Microsoft

NASDAQ: MSFT · ENTERPRISE SOFTWARE & CLOUD

RELATED FORCES: Workforce Productivity & Augmentation

EXCEPTIONAL 5/5 CLASS OF 2026

SECTOR	INDUSTRY	HQ	EMPLOYEES	MARKET CAP
Technology	Software Infrastructure	Redmond, WA	223,000	$3.59tn

THE ONE-MINUTE VERSION

Microsoft sells the software most large organisations run their working day on: Windows, the Office applications now rented as Microsoft 365, and Azure, its cloud-computing platform. Almost none of it is bought outright any more — it is subscribed to, per employee, per month, and the customer is an institution rather than a shopper. That is the machine: revenue compounds off an installed base three decades in the making, because an enterprise's logins, email and files already live inside it. Earnings have compounded at **18.4% for twelve years**, rising in all but one year-on-year comparison, on a net margin above 40%. That is what we mean by a **structural compounder**.

WHAT IS IT?

The company behind **Windows, Office 365 and Azure** — the operating system, productivity suite and cloud platform most large enterprises run their business on.

HOW IT CREATES VALUE

Subscriptions on top of lock-in: **Azure consumption and Microsoft 365 seats** both scale with how much an enterprise already depends on the stack, not with new sales alone.

THE MOAT

Migration cost, not brand loyalty. Ripping out a company's identity and email backbone is a multi-year project few CIOs will sponsor voluntarily.

THE TREND SHAPING ITS MARKET

Enterprise IT is moving workloads and AI inference to the cloud, and productivity software is being re-priced around AI copilots. **Microsoft sells the picks for both shifts at once.**

THE STRUCTURAL BOTTLENECK

Not compute — **identity and data gravity**. Active Directory, Exchange and SharePoint hold an enterprise's data and logins; moving off means re-architecting how the whole company logs in.

THE COMPETITION — THE HONEST BIT

AWS remains larger in cloud infrastructure, and Google is spending aggressively on AI to win share in both cloud and productivity. **Microsoft's edge is the bundle, not any single product being best-in-class** — a real vulnerability if AI unbundles productivity software the way it may unbundle search.

THE FIVE STRUCTURAL TESTS — EVERY COMPANY, THE SAME FIVE

COMPOUNDING	EARNINGS QLTY	BALANCE SHEET	CAPITAL ALLOC.	PER-SHARE VAL.
PASS	PASS	PASS	PASS	PASS

TRAJECTORY · IMPROVING ↑ Azure growth has accelerated through 2026 on AI-driven demand; watch capital intensity as the next test.

THE COMPOUNDING RECORD — SAME FIVE METRICS FOR EVERY COMPANY IN THE SERIES

EPS CAGR, 12 YRS	YEARLY COMPARISONS UP	WORST EARNINGS DRAWDOWN	NET MARGIN	NET DEBT / EQUITY
18.4%	98%	2%	40.3%	0.04×

The Exceptional Company Series is where The Conviction Play profiles the small number of businesses whose economics we judge genuinely exceptional — companies that pass all five of our structural tests and have compounded earnings through a full cycle. The premise is simple: **conviction is built on business quality and an enduring competitive advantage**, not on a price forecast. We publish what the moat is, how it is defended, and what would change our mind — dated. What we never publish is a price target.

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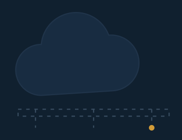
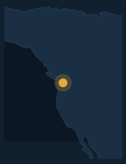
The seven forces & twenty-two themes	Every company profile to date	convictionplay.substack.com

Business quality and price are two different judgements — this asset makes only the first, and takes no view on the share price. Fact pack overleaf.



HEAD OFFICE



Redmond, Washington, United States

Technology · Software Infrastructure

ROIC	26.1%
REVENUE GROWTH	+17.7%
EPS GROWTH	+31.7%
INTEREST COVER	48.4×
FINANCIAL STRENGTH	5 / 5
WEBSITE	microsoft.com
INVESTOR RELATIONS	IR site

THE CONVICTION WHEEL

COMPOUNDING
Revenue +17.7%, EPS +31.7%

EARNINGS QLTY
40.3% net margin

BALANCE SHEET
0.04x net debt/equity

CAPITAL ALLOC.
26.1% return on capital

PER-SHARE VAL.
18.4%/yr per share, 12y

PEER GROUP — HYPERSCALE CLOUD & ENTERPRISE SOFTWARE

MSFT · profiled | GOOGL Alphabet

WHY THE ECONOMICS ARE EXCEPTIONAL

Subscriptions on top of lock-in. Azure consumption and Microsoft 365 seats both scale with how much an enterprise already depends on the stack, rather than with new-customer wins alone. Revenue compounds off an installed base three decades in the making.

The switching cost is identity and data gravity. Active Directory, Exchange and SharePoint hold a company's logins and its files. Migrating off is not a procurement decision but a multi-year re-architecture of how every employee signs in — a project few CIOs will sponsor voluntarily.

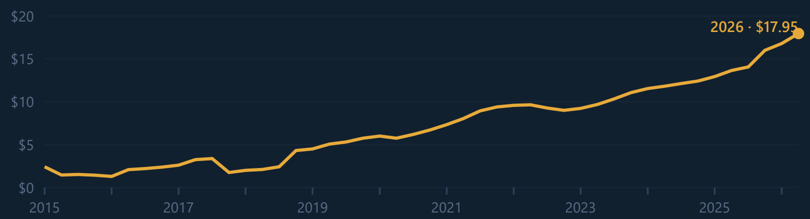
The bundle is the product. Microsoft rarely needs to be best-in-class in any single category; it needs to be good enough in all of them at a price that makes unbundling irrational.

The honest risk. That same bundle logic is the vulnerability. AWS remains larger in cloud infrastructure and Google is spending heavily on AI. If AI unbundles productivity software the way it may unbundle search, good-enough-everywhere stops being a defence.

Share price, twelve years of monthly closes — **the same window as the earnings chart below, so the two can be read against each other.**

Not a valuation. Marker = date profiled. Refreshes quarterly.

Trailing twelve-month EPS, twelve years of quarterly data. **Ninety-eight percent of years up.**



Two down years in eleven, and both were made back inside twelve months. The shape is the grade.

WHERE THE REVENUE COMES FROM (COMPANY-REPORTED)

United States ≈ 50% International ≈ 50%

Source: company-reported segment disclosure, FY2025.

WHAT THIS IS, AND WHAT IT IS NOT

An assessment of business quality — how durable the economics are, and how consistently they have become earnings. Produced by Legend, our rules-based framework, applied identically to every company.

Not a valuation, price target, forecast or recommendation. We publish no view on the share price. A company can be exceptional and still be expensive.

Company facts and financial data: Legend, from company filings and market data, as at 21 August 2026.