

Discounted Cash Flow Analysis


Ticker Symbol:

MSFT

(In \$ Millions)	Actual (Unlevered)					Projected (Unlevered)				
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	\$ 62,484.0	\$ 69,943.0	\$ 73,723.0	\$ 77,849.0	\$ 86,833.0	\$ 94,278.7	\$ 102,363.0	\$ 111,140.4	\$ 120,670.4	\$ 123,687.2
% Growth		11.9%	5.4%	5.6%	11.5%	8.6%	8.6%	8.6%	8.6%	2.5%
EBITDA (Note 1)	26,771.0	29,927.0	30,923.0	30,519.0	33,098.0	38,634.8	41,947.7	45,544.6	49,450.0	50,686.2
% Margin	42.8%	42.8%	41.9%	39.2%	38.1%	41.0%	41.0%	41.0%	41.0%	41.0%
Depreciation, Depletion and Amortization	2,673.0	2,766.0	2,967.0	3,755.0	5,212.0	5,658.9	6,144.2	6,671.0	7,243.0	7,424.1
% or Revenue	4.3%	4.0%	4.0%	4.8%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Taxable Income	24,098.0	27,161.0	27,956.0	26,764.0	27,886.0	32,975.9	35,803.5	38,873.6	42,206.9	43,262.1
Income Taxes at 21.2% (Note 2)	(5,108.8)	(5,758.1)	(5,926.7)	(5,674.0)	(5,911.8)	(6,990.9)	(7,590.3)	(8,241.2)	(8,947.9)	(9,171.6)
Unlevered Cash Flow	21,662.2	24,168.9	24,996.3	24,845.0	27,186.2	31,643.9	34,357.3	37,303.4	40,502.1	41,514.6
Net Capital Investment (Note 3)	(2,222.0)	(2,426.0)	(12,417.0)	(5,841.0)	(11,422.0)	(8,395.4)	(9,115.3)	(9,896.9)	(10,745.6)	(7,424.1)
% or Revenue	3.6%	3.5%	16.8%	7.5%	13.2%	8.9%	8.9%	8.9%	8.9%	6.0%
Net Working Capital (Note 4)	(6,077.0)	(5,420.0)	(8,599.0)	(9,329.0)	(14,530.0)	(15,775.9)	(17,128.7)	(18,597.4)	(20,192.1)	(20,696.9)
Change in Net Working Capital		(657.0)	3,179.0	730.0	5,201.0	1,245.9	1,352.8	1,468.7	1,594.7	504.8
Free Cash Flow		21,085.9	15,758.3	19,734.0	20,965.2	24,494.4	26,594.8	28,875.2	31,351.2	34,595.3
Terminal Value (Note 5)										472,802.9
Total Cash Flow						24,494.4	26,594.8	28,875.2	31,351.2	507,398.2
Discount Factor at 10% WACC (Note 6)						0.909	0.826	0.751	0.683	0.621
Discounted Cash Flows						22,267.7	21,979.2	21,694.4	21,413.3	315,054.4

	Model	Market
Enterprise Value	\$ 402,408.9	\$ 318,741.9
Plus: Cash & Equivalents	8,669.0	8,669.0
Plus: Short-Term Investments	77,040.0	77,040.0
Plus: Long-Term Investments	14,597.0	14,597.0
Less: Debt, Current	(2,558.0)	(2,558.0)
Less: Long-Term Debt and Capital Lease Obligations	(20,645.0)	(20,645.0)
Less: Preferred Stock	-	-
Value of Common Equity	\$ 479,511.9	\$ 395,844.9
Diluted Shares Outstanding	8,399.0	8,399.0
Value of Common Equity Per Share	\$ 57.09	\$ 47.13

All financial data is derived from XBRL except share prices.

Notes:

All financial data is derived from XBRL except treasury yields.

Note 1: Calculation of EBITDA	2010	2011	2012	2013	2014
Operating Income	\$ 24,098.0	\$ 27,161.0	\$ 21,763.0	\$ 26,764.0	\$ 27,759.0
Add: Depreciation, Depletion and Amortization	2,673.0	2,766.0	2,967.0	3,755.0	5,212.0
Add: Restructuring and Impairment Charges	-	-	6,193.0	-	127.0
Add: Non-recurring and Special Charges	-	-	-	-	-
EBITDA	26,771.0	29,927.0	30,923.0	30,519.0	33,098.0

Note 2: Calculation of Effective Tax Rate	2010	2011	2012	2013	2014
Income Before Income Taxes	\$ 25,013.0	\$ 28,071.0	\$ 22,267.0	\$ 27,052.0	\$ 27,820.0
Income Taxes	6,253.0	4,921.0	5,289.0	5,189.0	5,746.0
Effective Income Tax Rate	25.0%	17.5%	23.8%	19.2%	20.7%
Average	21.2%				

Note 3: Calculation of Net Capital Investment	2010	2011	2012	2013	2014
Purchase of Property, Plant and Equipment	\$ (1,977.0)	\$ (2,355.0)	\$ (2,305.0)	\$ (4,257.0)	\$ (5,485.0)
Sale of Property, Plant and Equipment	-	-	-	-	-
Intangibles	-	-	-	-	-
Acquisitions	(245.0)	(71.0)	(10,112.0)	(1,584.0)	(5,937.0)
Divestitures	-	-	-	-	-
Net Capital Investment	(2,222.0)	(2,426.0)	(12,417.0)	(5,841.0)	(11,422.0)

Note 4: Calculation of Net Working Capital	2010	2011	2012	2013	2014
Total Current Assets	\$ 55,676.0	\$ 74,918.0	\$ 85,084.0	\$ 101,466.0	\$ 114,246.0
Less: Total Current Liabilities	(26,147.0)	(28,774.0)	(32,688.0)	(37,417.0)	(45,625.0)
Less: Cash and Equivalents	(5,505.0)	(9,610.0)	(6,938.0)	(3,804.0)	(8,669.0)
Less: Short Term Investments	(31,283.0)	(43,162.0)	(56,102.0)	(73,218.0)	(77,040.0)
Plus: Debt, Current	1,182.0	1,208.0	2,045.0	3,644.0	2,558.0
Net Working Capital	(6,077.0)	(5,420.0)	(8,599.0)	(9,329.0)	(14,530.0)
<i>% of Revenue</i>					

Note 5: Calculation of Terminal Value	
Terminal Growth Rate	2.5%
Projected 2019 Free Cash Flow	34,595.3
2019 Projected Growth Rate	2.5%
Projected 2020 Free Cash Flow	35,460.2
Weighted Average Cost of Capital	10.00%
Less: 2019 Projected Growth Rate	-2.5%
Discount Rate of Perpetuity	7.50%
Terminal Value	472,802.9

Note 6: Calculation of Weighted Average Cost of Capital	
Cost of Equity	10.0%
Net Debt to Enterprise Value	0.0%
10-Year Treasury Yield (as of 2015-01-26)	1.83%
Spread	3.00%
Cost of Debt	4.83%
Effective Tax Rate	21.20%
After-Tax Cost of Debt	3.81%
Weighted Average Cost of Capital	10.00%

Divisor 1,000,000
 Divisor Label (In \$ Millions)

Data Legend		
<i>Data Type</i>	<i>Dataset</i>	<i>Reference</i>
Fundamental Data	TagniFi Fundamentals	http://spreadcloud.com/data/tagnifi-fundamentals/
Market Data	TagniFi Markets	http://spreadcloud.com/data/tagnifi-markets/
Treasury Yield	Federal Reserve Economic Data	http://spreadcloud.com/data/fred/