

Microsoft (MSFT)

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# Disclaimers

- I am not a registered investment advisor and I do not offer any investment advise
- No parts of this talk are suggestions to invest, not invest, buy or sell any kind of securities or other financial instruments

Microsoft - business

# Microsoft - Misc thoughts

- Big well known business
- Complicated

# Is it a good business?

- It is a great business. 😊 >10 year history of profits
- ROE:
  - 22.80 15.50 15.00 16.40 10.90 25.50 31.40 45.20 48.70 2009:36.80
- Margins
  - 2010: 32 25 29 28
- Strong balance sheet
  - 36.6 B of cash+short term investments, 7B long-term investments, only 6B debt
  - 44B book, 30.5B net tangible assets
- ROIC = Earnings / (Equity + Debt - Cash) = Earnings / (Assets - non-debt liabilities - Cash)
  - 143% ROIC!!! (almost all book value in cash)

## Is business cheap?

- ROE 37% - conservatively assume 30%
- Earnings in 10 years =  $\text{ROE} \times \text{Equity} \times (1 + \text{ROE})^9 = \$141\text{B}$
- Equity in 10 years =  $\text{Equity} \times (1 + \text{ROE})^9 = 470\text{B}$
- Market cap =  $16\text{M} \times \text{P/E (15)} = \$1740\text{B}$
- Rate of return = ~21.6% after tax (calculations omitted)
- Above calculations nonsensical for such large company that cannot grow to the sky!
- If we assume 25% ROE: 15%
- If we assume 20% ROE: 9%
- >5.5 P/Book - very expensive from this point of view, but it is not really applicable to Microsoft

# Is business cheap?

- Discounted cash flow
  - Current earnings of ~20.5B
  - 10% growth for 5 years, leveling after that
    - 10% discount -> \$307B current valuation (if you buy company at <\$184B, you will get 10% return or higher)
    - 15% discount -> \$199B current valuation
  - 5% growth for 10 years, leveling after that
    - 10% discount -> \$288B current valuation
    - 15% discount -> \$183B current valuation
- Owner's yield = earnings / (market cap + debt - cash) = earnings/EV
  - $20.5B / (250B + 6B - 30B) = 9.3\% !!!$