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Alphabet | North America

Addressing Disruption Debates and Why to Buy GOOGL Now

GOOGL sentiment and multiple have (again) troughed on search disruption concerns. We address 3 key disruption debates, why we remain bullish and the event path in May/June for GOOGL to showcase its GenAI leadership and re-rate higher. We are bullish as our \$185 PT has 22% upside.

Sentiment has (Again) Troughed...Time to Buy GOOGL: GOOGL sentiment has (again) troughed due to AI-disruption fears and more recently **1**) 1Q:25 decelerating paid click growth and **2**) today's press reports of Apple (covered by Erik Woodring) talking with other partners (OpenAI, Perplexity AI) to power its next generation "search" and also revealing that searches on the Safari browser dropped for the first time in April (due to increased AI usage). In all, **GOOGL is now trading at ~15x our '26 \$10 EPS, a trough multiple and in our view tactically a strong buying opportunity.** Note too that our \$10 of '26 EPS still factors in a 14-5% China tariff so resolution on this front (and a more stable macro ad environment) is likely to bring our \$10.50 bull case into play.

We now turn to addressing the disruption debates and near-term catalysts for GOOGL to re-rate higher...as GOOGL is trading below our 16-20X range through the search disruption uncertainty. Our \$185 PT has 22% upside.

Exhibit 1: GOOGL is currently trading at ~15x EPS, approaching its trough multiple it reached in late 2022



Source: Company Data, Bloomberg, Morgan Stanley Research

Debate 1. Is 2% (and Decelerating) Paid Click Growth Evidence of GOOGL Losing Share of Monetizable Behavior? No, we don't believe so. First, our survey data (see [here](#)) still doesn't show any signs of commercial behavior leaving GOOGL. Commercial behavior drives paid clicks (and monetization)...and recall that GOOGL has now started confirming that commercial queries are growing (as of early March

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Alphabet Inc. (GOOGL.O, GOOGL US)

Internet | United States of America

Stock Rating

Overweight

Industry View

Attractive

Price target

\$185.00

Shr price, close (May 7, 2025)

\$151.38

Mkt cap, curr (mm)

\$1,856,335

52-Week Range

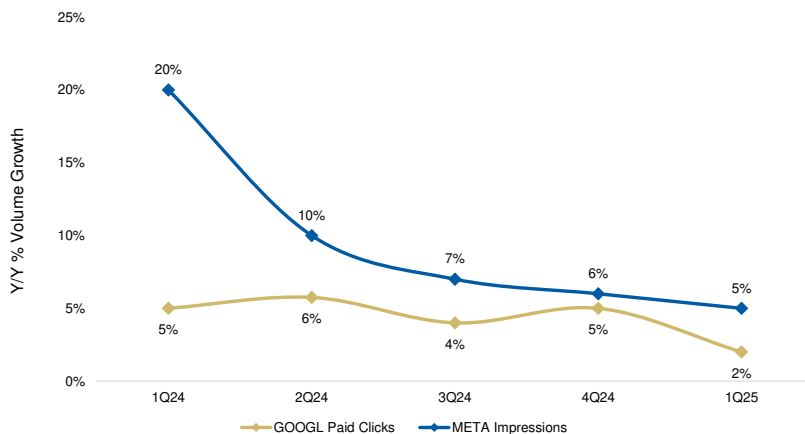
\$207.05-140.53

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and April). **Second**, we would argue that the leading potential AI-based threats (GPT, Meta AI, Perplexity) don't yet have large enough user bases or compelling enough products to drive commercial query behavior away from GOOGL. Even Apple management comments in the press today about the next generation search products needing to improve and our work [here](#) both highlight how the next generation players' e-commerce offerings are still lagging those of GOOGL. **Third**, part of GOOGL's paid click deceleration is likely driven by new AI-based search functionalities/TPU enabled ML (like Overviews, AI Mode, Gemini, more personalized shopping/targeted links, etc.) that are likely leading to higher conversion rates per click from a collapsing of the commercial funnel and higher relevancy. In some ways, this is similar to META which is improving the relevancy and conversion of its ads, leading to a deceleration in ad impression growth (even as revenue growth remains very healthy).

Exhibit 2: Part of GOOGL's paid click deceleration is likely driven by new AI-based search functionality which better targets users, resulting in the need for fewer clicks, in some ways similar to META's falling impression growth

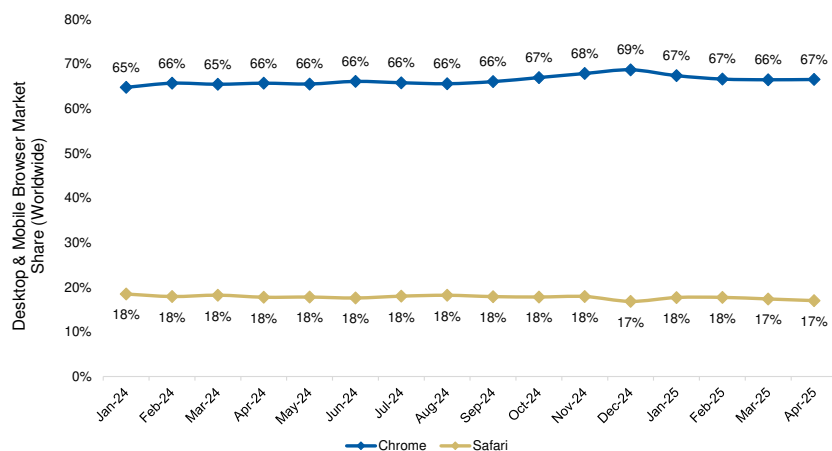


Source: Company Data, Morgan Stanley Research

Debate 2. Are Safari Search Queries Falling in April a Further Sign of GOOGL Disruption? No, we think browsers are set to be replaced. First, we have written in the past about how we expect GenAI enabled agentic offerings to emerge that will lead to more personalized multi-modal digital agentic interfaces...and in effect replace the browser. See [Building Jarvis: Will GOOGL, AMZN, AAPL or META Win the AI Assistant Race?](#) This isn't happening yet, but it's coming. In the near-term **second**, it could be a Safari share loss issue as Statcounter data show that Safari lost ~75bps of share to Chrome in April (and ~85bps in March). **Third**, further to this point, Google app usage continues to grow on iOS (see [Exhibit 4](#)), suggesting the challenges may be more of an indication of a shift away from the browser as opposed to Google Search itself. **Google also responded with a blog post noting that it continues to see overall search queries growing and queries from Apple devices and platforms growing** (see [here](#)). This also indicates a notably more forward stance to messaging from GOOGL, which follows the company being more active around product releases (announcing several model updates in the lead up to I/O). Notably, ChatGPT users are also moving quickly, which brings us to the most

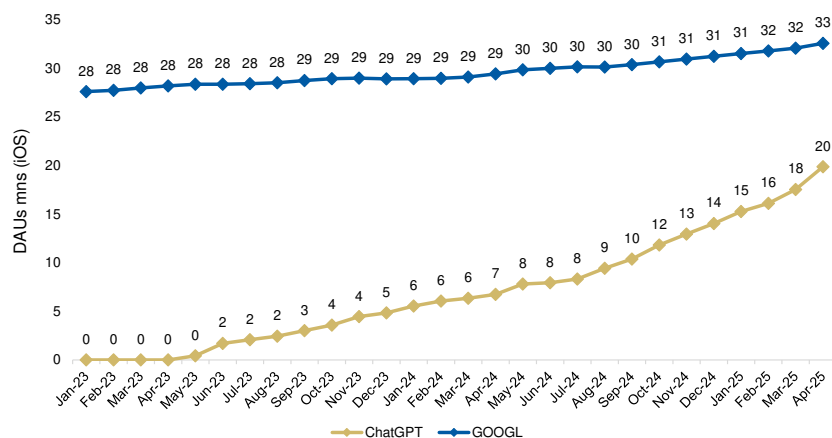
important executional aspect GOOGL has to get right... leveraging its leading data sets and user bases to ship more GenAI enabled products faster.

Exhibit 3: Third party data indicates Safari has lost browser share over time to Chrome, which may be a contributing factor to the Google recent weakness on Safari



Source: Morgan Stanley Research, Statcounter

Exhibit 4: Google DAUs continue to grow on iOS, suggesting that some recent weakness is limited to the Safari browser, although ChatGPT is capturing share



Source: Morgan Stanley Research, Sensor Tower

Debate 3. What Does GOOGL Need to Do to Re-Rate the Stock? Ship More Next Generation Gen-AI Enabled Products to Its Corpus of Users. As detailed here [Who Will Be the GenAI Leaders and Laggards?](#) we believe that leading tech platforms' first party data sets with broad distribution are rising in value through the Gen AI/LLM age. This is particularly true for GOOGL with its 15 products with 500mn+ monthly active users (all of which have now integrated some portions of Gemini) and 7 user bases with 2bn+ monthly active users. Consider too its multiple vertical specific data sets that make commercial queries stronger, such as the GOOGL shopping graph with 45bn product listings and 2bn updates to its shopping graph per hour. GOOGL is shipping more products of late (Gemini app now with 350mn monthly active users, expansion of Overviews, AI Mode to Search, multiple leading models, etc.). **But looking ahead, we look for an accelerated pace of next**

generation product roll outs (potentially agentic product offerings) **across its full user bases** (not just paying subs) **in order to maintain its product leadership, consumer utility and position at the top of the consumer digital monetization funnel.** Monitoring adoption will be key, as the longer it takes for Google to close the user gap between products like Gemini and ChatGPT, the more time OpenAI has to integrate commercial functionality into its app (we have already seen recent releases from ChatGPT set to improve the apps shopping capabilities, see [here](#)).

Debate 4. What are the Catalysts From Here? 3 Dates to mark in May and June.
As shown below, we see **GOOGL's I/O conference** (developer conference for new products to come), **GOOGL Marketing Live** (advertiser conference for new products to come) and **Apple's WWDC** as potential catalysts for GOOGL to showcase its leading GenAI products to come... and product details of when they will be deployed across their broader user bases. We have seen GOOGL re-rate in prior years (last year) around these events and with current sentiment look for a similar pattern ahead.

Morgan Stanley is acting as financial advisor to Wiz, Inc. ("Wiz") in connection with its definitive agreement to be acquired by Google LLC, as announced on March 18, 2025. The proposed transaction is subject to customary closing conditions including regulatory approvals. Wiz has agreed to pay fees to Morgan Stanley for its financial services, including fees that are contingent upon the consummation of the transaction. Please refer to the notes at the end of this report.

Exhibit 5: We highlight 3 key dates ahead (Google I/O, Google Marketing Live and WWDC) which are important catalysts to monitor for Google

Date	Event/Product	Why it Matters
GOOGL		
May 20-21	Google I/O	- What is it? Google I/O is an annual developer conference where GOOGL highlights its latest product innovations and upcoming launches. - Why it Matters? We expect GOOGL to announce new advancements around AI Overviews and enhanced search capabilities to fend off competitive threats. GOOGL may also showcase additional AI integrations across its suite of apps/platforms.
May 21	Google Marketing Live	- What is it? Google Marketing Live is an annual conference where GOOGL highlights the latest ad innovations that its bringing to its suite of apps/products. - Why it Matters? GOOGL may announce additional features to its Performance Max suite of ad tools. GOOGL could also share additional updates around AI Overview ads and how they are monetizing (last disclosure was that AI Overview was monetizing at the same rate as core search)
AAPL		
June 9 -13	WWDC	- What is it? Apple's annual worldwide developer conference highlighting its latest advancements in Apple software. - Why it Matters? We expect Apple to announce its latest AI related product releases and also integrations with third parties, where we will look for deeper integrations with Google, which have been suggested by the press.

Source: Company Data, Morgan Stanley Research

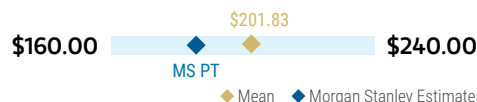
Risk Reward – Alphabet Inc. (GOOGL.O)

Alphabet Inc.

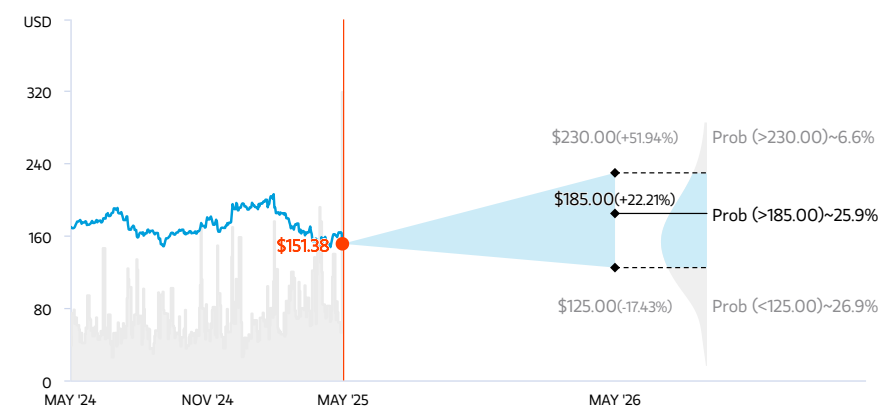
PRICE TARGET \$185.00

Our price target is determined using a discounted cash flow/discount to long-term EBITDA multiple. It implies a ~12X 2025e adjusted EBITDA. Our DCF uses a ~9% WACC and a ~3% terminal growth rate (in line with other growth-oriented internet companies). Our multiple based valuation uses a 10.9x EV/NTM EBITDA multiple

Consensus Price Target Distribution



RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

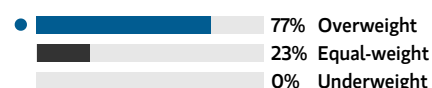


Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 7 May 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology [here](#)

OVERWEIGHT THESIS

- Continued AI-driven platform-level innovation on Search, YouTube, and with other offerings improve confidence in the durability of long term growth.
- Continued expense discipline leads to operating leverage and upward revisions on EPS and FCF estimates.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Secular Growth: *Positive*
New Data Era: *Positive*

View descriptions of Risk Rewards Themes [here](#)

BULL CASE

\$230.00

Implied ~12.9X 2026e bull case EBITDA.

Better than expected expense discipline and share repurchases lead to multiple expansion and higher earnings power. Online ad spending accelerates into '25 as GOOGL continues to take share of Search spend. New AI offerings prove incremental to the top and bottom line and don't cannibalize core Search. YouTube and Cloud become even bigger contributors to top-line growth, and operate at a higher margin than in our base case.

BASE CASE

\$185.00

Implied ~10.9X 2026e base case EBITDA.

Assumes pragmatic revenue growth in '25, continued incremental platform monetization and ongoing focus on durably re-engineering the cost base. As GOOGL continues platform-level innovation on Search and other categories, we assume pragmatic revenue/EBITDA growth while digital ad budgets expand. GOOGL introduces new AI offerings which increase confidence in the durability of long term growth and calm fears around competition. GOOGL executes towards improved operating efficiency throughout '25/26

BEAR CASE

\$125.00

Implied ~9.6X 2026e bear case EBITDA.

Global ad growth slows further and margins face pressure. Assumes slower search advertising growth, and that ad spending slows further. Expense discipline fails to materialize leading to lower than expected margin expansion and adj. EBITDA. New AI products create greater than expected margin pressure due to lower monetization rates and increased compute intensity.

Risk Reward – Alphabet Inc. (GOOGL.O)

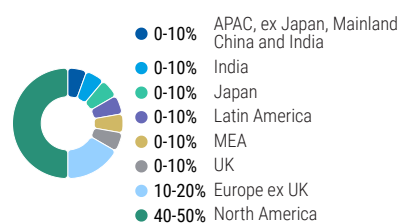
KEY EARNINGS INPUTS

Drivers	2024	2025e	2026e	2027e
Total operating income (GAAP) (\$, mm)	112,390	127,605	141,125	157,231
GAAP Operating Income (Loss) (\$, mm)	117,334	132,406	145,725	161,131

INVESTMENT DRIVERS

- Search advertising spend continues to gain share of global advertising budgets.
- Mobile search advertising continues to take share of online budgets.
- Investments in video driving longer-term monetization at YouTube.
- Moderation of expense growth.

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies [here](#)

MS ALPHA MODELS

3/5 BEST	24 Month Horizon	2/5 MOST	3 Month Horizon
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Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- New products generate higher than expected top line contribution.
- Capital returns through greater share buybacks.
- Hiring and/or spend per headcount is lower than expected.

RISKS TO DOWNSIDE

- High exposure to SMB and travel could pressure ad revenue in a recession
- Improved disclosure around the Google and Other Alphabet segments may not decrease the overall investment activity of the business.

OWNERSHIP POSITIONING

Inst. Owners, % Active	59.7%				
HF Sector Long/Short Ratio	2.3x				
HF Sector Net Exposure	13.5%				

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure - Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2025e

Sales / Revenue			
(\$, mm)	330,711	384,070	393,358
		386,343	

EBITDA			
(\$, mm)	168,653	172,430	176,011
		172,522	

Net income			
(\$, mm)	107,908	117,952	126,171
		116,210	

EPS			
(\$)	8.80	9.66	10.34
		9.56	

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - [Options_Probabilities_Exhibit_Link.pdf](#)
2. View descriptions of Risk Rewards Themes - [RR_Themes_Exhibit_Link.pdf](#)
3. View explanation of regional hierarchies - [GEG_Exhibit_Link.pdf](#)
4. View explanation of Theme/Exposure methodology - [ESG_Sustainable_Solutions_External_Link.pdf](#)
5. View explanation of HERS methodology - [ESG_HERS_External_Link.pdf](#)

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(as of April 30, 2025)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
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Equal-weight/Hold	1667	44%	375	45%	22%	796	46%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	603	16%	76	9%	13%	229	13%
Total	3,774		828			1717	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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INDUSTRY COVERAGE: Internet

COMPANY (TICKER)	RATING (AS OF)	PRICE* (05/07/2025)
Brian Nowak, CFA		
Airbnb Inc (ABNB.O)	U (12/06/2022)	\$123.12
Alphabet Inc. (GOOGL.O)	O (08/11/2015)	\$151.38
Amazon.com Inc (AMZN.O)	O (04/24/2015)	\$188.71
Booking Holdings Inc (BKNG.O)	E (01/09/2019)	\$5,196.24
DoorDash Inc (DASH.O)	O (02/21/2024)	\$176.99
Expedia Inc. (EXPE.O)	E (01/09/2019)	\$166.56
Instacart (CART.O)	E (01/29/2024)	\$45.73
Lyft Inc (LYFT.O)	E (10/24/2019)	\$12.59
Meta Platforms Inc (META.O)	O (03/20/2023)	\$596.81
Nextdoor Holdings Inc (KIND.N)	E (02/24/2022)	\$1.51
Pinterest Inc (PINS.N)	E (03/28/2022)	\$27.34
Reddit Inc (RDDT.N)	O (12/08/2024)	\$105.53
Snap Inc. (SNAP.N)	E (07/22/2024)	\$8.13
Uber Technologies Inc (UBER.N)	O (06/04/2019)	\$83.65
Matthew Cost		
AppLovin Corp (APP.O)	O (04/10/2025)	\$303.46
Compass, Inc. (COMP.N)	E (07/20/2022)	\$7.65
Criteo SA (CRTO.O)	E (01/26/2016)	\$27.66
DoubleVerify Holdings Inc (DV.N)	E (06/25/2024)	\$13.54
Electronic Arts Inc (EA.O)	E (08/04/2021)	\$155.50
Integral Ad Science Holding Corp. (IAS.O)	E (04/16/2024)	\$7.38
Opendoor Technologies Inc (OPEN.O)	E (07/24/2023)	\$0.87
Playtika Holding Corp (PLTK.O)	E (11/27/2022)	\$5.43
Roblox Corporation (RBLX.N)	O (11/04/2024)	\$70.44
Shutterstock Inc (SSTK.N)	E (07/28/2022)	\$17.34
Take-Two Interactive Software (TTWO.O)	O (02/01/2018)	\$226.34
Trade Desk Inc (TTD.O)	O (06/01/2023)	\$56.46
Unity Software Inc (U.N)	O (09/02/2024)	\$20.66
Webtoon Entertainment Inc (WBTN.O)	E (07/22/2024)	\$9.26
Yelp Inc (YELP.N)	U (01/10/2019)	\$35.53

Zillow Group Inc (Z.O)	E (04/18/2018)	\$67.88
Nathan Feather		
Bumble Inc. (BMBL.O)	E (03/08/2021)	\$4.39
Chewy Inc (CHWY.N)	O (10/31/2023)	\$38.35
Duolingo Inc (DUOL.O)	O (04/23/2025)	\$495.56
eBay Inc (EBAY.O)	O (04/18/2024)	\$69.76
Etsy Inc (ETSY.O)	U (04/18/2024)	\$45.92
FIGS, Inc. (FIGS.N)	E (02/29/2024)	\$4.89
Match Group Inc (MTCH.O)	E (04/18/2024)	\$30.38
Peloton Interactive, Inc. (PTON.O)	E (03/14/2022)	\$6.98
Revolve Group Inc (RVLV.N)	E (10/20/2024)	\$17.07
WW International Inc (WW.O)	E (07/26/2024)	\$0.45

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* Historical prices are not split adjusted.