

Summary

This brief provides a snapshot of 4Q22 financial results for the webscale network operator (WNO) sector.

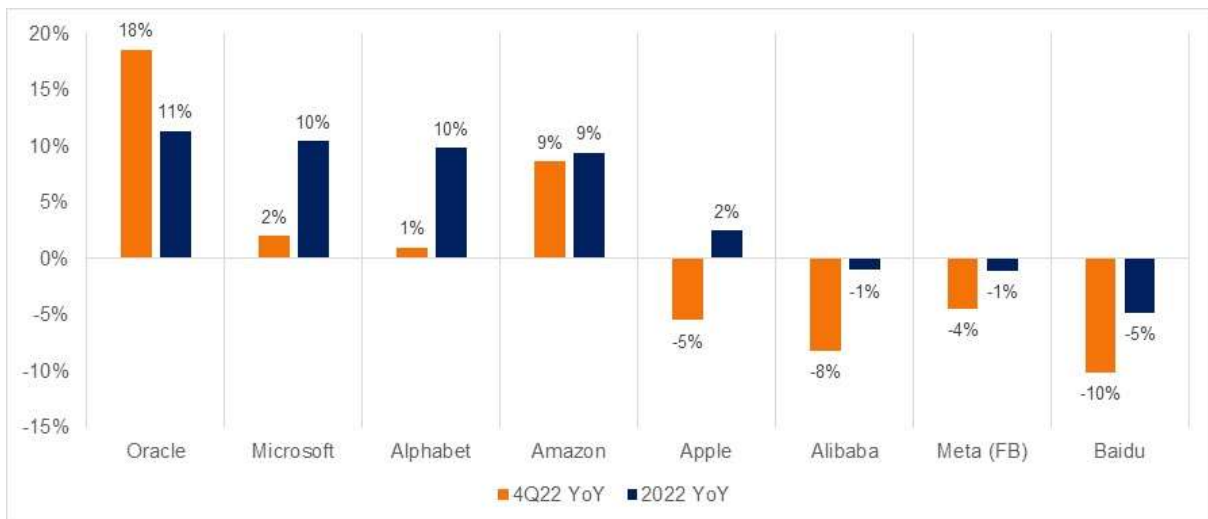
Financial results for the webscale sector are available for ~85% of the market. Based on this sample, capex for the group surged by about 16% in 2022, surpassing \$200 billion (B). This is in line with MTN Consulting’s projected 2022 capex of \$206B. Webscalers continued to expand their data center footprints and invest heavily in AI. However, webscale growth has clearly slowed. Revenue growth for 4Q22 was under 1% YoY, and revenues grew just 5% for 2022 overall. As capex remains high but cash generated from operations has sunk, webscalers’ free cash flow has fallen. Annualized FCF margin for 4Q22 was just 14.2%, from 17.1% in 2021. Webscale headcount at year-end 2022 was about 4.1 million, flat versus 2021. Capex guidance has fallen back to earth. That includes Meta (Facebook), which powered capex growth in 2022. These cutbacks will hit some vendors. They will also mean webscalers will rely a bit more on rented facilities than newly built and self-owned data centers. This helps data center-focused carrier-neutral operators like Digital Realty and Equinix. Even with moderating capex, the big three cloud webscalers are enjoying the fruits of previous capex outlays by penetrating more sectors more deeply with their cloud services offerings. That includes telecom: MTN Consulting estimates that combined revenues in the telco sector for these 3 webscalers reached ~\$4.5B in 2022, from \$2.6B in 2021.

Summary of 4Q22 results

All key webscalers have now reported 2022 financial results, except for three: HPE, Tencent, and JD.Com. It’s now clear that the market took a considerable slide in 2022. Revenue growth dipped, profits fell, and cash reserves declined, even as capex surged.

In 4Q22 alone, revenues grew just 5% YoY, the slowest pace for many years and well below 2021’s 20%+ growth. Most key webscalers saw weaker growth in 4Q22 than for CY22 overall. Inflation, a strong US dollar, new rivals, and weaker economic growth are all contributors. Figure 1 illustrates the gap.

Figure 1: YoY revenue growth for key webscalers, 4Q22 vs. 2022



Source: MTN Consulting