Microsoft Q3 2023: Windows, devices, and Xbox down again

Microsoft just posted the third quarter of its 2023 fiscal financial results. The software maker made $52.9 billion in revenue and a net income of $18.3 billion during Q3. Revenue is up 7 percent, and net income has increased by 9 percent. While Windows, Xbox, and devices revenue have all been hit hard this quarter, Microsoft's cloud, office, and server businesses have made up for weaknesses elsewhere.

Microsoft had a tough quarter for Windows and devices revenue last quarter, and Q3 isn't much different. Windows OEM revenue, the price that PC manufacturers pay Microsoft to put Windows on laptops and PCs, fell by 28 percent in Q3.

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The PC market had a particularly bad quarter with both IDC and Canalys reporting that shipments of PCs and laptops were down around 30 percent year over year. The PC market woes have also hit Microsoft's devices revenue, which includes HoloLens and PC accessories instead of just Surface revenue. Devices revenue has dropped by 30 percent in Q3.

Despite the revenue dips, "PC demand was a bit better than we expected," says Microsoft CFO Amy Hood in an earnings call today. Demand was higher than expected in commercial, added Hood. Microsoft is now expecting a similar quarter in Q4 fiscal 2023, where "Windows OEM and devices should both decline in the low to mid 20s," says Hood.

The devices revenue doesn’t cover Microsoft’s Xbox efforts, though. That’s separated out into Xbox hardware revenue, which has dropped by 30 percent this quarter along with a slight increase of 3 percent in Xbox content and services revenue thanks to Xbox Game Pass growth. Overall, gaming revenue has declined 4 percent.

Microsoft sold fewer Xbox Series S / X consoles over the holiday quarter than it did at higher prices in the same period in 2022, and it looks like that has continued into the most recent quarter. Microsoft blames most of the Xbox hardware revenue decline on “increased console supply” during the same quarter last year, so it looks like the company is still struggling with hardware supplies and perhaps softer demand.

This works out to be the lowest quarter of Xbox hardware revenue since Microsoft launched its Xbox Series X / S consoles in 2020. The drop in Xbox hardware revenue isn’t particularly surprising given the lack of first-party games throughout 2022 to drive sales.

Despite the hardware dip, Microsoft CEO Satya Nadella says “we set third quarter records for monthly active users and monthly active devices,” in Xbox. Microsoft also nearly hit $1 billion in revenue from subscriptions. Microsoft is expecting gaming revenue growth in its next Q4 fiscal 2023 quarter “in mid to high single digits,” according to CFO Amy Hood alongside “low to mid teens Xbox content and services revenue growth” thanks in part to Xbox Game Pass and third-party content.

Microsoft still isn’t providing an update on Xbox Game Pass subscriber numbers. Microsoft said Xbox Game Pass had grown to 25 million subscribers in January 2022, but we haven’t had an update for well over a year now. Microsoft Gaming CEO Phil Spencer revealed in October that Xbox Game Pass growth had stalled on the console side of the service, with Microsoft making a bigger push toward gains for PC Game Pass instead.

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PC Game Pass launched in 40 new markets earlier this month, taking the total up to 86 countries that now have access to Game Pass. Microsoft is still looking to push Game Pass to mobile devices, and a key part of that is the company’s proposed $68.7 billion acquisition of Activision Blizzard.

Regulators in the UK are due to issue their final decision on the acquisition tomorrow morning after months of back-and-forth. It’s a key decision that will determine the future of this giant deal. The CMA has already sided with Microsoft over *Call of Duty* on PlayStation concerns, and the panel of experts conducting the investigation will now deliver their verdict on how the acquisition could affect the wider cloud gaming market. The EU is due to deliver its verdict on the deal next month, while the FTC has sued to try and block Microsoft from acquiring Activision Blizzard.

The weakness in Xbox, devices, and Windows OEM revenue means that overall Microsoft’s More Personal Computing unit saw revenues of $13.3 billion, a 9 percent decline year over year.

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Revenue in Office, cloud, and server products has made up for Xbox, devices, and Windows, though. Server products and cloud services revenue grew 17 percent, with Azure revenue up 27 percent. Microsoft says this growth was driven by “strong demand for our consumption-based services.”

Microsoft 365 consumer subscribers grew 12 percent this quarter, up to 65.4 million subscribers. That’s also an

increase on the 63.2 million Microsoft reported last quarter. Microsoft launched a new $1.99 a month Microsoft 365 Basic subscription earlier this year, so this has clearly helped keep subscriber numbers high. Microsoft has also been pushing the Microsoft 365 brand over Microsoft Office, which will help with awareness.

Office commercial products and cloud services revenue also grew by 13 percent this quarter, with Office 365 commercial revenue up 14 percent. LinkedIn also saw “record engagement” this quarter, according to Microsoft. Sessions grew by 15 percent on the social network, and revenue is up 8 percent.

Nadella also revealed on Microsoft’s earnings call that Microsoft Teams now has 300 million monthly active users, up from 280 million in January. Microsoft just released its latest Teams client that improves memory usage and performance, with plans to roll it out broadly later this year.

Nadella also provided an update on Microsoft’s Copilot for Business rollout, with over 10,000 organizations signing up. We’re expecting to hear more about Microsoft’s AI plans at Build next month. “In a few weeks times, we’ll hold our Build conference, and we will share how we are building the most powerful AI platform for developers,” says Nadella.

***Update, April 25th 6:10PM ET**: Article updated with comments from Microsoft’s Q3, 2023 earnings call.*

https://www.theverge.com/2023/4/25/23697649/microsoft-q3-2023-earnings-revenue-profits-windows-xbox-gaming-surface