

BLACKELM™

EQUITY

Investment Pitch

What we do

Mission statement:

Be the most prestigious student investment club that manages real money and invests in ESG-compliant opportunities.



EDUCATION:

The main goal of the investment club is to allow students to experience managing a real fund. We aim to let students gain first-hand experience in the art of investing, with activities like ESG analysis, equity research and more.



CAREER BOOSTER:

We invest in our future, helping others make ethical investment choices and gaining the education to jumpstart your career in finance. It should be seen as a great learning experience for everyone involved and we aim to allow everybody to take responsibility and learn to lead a team.





Microsoft Corporation
(NASDAQ:MSFT)

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Investment Outlook

- **Long** recommendation for Microsoft (MSFT)
- Current price: \$280.27 (24/02/2022)
- Price target \approx \$325 (16% potential upside)



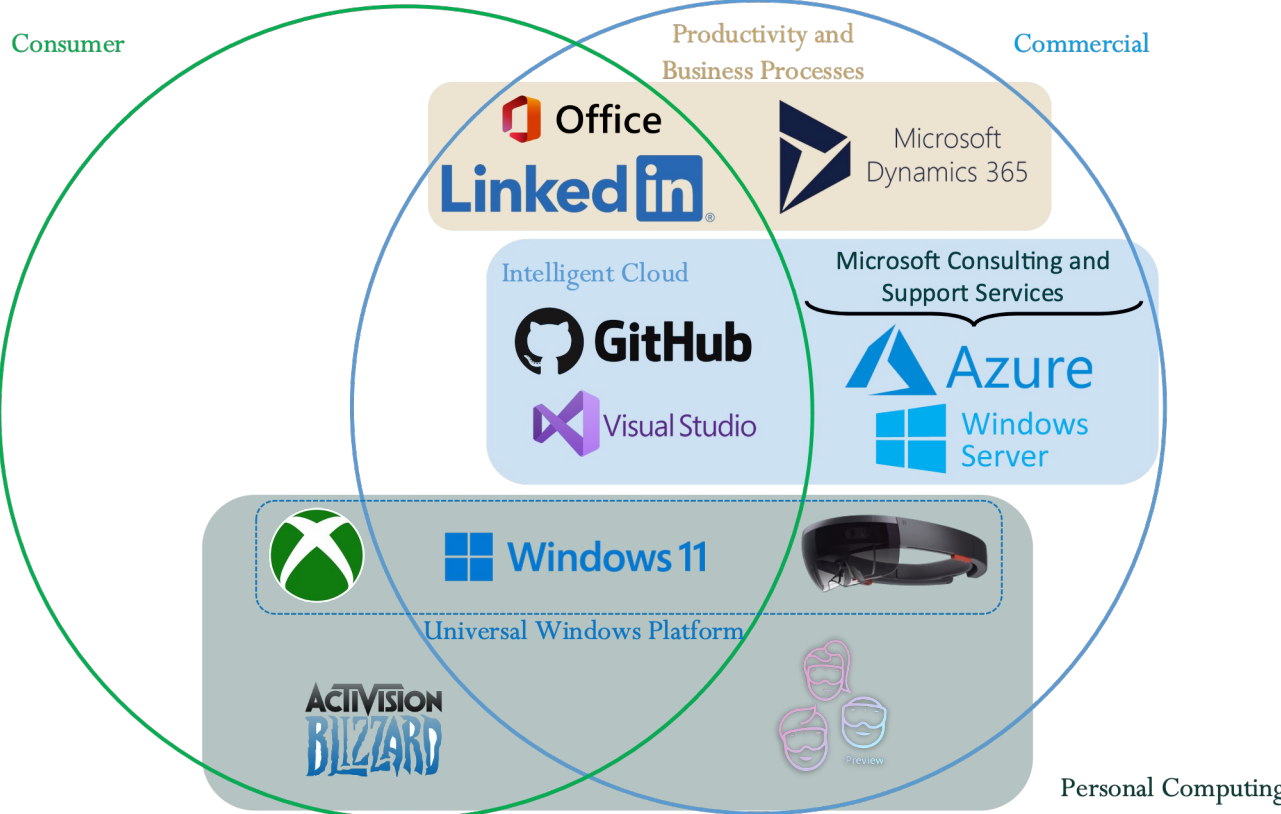
Financial Dashboard

Share Price	\$285.35	P/E Ratio	29.93
Market Capitalization	2.14T	PEG	2.53
52 Week high	\$349.67	ROE	29.0%
52 Week low	\$224.26	ROA	13.8%
Average Daily Volume	15,485,3137	ROCE	47.1%
FY21 EV/Revenue	12.50	Revenue/Assets	0.50
FY21 EV/EBITDA	25.40	Debt/Equity	0.50
FY21 Price/Book Value	15.20	Current Ratio	2.25
Dividend Yield (%)	0.88%	1-year Growth	20.60%
FY21 Gross Margin	68.9%	5-year Growth	15.80%
FY21 Net Profit Margin	38.5%	Short Interest (%)	0.54%



Company Description

The Microsoft Corporation is an American technology corporation developing and supporting various software products, services and devices. The company has three broad business segments: *Productivity and Business Processes*, *Intelligent Cloud* and *Personal Computing*.



Transition to *Azure* began in 2011

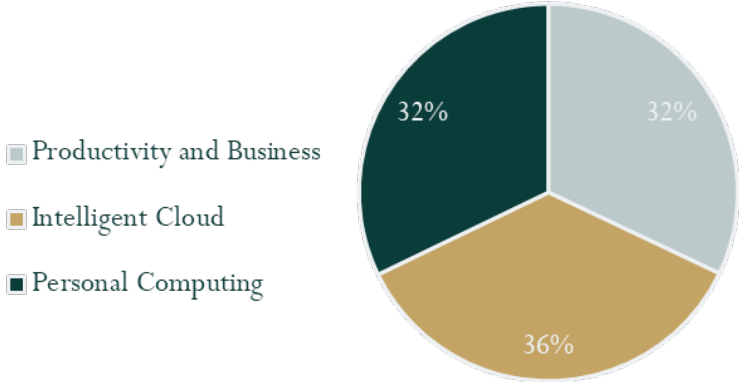


Set of cloud services supporting multiple software, operating systems, and programming languages



Operating Segments

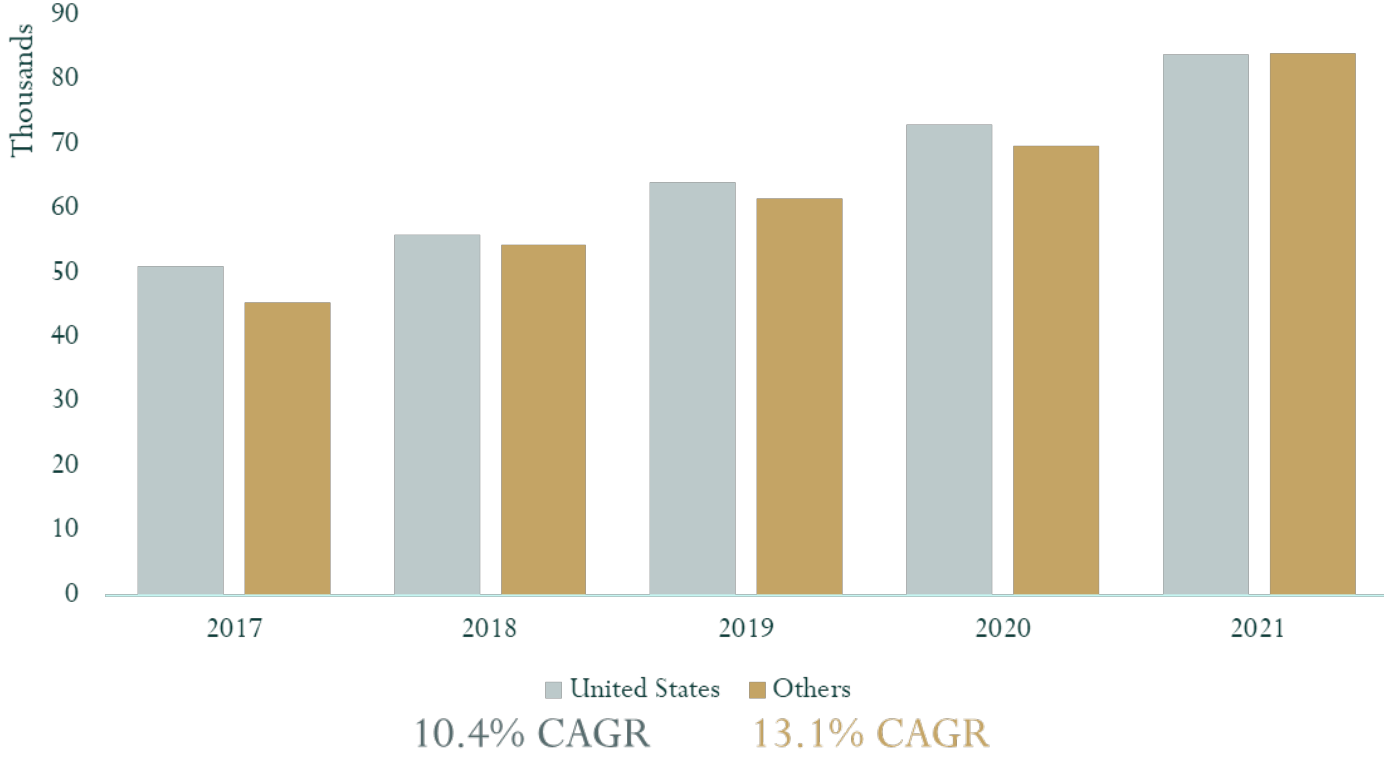
2021 Total Revenues



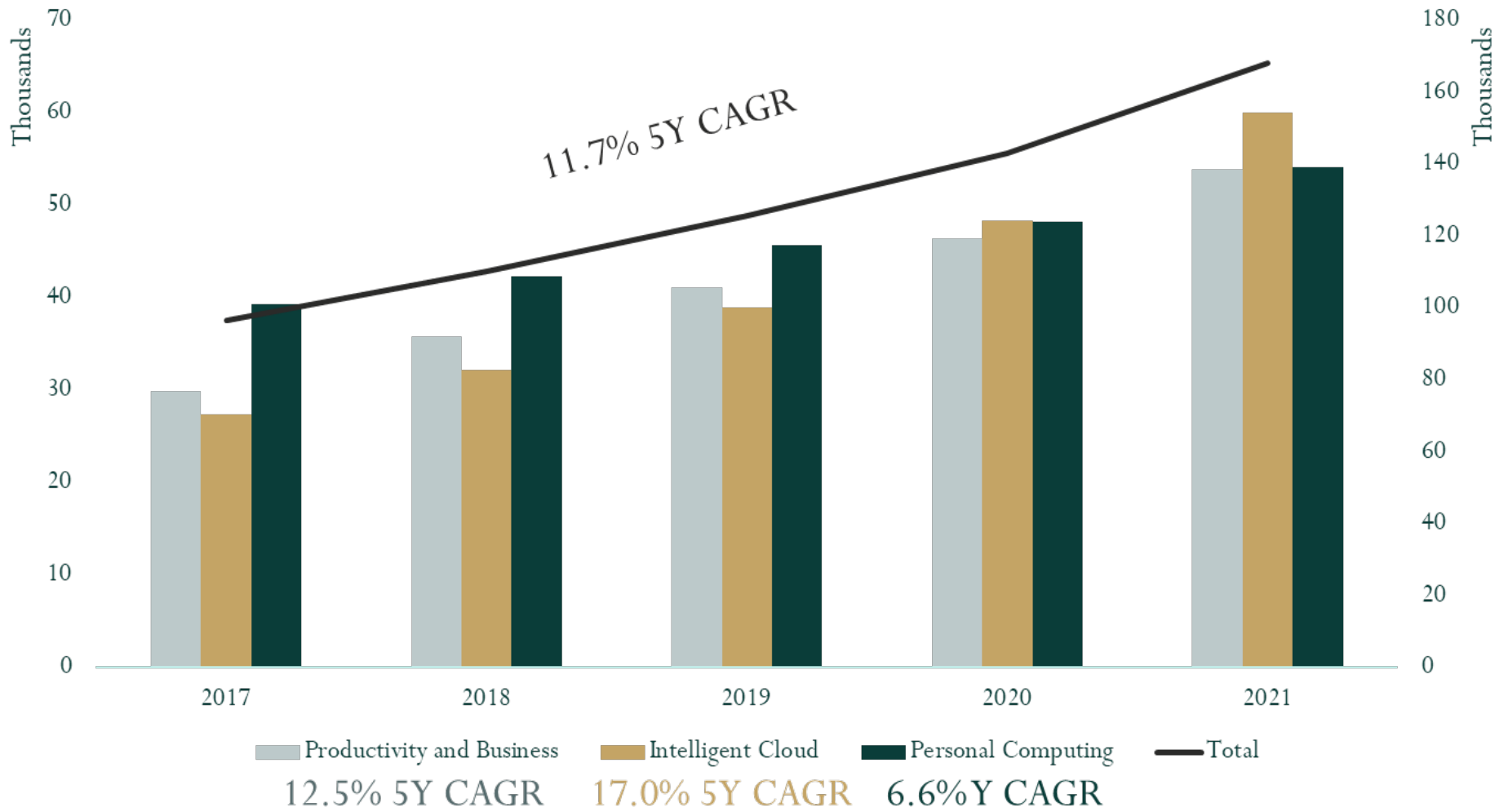
2021 Operating Expenses

- Research and Development: **45%**
- Sales and Marketing: **44%**
- General and Administrative: **11%**

Total Revenues by Operating Regions (in \$ millions)



Sales Performance



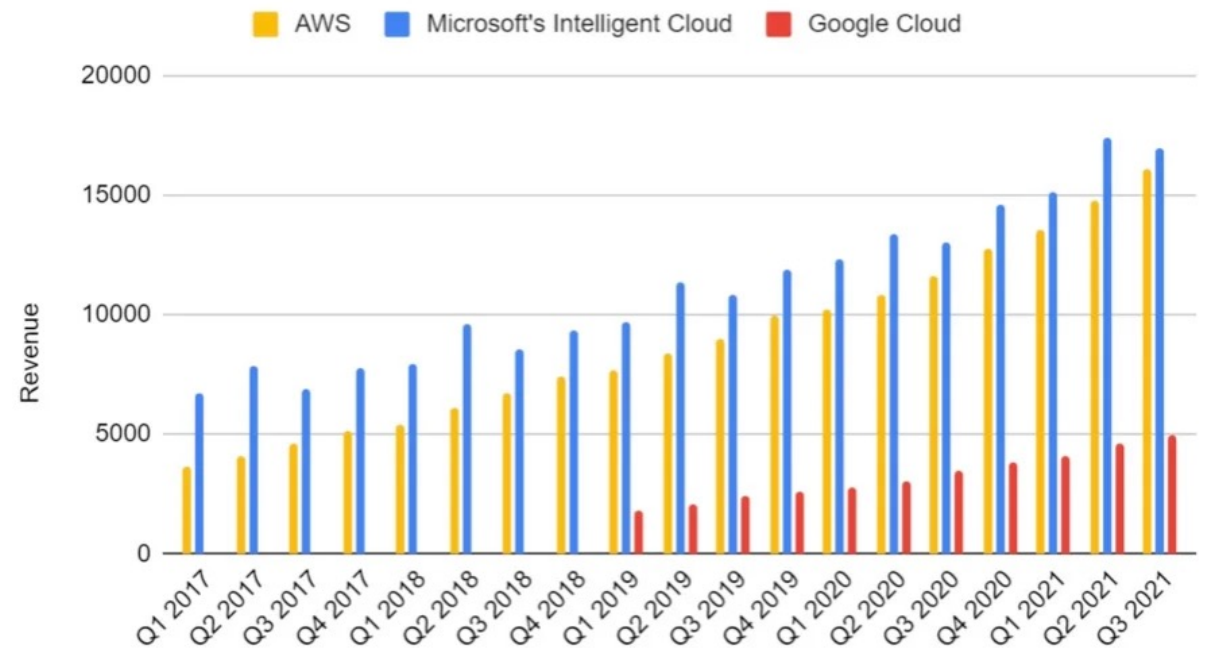
Investment thesis #1:
Microsoft is well positioned to continue its
growth in the coming years



Ongoing growth of Cloud Computing sector

- Continued migration onto the cloud
- Microsoft's Azure as the preferred cloud platform choice
 - Most widespread global availability
 - Superior functionality & compatibility
 - #1 in compliance & security

Cloud revenue comparison: AWS vs. Microsoft vs. Google



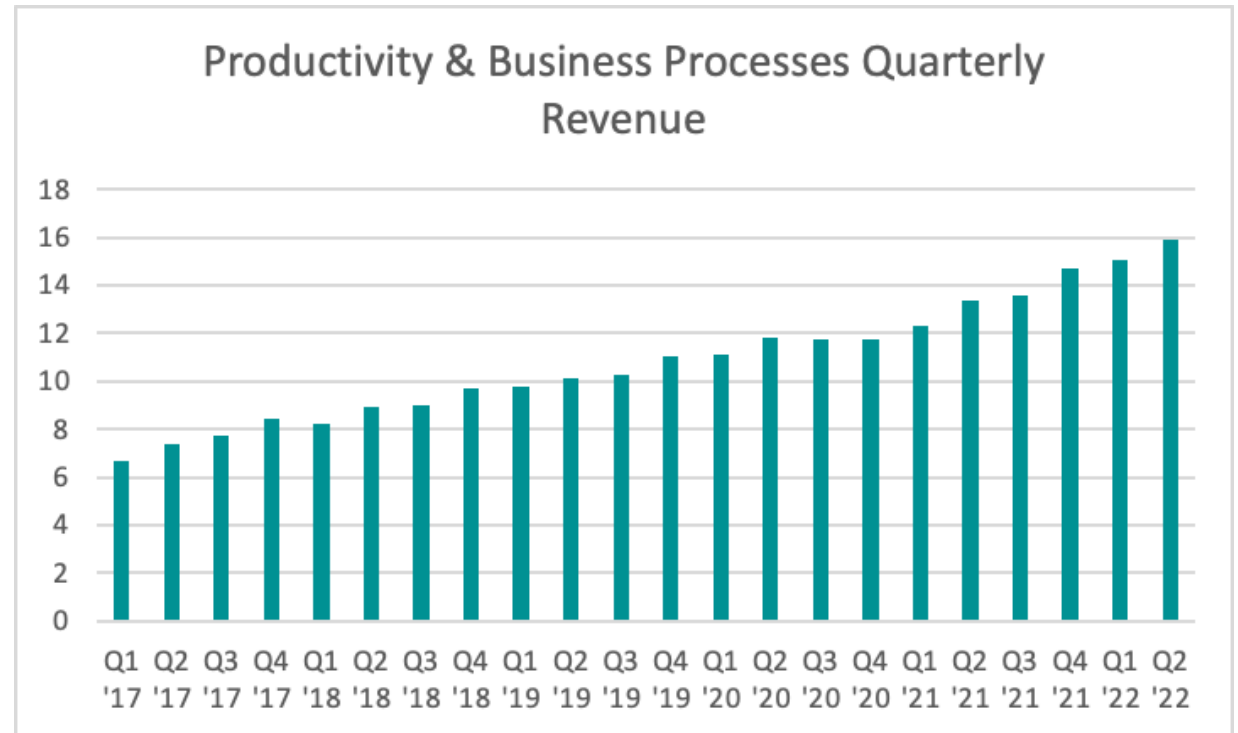
Continued tailwinds for Productivity & Business segment

- 'Great Reshuffle' within the labour market – work as more mobile & flexible

LinkedIn

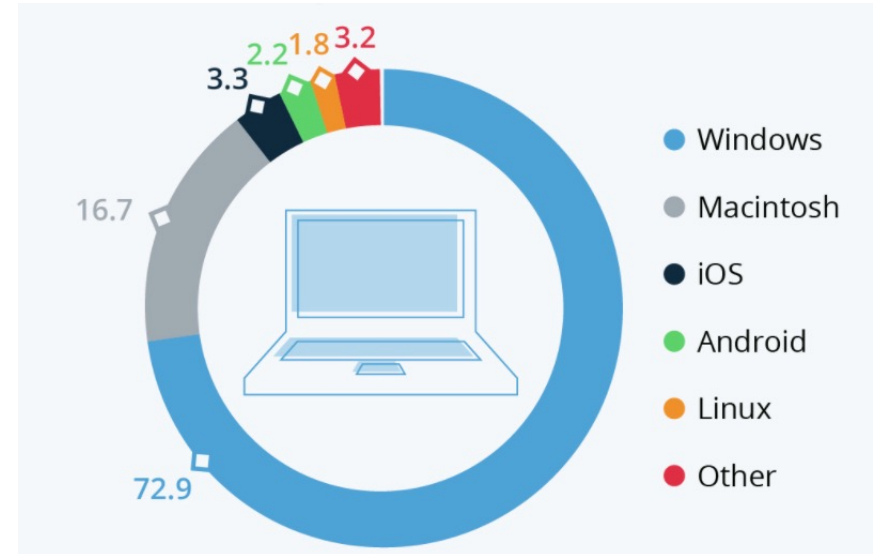


Office



Diversified demand drivers within Personal Computing space

- Structural shift in PC demand & for other Microsoft hardware products
- Microsoft well positioned to capture this growth in demand



Investment thesis #2: Microsoft is well positioned to hedge against unfavourable market conditions



Current market conditions (Context)

UK interest rates

+ Add to myFT

Bank of England raises interest rate to 0.5% in effort to tame inflation

Central bank moves on borrowing costs with first back-to-back rise since 2004 as rate increases from 0.25%

Feb 18, 2022, 02:06pm EST | 2,207 views

With Inflation At 7.5%, Why Jerome Powell's Rate Increases Could Make Things Worse

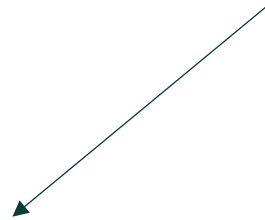
MARKET INSIDER

Rising interest rates could keep a choke hold on tech and growth stocks

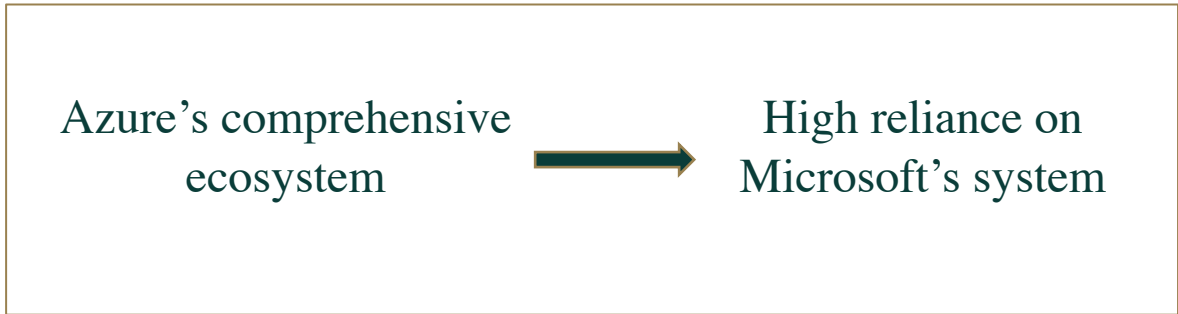
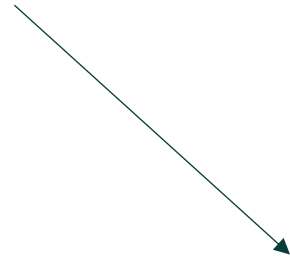
PUBLISHED TUE, JAN 18 2022·12:33 PM EST | UPDATED TUE, JAN 18 2022·8:52 PM EST



Earnings with low volatility



Growth in commercial bookings
(long-term contracts)



Labour market strength



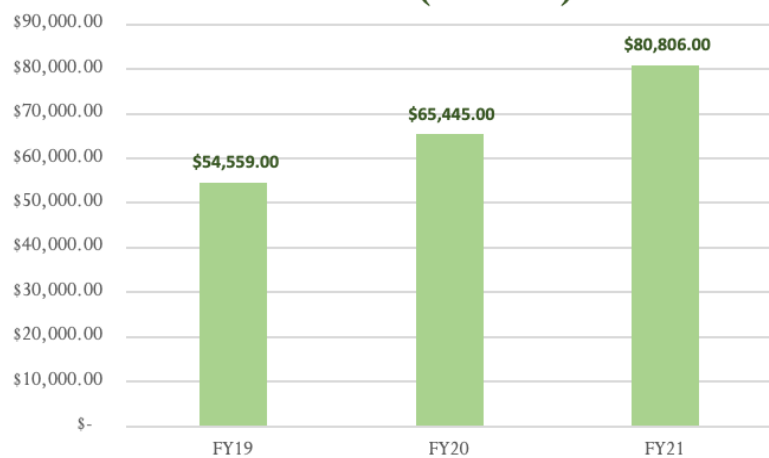
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MSFT as a value stock

MSFT returned \$10.4 billion to shareholders
in share repurchases and dividends in FY21
(16% increase Y-o-Y).

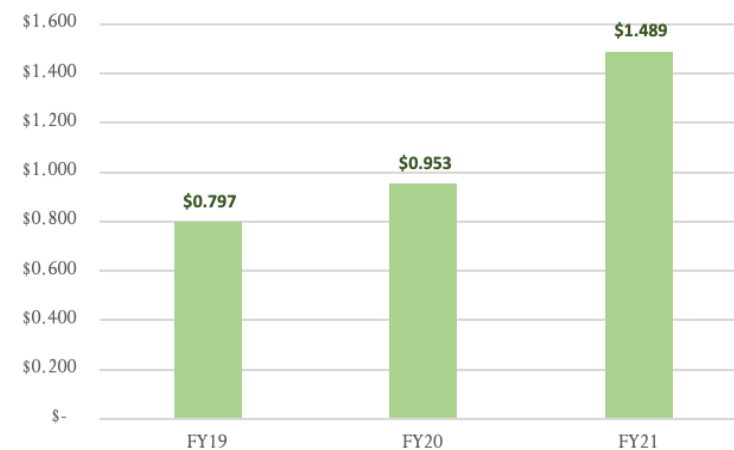
Financial performance

EBITDA (millions)



Profitability	FY19	FY20	FY21
ROCE	20.1%	23.2%	29.0%
ROA	9.80%	11.3%	13.8%
ROE	42.4%	40.1%	47.1%
Net Profit Margin	31.2%	31.0%	36.5%

FCF/share



Liquidity	FY19	FY20	FY21
Debt/Equity	0.85	0.69	0.58
Current Ratio	2.53	2.52	2.08



ESG



MSCI ESG Index: AAA

Sustainalytics: 13.8 (low risk)



Reducing carbon emissions and
improving broadband access



DCF Valuation

Discounted Cash Flow Calculation

\$ in millions	30JUN2020	31JUN2021										
	Actual	Actual	FY22 Forecast	FY23 Forecast	FY24 Forecast	FY25 Forecast	FY26 Forecast	FY27 Forecast	FY28 Forecast	FY29 Forecast	FY30 Forecast	FY31 Forecast
EBIT	53,145	69,916	74,930	81,394	88,381	95,929	104,076	109,163	114,269	115,032	115,109	111,947
Less: Taxes	(8,755)	(9,831)	(11,335)	(12,315)	(13,375)	(14,519)	(15,755)	(16,527)	(17,301)	(17,417)	(17,429)	(16,949)
Earnings Before Interest After Taxes	44,390	60,085	63,596	69,079	75,007	81,409	88,321	92,637	96,968	97,615	97,681	94,998
Add Back: D/A	10,700	9,300	37,929	41,721	45,893	50,483	55,531	59,974	64,771	68,658	72,777	76,416
Less: Capital Expenditure	15,441	20,622	21,324	23,456	25,801	28,382	31,220	33,717	36,415	38,600	40,916	42,961
Less: Change in Net Working Capital	109,605	(13,856)	27,760	12,351	13,586	14,945	16,439	14,466	15,624	12,655	13,414	11,849
Unlevered Free Cash Flow	(69,956)	62,619	52,441	74,994	81,513	88,566	96,193	104,426	109,701	115,018	116,128	116,603
Valuation Year		0	1	2	3	4	5	6	7	8	9	10
Discount Factor			0.95	0.90	0.85	0.80	0.76	0.72	0.68	0.65	0.61	0.58
Present Value of UFCF			49,669	67,274	69,256	71,271	73,316	75,384	75,005	74,483	71,226	67,737
Total of UFCF PV		694,621										
Terminal Value		3,047,651										
PV of Terminal Value at year 0 (2021)		1,770,430										
Fair Value Shareprice Calculation:	\$ in millions (except share price)											
Enterprise Value:		2,465,051										
Less: Debt		(53,258)										
Add back: Cash		20,604										
Equity Value:		2,432,397										
Number of Outstanding Shares:		7,497										
MSFT Share Intrinsic Value	\$	324.45										
Listed Price (Closing 22/02/2022)	\$	287.72										
Upside (Downside)		13%										
			Cost of Capital									
			Cost of Capital (WACC):	5.58%	Usin WACC Formula							
			Cost of Equity:	6.40%	Using CAPM							
			D/D+E:	33.40%	According to Capital IQ							
			Risk Free Rate:	1.90%	5-Year Average of US Long-Term Government Bond Rate							
			MSFT Beta:	89.0%	Based from Yahoo Finance							
			Final Perpetual Growth Rate	1.69%	(Risk free rate * MSFT beta)							
			Cost of Debt:	5.00%	Interest / Total Financial Debt							
			Tax Rate:	21.00%	US Corporate Tax Rate							



Investment risks

1. *Unfavourable market conditions*
2. *Competitive environment*
3. *Antitrust scrutiny*





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