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Microsoft | North America

4Q26 Preview – Time to Take Back the Narrative

Low-40s Azure growth, accelerating Copilot monetization and disciplined opex should reinforce MSFT's durable high-teens total return profile. A 1-pt Azure beat, 6MM+ Copilot seat adds and reiterated 1H27 Azure acceleration could drive upside, while 16x FY28 EPS leaves risk/reward highly attractive.

Key Takeaways

- Confident in 41% cc Azure growth in Q4, supported by strong channel checks, improving GPU capacity and positive CIO survey data
- A 1pt beat to Q4 Azure growth guide & a reiterated F1H27 Azure acceleration with 6MM+ copilot seat net adds key to MSFT shares
- Checks support growing M365 Copilot momentum on top of 20MM paid seats, w/ improving usage and further adoption across the base
- Consensus capex estimates could move higher; we see less upside to our higher-than-street capex estimates. Capex growth moderation important for ROIC & shares
- At ~16x FY28 GAAP EPS, we believe MSFT shares fail to reflect durable high-teens total return profile, underscoring the attractive risk/reward

Microsoft Investment Thesis: As we recently detailed (Microsoft: Battle of the AI Stack: Infrastructure to Knowledge Workers – Azure and Copilot Are Set to Inflect (21 Jul 2026)), Azure and Copilot are key to the stock and both appear set to inflect. Timing (near-term) and degree of inflection are not well reflected by the market, in our view. Azure sentiment will improve as incremental near/medium-term supply serves robust demand, driving higher than expected Azure growth for longer. M365 Copilot-driven ARPU contribution is now a three-pronged story: Copilot seats, E7 SKU and consumption pricing, creating one of the largest ARPU expansion opportunities in MSFT history. Capex yields sustainable high-teens revenue growth; operating leverage from scale + opex discipline enables Op margin expansion despite GM pressure. We see 16x FY28 GAAP EPS as too cheap for >20% earnings growth. Conservatively applying 1.2x PEG / 25x PE, a discount to peers, yields 50% upside to $600 PT. **We think FQ4 can serve as a first catalyst, helping build support across our Azure, Copilot and margin thesis:**

Azure & Copilot Momentum Key in FQ4. Last quarter's results were strong, with Microsoft exceeding consensus across all three segments and delivering ~1% total revenue upside, driven by Azure growth of 39% cc (ahead of high-end of guidance at ~38% cc). Importantly, the company paired this top-line strength with gross margin outperformance (despite mix shift to Azure) and ~160 bps of YoY operating margin expansion. Forward indicators also remained robust, with RPO (+110% YoY to ~

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Microsoft (MSFT.O, MSFT US)

Software | United States of America

Stock Rating	**Overweight**
Industry View	**Attractive**
Price target	**$600.00**
Shr price, close (Jul 21, 2026)	$397.75
Mkt cap, curr (mm)	$2,961,249
52-Week Range	$555.45-349.20

Fiscal Year Ending	06/25	06/26e	06/27e	06/28e
EPS ($)**	13.64	17.35	19.62	23.86
Prior EPS ($)**	-	-	-	-
P/E	36.5	21.5	20.3	16.7
EPS ($)§	-	16.80	19.41	22.80
Div yld (%)	0.7	1.0	1.0	1.1

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
** = Based on consensus methodology
§ = Consensus data is provided by Refinitiv Estimates
e = Morgan Stanley Research estimates

QUARTERLY EPS ($)

Quarter	2025	2026e Prior	2026e Current	2027e Prior	2027e Current
Q1	3.30	-	3.72a	-	4.71
Q2	3.23	-	5.16a	-	4.86
Q3	3.46	-	4.27a	-	4.92
Q4	3.65	-	4.21	-	5.13

e = Morgan Stanley Research estimates, a = Actual Company reported data

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$625bn) and cRPO (+39% YoY) reinforcing durable commercial demand. **For Q4: Azure growth of ~41% in cc in Q4 with a reiterated F1H27 Azure guidance calling for modest acceleration** is likely good enough to get over the investor hurdle given capacity and allocation constraints. Further, the potential for high-single digit / low double-digit opex growth in Q4 and mid/high single-digit opex growth in FY27 should help offset gross margin compression and could help deliver high-teens operating income growth in FY27.

Partner Channel Discussions Continue to Reinforce Broad-Based Microsoft Strength. Channel partners sounded positive on C2Q Azure results and the forward outlook. Our latest partner conversations continue to point to durable demand across Microsoft's commercial portfolio, with Azure, Microsoft 365, Security and broader AI workloads remaining the primary growth drivers. Partners generally described another constructive quarter for Microsoft, supported by continued cloud migrations, expanding Azure AI deployments, healthy E3/E5 upgrade activity and robust security demand driven by bundling within the Microsoft ecosystem. Several partners also highlighted improving momentum across Dynamics, GitHub and Fabric, reinforcing the breadth of Microsoft's commercial growth profile. While Azure demand remained healthy, we picked up signs from one partner of potential capacity constraints limiting the pace at which certain customer workloads could be deployed, consistent with management's commentary that Azure growth remains constrained by available capacity rather than demand. At the application layer, partners continue to characterize Copilot adoption as progressing gradually, with awareness continuing to outpace enterprise-wide deployment, though adoption is still improving. That said, partners remain constructive on the long-term opportunity given continued Microsoft 365 upgrades, increasing interest in the new E7 offering, ongoing security attach and continued product innovation across the broader Agentic AI portfolio, including Agent365.

4 Areas We Are Monitoring Into the Print:

1) Proving Out the Durability of Azure Growth

MS View: Our confidence in low-40%'s CC Azure growth in F4Q26 reflects Microsoft's continued leadership, reflected in our MS CIO survey work, as well as in constructive partner commentary pointing to durable cloud and AI demand, and incremental AI capacity coming online as datacenter build-outs continue to improve. The 41% cc investor bogey is achievable, and this 1pt beat vs. high-end of guidance would represent a strong outcome for MSFT shares, especially given prior guidance for further modest acceleration in the first half of C2H26 vs. 1H, implying 42%+ cc growth in the following two quarters. **We expect Azure growth to remain well supported into FY27 as Microsoft executes against its plan to roughly double its total datacenter footprint over the next two years.** We believe this expanding infrastructure footprint should continue easing capacity constraints, allowing Azure to capture robust AI and cloud demand while providing further evidence that Microsoft's significant AI infrastructure investments are translating into durable revenue growth.

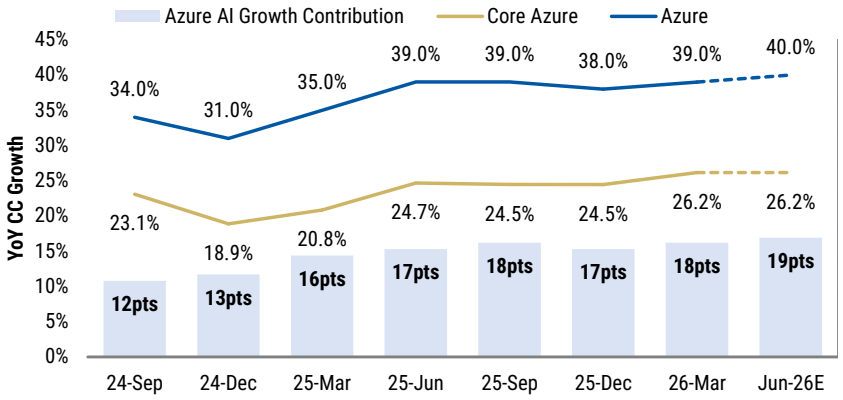
Buyside: For 4QFY26, investors are looking for 41%+ growth in constant currency (cc), representing a 1% beat vs. high-end of guidance at 39-40% cc, which is also impacted by a 4% tougher growth comp from last year. Further, expecting management to reiterate prior guidance *(from the F3Q26 call)* for *'modest acceleration in the second half of the calendar year compared with the first half,'* meaning Azure growth of 42%+ in cc in F1H27.

Microsoft Continues to Screen as the Clearest Enterprise AI Winner. Our latest 2Q26 CIO Survey (see Microsoft: 2Q26 CIO Survey Takeaways – GenAI Leadership Position Remains Clear (16 Jul 2026) continues to reinforce Microsoft's leadership across both cloud and GenAI despite a relatively stable enterprise IT spending backdrop. While CIOs expect software spending to accelerate modestly to +4.1% in 2026 from +3.8% in 2025, Microsoft remains the primary beneficiary of that incremental spend, with the highest forward software spending expectations across vendors at +7.6%, improving from +7.3% in our prior survey. Microsoft also continues to lead on a net spending basis, with 72% of CIOs expecting to increase spending on Microsoft solutions over the next year. At the same time, **Microsoft's leadership extends well beyond core software spending into enterprise AI adoption.** ***First,*** Azure remains the primary beneficiary of ongoing cloud migration, screening as the largest expected cloud share gainer over both the next year and the next three years, while Azure spending intentions continued to improve. ***Second,*** beyond cloud infrastructure, CIOs again identified Microsoft as the largest expected beneficiary of incremental GenAI spending, while also ranking the company as the preferred platform for both Agentic Automation initiatives and building custom AI applications. ***Third,*** at the application layer, Microsoft 365 Copilot remains the flagship AI workload within Microsoft's portfolio, with adoption expectations continuing to improve alongside increasing planned deployment across enterprise M365 users.

Consensus Azure growth expectations call for 40.5% YoY growth (as reported; per guidance given no meaningful FX impact), which implies ~$3.3bn in QoQ dollars added or ~41% YoY growth in QoQ dollars added. **In terms of the expected beat factor for Azure revenue growth,** similar to last quarter, we expect expectations calling for ~1pt above the high-end of the CC guidance (39-40% cc guide) this quarter. A few items to keep in mind: **1) Similar to prior quarters, surplus demand signals do not determine realized Azure growth**, as management has consistently reiterated that Azure revenue remains constrained by available capacity rather than customer demand. As CFO Amy Hood emphasized on the F3Q26 earnings call, Azure guidance should be viewed as an *'allocated capacity guide,'* with the key variables being the timing of datacenter buildouts, GPU deployments, and when newly installed capacity becomes revenue additive. While Azure demand remains robust across both core Azure and Azure AI workloads, reported growth continues to be governed by the pace of incremental infrastructure deployments/ monetization. **2) Available capacity must be allocated not only to external Azure customers, but also to Microsoft's rapidly expanding portfolio of first-party AI offerings**. As analyzed in our recent Microsoft deep dive (see Microsoft: Battle of the AI Stack: Infrastructure to Knowledge Workers – Azure and Copilot Are Set to Inflect (21 Jul 2026)), incremental AI infrastructure (or new capacity coming online) must be balanced across Azure, 1P applications, internal R&D / training, with

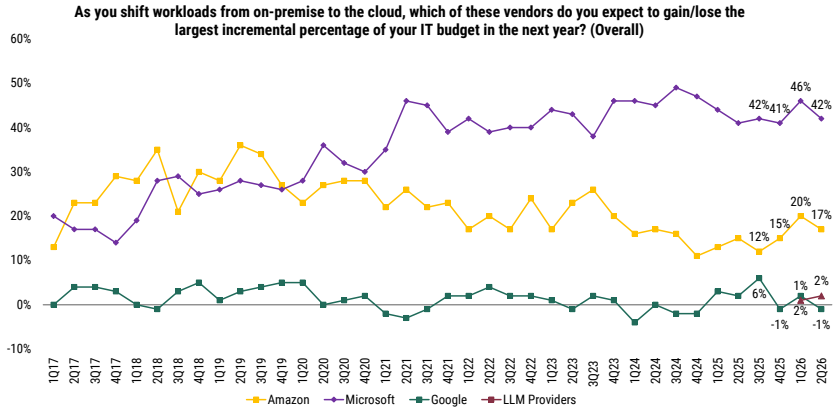
management consistently prioritizing the highest-return opportunities across the Microsoft platform. With that said, Azure growth represents just one output of Microsoft's broader AI infrastructure allocation strategy, though we expect Azure AI to receive an increasing share of incremental capacity as it comes online, reflecting its role as the primary infrastructure layer through which Microsoft monetizes AI demand across both Azure and its first-party AI applications (see Exhibit 9). **3) While Azure AI continues to represent the primary driver of Azure growth, the focus is increasingly shifting to how efficiently Microsoft's expanding AI infrastructure is converted into revenue as capacity constraints gradually ease.** As Microsoft executes against its plan to ~2x its datacenter footprint over the next two years, we expect increasing infrastructure yield to support durable Azure growth into FY27 and beyond, though the capacity-driven guidance may continue to limit the magnitude of quarterly upside surprises. **In terms of Azure AI in F4Q26**, we expect ~100% YoY growth or ~18% QoQ growth vs. an estimated 17% in F3Q26 and 20% QoQ in F4Q25. This implies ~$1,260MM QoQ dollars added (vs ~ $1,000MM in F3Q) and ~19pts of contribution from Azure AI growth in F4Q (see Exhibit 1), slightly ahead of the estimated contribution in the prior two quarters.

Exhibit 1: Improving Azure AI Demand/Capacity and Relatively Stable Core Azure Growth Should Support Low 40s % Azure Growth in F4Q



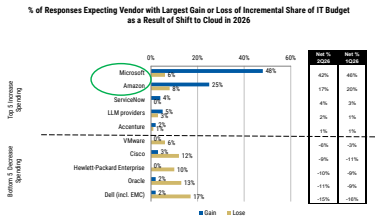
Source: Company data, Morgan Stanley Research

Exhibit 2: While Microsoft's Lead Over Amazon Remains Substantial on an Absolute Basis, Both MSFT and AMZN Ceded Budget Share to LLM Providers in our 2Q26 Survey on a 1-Year View...



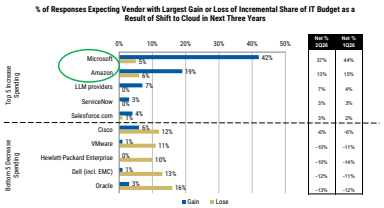
Source: AlphaWise, Morgan Stanley Research. n=100 (US and EU data)

Exhibit 3: Microsoft and Amazon Continue to Lead as the Top Incremental Share Gainers due to Cloud Shift in 2026...



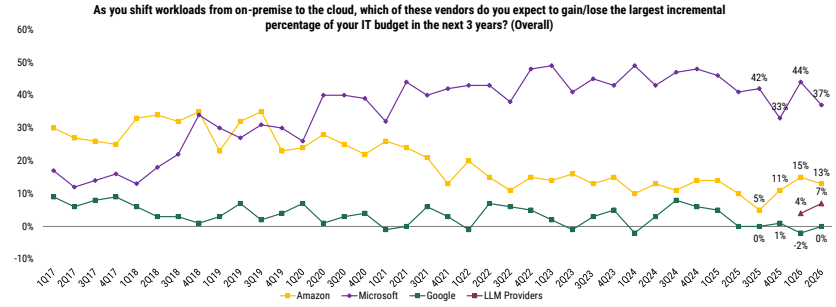
Source: AlphaWise, Morgan Stanley Research. n=100 (US and EU data)

Exhibit 4: ... And in the Next Three Years



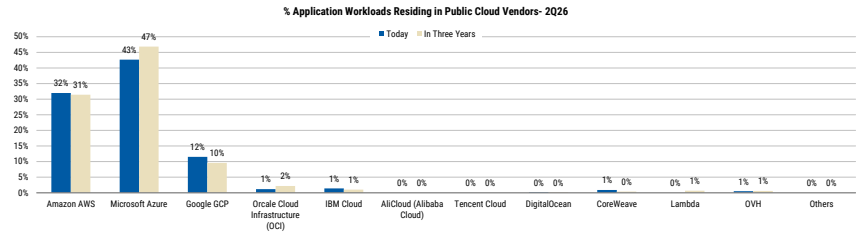
Source: AlphaWise, Morgan Stanley Research. n=100 (US and EU data)

Exhibit 5: ...while on a Medium-Term View, MSFT's Lead Over Other Vendors Remains Sizeable, Yet Results Point to Budget Share Loss to LLM Providers



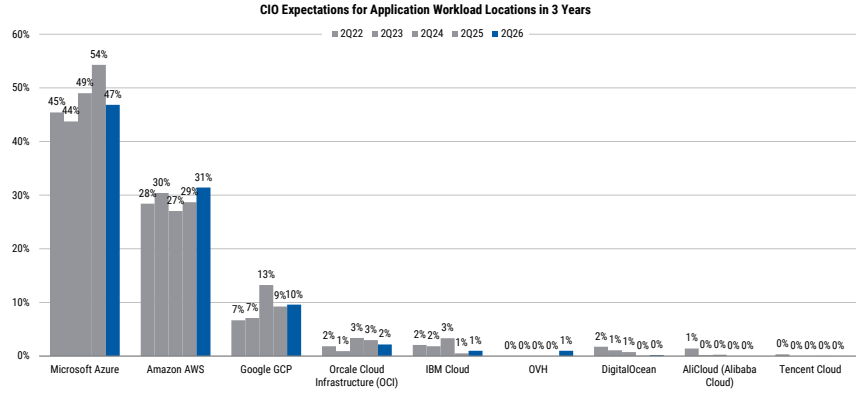
Source: AlphaWise, Morgan Stanley Research. n=100 (US and EU data)

Exhibit 6: Azure and AWS Remain the Dominant Public Cloud Providers Today...



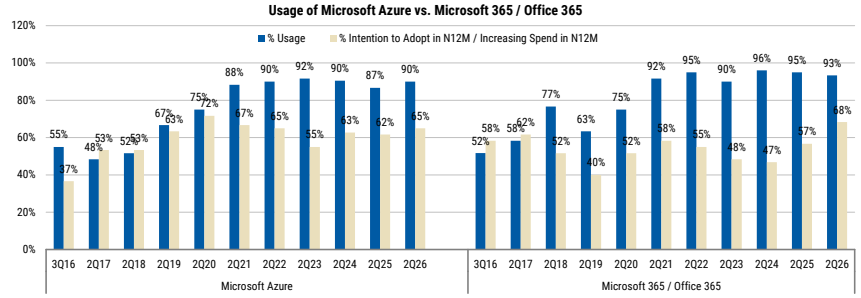
Source: AlphaWise, Morgan Stanley Research. N= 60 (US and EU Data)

Exhibit 7: ... With Azure Expected to Remain Leading Share Gainer Over Next Three Years



Source: AlphaWise, Morgan Stanley Research. N= 60 (US and EU Data)

Exhibit 8: CIOs Indicate Usage and Spending Intentions on Microsoft Azure and Microsoft 365 / Office 365 Continue to Remain Durable



Source: AlphaWise, Morgan Stanley Research. n= 60 (US and EU data)

Exhibit 9: Installed Data Center Capacity Mix Analysis – Implied Azure AI Rev/ MW May Prove Too Low Longer-Term

	FY23	FY24	FY25	FY26E	FY27E	FY28E
Microsoft Cloud Revenue ($mn)	$111,600	$137,700	$168,900	$214,061	$273,874	$356,770
Total GWs (Installed Capacity)	**4.50**	**5.00**	**7.50**	**10.25**	**14.50**	**20.25**
Compute Allocation (Capacity Mix %)						
Total Azure	**42%**	**48%**	**57%**	**63%**	**69%**	**74%**
Core Azure	*40%*	*37%*	*35%*	*33%*	*32%*	*31%*
Azure AI	*2%*	*11%*	*22%*	*30%*	*37%*	*43%*
1st-Party Applications	**55%**	**49%**	**39%**	**32%**	**26%**	**21%**
M365 Copilot	*0%*	*1%*	*2%*	*2%*	*3%*	*4%*
Internal R&D / Training	**3%**	**3%**	**4%**	**5%**	**5%**	**5%**
Capacity Per Bucket (GWs)						
Total Azure	**1.89**	**2.40**	**4.28**	**6.46**	**10.01**	**14.99**
Core Azure	*1.80*	*1.85*	*2.63*	*3.38*	*4.64*	*6.28*
Azure AI	*0.09*	*0.55*	*1.65*	*3.08*	*5.37*	*8.71*
1st-Party Applications	**2.48**	**2.45**	**2.93**	**3.28**	**3.77**	**4.25**
M365 Copilot	-	*0.04*	*0.12*	*0.23*	*0.44*	*0.74*
Internal R&D / Training	**0.14**	**0.15**	**0.30**	**0.51**	**0.73**	**1.01**
Revenue Assumptions ($mn)						
Total Azure	**$42,085**	**$56,140**	**$75,428**	**$105,605**	**$150,299**	**$214,928**
Core Azure	$41,961	$52,268	$63,331	$79,936	$100,004	$122,236
Azure AI	$124	$3,872	$12,097	$25,669	$50,295	$92,692
1st-Party Applications	**$61,015**	**$72,243**	**$83,505**	**$97,339**	**$111,122**	**$128,021**
M365 Copilot	-	*$794*	*$2,227*	*$4,431*	*$8,648*	*$14,886*
Revenue Per MW ($mn)						
Total Azure	**$22.27**	**$23.39**	**$17.64**	**$16.35**	**$15.02**	**$14.34**
Core Azure	*$23.31*	*$28.25*	*$24.13*	*$23.63*	*$21.55*	*$19.47*
Azure AI	*$1.38*	*$7.04*	*$7.33*	*$8.35*	*$9.37*	*$10.65*
1st-Party Applications	**$24.65**	**$29.49**	**$28.55**	**$29.68**	**$29.48**	**$30.10**
M365 Copilot	-	*$18.68*	*$19.16*	*$19.21*	*$19.88*	*$20.14*

Source: Morgan Stanley Research, Company Data *Assuming Datacenter Capacity for Microsoft Represents Installed Capacity || Microsoft Cloud Revenue = M365 Commercial Cloud + Dynamics 365 + Commercial LinkedIn + Azure and Other Cloud Services*

2) Microsoft 365 & Copilot: The Next Phase of AI Monetization

MS View: Multiple Monetization Levers Support Durable Commercial Cloud Growth. We continue to view M365 Commercial Cloud as one of Microsoft's most underappreciated AI monetization opportunities, though increasingly believe the focus should go beyond Copilot seat adoption toward the broader evolution of Microsoft's AI business model. As discussed in our recent Microsoft Assumption report (see Microsoft: Battle of the AI Stack: Infrastructure to Knowledge Workers – Azure and Copilot Are Set to Inflect (21 Jul 2026)), Microsoft is transitioning from a traditional SaaS licensing model toward more of a hybrid seat + consumption framework across the application layer. While M365 Copilot seats remain the primary monetization vector today, management has increasingly emphasized broader AI monetization, noting on the F3Q26 earnings call that *'we are seeing a new pattern emerge as customers shift from traditional seat model to seats plus consumption.'* GitHub Copilot, Copilot Credits, Dynamics AI agents and broader AI services represent the earliest examples of this evolution. We believe this evolution expands the company's monetization opportunity well-beyond traditional seat-based ARPU growth, allowing AI revenue to scale alongside customer usage while creating multiple independent drivers for M365 Commercial Cloud growth. As these monetization levers (i.e., Copilot seats, E5/E7 upgrades, commercial pricing, and consumption-based components) continue to scale in parallel, we expect M365

Commercial Cloud growth to become increasingly durable throughout FY27 and beyond, supported by a more diversified and resilient ARPU expansion framework.

The Next Phase of Copilot Monetization. We believe the key debate surrounding Copilot is increasingly shifting from proving enterprise adoption toward understanding the long-term monetization opportunity. Over the past year, Microsoft's primary objective was demonstrating product-market fit and driving enterprise deployments. Today, however, the conversation is increasingly shifting toward monetization, adoption velocity and the broader Commercial Cloud opportunity. Importantly, Microsoft's new paid M365 Copilot seat disclosure provides a much more tangible KPI for measuring commercial traction over time. Following the increase to 20MM paid seats in F3Q26 (up from 15MM in F2Q26), we expect paid seat growth to remain one of the key indicators of enterprise adoption and ARPU expansion going forward, with management guiding *'net paid [M365 Copilot] seat adds to increase sequentially,'* reinforcing our expectation for continued acceleration in Copilot monetization into FY27. While seats represent only one component of the broader monetization opportunity, they provide the foundation for higher-value E7 adoption and expanding consumption-based AI monetization over time, consistent with our expectation for robust paid seat expansion over the coming years. **As such, we continue to believe Copilot-driven ARPU is evolving into a three-headed growth driver** consisting of (1) direct Copilot seat adoption, (2) migration toward higher-value M365 E7 subscriptions, and (3) expanding consumption-based AI monetization tied to agents, orchestration and workflow automation. ***Together with continued product innovation across Copilot, GitHub, Agent365 and workflow automation, we believe these monetization vectors support improving M365 Commercial Cloud growth while making that growth increasingly diversified, ARPU-driven and durable over the long run.***

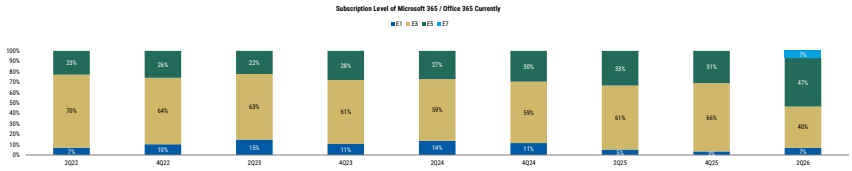
M365 Pricing Increase Represents Another Incremental ARPU Tailwind. Beyond improving Copilot adoption, Microsoft's commercial M365 price increases became effective July 1, 2026, introducing higher pricing across several core SKUs alongside new AI, security and endpoint-management capabilities. As outlined in our initial analysis (see *M365 Price Increases – What Is the Tailwind to Growth?*), we continue to estimate the pricing changes will contribute approximately $2bn / $4bn / $6bn of incremental M365 revenue across FY27/FY28/FY29, though this is already factored into the stock and estimates. Importantly, while the pricing became effective July 1 for new customers, the existing installed base will not realize the higher pricing until contract renewal, implying the benefit should phase in gradually over roughly three years. Using our bottom-up seat mix assumptions, we see ~$12 in ARPU uplift once fully reflected across the installed base, translating to an approximate +$4 / +$8 / +$12 ARPU benefit across FY27/FY28/FY29. With the initial pricing increase now behind us, we expect this pricing tailwind to begin flowing into reported results throughout FY27, providing an incremental driver of M365 Commercial Cloud ARPU expansion alongside continued E5/E7 mix shift, Copilot adoption, and expanding AI consumption.

Our CIO Survey Continues to Reinforce Broadening Commercial Cloud Monetization. Our latest 2Q26 CIO Survey continues to reinforce improving Commercial Cloud monetization across multiple growth drivers. ***First,*** Microsoft

365 spending intentions improved meaningfully, with 65% of CIOs expecting to increase spending over the next 12 months, up from 55% in our prior survey. ***Second,*** premium SKU adoption remains healthy, with 71% of organizations expected to leverage E5 or E7 over the next year, supporting continued ARPU expansion beyond traditional seat growth. ***Third,*** M365 Copilot remains Microsoft's flagship AI application, with 88% of CIOs expecting to leverage the product over the next 12 months while planned deployment continues to move higher. Beyond M365 Copilot, adoption expectations also improved across GitHub Copilot, Azure AI Services, Copilot Studio and Azure AI Foundry, reinforcing our view that Microsoft's AI monetization opportunity increasingly extends beyond a single application into a broader enterprise AI platform.

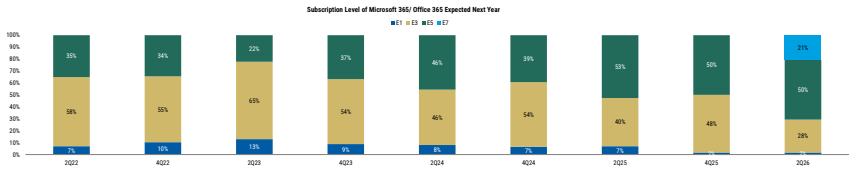
If you are currently using Microsoft 365 / Office 365, what subscription level (E1, E3, E5 or E7) are the majority of your employees using today? Do you have any plans to upgrade in the next year?

Exhibit 10: The Shift to Higher Subscription Levels Continues with 47% / 7% of CIOs Using E5 / E7 Licenses Currently...



Source: AlphaWise, Morgan Stanley Research. n=60 (US and EU data)

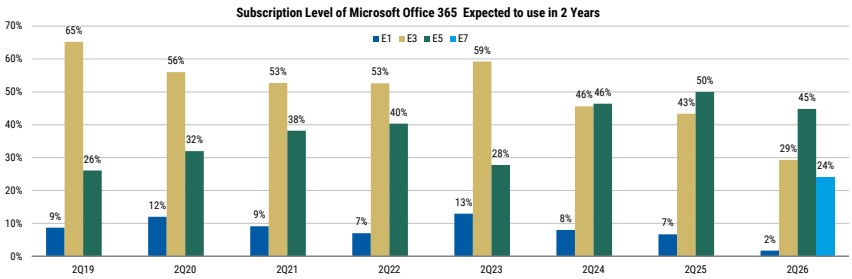
Exhibit 11: ...With Expectations for E5 / E7 License Subscriptions Reaching 50% / 21% in the Next Year, Further Supporting Better Copilot Adoption Over N12M



Source: AlphaWise, Morgan Stanley Research. n=60 (US and EU data)

Which Microsoft 365 / Office 365 subscription level (E1, E3, E5, or E7) do you expect to use in 2 years?

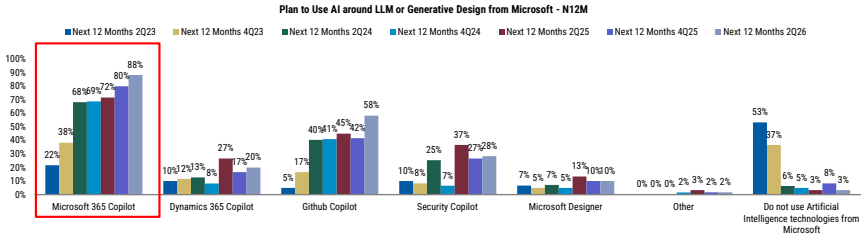
Exhibit 12: The Shift to Higher Subscription Levels Continues with 45% of CIOs Planning to Use E5 in the Next 2 Years, Down Slightly From 50% in 2Q26, Though Offset by 24% of CIOs Planning to Use E7



Source: AlphaWise, Morgan Stanley Research. n= 60 (US and EU data)

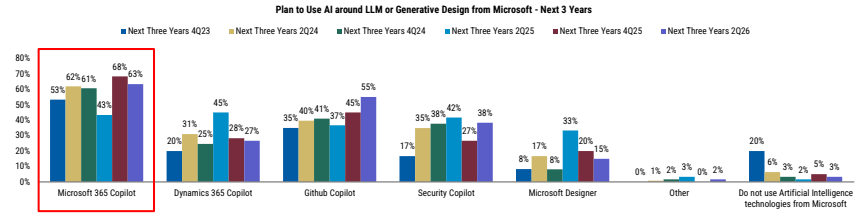
Which of the following products incorporating Generative Artificial Intelligence technology around Large Language Models (e.g. GPT 5) or Generative Design (e.g. Dall-e) do you plan to use from Microsoft in your organization in the next 12 months?

Exhibit 13: 88% of CIOs Expect to Use Microsoft 365 Copilot Over the Next 12 Months, up from 72% and 80% in Our Last Two CIO Surveys...



Source: AlphaWise, Morgan Stanley Research. n=60 (US and EU data)

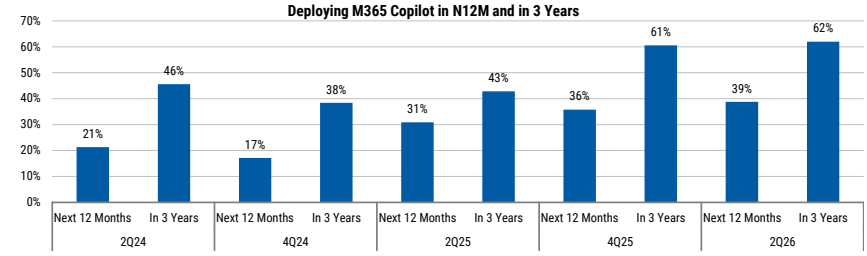
Exhibit 14: ...While M365 Copilot Also Continues to be the Most Sought-After Generative AI Product From Microsoft Over the Next 3 Years



Source: AlphaWise, Morgan Stanley Research. n=60 (US and EU data)

If you are planning to use Microsoft 365 Copilot within your organization, what % of your Office user base do you expect to deploy M365 Copilot to over the next 12 months and in 3 years?

Exhibit 15: Microsoft 365 Penetration Expectations Increased From our 4Q25 Survey on Both a Near-Term and Long-Term View



Source: AlphaWise, Morgan Stanley Research. n= 60 (US and EU data)

3) What is the Capex Trajectory – Does Consensus Capex Need to Move Higher?

MS View: Consensus Capex Estimates Could Continue Moving Higher Toward Our Forecasts

The Capex Debate: Street Estimates Still Have Room to Move Higher. We believe consensus FY27 capex estimates remain conservative relative to Microsoft's long-term AI infrastructure buildout and could move higher (mostly in 2HFY27), though

unlike prior quarters, we are not currently expecting to materially revise our own forecasts following F4Q26 results (see Exhibit 16). Our model already incorporates a more aggressive multi-year investment cadence than consensus, reflecting management's latest guidance around sustained AI infrastructure investments, continued capacity expansion (mgmt. planning to double total DC footprint over next two years) and a greater mix of short-lived assets. Importantly, on the F3Q26 earnings call, CFO Amy Hood indicated that Microsoft expects ~$190bn of total capex in CY26, including ~$25bn of higher component pricing, while reiterating that the company expects to remain capacity constrained through 2026 despite these investments. Further, management noted roughly two-thirds of capex continues to be allocated toward short-lived assets, primarily GPUs and CPUs, reinforcing the direct link between infrastructure investments and future revenue growth. Consistent with this framework, our estimates already imply Microsoft modestly increases quarterly capex sequentially through the F2H27 from ~$64bn capex estimate for F2Q27. We believe the more likely outcome from here is for Street estimates to move toward our forecasts, rather than our own forecasts moving materially higher post the F4Q26 print.

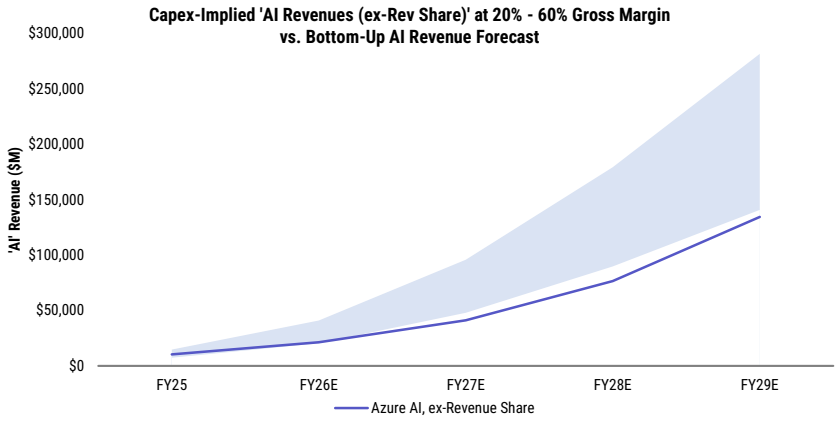
Our Latest Capex-Implied AI Revenue Analysis: Our capex assumptions have consistently been revised higher. Therefore, we lean on our capex driven forecast model to yield our sustained bullish conclusions about the trajectory of Azure growth, which continues to suggest significant upside to our forward Azure forecasts, despite recently raising our Azure revenue estimates with our recent deep dive. Our capex model sizes the implied contribution from Azure AI based on the capital expenditures dedicated to AI-related initiatives. We compare the capex-implied Azure AI forecasts, assuming various gross margin levels, with the Azure AI estimates in our MS model. As highlighted on the most recent earnings call, and reiterated at our recent campus visit, capex (and corresponding infrastructure) is not just allocated for new Azure demand. Microsoft must support its 1st party applications, internal R&D/Research efforts, internal training, and a replacement capex cycle. Management has also been vocal for some time that a significant portion of capex is for longer duration assets like land and buildings, which could generate revenue for >15 years. **Net**, in our latest analysis, Azure AI (excluding revenue share) gross margins could already exceed 20%. We still see material upside to our current Azure estimates based on our Capex-Implied framework, reinforcing ***our view that Microsoft's long-term AI monetization opportunity remains underappreciated.***

Exhibit 16: Summary of MS Capex Estimates vs. Consensus (Both Include Finance Leases)

($mns)	FY26	FY27	FY28	FY29
Total Capex (Cons)	$146,485	$231,973	$261,454	$304,555
YoY Growth %	*66%*	*58%*	*13%*	*16%*
Total Capex (MSe)	**$145,432**	**$250,038**	**$312,596**	**$375,126**
YoY Growth %	*65%*	*72%*	*25%*	*20%*
% Difference	*-0.7%*	*7.8%*	*19.6%*	*23.2%*

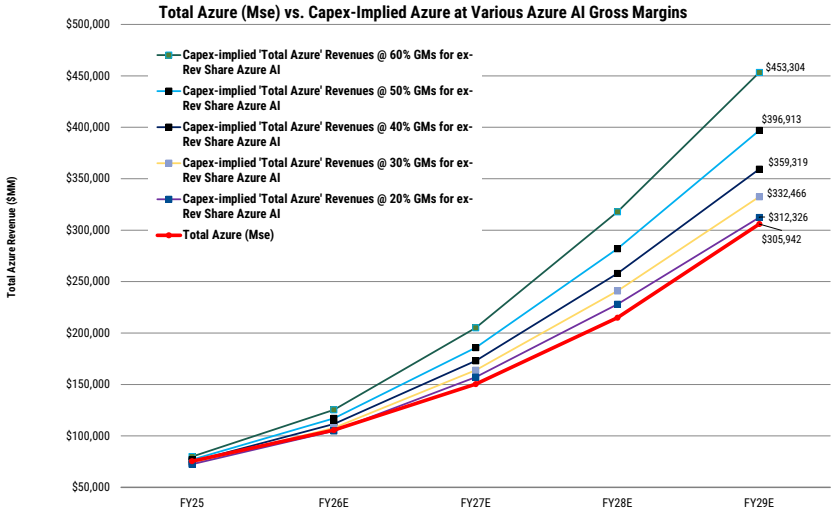
Source: Company data, Morgan Stanley Research, Visible Alpha

Exhibit 17: Capex-Implied Azure AI Revenue Potential is Well Ahead of Our Azure AI Forecast



Source: Company data, Morgan Stanley Research

Exhibit 18: Current Forecast Estimates Azure AI (ex-rev share) Gross Margins Conservatively Approach 20% by FY29; Gross Margins Can Be Materially Higher, Suggesting Meaningful Upside



Source: Company data, Morgan Stanley Research

Exhibit 19: Back of the Envelope Compute Math Suggests Microsoft AI Server Capex Implies ~97.7 Million H100 Equivalents by FY29

($ in Millions)	FY25	FY26E	FY27E	FY28E	FY29E
Total Capex	**$88,200**	**$145,432**	**$250,038**	**$312,596**	**$375,126**
YoY Growth	*58%*	*65%*	*72%*	*25%*	*20%*
Cash Capex	$64,551	$110,034	$193,138	$242,018	$290,507
YoY Growth	*45%*	*70%*	*76%*	*25%*	*20%*
Non-Cloud Capex	**$4,725**	**$6,999**	**$11,154**	**$13,598**	**$16,023**
YoY Growth	*27%*	*48%*	*59%*	*22%*	*18%*
Data Center Cash Capex	**$59,826**	**$103,035**	**$181,983**	**$228,420**	**$274,484**
YoY Growth	*47%*	*72%*	*77%*	*26%*	*20%*
% of Total Capex	*93%*	*94%*	*94%*	*94%*	*94%*
PPE Acquired Under Capital Lease	$23,649	$35,398	$56,900	$70,578	$84,618
Capital Lease as % of Cash Capex	*40%*	*34%*	*31%*	*31%*	*31%*
Total Data Center Capex	**$83,475**	**$138,433**	**$238,883**	**$298,998**	**$359,103**
YoY Growth	*61%*	*66%*	*73%*	*25%*	*20%*
Total Monetizeable Data Center Capex	**$72,963**	**$124,822**	**$220,069**	**$274,787**	**$331,097**
Total Cloud Capex Intensity	34%	48%	69%	69%	66%
Non-AI Cloud Capex Intensity	14%	13%	13%	12%	12%
M365 Copilot Capex Intensity	47%	42%	37%	33%	29%
Azure AI Capex Intensity	396%	412%	426%	287%	196%
Segment-level Capex					
Non-AI Cloud Capex	$30,796	$35,227	$41,196	$49,393	$60,036
Internal AI Training Capex (Non-Monetizable)	$1,000	$2,000	$3,000	$4,000	$5,000
Internal R&D/Research Capex (Non-Monetizable) 1.5% of Total Data Center Capex	$1,252	$2,076	$3,583	$4,485	$5,387
Replacement Capex (55% of 6yr prior Data Center Capex [Servers] + 45% of 15 year Prior [Building])	$8,260	$9,535	$12,231	$15,726	$17,619
Microsoft 'AI Capex' (Monetizable)	$42,167	$89,595	$178,873	$225,395	$271,060
M365 Copilot Capex	$1,054	$1,875	$3,228	$4,961	$6,591
Azure AI Capex	$41,113	$87,720	$175,645	$220,434	$264,469

Note: M365 Copilot capex intensity assumes the intensity is maps to the capex intensity of Microsoft Cloud at similar revenue scales (i.e. FY14-19).

Server-Related AI Capex	$27,920	$57,795	$118,612	$149,763	$179,440
Chip Version	H/B100	B1/B200	Rubin	Rubin	Rubin Ultra
Cost per Chip ($)	$37,500	$43,750	$62,500	$62,500	$181,250
Impl. Chips Purchased	744,527	1,321,040	1,897,798	2,396,208	990,013
Ratio of Compute to H100s	1.5x	2.5x	11.0x	11.0x	46.0x
Impl. H100 Equivalents Purchased	1,116,790	3,302,599	20,875,773	26,358,291	45,540,583
Cumulative H100 Equivalents	**1,601,778**	**4,904,377**	**25,780,150**	**52,138,440**	**97,679,023**

Note: Grossing up cost per chip to account for "fully-loaded" server cost, which assumes 80% of the server cost is attributable to the cost of the chip.

Microsoft Cloud Revenues, ex-Revenue Share	**$216,375**	**$261,274**	**$317,313**	**$395,686**	**$501,021**
Non-AI Cloud Revenues	$203,757	$235,561	$267,422	$304,108	$343,952
Bottom-Up AI Revenues (Copilots + Azure AI, ex-rev share)	$12,618	$25,712	$49,891	$91,578	$157,069
M365 Copilot	$2,227	$4,431	$8,648	$14,886	$22,476
Azure AI, ex-Revenue Share	$10,391	$21,282	$41,243	$76,692	$134,594
Azure AI, Total	$12,097	$25,669	$50,295	$92,692	$159,094
Total Azure (Mse)	$75,428	$105,605	$150,299	$214,928	$305,942

'Monetizable' Azure AI Capex	**$41,113**	**$87,720**	**$175,645**	**$220,434**	**$264,469**
Incremental Depreciation Waterfall					
FY23	$22	$22	$22	$22	$22
FY24	$1,965	$1,965	$1,965	$1,965	$1,965
FY25	$2,460	$4,920	$4,920	$4,920	$4,920
FY26		$5,380	$10,760	$10,760	$10,760
FY27			$11,124	$22,248	$22,248
FY28				$13,961	$27,922
FY29					$16,750
Incremental Depreciation	$4,447	$12,287	$28,791	$53,876	$84,587

Source: Company data, Morgan Stanley Research

Exhibit 20: More Confidence in Model Conservatism; Material Upside Likely

AZURE AI EX-REV SHARE	FY25	FY26E	FY27E	FY28E	FY29E
Capex-implied 'Azure AI ex-Revenue Share' Revenues @ 20% GMs	$7,412	$20,479	$47,986	$89,794	$140,978
Capex-implied 'Azure AI ex-Revenue Share' Revenues @ 30% GMs	$8,471	$23,404	$54,841	$102,622	$161,118
Capex-implied 'Azure AI ex-Revenue Share' Revenues @ 40% GMs	$9,882	$27,305	$63,981	$119,726	$187,971
Capex-implied 'Azure AI ex-Revenue Share' Revenues @ 50% GMs	$11,859	$32,766	$76,777	$143,671	$225,565
Capex-implied 'Azure AI ex-Revenue Share' Revenues @ 60% GMs	$14,823	$40,957	$95,972	$179,588	$281,957
Note: Assumes depreciation constitutes ~75% of COGS while power, labor, etc. constitute the difference.					
Capex-implied 'Azure AI ex-Rev Share' Upside @ 20% GMs	-29%	-4%	16%	17%	5%
Capex-implied 'Azure AI ex-Rev Share' Upside @ 30% GMs	-18%	10%	33%	34%	20%
Capex-implied 'Azure AI ex-Rev Share' Upside @ 40% GMs	-5%	28%	55%	56%	40%
Capex-implied 'Azure AI ex-Rev Share' Upside @ 50% GMs	14%	54%	86%	87%	68%
Capex-implied 'Azure AI ex-Rev Share' Upside @ 60% GMs	43%	92%	133%	134%	109%

TOTAL AZURE AI (GMS % OF ex-Rev Share)	FY25	FY26E	FY27E	FY28E	FY29E
Capex-implied 'Total Azure AI' Revenues @ 20% GMs for ex-Rev Share Azure AI	$9,117	$24,865	$57,037	$105,794	$165,478
Capex-implied 'Total Azure AI' Revenues @ 30% GMs for ex-Rev Share Azure AI	$10,176	$27,791	$63,892	$118,622	$185,618
Capex-implied 'Total Azure AI' Revenues @ 40% GMs for ex-Rev Share Azure AI	$11,588	$31,692	$73,032	$135,726	$212,471
Capex-implied 'Total Azure AI' Revenues @ 50% GMs for ex-Rev Share Azure AI	$13,564	$37,152	$85,829	$159,671	$250,065
Capex-implied 'Total Azure AI' Revenues @ 60% GMs for ex-Rev Share Azure AI	$16,529	$45,344	$105,023	$195,588	$306,457
Note: Assumes depreciation constitutes ~75% of COGS while power, labor, etc. constitute the difference.					
Capex-implied 'Total Azure AI' Upside @ 20% GMs	-25%	-3%	13%	14%	4%
Capex-implied 'Total Azure AI' Upside @ 30% GMs	-16%	8%	27%	28%	17%
Capex-implied 'Total Azure AI' Upside @ 40% GMs	-4%	23%	45%	46%	34%
Capex-implied 'Total Azure AI' Upside @ 50% GMs	12%	45%	71%	72%	57%
Capex-implied 'Total Azure AI' Upside @ 60% GMs	37%	77%	109%	111%	93%

TOTAL AZURE (GMS % OF ex-Rev Share)	FY25	FY26E	FY27E	FY28E	FY29E
Capex-implied 'Total Azure' Revenues @ 20% GMs for ex-Rev Share Azure AI	$72,448	$104,801	$157,042	$228,030	$312,326
Capex-implied 'Total Azure' Revenues @ 30% GMs for ex-Rev Share Azure AI	$73,507	$107,727	$163,897	$240,858	$332,466
Capex-implied 'Total Azure' Revenues @ 40% GMs for ex-Rev Share Azure AI	$74,919	$111,628	$173,037	$257,962	$359,319
Capex-implied 'Total Azure' Revenues @ 50% GMs for ex-Rev Share Azure AI	$76,895	$117,089	$185,833	$281,907	$396,913
Capex-implied 'Total Azure' Revenues @ 60% GMs for ex-Rev Share Azure AI	$79,860	$125,280	$205,027	$317,825	$453,304
Note: Assumes depreciation constitutes ~75% of COGS while power, labor, etc. constitute the difference.					
Capex-implied 'Total Azure' Upside @ 20% GMs	-4%	-1%	4%	6%	2%
Capex-implied 'Total Azure' Upside @ 30% GMs	-3%	2%	9%	12%	9%
Capex-implied 'Total Azure' Upside @ 40% GMs	-1%	6%	15%	20%	17%
Capex-implied 'Total Azure' Upside @ 50% GMs	2%	11%	24%	31%	30%
Capex-implied 'Total Azure' Upside @ 60% GMs	6%	19%	36%	48%	48%

Source: Company data, Morgan Stanley Research

4) What Should Investors Expect for FY27 Guidance?

Looking back (see Exhibit 21) to prior F4Qs, Microsoft has selectively given forward looking commentary across revenue growth, operating income growth, opex growth, operating margins, COGs, capex and/or effective tax rate into the forward fiscal year. Additionally, in F3Qs, the street has also received forward FY commentary on many of these categories, with a reiteration of this initial look given on the FQ4 call with potentially a couple incremental categories, consistently including effective tax rate. In F3Q26, management provided a broader high-level framework for FY27 than in the prior year, including commentary around double-digit revenue and operating income growth, mid- to high-single-digit operating expense growth, continued AI infrastructure investment, the expectation for ~ $190bn of CY26 capex *(with a greater mix of short-lived assets)*, and Azure growth acceleration into C2H26. With much of that framework now already established, we think it is possible the F4Q26 call focuses more on reiterating those expectations rather than introducing materially new forward-looking guidance. **We do think it is likely we receive initial commentary pointing to FY27 operating margins 'down slightly' or 'down 1%' YoY, though we see a path to margin expansion in FY27 actual results.**

Exhibit 21: What to Expect for FY27 Guidance

Quarter Guidance Given	Guidance Regarding FY...	Topic	Commentary
4FQ26	FY27	?	?
3FQ26	CY26	Capex	Expect capex of ~$190 billion, including roughly $25 billion from higher component pricing
3FQ26	CY26	Azure	Azure revenue growth expected to show some modest acceleration in the second half of the year compared with half one
3FQ26	FY27	Revenue	Expect revenue to grow double-digits
3FQ26	FY27	Opex	Expect Operating expenses to grow in mid-to-high-single digits
3FQ26	FY27	Operating Income	Expect operating income to grow double-digits
4FQ25	FY26	Revenue	Expect revenue to grow double-digits
4FQ25	FY26	Capex	Expect FY26 capex growth to moderate compared to FY25 with a greater mix of short-lived assets
4FQ25	FY26	Operating Income	Operating income expected to grow double-digits Operating margins expected to be relatively unchanged YoY
3FQ25	FY26	Capex	We expect CapEx to grow. It will grow at a lower rate than FY 2025 and will include a greater mix of short-lived assets, which are more directly correlated to revenue than long-lived assets
4FQ24	FY25	Revenue	We continue to expect double-digit revenue and operating income growth, as we focus on delivering differentiated value for our customers
4FQ24	FY25	Operating Income	We continue to expect double-digit revenue and operating income growth, as we focus on delivering differentiated value for our customers
4FQ24	FY25	Capex	To meet the growing demand signal for our AI and cloud products, we will scale our infrastructure investments with FY 2025 capital expenditures expected to be higher than FY 2024
4FQ24	FY25	COGS	scaling these investments drives growth in COGS
4FQ24	FY25	Opex	we will remain disciplined on operating expense management. Therefore, we expect FY 2025 OpEx growth to be in the single digits
4FQ24	FY25	Operating Margins	we still expect FY 2025 operating margins to be down only about 1 point year-over-year
4FQ24	FY25	Effective Tax Rate	~19%
3FQ24	FY25	Revenue	Focus and execution should again lead to double-digit revenue and operating income growth
3FQ24	FY25	Operating Income	Focus and execution should again lead to double-digit revenue and operating income growth
3FQ24	FY25	Operating Margins	We will also continue to prioritize operating leverage and therefore, we expect FY 2025 operating margins to be down only about one point year-over-year, even with our significant cloud and AI investments as well as a full year of impact from the Activision acquisition
3FQ24	FY25	Capex	We expect FY 2025 capital expenditures to be higher than FY 2024
4FQ23	FY24	Revenue	Even with strong demand and a leadership position, growth from our AI services will be gradual as Azure AI scales and our Copilots reach general availability dates. So for FY 2024, the impact will be weighted towards H2.
4FQ23	FY24	Capex	To support our Microsoft Cloud growth and demand for our AI platform, we will accelerate investment in our cloud infrastructure. We expect capital expenditures to increase sequentially each quarter through the year as we scale to meet demand signals
4FQ23	FY24	COGS	Increased capital spend will drive higher COGS growth than in FY 2023
4FQ23	FY24	Opex	FY 2024 operating expense growth will remain low
4FQ23	FY24	Operating Margins	Full year operating margins to remain flat year-over-year, even with the headwind from the change in accounting estimate
4FQ23	FY24	Effective Tax Rate	~19%
3FQ23	FY24	Capex	We will continue to invest in our cloud infrastructure, particularly AI-related spend, as we scale with the growing demand driven by customer transformation
3FQ23	FY24	COGS	the scaled CapEx investments will impact COGS growth
3FQ23	FY24	Opex	we expect FY 2024 operating expense growth to remain low
4FQ22	FY23	Revenue	We continue to expect double-digit revenue and operating income growth in both constant currency and US dollars
4FQ22	FY23	Operating Income	We continue to expect double-digit revenue and operating income growth in both constant currency and US dollars
4FQ22	FY23	Opex	Operating expense growth will be significant early in FY 2023 and will moderate materially over the course of the year as we slow the rate of hiring to focus on key growth areas, increase the productivity of prior year head count investments, and anniversary the Nuance and Xandr acquisitions
4FQ22	FY23	Operating Margins	even with the significant level of investment in our future, we expect operating margins based on constant currency to be approximately flat year-over-year in FY 2023, excluding the benefit from the latest change in useful life
4FQ22	FY23	Effective Tax Rate	we expect our FY 2023 effective tax rate to be roughly 19%
3FQ22	FY23	Revenue	our track record of delivering high value to our customers across many diverse and durable growth markets gives us confidence that we will drive continued healthy double-digit revenue and operating income growth
3FQ22	FY23	Operating Income	our track record of delivering high value to our customers across many diverse and durable growth markets gives us confidence that we will drive continued healthy double-digit revenue and operating income growth

Source: Company Transcripts, Morgan Stanley Research

Exhibit 22: Morgan Stanley Forecasts Relatively In-line with Consensus in 4Q26 / FY26

Fiscal Year	4Q26e			1Q27e			FY26e			FY27e		
MSFT	MS	Consensus	MS v Cons	MS	Consensus	MS v Cons	MS	Consensus	MS v Cons	MS	Consensus	MS v Cons
Total Revenue	$87,701	$87,697	**0.0%**	$90,549	$89,977	**0.6%**	$329,533	$329,511	**0.0%**	$389,310	$384,896	**1.1%**
YoY Growth	*14.7%*	*14.7%*		*16.6%*	*15.8%*		*17.0%*	*17.0%*		*18.1%*	*16.8%*	
cc Growth	*14.7%*	*14.6%*		*16.6%*	*16.0%*		*17.0%*	*15.4%*		*18.1%*	*17.3%*	
Gross Margins	*66.3%*	*66.6%*	***-28 bps***	*66.2%*	*67.0%*	***-75 bps***	*67.7%*	*67.8%*	***-11 bps***	*65.7%*	*66.6%*	***-89 bps***
Gross Profit	*$58,159*	*$58,398*		*$59,970*	*$60,263*		*$223,142*	*$223,502*		*$255,792*	*$256,334*	
Opex (implied)	*$19,368*	*$19,381*		*$16,455*	*$17,344*		*$69,717*	*$69,730*		*$74,604*	*$76,499*	
Operating Income	$38,792	$38,980	**-0.5%**	$43,514	$42,806	**1.7%**	$153,426	$153,632	**-0.1%**	$181,188	$179,130	**1.1%**
Op. Margin	*44.2%*	*44.4%*	***-22 bps***	*48.1%*	*47.6%*	***48 bps***	*46.6%*	*46.6%*	***-7 bps***	*46.5%*	*46.5%*	***00 bps***
cc Implied OM %	*43.0%*	*43.2%*	***-16 bps***	*47.7%*	*47.1%*	***59 bps***	*38.3%*	*37.6%*	***76 bps***			
GAAP EPS	$4.21	$4.26	**-1.3%**	$4.71	$4.65	**1.2%**	$17.35	$16.93	**2.5%**	$19.62	$19.49	**0.7%**

Source: Company data, Morgan Stanley Research, Refinitiv, Visible Alpha

Risk Reward – Microsoft (MSFT.O)

Durability of Earnings Growth & AI Leadership Not Priced-In

PRICE TARGET $600.00

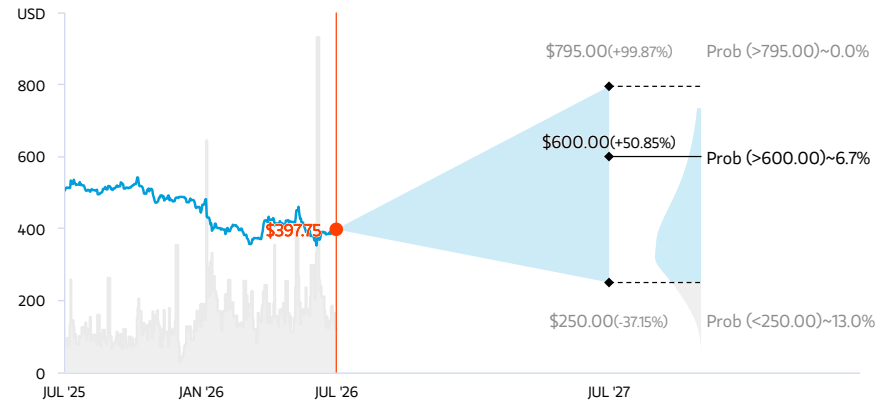
25x Base Case FY28e EPS of $23.86. 25x PE is a slight premium to large cap software peers, 1.2x PEG is a discount to MSFT historical PEG and large-cap software peers.

Consensus Price Target Distribution $400.00 — $561.57 (MS PT) — $870.00

Source: Refinitiv, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 21 Jul 2026. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- Greater than expected capacity-driven Azure growth inflection and Copilot monetization supports high-teens rev growth.
- Meaningful gross margin % headwinds are offset by operating leverage, yielding 20%+ EBIT growth and >20% EPS growth
- Shares trading at <16x FY28 GAAP EPS too cheap. Overweight

Consensus Rating Distribution

94%	Overweight
6%	Equal-weight
0%	Underweight

● MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

New Data Era:	*Positive*
Pricing Power:	*Positive*
Secular Growth:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $795.00

~29x Bull Case FY28e EPS: $27.39

Azure, O365 & Robust Contribution from AI Drive Top-Line Growth. Acceleration in Azure growth, adoption of higher priced M365 Commercial SKUs and continued seat growth, and robust adoption of Azure AI services and Microsoft AI Copilots across business lines drive low-20s revenue CAGR in the coming years. Operating margins expand to ~48.9% by FY28 and FY28e EPS is $27.39. ~29x PE represents a premium to large cap software peers, but below MSFT historical avg PEG at ~1.2x given >20% EPS CAGR.

BASE CASE $600.00

~25x Base Case FY28e EPS of $23.86

Azure, M365 & Ramping Contribution from AI Drive Top-Line Growth. Durability of Azure growth, adoption of higher priced M365 Commercial SKUs and continued seat growth, and ramping adoption of Azure AI services & Microsoft AI Copilots across business lines drive high-teens rev CAGR ahead. Operating margins expand beyond ~46.7% by FY28 and FY28e EPS is $23.86. 25x PE is a premium to large cap software peers, given strong positioning and execution. 1.2x PEG is a discount to MSFT historical PEG.

BEAR CASE $250.00

~12x Bear Case FY28e EPS: $21.64

Macro, Scale & Limited AI Adoption Drives Top-Line Growth Deceleration. Azure growth continues deceleration given scale, while M365 reaches penetration and adoption of Azure AI services & Microsoft AI Copilots across business lines remains limited. This drives mid-teens rev CAGR. Operating margins only expand to ~44.9% by FY28 from gross margin pressure and FY28 EPS is $21.64. ~12x PE is a discount to large cap software peers and a discount on a PEG.

Risk Reward – Microsoft (MSFT.O)

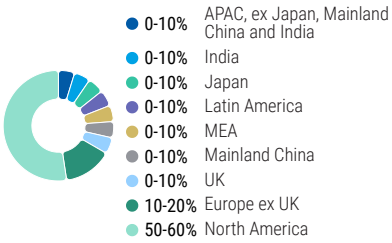
KEY EARNINGS INPUTS

Drivers	Jun 2025	Jun 2026e	Jun 2027e	Jun 2028e
Azure and Other Cloud Services Growth (%)	34.4	40.0	42.3	43.0
M365 Commercial Cloud Growth (%)	15.3	16.5	14.6	15.9
Gross Margins (%)	68.8	67.7	65.7	64.4
Operating Margins (%)	45.6	46.6	46.5	46.7
GAAP EPS Growth (%)	15.6	27.2	13.1	21.6

INVESTMENT DRIVERS

- Sustainability of commercial cloud growth, Copilot growth
- Improving Azure growth, cloud momentum, improving cloud margins

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

3/5 BEST	24 Month Horizon	1/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Cloud adoption accelerates, with Azure as convincing winner
- AI leadership results in substantial revenue contribution over-time
- Operational efficiencies leading to greater than anticipated economies of scale and margin expansion

RISKS TO DOWNSIDE

- Weak macro impacting IT spending
- On-premises cannibalization by Cloud
- Increased investments hurt margin expansion
- AI adoption proves limited

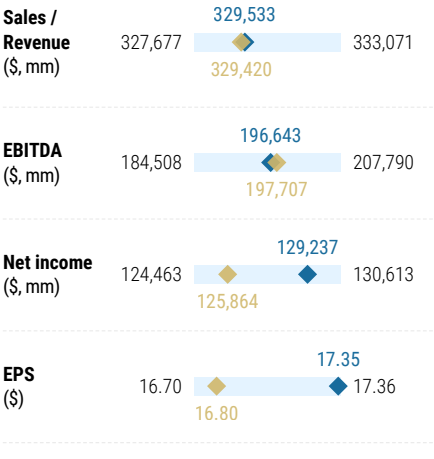
OWNERSHIP POSITIONING

Inst. Owners, % Active	52.5%
HF Sector Long/Short Ratio	2.1x
HF Sector Net Exposure	29.5%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Jun 2026e



Source: Refinitiv, Morgan Stanley Research

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

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(as of June 30, 2026)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1544	42%	453	49%	29%	757	44%
Equal-weight/Hold	1577	43%	390	42%	25%	769	44%
Not-Rated/Hold	3	0%	1	0%	33%	1	0%
Underweight/Sell	544	15%	89	10%	16%	204	12%
Total	3,668		933			1731	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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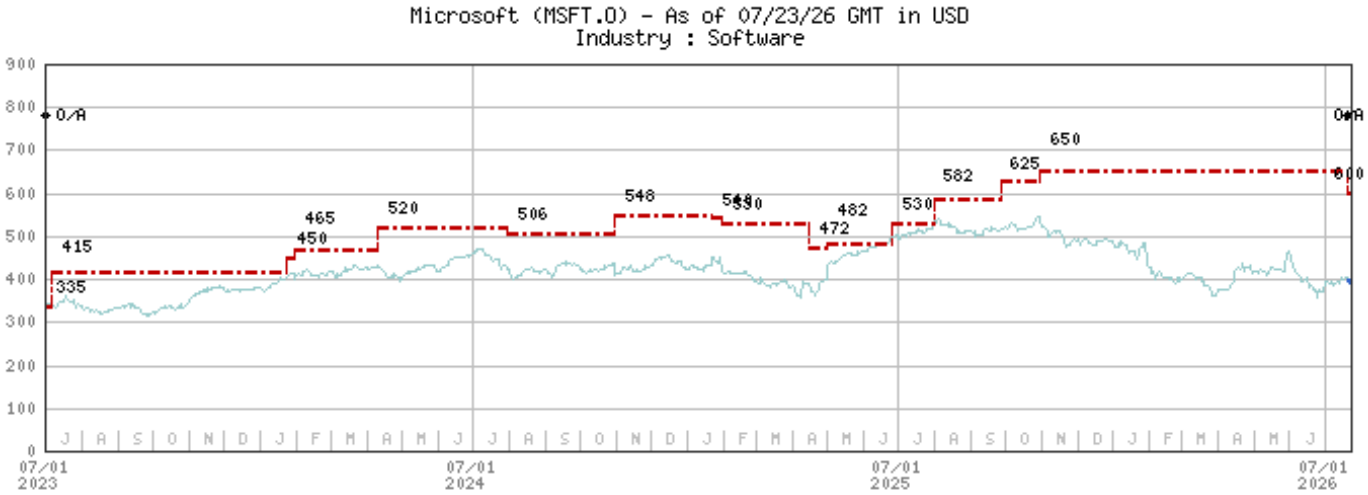
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

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Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 7/1/21 : O/A; 7/21/26 : O/A

Price Target History: 4/28/21 : 300; 7/28/21 : 305; 9/14/21 : 331; 10/27/21 : 364; 1/26/22 : 372; 7/12/22 : 354; 10/14/22 : 325; 10/26/22 : 307; 4/26/23 : 335; 7/6/23 : 415; 1/23/24 : 450; 1/31/24 : 465; 4/11/24 : 520; 7/31/24 : 506; 10/31/24 : 548; 1/22/25 : 540; 1/30/25 : 530; 4/15/25 : 472; 5/1/25 : 482; 6/26/25 : 530; 7/31/25 : 582; 9/26/25 : 625; 10/30/25 : 650; 7/21/26 : 600

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
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INDUSTRY COVERAGE: Software

COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/22/2026)
Adam Wood		
Adobe Inc. (ADBE.O)	U (07/21/2026)	$218.36
Atlassian Corporation PLC (TEAM.O)	O (01/13/2020)	$85.40
Intuit (INTU.O)	E (07/21/2026)	$284.47
Microsoft (MSFT.O)	O (07/21/2026)	$390.34
Salesforce, Inc. (CRM.N)	E (07/21/2026)	$163.00
Samsara Inc (IOT.N)	E (03/23/2023)	$33.33
ServiceNow Inc (NOW.N)	O (09/24/2025)	$95.46
Shopify Inc (SHOP.O)	O (04/19/2024)	$118.42
Workday Inc (WDAY.O)	U (07/21/2026)	$132.42
Chris Quintero		
BILL Holdings Inc (BILL.N)	E (06/10/2025)	$41.89
Blackline Inc (BL.O)	E (07/21/2026)	$27.87
Descartes Systems Group Inc (DSGX.O)	O (01/15/2026)	$68.10
Manhattan Associates Inc. (MANH.O)	E (10/21/2025)	$149.11
Navan Inc (NAVN.O)	O (11/24/2025)	$23.54
SPS Commerce Inc (SPSC.O)	U (07/21/2026)	$60.12
Vertex Inc. (VERX.O)	E (07/21/2026)	$11.05
Elizabeth Porter, CFA		
Amplitude Inc. (AMPL.O)	O (01/15/2026)	$8.74
Autodesk (ADSK.O)	O (08/23/2024)	$203.50
Figma Inc (FIG.N)	E (08/25/2025)	$21.47
Five9 Inc (FIVN.O)	E (10/10/2022)	$22.95
Freshworks Inc (FRSH.O)	E (10/18/2021)	$10.06
GoDaddy Inc (GDDY.N)	E (07/19/2021)	$89.40

HubSpot, Inc. (HUBS.N)	O (03/21/2023)	$204.90
Klaviyo, Inc (KVYO.N)	O (04/29/2026)	$16.20
LegalZoom.com Inc (LZ.O)	U (07/28/2022)	$7.08
Liveramp Holdings Inc (RAMP.N)	E (01/13/2025)	$37.66
NICE Ltd. (NICE.O)	E (07/21/2026)	$88.52
RingCentral Inc (RNG.N)	E (08/08/2023)	$37.66
Sprinklr Inc (CXM.N)	E (07/19/2021)	$5.56
Sprout Social Inc (SPT.O)	E (11/17/2020)	$7.61
Twilio Inc (TWLO.N)	O (02/24/2025)	$183.38
Wix.Com Ltd (WIX.O)	E (07/21/2026)	$48.66
Zeta Global Holdings Corp (ZETA.N)	E (08/01/2024)	$20.18
ZoomInfo Technologies Inc (GTM.O)	E (02/01/2024)	$2.92
Josh Baer, CFA		
Asana Inc (ASAN.N)	U (05/20/2025)	$6.88
Box Inc (BOX.N)	E (05/21/2024)	$28.45
CCC Intelligent Solutions Holdings Inc (CCC.O)	O (11/13/2024)	$5.73
Commerce.com Inc. (CMRC.O)	++	$2.72
CoreWeave (CRWV.O)	E (04/22/2025)	$82.64
Coursera, Inc. (COUR.N)	E (04/22/2026)	$5.34
DigitalOcean Holdings Inc (DOCN.N)	O (01/16/2025)	$142.68
Docebo Inc. (DCBO.O)	E (05/12/2025)	$19.54
DocuSign Inc (DOCU.O)	E (01/16/2024)	$47.89
Lightspeed Commerce Inc. (LSPD.N)	E (02/18/2021)	$9.76
monday.com Ltd (MNDY.O)	O (08/12/2025)	$73.91
Nebius Group NV (NBIS.O)	E (01/15/2026)	$218.16
Sabre Corp (SABR.O)	E (03/16/2021)	$1.66
ServiceTitan Inc (TTAN.O)	O (01/20/2026)	$69.90
Toast, Inc. (TOST.N)	O (12/16/2021)	$29.21
Via Transportation Inc (VIA.N)	O (01/20/2026)	$17.50
Zoom Communications (ZM.O)	E (10/11/2022)	$85.81
Meta A Marshall		
Check Point Software Technologies Ltd. (CHKP.O)	E (10/16/2023)	$127.91
CrowdStrike Holdings Inc (CRWD.O)	O (03/10/2026)	$188.42
Fortinet Inc. (FTNT.O)	E (07/21/2026)	$155.05
Gen Digital Inc. (GEN.O)	E (06/07/2024)	$25.58
Netskope, Inc. (NTSK.O)	O (10/13/2025)	$11.96
Okta, Inc. (OKTA.O)	O (12/02/2024)	$136.69
Palo Alto Networks Inc (PANW.O)	O (10/10/2017)	$335.28
Qualys Inc (QLYS.O)	U (02/09/2021)	$140.23
Rapid7 Inc (RPD.O)	U (07/21/2026)	$9.91
SailPoint Inc (SAIL.O)	O (09/02/2025)	$14.78
SentinelOne, Inc. (S.N)	E (12/02/2024)	$18.22
Tenable Holdings Inc (TENB.O)	E (12/02/2024)	$32.83
Varonis Systems, Inc. (VRNS.O)	E (01/26/2026)	$45.33
Zscaler Inc (ZS.O)	E (04/22/2026)	$142.26
Sanjit K Singh		
Akamai Technologies, Inc. (AKAM.O)	O (01/12/2026)	$124.30
Appian Corp (APPN.O)	E (04/30/2026)	$22.64
C3.ai (AI.N)	U (01/04/2021)	$8.19
Cloudflare Inc (NET.N)	O (12/02/2024)	$268.98
Datadog, Inc. (DDOG.O)	O (01/12/2026)	$245.77
Dynatrace Inc (DT.N)	E (02/13/2024)	$41.36
Elastic NV (ESTC.N)	E (07/21/2026)	$58.68
GitLab Inc (GTLB.O)	E (01/12/2026)	$31.35
JFrog Ltd. (FROG.O)	E (07/21/2026)	$79.68

MongoDB Inc (MDB.O)	O (04/12/2023)	$304.97
Oracle Corporation (ORCL.N)	E (01/15/2019)	$125.84
PagerDuty, Inc. (PD.N)	U (07/21/2026)	$8.82
Palantir Technologies Inc. (PLTR.O)	E (02/04/2025)	$124.57
Snowflake Inc. (SNOW.N)	O (06/24/2025)	$267.80
UiPath Inc (PATH.N)	E (09/07/2022)	$10.70

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* Historical prices are not split adjusted.

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