

Microsoft reports \$20.1B quarterly profit as it promises to lead 'the new AI platform shift'

July 25 2023, by Matt O'brien



The logo for Microsoft, and a scene from Activision "Call of Duty - Modern Warfare," are shown in this photo, in New York, Wednesday, June 21, 2023. Microsoft reports earnings on Tuesday July 25, 2023. Credit: AP Photo/Richard Drew, File

Microsoft reported a 20% spike in quarterly profits Tuesday, helping to fuel its battle to get ahead of [rivals like Google](#), Amazon and Facebook parent Meta in selling the latest artificial intelligence technology.

The software giant said its fiscal fourth-quarter profit was \$20.1 billion, or \$2.69 per share, beating analyst expectations for \$2.55 per share.

It posted revenue of \$56.2 billion in the April-June period, up 8% from last year. Analysts polled by FactSet Research had been looking for revenue of \$55.49 billion.

CEO Satya Nadella said the company remains focused on "leading the new AI platform shift," though its push to add AI features to its existing products—among them cloud computing services, workplace software and its Bing search engine—are not yet making an obvious mark on its financial results.

Microsoft was an early mover in this year's [hype around "generative AI"](#) tools that can help people write documents and create new images and other media. It capitalized on its multibillion dollar investments in ChatGPT-maker OpenAI to launch a Bing chatbot and similar tools tailored to its business customers. It said last week that it would start charging \$30 per user for business accounts that sign up for its new AI "Copilot" that integrates with existing software such as Word, Excel and email.

"Organizations are asking not only how—but how fast—they can apply this next generation of AI to address the biggest opportunities and challenges they face—safely and responsibly," Nadella said in a prepared statement.

Despite beating Wall Street analyst expectations for profit and revenues, Microsoft's stock dropped slightly in after-hours trading after it released

its financial report upon the market's close Tuesday.

Macquarie analyst Sarah Hindlian-Bowler said investors have been focused on Microsoft's early revenue from those artificial intelligence investments, the performance of the Azure cloud computing platform and the likelihood that Microsoft [will close its deal](#) to buy video game company Activision Blizzard, which could help boost gaming revenue and drive more users to the Xbox game system and other Microsoft platforms.

More than 18 months after announcing the \$69 billion deal, Microsoft is still negotiating with a British antitrust regulator over concerns it will harm competition. The U.S. Federal Trade Commission also opposed the transaction but lost a court fight to stop it.

"We still expect a successful close as the company works toward an amenable solution that satisfies the U.K.'s concerns," Hindlian-Bowler said in an analyst note ahead of Tuesday's earnings.

Quarterly sales were highest in Microsoft's cloud business segment, which the company said grew 15% from the same time last year to \$24 billion. Much of that was driven by its flagship Azure platform "and other cloud services revenue," which grew 26%.

Microsoft doesn't reveal the total revenue for its Azure business, though a document inadvertently disclosed during its recent court fight with the FTC showed it as \$34 billion last year, Hindlian-Bowler said. Microsoft has declined to comment on that number. It's long been seen as the runner-up to Amazon's dominant cloud platform, Amazon Web Services.

Microsoft's second-biggest business segment—centered on productivity software led by its Office suite of workplace products—grew 10% to \$18.3 billion in sales for the April-June quarter.

While AI has captivated the attention of the public and investors, Microsoft is also still heavily reliant on its personal computing business centered around the licensing fees paid by the makers of computers running its Windows software.

Microsoft made \$13.9 billion from its personal computing business segment in the quarter, down 4% from the same time last year. While that segment also includes other products, including Xbox games and consoles, it's been the Windows revenue dragging the overall numbers down.

Worldwide shipments of PCs from various manufacturers in the April-June quarter dropped 16.6% from the same time last year, marking the seventh consecutive quarter of year-over-year decline, according to market research group Gartner. However, the market is starting to stabilize and demand could grow again in 2024, Gartner said.

With most of its revenue coming from sales to business clients, Microsoft hasn't been as affected by economic troubles that have hit consumer-focused sectors or advertising-dependent tech rivals like Google and Meta. But Microsoft has still laid off hundreds of workers in recent months, including many around its headquarters in Redmond, Washington, according to notices it sent to government agencies. That's on top of the 10,000 employees, almost 5% of its workforce, that it cut earlier this year.

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Citation: Microsoft reports \$20.1B quarterly profit as it promises to lead 'the new AI platform shift' (2023, July 25) retrieved 29 April 2024 from <https://techxplore.com/news/2023-07-microsoft-201b-quarterly-profit-ai.html>

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