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Microsoft’s ad revenues surge 19% in latest quarter—but AI-fueled engagement has yet to fully pay off

Article

By the numbers: **Microsoft** reported results for its Q4 FY24, which ended June 30, on Tuesday.

- Revenues were $64.7 billion, up 15% year over year.
- Net income was $22 billion, up 10% YoY.
- Search and news advertising revenues, excluding traffic acquisition costs, increased by 19%. This segment contributed to overall revenues of $15.9 billion for the More Personal Computing division, which jumped 14%.

While the company's cloud and AI services continued to drive growth—with **Azure** reporting a 29% revenue increase and gaming revenues rising 61% due to the **Activision Blizzard** acquisition—the advertising segment showed a solid performance, demonstrating resilience in a competitive market.

Why it matters: Microsoft's search and advertising business is a critical component of its strategy to diversify revenue streams beyond its traditional software and cloud services.

- The 19% growth in this segment underscores the effectiveness of Microsoft's investments in **Bing** and other advertising initiatives, as well as the integration of AI technologies to enhance ad targeting and user engagement.
- This growth is particularly significant as it demonstrates Microsoft's ability to compete in the digital advertising space that is dominated by **Google**, **Meta**, and **Amazon**.
- Despite increasing scrutiny on data privacy and regulatory challenges, Microsoft's strong performance in advertising highlights its potential to capture market share—albeit slowly—and drive growth.

In context: Microsoft's standout performance in search and advertising reflects broader trends in digital marketing and the company's strategic focus on using AI to improve ad efficacy.

- The growth in advertising revenues comes as the overall tech sector faces hurdles. Google parent **Alphabet** recently reported middling results, adding pressure on Microsoft to demonstrate upside potential in its ad business.
- **OpenAI**'s new AI search engine, **SearchGPT**, could slow Microsoft's inroads into the lucrative search market.

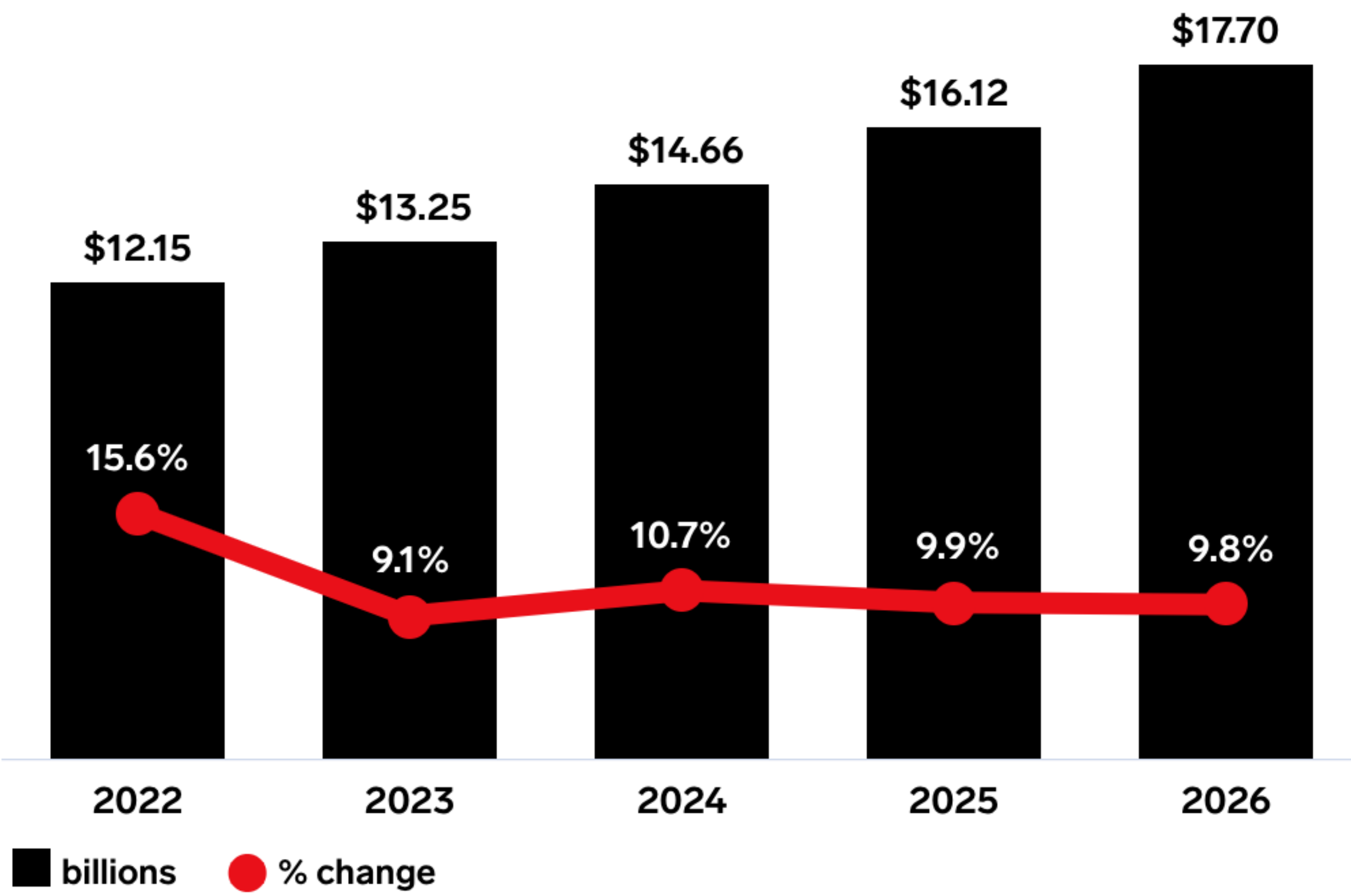
- The company faces other challenges as it tries to become a more meaningful ad player. Next year will see **Netflix** end its partnership with Microsoft in favor of developing its in-house advertising platform; meanwhile, its **Xandr** advertising subsidiary faces GDPR complaints.

  Our take: Microsoft's search and advertising growth is a promising indicator of its ability to innovate and compete in digital advertising.

- The company continues to build partnerships with news and entertainment publishers, paying them $1 billion over the past five years to reach new audiences. But it needs to show these efforts will help them make inroads into Google's gargantuan lead in the space.
- CEO **Satya Nadella** highlighted on the earnings call that users have created over 12 billion images and conducted 13 billion chats using **Copilot** for the web, showcasing strong engagement. The challenge will be to now translate that engagement into ad revenues.

Microsoft Ad Revenues

Worldwide, 2022-2026



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; net ad revenues after companies pay traffic acquisition costs (TAC) to partner sites; data after 2015 includes ad revenues from LinkedIn

Source: EMARKETER Forecast, March 2024

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