Google (GOOGL) Post-Earnings Review

Google (formally known as Alphabet Inc.) is a tech giant that controls much of the internet search business, cloud storage and other software applications. It has been one of the largest positions in my portfolio for a while and it has delivered strong returns, leading me to revisit this position and re-underwrite one of my most important stocks after their Q2 earnings.

Google Search is responsible for handling around 90% of all browser traffic on the internet, mainly through their Chrome service and even through partnerships like Apple's Safari, which uses Chrome's engine to run. This monopoly over internet traffic allows Google to have the biggest advertisement revenue in the world, with a non-stop bidding war to place ads better and better in Google's website ranking system.

Doing due diligence for the company by interviewing businesses that do online advertising, I found out that businesses advertise in different places depending on their product and target audience. Most B2B companies focused on selling corporate services advertised on Google and Linkedin, since that's where companies go to search for solutions online and where corporate hawks tend to spend their time on social media, respectively. Additionally, most B2C companies focused on selling products to everyday consumers directed their budget to Google and Instagram (Facebook Ads), since that's where users go to browse for products online and where they tend to spend their time when they have nothing to do and don't necessarily want to buy anything, respectively. This process taught me a very simple thing: Google is the go-to advertising platform for every company independent of their target audience, product or anything. Everything eventually passes through Google and there is a cost of opportunity for not being in Google.

This dominance is also translated into the video search space, with Youtube, another company owned by Google, handling almost 100% of online videos. Just like the search part of the business, there is a gigantic opportunity cost for doing business somewhere else other than Youtube, meaning that there's also a rush for companies to advertise their business in the website. Given the enormous quantity of material in youtube and diversity of content, there's a real demand for users to pay subscriptions that give perks in the website as well as a target audience for any type of advertiser, which allows advertisers to streamline people interested in their offerings.

The company made a total of 96,428 million in revenue in Q2 2025 alone, and 71,340 million of that came from search advertisement alone, be it Youtube or Google.

Besides their main search business, Google is growing fast with their subscriptions to Google services (mainly Google One, that offers extra storage, and perks in Google Docs, Sheets, Drive and Youtube) and Google Cloud, their Cloud Storage business which they aim to be one of the biggest drivers of revenue in the next few years with the rise of AI and data centers. Cloud has around $108 billion worth of backlog revenue, 55% of which should be realized in the next 2 years. Their "other bets" segment incorporates anything else, more infamously Waymo, the self-driving car startup, that Google operates.

The following table presents revenues disaggregated by type (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2025	2024	2025
Google Search & other	$ 48,509	$ 54,190	$ 94,665	$ 104,892
YouTube ads	8,663	9,796	16,753	18,723
Google Network	7,444	7,354	14,857	14,610
Google advertising	64,616	71,340	126,275	138,225
Google subscriptions, platforms, and devices	9,312	11,203	18,051	21,582
Google Services total	73,928	82,543	144,326	159,807
Google Cloud	10,347	13,624	19,921	25,884
Other Bets	365	373	860	823
Hedging gains (losses)	102	(112)	174	148
Total revenues	$ 84,742	$ 96,428	$ 165,281	$ 186,662

Google Cloud has been the biggest growth driver for GOOGL, with revenues rising 32% YoY in Q2 2025 due to increase in demand for infrastructure services and expanded shift towards cloud storage instead of in-house storage. According to the company, most of their $108 billion backlog is tied to Google Cloud contracts. As the tailwind of more data being stored in larger quantities in the cloud instead of on-site and increasing demand for these services due to inference AI is set to power cloud growth for the foreseeable future. Additionally, this segment offers great opportunities for cross-selling to other services in the Google Ecossystem, mainly their workplace products that are easily integrated with any Google Account, and for strategic M&As, like the Wiz acquissition to strengthen their cybersecurity position in the industry.

Besides cloud's exceptional growth, the core search business grew 12%YoY in Q2 2025, reflecting resilient advertiser demand and pricing power across both Google.com and partner sites. Google is making great efforts to integrate AI to better improve the search engine capabilities, especially through Google Gemni and the recently viral VEO 3, which could offer more cross-selling opportunities and improvement in advertisement spending.

Google's competitive advantage is composed by a superior product through their search engine and an unparalleled network effect that comes with a monopoly over the search industry. Reference calls I did for my personal research and for another internship opportunity show that Google Ads, their search advertisement tool, is the preferred and most efficient advertisement tool for both B2B businesses and B2C merchants. Competitors like Linkedin Ads and TikTok Ads only succeed in one or the other (B2B and B2C respectively) and google can do both since everyone searches a for a product they want to buy in Google to see the best offers and they also look up everything on Google if they want to find a professional or a business to do anything from get dinner to a medical visit. This monopoly extends into Youtube and gives Google almost unlimited pricing power over clients that want to advertise to the largest audience there is.

Additionally, their Google Workspace products and Cloud are well integrated into their ecossytem, causing many people's day-to-day life to be dependent on the firm, granting even more pricing power. The switching costs mentioned for Microsoft and their products are also true for Google. Many companies spend millions and a significant time to perfect google advertisement and are already integrating google into their workplace, making it irreplaceable.

The biggest sign that a company has a moat is that their brand turns into a verb. “Google it”, as usual as it sounds, represents a multi-trillion dollar competitive advantage in a single phrase.

The company is one of the most solid in the market and with a strong and growing competitive advantage, so through a qualitative lens I am more than happy to own Google. Now let's dive into the “risks”.

Anti-Trust?: Antitrust laws aim to break down Alphabet into two different companies: Google Search, which houses Chrome and their search engine capabilities, and everything else, from youtube, to cloud to waymo and android would become different companies. Talks of a breakup always scare shareholders away, but I don’t believe that is a bad thing.

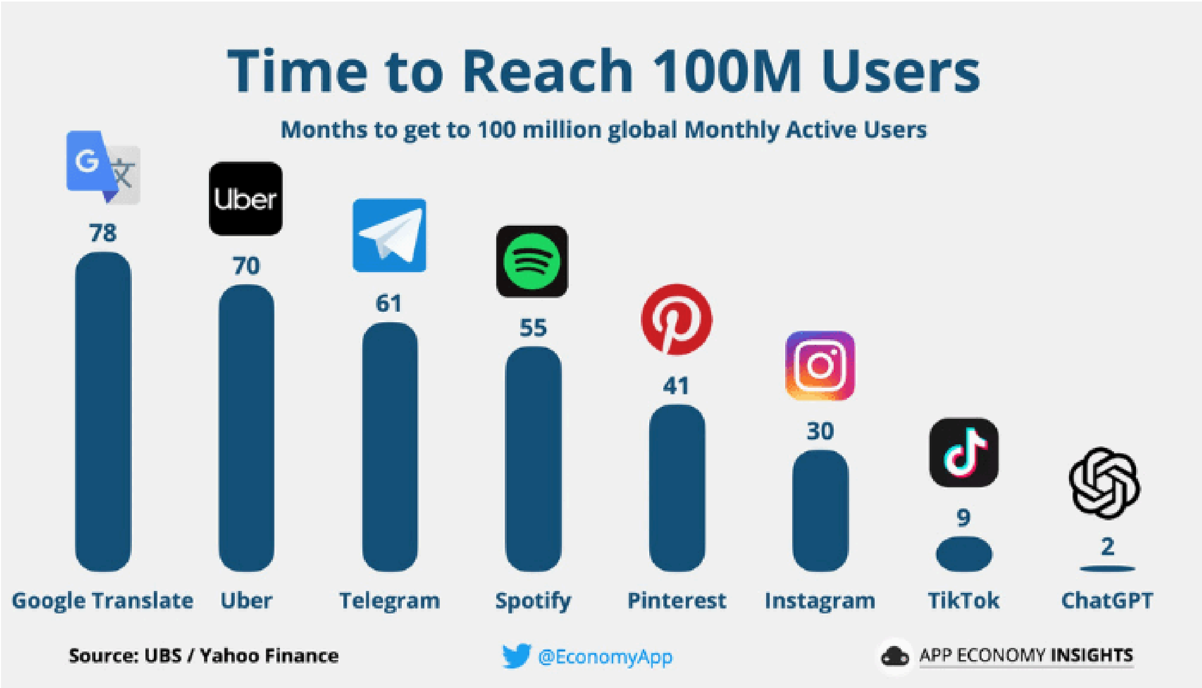
The breakup would be as follows (accoridng to the DOJ’s last report): SearchCo, encompassing Google Search and its core ad-sales operations (Search Ads, Network Partner revenues, add auction infrastructure),. AdTechCo, housing Google Ad Manager (DFP) and Google Ad Exchange (AdX) as an independent auction platform. PlatformCo would house both Chrome and Android into the same operating system, forcing android to use Chrome and stopping it from becoming the default search engine of other systems (whcih would fall under the SearchCo). VideoCo, spinning off YouTube into its own company, operating video content monetization and recommendations independently and CloudCo**,** separating Google Cloud into a distinct enterprise.

As a lover of history, I love to remind myself that Rockefeller was richest after the breakup of standard oil, not before. I believe that just like Standard Oil, Google’s different segments could be worth more if they were valued separately. Google trades at a reasonable P/FCF, even though it has super high growth segments inside the company that could be trading for double the price. A breakup in which the current shareholders of the company get shares in ecah of the new companies could increase the value of the overall portfolio, cause multiple expansion in the companies and allow for efficiencies to be found by better micromanagement of resources. I believe this would be especially true since the new companies wouldn’t be directly competing against each other for the same market and driving down margins or market share (i.e. all of the almost 100% video market share youtube has would be still under the new VideoCo, SearchCo would still hold the monopoly of and so on,which the shareholders of current GOOGL stock would likely have ownership of, for example). Something that is priced negatively could be actually good for shareholders long-term.

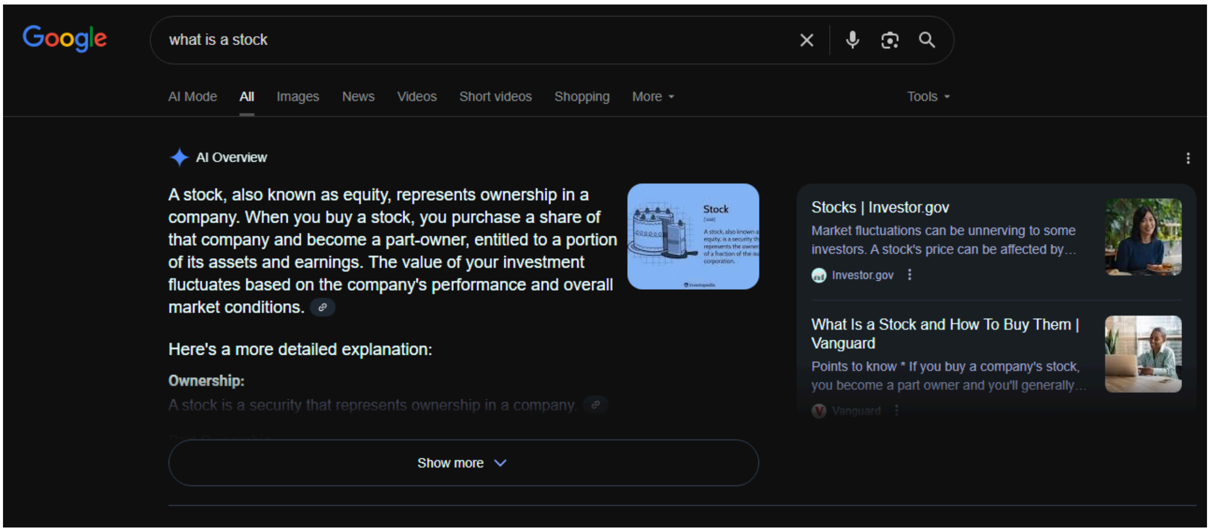
I am happy having a bunch of shares of Google and I would be just as happy having shares in VideoCo, SearchCo, PlatformCo and so on. Each new Co represents a company with a completely different monopoly and competitive advantage, each being given 100% attention from the new management team. If Google stock wasn’t soaring so much, I truly believe it would’ve been the target of an activist campaign aiming to split it up as the sum of the parts would be worth more than the entire company.

AI Threat: Another issue that is pulling Google stock down is the (false) belief that AI ChatBots will replace Google’s search engine. Let's see if that is true.

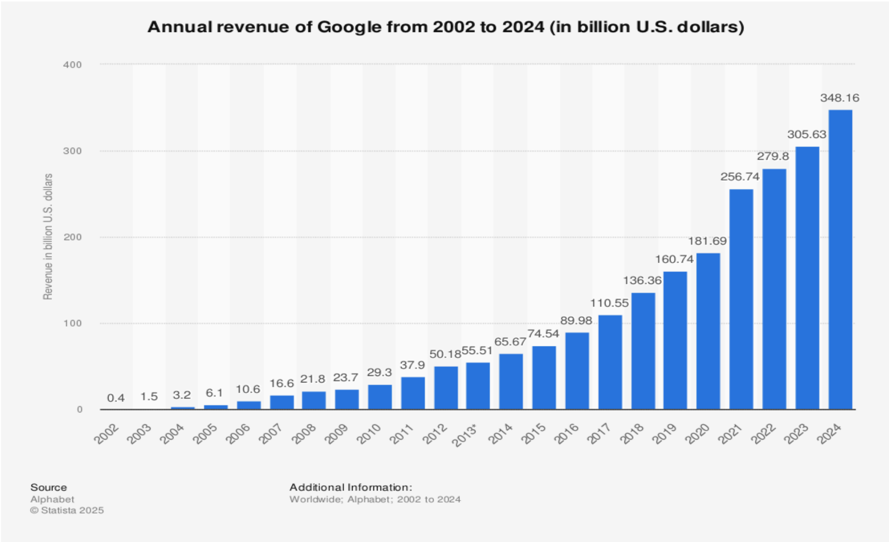
OpenAI's chat GPT was the fastest software in the world to reach 100 million users, taking 15x less time than instagram or 35x less time than Uber, which would (correctly) point to a surge in popularity and the creation of a strong user base. However, this doesn't mean that other platforms are losing users to ChatGPT.



ChatGPT has diverted some user behavior away from Google, particularly for quick fact-finding, coding help, and "explain X" queries, but the shift is incremental rather than transformative. However, Google may be regaining market share in those "explain X" queries with their AI-Mode integrated into Chrome, which shows a quick AI-generated answer on top of the weblisting, many times satisfying the user with an answer.



Regardless, Google retains about 90% of global search share (94% on mobile), and its organic click volumes remain roughly stable year-over-year, suggesting the mainstream search base hasn't eroded significantly. If that were the case, Search revenue would be stagnating or even declining since 2023 when ChatGPT became mainstream, but that is not what we have seen.



People still use Google for the majority of their searches and especially when they are looking for a specific website or something in particular, like tickets to a concert or sports clothes. This user base will likely not leave Google due to the platform's popularity, network effects and user-friendly interface which everyone is familiar with.

Not to mention Google has gained significant ground in the AI race recently with their imensely popular Veo 3, a powerful AI system that creates videos from scratch with sound, the first of its kind. Many content creators use Veo for their tasks given its superiority compared to ChatGPT in video generation, which is causing Google to create a solid and loyal user base in this niche. But more than that, the success of Veo 3 shows that Google isn't asleep at the wheel and that the company is actually working to carve a significant space in the generative AI market, and they are actually succeeding. On top of that, given Google's distribution capabilities, once a product is developed, and it will probably be soon, it will have the potential to be the most popular in the world if Google integrates it well into their search engine and network.

Google's Gemini AI app has seen explosive growth in 2025, climbing from over 400 million monthly active users announced in May to around 450 million by July. The milestone cements Gemini as one of the fastest-scaling AI products in the market and highlights Google's ability to integrate AI into everyday workflows at massive scale. So even though ChatGPT is still the most popular AI chatbot, it has by no means a monopoly over the sector, and Google is coming fast for their crown.

Finally, given Google's financial position and size, an acquisition wouldn't be impossible, and they might have a target on the horizon. Google has taken a deep financial stake in Anthropic without pursuing a full acquisition, investing an initial $500 million in 2023 and committing up to $2 billion more, followed by an additional $1 billion in early 2025. This approach allows Google to integrate Anthropic's Claude models, widely regarded for their advanced coding and reasoning capabilities, into its ecosystem while sidestepping the heavy antitrust scrutiny that a takeover of a high-profile AI player would trigger. Anthropic, valued at about $61.5 billion after its $3.5 billion Series E round in March 2025, is reportedly exploring new funding that could push its valuation above $150 billion. Alphabet's financial position, with roughly $95 billion in cash and capital expenditures topping $85 billion this year, would easily support an acquisition if it chose to pursue one.

If Google were to acquire a company like Antrhopic and fully integrate the software capabilities of the two companies the new conglomerate would have a great opportunity to become the go-to AI in the world, being the most accessible through Google's network, best at multiple important tasks such as coding and a content creation advantage in Veo 3. Even if that doesn't happen, their deep partnership alone opens doors for Google to integrate better technology into their systems, which is what they have been doing.

<u>Multiples/valuation 101</u>

Assuming that GOOGL continues to repurchase shares at the rate they have been doing for the past few years, which is a very conservative rate, I estimate that their shares outstanding will decline by 2% each year for the next 5 years.

For revenue, I will break down their businesses, project each sector growth and imply a growth for google given their strategic competitive advantage (+15%):

- Cloud, around 14% of revenue, is expected to grow at a 20% CAGR for the next 5 years. Google should grow at a 23% rate, a very conservative number given their YoY growth of 32% this quarter and their ability to easily integrate this service into their ecosystem.
- The online advertisement market, which represents around 73% of revenue, is expected to grow at a 10% CAGR. Given Google's monopoly in the search advertisement market and given their recent revenue growth, a 12% growth is reasonable.
- Business productivity, the last 13% of revenue, as seen with MSFT, is expected to grow at around 13% per year. Given Google's strong market penetration and ecossytem, as well as bundling options, I expect a 15% growth.

This growth projection is most likely understated given that the fastest growing segments will increase their share of contribution to the total revenue and thus push revenue numbers even higher, but wishing to have a more grounded prediction, having a more conservative growth estimate, and not add another layer of variables, I expect a total revenue growth for Google to be around:

(14% x 23%) + (73% x 12%) + (13% x 15%) = 3.2% + 8.7% + 1.9% = 13.8%

Assuming their margins stay stable, at around 23% Free Cash Flow Margins, this is the margin I will use for my model.

Finally, assuming that theri growth will slow down after this period of time but that their competitive advantage will stay strong, I will project a 30x FCF multiple, in line with the company's mean over the last few years.

	Revenue (M)	Revenue Growt	FCF margin	Share count (M)	share change		
Y0 (TTM)	$371.399,00	13,80%	23%	12388	-2%	Company	GOOGL
Y1	$422.652,06	13,80%	23%	12140,24	-2%		
y2	$480.978,05	13,80%	23%	11897,4352	-2%		
y3	$547.353,02	13,80%	23%	11659,4865	-2%		
y4	$622.887,73	13,80%	23%	11426,29677	-2%	market cap (M)	$2.333.932,89
y5	$708.846,24	13,80%	23%	11197,77083	-2%	Future MKT Cap	$4.891.039,06
						Multiple	30
Y5 FCF	$163.034,64			current share pri	$192,58	per share	$436,79
						return (CAGR)	17,80%

This 17.8% CAGR does not account for dividends that GOOGL is projected to pay to shareholders in the future.