on 29-Oct-2026

BERNSTEIN
SOCIETE GENERALE GROUP

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Global Software

Microsoft Corp

Rating

Outperform

Price Target

MSFT **722.00 USD** (662.00 *OLD*)

Microsoft 1Q27: Rock solid growth with more to come

In our preview note Microsoft 1Q27 preview: Could Azure and Office both accelerate? we dreamed of a scenario where Azure could accelerate into high 40's and M365 Commercial Cloud growing close to 20%. While we were not fully sure on the timing, Microsoft gave us the answer this quarter, beating on every major metric and delivering both Azure (48% CC and guiding for 49-50% next quarter) and Office acceleration and guiding to further acceleration next quarter. Given the strong results and solid guidance, stock was up 3% in the aftermarket.

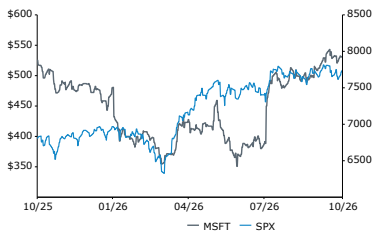
While the results were solid we believe the lower than expected CAPEX and delays in capacity this quarter and for H2 created some unwarranted noise. Timing of capacity adds are open to numerous factors and while it would have been nice to see that additional capacity driving an even bigger Azure beat and faster growth next quarter the company is executing extremely well, especially on driving efficiencies across Azure which allowed them to beat this quarter and guide to 49-50% growth next quarter even considering the delay. These efficiencies will deliver dividends for years in margins and performance.

Close Date	28 Oct 2026
MSFT Close Price (USD)	531.01
Price Target (USD)	722.00
Upside/(Downside)	36%
52-Week Range	553.72/349.20
SPX	7,743.98
FYE	Jun
Div Yield	0.7%
Market Cap (USD) (B)	3,943.38
EV (USD) (B)	3,995.35

Performance	YTD	1M	6M	12M
Absolute (%)	9.8	4.3	23.7	(2.0)
SPX (%)	13.1	0.8	8.5	12.4
Relative (%)	(3.3)	3.5	15.2	(14.4)

Source: Bloomberg, Bernstein estimates and analysis.

Price Performance, 1YR



Investment Implications

Microsoft (MSFT, $722 TP, Outperform): Azure and Office acceleration even with capacity delays combined with high operating margins (~50%) were powerful indicators of how strong execution is But CAPEX was a bit weak as 3rd party capacity delayed. We continue to believe the stock is undervalued when one considers 1) Azure and Office commercial growth; 2) solid GAAP operating margins (hitting ~50% this quarter); and 3) FCF positive while investing aggressively. Even if we see some bubble like behavior in parts of AI, this is a stock that every investor should have significantly in their portfolio. We raised our price target from $647 to $722 as we raised our estimates and lowered our valuation multiple from 27x to 26x, as growth potential is now realized in financial estimates.

Adjusted EPS	F26A	F27E	F28E
MSFT (USD)	17.28	**20.63**	**25.85**
OLD	--	19.96	24.12

Financials	F26A	F27E	F28E	CAGR
Revenues (M)	331,839	403,797	502,941	23.1%
Operating Earnings (M)	155,237	192,930	239,890	24.3%
Net Earnings (M)	128,786	153,698	193,339	22.5%
Revenue/Share	44.52	54.20	67.24	22.9%
Operating Margin (%)	46.8	47.8	47.7	--
Net Income Margin (%)	38.8	38.1	38.4	--
EPS Growth (%)	26.7	19.4	25.3	--

Valuation Metrics	F26A	F27E	F28E
Adjusted P/E (x)	30.7	25.7	20.5
PEG Adjusted (x)	1.2	1.3	0.8
EV/Sales (x)	12.0	9.9	7.9
P/Sales (x)	11.9	9.8	7.9
PEG Reported (x)	1.2	1.3	0.8
EV/EBIT (x)	25.7	20.7	16.7
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

	10/28/2026		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	$249.76	(2.76)	(1.1%)	26.07	10.4%	9.4%	3.5x	9.3x	9.2x	0.7x
	Microsoft	$531.01	(8.63)	(1.6%)	8.05	1.5%	18.1%	9.8x	26.0x	65.8x	1.9x
	Oracle	$144.54	(44.96)	(31.1%)	(9.78)	N/A	37.5%	5.8x	16.9x	N/A	2.9x
	MongoDB	$393.44	28.44	7.2%	7.95	2.0%	18.3%	8.9x	56.0x	48.1x	4.2x
	Salesforce.com	$242.11	(33.86)	(14.0%)	16.84	7.0%	10.4%	4.7x	16.5x	13.2x	-1.3x
	HubSpot	$248.97	21.13	8.5%	12.64	5.1%	13.9%	2.9x	16.4x	18.9x	0.6x
	SAP	$225.27	0.40	0.2%	7.74	3.4%	12.0%	6.3x	24.9x	30.7x	1.8x
	Snowflake	$339.91	(1.22)	(0.4%)	3.47	1.0%	32.3%	16.7x	132.3x	100.3x	2.5x
	Quantinuum	$38.33	8.91	23.2%	(1.20)	N/A	47.9%	219.9x	N/A	N/A	N/A
	Workday	$204.36	(1.40)	(0.7%)	11.02	5.4%	10.2%	4.4x	16.9x	17.3x	0.9x
Other Comps	Autodesk	$242.38	2.11	0.9%	13.33	5.5%	12.6%	5.7x	18.6x	17.8x	1.2x
	ServiceNow	$150.13	(3.69)	(2.5%)	5.18	3.4%	19.6%	8.6x	31.4x	28.8x	1.2x
	Amadeus	$62.80	(7.15)	(11.4%)	4.77	7.6%	8.5%	4.2x	15.3x	13.1x	2.4x
	Datadog	$278.41	10.14	3.6%	2.93	1.1%	24.7%	19.5x	100.5x	93.4x	6.3x

Source: Bloomberg, Bernstein analysis

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DETAILS

In our preview note Microsoft 1Q27 preview: Could Azure and Office both accelerate? we dreamed of a scenario where Azure could accelerate into high 40's and M365 Commercial Cloud growing close to 20%. While we were not fully sure on the timing, Microsoft gave us the answer this quarter, beating on every major metric (Exhibit 1) and delivering both Azure (48% CC) and Office acceleration and guiding to further acceleration on both fronts next quarter. Given the strong results and solid guidance, stock was up 3% in the aftermarket.

If we revisit the 4 pillars driving the sentiment and price on the stock, Microsoft:

- **Delivered on Azure.** which accelerated from 42% CC last quarter to 48% CC this quarter, beating guidance and consensus by at least 3pts. Company is also guiding Azure to grow 49-50% CC next quarter, clearing what we thought was a high bar from some investors asking whether Azure could accelerate to 50%.
- **Delivered on Office,** with M365 Commercial Cloud accelerating from 15%CC last quarter to 18% CC this quarter, and the company guiding to 19% CC next quarter and continued acceleration throughout the year. M365 Copilot is now becoming a bigger ARPU driver than upgrade from E5, which used to be the biggest ARPU growth driver.
- **Provided new Capex commentary on 2H FY27,** which is earlier than we expected but we are frankly not surprised by the "accelerate in spend" comment, given the company still commits to stay FCF positive for FY27 and consensus estimates seem to have already reflected this Capex trajectory.
- **Achieved operating leverage,** reaching close to 50% operating margin this quarter despite all the ongoing investment efforts.

In summary, Microsoft delivered another quarter that are incrementally fighting of the bear cases that were overhanging the stock earlier this year (Microsoft: Could the bear case in fact be the bull case?).

ADDITIONAL THOUGHTS ON THE QUARTER AND THE GUIDE

Microsoft earnings always have a lot to unpack. Given the resegment and changes around lease accounting that impact Capex there might have been more confusion. But despite the mechanical noises Microsoft delivered a clean and strong quarter and we highlight the key points below.

- **Azure accelerating to 50% in 2Q:** Azure grew 48% CC in 1Q, significantly beating guidance of 44-45% CC and what we believe bogey was around 46%. Company is further guiding to 49-50% CC Azure growth next quarter. This is especially impressive given there was a delay in a 3rd party capacity this quarter (which affected Capex as discussed below), otherwise it could even be higher.
  - Note that because of the delay, the out performance this quarter was not driven by pure capacity additions but by revenues from Foundry, which tripled Y/Y, better monetization on the CPU fleet through increased utilization, and efficiency gains on GPUs.
  - As enterprise scales up AI deployment and enterprise inference ramps, we expect development platforms like Foundry to be increasingly utilized and monetized which could be also be margin accretive to Azure AI
- **Office momentum increasingly driven by Copilot:** this quarter M365 Commercial Cloud grew 18% CC, 1pt ahead of guidance, and Microsoft is guiding to 19% CC for Q2 and more acceleration throughout the year. While company did not disclose paid Copilot seats this quarter, what is interesting is that M365 Copilot has surpassed E5 upgrade to be the biggest ARPU growth driver for Office commercial (and ARPU is the main growth driver of Office). Therefore, we feel good about the continued Copilot momentum and its potential to accelerate Office commercial growth into the 20's very soon.
  - A major driver of the guidance beat this quarter was from consumption revenue from GitHub Copilot. While this is a good sign, we agree with management that the consumption ramp on Office front (through E7) might be less pronounced and takes longer, as developers are used to consumption pricing while the broader enterprise workers are mostly still on seat-based subscriptions.

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- **Capex will grow but remaining FCF positive in FY27:** the only uncertainty that could have erased some of the upside aftermarket was the new Capex commentary for 2H FY27, which the company expects "CAPEX spend to accelerate". Microsoft did not guide to a specific number or percentage growth. Neither did they clarify on what type of acceleration they are referring to - we believe it is QoQ growth in CAPEX dollars. However, they reiterated their expectation to remain FCF positive in FY27. Optically because 1H FY27E CAPEX based on current guidance represent around 30%+ Y/Y growth, so accelerating from this to 40% Y/Y growth in 2H FY27E implies slightly over $50B capex a quarter, which is similar to next quarter's level.
    - In fact, street numbers seem to be modeling a bit higher (and we are modeling lower than street), so this should not be a total surprise.
    - In 1Q, Capex incl. lease was $45.2B, lighter than the company guided due to an unexpected delay in 3rd party capacity deliveries. Roughly 3 quarter of the Capex was spent on short-lived assets. Company is still guiding to $50B+ Capex for 2Q, but due to the slipped capacity that seems to be coming now in 2H FY27, calendar year 2026 Capex is now guided to $170B.
- **Additional OpenAI disclosure:** Microsoft is giving incremental disclosure on OpenAI in its filings. This quarter, revenues from OpenAI was $10.0B, which includes revenue-sharing payments as well as spending on Azure which includes GPU, CPU and other Azure services. Accounts receivable from OpenAI was $7.2B, and of the $13B investments, $12B has been funded. Microsoft owns 24% of OpenAI.
- **Operating Margin continues to improve:** operating margin reached 49.8% this quarter, up 90bps Y/Y, as OpEx control more than offset ~120bps Y/Y decline in gross margin due to increasing mix of Azure AI revenue.
    - Even as higher mix of Azure AI revenue impacted overall company gross margin, standalone Azure margins improved meaningfully this qtr, which we believe shows the Microsoft's ability to execute.
- **Head count reduction**: On Oct 26th, MSFT announced Voluntary Exit Offer (VEO) to reduce headcount. News reports suggest potential headcount reduction of ~60K employees or 27% of the total headcount. While MSFT didn't share any details, substantial headcount reduction could help drive continued OpEx containment and margin improvement over the next few qtrs.

EXHIBIT 1: **Results vs. Consensus Estimates**

1Q27	Consensus vs. Actual		Surprise
Revenue	Consensus	90,620	*1.8%*
	Actual	**92,279**	
Operating Income	Consensus	44,070	*4.2%*
	Actual	**45,915**	
Operating Margin	Consensus	48.6%	*1.2%*
	Actual	**49.8%**	
EPS (GAAP)	Consensus	4.71	*4.5%*
	Actual	**4.92**	
Cash from Operations	Consensus	54,000	*7.4%*
	Actual	**58,000**	
Gross Margin	Consensus	67.2%	0.6%
	Actual	**67.8%**	

Source: Company reports, StreetAccount, Bernstein analysis

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UNDERSTANDING DEMAND AND WHETHER MICROSOFT COULD BE CAUGHT BY AN AI BUBBLE

As discussed earlier in the note the AI threat concerns, whether AI is a bubble or AI will eat software should at least in part decrease after this quarter as:

- **SaaS Apocalypse concerns** M365 Copilot and GitHub Copilot, Microsoft's 2 largest and most important Copilots are both doing extremely well. M365 Copilot adoption, while still relatively small management expects that trend to continue and we agree. GitHub Copilot, with 50M seats, is often cited as an AI winning solution and the company called out how GitHub Copilot consumption was strong enough to be impactful.
    - Management did not update the Copilot seat count this quarter, but they did say that Copilot was the biggest driver of the strong Commercial Office 365 growth followed by E5 and then E7. E7 is growing fast but off a small base.
    - The other enterprise apps (e.g. Dynamics, LinkedIn, etc.) are much earlier in proving out their AI success but in many cases success with M365 Copilot, we believe, will have a positive effect across products such as Dynamics 365. Management called out the increased integration of Dynamics 365 and Copilot and AI.
    - Not all enterprise apps are equally exposed to AI threats. While ERP continues to be a strong market CRM is showing substantial weakness, likely impacted by AI concerns.
- **AI bubble:** We continue to hear concerns about an AI demand is significantly lower than what people expect, leading to a demand problem which could negatively impact the economics of all the datacenter build out the hyperscalers, neoclouds and others are building. Management explained on the call that they are seeing enterprise adoption of AI and more specifically Azure AI and Azure AI platforms. Examples were given in Europe, which is often not the leader of technology adoption was called out, due to Satya Nadella's trip to Europe last week, of major AI and Agents adoption at large corporations. But if demand weakens or there is an overbuild the company has numerous levers they can push to moderate the growth of capacity or reposition customer failing capacity toward 1st party apps and internal requirements.
    - It is important to note that Microsoft has lots of flexibility in how they use existing datacenters and the ability to slow the building of new data centers. In addition, datacenter costs are far smaller than the hardware costs and have much longer useful lives.
    - Microsoft can turn down the rate at which they receive components and hardware. Having shrunk the time from when components are ordered till servers are on-line and generating revenue Microsoft has both improved the margins of the hardware but also increased how quickly they can pivot capacity.
    - Note that while Microsoft has component commitments within the next 12 months beyond that they have very few commitments giving them flexibility if there is a demand issue.
- Azure delivered a stellar quarter accelerating again, this quarter to 48% growth (200bps consensus beat) and is guided to grow 49-50% next quarter.
- **AI efficiency:** Microsoft has been recently focused on driving not just AI adoption but AI operational efficiencies at every level of the stack from the hardware through the model execution and the platform layer to their 1st party apps. Management explained this quarter how they were able to deliver enough capacity to accelerate Azure and Office Copilot even as 3rd party capacity (we believe neocloud capacity) delayed this quarter and how some capacity will delay from H2. We believe that this focus on driving efficiencies across the stack will deliver dividends for years to come as the more effect the execution the more revenue the company can capture from the same hardware.

In general, the AI bubble concern has been a large portion of our in-bound discussions, and it has come up specifically relating to Microsoft given its investments in both AI apps (Copilots) and Azure AI even after last quarter's strong results. This concern about the durability of revenue continues to be in question, but we believe that:

- Microsoft is diversified across a wide range of AI apps, customers, customer types, industry segments, and geos and in fact we believe that Microsoft's AI enterprise app revenue may be as large or larger than the rest of the market at this time.

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- Microsoft AI related revenue is far more than renting bare metal GPUs as many other vendors and their customers are using the broad stack of Azure services.
- Enterprises are going to run their AI where their data resides which places Microsoft in an extremely strong position and decreases substantially the possibility that customers will shift vendors due to price.

While there is no certainty that a very large / broad AI bubble pop will not affect Microsoft, the downside risk, we believe, is relatively small even considering our increasing certainty that there are parts of the tech stack that are in fact likely to see some bubble breaking effects.

GUIDANCE

Microsoft supplied guidance for Q2 FY27 (see Exhibit 2) and provided more commentary around FY27 Capex

Q227

- **FX**: Microsoft expects FX to have no meaningful impact on revenue or cost at the company level, and no impact on segment level revenue growth either. Within Agents and Infra, FX is expected to have less than 1pt negative impact on M365 Commercial Cloud revenue growth.
- Management guided total revenue to be between $96B and $97.1B, 1.5% above consensus expectation of $95.64B. The Agent and Infra segment is guided to be between $80.1B-$80.7B and Devices and Consumer segment is expected to be between $15.9B-$16.4B. The company expects COGS to be $32.7B-$32.9B and OPEX to be between $18.5B-$18.6B.
- Azure is expected to grow approximately 49-50% in CC.
  - Even as Microsoft brings more data center capacity online, demand remains ahead of capacity. As Microsoft balances Azure revenue growth with their first-party solutions growth needs (first-party apps, internal R&D), they expect to remain capacity constrained.
  - Please note that Azure could experience more FX volatility due to more international exposure and consumption based charge.
- M365 Commercial Cloud revenue is expected to grow 19% in CC, with FX expected to reduce reported growth by <1 pt. M365 Consumer cloud is expected to grow low teens.
- Commercial Cloud gross margin is expected to be 65%. Commercial Bookings expects healthy growth in the commercial sales motions, though results will be impacted by the significant Azure commitments signed in the prior year.
  - Note that long-term Azure contracts, which are more unpredictable in timing, could drive quarterly volatility in bookings growth rate.
- Management expect Q2 total CAPEX to be over $50B.
- Other income and expense outlook, excluding impact from OpenAI investments, could be roughly $(300) M.
- Effective tax rate is expected to be around 20%

CY26

- Capex for CY26 is now expected to be $170B instead of $175B due to a delay in 3rd party capacity delivery. That delivery is now expected in 2H FY27.

FY27

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- FX: management expects FX to decrease FY27 revenue growth by less than 1pp and no meaningful impact to COGS or Opex growth.
- Total revenue is expected to grow double-digits
  - **Reiterated** that M365 Commercial cloud revenue growth is expected to show acceleration through FY27
- Operating expenses is expected to grow in mid- to high-single digits
- Operating income is expected to grow double-digits, and operating margin is expected to be down less than a point
- Effective tax rate is expected to be approximately 20%
- FY27 CAPEX is expected to grow Y/Y
  - **2H FY27 Capex spend is expected to accelerate**
- Management **continues to** expect FCF to remain positive in FY27

EXHIBIT 2: **MSFT 2Q27 Guidance vs. Consensus**

	Guidance		Consensus	Guidance vs. Consensus
2Q27	**Low**	**High**		**High end**
Total Revenue	**96,000**	**97,100**	**95,640**	*1.5%*
Agents and Infrastructure	80,100	80,700	79,700	*1.3%*
Azure CC growth%	49%	50%	46%	*4.0%*
Devices and Consumer	15,900	16,400	16,320	*0.5%*
COGS	32,700	32,900	32,422	*1.5%*
Gross Profit	**63,300**	**64,200**	**63,218**	*1.6%*
Gross Margin	*65.9%*	*66.1%*	*66.1%*	*0.0%*
Opex	18,500	18,600	18,480	*0.6%*
Operating Profit	**44,800**	**45,600**	**44,790**	*1.8%*
Operating Margin	*46.7%*	*47.0%*	*46.8%*	*0.1%*
Other Income and Expense	-300	-300	--	--
EBT	**44,500**	**45,300**	**--**	**--**
Projected Tax Rate	20.0%	20.0%	--	--
Projected Share Count (Bernstein Est.)	7,446	7,446	--	--
Implied EPS (Non-GAAP)	**4.78**	**4.87**	**4.84**	*0.6%*

Source: Company reports, StreetAccount, Bernstein estimates and analysis

TURNING TO THE QUARTER

Results vs. Consensus Expectations (see Exhibit 3):

- Revenue of $92.3B came in 1.8% above consensus estimates.
- Operating income of $45.9B was 4.2% above street estimates
  - Operating margin of 49.8% was 1.2pp ahead of consensus expectations.
- Gross margin was 67.8%, 0.6pp above consensus.

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- Diluted GAAP EPS was $4.92, 13% above consensus estimate of $4.71
- Commercial Bookings decreased 12% (11% CC) driven by the impact from large Azure commitments in the prior year (incl. the $250B commitment from OpenAI), partially offset by healthy growth in the commercial sales motion, inclusive of a large Azure commitment this quarter.
- Cash flow from operations was $58B, 7.4% above consensus.
- CAPEX including finance leases was $45.2B, up 30% Y/Y, to support customer demand. Cash paid for PP&E was $39.4B. Roughly three quarters of total CAPEX was spent on short-lived assets including GPUs and CPUs. (Exhibit 4)
    - Finance leases, primarily for large datacenter sites, was $7.4B. Note the difference between this and total CAPEX minus cash CAPEX is due to the timing of delivery and payment.
- Free cash flow was $18.6B, reflecting higher CAPEX to support cloud and AI offerings.
- Microsoft returned $10.2B to shareholders this quarter, including $7.3B in dividends and $2.9B in share repurchases.
- Effective tax rate was 20%.
- Microsoft's Commercial Cloud gross margins came in at 66%, down 2 points Y/Y driven by sales mix shift to Azure, partially offset by product-level margin improvements primarily in Azure.

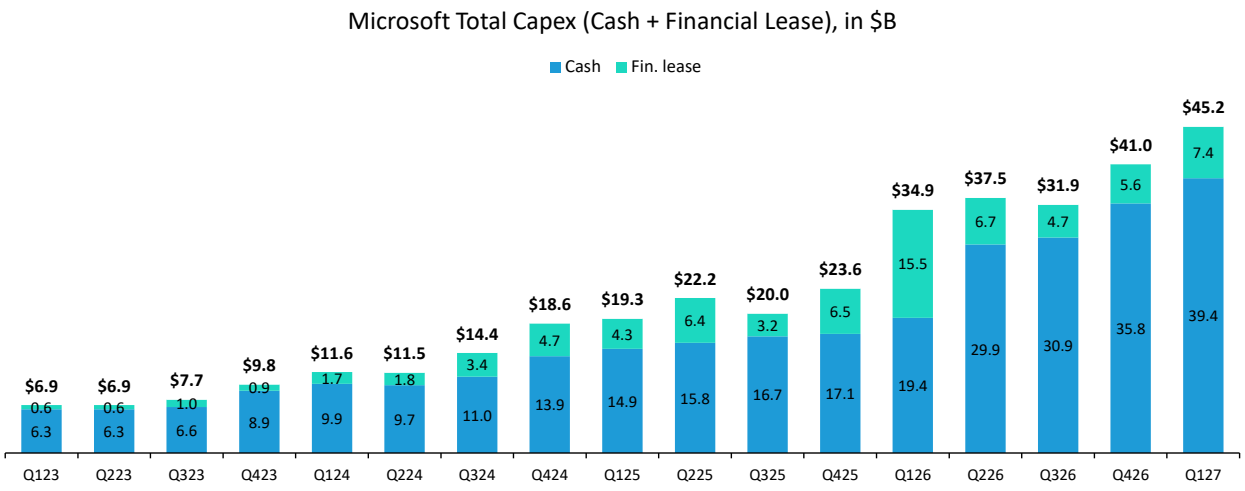
EXHIBIT 3: **Results vs. Consensus Estimates**

1Q27	Consensus vs. Actual		Surprise
Revenue	Consensus **Actual**	90,620 **92,279**	*1.8%*
Operating Income	Consensus **Actual**	44,070 **45,915**	*4.2%*
Operating Margin	Consensus **Actual**	48.6% **49.8%**	*1.2%*
EPS (GAAP)	Consensus **Actual**	4.71 **4.92**	*4.5%*
Cash from Operations	Consensus **Actual**	54,000 **58,000**	*7.4%*
Gross Margin	Consensus **Actual**	67.2% **67.8%**	0.6%

Source: Company reports, StreetAccount, Bernstein analysis

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EXHIBIT 4: **CAPEX has gone up as Microsoft continues to invest in AI to meet demand**



Note total might differ from sum of the components due to timing of receipt of goods and payment in finance leases.

Starting 1Q27, Microsoft reclassifies some finance lease to operating lease due to change of useful life assumptions.
Source: Company reports, Bernstein analysis

We look at the individual segments in constant currency (see Exhibit 5)

- **Agents & Infra** grew 25% CC to $76.8B, above the guidance range of $75.15B-75.75B, driven by Azure. This quarter, Azure (now purely IaaS/PaaS) grew 48% in CC, ahead of the guidance of 44-45% CC, driven by strong demand for Azure's portfolio of services with continued growth across all workloads. M365 Commercial Cloud grew 18% CC, ahead of guidance of 17% CC, with growth of ARPU driven by M365 Copilot, premium offerings (E5, E7) and increased consumption from GitHub Copilot. Seat growth was 5% driven by SMB and frontline work offerings.
    - Note that GitHub Copilot and developer tools have shifted from Azure to M365 Cloud starting FY27
- **Devices and Consumer** declined 3% CC to $15.5B, ahead of the guidance range of $14.7B-15.2B, driven by Windows OEM and devices, partially offset by Search and advertising. Windows OEM and Devices declined 22% driven by the benefit from Windows 10 end of support demand in the prior year, inventory drawdown by OEM and channel partners and weaker PC demand. Xbox content and services declined 1% CC and hardware revenue declined 14% CC. Search ex TAC grew 12% in CC, driven by higher rate and volume across LinkedIn, Edge and Bing.

EXHIBIT 5: **Results vs. Consensus Estimates at the Segment Level**

1Q27	Consensus vs. Actual		Surprise
Agents & Infra	Consensus	75,630	*1.5%*
	Actual	**76,795**	
Devices & Consumer	Consensus	15,050	*2.9%*
	Actual	**15,484**	
Total revenue	Consensus	90,620	*1.8%*
	Actual	**92,279**	

Source: Company reports, StreetAccount, Bernstein analysis

WHAT ABOUT AZURE?

Azure growth this quarter came in at 48% reported and in CC (Exhibit 6), beating guidance of 44-45% CC and ahead of street consensus. This quarter, growth was ahead of management expectations even with some delays from 3rd party capacities,

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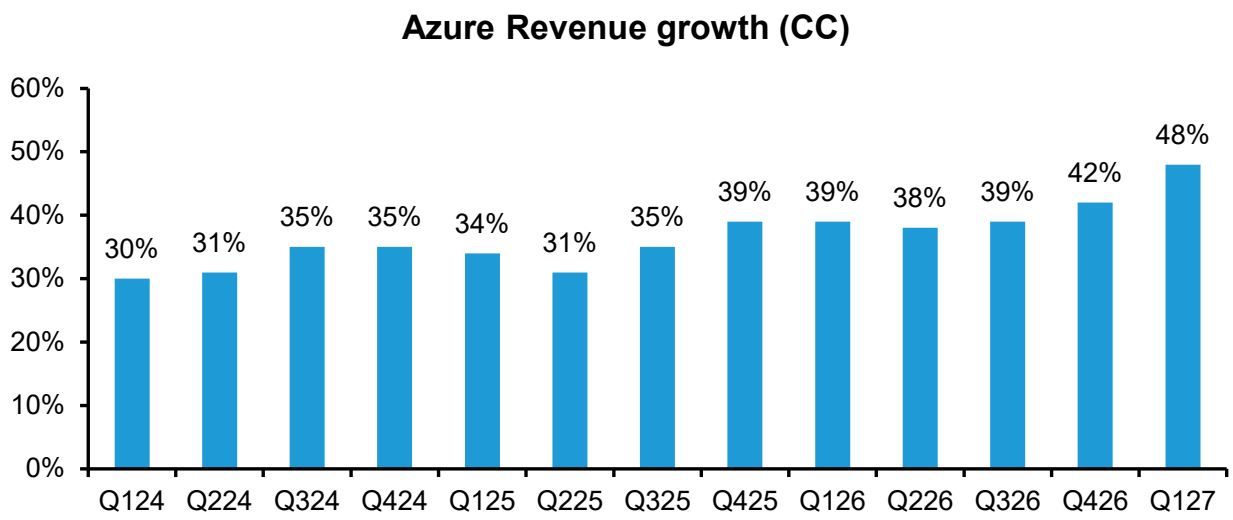
driven by Foundry and improved CPU monetization. Foundry revenue more than tripled Y/Y, driven by efficiency gains across GPU fleet that allowed the company to allocate additional capacity to customers as well as higher revenue per token. Across the CPU fleet, company has identified and monetized underutilized capacity this quarter. Again, demand continues to exceed available capacity.

On Azure AI, as workloads move from testing of AI to production, one should continue to see both GPU and CPU usage as well as storage and bandwidth usage increase.

As enterprise scales up AI deployment and enterprise inference ramps, we expect development platforms like Foundry to be increasingly utilized and monetized which could be also be margin accretive to Azure AI.

Azure strength seems to be broad and has been helped by an acceleration in Cloud migrations plus to some extent from digitally native vendors, which historically used Microsoft's hyperscaler peers, are now using Azure which we see as another driver of sustained growth for Azure.

EXHIBIT 6: **Microsoft Azure constant currency growth**



growth rates before 1Q26 based on old Azure segment, which included GitHub, developer tools and life science solutions
Source: Company disclosures, Bernstein analysis

MICROSOFT COMMERCIAL CLOUD

Commercial Cloud revenue increased to $63.9B and accelerated to 31% Y/Y in CC (see Exhibit 7), showing the strength of Microsoft's transformation to a Cloud-centric company. Commercial Cloud could become a larger and larger portion of the business going forward. While the Cloud story is far from over for Microsoft, especially with Azure, AI has become the next leg of growth for Commercial Cloud and overall Microsoft.

Note following the FY27 resegment, Commercial Cloud is now entirely included in the Agent and Infra segment.

- M365 Commercial Cloud revenue grew 18% CC, on 19% in CC when normalized for a 1pt in-period revenue recognition benefit from the prior year.
    - Note that going forward M365 Cloud includes GitHub Copilot and developer tools (previously in Azure)
    - Commercial Office 365 seats grew 5% (see Exhibit 13). ARPU growth was driven by upsell to premium seat offerings, including M365 Copilot, E5 and E7, as well as increased consumption usage from GitHub Copilot.

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- The fact that the company is offsetting slowing (due to the law of large numbers / significant market penetration) seat growth by growing ARPU is impressive, especially when the new seats added are from lower ARPU offerings (SMBs and frontline workers). We believe ARPU growth can continue with M365 Copilot adoption and E5 and now E7 upgrades.

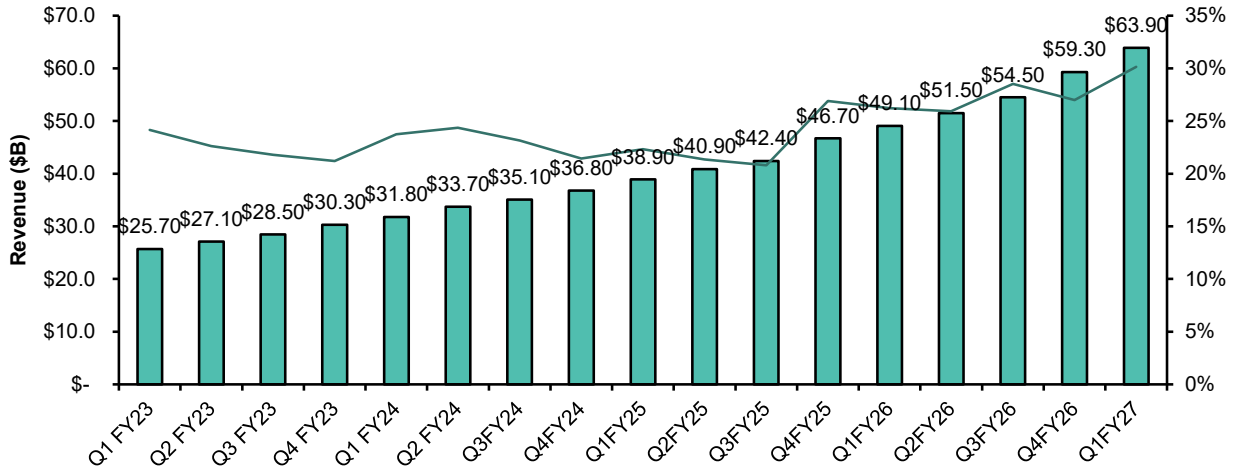
- Industry solutions cloud grew 10% with growth in Dynamics 365 and LinkedIn Talent Solutions, though books trends continue to moderate as mentioned last quarter.

- Azure delivered 48% CC growth, driven by growth across all workloads

- Given the faster growth rate of Commercial Cloud, as it becomes a larger portion of Microsoft revenue, we believe we should see the growth rate of the company at least sustain if not accelerate further.

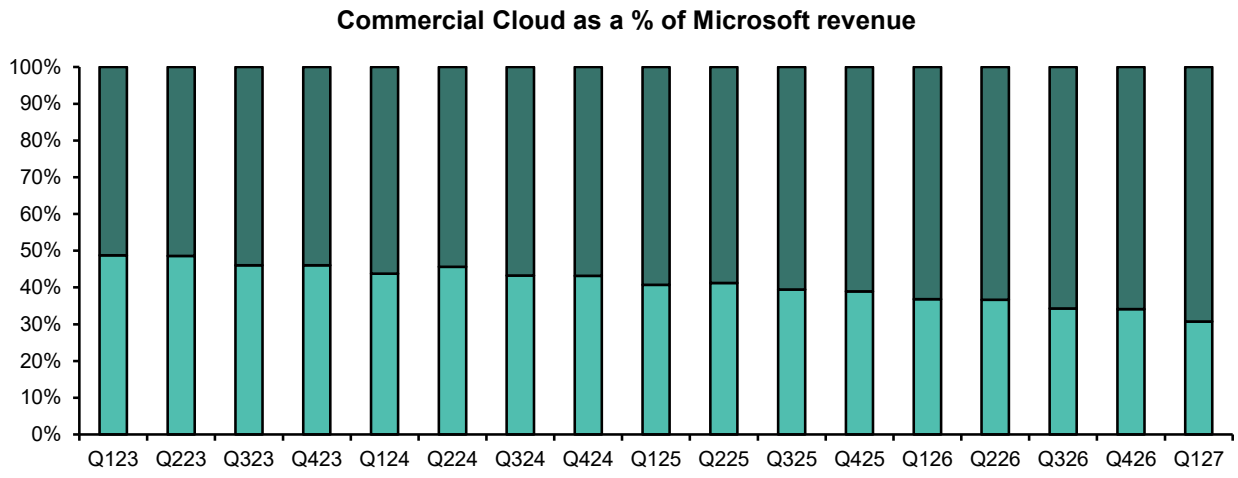
Gross margin decreased 2 pts Y/Y to 66% driven by mix shift to Azure, partially offset by product-level margin improvements primarily in Azure. (Exhibit 9)

EXHIBIT 7: **Microsoft's Commercial Cloud revenue continues to grow**



Source: Company reports, Bernstein analysis

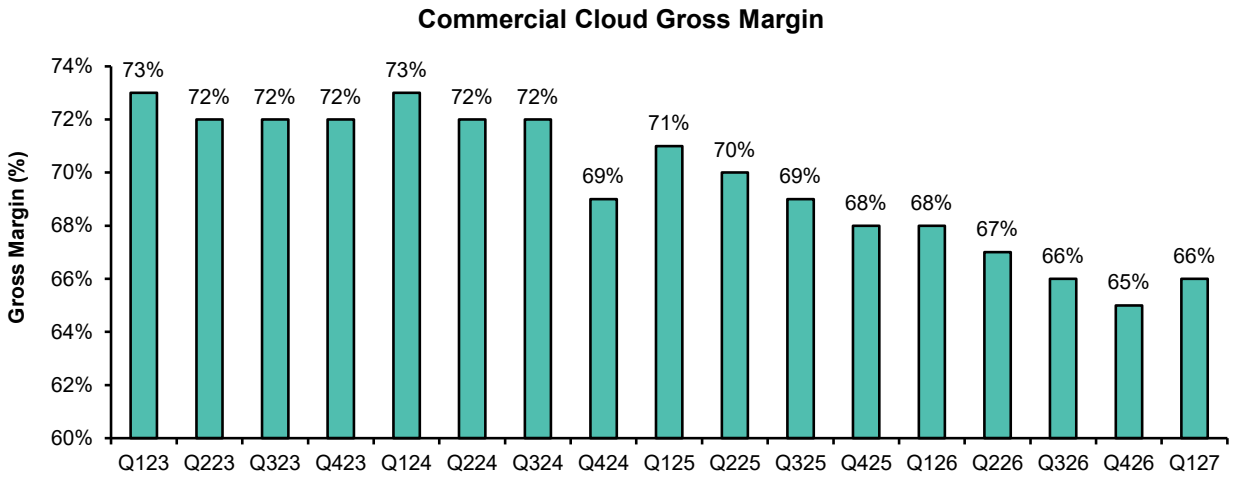
EXHIBIT 8: **Commercial Cloud is now well over half of total revenue**



Source: Company reports, Bernstein analysis

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EXHIBIT 9: **Microsoft's Commercial Cloud Gross Margin, including LinkedIn Commercial have come down due to the investment in AI**



Source: Company reports, Bernstein analysis

AGENTS AND INFRA

Agents and Infra revenue grew 25% reported and in CC (see Exhibit 10), reflecting strength across the connected layers of the platform. Gross margin dollars grew 20% (21% in CC). Microsoft Cloud, which is now entirely in this segment, reached $63.9B and growth accelerated from 27% last quarter to 31% in CC with sequential dollars added nearly doubling year-over-year, reflecting strong demand across Azure and M365 commercial Cloud.

Highlights for the quarter:

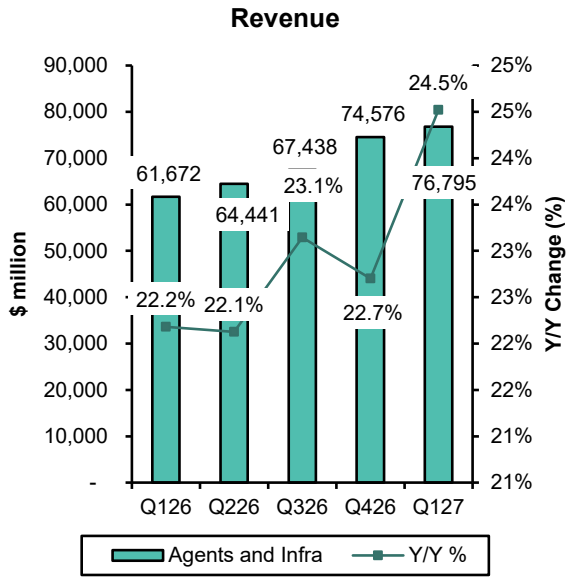
- Azure grew 48% reported and in CC this quarter driven by strength across all workloads
- M365 Commercial Cloud revenue grew 18% (18% CC), or 19% if normalized for the 1pp prior year benefit from in-period revenue recognition. Growth was driven by ARPU growth from M365 Copilot, E5 and E7 upgrades; consumption growth from GitHub Copilot, as well as 5% seat growth mostly from SMB and frontline worker offerings.
    - Note M365 includes Office 365 as well as revenues from Windows, EMS, Power BI, and now GitHub Copilot and other developer tools
    - M365 Commercial Cloud represents nearly 90% of the total M365 Commercial products and cloud services.
- M365 Consumer cloud revenue grew 17% (up 16% CC), driven by ARPU and M365 Consumer subscribers growth of 7%.
    - M365 Consumer Cloud represents 85% of total M365 Consumer products and cloud services

Agents and Infra operating expenses grew 10% driven by continued investments in R&D compute capacity and talent. Segment operating income grew 24% (25% CC) and operating margins decreased slightly as strong revenue growth, platform efficiency gains, and focused investments across the portfolio were more than offset by sales mix shift to Azure (see Exhibit 11).

Productivity and server licensing revenue was down 2% CC driven by a decrease in transactional purchasing as company laps benefit from product launches last year, partially offset by a greater mix of contracts that carry higher in-period revenue recognition. Industry solutions cloud grew 10% with growth in Dynamics 365 and LinkedIn Talent Solutions, though bookings trends continued to moderate. Frontier and support services grew 5% CC.

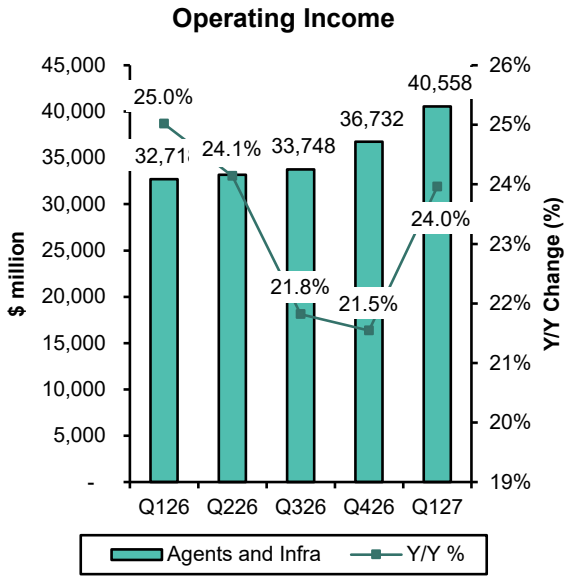
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EXHIBIT 10: **Agents and Infra revenue grew 24.5% while ...**



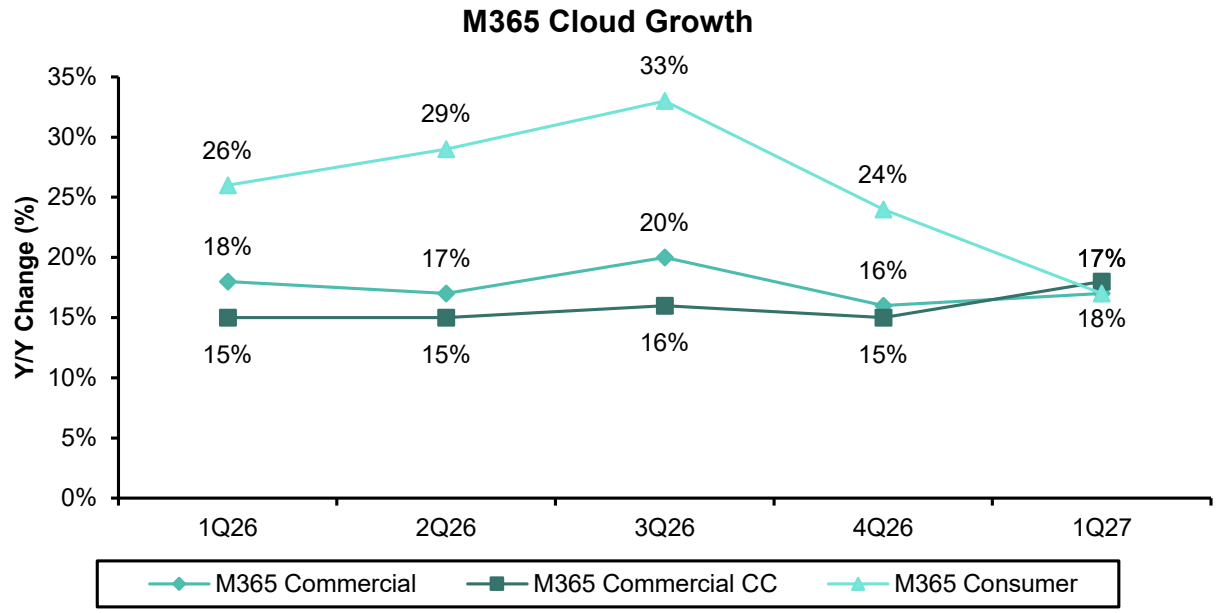
Source: Company reports, Bernstein analysis

EXHIBIT 11: **... Agents and Infra Operating Income grew 24%**



Source: Company reports, Bernstein analysis

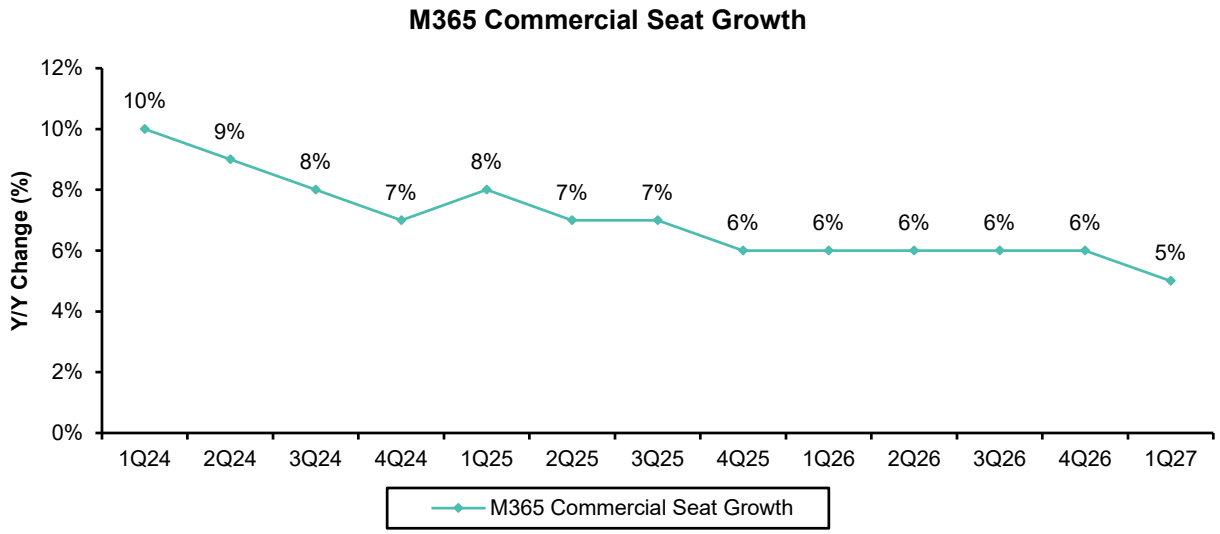
EXHIBIT 12: **M365 growth was strong**



Based on FY27 segment
Source: Company reports, Bernstein analysis

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EXHIBIT 13: **M365 Commercial seats grew 6% while M365 Commercial revenue grew 14%CC driven by upsell to E5/ E7 and M365 Copilot.**



Note this metric was previously reported as "Commercial Office 365 seat growth"
Source: Company reports, Bernstein analysis

DEVICES AND CONSUMER

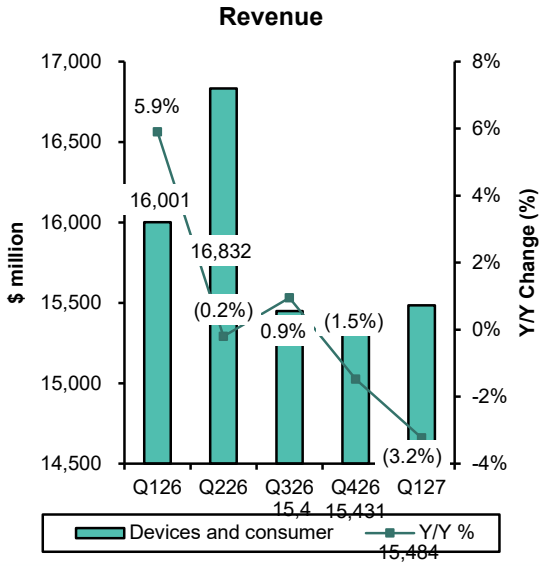
Revenue for the Devices and Consumer declined 3% (down 3% CC) Y/Y (see Exhibit 14).

- Windows OEM and Devices revenue declined 22% Y/Y (down 22% in CC) driven by the benefit from Windows 10 end of support demand in the prior year, inventory drawdown by OEM and channel partners, as well as weaker PC market demand.
  - Microsoft continues to incrementally shift away from their hardware business driving lower Surface devices revenue, but better gross margins.
- Search and Advertising ex TAC grew 12% (12% CC) driven by higher rate and volume across LinkedIn, Edge and Bing.
- Xbox content and services revenue declined 2% (down 1% CC) driven by declines in 3rd party content and XBOX Game Pass, partially offset by growth in 1st party content. Xbox hardware revenue declined 14% (down 14% CC).

Devices and Consumer gross margin dollars were relatively unchanged. Operating expenses declined 3% driven by XBOX, partially offset by continued investments in R&D compute capacity and talent. Operating income grew 2% (3% CC) and operating margins increased, driven by lower amortization of intangible assets from the Activision acquisition, partially offset by the impact from a lower mix of Windows OEM revenue. (Exhibit 15)

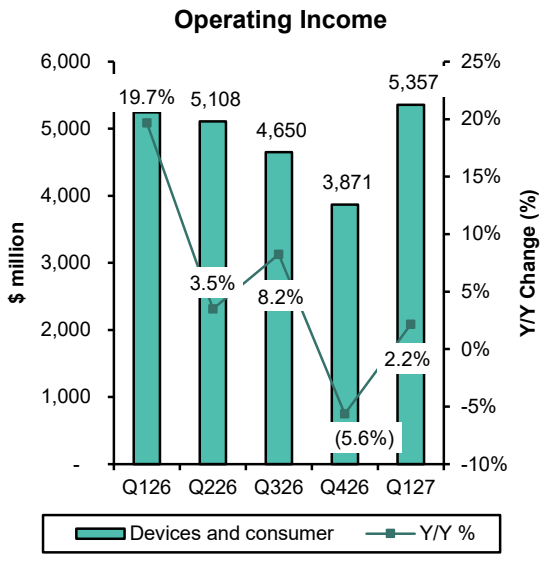
on 29-Oct-2026

EXHIBIT 14: **Devices and Consumer revenue declined 3% YoY ...**



Source: Company reports, Bernstein analysis

EXHIBIT 15: **... while Devices and Consumer operating income was up 2%**



Source: Company reports, Bernstein analysis

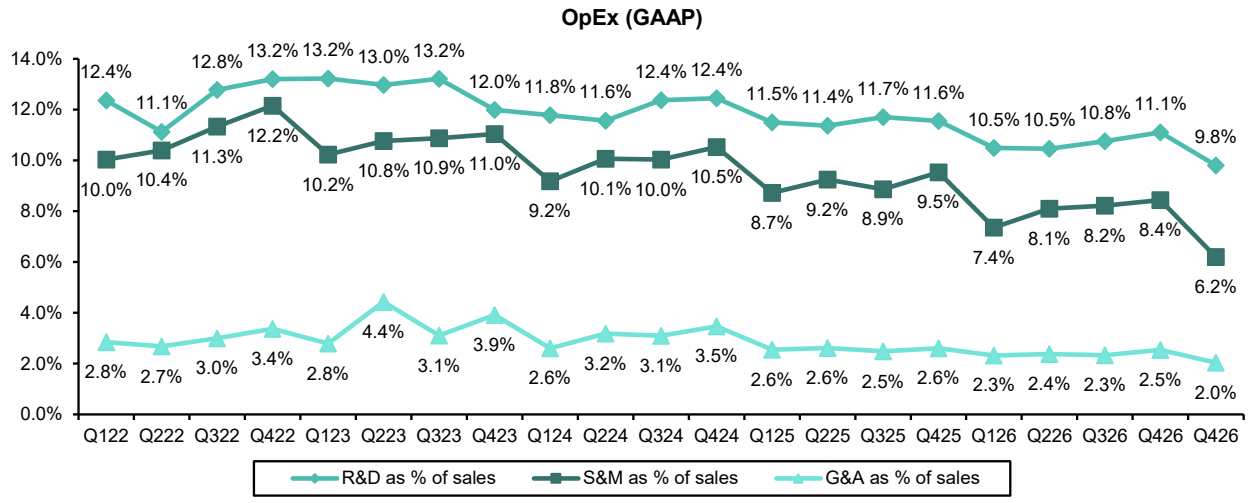
MARGINS

Gross margin was 68%, slightly down Y/Y. While Gross margin is trending slightly lower, it is mostly driven by Cloud and AI infrastructure investment, which manifests through higher D&A expense, and growing usage of AI product features but is partially offset by efficiency gains across Microsoft Cloud and sales mix shift to higher margin businesses. The company is also managing to offset through managing OPEX. This quarter, operating margin improved 1pt to 50%. It is very important to remember that Microsoft is only GAAP (and still GAAP for all lines above operating profit) as compared to all of its software peers who are PF which removes what is often significant costs such as stock-based comp. There are a couple of significant factors impacting margins:

- **Microsoft's Commercial Cloud margins were 66%**, a 2pp decrease YoY, driven by sales mix shift to Azure, partially offset by product-level margin improvements primarily in Azure.
  - The company is aggressively investing in Cloud and especially AI as seen in the increase of CAPEX. As CAPEX is amortized, it is going to place pressure on Commercial Cloud gross margins. In addition, Generative AI is scaling and could continue to have an impact on margins for a period of time while AI margins improve.
  - We want to note that although Gross Margin is impacted by these infrastructure investments, Azure efficiency, including AI, is improving so the like-for-like gross margin are better.
  - Microsoft will, we believe, continue to offset the GM pressure from AI via managing OPEX.
  - We believe that the longer-term gross margin will improve as Microsoft moves through the investment cycle and keeps improving Cloud and AI efficiency, similar to the Cloud transition period we observed a decade ago. For more detailed information on AI margins and their impact on Microsoft's margins we would recommend one reads: Microsoft: Azure AI margins, and its implications for next 5 years and Microsoft: Could the bear case in fact be the bull case?
  - Microsoft's cloud offerings are all built on the same infrastructure. This is especially true with AI as Microsoft leverages the same reference architecture (the Copilot architecture), and the same infrastructure, and this drives scale and efficiency across all their AI.

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EXHIBIT 16: **Microsoft GAAP OpEx as % of Revenue**

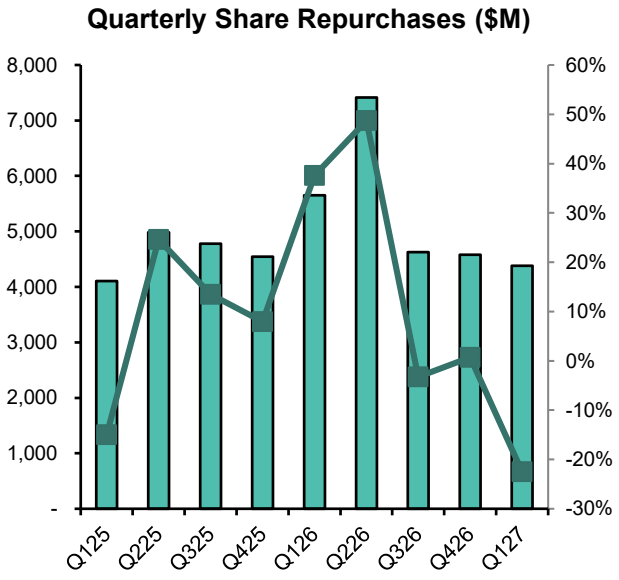


Source: Company reports, Bernstein analysis

CAPITAL RETURN

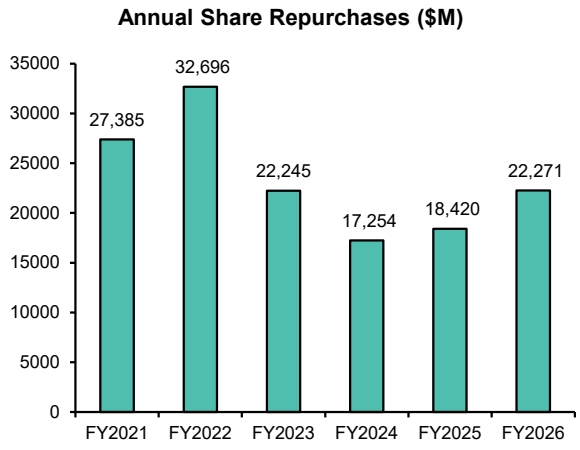
Total capital returned to shareholders was $10.2B. This included $7.3B in dividends and $2.9B in share repurchases.

EXHIBIT 17: **Microsoft cash share purchases**



Source: Company reports, Bernstein analysis

EXHIBIT 18: **...we expect buybacks to continue**



Does not reflect new share issuance.
Source: Company reports, Bernstein analysis

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EXHIBIT 19: **Microsoft resegmented starting 1Q27**

Segment Structure

FY26 Segment Structure		FY27 Segment Structure	
Productivity and Business Processes		**Agents and Infra**	
Microsoft 365 commercial products and cloud services	Microsoft 365 commercial cloud	Azure	
	Microsoft 365 commercial products	Microsoft 365 cloud	Microsoft 365 commercial cloud
Microsoft 365 consumer products and cloud services	Microsoft 365 consumer cloud		Microsoft 365 consumer cloud
	Office consumer products	Productivity and server licensing	Server products
Dynamics products and cloud services	Dynamics 365		Microsoft 365 commercial products
	Dynamics products		Microsoft 365 consumer products
LinkedIn		Industry solutions	Industry solutions cloud
Intelligent Cloud			Industry solutions products
Server products and cloud services	Azure and other cloud services	Frontier and support services	
	Server products		
Enterprise and partner services		**Devices and Consumer**	
More Personal Computing		Search and advertising	
Search advertising		XBOX	XBOX content and services
XBOX	XBOX content and services		XBOX hardware
	XBOX hardware	Windows OEM and devices	
Windows and devices	Windows OEM and devices		
	Windows other		

Source: Company presentation

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APPENDIX - FINANCIAL FORECASTS

EXHIBIT 20: **MSFT Income Statement**

$ Millions & Pro Forma, except otherwise noted

Income Statement (PF)	FY2025	FY2026	FY2027E	FY2028E	FY2029E	Q127	Q227E	Q327E	Q427E
Revenue	281,724	331,839	403,797	502,941	623,195	92,279	97,868	102,264	111,386
Cost of revenue	87,831	106,374	134,260	177,907	228,984	29,720	32,752	34,346	37,441
Gross Profit	193,893	225,465	269,537	325,034	394,211	62,559	65,115	67,918	73,944
Research and development	32,488	35,562	39,616	44,172	49,251	9,047	9,482	9,940	11,147
Sales and marketing	25,654	26,710	28,283	31,395	34,848	5,716	7,078	7,325	8,165
General and administrative	7,223	7,956	8,708	9,578	10,536	1,881	2,145	2,143	2,539
Goodwill impairment / Employee severance	-	-	-	-	-				
Total opex & COGS	153,196	176,602	210,866	263,052	323,619	46,364	51,456	53,755	59,291
Operating income	**128,528**	**155,237**	**192,930**	**239,890**	**299,575**	45,915	46,411	48,509	52,095
Other income	(4,901)	4,145	(120)	(1,200)	(1,200)	(234)	38	38	38
EBT	123,627	159,382	192,810	238,690	298,375	45,681	46,449	48,547	52,133
Taxes	21,795	30,596	39,112	45,351	56,691	9,259	9,425	9,850	10,578
Net income (PF)	**101,832**	**128,786**	**153,698**	**193,339**	**241,684**	36,422	37,025	38,697	41,555
Basic EPS ($)	13.70	17.34	20.69	25.92	32.25	4.90	4.98	5.21	5.59
Diluted EPS ($, PF)	**13.64**	**17.28**	**20.63**	**25.85**	**32.17**	**4.89**	**4.97**	**5.19**	**5.57**
Basic share count (M)	7,433	7,429	7,430	7,460	7,494	7,426	7,428	7,430	7,436
Diluted share count (M)	7,465	7,453	7,450	7,479	7,514	7,446	7,449	7,449	7,455
Key ratios (PF)									
Gross margin	68.8%	67.9%	66.8%	64.6%	63.3%	67.8%	66.5%	66.4%	66.4%
R&D as % of sales	11.5%	10.7%	9.8%	8.8%	7.9%	9.8%	9.7%	9.7%	10.0%
S&M as % of sales	9.1%	8.0%	7.0%	6.2%	5.6%	6.2%	7.2%	7.2%	7.3%
G&A as % of sales	2.6%	2.4%	2.2%	1.9%	1.7%	2.0%	2.2%	2.1%	2.3%
Operating margin	45.6%	46.8%	47.8%	47.7%	48.1%	49.8%	47.4%	47.4%	46.8%
Tax rate	17.6%	19.2%	20.3%	19.0%	19.0%	20.3%	20.3%	20.3%	20.3%
Net margin	36.1%	38.8%	38.1%	38.4%	38.8%	39.5%	37.8%	37.8%	37.3%
YoY change									
Revenue	15%	18%	22%	25%	24%	18.8%	20.4%	23.4%	23.8%
Cost of revenue	19%	21%	26%	33%	29%	23.6%	26.1%	28.0%	26.8%
Gross Profit	13%	16%	20%	21%	21%	16.6%	17.8%	21.2%	22.3%
R&D	10%	9%	11%	12%	12%	11.1%	11.5%	11.5%	11.5%
S&M	5%	4%	6%	11%	11%	0.0%	7.5%	7.5%	7.5%
G&A	-5%	10%	9%	10%	10%	4.2%	11.0%	11.0%	11.0%
Operating income	17%	21%	24%	24%	25%	21.0%	21.3%	26.3%	28.3%
Net income	16%	26%	19%	26%	25%	18.1%	19.9%	21.7%	17.8%
EPS - diluted	16%	27%	19%	25%	24%	18.4%	20.1%	21.7%	17.6%

Source: Company reports, Bernstein estimates and analysis

on 29-Oct-2026

EXHIBIT 21: **MSFT Balance Sheet**

MSFT
$ Millions & GAAP, except otherwise noted

Balance Sheet	FY2025	FY2026	FY2027E	FY2028E	FY2029E	Q127	Q227E	Q327E	Q427E
Assets									
Cash & short-term investments	94,565	76,843	75,586	48,267	53,282	64,509	70,619	51,648	75,586
Accounts receivable	69,905	80,876	100,086	124,261	153,503	62,084	68,078	74,078	100,086
Inventories	938	1,397	1,360	1,246	902	1,835	1,335	1,561	1,360
Other	25,723	48,594	50,124	62,230	76,875	57,709	44,793	49,279	50,124
Total current assets	**191,131**	**207,710**	**227,156**	**236,004**	**284,562**	**186,137**	**184,825**	**176,566**	**227,156**
Property and equipment	204,966	313,076	478,411	678,335	899,371	346,844	388,956	432,999	478,411
Goodwill	119,509	119,651	119,646	119,646	119,646	119,646	119,646	119,646	119,646
Intangible assets, net	22,604	18,609	15,407	12,029	9,392	17,751	16,933	16,152	15,407
Other	80,793	99,330	77,962	89,381	103,310	109,025	105,320	102,310	77,962
Total non-current assets	**427,872**	**550,666**	**691,427**	**899,391**	**1,131,718**	**593,266**	**630,854**	**671,107**	**691,427**
Total Assets	**619,003**	**758,376**	**918,583**	**1,135,395**	**1,416,279**	**779,403**	**815,679**	**847,673**	**918,583**
Liabilities									
Accounts payable	27,724	42,416	45,259	59,463	75,956	42,625	47,062	48,025	45,259
Short-term debt & lending payables	2,999	9,227	4,391	4,391	4,391	4,391	4,391	4,391	4,391
Accrued compensation	13,709	14,945	16,387	18,213	20,242	10,156	11,103	12,386	16,387
Income taxes	7,211	2,534	2,176	2,076	1,764	1,447	2,390	2,443	2,176
Short-term unearned revenue	64,555	72,965	76,892	88,153	101,945	66,866	62,407	57,430	76,892
Other	25,020	26,738	33,089	36,932	40,499	26,483	29,275	30,292	33,089
Total current liabilities	**141,218**	**168,825**	**178,194**	**209,228**	**244,796**	**151,968**	**156,628**	**154,968**	**178,194**
Long-term debt	40,152	31,067	31,090	31,090	51,090	31,090	31,090	31,090	31,090
Long-term unearned revenue	2,710	2,747	11,490	13,172	15,233	2,697	3,241	3,105	11,490
Deferred income taxes	28,821	31,701	31,227	29,470	24,861	32,409	31,272	31,104	31,227
Other long-term liabilities	45,186	65,117	76,487	84,032	93,379	69,011	71,360	73,814	76,487
Total long term liabilities	**116,869**	**130,632**	**150,294**	**157,764**	**184,564**	**135,207**	**136,963**	**139,113**	**150,294**
Total Liabilities	**275,524**	**315,989**	**350,208**	**388,711**	**451,079**	**308,894**	**315,310**	**315,800**	**350,208**
Total stockholders' equity	**343,479**	**442,387**	**568,375**	**746,684**	**965,200**	**470,509**	**500,370**	**531,873**	**568,375**
Total liabilities and stockholders' equity	**619,003**	**758,376**	**918,583**	**1,135,395**	**1,416,279**	**779,403**	**815,679**	**847,673**	**918,583**

Source: Company reports, Bernstein estimates and analysis

EXHIBIT 22: **MSFT Cash Flow Statement**

$ Millions & GAAP, except otherwise noted

Cash Flow Statement	FY2025	FY2026	FY2027E	FY2028E	FY2029E	Q127	Q227E	Q327E	Q427E
Net income	101,832	133,749	153,905	193,339	241,684	36,629	37,025	38,697	41,555
Adjustments to reconcile net income to net cash from operations:									
Depreciation, amortization, and other noncash items	34,153	43,448	36,202	49,017	71,509	11,744	7,195	8,126	9,138
Stock-based compensation	11,974	12,405	13,638	15,031	16,682	3,134	3,315	3,382	3,806
Deferred income taxes	(7,056)	14,189	4,157	(1,857)	(4,921)	4,609	(194)	(115)	(144)
Deferral of unearned revenue, net	5,438	9,361	12,877	12,943	15,853	(5,942)	(3,915)	(5,113)	27,846
Changes in operating assets and liabilities:	(10,788)	(14,256)	(13,397)	(27,894)	(35,484)	8,057	11,154	(9,589)	(23,019)
Other	609	(15,961)	(231)	-	-	(231)	-	-	-
Net cash provided by operating activities	**136,162**	**182,935**	**207,151**	**240,578**	**305,323**	**58,000**	**54,580**	**35,388**	**59,183**
Capex	(64,551)	(115,948)	(185,572)	(238,019)	(280,559)	(39,367)	(46,140)	(48,934)	(51,132)
Acquisitions, net of cash	(5,978)	(1,743)	(397)	-	-	(397)	-	-	-
Purchase of securities, net (sale)	27,705	36,542	25,489	22,071	(3,809)	3,193	4,056	18,812	(572)
Securities lending payable	-	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(72,599)**	**(139,500)**	**(165,874)**	**(215,947)**	**(284,368)**	**(41,965)**	**(42,083)**	**(30,122)**	**(51,704)**
Net borrowing	(8,962)	(3,000)	(4,850)	-	20,000	(4,850)	-	-	-
Share repurchase	(18,420)	(22,271)	(13,523)	(71)	(6,486)	(4,379)	(3,523)	(3,673)	(1,949)
Dividends	(24,082)	(26,445)	(29,074)	(32,108)	(35,481)	(6,757)	(7,436)	(7,437)	(7,444)
Other	(235)	(830)	893	2,119	2,117	(654)	480	535	533
Net cash used in financing	**(51,699)**	**(52,546)**	**(46,554)**	**(30,060)**	**(19,850)**	**(16,640)**	**(10,479)**	**(10,576)**	**(8,859)**
Effect of exchange rates on cash and cash equivalents	63	(196)	(49)	-	-	(49)	-	-	-
Net change in cash and cash equivalents	**11,927**	**(9,307)**	**(5,326)**	**(5,429)**	**1,104**	**(654)**	**2,018**	**(5,310)**	**(1,380)**
Cash and cash equivalents at beginning of period	18,315	30,242	20,935	15,609	10,180	20,935	20,281	22,299	16,989
Cash and cash equivalents at end of period	30,242	20,935	15,609	10,180	11,284	20,281	22,299	16,989	15,609

Source: Company reports, Bernstein estimates and analysis

on 29-Oct-2026

BERNSTEIN TICKER TABLE

			28 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	531.01	**722.00**	(14.4)%	USD	17.28	**20.63**	**25.85**	30.7	25.7	20.5
OLD				662.00				19.96	24.12			
SPX			7,743.98									

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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VALUATION METHODOLOGY

Microsoft Corp

We value Microsoft shares based on our estimate for 12-month forward NOPLAT per share in 1 year's time ($27.7), and apply a P/FE multiple of 26x. 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 ($2.5 per share), arriving at price target of $722.

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.

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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

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

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

Autonomous brand – preferred stocks

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- 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.

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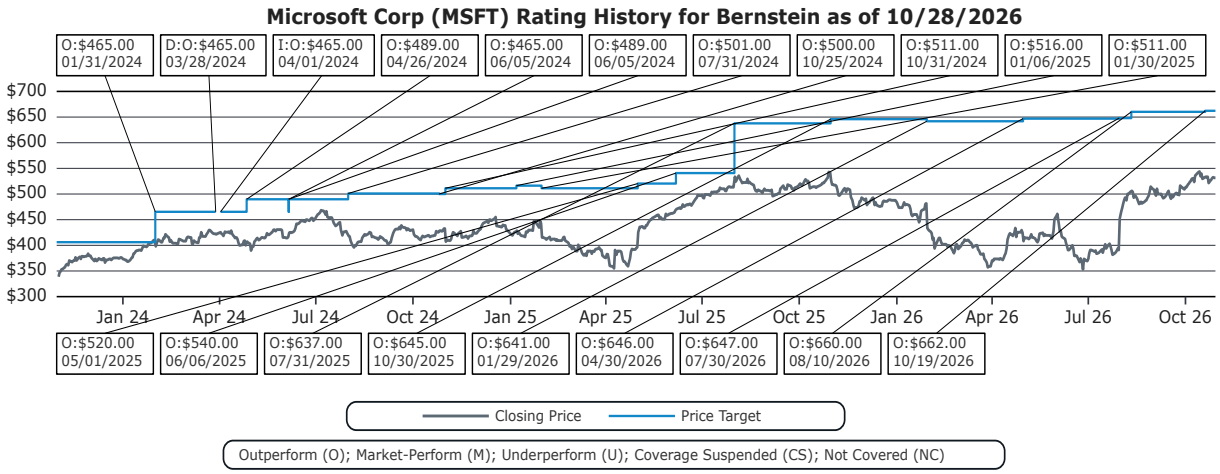
Equity Rating	Market Abuse Regulation (MAR) and FINRA Rating Category	Global Rating Distribution	Investment Banking Relationships*
Outperform	BUY	52.3%	14.2%
Market-Perform (Bernstein Brand) Neutral (Autonomous Brand)	HOLD	35.6%	16.1%
Underperform	SELL	12.1%	13.6%

* 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.

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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.

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