

The Impact of the COVID-19 Pandemic on One of The Biggest Technology Giant Shares: A Financial Analysis on Microsoft Corporation

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ABSTRACT

Big technology stocks have been on a roll since April 2020, escaping the consequences of the coronavirus outbreak. The coronavirus pandemic created a vast tailwind for technology giants, especially Microsoft by inciting shifts in the corporations' behavior which are currently outliving the health crisis. The financial analysis on this firm aimed to develop a thorough analysis centered on its corporate history, market summary, financial statements (income statements, balance sheets, cash flows statements), normalized financial statements (normalized income statement, normalized balance sheet, and normalized statement of cash flows), stock valuation, SWOT analysis, and major competitors' performance. The aim of the evaluation is to get enough information to construct a thorough evaluation concerning the company's performance and analyze the effects of the coronavirus pandemic on the company. The evaluation indicated this giant technology company is booming during the pandemic even when the global economy is in a recessionary gap. The financial analysis may suggest further research into.

Overview

Microsoft Corporation is a technology company whose mission is to empower every person and every organization on the planet to achieve more. The corporation strives to create local opportunity growth, and impact in every country worldwide. The organization's platforms and tools help conduct small business productivity, large business competitiveness, and public-sector efficiency. These platforms and tools support startups, improve educational and health outcomes, and empower human ingenuity. Since the coronavirus outbreak, the organization is aiming to ensure the safety of its employees, striving to protect the health and well-being of the communities in which the business operates, and providing the necessary technology and resources to potential customers in the coronavirus pandemic.

The corporation continues to transform the business to lead in the new era of the intelligent cloud and intelligent edge, bringing technology and products together into experiences and solutions that unlock value for their customers. Microsoft Corporation's role as a platform and tool provider allows customers to bring together an ecosystem of partners, and enable organizations of all sizes to construct the necessary digital capability in order to address the upcoming challenges. Since its foundation, Microsoft Corporation has developed and supported software, services, devices, and solutions which deliver new value for potential customers and help people and businesses achieve their potential.

The organization offers a variety of services, including cloud-based solutions that provide customers with software, services, platforms, and content, and provides solution support and consulting services; it delivers relevant online advertising to a global audience. The organization offers various products (operating systems; cross-device productivity applications; server applications; business solution applications; desktop and server management tools;

as well as video games. Microsoft Corporation designs, manufactures, and sells devices (PCs, tablets, gaming and entertainment consoles, other intelligent devices, and related accessories).

Corporate History

In 1975, Bill Gates and Paul Allen officially founded Microsoft Corporation. In 1978, the company's first international office was officially founded in Japan, entitled "ASCII Microsoft". In 1980, The company signed a contract with IBM to develop an operating system for IBM's first personal computer. In 1981, IBM announced the release of the IBM Personal Computer, which became the dominant personal computer. In 1982, it formally launched its International Division and set up subsidiaries not only in Europe but worldwide; and Microsoft Corporation released Microsoft Flight Simulator version 1.0, marking one of the longest-running PC video game series. In 1983, Compaq releases its first PC-compatible machine with IBM compatible clones, which hurt IBM but helped Microsoft Corporation; Lotus Software releases Lotus 1-2-3, which is a spreadsheet program that becomes the IBM PC's first killer application that established the spreadsheet standard for the PC; and, Bill Gates introduces the first version of Microsoft Windows.

In 1984, Steve Jobs introduced the original Macintosh, the first mass-market computer with a graphical user interface. In 1985, Microsoft released Microsoft Excel, which will compete with, and later overtake, Lotus 1-2-3; Microsoft launches the first version of its Windows operating system, Windows 1.0, which runs on top of MS-DOS and has a primitive GUI. In 1986, Microsoft went public with an IPO, raising \$61 million at \$21 a share. In 1987, Microsoft released Windows 2.0. In 1990, Microsoft launched Windows 3.0 and released Microsoft Office, bundling together Microsoft Word, Microsoft Excel, and Microsoft PowerPoint. In 1991, Microsoft created Microsoft Research. In 1992, Microsoft released Windows 3.1. In 1993, Microsoft released Microsoft Encarta, the first digital multimedia encyclopedia; Microsoft released Windows NT 3.1, the first version of Windows available to business users. In 1994, Microsoft released Windows NT 3.5. In 1995, Microsoft released Windows NT 3.51, the last version of Windows to not have a Start Menu; Microsoft releases Windows 95, which features a new interface with a novel start button; and, Microsoft announces a partnership with NBC to create a new 24-hour cable news television station, MSNBC.

In 1997, Microsoft released Microsoft Office for Macintosh, ships Internet Explorer as the default browser for the Macintosh, and invests \$150 million in Apple. In 1998, Microsoft released Windows 98. In 1999, Microsoft released MSN Messenger, an IM client. In 2000, Microsoft released Windows ME. In 2001, Microsoft acquired Ensemble Studios; and, Microsoft released Windows XP. In 2002, Microsoft launched the .NET initiative, which creates an entirely new API for Windows programming and includes a new programming language. In 2003, Microsoft announced Windows Mobile. In 2006, Microsoft launched adCenter, an online advertising service that provides pay-per-click advertising. In 2007, Microsoft released Windows Vista to the general public and was made available for purchase and download from Microsoft's website. In 2009, Microsoft launched Windows 7 to the general public; and, Microsoft unveiled Microsoft Bing, a search engine to replace MSN. In 2010, Microsoft launched Microsoft Azure; and, Microsoft announced Windows Phone, a family of mobile operating systems as the replacement successor to Windows Mobile.

In 2011, Microsoft acquired Skype for \$8.5 billion. In 2012, Microsoft launched Microsoft Surface, a series of Windows-based personal computing devices designed and manufactured by Microsoft under its hardware division. In 2013, Microsoft acquired Nokia in an attempt to expand its presence in mobile. In 2014, Microsoft announced Cortana, an intelligent personal assistant; and finally, the Windows Insider program was announced, allowing users to test Windows 10 and provide feedback to Microsoft developers. In 2015, Microsoft released Windows 10, which acts as a "universal" application architecture across multiple Microsoft product families. In 2016, Microsoft announced to buy SwiftKey, a startup based out of London that makes keyboard apps for Android and iOS devices; Microsoft announces to buy Xamarin, a company that allows developers to build fully native apps across several platforms from a single shared codebase; Microsoft announces the acquisition of LinkedIn at \$26.2 billion (\$60 per user); the Surface

Studio and Surface Dial are announced; and Microsoft Teams, a cloud-based team collaboration tool, is launched as part of Office 365. In 2019, Microsoft released a new version of Microsoft Edge. A new logo of Microsoft Edge was introduced. In 2020, the company announced the beta version of Windows 10X and announced that all stores will be closed due to the pandemic.

Market Summary

Microsoft Corporation (MSFT)			
NasdaqGS - NasdaqGS Real Time Price. Currency in USD			
231.96 -6.97(-2.92%)			
At close: January 29 4:00 est			
Previous Close	238.93	Market Cap	1.749T
Open	235.99	Beta (5Y Monthly)	0.83
Bid	231.67 x 800	PE Ratio (TTM)	34.58
Ask	231.80 x 800	EPS (TTM)	6.71
Day's Range	231.36 - 238.01	Earnings Date	April 27, 2021 - May 03, 2021
52 Week Range	132.52 - 242.64	Forward Dividend Date & Yield	2.24 (0.94%)
Volume	40,004,239	Ex-Dividend Date	Feb 17, 2021
Avg. Volume	29,713,472	1y Target Est	270.80

Figure 1: Microsoft Corporation Corporate Summary (data from yahoo finance)

Microsoft Corporation's previous close shows that the last price reported as traded in a one-day time frame is \$ 238.93, while the opening price shows that the price at which the organization's security initially trades when an exchange opens during a one-day time frame is \$ 235.99. The bid, representing the highest price a buyer (investor, trader, or dealer) is willing to pay for the security is valued at \$ 231.67 x 800. While, the ask, representing the lowest price a seller is willing to accept for the security is valued at \$231.80 x 800. Concerning the bid-ask spread, the difference between the highest price the buyer (investor, trader, or dealer) is willing to pay for the security and the lowest price the seller is willing to accept for it is valued at \$ 104. Thus, the organization is a liquid stock since the security is easily and quickly sold or exchanged for cash without a substantial loss in value, and as a result, being of lower risk for buyers (investors, traders, or dealers).

Concerning the day's range, the difference between both high and low prices in a one-day time period is valued from \$ 231.36 - \$ 238.01. Because volatility is equivalent to risk, the security's trading range with small price fluctuations indicates that there is less risk in investing in the organization. Concerning the 52-week range, the highest and lowest published prices of the security over the previous year are \$242.64 and \$132.52, respectively. Concerning the volume, the number of shares of the security traded during the one-day time period is 40 004 239, meaning there is higher liquidity, better order execution, and a more active market for connecting a buyer and seller. Regarding the average volume, 29 713 472 shares are traded per day. As for the market cap, according to the stock market, the company is worth 1 479 000 000 000. Further, Microsoft Corporation is a large-cap company, which makes it a major player in well-established industries. Though this company might not necessarily bring in huge returns in a short period of time, over the long run, it is likely to reward investors with a consistent increase in share value and dividend payments.

Regarding the beta (5Y monthly), the volatility of the organization's stock compared to the systematic risk of the entire market is 0.83, meaning that the security is theoretically less volatile than the market. As for the P/E ratio (TTM), the relation of the company's share price to its earnings per share is 34.58, meaning that the stock's price is relative to earnings (as the current market value of the company is equal to 34.58 times its annual earnings) and possibly overvalued. As Microsoft Corporation is a company that is growing faster than average, it has a higher P/E,

showing investors are willing to pay a higher share price today due to growth expectations in the future. Considering the average P/E for the S&P 500 ranges from 13 to 15, Microsoft Corporation with a current P/E of 34.58, above the S&P average, trades at 34.58 times earnings. This high multiple indicates that investors expect a higher growth from the company compared to the overall market.

Concerning the EPS (TTM), for each share of its stock, the company is making \$ 6.71, meaning investors will be willing to pay a consistent amount of money for the company's shares since the EPS value indicates the company is likely to bring consistent profits relative to its share price. Concerning the earnings date, the date of the next release of the company's financial report is around April 27, 2021 - May 23, 2021. Concerning the forward dividend and yield, the percentage of the company's current stock price that it expects to pay out as dividends over a 12-month time period is 0.94%. Concerning the ex-dividend date, the day on which a stock begins trading without the subsequent dividend value is on February 27, 2021, meaning that investors who purchased the stock before the ex-dividend date are entitled to the next dividend payment while those who purchased the stock either on the ex-dividend date or after are not. Concerning the 1Y Target Estimate, the price that financial analysts have predicted the stock will be one year from now is \$ 270.78.

Financial Analysis

Income Statement:

INCOME STATEMENTS			
(In millions, except per share amounts)			
Year Ended June 30,	2020	2019	2018
Revenue:			
Product	\$ 68,041	\$ 66,069	\$ 64,497
Service and other	74,974	59,774	45,863
Total revenue	143,015	125,843	110,360
Cost of revenue:			
Product	16,017	16,273	15,420
Service and other	30,061	26,637	22,933
Total cost of revenue	46,078	42,910	38,353
Gross margin	96,937	82,933	72,007
Research and development	19,269	16,876	14,726
Sales and marketing	19,598	18,213	17,469
General and administrative	5,111	4,885	4,754
Operating income	52,959	42,959	35,058
Other income, net	77	729	1,416
Income before income taxes	53,036	43,688	36,474
Provision for income taxes	8,755	4,448	19,903
Net income	\$ 44,281	\$ 39,240	\$ 16,571
Earnings per share:			
Basic	\$ 5.82	\$ 5.11	\$ 2.15
Diluted	\$ 5.76	\$ 5.06	\$ 2.13
Weighted average shares outstanding:			
Basic	7,610	7,673	7,700
Diluted	7,683	7,753	7,794

Figure 2: Microsoft Corporation's Income Statement

As for the revenue growth, from 2018-19, the income received from normal business operations and other business activities increased by 14.0 % from \$ 110 360 million to \$ 125 843 million, and from 2019-20, the income received from normal business operations and other business activities increased by 13.6 % from \$ 125 843 million to \$ 143 015 million. Therefore, from 2018-20, the income received from normal business operations and other business activities increased by 29.6 % from \$ 110 360 million to \$ 143 015 million. Concerning the gross margin growth, from 2018-19, the company's gross margin increased by 15.2 % from \$ 72 007 to \$ 82 933, and from 2019-20, the company's gross margin increased by 16.9 % from \$ 82 933 to \$ 96 937. Therefore, from 2018-20, the company's gross margin increased by 34.6 % from \$ 72 007 to \$ 96 937, meaning that the profit the company makes after deducting the costs associated with making and selling its products and the costs associated with providing its services increased by 34.6 %, and it increased its efficiency at using its labor and supplies in producing goods or services by the same percentage.

Regarding the gross profit margin, in 2018, the gross profit margin percentage was 65.2 % (because $[110\,360\text{ million} - 38\,353\text{ million}] / [110\,360\text{ million}] = 0.652$), in 2019, the gross profit margin percentage was 65.9 % (because

[125 843 million - 42 910 million] / [125 843 million] = 0.659), and in 2020, the gross profit margin percentage was 67.8 % (because [143 015 million - 46 078 million] / [143 015 million] = 0.678). Making a strong emphasis on the gross profit margin growth, from 2018-19, the company's gross profit margin increased by 0.70 % from 65.2 % to 65.9 %, and from 2019-20, the company's gross profit margin increased by 1.90 % from 65.9 % to 67.8 %. Therefore, from 2018-20, the company's gross profit margin increased by 2.6 % from 65.2 % to 67.8 %, meaning the company is less successfully producing profit over and above its costs and, as a result, became less profitable within this time period. Concerning the operating income growth, from 2018-19, the company's operating income increased by 22.5 % from \$ 35 058 million to \$ 42 959 million, and from 2019-20, the company's operating income increased by 23.3 % from \$ 42 959 million to \$ 52 959 million. Therefore, from 2018-20, the company's operating income increased by 51.1 % from \$ 35 058 million to \$ 52 959 million, meaning the company's management is generating more revenue while controlling expenses, production costs, and overhead.

Concerning net income growth, from 2018-19, the company's net income increased by 137% from \$ 16 571 million to \$ 39 240 million, and from 2019-20, the company's net income increased by 12.8 % from \$ 39 240 million to \$ 44 281 million. Therefore, from 2018-20, the company's net income increased by 167 % from \$ 16 571 million to \$ 44 281 million, meaning that the company's net income or bottom line, showing the excess of expenses and losses over revenues and gains increased by 167 %. Concerning the basic earnings per share growth, from 2018-19, the company's basic earnings per share increased by 138 % from \$ 2.15 to \$ 5.11, and from 2019-20, the company's basic earnings per share increased by 13.9 % from \$ 5.11 to \$ 5.82. Hence, from 2018-20, the company's earnings per share increased by 171 % from \$ 2.15 to \$ 5.82, meaning the company's amount of profit allocated to one share of its common stock increased by 171 % from \$ 2.15 to \$ 5.82. Concerning the diluted earnings per share growth, from 2018-19, the company's diluted earnings per share increased by 138 % from \$ 2.13 to \$ 5.06, and from 2019-20, the company's diluted earnings per share increased by % 13.8 from \$ 5.06 to \$ 5.76. Thus, from 2018-20, the company's diluted earnings per share increased by 170 % from \$ 2.13 to \$ 5.76, meaning that the company's earnings per share if convertible securities were converted increased by 170 % from \$ 2.13 to \$ 5.76.

Balance Sheet:

BALANCE SHEETS			
(In millions)			
June 30,	2020	2019	
Assets			
Current assets:			
Cash and cash equivalents	\$ 13,576	\$ 11,356	
Short-term investments	122,951	122,463	
Total cash, cash equivalents, and short-term investments	136,527	133,819	
Accounts receivable, net of allowance for doubtful accounts of \$788 and \$411	32,011	29,524	
Inventories	1,895	2,063	
Other current assets	11,482	10,146	
Total current assets	181,915	175,552	
Property and equipment, net of accumulated depreciation of \$43,197 and \$35,330	44,151	36,477	
Operating lease right-of-use assets	8,753	7,379	
Equity investments	2,965	2,649	
Goodwill	43,351	42,026	
Intangible assets, net	7,038	7,750	
Other long-term assets	13,138	14,723	
Total assets	\$ 301,311	\$ 286,556	
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	\$ 12,530	\$ 9,382	
Current portion of long-term debt	3,749	5,516	
Accrued compensation	7,874	6,830	
Short-term income taxes	2,130	5,665	
Short-term unearned revenue	36,000	32,676	
Other current liabilities	10,027	9,351	
Total current liabilities	72,310	69,420	
Long-term debt	59,578	66,662	
Long-term income taxes	29,432	29,612	
Long-term unearned revenue	3,180	4,530	
Deferred income taxes	204	233	
Operating lease liabilities	7,671	6,188	
Other long-term liabilities	10,632	7,581	
Total liabilities	183,007	184,226	
Commitments and contingencies			
Stockholders' equity:			
Common stock and paid-in capital – shares authorized 24,000; outstanding 7,571 and 7,643	80,552	78,520	
Retained earnings	34,566	24,150	
Accumulated other comprehensive income (loss)	3,186	(340)	
Total stockholders' equity	118,304	102,330	
Total liabilities and stockholders' equity	\$ 301,311	\$ 286,556	

Figure 3: Microsoft Corporation's Balance Sheet

As for the cash and cash equivalents growth, from 2019-20, the company's cash and cash equivalents increased by 19.5 % from \$ 11 356 million to \$ 13 576 million, meaning that the company's value of assets that are cash or can be converted into cash in the short-term acquired higher liquidity due to an increase of 19.5 % from \$ 11 356 million to \$ 13 576 million. Therefore, the company possesses less risk, and, as a result, receives a lower interest rate that translates into higher profitability. Concerning total assets growth, from 2019-20, the company's total assets increased by 5.15 % from \$ 286 556 million to \$ 301 311 million, meaning that the company's total liabilities and equity increased by 5.15 % from \$ 286 556 million to \$ 301 311 million. Therefore, the company's increase in total assets indicates that the company's total liabilities and equity have increased by the same quantity, and as a result, an increase in total assets highlights the company's growth.

Regarding the accounts payable, from 2019-20, the company's accounts payable increased by 33.6 % from \$ 9 382 million to \$ 12 530 million. Therefore, the company is buying more goods and services on credit, rather than paying cash. Concerning the total current liabilities, employing the current ratio, which measures the company's ability to pay its short-term financial debts or obligations, in 2019, the current ratio is 2.53 [because \$ 175 552 million / \$ 69 420 million = 2.53], and in 2020, the current ratio is 2.52 [because \$ 181 915 million / \$ 72 310 million = 2.52]. Since the current ratios of 2.53 (in 2019) and 2.52 (in 2020) are higher than 1, these are considered ideal since these values demonstrate that there are more current assets to pay current short-term debts. However, it would not be convenient for the current ratios to reach a much higher number in the following years because the increase in current ratios would mean that the company is not leveraging its assets as well as it otherwise could be.

Concerning the total current liabilities growth, from 2019-20, the company's total current liabilities increased by 4.16 % from \$ 69 420 million to \$ 72 310 million. Therefore, the company's short-term financial obligations (including accounts payable, short-term debt, dividends, notes payable, and income taxes owed) due within one year or within a normal operating cycle increased by 4.46 % from \$ 69 420 million to \$ 72 310 million. As a result, the total current liabilities increase indicates that the company's accounts payable, accrued compensation, short-term unearned revenue, and other current liabilities increased, and suggests that cash flows from operations increased because we are referring to a use of cash. Concerning the total stockholders' equity growth, from 2019-20, the company's total stockholders' equity increased by % 15.6 from \$ 102 330 million to \$ 118 304 million, meaning the company is becoming more profitable due to its rapid increase in revenue from 2019-20 by 13.6 % from \$ 125 843 million to \$ 143 015 million, and its slight increase of total cost of revenue from 2019-20 by 7.38 % increase from \$ 42 910 million to \$ 46 078 million.

Since total revenue value and growth exceed the total cost of revenue value and growth, the business is generating more profit, driving up stockholders' equity as a result. Another reason for the total stockholders' equity increase by % 15.6 from \$ 102 330 million to \$ 118 304 million to be carried out, occurred since the company sold additional shares of stock, evidenced by an increase in the number of common stock being traded in the stock market since, from 2019-20, the company's common stock and paid-in capital increased by 2.59 % from \$ 78 520 million to \$ 80 552 million. The statement of the company selling additional assets is reinforced due to the increase in the company's total assets from 2019-20 by 5.15 % from \$ 286 556 million to \$ 301 311 million. Selling stocks not only raises the value of total stockholders' equity but also brings in new shareholders who are willing and able to share in the company's equity. The last reason for the total stockholders' equity increase by % 15.6 from \$ 102 330 million to \$ 118 304 million to be carried out, occurred due to an increase in the company's retained earnings from 2019-20 by 43.1 % from \$ 24 150 million to \$ 34 566 million. Hence, the company's retained earnings, including cash reserves and money spent in order for the company to acquire new assets as well as money to pay off debt, is one of the most prominent factors directly increasing stockholders' equity.

Concerning the total liabilities and stockholders' equity growth, from 2019-20, the company's total liabilities and stockholders' equity increased by 5.15 % from \$ 286 556 million to \$ 301 311 million, meaning that since total liabilities are part of the company's total debt and equity is the capital that the company has raised, assets are bought out of the total liabilities and equity for the operating activities of the company. This is indicating that assets are balanced by total liabilities and equity.

Income Statement and Balance Sheet:

Concerning the return on equity (ROE), in 2019, the company's return on equity (ROE) was 38.3 % [because $39\,240 / 102\,330 = 0.383$], and in 2020, the company's return on equity (ROE) was 37.4 % [because $44\,281 / 118\,304 = 0.374$]. Therefore, considering the return on equity (ROE) near the long-term average of 14 % as an acceptable ratio and below 10 % as a poor ratio, in 2019, the company's return on equity (ROE) was more than acceptable since its percentage (38.3 %) exceeded the long-term average ratio of 14 % by 24.3 %, and in 2020, the company's return on equity (ROE) was more than acceptable since its percentage (37.4 %) exceeded the long-term average ratio of 14 % by 23.4 %. As a result, in 2019 and 2020, the company was profitable in terms of stockholders' equity.

Concerning the return on assets (ROA), in 2019, the company's return on assets (ROA) was 13.7 % [because $39\,240 / 286\,556 = 0.130$], and in 2020, the company's return on assets (ROA) was 14.7 % [because $44\,281 / 301\,311 = 0.147$]. Therefore, considering that an increasing return on assets (ROA) indicates that the company is good at converting its investments into profits, the company's return on assets' upward trend indicates that the company is continuing to earn an increasing profit on each dollar of investment. The company's positive return on assets (ROA) indicates it can effectively use its assets to generate income.

Cash Flows Statement:

CASH FLOWS STATEMENTS

(In millions)

Year Ended June 30,	2020	2019	2018
Operations			
Net income	\$ 44,281	\$ 39,240	\$ 16,571
Adjustments to reconcile net income to net cash from operations:			
Depreciation, amortization, and other	12,796	11,682	10,261
Stock-based compensation expense	5,289	4,652	3,940
Net recognized gains on investments and derivatives	(219)	(782)	(2,212)
Deferred income taxes	11	(6,463)	(5,143)
Changes in operating assets and liabilities:			
Accounts receivable	(2,577)	(2,812)	(3,862)
Inventories	168	597	(465)
Other current assets	(2,330)	(1,718)	(952)
Other long-term assets	(1,037)	(1,834)	(285)
Accounts payable	3,018	232	1,148
Unearned revenue	2,212	4,462	5,922
Income taxes	(3,631)	2,929	18,183
Other current liabilities	1,346	1,419	798
Other long-term liabilities	1,348	591	(20)
Net cash from operations	60,675	52,185	43,884
Financing			
Repayments of short-term debt, maturities of 90 days or less, net	0	0	(7,324)
Proceeds from issuance of debt	0	0	7,183
Cash premium on debt exchange	(3,417)	0	0
Repayments of debt	(5,518)	(4,000)	(10,060)
Common stock issued	1,343	1,142	1,002
Common stock repurchased	(22,968)	(19,543)	(10,721)
Common stock cash dividends paid	(15,137)	(13,811)	(12,699)
Other, net	(334)	(675)	(971)
Net cash used in financing	(46,031)	(36,887)	(33,590)
Investing			
Additions to property and equipment	(15,441)	(13,925)	(11,632)
Acquisition of companies, net of cash acquired, and purchases of intangible and other assets	(2,521)	(2,388)	(888)
Purchases of investments	(77,190)	(57,697)	(137,380)
Maturities of investments	66,449	20,043	26,360
Sales of investments	17,721	38,194	117,577
Other, net	(1,241)	0	(98)
Net cash used in investing	(12,223)	(15,773)	(6,061)
Effect of foreign exchange rates on cash and cash equivalents	(201)	(115)	50
Net change in cash and cash equivalents	2,220	(590)	4,283
Cash and cash equivalents, beginning of period	11,356	11,946	7,663
Cash and cash equivalents, end of period	\$ 13,576	\$ 11,356	\$ 11,946

Figure 4: Microsoft's Corporation Cash Flows Statement

Regarding the net cash from operations growth, from 2018-19, the company's net cash from operations increased by 18.9 % from \$ 43 884 million to \$ 52 185 million, and from 2019-20, the company's net cash from operations increased by 16.3 % from \$ 52 185 million to \$ 60 675 million. Therefore, from 2018-20, the company's net cash from operations increased by 38.3 % from \$ 43 884 million to \$ 60 675 million, meaning that within this time period the company's sufficient positive cash flow generated to maintain and grow its operations increased by 38.3 % from \$ 43 884 million to \$ 60 675 million. Since in 2018, 2019, and 2020, the bottom line is positive, more cash is being collected from customers than is spent on expenses.

As for the net cash used in financing growth, from 2018-19, the company's net cash used in financing decreased by 9.82 % from \$ - 33 590 million to \$ - 36 887 million, and from 2019-20, the company's net cash used in financing decreased by 24.8 % from \$ - 36 887 million to \$ - 46 031 million. Hence, from 2018-20, the company's net cash used in financing decreased by 37.0 % from \$ - 33 590 million to \$ - 46 031 million, meaning that in this time period, changes in long-term debt and changes in equity decreased by 37.0 % from \$ - 33 590 million to \$ - 46 031 million. Negative cash provided by financing activities is highly desirable, especially coupled with positive operating cash flow. If the company experiences negative cash provided by financing activities, the company is paying back on long-term debt, purchasing treasury stock, or paying dividends. In this situation, the company is experiencing negative cash provided by financing activities from 2018-19, which means that it is paying back principal on long-term debt, purchasing either treasury stock, or paying dividends. Positive cash provided by financing activities indicates the company is borrowing more money long-term or issuing new shares of common stock. In this situation, cash provided by financing activities is not positive, indicating that the company is not borrowing money in the long term or issuing new shares of common stock.

Concerning the net cash used in investing growth, from 2018-19, the company's net cash used in investing decreased by 160 % from \$ - 6 061 million to \$ - 15 773 million, and from 2019-20, the company's net cash used in investing increased by 22.5 % from \$ - 15 773 million to \$ - 12 223 million. Therefore, from 2018-20, the company's net cash used in investing decreased by 102 % from \$ - 6 061 million to \$ - 12 223 million, meaning that the amount of cash spent on investment-related activities decreased by 102 % from \$ - 6 061 million to \$ - 12 223 million. Negative cash used in investing activities is highly desirable since it means the company is buying more property, plants, and equipment. In this case, since the company's net cash used in financing declined from 2018-20 by 102 % from \$ - 6 061 million to \$ - 12 223 million, the company is buying more property, plant, and equipment.

Normalized Income Statement:

Normalized to 2018	2020	2019	2018
Revenue	1.30	1.14	1.00
Gross Margin	1.35	1.15	1.00
Gross Profit Margin	1.04	1.01	1.00
Operating Income	1.51	1.23	1.00
Net Income	2.67	2.37	1.00

Figure 5: Microsoft Corporation's Normalized Income Statement (created in google spreadsheets)

According to the normalized income statement, from 2018-20, the firm's revenue approximately increased by 0.30 (or 30%) from 1.00 to 1.30; its gross margin approximately increased by 0.35 (or 35%) from 1.00 to 1.35; its gross profit margin approximately increased by 0.04 (or 4%) from 1 to 1.04; its operating income approximately increased by 0.51 (or 51%) from 1.00 to 1.51; and its net income increased by 1.67 or (167%) from 1.00 to 2.67. As a result, due to a consistent increase in these parameters, there was an improvement in the company's operations, the efficiency of its management, its under-performing sectors, and its financial performance from 2018-20.

Normalized Balance Sheet:

Normalized to 2019	2020	2019
Cash and cash equivalents	1.19	1.00
Total assets	1.05	1.00
Total current liabilities	1.04	1.00
Total stockholders' equity	1.16	1.00
Total liabilities and stockholders' equity	1.05	1.00

Figure 6: Microsoft Corporation's Normalized Income Statement (created in google spreadsheets)

According to the normalized balance sheet, from 2019-20, the cash and cash equivalents approximately increased by 0.19 (or 19%) from 1.00 to 1.19; the total assets approximately increased by 0.05 (or 5%) from 2019-20; the total current liabilities approximately increased by 0.04 (or 4%) from 1.00 to 1.04; the total stockholders' equity approximately increased by 0.16 (or 16%) from 1.00 to 1.16; the total liabilities and stockholders' equity approximately increased by 0.05 (or 5%) from 1.00 to 1.05. As a result, due to a consistent increase in these parameters, the state of the company's finances, its rates of return, and capital structure improved from 2019-20.

Normalized Cash Flows Statement:

Normalized to 2018	2020	2019	2018
Net cash from operations	1.38	1.19	1.00
Net cash used in financing	1.37	1.10	1.00
Net cash used in investing	2.02	2.60	1.00

Figure 7: Microsoft Corporation's Normalized Cash Flows Statement (created in google spreadsheets - owner)

According to the normalized balance sheet, from 2018-20, the net cash from operations approximately increased by 0.38 (or 38%) from 1.00 to 1.38; the net cash used in financing approximately increased by 0.37 (or 37%) from 1.00 to 1.37; and, the net cash used in investing increased by 1.02 (or 102%) from 1.00 to 2.02. As a result, due to an increase in these parameters, the company's cash inflows from its ongoing operations and external investment sources improved from 2018-20.

SWOT Analysis:

Table 1: SWOT Analysis on Microsoft Corporation

Strenghts	Weaknesses
<ul style="list-style-type: none"> Leader in the global market place in the cloud sector: Microsoft offers a wide array of cloud-based computing services, which includes Bing, Microsoft Azure, Microsoft Dynamics CRM Online, Microsoft Office 365, One Drive, Skype, Xbox Live, as well as Yammer. In 2018, Microsoft had global datacenter footprint to 54 regions, which is more than other cloud provider in the world. Effective leadership by Satya Nadella: One of the factors which set apart Microsoft from competition. Since 2014, Nadella has been bold and effective in the company's restructuring and reinvention. Initiatives, such as focusing Microsoft's mobile-based efforts and expanding plenty of its services to be offered on other platforms like Mac by Satya Nadella proved to be effective up to date. Leadership principles of Satya Nadella are based on the values of learning, choosing to create a positive, impact, finding ways to innovate and making meaning a priority. Diversified product portfolio: Microsoft's portfolio of products and services is vast comprising operating systems for computing devices, servers, phones, and other intelligent devices; server applications for distributed computing environments; productivity applications; business solution applications; desktop as well as server management tools; software development tools; video games; as well as the online advertising. The company designs and sells hardware including PCs, tablets, gaming and entertainment consoles, phones, other intelligent devices, as well as related accessories. Its diversified portfolio protects and company against downturns in any specific product or service segment. 	<ul style="list-style-type: none"> Lack of innovation: Nowadays, people are still sitting on a huge installed base of old Windows XP and Windows 7 computers. These customers seem to be happy even though Microsoft virtually abandoned Windows XP, their most solid operating system ever. However, the key point is that they are temporarily happy as "nothing on the market has shown them a good reason to upgrade". Loss of leadership position in the internet browser segment: Microsoft's Internet Explorer was a leading browser application with market share of more than 90% for about two decades since the beginning of 1990. Nevertheless, Internet Explorer was quick to lose its market share since the launch of Google Chrome in September 2008. In 2015 the company launched Microsoft Edge, a successor of Internet Explorer, but this browser is still far behind market leaders such as Chrome, Safari and Firefox. Failed acquisitions: A wide variety of Microsoft's acquisitions have been questionable. For instance, Microsoft acquired Nokia for \$7 billion at a time when Nokia had lost its entire market share to Apple and Samsung. The company acquired Skype for \$8 billion and despite the platform enjoying increased usage, Microsoft has not been able to make it financially viable.
Opportunities	Threats
<ul style="list-style-type: none"> Product affordability: Several Microsoft products have a notoriety for being overpriced, especially when dealing with the low-cost or free alternatives. For instance, Microsoft Office costs \$150 for a one-time installation while the open-source Apache OpenOffice provides the same software for free. Therefore, by lowering prices or bundling services, Microsoft could increase market share considerably. Smart acquisitions: Instead of acquiring businesses with less or no viability, Microsoft can use its large cash reserves in order to acquire or form partnerships with innovative start-ups that bring a different skill set and perspective to the company. Smartphone industry: The market of smartphones and tablets offer an excellent opportunity for Microsoft to capitalize on the increasing demands of these products. 	<ul style="list-style-type: none"> Changing consumer habits: With the limited presence in the mobile market and a consumer shift away from PCs and laptops, Microsoft's reliance on operating systems is under direct threat. Counterfeit software: Low-quality imitation or counterfeit products are continuing to be a problem for Microsoft, particularly in emerging and low-income markets. This is no doubt exacerbated by Microsoft's high product prices and vulnerability to cybercrime. Changing preferences of consumers: Customers are highly attracted to the market of smartphones, notepads, and laptops. However, Microsoft has modest shares in these markets.

Major Competitors Performance:

Comparing Net Revenue:

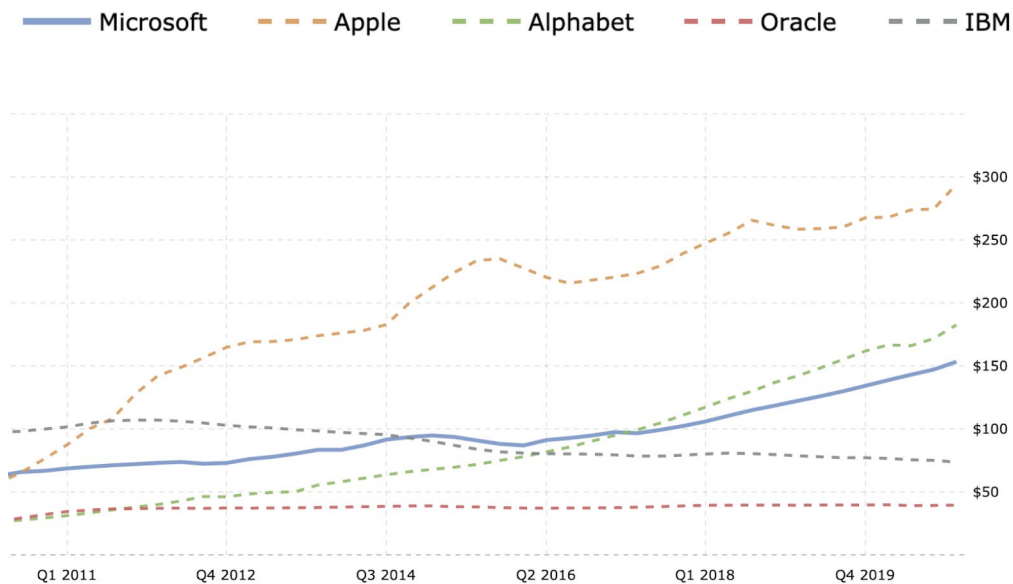


Figure 8: Microsoft Corporation's And Its Major Competitors' Net Revenue Growth (Graphical Representation)

Table 2: Microsoft Corporation’s And Its Major Competitors’ Net Revenue Growth (Numerical Representation)

Net Revenue (in billions)	2016 Q1	2017 Q1	2018 Q1	2019 Q1	2020 Q1	2020 Q4
Microsoft	86.89	97.41	105.88	122.21	267.98	153.28
Apple	227.54	220.46	247.42	258.49	267.98	294.14
Alphabet	77.99	94.77	117.25	142.01	166.68	182.53
Oracle	37.16	37.43	39.33	39.38	39.77	39.40
IBM	80.83	79.39	80.06	78.7	76.54	73.62

Comparing Net Income:

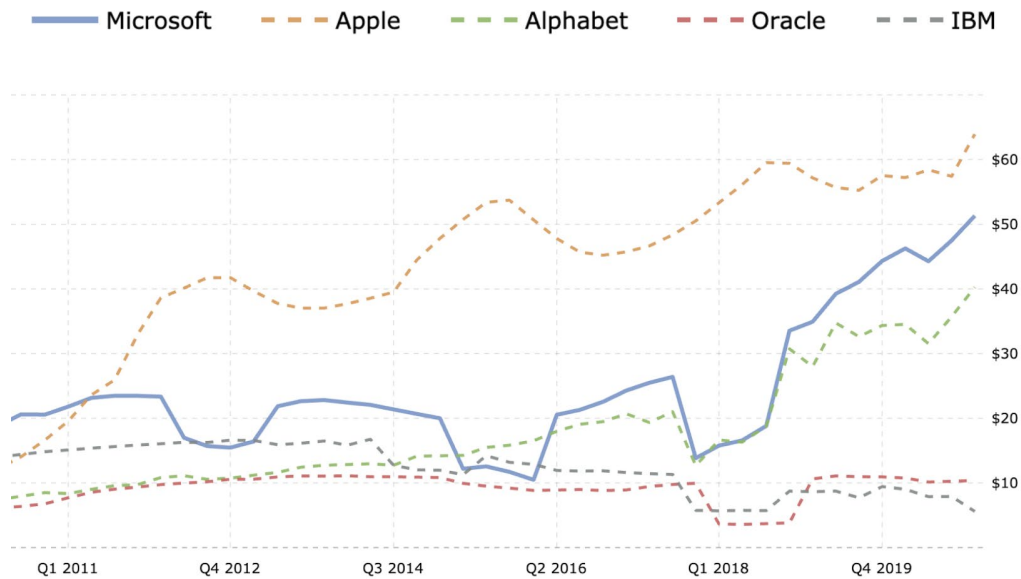


Figure 9: Microsoft Corporation’s And Its Major Competitors’ Net Income Growth (Graphical Representation)

Table 3: Microsoft Corporation’s And Its Major Competitors’ Net Income Growth (Numerical Representation)

Net Income (in billions)	2016 Q1	2017 Q1	2018 Q1	2019 Q1	2020 Q1	2020 Q4
Microsoft	10.48	24.28	15.77	34.93	46.27	51.31
Apple	50.68	45.73	53.32	57.17	57.22	63.93
Alphabet	16.52	20.70	16.64	27.99	34.52	40.27
Oracle	8.84	8.92	3.66	10.62	10.76	10.38
IBM	12.88	11.61	5.68	8.64	9.02	5.59

Comparing Total Liabilities and Shareholders Equity:

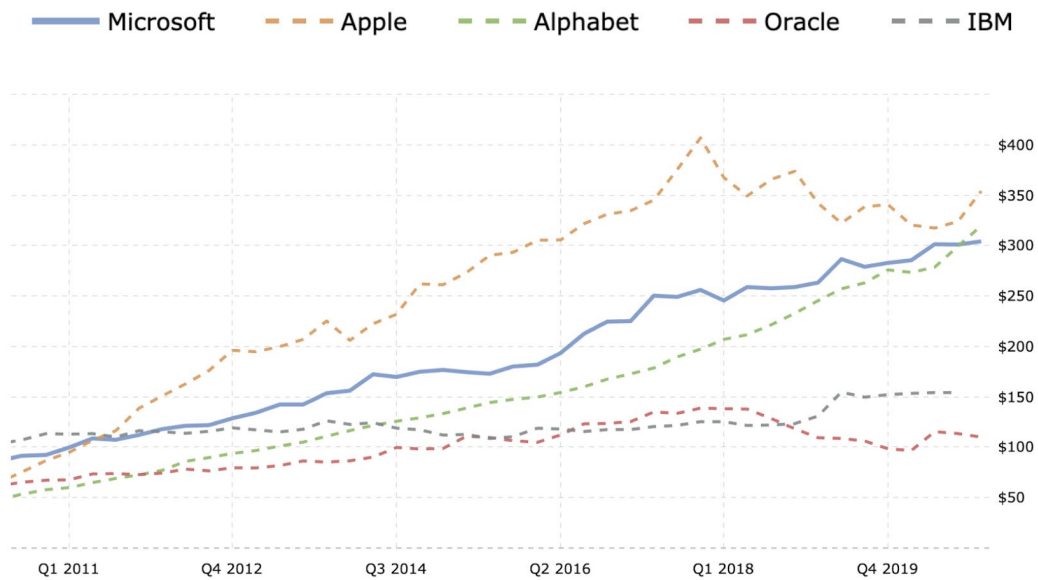


Figure 10: Microsoft Corporation’s And Its Major Competitors’ Total Liabilities and Shareholders Equity Growth (Graphical Representation)

Table 4: Microsoft Corporation’s And Its Major Competitors’ Total Liabilities and Shareholders Equity Growth (Numerical Representation)

Total Liabilities & Shareholders Equity (in billions)	2016 Q1	2017 Q1	2018 Q1	2019 Q1	2020 Q1	2020 Q4
Microsoft	181.87	225.02	245.50	263.28	285.45	304.14
Apple	305.28	334.53	367.50	342.00	320.40	354.05
Alphabet	149.75	172.76	206.94	245.35	273.40	319.62
Oracle	104.89	125.38	138.20	109.44	96.70	110.01
IBM	118.86	117.50	125.29	130.93	153.40	154.13

Comparing Gross Margins:

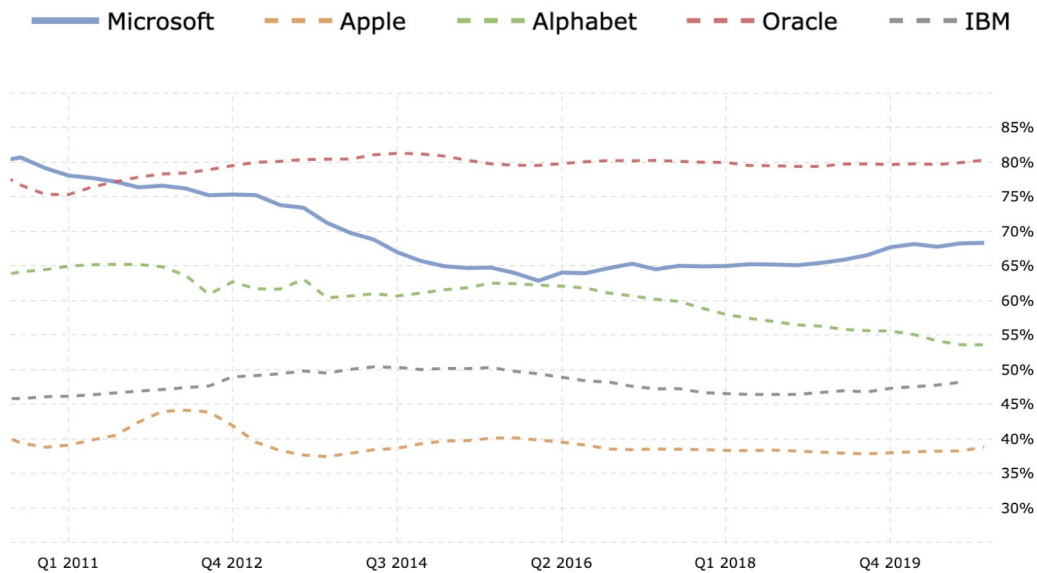


Figure 11: Microsoft Corporation’s And Its Major Competitors’ Gross Margin Growth (Graphical Representation)

Table 5: Microsoft Corporation’s And Its Major Competitors’ Gross Margin Growth (Graphical Representation)

Gross Margin (%)	2016 Q1	2017 Q1	2018 Q1	2019 Q1	2020 Q1	2020 Q4
Microsoft	62.86	65.32	64.99	65.44	68.17	68.35
Apple	39.81	38.41	38.30	38.05	38.11	38.78
Alphabet	62.23	60.66	57.99	56.28	55.08	53.58
Oracle	79.56	80.22	79.99	79.42	79.80	80.33
IBM	49.38	47.58	46.52	46.68	47.52	48.18

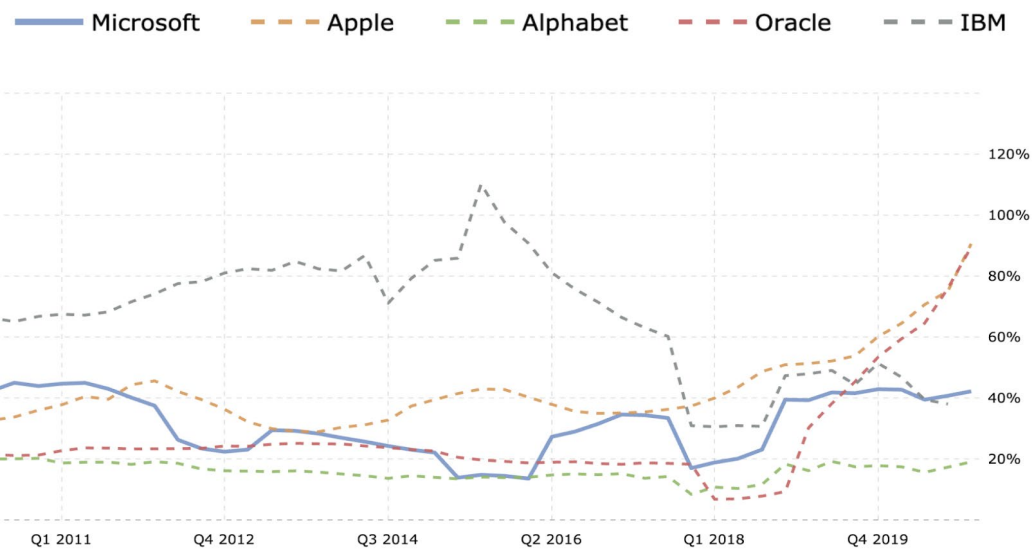


Figure 12: Microsoft Corporation’s And Its Major Competitors’ Return on Equity (ROE) Growth (Graphical Representation)

Table 6: Microsoft Corporation's And Its Major Competitors' Return on Equity (ROE) Growth (Numerical Representation)

Return on Equity (%)	2016 Q1	2017 Q1	2018 Q1	2019 Q1	2020 Q1	2020 Q4
Microsoft	13.56	34.58	18.83	39.28	42.74	42.19
Apple	40.24	35.09	39.97	51.29	64.49	90.59
Alphabet	14.00	15.16	10.76	16.16	17.43	19.03
Oracle	18.69	18.25	6.80	30.18	59.40	89.57
IBM	90.70	66.44	30.58	47.93	46.84	38.03

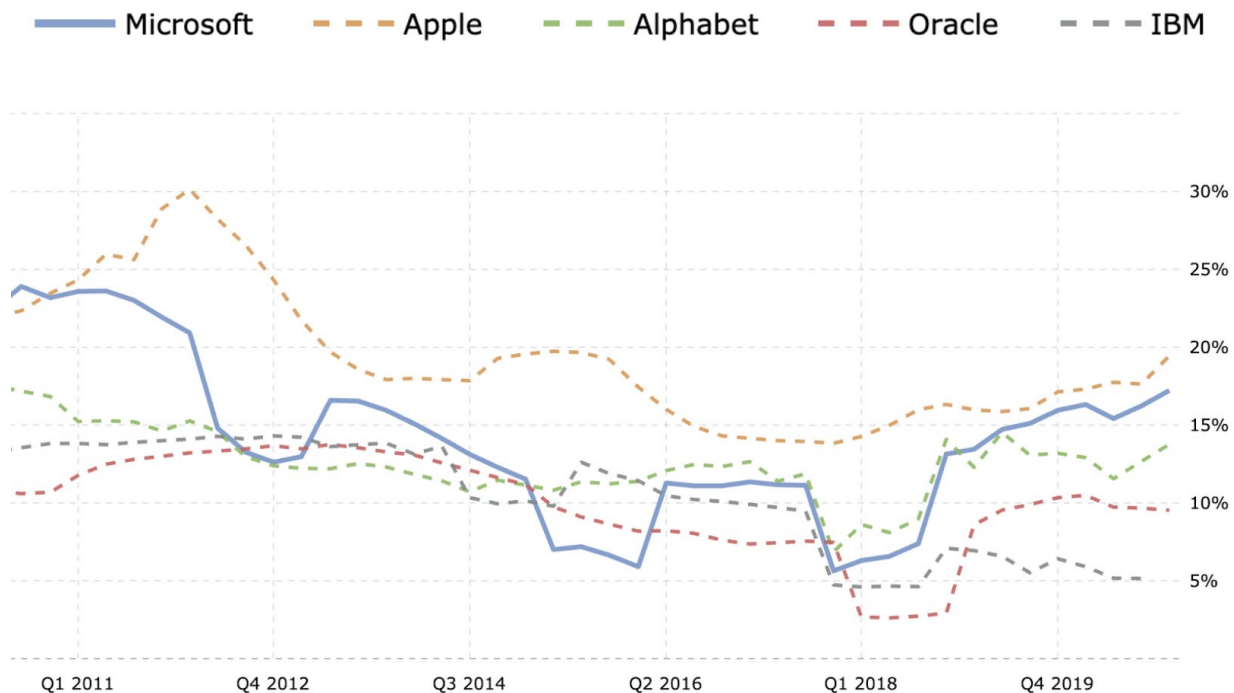


Figure 13: Microsoft Corporation's And Its Major Competitors' Return on Assets (ROA) Growth (Graphical Representation)

Table 7: Microsoft Corporation's And Its Major Competitors' Return on Equity (ORE) Growth (Numerical Representation)

Return on Assets (%)	2016 Q1	2017 Q1	2018 Q1	2019 Q1	2020 Q1	2020 Q4
Microsoft	5.91	11.35	6.30	13.45	16.32	17.22
Apple	17.44	14.15	14.27	15.98	17.31	19.44
Alphabet	11.39	12.65	8.62	12.29	12.91	13.76
Oracle	8.19	7.36	2.68	8.60	10.49	9.53
IBM	11.43	9.91	4.61	6.94	5.91	5.15

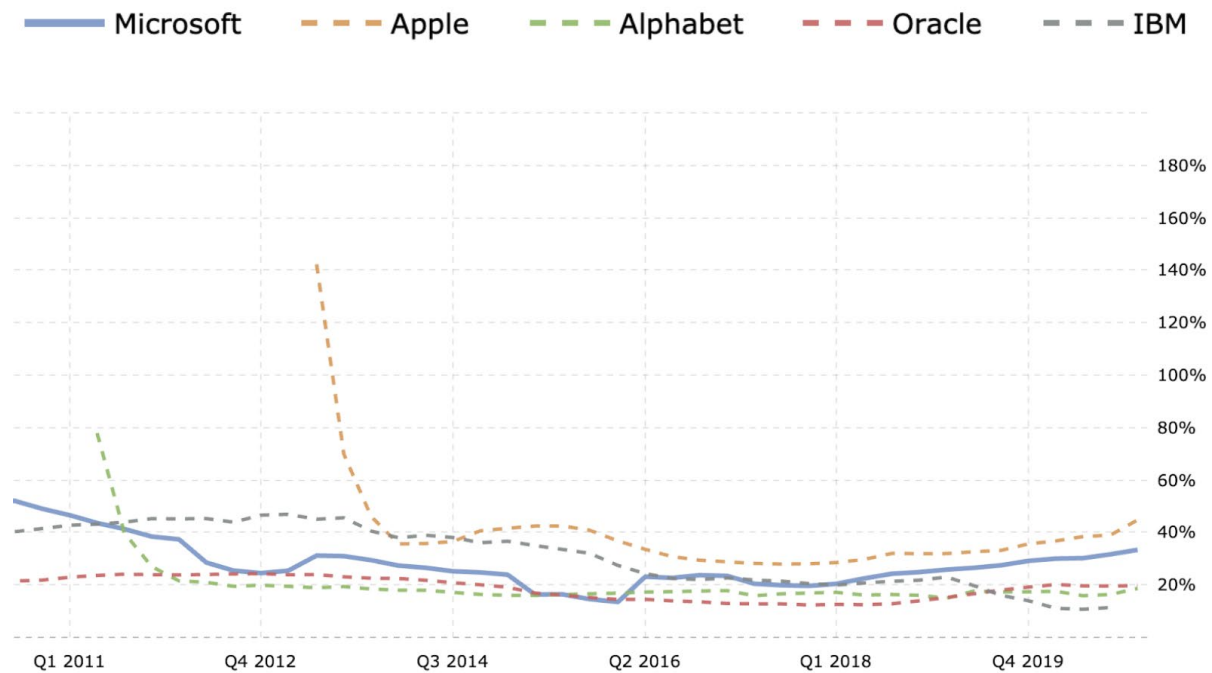


Figure 14: Microsoft Corporation’s and Its Major Competitors’ Return on Investment (ROI) Growth (Graphical Representation)

Table 8: Microsoft Corporation’s and Its Major Competitors’ Return on Investment (ROI) Growth (Graphical Representation)

Return on Investment (%)	2016 Q1	2017 Q1	2018 Q1	2019 Q1	2020 Q1	2020 Q4
Microsoft	13.49	23.45	20.41	25.83	30.02	33.37
Apple	36.78	28.81	28.54	31.95	36.76	44.77
Alphabet	16.87	17.82	17.17	14.95	17.58	18.67
Oracle	14.45	12.94	12.56	15.16	20.15	19.76
IBM	27.42	22.67	19.93	22.99	11.09	11.38

Conclusion

According to the company’s financial analysis and its development in comparison with its major competitors in the technology industry, Microsoft Corporation is booming in spite of the coronavirus pandemic. With the drastic shift to a digital-first world, the company has created a surge in demand for its services, causing its stock to rally. As more people continue to be locked down, this situation has resulted in higher demand for digital services that at the same time created a virtuous cycle for their revenues. This ended up with an improved stock market performance in Microsoft Corporations and the entire technology industry.

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