		**$91,616**	**$98,176**	**$117,836**	**$144,328**	**$184,761**	**$214,105**	**$264,827**	**$337,442**
% YoY Growth		26.9%	7.2%	20.0%	22.5%	28.0%	15.9%	23.7%	27.4%
Net Interest(Income and Other Income)		$1,052	($227)	$677	($4,100)	$3,981	$4,151	($2,808)	($4,885)
Pre-Tax Profit (incl. Stock Compensation)		$79,680	$83,759	$101,210	$113,611	$146,540	$173,216	$201,028	$248,350
Provision / (Benefit) for Income Taxes		$11,786	$15,364	$18,669	$20,861	$27,278	$33,809	$40,206	$49,670
Tax Rate		14.8%	18.3%	18.4%	18.4%	18.6%	19.5%	20.0%	20.0%
Operating Net Income (incl. Stock Comp)		**$67,894**	**$68,395**	**$82,541**	**$92,750**	**$119,262**	**$139,407**	**$160,823**	**$198,680**
% YoY Growth		**32.3%**	**0.7%**	**20.7%**	**12.4%**	**28.6%**	**16.9%**	**15.4%**	**23.5%**
Operating EPS		**$8.96**	**$9.12**	**$11.06**	**$12.42**	**$15.98**	**$18.77**	**$21.78**	**$26.98**
% YoY Growth		**33.5%**	**1.8%**	**21.2%**	**12.3%**	**28.7%**	**17.4%**	**16.0%**	**23.9%**

Source: Company data, Morgan Stanley Research estimates

Exhibit 3: Revenue Drivers

Drivers Detail																	
Productivity and Business Processes																	
M365 Commercial Products and Cloud Services	$59,878	$66,949	$76,969	$87,767	$23,966	$24,524	$25,593	$27,914	$101,997	$27,330	$27,928	$29,194	$31,726	$116,179	$134,588	$156,418	
YoY	15.9%	11.8%	15.0%	14.0%	17.2%	16.1%	17.0%	14.8%	16.2%	14.0%	13.9%	14.1%	13.7%	13.9%	15.8%	16.2%	
QoQ					-1.4%	2.3%	4.4%	9.1%		-2.1%	2.2%	4.5%	8.7%				
M365 Commercial Cloud	$48,233	$56,343	$66,456	$76,614	$20,936	$21,722	$22,691	$23,817	$89,167	$24,208	$25,287	$26,502	$27,969	$103,967	$122,228	$143,907	
YoY	22.1%	16.8%	17.9%	15.3%	15.8%	16.6%	19.3%	14.1%	16.4%	15.6%	16.4%	16.8%	17.4%	16.6%	17.6%	17.7%	
QoQ					0.3%	3.8%	4.5%	5.0%		1.6%	4.5%	4.8%	5.5%				
Office 365 Commercial	$35,300	$39,810	$46,129	$52,701	$14,333	$14,422	$15,298	$15,599	$59,652	$16,366	$16,516	$17,618	$18,002	$68,502	$79,448	$91,942	$45,813
YoY	18.2%	12.8%	15.9%	14.2%	13.1%	12.6%	14.5%	12.4%	13.2%	14.2%	14.5%	15.2%	15.4%	14.8%	16.0%	15.7%	
QoQ					3.3%	0.6%	6.1%	2.0%		4.9%	0.9%	6.7%	2.2%				
EMS & Power BI per-user	$11,862	$14,922	$17,921	$20,364	$5,422	$5,829	$5,898	$6,273	$23,422	$6,337	$6,822	$6,941	$7,390	$27,489	$32,311	$37,877	
YoY	33.3%	25.8%	20.1%	13.6%	14.9%	16.0%	15.5%	13.8%	15.0%	16.9%	17.0%	17.7%	17.8%	17.4%	17.5%	17.2%	
QoQ					-1.6%	7.5%	1.2%	6.3%		1.0%	7.7%	1.8%	6.5%				
Windows Commercial cloud	$1,071	$1,611	$2,406	$3,549	$1,181	$1,471	$1,495	$1,946	$6,092	$1,505	$1,949	$1,943	$2,578	$7,976	$10,469	$14,088	
YoY	49.6%	50.4%	49.4%	47.5%	70.7%	81.4%	167.7%	30.7%	71.6%	27.5%	32.5%	30.0%	32.5%	30.9%	31.3%	34.6%	
QoQ					-20.7%	24.6%	1.6%	30.2%		-22.6%	29.5%	-0.3%	32.7%				
M365 Commercial Products	$11,646	$10,814	$10,559	$11,153	$3,030	$2,802	$2,902	$4,097	$12,830	$3,122	$2,641	$2,692	$3,757	$12,212	$12,360	$12,511	
YoY	-4.5%	-7.1%	-2.4%	5.6%	27.9%	13.0%	1.4%	19.0%	15.0%	3.0%	-5.7%	-7.2%	-8.3%	-4.8%	1.2%	1.2%	
QoQ					-12.0%	-7.5%	3.6%	41.2%		-23.8%	-15.4%	1.9%	39.6%				
Office Commercial products (non-O365)	$3,578	$2,834	$2,386	$2,593	$570	$720	$735	$725	$2,750	$579	$684	$698	$689	$2,649	$2,702	$2,756	$371
YoY	-22.4%	-20.8%	-15.8%	8.7%	6.5%	5.0%	3.0%	10.0%	6.0%	1.5%	-5.0%	-5.0%	-5.0%	-3.7%	2.0%	2.0%	
QoQ					-13.5%	26.2%	2.2%	-1.4%		-20.2%	18.2%	2.2%	-1.4%				
Windows Commercial products	$8,068	$7,980	$8,173	$8,559	$2,460	$2,082	$2,167	$3,372	$10,080	$2,544	$1,957	$1,993	$3,068	$9,562	$9,658	$9,755	
YoY	6.4%	-1.1%	2.4%	4.7%	34.2%	16.0%	0.9%	21.1%	17.8%	3.4%	-6.0%	-8.0%	-9.0%	-4.0%	-5.0%	-6.0%	
QoQ																	
M365 Consumer Products and Cloud Services	$5,984	$6,417	$6,648	$7,404	$2,204	$2,305	$2,297	$2,369	$9,175	$2,395	$2,534	$2,603	$2,763	$10,295	$11,149	$11,631	$4,983
YoY	11.1%	7.2%	3.6%	11.4%	27.6%	26.6%	26.1%	16.4%	23.9%	8.7%	9.9%	13.3%	16.6%	12.2%	8.3%	4.3%	
QoQ					8.3%	4.6%	-0.3%	3.1%		1.1%	5.8%	2.7%	6.1%				
M365 Consumer Cloud	$4,259	$4,931	$5,444	$5,966	$1,763	$1,878	$2,008	$1,947	$7,596	$1,976	$2,151	$2,328	$2,363	$8,818	$9,746	$10,298	$4,854
YoY	16.6%	15.8%	10.4%	9.6%	25.7%	29.1%	32.7%	22.0%	27.3%	12.1%	14.6%	16.0%	21.3%	16.1%	10.5%	5.7%	
QoQ					10.5%	6.5%	6.9%	-3.0%		1.5%	8.9%	8.2%	1.5%				
Office Consumer products (non-O365)	$1,725	$1,486	$1,204	$1,438	$441	$427	$289	$422	$1,579	$419	$383	$275	$401	$1,477	$1,403	$1,333	
YoY	-0.4%	-13.9%	-19.0%	19.4%	36.1%	16.6%	-6.1%	-4.0%	9.8%	-5.0%	-10.4%	-5.0%	-5.0%	-6.5%	-5.0%	-5.0%	
QoQ					0.5%	-3.3%	-32.3%	45.8%		-0.5%	-8.8%	-28.2%	45.8%				
Dynamics Total	$4,686	$5,796	$6,831	$7,827	$2,136	$2,204	$2,292	$2,374	$9,006	$2,224	$2,389	$2,498	$2,582	$9,693	$10,424	$11,022	$4,191
YoY	24.8%	23.7%	17.9%	14.6%	15.5%	15.2%	18.8%	11.1%	15.1%	4.1%	8.4%	9.0%	8.8%	7.6%	7.5%	5.7%	
QoQ					0.0%	3.2%	4.0%	3.6%		-6.3%	7.4%	4.6%	3.4%				
Dynamics 365	$3,764	$4,671	$5,787	$6,891	$1,823	$1,944	$2,166	$2,189	$8,122	$2,005	$2,128	$2,372	$2,397	$8,902	$9,633	$10,232	$4,444
YoY	38.8%	24.1%	23.9%	19.1%	18.0%	19.0%	22.0%	13.0%	17.9%	10.0%	9.5%	9.5%	9.5%	9.6%	8.2%	6.2%	
QoQ					-5.9%	6.6%	11.4%	1.1%		-8.4%	6.1%	11.4%	1.1%				
Dynamics On-Premise	$922	$1,125	$1,044	$936	$313	$260	$126	$185	$884	$219	$260	$126	$185	$791	$791	$791	($253)
YoY	-11.5%	22.0%	-7.2%	-10.3%	2.9%	-6.9%	-17.9%	-7.0%	-5.5%	-30.0%	0.0%	0.0%	0.0%	-10.6%	0.0%	0.0%	
QoQ					57.5%	-16.9%	-51.6%	46.7%		18.5%	18.8%	-51.6%	46.7%				
LinkedIn	$13,816	$14,989	$16,372	$17,812	$4,714	$5,082	$4,832	$5,189	$19,817	$5,043	$5,599	$5,325	$5,702	$21,669	$23,577	$25,430	$9,058
YoY	34.3%	8.5%	9.2%	8.8%	9.8%	10.8%	12.1%	12.3%	11.3%	7.0%	10.2%	10.2%	9.9%	9.3%	8.8%	7.9%	
QoQ					2.0%	7.8%	-4.9%	7.4%		-2.8%	11.0%	-4.9%	7.1%				
Other / Adjustment	$0	$0	$0	$0	$0	$1	($1)	$1	$1	$0	$0	$0	$0	$0	$0	$0	
Productivity and Business Processes		**$94,151**	**$106,820**	**$120,810**	**$33,020**	**$34,116**	**$35,013**	**$37,847**	**$139,996**	**$36,993**	**$38,450**	**$39,620**	**$42,773**	**$157,836**	**$179,737**	**$204,501**	$97,681
YoY			13.5%	13.1%	16.6%	15.9%	16.9%	14.3%	15.9%	12.0%	12.7%	13.2%	13.0%	12.7%	13.9%	13.8%	$0.45
QoQ					-0.3%	3.3%	2.6%	8.1%		-2.3%	3.9%	3.0%	8.0%				
3 Yr Avg. QoQ					-1.2%	2.9%	4.1%	7.6%		-0.9%	3.3%	3.1%	8.1%				
Intelligent Cloud																	
Server Products and Cloud Services		$65,007	$79,828	$98,435	$28,872	$30,865	$32,592	$37,096	$129,425	$39,166	$41,858	$44,449	$50,670	$176,142	$241,563	$331,368	
YoY			22.8%	23.3%	30.3%	30.6%	31.6%	33.1%	31.5%	35.7%	35.6%	36.4%	36.6%	36.1%	37.1%	37.2%	
QoQ					3.6%	6.9%	5.6%	13.8%		5.6%	6.9%	6.2%	14.0%				
Azure and other Cloud Services		$42,085	$56,140	$75,428	$23,242	$25,073	$26,973	$30,857	$106,144	$33,817	$36,355	$39,110	$44,742	$154,025	$220,552	$311,408	$255,268
YoY			33.4%	34.4%	40.5%	38.6%	40.4%	43.0%	40.7%	45.5%	45.0%	45.0%	45.0%	45.1%	43.2%	41.2%	
QoQ					7.7%	7.9%	7.6%	14.4%		9.6%	7.5%	7.6%	14.4%				
QoQ $ Change			$14,055	$19,288	$1,664	$1,831	$1,900	$3,884	$30,716	$2,960	$2,538	$2,755	$5,632	$47,881	$66,527	$90,856	
YoY Change in QoQ $					54.9%	18.7%	69.4%	64.1%		77.9%	38.7%	45.0%	45.0%				
Azure AI		$124	$3,872	$12,097	$4,941	$5,817	$6,825	$8,126	$25,709	$10,391	$11,899	$13,723	$16,214	$52,227	$94,760	$158,599	
YoY				212.4%	151.8%	112.2%	102.7%	101.8%	112.5%	110.3%	104.6%	101.1%	99.5%	103.1%	81.4%	67.4%	
Azure AI Contribution					18pts	17pts	18pts	19pts		23pts	24pts	26pts	26pts				
Core Azure		$41,961	$52,268	$63,331	$18,301	$19,256	$20,148	$22,731	$80,436	$23,426	$24,456	$25,387	$28,528	$101,798	$125,793	$152,809	
YoY			24.6%	21.2%	25.5%	25.5%	27.2%	29.5%	27.0%	28.0%	27.0%	26.0%	25.5%	26.6%	23.6%	21.5%	
KPI YoY Growthin Constant Currency					24.5%	24.5%	26.2%	29.5%		27.5%	27.0%	26.0%	25.5%				
QoQ					4.3%	5.2%	4.6%	12.8%		3.1%	4.4%	3.8%	12.4%				
QoQ $ Change			$10,308	$11,063	$749	$955	$892	$2,583	$17,105	$696	$1,030	$931	$3,141	$21,363	$23,995	$27,016	
YoY Change in Core Azure QoQ $					47.5%	25.2%	79.9%	51.3%		-7.1%	7.8%	4.4%	21.6%	24.9%	12.3%	12.6%	
Server Products	$23,188	$22,922	$23,688	$23,007	$5,630	$5,792	$5,619	$6,239	$23,281	$5,349	$5,503	$5,338	$5,927	$22,117	$21,011	$19,960	($3,728)
YoY	4.5%	-1.1%	3.3%	-2.9%	0.4%	4.3%	1.3%	-1.0%	1.2%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	
QoQ					-10.6%	2.9%	-3.0%	11.0%		-14.3%	2.9%	-3.0%	11.0%				
Enterprise Services	$7,407	$7,722	$7,594	$7,779	$2,021	$2,050	$2,091	$2,123	$8,285	$2,061	$2,091	$2,133	$2,166	$8,450	$8,619	$8,792	$1,198
YoY	6.7%	4.3%	-1.7%	2.4%	5.0%	8.0%	7.0%	6.0%	6.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
QoQ					0.9%	1.4%	2.0%	1.5%		-2.9%	1.4%	2.0%	1.5%				
Other (MSFT Partners Network, etc)	$470	$215	$42	$51	$4	($8)	($2)	$87	$81	$4	($8)	($2)	$87	$81	$81	$81	$39
YoY	-14.3%	-54.2%	-80.5%	20.3%	-66.1%	-248.1%	-105.1%	-2954.5%	61.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Intelligent Cloud		**$72,944**	**$87,464**	**$106,265**	**$30,897**	**$32,907**	**$34,681**	**$39,306**	**$137,791**	**$41,231**	**$43,941**	**$46,580**	**$52,922**	**$184,674**	**$250,264**	**$340,241**	$252,777
YoY			19.9%	21.5%	28.2%	28.8%	29.6%	31.6%	29.7%	33.4%	33.5%	34.3%	34.6%	34.0%	35.5%	36.0%	$1.17
QoQ					3.4%	6.5%	5.4%	13.3%		4.9%	6.6%	6.0%	13.6%				
3 Yr Avg. QoQ					1.0%	6.6%	3.1%	9.4%		1.8%	6.7%	4.3%	10.8%				
More Personal Computing																	
Windows and Devices	$22,379	$17,147	$17,026	$17,314	$4,551	$4,479	$4,041	$4,013	$17,084	$3,605	$3,952	$3,508	$3,464	$14,528	$16,144	$16,526	($500)
YoY	8.3%	-23.4%	-0.7%	1.7%	5.1%	-0.7%	-2.5%	-7.3%	-1.3%	-20.8%	-11.8%	-13.2%	-13.7%	-15.0%	11.1%	2.4%	
QoQ					5.1%	-1.6%	-9.8%	-0.7%		-10.2%	9.6%	-11.2%	-1.3%				
Windows OEM and Devices	$21,470	$16,530	$16,513	$16,966	$4,545	$4,475	$3,920	$3,855	$16,795	$3,479	$3,805	$3,299	$3,265	$13,849	$15,461	$15,839	($673)
YoY	8.6%	-23.0%	-0.1%	2.7%	5.4%	-0.6%	-2.0%	-7.1%	-1.0%	-23.4%	-15.0%	-15.8%	-15.3%	-17.5%	11.6%	2.4%	
QoQ					9.5%	-1.5%	-12.4%	-1.7%		-9.7%	9.4%	-13.3%	-1.0%				
Windows Patent Licensing, IP, IoT, Embedded & Other	$909	$617	$669	$348	$6	$4	$121	$158	$289	$126	$146	$208	$199	$679	$683	$687	$18
YoY	1.6%	-32.1%	8.4%	-48.0%	-62.8%	-61.6%	-15.2%	-11.3%	-16.9%	1880.1%	3692.3%	72.2%	25.7%	134.8%	0.6%	0.6%	
QoQ					-96.4%	-39.3%	3037.8%	30.5%		-20.3%	16.2%	42.4%	-4.7%				
Search Advertising & Online Services	$10,569	$12,125	$12,306	$13,878	$3,697	$3,812	$3,808	$3,859	$15,176	$3,863	$3,984	$3,979	$4,033	$15,859	$16,573	$17,318	
YoY	28.2%	14.7%	1.5%	12.8%	14.6%	7.1%	8.7%	7.5%	9.4%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	
QoQ					3.0%	3.1%	-0.1%	1.3%		0.1%	3.1%	-0.1%	1.3%				
Gaming (Hardware, Xbox Live, Video Games, 3rd Party Royalties)	$16,230	$15,466	$21,503	$23,455	$5,508	$5,958	$5,341	$4,983	$21,790	$5,215	$5,831	$5,129	$4,696	$20,872	$20,816	$20,804	($699)
YoY	5.6%	-4.7%	39.0%	9.1%	-2.0%	-9.5%	-6.6%	-9.9%	-7.1%	-5.3%	-2.1%	-4.0%	-5.8%	-4.2%	-0.3%	-0.1%	
QoQ					-0.4%	8.2%	-10.4%	-6.7%		4.7%	11.8%	-12.0%	-8.4%				
Other (Mostly Retail Stores ex-Surface, ex-Xbox)	$370	$82	$3	$2	$0	$1	$2	($1)	$2	$0	$0	$0	$0	$0	$0	$0	($3)
YoY	-24.5%	-77.8%	-96.3%	-33.3%					0.0%								
More Personal Computing		**$44,820**	**$50,838**	**$54,649**	**$13,756**	**$14,250**	**$13,192**	**$12,854**	**$54,052**	**$12,684**	**$13,766**	**$12,616**	**$12,193**	**$51,259**	**$53,533**	**$54,649**	
YoY			13.4%	7.5%	4.4%	-2.7%	-1.3%	-4.4%	-1.1%	-7.8%	-3.4%	-4.4%	-5.1%	-5.2%	4.4%	2.1%	
QoQ					2.3%	3.6%	-7.4%	-2.6%		-1.3%	8.5%	-8.4%	-3.4%				
3 Yr Avg. QoQ					5.9%	16.8%	-11.7%	-0.4%		4.7%	14.9%	-10.0%	-1.4%				
Total Revenue		**$211,915**	**$245,122**	**$281,724**	**$77,673**	**$81,273**	**$82,886**	**$90,007**	**$331,839**	**$90,908**	**$96,157**	**$98,816**	**$107,887**	**$393,768**	**$483,534**	**$599,391**	$354,269
YoY			15.7%	14.9%	18.4%	16.7%	18.3%	17.7%	17.8%	17.0%	18.3%	19.2%	19.9%	18.7%	22.8%	24.0%	
QoQ		211,915			1.6%	4.6%	2.0%	8.6%		1.0%	5.8%	2.8%	9.2%				
3 Yr Avg. QoQ					1.0%	7.0%	0.2%	6.7%		1.2%	6.8%	0.8%	7.4%				

M365 Commercial Products and Cloud Services			$21,091	$47,166	$56,132	$62,708	$72,038	$82,170	$94,691	$108,765	$124,811	$144,925
YoY				123.6%	19.0%	11.7%	14.9%	14.1%	15.2%	14.9%	14.8%	16.1%
M365 Commercial Cloud			$14,779	$35,020	$44,038	$51,682	$61,604	$71,502	$85,604	$96,004	$112,529	$132,494
YoY				137.0%	25.8%	17.4%	19.2%	16.1%	15.5%	16.3%	17.2%	17.7%
Office 365 Commercial	$12,543	$17,239	$22,087	$26,825	$32,786	$37,169	$43,089	$49,534	$55,984	$63,779	$73,686	$85,514
YoY	42.6%	37.4%	28.1%	21.5%	22.2%	13.4%	15.9%	15.0%	13.0%	13.9%	15.5%	16.1%
EMS & Power BI per-user			$5,537	$7,580	$10,365	$13,223	$16,543	$19,128	$21,872	$25,330	$29,812	$34,978
YoY				36.9%	37.0%	27.3%	25.1%	15.6%	14.3%	15.8%	17.7%	17.3%
Windows Commercial cloud			$222	$614	$867	$1,290	$1,757	$2,840	$4,699	$6,895	$9,032	$12,002
YoY				176.3%	41.2%	48.7%	52.8%	44.1%	65.4%	46.7%	31.0%	32.9%
M365 Commercial Products			$6,313	$12,146	$12,094	$10,944	$10,554	$10,884	$12,136	$12,762	$12,282	$12,432
YoY				92.4%	-0.4%	-9.5%	-3.6%	3.1%	11.5%	5.2%	-3.8%	1.2%
Office Commercial products (non-O365)	$10,281	$8,496	$7,095	$5,067	$4,251	$2,995	$2,592	$2,408	$2,663	$2,722	$2,675	$2,728
YoY	80.6%	-17.4%	-16.5%	-28.6%	-16.1%	-29.5%	-13.5%	-7.1%	10.6%	2.2%	-1.8%	2.0%
Windows Commercial products			$2,948	$7,080	$7,843	$7,948	$7,962	$8,476	$9,474	$10,039	$9,607	$9,703
YoY				140.1%	10.8%	1.3%	0.2%	6.5%	11.8%	6.0%	-4.3%	1.0%
M365 Consumer Products and Cloud Services	$3,979	$4,299	$4,667	$5,134	$5,736	$6,072	$6,535	$6,874	$8,365	$9,595	$10,880	$11,324
YoY	106.1%	8.0%	8.6%	10.0%	11.7%	5.9%	7.6%	5.2%	21.7%	14.7%	13.4%	4.1%
M365 Consumer Cloud	$1,997	$2,313	$2,576	$3,271	$3,979	$4,608	$5,185	$5,631	$6,749	$8,082	$9,443	$9,959
YoY	16.3%	15.8%	11.4%	27.0%	21.6%	15.8%	12.5%	8.6%	19.9%	19.7%	16.8%	5.5%
Office Consumer products (non-O365)	$1,982	$1,986	$2,091	$1,863	$1,757	$1,463	$1,350	$1,243	$1,616	$1,513	$1,437	$1,365
YoY	89.4%	0.2%	5.3%	-10.9%	-5.7%	-16.7%	-7.7%	-7.9%	30.0%	-6.4%	-5.0%	-5.0%
Dynamics Total	$2,140	$2,489	$2,801	$3,292	$4,273	$5,173	$6,345	$7,308	$8,405	$9,279	$10,054	$10,727
YoY	8.6%	16.3%	12.5%	17.5%	29.8%	21.1%	22.7%	15.2%	15.0%	10.4%	8.4%	6.7%
Dynamics 365	$710	$1,109	$1,583	$2,220	$3,257	$4,149	$5,250	$6,284	$7,479	$8,488	$9,264	$9,936
YoY	71.9%	56.2%	42.7%	40.2%	46.7%	27.4%	26.5%	19.7%	19.0%	13.5%	9.1%	7.3%
Dynamics On-Premise	$1,430	$1,380	$1,218	$1,072	$1,016	$1,024	$1,095	$1,024	$926	$791	$791	$791
YoY	-8.1%	-3.5%	-11.7%	-12.0%	-5.2%	0.8%	7.0%	-6.5%	-9.6%	-14.6%	0.0%	0.0%
LinkedIn	$4,503	$6,022	$7,542	$8,849	$12,173	$14,610	$15,636	$17,143	$18,729	$20,663	$22,629	$24,513
YoY		33.7%	25.2%	17.3%	37.6%	20.0%	7.0%	9.6%	9.3%	10.3%	9.5%	8.3%
Other / Adjustment	$0	$0	($0)	$0	$0	$0	($1)	$1	($1)	$2	$0	$0
Productivity and Business Processes							**$100,555**	**$113,494**	**$130,192**	**$148,303**	**$168,374**	**$191,489**
YoY								12.9%	14.7%	13.9%	13.5%	13.7%
Server Products and Cloud Services						$30,960	$71,706	$87,965	$112,376	$150,712	$206,294	$283,151
YoY							131.6%	22.7%	27.8%	34.1%	36.9%	37.3%
Azure and other Cloud Services						$19,889	$48,466	$64,508	$89,104	$128,002	$184,719	$262,656
YoY							143.7%	33.1%	38.1%	43.7%	44.3%	42.2%
Azure AI							$1,537	$7,163	$18,151	$37,241	$71,251	$123,820
YoY								366.1%	153.4%	105.2%	91.3%	73.8%
Core Azure						$19,889	$46,929	$57,345	$70,953	$90,761	$113,468	$138,836
YoY							136.0%	22.2%	23.7%	27.9%	25.0%	22.4%
Server Products	$17,872	$19,082	$20,573	$21,178	$23,113	$23,128	$23,240	$23,457	$23,272	$22,710	$21,574	$20,495
YoY	3.3%	6.8%	7.8%	2.9%	9.1%	0.1%	0.5%	0.9%	-0.8%	-2.4%	-5.0%	-5.0%
Enterprise Services	$5,622	$6,011	$6,310	$6,584	$7,225	$7,584	$7,792	$7,555	$8,028	$8,366	$8,533	$8,704
YoY	0.4%	6.9%	5.0%	4.3%	9.7%	5.0%	2.7%	-3.0%	6.2%	4.2%	2.0%	2.0%
Other (MSFT Partners Network, etc)	$223	$254	$360	$663	$417	$330	$173	$42	$29	$81	$81	$81
Intelligent Cloud							**$79,671**	**$95,562**	**$120,433**	**$159,159**	**$214,908**	**$291,936**
YoY								19.9%	26.0%	32.2%	35.0%	35.8%
Windows and Devices	$17,882	$19,255	$20,591	$21,183	$21,626	$19,306						
YoY		7.7%	6.9%	2.9%	2.1%	-10.7%						
Windows OEM and Devices			$18,889	$19,840	$20,899	$18,451						
YoY				5.0%	5.3%	-11.7%						
Windows Patent Licensing, IP, IoT, Embedded & Other	$2,157	$2,188	$1,702	$1,343	$726	$855						
YoY	11.2%	1.4%	-22.2%	-21.1%	-45.9%	17.7%						
Search Advertising & Online Services			$6,998	$6,893	$9,636	$11,482						
YoY				-1.5%	39.8%	19.2%						
Gaming (Hardware, Xbox Live, Video Games, 3rd Party Royalties)	$9,365	$11,507	$10,285	$13,829	$16,282	$15,563						
YoY	70.2%	22.9%	-10.6%	34.5%	17.7%	-4.4%						
Total Revenue							$102,869					

Source: Company data, Morgan Stanley Research estimates

Exhibit 4: Balance Sheet

	FY 2022	FY 2023	FY 2024	FY 2025	Sep-25	Dec-25	Mar-26	Jun-26	FY 2026	Sep-26E	Dec-26E	Mar-27E	Jun-27E	FY 2027E	FY 2028E	FY 2029E
Assets:																
Cash & Cash Equivalents	$13,931	$34,704	$18,315	$30,242	$28,849	$24,296	$32,105	$20,935	$20,935	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000
Short-Term Investments	90,826	76,558	57,228	64,323	73,163	65,166	46,167	55,908	55,908	48,625	39,003	27,143	16,767	16,767	13,343	5,936
Accounts Receivable	44,261	48,688	56,924	69,905	52,894	56,535	60,041	80,876	80,876	63,926	66,889	71,580	96,943	96,943	119,381	148,711
Inventory	3,742	2,500	1,246	938	1,130	1,059	1,219	1,397	1,397	1,396	1,692	1,550	1,818	1,818	2,318	2,960
Current Deferred Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	16,924	21,807	26,021	25,723	33,030	33,134	35,797	48,594	48,594	35,515	34,522	46,302	56,127	56,127	67,270	80,348
Current Assets	**$169,684**	**$184,257**	**$159,734**	**$191,131**	**$189,066**	**$180,190**	**$175,329**	**$207,710**	**$207,710**	**$174,462**	**$167,106**	**$171,576**	**$196,654**	**$196,654**	**$227,312**	**$262,955**
Property & Equipment	74,398	95,641	135,591	204,966	230,861	261,126	283,228	313,076	313,076	341,791	373,912	408,974	448,079	448,079	611,929	795,671
Equity and Other Investments	6,891	9,879	14,600	15,405	11,465	21,202	33,683	36,348	36,348	36,348	36,348	36,348	36,348	36,348	36,348	36,348
Goodwill	67,524	67,886	119,220	119,509	119,497	119,622	119,661	119,651	119,651	119,651	119,651	119,651	119,651	119,651	119,651	119,651
Other Intangibles	11,298	9,366	27,597	22,604	21,236	20,289	19,325	18,609	18,609	18,275	17,941	17,609	17,278	17,278	16,927	17,542
Long-Term Deferred Taxes	0	0	0	0					0	0	0	0	0	0	0	0
Other Assets	35,045	44,947	55,421	65,388	64,226	62,873	63,002	62,982	62,982	71,080	65,507	79,507	82,473	82,473	120,692	174,661
Total Assets	**$364,840**	**$411,976**	**$512,163**	**$619,003**	**$636,351**	**$665,302**	**$694,228**	**$758,376**	**$758,376**	**$761,607**	**$780,465**	**$833,664**	**$900,483**	**$900,483**	**$1,132,858**	**$1,406,828**
Liabilities & Equity:																
Accounts Payable	$19,000	$18,095	$21,996	$27,724	$32,580	$37,328	$37,513	$42,416	$42,416	$37,567	$39,838	$49,579	$54,348	$54,348	$69,299	$79,584
ST Debt	$2,749	$5,247	$8,942	$2,999	$7,832	$4,837	$8,839	$9,227	$9,227	$9,227	$9,227	$9,227	$9,227	$9,227	$9,227	$9,227
Accrued Compensation and Benefits	10,661	11,009	12,564	13,709	9,201	10,103	11,270	14,945	14,945	9,893	10,526	12,175	16,454	16,454	13,827	10,079
Current Income Taxes	4,067	4,152	5,017	7,211	3,655	2,050	3,563	2,534	2,534	10,026	6,038	4,091	2,705	2,705	3,322	4,179
Current Unearned Revenue	45,538	50,901	57,582	64,555	58,987	51,376	50,924	72,965	72,965	64,243	59,910	58,870	70,004	70,004	71,137	72,296
Current Deferred Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Securities Lending Payable	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	13,067	14,745	19,185	25,020	22,741	24,311	24,552	26,738	26,738	24,452	21,783	21,410	18,057	18,057	15,035	23,637
Total Current Liabilities	**$95,082**	**$104,149**	**$125,286**	**$141,218**	**$134,996**	**$130,005**	**$136,661**	**$168,825**	**$168,825**	**$155,409**	**$147,322**	**$155,352**	**$170,794**	**$170,794**	**$181,848**	**$199,004**
Long-Term Unearned Revenue	2,870	2,912	2,602	2,710	2,546	2,668	2,753	2,747	2,747	6,354	5,925	5,822	6,923	6,923	7,036	7,150
Other Long-Term Liabilities	53,314	56,702	73,110	91,444	100,357	106,329	109,024	113,350	113,350	99,284	98,470	115,860	136,754	136,754	171,094	199,682
Long term Debt	47,032	41,990	42,688	40,152	35,376	35,425	31,423	31,067	31,067	31,067	31,067	31,067	31,067	31,067	76,067	121,067
Minority Interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Liabilities	**$198,298**	**$205,753**	**$243,686**	**$275,524**	**$273,275**	**$274,427**	**$279,861**	**$315,989**	**$315,989**	**$292,114**	**$282,785**	**$308,101**	**$345,539**	**$345,539**	**$436,045**	**$526,903**
Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Common Stock and Paid-In Capital	86,939	93,718	100,923	109,095	110,964	112,788	115,069	117,406	117,406	121,046	124,701	128,373	132,060	132,060	146,969	162,137
Retained Earnings	84,281	118,848	173,144	237,731	254,873	280,789	302,526	328,265	328,265	351,731	376,263	400,474	426,168	426,168	553,129	721,072
Accumulated Other Comprehensive	(4,678)	(6,343)	(5,590)	(3,347)	(2,761)	(2,702)	(3,228)	(3,284)	(3,284)	(3,284)	(3,284)	(3,284)	(3,284)	(3,284)	(3,284)	(3,284)
Shareholders' Equity	**$166,542**	**$206,223**	**$268,477**	**$343,479**	**$363,076**	**$390,875**	**$414,367**	**$442,387**	**$442,387**	**$469,493**	**$497,680**	**$525,563**	**$554,944**	**$554,944**	**$696,814**	**$879,925**
Total Liabilities & Equity	**$364,840**	**$411,976**	**$512,163**	**$619,003**	**$636,351**	**$665,302**	**$694,228**	**$758,376**	**$758,376**	**$761,607**	**$780,465**	**$833,664**	**$900,483**	**$900,483**	**$1,132,858**	**$1,406,828**

Source: Company data, Morgan Stanley Research estimates

Exhibit 5: Cash Flow Statement

	FY 2022	FY 2023	FY 2024	FY 2025	Sep-25	Dec-25	Mar-26	Jun-26	FY 2026	Sep-26E	Dec-26E	Mar-27E	Jun-27E	FY 2027E	FY 2028E	FY 2029E
Net Income	$72,738	$72,361	$88,136	$101,832	$27,747	$38,458	$31,778	$35,766	$133,749	$35,404	$36,459	$36,132	$37,610	$145,606	$177,498	$221,628
Depreciation and Amortization	14,460	13,861	22,287	34,153	13,061	9,198	10,167	11,022	43,448	11,476	12,375	13,409	14,596	51,857	71,585	98,839
Stock-Based Compensation	7,502	9,611	10,734	11,974	2,983	3,219	3,081	3,122	12,405	3,138	3,153	3,169	3,185	12,645	12,900	13,160
Tax Benefit from Exercise of Stock Options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred Taxes	(5,702)	(6,059)	(4,738)	(7,056)	2,491	4,446	2,602	4,650	14,189	0	0	0	0	0	0	0
(Gain) / Loss on Sale of Short-Term Investme	(409)	196	305	609	(1,007)	(9,931)	(1,280)	(3,743)	(15,961)	0	0	0	0	0	0	0
Acquired In-Process R&D	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cumulative Change in Accounting	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Items	0	0	0	0	0	0	0	0	0					0	0	0
Funds from Operations	**$88,589**	**$89,970**	**$116,724**	**$141,512**	**$45,275**	**$45,390**	**$46,348**	**$50,817**	**$187,830**	**$50,018**	**$51,987**	**$52,711**	**$55,391**	**$210,107**	**$261,983**	**$333,626**
(Inc.) Dec. in Accounts Receivable	(6,834)	(4,087)	(7,191)	(10,581)	16,490	(3,436)	(4,707)	(21,084)	(12,737)	16,950	(2,963)	(4,692)	(25,362)	(16,067)	(22,439)	(29,330)
(Inc.) Dec. in Other Current Assets	(1,832)	(749)	(364)	(2,736)	(1,354)	689	597	(3,020)	(3,088)	13,080	697	(11,638)	(10,092)	(7,953)	(11,643)	(13,721)
(Inc.) Dec. in Other Long-Term Assets	(2,805)	(2,833)	(6,817)	(2,950)	(394)	(1,288)	(932)	(1,350)	(3,964)	(8,098)	5,573	(13,999)	(2,966)	(19,491)	(38,219)	(53,968)
Inc. (Dec.) in Other Current Liabilities	5,287	(449)	8,412	6,492	(6,121)	3,999	4,859	9,378	12,115	(4,695)	(3,753)	9,069	4,309	4,930	9,921	15,996
Inc. (Dec.) in Other Long-Term Liabilities	1,521	195	2,436	(1,013)	(3,421)	(2,113)	680	(1,728)	(6,582)	(14,066)	(814)	17,389	20,894	23,404	34,340	28,587
Booking of Unearned Revenue	111,297	111,723	147,678	185,314	44,611	44,719	54,633	51,135	195,098	48,916	51,616	58,040	43,239	201,812	217,888	235,250
Recognition of Unearned Revenue	(106,188)	(106,188)	(142,330)	(179,876)	(50,029)	(52,202)	(54,799)	(28,707)	(185,737)	(54,031)	(56,378)	(59,183)	(31,004)	(200,596)	(216,644)	(233,975)
Change in Net Working Capital	**$446**	**($2,388)**	**$1,824**	**($5,350)**	**($218)**	**($9,632)**	**$331**	**$4,624**	**($4,895)**	**($1,943)**	**($6,022)**	**($5,013)**	**($983)**	**($13,961)**	**($26,795)**	**($51,161)**
Cash Flow from Operations	**$89,035**	**$87,582**	**$118,548**	**$136,162**	**$45,057**	**$35,758**	**$46,679**	**$55,441**	**$182,935**	**$48,075**	**$45,966**	**$47,698**	**$54,408**	**$196,146**	**$235,187**	**$282,465**
YoY Growth	16%	-2%	35%	15%	32%	60%	26%	30%	34%	7%	29%	2%	-2%	7%	20%	20%
Capital Expenditures	(23,886)	(28,107)	(44,477)	(64,551)	(19,394)	(29,876)	(30,876)	(35,802)	(115,948)	(38,905)	(43,192)	(47,148)	(52,360)	(181,605)	(228,859)	(274,530)
Acquisitions, Net of Cash Acquired	(22,038)	(1,670)	(69,132)	(5,978)	(578)	(455)	(258)	(452)	(1,743)	(952)	(971)	(990)	(1,010)	(3,924)	(6,225)	(8,667)
Purchase of Short-Term Investments	(26,456)	(37,651)	(17,732)	(29,775)	(17,671)	(9,845)	(12,006)	(18,829)	(58,351)	(3,385)	(1,046)	1,191	(292)	(3,531)	(39,248)	(35,265)
Proceeds from Sales/Maturities of Short-Term	44,894	47,864	35,669	25,388	9,293	18,108	18,334	10,668	56,403	10,668	10,668	10,668	10,668	42,672	42,672	42,672
Proceeds from Sales/Maturities of Long-Term	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	(2,825)	(3,116)	(1,298)	2,317	(6,209)	(637)	(2,599)	(10,416)	(19,861)	0	0	0	0	0	0	0
Net Cash Used in Investing Activities	**($30,311)**	**($22,680)**	**($96,970)**	**($72,599)**	**($34,559)**	**($22,705)**	**($27,405)**	**($54,831)**	**($139,500)**	**($32,574)**	**($34,541)**	**($36,279)**	**($42,995)**	**($146,388)**	**($231,660)**	**($275,789)**
Debt issuance (repayment)	(9,023)	(2,750)	575	(8,962)	0	(3,000)	0	0	(3,000)	0	0	0	0	0	45,000	45,000
Common Stock Dividends	(18,135)	(19,800)	(21,771)	(24,082)	(6,169)	(6,762)	(6,756)	(6,758)	(26,445)	(7,359)	(7,348)	(7,342)	(7,337)	(29,386)	(32,221)	(35,369)
Proceeds from Sale of Common Stock	1,841	1,866	2,002	2,056	689	259	541	520	2,009	502	502	502	502	2,009	2,009	2,009
Repurchase of Common Stock (Treasury Shar	(32,696)	(22,245)	(17,254)	(18,420)	(5,650)	(7,415)	(4,627)	(4,579)	(22,271)	(4,579)	(4,579)	(4,579)	(4,579)	(18,316)	(18,316)	(18,316)
Other	(863)	(1,006)	(1,309)	(2,291)	(669)	(699)	(509)	(962)	(2,839)	0	0	0	0	0	0	0
Net Cash Provided by Financing Activities	**($58,876)**	**($43,935)**	**($37,757)**	**($51,699)**	**($11,799)**	**($17,617)**	**($11,351)**	**($11,779)**	**($52,546)**	**($11,436)**	**($11,425)**	**($11,419)**	**($11,414)**	**($45,693)**	**($3,528)**	**($6,676)**
Translation Gains (Losses)	(141)	(194)	(210)	63	(92)	11	(114)	(1)	(196)	0	0	0	0	0	0	0
Inc. (Dec.) in Cash and Cash Equivalents	**($293)**	**$20,773**	**($16,389)**	**$11,927**	**($1,393)**	**($4,553)**	**$7,809**	**($11,170)**	**($9,307)**	**$4,065**	**($0)**	**$0**	**($0)**	**$4,065**	**($0)**	**($0)**
Beginning Cash and Cash Equivalents	14,224	13,931	34,704	18,315	30,242	28,849	24,296	32,105	30,242	20,935	25,000	25,000	25,000	20,935	25,000	25,000
Ending Cash and Cash Equivalents	**$13,931**	**$34,704**	**$18,315**	**$30,242**	**$28,849**	**$24,296**	**$32,105**	**$20,935**	**$20,935**	**$25,000**	**$25,000**	**$25,000**	**$25,000**	**$25,000**	**$25,000**	**$25,000**

Source: Company data, Morgan Stanley Research estimates

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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Global Stock Ratings Distribution

(as of June 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	1544	42%	453	49%	29%	757	44%
Equal-weight/Hold	1577	43%	390	42%	25%	769	44%
Not-Rated/Hold	3	0%	1	0%	33%	1	0%
Underweight/Sell	544	15%	89	10%	16%	204	12%
Total	3,668		933			1731	

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.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

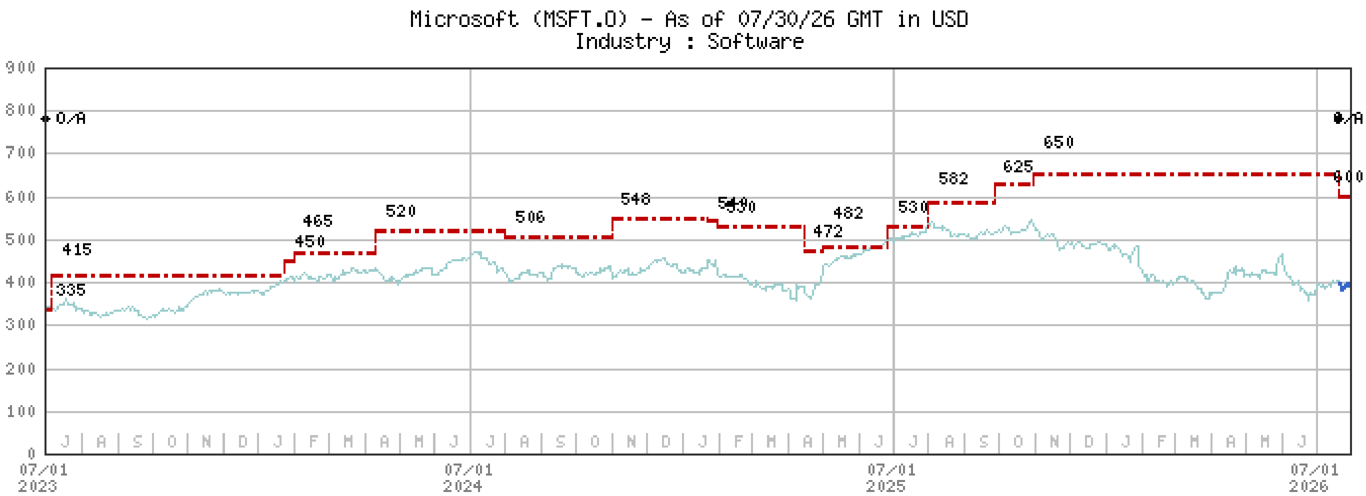
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia -

relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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



Stock Rating History: 7/1/21 : O/A; 7/21/26 : 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; 7/21/26 : 600

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)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/29/2026)
Adam Wood		
Adobe Inc. (ADBE.O)	U (07/21/2026)	$263.43
Atlassian Corporation PLC (TEAM.O)	O (01/13/2020)	$104.28
Intuit (INTU.O)	E (07/21/2026)	$333.13
Microsoft (MSFT.O)	O (07/21/2026)	$390.54
Salesforce, Inc. (CRM.N)	E (07/21/2026)	$188.38
Samsara Inc (IOT.N)	E (03/23/2023)	$38.75
ServiceNow Inc (NOW.N)	O (09/24/2025)	$115.76
Shopify Inc (SHOP.O)	O (04/19/2024)	$129.17
Workday Inc (WDAY.O)	U (07/21/2026)	$168.01
Chris Quintero		
BILL Holdings Inc (BILL.N)	E (06/10/2025)	$47.41
Blackline Inc (BL.O)	E (07/21/2026)	$32.43
Box Inc (BOX.N)	E (05/21/2024)	$32.42
Descartes Systems Group Inc (DSGX.O)	O (01/15/2026)	$78.00
DocuSign Inc (DOCU.O)	E (01/16/2024)	$58.17
Manhattan Associates Inc. (MANH.O)	E (10/21/2025)	$204.02
Navan Inc (NAVN.O)	O (11/24/2025)	$26.56
ServiceTitan Inc (TTAN.O)	O (01/20/2026)	$84.22
SPS Commerce Inc (SPSC.O)	U (07/21/2026)	$69.40
Vertex Inc. (VERX.O)	E (07/21/2026)	$13.32
Via Transportation Inc (VIA.N)	O (01/20/2026)	$20.67
Elizabeth Porter, CFA		
Amplitude Inc. (AMPL.O)	O (01/15/2026)	$8.89
Asana Inc (ASAN.N)	U (05/20/2025)	$8.51

Autodesk (ADSK.O)	O (08/23/2024)	$245.25
Figma Inc (FIG.N)	E (08/25/2025)	$24.76
Five9 Inc (FIVN.O)	E (10/10/2022)	$27.17
Freshworks Inc (FRSH.O)	E (10/18/2021)	$11.61
GoDaddy Inc (GDDY.N)	E (07/19/2021)	$105.10
HubSpot, Inc. (HUBS.N)	O (03/21/2023)	$251.12
Klaviyo, Inc (KVYO.N)	O (04/29/2026)	$19.37
LegalZoom.com Inc (LZ.O)	U (07/28/2022)	$8.42
Liveramp Holdings Inc (RAMP.N)	E (01/13/2025)	$37.74
monday.com Ltd (MNDY.O)	O (08/12/2025)	$90.25
NICE Ltd. (NICE.O)	E (07/21/2026)	$105.02
RingCentral Inc (RNG.N)	E (08/08/2023)	$57.58
Sprinklr Inc (CXM.N)	E (07/19/2021)	$6.45
Sprout Social Inc (SPT.O)	E (11/17/2020)	$8.82
Toast, Inc. (TOST.N)	O (12/16/2021)	$32.60
Twilio Inc (TWLO.N)	O (02/24/2025)	$188.25
Wix.Com Ltd (WIX.O)	E (07/21/2026)	$61.22
Zeta Global Holdings Corp (ZETA.N)	E (08/01/2024)	$22.08
Zoom Communications (ZM.O)	E (10/11/2022)	$92.41
ZoomInfo Technologies Inc (GTM.O)	E (02/01/2024)	$3.50
Josh Baer, CFA		
CCC Intelligent Solutions Holdings Inc (CCC.O)	O (11/13/2024)	$6.05
Commerce.com Inc. (CMRC.O)	++	$3.30
Coursera, Inc. (COUR.N)	E (04/22/2026)	$6.18
Docebo Inc. (DCBO.O)	E (05/12/2025)	$22.02
Lightspeed Commerce Inc. (LSPD.N)	E (02/18/2021)	$11.01
Sabre Corp (SABR.O)	E (03/16/2021)	$1.81
Meta A Marshall		
Check Point Software Technologies Ltd. (CHKP.O)	E (10/16/2023)	$139.67
CrowdStrike Holdings Inc (CRWD.O)	O (03/10/2026)	$179.38
Fortinet Inc. (FTNT.O)	E (07/21/2026)	$153.22
Gen Digital Inc. (GEN.O)	E (06/07/2024)	$27.63
Netskope, Inc. (NTSK.O)	O (10/13/2025)	$11.96
Okta, Inc. (OKTA.O)	O (12/02/2024)	$136.91
Palo Alto Networks Inc (PANW.O)	O (10/10/2017)	$314.15
Qualys Inc (QLYS.O)	U (02/09/2021)	$135.13
Rapid7 Inc (RPD.O)	U (07/21/2026)	$9.39
SailPoint Inc (SAIL.O)	O (09/02/2025)	$15.89
SentinelOne, Inc. (S.N)	E (12/02/2024)	$18.52
Tenable Holdings Inc (TENB.O)	E (12/02/2024)	$31.48
Varonis Systems, Inc. (VRNS.O)	E (01/26/2026)	$40.65
Zscaler Inc (ZS.O)	E (04/22/2026)	$153.77
Ryan Lountzis		
CoreWeave (CRWV.O)	E (04/22/2025)	$60.82
Nebius Group NV (NBIS.O)	E (01/15/2026)	$148.22
Sanjit K Singh		
Akamai Technologies, Inc. (AKAM.O)	O (01/12/2026)	$107.41
Appian Corp (APPN.O)	E (04/30/2026)	$28.74
C3.ai (AI.N)	U (01/04/2021)	$8.85
Cloudflare Inc (NET.N)	O (12/02/2024)	$270.38
Datadog, Inc. (DDOG.O)	O (01/12/2026)	$264.20
DigitalOcean Holdings Inc (DOCN.N)	O (01/16/2025)	$106.76
Dynatrace Inc (DT.N)	E (02/13/2024)	$43.88
Elastic NV (ESTC.N)	E (07/21/2026)	$64.44

GitLab Inc (GTLB.O)	E (01/12/2026)	$34.03
JFrog Ltd. (FROG.O)	E (07/21/2026)	$73.28
MongoDB Inc (MDB.O)	O (04/12/2023)	$321.10
Oracle Corporation (ORCL.N)	E (01/15/2019)	$117.74
PagerDuty, Inc. (PD.N)	U (07/21/2026)	$10.76
Palantir Technologies Inc. (PLTR.O)	E (02/04/2025)	$123.00
Snowflake Inc. (SNOW.N)	O (06/24/2025)	$282.90
UiPath Inc (PATH.N)	E (09/07/2022)	$12.59

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.