

Google's ad sales growth accelerated in 3Q, but investors are unimpressed with the performance

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In this Feb. 14, 2018, file photo the logo for Alphabet appears on a screen at the Nasdaq MarketSite in New York. Alphabet reports earnings on Tuesday, Oct. 24, 2023. Credit: AP Photo/Richard Drew, File

Google's digital advertising sales growth accelerated during the summer, advancing a recent revival that helped its corporate parent Alphabet Inc. to deliver a quarterly profit that exceeded analysts' projections.

The third-quarter results released Tuesday for the July-September period included a 9% increase in Google's ad sales from the same time last year. Those gains were the main reason Alphabet's total revenue rose 11% from a year ago to \$76.69 billion. The upturn was even better than the 7% year-over-year increase in revenue that Alphabet produced in the April-June period when it reversed an unprecedented drop in Google's ad revenue after nearly 20 years of growth.

The higher revenue—coupled with cost cuts that have trimmed more than 7,800 employees from Alphabet's payroll so far this year—enabled the Mountain View, California, company to post a profit of \$19.7 billion, or \$1.55 per share, a 42% increase from last year. Alphabet ended September with nearly 182,400 employees.

Despite the signs of progress in many areas, revenue from Google's Cloud division that helps powers websites—an area of robust growth—fell below analysts' projections at a time when artificial-intelligence technology was expected to provide a bigger lift. Meanwhile, Microsoft was simultaneously [reporting stronger results](#) in its own cloud operations, stoking worries that Google may be losing ground in a battleground that is expected to become even more important as AI progresses.

In a conference call with analysts, Alphabet CEO Sundar Pichai said some customers were "optimizing" their spending on [cloud services](#)—an indication that some businesses are tightening their budgets amid economic uncertainty caused by wars in the Middle East and Ukraine, as well as a potential shutdown of the U.S. government next month.

"Cloud computing is a much lumpier business than advertising, and one where Google is facing stiff competition," said Insider Intelligence analyst Max Willens. "While the traction it has among AI startups may bear fruit in the long run, it is not currently helping Google Cloud enough to satisfy investors."

The Cloud letdown appeared to take the luster off the third-quarter report for many investors. Alphabet's stock fell more than 6% in extended trading after the numbers came out. But the company's shares have surged by more than 50% so far this year, a run-up that may have prompted some investors to lock in their gains.

The third-quarter performance indicated that Google's early push to introduce more [artificial intelligence technology into its search engine](#) and other [products such as Gmail](#) and its latest [Pixel smartphone](#), is paying off.

"We're continuing to focus on making AI more helpful for everyone; there's exciting progress and lots more to come," Pichai said in a prepared statement.

The results also serve as a reminder of the financial juggernaut that Google has been able to assemble under its dominant [search engine](#)—the target of an ongoing antitrust trial focused on the U.S. Justice Department's allegations that the company has been abusing its power to boost its profit while stifling competition and innovation. Google has vehemently denied the allegations, alleging its success simply flows from all the good that its search engine does for consumers and advertisers.

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