EQUITY RESEARCH · Q3 2026 EARNINGS

Big Tech's AI Bill Comes Due

Alphabet, Microsoft and Meta all grew revenue by roughly a fifth or more in the September quarter. The market only paid where the spending was covered by operating cash. This report compares the three quarters and what they say about the cost of the AI build-out.

Global Markets Research · Technology Desk Prepared by ANDRA MARKETS

Coverage summary. Alphabet posted revenue of $127.6 billion, up 25%, Microsoft $92.3 billion, up 19%, and Meta $64.6 billion, up 26%. The price action did not follow: Alphabet fell 10.4% after hours on 28 October, Meta lost 7.0% in the session after its 21 October report and Microsoft rose around 4% after hours. The difference is cash. Alphabet's free cash flow turned negative at minus $9.1 billion as capex more than doubled, while Microsoft kept free cash flow positive.

revenue fine, cash not

ALPHABET Q3 CAPEX	GOOGLE CLOUD	AZURE GROWTH	ALPHABET FCF
$51.4B	**+103%**	**+48%**	**−$9.1B**
$24.0B a year ago	*revenue $30.7B, a record*	*vs ~45% guided*	*−$2.7B expected*

+114% y/y

Exhibit A. The quarter at a glance

Indicator	Alphabet	Microsoft	Meta
Revenue ($bn, y/y)	127.6 (+25%)	92.3 (+19%)	64.6 (+26%)
Operating margin	31.8%	49.7%†	20% (35%† ex-charge)
Diluted EPS ($)	2.12 vs 3.02 cons.	4.92 (4.89 non-GAAP)	3.83 (7.40 ex-charge)
Quarterly capex ($bn)	51.4 (+114%)	45.2 (+30%)*	34.9 (+80%)†
Free cash flow ($bn)	−9.1	positive	−2.1
Cloud revenue ($bn)	30.7 (+103%)	Azure 33.2 (+48%)	n.a.
First price reaction	−10.4% after hours	≈ +4% after hours	−7.0% next session

only MSFT kept FCF > 0

*Sources: Alphabet and Microsoft 8-K filings, 28 Oct 2026; Meta Q3 release, 21 Oct 2026; LSEG consensus via Variety; Investing.com; Reuters. *Includes finance leases; Microsoft's quarter is fiscal Q1 2027. †Andra Markets calculation.*

1.0 Executive Summary

Key takeaways

Demand is not in question. Google Cloud grew 103% and Azure 48%, accelerating from 82% and 43% the quarter before. Search queries grew at their fastest pace in five years, and Meta guided fourth-quarter revenue to $73 to 76 billion.

demand is not the issue

cash bridge broke

The cash bridge is. Alphabet's operating cash flow of $42.3 billion did not cover $51.4 billion of capex. Meta's capex of $34.9 billion exceeded operating cash flow of $32.8 billion. Microsoft spent $45.2 billion including finance leases, below the roughly $50.7 billion analysts expected, and remained free cash flow positive.

Spending keeps rising. Capex now absorbs between 40% and 54% of quarterly revenue at the three companies. The midpoints of their 2026 guidance add up to roughly $515 billion, before Amazon reports tonight, and none has signalled that 2027 will be lower.

~$515B in one year

the filter changed

Our reading. The market has moved from rewarding AI ambition to pricing who can fund it from operating cash. We expect that filter to dominate how the group trades until 2027 capex plans are known.

2.0 Alphabet

The best operating quarter, the worst reception

Cloud x2 in 12 months

Operationally, Alphabet had an outstanding quarter. Google Cloud revenue rose 103% to $30.7 billion, a record, with sales of TPU systems contributing meaningfully alongside enterprise AI infrastructure. Search and other grew 12%, which addresses the fear that AI answers cannibalise search. Operating income rose 30% to $40.6 billion and the operating margin reached 31.8%. The weak spot was YouTube advertising, where growth slowed to 9% at $11.2 billion, according to Variety.

1st double miss in ~4 years

Earnings were messier. EPS of $2.12 missed the $3.02 LSEG consensus, partly because of an $8.7 billion net loss on equity securities that includes an $8.2 billion unrealized loss on SpaceX. CNBC reported that adjusted EPS of $2.67 also fell short, Alphabet's first combined revenue and earnings miss in nearly four years.

Exhibit B. Alphabet: the cash bridge, Q3 2026

Item	Value	Comment
Operating cash flow	$42.3B	
Capital expenditure	$51.4B	+114% y/y
Free cash flow	−$9.1B	−$2.7B expected (CNBC)
Net loss on equity securities	$8.7B	includes SpaceX mark
2026 capex guidance	$195–205B	unchanged; raised in July
2027 capex	significantly higher	CFO guidance

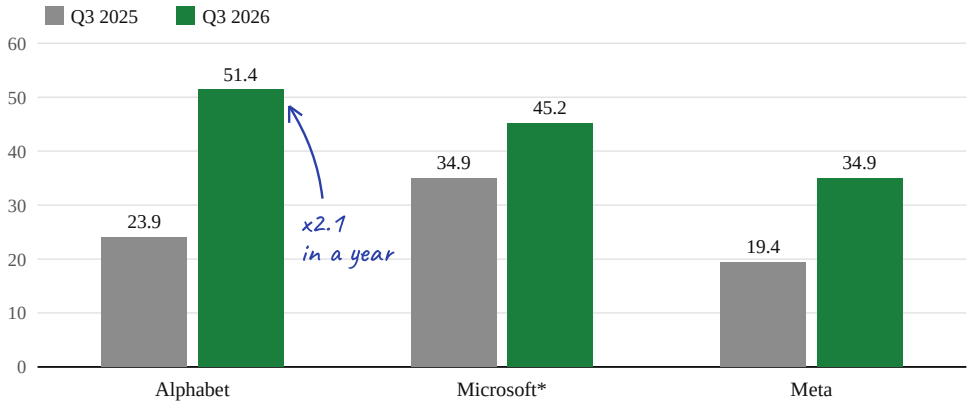
Sources: Alphabet Q3 call via Yahoo Finance, 29 Oct 2026; CNBC, 29 Oct 2026; Variety, 28 Oct 2026.

funded partly with equity

Berkshire paid ~$350 in June

Management kept 2026 capex guidance at $195 to 205 billion, already raised in July from $180 to 190 billion, and said 2027 spending will rise significantly. Alphabet is partly financing the build with equity: in June it announced an $80 billion raise, including $10 billion from Berkshire Hathaway at about $350 per share, well above the after-hours price of around $288.

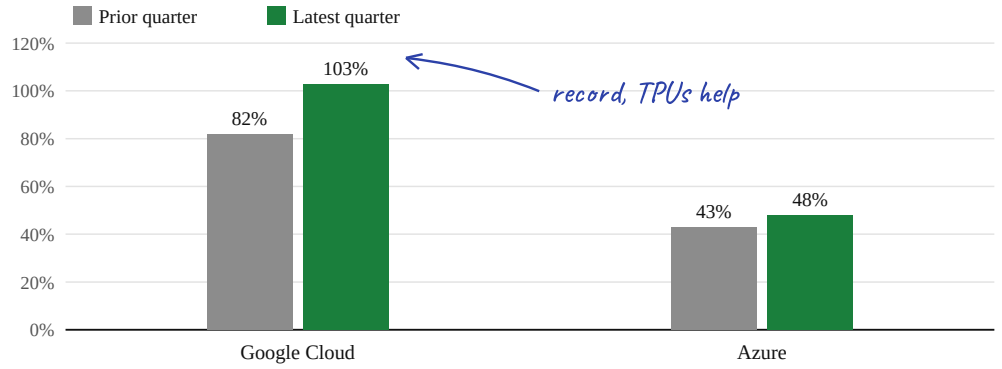
Exhibit 1. Quarterly capital expenditure ($ billion)



everyone spends more

**Microsoft includes finance leases; fiscal Q1 (July to September). Sources: company filings, Oct 2026; Folio3 AI, 29 Oct 2025 (Microsoft prior-year capex).*

Exhibit 2. Cloud revenue growth, year on year (%)



Google Cloud: Q2 and Q3 2026. Azure: Microsoft fiscal Q4 2026 and fiscal Q1 2027. Sources: Alphabet 8-K; Reuters via The Star, 31 Jul 2026; Hargreaves Lansdown, 30 Jul 2026; Investing.com, 28 Oct 2026.

3.0 Microsoft

Spending at scale, with a cash cushion

Microsoft delivered what the market wanted. Revenue rose 19% to $92.3 billion and operating income 21% to $45.9 billion. Azure grew 48%, ahead of the roughly 45% guidance and up from 43% the previous quarter. At $33.2 billion it is now Microsoft's largest single business, about 36% of revenue, and Microsoft Cloud reached $63.9 billion, up 30%. The commercial backlog stands at about $677 billion.

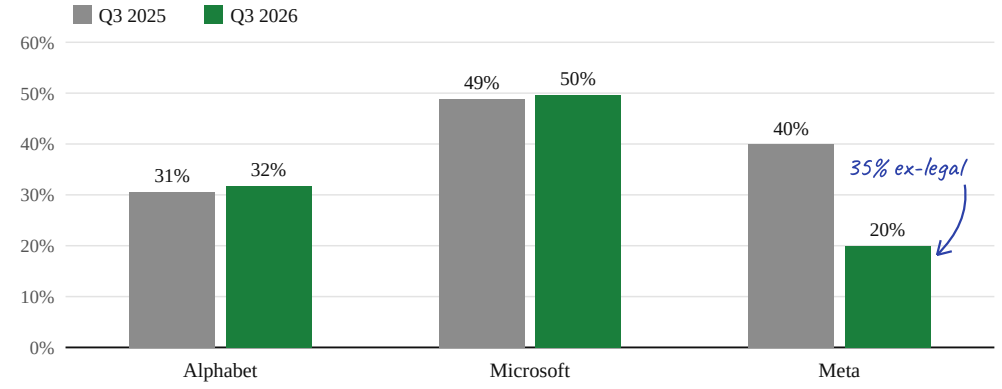
Capex of $45.2 billion rose 30% and came in below expectations. One caveat matters for comparisons: from fiscal 2027 Microsoft extended the useful life of data centres from 15 to 25 years and is moving more future data centre leases from finance to operating leases. That lowers reported capex and flatters free cash flow without changing what is being built, although about two thirds of spending goes to short-lived servers that are unaffected.

4.0 Meta

The ads machine is fine, the cost base is the story

Meta's revenue rose 26% to $64.6 billion, beating the $63.4 billion consensus cited by CNBC. Costs, however, rose 68% to $51.6 billion, including a $9.89 billion legal charge. Excluding it, operating income would have been $22.9 billion, a margin near 35% by our calculation, still below 40% a year ago. Capex of $34.9 billion exceeded operating cash flow, and Meta gave no 2027 capex figure.

Exhibit 3. Operating margin, Q3 2025 vs Q3 2026 (%)



Alphabet and Microsoft prior-year margins and Meta's ex-charge margin are Andra Markets calculations from reported figures. Sources: company filings, Oct 2026.

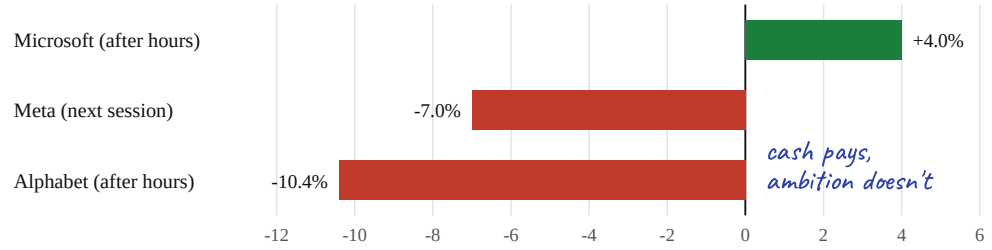
5.0 Market Reaction

Cash coverage is what the market priced

All three companies grew revenue by 19% or more. The only one rewarded paired the spending with positive free cash flow and a capex number below expectations. Alphabet was on course for its biggest post-earnings fall on record during Thursday's session, according to CNBC, while Microsoft traded largely flat after its after-hours gain.

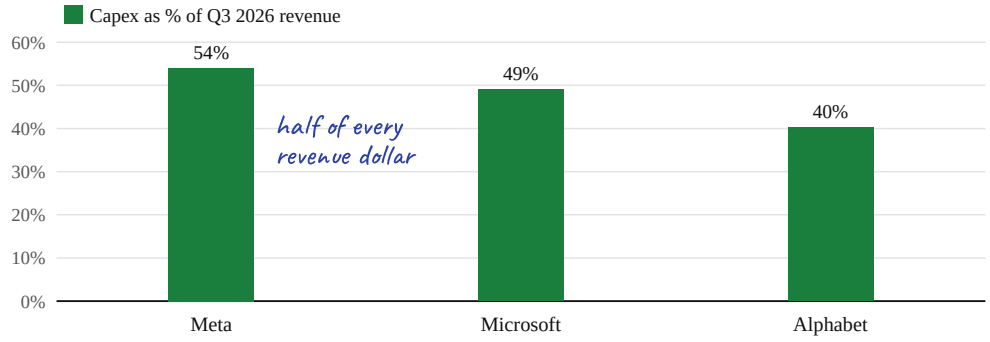
same story, 3 reactions

Exhibit 4. First price reaction after the Q3 report (%)



Alphabet: Investing.com, 28 Oct 2026. Microsoft: KuCoin News citing Goldman Sachs, 28 Oct 2026, approximate. Meta: Reuters via IfYouSpent, Oct 2026.

Exhibit 5. Capital expenditure as a share of revenue, Q3 2026 (%)



Meta spends the most per $ of sales

Andra Markets calculation: quarterly capex divided by quarterly revenue, as reported. Microsoft capex includes finance leases.

Exhibit C. 2026 capex guidance and 2027 signals

Company	2026 guidance	Change	2027 signal
Alphabet	$195–205B	unchanged (raised in July)	"significantly" higher
Microsoft	~$175B (calendar)	unchanged	FY27 capex to grow; FCF positive
Meta	$135–145B	narrowed from $130–145B	no figure given

Sources: company calls and releases, Jul–Oct 2026.

6.0 What We Are Watching

Dates and indicators

Exhibit D. Calendar

Date	Event	Why it matters
29 Oct, after close	Amazon Q3 results	the fourth hyperscaler; whether its ~$220B capex figure changes
Late Jan 2027	Q4 reports	first 2027 capex guidance
Jan 2027	Meta Class C distribution	new non-voting stock that can fund capex or deals
Microsoft FQ2 2027	Azure growth and FCF	management expects FCF to stay positive in FY27
Coming quarters	Google AI Mode ads, TPU sales	monetisation of the Cloud and Search build

Andra Markets selection; dates from company calendars and press reports.

Exhibit E. Data certainty

Data point	Type	Source and date
Revenue, capex, cloud growth, EPS	observed	company filings, 21 and 28 Oct 2026
Alphabet FCF and operating cash flow	observed	Alphabet Q3 call, 29 Oct 2026
Alphabet EPS consensus $3.02	market expectation	LSEG via Variety, 28 Oct 2026
Microsoft capex consensus $50.7B	market expectation	CNBC, 29 Oct 2026
2026 capex ranges; Meta Q4 revenue guide	official forecast	company guidance, Oct 2026
Microsoft after-hours move ≈ +4%	observed, approximate	KuCoin News citing Goldman Sachs
Capex/revenue, prior-year margins, ~$515B sum	own estimate	Andra Markets

reading: demand is real, cash is the filter. next test is the size of 2027 capex plans

Methodology and Source Notes

Method. This report uses company filings and earnings releases published between 21 and 28 October 2026, checked against press reporting. Microsoft reports on a June fiscal year, so its September quarter is fiscal Q1 2027. Capex is shown as each company defines it: Microsoft and Meta include principal payments on finance leases. Price reactions use the first available move after each report. Handwritten notes and highlights are informal commentary by the desk. This note is analysis, not investment advice.

Principal sources. Alphabet 8-K (28 Oct and 1 Jun 2026); Microsoft 8-K (28 Oct 2026); Meta Q3 2026 release; Investing.com; CNBC; Variety; Yahoo Finance; Reuters; Vested Finance; KuCoin News; Investinglive; Hargreaves Lansdown; StockTitan.

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