



Internet – 10 Debates to Shape the Sector

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10 Debates to Shape the Sector

- 1 Where Will the Most Value Accrue Across the GenAI Era?
- 2 What is the ROIC of GenAI and Where Will We See it First?
- 3 Who is Best Positioned to Develop and Scale Digital Agentic Assistants?
- 4 How is the Search Landscape Changing (and not Changing) With GenAI?
- 5 How and When Will Physical AI Matter to the Tech Leaders?
- 6 How Will the Future of Online Grocery Evolve, Who Wins *and* Makes Money?
- 7 How Large Will Autonomous Driving Become and What's the Impact on Rideshare?
- 8 How are Autonomous Driving Unit Economics Evolving and What's the Impact on Rideshare?
- 9 Will GenAI be a Disruption Risk or Opportunity for Online Travel Agencies?
- 10 Regulatory Risks and Opportunities: GOOGL, TikTok, and App Store Fees

Debate 1

**Where Will the Most Value
Accrue Across the GenAI Era?**

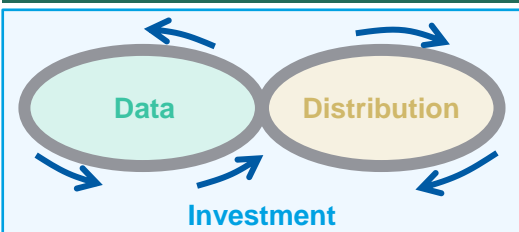






Where Will the Most Value Accrue Across the GenAI Era?

Our View

- Value of leading first party data sets/distribution has never been higher, favoring **large platforms, who should be investing aggressively...and early adopters**
- We also think the application layer (and domain specific uses) are likely to drive most value creation
- GenAI to drive more consumer utility and digitization of spend as TAMs expanding. As an example, we **now see a \$1.4tln+ opportunity for digital ads in the US alone**

Names Impacted

META (+), AMZN (+), GOOGL (+), APP (+), RBLX (+), PINS (+), DUOL (+), EBAY (+), MTCH (+), SNAP (-), KIND (-), YELP (-)

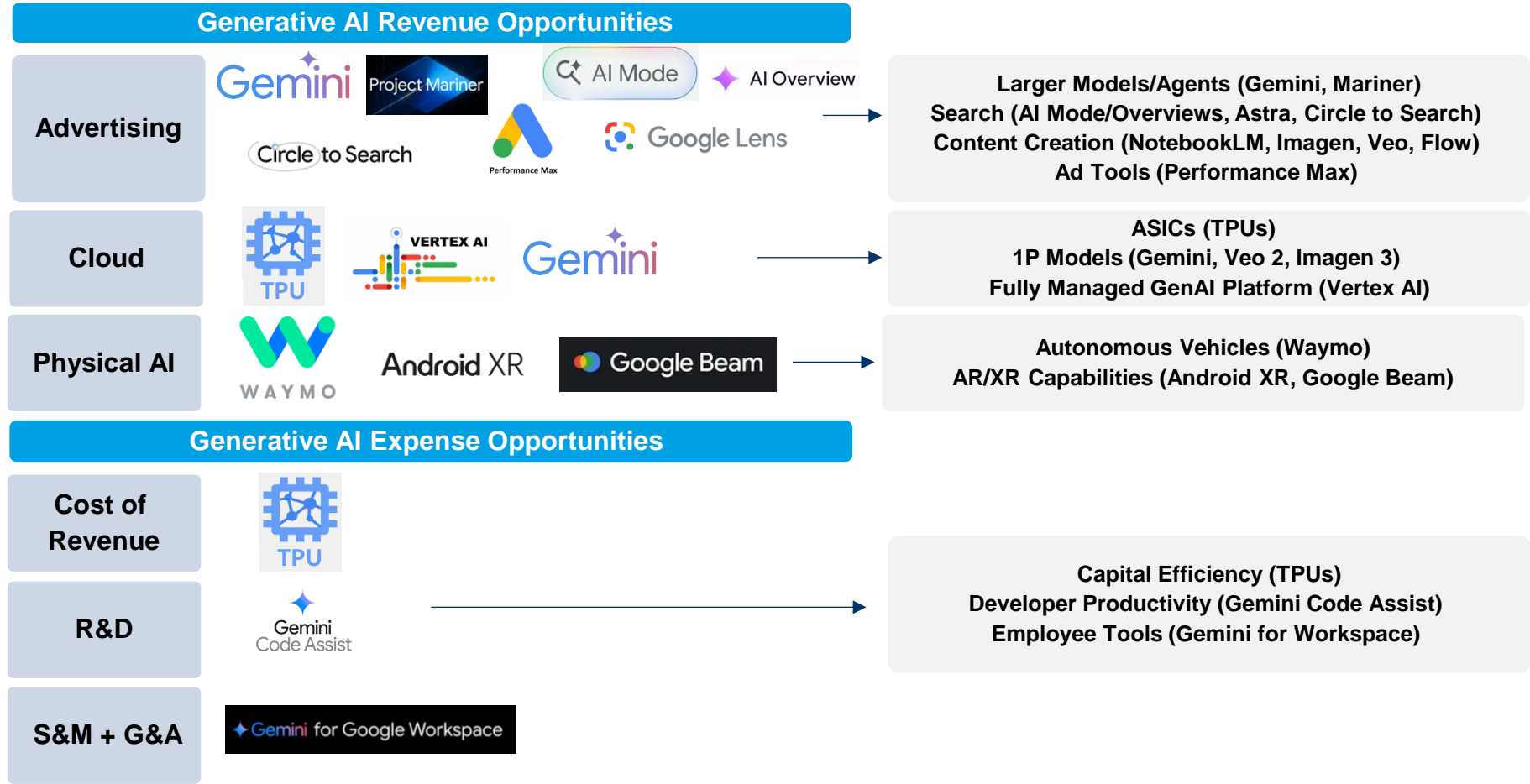
Data, Distribution, Investment		Mega Cap Examples		
				
3 Differentiators		Google	Meta	amazon
Data	<ul style="list-style-type: none"> • Scaled and unique first party data sets 	  +2bn users on 7 apps, +1.5bn users on AI Overviews, +500mn users on 15 services; 5tln annual search queries, Gmail, shopper & inventory data (50bn listings & 2bn updates to shopping graph per hour)	  +3bn daily active people across Family of Apps; Interest and engagement data. More than 10mn advertisers globally	  ~200mn+ Prime Members, ~30bn units sold annually, ~200mn+ Prime Video viewers, millions of AWS customers; ~2mn+ sellers
Distribution	<ul style="list-style-type: none"> • Channels to release products, drive adoption and generate new data 	Reach audience across full product offering (Gmail, Search, Cloud, etc.)	Access to users across social and messaging channels (Instagram, WhatsApp, etc.)	Access to global shopper base and millions of AWS customers
Investment	<ul style="list-style-type: none"> • Willingness and ability to invest in AI opportunities 	~\$75bn/\$91bn in '25E/'26E Infrastructure Capex	~\$72bn/\$81bn in '25E/'26E Infrastructure Capex	~\$82bn/\$98bn in '25E/'26E Infrastructure Capex

Key Research

[Internet & Software: GenAI Privates: Where Are We Now and 12 Debates From Here \(20 Dec 2023\)](#)
[Thematics: Mapping AI's Diffusion \(2 Jan 2024\)](#)
[Internet: Sizing the \\$6 Trillion AI Internet Opportunity and Who Will Capture It \(2 Mar 2023\)](#)

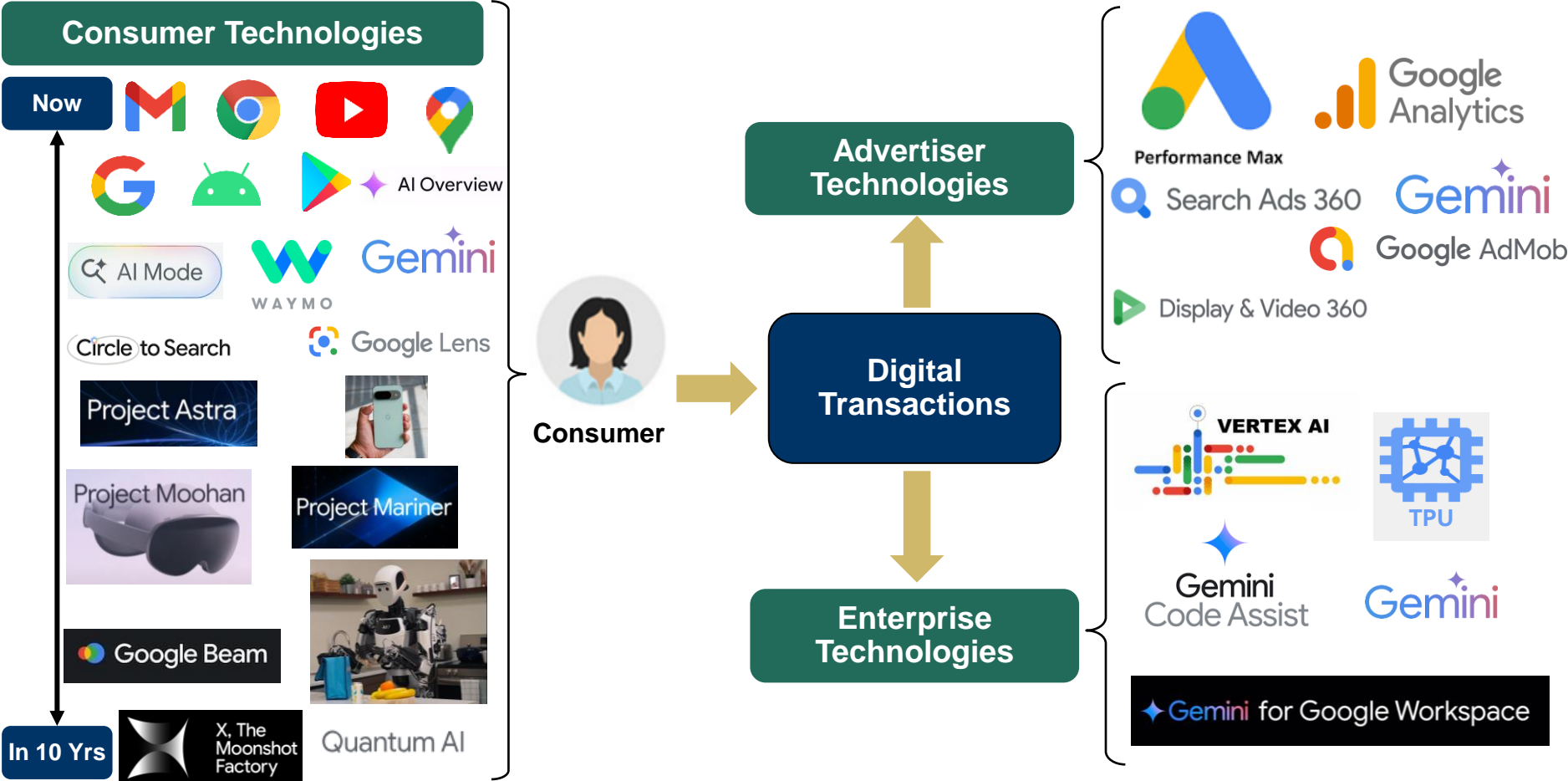
Where Will The Most Value Accrue Across the GenAI Era? - Continued

Consider GOOGL’s Platforms and Agentic Possibilities As a Case Study



Where Will The Most Value Accrue Across the GenAI Era? - Continued

As GOOGL's Tools Will Drive More Consumer and Enterprise Utility and Further Digitization of Spend



Debate 2

**What is the ROIC of GenAI and
Where Will We See it First?**

What is the ROIC of GenAI and Where Will We See it First?

Our View

- We detail a path to **\$1tn+** of GenAI-enabled annual revenue by '28, with **~60%+** of it driven by **consumer Internet platforms**
- Implies **~67%** contribution margin on **~\$556bn** in total capex, with **~\$466bn** in hyperscaler capex in '28
- Best part of consumer opportunity is **~25% (\$175bn)** is **essentially large cap tech core platform improvements**, not entirely new businesses

Names Impacted

META (+), AMZN (+), GOOGL (+)

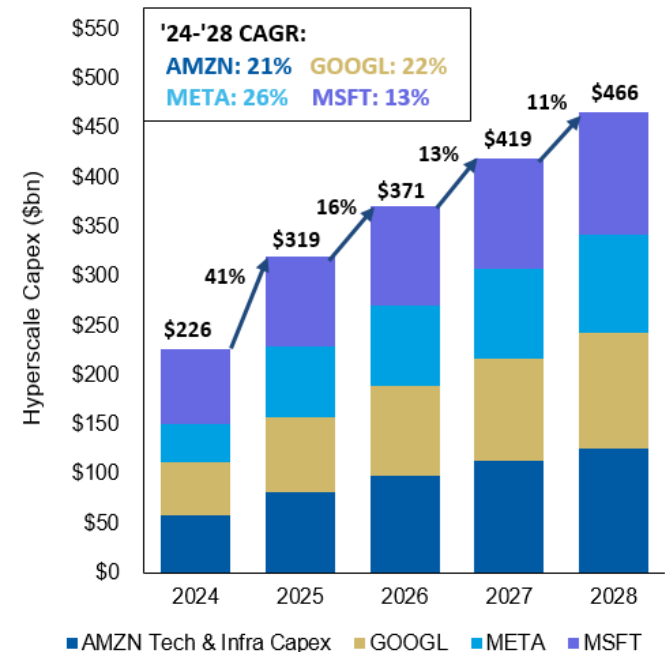
We See Path To \$1tn+ of Gen-AI Enabled Revenue with ~62% from E-Commerce and Online Ads



Breaking down the GenAI ROI –
looking at the **returns, investment, and operating costs**



Where do we see the returns?



Key Research

[Global Technology: GenAI Monetization – Assessing The ROI Equation \(25 Feb 2025\)](#)

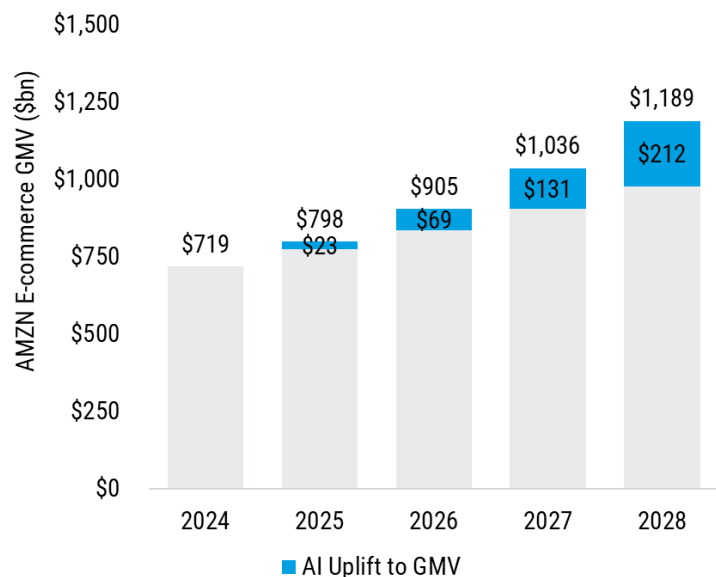
[Economics & Sustainability: How GenAI May Reshape Labor and the Economy \(12 Oct 2023\)](#)

[Thematics: Multi-Earning in a GPT Era \(18 Sep 2023\)](#)

Amazon (AMZN): Leading with AWS, but Retail GenAI Opportunities Under-Appreciated

- Retail:** Expect AMZN's leading (and improving) retail matching algos, personal shopping assistants (Rufus/Alexa), generative 3P seller tools, improving inventory management, ad offerings, and emerging logistics robotics to drive **more durable and cash-flow generative e-commerce growth and share gains**

We see GenAI Potentially Driving a ~10% Lift to E-commerce Conversion, Adding ~550bp to AMZN Multi-Year Growth...



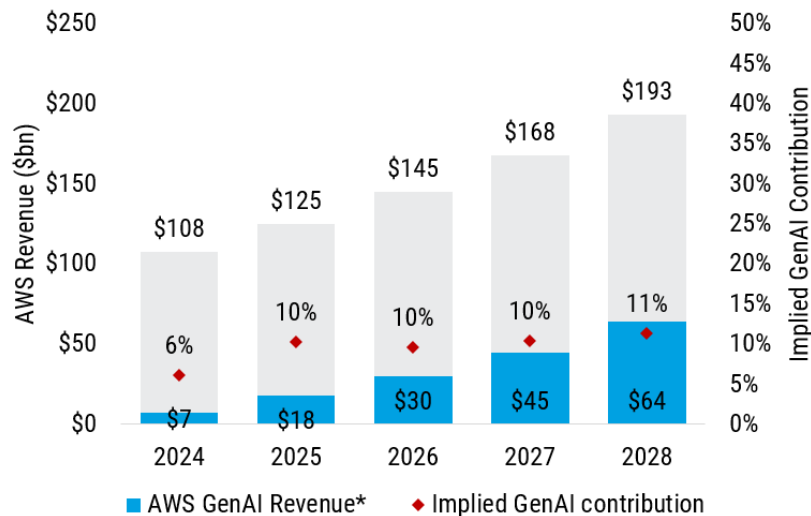
...and Robotics Could Drive \$10B+ of Recurring Efficiencies

\$ (millions) upside to 2030 AMZN EBIT					
Robotics Improvements to Fulfillment Cost per Unit	% of US Fulfillment Centers with Latest Robotics/Automation				
		10%	20%	30%	40%
	20%	\$1,580	\$3,161	\$4,741	\$6,322
	25%	\$1,976	\$3,951	\$5,927	\$7,902
	30%	\$2,371	\$4,741	\$7,112	\$9,482
	35%	\$2,766	\$5,531	\$8,297	\$11,063
	40%	\$3,161	\$6,322	\$9,482	\$12,643

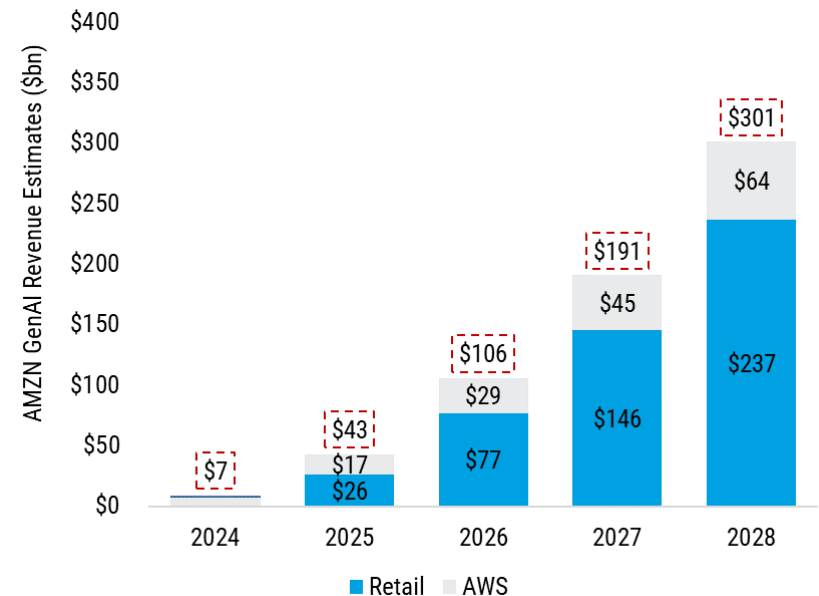
Amazon (AMZN): Leading with AWS, but Retail GenAI Opportunities Under-Appreciated

- **AWS:** Leading hyperscaler position and 3 layers of GenAI enabled offerings (chips and custom silicon, model access and building capabilities, and applications) set to drive and benefit from GenAI diffusion across economy
- **Total AMZN:** We see a ~\$300bn '28 AMZN GenAI rev opportunity (most of which is not currently in our base model)

We model AWS GenAI revenue to grow from \$7bn in '24 to \$64bn in '28 (70%+ CAGR)



In all, we see AMZN GenAI related revenue potentially reaching ~\$300bn by '28



* Note: AWS does not disclose revenue associated with GenAI ; MS assumes AWS GenAI Revenue dollars are equal to MS calendar year estimates for MSFT Azure AI Revenue dollars

Debate 4

**How is the Search Landscape
Changing (and not Changing)
With GenAI?**

How is the Search Landscape Changing (and not Changing) With GenAI?

Our View

- **Query volumes accelerating**, we model 13% '23-'26 search volume growth (vs 5% in past)
- **Focus on monetizable behavior.** GOOGL continues to see increasing commercial queries driven by AI improvements. GOOGL at top of consumer funnel and ranks higher than GPT across multiple commercial behaviors. **The key for GOOGL is to continue shipping products** to more users to drive adoption
- META AI search still early, though its data, scale, and innovation make search an opportunity to monitor

Names Impacted

GOOGL (+), META (+)

GOOGL is Shipping GenAI Enabled Improvements Faster than Ever

Product	What is it?	When is it Launching?	Who is it Launching to?
AI Mode	End-to-end search, with more advanced reasoning abilities. Built into a separate tab within traditional search page	Today	Available in US
Personal context for AI Mode	Ability for Gemini to use relevant context across user's Google apps (with permission) to provide personalized AI Mode experience	Summer	
Deep Search for AI Mode	Uses query fanning technique to conduct multiple searches at a time to create a expertly cited report in minutes	Summer	
Complex analysis & data visualization in AI Mode	Ability for AI Mode to analyze data across the web to create helpful charts in response to user queries	Summer	
Project Mariner agentic capabilities into AI Mode	Agentic capabilities within AI Mode initially focused on event tickets, restaurant reservations, and appointments for local services	Summer	
Search Live on AI Mode	Project Astra capabilities coming to AI Mode (Visual search)	Summer	
Visual shopping and agentic checkout	Ability within AI Mode to specify a product and prompt an agent to monitor price changes. Ultimately the user can also purchase directly through the AI agent using Google Pay	Coming months	
"Try on" Shopping Feature	Visual feature where user can "try on" clothing by inputting an image of themselves and selecting a product to try on	Today	Available in US

Key Research

[Alphabet: Addressing Disruption Debates and Why to Buy GOOGL Now \(8 May 2025\)](#)

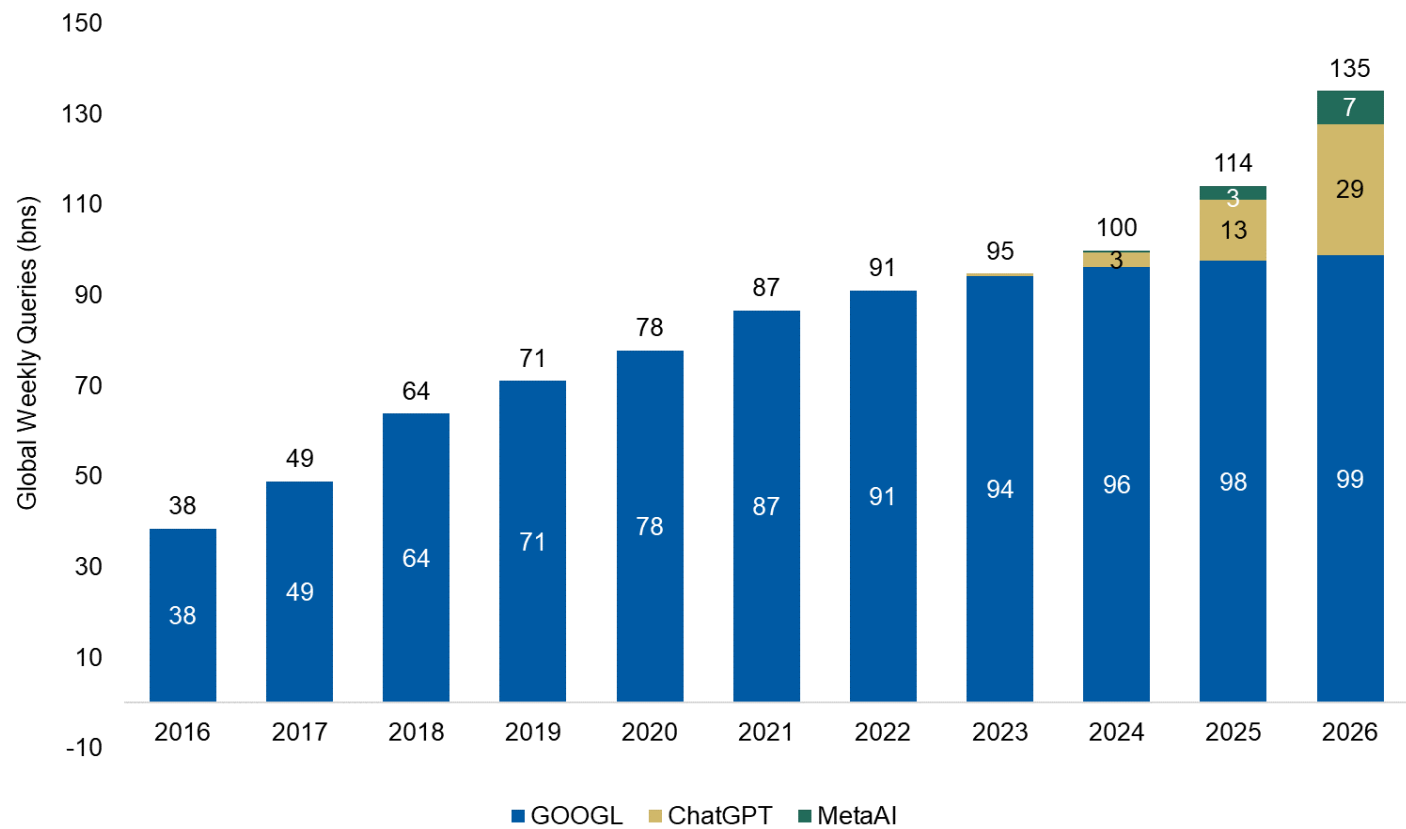
[Alphabet Inc.: How Search Will Become More Agentic...in 2025 \(21 May 2025\)](#)

[Internet: How is GenAI Adoption Trending and Consumer Behavior Changing? \(18 May 2025\)](#)

How is the Search Landscape Changing (and not Changing) With GenAI? - *Continued*

We Estimate The Emergence of AI Based Search Engines Has Expanded the Query TAM, Driving a ~13% '23-'26 Query CAGR, up from ~5% from '21-'23.

- We exclude Perplexity and Grok from the exhibit given their size, as they currently make up 0.2% and 0.5% of overall queries respectively.



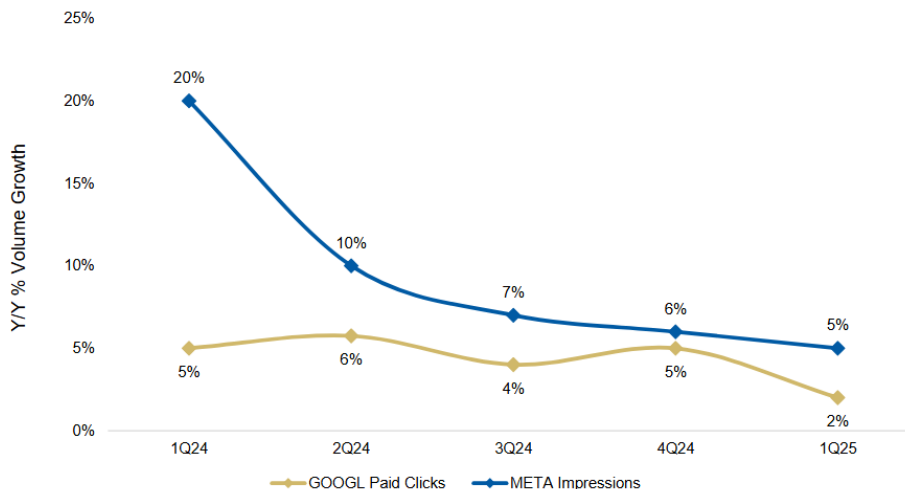
Source: Company data, Morgan Stanley Research

Note: Perplexity and Grok are too small to drive a material change in number of queries by 2025

How is the Search Landscape Changing (and not Changing) With GenAI? - *Continued*

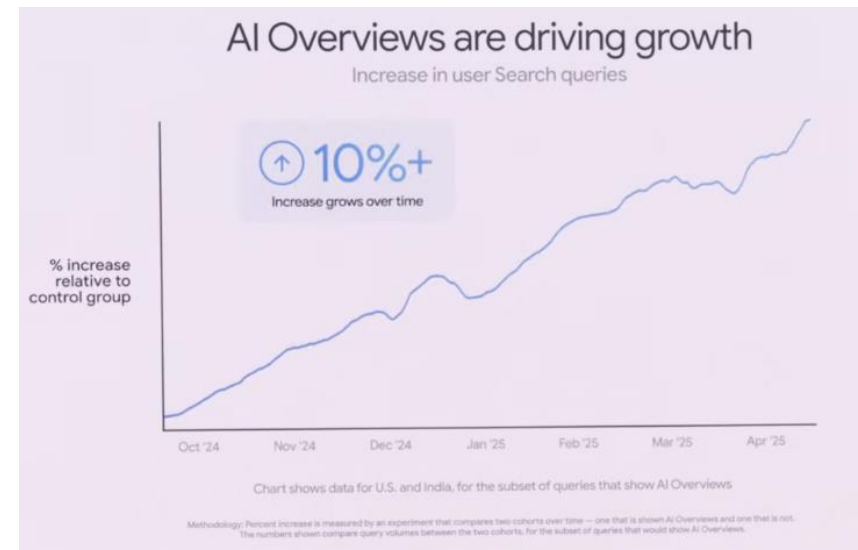
GOOGL Paid Click Deceleration Similar to META...

Part of GOOGL's paid click deceleration likely driven by AI-based search functionality which better targets users, resulting in the need for fewer clicks, in some ways similar to META's falling impression growth.



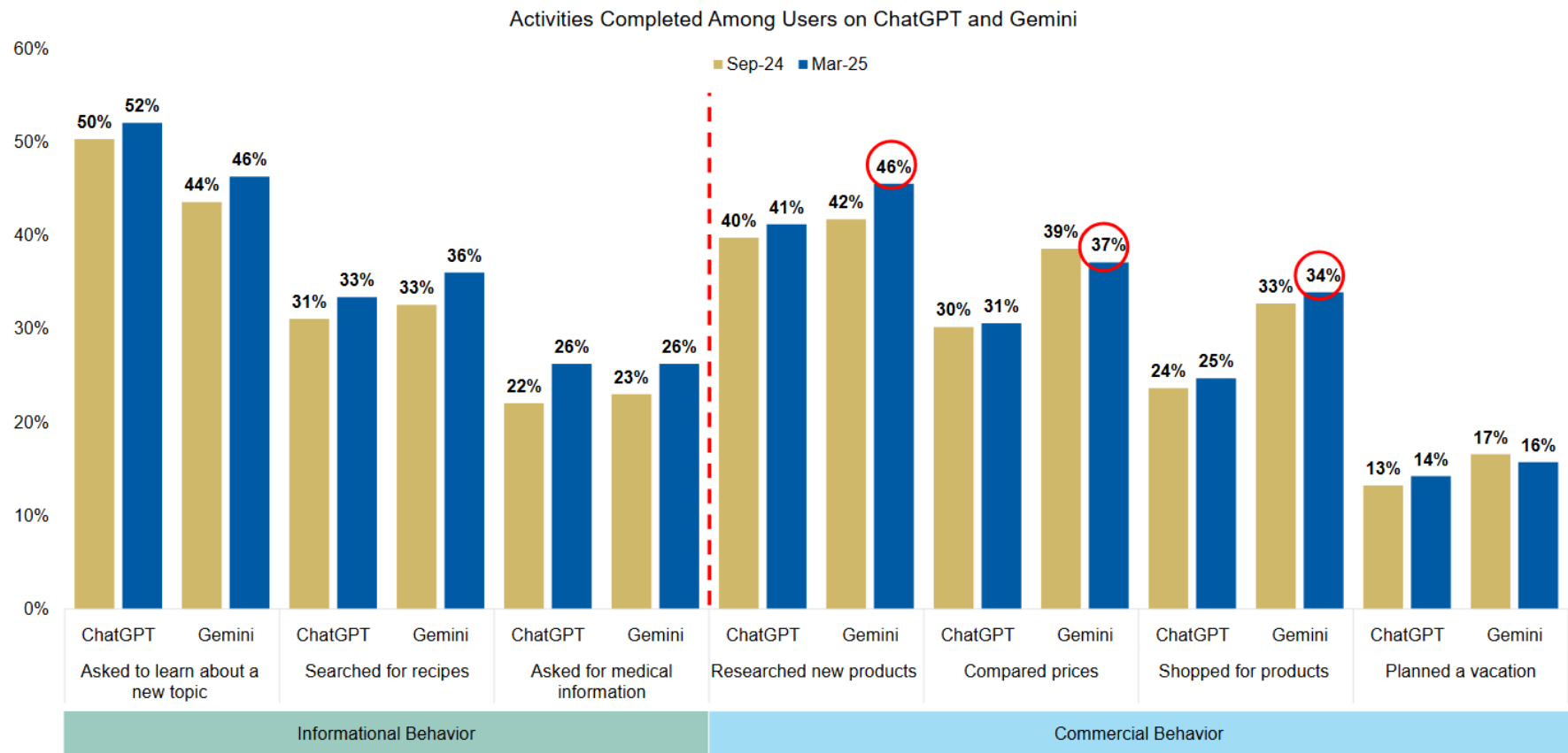
...AI Overviews Driving Increased Search Usage

In GOOGL's biggest markets like the US and India, AI Overviews is driving over 10% increase in usage of Google for types of queries that show AI Overviews.



How is the Search Landscape Changing (and not Changing) With GenAI? - *Continued*

Survey Results Indicate Gemini Has a Slight Edge Over ChatGPT in Commercial Behavior



Debate 9

**Will GenAI be a Disruption
Risk or Opportunity for Online
Travel Agencies?**

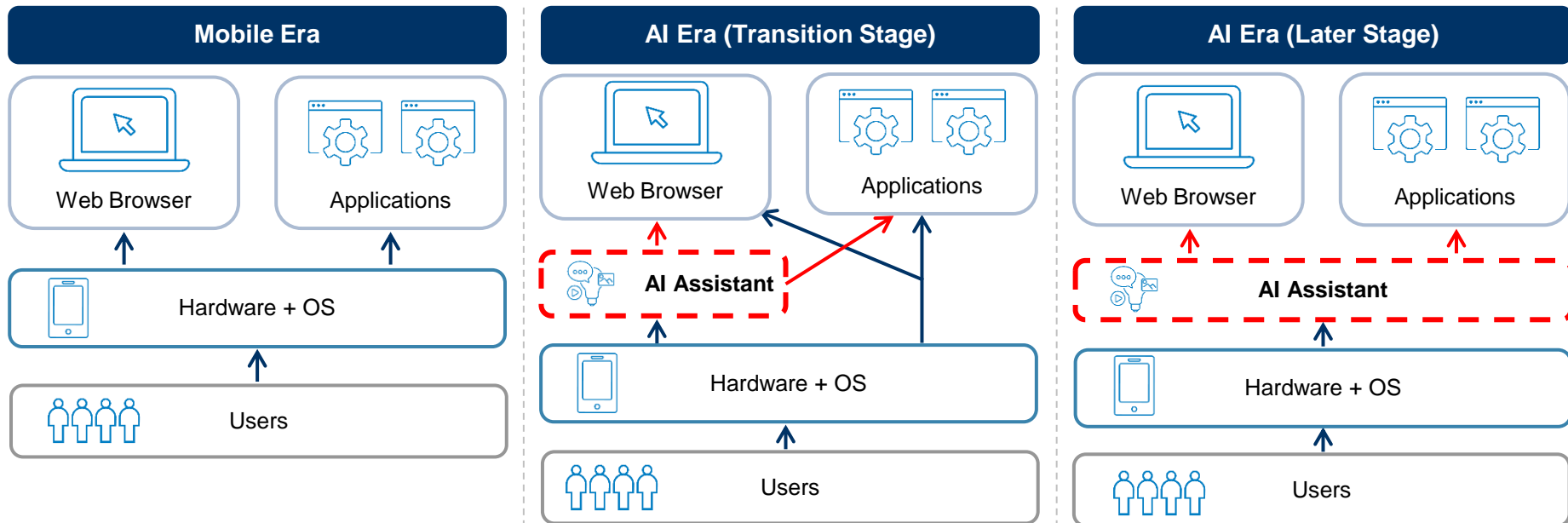
Will GenAI be a Disruption Risk or Opportunity for the Online Travel Agencies?

Our View

- We believe it is **more of a threat to OTAs' long-term position in the consumer funnel** as we see GOOGL (and/or META) leveraging their leading position, data, and engineering to build personalized, interactive digital travel agents that could wedge themselves between the consumer and OTAs
- This poses a risk to the % of OTAs' business that comes direct (currently makes up the majority of their profits)
- Counter argument** is the extent to which OTAs can invest to better leverage their leading data, matching capabilities and supply/inventory could drive higher conversion and they become the agents

Names Impacted

EXPE (-), BKNG (-), ABNB (=)



Key Research

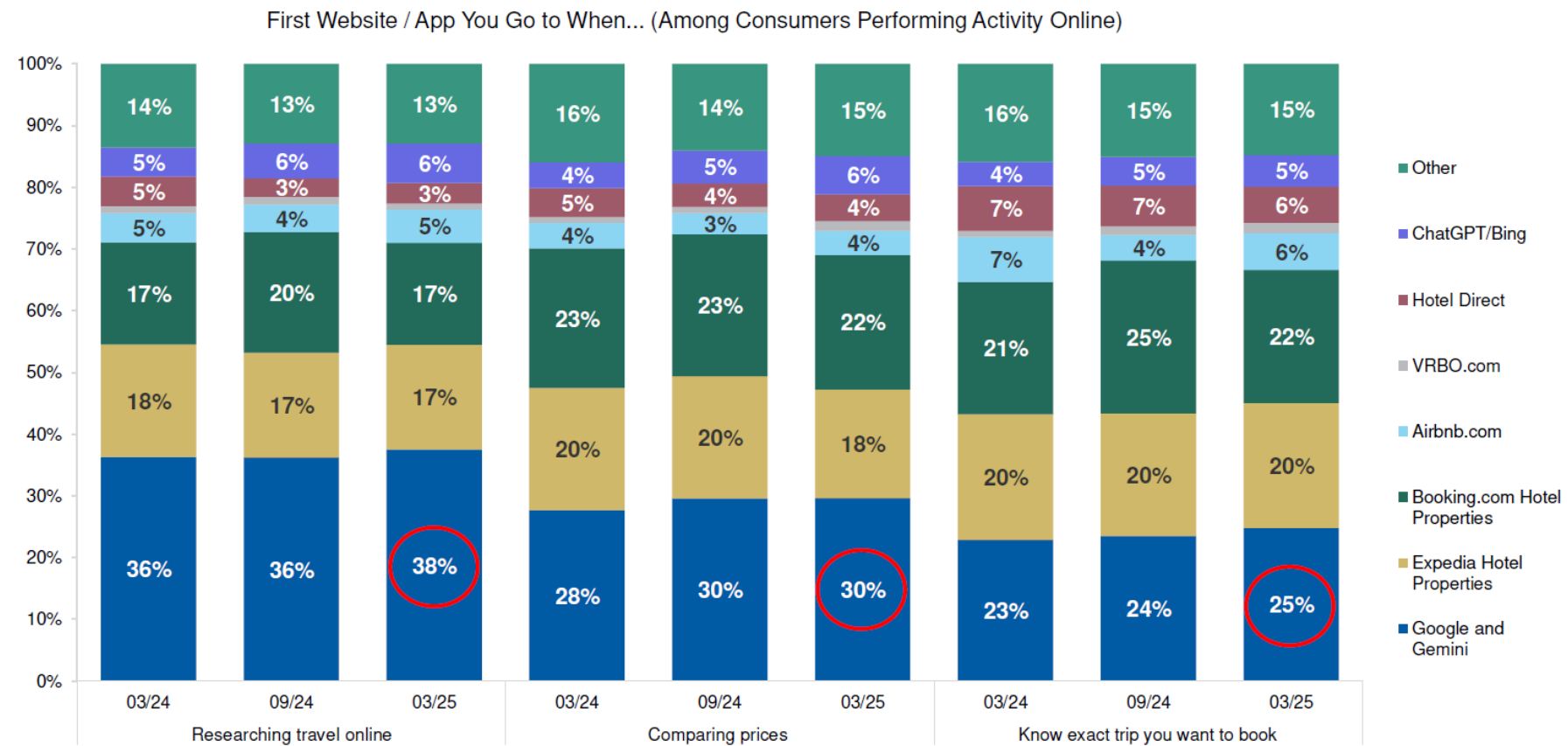
[Internet: Let the GenAI "Travel Funnel" Debate Begin \(15 May 2024\)](#)

[Internet: Is Google's Position in The Online Commercial Funnel Changing? \(14 Nov 2024\)](#)

[Online Travel: Could New AI-Based Tools Disrupt Online Travel Behavior...and Who is Best Positioned to Drive Change? \(20 Jul 2023\)](#)

Will GenAI be a Disruption Risk or Opportunity for Online Travel Agencies? - Continued

GOOGL Remains Top of the Consumer Travel Funnel...Which Combined with Investments in Agentic, Personalized Offerings Creates an Opportunity for Further Online Travel Monetization




Source: AlphaWise, Morgan Stanley Research

Consider Some of GOOGL's Early NextGen Travel Planning Tools

GOOGL's AI-Powered Trip Planning Capabilities

My family and I are going to Miami for Labor Day. My son loves art and my husband really wants fresh seafood. Can you pull my flight and hotel info from Gmail and help me plan the weekend?


Happy to help! Just found flight and hotel info in Gmail. Let's plan together:



Miami Weekend Escape: Art, Seafood and Sun
Explore, organize, and visualize how your travel activities come together. You can also invite others to view and weigh in on the plan!

No thanks [Start a plan](#)


6:00 pm 1 hr Drop your bags off and freshen up




InterContinental Miami, an IHG Hotel
4.5 ★★★★★ (6.1K)
Overlooking Biscayne Bay, this upmarket high-rise hotel is an 8-minute walk from the Olympia Theater...

15 min walk


7:30 pm 2 hrs Enjoy fresh seafood



CVI.CHE 105
4.8 ★ (20K) • \$\$



The River Oyster bar
4.5 ★ (1.7K) • \$\$



Luke's Lobster Brick...
4.5 ★ (1K) • \$\$

[More ideas](#)

Day 2 • Sunday, September 1st

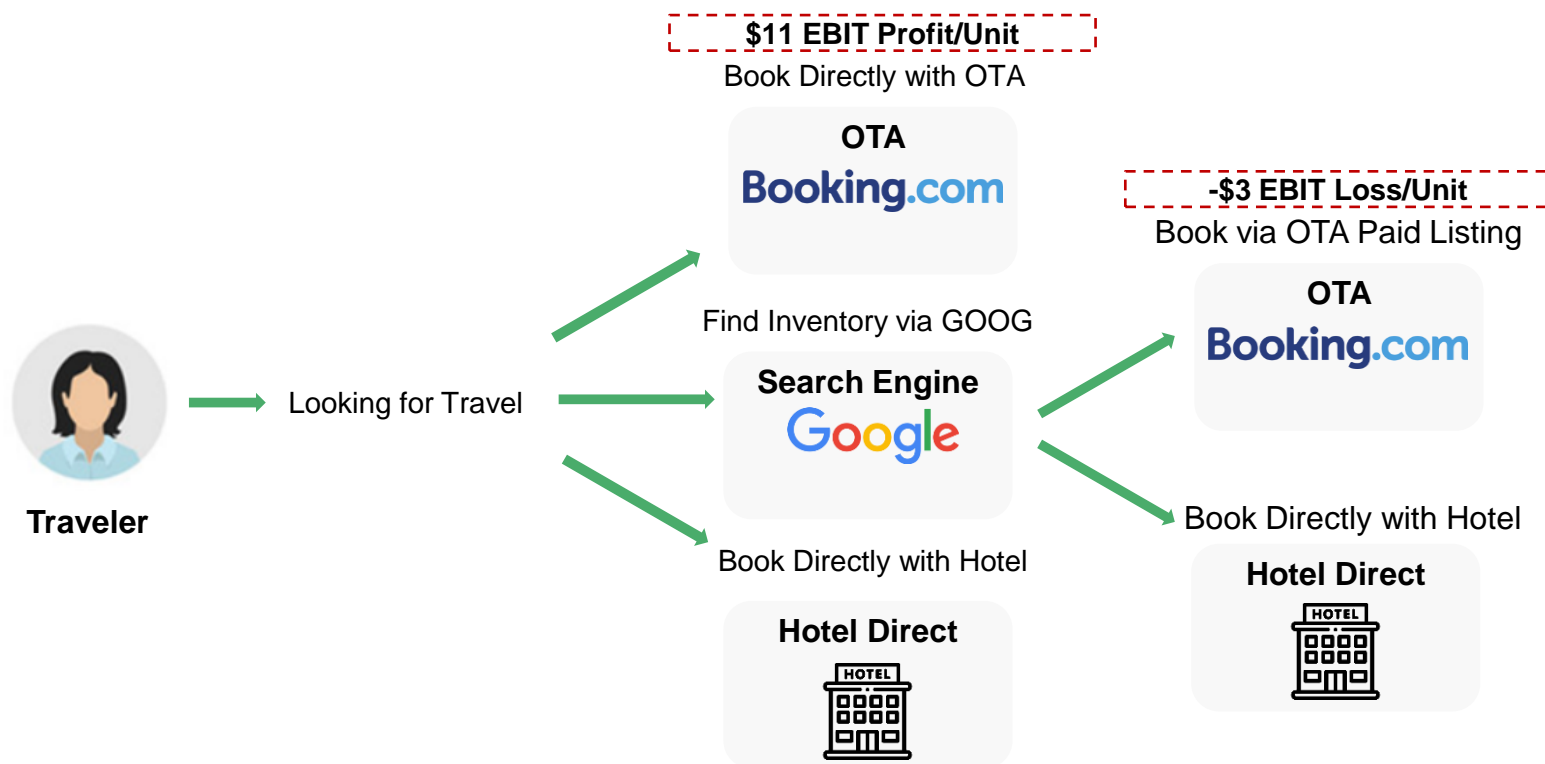
Ready for your action-packed day? Start your morning with an introduction to Miami art scene followed by an exploration of the vibrant street art scene and interactive museum exhibits. Don't forget to book the walking tour, get museum tickets and check for restaurant reservations advance.

8:00 am Wake up

InterContinental Miami, an IHG Hotel

With the Risk to the OTAs Being Loss of Direct Traffic Mix and Profitability

At BKNG We Estimate There's a \$14 EBIT/unit Delta on a Direct vs. Paid Unit



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(as of May 31, 2025)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1493	40%	379	46%	25%	698	41%
Equal-weight/Hold	1650	44%	372	45%	23%	782	46%
Not-Rated/Hold	4	0%	0	0%	0%	2	0%
Underweight/Sell	602	16%	74	9%	12%	235	14%
Total	3,749		825			1717	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Source: Morgan Stanley

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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INDUSTRY COVERAGE: Internet

COMPANY (TICKER)	RATING (AS OF)	PRICE* (06/06/2025)
Brian Nowak, CFA		
Airbnb Inc (ABNB.O)	U (12/06/2022)	\$140.64
Alphabet Inc. (GOOGL.O)	O (08/11/2015)	\$173.68
Amazon.com Inc (AMZN.O)	O (04/24/2015)	\$213.57
Booking Holdings Inc (BKNG.O)	E (01/09/2019)	\$5,614.61
DoorDash Inc (DASH.O)	O (02/21/2024)	\$218.45
Expedia Inc. (EXPE.O)	E (01/09/2019)	\$176.55
Instacart (CART.O)	E (01/29/2024)	\$45.67
Lyft Inc (LYFT.O)	E (10/24/2019)	\$15.53
Meta Platforms Inc (META.O)	O (03/20/2023)	\$697.71
Nextdoor Holdings Inc (KIND.N)	U (05/12/2025)	\$1.62
Pinterest Inc (PINS.N)	E (03/28/2022)	\$34.20
Reddit Inc (RDDT.N)	O (12/08/2024)	\$121.29
Snap Inc. (SNAP.N)	E (07/22/2024)	\$8.27
Uber Technologies Inc (UBER.N)	O (06/04/2019)	\$85.60
Matthew Cost		
AppLovin Corp (APP.O)	O (04/10/2025)	\$417.89

Compass, Inc. (COMP.N)	E (07/20/2022)	\$6.29
Criteo SA (CRTO.O)	E (01/26/2016)	\$26.10
DoubleVerify Holdings Inc (DV.N)	E (06/25/2024)	\$14.79
Electronic Arts Inc (EA.O)	E (08/04/2021)	\$149.57
Integral Ad Science Holding Corp. (IAS.O)	E (04/16/2024)	\$8.22
Opendoor Technologies Inc (OPEN.O)	E (07/24/2023)	\$0.68
Playtika Holding Corp (PLTK.O)	E (11/27/2022)	\$4.89
Roblox Corporation (RBLX.N)	O (11/04/2024)	\$95.80
Shutterstock Inc (SSTK.N)	E (07/28/2022)	\$17.62
Take-Two Interactive Software (TTWO.O)	O (02/01/2018)	\$232.72
Trade Desk Inc (TTD.O)	O (06/01/2023)	\$71.46
Unity Software Inc (U.N)	O (09/02/2024)	\$25.13
Webtoon Entertainment Inc (WBTN.O)	E (07/22/2024)	\$8.74
Yelp Inc (YELP.N)	U (01/10/2019)	\$37.00
Zillow Group Inc (Z.O)	E (04/18/2018)	\$70.29

Nathan Feather

Bumble Inc. (BMBL.O)	E (03/08/2021)	\$5.31
Chewy Inc (CHWY.N)	O (10/31/2023)	\$48.21
Duolingo Inc (DUOL.O)	O (04/23/2025)	\$512.95
eBay Inc (EBAY.O)	O (04/18/2024)	\$78.61
Etsy Inc (ETSY.O)	U (04/18/2024)	\$63.81
FIGS, Inc. (FIGS.N)	E (02/29/2024)	\$5.09
Match Group Inc (MTCH.O)	E (04/18/2024)	\$31.84
Peloton Interactive, Inc. (PTON.O)	E (03/14/2022)	\$7.30
Revolve Group Inc (RVLV.N)	E (10/20/2024)	\$22.28
WW International Inc (WGHTQ.PK)	NR (05/20/2025)	\$0.27

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* Historical prices are not split adjusted.