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Alphabet

The new Alphabet: more capex and a changing thesis.

EQUITY RESEARCH

November 2026

azstocks.net

COMPANY PROFILE

Alphabet

THESIS

Alphabet is facing one of the most important moments in its history: defending Google's dominance while artificial intelligence transforms the way we search for information, and at the same time funding the largest investment cycle it has ever undertaken. In this report I assess whether Search, YouTube, Cloud and Gemini can sustain growth, and what the company is really worth.

PRICE TARGET
$295

UPSIDE
+3.3%

SECTOR
Technology

EXCHANGE
NASDAQ

CURRENCY
USD

LAST UPDATED
November 2026

THE COMPANY

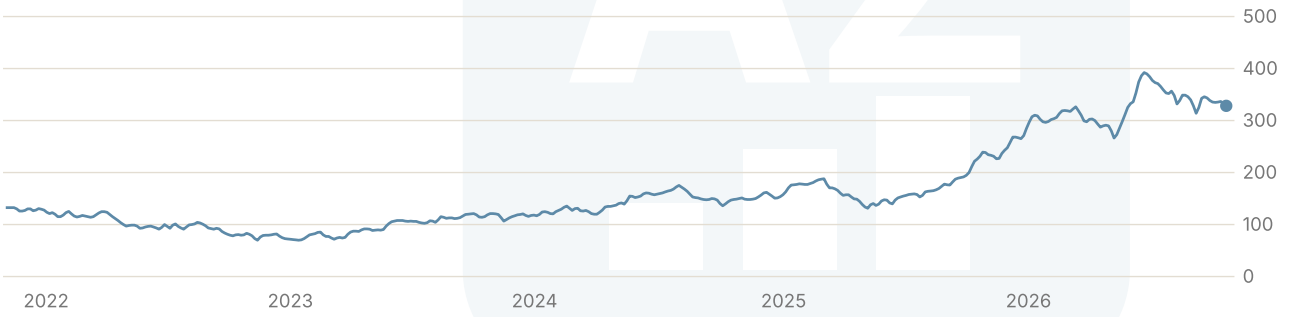
Alphabet is the holding company created in 2015 to separate Google, founded by Larry Page and Sergey Brin in 1998, from its long-term bets. It is headquartered in Mountain View, California.

Search is still the core business, but around it the company has built an ecosystem that is very hard to replicate: YouTube, Android, Chrome, Maps, Gmail, Google Workspace, Google Cloud, Gemini and an AI infrastructure with in-house TPU chips.

MARKET DATA AS OF 11/06/2026

PRICE	52-WEEK RANGE	5-YEAR CHANGE	BETA (5Y)
$285.52	270.70 – 408.61	+91%	1.21

WEEKLY SHARE PRICE, LAST 5 YEARS



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SECTION 01

Introduction

Alphabet is an American technology company headquartered in Mountain View, California. Although it was born out of Google (founded by Larry Page and Sergey Brin in 1998), since 2015 it has operated as a holding company to separate the Google business from other long-term bets.

Defining Alphabet simply as "Google" or as an advertising company falls short. Although Search, as we will see, is still the main business, around it the company has built one of the hardest digital ecosystems to replicate: YouTube, Android, Chrome, Maps, Gmail, Google Play, Google Workspace, Google Cloud, Gemini and an AI infrastructure that includes in-house TPU chips.

But the Alphabet we are analyzing today is not quite the same company it was three years ago. For decades, the appeal of the business rested on an almost perfect combination of high growth, extraordinary margins and an *asset-light* model that needed relatively little capital to grow and generated enormous amounts of free cash flow. **AI is changing this.** Alphabet is investing extraordinary sums in datacenters, chips, energy and infrastructure to defend its current businesses and, at the same time, try to become one of the main winners of this new era.

Third-quarter 2026 results capture that tension very well. On the one hand, revenue grew 25% year over year to $127,577 million and Google Cloud doubled its sales (+103%). On the other hand, capex for the quarter was $51,355 million, **free cash flow for the quarter was negative (–$9,065 million)** and the company kept funding the expansion with debt, preferred stock and share issuance. And a new doubt emerged: Search grew 12%, its slowest pace of the year, and the company itself acknowledged that AI Mode still monetizes less than traditional search. The market focused on that part of the message: the stock fell more than 10% in the following session, its worst day since March 2020.

Although throughout this report I will explain the Alphabet of the past to understand where we come from, what matters most is understanding the Alphabet of today and, above all, the Alphabet of the future. So in this analysis I will try to answer questions such as: what return can we expect on the hundreds of billions of dollars it is investing in AI, how will Search evolve to keep its dominant position, how much more important can Cloud become within the mix and, finally, how much of all this is already priced into the stock.

To close this section, I would like to quote the line Larry and Sergey wrote in the company's founders' letter, because I think it defines it perfectly: **"Google is not a conventional company. We do not intend to become one."**

SECTION 02

Business model

Alphabet divides its operations into three segments: Google Services, Google Cloud and Other Bets.

1. Google Services

It brings together practically the entire ecosystem of consumer-facing products and remains, by far, the group's main profit generator.

In 2025 it generated $342,721 million of revenue, roughly 85% of Alphabet's total. In the first nine months of 2026 it brought in $280,479 million with an operating margin of 42.5%.

Within the segment we find:

a) Google Advertising

- ***Google Search & Other***

Advertisers take part in auctions to appear in front of users who are actively searching for a specific product, service or piece of information. Unlike a traditional ad, Google usually reaches the consumer when they are already close to making a decision.

In 2025 this business generated $224,532 million (+13% vs 2024). **This business alone represents more than half of all of Alphabet's revenue.** In Q3 2026 it brought in $63,350 million, 12% more than a year earlier.

However, there is a signal here that should not be ignored. Search growth slowed throughout the year: 19% in Q1, 17% in Q2 and 12% in Q3. According to the company, queries are growing at their fastest pace in five years, but AI Mode still monetizes less than traditional search: in Q3 paid clicks grew only 8% and cost per click 4%. **In other words, people are searching more than ever, but they are not clicking the way they used to.** Management frames it as a timing issue and argues that most AI Mode queries are incremental. I trust Google will figure out how to monetize it, but it is something to watch closely.

Google's moat is not simply having many users. The company has distribution to all of those users, data, infrastructure, millions of advertisers, an optimized auction system and decades of information about which results and ads are relevant to each search. In addition, Search is integrated with Chrome, Android, Maps, Gmail and other services in the ecosystem.

- ***YouTube***

It combines several monetization models. On the one hand, there is traditional advertising. On the other, YouTube Premium, YouTube Music, YouTube TV and other subscriptions.

YouTube advertising revenue reached $40,367 million in 2025. In Q3 2026 it grew 9% year over year to $11,207 million, a slowdown from 13% in the previous quarter. One clarification: this figure does not reflect the whole business, since subscriptions (Premium, Music and TV) are reported in another category that we will see next.

Measuring this product only by advertising revenue underestimates its competitive position. **According to Nielsen, in May 2026 it accounted for almost 14% of all time spent watching TV in the United States**, leading all media distributors. Streaming as a whole already represented 48.6% of TV viewing.

YouTube does not only compete against TikTok, Instagram or Twitch. It also competes for screen time against other alternatives such as Netflix, Disney or traditional television.

- ***Google Network***

This is revenue generated by ads that Google places on third-party websites, mobile apps and videos. It mainly includes AdSense, AdMob and Google Ad Manager.

It is one of the few relevant Alphabet businesses that is stagnating: revenue fell from $30,359 million in 2024 to $29,792 million in 2025, and in Q3 2026 it grew just 1.4%.

I don't see it as a concern, partly because it is lower-quality revenue than Search. Network carries considerably higher TAC (*Traffic Acquisition Costs*), since Alphabet shares a larger portion of the revenue with the owners of the sites where the ads appear. As long as the decline in Network is offset by growth in Search, YouTube and other owned businesses, the mix shift is not necessarily negative for Alphabet.

b) Subscriptions, platforms and devices

It is mainly made up of subscriptions (such as YouTube TV, YouTube Music and Premium, as well as Google One), platforms such as Google Play, devices such as Pixel, and other products and services.

This category generated $48,030 million in 2025, compared with $40,340 million in 2024, driven mainly by YouTube and Google One subscriptions. In Q3 2026 it grew 11% to $14,290 million.

What is interesting about this business is that it gradually reduces the dependence on advertising and adds truly recurring sales.

2. Google Cloud

This segment includes Google Cloud Platform (GCP), Google Workspace and a range of infrastructure, data, cybersecurity and AI tools for businesses. Since this year it also includes the sale of TPU systems to third parties.

For years it grew fast but lost money. That has changed.

Revenue went from $43,229 million in 2024 to $58,705 million in 2025 (+35%). Operating income grew from $6,112 million in 2024 to $13,910 million in 2025 (+127%).

	Year Ended December 31,	
	2024	2025
Operating income (loss):		
Google Services	$ 121,263	$ 139,404
Google Cloud	6,112	13,910
Other Bets	(4,444)	(7,515)
Alphabet-level activities[1]	(10,541)	(16,760)
Total income from operations	$ 112,390	$ 129,039

Source: 2025 Form 10-K.

The acceleration during 2026 was even greater. **In Q3 2026 Cloud generated $30,709 million of revenue, 103% more than a year earlier, with an operating margin of 36.2%** (23.7% in Q3 2025). This means that, in a very short time, Google Cloud went from being a business that diluted the group's margins to one that supports them.

Another relevant data point is the backlog. According to the CFO, Google Cloud's backlog reached $561,000 million at the end of Q3 ($514,000 million in Q2), and Alphabet expects to recognize slightly more than 55% of it as revenue over the next 24 months. In addition, the company said TPU system sales will keep growing in Q4 and will take a major step up in 2027.

There is also a very interesting competitive signal. According to Synergy Research, Google Cloud reached roughly 15% of the global cloud infrastructure market in Q2 2026, up from 13% a year earlier.

Cloud is probably the asset that is changing the Alphabet thesis the most.

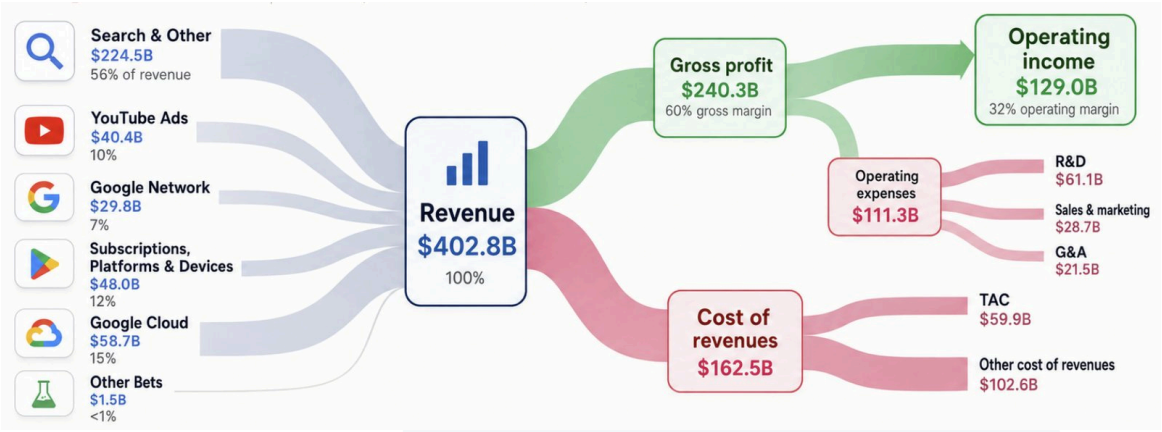
3. Other Bets

This segment includes businesses that are still too small or experimental. The most important one is Waymo, along with projects such as Wing and other advanced technology initiatives.

Financially they are still insignificant. In 2025 the segment generated only $1,537 million of revenue and lost $7,515 million at the operating level. In the first nine months of 2026 it lost another $5,946 million.

Looking only at the Income Statement, it seems like a constant destruction of capital. However, one of those bets could end up being worth a great deal. **Waymo is the clearest example.** In Q1 2026 it had already surpassed 500,000 fully autonomous rides per week, doubling volume in less than a year. I do not yet assign it a precise value in this report, but I do consider it a concrete future option for Alphabet.

To sum it up graphically, this is how Alphabet's economics flowed in 2025:

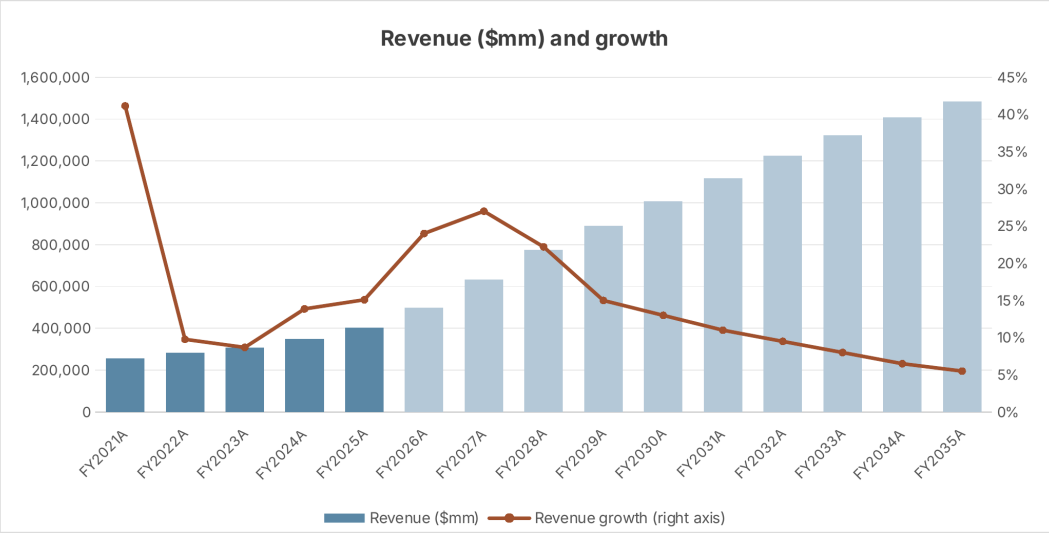


Source: author's analysis based on the 2025 Form 10-K.

SECTION 03

Business quality

REVENUE



Source: author's analysis.

Alphabet went from $90,272 million of revenue in 2016 to $402,836 million in 2025. **That implies an 18% annual CAGR.**

The vast majority of that growth came from the organic expansion of Search, YouTube, Android, subscriptions and, more recently, Google Cloud.

Even in 2020, a year of severe economic disruption and an initial drop in advertising, Alphabet ended up growing its revenue. In 2021 growth accelerated to more than 40%, while 2022 and 2023 represented a normalization of the advertising market and of the digital boom caused by the pandemic.

Since then it has accelerated again. Revenue grew 13.9% in 2024 and 15.1% in 2025, and **in the first nine months of 2026 it grew 23.6%** ($357,269 million). The analyst consensus expects 2026 to close at around $500,000 million (+24%), and my model starts from that figure.

ORGANIC VS. INORGANIC GROWTH

Up to 2025 I would describe Alphabet as a company with predominantly organic growth. That started to change in 2026 with the acquisition of Wiz for approximately $32,000 million to strengthen cloud security, the largest purchase in its history. It also acquired Intersect, an energy infrastructure developer, for almost $5,000 million. Goodwill on the balance sheet went from $33,380 million to $58,117 million in nine months.

Wiz has been part of the Cloud segment since March, so I would not treat Google Cloud's 2026 growth as 100% organic.

REVENUE BY GEOGRAPHY

	Year Ended December 31,	
	2024	2025
United States	49 %	48 %
EMEA[1]	29 %	29 %
APAC[1]	16 %	17 %
Other Americas[1]	6 %	6 %
Hedging gains (losses)	0 %	0 %

Source: 2025 Form 10-K.

More than half of revenue is generated outside the United States, with EMEA the company's second most important market.

SEGMENT BREAKDOWN

The segment breakdown shows a clear trend. Alphabet still depends heavily on Google Services, but Google Cloud is gaining relevance at an ever-faster pace.

A. Revenue by product line / segment ($mm)

Line	FY2024	FY2025	Δ FY	Q1 2026	Q2 2026	Q3 2026	Q3 2025	Δ Q3 YoY	9M 2026
Google Search & other	198,084	224,532	**13.4%**	60,399	63,271	63,350	56,567	**12.0%**	**187,020**
YouTube ads	36,147	40,367	**11.7%**	9,883	11,055	11,207	10,261	**9.2%**	**32,145**
Google Network	30,359	29,792	**(1.9%)**	6,971	7,303	7,455	7,354	**1.4%**	**21,729**
Subscriptions, platforms & devices	40,340	48,030	**19.1%**	12,384	12,911	14,290	12,870	**11.0%**	**39,585**
Google Cloud	43,229	58,705	**35.8%**	20,028	24,768	30,709	15,157	**102.6%**	**75,505**
Other Bets	1,648	1,537	**(6.7%)**	411	382	372	344	**8.1%**	**1,165**
Hedging gains (losses)	211	(127)	**(160.2%)**	(180)	106	194	(207)	**(193.7%)**	**120**
									–
Total revenue	**350,018**	**402,836**	15.1%	**109,896**	**119,796**	**127,577**	**102,346**	**24.7%**	**357,269**
Check: FY total − Income Statement revenue (should be 0)	–	–							

Source: author's analysis.

C. Reporting segments: revenue and operating income ($mm)

Line	FY2024	FY2025	Δ FY	Q1 2026	Q2 2026	Q3 2026	Q3 2025	Δ Q3 YoY	9M 2026
Google Services — revenue	304,930	342,721	**12.4%**	89,637	94,540	96,302	87,052	**10.6%**	**280,479**
Google Cloud — revenue	43,229	58,705	**35.8%**	20,028	24,768	30,709	15,157	**102.6%**	**75,505**
Other Bets — revenue	1,648	1,537	**(6.7%)**	411	382	372	344	**8.1%**	**1,165**
Alphabet-level activities — revenue									–
Hedging gains (losses) — revenue	211	(127)	**(160.2%)**	(180)	106	194	(207)	**(193.7%)**	**120**
Total segment revenue (= total revenue)	**350,018**	**402,836**		**109,896**	**119,796**	**127,577**	**102,346**		**357,269**
Google Services — operating income	121,263	139,404	**15.0%**	40,589	39,544	39,157	33,527	**16.8%**	**119,290**
Google Cloud — operating income	6,112	13,910	**127.6%**	6,598	8,814	11,121	3,594	**209.4%**	**26,533**
Other Bets — operating income	(4,444)	(7,515)	**69.1%**	(2,100)	(1,799)	(2,047)	(1,426)	**43.5%**	**(5,946)**
Alphabet-level activities — operating income	(10,541)	(16,760)	**59.0%**	(5,391)	(5,789)	(7,655)	(4,467)	**71.4%**	**(18,835)**
Hedging gains (losses) — operating income									–
Total operating income (EBIT)	**112,390**	**129,039**	14.8%	**39,696**	**40,770**	**40,576**	**31,228**	**29.9%**	**121,042**
Check: FY EBIT − Income Statement operating income (should be 0)		–							

Source: author's analysis.

In 2025 Google Services represented 85% of revenue, although its share fell 2 percentage points from 2024. Within this segment, Google Search remains by far the pillar, with $224,532 million of revenue in 2025. Advertising as a whole represented 73.2% of group revenue in 2025, but that dependence is declining: it fell to 70.3% in Q1 2026, 68.1% in Q2 and **64.3% in Q3**, mainly because of Google Cloud's strong growth.

Google Cloud is clearly the segment changing the group's mix the most. Its revenue grew 35.8% in 2025 and already represented 14.6% of sales. **In Q3 2026 it reached $30,709 million, 24% more than in the previous quarter (and 103% more than in Q3 2025), lifting its share to 24.1% of the total.**

D. Operating margin by segment

Line	FY2024	FY2025	Δ FY	Q1 2026	Q2 2026	Q3 2026	Q3 2025	Δ Q3 YoY	9M 2026
Google Services	**39.8%**	**40.7%**	**0.9%**	**45.3%**	**41.8%**	**40.7%**	**38.5%**	**2.1%**	**42.5%**
Google Cloud	**14.1%**	**23.7%**	**9.6%**	**32.9%**	**35.6%**	**36.2%**	**23.7%**	**12.5%**	**35.1%**
Other Bets	**(269.7%)**	**(488.9%)**	**(219.3%)**	**(510.9%)**	**(470.9%)**	**(550.3%)**	**(414.5%)**	**(135.7%)**	**(510.4%)**
Alphabet-level activities									
Hedging gains (losses)	–	–	–	–	–	–	–	–	–
Total EBIT margin	**32.1%**	**32.0%**	**(0.1%)**	**36.1%**	**34.0%**	**31.8%**	**30.5%**	**1.3%**	**33.9%**

Source: author's analysis.

But what matters most is not just the growth in Google Cloud's sales, which is astonishing in itself. Cloud is growing much faster at the profit level. Its operating income went from $6,112 million in 2024 to $13,910 million in 2025 (+127.6%), and its operating margin from 14.1% in 2024 to 23.7% in 2025. **In Q3 2026 the margin reached 36.2%**, approaching the profitability of Google Services (40.7% in the same quarter).

There is one figure worth keeping in mind: *Alphabet-level activities* (mainly AI research and general models that are not allocated to any segment) subtracted $7,655 million in Q3, compared with $4,467 million a year earlier. That is why the consolidated operating margin for the quarter was 31.8%, well below what the margins of each segment would suggest.

I don't want to spend much time on Other Bets since, as I mentioned at the start, it is more of a portfolio of potential options that are practically irrelevant in terms of revenue today.

In short, Alphabet is starting to become somewhat less dependent on Search and advertising, while Cloud is turning into a real second source of growth and profits. One of the most relevant things to monitor going forward is whether this trend continues.

COMMON-SIZE ANALYSIS

Income Statement

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Vertical analysis — the 3 statements as % of revenue / total assets												
Income Statement — % of revenue												
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	**100.0%**	**100.0%**
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	100.0%	100.0%
Cost of Goods Sold	(38.9%)	(41.1%)	(43.5%)	(44.4%)	(46.4%)	(43.1%)	(44.6%)	(43.4%)	(41.8%)	(40.3%)	**(41.8%)**	**(42.6%)**
Gross Profit	**61.1%**	**58.9%**	**56.5%**	**55.6%**	**53.6%**	**56.9%**	**55.4%**	**56.6%**	**58.2%**	**59.7%**	58.2%	57.4%
Selling General & Admin Expenses	(19.4%)	(17.8%)	(17.0%)	(17.3%)	(15.9%)	(14.1%)	(15.0%)	(14.4%)	(12.0%)	(12.5%)	**(13.0%)**	**(13.6%)**
R&D Expenses	(15.5%)	(15.0%)	(15.7%)	(16.1%)	(15.1%)	(12.3%)	(14.0%)	(14.8%)	(14.1%)	(15.2%)	**(14.7%)**	**(14.1%)**
Total Operating Expenses	**(34.8%)**	**(32.8%)**	**(32.7%)**	**(33.4%)**	**(31.0%)**	**(26.4%)**	**(28.9%)**	**(29.2%)**	**(26.1%)**	**(27.6%)**	(27.6%)	(27.6%)
Operating Income	**26.3%**	**26.1%**	**23.8%**	**22.2%**	**22.6%**	**30.6%**	**26.5%**	**27.4%**	**32.1%**	**32.0%**	30.5%	29.7%
Interest Expense	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.2%)	**(0.1%)**	**(0.1%)**
Interest And Investment Income	1.4%	1.2%	1.4%	1.5%	1.0%	0.6%	0.8%	1.3%	1.3%	1.1%	**1.2%**	**1.0%**
Income (Loss) On Equity Invest.	–	–	–	–	0.2%	0.1%	(0.1%)	(0.2%)	(0.1%)	0.1%	**(0.1%)**	**(0.0%)**
Currency Exchange Gains (Loss)	(0.5%)	(0.1%)	(0.1%)	0.1%	(0.2%)	(0.1%)	(0.2%)	(0.4%)	(0.1%)	(0.1%)	**(0.2%)**	**(0.2%)**
Other Non Operating Income (Expenses)	0.1%	0.1%	(0.6%)	(0.1%)	(0.7%)	(0.6%)	0.4%	0.2%	0.3%	0.4%	**0.3%**	**0.2%**
EBT Excl. Unusual Items	27.1%	27.2%	24.5%	23.6%	22.9%	30.5%	27.2%	28.2%	33.5%	33.3%	**31.6%**	**30.5%**
Gain (Loss) On Sale Of Investments	(0.3%)	(0.2%)	4.8%	2.0%	3.5%	4.8%	(2.0%)	(0.3%)	0.8%	6.1%	**2.2%**	**1.9%**
Legal Settlements	–	(2.5%)	(3.7%)	(1.0%)	–	–	–	–	–	–	–	–
EBT Incl. Unusual Items	**26.8%**	**24.5%**	**25.5%**	**24.5%**	**26.3%**	**35.2%**	**25.2%**	**27.9%**	**34.2%**	**39.4%**	33.8%	32.4%
Income Tax Expense	(5.2%)	(13.1%)	(3.1%)	(3.3%)	(4.3%)	(5.7%)	(4.0%)	(3.9%)	(5.6%)	(6.6%)	**(5.4%)**	**(5.2%)**
Earnings From Continuing Operations	21.6%	11.4%	22.5%	21.2%	22.1%	29.5%	21.2%	24.0%	28.6%	32.8%	**28.5%**	**27.2%**
Net Income to Company	21.6%	11.4%	22.5%	21.2%	22.1%	29.5%	21.2%	24.0%	28.6%	32.8%	**28.5%**	**27.2%**
Net Income	**21.6%**	**11.4%**	**22.5%**	**21.2%**	**22.1%**	**29.5%**	**21.2%**	**24.0%**	**28.6%**	**32.8%**	28.5%	27.2%
Net Income to Common Incl Extra Items	21.6%	11.4%	22.5%	21.2%	22.1%	29.5%	21.2%	24.0%	28.6%	32.8%	**28.5%**	**27.2%**
Net Income to Common Excl. Extra Items	21.6%	11.4%	22.5%	21.2%	22.1%	29.5%	21.2%	24.0%	28.6%	32.8%	**28.5%**	**27.2%**

Source: author's analysis.

The common-size analysis shows a significant improvement in Alphabet's operating efficiency over the last decade. **Gross margin**, which had fallen from 61.1% in 2016 to a low of 53.6% in 2020, began to recover and **closed 2025 at 59.7%**, its best level since 2016.

However, the most significant improvement is in the operating margin, thanks to operating expenses going from 34.8% of sales in 2016 to 27.6% in 2025, mainly due to a sharp relative reduction in SG&A, which fell from 19.4% to 12.5% of revenue. R&D, on the other hand, stayed around 15% of sales for much of the period and rose again to 15.2% in 2025, which makes sense given the current investments in artificial intelligence. **As a result, the operating margin went from 26.3% in 2016 to 32.0% in 2025.**

Finally, the net margin reached 32.8% in 2025, although in this case it has to be read carefully. Roughly 6.1% of sales corresponds to gains on the sale or revaluation of investments, so part of the increase in net income does not come from the operating business. In 2026 this effect is even stronger, and it works both ways: in the first nine months net income was $201,239 million (double the year before) due to the revaluation of its investment portfolio, but in Q3 that same portfolio produced an $8,700 million loss that cut EPS by $0.55. To analyze

Alphabet's normalized profitability, I find the evolution of operating income more representative than the reported net margin.

Alphabet not only grew strongly over the last decade, it did so while significantly expanding its operating margins, mainly thanks to the operating leverage of its cost structure. **The main open question going forward is whether this efficiency can be maintained while the depreciation associated with AI and infrastructure rises considerably.** In Q3 depreciation grew 49% year over year ($8,369 million) and the CFO warned it will keep weighing on the P&L. The positive side is that Cloud is contributing more and more to support the group's consolidated margin.

Balance Sheet

Fiscal year Balance Sheet — % of total assets	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Cash And Equivalents	7.7%	5.4%	7.2%	6.7%	8.3%	5.8%	6.0%	6.0%	5.2%	5.2%	**5.4%**	**5.6%**
Short Term Investments	43.8%	46.2%	39.7%	36.7%	34.5%	33.0%	25.2%	21.6%	16.0%	16.1%	**17.9%**	**22.4%**
Total Cash And Short Term Investments	**51.5%**	**51.6%**	**46.9%**	**43.4%**	**42.8%**	**38.9%**	**31.1%**	**27.6%**	**21.2%**	**21.3%**	**23.4%**	**28.0%**
Accounts Receivable	8.4%	9.3%	9.0%	9.2%	9.7%	10.9%	11.0%	11.9%	11.6%	10.6%	**11.4%**	**11.2%**
Other Receivables	0.1%	0.2%	0.2%	0.8%	0.1%	–	–	–	–	–	–	–
Notes Receivable	0.8%	–	–	–	–	–	–	–	–	–	–	–
Total Receivables	**9.3%**	**9.5%**	**9.1%**	**10.0%**	**9.8%**	**10.9%**	**11.0%**	**11.9%**	**11.6%**	**10.6%**	**11.4%**	**11.2%**
Inventory	0.2%	0.4%	0.5%	0.4%	0.2%	0.3%	–	–	–	–	–	**0.1%**
Restricted Cash	–	0.0%	0.1%	–	–	–	–	–	–	–	–	–
Other Current Assets	1.9%	1.5%	1.7%	1.6%	1.7%	2.2%	2.9%	3.1%	3.5%	2.7%	**3.1%**	**2.9%**
Total Current Assets	**62.9%**	**63.0%**	**58.3%**	**55.3%**	**54.5%**	**52.4%**	**45.1%**	**42.6%**	**36.4%**	**34.6%**	**37.9%**	**42.2%**
Gross Property Plant And Equipment	28.4%	30.2%	35.4%	41.7%	43.4%	44.5%	50.9%	53.7%	58.6%	60.5%	**57.6%**	**53.7%**
Accumulated Depreciation	(7.9%)	(8.8%)	(9.8%)	(11.1%)	(13.1%)	(13.8%)	(16.2%)	(16.8%)	(17.6%)	(16.5%)	**(17.0%)**	**(16.2%)**
Net Property Plant And Equipment	20.4%	21.5%	25.7%	30.7%	30.3%	30.8%	34.8%	36.9%	41.0%	44.0%	**40.6%**	**37.5%**
Long-term Investments	3.5%	4.0%	6.0%	4.7%	6.5%	8.2%	8.3%	7.9%	8.4%	11.5%	**9.3%**	**8.9%**
Goodwill	9.8%	8.5%	7.7%	7.5%	6.6%	6.4%	7.9%	7.3%	7.1%	5.6%	**6.6%**	**6.9%**
Other Intangibles	2.0%	1.4%	1.0%	0.7%	0.5%	0.4%	–	–	–	–	–	**0.1%**
Deferred Tax Assets Long-Term	0.2%	0.3%	0.3%	0.3%	0.3%	0.4%	1.4%	3.0%	3.8%	1.5%	**2.8%**	**2.0%**
Other Long-Term Assets	1.1%	1.4%	1.2%	0.8%	1.2%	1.5%	2.4%	2.3%	3.3%	2.7%	**2.8%**	**2.4%**
Total Assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Accounts Payable	1.2%	1.6%	1.9%	2.0%	1.7%	1.7%	1.4%	1.9%	1.8%	2.0%	**1.9%**	**1.8%**
Accrued Expenses	5.3%	5.3%	5.4%	5.9%	6.4%	7.8%	8.7%	9.0%	7.1%	6.1%	**7.4%**	**7.7%**
Short-term Borrowings	–	–	–	–	–	–	–	–	0.5%	–	**0.2%**	**0.1%**
Current Portion of Long-Term Debt	–	–	–	–	0.3%	–	–	0.2%	0.2%	0.3%	**0.3%**	**0.2%**
Current Portion of Capital Lease Obligations	–	–	–	0.5%	0.6%	0.6%	0.8%	0.8%	0.7%	0.6%	**0.7%**	**0.7%**
Current Income Taxes Payable	0.3%	0.4%	0.0%	0.1%	0.5%	–	0.4%	0.7%	0.6%	0.1%	**0.5%**	**0.4%**
Unearned Revenue Current	0.7%	0.7%	0.8%	0.7%	0.8%	0.9%	1.1%	1.0%	1.1%	1.1%	**1.1%**	**1.0%**
Other Current Liabilities	2.5%	4.2%	6.8%	7.2%	7.5%	6.9%	6.6%	6.8%	7.8%	6.9%	**7.2%**	**7.0%**
Total Current Liabilities	**10.0%**	**12.3%**	**14.9%**	**16.4%**	**17.8%**	**17.9%**	**19.0%**	**20.3%**	**19.8%**	**17.3%**	**19.1%**	**18.8%**
Long-Term Debt	2.3%	2.0%	1.7%	1.4%	4.0%	3.6%	3.5%	2.9%	2.4%	7.8%	**4.4%**	**4.1%**
Capital Leases	–	0.0%	0.0%	3.9%	3.8%	3.7%	3.9%	3.4%	2.9%	2.5%	**2.9%**	**3.3%**
Unearned Revenue Non Current	0.1%	0.2%	0.2%	0.1%	0.2%	0.1%	0.2%	–	–	–	–	**0.1%**
Deferred Tax Liability Non Current	0.1%	0.2%	0.5%	0.6%	1.1%	1.5%	0.1%	–	–	–	–	**0.3%**
Other Non Current Liabilities	4.4%	8.0%	6.4%	4.5%	3.5%	3.2%	3.1%	2.9%	2.7%	2.7%	**2.7%**	**2.9%**
Total Liabilities	**17.0%**	**22.7%**	**23.7%**	**27.0%**	**30.4%**	**30.0%**	**29.9%**	**29.6%**	**27.8%**	**30.2%**	**29.2%**	**29.5%**
Common Stock	21.7%	20.4%	19.4%	18.3%	18.3%	17.2%	18.7%	19.0%	18.8%	15.6%	**17.8%**	**17.9%**
Retained Earnings	62.8%	57.4%	57.9%	55.1%	51.1%	53.3%	53.5%	52.5%	54.4%	54.4%	**53.8%**	**53.6%**
Comprehensive Income and Other	(1.4%)	(0.5%)	(1.0%)	(0.4%)	0.2%	(0.5%)	(2.1%)	(1.1%)	(1.1%)	(0.3%)	**(0.8%)**	**(1.0%)**
Total Common Equity	**83.0%**	**77.3%**	**76.3%**	**73.0%**	**69.6%**	**70.0%**	**70.1%**	**70.4%**	**72.2%**	**69.8%**	**70.8%**	**70.5%**

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Total Equity	**83.0%**	**77.3%**	**76.3%**	**73.0%**	**69.6%**	**70.0%**	**70.1%**	**70.4%**	**72.2%**	**69.8%**	**70.8%**	**70.5%**
Total Liabilities And Equity	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: author's analysis.

Here we can see a fairly clear change in the composition of Alphabet's assets over the last decade. **Cash & Short-Term Investments went from 51.5% of assets in 2016 to just 21.3% in 2025.** This does not necessarily mean a decline in absolute terms, but rather that the balance sheet grew much faster in other assets, mainly infrastructure.

One of the most important movements is in Property, Plant & Equipment (PP&E). **Net PP&E went from 20.4% of assets in 2016 to 44.0% in 2025**, becoming practically the main line item on the balance sheet. This reflects the sharp increase in investment in servers, datacenters, networking and other technology infrastructure.

The weight of long-term investments also increased significantly, from around 3.5% of assets in 2016 to 11.5% in 2025. Alphabet holds a significant portfolio of financial investments and stakes in private companies, which can also create some volatility in net income when those investments are revalued.

On the liabilities side, Alphabet still has a very solid financial structure, although there is also a relevant change. **Long-term debt went from just 2.4% of assets in 2024 to 7.8% in 2025**, while total liabilities rose from around

17% of the balance sheet in 2016 to slightly over 30% in 2025. Even so, equity still funds close to 70% of assets, so leverage remains low.

What happened in 2026 accelerates all of this. As of September 30, total assets exceeded one trillion dollars for the first time ($1,003,312 million), net PP&E reached $372,827 million, non-marketable securities doubled to $135,230 million and long-term debt almost tripled, from $46,547 million to $125,102 million. On top of that come $19,000 million of convertible preferred shares issued during the year. Cash and short-term investments also rose to $265,098 million, because much of that financing has not yet been spent.

Another element gaining relevance is infrastructure-related leases. At the end of Q2 2026, Alphabet had around $18,500 million of operating and finance lease liabilities already recognized on the balance sheet. However, the most important part is off the current balance sheet: the company signed contracts, mainly related to datacenters, for $85,200 million of future payments that had not yet commenced and were therefore not yet recognized as liabilities.

In short, what stands out most to me is the change in the balance sheet structure in terms of how capital is used. Alphabet is leaving behind, at least partially, the extremely liquid and *asset-light* balance sheet that historically characterized it, to allocate an ever-larger share of its resources to the physical assets needed for AI and Cloud. What remains in question is the return on these investments, which I will try to address later on.

Cash Flow Statement

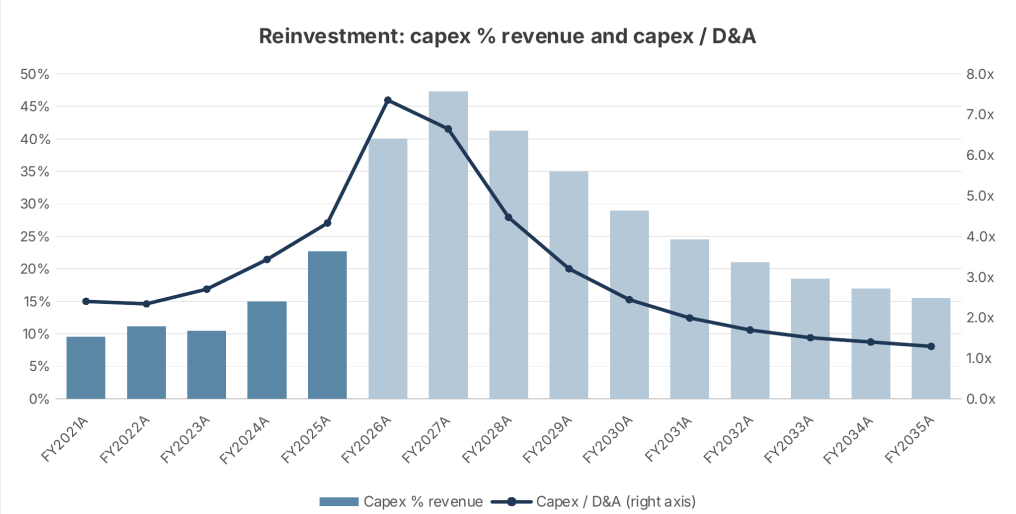
Fiscal year Cash Flow — % of revenue	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Net Income	**21.6%**	**11.4%**	**22.5%**	**21.2%**	**22.1%**	**29.5%**	**21.2%**	**24.0%**	**28.6%**	**32.8%**	**28.5%**	**27.2%**
Depreciation & Amortization	5.8%	5.5%	6.0%	6.7%	7.1%	4.0%	4.8%	3.9%	4.4%	5.2%	**4.5%**	**4.5%**
Amortization of Goodwill and Intangible Assets	0.9%	0.7%	0.6%	0.5%	0.4%	–	–	–	–	–	–	–
Total Depreciation & Amortization	**6.8%**	**6.2%**	**6.6%**	**7.2%**	**7.5%**	**4.0%**	**4.8%**	**3.9%**	**4.4%**	**5.2%**	**4.5%**	**4.5%**
(Gain) Loss on Sale of Investments	0.1%	0.0%	(4.9%)	(1.7%)	(3.5%)	(4.8%)	2.0%	0.3%	(0.8%)	(6.1%)	**(2.2%)**	**(1.9%)**
Asset Writedown & Restructuring Costs	0.0%	0.0%	0.0%	0.1%	0.0%	–	–	–	–	–	–	–
Stock-Based Compensation	7.4%	6.9%	6.8%	6.7%	7.1%	6.0%	6.8%	7.3%	6.5%	6.2%	**6.7%**	**6.6%**
Other Operating Activities	0.4%	0.5%	0.4%	(0.3%)	1.5%	1.5%	(1.6%)	(1.1%)	(0.5%)	2.6%	**0.3%**	**0.2%**
Change In Accounts Receivable	(2.9%)	(3.4%)	(1.6%)	(2.7%)	(3.6%)	(3.5%)	(0.8%)	(2.5%)	(1.7%)	(2.2%)	**(2.1%)**	**(2.2%)**
Change In Accounts Payable	0.1%	0.7%	0.8%	0.3%	0.4%	0.1%	0.2%	0.2%	0.1%	0.2%	**0.2%**	**0.2%**
Change in Unearned Revenues	0.2%	0.4%	0.3%	0.0%	0.3%	0.3%	0.1%	0.2%	0.3%	0.6%	**0.4%**	**0.3%**
Change In Income Taxes	3.5%	7.4%	(1.6%)	(1.9%)	0.7%	(0.2%)	0.2%	0.2%	(0.7%)	(0.8%)	**(0.4%)**	**(0.3%)**
Change in Other Net Operating Assets	2.7%	3.3%	5.8%	4.8%	3.2%	2.8%	(0.6%)	0.7%	(0.4%)	2.3%	**0.9%**	**1.0%**
Cash from Operations	**39.9%**	**33.5%**	**35.1%**	**33.7%**	**35.7%**	**35.6%**	**32.3%**	**33.1%**	**35.8%**	**40.9%**	**36.6%**	**35.5%**
Memo: Change in Net Working Capital	3.7%	8.3%	3.6%	0.5%	1.0%	(0.6%)	(0.8%)	(1.3%)	(2.4%)	0.2%	**(1.2%)**	**(1.0%)**
Capital Expenditure	(11.3%)	(11.9%)	(18.4%)	(14.5%)	(12.2%)	(9.6%)	(11.1%)	(10.5%)	(15.0%)	(22.7%)	**(16.1%)**	**(13.8%)**
Sale of Property, Plant, and Equipment	0.3%	0.1%	–	–	–	–	–	–	–	–	–	–
Cash Acquisitions	(1.1%)	(0.3%)	(1.1%)	(1.6%)	(0.4%)	(1.0%)	(2.5%)	(0.2%)	(0.8%)	(0.4%)	**(0.5%)**	**(1.0%)**
Investment in Marketable and Equity Securities	(20.2%)	(17.5%)	(1.4%)	(2.5%)	(5.4%)	(3.4%)	5.9%	2.2%	3.6%	(6.2%)	**(0.1%)**	**0.4%**
Other Investing Activities	(2.2%)	1.3%	0.1%	0.4%	0.0%	0.2%	0.6%	(0.3%)	(0.8%)	(0.6%)	**(0.6%)**	**(0.2%)**
Cash from Investing	**(34.5%)**	**(28.3%)**	**(20.8%)**	**(18.2%)**	**(18.0%)**	**(13.8%)**	**(7.2%)**	**(8.8%)**	**(13.0%)**	**(29.9%)**	**(17.2%)**	**(14.5%)**
Total Debt Issued	**9.7%**	**3.9%**	**4.9%**	**0.2%**	**6.4%**	**7.8%**	**18.7%**	**3.5%**	**3.9%**	**16.0%**	**7.8%**	**10.0%**
Total Debt Repaid	**(11.1%)**	**(3.9%)**	**(5.0%)**	**(0.4%)**	**(1.2%)**	**(8.3%)**	**(19.1%)**	**(3.8%)**	**(3.6%)**	**(8.0%)**	**(5.1%)**	**(8.6%)**
Repurchase of Common Stock	(4.1%)	(4.4%)	(6.6%)	(11.4%)	(17.1%)	(19.5%)	(21.0%)	(20.0%)	(17.8%)	(11.3%)	**(16.4%)**	**(17.9%)**
Common Dividends Paid	–	–	–	–	–	–	–	–	(2.1%)	(2.5%)	**(1.5%)**	**(0.9%)**
Common & Preferred Stock Dividends Paid	–	–	–	–	–	–	–	–	(2.1%)	(2.5%)	**(1.5%)**	**(0.9%)**
Other Financing Activities	(3.7%)	(3.0%)	(3.0%)	(2.8%)	(1.6%)	(3.8%)	(3.3%)	(3.2%)	(3.2%)	(3.4%)	**(3.3%)**	**(3.4%)**
Cash from Financing	**(9.2%)**	**(7.5%)**	**(9.6%)**	**(14.3%)**	**(13.4%)**	**(23.8%)**	**(24.7%)**	**(23.5%)**	**(22.8%)**	**(9.3%)**	**(18.5%)**	**(20.8%)**
Foreign Exchange Rate Adjustments	(0.2%)	0.4%	(0.2%)	(0.0%)	0.0%	(0.1%)	(0.2%)	(0.1%)	(0.2%)	0.1%	**(0.1%)**	**(0.1%)**
Net Change in Cash	**(4.0%)**	**(2.0%)**	**4.4%**	**1.1%**	**4.4%**	**(2.1%)**	**0.3%**	**0.7%**	**(0.2%)**	**1.8%**	**0.8%**	**0.1%**

Source: author's analysis.

The Cash Flow Statement makes the change we are seeing at Alphabet even clearer. **Cash From Operations (CFO) is at its highest levels** (40.9% of sales in 2025), which means the underlying business is at its best.

The change shows up in what Alphabet does with that money: **capex went from 11% of sales in 2016 to almost 23% in 2025**, reflecting the sharp increase in investment in datacenters, servers, chips and networking. This is the main reason why, even though CFO improved, the Free Cash Flow Margin went from 28.6% in 2016 to 18.2% in 2025.

In 2026 the trend deepened: in the first nine months CFO was $127,149 million and capex $131,953 million, which means **cumulative free cash flow is already negative**. Capex guidance for the full year 2026 is $195,000 to $205,000 million, implying between $63,000 and $73,000 million in Q4 alone, and the company has already said 2027 will increase *significantly*.



Source: author's analysis.

There is also a major change in how Alphabet funds itself: in 2025 debt issuance reached 16% of sales, considerably higher than in recent years. At the same time, share buybacks fell from an average of 20% of sales in recent years to 11% in 2025 and, **in the first nine months of 2026, they were simply zero.**

RATIOS

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Growth												
Revenue growth		22.8%	23.4%	18.3%	12.8%	41.2%	9.8%	8.7%	13.9%	15.1%	**12.5%**	**17.7%**
EBIT growth		21.9%	12.7%	10.2%	14.7%	90.9%	(4.9%)	12.6%	33.3%	14.8%	**20.3%**	**29.4%**
Diluted EPS growth		(35.3%)	143.3%	12.3%	19.1%	91.5%	(18.7%)	27.2%	38.6%	34.3%	**33.4%**	**34.6%**
Change in diluted shares (dilution / buybacks)		0.7%	(0.0%)	(0.7%)	(1.6%)	(1.4%)	(2.9%)	(3.3%)	(2.2%)	(1.7%)	**(2.4%)**	**(2.3%)**
Profitability												
Gross margin	61.1%	58.9%	56.5%	55.6%	53.6%	56.9%	55.4%	56.6%	58.2%	59.7%	**58.2%**	**57.4%**
SG&A % revenue	19.4%	17.8%	17.0%	17.3%	15.9%	14.1%	15.0%	14.4%	12.0%	12.5%	**13.0%**	**13.6%**
R&D % revenue	15.5%	15.0%	15.7%	16.1%	15.1%	12.3%	14.0%	14.8%	14.1%	15.2%	**14.7%**	**14.1%**
EBIT margin	26.3%	26.1%	23.8%	22.2%	22.6%	30.6%	26.5%	27.4%	32.1%	32.0%	**30.5%**	**29.7%**
EBITDA margin (EBIT + D&A)	33.0%	32.3%	30.4%	29.4%	30.1%	34.5%	31.2%	31.3%	36.5%	37.3%	**35.0%**	**34.2%**
Net margin	21.6%	11.4%	22.5%	21.2%	22.1%	29.5%	21.2%	24.0%	28.6%	32.8%	**28.5%**	**27.2%**
Stock-based compensation % revenue	7.4%	6.9%	6.8%	6.7%	7.1%	6.0%	6.8%	7.3%	6.5%	6.2%	**6.7%**	**6.6%**
Effective tax rate	19.3%	53.4%	12.0%	13.3%	16.2%	16.2%	15.9%	13.9%	16.4%	16.8%	**15.7%**	**15.9%**
Cash flow & reinvestment												
Cash from operations % revenue	39.9%	33.5%	35.1%	33.7%	35.7%	35.6%	32.3%	33.1%	35.8%	40.9%	**36.6%**	**35.5%**
FCF margin (TIKR FCF / revenue)	28.6%	21.6%	16.7%	19.1%	23.5%	26.0%	21.2%	22.6%	20.8%	18.2%	**20.5%**	**21.8%**
FCF conversion (FCF / net income)	132.6%	188.8%	74.3%	90.2%	106.4%	88.1%	100.1%	94.2%	72.7%	55.4%	**74.1%**	**82.1%**
Capex % revenue	11.3%	11.9%	18.4%	14.5%	12.2%	9.6%	11.1%	10.5%	15.0%	22.7%	**16.1%**	**13.8%**
D&A % revenue	6.8%	6.2%	6.6%	7.2%	7.5%	4.0%	4.8%	3.9%	4.4%	5.2%	**4.5%**	**4.5%**
Capex / D&A	1.7x	1.9x	2.8x	2.0x	1.6x	2.4x	2.3x	2.7x	3.4x	4.3x	**3.5x**	**3.0x**
D&A % beginning net PP&E		20.2%	21.3%	19.5%	16.2%	10.6%	12.2%	9.4%	10.3%	11.4%	**10.4%**	**10.8%**
Acquisitions % revenue	1.1%	0.3%	1.1%	1.6%	0.4%	1.0%	2.5%	0.2%	0.8%	0.4%	**0.5%**	**1.0%**

Source: author's analysis.

Fiscal year	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	3Y avg	5Y avg
Returns on capital												
NOPAT = EBIT × (1 − normalized tax rate)	19,817	24,161	27,237	30,022	34,447	65,774	62,538	70,436	93,914	107,826	**90,725**	**80,097**
Invested capital = debt + equity − cash & ST inv.	56,638	54,600	72,500	97,849	113,722	140,494	172,359	202,250	259,864	355,418	**272,511**	**226,077**
ROIC = NOPAT / average invested capital		43.4%	42.9%	35.2%	32.6%	51.7%	40.0%	37.6%	40.6%	35.0%	**37.8%**	**41.0%**
ROIC incl. cash = NOPAT / average (debt + equity)		16.1%	16.1%	15.0%	14.7%	24.8%	22.1%	23.5%	28.1%	25.7%	**25.8%**	**24.8%**
Pre-tax ROIC = EBIT / average invested capital (reference)		52.0%	51.3%	42.2%	39.0%	61.9%	47.8%	45.0%	48.6%	41.9%	**45.2%**	**49.1%**
ROE = net income / average equity		8.7%	18.6%	18.1%	19.0%	32.1%	23.6%	27.4%	32.9%	35.7%	**32.0%**	**30.3%**
ROA = net income / average total assets		6.9%	14.3%	13.5%	13.5%	22.4%	16.6%	19.2%	23.5%	25.3%	**22.7%**	**21.4%**
Leverage & liquidity												
Net debt (debt − cash & ST inv.)	(82,398)	(97,902)	(105,128)	(103,593)	(108,822)	(111,141)	(83,785)	(81,129)	(65,220)	(59,847)	**(68,732)**	**(80,224)**
Net debt / EBITDA	(2.8x)	(2.7x)	(2.5x)	(2.2x)	(2.0x)	(1.2x)	(0.9x)	(0.8x)	(0.5x)	(0.4x)	**(0.6x)**	**(0.8x)**
Interest coverage (EBIT / interest expense)	191.3x	265.3x	285.9x	359.3x	305.4x	227.5x	209.6x	273.7x	419.4x	175.3x	**289.5x**	**261.1x**
Debt / (debt + equity), book	2.8%	2.5%	2.2%	7.4%	11.1%	10.2%	10.5%	9.5%	8.6%	13.9%	**10.7%**	**10.5%**
Current ratio	6.29	5.14	3.92	3.37	3.07	2.93	2.38	2.10	1.84	2.01	**1.98**	**2.25**
Shareholder returns & market valuation (TIKR, at fiscal year end)												
Dividends + buybacks % FCF	14.3%	20.3%	39.7%	59.4%	72.7%	75.0%	98.8%	88.5%	95.6%	76.1%	**86.7%**	**86.8%**
EV / EBITDA	15.4x	17.7x	14.9x	17.2x	19.7x	20.3x	12.0x	17.3x	17.7x	24.8x	**19.9x**	**18.4x**
EV / revenue	5.1x	5.7x	4.5x	5.0x	5.9x	7.0x	3.7x	5.4x	6.5x	9.3x	**7.0x**	**6.4x**
P/E	27.7x	57.6x	23.5x	26.9x	29.4x	25.3x	19.1x	23.8x	23.2x	28.6x	**25.2x**	**24.0x**
FCF yield (FCF / market cap)	4.8%	3.3%	3.2%	3.4%	3.6%	3.5%	5.2%	4.0%	3.1%	1.9%	**3.0%**	**3.6%**

Source: author's analysis.

Liquidity

The liquidity position is still very solid, although clearly weaker than in the early years of the series: the current ratio went from 6.3x in 2016 to 2.0x in 2025. This trend is related to everything we already saw on the balance sheet: Alphabet gradually reduced the relative weight of cash and short-term investments while allocating a large part to productive assets and infrastructure.

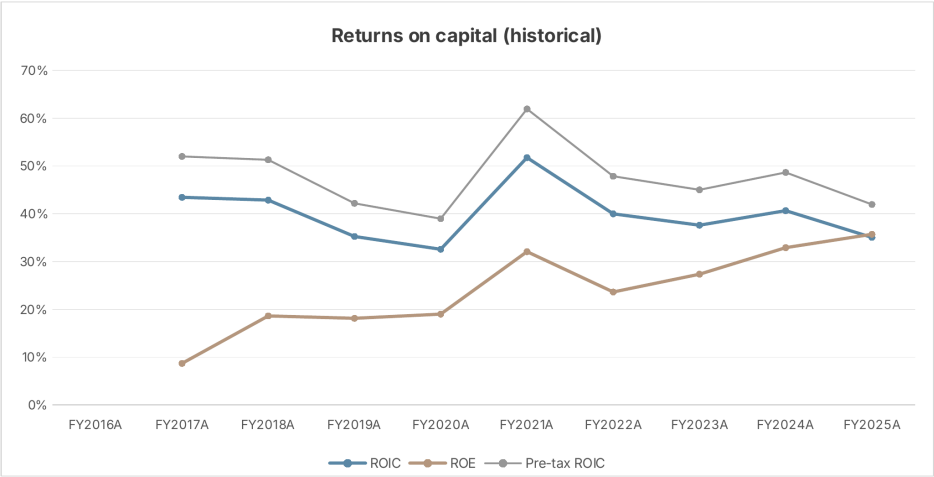
Solvency

Here we also see the relative increase in leverage. Debt (including leases) went from 2.8% of book invested capital in 2016 to 13.9% in 2025. Even so, these ratios remain very low in absolute terms: **debt represents only 0.45x EBITDA, the company has net cash and EBIT covers interest 175 times.** With the debt issued in 2026 these numbers get worse, but they are still very far from any worrying level.

Profitability

Profitability levels are excellent. ROA went from around 13–14% for much of the previous decade to 25.3% in 2025, while ROE rose to 35.7%.

ROIC is probably the most relevant ratio for analyzing Alphabet in the current context. It peaked at 51.7% in 2021 and closed 2025 at 35.0%, still at extraordinary levels and well above the company's cost of capital. If we include cash within invested capital (ROIC incl. cash), the ratio was 25.7% in 2025, compared with 16.1% in 2017.



Source: author's analysis.

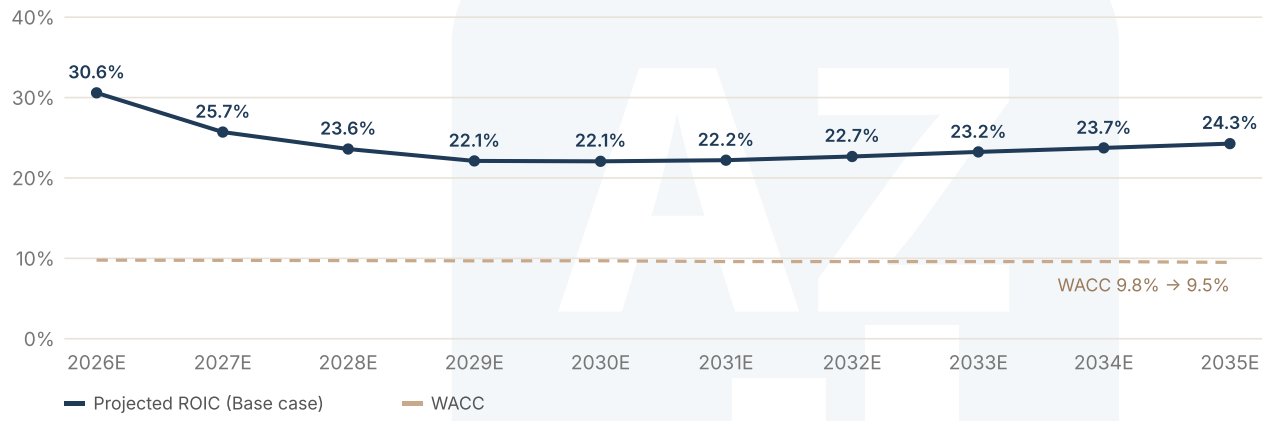
It is hard to calculate precisely what ROIC will be over the next 10 years, but with the model's Base Case projections I think it should evolve roughly as follows:

	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	164,840	215,691	267,451	307,568	352,589	391,374	428,555	462,839	492,924	520,034
NOPAT	137,742	179,739	222,259	254,893	291,396	322,554	352,216	379,333	402,861	423,828
Net PP&E	434,620	689,471	937,848	1,152,445	1,324,868	1,461,195	1,566,531	1,648,434	1,716,606	1,768,576
Net working capital	-19,788	-25,641	-31,333	-35,757	-40,094	-44,158	-48,353	-51,811	-55,179	-57,754
Acquired capital [Wiz + Intersect]	35,400	35,400	35,400	35,400	35,400	35,400	35,400	35,400	35,400	35,400
Invested capital	**450,233**	**699,230**	**941,914**	**1,152,087**	**1,320,174**	**1,452,437**	**1,553,578**	**1,632,023**	**1,696,827**	**1,746,222**
ROIC [NOPAT / Invested capital]	30.6%	25.7%	23.6%	22.1%	22.1%	22.2%	22.7%	23.2%	23.7%	24.3%
WACC	9.8%	9.7%	9.7%	9.7%	9.7%	9.6%	9.6%	9.6%	9.6%	9.5%
Value spread [ROIC – WACC]	20.8%	16.0%	13.9%	12.4%	12.4%	12.6%	13.1%	13.6%	14.1%	14.8%

Figures in millions of dollars. Source: author's analysis.

Note: I am not looking for an exact accounting measure here, but rather an approximation to visualize how return on capital could evolve over the coming years.

For the projected period I expect ROIC to contract because of the enormous amount of money going into building out infrastructure in this new phase: it goes from just over 30% in 2026 to a floor of around 22% between 2029 and 2031, and only then starts to recover gradually. Even so, the levels are very good: **Alphabet's WACC (calculated in the valuation section) goes from 9.8% to 9.5%, so value creation remains significant even after these investments.**



Source: author's analysis.

SECTION 04

Management and capital allocation

MANAGEMENT TEAM

Sundar Pichai, CEO

He joined Google in 2004. In 2015 he became CEO of Google and in 2019 CEO of Alphabet. Before reaching the top job he led products such as Chrome, Android and other core parts of the ecosystem.

I would split his tenure into two stages. The first consisted of scaling and monetizing Google's existing assets, while Cloud gradually became a profitable business. The second began with the launch of ChatGPT and the paradigm shift toward generative AI. At first Alphabet seemed to be reacting to OpenAI and Microsoft, but today the situation is quite different. Gemini is integrated into practically the entire ecosystem, the app already has more than 1,000 million users, Cloud is growing very strongly and Google uses its own infrastructure to develop TPUs.

Today the narrative that Google had fallen behind in the AI race has become unconvincing.

Anat Ashkenazi, CFO

She has been CFO of Alphabet and Google since July 2024. She previously spent more than 20 years at Eli Lilly, where she rose to CFO.

Her arrival coincides with a key stage for Alphabet, marked by a sharp increase in capex, greater use of debt and changes in capital allocation. That is why it will be especially important to follow how she manages the balance sheet and whether today's huge investments generate returns clearly above the cost of capital.

SKIN IN THE GAME

Sundar Pichai directly owned some 227,560 shares according to the 2026 proxy. There is one detail of his compensation that I find particularly interesting. The pay granted in 2026 includes awards whose value depends specifically on the appreciation of Waymo and Wing over a three-year period. The target assigned to those units is approximately $130 million for Waymo and $45 million for Wing. This forces Alphabet's management to think of Other Bets as businesses that must create real economic value, not just as experiments funded indefinitely by Search.

That said, **the truly extraordinary alignment with shareholders lies with the founders**: Larry Page controlled approximately 27.4% of the voting power and Sergey Brin 25.3%, so together they hold around 52.7% of the voting power. It is hard to find a megacap where the founders keep that much influence almost three decades after creating the company.

CAPITAL ALLOCATION

As for how management uses capital, overall I would rate it as very good allocation, although obviously not perfect.

Historically Alphabet used free cash flow to fund R&D, keep a conservative balance sheet and buy back large amounts of stock. Although Other Bets consumes billions without visible returns, I find the bet interesting and think it is worth it. In fact, today the possibility that Waymo becomes an important asset is very real.

The current situation deserves a different assessment. Alphabet is spending enormous amounts of money on acquisitions (such as Wiz for $32,000 million) and on capex (close to $200,000 million for 2026). And, for the first time, the business cannot fund all of that on its own. In the first nine months of 2026:

- It did not buy back a single share, compared with $39,810 million in the same period of 2025.
- It issued $28,700 million of bonds, net, and long-term debt went from $46,547 million to $125,102 million.
- It placed $19,100 million of mandatory convertible preferred stock with a 6.25% dividend.
- It sold shares in the market (ATM program) for about $12,400 million. Shares outstanding went from 12,097 million to 12,294 million: after a decade of reducing them, they are now increasing.
- It kept the dividend, which is currently $0.22 per quarter.

My view is that the decision by Alphabet and the rest of the Magnificent Seven to invest large amounts of money in what may be one of the most important technological revolutions is logical. This shift brings with it a restructuring of these companies, which have gone from being *asset-light* to having a large base of depreciating assets. But I believe it is part of what they must do to defend their competitive advantages or even widen them. What does change is the bar: with dilution and debt involved, every dollar invested has to earn more than before.

SECTION 05

Competitive position

MOAT

Alphabet has several overlapping competitive advantages.

- ***Network effects:*** Search improves with more users, more searches, more information and more advertisers. Advertisers go where consumers are, and consumers use the best search engine.
- ***Intangible assets:*** Google, YouTube, Android, Chrome, Gmail and Maps are among the best-known digital brands in the world. Habit also works as an intangible: to "google" something is behavior ingrained over decades.
- ***Scale:*** very few companies can afford to invest $200,000 million a year in infrastructure and, at the same time, fund models, in-house chips, datacenters, consumer products and a global sales network. Scale allows Alphabet to spread those costs across billions of users and customers.
- ***Data:*** Alphabet is among the companies with the most data in the world. It has information on searches, videos, maps, browsing, advertising and consumer behavior.
- ***Switching costs:*** while in Search they are relatively low because switching to another search engine takes seconds, the edge lies in usage habits thanks to the quality and breadth of the search engine. In Cloud and Workspace switching costs are much higher, since migrating data, applications, security and entire processes from one provider to another is more complex and costly. Cloud's $561,000 million backlog is, to a large extent, a reflection of those switching costs.
- ***Costs?*** TPUs could become an increasingly visible advantage. Alphabet does not depend solely on third-party GPUs. If it can deliver inference and training at a lower cost, that advantage can carry over to Search, Gemini and Cloud simultaneously. And since this year, it also sells them to third parties.

WHERE WILL THE AI MOAT REALLY BE?

My view is that, over time, AI models could tend to look more and more alike. That does not mean Gemini, ChatGPT, Claude or even open-source models are a commodity or identical, but I do think quality differences will probably narrow and become less and less durable. I don't see a moat in this type of product.

If that happens, I think the real competitive advantage will lie less in the model itself and more in the infrastructure and in the products where that model can be integrated.

In this sense, Alphabet starts from a privileged position. Billions of people use Search, Android, Chrome, Gmail, Maps, YouTube, Workspace and other products every day. As Gemini is integrated into those applications, users will not necessarily have to decide to use an AI model; they will simply start using it as one more feature within products that are already part of their daily lives. Something similar is happening with Microsoft and Copilot.

Companies without that kind of owned distribution will probably have to follow a different strategy. Companies such as OpenAI or Anthropic can develop their own products, but they also have incentives to integrate with existing platforms and software companies, providing the model while third parties provide distribution, data and the relationship with the end user.

That is why I don't think the AI race will be decided solely by who has the best model. **The advantage may end up lying with whoever has the best "highways" to run it and distribute it.** Alphabet has both: on the one hand, the physical infrastructure through datacenters, TPUs and Google Cloud and, on the other, one of the largest digital distribution networks in the world.

If this hypothesis is correct, AI would not necessarily weaken Alphabet's moat. It could even deepen it, because it would allow the company to simultaneously improve products that already have billions of users and use the same infrastructure to monetize AI both within its own services and through Google Cloud.

MARKET SHARE

- ***Search:*** Google held approximately 91.3% of the global search engine market in July 2026. Bing was close to 4.5%. The threat is not Bing reaching a 20% share; the odds of that are tiny. The threat is that a significant portion of traditional searches migrates to ChatGPT, Claude or other models and changes the shape of the market.
- ***Cloud:*** Google Cloud reached roughly a 15% share in Q2 2026, compared with 13% a year earlier. However, it is still third in this market, behind AWS at 28% and Azure at 20%.
- ***YouTube:*** there is no single metric, since it competes simultaneously against social networks, television and streaming. According to Nielsen, in May 2026 it accounted for almost 14% of all time spent watching TV in the United States.

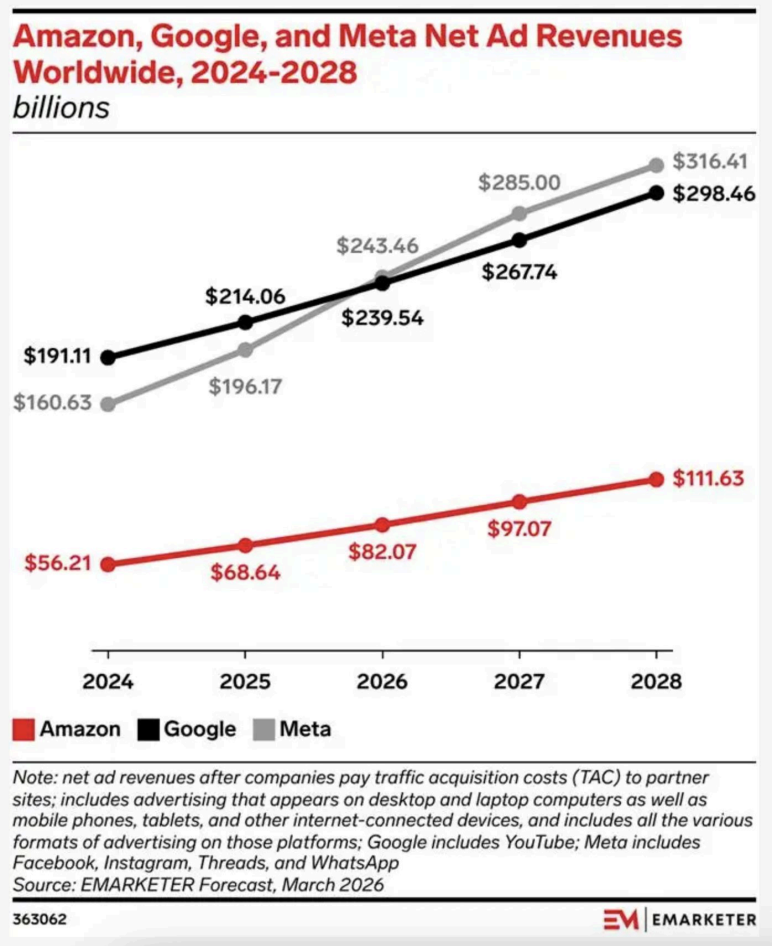
TAM (TOTAL ADDRESSABLE MARKET)

Alphabet operates in several markets at once. The US digital advertising market reached $294,600 million in 2025 and grew 13.9%. The global advertising market is estimated to reach around $1.3 trillion in 2026, growing close to 9%. The cloud market reached $143,000 million in Q2 2026 alone and was growing 43% year over year.

To that we can add enterprise software, cybersecurity, digital subscriptions, AI, chip sales, devices and eventually autonomous mobility. Therefore, **Alphabet's problem is not its TAM, but how much of future growth it can capture while keeping high returns on capital.**

MAIN COMPETITORS

- ***Meta:*** probably the most direct comparable in digital advertising. It competes for advertising budgets and user time. According to eMarketer, Meta would overtake Google in digital advertising revenue in 2026: they estimate Google captures 26.4% of digital ad spending and that Meta would surpass it with 26.8%. Amazon is third with 9%. Together, the three companies would control 62.3% of total digital ad spending.



Source: eMarketer.

- ***Microsoft:*** the most complete rival. It competes in Cloud through Azure, in productivity through Microsoft 365, in AI through its own products and partnerships, in search through Bing and in browsers through Edge.
- ***Amazon:*** AWS remains the leader of the cloud market. It has also become an increasingly important competitor in advertising, especially in searches directly tied to purchase intent.
- ***OpenAI and other AI labs:*** they do not compete perfectly with Alphabet, but they are probably the most important technological threat. They can become an alternative for certain types of searches. At the same time, several of them are also customers of Google Cloud and its TPUs.
- ***TikTok and social platforms:*** they compete mainly against YouTube for attention and advertising.

COMPARISON WITH MAIN COMPETITORS

Ticker	Market Cap	Revenue 3Y CAGR	Operating Margin	Free Cash Flow Margin	Return on Invested Capital	CapEx to Revenue	Net Debt / EBITDA	Forward EV/EBITDA	Forward P/E
GOOGL	$4,128,474.12M	15.5%	33.1%	11.9%	23.4%	0.3	-0.7	19.0	29.9
AMZN	$2,801,960.68M	13.0%	12.1%	-1.5%	10.2%	0.2	0.8	13.7	33.5
MSFT	$3,766,904.97M	16.1%	46.8%	20.2%	21.0%	0.3	0.3	15.1	24.5
META	$1,458,039.71M	23.7%	38.1%	18.0%	24.6%	0.4	0.2	12.1	22.2

Source: Fiscal.ai (data as of September 2026).

Before comparing, it should be noted that Amazon, Microsoft and Meta are not perfect comparables for Alphabet. Each has a different business mix, so some metrics may be shaped by the nature of their operations. Even so, I think the exercise is useful to compare growth, profitability, capital intensity, financial strength and valuation.

Alphabet has a fairly balanced profile. Its revenue grew at a 15.5% CAGR over the last three years, practically in line with Microsoft (16.1%), above Amazon (13.0%), although well below Meta (23.7%). In terms of profitability, its 33.1% operating margin remains extraordinary, although it is below Microsoft (46.8%) and Meta (38.1%).

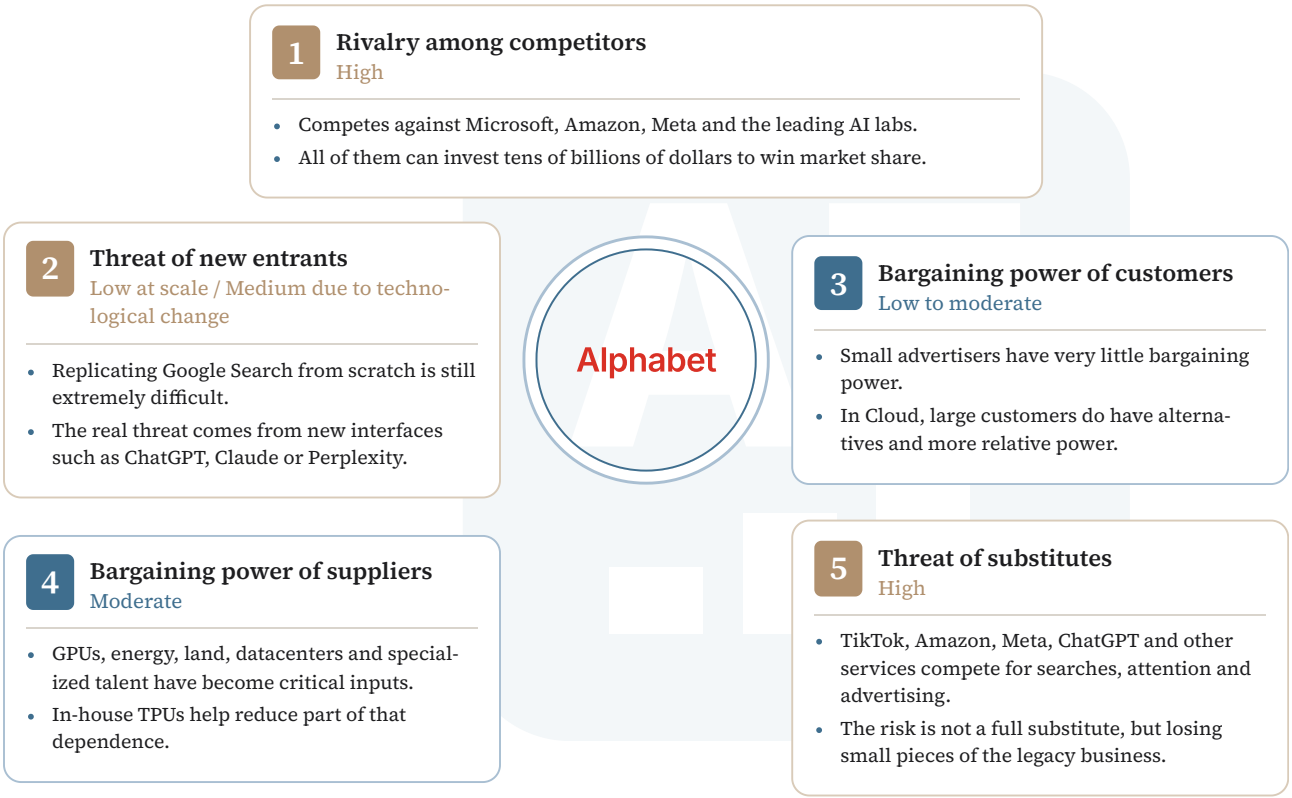
The most obvious difference is in free cash flow. Alphabet showed an 11.9% FCF margin, compared with 20.2% for Microsoft and 18.0% for Meta, and after Q3 the gap is even wider: trailing twelve-month FCF fell to about $19,700 million. This is not due to a deterioration of the operating business, but to the huge investment cycle we have been analyzing throughout this report.

Alphabet's ROIC (using Fiscal.ai's methodology) was an excellent 23.4%, very close to Meta's 24.6% and above Microsoft's 21.0% and Amazon's 10.2%. On the balance sheet, Alphabet is also in a privileged position: it still has net cash, while the other three comparables have positive net debt.

On valuation, at current prices and based on the model's projections, Alphabet trades at about 17x 2026 EBITDA and about 12.5x 2027 EBITDA, and at about 19x consensus 2027 EPS. It is not expensive for the quality of the business, but it is not a bargain either, especially considering that free cash flow over the next two years will be negative.

PORTER'S FIVE FORCES

Alphabet still has an extraordinary competitive position, but AI has raised competitive intensity and increased the risk of substitution in search, advertising and software.



Source: author's analysis.

SWOT

STRENGTHS

- Global dominance in Search
- Ecosystem with billions of users
- Extraordinary margins
- Extremely solid balance sheet
- YouTube and Cloud as additional drivers
- In-house infrastructure and chips
- Huge distribution capacity for Gemini

WEAKNESSES

- High dependence on advertising
- Ever-higher capex
- Other Bets keeps losing money
- Regulatory complexity
- Significant stock-based compensation

Alphabet

OPPORTUNITIES

- Google Cloud growth
- Gemini monetization
- External TPU sales
- Waymo
- Subscription growth
- AI applied to advertising
- Higher YouTube monetization

THREATS

- OpenAI and new search interfaces
- AWS and Azure
- Regulation and antitrust
- Commoditization of AI models
- Overinvestment in infrastructure
- Meta and retail media
- Structural increase in cost per query

Source: author's analysis.

SECTION 06

Bulls vs. bears

Rarely has the debate about Alphabet been as split as after Q3 2026. The same results were used to argue both positions: record revenue and Cloud doubling, but negative free cash flow, more debt, more shares and a Search business that is slowing down. Before getting into the valuation, it is worth laying out the arguments on each side.

What do the bulls say?

Cloud is already a second driver. It grew 103% in Q3, with a 36% margin and a $561,000 million backlog, slightly more than half of which will be recognized within two years. Much of the capex already has contracted demand.

TPUs could be a business in their own right. Alphabet expects a strong increase in TPU system sales in 2027. Some analysts estimate external TPU sales of $75,000 million in 2027 (Evercore) and around $100,000 million in 2028 (Piper Sandler).

Search is not dying. It grew 12% in Q3 2026, queries are growing at their fastest pace in five years and management argues that AI Mode's lower monetization is a timing issue. Gemini already has more than 1,000 million users.

Distribution is unmatched. No AI lab has Android, Chrome, YouTube and Workspace to reach billions of people without asking them to change their habits.

There are options the price does not reflect. Waymo, a portfolio of non-marketable investments worth more than $135,000 million, and net cash.

What do the bears say?

Capex has no ceiling. It went from $32,000 million in 2023 to close to $200,000 million in 2026, and the CFO has already signaled another significant increase for 2027. Some estimates put it above $300,000 million.

Free cash flow has disappeared. It was negative in Q3 and the last twelve months add up to just $19,700 million. To fund the investment, Alphabet halted buybacks and issued debt, preferred stock and shares.

Search is searching more, but monetizing less. Growth fell from 19% to 12% during the year and the company acknowledged that AI Mode monetizes less than traditional search: paid clicks grew only 8% in Q3. If people stop clicking, the group's most profitable business could lose margin, not to mention the risk that part of searches migrate to other AI assistants.

Depreciation will weigh. It grew 49% in Q3 and the consolidated operating margin fell to 31.8%. With servers depreciated over six years, that cost will keep rising for several years.

ROIC will come down. Even if it stays above the cost of capital, the incremental return on each dollar invested is much lower than that of the *asset-light* Alphabet.

Who is right? Probably both, in part. The bulls are right that the business has never been better positioned. The bears are right that it has never needed so much capital to grow. The valuation that follows tries to put numbers on that tension.

SECTION 07

Valuation

Before getting into the model's numbers, it is worth clarifying something that, in Alphabet's case, I think is especially important.

Over the next three years, Base Case free cash flow is negative: capex from 2026 to 2028 ($200,000, $300,000 and $320,000 million) exceeds NOPAT in each year. This means that **almost all of Alphabet's value depends on what happens after 2028**: on that infrastructure starting to generate revenue, on capex normalizing and on margins holding up with a much larger asset base. In the DCF, about three quarters of the value comes from the terminal value, that is, from what the company generates after 2035.

That is why the scenarios do not differ so much in growth over the next two years, which is largely already contracted in the backlog, but in two questions: **how much capital Alphabet will need and what margin it can sustain once the depreciation of everything it is building hits the P&L.**

MODEL INPUTS AND ASSUMPTIONS

The model is a DCF with two valuation methods: constant-growth perpetuity and an exit multiple on EBITDA. Explicit projections cover ten years (2026 to 2035). For the first three years of the Base Case, revenue growth is anchored to the Tikr analyst consensus (24%, 27% and 22.2%) and capex to official guidance: the midpoint of $195,000–205,000 million for 2026 and the "significant" increase announced for 2027. Each driver has three versions: Best Case, Base Case and Worst Case.

2. Operating drivers by scenario (explicit forecast)

Driver	Δ vs Base	FY2023A	FY2024A	FY2025A	3Y avg	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
Forecast year #						*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Revenue growth ▸ selected scenario		8.7%	13.9%	15.1%	**12.5%**	**24.0%**	**27.0%**	**22.2%**	**15.0%**	**13.0%**	**11.0%**	**9.5%**	**8.0%**	**6.5%**	**5.5%**
Best case	1.4%					24.5%	29.0%	24.2%	17.0%	15.0%	12.5%	11.0%	9.0%	7.5%	6.0%
Base case						24.0%	27.0%	22.2%	15.0%	13.0%	11.0%	9.5%	8.0%	6.5%	5.5%
Worst case	(4.5%)					22.0%	17.0%	14.0%	10.0%	8.5%	7.0%	6.0%	5.0%	4.0%	3.0%
Gross margin ▸ selected scenario		56.6%	58.2%	59.7%	**58.2%**	**60.8%**	**59.5%**	**59.5%**	**60.0%**	**60.5%**	**61.0%**	**61.0%**	**61.5%**	**61.5%**	**62.0%**
Best case	1.4%					61.0%	60.5%	61.0%	61.5%	62.0%	62.5%	63.0%	63.0%	63.5%	63.5%
Base case						60.8%	59.5%	59.5%	60.0%	60.5%	61.0%	61.0%	61.5%	61.5%	62.0%
Worst case	(2.3%)					60.5%	58.0%	57.5%	57.5%	58.0%	58.0%	58.5%	58.5%	59.0%	59.0%
EBIT margin ▸ selected scenario		27.4%	32.1%	32.0%	**30.5%**	**33.0%**	**34.0%**	**34.5%**	**34.5%**	**35.0%**	**35.0%**	**35.0%**	**35.0%**	**35.0%**	**35.0%**
Best case	2.5%					33.3%	35.5%	36.5%	37.0%	37.5%	38.0%	38.0%	38.5%	38.5%	38.5%
Base case						33.0%	34.0%	34.5%	34.5%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Worst case	(4.6%)					32.8%	30.0%	29.0%	29.0%	29.5%	30.0%	30.0%	30.0%	30.0%	30.0%
Capex % of revenue ▸ selected scenario		10.5%	15.0%	22.7%	**16.1%**	**40.0%**	**47.3%**	**41.3%**	**35.0%**	**29.0%**	**24.5%**	**21.0%**	**18.5%**	**17.0%**	**15.5%**
Best case	(1.4%)					38.9%	46.4%	39.8%	33.5%	27.5%	23.0%	19.5%	17.0%	15.5%	14.0%
Base case						40.0%	47.3%	41.3%	35.0%	29.0%	24.5%	21.0%	18.5%	17.0%	15.5%
Worst case	3.4%					41.7%	53.9%	48.1%	38.0%	32.0%	27.0%	23.5%	21.0%	19.5%	18.0%

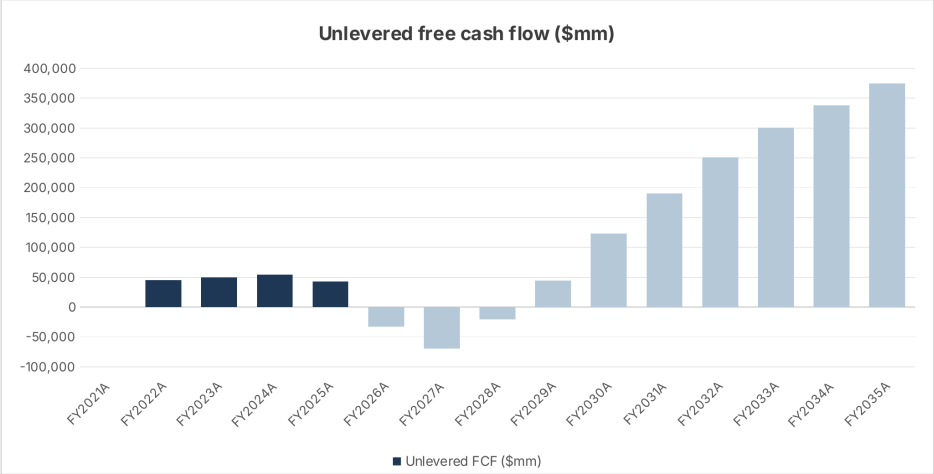
Source: author's analysis.

The three scenarios and their logic

The Base Case is my scenario. Revenue grows in line with consensus through 2028 and then slows gradually to 5.5% in 2035, when Alphabet generates about $1.49 trillion of revenue. Capex peaks at $320,000 million in 2028 and from there falls, as a percentage of sales, from 41% to 15.5%. The operating margin rises from 33% in 2026 to 35% from 2030 onward: Cloud gains weight in the mix and approaches the profitability of Services, but depreciation absorbs much of that improvement. I don't use a higher margin because Q3 showed that depreciation and unallocated AI costs are already squeezing the consolidated margin, and because Search could monetize somewhat less during the transition to AI Mode.

The Best Case assumes growth slightly above consensus (29% in 2027), somewhat less capex relative to sales and higher margins, reaching 38.5%: TPUs and Cloud scale with high margins and operating efficiency offsets depreciation.

The Worst Case is the exact opposite. More capital is required for AI development ($205,000 million in 2026, the top of the guidance, and $310,000 million in 2027), revenue grows at a much slower pace (17% in 2027 and 3% in 2035) and the operating margin contracts to 30% due to pressure on Search from competing AI models. Cloud keeps growing, but cannot make up for it.



Source: author's analysis.

The chart shows what I mentioned at the beginning: three years of negative free cash flow (–$32,700, –$69,300 and –$20,400 million), a still-weak 2029 and, from then on, a strong recovery to about $374,000 million in 2035 (a 25% FCF margin, higher than in 2025).

Discount rate (WACC)

5. Discount rate (WACC)		Value
Risk-free rate		4.9%
Equity beta (levered)	x	1.21
Equity risk premium		4.2%
Country risk premium		–
Cost of equity		10.0%
Pre-tax cost of debt		5.5%
Tax rate (debt tax shield)		18.5%
After-tax cost of debt		4.5%
Market value of equity	$ mm	3,510,183
Total debt	$ mm	141,917
Debt / (Debt + Equity)		3.9%
Equity / (Debt + Equity)		96.1%
WACC		9.8%

6. Enterprise value → Equity value bridge		Value
Total debt incl. leases (–)	$ mm	141,917
Minority interest (–)	$ mm	–
Other claims: preferred, pension deficit... (–)	$ mm	19,000
Cash & short-term investments (+)	$ mm	265,098
Non-operating investments (+)	$ mm	135,230
Net debt & other claims	$ mm	(239,411)

Source: author's analysis.

The starting WACC is 9.8%: a 4.9% risk-free rate (the 10-year Treasury), a beta of 1.21 and a 4.2% equity risk premium, which gives a 10.0% cost of equity. For debt I use a 5.5% pre-tax cost (4.5% after tax), although it weighs less than 4% in the capital structure, so it barely moves the number.

I don't use the same rate for the whole period. **WACC falls gradually from 9.8% in 2026 to 9.5% in 2035, which is also the rate I use to calculate the terminal value.** The reason is that I expect a somewhat lower beta for a more mature Alphabet: with Cloud and Search as two businesses of similar weight, with the investment cycle already normalized and with more predictable cash flows, the stock's risk should look more like that of the market.

WACC	Value
Starting WACC (year 1)	9.8%
Long-run WACC	9.5%
Year # in which the long-run WACC is reached	10.0
Terminal WACC (perpetuity and exit multiple)	9.5%

WACC by year	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
Auto path	9.8%	9.7%	9.7%	9.7%	9.7%	9.6%	9.6%	9.6%	9.5%	9.5%
Override (optional, by year)					9.7%	9.6%	9.6%	9.6%	9.6%	9.5%
WACC used ▸ Model	9.8%	9.7%	9.7%	9.7%	9.7%	9.6%	9.6%	9.6%	9.6%	9.5%

Source: author's analysis.

To go from Enterprise Value to Equity Value I use the September 30, 2026 balance sheet, the most recent one: debt and leases of $141,917 million and $19,000 million of preferred stock as other claims, against $265,098 million of cash and short-term investments and $135,230 million of non-marketable securities. The result is a **positive net position of $239,411 million**. I use the 12,294 million shares outstanding at that date. The tax rate starts at 16.4% (the median of the last three years) and converges to 18.5% over the long term.

WHAT IS ALPHABET WORTH? THE TWO METHODS AND WHAT THEY SAY

4. Terminal value assumptions				
Assumption	**Best**	**Base**	**Worst**	**Selected**
Terminal growth rate (g)	3.0%	2.5%	2.0%	**2.5%**
Exit EV/EBITDA multiple	11.0x	9.0x	7.0x	**9.0x**
Return on new invested capital in perpetuity (RONIC)	35.0%	25.0%	15.0%	**25.0%**

Source: author's analysis.

Method 1: Perpetuity

Discounting the projected cash flows at **each year's WACC** (from 9.8% to 9.5%), with a **9.5% terminal WACC**, a **2.5% terminal growth rate** (3% in the Best Case and 2% in the Worst Case) and a 25% return on new invested capital, we arrive at an Enterprise Value of $3,259,381 million and an Equity Value of $3,498,792 million.

Alphabet Inc.

GOOG · Discounted Cash Flow · Perpetuity Growth Method

Valuation date 6 Nov 2026 · USD mm · Scenario: Base Case

AZ STOCKS Acciones de la A a la Z

INTRINSIC VALUE PER SHARE

$284.59

Current share price	$285.52
Upside / (downside)	(0.3%)

VALUATION SUMMARY

Enterprise value	3,259,381
Equity value	3,498,792
PV of forecast cash flows	806,405
PV of terminal value	2,452,976
Terminal value % of EV	75.3%
Implied exit EV / EBITDA	8.2x

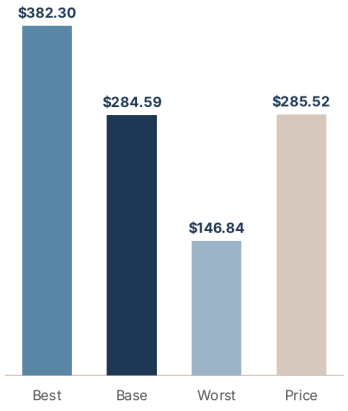
KEY ASSUMPTIONS

WACC (year 1)	9.8%
Terminal WACC	9.5%
Terminal growth (g)	2.5%
RONIC (terminal)	25.0%
Net debt & other claims	(239,411)
Diluted shares (mm)	12,294.0

SCENARIOS

Scenario	Terminal growth	Enterprise value	Equity value	Value per share	Upside
Best case	3.0%	4,460,590	4,700,001	**$382.30**	+33.9%
Base case	2.5%	3,259,381	3,498,792	**$284.59**	(0.3%)
Worst case	2.0%	1,565,881	1,805,292	**$146.84**	(48.6%)
Current share price				*$285.52*	

VALUE PER SHARE VS. CURRENT PRICE



SENSITIVITY · VALUE PER SHARE

Terminal growth rate (g)

WACC / g	1.5%	2.0%	2.5%	3.0%	3.5%
8.8%	$315.98	$328.22	$342.50	$359.37	$379.62
9.3%	$289.98	$299.84	$311.23	$324.50	$340.19
9.8%	$267.41	$275.43	**$284.59**	$295.17	$307.50
10.3%	$247.66	$254.22	$261.67	$270.17	$279.99
10.8%	$230.24	$235.65	$241.74	$248.64	$256.53

SENSITIVITY · UPSIDE / (DOWNSIDE) VS. CURRENT PRICE

Terminal growth rate (g)

WACC / g	1.5%	2.0%	2.5%	3.0%	3.5%
8.8%	+10.7%	+15.0%	+20.0%	+25.9%	+33.0%
9.3%	+1.6%	+5.0%	+9.0%	+13.7%	+19.1%
9.8%	(6.3%)	(3.5%)	**(0.3%)**	+3.4%	+7.7%
10.3%	(13.3%)	(11.0%)	(8.4%)	(5.4%)	(1.9%)
10.8%	(19.4%)	(17.5%)	(15.3%)	(12.9%)	(10.2%)

SENSITIVITY · ENTERPRISE VALUE

Terminal growth rate (g)

WACC / g	1.5%	2.0%	2.5%	3.0%	3.5%
8.8%	3,645,198	3,795,672	3,971,224	4,178,696	4,427,662
9.3%	3,325,625	3,446,881	3,586,791	3,750,020	3,942,927
9.8%	3,048,152	3,146,726	**3,259,381**	3,389,368	3,541,019
10.3%	2,805,267	2,886,005	2,977,509	3,082,085	3,202,749
10.8%	2,591,128	2,657,687	2,732,566	2,817,429	2,914,415

SENSITIVITY STEPS

WACC step (±)	0.5%
Terminal growth step (±)	0.5%

MODEL CHECKS

Status	ALL OK

AZ Stocks · Acciones de la A a la Z *USD millions except per-share data*

Source: author's analysis.

In the **base** scenario, the value per share is **$285**; in the **best**, $382; and in the **worst**, $147. The sensitivity tables show how much the result depends on the discount rate: with a WACC half a point lower, the Base Case rises to $311; with one half a point higher, it falls to $262.

Method 2: Terminal EBITDA multiple

For this method I used the following exit multiples on 2035 EBITDA: **9x in the Base Case, 11x in the Best Case and 7x in the Worst Case.**

At first glance this might look like a low multiple, especially since the average of recent years is around 18x EV/EBITDA. However, what we need to consider is the multiple we will apply to Alphabet at the end of the projection period. That Alphabet would be a company no longer growing at double digits and, in addition, with an enormous asset base: in 2035 depreciation amounts to about $178,000 million, so EBITDA is inflated relative to EBIT. That is why a 10x multiple would already imply perpetual growth close to 4%, which I find too demanding.

Alphabet Inc.

AZ STOCKS Acciones de la A a la Z

GOOG · Discounted Cash Flow · Exit Multiple Method

Valuation date 6 Nov 2026 · USD mm · Scenario: Base Case

INTRINSIC VALUE PER SHARE

$305.30

Current share price	$285.52
Upside / (downside)	+6.9%

VALUATION SUMMARY

Enterprise value	3,513,901
Equity value	3,753,312
PV of forecast cash flows	806,405
PV of terminal value	2,707,496
Terminal value % of EV	77.1%
Implied perpetual growth	3.3%

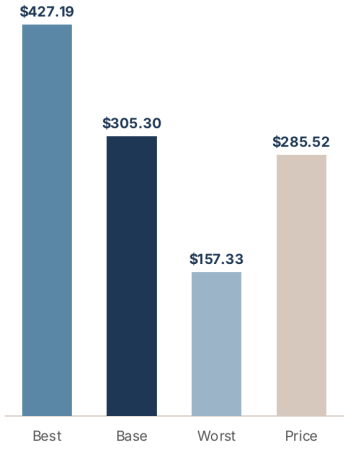
KEY ASSUMPTIONS

WACC (year 1)	9.8%
Terminal WACC	9.5%
Exit EV / EBITDA	9.0x
EBITDA, final forecast year	698,365
Net debt & other claims	(239,411)
Diluted shares (mm)	12,294.0

SCENARIOS

Scenario	Exit multiple	Enterprise value	Equity value	Value per share	Upside
Best case	11.0x	5,012,500	5,251,911	**$427.19**	+49.6%
Base case	9.0x	3,513,901	3,753,312	**$305.30**	+6.9%
Worst case	7.0x	1,694,780	1,934,191	**$157.33**	(44.9%)
Current share price				*$285.52*	

VALUE PER SHARE VS. CURRENT PRICE



SENSITIVITY · VALUE PER SHARE

Exit EV / EBITDA multiple

WACC / multiple	7.0x	8.0x	9.0x	10.0x	11.0x
8.8%	$275.63	$302.24	$328.85	$355.46	$382.07
9.3%	$265.78	$291.29	$316.81	$342.32	$367.84
9.8%	$256.36	$280.83	**$305.30**	$329.77	$354.24
10.3%	$247.34	$270.81	$294.28	$317.76	$341.23
10.8%	$238.71	$261.23	$283.75	$306.27	$328.79

SENSITIVITY · UPSIDE / (DOWNSIDE) VS. CURRENT PRICE

Exit EV / EBITDA multiple

WACC / multiple	7.0x	8.0x	9.0x	10.0x	11.0x
8.8%	(3.5%)	+5.9%	+15.2%	+24.5%	+33.8%
9.3%	(6.9%)	+2.0%	+11.0%	+19.9%	+28.8%
9.8%	(10.2%)	(1.6%)	**+6.9%**	+15.5%	+24.1%
10.3%	(13.4%)	(5.2%)	+3.1%	+11.3%	+19.5%
10.8%	(16.4%)	(8.5%)	(0.6%)	+7.3%	+15.2%

SENSITIVITY · ENTERPRISE VALUE

Exit EV / EBITDA multiple

WACC / multiple	7.0x	8.0x	9.0x	10.0x	11.0x
8.8%	3,149,139	3,476,280	3,803,421	4,130,562	4,457,703
9.3%	3,028,070	3,341,751	3,655,433	3,969,114	4,282,795
9.8%	2,912,235	3,213,068	**3,513,901**	3,814,734	4,115,567
10.3%	2,801,382	3,089,948	3,378,514	3,667,080	3,955,646
10.8%	2,695,273	2,972,124	3,248,975	3,525,826	3,802,678

SENSITIVITY STEPS

WACC step (±)	0.5%
Multiple step (±)	1.0x

MODEL CHECKS

Status	ALL OK

AZ Stocks · Acciones de la A a la Z *USD millions except per-share data*

Source: author's analysis.

With that multiple, we arrive at an Enterprise Value of $3,513,901 million and an Equity Value of $3,753,312 million. In the **base** scenario, the value per share is **$305**; in the **best**, $427; and in the **worst**, $157. The 9x multiple is equivalent to an implied perpetual growth rate of 3.3%.

READING THE TWO METHODS TOGETHER

In the Base Case both methods tell a similar story: $285 by perpetuity and $305 by multiple. **My price target is the average of both: $295 per share, 3.3% above the current price of $285.52.**

The margin of safety is practically zero, which is why I would not add to the position today. The valuation is also asymmetric: the Best Case gives between $382 and $427, but the Worst Case shows that, if capex does not generate the expected returns and Search loses profitability, the stock could be worth between $147 and $157.

A note on shares: the model uses the 12,294 million shares outstanding as of September 30, 2026 and does not project buybacks or new issuance. In 2026 Alphabet stopped buying back stock and issued shares; if dilution continues, the value per share would be somewhat lower than calculated. The convertible preferred shares are subtracted as a claim at their liquidation value.

SECTION 08

Conclusion

Alphabet is, together with Meta, my largest position when it comes to stocks. It is a company in which I have full conviction and one of those I would like to always be invested in as long as the thesis is not damaged.

Today I would not add to the position; I already did that last year when the market called it into question. But I would not sell it either. Although at times it may look expensive, as when it almost touched $400 this year, I prefer to be flexible with this kind of company and not sell a single share unless the deviation from its intrinsic value is very exaggerated. Today, after the drop that followed Q3 results, it trades practically in line with my price target.

In my opinion, Alphabet is one of the highest-quality businesses we can find in the stock market. Search holds a practically monopolistic position globally, YouTube is one of the largest entertainment platforms in the world and Google Cloud is proving it can combine extraordinary growth with strong margin expansion.

With Search, however, I have some doubts. It is still growing at double digits and queries are growing more than ever, but Q3 showed that people are clicking less and that AI Mode still monetizes less than traditional search. I am keeping the position because I trust the company will figure it out, as it has with every platform shift, but it is a risk that has to be taken into account.

The flip side is that Alphabet is no longer the *asset-light* company we knew. In 2023 it invested $32,000 million in capex. For 2026 it expects to spend between $195,000 and $205,000 million, and it has already said 2027 will be significantly higher.

That investment pushed free cash flow into negative territory in Q3 and completely changed capital allocation: buybacks were halted, debt almost tripled and the company issued common and preferred shares. I don't think this breaks the thesis. It simply changes it. The bar is higher: Alphabet will have to prove that every additional dollar invested in AI generates enough return to justify the capital invested.

For me, the Alphabet thesis today revolves around four variables, and this quarter brought news on all of them:

- **Search:** that AI keeps expanding the business rather than cannibalizing it. This is where my main doubts are: +12% in Q3, slowing, with paid clicks growing just 8%. The key is how AI Mode monetizes.
- **Cloud:** that it keeps growing and improving margins. It could hardly be better: +103%, a 36% margin and a $561,000 million backlog.
- **Capex:** what the normalized level is once this phase ends. We don't know yet, and it is the variable that weighs most in my valuation. The 2027 figure the company gives in Q4 will be key.
- **ROIC:** what return we are getting on what has been invested. My model projects it falling to around 22%, still more than double the WACC.

Personally, I will stay invested in the company until I see how each of these four variables develops.

Alan



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