



INTERNET AND SOFTWARE GIANTS FIGHT BACK

DOUBLE-DIGIT GROWTH IN REVENUES FOR 9M 2023

ON SOARING MARGINS, AFTER A STRANGE 2022

AMAZON ONCE AGAIN RANKS FIRST IN THE WORLD FOR TOTAL SALES AND WORKFORCE

ITALIAN BRANCHES: REVENUES €9.3BN, TOTAL HEADCOUNT 26,400 EMPLOYEES

Milan, 14 December 2023

The Mediobanca Research Area has presented its annual survey on **the world's largest internet and software groups ("websoft" companies)**. The survey analyses the data for 9M 2023 and the 2019-22 three-year period for the **world's 25 largest Websoft companies measured by revenues**, eleven of which are based in the United States, ten in China, two in Germany, and one each in Japan and South Korea. The survey also includes a focus on these companies' Italian subsidiaries: their earnings situations, employment levels, and tax paid.

The survey is available for download from www.areastudimediobanca.com.

Websoft giants flying high again in 2023

In the first nine months of 2023, the world's largest websoft companies have succeeded in reversing last year's trend. Their aggregate turnover in this period was up **10.6%** on the same period in 2022. The best performances were recorded in innovative mobility services, such as ride-hailing and mobility sharing (up 23.8%), by online travel sales activities (up 20.4%), and by domestic delivery services (up 19.3%), a sector which is undergoing significant consolidation. Although all sectors reported an increase in turnover, the ones that accounted for the highest proportions of the aggregate revenues were again e-commerce (31%), advertising (23%), and cloud-based services (16%).

Also in 9M 2023 the websoft giants saw a solid improvement in their margins: **Earnings before Interest and Taxes (EBIT) were up 31.5%** on 9M 2022, while **net profits accelerated by 46.4%** to reach record levels: each operator generated an average net profit of over €30m per day, compared to €21m in 2022 and €27m in 2021.

The rise in interest rates does not seem to have affected the websoft giants unduly, which posted an aggregate increase of 11.6% in **liquidity** to reach 24.2% of total assets at end-September 2023 (from 23.5% at end-December 2022, far higher than the 11.4% reported by large-scale manufacturing). More than half of these funds were invested in short-term securities: €360.5bn, i.e. approx. 13% of total assets. The increase in liquidity might point towards a possible resumption of M&A activity, as well as preserving the purchasing power of money in a scenario of widespread inflation.

At the individual group level, in 9M 2023 Chinese group **PDD** (PinDuoDuo and Temu) reported a 75.0% leap in total revenues, far ahead of **DiDi**, also of China (up 31.2%), and US group **Booking** (up 27.1%). With regard to industrial profitability, in 9M **Microsoft** led the rankings in terms of Ebit margin (44.4%), ahead of **Oracle** (43.7%), **Adobe** (34.2%), **Meta** (32.0%), and **Booking** (31.5%), compared with an average sector value of 18.4%.

2022: even giants' results can slow sometimes

In 2022 the **aggregate turnover posted by the world's largest 25 websoft companies** totalled €1,792bn, **equal to 90% of Italian GDP**. In a scenario dominated for years by the United States and China, virtually all the revenues were generated by these two countries: 70% of the total sales posted by websoft companies was generated by the US giants, 26% by the Chinese groups, and just 4% by companies based in other nations. The return to normality following the pandemic has further highlighted the difference in growth rates between the websoft groups and the manufacturing industry multinationals: while the revenues posted by the former are soaring (up



64% in 2019-22), the performance reported by the latter was more modest (revenues up 21.0%). **Turnover is increasingly concentrated:** the top three players, **Amazon, Alphabet** and **Microsoft**, between them account for more than half the aggregate revenues, with **Amazon** alone (€481.9bn, 46.5% of which generated from retail), which has ranked first since 2014, accounting for more than one-quarter.

2022 was a **strange year** for the websoft giants: they reported the lowest top-line growth rate in the four-year period, with revenues up just 9.6%, far below the double-digit growth rates seen in the previous years (revenues were up 20.9% in 2020 versus 2019, and up 24% in 2021 versus 2020).

With **profitability** declining (Ebit margin 14.7%), in 2022 the websoft multinationals ranked only fifth compared to other sectors. However, if we strip out e-commerce and focus exclusively on digital operations, the Ebit margin leaps to 23.9%, second only to the pharmaceutical manufacturers.

At end-2022 the websoft groups' **workforce** included almost four million people worldwide, a million and a half higher than in 2019, with 743,000 employed by **Amazon** alone which is the undisputed leader in terms of number of staff employed: 1,541,000 at end-2022.

The websoft companies and the tax man

In 2022 roughly one-third of the pre-tax profit earned by the world's largest websoft companies was taxed in **countries with beneficial tax regimes**, allowing cumulative **tax savings of €13.6bn in 2022 alone and of €50.7bn in the 2019-22 four-year period**. The average tax rate was **15.1%** in 2022, below the notional rate of 21.9%.¹ In the 2019-22 period, being taxed in countries with beneficial tax regimes generated total savings for **Tencent, Microsoft** and **Alphabet** of €19.2bn, €12.3bn and €7.1bn respectively. From 2024, the global minimum tax rate should become operative in Italy as well, leading to a rate of 15% being applied to the profits earned by multinationals with annual income of over €750m.

The Italian subsidiaries

The Italian market is covered by the websoft companies via subsidiaries, the majority of which are located in Northern Italy, primarily in Milan and the Milan province. The aggregate turnover posted by the Italian branches reached **€9.3bn in 2022, with approx. 26,400 employees**. This represents an approx. 11,000 increase compared to 2019, most of whom were hired by the **Amazon** group which boasts the highest number of employees in Italy (16,250 in 2022). What does the Italian tax man have to say about these companies? In 2022 the Italian internet and software subsidiaries paid €162m in tax, which translates to an effective tax rate of 28.3%. If the provisions for payment of the Digital Service Tax are also included, the tax rate would climb to 36.0%.

Market capitalization

Following the sharp reduction posted in 2022, when the world's 25 largest websoft companies' saw their market cap return to levels seen two years previously, the sector's long-standing love affair with global stock markets appears to have started up again in 2023. The aggregate market capitalization reported by the websoft companies totalled €8,767bn as at 30 November 2023, up 47.5% on December 2022. The increase is also reflected at the level of representativeness versus the global stock markets: at year-end 2022 the 25 largest websoft companies' market capitalization represented 6.9% of the **aggregate market capitalization of all global stock markets**, a figure which rises to **9.5% at end-November 2023**. Despite the Italian stock market reporting one of the best performances in Europe in 9M 2023, it is still a lightweight in comparison with the websoft giants, which overall **are worth more than 10x the total value of the entire Italian stock market**.

The top three positions at 30 November 2023 were held by **Microsoft** with a market cap of €2,581bn, **Alphabet** (€1,528bn), and **Amazon** (€1,384bn). Two groups in particular posted outstanding performances in the period from end-December 2022 to end-November 2023: **Meta** (up 165.9%), and **Uber** (up 123.0%).

¹ Weighted average for the aggregate. The notional rates are: United States 21%, China 25%, Germany 15%, and Japan 31%.