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October 29, 2026 04:08 AM GMT

Alphabet Inc. | North America

Searching for Growth

WHAT'S CHANGED

Alphabet Inc. (GOOGL.O)	From	To
Price Target	$400.00	**$375.00**

TPU sales are up-siding, but GOOGL's multiple is tied to search innovation, product roll-out and growth durability. We look for agentic/Gen AI enabled tools being successfully shipped and adopted by GOOGL's leading bases of users in months ahead to re-rate GOOGL higher. Remain OW, $375 PT.

Bottom line: Search Innovation and Faster Growth Key To Re-Rate Stock: GOOGL is not an expensive stock (16X our '28 EPS in the after hours...and maybe cheaper depending on the size of third party TPU sales). But, in our view, GOOGL's multiple will be driven by search innovation, scaling next generation agentic offerings and showing an ability to drive durable incremental revenue growth through this transition. This is because (in our view) third party TPU sales are lower multiple earnings. GOOGL shipped its latest Gemini agents to enterprises on October 8th and **later this year intends to bring that same Gemini agentic experience to consumers, starting with the 1 billion users in the Gemini app**. Big picture, re-rating GOOGL into '27 will likely be predicated on successfully shipping products like this to material corpuses of users and driving faster revenue growth from them...as we have seen with META. Consider that the gap between GOOGL search growth and META advertising growth reached a new recent peak of ~13%...even as META's 3Q:25 ad base was the same size as search at ~$63bn. This comparison, search disruption question marks (along with the material incremental opportunities not included in META forward numbers or priced including Muse, API, business agents, etc.) is likely to keep the bar high for GOOGL to clear. Not to say that they can't clear it (and should given their leading tech, data and distribution) but they need to in order to regain incremental investor confidence.

TPUs Drive Cloud Beat While Core Margins Better: GOOGL cloud revenue was 4% better than expected, with the upside (we estimate) driven by ~$5bn of TPU Sales (vs us at ~$3bn). We estimate core GCP grew 71% y/y (~in-line with last quarter based on lack of acceleration in management commentary). We estimate core GCP incremental margins (ex TPU sales at a 30% margin and $500mn of SPCX spend) were ~61% (vs 57% in 2Q). This is **bullish AWS, in our view as a read on the underlying ROIC for hyperscalers GenAI ROIC** (see here for more detail). In all, our '27 Google Cloud segment revenue/EBIT rise by 3%/6%. Notably, consistent with management's comments on Other Cost of Revenue drivers, we estimate TPU CoR increased $3.6 bn y/y while D&A within CoR increased $2bn y/y.

Please let us know if interested in our updated interactive Google Cloud backlog and TPU revenue and EBIT contribution models.

Lowering 27/'28 EPS by 2%/2% on Lower Search Revenues, PT to $375, Remain

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Alphabet Inc. (GOOGL.O, GOOGL US)

Internet | United States of America

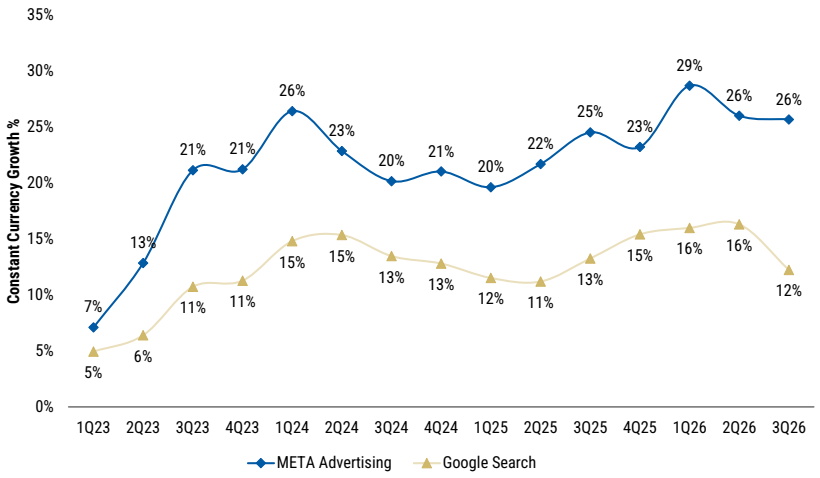
Stock Rating	**Overweight**
Industry View	**Attractive**
Price target	**$375.00**
Shr price, close (Oct 28, 2026)	$324.89
Mkt cap, curr (mm)	$4,026,670
52-Week Range	$408.61-266.50

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OW: Updating our model, our '27/'28 revenue estimates are largely unchanged, although underneath the surface Google Search revenues come down by 1%/1% in '27/'28 while Google Cloud revenues move up by 3%/2%. G&A also came in ahead of us, partially driven by higher than expected headcount additions, which we flow into ~5%/~5% higher opex in '27/'28. Altogether, our '27/'28 EPS comes down by 2%/2%, and our new $375 PT (down from $400 previously) is driven off a ~23X multiple to the average of our '27/'28 EPS.

Exhibit 1: Google Search growth trailed META's advertising business by 13%... despite both businesses operating on a revenue base of ~$63bn



Source: Company data, Morgan Stanley Research

Exhibit 2: TPU sales drove 4% upside to our 3Q estimates... while looking into '27 we model 117% y/y total Google Cloud growth

$, bns	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	1Q28	2Q28	3Q28	4Q28
TPU Backlog Revenue		**$1.3**	**$4.7**	**$6.1**	**$9.5**	**$15.9**	**$28.8**	**$27.1**	**$22.1**	**$32.1**	**$33.6**	**$19.6**
(/) GW Sales		0.1	0.2	0.2	0.4	0.6	1.1	1.0	0.8	1.2	1.3	0.8
(=) Revenue/GW of Merchant Sales		**$26.7**	**$26.7**	**$26.7**	**$26.7**	**$26.7**	**$26.4**	**$26.3**	**$26.0**	**$25.8**	**$25.6**	**$25.6**
Core Cloud Revenue (ex-TPUs)	**$20.0**	**$23.4**	**$26.0**	**$30.2**	**$34.1**	**$37.2**	**$41.5**	**$48.6**	**$54.5**	**$58.9**	**$62.3**	**$66.5**
Y/Y % Growth	63%	72%	71%	71%	70%	59%	60%	61%	60%	58%	50%	37%
Y/Y $ Growth	$7.8	$9.8	$10.8	$12.5	$14.1	$13.8	$15.6	$18.4	$20.4	$21.7	$20.8	$17.9
Q/Q % Growth	13%	17%	11%	16%	13%	9%	12%	17%	12%	8%	6%	7%
Q/Q $ Growth	$2.4	$3.4	$2.6	$4.2	$3.9	$3.1	$4.4	$7.0	$6.0	$4.4	$3.4	$4.1
Implied Cloud Revenue	**$20.0**	**$24.8**	**$30.7**	**$36.3**	**$43.6**	**$53.1**	**$70.3**	**$75.6**	**$76.6**	**$91.0**	**$95.9**	**$86.1**
Y/Y % Growth	63%	82%	103%	105%	118%	114%	129%	109%	76%	71%	36%	14%

Source: Company data, Morgan Stanley Research

Exhibit 3: We see incremental Cloud margins (ex-TPU, ex-SPCX) sustaining at 49%/48% in '27/'28

	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	2026	2027	2028
Google Cloud Reported Revenue	20,028	24,768	30,709	36,253	43,601	53,086	70,348	75,616	111,758	242,651	349,494
(-) TPU Revenue		1,350	4,722	6,091	9,502	15,915	28,801	27,064	12,163	81,282	107,259
(=) Google Cloud Revenue (ex-TPU)	**20,028**	**23,418**	**25,987**	**30,162**	**34,099**	**37,171**	**41,547**	**48,552**	**99,595**	**161,368**	**242,235**
Google Cloud EBIT	6,598	8,814	11,121	11,929	14,195	20,050	26,206	29,228	37,866	89,678	138,907
Google Cloud Reported Margins	***33%***	***35.6%***	***36.2%***	***32.9%***	***32.6%***	***37.8%***	***37.2%***	***38.7%***	***34%***	***37%***	***40%***
(-) TPU EBIT (30% margin)	0	405	1,417	1,827	2,850	4,775	8,640	8,119	3,649	24,385	32,178
(=) Google Cloud EBIT (ex-TPU)	6,598	8,409	9,704	10,102	11,344	15,275	17,565	21,109	34,218	65,293	106,729
Google Cloud EBIT Margin (ex-TPU)	33%	36%	37%	33%	33%	41%	42%	43%	34%	40%	44%
Google Cloud Incremental Margins(ex-TPU)	***57%***	***57%***	***56%***	***38%***	***34%***	***50%***	***51%***	***60%***	***50%***	***50%***	***51%***
Google Cloud EBIT (ex-TPU)	6,598	8,409	9,704	10,102	11,344	15,275	17,565	21,109	34,218	65,293	106,729
(+) SPCX Opex			500	2,760	2,760				3,260	2,760	0
(=) Google Cloud EBIT (ex-TPU, ex-SPCX)	6,598	8,409	10,204	12,862	14,104	15,275	17,565	21,109	37,478	68,053	106,729
Google Cloud EBIT Margin (ex-TPU, ex-SPCX)	33%	36%	39%	43%	41%	41%	42%	43%	38%	42%	44%
Google Cloud Incremental Margins (ex-TPU, ex-SPCX)	***57%***	***57%***	***61%***	***60%***	***53%***	***50%***	***47%***	***45%***	***58%***	***49%***	***48%***

Source: Company data, Morgan Stanley Research

Exhibit 4: Our new $375 PT implies a 23x multiple on an average of our $15/$18 EPS in '27/'28

GOOGL Valuation			
	Bear	**Base**	**Bull**
'27/'28 Avg. EPS	$15.08	$16.52	$17.40
(X) P/E	15X	23X	26X
(=) Price Per Share	**$225**	**$375**	**$450**
% upside/(downside)	(24%)	27%	52%
Implied P/E on '27 EPS	15X	25X	30X
Implied P/E on '28 EPS	12X	21X	25X

Source: Company data, Morgan Stanley Research

Key Exhibits

Exhibit 5: Changes to our GOOGL estimates

	2026 Prior	2027 Prior	2028 Prior	2026 Current	2027 Current	2028 Current	2026 Revision	2027 Revision	2028 Revision
Google Search & Other	259,691	284,802	308,555	256,292	280,989	305,702	-1.3%	-1.3%	-0.9%
YouTube ads	45,012	48,921	53,912	45,093	49,450	54,328	0.2%	1.1%	0.8%
Google Network	29,151	28,627	28,205	29,400	28,871	28,446	1%	1%	1%
Google Other (Google + Other Bets)	166,631	303,096	422,604	170,173	309,778	428,287	2.1%	2.2%	1.3%
Hedging Gains	126	400	400	220	400	400	75%	0%	0%
Total Gross revenue (GAAP)	**500,610.9**	**665,845.6**	**813,675.7**	**501,177.4**	**669,489.1**	**817,163.1**	**0.1%**	**0.5%**	**0.4%**
Traffic acquisition costs (TAC)	**65,567.3**	**70,248.9**	**74,606.6**	**65,549.0**	**70,231.7**	**74,805.7**	**0.0%**	**0.0%**	**0.3%**
TAC as % of advertising revenue	19.6%	19.4%	19.1%	19.8%	19.5%	19.3%	0.2%	0.2%	0.2%
Total Net revenue	**435,043.7**	**595,596.7**	**739,069.1**	**435,628.4**	**599,257.5**	**742,357.3**	**0.1%**	**0.6%**	**0.4%**
Other cost of revenue (ex-TAC, ex-SBC)	130,160.9	206,969.8	270,008.1	126,480.4	208,734.7	271,937.2	-2.8%	0.9%	0.7%
Gross profit (GAAP)	**299,715.9**	**382,804.9**	**462,648.8**	**303,760.4**	**384,229.1**	**463,444.0**	**1.3%**	**0.4%**	**0.2%**
Gross margin	68.9%	64.3%	62.6%	69.7%	64.1%	62.4%			
Total costs & expenses (GAAP)	**329,146.4**	**436,367.7**	**529,266.4**	**331,056.2**	**445,609.8**	**540,264.6**	**0.6%**	**2.1%**	**2.1%**
Total operating expenses (Non-GAAP)	**128,251.4**	**153,326.9**	**178,239.5**	**133,639.1**	**160,349.8**	**186,545.5**	**4.2%**	**4.6%**	**4.7%**
Research and development (ex-SBC)	60,713.9	81,708.1	100,282.1	62,685.6	81,383.8	99,704.3	3.2%	-0.4%	-0.6%
Sales and marketing (ex-SBC)	27,487.1	29,038.4	31,599.0	28,413.7	30,479.3	33,303.5	3.4%	5.0%	5.4%
General and administrative (ex-SBC)	15,225.9	14,682.8	15,633.0	16,674.4	18,344.2	20,126.5	9.5%	24.9%	28.7%
Stock-based compensation	29,991.3	33,719.6	37,137.6	31,253.0	36,436.1	40,387.3	4.2%	8.1%	8.8%
Depreciation	34,069.4	74,108.9	128,228.5	33,122.3	73,438.6	128,799.0	-2.8%	-0.9%	0.4%
Non-recurring items	0.0	0.0	0.0	0.0	0.0	0.0	--	--	--
EBITDA (adjusted)	**236,736**	**339,741**	**449,877**	**235,114**	**336,233**	**446,187**	**-0.7%**	**-1.0%**	**-0.8%**
EBITDA margin (adjusted)	**54.4%**	**57.0%**	**60.9%**	**54.0%**	**56.1%**	**60.1%**	-0.4%	-0.9%	-0.8%
Incremental EBITDA margin	66.9%	64.2%	76.8%	64.7%	61.8%	76.8%	-2.2%	-2.4%	0.1%
Total operating income (GAAP)	**171,465**	**229,478**	**284,409**	**170,121**	**223,879**	**276,898**	**-0.8%**	**-2.4%**	**-2.6%**
Total operating income margin (GAAP)	**34.3%**	**34.5%**	**35.0%**	**33.9%**	**33.4%**	**33.9%**	-0.3%	-1.0%	-1.1%
Other income/(expense), net (GAAP)	135,379.2	(2,446.1)	(6,581.0)	127,304.6	(1,498.2)	(5,497.4)	-6.0%	-38.8%	-16.5%
Pretax income (GAAP)	**306,843.7**	**227,031.9**	**277,828.3**	**297,425.8**	**222,381.1**	**271,401.1**	**-3.1%**	**-2.0%**	**-2.3%**
Income tax expense (GAAP)	55,902.6	36,325.1	45,746.0	55,105.9	35,581.0	44,823.9	-1.4%	-2.0%	-2.0%
Tax rate (GAAP)	18.2%	16.0%	16.5%	18.5%	16.0%	16.5%	31 bp	0 bp	5 bp
Net income (reported GAAP)	**250,941.1**	**190,706.8**	**232,082.3**	**242,319.9**	**186,800.1**	**226,577.3**	-3.4%	-2.0%	-2.4%
Net income (GAAP), continuing ops	250,941.1	190,706.8	232,082.3	242,319.9	186,800.1	226,577.3	-3.4%	-2.0%	-2.4%
EPS (GAAP)	**$20.29**	**$15.19**	**$18.49**	**$19.62**	**$14.93**	**$18.11**	**-3.3%**	**-1.8%**	**-2.1%**
Basic shares	12,221.3	12,399.7	12,397.8	12,210.4	12,376.0	12,374.1	-0.1%	-0.2%	-0.2%
Diluted shares	12,369.6	12,550.8	12,548.8	12,348.4	12,514.2	12,512.3	-0.2%	-0.3%	-0.3%
Free Cash Flow	(11,122.7)	(69,239.9)	286.9	(894.9)	(59,085.9)	3,703.4	-92.0%	-14.7%	1190.6%
Free Cash Flow per Share	($0.90)	($5.52)	$0.02	($0.07)	($4.72)	$0.30	-91.9%	-14.4%	1194.4%
Capex	$204,996.00	$375,046.00	$400,046.00	$196,058.00	$375,170.00	$400,170.00	-4.4%	0.0%	0.0%

Source: Company data, Morgan Stanley Research

Results vs. Morgan Stanley Estimates

Exhibit 6: GOOGL 2Q26 results vs MS estimates

	Actual vs. Estimate			
	3Q2026		Variance	
	Actual	Estimate	Absolute	Percent
Total Gross revenue (GAAP)	**127,577.0**	**127,589.9**	**(12.9)**	**0.0%**
Google Search & Other	63,350.0	64,469.1	(1,119.1)	-1.7%
YouTube Ads	11,207.0	11,364.5	(157.5)	-1.4%
Google properties	74,557.0	75,833.6	(1,276.6)	-1.7%
% Y/Y ex-FX growth	12.2%	11.3%	0.8%	
Gross Google Network websites	7,455.0	7,206.1	248.9	3.5%
% Y/Y ex-FX growth	2.4%	-5.6%	8.0%	
Gross Other revenue (Google + Other Bets)	45,371.0	44,450.3	920.7	2.1%
Traffic acquisition costs (TAC)	16,366.0	16,116.1	249.9	1.6%
TAC as % of advertising revenue	20.0%	19.4%	55 bp	
Total Net revenue	**111,211.0**	**111,473.9**	**(262.9)**	**-0.2%**
Other cost of revenue (ex-TAC, ex-SBC)	33,545.1	33,873.3	(328.2)	-1.0%
% of Revenue	30%	30%	(22) bp	
Gross profit (GAAP)	**76,158.0**	**76,307.6**	**(149.6)**	**-0.2%**
Gross margin	68.5%	68.5%	3bp	
Total costs & expenses (GAAP)	**87,001.0**	**82,641.0**	**4,360.0**	**5.3%**
Total operating expenses (GAAP)	**35,582.0**	**31,358.7**	**4,223.3**	**13.5%**
Research and development (ex-SBC)	16,362.1	15,453.1	909.0	5.9%
Sales and marketing (ex-SBC)	7,426.0	6,548.7	877.3	13.4%
General and administrative (ex-SBC)	4,671.8	3,249.7	1,422.2	43.8%
Stock-based compensation	8,630.0	7,400.2	1,229.8	16.6%
Non-recurring items	0.0	0.0	0.0	NA
Depreciation	8,369.0	9,266.2	(897.2)	-9.7%
EBITDA (adjusted)	**57,575.0**	**62,220.4**	**(4,645.4)**	**-7.5%**
EBITDA margin (adjusted)	**51.8%**	**55.8%**	-405bp	**—**
Total operating income (GAAP)	**40,576.0**	**44,948.9**	**(4,372.9)**	**-9.7%**
Total operating income margin (GAAP)	**31.8%**	**35.2%**	**-3.424%**	**-9.7%**
Total operating income (non-GAAP)	49,206.0	52,349.1	(3,143.1)	-6.0%
Total operating income margin (non-GAAP)	38.6%	41.0%	-246bp	—
Other income/(expense), net (GAAP)	(8,221.0)	(52.6)	(8,168.4)	NA
Pretax income (GAAP)	**32,355.0**	**44,896.3**	**(12,541.3)**	**-27.9%**
Income tax expense (GAAP)	5,887.0	7,183.4	(1,296.4)	-18.0%
Tax rate (GAAP)	18.2%	16.0%	220bp	
Tax rate (Non-GAAP)	20.0%	17.5%	249bp	
Net income (reported GAAP)	**26,468.0**	**37,712.9**	**(11,244.9)**	**-29.8%**
Net income (GAAP), Continuing ops	26,468.0	37,712.9	(11,244.9)	-29.8%
EPS (GAAP)	**$2.14**	**$3.04**	**($0.90)**	**-29.5%**
EPS (non-GAAP)	$2.65	$3.47	($0.82)	-23.7%
Basic shares	12,256.0	12,276.3	(20.3)	-0.2%
Diluted shares	12,368.0	12,420.6	(52.6)	-0.4%
Free Cash Flow	(9,065.0)	(10,358.7)	1,293.7	NA
FCF per Share	(0.73)	(0.83)	0.1	NA
Capex	51,355.0	55,824.0	(4,469.0)	-8.0%

Source: Company data, Morgan Stanley Research

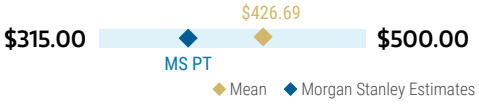
Risk Reward – Alphabet Inc. (GOOGL.O)

Alphabet Inc.

PRICE TARGET $375.00

Our $375 PT is based on applying a ~23X P/E multiple to the average of our $15/$18 EPS in '27/'28, and implies paying ~1.5X PEG, a ~25% premium to GOOGL's peer median.

Consensus Price Target Distribution

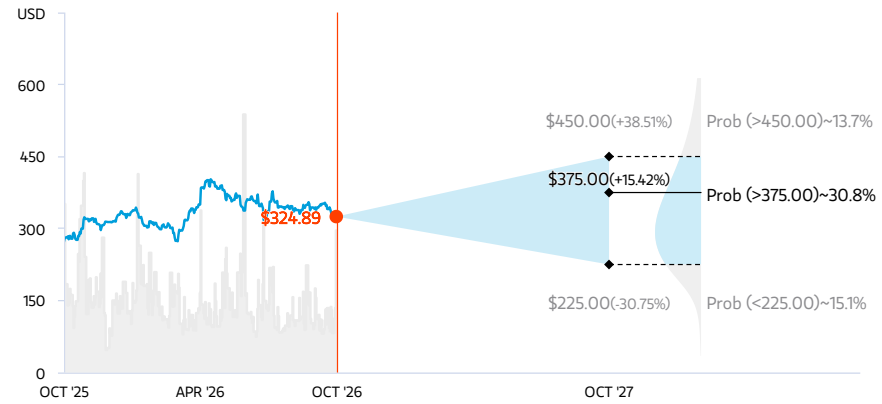


Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- Continued AI-driven platform-level innovation on Search, YouTube, Cloud, and with other offerings improve confidence in the durability of long term growth.
- Continued expense discipline leads to operating leverage and upward revisions on EPS and FCF estimates.

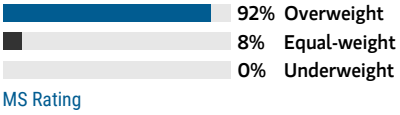
RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 28 Oct 2026. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Secular Growth:	*Positive*
New Data Era:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $450.00

~26X Avg. '27/'28 Bull Case EPS of ~$16/~$20

Faster innovation and Search/GCP acceleration lead to multiple expansion and higher earnings power. Search revenue accelerates as AI-driven innovation delivers meaningful upside to engagement. New AI offerings prove incremental to the top and bottom line and don't cannibalize core Search. YouTube and Cloud become even bigger contributors to top-line growth, and operate at a higher margin than in our base case.

BASE CASE $375.00

~23X Avg. '27/'28 Base Case EPS of ~$15/~$18

Assumes pragmatic search revenue growth in '26, continued incremental platform monetization and Google Cloud acceleration in '26. As GOOGL continues platform-level innovation on Search and other categories, we assume pragmatic revenue/EBITDA growth. GOOGL introduces new AI offerings which increase confidence in the durability of long term growth and calm fears around competition. Google Cloud accelerates driven by new partnerships and growing backlog.

BEAR CASE $225.00

~15X Avg. '27/'28 Bear Case EPS of ~$14/~$16

Global ad growth slows further and margins face pressure. Assumes slower search advertising growth, and that ad spending slows further. Expense discipline fails to materialize leading to lower than expected margin expansion and adj. EBITDA. New AI products create greater than expected margin pressure due to lower monetization rates and increased compute intensity.

Risk Reward – Alphabet Inc. (GOOGL.O)

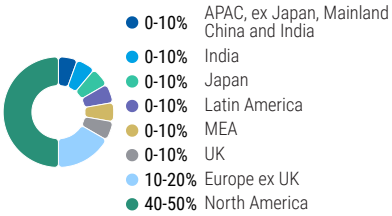
KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
Total operating income (GAAP) ($, mm)	129,039	170,121	223,879	276,898
GAAP Operating Income (Loss) ($, mm)	137,054	177,596	231,079	283,448

INVESTMENT DRIVERS

- Search advertising spend continues to gain share of global advertising budgets.
- Mobile search advertising continues to take share of online budgets.
- Investments in video driving longer-term monetization at YouTube.
- Moderation of expense growth.

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

4/5 BEST	24 Month Horizon	3/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- New products generate higher than expected top line contribution.
- Capital returns through greater share buybacks.
- Hiring and/or spend per headcount is lower than expected.

RISKS TO DOWNSIDE

- High exposure to SMB and travel could pressure ad revenue in a recession
- Improved disclosure around the Google and Other Alphabet segments may not decrease the overall investment activity of the business.

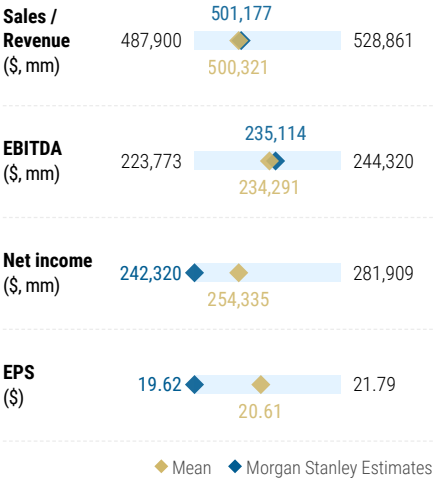
OWNERSHIP POSITIONING

Inst. Owners, % Active	56.5%
HF Sector Long/Short Ratio	2.2x
HF Sector Net Exposure	9.9%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2026e



Source: Refinitiv, Morgan Stanley Research

Financials



Exhibit 7: GOOGL Income Statement

Morgan Stanley | Google Income Statement (USD millions)	2025	2026E	2027E	2028E	25-'28 CAGR
Gross revenue build (GAAP)					
Total Alphabet revenue	**$402,836.0**	**$501,177.4**	**$669,489.1**	**$817,163.1**	**27%**
Total Advertising	294,691.0	330,784.7	359,310.9	388,475.9	10%
Google Websites	264,899.0	301,385.1	330,439.4	360,030.1	11%
Network Websites	29,792.0	29,399.6	28,871.4	28,445.8	-2%
Google Other & Other Bets	108,272.0	170,172.8	309,778.3	428,287.2	58%
Hedging gains (losses)	(127.0)	220.0	400.0	400.0	
Total Gross revenue (GAAP)	**402,836.0**	**501,177.4**	**669,489.1**	**817,163.1**	**27%**
Total cost of revenue (GAAP)	**162,535.0**	**197,417.1**	**285,260.0**	**353,719.1**	**30%**
Total gross profit (GAAP)	**240,301.0**	**303,760.4**	**384,229.1**	**463,444.0**	**24%**
Total gross margin (GAAP)	59.7%	60.6%	57.4%	56.7%	
Traffic acquisition costs (TAC)	**59,926.0**	**65,549.0**	**70,231.7**	**74,805.7**	8%
TAC as % of advertising revenue	20.3%	19.8%	19.5%	19.3%	
Total Net revenue (ex-TAC)	**342,910.0**	**435,628.4**	**599,257.5**	**742,357.3**	**29%**
Total operating expenses (GAAP)	**111,262.0**	**133,639.1**	**160,349.8**	**186,545.5**	**19%**
Research and development (ex-SBC)	48,778.6	62,685.6	81,383.8	99,704.3	27%
Sales and marketing (ex-SBC)	24,679.9	28,413.7	30,479.3	33,303.5	11%
General and administrative (ex-SBC)	17,157.6	16,674.4	18,344.2	20,126.5	5%
Stock-based compensation (including COGS)	24,953.0	31,253.0	36,436.1	40,387.3	17%
Non-recurring items	0.0	0.0	0.0	0.0	
Depreciation (included in expense lines)	21,136.0	33,122.3	73,438.6	128,799.0	83%
Total amortization of intangibles (included in expense lines)	0.0	617.0	2,478.8	102.0	
Total costs & operating expenses (GAAP)	**273,797.0**	**331,056.2**	**445,609.8**	**540,264.6**	**25%**
Total costs & operating expenses (adjusted)	248,844.0	299,803.2	409,173.7	499,877.3	
Total operating income (GAAP)	**129,039.0**	**170,121.2**	**223,879.3**	**276,898.5**	**29%**
Total operating margin (GAAP)	32.0%	33.9%	33.4%	33.9%	
Total operating income, non-GAAP	**153,992.0**	**201,374.2**	**260,315.4**	**317,285.8**	
Total operating margin (adjusted)	38.2%	40.2%	38.9%	38.8%	
EBITDA (adjusted)	**175,128.0**	**235,113.6**	**336,232.7**	**446,186.8**	**37%**
EBITDA margin	51.1%	54.0%	56.1%	60.1%	
Incremental EBITDA margin	51.6%	64.7%	61.8%	76.8%	
Interest and other income, net	**29,787.0**	**127,304.6**	**(1,498.2)**	**(5,497.4)**	
Interest income	4,337.0	6,260.1	7,832.4	5,970.8	
Interest expense	(736.0)	(4,654.5)	(9,418.6)	(11,556.1)	
Foreign currency exchange losses, net	(382.0)	30.0	88.0	88.0	
Gain (loss) on marketable securities, net	24,620.0	126,756.0	0.0	0.0	
Other	(16.0)	(1,087.0)	0.0	0.0	
Other income (expense), net	1,964.0	0.0	0.0	0.0	
Interest and other income, net	29,787.0	127,304.6	(1,498.2)	(5,497.4)	
Pre-tax income (GAAP)	**158,826.0**	**297,425.8**	**222,381.1**	**271,401.1**	
Income tax provision (GAAP)	**26,656.0**	**55,105.9**	**35,581.0**	**44,823.9**	
Tax rate (GAAP)	**16.8%**	**18.5%**	**16.0%**	**16.5%**	
Net income (GAAP), continuing ops	**132,170.0**	**242,319.9**	**186,800.1**	**226,577.3**	
Net income (loss) from discontinued ops	0.0	0.0	0.0	0.0	
Net income, reported	**132,170.0**	**242,319.9**	**186,800.1**	**226,577.3**	**20%**
EPS (GAAP), from continuing ops	**$10.81**	**$19.62**	**$14.93**	**$18.11**	
EPS (GAAP) as reported	**$10.81**	**$19.62**	**$14.93**	**$18.11**	**19%**

Source: Company data, Morgan Stanley Research

Exhibit 8: GOOGL Balance Sheet

Morgan Stanley | Google Balance Sheet

(USD millions)	2025	2026E	2027E	2028E
Assets:				
Cash & Cash Equivalents	30,708.0	102,292.0	52,386.9	8,974.7
Marketable securities	96,135.0	203,764.0	203,764.0	203,764.0
Accounts receivable	62,886.0	81,578.5	114,537.6	140,872.4
Receivable under reverse repurchase agreements	0.0	0.0	0.0	0.0
Deferred income taxes	0.0	0.0	0.0	0.0
Income taxes receivables	0.0	0.0	0.0	0.0
Prepaid revenue share, expenses and other assets	16,309.0	19,854.8	26,599.7	32,790.2
Total Current Assets	**206,038.0**	**407,489.4**	**397,288.2**	**386,401.3**
Prepaid revenue share, expenses and other assets, non-current	24,334.0	32,383.0	26,383.0	26,383.0
Deferred income taxes, non-current	0.0	0.0	0.0	0.0
Non-marketable equity securities	68,687.0	135,230.0	135,230.0	135,230.0
Property and equipment	246,597.0	425,764.7	727,496.1	998,867.1
Intangible assets	5,614.5	32,471.0	30,242.3	30,390.3
Goodwill	44,010.5	54,243.9	54,493.9	54,743.9
Total Assets	**595,281.0**	**1,087,582.0**	**1,371,133.6**	**1,632,015.6**
Liabilities:	**0.0**	**0.0**	**0.0**	**0.0**
Accounts Payable	12,200.0	17,313.1	27,722.7	36,861.3
Short-term debt	0.0	12,500.0	67,500.0	67,500.0
Accrued compensation and benefits	17,546.0	21,360.7	28,346.5	34,367.7
Accrued expenses and other current liabilities	55,557.0	67,256.5	89,251.8	105,779.2
Accrued revenue share	10,864.0	11,969.5	15,808.4	19,166.4
Securities lending payable	0.0	0.0	0.0	0.0
Deferred revenue	6,578.0	9,429.0	9,429.0	9,429.0
Income taxes payable	0.0	0.0	0.0	0.0
Total Current Liabilities	**102,745.0**	**139,828.8**	**238,058.4**	**273,103.6**
Long-Term Debt	46,547.0	125,102.0	125,102.0	125,102.0
Deferred revenue, non-current	0.0	0.0	0.0	0.0
Income taxes payable, non-current	9,531.0	17,491.4	24,896.2	30,384.2
Other Long-Term Liabilities	21,193.0	53,941.0	53,941.0	53,941.0
Total Liabilities	**180,016.0**	**336,363.2**	**441,997.7**	**482,530.8**
Shareholders' Equity:	**0.0**	**0.0**	**0.0**	**0.0**
Preferred Equity	0.0	0.0	0.0	0.0
Common Equity	93,126.0	200,635.0	237,071.1	277,458.4
Deferred stock-based compensation	0.0	0.0	0.0	0.0
AOC Income / (Loss)	(1,916.0)	(4,326.0)	(4,326.0)	(4,326.0)
Retained Earnings	324,055.0	554,909.9	696,390.8	876,352.4
Total Shareholders' Equity	**415,265.0**	**751,218.8**	**929,135.9**	**1,149,484.8**
Total Liabilities & Shareholders' Equity	**595,281.0**	**1,087,582.0**	**1,371,133.6**	**1,632,015.6**

Source: Company data, Morgan Stanley Research

Exhibit 9: GOOGL Cash Flow Statement

Morgan Stanley | Google Cash Flow Statement

(USD millions)	2025	2026E	2027E	2028E
Operating Cash Flow:				
Net Income	132,170.0	242,319.9	186,800.1	226,577.3
Depreciation & Amortization of PP&E	21,136.0	33,122.3	73,438.6	128,799.0
Amortization of intangible and other assets	0.0	617.0	2,478.8	102.0
Stock-Based Compensation	24,953.0	31,253.0	36,436.1	40,387.3
Excess tax benefit from stock-based award activity	0.0	0.0	0.0	0.0
Deferred Income Taxes	8,348.0	34,077.0	6,000.0	0.0
Other	(22,512.0)	(121,930.0)	0.0	0.0
Funds from Operations (FFO)	**164,095.0**	**219,459.2**	**305,153.6**	**395,865.6**
Changes in Working Capital:				
Accounts receivable	(8,525.0)	(29,531.5)	(32,959.1)	(26,334.8)
Income taxes	(3,226.0)	9,874.4	7,404.9	5,487.9
Prepaid revenue share, expenses and other assets	(4,542.0)	(1,871.8)	(6,744.9)	(6,190.5)
Accounts payable	(544.0)	(2,736.9)	10,409.6	9,138.6
Accrued expenses and other liabilities	14,136.0	(4,288.8)	28,981.1	22,548.6
Accrued revenue share	899.0	1,202.5	3,839.0	3,358.0
Deferred revenue	2,420.0	3,056.0	0.0	0.0
Changes in Working Capital	**618.0**	**(24,296.2)**	**10,930.5**	**8,007.8**
Operating Cash Flow	**164,713.0**	**195,163.1**	**316,084.1**	**403,873.4**
Investing Cash Flow:	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Capex	(91,447.0)	(196,058.0)	(375,170.0)	(400,170.0)
Purchase of marketable securities	(103,773.0)	(116,467.0)	0.0	0.0
Maturities and sales of marketable securities	83,240.0	93,516.0	0.0	0.0
Investments in non-marketable equity securities	(4,349.0)	761.0	0.0	0.0
Cash collateral received from securities lending	0.0	0.0	0.0	0.0
Investments in reverse repurchase agreements	0.0	(406.0)	0.0	0.0
Acquisitions, net of cash acquired, and purchases of intangible and othe	(3,962.0)	(57,747.0)	(500.0)	(500.0)
Investing Cash Flow	**(120,291.0)**	**(276,401.0)**	**(375,670.0)**	**(400,670.0)**
Financing Cash Flow:	**0.0**	**0.0**	**0.0**	**0.0**
Net payments related to stock-based award activities	(14,167.0)	(17,424.0)	0.0	0.0
Net proceeds from a public stock offering	0.0	89,562.0	0.0	0.0
Excess tax benefit from stock-based award activities	0.0	0.0	0.0	0.0
Repurchase of common stock in connection with acquisitions	0.0	0.0	0.0	0.0
Repurchase of common stock	(45,709.0)	0.0	(33,460.2)	(34,758.5)
Proceeds from issuance of debt, net of costs	64,564.0	97,722.0	55,000.0	0.0
Repayment of debt	(32,026.0)	(5,807.0)	0.0	0.0
Cash dividend payments	(10,050.0)	(11,122.0)	(11,859.0)	(11,857.2)
Other	0.0	0.0	0.0	0.0
Financing Cash Flow	**(37,388.0)**	**152,931.0**	**9,680.8**	**(46,615.6)**
Effects of FX	208.0	(109.0)	0.0	0.0
Beginning Cash	23,466.0	30,708.0	102,292.0	52,386.9
(+/-) Net Changes in Cash	7,242.0	71,584.0	(49,905.1)	(43,412.2)
(+/-) Restatements / Adjustments (pre-10-Q / K)	0.0	0.0	0.0	0.0
Ending Cash	**30,708.0**	**102,292.0**	**52,386.9**	**8,974.7**

Source: Company data, Morgan Stanley Research

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

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Within the last 12 months, Morgan Stanley managed or co-managed a public offering (or 144A offering) of securities of Airbnb Inc, **Alphabet Inc.**, Amazon.com Inc, Compass, Inc., eBay Inc, Liftoff Mobile Inc., Meta Platforms Inc, Uber Technologies Inc.

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Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Airbnb Inc, **Alphabet Inc.**, Amazon.com Inc, AppLovin Corp, Booking Holdings Inc, Bumble Inc., Chewy Inc, Compass, Inc., Criteo SA, DoorDash Inc, Duolingo Inc, eBay Inc, Etsy Inc, Expedia Inc., FIGS, Inc., Instacart, Liftoff Mobile Inc., Lyft Inc, Match Group Inc, Meta Platforms Inc, MNTN Inc, Opendoor Technologies Inc, Peloton Interactive, Inc., Pinterest Inc, Playtika Holding Corp, Reddit Inc, Revolve Group Inc, Roblox Corporation, Snap Inc., Take-Two Interactive Software, Trade Desk Inc, Uber Technologies Inc, Unity Software Inc, Webtoon Entertainment Inc, Yelp Inc, Zillow Group Inc.

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Global Stock Ratings Distribution

(as of September 30, 2026)

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For disclosure purposes only (in accordance with FINRA requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1599	43%	455	48%	28%	783	44%
Equal-weight/Hold	1563	42%	394	42%	25%	763	43%
Not-Rated/Hold	2	0%	1	0%	50%	1	0%
Underweight/Sell	570	15%	96	10%	17%	227	13%
Total	3,734		946			1774	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

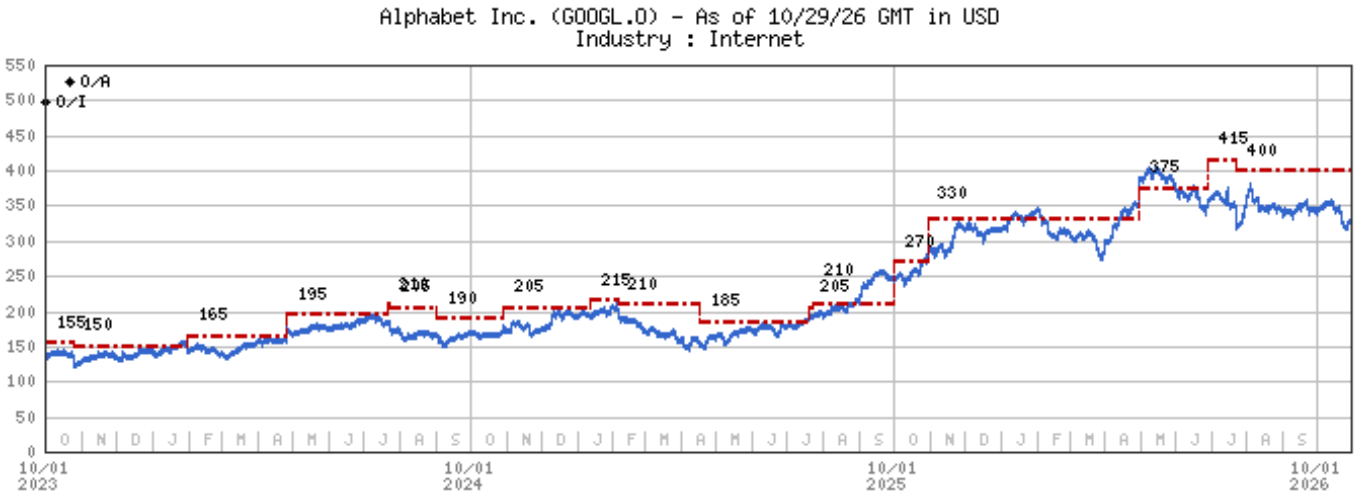
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 10/1/21 : O/I; 10/22/23 : O/A

Price Target History: 7/27/21 : 150; 11/1/21 : 160; 1/19/22 : 171.5; 2/2/22 : 172.5; 4/27/22 : 163.5; 5/31/22 : 150; 7/18/22 : 140; 7/27/22 : 145; 10/9/22 : 135; 10/26/22 : 125; 11/14/22 : 120; 1/17/23 : 125; 2/3/23 : 135; 4/25/23 : 140; 7/12/23 : 150; 7/26/23 : 155; 10/25/23 : 150; 1/31/24 : 165; 4/26/24 : 195; 7/22/24 : 210; 7/24/24 : 205; 9/2/24 : 190; 10/30/24 : 205; 1/12/25 : 215; 2/5/25 : 210; 4/16/25 : 185; 7/20/25 : 205; 7/23/25 : 210; 10/1/25 : 270; 10/30/25 : 330; 4/30/26 : 375; 6/29/26 : 415; 7/23/26 : 400

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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INDUSTRY COVERAGE: Internet

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/28/2026)
Brian Nowak, CFA		
Alphabet Inc. (GOOGL.O)	O (08/11/2015)	$324.89
Amazon.com Inc (AMZN.O)	O (04/24/2015)	$254.60
DoorDash Inc (DASH.O)	O (02/21/2024)	$169.49
Instacart (CART.O)	E (01/29/2024)	$58.42
Lyft Inc (LYFT.O)	E (10/24/2019)	$16.34
Meta Platforms Inc (META.O)	O (03/20/2023)	$612.49
Pinterest Inc (PINS.N)	O (07/20/2025)	$20.92
Reddit Inc (RDDT.N)	O (12/08/2024)	$134.70
Snap Inc. (SNAP.N)	E (07/22/2024)	$5.96
Uber Technologies Inc (UBER.N)	++	$65.27
Matthew Cost		
Airbnb Inc (ABNB.O)	E (09/16/2026)	$166.05
AppLovin Corp (APP.O)	O (04/10/2025)	$259.97
Booking Holdings Inc (BKNG.O)	O (02/23/2026)	$147.94
Compass, Inc. (COMP.N)	E (01/12/2026)	$9.17
Criteo SA (CRTO.O)	E (01/26/2016)	$14.46
DoubleVerify Holdings Inc (DV.N)	E (06/25/2024)	$13.53
Expedia Inc. (EXPE.O)	U (09/16/2026)	$275.53
Liftoff Mobile Inc. (LFTO.O)	E (06/29/2026)	$16.13
MNTN Inc (MNTN.N)	E (06/16/2025)	$9.68
Opendoor Technologies Inc (OPEN.O)	E (07/24/2023)	$1.91
Playtika Holding Corp (PLTK.O)	E (11/27/2022)	$2.04
Roblox Corporation (RBLX.N)	O (11/04/2024)	$53.28
Take-Two Interactive Software (TTWO.O)	O (02/01/2018)	$195.29

Trade Desk Inc (TTD.O)	E (09/10/2025)	$12.76
Unity Software Inc (U.N)	O (09/02/2024)	$39.50
Webtoon Entertainment Inc (WBTN.O)	E (07/22/2024)	$9.52
Yelp Inc (YELP.N)	U (01/10/2019)	$18.42
Zillow Group Inc (Z.O)	E (04/18/2018)	$30.77
Nathan Feather		
Bumble Inc. (BMBL.O)	++	$5.96
Chewy Inc (CHWY.N)	O (10/31/2023)	$20.64
Duolingo Inc (DUOL.O)	E (02/27/2026)	$135.21
eBay Inc (EBAY.O)	O (04/18/2024)	$118.02
Etsy Inc (ETSY.N)	E (07/20/2025)	$92.35
FIGS, Inc. (FIGS.N)	E (02/29/2024)	$20.66
Grindr Inc. (GRND.N)	O (07/01/2026)	$12.97
Match Group Inc (MTCH.O)	E (04/18/2024)	$42.06
Peloton Interactive, Inc. (PTON.O)	U (09/08/2026)	$5.27
Revolve Group Inc (RVLV.N)	E (10/20/2024)	$22.59
WW International Inc (WW.O)	E (08/01/2025)	$14.39

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