

## Alphabet

## Updates ahead of DMA

Maintain Rating: BUY | PO: 173.00 USD | Price: 132.67 USD

**Removes flights & adds choice screens on Android phones**

To help comply with the DMA, Alphabet announced multiple product and features changes. On the Search side, the company has implemented >20 product changes, including introduction of dedicated units and chips to help users find comparison sites in areas like flights, hotels and shopping and removal of some features such as the Google Flights unit. For developers, Google has launched two programs that allow app developers to transact with EU users through their own billing systems, and implemented ways for developers to lead users to promotions outside of the app. Google has also added additional choice screens on Android devices that allow EU users to easily switch search engine or browser. Google is also making changes to its ad products to help enable users to communicate consent to share their data across Google services. Finally, Google's press release also suggested ongoing collaboration with EC, which could mean further big changes & potential violations of the DMA may be limited.

**More transparency for users, advertisers & publishers**

For users, Google offers the ability to download or transfer a copy of their data from more than 80 Google products and plans to expand its data transfer and data portability initiative more broadly. On transparency, Google noted it already shares detailed insights on pricing, performance and costs with advertisers and publishers. Additionally, to comply with DMA, the company plans to share some additional data with advertisers and publishers without compromising user privacy and commercially sensitive information.

**Revenue risks and our views**

We see four primary revenue risks related to Google's changes: 1) search changes which lower search monetization, 2) billing system and other Android changes that bypass Play Store fees, 3) consumer choice screens that reduce Google's share of search or browser usage, and 4) consumer opt out of data sharing across Google apps which impairs targeting. While the impact of these changes is difficult to quantify, we think search traffic to intermediaries will still be highly monetizable, and search will only see a modest impact from additional user choice as Google has a sizable brand advantage in Europe. There could be some impact from changes in app store fee policies (though some app store changes were implemented last year) and a percent of consumers opting out of data sharing, but neither will really impact core search revenues, in our view. Overall, we estimate EU revs. (ex-UK) could represent 20-25% of total gross revenues, and these changes could potentially impact overall Alphabet revenues by 1-2pts.

**See opportunity for a search beat in 1Q**

Per Visible Alpha, Street call for a 2pt deceleration in Search growth in 1Q to 11% (BofA at 12%), while Meta, Pinterest & Snap guidance all indicated 1Q acceleration. We remain constructive on Alphabet and believe continued strength in the Online ad sector, ramping Shorts monetization, AI integrations boosting ROI & strong cost management can more offset potential revenue pressure from DMA. Maintain Buy & \$173 PO.

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## Equity

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**Stock Data**

Price (NAS / NAS)	132.67 USD / 133.78 USD
Price Objective	173.00 USD / 173.00 USD
Date Established	31-Jan-2024 / 31-Jan-2024
Investment Opinion	B-1-9 / B-1-9
52-Week Range	89.42 USD - 153.78 USD
Market Value (mn)	1,656,763 USD
Free Float	99.6%
Average Daily Value	4444.53 USD
Shares Outstanding (mn)	12,487.9 / 12,487.9
BofA Ticker / Exchange	GOOGL / NAS
BofA Ticker / Exchange	GOOG / NAS
Bloomberg / Reuters	GOOGL US / GOOGL OQ
ROE (2024E)	35.2%
Net Dbt to Eqty (Dec-2023A)	1.2%
ESGMeter™	High

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EEA: European Economic Area  
EU: European Union  
EC: European Commission  
EMEA: Europe, the Middle East and Africa  
ROI: Return on Investment  
DMA: Digital Markets Act

## Price objective basis & risk

### Alphabet (GOOGL / GOOG)

Our price objective of \$173/\$173 is based on 21x 2025E core Google GAAP EPS plus cash. 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.

Risks for the stock 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, 5) potential for increasing Capex and lower FCF-given AI focus.

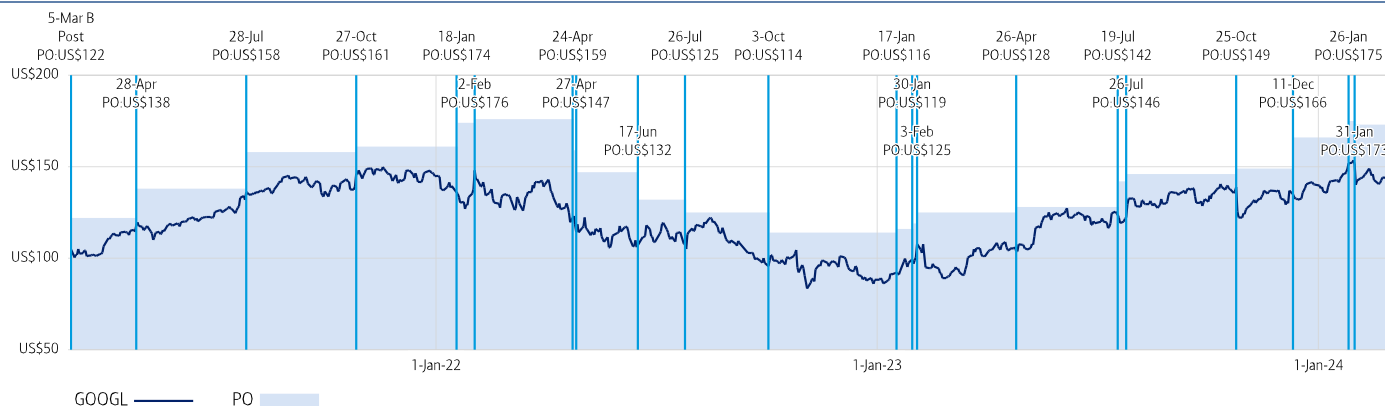
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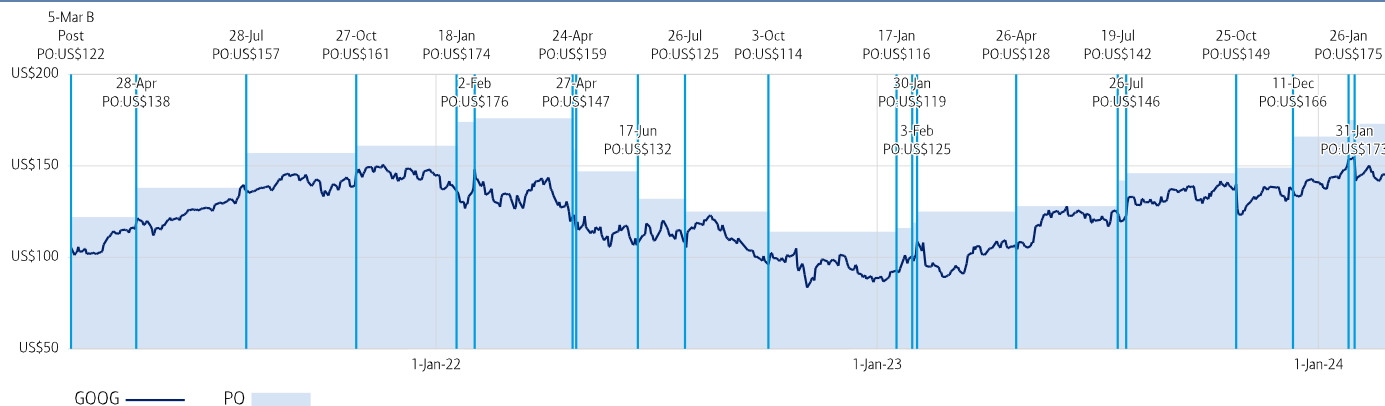
### Alphabet A (GOOGL) Price Chart



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

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### Alphabet C (GOOG) Price Chart



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

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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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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