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Microsoft Corp. (MSFT.O)

Microsoft Frontier Tour Reinforces Confidence in Copilot Momentum

CITI'S TAKE

We attended Microsoft's Frontier Tour in Philadelphia last week and spoke with more than 10 partners and customers, coming away impressed by Microsoft's recently revamped Copilot strategy. The improved product which leverages the Microsoft IQ layer spanning Work, Fabric, and Foundry, the platform showcased a level of integration and workflow continuity that several partners described as the most cohesive product experience they have seen from Microsoft. Multiple customers indicated the new experience has reduced usage of competing frontier lab offerings and pivot back towards Copilot. We believe the new platform should drive improved enterprise AI adoption, stronger monetization through both seat-based and consumption-based models, and increasing differentiation from Microsoft's ability to unify data, workflows, governance, and agents within a single platform. We reiterate our Buy rating, seeing more confidence in the M365 Copilot momentum which should support reaccelerating growth in Commercial Cloud revenue that we outlined in our preview.

Buy	
Price (23 Oct 26 16:00)	US$524.51
Target price	US$636.00
Expected share price return	21.3%
Expected dividend yield	0.7%
Expected total return	21.9%
Market Cap	US$3,895,235M

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Copilot Home Unifies Fragmented Experiences – The keynote showcased Microsoft's Copilot overhaul, introducing a significantly more cohesive product experience centered around Copilot Home, a unified entry point that brings together Chat, CoWork, Code, and Autopilot. Rather than working across disparate AI tools, users can now move seamlessly from workflow creation and data analysis to application development and security observability within a single interface. Underpinning the experience is the Microsoft IQ layer, which connects data, context, and reasoning capabilities across Work, Fabric, and Foundry. Management positioned this as the foundation for more context-aware and agentic experiences across the Microsoft ecosystem. Demos highlighted Code's ability to enable natural language workflow and application creation, while Autopilot showcased persistent agent capabilities that can execute and monitor long-running workflows across enterprise systems. Importantly, Microsoft emphasized governance, observability, and cost management across the IQ layer and agent ecosystem. In one demonstration, management highlighted how MAI models could achieve comparable outcomes to leading frontier models at materially lower costs, citing up to 30x cost savings for certain workloads.

Microsoft Regaining AI Mindshare Momentum – Channel checks were notably positive, with several partners describing the latest iteration as the most integrated AI platform Microsoft has delivered. Conversations with more than 10 partners and customers suggested enterprises are increasingly moving beyond experimentation and embedding AI into core workflows across sales, operations, research, and customer engagement. Customers frequently cited Microsoft's IQ capabilities as a key differentiator, particularly the ability to combine enterprise data, documents, and business context within a governed environment. Recent Copilot enhancements

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also appear to be improving customer perceptions of Microsoft's AI offering. Several organizations that had previously evaluated alternative frontier-model tools are now shifting usage back toward Copilot, driven by tighter integration across Copilot Home, CoWork, and the broader Microsoft data platform. One software vendor noted it had redirected thousands of seats and meaningful usage from a competing frontier-model platform back to Copilot following the latest product iteration. We also heard continued momentum around E7 discussions, with partners indicating Microsoft's packaging and pricing have become increasingly attractive relative to E5, helping accelerate AI adoption conversations. Beyond Copilot, we heard examples of broader platform consolidation, including a large healthcare migration from Salesforce CRM to Dynamics and deeper standardization on the Microsoft stack. Governance, security, observability, and cost management remained recurring themes throughout our discussions, reinforcing Microsoft's enterprise strengths. Overall, feedback pointed to improving competitive positioning, growing confidence in ROI, and a greater willingness to move from pilots to production deployments, which we view as supportive of longer-term Copilot monetization and Azure consumption growth.

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Valuation

Our $636 one-year target price for Microsoft is based on ~23x PE multiple to our FY29 GAAP EPS of $30.16, which we discount back to a year forward using ~12% cost of equity. We see the EPS multiple as a better valuation metric due to the more stable earnings growth for a mature company like MSFT and the ramp in near-term CapEx that result in a more volatile FCF.

Risks

We see potential downside risks to achieving our target price to be:

• The aggressive ramp in CAPEX investment in midst of the ongoing build out of AI capabilities could hurt longer term trajectory if AI adoptions are slower than expected.
• Competition in the hyperscale cloud market, requiring MSFT to aggressively invest here vs. AMZN's AWS and GOOGL's GCP and potentially fast deceleration in key Azure trajectory.
• A larger acquisition that drives earnings dilution in the nearer term.