



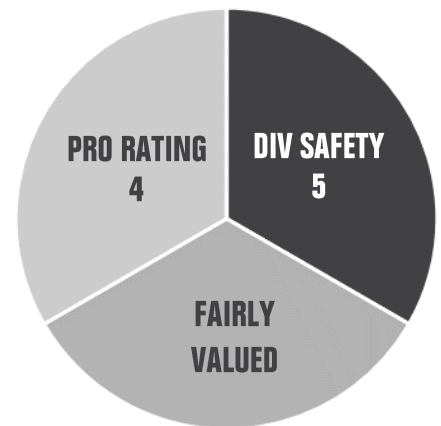
# DSR STOCK CARD

09/26/2018

## MICROSOFT (MSFT)

### Business Model

Founded in 1975 on the promise of offering the best computer operating system with a graphical user interface, Microsoft is now in 190 countries. The “More Personal Computing” segment includes Windows, Surface, and gaming division. The “Productivity and Business Process” includes the Office suites, Dynamics products, and cloud services along with latest acquisition: LinkedIn. Finally, the “Intelligent Cloud” segment includes server products and cloud services (led by the fast-growing Azure) and enterprise services.



### The Company in a Nutshell

- MSFT strength lies in all businesses using its services (Windows, Office series, servers, business services).
- Azure has doubled its sales over the past 12 months and is prone for several years of growth.
- Microsoft can sustain a double-digit dividend growth for the next decade.

### Investment Thesis

Microsoft is one of the oldest and newest tech companies at the same time. While it benefits from a strong core business model generating cash flow, management has proven its ability to develop other growth vectors. Its most recent success is called Azure, which is No. 2 in public cloud services. Azure has doubled its sales over the past 12 months and is prone for several years of growth. Finally, its strong relationship with corporate America opens the door for additional cross-selling opportunities as the cloud business expands.

## VALUATION

Dividend Growth Rate Years 1-10: 9.00%

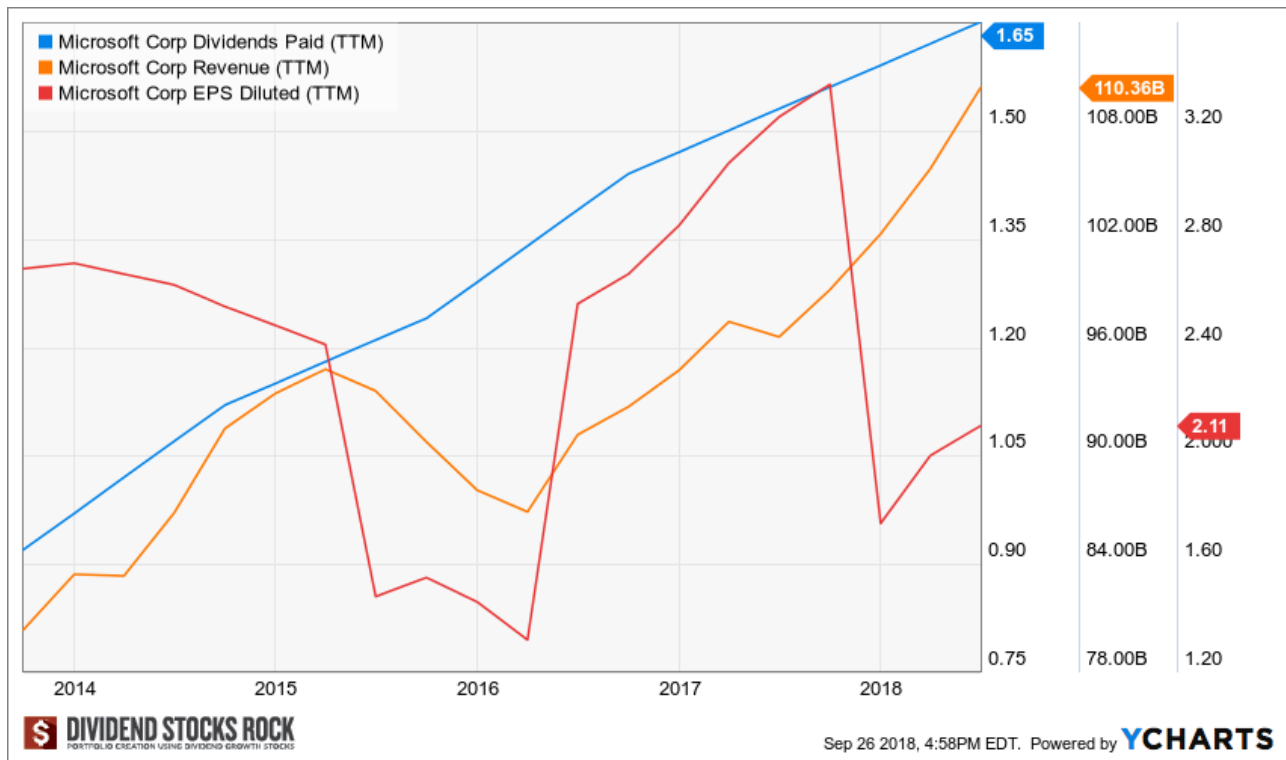
Terminal Dividend Growth Rate: 7.00%

Intrinsic Value	Discount Rate (Horizontal)		
Margin of Safety	8.00%	9.00%	10.00%
20% Premium	\$282.30	\$140.21	\$92.88
10% Premium	\$258.78	\$128.52	\$85.14
Intrinsic Value	\$235.25	<b>\$116.84</b>	\$77.40
10% Discount	\$211.73	\$105.16	\$69.66
20% Discount	\$188.20	\$93.47	\$61.92



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**TYPE OF HOLDING:** GROWTH

**SECTOR:** TECHNOLOGY

**CURRENT DIVIDEND YIELD:** 1.47%

**PE RATIO:** 54.01

**5 YEAR REVENUE GROWTH:** 7.23%

**5 YEAR EPS GROWTH:** -5.70%

**5 YEAR DIVIDEND GROWTH:** 13.14%

**PAYOUT RATIO:** 76.63%

## Potential Risks

Microsoft shows darker clouds over its head. First one is obviously Windows desktop OS. Desktops are often replaced by smartphones, tablets, or 2-in-1 where Windows isn't a major player. Desktops won't disappear soon, but there won't be much growth from them. MSFT is also not alone in the cloud space services as Amazon continues to be dominant in this market.

## Dividend Growth Perspective

Microsoft has dividend increases for 14 consecutive years (Dividend Achiever). Its yield used to be more attractive at near 3%. Even a double-digit dividend growth rate wasn't enough to compensate for the 58% stock price surge in 2015. Assuming its usual dividend increase for the year's last quarter, dividend payment will have more than doubled since 2012, while both payouts and cash payout ratio remain under control.