Microsoft Corp. (MSFT)

NDR Meetings: Enterprise shift to AI platforms is validating key strategic decisions from the last 3 years

MSFT	12m Price Target: **$640.00**	Price: **$493.78**	Upside: **29.6%**

BUY (CL)

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We hosted investor meetings with Head of IR, Jonathan Neilson; and Director of IR, Danielle Criste; in Stockholm, Zurich and London the week of 9/14. These meetings followed investor meetings and our keynote with CFO Amy Hood in SF the week of 9/7. Our sense is that Microsoft has made several key AI decisions in the last 3 years that are now paying off as enterprises evaluate the importance of platform offerings in AI, including a) front loading long-dated capex – such that the company has greater flexibility today over short-dated capex decisions; b) balancing capex allocations between 1P applications and 3P customers – such that Copilot and MAI have improved in their quality of outputs; c) balancing capex allocations between frontier and enterprise customers – such that all of 4Q's $51bn RPO increase was from enterprises (not frontier labs), and the company can be less dependent on any one model in the evolution of the model ecosystem. Lastly, Microsoft is leveraging its multi-decade incumbency into making AI work in enterprises, including its reputation for safety and governance (e.g. Agent 365 bundled in E7), the ability to apply models to hill climb in enterprise environments with business specific context, and the ramp of FDEs to support large backlog commits. We are Buy rated (on Conviction List) and believe the key areas of discovery value will center on improvements in MAIA and MAI, and momentum in enterprise platform go to market.

Key Data

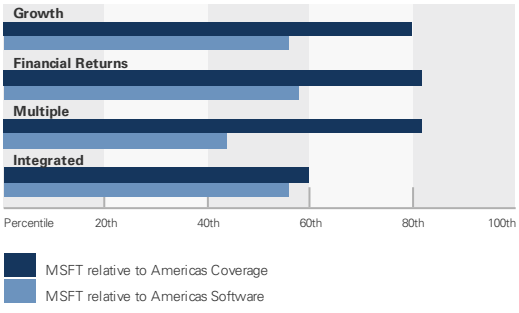
Market cap: $3.7tr
Enterprise value: $3.7tr
3m ADTV: $14.7bn
United States
Americas Software
M&A Rank: 3

GS Forecast

	6/26	6/27E	6/28E	6/29E
Revenue ($ mn)	331,839.0	389,734.7	470,524.1	568,586.3
EBITDA ($ mn)	194,537.0	240,286.2	299,996.3	379,415.9
EBIT ($ mn)	155,237.0	180,808.4	214,986.8	262,940.5
EPS ($)	17.28	19.38	22.97	28.05
P/E (X)	26.6	25.5	21.5	17.6
EV/EBITDA (X)	17.4	15.1	12.2	9.6
FCF yield (%)	2.0	1.1	0.3	1.3
Dividend yield (%)	0.8	0.7	0.7	0.8
Net debt/EBITDA (X)	(0.2)	(0.1)	(0.0)	(0.1)

	6/26	9/26E	12/26E	3/27E
EPS ($)	4.74	4.72	4.75	4.81

GS Factor Profile



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

Key Topics

1) On capex: Our sense is Microsoft is communicating more control over supply chain and capacity ramps than a year ago. The shift in our view reflects:

- Long-dated capex shifting from ~50% to ~33% of total mix in

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BUY CL

Microsoft Corp. (MSFT)

Rating since Jan 21, 2021

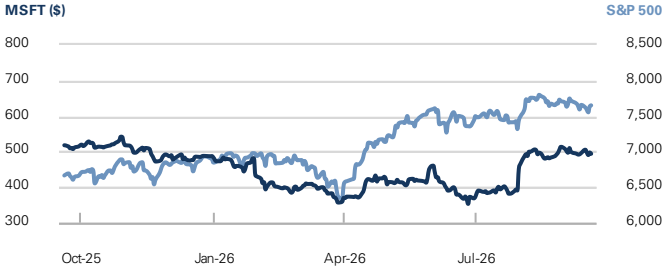
Ratios & Valuation

	6/26	6/27E	6/28E	6/29E
P/E (X)	26.6	25.5	21.5	17.6
EV/EBITDA (X)	17.4	15.1	12.2	9.6
EV/sales (X)	10.2	9.3	7.8	6.4
FCF yield (%)	2.0	1.1	0.3	1.3
EV/DACF (X)	18.1	17.1	13.8	10.9
CROCI (%)	31.4	28.1	27.5	27.1
ROE (%)	32.8	29.0	27.3	26.4
Net debt/EBITDA (X)	(0.2)	(0.1)	(0.0)	(0.1)
Net debt/equity (%)	(8.3)	(6.1)	(2.1)	(3.3)
Interest cover (X)	50.9	60.3	97.3	168.3
Inventory days	4.0	4.4	4.3	4.3
Receivable days	82.9	81.7	78.0	76.4
Days payable outstanding	120.3	132.0	129.9	131.8

Growth & Margins (%)

	6/26	6/27E	6/28E	6/29E
Total revenue growth	17.8	17.4	20.7	20.8
EBITDA growth	24.3	23.5	24.8	26.5
EPS growth	22.4	12.1	18.6	22.1
DPS growth	9.9	2.3	0.0	7.5
Gross margin	67.9	65.8	62.7	61.2
EBIT margin	46.8	46.4	45.7	46.2

Price Performance



	3m	6m	12m
Absolute	30.1%	26.0%	(2.9)%
Rel. to the S&P 500	27.6%	9.1%	(15.8)%

Source: FactSet. Price as of 18 Sep 2026 close.

Income Statement ($ mn)

	6/26	6/27E	6/28E	6/29E
Total revenue	331,839.0	389,734.7	470,524.1	568,586.3
Cost of goods sold	(106,374.0)	(133,324.4)	(175,327.0)	(220,537.4)
SG&A	(34,666.0)	(37,194.9)	(38,730.8)	(40,310.5)
R&D	(35,562.0)	(38,407.0)	(41,479.5)	(44,797.9)
Other operating inc./(exp.)	–	–	–	–
EBITDA	**194,537.0**	**240,286.2**	**299,996.3**	**379,415.9**
Depreciation & amortization	(39,300.0)	(59,477.8)	(85,009.6)	(116,475.4)
EBIT	**155,237.0**	**180,808.4**	**214,986.8**	**262,940.5**
Net interest inc./(exp.)	250.0	(493.3)	(978.5)	(917.6)
Income/(loss) from associates	–	–	–	–
Pre-tax profit	**159,404.0**	**180,315.1**	**214,008.2**	**262,022.8**
Provision for taxes	(30,618.0)	(36,063.0)	(42,801.6)	(52,404.6)
Minority interest	–	–	–	–
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**128,786.0**	**144,252.1**	**171,206.6**	**209,618.3**
Net inc. (post-exceptionals)	**133,749.0**	**144,252.1**	**171,206.6**	**209,618.3**
EPS (basic, pre-except) ($)	**17.33**	**19.44**	**23.05**	**28.14**
EPS (diluted, pre-except) ($)	**17.28**	**19.38**	**22.97**	**28.05**
EPS (ex-ESO exp., dil.) ($)	**--**	**--**	**--**	**--**
DPS ($)	3.56	3.64	3.64	3.91
Div. payout ratio (%)	20.5	18.7	15.8	13.9
Wtd avg shares out. (basic) (mn)	7,429.3	7,420.4	7,428.9	7,448.9
Wtd avg shares out. (diluted) (mn)	7,453.5	7,444.7	7,453.1	7,473.2

Balance Sheet ($ mn)

	6/26	6/27E	6/28E	6/29E
Cash & cash equivalents	20,935.0	32,771.4	26,861.8	31,836.0
Accounts receivable	80,876.0	93,647.0	107,544.9	130,625.8
Inventory	1,397.0	1,789.4	2,326.2	2,907.9
Other current assets	104,502.0	72,498.1	54,934.6	59,928.8
Total current assets	**207,710.0**	**200,706.0**	**191,667.5**	**225,298.5**
Net PP&E	337,253.0	494,315.4	694,427.4	880,878.3
Net intangibles	138,260.0	135,160.0	133,060.0	131,160.0
Total investments	36,348.0	36,348.0	36,348.0	36,348.0
Other long-term assets	38,805.0	42,726.5	46,484.8	56,461.3
Total assets	**758,376.0**	**909,255.9**	**1,101,987.8**	**1,330,146.1**
Accounts payable	42,416.0	54,024.7	70,773.6	88,470.6
Short-term debt	0.0	0.0	0.0	0.0
Current lease liabilities	–	–	–	–
Other current liabilities	126,409.0	142,023.1	156,951.0	174,373.0
Total current liabilities	**168,825.0**	**196,047.8**	**227,724.6**	**262,843.5**
Long-term debt	31,067.0	21,840.0	12,613.0	3,386.0
Non-current lease liabilities	16,532.0	16,532.0	16,532.0	16,532.0
Other long-term liabilities	96,818.0	119,277.2	140,458.3	157,403.1
Total long-term liabilities	**147,164.0**	**160,742.4**	**173,090.5**	**181,255.6**
Total liabilities	**315,989.0**	**356,790.2**	**400,815.2**	**444,099.1**
Preferred shares	–	–	–	–
Total common equity	**442,387.0**	**552,465.6**	**701,172.6**	**886,046.9**
Minority interest	–	–	–	–
Total liabilities & equity	**758,376.0**	**909,255.9**	**1,101,987.8**	**1,330,146.1**
BVPS ($)	59.55	74.45	94.38	118.95

Cash Flow ($ mn)

	6/26	6/27E	6/28E	6/29E
Net income	133,749.0	144,252.1	171,206.6	209,618.3
D&A add-back	43,448.0	59,477.8	85,009.6	116,475.4
Minority interest add-back	–	–	–	–
Net (inc)/dec working capital	(4,895.0)	18,488.0	9,274.4	(3,067.2)
Others	10,633.0	8,790.3	8,253.3	8,003.6
Cash flow from operations	**182,935.0**	**231,008.2**	**273,743.8**	**331,030.0**
Capital expenditures	(115,948.0)	(190,981.0)	(261,840.5)	(284,081.3)
Acquisitions	(1,743.0)	–	–	–
Divestitures	–	–	–	–
Others	(21,809.0)	24,000.0	22,167.0	–
Cash flow from investing	**(139,500.0)**	**(166,981.0)**	**(239,673.5)**	**(284,081.3)**
Dividends paid	(26,445.0)	(27,008.1)	(27,038.9)	(29,145.9)
Share issuance/(repurchase)	(20,262.0)	(15,955.6)	(3,714.0)	(3,601.6)
Inc/(dec) in debt	(3,000.0)	(9,227.0)	(9,227.0)	(9,227.0)
Others	(3,035.0)	–	–	–
Cash flow from financing	**(52,742.0)**	**(52,190.8)**	**(39,979.9)**	**(41,974.5)**
Total cash flow	**(9,307.0)**	**11,836.4**	**(5,909.6)**	**4,974.2**
Free cash flow	66,987.0	40,027.2	11,903.3	46,948.7
Free cash flow per share (basic) ($)	9.02	5.39	1.60	6.30

Source: Company data, Goldman Sachs Research estimates.

the last three quarters, in part because Microsoft front loaded long-dated capex on land, building and cold shells;

- Within short dated capex, CPUs have now shifted to being the biggest piece of capex vs. GPUs, and decisions continue to be made as late in the binding process as possible (recall GPU dock to live times are tracking down 50%). Microsoft has never commented that they are constrained on CPUs and GPUs; instead, the constraints have been more prevalent on the space in which to plug the chips in. Subsequently, if the constrained part of capex is a smaller piece of total capex, we infer that Microsoft in aggregate has more ability to flex up and down the non-constrained piece of capex to meet demand. Microsoft believes that the industry needs to do a better job in articulating cost vs. benefit in new data center communities, and noted that in Quincy (one of the original WA data center sites), the percentage living below the poverty line has declined from >30% to <10%;
- Microsoft has visibility into how its most sophisticated AI customers have scaled over the last 3-5 years, such that it can make a reasonable baseline forecast on how enterprise needs will scale over the next 3-5.

2) On ROIC: Unit economics are healthier than the same stage of the original cloud cycle; supporting a greater profit pool as any given cohort of capex matures. One key learning from the cloud era is having one unified tech stack across Azure and 1P apps (vs. different tech stacks that require a finer grained matching approach with ultimately lower utilization). In addition, Microsoft has been able to capture AI-native customers from Y0, vs. being a late entrant in the cloud cycle. In response to investor feedback, we believe Microsoft may choose to provide more detail on ROIC in the coming months (recall Google disclosed AI servers payback in less than 2 years earlier this month and CoreWeave disclosed 2.5 years at the time of its IPO). In the meantime, we logic the following: if every cohort of this cycle is ahead of the prior cycle, ROI will be ahead of the prior cycle – unless rents are distributed unevenly e.g. to semi and token companies. On semis, Microsoft believes the chip layer will become more diverse, as was the case with CPUs. On token rents, Microsoft believes that it will deliver enough value on top of 3P tokens, as well as orchestrate between 1P and 3P tokens, such that the margin impact will be minimal over time. Taken together, Microsoft believes there is no structural reason gross margin for AI margins' can't approach cloud margins.

Cloud revenue growth will flip to be faster than capex growth as the industry matures, consistent with the cloud cycle. The challenge with predicting the crossover curve is that the demand signals are still ticking up, which pushes out the timeline. On pricing, rather than blanket pricing increases that are too blunt an instrument, Microsoft noted several pricing levers that drive longer-term LTV optimization: a) contract renewals are being evaluated at more modest discount rates than normal; b) new SKUs, e.g., on the CPU side are being introduced at higher price points (vs. the prevailing dynamic of price downs over the last 10+ years); c) Each week, capacity is dynamically allocated between 1P apps, 1P model development and product roadmap, and a broad cohort of customers (RPO was up $51bn qoq in 4Q, entirely driven by non-frontier lab bookings). Many customers have broad commitments, in partnership with Frontier Co (FDEs), that allow Microsoft to work with customers on specific AI goals and longer-term journeys.

3) On Silicon: Microsoft's goal is to provide the lowest possible cost tokens. Microsoft has IP rights for Jalapeno, such that it has two horses in the chip race

(alongside MAIA). Recent progress with MAIA 200 now benchmarks well with Trainium (please see our cost curve here). Similar to its strategy on vertical integration broadly (e.g. at the model layer), having a mix of silicon avoids over indexing on any one solution or one generation of architecture at a time when novel chip techniques are still evolving. This also gives customers the choice for older-gen silicon where it makes sense.

4) On pacing the frontier: Microsoft noted that any new technology must drive social and economic value, and has a long history of encouraging regulation to support safety and security. Today, the bottleneck is not where the frontier is in raw performance, but rather applying that performance to enterprise use cases, such that there is plenty of room to grow even in the extreme thought experiment where no further frontier gains are made. **On model diversity:** Microsoft reiterated its view that the model ecosystem is evolving real time to a heterogenous set of models across performance and price points, with 11K models currently hosted in Foundry and an intentional multi-model approach. Microsoft did not give directional color on its economics across models, apart from reaffirming it does not pay fees for OpenAI or MAI tokens, and is comfortable supporting models that may require fees because of its ability to cross-sell higher margin platform services. Microsoft's Scout, an autonomous agent, is built on OpenClaw but made enterprise-grade. Enabling lower cost and open source models in turn frees up budget for more usage or more transformation. Internally, Microsoft has successfully experimented with limiting usage to the frontier in engineer teams to optimize for engineers that truly benefit from being on the frontier vs. those who see no discernible benefit from it.

On whether a change in pace on frontier impacts capex: recall that Microsoft's capex decisions are a function of demand signals today, and a change in pacing on the frontier is not impacting demand signals today. Microsoft could choose to allocate new capex to the frontier models, but instead is prioritizing capacity that will serve a broad cohort of customers over many potential workloads (the turning down of Stargate capacity is a good example of this, all of the 4Q RPO growth coming from non-frontier customers is another example).

5) On its own model strategy: Microsoft reiterated that it already benefits from OAI's learnings on the frontier, which it can build upon and also use to architect its own future model independence post 2032. As such, Microsoft has model stacks with clean lineages that reflect learnings from OAI while having no dependence on OAI. With MAI, the focus is on pairing frontier IP to domains where Microsoft has outsized domain experience: knowledge workers (17EB of data in the M365 system), coding, and security; and benchmarks suggest meaningful progress on cost/performance. A recent example is the launch of Project Perception in Security for continuous penetration testing.

6) On M365: Microsoft highlighted that FY27 is the first year where it has guided for acceleration in recent history. From a penetration standpoint on E5 and E7, Microsoft noted that new adds are skewed toward the low end (frontline workers, SMBs). E7 had a great launch in part due to bundled Agent 365 functionality for visibility and value. There will be flavors of AI adoption across the base, but penetration disclosures may be less useful. App pricing software will evolve: while there will be more value embedded in the seat-based SKU, a consumption element will be layered in over time as software more holistically solves for units of labor/outcome rather than seat-attached value. Long term, the dollar opportunity in consumption is bigger than the dollar opportunity per user.

7) On the risk of software abstraction vs. the frontier models: Microsoft noted that the frontier competitive dynamic is dynamic, such that enterprises do not want to be locked into any one frontier model. At the same time, agents create more artifacts in existing software ecosystems, which makes these ecosystems like M365 more valuable. Microsoft's fundamental belief is that there is a lot of value at the harness level with persistent security and context and cost optimization that may not be able to be replicated by the model companies in a model agnostic way.

Valuation and Key Risks

We maintain our 12-month price target of $640, based on a 28x P/E (unchanged) multiple to Microsoft's SNTM adjusted net income. Key downside risks include: longer ramp for internal silicon, which can limit market share gains or gross margin expansion; greater investments in projects outside of expectations (e.g., non-Azure); key leadership changes; and more meaningful shift to custom software that could negatively impact its applications business.

Disclosure Appendix

Reg AC

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

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

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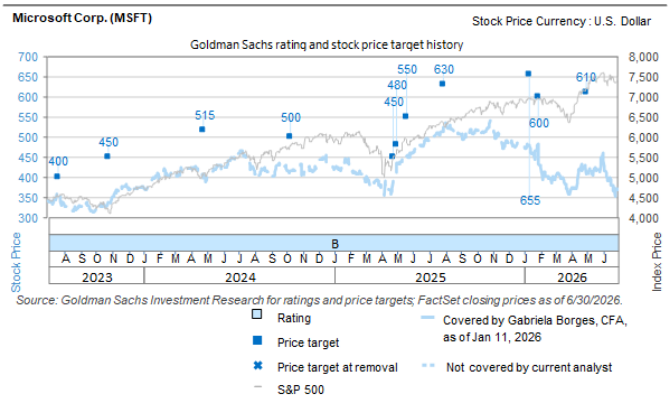
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Goldman Sachs Investment Research global Equity coverage universe

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	Buy	Hold	Sell	Buy	Hold	Sell
Global	50%	34%	16%	65%	59%	43%

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Price target and rating history chart(s)



The price targets shown should be considered in the context of all prior published Goldman Sachs research, which may or may not have included price targets, as well as developments relating to the company, its industry and financial markets.

Target price history table(s)

Microsoft Corp. (MSFT)

Date of report	Target price ($)	Closing price ($)
30-Jul-26	640.00	451.10
30-Apr-26	610.00	407.78
29-Jan-26	600.00	433.50
11-Jan-26	655.00	479.28
31-Jul-25	630.00	533.50
20-May-25	550.00	458.17
01-May-25	480.00	425.40
24-Apr-25	450.00	387.30
10-Oct-24	500.00	415.84
26-Apr-24	515.00	406.32
25-Oct-23	450.00	340.67

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

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