

Alphabet's Q2 earnings suggest headwinds for Google—just not as bad as everyone else's

Article

The news: Google's parent company **Alphabet** posted Q2 earnings demonstrating that the vaunted internet giant isn't immune to the problems facing the rest of the advertising world.

The results: The company delivered revenue of \$69.69 billion (\$56.29 billion from advertising), roughly in line with expectations, representing 13% growth year-over-year in Q2 (17.5% for the year to date). That's a tough comparison with 62% growth last Q2—though of course, the 2021 increase was over the early months of the pandemic.

- Analysts anticipated overall Q2 revenue of \$69.9 billion and \$57.7 billion after deducting traffic-acquisition costs (TAC), up from \$50.95 billion ex-TAC in the same time period last year.
- Google search revenues rose 13.5% to \$40.7 billion, but YouTube ads grew just 4.8%.
- But expense growth outpaced revenue growth: The cost of revenues increased 14.78%, and total cost and expenses jumped 18.1%.

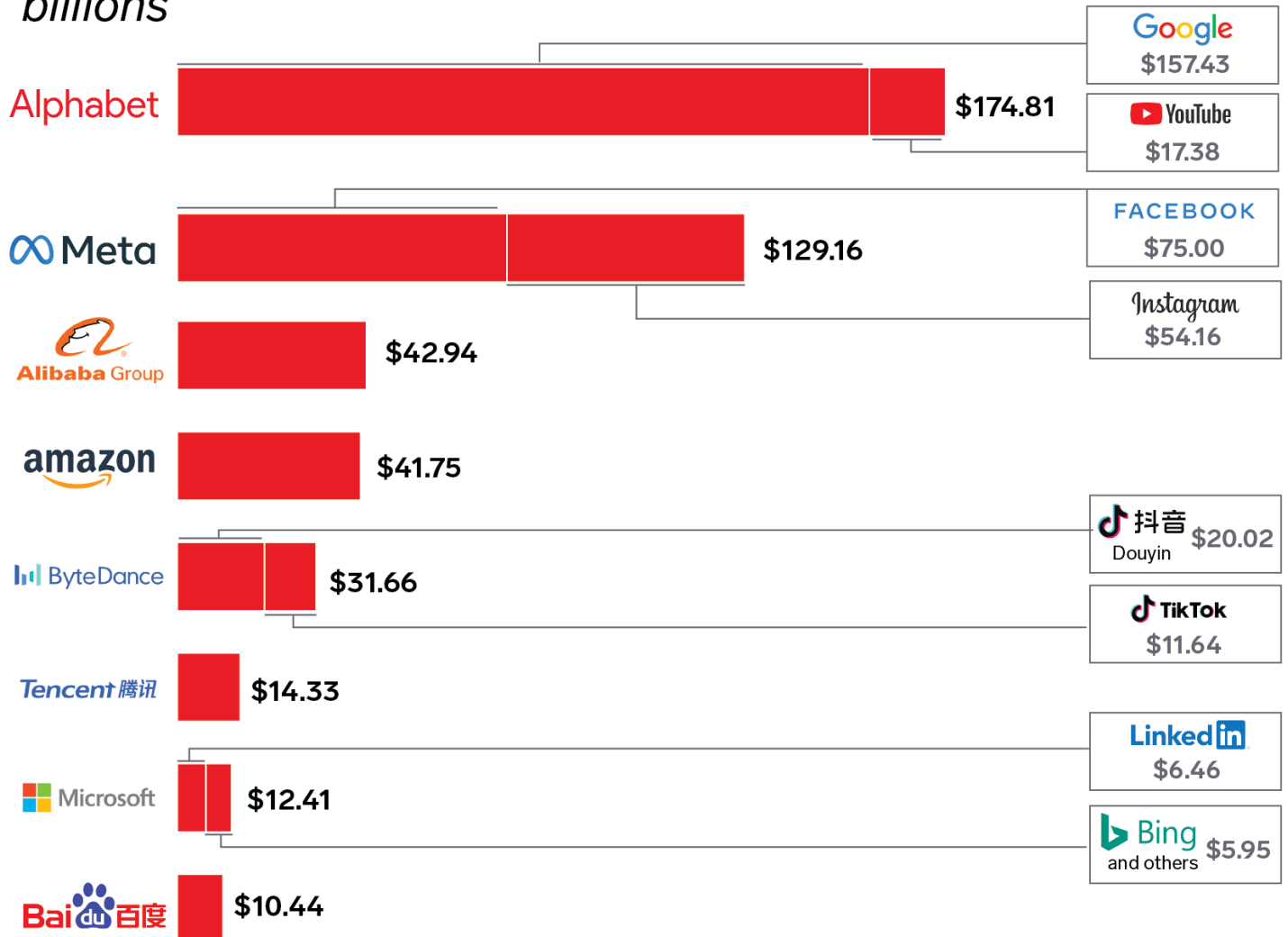
The bright side: Over the past few years, Google and **Meta** have monopolized the majority of digital ad spend—but recent challenges at Meta may benefit Google.

- **Apple's** 2021 AppTrackingTransparency regime could result in a \$10 billion revenue drop, according to Meta; in part due to its licensing agreement with Apple—worth over \$12 billion yearly—Google isn't taking that deep of a hit.
- Apple's privacy updates caused some advertisers to cut their spending with Meta and other social platforms and move more spend to Google. Prior to ATT, Google was already the top advertising platform; after ATT, its dominance over Meta became more secure.

During an economic slowdown, advertisers pay closer attention to their ad investments. For that reason, high-ROI solutions like those Google offers will remain strong—at least when compared with top-of-funnel options and brand advertising. For many advertisers, Google search is one of the highest-ROI solutions in their arsenal.

Companies with Over \$10 Billion in Net Digital Ad Revenues Worldwide, 2022

billions



Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices, and includes all the various formats of advertising on those platforms; net ad revenues after companies pay traffic acquisition costs (TAC) to partner sites

Source: eMarketer, March 2022

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About 60% of Google's overall profits come from its advertising business, which is more durable than some of its competition. Advertisers still need to spend; they just need to spend more intelligently, given waning demand and [growing inventories](#).

While advertisers need to slash their ad spending during a recession, **not all platforms will feel the effects equally.**

- Second-quarter earnings for Snap indicated just how hard the downturn in digital ad spending and an uncertain economy could hit social media platforms. The answer: very.
- Twitter's Q2 earnings reflected headwinds as well as the drama surrounding **Elon Musk's** takeover bid.

The counterpoint: That's not to say everything in Mountain View is coming up roses.

- Approximately 40% of Gen Z prefers to search on TikTok and Instagram over Google, according to the search giant's own data. If search habits evolve away from Google's bread and butter, that could be a long-term problem.
- Another concern explains *why* Google is floating those TikTok search comparisons: staving off regulation. The Competition and Transparency in Digital Advertising Act would ban companies with over \$20 billion in digital ad revenues from owning tools or marketplaces where advertising transactions occur, which would force Google to sell portions of its ad business.
- Google has already made one (since-rejected) proposal in an effort to stave off a potential US antitrust lawsuit from the Department of Justice.

The big takeaway: Google is facing headwinds. Though not as strong as those facing competitors—particularly Meta—they're strong nonetheless.

- YouTube's exceptionally tepid growth figures don't bode well; as it faces **increased competition from TikTok**, that stagnant growth could be a problem for some time to come.