



Google Parent Alphabet's Earnings: Will They Soar Past Expectations Again?

Description

Google parent **Alphabet** ([NASDAQ: GOOG](#)) ([NASDAQ: GOOGL](#)) is slated to report its third-quarter 2019 results after the market close on Monday, Oct. 28.

The [tech](#) behemoth is going into its report on a solid note. [Last quarter](#), it breezed by Wall Street's earnings expectations, though revenue came in a little lighter than analysts had projected.

Alphabet Class A and C shares have gained 16.3% and 17.4%, respectively, in 2019 through Friday, Oct. 11. The **S&P 500** has returned 20.4% over this period. Alphabet stock, however, remains an outperformer for periods of one year and longer.

Here's what to watch when Alphabet reports.



Image source: Getty Images.

Key quarterly numbers

Here are Alphabet’s year-ago results and Wall Street’s estimates to use as benchmarks. The company doesn’t provide guidance.

Metric	Q3 2018 Result	Wall Street's Q3 2019 Consensus	Wall Street's Projected Change
Revenue	\$33.74 billion	\$40.34 billion	19.6%
Adjusted earnings per share (EPS)	\$13.06	\$12.41	(5%)

Data sources: Alphabet and Yahoo! Finance.

CFO Ruth Porat said on last quarter’s earnings call that the company expected continued foreign exchange headwinds in the third quarter. Such headwinds negatively impact both revenue and operating income (and, thus, earnings).

Investors can expect that Alphabet will continue to invest to support long-term growth. While this is a

positive for investors focused on the long haul, it does negatively impact current operating income and earnings.

Segment results

For context, here are last quarter's results by segment:

Segment	Q2 2019 Revenue	Growth (YOY)	Q2 2019 Operating Income	Growth (YOY)
Google	\$38.8 billion	19%	\$10.4 billion	16%
Other bets (formerly "Moonshots")	\$162 million	12%	(\$989 million)	Loss widened 35%
Total	\$38.9 billion	19%	\$9.2 billion	201%*

Data sources: Alphabet and Yahoo! Finance. YOY = year over year. *Includes the impact of a 4.34 billion euros (about \$5.1 billion) European Commission fine in Q2 2018. Excluding this fine, operating income grew 13.1% in Q2 2019.

In constant currency, revenue grew 22% — an acceleration from the first quarter's 19%, though slightly lower than the fourth quarter of 2018's 23%. Within Google, revenue breakdown was as follows:

- Google properties ("sites"): an 18% increase to \$27.3 billion
- Google network members' properties: a 9.1% rise to \$5.3 billion
- Total Google advertising (above two categories): a 16% increase to \$32.6 billion, driven by mobile search and YouTube.
- Google "other revenue": a 40% jump to \$6.2 billion, driven by strong growth in Cloud and Play

As has been the trend for some time, Alphabet's costs increased faster than its revenue in the second quarter. This resulted in the adjusted operating margin edging down to 24%, from 25% in the year-ago period.

Google: Ad revenue growth

As always, investors should primarily focus on revenue growth in the company's main business: advertising. Last quarter's ad sales growth of 16.1% year over year represented an acceleration from the first quarter's growth of 15.3%, but in general, this metric has been decelerating on a sequential basis. In the two preceding quarters, it was 19.9% (Q4 2018) and 20.3% (Q3).

Other bets: Waymo update

Investors can expect management to provide an update on the earnings call about Waymo's progress and plans. Since late last year, Alphabet's self-driving vehicle subsidiary has been operating a ride-hailing service in Phoenix, Waymo One. On last quarter's earnings call, CFO Porat said the service has over 1,000 active riders. Just last week, Waymo announced that it has entered Los Angeles with several vehicles for 3D mapping purposes.

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