



APERTURE

INSIGHTFUL AND RELEVANT RESEARCH UPDATES

Microsoft Q2 2026 Results

Share Price	US\$411.21
Date	4 February 2026

RESULTS SUMMARY

Microsoft reported strong Q2 FY26 results, with revenue of US\$81.3 bn (+15% constant currency) and operating income of US\$38.3 bn (+19%). Non-GAAP net income, excluding the impact of OpenAI, rose 21% to US\$30.9 bn. Microsoft Cloud revenue reached US\$32.9 bn (+28%), with Azure up 38%, driven by enterprise cloud migration and AI workloads. Productivity and Business Processes grew double digits, while More Personal Computing was modestly weaker.

Capital expenditure remained elevated at approximately US\$37.5 bn (+66%), reflecting continued AI and cloud infrastructure investment, with two-thirds of spend primarily on GPUs and CPUs.

For Q3 FY26, management guided revenue to US\$80.65 – US\$81.75 bn, with Azure expected to grow 37% – 38%, implying slight sequential moderation. Despite the strong print, the share price declined as Azure growth came in below expectations and investors focused on concerns that compute capacity is being prioritised toward Copilot workloads rather than Azure consumption.

OUR LONG-TERM INVESTMENT VIEW

- One of the certain trends within the IT sector over the medium to long term is the migration from on-premises to cloud services. In our view, Microsoft is the global leader within this sector with its offerings – Microsoft Azure, Office 365 and their complementary Windows ecosystem. Additionally, Microsoft is finding innovative ways for Artificial Intelligence (AI) to enhance existing software suites, critically embedding AI into Office 365 applications to drive efficiencies. LinkedIn, although still relatively small in the portfolio has the power to draw even more individuals into the Microsoft ecosystem.
- Integration is the key for Microsoft's long-term success as it adds extended shelf-life to existing software through increasing compatibility and enhancing functionality. We believe Azure and Office 365 are the centre of this and building on their large installed user base will allow Microsoft to continue growing revenue, margins, and earnings while tucking-in additional functionality and features.
- We view Microsoft as an effective and rational capital allocator. Microsoft's financial prudence is evident in its balanced approach to capital allocation and increasing return on invested capital. While R&D investments drive innovation, the company maintains a robust balance sheet, which ensures stability and enables strategic investments.
- Microsoft has demonstrated remarkable flexibility in response to changing market dynamics and technological advances to ensure it defends its market position and supports growth to earnings.

UNPACKING THE Q2 2026 RESULTS

High level numbers

- **Revenue grew 15%** in constant currency to US\$81.3bn, underpinned by Intelligent Cloud growth of 28%, with Azure up 38%. Productivity and Business Processes grew ~14%, while More Personal Computing declined modestly down by 3%. **Gross profit** increased broadly in line with revenue, with gross margin moderating due to AI infrastructure scaling, partially offset by optimisation benefits in cloud software and shift to higher margin business.
- Costs were well contained and increased only
- **More Personal Computing** generated US\$14.3bn, declining 3%, driven primarily by weakness in gaming, partly offset by growth in Search and News advertising and Windows OEM. Segment gross margin increased, reflecting a shift toward higher-margin businesses. However, operating income declined 4% as expenses increased, driven by an impairment charge in gaming and higher R&D costs. Operating margin was broadly flat year on year.

by 5%, supporting a **19% expansion (ahead of revenue growth) in Group operating profit to US\$38.3bn** and an operating margin of 47%.

- **Non-GAAP Diluted Earnings per share (DEPS)** grew 21% to US\$4.14 for the quarter.
- **Cash flow generated from operations** was higher at US\$35.8bn, **an increase of 60%** driven by strong cloud billings and collections.
- The company **returned US\$5.9bn to shareholders** via share repurchases and dividends for the quarter.

Operational Performance

- **Productivity & Business Processes** generated US\$34.1bn, up 14% in constant currency. Microsoft 365 Commercial cloud revenue grew 14%, Microsoft 365 Consumer cloud revenue grew 27%, LinkedIn increased 10%, and Dynamics 365 rose 17%. Segment gross margin expanded year on year, driven by efficiency gains in the commercial cloud, while operating income increased 19% in constant currency, reflecting operating leverage
- **Intelligent Cloud** generated US\$32.9bn, up 28%. Azure grew 38% (below expectations of growth of 39%), driven by sustained enterprise migration and strong demand across AI and non-AI workloads. Segment gross margin declined year on year, reflecting continued infrastructure investment and a sales mix shift toward Azure, partially offset by efficiency gains within Azure. Operating income increased 27% in constant currency, while operating margin declined slightly, as operating leverage was offset by continued AI infrastructure investment.

Looking ahead

Microsoft expects Q3 FY26 revenue of US\$80.65–81.75bn (15% – 17% growth). Azure is expected to grow 37% – 38% in constant currency, with Intelligent Cloud at 27% – 29% and Productivity and Business Processes at 14% – 15%, supported by Copilot and E5 momentum. More Personal Computing remains weak, with Windows OEM and gaming declining, partly offset by search strength.

Costs will grow faster than revenue due to continued AI and R&D investment, with operating margins slightly down year-on-year and Microsoft Cloud gross margin around 65%. Capex will moderate sequentially but remain elevated as AI capacity scales. For FY26, margins are now expected to be slightly up, supported by mix and cost discipline.

The bottom line

Microsoft's Q2 FY26 results reinforce the strength of its cloud and commercial franchises, despite near-term pressure from elevated AI investment and a modest moderation in Azure growth. While the share price reacted to softer Azure expectations and compute allocation concerns, underlying demand remains robust and operating discipline intact.

We view the current investment cycle as strategic and value-accretive over time. Microsoft remains a high-quality compounder and a core holding in our Global Equity Portfolio.

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