

Appendix B: Financial Analysis

Summary

- B.1 As part of our investigation, we have undertaken an analysis of the financial performance of Google and Google's Mobile Platform, which can be one indicator of Google's market power in respect of its Mobile Platform, as set out in our Guidance.¹
- B.2 In this Appendix we set out the issues in assessing the profitability of Google's Mobile Platform and our findings on the profitability of Google, having considered Google's responses to our financial information requests and publicly available financial information.
- B.3 Since our SMS assessment relates to Google's position in the UK, we are interested in the profitability of Google's Mobile Platform at UK level. However, to help inform this assessment we started with global figures, recognising that the digital activities we are assessing are global in nature, and because Google did not provide information on the profitability of its Mobile Platform at a UK level.²
- B.4 Our analysis is therefore based on global data from Google supplemented by information we obtained from Google to enable more detailed breakdowns and UK specific analysis where appropriate.
- B.5 On the basis of this analysis, our view is that Google is earning profits very significantly above its cost of capital.
- B.6 We have found the following:
- (a) Google has been highly profitable over the last ten years in absolute terms, and its actual return on capital has been very significantly above its benchmark cost of capital;
 - (b) Google generates profits from its Mobile Platform from the Play Store (including Play Store Advertising), mobile search advertising, and other

¹ See CMA194, paragraph 2.55(e). [Digital Markets Competition Regime Guidance](#)

² Google's response to section 69 notice in relation to SMS investigation into Google's general search and search advertising services, [38].

mobile advertising, and is earning significant profits from its Mobile Platform, including in the UK.

- (c) Our estimate of Google's return on capital from its Mobile Platform, including for the UK, is higher than 40%, using a sensitivity-based analysis; and
- (d) Google's UK Mobile Platform has, in 2024, continued to generate profits over and above our estimate of Google's weighted average cost of capital (**WACC**) of [REDACTED] [10-15]%, based on Google's estimation of WACC for the Alphabet Group.³

B.7 We have also compared Google's recent financial performance with its financial projections relating to future revenues and profitability and we have not seen evidence indicating that these high levels of profitability will not continue.

Contents of this Appendix

B.8 This appendix has the following sections:

- (a) Our approach to profitability analysis;
- (b) Our assessment of Google's publicly available profitability indicators;
- (c) Our analysis of the profitability of Google's Mobile Platform; and
- (d) Our conclusions.

B.9 We have conducted a profitability analysis to identify whether Google generates profits at a level that indicates it has substantial market power, either directly from its Mobile Platform, or indirectly, for example, where its Mobile Platform supports Google's ability to earn significant profits from other activities such as Google Search.⁴

B.10 We have focused on a few standard reporting metrics to inform our analysis of Google's revenues, costs, and profits. In particular:

³ Google's response to section 69 notice in relation to SMS investigation into Google's general search and search advertising services, [REDACTED].

⁴ As identified in CMA194, paragraph 2.55(e), one indicator of a firm with market power would be earnings which are significantly and persistently above normal returns.

- (a) We have assessed the amount of profit Google has earned in absolute terms using the metric ‘earnings before interest and taxation’ (**EBIT**).
- (b) We have analysed the level of its profits with reference to the ‘return on capital employed’ (**ROCE**). This approach compares accounting profit with the size of investment made by firms to achieve those profits.
- (c) We have compared our ROCE findings against Google’s WACC, which is a widely used benchmark for returns on an investment. The WACC is essentially the minimum return required on an investment or asset to satisfy the owners and creditors.
- (d) We have also compared Google’s recent financial performance with its financial projections relating to future revenues and profitability.

Approach to our profitability analysis

B.11 In the following section we set out the business activities we consider to be relevant, the time periods over which we have assessed profitability, and the ROCE-based approach we are applying.

Business activities

- B.12 We are interested in the profitability of Google’s Mobile Platform in the UK, and asked Google to provide UK-level revenue, profitability and balance sheet asset data, but [REDACTED].⁵
- B.13 Google explained that it considers its business as a global entity, [REDACTED],⁶ and did not provide:
- (a) UK-level profitability data;⁷ and
 - (b) country level or product level asset data.⁸
- B.14 We considered requiring that [REDACTED] but decided that this was not necessary for the purpose of our SEMP assessment. Google told us that it [REDACTED].⁹ [REDACTED], we have

⁵ Google’s response to section 69 notice [REDACTED].

⁶ Google’s response to section 69 notice [REDACTED].

⁷ Google’s response to section 69 notice [REDACTED].

⁸ Google’s response to section 69 notice [REDACTED].

⁹ Google’s response to section 69 notice [REDACTED].

[REDACTED] assumed a similar cost profile for the UK as on a global basis,¹⁰ as explained in more detail below.

- B.15 Our analysis is therefore based primarily on global data, supplemented by information we obtained from Google to enable more detailed segmental breakdowns and UK specific analysis where appropriate, due to:
- (a) the integrated nature of the products and services Google provides;
 - (b) the global nature of Google's Mobile Platform;
 - (c) the global nature of its financial reporting, asset base and capital investment; and
 - (d) the limited availability of UK specific profitability data.

Time period under consideration

- B.16 For our SEMP assessment, we are interested in understanding whether Google has been earning consistently high profits in the past and is likely to continue to do so. For that reason we have aimed to look back over a time period that is sufficiently long to provide a representative picture of profitability and that is not unduly distorted by unusual macroeconomic conditions or one-off events.
- B.17 We have sought to balance this aim with [REDACTED].
- B.18 We have therefore assessed Google's overall group-level profitability based on publicly available financial information over a ten-year period. We have also assessed the operating profitability of its Mobile Platform over the period 2022 to 2024, in order to understand the key drivers of profitability in relation to its Mobile Platform.
- B.19 We have also considered the likely profitability of Google's Mobile Platform beyond 2024, including in relation to the UK, to the extent that our review of Google's internal documents suggests that this may be meaningful.

¹⁰ [REDACTED].

Overarching conceptual approach

Return on capital employed versus cost of capital

- B.20 The analysis of profitability as an indicator of market power is based on the premise that under effective competition a firm would generally earn no more than a 'normal' rate of profit over the long run.¹¹
- B.21 For the purpose of this profitability assessment, we consider a 'normal' level of profit can be defined as the minimum level of profits required to keep the factors of production in their current use in the long run, ie the rate of return on capital employed for a particular business activity would be equal to the opportunity cost of capital for that activity.¹²
- B.22 The rationale for benchmarking return on capital with the opportunity cost of capital is that, under effective competition, if firms persistently earned in excess of the return required to compensate investors for the risks taken, we would expect these profits to attract entry and/or expansion.¹³ This entry/expansion would serve to compete away profits in excess of the cost of capital up until the point where firms cover their total costs, including a market-based cost of capital, and no more. Where firms persistently earn in excess of a normal return, this signals that there may be limitations in the competitive process.
- B.23 Return on capital can be based on cash flows (internal rate of return (**IRR**)) or profits (ROCE). These approaches are very similar in substance, with the choice between them determined in part by industry characteristics and in part by data availability.
- B.24 We have considered different approaches to assessing Google's profitability and have taken the approach of comparing its ROCE with the cost of capital. Use of ROCE allows us to calculate annual profitability and thus provides insights into trends over time and the drivers of profits which may exist above the 'normal' level.

¹¹ As identified in CMA194, paragraph 2.55(e), one indicator of a firm with market power would be earnings which are significantly and persistently above normal returns.

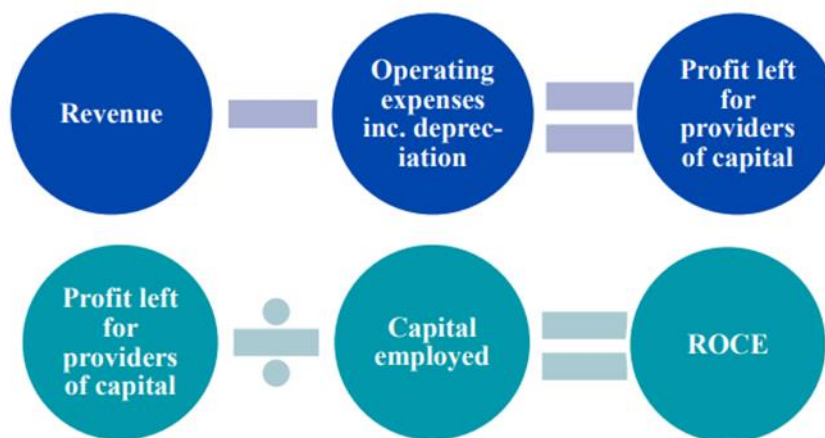
¹² CMA194 does not itself define what constitutes a normal rate of profit. For the purpose of the profitability analysis set out in this Appendix, we consider that the CMA market guidance definition of 'normal returns' offers a useful reference point. See CC3, paragraph 116. [CC3 \(Revised\), Guidelines for market investigations: Their role, procedures, assessment and remedies](#).

¹³ The time period over which this process may take place may differ between different sectors due to the time taken for entry and/or expansion of capacity.

B.25 We consider that the pattern of ongoing variable capital investments (as opposed to large one-off investments) and the lack of any obvious time period to use as investment entry and exit assumptions means that ROCE is more suitable than IRR for measuring profitability. We would not expect an IRR assessment to produce materially different results to a ROCE assessment.¹⁴

B.26 Figure B.1 below illustrates how ROCE is calculated.

Figure B.1: The components of ROCE



Source: CMA analysis. Note, profit left for providers of capital can be distributed or reinvested in the business.

B.27 ROCE is the annual return made on the investments needed to run the business, and is calculated by dividing EBIT by the value of capital employed (calculated as total assets minus current liabilities) in the relevant business. The general principle is that all revenues, costs, assets and liabilities necessarily arising from the operation of the business to supply the relevant activities should be included. In practice this means the following items should be excluded:

- (a) financing costs both of a profit and loss and balance sheet nature (eg cash, interest and sources of finance), regardless of whether they are short- or long-term; and

¹⁴ Provided that analysis is undertaken carefully, with various adjustments made, ROCE assessment is equivalent to an IRR assessment and is also, therefore, conceptually robust. See *The Economic Analysis of Accounting Profitability* (1987), Jeremy Edwards, J A Kay, Colin P Mayer, for a fuller discussion of the conditions under which the ROCE and IRR approaches are equivalent.

(b) taxation on income and any associated corporation tax or deferred tax assets and liabilities.

- B.28 The ROCE is then benchmarked against the opportunity cost of capital, which is the WACC, over the relevant period(s) of analysis. The WACC is the return on investment that providers of capital – both debt and equity – expect, given the risks associated with the relevant activity.¹⁵
- B.29 A finding that ROCE is higher than the WACC is not in itself an indicator of market power. A firm that innovates and gains a competitive advantage may earn higher ROCE for the period that it is able to sustain that competitive advantage.
- B.30 For the purpose of our SMS investigation, we do not consider it necessary to define a specific value for the differential between Google's ROCE and WACC that would indicate a level of profits above the 'normal' level. When considering whether the differential is substantial, we have taken into consideration the size of this differential and the length of time over which the differential persists.

Economic versus accounting profitability

- B.31 When estimating ROCE, our approach was to start with accounting figures from the profit and loss account and balance sheet of the relevant activities, and then make adjustments to arrive at an economically meaningful measure of profitability.
- B.32 An important factor to consider when selecting an appropriate measure of profitability in relation to Google's Mobile Platform was data availability. Where possible, the CMA has based its calculations on financial data that can be reconciled to audited financial statements, albeit with appropriate adjustments.
- B.33 There is also the need to obtain an appropriate value for capital employed. Obtaining a value for capital employed can present difficulties irrespective of the choice of profitability measurement method; a return on capital approach requires an economically meaningful value for the capital base, which may not accord with the value ascribed in the financial records.

¹⁵ WACC is therefore expected return on equity and expected return on debt, weighted by gearing – the relevant proportions of debt and equity.

- B.34 We may consider adjustments to accounting data produced in line with standard accounting practices relating to the difference between historical cost and replacement cost, and relating to the inclusion of certain intangible assets where certain criteria are met. We may also consider adjustments to cost or asset allocations on a case-specific basis to account for the activities which are the subject of the investigation, where a firm undertakes other business activities and/or where there are material intercompany transactions.

Limitations of a ROCE versus WACC framework

- B.35 We recognise that economic profitability analysis, based on a ROCE versus WACC framework, requires certain assumptions to be made. The results from economic profitability analysis can be sensitive to ranges around these assumptions, particularly with regard to asset valuations. Where relevant, therefore, we have considered the sensitivity of our analysis to the assumptions we have used.
- B.36 We recognise that in digital markets, where there is significant internal investment in assets such as intellectual property (IP), R&D and patents, rather than acquisition of technology from third parties, that for some activities the value of those assets may not be fully reflected in the book value of the capital employed, and we have therefore conducted a sensitivity analysis.

CMA assessment of Google's publicly available profitability indicators, including in relation to its Mobile Platform

- B.37 In assessing Google's financial performance, we began our assessment by considering the profitability of the Alphabet Group and its Google Services reporting segment, which can be directly observed from the financial statements.
- B.38 In this section we consider profitability indicators based on publicly available information for Google and its main reporting segments:
- (a) we consider Google's overall size and financial position, based on the consolidated financial statements of the Alphabet Group;¹⁶

¹⁶ We have considered Google's profitability based on the consolidated financial position of the Alphabet Group (Google's parent company).

- (b) we consider Google's segmental reporting structures; and
- (c) we consider the profitability indicators for Google Services; and
- (d) we summarise our findings.

Overall size and financial position

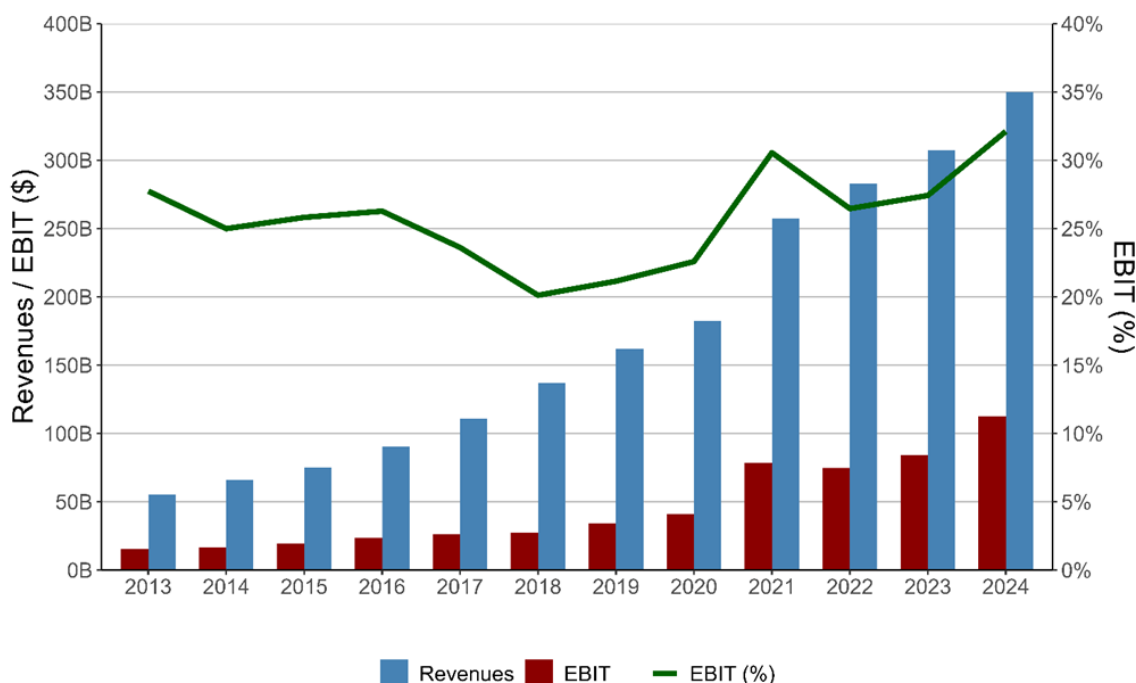
B.39 Google has been profitable for at least the last 20 years, since its IPO in 2004,¹⁷ and its revenues have grown significantly in every year since. Figure B.2 demonstrates Google's total group level of profitability for the last ten years. The Alphabet Group generated worldwide revenues of \$350 billion and global operating income of \$112 billion in the financial year ending 31 December 2024. Its percentage profit margins, measured as EBIT as a percentage of revenue, have remained consistently high,¹⁸ and its profit margin has been above 25% for the last four years.¹⁹

¹⁷ Alphabet Inc and its predecessor Google Inc.

¹⁸ Alphabet, '[Form 10-K for Alphabet INC filed 02/05/2025](#)', accessed by the CMA on 16 July 2025, page 53.

¹⁹ EBIT is based on Google's Income from Operations as reported in its Consolidated Statements of Income in published accounts. Alphabet, '[Form 10-K for Alphabet INC filed 02/05/2025](#)', accessed by the CMA on 16 July 2025, page 53.

Figure B.2: Alphabet Group Revenue and Profit between 2013 and 2024 (\$ billion)



Source: CMA analysis of the Alphabet Group 10-K data²⁰

- B.40 Google is also highly cash generative. In the financial year ending 31 December Google generated operating cashflow of \$125 billion, and returned almost \$70 billion to shareholders through a combination of dividends and share buybacks.²¹
- B.41 Google is not an ‘asset-light’ business. Its cumulative capital expenditure and R&D expenditure over the last three financial years were \$116 billion²² and \$134 billion²³ respectively. In 2024, it reported just under \$360 billion of assets (excluding cash, cash equivalents and marketable securities), including \$171 billion of tangible assets relating to property and equipment.²⁴

²⁰ CMA analysis of Alphabet, ‘[Form 10-K for Alphabet INC filed 02/05/2025](#)’, accessed by the CMA on 16 July 2025, page 53.

²¹ Alphabet, ‘[Form 10-K for Alphabet INC filed 02/05/2025](#)’, accessed by the CMA on 16 July 2025, page 56.

²² Purchases of property and equipment for the financial years ending 31 December 2022, 31 December 2023 and 31 December 2024. Source: Alphabet, ‘[Form 10-K for Alphabet INC filed 02/05/2025](#)’, accessed by the CMA on 16 July 2025, page 56.

²³ Research and Development costs for the financial years ending 31 December 2022, 31 December 2023 and 31 December 2024. Source: Alphabet, ‘[Form 10-K for Alphabet INC filed 02/05/2025](#)’, accessed by the CMA on 16 July 2025, page 53.

²⁴ Alphabet, ‘[Form 10-K for Alphabet INC filed 02/05/2025](#)’, accessed by the CMA on 16 July 2025, page 52.

Segmental reporting

- B.42 Google is an integrated global firm, providing a range of services in addition to its Mobile Platform. For segmental reporting purposes, Google's financial statements break down reporting into three main segments:
- Google Services includes products and services such as ads, Android, Chrome, hardware, Google Maps, Google Play, Search, and YouTube.
 - Google Cloud includes Google's infrastructure and data analytics platforms, collaboration tools, and other services for enterprise customers.
 - Other Bets which Google refers to as a combination of multiple operating segments that are not individually material from a revenue perspective. These businesses are generally not directly related to Google's core businesses.²⁵
- B.43 In addition, there are certain costs that are not allocated to individual business segments, but are instead recorded as Alphabet-level activities. These costs primarily include certain AI-focused shared R&D activities, including development costs of its general AI models, as well as certain corporate and legal costs.²⁶
- B.44 On a geographic basis, Google splits its business into four main geographic segments for revenue reporting purposes: US, EMEA, APAC and Other Americas. Google's UK operations are part of the EMEA reporting region, representing Europe, the Middle East and Africa.²⁷
- B.45 In our assessment of Google's profit margins, we started with information contained within the Alphabet Group's financial statements. Using Google's measure of 'cost of revenues' within its Form 10-K report, we calculated that Google generated a gross margin of 58% and an operating margin of 32% in 2024.²⁸

²⁵ Alphabet, '[Form 10-K for Alphabet INC filed 02/05/2025](#)', accessed by the CMA on 16 July 2025, page 88.

²⁶ Page 88 of '[Form 10-K for Alphabet INC filed 02/05/2025](#)' explains that certain costs which represent Alphabet-level activities are not allocated to Google's segments.

²⁷ Alphabet, '[Form 10-K for Alphabet INC filed 02/05/2025](#)', accessed by the CMA on 16 July 2025, page 64.

²⁸ CMA analysis of segmental reporting on page 88 of '[Form 10-K for Alphabet INC filed 02/05/2025](#)', accessed by the CMA on 16 July 2025.

Google Services segment

- B.46 As described above, Google reports an integrated set of results for ‘Google Services’, separate to ‘Google Cloud’ and ‘Other Bets’.²⁹
- B.47 The activities comprising Google’s Mobile Platform are part of Google Services, which generated revenues of \$305 billion for the financial year ending 31 December 2024.³⁰

Table B.1: Google Segmental Operating income – 2024

<i>Segmental Operating Income</i>		<i>Google Services</i>	<i>Google Cloud</i>	<i>Other Bets</i>	<i>Alphabet level activities³¹</i>	<i>Total Group</i>
Revenue (\$ billion)		305	43	2	0	350
Operating income (\$ billion)		121	6	(4)	(11)	112
Operating margin (%)		40%	14%	n/a	n/a	32%

Source: CMA analysis of Alphabet Group 10-K data³²

- B.48 Overall, Google Services represents 87% of Google’s total group revenue earned in 2024.

CMA analysis of the profitability of Google’s Mobile Platform

- B.49 In this section, we summarise our analysis of the returns earned by Google in relation to its Mobile Platform. Our objective was to understand whether Google makes returns substantially and persistently in excess of its WACC in relation to its Mobile Platform.

²⁹ Alphabet, ‘[Form 10-K for Alphabet INC filed 02/05/2025](#)’, accessed by the CMA on 16 July 2025, page 30.

³⁰ Alphabet, ‘[Form 10-K for Alphabet INC filed 02/05/2025](#)’, accessed by the CMA on 16 July 2025, page 88.

³¹ Revenue figure includes also the separately reported Hedging Gains Revenues.

³² Segment results on page 88 of ‘[Form 10-K for Alphabet INC filed 02/05/2025](#)’, accessed by the CMA on 16 July 2025.

B.50 We have identified three relevant levels within Google's financial reporting hierarchy for assessing the profitability of Google's Mobile Platform:

- (a) Alphabet Group: We began our profitability assessment by considering Google's overall profitability, based on what can be directly observed from its consolidated financial statements and for which balance sheet reporting is available.
- (b) Google Services: We have assessed the profitability of the Google Services segment, because of the high proportion of revenues and profits for this segment which are derived from activities comprising Google's Mobile Platform and the availability of operating margin data. However, we recognise that this reporting segment includes some other services (eg YouTube) that we do not consider directly relevant to assessing the profitability of Google's Mobile Platform.
- (c) Mobile Platform: We have considered the profitability of activities comprising Google's Mobile Platform, based on submissions relating to revenues and costs associated with the following product areas in particular:
 - (i) Search and Search Advertising;
 - (ii) Play Store, including Play Store Advertising³³; and
 - (iii) Chrome and Android.

B.51 We asked Google what metrics it uses to measure the profitability of its Mobile Platform. Google explained that [REDACTED] sit within the Platforms and Devices division of its business, and that rather than relying on [REDACTED].^{34,35}

B.52 Google also told us that it measures profitability across its business using operating income and operating margin as relevant metrics, as reported in its Form 10-K.³⁶

³³ Play Store Advertising refers to advertising activities reported within the Advertising revenue reporting segment in the Alphabet Group consolidated financial statements but which relate to the Play Store platform.

³⁴ Google's response to section 69 notice [REDACTED].

³⁵ Google told us also that Mobile Search revenues are reported within its Search and Search Advertising product area, and that [REDACTED]. Google's response to section 69 notice [REDACTED].

³⁶ Google's response to section 69 notice in relation to SMS investigation into Google's general search and search advertising services, [REDACTED].

B.53 In this section we set out our analysis of Google's Mobile Platform based on information we have obtained from Google:

- (a) first, we assess revenues and profit margins relating to activities comprising Google's Mobile Platform;
- (b) second, we calculate ROCE for the Alphabet Group;
- (c) third, we calculate ROCE for Google Services; and
- (d) fourth, we assess the profitability of Google's Mobile Platform.

Profitability of Google's Mobile Platform

B.54 For the purposes of our analysis of the profits earned from Google's Mobile Platform, we are interested in the returns which Google would earn either directly or indirectly from those activities, rather than returns for the total Alphabet Group.

B.55 Ideally, we would assess the profitability of Google's mobile activities specifically, taking into account all relevant costs and an appropriate capital base. However, Google does not report on the profitability of the activities comprising its Mobile Platform in its published accounts. We also note that Google does not directly monetise its Chrome browser, browser engine, or Android operating system.

B.56 We have based our analysis on revenue and profitability information received from Google relating to the main products and services through which Google directly and indirectly monetises its Mobile Platform through its broader Mobile Ecosystem - namely Advertising revenues, Play Store revenues, other mobile services and the sale of Pixel Mobile Devices. In particular, Google Search, which is part of Google's wider Mobile Ecosystem, is a key and integral part of how Google generates profits, and it conducts the activities comprising its Mobile Platform in a way that supports that monetisation model. Our profitability analysis is therefore conducted at the Mobile Ecosystem level.

B.57 In this section we first consider revenues and profit margins, and then consider ROCE. Although we are interested in the profitability of Google's Mobile Platform in the UK, we have conducted our analysis primarily on a global basis, to reflect the fact that costs are not allocated to individual countries. Our analysis is based on information provided by Google.

Global revenues and operating profits

- B.58 In this section, we consider revenue and profit margins for Google's Mobile Ecosystem. Our objective is to understand whether Google makes high profit margins from its Mobile Platform, either directly or indirectly, including in the UK.
- B.59 In order to understand the key drivers of its profitability in relation to its Mobile Platform, we asked Google to provide certain information about the share of revenues and operating profits for its Mobile Ecosystem for the period 2022-2024. In selecting this time period, we balanced the aim to examine profitability over a time period that provides a representative picture of profitability, with [REDACTED].
- B.60 Google told us that it does not [REDACTED].³⁷
- B.61 Google told us that, [REDACTED].³⁸
- B.62 Google also noted that [REDACTED].³⁹
- B.63 As [REDACTED], our analysis of operating profits is based on aggregated revenue and cost data between non-mobile and mobile categories.⁴⁰ [REDACTED], we have calculated operating margins on a global basis rather than a UK specific basis.⁴¹
- B.64 We also reviewed internal documents on financial performance, prepared for the board and/or management of Google divisions that were the focus of our profitability assessment. Whilst we recognise that internal documents are produced for a number of different purposes, we consider that when assessed in the round, alongside other evidence, statements in contemporaneous internal Google documents on its business profitability are relevant and informative to our overall assessment.

Revenues

- B.65 In this section we provide an overview of revenues relating to Google's Mobile Platform, based on global revenue data received from Google for its Mobile Ecosystem.

³⁷ Google's response to section 69 notice [REDACTED].

³⁸ Google's response to section 69 notice [REDACTED].

³⁹ Google's response to section 69 notice [REDACTED].

⁴⁰ Google's response to section 69 notice [REDACTED].

⁴¹ Google's response to section 69 notice [REDACTED].

- B.66 Based on the revenue breakdown we received from Google in relation to its Mobile Ecosystem, we estimate that it generated global revenues from the activities comprising its Mobile Platform ('Mobile Revenues') of at least \$[REDACTED] billion in 2024, accounting for the majority of revenues for the Google Services reporting segment, which generated global revenues of approximately \$305 billion in the financial year ending December 2024.⁴²
- B.67 In particular, we have found that:
- (a) Google generated \$[REDACTED] billion revenues from Mobile Search Advertising,⁴³ which in 2024 accounted for [REDACTED] the majority of Google's Mobile Revenues globally.⁴⁴
 - (b) Google generated \$[REDACTED] billion from the Play Store (including Play Store Advertising) in 2024, and a further \$[REDACTED] billion from in-app advertising which is reported separately from Play Store revenues.^{45,46} Play Store revenues (including Play Store Advertising) accounted for around [REDACTED] [5-15]% of global Mobile Revenues.⁴⁷
 - (c) Google generated % [REDACTED] billion from other mobile advertising in 2024, including in particular from Youtube, which accounted for around [REDACTED] [10-20]% of global Mobile Revenues.⁴⁸
 - (d) Pixel device revenues of \$[REDACTED] billion accounted for only [REDACTED] [0-5]% of global Mobile Revenues in 2024.⁴⁹
 - (e) Other non-advertising Mobile Revenues included from [REDACTED],⁵⁰ [REDACTED].⁵¹

⁴² CMA estimate of Mobile Revenues comprises the following revenue reporting categories: [REDACTED]. Google's response to section 69 notice [REDACTED].

⁴³ Mobile Search Advertising revenues are the search and search advertising product area revenues identified by Google as relating to mobile. Google's response to section 69 notice [REDACTED].

⁴⁴ Google's response to section 69 notice [REDACTED].

⁴⁵ Google's response to section 69 notice [REDACTED].

⁴⁶ Google told us that 'In-App Advertising' is [REDACTED]. Google's response to section 69 notice [REDACTED].

⁴⁷ Google's response to section 69 notice [REDACTED]; [REDACTED].

⁴⁸ CMA estimate of other mobile advertising revenues comprises the following revenue reporting categories: [REDACTED]. Google's response to section 69 notice [REDACTED].

⁴⁹ Google's response to section 69 notice [REDACTED]; [REDACTED].

⁵⁰ Google told us that the revenues provided [REDACTED]. Google's response to section 69 notice [REDACTED].

⁵¹ CMA analysis of Google's response to section 69 notice [REDACTED]; [REDACTED]. CMA estimate of other non-advertising mobile revenues comprises the following revenue reporting categories: [REDACTED].

B.68 As discussed in more detail below, Google does not generally directly monetise Android and Chrome.^{52,53}

UK Revenues

B.69 In the UK, we estimate that the activities comprising Google's Mobile Platform generated Mobile Revenues of around £[redacted] [10-20] billion,⁵⁴ and that they accounted for [redacted] the majority of Google's total UK revenues of £[redacted] [10-20] billion.⁵⁵

B.70 We note that Mobile Search Advertising accounted for a higher proportion of Mobile Revenues in the UK than globally ([redacted]% in the UK compared with [redacted]% globally).⁵⁶ As Google did not provide UK level Pixel revenue data, our estimate of UK Mobile Revenues and profits excludes Pixel devices. As Pixel devices account for [redacted] [0-5]% of global Mobile Revenues, we do not consider this materially impacts our findings.⁵⁷

B.71 We estimate Google generated UK Mobile Revenues of approximately £[redacted] [10-20] billion⁵⁸ in 2024 including:

- (a) £[redacted] [5-10] billion from Mobile Search Advertising;
- (b) £[redacted] [0-2] billion from the Play Store, including Play Store Advertising,⁵⁹ and a further £[redacted] [0-2] billion from in-app advertising;
- (c) £[redacted] [0-2] billion from other mobile advertising; and

⁵² Google's response to section 69 notice [redacted].

⁵³ Google told us that it [redacted]. Google's response to section 69 notice [redacted].

⁵⁴ Google's response to section 69 notice [redacted]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

⁵⁵ Google's response to section 69 notice [redacted]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

⁵⁶ Google's response to section 69 notice [redacted]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

⁵⁷ Google's response to section 69 notice [redacted].

⁵⁸ Google's response to section 69 notice [redacted]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

⁵⁹ Google's response to section 69 notice [redacted]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

(d) £[§] [0-2] billion from other non-advertising Mobile Revenues.⁶⁰

Profit margins analysis

- B.72 In this section we consider the profit margins of the activities comprising Google's Mobile Platform based on information received from Google in relation to its Mobile Ecosystem.
- B.73 Based on global revenue and cost data received from Google in relation to different categories of mobile activities, we estimate that Google generated operating profits of [§] in relation to its Mobile Platform,⁶¹ and an overall operating profit margin of [§],⁶² which is which is higher than Google's overall operating profit margin of 32%, and the operating margin for the Google Services reporting segment.⁶³ Google's operating profit margins for its Mobile Platform are higher than for its business as a whole.
- B.74 We discuss the profit margins of the Play Store and Google Search in more detail below. We also consider Google's monetisation strategy with regards to the costs related to Android and browsers, and assess the consequence for margins if these costs are allocated to the Total Play Store (including advertising) and Mobile Search Advertising, respectively.

Play Store

- B.75 As the Play Store is one of the specific activities we have investigated, we have considered the performance of the Play Store in more detail.
- B.76 Google generates revenues from its Play Store through a combination of consumer revenues (including service fees charged to app developers through apps distributed through Google Play, and from the sale of books and video

⁶⁰ Google's response to section 69 notice [§]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

⁶¹ [§] our operating profit estimate is based on Google's estimates of global operating profit margins including non-mobile as well as mobile activities. We have assumed that the profit margins for each revenue category are the same for mobile as for non-mobile activities, and have allocated the costs of Android and Chrome to Google's mobile activities, as well as share of the unallocated Alphabet level costs (based on an adjusted figure for Alphabet level costs for 2024, which excludes \$1.0 billion of employee severance and related charges and \$0.8 billion of office space reduction charges). See '[Form 10-K for Alphabet INC filed 02/05/2025](#)', pages 35 and 88.

⁶² Google's response to section 69 notice [§] from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England)

⁶³ CMA analysis of segmental reporting on page 88 of '[Form 10-K for Alphabet INC filed 02/05/2025](#)', accessed by the CMA on 16 July 2025.

content through Google Play) and Play Store advertising, as shown in figure B.3 below.⁶⁴

Figure B.3 Global Play Store Revenue 2022-2024 (\$ billion)

[REDACTED]

Source: CMA analysis⁶⁵

- B.77 Total Play Store revenues including Play Store advertising for the financial year ending 31 December 2024 were \$[REDACTED] billion globally and \$[REDACTED] billion (£[REDACTED] [0-2] billion) in the UK.^{66,67}
- B.78 The following table sets out gross margins and operating profits for the Play Store, excluding advertising revenues, based on submissions provided to us by Google.⁶⁸ Excluding advertising revenues, the Play Store generated average gross margins and operating margins for the period 2022-2024 of [REDACTED]% and [REDACTED]% respectively, higher than the gross margins and operating margins for Google Services and Google overall.^{69,70} These revenues include service fees charged to app developers.

Table B.2: Play Store revenues and profits (consumer revenues only)

<i>Play Store – excluding advertising revenues</i>	<i>2022</i>	<i>2023</i>	<i>2024</i>
Global revenues (\$ billion)	[REDACTED]	[REDACTED]	[REDACTED]
Gross profit margin (%) ⁷¹	[REDACTED]%	[REDACTED]%	[REDACTED]%
Operating profit margin (%) ⁷²	[REDACTED]%	[REDACTED]%	[REDACTED]%
UK revenue (£ million)	[REDACTED]	[REDACTED]	[REDACTED]

⁶⁴ Google's response to section 69 notice [REDACTED].

⁶⁵ CMA analysis of Google response to section 69 notice [REDACTED].

⁶⁶ Google's response to section 69 notice [REDACTED]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

⁶⁶ Google's response to section 69 notice [REDACTED]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

⁶⁷ [REDACTED]. Google's response to section 69 notice [REDACTED].

⁶⁸ Google told us that these revenues include [REDACTED]. Google's response to section 69 notice [REDACTED].

⁶⁹ Google's response to section 69 [REDACTED]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

⁷⁰ Google's internal management reporting for its Play P&L states that the Play P&L does not, and is not intended to, account for all costs that Play Store would incur if it was a standalone business. [REDACTED].

⁷¹ Based on Google's estimates of global gross profit margins including non-mobile as well as mobile activities.

⁷² Based on Google's estimates of global operating profit margins including non-mobile as well as mobile activities.

Source: CMA analysis^{73,74}

B.79 Based on our review of internal documents submitted by Google [REDACTED].⁷⁵ [REDACTED].⁷⁶

B.80 For example, as shown in the table below, the Play Store operating margin increases from [REDACTED]% to [REDACTED]% in 2024 if we include Play Store Advertising revenues and associated costs.⁷⁷

Table B.3 Play Store revenues and profits (including Play Store Advertising revenues)

Play Store – including advertising revenues	2022	2023	2024
Global revenues (\$ billion)	[REDACTED]	[REDACTED]	[REDACTED]
Gross profit margin (%) ⁷⁸	[REDACTED]%	[REDACTED]%	[REDACTED]%
Operating profit margin (%) ⁷⁹	[REDACTED]%	[REDACTED]%	[REDACTED]%
UK revenue (£ million)	[REDACTED]	[REDACTED]	[REDACTED]

Source: CMA analysis^{80,81}

B.81 Finally, we have also considered the impact of adding Android costs to Google's global Play Store revenues.

B.82 Google's internal management reporting for its Play profit and loss statement (P&L) states that the Play P&L does not, and is not intended to, account for all costs that Play Store would incur if it was a standalone business.⁸² For example, [REDACTED].

⁷³ CMA analysis of Google's response to section 69 notice [REDACTED]. Play Store revenues may include revenues relating to sources other than Mobile Devices.

⁷⁴ Google told us that the costs submitted for Play Store and Play Store Advertising do not include all the costs that Play Store and Play Store Advertising would face if run as a standalone basis [REDACTED]. Source: Google's response to section 69 notice [REDACTED].

⁷⁵ Google's response to section 69 notice [REDACTED].

⁷⁶ Google's response to section 69 notice [REDACTED].

⁷⁷ CMA analysis of Google's response to section 69 notice [REDACTED]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783, for 2023 of 1.2434, and for 2022 of 1.2362 (Source: Bank of England).

⁷⁸ Based on Google's estimates of global gross profit margins including non-mobile as well as mobile activities. Google's response to section 69 notice [REDACTED].

⁷⁹ Based on Google's estimates of global operating profit margins including non-mobile as well as mobile activities.

⁸⁰ CMA analysis of Google's response to section 69 notice [REDACTED]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783, for 2023 of 1.2434, and for 2022 of 1.2362 (Source: Bank of England). Play Store revenues may include revenues relating to sources other than Mobile Devices.

⁸¹ Google told us that the costs submitted for Play Store and Play Store Advertising do not include all the costs that Play Store and Play Store Advertising would face if run as a standalone basis [REDACTED].

⁸² Google's response to section 69 notice [REDACTED].

- B.83 We have conducted a sensitivity analysis to understand the impact of adding Android costs into Google's global Play Store revenues, and have found that the Play Store operating margin for the financial year ending 31 December 2024 reduces materially from [x] when we add in total Android costs of \$[x] [0-10] billion.⁸³
- B.84 Overall, we have found that Google generated substantial Play Store revenues over the period 2022-2024, and that profit margins remain strong even when total Android costs are allocated to the Play Store.

Search Ads & Other

- B.85 As Google Search, which is part of Google's wider Mobile Ecosystem, is a key route through which Google indirectly monetises its Mobile Platform, we have also considered the profitability of Google Search and Search Advertising in more detail.
- B.86 Google Search and Search Advertising is part of the disaggregated Search Ads & Other reporting segment, which includes mobile and non-mobile revenues and accounts for the majority of Google's total revenues and profits globally.⁸⁴
- B.87 In 2024, Mobile Search Advertising alone generated global revenues of \$[x] billion, and UK revenues of \$[x] billion (£[x] [5-10] equivalent).⁸⁵ It accounted for [x]% [a significant majority] of total UK Mobile Revenues ([x]% and its operating profit margins were higher than for Google Services overall.

Table B.4 Mobile Search Advertising revenues and profits

Mobile Search Advertising	2022	2023	2024
Global revenues - Mobile Search Advertising (\$ billion)	[x]	[x]	[x]
Global operating profit margin - search (%)	[x]%	[x]%	[x]%
UK revenue – Mobile Search Advertising (£ billion)	[x]	[x]	[x]

Source: Google non-public RFI response ⁸⁶

⁸³ CMA analysis of Google's response to section 69 notice [x]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

⁸⁴ CMA analysis of Google's response to section 69 notice [x]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

⁸⁵ CMA analysis of Google's response to section 69 notice [x]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

⁸⁶ CMA analysis of Google's response to section 69 notice [x]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

- B.88 Google's revenues from Mobile Search Advertising includes the income it receives which is subject to revenue sharing under its revenue sharing agreements (**RSAs**) with Apple and other OEMs. [REDACTED].⁸⁷ Google's payments to OEMs are discussed in more detail in Appendix C: Google's OEM agreements and Chapter 6.
- B.89 We have considered also Google's monetisation strategy with regards to its Chrome browser and its browser engine when assessing the profitability of Google's Mobile Search Advertising, and as such we have assessed the consequence for operating profit margins if Google's total Chrome browser and browser engine costs of \$[REDACTED] [0-5] billion in 2024⁸⁸ were allocated to Google's global search activities. Adopting this approach we have found that the impact on the global Mobile Search Advertising operating profit margins is relatively small, reducing operating profit margins in 2024 by approximately [REDACTED] percentage point from [REDACTED]%.⁸⁹
- B.90 We also assessed the consequences of allocating the costs of both Chrome and Android to Google's estimated costs for Mobile Search Advertising, totalling \$[REDACTED],⁹⁰ and found that the impact on operating profits was still relatively small, reducing operating profit margins in 2024 by approximately [REDACTED] percentage points.⁹¹

Android and Chrome

- B.91 Google does not directly monetise its mobile operating system (Android) or Chrome browser. However, based on our review of internal documents submitted by Google we understand that for management reporting purposes Google identifies certain Mobile Revenues as indirectly relating to its Chrome browser and Android operating system.⁹²
- B.92 We have found that within its management reporting, [REDACTED]:

⁸⁷ Google's response to section 69 notice [REDACTED]. Alphabet, '[Form 10-K for Alphabet INC filed 02/05/2025](#)', accessed by the CMA on 16 July 2025, pages 57 and 87.

⁸⁸ CMA analysis of Google's response to section 69 notice [REDACTED].

⁸⁹ CMA analysis of Google's response to section 69 notice [REDACTED].

⁹⁰ CMA analysis of Google's response to section 69 notice [REDACTED].

⁹¹ CMA analysis of Google's response to section 69 notice [REDACTED].

⁹² CMA analysis of Google's response to section 69 notice [REDACTED]; CMA analysis of Google's response to section 69 notice [REDACTED].

- (a) Management reporting prepared internally within [REDACTED].^{93,94} Google told us that these management reporting figures were prepared by [REDACTED].⁹⁵
- (b) Management reporting prepared internally by [REDACTED].⁹⁶

B.93 In summary, although Google does not generally directly monetise Android and Chrome, we have found that, for management reporting purposes, Google's Android and Chrome operating segments identify [REDACTED] of Google's Mobile Search Advertising and Play Store revenues as being indirectly relating to Android and Chrome.

Pixel Devices

B.94 Google also monetises its Mobile Ecosystem through its sale of Pixel devices (phones and tablets). Google generated global Pixel device revenues of \$[REDACTED] billion in 2024, primarily from sale of Pixel phones, [REDACTED].⁹⁷

UK Profitability

- B.95 We have estimated operating profit margins relating to Google's Mobile Platform at the UK level based on Google's estimates of UK Mobile Revenues, and its estimates of global revenues and costs.
- B.96 If we assume Google's operating margins for these products and services are the same in the UK as globally, then, on the above analysis, this would imply UK operating profit in the region of £[REDACTED] [5-10] billion,⁹⁸ excluding Pixel devices,⁹⁹ of which approximately £[REDACTED] relates to Mobile Search Advertising.^{100,101}

⁹³ Google's response to section 69 notice [REDACTED]; Google's response to section 69 notice [REDACTED].

⁹⁴ Google told us that [REDACTED].

⁹⁵ CMA analysis of Google's response to section 69 notice [REDACTED]; Google's response to section 69 notice [REDACTED].

⁹⁶ CMA analysis of Google's response to section 69 notice [REDACTED]; Google's internal document [REDACTED]; CMA analysis of Google's response to section 69 notice [REDACTED].

⁹⁷ CMA analysis of Google's response to section 69 notice [REDACTED].

⁹⁸ Operating profits calculated net of Chrome and Android costs.

⁹⁹ Google did not provide UK revenues for Pixel devices.

¹⁰⁰ CMA analysis of Google's response to section 69 notice [REDACTED]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

¹⁰¹ We have also tested the sensitivity of our UK operating profit calculation to the inclusion of Pixel device revenue and operating losses. [REDACTED]. CMA analysis of Google's response to section 69 notice [REDACTED]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

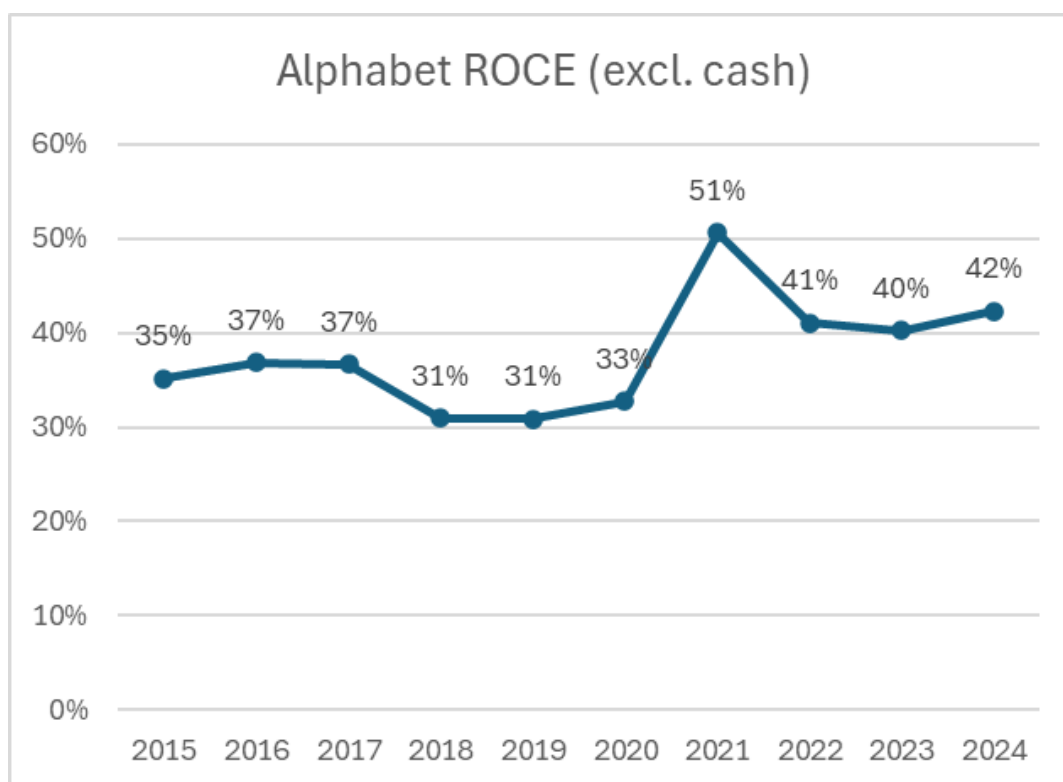
Alphabet Group and Google Services Return on Capital Employed (ROCE)

B.97 In this section we compare the ROCE of the Alphabet Group and Google Services to the benchmark return of the WACC.

Alphabet Group ROCE

B.98 We have considered Alphabet Group's ROCE, measured as EBIT¹⁰² divided by capital employed (calculated as total assets excluding cash and marketable securities minus current liabilities)¹⁰³ based on published asset values in the accounts.

Figure B.4: Alphabet Group return on capital employed 2015 - 2024



¹⁰² EBIT is based on the Alphabet Group's Income from Operations as reported in its Consolidated Statements of Income in published accounts. Alphabet, '[Form 10-K for Alphabet INC filed 02/05/2025](#)', accessed by the CMA on 16 July 2025, page 53.

¹⁰³ Capital employed is calculated by reference to Google's Consolidated balance sheets in its published, by deducting Google's reported Total Cash, Cash Equivalent and Marketable Securities from its reported Total Assets. Alphabet, '[Form 10-K for Alphabet INC filed 02/05/2025](#)', accessed by the CMA on 16 July 2025, page 52. As is discussed in more detail below, cash and marketable securities have been excluded on the basis that they represent means of funding the capital employed by the business, rather than an operational balance.

Source: CMA analysis of Alphabet Group 10-K data¹⁰⁴

- B.99 Figure B.4 above demonstrates that over the last ten years, we estimate that the Alphabet Group has been able to generate an average ROCE of 38%, and that this has been trending higher in the last few years.
- B.100 As described above, we compare ROCE to the benchmark return of the WACC. We have estimated WACC for the Alphabet Group to be around [redacted] [10-15]%, based on Google's own estimation of its WACC.¹⁰⁵
- B.101 On the basis that the actual ROCE for Google's overall business has been around 30-40% or above for at least ten years, we therefore conclude that ROCE is and has been consistently higher than the benchmark WACC.

Google Services ROCE

- B.102 We have also considered Google Services ROCE, as Google's Mobile Ecosystem sit within Google Services. We consider that an analysis of Google Services ROCE should be more reflective of the returns of Google's Mobile Platform than the overall ROCE of the Alphabet Group.
- B.103 Based on information provided in Google's Form 10-K, we have estimated the returns earned by Google Services. Wherever we have had a choice of different assumptions, we have sought to identify conservative assumptions which may if anything understate the ROCE of Google Services.
- B.104 We have conservatively estimated the profitability of Google Services as follows:
- (a) Revenues and costs were as reported in the filed Form 10-K for 2024.
 - (b) All assets and liabilities on the balance sheet are assumed to relate to Google Services. This resulted in an asset base of \$265 billion.¹⁰⁶ This is likely to overstate the asset base of Google Services, as Google will also have invested in tangible assets in relation to its Cloud segment.

¹⁰⁴ Alphabet, '[Form 10-K for Alphabet INC filed 02/05/2025](#)', accessed by the CMA on 16 July 2025, pages 52-53.

¹⁰⁵ Converted by the CMA from a post-tax to a pre-tax WACC rate. Google's response to section 69 in relation to SMS investigation into Google's general search and search advertising services, [redacted].

¹⁰⁶ CMA analysis of Alphabet Inc Consolidated Financial Statements on page 52 of '[Form 10-K for Alphabet INC filed 02/05/2025](#)', accessed by the CMA on 16 July 2025.

(c) All Alphabet-level costs are assumed to relate to Google Services.

B.105 Google has explained that it does not allocate certain costs to its segments, because they represent Alphabet-level activities, and that these costs primarily include certain AI-focused shared R&D activities, including development costs of its general AI models, as well as certain corporate and legal costs.¹⁰⁷ In taking a conservative approach, we assumed that these are fully allocated to Google Services.

B.106 This is a conservative assumption for a number of reasons:

- (a) some of these costs would relate to overheads serving both the Google Services and Cloud segments;
- (b) some of these costs do not relate to Google's operating segments (eg fines and settlements); and
- (c) some of these costs relate to restructuring activities that may not be in the ordinary course of business.¹⁰⁸

B.107 Using this approach, we calculated a ROCE for 2024 for Google Services of 42%,¹⁰⁹ consistent with the Alphabet Group's overall ROCE in 2024, and well above the Alphabet Group WACC of [REDACTED] [10-15]%,¹¹⁰ even after allocating total Alphabet Group assets to this segment.

Mobile Platform return on capital employed (ROCE)

Approach to assessing the profitability of Google's Mobile Platform.

B.108 In this section, we summarise the analysis we have performed of the returns earned by Google in relation to its Mobile Platform, including from its broader Mobile Ecosystem.

¹⁰⁷ Alphabet, 'Form 10-K for Alphabet INC filed 02/05/2025', accessed by the CMA on 16 July 2025, page 88.

¹⁰⁸ Google discloses that its Alphabet level costs in 2024 include charges associated with employee severance and office space reductions which were not allocated to its segments. Alphabet, 'Form 10-K for Alphabet INC filed 02/05/2025', accessed by the CMA on 16 July 2025, page 88.

¹⁰⁹ We calculated this by adjusting reported operating profit for Google Services for 2024 from \$121.3 billion to \$110.7 billion, to include reported Alphabet-level costs of \$10.5 billion, and divided this by the total asset base of \$265.5 billion, which gave us ROCE of 42%.

¹¹⁰ Google's response to section 69 in relation to SMS investigation into Google's general search and search advertising services, [REDACTED].

- B.109 We have assessed the returns earned by the Alphabet Group and its investors in 2024 from Google's Mobile Platform by comparing the profits earned from those activities to the investments made in assets acquired to operate Google's Mobile Ecosystem.
- B.110 We have measured the ROCE Google earns from its Mobile Ecosystem and compared the size of these returns against Google's group level WACC, based on a breakdown of Google's total costs and assets into those attributable to its Mobile Ecosystem, and other costs and assets not attributable to its Mobile Ecosystem. In some cases, this cannot be done exactly, as both costs and assets are shared across businesses, and so we have made estimates. Our analysis is based on information provided by Google.
- B.111 To complete this assessment, we have performed a two-step process, as set out below
- (a) Step 1: Estimated UK mobile search profits above WACC. Consistent with our approach in the CMA's SMS investigation into Google's General Search Services,¹¹¹ and on account of Google deriving the majority of its mobile profits from its general search and search advertising activities, we have:
 - (i) measured the revenues attributable to Google's general search business, based on the financial position of the Google Search and Search Advertising product area;¹¹²
 - (ii) measured the direct costs, and estimated the operating costs attributable to the search business; and
 - (iii) estimated a relevant measure of operating assets based on the assets of the Alphabet Group.
 - (b) Step 2:
 - (i) Applied to this calculation our estimate of the percentage share of Google's UK Mobile Search Advertising revenue to total UK search

¹¹¹ [SMS Investigation into Google's General Search Services \(Annex C: Profitability analysis\)](#).

¹¹² Google Search and Search Advertising is a product area within the 'Google Search & other' disaggregated revenue reporting segment, and is made up of Google's revenue-generating 'Search Ads' business and its free 'Search Organic' business. Source: Google's response to section 69 notice in relation to SMS investigation into Google's general search and search advertising services, [38].

revenue, to estimate Google's UK mobile profits from Mobile Search Advertising over and above its WACC; and

- (ii) estimated 2024 EBIT for other UK Mobile Revenues not related to Google's Search and Search Advertising business. Given that all the assets have been attributed to search, we have already included a required return on all of these assets in our calculation of economic profit above.

B.112 Wherever we have had a choice of different assumptions, we have sought to identify a conservative approach which may, if anything, understate the ROCE of Google's Mobile Ecosystem. The objective of our analysis is to compare Google's returns from its investments in its Mobile Ecosystem to its WACC, and in doing so we have erred on the side of caution in coming to a lower estimate for the ROCE for its Mobile Ecosystem.

Inputs in assessing the profitability of Google's Mobile Platform

Revenues and direct costs

B.113 We asked Google to break down its revenues and costs and gross profit into its different businesses, and also geographically. However, in estimating ROCE, we have taken into account that the company operates globally, with many of Google's costs being incurred for the purpose of serving its global general search services, rather than the UK specifically, as well as the fact that Google did not provide UK level profitability data, and based our analysis on its global activities. Our analysis is therefore based on Google's global general search services.

B.114 We have also reviewed data that indicates that Google's revenues in the UK follow a similar pattern globally, with the majority of the revenue in 2024 being derived from its general search services activities. Although Google records some costs which are directly attributable to this UK revenue, we have not attempted to estimate ROCE associated with the UK business separately, as it forms part of Google's integrated business.

Indirect costs

B.115 Indirect costs are those which are not directly attributable to products but are shared across some or all products and services that Google offers. Indirect

costs include research and development (**R&D**), sales and marketing and general and administrative costs.

- B.116 We note that identifying the revenues and costs associated with Search and Search Advertising, and/or its Mobile Ecosystem, requires a number of assumptions, and those activities will have benefitted from some of its investments in associated businesses. We have therefore conducted a sensitivity analysis in relation to the Google Services ROCE as set out below.

Asset base

Balance sheet as a starting point

- B.117 Google publicly reports a consolidated balance sheet for the total Alphabet Group. Google's public accounts do not include segmental asset balances, and Google has told us [REDACTED].¹¹³
- B.118 In estimating the value of the asset base which directly relates to search, our starting point is therefore the reported assets for the Alphabet Group.

Working capital and tangible assets

- B.119 We would expect the capital employed for Google's general search services, or its Mobile Ecosystem, to include working capital and tangible assets such as buildings, servers and network equipment.
- B.120 Our analysis seeks to reflect the operational capital employed by the businesses. We would generally consider relevant tangible and intangible assets, including working capital (which we consider in our estimates of capital employed for our ROCE analysis) to determine this. However, any cash balances or marketable securities represent means of funding the capital employed by the business, rather than an operational balance, and we do not consider cash holdings and marketable securities to be relevant assets to include when estimating capital employed for Google in relation to its general search services or its Mobile Ecosystem, and we have seen no evidence of legal or regulatory requirements for these parts of its business to hold amounts of cash or marketable securities.

¹¹³ Google's response to section 69 notice [REDACTED].

- B.121 Google's tangible assets are largely buildings and physical assets linked to providing Google's digital services, the largest of which is Google's general search services. We have therefore assumed that all assets are shared and therefore necessary to replicate the search function, unless we have evidence that they are clearly separable from the search engine such as non-marketable securities. We therefore use as a base case that all of Google's other tangible assets are required to operate the search engine. This is a conservative approach and is consistent with our approach to operating costs associated with the technical operations of the search business above.

Intangible assets

- B.122 We have considered whether we should include intangible assets in our estimate of the capital base. Intangible assets are assets such as goodwill, brand value and in-process research and development assets.
- B.123 Our approach for considering intangible assets is based on the following set of criteria that we consider intangible assets should meet to be considered for inclusion in capital employed:
- (a) it must comprise a cost that has been incurred primarily to obtain earnings in the future;
 - (b) this cost must be additional to costs necessarily incurred at the time in running the business; and
 - (c) it must be identifiable as creating such an asset separate from any arising from the general running of the business.

Goodwill

- B.124 Goodwill can be acquired in a business combination. Acquired goodwill is not a separately identified asset but rather is a balancing figure. It is the remaining, unallocated element of an acquisition price once all tangible assets and certain (although not necessarily all) intangible assets have been fair-valued and set against the price paid. In principle, we consider that, when purchasing a business, goodwill may represent the value of intangible assets not capitalised on the businesses' balance sheets.
- B.125 Our approach is to recognise those intangible assets that meet our criteria for recognition, regardless of whether they have been separately identified in the

company's balance sheets or are included in a balancing goodwill figure, but to exclude any remaining goodwill. This approach ensures that only intangible assets that meet our criteria for recognition are included in the estimate of the capital employed by Google in relation to Google Search, or in relation to Google's Mobile Ecosystem. It also avoids the risk of capitalising any economic profit.

- B.126 Based on available balance sheet reporting, we have conservatively included goodwill other than for businesses which are not engaged in activities relating to search.¹¹⁴

Brand value

- B.127 We recognise that brand value, whether acquired or developed in house, could meet the criterion of comprising a cost that has been incurred primarily to obtain earnings in the future. An acquired brand appears more likely to meet the criterion of being additional to costs necessarily incurred at the time in running the business, whereas operating costs that contribute to developing brand value would be less likely to meet this criterion. We have therefore considered whether there is evidence of a Google brand value asset, and how that may have arisen.
- B.128 We recognise that there is significant value in the Google brand. However, within the ROCE-based framework we are applying, our particular focus is on whether there is evidence of an investment in the Google brand asset that falls within the criteria which we have set out above.
- B.129 Google does not record an intangible asset relating to brand value in its public accounts, and we have not seen evidence that Google's brand value would fall within our criteria for recognising an intangible asset. In particular we have not seen evidence that Google has incurred brand-related costs in addition to the costs it has necessarily incurred at the time in running its business.
- B.130 We would normally expect that much of a firm's advertising spend might be correctly treated as current costs, and have not seen specific evidence that Google's advertising expense meets the criteria that would support

¹¹⁴ Based on publicly available information, we have taken a conservative approach excluding only goodwill allocated to the Google Cloud and Other Bets reporting segments. We would similarly exclude the Google Cloud and Other Bets from any estimate of goodwill relating to Google's Mobile Ecosystem, as these reporting segments are also not engaged in Mobile Platform activities.

capitalisation. We are therefore not aware of any brand asset investments that should be capitalised for the purpose of our ROCE assessment.

Investments in research & development

- B.131 As discussed in more detail above (see paragraph B.36), we recognise that in digital markets, where there is significant internal investment in assets such as IP, R&D and patents, rather than acquisition of technology from third parties, the value of those assets may not be fully reflected in the book value of the capital employed.
- B.132 We have therefore conducted a high-level sensitivity analysis in relation to Google's ROCE relating to R&D expenditure as set out below.

Summary

- B.133 In estimating the value of the asset base which directly relates to its Mobile Ecosystem we used publicly available information from financial statements.
- B.134 Our assumption for the asset value of search reflects all of Google's fixed assets (with the exception of goodwill relating to businesses which are not engaged in activities relating to search) and \$14.9 billion assets classified as other non-current assets.¹¹⁵
- B.135 Taking these together provided us with an asset base for search of \$208.1 billion, the majority of which is physical and technical infrastructure.^{116,117}
- B.136 We have conducted sensitivity analyses in relation to indirect costs and intangible assets as set out below

Sensitivity Analysis

- B.137 We recognise that economic profitability analysis, based on a ROCE versus WACC framework, requires certain assumptions to be made. The results from

¹¹⁵ Alphabet, '[Form 10-K for Alphabet INC filed 02/05/2025](#)', accessed by the CMA on 16 July 2025, page 52.

¹¹⁶ Alphabet, '[Form 10-K for Alphabet INC filed 02/05/2025](#)', accessed by the CMA on 16 July 2025, page 52. Google reported Property and equipment of \$171 billion, net of depreciation, as at 31 December 2024, of which the majority related to technical infrastructure and to assets not yet in service.

¹¹⁷ Calculated as the sum of net property and equipment (\$171.0 billion), goodwill (\$23.5) and operating lease assets (\$13.6 billion). Alphabet, '[Form 10-K for Alphabet INC filed 02/05/2025](#)', accessed by the CMA on 16 July 2025, pages 52 and 78.

economic profitability analysis can be sensitive to ranges around these assumptions, particularly with regard to asset valuations.

Sensitivity 1: Investments in research and development

- B.138 The first sensitivity analysis we have conducted is to test the sensitivity of our ROCE to changes in intangible assets relating to R&D expenditure.
- B.139 Under accounting principles, R&D is typically treated as an expense and accounted for in the firm's profit and loss account. However, there may be circumstances where this expenditure leads to the creation of an asset that will provide future economic benefits and therefore represents capital investment from an economic perspective. In these circumstances, the level of capital employed recorded on a firm's balance sheet may be understated.
- B.140 One potential approach to ROCE for a firm investing in long-term assets through R&D is to adjust the capital employed to include that part of the firm's R&D expenditure, ie to assume it creates an intangible asset. Such a change would have two offsetting effects on the calculation of ROCE. In addition to increasing the firm's level of capital employed by moving expenses into its capital base, the firm's EBIT will also increase since it removes some of its operating expenses out of its cost base, which is only partially offset by the effect of amortising that asset. In other words, both profit and capital employed will increase. As a result, while this could change the percentage ROCE, the impact may be relatively limited.
- B.141 We have not seen specific evidence that expensed R&D spend meets the criteria that would support capitalisation, and we would normally expect that much of a firm's R&D investment would relate either to expansion into new business ventures outside the scope of current businesses, or to incremental improvement to products which might be correctly treated as current costs.
- B.142 However, we recognise that for the software development costs associated with Mobile Devices and services for example, there may be uncertainty both as to whether a cost might meet the criteria for capitalisation and the value that may apply. We have tested the sensitivity of our ROCE for each additional 10% of

Google's annual R&D cost that is amortised rather than being expensed, assuming an amortisation period of up to five years.¹¹⁸

- B.143 Based on this high-level scenario, we have found that even if we capitalised an additional 10-20% of annual R&D expenses¹¹⁹ over a five year period, Google's ROCE for 2024 is only reduced by 1-2%, from 42% to 40%,¹²⁰ and remains substantially higher than its estimated WACC even if we apply this form of sensitivity.
- B.144 We have not refined these estimates further. Our intention was to identify whether Google still earns high profit margins if we adjust its intangible asset base to take into consideration the risk that R&D asset investments are understated in its reported balance sheet assets, and found that it does.

Sensitivity 2: Indirect costs

- B.145 The second sensitivity analysis we have conducted is to test the sensitivity of our ROCE to changes in indirect cost allocations, by calculating a lower estimate of operating profit, under which a higher proportion of centrally incurred Google Services costs are allocated to Search and Search Advertising, as set out in the table below:

Table B.5 Summary of our approach to revenues and costs

<i>Input</i>	<i>Base case¹²¹</i>	<i>Lower estimate</i>
Revenue	Search and Search Advertising revenues, as provided by Google	No change
Direct costs	Search and Search Advertising direct costs, including (among others) traffic acquisition costs (TAC), technical infrastructure and engineering costs, as provided by Google	No change
R&D costs	Search and Search Advertising R&D costs, as provided by Google	Revenue based allocation of a share of R&D costs for Google Services ¹²²

¹¹⁸ In the absence of more accurate information, our scenario conservatively assumes a five-year straight line amortisation period for software development costs, which is not dissimilar to Google's reported depreciation period for servers and network equipment of six years. Alphabet, '[Form 10-K for Alphabet INC filed 02/05/2025](#)', accessed by the CMA on 16 July 2025, page 62.

¹¹⁹ Based on publicly reported R&D expenses in the Alphabet Inc. Consolidated Statements of Income on page 53 of '[Form 10-K for Alphabet INC filed 02/05/2025](#)'.

¹²⁰ CMA analysis of publicly available data in the Alphabet Inc. Consolidated Statements of Income and Consolidated Balance Sheets on pages 52 and 53 of '[Form 10-K for Alphabet INC filed 02/05/2025](#)', accessed by the CMA on 16 July 2025.

¹²¹ Base case is based on Google's estimate of Operating Income submitted to the CMA in Google's response to section 69 notice in relation to SMS investigation into Google's search and search advertising services, [38].

¹²² R&D costs for Google Services were based on [39].

Other overheads	Other Search and Search Advertising overhead costs, as provided by Google	Revenue based allocation of a share of overheads for Google Services, ¹²³ plus a share of non-allocated Alphabet level costs. ¹²⁴
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Source: CMA analysis¹²⁵

- B.146 The 'Base Case' is based on Google's own estimate of indirect costs relating to Search and Search Advertising. The 'lower estimate' assumes a higher share of overheads incurred within the entire Alphabet Group.
- B.147 Taking these assumptions together, we expect that our 'lower estimate' will underestimate the profit attributable to search, potentially significantly, as it assumes that a standalone general search services business would:
- (a) incur the same levels of TAC as Google; and
 - (b) incur indirect costs significantly higher than those which Google has indicated are directly related to the provision of general search services.
- B.148 Under our lower estimate of indirect costs, we have still found that ROCE is significantly higher than WACC, and higher than the overall Google Services ROCE, because [REDACTED].

Our analysis and findings of the Google Services ROCE in relation to Google's Mobile Platform

- B.149 Calculating ROCE on the basis of the assumptions above, we have found that the ROCE of a standalone search business would be higher than the ROCE earned by the Alphabet Group in 2024.
- B.150 As described above, we have considered the sensitivity of our profitability analysis to the assumptions we have made, including in relation to indirect costs and to intangible assets, and have estimated a range for returns associated with

¹²³ Other overhead costs for Google Services were based on [REDACTED]. Google's response to section 69 notice [REDACTED].

¹²⁴ Based on an adjusted figure for Alphabet level costs for 2024, which excludes \$1.0 billion of employee severance and related charges and \$0.8 billion of office space reduction charges. See Alphabet, 'Form 10-K for Alphabet INC filed 02/05/2025', accessed by the CMA on 16 July 2025, pages 35 and 88.

¹²⁵ CMA analysis using: Google's response to section 69 notice in relation to SMS investigation into Google's general search and search advertising services, [REDACTED]; and Google's response to section 69 notice in relation to SMS investigation into Google's general search and search advertising services, [REDACTED]. Google noted in its submission that [REDACTED].

search on that basis, and these do not change our finding that Google's search activities are highly profitable.

- B.151 We do not consider it necessary or proportionate to refine these estimates further since we consider that on any reasonable basis the ROCE for Google's general search services is significantly greater than its WACC.

Our estimate of Google's UK profits from its Mobile Platform

- B.152 For illustrative purposes we have considered how ROCE would convert into an annual profit number as an estimate of how much profit Google's Mobile Platform earned at the UK level over and above our estimate Google's WACC, based on its own estimate of WACC for the Alphabet Group.
- B.153 As set out above, we have used a two-step approach to estimate Google's UK profits from its Mobile Platform.

Step 1: estimate of UK profits from mobile search

- B.154 To calculate our estimate of profits for Google's Mobile Platform at the UK level above benchmark levels for Google for 2024 we have:
- (a) First, taken our 2024 global Search and Search Advertising ROCE calculation, and compared it with an expected investor return of [redacted] [10-15]% based on Google's own estimated WACC for the Alphabet Group,¹²⁶ to estimate the global economic profit from Search and Search Advertising.
 - (b) Second, used UK Mobile Search Advertising revenue as a percentage of global Search and Search Advertising revenue to estimate an economic profit figure for Google's UK Mobile Search Advertising, applying this ratio to global economic profits.¹²⁷

Step 2: estimate of total UK profits from Mobile Platform

- (a) Applied to this calculation our estimate of the percentage share of Google's UK Mobile Search Advertising revenue to total UK search

¹²⁶ Google's response to section 69 notice in relation to SMS investigation into Google's general search and search advertising services, [redacted].

¹²⁷ [redacted].

revenue, to estimate Google's UK mobile profit from Mobile Search Advertising over and above its WACC; and

- (b) estimated 2024 EBIT for other UK Mobile Revenue not directly related to Google's Search and Search Advertising business. Given that all the assets have been attributed to search, this represents additional return on Google's investment in assets.

- B.155 As with our analysis of Google's global ROCE for Search and Search Advertising, we have considered a number of scenarios for how to calculate this measure, and our assessment is that they all suggest at least a comparable level of returns.
- B.156 Following this approach, we found that Google's Mobile Platform at the UK level earned at least £[REDACTED] more profit in 2024 than a return based on its estimate of WACC,¹²⁸ the majority of which relates to profits earned from [REDACTED]. We estimate that, even excluding indirect revenues from [REDACTED], Google's Mobile Platform at the UK level earned approximately £[REDACTED] more profit than a return based on its estimate of WACC.¹²⁹
- B.157 We have also compared this with a bottom up approach using our estimate of Google's operating profit for its Mobile Ecosystem,¹³⁰ and found the results are similar.

Forward-looking profitability analysis

- B.158 As part of the SMS investigation, we have also compared Google's recent financial performance with its financial projections relating to future revenues and profitability, based on available information, in order to assess whether current trends in revenues and profitability are expected to continue into the future.
- B.159 As part of this assessment, we have reviewed global revenue and profit projections submitted by Google for the period [REDACTED] for the mobile products and

¹²⁸ CMA analysis of Google's response to section 69 notice [REDACTED]. Google's response to section 69 notice in relation to SMS investigation into Google's general search and search advertising services, [REDACTED].

¹²⁹ Estimate excludes also our estimate of UK share of Pixel [REDACTED].

¹³⁰ CMA analysis of Google's response to section 69 [REDACTED]. Google's response to section 69 notice in relation to SMS investigation into Google's general search and search advertising services [REDACTED].

services that Google considers most relevant to the CMA's mobile SMS investigation,^{131,132} and have found that:

- (a) Google's Play Store projections showed [REDACTED] total revenues and operating profit over the period [REDACTED].¹³³
- (b) Google's global search revenue projections [REDACTED].¹³⁴
- (c) Pixel device revenues [REDACTED].¹³⁵
- (d) Google One revenues and operating profits were projected to [REDACTED].¹³⁶
- (e) Chrome and Android continue to be indirectly monetised through Search and Play revenues.¹³⁷
- (f) Google did not provide projections relating to its YouTube businesses.¹³⁸

B.160 We have found that the financial projections made available to us are consistent with Google continuing to generate high profits from its Mobile Platform.

Conclusion

B.161 Our analysis of Google's financial performance illustrates that it has consistently been highly profitable over the last ten years, including in relation to its Mobile Platform.

B.162 We have found through our profitability analysis that the global return on capital employed for Google has been at a level which may be one indicator of substantial market power. We have demonstrated this by comparing our estimates of Google's return on capital employed (ROCE) – its actual profitability – with Google's estimate of the Alphabet Group WACC.

¹³¹ With the exception of Google's Search and Search Advertising product area search advertising revenue projections, which were submitted for the period [REDACTED]. CMA analysis of Google's response to section 69 notice [REDACTED].

¹³² CMA analysis of Google's response to section 69 notice [REDACTED].

¹³³ CMA analysis of Google's response to section 69 notice [REDACTED].

¹³⁴ Google's response to section 69 notice in relation to SMS investigation into Google's search and search advertising services [REDACTED].

¹³⁵ CMA analysis of Google's response to section 69 notice [REDACTED].

¹³⁶ CMA analysis of Google's response to section 69 notice [REDACTED].

¹³⁷ CMA analysis of Google's response to section 69 notice [REDACTED].

¹³⁸ Google told us that [REDACTED]. CMA analysis of Google's response to section 69 notice [REDACTED].

- B.163 We have found that Google generates revenues and profits from its Mobile Platform through the Play Store (including Play Store Advertising), Mobile Search Advertising, and other mobile advertising. We have found that rather than directly monetising its mobile operating system (Android) and Chrome browser, Google indirectly monetises them through its broader Mobile Ecosystem.
- B.164 We have also found that Google has for many years been making operating profit margins from its Mobile Platform that are higher than for its overall business. Google's operating profit margins for its Mobile Platform are higher than for its business as a whole. We estimate that Google's Mobile Platform generated global revenues of at least \$[REDACTED] and operating profits of over \$[REDACTED] in the financial year ending 31 December 2024, and UK revenues of £[REDACTED] [10-20] billion. We estimate its global operating margin is higher than the 40% for the overall Google Services segment and 32% for the total Alphabet Group.
- B.165 Taking into consideration that Google's operating profit margins for its Mobile Platform is higher than for its business as a whole, we consider Google's Mobile Platform is at least as profitable as the Alphabet Group. We consider that Google is likely to generate a ROCE higher than 40% from its Mobile Platform, including for the UK, even when adopting a conservative sensitivity analysis, for example in relation to R&D costs and allocation of Alphabet Group level costs.
- B.166 Given the global nature of Google's cost reporting structures, and having seen no evidence that Google's Mobile Platform at the UK level has materially higher operating costs other than in relation to direct cost of sales, we estimate that Google's Mobile Platform at the UK level is generating economic profits over and above our estimate of the Alphabet Group's weighted average cost of capital.
- B.167 We estimate that this high return means that Google was able to earn at least £[REDACTED] billion of profits in 2024 from its Mobile Platform at the UK level over and above a return based on Google's estimate of the WACC for the Alphabet Group of [REDACTED] [10-15]%, primarily from [REDACTED].¹³⁹

¹³⁹ CMA analysis of Google's response to section 69 notice in relation to SMS investigation into Google's general search and search advertising services [REDACTED]. Google's responses to CMA analysis of Google's response to section 69 notice [REDACTED]; and Google's response to section 69 notice in relation to SMS investigation into Google's general search and search advertising services, [REDACTED]. Converted from USD to GBP at an annual average GBP vs USD exchange rate for 2024 of 1.2783 (Source: Bank of England).

B.168 Based on our review of Google's own financial projections of future revenues and profitability, we have not seen evidence that these high levels of profitability will not continue.¹⁴⁰

¹⁴⁰ We shared this provisional view with Google in the Proposed Decision and they had no comments.