Morgan Stanley | RESEARCH

IDEA

September 16, 2026 01:48 AM GMT

Microsoft | North America

Dividend Increases 8%, Adding to Attractive Total Return

Microsoft increased its quarterly dividend by 7 cents or 8% to $0.98 per share. $3.92 annualized dividend implies a 0.78% yield, up from 0.7% prior. Combined with high-teens EPS growth, this supports a durable high-teens total return profile at MSFT, framing an attractive risk/reward. Remain OW.

Dividend Raise Slightly Below Prior 5-Year Average of ~10%. Microsoft announced a 7.7% increase in its quarterly dividend to $0.98/share from $0.91, translating to $3.92/share annualized and a post-announcement dividend yield of ~0.8%. The increase is modestly below the ~10% average increase over the prior five years, but remains consistent with Microsoft's track record of steadily growing its dividend alongside earnings. The latest increase represents ~0.4x trailing operating income growth of 21% in FY26, below the ~1.1x long-term average, as strong earnings growth continues to outpace dividend growth, potentially reflecting Microsoft's preference to retain greater balance sheet flexibility amidst elevated AI infrastructure investments.

Dividend Yield Just One Component of Capital Return – Over $40 Billion Remaining in Current Share Repurchase Authorization Suggests Buybacks to Continue. We think management views dividends as a permanent commitment, leaving room for continued share repurchases while balancing elevated AI infrastructure investments. Microsoft repurchased ~$17 billion of stock in FY26, up from $13 billion in FY25, and had >$40 billion remaining under its current $60 billion share repurchase authorization as of June 30, 2026. With $76.8 billion of cash, cash equivalents and short-term investments at FY26-end and continued strong cash generation, we expect buybacks to remain an important component of capital return, though the pace will likely continue to be balanced against Microsoft's significant AI-related capital requirements.

Dividend Yield Makes Up Small Portion of Larger, Attractive ~20% Total Return Profile. More broadly, the dividend represents a consistent source of income and one component of the durable high-teens+ total-return profile we forecast for Microsoft. We forecast ~21% revenue CAGR through CY28, with gross profit growing ~18% despite higher COGS growth associated with the AI/capex ramp, while OpEx grows only ~11%. This drives ~19% EPS CAGR through CY28, which combined with the ~0.8% post-announcement dividend yield supports a ~20% total-return profile for Microsoft.

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Microsoft (MSFT.O, MSFT US)

Software | United States of America

Stock Rating	**Overweight**
Industry View	**Attractive**
Price target	**$600.00**
Shr price, close (Sep 15, 2026)	$497.12
Mkt cap, curr (mm)	$3,699,328
52-Week Range	$553.72-349.20

Fiscal Year Ending	06/26	06/27e	06/28e	06/29e
EPS ($)**	17.94	19.66	24.06	30.11
Prior EPS ($)**	-	-	-	-
P/E	20.8	25.3	20.7	16.5
EPS ($)§	-	19.72	23.46	28.57
Div yld (%)	1.0	0.8	0.9	1.0

framework
** = Based on consensus methodology
§ = Consensus data is provided by Refinitiv Estimates

QUARTERLY EPS ($)

Quarter	2026	2027e Prior	2027e Current	2028e Prior	2028e Current
Q1	3.72	-	4.76	-	5.82
Q2	5.16	-	4.93	-	5.97
Q3	4.27	-	4.89	-	6.00
Q4	4.81	-	5.09	-	6.27

investors should be aware that the firm may have a conflict of

Research as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

Exhibit 1: Strong High-Teens Total Return Profile

($mn, ex EPS)	CY25	CY28E	Change	% Change	3-Yr CAGR	Total Return Calculation	
Revenue	$305,453	$537,299	$231,846	75.9%	20.7%	**Low-20s Revenue Growth…**	
COGs	($95,954)	($193,493)	($97,539)	101.7%	26.3%	**…Underpacing COGS Growth Given AI/Capex Ramp**	
Gross Profit	$209,499	$343,806	$134,307	64.1%	18.0%	**= High-teens Gross Profit Growth…**	
OpEx	($66,940)	($90,670)	($23,730)	35.4%	10.6%	**…Well Outpacing Low-Teens Opex Growth**	
Other Income	$3,981	($4,890)	($8,871)	-223%	-207%	**… OI Benefit Given Removal of Equity Investment Losses**	
EBT	**$146,540**	**$248,245**	**$101,705**	**69.4%**	**19.2%**	**= ~19% EBT CAGR**	(1 + 19.2%)
1-Tax Rate (%)	81.4%	80.0%		-1.7%	-0.6%	**x Slight Tax Rate Headwind**	x (1 - 0.6%)
Shares	7,462	7,365	(97)	-1.3%	-0.4%	**x Relatively Unchanged Share Count**	x (1 - 0.4%)
EPS	**$15.98**	**$26.97**	**$10.98**	68.7%	**19.0%**	**= High teens EPS CAGR**	= 1.190
						= CY25-CY28E EPS CAGR	**1.190 - 1 = 19.0%**
						+ Projected Dividend Yield	+ 0.79%
						= High-Teens Total Return	**= 19.8%**

Exhibit 2: Dividend Raise Slightly Below Prior 5-Year Average of ~10%

Quarterly Dividend Increase							
Announcement Date	To	From	% Change	Trailing Op Income Growth (% YoY)	Increase as a Multiple of Growth	Div Yield Prior to Announcement	Div Yield Post Announcement
9/15/2026	0.98	0.91	7.7%	21%	0.4x	0.7%	0.8%
9/15/2025	0.91	0.83	9.6%	17%	0.6x	0.6%	0.7%
9/16/2024	0.83	0.75	10.7%	22%	0.5x	0.7%	0.8%
9/20/2023	0.75	0.68	10.3%	8%	1.4x	0.8%	0.9%
9/20/2022	0.68	0.62	9.7%	19%	0.5x	1.0%	1.1%
9/14/2021	0.62	0.56	10.7%	32%	0.3x	0.7%	0.8%
9/15/2020	0.56	0.51	9.8%	23%	0.4x	1.0%	1.1%
9/18/2019	0.51	0.46	10.9%	23%	0.5x	1.3%	1.4%
9/18/2018	0.46	0.42	9.5%	20%	0.5x	1.5%	1.6%
9/19/2017	0.42	0.39	7.7%	8%	1.0x	2.1%	2.2%
9/20/2016	0.39	0.36	8.3%	1%	NM	2.5%	2.7%
9/15/2015	0.36	0.31	16.1%	0%	NM	2.8%	3.3%
9/16/2014	0.31	0.28	10.7%	6%	1.7x	2.4%	2.7%
9/17/2013	0.28	0.23	21.7%	-2%	NM	2.8%	3.4%
9/18/2012	0.23	0.20	15.0%	3%	5.1x	2.6%	3.0%
9/20/2011	0.20	0.16	25.0%	13%	2.0x	2.4%	3.1%
9/21/2010	0.16	0.13	23.1%	16%	1.4x	2.1%	2.6%
9/18/2009	0.13	0.13	0.0%	-13%	0.0x	2.1%	2.1%
9/22/2008	0.13	0.11	18.2%	21%	0.9x	1.7%	2.0%
9/12/2007	0.11	0.10	10.0%	12%	0.8x	1.4%	1.5%
9/13/2006	0.10	0.09	11.1%	6%	1.9x	1.4%	1.5%
Average			**12.2%**	**12%**	**1.1x**	**1.7%**	**1.9%**

Risk Reward – Microsoft (MSFT.O)

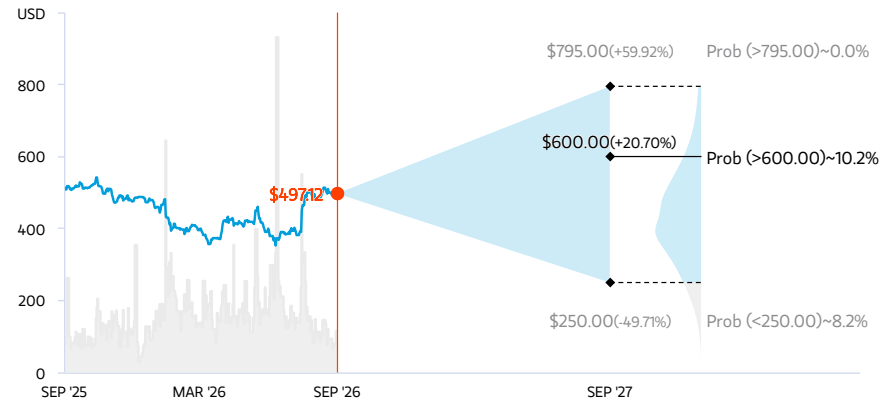
Durability of Earnings Growth & AI Leadership Not Priced-In

PRICE TARGET $600.00

25x Base Case FY28e EPS of $24.06. 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 $400.00 — $573.89 (MS PT, Mean) — $870.00

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 15 Sep 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 ~20x FY28 GAAP EPS too cheap. Overweight

Consensus Rating Distribution

93%	Overweight
7%	Equal-weight
0%	Underweight

MS Rating

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: $27.64

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 $27.64. ~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 $24.06

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 $24.06. 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: $21.84

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 $21.84. ~12x PE is a discount to large cap software peers and a discount on a PEG.

Risk Reward – Microsoft (MSFT.O)

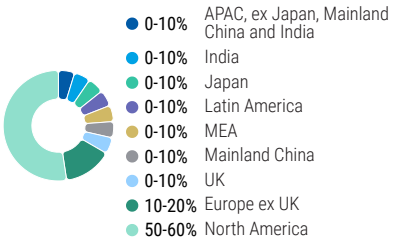
KEY EARNINGS INPUTS

Drivers	Jun 2026	Jun 2027e	Jun 2028e	Jun 2029e
Azure and Other Cloud Services Growth (%)	40.7	44.9	43.2	41.2
M365 Commercial Cloud Growth (%)	16.4	16.6	17.6	17.7
Gross Margins (%)	67.9	65.7	64.4	63.4
Operating Margins (%)	46.8	46.5	46.7	47.2
GAAP EPS Growth (%)	31.5	9.6	22.4	25.1

INVESTMENT DRIVERS

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

GLOBAL REVENUE EXPOSURE



View explanation of regional hierarchies here

MS ALPHA MODELS

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

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	52.4%
HF Sector Long/Short Ratio	2.1x
HF Sector Net Exposure	33.6%

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 2027e

Sales / Revenue ($, mm)	378,969	393,588 / 390,781	402,719
EBITDA ($, mm)	224,029	235,048 / 240,589	259,831
Net income ($, mm)	141,161	145,544 / 146,619	156,956
EPS ($)	19.00	19.66 / 19.72	21.12

◆ Mean ◆

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