

Microsoft Corporation (MSFT) Financial Analysis

A Five-Year Performance Review with Segment and Ratio Analysis

Five-Year Financial Performance Review (FY2020-2024)

Analysis Date: 1 March 2026

Analyst: Accilize.com

Data Sources: SEC 10-K filings, Microsoft Investor Relations

Executive Summary

Microsoft Corporation delivered exceptional financial performance over the five-year period from FY2020 to FY2024, demonstrating the successful execution of its cloud-first strategy and AI transformation. The company achieved a revenue CAGR of 9.9%, expanding from \$168.1 billion in FY2020 to \$245.1 billion in FY2024. Operating margins improved significantly from 41.6% to 44.6%, reflecting operational leverage and the shift toward higher-margin cloud services.

Key Highlights

- **Revenue Growth:** 5-year CAGR of 9.9%, with consistent double-digit growth through FY2022
- **Margin Expansion:** Operating margin improved 300 basis points to 44.6% in FY2024
- **Cash Generation:** Free cash flow increased from \$56.1 billion to \$74.1 billion, maintaining strong conversion ratios
- **Capital Allocation:** Returned \$195+ billion to shareholders through dividends and buybacks over five years
- **Balance Sheet:** Maintained net cash position throughout the period, ending FY2024 with \$75.5 billion in cash and short-term investments

The Intelligent Cloud segment emerged as the primary growth driver, achieving 17.4% CAGR and becoming the largest revenue contributor. Microsoft's strategic investments in AI, particularly through the OpenAI partnership, position the company well for continued growth in the evolving technology landscape.

Financial Summary Table (5-Year Historical)

Metric (\$ millions)	FY2024	FY2023	FY2022	FY2021	FY2020	5-Yr CAGR
Revenue	245,122	211,915	198,270	168,088	143,015	9.9%
Gross Profit	171,008	146,052	135,620	115,856	96,937	12.0%
Operating Income	109,433	88,523	83,383	69,916	59,541	13.0%
Net Income	88,136	72,361	72,738	61,271	44,281	14.7%
Free Cash Flow	74,071	59,475	65,149	56,118	45,234	10.4%
Total Assets	512,163	411,976	364,840	333,779	301,311	11.2%
Total Debt	51,631	47,237	47,032	50,074	59,578	-2.9%
Cash & ST Investments	75,543	111,262	104,757	130,334	136,527	-11.2%

Segment Revenue Analysis

Segment	FY2024 Revenue	% of Total	FY2020 Revenue	5-Yr CAGR
Intelligent Cloud	\$105,362M	43.0%	\$48,366M	17.4%
Productivity & Business Processes	\$77,728M	31.7%	\$46,398M	10.9%
More Personal Computing	\$62,032M	25.3%	\$48,251M	5.1%
Total	\$245,122M	100.0%	\$143,015M	9.9%

Key Segment Trends:

- Intelligent Cloud (Fastest Growing):**
 - Became largest segment in FY2022, driven by Azure growth
 - Azure and other cloud services showing consistent 25%+ growth rates
 - Benefits from digital transformation and AI adoption trends
- Productivity & Business Processes (Steady Growth):**
 - Microsoft 365 Commercial and Consumer driving growth
 - LinkedIn contributing \$15+ billion annually
 - Dynamics 365 showing strong momentum in enterprise market
- More Personal Computing (Mature/Cyclical):**
 - Windows OEM revenue impacted by PC market cycles
 - Gaming revenue volatile but growing long-term
 - Search advertising providing steady contribution

Ratio Analysis Table

Profitability Ratios	FY2024	FY2023	FY2022	FY2021	FY2020
Gross Margin	69.8%	68.9%	68.4%	68.9%	67.8%
Operating Margin	44.6%	41.8%	42.1%	41.6%	41.6%
Net Margin	36.0%	34.1%	36.7%	36.5%	31.0%
ROE	36.3%	40.1%	43.7%	46.1%	40.2%
ROIC	28.2%	28.1%	29.9%	27.7%	22.9%

Capital Allocation Summary

Year	Dividends Paid	Share Buybacks	Total Returned	% of FCF
FY2024	\$21.8B	\$17.3B	\$39.1B	52.8%
FY2023	\$19.8B	\$22.2B	\$42.0B	70.6%
FY2022	\$18.1B	\$32.7B	\$50.8B	78.0%
FY2021	\$16.5B	\$27.4B	\$43.9B	78.2%
FY2020	\$15.1B	\$23.0B	\$38.1B	84.2%
Total	\$91.3B	\$122.6B	\$213.9B	72.7%

Capital Allocation Strategy:

- **Dividend Policy:** Consistent annual increases (10%+ growth in recent years)
- **Share Repurchases:** Opportunistic buybacks totalling \$122.6B over five years
- **M&A Activity:** Strategic acquisitions including Activision Blizzard (\$68.7B in FY2023)
- **CapEx Investment:** Increased data centre investments to support cloud growth

Recent Developments (September 2024):

- Announced new \$60 billion share buyback programme
- Raised quarterly dividend 10% to \$0.83 per share
- Demonstrates continued commitment to shareholder returns

Balance Sheet Strength Assessment

- **Total Cash & Short-term Investments:** \$75.5 billion
- **Total Debt:** \$51.6 billion
- **Net Cash Position:** \$23.9 billion
- **Working Capital:** \$34.4 billion

- **Shareholders' Equity:** \$268.5 billion
- **Debt Maturity Profile:** Well-laddered, no significant near-term refinancing requirements, weighted average cost ~2.8%

Key Financial and Operational Risks

1. **AI Competition:** Intense rivalry in AI and cloud computing from Amazon, Google, and emerging players
2. **Regulatory Scrutiny:** Increased antitrust oversight, especially regarding AI partnerships and market dominance
3. **Cybersecurity Threats:** Growing sophistication of cyber-attacks targeting cloud infrastructure and customer data
4. **Talent Acquisition:** Competition for AI and cloud engineering talent in tight labour markets
5. **Data Centre Capacity:** Need for continued massive capital investments to support cloud growth
6. **Foreign Exchange:** Significant international revenue exposure to currency fluctuations
7. **Interest Rate Sensitivity:** Impact on investment portfolio and debt refinancing costs

Disclosed Risk Factors (from 10-K filings):

- Intense competition across all business segments
- Cybersecurity incidents and data breaches
- Government litigation and regulatory activity
- Macroeconomic factors affecting IT spending
- Geopolitical tensions impacting international operations

Investment Conclusion

Microsoft demonstrates exceptional financial strength and strategic positioning in the technology sector. The company's successful cloud transformation, strong cash generation, and disciplined capital allocation create a compelling investment profile for institutional investors.

- Market-leading position in cloud computing and productivity software
- Strong competitive moats through ecosystem integration
- Consistent cash flow generation supporting sustainable dividend growth
- Strategic AI investments positioning for next growth wave

Areas of Monitoring:

- Competitive dynamics in AI and cloud markets
- Regulatory developments affecting business operations
- Execution of large-scale acquisitions and integrations

- Maintenance of growth rates as business scales

Overall Assessment: Microsoft's financial performance over the FY2020-2024 period demonstrates the successful execution of its cloud-first strategy, resulting in sustained revenue growth, margin expansion, and strong shareholder returns. The company's balance sheet strength and cash generation capabilities provide flexibility to invest in growth opportunities while maintaining attractive shareholder returns.

Disclaimer: This analysis is based on publicly available financial disclosures and SEC filings. All data has been sourced from Microsoft's official 10-K and 10-Q reports. Forward-looking statements are subject to risks and uncertainties as described in Microsoft's SEC filings.

Data Sources:

- Microsoft Corporation 10-K Annual Reports (FY2020-2024)
- Microsoft Corporation 10-Q Quarterly Reports
- SEC EDGAR Database
- Microsoft Investor Relations Materials

Analysis completed: 1 March 2026