on 19-Oct-2026

BERNSTEIN
SOCIETE GENERALE GROUP

19 October 2026



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Global Software

Microsoft Corp

Rating

Outperform

Price Target

MSFT **662.00 USD** (660.00 *OLD*)

Microsoft 1Q27 preview: Could Azure and Office both accelerate?

Microsoft will report 1Q27 results on Wednesday, Oct 28th, after the market close. Heading into the earnings, we like the setup for the company. While sentiment has improved since last quarter, expectations going into the quarter are generally still seem reasonable. We lean with a positive view into the street's reaction to the results.

From our conversations we believe investors generally expect Azure growth to accelerate, but the degree remains debatable, and many remain skeptical on Copilot momentum. We think this provides a decent setup, as we believe both Azure and Office can accelerate sequentially; and if the company guides to high 40's Azure growth and close to 20% M365 Commercial Cloud growth it should drive the stock up - while we're not fully certain of the timing, we see a scenario where this is achievable.

With this preview, we have also updated our model (Link) with the new segments and raised our Azure and M365 Commercial estimates. Given the amount of compute MSFT has brought on-line recently, we see upside to these estimates especially in the outer quarters/years.

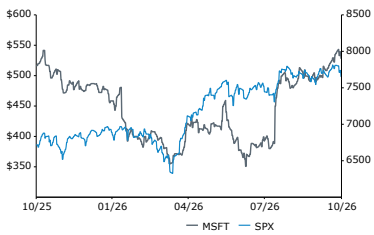
While valuation has bounced back a bit after last quarter's stellar results, it remains lower than historical level as the company now gets increasingly compared to its hyperscaler peers. We believe there is opportunity for a positive re-rating if Microsoft can keep delivering strong results on Azure and Office dispelling the bear narratives on Copilot.

Close Date	16 Oct 2026
MSFT Close Price (USD)	529.05
Price Target (USD)	662.00
Upside/(Downside)	25%
52-Week Range	553.72/349.20
SPX	7,659.44
FYE	Jun
Div Yield	0.7%
Market Cap (USD) (B)	3,928.48
EV (USD) (B)	3,980.45

Performance	YTD	1M	6M	12M
Absolute (%)	9.4	7.1	25.1	3.0
SPX (%)	11.9	1.4	8.8	15.5
Relative (%)	(2.5)	5.7	16.4	(12.5)

Source: Bloomberg, Bernstein estimates and analysis.

Price Performance, 1YR



Investment Implications

Microsoft: We like the setup for the company with expectations and valuation low and signs of CAPEX slowing and Azure accelerating while Copilot adoption is strong. We have updated our model to the new segmentation and increased Azure and M365 Commercial growth which has driven up our TP to $662 (vs $660). Given the risk/reward one should start to rebuild one's Microsoft position over the remainder of the year. Our P/FE of 27x remains unchanged.

Adjusted EPS	F26A	F27E	F28E
MSFT (USD)	17.28	19.96	**24.12**
OLD	--	--	24.01

Financials	F26A	F27E	F28E	CAGR
Revenues (M)	331,839	400,249	490,971	21.6%
Operating Earnings (M)	155,237	187,110	224,131	20.2%
Net Earnings (M)	128,786	148,728	180,574	18.4%
Revenue/Share	44.52	53.70	65.59	21.4%
Operating Margin (%)	46.8	46.7	45.7	--
Net Income Margin (%)	38.8	37.2	36.8	--
EPS Growth (%)	26.7	15.5	20.9	--

Valuation Metrics	F26A	F27E	F28E
Adjusted P/E (x)	30.6	26.5	21.9
PEG Adjusted (x)	1.1	1.7	1.1
EV/Sales (x)	12.0	9.9	8.1
P/Sales (x)	11.9	9.9	8.1
PEG Reported (x)	1.1	1.7	1.1
EV/EBIT (x)	25.6	21.3	17.8
Div Yield (%)	0.7	0.7	0.8

Source: Bloomberg, Bernstein estimates and analysis.

See the Disclosure Appendix of this report for required disclosures, analyst certifications and other important information. Alternatively, visit our Global Research Disclosure Website.
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VALUATION COMPS TABLE

	10/16/2026		Net Cash Per Share		Free Cash Flow (LTM)		Revenue Growth	Valuation Multiples			
	Company	Share Price	$	% of Share Price	Per Share ($)	% Yield	NTM (%)	EV / NTM Revenue	P / FE	Price / FCF (LTM)	PEG Ratio
Bernstein Coverage	Adobe	$245.20	(2.76)	(1.1%)	26.07	10.6%	9.4%	3.4x	9.1x	9.0x	0.7x
	Microsoft	$529.05	(6.97)	(1.3%)	8.99	1.7%	17.8%	10.2x	26.8x	58.6x	1.9x
	Oracle	$128.23	(44.96)	(35.1%)	(9.78)	N/A	37.5%	5.3x	15.0x	N/A	2.5x
	MongoDB	$337.57	28.44	8.4%	7.95	2.4%	18.3%	7.5x	48.1x	41.3x	3.6x
	Salesforce.com	$240.70	(33.86)	(14.1%)	16.84	7.0%	10.4%	4.7x	16.4x	13.1x	-1.3x
	HubSpot	$230.94	21.13	9.2%	12.64	5.5%	13.9%	2.7x	15.3x	17.5x	0.5x
	SAP	$222.87	1.09	0.5%	7.39	3.3%	11.5%	6.4x	25.8x	31.7x	1.9x
	Snowflake	$306.84	(1.22)	(0.4%)	3.47	1.1%	32.3%	15.1x	119.4x	90.6x	2.3x
	Quantinuum	$36.55	8.91	24.4%	(1.20)	N/A	50.3%	204.2x	N/A	N/A	N/A
	Workday	$190.81	(1.40)	(0.7%)	11.02	5.8%	10.2%	4.1x	15.8x	16.2x	0.8x
Other Comps	Autodesk	$239.90	2.11	0.9%	13.33	5.6%	12.6%	5.7x	18.4x	17.7x	1.2x
	ServiceNow	$141.97	(3.64)	(2.6%)	4.39	3.1%	20.0%	8.5x	31.1x	32.1x	1.4x
	Amadeus	$61.04	(7.15)	(11.7%)	4.77	7.8%	8.5%	4.1x	15.0x	12.7x	2.8x
	Datadog	$247.11	10.14	4.1%	2.93	1.2%	24.5%	17.3x	89.4x	82.9x	5.7x

Source: Bloomberg, Bernstein analysis

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DETAILS

Microsoft over the last year+ has seen increasing concerns surrounding the impact of AI and the company's investments in AI. But sentiment has improved since 4Q26 as Microsoft printed a stellar quarter and strong guidance that have temporarily quieted the three main Microsoft bear cases:

- Capex is growing fast, but will it convert into revenue?
- Azure acceleration and ROI concerns;
- Will Copilot see strong adoption given competition and mixed customer feedback?

While last quarter's results have helped concerns continue. Interestingly, from our conversations with investors, we believe a fair share of them still remain on the fence. Some remain skeptical on the M365 Copilot momentum and question its sustainability. Others prefer the other hyperscaler names whose cloud business are accelerating more steeply.

Going into 1Q27, the setup no longer has the benefit of super low expectations and a cheap valuation, which we saw prior to last quarter's results, but we are also not in the stage of full exuberance yet (or despair as we saw earlier this year). In this preview note, we lay out our thoughts on Azure, Capex and Copilot, both in terms of our expectations for the quarter and where these 3 key factors could be trending throughout FY27. **We believe we are coming increasingly close to the point where 1) Azure revenue grows faster than Capex growth inclusive of the effect of component price increase, and 2) Copilot monetization becomes material enough to accelerate Office (M365 Commercial Cloud) growth over 20% in a few quarters.** Therefore, we lean positive going into the quarter and as we saw earlier this year timing can be tricky (Microsoft: Could the bear case in fact be the bull case?) where we saw the acceleration potential, but it took one more quarter than we thought.

We are also publishing our **updated model** with the new segments (Quick Take: Microsoft's new reporting - is visibility increasing?) to help our clients compare and contrast during and post earnings.

We have also raised our estimates on Azure and M365 Commercial in the upcoming quarters reflecting our latest thought. Given the amount of compute Microsoft has brought up recently, there is potential for them to still beat our numbers substantially in the outer quarters/years.

EXPECTATIONS FOR THE QUARTER

For a quick overview of our estimates:

- On key financial metrics (Exhibit 1), we are ahead on every metric except for Gross margin. While our estimates for segment gross margins have not changed, the difference was driven by a mix shift to more Cloud and AI. We are not that concerned with this as we believe Azure gross margins will improve over time (driven by Azure AI margin improvement) and the company can offset gross margin impact through operating leverage.
- At the segment level (Exhibit 2), we note that Microsoft has just re-segmented this quarter, so there might some noise in consensus numbers. We are again ahead of consensus on both segment revenues.
- On Azure (Exhibit 3), which we will detail below, we are ahead of consensus for both 1FQ and 2FQ 27.



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EXHIBIT 1: **Bernstein estimates vs. Consensus on key financial metrics**

1Q27E	Consensus vs. Bernstein Estimates		Bernstein vs Cons	MSFT Guidance
Revenue	Consensus **Bernstein**	90,631 **92,110**	*1.6%*	89,850 ~ 90,950
Gross Margin	Consensus **Bernstein**	67.2% **66.7%**	*(0.5%)*	67.1% ~ 67.2%
Operating Income	Consensus **Bernstein**	43,926 **44,614**	*1.6%*	43,450 ~ 44,250
Operating Margin	Consensus **Bernstein**	48.4% **48.4%**	*0.1%*	48.4% ~ 48.7%
EPS	Consensus **Bernstein**	4.73 **4.76**	*0.7%*	

Source: Bloomberg, Company reports, Bernstein analysis and estimates

EXHIBIT 2: **Bernstein vs. Consensus at the segment level**

1Q27E	Consensus vs. Bernstein Estimates		Bernstein vs Cons	MSFT Guidance	Bernstein vs. midpoint Guidance
Agents & Infra	Consensus **Bernstein**	75,618 **76,604**	*1.3%*	75,150 ~ 75,750	*1.5%*
Devices & Consumer	Consensus **Bernstein**	15,020 **15,506**	*3.2%*	14,700 ~ 15,200	*3.7%*

Source: Bloomberg, Company reports, Bernstein analysis and estimates

AZURE

Azure remains the center of focus as investors hope for continued growth acceleration. As Azure delivered growth above expectations last quarter, we believe investor expectation this quarter especially from the buy side have moved higher but are still reasonable. We lay out the moving pieces below:

- **Re-segment impact**: starting 1Q27, developer tools including GitHub Cloud and Security Copilot, as well as the Healthcare and Life Sciences cloud are moved out of Azure, making restated revenues nominally smaller. Following the new segment Azure is now purely an IaaS/PaaS business as most of the remaining SaaS components have been shifted out. Please note that this creates a stark comparison to their 2 major hyperscaler competitors which include other meaningful products and services within their numbers - thus the comparison is still not clean (but not on the Microsoft side). For a comparison of the historical differences and the numbers see Cloud in the Quarter: How did the hyperscalers do in 2Q26?
    - The impact on historical growth rates is minimal (Exhibit 4), but note Azure CC guide for 1Q27 has been mechanically revised to 44-45% CC (vs. 45% previously) with less than 1pt of FX headwind.
    - The other change is Microsoft will start to explicitly report revenue dollars for Azure in addition to the growth figures.
- **Can Azure deliver 45+% this quarter?** Microsoft guided to 44-45% CC growth for 1Q27. Consensus is currently sitting within the guidance range (Exhibit 3), and we believe buy-side bogeys are at least a point higher. While this is not a low bar to clear, we believe it is still achievable given that Microsoft is on track to bring on roughly 1GW per quarter for calendar 2026, and over the past 2 quarters has added $1.9B and $3.4B of incremental Azure revenue. To clear the bar they need to add ~$2.9B of incremental revenue to achieve 45% or $3.2B to achieve 46% growth. Management has confirmed that the delivery of the additional capacity is on track as of the last earnings call, therefore we see this level of expectation (roughly 1pt beat) as reasonable. Beyond this level we do not expect significantly more upside from Azure this quarter, as the new capacities will be allocated to both Azure and Copilot, and we believe Copilot is picking up steam (see below). Plus, we believe is Azure is less impacted by higher spot pricing as most of these capacities, we believe, serve long-term contracts including enterprise contracts while Microsoft's 2 largest competitors are far more expose (both positively and negatively to

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digitally native companies). That being said, as more capacity is brought online we see acceleration to continue next quarter which could be reflected in the guide.

- Note that for the capacity to be generating revenue, the datacenters would have to have been turned over ~6 months prior to generating revenue. Thus, the potential pitfalls are limited.

- Two factors that many investors miss when comparing Azure growth to its hyperscaler (and neocloud) peers are 1) Microsoft's customers are predominantly enterprise while its peers are predominantly digitally native customers and those two groups grow at different rates (one need only look back to the capacity optimization phase where Azure decelerates slower than its peers) and 2) Copilot adoption is quite strong and pulling resources that otherwise would allow Microsoft to deliver even stronger Azure growth.

    - Enterprise AI adoption is far earlier than digitally native and as enterprise adoption accelerates Microsoft should be the biggest winner across the hyperscalers.

- **Unlikely to update Capex guide this quarter:** recall from last quarter that Microsoft is increasing the useful life of their datacenters from 15 years to 25 years, which results in what Microsoft defines as shorter duration leases (e.g. a 10-year lease) being reclassified from financing leases (in Capex) to operating leases (not in Capex, but expensed through I/S). This has mechanically changed CY26 total Capex guide from $190B to $175B. Given the high volatility of component prices we think management will prefer to give FY27/CY27 updates as they move closer to that timeframe (i.e. in 2FQ27). Management has further guided to 1Q27 total Capex including finance lease to be over $50B, implying roughly $50B for 2Q27 as well.

    - Compared to peers, Microsoft appears to be more if not the most disciplined as it is committed to remain FCF positive for FY27 and has minimal hardware commitments beyond CY27 (see Microsoft: Are they overbuilding capacity?). Note that some have argued that this is a sign Microsoft is being too conservative, but we disagree, rather they are farther along in the maturation of their datacenter footprint and capacity planning. They are also weighing, we believe, building vs leasing datacenter capacity to manage cash flow. In fact, we would not be surprised to see Microsoft's capacity constraints abating, so long as there are no more industry supply / macro issues, within 2 years.

    - Note **we are modeling Microsoft as FCF positive in both FY27 and FY28**.

    - **Thoughts on FY27 Capex:** while the company has not provided a guide for FY27 Capex, we note that based on 10K disclosure Microsoft has $169B purchase commitments on hardware, power and other datacenter related costs. Currently, for FY27 we are modeling 60+% Y/Y cash capex increase and a total of $200B incl. finance lease.

- **Are we near an inflection point for revenue to grow faster than Capex?** We saw 2 quarters ago, when we took out the effect of the hardware price increase, Microsoft CAPEX was growing meaningfully slower than Azure revenue. Inclusive of the effect of component price increase, we are not sure if we are fully there yet, but we are a step closer. As Exhibit 5 shows, we are observing cash Capex growth, which is more tied to short-lived compute asset spending, and Azure growth converging, which is an encouraging sign. The question is how quickly this narrowing would happen and for this to happen Capex growth for FY27 would need to keep trending down while Azure keeps accelerating (Exhibit 6). Given the current momentum we think Azure growing faster in FY27 vs. FY26 is fairly certain, but there is still a bit of Capex upside risk for CY2027 which could decrease the rate of narrowing of CAPEX to Azure growth. Despite the uncertainty we believe the gap between Capex and revenue growth is starting to close, and it's a matter of whether the inflection happens in FY27 or FY28.

    - Recall from our note Microsoft: Flashback to the Cloud build-out, in a mature state we think Cloud Capex will grow at roughly ½ of cloud revenue growth. But the stock will react much earlier than that, potentially at the point where investors see Capex definitively decelerate and revenue accelerate.

    - Note that if we compare Capex growth to Cloud growth (i.e. Commercial Cloud revenue), the gap is wider, but the trajectory is similar as Commercial Cloud revenue, which is currently in the high 20s, are likely to accelerate into the 30s this FY given both Azure and Office momentum.

- **OpenAI concentration risk:** we've received many investor questions on this since Microsoft's disclosure in their FY26 10K of $24.1B of revenues from OpenAI, which potentially accounted for 80% of Azure AI revenues. Please note that this includes the OpenAI revenue share and OpenAI's spending on Azure IaaS/PaaS which includes inferencing and potentially

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training spending beyond the initially $13B credits (but note Astra was trained on Oracle OCI so training revenues at Azure is probably not that large). While this represents customer concentration risk we want to remind investors that:

1. Most of OpenAI's infra spending on Azure is on inferencing which is stickier and less lumpy than training. There is also likely a meaningful amount of CPU compute, database and other PaaS services.

2. Given that most of the AI infrastructure spending today is driven by the two frontier labs a high concentration is almost unavoidable if one has meaningful AI IaaS/PaaS revenue. Going forward OpenAI accounts for less than 40% of Microsoft RPO and while OpenAI could continue to be a large customer as enterprise inferencing usage accelerates this will be a tailwind to Azure AI revenue growth and potentially a driver of a mix shift and improving Azure margins.

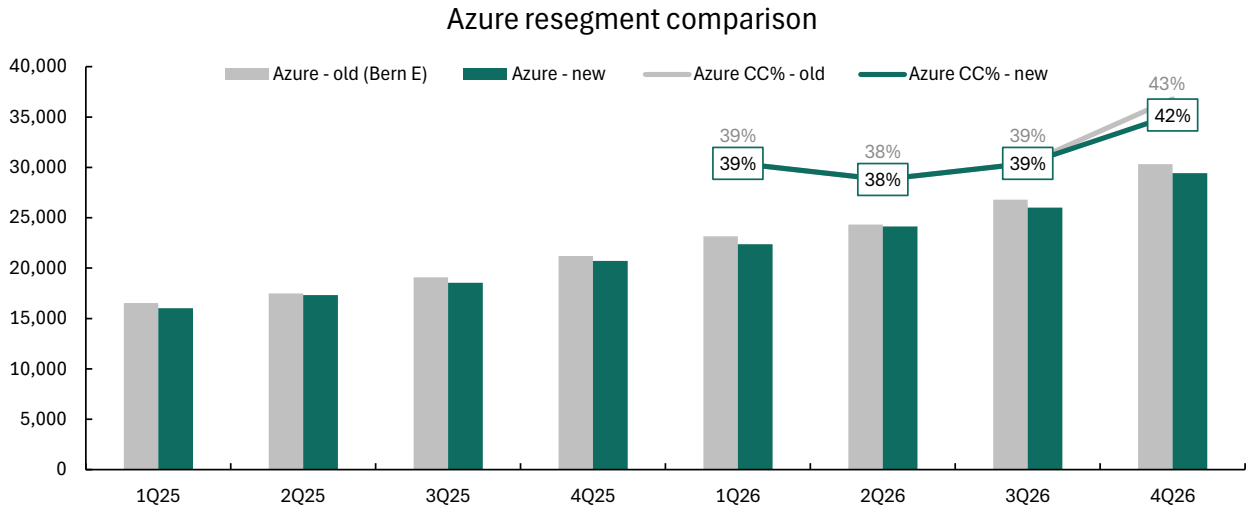
3. The main worry is capacity overbuilt if the frontier lab growth stalls. In this case Microsoft is better positioned for 2 reasons: 1) it has first-party SaaS (Copilots) that can absorb the capacity more easily; and 2) Microsoft does not put servers in racks until they know what workload will be using that server - this means that Microsoft could quickly shift to more CPUs to absorb excess datacenter capacity.

EXHIBIT 3: **Bernstein vs. Consensus on Azure**

		1Q27E	2Q27E
Azure % growth (new segment)	Consensus (reported %)	44.9%	44.8%
	MSFT Guidance	44-45% CC, <1pt FX headwind	
	Bernstein (reported %)	**45.6%**	**46.5%**
	Bernstein vs. Cons	*0.7%*	*1.7%*
Azure Revenue ($M)	Consensus	32,250	34,916
	Bernstein	**32,591**	**35,459**

Source: Bloomberg, Company reports, Bernstein analysis and estimates

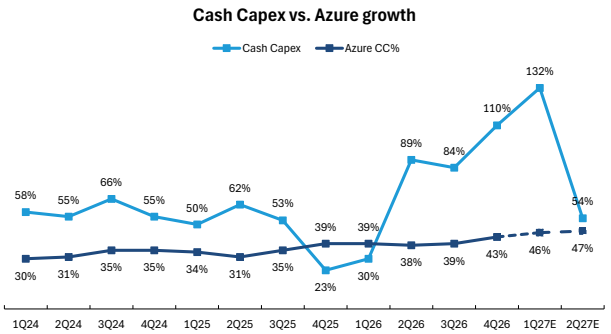
EXHIBIT 4: **After resegmenting, Azure is now a pure PaaS/IaaS business**



Source: Company disclosures, Bernstein analysis and estimates

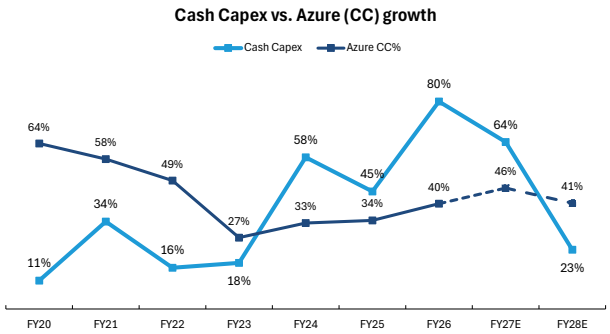
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EXHIBIT 5: **Quarterly Capex growth vs. Azure growth**



Azure historical growth based on old Azure segment
Source: Company disclosures, Bernstein analysis and estimates

EXHIBIT 6: **Annual Capex growth vs. Azure growth**



Azure historical growth based on old Azure segment
Source: Bloomberg, Company disclosures, Bernstein analysis and estimates

MICROSOFT OFFICE (M365)

The second leg of growth in the age of AI is Microsoft's Copilots but especially M365 Copilot. Despite the recent momentum we've seen in Copilot paid seats (30M+ in 4Q26, or 50% QoQ), we believe the bear concerns on competition has not fully dissipated. Microsoft has guided for Office Commercial (M365 Commercial Cloud) to accelerate throughout the year, but our sense is that people remain skeptical. Should Microsoft deliver visible acceleration in Office Commercial growth we believe it could surprise the street on the upside and further improve the narrative.

While 3rd party add-ons have come to market faster and in some cases are better, it is important to remember that Microsoft does not need to own the best frontier model or be the best-in-class to effectively monetize AI. Good enough and economical is perhaps a better description of its positioning, as Microsoft's advantage lie in its distribution, data gravity, and its platform offerings that are already deeply embedded in most workflows. For Copilots, Microsoft has taken a page from their traditional playbook of creating bundles that drive adoption. We saw this with the Office bundle, Office 365, Office 365 E3, E5, and now E7. These bundles are well priced; support enterprise agreement discounts; are easy to use and implement by IT, and they protect the core Office 365 business while driving revenue growth.

A couple quarters ago, due to tight constraints management had to really weigh the trade-off between allocating scarce capacity to either Azure or Office copilot. But as more capacity has come online in recent quarters, we believe the company can grow both at an accelerating pace together. A couple of things to note for the quarter:

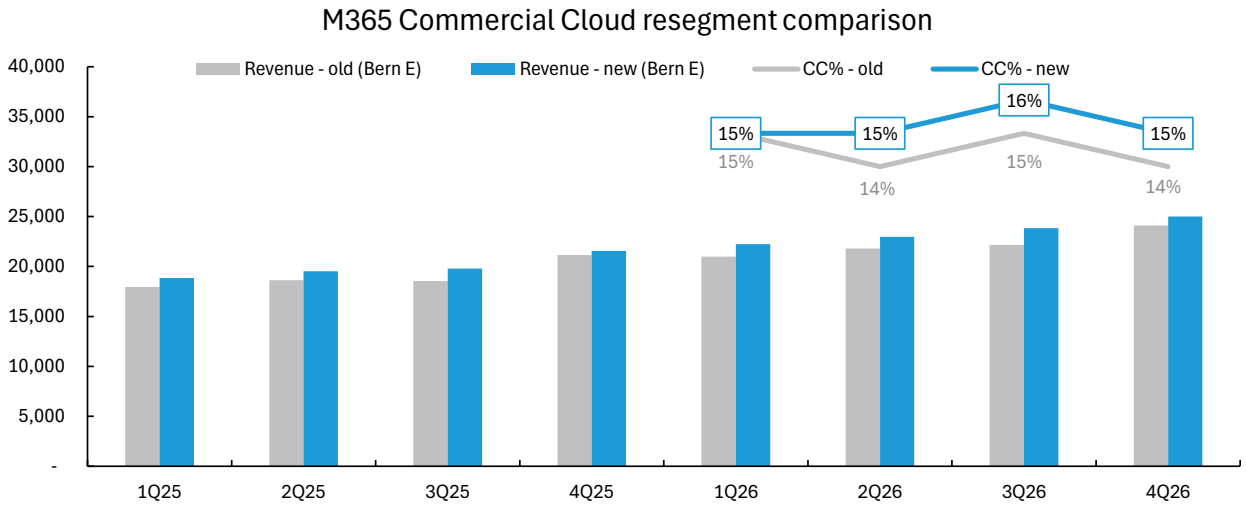
- **Re-segment impact**: starting 1Q27, most of the revenues that moved out of Azure (developer tools including GitHub Cloud and Security Copilot) will move into M365 Commercial Cloud, which nominally increased its size. After this change, M365 Commercial Cloud growth rates have been restated for roughly 1 pt higher (Exhibit 7) while the 1Q27 guide for CC growth in this segment has been revised up 2 pts from 15% to 17%.
    - Note that the company has also guided for M365 Commercial Cloud growth to accelerate throughout FY27.
- **Can M365 Commercial Cloud growth accelerate into the 20s in 2FQ27?** Microsoft has been aggressively bringing more capacities online and at the same time, Copilot adoption is accelerating. Given the past few quarters of Copilot and AI disclosures we knitted together a short series estimating the Azure + Copilot revenue yield on available compute assets, based on a 2-quarter lag (Exhibit 8). Although this is a rough proxy as there are many variables (timing of capacity online, compute efficiency, R&D use, new Copilot offerings with consumption pricing etc.), we think there is a likely chance for Azure to keep accelerating in 2Q27 and M365 Commercial Cloud to grow 20% (note that we used old segments in the exhibit, so with the new segment growth is approx. 2pts higher)
    - Given the various moving parts we have taken a quite conservative stance, assuming Microsoft absorbs most of the component price increase, a full 2-quarter lag from compute capex to revenue, and a deeper discount on Copilot pricing as Microsoft gets more aggressive in selling more E7 in larger deals after seeing momentum. Even then, we estimate Copilot alone would have a double-digit growth contribution to M365 Commercial Cloud in very soon.

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- Note this is also the first quarter after Copilot Cowork went GA, which has a credit-based pricing structure. It will be interesting to hear from management the adoption trends of Copilot Coworks and the implications for revenue.

- **What we will be watching for in the quarter:** We will be watching for what management reports on Office 365 Copilot seat growth and also report CC Office 365 commercial revenue growth.

EXHIBIT 7: **Changes to M365 Commercial Cloud after resegmenting**



Source: Company disclosures, Bernstein analysis and estimates

EXHIBIT 8: **We think there is pretty good chance for M365 Commercial Cloud to accelerate into 20's growth in 2 quarters**

Note: old segmentation

	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27E	2Q27E
Cumulative compute assets	136	150	175	197	221*		
Revenue yield (2 quarter lag)			75%	75%	74%	74%	74%
Azure + M365 Copilot revenue			**25.3**	**28.1**	**32.3**	**36.4**	**40.5**
Azure revenue			24.3	26.8	30.3	33.8	36.5
reported/assumed Azure growth%			*39%*	*40%*	*43%*	*46%*	*50%*
Copilot revenue			1.0	1.3	2.0	2.5	3.4
Copilot contribution to M365 Comm Cloud growth			2%	4%	6%	8%	11%
Seat growth			6%	6%	6%	5%	5%
Non-Copilot ARPU			9%	9%	2%	3%	2%
M365 Commercial Cloud growth - old segment			**17%**	**19%**	**14%**	**16%**	**18%**
M365 Commercial Cloud growth - new segmentt						18%	20%

*removed effect from component price increase to arrive at a more conservative estimate
Source: Company disclosures, Bernstein analysis and estimates

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APPENDIX - FINANCIAL FORECASTS

EXHIBIT 9: **MSFT Income Statement**

$ Millions & Pro Forma, except otherwise noted

Income Statement (PF)	FY2024	FY2025	FY2026	FY2027E	FY2028E	Q127E	Q227E	Q327E	Q427E
Revenue	245,122	281,724	331,839	400,249	490,971	92,110	97,293	101,085	109,761
Cost of revenue	74,114	87,831	106,374	137,323	183,530	30,646	33,501	35,297	37,879
Gross Profit	171,008	193,893	225,465	262,926	307,441	61,464	63,793	65,787	71,882
Research and development	29,510	32,488	35,562	39,037	42,940	8,879	9,354	9,807	10,997
Sales and marketing	24,456	25,654	26,710	28,046	30,850	6,003	6,913	7,155	7,975
General and administrative	7,609	7,223	7,956	8,734	9,520	1,969	2,125	2,124	2,516
Goodwill impairment / Employee severance	-	-	-	-	-				
Total opex & COGS	135,689	153,196	176,602	213,139	266,840	47,497	51,893	54,383	59,366
Operating income	**109,433**	**128,528**	**155,237**	**187,110**	**224,131**	44,614	45,400	46,702	50,395
Other income	(1,646)	(4,901)	4,145	(1,200)	(1,200)	(300)	(300)	(300)	(300)
EBT	107,787	123,627	159,382	185,910	222,931	44,314	45,100	46,402	50,095
Taxes	19,651	21,795	30,596	37,182	42,357	8,863	9,020	9,280	10,019
Net income (PF)	**88,136**	**101,832**	**128,786**	**148,728**	**180,574**	35,451	36,080	37,121	40,076
Basic EPS ($)	11.86	13.70	17.34	20.00	24.18	4.77	4.85	4.99	5.38
Diluted EPS ($, PF)	**11.80**	**13.64**	**17.28**	**19.96**	**24.12**	**4.76**	**4.84**	**4.98**	**5.37**
Basic share count (M)	7,431	7,433	7,429	7,436	7,468	7,428	7,432	7,436	7,444
Diluted share count (M)	7,468	7,465	7,453	7,453	7,485	7,443	7,452	7,454	7,462
Key ratios (PF)									
Gross margin	69.8%	68.8%	67.9%	65.7%	62.6%	66.7%	65.6%	65.1%	65.5%
R&D as % of sales	12.0%	11.5%	10.7%	9.8%	8.7%	9.6%	9.6%	9.7%	10.0%
S&M as % of sales	10.0%	9.1%	8.0%	7.0%	6.3%	6.5%	7.1%	7.1%	7.3%
G&A as % of sales	3.1%	2.6%	2.4%	2.2%	1.9%	2.1%	2.2%	2.1%	2.3%
Operating margin	44.6%	45.6%	46.8%	46.7%	45.7%	48.4%	46.7%	46.2%	45.9%
Tax rate	18.2%	17.6%	19.2%	20.0%	19.0%	20.0%	20.0%	20.0%	20.0%
Net margin	36.0%	36.1%	38.8%	37.2%	36.8%	38.5%	37.1%	36.7%	36.5%
YoY change									
Revenue	16%	15%	18%	21%	23%	18.6%	19.7%	22.0%	21.9%
Cost of revenue	13%	19%	21%	29%	34%	27.5%	29.0%	31.6%	28.3%
Gross Profit	17%	13%	16%	17%	17%	14.6%	15.4%	17.4%	18.8%
R&D	9%	10%	9%	10%	10%	9.0%	10.0%	10.0%	10.0%
S&M	7%	5%	4%	5%	10%	5.0%	5.0%	5.0%	5.0%
G&A	19%	-5%	10%	10%	9%	9.0%	10.0%	10.0%	10.0%
Operating income	22%	17%	21%	21%	20%	17.5%	18.6%	21.6%	24.1%
Net income	20%	16%	26%	15%	21%	15.0%	16.9%	16.8%	13.6%
EPS - diluted	20%	16%	27%	15%	21%	15.3%	17.0%	16.6%	13.3%

Source: Company reports, Bernstein estimates and analysis

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EXHIBIT 10: **MSFT Balance Sheet**

$ Millions & GAAP, except otherwise noted

Balance Sheet	**FY2024**	**FY2025**	**FY2026**	**FY2027E**	**FY2028E**	**Q127E**	**Q227E**	**Q327E**	**Q427E**
Assets									
Cash & short-term investments	75,543	94,565	76,843	90,059	78,062	84,999	76,728	60,975	90,059
Accounts receivable	56,924	69,905	80,876	98,626	120,010	62,726	67,679	73,224	98,626
Inventories	1,246	938	1,397	1,261	1,073	1,410	1,311	1,491	1,261
Other	26,021	25,723	48,594	49,392	60,102	41,012	44,530	48,711	49,392
Total current assets	**159,734**	**191,131**	**207,710**	**239,339**	**259,247**	**190,146**	**190,248**	**184,401**	**239,339**
Property and equipment	135,591	204,966	313,076	463,869	630,641	350,207	387,041	425,147	463,869
Goodwill	119,220	119,509	119,651	119,651	119,651	119,651	119,651	119,651	119,651
Intangible assets, net	27,597	22,604	18,609	15,157	11,834	17,679	16,795	15,955	15,157
Other	70,021	80,793	99,330	69,901	79,909	96,138	96,429	94,705	69,901
Total non-current assets	**352,429**	**427,872**	**550,666**	**668,578**	**842,035**	**583,675**	**619,915**	**655,458**	**668,578**
Total Assets	**512,163**	**619,003**	**758,376**	**907,917**	**1,101,282**	**773,821**	**810,163**	**839,859**	**907,917**
Liabilities									
Accounts payable	21,996	27,724	42,416	41,973	51,212	40,666	46,196	45,893	41,973
Short-term debt & lending payables	8,942	2,999	9,227	9,227	9,227	9,227	9,227	9,227	9,227
Accrued compensation	12,564	13,709	14,945	16,115	17,708	9,895	10,918	12,180	16,115
Income taxes	5,017	7,211	2,534	2,756	2,612	2,990	2,778	2,917	2,756
Short-term unearned revenue	57,582	64,555	72,965	74,747	85,336	64,632	60,394	55,477	74,747
Other	19,185	25,020	26,738	32,606	35,669	26,968	29,103	29,943	32,606
Total current liabilities	**125,286**	**141,218**	**168,825**	**177,425**	**201,763**	**154,378**	**158,616**	**155,636**	**177,425**
Long-term debt	42,688	40,152	31,067	31,067	31,067	31,067	31,067	31,067	31,067
Long-term unearned revenue	2,602	2,710	2,747	11,169	12,751	2,790	3,136	2,999	11,169
Deferred income taxes	30,549	28,821	31,701	30,531	28,402	31,003	30,976	30,630	30,531
Other long-term liabilities	27,064	45,186	65,117	74,815	82,180	67,420	69,755	72,181	74,815
Total long term liabilities	**102,903**	**116,869**	**130,632**	**147,582**	**154,400**	**132,280**	**134,934**	**136,877**	**147,582**
Total Liabilities	**243,686**	**275,524**	**315,989**	**341,540**	**372,695**	**303,190**	**310,082**	**309,045**	**341,540**
Total stockholders' equity	**268,477**	**343,479**	**442,387**	**566,377**	**728,587**	**470,631**	**500,081**	**530,814**	**566,377**
Total liabilities and stockholders' equity	**512,163**	**619,003**	**758,376**	**907,917**	**1,101,282**	**773,821**	**810,163**	**839,859**	**907,917**

Source: Company reports, Bernstein estimates and analysis

EXHIBIT 11: **MSFT Cash Flow Statement**

$ Millions & GAAP, except otherwise noted

Cash Flow Statement	**FY2023**	**FY2024**	**FY2025**	**FY2026E**	**FY2027E**	**FY2028E**	**Q126**	**Q226**	**Q326**	**Q426E**
Net income	72,361	88,136	101,832	130,082	142,905	170,090	27,747	38,458	31,778	32,099
Adjustments to reconcile net income to net cash from operations:										
Depreciation, amortization, and other noncash items	13,861	22,287	34,153	47,506	80,378	110,795	13,061	9,198	10,167	15,080
Stock-based compensation	9,611	10,734	11,974	12,797	14,150	15,753	2,983	3,219	3,081	3,514
Deferred income taxes	(6,059)	(4,738)	(7,056)	7,344	(1,637)	(3,460)	2,491	4,446	2,602	(2,195)
Deferral of unearned revenue, net	5,535	5,348	5,438	6,358	3,973	3,311	(5,418)	(7,483)	(166)	19,425
Changes in operating assets and liabilities:	(7,923)	(3,524)	(10,788)	(19,074)	(31,307)	(23,482)	5,200	(2,149)	497	(22,622)
Other	196	305	609	(12,218)	-	-	(1,007)	(9,931)	(1,280)	-
Net cash provided by operating activities	**87,582**	**118,548**	**136,162**	**172,794**	**208,463**	**273,007**	**45,057**	**35,758**	**46,679**	**45,300**
Capex	(28,107)	(44,477)	(64,551)	(117,445)	(170,598)	(127,239)	(19,394)	(29,876)	(30,876)	(37,299)
Acquisitions, net of cash	(1,670)	(69,132)	(5,978)	(1,291)	-	-	(578)	(455)	(258)	-
Purchase of securities, net (sale)	44,748	34,371	27,705	35,051	(400)	(71,734)	3,084	17,471	15,735	(1,239)
Securities lending payable	-	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(22,680)**	**(96,970)**	**(72,599)**	**(123,207)**	**(170,998)**	**(198,973)**	**(34,559)**	**(22,705)**	**(27,405)**	**(38,538)**
Net borrowing	(2,750)	575	(8,962)	(3,000)	-		-	(3,000)	-	-
Share repurchase	(22,245)	(17,254)	(18,420)	(21,985)	(10,287)	(18,842)	(5,650)	(7,415)	(4,627)	(4,293)
Dividends	(19,800)	(21,771)	(24,082)	(26,444)	(29,089)	(32,037)	(6,169)	(6,762)	(6,756)	(6,757)
Other	860	693	(235)	121	1,943	1,945	20	(440)	32	509
Net cash used in financing	**(43,935)**	**(37,757)**	**(51,699)**	**(51,308)**	**(37,433)**	**(48,934)**	**(11,799)**	**(17,617)**	**(11,351)**	**(10,541)**
Effect of exchange rates on cash and cash equivalents	(194)	(210)	63	(195)	-	-	(92)	11	(114)	-
Net change in cash and cash equivalents	**20,773**	**(16,389)**	**11,927**	**(1,916)**	**32**	**25,099**	**(1,393)**	**(4,553)**	**7,809**	**(3,779)**
Cash and cash equivalents at beginning of period	13,931	34,704	18,315	30,242	28,326	28,358	30,242	28,849	24,296	32,105
Cash and cash equivalents at end of period	34,704	18,315	30,242	28,326	28,358	53,457	28,849	24,296	32,105	28,326

Source: Company reports, Bernstein estimates and analysis

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EXHIBIT 12: **MSFT Cash Flow Statement**

$ Millions & GAAP, except otherwise noted

Cash Flow Statement	FY2024	FY2025	FY2026	FY2027E	FY2028E	Q127E	Q227E	Q327E	Q427E
Net income	88,136	101,832	133,749	148,728	180,574	35,451	36,080	37,121	40,076
Adjustments to reconcile net income to net cash from operations:									
Depreciation, amortization, and other noncash items	22,287	34,153	43,448	52,605	77,502	11,105	12,441	13,806	15,253
Stock-based compensation	10,734	11,974	12,405	13,124	14,349	2,995	3,211	3,263	3,655
Deferred income taxes	(4,738)	(7,056)	14,189	(947)	(2,274)	(242)	(239)	(207)	(260)
Deferral of unearned revenue, net	5,348	5,438	9,361	10,204	12,171	(8,290)	(3,892)	(5,054)	27,440
Changes in operating assets and liabilities:	(3,524)	(10,788)	(14,256)	(20,333)	(28,272)	11,189	1,866	(9,967)	(23,422)
Other	305	609	(15,961)	-	-	-	-	-	-
Net cash provided by operating activities	**118,548**	**136,162**	**182,935**	**203,381**	**254,049**	**52,209**	**49,467**	**38,962**	**62,742**
Capex	(44,477)	(64,551)	(115,948)	(190,248)	(233,586)	(45,004)	(46,055)	(48,647)	(50,542)
Acquisitions, net of cash	(69,132)	(5,978)	(1,743)	-	-	-	-	-	-
Purchase of securities, net (sale)	34,371	27,705	36,542	23,438	10,003	8,108	4,447	15,112	(4,230)
Securities lending payable	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(96,970)**	**(72,599)**	**(139,500)**	**(166,810)**	**(223,583)**	**(36,895)**	**(41,608)**	**(33,534)**	**(54,772)**
Net borrowing	575	(8,962)	(3,000)	-		-	-	-	-
Share repurchase	(17,254)	(18,420)	(22,271)	(10,725)	(2,530)	(3,944)	(2,858)	(2,712)	(1,211)
Dividends	(21,771)	(24,082)	(26,445)	(29,095)	(32,144)	(6,760)	(7,440)	(7,444)	(7,452)
Other	693	(235)	(830)	1,958	1,961	502	456	505	496
Net cash used in financing	**(37,757)**	**(51,699)**	**(52,546)**	**(37,862)**	**(32,713)**	**(10,202)**	**(9,842)**	**(9,651)**	**(8,168)**
Effect of exchange rates on cash and cash equivalents	(210)	63	(196)	-	-	-	-	-	-
Net change in cash and cash equivalents	**(16,389)**	**11,927**	**(9,307)**	**(1,291)**	**(2,247)**	**5,112**	**(1,983)**	**(4,223)**	**(197)**
Cash and cash equivalents at beginning of period	34,704	18,315	30,242	20,935	19,644	20,935	26,047	24,064	19,841
Cash and cash equivalents at end of period	18,315	30,242	20,935	19,644	17,397	26,047	24,064	19,841	19,644

Source: Company reports, Bernstein estimates and analysis



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BERNSTEIN TICKER TABLE

			16 Oct 2026		TTM	Adjusted EPS				Adjusted P/E (x)		
			Closing	Price	Rel.							
Ticker	Rating	Cur	Price	Target	Perf.	Cur	2026A	2027E	2028E	2026A	2027E	2028E
MSFT (Microsoft)	O	USD	529.05	**662.00**	(12.5)%	USD	17.28	19.96	**24.12**	30.6	26.5	21.9
OLD				660.00					24.01			
SPX			7,659.44									

PRICE TARGET CHANGE / ESTIMATE CHANGE IN BOLD

O - Outperform, M - Market-Perform, U - Underperform, NR - Not Rated, CS - Coverage Suspended

Source: Bloomberg, Bernstein estimates and analysis.

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I. REQUIRED DISCLOSURES

References to "Bernstein" or the “Firm” in these disclosures relate to the following entities: Bernstein Institutional Services LLC (April 1, 2024 onwards), Sanford C. Bernstein & Co., LLC (pre April 1, 2024), Bernstein Autonomous LLP, BSG France S.A. (April 1, 2024 onwards), Sanford C. Bernstein (Hong Kong) Limited 盛博香港有限公司, Sanford C. Bernstein (Canada) Limited, Sanford C. Bernstein (India) Private Limited (SEBI registration no. INH000006378), Sanford C. Bernstein (Singapore) Private Limited, Sanford C. Bernstein Japan KK（サンフォード・C・バーンスタイン株式会社）and analysts employed by Société Générale Africa Technologies & Services to produce Bernstein research under a Global Services Agreement in place between Bernstein and Société Générale.

Bernstein is part of a joint venture between Société Générale (SG) and AllianceBernstein, L.P. (AB). Unless specifically noted otherwise, for purposes of these disclosures, references to Bernstein’s “affiliates” relate to both SG and AB and their respective affiliates.

VALUATION METHODOLOGY

Microsoft Corp

We value Microsoft shares based on our estimate for 12-month forward NOPLAT per share in 1 year's time ($24.3), and apply a P/FE multiple of 27x. We then add back in the net cash per share, discounted at 15% to account for potential tax costs and other "friction" to repatriate all cash ($5.49 per share), arriving at price target of $662.

RISKS

Microsoft Corp

Risks to our price target for MSFT include: a decreased demand for Azure PaaS/IaaS; increased Cloud cybersecurity concerns that impact Cloud demand; lower than forecast sales of Microsoft SaaS offerings; increased competitive pricing pressure on IaaS; increased competition in the Office market; decreased PC sales; increased pirating of the company's software, especially Windows and Office; increased functionality in the virtualization layer that limits the need for Windows server on VMs; decreased monetization of Microsoft's online offerings especially Bing; failure to increase international market share of Bing; lower than forecast sales for Xbox products and services; decreases in Windows sales.

RATINGS DEFINITIONS, BENCHMARKS AND DISTRIBUTION

EQUITY RATINGS DEFINITIONS

Bernstein brand

The Bernstein brand rates stocks based on forecasts of relative performance for the next 12 months versus the S&P 500 for stocks listed on the U.S. and Canadian exchanges, versus the Bloomberg Europe Developed Markets Large and Mid Cap Price Return Index EUR (EDME) for stocks listed on the European exchanges and emerging markets exchanges outside of the Asia Pacific region, versus the Bloomberg Japan Large and Mid Cap Price Return Index USD (JPL) for stocks listed on the Japanese exchanges, and versus the Bloomberg Asia ex-Japan Large and Mid Cap Price Return Index (ASIAX) for stocks listed on the Asian (ex-Japan) exchanges -unless otherwise specified.

The Bernstein brand has three categories of ratings:

- Outperform: Stock will outpace the market index by more than 15 pp
- Market-Perform: Stock will perform in line with the market index to within +/-15 pp
- Underperform: Stock will trail the performance of the market index by more than 15 pp

Coverage Suspended: Coverage of a company under the Bernstein research brand has been suspended. Ratings and price targets are suspended temporarily, are no longer current, and should therefore not be relied upon.

Not Rated: A rating assigned when the stock cannot be accurately valued, or the performance of the company accurately predicted, at the present time. The covering analyst may continue to publish research reports on the company to update investors

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on events and developments.

Not Covered (NC) denotes companies that are not under coverage.

Bernstein brand stock ratings are based on a 12-month time horizon.

Autonomous brand – common stocks

The Autonomous brand rates common stocks as indicated below. As our benchmarks we use the Bloomberg Europe 600 Financials Price Return Index (E600BK) and Bloomberg Europe Dev Mkt Financials Large and Mid Cap Price Ret Index EUR (EDMFI) index for developed European banks and Payments, the Bloomberg Europe 600 Insurance Price Return Index (E600IN) for European insurers, the S&P 500 and S&P Financials for US banks and Payments coverage, S5LIFE for US Insurance, the S&P Insurance Select Industry (SPSIINS) for US Non-Life Insurers coverage, the Bloomberg Emerging Markets Financials Large, Mid and Small Cap Price Return Index (EMLSF) for emerging market banks and insurers and Payments, and the Bloomberg Japan Financials Large & Mid Cap Price Return Index (JPFILM) for Japanese Financials. Ratings are stated relative to the sector (not the market).

The Autonomous brand has three categories of common stock ratings:

- Outperform (OP): Stock will outpace the relevant index by more than 10 pp
- Neutral (N): Stock will perform in line with the market index to within +/-10 pp
- Underperform (UP): Stock will trail the performance of the relevant index by more than 10 pp

Coverage Suspended: Coverage of a company under the Autonomous research brand has been suspended. Ratings and price targets are suspended temporarily, are no longer current, and should therefore not be relied upon.

Not Rated: A rating assigned when the stock cannot be accurately valued, or the performance of the company accurately predicted, at the present time. The covering analyst may continue to publish research reports on the company to update investors on events and developments.

Those denoted as 'Feature' (e.g., Feature Outperform FOP, Feature Under Outperform FUP) are our core ideas.

Not Covered (NC) denotes companies that are not under coverage.

Autonomous brand common stock ratings are based on a 12-month time horizon.

Autonomous brand – preferred stocks

The Autonomous brand has three categories of preferred stock ratings:

- Outperform (OP): The total return of the preferred instrument is expected to outperform preferred securities of other issuers operating in similar sectors or rating categories over the next six months.
- Neutral (N): The total return of the preferred instrument is expected to perform in line with preferred securities of other issuers operating in similar sectors or rating categories over the next six months.
- Underperform (UP): The total return of the preferred instrument is expected to underperform preferred securities of other issuers operating in similar sectors or rating categories over the next six months.

Autonomous preferred stock ratings are based on a 6-month time horizon.

AUTONOMOUS CREDIT RESEARCH

Where this report contains investment recommendations for credit instruments, as defined in article 3(1)(35) of the Market Abuse Regulation, the information below is presented to comply with its disclosure requirements.

The report may also include reference(s) to published opinions by other Autonomous or Bernstein analysts covering the equity securities of the issuer(s) referenced herein. Please note an investment recommendation for credit instruments published by the author(s) of this report may differ from the published view of the analyst covering equity securities for the issuer(s) contained in this report and vice versa.

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CREDIT RATINGS DEFINITIONS

The Autonomous brand has three categories of credit ratings:

- Credit Outperform (C-OP): The total return of the Reference Credit Instrument is expected to outperform the credit spread of bonds of other issuers operating in similar sectors or rating categories over the next six months.
- Credit Neutral (C-N): The total return of the Reference Credit Instrument is expected to perform in line with the credit spread of bonds of other issuers operating in similar sectors or rating categories over the next six months.
- Credit Underperform (C-UP): The total return of the Reference Credit Instrument is expected to underperform the credit spread of bonds of other issuers operating in similar sectors or rating categories over the next six months.

Autonomous credit ratings are based on a 6-month time horizon.

A list of all investment recommendations produced by the author(s) of this report alongside credit ratings history are available upon request.

It is at the sole discretion of the Firm as to when to initiate, update and cease research coverage. The Firm has established, maintains and relies on information barriers to control the flow of information contained in one or more areas (i.e. the private side) within the Firm, and into other areas, units, groups or affiliates (i.e. public side) of the Firm

DISTRIBUTION OF EQUITY RATINGS/INVESTMENT BANKING SERVICES

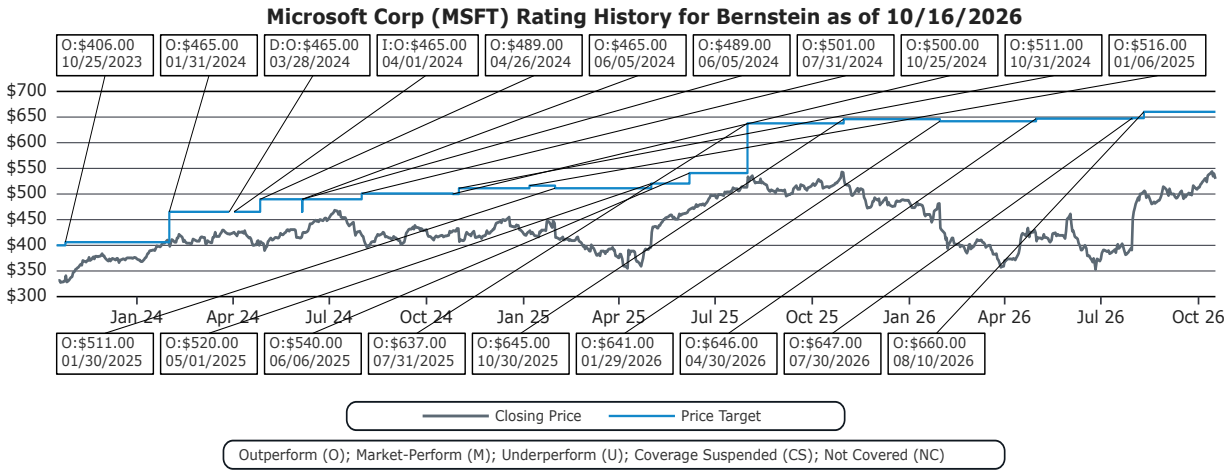
Equity Rating	Market Abuse Regulation (MAR) and FINRA Rating Category	Global Rating Distribution	Investment Banking Relationships*
Outperform	BUY	52.3%	14.2%
Market-Perform (Bernstein Brand) Neutral (Autonomous Brand)	HOLD	35.6%	16.1%
Underperform	SELL	12.1%	13.6%

* These figures represent the percentage of companies within each equity rating category for which affiliates of Bernstein have provided investment banking services within the previous 12 months.
As of September 30, 2026. All figures are updated quarterly.

PRICE CHARTS / RATINGS AND PRICE TARGET HISTORY

Prior to April 1, 2024, Sanford C. Bernstein & Co., LLC. issued the ratings and price target information in the graph(s) below for the following companies: Microsoft Corp.

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All price target and closing price data in the chart(s) above are denominated in the currency noted in the Ticker Table of this report.

CONFLICTS OF INTEREST

Bernstein and/or affiliates have received compensation for investment banking services in the past twelve months from Microsoft Corp.

Bernstein and/or affiliates have received compensation for non-investment banking securities-related products or services in the previous twelve months from the following clients: Microsoft Corp.

Bernstein has received compensation for non-investment banking securities-related products or services in the previous twelve months from the following clients: Microsoft Corp.

An affiliate of Bernstein has received compensation for non-investment banking securities-related products or services in the previous twelve months from the following clients: Microsoft Corp.

Bernstein and/or affiliates expect to receive or intend to seek compensation for investment banking services in the next three months from Microsoft Corp.

Bernstein and/or affiliates had an investment banking client relationship during the past twelve months with Microsoft Corp.

Certain affiliates of Bernstein act as market maker or liquidity provider in the equities securities of: Microsoft Corp.

Shelly Tang has a financial interest in the equity or debt securities of Microsoft Corp (MSFT).

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The legal entity(ies) employing the analyst(s) listed in this report, and their location, can be determined by the country code of their phone number, as follows:

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+44 Bernstein Autonomous LLP; London UK

+212 Société Générale Global Solution Center Morocco, Casablanca, Morocco

+33 BSG France S.A.; Paris, France

+34 BSG France S.A.; Madrid, Spain

+41 Bernstein Autonomous LLP; Geneva, Switzerland

+49 BSG France S.A.; Frankfurt, Germany

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+91 Sanford C. Bernstein (India) Private Limited; Mumbai, India

+852 Sanford C. Bernstein (Hong Kong) Limited 盛博香港有限公司; Hong Kong, China

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