European Resellers

Microsoft Copilot - Feedback from the ground

Equities

Europe including UK

Software

Christopher Tong
Analyst
christopher.tong@ubs.com
+44-20-7568 7747

Michael Briest
Analyst
michael.briest@ubs.com
+44-20-7568 8367

Jarrod Chisholm
Analyst
jarrod.chisholm@ubs.com
+44-73-0852 0351

Microsoft Copilot adoption is improving…

With Microsoft Copilot being perhaps one of the most visible AI products and many resellers under coverage (Bytes and SoftwareONE) being very levered to MFST, we conduct a deep dive into the feedback and adoption of the product. Our work leans heavily on UBS's Karl Keirstead's note (Microsoft Corp. "Update on Azure, Capex and M365"), where he did most of the heavy lifting as part of his checks. While the general market view is that Copilot adoption had been slow to date, we think the direction of travel has been improving, with notable Copilot seat acceleration in the Q4 print. Customers and partner feedback have also been constructive, with the general view that the product has become much better. In addition, early Copilot Cowork feedback was positive but we do feel that this is very early days given GA happened only in mid-June 2026.

…as Microsoft ramps up incentives

As a reminder (link), Microsoft in its latest FY27 incentive changes is heavily shifting incentives towards Copilot. Specifically, Copilot base margins are increasing 10 points to 20% from July 2026. In addition, Microsoft is introducing "Growth Margins" (from Oct 2026) that give 35-45% margins if certain thresholds are met for qualifying deals on M365 Copilot, ME5, ME7, Security Suites, and W365. We note that stand-alone SWON previously had a target for a CHF 100m Copilot revenue opportunity (no target timeline) assuming a 15% penetration rate on its 12.5m addressable 365 seats. While we think that this target has likely been missed, it does show that Copilot can be a sizable tailwind to revenues if adoption increases. At the Microsoft level, UBS's Karl Keirstead estimates the Copilot penetration rate currently sits at 6% (Q4 26 seats: 30m) in the latest June quarter. Notably, Microsoft has guided for M365 Commercial Cloud growth to accelerate to 15% (16% adjusted) in the Q1 and then to accelerate throughout FY27 (helped by tailwinds from Copilot and Cowork/E7 traction).

Coverage implications - positive read-across for ALSO, Bytes and SoftwareONE

While all resellers/distributors under our coverage have Microsoft exposures, SWON (c.60% of revs), Bytes (50% of GP) and ALSO (large part of their cloud revs) are the companies most levered to this. We think Softcat and Bechtle have MFST exposures less than 15% of revs. We estimate M365 would be a sizable portion of MFST exposure so any improvement in the Copilot will be a tailwind - especially with the increased incentives allocated to this.

Valuation: Buy on SoftwareONE, Neutral on ALSO, and Sell on Bytes

While we are not changing any estimates with this update and all of the above would benefit from increased Copilot sales given the higher incentives on offer, we have a preference for SWON given valuation (11x 27 P/E) and a self-help story. We would expect companies with sizable MFST exposure to comment on stronger Copilot sales as a driver to results from CY26 Q3.

Microsoft increasing Copilot incentives

We see incentive changes as moderately negative for the resellers

With FY27 Microsoft is making a litany of incentive changes for the channel (too many to detail here), but we highlight the main ones below in Figure 1. On first blush we see the incentive changes as broadly net negative for the channel overall, though we flag these changes are clearly less of a step down compared to the ones made when Enterprise Agreement incentives were sharply reduced in 2025.

Though note Microsoft is markedly increasing incentives on Copilot

What are the key changes then? Historically, resellers could earn sizable incentives through taking business from other resellers. Given this does not help Microsoft's bottom line (as this basically rewards resellers for consolidating business across the ecosystem), Microsoft is clearly trying to move away from this by reducing base margins on various products, including base Office 365 skews, but is shifting incentives to "genuine growth". The clearest example of this is the introduction of "Growth Margins" from 1 October 2026, which rewards resellers through: 1) new customers (broadly customers who haven't had any Microsoft product in the past three years), 2) seat expansion, and 3) strategic SKU mix (upselling more premium products). For genuine growth, Microsoft is offering generous margins of 35-45% on qualifying deals (Figure 1).

In addition, we note base Copilot margins are markedly increased - to 20% from 10% previously - with these margins rising up to 45% if certain thresholds are met.

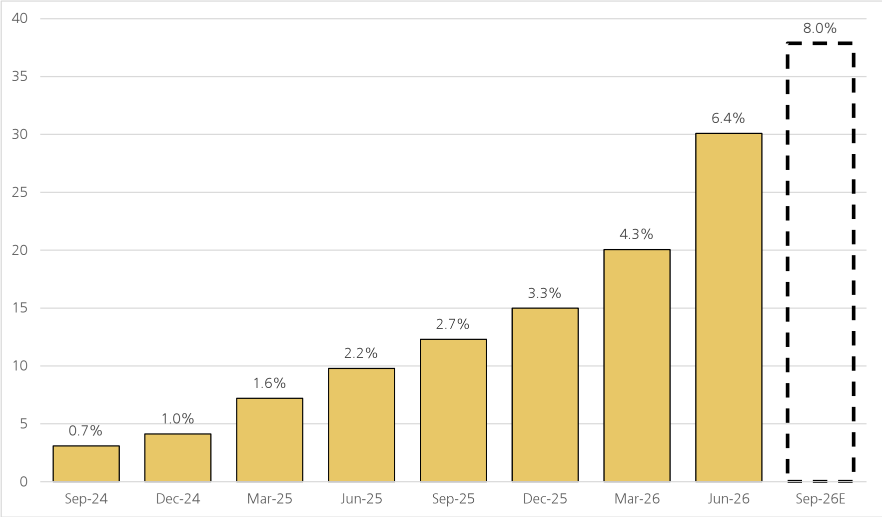
Figure 1: Key FY27 Microsoft incentive changes

Microsoft incentive changes FY27	Old	New	Date
Microsoft 365 Copilot base margin	10%	20%	July 1 2026
Growth Margins (M365 Copilot, ME5, ME6, Security Suites, and W365)	N/A	35-45%	Oct 1 2026
Office 365 1 / Office 365 3 / Exchange Online, OneDrive & SharePoint, Microsoft 365 Apps business / enterprise	**20%**	**15%**	**Oct 1 2026**
General Azure (core consumption)	3%	3%	July 1 2026
Incremental Azure consumption	7.5%	7.0%	July 1 2026

Source: Microsoft, Bytes, UBS

The number of paid Copilot seats has grown to 30m as at the end of June 2026 (up markedly from the 20m reported in the preceding quarter), representing an estimated 6% penetration of total seats. Importantly, Microsoft also guided M365/Office segment to accelerate throughout FY27, helped by good Copilot seat growth. Microsoft is guiding for M365 Commercial Cloud growth to accelerate to 15% (16% adjusted) in Q1 and to accelerate throughout FY27. UBS's Karl Keirstead expects 38m Co-pilot seats reflecting a penetration rate of 8.0% for the September (Q1) quarter.

Figure 2: Copilot paid seat growth (% penetration M365)



Source: Microsoft, UBSe. Note: labels represent Copilot as % of M365.

Feedback from the ground

Below, we detail feedback from Copilot from UBS's Microsoft Analyst Karl Keirstead in his checks here (Microsoft Corp. "Update on Azure, Capex and M365"). Broadly there was a view that Copilot was getting better, with the tone skewing positive. Stronger feedback and thus adoption was likely a key driver of the Microsoft guide for accelerating M365/Office segment revenues through FY27.

- **Partner 1** – *Microsoft used to get a lot of criticism on this product vs ChatGPT and others but it's definitely not the same product it was on launch day. It's improved significantly. We've seen a significant increase in Copilot over the past 12 months both in seats sold as well as usage. It's close to doubling the number of seats added in the FY ended June. Also in usage and adoption, that's increasing 60-70%. What Microsoft is preaching to their partners is to be customer 0. We've enabled over half our workforce with Copilot, and usage is up 90%+.*
- **Partner 2** – *For Copilot, Microsoft has unrealistic expectations on Copilot goals. We achieved 14% of Microsoft's Copilot plan. If they wanted us to sell 100 seats, we only sold 14. Part of our reports with Microsoft is that we show our results and how we compare to the top 10 partners. We were #1 in goal attainment, and we have 347% y/y growth on Copilot. To their goal, we were still very low. So the rest of the partners missed more. It's too expensive. $30/user/month is a lot. If it was $10-$15, it would be more in expectations. That's what a lot of customer feedback has been. Copilot is decent in Teams for summarizing meetings but there's still a lot of room to grow. It's unfortunate because Microsoft owns PowerPoint and Word, but Claude and ChatGPT create better PowerPoints and results.*
- **Partner 3** – *Customer feedback is that it's going beyond just helping them with PowerPoints and Excel. They're seeing value but not uniform value. A few customers are quite mature where they have a strong user case by business segment. Others are not. In terms of seat expansion, it's becoming focused on specific areas where customers really want to use these seats. They want to target expansion where they know there are benefits coming.*
- **Partner 5** – *Most large customers have moved beyond pilots and are deploying Copilot to more targeted groups. In every organization like ours, seats are increasing in a short time frame, which is good but there's a gap between seats and usage. It's not simply about turning your license on. I think seat growth is definitely strong but over the next twelve months, the key metric is how much business transformation is actually happening. I do think the product has improved meaningfully and that is helping the ROI conversation.*

- **Partner 7** – *The growth driver for M365 is not actually Copilot. The main one is the Microsoft strategy of gradually moving customers from E3 to E5. Copilot attach is fine but it's not a major value driver. It's more around security because you get a decent security bundle on E5. There's also regular organic seat growth. Seat growth is stable to a very low increase. There hasn't been any particular feature or characteristic improvement. The only thing it can do is summarization of emails and Teams. Cowork is supposed to be a significant step forward because it brings the context from the variety of your Microsoft apps. That's too new. But regular Copilot is stale.*
- **Customer 2** – *We use Microsoft Copilot. For productivity tools, we're giving it at the VP level and above, but not everybody in the company gets it. You have to apply and ask for it and your VP needs to be willing to pay for it. Then there's monitoring. If you have a seat and you're not using it, it probably would be recycled and taken away from you.*
- **Customer 3** – *We have implemented Microsoft Copilot. Now we are adding OpenAI and Anthropic for enterprise use. We are allowing some users to use Gemini through an alliance.*
- **Customer 4** – *We have browser chat for Microsoft but in terms of broader AI workforce tools, we're evaluating these, and Microsoft is in the running. We're looking at the Claude model set as well. Nothing against Google and Gemini but it's not a preferred model.*
- **Customer 5** – *The adoption of Copilot has been generally increasing as we're moving from pilots to broad enterprise programs. So we're moving from a few hundred to all users. Right now, it's not deployed to 100% of users today but we expect that at least by the end of next year, every employee sitting in front of a laptop will have Copilot. It has been given quite a good amount of value as capabilities increased. ROI varies based on user group.*
- **Customer 6** – *We are rolling out Copilot to 75% of our employees because 25% of our employees are in the production plant. We're at roughly 40% of employees today.*
- **Customer 7** – *Copilot usage is definitely growing and we've put a lot of effort into this as well. It's rolled out to entire firm. We also have FDEs with Microsoft that are looking at various processes then we have some on each line of business to look at Copilot and how it goes. The product has definitely gotten better by releasing new features like Researcher. People use it a bit like Google.*
- **Customer 8** – *We're still early on in AI. We've rolled out both M365 and GitHub Copilot. I think Foundry IQ is interesting too. I think for M365 Copilot at $30 a month, we get the value out of it but that could be a different consideration if they charge on consumption. I think if that had consumption pricing, I might actually spend less than $30 based on how much I use it.*
- **Customer 9** – *The hallucinations in AI products in general, and in Copilot, have not fully been solved. Our Copilot adoption is still relatively low but now improving. Looking back, earlier versions of Copilot were not great, and hence users tried it and adoption faded, but now that the product has improved, we need to get those users back in the fold.*

Cowork Feedback

We see the addition of Copilot Cowork as positive

Microsoft has embedded Anthropic's Claude Cowork natively inside Copilot, with general availability since mid-June 2026. Compared to Microsoft own native Copilot, Anthropic Cowork can orchestrate multi-step workflows across different apps. While clearly very early days, customer feedback has generally leaned constructive, though one early drawback we heard is Cowork's consumption pricing component.

- **Partner 1** – *With Cowork, consumption credits will show up in Azure consumption. Cowork used for complex, multi-area tasks, so doing research across data sets, having multiple output documents such as a report, executive summary, and PowerPoint, that's where Cowork was helpful with multiple outputs from multiple sources. Copilot was great for single source. The challenge we had was really enablement and adoption of customers, where they can understand when to use Copilot and when to use Cowork as Cowork will create consumption. It was surprising how quickly things can ramp up. Last week I spent an hour going* *through questions and refining documents. I pointed it at a library of 10-15 folders containing documents and emails to build a brief summary. It would have taken me and my team hours to do but took me an hour to do with Cowork. It would have cost 6,500 credits, or $65. If you think that saved 25 hours of work, then that's a great deal but it can spin up fast. We haven't seen the cost analysis of Copilot Cowork vs Claude Cowork/ChatGPT yet.*

- **Partner 2** – *It's still too early. The excitement is that you can use Claude as the backend engine. I think there's hesitation with consumption pricing. $30 is still viewed as pricey. I think there will be usage limits but maybe not freeing up of other Microsoft dollars. Unless customers get a lot of value, they're probably not going to spend more.*
- **Partner 3** – *With Cowork, I see it has a long way to go but the interest is there.*
- **Partner 5** – *It's still very early. Feedback has been generally positive for customers who have moved beyond basic adoption. I think it represents the next stage of the journey. The first phase was making individual users more productive. The next stage is making AI work across individuals and participate in the organization. This is what customers are asking for, if AI can interact with multiple systems, improve processes without oversight, improve handoffs between teams. The issues are how do you enforce governance and change management. Customers are nervous about that. I would not describe this market as being at large scale adoption yet. The theme I see is customers are more comfortable paying for AI which can perform work rather than assist the user. If that trend continues, I think consumption models are a big growth vector.*
- **Partner 6** – *You buy Copilot in M365 but anything agentic you are spinning tokens in Azure*.
- **Partner 7** – *Very initial feedback is that Cowork is embedded across multiple apps, where customers are hopeful it will save them time at the end of the day, summarizing documents, creating a new one with the right context. That's the expectation with Copilot Cowork. Trust is developing across the Microsoft customer base, but ROI is extremely difficult to establish. The consumption piece is a non-starter. On top of the fixed $30 fee, customers don't see the value.*
- **Customer 2** – *The AI spend that I'm worried about is the Coworks of the world with consumption pricing, and the people who are building apps and productivity solutions with that.*
- **Customer 4** – *Copilot Cowork is part of our productivity tool pilot with Copilot and Claude for productivity. If one's crazy more expensive than the other and they're technologically close, then the commercial side will win. If they're similar cost wise, they will come down to tech today.*
- **Customer 5** – *We are trying to get feedback from some users who have gotten it. It is generally positive but early. Cowork will be heavy token usage.*
- **Customer 6** – *We recently had a very impressive demo and slideshow of what Cowork can do for us. The value is there but we do not see that the tool will change a lot in terms of if it can help you draft emails or coordinate appointments faster. It's a nice-to-have but not a must have because the existing capability in Copilot is good enough to do 60-70% of what Cowork offers. Second, the consumption pricing piece is difficult for us to rationalize. So I would say it's not something we are interested in right now.*
- **Customer 7** – *I think Cowork is very good. It's just how you apply it. When you start actually using it, you say well actually I'd like to see it do this and this. I think it's a reasonable hypothesis that enterprises could buy more Copilot seats because of Cowork. Because it integrates so much into other tools, that's where Microsoft has the leverage. Whether you like or hate Teams, the integration is so key. I'm not saying it's the best, but it's the integration. The Copilot integration is remarkable.*
- **Customer 9** –*Our early pilot of Copilot Cowork has been positive, the product is quite good.*

Conclusion

Likely a positive tailwind from Q3 26

Net, we are encouraged by the feedback we have heard on the product and the guide from Microsoft for accelerating M365 Commercial Cloud growth throughout FY27. We think early Cowork feedback has also been constructive, though think it is too early days for it to be a significant driver of revenue growth in the foreseeable future (especially given consumption-based pricing). We detail valuations below - SWON stands out as the cheapest reseller levered to this theme. Given improving product momentum, we would expect MFST-exposed resellers to call out increasing Copilot sales as a driver to results.

Figure 3: Reseller valuation sheet

Company	Local Currency (lc)	Share Price (lc)	Mkt. Cap ($m)	EV ($m)	EV/SALES		EV/GP		EV/EBITDA		EV/EBITDA/G	EV/NOPAT		PER		P/E/G	FCF yield		EV/FCF		CAGR 25-28			
					2026E	2027E	2026E	2027E	2026E	2027E	2026E	2026E	2027E	2026E	2027E	2026E	2026E	2027E	2026E	2027E	Sales	GP	EBITDA	EPS
ALSO	CHF	197.60	3,139	2,703	0.1x	0.1x	2.0x	2.0x	6.1x	5.7x	0.9x	9.6x	9.0x	14.9x	13.2x	1.1x	12.1%	11.7%	6.6x	6.8x	5%	5%	7%	12%
Atea	NOK	171.00	2,016	1,915	0.4x	0.4x	1.6x	1.5x	7.4x	6.8x	0.7x	14.7x	12.9x	16.1x	14.7x	0.7x	8.6%	10.0%	11.0x	9.5x	8%	-12%	10%	21%
Bechtle	EUR	37.26	5,402	5,336	0.7x	0.6x	3.6x	3.3x	8.7x	8.0x	1.0x	18.2x	16.8x	19.1x	17.7x	2.2x	3.1%	3.8%	32.1x	26.0x	9%	8%	8%	8%
Bytes	GBp	408	1,272	1,155	3.6x	3.4x	4.5x	4.1x	12.5x	11.6x	2.2x	17.4x	16.0x	18.4x	17.1x	3.6x	6.3%	6.9%	14.4x	13.1x	8%	8%	6%	5%
Cancom	EUR	24.70	817	711	0.3x	0.3x	0.9x	0.8x	5.2x	4.7x	0.5x	15.5x	13.0x	20.0x	16.9x	0.6x	7.5%	8.0%	11.6x	10.8x	5%		11%	27%
CDW	USD	154.00	19,674	24,799	1.1x	1.0x	5.0x	4.8x	11.4x	11.0x	3.3x	16.3x	15.7x	14.7x	13.6x	1.8x	4.6%	5.7%	27.2x	22.1x	3%	4%	3%	7%
Computacenter	GBp	4,778	6,817	6,168	0.4x	0.3x	3.3x	3.0x	10.3x	9.8x	1.2x	18.8x	17.9x	20.9x	19.8x	1.8x	2.1%	3.2%	42.5x	28.0x	14%	10%	9%	11%
Ingram Micro	USD	29.23	6,742	8,548	0.1x	0.1x	2.4x	2.1x	5.8x	5.3x	0.6x	10.3x	8.8x	8.6x	7.7x	0.5x	-0.3%	8.1%		15.7x	9%	7%	10%	14%
Insight	USD	137.26	4,146	5,012	0.6x	0.6x	2.7x	2.6x	9.0x	8.4x		11.9x	11.4x	12.0x	11.1x	0.8x	7.1%	6.6%	17.0x	18.3x	4%			14%
Softcat	GBp	1,949	5,153	4,954	2.0x	1.9x	6.1x	5.6x	16.5x	15.7x	2.1x	22.9x	21.9x	24.1x	22.8x	2.8x	4.2%	3.8%	23.0x	25.1x	10%	11%	8%	8%
SoftwareONE	CHF	9.11	2,490	3,206	1.6x	1.5x	1.6x	1.5x	6.9x	6.3x	0.4x	13.1x	11.0x	13.0x	10.6x	0.7x	5.7%	6.6%	nm	19.5x	14%	14%	17%	15%
TD Synnex	USD	263.79	21,092	32,195	0.3x	0.3x	4.5x	4.2x	9.3x	8.5x	0.6x	13.4x	12.2x	13.8x	12.6x	0.7x	1.9%	5.7%	61.1x	19.9x	12%	12%	17%	19%
Mean					**0.9x**	**0.9x**	**3.2x**	**3.0x**	**9.1x**	**8.5x**	**1.2x**	**15.2x**	**13.9x**	**16.3x**	**14.8x**	**1.4x**	**5.2%**	**6.7%**	**-17.9x**	**3.8x**	**8%**	**7%**	**10%**	**13%**
Median					**0.5x**	**0.5x**	**3.0x**	**2.8x**	**8.8x**	**8.2x**	**0.9x**	**15.1x**	**13.0x**	**15.5x**	**14.2x**	**0.9x**	**5.1%**	**6.6%**	**17.0x**	**18.9x**	**8%**	**8%**	**9%**	**13%**
Mean (Europe)					**1.2x**	**1.1x**	**2.9x**	**2.7x**	**9.2x**	**8.6x**	**1.1x**	**16.3x**	**14.8x**	**18.3x**	**16.6x**	**1.7x**	**6.2%**	**6.8%**	**20.2x**	**17.4x**	**9%**	**6%**	**9%**	**13%**
Median (Europe)					**0.6x**	**0.5x**	**2.7x**	**2.5x**	**8.1x**	**7.4x**	**1.0x**	**16.4x**	**14.5x**	**18.7x**	**17.0x**	**1.4x**	**6.0%**	**6.7%**	**14.4x**	**16.3x**	**8%**	**8%**	**9%**	**12%**

Source: Eikon, UBS

Valuation Method and Risk Statement

IT budgets are cyclical and highly dependant on the macro. Investing in resellers generally have higher than average risk given limited sales visibility.

ALSO: Investing in the IT Services sector entails above-average risk given low sales visibility and for value-added distributors much of the value the customer is paying for is provided by third-party vendors. The success of vendor product sales and the incentive rates vendors pay to partners for helping to sell their products are important factors in determining the reseller profitability. If the relationship with the vendor were to end, profits would be materially affected. We value ALSO using a blend of an P/E and DCF.

Bytes: Investing in the IT Services sector entails above-average risk given low sales visibility and for resellers much of the value the customer is paying for is provided by third party vendors. The success of vendor product sales and the incentive rates vendors pays to partners for helping to sell their products are important factors in determining the reseller profitability. If the relationship with the vendor were to end, the profits would be materially affected. Microsoft is a key partner for Bytes, comprising of 50% of gross profit for FY24. Improvements to Copilot would mean that Bytes would likely be a beneficiary. Our price target is based on a blend of a EV/NOPAT multiple and DCF.

SWON: Investing in the IT Services sector entails above-average risk given low sales visibility and for resellers much of the value the customer is paying for is provided by third-party vendors. The success of vendor product sales and the incentive rates vendors pay to partners for helping to sell their products are important factors in determining the reseller profitability. Microsoft products drive a significant portion of gross profit, and while SoftwareONE has worked with Microsoft for over 30 years, if the relationship ended, SoftwareONE's products would be materially affected. We value SoftwareONE using a blend of EV/NOPAT and DCF based approaches, as with most of the other IT reseller names under our coverage.