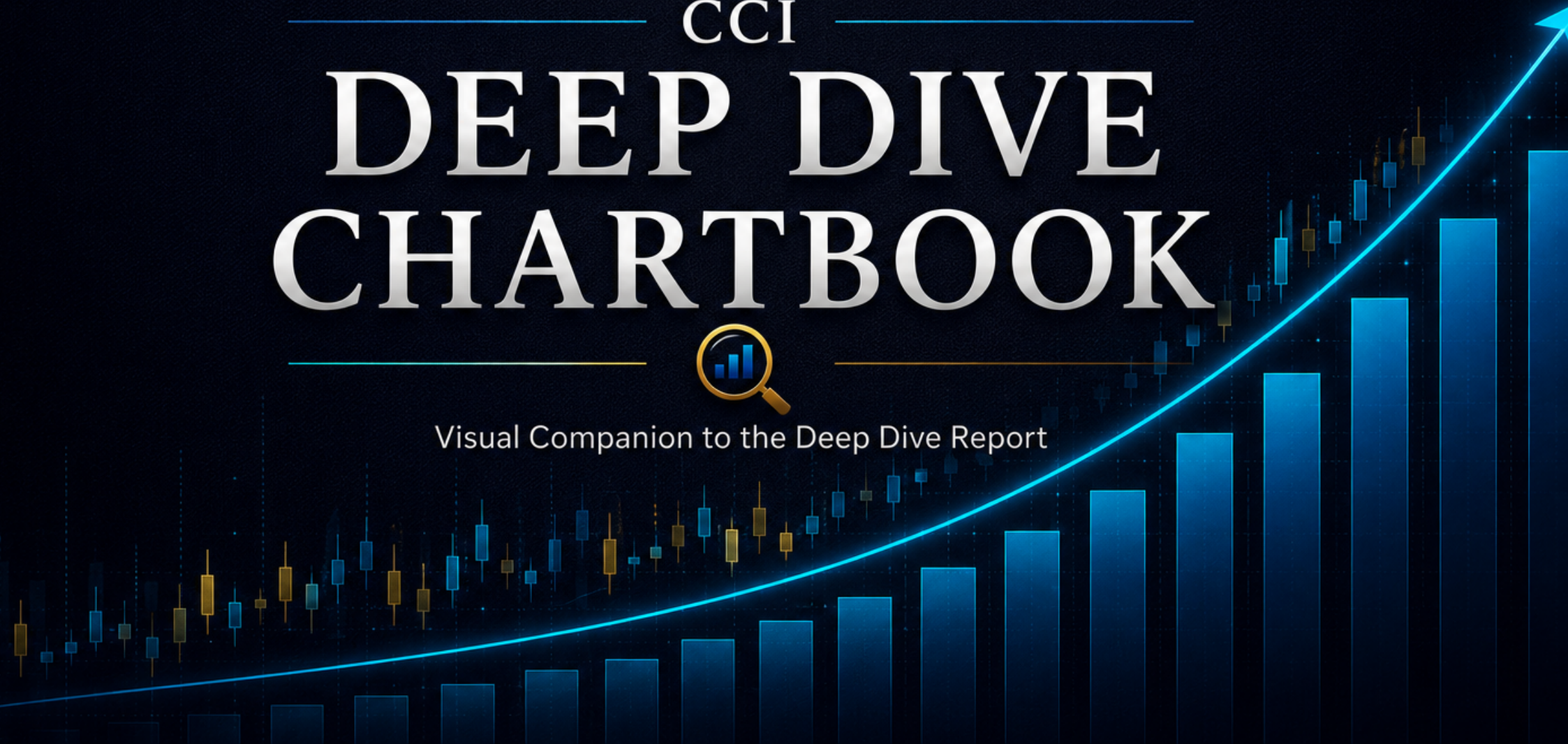
CAPITAL CYCLE

INTELLIGENCE

CCI

DEEP DIVE CHARTBOOK

Visual Companion to the Deep Dive Report



Microsoft

CCI Deep Dive Chartbook

Visual Companion to the Microsoft Deep Dive Report

A Capital Cycle Investigation

August 2026

Understanding Through Evidence

Welcome

The **CCI Deep Dive Chartbook** is the visual companion to the accompanying Deep Dive Report.

Where the report investigates an investment through detailed research and evidence, the Chartbook presents that same investigation visually through the charts that matter most.

Each chart has been carefully selected to answer a specific question about the investment—from business quality and growth through to capital returns, valuation, relative strength and current market position.

Read sequentially, the charts tell the story of the investment. Together they provide a concise visual summary of the evidence shaping the investment thesis.

How to Use This Chartbook

Each page follows the same structure:

The Chart — The primary evidence.

Why It Matters — Why this evidence is important.

Capital Implication — What this evidence means for long-term capital allocation.

Rather than attempting to predict markets, this Chartbook is designed to help investors understand them.

CCI Capital Cycle Verdict

Where Microsoft Sits in Its Current Capital Cycle

Microsoft is no longer operating within a capital-light software expansion alone.

The company is undertaking one of the largest infrastructure investment programmes in its history as it builds the cloud, data-centre and AI capacity required for the next generation of enterprise computing.

Demand is visible. Azure continues to grow, AI adoption is expanding and contracted backlog provides substantial revenue visibility.

The unresolved question is whether the extraordinary capital now being deployed will generate returns sufficient to justify the investment.

Current CCI Capital Cycle Position

The Five Stages of the Microsoft Capital Cycle

1. **Capital Scarcity & Underinvestment** — productive capacity is limited and investment restrained.
2. **Capital Inflow & Demand Acceleration** — improving demand attracts increasing investment.
3. **Capacity Building** — companies commit substantial capital to expand productive infrastructure.
4. **Return Verification** — new capacity must demonstrate utilisation, revenue conversion and acceptable returns.
5. **Harvest, Excess or Capital Discipline** — successful investment produces cash returns; excessive investment produces overcapacity and weaker economics.

MICROSOFT IS HERE → Capacity Building → Return Verification

Why CCI Places Microsoft Here

Evidence Area	Current Assessment
Liquidity	Moderately supportive; Microsoft is largely self-funded
Growth	Strong Azure and AI demand
Credit	Internally strong; external conditions remain relevant
Capital Response	Aggressive AI and data-centre capacity expansion
Cash Conversion	Under pressure while capex remains elevated
Return Verification	Developing; utilisation and incremental returns still to prove
Primary Opportunity	AI infrastructure becomes a durable high-return platform
Primary Risk	Industry overbuild or slower-than-expected monetisation

CCI Interpretation

Microsoft has already demonstrated that it can build at extraordinary scale. The capital-cycle question has therefore moved beyond capability.

The next phase must prove that new capacity can generate sufficient utilisation, revenue, free cash flow and incremental returns to justify the capital committed.

That is why CCI currently places Microsoft at the transition from **Capacity Building to Return Verification**.

CCI Deep Dive Compass

Every investment begins with uncertainty.

This report investigates that uncertainty through multiple independent lines of evidence.

Rather than assigning arbitrary scores, the CCI Deep Dive Compass summarises the current balance of evidence across each major component of the investment thesis.

It represents the balance of probabilities **at the time of publication**.

As new evidence emerges, so too should the conclusions drawn from it.

Evidence Assessment Framework

Assessment	Meaning
Strong Evidence	Multiple independent exhibits consistently support the investment thesis.
Positive Evidence	The balance of evidence supports the thesis, although meaningful uncertainty remains.
Mixed Evidence	The evidence is currently balanced, incomplete or inconclusive.
Weak Evidence	Multiple exhibits are beginning to challenge the investment thesis.
Negative Evidence	The cumulative evidence no longer supports the investment thesis.

CCI Microsoft Deep Dive Compass

Investigation	Evidence Balance
Business Quality	🟢 Strong
Azure & AI Growth	🟢 Strong
AI Capital Economics	⚪ Mixed / Developing
Backlog Visibility	🟡 Positive with qualification
Competitive Advantage	🟢 Strong
Valuation	⚪ Balanced
Benchmark Merit	🟡 Developing
Thesis Invalidation	Active Monitoring

Current Balance of Probabilities: Constructive — Evidence Still Required

Current Assessment

🟡 **CONSTRUCTIVE — EVIDENCE STILL REQUIRED**

The current balance of evidence supports a constructive view of Microsoft's long-term strategic position.

Strong evidence exists across business quality, Azure and AI growth, distribution and competitive advantage.

The principal uncertainty lies not in whether Microsoft can fund the AI infrastructure build, but whether the enormous capital being deployed will translate into sufficient utilisation, free cash flow and incremental returns.

Valuation is more balanced than at previous extremes, while relative leadership against the Nasdaq remains in the process of rebuilding.

Accordingly, CCI views Microsoft as:

Constructive on the franchise.
Watchful on the AI investment cycle.
Disciplined on valuation.

Evidence—not enthusiasm—must earn the next increment of confidence.

Investigation 1

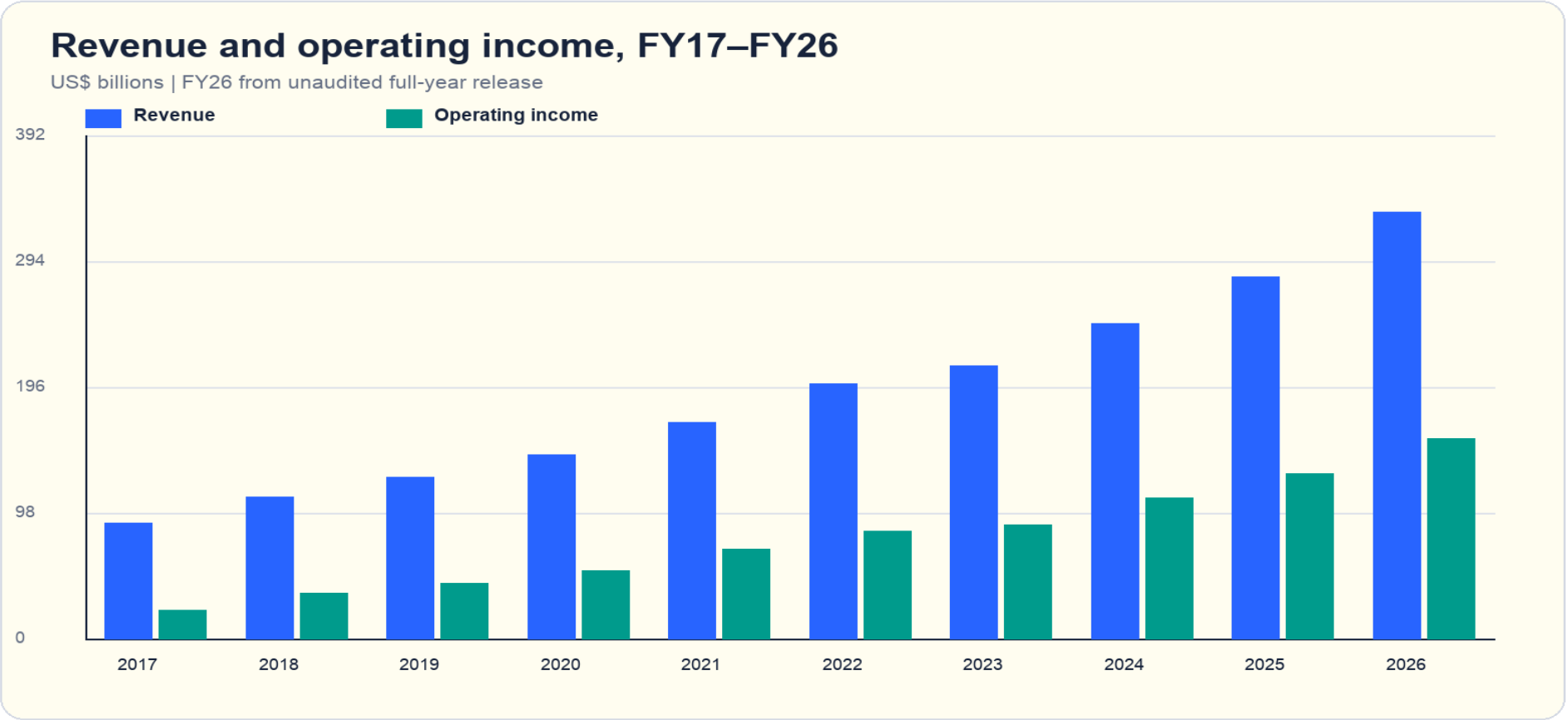
THE BUSINESS BENEATH THE TICKER

Question One: What Is Microsoft Today?

Why This Question Matters

Before discussing AI, valuation or market price, we first need to understand the economic machine producing the cash. Microsoft is no longer a single-product software company. It has become a portfolio of recurring enterprise relationships, cloud consumption and consumer platforms.

Revenue and Operating Income: Scale With Operating Leverage

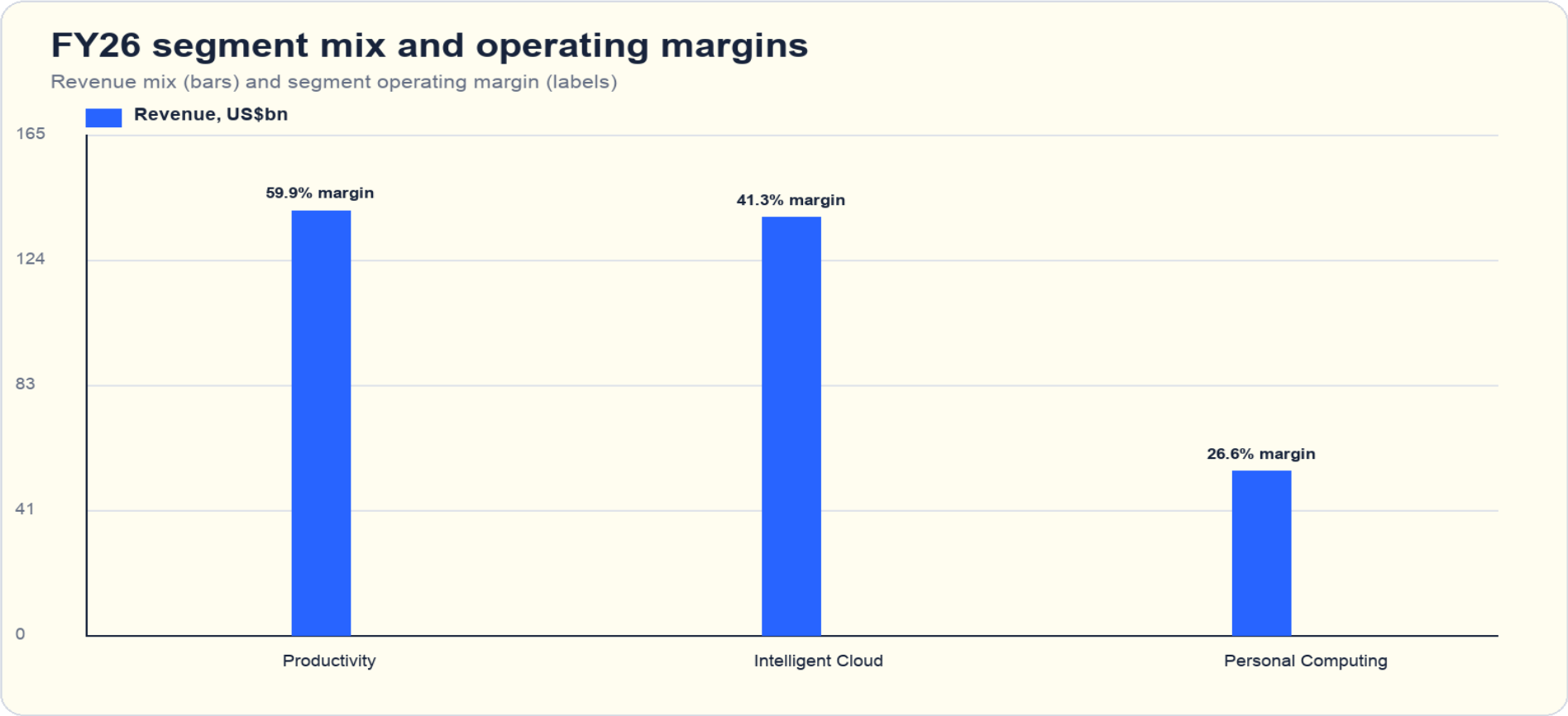


Source: Microsoft filings and CCI analysis. FY2026 figures may remain unaudited until the Form 10-K is filed.

Evidence Read

Revenue and operating income have compounded together, with FY2026 revenue of about $331.8 billion and operating income of about $155.2 billion.

The Portfolio: Three Engines, Different Economics



Source: Microsoft FY2026 disclosures and CCI analysis.

Evidence Read

Microsoft's reporting segments show a diversified revenue base, with cloud and productivity carrying much of the growth and margin burden.

Investigation 2

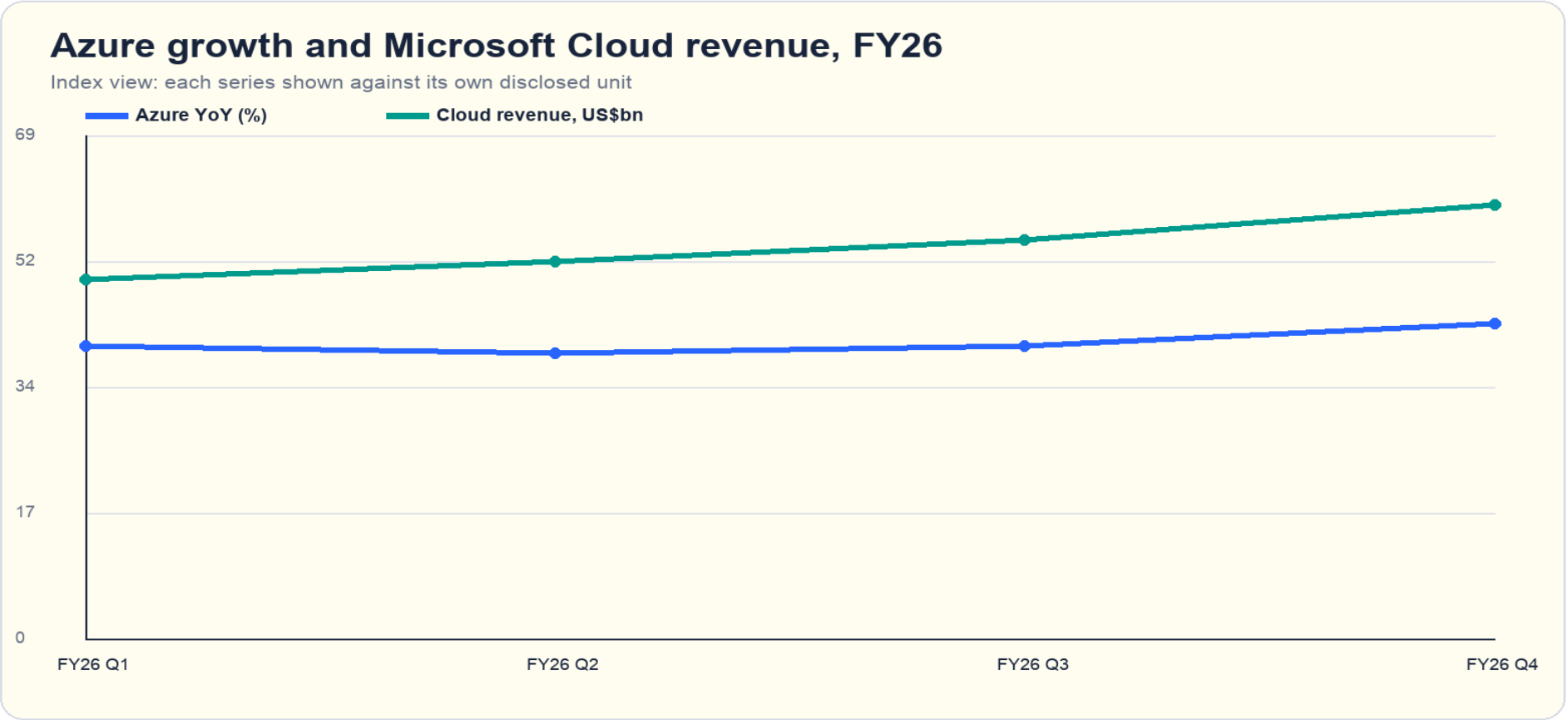
GROWTH

Question Two: Is Azure and AI Reaccelerating Core Growth?

Why This Question Matters

AI becomes economically meaningful only when adoption translates into consumption, pricing, retention or additional services. Azure provides the clearest operating window into whether Microsoft's AI opportunity is becoming measurable economic growth.

Azure and Cloud Growth: Reacceleration With a Capacity Constraint



Source: Microsoft quarterly disclosures and CCI analysis.

Evidence Read

Azure growth moved through approximately 40%, 39%, 40% and 43% across the most recent reported quarters, while Microsoft Cloud revenue continued to expand.

Copilot Distribution: From Product Launch to Installed Workflow



Source: Microsoft product disclosures and CCI chronology.

Evidence Read

Microsoft has moved Copilot across GitHub, Microsoft 365, security and developer workflows, with paid-seat adoption expanding.

INVESTIGATION 3

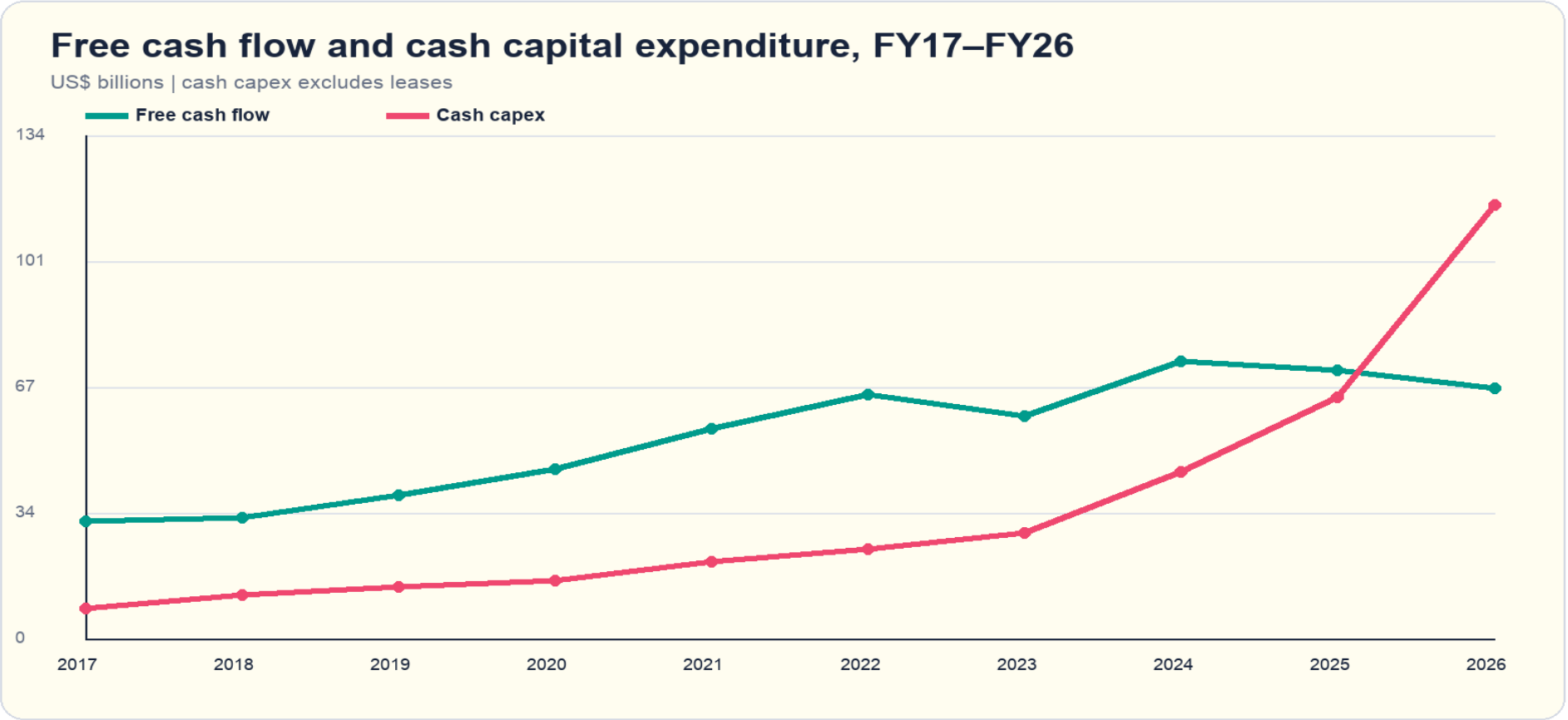
RETURNS

Question Three: What Economics Sit Behind the AI Capital Cycle?

Why This Question Matters

AI infrastructure requires enormous upfront investment. Growth alone therefore cannot determine whether the cycle is creating value. The critical question is whether rising capital expenditure ultimately produces sufficient cash flow and incremental returns to justify the capital committed.

Capital Expenditure and Free Cash Flow



Source: Microsoft cash-flow statements and CCI calculations. Free cash flow shown as operating cash flow less cash capital expenditure.

Evidence Read

Operating cash flow reached about $182.9 billion, but cash capital expenditure of roughly $115.9 billion left free cash flow near $67.0 billion.

Investigation 4

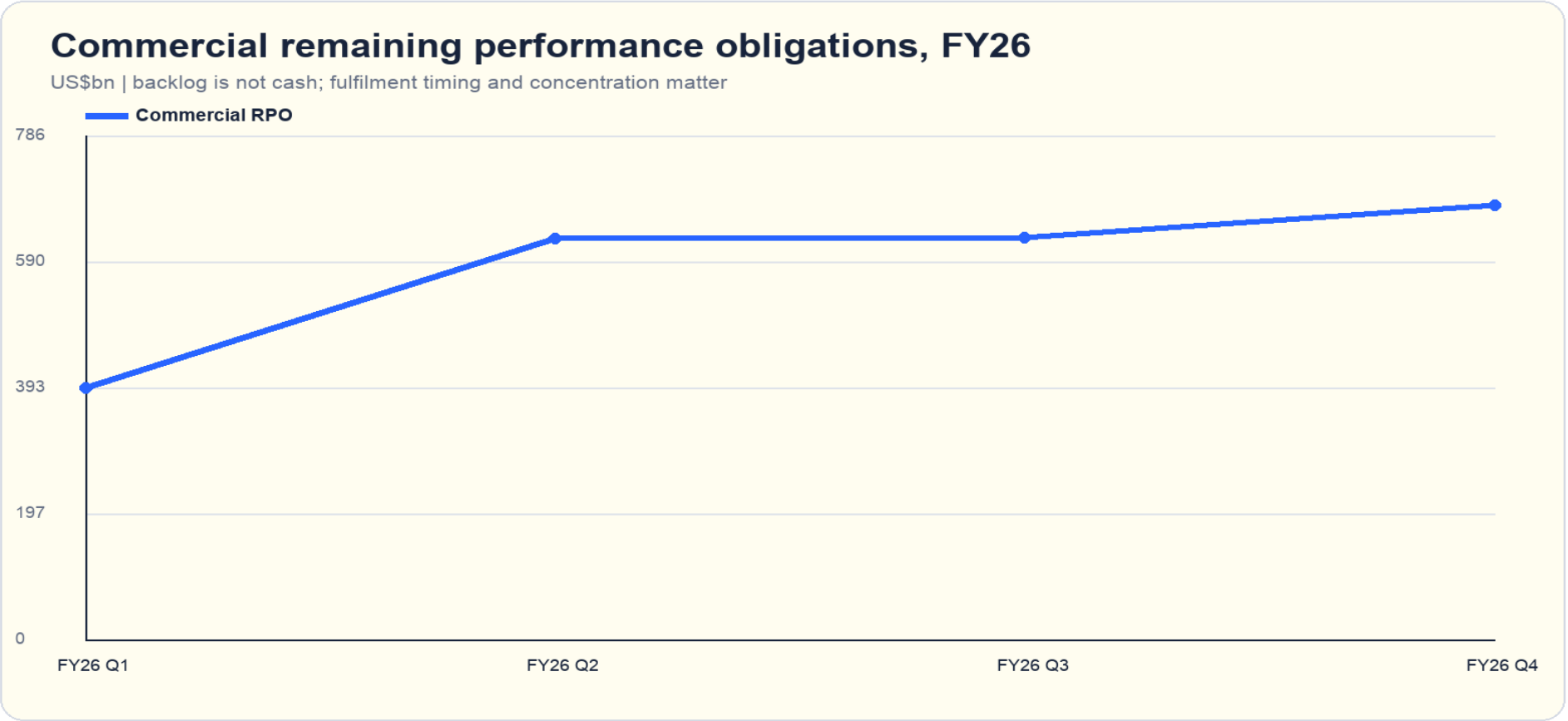
VISIBILITY

Question Four: Does Backlog Represent Durable Demand—or Concentration?

Why This Question Matters

Backlog can provide valuable evidence of future demand, but headline size alone does not determine its quality. Understanding how contracted commitments convert into revenue—and how concentrated those commitments may be—is essential when judging the durability of Microsoft's growth.

Remaining Performance Obligations: Visibility With Fine Print



Source: Microsoft disclosures and CCI analysis.

Evidence Read

Remaining performance obligations rose to approximately $678 billion, indicating substantial contracted commitments. Disclosures also suggest a meaningful share is associated with a single strategic relationship.

Investigation 5

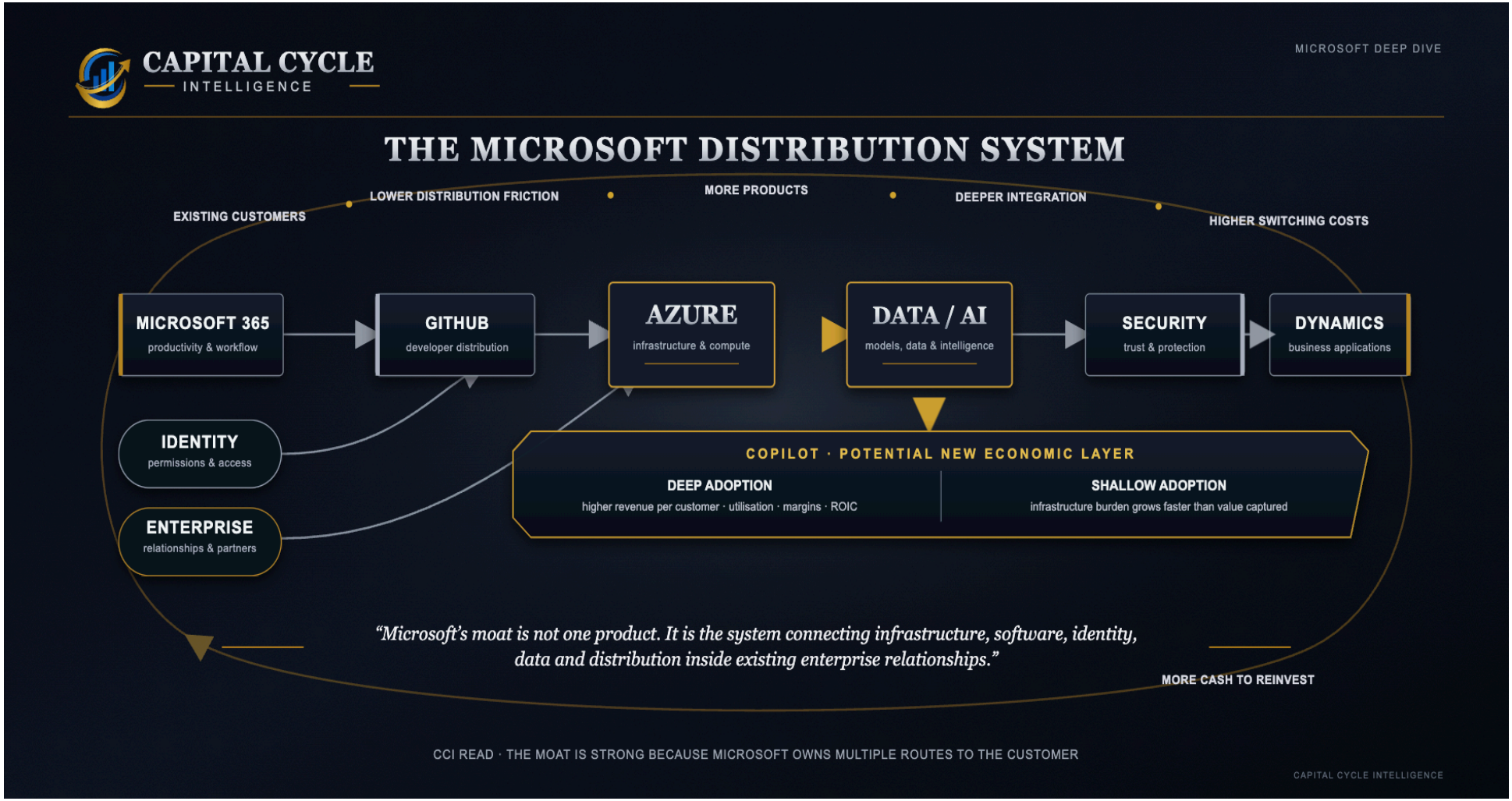
COMPETITIVE ADVANTAGE

Question Five: How Strong Are Distribution and the Moat?

Why This Question Matters

Extraordinary markets attract extraordinary competition. Microsoft's long-term economics therefore depend not merely on participating in AI, but on possessing advantages that allow it to distribute products, retain customers and capture value as the technology becomes increasingly competitive.

The Microsoft Distribution System



Question Five: How Strong Are Distribution and the Moat?

Microsoft's moat is not one model or one chatbot. It is the ability to connect identity, security, data, developer tooling, infrastructure and productivity inside an existing enterprise relationship.

What the evidence says

Microsoft can distribute new products through Microsoft 365, Azure, GitHub, Dynamics and security contracts. Switching costs arise from data, workflows, permissions, training and integration. The company can also bundle products and use its global partner network to reduce customer acquisition friction.

What it does not prove

Distribution does not guarantee product superiority, and bundling can attract regulatory scrutiny. Open-source models, multi-cloud architectures and specialist applications can weaken the value of an integrated stack. Customers may also use Microsoft as infrastructure while directing the highest-margin application value elsewhere.

CCI Read

The moat is strong because Microsoft owns multiple routes to the customer. The key watchpoint is whether those routes increase customer value or merely increase customer dependence.

Capital Implication

A durable moat supports long compounding periods, but paying for durability only works if competition does not force the economics down faster than growth expands the opportunity.

CCI Principle

The best distribution advantage is one the customer experiences as convenience rather than captivity.

The broader answer

Microsoft's competitive position is among the strongest in global technology. The moat is broad, but AI may rearrange where value accrues inside the stack. That is the competitive question worth watching.

Does Copilot Create a New Economic Layer?

Capital Cycle Read

Copilot represents one of Microsoft's clearest opportunities to improve the economics of its AI investment.

If Copilot increases revenue per customer while making use of infrastructure already being built, it could strengthen utilisation, margins and returns on capital across the Microsoft ecosystem.

If adoption remains shallow, usage is intermittent or pricing power proves limited, the infrastructure burden may grow faster than the economic value captured from it.

Copilot therefore matters not only as a product. It may help determine whether Microsoft's AI capital cycle becomes productive or excessive.

Investigation 6

EXPECTATIONS

Question Six: What Is Valuation Pricing In?

Why This Question Matters

A great business can still be a poor investment when too much future success is already reflected in the price. Valuation tells us not whether Microsoft is a great company, but how much greatness investors are currently being asked to pay for.

Price-to-Earnings Ratio and 21-Week Average

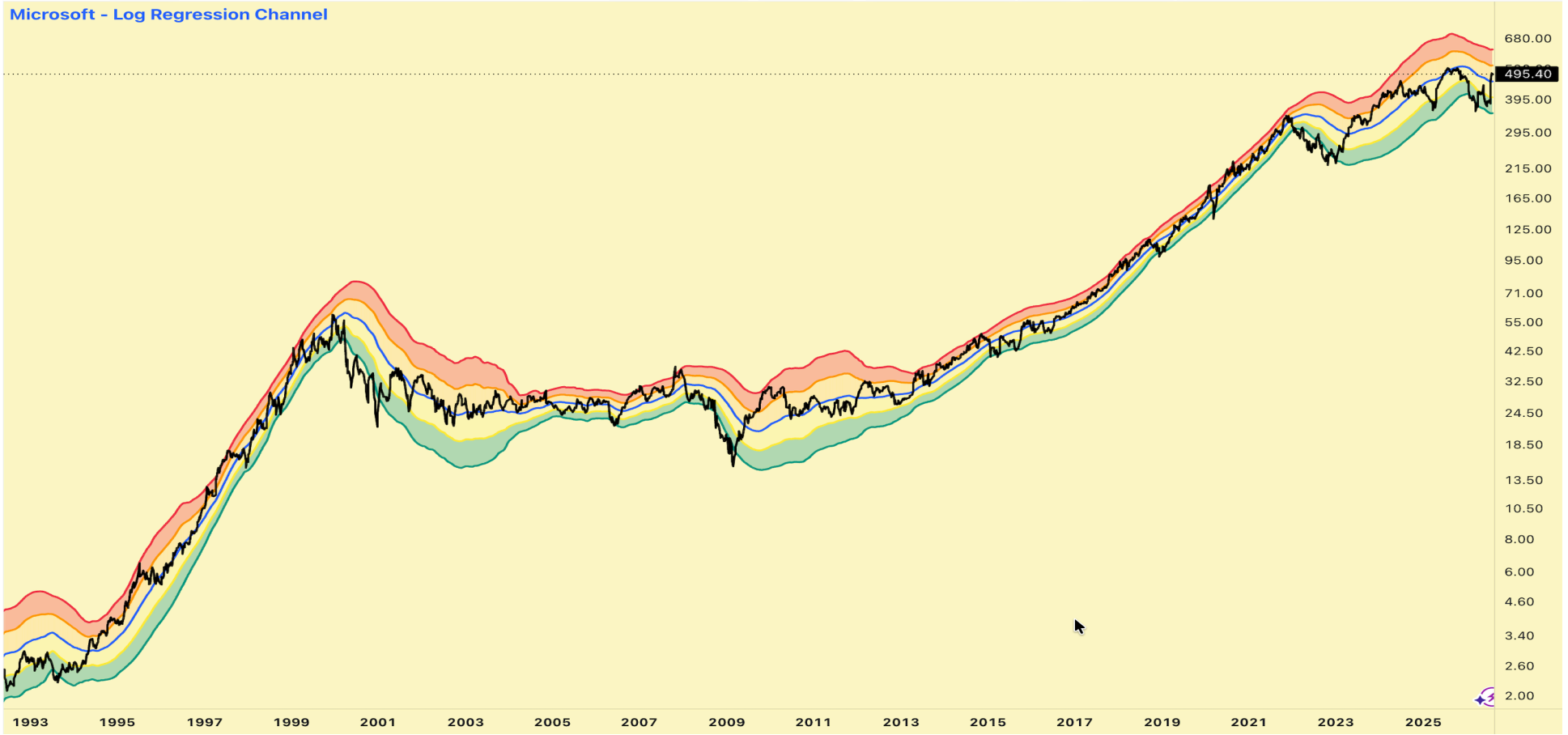


Source: TradingView fundamental data and CCI chart. P/E is price per share divided by diluted earnings per share over the trailing twelve months.

Evidence Read

The chart compares Microsoft's trailing P/E ratio with its own 21-week average, allowing the current multiple to be viewed against its recent history.

Long-Horizon Price Position: CCI Log Regression Channel



Source: CCI proprietary indicator output using Microsoft market data. Methodology and parameters are intentionally not disclosed.

Evidence Read

Across more than three decades, Microsoft's price has moved through repeated valuation regimes inside the displayed channel. The current position is elevated from the lower bands but below the most extended zone.

Peer Leadership Test

Relative performance against major technology peers helps reveal whether Microsoft is earning leadership within the same AI capital cycle—not merely participating in it.

Microsoft versus Meta

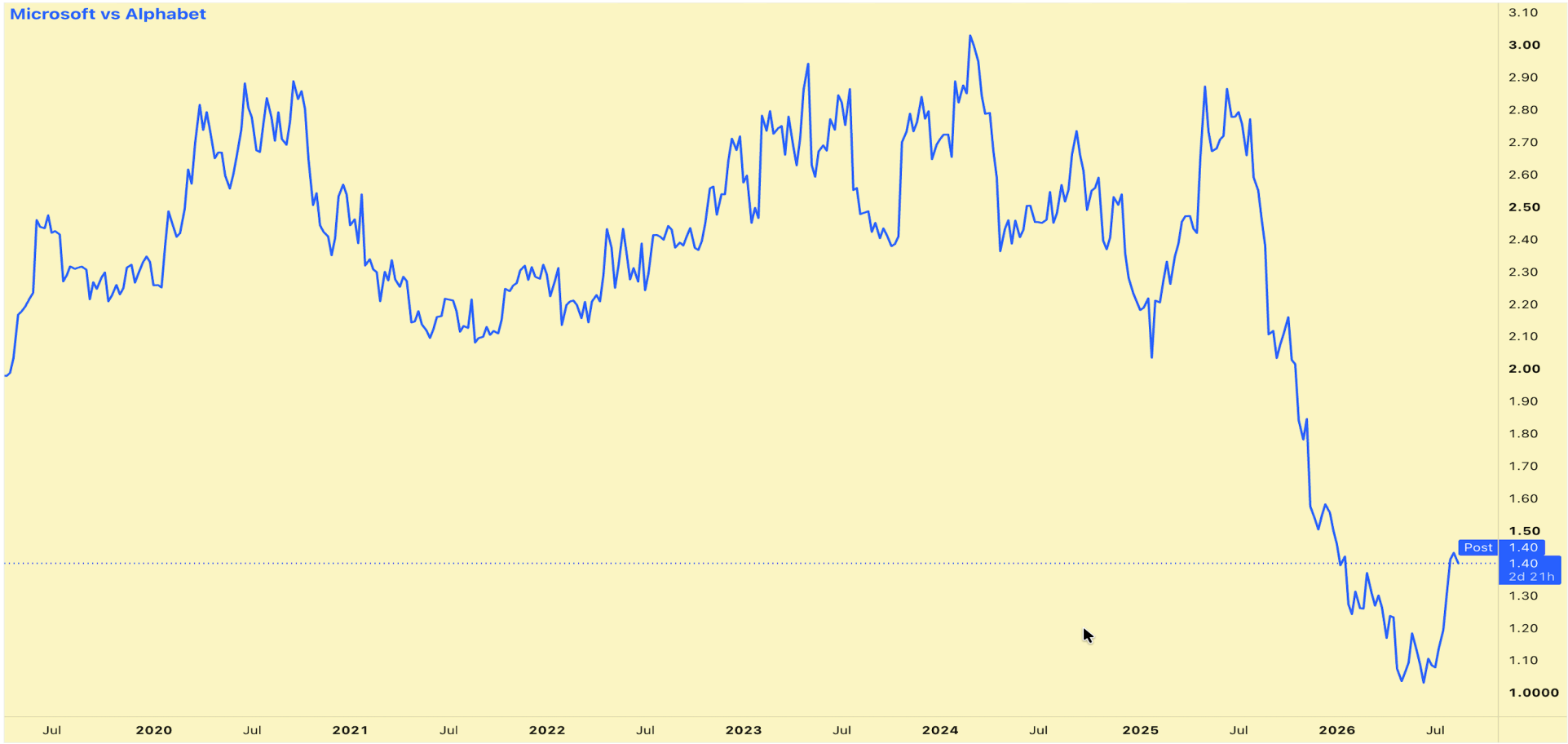


A rising ratio means Microsoft is outperforming the peer; a falling ratio means the peer is outperforming Microsoft.

Evidence Read

Meta has materially outperformed Microsoft over the broader period following the 2022 ratio peak. The recent move represents an important recovery in Microsoft's relative momentum, but not yet proof of sustained leadership.

Microsoft versus Alphabet



A rising ratio means Microsoft is outperforming the peer; a falling ratio means the peer is outperforming Microsoft.

Evidence Read

Alphabet has decisively outperformed Microsoft during the latest phase of the AI capital cycle. Microsoft's rebound is encouraging, but the larger relative trend has not yet been repaired.

Microsoft versus Amazon



A rising ratio means Microsoft is outperforming the peer; a falling ratio means the peer is outperforming Microsoft.

Evidence Read

Amazon has outperformed Microsoft over the most recent capital-cycle phase, although Microsoft has begun recovering some of that lost ground.

Investigation 7

OPPORTUNITY COST

Question Seven: Does Microsoft Deserve Capital Over the Benchmark?

Why This Question Matters

Capital has alternatives. Owning Microsoft individually is worthwhile only if the evidence supports allocating capital to it rather than simply owning the broader market. Relative performance therefore tests whether company-specific risk is being rewarded.

Microsoft Relative to the Nasdaq 100



Source: TradingView market data and CCI calculation. Ratio rises when Microsoft outperforms the Nasdaq 100 and falls when it underperforms.

EVIDENCE READ

Microsoft outperformed the Nasdaq 100 strongly through much of the cloud era, but relative strength weakened materially into 2026 before rebounding from a pronounced low.

Microsoft Relative to the S&P 500



Source: TradingView market data and CCI calculation. Ratio rises when Microsoft outperforms the S&P 500.

Evidence Read

Microsoft retains a stronger long-term relative record against the broad market, while the recent drawdown and recovery show that leadership is cyclical rather than permanent.

Trend Structure: 50-, 100- and 200-Week Moving Averages



Source: TradingView market data. Moving averages are conventional, non-proprietary trend measures.

Evidence Read

Price has recovered above the long-term averages, while the 200-week average continues to rise. The shorter averages reflect the damage and recovery of the recent cycle.

Investigation 8

RISK DISCIPLINE

Question Eight: What Would Falsify the Evidence-Based Case?

Why This Question Matters

A thesis is incomplete until we know what evidence would invalidate it. Defining those conditions in advance prevents conviction from becoming attachment and turns the investment thesis into something that can actually be tested.

Question Eight: What Would Falsify the Evidence-Based Case?

A thesis becomes useful when it tells us what would change our mind. For Microsoft, the greatest risk is not a single disappointing quarter. It is a pattern in which spending remains high while demand quality, margins or competitive advantage weaken.

The evidence would strengthen if…

- Azure growth remains durable as new capacity comes online, with AI demand broadening across customers.
- Free cash flow begins to grow faster than capital expenditure after the build phase.
- Copilot renewal, usage and pricing demonstrate measurable customer value.
- RPO converts at attractive margins and concentration falls as the customer base broadens.
- Microsoft restores sustained relative leadership versus the Nasdaq 100.

The evidence would weaken if…

- Capital expenditure remains structurally elevated without a corresponding lift in utilisation or cash returns.
- Azure reacceleration fades when capacity constraints ease.
- AI products require heavier discounting, bundling or incentives to retain adoption.
- A concentrated counterparty materially alters committed demand.
- Relative performance remains weak despite apparently strong operating results.

A CCI Learning Moment

Risk is not merely price volatility. It is the possibility that the evidence required for the thesis never arrives—or arrives too late to justify the capital committed.

The broader answer

The Microsoft case is falsifiable. The next chapter should be judged by conversion: capacity into usage, usage into revenue, revenue into cash and cash into returns above the benchmark.

What Could Break the Thesis?

Capital Cycle Read

The greatest capital-cycle risk is not that Microsoft lacks capital or technological capability.

It is that too much capital may be committed across the industry before the economic returns are sufficiently proven.

A combination of slowing demand, rising depreciation, weaker pricing and continued capital intensity would suggest that the cycle is moving from productive expansion towards excess.

Conversely, improving utilisation, resilient margins and stronger free-cash-flow conversion would indicate that Microsoft is moving successfully from building capacity to harvesting returns.

The evidence must determine which path is unfolding.

Questions create understanding.

Evidence creates conviction.

Judgement creates decisions.

Allocation creates returns.

Returns create financial freedom.

Welcome to Capital Cycle Intelligence

Where the investigation never ends.

Neither should the pursuit of evidence.

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