

Financial analysis of microsoft corporation

[Business](#), [Company](#)



Introduction

BACKGROUND OF MICROSOFT

Microsoft is the most prominent technology corporation in the world that deals with computers according to posts from big history. net. " With annual revenues of more than \$32 billion, Microsoft Corporation is more than the largest software company in the world: it is a cultural phenomenon. The company's core business is based on developing, manufacturing, and licensing software products, including operating systems, server applications, business and consumer applications, and software development tools, as well as Internet software, technologies, and services". <http://www.fundinguniverse.com/company-histories/Microsoft-Corporation-Company-History.html>

"The name of the famous person – Bill Gates comes in one's mind with mention of the name of Microsoft. He is the founder of the company and is believed to be the smartest programmers ever." <http://www.bighistory.net/microsoft-a-short-history/>. Led by him, Microsoft had witnessed its heydays and has been able to have its product on almost every personal computer in the world, and in the process creating standards in the technology industry as well as market re-definition.

"Gates was first exposed to computers at school in the late 1960s with his friend Paul Allen, the son of two Seattle librarians. By the time Gates was 14; the two friends were writing and testing computer programs for fun and profit. In 1972 they established their first company, Traf-O-Data, which sold a rudimentary computer that recorded and analyzed traffic data. Allen went on <https://assignbuster.com/financial-analysis-of-microsoft-corporation/>

to study computerscienceat the University of Washington and then dropped out to work at Honeywell, while Gates enrolled atHarvard. Inspired in 1975 by an issue of Popular Electronics that showed the new Altair microcomputer kit just released by MITS Computer, Gates and Allen wrote a version of BASIC for the machine. Later that year Gates left college to work full time developing programming languages for the Altair, and he and Allen relocated to Albuquerque, New Mexico, to be near MITS Computer, where Allen took a position as director of software development. Gates and Allen named their partnership Micro-soft''. <http://www.fundinguniverse.com/company-histories/Microsoft-Corporation-Company-History.html>. The word Microsoft was developed from two different words, micro from microcomputer and soft from software. The name was registered in New Mexico with the secretary of state in November 1976. On November 1978, the first international office of Microsoft was established in Japan and its name was ASCII (American Standard Code for Information Interchange). It is now known as Microsoft Japan. In January 1979 the company's headquarters was moved to Bellevue Washington. <http://www.bighistory.net/microsoft-a-short-history/>.

In the early 80's, Microsoft witnessed a period of great success when IBM contracted the company to develop an operating system for its personal computers (PC), which was underway. In the late 80's Microsoft issued IPOs (initial public offering) of over two million shares and in the space of one year the price or the shares tripled and in the process making Gates a billionaire at about thirty years of age.

Nonetheless, the company had lots of critics and legal cases against it from competitors and the likes. Microsoft success was further heightened by the tech bubble of the 2000 following the release of the windows XP, windows 2000, the acquisition of Visio corporation which stood as the largest acquisition in the life of Microsoft so far with transaction value of about One and half a billion dollars. The company also spread its tentacles into the world of gaming with their popularly known X-BOX which has remained a success till date.

DESCRIPTION AND ANALYSIS OF MICROSOFT' PERFORMANCE OVERTIME

Key Dates:

- 1975: Microsoft is founded by Bill Gates and Paul Allen; they sell BASIC, the first PC computer language program to MITS Computer, Microsoft's first customer.
- 1981: Microsoft, Inc. is incorporated; IBM uses Microsoft's 16-bit operating system for its first personal computer.
- 1982: Microsoft, U. K., Ltd. is incorporated.
- 1983: Paul Allen resigns as executive vice-president but remains on the board; Jon Shirley is made president of Microsoft (he later becomes CEO); Microsoft introduces the Microsoft Mouse and Word for MS-DOS 1.00.
- 1985: Microsoft and IBM forge a joint development agreement.
- 1986: Microsoft stock goes public at \$21 per share.
- 1987: The Company's first CD-ROM application, Microsoft Bookshelf, is released.

- 1990: Jon Shirley retires as president and CEO; Michael R. Hallman is promoted in Shirley's place; the company becomes the first PC software firm to surpass \$1 billion of sales in a single year.
- 1992: Bill Gates is awarded the National Medal of Technology for Technological Achievement.
- 1993: The Company introduces Windows NT.
- 1995: Bill Gates publishes his first book, The Road Ahead.
- 1996: The Company acquires Vermeer Technologies and its software application, FrontPage.
- 1997: The Justice Department alleges that Microsoft violated a 1994 consent decree concerning licensing the Windows operating system to computer manufacturers.
- 1998: The U. S. Department of Justice files two antitrust cases against Microsoft, alleging the company had violated the Sherman Act.
- 2000: The Company acquires Visio Corporation, its largest acquisition to date.
- 2001: Microsoft Windows XP is released internationally.
- 2003: Microsoft launches Windows Server 2003.
- 2007: Microsoft launches Windows vista
- 2009: Microsoft launches windows 7

With more descriptive statistics, we can also examine the performance of Microsoft on a monthly basis from the year 1988- 2009 using returns (unit%)

See excel for descriptive statistics.

- Microsoft return (unit %)

- Market return (unit %)
- Mean0. 021622876
- Mean0. 857870722
- Standard Error0. 00618845
- Standard Error0. 269942879
- Median0. 022084196
- Median1. 41
- Mode0. 064221396
- Mode1. 78
- Standard Deviation0. 100359793
- Standard Deviation4. 377737838
- Sample Variance0. 010072088
- Sample Variance19. 16458858
- Kurtosis1. 421423202
- Kurtosis1. 709578314
- Skewness0. 366537791
- Skewness-0. 812673531
- Range0. 751310392
- Range29. 51
- Minimum-0. 343529412
- Minimum-18. 46
- Maximum0. 40778098
- Maximum11. 05
- Sum5. 686816298
- Sum225. 62

- Count263
- Count263

From the descriptive statistics above, Microsoft has a positive skewness unlike the market whose skewness is negative, this indicates that Microsoft has a better flow or return than the market.

It could also be noted that Microsoft is (1) standard deviation away from its mean whereas the market is (4) standard deviation away from its mean, this means that the returns of Microsoft had not been too volatile over the years and return on stocks are less risky.

Conclusion:

From the t-Test above, since the t-stats is greater in value than the t -critical (irrespective of the -ve sign), we need to accept the alternative hypothesis (H1) which says that Microsoft outperformed the market and reject the Null hypothesis (H0) which says that Microsoft did not outperform the market.

We can also infer this conclusion by looking at the P- value, here we can see that the p- value is less than the significance level of . 05, therefore we need to accept the alternative hypothesis (H1).

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