

ALPHABET: STANDARD INTERNET COMPANY

Description

Google operates comprehensive digital ecosystems, including products like Search, YouTube, and Cloud. Recently, Google's shares have been facing downward pressure brought about by the development of AI search products, poor performance of Gemini, and the antitrust lawsuit. I believe these concerns are less meaningful than what the market perceives. It should, therefore, be fair for the acquisition of its shares at these prices to deliver at least an annualized return of 10% to the shareholders for the next 5 years.

Search

Google benefits from strong network effects that create substantial barriers to entry for competitors. Every new user adds negligible cost while contributing data to improve search algorithms. This feedback loop has allowed Google to dominate the market. Today, Google holds more than 90% [1] of the global market share in search, and its brand is so deeply ingrained in online culture that "Google" has become synonymous with searching the internet.

The disruption of traditional search engines has come from tools that directly answer questions with concise, source-backed information, avoiding the need to sift through pages of links. Writing an engineering research report, my team and I frequently used Perplexity instead of Google to answer technical questions. Perplexity consistently delivered fast and accurate answers. When responses were ambiguous, the linked sources were easy to verify. This highlighted inefficiencies in traditional search methods.

However, Google could develop a similar tool. With ownership of two of the most visited websites in the world [2], Google has access to enormous amounts of data to train AI models. While execution has not always been Google's strong suit, exceptions like Google Flights and Hotels exist. By observing early adopters and integrating the technology, Google turned these services into multi-billion-dollar businesses.

In the fast-moving AI landscape, Google's capabilities—most notably, the talent at Google DeepMind (formerly Google Brain)—underscore the company's ability to adapt. Given these strengths, the likelihood that Google will fail to leverage AI appears low.

Youtube

The power of YouTube struck me when I visited my parents this January. During dinner and leisure time, instead of switching to traditional TV channels, we browsed YouTube for everything from content to music. This pattern repeated when visiting close relatives and friends.

As an avid YouTube user, I was pleasantly surprised. This shift was not evident even two or three years ago. Seeing parents in their 50 and 60s from multiple families regularly tuning in to Youtube made me realize there is no stronger signal for an entertainment platform's reach. YouTube has successfully penetrated the mature market, a development that marks just the beginning of its broader appeal. Once primarily a platform for younger trend followers, YouTube has now evolved into a hub for general content consumption, offering everything from news and sports to documentaries. The wide appeal and adaptability of YouTube minimize disruption risks and solidify its place in modern media habits.

Moreover, YouTube will continue to thrive as both a beneficiary and benefactor of AI. Its recommendation algorithms will improve with AI, while the platform's extensive search history and click-through data will provide invaluable insights for Google. This symbiotic relationship ensures YouTube remains integral to the evolving digital world.

Others

Google Cloud is one of the fastest-growing businesses for Google [3]. It is approaching break-even profitability, suggesting significant revenue increases could be imminent. Similarly, Waymo, Google's autonomous driving arm, has made significant strides over the past few years. Waymo has begun deploying its robo-taxi services, which have generally received positive reviews [4]. However, the valuation of this segment remains speculative, and its primary appeal lies in its technological innovation rather than immediate financial returns.

Furthermore, Android remains the most widely used mobile operating system globally [5]. Unless companies invest heavily in developing their own systems, akin to Apple, Android's dominance is unlikely to be threatened. Given the high capital expenditures required for such efforts, Android's leading position in the mobile market is expected to remain secure for the foreseeable future.

Catalyst

- AI speculation driving down the shares to its fair price
- Search, Youtube and Cloud performance & growth
- Strong financial results

References

- [1] <https://gs.statcounter.com/search-engine-market-share>
- [2] https://en.wikipedia.org/wiki/List_of_most-visited_websites
- [3] <https://abc.xyz/assets/d4/4f/a48b94d548d0b2fdc029a95e8c63/2022-alphabet-annual-report.pdf>
- [4] <https://www.reddit.com/r/waymo/>
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