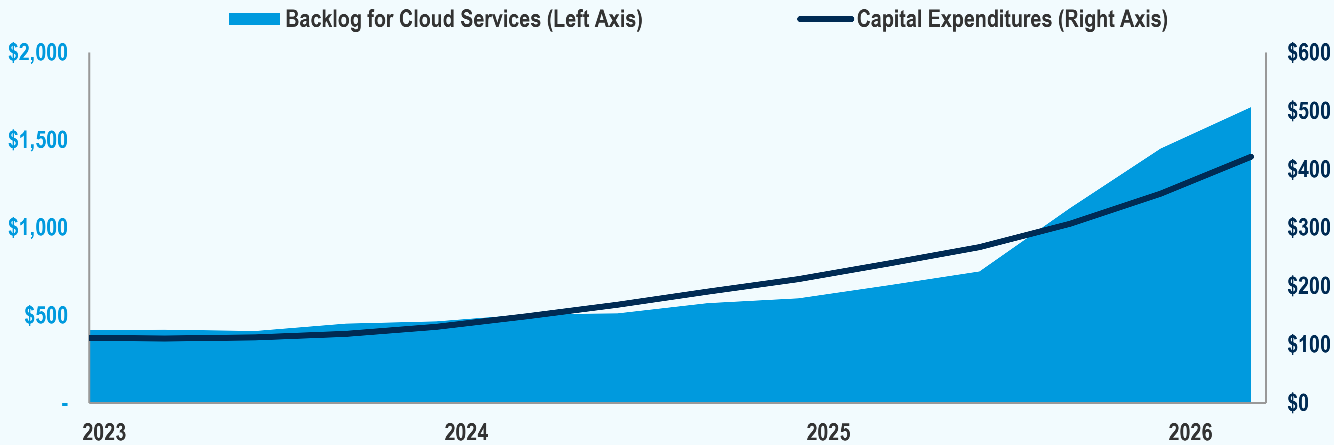
ALGER

Alger On The Money

Booked, But Not Built Yet

Artificial intelligence (AI) is driving one of the largest infrastructure buildouts in modern economic history, with the largest cloud providers now spending hundreds of billions of dollars annually on data centers. To put that spending in perspective, we look at supply and demand side by side, comparing the pace of spending on the capacity to deliver cloud services with the pace of customer commitments to purchase them.

Large Cloud Service Providers' Backlog vs. Capital Expenditures (in Billions)



Source: Company filings, FactSet, Alger estimates as of 8/24/26. Large cloud service providers are comprised of Amazon, Alphabet, and Microsoft. Backlog for Cloud Services represents revenue associated with contracted services that have not yet been delivered or recognized. Definitions vary by provider and may include both amounts already invoiced and commitments expected to be invoiced in future periods. Backlog is measured as of the indicated date, while capital expenditures reflect spending over the trailing twelve months.

- We believe a useful gauge of AI demand is the backlog for cloud services, which represents services customers have contracted to purchase but have not received. As shown in the chart above, the aggregate backlog for the three largest cloud service providers (Amazon, Alphabet, and Microsoft) grew from approximately $400 billion in 2023 to over $1.6 trillion in mid-2026. This increase of more than $1.2 trillion in contracted demand for cloud services has been accompanied by a sharp rise in annual capital expenditures (CapEx), which climbed from roughly $100 billion to over $400 billion during the same period.
- The relationship between backlog and CapEx is important because, in our view, backlog provides visibility into future revenue generation. Despite concerns that cloud providers may be overbuilding AI infrastructure, the continued acceleration in contracted demand suggests that capacity additions are being supported by customer commitments. Over the last 12 months, backlog for the three cloud service providers has grown over 150%, outpacing the 77% growth in CapEx, indicating that demand is growing faster than the infrastructure being deployed.
- In our view, backlog growing faster than CapEx supports the argument that the AI infrastructure cycle remains demand driven rather than speculative. As AI adoption grows, we believe companies providing the equipment and software that enable these services, including semiconductors, networking gear, power systems, cooling technologies, and cloud infrastructure software, may be well positioned to benefit from what could be a durable multi-year investment cycle.

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