ALPHABET · Q3 FISCAL 2026

Alphabet's AI push is producing Cloud profit, but the buildout is outrunning cash generation

Cloud has become a large, profitable growth engine, while Search is still expanding. The catch is that infrastructure spending now exceeds internally generated cash, and investment losses obscure the operating progress.

Analysis based on Alphabet's Q3 2026 earnings release, Form 10-Q (MD&A), and SEC XBRL company facts · Notes at the end

Alphabet's quarter was much stronger than its falling net profit suggests. Revenue rose 25% to $127.6 billion, while operating profit reached $40.6 billion. Cloud supplied most of the growth and became far more profitable. Yet a loss on equity investments pulled down the bottom line, while the cash cost of expanding AI infrastructure became impossible to miss.[1]

THE BASICS

Alphabet makes most of its money from advertising around Google Search, YouTube, and partner websites. It also sells subscriptions, devices, cloud computing, AI infrastructure, and business software. Google Services contains the consumer products and advertising engine. Google Cloud serves businesses and developers. Other Bets houses earlier-stage ventures such as Waymo.

WHY FALLING NET PROFIT IS THE WRONG FIRST READ

Net profit fell, but the operating business did not weaken. Alphabet earned $26.5 billion, down from $35.0 billion a year earlier. The decline came largely from investments held by the company rather than from selling fewer ads or cloud services.[2]

Alphabet recorded an $8.7 billion net loss on equity securities, which the company says reduced net profit by $6.7 billion. The comparison was especially harsh because the same investments produced a $10.7 billion gain a year earlier. That swing sits outside operating profit and says more about changing investment values than the quarter's commercial performance.[2]

Operating profit gives the more favorable view, rising to $40.6 billion from $31.2 billion. Even that comparison is somewhat generous. The prior-year quarter included a $3.5 billion European Commission fine, so part of this year's improvement reflects the absence of an unusual expense. The advance is real, but the headline growth rate is not all repeatable.[2]

CLOUD HAS BECOME THE MAIN GROWTH ENGINE

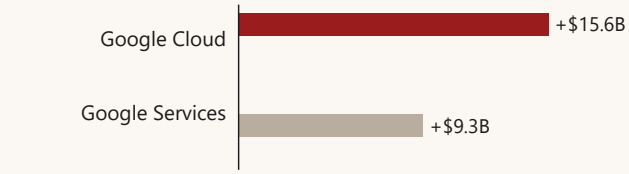
Cloud supplied about 62% of Alphabet's increase in revenue. The segment more than doubled to $30.7 billion, adding $15.6 billion from a year earlier. Google Services, which includes Search and YouTube, remained much larger but grew at a more familiar pace.[3]

More important, Cloud converted that expansion into profit. Its operating profit rose by $7.5 billion to $11.1 billion, more than tripling. That makes the AI infrastructure boom more than a promise about future products: it is already producing substantial earnings inside Alphabet.[3]

The shape of the growth still matters. Management attributes the increase to Google Cloud Platform infrastructure and software, as well as sales of its TPU computing systems. Alphabet also began recognizing revenue from some TPU supply agreements in the second quarter, with the significant majority expected in 2027. Demand appears strong, but quarter-to-quarter growth will also depend on equipment deliveries and the timing of those contracts.[3]

Where did the new revenue come from?

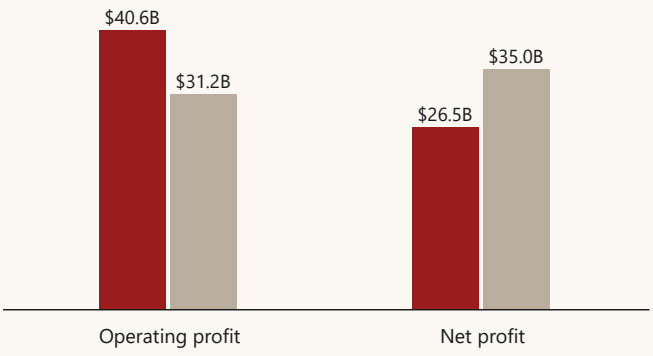
Increase from a year earlier, $ billions



The increases are rounded. Small changes in Other Bets and revenue hedges account for the remaining difference from consolidated growth. Source: Alphabet Form 10-Q, Management's Discussion and Analysis.

Did the business weaken when net profit fell?

Operating profit and net profit, $ billions



Net profit includes gains and losses on Alphabet's equity investments; operating profit does not. Source: SEC XBRL company facts and Alphabet Q3 2026 earnings release.

SEARCH IS STILL EXPANDING DURING THE AI TRANSITION

The shift toward AI answers has not weakened Search in the reported numbers. Search revenue reached $63.4 billion, an increase of $6.8 billion. Chief Executive Sundar Pichai also said the year-over-year growth rate in queries was the highest in five years.[4]

The advertising mechanics also remained healthy. Paid clicks on Search rose 8%, while the amount advertisers paid per click increased 4%. In plain terms, users clicked more ads and advertisers paid more for each one. That combination suggests Search is still helping finance Alphabet's costly AI transition rather than being displaced by it.[4]

> *"In fact, our year-over-year query growth rate is the highest it's been in the last five years."*
>
> Sundar Pichai, CEO of Google and Alphabet · Q3 2026 earnings release

THE BUILDOUT IS CONSUMING MORE CASH THAN THE BUSINESS PRODUCES

Alphabet is generating more cash from its operations, but it is investing even faster. During the first nine months, the business produced $127.1 billion of operating cash and spent $132.0 billion on property and equipment. That left a $4.8 billion shortfall after investment.[5]

The speed of the increase is striking. Investment in property and equipment more than doubled from $63.6 billion to $132.0 billion. In the third quarter alone, cash after investment was negative $9.1 billion, the second consecutive negative quarter. The business remains highly profitable, but profits and cash are now telling different stories because so much money is going into data centers, servers, and network equipment.[5]

The commitment extends well beyond what Alphabet has already spent. The company disclosed $924.4 billion of future purchase commitments, with $213.4 billion due within the following twelve months. Of the total, $802.1 billion covers multi-year commitments for technical infrastructure and inventory, energy, and content licenses. These are not all data center orders and they are not all payable at once, but they show how far Alphabet has committed itself to expansion.[6]

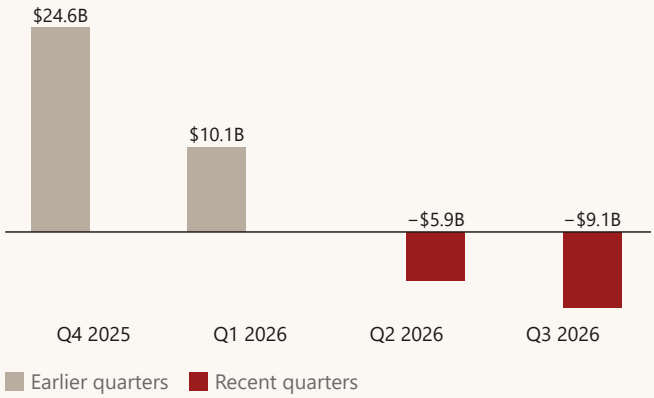
Alphabet still holds substantial cash, but its financing profile has changed alongside the buildout. Long-term debt stood at $125.1 billion, compared with $21.6 billion a year earlier, while cash and equivalents totaled $56.3 billion. The company also issued common and preferred shares during the year and made no share repurchases. AI expansion is therefore being funded by creditors and new shareholders as well as by cash from the business.[6]

ONE KEY IDEA

Alphabet is not short of ways to raise money. The important change is that the AI buildout is no longer being financed entirely by the cash generated inside the business.

How much cash is left after the buildout?

Operating cash minus purchases of property and equipment, $ billions



Alphabet calls this free cash flow. It is a non-GAAP measure calculated as operating cash less purchases of property and equipment. Source: Alphabet Q3 2026 earnings release.

THE AI BILL DOES NOT STOP AT DATA CENTERS

Alphabet is also spending heavily on the people and technology behind its AI products. Research and development expense reached $20.6 billion, an increase of $5.5 billion. Management says higher employee compensation was the main reason, with depreciation from infrastructure adding further pressure.[7]

Some of that cost is kept outside the reported results of Google Services and Cloud. The loss from Alphabet-level activities widened to $7.7 billion from $4.5 billion, mainly reflecting shared AI research and development. Cloud's rising profit has more than offset that pressure at the consolidated level so far, but the cost base is not standing still.[7]

This is the central tension of the quarter. Alphabet has shown that AI can strengthen both its established Search business and its fast-growing Cloud operation. It has not yet shown that the infrastructure required to support that demand can be funded from current cash generation without continued borrowing or equity issuance. That is now the more important test than whether users will adopt the products.

WHAT IT ALL MEANS · EARNINGS EXPLAINED INTERPRETATION

The quarter was better than net profit suggests and more expensive than revenue growth makes it look.

CLOUD IS NOW CENTRAL

AI infrastructure demand has made Google Cloud both a major source of growth and a substantial profit contributor.

TWO COMPARISONS DISTORT THE SURFACE

Investment losses pulled down net profit, while the absence of a prior-year regulatory fine made operating profit growth look stronger.

SEARCH REMAINS RESILIENT

The established advertising engine is still growing in usage and monetization during the shift toward AI answers.

CASH IS THE NEW CONSTRAINT

Infrastructure investment has moved ahead of internally generated cash, bringing more debt, new shares, and large future commitments into the story.

Three questions for next quarter

1 Can Cloud maintain strong growth and profit as TPU deliveries and contract timing change?

This will help separate durable customer demand from the timing of equipment sales and revenue recognition.

2 Can cash after investment turn positive without slowing the infrastructure buildout?

The answer will show whether operating cash is beginning to catch up with Alphabet's expansion plans.

3 Does Search keep growing as Google places more AI-generated answers in front of users?

Search remains the engine helping to finance the transition, so any weakening would change the balance of the story.

1 Alphabet Q3 2026 earnings release and SEC XBRL company facts: consolidated revenue, operating profit, and net profit. Comparisons are year over year unless stated otherwise.

2 Alphabet Q3 2026 earnings release and Form 10-Q, Management's Discussion and Analysis: equity-security losses, their effect on net profit, and the prior-year European Commission fine.

3 Alphabet Q3 2026 earnings release and Form 10-Q: Google Cloud revenue and operating profit. Cloud growth included infrastructure and platform services as well as TPU system sales.

4 Alphabet Q3 2026 earnings release and Form 10-Q: Search revenue, query growth, paid clicks, and the amount paid per click.

5 Alphabet Q3 2026 earnings release and cash-flow statement. Cash after investment is operating cash less purchases of property and equipment; Alphabet presents the same calculation as free cash flow.

6 Alphabet Form 10-Q and SEC XBRL company facts: purchase commitments, cash, debt, equity issuance, and repurchase activity. Purchase commitments cover several categories and extend across multiple years.

7 Alphabet Form 10-Q and earnings release: research and development expense and Alphabet-level activities, which mainly include shared AI research and development costs.