

BERKSHIRE READ • CASE 3 • GOOGL

The first tech Read after Apple

~\$25.4B into Alphabet (pro forma) — a fair price for a top-quality compounder.

Berkshire's first technology position bought as a technology platform — and the company Warren Buffett spent a decade publicly regretting that he missed.

THE THESIS

What Berkshire bought, and why it's a Berkshire move

A fair price for top-tier quality. Alphabet traded at ~29× earnings — mid-pack among the mega-caps, below Apple and Amazon. Berkshire paid a sensible, market-average multiple for one of the best compounders in tech, not a distressed price.

A wide-moat cash machine. \$402.8B revenue, 32% operating margin, \$73B free cash flow, more cash than debt — and two more compounding engines (Cloud, YouTube) thrown in.

The pattern, in tech clothing. The break is the sector; the discipline — durable economics at a fair price — is the one that bought the railroads and the homebuilder.

“At ~29× earnings Alphabet was priced like an average mega-cap. Berkshire saw a clearly above-average business — and paid a fair price for it. Cloud growing 63% says the quality is real.”

From a quiet \$4.3B entry to a top-five holding

~\$4.3B

Initial stake · Q3 2025 (~17.85M sh)

~\$11.1B

Added in Q1 2026 — the big buy

~\$15.4B

Total cost basis · top-five holding

~\$16.6B

Q1 2026 market value (~58M sh)

The signal is the conviction. Berkshire roughly tripled Alphabet in Greg Abel's debut quarter as CEO, then added \$10B more directly in June — building a top-five-caliber position. And it did so without needing to sell anything: with roughly \$400B of cash on hand, this was a deliberate, high-conviction deployment of fresh capital into a compounding search-and-cloud franchise — not a toe-in-the-water experiment, and not a forced rotation out of Apple.

And there is more to come. On June 1, 2026 Alphabet announced a \$10B private placement to Berkshire — ~\$5B Class A (at \$351.81) and ~\$5B Class C — on top of the open-market stake above. Counting it, Berkshire's committed Alphabet exposure runs well past \$25B.

The financial condition, in six figures

\$402.8B

Revenue (+15% YoY)

\$132.2B

Net income (+32% YoY)

\$129.0B

Operating income (32% margin)

\$73.3B

Free cash flow

\$126.8B

Cash & securities (vs \$46.5B debt)

\$45.7B

Buybacks (13th straight year)

Q1 2026 carried the momentum: revenue \$109.9B (+22%), operating margin 36.1% — the 11th straight quarter of double-digit growth.

A fair, middle-of-the-pack multiple

Company	Market cap	P/E (TTM)	Note
Nvidia	~\$5.09T	~32×	AI hardware cycle
Apple	~\$4.53T	~36×	slow growth, premium multiple
Amazon	~\$2.87T	~35×	retail + AWS
Alphabet (GOOGL)	~\$4.63T	~29×	+22% rev, net cash, ~40% ROIC
Microsoft	~\$3.11T	~23×	Azure + Copilot
Meta	~\$1.70T	~25×	ad duopoly peer

The read: At ~29× trailing earnings Alphabet sits squarely mid-pack — cheaper than Apple, Amazon and Nvidia, modestly above Microsoft and Meta — while growing revenue faster than most and carrying a net-cash balance sheet. For a ~40%-ROIC compounder, a market-average multiple is a rational entry, not a bargain.

One cash cow, two compounders

Google Services

Bulk of profit

Search + the ad engine: the widest distribution moat in consumer tech. Default placement, Chrome, Android, the ad-tech stack, billions of daily queries — monetized at near-zero marginal cost.

YouTube

>\$60B FY25

~\$40.4B advertising + ~\$20B subscriptions — now a media franchise bigger than Netflix. A 'free option' hiding inside the stock.

Google Cloud

\$20.0B Q1'26

Up 63% YoY; operating margin flipped from 17.8% to 32.9%; backlog nearly doubled to >\$460B. A former drag is now a high-growth, structurally profitable second engine.

Why the returns are extraordinary

The most efficient toll booth ever built.

Search monetizes intent at near-zero marginal cost — the index is built, the data centers are running, and each incremental query that returns an ad is almost pure contribution margin. That single fact explains the 32% operating margin.

Capital-light by design.

The moat is brand, data, and distribution — not factories. The business funds its own AI build out of operating cash and still returns ~\$46B/year to shareholders.

~40%

Return on invested capital (est.)

~38%

Return on equity (est.)

\$80.3B

Net cash (cash – debt)

A pre-IPO fund the market hands you for free

Holding	Alphabet stake	Co. valuation (reported)	Implied / committed
SpaceX — now public (Nasdaq: SPCX)	~6.1% (2015 \$900M)	~\$2.43T today (Jun 20); ~\$1.77T IPO	~\$148B today — marked daily
Anthropic	~13-14%	~\$965B-\$1T	~\$40B committed (~\$10B deployed)
AST SpaceMobile · Planet Labs · Apptironik	minority	—	strategic adjacencies
Waymo (consolidated subsidiary)	~80%	~\$126B (Feb 2026)	~\$100B — not a VC stake
GV + CapitalG (venture arms)	portfolio	Harvey, Stripe, Databricks...	n/a

Reconciled to the Institute Brief 'Every Company Eventually Becomes a PE Firm'. SpaceX mark stepped up from ~\$25-35B (private rounds) to ~\$100-122B (planned IPO). Pre-IPO/unrealized, largely not balance-sheet-carried.

Correction to the brief: Alphabet is NOT an OpenAI investor — OpenAI is Microsoft-backed and a direct Gemini competitor. Alphabet's comparable AI bet is Anthropic.

WHAT BUFFETT SAID WHEN THEY MISSED IT

“We were using them at GEICO ... paying \$10 a click for something that at a marginal cost to them was exactly zero. And we just sat there sucking our thumbs.”

— Warren Buffett & Charlie Munger, Berkshire Hathaway 2017 Annual Meeting. Munger: “We screwed up ... We're ashamed. We atone.”

Nine years after that confession, in Greg Abel's first quarter, Berkshire finally bought the company it had watched pay-per-click its way to a trillion dollars. The circle of competence can be widened.

A top-five position that barely touched the engine

~87%

Position (cost) ÷ one quarter BRK OCF

~2.6%

÷ ~\$381B deployable subset

\$397.4B

BRK cash — a record, and still grew

Berkshire built a ~\$15.4B (cost) / ~\$16.6B (market) top-five equity holding using less than one quarter of operating cash — roughly two quarters of net cash after capex and buybacks — and the war chest still rose to an all-time high. As with TMHC, the point isn't the size of the buy; it's how much room is left over.

Three angles a reporter could write today

ANGLE 1

“The thumb-sucking is over: Berkshire finally buys the company Buffett spent a decade regretting.” Pair the 2017 GEICO confession with the 2025–26 purchase — the lesson learned, then acted on.

ANGLE 2

“No fire sale required: Berkshire funded a top-five tech bet out of a ~\$400B cash pile.” It didn't need to sell Apple to buy Alphabet — it tripled the stake and added \$10B more directly, all from the largest war chest in corporate history. A story about scale and conviction, not a forced rotation.

ANGLE 3

“A fair price for top-tier quality — with a pre-IPO venture fund hidden in the stock.” Berkshire paid a mid-pack ~29× multiple for above-average growth (63% cloud) plus ~\$350B+ in SpaceX/Anthropic/Waymo stakes thrown in.

Preferred attribution: “Phil Baratelli, Baratelli Institute.” Full quote sheet in the case PDF.

The bear case a serious Read must name

Antitrust

Search-distribution remedies could loosen the default placements that anchor the ad moat — the single biggest structural risk.

AI capex

Management raised the 2026 AI build to \$180–190B. If AI ROI disappoints, that is a genuine free-cash-flow risk, not a rounding error.

Search compression

The bear thesis could simply be right: generative answers may compress the high-margin query that funds everything.

A Berkshire Read names what could make the thesis wrong. These three are the watch-items for the published version.

THE READ

Berkshire corrected its single most-confessed mistake — and did it with discipline.

Library crosswalk: First Principles of Master Investing (circle of competence, a fair price for quality) · CFO & Controller's Technical Guide (Cloud margin inflection, capex vs FCF) · Three Masters' Library, free (the moat & capital-allocation bibliography).