

## Alphabet

# Solid search results, investing to support AI capabilities and cloud demand; Buy

Reiterate Rating: BUY | PO: 225.00 USD | Price: 206.38 USD

## Search & YouTube beat offset by Cloud & Network miss

4Q net rev. at \$81.6bn was above Street at \$81.5bn driven by Search & YouTube upside. Search revs. grew 13% y/y (vs Street 11%), while YouTube grew 14% y/y (vs 11%), both accelerating q/q. Cloud growth decelerated 5pt q/q to 30% y/y (vs Street 32%), with Google & Azure both highlighting cloud capacity needs. 4Q EPS at \$2.15 beat at Street \$2.12 & benefited from lower S&M & SBC expense. Overall, as solid search quarter, but growing expectations post Meta's Q, Cloud miss and higher capex pressured stock AH.

## Growing search vol growth; Cloud capacity constrained

Management emphasized growing Search volumes, aided by Overviews and Circle to search, though y/y disclosure is still lacking. The notable miss was Cloud revenues but management noted rapidly growing AI demand and that capacity constraints and a 4pt tougher y/y comp drove the deceleration in y/y growth. For FY25, Alphabet guided Capex at \$75bn (vs Street \$60bn) with focus on expanding infrastructure to meet growing AI demand (a positive). Some of this capacity is likely earmarked for Overviews.

## '26 EPS unchanged; higher rev. growth offset by expenses

We recently updated estimates for FX, and are not changing our 2026 EPS estimate. We are raising revenue estimates for higher growth in Search, offset by lower growth in Cloud and higher depreciation expense. For 2025, we are raising net revenue by 1% to \$329bn, Opex by 1.1%, & GAAP EPS by 0.8% to \$8.85. For 2026, we raise net revenue by 0.7% to \$367bn, Opex by 1.1%, and our GAAP EPS remain unchanged at \$10.06. We raise 2025 capex to \$76bn & 2026 to \$83bn. We estimate \$21bn D&A in 2025 (up 37% y/y) & \$74bn in FCF (up 2% y/y).

## Constructive on growing AI benefits for Search & Cloud

We are encouraged to see another quarter of strong Search growth and think Street could be underestimating AI Overview benefits for Search monetization in 2025. Street will likely have concerns on AI competitive noise (Meta AI and Open AI announcements), and slowing profit growth on higher infrastructure costs, but with core search business at 14x in our sum of parts, we see an attractively valued core search business that we expect to grow 12-13% ex-FX in 2025. Next potential catalysts for the stock are new AI driven search products & Cloud Next (4/9). Reiterate Buy & maintain \$225 PO.

Estimates (Dec) (US\$)	2023A	2024A	2025E	2026E	2027E
EPS	5.80	8.04	8.85	10.06	11.37
EPS Change (YoY)	27.2%	38.6%	10.1%	13.7%	13.0%
Consensus EPS (Bloomberg)			9.18	10.53	12.11
DPS	0	0.60	0.60	0.61	0.61
EPS (GOOG - US\$)	5.80	8.04	8.85	10.06	11.37
DPS (GOOG - US\$)	0	0.60	0.60	0.61	0.61
<b>Valuation (Dec)</b>					
P/E	35.6x	25.7x	23.3x	20.5x	18.2x
Dividend Yield	0%	0.3%	0.3%	0.3%	0.3%
EV / EBITDA*	21.0x	17.2x	15.0x	13.1x	11.4x
Free Cash Flow Yield*	2.7%	2.8%	2.9%	3.5%	4.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 11.

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### Equity

#### Key Changes

(US\$)	Previous	Current
2025E Rev (m)	325,212.9	328,590.3
2026E Rev (m)	364,850.5	367,423.5
2027E Rev (m)	410,621.8	412,494.8
2025E EPS	8.78	8.85
2027E EPS	11.53	11.37

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### Stock Data

Price (NAS / NAS)	206.38 USD / 207.71 USD
Price Objective	225.00 USD / 225.00 USD
Date Established	14-Jan-2025 / 14-Jan-2025
Investment Opinion	B-1-7 / B-1-7
52-Week Range	130.67 USD - 207.05 USD
Market Value (mn)	2,562,208 USD
Free Float	99.7%
Average Daily Value	5273.40 USD
Shares Outstanding (mn)	12,415.0 / 12,415.0
BofA Ticker / Exchange	GOOGL / NAS
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Bloomberg / Reuters	GOOGL US / GOOGLQ
ROE (2025E)	35.2%
Net Dbt to Eqty (Dec-2024A)	1.7%

GCP: Google Cloud Platform

COR: Cost of Revenue

AWS: Amazon Web Services

YT: YouTube

D&A: Depreciation & Amortization

CC: Constant Currency

LLM: Large Language Models

AI: Artificial Intelligence

Gen-AI: Generative AI

AIO: AI Overviews

SOTP: Sum of the parts

# iQprofile<sup>SM</sup> Alphabet

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Return on Capital Employed	31.0%	37.2%	37.5%	36.4%	34.9%
Return on Equity	27.4%	35.3%	35.2%	33.8%	32.0%
Operating Margin	42.8%	45.8%	46.0%	45.8%	45.5%
Free Cash Flow	69,495	72,764	74,415	90,362	112,744

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash Realization Ratio	1.4x	1.3x	1.4x	1.4x	1.5x
Asset Replacement Ratio	2.4x	3.4x	3.6x	2.9x	2.3x
Tax Rate	13.9%	16.4%	16.9%	16.8%	16.8%
Net Debt-to-Equity Ratio	1.2%	1.7%	5.2%	4.2%	-0.9%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Sales	256,508	295,118	328,590	367,423	412,495
% Change	9.7%	15.1%	11.3%	11.8%	12.3%
Gross Profit	174,062	203,712	225,848	250,743	279,302
% Change	11.1%	17.0%	10.9%	11.0%	11.4%
EBITDA	123,410	150,486	172,152	197,639	227,353
% Change	12.3%	21.9%	14.4%	14.8%	15.0%
Net Interest & Other Income	(23,994)	(15,360)	(21,775)	(23,665)	(25,585)
<b>Net Income (Adjusted)</b>	<b>73,783</b>	<b>100,076</b>	<b>107,598</b>	<b>120,486</b>	<b>134,875</b>
<b>% Change</b>	<b>23.0%</b>	<b>35.6%</b>	<b>7.5%</b>	<b>12.0%</b>	<b>11.9%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Net Income from Cont Operations (GAAP)	73,795	100,118	107,542	120,468	134,866
Depreciation & Amortization	13,699	15,311	21,000	29,180	39,670
Change in Working Capital	(3,845)	(9,343)	(3,634)	(3,589)	(619)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	18,097	19,213	25,140	27,730	30,430
Capital Expenditure	(32,251)	(52,535)	(75,633)	(83,427)	(91,603)
<b>Free Cash Flow</b>	<b>69,495</b>	<b>72,764</b>	<b>74,415</b>	<b>90,362</b>	<b>112,744</b>
<b>% Change</b>	<b>15.8%</b>	<b>4.7%</b>	<b>2.3%</b>	<b>21.4%</b>	<b>24.8%</b>
Share / Issue Repurchase	953	(8,879)	(13,296)	(14,896)	(16,496)
Cost of Dividends Paid	0	(7,363)	(7,271)	(7,190)	(7,107)
Change in Debt	(11,550)	(2,423)	(1,200)	(2,400)	(3,600)

## Balance Sheet Data (Dec)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash & Equivalents	24,048	24,048	11,436	12,299	32,435
Trade Receivables	47,964	47,964	58,674	65,653	73,599
Other Current Assets	99,518	99,518	100,956	102,642	104,582
Property, Plant & Equipment	134,345	134,345	189,005	243,311	295,335
Other Non-Current Assets	96,517	96,517	97,317	98,117	98,917
<b>Total Assets</b>	<b>402,392</b>	<b>402,392</b>	<b>457,389</b>	<b>522,021</b>	<b>604,868</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	81,814	81,814	92,328	99,403	110,671
Long-Term Debt	27,329	28,725	28,525	28,325	28,125
Other Non-Current Liabilities	9,870	8,474	8,474	8,474	8,474
<b>Total Liabilities</b>	<b>119,013</b>	<b>119,013</b>	<b>129,327</b>	<b>136,202</b>	<b>147,270</b>
<b>Total Equity</b>	<b>283,379</b>	<b>283,379</b>	<b>328,061</b>	<b>385,819</b>	<b>457,598</b>
<b>Total Equity &amp; Liabilities</b>	<b>402,392</b>	<b>402,392</b>	<b>457,389</b>	<b>522,021</b>	<b>604,868</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 11.

## Company Sector

Internet/e-Commerce

## Company Description

Alphabet is a global technology company focused around key areas, such as search, advertising, operating systems and platforms, enterprise and hardware products. The company generates revenue primarily by delivering online advertising and by selling apps and contents on Google Play as well as hardware products. The company provides its products and services in more than 100 languages and in 190 countries, regions, and territories.

## Investment Rationale

We see Alphabet as well positioned long term with leading AI technology to apply to search, YouTube and Cloud businesses. Alphabet should also benefit from increasing mobile usage, video usage, Google Play activity, and connected device activity (including autos). We believe that Alphabet should trade at a premium to a media peer group given technology leadership, high margins, and strong cash flow generation for buybacks.

## Stock Data

Average Daily Volume	25,551,892
Shares / Common - Dual Listed	1.00

## Quarterly Earnings Estimates

	2024	2025
Q1	1.89A	1.99E
Q2	1.89A	2.18E
Q3	2.12A	2.24E
Q4	2.15A	2.44E

## Key Changes

(US\$)	Previous	Current
2025E EPS	8.78	8.85
2027E EPS	11.53	11.37



## 4Q Summary and thoughts on the stock

Four key drivers for the stock (revenue trends, y/y core margin trends, use of capital and new disclosures) were mixed in 4Q.

- **Revenue Trajectory:** Total net revenue growth decelerated 3pt to 13% from 16% in 3Q. Search revenues, however, grew 13% y/y (vs Street 11%), accelerating 1pts q/q, YouTube grew 14% y/y (vs Street 11%), accelerating 2pts q/q, and Cloud revenues grew 30% (vs Street 32%), decelerating 5pts q/q. ex-FX Google Properties (which includes Search and YouTube) grew 13% (same as 3Q'24). Overall revenue growth was partially impacted by Pixel launch in 3Q.
- **Margin Trajectory:** Google services core margins improved 402bps y/y in 4Q, vs improvement of +512ps y/y in 3Q. Total headcount at 183.3K was slightly above Street at 182.8K and was flat y/y (up 1% q/q).
- **Capital Allocation:** Little change. Alphabet maintained cash dividend of \$0.20 per share. The company repurchased \$15.5bn of shares in 4Q (total \$62.2bn in 2024).
- **Disclosures:** Some new commentary on AI Overviews and capex. Management noted 1) healthy growth in Google Search volume and noted AI Overviews are driving higher usage, 2) Alphabet plans to invest ~\$75bn in Capex in FY25, with \$16-\$18bn in 1Q'25, prioritizing servers, data centers, and networking to support AI expansion, 3) Due to higher Capex investments, depreciation expenses growth is expected to accelerate in 2025, and 4) In FY25, the company expects selective hiring in AI and Cloud.

### For 4Q commentary and business outlook, management noted that:

- 1) **Search:** 4Q'24 growth was driven by strength in financial services (insurance) and retail vertical.
- 2) **YouTube:** 4Q'24 growth was primarily led by brand advertising, followed by performance advertising.
- 3) **2025 ad growth outlook:** Management noted 2025 ad revenue growth will be impacted by lapping strong financial vertical performance from 2024.
- 4) **Subscription & Devices:** 4Q'24 Growth was driven by subscription revenue increases, partially offset by the shift in Made by Google device launches to 3Q'24.
- 5) **Subscription:** Continued strong growth across YouTube TV, YouTube Music, YouTube Premium, and Google One, driven by an increase in paid subscribers.
- 6) **Google Play:** The growth rate slightly increased in 4Q'24, mainly due to a strong rise in the number of buyers.
- 7) **Cloud:** 4Q'24 Growth was fueled by AI adoption, with GCP growing at a significantly higher rate than the overall cloud segment.
- 8) **Google Workspace:** Growth was driven by higher average revenue per seat.
- 9) **Cloud Revenue Outlook:** Management expects Cloud revenue growth to fluctuate in 2025, depending on the timing of new capacity deployments.
- 10) **Capex:** 4Q capex of \$14bn was driven by investments in technical infrastructure, with the largest component being investment in servers, followed by data centers to support the growth of business across Google services, Google Cloud and Google DeepMind.



- 11) **FY25 Capex outlook:** Alphabet plans to invest ~\$75bn in Capex in FY25, with \$16-\$18bn in 1Q'25, prioritizing servers, data centers, and networking to support AI expansion.
- 12) **Depreciation:** Due to higher Capex investments, depreciation expense growth is expected to accelerate in 2025 (D&A was up 28% y/y in 2024).
- 13) **Efficiency & Hiring:** Alphabet remains focused on efficiency improvements while accelerating AI product launches. In FY25, the company expects selective hiring in AI and Cloud to support innovation.

## Amazon AWS read across neutral to negative

### AWS – Google Cloud miss, it may come down to AWS capacity capabilities in 4Q

In 4Q, total Google Cloud growth decelerated 5pts to 30% y/y (vs Street 32%) on a 4pt more difficult y/y comp. For AWS, we estimate stable q/q growth in 4Q (on 1pts tougher y/y comp) at 19% (marginally below Street) and Google commentary suggested that AI driven demand is increasing, but capacity constraints are limiting sector growth.

## 4Q Positives:

- **Search revenue beat:** 4Q'24 Search revenue at \$54.0bn was above Street at \$53.4bn and y/y growth accelerated 1pts vs 3Q to 13% on a 1pt tougher comps. 4Q Search growth was driven by strength in the financial services (insurance) and retail verticals.
- **YouTube beat:** 4Q'24 YouTube revenue at \$10.4bn was above Street at \$10.2bn and y/y growth accelerated 2pts to 14% y/y on a 4pt tougher y/y comp. Growth was driven by brand followed by performance advertising. Political advertising aided the quarter which won't repeat in 1Q.
- **Margins above Street:** GAAP Operating Income at \$31.0bn (37.9% margin) was above Street at \$30.5bn (37.4% margin) due to lower- than-expected S&M and SBC expense, and GAAP EPS at \$2.15 was above Street estimates at \$2.12. Total reported Opex was down 0.6% y/y in 4Q.
- **AI overviews aiding Search usage:** Management emphasized healthy growth in Google Search volume and noted AI Overviews are driving higher usage.
- **Growing Gemini traction:** Management more than 4.4mn developers are using Google Gemini models, double the number from just six months ago.
- **Growing AI cloud demand:** Management highlighted Cloud customers are consuming >8x compute capacity (vs 18 months ago) and cloud business is capacity constrained (rather than demand).

## 4Q Negatives:

- **FY25 Capex guide above Street:** Alphabet plans to invest ~\$75bn in Capex in FY25 (vs Street estimates for \$60bn), with \$16-\$18bn expected spend in 1Q'25. The company will invest in servers, data centers, and networking to support AI expansion.
- **Higher depreciation expense:** Due to higher Capex investments, depreciation expense growth is expected to accelerate in 2025 (D&A was up 28% y/y in 4Q'24) and weigh on EPS growth. We estimate \$21bn D&A expense in 2025 (up 37% y/y) & \$74bn FCF (up 2% y/y).
- **Network revenues below Street:** 4Q'24 Network revenue miss at \$8.0bn was below Street at \$8.2bn and y/y growth decelerated 2pts to down 4% y/y on



a 1pt tougher comp. This could reflect continued advertiser preference for larger platforms with advanced 1P targeting capabilities.

- **Cloud revenues below Street:** 4Q'24 Cloud revenue at \$12.0bn was below Street at \$12.1bn and y/y growth decelerated 5pts q/q to 30% on a 4pt tougher y/y comp.
- **Other revenues below Street:** 4Q'24 Other revenue at \$11.6bn (up 8% y/y) was below Street estimates at \$12.0bn. 4Q'24. Growth was driven by subscription revenue increases, partially offset by the shift in hardware (Made by Google) device launches to 3Q'24.
- **Tough advertising comps ahead:** Management noted 2025 ad revenue growth will be impacted by lapping strong financial services performance from 2024. For 1Q, management noted growth will be impacted by Leap year benefit in 1Q'24 and FX headwinds.
- **Some negative possible catalysts ahead:** While not discussed on the call, we see potential for some negative catalysts (such as OpenAI launching ads, new product rollouts from Meta & other emerging competitors, and Search remedy hearing in April) could impact sentiment.



## Actual vs Expected Results

4Q net revenue at \$81.6bn beat Street at \$81.5bn driven by Search & YouTube strength offset by Cloud and Network misses. Search revs. grew 13% y/y (vs Street 11%), while YouTube grew 14% y/y (vs 11%), both accelerating q/q. Cloud growth decelerated 5pt q/q to 30% y/y (vs Street 32%), with margins up 36bps q/q to 17.4%. 4Q GAAP EPS at \$2.15 (vs Street \$2.12) & benefited from lower S&M & SBC expense. Operating margins improved 518bps y/y to 37.9% and core service margins increased 402bps y/y to 39.0%. Other income was \$1.3bn (vs Street \$0.9bn).

### Exhibit 1: Alphabet actual vs estimates (\$ in millions)

4Q'24 Net Revenue/EPS was above Street.

#### 4Q'24 Actual vs Street vs BofA

Alphabet Actual vs Street Results	BofA	Street	Actual	Act vs Street	Act vs BofA
<b>Google segment Revs</b>					
Google Search & other	\$52,908	\$53,405	\$54,034	\$629	\$1,126
y/y %	10%	11%	13%		
YouTube ads	\$10,120	\$10,241	\$10,473	\$232	\$353
y/y %	10%	11%	14%		
Network Revenue	\$8,110	\$8,187	\$7,954	(\$233)	(\$156)
y/y %	(2%)	(1%)	(4%)		
Google Cloud Revenue	\$12,253	\$12,137	\$11,955	(\$182)	(\$298)
y/y %	33%	32%	30%		
Other Revenue	\$11,905	\$11,949	\$11,633	(\$316)	(\$272)
y/y %	10%	11%	8%		
Other Bets Segment Revs	\$447	\$604	\$400	(\$204)	(\$47)
y/y %	(32%)	(8%)	(39%)		
<b>Consolidated Gross Revenue</b>	<b>\$96,143</b>	<b>\$96,581</b>	<b>\$96,469</b>	<b>(\$112)</b>	<b>\$326</b>
TAC	\$15,051	\$15,026	\$14,848	(\$178)	(\$203)
<b>Google Net Revenue</b>	<b>\$81,092</b>	<b>\$81,472</b>	<b>\$81,621</b>	<b>\$149</b>	<b>\$529</b>
y/y %	12%	12.6%	13%	0.2%	0.7%
Other cost of revenue	\$26,055	\$25,714	\$25,765	\$51	(\$290)
Research and Development	\$12,999	\$13,089	\$13,116	\$27	\$117
Sales and Marketing	\$7,971	\$7,894	\$7,363	(\$531)	(\$608)
General & Administrative	\$4,071	\$4,478	\$4,405	(\$73)	\$334
<b>GAAP Operating Income</b>	<b>\$29,996</b>	<b>\$30,480</b>	<b>\$30,972</b>	<b>\$492</b>	<b>\$976</b>
Margin	37.0%	37.4%	37.9%	0.5%	1.0%
D&A	\$4,335	\$4,331	\$4,205	(\$126)	(\$130)
SBC	\$5,896	\$6,239	\$5,810	(\$429)	(\$86)
Adj EBITDA	\$40,227	\$40,997	\$40,987	(\$10)	\$760
Margin	49.6%	50.3%	50.2%	-0.1%	0.6%
Non-GAAP EPS	\$2.47	\$2.52	\$2.54	\$0.02	\$0.07
<b>GAAP EPS</b>	<b>\$2.07</b>	<b>\$2.12</b>	<b>\$2.15</b>	<b>\$0.03</b>	<b>\$0.08</b>
Headcount	181,769	182,834	183,323	489	1,554
US Gross Revenue	\$47,687	\$46,855	\$47,375	\$520	(\$312)
EMEA Gross Revenue	\$27,717	\$27,599	\$28,184	\$585	\$467
APAC Gross Revenue	\$15,167	\$15,575	\$15,156	(\$419)	(\$11)
Other Americas Gross Revenue	\$5,572	\$5,856	\$5,734	(\$122)	\$162

Source: BofA Global Research estimates, Company Filings, Visible Alpha

BofA GLOBAL RESEARCH





## Estimate changes

We are raising our revenue estimates for higher growth in Search offset by lower growth in Cloud, Network and Other revenue. Our EPS estimates are virtually unchanged as higher expenses (depreciation, R&D and headcount) offset impact from higher revenues. For 1Q, we estimate net revenue of \$75.0bn and GAAP EPS of \$1.99. For 2025, we are increasing net revenue by 1% to \$329bn, Opex by 1.1%, & GAAP EPS by 0.8% to \$8.85. For 2026, we are increasing net revenue by 0.7% to \$367bn, Opex by 1.1%, & our GAAP EPS estimate remain unchanged at \$10.06. We raise 2025 capex to \$76bn & 2026 to \$83bn. We estimate \$21bn D&A expense in 2025 (up 37% y/y) & \$74bn FCF (up 2% y/y).

### Exhibit 2: Alphabet Estimate Changes

We maintain our 2026 GAAP EPS at \$10.06.

	1Q'25 Estimates			2Q'25 Estimates			2025 Estimates			2026 Estimates		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
Google Properties	\$58,202	\$58,882	\$680	\$61,603	\$62,693	\$1,090	\$250,503	\$254,657	\$4,154	\$277,354	\$280,957	\$3,603
Google Network Websites	\$7,220	\$6,872	(\$348)	\$7,394	\$7,295	(\$99)	\$30,245	\$29,363	(\$882)	\$31,018	\$29,563	(\$1,454)
Google Cloud	\$12,558	\$12,280	(\$278)	\$13,368	\$13,160	(\$208)	\$55,788	\$54,856	(\$932)	\$69,429	\$68,647	(\$782)
Google Other Revenues	\$9,422	\$9,418	(\$3)	\$10,089	\$10,126	\$37	\$44,003	\$43,774	(\$228)	\$49,026	\$48,771	(\$256)
<b>Google Gross Revenue</b>	<b>\$87,402</b>	<b>\$87,452</b>	<b>\$50</b>	<b>\$92,455</b>	<b>\$93,274</b>	<b>\$819</b>	<b>\$380,539</b>	<b>\$382,651</b>	<b>\$2,112</b>	<b>\$426,827</b>	<b>\$427,938</b>	<b>\$1,111</b>
Traffic Acquisition Costs (TAC)	\$13,782	\$13,414	(\$369)	\$14,486	\$14,291	(\$195)	\$59,436	\$58,090	(\$1,347)	\$64,333	\$62,770	(\$1,563)
<b>Google Net Revenue (ex-TAC)</b>	<b>\$74,615</b>	<b>\$75,009</b>	<b>\$394</b>	<b>\$78,932</b>	<b>\$79,946</b>	<b>\$1,014</b>	<b>\$325,213</b>	<b>\$328,590</b>	<b>\$3,377</b>	<b>\$364,850</b>	<b>\$367,423</b>	<b>\$2,573</b>
Y/Y	10%	11%	0.6%	11%	12%	1.4%	10%	11%	0.9%	12%	12%	-0.4%
Other Bets Revenues	\$446	\$421	(\$25)	\$438	\$438	\$0	\$1,885	\$1,804	(\$81)	\$2,357	\$2,255	(\$101)
Y/Y	-10%	-15%	-5.0%	20%	20%	0.0%	11%	9%	-1.8%	25%	25%	0.0%
Consolidated Gross Revenue	\$88,397	\$88,423	\$26	\$93,418	\$94,237	\$819	\$384,649	\$386,680	\$2,031	\$429,184	\$430,193	\$1,009
<b>Consolidated Net Revenue (ex-TAC)</b>	<b>\$74,615</b>	<b>\$75,009</b>	<b>\$394</b>	<b>\$78,932</b>	<b>\$79,946</b>	<b>\$1,014</b>	<b>\$325,213</b>	<b>\$328,590</b>	<b>\$3,377</b>	<b>\$364,850</b>	<b>\$367,423</b>	<b>\$2,573</b>
Y/Y	10%	11%	1%	11%	12%	1%	10%	11%	1%	12%	12%	0%
Other Costs of Revenue	\$23,057	\$23,064	\$7	\$24,665	\$25,070	\$405	\$102,016	\$102,742	\$726	\$115,542	\$116,681	\$1,139
Gross Profit	\$51,557	\$51,945	\$388	\$54,267	\$54,876	\$609	\$223,197	\$225,848	\$2,651	\$249,309	\$250,743	\$1,434
<i>Gross Profit Margin</i>	<i>30.9%</i>	<i>30.7%</i>	<i>-0.2%</i>	<i>31.2%</i>	<i>31.4%</i>	<i>0.1%</i>	<i>31.4%</i>	<i>31.3%</i>	<i>-0.1%</i>	<i>31.7%</i>	<i>31.8%</i>	<i>0.1%</i>
Research and Dev.	\$12,722	\$12,902	\$180	\$12,945	\$13,111	\$166	\$53,201	\$54,116	\$915	\$58,956	\$60,146	\$1,190
Sales and Mktg	\$6,872	\$6,908	\$36	\$7,341	\$7,355	\$14	\$30,480	\$30,262	(\$218)	\$33,100	\$32,736	(\$364)
G & A	\$3,432	\$3,450	\$18	\$3,552	\$3,598	\$46	\$15,067	\$15,408	\$341	\$16,538	\$16,862	\$324
Total Operating Expenses	\$23,026	\$23,260	\$234	\$23,837	\$24,064	\$226	\$98,748	\$99,786	\$1,038	\$108,594	\$109,744	\$1,150
<i>% of net rev</i>	<i>31%</i>	<i>31%</i>	<i>0%</i>	<i>30%</i>	<i>30%</i>	<i>0%</i>	<i>30%</i>	<i>30%</i>	<i>0%</i>	<i>30%</i>	<i>30%</i>	<i>0%</i>
<b>Operating Income - GAAP</b>	<b>\$28,531</b>	<b>\$28,685</b>	<b>\$153</b>	<b>\$30,429</b>	<b>\$30,812</b>	<b>\$383</b>	<b>\$124,449</b>	<b>\$126,062</b>	<b>\$1,613</b>	<b>\$140,714</b>	<b>\$140,999</b>	<b>\$284</b>
<i>Margin</i>	<i>38.2%</i>	<i>38.2%</i>	<i>0.0%</i>	<i>38.6%</i>	<i>38.5%</i>	<i>0.0%</i>	<i>38.3%</i>	<i>38.4%</i>	<i>0.1%</i>	<i>38.6%</i>	<i>38.4%</i>	<i>-0.2%</i>
SBC	\$6,296	\$6,210	(\$86)	\$6,396	\$6,310	(\$86)	\$25,434	\$25,090	(\$344)	\$27,804	\$27,460	(\$344)
<b>Operating Income - non-GAAP</b>	<b>\$34,827</b>	<b>\$34,895</b>	<b>\$67</b>	<b>\$36,825</b>	<b>\$37,122</b>	<b>\$297</b>	<b>\$149,883</b>	<b>\$151,152</b>	<b>\$1,269</b>	<b>\$168,518</b>	<b>\$168,459</b>	<b>(\$60)</b>
<i>% of net rev</i>	<i>46.7%</i>	<i>46.5%</i>	<i>-0.2%</i>	<i>46.7%</i>	<i>46.4%</i>	<i>-0.2%</i>	<i>46.1%</i>	<i>46.0%</i>	<i>-0.1%</i>	<i>46.2%</i>	<i>45.8%</i>	<i>-0.3%</i>
D&A	\$4,725	\$4,595	(\$130)	\$5,075	\$5,045	(\$30)	\$20,920	\$21,000	\$80	\$26,900	\$29,180	\$2,280
<b>Adj. EBITDA</b>	<b>\$39,552</b>	<b>\$39,490</b>	<b>(\$63)</b>	<b>\$41,900</b>	<b>\$42,167</b>	<b>\$267</b>	<b>\$170,803</b>	<b>\$172,152</b>	<b>\$1,349</b>	<b>\$195,418</b>	<b>\$197,639</b>	<b>\$2,220</b>
<i>Margin</i>	<i>53.0%</i>	<i>52.6%</i>	<i>-0.4%</i>	<i>53.1%</i>	<i>52.7%</i>	<i>-0.3%</i>	<i>52.5%</i>	<i>52.4%</i>	<i>-0.1%</i>	<i>53.6%</i>	<i>53.8%</i>	<i>0.2%</i>
Interest income and other, net	\$880	\$790	(\$90)	\$895	\$805	(\$90)	\$3,675	\$3,315	(\$360)	\$4,235	\$3,795	(\$440)
Income pre-tax and acct. change (Reported)	\$29,411	\$29,475	\$63	\$31,324	\$31,617	\$293	\$128,124	\$129,377	\$1,253	\$144,949	\$144,794	(\$156)
Provision for tax	\$5,014	\$5,011	(\$3)	\$5,012	\$5,059	\$47	\$21,514	\$21,835	\$322	\$24,710	\$24,325	(\$385)
Effective tax rate (Reported)	17.0%	17.0%	0.0%	16.0%	16.0%	0.0%	16.8%	16.9%	0.1%	17.0%	16.8%	-0.2%
Net income - GAAP	\$24,398	\$24,464	\$67	\$26,312	\$26,559	\$246	\$106,611	\$107,542	\$931	\$120,239	\$120,468	\$229
Net income - non-GAAP	\$29,620	\$29,618	(\$2)	\$31,685	\$31,859	\$174	\$127,779	\$128,404	\$625	\$143,307	\$143,301	(\$6)
<b>Diluted GAAP EPS</b>	<b>\$1.99</b>	<b>\$1.99</b>	<b>\$0.00</b>	<b>\$2.16</b>	<b>\$2.18</b>	<b>\$0.02</b>	<b>\$8.78</b>	<b>\$8.85</b>	<b>\$0.07</b>	<b>\$10.06</b>	<b>\$10.06</b>	<b>\$0.00</b>
<b>Diluted EPS (ex-SBC)</b>	<b>\$2.42</b>	<b>\$2.41</b>	<b>(\$0.00)</b>	<b>\$2.60</b>	<b>\$2.61</b>	<b>\$0.01</b>	<b>\$10.52</b>	<b>\$10.56</b>	<b>\$0.04</b>	<b>\$11.99</b>	<b>\$11.96</b>	<b>(\$0.02)</b>
Diluted shares	12,264	12,278	14	12,184	12,198	14	12,144	12,158	14	11,957	11,977	20
<b>Consolidated Capital expenditures</b>	<b>\$14,177</b>	<b>\$17,252</b>	<b>\$3,075</b>	<b>\$14,918</b>	<b>\$18,388</b>	<b>\$3,469</b>	<b>\$60,138</b>	<b>\$75,633</b>	<b>\$15,495</b>	<b>\$67,758</b>	<b>\$83,427</b>	<b>\$15,670</b>
<b>Headcount</b>	<b>182,769</b>	<b>184,823</b>	<b>2,054</b>	<b>183,269</b>	<b>186,023</b>	<b>2,754</b>	<b>185,669</b>	<b>190,523</b>	<b>4,854</b>	<b>192,469</b>	<b>198,323</b>	<b>5,854</b>

Source: BofA Global Research estimates

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## Valuation

**PO:** Our unchanged \$225 PO is based on 2026 GAAP EPS of \$10.06 and 22x P/E multiple.

### Exhibit 3: Alphabet valuation

Our unchanged \$225 PO is based on 2026 GAAP EPS of \$10.06 and 22x P/E multiple.

	2026 GAAP
Other Bets losses (mn)	(\$4,956)
Estimated Tax Savings	\$843
Other Bets Losses ex-Tax	(\$4,113)
2025 Diluted Shares	12,158
<b>GAAP EPS Impact</b>	<b>(\$0.34)</b>
2026E Total GAAP EPS	\$10.06
<b>Adjusted EPS*</b>	<b>\$10.36</b>
Applying a target PE multiple	21x
<b>Implied Target Price / Share</b>	<b>\$218</b>
Plus YE26 cash/share	\$7.2
<b>Implied Target Price / Share</b>	<b>\$225</b>

Source: BofA Global Research estimates

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### Sum of the parts valuation

Using the AH price of \$192.60, Alphabet stock is currently valued at 19x our GAAP 2026 EPS, vs a 14-year historical range of 13-30x and 10- year average of 22x. Backing out our estimated values for YouTube, YouTube Subscription, Cloud, Waymo, and cash, as well as the potential earnings contribution from YouTube, and \$3.9bn in after-tax losses from Other Bets investments, we estimate the implied valuation on core Google advertising and Play businesses at 14x 2025E earnings, which we think is attractive vs the S&P 500 at 20x.

### Exhibit 4: Alphabet 2yr Forward GAAP PE

Core Services Sum-of-the-Parts Valuation Analysis based on AH GOOG price of ~\$192.60

Alphabet Sum of the Parts Valuation (2026 Estimates)					
	Net				
	Mkt Cap	Revenue	P/S	Net income	P/E
					Comment
Alphabet Total	\$2,342	\$367	6.4x	\$120	19x
YouTube	(\$179)	(\$45)		(\$4.5)	40x 4.0x revenues (peers at 3-5x), assumes 12% profit margin and a 17% tax rate
YouTube Subscription	(\$44)	(\$29)		(\$1.2)	Assumes 1.5x P/S multiple and 5% margin & 17% tax rate
Google Cloud Profit/Losses	(\$549)	(\$69)		(\$11.6)	Assumes 8x P/S and 20% margins in 2026 and a 17% tax rate
Waymo	(\$50)	\$0		\$0.0	Reflects time horizon & potential technology value
Other Bets losses		(\$2)		\$4.1	Waymo loss included, and incorporates a 17% tax rate
YE'25 Cash & Equivalents	(\$86)			(\$2.2)	Excludes net cash, est. 3% interest income and 17% tax rate
Google core services	\$1,433	\$222	6.4x	\$105	14x

Source: BofA Global Research Estimates

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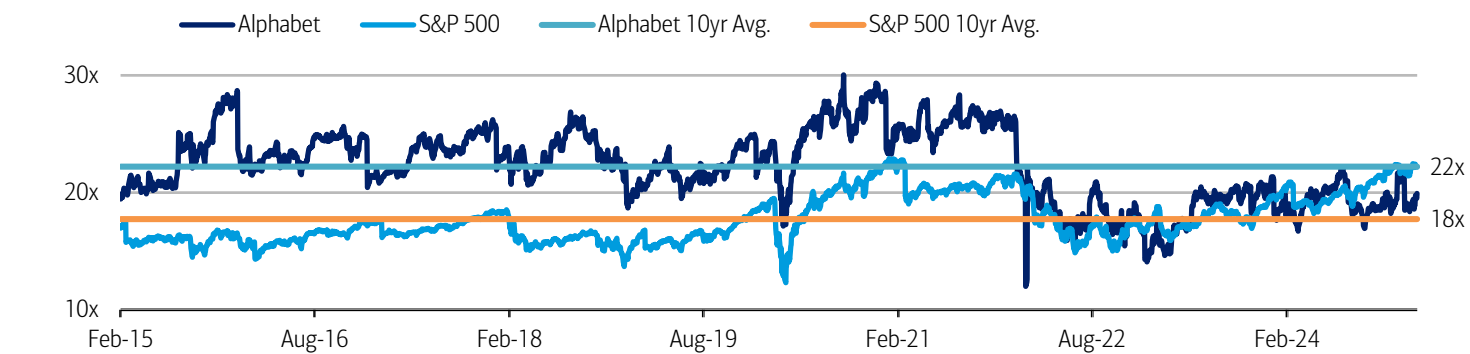
At the AH price of ~\$192.60, Alphabet is currently trading at 19x our 2026 GAAP EPS vs a 2yr forward GAAP PE historical average of 22x and 16-year historical range of 12-30x. In the last 10yrs, Alphabet has traded at an average 4pts premium to S&P 500 (trading at 20x, assuming 2026 GAAP EPS of \$295).





**Exhibit 5: Alphabet & S&P 500 2yr Forward GAAP PE Multiple**

At the AH price of \$X, Alphabet is currently trading at Xx our revised 2026 GAAP EPS.



Source: Bloomberg

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## Price objective basis & risk

### Alphabet (GOOGL / GOOG)

Our price objective of \$225/\$225 is based on 21x 2026E core Google GAAP EPS plus cash per share. Alphabet has traded at an average multiple of 22x GAAP P/E over the last ten years and we think our multiple is reasonable vs history given expectations for double-digit revenue growth, Cloud margin expansion, and opportunity to capitalize on strong AI assets.

Downside risks are: 1) loss of search traffic to AI tools from competitors, 2) LLM integration in search may take longer than expected or negatively impact search revenues, 3) revenue pressure from compliance with the EU Digital Markets Act (DMA), 4) adverse judge ruling on the ongoing Department of Justice (DOJ) search distribution trial, and 5) potential for increasing Capex and lower FCF-given AI investments.

## Analyst Certification

I, Justin Post, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	AppLovin	APP	APP US	Omar Dessouky, CFA
	Carvana	CVNA	CVNA US	Michael McGovern
	Chewy Inc	CHWY	CHWY US	Curtis Nagle, CFA
	DoorDash	DASH	DASH US	Michael McGovern
	Expedia	EXPE	EXPE US	Justin Post
	Ibotta	IBTA	IBTA US	Curtis Nagle, CFA
	Integral Ad Science Holding Corp.	IAS	IAS US	Omar Dessouky, CFA
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern
	Magnite, Inc.	MGNI	MGNI US	Omar Dessouky, CFA
	Meta Platforms Inc	META	META US	Justin Post
	Peloton	PTON	PTON US	Curtis Nagle, CFA
	Pinterest	PINS	PINS US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Uber	UBER	UBER US	Justin Post
	Vivid Seats	SEAT	SEAT US	Curtis Nagle, CFA
	Wix.com	WIX	WIX US	Michael McGovern
<b>NEUTRAL</b>				
	ACV Auctions	ACVA	ACVA US	Curtis Nagle, CFA
	Airbnb	ABNB	ABNB US	Justin Post
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Duolingo	DUOL	DUOL US	Curtis Nagle, CFA
	eBay	EBAY	EBAY US	Justin Post
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA
	Instacart	CART	CART US	Justin Post
	Match Group	MTCH	MTCH US	Curtis Nagle, CFA
	Reddit	RDDT	RDDT US	Justin Post
	Snap	SNAP	SNAP US	Justin Post
	Udemy Inc	UDMY	UDMY US	Curtis Nagle, CFA
	Wayfair	W	W US	Curtis Nagle, CFA
	Zillow	ZG	ZG US	Curtis Nagle, CFA



## US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Zillow	Z	Z US	Curtis Nagle, CFA
<b>UNDERPERFORM</b>	Bumble	BMBL	BMBL US	Curtis Nagle, CFA
	Cardlytics, Inc	CDLX	CDLX US	Omar Dessouky, CFA
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	DoubleVerify Holdings, Inc.	DV	DV US	Omar Dessouky, CFA
	LegalZoom	LZ	LZ US	Michael McGovern
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
<b>RVW</b>	Yelp	YELP	YELP US	Nitin Bansal, CFA
	Coursera Inc.	COUR	COUR US	Nafeesa Gupta

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase<sup>®</sup> is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

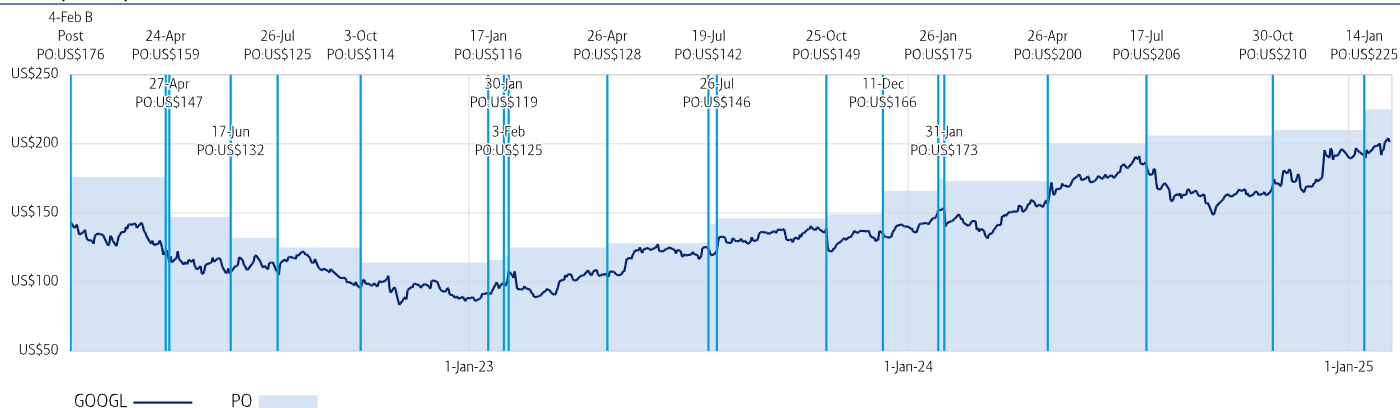
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# Disclosures

## Important Disclosures

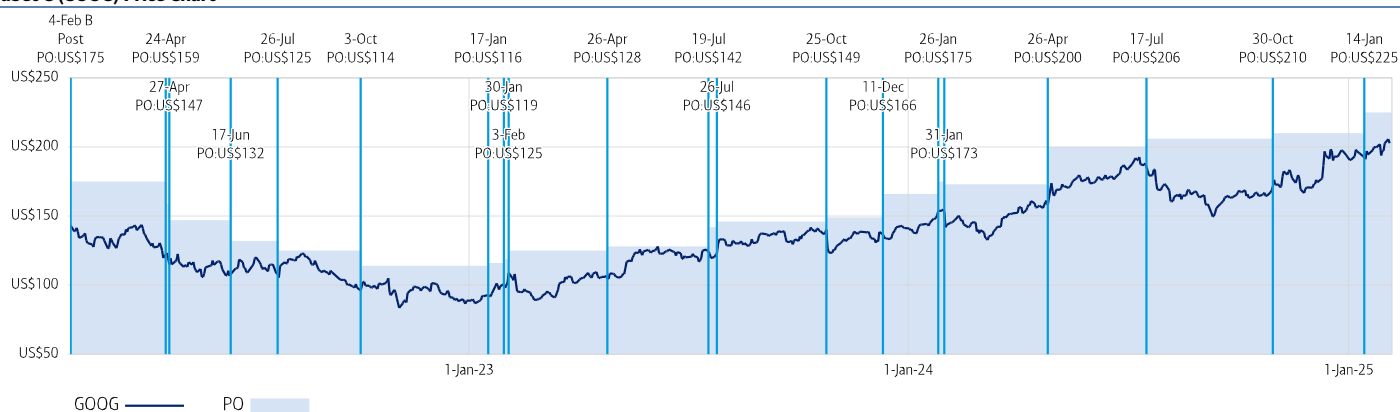
### Alphabet A (GOOGL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Alphabet C (GOOG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2024)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	209	53.45%	Buy	107	51.20%
Hold	93	23.79%	Hold	47	50.54%
Sell	89	22.76%	Sell	28	31.46%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2024)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	54.39%	Buy	1108	59.28%
Hold	766	22.29%	Hold	463	60.44%
Sell	801	23.31%	Sell	370	46.19%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.



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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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