



Company Overview:

Alphabet is a global technology company focused around key areas, such as, advertising, operating systems, and platforms, enterprise and hardware products. The company generates revenue primarily by delivering online advertising, by selling apps, hardware, and content on Google Play.

<u>Name</u>	<u>Ticker</u>	<u>Growth</u>	<u>Dividend</u>	<u>D + G</u>
Alphabet Inc. Class A	GOOGL	12.00%	0.00%	12.00%

Company Highlights:

We believe Google is one of the most extraordinary businesses of the digital age. Its mission is "to organize the world's information and make it universally accessible and useful." This is such a broad organizing principle for a company whose value is built on doing just that. When you think about the mass adoption of the Internet, smartphones, social and digital media, and e-commerce among billions of users every day, and the exponential growth of data that has brought, we all know how valuable Google's role in collecting, organizing, and filtering all that information has become in our daily lives.

Bull Case:

- **Cheap Valuation** - With their renewed focus and investments on Cloud, we expect Alphabet to continue to grow its market share in IaaS and while they are the #3 player in a \$40B industry, there is share to take from other players to drive growth. We believe that these investments that Alphabet made will help them take market share from the multitude of other companies that collectively have 32% of IaaS market share. As Alphabet proves to the market that its Cloud strategy is working, its EBITDA multiple should expand as the market gives weight to its Cloud strategy.
- **Google Cloud is Growing** - Alphabet developed an ambitious plan to take share in cloud computing and become the #2 player in this industry. Google Cloud comprises their IaaS, PaaS, and SaaS plays via GCP and G-Suite which is their SaaS offering as a Microsoft Office 365 alternative. In the most recent quarter, Google Cloud revenues continued to expand with strong forward execution commentary - continued sales growth from GCP and G-Suite (including Google Meet which benefits from work-from-home). The company also noted increasing traction with large clients in Cloud, and its backlog reached new records in its most recent quarter.
- **Large Total Addressable Market for Advertising Revenue** - Per the company, GOOGL owns 40% of the digital ad market space worldwide. There has always been an overhang that the company will reach a ceiling in digital ad spending. Luckily, there remains a long runway for growth. Per management, 40% of advertising budgets remain offline, 90% of commerce is still offline. Furthermore, the company continues to see additional parallels where they see an opportunity for new parallels in the monetization of digital advertisements.

Bear Case:

- **Generative AI and its LT Threat to the Core Search Business** - Advertising represents ~80% of gross revenues and comes with very high margins. Search alone is ~60% of the total and has maintained >90% global share for years. ChatGPT created the fear that, in the LT: 1) ad revs could be pressured if users shift their behavior from search engines to chatbots when looking for information (less ad surface), and 2) margins could be pressured if GOOGL's traffic shifts from traditional search to its own gen AI tools (SGE), which carry higher training & inferencing costs.
- **Questions on the Mgmt.** - Investors ask whether CEO Pichai has led with enough force in responding to the AI threat. Also, it's been ~8 months since CFO Porat announced plans to transition from her role, and there has been no update.
- **Cloud Lagging** - In Q4, GOOGL's RPO (mainly Cloud) grew 15% y/y - well below AMZN backlog's (mainly AWS) 41%. While most analysts estimate Google Cloud revenues are still growing faster than Azure, we see the gap narrowing to 1% in '24E (28%-27%) from 9% in '22 (46%-37%). Google Cloud remains a distant 3rd at 12% share vs. Azure 37% & AWS 52%.

Overall Thesis:

Alphabet is well-positioned long-term with leading search technology, Android and YouTube. Alphabet is also an advertising industry leader and the company should generate incremental revenue growth from increasing mobile usage, video usage, Google Play activity, and connected device activity (including autos). We believe Google should trade at a premium to its peer group given shareholder-friendly actions (buybacks and disclosures) and new product catalysts.

GOOGL is only up modestly year-to-date and trails both indices & peers due to 3 key concerns: L-T threat to search from AI, questions on mgmt leadership, and Cloud lagging. These are already reflected in NTM EV/EBITDA 12.7x vs. 5-yr avg 12.7x and large-cap internet median ~23x. We believe GOOGL has all the ingredients to rebound: top AI talent; massive data & user base; outside pressure for execs to step up intensity; & hope for a new CFO who can apply the right catalysts.



Disclosures

Past performance is not indicative of future results. Investing involves risk including the potential loss of principal. This material is not financial advice or an offer to sell any product. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Aptus Capital Advisors, Inc. reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. Forward looking statements cannot be guaranteed. This is not a recommendation to buy or sell a particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. Information was obtained from third party sources which we believe to be reliable but are not guaranteed as to their accuracy or completeness.

This commentary offers generalized research, not personalized investment advice. It is for informational purposes only and does not constitute a complete description of our investment services or performance. Nothing in this commentary should be interpreted to state or imply that past results are an indication of future investment returns. All investments involve risk and unless otherwise stated, are not guaranteed. Be sure to consult with an investment & tax professional before implementing any investment strategy. Investing involves risk. Principal loss is possible.

The content and/or when a page is marked "Advisor Use Only" or "For Institutional Use", the content is only intended for financial advisors, consultants, or existing and prospective institutional investors of Aptus. These materials have not been written or approved for a retail audience or use in mind and should not be distributed to retail investors. Any distribution to retail investors by a registered investment adviser may violate the new Marketing Rule under the Investment Advisers Act. If you choose to utilize or cite material we recommend the citation, be presented in context, with similar footnotes in the material and appropriate sourcing to Aptus and/or any other author or source references. This is notwithstanding any considerations or customizations with regards to your operations, based on your own compliance process, and compliance review with the marketing rule effective November 4, 2022.

Advisory services are offered through Aptus Capital Advisors, LLC, a Registered Investment Adviser registered with the Securities and Exchange Commission. Registration does not imply a certain level or skill or training. More information about the advisor, its investment strategies and objectives, is included in the firm's Form ADV Part 2, which can be obtained, at no charge, by calling (251) 517-7198. Aptus Capital Advisors, LLC is headquartered in Fairhope, Alabama. ACA-2404-5.