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Global Markets Research
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EQUITY: TECHNOLOGY

Microsoft's September quarter results read-through

Quick Note

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Microsoft (MSFT US, Not rated) reported 1QFY27 (Sep-26 quarter) earnings on 28 October 2026 after the US market close, and management hosted an earnings call on the same day, discussing AI infrastructure, AI platform, applications and agents, as well as its outlook for 2QFY27E and FY27E. Management **expects capex of over USD50bn in 2QFY27E (Dec-26 quarter), while its capex guidance for calendar year 2026 is revised to USD170bn (previously USD175bn) from an accounting perspective,** due to delays in delivery of 3P capacity, **and management expects capex to accelerate in 2HFY27E (1HCY27E).** Moreover, Microsoft has adjusted the breakdown of revenue segment since 1QFY27, breaking down revenue for Agents & Infra and Devices & Consumer segments. We think MSFT's outlook for continued capex growth and positive free cash flow in FY27E should underpin a solid growth outlook for AI infra stocks, and **we like global optical transceiver leader (in terms of volume market share, source: Light Counting) Zhongji Innolight (300308 CH, Buy), and major PCB / CCL suppliers such as Shengyi Tech (600183 CH, Buy) and WUS PCB (002463 CH, Buy, covered by Anne Lee).**

Core business performance

- Microsoft Cloud's revenue delivered USD63.9bn in 1QFY27, up 30% y-y, reflecting strong demand for Azure and M365 Commercial Cloud. **Azure's revenue increased 48% y-y**, driven by Foundry and improved CPU monetization.
- Commercial bookings was down 12% y-y, due to impact from large Azure commitments in prior year, partially offset the healthy growth in commercial sales this quarter, according to the company.
- Revenue from **Agents and Infra** (incl. M365 cloud, Azure, GitHub, Productivity and server licensing, industry solutions and other support services) was USD76.8bn, up 25% y-y, driven by M365 Commercial Cloud and Azure.

  M365 Commercial Cloud revenue increased 18% y-y, driven by ARPU growth this quarter.

  M365 Consumer Cloud revenue increased 17% y-y, driven by ARPU growth and growth of M365 consumer subscriptions (+7% y-y).

  Industry solution cloud revenue grew 10% y-y, with moderating growth in Dynamics 365 and LinkedIn Talent Solutions.
- Revenue in **Devices and Consumer** (incl. Search and advertising, XBOX content and services, and Windows OEM and Devices) was USD15.5bn and decreased 3% y-y.

Capex guidance for 2QFY27E / FY27E

- **Capex was USD45.2bn (including financial leases) in 1QFY27 (+30% y-y or +10% q-q)**. Roughly two-thirds of capex was for short-lived assets, primarily GPUs and CPUs.
- **Capex for 2QFY27E will be over USD50bn**, while capex of CY2026E should be ~USD170bn (previously USD175bn) due to the 3P capacity delays.
- **For 2HFY27E (calendar year 1H2027), management expects capex to accelerate** primarily from CPUs, inclusive of higher memory and storage costs, GPUs, and the 3P capacity deliveries.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

- Management expects to remain **free-cash-flow positive in FY2027E** and believes infrastructure efficiency will allow higher return on capex.

AI infrastructure

- Demand for Azure AI capacity continues to exceed available supply, with third-party GPU capacity delays shifting some expected deliveries into the 1H2027E.
- Microsoft added 24 data centers across 5 continents during the quarter and reduced data-center build lifetimes by ~20% q-q for new GB300 deployments in its largest regions.
- Microsoft is scaling NVIDIA (NVDA US, Not rated) and AMD (AMD US, Not rated) systems alongside its own Maia accelerators and has already deployed NVIDIA Vera Rubin GPUs.
- Maia 200 is delivering up to 1.7x more tokens per watt across Teams and Copilot AI experiences; Maia 300 is expected to deliver 40% more tokens per watt than leading GPU-based systems.
- Microsoft is also expanding its cloud-native Cobalt CPU portfolio to improve price-performance for general-purpose cloud workload.

Development and monetization progress of AI Agent, app and platform

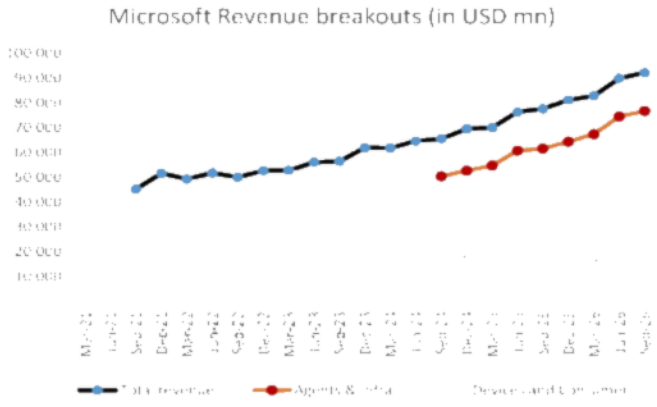
- Foundry had more than 120,000 customers, with **revenue more than tripling y-y**. Its differentiation is based on model choice, feature depth, and integration across Microsoft's stack.
- Microsoft is making the harness behind its own Copilot experience available through Foundry, enabling model-agnostic agents that can reason, use tools, and complete complex long-running work.
- **Microsoft Decision One**, a structured decision-making model, had more than 4,000 customers within its first month. **MAIbase 2** achieved 4-12x greater training-compute efficiency than the open-weight models tested, and will support future thinking, code, and cyber models.
- Microsoft has unified Chat, Cowork, Autopilot, and code in Copilot, with Office built in, positioning Copilot as a new operating system for work across commercial and consumer users.
- Customers with more than 50,000 Copilot seats have i**ncreased more than 8x y-y**.
- Microsoft is combining per-seat subscriptions with consumption pricing. **Usage-based Copilot customers grew more than 75% during the quarter**, while GitHub agent-generated pull requests increased 6x over six months and now represent more than one-third of all pull requests.
- Foundry and Fabric are being integrated so customers can build agents next to real-time operational, analytical, and unstructured data. **More than 19,000 customers** use both platforms.

Fig. 1: Microsoft - quarterly earnings summary

MSFT	Quarter	Sep-26		
Revs in USDmn except capex	Revs	y-y	q-q	Coming quarter guidance
Total revenue	**92,279**	**19%**	**3%**	
Agents & Infra	76,795	25%	3%	USD80.1-80.7bn, +30~31% y-y
Devices and Consumer	15,484	-3%	0%	USD15.9-16.4bn, -1~+2%y-y
Capex (in USD bn)	45.2	30%	10%	USD50+bn

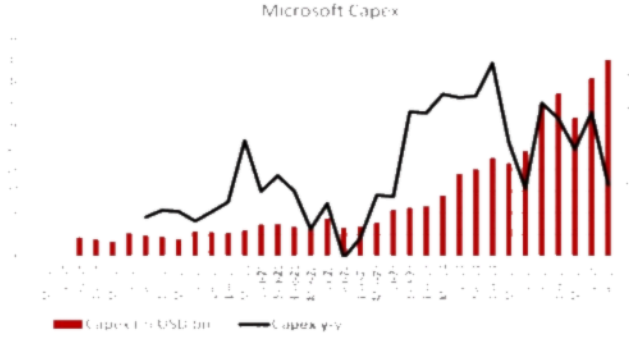
Source: Company data, Nomura research

Fig. 2: Microsoft's revenue breakdown (USD mn)



Source: Company data, Nomura research

Fig. 3: Microsoft - Capex growth trend



Note: Capex including financial leases
Source: Company data, Nomura research

