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HEARD ON THE STREET

Tech's Titans Go From Big to Bigger

Scale of Amazon, Microsoft and Google hard to combat as tech industry shifts to new markets



Electronic stock-price boards at the Nasdaq MarketSite in New York in February 2016.

PHOTO: MARK LENNIHAN/ASSOCIATED PRESS

By [Dan Gallagher](#)

April 27, 2017 7:00 pm ET

Today's high-tech giants may not be monopolies in the most classic sense. But their outsize prominence is hard to deny, as demonstrated during the tech-earnings-palooza Thursday afternoon.

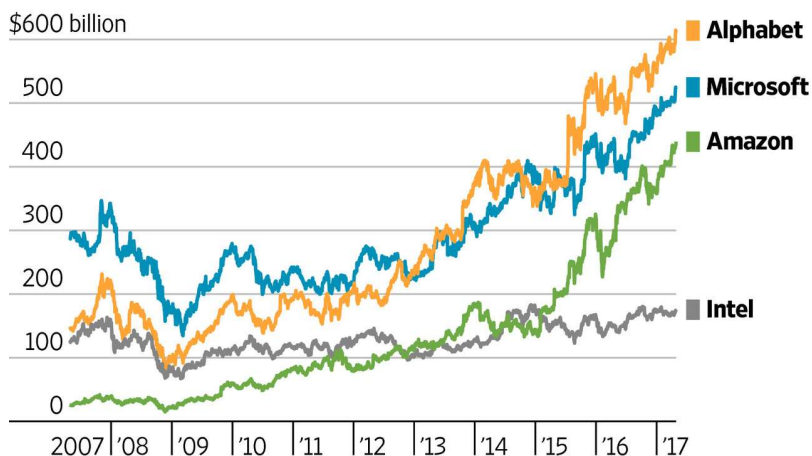
The day's closing bell saw quarterly reports from [Amazon.com Inc.](#), [AMZN](#) [Microsoft Corp.](#), [MSFT -0.81%](#) ▼ [Intel Corp.](#) [INTC +1.82%](#) ▲ and [Alphabet Inc.](#), [GOOG -1.15%](#) ▼ the parent company of Google. Their combined revenue for the period—about \$97.4 billion—comprises about 4% of the cumulative revenue projected for companies in the S&P 500, according to Howard Silverblatt, senior index analyst at S&P Dow Jones Indices.

Yet, the combined market capitalization of the four companies makes up about 8% of the Index's total. Throwing in [Apple Inc.](#) [AAPL -0.45%](#) ▼ and [Facebook Inc.](#) [FB -1.09%](#) ▼ —both of which report results next week—puts about 13% of the S&P 500's combined market cap into the hands of just six companies. And note that two of those companies—Microsoft and Intel—were

written off by some as being past their prime, given that both still rely on sales of personal computers for a substantial portion of their business.

Upgrade Cycle

Market values of large-cap tech companies



Source: FactSet

THE WALL STREET JOURNAL.

This wasn't always the case. Ten years ago, Apple, Amazon, Google, Microsoft and Intel made up just 5% of the S&P 500's market cap, while Facebook was four years away from becoming a public company.

The newfound prominence of big tech companies now can be chalked up to a few factors. One is that most big tech companies are profit machines—unlike many of their smaller peers that are still losing money. Alphabet, Microsoft, Intel and Amazon reported a combined \$16.8 billion in operating income for the March quarter on Thursday. That is about 7% of the total projected for the S&P 500. Amazon looks like an outlier with a rather thin operating margin of 2.8% for the quarter, but even that is a notable gain from its average of just 1.5% over the last five years.



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But the other, even bigger factor is that demand for technology products and services keeps increasing, even as some market segments like PCs have declined. That has allowed several big tech companies to pivot into new segments with the help of strong cash flows generated by their original businesses. Amazon, Microsoft and Google have built large cloud services used by businesses shifting from more traditional computing setups.

Those efforts are still relatively young. Revenue from Amazon's AWS cloud business surged 43% to \$3.7 billion for the March quarter, but is still only about 10% of the company's overall business. The segment of Alphabet that includes Google Cloud saw revenue jump 49% year over year, but is only about 1% of the company's total. That leaves a lot of potential upside for a small group of big players that already have demonstrated that scale matters.

Write to Dan Gallagher at dan.gallagher@wsj.com

Appeared in the April 28, 2017, print edition as 'Tech Titans Go From Big to Bigger.'

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