

Cash generation and capital allocation

Decision memo · Prasanna K · 19 October 2026

Review the source definition, separate tax/capital-spending effects from earnings, and require an explicit return on the new capital funding growth. The historical evidence and future policy scenarios answer different questions.

Microsoft: profit growth with a higher capital burden

Revenue rose 14.9% in FY 2025, operating margin reached 45.6%, and CFO rose 14.9%. Cash PPE spending rose 45.1% to USD 64,551m. CFO less cash PPE fell 3.3%, to USD 71,611m. Review incremental returns and funding timing before treating higher accounting earnings as a proportional increase in distributable cash.

Target: less cash after investment

FY 2025 revenue fell 1.7%, operating margin declined to 4.9%, and CFO was USD 6,562m. With USD 3,727m cash PPE purchases, the defined post-PPE proxy is USD 2,835m, down 36.7%. The reference growth policy creates only 2.0% more value than its no-growth cash-return reference under the stated assumptions. Growth volume alone is a weak reason to commit capital.

Infosys: examine cash-tax timing

CFO increased 38.2%, to USD 4,351m, while consolidated net income was USD 3,162m versus USD 3,169m. The USD 1,203m CFO increase comprises USD 751m higher pre-tax operating cash and USD 452m lower cash taxes. Do not extrapolate that cash increase as a structural earnings growth rate. The USD 263m investing line includes intangibles, so the USD 4,088m combined proxy is labelled separately from pure-PPE cash generation.

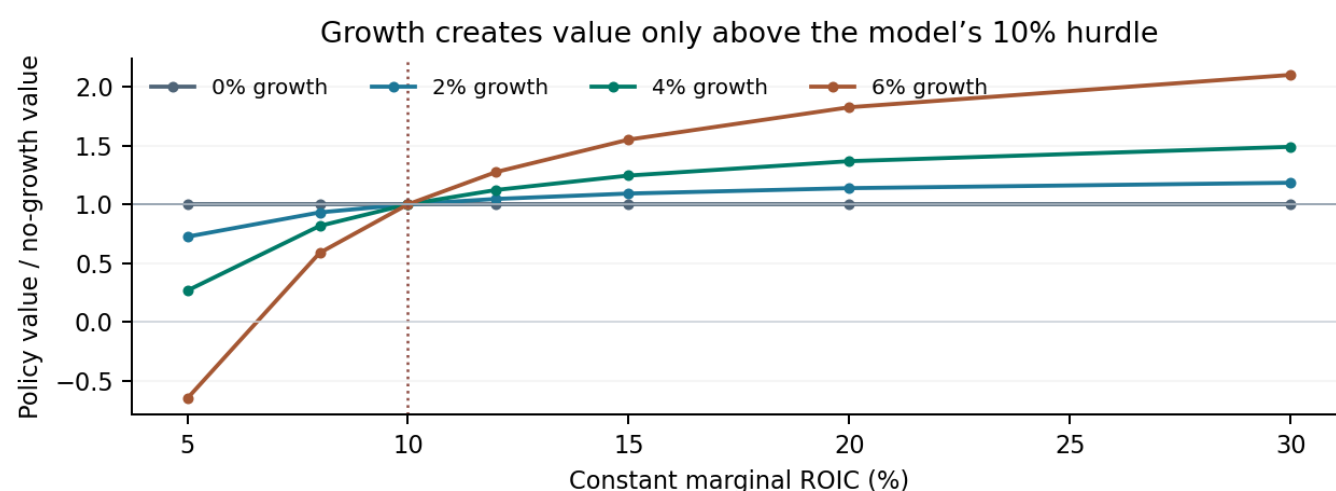
What the data support

Review	Result
Primary reporting inputs	Nine original issuer reports; exact hashes, fiscal calendars, USD-million units and source cells
Final extraction check	Both methods 33 supported correct /36 financial targets, with 3 justified abstentions; no final accuracy gain
Accounting controls	All nine balance identities, cash-flow sums and ending-cash bridges reconcile
Decision-model checks	519 independent Decimal case evaluations and 932 workbook reconciliations

Historical CFO-minus-investment figures are accounting proxies, not FCFF or cash available for payout. Fiscal dates differ across firms, and lease/interest classifications are not harmonised. This memo does not estimate a target share price or recommend a security trade.

Use explicit growth-funding hurdles

The model's first new investment is paid immediately. At a constant marginal ROIC equal to WACC, growth adds no value after funding. Above the hurdle it can add value; below it a forced growth policy destroys value. The terminal contribution and financing requirements therefore matter as much as the growth rate.



Reference policy	Initial growth / ROIC	Terminal growth / ROIC	Policy value (USDm)	Immediate IO (USDm)
Microsoft	10% /18%	2.5% /12%	1,316,560	53,553
Target	2% /12%	2% /10%	39,143	640
Infosys	5% /16%	2.5% /12%	35,379	954

Illustrative common WACC 10% and normalised tax 25%. These are conditional operating-policy values, before the financing/nonoperating adjustments needed for an enterprise/equity assessment. They retain reported EBIT's expense/lease basis. Assumed marginal ROIC is not an estimate derived from observed historical ROIC.

Questions before an actual investment decision

Which incremental return is supported by operating evidence? What working capital, intangible and fixed capital must be paid before the first growth year? What lease/interest adjustments are required on the chosen EBIT basis? How much of cash conversion reflects tax timing? What growth/return fade is economically sustainable?

Sensitivity, not forecast certainty

The release contains 363 WACC/terminal-growth cases and 147 fixed-regime evaluations. Reference terminal PV shares are 64.2% for Microsoft, 47.0% for Target and 54.6% for Infosys. Two of nine reverse targets are unreachable in the declared [0%, 25%] growth bracket; the model reports that limit instead of extrapolating. No probability weights or market-implied growth claim are attached to these scenarios.

Read the audit trail

[Repository](#), [technical report](#), [source locators](#) and [formula workbook](#)
[Interactive financial evidence](#) and [policy explorer](#)