

Microsoft Corp. (MSFT)

Monte Carlo Valuation Summary | 3 / 5 / 7 / 10-year horizons | June 19, 2026 | Spot \$377.35

The highest risk-adjusted quality of the trio - a capex-ROI bet. ~12% expected CAGR at the lowest loss probability of the three. The question is whether the \$190B/yr AI capex earns its cost of capital.

CHEAP (PV +9% to +28% vs spot at a 10.5% required return)

Current snapshot

Market cap	~\$2.82T
TTM revenue	\$318B (+18% YoY, Q3 FY26)
TTM diluted EPS	\$16.80 (P/E 22.5x, multi-year low)
Operating margin	47%
Azure / AI revenue run-rate	+40% YoY / \$37B (+123%)
CY2026 capex guide	\$190B (+61% YoY)
Free cash flow (FY25)	\$71.6B (stalled - capex ate the OCF rise)
Net cash / dividend	~\$38B / ~0.85% + buybacks
Realized vol / max drawdown	26% / -38%

Monte Carlo framework

500,000 paths. Required return 10.5% (CAPM 9.8% + capex-ROI premium). Forward vol 27%. Sortino MAR 4%. Terminal value = EPS grown x terminal P/E + cumulative dividends. Adversarial fixes: terminal P/E capped & conditioned on EPS; OpenAI stake embedded in EPS (no double-count).

Regime	Prob	EPS CAGR	Terminal P/E
Capex curse / arms-race trap	34%	2 - 10%	16 - 21x
Chalice filled / AI monetizes	46%	10 - 16%	21 - 27x
AI supercycle / chalice wins	20%	13 - 20%	26 - 32x

Distribution of terminal value by horizon

Yr	E[price]	Median	P5	P95	E[CAGR]	P(loss)	Sortino	Med. max DD
3	\$557	\$549	\$321	\$860	12.7%	16.9%	2.44	-28%
5	\$710	\$703	\$366	\$1,168	12.3%	6.6%	4.76	-34%
7	\$906	\$898	\$415	\$1,590	12.1%	1.8%	7.96	-39%
10	\$1,311	\$1,288	\$496	\$2,535	12.0%	0.2%	14.4	-44%

Fundamental scenarios (regime-conditional median price)

Case	3-year	10-year
Downside - Capex curse (34%)	\$367 (+0.1%/yr)	\$559 (+4.9%/yr)
Base - Chalice filled (46%)	\$572 (+15.6%/yr)	\$1,330 (+13.8%/yr)
Upside - AI supercycle (20%)	\$757 (+26.8%/yr)	\$2,179 (+19.4%/yr)

Investment assessment

Main upside drivers. AI capex peaks and FCF recovers; the \$37B AI run-rate compounds toward \$100B; MAI in-house models claw back margin and cut OpenAI dependency.

Main downside drivers. Capex stays elevated while AI revenue decelerates; the depreciation wave (\$32-48B/yr) drags EPS; OpenAI - now a non-exclusive rival (GPT on Bedrock) - erodes Azure/Copilot margin.

What would change the conclusion. Watch the capex/OCF ratio for a peak, AI revenue growth for deceleration, FCF for recovery, MAI adoption, and any OpenAI stake markdown.

Notes. Total value includes cumulative dividends. Sortino inflates at long horizons because downside probability collapses toward zero - read P(loss) instead. MSFT's downside is balance-sheet-floored (net cash + dividend), so the worst-case tail is shallower than the fat-tail model's p5 suggests.

Cross-name context: across ADBE, MSFT and GOOGL the margin of safety runs inverse to market affection - ADBE (+21%, most disliked) > MSFT (+14%) > GOOGL (-7%, most loved). The less the market loves a name, the cheaper it is.

Disclaimer: educational / illustrative model output, NOT investment advice. A fundamentals-driven Monte Carlo (500,000 paths) anchored to live market data as of June 18-19, 2026 (Polygon), with assumptions calibrated by a six-lens adversarial review. These are probabilistic estimates conditioned on stated assumptions, not forecasts; there is no 'true' future value. Figures are internal-consistency outputs only. Past performance and modeled scenarios do not guarantee future results. Do your own research.