GOOG

Google Cloud grew 82%, but capex now exceeds operating cash flow.

Alphabet's Q2 revenue grew 24%, with Cloud at $24.8B and a $514B Cloud backlog. Capex of $44.9B left free cash flow negative, and $98B of other income came mostly from equity holdings.

+82% CALCULATED

Google Cloud revenue growth in Q2 2026: $24.8B vs $13.6B, with a 35.6% operating margin (margin calculated).

Watchlist: operating strength is clear; whether Cloud backlog converts fast enough to cover AI capex is what the next print tests.

Core question

Does the $514B Cloud backlog convert at margins that cover capex now above operating cash flow?

Revenue

Q2 revenue $119.8B, +24%; Search +17%, YouTube ads +13%, Cloud +82%, Network -1%.

Margin

Operating margin 34.0% vs 32.4% despite a $1.5B legal accrual; Cloud margin 35.6% vs 20.7% (calculated).

Cash

Q2 capex $44.9B vs operating cash flow $39.1B; free cash flow -$5.9B; TTM free cash flow $53.3B.

Risk

Net income of $112.2B includes a $99.0B equity-securities gain, mostly SpaceX; June equity raise of $49.6B.

Street

Published targets span $340 to $485, average $420.79, 22.0% above the Oct 15 GOOG close of $344.91.

PRICE	MARKET CAP	PRICE AS OF	REPORT DATE
$344.91	$4.25T	15 Oct 2026	16 Oct 2026
as of 15 Oct 2026	as of 15 Oct 2026		

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SUMMARY

The operating story is excellent; the cash and earnings quality are not.

Cloud accelerated to 82% growth and Search to 17%. Free cash flow turned negative and reported profit is mostly investment marks.

+82%

Google Cloud revenue growth in Q2 2026 to $24.8B; operating income $8.8B, a 35.6% margin (calculated). CALCULATED

$513.9B

Google Cloud share of the $519.5B revenue backlog at 30 June; just over half is due within 24 months.

-$5.9B

Q2 free cash flow: operating cash flow $39.1B less capex $44.9B (company-reported free cash flow).

What supports the view

- Revenue $119.8B, +24%, the 12th straight quarter of double-digit growth; Google Services +15%.
- Cloud operating income $8.8B vs $2.8B; incremental Cloud margin about 47% quarter on quarter (calculated).
- Search paid clicks +13% and cost-per-click +3%; the company says AI features lift query growth.
- Operating margin widened to 34.0% while absorbing a $1.5B Q2 legal accrual in G&A.
- Gemini App at 950M monthly users and 22B API tokens per minute (company statements).

What could undercut it

- Capex $44.9B was 115% of operating cash flow (calculated); consensus FY26 free cash flow is only $7.1B.
- Other income of $98.0B includes a $99.0B equity gain, primarily SpaceX and a private company.
- Funding turned external: $49.6B equity raise, $20.3B notes, long-term debt $98.2B vs $46.5B in December.
- Google Network revenue fell 0.7% and impressions fell 12%.
- No 2026 capex figure appears in the release or 10-Q text reviewed.

What decides it: Cloud growth and backlog conversion against Q3 capex, reported on 28 October after the close (date per S&P).

Key figures

METRIC	PERIOD	VALUE	SOURCE
Revenues	Q2 2026	**$119.796B**	Q2 2026 release
Google Cloud revenue	Q2 2026	**$24.768B**	Q2 2026 release
Operating income	Q2 2026	**$40.770B**	Q2 2026 release

CapexQ2 2026**$44.924B**Q2 2026 10-QTTM revenueQ3 25 to Q2 26**$445.866B** CALCULATED
Calculated: four quartersTTM operating incomeQ3 25 to Q2 26**$147.628B** CALCULATED
Calculated: four quartersCash and marketable securities30 Jun 2026**$242.5B**Release; incl. $80.0B restricted SpaceX equity

What to watch

28 OCT 2026

Q3 2026 results

Date per S&P. Tests Cloud growth vs 82%, backlog, capex and the equity-mark effect on other income.

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LATE 2026

GFiber contribution closes

Expected in late 2026: $1.5B cash, $2.0B note, 49.99% equity interest.

2027

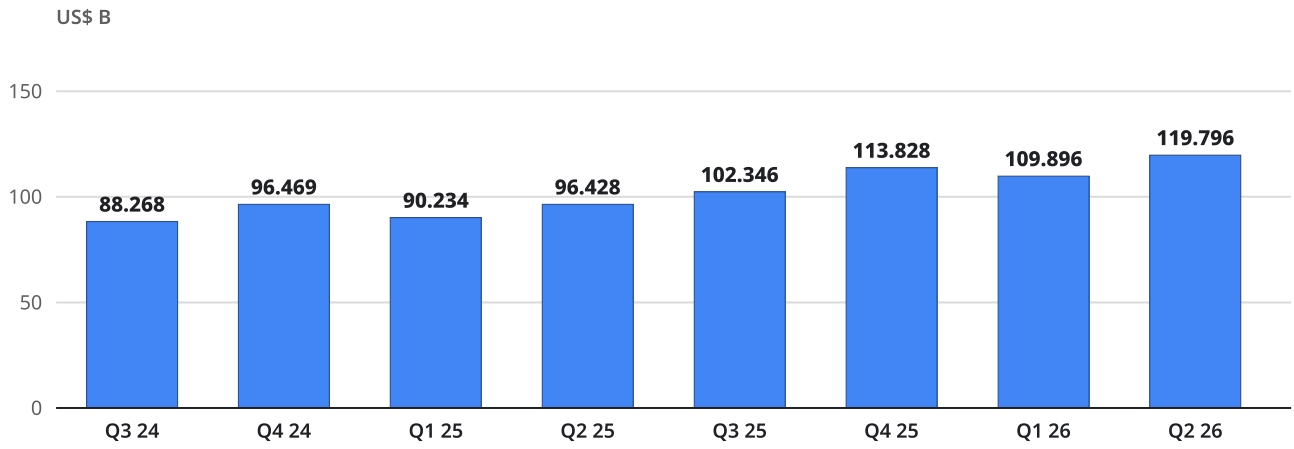
TPU system revenue

The 10-Q says the significant majority of TPU supply agreements is recognised in 2027.

EVIDENCE 1 · REVENUE AND MARGINS

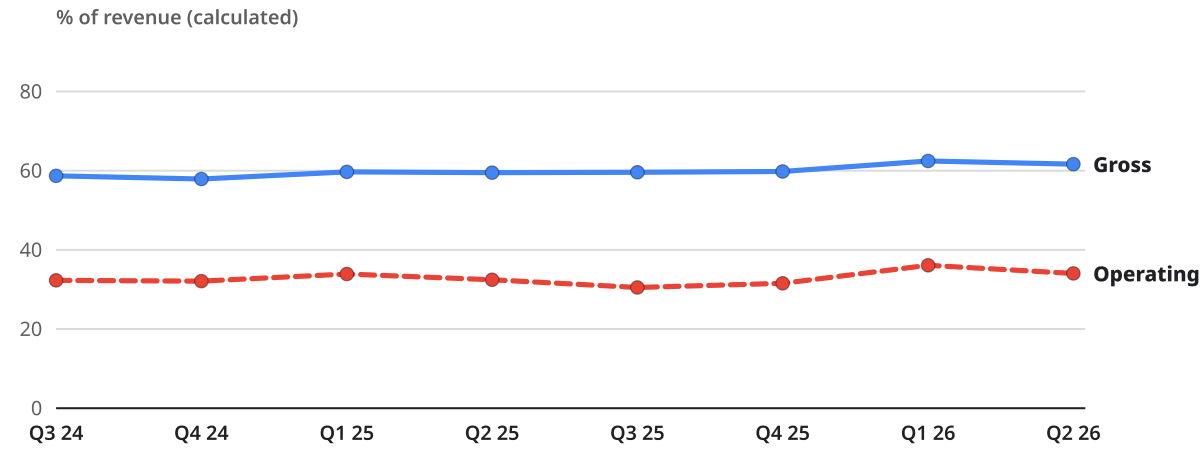
Revenue growth accelerated for six straight quarters to 24%.

Quarterly revenue rose from $88B to $120B in two years



Revenues as reported. Q1 and Q2 2026 tied to the 10-Q; earlier quarters from the Flip sheet, tab GOOG.
Source: Alphabet 8-K and 10-Q (SEC); Flip sheet tab GOOG.

Gross margin is up 2 points y/y; operating margin up 1.6 points



Calculated: gross profit and operating income divided by revenue. Q3 2025 operating margin includes a large G&A charge (tab 7,393).
Source: Alphabet filings; Flip sheet tab GOOG; margins calculated by the Desk.

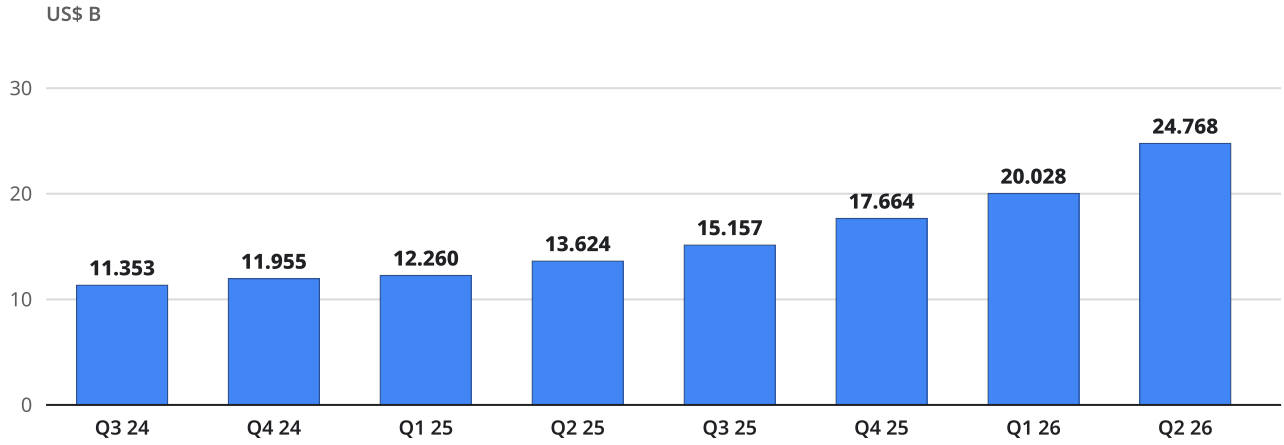
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Q2 operating margin of 34.0% absorbed a $2.1B legal accrual (PriceRunner ruling): $1.5B in G&A within Google Services and $581M in other income. Without the $1.5B the margin would be about 35.3% (calculated). Alphabet-level costs, mainly shared AI research, were $5.8B vs $3.4B.

EVIDENCE 2 · GOOGLE CLOUD

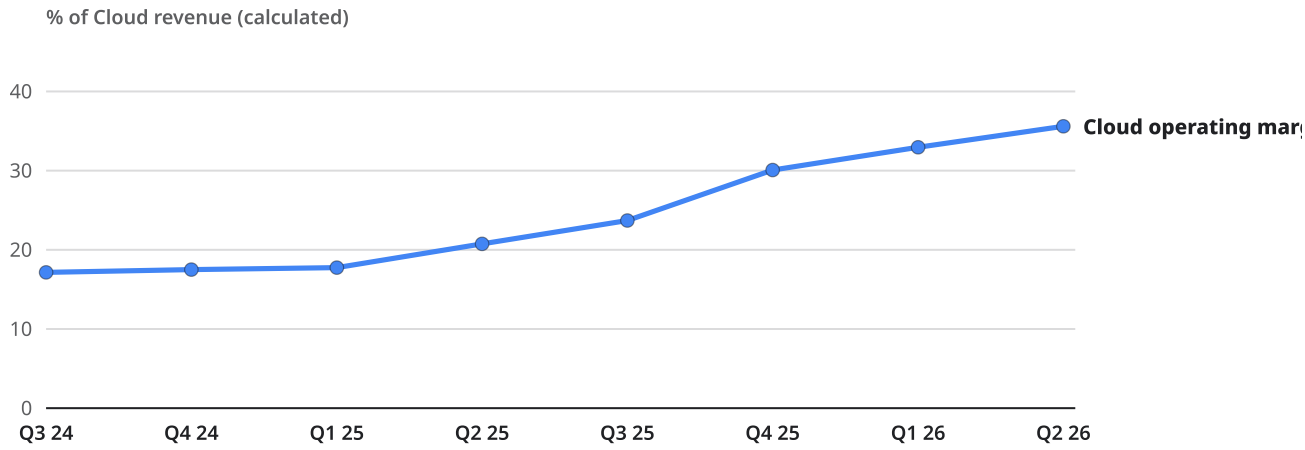
Cloud revenue nearly doubled y/y and its margin rose to 36%.

Cloud revenue reached $24.8B, up 82% on the year



Wiz (closed 11 March 2026, $29.5B) is consolidated in Cloud from Q1 2026; its revenue is not broken out.
Source: Flip sheet tab GOOG; Q2 2026 10-Q segment note.

Cloud operating margin rose from 21% to 36% in a year



Calculated: Cloud operating income divided by Cloud revenue. Q3 and Q4 2025 segment income not checked to filings.
Source: Flip sheet tab GOOG; Q2 2026 10-Q; margin calculated.

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Revenue backlog was $519.5B at 30 June, $513.9B of it Google Cloud, with just over 50% due in 24 months (10-Q). That is 6.6x trailing Cloud revenue (calculated). Prior-quarter backlog was not captured, so backlog growth is not stated.

EVIDENCE 3 · SEARCH AND YOUTUBE

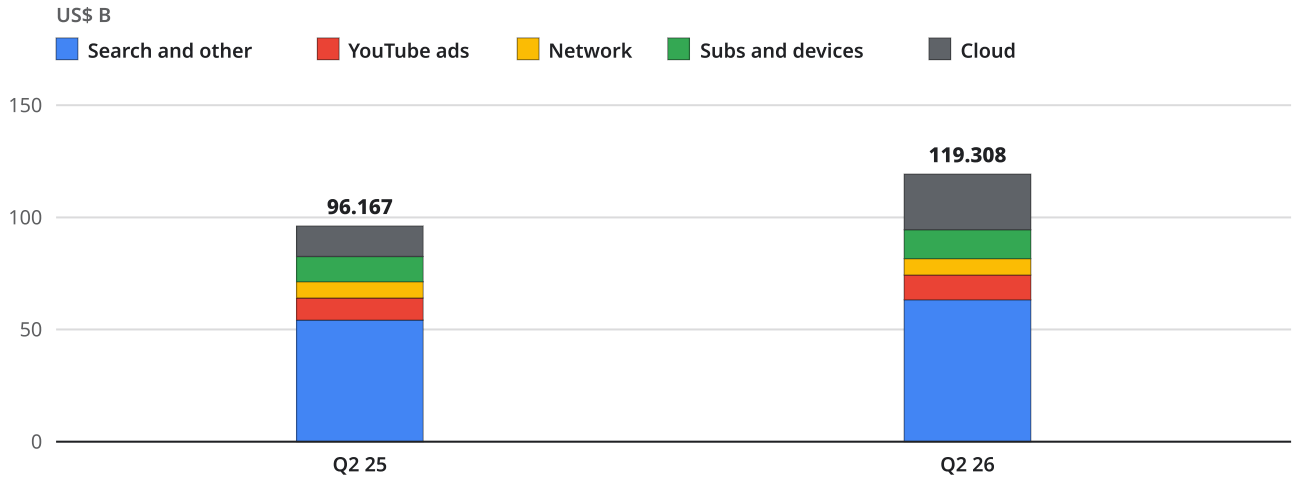
Search grew 17% and YouTube ads 13%; Network shrank.

Search grew fastest of the advertising lines



Google Network fell 0.7% and is omitted (negative). Growth calculated from reported revenue lines.
Source: Alphabet Q2 2026 release, supplemental table.

Search is 53% of revenue; Cloud is now 21%



Other Bets and hedging (about $0.5B) are omitted. Shares calculated from reported lines.
Source: Alphabet Q2 2026 release.

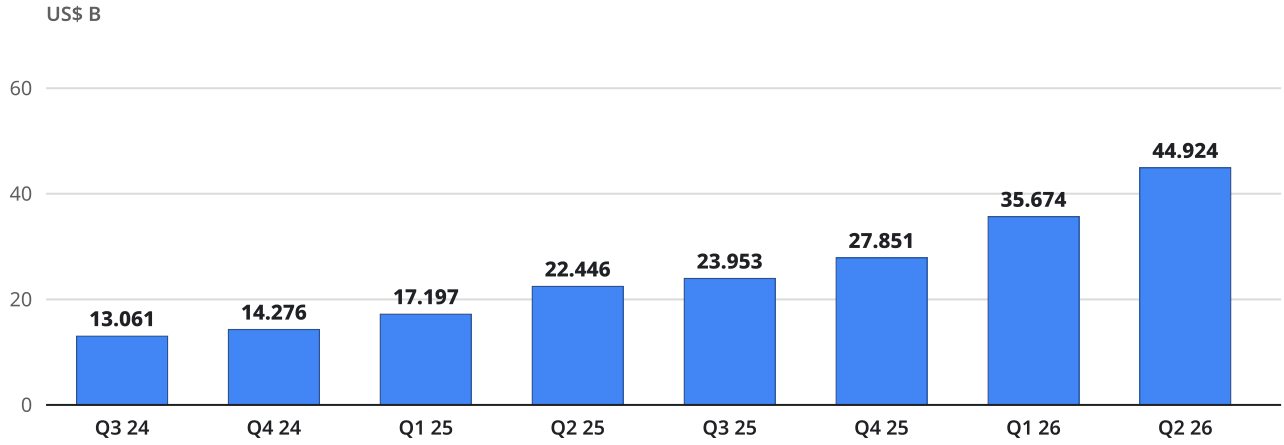
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Search paid clicks rose 13% and cost-per-click 3% (10-Q). Network impressions fell 12% while cost-per-impression rose 13%. Total traffic acquisition cost was $16.2B, 13.5% of revenue and 25.6% of Search revenue (calculated). YouTube said 1.7B unique viewers watched World Cup videos (company statement).

EVIDENCE 4 · AI CAPEX AND FUNDING

Capex doubled to $44.9B and now exceeds operating cash flow.

Quarterly capex rose 100% y/y to $44.9B



Purchases of property and equipment as reported. TTM capex is $132.4B; H1 2026 is $80.6B vs operating cash flow of $84.9B.
Source: Alphabet 10-Q and release; Flip sheet tab GOOG.

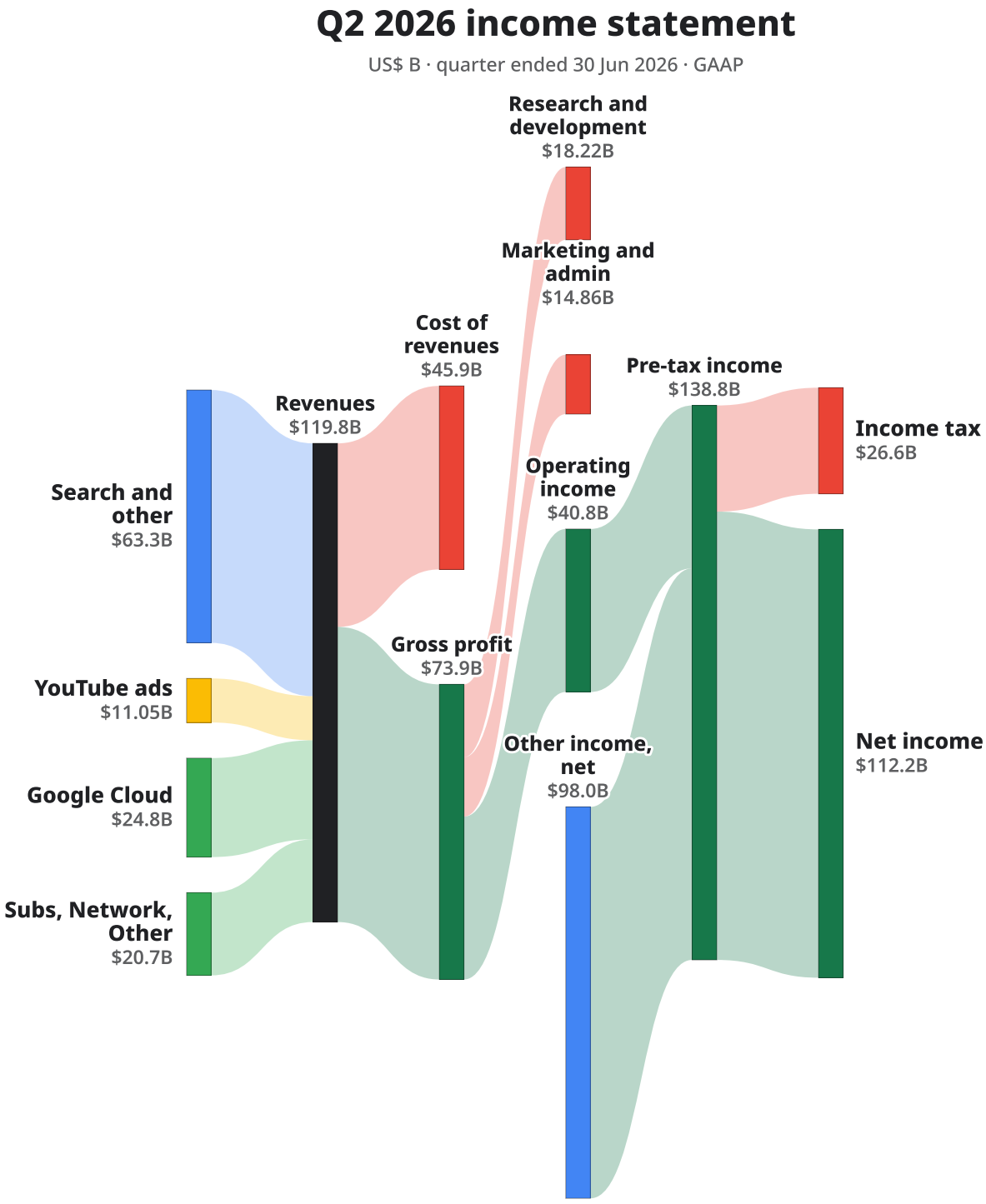
FUNDING ITEM	AMOUNT	PERIOD	SOURCE
Equity raise (stock plus mandatory convertible preferred)	**$49.6B net**	June 2026	Q2 2026 release
Senior unsecured notes	**$20.3B net**	Q2 2026	Q2 2026 release
Long-term debt	**$98.2B vs $46.5B**	30 Jun vs 31 Dec	Q2 2026 release
Share repurchases	**$0 vs $28.3B**	H1 2026 vs H1 2025	Q2 2026 release
At-the-market programme (unused)	**$40.0B**	Up to	Q2 2026 release

Net cash by S and P is $121.7B, but cash, cash equivalents and marketable securities of $242.5B include $80.0B of SpaceX equity securities under short-term sale restrictions (restricted equity, not cash), so net cash without them is about $41.7B (calculated, approximate). No 2026 capex guidance is in the text reviewed.

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INCOME STATEMENT FLOW

Where each dollar of Q2 revenue went: 34.0% became operating income.



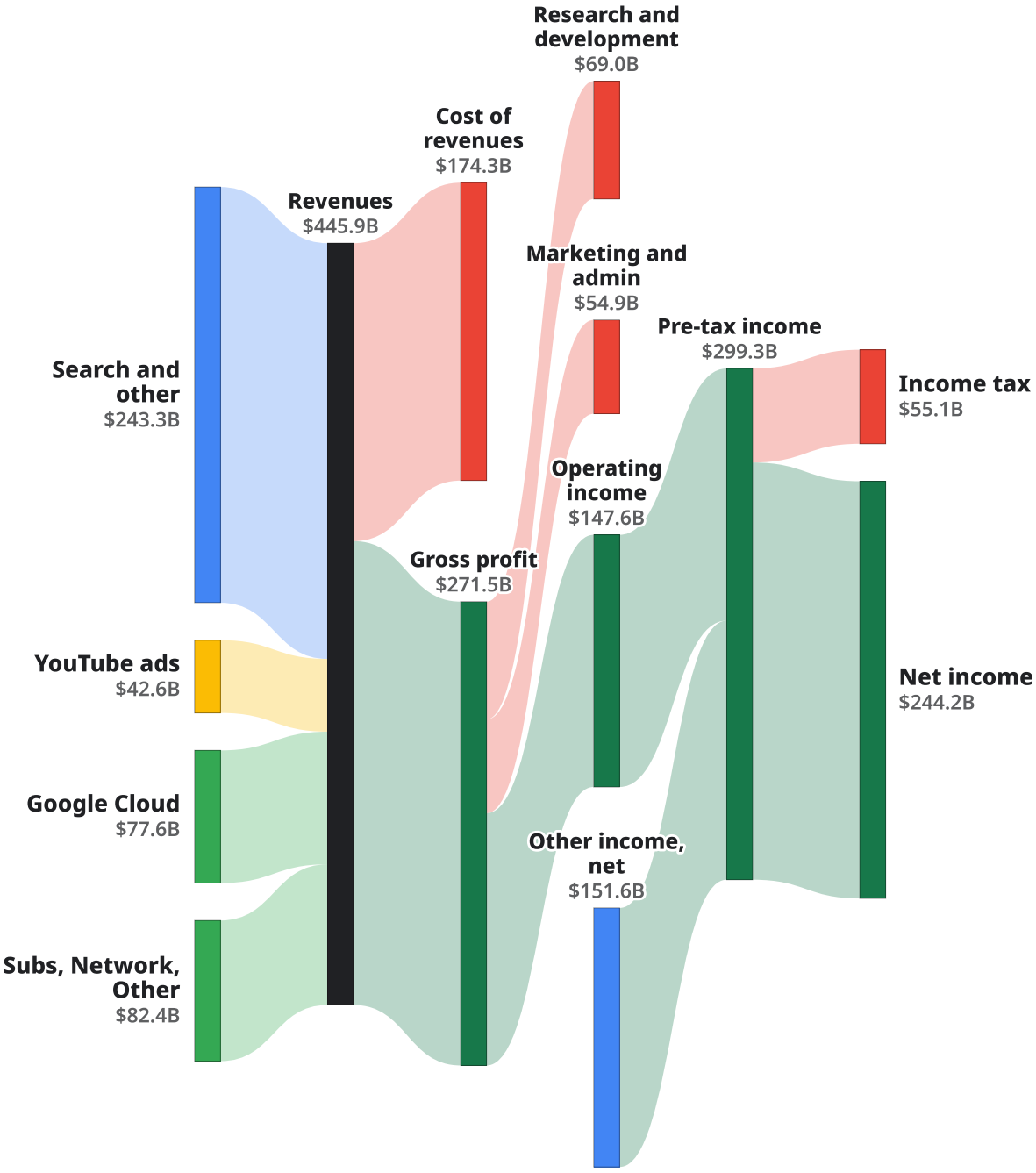
Source: Alphabet Q2 2026 release (8-K). Subs, Network, Other groups four lines; Marketing and admin groups two.
Chart: desk analysis. Grouped lines are calculated; see method.

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Over four quarters, other income added $152B to $148B of operating income.

TTM income statement, Q3 2025 to Q2 2026

US$ B · trailing twelve months to 30 Jun 2026 · GAAP · calculated



Source: Alphabet filings (SEC); Flip sheet tab GOOG for Q3 and Q4 2025. Sum of four quarters, calculated.
Chart: desk analysis. Grouped lines are calculated; see method.

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RISKS

Five exposures matter most, set against real strengths.

Return on AI capex

Q2 free cash flow -$5.9B; capex 115% of operating cash flow (calculated); consensus FY26 free cash flow $7.1B.

Earnings quality

$98.0B of Q2 other income, mostly SpaceX and a private company. The $94.1B SpaceX stake is sale-restricted, not cash.

Funding and dilution

$49.6B equity raise, $40B at-the-market programme, $20.3B notes; diluted shares rose 0.9% y/y.

Backlog delivery

The $513.9B Cloud backlog depends on delivery and customer usage; the customer split is not disclosed.

Legal and regulatory

$2.1B PriceRunner accrual in Q2; antitrust sections were not reviewed in depth in this pass.

Offsetting strengths

Search +17%, Cloud margin 36%, Gemini App 950M users and $242.5B of cash and securities, of which $80.0B is restricted SpaceX stock.

VALUATION

The published Street range runs from $340 to $485 against a $344.91 price.

Only the third-party analyst range is sourced; the Desk has no scenario model. This is not a Desk target.

Street range (third-party)

CASE	STREET TARGET	VERSUS CLOSE	SOURCE
Street low	**$340**	-1.4%	S and P Global MI, 62 analysts
Street average	**$420.79**	+22.0%	S and P Global MI
Street high	**$485**	+40.6%	S and P Global MI

Valuation inputs, 15 Oct 2026

METRIC	BASIS	VALUE	SOURCE
Market capitalisation	Oct 15 close	**$4.25T**	S and P Global MI
Trailing P/E	TTM, includes gains	**17.3x**	S and P Global MI
Forward P/E	S and P	**25.5x**	S and P Global MI

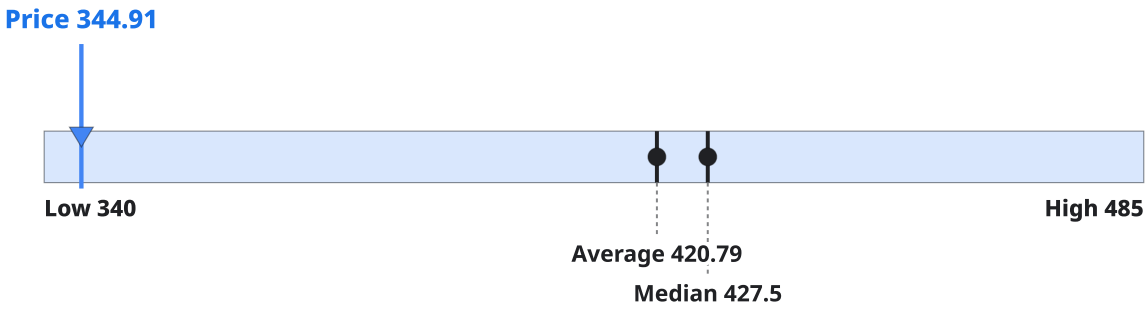
P/E on FY26 EPS $13.14Consensus, adjusted**26.2x** CALCULATEDCalculated: $344.91 / $13.14P/E on FY27 EPS $15.25Consensus, adjusted**22.6x** CALCULATEDCalculated: $344.91 / $15.25EV/EBITTTM**28.0x**S and P Global MI

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METRIC	BASIS	VALUE	SOURCE
Free cash flow yield	TTM	**1.3%**	S and P Global MI

The price sits at the bottom of the published range

US$ per share



Third-party analyst targets as polled by S and P Global; not a Desk view.
Source: stockanalysis.com forecast page, 15 Oct 2026.

CATALYSTS

One dated event: Q3 results on 28 October.

28 OCT 2026 · KEY DATE

Q3 2026 results (after close)

Date per S&P. Cloud growth vs 82%, backlog, Q3 capex and any capex outlook; consensus implies H2 revenue near $269.9B (calculated).

LATE 2026

GFiber contribution closes

Expected late 2026 per the 10-Q.

2027

TPU revenue and SpaceX lock-up

Most TPU system revenue falls in 2027; $14.1B of SpaceX shares are restricted until after Q3 2027.

METHOD AND DATA QUALITY

How the numbers were checked

Tags: OK confirmed against the source, FIX corrected, PART partly supported, UNV not verified.

CLAIM	RESULT	NOTE
Q2 2026 revenue lines, segment income, P&L, capex and cash flow	OK	All match the release and 10-Q; Q1 2026 equals H1 less Q2 on every line checked.
Flip ticker is GOOG (Class C); company figures are identical for GOOGL	OK	Price, market cap and Street data are the GOOG quote and S and P GOOG page.
Flip tab GOOG Q1 2026 depreciation	FIX	Shows 6,040 (repeat of Q4 2025); 10-Q implies 6,482. Not used.
Flip tab GOOG EPS and Q1 2025 headcount	FIX	EPS 9.1147 ignores $86M preferred dividends (reported 9.11); headcount repeats the prior quarter. Not used.

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CLAIM	RESULT	NOTE
TTM revenue, operating income, pre-tax income and tax	OK	Sums of four quarters match S and P ($445.87B, $147.63B, $299.27B, $55.06B); labelled calculated.
Sankey grouping: Subs, Network, Other; Marketing and admin (14 nodes)	OK	Ties to reported subtotals; labelled calculated.
Q3 and Q4 2025 segment operating income in the tab	UNV	FY25 10-K and Q3 2025 10-Q not pulled; totals tie to reported operating income.
Net cash without SpaceX stake of about $41.7B	PART	Assumes the $80.0B footnote sits within the $242.5B; approximate.

$80.0B SpaceX shares inside $242.5B cash and securities OK Restricted equity securities (short-term sale restrictions), plus $14.1B restricted to Q3 2027; labelled in the report.Search, YouTube and Network growth rates OK +17%, +13%, -1% confirmed from the Q2 release and 10-Q.Gemini 950M users, 22B tokens/min, $1.5B legal accrual, GFiber terms UNV Company statements and 10-Q items not re-read.

Not sourced or not determinable

- 2026 capex guidance.
- Prior-quarter backlog and customer split.
- Wiz revenue contribution.
- Cause of the Q3 2025 G&A spike; antitrust exposure (not reviewed in depth).

SOURCES & DISCLOSURE

Principal sources

1. **Alphabet Q2 2026 earnings release (8-K EX-99.1)**
   sec.gov/Archives/edgar/data/1652044/000165204426000066/googexhibit991q22026.htm
2. **Alphabet Q2 2026 release (8-K EX-99.1): $242.5B; Search +17%, YouTube +13%, Network -1%**
   sec.gov/Archives/edgar/data/1652044/000165204426000066/googexhibit991q22026.htm
3. **Alphabet Form 10-Q, quarter ended 30 Jun 2026**
   sec.gov/Archives/edgar/data/1652044/000165204426000071/goog-20260630.htm
4. **Valuation statistics, S and P Global MI via stockanalysis.com (GOOG), 15 Oct 2026** (secondary)
   stockanalysis.com/stocks/goog/statistics/
5. **Analyst targets and estimates, S and P Global MI / TipRanks via stockanalysis.com** (secondary)
   stockanalysis.com/stocks/goog/forecast/
6. **Flip sheet, tab GOOG (read-only; Q3 2024 to Q1 2026 history)** (secondary)
   docs.google.com/spreadsheets/d/1m3h9Xce3SRMaq20li2Qg4HuSZowwxQSd9FkQmeuI7Dw (Flip sheet, read-only)

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