Microsoft

MSFT

Azure has a price tag. The cash flow stayed positive.

Microsoft's fiscal Q1 2027 revenue rose 19% to $92.28B, and Azure, disclosed in dollars for the first time, grew 48% to $33.17B against the 44% to 45% range management had guided in July. Total capex of $45.2B including finance leases came in under the $50.7B street pencil, and the quarter still produced $18.63B of free cash flow and adjusted EPS of $4.89. The stock round-tripped the print anyway, and the company launched a bond sale of at least $25B the next morning, its first since 2017. We buy the funded buildout in stages, below the print, not at it.

BUY · STAGED

THE CALL

BUY / STAGE

Starter inside the $500 to $520 zone, below Thursday's low print. Adds stage lower and on a breakout close, never chased in between.

CLOSE · 29 OCT 2026

$530.14

Down 0.16% on the day (Nasdaq official close). The post-print pop faded in session: open $540.22, low $519.56, close back inside the pre-print range.

BUY ZONE

$500 to $520

Brackets Thursday's low and the 50-day average at $512.10, over the September 2026 base. Above the invalidation, below the noise.

INVALIDATION

$480

A weekly close below the August to September 2026 base floor (low closes $480.35 and $481.15) ends the setup. No averaging below it.

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KEY TAKEAWAYS · READ THIS FIRST

Five things that decide this stock.

01 Azure has a dollar figure now, and it beat the guide.

Under the fiscal 2027 reporting recast, Microsoft disclosed Azure revenue in dollars for the first time: $33,165M, up 48% year over year, against the 44% to 45% growth range CFO Amy Hood guided in July and the roughly 45% street view (post-print coverage). Microsoft Cloud revenue rose 30% to $63.9B, with growth accelerating. Management credited Foundry and improved CPU monetization for the beat despite delayed third-party capacity, and guided December-quarter Azure growth to 49% to 50% in constant currency (earnings call).

02 The capex undershoot is a timing story, not a restraint story.

Total capex including finance leases was $45.2B, below the $50.67B StreetAccount estimate carried by CNBC, because some third-party capacity deliveries expected in the quarter slipped (Hood, on the call, via CNBC). Cash capex on the filed cash flow statement was $39,367M, up 103% year over year. The guide re-loads the spend: above $50B in the December quarter, about $170B for calendar 2026, and acceleration in the second half of fiscal 2027.

03 Cash still covers the build, with a thinner cushion.

Operating cash flow was $58.00B against cash capex of $39.37B, leaving free cash flow of $18.63B, and Hood committed on the call to remaining free cash flow positive through fiscal 2027. The honest caveat: free cash flow fell 27% year over year, from $25.66B a year ago, because capex doubled while operating cash flow rose 29%. The funding claim is intact; the margin inside it is narrowing.

04 The contracted book stopped growing sequentially. That is the one flat line.

Commercial remaining performance obligation rose 73% year over year to $677B (release). Sequentially, though, the total remaining performance obligation was $683B at September 30 against $684B at June 30 (Form 10-Q data): flat. A year of backlog hypergrowth has paused at a very high level while capacity, not demand, is the constraint management cites. Whether the book resumes growing in December is a graded question on page 10.

05 Funding is now part of the story, on AAA terms.

On October 29, Microsoft launched a ten-part senior notes offering of at least $25B, its first US high-grade sale since the $17B deal in January 2017 (Bloomberg, via post-launch coverage; preliminary prospectus supplement filed with the SEC that morning, amounts blank until pricing). Hood framed such funding on the call as preserving flexibility while terms are attractive (via GeekWire). Buybacks eased to $4,379M from $5,650M a year ago while dividends paid rose to $6,757M, and cash and short-term investments of $64.51B stand against total debt of $35.48B: a choice, not a need.

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01 · THE DECISION

The clean print of the week. Priced like it still has to prove it.

Grade the quarter on operations and it is the strongest of the week: revenue up 19%, Azure up 48% with a higher guide, operating margin at 49.8%. Grade it on cash and it is the only hyperscaler print of the week whose operating cash flow covered its capex with billions to spare. Then look at the tape: the stock gained 2.89% after hours, faded to a 0.16% loss on Thursday, and sits 2.1% below where it closed a year ago after compounding earnings the whole way. At $530.14 the market charges about 27.7x trailing GAAP earnings for the best-funded buildout in the sector. We buy that in stages, below the print, sized for the January guide to matter.

3-MONTH SCENARIO

$545 to $575

A reclaim of the $543.45 high close of October 13 and extension as the bond deal is absorbed. Worth +3% to +8% from the October 29 close.

6-MONTH SCENARIO

$590 to $625

Needs the January print to deliver Azure at the 49% to 50% guide with free cash flow still positive. The top of the range is a low-30s multiple on trailing earnings: a re-rating, not a base case.

INVALIDATION

$480

A weekly close below the August to September base floor breaks the breakout structure built since July. The deeper structural line is the 200-day average at $437.61; the plan does not wait for it.

Why own it

- **Azure is compounding at 48% and guided higher.** Demand exceeds supply on management's own telling, efficiency gains freed saleable capacity in the quarter, and the December guide of 49% to 50% in constant currency sits above the street.
- **It funds itself.** Operating cash flow of $58.00B covered cash capex one and a half times over in the quarter, and management committed to free cash flow positive through fiscal 2027, a claim graded every quarter in the open.
- **The contracted book is visibility, not hope.** Commercial remaining performance obligation of $677B, up 73%, and Microsoft Cloud at a $255.6B annualized run rate underwrite the capex.

How to own it

Starter, $510 to $520	35%
Add, $500 to $510 fade	35%
Add, weekly close over $543.45	20%
Reserve, Q2 print	10%

Zone discipline: the zone brackets Thursday's low print and the 50-day average, over the September base. No averaging below the $480 invalidation. The full plan is on the Verdict page.

The bet: the only self-funding buildout of the week deserves a premium multiple, and a stock flat for a year while earnings compounded 18% has already paid part of it in advance.

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02 · THE COMPANY IN PLAIN ENGLISH

Microsoft rents the world's workday. Now it sells the machines that do the work.

Fiscal 2027 brought a reporting recast (announced September 2026, per the release): the company now reports two segments, Agents and Infra and Devices and Consumer, and for the first time a product table that prices Azure in dollars. A cloud and enterprise engine produces five sixths of revenue and nearly nine tenths of operating profit, while the consumer and devices arm shrinks slowly and funds nothing it does not have to.

01 · AGENTS AND INFRA (SEGMENT)

The engine, at a 52.8% margin

Fiscal Q1 2027 revenue of $76,795M, up 25%, with operating income of $40,558M, a 52.8% margin (computed). This segment carries Azure, Microsoft 365 commercial, industry solutions, and server products. Its margin held within half a point of a year ago (53.1%) while revenue grew a quarter: the buildout's costs are landing inside a segment that can absorb them.

02 · AZURE (PRODUCT LINE)

The growth asset, now with a number

Revenue of $33,165M, up 48%, disclosed in dollars for the first time. Microsoft Cloud revenue overall was $63.9B, up 30% (release). Azure is 36% of company revenue: the December guide of 49% to 50% in constant currency is the single most graded number in this dive.

03 · DEVICES AND CONSUMER (SEGMENT)

The slow leak

Revenue of $15,484M, down 3%, with operating income of $5,357M, a 34.6% margin (computed). Windows OEM and devices revenue fell 22% to $3,551M and Xbox revenue eased 2% to $5,379M, partly offset by search and advertising revenue of $6,554M, up 10% (up 12% excluding traffic acquisition costs). Profitable, shrinking, and not the reason anyone owns the stock.

04 · THE BUILDOUT LAYER

Where the AI bill sits

Property and equipment, net, reached $346,844M at September 30, up $33,768M in one quarter. Total capex including finance leases was $45.2B in the quarter (call coverage) against the $39,367M cash line in the filed statement. On October 29 the funding stack added a bond program of at least $25B (Bloomberg). Cash and short-term investments of $64,509M still cover total debt of $35,481M (computed) nearly twice over.

Why the moat holds

- The enterprise agreement base converts to cloud by default: $677B of contracted obligation is the moat expressed as a number, and Microsoft 365 cloud revenue of $27,778M grew 17% on top of it.
- Owning the stack from silicon partnerships to Azure to the Copilot surface lets Microsoft sell the same capacity twice, as infrastructure and as seats.
- An AAA rating and $64.5B of cash and short-term investments mean the buildout survives a closed capital market.

What to monitor

- **Backlog conversion:** total remaining performance obligation was flat sequentially at $683B (Form 10-Q); the book must grow again.
- **Depreciation:** depreciation, amortization, and other rose 44% to $11,744M and compounds faster than revenue while capex skews to short-lived assets.
- **Cost discipline arriving:** the expense outlook carries an estimate for a buyout offer to up to 60,000 employees announced October 26 (call coverage).

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03 · THE NUMBERS: THE PRINT

Revenue up 19%. Adjusted EPS up 18%.
And the cash statement agrees.

Fiscal Q1 2027 snapshot (earnings release Ex-99.1, Oct 28, 2026)

METRIC	ACTUAL	CHECK
Revenue	$92,279M	+19% YoY; beat the roughly $90.7B street view (post-print coverage)
Operating income	$45,915M · 49.8% margin	+21% YoY; margin up from 48.9% a year ago (computed)
Diluted EPS (GAAP, reported)	$4.92	+32% YoY. Includes a +$0.03 net gain from OpenAI investments (release)
Diluted EPS (adjusted, non-GAAP)	$4.89	+18% (+19% constant currency). The company line excluding OpenAI investment effects
Net income (GAAP)	$36,629M	+32% YoY; adjusted net income $36,422M, +18% (release)
Free cash flow	$18,633M	Operating cash flow $58,000M less cash capex $39,367M. Total capex incl. finance leases $45.2B (call coverage). Down 27% YoY
Commercial RPO	$677B	+73% YoY (release). Sequentially flat on the total RPO line: $683B vs $684B (Form 10-Q)

GAAP and adjusted lines are kept separate throughout this dive, as the release presents them: the adjusted figures exclude the impact from investments in OpenAI, a net gain of $207M and $0.03 of EPS this quarter, against a net loss of $3,086M and $0.41 a year ago. Internal consistency check: diluted shares of 7,446M times GAAP EPS of $4.92 equals $36.6B, matching reported net income of $36,629M.

What frames it

At the October 29 close of $530.14, market value is about $3.94 trillion on 7,426M shares outstanding at October 22 (Form 10-Q cover). That is 11.4x trailing twelve-month sales of $346.4B (computed from filed figures) and 27.7x trailing GAAP EPS of $19.15 (computed: fiscal 2026 EPS of $17.95 plus this quarter's $4.92 less the year-ago quarter's $3.72). The multiple is a premium, paid for the only self-funded buildout of the week; page 3 grades whether it has already been partly prepaid by a flat year in the stock.

The cost lines that moved

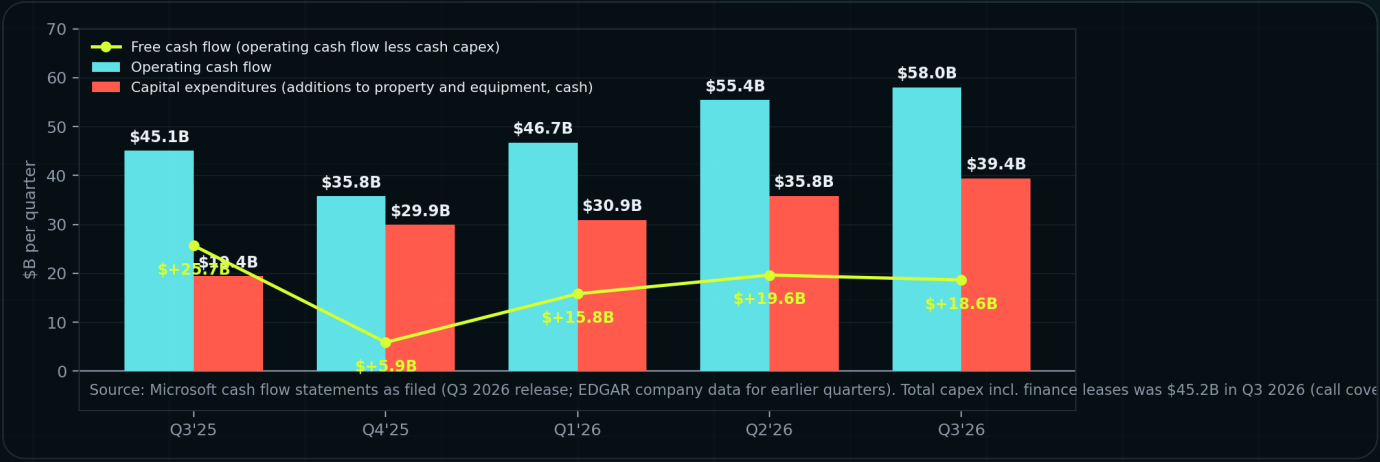
Cost of revenue $29,720M, up 24%, with gross margin percentage easing to 67.8% from 69.1% (computed). Depreciation, amortization, and other rose 44% to $11,744M. Below that line, discipline did the work: research and development $9,047M, up 11%; sales and marketing flat at $5,716M; general and administrative $1,881M, up 4%. Total operating expenses grew 6% (call), so operating margin expanded even as gross margin compressed.

Read the beat precisely: the revenue and EPS lines beat, the guide for Azure rose, and the cash flow stayed positive. The soft spots are real but second-order: gross margin compression, a sequentially flat contracted book, and free cash flow down 27% year over year. None of them is the headline the stock traded on Thursday; the round trip was positioning, not new information.

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03 · THE NUMBERS: CASH AND THE BUILDOUT

The quarter the buildout kept paying its own way, then borrowed anyway.



Scale and guidance ($)

Operating cash flow, trailing 12 months	$195,878M
Cash capex, trailing 12 months	$135,921M
Free cash flow, trailing 12 months	$59,957M
Operating cash flow, fiscal 2026	$182,935M
Cash capex, fiscal 2026	$115,948M
December-quarter capex guide (total, call)	Above $50B
Calendar 2026 capex outlook (call)	About $170B

Trailing figures are computed from the filed quarterly cash flow statements (release and EDGAR company data). Cash capex is the filed additions to property and equipment line; total capex including finance leases runs higher, $45.2B in this quarter alone (call coverage). The December and calendar guides are totals on that broader definition, from the earnings call.

The balance sheet moved ($)

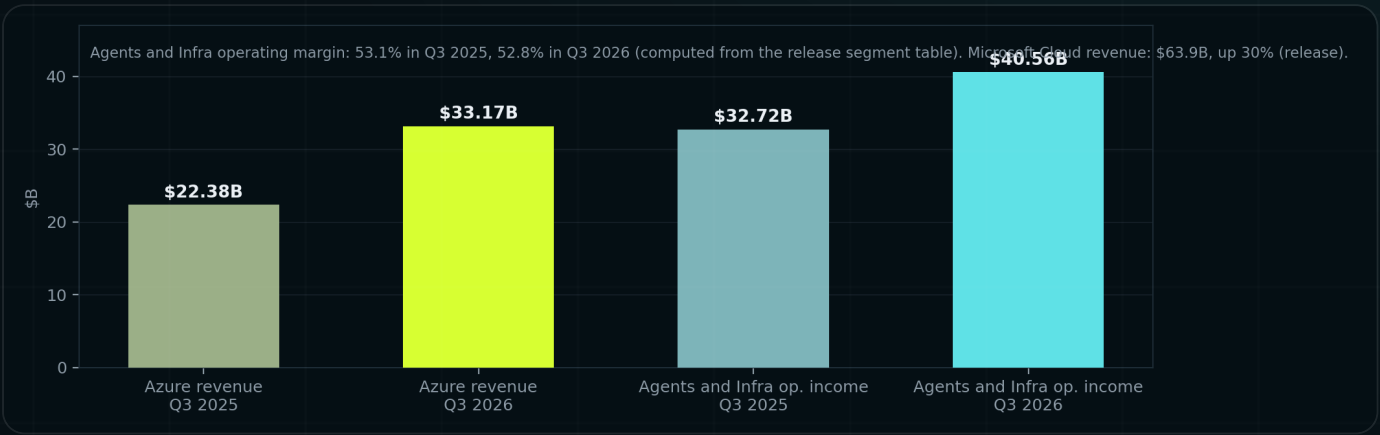
ITEM	SEP 30, 2026	CHANGE
Cash and short-term investments	$64,509M	$76,843M at Jun 30, 2026
Property and equipment, net	$346,844M	+$33,768M in the quarter
Total debt (computed)	$35,481M	Long-term $31,090M plus current $4,391M
Bond offering launched Oct 29	At least $25B	Ten parts, 2 to 40 years (Bloomberg). First US deal since 2017
Buybacks in the quarter	$4,379M	$5,650M in the year-ago quarter
Dividends paid in the quarter	$6,757M	$6,169M a year ago. $0.98 per share declared (EDGAR data)
Shares outstanding	7,426M	At Oct 22, 2026 (Form 10-Q cover)

Total assets reached $779,403M. Unearned revenue on the balance sheet (short-term $66,866M plus long-term $2,697M) is the contracted book's already-billed cousin: customers prepaying for the capacity being built.

Call color, labeled: CFO Amy Hood said the company expects to remain free cash flow positive through fiscal 2027 and may raise funding when terms are attractive (earnings call, via CNBC and GeekWire). Twelve hours later it launched at least $25B of bonds at a AAA rating. Read together: the borrowing is pre-funding at chosen prices, and the free cash flow commitment is the claim the next three quarters grade.

04 · SEGMENT DEEP DIVE: AZURE AND INTELLIGENT CLOUD

Azure, priced at last. $33.17B a quarter, and the guide went up.



The demand side

The quarter printed 48% growth against a 44% to 45% guided range because Microsoft found capacity where it did not expect it: Azure Foundry demand, improved CPU monetization, and better use of capacity that already existed (earnings call). Demand still exceeds supply on management's account, and the contracted line backs that up: commercial remaining performance obligation up 73% to $677B. The constraint is physical. Some third-party capacity deliveries expected in the quarter slipped, which is also why total capex printed under the street pencil. When those deliveries land, capex and saleable Azure capacity rise together.

The quality side

The Agents and Infra segment earned a 52.8% operating margin while growing revenue 25%, essentially unchanged from 53.1% a year ago (computed from the release segment table). Microsoft Cloud gross margin is guided to about 65% for the December quarter (call coverage). Two disciplines deserve marking: roughly three quarters of capex went to short-lived CPUs and GPUs (call), so depreciation of $11,744M, already up 44%, keeps compounding; and the December guide of 49% to 50% constant-currency growth raises the bar this segment must clear while that depreciation lands. Margin held this quarter. The grade repeats in January.

AZURE REVENUE

$33.17B

Q1 FY2027, disclosed in dollars for the first time under the fiscal 2027 reporting recast. Up 48% year over year (release).

DECEMBER-QUARTER AZURE GUIDE

49% to 50%

Constant currency growth guided on the earnings call, above the StreetAccount estimate of about 45.1% (call coverage).

TOTAL RPO VS JUNE QUARTER

-0.1%

$683B at September 30 vs $684B at June 30 (Form 10-Q data). Commercial RPO rose 73% year over year to $677B; sequential growth is the watch item.

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04 · SEGMENT DEEP DIVE: MICROSOFT 365 AND COMMERCIAL CLOUD

The annuity under the AI story. It compounded quietly at 17%.

While the tape debated capex, the seat business did what it does. Microsoft 365 cloud revenue reached $27,778M, up 17% reported and 18% in constant currency; on the company's normalized basis, commercial cloud grew 18% and consumer cloud 17% (release). A $677B contracted book sits underneath it. The drag lives in the other segment: Devices and Consumer fell 3%, with Windows OEM and devices revenue down 22%.

The bull case

The annuity is converting, not eroding. Productivity and server licensing revenue declined only 3% to $8,407M as the base moves to cloud lines that grow at high-teens rates. Commercial customers are prepaying: the $677B remaining performance obligation, up 73%, is signed work awaiting delivery, and unearned revenue on the balance sheet totals about $69.6B (computed). M365 cloud at $27.78B a quarter, growing 17% to 18%, is the cash spine that lets Azure's buildout be a choice. Copilot attach is the unpriced option on top of every seat; nothing in this quarter's numbers requires it to already be working for the annuity to hold.

The bear case

The consumer and devices arm is shrinking in plain sight. Devices and Consumer revenue fell 3% to $15,484M; Windows OEM and devices revenue dropped 22% to $3,551M, a cliff, not a glide, and Xbox revenue eased 2% to $5,379M with content and services down 2%. Search and advertising, up 10% to $6,554M (12% excluding traffic acquisition costs), is the only line in the segment growing at a double-digit rate. Add the buyout offer extended to up to 60,000 employees (call coverage) and the picture is a company managing its legacy cost base down while the cloud carries growth. If the January quarter shows M365 commercial cloud slipping below the normalized 18% line, the annuity story, not the AI story, becomes the problem.

What we are watching, dated

- **Q2 FY2027 print, late January 2027:** Microsoft 365 commercial cloud growth against the normalized 18% line, and whether Windows OEM and devices stabilizes after a 22% drop.
- **December quarter RPO:** whether the total remaining performance obligation resumes sequential growth from $683B, converting the 73% year-over-year commercial figure into forward momentum.
- **Buyout program detail:** the cost estimate sits in the expense outlook (call); severance charges and any savings run-rate land across fiscal 2027 and should show in operating expense growth, 6% this quarter.

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05 · THE CHART

A decade compounder, marked flat for a year.



Where the price sits

Averages at the October 29 close: 20-day $530.76, 50-day $512.10, 200-day $437.61 (computed from the full daily close series). The close of $530.14 sits essentially on the 20-day, 3.5% above the 50-day, and 21% above the 200-day. The structure is an uptrend that has paused, not broken: the stock built a base between roughly $480 and $520 from August through October 2026 after the June 25 low close of $352.83, broke to a series high close of $543.45 on October 13, and has since pulled back to the top of that base. Every element of the staged plan keys off that base: the zone at its top, the invalidation at its floor.

Momentum and the long record

RSI-14 at the October 29 close is 46.3 (simple-average method, computed from the close series), neutral ground: neither stretched into the print nor washed out after it. The one-year chart below puts the round trip in context, a 52-week range on a close basis of $352.83 to $543.45 and a one-year return of -2.1% (computed) against a decade that compounded at 24.4% a year (geometric CAGR, October 31, 2016 to October 29, 2026, computed). Calendar closes: 2021 +51.2%, 2022 -28.7%, 2023 +56.8%, 2024 +12.1%, 2025 +14.7%, and 2026 year to date +9.6% (computed). Earnings compounded through the flat year; the multiple did the waiting.



Price source: Nasdaq historical daily closes (api.nasdaq.com), full series of 2,513 sessions from October 31, 2016 to October 29, 2026, pulled October 29, 2026, evening ET. Averages, RSI, returns, and CAGR are desk computations from that series. October 29 session: open $540.22, high $541.29, low $519.56, close $530.14, volume 39,333,220 shares (Nasdaq).

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07 · THE DEBATE, GRADED IN THE OPEN

Five questions.
One answered. Four have dates.

ANSWERED THIS QUARTER

Q1 · What is Azure actually worth in dollars?

The fiscal 2027 reporting recast answered it: Azure revenue was $33,165M in the quarter ended September 30, 2026, up 48% year over year (release product table). The answer changes the debate from estimating a growth rate on an undisclosed base to grading a disclosed business that annualizes to about $132.7B. Older line by line comparisons should still be handled with care.

PENDING

Q2 · Is Azure's 48% a level or a spike?

Management guided December-quarter Azure growth to 49% to 50% in constant currency, above the roughly 45.1% StreetAccount estimate carried in call coverage. That guide says the company expects the level to hold or improve, but it is still a guide, not a print. Grade: the fiscal Q2 2027 release in late January 2027. Azure at or above the guide keeps the staged plan intact; a print below 45% would force a fresh underwriting of the zone.

PENDING

Q3 · Does operating cash flow keep funding the build?

Fiscal Q1 passed the test: operating cash flow of $58,000M covered cash capex of $39,367M and left $18,633M of free cash flow. The next test is harder because December-quarter total capex was guided above $50B, and management expects acceleration in the second half of fiscal 2027. CFO Amy Hood committed to remaining free cash flow positive through fiscal 2027 (call coverage). Grade: each quarter's filed cash flow statement, starting with fiscal Q2.

PENDING

Q4 · Does the contracted book start growing again?

Commercial remaining performance obligation rose 73% year over year to $677B, but total remaining performance obligation was essentially flat sequentially, at $683B on September 30 versus $684B on June 30 (Form 10-Q data). One flat quarter at a very high level is not a demand break. Two or three would change the conversion story. Grade: the December-quarter remaining performance obligation disclosure.

PENDING

Q5 · Is the bond sale opportunistic funding or the start of a funding habit?

The filed preliminary supplement leaves amounts blank; Bloomberg put the launch at at least $25B across ten parts, maturities of two to forty years. Microsoft had $64,509M of cash and short-term investments against computed total debt of $35,481M before the deal, so need is not the obvious explanation. Hood's call framing was flexibility while terms are attractive (via GeekWire). Grade: final pricing, use of proceeds disclosures, and whether another large deal follows during fiscal 2027.

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08 · THE PEER READ: ALPHABET, SAME NIGHT

Same night, other cloud: growth was not the argument. Funding was.

Alphabet reported the same evening and printed the faster cloud growth. It also printed negative free cash flow after a much larger capex bill and an equity mark that cut reported EPS. Microsoft rose after hours and Alphabet fell because the market separated two questions: is demand real, and who pays for the capacity while it is built?

ALPHABET · THE FILED PRINT

Faster growth, negative cash flow

- **Revenue $127.58B, up 25%**, with Google Cloud revenue of $30.71B, up 103%, and a 36.2% cloud operating margin.
- **GAAP diluted EPS $2.12**. An $8.66B equity loss, principally a mark on a private stake, cost $0.55 of EPS and drove the headline miss optics.
- **Cloud backlog $561B**, as reported from the call in post-print coverage.
- **Capex $51.36B and free cash flow negative $9.07B** in the quarter. Alphabet reaffirmed 2026 capex guidance of $195B to $205B and signaled a significant increase for 2027 without giving the figure on the call.
- **Thursday close $283.82, down 12.64%** (Nasdaq), against Microsoft at $530.14, down 0.16%.

MICROSOFT · THE CONTRAST

Slower cloud growth, cash left over

- **Azure revenue $33.165B, up 48%**, larger in dollars than Google Cloud's $30.71B despite the lower growth rate.
- **Total capex $45.2B** including finance leases, below the roughly $50.7B street pencil; free cash flow was positive $18.63B.
- **Commercial remaining performance obligation $677B**, up 73%, against Alphabet's reported $561B cloud backlog. The definitions differ, so treat this as scale context, not a league table.
- **After hours on October 28:** Microsoft traded at $546.35, up 2.89%, at the 6:47 PM ET Nasdaq pull used in the desk's same-night comparison, while Alphabet was down sharply.
- **Amazon completed the week's podium on Thursday:** AWS revenue grew 39.3%, with Microsoft at 48% and Google Cloud at 103% on a smaller base.

What it means for MSFT

- The market is currently paying a premium for self-funded AI capacity. Microsoft's positive free cash flow, AAA access, and December Azure guide support that premium.
- Azure does not need to outgrow Google Cloud percentage for percentage. At a larger dollar base, high-40s growth with a roughly 53% segment operating margin is the more cash-productive profile today.

What it does not mean

- It does not make Alphabet's cloud asset inferior. A 103% growth rate at a 36.2% margin is exceptional; Alphabet's issue in this print was funding optics and the size of the next capex step.
- It does not immunize Microsoft. If Azure slips toward the low 40s while capex moves above $50B a quarter and free cash flow turns negative, the market can reprice it on Alphabet's logic.

Peer discipline: Microsoft earns the cleaner multiple only while the funding claim holds. January grades Azure, capex, backlog, and free cash flow together.

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09 · CATALYST TAPE

What we are watching, with dates attached.

WHEN	EVENT	WHY IT MOVES THE CALL
Oct 29 to 30, 2026	Bond pricing	Final size, coupons, maturities, and spreads for the ten-part offering. The preliminary supplement filed October 29 leaves amounts blank; Bloomberg reported at least $25B. Pricing tells us the market's cost for AAA AI funding.
Late Jan 2027	Fiscal Q2 2027 print	The central grade: Azure against the 49% to 50% constant-currency guide, total capex against the above-$50B guide, remaining performance obligation sequentially, and free cash flow against management's fiscal 2027 commitment.
Dec 2026	Annual shareholder meeting	Microsoft filed its annual meeting proxy on October 21, 2026 (EDGAR submissions). Governance is not the thesis, but capital allocation language and any shareholder proposal results belong on the tape.
Through fiscal 2027	Third-party capacity deliveries	Some deliveries expected in fiscal Q1 slipped, holding capex below the street pencil (call). Their arrival should raise both capex and saleable Azure capacity; watch whether Azure supply commentary improves as spend catches up.
Through fiscal 2027	Buyout program and cost discipline	The expense outlook includes an estimate for a voluntary buyout offer to up to 60,000 employees announced October 26 (call coverage; amount not disclosed). Severance, participation, and any savings run-rate will test whether operating expense growth stays near this quarter's 6%.
Ongoing	Capital returns mix	Buybacks eased to $4,379M while dividends paid rose to $6,757M. A reacceleration in repurchases after the bond deal would support the opportunistic funding read; continued restraint would say cash preservation has become policy.

Upgrade triggers

- A weekly close above $543.45, the October 13, 2026 high close: the technical add in the plan.
- Fiscal Q2 Azure at or above the 49% to 50% constant-currency guide, with total remaining performance obligation growing sequentially again.
- The bond deal absorbed without a follow-on mega-issue, while buybacks reaccelerate and free cash flow remains positive.

Downgrade triggers

- An Azure guide cut, or a fiscal Q2 Azure print below 45% without a capacity explanation that reverses quickly.
- Free cash flow turning negative in any quarter, breaking the funding claim that supports the premium.
- A weekly close below $480: the invalidation. The staged position exits and the thesis is re-underwritten from zero.

Every checkpoint above is observable from a filing, a final prospectus supplement, or the weekly close. None depends on taking management's adjectives at face value.

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10 · THE VERDICT

Verdict: BUY, staged. The zone is $500 to $520.

Microsoft was the clean winner of the week's hyperscaler prints: Azure beat its own guide and was guided higher, capex came in below the feared pencil because deliveries slipped, and operating cash flow still covered cash capex with $18.63B left over. The stock did not reward the print on Thursday, closing at $530.14 after an after-hours move to $546.35 faded. That is the opportunity and the warning in one tape. The business cleared the bar; the price has not yet decided whether to pay for it. Buy the pause in stages, anchored to the base the stock built before the breakout attempt.

The plan

Starter, $510 to $520	35%
Add, $500 to $510 fade	35%
Add, weekly close over $543.45	20%
Reserve, Q2 FY27 print	10%

Scenarios from the October 29 close of $530.14: 3-month $545 to $575 (+3% to +8%), 6-month $590 to $625 (+11% to +18%). Downside from the close to the $480 invalidation is about 9.5%; from the $510 zone midpoint it is about 5.9%. The asymmetry is favorable because the invalidation sits at the base floor, not at a distant long-term average.

The kill conditions

- **Price:** a weekly close below $480, the August to September 2026 base floor. Exit, no averaging.
- **Azure:** a fiscal Q2 print below 45% growth, or a guide cut that is not explained by capacity timing.
- **Funding:** negative free cash flow in any quarter, or another mega bond issue that turns opportunistic funding into a recurring requirement.
- **Backlog:** total remaining performance obligation declining sequentially for two consecutive quarters while Azure growth slows.

THE CALL

BUY / STAGE

Accumulate character, staged execution. Start below Thursday's low print; let either the fade or the breakout earn the rest.

REFERENCE LEVELS

$530.14

Official close, October 29, 2026 (Nasdaq), after a $531.01 close on October 28. The breakout reference is the $543.45 high close from October 13.

INVALIDATION

$480

Weekly close below the August to September 2026 base floor, where the low closes were $480.35 on August 17 and $481.15 on August 20.

Prove it, then size it. Microsoft proved the demand and the funding model this quarter. The position still stages because January must prove them again at a higher capex line.

Research and education only. Not investment advice.

11 · SOURCES, METHOD, LIMITATIONS

Source map and honest limitations.

Primary sources

- **Microsoft fiscal Q1 2027 earnings release**, Exhibit 99.1 to Form 8-K filed October 28, 2026, SEC accession 0001193125-26-436122 (quarter ended September 30, 2026). Every release figure traces to this filing unless labeled otherwise; the build-folder copy was re-verified against the EDGAR copy during this build.
- **Microsoft fiscal Q1 2027 Form 10-Q**, filed October 28, 2026, SEC accession 0001193125-26-436133: total remaining performance obligation, and the share count of 7,426,194,552 at October 22, 2026.
- **SEC EDGAR company facts:** standalone quarterly operating cash flow and cash capex for the cash ladder, fiscal 2026 totals, trailing twelve-month figures, and the declared dividend of $0.98 per share.
- **Preliminary prospectus supplement**, Form 424B2 filed October 29, 2026, SEC accession 0001193125-26-437008: ten series, two floating-rate and eight fixed-rate, amounts blank before pricing.
- **Prices:** Nasdaq api.nasdaq.com, 2,513 daily closes, October 31, 2016 to October 29, 2026, pulled October 29, 2026, evening ET. After-hours levels are last trades at the pull time, never closes.
- **Brand assets:** Microsoft logo (2012) SVG from Wikimedia Commons; shown in the white wordmark variant for dark backgrounds, letterforms unaltered, composited directly on the cover field at natural proportions. ZeroGamma lockup on every page.

Call color and reported figures, labeled in text

- CNBC call coverage: total capex of $45.2B against the $50.67B StreetAccount pencil, the capacity delivery explanation, December capex above $50B, calendar 2026 capex near $170B, second-half acceleration, and the FCF-positive fiscal 2027 commitment.
- Barron's: free cash flow of $18.6B, a cross-check on the $18,633M computed from the filed statement.
- Bloomberg, via multiple post-launch reports: at least $25B in ten parts, maturities of two to forty years, JPMorgan, UBS, and Wells Fargo as bookrunners, first US high-grade deal since January 2017. The filed supplement does not state the $25B figure.
- GeekWire: CFO Amy Hood's funding framing. TechCrunch: the July Azure guide of 44% to 45%. A Motley Fool call transcript exists; no official company transcript was used.
- Peer page: Alphabet figures from its Q3 2026 release and the desk's verified same-night comparison; Amazon AWS growth of 39.3% as verified by the desk.

Limitations, stated plainly

- The Form 10-Q was filed October 28, 2026, the same day as the release; this is not a release-only dive. Backlog cuts are named where used: commercial RPO of $677B (release), total RPO of $683B (10-Q data).
- The release highlights cite $10.2B returned to shareholders. The filed cash flow statement shows buybacks of $4,379M plus dividends paid of $6,757M, summing to $11,136M. This dive uses the statement lines and flags the difference.
- The bond offering had not priced at build time (evening of October 29, 2026) and the preliminary supplement's amounts are blank; the at least $25B figure is Bloomberg reporting.
- No official earnings-call transcript was available to this build. Call color comes from the named reports and a Motley Fool transcript; guidance is labeled as call figures, not filed figures.
- Azure dollars begin this quarter under the fiscal 2027 recast; older product history is not comparable line by line.
- Trailing figures, multiples, moving averages, RSI, returns, and CAGR are desk computations from filed figures and the Nasdaq series; methods are stated in place. Scenarios are judgments, not forecasts.

Method: figures re-verified against the filed release; consistency checked on EPS, segment margins, the product table, and the FCF reconciliation. Charts: full daily close series only.

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