Goldman Sachs Research

Equity Research

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Alphabet Inc. (GOOGL)

Did Alphabet Just Signal a Shift in its AI Strategy?

GOOGL	12m Price Target: **$435.00**	Price: **$354.30**	Upside: **22.8%**

Since its earnings report on 7/22 (link) and considering a recent company announcement (link) of a management reorganization inside its AI efforts, investor debates have increased about Alphabet's current standing in the AI landscape and whether or not their operating strategy has changed. Lost in much of the conjecture of "winner vs loser" (which has dominated the broader AI debate since late 2022 and seems to be the market's default approach to competitive positioning), we would posit a much more nuanced framing of where Alphabet's AI efforts sit today and where they might be headed in the coming 12+ months.

On the news itself, Alphabet announced that Demis Hassabis is moving toward a broader Chief Scientist role focused on AGI, science, and long-term AI development and Chair of Google DeepMind, while Koray Kavukcuoglu assumes operational control over Gemini product development and commercialization. In addition, the company announced the departure of long time executive Jeff Dean, who announced plans to organize a new AI venture (which Alphabet has announced an investment into) focused on the forefront of scientific research and AI. When coupled with recent news of other executive departures to competing AI companies (link | link), investor sentiment has turned more negative on Alphabet's talent attrition at Google DeepMind. Interestingly, in the last few days, press reports have indicated (link) the potential return of Google co-founder Sergey Brin into a more hands-on role, possibly taking on primary responsibility for many areas of forward Gemini development work.

Below we frame our thoughts/interpretations of these recent developments at Google DeepMind and what it might mean for Alphabet's broader AI strategy in the future:

- **Rather than paint Alphabet's positioning in absolutes, our view is that Alphabet is acknowledging where the AI**

BUY

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Key Data

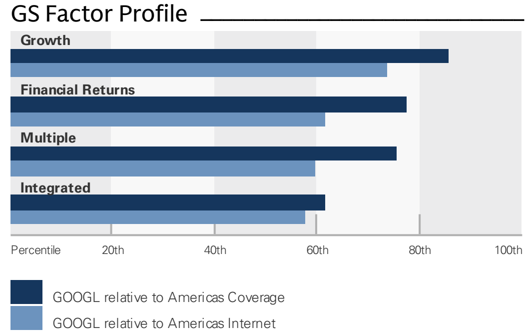
Market cap: $4.4tr
Enterprise value: $4.4tr
3m ADTV: $11.9bn
United States
Americas Internet
M&A Rank: 3

GS Forecast

	12/25	12/26E	12/27E	12/28E
Revenue ($ mn)	342,910.0	432,987.1	548,830.4	673,449.2
EBITDA ($ mn)	150,175.0	219,698.0	316,019.0	419,744.5
EBIT ($ mn)	129,039.0	173,770.4	231,263.2	289,938.2
EPS ($)	10.81	20.51	15.44	19.08
P/E (X)	19.5	17.3	22.9	18.6
EV/EBITDA (X)	17.1	19.8	13.9	10.5
FCF yield (%)	2.9	0.1	(0.8)	0.0
Dividend yield (%)	0.4	0.2	0.2	0.2
Net debt/EBITDA (X)	0.1	0.1	0.0	(0.0)

	6/26	9/26E	12/26E	3/27E
EPS ($)	9.11	2.95	3.37	3.64

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

BUY

Alphabet Inc. (GOOGL)

Rating since Sep 12, 2021

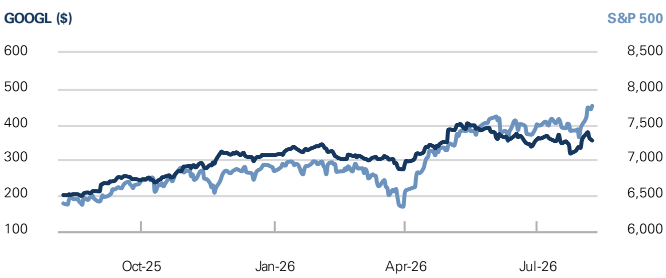
Ratios & Valuation

	12/25	12/26E	12/27E	12/28E
P/E (X)	19.5	17.3	22.9	18.6
EV/EBITDA (X)	17.1	19.8	13.9	10.5
EV/sales (X)	7.5	10.0	8.0	6.5
FCF yield (%)	2.9	0.1	(0.8)	0.0
EV/DACF (X)	16.0	19.6	14.3	10.9
CROCI (%)	35.5	33.4	31.9	31.1
ROE (%)	35.7	44.3	23.1	22.3
Net debt/EBITDA (X)	0.1	0.1	0.0	(0.0)
Net debt/equity (%)	3.8	1.8	0.7	(1.4)
Interest cover (X)	175.3	34.4	35.7	44.8
Inventory days	4.3	20.3	31.0	32.0
Receivable days	61.3	59.1	56.6	54.7
Days payable outstanding	35.9	43.0	48.0	53.5

Growth & Margins (%)

	12/25	12/26E	12/27E	12/28E
Total revenue growth	16.2	26.3	26.8	22.7
EBITDA growth	17.6	46.3	43.8	32.8
EPS growth	34.4	89.7	(24.7)	23.6
DPS growth	38.4	5.0	1.0	0.0
Gross margin	70.1	69.9	68.4	67.2
EBIT margin	37.6	40.1	42.1	43.1

Price Performance



	3m	6m	12m
Absolute	(11.0)%	9.7%	80.3%
Rel. to the S&P 500	(15.8)%	(1.9)%	47.3%

Source: FactSet. Price as of 7 Aug 2026 close.

Income Statement ($ mn)

	12/25	12/26E	12/27E	12/28E
Total revenue	342,910.0	432,987.1	548,830.4	673,449.2
Cost of goods sold	(102,609.0)	(130,292.3)	(173,278.6)	(220,937.1)
SG&A	(50,175.0)	(53,547.9)	(55,721.2)	(58,507.2)
R&D	(61,087.0)	(75,376.5)	(88,567.4)	(104,066.7)
Other operating inc./(exp.)	–	–	–	–
EBITDA	**150,175.0**	**219,698.0**	**316,019.0**	**419,744.5**
Depreciation & amortization	(21,136.0)	(45,927.6)	(84,755.8)	(129,806.3)
EBIT	**129,039.0**	**173,770.4**	**231,263.2**	**289,938.2**
Net interest inc./(exp.)	3,601.0	3,184.2	3,049.6	1,602.5
Income/(loss) from associates	–	–	–	–
Pre-tax profit	**158,826.0**	**311,653.5**	**234,312.8**	**291,540.7**
Provision for taxes	(26,656.0)	(58,104.5)	(41,004.7)	(51,019.6)
Minority interest	–	–	–	–
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**132,170.0**	**253,549.1**	**193,308.1**	**240,521.1**
Net inc. (post-exceptionals)	**132,170.0**	**253,549.1**	**193,308.1**	**240,521.1**
EPS (basic, pre-except) ($)	**10.91**	**20.76**	**15.64**	**19.32**
EPS (diluted, pre-except) ($)	**10.81**	**20.51**	**15.44**	**19.08**
EPS (ex-ESO exp., dil.) ($)	**--**	**--**	**--**	**--**
DPS ($)	0.83	0.87	0.88	0.88
Div. payout ratio (%)	7.6	4.2	5.6	4.6
Wtd avg shares out. (basic) (mn)	12,116.0	12,211.6	12,361.9	12,447.4
Wtd avg shares out. (diluted) (mn)	12,230.0	12,364.8	12,519.9	12,605.4

Balance Sheet ($ mn)

	12/25	12/26E	12/27E	12/28E
Cash & cash equivalents	30,708.0	85,041.1	91,635.7	115,715.1
Accounts receivable	62,886.0	77,245.2	93,010.5	108,774.9
Inventory	2,439.0	12,055.7	17,415.3	21,333.7
Other current assets	110,005.0	177,237.8	131,760.7	104,652.7
Total current assets	**206,038.0**	**351,579.7**	**333,822.3**	**350,476.5**
Net PP&E	261,818.0	429,111.6	694,251.9	979,072.4
Net intangibles	33,380.0	66,933.0	66,933.0	66,933.0
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	94,045.0	172,620.0	172,620.0	172,620.0
Total assets	**595,281.0**	**1,020,244.3**	**1,267,627.2**	**1,569,101.8**
Accounts payable	12,200.0	18,517.9	27,057.0	37,674.1
Short-term debt	–	–	–	–
Current lease liabilities	–	–	–	–
Other current liabilities	90,545.0	116,395.9	139,546.5	165,577.2
Total current liabilities	**102,745.0**	**134,913.8**	**166,603.5**	**203,251.3**
Long-term debt	46,547.0	98,165.0	98,165.0	98,165.0
Non-current lease liabilities	12,744.0	14,591.0	14,591.0	14,591.0
Other long-term liabilities	17,980.0	42,636.0	42,636.0	42,636.0
Total long-term liabilities	**77,271.0**	**155,392.0**	**155,392.0**	**155,392.0**
Total liabilities	**180,016.0**	**290,305.8**	**321,995.5**	**358,643.3**
Preferred shares	–	–	–	–
Total common equity	**415,265.0**	**729,938.5**	**945,631.7**	**1,210,458.5**
Minority interest	–	–	–	–
Total liabilities & equity	**595,281.0**	**1,020,244.3**	**1,267,627.2**	**1,569,101.8**
BVPS ($)	34.33	59.25	76.22	96.91

Cash Flow ($ mn)

	12/25	12/26E	12/27E	12/28E
Net income	132,170.0	253,549.1	193,308.1	240,521.1
D&A add-back	21,136.0	45,927.6	84,755.8	129,806.3
Minority interest add-back	–	–	–	–
Net (inc)/dec working capital	618.0	(18,671.8)	4,073.0	9,976.3
Others	10,789.0	(74,304.4)	33,263.6	35,259.4
Cash flow from operations	**164,713.0**	**206,500.5**	**315,400.4**	**415,563.1**
Capital expenditures	(91,447.0)	(203,145.3)	(349,896.0)	(414,626.8)
Acquisitions	(1,592.0)	(33,697.0)	–	–
Divestitures	–	–	–	–
Others	(27,252.0)	3,920.0	51,968.8	34,096.7
Cash flow from investing	**(120,291.0)**	**(232,922.3)**	**(297,927.2)**	**(380,530.1)**
Dividends paid	–	–	–	–
Share issuance/(repurchase)	(59,876.0)	37,506.0	0.0	0.0
Inc/(dec) in debt	32,138.0	50,973.0	–	–
Others	608.0	2,918.0	–	–
Cash flow from financing	**(37,180.0)**	**80,754.8**	**(10,878.5)**	**(10,953.7)**
Total cash flow	**7,242.0**	**54,333.1**	**6,594.7**	**24,079.4**
Free cash flow	73,266.0	3,355.3	(34,495.6)	936.3
Free cash flow per share (basic) ($)	6.05	0.27	(2.79)	0.08

Source: Company data, Goldman Sachs Research estimates.

landscape is shifting and positioning the company for the next phase of the AI narrative. Our work continues to suggest that the company is shifting its emphasis more toward what it sees as its durable competitive advantages: **a) distribution** (across enterprise and consumer compute); **b) monetization strategies** (diversified and across both medium and long-term time horizons rather than focusing on one single monetization approach and/or optimizing for short-term gains); & **c) scaled infrastructure** (with advantages around scaled compute capacity across both 1P and 3P hardware).

- **This likely represents an acknowledgment by the company that being at the forefront of pushing the AI frontier forward (at the "model" layer) is unlikely to be the most outsized return of the constrained compute resources.** As we've been consistently writing in our research for the past several years (link | link | link | link), every major recent computing cycle that we've analyzed (desktop, cloud, mobile & now AI) has evolved to where both the "platform"/"infrastructure" layer and "application" layer have been where outsized economic returns are earned. For the "platform"/"infrastructure" layer specifically, this typically has a fairly defined investment cycle where positive cash-on-cash returns can yield insights into how 2-3+ year investment cycles can be framed through a prism of RoIC (return on capital).
- **Alphabet remains a company (by their own public statements) that is compute constrained, with different return profiles from allocating capacity toward a wide array of available internal and external use cases.** Over the medium term, pure research efforts (which often have longer-dated and more uncertain returns) are unlikely to be the most commercial application of compute when measured against the potential for competitive advantage and returns across consumer applications and Google Cloud.
- **Purely having the "best technology" is rarely enough to be a sustainable winner during major technology shifts - rather, achieving scale is usually an output of product-market fit, rates of adoption, and rising utilization at the intersection of price/performance ratios.** The recent re-branding of Gemini around the concept of "Gemini Intelligence" across both applications and hardware efforts (a point that will likely be reinforced this week at their Made by Google event) is, to us, a signal that we are moving from frontier research toward commercialization and scale as the primary driver of AI efforts. In addition, recent model releases across the industry – Moonshot AI's Kimi3; Meta's Muse Spark; SpacexAI's Grok 4.5; etc. – are indicating that the industry is shifting away from "absolute frontier performance at all costs" and more toward price-performance and faster duration to market that are still at/near the frontier. At the same time, recent developments around cybersecurity incidents of leading frontier models are also sparking more political and social attention around frontier AI model capabilities that may act as an increasing headwind toward widespread adoption and commercialization over the medium-term.
- **We still see Alphabet's efforts aimed at: 1) being at/around the frontier of AI research** (our current assumption is Gemini 4 will likely be introduced later this year if not early next year); **2) the rising adoption of Gemini by global consumers has**

repositioned Google to capitalize on its built out distribution means to introduce AI experiences at scale (& where minor differences in AI model capabilities at/near the frontier are quickly becoming undiscernible to the average consumer); & **3) Google Cloud's effort are building in momentum** (where structural advantages around custom silicon and distribution into enterprise customers and foundational model companies will likely lead to near-triple digit compounded revenue growth and 30%+ GAAP EBIT margins across the next 4-6 quarterly reports).

In total, the recent reorganization, AI commentary, and company-wide capital raising activity (across both debt & equity) suggest Alphabet is evolving from a research-led AI organization (purely for the sake of research) into a scaled AI platform company where consumer AI efforts strengthen distribution, Google Cloud monetizes infrastructure demand, and frontier research remains important but increasingly serves the broader business strategy.

We reiterate our Buy rating and 12-month price target of $435.

Valuation & Key Risks

Our $435, 12-month price target is based on an equal blend of (1) 26.0x EV/GAAP EBIT applied to our NTM + 1 year estimates and (2) a modified DCF using 50.0x EV/FCF-SBC multiple applied to our NTM + 4 years estimates discounted back 3 years. Risks to our Buy rating include: a) competition of product utility levels and advertising dollars; b) headwinds to monetizable (product) search from industry disruption; c) shifting media consumption habits; d) heavy investments depress operating margins for longer than our forecasts; e) no/low levels of incremental shareholder returns going forward; & f) regulatory scrutiny and industry practices altering the business model's prospects. In addition, Alphabet is exposed to the volatility caused by the global macroeconomic environment and investor risk appetite for growth stocks.