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IDEA

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Microsoft | North America

3Q26 CIO Survey Takeaways – Reinforcing the Enterprise AI Flywheel

3Q26 survey shows improving software budgets & Microsoft retaining its lead in GenAI spending intentions. New data on orchestration, token economics & open-weight adoption supports Enterprise AI Flywheel thesis, with Microsoft well positioned to monetize a multi-model world across its full stack.

OW AlphaWise α

GenAI Remains a Key CIO Priority; Multi-Model Adoption Plays to Microsoft's Full-Stack Strengths. AI/ML remains atop the CIO priority list, while Microsoft continues to lead expectations for incremental GenAI spending-share gains on both a 2026 and three-year view. ***Most importantly, new survey data supports our Enterprise AI Flywheel thesis (see Microsoft: Battle of the AI Stack: Built for a Multi-Model World; Exhibit 1), with Microsoft leading the new AI orchestration question with 20% of CIOs highlighting a bias for Microsoft as their AI control plane / orchestration layer, versus 17% for LLM providers collectively and Google (5%) and Amazon (4%) amongst the long tail.*** In our view and as recently detailed, a broader mix of models (frontier, open-weight alternatives, smaller specialized models) and greater scrutiny of token spending increase the value of the context, orchestration, and application layers surrounding the model. Microsoft brings these together through Fabric, which supplies enterprise context; Foundry, which selects and orchestrates the appropriate model for each task; and Copilot, which delivers the result into end-user workflows. Microsoft's sizable lead over Google and Amazon here further reinforces our view that its enterprise reach, CIO trust, broad distribution, and deeply embedded installed base provide a structural advantage in winning AI workloads and 'orchestration layer' rights. As hyperscaler AI platform capabilities converge, these established relationships and integrations into customers' data, security, and everyday workflows should increasingly favor Microsoft in the competition to become the enterprise AI control plane. On monetization, greater usage can drive additional data retrieval and capacity consumption, while richer enterprise context can improve the usefulness of applications and agents, reinforcing adoption and Azure pull-through. **Bottom line, the strategic opportunity for Microsoft is to monetize enterprise AI workflows at multiple points across the stack, with less dependence on any individual model winning, which aligns with our latest CIO survey results.**

Microsoft Remains Best Positioned to Capture Incremental GenAI Spend. Microsoft leads expectations for incremental GenAI spending-share gains in CY26 (30% of responses, up from 27% in 2Q26), ahead of LLM providers collectively at 16%, Google at 8% and Amazon at 7%. Over the next three years, Microsoft retains

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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 (Oct 12, 2026)	$541.15
Mkt cap, curr (mm)	$4,026,978
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	27.5	22.5	18.0
EPS ($)§	-	19.74	23.49	28.77
Div yld (%)	1.0	0.7	0.8	0.9

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.

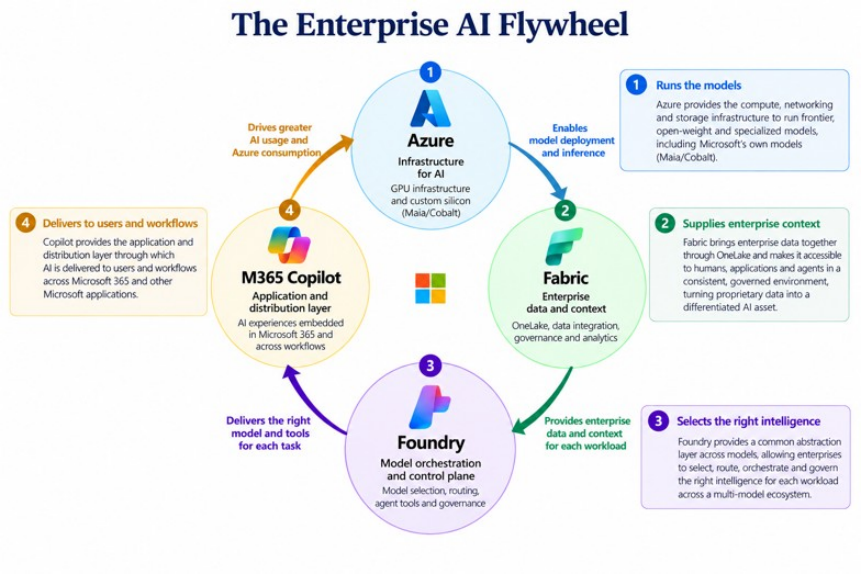
For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

the top spot at 28% of CIO responses (down slightly from 30% last quarter), followed by LLM providers at 21% (vs. 17%), Amazon at 10% and Google at 9%. While the longer-term gap to LLM providers narrows slightly on a medium-term view, Microsoft's sizable lead over the other hyperscalers reinforces our confidence in the full-stack positioning described above. In our view, combining Azure, Fabric, Foundry, and Copilot gives Microsoft multiple opportunities to monetize the same enterprise AI workflow, from infrastructure and data consumption to orchestration and applications. In fact, we see the survey data suggesting that enterprises will direct AI spend to both Microsoft and the frontier labs as evidence of the scale of the orchestration opportunity Microsoft may have over time. Net, these spending intentions support our Enterprise AI Flywheel thesis, with the breadth of Microsoft's participation positioning it to remain the leading beneficiary of incremental AI spend.

Core Cloud Share Gains and AI Adoption Support a Long Runway for Azure Growth. CIOs continue to view Microsoft as the top IT budget share gainer as workloads shift to the cloud, with a net score of +43% in CY26 (vs. +26% for Amazon and +4% for Google), similarly retaining its lead on a next-three-years view at +35% (vs. +11% for Amazon). Azure also remains the most widely used platform at 79%, ahead of AWS at 66% and GCP at 43%. On direct spending, current users expect Azure spending to grow 15% in CY26, moderating from 21% for CY25 in last year's survey, while AWS and GCP expectations increase to 15% and 12%, from 14% and 10%, respectively. While these growth rates should be viewed directionally rather than as forecasts of reported results, the longer-term AI opportunity continues to expand, with CIOs expecting AI/ML to represent 9.9% of public cloud spending in three years, versus 3.8% today. Taken together, we see continued migration of core enterprise workloads and a rising AI contribution supporting the durability of Azure demand, with growth extending across both existing cloud workloads and the incremental consumption required to deploy AI.

Reiterate OW. We continue to see Microsoft as well positioned for a multi-model world, with opportunities to monetize AI workflows across infrastructure, enterprise context, orchestration, and applications. Reiterate our $600 price target, based on 25x FY28e EPS of ~$24.

Exhibit 1: Microsoft's Enterprise AI Flywheel… Microsoft Is Positioned to Capture Value Across the Entire AI Stack



Microsoft Takeaways from the 3Q26 AlphaWise CIO Survey:

- **Microsoft Remains the Leading Beneficiary of Incremental GenAI Spend.** Microsoft is the vendor most widely expected to gain incremental share of GenAI spending in 2026 (30% of responses, up from 27% in 2Q26), ahead of LLM providers collectively at 16% (Exhibit 6). Over the next three years, Microsoft retains its lead at 28%, slightly down from 30% in our prior survey, while LLM providers increase to 21% from 17% last quarter (Exhibit 7). Net, near-term spending intentions improve, although the longer-term gap to LLM providers narrowed slightly this quarter, underpinning the idea that enterprises are increasingly deploying multi-model AI strategies.
- **Microsoft Retains Its Lead as the Top IT Wallet Share Gainer as Workloads Shift to Cloud.** CIOs continue to view Microsoft as the largest beneficiary of IT budget share gains as workloads shift to the cloud, with a net score of +43% for 2026, up from +42% in 2Q26 (versus Amazon at +26%, up from +17% in 2Q, Exhibit 2). Over the next three years, Microsoft remains the top expected share gainer at a net +35%, down slightly from +37% in our prior survey, though ahead of closest competitor Amazon at +11% (Exhibit 3).
- **Azure Continues to Lead Public Cloud Usage, Though Spending Growth Expectations Moderate.** 79% of CIOs indicate usage of Azure, down from 82% in 3Q25, but still ahead of AWS at 66% and GCP at 43% (Exhibit 4). Among current users, CIOs expect Azure spending to grow 15% in CY26, versus 21% for CY25 in last year's survey, now inline with AWS at 15% and ahead of GCP at 12% (Exhibit 5). While these growth rates should be viewed directionally rather than as forecasts of reported results, the longer-term AI spending opportunity remains constructive, with CIOs expecting AI/ML to represent 9.9% of public cloud spending on average in three years, versus 3.8% today.
- **Microsoft Remains Well-Aligned to Key Spending Priorities.** AI/ML and

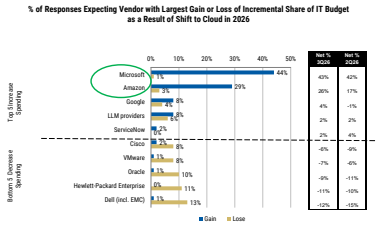
Security remain the top CIO spending priorities, followed by Digital Transformation, ERP, and DW/BI/Analytics. ERP and DW/BI/Analytics both increased to 7% of responses (from ~5% respectively in 2Q26), which reads positively to Dynamics 365 and Fabric. When looking at the most defensive IT projects, AI/ML and Security similarly rank at the top, with net defensibility scores of +17% and +16%, respectively. We see Microsoft as well positioned across both spending growth and budget protection.

- **Microsoft Screens as the Preferred Vendor for AI Orchestration and Agent Strategies.** New to the survey this iteration, questions on the AI control plane / orchestration layer paints Microsoft as the preferred vendor among CIOs, with 20% of responses, versus 17% for LLM providers collectively and 5% and 4% for Google and Amazon, respectively (Exhibit 9). Microsoft also remains the vendor most likely to be leveraged for AI agent strategies at 20%, down from 27% in 3Q25, but ahead of LLM providers at 14% (Exhibit 8). Relative positioning vs the other hyperscalers reinforces our view that enterprise reach, CIO trust, and installed-base distribution provide Microsoft a structural advantage in winning both AI workloads and the right to orchestrate them via Foundry.
- **Greater Scrutiny of Token Spending Supports the Orchestration Opportunity and the Strategic Positioning of Microsoft Foundry.** 42% of CIOs are not yet able to assess returns on AI token spending, while 28% report returns below spend, compared with 17% inline and 13% above. Meanwhile, 43% already have token-spend controls in place, with another 31% planning to implement controls by 2H27. While greater spending discipline could temper near-term consumption, we see these indications as supportive of Foundry's role in selecting and routing requests to models offering the appropriate balance of cost and capability.
- **CIOs Expect Meaningfully Greater Adoption of Open-Weight Models.** 50% of CIOs currently have no AI workloads running on open-weight models, a share expected to decline to 11% over the next three years (Exhibit 10). Conversely, 33% expect more than 20% of their AI workloads to run on open-weight models in three years, versus 8% today. We see this expected broadening of model adoption as supportive of our Enterprise AI Flywheel thesis, with Microsoft positioned to monetize the infrastructure, enterprise context, and orchestration surrounding these workloads, with less dependence on any individual model winning.
- **CIOs Favor Buying AI Capabilities, Supporting the Application Opportunity.** 64% of CIOs plan to primarily procure AI capabilities from application/SaaS, AI-native or LLM providers, versus 17% planning to build (Exhibit 21). On deployment timing, 43% already have AI/LLM projects in production, unchanged from 1Q26, while another 36% expect to reach production within three to nine months, up from 33% prior. Funding strategies remain mixed, with net-new dollars from within and outside IT accounting for 50% of responses (versus 54% in 2Q26), while reallocation from existing Software budgets declined to 12% from 15% prior. The preference to buy continues to remain supportive of Microsoft's opportunity to deliver AI capabilities through its existing application portfolio.
- **Microsoft Maintains Its Lead in Project / Task Management – Across**

Usage and Standardization. Microsoft Teams / Planner and Microsoft Project remain the most popular Project and Task Management solutions among CIOs surveyed. In 3Q26, 59% of CIOs reported using Microsoft Teams / Microsoft Planner within their organization (down from 62% in 3Q25), while 35% indicate usage of Microsoft Project or another Microsoft solution (slightly down from 36% last year), Exhibit 16 . 61% of CIOs say their company is currently standardized on a single Project Management solution (unchanged YoY, Exhibit 18), with Microsoft remaining the most likely choice as 31% of CIOs highlight standardization on one of its solutions (largely unchanged vs. 32% in 3Q25, Exhibit 19). In terms of GenAI adoption, 75% of CIOs expect to use AI capabilities from their Project / Task Management vendor over the next 12 months (up from 71% in 3Q25), with 27% expecting to pay for this functionality and 48% expecting to utilize free capabilities (Exhibit 20). While the response base for this question is relatively small, we see the increased interest in AI as a positive readthrough to Microsoft's upsell opportunity given its broad installed base and strong distribution advantages.

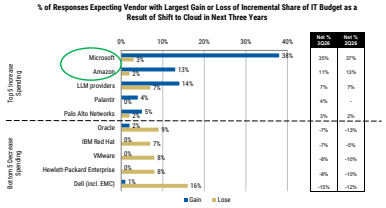
As you shift workloads from on-premise to the cloud, which of these vendors do you expect to gain the largest incremental percentage of your IT budget in 2026? Which do you expect to be the largest gainer over the next three years?

Exhibit 2: Microsoft and Amazon Continue to Lead as the Top Incremental Share Gainers due to Cloud Shift in 2026...



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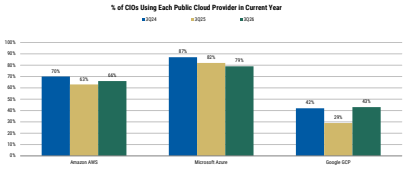
Exhibit 3: ...And Retain the Top Two Spots Over the Next Three Years, Followed by LLM Providers



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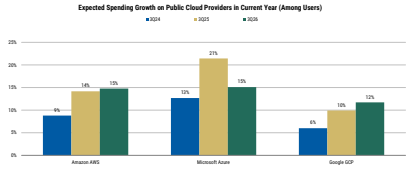
By what percentage do you expect spending to grow on the following public cloud providers in 2026?

Exhibit 4: Azure Remains the Most Widely Used Public Cloud Provider, While AWS and GCP Usage Increased YoY



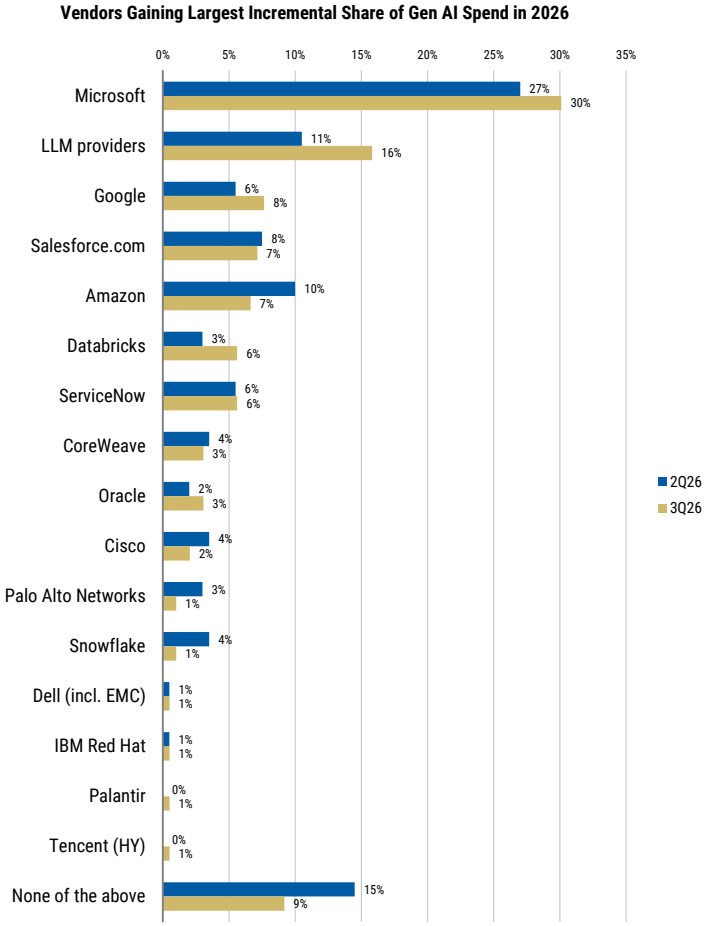
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Exhibit 5: Azure and AWS Users Expect ~15% Spending Growth in 2026, with GCP Users Expecting ~12% Growth



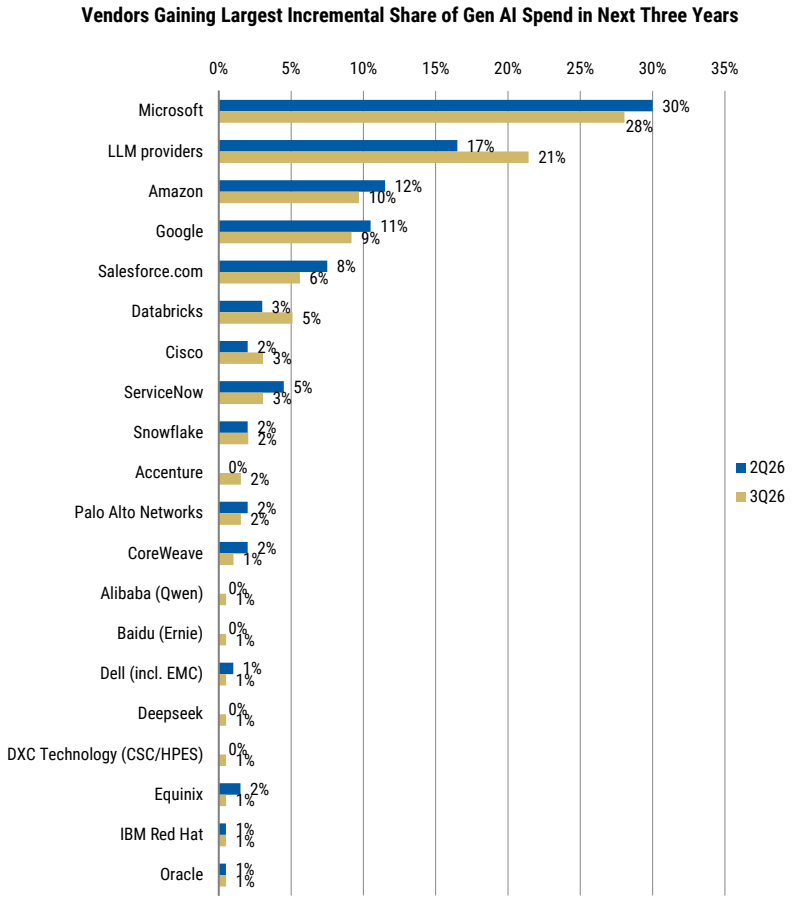
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Exhibit 6: CIOs Note Expectations for Microsoft, LLM Providers, and Google to Gain Share of GenAI Spend in 2026



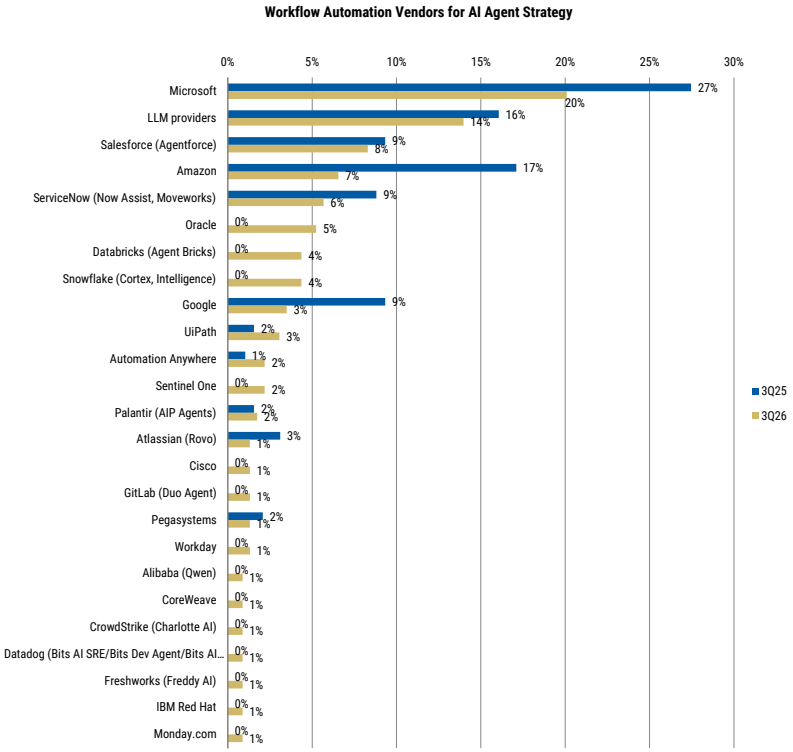
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Exhibit 7: Over the Next Three Years, CIOs Note Expectations for Microsoft, LLM Providers, Amazon, and Google to Gain Share of GenAI Spend



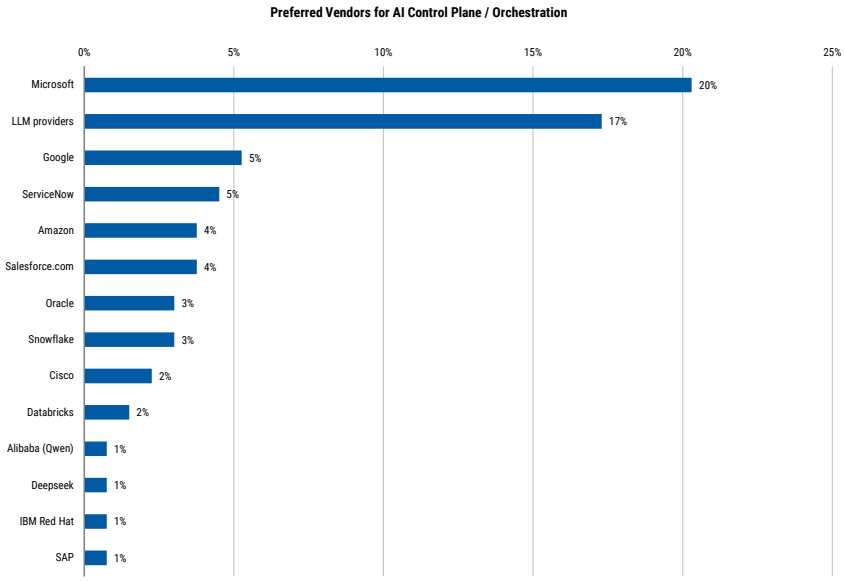
Which of the following Workflow Automation / Process Automation vendors are you most likely to leverage for your AI agent strategy?

Exhibit 8: Microsoft (20%) and LLM Providers (14%) Screen as Most Likely to Be Leveraged for AI Agent Strategies, Followed by Salesforce (8%) and a Long Tail of Additional Vendors (Amazon, ServiceNow, Oracle)



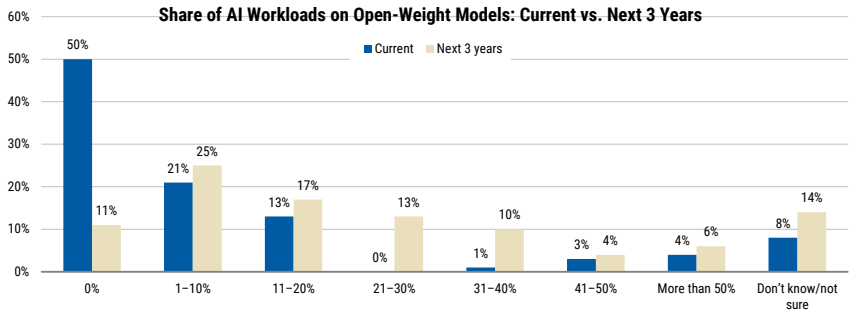
Which of the following vendors do you prefer to serve as your AI Control Plane / Orchestration Layer for your Agentic deployments?

Exhibit 9: Microsoft (20%) and LLM Providers (17%) Lead a Fragmented Market for AI Control Plane / Orchestration Layers



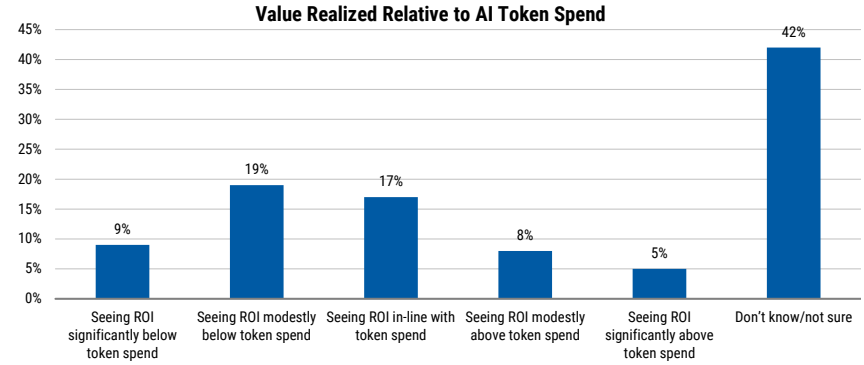
Approximately what percentage of your organization's AI workloads currently run on open-weight (or open-source) models? Over the next three years, approximately what percentage of your organization's AI workloads do you expect to run on open-weight (or open-source) models?

Exhibit 10: CIOs Expect Open-Weight Models to Support a Greater Share of AI Workloads Over the Next Three Years



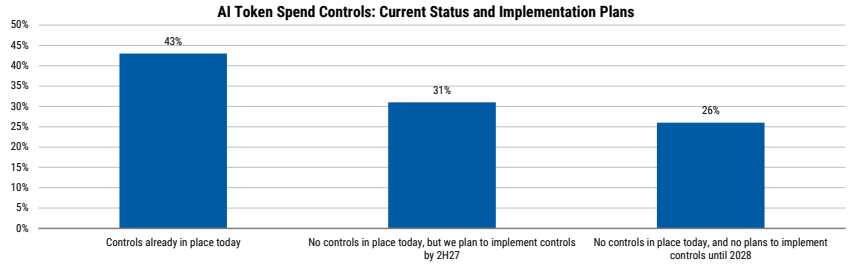
Given the current magnitude of your AI token spend, how much value are you realizing from these investments?

Exhibit 11: 42% of CIOs Are Not Yet Able to Assess ROI on AI Token Spend, While 28% Report Returns Below Spend



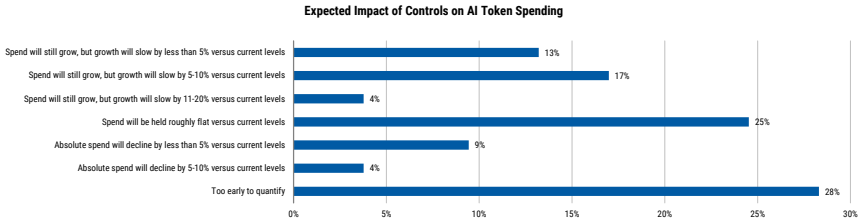
Are you implementing policies and initiatives to control or slow the growth of your AI token spend?

Exhibit 12: 43% of CIOs Have Controls in Place to Manage AI Token Spend, While Another 31% Plan to Implement Controls by 2H27



By what percentage do you plan to slow or cut AI token spend growth by?

Exhibit 13: CIOs Expect Token Spend Controls to Slow Growth, Though 28% Say It Is Too Early to Quantify the Impact



What percentage of your public cloud spending, if any, is related to AI/ML (Artificial intelligence/Machine Learning) today? What percentage do you expect 3 years from now?

Exhibit 14: AI/ML Is Expected to Represent a Meaningfully Greater Share of Public Cloud Spending, With 48% of CIOs Anticipating 10%+ in Three Years vs. 7% Today…

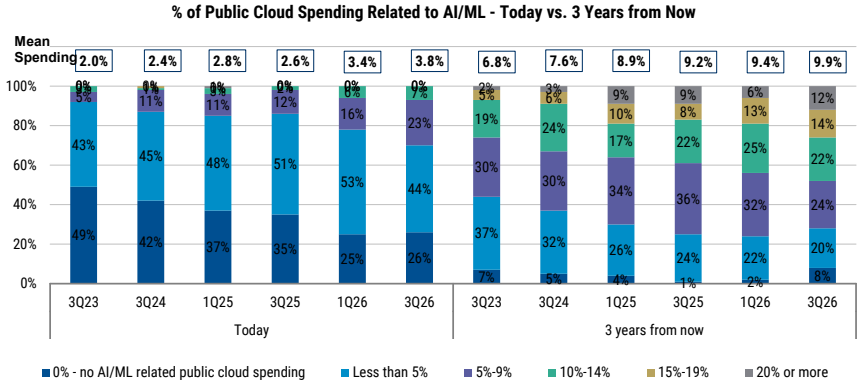
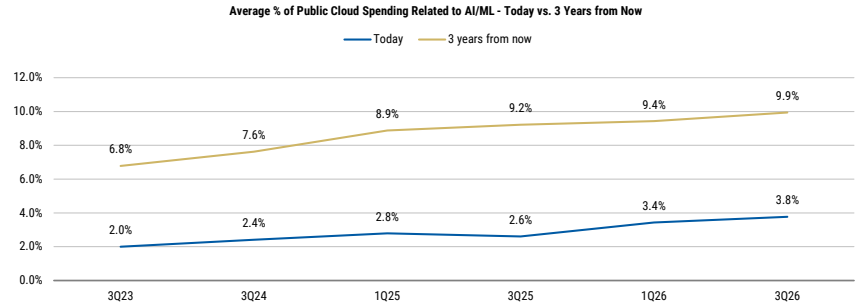
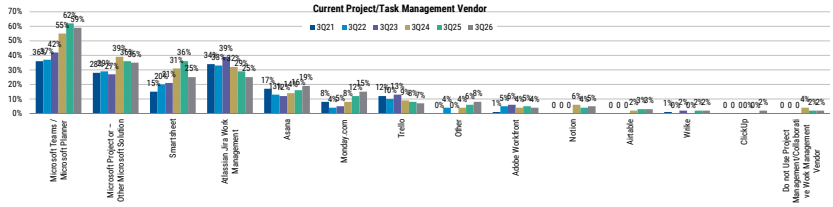


Exhibit 15: …Driving the Average AI/ML Share of Public Cloud Spending from 3.8% Today to 9.9% in Three Years.



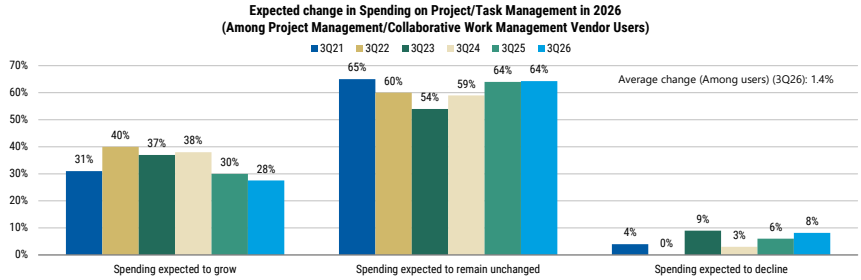
Which of the following Project Management/ Collaborative Work Management vendors do you use in your organization today?

Exhibit 16: Microsoft Offerings Remain the Most Popular Project/Task Management Solutions Among CIOs Surveyed, While Atlassian's Jira Work Management and Smartsheet Tie for Third Despite Losing Share



How do you expect your organizations spending on Project Management/ Collaborative Work Management to change in 2026?

Exhibit 17: 28% of CIOs Expect Spend on Project/Task Management to Increase in 2026, Down from 30% in 3Q25)



Has your organization standardized on an enterprise-wide standard Project Management / Collaborative Work Management solution? If so, which vendor have you standardized on?

Exhibit 18: 61% of CIOs Are Standardized on a Vendor Today, Unchanged from 3Q25 and Up from 55% in 3Q24

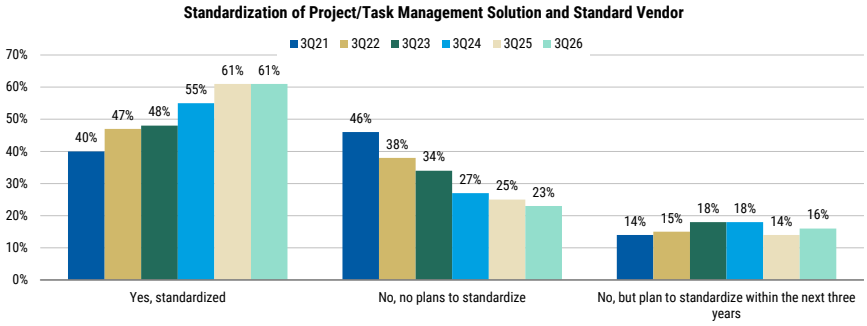
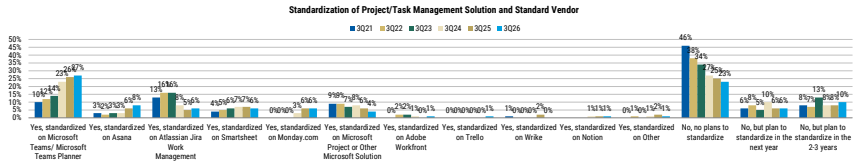
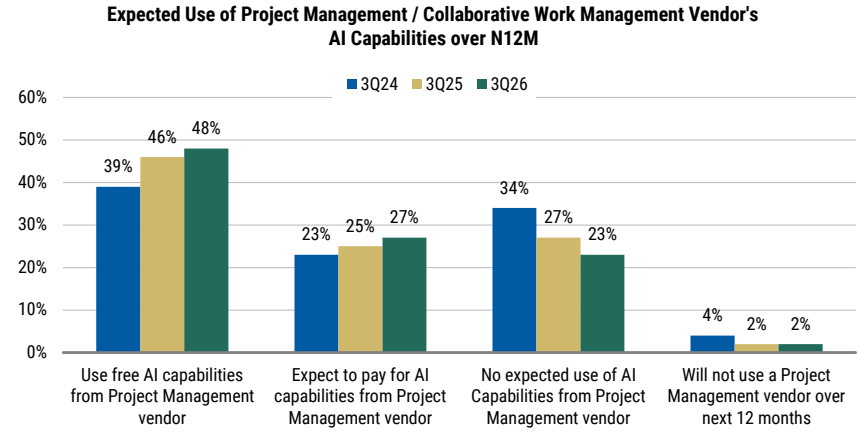


Exhibit 19: 31% of CIOs Are Standardized on Microsoft, Followed by a Long Tail of Vendors (8% on Asana; 6% Each on Smartsheet, Monday.com, and Atlassian's Jira Work Management)



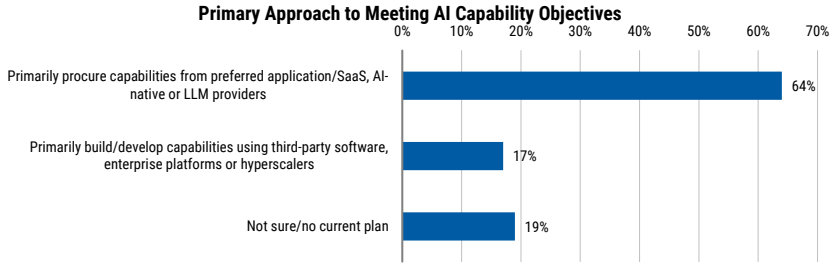
How would you characterize your organizations expected use of your Project Management/ Collaborative Work Management Vendors' Artificial Intelligence capabilities over the next 12 months?

Exhibit 20: 27% of CIOs Expect to Pay for AI Capabilities from Project/Task Management Vendor over the NTM, While the Majority of CIOs (48%) Expect to Utilize Free Capabilities



How do you plan to meet your objectives regarding your AI initiatives and capabilities for your organization?

Exhibit 21: 64% of CIOs Plan to Primarily Procure AI Capabilities, Versus 17% Who Plan to Build



Risk Reward – Microsoft (MSFT.O)

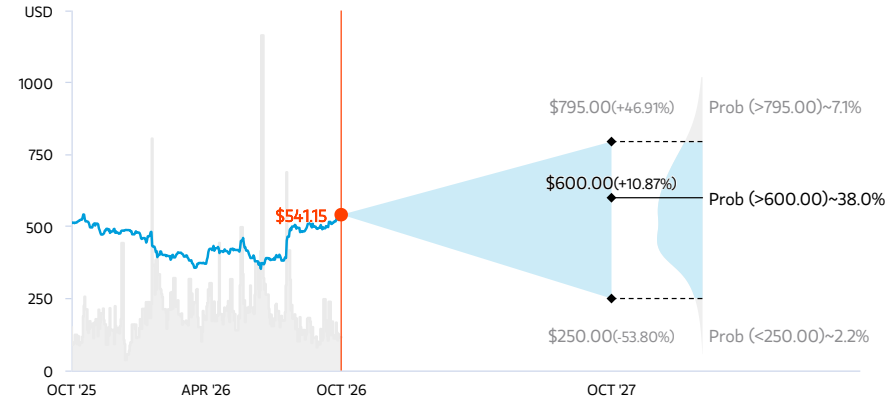
Durability of Earnings Growth & AI Leadership Not Priced-In

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 — $583.50 (MS PT, Mean) — $870.00

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 12 Oct 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

98%	Overweight
2%	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)

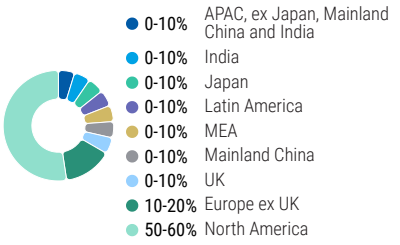
KEY EARNINGS INPUTS

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	2.2x
HF Sector Net Exposure	30.6%

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 ($, mm)	378,969	393,588 / 390,968	402,719
EBITDA ($, mm)	224,029	235,048 / 239,988	251,848
Net income ($, mm)	141,161	145,544 / 146,757	156,956
EPS ($)	19.00	19.66 / 19.74	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