



APERTURE

INSIGHTFUL AND RELEVANT RESEARCH UPDATES

Alphabet Q4 2024 Results

Share Price	US\$193.30
Fair Value Range	US\$193.90-US\$214.31
Date	6 February 2025

RESULTS SUMMARY

Alphabet delivered a strong fourth quarter, with total revenue up 12% year-on-year to US\$96.5bn, driven by Search (+13% to US\$54bn) and YouTube ad revenue (+14% to US\$10.5bn). Despite the seasonal strength in advertising demand, AI Overview's monetisation was similarly impressive, as it was almost equivalent to traditional search monetisation. Operating income grew 31% to US\$30.9bn, with margins expanding from 27% to 32%, while diluted EPS rose 31% to US\$2.15 per share. However, Google Cloud revenue of US\$12bn (+30% YoY) fell short of expectations due to capacity constraints, and the market reacted negatively to Alphabet's planned US\$75bn AI-focused capital expenditures for 2025.

OUR LONG-TERM INVESTMENT VIEW

- Despite the strong growth in internet advertising, we have seen over several years, the category is still expected to grow. Google is well positioned to benefit from the continued secular trend from traditional to online advertising.
- The group's core search business continues to have a dominant market share. While growth in desktop search has tapered off, the evolution of mobile continues to be a growing market. Additionally, Alphabet's established AI knowledge base and integration serve as both defence and attack against increased competition. We expect further progress and innovation on this front.
- While developments in Android, Google Play, hardware, and fast-growing cloud pale in comparison to the contribution from the traditional business, we believe that over the long-term, they present additional avenues for earnings growth. The cloud market alone is expected to grow from US\$445.3bn in 2021 to US\$947.3bn by 2026, at 16.3% per annum.

UNPACKING THE Q4 2024 RESULTS

High level numbers

- Alphabet reported a **12% year-on-year increase in revenue to US\$96.5 billion**, driven by strong performance in Search and YouTube advertising, alongside steady growth in subscriptions and cloud services. **Operating income rose by 31%**, allowing operating margins to expand to 32%, reflecting disciplined cost control.
- **Geographically**, EMEA and APAC continued to grow strongly, up 11% and 9% to US\$27.8bn and US\$15.2bn (constant currency), respectively. The largest market, the US, grew revenues 13% to US\$47.4bn.
- **Net income was** US\$26.6bn and **earnings per share** grew 31% to US\$2.15 per share.
- Alphabet spent US\$14bn on **capital expenditure** primarily on technical infrastructure.
- Cash and marketable securities **totalled**
- Within Advertising, **YouTube's performance was above estimates**, growing revenues by 14% to US\$10.5bn. The world's largest streaming platform remained dominant in online video advertising and still has room to grow, with YouTube continuing to be the most watched streaming platform in the US. Looking ahead, innovative monetisation strategies and increased emerging market penetration will be key drivers of growth.
- **Google subscriptions, platforms, and devices grew revenues by 7% to US\$11.6bn**. Growth was driven by steadily rising YouTube subscriptions.
- **Google Cloud revenue** was up 30% to US\$12bn, **below expectations**. The cloud segment was driven by Google Cloud Platform (GCP) across core GCP products, AI infrastructure and Generative AI Solutions.

US\$95.6bn against US\$10.9bn in long-term debt.

Operational Performance

- **Google Advertising** (incorporating Google Search, YouTube, and Google Network sites) grew revenues by 10.7% to US\$72.5bn, with the strong performance of Search experienced across verticals. **Google Search** revenues increased by 12.5% to US\$54bn as search usage has increased with the integration of AI Overviews (AI-generated summaries that appear at the top of search results) and Circle to Search (A feature allows you to search anything on your Android phone without switching apps).

Looking ahead

Alphabet plans to spend US\$75bn on AI-focused infrastructure in 2025, reinforcing its position in AI-driven search, ads and cloud services. While management are confident in boosting margins through cost efficiencies, investors are wary of the impact on near-term profitability.

The bottom line

Despite market concerns over Cloud revenue and capital expenditure, the quarter reflects healthy growth and cash flow performance from Alphabet's core advertising and search business. Early signs of AI monetisation support our view that this will drive long term earnings growth. With Alphabet trading just below our fair value range, we see upside potential.

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