

## ALPHABET: STANDARD INTERNET COMPANY

### Description

Alphabet owns and operates products like Search, YouTube, and Cloud. Its shares have recently been experiencing downward pressure amid concerns over AI competition, Gemini's underperformance, and the antitrust lawsuit. However, I believe these concerns are overstated. And therefore, at current prices, the stock offers an attractive opportunity, with the potential to deliver at least a 10% annual return over the next five years.

### Search

Google benefits from strong network effects that create substantial barriers to entry for competitors. Every new user adds negligible cost while contributing data to improve search algorithms. This feedback loop has allowed Google to dominate the market. Today, Google holds more than 90% [1] of the global market share in search, and its brand is so deeply ingrained in online culture that "Google" has become synonymous with searching the internet.

The disruption of this traditional search has come from tools that directly answer questions with concise, source-backed information, avoiding the need to sift through pages of links. While writing a report for one of my university assignments, I found myself frequently using Perplexity instead of Google. Perplexity delivered fast and accurate answers, and when responses were ambiguous, the linked sources were easy to verify. This experience left me thinking that traditional search feels closer to phonebooks than ever before.

However, my counter to Perplexity was that Google could develop a similar tool. With ownership of two of the most visited websites in the world [2], Google has access to large amounts of data. While execution has not always been Google's strong suit, exceptions like Google Flights and Hotels exist. By observing early adopters and integrating the technology, Google turned these services into multi-billion-dollar businesses. There is certainly no lack of talent at Google—most notably, Google DeepMind (formerly Google Brain)—so the likelihood that Google fails to leverage AI appears extremely low.

### Youtube

The power of YouTube struck me when I visited my parents this January. During dinner and leisure time, instead of switching to traditional TV channels, we browsed YouTube for everything from content to music. This pattern repeated when visiting close relatives and friends.

As an avid YouTube user, I was pleasantly surprised. This shift was not evident even two or three years ago. Seeing parents in their 50s and 60s from multiple families regularly tuning in to Youtube made me realize there is no stronger signal for an entertainment platform's reach. Once primarily a place for younger trend followers, YouTube has now evolved into a hub for general content consumption, offering everything from news and sports to documentaries. The wide appeal minimizes disruption risks and solidifies its place in modern media.

Moreover, YouTube will thrive as both a beneficiary and benefactor of AI. Its recommendation algorithms will improve with AI, while the platform's extensive search history and click-through data will provide invaluable insights for Google.

### Others

Cloud is one of the fastest-growing businesses at Google [3]. It is approaching break-even profitability, which suggests revenue increase could be imminent. Similarly, Waymo, Google's autonomous driving arm, has made significant strides over the past few years. It has begun deploying its robo-taxi services, which have generally received positive reviews [4].

We certainly cannot forget about Android. Android remains the most widely used mobile operating system globally [5]. Unless companies invest heavily in developing their own systems, akin to Apple, Android's dominance is unlikely to be threatened. Given the high capex required for such efforts, Android's leading position in the mobile market is expected to remain secure for the foreseeable future.

### Catalyst

- AI speculation driving down the share prices
- Search, Youtube and Cloud performance & growth
- Strong financial results

### References

- [1] <https://gs.statcounter.com/search-engine-market-share>
- [2] [https://en.wikipedia.org/wiki/List\\_of\\_most-visited\\_websites](https://en.wikipedia.org/wiki/List_of_most-visited_websites)
- [3] <https://abc.xyz/assets/d4/4f/a48b94d548d0b2fdc029a95e8c63/2022-alphabet-annual-report.pdf>
- [4] <https://www.reddit.com/r/waymo/>
- [5] <https://www.statista.com/statistics/272698/global-market-share-held-by-mobile-operating-systems-since-2009/>