

Google cements its advertising dominance with strong Q3 results

Article

The news: Google parent Alphabet Inc.'s Q3 financial results provide a positive outlook for the company, marking its **strongest advertising revenue growth in five quarters**.

The results: Overall revenues were **\$76.7 billion** in Q3 2023, up 11% year over year (YoY) from \$69.1 billion. That represented an acceleration from the 6% revenue growth reported for Q3

2022.

- Operating income increased from \$17.1 billion in Q3 2022 to \$21.3 billion in Q3 2023, with operating margin expanding from 25% to 28%.
- Third-quarter net income rose to \$19.7 billion from \$13.9 billion the prior year.
- Google Search and Other: This segment remains the primary revenue driver, rising from \$39.54 billion a year earlier to \$44.03 billion. Collectively, advertising revenues rose from \$54.5 billion to \$59.65 billion—**the highest total in that category in nine quarters.**
- The company improved its results with 2.3% fewer employees than a year ago (186,779 to 182,381). During the earnings call, CFO **Ruth Porat** said headcount growth is being restrained to prioritize key products and reallocate talent.

Yes, but: There was sizable growth in Google Cloud revenues, which jumped from \$6.87 billion to \$8.41 billion YoY, showing the company's growing foothold in that market.

- Though that 22.5% growth rate sounds impressive, six quarters ago it was 43.8%—a slowdown that investors notice.
- Consequently, Alphabet shares slumped 8% in early Wednesday trading as a result of the Cloud slowdown despite advertising's strong growth.

The role of AI: Executives told analysts that the company's investments in AI are helping advertisers.

- **Performance Max**, an AI-powered goal-based campaign type, is providing excellent ROI for advertisers, with users achieving an average of over 18% more conversions.
- Nearly 80% of advertisers are using at least one AI-powered search ad product.
- AI tools such as **Dreamscreen** and **YouTube Create** are revolutionizing content creation, Alphabet chief **Sundar Pichai** said.
- The company also called out **Spotlight Moments**, launched last week, which uses AI to identify trending content for brand sponsorship.

Area to watch: **YouTube** ad revenues increased to \$7.95 billion, above the \$7.8 billion analysts expected.

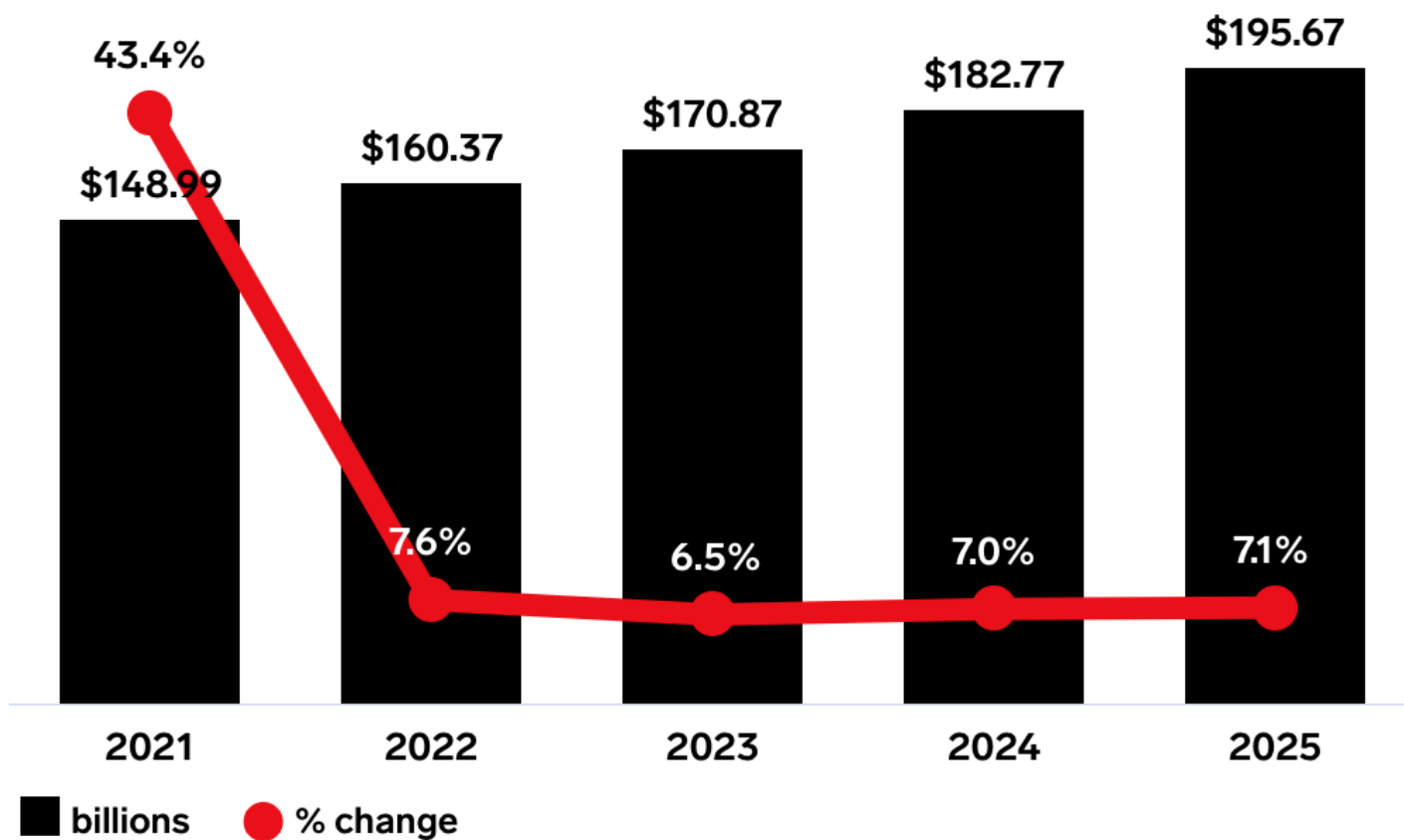
- Pichai highlighted that **Shorts**, YouTube's **TikTok**-style format, now boasts a staggering 70 billion daily views, a significant increase from around 50 billion daily views at the start of the year.

Our take: Alphabet showed robust performance in Q3 2023 with notable growth in key financial metrics—which will give it the war chest to innovate at a time when tech is moving quickly.

- Pichai's comments about AI-driven innovations and Porat's mention of the "fundamental strength" of the business reinforce the company's strong market position, signaling promising prospects for the current quarter.

Google Ad Revenues

Worldwide, 2021-2025



Note: Exchange Rate; includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices, and includes all the various formats of advertising on those platforms; includes ad revenues from YouTube; net ad revenues after companies pay traffic acquisition costs (TAC) to partner sites

Source: Insider Intelligence | eMarketer, March 2023

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