



**MICROSOFT CORPORATION (MSFT-O)**

Software & IT Services / Software & IT Services / Software

**Verus Opinion**



The Verus Opinion, provided by Verus Analytics Inc, is an empirically-derived and historically back-tested stock rating system with buy, sell, and hold opinions. To develop a rating the quantitative system analyzes a firm's earnings quality, balance sheet, and income statement, conducts technical and valuation analysis and evaluates the transactions made by the company's management and directors (i.e. insiders).

Verus Analytics, Inc is a private independent research firm specializing in engineering institutional rating systems.



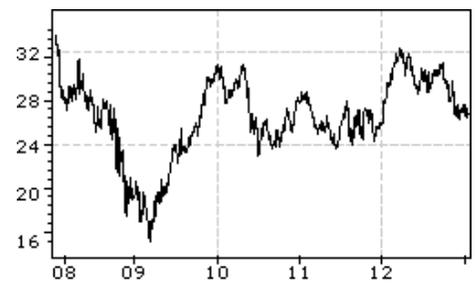
**Key Information**

Price (01/15/13) (USD)	27.21
52-Week High (USD)	32.95
52-Week Low (USD)	26.26
Market Cap (USD)	226B
Avg Daily Vol	48.4M
Exchange	NASDAQ
Dividend Yield	3.4%
Annual Dividend (USD)	0.92
Trailing PE	14.5
Forward PE	8.8
Forward PEG	1.0
LTG Forecast	8.5%
Exp Report Date	01/24/13
Annual Revenue (USD)	72.3B
ROE	24.5%
Inst. Ownership	76.7%
1-Mo Return	1.5%
3-Mo Return	-7.8%
1-Yr Return	-3.7%

**1-Year Price Chart**



**5-Year Price Chart**

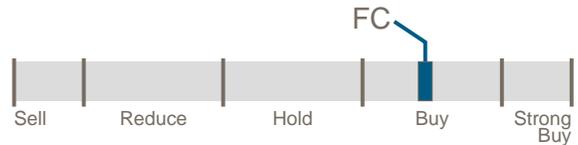


**Business Description**

Microsoft Corporation is engaged in developing, licensing and supporting a range of software products and services. The Company also designs and sells hardware, and delivers online advertising to the customers. It operates in five segments: Windows & Windows Live Division (Windows Division), Server and Tools, Online Services Division (OSD), Microsoft Business Division (MBD), and Entertainment and Devices Division (EDD). The Company' products include operating systems for personal computers (PCs), servers, phones, and other intelligent devices; server applications for distributed computing environments; productivity applications; business solution applications; desktop and server management tools. In July 2012, the Company purchased Edgewater Fullscope's Process Industries 2 (PI2) software and intellectual property. In July 2012, Comcast Corp. acquired the Company's 50% stake in MSNBC.com. In October 2012, it acquired PhoneFactor Inc. On July 18, 2012, it acquired Yammer, Inc. (Yammer).

**Analyst Recommendations**

First Call Mean (FC): **Buy** (39 firms)



First Call Mean (FC) is the mean recommendation of all analysts covering the stock.



**Peer Analysis**

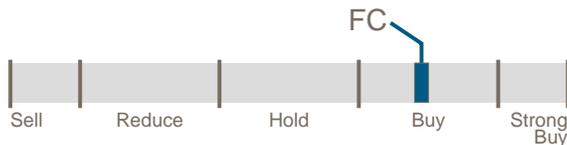
Ticker	Verus Opinion	Price (12/28/12) (USD)	Market Cap (USD)	Dividend Yield	Trailing P/E	Forward P/E	LTG Forecast	Annual Revenue (USD)	Net Margin	1-Mo Return	3-Mo Return	1-Yr Return
MSFT	Hold	27.21	226B	3.4%	14.5	8.8	8.9%	72.3B	27.9%	1.5%	-7.8%	-3.7%
ORCL	Buy	34.70	165B	0.7%	16.4	12.4	12.0%	37.2B	28.4%	8.6%	10.9%	26.9%
CRM	Hold	174.65	24.6B	--	--	97.1	27.3%	2.8B	-27.9%	4.7%	13.3%	68.1%
ADBE	Hold	38.15	18.9B	--	23.0	27.1	10.7%	4.4B	19.3%	1.6%	18.0%	31.7%
INTU	Buy	62.95	18.5B	1.1%	22.7	18.7	13.7%	4.2B	-2.9%	4.6%	4.7%	14.8%
SYMC	Hold	20.85	13.8B	--	12.5	12.0	8.3%	6.8B	11.4%	11.6%	16.1%	31.3%
CA	Buy	23.62	10.9B	4.2%	11.8	9.5	9.0%	4.7B	19.1%	8.1%	-5.4%	9.8%
RHT	Hold	54.99	10.5B	--	74.6	41.6	16.6%	1.3B	10.1%	9.5%	1.2%	29.6%
CHKP	Buy	48.29	10.0B	--	16.9	14.4	10.8%	1.3B	45.9%	3.3%	3.8%	-5.1%
ADSK	Hold	36.71	8.3B	--	34.7	18.0	17.2%	2.3B	5.4%	7.3%	15.1%	15.0%
NUAN	Buy	23.38	7.2B	--	36.0	12.2	16.7%	1.7B	25.1%	6.2%	0.0%	-20.2%
Average	--	--	46.7B	2.3%	26.3	24.7	13.7%	12.6B	14.7%	6.1%	6.3%	18.0%
Median	--	--	13.8B	2.2%	19.8	14.4	12.0%	4.2B	19.1%	6.2%	4.7%	15.0%

**Peer Group**

ORCL	ORACLE
CRM	SALESFORCE.COM, INC.
ADBE	ADOBE SYSTEMS
INTU	INTUIT INC
SYMC	SYMANTEC
CA	CA INC
RHT	RED HAT
CHKP	CHECK POINT SOFTWARE
ADSK	AUTODESK INC
NUAN	NUANCE COMMUNICATION

**Analyst Recommendations**

First Call Mean (FC): **Buy** (39 firms)



**Distribution**

Analysts typically rate a stock based on a five-tier scale ranging from 'Strong Buy' to 'Sell'. The chart below displays the number of analysts in each tier.



**Earnings Highlights**

- MSFT's current quarter consensus estimate has decreased over the past 90 days from 0.87 to 0.75, a loss of -13.4%. Consensus estimates for the Software Industry have moved an average -10.0% during the same time period.
- During the past four weeks, analysts covering MSFT have made 1 upward and 4 downward EPS estimate revisions for the current quarter.
- There have been 2 upward and 5 downward broker recommendation changes for MICROSOFT over the past 120 days.

**Price Target**

The chart below indicates where analysts predict the stock price will be within the next 12 months, as compared to the current price. The high, low, and mean price targets are presented.



**Mean Estimate Trend**

	Q 12-12	Q 03-13	Y 2013	Y 2014	Price Target
Current (USD)	0.75	0.78	2.86	3.19	34.10
30 Days Ago (USD)	0.76	0.79	2.88	3.21	34.80
90 Days Ago (USD)	0.87	0.78	2.98	3.28	35.70
% Change - Last 90 Days	-13.4%	-0.6%	-4.0%	-2.8%	-4.5%

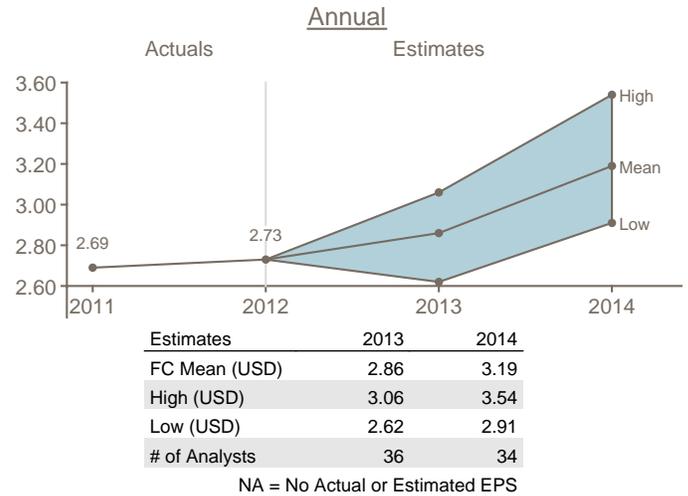
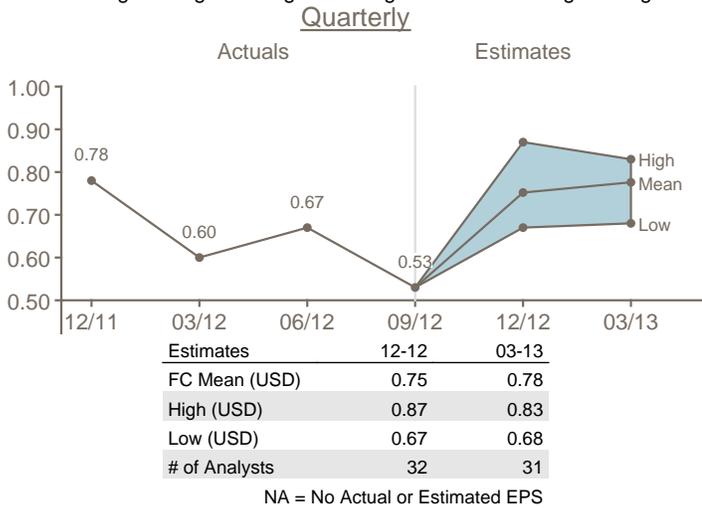
Next Expected Report Date: 01/24/13



## Earnings Per Share

Earnings per share (EPS) is calculated by dividing a company's earnings by the number of shares outstanding. Analysts tend to interpret a pattern of increasing earnings as a sign of strength and flat or falling earnings as

a sign of weakness. The charts below provide a comparison between a company's actual and estimated EPS, including the high and low forecasts.



## Earnings Surprise

Investors frequently compare a company's actual earnings to the mean expectation of professional analysts.

The difference between the two is referred to as a "positive" or "negative" surprise. Academic research has shown that when a company reports a surprise, it is often followed by more of the same surprise type.

### Surprise Summary - Last 12 Quarters

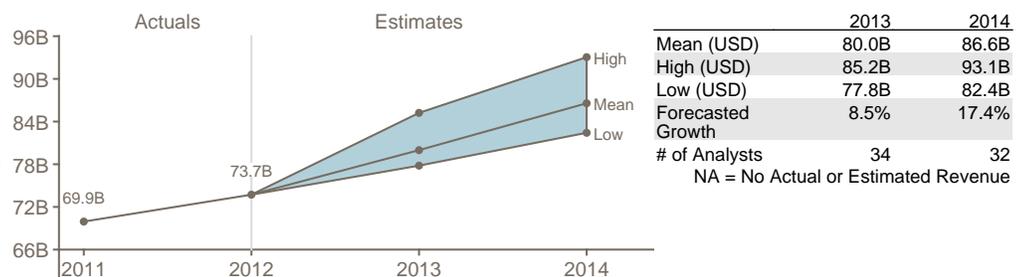
Surprise Type	#	%
Positive Quarters (> 2%)	10	83.3%
Negative Quarters (< -2%)	1	8.3%
In-Line Quarters (within 2%)	1	8.3%

### Surprise Detail - Last 6 Periods

Surprise Type	Announce Date	Period End Date	Actual EPS (USD)	Mean EPS (USD)	Surprise (%)
NEGATIVE	10/18/12	09/12	0.530	0.561	-5.5%
POSITIVE	07/19/12	06/12	0.670	0.618	8.4%
POSITIVE	04/19/12	03/12	0.600	0.575	4.3%
POSITIVE	01/19/12	12/11	0.780	0.758	2.9%
IN-LINE	10/20/11	09/11	0.680	0.677	0.4%
POSITIVE	07/21/11	06/11	0.690	0.576	19.8%

## Annual Revenue

A pattern of increasing sales in conjunction with a rising EPS may influence a buy recommendation, while flat or falling sales and faltering earnings may explain a sell recommendation. A rising EPS with flat or falling sales may result from increased cost efficiency and margins, rather than market expansion. This chart shows the revenue forecast trend of all analysts and the highest and lowest projections for the current and next fiscal year.



## Fundamental Highlights

- Of the 90 firms within the Software Industry, MICROSOFT is among the 12 companies that pay a dividend. The stock's dividend yield is currently 3.4%.
- The company's gross margin has been higher than its Industry average for each of the past five years.
- The company's days sales in receivables has been higher than its Industry average for each of the past five years.



**Fundamental Metrics**

Profitability			Debt			Dividend		
	MSFT	Industry Avg		MSFT	Industry Avg		MSFT	Industry Avg
<b>Revenue Growth</b> For year over year ending 09/12	1.5%	11.6%	<b>Current Ratio</b> For year over year ending 09/12	2.7	1.8	<b>Div. Growth Rate</b> For year over year ending 09/12	22.1%	4.3%
<b>Gross Margin</b> For trailing 4 qtrs ending 09/12	74.0%	70.7%	<b>Debt-to-Capital</b> For trailing 4 qtrs ending 06/12	13.9%	0.0%	<b>Dividend Funding</b> For trailing 4 qtrs ending 09/12	22.1%	0.0%
<b>Return on Equity</b> For trailing 4 qtrs ending 09/12	24.5%	3.8%	<b>Interest Funding</b> For trailing 4 qtrs ending 09/12	1.2%	0.0	<b>Dividend Coverage</b> For trailing 4 qtrs ending 06/12	5.0	3.4
<b>Net Margin</b> For trailing 4 qtrs ending 09/12	27.9%	0.5%	<b>Interest Coverage</b> For trailing 4 qtrs ending 09/12	59.3	2.7	<b>Current Div. Yield</b> For trailing 4 qtrs ending 01/13	3.4%	0.0%

The time period stated applies to the company-level data only. The Industry Average is a simple average of the most recent data from companies whose businesses most closely match each other.

**Risk Highlights**

- On days when the market is up, MSFT tends to outperform the S&P 500 index. On days when the market is down, the stock generally performs in-line with the S&P 500 index.
- In both short-term and long-term periods, MSFT has shown high correlation (>=0.4) with the S&P 500 index. Thus, this stock would provide only low levels of diversification to a portfolio similar to the broader market.
- Over the past 90 days, the daily price fluctuations of MSFT have been in-line with the S&P 500 index firms.

**Risk Metrics**

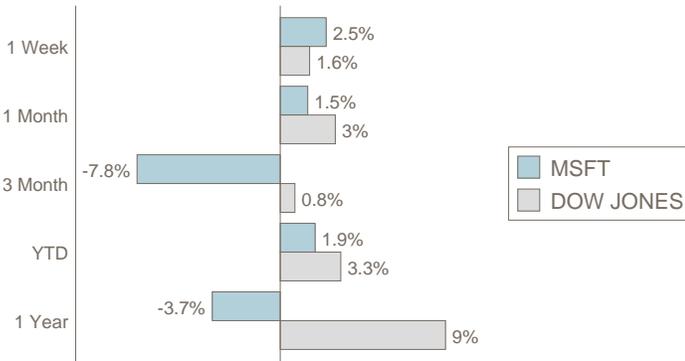
<b>Standard Deviation</b> Last 90 Days	1.41	<b>Beta vs. S&amp;P</b> Positive Days Only	1.11	<b>Correlation vs. S&amp;P</b> Last 90 Days	62%
Last 60 Months	7.71	Negative Days Only	1.00	Last 60 Months	70%
<b>Intra-Day Swing</b> Last 90 Days Avg	1.8%	<b>Beta vs. Group</b> Positive Days Only	0.68	<b>Correlation vs. Group</b> Last 90 Days	59%
Last 90 Days Largest	3.6%	Negative Days Only	0.78	Last 60 Months	64%

**Price Analysis: Risk and Reward**

Ticker	Last 90 Days					Last 60 Months		Last 10 Years		
	Best Daily Return	Worst Daily Return	# Days Up	# Days Down	Largest Intra-Day Swing	Best Monthly Return	Worst Monthly Return	Average January Return	Average February Return	Average March Return
MSFT	3.4%	-4.0%	27	34	3.6%	13.8%	-16.6%	-1.8%	-4.8%	1.0%
S&P 500	2.5%	-2.4%	31	29	2.9%	10.8%	-16.9%	-1.2%	-0.1%	1.3%

**Price Performance**

Daily closing pricing data is used to calculate the price performance of a stock over five periods. The performance of the DOW JONES is also displayed as a means of comparison.



	MSFT (USD)	DOW JONES
Close Price (01/15/13)	27.21	13535
52-Week High	32.95	13610
52-Week Low	26.26	12101

- On 01/15/13, MSFT closed at 27.21, 17.4% below its 52-week high and 3.6% above its 52-week low.
- MSFT shares are currently trading 0.4% above their 50-day moving average of 27.09, and 7.3% below their 200-day moving average of 29.34.
- The DOW JONES INDUSTRIALS is currently 0.6% below its 52-week high and 11.8% above its 52-week low.

Relative Strength Indicator (scale 1-100, 100 being best)	
Last 1 Month	46
Last 3 Months	46
Last 6 Months	47

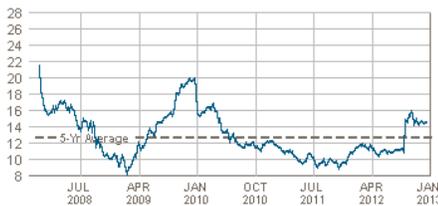


**Valuation Multiples**

	Trailing P/E	Forward P/E	Forward PEG
MSFT	14.5	8.8	1.0
S&P 500	23.2	17.5	1.8
Company Relative to Its 5-Yr Average	12% Premium	24% Discount	16% Discount
Company Relative to S&P 500	38% Discount	50% Discount	45% Discount

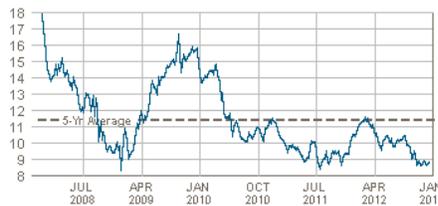
**Trailing PE**

Trailing P/E is calculated using the most recent closing price (updated weekly) divided by the sum of the four most recently reported quarterly earnings.



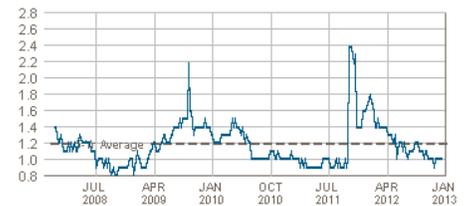
**Forward PE**

Forward P/E is calculated using the most recent closing price (updated weekly) divided by the sum of the four upcoming quarterly consensus estimates.



**Forward PEG**

Forward PEG is calculated by dividing the Forward P/E by the five-year, long term forecasted growth rate.



**Insider Purchases and Sells**

(Most recent transactions within the past 90 days)

Name	Role	Tran Date	Tran Type	Shares
Marquardt, David F	Director	11/26/12-11/28/12	Sale	500,000
Brummel, Lisa E	Officer	10/31/12-10/31/12	Sale	71,313
Delbene, Kurt D	Officer	10/26/12-10/26/12	Sale	35,000
Gates, William H III	Director	10/22/12-10/25/12	Sale	20,000,000

**Seasonal Sells - Quarterly & Yearly**

Time-series data for each quarter over the past three years allows you to easily analyze the longer-term trend in open-market insider selling.

	Q1 (USD)	Q2 (USD)	Q3 (USD)	Q4 (USD)	Full Year (USD)
2013	0	--	--	--	0
2012	11.4M	0.16M	7.06M	16.6M	35.2M
2011	33.0M	2.06M	6.83M	17.7M	59.6M
2010	3.02M	46.1M	5.36M	24.7M	79.2M

**Seasonal Buys - Quarterly & Yearly**

Time-series data for each quarter over the past three years allows you to easily analyze the longer-term trend in open-market insider buying.

	Q1 (USD)	Q2 (USD)	Q3 (USD)	Q4 (USD)	Full Year (USD)
2013	0	--	--	--	0
2012	0	0.99M	0	0	0.99M
2011	0	0	0	0	0
2010	0	0	0	0	0

**Institutional Holders**

(Updated weekly as of 01/12/13)

The top five institutional holders are presented based on the total number of shares held.

Institution	Inst. Type	# Shares Held	Reported Date
Gates (William H Iii)	Strategic	441M	11/27/12
Vanguard Group, Inc.	Inv Mgmt	338M	09/30/12
Ballmer (Steven A)	Strategic	333M	09/14/12
State Street Global Advisor...	Inv Mgmt	318M	09/30/12
Barclays Global Investors, ...	Inv Mgmt	280M	09/30/12

**Top Executive Holders**

(Updated monthly as of 12/16/12)

The top five insider holders are presented based on the total number of direct holdings. Indirect holdings are excluded. \*Please see last page for role code legend.

Insider Name	* Role	# Direct Shares	Value (USD)	Reported Date
Gates, William H III	D	441M	11.8B	11/29/12
Sinofsky, Steven Jay	O	1.18M	31.5M	09/10/12
Turner, Brian Kevin	CO	1.05M	28.2M	09/10/12
Smith, Bradford Lee	O	0.70M	18.9M	09/10/12
Marquardt, David F	D	0.68M	18.1M	11/29/12



**Distribution of Investment Ratings**

As of 01/11/2013, Verus Analytics covered 4367 companies, with 19.1% rated Buy, 63.9% rated Hold, and 16.9% rated Sell. Verus Analytics does not engage in investment banking services.

**Disclaimer**

All information in this report is assumed to be accurate to the best of our ability. Past performance is not a guarantee of future results. The information contained in this report is not to be construed as advice and should not be confused as any sort of advice. Thomson Reuters, its employees, officers or affiliates, in some instances, have long or short positions or holdings in the securities or other related investments of companies mentioned herein. Investors should consider this report as only a single factor in making their investment decision.

**Role Legend**

AF	Affiliate	CT	CTO	R	Retired
B	Benef Owner	D	Director	SH	Shareholder
CB	Chairman	EVP	Exec VP	SVP	Sr VP
CEO	CEO	GC	Gen Counsel	T	Trustee
CFO	CFO	O	Officer	TR	Treasurer
CM	Committee Member	OH	Other	VC	Vice Chairman
CO	COO	P	President	VP	VP

**Investment Methodology**

Verus Analytics, Inc (Verus) is a private firm specializing in engineering rating systems for institutional clients, wealth managers and self-directed investors. Verus's exhaustive list of ratings include MSN Money's StockScouter, and numerous institutional stock rating systems. Verus also provides proprietary ratings of earnings quality, fundamental and valuation elements directly to institutional clients. Verus (previously Camelback Research Alliance, Inc and the quantitative business unit of Gradient Analytics, Inc) was founded in 1996 by two former tenured professors, Dr. Carr Bettis and Dr. Donn Vickrey. Today the core team consists of financial engineers, business analysts and technology personnel.

The Verus Opinion is an empirically-derived and historically backtested stock rating system with buy, sell and hold opinions. To develop a rating, the quantitative system analyzes a firm's earnings quality, balance sheet, and income statement, conducts technical and valuation analysis, and evaluates the transactions made by the company's management and directors (i.e. insiders).

