Microsoft Corp. (MSFT)

1QFY Preview & Maia 300 updates

MSFT	12m Price Target: **$640.00**	Price: **$539.44**	Upside: **18.6%**

Microsoft will report 1QFY (September) results on 10/28. Since 4Q EPS on 7/29, the stock is up 38% (vs. the Nasdaq up 10%) as visibility into Azure and M365 growth has improved. We believe discovery value now shifts to the breadth and depth of Microsoft's AI platform; and unit economics and ROIC in Azure. Our two biggest takeaways from our fireside chat with CFO Amy Hood on 9/9 and IR meetings 9/15-16 were: a) Microsoft appears to have control over more variables in their capex equation today (which in turn drives more flexibility), in part because short-dated capex and CPUs are a bigger piece of spend than 6 months ago; and we think Microsoft may choose to provide more datapoints on ROIC soon; and b) the Copilot apps strategy is working. For 1QFY, we see a reasonable upside case where Microsoft reports Azure growth of 46-47% cc (vs. 44-45% cc guidance) and guides to ~46-47% cc growth for 2QFY. Beyond Azure, we look for further evidence that monetization is broadening through Copilot, agents, consumption-based workloads, and E7; and we see potential for M365 Commercial Cloud growth of ~17-18% cc in 1QFY as usage scales (vs. 17% cc guidance). The Maia 300 announcement on 10/12 adds another lever to the economics discussion. With Maia 200 now in production and Maia 300 expected in 2027, greater 1P silicon footprint and chip diversification should support better gross margin over time. **We think Microsoft is the best positioned name in our Software coverage (also on CL) to benefit from compounding AI product cycles.**

BUY (CL)

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Key Data

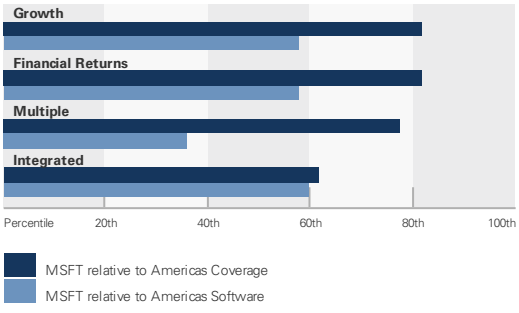
Market cap: $4.0tr
Enterprise value: $4.0tr
3m ADTV: $13.0bn
United States
Americas Software
M&A Rank: 3

GS Forecast

	6/26	6/27E	6/28E	6/29E
Revenue ($ mn) New	**331,839.0**	**389,404.1**	**471,894.4**	**570,130.7**
Revenue ($ mn) Old	331,839.0	389,734.7	470,524.1	568,586.3
EBITDA ($ mn)	194,537.0	239,773.7	304,398.9	382,802.1
EBIT ($ mn)	155,237.0	179,946.4	218,236.4	264,456.5
EPS ($) New	**17.28**	**19.21**	**23.08**	**27.87**
EPS ($) Old	17.28	19.38	22.97	28.05
P/E (X)	26.6	28.1	23.4	19.4
Dividend yield (%)	0.8	0.7	0.8	0.8
Net debt/EBITDA (X)	(0.2)	(0.1)	(0.0)	(0.0)

	6/26	9/26E	12/26E	3/27E
EPS ($)	4.74	4.71	4.65	4.79

GS Factor Profile



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

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BUY CL

Microsoft Corp. (MSFT)

Rating since Jan 21, 2021

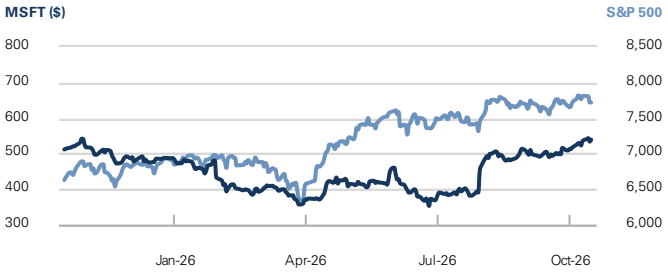
Ratios & Valuation

	6/26	6/27E	6/28E	6/29E
P/E (X)	26.6	28.1	23.4	19.4
EV/EBITDA (X)	17.4	16.6	13.2	10.5
EV/sales (X)	10.2	10.2	8.5	7.0
FCF yield (%)	2.0	1.0	0.4	1.3
EV/DACF (X)	18.1	18.8	14.9	11.9
CROCI (%)	31.4	27.9	27.7	27.2
ROE (%)	32.8	28.8	27.6	26.5
Net debt/EBITDA (X)	(0.2)	(0.1)	(0.0)	(0.0)
Net debt/equity (%)	(8.3)	(5.0)	(0.5)	(1.7)
Interest cover (X)	50.9	48.4	50.7	55.5
Inventory days	4.0	4.3	4.3	4.3
Receivable days	82.9	81.6	77.6	76.2
Days payable outstanding	120.3	130.7	129.7	130.2

Growth & Margins (%)

	6/26	6/27E	6/28E	6/29E
Total revenue growth	17.8	17.3	21.2	20.8
EBITDA growth	24.3	23.3	27.0	25.8
EPS growth	22.4	11.2	20.1	20.7
DPS growth	9.9	8.4	5.7	5.0
Gross margin	67.9	65.6	63.2	61.3
EBIT margin	46.8	46.2	46.2	46.4

Price Performance



	3m	6m	12m
Absolute	36.3%	31.2%	5.1%
Rel. to the S&P 500	33.8%	19.4%	(9.2)%

Source: FactSet. Price as of 15 Oct 2026 close.

Income Statement ($ mn)

	6/26	6/27E	6/28E	6/29E
Total revenue	331,839.0	389,404.1	471,894.4	570,130.7
Cost of goods sold	(106,374.0)	(134,144.0)	(173,741.6)	(220,865.7)
SG&A	(34,666.0)	(36,906.7)	(38,436.8)	(40,010.7)
R&D	(35,562.0)	(38,407.0)	(41,479.5)	(44,797.9)
Other operating inc./(exp.)	–	–	–	–
EBITDA	**194,537.0**	**239,773.7**	**304,398.9**	**382,802.1**
Depreciation & amortization	(39,300.0)	(59,827.3)	(86,162.5)	(118,345.6)
EBIT	**155,237.0**	**179,946.4**	**218,236.4**	**264,456.5**
Net interest inc./(exp.)	250.0	(1,224.6)	(3,188.2)	(4,142.0)
Income/(loss) from associates	–	–	–	–
Pre-tax profit	**159,404.0**	**178,801.8**	**215,048.3**	**260,314.5**
Provision for taxes	(30,618.0)	(35,760.4)	(43,009.7)	(52,062.9)
Minority interest	–	–	–	–
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**128,786.0**	**143,041.5**	**172,038.6**	**208,251.6**
Net inc. (post-exceptionals)	**133,749.0**	**143,041.5**	**172,038.6**	**208,251.6**
EPS (basic, pre-except) ($)	**17.33**	**19.28**	**23.16**	**27.96**
EPS (diluted, pre-except) ($)	**17.28**	**19.21**	**23.08**	**27.87**
EPS (ex-ESO exp., dil.) ($)	**--**	**--**	**--**	**--**
DPS ($)	3.56	3.86	4.08	4.28
Div. payout ratio (%)	20.5	20.0	17.6	15.3
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	26,863.8	24,847.4	34,136.7
Accounts receivable	80,876.0	93,254.7	107,472.9	130,505.2
Inventory	1,397.0	1,776.9	2,294.1	2,884.0
Other current assets	104,502.0	72,328.1	54,904.4	59,882.5
Total current assets	**207,710.0**	**194,223.5**	**189,518.8**	**227,408.3**
Net PP&E	337,253.0	521,267.2	753,171.2	975,689.6
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	42,547.5	46,453.8	56,409.1
Total assets	**758,376.0**	**929,546.1**	**1,158,551.7**	**1,427,015.0**
Accounts payable	42,416.0	53,647.7	69,796.5	87,743.9
Short-term debt	0.0	0.0	0.0	0.0
Current lease liabilities	–	–	–	–
Other current liabilities	126,409.0	160,629.3	212,073.2	268,252.4
Total current liabilities	**168,825.0**	**214,277.0**	**281,869.7**	**355,996.4**
Long-term debt	31,067.0	31,067.0	29,066.0	29,066.0
Non-current lease liabilities	16,532.0	16,532.0	16,532.0	16,532.0
Other long-term liabilities	96,818.0	114,918.7	131,601.7	144,629.1
Total long-term liabilities	**147,164.0**	**165,634.3**	**180,766.7**	**194,348.0**
Total liabilities	**315,989.0**	**379,911.3**	**462,636.4**	**550,344.3**
Preferred shares	–	–	–	–
Total common equity	**442,387.0**	**549,634.8**	**695,915.3**	**876,670.7**
Minority interest	–	–	–	–
Total liabilities & equity	**758,376.0**	**929,546.1**	**1,158,551.7**	**1,427,015.0**
BVPS ($)	59.55	74.07	93.68	117.69

Cash Flow ($ mn)

	6/26	6/27E	6/28E	6/29E
Net income	133,749.0	143,041.5	172,038.6	208,251.6
D&A add-back	43,448.0	59,827.3	86,162.5	118,345.6
Minority interest add-back	–	–	–	–
Net (inc)/dec working capital	(4,895.0)	19,420.2	9,712.2	188.1
Others	10,633.0	8,790.3	8,253.3	8,003.6
Cash flow from operations	**182,935.0**	**231,079.3**	**276,166.6**	**334,788.9**
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)	(28,628.3)	(30,297.5)	(31,898.2)
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)	0.0	(2,001.0)
Others	(3,035.0)	(4,358.5)	(4,498.1)	(3,917.5)
Cash flow from financing	**(52,742.0)**	**(58,169.5)**	**(38,509.5)**	**(41,418.3)**
Total cash flow	**(9,307.0)**	**5,928.8**	**(2,016.4)**	**9,289.3**
Free cash flow	66,987.0	40,098.3	14,326.1	50,707.6
Free cash flow per share (basic) ($)	9.02	5.40	1.93	6.81

Source: Company data, Goldman Sachs Research estimates.

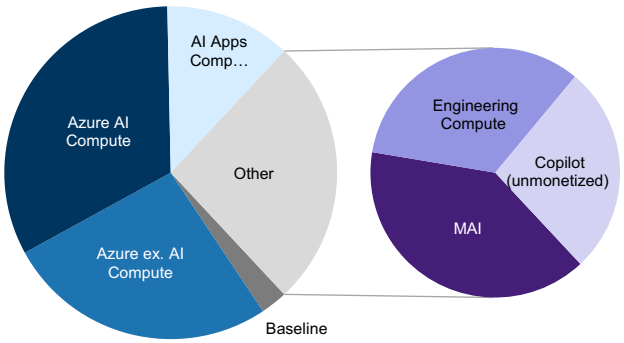
1Q EPS Preview

On this week's market volatility: we hear two key investor concerns: 1) the first is on volatility in the credit environment, such that new data center builds will be more expensive and difficult to finance. In our view, Microsoft's cost of capital will continue to benchmark well below pure-play neocloud businesses and in line with IG peers. Microsoft has previously commented that it has tapped the debt markets on multiple occasions historically, maintains ample access to debt capital at attractive rates, and would be willing to raise additional capital to fund investments with sufficiently high ROIC. 2) the second is an ongoing debate on token demand and monetization on the frontier vs. off frontier. While Microsoft has frontier model customers, we think the bigger strategic opportunity is in providing a harness that is model agnostic and in enabling diffusion in the enterprise; i.e. taking the current edge of product potential and making it usable in the enterprise.

We see a reasonable case where Microsoft reports Azure growth of 46-47% cc vs. the Street at 45% cc; and guides to ~46-47% cc growth for 2Q27 vs. the Street at 45% cc. Note that Microsoft will have already incorporated drivers of the 3% 4QFY beat into its 1QFY guide; specifically: benefits from 4Q infrastructure optimization, including improvements in dock-to-live times and better fleet utilization, and Github's transition to consumption-based pricing. Azure growth remains a function of both new capacity coming online and Microsoft's allocation decisions between internal initiatives and external customers. In our view, Azure acceleration through FY27 could be achievable, not just from the puts and takes to capacity coming online, but also due to Improvements in utilization, software optimization, infrastructure efficiency, and monetization.

- **On capacity additions:** We estimate Microsoft can bring online ~5GW of capacity in FY27 vs. ~4GW in FY26, although capacity is likely to come online unevenly, making it difficult to track from the outside.
- **Strategic allocation of capacity towards internal use cases trades off Azure growth.** Microsoft remains willing to direct compute toward first party applications (Copilot) and internal R&D (e.g., MAI) rather than maximizing short-term Azure revenue to drive greater strategic AI positioning across multiple layers of the technology stack and better returns over the medium term. While this allocation may constrain Azure upside in any given quarter, we believe investors increasingly recognize that AI returns will accrue across multiple layers of the tech stack. We believe the mix as a % of total allocations is close to a steady-state trajectory. Please see our February deep dive into capacity allocation here and updated compute allocation mix in Exhibit 1, Exhibit 2.

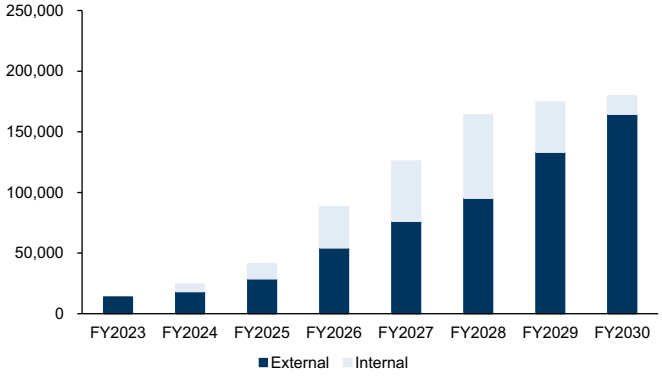
Exhibit 1: We estimate FY26 compute capex by use case to inform our Azure estimates



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 2: Our estimate of external vs. internal compute allocation

External (3rd party) vs. Internal (1st party apps, R&D)



$ in mns

Source: Company data, Goldman Sachs Global Investment Research

- **Copilot monetization is an increasingly important contributor to the FY27 growth algorithm, and we see a scenario for M365 Commercial Cloud growth of 17-18% cc as consumption-based workloads scale.** FY27 is the first year Microsoft has guided to acceleration in M365 Commercial Cloud growth in recent history, and we expect any upside to be driven by Copilot penetration, E7 adoption, and ramping consumption. We believe Microsoft has made meaningful progress moving beyond pilot deployments toward broader enterprise adoption, and the quality of the product continues to improve on the back of a series of technical improvements. Recent product announcements further support Microsoft's efforts to position Copilot as the operating system for work. Bringing Chat, Cowork, Code, Autopilot, and Office together under a unified experience should reduce workflow fragmentation and make Copilot a more natural destination for an increasingly broad set of daily tasks. In our view, greater cohesion across form factors should be a tailwind to both engagement and monetization over time.
  - **E7 will likely start moving the needle in FY27, with new datapoints on the consumption opportunity likely.** We expect E7 adoption to outpace E5 following general availability in May, in part because of functionality like Agent 365 (flat seat based pricing for agentic governance). More broadly, Microsoft's AI monetization opportunity is evolving beyond seat expansion toward monetizing units of work. Long term, the consumption opportunity may be larger than the per-user opportunity.
  - **The margin implications of higher AI usage could be better than expected.** Given Copilot's largely seat-based pricing model, we have heard concerns that higher engagement and consumption could pressure margins over time. Microsoft's guidance for stable Cloud gross margins in F1Q has eased some of these concerns. In our view, Microsoft has multiple levers to ensure monetization is aligned with value delivered, including fair usage provisions, premium AI capabilities, and usage based pricing for higher-intensity workloads. We have already seen this playbook in GitHub Copilot and Cowork,

where Microsoft adapted pricing as usage patterns evolved. Importantly, in a capacity constrained environment, Microsoft can choose where to monetize AI compute, either through Azure consumption or Copilot subscriptions, with Copilot likely the higher margin avenue. As such, we believe higher AI usage is an opportunity to expand monetization rather than simply a source of cost inflation. Over time, the more relevant question may not be whether usage rises, but whether Microsoft is capturing its fair share of the value created by that usage as a function of the quality of the product.

Capex and ROIC



We believe Microsoft has more capex variables in its control today vs. a year ago; this in turn suggests that upward revisions to FY27 Street capex may be limited. This is a good thing, in our view, as upward revisions to capex without commensurate revisions to Azure revenue have weighed upon the stock in prior quarters. The Street currently expects ~$221bn of FY27 capex, implying +52% yoy post +65% in FY26 (Visible Alpha Consensus Data). Microsoft has already guided to ~$175bn of CY26 capex (following useful life change on lease classification), meaning 1HFY27 is already in the guide. The Street is already assuming a further step up in 2HFY27 (+11% hoh).

Importantly, the composition of capex has evolved:

- Long dated assets have declined from ~50% to ~33% of total capex over the last three quarters as Microsoft front loaded investments in land, buildings, and cold shells.
- Within short dated capex, CPUs now represent a larger portion of spending than GPUs as of last quarter, while procurement decisions continue to be pushed later in the process as GPU dock to live times improve. Microsoft has consistently indicated that constraints are less about CPUs or GPUs and more about the space in which to deploy them.

In our view, as the constrained components become a smaller share of capex, Microsoft will have greater flexibility to adjust the non-constrained portion of capex to align with demand signals.

Microsoft's infrastructure strategy is designed to maximize flexibility across a broad set of enterprise workloads, rather than optimize for the needs of frontier model development. Capex decisions are driven by customer demand visible today, and a change in frontier model pacing does not alter those demand signals. While Microsoft could direct incremental capacity toward frontier workloads, the priority remains infrastructure that can serve a broad cohort of customers across many workloads. The decision to step back from portions of Stargate capacity and all of 4Q's $51bn RPO increase coming from non frontier customers support this view. Microsoft also has several years of data observing how its most sophisticated AI customers have scaled, providing greater visibility into how enterprise AI demand may evolve over the next three to five years.

We believe the ROIC debate matters more than the capex debate. Earlier in the AI cycle, investor focus centered around whether demand would justify the elevated capex levels. Today, Azure remains supply constrained, Copilot monetization is improving, and M365 Commercial Cloud is expected to accelerate. The discussion is now shifting toward the durability of returns, the timing of revenue growth outpacing infrastructure investment, and whether AI economics can ultimately approach or exceed those of the cloud era. We recently laid out a framework assessing the level of AI economy output required to generate a baseline ~15% ROIC against current hyperscaler capex expectations. We expect Microsoft may provide greater disclosure on AI returns in the coming quarters, particularly as peers such as Google and CoreWeave have outlined GPU payback periods.

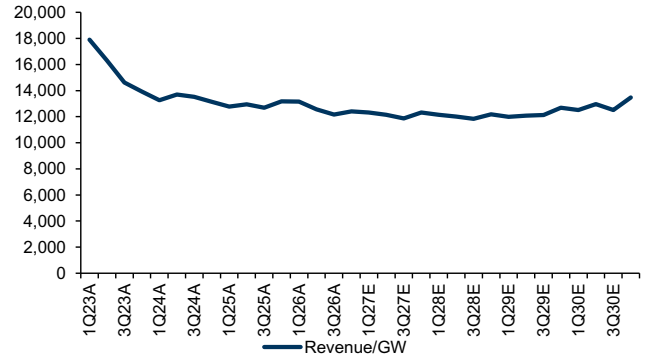
Several factors may support a more favorable ROI profile than the prior cloud cycle. Microsoft is operating a unified technology stack across Azure and 1P applications, enabling higher utilization and greater workload flexibility, while also capturing AI native demand from day one rather than entering years into the adoption cycle. Stated differently, if each cohort in this cycle is monetizing earlier, scaling faster, and utilizing infrastructure more efficiently than comparable cloud cohorts, returns should ultimately exceed those of the prior cycle unless economic value accrue disproportionately elsewhere in the stack. While investors continue to debate whether value will be captured by semis, model providers, or infrastructure operators, Microsoft is positioned for a world where the chip layer diversifies and orchestration becomes increasingly valuable. Microsoft's integrated platform position should support structurally stronger unit economics as capacity matures. Taken together, we do not believe there is a structural reason AI margins cannot ultimately approach cloud margins.

Revenue per GW provides a useful framework for evaluating AI monetization efficiency. Our current estimates imply revenue per GW increases from ~$12bn in FY26 toward ~$13bn in FY30, largely reflecting a growing mix of internally consumed capacity and higher infrastructure costs (see here for our internal vs. external mix analysis). **However, there are multiple levers to drive $/GW and lifetime economics:**

- **$/GW levers include** Copilot monetization, higher inference intensity, software-layer monetization, greater platform attach, pricing optimization, and silicon-driven efficiency gains.
- **Lifetime economics** levers include more disciplined renewal pricing, higher-priced AI SKUs, and dynamic allocation of capacity across first-party products, model development, and enterprise workloads.

In our view, the key question is less the absolute revenue generated by AI workloads and more the amount of economic value created relative to the infrastructure required to support them.

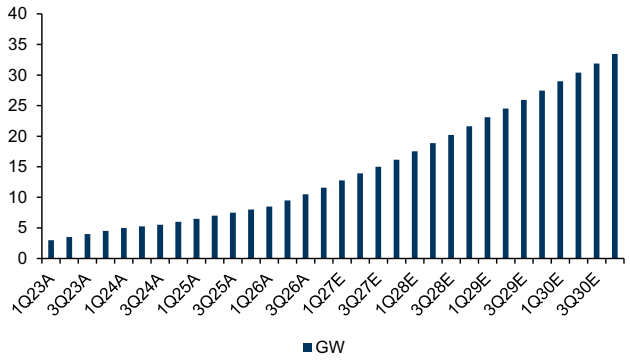
Exhibit 3: We see a scenario where Microsoft pulls levers to realize steady or improving revenue/GW, which would drive upside to our estimates



$ in mns

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: We estimate Microsoft will scale to ~40 GW of capacity by mid 2030



Source: Company data, Goldman Sachs Global Investment Research

Maia 300 may drive another step change in Azure unit economics

On 10/12, Microsoft announced Maia 300, its third generation custom accelerator for AI inference, with deployment expected to begin in 2027. Microsoft plans to scale the Maia family to multi gigawatt deployments, with the goal of making Maia its primary inference system across Microsoft products and services. Microsoft's focus has consistently been on delivering the lowest cost tokens possible, and the company has also discussed ramping AMD volumes as a second merchant GPU provider to Nvidia, and holding IP rights to Jalapeño. This flexibility on chip architectures takes into account that technology roadmaps are still fluid (both with respect to software and with respect to hardware).

Our industry feedback, including with former members of the Maia team, suggests meaningful improvement over the last several months:

- **Maia 200 moved into production in late-2026, providing real benchmarks that were previously opaque (see our deep dive here).** Maia 200 is deploying across the US, Europe, and Australia, and now serves Microsoft Copilot and the MAI team's development of next generation models, with GitHub Copilot and Microsoft Foundry expected to follow by year end. Across these workloads, Maia 200 runs OpenAI models, Microsoft's MAI models, and leading open source model families. Microsoft disclosed that Maia 200 delivers up to 1.7x more tokens per watt for AI capabilities across Teams, Copilot, and Cowork vs. leading GPU infrastructure. Operating these workloads at scale directly informed the design of Maia 300.
- **Maia 300 represents the next step in improving the cost curve.** Maia 300 is purpose built for long context reasoning, latency sensitive conversational experiences, and sustained multistep agentic workloads. Microsoft expects the system to deliver 40% more tokens per megawatt vs. leading GPU based systems and up to 7x the rack scale token throughput of Maia 200 in a full 96 accelerator configuration.
- **Software compatibility and performance have yet to be proven at production scale - but even the Software roadmap should be further along**. Our industry feedback this year suggests that Microsoft still has more work to do on its supporting Maia software stack. Microsoft's strategy is less about building the industry's best individual chip and more about optimizing silicon, software, networking, and datacenter infrastructure around its own workloads. Our understanding is that by definition, an ASIC is customized to a specific software roadmap, such that progress on MAI (Microsoft's AI roadmap) also informs progress on Maia (Microsoft's chip roadmap).

Exhibit 5: Maia 300 vs. Maia 200 and other Hyperscaler first-party silicon

Peak specifications	Azure Maia 300	Azure Maia 200	Google TPU v7	AWS Tranium3
Process Node	2nm	3nm	3nm	3nm
FP4 TFLOPS	13800	10145	n/a	2517
FP8 TFLOPS	6900	5072	4614	2517
HBM technology	HBM4	HBM3E	HBM3E	HBM3E
HBM BW (TB/s)	18	7	7	5
HBM capacity	288	216	192	144
Scale-up BW: bidirectional (TB/s)	3.2 TB/s	2.8 TB/s	1.2 TB/s	2.2-2.56 TB/s

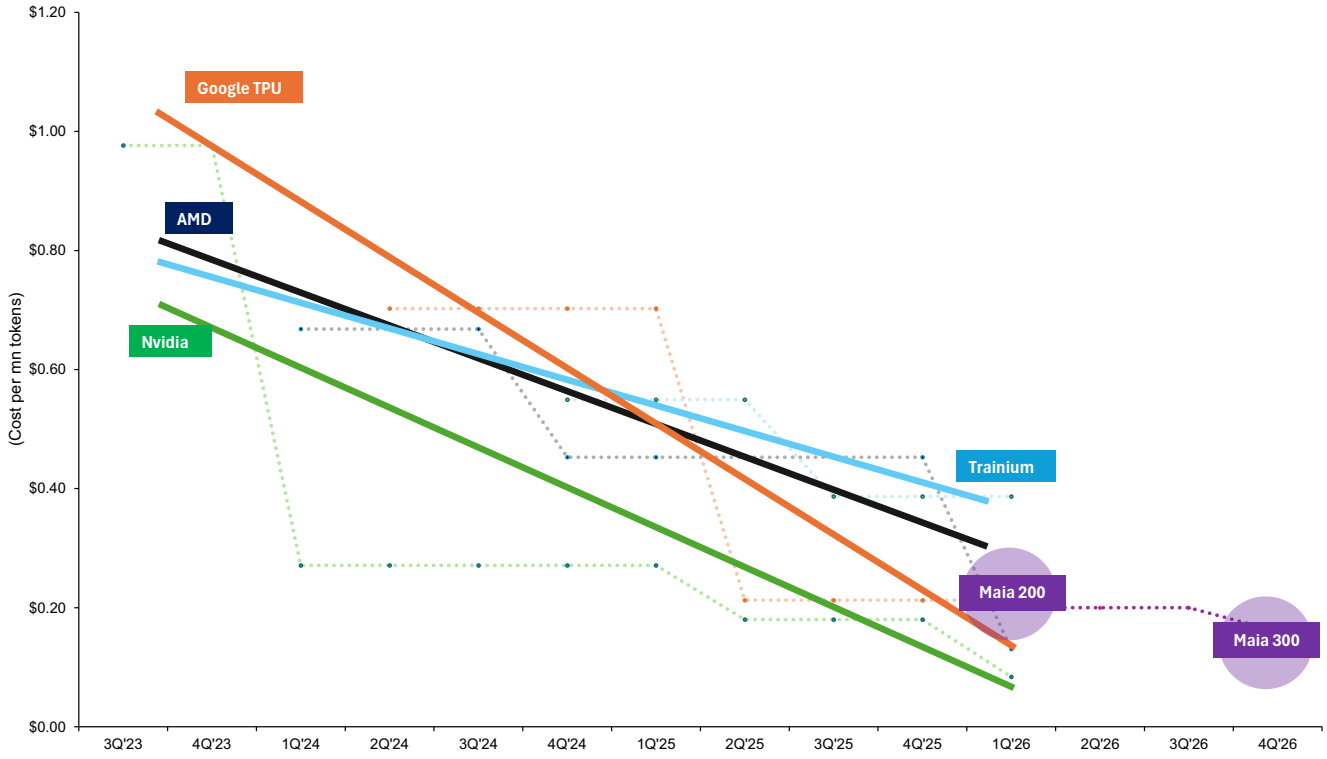
Source: Company data

We view recent datapoints as a meaningful positive for Microsoft's AI price performance and longer term ability to bring Azure AI compute gross margins closer to those of CPU based workloads. Highlights from the Maia 300 release:

- **A step forward in memory and inference economics.** Relative to Maia 200, Maia 300 delivers 2.5x greater HBM bandwidth, 33% more memory capacity, approximately 2x greater HBM bandwidth per watt, and more than 2.5x higher performance per watt.
- **Purpose built for agentic inference.** Maia 300 evolves Microsoft's Software Defined Locally Accessed Dataflow Architecture for long context, reasoning intensive, and decode heavy workloads. Its locality aware memory architecture, narrower precision formats, and hardware accelerated data conversion reduce data movement and support larger models, longer contexts, and more concurrent sessions within a fixed power envelope.
- **System level scale becomes a larger differentiator.** Maia 300 doubles rack density to 96 accelerators within a 167 kW power envelope. Its two tier Ethernet based network connects as many as 12,288 accelerators across 128 racks, while a unified communication model supports direct communication across the superpod and more flexible workload placement.
- **Key architectural innovations include:** a) a multichiplet architecture that places compute on TSMC N2P while separating memory controller and I/O functions onto dies optimized for bandwidth, connectivity, and cost, increasing compute FLOPs by 36% and scale up bandwidth by 14%; b) a locality aware NUMA memory architecture that places data closer to the compute using it; c) enhanced MXFP4 and sub 3 bit storage formats that reduce memory footprint and data movement; d) eight HBM4 stacks providing 288 GB of capacity and 18 TB/s of bandwidth per accelerator; e) a unified Ethernet based fabric extending from the rack to a 12,288 accelerator superpod; and f) an integrated rack design that jointly optimizes accelerator density, networking, power, cooling, and telemetry.

With Microsoft's new disclosure, we update our Semiconductor team's Inference Cost curve, which compares GPU costs to ASIC costs (Exhibit 6). Our analysis is intended to be an illustrative starting point (given limitations in analyzing these chips from the outside in) and is based on a snapshot in time of today's compute performance and does not fully contemplate software optimization or uplifts from networking, memory and packaging advancements.

Exhibit 6: Inference cost per million tokens ($)



Source: Company data, Goldman Sachs Global Investment Research

Please also see our other recent Microsoft reports:

- Initiation (1/11)
- Takeaways from our HQ Field Trip (1/15)
- Understanding external vs. internal capex use cases (2/12)
- Maia 200, an updated inference cost curve, and implications for Microsoft's internal silicon strategy (2/22)
- Revisiting Moats II: Datapoints on General Intelligence Tools (3/5)
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- NDR Meetings: Enterprise shift to AI platforms is validating key strategic decisions from the last 3 years (9/20/26)
- Sizing the AI Economy Needed to Justify ROIC on Hyperscaler AI Capex (9/24/26)

Valuation and Key Risks

We update our F27E/F28E/F29E revenue forecasts to $389/$472/$570 bn from $390/$471/$569 bn, and our F27E/F28E/F29E adjusted EPS forecasts to

$19.21/$23.08/$27.87 from $19.38/$22.97/$28.05. This update is to reflect Microsoft's updated segment reporting.

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

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

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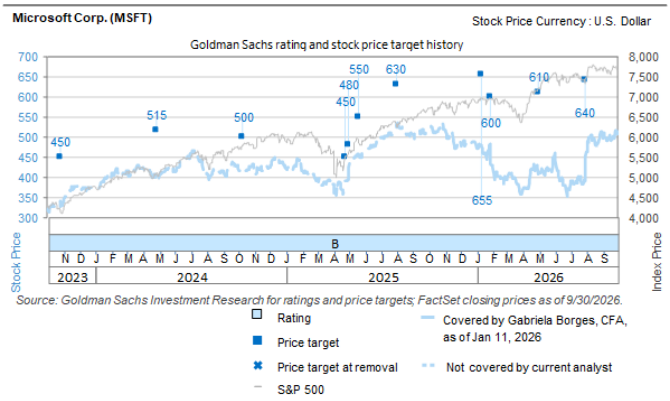
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Target price history table(s)

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

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