Zacks Report Date: December 15, 2025

Microsoft Corporation (MSFT)

$474.82 (Stock Price as of 12/15/2025)

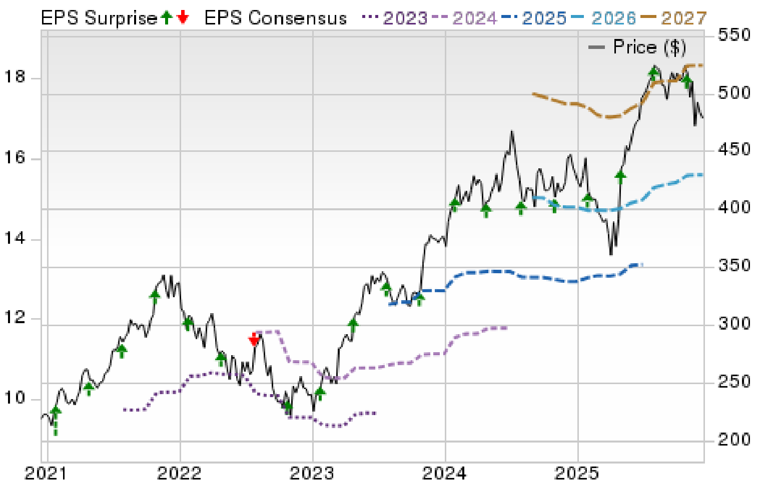
Price Target (6-12 Months): **$502.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 11/18/24) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM: B
	Value: D | Growth: A	Momentum: B

Summary

Microsoft Corporation demonstrates strong fundamentals anchored by Azure's 25% cloud market share and strategic AI integration through OpenAI. The company generates exceptional operating cash flows exceeding $100 billion annually with margins above 40%, while diversified revenue across cloud, productivity software, gaming, and LinkedIn provides stability. We expect fiscal 2026 net sales to grow 15.1% from fiscal 2025. However, Microsoft confronts intense competition from AWS and Google Cloud, escalating regulatory scrutiny, and mounting capital expenditure requirements for AI infrastructure. Long-term debt of $43.2 billion raises concerns amid rising interest rates, straining financial flexibility. These dynamics create an investment profile balancing robust cash generation against competitive pressures and operational challenges.

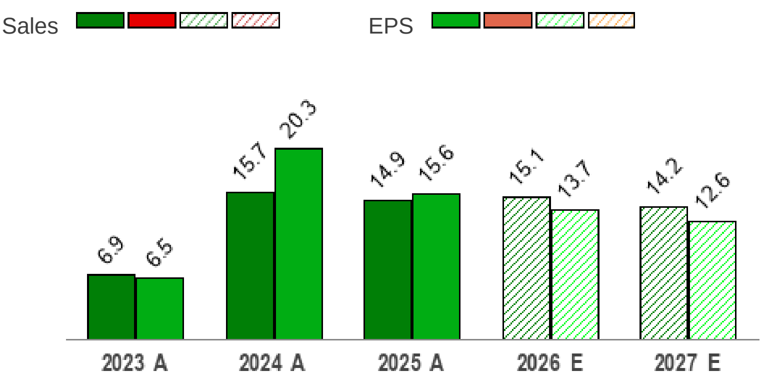
Price, Consensus & Surprise(1)



Data Overview

52 Week High-Low	$555.45 - $344.79
20 Day Average Volume (sh)	23,933,292
Market Cap	$3,556.6 B
YTD Price Change	13.5%
Beta	1.07
Dividend / Div Yld	$3.64 / 0.8%
Industry	Computer - Software
Zacks Industry Rank	Top 24% (59 out of 243)
Last EPS Surprise	13.2%
Last Sales Surprise	3.6%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	02/04/2026
Earnings ESP	-0.5%
P/E TTM	33.1
P/E F1	30.6
PEG F1	2.3
P/S TTM	12.1

Sales and EPS Growth Rates (Y/Y %)(2)



Sales Estimates (millions of $)(2)

	Q1	Q2	Q3	Q4	Annual*
2027	87,564 E	91,800 E	91,716 E	99,330 E	370,409 E
2026	77,673 A	80,002 E	80,053 E	86,569 E	324,297 E
2025	65,585 A	69,632 A	70,066 A	76,441 A	281,724 A

EPS Estimates(2)

	Q1	Q2	Q3	Q4	Annual*
2027	4.15 E	4.34 E	4.31 E	4.68 E	17.47 E
2026	4.13 A	3.84 E	3.67 E	3.87 E	15.51 E
2025	3.30 A	3.23 A	3.46 A	3.65 A	13.64 A

*Quarterly figures may not add up to annual.

(1) The data in the charts and tables, except the estimates, is as of 12/15/2025.
(2) The report's text, the analyst-provided estimates, and the price target are as of 12/15/2025.

Overview

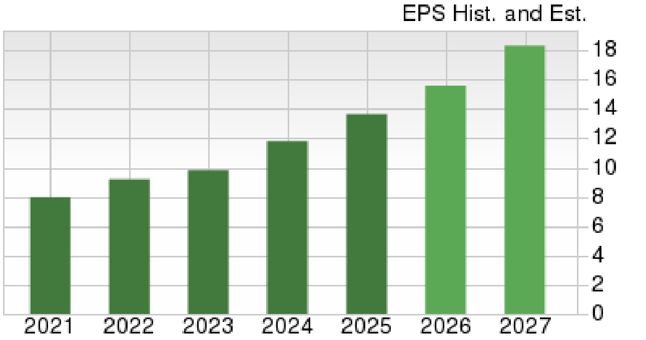
Microsoft Corporation is one of the largest broad-based technology providers in the world. The company dominates the PC software market with more than 73% of the market share for desktop operating systems.

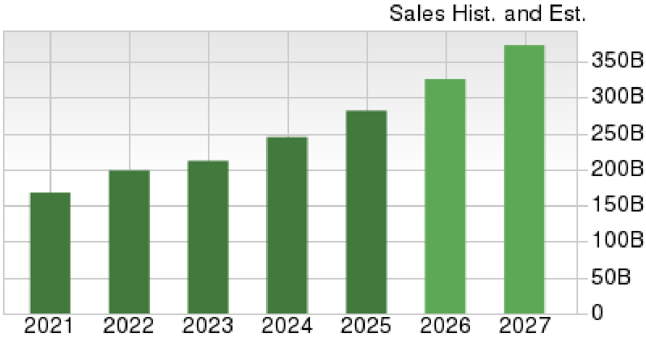
The company's Microsoft 365 application suite is one of the most popular productivity software globally. It is also one of the prominent public cloud providers that can deliver a wide variety of infrastructure-as-a-service (IaaS) and platform-as-a-service (PaaS) solutions at scale.

Redmond, WA-based Microsoft's products include operating systems, cross-device productivity applications, server applications, business solution applications, desktop and server management tools, software development tools, and video games. Its software solutions and hardware devices are playing an important role in developing the metaverse.

The company designs and sells PCs, tablets, gaming and entertainment consoles, other intelligent devices, and related accessories. Through Azure, it offers cloud-based solutions that provide customers with software, services, platforms and content.

Microsoft reported revenues of $281.7 billion in fiscal 2025. The company reports operations under three segments: Productivity & Business Processes, Intelligent Cloud and More Personal Computing.





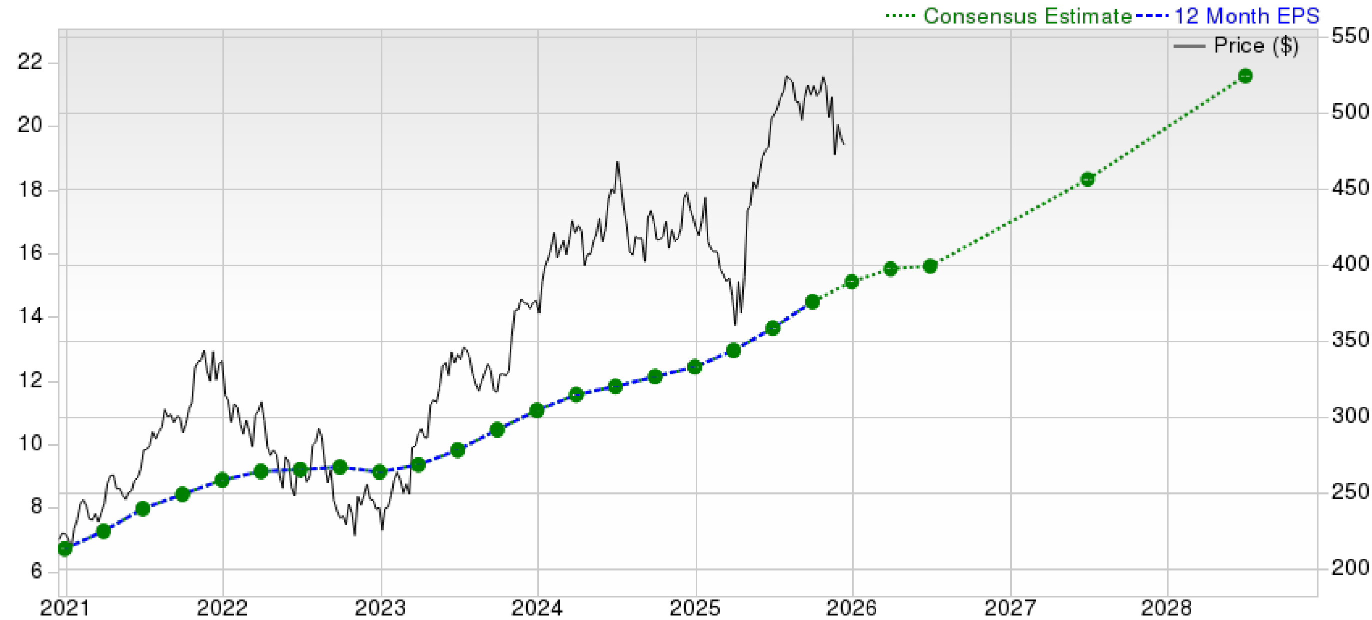
As of 12/15/2025

Productivity & Business Processes accounted for 42.9% of fiscal 2025 revenues. The segment offers productivity and collaboration tools and services including Office 365, Dynamics business solutions, Teams, Relationship Sales solution, Power Platform and LinkedIn.

Intelligent Cloud, which includes Azure cloud services, contributed 37.7% of fiscal 2025 revenues.

Microsoft closed its acquisition of Activision Blizzard on October 13, 2023 for $75.4 billion. Activision Blizzard has been integrated as a sibling division to Xbox Game Studios and ZeniMax Media.

More Personal Computing represented 19.4% of fiscal 2025 revenues. The segment comprises mainly the Windows, Gaming (Xbox hardware, Xbox software and services), Devices (Surface, PC accessories, and other intelligent devices) and Search (Bing and Microsoft Advertising) businesses.



As of 12/15/2025

Reasons To Buy:

Microsoft’s cloud dominance with Azure, AI leadership and diversified revenue streams will continue to generate sizeable cash flows.

- Microsoft's Azure platform maintains a commanding position in the enterprise cloud market, capturing approximately 25% market share behind only AWS. The company's comprehensive cloud ecosystem benefits from deep integration with existing Microsoft enterprise products, creating substantial switching costs and customer stickiness. Azure's infrastructure capabilities are particularly well-suited for hybrid cloud deployments, addressing the complex needs of large organizations transitioning legacy systems. The platform's consistent double-digit revenue growth demonstrates sustained enterprise demand, while massive capital investments in data center expansion position Microsoft to capture increasing cloud workloads. This infrastructure dominance translates into predictable, high-margin recurring revenue that should strengthen further as digital transformation accelerates across industries globally.

- Microsoft has strategically embedded artificial intelligence capabilities throughout its entire product ecosystem, from Azure AI services to Copilot features in Office 365 and Dynamics applications. The company's substantial investment in OpenAI provides exclusive access to leading-edge language models, creating a significant competitive moat in enterprise AI adoption. Unlike competitors developing standalone AI products, Microsoft monetizes AI through existing customer relationships, reducing customer acquisition costs while expanding revenue per user. Early enterprise adoption metrics suggest strong willingness to pay premium pricing for AI-enhanced productivity tools. The company's vast computing infrastructure and data resources create sustainable advantages in training and deploying AI models at scale, positioning Microsoft to capture substantial value as businesses increasingly prioritize AI implementation.

- Microsoft's business model spans cloud infrastructure, productivity software, gaming, professional networking, and advertising, creating exceptional revenue diversification that insulates performance from sector-specific downturns. The subscription-based model across Office 365, Azure, and Dynamics generates highly predictable recurring revenue with strong renewal rates exceeding industry averages. This diversification extends geographically, with significant revenue contributions across North America, Europe, and Asia-Pacific markets, reducing dependence on any single economy. The company's enterprise focus provides exposure to corporate IT budgets, which typically demonstrate greater stability than consumer spending during economic uncertainty. Gaming assets including Xbox and Activision Blizzard add countercyclical consumer entertainment exposure, while LinkedIn provides unique positioning in professional services, collectively creating a balanced portfolio resistant to isolated market disruptions.

- Microsoft's business model generates extraordinary operating cash flows exceeding $100 billion annually, providing substantial financial flexibility for shareholder returns and strategic investments. The company's high-margin software and cloud services produce industry-leading profitability metrics, with operating margins consistently above 40%, significantly outpacing most technology peers. Strong free cash flow generation enables Microsoft to simultaneously fund aggressive growth investments in AI and infrastructure while returning substantial capital through dividends and share repurchases. The company's fortress balance sheet, with minimal net debt relative to cash flows, provides financial resilience during market volatility and capacity for opportunistic acquisitions. This financial strength allows Microsoft to maintain premium talent, outspend competitors in research and development, and weather economic downturns without compromising long-term strategic initiatives.

Reasons To Sell:

> Microsoft faces stiff competition in the cloud market, legal and regulatory challenges beside an alarming capital expenditure trajectory.

- Microsoft's Azure faces relentless pressure from formidable competitors wielding substantial resources and innovation capabilities. Amazon Web Services maintains its dominant market leadership with superior infrastructure and broader service offerings, while Google Cloud aggressively undercuts pricing strategies to capture market share. The cloud infrastructure market has become increasingly commoditized, compressing margins as hyperscalers engage in destructive price wars. Additionally, emerging players and specialized cloud providers are fragmenting the market, targeting niche segments where Microsoft lacks differentiation. This competitive intensity forces continuous investment in infrastructure and services, potentially eroding profitability. The company must simultaneously defend its position against established rivals while fending off disruptive newcomers, creating a challenging environment that threatens Azure's growth trajectory and Microsoft's ability to sustain premium valuations in this critical business segment.

- Microsoft confronts escalating regulatory challenges across multiple jurisdictions that threaten its operational flexibility and financial performance. Antitrust investigations in the European Union scrutinize its cloud computing practices and bundling strategies, potentially resulting in substantial fines and mandated business model changes. The Federal Trade Commission's opposition to its Activision Blizzard acquisition, despite eventual approval, signals heightened regulatory skepticism toward big tech consolidation. Furthermore, data privacy regulations worldwide impose costly compliance requirements and restrict lucrative data monetization opportunities. The UK's Competition and Markets Authority continues examining Microsoft's market power in cloud services and artificial intelligence partnerships. These regulatory headwinds create unpredictable legal expenses, operational constraints, and reputational damage. The possibility of forced divestitures, behavioral remedies, or significant financial penalties introduces substantial uncertainty into Microsoft's strategic planning and threatens shareholder value through both direct costs and constrained growth opportunities.

- Microsoft's capital spending has reached alarming levels, raising serious concerns about return on investment and financial sustainability. Microsoft expects the fiscal 2026 capital expenditure growth rate to be higher than fiscal 2025, driven by accelerating demand and a growing RPO balance. The company's infrastructure buildout to support artificial intelligence capabilities and cloud expansion requires tens of billions in annual capital expenditures, dramatically exceeding historical spending patterns. This aggressive investment strategy strains cash flow generation and limits financial flexibility for shareholder returns and strategic opportunities. The extended payback periods for these massive infrastructure investments introduce significant execution risk, particularly if AI monetization disappoints or cloud growth decelerates. Furthermore, rapid technological change threatens to render current investments obsolete before adequate returns materialize. Competitors face identical infrastructure demands, creating an expensive arms race with uncertain economic outcomes. This capital intensity fundamentally alters Microsoft's business model, transforming it from an asset-light software company into a capital-intensive infrastructure operator with compressed returns and heightened financial risk that justifies valuation compression.

- Microsoft's financial position has weakened considerably, reflecting deteriorating fundamentals that warrant investor concern. The company maintains substantial debt levels accumulated through acquisitions and share repurchases, reducing financial flexibility during potential economic downturns. As of Sept. 30, 2025, long-term debt (including the current portion) was $43.2 billion compared with a total cash, cash equivalents and short-term investments balance of $102.01 billion. Rising interest rates increase debt servicing costs, directly impacting profitability and cash available for productive investments. The company's current ratio and quick ratio have compressed, indicating potential liquidity constraints if operating conditions deteriorate. Additionally, goodwill and intangible assets comprise significant portions of total assets, creating impairment risks if acquired businesses underperform expectations. Working capital metrics reveal inefficiencies in cash conversion cycles and operational management. The combination of elevated leverage, rising interest expenses, and asset quality concerns suggests Microsoft has sacrificed balance sheet strength to fund growth initiatives and shareholder distributions. This financial fragility leaves limited cushion to weather economic challenges or competitive pressures, increasing downside risk for equity holders.

Last Earnings Report

Microsoft Q1 Earnings & Revenues Beat on Cloud, AI Strength

FY Quarter Ending	6/30/2025
Earnings Reporting Date	**Oct 29, 2025**
Sales Surprise	**3.62%**
EPS Surprise	**13.15%**
Quarterly EPS	**4.13**
Annual EPS (TTM)	**14.47**

Microsoft reported first-quarter fiscal 2026 earnings of $4.13 per share, which beat the Zacks Consensus Estimate by 13.15% and increased 25.2% on a year-over-year basis.

Revenues of $77.6 billion increased 18.4% year over year and beat the Zacks Consensus Estimate by 3.62%. At constant currency (cc), revenues grew 17% year over year, showcasing strong demand for cloud and AI offerings.

Commercial bookings increased 112% and (up 111% in cc) and were significantly ahead of expectations, driven by Azure commitments from OpenAI, as well as continued growth in the number of 100-million-dollar-plus contracts for both Azure and M365. These results do not include any impact from the incremental $250 billion Azure commitments from OpenAI announced yesterday.

Commercial remaining performance obligation increased to $392 billion and was up 51% year over year. The balance has nearly doubled over the past two years.

Microsoft Cloud revenues were $49.1 billion, ahead of expectations, and grew 26% (up 25% in cc). Microsoft Cloud's gross margin percentage was slightly better than expected at 68%, and down year over year due to the investments in AI that were partially offset by ongoing efficiency gains as noted earlier.

Microsoft's shares, which have soared by more than 29% so far this year, edged down by 3.7% in extended trading on Thursday after finance chief Amy Hood announced that total capital expenditure spend will increase sequentially, and the fiscal year 2026 growth rate is now expected to be higher than fiscal 2025, reversing prior guidance that anticipated a slowdown in spending growth. This acceleration is driven by growing demand for cloud and AI capacity, with Microsoft pivoting increasingly toward short-lived assets, primarily GPUs and CPUs, to match contract durations and usage expectations. The company noted that there can be quarterly spend variability from cloud infrastructure buildouts and the timing of delivery of finance leases.

Segmental Details

The **Productivity & Business Processes** segment, which includes the Office and Dynamics CRM businesses, contributed 42.5% to total revenues. Revenues increased 17% (up 14% at cc) on a year-over-year basis to $33.02 billion, driven by M365 commercial products and cloud services and M365 consumer products and cloud services.

M365 commercial cloud revenues increased 17% (up 15% in cc), with 1 point of benefit from in-period revenue recognition. Year-over-year growth was driven by both ARPU and seats, with ARPU growth again led by E5 and M365 Copilot.

Paid M365 commercial seats grew 6% year over year with installed base expansion across all customer segments, though primarily in the company's small and medium business and frontline worker offerings.

M365 commercial products revenues increased 17% (up 14% in cc), ahead of expectations due to higher-than-expected Office 2024 transactional purchasing.

M365 consumer cloud revenue increased 26% (up 25% in cc), driven by ARPU growth. M365 consumer subscriptions grew 7% to over 90 million.

LinkedIn revenues increased 10% (up 9% in cc), driven by Marketing Solutions. The Talent Solutions business was impacted by continued weakness in the hiring market.

Dynamics 365 revenues jumped 18% (up 16% in cc), with continued growth across all workloads.

Segment gross margin dollars increased 19% (up 16% in cc), and gross margin percentage increased, driven by efficiency gains in M365 Commercial cloud that were partially offset by investments in AI, including the impact of growing usage in M365 Copilot Chat. Operating expenses rose 6% (up 5% in cc) and operating income grew 24% (up 20% in cc). Operating margins increased 3 points year over year to 62%, driven by the higher gross margin as well as improved operating leverage.

The **Intelligent Cloud** segment, including server and enterprise products and services, contributed 39.8% to total revenues. The segment reported revenues of $30.89 billion and grew 28% (up 27% in cc), driven by Azure and the on-premises server business.

In Azure and other cloud services, revenues grew 40% (up 39% in cc), significantly ahead of expectations, driven by accelerated growth in core infrastructure business primarily from the company's largest customers. Revenues from Azure AI services were generally in line with expectations.

In the on-premises server business, revenues increased 1% (relatively unchanged in cc), ahead of expectations, primarily driven by transactional purchasing of Windows Server 2025.

Segment gross margin dollars increased 20% (up 19% in cc), while gross margin percentage decreased year over year due to investments in AI that were partially offset by efficiency gains in Azure. Operating expenses increased 4% and operating income grew 27%. Operating margins were 43%, down only slightly year-over-year, as increased investments in AI were mostly offset by improved operating leverage.

More Personal Computing segment, which primarily comprises Windows, Gaming, Devices and Search businesses, contributed 17.7% to total revenues. Revenues were $13.75 billion, up 4% year-over-year, primarily driven by strength in Windows OEM.

Windows OEM and Devices revenues increased 6% year-over-year, significantly ahead of expectations, driven by strong demand ahead of Windows 10 end of support, as well as a benefit from inventory levels that remained elevated.

Search and news advertising revenues ex-TAC increased 16% (up 15% in cc), driven by growth in volume, as well as a continued benefit from third-party partnerships that was better-than-expected.

In Gaming, revenues decreased 2% (down 3% in cc). Against a strong prior year comparable Xbox content and services, revenues rose 1% (relatively unchanged in cc), driven by better-than-expected performance from third-party content.

The company reported 500 million monthly active users across gaming platforms and devices. Microsoft became the top publisher on both Xbox and PlayStation in the reported quarter, with the successful launches of Forza Horizon 5 and Oblivion Remastered.

Segment gross margin dollars increased 11% (up 10% in cc). Gross margin percentage increased year over year, driven by sales mix shift to higher margin businesses.

Operating expenses increased 4% (up 3% in cc). Operating income rose 18% (up 16% in cc). Operating margins increased 3 points year over year to 30% driven by the higher gross margin.

Azure Infrastructure and Capacity Expansion

Microsoft announced plans to increase total AI capacity by more than 80% this year and roughly double the total data center footprint over the next two years. The company unveiled Fairwater in Wisconsin as the world's most powerful AI data center, which will scale to two gigawatts and go online next year. Microsoft deployed the world's first large-scale cluster of NVIDIA GB300s and is building a fungible fleet that spans all stages of the AI lifecycle, from pre-training to post-training, synthetic data generation, and inference. However, the company expects to remain capacity-constrained through at least the end of fiscal year 2026, with demand exceeding current infrastructure build-out, resulting in lost revenue opportunities for Azure.

AI Platform and Azure AI Foundry

Azure AI Foundry now serves 80,000 customers, including 80% of the Fortune 500, with access to over 11,000 models from various providers. The platform added OpenAI's GPT-5 and xAI's GRAQ-4 during the quarter. Microsoft's first-party MAI models for text, voice, and image generation debuted among the top in industry leaderboards, while the Phi family of small language models has been downloaded over 60 million times, up three times year over year. The company introduced the Microsoft Agent Framework to help developers orchestrate multi-agent systems with compliance, observability, and deep integration capabilities.

Data and Analytics Products

Microsoft Fabric revenue grew 60%, faster than any other data and analytics platform in the industry, with 28,000 paid Fabric customers. In databases, SQL DB hyperscale revenue increased nearly 75%, and Cosmos DB grew 50%. These data products are increasingly integrated with AI capabilities, enabling customers to build comprehensive analytics solutions on Azure's infrastructure.

Microsoft 365 and Copilot Momentum

Microsoft now has 900 million monthly active users of AI features across its products, with over 150 million monthly active users of first-party Copilots. More than 90% of the Fortune 500 now use Microsoft 365 Copilot, with major customers deploying tens of thousands of seats. The company introduced agent mode for Microsoft 365 Copilot, which transforms single prompts into expert-quality documents, spreadsheets and presentations, and Teams mode for collaborative AI experiences. Adobe, Asana, Jira, LexisNexis, SAP, ServiceNow, Snowflake and Workday, among others, are building their own agents that connect to Copilot.

Operating Results of MSFT

Gross profit increased 17.9% year over year to $53.6 billion. The gross margin contracted 30 basis points to 69% driven by investments in AI, including the impact of scaling AI infrastructure and the growing usage of AI product features. This was partially offset by ongoing efficiency gains, particularly in Azure and M365 Commercial cloud.

Operating expenses increased 5% (up 4% in cc), driven by investments in cloud and AI engineering, including compute capacity and AI talent to support product development across the portfolio. Operating margins increased year-over-year to 49% and were ahead of expectations with stronger-than-anticipated results in high-margin businesses.

Productivity & Business Process operating income rose 23.6% to $20.4 billion. Intelligent Cloud operating income increased 27.5% to $13.3 billion. More Personal Computing’s operating income increased 17.8% to $4.16 billion.

Capital Expenditure and Investment Strategy

Capital expenditures totaled $34.9 billion in the fiscal first quarter, with roughly half allocated to short-lived assets, primarily GPUs and CPUs, to support increasing Azure platform demand and first-party applications. The remaining spend focused on long-lived assets supporting monetization for the next fifteen years and beyond, including $11.1 billion in finance leases primarily for large data center sites. Microsoft expects the fiscal 2026 capital expenditure growth rate to be higher than fiscal 2025, driven by accelerating demand and a growing RPO balance.

Balance Sheet & Cash Flow

As of Sept. 30, 2025, Microsoft had a total cash, cash equivalents and short-term investments balance of $102.01 billion compared with $94.56 billion as of June 30, 2025.

As of Sept. 30, 2025, long-term debt (including the current portion) was $43.2 billion compared with $43.15 billion as of June 30, 2025.

Cash flow from operations was $45.1 billion, up 32% driven by strong cloud billings and collections, partially offset by higher supplier payments. Free cash flow increased 33% to $25.7 billion, with minimal impact from the sequential increase in capex given the higher mix of finance leases.

Microsoft returned $10.7 billion to shareholders through dividends and share repurchases.

OpenAI Partnership and Future Outlook

Microsoft closed a new definitive agreement with OpenAI, securing exclusive rights for Azure until AGI achievement or through 2030, and extended model and product IP rights through 2032. OpenAI has contracted an incremental $250 billion of Azure services, not reflected in the first-quarter results, representing a substantial future revenue opportunity.

For the second quarter of fiscal 2026, Microsoft expects total company revenues between $79.5 billion and $80.6 billion, representing growth of 14% to 16%. It anticipates cost of goods sold between $26.35 billion and $26.55 billion, with growth of 21% to 22%, and operating expenses ranging from $17.3 billion to $17.4 billion, with growth of 7% to 8%. Operating margins are expected to be relatively flat year over year and down sequentially, aligned with historic seasonality, while the effective tax rate should be approximately 19%.

In commercial bookings for the fiscal second quarter, Microsoft expects healthy growth in the core business on a low-expiry base when adjusted for the OpenAI contracts in the prior year. Commercial bookings will be positively impacted by the significant OpenAI commitments announced, with larger long-term Azure contracts driving increased quarterly volatility in bookings growth rates due to their unpredictable timing.

The company expects Productivity and Business Processes revenues between $33.3 billion and $33.6 billion, representing growth of 13% to 14%. Within this segment, Microsoft 365 commercial cloud revenue growth is expected to be between 13% and 14% in constant currency, with business trends remaining relatively stable quarter over quarter, and ARPU growth again driven by E5 and Microsoft 365 Copilot. Microsoft 365 commercial products revenue growth should be in the low to mid-single digits, though components can be variable due to end-period revenue recognition dynamics. Microsoft 365 consumer cloud revenue growth should be in the mid-20s percent, driven by growth in ARPU. LinkedIn revenue is expected to grow approximately 10%, while Dynamics 365 revenue growth should be in the mid to high teens, with continued growth across all workloads.

For the Intelligent Cloud segment, Microsoft expects revenues between $32.25 billion and $32.55 billion, representing growth of 26% to 27%. For the fiscal second quarter, Microsoft expects Azure and other cloud services revenue growth of approximately 37% in constant currency, as demand remains significantly ahead of available capacity. The company now expects to be capacity-constrained through at least the end of the fiscal year, with demand exceeding current infrastructure buildout and resulting in lost revenue opportunities for Azure. Microsoft will continue to balance Azure revenue growth with growing needs across first-party applications and AI solutions, R&D efforts, and end-of-life server replacements. There can be quarterly variability in year-over-year growth rates depending on the timing of capacity delivery and when it comes online, as well as from in-premise revenue recognition depending on the mix of contracts.

For the on-premises server business, Microsoft expects revenue to decline in the low to mid-single digits with ongoing customer shift to cloud offerings. Microsoft Cloud gross margin percentage should be roughly 66%, down year over year, driven by continued investments in AI as well as the mix shift to Azure.

Microsoft expects More Personal Computing revenues in the range of $13.95 billion to $14.45 billion. Windows OEM and devices revenue should decline in the mid-single digits percent overall, with Windows OEM revenue specifically expected to decline low to mid-single digits, despite continued momentum from Windows 10 end of support, as growth rates will be impacted by elevated inventory levels at OEMs that are expected to come down through the quarter. Devices revenues should decline year over year, while the range of potential outcomes remains wider than normal.

Search and news advertising revenues, excluding traffic acquisition costs growth, should be in the low double digits percentage, down sequentially as growth rates normalize following the benefit from third-party partnerships, with continued growth driven by volume and revenue per search across Edge and Bing. In gaming, Xbox content and services revenues are expected to decline in the low to mid-single digits against a prior year comparable that benefited from strong first-party performance, partially offset by growth in subscriptions, while hardware revenue should decline year over year.

Recent News

On Dec. 11, Microsoft Research unveiled Agent Lightning, enabling reinforcement learning in AI agents without code changes, allowing agents to improve through real-world feedback while preserving existing architectures.

On Dec. 2, Microsoft announced quarterly dividend of 91cents per share, payable on March 13, 2026, to shareholders of record as of Feb. 19, 2026.

On Dec. 1, Microsoft and the National 4-H Council extended their $10 million partnership to scale AI education for rural youth and educators, expanding access to AI training and digital skills in underserved U.S. communities.

On Nov. 17, Microsoft and Levi Strauss & Co. announced a partnership to build a next-gen AI “superagent,” embedded in Microsoft Teams and powered by Azure, to automate workflows and elevate employee and fan engagement.

On Nov. 4, Microsoft announced it will expand its cloud region in Johor Bahru (Southeast Asia 3), aiming to accelerate AI transformation across Southeast Asia with advanced, AI-ready infrastructure.

On Oct. 28, Microsoft expanded Microsoft 365 Copilot to let users build apps, workflows and AI agents using natural-language prompts, with new tools “App Builder” and “Workflows” now available in the Frontier preview.

On Oct. 24, Microsoft and the Adecco Group jointly launched a free global AI-learning initiative to equip jobseekers worldwide with foundational AI skills and improve workforce readiness in underserved communities.

On Oct. 23, Microsoft unveiled its Copilot Fall Release, introducing a “human-centered AI” framework featuring new collaborative tools, personalization features and the expressive avatar “Mico”.

On Oct. 16, Microsoft expanded Dragon Copilot to nursing workflows, introducing a commercially available ambient AI experience and partner integrations that embed third-party AI tools directly into clinical systems.

On Oct. 9, Microsoft Azure announced the deployment of a large-scale cluster based on the NVIDIA GB300 NVL72 (Blackwell Ultra) GPUs—over 4,600 units—to power OpenAI workloads and train models with hundreds of trillions of parameters.

Valuation

Microsoft shares are down 0.1% in the past six months and 6% in the trailing 12-month period. In the past six months, stocks in the Zacks sub-industry have declined 3.2%, while the Zacks Computer and Technology sector has increased 22.4%. In the past year, the Zacks sub-industry and the sector are up 1.6% and up 20.5%, respectively.

The S&P 500 index is up 15.7% in the past six months and up 14.3% in the past year.

The stock is currently trading at 28.18X forward 12-month earnings compared with 28.52X for the Zacks sub-industry, 28.15X for the Zacks sector and 23.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.11X and as low as 21.26X, with a five-year median of 30.8X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $502 price target reflects 29.59X forward 12-month earnings.

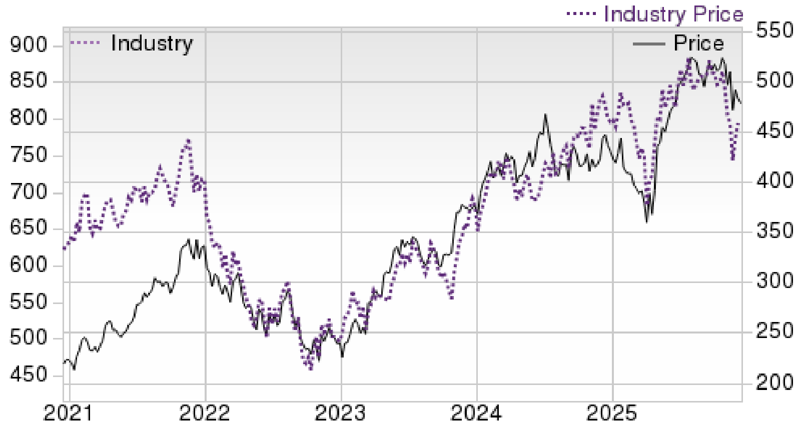
The table below shows summary valuation data for MSFT

Valuation Multiples - MSFT

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.18	28.52	28.15	23.35
	5-Year High	39.11	37.32	29.92	23.78
	5-Year Low	21.26	22.68	18.7	15.73
	5-Year Median	30.8	31.27	26.61	21.22
P/S F12M	Current	10.26	7.45	6.62	5.27
	5-Year High	14	9.79	7.39	5.5
	5-Year Low	7.19	5.45	4.24	3.83
	5-Year Median	10.63	8.44	6.29	5.05
EV/Sales TTM	Current	11.88	9.33	8.05	5.72
	5-Year High	14.16	11.55	8.37	5.81
	5-Year Low	7.56	6.1	4.17	3.77
	5-Year Median	11.81	9.51	6.91	5.12

As of 12/12/2025 *Source: Zacks Investment Research*

Industry Analysis[1] **Zacks Industry Rank:** Top 24% (59 out of 243)



Top Peers [1]

Company (Ticker)	Rec	Rank
Adobe Inc. **(ADBE)**	Neutral	3
Salesforce Inc. **(CRM)**	Neutral	3
Dassault Systemes SA **(DASTY)**	Neutral	3
Intuit Inc. **(INTU)**	Neutral	3
Oracle Corporation **(ORCL)**	Neutral	3
SAP SE **(SAP)**	Neutral	3
Synopsys, Inc. **(SNPS)**	Neutral	2
SS&C Technologies Ho...**(SSNC)**	Neutral	3

Industry Comparison[1] Industry: Computer - Software

Industry Peers

	MSFT	X Industry	S&P 500	CRM	ORCL	SAP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	C	D	D
Market Cap	3,556.62 B	6.01 B	39.38 B	245.71 B	545.81 B	300.77 B
# of Analysts	16	4	22	19	14	7
Dividend Yield	0.76%	0.00%	1.41%	0.63%	1.05%	0.75%
Value Score	D	-	-	D	D	D
Cash/Price	0.03	0.04	0.04	0.05	0.04	0.04
EV/EBITDA	22.12	15.85	14.60	18.66	26.18	38.70
PEG Ratio	2.32	1.82	2.23	1.49	1.43	3.52
Price/Book (P/B)	9.80	4.55	3.35	4.09	17.92	5.95
Price/Cash Flow (P/CF)	26.16	19.83	15.20	18.93	28.41	42.37
P/E (F1)	30.54	25.47	19.78	22.47	27.30	35.26
Price/Sales (P/S)	12.11	4.89	3.06	6.09	8.95	7.46
Earnings Yield	3.26%	3.66%	4.99%	4.45%	3.66%	2.83%
Debt/Equity	0.10	0.14	0.57	0.14	3.28	0.14
Cash Flow ($/share)	18.29	3.32	8.99	13.85	6.69	5.78
Growth Score	A	-	-	B	D	A
Hist. EPS Growth (3-5 yrs)	14.94%	13.58%	8.16%	35.01%	4.88%	-0.93%
Proj. EPS Growth (F1/F0)	13.71%	16.55%	8.57%	14.41%	15.42%	41.63%
Curr. Cash Flow Growth	23.15%	9.36%	6.75%	11.82%	-1.88%	-16.07%
Hist. Cash Flow Growth (3-5 yrs)	18.96%	11.45%	7.43%	27.86%	5.53%	0.57%
Current Ratio	1.40	1.40	1.19	0.98	0.91	1.11
Debt/Capital	8.88%	12.22%	38.01%	12.33%	76.65%	12.34%
Net Margin	35.71%	17.10%	12.78%	17.91%	25.28%	19.50%
Return on Equity	32.45%	19.39%	17.00%	14.41%	70.60%	15.69%
Sales/Assets	0.50	0.50	0.53	0.41	0.34	0.51
Proj. Sales Growth (F1/F0)	15.10%	8.84%	5.77%	9.40%	16.60%	16.40%
Momentum Score	B	-	-	B	A	F
Daily Price Chg	-1.02%	-0.41%	-1.07%	-0.05%	-4.47%	-1.03%
1 Week Price Chg	-0.96%	-0.88%	-0.63%	0.64%	-12.69%	-0.98%
4 Week Price Chg	-6.20%	0.00%	1.39%	7.62%	-14.75%	-0.08%
12 Week Price Chg	-7.61%	-7.61%	2.45%	6.13%	-38.45%	-8.27%
52 Week Price Chg	6.99%	-12.00%	12.83%	-25.99%	9.56%	-3.34%
20 Day Average Volume	23,933,292	383,007	2,728,366	8,718,762	28,907,834	1,439,316
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.03%	0.62%	-0.02%
(F1) EPS Est 4 week change	0.27%	0.00%	0.00%	4.04%	0.83%	0.02%
(F1) EPS Est 12 week change	3.10%	3.10%	0.69%	4.06%	1.97%	-0.28%
(Q1) EPS Est Mthly Chg	0.26%	0.00%	0.00%	-4.03%	0.37%	-1.42%

Analyst Earnings Model(2)

Microsoft Corporation (MSFT)

In $MM, except per share data

FY Ends June 30th	2023A FY Jun-23	2024A FY Jun-24	2025A FY Jun-25	2026E 1QA 30-Sep-25	2026E 2QE 31-Dec-25	2026E 3QE 31-Mar-26	2026E 4QE 30-Jun-26	2026E FY Jun-26	2027E 1QE 30-Sep-26	2027E 2QE 31-Dec-26	2027E 3QE 31-Mar-27	2027E 4QE 30-Jun-27	2027E FY Jun-27	2028E FY Jun-28
Income Statement														
Total Revenue	**$211,915.0**	**$245,122.0**	**$281,724.0**	**$77,673.0**	**$80,002.0**	**$80,053.0**	**$86,568.8**	**$324,296.7**	**$87,563.5**	**$91,799.6**	**$91,716.1**	**$99,329.6**	**$370,408.7**	**$424,145.4**
YoY % Chng	6.9%	15.7%	14.9%	18.4%	14.9%	14.3%	13.2%	15.1%	12.7%	14.7%	14.6%	14.7%	14.2%	14.5%
Constant Currency Growth	11.0%	15.0%	15.0%	17.0%	13.3%	15.6%	13.2%	14.8%	15.6%	15.2%	15.9%	16.0%	15.6%	15.7%
Cost of Revenue, Adjusted	$65,711.0	$74,114.0	$87,831.0	$24,043.0	$26,544.4	$26,183.8	$28,623.3	$105,394.4	$28,437.6	$30,162.7	$30,061.3	$32,573.7	$121,235.3	$134,024.2
YoY % Chng	4.9%	12.8%	18.5%	19.6%	21.8%	19.5%	19.2%	20.0%	18.3%	13.6%	14.8%	13.8%	15.0%	10.5%
Cost of Revenue, GAAP	$65,863.0	$74,114.0	$87,831.0	$24,043.0	$26,544.4	$26,183.8	$28,623.3	$105,394.4	$28,437.6	$30,162.7	$30,061.3	$32,573.7	$121,235.3	$134,024.2
YoY % Chng	5.1%	12.5%	18.5%	19.6%	21.8%	19.5%	19.2%	20.0%	18.3%	13.6%	14.8%	13.8%	15.0%	10.5%
Gross Profit, Adjusted	**$146,204.0**	**$171,008.0**	**$193,893.0**	**$53,630.0**	**$53,457.6**	**$53,869.2**	**$57,945.5**	**$218,902.3**	**$59,125.9**	**$61,636.9**	**$61,654.8**	**$66,755.8**	**$249,173.4**	**$290,121.2**
YoY % Chng	7.8%	17.0%	13.4%	17.9%	11.8%	11.9%	10.5%	12.9%	10.2%	15.3%	14.5%	15.2%	13.8%	16.4%
Gross Profit, GAAP	**$146,052.0**	**$171,008.0**	**$193,893.0**	**$53,630.0**	**$53,457.6**	**$53,869.2**	**$57,945.5**	**$218,902.3**	**$59,125.9**	**$61,636.9**	**$61,654.8**	**$66,755.8**	**$249,173.4**	**$290,121.2**
YoY % Chng	7.7%	17.1%	13.4%	17.9%	11.8%	11.9%	10.5%	12.9%	10.2%	15.3%	14.5%	15.2%	13.8%	16.4%
Research and Development	$27,195.0	$29,510.0	$32,488.0	$8,146.0	$8,805.8	$9,355.2	$10,113.6	$36,420.6	$9,689.7	$10,291.1	$10,328.4	$11,080.3	$41,389.5	$46,526.5
YoY % Chng	10.9%	8.5%	10.1%	8.0%	11.2%	14.1%	14.5%	12.1%	18.9%	16.9%	10.4%	9.6%	13.6%	12.4%
Sales and Marketing	$22,759.0	$24,456.0	$25,654.0	$5,717.0	$6,785.2	$7,252.4	$8,057.7	$27,812.2	$7,313.5	$7,894.9	$7,915.0	$8,465.4	$31,588.9	$35,032.5
YoY % Chng	4.3%	7.5%	4.9%	0.0%	5.4%	16.7%	10.6%	8.4%	27.9%	16.4%	9.1%	5.1%	13.6%	10.9%
General and Administrative	$7,575.0	$7,609.0	$7,223.0	$1,806.0	$1,805.2	$1,774.0	$2,034.5	$7,419.7	$1,827.4	$1,861.1	$1,806.9	$2,094.5	$7,590.0	$7,674.4
YoY % Chng	28.4%	0.4%	(5.1%)	7.9%	(1.0%)	2.1%	2.2%	2.7%	1.2%	3.1%	1.9%	2.9%	2.3%	1.1%
Total Operating Expenses, Adjusted	**$56,510.0**	**$61,575.0**	**$65,365.0**	**$15,669.0**	**$17,396.1**	**$18,381.5**	**$20,205.8**	**$71,652.4**	**$18,830.5**	**$20,047.2**	**$20,050.4**	**$21,640.2**	**$80,568.4**	**$89,233.4**
YoY % Chng	8.2%	9.0%	6.2%	4.9%	7.5%	13.8%	11.6%	9.6%	20.2%	15.2%	9.1%	7.1%	12.4%	10.8%
Total Operating Expenses, GAAP	**$57,529.0**	**$61,575.0**	**$65,365.0**	**$15,669.0**	**$17,396.1**	**$18,381.5**	**$20,205.8**	**$71,652.4**	**$18,830.5**	**$20,047.2**	**$20,050.4**	**$21,640.2**	**$80,568.4**	**$89,233.4**
YoY % Chng	10.1%	7.0%	6.2%	4.9%	7.5%	13.8%	11.6%	9.6%	20.2%	15.2%	9.1%	7.1%	12.4%	10.8%
Total Cost and Operating Expenses, Adjusted	**$122,221.0**	**$135,689.0**	**$153,196.0**	**$39,712.0**	**$43,940.5**	**$44,565.3**	**$48,829.1**	**$177,046.9**	**$47,268.1**	**$50,209.9**	**$50,111.7**	**$54,213.9**	**$201,803.6**	**$223,257.6**
YoY % Chng	6.4%	11.0%	12.9%	13.4%	15.7%	17.1%	15.9%	15.6%	19.0%	14.3%	12.4%	11.0%	14.0%	10.6%
Total Cost and Operating Expenses, GAAP	**$123,392.0**	**$135,689.0**	**$153,196.0**	**$39,712.0**	**$43,940.5**	**$44,565.3**	**$48,829.1**	**$177,046.9**	**$47,268.1**	**$50,209.9**	**$50,111.7**	**$54,213.9**	**$201,803.6**	**$223,257.6**
YoY % Chng	7.4%	10.0%	12.9%	13.4%	15.7%	17.1%	15.9%	15.6%	19.0%	14.3%	12.4%	11.0%	14.0%	10.6%
EBITDA	**$102,384.0**	**$131,720.0**	**$162,681.0**	**$51,022.0**	**$46,811.7**	**$46,971.8**	**$50,563.6**	**$195,369.0**	**$53,301.1**	**$54,774.3**	**$54,989.1**	**$59,673.0**	**$222,737.5**	**$262,799.4**
YoY % Chng	4.6%	28.7%	23.5%	34.5%	21.7%	15.3%	11.1%	20.1%	4.5%	17.0%	17.1%	18.0%	14.0%	18.0%
Depreciation, Amortization and Other	$13,861.0	$22,287.0	$34,153.0	$13,061.0	$10,750.2	$11,484.1	$12,823.9	$48,119.1	$13,005.8	$13,184.6	$13,384.7	$14,557.4	$54,132.4	$61,911.7
YoY % Chng	(4.1%)	60.8%	53.2%	76.9%	57.5%	31.4%	14.5%	40.9%	(0.4%)	22.6%	16.5%	13.5%	12.5%	14.4%
Operating Income, Adjusted	**$89,694.0**	**$109,433.0**	**$128,528.0**	**$37,961.0**	**$36,061.5**	**$35,487.7**	**$37,739.7**	**$147,249.9**	**$40,295.4**	**$41,589.7**	**$41,604.4**	**$45,115.6**	**$168,605.1**	**$200,887.8**
YoY % Chng	7.6%	22.0%	17.4%	24.3%	13.9%	10.9%	10.0%	14.6%	6.1%	15.3%	17.2%	19.5%	14.5%	19.1%
Operating Income, GAAP	**$88,523.0**	**$109,433.0**	**$128,528.0**	**$37,961.0**	**$36,061.5**	**$35,487.7**	**$37,739.7**	**$147,249.9**	**$40,295.4**	**$41,589.7**	**$41,604.4**	**$45,115.6**	**$168,605.1**	**$200,887.8**
YoY % Chng	6.2%	23.6%	17.4%	24.3%	13.9%	10.9%	10.0%	14.6%	6.1%	15.3%	17.2%	19.5%	14.5%	19.1%
Other Expense /(Income), Net	($788.0)	$1,646.0	$4,901.0	$3,660.0	$704.1	$1,744.0	$2,165.0	$8,273.1	$2,248.6	$1,865.3	$2,127.7	$2,339.3	$8,580.8	$9,753.4
YoY % Chng	(136.6%)	308.9%	197.8%	1,193.3%	(69.2%)	179.9%	26.8%	68.8%	(38.6%)	164.9%	22.0%	8.1%	3.7%	13.7%
Pre-Tax Income	**$89,311.0**	**$107,787.0**	**$123,627.0**	**$34,301.0**	**$35,357.4**	**$33,743.7**	**$35,574.6**	**$138,976.8**	**$38,046.8**	**$39,724.5**	**$39,476.7**	**$42,776.3**	**$160,024.3**	**$191,134.3**
YoY % Chng	6.7%	20.7%	14.7%	13.3%	20.4%	7.5%	9.1%	12.4%	10.9%	12.4%	17.0%	20.2%	15.1%	19.4%
Income Tax	$16,950.0	$19,651.0	$21,795.0	$6,554.0	$6,717.9	$6,411.3	$6,759.2	$26,442.4	$7,228.9	$7,547.6	$7,500.6	$8,127.5	$30,404.6	$36,315.5
YoY % Chng	54.4%	15.9%	10.9%	17.0%	27.8%	15.5%	25.6%	21.3%	10.3%	12.4%	17.0%	20.2%	15.0%	19.4%
Tax Rate	19.0%	18.0%	18.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net Income, Adjusted	**$73,307.0**	**$88,136.0**	**$102,355.0**	**$30,833.0**	**$28,639.5**	**$27,332.4**	**$28,815.5**	**$109,448.4**	**$30,817.9**	**$32,176.8**	**$31,976.2**	**$34,648.8**	**$129,619.7**	**$154,818.8**
YoY % Chng	5.6%	20.2%	16.1%	22.4%	18.8%	5.8%	5.8%	6.9%	(0.0%)	12.4%	17.0%	20.2%	18.4%	19.4%
Net Income, GAAP	**$72,361.0**	**$88,136.0**	**$101,832.0**	**$27,747.0**	**$28,639.5**	**$27,332.4**	**$28,815.5**	**$112,534.4**	**$30,817.9**	**$32,176.8**	**$31,976.2**	**$34,648.8**	**$129,619.7**	**$154,818.8**
YoY % Chng	(0.5%)	21.8%	15.5%	12.5%	18.8%	5.8%	5.8%	10.5%	11.1%	12.4%	17.0%	20.2%	15.2%	19.4%
Basic Shares Outstanding	7,446.0	7,431.0	7,433.0	7,433.0	7,424.3	7,415.5	7,406.8	7,419.9	7,398.0	7,389.3	7,380.5	7,371.8	7,384.9	7,349.9
YoY % Chng	(0.7%)	(0.2%)	0.0%	0.0%	(0.1%)	(0.2%)	(0.3%)	(0.2%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)
Diluted Shares Outstanding	7,472.0	7,469.0	7,465.0	7,466.0	7,457.3	7,448.5	7,439.8	7,452.9	7,431.0	7,422.3	7,413.5	7,404.8	7,417.9	7,382.9
YoY % Chng	(0.9%)	(0.0%)	(0.1%)	(0.1%)	(0.1%)	(0.2%)	(0.3%)	(0.2%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)
Basic EPS	**$9.72**	**$11.86**	**$13.70**	**$3.73**	**$3.86**	**$3.69**	**$3.89**	**$15.16**	**$4.17**	**$4.35**	**$4.33**	**$4.70**	**$17.55**	**$21.07**
YoY % Chng	0.2%	22.0%	15.5%	12.3%	19.1%	6.2%	6.3%	10.7%	11.7%	12.9%	17.5%	20.8%	15.8%	20.0%
Diluted EPS, Adjusted	**$9.81**	**$11.80**	**$13.64**	**$4.13**	**$3.84**	**$3.67**	**$3.87**	**$15.51**	**$4.15**	**$4.34**	**$4.31**	**$4.68**	**$17.47**	**$20.97**
YoY % Chng	6.5%	20.3%	15.6%	22.6%	18.9%	6.1%	6.1%	13.7%	0.4%	12.9%	17.5%	20.8%	12.6%	20.0%
Diluted EPS, GAAP	**$9.68**	**$11.80**	**$13.64**	**$3.72**	**$3.84**	**$3.67**	**$3.87**	**$15.10**	**$4.15**	**$4.34**	**$4.31**	**$4.68**	**$17.47**	**$20.97**
YoY % Chng	0.3%	21.9%	15.6%	12.7%	18.9%	6.1%	6.1%	10.7%	11.5%	12.9%	17.5%	20.8%	15.7%	20.0%
Dividend per Share	$2.72	$3.00	$3.32	$0.91	$0.91	$0.91	$0.91	$3.64	$0.97	$0.97	$0.97	$0.97	$3.88	$4.12
YoY % Chng	9.7%	10.3%	10.7%	9.6%	9.6%	9.6%	9.6%	9.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.2%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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