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Microsoft | North America

1Q27 Preview – Sustaining Momentum Against a Higher Bar

Mid/high-40s Azure growth, improving M365/Copilot monetization, and disciplined opex should support continued momentum into FY27. A Q2 Azure guide showing stable growth and reiterated M365 acceleration could support shares trading at 20x 2028 EPS, while a broader AI moat supports the LT opportunity.

Key Takeaways

- 47%+ cc Azure growth + a Q2 guide showing at least stable YoY growth, supported by robust demand and improving capacity, should support shares
- ~17%+ cc M365 CC growth, with E5/E7 upgrades + improving Copilot adoption supporting continued ARPU expansion
- OpEx discipline + improving AI economics should offset GM pressure, while higher CapEx remains supported by demand + positive FCF
- Updated model reflects Microsoft's FY27 resegmentation, including standalone Azure revenue + greater visibility into M365 Cloud
- At ~20x 2028 EPS, valuation has moved higher, though durable >20% earnings growth + Microsoft's broader AI moat keeps us positive heading into FY27

Expecting Momentum to Continue in F1Q27, Supported by Strength Across Azure + M365. The narrative around Microsoft has materially improved following last quarter's better results and initial FY27 guidance pointing to durable strength across the company's core growth businesses. **On Azure**, demand remains robust across both core cloud and AI workloads, with our latest CIO survey showing Microsoft retaining its position as the largest beneficiary of IT budget share gains as workloads shift to the cloud (+43% net score in CY26 vs. +26% for Amazon; see *Microsoft: 3Q26 CIO Survey Takeaways – Reinforcing the Enterprise AI Flywheel*), while AI/ML is expected to increase from 3.8% of public cloud spending today to 9.9% in three years. **Importantly, we see greater data center capacity availability providing an additional tailwind to Azure growth**, with our latest capacity tracker estimating that Microsoft brought ~3.25 GW of incremental capacity online in FY26, while we expect another ~4.25 GW to come online in FY27. Combined with continued efficiency gains across this capacity as it ramps, we see greater capacity availability as another key lever to Azure growth. **Within M365**, our latest partner checks point to continued strength in E3-to-E5 upgrades, with security remaining a key driver, while early E7 adoption provides another lever for potential ARPU upside, and Copilot adoption continues to improve, although consumption-based

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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 16, 2026)	$529.05
Mkt cap, curr (mm)	$3,936,936
52-Week Range	$553.72-349.20

Fiscal Year Ending	06/26	06/27e	06/28e	06/29e
EPS ($)**	17.94	19.70	24.08	30.12
Prior EPS ($)**	-	19.66	24.06	30.11
P/E	20.8	26.9	22.0	17.6
EPS ($)§	-	-	-	-
Div yld (%)	1.0	0.8	0.8	0.9

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
** = Based on consensus methodology
§ = Consensus data is provided by Refinitiv Estimates
e = Morgan Stanley Research estimates

QUARTERLY EPS ($)

Quarter	2026	2027e Prior	2027e Current	2028e Prior	2028e Current
Q1	3.72	4.76	4.75	5.82	5.79
Q2	5.16	4.93	4.93	5.97	5.97
Q3	4.27	4.89	4.91	6.00	6.03
Q4	4.81	5.09	5.10	6.27	6.28

e = Morgan Stanley Research estimates

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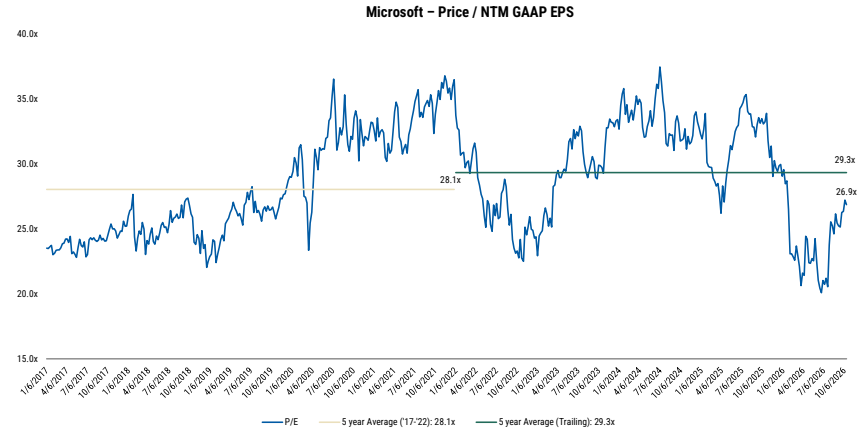
Copilot usage remains early days. **Taken together, we see robust demand across Azure and M365 supporting continued momentum into F1Q27.**

Valuation Has Moved Higher, Though Remains Reasonable Relative to Growth. Alongside the improving narrative and fundamentals, Microsoft's valuation has moved higher over the last several months, raising the bar heading into F1Q27. That said, shares continue to trade at ~27x NTM GAAP EPS, below Microsoft's ~28-29x historical averages, while the discount is more pronounced on a growth-adjusted basis, with Microsoft trading at ~1.25x NTM P/E/G, vs. ~1.9-2.2x historically. With >20% earnings growth expected beyond FY27, we continue to see a favorable risk/reward, though acknowledge that the higher valuation and improved narrative leave a higher bar for upside heading into the F1Q print. Our $600 PT is based on ~25x FY28 GAAP EPS of ~$24, implying a ~1.2x P/E/G, which remains a discount to Microsoft's historical growth-adjusted valuation (Exhibit 2).

Microsoft's AI Moat Increasingly Extends Across the Full Stack. Beyond the near-term setup, our recent work (see *Microsoft: Battle of the AI Stack: Built for a Multi-Model World*) gives us increasing confidence in Microsoft's positioning as enterprise AI architectures become increasingly multi-model. As enterprises deploy a combination of frontier, open-weight, and specialized models, Microsoft can potentially benefit regardless of which individual model wins, given that Azure provides the underlying infrastructure, Fabric provides enterprise data/context, Foundry provides model and agent orchestration, and M365/Copilot provides the application and distribution layer. Importantly, Microsoft's differentiation is increasingly extending into the physical infrastructure layer as well, with the recently announced Maia 300 expected to begin production deployments in 2027 and the broader Maia family scaling toward multi-gigawatt deployments, providing another potential lever to improve Microsoft's AI inference efficiency and economics over time. ***Overall, we increasingly see Microsoft's differentiation moving beyond any individual model to the infrastructure, data/context, orchestration, and application layers surrounding it, broadening the company's opportunity to monetize AI across the stack.***

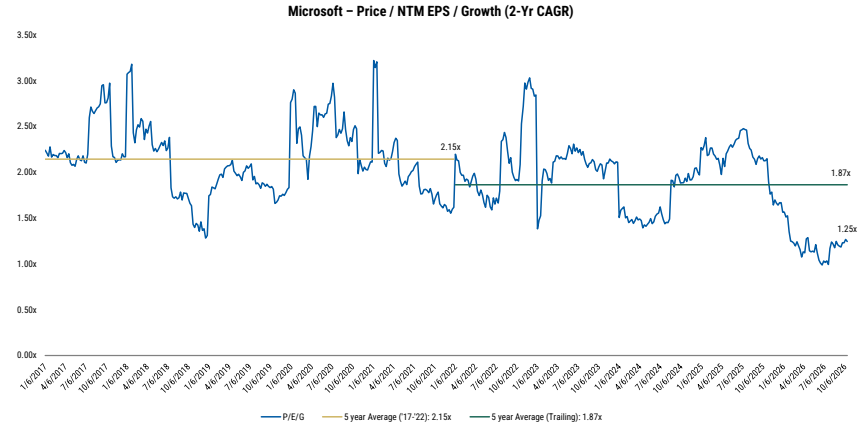
Buyside: Azure growth of ~47% in constant currency (cc) in F1Q27, representing a ~2pt beat vs. the high-end of guidance at 44-45% cc, with a Q2 guide pointing to at least stable YoY growth vs. F1Q27, should be enough to support shares. **Within M365 Commercial Cloud**, we would like to see at least ~17% cc growth alongside reiteration of prior guidance for M365 Commercial Cloud growth to accelerate through the year. **On M365 Copilot**, we may not receive an updated paid seat count, though following ~10mn adds in F4Q26, we expect strong adoption momentum to continue, supported by our latest channel checks. **On margins**, F1Q27 OpEx growth of ~7-8%, alongside reiteration of mid/high-single-digit OpEx growth for FY27, should help offset continued gross margin pressure and support durable operating income growth through the year. **On CapEx**, spend above the >$50bn F1Q27 guide would be well understood given the persistent supply/demand imbalance, with the more important focus on whether higher investment supports incremental capacity and revenue growth, while reiteration of positive FCF guide in FY27 remains important.

Exhibit 1: Microsoft's Historical P/E Multiples



Source: FactSet, Company data, Morgan Stanley Research

Exhibit 2: Microsoft's Historical PEG Multiples



Source: FactSet, Company data, Morgan Stanley Research

4 Areas We Are Monitoring Into the Print:

1) Proving Out the Durability of Azure Growth

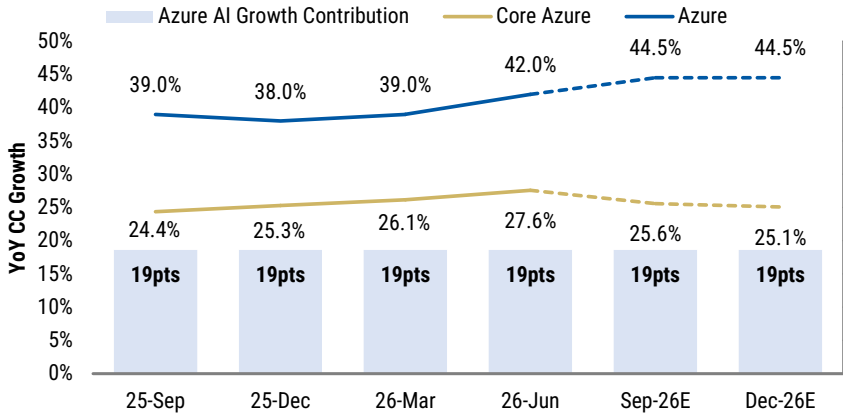
Azure Growth Should Remain Durable Across Core + AI Workloads. We remain confident in the durability of Azure growth heading into F1Q27, with demand remaining healthy across both Core Azure and Azure AI. On the core side, our latest channel checks point to continued strength in workload migrations and overall Azure consumption, while AI is increasingly becoming an incremental source of demand through model inference, agents, and the broader infrastructure and services required to deploy AI applications in production. Further, with the open-weight / multi-model debate increasingly top of mind, we see Microsoft as particularly well positioned to benefit as enterprises deploy a broader mix of models through the combination of Azure infrastructure, Fabric as the enterprise data/context layer, and Foundry as the model and agent control plane (see *Microsoft: Battle of the AI Stack: Built for a Multi-Model World*). Importantly, while capacity constraints have limited Microsoft's ability to fully serve demand over the last several quarters, the significant capacity brought online through FY26 should

increasingly contribute to revenue as that infrastructure ramps and utilization improves. Combined with continued infrastructure, silicon, and model efficiencies, we see multiple levers supporting Azure growth through FY27.

Maia 300 Could Strengthen Microsoft's Position Across the AI Infrastructure Stack. We also expect Maia 300 to be a key area of discussion, with Microsoft recently outlining plans to begin production deployments in 2027 and scale the Maia family toward multi-gigawatt deployments (see here). While unlikely to meaningfully impact near-term Azure growth, we see greater adoption of first-party silicon as an increasingly important longer-term lever to improve inference efficiency, reduce dependence on third-party GPUs, and improve the economics of Microsoft's AI infrastructure as workloads scale.

Buyside: For F1Q27, Azure growth of ~47% in constant currency (cc), representing a ~2pt beat vs. the high-end of Microsoft's 44-45% cc guidance, should be enough to support shares. More importantly, we think F2Q27 guidance needs to point to at least stable YoY growth vs. the F1Q27 result, which would provide further evidence that greater capacity availability and continued underlying demand can sustain Azure growth at elevated levels. We remain focused on the contribution from Core Azure vs. Azure AI, the pace at which incremental capacity converts into revenue, and any updated commentary around the duration of supply constraints heading through FY27. Azure growth of ~47% cc in F1Q27 would imply ~$3.5B of sequential Azure revenue growth, slightly above the ~$3.4B added in F4Q26, despite sequential growth moderating to ~2% from ~13% last quarter due to typical seasonality following a stronger-than-expected end to FY26 (vs. ~8% QoQ in F1Q26).

Exhibit 3: Improving Azure AI Demand/Capacity and Relatively Stable Core Azure Growth Should Support Accelerating Azure Growth in F1Q



Source: Company data, Morgan Stanley Research

2) Microsoft 365 & Copilot: Expanding Monetization Beyond the Seat

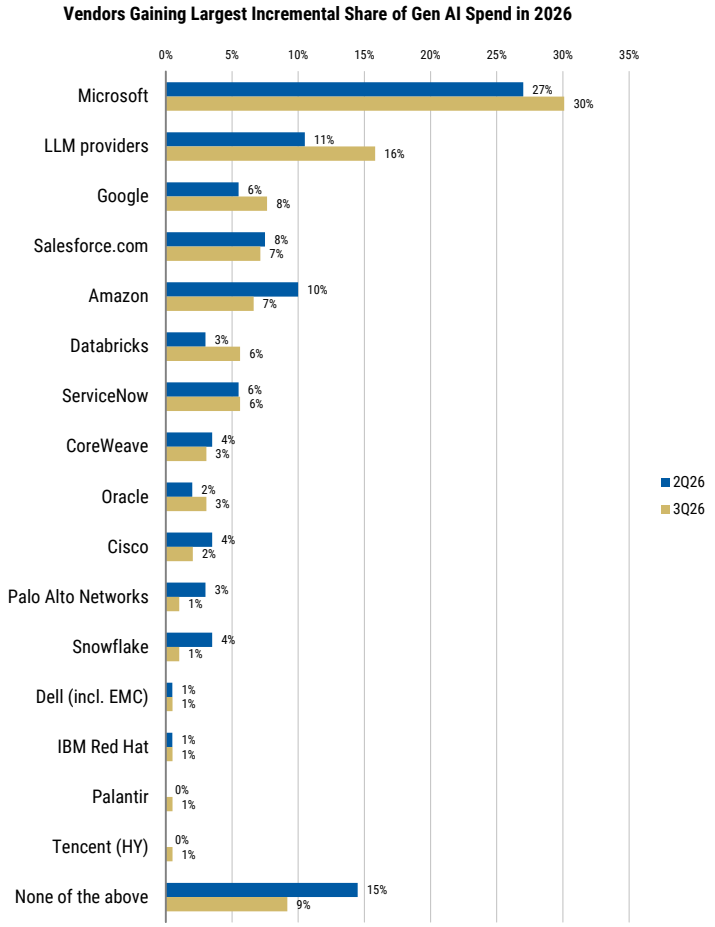
MS View: Premium Mix Supports Near-Term Growth, With Consumption Broadening the Opportunity. We see security-led E5 upgrades and improving Copilot adoption driving continued M365 Commercial Cloud ARPU expansion heading into F1Q27, with early E7 interest and commercial pricing providing

additional support while the broader consumption opportunity develops. Our latest checks point to better-than-expected M365 performance in C3Q26, with E5 upgrades the largest contributor as customers prioritize security capabilities (across Entra, Defender, Purview, Intune, for example). Security consolidation remains an important underpinning for growth, allowing Microsoft to capture more spending within its existing customer base through higher-value subscriptions. Early E7 conversations are similarly centered on additional security capabilities, which we believe extends the premium-mix opportunity beyond the ongoing E3-to-E5 cycle. Partners highlighted improving Copilot adoption as well, though broader purchasing decisions for the M365 bundles remains ahead of deeper usage – a distinction supporting our view that subscription monetization will continue to contribute before consumption becomes a more material driver. Our latest 3Q26 CIO survey similarly reinforces Microsoft's ability to capture incremental AI spending, with 30% of CIOs identifying the company as the largest expected GenAI spending-share gainer in CY26, up from 27% last quarter (Exhibit 4). With 64% of CIOs preferring to procure AI capabilities versus 17% planning to build (Exhibit 5), we see a supportive backdrop for monetizing applications and agents alongside the underlying infrastructure.

The Copilot 'Super App' Adds Monetization Potential, Though Scaling Usage Will Take Time. Microsoft's recent announcement brings Chat, Cowork, Code, and persistent Autopilot agents into a single Copilot experience, with Cowork, Code, and Autopilot introducing a greater consumption-based element to Copilot monetization. In our view, greater application creation and agent activity can drive incremental consumption as users complete more tasks across the platform, while Agent 365 provides the governance and spending controls required to manage these agents at scale. That said, our latest partner checks suggest broader Copilot usage remains relatively early and concentrated among more technology-oriented customers and select workflows today. Further, our recent discussion with the company highlighted that scaling consumption requires Microsoft to increasingly sell beyond centralized IT procurement and engage with the departmental budget owners ultimately responsible for variable usage, while customers similarly need to establish budgets and controls around this spending. Given the challenges we have seen across broader seat-based software in moving customers toward more consumption-based pricing elements, particularly around budget predictability and demonstrating ROI, we expect this opportunity to build over time rather than immediately. *Bottom line, we remain constructive on consumption becoming an increasingly important contributor to Copilot monetization through FY27 and beyond, though see subscription-based monetization remaining the more meaningful driver near term.*

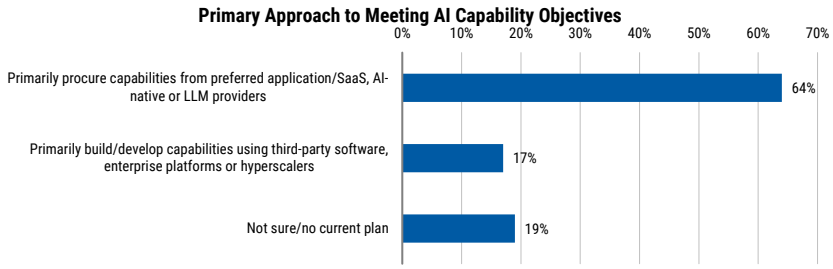
Buyside: For F1Q27, we would look for ~17%+ cc M365 Commercial Cloud growth alongside reiterated guidance for acceleration through FY27. **Flagging that we do not expect Microsoft to provide an updated M365 paid Copilot seat count metric every quarter, given that it's viewed as a 'momentum indicator' vs. traditional KPI.** While seats remain an important measure of Copilot adoption, we increasingly see usage as the more important longer-term driver as Microsoft expands Copilot monetization beyond seats and toward consumption.

Exhibit 4: CIOs Note Expectations for Microsoft, LLM Providers, and Google to Gain Share of GenAI Spend in 2026



Source: AlphaWise, Morgan Stanley Research. n= 200 (US and EU data)

Exhibit 5: 64% of CIOs Plan to Primarily Procure AI Capabilities, Versus 17% Who Plan to Build



Source: (New Data) AlphaWise, Morgan Stanley Research. n=100 (US and EU data)

3) What Impacts the Bottom-line From Here?

MS View: OpEx Discipline Should Continue to Offset Gross Margin Pressure. We expect disciplined OpEx growth to offset most of the gross margin pressure from Microsoft's continued AI investments, supporting durable operating income growth through FY27. Our model assumes ~200bps of YoY gross margin compression to

65.8% in FY27, but only ~20bps of operating margin compression to 46.6%, as revenue growth continues to outpace OpEx growth. Management's guidance for mid/high-single-digit OpEx growth supports this view, reflecting continued expense discipline despite elevated investment across AI and talent. Further, management continues to highlight tangible productivity gains from deploying AI internally, including what it described as "hundreds of millions of dollars" of annual savings in customer support, with similar efforts now extending across sales operations and finance. Combined with continued headcount discipline, we see these AI-driven efficiencies providing another lever for operating leverage, creating additional capacity to fund elevated AI investment while keeping OpEx growth well below revenue growth.

Improving AI Economics Provide Another Lever to Margins Over Time. Beyond OpEx discipline, we continue to see improving infrastructure and software efficiencies helping offset some of the gross margin pressure from AI. Management has highlighted a >50% reduction in the time from infrastructure deployment to revenue readiness over the last year, alongside continued improvements in software throughput and model selection, allowing Microsoft to bring capacity online faster, drive greater revenue from its installed infrastructure, and lower the cost of delivering AI workloads. Our recent conversations with the company suggest the efficiency gains realized in FY26 should continue to benefit FY27, though we take a fairly conservative approach in our model today. Further, the shift toward consumption-based pricing provides another potential margin lever by better aligning revenue with the underlying cost of usage, with management noting that GitHub Copilot *'margins improved through the quarter with the June business model change to usage-based pricing.'* That said, continued mix shift toward Azure and other compute-intensive AI workloads should remain a headwind to overall gross margins even as the underlying economics of these workloads improve. While the extension of useful lives for long-lived assets from 15 to 25 years provides some depreciation benefit, management expects the impact to FY27 operating income to be minimal and already reflected in guidance. *Net, we see continued improvements in AI infrastructure efficiency, combined with OpEx discipline, providing the more meaningful levers to margins over time.*

Please reach out if interested in our detailed Microsoft Cloud gross margin build and underlying assumptions.

Exhibit 6: Our Latest Cloud Gross Margin Build

Base Case - Microsoft Cloud Gross Margin Calculation	FY22	FY23	FY24	FY25	FY26e	FY27e	FY28e	FY29e
Microsoft Cloud Revenue								
Microsoft 365 Commercial Cloud	$48,233	$56,343	$66,456	$78,639	$92,703	$109,515	$129,963	$154,351
Office 365 Commercial	$35,300	$39,810	$46,129	$52,701	$59,652	$68,926	$80,445	$93,679
EMS & Power BI per-user	$11,862	$14,922	$17,921	$20,364	$23,422	$26,913	$30,782	$35,105
Windows Commercial Cloud	$1,071	$1,611	$2,406	$3,549	$6,092	$7,864	$10,323	$13,892
Dynamics 365	$3,764	$4,671	$5,787	$6,891	$8,122	$9,087	$10,060	$10,936
LinkedIn Commercial	$7,998	$8,501	$9,317	$9,967	$10,968	$12,144	$13,480	$14,828
Azure and Other Cloud Services	$44,238	$42,085	$56,140	$72,610	$101,938	$147,188	$210,028	$296,735
Azure AI		$124	$3,872	$12,097	$25,709	$52,185	$94,464	$158,585
Core Azure		$41,961	$52,268	$60,513	$76,229	$95,004	$115,564	$138,150
Total Microsoft Cloud Revenue	**$104,233**	**$111,600**	**$137,700**	**$168,107**	**$213,730**	**$277,935**	**$363,531**	**$476,850**
Microsoft Cloud Gross Profit								
Microsoft 365 Commercial Cloud Gross Profit	$37,219	$43,816	$53,004	$60,598	$70,610	$82,143	$96,296	$113,071
Office 365 Commercial Gross Profit	$26,845	$30,475	$36,234	$40,870	$46,260	$53,452	$62,385	$72,648
EMS & Power BI per-user Gross Profit	$9,490	$12,013	$14,785	$16,800	$19,324	$22,203	$25,395	$28,962
Windows Commercial Cloud Gross Profit	$883	$1,329	$1,985	$2,928	$5,026	$6,488	$8,516	$11,461
Dynamics 365 Gross Profit	$3,105	$3,854	$4,774	$5,685	$6,700	$7,497	$8,300	$9,023
LinkedIn Commercial Gross Profit	$6,369	$6,811	$7,512	$8,080	$8,945	$9,951	$11,090	$12,239
Azure and Other Cloud Services Gross Profit	$26,270	$25,871	$32,477	$41,631	$56,114	$80,733	$115,125	$165,650
Azure AI		($145)	($975)	$2,903	$7,327	$19,569	$40,147	$75,328
Core Azure		$26,016	$33,452	$38,728	$48,787	$61,163	$74,978	$90,322
Total Microsoft Cloud Gross Profit	**$72,963**	**$80,352**	**$97,767**	**$115,994**	**$142,369**	**$180,323**	**$230,811**	**$299,983**
Microsoft Cloud Gross Margin %	**70.0%**	**72.0%**	**71.0%**	**69.0%**	**66.0%**	**64.9%**	**63.5%**	**62.9%**
Microsoft 365 Commercial Cloud Gross Margin %	**77.2%**	**77.8%**	**79.8%**	**77.1%**	**76.2%**	**75.0%**	**74.1%**	**73.3%**
Office 365 Commercial	**76.1%**	**76.6%**	**78.6%**	**77.6%**	**77.6%**	**77.6%**	**77.6%**	**77.6%**
EMS & Power BI	**80.0%**	**80.5%**	**82.5%**	**82.5%**	**82.5%**	**82.5%**	**82.5%**	**82.5%**
Windows Commercial Cloud	**82.5%**	**82.5%**	**82.5%**	**82.5%**	**82.5%**	**82.5%**	**82.5%**	**82.5%**
Consolidated Office 365 Commercial Gross Margin %	**76.1%**	**76.9%**	**78.4%**	**77.2%**	**77.5%**	**77.1%**	**77.0%**	**77.1%**
Dynamics 365 Gross Margin %	**82.5%**	**82.5%**	**82.5%**	**82.5%**	**82.5%**	**82.5%**	**82.5%**	**82.5%**
LinkedIn Commercial Gross Margin %	**79.6%**	**80.1%**	**80.6%**	**81.1%**	**81.6%**	**81.9%**	**82.3%**	**82.5%**
Implied Azure and Other Cloud Services Gross Margin %	**59.4%**	**61.5%**	**57.8%**	**57.3%**	**55.0%**	**54.8%**	**54.8%**	**55.8%**
Azure AI		**-116.4%**	**-25.2%**	**24.0%**	**28.5%**	**37.5%**	**42.5%**	**47.5%**
Core Azure		**62.0%**	**64.0%**	**64.0%**	**64.0%**	**64.4%**	**64.9%**	**65.4%**

Source: Company data, Morgan Stanley Research

4) Key Focuses for Funding the AI Buildout – What is the Capex Trajectory?

MS View: Capex Risk Continues to Skew to the Upside

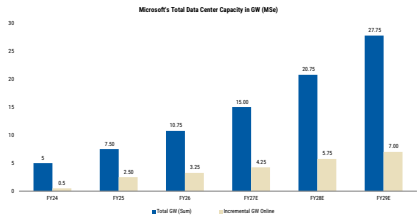
Capex Should Remain Elevated as Microsoft Continues to Invest Against Robust Demand. Microsoft guided to >$50bn of Capex in F1Q27, including the lease reclassification impact from the useful-life update (*extended the useful life of long-lived assets from 15 to 25 years)*, while continuing to expect Capex to grow YoY in FY27 given demand signals across the portfolio. We continue to see upside risk to our/consensus Capex estimates given the persistent supply/demand imbalance across Azure and AI workloads, alongside Microsoft's plans to continue materially expanding its data center footprint. Importantly, we increasingly see the debate shifting beyond the absolute level of Capex toward how quickly incremental capacity can be brought online, utilized, and converted into revenue. Management has highlighted meaningful improvements in 'dock-to-live' times, alongside continued broader infrastructure efficiencies, which should allow Microsoft to generate greater throughput from each dollar of infrastructure investment. Further, with a meaningful portion of short-lived infrastructure capacity supported by contracted customer demand, we continue to see elevated Capex as supportive of future revenue growth upside (*Please ask for our latest Capex-Implied Azure AI Revenue Build).*

Balance Sheet Flexibility Provides Multiple Levers to Fund the Buildout While Remaining FCF Positive. Despite the magnitude of the ongoing infrastructure investments, Microsoft continues to expect positive FCF in FY27, supported by the earnings power and cash generation of the overall business. At the same time, we think the scale and duration of the AI infrastructure opportunity could increasingly lead Microsoft to utilize its balance sheet to preserve flexibility while continuing to invest against high-ROIC opportunities. Microsoft has not raised significant long-term debt in recent years, though CFO Amy Hood recently reiterated the company's willingness to access the debt markets where the returns justify doing so: *'if we need*

it and the ROIC is there, you should expect us to use the capital and find the capital we need to deliver outsized results.' Consistent with this framework, our model incorporates incremental debt issuance in the out years, including ~$45bn in FY28 and FY29, alongside lower share repurchases, reflecting Microsoft's greater willingness to preserve balance sheet flexibility amid elevated AI-related investment opportunities. Overall, we see Microsoft's combination of positive FCF, significant balance sheet capacity, and access to the debt markets providing multiple levers to fund an AI infrastructure buildout that we expect to remain elevated for the next few years.

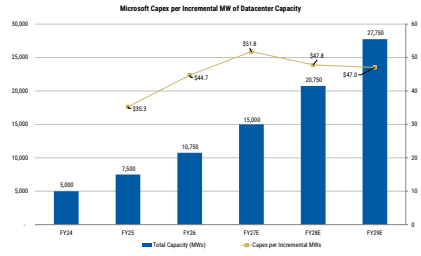
Please reach out if interested in our latest Microsoft data center capacity tracker.

Exhibit 7: Our Latest Data Center Capacity Estimates



Source: Company data, Morgan Stanley Research

Exhibit 8: Capex per MW



Source: Company data, Morgan Stanley Research

Exhibit 9: Morgan Stanley Forecasts Relatively In-line with Consensus in 1Q27 / FY27

Fiscal Year	1Q27e			2Q27e			FY27e			FY28e		
MSFT	MS	Consensus	MS v Cons	MS	Consensus	MS v Cons	MS	Consensus	MS v Cons	MS	Consensus	MS v Cons
Total Revenue	$90,243	$90,639	**-0.4%**	$95,871	$95,591	**0.3%**	$392,342	$391,147	**0.3%**	$481,116	$467,637	**2.9%**
YoY Growth	*16.2%*	*16.7%*		*18.0%*	*17.6%*		*18.2%*	*17.9%*		*22.6%*	*19.6%*	
cc Growth	*16.2%*	*17.4%*		*18.0%*	*18.0%*		*18.2%*	*18.9%*		*22.6%*	*20.3%*	
Gross Margins	*67.3%*	*67.2%*	***6 bps***	*65.9%*	*66.2%*	***-30 bps***	*65.7%*	*66.1%*	***-42 bps***	*64.4%*	*64.9%*	***-58 bps***
Gross Profit	*$60,693*	*$60,902*		*$63,202*	*$63,306*		*$257,688*	*$258,531*		*$309,623*	*$303,668*	
Opex (implied)	*$16,725*	*$16,955*		*$17,680*	*$18,490*		*$75,275*	*$76,422*		*$85,459*	*$86,236*	
Operating Income	$43,968	$44,008	**-0.1%**	$45,522	$44,847	**1.5%**	$182,413	$181,782	**0.3%**	$224,164	$216,794	**3.4%**
Op. Margin	*48.7%*	*48.6%*	***17 bps***	*47.5%*	*46.9%*	***57 bps***	*46.5%*	*46.5%*	***2 bps***	*46.6%*	*46.4%*	***23 bps***
GAAP EPS	$4.73	$4.73	**-0.1%**	$4.90	$4.85	**1.1%**	$19.58	$19.75	**-0.9%**	$23.90	$23.57	**1.4%**

Source: Company data, Morgan Stanley Research, Refinitiv, Visible Alpha

AlphaSignals Earnings Preview

Focus KPI	Focus KPI Surprise	Likely impact to consensus EPS*
Microsoft MSFT.O		
Azure Revenue YoY Growth in CC	↑ Likely upside surprise	↑ Modest revision higher

*Likely impact to consensus EPS is for the next 12 months
Source: Company data, Morgan Stanley Research

Risk Reward – Microsoft (MSFT.O)

Durability of Earnings Growth & AI Leadership Not Priced-In

PRICE TARGET $600.00

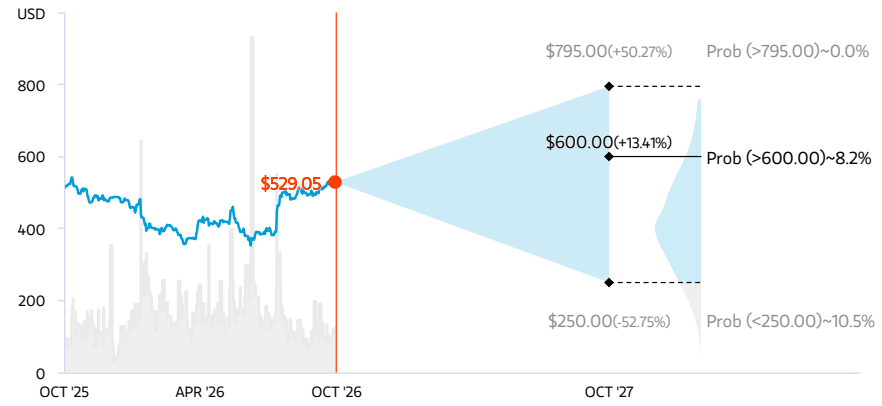
25x Base Case FY28e EPS of $24.08. 25x PE is a slight premium to large cap software peers, 1.2x PEG is a discount to MSFT historical PEG and large-cap software peers.

Consensus Price Target Distribution $400.00 — $593.14 (MS PT) — $870.00

Source: Refinitiv, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



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

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 16 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

97%	Overweight
3%	Equal-weight
0%	Underweight

● MS Rating

Source: Refinitiv, Morgan Stanley Research

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 $24.08

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. 25x PE is a premium to large ap 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.

C

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	16.3	17.2	17.4
Gross Margins (%)	67.9	65.8	64.5	63.5
Operating Margins (%)	46.8	46.6	46.7	47.2
GAAP EPS Growth (%)	31.5	9.8	22.2	25.1

INVESTMENT DRIVERS

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

GLOBAL REVENUE EXPOSURE



0-10% APAC, ex Japan, Mainland China and India
0-10% India
0-10% Japan
0-10% Latin America
0-10% MEA
0-10% Mainland China
0-10% UK
10-20% Europe ex UK
50-60% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

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

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is 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)
◆ 394,098
Note: There are not sufficient brokers supplying consensus data for this metric

EBITDA ($, mm)
◆ 235,381
Note: There are not sufficient brokers supplying consensus data for this metric

Net income ($, mm)
◆ 145,810
Note: There are not sufficient brokers supplying consensus data for this metric

EPS ($)
◆ 19.70
Note: There are not sufficient brokers supplying consensus data for this metric

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Microsoft Resegments the Business – Updating Our Model for FY27

Microsoft Resegments the Business for FY27, Providing Greater Visibility Into Azure + M365 Cloud. Beginning in F1Q27, Microsoft is moving from three reporting segments to two, Agents and Infrastructure and Devices and Consumer, while recasting historical results to reflect the new structure (see our recent note, Microsoft: Recasting the Business for the AI Era, as well as Microsoft's FY27 External KPIs presentation for additional detail on the reporting changes). Importantly, the changes provide greater visibility into Microsoft's two largest cloud businesses, with Azure now reported as a standalone quarterly revenue KPI and redefined to focus more directly on consumption-based Azure services, while GitHub cloud and other developer services move from Azure into M365 Commercial Cloud. The changes also consolidate Microsoft's broader commercial portfolio within Agents and Infrastructure, including Azure, M365, Industry Solutions, and other server and enterprise offerings, while Devices and Consumer brings together Windows, Gaming, Search and Advertising, and other consumer businesses. We have updated our model throughout to reflect the new reporting structure ahead of F1Q27 (see Exhibit 10 & Exhibit 11).

Exhibit 10: Updated Revenue Drivers Build

Drivers Detail	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	Sep-26E	Dec-26E	Mar-27E	Jun-27E	FY 2027E	Sep-27E	Dec-27E	Mar-28E	Jun-28E	FY 2028E	FY 2029E
Agents and Infra																
Microsoft 365 Cloud				$84,605	$100,299	$27,624	$28,843	$30,135	$32,079	$118,681	$32,785	$34,085	$35,525	$37,862	$140,258	$165,229
YoY					18.5%	16.6%	17.9%	18.6%	20.1%	18.3%	18.7%	18.2%	17.9%	18.0%	18.2%	17.8%
QoQ						3.4%	4.4%	4.5%	6.5%		2.2%	4.0%	4.2%	6.6%		
M365 Commercial Cloud (FY27 Definition)				$78,639	$92,703	$25,615	$26,621	$27,696	$29,583	$109,515	$30,282	$31,568	$32,881	$35,232	$129,963	$154,351
YoY					17.9%	16.8%	17.9%	18.3%	19.4%	18.1%	18.2%	18.6%	18.7%	19.1%	18.7%	18.8%
QoQ						3.4%	3.9%	4.0%	6.8%		2.4%	4.2%	4.2%	7.2%		
Developer and Security Cloud				$2,025	$3,537	$1,593	$1,402	$1,260	$1,558	$5,812	$2,240	$2,031	$1,889	$2,264	$8,414	$11,674
YoY					74.7%	60.0%	61.9%	75.2%	62.9%	64.3%	25.0%	61.9%	55.2%	32.9%	44.8%	38.8%
QoQ						66.6%	-12.0%	-10.2%	23.7%		43.8%	-9.3%	-7.0%	19.3%		
As % O365 Commercial + EMS				2.8%	4.3%	7.0%	6.0%	5.1%	6.1%	6.1%	8.5%	7.5%	6.6%	7.0%	7.6%	9.1%
Office 365 Commercial	$35,300	$39,810	$46,129	$52,701	$59,652	$16,457	$16,622	$17,730	$18,116	$68,926	$19,161	$19,376	$20,705	$21,203	$80,445	$93,679
YoY	18.2%	12.8%	15.9%	14.2%	13.2%	14.8%	15.3%	15.9%	16.1%	15.5%	16.4%	16.6%	16.8%	17.0%	16.7%	16.5%
QoQ						5.5%	1.0%	6.7%	2.2%		5.8%	1.1%	6.9%	2.4%		
EMS & Power BI per-user	$11,862	$14,922	$17,921	$20,364	$23,422	$6,172	$6,647	$6,763	$7,331	$26,913	$7,071	$7,608	$7,731	$8,372	$30,782	$35,105
YoY	33.3%	25.8%	20.1%	13.6%	15.0%	13.8%	14.0%	14.6%	16.9%	14.9%	14.6%	14.4%	14.3%	14.2%	14.4%	14.0%
QoQ						-1.6%	7.7%	1.7%	8.4%		-3.5%	7.6%	1.6%	8.3%		
Windows Commercial cloud	$1,071	$1,611	$2,406	$3,549	$6,092	$1,393	$1,949	$1,943	$2,573	$7,864	$1,811	$2,554	$2,555	$3,403	$10,323	$13,892
YoY	49.6%	50.4%	49.4%	47.5%	71.6%	18.0%	32.5%	30.0%	32.5%	29.1%	30.0%	31.0%	31.5%	32.0%	31.3%	34.6%
QoQ						-28.4%	39.9%	-0.3%	32.7%		-29.8%	41.0%	0.1%	33.2%		
M365 Commercial Products	$11,646	$10,814	$10,559	$11,153	$12,830	$3,116	$2,641	$2,692	$3,757	$12,206	$3,153	$2,674	$2,726	$3,801	$12,355	$12,505
YoY	-4.5%	-7.1%	-2.4%	5.6%	15.0%	2.9%	-5.7%	-7.2%	-8.3%	-4.9%	1.2%	1.3%	1.3%	1.2%	1.2%	1.2%
QoQ						-23.9%	-15.3%	1.9%	39.6%		-16.1%	-15.2%	1.9%	39.5%		
Office Commercial products (non-O365)	$3,578	$2,834	$2,386	$2,593	$2,750	$573	$684	$698	$689	$2,644	$584	$697	$712	$703	$2,697	$2,751
YoY	-22.4%	-20.8%	-15.8%	8.7%	6.0%	0.5%	-5.0%	-5.0%	-5.0%	-3.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
QoQ						-21.0%	19.3%	2.2%	-1.4%		-15.2%	19.3%	2.2%	-1.4%		
Windows Commercial products	$8,068	$7,980	$8,173	$8,559	$10,080	$2,544	$1,957	$1,993	$3,068	$9,562	$2,569	$1,977	$2,013	$3,099	$9,658	$9,755
YoY	6.4%	-1.1%	2.4%	4.7%	17.8%	3.4%	-6.0%	-8.0%	-9.0%	-4.0%	1.0%	1.0%	1.0%	1.0%	-5.0%	-6.0%
QoQ																
M365 Consumer Products and Cloud Services	$5,984	$6,417	$6,648	$7,404	$9,175	$2,428	$2,604	$2,714	$2,896	$10,643	$2,901	$2,880	$2,906	$3,011	$11,698	$12,212
YoY	11.1%	7.2%	3.6%	11.4%	23.9%	10.2%	13.0%	18.2%	22.3%	16.0%	19.5%	10.6%	7.1%	4.0%	9.9%	4.4%
QoQ						2.5%	7.2%	4.2%	6.7%		0.2%	-0.7%	0.9%	3.6%		
M365 Consumer Cloud	$4,259	$4,931	$5,444	$5,966	$7,596	$2,009	$2,222	$2,439	$2,496	$9,166	$2,503	$2,517	$2,645	$2,630	$10,295	$10,878
YoY	16.6%	15.8%	10.4%	9.6%	27.3%	14.0%	18.3%	21.5%	28.2%	20.7%	24.6%	13.3%	8.4%	5.4%	12.3%	5.7%
QoQ						3.2%	10.6%	9.8%	2.3%		0.3%	0.6%	5.1%	-0.5%		
Office Consumer products (non-O365)	$1,725	$1,486	$1,204	$1,438	$1,579	$419	$383	$275	$401	$1,477	$398	$364	$261	$381	$1,403	$1,333
YoY	-0.4%	-13.9%	-19.0%	19.4%	9.8%	-5.0%	-10.4%	-5.0%	-5.0%	-6.5%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%
QoQ						-0.5%	-8.8%	-28.2%	45.8%		-0.5%	-8.8%	-28.2%	45.8%		
Dynamics Total	$4,686	$5,796	$6,831	$7,827	$9,006	$2,252	$2,437	$2,552	$2,637	$9,878	$2,485	$2,677	$2,807	$2,882	$10,851	$11,727
YoY	24.8%	23.7%	17.9%	14.6%	15.1%	5.4%	10.6%	11.3%	11.1%	9.7%	10.4%	9.8%	10.0%	9.3%	9.9%	8.1%
QoQ						-5.2%	8.2%	4.7%	3.3%		-5.7%	7.7%	4.9%	2.7%		
Dynamics 365	$3,764	$4,671	$5,787	$6,891	$8,122	$2,033	$2,177	$2,426	$2,452	$9,087	$2,266	$2,416	$2,681	$2,697	$10,060	$10,936
YoY	38.8%	24.1%	23.9%	19.1%	17.9%	11.5%	12.0%	12.0%	12.0%	11.9%	11.5%	11.0%	10.5%	10.0%	10.7%	8.7%
QoQ						-7.1%	7.1%	11.4%	1.1%		-7.6%	6.6%	10.9%	0.6%		
Dynamics On-Premise	$922	$1,125	$1,044	$936	$884	$219	$260	$126	$185	$791	$219	$260	$126	$185	$791	$791
YoY	-11.5%	22.0%	-7.2%	-10.3%	-5.5%	-30.0%	0.0%	0.0%	0.0%	-10.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
QoQ						18.5%	18.8%	-51.6%	46.7%		18.5%	18.8%	-51.6%	46.7%		
LinkedIn (Post F1Q27 Definition)				$17,812	$19,817	$5,051	$5,300	$5,103	$5,475	$20,988	$5,416	$5,749	$5,471	$5,872	$22,508	$23,903
YoY					11.3%	7.1%	5.5%	5.6%	5.5%	5.9%	7.2%	7.3%	7.2%	7.2%	7.2%	6.2%
QoQ						-2.7%	6.1%	-4.8%	7.3%		-1.1%	6.1%	-4.8%	7.3%		
LinkedIn Talent + Sales Solutions				$9,519	$10,158	$2,716	$2,676	$2,755	$2,796	$10,943	$2,906	$2,863	$2,948	$2,992	$11,709	$12,295
YoY					6.7%	10.0%	7.0%	7.0%	7.0%	7.7%	7.0%	7.0%	7.0%	7.0%	7.0%	5.0%
QoQ						3.9%	-1.5%	3.0%	1.5%		3.9%	-1.5%	3.0%	1.5%		
Industry Solutions (post F1Q27 Disclosure)				$18,417	$20,345	$5,302	$5,436	$5,634	$5,756	$22,127	$5,778	$5,900	$6,112	$6,216	$24,006	$25,825
YoY					10.5%	8.3%	8.8%	9.1%	8.8%	8.8%	9.0%	8.5%	8.5%	8.0%	8.5%	6.7%
QoQ						0.2%	2.5%	3.6%	2.2%		0.4%	2.1%	3.6%	1.7%		
Industry Solutions Cloud				$17,213	$19,165	$4,999	$5,095	$5,426	$5,490	$21,010	$5,462	$5,550	$5,897	$5,945	$22,854	$24,433
YoY					11.3%	10.9%	9.3%	9.3%	9.1%	9.6%	9.3%	8.9%	8.7%	8.3%	8.8%	6.9%
QoQ						-0.6%	1.9%	6.5%	1.2%		-0.5%	1.6%	6.3%	0.8%		
Healthcare & Life Sciences (HLS)				$1,071	$1,181	$334	$322	$326	$323	$1,306	$387	$360	$358	$342	$1,446	$1,603
YoY					10.3%	15.7%	11.6%	9.6%	5.9%	10.6%	15.7%	11.6%	9.6%	5.9%	10.7%	10.8%
% Cloud				$803	$886	$251	$242	$245	$242	$980	$290	$270	$268	$257	$1,085	$1,202
% On-Prem				$268	$295	$84	$81	$82	$81	$327	$97	$90	$89	$86	$362	$401
Industry Solutions Products				$1,204	$1,180	$303	$341	$208	$266	$1,117	$316	$350	$216	$270	$1,152	$1,191
YoY					-2.0%	-21.4%	2.5%	3.9%	1.7%	-5.3%	4.3%	2.7%	3.8%	1.8%	3.1%	3.4%
QoQ						15.9%	12.6%	-39.1%	27.9%		18.9%	10.9%	-38.5%	25.5%		
Azure				$72,610	$101,938	$32,233	$34,866	$37,582	$42,508	$147,188	$46,254	$49,859	$53,554	$60,361	$210,028	$296,735
YoY					40.4%	44.0%	44.5%	44.5%	44.5%	44.4%	43.5%	43.0%	42.5%	42.0%	42.7%	41.3%
QoQ						9.6%	8.2%	7.8%	13.1%		8.8%	7.8%	7.4%	12.7%		
QoQ $ Change					$29,328	$2,816	$2,633	$2,715	$4,926	$45,250	$3,747	$3,605	$3,695	$6,807	$62,839	$86,708
YoY Change in QoQ $						68.4%	50.9%	44.5%	44.5%		33.1%	36.9%	36.1%	38.2%		
Azure AI				$12,097	$25,709	$10,242	$11,963	$13,781	$16,198	$52,185	$19,245	$21,900	$24,679	$28,640	$94,464	$158,585
YoY					112.5%	107.3%	105.7%	101.9%	99.3%	103.0%	87.9%	83.1%	79.1%	76.8%	81.0%	67.9%
Azure AI Contribution						24pts	25pts	27pts	27pts		28pts	29pts	29pts	29pts		
Core Azure				$60,513	$76,229	$21,991	$22,904	$23,800	$26,309	$95,004	$27,009	$27,958	$28,875	$31,721	$115,564	$138,150
YoY					26.0%	26.1%	25.1%	24.1%	23.6%	24.6%	22.8%	22.1%	21.3%	20.6%	21.6%	19.5%
KPI YoY Growthin Constant Currency						25.6%	25.1%	24.1%	23.6%		22.8%	22.1%	21.3%	20.6%		
QoQ						3.3%	4.2%	3.9%	10.5%		2.7%	3.5%	3.3%	9.9%		
QoQ $ Change						$700	$913	$897	$2,509		$700	$949	$916	$2,846		
YoY Change in Core Azure QoQ $						-7.6%	5.0%	3.0%	19.0%		0.0%	4.0%	2.2%	13.5%		
Productivity and Server Licensing				$35,391	$37,285	$8,415	$8,431	$8,585	$10,676	$36,107	$8,120	$8,271	$8,655	$10,704	$35,751	$35,939
YoY					5.4%	-3.0%	-4.3%	-2.0%	-3.2%	-3.2%	-3.5%	-1.9%	0.8%	0.3%	-1.0%	0.5%
QoQ						-23.7%	0.2%	1.8%	24.4%		-23.9%	1.9%	4.6%	23.7%		
Server Products				$22,997	$23,065	$4,959	$5,484	$5,698	$6,503	$22,644	$4,662	$5,319	$5,756	$6,511	$22,248	$22,395
YoY					0.3%	-6.0%	-3.0%	1.0%	0.1%	-1.8%	-6.0%	-3.0%	1.0%	0.1%	-1.7%	0.7%
QoQ						-23.6%	10.6%	3.9%	14.1%		-28.3%	14.1%	8.2%	13.1%		
Frontier and Support Services				$7,760	$8,260	$2,047	$2,058	$2,108	$2,134	$8,348	$2,073	$2,079	$2,129	$2,155	$8,436	$8,526
YoY					6.4%	1.3%	1.0%	1.0%	1.0%	1.1%	1.3%	1.0%	1.0%	1.0%	1.1%	1.1%
QoQ						-3.1%	0.5%	2.4%	1.2%		-2.9%	0.3%	2.4%	1.2%		
Other (MSFT Partner Network)				$71	$106	$3	$4	$2	$97	$106	$3	$4	$2	$97	$106	$106
YoY					49.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other / Adjustment	$0	$0	$0	$0	$1	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Agents and Infra				**$218,783**	**$268,127**	**$75,620**	**$79,634**	**$84,043**	**$93,153**	**$332,451**	**$95,010**	**$100,194**	**$105,976**	**$117,298**	**$418,479**	**$532,083**
YoY					22.6%	22.6%	23.6%	24.6%	24.9%	24.0%	25.6%	25.8%	26.1%	25.9%	25.9%	27.1%
QoQ						1.4%	5.3%	5.5%	10.8%		2.0%	5.5%	5.8%	10.7%		
2 Yr Avg. QoQ						1.5%	4.5%	4.2%	10.8%		1.4%	4.9%	5.1%	10.7%		
Devices and Consumer																
XBOX				$23,455	$21,790	$5,180	$5,831	$5,129	$4,696	$20,836	$5,142	$5,808	$5,131	$4,700	$20,782	$20,771
YoY					-7.1%	-6.0%	-2.1%	-4.0%	-8.8%	-4.4%	-0.7%	-0.4%	0.0%	0.1%	-0.3%	-0.1%
QoQ						3.9%	12.6%	-12.0%	-8.4%		9.5%	13.0%	-11.7%	-8.4%		
Windows and Devices	$22,379	$17,147	$17,026	$17,314	$17,084	$3,605	$3,952	$3,508	$3,464	$14,528	$4,258	$4,406	$3,848	$3,633	$16,144	$16,526
YoY	8.3%	-23.4%	-0.7%	1.7%	-1.3%	-20.8%	-11.8%	-13.2%	-13.7%	-15.0%	18.1%	11.5%	9.7%	4.9%	11.1%	2.4%
QoQ						-10.2%	9.6%	-11.2%	-1.3%		22.9%	3.5%	-12.6%	-5.6%		
Windows OEM and Devices	$21,470	$16,530	$16,513	$16,966	$16,795	$3,479	$3,805	$3,299	$3,265	$13,849	$4,133	$4,258	$3,638	$3,433	$15,461	$15,839
YoY	8.6%	-23.0%	-0.1%	2.7%	-1.0%	-23.4%	-15.0%	-16.8%	-15.2%	-17.5%	18.8%	11.9%	10.3%	5.1%	11.6%	2.4%
QoQ						-9.7%	9.4%	-13.3%	-1.0%		26.6%	3.0%	-14.6%	-5.6%		
Windows Patent Licensing, IP, IoT, Embedded & Other	$909	$617	$669	$348	$289	$126	$146	$208	$199	$679	$125	$147	$210	$200	$683	$687
YoY	1.6%	-32.1%	8.4%	-48.0%	-16.9%	1880.1%	3692.3%	72.2%	25.7%	134.8%	-0.4%	0.8%	0.9%	0.6%	0.6%	0.6%
QoQ						-20.1%	16.2%	42.6%	-4.7%		-36.8%	17.6%	42.6%	-5.1%		
Search and Advertising (ex TAC)				$22,171	$24,835	$6,203	$6,768	$6,486	$6,826	$26,283	$6,364	$7,261	$7,021	$7,336	$27,983	$29,814
YoY					12.0%	4.4%	5.9%	6.9%	6.1%	5.8%	2.6%	7.3%	8.3%	7.5%	6.5%	6.5%
QoQ						1.5%	9.1%	-4.2%	5.2%		-6.8%	14.1%	-3.3%	4.5%		
LinkedIn Marketing Solutions + Premium Subscriptions				$8,293	$9,659	$2,335	$2,684	$2,347	$2,679	$10,045	$2,510	$2,886	$2,523	$2,880	$10,799	$11,609
% of Total LinkedIn				47%	49%	46%	48%	44%	47%	46%	46%	47%	44%	47%	46%	46%
YoY					16.5%	4.0%	4.0%	4.0%	4.0%	4.0%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
QoQ						-9.4%	15.0%	-12.6%	14.1%		-6.3%	15.0%	-12.6%	14.1%		
Search and Advertising				$13,878	$15,176	$3,868	$4,084	$4,138	$4,147	$16,238	$3,854	$4,376	$4,497	$4,456	$17,184	$18,205
YoY					9.4%	-4.6%	7.1%	8.7%	7.5%	7.0%	-0.4%	7.1%	8.7%	7.5%	5.8%	5.9%
Devices and Consumer				**$62,940**	**$63,709**	**$14,988**	**$16,551**	**$15,122**	**$14,986**	**$61,648**	**$15,765**	**$17,475**	**$16,000**	**$15,669**	**$64,909**	**$67,110**
YoY					1.2%	-6.3%	-1.7%	-2.1%	-2.9%	-3.2%	5.2%	5.6%	5.8%	4.6%	5.3%	3.4%
QoQ						-2.9%	10.4%	-8.6%	-0.9%		5.2%	10.9%	-8.4%	-2.1%		
2 Yr Avg. QoQ						-2.2%	8.4%	-8.7%	1.1%		-0.4%	7.8%	-8.4%	-0.5%		
Total Revenue		**$211,915**	**$245,122**	**$281,724**	**$331,839**	**$90,608**	**$96,185**	**$99,166**	**$108,139**	**$394,098**	**$110,775**	**$117,669**	**$121,976**	**$132,968**	**$483,388**	**$599,164**
YoY		15.7%	14.9%	17.8%	16.7%	18.3%	19.6%	20.1%	18.8%	22.3%	22.3%	23.0%	23.0%	22.7%	24.0%
QoQ		211,915			0.7%	6.2%	3.1%	9.0%		2.4%	6.2%	3.7%	9.0%		
3 Yr Avg. QoQ					1.2%	6.8%	0.8%	7.4%		1.2%	5.7%	1.9%	8.9%		

Source: Company Data, Morgan Stanley Research

Exhibit 11: Summary of Model Changes

	FY26	FQ1:27e	FQ2:27e	FQ3:27e	FQ4:27e	FY27e	FY28e	FY29e
Total Revenue	**$331.84B**	**$90.61B**	**$96.19B**	**$99.17B**	**$108.14B**	**$394.10B**	**$483.39B**	**$599.16B**
YoY Change	17.8%	16.7%	18.3%	19.6%	20.1%	18.8%	22.7%	24.0%
Old Total Revenue	$331.84B	$90.73B	$96.16B	$98.82B	$107.89B	$393.59B	$483.35B	$599.16B
% Change	0.0%	-0.1%	0.0%	0.4%	0.2%	0.1%	0.0%	0.0%
Total Gross Margin	**67.9%**	**67.3%**	**66.0%**	**65.5%**	**64.4%**	**65.8%**	**64.5%**	**63.5%**
Old Gross Margin	67.9%	67.3%	66.0%	65.5%	64.4%	65.7%	64.4%	63.4%
New vs. Old	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
Operating Expense	**$70.23B**	**$16.79B**	**$17.74B**	**$19.15B**	**$21.94B**	**$75.61B**	**$85.86B**	**$97.16B**
YoY Change	7.4%	7.2%	4.2%	8.4%	10.4%	7.7%	13.6%	13.2%
Old Operating Expense	$70.23B	$16.85B	$17.73B	$19.08B	$21.89B	$75.54B	$85.88B	$97.19B
% Change	0.0%	-0.3%	0.0%	0.4%	0.2%	0.1%	0.0%	0.0%
Operating Income	**$155.24B**	**$44.20B**	**$45.78B**	**$45.85B**	**$47.70B**	**$183.52B**	**$225.71B**	**$283.09B**
Operating Margin	**46.8%**	**48.8%**	**47.6%**	**46.2%**	**44.1%**	**46.6%**	**46.7%**	**47.2%**
Old Operating Income	$155.24B	$44.36B	$45.71B	$45.62B	$47.58B	$183.27B	$225.67B	$283.09B
Old Operating Margin	46.8%	48.8%	47.5%	46.2%	44.1%	46.5%	46.7%	47.2%
% Change in Op. Income	0.0%	-0.3%	0.2%	0.5%	0.2%	0.1%	0.0%	0.0%
EPS	**$17.94**	**$4.75**	**$4.93**	**$4.91**	**$5.10**	**$19.70**	**$24.08**	**$30.12**
Old EPS	$17.94	$4.77	$4.93	$4.89	$5.09	$19.66	$24.06	$30.11
% Change	0.0%	-0.3%	0.1%	0.5%	0.2%	0.2%	0.1%	0.0%
Total Operating Cash Flow	**$182.9B**	**$47.9B**	**$46.0B**	**$47.8B**	**$54.6B**	**$196.3B**	**$235.2B**	**$282.3B**
YoY Change	34%	6%	29%	2%	-2%	7%	20%	20%
Old OCF	$182.9B	$48.07B	$45.97B	$47.70B	$54.41B	$196.1B	$235.2B	$282.5B
% Change	0.0%	-0.3%	0.0%	0.3%	0.3%	0.1%	0.0%	0.0%
Total FCF	**$67.0B**	**$9.0B**	**$2.8B**	**$0.7B**	**$2.2B**	**$14.7B**	**$6.3B**	**$7.8B**
YoY Change	-6%	-65%	-53%	-96%	-89%	-78%	-57%	23%
Old FCF	$67.0B	$9.17B	$2.77B	$0.55B	$2.05B	$14.5B	$6.3B	$7.9B
% Change	0.0%	-1.4%	0.3%	26.8%	7.2%	1.2%	1.3%	-0.4%
Total Capex	**$145.3B**	**$50.9B**	**$51.2B**	**$55.1B**	**$62.9B**	**$220.1B**	**$274.8B**	**$329.2B**
YoY Change	65%	46%	37%	73%	53%	51%	25%	20%
Old Capex	$145.3B	$50.90B	$51.20B	$55.07B	$62.92B	$220.1B	$274.8B	$329.2B
% Change	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company Data, Morgan Stanley Research

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

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(as of September 30, 2026)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1599	43%	455	48%	28%	783	44%
Equal-weight/Hold	1563	42%	394	42%	25%	763	43%
Not-Rated/Hold	2	0%	1	0%	50%	1	0%
Underweight/Sell	570	15%	96	10%	17%	227	13%
Total	3,734		946			1774	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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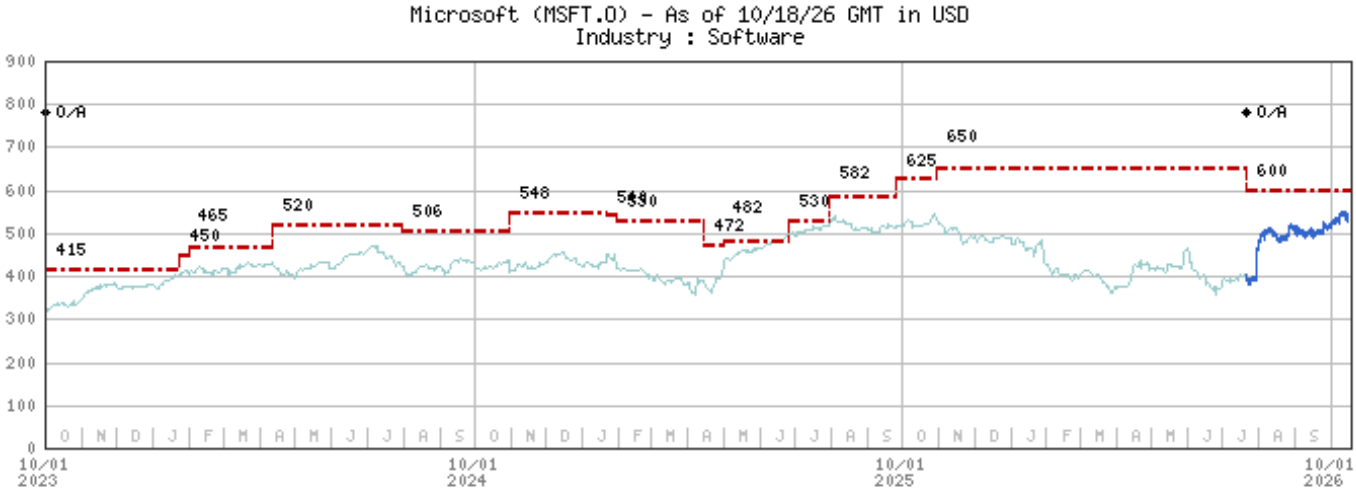
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 10/1/21 : O/A; 7/21/26 : O/A

Price Target History: 9/14/21 : 331; 10/27/21 : 364; 1/26/22 : 372; 7/12/22 : 354; 10/14/22 : 325; 10/26/22 : 307; 4/26/23 : 335; 7/6/23 : 415; 1/23/24 : 450; 1/31/24 : 465; 4/11/24 : 520; 7/31/24 : 506; 10/31/24 : 548; 1/22/25 : 540; 1/30/25 : 530; 4/15/25 : 472; 5/1/25 : 482; 6/26/25 : 530; 7/31/25 : 582; 9/26/25 : 625; 10/30/25 : 650; 7/21/26 : 600

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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INDUSTRY COVERAGE: Software

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/16/2026)
Adam Wood		
Adobe Inc. (ADBE.O)	U (07/21/2026)	$245.20
Atlassian Corporation PLC (TEAM.O)	O (01/13/2020)	$207.82
Intuit (INTU.O)	E (07/21/2026)	$325.15
Microsoft (MSFT.O)	O (07/21/2026)	$529.05
Salesforce, Inc. (CRM.N)	E (07/21/2026)	$240.70
Samsara Inc (IOT.N)	E (03/23/2023)	$39.57
ServiceNow Inc (NOW.N)	O (09/24/2025)	$141.97
Shopify Inc (SHOP.O)	O (04/19/2024)	$169.52
Workday Inc (WDAY.O)	U (07/21/2026)	$190.81
Chris Quintero		
BILL Holdings Inc (BILL.N)	E (06/10/2025)	$45.60
Blackline Inc (BL.O)	E (07/21/2026)	$29.80
Box Inc (BOX.N)	E (05/21/2024)	$39.56
CCC Intelligent Solutions Holdings Inc (CCC.O)	++	$7.61
Descartes Systems Group Inc (DSGX.O)	O (01/15/2026)	$87.05
DocuSign Inc (DOCU.O)	E (01/16/2024)	$74.65
Manhattan Associates Inc. (MANH.O)	O (10/11/2026)	$222.17
Navan Inc (NAVN.O)	O (11/24/2025)	$25.38
ServiceTitan Inc (TTAN.O)	O (01/20/2026)	$74.98
SPS Commerce Inc (SPSC.O)	U (07/21/2026)	$85.25
Vertex Inc. (VERX.O)	E (07/21/2026)	$13.37
Via Transportation Inc (VIA.N)	O (01/20/2026)	$31.93

Elizabeth Porter, CFA		
Amplitude Inc. (AMPL.O)	O (01/15/2026)	$14.75
Asana Inc (ASAN.N)	U (05/20/2025)	$9.86
Autodesk (ADSK.O)	O (08/23/2024)	$239.90
Bandwidth Inc (BAND.O)	E (10/16/2026)	$43.34
Figma Inc (FIG.N)	E (08/25/2025)	$21.49
Five9 Inc (FIVN.O)	E (10/10/2022)	$32.23
Freshworks Inc (FRSH.O)	E (10/18/2021)	$13.74
GoDaddy Inc (GDDY.N)	E (07/19/2021)	$105.96
HubSpot, Inc. (HUBS.N)	O (03/21/2023)	$230.94
Klaviyo, Inc (KVYO.N)	O (04/29/2026)	$17.08
Liveramp Holdings Inc (RAMP.N)	E (01/13/2025)	$37.44
monday.com Ltd (MNDY.O)	O (08/12/2025)	$90.37
NICE Ltd. (NICE.O)	E (07/21/2026)	$112.17
Octave Intelligence Plc (OCTV.O)	E (09/17/2026)	$20.04
RingCentral Inc (RNG.N)	E (08/08/2023)	$75.44
Sprinklr Inc (CXM.N)	E (07/19/2021)	$5.83
Sprout Social Inc (SPT.O)	E (11/17/2020)	$11.28
Toast, Inc. (TOST.N)	O (12/16/2021)	$31.62
Twilio Inc (TWLO.N)	O (02/24/2025)	$244.37
Wix.Com Ltd (WIX.O)	E (07/21/2026)	$75.01
Zeta Global Holdings Corp (ZETA.N)	E (08/01/2024)	$31.81
Zoom Communications (ZM.O)	E (10/11/2022)	$94.19
ZoomInfo Technologies Inc (GTM.O)	E (02/01/2024)	$3.80
Meryl R Thomas, CFA		
Lightspeed Commerce Inc. (LSPD.N)	E (02/18/2021)	$10.57
Meta A Marshall		
Check Point Software Technologies Ltd. (CHKP.O)	E (10/16/2023)	$137.87
CrowdStrike Holdings Inc (CRWD.O)	O (03/10/2026)	$227.39
Fortinet Inc. (FTNT.O)	E (07/21/2026)	$169.13
Gen Digital Inc. (GEN.O)	E (06/07/2024)	$24.16
Netskope, Inc. (NTSK.O)	O (10/13/2025)	$19.00
Okta, Inc. (OKTA.O)	O (12/02/2024)	$187.26
Palo Alto Networks Inc (PANW.O)	O (10/10/2017)	$342.00
Qualys Inc (QLYS.O)	U (02/09/2021)	$181.05
Rapid7 Inc (RPD.O)	U (07/21/2026)	$12.61
SailPoint Inc (SAIL.O)	O (09/02/2025)	$18.75
SentinelOne, Inc. (S.N)	E (12/02/2024)	$21.58
Tenable Holdings Inc (TENB.O)	E (12/02/2024)	$37.20
Varonis Systems, Inc. (VRNS.O)	++	$48.72
Zscaler Inc (ZS.O)	E (04/22/2026)	$207.38
Ryan Lountzis		
CoreWeave (CRWV.O)	E (04/22/2025)	$61.39
Nebius Group NV (NBIS.O)	E (01/15/2026)	$165.47
Sanjit K Singh		
Akamai Technologies, Inc. (AKAM.O)	O (01/12/2026)	$87.81
Appian Corp (APPN.O)	E (04/30/2026)	$41.17
C3.ai (AI.N)	U (01/04/2021)	$11.32
Cloudflare Inc (NET.N)	O (12/02/2024)	$296.30
Datadog, Inc. (DDOG.O)	O (01/12/2026)	$247.11
DigitalOcean Holdings Inc (DOCN.N)	O (01/16/2025)	$98.69
Dynatrace Inc (DT.N)	O (08/25/2026)	$61.11
Elastic NV (ESTC.N)	E (07/21/2026)	$91.74
GitLab Inc (GTLB.O)	E (01/12/2026)	$52.76

JFrog Ltd. (FROG.O)	E (07/21/2026)	$84.31
MongoDB Inc (MDB.O)	O (04/12/2023)	$337.57
Oracle Corporation (ORCL.N)	E (01/15/2019)	$128.23
PagerDuty, Inc. (PD.N)	U (07/21/2026)	$16.16
Palantir Technologies Inc. (PLTR.O)	E (02/04/2025)	$186.03
Snowflake Inc. (SNOW.N)	O (06/24/2025)	$306.84
UiPath Inc (PATH.N)	E (09/07/2022)	$12.85

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