

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics and Management**



**Diploma Thesis**

**Financial analysis of chosen company**

**Microsoft Corporation**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## DIPLOMA THESIS ASSIGNMENT

Bc. Volodymyr Zubar

Economics and Management

Economics and Management

Thesis title

**Financial analysis of Microsoft Corporation**

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### **Objectives of thesis**

The goal of this diploma thesis is to evaluate financial health of Microsoft Corporation using set of tools of financial analysis. Microsoft Corporation is one of the biggest multinational technology company in the world and one of the biggest by market capitalization. This research will focus on financial analysis to determine financial and economical activities of the company in the current market.

### **Methodology**

The diploma thesis consists of two parts: theoretical and practical. Theoretical part describes key terms, theory and methods of financial analysis, and which data will be suitable for analysis. Practical part is describing company profile, performing industry analysis and it is mainly focused on implementation of financial analysis of Microsoft Corporation.

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Microsoft Corporation, Analysis, Financial analysis, Fundamental, Profitability, Liquidity, Activity, Debt Ratio, Vertical analysis, Horizontal analysis, Technical analysis

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**Recommended information sources**

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**Declaration**

I declare that I have worked on my Diploma Thesis titled “Financial analysis of Microsoft Corporation” by myself and I have used only the sources mentioned at the end of the thesis. As the author of the Diploma Thesis, I declare that the thesis does not break copyrights of any third person.

In Prague on date of submission

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## **Financial analysis of chosen company - Microsoft Corporation**

### Summary

This Diploma Thesis is dedicated to financial analysis of Microsoft Corporation - one of the biggest developers of software for diversified types of platforms. This work is divided for two parts - theoretical and practical.

Theoretical part is introducing the analytical methods, history of the company and overview of the topic. Practical Part contains variety of analysis of Microsoft Corp.: Financial Ratios, liquidity ratios, activity ratios, current assets, SWOT and PESTLE analysis, etc.

Key Words: Financial Analysis, Microsoft Corporation, SWOT, PESTLE, Liquidity Ratios, Activity Ratios, Profitability Ratios, Balance sheet

## Finanční analýza vybrané společnosti - Microsoft Corporation

### Souhrn

Tato diplomová práce je věnována finanční analýze společnosti Microsoft Corporation - jednoho z největších vývojářů softwaru pro různé typy platforem. Tato práce je rozdělena na dvě části - teoretickou a praktickou.

Teoretická část je seznámení s analytickými metodami, historií společnosti a přehledem problematiky.

Praktická část obsahuje různé analýzy společnosti Microsoft Corp.: Finanční poměry, ukazatele likvidity, ukazatele aktivity, oběžná aktiva, SWOT a PESTLE analýza atd.

Klíčová slova: Finanční analýza, Microsoft Corporation, SWOT, PESTLE, Ukazatele likvidity, Ukazatele aktivity, Ukazatele ziskovosti, Rozvaha

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## 1. Introduction

Microsoft Corporation is a global technology business headquartered in Redmond, Washington. Bill Gates and Paul Allen discovered it on April 4th, 1975 in Albuquerque, New Mexico. Microsoft Corporation is a market leader. The purpose of this Bachelor's Thesis is to provide broad information about the subject. There are two aspects to this thesis: theoretical and practical.

The theoretical section covers Microsoft Corporation's history and progress, as well as technology and stock exchange history in general. In addition, the theoretical section covers the following analyses: PESTLE analysis, SWOT analysis, technical analysis, and financial analysis in general. All of these terms are used to describe the price of Microsoft shares.

The practical section contains basic facts about Microsoft and the company's portfolio. Annual reports are used in financial analysis to indicate net income, revenue, and gross margin.

## 2. Objectives and Methodology

### 2.1. Objectives

The goal of this diploma thesis is to evaluate financial health of Microsoft Corporation using set of tools of financial analysis. Microsoft Corporation is one of the biggest multinational technology company in the world and one of the biggest by market capitalization. This research will focus on financial analysis to determine financial and economical activities of the company in the current market.

### 2.2. Methodology

The diploma thesis consists of two parts: theoretical and practical. Theoretical part describes key terms, theory and methods of financial analysis, and which data will be suitable for analysis. Practical part is describing company profile, performing industry analysis and it is mainly focused on implementation of financial analysis of Microsoft Corporation.

Practical part: PESTLE and SWOT analyzes, correlation analysis, and evaluation of the activities of Microsoft and its comparison with other firms.

Practical part (analysis) will be done by using methods of comparative analysis as well as methods of regression and correlation analysis

H1: ROE and ROA of Microsoft Corporation are increasing from 2018

H2: Liquidity Ratios are on a healthy track and improving from 2018

H3: Microsoft Corp. Cloud Based strategy is successful and improving financial indexes

### 3. Theoretical part

#### 3.1. Financial Evaluation

Reviewing businesses, initiatives, budgets, and other financial-related activities in order to assess their appropriateness and efficacy is done via financial analysis. To ascertain whether a company is stable, solvent, liquid, or sufficiently competitive to warrant a cash investment, financial analysis is frequently used.

The company's income statement, balance sheet, and cash flow statement should all be thoroughly examined by a financial expert. Making ratios from data in financial statements for comparison with data from other companies or against the company's own historical releases is one of the most popular techniques for assessing financial data.

For instance, return on assets (ROA) is a standard ratio used to assess how well a company uses its assets and as a gauge of profitability. This ratio may be computed and compared across many businesses in the same industry as part of a more comprehensive study. The accounting department performs internal research and shares it with management to support and justify changes in the business and its activities.

Many businesses offer their clients loans. Refunds from purchases may thus be postponed for a while. Tracking outstanding sales days (DSOs) is helpful for businesses with big receivables balances because it enables them to estimate how long it takes to turn a credit transaction into cash.

### 3.1.1. Leverage ratio

Financial measures called leverage ratios show how much debt an organization has relative to other accounting sections of its balance sheet.

The debt-to-equity ratio, for instance, is a leverage ratio that shows how much debt a company has overall in comparison to its equity.

Leverage ratios were initially intended to be used to appraise corporations on the stock market, but during the 2008 financial crisis, they were also crucial instruments for preventing the default or bankruptcy of systemically significant banking institutions.

Liquidity ratios, on the other hand, are typically used to assess how much cash a firm has on hand to fund its operations and debt commitments. Liquidity ratios are not the same as leverage ratios.

### 3.1.2. Debt to Equity ratio

The debt-to-equity ratio, often known as the D/E ratio, analyzes a company's financial leverage and determines how well it can pay off its debt. It entails dividing the total sums by the company's share capital.

It demonstrates the degree to which a business may fund its operations through debt rather than resources. These are also the probable risks connected to the growth structure, enabling a response to its long-term expansion. A high debt-to-equity ratio might indicate possible danger if a corporation is utilizing excessive amounts of borrowed funds for its business operations.

A low D/E ratio suggests that owners have provided less equity capital.

In general, the probability of bankruptcy increases with the number of commercial activities if the firm has financial difficulties. This is due to the fact that although loans are still required, there are not enough of them to fulfill their responsibilities.



A healthy D/E ratio also differs by sector since some businesses need more debt than others to finance their operations.

### 3.1.3. Debt to Capital

The debt-to-capital ratio algorithm calculates how much debt, as opposed to capital, a company employs to finance its continuing activities. This financial indicator can assist you in comprehending a variety of aspects of your company, such as capital structure and financial stability. Therefore, debt-to-capital ratio research may be optimal if you want to comprehend how well your company could manage a possible decline in sales income. The debt-to-equity ratio may show if a business can afford to pay the interest on these loans and whether it has enough money set aside for additional expenditures like R&D or acquisitions.

It can also be a sign that the business has too much debt and has to sell some assets to lower its obligations and bring the ratio back into balance.

Debt-to-equity ratios may be used by investors and company executives to compare enterprises in a certain sector.

### 3.1.4. Debt to Assets

The debt-to-total-assets ratio illustrates how much of a company's assets are held by stockholders versus debtors (people from whom it has taken money). Along with the debt payment ratio and the debt-to-equity ratio, it is one of three formulas used to assess debt capability.

Debt capacity measures a company's capacity to pay its existing debt as well as its capacity to borrow money if required from new sources of debt. By taking on debt, the business may be able to weather a market decline or seize chances as they present themselves.

The primary purpose of the debt-to-total assets number is to assess a company's capacity for borrowing additional funds. Additionally, a business with a high debt-to-total asset ratio may not be able to accept investment.

A lower debt-to-total-assets ratio, on the other hand, might indicate that the business is in a stronger financial position and will be able to profit more from its assets. Increased interest rates may aid in boosting shareholder returns.

### 3.1.5. Interest Coverage Ratio

A financial statistic called the Interest Coverage statistic, or ICR, is used to assess a company's ability to pay off its existing obligations. It is also known as the "interest income ratio" and is used to determine how risky it would be to invest money in this business and how close it is to going bankrupt. ICR is determined using the company's owed interest payments and profits before interest and taxes, or EBIT. The same predetermined time period, such as the last 12 months, must be used for both measures. (TTM). The interest coverage ratio calculates how often a business may use cash and assets to pay the current interest on its loan. In order to be prepared for any financial crisis that may come, investors nearly always search for businesses that can accomplish this at least a few times.

In other words, interest coverage refers to the amount of insurance a business must provide for its obligations, regardless of the amount of money it generates at the moment. Interest coverage ratios, like many other financial ratios, are best used by examining rolling ICRs for the same firm over an extended period of time to determine the way the company is heading. Potential investors will be seriously alarmed by the trend toward insolvency.

## 3.2. Profitability Ratios

The capacity of a corporation to earn revenue in relation to income, balance sheet assets, costs, and own income over a certain period of time is measured and evaluated by analysts and investors using profit ratios. They simply measure how well a business utilizes its resources to produce profits and shareholder value. Because a larger ratio of income often indicates that a company is doing well and producing offers, profits, and cash flow, most businesses employ higher ratios of income. The best applications of ratios are when they are contrasted with comparable values or with discrete time periods. Here are some of the

profitability ratios that are most often utilized. distribution of several profitability measures, which are used to provide helpful data on the performance

and financial health of a firm. These coefficients may all be categorized into one of two groups:

1. Margin percentages(Gross profit margin, profit margin, net profit margin, EBIT, EBITDA, etc.)
2. Rates of return(Income, equity income, cash value of income, cost of debt, return on retained earnings, return on income, etc.)

### 3.2.1. Operating Profit Margin

The profit a business makes from its running operations is known as operating profit margin. Prior to any unintended financial or fiscal repercussions, it demonstrates the financial sustainability of the company's primary operation. As a result, it is among the finest measures of how effectively the management team is managing the company.

Tracking the running profit margin over time can be particularly helpful for identifying any long-term trends that management should be aware of. To determine whether the company's primary business is competitive, it can also be compared to the industry norm and to major rivals. Being uninterested in the target company's financial framework, the buyer finds the operating profit margin to be an especially helpful metric. (which it is likely to change as a result of the acquisition). He is more concerned with the business's inherent capacity to turn a profit.

### 3.2.2. Net Profit Margin

A financial ratio called net income margin, also known as profit margin or net income margin ratio, is used to determine the proportion of profit an organization makes as a percentage of its total sales. It gauges the amount of net income a business generates for every dollar of sales. The ratio of net income, also known as net income, to total revenue, stated as a percentage, is known as the net profit margin.

Depending on the sector in which a firm works, different industries will have different typical profit margin ratios.

### 3.3. Return on Assets

This is often done when comparing the performance of businesses over time or when searching for two businesses in the same class operating in the same sector. Please be aware that it is crucial to use ROA in two distinct organizations and to account for the size of the company.

Industries often have varying ROA figures. High capital asset needs and capital heavy industries often have lower ROA because the denominator of the calculation is widened by their greater asset base.

Naturally, if a corporation has a substantial asset base and a high enough revenue, it may have a huge ROA.

This approach is often used for comparing the performance of businesses over time or when comparing two businesses in the same industry that belong to the same class. Please be aware that applying ROA in two distinct firms and taking into consideration the size of the company are both crucial.

Generally speaking, ROA values vary per industry. High capital asset needs and capital heavy industries often have lower ROA because a greater asset base broadens the denominator of the calculation. It stands to reason that a business with a sizable asset base could, if its revenue were high enough, have a sizable ROA.

### 3.4. Return on Investment (ROI)

The profit that an investor will gain in comparison to his investment expenses is determined by a financial ratio called return on investment (ROI). It is most often calculated by dividing net revenue by the investment's original capital expenditure. The greater the ratio, the more profit is made. This article will explain the ROI formula in detail, provide several examples of how to calculate it, and offer a download link for an investment ROI formula calculator.

The simplest method to explain the ROI formula is to divide some "benefit" by "cost." Asking someone to specify precisely how they assess something's ROI is vital when they claim it is excellent or terrible.

### 3.5. Liquidity Ratios

A business can use liquidity measures to gauge its ability to pay off both short-term and long-term obligations. Liquidity measures also show whether a business has enough cash on hand to pay off its debts or whether it needs to convert some of its assets into cash, like merchandise, accounts payable, or selling stocks.

Liquidity ratios are used by internal company officials to find possible financial solutions, but debtors, investors, or lending companies can also use this gauge to assess a company's ability to cover its present obligations with its available cash.

#### 3.5.1.1. Current Ratio

The weight of total current assets relative to total current obligations is considered in the ratio. It reveals a company's financial standing and how it can use its present assets' maximum cash to settle debt and pay bills. The solvency of a business can be readily determined using the current ratio method.

Along with a number of other financial ratios, this current ratio is categorized as a solvency ratio. All of these measures assess a company's success by comparing its financial stability to its current debt. Investors, debtors, and vendors who are making decisions about a business must be aware of its present percentage. The present ratio is a crucial instrument for determining whether their company objectives are viable.

The business is more liquid the greater the proportion. In most cases, a present ratio of 2 is regarded as generally appropriate and indicates sound financial health for most businesses. The relative present percentages of the girls vary. Most manufacturing groups might consider 1.5 to be a suitable substitute.

Low current ratios (less than 1) suggest that the group might be having trouble fulfilling its current obligations.

#### 3.5.2. Quick Ratio

Cash, tradable instruments, and debts are the three types of assets mentioned as a Quick Ratio. These assets are referred to as "fast" assets because it is easy to turn them into income. The fast liquidity percentage serves as a gauge for a company's capacity to meet its short-term obligations.

When a company has enough currency on hand to cover its immediate obligations, investors, vendors, and financiers are more eager in learning about it than when it doesn't. It is possible to achieve steady development by having a well-defined cash percentage, which is an indication of skill and strong company success.

Because it typically takes longer to turn stocks into cash and planned expenditure funds cannot be used to pay current obligations, inventory and prepaid expense accounts are excluded from the fast ratio, which makes it distinct from the current ratio. Depending completely on the character of the company, some businesses may, however, view merchandise as a fast-moving commodity, but such instances are incredibly uncommon.

### 3.5.3. Cash Ratio

The cash ratio identifies the portion of a company's present obligations that will be met by cash and financial alternatives for debtors, experts, and investors. If the number is higher than 1, the business will be able to cover its present obligations with cash and currency reserves while still having cash on hand.

A high liquidity percentage is preferred by lenders because it shows that a business can easily pay off its debt. Although there is no perfect ratio, it is typically recommended to have one of at least 0.5 to 1. The cash ratio, which only considers cash and currency assets, provides the most cautious sign of a company's solvency.

It's crucial to realize that a cash ratio does not always offer a reliable financial study of a company because, in most cases, companies do not keep cash and cash alternatives in a quantity equal to present obligations. In reality, if they have a lot of capital on their balance accounts, they typically abuse their assets. Cash does not produce revenue when it is on the balance sheet. As a result, extra money is frequently spent so that stockholders can receive larger profits.

### 3.6. Activity Ratios

Efficiency ratios, also referred to as activity ratios, are used to gauge company productivity. Activity ratios are financial ratios that, when combined with others like the profitability ratio and liquidity ratio,

evaluate the success of an organization. This allows business leaders to assess how effectively they are handling their assets and whether they are being used to produce revenue.

It's simple to locate the data needed to compute activity rates on a balance statement. Even though looking at the balance sheet can aid in the original analysis, determining the ratio can offer more details and make it simpler to monitor patterns over time than basic financial statement analysis. In general, working tasks and expenditures are used in activity rates. Activity ratios frequently exclude non-operating or one-time costs like those associated with moving or the selling of an asset.

Activity ratios need to be correctly evaluated after being computed, just like any money ratio. These outcomes should be monitored over time for improved pattern analysis, just like with most ratios. Most helpful activity rates show how a specific business engages among its reps when applied to two members of the same sector. But by examining various time spans to detect differences over time, the activity factor can also be used to determine a company's financial success. The company's planned action can be represented by comparing these numbers.

### 3.6.1. Receivables Turnover

An efficiency number that assesses the financial and operational success of a business is the accounts outstanding turnover ratio. A high percentage is preferred because it shows how effectively and frequently the business gathers debts. A high turnaround rate for debtors also suggests that the clientele the business serves is of the highest caliber and is capable of settling its bills on time. A large percentage may also be a sign of a cautious credit strategy for the business, such as a net 20-day or even net 10-day policy.

The company's method of collecting debt is poor if the percentage of debts turnover is low. This might be as a result of the business extending the lending conditions to bankrupt clients who are having trouble making ends meet.

Additionally, a low percentage might mean that a business is extending its lending strategy too slowly. When managers give a very long term credit policy in an attempt to boost sales, this can occasionally be

seen in profit management. According to the time value of money theory, the longer a business gathers sales on credit, the more money it truly loses or the less useful the sales are to the business. Therefore, it is thought that a low or falling percentage of debt rotation is bad for the business.

### 3.6.2. Inventory Turnover

Inventory turnover, also known as inventory turnover ratio, is the frequency with which a company sells and substitutes the things in its inventory over a specific time frame. It considers the cost of products sold in connection to its typical inventory over the course of the year or for any given time frame.

Low inventory turnover suggests poor sales and extra inventory, which can be problematic for a company.

High inventory turnover typically indicates that products are moving quicker.

Inventory turnover can be used to evaluate competitiveness and intra-industry success by comparing it to past turnover ratios, goal ratios, and industry norms. Depending on the business, inventory change can differ greatly.

One method to evaluate a company's success is to look at how fast merchandise is sold, how well it satisfies customer demand, and how its sales stack up against those of similar goods. As the primary source of income for businesses, businesses depend on inventory change to evaluate the success of their products.

Because it suggests product availability and lower storing expenses like rent, electricity, insurance, larceny, and other inventory costs, higher inventory rotation is advantageous.

Comparing the company to other companies in the same sector is another reason to study inventory change. Based on whether their product change is on or above the typical baseline established by industry standards, businesses assess the efficiency of their operations.



### 3.6.3. Payables Turnover

The accounts receivable turnover ratio gauges how quickly a business reimburses its debtors or vendors who have been given invoice payment conditions by way of a trade line of credit. Accountants look at how frequently a business settles its AP amounts over the measurement period to determine the AP turnover ratio.

One of the best financial measures for evaluating a company's ability to settle its trade credit accounts at the ideal time and handle cash flow is the AP turnover ratio.

Some individuals believe that a large change percentage is preferable in general. A high AP turnover percentage indicates that your business has enough funding and funds on hand to cover its expenses. It has strong financial standing.

Businesses with greater AP turnover ratios have enough working capital money and revenue flow to pay their vendors on time and in a reasonable amount. When it makes sense financially, they can profit from early payment reductions provided by their suppliers. They might be able to get more different deals from content providers.

### 3.6.4. Fixed Asset Turnover

This ratio is frequently examined in combination with the revenue and financial risk ratios.

Fixed assets used in business operations to produce revenue. These include tangible property, such as land and structures, as well as tools, equipment, furnishings, and cars. They allow for regular use, depreciation, and loss. From their high asset prices, all of these decline quickly until they are no longer usable or are retired.

The FAT ratio may be low when a company's sales are poor and its expenditure in fixed assets is significant.

This is particularly valid for production facilities that employ sizable machinery and tools. While not all low ratios are harmful, a low FAT can be interpreted negatively if a business has recently dropped a few large transactions to the advantage.

The increase in spending by the business in its conventional media may also be to blame for the ratio's drop. On the other side, the majority of businesses suffer from a large percentage. This is a result of efficient fund administration; as a result, there is a better yield on funds invested.

There is no precise percentage or way to know if a business is profitably using such assets to generate revenue. A comparison can only be made between instances of the company's most important component and comparisons made using different time periods, percentages, or combos of industries.

#### 3.6.5. Total Asset Turnover

The efficacy of a company's use of assets to produce revenue is gauged by the percentage. A greater percentage is preferable because it shows that assets are being used more effectively. A smaller percentage, on the other hand, shows that the business is not utilizing its resources as effectively. The percentage can be lowered by out of current goods or slow sales. The same is true for accounts outstanding; credit bills can accumulate and recovery times can be excessive. Fixed assets, such as fixed assets, might not be utilized to their maximum potential. In order to raise the asset change ratio, each of these groups needs to be closely watched.

Depending on the sector, the asset change percentage can differ significantly. While capital-intensive sectors typically report a smaller ratio, those with poor rates of return tend to produce larger ratios.

#### 3.7. Balance sheet

A balance sheet is a type of financial document that depicts the connection between a company's assets, obligations, and additional cash at a specific moment. The balance sheet reveals what a business possesses and how those assets are financed by debt or stock by calculating its total value. Due to the way balance sheets reflect the general financial system's health, they are obvious signs of individual and systemic diseases and can also be discovered on third parties. The data on the balance sheet can also be used to

estimate business success, including revenue, bankruptcy, and debt-to-equity ratio. But it's crucial to remember that impact data is included in financial statements. When dealing with historical data, the balance sheet is always appropriate. While stakeholders and investors can predict expected results using the balance statement, expected results are not revealed by prior performance. You need to look at balance statements over the course of several months or years to get a sense of a company's trajectory

### 3.8. Current Assets

All assets that a business anticipates turning into revenue in the next year are considered current assets. They are frequently used to assess the solvency of a business. The company's assets are split into two groups on its balance sheet: current and non-current. (long-term or capital assets).

### 3.9. Fixed Assets

Fixed assets are assets that the business expects to provide long-term economic advantages that will be completely achieved over a period longer than a year. Fixed assets, also known as "Non-Current Assets" in bookkeeping, are assets anticipated to be used over a lengthy period of time (more than 12 months). Non-current assets are viewed by the business as long-term expenditures because the possible rewards won't materialize in a year. In order to produce income for their primary business activities, companies invest in non-current assets, or resources that offer beneficial economic outcomes. On the balance statement, assets are further divided into current and non-current categories. Any business must place the highest priority on the mass media. Investors carefully consider them when determining whether or not to engage in a buy, in addition to what they use to assist a company in generating revenue. Fixed assets in sales quantities are calculated using fixed asset rotation rates.

Whoever used their immovable assets more easily had a competitive edge over their rivals. Since the regularity of the business dictates what is operational and what is not, understanding this distinction is crucial for preventing illness.

### 3.10. Financial Asset

A Financial assets are assets that result from possession of stock securities in another company or from contractual agreements for future financial transfers. Financial instruments are contracts that result in a

financial obligation or stock instrument for one party and a financial asset for the other. The partner is the primary distinction between financial assets and property, plant, and equipment, which ordinarily includes land, structures, and machinery. On the balance statement of the business, financial assets can be categorized as current or non-current assets.

### 3.11. Intangible Asset

Intangible assets are non-financial assets without a real component, according to IFRS. Like all assets, immaterial assets are anticipated to bring the business fiscal benefit in the future. This anticipation pertains to a long-term commodity that spans more than a single year or working period.

Unlike other assets like goods and machinery, intangible assets don't have any real components. After land, plant, and equipment, which is the biggest segment of long-term assets, they make up the second largest group. They fall into two categories: those that can be identified and those that cannot.

### 3.12. Equity

Equity, also known as share capital or equity for private businesses, is the sum of money that would remain in the hands of a company's owners after all assets have been sold and all debt has been settled in the event of a winding-up. It is the selling price of the business less any obligations that were not passed in the transaction in the event of a purchase.

Share capital can also serve as a representation of a company's financial worth. Equity may occasionally be provided as a form of remuneration. Additionally, it symbolizes equitable control of the stock of the business. One of the most frequently used data points by experts to evaluate a company's financial health is equity, which can be located on a company's balance sheet.

### 3.13. Liabilities

A company incurs an obligation when it makes a promise that causes it to forfeit a future advantage to other companies or groups. Additionally, liabilities can serve as a substitute for stock as a means of funding a business. In addition, some obligations, like total debt or income taxes, are a necessary component of running a company.

Commitments can help businesses offer value and execute effective company operations. However, careful debt management can have unfavorable effects, like a decline in revenue, in the case of insolvency.

In the instance of debt, it is also connected to the company's cash and is running out.

#### 3.13.1. Current Liabilities

While the word "current liability" is typically used to refer to debt that is due within a year, a more inclusive meaning might also include debt that is due within one running firm business cycle. The present debt for a corporation is therefore any obligation that becomes owing during the larger of the two times if its business cycle is longer than one year.

There are times when the expenses of operating your company and obtaining the funds and resources to settle your debts are insufficient to do so. As a result, this issue frequently has an impact on the credit terms and credit accommodations provided by vendors and financiers.

Any working year in which the business generates a profit will also result in taxation; as a result, a part of that profit must be given to the government. Different types of responsibilities. The most typical type is created debt, which occurs when a business has ongoing credit conditions with its vendors or when a transaction has not yet been settled for in full. Accrued expenditures, sporadic short-term notes due, the present part of long-term notes payable, and income tax owing are additional groups.

#### 3.14. Income Statement

Major financial institutions' statements that demonstrate earnings and deficits for a specific time frame are called income statements. Profit or Loss Litigation for the recoupment of all earnings and the deductibility of all costs resulting from infractions and recreational activities.

A financial summary that details a company's financial success is a revenue statement. It displays the company's earnings and outlays over a given time frame.

A profit and loss account, summary of activities, or profits statement are other names for the income statement. The income summary lists each account for money and expenditure for a given time frame. The difference between the balance sheet and cash flow summary provides a distinct viewpoint of the same financial environment. The three lines evaluate the overall financial condition of the business and help with financial projections. Instead of asking how lucrative a company is, balance statements can be used to determine how much it is valuable. In the former, the issue is one of financial viability, while in the latter, it is one of operational efficiency.

As it needs the least information from the balance sheet and cash flow statement, this summary is a perfect spot to commence financial operations. As a result, anticipated revenue comes first in an income summary.

### 3.15. Vertical Analysis

Accounting software called vertical analysis examines papers like financial records proportionately. Each line item in the financial summary is limited to a proportion of other lines when a vertical analysis is conducted. As a proportion of total revenue, for instance, in the income summary. Similar to this, the balance sheet records assets as a proportion of big assets rather than in pure money. A mathematical cash flow study compares each influx and loss of cash to the overall cash intake.

The most common application of vertical analysis is in financial records for a single reporting time, like a quarter. In order for accountants to determine the proportional amounts of accessible account funds, this is done.

When drawing a regression analysis or supply pattern analysis, vertical analysis is very helpful. This makes it possible for the bookkeeper to monitor proportional changes in the company's finances over time. It is particularly easy to conduct the research based on sight.

### 3.16. Horizontal Analysis

An method to financial analysis known as "horizontal analysis" compares information about one period, the reporting period, with particular financial statistics from other times. This method has been used by analysts to examine tangible characteristics.

By comparing the value of the current year to the value of the benchmark year, trends and shifts are quantified. The objective is to identify any rise or fall in personal beliefs. You can use a proportion or exact compare when performing a horizontal study.

Vertical analysis and horizontal analysis are comparable. Analysis contrasts a specific financial statement with other periods or cross-analyses a business with another company, as opposed to vertical analysis, which analyzes a specific financial statement using only one base financial statement for an accounting period.

### 3.17. PESTLE Analysis

A PESTLE analysis is a tool for obtaining a broad overview of the business environment. Political, Economic, Social, Technological, Legal, and Environmental elements are often referred to as PESTLE.

It enables a corporation to get a sense of the variables that could affect a new market or sector. Different types of firms will place a greater emphasis on various elements, and a PESTLE study will help identify risk factors for the SWOT analysis

**Political factors** – it encompass the regulations and influence exerted by the government on the economy or industry. This could take the form of legislation or economic policies. The political landscape has the potential to impact an industry through various means, such as :

1)trade tariffs

2)conflicts

3)taxation

4)fiscal policies

**Economic factors** - have a significant influence on a company's future prospects in a market. They can affect a company's pricing strategy and impact the supply and demand dynamics. Environmental factors that fall under this category include:

- 1)inflation rate
- 2) disposable income
- 3) unemployment rate
- 4) interest rates
- 5) foreign exchange rates
- 6) patterns of economic growth.

**Social factors** - can affect the industry environment by multiple factors, such as demographics and culture, which can shape consumer behavior, purchasing patterns, and lifestyle choices. Society plays a crucial role in determining when, where, and how people are likely to interact with products and services, owing to their cultural and lifestyle preferences. Social factors encompass:

- 1) consumer buying patterns
- 2) demographics
- 3) health
- 4) opinions
- 5) attitudes
- 6) media
- 7) brand preferences
- 8) education
- 9) religion
- 10) ethics

**Technological factors** - can impact an industry either directly or indirectly, with certain industries being



more vulnerable to technological disruption than others. Technological advancements can have a profound effect on the market and consumer behavior, influencing their purchasing power and preferences. The technological factors that may come into play include:

- 1) patents
- 2) licensing
- 3) communication
- 4) information technology
- 5) research and development
- 6) technological awareness
- 7) Automation

**Legal factors** - have the potential to impact both the internal and external environment of a company. The legal and regulatory landscape can shape the policies and procedures of an industry, and govern employment, safety, and other regulations. Legal factors that a company may need to consider include:

- 1) consumer protection
- 2) industry-specific regulations
- 3) regulatory bodies
- 4) environmental regulations
- 5) employment laws

**Environmental factors** - comprise all aspects related to the physical environment and the need for environmental protection. While some industries like tourism, agriculture, and food production may be more directly affected by the environment, these factors can potentially influence a range of different industries and are thus essential to consider. Environmental factors can encompass:

- 1) geographical location
- 2) stakeholder and consumer values
- 3) environmental offsets

4) weather patterns 5) global climate change 6) climate conditions. 7)

### 3.18 SWOT Analysis

**SWOT** (strengths, weaknesses, opportunities, and threats) analysis is a framework that helps assess a company's competitive position and formulate strategic plans. It involves evaluating internal and external factors, as well as current and future potential.

To conduct a SWOT analysis, it's important to take a realistic, data-driven approach and avoid preconceived beliefs or gray areas. The analysis should be grounded in real-life contexts. Companies should view the analysis as a guide, rather than a prescription.

#### 4. Practical Part

*Figure 1 - Logo*



(Source: <https://logos-world.net/microsoft-logo/>)

##### 4.1. Product Portfolio

Microsoft Corporation's portfolio is very diverse in nature and bigger part of it is targeted at companies and business users. Total Portfolio of Microsoft is over than 101 product, services and apps. Below are listed the main one's of them all:

- 1) Bing – search engine and all extensions connected to it( Bing Desktop, Bar Ads, Images, etc)
- 2) Cortana – Intelligent personal assistant created for Wondows 10 and later, Xbox One, IOS, Android, Windows Phone)
- 3) LinkedIn- Social networking service
- 4) Microsoft 365 – collaboration of all Office suits and productivity apps
- 5) Microsoft Azure – Cloud computing Platform

- 6) Microsoft Edge – newest browser
- 7) Microsoft Windows – Operating system
- 8) Outlook – email and calendar service
- 9) Skype - messenger, voice and video calls
- 10) Microsoft Teams – Hub for teams collaboration in Microsoft 365

#### 4.2. Financial Overview

*Table 1 - Financial Highlights(in mill. \$)*

	2019	2020	2021	2022	2023
Total Revenue	235,84	143,02	168,08	198,27	211,92
Gross Profit	82, 93	96, 94	115, 86	135, 62	146, 05
Operating Income	42, 96	52, 96	69, 92	83, 38	88, 52
Net Income	39, 24	44, 28	61, 27	72, 74	72, 36

Source: (*finance.yahoo.com* , 2023)

##### 4.2.1. Horizontal Analysis

The table below represents a percentage shift from the previous year to current year. This research opens a clear vision for the companies financial health during the picked time frame – 2019 till 2023 years

Table 2 - Horizontal Analysis 2019-2023( in mil. \$)

12 months ended:	Jun 30, 2023		Jun 30, 2022		Jun 30, 2021		Jun 30, 2020		Jun 30, 2019
Product	64,699	-11.0%	72,732	2.3%	71,074	4.5%	68,041	3.0%	66,069
Service and other	147,216	17.3%	125,538	29.4%	97,014	29.4%	74,974	25.4%	59,774
<b>Revenue</b>	<b>211,915</b>	<b>6.9%</b>	<b>198,270</b>	<b>18.0%</b>	<b>168,088</b>	<b>17.5%</b>	<b>143,015</b>	<b>13.6%</b>	<b>125,843</b>
Product	(17,804)	-6.6%	(19,064)	4.6%	(18,219)	13.7%	(16,017)	-1.6%	(16,273)
Service and other	(48,059)	10.3%	(43,586)	28.1%	(34,013)	13.1%	(30,061)	12.9%	(26,637)
<b>Cost of revenue</b>	<b>(65,863)</b>	<b>5.1%</b>	<b>(62,650)</b>	<b>19.9%</b>	<b>(52,232)</b>	<b>13.4%</b>	<b>(46,078)</b>	<b>7.4%</b>	<b>(42,910)</b>
<b>Gross margin</b>	<b>146,052</b>	<b>7.7%</b>	<b>135,620</b>	<b>17.1%</b>	<b>115,856</b>	<b>19.5%</b>	<b>96,937</b>	<b>16.9%</b>	<b>82,933</b>
Research and development	(27,195)	10.9%	(24,512)	18.3%	(20,716)	7.5%	(19,269)	14.2%	(16,876)
Sales and marketing	(22,759)	4.3%	(21,825)	8.5%	(20,117)	2.6%	(19,598)	7.6%	(18,213)
General and administrative	(7,575)	28.4%	(5,900)	15.5%	(5,107)	-0.1%	(5,111)	4.6%	(4,885)
<b>Operating income</b>	<b>88,523</b>	<b>6.2%</b>	<b>83,383</b>	<b>19.3%</b>	<b>69,916</b>	<b>32.0%</b>	<b>52,959</b>	<b>23.3%</b>	<b>42,959</b>
Interest and dividends income	2,994	43.0%	2,094	-1.7%	2,131	-20.5%	2,680	-3.0%	2,762
Interest expense	(1,968)	-4.6%	(2,063)	-12.1%	(2,346)	-9.5%	(2,591)	-3.5%	(2,686)
Net recognized gains on investments	260	-43.6%	461	-62.6%	1,232	3750.0%	32	-95.1%	648
Net gains (losses) on derivatives	(456)	776.9%	(52)	-405.9%	17	-90.9%	187	29.9%	144
Net gains (losses) on foreign currency	181	-341.3%	(75)	-238.9%	54	-128.3%	(191)	132.9%	(82)
Other, net	(223)	596.9%	(32)	-132.7%	98	-345.0%	(40)	-29.8%	(57)
<b>Other income, net</b>	<b>788</b>	<b>136.6%</b>	<b>333</b>	<b>-71.9%</b>	<b>1,186</b>	<b>1440.3%</b>	<b>77</b>	<b>-89.4%</b>	<b>729</b>
<b>Income before income taxes</b>	<b>89,311</b>	<b>6.7%</b>	<b>83,716</b>	<b>17.7%</b>	<b>71,102</b>	<b>34.1%</b>	<b>53,036</b>	<b>21.4%</b>	<b>43,688</b>
Provision for income taxes	(16,950)	54.4%	(10,978)	11.7%	(9,831)	12.3%	(8,755)	96.8%	(4,448)
<b>Net income</b>	<b>72,361</b>	<b>-0.5%</b>	<b>72,738</b>	<b>18.7%</b>	<b>61,271</b>	<b>38.4%</b>	<b>44,281</b>	<b>12.8%</b>	<b>39,240</b>

Source: (<https://www.stock-analysis-on.net/>, 2023)

In conclusion, it can be said that Microsoft has successfully managed its cost price and invested in research and development, resulting in solid outcomes in terms of sales and income, total income, and EBIT over the previous three years. Since 2020, Microsoft has been able to surmount obstacles, comprehend the demand, and engage in enhancing all cloud goods and services. Pay attention to the problems that COVID-19 has introduced.

#### 4.2.2. Vertical Analysis

The Vertical analysis is calculated in table below and it serves to show the relative sizes of different accounts on a financial statement of Microsoft Corp. The revenue is counted as 100% and all other accounts are divided by our Revenue.

Table 3 - Vertical Analysis 2019-2023(in mil. \$)

12 months ended:	Jun 30, 2023		Jun 30, 2022		Jun 30, 2021		Jun 30, 2020		Jun 30, 2019
Product	64,699	31%	72,732	37%	71,074	42%	68,041	48%	66,069
Service and other	147,216	69%	125,538	63%	97,014	58%	74,974	52%	59,774
<b>Revenue</b>	<b>211,915</b>	<b>100%</b>	<b>198,270</b>	<b>100%</b>	<b>168,088</b>	<b>100%</b>	<b>143,015</b>	<b>100%</b>	<b>125,843</b>
Product	(17,804)	-8%	(19,064)	-10%	(18,219)	-11%	(16,017)	-11%	(16,273)
Service and other	(48,059)	-23%	(43,586)	-22%	(34,013)	-20%	(30,061)	-21%	(26,637)
<b>Cost of revenue</b>	<b>(65,863)</b>	<b>-31%</b>	<b>(62,650)</b>	<b>-32%</b>	<b>(52,232)</b>	<b>-31%</b>	<b>(46,078)</b>	<b>-32%</b>	<b>(42,910)</b>
<b>Gross margin</b>	<b>146,052</b>	<b>69%</b>	<b>135,620</b>	<b>68%</b>	<b>115,856</b>	<b>69%</b>	<b>96,937</b>	<b>68%</b>	<b>82,933</b>
Research and development	(27,195)	-13%	(24,512)	-12%	(20,716)	-12%	(19,269)	-13%	(16,876)
Sales and marketing	(22,759)	-11%	(21,825)	-11%	(20,117)	-12%	(19,598)	-14%	(18,213)
General and administrative	(7,575)	-4%	(5,900)	-3%	(5,107)	-3%	(5,111)	-4%	(4,885)
<b>Operating income</b>	<b>88,523</b>	<b>42%</b>	<b>83,383</b>	<b>42%</b>	<b>69,916</b>	<b>42%</b>	<b>52,959</b>	<b>37%</b>	<b>42,959</b>
Interest and dividends income	2,994	1%	2,094	1%	2,131	1%	2,680	2%	2,762
Interest expense	(1,968)	-1%	(2,063)	-1%	(2,346)	-1%	(2,591)	-2%	(2,686)
Net recognized gains on investments	260	0%	461	0%	1,232	1%	32	0%	648
Net gains (losses) on derivatives	(456)	0%	(52)	0%	17	0%	187	0%	144
Net gains (losses) on foreign currency remeasurements	181	0%	(75)	0%	54	0%	(191)	0%	(82)
Other, net	(223)	0%	(32)	0%	98	0%	(40)	0%	(57)
<b>Other income, net</b>	<b>788</b>	<b>0%</b>	<b>333</b>	<b>0%</b>	<b>1,186</b>	<b>1%</b>	<b>77</b>	<b>0%</b>	<b>729</b>
<b>Income before income taxes</b>	<b>89,311</b>	<b>42%</b>	<b>83,716</b>	<b>42%</b>	<b>71,102</b>	<b>42%</b>	<b>53,036</b>	<b>37%</b>	<b>43,688</b>
Provision for income taxes	(16,950)	-8%	(10,978)	-6%	(9,831)	-6%	(8,755)	-6%	(4,448)
<b>Net income</b>	<b>72,361</b>	<b>34%</b>	<b>72,738</b>	<b>37%</b>	<b>61,271</b>	<b>36%</b>	<b>44,281</b>	<b>31%</b>	<b>39,240</b>

Source: (<https://www.stock-analysis-on.net/>, 2023)

### 4.3. Financial Analysis of Microsoft Corp.

#### 4.3.1. Balance Sheet Analysis

##### 4.3.1.1. Assets

The carrying values of all assets that are expected to be made in cash, sold, or consumed by a balance sheet date in a year (or the typical term if longer) are known as current assets. Assets that a person acquires or owns as a result of prior transactions or occurrences are likely to have economic value.

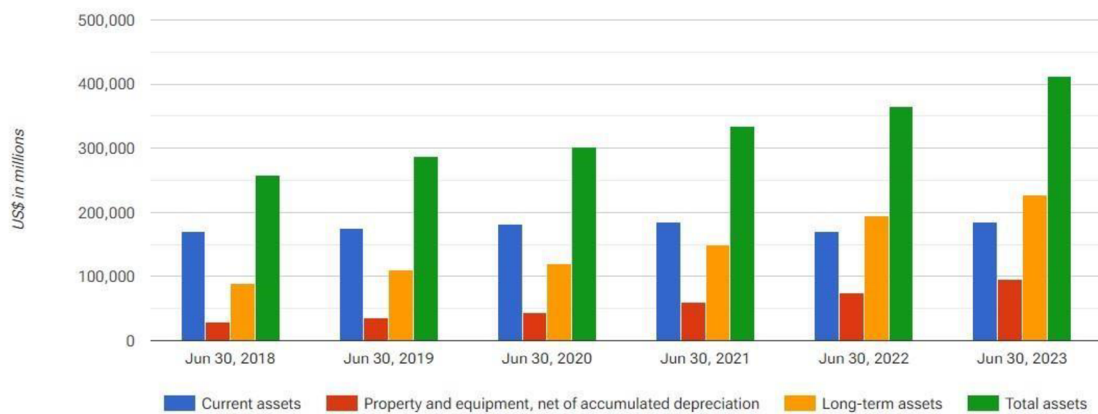
Table 4 - Financial Performance

	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019
Cash and cash equivalents	34,704	13,931	14,224	13,576	11,356
Short-term investments	76,558	90,826	116,110	122,951	122,463
<b>Cash, cash equivalents, and short-term investments</b>	<b>111,262</b>	<b>104,757</b>	<b>130,334</b>	<b>136,527</b>	<b>133,819</b>
Accounts receivable, net of allowance for doubtful accounts	48,688	44,261	38,043	32,011	29,524
Inventories	2,500	3,742	2,636	1,895	2,063
Other current assets	21,807	16,924	13,393	11,482	10,146
<b>Current assets</b>	<b>184,257</b>	<b>169,684</b>	<b>184,406</b>	<b>181,915</b>	<b>175,552</b>
Property and equipment, net of accumulated depreciation	95,641	74,398	59,715	44,151	36,477
Operating lease right-of-use assets	14,346	13,148	11,088	8,753	7,379
Equity investments	9,879	6,891	5,984	2,965	2,649
Goodwill	67,886	67,524	49,711	43,351	42,026
Intangible assets, net	9,366	11,298	7,800	7,038	7,750
Other long-term assets	30,601	21,897	15,075	13,138	14,723
<b>Long-term assets</b>	<b>227,719</b>	<b>195,156</b>	<b>149,373</b>	<b>119,396</b>	<b>111,004</b>
<b>Total assets</b>	<b>411,976</b>	<b>364,840</b>	<b>333,779</b>	<b>301,311</b>	<b>286,556</b>

Source: (<https://www.stock-analysis-on.net/>, 2023)

Current Assets - Assets that a person acquires or owns as a result of prior transactions or occurrences are likely to have economic value. Table above shows that Microsoft Corporation's current liabilities are increasing for last 5 years.

Figure 2 Microsoft Corp. Assets



Source: Own Calculations(<https://www.stock-analysis-on.net/>, 2023)

**Current Asset** - encompass all property values (assets) with a term utilization of less than a year or a working period of more than a year. The following fundamental indications define the core of this idea, which is required to carry out an efficient study of present assets. Microsoft Corp. current assets are increasing over picked all time frame till the present time.

**Property and equipment, net of accumulated depreciation** - Amount after depreciation, depletion, and amortization of physical assets utilized in the ordinary course of business to create products and services. Microsoft Corp. property and equipment, net of accumulated depreciation is significantly increasing year by year from the 2018 till 2023.

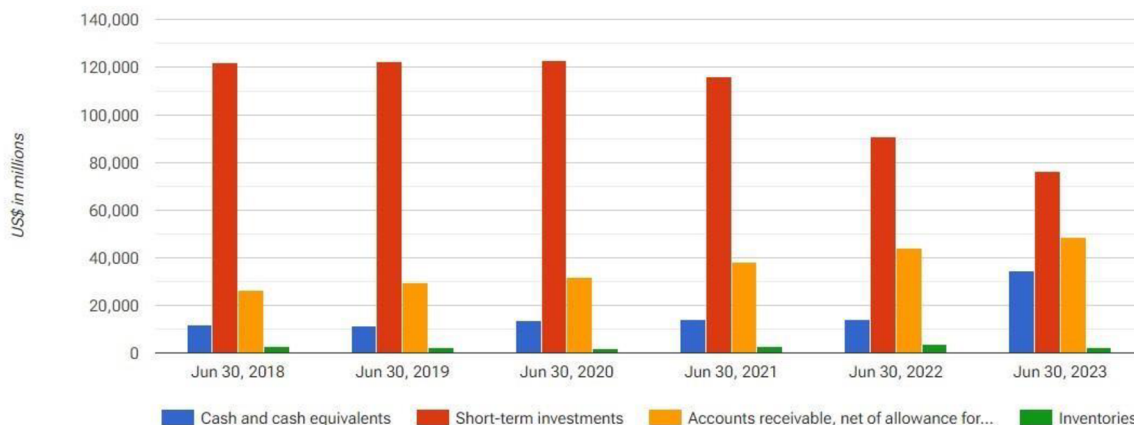
**Long-term assets** - These are items the business employs in its manufacturing process and whose usable life is longer than a year. Because they can add significantly to a company's constant manufacturing expenses, these assets are also known as "fixed assets." Because factories are the foundation of a company's manufacturing method, a vehicle maker might view them as long-term investments.

The expenses related to running factories are a sizable part of cost of products sold and do not vary much depending on a company's monthly or yearly output rate. (COGS). Plants are going to be considered long-term investments. Depreciation of assets over their usable lifetimes is also required..Microsoft Corp. long-term assets are stably increasing over the 2018 – 2023 years.

**Total assets** - Anything a person or entity owns—like a vehicle or a piece of stock—is an asset, and people buy assets because of their possibility for future worth growth. Businesses frequently invest in assets like real estate or new machinery to boost their revenue flow.. Microsoft Corp. total assets significantly increased from 2018 to 2023.



Figure 3 - Microsoft Current Assets



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

**Cash and cash equivalents** - Microsoft Corp. Demand deposits with banks or financial institutions, as well as the amount of cash on hand. This index had a stable low increase over the years 2018 – 2022 and rocketed in 2023 year.

**Short-term investments** - Amount of investments (trading securities, available-for-sale securities, held-to-maturity securities, etc.). Microsoft Corp. short-term investments trends to decrease over all observed financial years.

**Accounts receivable, net of allowance for doubtful accounts** - Amount due from customers or clients for goods or services (including trade receivables) that have been delivered or sold in the normal course of business. Microsoft Corp. accounts receivable, net of allowance for doubtful accounts increased during whole time frame 2018-2023.

**Inventories** - Amount of inventory expected to be sold, or consumed within one year or operating cycle, if longer. Microsoft Corp. inventories fluctuates but remains stable in the selected years.

### 4.3.2. Liabilities and Stockholders Equity

Table 5 - Liabilities and stockholders' equity

	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
Accounts payable	18,095	19,000	15,163	12,530	9,382	8,617
Current portion of long-term debt	5,247	2,749	8,072	3,749	5,516	3,998
Accrued compensation	11,009	10,661	10,057	7,874	6,830	6,103
Short-term income taxes	4,152	4,067	2,174	2,130	5,665	2,121
Short-term unearned revenue	50,901	45,538	41,525	36,000	32,676	28,905
Current finance lease liabilities	1,197	1,060	791	540	317	176
Other current liabilities, excluding finance leases	13,548	12,007	10,875	9,487	9,034	8,568
<b>Current liabilities</b>	<b>104,149</b>	<b>95,082</b>	<b>88,657</b>	<b>72,310</b>	<b>69,420</b>	<b>58,488</b>
Long-term debt, excluding current portion	41,990	47,032	50,074	59,578	66,662	72,242
Long-term income taxes	25,560	26,069	27,190	29,432	29,612	30,265
Long-term unearned revenue	2,912	2,870	2,616	3,180	4,530	3,815
Deferred income taxes	433	230	198	204	233	541
Long-term operating lease liabilities	12,728	11,489	9,629	7,671	6,188	5,568
Long-term finance lease liabilities	15,870	13,842	11,750	8,956	6,257	4,125
Other long-term liabilities, excluding finance leases	2,111	1,684	1,677	1,676	1,324	1,086
<b>Long-term liabilities</b>	<b>101,604</b>	<b>103,216</b>	<b>103,134</b>	<b>110,697</b>	<b>114,806</b>	<b>117,642</b>
<b>Total liabilities</b>	<b>205,753</b>	<b>198,298</b>	<b>191,791</b>	<b>183,007</b>	<b>184,226</b>	<b>176,130</b>
Common stock and paid-in capital	93,718	86,939	83,111	80,552	78,520	71,223
Retained earnings	118,848	84,281	57,055	34,566	24,150	13,682
Accumulated other comprehensive income (loss)	(6,343)	(4,678)	1,822	3,186	(340)	(2,187)
<b>Stockholders' equity</b>	<b>206,223</b>	<b>166,542</b>	<b>141,988</b>	<b>118,304</b>	<b>102,330</b>	<b>82,718</b>
<b>Total liabilities and stockholders' equity</b>	<b>411,976</b>	<b>364,840</b>	<b>333,779</b>	<b>301,311</b>	<b>286,556</b>	<b>258,848</b>

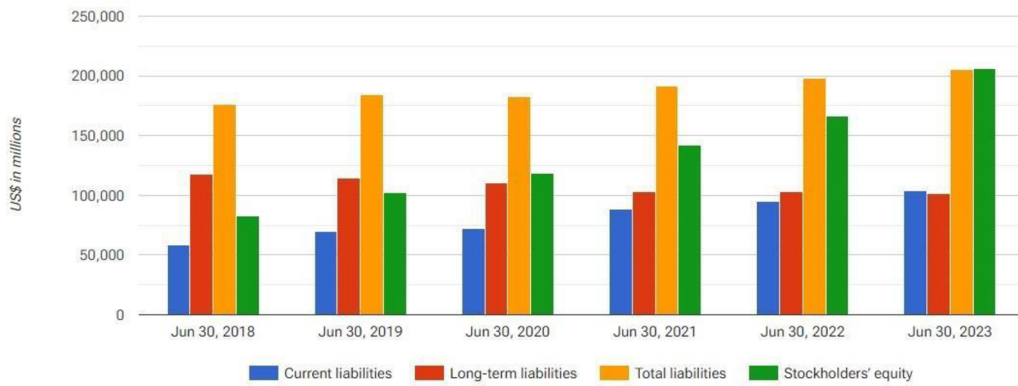
Source: (<https://www.stock-analysis-on.net/>, 2023)

**Current liabilities** - total commitments incurred as part of regular operations and anticipated to be paid within the next twelve months or one business cycle, whichever comes first. Microsoft Corp. current liabilities are rising from 2018 to 2023.

**Long-term liabilities** - Amount of obligation due after one year or beyond the normal operating cycle, if longer. Microsoft Corp. long-term liabilities are decreasing over the selected time frame.

**Total liabilities** - all recognized liabilities' carrying amounts as of the balance sheet date. ( expected future economic losses resulting from an entity's current commitments to transfer assets or deliver services to other entities in the future). Microsoft Corp. total liabilities are increasing.

Figure 4 - Liabilities and stockholders' equity



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

**Stockholders' equity** - all shareholders' equity items, minus receivables attributable to the parent from executives, directors, owners, and affiliates of the organization. This is frequently referred to as permanent equity since it excludes transient equity. Microsoft Corp. stockholders' equity is constantly increasing.

### 4.3.3. Income statement

Table 6 - : Income Statement

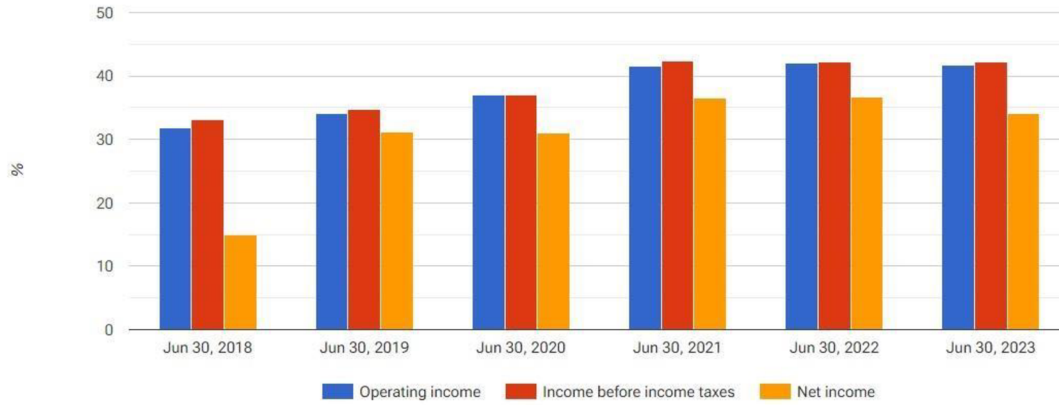
12 months ended:	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
Product	30.53%	36.68%	42.28%	47.58%	52.50%	58.44%
Service and other	69.47%	63.32%	57.72%	52.42%	47.50%	41.56%
<b>Revenue</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
Product	-8.40%	-9.62%	-10.84%	-11.20%	-12.93%	-13.97%
Service and other	-22.68%	-21.98%	-20.24%	-21.02%	-21.17%	-20.78%
<b>Cost of revenue</b>	<b>-31.08%</b>	<b>-31.60%</b>	<b>-31.07%</b>	<b>-32.22%</b>	<b>-34.10%</b>	<b>-34.75%</b>
<b>Gross margin</b>	<b>68.92%</b>	<b>68.40%</b>	<b>68.93%</b>	<b>67.78%</b>	<b>65.90%</b>	<b>65.25%</b>
Research and development	-12.83%	-12.36%	-12.32%	-13.47%	-13.41%	-13.34%
Sales and marketing	-10.74%	-11.01%	-11.97%	-13.70%	-14.47%	-15.83%
General and administrative	-3.57%	-2.98%	-3.04%	-3.57%	-3.88%	-4.31%
<b>Operating income</b>	<b>41.77%</b>	<b>42.06%</b>	<b>41.59%</b>	<b>37.03%</b>	<b>34.14%</b>	<b>31.77%</b>
Interest and dividends income	1.41%	1.06%	1.27%	1.87%	2.19%	2.01%
Interest expense	-0.93%	-1.04%	-1.40%	-1.81%	-2.13%	-2.48%
Net recognized gains on investments	0.12%	0.23%	0.73%	0.02%	0.51%	2.17%
Net gains (losses) on derivatives	-0.22%	-0.03%	0.01%	0.13%	0.11%	-0.17%
Net gains (losses) on foreign currency remeasurements	0.09%	-0.04%	0.03%	-0.13%	-0.07%	-0.20%
Other, net	-0.11%	-0.02%	0.06%	-0.03%	-0.05%	-0.05%
<b>Other income, net</b>	<b>0.37%</b>	<b>0.17%</b>	<b>0.71%</b>	<b>0.05%</b>	<b>0.58%</b>	<b>1.28%</b>
<b>Income before income taxes</b>	<b>42.14%</b>	<b>42.22%</b>	<b>42.30%</b>	<b>37.08%</b>	<b>34.72%</b>	<b>33.05%</b>
Provision for income taxes	-8.00%	-5.54%	-5.85%	-6.12%	-3.53%	-18.03%
<b>Net income</b>	<b>34.15%</b>	<b>36.69%</b>	<b>36.45%</b>	<b>30.96%</b>	<b>31.18%</b>	<b>15.02%</b>

Source: (<https://www.stock-analysis-on.net/>, 2023)

**Operating income** - Any costs related to maintaining the company, such as those for materials and electricity, can be categorized as operating expenditures. Payroll, amortization, and cost of goods supplied (COGS) are additional variables that are included. From 2019 to 2020 and from 2020 to 2021, Microsoft Corp. operating income as a proportion of sales grew.

**Income before income taxes** - is one of the subtotals used to show the revenue of an organization. It can be determined by subtracting the company's income from its expenses—taxes and interest excluded. running profit, running profits, or profit before interest and taxation are some other names for EBIT. Microsoft Corp. income before income taxes as a percentage of revenue was rising till 2022 and had slight decrease in the latest year 2023.

Figure 5 - Income Statement



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

**Net income** - Sales are subtracted from cost of products sold, marketing, general and administrative costs, running expenses, amortization, interest, taxes, and other expenditures to arrive at net income (NI), also known as net profits. Microsoft Corp. net income as a percentage of revenue decreased from 2019 to 2020 but then increased from 2020 to 2022 and dropped in 2023.

#### 4.3.4. Profitability

Table 7 - Profitability

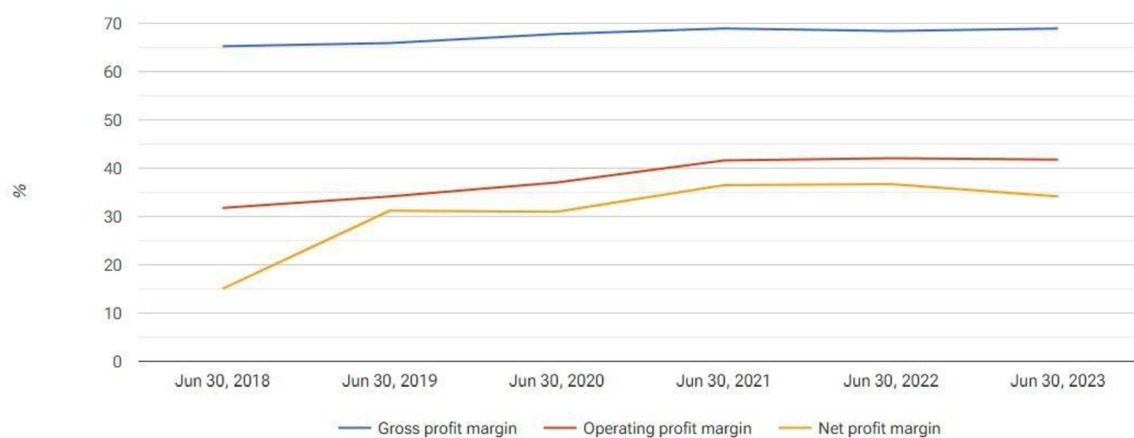
	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Return on Sales</b>						
Gross profit margin	68.92%	68.40%	68.93%	67.78%	65.90%	65.25%
Operating profit margin	41.77%	42.06%	41.59%	37.03%	34.14%	31.77%
Net profit margin	34.15%	36.69%	36.45%	30.96%	31.18%	15.02%
<b>Return on Investment</b>						
Return on equity (ROE)	35.09%	43.68%	43.15%	37.43%	38.35%	20.03%
Return on assets (ROA)	17.56%	19.94%	18.36%	14.70%	13.69%	6.40%

Source: (<https://www.stock-analysis-on.net/>, 2023)

**Gross profit margin** - The portion of a company's income that surpasses its manufacturing expenses is known as the gross profit margin. In other words, it's the portion of the sale price that is still available to cover administrative costs. Microsoft Corp. gross profit margin ratio improved during 2018-2023.

**Operating profit margin** - counts the amount of profit an organization gets on each dollar of sales, after fluctuating manufacturing expenses, such as labor and basic materials, but before debt or taxes. Microsoft Corp. operating profit margin ratio improved had a tendency to raise from 2018 to 2022 and decreased in 2023.

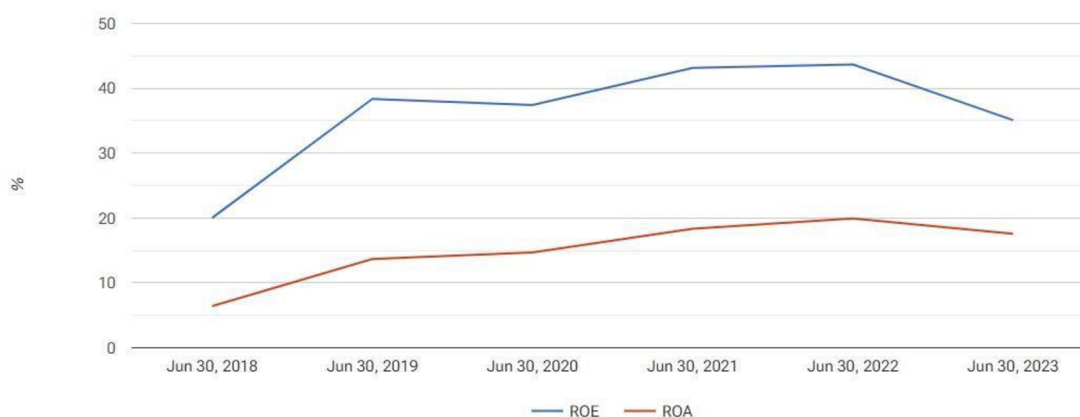
*Figure 6 - Profitability Ratio's*



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

**Net profit margin** - An indicator of profitability, calculated as net income divided by revenue. Microsoft Corp. net profit margin ratio deteriorated from 2019 to 2020 but then improved from 2020 2022 and dropped in 2023.

Figure 7 - Return on investment



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

The table above shows the rates of ROA and ROE of Microsoft corporation. It is seen that those indexes in total were improved over 6 years but the latest year had a decrease in the percentage.

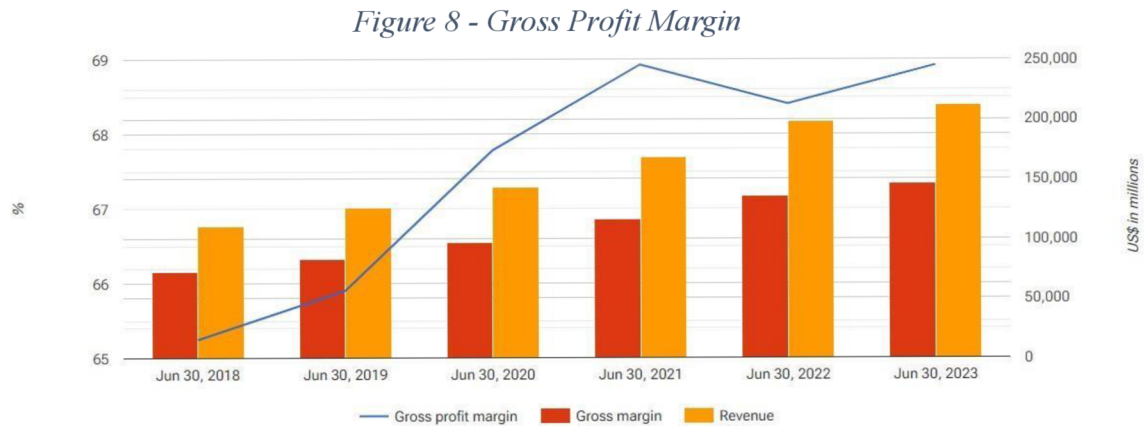
#### 4.3.5. Gross Profit Margin

Table 8 - Gross Profit Margin

	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Gross margin	146,052	135,620	115,856	96,937	82,933	72,007
Revenue	211,915	198,270	168,088	143,015	125,843	110,360
<b>Profitability Ratio</b>						
<b>Gross profit margin</b>	<b>68.92%</b>	<b>68.40%</b>	<b>68.93%</b>	<b>67.78%</b>	<b>65.90%</b>	<b>65.25%</b>
<b>Competitors indexes</b>						
<b>Gross Profit Margin, Competitors</b>						
Accenture PLC	32.34%	31.99%	32.38%	31.53%	30.81%	29.91%
Adobe Inc.	87.87%	87.70%	88.18%	86.62%	85.03%	86.77%
International Business Machines Corp.	55.45%	54.00%	54.90%	48.32%	47.30%	—
Intuit Inc.	78.13%	81.09%	82.53%	82.05%	82.80%	83.62%
Oracle Corp.	72.85%	79.08%	80.59%	79.68%	79.76%	79.71%
Palo Alto Networks Inc.	72.29%	68.76%	70.05%	70.68%	72.12%	71.61%
Salesforce Inc.	73.34%	73.48%	74.41%	75.23%	74.02%	—
ServiceNow Inc.	78.59%	78.29%	77.05%	78.16%	76.98%	—
Synopsys Inc.	79.08%	79.07%	79.50%	78.44%	77.60%	76.42%

Source: (<https://www.stock-analysis-on.net/>, 2023)

The table indicates that Microsoft Corporation's Gross Profit Margin has remained steady at around 68% for the past two years, indicating that the company's management has made appropriate decisions and maintained stability even in the face of the COVID-19 pandemic.



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

#### 4.3.6. Operating Profit Margin

*Table 9 - Operating profit Margin*

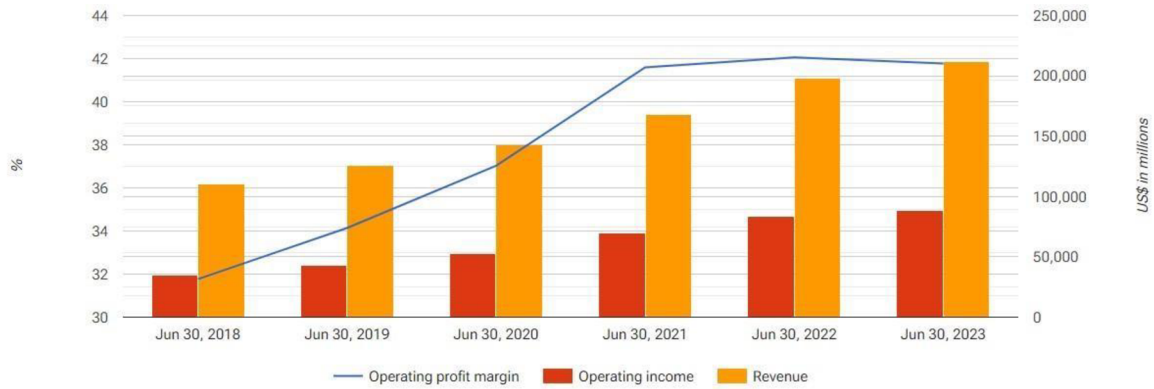
	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Operating income	88,523	83,383	69,916	52,959	42,959	35,058
Revenue	211,915	198,270	168,088	143,015	125,843	110,360
<b>Profitability Ratio</b>						
<b>Operating profit margin</b>	<b>41.77%</b>	<b>42.06%</b>	<b>41.59%</b>	<b>37.03%</b>	<b>34.14%</b>	<b>31.77%</b>
<b>Benchmarks</b>						
<b>Operating Profit Margin, Competitors</b>						
Accenture PLC	13.74%	15.21%	15.08%	14.69%	14.59%	14.04%
Adobe Inc.	34.26%	34.64%	36.76%	32.93%	29.25%	31.45%
International Business Machines Corp.	15.17%	13.50%	11.97%	9.22%	13.67%	—
Intuit Inc.	21.86%	20.20%	25.95%	28.34%	27.33%	25.10%
Oracle Corp.	26.21%	25.74%	37.58%	35.57%	34.26%	34.34%
Palo Alto Networks Inc.	5.62%	-3.43%	-7.15%	-5.25%	-1.87%	-5.68%
Salesforce Inc.	3.29%	2.07%	2.14%	1.74%	4.03%	—
ServiceNow Inc.	8.49%	4.90%	4.36%	4.40%	1.22%	—
Synopsys Inc.	21.72%	22.87%	17.48%	16.83%	15.48%	11.54%
<b>Operating Profit Margin, Sector</b>						
Software & Services	28.03%	27.98%	28.89%	25.05%	24.34%	—
<b>Operating Profit Margin, Industry</b>						
Information Technology	26.31%	28.45%	28.75%	24.95%	25.41%	—

Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)



Operating Profit Margin – is calculated as operating income divided by revenue. The graph below shows that Microsoft Corp. operating profit margin ratio is increasing from 2018 till 2023.

Figure 9 - Operating Profit Margin



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

. Operating profit margin =  $100 \times \text{Operating income} \div \text{Revenue} = 100 \times 88,523 \div 211,915 = 41.77\%$

### 4.3.7. Net Profit Margin

Table 10 - Operating Profit Margin

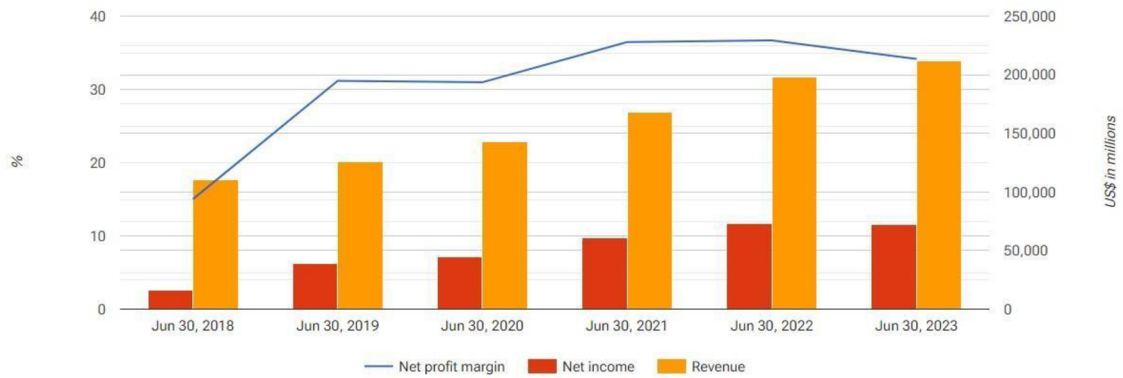
	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Net income	72,361	72,738	61,271	44,281	39,240	16,571
Revenue	211,915	198,270	168,088	143,015	125,843	110,360
<b>Profitability Ratio</b>						
<b>Net profit margin</b>	<b>34.15%</b>	<b>36.69%</b>	<b>36.45%</b>	<b>30.96%</b>	<b>31.18%</b>	<b>15.02%</b>
<b>Benchmarks</b>						
<b>Net Profit Margin, Competitors</b>						
Accenture PLC	10.72%	11.17%	11.69%	11.52%	11.06%	9.76%
Adobe Inc.	27.97%	27.01%	30.55%	40.88%	26.42%	28.69%
International Business Machines Corp.	12.13%	2.71%	10.01%	7.59%	12.22%	—
Intuit Inc.	16.59%	16.23%	21.41%	23.78%	22.95%	20.31%
Oracle Corp.	17.02%	15.83%	33.96%	25.94%	28.05%	9.60%
Palo Alto Networks Inc.	6.38%	-4.85%	-11.72%	-7.83%	-2.82%	-6.51%
Salesforce Inc.	0.66%	5.45%	19.16%	0.74%	8.36%	—
ServiceNow Inc.	19.30%	4.49%	3.90%	2.62%	18.11%	—
Synopsys Inc.	21.05%	19.38%	18.02%	18.03%	15.84%	13.86%
<b>Net Profit Margin, Sector</b>						
Software & Services	22.47%	22.24%	25.99%	20.85%	21.80%	—
<b>Net Profit Margin, Industry</b>						
Information Technology	22.13%	24.06%	25.54%	21.37%	22.17%	—

Source: (<https://www.stock-analysis-on.net/>, 2023)

Net profit margin =  $100 \times \text{Net income} \div \text{Revenue} = 100 \times 72,361 \div 211,915 = 34.15\%$

The calculation above – Net Profit Margin shows that Microsoft Corp. is on a healthy track since the result is 36.69%.

Figure 10 - Net Profit Margin



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

Net profit margin - An indicator of profitability, calculated as net income divided by revenue. The more capital the business has available to give to stockholders or spend in new possibilities, the greater the percentage. As a result, the net profit margin percentage is crucial in assessing the financial stability of a business. It is frequently used to evaluate companies operating in the same sector or to monitor a company's success over time. Microsoft Corp. net profit margin ratio improved from 2020 to 2022 and fell in 2023.

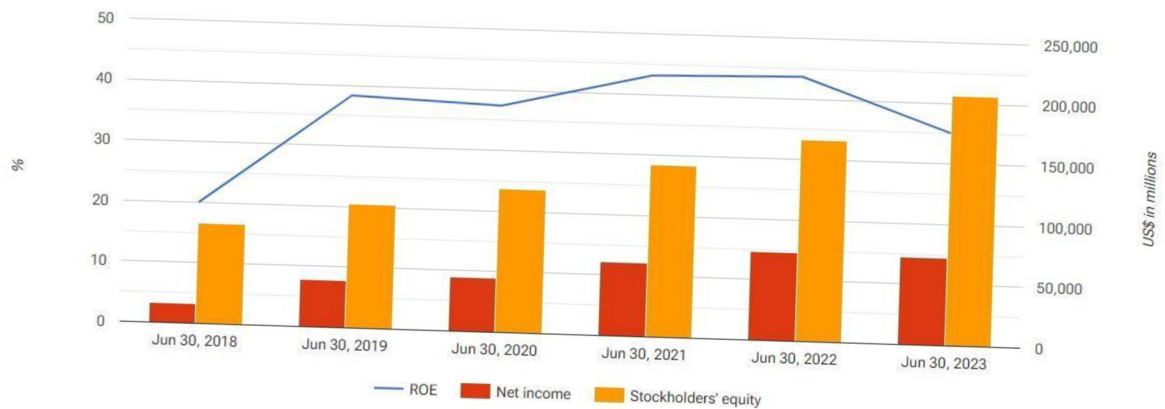
### 4.3.8. Return on Equity

Table 11 - Return on Equity

	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Net income	72,361	72,738	61,271	44,281	39,240	16,571
Stockholders' equity	206,223	166,542	141,988	118,304	102,330	82,718
<b>Profitability Ratio</b>						
<b>ROE</b>	<b>35.09%</b>	<b>43.68%</b>	<b>43.15%</b>	<b>37.43%</b>	<b>38.35%</b>	<b>20.03%</b>
<b>Benchmarks</b>						
<b>ROE, Competitors</b>						
Accenture PLC	26.75%	31.11%	30.25%	30.05%	33.17%	39.17%
Adobe Inc.	32.86%	33.85%	32.59%	39.66%	28.03%	27.67%
International Business Machines Corp.	33.29%	7.47%	30.38%	27.14%	45.25%	—
Intuit Inc.	13.81%	12.57%	20.89%	35.76%	41.53%	51.44%
Oracle Corp.	792.45%	—	262.43%	83.94%	50.87%	8.37%
Palo Alto Networks Inc.	25.15%	-127.14%	-78.63%	-24.23%	-5.16%	-15.30%
Salesforce Inc.	0.36%	2.48%	9.81%	0.37%	7.11%	—
ServiceNow Inc.	22.69%	6.46%	6.22%	4.18%	29.45%	—
Synopsys Inc.	20.01%	17.85%	14.31%	13.54%	13.04%	12.43%
<b>ROE, Sector</b>						
Software & Services	29.37%	32.03%	37.53%	31.80%	36.15%	—
<b>ROE, Industry</b>						
Information Technology	31.94%	38.70%	42.55%	35.28%	36.69%	—

Source: (<https://www.stock-analysis-on.net/>, 2023)

Figure 11 - Return on Equity



Source: Own calculation (<https://www.stock-analysis-on.net/>, 2023)

ROE - A profitability that shows how much profit company can generate for each dollar of equity it owns. The Graf above shows that ROE improved on whole time frame .This is definitely positive increase since the approximate “good” level of ROE is considered 15-20% and Microsoft Corp. almost doubled it in last years.

### 4.3.9. Return on Assets

Table 12 - Return on Assets

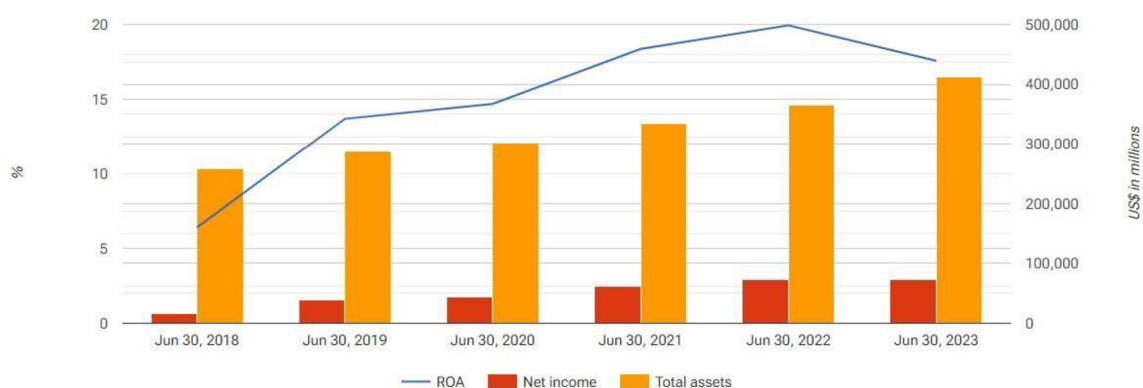
	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Net income	72,361	72,738	61,271	44,281	39,240	16,571
Total assets	411,976	364,840	333,779	301,311	286,556	258,848
<b>Profitability Ratio</b>						
<b>ROA</b>	<b>17.56%</b>	<b>19.94%</b>	<b>18.36%</b>	<b>14.70%</b>	<b>13.69%</b>	<b>6.40%</b>
<b>Benchmarks</b>						
<b>ROA, Competitors</b>						
Accenture PLC	13.41%	14.55%	13.68%	13.78%	16.04%	16.61%
Adobe Inc.	18.23%	17.51%	17.70%	21.66%	14.22%	13.80%
International Business Machines Corp.	5.55%	1.29%	4.35%	3.58%	6.20%	—
Intuit Inc.	8.58%	7.45%	13.29%	16.70%	24.78%	23.39%
Oracle Corp.	6.33%	6.15%	10.48%	8.78%	10.20%	2.79%
Palo Alto Networks Inc.	3.03%	-2.18%	-4.87%	-2.95%	-1.24%	-2.54%
Salesforce Inc.	0.21%	1.52%	6.14%	0.23%	3.61%	—
ServiceNow Inc.	9.96%	2.44%	2.13%	1.36%	10.41%	—
Synopsys Inc.	11.90%	10.45%	8.66%	8.27%	8.31%	7.04%
<b>ROA, Sector</b>						
Software & Services	11.45%	11.67%	12.60%	10.03%	10.89%	—
<b>ROA, Industry</b>						
Information Technology	13.10%	15.14%	15.64%	12.15%	12.81%	—

Source: (<https://www.stock-analysis-on.net/>, 2023)

$$\text{ROA} = 100 \times \text{Net income} \div \text{Total assets} = 100 \times 72,361 \div 411,976 = 17.56\%$$

ROA - A profitability ratio calculated as net income divided by total assets. The table above gives information regarding Microsoft Corp. ROA – it is improved from 2020 to 2021 and from 2021 to 2022. With approximately acceptable level of ROA to be – 5% Microsoft Corp has 17.56% the last year and tendency of slow increase over last year. This means that the company is on a good track and that the company and management are using companies resources well and wisely.

Figure 12 - Return on Assets



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

#### 4.3.10. Liquidity

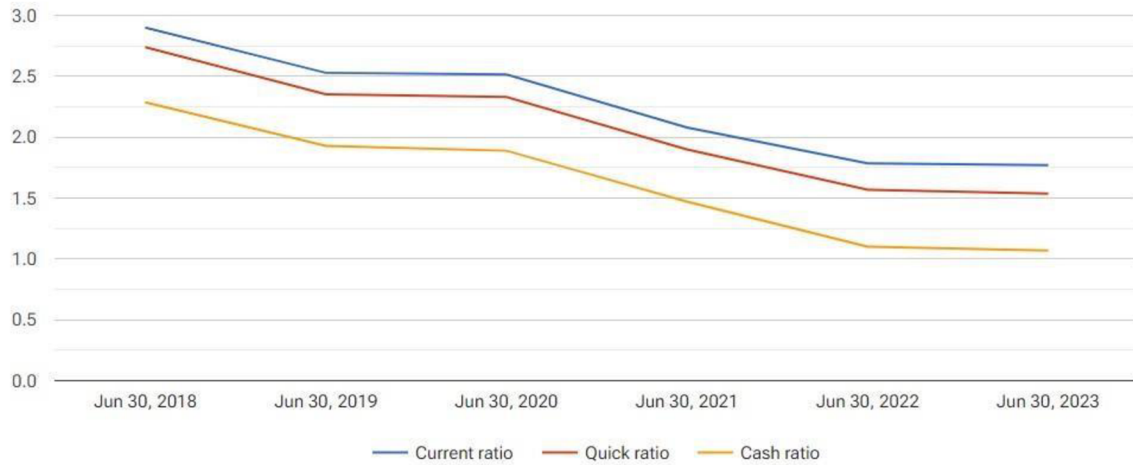
Table 13 - Liquidity ratios

	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
Current ratio	1.77	1.78	2.08	2.52	2.53	2.90
Quick ratio	1.54	1.57	1.90	2.33	2.35	2.74
Cash ratio	1.07	1.10	1.47	1.89	1.93	2.29

Source: (<https://www.stock-analysis-on.net/>, 2023)

There are a variety of measures that can be analyzed, and they all compare cash assets to short-term obligations. The current ratio, fast ratio, and liquidity ratio are the financial measures that are most frequently used. These measures evaluate a company's general health based on its capacity to pay off debt in the short term. A company's capacity to settle its financial commitments is referred to as its liquidity percentage. Anything above 1 is a healthy cash percentage. It shows that the business is financially sound and less likely to experience financial difficulties. The safety cushion that the company has to cover its present obligations increases as the percentage rises. A frequent tool used by debtors and financiers is the cash percentage.

Figure 13 - Liquidity ratios



Source: Own calculation (<https://www.stock-analysis-on.net>, 2023)

#### 4.3.10.1. Current Ratio

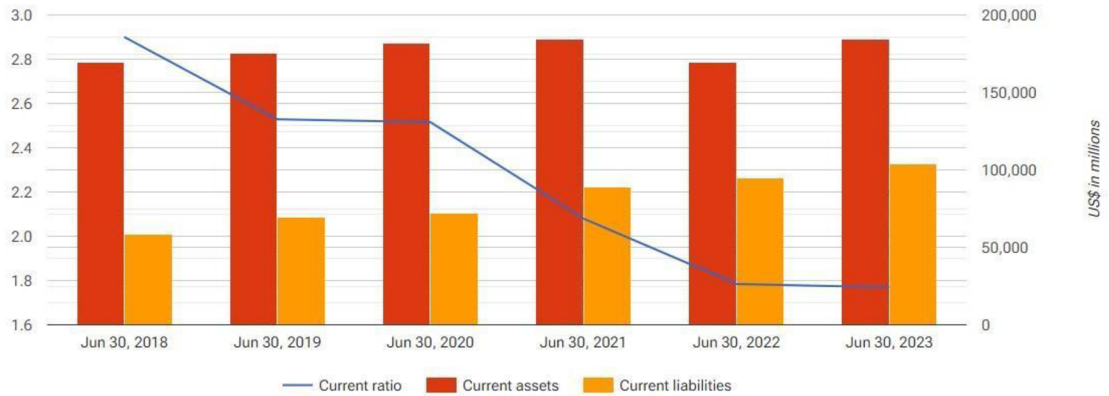
Table 14 - Current Ratio

	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Current assets	184,257	169,684	184,406	181,915	175,552	169,662
Current liabilities	104,149	95,082	88,657	72,310	69,420	58,488
<b>Liquidity Ratio</b>						
<b>Current ratio</b>	<b>1.77</b>	<b>1.78</b>	<b>2.08</b>	<b>2.52</b>	<b>2.53</b>	<b>2.90</b>
<b>Benchmarks</b>						
<b>Current Ratio, Competitors</b>						
Accenture PLC	1.30	1.23	1.25	1.40	1.40	1.34
Adobe Inc.	1.34	1.11	1.25	1.48	0.79	1.13
International Business Machines Corp.	0.96	0.92	0.88	0.98	1.02	—
Intuit Inc.	1.47	1.39	1.94	2.26	1.83	1.14
Oracle Corp.	0.91	1.62	2.30	3.03	2.49	3.96
Palo Alto Networks Inc.	0.78	0.77	0.91	1.91	1.78	1.93
Salesforce Inc.	1.02	1.05	1.23	1.08	0.95	—
ServiceNow Inc.	1.06	1.11	1.05	1.21	1.03	—
Synopsys Inc.	1.15	1.09	1.16	1.19	0.99	0.73
<b>Current Ratio, Sector</b>						
Software & Services	1.37	1.42	1.67	1.92	1.85	—
<b>Current Ratio, Industry</b>						
Information Technology	1.46	1.44	1.64	1.85	1.77	—

Source: (<https://www.stock-analysis-on.net/>, 2023)

Current ratio = Current assets ÷ Current liabilities= 184,257 ÷ 104,149 = 1.77

Figure 14 - Current Ratio



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

Current ratio - Industry-specific standards for acceptable current rates range between 1 and 3 for thriving companies. The business is better able to meet its responsibilities if its current ratio is greater. If the percentage is less than 1, it is likely that the business would be unable to settle its debts if they became owing at that time. There are many methods to obtain funding, so while this indicates the company's financial health is not good, it does not inevitably mean it will go insolvent. Nonetheless, it is undoubtedly not a positive indication. The figure above shows that Current ratio index of Microsoft Corp. is withing healthy borders even with decrease over last years.



### 4.3.10.2. Quick Ratio

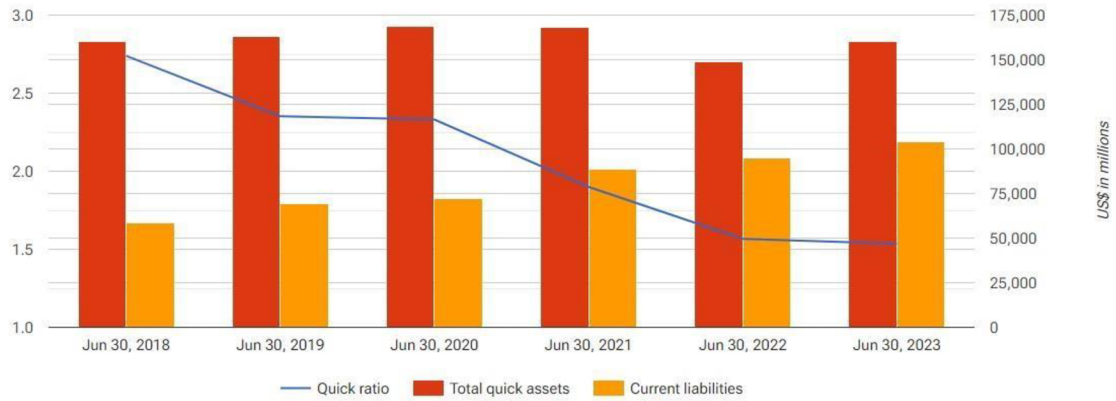
Table 15 - Quick Ratio

	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Cash and cash equivalents	34,704	13,931	14,224	13,576	11,356	11,946
Short-term investments	76,558	90,826	116,110	122,951	122,463	121,822
Accounts receivable, net of allowance for doubtful accounts	48,688	44,261	38,043	32,011	29,524	26,481
<b>Total quick assets</b>	<b>159,950</b>	<b>149,018</b>	<b>168,377</b>	<b>168,538</b>	<b>163,343</b>	<b>160,249</b>
Current liabilities	104,149	95,082	88,657	72,310	69,420	58,488
<b>Liquidity Ratio</b>						
<b>Quick ratio</b>	<b>1.54</b>	<b>1.57</b>	<b>1.90</b>	<b>2.33</b>	<b>2.35</b>	<b>2.74</b>
<b>Benchmarks</b>						
<b>Quick Ratio, Competitors</b>						
Accenture PLC	1.18	1.12	1.14	1.29	1.29	1.24
Adobe Inc.	1.22	1.00	1.11	1.34	0.70	1.06
International Business Machines Corp.	0.80	0.73	0.67	0.83	0.87	—
Intuit Inc.	1.25	1.17	1.65	2.04	1.44	0.86
Oracle Corp.	0.74	1.43	2.15	2.83	2.31	3.78
Palo Alto Networks Inc.	0.72	0.75	0.88	1.85	1.72	1.81
Salesforce Inc.	0.90	0.93	1.11	0.95	0.82	—
ServiceNow Inc.	1.00	1.06	1.01	1.16	0.98	—
Synopsys Inc.	0.85	0.85	0.89	0.94	0.73	0.61
<b>Quick Ratio, Sector</b>						
Software & Services	1.19	1.25	1.51	1.76	1.69	—
<b>Quick Ratio, Industry</b>						
Information Technology	1.17	1.15	1.38	1.60	1.55	—

Source: (<https://www.stock-analysis-on.net/>, 2023)

Quick ratio = Total quick assets ÷ Current liabilities = 159,950 ÷ 104,149 = 1.54

Figure 15 - Quick Ratio



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

Quick ratio - Evidently, the company benefits from a larger current percentage. The ideal current ratio for a company is between 1.2 and 2. If the current ratio is less than 1, the company's cash assets are insufficient to pay its current obligations. A number of 1:1 means that current bills and assets are identical, and the company can just about meet all of its short-term commitments. The graph above shows that the Quick ratio through last years have been decreasing, nevertheless the company index is still considered good – healthy.

### 4.3.10.3. Cash Ratio

Table 16 - Cash Ratio

	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Cash and cash equivalents	34,704	13,931	14,224	13,576	11,356	11,946
Short-term investments	76,558	90,826	116,110	122,951	122,463	121,822
<b>Total cash assets</b>	<b>111,262</b>	<b>104,757</b>	<b>130,334</b>	<b>136,527</b>	<b>133,819</b>	<b>133,768</b>
Current liabilities	104,149	95,082	88,657	72,310	69,420	58,488
<b>Liquidity Ratio</b>						
<b>Cash ratio</b>	<b>1.07</b>	<b>1.10</b>	<b>1.47</b>	<b>1.89</b>	<b>1.93</b>	<b>2.29</b>
<b>Benchmarks</b>						
<b>Cash Ratio, Competitors</b>						
Accenture PLC	0.50	0.45	0.52	0.67	0.55	0.50
Adobe Inc.	0.95	0.75	0.84	1.09	0.51	0.75
International Business Machines Corp.	0.39	0.28	0.22	0.36	0.24	—
Intuit Inc.	0.97	0.90	1.46	2.00	1.39	0.81
Oracle Corp.	0.44	1.12	1.93	2.50	2.03	3.50
Palo Alto Networks Inc.	0.31	0.44	0.57	1.39	1.37	1.59
Salesforce Inc.	0.48	0.48	0.67	0.54	0.39	—
ServiceNow Inc.	0.66	0.71	0.67	0.83	0.61	—
Synopsys Inc.	0.53	0.56	0.65	0.58	0.42	0.34
<b>Cash Ratio, Sector</b>						
Software & Services	0.75	0.81	1.10	1.33	1.23	—
<b>Cash Ratio, Industry</b>						
Information Technology	0.75	0.72	0.96	1.19	1.11	—

Source: (<https://www.stock-analysis-on.net/>, 2023)

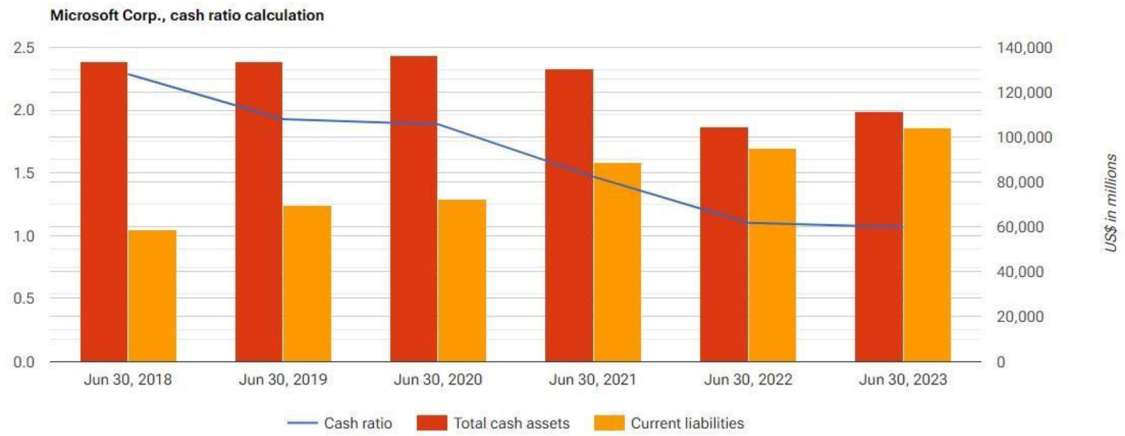
Cash ratio = Total cash assets ÷ Current liabilities = 111,262 ÷ 104,149 = 1.07

Cash Ratio - The company has exactly the right quantity of cash and cash substitutes to pay off the obligations if the cash ratio is identical to 1. There isn't enough currency on hand to pay off short-term obligations if the liquidity percentage is less than 1.

A firm can pay off all of its short-term obligations and still have cash on hand if its liquidity ratio is higher than 1. A larger percentage, however, might also mean that the available cash is not being used effectively because it might be used to make money-making assets rather than collecting income at risk-free rates. The Graph below shows that the Cash Ratio decreased through the last years and now the index is 1.07 what means that the company is still able to pay off all short term obligation and have

some cash on hand and the same index shows that the resources of company are used effectively for ‘money-making’ assets.

Figure 16 – Cash Ratio



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

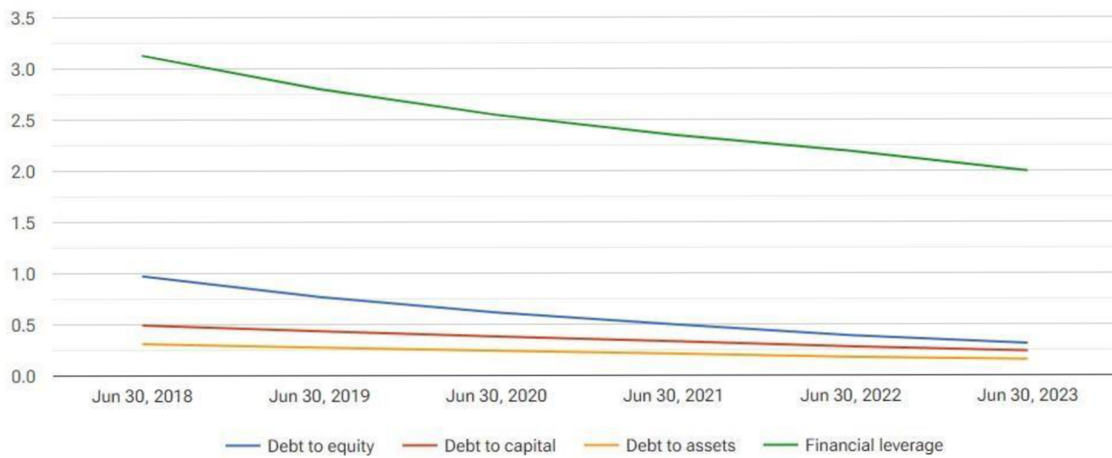
### 4.3.11. Leverage ratio

Table 17 – Leverage Ratio

	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Debt Ratios</b>						
Debt to equity	0.31	0.39	0.50	0.62	0.77	0.97
Debt to equity (including operating lease liability)	0.39	0.47	0.58	0.69	0.84	1.06
Debt to capital	0.24	0.28	0.33	0.38	0.43	0.49
Debt to capital (including operating lease liability)	0.28	0.32	0.37	0.41	0.46	0.51
Debt to assets	0.16	0.18	0.21	0.24	0.27	0.31
Debt to assets (including operating lease liability)	0.19	0.21	0.25	0.27	0.30	0.34
Financial leverage	2.00	2.19	2.35	2.55	2.80	3.13
<b>Coverage Ratios</b>						
Interest coverage	46.38	41.58	31.31	21.47	17.27	14.35
Fixed charge coverage	19.44	19.50	16.90	12.44	10.94	9.45

Source: (<https://www.stock-analysis-on.net/>, 2023)

Figure 17 – Leverage Ratio



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

**Leverage Ratio** - Companies with various asset types are compared using the financial debt ratio.

Since they depend more on loaned money than on their own financial flow, companies with a high percentage of debt can be seen as riskier than companies with lower amounts of debt. A company's use

of debt to fund its assets is quantified by a financial leverage percentage. The more debt a business has on its financial sheet, the greater the percentage. A business has less power the smaller the percentage. A business is using a reasonable quantity of debt to fund its assets if its financial leverage ratio is 1.5. A low leverage percentage means the business is funding its assets entirely with stock and no loans.

#### 4.3.11.1. Financial Leverage

Table 18 - Financial Leverage

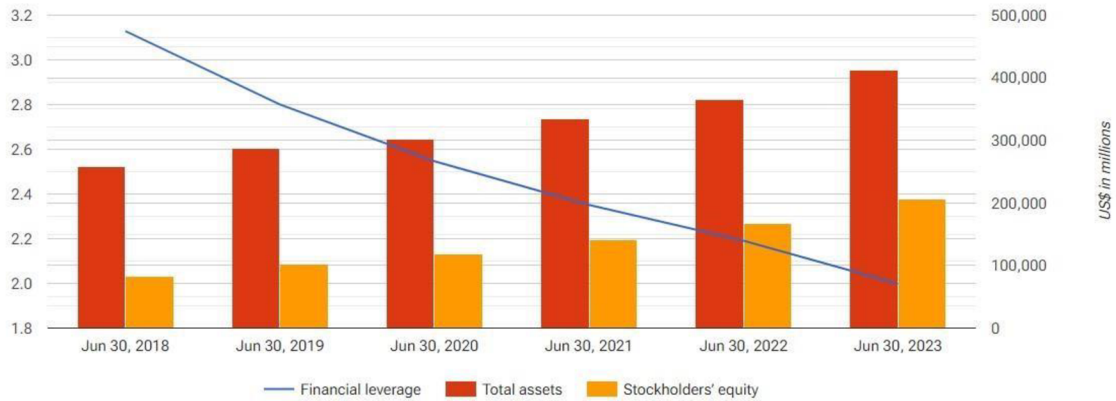
	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Total assets	411,976	364,840	333,779	301,311	286,556	258,848
Stockholders' equity	206,223	166,542	141,988	118,304	102,330	82,718
<b>Solvency Ratio</b>						
<b>Financial leverage</b>	<b>2.00</b>	<b>2.19</b>	<b>2.35</b>	<b>2.55</b>	<b>2.80</b>	<b>3.13</b>
<b>Benchmarks</b>						
<b>Financial Leverage, Competitors</b>						
Accenture PLC	1.99	2.14	2.21	2.18	2.07	2.36
Adobe Inc.	1.80	1.93	1.84	1.83	1.97	2.00
International Business Machines Corp.	6.00	5.80	6.98	7.57	7.30	—
Intuit Inc.	1.61	1.69	1.57	2.14	1.68	2.20
Oracle Corp.	125.24	—	25.03	9.56	4.99	3.00
Palo Alto Networks Inc.	8.29	58.35	16.14	8.23	4.16	6.03
Salesforce Inc.	1.69	1.64	1.60	1.63	1.97	—
ServiceNow Inc.	2.28	2.64	2.92	3.07	2.83	—
Synopsys Inc.	1.68	1.71	1.65	1.64	1.57	1.77
<b>Financial Leverage, Sector</b>						
Software & Services	2.56	2.74	2.98	3.17	3.32	—
<b>Financial Leverage, Industry</b>						
Information Technology	2.44	2.56	2.72	2.90	2.86	—

Source: (<https://www.stock-analysis-on.net/>, 2023)

Financial leverage is a scale that is used to assess the value of a single share that is finding out how much profit is generated from debts which profits relative to equity.

$$\text{Financial leverage} = \text{Total Assets} / \text{Stockholders equity} = 411,976 / 206,223 = 2$$

Figure 18 - Financial Leverage



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

#### 4.3.12. Debt to Equity

Table 19 - Debt to Equity

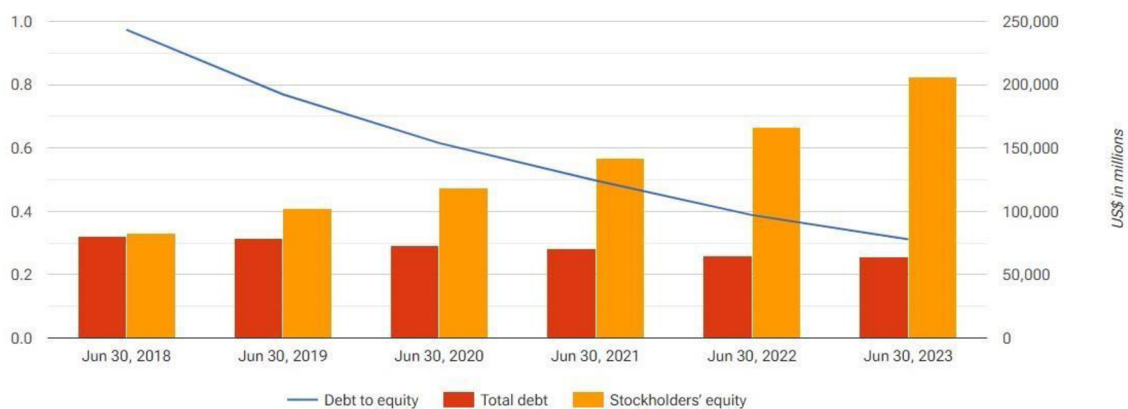
	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Current portion of long-term debt	5,247	2,749	8,072	3,749	5,516	3,998
Current finance lease liabilities	1,197	1,060	791	540	317	176
Long-term debt, excluding current portion	41,990	47,032	50,074	59,578	66,662	72,242
Long-term finance lease liabilities	15,870	13,842	11,750	8,956	6,257	4,125
<b>Total debt</b>	<b>64,304</b>	<b>64,683</b>	<b>70,687</b>	<b>72,823</b>	<b>78,752</b>	<b>80,541</b>
Stockholders' equity	206,223	166,542	141,988	118,304	102,330	82,718
<b>Solvency Ratio</b>						
<b>Debt to equity</b>	<b>0.31</b>	<b>0.39</b>	<b>0.50</b>	<b>0.62</b>	<b>0.77</b>	<b>0.97</b>
<b>Benchmarks</b>						
<b>Debt to Equity, Competitors</b>						
Accenture PLC	0.01	—	—	—	—	—
Adobe Inc.	0.22	0.29	0.28	0.31	0.39	0.44
International Business Machines Corp.	2.51	2.32	2.74	2.99	3.02	—
Intuit Inc.	0.35	0.42	0.21	0.66	0.12	0.19
Oracle Corp.	84.33	—	16.08	5.93	2.58	1.33
Palo Alto Networks Inc.	1.14	17.51	5.08	2.80	0.90	1.99
Salesforce Inc.	0.20	0.19	0.07	0.09	0.22	—
ServiceNow Inc.	0.20	0.30	0.43	0.58	0.33	—
Synopsys Inc.	—	—	0.02	0.03	0.03	0.13
<b>Debt to Equity, Sector</b>						
Software & Services	0.65	0.72	0.84	0.97	1.06	—
<b>Debt to Equity, Industry</b>						
Information Technology	0.63	0.67	0.77	0.88	0.88	—

Source: (<https://www.stock-analysis-on.net/>, 2023)

Debt to equity = Total debt ÷ Stockholders' equity = 64,304 ÷ 206,223 = 0.31

The sector and type of company have a big impact on what analysts and business executives view as a decent percentage. The majority of analysts believe that a debt-to-equity number larger than 2.0 indicates a bigger risk. A number below 1.0 is regarded by business executives as a reasonably secure danger. A smaller percentage may be viewed favourably by lenders as an indication of sound finances, but if it is too low, it may be interpreted negatively. A percentage that is too low can indicate that a business isn't utilizing available funding to support development and success.

Figure 19 - Debt to Equity



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)



### 4.3.13. Debt To Capital

Table 20 - Debt to Capital

	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Current portion of long-term debt	5,247	2,749	8,072	3,749	5,516	3,998
Current finance lease liabilities	1,197	1,060	791	540	317	176
Long-term debt, excluding current portion	41,990	47,032	50,074	59,578	66,662	72,242
Long-term finance lease liabilities	15,870	13,842	11,750	8,956	6,257	4,125
<b>Total debt</b>	<b>64,304</b>	<b>64,683</b>	<b>70,687</b>	<b>72,823</b>	<b>78,752</b>	<b>80,541</b>
Operating lease liabilities (included in Other current liabilities)	2,409	2,228	1,962	1,616	1,515	1,399
Long-term operating lease liabilities	12,728	11,489	9,629	7,671	6,188	5,568
<b>Total debt (including operating lease liability)</b>	<b>79,441</b>	<b>78,400</b>	<b>82,278</b>	<b>82,110</b>	<b>86,455</b>	<b>87,508</b>
Stockholders' equity	206,223	166,542	141,988	118,304	102,330	82,718
<b>Total capital (including operating lease liability)</b>	<b>285,664</b>	<b>244,942</b>	<b>224,266</b>	<b>200,414</b>	<b>188,785</b>	<b>170,226</b>
<b>Solvency Ratio</b>						
<b>Debt to capital (including operating lease liability)</b>	<b>0.28</b>	<b>0.32</b>	<b>0.37</b>	<b>0.41</b>	<b>0.46</b>	<b>0.51</b>
<b>Benchmarks</b>						
<b>Debt to Capital (including Operating Lease Liability), Competitors</b>						
Accenture PLC	0.11	0.13	0.15	0.17	—	—
Adobe Inc.	0.20	0.25	0.24	0.26	0.28	0.31
International Business Machines Corp.	0.73	0.71	0.74	0.76	0.77	—
Intuit Inc.	0.28	0.31	0.20	0.42	0.10	0.16
Oracle Corp.	0.99	1.08	0.94	0.86	0.72	0.57
Palo Alto Networks Inc.	0.57	0.95	0.85	0.76	0.47	0.67
Salesforce Inc.	0.20	0.20	0.13	0.16	0.18	—
ServiceNow Inc.	0.23	0.31	0.37	0.43	0.35	—
Synopsys Inc.	0.10	0.11	0.11	0.12	0.03	0.12
<b>Debt to Capital (including Operating Lease Liability), Sector</b>						
Software & Services	0.43	0.45	0.49	0.52	0.53	—
<b>Debt to Capital (including Operating Lease Liability), Industry</b>						
Information Technology	0.41	0.42	0.46	0.49	0.47	—

Source: (<https://www.stock-analysis-on.net/>, 2023)

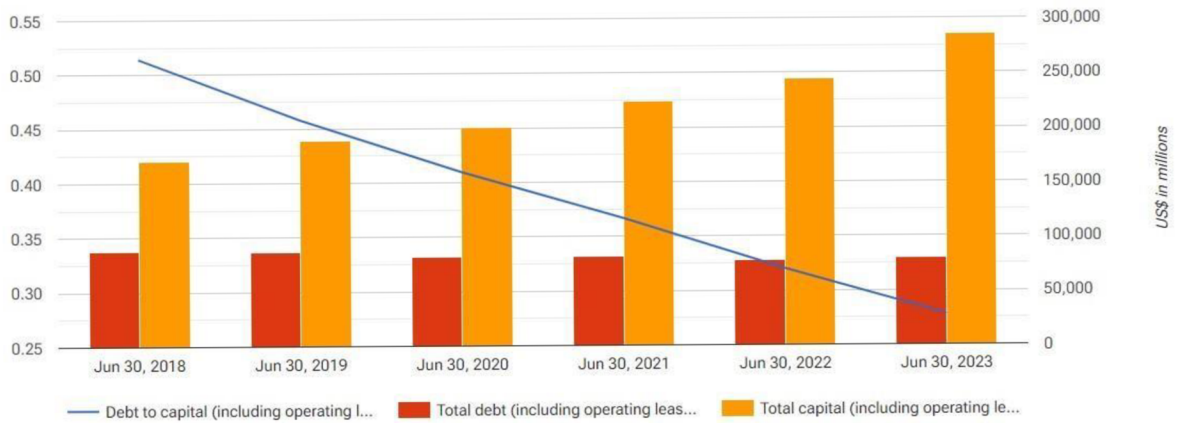
Debt to capital = Total debt ÷ Total capital = 79,441 ÷ 285,664 = 0.28

In general, the riskier it is for a company, the greater the debt-to-capital percentage. If the percentage is excessively high, it might mean that the company's profits are insufficient to pay off its obligations and other responsibilities.

However, if a company's debt-to-capital ratio is under 50%, it might be able to increase its future expenditures without using as much stock funding.

Additionally, because it can lower their tax cost, some companies decide to fund the majority of their activities with loans or other forms of debt. When compared to businesses that do not profit from these tax breaks, these ones should have a reduced debt-to-capital ratio.

Figure 20 - Debt to Capital



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

#### 4.3.14. Debt to assets

Table 21 - Debt to assets

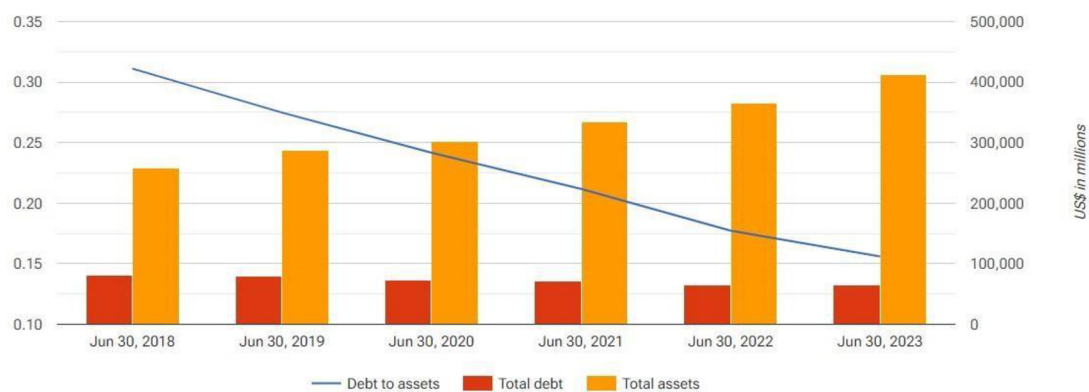
	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Current portion of long-term debt	5,247	2,749	8,072	3,749	5,516	3,998
Current finance lease liabilities	1,197	1,060	791	540	317	176
Long-term debt, excluding current portion	41,990	47,032	50,074	59,578	66,662	72,242
Long-term finance lease liabilities	15,870	13,842	11,750	8,956	6,257	4,125
<b>Total debt</b>	<b>64,304</b>	<b>64,683</b>	<b>70,687</b>	<b>72,823</b>	<b>78,752</b>	<b>80,541</b>
<b>Total assets</b>	<b>411,976</b>	<b>364,840</b>	<b>333,779</b>	<b>301,311</b>	<b>286,556</b>	<b>258,848</b>
<b>Solvency Ratio</b>						
<b>Debt to assets</b>	<b>0.16</b>	<b>0.18</b>	<b>0.21</b>	<b>0.24</b>	<b>0.27</b>	<b>0.31</b>
<b>Benchmarks</b>						
<b>Debt to Assets, Competitors</b>						
Accenture PLC	—	—	—	—	—	—
Adobe Inc.	0.12	0.15	0.15	0.17	0.20	0.22
International Business Machines Corp.	0.42	0.40	0.39	0.39	0.41	—
Intuit Inc.	0.22	0.25	0.13	0.31	0.07	0.08
Oracle Corp.	0.67	0.69	0.64	0.62	0.52	0.44
Palo Alto Networks Inc.	0.14	0.30	0.31	0.34	0.22	0.33
Salesforce Inc.	0.12	0.12	0.04	0.06	0.11	—
ServiceNow Inc.	0.09	0.11	0.15	0.19	0.12	—
Synopsys Inc.	—	—	0.01	0.02	0.02	0.08
<b>Debt to Assets, Sector</b>						
Software & Services	0.25	0.26	0.28	0.31	0.32	—
<b>Debt to Assets, Industry</b>						
Information Technology	0.26	0.26	0.28	0.30	0.31	—

Source: (<https://www.stock-analysis-on.net/>, 2023)

Debt to assets = Total debt ÷ Total assets = 64,304 ÷ 411,976 = 0.16

The type of company and the sector it operates in will determine what constitutes a decent loan percentage. Debt-to-equity or debt-to-assets ratios below 1.0 are typically regarded as reasonably secure, whereas ratios of 2.0 or greater are riskier. Debt-to-equity rates are notoriously much greater in some sectors than others, such as finance.

Figure 21 - Debt to assets



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

#### 4.3.15. Interest Coverage Ratio

Table 22 - Interest Coverage Ratio

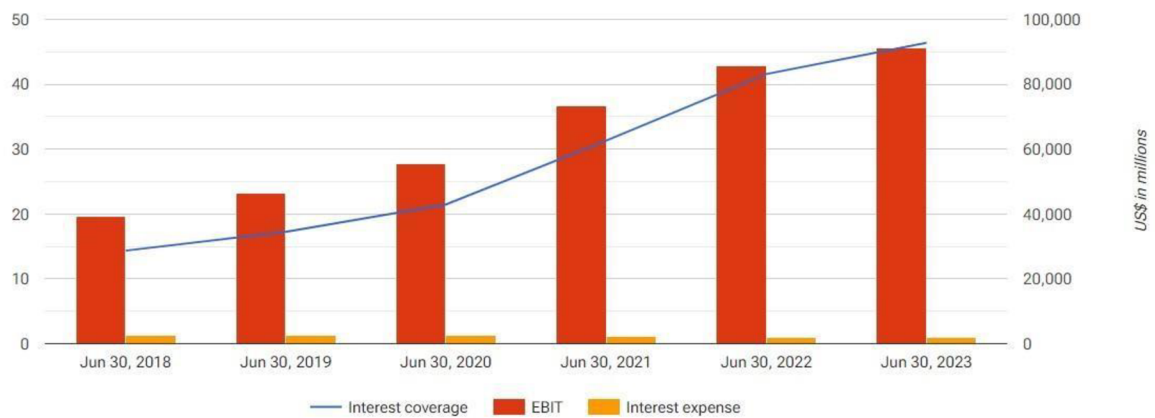
	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Net income	72,361	72,738	61,271	44,281	39,240	16,571
Add: Income tax expense	16,950	10,978	9,831	8,755	4,448	19,903
Add: Interest expense	1,968	2,063	2,346	2,591	2,686	2,733
<b>Earnings before interest and tax (EBIT)</b>	<b>91,279</b>	<b>85,779</b>	<b>73,448</b>	<b>55,627</b>	<b>46,374</b>	<b>39,207</b>
<b>Solvency Ratio</b>						
<b>Interest coverage</b>	<b>46.38</b>	<b>41.58</b>	<b>31.31</b>	<b>21.47</b>	<b>17.27</b>	<b>14.35</b>
<b>Benchmarks</b>						
<b>Interest Coverage, Competitors</b>						
Accenture PLC	193.31	195.34	131.46	205.84	273.26	298.26
Adobe Inc.	61.17	54.64	51.49	37.00	21.38	32.31
International Business Machines Corp.	6.42	1.97	5.20	4.62	8.58	—
Intuit Inc.	13.05	32.38	89.14	158.00	126.40	76.15
Oracle Corp.	3.65	3.84	6.28	7.13	6.97	7.43
Palo Alto Networks Inc.	21.82	-6.56	-1.85	-1.61	0.11	-3.40
Salesforce Inc.	3.30	8.09	24.28	7.42	8.80	—
ServiceNow Inc.	43.00	15.78	9.89	5.56	3.02	—
Synopsys Inc.	1,106.08	657.96	240.38	125.16	47.79	24.29
<b>Interest Coverage, Sector</b>						
Software & Services	17.58	18.31	17.65	14.44	13.06	—
<b>Interest Coverage, Industry</b>						
Information Technology	18.93	24.78	22.87	16.68	15.79	—

Source: (<https://www.stock-analysis-on.net/>, 2023)

$$\text{Interest coverage} = \text{EBIT} \div \text{Interest expense} = 91,279 \div 1,968 = 46.38$$

For a business with reliable, steady earnings, an interest payment percentage of at least - 2 is typically regarded as the lowest permissible level. A coverage ratio of - 3 or higher is what analysts desire to see. A business is not in excellent financial condition if its covering ratio is less than 1, which suggests that it cannot make its present interest payment commitments.

*Figure 22 - Interest Coverage Ratio*



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

### 4.3.16. Fixed Charge Coverage

Table 23 - Fixed Charge Coverage

	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Net income	72,361	72,738	61,271	44,281	39,240	16,571
Add: Income tax expense	16,950	10,978	9,831	8,755	4,448	19,903
Add: Interest expense	1,968	2,063	2,346	2,591	2,686	2,733
<b>Earnings before interest and tax (EBIT)</b>	<b>91,279</b>	<b>85,779</b>	<b>73,448</b>	<b>55,627</b>	<b>46,374</b>	<b>39,207</b>
Add: Operating lease cost	2,875	2,461	2,127	2,043	1,707	1,585
<b>Earnings before fixed charges and tax</b>	<b>94,154</b>	<b>88,240</b>	<b>75,575</b>	<b>57,670</b>	<b>48,081</b>	<b>40,792</b>
Interest expense	1,968	2,063	2,346	2,591	2,686	2,733
Operating lease cost	2,875	2,461	2,127	2,043	1,707	1,585
<b>Fixed charges</b>	<b>4,843</b>	<b>4,524</b>	<b>4,473</b>	<b>4,634</b>	<b>4,393</b>	<b>4,318</b>
<b>Solvency Ratio</b>						
<b>Fixed charge coverage</b>	<b>19.44</b>	<b>19.50</b>	<b>16.90</b>	<b>12.44</b>	<b>10.94</b>	<b>9.45</b>
<b>Benchmarks</b>						
<b>Fixed Charge Coverage, Competitors</b>						
Accenture PLC	10.98	12.25	10.41	9.66	10.07	9.63
Adobe Inc.	30.56	26.79	25.59	18.77	10.78	13.34
International Business Machines Corp.	4.32	1.52	3.13	2.62	4.41	—
Intuit Inc.	9.03	14.67	25.58	27.48	34.00	26.91
Oracle Corp.	3.12	3.22	5.17	5.68	5.50	6.38
Palo Alto Networks Inc.	7.20	-1.18	-1.09	-0.52	0.41	-1.01
Salesforce Inc.	1.52	2.18	2.94	1.69	3.00	—
ServiceNow Inc.	7.59	3.87	2.95	2.29	1.69	—
Synopsys Inc.	14.38	12.91	9.29	7.46	6.30	4.98
<b>Fixed Charge Coverage, Sector</b>						
Software & Services	9.66	9.60	9.43	7.69	7.58	—
<b>Fixed Charge Coverage, Industry</b>						
Information Technology	12.67	14.28	13.50	10.20	10.46	—

Source: (<https://www.stock-analysis-on.net/>, 2023)

Fixed charge coverage = Earnings before fixed charges and tax ÷ Fixed charges =

$$94,254 \div 4,843 = 19.44$$

The fixed-charge coverage ratio is regarded as a crucial financial metric because it demonstrates a company's capacity to meet its continuing debt commitments on time.

A business may be in financial trouble if it is unable to pay its debts. If the problem isn't fixed, the business might only be able to maintain its financial stability for a short while. Here is how to assess the FCCR value:

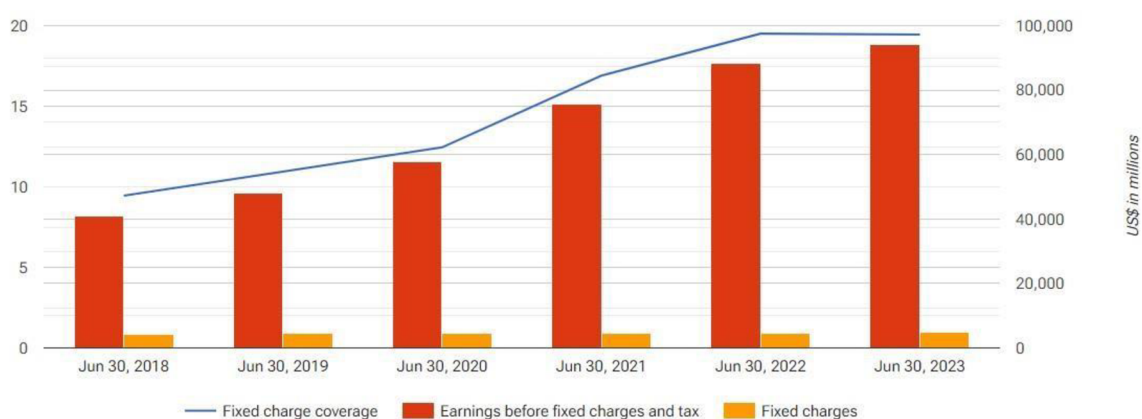
A FCCR of 2 (=2) indicates that the business can recover its fixed costs twice.

The business can only cover its yearly set costs if the FCCR is equivalent to 1 (=1). If the FCCR is less than 1 (1), the company's income is insufficient to pay its set costs.

Therefore, it is preferable if the fixed-charge covering percentage is greater. It determines whether a business generates enough income and cash flow to satisfy its normal financial responsibilities.

The FCCR is frequently used by lenders or experts to determine whether a company's cash movements are sufficient to cover its recurrent loan commitments and regular running costs.

Figure 23 - Fixed Charge Coverage



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

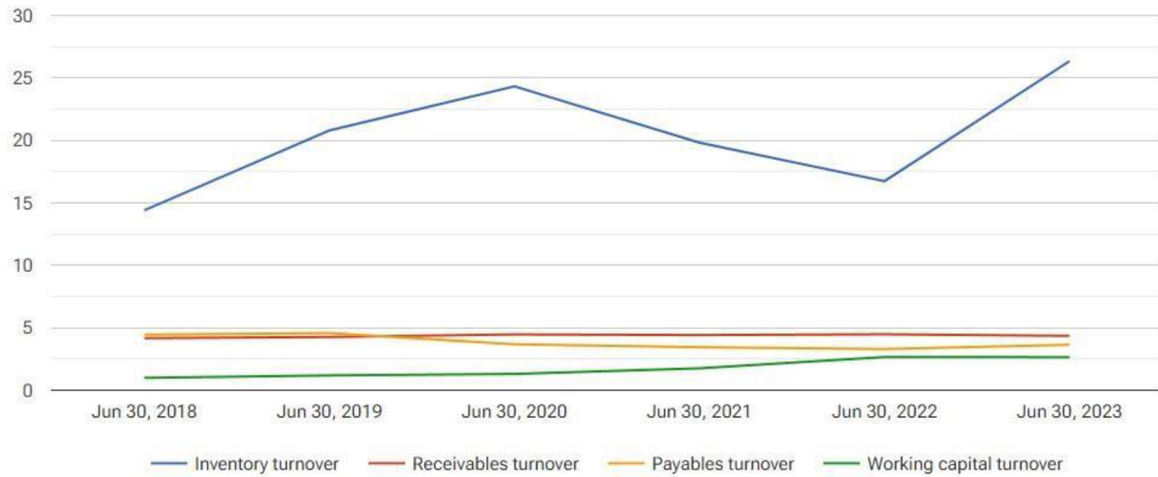
#### 4.3.17. Turnover Ratio

Table 24 - Turnover Ratios

	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Turnover Ratios</b>						
Inventory turnover	26.35	16.74	19.81	24.32	20.80	14.41
Receivables turnover	4.35	4.48	4.42	4.47	4.26	4.17
Payables turnover	3.64	3.30	3.44	3.68	4.57	4.45
Working capital turnover	2.65	2.66	1.76	1.30	1.19	0.99

Source: (<https://www.stock-analysis-on.net/>, 2023)

Figure 24 - Turnover Ratios



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

Before buying a mutual fund or other similar financial asset, it is crucial to take the stock rotation percentage into account because it has an impact on the investment yield of the fund. A low turnover ratio is generally preferred to a large turnover ratio. The justification is that engaging in transactions entails processing expenses. (buying and selling securities).

Additionally, greater capital gains taxes are more likely to be owed by funds with a higher stock change percentage. With everything else being equivalent, a stock with a greater turnover ratio will spend more than a fund with a smaller turnover ratio.



### 4.3.18. Inventory turnover

*Table 25 - Inventory Turnover*

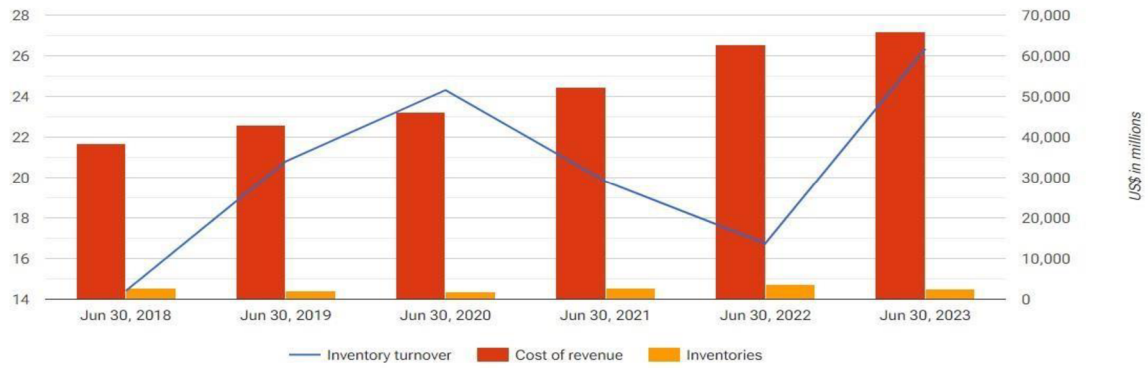
	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Cost of revenue	65,863	62,650	52,232	46,078	42,910	38,353
Inventories	2,500	3,742	2,636	1,895	2,063	2,662
<b>Short-term Activity Ratio</b>						
<b>Inventory turnover</b>	<b>26.35</b>	<b>16.74</b>	<b>19.81</b>	<b>24.32</b>	<b>20.80</b>	<b>14.41</b>
<b>Benchmarks</b>						
<b>Inventory Turnover, Competitors</b>						
International Business Machines Corp.	23.74	17.94	15.68	20.69	25.11	—
Oracle Corp.	45.52	28.27	55.32	37.62	24.98	20.30
Synopsys Inc.	3.75	5.02	3.76	4.13	5.32	6.01
<b>Inventory Turnover, Sector</b>						
Software & Services	39.51	27.01	28.48	32.03	31.40	—
<b>Inventory Turnover, Industry</b>						
Information Technology	7.30	8.07	9.69	10.29	10.44	—

Source: (<https://www.stock-analysis-on.net/>, 2023)

Inventory turnover = Cost of revenue ÷ Inventories =  $65,863 \div 2,500 = 26.35$

Since it shows that the business is successfully moving its goods swiftly and effectively, a high inventory turnover ratio is typically regarded as a good sign of efficiency and revenue. If the inventory turnover is less than 1, it will take longer than a year to sell all of the merchandise during the specified time. This might be a sign that company operations are struggling and that there is an excess of merchandise.

Figure 25 - Inventory turnover



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

#### 4.3.19. Receivables turnover

Table 26 - Receivables turnover

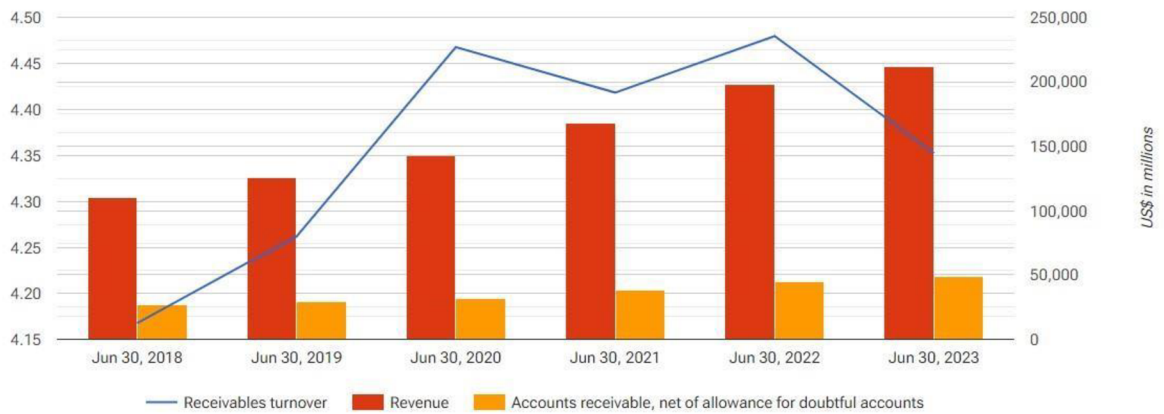
	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Revenue	211,915	198,270	168,088	143,015	125,843	110,360
Accounts receivable, net of allowance for doubtful accounts	48,688	44,261	38,043	32,011	29,524	26,481
<b>Short-term Activity Ratio</b>						
<b>Receivables turnover</b>	<b>4.35</b>	<b>4.48</b>	<b>4.42</b>	<b>4.47</b>	<b>4.26</b>	<b>4.17</b>
<b>Benchmarks</b>						
<b>Receivables Turnover, Competitors</b>						
Accenture PLC	6.00	5.87	5.74	6.16	5.79	8.33
Adobe Inc.	8.73	8.53	8.41	9.20	7.28	6.86
International Business Machines Corp.	8.57	9.25	8.49	10.32	9.80	—
Intuit Inc.	35.48	28.53	24.64	51.54	77.98	60.86
Oracle Corp.	7.22	7.13	7.48	7.04	7.69	7.55
Palo Alto Networks Inc.	2.80	2.57	3.43	3.29	4.98	4.86
Salesforce Inc.	2.92	2.72	2.73	2.77	2.70	—
ServiceNow Inc.	4.41	4.20	4.24	4.48	4.14	—
Synopsys Inc.	6.17	6.38	7.40	4.72	6.07	5.63
<b>Receivables Turnover, Sector</b>						
Software & Services	5.14	5.20	5.22	5.59	5.58	—
<b>Receivables Turnover, Industry</b>						
Information Technology	7.40	7.43	7.56	8.01	7.60	—

Source: (<https://www.stock-analysis-on.net/>, 2023)

Receivables turnover = Revenue ÷ Accounts receivable, net of allowance for doubtful accounts =  
 211,915 ÷ 48,688 = 4.35

Receivables turnover – 4.35 is a desirable accounts outstanding change percentage. Accordingly, a business will typically recover its accounts payable 4.35 times annually. A larger figure is preferable because it indicates that the business is recovering its accounts outstanding more rapidly. A low movement of accounts receivables (AR) suggests that a company's debts are not being handled successfully and that clients are not being paid on schedule.

Figure 26 - Receivables turnover



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

### 4.3.20. Payables turnover

Table 27 - Payables Turnover

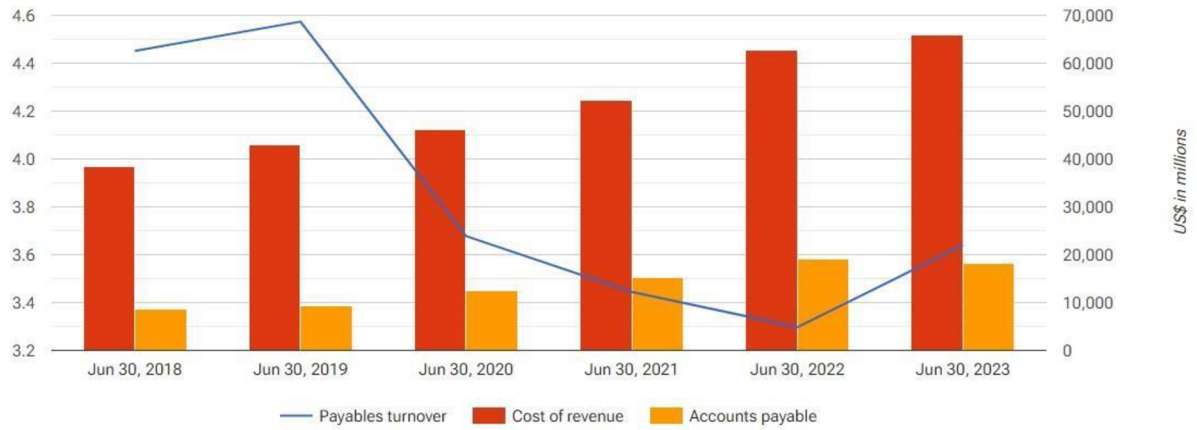
	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Cost of revenue	65,863	62,650	52,232	46,078	42,910	38,353
Accounts payable	18,095	19,000	15,163	12,530	9,382	8,617
<b>Short-term Activity Ratio</b>						
<b>Payables turnover</b>	<b>3.64</b>	<b>3.30</b>	<b>3.44</b>	<b>3.68</b>	<b>4.57</b>	<b>4.45</b>
<b>Benchmarks</b>						
<b>Payables Turnover, Competitors</b>						
Accenture PLC	17.41	16.37	15.03	22.48	18.16	21.62
Adobe Inc.	7.50	5.71	5.98	5.63	7.98	6.42
International Business Machines Corp.	6.67	6.87	6.54	7.75	8.30	—
Intuit Inc.	4.93	3.26	2.70	4.52	4.26	5.49
Oracle Corp.	11.27	6.74	10.54	12.46	13.78	15.28
Palo Alto Networks Inc.	14.43	13.43	22.41	15.72	11.03	13.06
Salesforce Inc.	—	—	—	—	—	—
ServiceNow Inc.	15.25	5.74	15.20	28.83	15.04	—
Synopsys Inc.	7.84	28.30	31.44	26.49	38.00	8.65
<b>Payables Turnover, Sector</b>						
Software & Services	6.20	5.52	5.70	6.57	7.59	—
<b>Payables Turnover, Industry</b>						
Information Technology	4.87	4.54	4.99	5.34	5.26	—

Source: (<https://www.stock-analysis-on.net/>, 2023)

$$\text{Payables turnover} = \text{Cost of revenue} \div \text{Accounts payable} = 65,863 \div 18,095 = 3.64$$

A high AP turnover percentage demonstrates to vendors and debtors that the business has the cash on hand to make regular payments and can be used to bargain for future credit terms. A high accounts receivable turnover percentage essentially denotes a high level of trustworthiness. A large AP change percentage isn't always a good thing, so keep that in mind. If the percentage is large and keeps increasing over time, it may indicate that a business isn't effectively controlling its cash flow. The optimal AP change percentage is high. It might be an indication that a business is having trouble making ends meet. A low percentage might discourage suppliers from providing lines of credit when they analyse a company's finances.

Figure 27 - Payables Turnover



Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

#### 4.3.21. Working capital turnover

Table 28 - Working Capital Turnover

	Jun 30, 2023	Jun 30, 2022	Jun 30, 2021	Jun 30, 2020	Jun 30, 2019	Jun 30, 2018
<b>Selected Financial Data (US\$ in millions)</b>						
Current assets	184,257	169,684	184,406	181,915	175,552	169,662
Less: Current liabilities	104,149	95,082	88,657	72,310	69,420	58,488
<b>Working capital</b>	<b>80,108</b>	<b>74,602</b>	<b>95,749</b>	<b>109,605</b>	<b>106,132</b>	<b>111,174</b>
Revenue	211,915	198,270	168,088	143,015	125,843	110,360
<b>Short-term Activity Ratio</b>						
<b>Working capital turnover</b>	<b>2.65</b>	<b>2.66</b>	<b>1.76</b>	<b>1.30</b>	<b>1.19</b>	<b>0.99</b>
<b>Benchmarks</b>						
<b>Working Capital Turnover, Competitors</b>						
Accenture PLC	11.93	15.07	12.77	8.71	9.85	12.12
Adobe Inc.	6.85	20.28	9.09	4.89	—	16.24
International Business Machines Corp.	—	—	—	—	107.30	—
Intuit Inc.	8.13	8.98	3.85	1.73	4.17	20.71
Oracle Corp.	—	3.50	1.29	1.12	1.42	0.70
Palo Alto Networks Inc.	—	—	—	1.40	1.80	1.14
Salesforce Inc.	62.21	24.95	5.11	15.29	—	—
ServiceNow Inc.	21.77	11.16	21.76	5.76	46.69	—
Synopsys Inc.	13.12	21.34	10.65	9.00	—	—
<b>Working Capital Turnover, Sector</b>						
Software & Services	5.49	4.82	2.78	2.17	2.33	—
<b>Working Capital Turnover, Industry</b>						
Information Technology	5.19	5.65	3.86	2.86	3.06	—

Source: Own calculation(<https://www.stock-analysis-on.net/>, 2023)

Working capital turnover = Revenue ÷ Working capital= 211,915 ÷ 80,108 = 2.65

A working capital ratio under one is typically interpreted as a sign of possible future liquidity issues, while a ratio between 1.5 and two is interpreted as a sign that a business is on stable financial footing in terms of liquidity.

A number that rises above two is not inherently thought to be superior. A significantly greater percentage may be a sign that a business is not effectively using its resources to maximize income. Unfavorable return on assets (ROA), one of the key revenue measures used to assess businesses, is represented by an excessively high working capital ratio.

#### 4.4. PESTLE Analysis

Microsoft Corporation's managers incorporate the PESTEL/PESTLE analysis model to understand the company's business situation. This model helps identify external factors that impact the macroenvironment of firms. For Microsoft, these external factors relate to the computer hardware and software market's performance, and they influence the company's business. By considering these issues identified through the PESTEL/PESTLE analysis, Microsoft can develop effective strategies to enhance its competitiveness and resilience.

#### **Political Factors**

Microsoft Corporation employs the PESTEL/PESTLE analysis model as a means of comprehending the external factors that influence the computer hardware and software market. These external factors are relevant issues that Microsoft must consider in order to enhance business competitiveness and resilience. Political factors, a component of the PESTEL/PESTLE analysis, take into account the business effects of the economic situation on the remote or macro-environment. In this area, Microsoft must strategically address the following economic external factors in the computer hardware and software industry environment:

Considerable economic stability of the majority of developed countries (opportunity)

High growth of developing countries (opportunity)

Growing middle-class disposable income (opportunity)

Microsoft stands to gain from the considerable economic stability of most developed countries, ensuring a stable performance in these markets. Additionally, the company has potential boosts in sales revenues in high-growth developing countries, leading to steady growth in global sales. The global rise of middle-class disposable income creates opportunities for Microsoft to generate higher revenues, given that middle-class customers are a significant source of revenue for the company. However, Microsoft must carefully strategize around these opportunities as highlighted in this section of the PESTEL/PESTLE analysis, to remain competitive and resilient in the industry.

### **Economic Factors**

This section of the PESTEL/PESTLE analysis model evaluates the impact of the economic situation on the remote or macro-environment of the business, and Microsoft's managers must consider the following economic external factors when developing strategies for the computer hardware and software industry:

Considerable economic stability in developed countries presents opportunities for Microsoft (opportunity).

High growth of developing countries also presents opportunities for Microsoft to increase its global sales (opportunity).

Growing middle-class disposable income is an opportunity for Microsoft to generate higher revenues (opportunity).

Microsoft can expect stable performance in developed countries due to the considerable economic stability in those markets, and can also benefit from the high growth rates of developing countries, which translate to steady growth in global sales. Additionally, the overall rise in middle-class disposable income presents opportunities for Microsoft to generate higher revenues as middle-class customers are significant sources of revenue. Microsoft's managers must strategically address these opportunities in the computer hardware and software industry environment, as highlighted in this section of the PESTEL/PESTLE analysis.

### **Social factors**

In this section of the PESTEL/PESTLE Analysis model, the focus is on how the social situation impacts Microsoft's remote or macro-environment, particularly in terms of customer behavior and expectations. In the computer technology market, the following sociocultural external factors influence Microsoft:

- 1) Stable attitudes towards leisure (opportunity)
- 2) Increasing cultural diversity (opportunity & threat)
- 3) Consistent demand for high-quality customer service (opportunity)

The stable attitudes towards leisure provide opportunities for Microsoft to develop products that meet customers' leisure preferences. For example, the company can increase its investment in developing computer gaming products to cater to this demand. However, increasing cultural diversity poses a potential threat to Microsoft in terms of a mismatch between its products and customers' cultural backgrounds in the remote or macro-environment. For instance, customer satisfaction could decline if the company's products only appeal to the largest cultural groups. Nevertheless, Microsoft can also seize the opportunity to improve its products and services to address this issue. Furthermore, the steady demand for high-quality customer service presents opportunities for the company to enhance its customer support activities. Thus, this area of the PESTEL/PESTLE analysis of Microsoft Corporation



highlights sociocultural external factors that present growth opportunities for the computer hardware and software business.

### **Technological factor**

This section of the PESTEL/PESTLE analysis model focuses on the impact of technology on the remote or macro-environment of the computer technology industry, and Microsoft must consider the following technological external factors in its strategies:

Opportunity:

Rapid adoption of mobile technology

Increasing automation in businesses Threat:

Rapid adoption of mobile technology

Increasing volume of online transactions

The rapid adoption of mobile technology presents both an opportunity and a threat to Microsoft's performance. On the one hand, the company can enhance its performance by rapidly innovating its mobile devices to meet the rising demand. On the other hand, this technological external factor could also pose a threat as it opens up opportunities for more technology firms to enter the market and compete with Microsoft.

Similarly, the increasing volume of online transactions provides opportunities for Microsoft to develop more products that support secure online transaction processing, but it also presents a threat of an increase in cybercrime attacks, which is a weakness identified in Microsoft's SWOT analysis.

Furthermore, the company can leverage the opportunity of increasing automation in businesses by developing products that enable businesses to automate more of their processes. As shown in this section of the PESTEL/PESTLE analysis, Microsoft has significant opportunities for growth, although the related threats could limit such opportunities in the remote or macro-environment.

### **Ecological Factor**

This section of the PESTEL/PESTLE Analysis model evaluates the influence of ecological factors on the computer hardware and software industry's remote or macro-environment. Microsoft must take into account the following ecological external factors:

- 1) Rising demand for environmentally friendly products (opportunity)
- 2) Increasing emphasis on business sustainability (opportunity)
- 3) Growing availability of recyclable materials (opportunity)

By tapping into the increasing demand for green products, Microsoft can enhance its environmental sustainability profile. For instance, the firm can develop more eco-friendly products and increase its use of renewable energy sources. Furthermore, Microsoft's efforts to enhance its sustainability profile align with the opportunity arising from the growing societal focus on business sustainability. Additionally, the growing availability of recyclable materials is an ecological external factor that the company can leverage by increasing the use of recycled materials in its computer hardware and software products and packaging. Thus, this aspect of the PESTEL/PESTLE analysis of Microsoft indicates various opportunities for gaining a competitive edge in the industry's remote or macro-environment.

### **Legal Factors**

This section of the PESTEL/PESTLE Analysis model examines the legal factors that impact the computer hardware and software industry. Microsoft faces the following legal external factors in its remote or macro-environment:

- 1) Increasing regulations on electronic waste disposal (opportunity & threat)
- 2) Improving patent laws (opportunity)
- 3) Regulations on energy consumption (opportunity)

Microsoft can seize the opportunity presented by increasing regulations on electronic waste disposal by implementing more effective recycling and disposal programs to improve its brand image. However, this legal factor is also a threat as it may pose additional challenges for the company in addressing the environmental impact of its business. On the other hand, Microsoft can benefit from improving patent laws which facilitate global growth by reducing issues like software piracy. Additionally, the company can enhance its products to help client organizations reduce their energy consumption through more energy-efficient computing technologies to comply with regulations on energy consumption. Based on this PESTEL/PESTLE analysis, Microsoft has opportunities for growth in its remote or macroenvironment despite potential threats posed by some legal external factors.

#### 4.5. SWOT Analysis

##### **Strength:**

- 1) Brand Loyalty - Microsoft has enjoyed unparalleled brand loyalty as the top OS and software provider, resulting in over 90% market share for PC OS. Users have grown up with its user-friendly operating system and are likely to continue using it, making it difficult for other brands, including free open source OS, to compete.
- 2) Brand Reputation - Microsoft's brand has been ranked as the world's 5th most valuable by Interbrand, with a value of \$57.8 billion. Forbes has also recognized the corporation as the 7th most

reputable business globally. Such a strong brand reputation translates into higher sales and greater market share.

3) User easy software - Windows OS and Office software products have gained immense popularity not only because of Microsoft's monopolistic power, strong distribution channels, and positive brand reputation, but also due to the quality of their products and ease of use.

4) Distribution Channel - Microsoft has established strong distribution channels by partnering with major computer hardware producers such as Lenovo, Dell, Toshiba, and Samsung, and computer retailers to ensure pre-installed Windows software on new computers. The company has also invested in Dell and Nokia to strengthen its relationships with these companies.

5) Financial performance - With a revenue growth rate of 15% from 2020 to 2021, Microsoft's financial performance has been robust. It has over \$130 billion of cash and cash equivalents that it can use for acquisitions and significant investments in research and development.

#### **Weaknesses:**

1) Acquisitions and investment - Microsoft's history of acquiring companies has not always been successful, as some of them failed to bring in revenue, products, and skills to the company. For instance, multimillion-dollar acquisitions, such as Massive, LinkExchange, WebTV, and Danger, were soon shut down or divested.

2) Dependence on hardware manufacturers. Despite being a software giant, Microsoft relies on computer hardware manufacturers to produce products that run on its Windows OS. If a cheaper and more popular alternative OS emerged, hardware manufacturers may choose it, leaving Microsoft with limited options.

3) Criticism over security vulnerabilities. Windows OS, Microsoft's flagship product, has been heavily criticized for being vulnerable to various viruses and cyber attacks. In comparison to other OS, Windows has the weakest security measures against such attacks.

4)Maturity of PC markets. Microsoft has only recently entered the mobile technology sector and still relies heavily on sales of its OS and software for standalone and laptop computers. However, the market for these products has matured, making it difficult for Microsoft to increase revenue in these sectors.

5)Slow innovation. Despite having vast resources for research and development and a strong market position, Microsoft has failed to enter new markets with innovative products. It missed the chance to be the first player in online advertising and was late to enter the mobile OS market, where Google and Apple dominated.

### **Opportunities**

1)Cloud services - Expanding cloud services. Microsoft has the potential to broaden its array of cloud services and software due to the increasing demand for cloud-based services.

2)Mobile advertising- The mobile advertising market is projected to experience double-digit growth in the upcoming years, providing a promising opportunity for Microsoft to enter this market with its mobile OS.

3)Potential in mobile device industry - The smartphone and tablet markets are expected to steadily grow in the next few years, creating an opportunity for Microsoft to capitalize on by introducing more of its own tablets and a new company phone.

4)Growth via acquisitions - With its significant reserve of cash, Microsoft has the capacity to acquire new startups that would bring new technology, skills, and competencies to the business, thereby promoting growth.

### **Threats**

1)Fierce competition in software industry. With established competitors like Google and Apple, Microsoft is facing more pressure than ever to deliver successful OS in both PC and mobile markets.

2)Evolving consumer preferences. As customers shift towards purchasing smartphones and tablets, where Microsoft has a modest market share, the company may struggle to establish itself and keep up with changing consumer habits.

3)Growing popularity of open source projects. The market is seeing an influx of successful open source projects, including new Linux OS and Open Source Office, which can serve as a free alternative to Microsoft's expensive products.

4)Potential legal challenges. Microsoft has faced numerous expensive lawsuits in the past, and its continued operations may lead to more potential lawsuits in the future, which can be both costly and time-consuming.

*Table 29 – SWOT Analysis*

Strengths:	Weaknesses:
Brand Loyalty Brand Reputation User Easy software Distribution Financial Performance	Acquisitions and investment Dependence on hardware manufactures Criticism over security vulnerability Maturity of PC Market Slow innovation
Opportunities:	Threats:
Cloud Services Mobile advertising Potential in mobile device industry Growth via acquisitions	Fierce competition in software industry Evolving consumer preferences Growing popularity of open source projects Potential legal changes

Source: Own Research, 2023

## 5. Conclusion

H1: ROE and ROA of Microsoft Corporation are increasing from 2018

H2: Liquidity Ratios are on a healthy track and improving from 2018

H3: Microsoft Corp. Cloud Based strategy is successful and improving financial indexes

After a detailed research and indexes calculations it can be told that from picked 3 initial hypothesis H1 and H2 can be called as correct, while the H3 is on the opposite site from reality.

H1 - ROE and ROA of Microsoft Corporation are increasing from 2018 – indeed the indexes are increased from initial year of research and those indexes are confirming the strength of Microsoft Corp positions.

H2 - Liquidity Ratios are on a healthy track and improving from 2018 - this hypothesis is also confirmed as the final index is higher than initial.

H3 - Microsoft Corp. Cloud Based strategy is successful and improving financial indexes – Microsoft Corp strategy of investing and development of Cloud based solutions apps and projects for business and private consumers is unfortunately unsuccessful. Cloud Based strategy is currently a new trend in IT and will be the priority 1 in the nearest future, replacing current existing. Even including that the result was unsatisfactory for Microsoft and persons related to it, this is a great lesson and understanding of errors for future tries. Currently Cloud based market is overcrowded but it does not have a obvious successors , so Microsoft with it's resources and potential still have a high chance of dominating the market and increase it's indexes.

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