Alphabet and Microsoft see earnings rise on AI-infused cloud

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Microsoft CEO Satya Nadella says the computing powerhouse is infusing all of its technology with articial intellince.

Google parent Alphabet and computing colossus Microsoft Tuesday reported that quarterly profits climbed on demand for cloud computing enhanced with artificial intelligence.

Microsoft saw its shares rise more than 3 percent to $341.11 on earnings that underscored the momentum of its cloud business.

Alphabet share prices, however, slipped more than 5 percent to $129.67 in after-market trades Tuesday despite beating overall earnings expectations as investors had evidently hoped Google Cloud would be doing better.

"Google Cloud missed consensus revenue expectations on slowing growth, and we believe consistent with the view that newer (generative artificial intelligence) workloads will take time to move the needle," Baird Equity Research analyst Colin Sebastian said in a note to investors.

Alphabet reported a quarterly profit of $19.7 billion, powered by money taken in from ads, YouTube, and cloud services.

Alphabet logged $76.7 billion in revenue, versus $69 billion in the same period a year earlier.

"We see AI as a foundational platform shift and are excited about the opportunities across our business," Alphabet chief executive Sundar Pichai said during an earnings call.

"Through it all we are making sure the product works well and we are generating value."

Consumers and investors have been keenly watching how companies take advantage of artificial intelligence, and Google along with Microsoft and OpenAI are considered leaders in the technology.

But Alphabet has largely been seen as playing catch up with Microsoft, with questions over whether the mighty Google search engine will withstand developments in AI.

Microsoft was quick to beef up its Bing search engine with AI powers, but Google's search has yet to see a real threat to its dominance, and continues to hold about 90 percent of the market worldwide.

Google, like most big tech companies, saw its share price rise steeply in 2023 as investors expected AI to generate new revenue and open new markets.

"It is a testament to the nature of Google's market dominance in search and ads that it can beat (earnings) estimates and have its stock sag immediately afterwards," said Insider Intelligence analyst Max Willens.

Alphabet share price sagged despite earnings growth, evidently due to investors not finding it as easy to assess the longterm payoff of cloud services as it is to watch ad revenue numbers.

"Cloud computing is a much lumpier business than advertising, and one where Google is facing stiff competition."

While Google may gain traction making money from AI in the long run, its Cloud unit for now is not enough to sate investors, Willens added.

Revenue in Alphabet's cloud division, which infuses AI into its services, was $8.4 billion in the quarter, compared to $6.7 billion in the same period a year earlier.

Microsoft riding cloud

Tech giant Microsoft said Tuesday its profits rose in the latest quarter, boosted by its strength in the closely watched cloud services segment.

The company exceeded expectations to report a net income of $22.3 billion for the July to September period, up 27 percent from a year ago.

All eyes have been on Microsoft's artificial intelligence and cloud computing performance, and a key aspect is the Azure cloud service, which competes with Amazon's AWS and Google Cloud.

"We're making the age of AI real for people and businesses everywhere," Microsoft chief executive Satya Nadella said on an earnings call.

"We are rapidly infusing AI across every layer of the tech stack and for every role in the business process to drive productivity gains."

In the latest quarter, revenue growth for Azure and other cloud services came in at 29 percent from a year ago, a slightly faster pace than the three months prior.

Overall, the company reported $56.5 billion in sales for the quarter, also higher than anticipated.

Microsoft shares surged by 4.6 percent in after-hours trading.

The latest earnings report comes shortly after Microsoft closed its blockbuster acquisition of Activision Blizzard, whose video games include "Call of Duty," sealing one of the biggest technology tie-ups in history.

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