

Microsoft Corporation (MSFT)

Post-earnings equity research note | Q4 FY2026 reported 29 July 2026 | Prepared 5 August 2026

BUY

Unchanged from previous report

Last close (4 Aug 2026)	\$492.81
Move since the print (29 Jul close \$390.54)	+26.2%
Azure growth in the quarter	+43%
Commercial remaining performance obligation	\$678bn (+84%)
P/E on FY26 GAAP EPS of \$17.95	27.5x
Recommended entry range	\$440 - \$475

What the Quarter Changed

Microsoft closed its 2026 fiscal year with a quarter that beat on every line that matters and guided to more of the same, and the market responded with one of the largest four-day re-ratings in the company's history. Fourth-quarter revenue of \$90.0 billion rose 18% and exceeded the \$87.61 billion consensus by \$2.40 billion. Non-GAAP earnings of \$4.74 per share beat the \$4.24 estimate by 11.8%, a margin of surprise that is unusual for a company of this size and predictability. GAAP diluted earnings of \$4.81 rose 32%.

The number that changed the investment case, however, is none of those. Commercial remaining performance obligation reached \$678 billion, up 84% year over year. That is the contracted, not-yet-recognised revenue backlog, and an 84% increase in it says considerably more about the next three years than a single quarter's revenue beat does. Azure grew 43% and passed \$100 billion of annual revenue for the first time, with management guiding to approximately 45% constant-currency growth in the current quarter, an acceleration rather than the deceleration that consensus had assumed.

Set against that, two things deserve equal prominence. The first is that the shares have already moved 26.2% in four sessions, from \$390.54 on 29 July to \$492.81 on 4 August, which removes most of the discount that made the position attractive a week ago. The second is an accounting change disclosed alongside the results: from fiscal 2027, Microsoft will extend the estimated useful life of data centres and office buildings from 15 years to 25 years. That decision mechanically reduces annual depreciation, and it flatters the very fiscal 2027 operating income growth the company has just guided to.

Q4 FY2026 reported results (quarter ended 30 June 2026)

Measure	Q4 FY26	Q4 FY25	Change	vs consensus
Revenue	\$90.0bn	\$76.3bn	+18%	Beat (\$87.61bn est.)
Operating income	\$40.6bn	\$34.4bn	+18%	—
Net income	\$35.8bn	\$27.3bn	+31%	—
Diluted EPS (GAAP)	\$4.81	\$3.64	+32%	—
Diluted EPS (non-GAAP)	\$4.74	\$3.85	+23%	Beat (\$4.24 est.)
Operating margin	45%	~45%	slightly up	—
Gross margin	67%	—	down YoY	AI infrastructure mix
Microsoft Cloud revenue	\$59.3bn	—	+27%	—
Azure and other cloud services	—	—	+43%	Above guidance

Measure	Q4 FY26	Q4 FY25	Change	vs consensus
Productivity and Business Processes	\$37.8bn	—	+14%	—
Intelligent Cloud	\$39.3bn	—	+32%	—
More Personal Computing	\$12.9bn	—	-4%	Windows, Xbox, devices soft
Commercial RPO	\$678bn	—	+84%	—
Cash flow from operations	\$55.4bn	—	+30%	—
Free cash flow	\$19.6bn	—	-23%	Capex of \$41bn in the quarter
Returned to shareholders	\$10.2bn	—	—	Dividends and repurchases

Source: Microsoft FY26 Q4 press release (microsoft.com/investor), 29 July 2026. Non-GAAP results exclude the impact from investments in OpenAI. Consensus figures are aggregator estimates. Full-year FY26: revenue \$331.8bn (+18%), operating income \$155.2bn (+21%), GAAP diluted EPS \$17.95 (+32%).

Guidance for Fiscal 2027

Measure	Q1 FY2027 guidance	Implication
Total revenue	\$89.85 - 90.95bn	+16% to +17% year over year
Intelligent Cloud	\$40.95 - 41.25bn	+33% to +34%
Azure (constant currency)	~+45%	Acceleration from 43%
Productivity and Business Processes	\$36.7 - 37.0bn	Steady mid-teens growth
More Personal Computing	\$12.2 - 12.7bn	Continued decline expected
Capital expenditure	above \$50bn in Q1	Includes lease reclassification effects
FY2027 overall	double-digit revenue and operating income growth	See the note on useful life below

The Azure guidance is the single most bullish disclosure in the release. Consensus had broadly assumed that the law of large numbers would begin to bite once Azure passed \$100 billion of annual revenue. Management guided instead to an acceleration, and CFO Amy Hood attributed the upside to efficiency gains across the CPU and GPU fleet and faster delivery of new capacity, adding that demand continues to exceed available supply so efficiency improvements are monetised almost immediately. A supply-constrained business guiding to acceleration is describing a demand environment that has not yet peaked.

The useful-life change requires separate treatment because it is easy to overlook and material. Extending the depreciable life of data centres from 15 to 25 years reduces the annual depreciation charge on the affected asset base by roughly two-fifths, all else equal. Microsoft has not quantified the effect, and this report does not estimate it. What can be stated is the direction: a portion of the guided fiscal 2027 operating income growth will arise from an accounting revision rather than from operations, and reported margins in fiscal 2027 will therefore not be directly comparable with fiscal 2026. Investors should discount the guided operating income growth by an unknown but non-trivial amount when comparing it with prior years.

Business Quality and Competitive Position

Microsoft's fiscal 2026 was, by its own description, its strongest year: revenue of \$331.8 billion up 18%, operating income of \$155.2 billion up 21%, and a return on equity of 34%. Very few businesses of this size grow operating income

faster than revenue, and fewer still do so while spending \$41 billion a quarter on physical infrastructure. That combination is the clearest available evidence of pricing power.

The competitive position rests on a structural advantage that the AI cycle has amplified rather than threatened. Microsoft sells the infrastructure layer through Azure, the application layer through Microsoft 365 and Copilot, and increasingly the developer layer, to a customer base already locked into its identity, security and productivity estate. Copilot passed 30 million paid seats. CEO Satya Nadella's articulation of strategy on the call was notably specific: keep "the harness separate from the model", meaning enterprises should be able to substitute underlying models while retaining their own data, memory and context inside Microsoft's software. That is a deliberate hedge against model commoditisation, and it is the correct one, because it makes Microsoft indifferent to which model wins.

The weakness is More Personal Computing, down 4% to \$12.9 billion on softer Windows OEM, Xbox and device sales, and guided lower again. At roughly 14% of revenue it is not thesis-critical, but it is a reminder that the consumer franchise is in structural decline while the commercial one compounds.

Growth Drivers and Risks

Growth drivers

Driver	Likelihood	Impact	Comment
Azure capacity expansion	High	High	Guided to ~45% constant-currency growth; 31 new data centres added across five continents in the quarter
Contracted backlog conversion	High	High	\$678bn RPO, up 84%, provides multi-year revenue visibility unmatched by peers
Copilot seat expansion	Medium	High	Over 30 million paid seats; per-seat pricing on an installed base of hundreds of millions is the largest single monetisation lever
Operating leverage	Medium	Medium	Operating income grew faster than revenue in FY26 despite record capex
Model-agnostic architecture	Medium	Medium	Nadella's 'harness separate from the model' approach insulates Microsoft from model-layer competition

Risks

Risk	Probability	Severity	Comment
Valuation after a 26% four-day move	High	Medium	The re-rating has already occurred. Most of the good news is now in the price.
Earnings quality from the useful-life change	High	Medium	FY27 operating income growth will be flattered by lower depreciation. Magnitude undisclosed.
Capital intensity	High	Medium	Capex above \$50bn guided for Q1 FY27; free cash flow already down 23% despite 30% operating cash flow growth
Supply constraints	Medium	Medium	Demand exceeds capacity, capping the rate at which backlog converts to revenue
AI demand digestion	Medium	High	The single largest tail risk. An enterprise pause would strand capacity built at record cost.
More Personal Computing decline	High	Low	Structural, but only ~14% of revenue

Valuation

At \$492.81 the shares trade at 27.5 times fiscal 2026 GAAP earnings of \$17.95. For a business that grew revenue 18%, operating income 21% and earnings per share 32%, at a 45% operating margin and a 34% return on equity, that multiple is not demanding by Microsoft's own history or against megacap peers growing more slowly.

On forward earnings the picture depends on an assumption that should be made explicit. If fiscal 2027 earnings per share grow around 15%, roughly consistent with the guided double-digit revenue and operating income growth, the shares sit near 24 times forward earnings. That is a reasonable multiple for the growth profile. But part of that earnings growth comes from the depreciation change rather than from operations, so the true operating multiple is somewhat higher than 24 times. The honest formulation is that Microsoft is fairly-to-attractively priced on reported forward earnings and modestly less attractive on economic earnings, with the gap between the two unquantifiable from public disclosure.

The free cash flow line deserves a note. Operating cash flow of \$55.4 billion grew 30%, an excellent result, but free cash flow of \$19.6 billion fell 23% because \$41 billion went into capital expenditure. Microsoft still returned \$10.2 billion to shareholders in the quarter, which distinguishes it sharply from peers that have suspended buybacks to fund infrastructure. It is spending heavily and still returning capital, which is a materially stronger position than spending heavily instead of returning capital.

Metric	Value	Assessment
Price (4 Aug 2026 close)	\$492.81	Up 26.2% in four sessions
P/E on FY26 GAAP EPS (\$17.95)	27.5x	Reasonable for 32% EPS growth
Estimated forward P/E (FY27)	~24x	Flattered by the depreciation change
Operating margin	45%	Slightly higher year over year
Return on equity (LTM)	34%	Exceptional capital efficiency
Commercial RPO	\$678bn	Up 84%; the strongest forward indicator in the release
Free cash flow (quarter)	\$19.6bn	Down 23% on \$41bn of capex
Probability-weighted fair value	\$553	Approximately 12.2% above the current price

Market Reaction and Technical Position

The reaction was unambiguous and one-directional, in contrast to several peers reporting the same week. Microsoft closed at \$390.54 on 29 July, rose 15.5% to \$451.10 on 30 July on 110.2 million shares (roughly 3.4 times the twenty-day average), added 3.0% to \$464.72 on 31 July, 4.9% to \$487.65 on 3 August and 1.1% to \$492.81 on 4 August. There was no give-back at any point, which suggests genuine institutional repositioning rather than a short-covering spike.

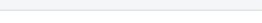
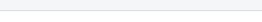
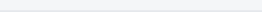
The consequence is a technically extended share. The price sits 21.0% above its twenty-day moving average, the relative strength index reads 79.0, and the 4 August intraday high of \$499.44 is the highest level in the entire hundred-session window. Momentum indicators of this kind do not predict reversals, but they do make the case that an investor initiating a position today is paying a premium for the privilege of acting immediately.

Indicator (as of 4 Aug 2026)	Value	Reading
Close	\$492.81	At the top of the 100-session range
SMA20	\$407.11	Price 21.0% above — heavily extended
SMA50	\$402.21	Price 22.5% above
SMA100	\$401.16	Price 22.8% above

Indicator (as of 4 Aug 2026)	Value	Reading
SMA200	not computed	Insufficient history in the 100-session series; not estimated
RSI(14)	79.0	Overbought
MACD / signal / histogram	+19.46 / +7.45 / +12.01	Strongly bullish
ATR(14)	\$17.04	3.5% of price
100-session range	\$349.20 - \$499.44	Price at the upper extreme

Indicators computed from 100 daily OHLCV sessions (12 Mar - 4 Aug 2026). The 200-day average could not be derived from that window and has deliberately not been estimated.

Scorecard

Category		Score	Comment
Business quality		10/10	45% operating margin, 34% ROE, 18% growth at \$331bn of revenue
Financial strength		9/10	Still returning \$10.2bn a quarter while spending \$41bn on capex
Competitive advantage		9/10	Infrastructure, application and identity layers reinforce one another
Management		9/10	Beat on every line and guided Azure to acceleration
Growth potential		9/10	\$678bn backlog up 84%; Azure guided to ~45%
Valuation		6/10	27.5x trailing after a 26% run; forward multiple flattered by depreciation change (was 8)
Risk (higher = safer)		6/10	Capital intensity and AI demand concentration
Technical setup		8/10	Powerful breakout on heavy volume, but RSI 79 and 21% above the 20-day

Overall Investment Score: 82/100

Weightings: growth 16, valuation 16, business quality 15, competitive advantage 13, financial strength 12, risk 13, management 10, technicals 5. Valuation is the only score to move versus the previous report, and it moved down on price rather than on any deterioration in the business.

Recommendation: Buy (reaffirmed), with entry discipline

The Buy rating is reaffirmed. The quarter strengthened rather than merely confirmed the investment case, and the \$678 billion backlog growing 84% is the kind of disclosure that changes what a reasonable person should expect from the next three years. Azure accelerating past \$100 billion of annual revenue while supply-constrained is a better problem than any of Microsoft's competitors currently have.

The reaffirmation comes with a condition that materially affects how it should be acted upon. At \$492.81 the shares have already absorbed 26.2% of good news in four sessions, sit 21% above their twenty-day average with a relative strength index of 79, and offer roughly 12% upside to a probability-weighted fair value of \$553. Against a cut-loss below the 30 July gap at \$432, the risk and reward at today's price are close to one-to-one, which is not an attractive proposition regardless of business quality.

Entering between \$440 and \$475, which the shares traded through as recently as 30 and 31 July, changes that arithmetic substantially: from \$465 the upside to the base-case \$556 is 19.6% against 7.1% of downside to the cut-loss, a ratio near 2.75 to one. The recommendation is therefore to own Microsoft and to be patient about the entry, rather than to chase a 26% move. For an existing holder, nothing here argues for trimming.

Trade plan

Parameter	Level	Rationale
Recommended entry	\$455 - \$475	The 30-31 July consolidation band, before the final leg of the move
Ideal buy range	\$440 - \$475	A fuller retracement toward the post-earnings gap
Cut-loss	\$432	Below the 30 July intraday low of \$432.44; a break implies the re-rating is being unwound
Take-profit target 1	\$556	Base-case fair value at ~27x FY27 earnings
Take-profit target 2	\$660	Bull case: Azure sustains 40%+ and the backlog converts on schedule
Expected upside (from \$465)	+19.6% to TP1	+41.9% to TP2
Expected downside (from \$465)	-7.1%	To the cut-loss level
Risk / reward (from \$465)	~2.75 : 1	Against ~1 : 1 at the current price of \$492.81
Holding horizon	12 - 24 months	Long enough for the backlog to convert
Suggested allocation	4 - 6% of equities	Core holding sizing; ATR of 3.5% permits a full position

Scenario analysis

Scenario	Prob.	Earnings path	Fair value	Conditions
Bull	30%	FY27 EPS ~\$22	\$660	Azure holds above 40%, backlog converts on schedule, Copilot seats compound; multiple holds at 30x
Base	45%	FY27 EPS ~\$20.6	\$556	Double-digit revenue and operating income growth as guided; multiple ~27x
Bear	25%	FY27 EPS ~\$19	\$418	Enterprise AI digestion, capacity stranded, multiple compresses to ~22x

Probabilities sum to 100%. Probability-weighted fair value: \$553, approximately 12.2% above the 4 August close of \$492.81.

Final Verdict

This was the most convincing quarter reported by any megacap technology company in the current cycle, and the market priced it accordingly and immediately.

The reason to own Microsoft is not the revenue beat, which was modest at 2.7%, nor the earnings beat, which was large but partly a matter of cost timing. It is the \$678 billion of contracted backlog growing at 84%, combined with a supply-constrained cloud business guiding to acceleration rather than deceleration past \$100 billion of annual revenue. Those two facts together describe a company whose principal constraint is how fast it can build, not whether anyone wants what it builds. Microsoft is also, notably, spending at record scale while continuing to return \$10.2 billion a quarter to shareholders, which sets it apart from peers funding similar ambitions by suspending buybacks and issuing debt.

Two qualifications keep this from being a Strong Buy. The depreciation change from fiscal 2027 means reported operating income growth will overstate operating progress by an amount the company has not disclosed, and any investor comparing fiscal 2027 margins with fiscal 2026 will be comparing different measurement bases. And the price has moved 26% in four sessions to a relative strength index of 79, which means the market has already paid for most of what was learned. The business deserves to be owned. It does not need to be bought this morning, and the trade plan above reflects that distinction rather than obscuring it.

Sources

Microsoft Investor Relations — FY26 Q4 press release and earnings webcast (29 Jul 2026) • Investing.com — Microsoft Q4 FY2026 earnings call transcript and analyst Q&A • Alpha Vantage — daily OHLCV series, 12 Mar to 4 Aug 2026 • moomoo news search — Microsoft coverage, 29 Jul to 4 Aug 2026

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