

# AI-01865 GOOGL CFRA Report-20250723

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## Detailed Briefing: Alphabet Inc. (GOOGL) - Key Themes and Insights

This briefing summarizes the key themes, important ideas, and significant facts regarding Alphabet Inc. (GOOGL) based on the provided CFRA research report dated July 23, 2025.

**Overall Assessment:** CFRA maintains a **"BUY"** recommendation for GOOGL with a 12-month target price of USD 210.00, reflecting optimism about its valuation, Free Cash Flow (FCF), and sustained revenue growth driven by AI and cloud prospects. The company is viewed as having a "dominant position in internet search and internet video advertising through YouTube," supported by an "exceptionally strong balance sheet," though regulatory risks in the U.S. and Europe are acknowledged.

### I. Core Business Strength & Diversification

- **Dominant Market Position:** Alphabet remains the "world's leading internet search provider" with "between 80 and 90% of the internet's search engine queries and close to 90% of all search engine revenue." Its ubiquitous presence has led to "google" being recognized as a verb.
- **Revenue Diversification:** While search is the largest segment (55%-58% of total revenue), GOOGL generates significant ad revenue from its display ad network (10%-12%) and YouTube (10%).

- **Emerging Growth Drivers:** Google Cloud is highlighted as "its largest source of non-ad revenue (12%-14% of total)," competing with Amazon AWS and Microsoft Azure, and represents the "most important growth story." "Other businesses (e.g., hardware, app store) represent about 10%-12% of sales," with "moonshots" like Waymo (autonomous vehicles) and quantum computing offering "tremendous long-term potential."
- **Strong Financial Performance:** Sales growth is projected at "9%-10% in 2025 and 2026 (14% in 2024)."
- Operating margins are expected to "expand to 33% in 2025 and 34% in 2026 (32% in 2024), vs. 28% in 2023."
- Q2 2025 results "beat expectations with EPS of \$2.31 vs. \$2.20 consensus and revenue growth of 13.8% vs. our 10.7% forecast, driven by strength across cloud and digital ads."

## II. AI as a Central Growth Catalyst

- **AI Infrastructure Leadership:** CFRA believes "GOOGL has the best cloud infrastructure for the AI era," highlighting its custom TPUs (now in sixth generation) and the development of ARM-based custom silicon CPUs (Axion). The availability of NVIDIA's Blackwell GPUs and 7th Gen TPUs will further support growth.
- **AI's Impact on Search & Advertising:** AI capabilities are expected to "support higher ROI for advertisers, aided by AI Overviews and Lens."
- "AI-enhanced Search [is] now available to all U.S. users, featuring Deep Search, complex analysis, and personalized shopping experiences."
- "AI Overviews [are] driving a 10% increase in Search usage in major markets, while AI mode generates searches 2x-3x longer than traditional queries."
- AI is "improving advertiser experiences in areas like targeting, bidding, ad creation, and measurement."
- GOOGL's offerings "help leverage large language models to match ads with relevant searches."
- **AI's Impact on Cloud:** Continued "Cloud growth of 25%-28% through 2026 due to AI workloads and leading infrastructure." Google Cloud generated

"\$2.2B operating income at 18% margin (9% prior year)" in Q1 2025, with "record 21% operating margin" in Q2 2025.

- **Gemini Models:** The Gemini models are a key focus, with "Gemini was trained on and is served using TPUs." All 15 of GOOGL's products with 0.5B users now utilize Gemini models, "offering greater enterprise appeal and monetization potential."
- **Aggressive AI Investment:** Elevated capex spending is "warranted to support AI growth initiatives," with "capex spending at \$75B in 2025, up 40%+" and a significant hike in 2025 capex guidance by \$10B to \$85B.

### III. Regulatory & Competitive Landscape

- **Antitrust Challenges:** GOOGL faces "significant regulatory risk both in the U.S. and Europe."
- A U.S. DOJ lawsuit targets GOOGL's "monopoly power over the search business," specifically its practice of "paying companies like Apple and Samsung to make its search engine the default choice on their devices."
- Proposed remedies include "structural and behavioral remedies, including a potential breakup, limiting/prohibiting default agreements, preventing GOOGL from using certain products (Android, Chrome, Play) to boost its search offerings, and making AI search features/ad ranking data...available to competitors."
- CFRA views the news as "negative" but expects it to "remain in the courts for years," with the "most likely outcome will at least limit/prohibit default agreements," while "odds of a breakup still seem low."
- "Technology changes from AI and shifting consumer behavior will change the competitive landscape (easing GOOGL's search monopoly)."
- **Competitive Pressures:** Direct competitors in "general purpose" search (Microsoft's Bing, Verizon/Yahoo, Baidu) hold limited global share (1%-4%).
- "Indirect competition from Facebook and Amazon is more significant," keeping Google's share in total online/digital advertising at "25%-30%."
- GOOGL, Meta, and Amazon create a "triopoly" that controls "nearly 80% of the \$380B U.S. digital ad market."

- Growing competitive risks from "new AI players" and "emerging ad-based-driven platforms (e.g., Netflix)" are noted.

#### IV. Financial Management & Shareholder Returns

- **Robust Financial Position:** GOOGL possesses "net cash of \$135B" as of July 22, 2025, and an "exceptionally strong balance sheet."
- **Capital Allocation:** "Aggressive cash return should be aided by FCF of \$75B+ in 2025 and \$85B+ in 2026."
- The company authorized an additional "\$70 billion for share repurchases" in April 2025, using "\$62B toward share repurchases in 2024."
- A "5% dividend increase" was also announced in April 2025, with dividends paid since 2024.
- **Cautious Approach:** GOOGL has been "more conservative than other mega-cap tech names given its massive cash hoard, potentially reflecting the uncertainty lingering about legal and regulatory pressures."

#### V. Outlook & Key Considerations

- **Positive Digital Ad Landscape:** The "improving digital advertising landscape and increasing opportunities to monetize AI investments" contribute to a positive outlook for the Interactive Media & Services sub-industry.
- **Decelerating Growth Rates:** While digital ad spending is projected to grow, "growth rates will likely decelerate as enterprise budgets tighten amid tariff concerns and a softer macroeconomic landscape."
- **AI-driven ROI:** "Increasing investments in Generative AI (GenAI) will likely improve content/recommendations and translate into a higher return on investment (ROI) for advertisers."
- **Long-Term Shift:** An "ongoing shift in total global advertising spend from traditional broadcast TV/radio and print media to internet/digital media" is expected to continue.
- **Valuation:** CFRA's 12-month target price of \$210 is based on a "P/E of 19.2x our 2027 EPS," which is "below three- and five-year forward averages of 21x

and 24.2x, respectively," partly discounting legal/regulatory risks. The stock is considered "undervalued by USD 1.03 or 0.54%."

- **Analyst Consensus:** Wall Street consensus estimates project GOOGL's EPS to be \$9.67 for 2025 and grow by 6.43% to \$10.29 for 2026. The overall consensus opinion is "Buy/Hold."

**In summary,** Alphabet's continued dominance in search and advertising, coupled with its significant investments and leading position in AI and cloud computing, positions it for sustained growth. While regulatory challenges pose a notable risk, the company's strong financial position and strategic capital allocation reinforce its long-term potential.