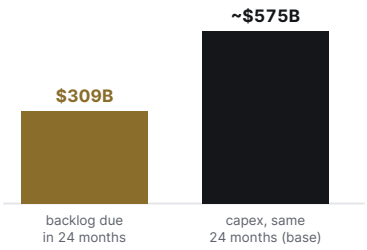
EQUITY VALUATION · TECHNOLOGY · GOOGL · 28 OCTOBER 2026

Alphabet (GOOGL) — The Backlog Came With Its Bill

In July we named two showings that would close most of the gap between our value and Alphabet's price. The third quarter delivered half of one: a $561 billion Cloud backlog, with just over 55% of the total backlog due within 24 months; whether the 36% segment margin holds once rented capacity is in use cannot yet be read. It also delivered the bill: $51.4 billion of capital spending, 40% of revenue, and a 2027 the company says will be "significantly" higher. We value Alphabet at $223.64, against the $324.89 close before the release. The largest step, −$33.13 (−$53.32 if applied last, about half the gap to the price), is a choice of method, not a fact of the quarter: fair value is now the company's own cash flows, with peer and segment multiples as cross-checks. The quarter's data, with our reading of them, add +$6.04. Our bull case, $338.17, sits above that close.

TON618 CAPITAL RESEARCH · AS OF 28 OCTOBER 2026

Order book against the bill, Q4-26 to Q3-28



The order book July was waiting for arrived.

Cloud revenue doubled to $30.7 billion at a 36% margin, and the backlog reached $561 billion. The quarter also spent $51.4 billion on capital, 40% of revenue, and 2027 will be higher.

Capex funds all of Alphabet, not Cloud alone: the two columns are a scale, not a margin.

THE PRINT · THE ORDER BOOK · THE BILL · THE VALUE · THE RECEIPT · THE TRIPWIRES

On 28 October Alphabet reported the order book our July note was waiting for. Cloud revenue doubled to $30.7 billion, its margin rose to 36.2%, and the backlog grew $47 billion in a quarter to $561 billion, with "just over 55%" expected as revenue within 24 months. July had named two showings that would close most of the gap: a 2027 capital plan below 35% of revenue with a path down, or the backlog converting at least half within 24 months with the segment margin holding above 30% after capacity eases. The same release showed what the order book costs. Capital spending rose 114% to $51.4 billion, more than the quarter's $42.3 billion of operating cash. This note asks what the order book is worth once its bill is counted.

THE QUESTIONS

What this note answers

1. What did the quarter earn without the marks on its equity stakes, and what was the miss made of?
2. July's backlog test half arrived. Why did the gap to the price not close?
3. What is Alphabet worth after the print, with every growth stage argued, and what moved our number from $256.42?
4. What does $324.89 require of the years to 2040?
5. What would change our view, in observable terms and on dated tests?

$224

FAIR VALUE A SHARE · BEAR $93 / BASE $232 / BULL $338 AT 25 / 50 / 25 · CROSS-CHECKS, UNWEIGHTED: COMPS $291, SUM OF THE PARTS $370

The view. We value Alphabet at **$223.64** a share, from $256.42 in July. The $324.89 close of 28 October, before the release, is 45% above that; the after-hours print of $294.00 is 31% above. The price sits between our base and bull cases. The order book alone did not close the gap: the new revenue path nets +$0.53 a share (faster Cloud less slower Search), and the higher 2027 capital bill takes $8.64. All the quarter's data, with our reading of them, add +$6.04. The gap widened mainly on method. Fair value is now the cash-flow value alone (−$33.13), with comps ($291.02) and the sum of the parts ($369.53) as the market's cross-checks; on July's weights today's model would give $276.96. Our argued cost of equity moves value +$7.36, and changes to the cash-flow model net −$13.05, the largest a slower path down from the 2027 peak in capex intensity. The Fund holds no position.

+103%
Google Cloud revenue, $30.7B, at a 36.2% operating margin (23.7% a year earlier)

$561B
Cloud backlog; just over 55% of the total backlog due as revenue within 24 months (Q2: $514B, just over 50%)

$2.67
diluted EPS excluding equity-security marks, +22% on a year earlier (roughly 8–10% without last year's EC fine); $2.12 as reported

40.3%
capex as a share of revenue in Q3 ($51.4B); free cash flow −$9.1B

Terms used throughout, defined once. Capex: purchases of property and equipment, the line Alphabet guides. **Backlog:** Cloud revenue under contract but not yet recognized (accountants call it remaining performance obligations). **TPU systems:** Alphabet's own AI chips (tensor processing units) sold as complete systems to outside customers; the release reports them as Cloud product revenue. **Equity-security marks:** gains and losses on the shares Alphabet owns in other companies (SpaceX the largest), most of them unrealized; **ex-marks** removes the after-tax mark, using the company's own footnote. **Free cash flow to equity (FCFE):** net income plus depreciation, less capex and working capital, plus net new borrowing; stock-based compensation stays an expense. **Comps** and **SOTP** (sum of the parts) value Alphabet at peer multiples on its own figures and at segment-by-segment multiples. **Beta:** how far a stock moves with the market, which sets its cost of equity. **Growth stages:** the forecast split into periods, each lasting as long as the thing that drives it. **ROIC:** after-tax operating income over invested capital (equity plus debt less cash), against the weighted average cost of capital (**WACC**). **Terminal growth:** the rate the business grows at forever after the forecast ends.

THE CASE FOR THE PRICE

The case for the price, in the company's terms

On its own terms the quarter's growth was strong. Revenue rose 25% to $127.6 billion, the thirteenth straight quarter of double-digit growth. Search query growth was, in the release's words, "the highest it has been in the last five years." Google Cloud more than doubled, and its operating income tripled to $11.1 billion. The CFO said Cloud's growth excluding TPU systems was again incredibly strong. The backlog rose to $561 billion, and the share due within two years rose from just over half to just over 55%. Alphabet's own models now process nearly 32 billion tokens a minute through its APIs, more than four times a year ago; the Gemini app reached one billion users. TPU systems open a market the July note did not value as a separate line: Google Cloud's chief executive named Anthropic (directly and through Broadcom) and Apple among TPU users and new partnerships with Crux AI and Oracle to deliver TPU systems, and said the systems inventory is built only against committed contracts.

Excluding the marks, earnings per share rose 22% to $2.67 (roughly 8–10% if last year's EC fine is also removed). Return on invested capital is 30.1%, about three times the 10.2% cost of capital, and 39% without the $100 billion or so of private stakes that earn nothing in operating income. The CFO said Alphabet expects the return to stay meaningfully above its cost of capital throughout this investment cycle. On this view the cash-flow model is low because it charges the build against shareholders before the build earns.

The market's own lenses sit closer to the price than to us. At the peers' multiples on 28 October, our sum of the parts gives $369.53, above the price, and comps $291.02. Our own bull case, on inputs the backlog supports, is worth $338.17, above the price, which sits about 88% of the way from our base case to our bull. Fair value reaches the price at a cost of equity near 8.6% (8.2% at terminal), against our argued 10.4% (10.0% at terminal). Waymo raised $16 billion in February at a $126 billion valuation after the money, against the $75 billion at which fair value carries all

of Other Bets in the base case ($20 billion bear, $175 billion bull), a house estimate, since Alphabet's share of Waymo is not disclosed.

This note tests four of these claims: the quarter's earnings once the marks are set aside, the backlog against the capital that delivers it, what the price requires, and how far the market's lenses sit from our cash-flow value. Whether those lenses or our cash-flow inputs better measure a business mid-build is a method judgment, argued in §4 and not a finding this note can test; so is the cost of equity. It cannot test, inside a model that runs to 2040, whether the AI products now reaching a billion users earn more per query than the search they change, or whether TPU systems become a second hardware business at chip-company margins. Management sizes neither, so we carry both as tripwires, not verdicts. Nor can it value Waymo on its own. Our sum of the parts values TPU systems at two to four times sales, as hardware, so the chip-company version of the claim sits outside it; valuing them at Cloud's multiples would lift that cross-check to $379. In the cash-flow value, a chip-company margin would arrive only through the terminal EBITDA margin (§5).

THE PRINT

What the quarter earned, and what the miss was made of

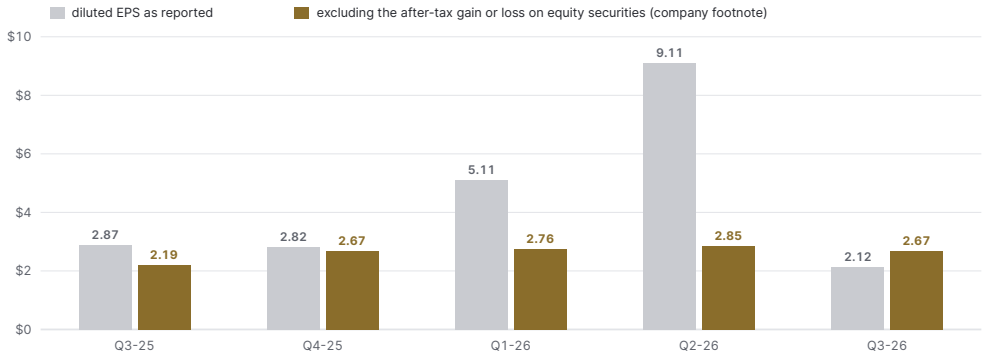
Revenue was $127.58 billion, up 25% in both reported and constant currency. Operating income was $40.58 billion, a 31.8% margin, up 30%. That growth rate flatters the quarter: a year ago Alphabet booked a $3.5 billion European Commission fine in its operating expenses, and without it operating income rose 17%. Google Services earned a 40.7% margin, against 42.5% a year earlier with the fine removed. Other cost of revenues rose 32%, which the CFO attributed mainly to hardware costs for TPU system sales, depreciation, content and data-center operations; research and development rose 36% on AI hiring and depreciation. Alphabet-level costs, mostly shared AI research, rose to $7.7 billion from $4.5 billion.

The miss, in two parts. Diluted EPS was $2.12 against consensus of $3.01 (MarketBeat) or $3.02 (Investing.com), a gap of about 89 cents. The release's footnote sizes the mark at 55 cents a share: an $8.7 billion loss on equity securities, which the CFO attributed primarily to SpaceX's share price, cut net income by $6.7 billion after tax. Without it EPS was $2.67, against $2.19 a year earlier on the same basis, up 22%; the year-ago quarter also carried the EC fine, about 28–29 cents a share before tax, and without both, growth is roughly 8–10%. If consensus excluded marks, the remaining gap of roughly 34 cents is not explained by them; we cannot tell from the compilations whether analysts modeled a mark at all.

The reported line misleads in both directions (Exhibit 1). In the first half, gains on the same holdings added $2.35 and $6.26 a share; on the July anchor date the reported trailing price-to-earnings ratio was 17 times, against 33 on clean earnings. Excluding the marks, quarterly EPS has run between $2.67 and $2.85 for a year. The reported figure has run between $2.12 and $9.11.

What we do with the stakes. The model counts them. Alphabet's $90.4 billion of marketable equity securities sit inside its $265.1 billion of cash and marketable securities, at the 30 September price, and we add that pile at book, as July did. The $135.2 billion of non-marketable stakes is added after a 22% tax, the rate Alphabet itself applied to the June-quarter gain. Together they are worth about $15.77 a share of fair value, so the quarter's mark moved value by about 54 cents after tax, not by the dollars it moved earnings. Carrying the non-marketable stakes at zero would lower fair value to $215.15. SpaceX has traded since 30 September; we take the filed mark and do not re-price it daily.

EXHIBIT 1 — EARNINGS PER SHARE AS REPORTED AND EXCLUDING EQUITY-SECURITY MARKS



How to read it. Dollars per diluted share, by quarter from Q3 2025 to Q3 2026. Grey is EPS as reported; gold removes the after-tax gain or loss on equity securities, using the amount Alphabet discloses in each release's footnote. Compare the two bars within each quarter. The one thing it shows: the last four gold bars sit within an 18-cent band while the grey bars swing by several dollars; the year-on-year fall in reported EPS is the mark, and excluding marks EPS has been roughly flat for four quarters.

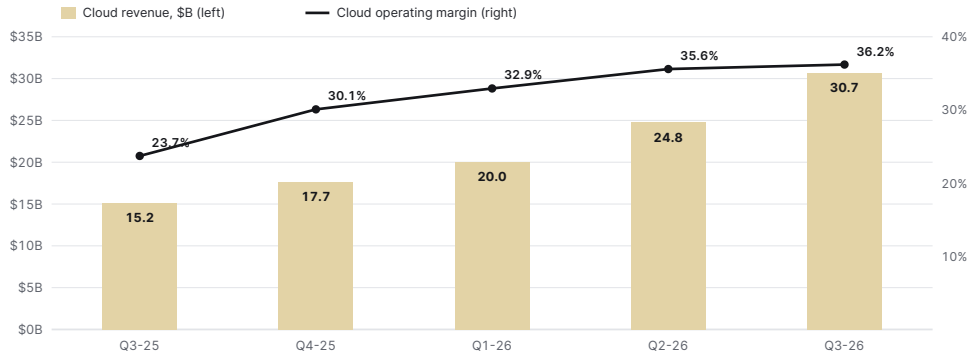
THE ORDER BOOK

The order book arrived

Google Cloud revenue was $30.71 billion, up 103%, and its operating income $11.12 billion, a 36.2% margin against 23.7% a year earlier (Exhibit 2). The release says the growth was led by Google Cloud Platform and that "TPU systems sales were also a meaningful contributor." Neither gives a figure; the CFO said Google Cloud Platform accounted for the vast majority of the quarter's Cloud revenue. The backlog was $561 billion at 30 September, against $514 billion at 30 June. The CFO said "the majority" relates to "typical GCP contracts," and that Alphabet expects "to recognize just over 55% of the total backlog as revenues over the next 24 months." In June the figure was just over 50%. If the same share holds for Cloud, that is about $309 billion of Cloud revenue scheduled for the next eight quarters, against $93 billion recognized in the last four.

Two cautions sit beside the number. First, the margin faces headwinds. Alphabet began renting third-party computing capacity at the end of the quarter to meet demand it cannot yet serve itself; the CFO said "we expect margin headwinds in the near term as we utilize this capacity." Second, part of the growth is hardware. TPU systems are sold, not rented: the company says it builds them into inventory only after a contract is signed, and it bills customers as it delivers them. Inventory rose to $13.3 billion from $2.4 billion at the start of the year. Unless TPU systems earn chip-company margins, we assume a hardware sale is worth less per dollar of revenue than a cloud contract that renews. We do not know the share, so the sum-of-the-parts cross-check values TPU systems as their own line at an assumed 12% of 2027 Cloud revenue.

EXHIBIT 2 — GOOGLE CLOUD REVENUE AND OPERATING MARGIN, BY QUARTER



How to read it. Bars are Google Cloud revenue in billions of dollars (left scale), Q3 2025 to Q3 2026; the line is the segment's operating margin (right scale). Read the bars for size and the line for profitability. The one thing it shows: revenue doubled in a year while the margin rose by 12.5 points.

We built the 2027 base case from the backlog. Cloud revenue reaches $180 billion in 2027, against $160.5 billion in July's model, and grows 35% in 2028. Over the 24 months to September 2028 that puts about $391 billion through the segment, about 79% of it already under contract on the company's 55% statement; the rest is consumption outside the backlog. Search grows more slowly than in July's base case: 10% in 2027, not 13%. Search & other grew 19%, 17% and 12% in the three quarters of 2026, with currency and tougher comparisons named on the call, and the CFO warned that the fourth quarter laps the acceleration that began a year ago. On the final model, Cloud's path alone is worth about +$6.21: with July's $160.5 billion in the base case, fair value is $217.43. In the bridge, together with the slower Search, the revenue changes net +$0.53.

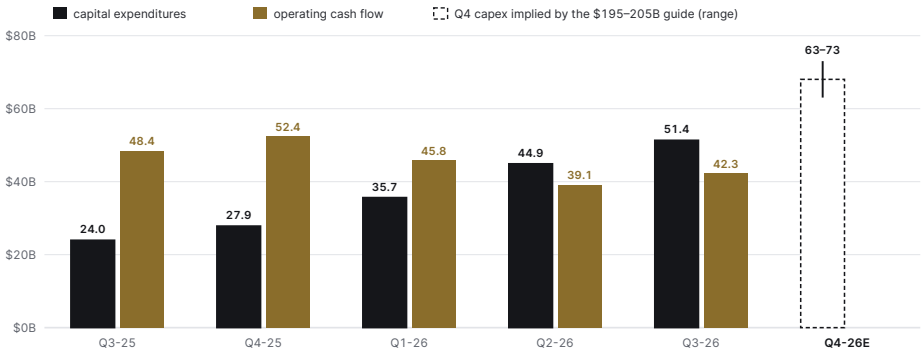
THE BILL

The bill

Capex was $51.36 billion, up 114%, or 40.3% of revenue. Operating cash flow was $42.29 billion, so free cash flow was −$9.07 billion, the second negative quarter in a row (Exhibit 3). The CFO noted that operating cash also carried the TPU inventory build and a $5.2 billion payment of a 2018 European Commission fine. For the twelve months, free cash flow was $19.7 billion against ex-marks net income of about $135 billion, so 15% of earnings reached shareholders as free cash. Capex ran 6.1 times depreciation in the quarter.

The guide fixes most of the fourth quarter. The CFO left 2026 capex at $195–205 billion, which after $131.95 billion in nine months leaves $63–73 billion for the fourth quarter, an annual pace of $252–292 billion. She repeated that capex will "increase significantly in 2027," with details on the fourth-quarter call, and gave no figure; press figures near $300 billion are not company guidance. July's engine carried $233 billion for 2027 even though management had already said "significantly higher." We now carry $285 billion in the base case, about 43% above 2026 and close to the fourth quarter's own pace, at a cost of $8.64 a share of fair value.

EXHIBIT 3 — CAPITAL SPENDING AGAINST OPERATING CASH FLOW, BY QUARTER



How to read it. Billions of dollars a quarter, Q3 2025 to Q3 2026, plus the fourth quarter the full-year guide implies (dashed outline; the bracket spans the range). Black is capital expenditures; gold is net cash from operations. Where black is taller than gold, the quarter spent more on capital than its operations produced. The one thing it shows: the bars crossed in the second quarter, and the guide implies the largest capex quarter yet in the fourth.

The bull carries $302 billion, the base's share of revenue on its larger revenue, because more demand needs more capacity. The bear carries the base's dollars on smaller revenue, because a build committed through suppliers and leases does not shrink within the year demand disappoints; the 10-Q's $213.4 billion of purchase commitments due within twelve months is one sign, though it includes items other than capex and the company calls the amounts maximums. A bear that cut faster, reaching terminal intensity over four years rather than six, would add about $2.64 to fair value.

The funding is now visible on the balance sheet. Long-term debt is $125.1 billion, from $46.5 billion at the start of the year, after $28.7 billion of new notes in the quarter. Alphabet sold $12.4 billion of new shares through its at-the-market program (36 million shares) and bought back none, against $39.8 billion in the first nine months of 2025. The CFO also gave the mix: about 65% of the quarter's technical-infrastructure spending was "servers and networking equipment, which generally have useful lives of six years." July assumed 55%. A larger server share means faster depreciation, a larger tax shield and, later, a larger replacement bill.

The commitments run further out still. The 10-Q, filed the day after the call, puts material purchase commitments at $924.4 billion at the end of September, plus $130.5 billion of data-center and energy leases that begin between 2026 and 2031 and $21.9 billion of funding commitments to equity investments. The purchase commitments are more than four times the 2026 capex guide but spread over several years: $213.4 billion falls due within twelve months, and most of the multi-year part by 2031. They cover technical infrastructure, inventory, energy and content licenses as well as open purchase orders, and the inventory part funds TPU systems, which the company says are built only against committed contracts. The CFO called them maximum contractual amounts, a number of them with "variable pricing and volume flexibility, which could result in lower spend."

Why the gap did not close. In the bridge, the new revenue path nets only +$0.53 (faster Cloud, slower Search; Cloud's path alone is worth about +$6.21 on the final model, §2), while the higher 2027 figure takes $8.64 and a slower fall from it takes $23.45 (about $13.53 on the final model), the second our reading of the commitment schedule rather than a fact of the quarter (§4). July's margin leg is still unread. Meeting it at 30% would add nothing to fair value (§7, tripwire 6), because our 44% terminal margin already carries Cloud at about its current 36% segment margin (§5); only two readings at or above 40% raise the number, and two below 30% cut it, so on this model July's backlog showing, with both legs met, no longer closes most of the gap, a change from July's statement. The gap widened mainly on the method: fair value is now the cash-flow value alone (−$33.13). Growth landing on the terminal rate (−$14.21) also lowered value; terminal growth from long-run GDP (+$9.22), the bull's longer Cloud stage (+$7.60), the filed balance sheet (+$7.50), the argued cost of equity (+$7.36), Other Bets carried as an asset (+$7.17) and the share count (+$4.12) went the other way.

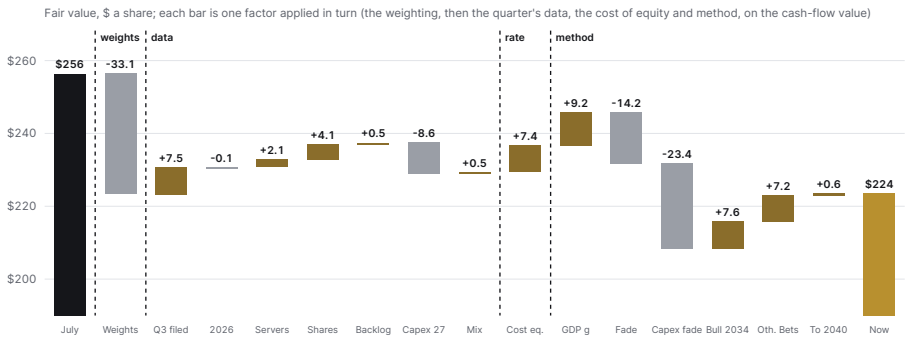
THE VALUE

What Alphabet is worth after the print, and why the number moved

The engine is July's: free cash flow to equity, stock compensation expensed, a cost of equity built on the capital-asset pricing model, depreciation vintage by vintage from capex, debt drawn to 0.75 times EBITDA. Before changing anything we re-ran July's configuration. It reproduces $256.42 to the cent: FCFE $223.29, comps $250.84 and SOTP $328.27, blended 50/25/25. The table gives today's scenarios; the bridge walks from July's number to today's, and the paragraphs after it argue each block.

	BEAR (25%)	BASE (50%)	BULL (25%)
Revenue growth 2027 / 2028	13.7% / 10.0%	21.1% / 16.4%	28.3% / 19.9%
Revenue 2040	$1,029B	$1,470B	$1,872B
Capex 2027 (share of revenue)	$285B (51%)	$285B (47%)	$302B (47%)
Terminal capex: mix / charged	21.2% / 21.2%	17.3% / 17.3%	16.0% / 16.0%
Terminal EBITDA margin	38.0%	44.0%	46.5%
Terminal growth	3.0%	4.0%	4.0%
Return on new capital, terminal year	10%	21%	24%
Fair value a share (cash flow)	**$92.95**	**$231.73**	**$338.17**
Cross-check: sum of the parts	$252.80	$373.33	$478.67
Cross-check: comps (low / median / high)	$250.89	$291.02	$363.26

EXHIBIT 4 — FROM JULY'S $256.42 TO $223.64, ONE FACTOR AT A TIME



How to read it. Fair value in dollars a share. The first black bar is July's published $256.42; the first grey bar moves to the cash-flow value alone, which reads July's own model at $223.29; each bar after it is one factor applied in turn on that basis, gold for a rise and grey for a fall; the gold bar at the end is today's value. Dashed lines separate the weighting, the quarter's data, the cost of equity and the cash-flow model. The one thing it shows: the weighting is the largest single step and the slower capex glide the largest after it; the quarter's data together add +$6.04, and terminal growth, the cost of equity, the bull's longer stage and Other Bets also raise value.

FACTOR	KIND	$ A SHARE	FAIR VALUE AFTER
Weighting: fair value is the cash-flow DCF alone; comps and the sum of the parts become cross-checks (July: 50% DCF, 25% comps, 25% SOTP)	weighting	-33.13	223.29
Q3 into the balance sheet: cash and securities $265.1bn (from $242.5bn), long-term debt $125.1bn (from $98.2bn), non-marketable stakes $135.2bn; nine months filed; valuation date 28 Oct; comps on TTM to September	data	+7.50	230.79
FY2026: nine months filed + a house Q4 (revenue $140.4bn, Cloud $35.3bn) → revenue $497.7bn; EBITDA margin 39.9% base (July 40.5%)	data	-0.07	230.72
Server and network share 65% of new capex (the CFO's share of Q3 technical-infrastructure spend) on six-year lives (July 55%): faster depreciation, a larger tax shield	data	+2.12	232.84

FACTOR	KIND	$ A SHARE	FAIR VALUE AFTER
Share count: Q3 diluted 12,368M + 54M from the mandatory convertible preferred as converted (its dividends no longer deducted) = 12,422M in every scenario (July 12,500 / 12,671 / 12,900M added at-the-market shares without their proceeds and suspended-buyback shares on top of expensed stock compensation)	data	+4.12	236.96
Revenue 2027-28 from the segment build: Cloud $180bn in 2027 (July $160.5bn) on the $561bn backlog, 55% of it due in 24 months; Search & other +10% (July +13%) as growth slowed from 19% to 12% over three quarters	data	+0.53	237.49
2027 capex $285bn base (July's engine had $233bn): 'increase significantly' on a $195-205bn 2026, with Q4 implied at $63-73bn (a $252-292bn annual pace); bull at the base's 2027 intensity on its larger revenue ($302bn), bear at the base's dollars on smaller revenue	data	-8.64	228.85
Terminal capex intensity by mix: Services at its pre-AI ~10%, Cloud at a cloud-provider ~26%; Cloud's larger share lifts the base to 15.5% (July 15%; re-read on the 2033 mix by the growth-landing row)	data	+0.48	229.33
Cost of equity, argued: 10.28% → 10.4% in the explicit years (beta 1.19, the 60-month own read), converging across the 2029-33 fade to 10.0% for the terminal value (beta 1.1, a mature ad-and-cloud business); 10-year Treasury 4.67% → 5.05%; ERP 4.5%	cost-of-equity	+7.36	236.69
Terminal growth set from long-run nominal GDP: Fed SEP 16 Sep 2026, 2.0% real + 2.0% PCE = 4.0% base and bull; bear 3.0% (share loss). July 3.5% / 4.0% / 2.75%	dcf-method	+9.22	245.91
Growth lands on terminal by 2033: each line's growth falls in a straight line from its 2028 rate to terminal g, one more explicit year (July's last explicit growth was 7.6% against a 3.5% terminal); terminal intensity re-read on the 2033 mix	dcf-method	-14.21	231.70
Capex falls in a straight line from its 2027 intensity to terminal over one six-year server life (2033); July's shape reached terminal intensity in 2031, four years after the peak	dcf-method	-23.45	208.25
Bull stage length: Cloud's growth lands on terminal in 2034, not 2033 (~45% of the $561bn backlog, ~$252bn, is due beyond 24 months); the other lines and the base and bear keep 2033	dcf-method	+7.60	215.85
Other Bets carved out: its revenue and its 1.7% of revenue operating loss leave the consolidated paths and the business is added as an asset at the sum-of-the-parts marks ($20bn bear / $75bn base / $175bn bull)	dcf-method	+7.17	223.02
Forecast runs to steady state: seven more explicit years (2034-40) at terminal growth and terminal capex intensity, until depreciation stops falling, so the terminal year carries steady-state depreciation, not the build's; previously the forecast ended in 2033	dcf-method	+0.62	223.64
Fair value 256.42 → 223.64		**-32.78**	**223.64**

The first row moves fair value from July's blend to the cash-flow value alone; every later row re-runs the cash-flow value with one more factor at today's value, in the order shown, so each is its effect on fair value. Each row's source is in the workbook's Attribution sheet. Changes that move only the cross-checks (peer multiples re-captured at the price date, TPU systems as a hardware line, the AI-research cost) have no row.

How the methods are combined: −$33.13. The methods answer different questions. The cash-flow model asks what Alphabet's own future cash is worth at a cost of capital argued for this company. Comps and the sum of the parts ask what the market pays for peers and for businesses like Alphabet's segments; they inherit the market's discount rates and, in this cycle, a market pricing the same capital boom, so they cannot test whether the build earns its cost, which is the question this note is about. Damodaran treats intrinsic value and relative pricing as answers to different questions; a composite is a choice some practitioners make, and July made it, capping the relative methods at half. Cash conversion weighs against it now: free cash flow was 15% of ex-marks earnings over the last year, about 19% without the $5.2 billion fine payment, and about 27% with the nine-month TPU inventory build of $11.0 billion also added back, though that build is working capital for a product line, not a one-off.

The strongest case against the choice is that 59% of the base's operating value is terminal value, resting on a margin, a capex glide and a replacement cycle Alphabet does not date; our scenarios show that risk but do not hedge it, and averaging with the market's multiples is the usual hedge. We accept the cost because the question is whether the build earns its cost. We would revisit the weighting, as a judgment rather than a rule, once capex runs no more than 3 points of revenue above depreciation for four straight quarters (around 2033 on our base path), when the multiples are no longer pricing a build in progress. July's weights would give $276.96 today, so the choice, applied last, is −$53.32, about half of the $101.25 gap to the price. Dropping only the comps gives $272.27; an even split with the sum of the parts, $296.58.

The quarter's data and our reading of them: +$6.04, to $229.33. Rolling the valuation date to 28 October and booking nine months of filed results, with the larger cash pile and debt, adds +$7.50. The 2026 year and the higher server share move value +$2.05. Shares add +$4.12: we count the third quarter's diluted figure plus the convertible preferred as

converted, at the maximum rate that applies below its initial price, 12,422 million in every scenario. July's projected counts added about 59 million at-the-market shares without their proceeds and about 258 million for suspended buybacks on top of stock compensation already expensed. The revenue path adds +$0.53, the 2027 capex figure takes $8.64, and a larger Cloud share of terminal capital intensity moves value +$0.48: Services at 10% of revenue, near Alphabet's whole-company level of 9.6–11.1% in 2021–23, and Cloud at 26%, a house estimate of a cloud provider at steady state.

The cost of equity: +$7.36. We argue the rate from Alphabet's situation. The 10-year Treasury was 5.05% on 28 October (4.67% in July), and we use a 4.5% equity risk premium. For the forecast years we use Alphabet's own 60-month beta against the S&P 500, 1.194, with a standard error of 0.20: a cost of equity of 10.4%. Its 30-month beta rose from 1.12 before the capex surge to 1.34 during it, and the same-cycle peers rose the same way (Microsoft 0.99 to 1.36; Meta 1.01 to 1.56; Amazon 1.39 to 1.55), but on windows that short the difference is within statistical noise (standard error about 0.5) and the build's expected cost is already in the cash flows, so we add no premium for it. Financial leverage adds little: debt is 3% of the equity's market value, and Alphabet's cash and debt securities exceed it by about $50 billion.

For the terminal value we use a beta of 1.10, a cost of equity of 10.0%, reached in a straight line across the 2029–33 fade: a mature advertising-and-cloud business, set from Alphabet's own pre-build 1.12. That treats the pre-build business as the mature one, a judgment the noise finding cannot test. Microsoft's, Meta's and Amazon's 60-month betas describe businesses still mid-build. Their pre-build reads are the strongest case for a lower terminal beta (median 1.01, Meta's 1.01), though their mean, 1.13, sits near Alphabet's own, and cyclical advertising keeps the rate above the market's. The higher Treasury alone would take $12.76 a share; the beta judgments add back $20.12. Those three peers' own 60-month betas would give 9.9%, 10.3% and 11.5%, unused. The other reads:

THE READ, IN PLACE OF OURS	FAIR VALUE
Build-period beta of 1.34 in the forecast years	$218.88
Alphabet's 60-month 1.194 carried to the terminal value	$211.88
Terminal beta of 1.0, the market's	$237.06
60-month beta blended toward the peers': 10.4%, then 10.3% at terminal	$214.68
Blume-adjusted 60-month beta: 10.1% throughout	$222.61

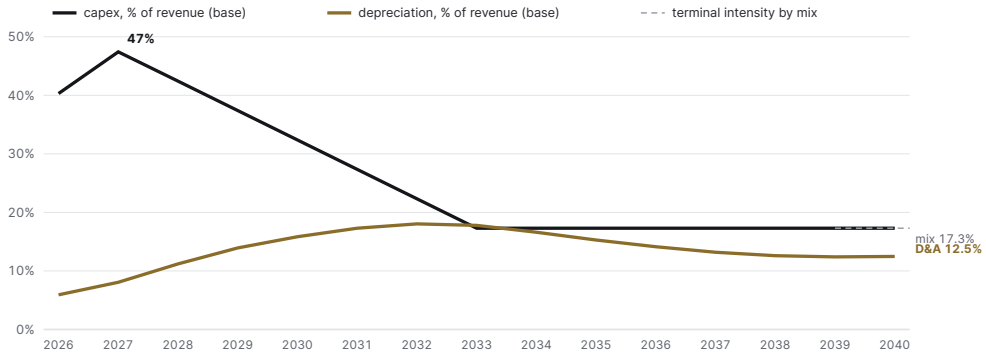
What changed in the cash-flow model, and why: −$13.05 in total. Six changes, in the order of the bridge.

1. **Terminal growth from long-run GDP, +$9.22.** The Federal Reserve's projections of 16 September 2026 give 2.0% real growth and 2.0% inflation in the longer run, so 4.0% in the base and bull cases and 3.0% in the bear (a share-loss case), against July's 3.5%, 4.0% and 2.75%. July listed 4% growth forever among the Street's conventions, labelled there as nominal GDP-plus; this note sets 4.0% from the Federal Reserve's longer-run medians instead, and the Congressional Budget Office's lower 1.8% potential growth (about 3.8% nominal at 2% inflation) is the cross-check.
2. **Growth lands on the terminal rate, −$14.21.** July's forecast ended in 2032 with base growth at 7.6% and then dropped to 3.5% in one step. Each business line now falls in a straight line from its 2028 rate to terminal growth by 2033.
3. **A slower fall in capex intensity, −$23.45.** Intensity now falls in a straight line from its 2027 peak to terminal over six years, to 2033, rather than July's four, to 2031. The length comes from the company's commitment schedule: the 10-Q says the significant majority of $802 billion of multi-year commitments is fulfilled through 2031, so spending stays high for years after 2027. Six years is also one life of the servers that make up 65% of technical-infrastructure spend, and a server's life does not depend on the scenario, so the bull carries the same shape. Revenue keeps growing, so capex in dollars still rises after 2027, peaking at about $301 billion in 2029 in the base and $334 billion in 2029 in the bull, then falling to about $193 billion in the base by 2033. Management has dated neither a decline after 2027 nor the 2028–29 spending we carry. A reader who expects a faster fall sits below our base on capex; July's four-year shape on today's model gives $237.17.
4. **The bull's Cloud stage runs a year longer, +$7.60.** With terminal growth capped at long-run GDP, stage length is where the bull's growth upside lives, and the backlog supports the year for Cloud: about 45% of the $561 billion, some $252 billion, is due beyond 24 months. The other lines, and the base and bear, keep 2033.

5. **Other Bets is carried as an asset, +$7.17.** Its revenue and its operating loss, 1.7% of revenue over nine months, leave the consolidated paths, and the business is added at house estimates of $75 billion in the base ($20 billion bear, $175 billion bull), so it is counted once. Charging the losses through the margin path while valuing the assets at zero was inconsistent.
6. **The forecast runs to steady state, +$0.62.** Ending in 2033 left the terminal year carrying the build's depreciation, 17.8% of base revenue and above the 17.3% the revenue mix implies, which forced terminal capex up to that level. Seven more years at terminal growth and intensity let the peak vintages finish depreciating; depreciation settles at 12.5% of revenue by 2040, and terminal capex is the mix level (Exhibit 5). The terminal year then reinvests 19% of after-tax operating profit to grow 4%, an implied 21% return on new capital (24% bull, 10% bear) against a trailing 30.1%.

Capex is still the input with the least guidance behind it. Two points lower or higher at terminal moves fair value to $241 or $206, and a 2027 figure of $260 billion or $320 billion moves it to $231 or $216.

EXHIBIT 5 — CAPEX AND DEPRECIATION AS A SHARE OF REVENUE, BASE CASE, TO STEADY STATE



How to read it. Percent of revenue, 2026 to 2040, in the base case. Black is capital spending; gold is depreciation, which follows capex with a lag because each year's servers and buildings are written off over six and 25 years; the dashed grey line is the terminal intensity the revenue mix implies. The one thing it shows: depreciation catches capex by 2033 and sits above the mix-based terminal level in 2032–33 and below it from 2034; by 2040 depreciation has settled and the model is in steady state.

The cross-checks, re-marked. July's peer multiples were captured on 24 July. On the six peers' 28 October closes and their filings available by then, the median EV/EBITDA is 18.2 times (16.1 in July) and EV/revenue 9.1 times (8.1). The forward P/E method drops out: we hold no dated consensus earnings capture for it. Comps now give $291.02. The sum of the parts gives $369.53, with July's segment multiples scaled by the change in the peer EV/EBITDA median (×1.13), TPU systems valued as hardware at two to four times sales instead of at Cloud's five to eleven, and the Alphabet-level AI research cost re-scaled to its trailing loss. Neither moves fair value.

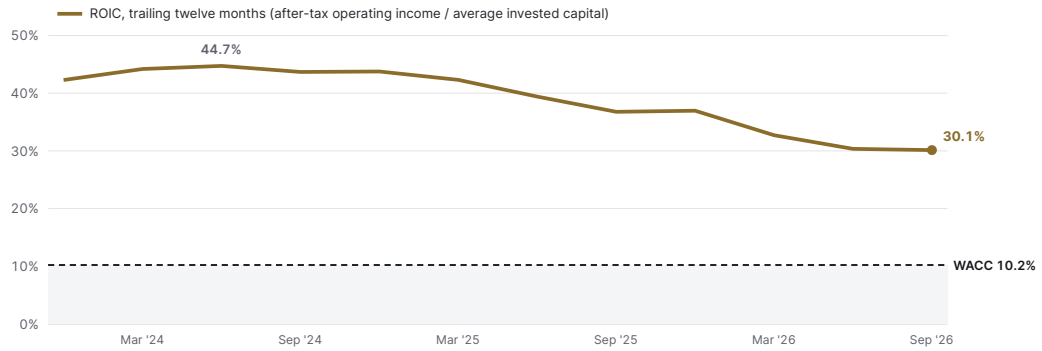
How long each part of the business grows faster than normal. Each stage's length comes from what drives it, not from a default.

BUSINESS	STAGE	YEARS	WHAT DRIVES IT	WHAT SETS THE LENGTH
Google Search & other	AI-query stage	2	Query growth from AI Overviews and AI Mode (Q3 query growth the 'highest it has been in the last five years') monetized at lower rates on AI Mode queries; growth set by queries x price, not by new users	Two years, 2027-28: Search growth fell from 19% (Q1) to 17% (Q2) to 12% (Q3), with FX and tougher comparisons named on the call, and the CFO expects lapping the 2025 acceleration to pressure Q4; the house holds 10% and 9% for the two years the agentic transition (Universal Cart, Gemini 4) is being priced, no longer
Google Search & other	Convergence	5	Growth falls toward nominal advertising-market growth as AI answers are matched by rivals and ad load on AI surfaces settles	Base rates of growth persistence: above-median sales growth five years running occurred in 6.3% of US firms 1951-98 (Chan, Karceski and Lakonishok 2003); straight line to terminal g by 2033

BUSINESS	STAGE	YEARS	WHAT DRIVES IT	WHAT SETS THE LENGTH
Google Cloud (services)	Backlog stage	2	Recognition of the $561bn backlog: 'just over 55%' over the next 24 months (Q2: just over 50% of $514bn), plus consumption not under commitment	Two years because the company dates the backlog's recognition to 24 months; base Cloud revenue $180bn in 2027 and +35% in 2028 puts ~$391bn through Q3-28 against ~$309bn of backlog recognition, i.e. ~79% backlog-covered
Google Cloud (services)	Convergence	5	New bookings set growth once the backlog is recognized; supply catches up and pricing on accelerated compute normalizes	Five years, 2029-33 (six in the bull, 2029-34), straight line to terminal g: about 45% of the $561bn backlog (~$252bn) is due beyond 24 months, so the backlog thins after 2028 rather than ending; in the bull it carries growth a year longer; base rates as above
TPU systems (Cloud product revenue)	Ramp	1	Contracted TPU system sales to third parties (Anthropic directly and via Broadcom, Apple, Crux AI and Oracle partnerships), built to order from inventory	One year at an assumed 12% of 2027 Cloud revenue: the CFO dates 'a meaningful revenue ramp in 2027' and gives no size; inventory is built only against signed contracts (Kurian), so the leg is no longer than the contracts disclosed
Capital build (servers, data centers)	Build stage	1	Capacity for the backlog and for first-party AI: 2026 $195-205bn guided, 2027 to 'increase significantly'	One year at the higher level: the only dated statement covers 2027; the CFO gives the figure on the Q4 call and nothing beyond it
Capital build (servers, data centers)	Glide to maintenance	6	Once the footprint is built, capex falls to replacement plus growth: servers (65% of Q3 technical-infrastructure spend, six-year lives) are replaced, buildings (7-40-year lives) stop being added	Six years, anchored to the company's commitment schedule (the significant majority of $802bn of multi-year commitments fulfilled through 2031) and matching one server life (the 2027 vintage is replaced in 2033), when capex is maintenance plus growth at the mix intensity
Capital build (servers, data centers)	Steady state	7	Maintenance plus growth at the mix intensity, all lines at terminal growth	Seven years, 2034-40: the explicit forecast runs until depreciation stops falling (the 2026-28 server vintages are written off by 2035; base D&A bottoms in 2039-40 and then drifts under 0.1pp a year), so the terminal year carries steady-state depreciation, not the build's

Return on capital. Trailing return on invested capital is 30.1% against the 10.2% WACC, three times the hurdle, and the regime is fading: the spread fell 6.6 points in four quarters and 12.2 over the twelve quarters shown (Exhibit 6). Average invested capital grew 55% in a year on the debt-funded build, the new shares and the stake gains kept in equity, while operating income grew 27%. The trend matters more than the level. Capital still under construction is already in the denominator, but neither its depreciation nor the revenue it is built to serve has reached the numerator. Which arrives first sets the next turn of the trend.

EXHIBIT 6 — RETURN ON INVESTED CAPITAL AGAINST ITS COST, TWELVE QUARTERS



How to read it. Trailing-twelve-month return on invested capital, December 2023 to September 2026, as a percent; the dashed line and shaded band mark the 10.2% weighted average cost of capital. Distance above the band is the spread the business earns over its cost of capital. The one thing it shows: the return is still about three times the cost, and has fallen by a third from its 2024 peak as invested capital grew faster than profit; without the private stakes, which earn nothing in operating income, the latest return is 39%.

THE PRICE

What the price requires

Terminal value is 59% of the base case's operating value (57% in the bull, 66% in the bear), so the price, like our value, is mostly a claim about the years after the build. Each line below moves one lever and holds the rest of our inputs; the fair-value column moves it in all three scenarios and starts from a lower value than the base case ($223.64 against $231.73), which is why it asks more of the margin.

LEVER	OURS	BASE CASE REACHES THE PRICE AT	FAIR VALUE REACHES THE PRICE AT
Terminal EBITDA margin, base	44%	54.4%	55.6% (about 12 points higher in every scenario)
Cost of equity, forecast / terminal	10.4% / 10.0%	8.7% / 8.3%	8.6% / 8.2%
10-year Treasury	5.05%	3.4%	3.2%
Terminal growth, base	4.0%	6.5%	—

The margin is the lever we can least see. The base carries a 44% terminal EBITDA margin, against 40.0% over the first nine months of 2026. We set it from the mix: Cloud is 46% of base revenue by 2033 and earns a 36% segment operating margin after depreciation, so its EBITDA margin is higher still, less the Alphabet-level AI research cost. Alphabet does not disclose depreciation by segment, so this level is a judgment, and what we cannot see favors the price: the more of the build's depreciation sits in Cloud, the further Cloud's EBITDA margin sits above its operating margin. Even so, our base ends 2040 at a 31.5% operating margin, below the 31.8% of the third quarter. The 42–46% sensitivity ($215 to $233) is where our judgment sits. At the base case's 54.4% alone, fair value would be $270.23; that margin becomes 48.1% at a cost of equity one point lower and 60.9% at one point higher (explicit and terminal rates moved together). A segment depreciation disclosure would settle the level, and we would re-set the margin from it.

Two bets. The price is therefore close to one of two bets. One is that our inputs for the build understate value by enough to reach the price: the terminal margin or the cost of equity, alone or with a faster capex glide. The sum of the parts says so: it is above the price, though comps, at $291.02, are below it. The other is that our own bull path is close to certain: with no weight on the bear the price needs about 88% on the bull, and any bear weight above about 5.4% puts it out of reach on our three cases.

THE RECEIPT

July's eight tests, scored

Three depend on the 2027 capex guide due in early February and are pending. The backlog test is a waypoint: its conversion leg reads as met on the company's own statement, its margin leg is not yet readable. The other four did not fire.

waypoint, one leg met · not fired / not passing · pending, not in play or not tripped

PENDING **The FY2027 capex guide (due with FY2026 results, ~3 Feb 2027)**

No figure. The CFO left the 2026 range at $195-205bn, which puts Q4 at $63-73bn against Q3's $51.4bn, and said capex will 'increase significantly in 2027', with details on the Q4 call. The house now carries $285bn for 2027 in the base case (bear $285bn, bull $302bn).

PENDING **FY2027 capex below 35% of revenue with a glide path**

Due with the guide. Capex was 40.3% of revenue in Q3 and 36.9% for nine months; the house base for 2027 is 47%. The early signal points away from the condition.

PENDING **FY2027 capex guided above roughly $260bn**

Due with the guide. The house base (285bn) already sits above the line, because 'increase significantly' on ~$200bn and a Q4 at $63-73bn (a $252-292bn annual pace) leave little room below it. The trigger reads the guide, not the house estimate, so it is not fired.

WAYPOINT **Backlog converting at 50%+ in 24 months with Cloud margin above 30% after capacity eases**

The conversion leg reads as met on the company's statement: the Cloud backlog was $561bn, and the CFO expects to recognize 'just over 55%' of the total backlog in 24 months (Q2: just over 50%, Cloud backlog $514bn). That is a forecast; realized conversion is checked against Cloud revenue through Q3-28 (tripwire gq3-cloud-2027). The margin leg is not yet readable: Cloud earned 36.2% (from 23.7%), but July's test asked for it to hold above 30% after capacity eases, and the CFO guided near-term margin headwinds as rented third-party capacity ramps (tripwire gq3-cloud-margin). §3 ends on why the gap did not close.

NOT IN PLAY **Search & other below 10% for two consecutive quarters**

Search & other grew 12.0% (from 17% in Q2 and 19% in Q1), so the two-quarter count does not start. The CFO flagged Q4 pressure from lapping the acceleration that began in Q3-25 and from FX.

NOT TRIPPED **Revisit below $192**

Settled close $324.89 on 28 Oct; $294.00 after hours. Superseded by this note's fair value; the replacement is tripwire gq3-price ($168).

NOT FIRED **DC Circuit broadens the search-data remedy**

Briefing closed with Google's 29 September reply; on 5 October the parties asked the court to hear argument as early as 9 December. The Justice Department's cross-appeal (filed 28 July) seeks a ban on payments for default placement, which the district court declined, and does not appeal the divestiture ruling. No argument date or decision has been reported.

NOT PASSING **Concession: revenue CAGR above 16% with terminal EBITDA margin above 44%**

The growth leg runs ahead for now: revenue +25% in Q3 and about +24% for 2026 on the house Q4. The margin leg does not: EBITDA margin was 40.0% for nine months, against the 44% bar. A 2026 growth rate is not a 2026-32 CAGR. On July's 2026-32 window the house base now runs at 13.7% a year, below the bar, and the bull at 17.8%, above it; the test reads actual tracking, not the bull scenario. Replaced by gq3-concede.

THE TRIPWIRES

What we watch next, and how we will read it

$285 billion the 2027 capex the base case carries — the first test, on the fourth-quarter call, is whether the company's number is above or below it

Each reading rule is decided now, so the next update scores it rather than reinterprets it. Effects are on fair value at today's other inputs.

1. **Backlog and the TPU split (each 10-Q; the FY2026 10-K, about February 2027).** The Q3 10-Q, filed 29 October, confirmed the call: $560.8 billion of Cloud remaining performance obligations, and just over 55% of the $567.7 billion total backlog due within 24 months. It gave no dollar split of Cloud product revenue. A 24-month share below 50% in any later filing is the first sign the backlog stage is shorter than argued. If a filing separates Cloud product revenue (TPU systems), the sum-of-the-parts cross-check is re-sized ($359 at 25% of Cloud, $379 at zero); fair value moves only if the split changes our terminal margin. No split leaves the house 12% in place.
2. **Fourth-quarter capex (Q4 release, about 3 February 2027).** Inside $63–73 billion holds the base. Above $73 billion means the 2027 build is starting early; the base 2027 figure moves to $300 billion.
3. **The 2027 capex guide (same call).** At or below $260 billion: base, bear and bull all re-run at $260 billion, fair value about $231, and July's "above $260 billion" test does not fire. Between $260 billion and $320 billion: the base holds. At $320 billion: about $216, and lower above it. No number on the call: the base holds, and the next update says so.
4. **Cloud revenue in 2027 (FY2027 release, February 2028; waypoints every quarter).** The base carries $180 billion. Below $155 billion, the backlog stage was shorter than argued, and fair value moves to about $216. Above $205 billion, about $232. Each quarter's Cloud revenue and 24-month share are recorded against the path; the fourth quarter's house figure is $35.3 billion.
5. **Search pace (Q4-26 and Q1-27 releases, by 30 April 2027).** Both quarters below 8%: base Search moves to the bear's 7% and 6%, about $219. Both above 12%: base Search moves to the bull's 13% and 11%, about $227. July's below-10% test stays armed alongside.

6. **Cloud margin after the bridging period.** Margins in the bridging quarters (Q4-26 and Q1-27) are recorded against the CFO's guided headwind, not scored. Every margin reading uses the first two quarters after the rented capacity is fully in use, as the CFO states it, or Q2-27 and Q3-27 if no statement has been made by the Q1-27 call. In those two quarters, both below 30% fails the July margin leg and moves the base terminal EBITDA margin from 44% to 42% (about $215). Both at or above 30% meets the July leg. Both at or above 40% moves it to 46% (about $233).
7. **The 2028 capex guide (FY2027 release, about February 2028).** The first read on the glide, the largest judgment after the weighting. We score capex's share of revenue, not its dollars, because every scenario carries the same shape on different revenue: the guide's midpoint over consensus 2028 revenue on that day, never our own path, against 2027's reported share; reported 2028 figures settle it in February 2029. On its own revenue the base falls 5.0 points in 2028, from 47.4% to 42.4%, about $297 billion (bull 5.2 points, bear 4.9). A fall of about 7.5 points or more is July's four-year pace, and the glide re-runs on that shape, about $237. A fall of about 3.8 points or less is an eight-year pace, about $211. In between, or with no number on the call, the base holds.
8. **Price.** A close at or below $223.64 resolves the gap. $168 is a 25% margin of safety to fair value. Replaces July's $192.

What would change our view

We concede if the evidence tracks the whole bull path: 2027 capex guided at or below the bull's $302 billion, Cloud revenue reaching $205 billion in 2027, Search & other growing at or above 13% and 11% in 2027 and 2028, and Cloud operating margin at or above 40% in the tripwire-6 quarters (the path carries a 46.5% terminal EBITDA margin, 16.0% terminal capex and 4.0% terminal growth). That path is worth $338.17, above today's price, and the bull's inputs would become the base case in the next update. The first two observables alone, in the base case, lift value to about $229 with capex at the $302 billion ceiling, or about $232 with capex at the base's $285 billion; a lower guide takes it higher.

The case hardens on the mirror: Cloud at or below $155 billion with 2027 capex guided at or above $285 billion, Search & other at or below 7% and 6% in 2027 and 2028, and Cloud operating margin below 30% in the tripwire-6 quarters (the path carries a 38% terminal EBITDA margin, 21.2% terminal capex and 3.0% terminal growth). That path is worth $92.95, and the bear's inputs would become the base case. The first two observables alone take value to about $216 with capex at the $285 billion floor, the base's own figure; a higher guide takes it lower.

Short of the bull path, on one lever alone, the price is right on our frame in two observable ways. The levers also combine: at a cost of equity one point lower (explicit and terminal), the base case alone reaches the price at a 48.1% terminal margin. The capex glide does not reach the price alone: July's four-year shape gives $237.17, and even a drop to terminal intensity in 2028 gives about $257.

- *Cloud's EBITDA margin reaches about 74%.* A depreciation disclosure alone cannot show that: on the nine months to September, even with all of Alphabet's $22.0 billion of depreciation in Cloud, its EBITDA margin would be about 64%, so this path needs Cloud's operating margin itself to keep rising, read through a segment disclosure if one comes. With Cloud at 46% of revenue and the rest of Alphabet at 40% (the whole company's nine-month EBITDA margin, used as a proxy), that is a terminal margin of 55.6% in the base, about 12 points above ours. The base alone at that margin gives fair value $275.29; fair value reaches the price only if the bear and bull margins rise by the same points.
- *The 10-year Treasury falls to about 3.2%* at our forecast-year beta, which gives an 8.6% cost of equity (8.2% at terminal). A lower beta alone would need about 0.78 in the forecast years and 0.69 at terminal, below every read we hold.

A third route, the weighting from July's 50/25/25, reaches the price only alongside the bull path's evidence. Revisited on the §4 condition, it gives $276.96 today, below the price; with that evidence, about $361.51, above it.

The cost of equity has its own tests, each on a read that would survive the noise test that set the build premium aside. The forecast-year beta is re-measured at every update, so it moves value either way on its own, as the Treasury does. We would add a build premium, toward the 1.34 build-period read ($218.88), only on a 30-month beta at or above 1.30 on a window that does not overlap April 2024 to September 2026, or a 60-month beta at or

above 1.30. We would lower the terminal beta toward 1.0 ($237.06) on a 60-month beta at or below 1.05 at any update, or a 30-month beta at or below 1.05 on a window that begins once capex runs within 3 points of depreciation.

THE CALL

The call

We value Alphabet at $223.64 a share, from $256.42. The quarter brought half of what our July note was waiting for, and the backlog lifted value. The same quarter set a capital bill that leaves free cash flow negative and has the company borrowing and selling stock. That bill is larger than July's model carried, and we now assume capex intensity falls over six years, in line with the company's own commitment schedule (−$23.45), a decline management has not dated. Our argued cost of equity moved value +$7.36. The largest change is how the methods are combined (−$33.13): we value the company on its own cash flows and show the market's multiples beside them. To reach $324.89 on one lever alone, fair value needs a cost of equity near 8.6% or terminal margins about 12 points above ours in every scenario (the base case alone needs 8.7% or 54.4%); smaller moves in both together reach it too. The other routes are that the sum of the parts, which is above the price, is the better measure, or that our own bull path, worth $338.17, is close to certain. The fourth-quarter call, with the 2027 capex number, is the next test. The Fund holds no position in GOOGL.

SOURCES

Sources & Method

Filings. Alphabet Form 8-K Exhibit 99.1 for Q3 2026 (acc. 0001652044-26-000080, filed 28 October 2026): financial statements, segment results and the equity-security footnote. Prior releases for comparisons: Q3 2025 (0001652044-25-000087), Q4 2025 (0001652044-26-000012), Q1 2026 (0001652044-26-000043) and Q2 2026 (0001652044-26-000066). Form 10-Q for Q3 2026 (acc. 0001652044-26-000084, filed 29 October 2026): backlog, commitments, leases and the at-the-market program.

The call. 28 October 2026, 4:30 PM ET. Alphabet publishes no written transcript; each quote appears word for word in two full independent transcriptions (MarketBeat, The Motley Fool) and in a third (AlphaStreet). The Q2 backlog share ("just over 50%") is from the July note's record of the Q2 call.

Market data. GOOGL settled close 28 October 2026 ($324.89) and the after-hours print ($294.00 at 9:14 PM ET) from the brokerage feed. FRED DGS10. Betas from split-adjusted month-end closes (GOOGL, SPY, MSFT, META, AMZN; September 2021 to September 2026), against SPY; pre-build and build-period betas use 30 monthly returns each, October 2021 to March 2024 and April 2024 to September 2026. The six peers' 28 October closes are from the brokerage feed, with its 30 October share counts, which match the latest cover pages to within rounding except Nvidia's (2% above its 21 August count) and Amazon's (its 22 July count, 0.25% below the 21 October count in its 10-Q filed 30 October); neither moves a median multiple by more than about 0.1%. Damodaran's distinction: his "An Introduction to Valuation" slides (Fall 2016, slide 5, "Approaches to Valuation"). Waymo's February 2026 round: press reports of its announcement (Bloomberg, among others), a cross-check only.

Macro. Federal Reserve Summary of Economic Projections, 16 September 2026, Table 1: longer-run real GDP 2.0%, PCE inflation 2.0%. Congressional Budget Office, The Budget and Economic Outlook: 2026 to 2036 (February 2026): potential real GDP growth of 1.8% a year over 2031–36.

Method. Free cash flow to equity in three scenarios weighted 25/50/25, discounted mid-year from 28 October at a cost of equity of 10.4% argued for this company (10-year 5.05% plus a beta of 1.19 × 4.5% in the forecast years), converging across the 2029–33 fade to 10.0% (beta 1.10), at which the terminal value is discounted; terminal value by the Gordon growth formula on a normalized final-year flow. Explicit forecast 2026–2040. The share count is the third quarter's diluted figure plus the convertible preferred as converted, 12,422 million in every scenario, so its dividends are not deducted. Depreciation runs by vintage: servers six years (65% of capex from 2026, 55% before), buildings 25 years, each vintage entering service over two years. Cash and marketable securities are added at book; non-marketable stakes net of a 22% tax. Fair value is the cash-flow value; comps and the sum of the parts are unweighted cross-checks. Comps are the median of three EV methods at the six July peers' 28 October multiples, from SEC XBRL filings available by 27 October; the sum of the parts applies July's segment multiples, scaled as in §4, to base-case 2027 segment revenue. ROIC: SEC XBRL data through September 2026 (the Q3 10-Q); the hurdle is the WACC at the cost of equity above. The model, stages, attribution and ROIC series are in the downloadable workbook.

Limitations. Fourth-quarter 2026 figures are house estimates. The 2027–28 segment build, the TPU share, the 2027 capex figures and the terminal intensities are house assumptions, set out with their effects above. The marketable equity securities are carried at market without a tax on their embedded gain, which overstates value by at most about $1.60 a share.

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