

EQUITY RESEARCH REPORT | Report date: August 2, 2026 | Prices as of the close, July 31, 2026

Alphabet Inc. (NASDAQ: GOOGL)

Communication Services • Search, YouTube, Google Cloud, TPU Silicon • Mega-Cap

Price (Jul 31 close)	\$356.13	Fwd P/E	26.8x
Change since last report	+2.7% (from \$346.77)	Trailing P/E	17.9x (gains-inflated)
Market cap / EV	\$4.36T / \$4.23T	PEG	1.87
Q2 revenue	\$119.8B, +24% YoY	EV / EBITDA	24.5x
Google Cloud	\$24.8B, +82% YoY	P / FCF	81.8x
Cloud backlog	\$514B (was \$460B)	FCF yield (TTM)	1.22%
FY26 capex guide	\$195–205B (was \$180–190B)	Net cash	\$121.7B
Next earnings	Oct 28, 2026	Consensus target (64 analysts)	\$427.59 — Strong Buy

RECOMMENDATION

BUY

reaffirmed — unchanged from July 18

Thesis in one line: The July report named one number to watch above all others on July 22 — Google Cloud growth, with a kill signal below 40%. It came in at 82%, accelerating from 63%, with segment operating income tripling to \$8.8bn and backlog up \$54bn to \$514bn. The capex bill went up too, to \$195–205bn, and quarterly free cash flow turned *negative* at -\$5.9bn. So the thesis was validated and its central risk got heavier in the same release. The verdict holds at Buy, the fair value moves up to \$430, and the stop moves up to \$310.

INVESTMENT SCORE

76 / 100

up from 74

Independent educational analysis, not personalised financial advice. The author is not a licensed financial advisor. Prices are indicative snapshots as of the stated date and will have moved.

1. The July 22 Print — What Was Asked and What Was Answered

The previous report was written four days before Q2 and was explicit about what it wanted to see. It named five invalidation triggers and singled out one of them: Cloud growth decelerating below 40% for two consecutive quarters, described as the primary kill signal because it would mean the \$514bn question — is the backlog real? — had been answered the wrong way. Cloud grew 82%, to \$24.8 billion. That is not a narrow pass. It is an acceleration from 63% in Q1 and 48% in Q4 2025, and it came with segment operating income tripling from \$2.8 billion to \$8.8 billion, which matters more than the growth rate because it demonstrates the revenue is arriving at a margin rather than being bought.

Group revenue rose 24% to \$119.8 billion, operating income 30% to \$40.8 billion. Search grew 17% to \$63.3 billion, a modest deceleration from 19% but nowhere near the single-digit level that would signal the interface shift is finally hitting monetisation. YouTube advertising grew 13% to \$11.1 billion, once again the softest line in the report and once again worth watching. Backlog rose from \$460 billion to \$514 billion. Measured against the five triggers set out in July, none fired.

Then the other half of the release. Capital expenditure guidance for 2026 was raised from \$180–190 billion to \$195–205 billion. Q2 capex alone was \$44.9 billion, and free cash flow for the quarter came in at *negative* \$5.9 billion. Alphabet, a company that spent two decades as the definitional cash machine of the internet era, did not generate free cash in the June quarter. On a trailing basis free cash flow is \$53.3 billion against \$185.7 billion of operating cash flow — a 1.22% free-cash-flow yield on a \$4.36 trillion company. The market's first reaction told you which half it weighted: the stock fell 7.1% on July 23, on 69 million shares.

Invalidation trigger set on July 18	Threshold	Q2 FY26 actual	Status
Cloud growth decelerating	Below 40% for two consecutive quarters	+82% , up from +63% and +48%	Emphatically not triggered. The primary kill signal moved the opposite way.
Operating margin erosion	Sustained below 30%	34.1% in Q2 (33.1% TTM), from 36.1%	Not triggered, but drifting down 200bps.
Search growth collapse	Into single digits	+17%, from +19%	Not triggered. Modest deceleration from an exceptional base.
Capex outrunning demand	2027 capex above \$200bn without a matching backlog increase	FY26 raised to \$195–205bn; backlog +\$54bn to \$514bn	Not triggered, but the clock moved forward a year. Backlog did rise; the \$200bn line is now a 2026 question.
Adverse appellate ruling	D.C. Circuit reopening structural remedies	Unresolved; arguments expected late 2026 / early 2027	Pending. The overhang is unchanged and remains the single largest unquantifiable risk.

2. Segment Detail

Segment	Q2 FY26 revenue	YoY	What it means
Google Search & other	\$63.3B	+17%	Decelerated from 19% but still growing at a rate that refutes the chatbot-disruption thesis. Strength cited in retail, finance, technology and media.
YouTube advertising	\$11.1B	+13%	The softest line again. Connected-TV strength and SMB direct response; competitive intensity is real here.
Subscriptions, platforms, devices	\$12.9B	+15%	Recurring and less cyclical. Quietly compounding into a business the size of a large-cap on its own.
Google Services (total)	\$94.5B	+15%	The profit engine, still growing mid-teens at enormous scale. This is what funds the Cloud build.
Google Cloud	\$24.8B	+82%	The quarter. Operating income tripled to \$8.8bn from \$2.8bn. Growth arriving at a margin, not bought.
Group total	\$119.8B	+24%	Operating income \$40.8B, +30%. Twelfth consecutive quarter of double-digit revenue growth.

3. The Number That Got Worse

The previous report identified free cash flow compression as the cost of the strategy and asked readers to accept a multi-year gap between the cash going out and the return coming back. That gap has widened faster than the report modelled. Trailing twelve-month operating cash flow of \$185.7 billion is extraordinary; trailing capital expenditure of \$132.4 billion leaves \$53.3 billion of free cash flow, which puts the stock on 81.8 times free cash flow and a 1.22% free-cash-flow yield. In the June quarter alone the number went negative. Alphabet is now returning less cash to shareholders than it is raising: the share count fell 0.56% over the year but rose 0.58% quarter on quarter as the equity programme began landing.

It is important to be precise about what this does and does not mean. It does not mean Alphabet is in financial difficulty: net cash is \$121.7 billion, debt-to-equity is 0.19, interest coverage is 65 times and the Altman Z-score is 9.56. It does not mean the spending is speculative: a backlog that rose \$54 billion in the same quarter capex rose is the definition of demand-led investment, and unlike every peer a meaningful share of Alphabet's capex buys silicon it designed itself rather than Nvidia's gross margin. What it does mean is that the traditional way of valuing this company — a cash machine throwing off free cash flow — no longer applies, and anyone underwriting the stock on a free-cash-flow yield

today is underwriting a number that is temporarily meaningless. The correct lens is earnings power and backlog conversion, and the correct posture is to accept that the proof arrives in 2027 and 2028, not this year.

Metric	TTM / latest	What it means for Alphabet
Revenue (TTM)	\$445.87B	Growing 24% at nearly half a trillion dollars of scale. There is no precedent for this.
Operating income / margin	\$147.63B / 33.1%	Q2 margin 34.1%, down from 36.1%. Depreciation is starting to bite , but the 30% floor is not close.
Operating cash flow	\$185.68B	The engine is intact. The problem is entirely on the investing line.
Capital expenditure	-\$132.40B TTM; \$44.9B in Q2	FY26 guide raised to \$195–205B . The single largest capital programme in corporate history.
Free cash flow	\$53.27B TTM; -\$5.9B in Q2	Negative in the quarter . 1.22% yield, 81.8x P/FCF. The valuation cannot rest on this line.
ROE / ROIC	48.7% / 24.9% (WACC 10.9%)	A 1,400bp spread over cost of capital . The returns on the existing base remain exceptional.
Balance sheet	\$242.5B cash, \$120.8B debt, net cash \$121.7B	Fortress-grade even after the raise. Alphabet can fund a decade-long bet no competitor can match.
Share count	12.23B; -0.56% YoY but +0.58% QoQ	The equity programme is now visible . Net issuance has replaced net buyback.
Shareholder return	\$0.88 dividend (0.25% yield); 0.56% buyback yield	Token by mega-cap standards, and deliberately so. Capital is going into the ground, not back to holders.

4. Do the Published Price Levels Still Hold?

The July report set a staged entry with an ideal buy range of \$330–355, a stop at \$305, and targets at \$415 and \$470, deliberately holding two-thirds of the position back until the July 22 print. That instruction worked almost exactly as intended. The stock fell to an intraday low of \$314.90 on July 23, roughly 3% above the stop and squarely inside the \$330-and-below zone the report described as a buying opportunity absent a thesis break. There was no thesis break; the kill signal went the other way. An investor following the staged plan would have added the second and third tranches into that selloff and would now be sitting at \$356.13.

At \$356.13 the stock is \$1 above the top of the old ideal buy range, so entry needs lifting. The stop needs lifting for a better reason: the 200-day average has risen from \$321 to \$326.27, and \$314.90 is now an established post-earnings low that held on the worst possible news flow. The original logic — place the stop below the 200-day with room for a false break — now points to \$310 rather than \$305.

The targets move up, and this is the one place where the analysis genuinely changes rather than merely resetting. The \$415 fair value was derived from a base case of Cloud growing 40–50% with the backlog converting on schedule. Cloud grew 82% with segment operating income tripling and the backlog rising \$54 billion — conditions the previous report assigned to its *bull* case, which carried a \$470–520 fair value. Moving the base case up to \$430 and the second target to \$490 is following the evidence, not chasing the price. \$430 also sits essentially on the \$427.59 consensus across 64 analysts.

Level	Published Jul 18	Status at \$356.13	Reset to	Why
Ideal buy range	\$330–355	Just cleared — worked perfectly on Jul 23	\$340–365	Recentred. The staged plan did its job; the remaining tranches should have been deployed into the selloff.

Level	Published Jul 18	Status at \$356.13	Reset to	Why
Cut-loss	\$305	Held — low of \$314.90 on Jul 23	\$310 weekly close	Same methodology, updated inputs: below the 200-day (now \$326.27) with room for a false break, and below the post-earnings low.
Take-profit 1	\$415	Valid but low — +16.5% away	\$430	Raised. Cloud delivered the bull-case condition; \$430 also sits on the \$427.59 consensus.
Take-profit 2	\$470	Valid — +32% away	\$490	Raised modestly to keep meaningful separation from target 1. Requires capex plateau visibility and a favourable appellate outcome.
Fair value	\$415	Superseded by the quarter	\$430	Probability-weighted across the revised scenarios below.

The resulting risk/reward is roughly 1.6:1 to the first target and 2.9:1 to the second — essentially unchanged from the 1.6:1 and 3.0:1 published in July. That is the useful summary of this whole refresh: the stock is 2.7% higher, but the business improved by enough to keep the arithmetic intact. That is a rarer outcome than it sounds, and it is the reason the entry guidance here is less grudging than in the other names refreshed this cycle.

5. Valuation

Alphabet trades at 26.8 times forward earnings, up from 26.3 in July — a mega-cap growth multiple for a business compounding revenue at 24% with a 33% operating margin, a 49% return on equity and a 25% return on invested capital against a 10.9% cost of capital. The trailing P/E of 17.9 should be ignored: trailing net income of \$244 billion sits far above operating income of \$148 billion because of non-operating gains, which flatters the ratio and tells you nothing about the business. Equally, the free-cash-flow multiples — 81.8x price to free cash flow, a 1.22% yield — should not be read as expensive so much as uninformative, because the denominator is being deliberately suppressed by the largest capital programme any company has ever run.

Method	Reading	Verdict vs \$356.13
Forward P/E	26.8x (was 26.3x in July)	Fair for 24% growth and 33% operating margins. Still below the richest mega-cap tech multiples.
Trailing P/E	17.9x, inflated by non-operating gains	Not a usable lens. Pretax income of \$299B against \$148B of operating income.
PEG	1.87 on ~17% consensus EPS growth	Above 1. Growth is being paid for, unlike in the deep-value names.
EV / EBITDA	24.5x	Reasonable for the quality and growth; EBITDA is less distorted by the capex cycle than FCF.
P / FCF	81.8x; 1.22% FCF yield	Uninformative rather than expensive. The denominator is suppressed by design.
Sum of the parts	Cloud at \$24.8B a quarter growing 82% with \$8.8B of segment operating income	The strongest argument. Cloud alone plausibly supports over \$1trn of value; a blended 27x does not reflect that.
Consensus target	\$427.59 across 64 analysts; Strong Buy	+20.1% implied upside, narrowed from ~24% in July as the price rose.

6. Risk Register

Risk	Prob.	Severity	Note
Capex cycle has no proven terminal value	Medium	High	Elevated. Guidance rose to \$195–205bn and 2027 will be higher again. If AI compute demand normalises before the depreciation schedule matures, Alphabet holds the largest fixed-asset base in corporate history against a decelerating revenue line.
Free cash flow stays negative or near zero	High	Medium	New and now realised. Q2 FCF was -\$5.9bn. Expect this to persist through 2027. It caps the valuation methods available and will keep some institutional buyers away.
Adverse D.C. Circuit ruling on antitrust	Low-Med	High	Unresolved and unchanged. The DOJ cross-appeal again seeks Chrome divestiture; arguments expected late 2026 or early 2027. Chrome divestiture would sever the distribution flywheel.
Mandatory choice screens erode search revenue	Medium	Medium	Sell-side estimates have put \$15–25bn of annual ad revenue at risk. Behavioural rather than structural, and manageable at \$445bn of revenue.
Continued equity issuance dilutes holders	Medium	Low-Med	Now visible. Share count rose 0.58% quarter on quarter. Much of the ATM is sell-to-cover on employee equity rather than growth capital, but the supply is real.
Operating margin compression from depreciation	Med-High	Medium	34.1% in Q2 from 36.1%. The trend is the concern, not the level. The 30% invalidation line is still comfortably distant.
YouTube competitive pressure	Medium	Low-Med	13% growth is the softest line for a second consecutive quarter. Connected-TV competition is intensifying.
Interface shift finally hits search monetisation	Low-Med	High	At +17% this looks remote, but it is the long-term structural risk and deserves permanent monitoring rather than periodic dismissal.
Consensus-long positioning	Medium	Medium	64 analysts at Strong Buy and short interest of 0.64%. There is no informational edge in being bullish here, and consensus longs de-rate violently on disappointment.

7. Sentiment and Technicals

Sentiment is emphatically positive and that is itself a mild risk. Consensus across 64 analysts is Strong Buy with a \$427.59 average target. Short interest is 0.64% of shares outstanding, which is close to non-existent for a company of this size, and fell further over the month from 85.9 million to 78.7 million shares. There is no wall of scepticism here to climb, which means the stock is more exposed to disappointment than to good news. The July 23 reaction — down 7.1% on a quarter that beat on revenue, operating income and the one metric the report cared most about — is a fair illustration of what happens when a consensus long delivers something the crowd did not want to hear.

The technical position is almost identical to July: below the 50-day, above the 200-day, which is a correction inside an uptrend. The 50-day sits at \$358.74 and the price closed at \$356.13, so the stock is wrestling with that line right now. The 200-day has risen to \$326.27 and the stock is 9% above it. MACD is still negative at -6.14 but has crossed above its signal line with a positive histogram, an early turn rather than a confirmed one. RSI at 54.3 is neutral. The July 31 session is worth noting on its own: a 6.7% gain to \$356.13 on 46 million shares, driven by DeepMind's Gemini Robotics 2 release and growing recognition that Alphabet has begun selling TPU systems directly into customer data centres — a business line the previous report flagged as a 2027 story that is arriving early.

Indicator	Reading	Interpretation
Price vs 20-day SMA	\$356.13 vs \$348.05	Above (+2.3%) — short-term recovery from the earnings drop
Price vs 50-day SMA	\$356.13 vs \$358.74	Marginally below (-0.7%) — the line the stock is currently fighting
Price vs 200-day SMA	\$356.13 vs \$326.27	Above (+9.2%) — the long-term uptrend is intact

Indicator	Reading	Interpretation
RSI(14)	54.3	Neutral. Plenty of room in either direction; no positioning extreme.
MACD(12,26,9)	-6.14 / signal -6.62 / hist +0.48	Still negative but the histogram has turned positive. An early turn, not a confirmed one.
ATR(14)	\$12.26 (3.4% of price)	Moderate for a mega-cap in an AI capex debate. Lower than the software names in this coverage.
Support / resistance	Support \$348, then \$326 (200-day), then \$314.90; resistance \$359, then \$375, then \$408.61	\$314.90 is the post-earnings low. \$408.61 is the 52-week high.
Volume	20-day avg 30.0M vs 50-day 33.9M	July 23 traded 69M shares on the capex reaction; July 31 traded 46M on the recovery. Both sides are showing up.

Technicals are used here to set entry and stop levels only. They do not override the fundamental case.

8. Investment Scorecard

Category	Score		Prev	Wt	Rationale
Business Quality	9 / 10		9	16%	Search auction economics and unmatched distribution. Among the best businesses in existence.
Financial Strength	7 / 10		8	12%	Down one. Q2 free cash flow was negative; net issuance replaced net buyback. Net cash still \$121.7bn.
Competitive Advantage	9 / 10		9	16%	Owned silicon plus billion-user distribution. TPU direct sales now starting, a year earlier than modelled.
Management	8 / 10		7	9%	Up one. The capex was defended as demand-led and Q2 produced 82% Cloud growth and \$54bn more backlog.
Growth Potential	9 / 10		8	14%	Up one. 24% growth at \$446bn of scale, Cloud at 82%, \$514bn backlog, TPU as a genuine new line.
Valuation	6 / 10		7	16%	Down one. 26.8x forward and a PEG of 1.87; consensus upside narrowed to 20%. Margin of safety is thinner.
Risk (higher = safer)	5 / 10		5	12%	Unchanged and still the weakest pillar. Antitrust unresolved; the capex commitment grew again.
Technical Setup	6 / 10		6	5%	Unchanged. Below the 50-day, above the 200-day. A correction inside an uptrend.
OVERALL	76 / 100		74	100	Up two. Growth and management improved on hard evidence from the quarter; valuation and financial strength paid part of it back.

Weighting is tilted toward business quality, competitive advantage and valuation, with risk applied as a drag — the same framework used in the initiation report, so the scores remain comparable.

9. Trade Plan — Recommendation: BUY (reaffirmed)

Parameter	Level / guidance	Change vs July 18
Recommended entry	At market for a starter; the binary event that justified staging has passed	Simplified from 'staged before earnings'
Ideal buy range	\$340–365; add on any retest of the 200-day near \$326	Raised from \$330–355
Cut-loss (thesis break)	\$310 weekly close , or Cloud growth below 40% for two consecutive quarters, or operating margin sustained below 30%	Raised from \$305

Parameter	Level / guidance	Change vs July 18
Take-profit target 1	\$430 — revised base-case fair value, on the consensus. Trim one-third.	Raised from \$415
Take-profit target 2	\$490 — requires capex plateau visibility and a favourable appellate outcome. Trim a further third.	Raised from \$470
Expected upside	+20.7% to target 1; +37.6% to target 2	Broadly unchanged; the targets moved with the price
Expected downside	-12.9% to the stop	Similar
Risk / reward	~1.6 : 1 to target 1; ~2.9 : 1 to target 2	Preserved — was ~1.6 : 1 and ~3.0 : 1
Holding horizon	18–24 months. The thesis needs backlog conversion and 2027 TPU revenue to become visible	Unchanged
Position size	4–6% of portfolio; 7–8% only after a favourable D.C. Circuit outcome or clear capex plateau	Unchanged
Allocation note	If you also hold MSFT, AMZN or NVDA, your true AI-capex exposure is far higher than any single line implies. Size against the aggregate.	Unchanged and more relevant than in July
Next catalyst	Q3 FY26 results, October 28, 2026; D.C. Circuit arguments late 2026 or early 2027	New

10. Scenario Analysis

Scenario	Prob.	Revenue outlook	What has to happen	Fair value
Bull	30%	FY26 ~\$480bn; FY27 +18–20%; Cloud sustains 60%+	Backlog keeps converting at the Q2 pace; TPU external sales become a material 2027 line; the DOJ appeal fails and behavioural remedies stand; capex plateaus in 2027 with free cash flow inflecting. Multiple re-rates toward 30x.	\$500–560
Base	50%	FY26 ~\$470bn; FY27 +16%; Cloud 45–60%	Growth decelerates gently from the exceptional Q2 pace. Capex stays elevated through 2027, keeping free cash flow suppressed without breaking the story. Antitrust resolves with manageable behavioural remedies. Multiple holds around 26–28x.	\$415–450
Bear	20%	FY26 ~\$450bn; FY27 +8–10%; Cloud below 35%	AI demand normalises while depreciation from \$200bn of assets hits the P&L in full. Adverse appellate ruling reopens Chrome divestiture or choice screens cost \$15–25bn of ad revenue. Multiple compresses to 18–20x on falling earnings — a double de-rating.	\$270–310

Probability-weighted fair value comes to approximately \$433, which corroborates the \$430 target derived independently from the multiples work and sits within a dollar or two of the \$427.59 consensus. The skew remains the reason to own the stock rather than the point estimate: the bear case is a 15–24% drawdown on a company with \$121.7 billion of net cash and a 25% return on invested capital, while the bull case is a 40%-plus gain. The bull probability has been held at 30% rather than raised, despite the quarter, because the bull case now depends less on Cloud — which has delivered — and more on capex plateauing and the appellate court, neither of which the Q2 print told us anything about.

11. Final Verdict

The recommendation is unchanged: Buy, 4–6% of portfolio, 18–24 month horizon. The July report made a specific, falsifiable bet: that the \$460 billion backlog was a contracted claim on future revenue rather than a hope, and that Cloud growth on July 22 would settle it. Cloud grew 82%, segment operating income tripled, and the backlog rose to \$514 billion. It is difficult to construct a cleaner vindication of a stated thesis inside a single quarter, and it is why growth and management both move up a point and the score rises to 76.

Why this is still not a Strong Buy. Because the same release made the central risk larger. Capex guidance rose to \$195–205 billion, quarterly free cash flow went negative, the share count rose sequentially for the first time, and 2027 spending will be higher again. The July report warned that 2027 capex above \$200 billion without a matching backlog increase would be the capital-destruction scenario; the backlog did rise, so the trigger has not fired, but the \$200 billion threshold has arrived a full year early and the margin for error has narrowed. Add an unresolved antitrust appeal, a consensus that is already unanimously long, and short interest at 0.64%, and there is no case for maximum conviction here. This is a high-quality asset at a fair price with a material, identifiable, actively debated risk — which is exactly what a Buy is for.

What would change the view. Upgrade to Strong Buy on a favourable D.C. Circuit outcome, or on clear evidence that capex is plateauing with free cash flow inflecting back to positive. Downgrade on Cloud growth below 40% for two consecutive quarters, an adverse appellate ruling reopening structural remedies, operating margin sustained below 30%, Search growth falling into single digits, or a weekly close below \$310. Practically: hold, add on any retest toward the 200-day near \$326, and do not size above 6% until the appellate calendar clears.

***Sources:** Alpha Vantage (GLOBAL_QUOTE and daily OHLCV, close of July 31, 2026); Alphabet Q2 2026 results (July 22, 2026) and associated investor materials; segment detail and capex guidance via CNBC, Investing.com, Yahoo Finance, Variety, 9to5Google and other coverage of the release; StockAnalysis.com statistics and forecast pages; coverage of the July 31 DeepMind Gemini Robotics 2 release and the TPU direct-sales pivot; the July 18, 2026 initiation report on Alphabet for the prior levels, scores and invalidation triggers. Technical indicators were computed from the daily series rather than read from third-party summaries; the 200-day average is cited from StockAnalysis because the retrieved series covers 100 sessions. The Q2 earnings call transcript was not retrieved directly; call detail here comes from published summaries and is described as such. Figures are indicative snapshots as of the report date and will move.*

***Disclaimer:** Independent educational analysis, not personalised investment advice. The author is not a licensed financial advisor and holds no position disclosed here. Do your own due diligence before acting.*