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 = ROE*Equity*(1+ROE)^9 = $141B
- Equity in 10 years = Equity*(1+ROE)^9 = 470B
- Market cap = 16M x P/E (15) = $1740B
- 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% !!!!