

software. It develops and sells software products for a wide range of computing environments in consumer and enterprise markets. Hardware products include the Xbox video game console and Surface tablet. Revenue sources in fiscal 2017: Productivity & Business Processes, 32%; Intelligent Cloud, 28%; More Personal Com-

6/30/17. Stock owners: William H. Gates, 1.3%;, other offs. & dirs. 0.2%; The Vanguard Group, 6.8%; BlackRock, Inc., 6.0%; (10/17 proxy). Chrmn: John W. Thompson. CEO: Satya Nadella. Inc.: Washington. Addr.: One Microsoft Way, Redmond, Washington 98052-6399. Tel.: 425-882-8080. Internet: www.microsoft.com.

ANNUAL RATES Est'd '15-'17 Past Past 10 Yrs. to '20-'22 of change (per sh) 5 Yrs. 8.0% 5.5% 2.5% 16.5% Revenues "Cash Flow 10.0% 10.5% 9.5% 11.5% 12.0% 12.0% 12.0% 7.5% 8.5% 15.0% Earnings Dividends Book Value

139660

6898

12904

27468 12087

59357

159851

7390 10121

34201 12914

64527

156659

7623

3677

21370 13463

46133

Current Assets

Accts Payable Debt Due

Current Liab

Unearned Revenue Other

Fiscal Year Ends	QUART Sep.30	ERLY REV Dec.31	ENUES (\$ Mar.31	mill.) A Jun.30	Full Fiscal Year
2015	23201	26470	21729	22180	93580
2016	21660	25506	22156	22642	91964
2017	22334	26066	23557	24700	96657
2018	24538	28918	26819	29150	109425
2019	27500	33000	30000	31500	122000
Fiscal	EARNINGS PER SHARE AB				<u>F</u> ull .
Year Ends	Sep.30	Dec.31	Mar.31	Jun.30	Fiscal Year
2015	.65	.77	.62	.62	2.65
2016	.70	.77	.63	.69	2.79
2017	.76	.83	.73	.75	3.08
2018	.84	.96	.95	1.07	3.82
2019	.92	1.00	.98	1.10	4.00
Cal-	QUARTERLY DIVIDENDS PAID E■				Full
endar	Mar.31	Jun.30	Sep.30	Dec.31	Year
2014	.28	.28	.31	.31	1.18
2015	.31	.31	.31	.36	1.29
2016	.36	.36	.39	.39	1.50
2017	.39	.39	.42	.42	1.62
2018	.42				

Microsoft turned in a good financial performance for the March period. The healthy demand for its cloud-based products and services was again in evidence in the Productivity and Business Processes and Intelligent Cloud segments. This, combined with a respectable showing from Windows 10 and a good holiday season in Gaming, pushed revenues and earnings well ahead of our targets.

We have made adjustments to our estimates for fiscal 2018 and present our initial take for fiscal 2019. (Years end June 30th.) The strength Microsoft has exhibited in the cloud arena suggests that our previous targets for the June quarter were too low. We now estimate revenue and earnings of \$29.15 billion and \$1.07 a share, compared to the eariler \$27.5 billion and \$0.98. Next year, the combination of continued rapid adoption of cloud-based computing and services and the company's successful strategy to address this demand should keep revenue advancing at a double-digit pace in both the Productivity and Business Processes and Intelligent Cloud segments. Meanwhile, although margins in Microsoft's gross cloud

businesses are likely to continue benefiting from scale economies, we are not looking for the kind of improvement that is likely to be recorded this year. In addition, operating expenses and capital spending seem set to increase next year, in support of growth in the cloud. Adding it up, though, a respectable financial performance appears to be in the cards.

What about Microsoft stock? The ride has been a litle bumpy so far this year, but these high-quality shares continue to find favor with investors. The company's propsects in the cloud arena, which should continue resulting in good revenue and earnings growth next year (and beyond), suggest that the market support is warranted. In addition, a growing dividend payout and an active stock-buyback program are generally seen as being shareholder friendly. At this juncture, though, those subscribers considering making new commitments to MSFT stock will have to pay a premium at its recent valuation, suggesting a degree of care be taken. That said, if these shares are already owned, we would continue to hold on to them. Charles Clark May 11, 2018

(A) Fiscal year ends June 30th.
(B) Diluted earnings. Quarters may not add to total. Excl. nonrec. items: '02, d23¢; '03, d5¢; '04, d29¢; '05, d4¢; '12, d72¢; '13, d7¢;

\$35.1 billion, \$4.55 a share.

'15, d\$1.17; '16, d70¢; '17, d37¢. Next earnings report late July. (C) In mill., adjusted for stock split. (D) Includes intangibles. In 2017: available. Special dividend of \$3.00 a share paid December 2, 2004.

Company's Financial Strength Stock's Price Stability A++ 75 Price Growth Persistence 65 **Earnings Predictability** 100