

Alphabet, formerly called Google, maintains the largest online index of websites accessible through automated search technology. It generates revenue through online advertising, cloud services, and hardware. Google is now an operating segment of Alphabet. The company was founded in 1998 by Sergey Brin and Larry Page and went public in 2004.

## Analyst's Notes

Analysis by Joseph Bonner, CFA, April 25, 2025

**ARGUS RATING: BUY**

- Strong 1Q25 amid antitrust woes
- Alphabet EPS rose 49% on 13% revenue growth in 1Q25.
- Alphabet continues to see generative AI as a key technology shift, warranting massive investment as it pushes its Gemini advanced AI model forward through a variety of enhancements and across its tech and product stacks.
- The company continues to face extreme regulatory pressure and risk from negative rulings in two federal U.S. antitrust investigations, other lawsuits, and regulatory investigations and actions in Europe.
- Even amid the regulatory backlash, Alphabet has made a big bet on completing its largest ever acquisition in its \$32 billion deal to acquire cloud cybersecurity platform Wiz.
- We are raising our 2025 GAAP EPS estimate to \$9.55 from \$8.73 and our 2026 forecast to \$10.05 from \$9.77.

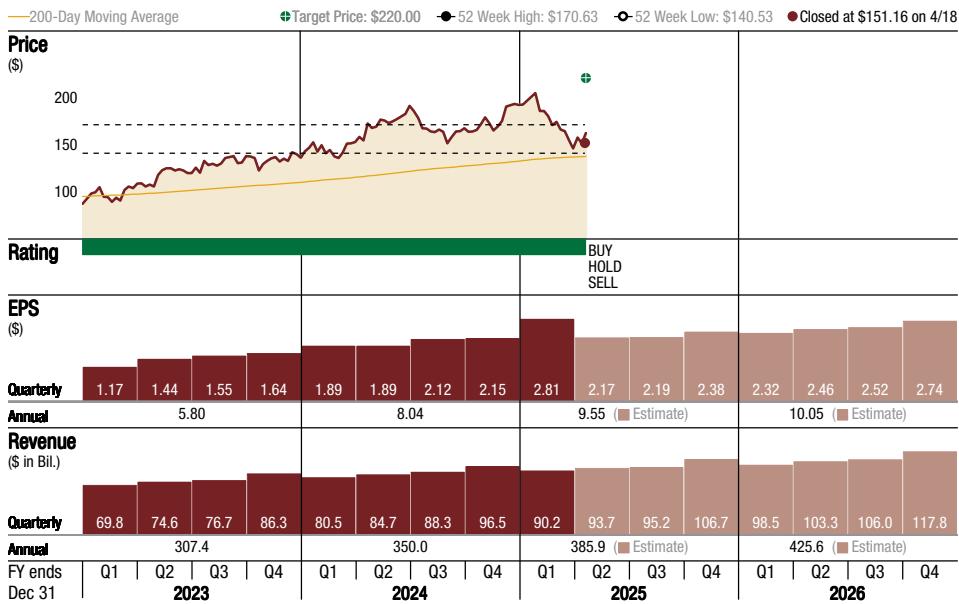
## INVESTMENT THESIS

We are maintaining our BUY rating on Alphabet Inc. (NGS: GOOGL) to a target price of \$220. It is perhaps ironic that Alphabet's spectacular success in internet search with often over 90% of search queries in many countries has led to a raft of antitrust allegations, investigations, and litigation. Being branded a monopolist in U.S. federal court twice in a matter of months was certainly a blow though these cases still have a ways to go since we expect Alphabet to appeal. In any event, we think Alphabet is likely to operate in a far more restrictive regulatory environment over time.

Alphabet remains an advertising juggernaut despite possible serious threats from competing generative AI platforms to its Search business, the antitrust litigation/regulatory pressure and possible fallout from the new U.S. tariff regime. YouTube and Google Cloud are also doing just fine as the company spikes investment in its own competitive AI applications as well as compute infrastructure as it races against Microsoft/Open AI and Meta to ensure its future relevance. The supposed benefits of the Chinese DeepSeek model

## Market Data

Pricing reflects previous trading week's closing price.



## Argus Recommendations

Twelve Month Rating	SELL	HOLD	BUY
Five Year Rating	SELL	HOLD	BUY
Sector Rating	Under Weight	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 73% Buy, 26% Hold, 0% Sell.

## Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

### Market Overview

Price	\$161.96
Target Price	\$220.00
52 Week Price Range	\$140.53 to \$207.05
Shares Outstanding	5.82 Billion
Dividend	\$0.84

### Sector Overview

Sector	Communication Services
Sector Rating	MARKET WEIGHT
Total % of S&P 500 Market Cap.	9.20%

### Financial Strength

Financial Strength Rating	HIGH
Debt/Capital Ratio	7.3%
Return on Equity	30.7%
Net Margin	30.9%
Payout Ratio	0.09
Current Ratio	1.84
Revenue	\$359.71 Billion
After-Tax Income	\$111.00 Billion

### Valuation

Current FY P/E	16.96
Prior FY P/E	20.14
Price/Sales	2.62
Price/Book	5.70
Book Value/Share	\$28.41
Market Capitalization	\$942.61 Billion

### Forecasted Growth

1 Year EPS Growth Forecast	18.78%
5 Year EPS Growth Forecast	14.00%
1 Year Dividend Growth Forecast	40.00%

### Risk

Beta	0.99
Institutional Ownership	78.32%

## Analyst's Notes ...Continued

has put these extraordinarily large expenditures into question at the moment. Cost optimization remains a key priority for Alphabet with the benefit observable in continued margin expansion.

We see Alphabet as one of the Tech industry's leaders, along with Meta Platforms, Apple, Amazon, and Microsoft. These companies have come to dominate new developments in mobile, public cloud, and big data analytics, as well as emerging areas such as artificial intelligence, virtual/augmented reality, and even quantum computing. While Alphabet has often been criticized as a Johnny-one-note for its dependence on digital advertising, the rapid growth of Google Cloud has begun to diversify the company's revenue. Even the much maligned Waymo autonomous vehicle business has begun to expand commercial services, well ahead of competitors. Alphabet remains at a minimum competitive, if not a leader, in the development of generative AI, perhaps the new computing paradigm.

We remain positive on Alphabet's underlying businesses and believe that GOOGL shares are attractively valued.

## RECENT DEVELOPMENTS

Alphabet reported 1Q25 results on April 24 after the market close. With 1Q results, Alphabet increased its quarterly cash dividend by 5% or a penny to \$0.21, \$0.84 on an annual basis. The indicated yield is 0.5%. Our 2025 dividend estimate is \$0.84 and our 2026 forecast is \$0.92. Alphabet only initiated its quarterly cash dividend in April 2024.

Alphabet beat the 1Q consensus estimate by \$88 million on revenue and the consensus EPS estimate by \$0.80. Alphabet provides virtually no guidance, so large variances from consensus are typical. GOOGL rose 2% intraday on April 25.

Consolidated net revenue rose 13% from the prior year to \$74.5 billion (less traffic acquisition costs). Google's 1Q25 advertising revenue, its primary revenue stream, rose 8.5% to \$66.9 billion, slowing from 13% growth in 1Q24 and reflecting 10% growth in both Search and YouTube advertising revenue. This increase in Search advertising revenue was led by the financial and retail sectors and in YouTube by direct response advertising then by brand. Google Cloud reported 28% revenue growth, maintaining its growth rate from 1Q24.

Google Subscriptions Platforms & Devices (renamed from 'Google Other' and including YouTube subscriptions, Google Play, hardware, and other nonadvertising businesses) posted 10% revenue growth. In the small Other Bets segment, revenue fell 9% to \$450 million.

Traffic acquisition costs (TAC) rose 6% from the prior year to \$13.8 billion. The TAC margin as a percentage of revenue narrowed by 40 basis points to 20.6%.

The total cost of revenue rose 8% from the prior year, accelerating from 5% in 1Q24. Other cost of revenue, excluding TAC, rose 9%, primarily driven by YouTube content, depreciation, and other infrastructure costs. First-quarter operating income rose 20% to \$31 billion, slowing from 46% in 1Q24 and the operating

## Growth &amp; Valuation Analysis

## GROWTH ANALYSIS

(\$ in Millions, except per share data)

	2020	2021	2022	2023	2024
Revenue	182,527	257,637	282,836	307,394	350,018
COGS	84,732	110,939	126,203	133,332	146,306
Gross Profit	97,795	146,698	156,633	174,062	203,712
SG&A	28,998	36,422	42,291	44,342	41,996
R&D	27,573	31,562	39,500	45,427	49,326
Operating Income	41,224	78,714	74,842	84,293	112,390
Interest Expense	-1,730	-1,153	-1,817	-3,557	-4,214
Pretax Income	48,082	90,734	71,328	85,717	119,815
Income Taxes	7,813	14,701	11,356	11,922	19,697
Tax Rate (%)	16	16	16	14	16
Net Income	40,269	76,033	59,972	73,795	100,118
Diluted Shares Outstanding	13,741	13,553	13,159	12,722	12,447
EPS	2.93	5.61	4.56	5.80	8.04
Dividend	—	—	—	—	0.60
<b>GROWTH RATES (%)</b>					
Revenue	12.8	41.2	9.8	8.7	13.9
Operating Income	14.7	90.9	-4.9	12.6	33.3
Net Income	17.3	88.8	-21.1	23.0	35.7
EPS	19.2	91.4	-18.7	27.2	38.6
Dividend	—	—	—	—	—
Sustainable Growth Rate	17.5	30.9	26.9	25.3	30.4
<b>VALUATION ANALYSIS</b>					
Price: High	\$92.19	\$150.97	\$151.55	\$142.68	\$201.42
Price: Low	\$50.44	\$84.81	\$83.34	\$84.86	\$130.67
Price/Sales: High-Low	6.9 - 3.8	7.9 - 4.5	7.1 - 3.9	5.9 - 3.5	7.2 - 4.6
P/E: High-Low	31.5 - 17.2	26.9 - 15.1	33.2 - 18.3	24.6 - 14.6	25.1 - 16.3
Price/Cash Flow: High-Low	22.4 - 12.2	23.0 - 12.9	21.7 - 11.9	17.2 - 10.2	24.0 - 15.6

## Financial &amp; Risk Analysis

## FINANCIAL STRENGTH

	2022	2023	2024
Cash (\$ in Millions)	21,879	24,048	23,466
Working Capital (\$ in Millions)	95,495	89,716	74,589
Current Ratio	2.38	2.10	1.84
LT Debt/Equity Ratio (%)	10.6	8.6	6.9
Total Debt/Equity Ratio (%)	11.6	9.6	7.8

## RATIOS (%)

Gross Profit Margin	55.4	56.6	58.2
Operating Margin	26.5	27.4	32.1
Net Margin	21.2	24.0	28.6
Return On Assets	16.6	19.2	23.5
Return On Equity	23.6	27.4	32.9

## RISK ANALYSIS

Cash Cycle (days)	40.7	—	—
Cash Flow/Cap Ex	2.9	3.2	2.4
Oper. Income/Int. Exp. (ratio)	200.8	279.3	448.1
Payout Ratio	—	—	—

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**Analyst's Notes** ...Continued

margin expanded by 230 basis points to 34%. Operating margin expansion was driven by the strong revenue growth, a moderating pace of compensation growth, and a favorable product mix shift. GAAP diluted EPS rose 49% from the prior year to \$2.81. Most of the gain in GAAP EPS was due to the below the line item Other Income which reflect a positive shift of \$8.3 billion in 1Q25 related to a gain on non-marketable securities from an investment in a private company. Share repurchases over the past year boosted EPS growth by three percentage points.

The much-maligned Other Bets segment, i.e., Google Fiber, Waymo, and Verily Life Science (along with other smaller start-ups), reported a 1Q operating loss of \$3 billion, worsening from a loss of \$2.3 billion in 1Q24. We note that Other Bets as the repository of start-up businesses is more or less designed to run at a loss. The Google Cloud segment turned in an operating profit of \$2.2 billion in 1Q25, accelerating from \$900 million in 1Q24.

Alphabet/Google remains beset by antitrust charges from all sides. The most important of these cases was filed by the U.S. Department of Justice. On August 5, 2024, a federal judge branded Google a monopolist in a ruling on the first antitrust case brought by the DOJ and joined by 37 U.S. states. The decision held that Google has monopoly power in the market for general search services and general search text advertising, that Google's distribution agreements are exclusive and have anticompetitive effects, and that Google exercised its monopoly power by charging above market prices for general search text ads allowing it to earn

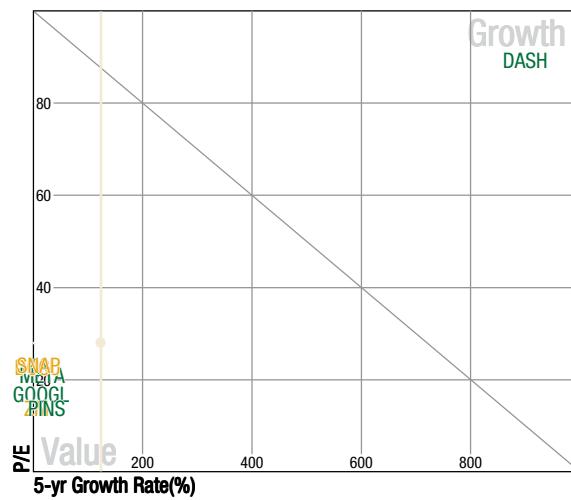
monopoly profits. The ruling really turned on the judge's view of the anticompetitive effect of Google's 'exclusive' distribution agreements. According to the ruling, Google paid \$26.3 billion in 2021 to secure its position as the preloaded default search engine on Apple's Safari browser, Mozilla's Firefox browser, all major Android device OEM's, Samsung, Motorola, and Sony, and the major U.S. wireless carriers, AT&T, Verizon, and T-Mobile. It was the exclusivity of the arrangements and the power gained from being the default search engine on almost all mobile devices sold in the U.S. that enabled Google to harness massive amounts of data to improve its search engine that gave Google its monopoly position even if other search engines could be installed on the devices. The judge did find for Google on a few issues including that Google lacks monopoly power in the market for search advertising, that there is no product market for general search advertising and that Google is not liable for actions involving its advertising platform. The judge also declined to sanction Google for its failure to preserve employees chat messages. The judge in this case is currently deciding on what remedies he will order Alphabet to take which at the extreme end could involve breakup.

On April 17, Alphabet lost in a second antitrust trial brought by the DOJ and 17 states with Google again declared a monopolist, this time in the market for software used to buy and sell advertising placed on web pages also known as ad-tech. Google had made the argument that it is already losing market share in both search and ad-tech to competitors like TikTok and Amazon. This second trial

**Peer & Industry Analysis**

The graphics in this section are designed to allow investors to compare GOOGL versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how GOOGL stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how GOOGL might fit into or modify a diversified portfolio.



Ticker	Company	Market Cap (\$ in Millions)	5-yr Growth Rate (%)		Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
			Current FY P/E	5-yr Growth Rate (%)			
META	Meta Platforms Inc	1,193,744	16.0	21.1	37.9	13.3	BUY
GOOGL	Alphabet Inc	942,607	14.0	17.0	30.9	5.2	BUY
DASH	DoorDash Inc	74,755	900.0	89.4	1.1	57.1	BUY
EA	Electronic Arts, Inc.	38,207	9.0	22.9	14.3	20.6	BUY
ZM	Zoom Communications Inc	19,977	6.0	14.0	21.7	1.1	HOLD
DOCU	DocuSign Inc	16,769	8.0	22.7	35.9	8.2	HOLD
PINS	Pinterest Inc	15,472	25.0	13.9	51.1	19.7	BUY
SNAP	Snap Inc	12,316	10.0	23.1	-13.0	32.4	HOLD
<b>Peer Average</b>		<b>289,231</b>	<b>123.5</b>	<b>28.0</b>	<b>22.5</b>	<b>19.7</b>	



## Analyst's Notes ...Continued

will now move into the remedies phase. We expect Alphabet to appeal both DOJ cases, perhaps up to the U.S. Supreme Court. Besides the obvious headline risk of being declared a monopoly in both markets, the possible sanctions on Alphabet's business could be onerous, even if the judges decide not to take the extreme step of breaking up the company. One other downside from all this antitrust litigation in the U.S. and abroad is that like Microsoft before it, Alphabet's management could become so distracted by all the litigation that it slows the company's pace of innovation, the life blood of Tech competitiveness even if it wins the cases on appeal. Some industry observers credit Microsoft's late 1990's/early 2000's antitrust troubles with that company's missing out on both the rise of Google and mobile computing.

On March 18, Alphabet's Google division announced that it has agreed to acquire cloud security platform provider Wiz for \$32 billion in cash, the largest acquisition in company history. Google expects to integrate Wiz into its Google Cloud business though Wiz products will also continue to be available across all major cloud services including Amazon Web Services, Microsoft Azure, and Oracle Cloud Platform. Google's rationale for the acquisition is around improving multi-cloud security and the ability of clients to use multiple clouds for building new software solutions and running them in the cloud. Management believes that the combination of Wiz and Google Cloud will improve cloud and AI security, address emergent security threats, increase the ability of cybersecurity teams to scale through automation, and lower client costs.

Alphabet is certainly making a big bet on a friendlier regulatory environment from the new U.S. federal administration with its large Wiz acquisition deal. The direction of the new regulatory regime in Washington remains unclear to us with proponents of both greater and lesser big Tech regulation in the new administration and Congress. In our view, it is a toss-up as to where the new regulatory authorities will eventually come down. Reuters has reported that Alphabet agreed to pay a break-up fee of \$3.2 billion if the deal ultimately does not close. Alphabet expects to complete the Wiz acquisition in 2026 subject to regulatory approval.

On March 25, Google released its Gemini 2.5 Pro Experimental AI model. As has become typical of Google AI model releases, the company was criticized for releasing the model in experimental form to a limited set of users rather than shipping in general availability. Google touts Gemini 2.5 as the company's 'most advanced model for complex tasks.'

### EARNINGS & GROWTH ANALYSIS

We are raising our 2025 GAAP EPS estimate to \$9.55 from \$8.73 and our 2026 forecast to \$10.05 from \$9.77. Alphabet only issues guidance in general, non-quantitative terms. Our estimates imply 12% EPS growth on average over the next two years. Our long-term earnings growth rate forecast is 14%.

Search advertising, whether on Google sites or through its third-party Google Network (on desktop or mobile), remains the company's crucial revenue driver, even as its other businesses, such as YouTube, Google Play, and Google Cloud have become multibillion-dollar businesses in their own right and in the case of Cloud has become a significant revenue growth driver. Management often notes that it manages for the long term and that quarterly results can be lumpy. Alphabet has been famously stingy with information on its business outside of advertising.

One of the key investor questions Alphabet has had to address is the perception that though the company did much of the basic research that led to generative AI, it has fallen behind Open AI's ChatGPT. Further, investors have been concerned about whether GenAI powered applications from ChatGPT/Microsoft, a well-funded giant along with a host of smaller GenAI start-ups, could pose an existential threat to Google's digital advertising business. Google's share of this business has been slowly eroding for years due to increased competition first from Amazon then TikTok and could drop below 50% in 2025 according to industry tracker eMarketer. Alphabet has responded to the threat by rolling out AI Overviews in Search first in the U.S. earlier this year and now into over 100 countries. AI overviews current reaches 1.5 billion users on a monthly basis, up 500 million from the company's 4Q results in early February. Google has also begun putting advertising around AI Overviews. Indeed, management has been laser-focused on infusing GenAI across its tech stack and product stack. GenAI applications in the Google Cloud Platform (GCP) are obvious though these will also continue to entail significant capital expenditure, evidenced by the \$22.5 billion spike to \$75 billion in 2025, following a \$20.3 billion spike in 2024. Even more to the point, GenAI is improving Google Search advertising and YouTube's content discovery engine. GenAI has also been incorporated into Android and the new Pixel hardware line. Alphabet's forecast for 2025 capex spend to spike to \$75 billion exceeds Microsoft's \$62 billion spend and Meta Platforms' \$62.5 billion spend. As a percentage of the 2025 consensus revenue estimate, Alphabet's capex spend at 22% is on par with Microsoft though below Meta's 33%. The launch of China's DeepSeek GenAI model, developed at a supposed fraction of the cost of U.S. company models combined with what some industry participants call the commoditization of GenAI models, has put these extraordinarily large expenditures into question.

With GCP, Google has provided a steady stream of improvements, as it does with most of its products, and is working to differentiate its services through AI. It has also moved to provide discounts, competing on price against Amazon, and has made investments and formed partnerships to secure long-term cloud computing deals with major clients. GCP has also tripled its sales force since 2019, essentially putting more feet on the street to compete with industry leaders Amazon and Microsoft. In addition, it has made strategic acquisitions in the space. CEO Sundar Pichai believes that GCP provides a number of differentiators relative to competitors, including AI-based real-time data and analytics, an open infrastructure that runs client workloads anywhere, and a superior level of cybersecurity. Industry tracker Gartner places Google Cloud Platform a distant third in the market. Google is also partnering with multinational giants, as in its deals with SAP, Salesforce and Cisco, to integrate business software systems into GCP. Management clearly views GCP as critical to the company's future. Former Oracle executive Thomas Kurian heads GCP.

Google's YouTube is all about short-form video and as Netflix has admitted, the most popular streaming-video service in the world. YouTube launched its Shorts service to compete with TikTok, and is currently working to monetize the new service. Management has introduced revenue-sharing with content creators, and YouTube content creation as well as advertising campaigns provide more prime opportunities for generative AI applications. YouTube also has a growing streaming television channel service,

## Analyst's Notes ...Continued

called 'YouTubeTV.' The service, technically a virtual multichannel video program distribution service (vMVPD), has become another formidable competitor in the over-the-top (OTT) streaming video market. This market already includes Hulu Live TV, Dish's Sling, as well as a host of other OTT services such as Netflix, Amazon Prime Video, and Disney+. We say 'formidable' because YouTube users already spend over a billion hours a day watching its short-form content; it thus has a huge potential customer base. YouTube TV is available on both the Roku and Apple TV streaming devices. Google has also partnered with Verizon, the largest wireless provider in the U.S. and a growing player in the 5G-connected home market.

On January 20, in one of his first official acts, President Trump signed an executive order delaying enforcement of a federally mandated ban on popular social media site TikTok. Mr. Trump's order follows a U.S. Supreme Court decision to uphold the TikTok ban on January 17. After a brief shutdown in the interim between the court ruling and presidential order TikTok was restored in the U.S. However, Apple and Alphabet's Google who operate the two largest digital application stores in the U.S. and at risk of liability for violating the law banning TikTok, continue to ban the app from their stores. Why this case is important for YouTube is that the virally popular TikTok with a reputed 170 million U.S. users is a major social media competitor to YouTube and we see TikTok's wounding or even incapacity to be a positive for YouTube.

YouTube exclusively distributes NFL Sunday Ticket as an add-on to YouTube TV subscriptions, or on a standalone basis on YouTube Primetime Channels. Sunday Ticket broadcasts Sunday afternoon out-of-market regular season NFL football games produced by CBS and Fox. According to the Wall Street Journal Google pays about \$2 billion a year for the residential rights to Sunday Ticket for a seven-year term, well above the \$1.5 billion per year that DirecTV, the previous rights holder, paid for both residential and commercial rights. While the return on investment for Sunday Ticket is unclear, given the high cost and Alphabet's usual stinginess with actual data, logic assumes it should be a subscriber draw at least during the NFL season.

Waymo, Alphabet's autonomous driving business and the largest component of the Other Bets segment, continues to scale its commercial service, no doubt, also driving the continued segment losses. Waymo operates its own autonomous vehicles in Phoenix, San Francisco, Los Angeles, and Austin, racking up four million passenger trips in 2024 while it averages about 250,000 trips per week, up 100,000 from Alphabet's 4Q results release in early February. Waymo plans to expand its own branded service to Washington, DC in 2026. In September, 2024, Waymo expanded its partnership with ride-hailing service Uber Technologies to bring commercial autonomous ride-hailing to Austin and Atlanta in 2025, and Miami in 2026 whereby Uber will manage a Waymo fleet of vehicles. Waymo will begin testing in its first international market, Tokyo, in 2025. While investors have regularly criticized Waymo as an expensive boondoggle over the last decade and a half, Waymo technology looks ready for prime time and is likely far ahead of AV competitors, namely Tesla. The company is also looking to apply its deep GenAI knowledge to improve on Waymo's reliability and lower hardware costs as the business continues scaling which it certainly seems to be.

### FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Alphabet is High, our highest

rating. The company's credit ratings are in the high As - high-quality investment grade - with stable outlooks.

Alphabet repurchased \$15.1 billion of its stock in 1Q25 after buying back \$62.2 billion in 2024 and \$61.5 billion of its stock in 2023. It repurchased \$59 billion in 2022, \$50 billion in 2021, \$18.4 billion in 2020, and \$31.1 billion in 2019. The share count fell by 2% or by 234 million shares in the last 12 months.

With 1Q results, Alphabet increased its quarterly cash dividend by 5% or a penny to \$0.21, \$0.84 on an annual basis. The indicated yield is 0.5%. Our 2025 dividend estimate is \$0.84 and our 2026 forecast is \$0.92. Alphabet only initiated its quarterly cash dividend in April 2024.

Management intends to provide both the new dividend and ongoing share repurchases as parts of its shareholder return program. With \$96 billion in cash on the balance sheet and \$75 billion in trailing 12-month free cash flow, Alphabet has the resources to cover the dividend, which we estimate to be about \$10.3 billion a year, and continue making large share repurchases.

### MANAGEMENT & RISKS

Generative AI, exemplified by the success of OpenAI's ChatGPT model among a host of other competitors poses an existential threat to Alphabet's core revenue engine, internet search. OpenAI launched its SearchGPT search engine in beta (test) mode in July, 2024 and it became generally available to all users in February, 2025. Google has begun to provide an AI overview in its search results and has even begun to monetize AI overview with advertising. The GenAI competitive threat to Google's internet search business bears close monitoring.

Like Microsoft and Intel before it, Alphabet has run into serious antitrust issues. Google has lost both the federal, U.S. Department of Justice cases against it at the trial court level with judges currently deciding on remedies which could run from possible break-up to more benign sanctions. In any event, we think these cases will be headed for appellate review, perhaps up to the U.S. Supreme Court. The European Commission has issued adverse rulings and levied record-breaking fines, with perhaps more to come. Many U.S. states have filed complaints against Alphabet's Google division. Much of this antitrust litigation targets Google's dominance in the search and digital advertising markets. Google continues to face antitrust litigation from all sides.

Google continues to face regulatory issues in Europe. In late 2022, the European Union passed new legislation, the Digital Services Act (DSA) and the Digital Markets Act (DMA), both aimed at strictly regulating large online businesses, i.e., Google and other large American tech companies. On April 25, 2023, Google Search, Google Play, Google Maps, and Google Shopping were designated as a 'very large online platform' or a 'very large online search engine' by the European Commission, making them subject to the DSA. The DSA is aimed at regulating Google's practices around content moderation/disinformation and user privacy, among other issues, and the company will be required to undergo outside audits of its practices and share algorithmic data with EU regulators.

The DSA took effect on August 25, 2023, and penalties for noncompliance are severe. The obvious risk to Alphabet is the imposition of a severe financial penalty for alleged noncompliance, though regulations could also have the perverse effect of locking in the existing competitive structure of an industry. Some critics claim that this occurred when the EU enacted its General Data Protection

**Analyst's Notes** ...Continued

Regulation in 2018, as large companies with more resources are better able to comply with these laws than smaller competitors. EU regulators have tried to skirt this issue by making the new laws applicable only to services that aggregate very large numbers of users. While regulatory litigation and actions in the U.S. and Europe may take years to play out, we see them as a material risk to Alphabet which could one day be subject to onerous regulation and perhaps even to a forced breakup, as well as to additional large fines.

In September 2024, the company lost an appeal of a 2017 EU decision that charged Google with giving preferential treatment to its own price-comparison shopping service versus competitors, which included a 2.4 billion euro fine. In a separate case, Google scored a partial win when the General Court of the European Union, the EU's second highest court, reversed a 1.49 billion euro fine, though upheld the European Commission's findings around Google's anticompetitive behavior in restrictive contracts related to advertising on third party websites. In an echo of the U.S. ad-tech case against Google, the U.K. Competition and Markets Authority made a provisional finding that Google has engaged in anti-competitive conduct around favoring its own ad-tech. In January 2025, the CMA began an investigation of Google's search services.

Google also continues to be sued for anti-competitive behavior in the private litigation space. In August, 2024, local business and social network website Yelp sued Google in federal court for preferencing its own local services over Yelp. In December 2023, Google lost an antitrust jury trial in a suit brought by videogame publisher Epic Games, the distributor of the iconic 'Fortnite' videogame. Epic Games' lawsuit revolved around the Google Play app store, the 30% fee charged to app developers for customer purchases, and the rights of app developers to use their own distribution and billing methods while remaining on Google Play. Google is appealing the verdict. We note that Epic Games lost a similar antitrust suit against Apple and as Tech reporter Casey Newton pointed out, third-party app stores and billing systems became a legal requirement in Europe in 2024. In something of a turnaround, Google filed a complaint against Microsoft in September 2024 with the European Commission alleging anti-competitive behavior in the enterprise software market by Microsoft's Azure cloud service.

Alphabet's internet advertising-based businesses are highly competitive and subject to rapid and disruptive technological change. The rapid development of generative AI is a new and material risk to Google's dominance in internet search and to Alphabet as a whole. To remain relevant, Alphabet must keep up with, if not lead, such technological changes. Management recognizes that cultural norms around user privacy are evolving. Such norms could develop in a direction that limits Google's use of user data to make advertising more targeted, more relevant to the user, and thus more valuable to advertisers. The rapid adoption of mobile connectivity is a strong secular trend, and Google competitor Facebook has developed a mobile advertising platform to challenge Google's hegemony in digital advertising. Another deep-pocketed tech competitor, Amazon, has also moved into the advertising business, which threatens Alphabet/Google's industry position. Mobile search, particularly important to Alphabet/Google, remains a vibrant business, though it typically carries a lower rate. Alphabet must find ways to capitalize

profitably on emerging platforms in order to sustain its growth.

Management does not provide specific forecasts and instead discusses the business only in general terms. This leads to large variances - positive or negative - between consensus estimates and actual results. In addition, while the first and fourth quarters are seasonally strong, the second and third quarters are seasonally slower, and the investment community may underestimate or overestimate these seasonal effects. Large negative variances to consensus may hurt GOOGL shares.

Finally, management may not be able to guide the company's rapid growth efficiently. Competitive pressures are also likely to increase as Alphabet's rivals - Apple, Facebook, Amazon, Yahoo, and Microsoft - continue their attempts to capture market share in the online advertising space, enterprise cloud computing, streaming internet video, generative artificial intelligence and other competitive markets. While Alphabet's search engine, its core business, has essentially outpaced all its peers and its Android mobile operating system is the dominant global system, Alphabet competes at subscale in both cloud computing, well behind Amazon Web Services and Microsoft Azure, and in hardware, with a small fraction of competitor Apple's business. Alphabet has invested heavily to catch up in cloud computing and hardware, but although Alphabet's cloud computing business is obviously growing rapidly, it has yet to demonstrate that it can actually take market share while also expanding profitability.

Anat Ashkenazi became CFO on July 31, 2024, replacing Ruth Porat who was promoted to President and Chief Investment Officer. Ms. Ashkenazi had been CFO of pharma company Eli Lilly since 2021 and worked for Lilly in various financial executive positions since joining that company in 2001.

**COMPANY DESCRIPTION**

Alphabet, formerly called Google, maintains the largest online index of websites accessible through automated search technology. It generates revenue through online advertising, cloud services, and hardware. Google is now an operating segment of Alphabet. The company was founded in 1998 by Sergey Brin and Larry Page and went public in 2004.

Google's AdWords is an auction-based program that lets businesses display ads along with particular search results. Google's AdSense program enables websites in the company's network to serve targeted ads, based on search terms or web content, from AdWords advertisers. Most of the revenue generated through AdSense is shared with network partners. In addition, Alphabet owns YouTube.com, the web-based video site. It has also expanded into mobile telephony with its Android smartphone operating system and into public cloud services. About 52% of Alphabet's revenue is generated outside the U.S.

On April 3, 2014, Alphabet's new nonvoting class C shares began trading under the ticker GOOG. Alphabet's publicly held class A shares switched to the ticker GOOGL. The effect of the new class C share issuance was a non-economic 2-for-1 stock split.

On July 15, 2022, Alphabet executed a 20-for-1 stock split on its Class A, Class B and Class C stock. The stock split had no impact on the economic value of GOOGL shares.

**VALUATION**

Alphabet shares are up 2.6% in the last year on a total return basis, compared to a 10% advance for the S&P 500, an 11% gain for the Nasdaq Composite, a 9% gain for the S&P 500 Interactive

**Analyst's Notes** ...Continued

Media & Services (Industry) GIC level 3 index, and a 27% gain for the NYSE FANG+ Index, according to Bloomberg. Alphabet's trailing EV/EBITDA of 14 is below the peer median of 14.6 and the five-year average of 17. The forward EV/EBITDA of 10.8 is 18% below the peer average, compared to an historical discount of 4%. We are maintaining our BUY rating on GOOGL to a 12-month target price of \$220.

On April 25, BUY-rated GOOGL closed at \$161.96, up \$2.68.

## About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

### THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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