

Equity Research Report: Alphabet Inc.

Income Summarization

In 2023 (based on fiscal year 2022 data), Alphabet (Google) reported total revenues of \$282.8 billion, a year-over-year increase of 9.8%, primarily driven by its core Google Search & other segment and the rapidly expanding Google Cloud business. Advertising revenues totaled \$224.5 billion, up 7.2% year-over-year, demonstrating the continued resilience of search advertising, although YouTube ad growth moderated. Google Cloud was a standout performer, with revenues surging 36.9% year-over-year to \$26.3 billion, reflecting strong market demand and the company's growing market share in the cloud sector. However, revenues from Other Bets declined slightly to \$1.5 billion. Despite revenue growth, the company's profitability faced challenges. Total costs and expenses increased by 15.5% year-over-year to \$206.7 billion, mainly due to higher R&D; spending (up 22%) and sales and marketing expenses (up 10%), as well as increased headcount. This resulted in an operating income of \$76.1 billion, a decrease of 3.3% year-over-year, with the operating margin contracting from 30.5% to 26.9%. Net income fell by 21% year-over-year to \$60.0 billion, partly impacted by changes in the fair value of equity investments. Segment-wise, Google Search & other remained the primary profit contributor and cash cow, funding overall operations and investments in new ventures. Google Cloud, as a key growth engine, showed rapid revenue growth, but improving its profitability (narrowing operating losses) remains a key focus for the market and is crucial for Alphabet's diversification strategy. The Other Bets segment represents long-term investments in frontier technologies but is currently in a phase of high investment and losses. Overall, Alphabet demonstrated continued revenue growth in 2023, particularly in its cloud business, but also faced challenges from macroeconomic pressures and rising costs affecting profitability. The company's sustained high investment in R&D; underscores its focus on future innovation.

Business Highlights

In the fiscal year 2023 (based on full-year 2022 data), Alphabet demonstrated the resilience and growth potential of its business amidst a challenging macroeconomic environment.

1. ****Continued Strong Growth of Google Cloud:**** Google Cloud Platform (GCP) achieved a 37% year-over-year revenue growth, reaching \$26.3 billion. This growth reflects strong market demand for enterprise cloud services and Google Cloud's differentiated competitive advantages in areas such as data analytics, artificial intelligence, and machine learning. Although the segment is still working towards profitability, its operating losses have narrowed, indicating positive trends from economies of scale and efficiency improvements.

2. ****Solid Performance of the Search Business:**** Despite overall pressure in the advertising market, the Google Search & other segment's revenue still grew by approximately 7% year-over-year to \$162.5 billion. This highlights the strong market position of Google Search as a leading global information portal and the continued trust of advertisers. The company continues to optimize search results and ad-serving efficiency through AI technology.

3. ****Recovery of YouTube Advertising and Growth of Shorts:**** YouTube advertising revenue showed signs of recovery towards the end of the year after a slowdown in previous quarters. Additionally, YouTube Shorts' watch time and creator engagement continued to grow rapidly, providing new growth opportunities for future ad monetization.

4. ****Strategic Focus and Investment in Artificial Intelligence (AI):**** Alphabet continues to make AI its core strategy, not only by deeply integrating AI technology into existing products (such as Search, Ads, Cloud) to enhance user experience and operational efficiency but also by actively investing in fundamental AI research and the development of emerging AI applications, such as models and generative AI.

5. ****Progress in Pixel Hardware Business:**** The share and user reputation of the Pixel series phones and other products continued to improve, contributing to Google's ecosystem development as a platform to showcase its latest AI technologies and Android features.

Company Situation

Alphabet Inc. is a global technology conglomerate, with its subsidiaries being one of the world's largest providers of search engine, advertising, and cloud computing services. Founded in 1998 by Larry Page and Sergey Brin, the company initially focused on web search. Today, Alphabet's business has expanded into diverse areas, including digital advertising (Google Search, Google Display Network), cloud services (Google Cloud), mobile operating systems (Android), hardware products (Pixel phones, Google Home), and numerous forward-looking

'Other Bets' projects such as autonomous driving (Waymo) and life sciences (Verily). Alphabet's mission is to organize the world's information and make it universally accessible and useful. The company is headquartered in Mountain View, California, USA. Despite facing increasingly fierce market competition and global regulatory challenges, Alphabet maintains a leading position in several key technology areas, leveraging its strong technological capabilities, broad user base, and continuous investment in innovation. The company is committed to solving significant challenges through technology and is strategically positioning itself in next-generation technologies like artificial intelligence and quantum computing.

Risk Assessment

Key risk factors for Alphabet Inc. (GOOGL) include: Firstly, dependence on advertising revenue, as the vast majority of Alphabet's revenue comes from advertising (Google Search, YouTube Ads, Google Network), making it susceptible to global economic conditions, fluctuations in advertising spending, increased market competition, and changes in advertising technology and regulations. Any adverse impact on the advertising market could severely affect the company's financial performance. Secondly, regulatory scrutiny and legal risks, as Alphabet faces increasing regulatory scrutiny worldwide, particularly in areas of antitrust, data privacy, and algorithmic transparency, which could lead to substantial fines, adjustments to business models, or even divestitures. Lastly, the pressure of innovation and technological change, as the tech industry is rapidly evolving, and while the company invests heavily in AI, cloud computing, etc., the commercialization prospects are uncertain. Failure to effectively respond to technological changes or competition could impact its market position and long-term growth.

Financial Metrics

FY (USD mn)	2020	2021	2022	2023
Operating Revenue	182527.0	257637.0	282836.0	307394.0
Adjusted Net Profit	40269.0	76033.0	59972.0	73795.0
Adjusted EPS	2.96	5.69	4.59	5.84
EBIT Margin	0.23	0.31	0.26	0.27
ROE	0.18	0.3	0.23	0.26
P/E Ratio	29.63	25.44	19.22	23.91
EV/EBITDA	19.25	18.73	13.63	18.04
P/B Ratio	5.36	7.69	4.5	6.23

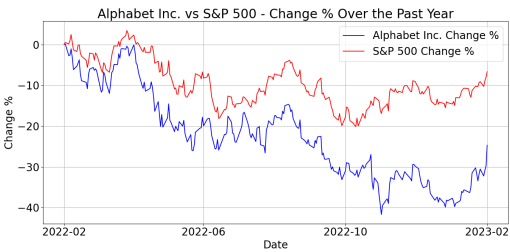
FinRobot

<https://ai4finance.org/>
<https://github.com/AI4Finance-Foundation/FinRobot>
Report date: 2023-02-03

Key data

Rating	buy
Target Price	Failed to retrieve data: 403
6m avg daily vol (USDmn)	30.50
Closing Price (USD)	107.23
Market Cap (USDmn)	1343594.27
52 Week Price Range (USD)	86.11 - 141.36
BVPS (USD)	19.61

Share Performance



PE & EPS

