

Analysis on the Implementation Effect of Microsoft Corporation's Financial Strategy

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Abstract. Microsoft, traditionally a software monarch, has metamorphosed into a multifaceted tech titan, with cloud services and enterprise solutions as its modern-day driving points. On the stage of global science and technology business, financial strategy plays the role of a beacon, illuminating the complex financial situation and strategic positioning of enterprises. Based on Microsoft's public financial information and data, this paper analyzes its financial strategy, explores the implementation effect of its financial strategy, finds its existing problems, and puts forward corresponding suggestions to promote its long-term stable development. The study found that Microsoft has strong R&D investment and strategic layout ability, which can bring excellent returns to its investors, and good financial performance indicates a strong driving force for its diversified development in the future. In the future, Microsoft should pay more attention to the dividend income of investors to match the growth of the enterprise, and continue to increase its R&D ability to enhance its growth ability. This enriches the research on the implementation effect of Microsoft's financial strategy under the current "cloud first" business model, and the improvement suggestions put forward will help Microsoft improve its financial strategy and provide reference for peer enterprises.

Keywords: Quantitative analysis; Microsoft; financial strategy.

1. Introduction

1.1. Background

Microsoft's development has gone through three stages: PC and Internet era, mobile era and cloud + AI era. After the implementation of the reform, Microsoft has been rejuvenated in the era of Web3.0, and has made outstanding achievements in the fields of market value, business focus, cloud capabilities and ecological cooperation. However, Microsoft also faces fierce competition from Amazon com Inc, Apple Inc and alpha Inc [1]. Financial strategy is the overall strategy and incentive system for Microsoft to achieve sustainable growth. The research on the implementation effect of its financial strategy will be more conducive to understanding its current performance, and is expected to promote the further improvement of its financial strategy.

1.2. Related Research

Financial strategy is a long-term and overall plan. Pay close attention to the overall strategy of the company to make the enterprise use capital reasonably and effectively. Considering the company's internal and external environment as well as its own strategic development goals, the financial strategy needs a holistic approach to maximize the value of the enterprise, so as to organically coordinate the raising, management and distribution of capital. The content of financial strategy can be divided into two main parts: the first part involves cash, accounts receivable, stocks and other daily businesses. The second part is the non-standard activities for enterprises, such as financing, investment and income distribution, planning and management of necessary resources [2]. Ouyang (2023) studied Microsoft's "cloud first" strategy and financial performance, confirming Microsoft's excellent financial performance [3]. Zheng and Song (2015) analyzed Microsoft's corporate governance and the direct causes of its financial performance based on Microsoft's financial indicators, and found that breaking through its existing market bottleneck is an important way to enhance its financial performance [4]. Based on this, this paper analyzes Microsoft's financial and non-financial

indicators from the perspective of investment, financing, dividend and operation strategy, in order to better evaluate its financial effect.

1.3. Objection

As a giant enterprise active on the world stage, Microsoft has become the world's largest software group and the leader of cloud services. In order to explore the reasons behind its outstanding achievements and the financial factors to ensure its long-term healthy development, this paper relies on financial data and information to study the implementation effect of its financial strategy, and puts forward corresponding suggestions for further improving the financial strategy, aiming to further improve Microsoft's competitiveness.

The research framework of this paper is as follows: the first chapter is the introduction, including the research background, research significance and research objectives. The second chapter is the subdivision study of Microsoft's financial strategy, including investment, financing, dividends and operations. The third chapter is the analysis of the implementation effect of Microsoft's financial strategy, which is divided into financial and non-financial content. The fourth chapter is the suggestion. The fifth chapter is the conclusion.

2. Basic Description of Microsoft Corporation's Financial Strategy

2.1. Investment Strategy

Microsoft's investment and development has gone through three stages: PC and Internet era, mobile era and cloud + AI era [5]. Its investment strategic objectives mainly include three parts: (1) reinvent productivity and business processes. (2) build the Intelligent Cloud and intelligent edge platform. (3) create more personal computing [6]. In 2022, Microsoft's research and development expenses were \$24512 million, accounting for 29.4% of revenue; In 2023, this figure was \$27195 million, accounting for 30.72%. Microsoft continues to invest in emerging technology trends and breakthroughs, including digital work and life experience, cloud computing, artificial intelligence, devices and operating systems. In January 2023, Microsoft invested \$10billion in OpenAI. In order to support the investment in azure artificial intelligence infrastructure, Microsoft's capital expenditure increased by 15% month on month in the third quarter of fiscal 2023, reaching US \$7.8 billion, and is expected to grow further (data source: 2023 annual report).

2.2. Financing Strategy

Financing is the source of funds for enterprises. According to the financing sources, it includes debt financing and equity financing [7]. According to Microsoft's financial report data, from 2019 to 2023, its debt issuance is only long-term debt, which are: -4b, -5.52b, -3.75b, -9.02b, -2.75b respectively. This shows that Microsoft is constantly paying its debts. In addition, as of August 30, 2023, the market value of Microsoft was \$2.44 trillion (data source: Yahoo finance). In contrast, Microsoft's financing strategy is more inclined to equity financing, and it has strong financial strength. As shown in Figure 1, Microsoft's outstanding shares in 2023 have reached US \$7472 million.

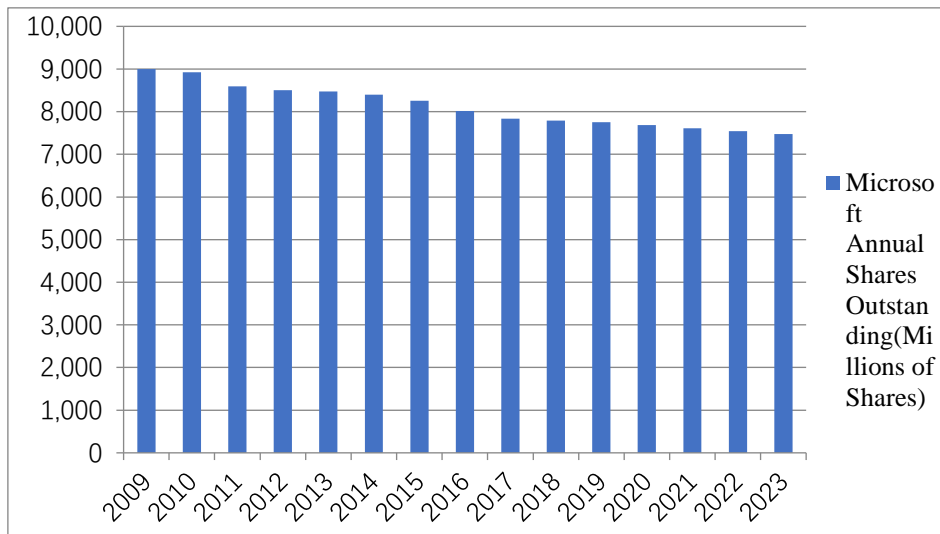


Fig. 1 Microsoft annual shares outstanding (millions of shares)

Data source: Macrotrends.

Relying on its strong equity financing ability, Microsoft will also carry out bond financing at the time of need. For example, on August 2, 2023, Microsoft will issue bonds to raise US \$19.75 billion to acquire LinkedIn, which is the highest rating of "AAA". As one of the top companies in the global market value, Microsoft's financing strategy is flexible and effective.

2.3. Dividend Distribution Strategy

The dividend distribution strategy is affected by many factors of the enterprise. It is a long-term plan for the dividend distribution of shareholders from the overall situation of the enterprise [8]. Microsoft's dividend distribution policy is cash dividend. From 2021 to 2023, Microsoft's common stock cash dividends paid were 16521, 18135, 19, 800 million respectively, with growth rates of 9.77% and 9.18% (data source: 2023 annual report). In addition, it is clear from Figure 2 below that the dividend per share is increasing.

MSFT dividend stability and growth



Fig. 2 MSFT dividend growth

Source: <https://www.wallstreetzen.com/stocks/us/nasdaq/msft/dividends>.

2.4. Operation Strategy

Under the background of Microsoft's "cloud first" strategy, Microsoft's market operation focus is on the pure enterprise market [9]. Microsoft takes the intelligent cloud service as the core, actively introduces ecological partners, changes the profit model, actively builds vertical industry solutions by means of technology empowerment, and expands the enterprise operation market. On the basis of the original "channel ecology + developer ecology", Microsoft's ecosystem has added a new "characteristic cooperation ecology", and "competes and cooperates" with Google, Amazon, etc. with an open and inclusive attitude, and has become the world's number one provider of open source code [10].

3. Implementation Effect of Financial Strategy of Microsoft Corporation

3.1. Financial Performance Analysis

3.1.1 Profitability

The profitability of an enterprise reflects the profitability of an enterprise in a certain situation [11]. This paper uses ROE and ROA to evaluate Microsoft's profitability. As can be seen from Figure 3, Microsoft's roe has increased significantly since 2018, and this index has reached 38.2% in March 2023. This shows that Microsoft has a strong ability to create profits, the company's own capital profitability is strong, and the use of funds is very efficient.

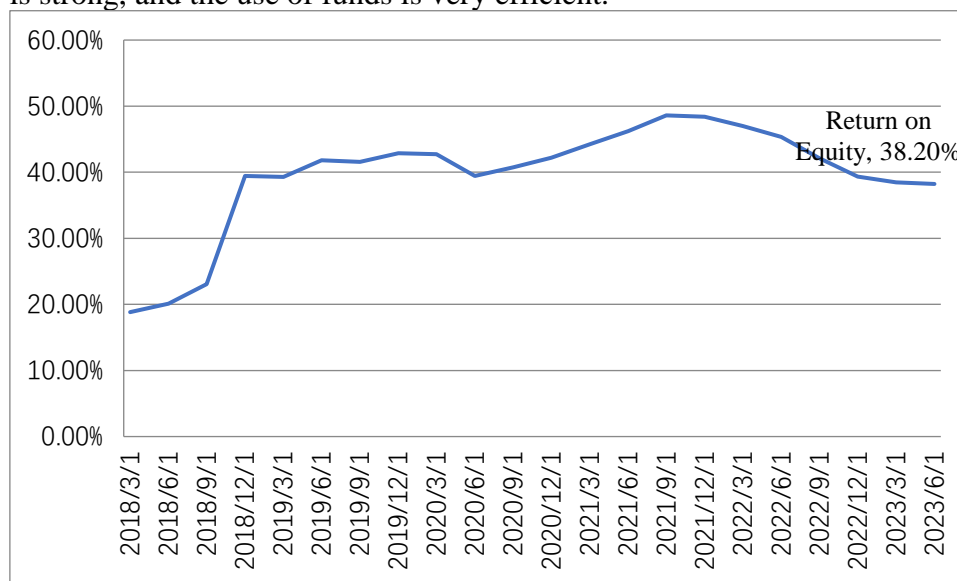


Fig. 3 Return on equity of MSFT

Data source: Macrotrends.

Figure 4 shows the ability of Microsoft's assets to create profits. This indicator continued to grow from 2018 to 2023, and reached 19.09% in March 2023. Although these have declined in recent years, they still maintain sufficient profitability.

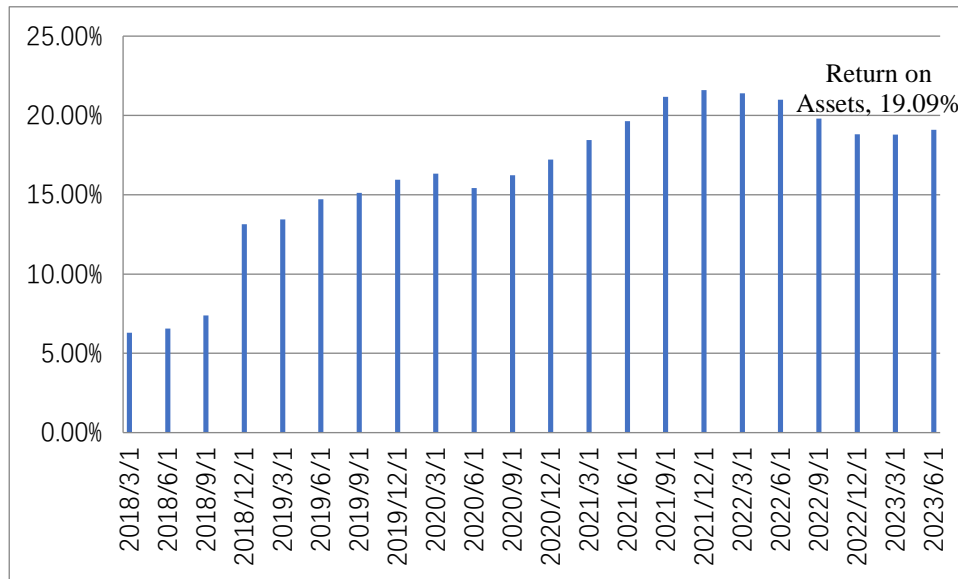


Fig. 4 Return on assets of MSFT
 Data source: Macrotrends.

3.1.2 Solvency

The solvency analysis can reflect the solvency of Microsoft's financial strategy under the current business model, which is conducive to enterprises' better analysis of the implementation effect of financial strategy [12]. As can be seen from Figure 5 below, from 2018 to 2023, Microsoft's current ratio, quick ratio and debt equity ratio showed a downward trend, and the values in June 2023 were 1.77, 1.75 and 1, respectively. This shows that the company's current assets have a strong guarantee ability for current liabilities, and its short-term solvency is strong. The debt equity ratio can reflect the degree of utilization of Microsoft's financial leverage, that is, its owner's equity has sufficient protection for the rights and interests of creditors, and its long-term solvency is good. It can be seen from the declining trend of indicators that Microsoft is constantly adjusting its financial leverage, which is closely related to the adjustment of its business focus and huge investment.

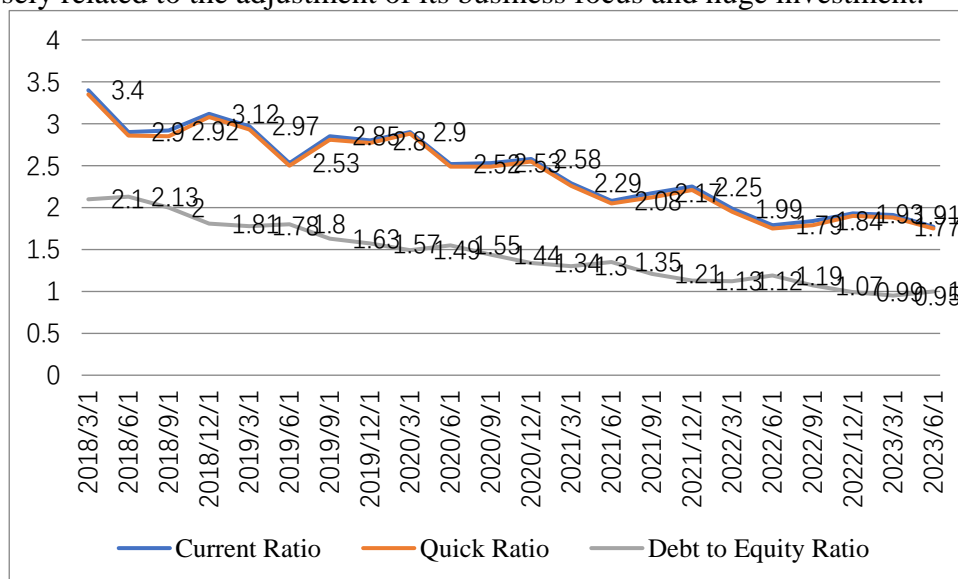


Fig. 5 Solvency ratio
 Data source: Macrotrends.

3.1.3 Operation capacity

Operating capacity refers to the ability of an enterprise to judge the utilization efficiency and effect of assets by analyzing the turnover of current assets and non-current assets [13]. This paper chooses

the turnover rate of total assets and the turnover rate of accounts receivable to judge Microsoft's operation ability. As can be seen from Figure 6 below, Microsoft's total asset turnover has been rising since 2017, and reached 0.51 in June 2023. This shows that the turnover efficiency of its assets has been continuously enhanced and its sales capacity has been continuously enhanced.

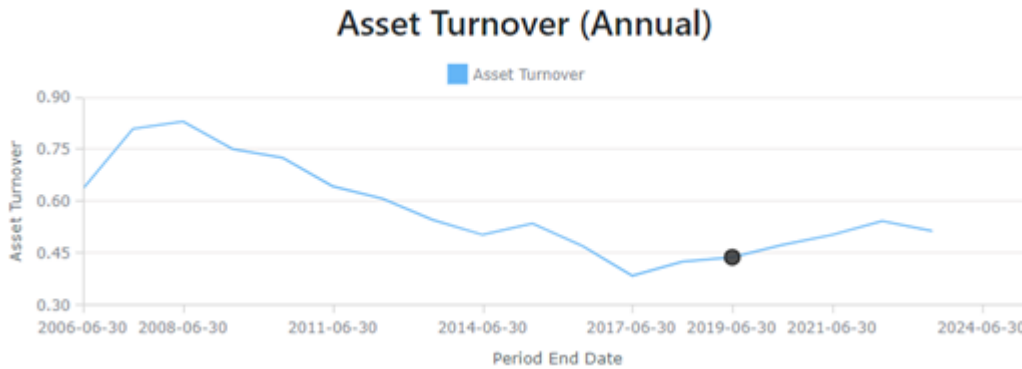


Fig. 6 Asset turnover

Source: <https://www.alphaquery.com/stock/MSFT/fundamentals/annual/inventory-turnover>.

Figure 7 shows Microsoft's inventory turnover rate, which has been rising since 2006 and reached 26.35 in June 2023, indicating that Microsoft has strong control over its inventory, and the liquidity of inventory and the proportion of inventory capital are reasonable.



Fig. 7 Inventory turnover

Source: <https://www.alphaquery.com/stock/MSFT/fundamentals/annual/inventory-turnover>.

3.1.4 Growth ability

Growth capability analysis can reflect the future development potential of an enterprise [14]. By calculating the growth rate of its total assets, operating income and net profit, it can help enterprises make long-term decisions and better meet the needs of sustainable development of enterprises.

As can be seen from Figure 8, Microsoft's total assets, operating revenue and EBITDA growth rate are all positive, that is, its absolute volume is growing every year. Since 2016, Microsoft has been in rapid growth. The year-on-year growth rate of EBITDA in 2021 is as high as 24.1%. However, it has a corresponding decline in 2023, which may be due to its investment in meta universe and a series of acquisitions. On the whole, Microsoft is still an unshakable technological growth entity.

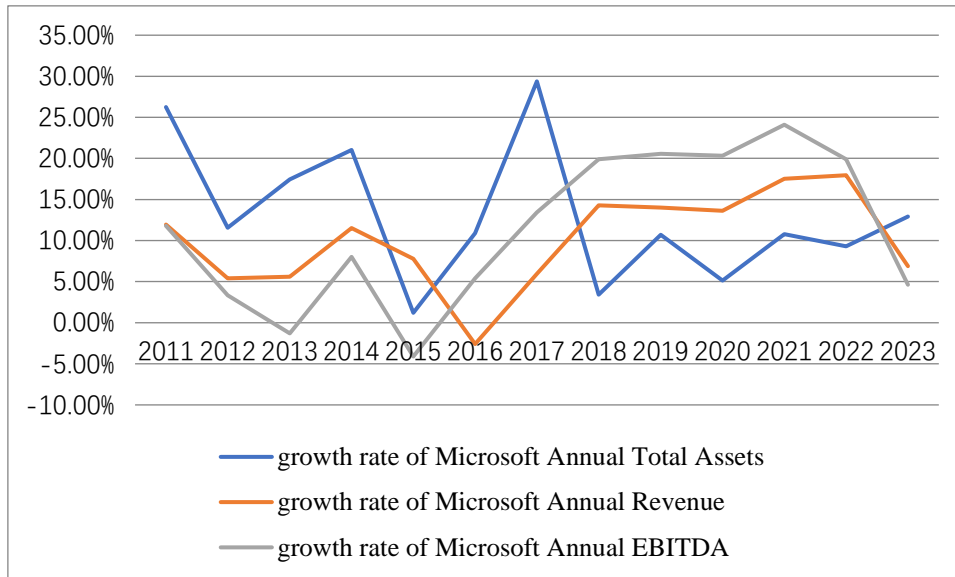


Fig. 8 Growth ratio
 Data source: Macrotrends.

3.2. Non Financial Performance Analysis

3.2.1 R&D capability

As can be seen from Figure 9 below, Microsoft's R&D investment is on the rise and will reach US \$27195 million in 2023. However, the proportion of R&D investment in operating revenue has declined since 2015, but this index still exceeds 30% in 2023, reaching 30.72%. As a pivotal technology-based enterprise, Microsoft's R&D investment conforms to its investment and financial strategic objectives, and is an important source of its growth [15].

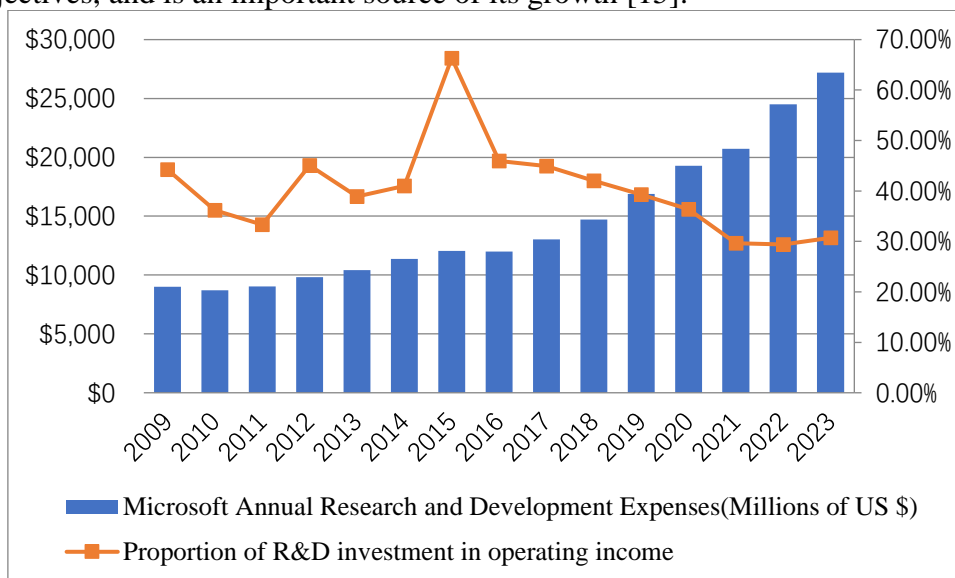


Fig. 9 R & D capabilities ratio
 Data source: Macrotrends.

3.2.2 Market share

In the magnificent tapestry of technology rule, global technology-based enterprises are in the process of interweaving each other, and the market pattern is constantly changing. Table 1 below shows the market share distribution pattern of Microsoft and its competitors by the second quarter of 2023. The top four enterprises in the market are Amazon com Inc (22.17%), Apple Inc (15.82%), alphabet Inc (11.93%) and Microsoft Corporation (8.73%). It can be seen from this that Microsoft

has great challenges at present, which is related to its early investment and layout investment. Microsoft is gradually transforming into a multi-faceted technology giant, with cloud services and enterprise solutions as its modern pioneer. Its growth trajectory and strategic positioning have become the most attractive investment proposition.

Table 1. Market Share Analysis

Company name	Revenues in millions of \$ (12 months Ending, Q2 2023)	Market share (12 months, Q2 2023)
Microsoft Corporation	211,915.00	8.73%
Apple Inc	383,933.00	15.82%
Oracle Corporation	94,314.00	3.89%
Intel Corporation	73,394.00	3.02%
Walt Disney Co	87,807.00	3.62%
Alphabet Inc	289,531.00	11.93%
Sony Group Corporation	81,604.37	3.36%
Meta Platforms Inc	120,523.00	4.97%
Amazon com Inc	1881067.37	22.17%
Subtotal	1881067.37	78%

Data source: <https://csimarket.com/stocks/competitionSEG2.php?code=MSFT>.

4. Suggestion

From the above analysis, it can be seen that Microsoft has strong R&D investment and strategic layout ability, which can bring excellent returns to its investors, and good financial performance indicates the strong driving force for its diversified development in the future. Relying on its accumulated cloud advantages and correct strategic transformation and reform, Microsoft is glowing with vitality. Based on this, this paper puts forward the following suggestions:

(1) Pay attention to the dividend income of investors and match the growth of enterprises

As the world's largest software group and the leader of cloud services, Microsoft's equity financing is an important means of financing, and its dividend policy is a key step related to the interests of its investors. As can be seen from Figure 2, although Microsoft's dividend per share continues to grow, its dividend yield is in the process of declining. Microsoft should share more of the benefits of corporate growth with investors, that is, pay attention to the matching between investors' dividend yield and stock price growth, so as to better maintain its investment market.

(2) Continue to increase R&D capability to enhance its growth capability

From 2009 to 2023, Microsoft's R&D investment continued to grow, but its proportion in operating income decreased significantly. Moreover, compared with its competitors, its revenue share in the second quarter of 2023 is not ideal. As a global leading technology enterprise, R&D and innovation will be the basis of its foothold in the market and an important step to distinguish it from Amazon com Inc, Apple Inc and alphabet Inc. Leading strategic investment and layout will be the basis for occupying a dominant position in the market. At present, in order to adapt to the "cloud first" strategy, Microsoft can change to focus on ecological cooperation and customers, and further increase product research and development on the basis of retaining the original "technology and research" team. Microsoft can continue to invest in R&D in "experience and equipment", "cloud and artificial intelligence", "security, compliance, identity and management departments" and "strategic tasks and technologies", creating a stronger impetus for future growth to compete with its strong competitors [16].

5. Conclusion

Based on Microsoft's financial data and information, this paper analyzes the implementation effect of Microsoft's financial strategy. Research and development, Microsoft has strong R&D investment and strategic layout ability, which can bring excellent yield to its investors. Good financial performance and strategy indicate the strong driving force for its diversified development in the future.

Microsoft should pay more attention to the dividend income of investors and continue to increase its R&D capacity to enhance its growth ability. This has helped it further improve its financial strategy. However, there are still some deficiencies in the comparison of the financial ability of the same industry, which can be further improved in the future.

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