

EQUITY RESEARCH REPORT

BLACKSTONE EQUITY RESEARCH
Internet & Digital Media Coverage

ALPHABET INC. (NASDAQ: GOOGL)

Rating: HOLD

Price Target: \$175.00

Current Price: \$171.50 (as of December 1, 2024)

Analyst: Jennifer Martinez, CFA

Date: October 28, 2024

Sector: Internet Services & Technology

EXECUTIVE SUMMARY

We maintain our HOLD rating on Alphabet Inc. (GOOGL) with a price target of \$175, representing modest 2% upside. While the company demonstrates strong fundamentals in search and cloud, we see mixed signals that warrant a cautious stance:

- **Search Revenue Resilience:** Google Search maintaining ~91% market share despite AI disruption concerns
- **Cloud Growth Deceleration:** GCP growth slowing to 35% YoY from prior quarters' 40%+ rates
- **YouTube Advertising Pressure:** Competition from TikTok and Meta affecting video ad revenue
- **Regulatory Overhang:** Multiple antitrust proceedings creating uncertainty

KEY INVESTMENT HIGHLIGHTS

1. Search Business Proves Durable Despite widespread concerns about AI disrupting search, Google's core advertising business remains resilient: - Google Search revenue: \$49.4B (+12.2% YoY) in Q3 2024 - Search market share stable at 91.9% globally - AI Overviews rolling out to enhance user experience while maintaining ad inventory - Average cost-per-click (CPC) up 8% YoY, indicating healthy advertiser demand

2. Google Cloud Platform Gaining Ground While growth is moderating, GCP continues market share gains: - Q3 2024 Cloud revenue: \$11.4B (+35% YoY) - Cloud operating margin improved to 13% from 3% a year ago - Vertex AI platform driving enterprise adoption with 60% of Fortune 500 as customers - Strategic partnerships with SAP, MongoDB expanding addressable market

3. YouTube Navigating Competitive Headwinds YouTube faces intensifying competition but maintains creator ecosystem advantages: - YouTube

advertising revenue: \$8.9B (-2.1% YoY) in Q3 2024 - YouTube TV subscribers crossing 8M milestone - Shorts competing effectively with TikTok, reaching 70B+ daily views - YouTube Music subscriber growth of 25% YoY offsetting some advertising pressure

FINANCIAL ANALYSIS

Q3 2024 Results Mixed vs. Expectations: - Total Revenue: \$88.3B (+15.1% YoY, in-line with \$88.2B estimate)
- Google Services: \$74.9B (+13% YoY) - Google Cloud: \$11.4B (+35% YoY, below \$11.6B estimate) - Other Bets: \$388M (+12.3% YoY) - Operating Margin: 32.1% (down 40 bps YoY due to AI investments)

Balance Sheet & Cash Generation: - Cash and equivalents: \$110.9B - Free cash flow: \$18.9B in Q3 (down from \$21.3B prior year) - Share repurchases: \$15.3B in Q3 2024 - Effective tax rate: 16.2%

VALUATION & TARGET PRICE

Our \$175 price target based on DCF and multiple methodologies:

DCF Analysis (60% weight): \$178 per share - 10-year model with 2.5% terminal growth rate - WACC: 9.1% reflecting increased regulatory/competitive risks - Assumes Search revenue CAGR of 8% through 2029

P/E Multiple Analysis (40% weight): \$170 per share
- Applied 22x P/E multiple to 2025E EPS of \$7.75 - Slight discount to historical 24x due to competitive pressures - In-line with large-cap internet median valuation

KEY RISKS & CATALYSTS

Downside Risks: - Antitrust remedies potentially forcing Chrome/Android divestitures - Accelerated AI disruption to search reducing query volume - Increased competition in cloud computing affecting margin expansion - Economic downturn reducing digital advertising spend

Upside Catalysts: - Successful monetization of AI Overviews maintaining search economics - GCP achieving 40%+ growth rates through enhanced AI offerings
- YouTube advertising recovery as platform innovation attracts Gen Z users - “Other Bets” reaching profitability, particularly Waymo autonomous vehicles

COMPETITIVE POSITIONING

Search & Advertising: - Dominant position but facing new challenges from ChatGPT search features - Investment in AI infrastructure positioning Google to maintain leadership - Advertising products remain superior with extensive data and targeting

Cloud Computing:

- Trailing AWS and Azure but closing gap with AI-native approach - Vertex AI and generative AI tools creating differentiation - Partnerships and go-to-market improvements driving enterprise traction

CONCLUSION

Alphabet remains a high-quality business with durable competitive advantages, but faces a challenging transition period. The company's massive investments in AI should position it well long-term, but near-term execution and regulatory outcomes create uncertainty. We recommend waiting for a better entry point or clearer competitive positioning.

Investment Recommendation: HOLD

12-Month Price Target: \$175.00

Risk Rating: MODERATE-HIGH (due to regulatory overhang)

QUARTERLY ESTIMATES

Metric	Q4 2024E	Q1 2025E	FY 2024E	FY 2025E
Revenue	1.85	1.92	7.42	7.75
(B) 91.2 89.5 351.8 378.4 EPS()				

Important Disclosures: Blackstone Equity Research has no investment banking relationship with Alphabet Inc. This research is produced independently by our equity research department.

Analyst Certification: Jennifer Martinez certifies that the opinions expressed in this report accurately reflect her personal views about Alphabet Inc. and that no part of her compensation is directly related to the specific recommendations herein.

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