Alphabet Inc. (GOOGL): Q3'26 Earnings First Take

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We expect the market to have an initial negative reaction to Alphabet's Q3'26 earnings report based upon our first read/analysis of the results. Some highlights: a) Search & Other revenues came in below GS/FactSet estimates which will likely result in questions about search run rate growth and the impact of broader search with a shift toward a wider area of AI canvases and queries; b) Google Cloud revenues exceeded GS/Street estimates but came in shy of more bullish investor expectations; c) in terms of Operating Income, Google Services margin was lighter vs. our expectations with Google Cloud margins outperforming (even after headwinds were flagged by GOOGL mgmt on the 2H trend during the last earnings report); & d) Q3 capex of $51.4bn was lower than our ~$60bn estimate. In terms of the upcoming earnings call, we would expect the focus areas to include: 1) the drivers of revenue growth deceleration for the Search and Other segment; 2) any expressed view on Alphabet's positioning and response to rise of a consumer agentic AI landscape; 3) how to think about the compute constraints across the organization – both in terms of incremental priorities, return profile and how/when such constraints might be elevated; & 4) broader thoughts on capital allocation priorities (across capital needs and capex trends) in forward periods.

Actuals vs. Estimates: Alphabet reported Q3 consolidated gross revenues of $127.58bn (vs. GSe $127.49bn and Visible Alpha Street $127.75bn), or +25% YoY. By segment, Alphabet reported gross revenues of: Google Search & Other $63.35bn (+12% YoY); YouTube Ads $11.21bn (+9% YoY); Network $7.46bn (+1% YoY); Google Cloud $30.71bn (+103% YoY); Google Subscriptions, Platforms, and Devices $14.29bn (+11% YoY); & Other Bets $372mm (+8% YoY). Q3 GAAP Operating Income was $40.58bn (vs. GSe $43.35bn and Street $43.41bn) for a 32% GAAP Operating Income margin. By segment, Alphabet reported Q3 Operating Income of: Google Services $39.16bn; Google Cloud $11.12bn & Other Bets of $(2.05)bn. Q3 GAAP EPS was $2.12 (vs. GSe of $2.96 and Street $2.95). EPS and net income figures in the quarter were impacted by volatility in equity values held by the company.

Valuation: Our $435, 12-month price target is based on an equal blend of (1) EV/GAAP EBIT applied to our NTM + 1 year estimates and (2) a modified DCF using EV/FCF-SBC multiple applied to our NTM + 4 years estimates.

Risks to our Buy rating include: Competition of product utility levels and ad dollars; headwinds to monetizable (product) search from industry disruption; shifting media consumption habits; heavy investments depress operating margins for longer than our forecasts; no/low level of incremental shareholder returns; regulatory scrutiny &

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industry practices altering the business model's prospects.

GOOGL	12m Price Target: **$435.00**	Price: **$320.58**	Upside: **35.7%**

Buy

Market cap: $3.9tr
Enterprise value: $4.0tr
3m ADTV: $8.8bn
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	20.54	15.50	19.15
P/E (X)	19.5	15.6	20.7	16.7
EV/EBITDA (X)	17.1	17.8	12.5	9.4
FCF yield (%)	2.9	0.1	(0.9)	0.0
Dividend yield (%)	0.4	0.3	0.3	0.3
Net debt/EBITDA (X)	0.1	0.1	0.0	(0.0)

	6/26	9/26E	12/26E	3/27E
EPS ($)	9.11	2.96	3.39	3.65

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 27 Oct 2026 close.

