Furkan Panayir

# Alphabet (GOOG)

**Company Data – Alphabet Inc (GOOG)**

| | |
|---|---|
| Rating: | Hold |
| Price ($) | 353.68 |
| Date of Price | 10 August 2026 |
| Price Target ($) | 321.74 |
| Price Target End Date | 10.08.2027 |
| 52-Week Range | 188.70 - 404.47 |
| Market Cap ($ tn) | 4.33 |
| Dividend Yield | 0.26% |
| Beta | 1.11 |
| EV / Revenue | 9.2x |
| EV / EBITDA | 22.9x |
| P / E | 17.5 |
| Free Float | 89.9% |

## Investment Thesis

*Alphabet is a mature and cash-generative technology leader, supported by durable competitive advantages in Search, advertising, Google Cloud, and AI infrastructure. We believe the company is well positioned to benefit from continued Cloud growth, TPU revenue generation, and rising demand for AI-related compute capacity. The risk is that these opportunities come with higher execution and capital intensity. Generative AI may gradually pressure traditional Search monetisation, while elevated R&D and AI-related CapEx could weigh on free cash flow conversion in the near term. In addition, part of the AI infrastructure opportunity may depend on large customer commitments, creating some concentration and execution risk. Overall, Alphabet remains a strong company, but we believe most of this upside is already priced in, supporting our Hold recommendation.*

## Key Investment Considerations

- Rapid Google Cloud expansion, supported by enterprise demand and data-intensive cloud workloads
- Customer concentration and commitment durability remain key risks.
- Rapidly Increased R&D and AI-related CapEx, creating both long-term growth potential and near-term FCF pressure
- AI infrastructure monetisation upside, supported by Cloud and TPU capacity, with lower profitability uncertainty than pure AI model providers

| Valuation | | |
|---|---|---|
| | **Est. Price** | **Weights** |
| DCF – Perpetuity Growth | $ 243.42 | 30% |
| DCF – Terminal Multiple | $ 392.57 | 35% |
| DDM – Valuation | $ 87.28 | 0% |
| Residual Income | $ 238.42 | 0% |
| Comparable Companies | $ 318.05 | 35% |
| Regression | $ 279.41 | 0% |
| **Target Price** | **$ 321.74** | **100%** |

We initiate coverage on Alphabet Inc. with a Hold recommendation and a 12-month target price of $321.74 per share, implying approximately 9% downside from the current share price. Alphabet remains one of the strongest large-cap technology companies globally, supported by the durability of Google Search, continued growth in YouTube and Google Cloud, a net cash balance sheet, and strong recurring cash generation. However, we believe the current valuation already reflects much of the company's long-term earnings quality, AI opportunity, and shareholder return potential.

Our investment thesis is based on three key factors: the resilience of Alphabet's core advertising business, the improving profitability of Google Cloud, and the company's ability to convert earnings into shareholder value through free cash flow generation and share repurchases.

First, we believe Google Search remains a highly cash-generative franchise despite investor concerns around AI-driven disruption. Generative AI may change how users interact with search over time, but Alphabet's distribution scale, data depth, advertiser relationships, and ongoing integration of AI across its products should help defend its competitive position. We therefore assume a gradual decline in growth rather than a structural deterioration in Search segment.

Secondly, Google Cloud provides Alphabet with a medium-term growth and margin expansion opportunity. The business has reached greater scale, and further adoption of AI workloads, data analytics, and enterprise cloud services should support continued revenue growth. As fixed infrastructure costs are absorbed over a larger revenue base, we expect Cloud profitability to improve over the forecast period, contributing positively to margins.

In addition, Alphabet's financial profile remains highly attractive. Although AI-related infrastructure investment is likely to keep capital expenditure elevated in the near term, the company's earnings base remains large enough to fund growth investment while continuing substantial share repurchases. This supports long-term per-share value creation, even if near-term free cash flow conversion is pressured by higher investment needs.

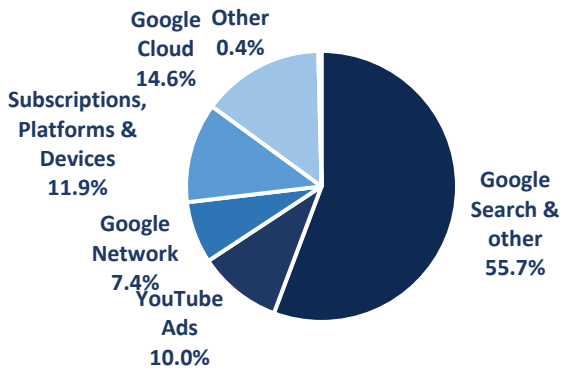
Overall, we view Alphabet as a fundamentally strong business with durable competitive advantages, but not a materially mispriced stock at current levels. Given the balance between strong fundamentals and limited valuation upside, we assign a Hold rating.

## Business Description

The company has a diversified revenue base, with operations spanning digital advertising, search, video, cloud infrastructure, consumer platforms, hardware, and long-term technology investments. The company reports its business primarily through Google Services, Google Cloud, and Other Bets.

Google Services remains the core of the business and includes Google Search & other, YouTube Ads, Google Network, and Subscriptions, Platforms & Devices. As shown in Figure 1, the segment mix remains heavily concentrated in Google Search & other, which accounted for the majority of 2025 revenue, while Google Cloud represented a growing share of the business. This mix highlights the extent to which Alphabet's earnings power continues to be anchored by Search, while YouTube, subscriptions, and Cloud provide additional diversification and medium-term growth support.

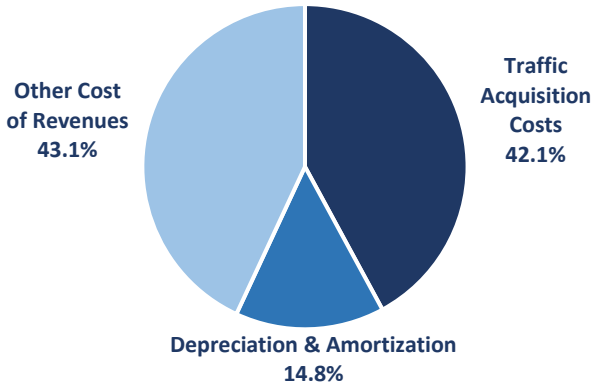
**Figure 1: Revenue Mix by Segment (2025)**




Google Cloud has become an important part of the Company. Although still smaller than the core advertising business, Cloud continues to benefit from demand for infrastructure, data analytics, cybersecurity, and AI-related workloads. Over time, we expect Cloud to remain a key incremental growth driver and contribute more visibility to the profitability. From a cost perspective, Alphabet's cost structure is still efficient for a business of this scale.

As shown in Figure 2, cost of revenues is mainly driven by traffic acquisition costs ("TAC"), depreciation and amortization, and other direct costs. TAC is important, as it reflects payments made to distribution and platform partners that help secure search traffic and maintain Google's broad reach across browsers, devices, and other access points. While this represents a substantial cost line, it also supports one of Alphabet's key competitive advantages: access to users at global scale.

**Figure 2: Cost of Revenues Breakdown (2025)**



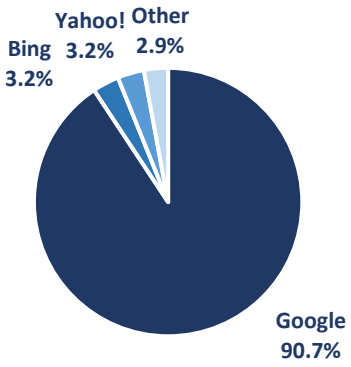

## Industry Overview and Competitive Positioning

Alphabet operates across several large and highly competitive markets, including digital advertising, online search, video platforms, cloud infrastructure, and artificial intelligence. Despite this broad exposure, the company's profitability remains primarily anchored by Google Search and the wider advertising ecosystem, making search monetisation and digital ad spending the most important industry drivers for the investment case.

The digital advertising market remains cyclical but structurally supported by the shift of advertiser budgets from traditional media to online channels. Within this market, search advertising remains particularly attractive because it captures high-intent user behaviour and allows advertisers to measure performance more directly. This gives Google a strong position relative to many other advertising formats.

Google's competitive position in search remains one of Alphabet's strongest competitive advantages. As shown in Figure 3, Google continues to hold a dominant share of the global search engine market, significantly ahead of Bing, Yahoo, and other competing platforms. Although market share can fluctuate over time, the scale gap remains substantial and supports Alphabet's ability to monetise user intent across geographies and devices.

**Figure 3: Google's Search Engine Dominance**




Traffic acquisition costs also form part of this competitive structure. Alphabet pays TAC to distribution partners and Google Network partners, helping maintain broad access to traffic across browsers, devices, and partner properties. While TAC is material for margins, it should not be viewed only as a margin burden; it also supports Alphabet's distribution reach and helps preserve user access at global scale.

At the same time, the industry debate has shifted towards artificial intelligence and its potential impact on search behaviour. Generative AI could change how users discover information online and may pressure traditional search monetisation over time. However, Alphabet has the scale, data, distribution, and product reach to integrate AI across search, advertising tools, cloud services, and consumer products. For that reason, we view AI as both a competitive risk and a long-term product opportunity.

Cloud infrastructure is the second major competitive arena for Alphabet. Google Cloud remains smaller than AWS and Microsoft Azure, but it continues to benefit from enterprise demand for data analytics, cybersecurity, infrastructure modernisation, and AI workloads. As the business scales, we expect Cloud to contribute more to Alphabet's consolidated profitability.

## Investment Summary

Alphabet offers a mature but still evolving large-cap technology investment profile, supported by its dominant position in search, strong digital advertising franchise, growing cloud platform, and substantial free cash flow generation. Google Search remains the core earnings driver of the business, while YouTube, Google Cloud, subscriptions, platforms, and devices provide additional growth and diversification.

We expect Alphabet's revenue growth to remain resilient, although growth should moderate from earlier digital advertising cycles. Search continues to benefit from scale, user habit, distribution reach, and advertiser demand, while YouTube remains well placed within video advertising and connected TV.

At the same time, Google Cloud remains one of Alphabet's clearest medium-term growth drivers, supported by enterprise demand for cloud infrastructure, data analytics, and AI-related workloads.

Profitability should remain strong, but AI-related infrastructure investment is likely to keep capital expenditure elevated in the near term. This may pressure free cash flow conversion, even as Alphabet benefits from operating leverage and improving Cloud margins. Overall, the company's earnings base remains large enough to fund long-term investment while continuing shareholder returns.

Capital allocation remains focused on share repurchases. Alphabet maintains a strong net cash position and recurring cash generation, giving it flexibility to invest in AI infrastructure while returning capital to shareholders. We view buybacks as an important driver of per-share value creation, particularly as dividends remain a smaller part of the shareholder return profile.

Based on our valuation, we derive a 12-month target price of $321.74 per share, implying approximately 9% downside from the current share price of $353.68. Our valuation range points to a downside case of $225.68 per share and an upside case of $385.19 per share, reflecting sensitivity to long-term growth, margins, capital intensity, and market multiples. Alphabet remains a strong business, but we believe much of its earnings quality, AI opportunity, Cloud growth, and free cash flow potential is already priced in. We therefore maintain a Hold recommendation.

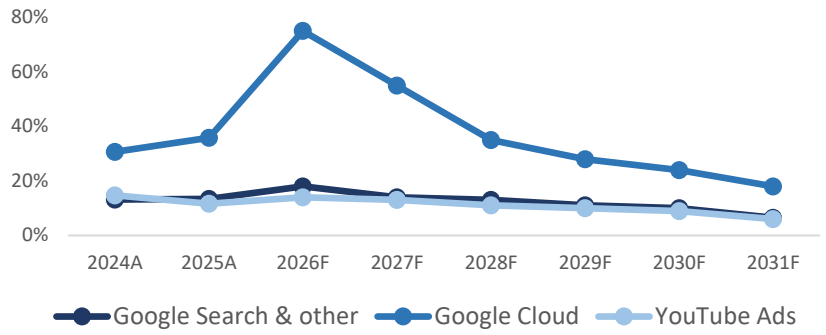
## Key Financial Drivers

We expect Alphabet's revenue growth to be driven mainly by Google Search & Other, Google Cloud, and YouTube Ads. Although Alphabet has a broad product ecosystem, these three areas matter most to the forecast because of their scale, growth contribution, and relevance to the investment thesis (Appendix C1)(Figure 4).

Google Search & Other remains the largest contributor to Alphabet's revenue and continues to anchor the company's earnings profile. In our base case, Search revenue growth moderates from 15.0% in 2026F to 6.0% by 2031F. This reflects a more mature digital advertising market and a gradual normalisation after a strong period of expansion, rather than a structural decline in the Search business.

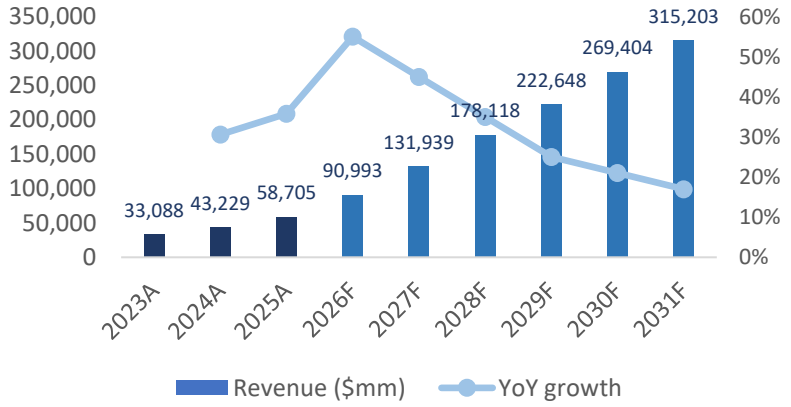
However, we do not assume a structural deterioration in Search economics. Recent AI product updates suggest that AI is expanding Search usage rather than simply cannibalising traditional search activity. AI Mode and AI-powered Search features appear to support query volume and user engagement, which reinforces our view that Search can remain resilient even as the user experience changes (Appendix C1)(Figure 4).

**Figure 4: Segment Revenue Growth Forecast**




Google Cloud is the fastest-growing major segment in our forecast and has become central to the Alphabet investment case. We project Cloud revenue growth to moderate from 75.0% in 2026F to 18.0% by 2031F as the business scales from a smaller base. Growth is supported by enterprise demand for cloud infrastructure, data analytics, cybersecurity, and AI-related workloads. The strength of Google Cloud backlog also suggests that enterprise AI demand is translating into committed future revenue rather than remaining only a near-term demand story (Appendix C1)(Figure 5).

**Figure 5: Google Cloud Revenue Projection**

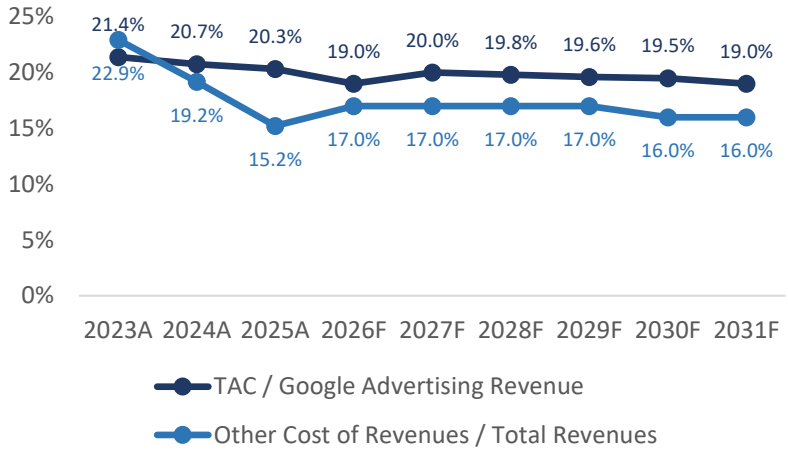



Alphabet's TPU strategy adds another layer to the Cloud and AI infrastructure story. TPUs, or Tensor Processing Units, are Google's custom processors for AI and machine learning workloads. Historically, they were mainly part of Google's internal infrastructure advantage. However, as Alphabet provides more AI infrastructure and custom chip capacity to external customers, TPUs could become a more visible revenue driver within Google Cloud. This supports the view that Alphabet is not only buying AI infrastructure, but also generating revenue from its own AI stack.

YouTube Ads remains an important growth driver within Alphabet's advertising ecosystem. We project YouTube Ads revenue growth to moderate from 11.0% in 2026F to 5.5% by 2031F, reflecting continued growth in video advertising, connected TV, and creator-led content consumption. While YouTube is smaller than Search, it gives Alphabet additional exposure to digital video and helps diversify advertising revenue beyond traditional search (Appendix C1)(Figure 4).

On the cost side, traffic acquisition costs remain the key cost driver within Alphabet's advertising business. In our base case, TAC as a percentage of Google advertising revenue remains broadly stable, increasing from 19.0% in 2026F to 20.0% in 2027F before gradually declining to 19.0% by 2031F. This reflects the continued importance of distribution partnerships, browsers, devices, and network properties in maintaining Google's traffic reach, while assuming no major deterioration in TAC efficiency over the forecast period (Appendix C2)(Figure 6).

**Figure 6: TAC and Other Cost of Revenues as % of Revenue**




Other cost of revenues is forecast to remain relatively stable as a percentage of total revenue, declining modestly from 17.0% in 2026F–2029F to 16.0% by 2030F–2031F.

We expect operating leverage to improve as Alphabet scales, although this is partly offset by continued investment in technical infrastructure, depreciation, content costs, and AI-related capacity. Gemini and broader AI product development remain long-term opportunities, but they also require sustained infrastructure spending. As a result, we expect Alphabet to maintain strong profitability, while capital intensity remains elevated over the forecast period (Appendix C2)(Figure 5).

## Valuation

We value Alphabet using a combination of intrinsic and relative valuation methods, including FCFF DCF under both perpetuity growth and terminal multiple approaches, as well as comparable company analysis based on forward EV/Revenue, EV/EBITDA, and P/E multiples (Figure 7).

**Figure 7: Valuation Summary (Football Pitch Chart)**




Based on this valuation framework, we derive a 12-month target price of $321.74 per share. Our target price is based on a weighted valuation approach, assigning 30% weight to the FCFF DCF perpetuity growth method, 35% weight to the FCFF DCF terminal multiple method, and 35% weight to comparable company analysis (Appendix B1).

Our analysis suggests that Alphabet remains a strong business, but the current share price already reflects much of its earnings quality, AI opportunity, Cloud growth potential, and free cash flow generation. While some valuation approaches imply higher values under more optimistic assumptions, particularly where terminal growth or market multiples remain elevated, we view the risk-reward as balanced at current levels. The gap between intrinsic and relative valuation outcomes mainly reflects Alphabet's scale, Search dominance, Cloud growth opportunity, AI infrastructure position, and net cash balance sheet. However, given the current share price relative to our target price and valuation range, we maintain a Hold recommendation.

## DCF Valuation

We use both perpetuity growth and terminal multiple approaches in our DCF valuation framework. The perpetuity growth method provides a more conservative intrinsic valuation, while the terminal multiple method captures the market valuation applied to large-cap technology companies with strong cash generation and growth visibility. Our primary valuation method is an FCFF DCF, reflecting Alphabet's strong operating profitability, net cash position, and long-term free cash flow generation.

We apply two approaches: a perpetuity growth method and a terminal EV/EBITDA multiple method (Figure 8).

**Figure 8: Sensitivity Analysis of Perpetuity Growth Method**

| | | Equity Value per Share | | | | |
|---|---|---|---|---|---|---|
| | | Perpetuity Growth Rate | | | | |
| | | 2.50% | 2.75% | 3.00% | 3.25% | 3.50% |
| WACC | 10.93% | $197.2 | $202.5 | $208.1 | $214.0 | $220.4 |
| | 10.43% | $212.0 | $218.0 | $224.5 | $231.4 | $238.8 |
| | 9.93% | $228.7 | $235.7 | $243.2 | $251.3 | $260.1 |
| | 9.43% | $247.8 | $256.0 | $264.9 | $274.5 | $284.9 |
| | 8.93% | $269.9 | $279.7 | $290.3 | $301.8 | $314.4 |

Under the perpetuity growth approach, we use a 3.0% terminal growth rate and a 9.93% WACC, resulting in a base case value of $243.2 per share. Sensitivity analysis implies a valuation range of approximately $197.2–$314.4 per share (Figure 8).

**Figure 9: Sensitivity Analysis Terminal EV/EBITDA Multiple Method**

| | | Equity Value per Share | | | | |
|---|---|---|---|---|---|---|
| | | EV/EBITDA Multiple | | | | |
| | | 14.7x | 15.7x | 16.7x | 17.7x | 18.7x |
| WACC | 10.93% | $334.1 | $355.0 | $376.0 | $397.0 | $418.0 |
| | 10.43% | $342.3 | $363.9 | $385.4 | $406.9 | $428.4 |
| | 9.93% | $350.9 | $372.9 | $395.0 | $417.0 | $439.1 |
| | 9.43% | $359.6 | $382.2 | $404.8 | $427.4 | $450.0 |
| | 8.93% | $368.7 | $391.9 | $415.0 | $438.2 | $461.4 |

Under the terminal multiple approach, we apply a 16.7x terminal EV/EBITDA multiple, resulting in a base case value of $395.0 per share. Sensitivity analysis implies a higher valuation range of approximately $334.1–$461.4 per share (Figure 9).

## Dividend Discount Model

Our forecast assumes the dividend payout ratio gradually increases from 8.0% in 2026F to 24.0% by 2031F. Even with this higher payout, the DDM output remains well below the values implied by the FCFF DCF and comparable company approaches (Figure 10). For this reason, we treat the DDM as informational only and exclude it from the weighted valuation summary.

**Figure 10: Sensitivity Analysis of DDM Valuation**

| | | Equity Value per Share | | | | |
|---|---|---|---|---|---|---|
| | | Perpetuity Growth Rate | | | | |
| | | 2.50% | 2.75% | 3.00% | 3.25% | 3.50% |
| Cost of Equity | 11.00% | $70.3 | $71.9 | $73.7 | $75.5 | $77.5 |
| | 10.50% | $75.3 | $77.2 | $79.2 | $81.3 | $83.7 |
| | 10.00% | $80.9 | $83.1 | $85.5 | $88.0 | $90.7 |
| | 9.50% | $87.3 | $89.9 | $92.7 | $95.7 | $99.0 |
| | 9.00% | $94.7 | $97.8 | $101.2 | $104.8 | $108.8 |

## Residual Income Model

We use the Residual Income Model as a cross-check, focusing on Alphabet's ability to generate net income above its required cost of equity. The model assumes a 10.0% cost of equity and a 3.0% terminal growth rate, with residual income calculated as net income less an equity charge on beginning book value. Under the base case, it implies a fair value of $294.3 per share, while sensitivity across cost of equity and terminal growth produces a valuation range of $253.1–$357.7 per share (Figure 11).

**Figure 11: Sensitivity Analysis of Residual Income Valuation**

| Equity Value per Share | | | | | | |
|---|---|---|---|---|---|---|
| | | Perpetuity Growth Rate | | | | |
| | | 2.50% | 2.75% | 3.00% | 3.25% | 3.50% |
| Cost of Equity | 11.00% | $253.1 | $257.5 | $262.2 | $267.2 | $272.5 |
| | 10.50% | $266.6 | $271.7 | $277.2 | $283.0 | $289.2 |
| | 10.00% | $281.9 | $287.9 | $294.3 | $301.1 | $308.5 |
| | 9.50% | $299.5 | $306.5 | $314.0 | $322.2 | $331.0 |
| | 9.00% | $319.7 | $328.1 | $337.1 | $346.9 | $357.7 |

## Relative Valuation

## Comparable Companies

We compare Alphabet with large-cap technology peers including Meta Platforms, Microsoft, Amazon, Apple, and Oracle. We focus on forward EV/Revenue, EV/EBITDA, and P/E multiples, as these better capture Alphabet's advertising scale, Cloud growth, platform economics, and profitability.

Comparable Companies valuation produces a wide range of implied values, reflecting differences in growth, margins, business mix, and market positioning across the peer group. The 2026E median peer multiples imply 8.4x EV/Revenue, 13.9x EV/EBITDA, and 26.5x P/E. Applying these multiples to Alphabet's forecast financials results in implied values of $348.84 per share using EV/Revenue, $267.83 per share using EV/EBITDA, and $433.10 per share using P/E (Appendix B3).

The differences between these outputs mainly reflect Alphabet's scale, profitability, and infrastructure investment profile. EV/Revenue gives more weight to revenue growth, EV/EBITDA is more sensitive to margins and AI-related infrastructure costs, while P/E reflects Alphabet's earnings base and peer-group premium.

We also performed an EV/EBITDA sensitivity analysis using 2026E EBITDA, as the regression output showed limited explanatory power and was excluded from the final valuation. Across the selected EV/EBITDA multiple and EBITDA assumptions, the sensitivity analysis implies a valuation range of approximately $145 to $348 per share (Figure 12).

**Figure 12: EV/EBITDA Sensitivity Analysis**

| Implied EV/Ebitda | 2026F EBITDA | | | | |
|---|---|---|---|---|---|
| | 144,047 | 174,047 | 204,047 | 234,047 | 264,047 |
| 11.9x | $ 144.97 | $ 174.14 | $ 203.31 | $ 232.49 | $ 261.66 |
| 12.9x | $ 156.74 | $ 188.36 | $ 219.99 | $ 251.61 | $ 283.23 |
| 13.9x | $ 168.51 | $ 202.59 | $ 236.66 | $ 270.73 | $ 304.81 |
| 14.9x | $ 180.28 | $ 216.81 | $ 253.33 | $ 289.86 | $ 326.39 |
| 15.9x | $ 192.05 | $ 231.03 | $ 270.01 | $ 308.98 | $ 347.96 |

Overall, the comparable company analysis supports Alphabet's strong franchise profile, but also shows that the current market price already reflects a premium for Search dominance, Cloud growth, AI infrastructure exposure, and cash generation. As a result, we use comparable companies as a supporting valuation method, while keeping FCFF DCF as the primary anchor for our target price.

## Regression Analysis

We also perform a regression-based valuation as an illustrative cross-check, linking peer EV/Revenue multiples to EBITDA margins. The regression uses Meta Platforms, Microsoft, Amazon, Apple, and Oracle as the peer group, with EV/Revenue as the valuation multiple and EBITDA margin as the explanatory variable. Based on the output, Alphabet's implied EV/Revenue multiple is 8.5x using 2025A data and 7.4x using 2026F data, resulting in implied values of $273.36 and $279.41 per share, respectively (Appendix B2). However, the regression has limited explanatory power, with an R-squared of 0.21, so we treat it as an illustrative cross-check only and exclude it from the weighted valuation summary.

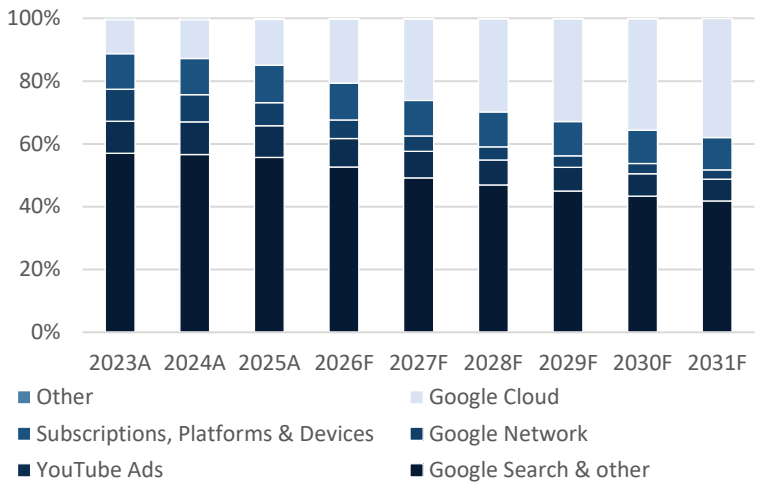
## Financial Analysis

Alphabet's financial profile is built around strong Search profitability, recurring cash generation, and a gradually changing revenue mix. Search remains the main earnings engine, supported by scale, user habit, advertiser demand, and broad distribution reach. At the same time, Google Cloud is becoming a larger part of the medium-term growth story as enterprise demand for cloud infrastructure, data analytics, cybersecurity, and AI workloads continues to grow. This mix gives Alphabet a resilient earnings base, while also creating a clearer path for diversification beyond traditional Search advertising.

## Revenue Growth and Segment Mix

Alphabet's revenue base remains concentrated in Google Search & Other, which stays the company's largest business line throughout the forecast period. However, the mix gradually shifts as Google Cloud grows faster than the rest of the business (Figure 13). This does not imply weakness in Search; rather, it reflects a gradual broadening of Alphabet's revenue base as Cloud, AI infrastructure, and enterprise services become more material.

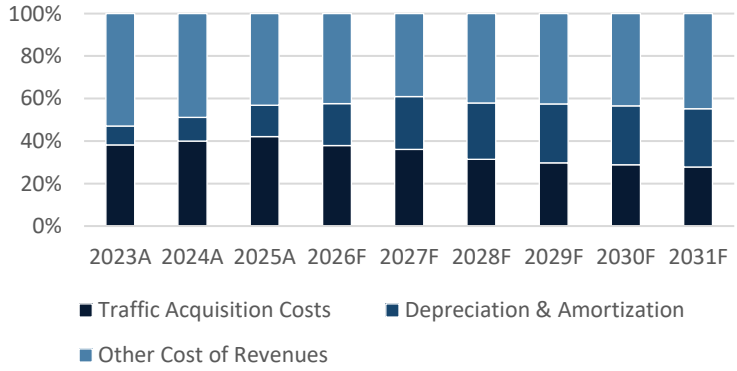
**Figure 13: Revenue Segment Mix by Year (2023A–2031F)**




## Profitability and Cost Structure

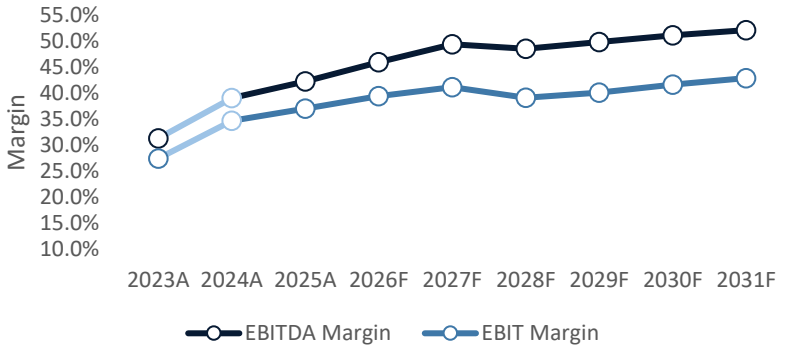
Alphabet's profitability remains anchored by the scale and high-margin economics of Google Search, while AI infrastructure investment is becoming a larger cost driver. Cost of revenues is mainly driven by TAC, depreciation and amortisation, and other direct costs related to data centres, content, hardware, and technical infrastructure (Figure 14).

**Figure 14: 2025 Cost of Revenues Breakdown**




Depreciation and amortisation is becoming a larger cost component as Alphabet continues to invest in servers, data centres, and technical infrastructure. This is especially relevant for AI workloads, which require greater compute capacity. Higher infrastructure spending is needed to support Gemini, AI Mode, Google Cloud, and TPU-related capacity, but it may also limit near-term margin expansion.

**Figure 15: EBITDA Margin and EBIT Margin Projection**

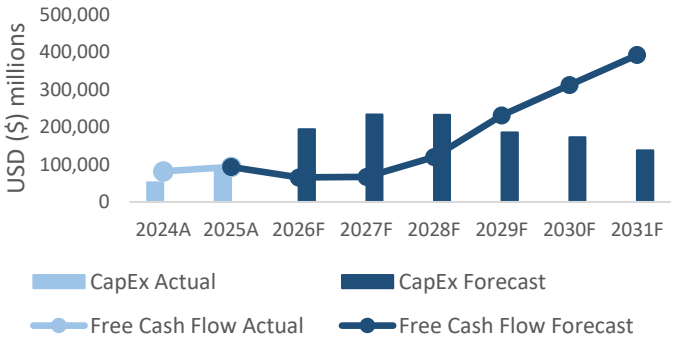



Despite these cost pressures, we expect Alphabet to maintain strong profitability. Search remains highly cash-generative, while improving Google Cloud margins should provide a positive offset as the segment scales. As shown in Figure 15, our base case assumes resilient margins, supported by operating leverage, cost discipline, and a gradually improving revenue mix.

**Capital Intensity and Free Cash Flow**

Alphabet's free cash flow profile remains strong, but AI-related infrastructure investment is expected to keep CapEx elevated in the near term. The company continues to invest in servers, data centres, networking equipment, and TPU-related capacity to support Google Cloud, Gemini, AI Mode, and broader AI workloads (Figure 16).

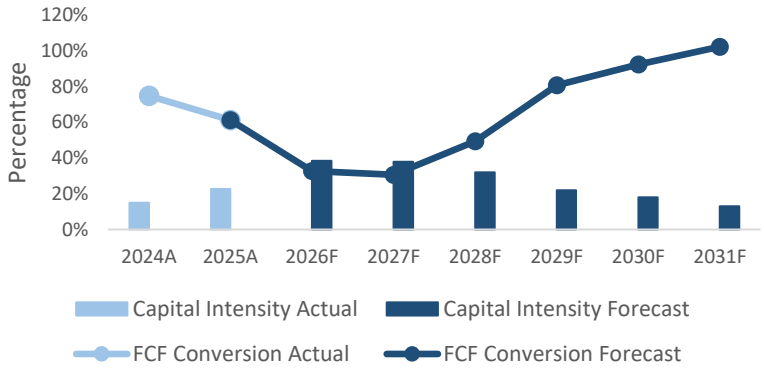
**Figure 16: CapEx and Free Cash Flow Projection**




As shown in Figure 16, our base case assumes a sharp increase in CapEx during 2026F–2028F as Alphabet scales its AI and Cloud infrastructure. This weighs on free cash flow in the early forecast years, even though revenue growth and operating profitability remain strong.

From 2029F onward, we expect free cash flow to improve as the initial infrastructure investment cycle begins to normalise and revenue scales across Search, Cloud, and AI-related products. By the outer forecast years, lower capital intensity and stronger operating leverage support a recovery in free cash flow generation (Appendix A2)(Appendix D2)(Figure 17).

**Figure 17: Capital Intensity and Free Cash Flow Conversion**




Overall, capital intensity is one of the key drivers of Alphabet's valuation. If AI infrastructure spending stays structurally higher than expected, FCFF and DCF valuation could come under pressure. However, if Google Cloud, TPU capacity, AI Mode, and Gemini scale successfully, Alphabet should be able to absorb higher infrastructure costs while maintaining strong long-term cash generation (Figure 17).

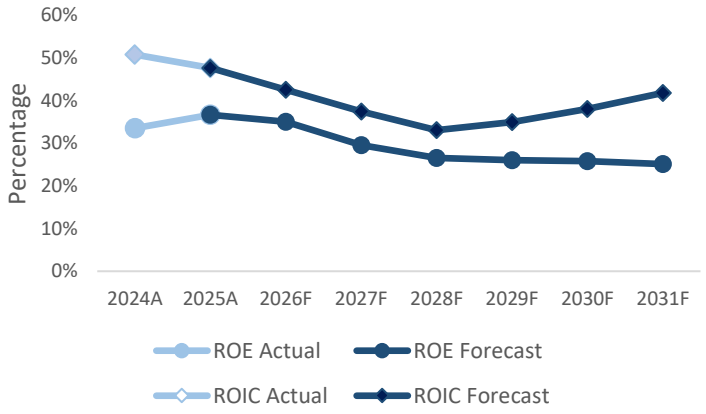
## Profitability and Returns

Alphabet's profitability remains anchored by the scale of Google Search, operating leverage across Google Services, and improving contribution from Google Cloud. While AI-related infrastructure investment is expected to keep depreciation, technical infrastructure costs, and capital intensity elevated in the near term, the company's core earnings profile remains resilient.

We expect EBITDA and EBIT margins to expand over time, supported by Search profitability, Cloud scale benefits, and disciplined cost management. The slight margin moderation in the early forecast years reflects elevated AI-related infrastructure spending and depreciation before operating leverage becomes more visible in the outer years (Figure 15).

Alphabet's return profile also remains strong. Returns are supported by high operating profitability, a capital-light advertising franchise, and recurring free cash flow generation. Although higher CapEx temporarily weighs on free cash flow conversion, we expect returns to remain above the company's cost of capital as revenue scales and infrastructure utilisation improves (Appendix A4)(Figure 18).

**Figure 18: ROE and ROIC Projection**




The table below summarises Alphabet's key financial metrics, including revenue growth, margins, capital intensity, free cash flow conversion, and shareholder returns through buybacks (Appendix A4)(Figure 19).

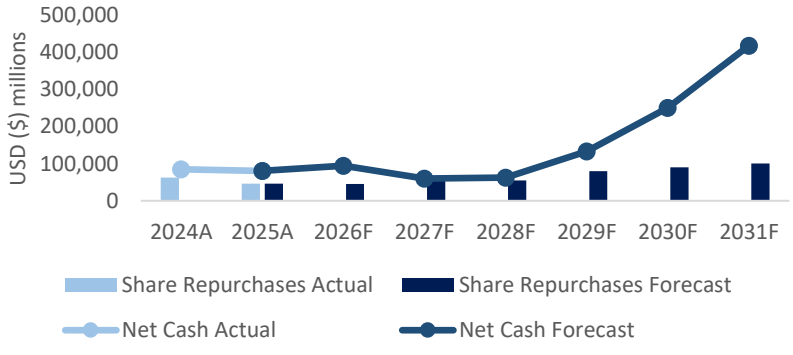
**Figure 19: Key Financial Metrics**

| Metric | 2023A | 2024A | 2025A | 2026F | 2027F | 2028F | 2029F | 2030F |
|---|---|---|---|---|---|---|---|---|
| Revenue Growth | | 14% | 15% | 25% | 22% | 18% | 16% | 14% |
| EBITDA Margin | 31% | 39% | 42% | 46% | 49% | 49% | 50% | 51% |
| EBIT Margin | 27% | 35% | 37% | 39% | 41% | 39% | 40% | 42% |
| ROIC | 47% | 51% | 48% | 43% | 37% | 33% | 35% | 38% |
| Operating Cash Flow / Revenue | 33% | 38% | 46% | 52% | 49% | 48% | 49% | 50% |
| FCF / Net Income | 94% | 75% | 61% | 33% | 31% | 49% | 81% | 93% |
| CapEx / Revenue | 10% | 15% | 23% | 39% | 38% | 32% | 22% | 18% |
| Net Cash / Revenue | 32% | 24% | 20% | 19% | 10% | 9% | 16% | 26% |
| Dividend Payout Ratio | 0% | 7% | 7% | 8% | 10% | 14% | 17% | 20% |
| Share Repurchases / FCF | 89% | 76% | 49% | 69% | 83% | 46% | 35% | 29% |

## Balance Sheet and Capital Strength

Alphabet maintains a strong balance sheet, supported by a large cash and marketable securities position, low financial leverage, and recurring free cash flow generation. This gives the company flexibility to fund elevated AI-related infrastructure investment while continuing to return capital to shareholders (Appendix A2)(Appendix A3)(Figure 20).

**Figure 20: Net Cash and Share Repurchases Projection**



As shown in Figure 20, we expect Alphabet's net cash position to remain positive over the forecast period, despite temporary pressure on free cash flow conversion during the heavy AI investment phase. This highlights the strength of the underlying business and the company's ability to absorb higher spending on data centres, servers, networking equipment, and TPU-related infrastructure without materially weakening the balance sheet (Appendix A3).

Capital allocation remains focused mainly on share repurchases rather than dividends. Although Alphabet has introduced a dividend, we do not view the company as a dividend-led investment case. Buybacks remain the main driver of shareholder returns and per-share value creation, supported by recurring cash generation and a strong liquidity position (Appendix E1)(Figure 20).

## Earnings Quality

Alphabet's earnings quality is strong, with profitability driven mainly by core operating activities, especially Google Search, YouTube, and the broader Google Services ecosystem. Search provides a highly cash-generative earnings base, while Google Cloud is becoming a more visible contributor as the segment scales and benefits from enterprise AI and infrastructure demand.

We place more weight on operating income, EBITDA, and free cash flow than reported net income when assessing Alphabet's sustainable earnings power. Reported net income can be affected by non-operating items, including gains or losses within other income, investment-related movements, and mark-to-market effects. These items may create volatility in reported earnings without necessarily reflecting changes in the underlying performance of Search, Cloud, or YouTube (Appendix A1).

In 2026F, our forecast includes $40.0bn of Other Income, broadly reflecting the large unrealised gains on Alphabet's equity securities reported during 2026. We treat this as non-operating and place greater weight on operating income, EBITDA, and free cash flow when assessing sustainable earnings quality.

Cash generation remains an important support to earnings quality. Alphabet consistently converts a large portion of revenue into operating cash flow, although free cash flow conversion is expected to weaken in the near term due to elevated AI-related capital expenditure. This pressure reflects investment in data centres, servers, networking equipment, and TPU-related infrastructure rather than deterioration in the core business model (Appendix A2)(Appendix D2).

Stock-based compensation also remains an important adjustment when analysing earnings quality. While SBC is a non-cash expense, it has real implications for dilution and capital allocation. We therefore assess Alphabet's profitability together with its share repurchase activity, as buybacks help offset dilution and support per-share value creation over time (Appendix E1)(Appendix E2).

Overall, we view Alphabet's underlying earnings quality as high, supported by recurring advertising demand, a growing enterprise Cloud business, strong operating cash flow, and a net cash balance sheet. However, we focus on normalised operating performance and free cash flow rather than reported net income alone, especially during a period of elevated AI investment and higher infrastructure spending.

## Investment Risks

The most important risk to our Alphabet thesis is the return on elevated AI-related capital investment. Alphabet is committing significant capital to data centres, servers, networking equipment, power capacity, and TPU-related infrastructure. While this investment is necessary to support Google Cloud, Gemini, AI Mode, and broader AI workloads, returns may fall short of market expectations if AI infrastructure demand slows, customer adoption is weaker than expected, or pricing pressure increases. In that case, Alphabet could face lower free cash flow conversion and weaker DCF support despite continued revenue growth.

A related risk is the quality and durability of AI infrastructure demand. Google Cloud backlog and TPU capacity agreements provide evidence of enterprise demand, but part of the AI infrastructure cycle depends on large customer commitments and long-term usage. If major AI customers reduce spending, delay deployments, renegotiate contracts, or shift workloads to competing infrastructure providers, Alphabet's Cloud growth and infrastructure utilisation could be negatively affected.

TPU revenue upside also remains an important but still developing opportunity. TPUs are Google's custom processors for AI and machine learning workloads, and external TPU-based capacity could become a more visible revenue driver within Google Cloud over time. However, this also depends on product performance, developer adoption, software ecosystem depth, and cost competitiveness relative to Nvidia GPU-based infrastructure and competing custom chips from other hyperscalers.

Search disruption remains another key risk. Our base case assumes that AI-powered Search and AI Mode are additive to query growth rather than purely cannibalistic, but this outcome is not guaranteed. Generative AI could change user behaviour, reduce traditional search frequency, or shift monetisation away from high-intent search ads. If AI answers reduce commercial click-through rates or weaken advertiser return on investment, Google Search revenue growth and margins could come under pressure.

Competitive pressure in artificial intelligence is also intense. OpenAI, Anthropic, Microsoft, Amazon, Meta, and other AI companies continue to invest heavily in models, products, infrastructure, and distribution. Gemini remains strategically important to Alphabet, but the product still needs improvement in areas such as agentic workflows and coding use cases. If Alphabet fails to keep pace with leading frontier models or cannot translate AI usage into profitable monetisation, the market may reassess the company's long-term growth profile.

Google Cloud also faces strong competition from Microsoft Azure and Amazon Web Services. Although Google Cloud is growing rapidly and benefits from AI-related demand, it remains smaller than the two largest cloud platforms. Sustained growth will require continued investment, strong enterprise sales execution, and competitive pricing. If Cloud expansion takes longer than expected, or infrastructure costs rise faster than revenue, consolidated margin improvement could be weaker than our forecast.

Regulatory and legal risks also remain significant. Alphabet continues to face antitrust scrutiny, privacy regulation, platform governance challenges, and potential restrictions related to search distribution, advertising technology, app stores, and data usage. Changes to default search arrangements, advertising practices, or platform rules could negatively affect traffic acquisition economics, revenue growth, and profitability.

Finally, advertising cyclicality remains a risk. Despite Alphabet's strong market position, a weaker macroeconomic environment could reduce advertiser budgets across Search, YouTube, and Google Network. This would be particularly important if it occurred alongside elevated AI-related CapEx, as lower advertising growth combined with higher infrastructure spending would pressure margins, free cash flow, and valuation.

## Environmental, Social & Governance (ESG)

ESG considerations are becoming more relevant for Alphabet, particularly around data centre energy consumption, water usage, responsible AI development, privacy, cybersecurity, and platform governance. As Alphabet expands AI infrastructure across Google Cloud, Gemini, AI Mode, and TPU-related capacity, its environmental footprint has become more directly linked to its growth strategy.

From an environmental perspective, Alphabet faces a clear tension between AI infrastructure growth and long-term sustainability targets. The company continues to target net-zero emissions and 24/7 carbon-free energy by 2030, while also scaling data centres and compute capacity to support AI workloads. This creates execution risk, as AI-related infrastructure requires significant electricity, cooling capacity, land, and water resources. Google has continued to invest in clean energy procurement, data centre efficiency, and water stewardship initiatives, but the pace of AI infrastructure expansion may make progress against environmental targets harder over time.

Water usage is also becoming a more important issue for large-scale AI and cloud infrastructure. Google reported that its 2025 water stewardship projects replenished approximately 7.7 billion gallons of water, equal to around 78% of 2025 freshwater consumption. This represents progress toward its ambition to replenish more water than it consumes by 2030, but continued data centre growth may make this target more difficult to achieve over time.

In our view, the environmental side of Alphabet's ESG profile is increasingly tied to whether the company can scale AI infrastructure without creating a structurally higher energy and water burden.

On the social side, Alphabet benefits from the wide reach of its products across Search, YouTube, Android, Workspace, cloud services, and AI tools. These products are used by billions of consumers and businesses, making access to information, digital tools, and productivity infrastructure an important part of the company's social impact. At the same time, this scale brings responsibility around content moderation, misinformation, user safety, data privacy, online harms, and the social impact of AI-generated content.

Responsible AI is also becoming more important to Alphabet's social and governance profile. The company has published AI Principles and continues to describe responsible AI as part of the model development, product deployment, monitoring, and remediation process. This is particularly relevant as Gemini, AI Mode, and AI-powered advertising tools become more embedded across Alphabet's consumer and enterprise products. Failures around AI safety, bias, hallucination, privacy, or misuse could weaken user trust, increase regulatory scrutiny, and slow long-term product adoption.

Governance remains important given Alphabet's scale, market power, and regulatory exposure. The company continues to face scrutiny around search distribution, advertising technology, app store policies, data usage, and competition practices. In addition, governance around AI development, model safety, data protection, and cybersecurity is becoming more important as Alphabet expands its AI product portfolio and enterprise cloud offering.

Overall, Alphabet has clear ESG strengths, including investment in clean energy, data centre efficiency, product accessibility, privacy tools, and responsible AI governance. However, the ESG risk profile is rising as AI infrastructure investment accelerates. We view energy consumption, water usage, AI governance, privacy, and anti-trust regulation as the main ESG-related issues for investors to monitor.

# Appendix

## Appendix A — Financial Statements

*All figures in USD($) millions unless stated*

### Appendix A1-Income Statement

**Income Sheet**

| *All figures in USD -$) millions unless stated* | 2023A | 2024A | 2025A | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| Revenues | 307,394 | 350,018 | 402,836 | 481,383 | 563,990 | 653,128 | 738,647 | 824,510 | 900,480 |
| Total Cost of Revenues | (133,332) | (137,346) | (142,372) | (177,607) | (217,874) | (254,788) | (286,771) | (306,553) | (326,003) |
| Traffic Acquisition Costs | (50,886) | (54,900) | (59,926) | (63,121) | (72,961) | (78,785) | (84,393) | (90,116) | (92,685) |
| Depreciation & Amortization Costs | (11,946) | (15,311) | (21,136) | (32,651) | (49,034) | (64,971) | (76,808) | (84,515) | (89,241) |
| Other Cost of Revenues | (70,500) | (67,135) | (61,310) | (81,835) | (95,878) | (111,032) | (125,570) | (131,922) | (144,077) |
| **Gross Profit** | **174,062** | **212,672** | **260,464** | **303,776** | **346,116** | **398,340** | **451,876** | **517,957** | **574,477** |
| Research and development | (45,427) | (49,326) | (61,087) | (72,208) | (81,779) | (94,704) | (101,933) | (111,309) | (117,062) |
| Sales and Marketing | (27,917) | (27,808) | (28,693) | (36,104) | (39,479) | (42,453) | (48,012) | (49,471) | (54,029) |
| General and administrative | (16,425) | (14,188) | (21,482) | (24,069) | (24,069) | (28,200) | (32,656) | (36,932) | (41,225) |
| **EBIT** | **84,293** | **121,350** | **149,202** | **171,396** | **200,789** | **232,983** | **269,274** | **320,245** | **362,161** |
| Other Income | 1,424 | 7,425 | 29,787 | 40,000 | 5,000 | 3,500 | 2,000 | 1,000 | – |
| **Profit Before Tax** | 85,717 | 128,775 | 178,989 | 211,396 | 205,789 | 236,483 | 271,274 | 321,245 | 362,161 |
| Tax Expense | (11,922) | (19,697) | (26,656) | (33,823) | (32,926) | (37,837) | (43,404) | (51,399) | (57,946) |
| **Profit for the Year** | **73,795** | **109,078** | **152,333** | **177,573** | **172,863** | **198,646** | **227,870** | **269,846** | **304,215** |
| Diluted Weighted Average Shares | 12,722 | 12,447 | 12,230 | 12,150 | 12,091 | 12,093 | 12,104 | 12,105 | 12,084 |
| Diluted EPS | $5.80 | $8.76 | $12.46 | $14.62 | $14.30 | $16.43 | $18.83 | $22.29 | $25.17 |
| Dividends | – | (7,363) | (10,049) | (14,206) | (17,286) | (27,810) | (38,738) | (53,969) | (73,012) |
| Share Buybacks | (61,504) | (62,222) | (45,709) | (45,000) | (55,000) | (55,000) | (80,000) | (90,000) | (100,000) |

### Appendix A2-Cash Flow Statement

**Cash Flow Statement**

| *All figures in USD ($) millions unless stated* | 2023A | 2024A | 2025A | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| **Cash From Operating Activities** | | | | | | | | | |
| Profit for the Year | 73,795 | 109,078 | 152,333 | 200,331 | 216,599 | 241,651 | 285,211 | 337,268 | 382,541 |
| Non-Cash Adjustments | | | | | | | | | |
| Depreciation of P&E | 11,946 | 15,311 | 21,136 | 33,070 | 50,773 | 68,637 | 82,382 | 91,869 | 98,110 |
| Stock-Based Compensation | 22,460 | 22,785 | 24,953 | 32,733 | 39,949 | 47,240 | 54,724 | 62,530 | 53,056 |
| Deferred Income | (7,763) | (5,257) | 8,348 | – | – | – | – | – | – |
| Gain (Loss) on Debt and Equity Securities | 823 | (2,671) | (24,620) | – | – | – | – | – | – |
| Other | 4,330 | 3,419 | 2,108 | – | – | – | – | – | – |
| Changes in assets and Liabilities | | | | | | | | | |
| Change in Working Capital | (7,169) | (5,532) | (7,872) | (12,416) | (13,827) | (12,698) | (14,443) | (15,435) | (13,081) |
| Income Taxes, Net | 523 | (2,418) | (3,226) | – | – | – | – | – | – |
| Other Assets | (2,143) | (1,397) | (4,542) | (2,000) | (2,000) | (2,000) | (2,000) | (2,000) | (2,000) |
| Accrued Expenses and Other Liabilities | 3,937 | (1,161) | 12,939 | 4,000 | 4,500 | 5,000 | 5,500 | 6,000 | 6,000 |
| Accrued Revenue Share | 482 | 1,059 | 899 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Deferred Revenue | 525 | 1,043 | 2,420 | 2,700 | 3,000 | 3,300 | 3,600 | 4,000 | 4,200 |
| **Net Cash Provided by Operating Activities** | 101,746 | 134,259 | 184,876 | 259,418 | 299,994 | 352,130 | 415,974 | 485,232 | 529,827 |
| **Cash From Investing Activities** | | | | | | | | | |
| Purchase of property, plant and equipment | (32,251) | (52,535) | (91,447) | (193,882) | (233,547) | (232,568) | (185,220) | (173,160) | (137,947) |
| Proceeds from sale of financial assets | 87,619 | 104,310 | 84,607 | 96,135 | 86,522 | 77,869 | 70,082 | 63,074 | 56,767 |
| Purchase of Financial Assets | (80,885) | (91,713) | (109,489) | (86,522) | (77,869) | (70,082) | (63,074) | (56,767) | (51,090) |
| Acquisitions and Purchases of Intangible As: | (495) | (2,931) | (1,592) | (1,511) | (1,844) | (2,180) | (2,526) | (2,886) | (3,183) |
| Other Investing Activities | (1,051) | (2,667) | (2,370) | (2,000) | (2,000) | (2,000) | (2,000) | (3,000) | (3,000) |
| **Net Cash used in Investing Activities** | (27,063) | (45,536) | (120,291) | (187,779) | (228,739) | (228,961) | (182,738) | (172,738) | (138,454) |
| **Cash From Financing Activities** | | | | | | | | | |
| Dividends Paid to Ordinary Shareholders | – | (7,363) | (10,049) | (16,026) | (21,660) | (33,831) | (48,486) | (67,454) | (91,810) |
| Other Equity Distributions | (9,837) | (12,190) | (14,167) | (16,367) | (19,974) | (23,620) | (27,362) | (31,265) | (26,528) |
| Share Buybacks | (61,504) | (62,222) | (45,709) | (45,000) | (55,000) | (55,000) | (80,000) | (90,000) | (100,000) |
| Debt Issuance | 10,790 | 13,589 | 64,564 | 20,000 | 15,000 | 15,000 | 10,000 | 10,000 | 10,000 |
| Debt Repayment | (11,550) | (12,701) | (32,427) | (15,000) | (15,000) | (10,000) | (10,000) | (10,000) | (10,000) |
| Other Financing | 8 | 1,154 | 400 | – | – | – | – | – | – |
| **Net Cash used in Financing Activities** | (72,093) | (79,733) | (37,388) | (72,393) | (96,634) | (107,451) | (155,848) | (188,719) | (218,338) |
| Effects of Exchange Rate Changes | (421) | (612) | 208 | (100) | (100) | (100) | (100) | (100) | (100) |
| Change in Cash and Cash Equivalents | 2,169 | 8,378 | 27,405 | (854) | (25,479) | 15,618 | 77,289 | 123,675 | 172,936 |
| Beginning Cash Balance | 21,879 | 24,048 | 32,426 | 59,831 | 58,977 | 33,498 | 49,116 | 126,404 | 250,079 |
| **Ending Cash and Cash Equivalents Balance** | 24,048 | 32,426 | 59,831 | 58,977 | 33,498 | 49,116 | 126,404 | 250,079 | 423,015 |

### Appendix A3-Balance Sheet

**Balance Sheet**

| *All figures in USD ($) millions unless stated* | 2023A | 2024A | 2025A | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| Current Assets | 171,530 | 163,711 | 206,038 | 236,382 | 218,978 | 243,712 | 331,342 | 466,805 | 649,001 |
| Cash and Cash Equivalents | 24,048 | 23,466 | 30,708 | 58,977 | 33,498 | 49,116 | 126,404 | 250,079 | 423,015 |
| Marketable Securities | 86,868 | 72,191 | 96,135 | 86,522 | 77,869 | 70,082 | 63,074 | 56,767 | 51,090 |
| Accounts Receivable, Net | 47,964 | 52,340 | 62,886 | 75,883 | 92,611 | 109,514 | 126,863 | 144,959 | 159,896 |
| Other Current Assets | 12,650 | 15,714 | 16,309 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 |
| Non-Current Assets | 230,862 | 286,545 | 389,243 | 560,200 | 764,474 | 949,905 | 1,076,243 | 1,177,033 | 1,238,869 |
| Non-Marketable Securities | 31,008 | 37,982 | 68,687 | 85,000 | 105,000 | 125,000 | 150,000 | 170,000 | 190,000 |
| Deferred Income Taxes | 12,169 | 17,180 | 9,113 | 10,000 | 10,500 | 12,000 | 11,500 | 12,000 | 15,000 |
| Property and Equipment, net | 134,345 | 171,036 | 246,597 | 401,320 | 584,094 | 748,025 | 850,863 | 932,153 | 971,989 |
| Operating lease assets | 14,091 | 13,588 | 15,221 | 15,500 | 15,500 | 15,500 | 15,500 | 15,500 | 15,500 |
| Goodwill | 29,198 | 31,885 | 33,380 | 33,380 | 33,380 | 33,380 | 33,380 | 33,380 | 33,380 |
| Other Non-current Assets | 10,051 | 14,874 | 16,245 | 15,000 | 16,000 | 16,000 | 15,000 | 14,000 | 13,000 |
| **Total Assets** | **402,392** | **450,256** | **595,281** | **796,581** | **983,452** | **1,193,617** | **1,407,584** | **1,643,838** | **1,887,871** |
| **Liabilities** | | | | | | | | | |
| Current Liabilities | 81,814 | 89,122 | 102,745 | 151,268 | 184,696 | 216,116 | 250,109 | 285,193 | 313,815 |
| Accounts Payable | 7,493 | 7,987 | 12,200 | 12,781 | 15,682 | 19,887 | 22,793 | 25,453 | 27,310 |
| Accrued Compensation and Benefits | 15,140 | 15,069 | 17,546 | 22,661 | 27,657 | 32,705 | 37,886 | 43,290 | 47,751 |
| Accrued Expenses & Other Current Liabiliti | 46,168 | 51,228 | 55,557 | 88,128 | 107,555 | 127,186 | 147,334 | 168,350 | 185,698 |
| Accrued Revenue Share | 8,876 | 9,802 | 10,864 | 17,626 | 21,511 | 25,437 | 29,467 | 33,670 | 37,140 |
| Deferred Revenue | 4,137 | 5,036 | 6,578 | 10,072 | 12,292 | 10,902 | 12,629 | 14,430 | 15,917 |
| Non-Current Liabilities | 37,199 | 36,050 | 77,270 | 84,547 | 85,547 | 93,547 | 99,047 | 100,047 | 103,547 |
| Long-Term Debt | 11,870 | 10,883 | 46,547 | 51,547 | 51,547 | 56,547 | 56,547 | 56,547 | 56,547 |
| Income Taxes Payable, non-current | 8,474 | 8,782 | 9,531 | 10,000 | 10,000 | 12,000 | 13,000 | 14,000 | 15,000 |
| Operating Lease Liabilities | 12,460 | 11,691 | 12,744 | 13,000 | 14,000 | 15,000 | 17,000 | 17,000 | 17,000 |
| Other Long-Term Liabilities | 4,395 | 4,694 | 8,448 | 10,000 | 10,000 | 10,000 | 12,500 | 12,500 | 15,000 |
| **Total Liabilities** | **119,013** | **125,172** | **180,015** | **235,815** | **270,243** | **309,663** | **349,156** | **385,240** | **417,362** |
| **Equity** | | | | | | | | | |
| Common Stock & APIC | 76,534 | 84,800 | 93,126 | 109,493 | 129,467 | 153,087 | 180,449 | 211,714 | 238,243 |
| Retained Earnings | 211,247 | 245,084 | 324,055 | 463,359 | 603,299 | 756,118 | 912,843 | 1,092,658 | 1,283,389 |
| Other Reserves | (4,402) | (4,800) | (1,915) | (2,000) | (1,000) | – | – | – | – |
| **Total Shareholders' Equity** | **283,379** | **325,084** | **415,266** | **570,852** | **731,766** | **909,205** | **1,093,293** | **1,304,372** | **1,521,632** |
| Other equity Instruments | – | – | – | – | – | – | – | – | – |
| **Total Equity** | **283,379** | **325,084** | **415,266** | **570,852** | **731,766** | **909,205** | **1,093,293** | **1,304,372** | **1,521,632** |

### Appendix A4-Ratios

**Ratios**

| *All figures in USD ($) millions unless stated* | 2023A | 2024A | 2025A | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| **Profitability & Returns:** | | | | | | | | | |
| Return on Equity | 26% | 34% | 37% | 35% | 30% | 27% | 26% | 26% | 25% |
| Return on Assets | 18% | 24% | 26% | 25% | 22% | 20% | 20% | 21% | 20% |
| Return on Invested Capital | 47% | 51% | 48% | 43% | 37% | 33% | 35% | 38% | 42% |
| **Cash Flow Quality:** | | | | | | | | | |
| Operating Cash Flow / Revenue | 33% | 38% | 46% | 52% | 49% | 48% | 49% | 50% | 50% |
| Free Cash Flow / Net Income | 94% | 75% | 61% | 33% | 31% | 49% | 81% | 93% | 102% |
| Capex / Revenue | 10% | 15% | 23% | 39% | 38% | 32% | 22% | 18% | 13% |
| **Balance Sheet:** | | | | | | | | | |
| Cash / Marketable Securities | 28% | 33% | 32% | 68% | 43% | 70% | 200% | 441% | 828% |
| Debt / Equity | 3% | 2% | 8% | 6% | 5% | 5% | 4% | 3% | 3% |
| Net Cash / Revenues | 32% | 24% | 20% | 19% | 10% | 9% | 16% | 26% | 39% |
| **Capital Allocation:** | | | | | | | | | |
| Dividends | – | 7,363 | 10,049 | 16,026 | 21,660 | 33,831 | 48,486 | 67,454 | 91,810 |
| Dividend Payout Ratio | 0% | 7% | 7% | 8% | 10% | 14% | 17% | 20% | 24% |
| Shares Outsanding | 12,460 | 12,211 | 12,088 | 12,099 | 12,112 | 12,152 | 12,157 | 12,166 | 12,119 |
| Dividends Per Share | $ - | $ 0.60 | $ 0.83 | $ 1.32 | $ 1.79 | $ 2.78 | $ 3.99 | $ 5.54 | $ 7.58 |
| Share Price | $ 117.77 | $ 163.71 | $ 189.16 | $ 360.00 | $ 380.00 | $ 400.00 | $ 410.00 | $ 420.00 | $ 430.00 |
| Dividend Yield | 0.00% | 0.37% | 0.44% | 0.37% | 0.47% | 0.70% | 0.97% | 1.32% | 1.76% |
| Share Repurchases / FCF | 88.5% | 76.1% | 48.9% | 68.7% | 82.8% | 46.0% | 34.7% | 28.8% | 25.5% |
| Buyback Yield | 4% | 3% | 2% | 1% | 1% | 1% | 2% | 2% | 2% |
| Total Payout Ratio | 83% | 64% | 37% | 30% | 35% | 37% | 45% | 47% | 50% |
| **Valuation:** | | | | | | | | | |
| Forward P/E | 13 | 13 | 11 | 20 | 19 | 17 | 15 | 13 | N/A |
| EV/Revenue | 5 | 6 | 6 | 9 | 8 | 7 | 6 | 5 | 5 |
| EV/EBITDA | 8 | 9 | 8 | 12 | 10 | 9 | 8 | 7 | 6 |
| EV/EBIT | 17 | 16 | 15 | 22 | 18 | 17 | 15 | 12 | 11 |
| FCF Yield | 0.15% | 0.42% | 1.20% | -0.02% | -0.55% | 0.32% | 1.55% | 2.42% | 3.32% |

# Appendix B — Valuation Analysis

*All figures in USD($) millions unless stated*

## Appendix B1-Valuation Summary

| Valuation Summary Table | Low | Range | High | Base | Weight |
|---|---|---|---|---|---|
| DCF - Perpetuity Growth | $ 197.24 | $ 117.18 | $ 314.43 | $ 243.42 | 30% |
| DCF - Terminal Multiple | $ 334.06 | $ 127.29 | $ 461.36 | $ 392.57 | 35% |
| DDM – Valuation | $ 56.44 | $ 30.84 | $ 87.28 | | 0% |
| Residual Income | $ 206.06 | $ 82.17 | $ 288.23 | $ 238.42 | 0% |
| Comparable Companies | $ 144.97 | $ 202.99 | $ 347.96 | $ 318.05 | 35% |
| Regression | $ 273.36 | $ 6.05 | $ 279.41 | $ 279.41 | |
| 52 Week High/Low | $ 177.54 | $ 226.93 | $ 404.47 | | 0% |
| Target Price: $321.74 | | | | | $321.74 |

## Appendix B2-Regression Analysis

**Regression**

*All figures in USD ($) millions unless stated*

| Peer Companies | Share Price | Shares Outstand. | Enterprise Value | Revenue 2025A | Revenue 2026F | EV / Revenue 2025A | EV / Revenue 2026F | EBITDA Margin 2025A | EBITDA Margin 2026F |
|---|---|---|---|---|---|---|---|---|---|
| | $ | mm | | | | x | x | | |
| Meta Platforms | $ 560.84 | 2,540 | 1,427,074 | 200,966 | 252,840 | 7.1x | 5.6x | 60.9% | 57.4% |
| Microsoft | $ 368.51 | 7,430 | 2,754,029 | 281,724 | 329,502 | 9.8x | 8.4x | 57.7% | 60.1% |
| Amazon | $ 233.26 | 10,769 | 2,558,977 | 716,924 | 823,424 | 3.6x | 3.1x | 23.7% | 25.6% |
| Apple | $ 300.52 | 14,690 | 4,479,639 | 416,161 | 478,255 | 10.8x | 9.4x | 34.8% | 35.2% |
| Oracle | $ 175.03 | 2,880 | 629,086 | 57,399 | 67,357 | 11.0x | 9.3x | 50.3% | 54.3% |
| Beta | | | | | | 8.95 | 8.25 | | |
| Intercept | | | | | | 4.36 | 3.32 | | |
| RSQ | | | | | | 0.21 | 0.21 | | |

| Target Company Value Using Regression | | | EV Less: Net Debt | | Implied EV / Revenue | | | |
|---|---|---|---|---|---|---|---|---|
| 2025A EV/Revenue | $273.36 | 12,238 | 3,345,403 | 402,836 | 8.2x | | 42.4% | |
| 2026EV/Revenue | $279.41 | 12,238 | 3,419,434 | 481,383 | 7.0x | | 44.3% | |

## Appendix B3-Comparable Companies

**Comparable Company Metrics**

*All figures in USD ($) billions unless stated*

*Note: Peer-company forecast revenue, EBITDA, and earnings figures are based on analyst consensus estimates obtained from MarketScreener as of the valuation date.*

| Peer Companies | Share Price | Shares Outstand. | Market Cap | Net Debt | Enterprise Value | Revenue 2025A | Revenue 2026F | EBITDA 2025A | EBITDA 2026F | Earnings 2025A | Earnings 2026F | EV/Revenue 2025A | EV/Revenue 2026F | EV/EBITDA 2025A | EV/EBITDA 2026F | P/E 2025A | P/E 2026F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $ | mm | | | | | | | | | | x | x | x | x | x | x |
| Meta Platforms | $ 560.84 | 2,540 | 1,424,534 | 2,540 | 1,427,074 | 200,966 | 252,840 | 122,319 | 145,094 | 60,458 | 84,458 | 7.1x | 5.6x | 11.7x | 9.8x | 23.6x | 16.9x |
| Microsoft | $ 368.51 | 7,430 | 2,738,029 | 16,000 | 2,754,029 | 281,724 | 329,502 | 162,681 | 198,188 | 101,832 | 129,242 | 9.8x | 8.4x | 16.9x | 13.9x | 26.9x | 21.2x |
| Amazon | $ 233.26 | 10,769 | 2,511,977 | 47,000 | 2,558,977 | 716,924 | 823,424 | 169,837 | 210,946 | 77,670 | 94,944 | 3.6x | 3.1x | 15.1x | 12.1x | 32.3x | 26.5x |
| Apple | $ 300.52 | 14,690 | 4,414,639 | 65,000 | 4,479,639 | 416,161 | 478,255 | 144,965 | 168,570 | 112,010 | 128,853 | 10.8x | 9.4x | 30.9x | 26.6x | 39.4x | 34.3x |
| Oracle | $ 175.03 | 2,880 | 504,086 | 125,000 | 629,086 | 57,399 | 67,357 | 28,900 | 36,549 | 12,443 | 16,984 | 11.0x | 9.3x | 21.8x | 17.2x | 40.5x | 29.7x |
| Average | | | | | | | | | | | | 8.4x | 7.2x | 19.3x | 15.9x | 32.5x | 25.7x |
| Median | (base) | | | | | | | | | | | 9.8x | 8.4x | 16.9x | 13.9x | 32.3x | 26.5x |
| Harmonic Mean | | | | | | | | | | | | 7.1x | 6.0x | 17.3x | 14.2x | 31.1x | 24.1x |
| 75th Percentile | (high) | | | | | | | | | | | 10.8x | 9.3x | 21.8x | 17.2x | 39.4x | 29.7x |
| 25th Percentile | (low) | | | | | | | | | | | 7.1x | 5.6x | 15.1x | 12.1x | 26.9x | 21.2x |

**Scenario** Base

| Share Value at Scenario Multiples | | | Implied Equity Value | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2025 EV/Revenue | $326.69 | 12,238 | 3,997,975 | (60,000) | 3,937,975 | 402,836 | | | | | | 9.8x | | | | | |
| 2026 EV/Revenue | $333.67 | 12,238 | 4,083,478 | (60,000) | 4,023,478 | | 481,383 | | | | | | 8.4x | | | | |
| 2025 EV/EBITDA | $240.53 | 12,238 | 2,943,655 | (60,000) | 2,883,655 | | | 170,338 | | | | | | 16.9x | | | |
| 2026 EV/EBITDA | $236.59 | 12,238 | 2,895,445 | (60,000) | 2,835,445 | | | | 204,047 | | | | | | 13.9x | | |
| 2025A P/E | $402.57 | 12,238 | 4,926,703 | | | | | | | 152,333 | | | | | | 32.3x | |
| 2026F P/E | $383.90 | 12,238 | 4,698,117 | | | | | | | | 177,573 | | | | | | 26.5x |

# Appendix C — Key Assumptions

*All figures in USD($) millions unless stated*

## Appendix C1-Segment Revenue Assumptions

**Segment Revenue Schedule**

| *All figures in USD ($) millions unless stated* | 2023A | 2024A | 2025A | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | |
| Advertising | | | | | | | | | |
| Google Search & other | 175,033 | 198,084 | 224,532 | 258,212 | 286,615 | 315,277 | 343,652 | 371,144 | 393,412 |
| Growth | – | 13.2% | 13.4% | 15% | 11% | 10% | 9% | 8% | 6% |
| Percentage of total Revenues | 57% | 57% | 56% | 54% | 51% | 48% | 47% | 45% | 44% |
| YouTube Ads | 31,510 | 36,147 | 40,367 | 44,807 | 49,288 | 53,724 | 58,022 | 62,083 | 65,498 |
| Growth | – | 14.7% | 11.7% | 11% | 10% | 9% | 8% | 7% | 6% |
| Percentage of total Revenues | 10% | 10% | 10% | 9% | 9% | 8% | 8% | 8% | 7% |
| Google Network | 31,312 | 30,359 | 29,792 | 29,196 | 28,904 | 28,904 | 28,904 | 28,904 | 28,904 |
| Growth | – | -3.0% | -1.9% | -2% | -1% | 0% | 0% | 0% | 0% |
| Percentage of total Revenues | 10% | 9% | 7% | 6% | 5% | 4% | 4% | 4% | 3% |
| Subscriptions, Platforms, and devices | 34,688 | 40,340 | 48,030 | 56,675 | 65,743 | 75,605 | 83,922 | 91,474 | 96,963 |
| Growth | – | 16.3% | 19.1% | 18% | 16% | 15% | 11% | 9% | 6% |
| Percentage of total Revenues | 11% | 12% | 12% | 12% | 12% | 12% | 11% | 11% | 11% |
| Google Cloud | 33,088 | 43,229 | 58,705 | 90,993 | 131,939 | 178,118 | 222,648 | 269,404 | 315,203 |
| Growth | – | 30.6% | 35.8% | 55% | 45% | 35% | 25% | 21% | 17% |
| Percentage of total Revenues | 11% | 12% | 15% | 19% | 23% | 27% | 30% | 33% | 35% |
| Other | 1,527 | 1,648 | 1,537 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 | 500 |
| Hedging gains (losses) | 236 | 211 | (127) | – | – | – | – | – | – |
| **Total Revenues** | **307,394** | **350,018** | **402,836** | **481,383** | **563,990** | **653,128** | **738,647** | **824,510** | **900,480** |

## Appendix C2-Cost of Revenues Assumptions

**Cost of Revenues Schedule**

| *All figures in USD ($) millions unless stated* | 2023A | 2024A | 2025A | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | 307,394 | 350,018 | 402,836 | 481,383 | 563,990 | 653,128 | 738,647 | 824,510 | 900,480 |
| Google Advertising Revenue | 237,855 | 264,590 | 294,691 | 332,215 | 364,807 | 397,905 | 430,578 | 462,131 | 487,815 |
| **TAC** | 50,886 | 54,900 | 59,926 | 63,121 | 72,961 | 78,785 | 84,393 | 90,116 | 92,685 |
| TAC / Google Advertising Revenue | 21.4% | 20.7% | 20.3% | 19.0% | 20.0% | 19.8% | 19.6% | 19.5% | 19.0% |
| **Other Cost of Revenues** | 70,500 | 67,135 | 61,310 | 81,835 | 95,878 | 111,032 | 125,570 | 131,922 | 144,077 |
| Other Cost of Revenues / Total Revenues | 22.9% | 19.2% | 15.2% | 17.0% | 17.0% | 17.0% | 17.0% | 16.0% | 16.0% |
| **Total Cost of Revenues** | 133,332 | 137,346 | 142,372 | 177,607 | 217,874 | 254,788 | 286,771 | 306,553 | 326,003 |
| Total Cost of Revenues / Total Revenues | 43% | 39% | 35% | 37% | 39% | 39% | 39% | 37% | 36% |

# Appendix D — Supporting Schedules

*All figures in USD($) millions unless stated*

## Appendix D1-Operating Expense Schedule

**Sales and Marketing Schedule**

| *All figures in USD ($) millions unless stated* | 2023A | 2024A | 2025A | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| **Sales and Marketing expenses** | 27,917 | 27,808 | 28,693 | 36,104 | 39,479 | 42,453 | 48,012 | 49,471 | 54,029 |
| Sales and Marketing expenses / Revenues | 9.1% | 7.9% | 7.1% | 7.5% | 7.0% | 6.5% | 6.5% | 6.0% | 6.0% |

**Research & Development Schedule**

| *All figures in USD ($) millions unless stated* | 2023A | 2024A | 2025A | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| **Research and development expenses** | 45,427 | 49,326 | 61,087 | 72,208 | 81,779 | 94,704 | 101,933 | 111,309 | 117,062 |
| R&D expenses / Revenues | 14.8% | 14.1% | 15.2% | 15.0% | 14.5% | 14.5% | 13.8% | 13.5% | 13.0% |

**General & Administrative Schedule**

| *All figures in USD ($) millions unless stated* | 2023A | 2024A | 2025A | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| **General & Administrative Expenses** | 16,425 | 14,188 | 21,482 | 24,069 | 24,069 | 28,200 | 32,656 | 36,932 | 41,225 |
| G&A expenses / Revenues | 5.3% | 4.1% | 5.3% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |

## Appendix D2-CapEx, D&A and Tax Schedule

**CapEx Schedule**

| *All figures in USD ($) millions unless stated* | 2023A | 2024A | 2025A | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 307,394 | 350,018 | 402,836 | 481,383 | 563,990 | 653,128 | 738,647 | 824,510 | 900,480 |
| Capital Expenditures | 32,251 | 52,535 | 91,447 | 185,333 | 214,316 | 209,001 | 162,502 | 148,412 | 117,062 |
| CapEx to Beginning Balance Ratio | 10% | 15% | 23% | 39% | 38% | 32% | 22% | 18% | 13% |

**Depreciation & Amortization Schedule**

| *All figures in USD ($) millions unless stated* | 2023A | 2024A | 2025A | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| Beginning Balance of PP&E and Intangibles | 112,668 | 132,973 | 170,197 | 240,508 | 393,190 | 558,472 | 702,502 | 788,196 | 852,092 |
| Capital Expenditures | 32,251 | 52,535 | 91,447 | 185,333 | 214,316 | 209,001 | 162,502 | 148,412 | 117,062 |
| Depreciation & Amortization | (11,946) | (15,311) | (21,136) | (32,651) | (49,034) | (64,971) | (76,808) | (84,515) | (89,241) |
| D&A to Average PP&E Balance Ratio | 9.3% | 9.6% | 9.8% | 9.8% | 9.8% | 9.8% | 9.8% | 9.8% | 9.8% |
| Ending Balance | 132,973 | 170,197 | 240,508 | 393,190 | 558,472 | 702,502 | 788,196 | 852,092 | 879,914 |

**Tax Schedule**

| *All figures in USD ($) millions unless stated* | 2023A | 2024A | 2025A | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| **Profit Before Tax** | 85,717 | 128,775 | 178,989 | 211,396 | 205,789 | 236,483 | 271,274 | 321,245 | 362,161 |
| Effective Tax Rate | 13.9% | 15.3% | 14.9% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% |
| **Tax** | 11,922 | 19,697 | 26,656 | 33,823 | 32,926 | 37,837 | 43,404 | 51,399 | 57,946 |
| Cash Paid for Tax | 19,164 | 27,353 | 21,526 | 27,059 | 27,987 | 34,054 | 41,234 | 50,371 | 57,946 |
| Cash Paid for Tax percentage to Tax | 62% | 72% | 124% | 80% | 85% | 90% | 95% | 98% | 100% |

*All figures in USD($) millions unless stated*

# Appendix E — Capital Structure

## Appendix E1-Dividend & Share Buybacks

**Dividend & Share Buybacks Schedule**

| *All figures in USD ($) millions unless stated* | 2023A | 2024A | 2025A | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| Net Income | 73,795 | 109,078 | 152,333 | 177,573 | 172,863 | 198,646 | 227,870 | 269,846 | 304,215 |
| Total Capital Return Ratio | 84% | 64% | 36% | 33% | 42% | 42% | 52% | 53% | 57% |
| Total Capital Return | 62,184 | 69,410 | 55,447 | 59,206 | 72,286 | 82,810 | 118,738 | 143,969 | 173,012 |
| Dividends Payout Ratio | 0.0% | 6.8% | 6.6% | 8.0% | 10.0% | 14.0% | 17.0% | 20.0% | 24.0% |
| **Dividends** | – | **7,363** | **10,049** | **14,206** | **17,286** | **27,810** | **38,738** | **53,969** | **73,012** |
| Share Buybacks as Percentage of Total Capit | 100% | 89% | 82% | 25% | 32% | 28% | 35% | 33% | 33% |
| **Share Buybacks** | **62,184** | **62,047** | **45,398** | **45,000** | **55,000** | **55,000** | **80,000** | **90,000** | **100,000** |

## Appendix E2-Shares Outstanding Schedule

**Shares Outstanding Schedule**

| *All figures in millions unless stated* | 2023A | 2024A | 2025A | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| Shares Beginning | 12,849 | 12,460 | 12,211 | 12,088 | 12,093 | 12,093 | 12,115 | 12,096 | 12,073 |
| Share Issued | 139 | 130 | 117 | 130 | 145 | 159 | 176 | 191 | 157 |
| Share Buybacks | 528 | 379 | 240 | 125 | 145 | 138 | 195 | 214 | 233 |
| Buyback Price | $117.8 | $163.7 | $189.2 | $360.0 | $380.0 | $400.0 | $410.0 | $420.0 | $430.0 |
| Buyback Amount ($m) | 62,184 | 62,047 | 45,398 | 45,000 | 55,000 | 55,000 | 80,000 | 90,000 | 100,000 |
| Ending Shares | 12,460 | 12,211 | 12,088 | 12,093 | 12,093 | 12,115 | 12,096 | 12,073 | 11,997 |

## Appendix E3- Equity Schedule

**Equity Schedule**

| *All figures in USD ($) millions unless stated* | 2023A | 2024A | 2025A | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F |
|---|---|---|---|---|---|---|---|---|---|
| Common Stock & APIC | 76,534 | 84,800 | 93,126 | 108,771 | 127,101 | 148,327 | 172,333 | 199,130 | 221,642 |
| Net Income | 73,795 | 109,078 | 152,333 | 177,573 | 172,863 | 198,646 | 227,870 | 269,846 | 304,215 |
| Dividends | – | 7,363 | 10,049 | 14,206 | 17,286 | 27,810 | 38,738 | 53,969 | 73,012 |
| Share Buybacks | 62,184 | 62,047 | 45,398 | 45,000 | 55,000 | 55,000 | 80,000 | 90,000 | 100,000 |
| Retained Earnings | 211,247 | 245,084 | 324,055 | 442,422 | 542,998 | 658,834 | 767,967 | 893,843 | 1,025,047 |
| Other Reserves | (4,402) | (4,800) | (1,915) | (2,000) | (1,000) | – | – | – | – |
| Total Shareholder's Ending Equity | 283,379 | 325,084 | 415,266 | 549,193 | 669,099 | 807,161 | 940,300 | 1,092,973 | 1,246,689 |
| Other equity Instruments | – | – | – | – | – | – | – | – | – |
| **Total Equity** | **283,379** | **325,084** | **415,266** | **549,193** | **669,099** | **807,161** | **940,300** | **1,092,973** | **1,246,689** |

## Disclaimer

This report has been prepared as an independent equity research project for educational and portfolio purposes only. It does not constitute investment advice, financial advice, or a recommendation to buy, sell, or hold any security. All views, assumptions, forecasts, and valuation outputs are my own and are based on publicly available information available at the time of writing.