

Alphabet (NASDAQ: GOOGL/GOOG) - Q2 2026 Results, the AI Capex Cycle & Valuation

Second quarter ended June 30, 2026. Alphabet is the parent of Google, reporting in three segments: Google Services (Search, YouTube, subscriptions, platforms and devices), Google Cloud, and Other Bets. Q2 revenue grew 24% with operating margin expanding to 34%; Google Cloud accelerated to 82% growth. The company is funding a very large AI infrastructure build, raising full-year 2026 capex guidance to \$195-\$205 billion.

A factual snapshot built from Alphabet's public filings and verified market data. It contains no Blackspear forecast, price target, or recommendation.

REVENUE (Q2'26) \$119.8B ▲ 24% YoY (23% cc) 12th straight dbl-digit qtr	OPERATING MARGIN 34% op. income \$40.8B, up 30%; +2 pts YoY	GOOGLE CLOUD \$24.8B ▲ 82%; op. margin 35.6% (was 20.7%)	CAPEX (Q2) \$44.9B FY26E guide raised to \$195-\$205B
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REVENUE & OPERATING INCOME BY SEGMENT - Q2 2026 (\$ MILLIONS)

SEGMENT	REVENUE	OP. INCOME	OP. MARGIN
Google Services	\$94,540	\$39,544	41.8%
Google Cloud	\$24,768	\$8,814	35.6%
Other Bets	\$382	\$(1,799)	n/m
Alphabet-level activities (AI R&D)	-	\$(5,789)	-
Hedging gains	\$106	-	-
Total	\$119,796	\$40,770	34.0%

Within Google Services: Search & other \$63.3B (+17%), YouTube ads \$11.1B (+13%), Google Network \$7.3B (-1%), and subscriptions/platforms/devices \$12.9B (+15%). The Cloud margin inflection (20.7% to 35.6%) and its \$514B backlog (up over \$50B in the quarter) are the most notable change in the quarter, though "Alphabet-level" shared-AI R&D costs of \$5.8B are a growing drag not charged to segments.

OPERATING & CASH HIGHLIGHTS - Q2 2026

Google Cloud backlog	\$514B
Operating cash flow (Q2 / TTM)	\$39.1B / \$185.7B
CapEx (Q2 / TTM)	\$44.9B / \$132.4B
Free cash flow (Q2 / TTM)	\$(5.9)B / \$53.3B
Share repurchases (Q2)	\$0
Gemini app monthly active users	950M

The capex surge pushed Q2 free cash flow negative; Alphabet paused buybacks (nil in the quarter, versus \$13.2B a year ago) and instead raised roughly \$49.6B of equity plus \$20.3B of notes to help fund the build.

HOW TO READ THE NUMBERS

- GAAP diluted EPS was \$9.11, but ~\$6.26 of that came from a \$99.0B unrealized gain on equity securities; core EPS ex that gain was ~\$2.85. Net income of \$112.1B likewise included ~\$77.1B from those marks.
- Operating income (\$40.8B, 34% margin) is the cleaner read on the core business; it grew 30%.
- Google Cloud turned profitable (35.6% margin) as AI demand scaled; management still calls itself supply-constrained.
- The stock trades at a premium on core earnings; the debate is whether the AI capex build earns its return (see page 2).

CAPITAL ALLOCATION, BALANCE SHEET & THE AI BUILD - AS OF JUNE 30, 2026

FROM RETURNING CASH TO FUNDING AN AI INFRASTRUCTURE BUILDOUT			
FY2026 CAPEX GUIDE	BUYBACKS (Q2 / YTD)	EQUITY / DEBT RAISED	NET CASH
\$195-205B	\$0	~\$49.6B + \$20.3B	~\$144B
raised from \$180-190B; higher again in 2027	paused; was \$13.2B in Q2 2025	stock & pref.; senior notes; \$40B ATM set up	\$242B cash+securities less \$98B debt
Alphabet is investing heavily in servers and data centers (about 60% servers, 40% data-center and networking this quarter) to meet AI demand. Rising depreciation and data-center operating costs are expected to pressure margins and free cash flow, which management says will "remain under pressure." The dividend is modest (\$0.22/quarter, \$0.88/year, plus a new mandatory-convertible-preferred dividend); a \$40B at-the-market equity program was set up mainly to meet tax obligations on employee equity grants (none sold as of quarter-end).			

VALUATION SNAPSHOT - NEAR THE HIGH END OF ITS RANGE (EARLY-TO-MID AUGUST 2026)

Share price (recent)	~\$343.54	GAAP diluted EPS (Q2)	\$9.11
Market capitalization (~12.23B sh.)	~\$4.2T	Core EPS ex equity gains (Q2)	~\$2.85
Cash + marketable securities	~\$242B	P / E (trailing GAAP TTM ~\$19.93)	~17x
Net cash (less ~\$98B debt)	~\$144B	Fwd P / E (core consensus ~\$13.3)	~26x
Dividend (\$0.88/yr) & yield	~0.26%	EV / revenue (TTM ~\$446B)	~9x
52-week range	\$196.60-\$408.61	Operating margin (Q2)	34%

The trailing GAAP P/E (~17x) is flattered by one-time equity-securities gains and understates the true multiple. On core earnings that strip those marks, Alphabet trades near ~26x forward consensus, a premium multiple. Founders retain voting control through Class B super-voting stock. Multiples move with the share price and estimates, refresh before relying on them.

Full Excel model - linked tabs (segment build, Cloud margin bridge, capex/free-cash-flow model, core-earnings normalization, valuation, source tie-outs) - available on request. Email info@blackspearllc.com for a copy.

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Alphabet (NASDAQ: GOOGL) - Valuation, the AI Build & Key Risks

One of the world's largest and most profitable internet companies, growing 24% with an inflecting Cloud business, trading at a premium on core earnings. The central debate is the AI capex buildout: whether \$195-\$205 billion of 2026 spending (and more in 2027) earns an adequate return before rising depreciation and negative free cash flow weigh on the model.

History and estimates from Alphabet disclosures and public market data; forward figures are guidance or analyst consensus; multiples are Blackspear calculations. Nothing here is a Blackspear price target or recommendation.

REVENUE VS. CAPITAL EXPENDITURE - THE AI INVESTMENT RAMP, 2021-2026E



VALUATION & THE MODEL

Recent price	~\$343.54
Market cap / EV	~\$4.2T / ~\$4.06T
GAAP diluted EPS (Q2)	\$9.11
Core EPS ex equity gains (Q2)	~\$2.85
Trailing P/E (GAAP, gain-flattered)	~17x
Forward P/E (core consensus)	~26x
Revenue growth / op. margin	+24% · 34%
FY2026E capex / net cash	\$195-205B · ~\$144B

A PREMIUM COMPOUNDER MAKING A BIG BET

QUALITY AND GROWTH, AT A PREMIUM MULTIPLE

The question is the AI capex return

Alphabet compounds at scale: 24% revenue growth, a 34% operating margin, an inflecting Cloud (35.6% margin, \$514B backlog), and net cash of ~\$144B. On core earnings that strip a \$99B equity-securities gain, it trades near ~26x forward, a premium the bulls justify by AI leadership across Search, Cloud, and Gemini. Bears note the multiple leaves little room for error while capex climbs to \$195-\$205B (and higher in 2027), free cash flow has turned negative, buybacks are paused, and depreciation will pressure margins; antitrust and AI-driven search disruption add tail risk. This frames both sides; it is not a Blackspear view.

TOP RISK FACTORS - SUMMARIZED FROM THE COMPANY'S FILINGS

- ▲ **AI capex intensity and return risk.** FY2026 capex of \$195-\$205B (rising in 2027) is pressuring free cash flow (negative in Q2) and lifting depreciation and data-center operating costs; the returns on this build are uncertain and may disappoint.
 - ▲ **Regulation, antitrust and legal.** Ongoing antitrust and ad-tech proceedings, global rules (privacy, DMA-type regimes) and potential remedies, fines, or structural changes could affect the business and its economics.
 - ▲ **Earnings volatility from equity securities.** Large unrealized gains and losses on equity holdings (a \$99B gain this quarter) make GAAP net income and EPS highly volatile and not representative of core operations.
- ▲ **Advertising concentration and AI disruption.** Most revenue still comes from Google advertising, chiefly Search; generative-AI answer experiences could change query monetization, and ad demand is economically sensitive.
 - ▲ **Competition and supply constraints.** Intense competition in AI, cloud, and search from other hyperscalers and AI labs; compute is supply-constrained, and bridging with third-party capacity can pressure Cloud margins near term.
 - ▲ **Valuation, multiple and control.** A premium multiple on core earnings leaves little margin for error, and founders retain majority voting control through Class B super-voting stock, limiting outside-shareholder influence.

On the numbers. Reported results and segments are from the Q2 2026 release, earnings call, and Form 10-Q. The chart plots annual revenue and annual capex as two lines on one US-dollar axis; 2026E revenue is analyst consensus (~\$489B) and 2026E capex is the company's guidance midpoint (~\$200B, range \$195-\$205B). "Core EPS" (~\$2.85 for Q2) is a Blackspear normalization that removes the \$99B equity-securities gain that added ~\$6.26 to GAAP EPS; forward P/E of ~26x is on third-party core consensus of ~\$13.3. EV of ~\$4.06T is market cap less ~\$144B net cash. All are mechanical Blackspear calculations, not estimates, price targets, or recommendations.

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