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**Alphabet Earnings: Google Search, YouTube, and Cloud Impress, but Network Revenue Declines Further**

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**Business Strategy and Outlook**

Alphabet dominates the online search market with 90%-plus global share (80%-plus U.S. share) for Google, and the business generates very strong cash flow. We expect continuing search growth as we remain confident that Google will maintain its leadership despite Microsoft moving first to include generative artificial intelligence in Bing search. We also foresee YouTube and cloud contributing more to the firm’s top and bottom lines. Finally, we view investments in “moonshots” as attractive, with significant uncertainty but also substantial upside.

Google’s ecosystem strengthens as its products are adopted by more users, making its online advertising services more attractive to advertisers and publishers and resulting in increased online ad revenue. We think ad revenue can continue to grow at high-single-digit rates during the next five years. The firm utilizes technological innovation to improve the user experience in nearly all its Google offerings, while making the sale and purchase of ads efficient for publishers and advertisers. Adoption and usage of mobile devices has been increasing. The online advertising market has taken notice and has followed its target audience onto the mobile platform. We have seen Google partake in this on the back of its Android mobile operating system’s growing market share, helping it drive revenue growth and maintain its leadership in the space.

Among the firm’s investment areas, we particularly applaud the efforts to gain a stronger foothold in the fast-growing public cloud market. Google has quickly leveraged the technological expertise it applied to creating and maintaining its private cloud platform to increase its market share in this area, driving additional revenue growth and creating more operating leverage, which we expect will continue. Most of Alphabet’s more futuristic projects are not yet generating revenue, but the upside is attractive if they succeed, as the firm is targeting newer markets. Alphabet’s autonomous car technology business, Waymo, is a good example: Based on various studies, it may tap into a market valued in the tens of billions of dollars within the next 10-15 years.

**Bulls Say, Bears Say**

**Bulls**

As the number of online users and usage increase, so will digital ad spending, of which Google will remain one of the main beneficiaries.

Android’s dominant global market share of smartphones leaves Google well positioned to continue generating top-line growth as search traffic shifts from desktop to mobile.

The significant cash generated from the Google search business allows Alphabet to remain focused on innovation and the long-term growth opportunities that new areas present.

**Bears**

There is little revenue diversification within Alphabet, as it remains heavily dependent on Google and the state of the search ad space.

Alphabet is allocating too much capital toward high-risk bets, which face a very low probability of generating returns.

Google’s dominant position in online search is not maintainable, as more companies and regulatory agencies are contesting the methods through which the company has been