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Alphabet Inc. (NASDAQ: GOOG)

Google Cloud doubled. Free cash flow fell below zero. At $278 a share, the price assumes that the new capital earns more than the old business did.

RATING	PRICE (10/30/26)	FAIR VALUE	IMPLIED RETURN	MARGIN NEEDED
SELL	$278.22	$215	-22.7%	48.0%

READ THIS FIRST · A SELL IS A CLAIM ABOUT THE PRICE, NOT ABOUT THE COMPANY. Alphabet is an excellent business, and Google Cloud doubled in a year. This is our first SELL. We think that the price assumes more than the record supports for the return on the new capital.

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The author holds no position in GOOG or GOOGL and has no plans to start one. A fair value is an opinion, not a prediction. Equities can lose value, and you can lose all of the money that you invest. The full disclosures are on the final page.

We start coverage of Alphabet with a **SELL** and a fair value of $215. That is 22.7% below the close of $278.22 on Friday, October 30, 2026. We use the Class C shares, which trade as GOOG.

In the twelve months to September 30, 2026, Alphabet spent $159.8 billion on capital expenditure (capex). That is 34% of revenue. In 2024, the figure was 15%. The company guides to $195 billion to $205 billion for 2026, and it says that 2027 will be significantly higher.

The market value is $3.42 trillion. After we remove the cash, the debt and the equity stakes, the price puts $3.21 trillion on the operating business. For that, our model needs an EBITDA margin of 48.0% in every year. In the last twelve months, the margin was 41.4%.

In our base case, revenue grows 10.3% a year for ten years. Capex falls back to 17% of revenue, and the margin stays where it is. That gives $214.35 a share, which we round to $215. The bear case loses more than the bull case gains.

SNAPSHOT	
Market value	$3.42T
Shares out	12,294M
Operating business, at the price	$3.21T
Revenue, last 12 months	$471.1B
Operating margin, last 12 months	33.3%
EBITDA margin, without Other Bets	41.4%
EBITDA margin the price needs	48.0%
Capex, last 12 months	$159.8B
Capex, share of revenue	33.9%
Free cash flow, last 12 months	$19.7B
Free cash flow, Q3 2026	-$9.1B
2026 capex range	$195B to $205B
Cloud backlog	$561B
Cloud growth, Q3	+103%
Price to operating earnings	26.6x
Outside items, per share	$16.91
Dividend yield	0.3%

SECTION ONE

What the third quarter showed

Alphabet reported on October 28, 2026. Revenue grew 25% to $127.6 billion. Google Cloud grew 103%, and its operating margin rose to 36.2% from 23.7%. Search grew 12%.

The third quarter of 2026 against the third quarter of 2025, in $ millions.

Line	Q3 2025	Q3 2026	Change
Google Search and other	56,567	63,350	+12.0%
Google Services revenue	87,052	96,302	+10.6%
Google Cloud revenue	15,157	30,709	+102.6%
Total revenue	**102,346**	**127,577**	**+24.7%**
Google Cloud operating income	3,594	11,121	+209%
Alphabet-level costs	(4,467)	(7,655)	+71%
Operating income	**31,228**	**40,576**	**+29.9%**
Depreciation	5,611	8,369	+49%
Capex	23,953	51,355	+114%
Free cash flow	**24,461**	**(9,065)**	

Capex more than doubled, to $51.4 billion in the quarter. Operating cash flow was $42.3 billion, so free cash flow was -$9.1 billion. Depreciation grew 49%, and it will increase as the new equipment goes into service.

Diluted earnings per share fell to $2.12 from $2.87. A loss of $8.7 billion on equity stakes cost $0.55 a share. Without it, the figure is $2.67. The stock fell 12.3% on October 29, and 13.6% in two days.

SECTION TWO

The capital program

Capital expenditure (capex) against revenue, in $ millions.

Period	Capex	Revenue	Share of revenue	Free cash flow margin
2024	52,535	350,018	15.0%	20.8%
2025	91,447	402,836	22.7%	18.2%
Twelve months to September 30, 2026	159,804	471,097	33.9%	4.2%

With its results for the fourth quarter of 2025, Alphabet guided to $175 billion to $185 billion of capex for 2026. The range is now $195 billion to $205 billion. The midpoint leaves $68.0 billion for the fourth quarter. Management gave no figure for 2027. We assume $280 billion.

The program now needs outside money. Long-term debt rose to $125.1 billion from $46.5 billion at the end of 2025. In June, Alphabet sold common stock and mandatory convertible preferred stock, and Berkshire Hathaway bought $10 billion of shares.

Alphabet bought back $45.7 billion of stock in 2025 and none in the first nine months of 2026. The share count rose 1.9% in the year to October 21, 2026. Interest expense was $967 million in the third quarter, against $143 million a year earlier.

The demand is real. Google Cloud had $561 billion of contract backlog at September 30, which is 6.0 times its revenue of the last twelve months. Alphabet expects to recognize about 55% of its backlog as revenue in the next 24 months.

SECTION THREE

What the price assumes

We value the operating business with a ten-year cash flow model and a 9% hurdle. Free cash flow is EBITDA, less tax on operating profit, less capex. Stock compensation stays in the costs, because it is a real cost to the holders.

Then we ask what one input must be for the model to give $278.22. We change one input at a time and keep the rest of the base case.

What the price needs, against the record. Each line changes one input in our base case.

Input	The price needs	For comparison
EBITDA margin, every year	48.0%	41.4% in the last twelve months
Capex, share of revenue, from year 6	9.9%	15.0% in 2024, 22.7% in 2025
Hurdle rate	7.8%	9%, our choice

The margin and the capex level ask for more than Alphabet has shown. A margin of 48.0% gives a free cash flow margin of 25.1% in year 10. In 2024 and 2025, the free cash flow margin was 20.8% and 18.2%. A capex level of 9.9% is below the 15.0% of 2024, and the company plans more capex, not less.

A reader can also accept our cash flows and ask for a lower return. The price then gives a return of 7.8% a year. That is a low return for a stock whose free cash flow is now below zero.

SECTION FOUR

Our base case

Google Services revenue grows 10% in year 1, and the rate falls in steps to 4% in year 10. In the first three quarters of 2026, Services grew 16%, 15% and 11%.

Google Cloud grows 55% in year 1 and 35% in year 2. Then the rate falls to 5% by year 10. Two years of Cloud revenue in our base case are $339 billion. The backlog alone gives about $308 billion in that period. The model checks that every case covers the backlog.

The EBITDA margin stays at 41.4%, the level of the last twelve months, without Other Bets. Capex is $278 billion in year 1 and 40% of revenue in year 2. It then falls in steps to 17% by year 6, between the levels of 2024 and 2025.

Our base case, in $ millions. Year 1 is the twelve months to September 30, 2027.

Year	Revenue	Of which Cloud	Capex	Share	Free cash flow
Year 1	558,387	144,412	278,047	50%	(78,498)
Year 2	647,569	194,956	259,028	40%	(22,126)
Year 3	735,534	243,695	251,921	34%	21,525
Year 5	909,364	339,224	206,880	23%	137,522
Year 6	991,472	383,323	168,550	17%	208,357
Year 10	1,245,981	506,846	211,817	17%	246,110

Free cash flow is below zero for two years and then recovers. By year 10, it is 19.8% of revenue, about the level of 2024 and 2025. The value after year 10 is 74% of the total, so the long-run level of capex is the main question.

We give Other Bets no value and no cost. Their operating loss was $9.6 billion in the last twelve months. Waymo may be worth more than that cost, and a reader who thinks so can add the difference.

SECTION FIVE

The balance sheet outside the business

The balance sheet outside the operating business, September 30, 2026, in $ millions.

Item	$ millions
Cash and debt securities	174,714
Less debt	(126,118)
Less the preferred stock, at its liquidation value	(19,000)
Equity stakes, marketable and non-marketable	225,614
Less tax at 21% on the stakes	(47,379)
Total	**207,831**
Per share	**$16.91**

The stakes are large. They include $75.2 billion of SpaceX shares, which have short-term limits on a sale. Non-marketable securities are $135.2 billion, and Alphabet says that they are mainly an investment in one private company. We apply tax because $125.7 billion of this value, 56%, is unrealized gain from 2026 alone.

The preferred stock converts into Class A and Class C shares in 2029. We deduct its liquidation value of $19 billion, and we do not add shares for it. Together, these items are worth $16.91 a share, about 6% of the price.

The stakes also explain the reported earnings. In the first nine months of 2026, gains on equity securities were $127.3 billion before tax, and net income was $201.2 billion. So the reported price to earnings ratio looks low. On operating income after tax, the price is 26.6 times earnings.

SECTION SIX

Valuation

Three cases at a 9% hurdle and 3% growth after year 10.

Case	Inputs	Revenue, year 10	Free cash flow margin, year 10	Value	Return
Bull	Services 12% to 5%; Cloud 65%, then 45%; margin 45.4%; capex 15%	$1,578 billion	24.6%	$334	+20.1%
Base	**Services 10% to 4%; Cloud 55%, then 35%; margin 41.4%; capex 17%**	**$1,246 billion**	**19.8%**	**$214**	**-23.0%**
Bear	Services 6% to 2.5%; Cloud 45%, then 30%; margin 37.4%; capex 20%	$914 billion	14.1%	$114	-59.0%

The bull case needs Cloud growth of 65% next year, a margin four points higher and capex back at the 2024 level. It gives $334, which is +20.1%. The bear case gives $114, which is -59.0%.

Value per share in our base case, by hurdle and growth after year 10.

Hurdle	2.5% growth	3.0%	3.5%
8.0%	$246	$264	$286
8.5%	$222	$237	$254
9.0%	**$203**	**$214**	**$228**
9.5%	$186	$195	$207
10.0%	$171	$179	$188

The hurdle is the input with no fixed answer. From 8% to 10%, the grid goes from $171 to $286. Only the corner with an 8% hurdle and 3.5% growth reaches the price.

Value per share by EBITDA margin and by capex as a share of revenue from year 6.

EBITDA margin	12% capex	15%	17%	20%
38.0%	$226	$199	$181	$154
41.4%	**$260**	**$232**	**$214**	**$187**
45.0%	$294	$267	$249	$222
48.0%	$324	$297	$278	$251

Margin and capex matter most. Each point of EBITDA margin is worth about $10 a share. Our assumption for 2027 capex matters less: each $40 billion moves the value by about $1.92 a share.

SECTION SEVEN

Why this is a SELL

Our central value is 23% below the price. The bear case is 59% below, and the bull case is only 20% above. The price needs a hurdle of 7.8% on our central cash flows.

We do not say that the capex is a mistake. The backlog and the Cloud margin show that customers pay for the capacity. We say that the price already pays for a good result, and the company has not yet shown the free cash flow.

The dividend is $0.22 a quarter, a yield of 0.3%. There are no buybacks to support the price, and the share count now rises.

SECTION EIGHT

Risks, and what would change our mind

Cloud grows faster than our bull case. The backlog is 6.0 times the Cloud revenue of the last twelve months. If customers expand those contracts, revenue can grow faster for longer.

Margins rise with scale. The Cloud operating margin rose 12.5 points in a year. At a company margin of 45%, our base case gives $249 a share.

Capex falls sooner. If the 2027 plan is lower than we assume, or if capacity is sold to other companies at high margins, free cash flow recovers sooner.

The stakes. We tax the stakes at 21%. A sale of SpaceX or of the private stake at a high price would add cash.

Legal costs. Alphabet recorded $1.0 billion for fines in the third quarter and $2.1 billion for a damages award in the second quarter. Both are under appeal.

Upgrade to HOLD if the price falls below about $247, which is 15% above our fair value. We would also upgrade if the EBITDA margin goes above 45% for two quarters while capex falls as a share of revenue.

SECTION NINE

Related research

Reports that bear on this one. Every call on this site is dated, public and scored the same way.

- Taiwan Semiconductor, the supplier side of the same capital program, which we rated BUY.
- Adobe, where we also asked what growth the price needs. We rated it HOLD.

The field guide defines reverse DCF and free cash flow. The full list of calls is on the scoreboard.

APPENDIX

Methodology, sources and disclosures

Methodology

A model script computes every figure in this report. It checks that the segments add to reported revenue and operating income in each quarter, and that the nine-month totals match the release.

It checks that free cash flow for the last twelve months matches the $19.7 billion that Alphabet reports. It checks that the market value agrees with public figures, and that each case covers the Cloud backlog.

The model uses a 9% hurdle and 3% growth after year 10. The tax rate is 18.2%, the rate of the third quarter. Depreciation uses a 6-year life, and it changes only the tax.

We ignore changes in receivables, payables and inventory, interest income on the cash, and future share issues. The share count is 12,294 million, from the cover of the Form 10-Q, and it excludes the preferred stock.

The reference price

The $278.22 reference price is the close of GOOG on Friday, October 30, 2026. Stockscan, MarketBeat and Trendlyne state $278.22. Yahoo Finance shows a day change of -1.45%.

Five sources confirm the prior close of $282.32, and that close less $4.10 is $278.22. We did not find a fifth page that states the close itself. We rejected old pages and two pages that showed prices during the day.

Sources

- **Third quarter 2026 earnings release**, October 28, 2026. Source for revenue, segment results, cash flow, the balance sheet and the loss on equity securities.
- **Form 10-Q for the quarter ended September 30, 2026**, for the share count, the stakes, the backlog, the preferred stock, buybacks and legal charges.
- **Second quarter 2026 earnings release**, for the quarter's segments and cash flow.
- **First quarter 2026 earnings release**, for the quarter's segments and cash flow.
- **Fourth quarter 2025 earnings release**, for the fourth quarter of 2025, the full years 2024 and 2025, and the first 2026 capital range.
- **Form 10-Q for the quarter ended September 30, 2025**, for the share count a year earlier.
- **Pricing release of June 3, 2026**, for the terms of the stock sale and the preferred stock.
- **Third quarter 2026 earnings call transcript**, for the 2026 capital range, the comment on 2027, the dividend and when the backlog becomes revenue.
- **MarketBeat, October 30, 2026**, for the close and the market value.
- **Twelve Data**, for the closes of October 28 and 29.

How we score this call

This call is dated and public. It joins the scoreboard as an open position at $278.22. We will score it against the S&P 500 on October 31, 2027, under the same rules as every other call.

Nature of this publication

The author holds no position in GOOG or GOOGL and has no plans to start one within 72 hours of publication. This report is opinion for education. It is not investment advice.

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