

Google Analysis Report:

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Introduction:

Initially starting from a research project at Stanford University, Google Inc was founded in 1998 by Larry Page and Sergey Brin. Larry and Sergey's dedication to organize and refine information to increase accessibility for the consumers, elevated the internet media industry into securing a dominant presence in the global marketplace. Google Inc's devoted effort to continuously enhance the users' experience allowed it to become a global technology leader with emphasis on improving the ways people connect with information (10-K Form, 2014). Since its IPO on 2004, Google's share price accelerated from its initial offering price of \$85 to \$603.57 by July 22, 2014. Google's prowess in its search engine technology allowed it to achieve the following milestones:

- launched Google Map and Google Earth in 2005,
- recorded 1 billion unique visits in 2011,
- became the most dominant search engine by attracting 88.8% of global market share by 2012; and
- activated 1 billion android devices in 2013.

Google's dominance in its search engine technology provided opportunities for the company to realize significant advertisement revenues, which propelled Google to indulge in various acquisitions to foster greater growth. Google's key acquisitions are illustrated from the following:

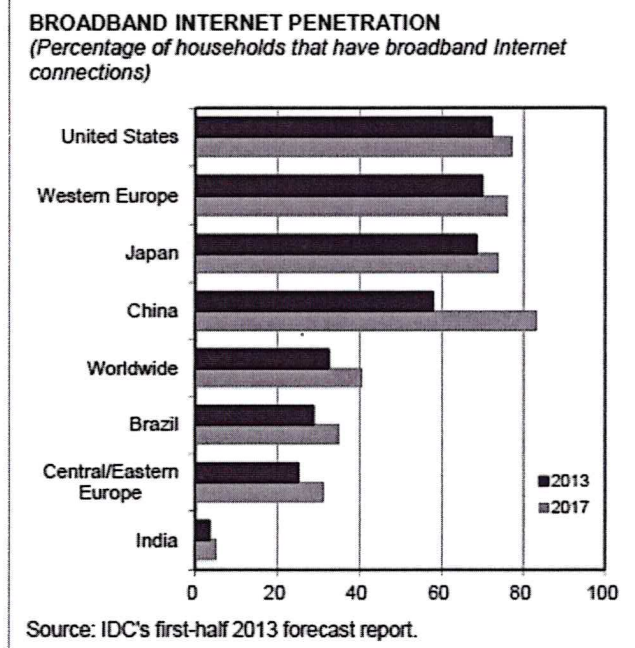
- Applied Semantics in 2003 to launch Google AdSense,
- Keyhole in 2004 to aid the launch of Google Maps and Google Earth,
- Android in 2005,
- YouTube in 2006,
- Double Clicks in 2007,
- Motorola in 2011,

- Waze in 2013 for GPS navigation for smartphones; and
- Nest in 2014 for Wi-Fi enabled, self learning thermostats and smoke detectors.

The modified capital structure of retaining majority of shareholder votes to the company founders imply that Google may become more aggressive in pursuing larger acquisitions (Gillis, 2014). Ultimately, with respect to Google's search business' cash flow abilities, it is clear that the founders will keep investing company capital to discover new areas of growth (Gillis, 2014). During the duration of five years, Google's estimated profit margins have exceeded 23% of its revenue, which derived from its enormous market share (Hoopes, 2014). By the nature of the industry, Google needs to continuously retain its earnings to invest in new technologies to sustain its dominant position.

Industry Overview:

With the emergence of the internet, consumers realized the value of this tool as it provided greater convenience for communication, research, shopping and leisure. As the internet is still in a growth phase, the key factor for internet's growth can be traced back to the availability and the affordability of PC's and internet access (Kessler, 2014). It is clear that the Internet has been one of the fastest



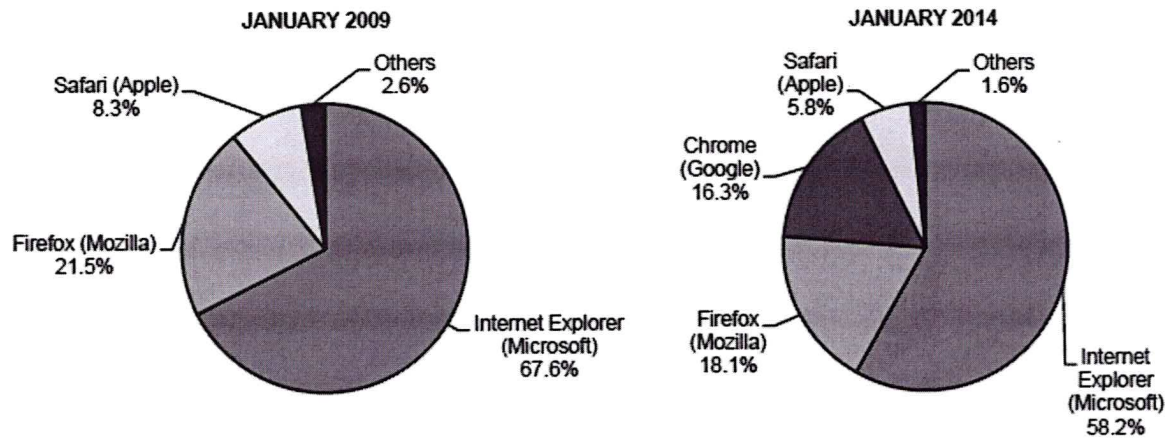
growing commercial phenomena in history, as the number of web servers increased from 10,000 in 1994 to approximately 550 million by 2011 (Kessler, 2014). According to the *2014 Consumer*

services and the Internet report by S&P Capital IQ Equity research, 71% of US household had broadband access and also illustrated that broadband penetration is expected to increase to 77% by 2017. From the increasing accessibility of PC's and internet access, internet usage will experience further growth due to the growing availability of wireless fidelity (Wi-Fi) technology. The growing trend of internet usage triggered businesses, such as hotels, cafes and airports to provide internet connection for wireless users. With the growing demand for mobile connectivity, Wi-Fi technology is expanding to provide stronger and faster connection to fulfill consumers' needs. Moreover, new high speed 4G or LTE (long-term evolution) mobile communications networks have been launched by major US carriers like AT&T Corp., Sprint Nextel Corp., and Verizon and are investing in enhancing and expanding related capabilities (Kessler, 2014).

Browsers:

A browser is a software that allows users to retrieve and display information from the World Wide Web, and it is an essential component of the internet (Kessler, 2014). Browsers do not generate revenue per se, but contributes to the increase in traffic, which provides greater exposure for companies' websites. According to the online utility provider Net Applications, in January 2009, Internet Explorer had the leading global market share of 68% ; however, as of January 2014, Internet Explorer's worldwide share had dropped to 58% (Kessler, 2014). With the emergence of Google Chrome in 2008, the company was able to gain significant portion of market share as it demonstrated higher stability, speed, security and simplicity and as a result; retained 16.3% market share by 2014 (Kessler, 2014).

BROWSER MARKET SHARE

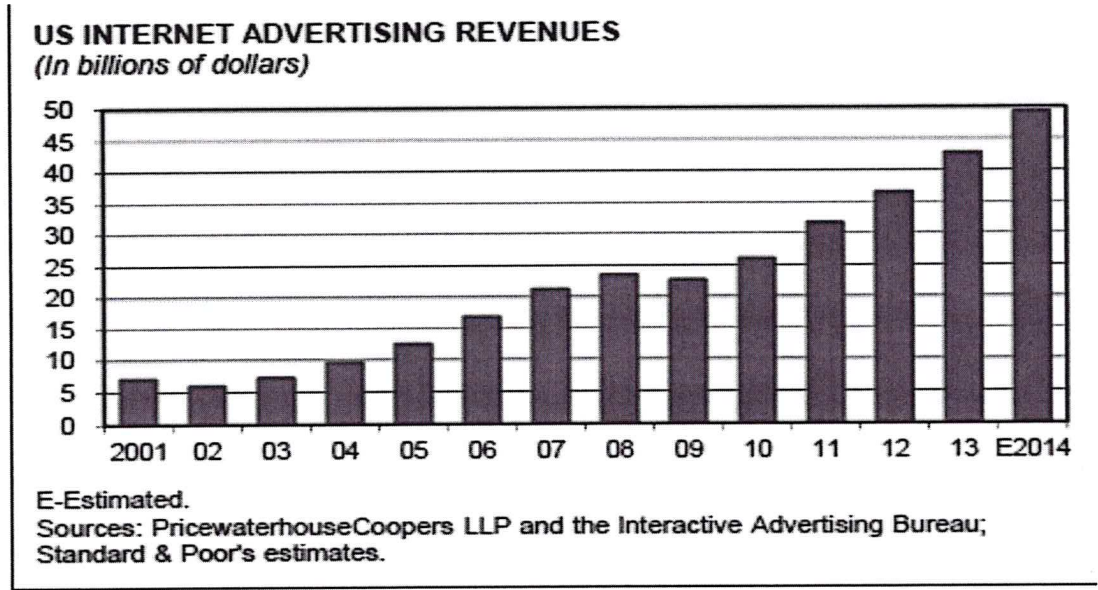


Source: Net Applications.

Search Engine:

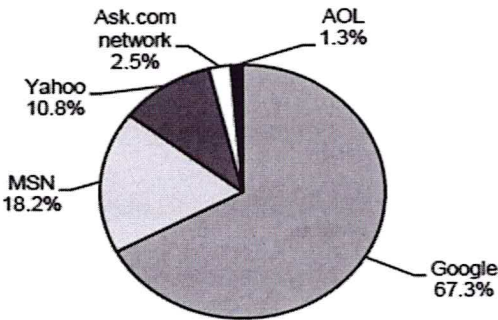
The search engine industry cemented itself as one of the most innovative industries in the United States by demonstrating an annualized growth rate of 7.3% to \$22.4 billion (Hoopes, 2014). As internet became an essential medium for both communication and content, dominant search engines attracted advertisers with the possibility of capturing greater exposure of their products and services through high traffic. The key external drivers for the search engine industry are mobile connectivity, consumer spending, percentage of services conducted online, total advertising expenditure, and demand from internet publishing. Mobile connectivity is seen as a major driver of industry growth, vastly expanding the utility and scope of search engines by allowing consumers to access them from devices other than computers (Hoopes, 2014). Another key industry driver is total advertising expenditure. As this industry's revenue is contingent with advertisement, any reduction in advertisement expenditure imposes a potential threat. Because search engine ads have superior cost effectiveness compared with traditional media, search engines experienced smaller declines in revenue amid the recession (Hoopes, 2014). Search

engines derive most of their revenues by delivering ads to users based on the search term entered; thus, under this business model, advertisers create ads targeted to specific keyword queries, and the search engine determines which ads to present based on an advertiser's offering price and the ad's popularity (Hoopes, 2014).



The *Search Engines in the US* industry report by IBIS illustrated that the average industry profit margin to reach 19.7% of revenue by 2014. The following figure illustrates the leading search engines in the US by market share. The subsequent figure outlines the search engine market

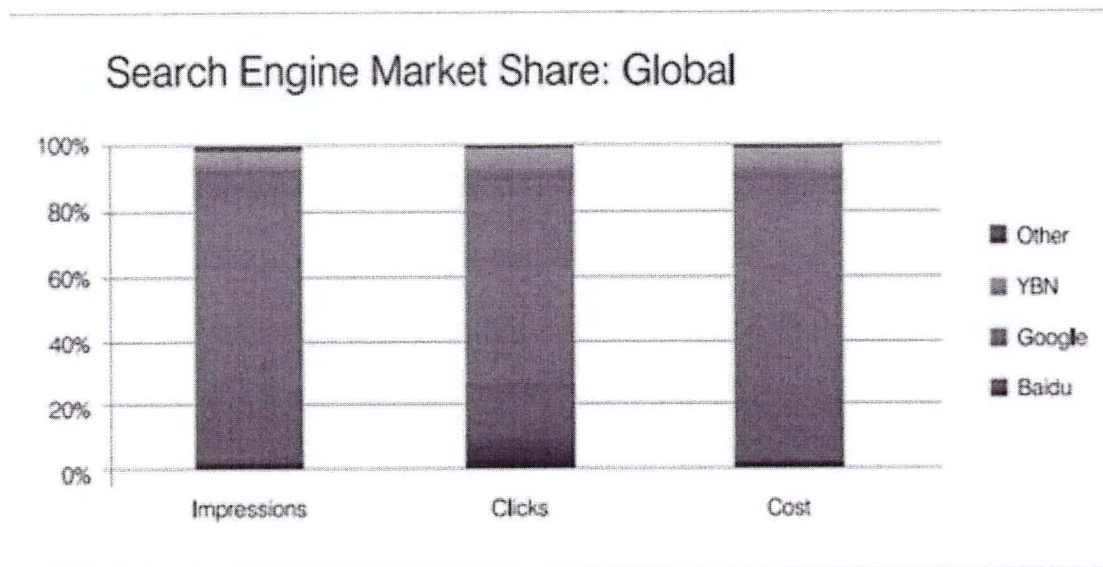
SHARE OF US INTERNET SEARCHES
(Leading five search engines, as of December 2013)



Totals may not add due to rounding.
Source: comScore.

share in respect to the global market. The bar graph is categorized by impressions, clicks, and cost. By internalizing the data, it is clear that Google possess a dominant position in the industry. According to the *Technology Report* by BGC, global paid search advertising has grown by 25% year-on-year (yoy) basis and also illustrated that Google continues to be the market leader

globally with a market share of 84% in spends, 86% in impressions, and 65% in clicks (Gillis, 2014).



Source: Google and Needham & Company, LLC estimates

Online Video Ads:

Online video advertising has become increasingly relevant to growth, especially following Google's acquisition of YouTube in 2006 and experienced significant increases in digital advertising revenue of 127% in 2008, 36% in 2009, 30% in 2010, 46 % in 2011, 15% in 2012 and 36% in 2013 (Kessler, 2014). Also S&P Capital IQ estimated that revenues are projected to rise 25% in 2014 (Kessler, 2014). Moreover, according to Forrester Research, US online retail sales increased around 13% to \$176 billion in 2010, 14% to \$200 billion in 2011, and 14% to \$231 billion in 2012 (Kessler, 2014). By interpreting the given data, it is evident that online video advertising is significantly growing. The growing importance of online video is exemplified from the following:

- Blogs and other websites increasingly include feature videos (Kessler, 2014),

- YouTube possess about 1 billion monthly users and;
- competition is rising as companies like Facebook, Yahoo, AOL, Microsoft and Amazon are notably investing to gain market share (Kessler, 2014).

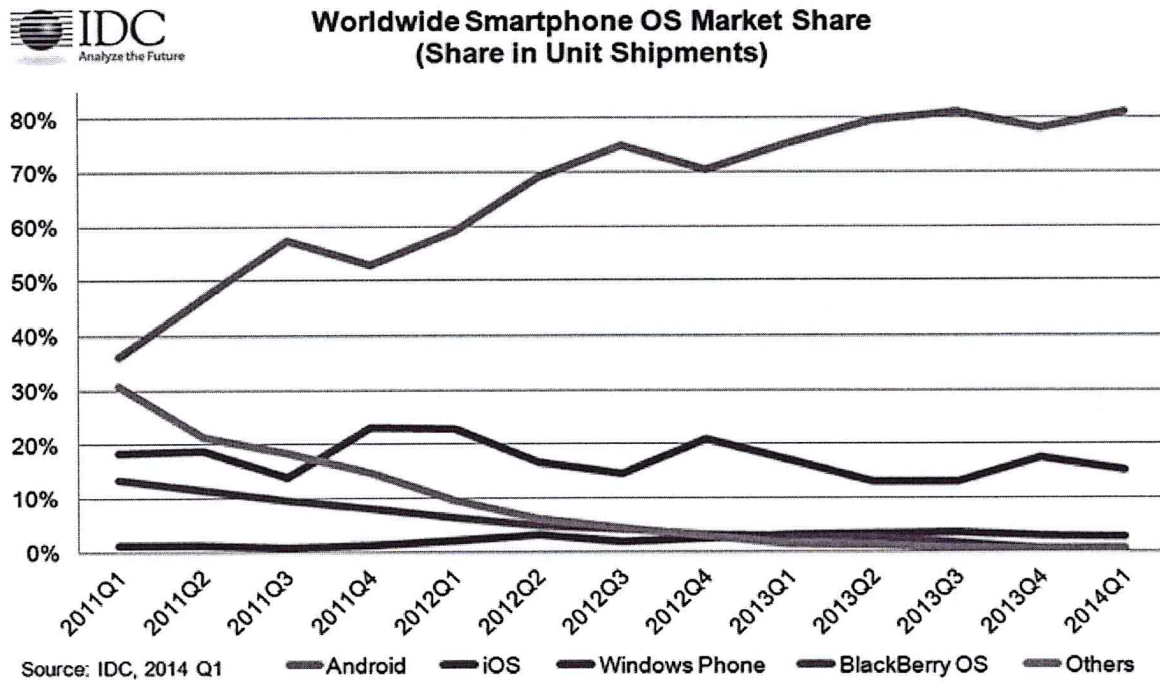
Google has the leading market share of 37% of online video watched in the US and the following figure below outlines the top US online video content properties (Kessler, 2014).

TOP US ONLINE VIDEO CONTENT PROPERTIES <i>(Ranked by number of unique viewers, in December 2013)</i>			
	UNIQUE VIEWERS (THOUS.)	VIDEOS WATCHED (THOUS.)	MINUTES PER VIEWER
Google sites	159,090	13,384,434	356.7
Facebook	79,105	3,749,940	50.1
AOL	76,178	1,414,138	60.4
Yahoo sites	53,499	392,542	47.8
New s Distribution Network (NDN)	49,388	530,275	71.2
Amazon sites	44,626	215,795	17.1
VEVO	39,424	632,788	51.0
Microsoft sites	36,662	609,765	36.9
Vimeo	32,932	142,426	32.3
Turner Digital	29,008	221,105	39.0
Total	188,249	52,374,583	1,164.5
Source: comScore.			

Mobile OS:

As the number of mobile internet connections and the percentage of services conducted online continues to increase, the amount of advertising money spent in the search engine industry is expected to rise accordingly (Hoopes, 2014). It is evident that mobile searching is growing at an increasing rate. In the mobile market, advertisers are keen to target users who are very close to making decision i.e. which restaurants to visit for dinner or which product to buy at a store (Hoopes, 2014). Ultimately, the increasing use of mobile devices implicates that dominance in the mobile operating system market is essential for future prosperity and growth. According to the International Data Corporation (IDC), smartphones account for 63.1% of the worldwide

mobile phone market (IDC, 2014), implying that dominance in the mobile OS market is crucial for companies to maintain their competitive advantage. The following figures below outlines the world wide smartphone OS market share with respect to share in unit shipments.



Period	Android	iOS	Windows Phone	BlackBerry OS	Others
Q1 2014	81.1%	15.2%	2.7%	0.5%	0.6%
Q1 2013	75.3%	17.1%	3.2%	2.9%	1.5%
Q1 2012	59.2%	23.0%	2.0%	6.3%	9.5%
Q1 2011	36.1%	18.3%	1.2%	13.6%	30.8%

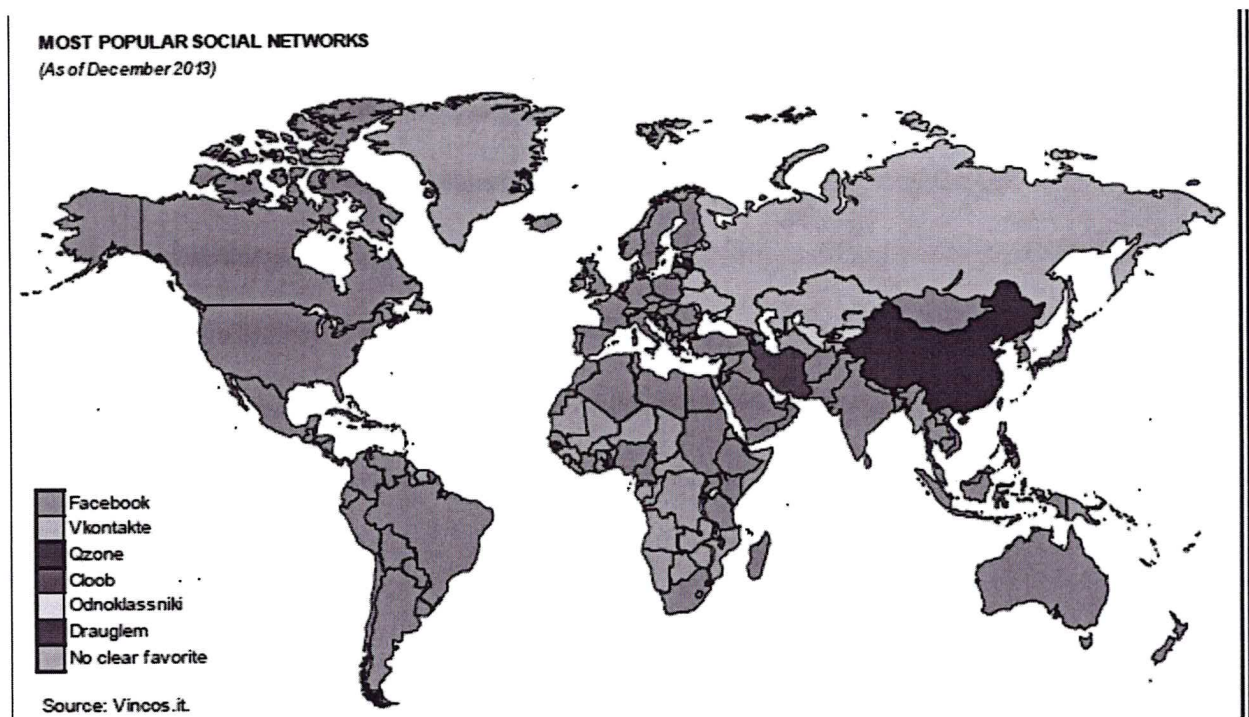
Source: IDC, 2014 Q1

From the illustrations above, the dominant player in terms of mobile OS market share is the Android system. It is evident that the Android operating system has been dominant throughout the years, and the system is relatively consumer friendly for price elastic consumers than Apple's IOS. The rapid development of wireless technology has enabled smartphones and tablets

increasingly relevant in accessing the internet (Kessler, 2014). IDC states that worldwide shipments of smartphones totaled up to more than 1 billion in 2013, and expects it to increase to 1.2 billion by 2014 and 1.7 billion by 2018 (Kessler, 2014). Similarly, the tablet market is projected to grow for a compounded annual growth rate (CAGR) of 22% by 2017 (Kessler, 2014). As world wide internet users are anticipated to grow from 2.5 billion to 3.6 billion by 2017, the growth can be internatlized by the increasing usage of internet on a global scale and the proliferation of various access devices, including mobile phones and other communication appliances (Kessler, 2014).

Social Network:

Social network sites (SNS) industry boomed as the number of broadband internet connections increased in the past five years at an estimated 5% annualized rate (Kahn, 2014). Because the internet provides a cost-effective method of advertising, it improves a company's ability to directly target consumer groups by integrating audience-targeting systems. As a result, social network sites accelerating the shift to digital advertising (Kahn, 2014). SNS revenue is estimated to grow 36.1% annualized five-year rate to \$8.6 billion in 2014 (Kahn, 2014). Similar to search engines, SNS revenue is derived from advertising expenditure. Furthermore, the benefits of SNS is demonstrated as Nielson ,a research firm, outlined that 14.0% of people learned about a specific brand or retailer through SNS (Kahn, 2014). With the growing use of SNS advertising, profit is expected to increase to 6.4% of revenue in 2014 (Kahn, 2014). The dominant company in the SNS industry is Facebook, as they have more than 1 billion active users and possess 68.5% market share in North America (Kahn, 2014). The following figure below demonstrates the most popular social network in a global perspective.



Source: Vincos.it.

Some of the most popular online communities around the world, with at least 100 million users include ,Facebook, Qzone, Tencent Weibo, Google+, Tagged, Habbo, VKontake, LinkedIn, Twitter, and Instagram (Kessler, 2014). Although Facebook holds a dominant position in the SNS universe, Google+ have demonstrated significant growth. Google+ surpassed Twitter to become the second most popular social network by attracting 540 million users in 2013 (Kahn, 2014). Despite the significant growth, in terms of actual utilization, Facebook outperforms Google+ by a huge gap. In 2013, Nielson reported average Google+ user spent six minutes and forty seven seconds per month on the site ,whereas, Facebook users spent six hours and forty four minutes per month on facebook.com.

Risk Exposures:

Accelerating growth in the internet market heightened the competition as new entrants emerged to seize the opportunity to gain market share. Google inherents numerous risks which can

adversely affect their business operation. Google's major risk exposure is outlined from the following bullet points:

- Google faces intense competition and if it does not continue to innnovate, its revenue and operating results could be adversely affected (10-K Form, 2014),
- any reduction in advertising expenditure or loss of advertisers could significantly harm its business (10-K Form, 2014),
- Google's revenue growth rate could decline over time which can put downward pressure on its operating margin (10-K Form, 2014),
- acquisitions and investments could result in operating difficulties (10-K Form, 2014),
- new technologies can block Google's ads (10-K Form, 2014),
- subject to increased regulatory scrutiny (10-K Form, 2014),
- regularly subject to claims, suits, government investigations or other proceeding that may result in adverse outcomes (10-K Form, 2014),
- subject to intellectual property or other claims which are costly to defend due to significant damage awards (10-K Form, 2014),
- privacy concerns relating to Google's technology could damage its reputation and deter current and potential users from utilizing Google's product and services (10-K Form, 2014),
- international operations expose Google to additional risk (10-K Form, 2014) and;
- subject to security breaches which could have an adverse effect on its users as Google's services could be perceived as not secure and may incur significant legal and financial exposure (10-K Form, 2014).

By analyzing the risk exposure that were outlined from the 10-K form, the greatest inherent risk for Google is advertising expenditure. As Google's enormous market share in the search engine market grants it to capture large profits, Google's revenue is heavily contingent on advertisement. Ninety one percent of Google's revenue is derived from its advertisers (10-K Form, 2014) ,which demonstrates that if Google's technology does not benefit the advertisers sales, advertisers could opt out from their contracts and negatively impact Google's revenue. Additionally, macroeconomical factors could negatively impact the economy. If the economy enters into a recession where consumer consumption decreases, corporations will be inclined to reduce their advertising expenditure, which could adversely affect Google's core business. Secondly, the heightening level of competition imposes a threat for Google. With the increasing trend of shifting from PC search to mobile search, Google is subject to new entrants with innovative technology that address these consumer preferences. In order for Google to maintain its dominant position, it is essential for Google to continuously invest in its research and development (R&D). Lastly, Google's ability to effectively strategize its capital is crucial for its future prosperity and growth. As the process of integrating an acquired company, business, or technology is challenging, unforeseen operating difficulties can create increase in liabilities and cause impairment of goodwill (10-K Form, 2014). Therefore, due dilligence during an acquisition is essential for Google's business as failing to address these risks will lead to unexpected expenditures that could hinder Google Inc's operation.

Business operation:

Google is currently diversified into numerous markets ranging from search engine to gadgets. Google's current product & service offerings are illustrated from the following bullet points:

- Android: mobile operating system, which retained more than 1 billion users (10-K Form, 2014),
- Google Play: cloud based, digital entertainment store with more than million apps offering that are compatible to pc, mobile and tablets (10-K Form, 2014),
- Chromebooks and Chrome: hardware and browser software that are built to deliver simplicity, speed, and security to its users (10-K Form, 2014),
- Chromecast: affordable micro device which delivers content from laptop, smartphones and tablets to high definition television,
- Nexus: Google smartphone and tablet ,the Nexus 5 and the Nexus 7,
- Google Now: customized information delivery system which provides users with information of what they want and what they need at their convenience, and;
- Ads: AdWord, AdSense, and Display advertising which delivers ads that are useful and relevant to search queries, enables websites that are part of the Google Network to deliver ads from AdWord advertisers and lastly provide advertising videosto all devices across the web respectively (10-K Form, 2014).

With the given product offering, Google has taken the shape of a conglomerate given the investments the company has made outside of advertising-related business (Wieser, 2014). Given the nature of the industry, Google's product offering will expand to a larger portfolio in the foreseeable future as Google desires to expand its dominant presence to other related sectors.

Management Team:

Google Inc's key management personnel are listed from the following bullet points.

- **Larry Page:** As Google's chief executive officer, Larry is responsible for the day-to-day operations, as well as leading the company's product and development and technology

strategy (Google, 2014). Larry is also the co-founder of Google as he founded this company with Sergey Brin in 1998. Larry completed his bachelor degree in engineering from the University of Michigan and a master's degree in computer science from Stanford University (Google, 2014).

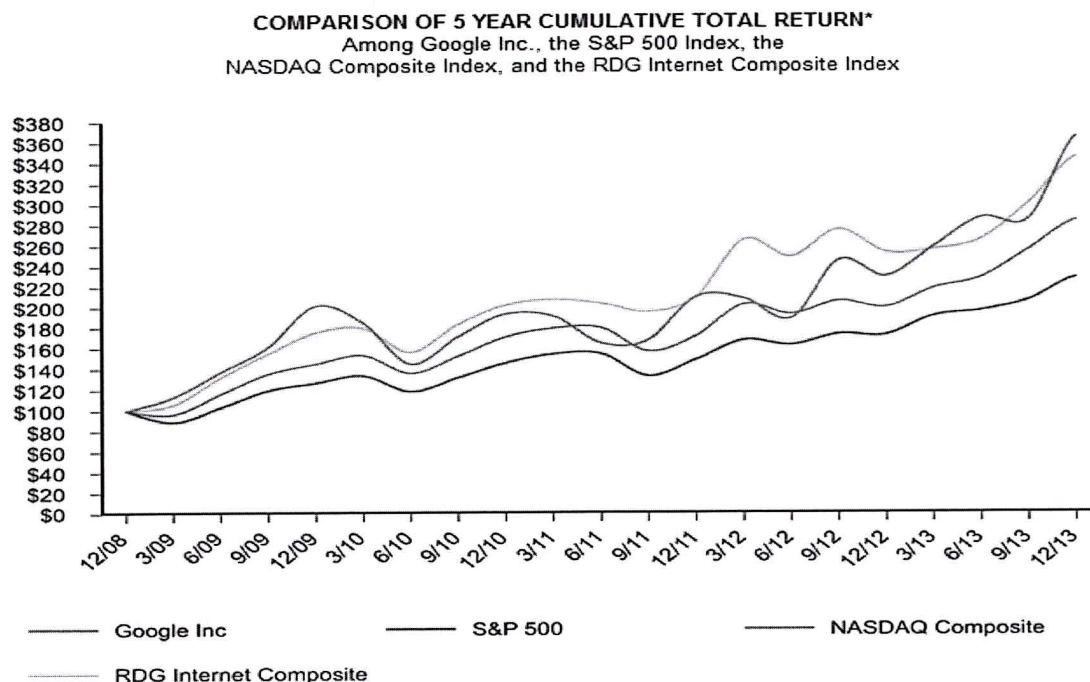
- **Eric E. Schmidt:** Eric's current role as executive chairman requires him to oversee external matters for Google ,such as, building partnership and broader business relationships, government outreach and technology thought leadership, and advising the CEO and senior management on business and policy issues (Google, 2014). Eric is known for his seminal contributions for Google. During his time as CEO from 2001-2011, his leadership scaled Google's infrastrucutre and proliferated its product offerings while maintaing a strong culture of innovation (Google, 2014). Eric completed his bachelor's degree in electrical engineering from Princeton University as well as a master's degree and Ph.D. in computer science from U.C. Berkely (Google, 2014).
- **Sergey Brin:** Sergey Brin co-founded Google Inc with Larry Page in 1998. Sergey directs special projects and served as president of technology from 2001-2011, where he was also responsible for overseeing the day-to-day operations of Google. Sergey finished his bachelor's degree with honors in mathematics and computer science from the University of Maryland and completed a master's degree in computer science at Standford University (Google, 2014).
- **Nikesh Arora:** Nikesh serves Google as senior vice president and chief business officer which holds him responsible for overseeing all revenue and customer operations, as well as marketing and partnerships (Google,2014). Nikesh had experience working for T-Mobile Europe where he was chief marketing officer. Nikesh completed his bachelor's

degree in electrical engineering at Institute of Technology in Varanasi, India and also holds an MBA from Northeastern University (Google, 2014).

As Google's executive team is comprised of strong expertise in the computer science and computer engineering field, it assures shareholder's confidence. Given the advanced nature of the computer technology sector, Google's executive team's expertise in this field provides them the benefit of gaining shareholder's confidence as their decision making processes will be respected. Ultimately, Google's executive team exemplifies a strong criteria of "people factor" as its personnel is mostly comprised of internal members who possess great knowledge which implicates their ability to lead Google to greater prosperity.

Financial Analysis:

Google Inc's financial data are summarized through the following figures.



Source: Google. (2014). Form 10-K: Securities Exchange Commission.

Key Stats-Highlights

	O-2013 A	O-2012 A	O-2011 A	O-2010 A	O-2009 A
For the period ending	2013-12-31	2012-12-31	2011-12-31	2010-12-31	2009-12-31
Market Capitalization	376,370.28	233,420.55	210,053.03	191,028.08	197,203.19
Cash & Equivalents	60,693.00	49,557.00	45,416.00	35,498.00	24,613.75
Preferred & Other	0.00	0.00	0.00	0.00	0.00
Total Debt	5,245.00	5,537.00	4,204.00	3,465.00	0.00
Enterprise Value	320,922.28	189,400.55	168,841.03	158,995.08	172,589.43
Revenue	59,825.00	50,175.00	37,905.00	29,321.00	23,650.56
Growth %, YoY	19.23	32.37	29.28	23.98	8.51
Gross Profit	33,967.00	29,541.00	24,717.00	18,904.00	14,806.45
Margin %	56.78	58.88	65.21	64.47	62.61
EBITDA	17,905.00	15,722.00	13,593.00	11,777.00	9,836.49
Margin %	29.93	31.33	35.86	40.17	41.59
Net Income Before XO	12,214.00	10,788.00	9,737.00	8,505.00	6,520.45
Margin %	20.42	21.50	25.69	29.01	27.57
Adjusted EPS	18.21	16.76	14.88	13.16	10.21
Growth %, YoY	8.62	12.67	13.11	28.91	22.36
Cash from Operations	18,659.00	16,619.00	14,565.00	11,081.00	9,316.20
Capital Expenditures	-7,358.00	-3,273.00	-3,438.00	-4,018.00	-809.89
Free Cash Flow	11,301.00	13,346.00	11,127.00	7,063.00	8,506.31

Source: Ticker ID GOOGL-A. (2014) Bloomberg Professional: Bloomberg (LP).

Analytics-Profitability

	O-2013 A	O-2012 A	O-2011 A	O-2010 A	O-2009 A
For the period ending	2013-12-31	2012-12-31	2011-12-31	2010-12-31	2009-12-31
Returns					
Return on Common Equity	16.25	16.54	18.66	20.68	20.30
Return on Assets	12.62	12.91	14.93	17.30	18.05
Return on Capital	15.30		17.46	19.85	20.30
Return on Invested Capital	13.86	14.77	16.61	19.42	20.55
Margins					
Gross Margin	56.78	58.88	65.21	64.47	62.61
EBITDA Margin	29.93	31.33	35.86	40.17	41.59
Operating Margin	23.34	25.43	30.98	35.40	35.15
Incremental Operating Margin	12.50	8.30	15.86	36.48	90.58
Pretax Margin	24.23	26.68	32.52	36.82	35.44
Income before XO Margin	20.42	21.50	25.69	29.01	27.57
Net Income Margin	21.60	21.40	25.69	29.01	27.57
Net Income to Common Margin	21.60	21.40	25.69	29.01	27.57
Additional					
Effective Tax Rate	15.74	19.41	21.00	21.22	22.20
Dvd Payout Ratio	0.00	0.00	0.00	0.00	0.00
Sustainable Growth Rate	16.25	16.54	18.66	20.68	20.30

Source: Ticker ID GOOGL-A. (2014) Bloomberg Professional: Bloomberg (LP).

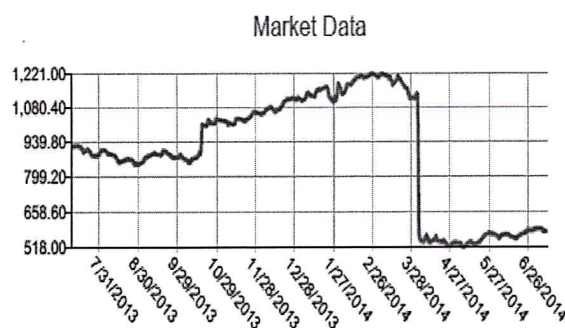
Analytics-Leverage

	O-2013 A	O-2012 A	O-2011 A	O-2010 A	O-2009 A
For the period ending	2013-12-31	2012-12-31	2011-12-31	2010-12-31	2009-12-31
Total debt	5,245.00	5,537.00	4,204.00	3,465.00	0.00
Short-Term Debt	3,009.00	2,549.00	1,218.00	3,465.00	0.00
Long Term Debt	2,236.00	2,988.00	2,986.00	0.00	0.00
Total Debt/T12M EBITDA	0.29	0.35	0.31	0.29	0.00
Net Debt/EBITDA	-3.10	-2.80	-3.03	-2.72	-2.50
Total Debt/EBIT	0.38	0.43	0.36	0.33	0.00
Net Debt/EBIT	-3.97	-3.45	-3.51	-3.09	-2.96
EBITDA to Interest Expense	215.72	187.17	234.36		
EBITDA-CapEx/Interest Expense	127.07	148.20	175.09		
EBIT to Interest Expense	168.27	151.90	202.45		
EBITDA/Cash Interest Paid	248.68	212.46	339.82		
EBITDA-CapEx/Cash Interest Paid	146.49	168.23	253.88		
EBIT/Cash Interest Paid	193.97	172.43	293.55		
Cash Interest Paid	72.00	74.00	40.00	0.00	
Interest Expense	83.00	84.00	58.00	0.00	0.00
Common Equity/Total Assets	78.71	76.46	80.12	79.93	88.91
Long-Term Debt/Equity	2.56	4.17	5.14	0.00	0.00
Long-Term Debt/Capital	2.42	3.87	4.79	0.00	0.00
Long-Term Debt/Total Assets	2.02	3.19	4.11	0.00	0.00
Total Debt/Equity	6.01	7.72	7.23	7.49	0.00
Total Debt/Capital	5.67	7.17	6.74	6.97	0.00

Source: Ticker ID GOOGL-A. (2014) Bloomberg Professional: Bloomberg (LP).

In April 2012, Google Inc's board of directors approved amendments to its certificate of incorporation that created a new class of non-voting stock (Class C capital stock), which authorized 3 billion shares of Class C capital stock and also increased the authorized shares of Class A common stock from 6 billion to 9 billion (10-Q Form, 2014). In January 2014, Google's board of directors approved distribution of Class C capital stock as a dividend to its Class A and B holders; hence, recording the payment date of April 2, 2014 (10-Q Form, 2014). The following diagram illustrates the implication of stock split. Google's capital restructure is outlined from the following (Golikov, Kao, Lu & Zhang, 2014):

- same rights and privileges,



- Class A stock has 1 voting right,
- Class B stock has 10 voting rights and;
- Class C stock has 0 voting rights.

Google's current shares outstanding is recorded at approximately 676.39 million shares (Yahoofinance, 2014). As Larry Page and Sergey Brin already possess approximately 56% of majority votes, the issuance of the neutralized Class C stock further retains control for Google's founders (Bloomberg, 2014). The graph above illustrates the cumulative total return to shareholders with an assumption of \$100 investment (including reinvestment of all dividends) on Google's common stock relative to the cumulative total returns of the S&P 500 index, the RDG Internet Composite index, and the Nasdaq Composite index (10-K Form, 2014). By internalizing the result, it can be interpreted that over the 5 year period, Google has outperformed its benchmarks; especially the S&P 500 index and NASDAQ Composite index. There is no argument regarding Google Inc's financial data as the quantitative figures implicate an exceptional financial record. Google's 2013 year-end gross margin, EBITDA margin, return on equity, and net income margin were 56.78%, 29.93%, 16.25%, and 21.60% respectively. Google's cash & equivalents balance at 2013 year end was approximately \$60.96 billion and its total debt was approximately \$5.25 billion. As Google's cash balance is approximately twelve times their debt, it allows Google to purchase and spend cash on investments without issuing new loans. By analyzing these ratios, it is evident that Google contains a stable capital structure, and illustrates a powerful earnings structure.

Google's consolidated financial statements (balance, income, and cash flow) are outlined from the following figures.

Google Inc.

CONSOLIDATED BALANCE SHEETS

(In millions, except share and par value amounts which are reflected in thousands and par value per share amounts)

	As of December 31, 2013	As of June 30, 2014 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 18,898	\$ 19,620
Marketable securities	39,819	41,584
Total cash, cash equivalents, and marketable securities (including securities loaned of \$5,059 and \$5,697)	58,717	61,204
Accounts receivable, net of allowance of \$631 and \$269	8,882	8,321
Inventories	426	293
Receivable under reverse repurchase agreements	100	100
Deferred income taxes, net	1,526	1,158
Income taxes receivable, net	408	1,118
Prepaid revenue share, expenses and other assets	2,827	2,043
Assets held for sale	0	3,668
Total current assets	72,886	77,905
Prepaid revenue share, expenses and other assets, non-current	1,976	1,982
Non-marketable equity investments	1,976	2,415
Property and equipment, net	16,524	19,486
Intangible assets, net	6,066	5,234
Goodwill	11,492	14,586
Total assets	\$ 110,920	\$ 121,608
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,453	\$ 1,345
Short-term debt	3,009	2,009
Accrued compensation and benefits	2,502	2,102
Accrued expenses and other current liabilities	3,755	3,683
Accrued revenue share	1,729	1,686
Securities lending payable	1,374	3,086
Deferred revenue	1,062	882
Income taxes payable, net	24	0
Liabilities held for sale	0	2,304
Total current liabilities	15,908	17,097

Long-term debt	2,236	3,232
Deferred revenue, non-current	139	93
Income taxes payable, non-current	2,638	3,002
Deferred income taxes, net, non-current	1,947	1,625
Other long-term liabilities	743	810

Stockholders' equity:

Convertible preferred stock, \$0.001 par value per share, 100,000 shares authorized; no shares issued and outstanding	0	0
Class A and Class B common stock, and Class C capital stock and additional paid-in capital, \$0.001 par value per share: 15,000,000 shares authorized (Class A 9,000,000, Class B 3,000,000, Class C 3,000,000); 671,664 (Class A 279,325, Class B 56,507, Class C 335,832) and par value of \$672 (Class A \$279, Class B \$57, Class C \$336) and 675,905 (Class A 283,014, Class B 54,925, Class C 337,966) and par value of \$676 (Class A \$283, Class B \$55, Class C \$338) shares issued and outstanding	25,922	27,111
Accumulated other comprehensive income	125	502
Retained earnings	61,262	68,136
Total stockholders' equity	87,309	95,749
Total liabilities and stockholders' equity	<u>\$ 110,920</u>	<u>\$ 121,608</u>

Source: Google. (2014). Form 10-Q: Securities Exchange Commission.

Google Inc annual balance sheet statement:

	As of December 31, 2012	As of December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,778	\$ 18,898
Marketable securities	33,310	39,819
Total cash, cash equivalents, and marketable securities (including securities loaned of \$3,160 and \$5,059)	48,088	58,717
Accounts receivable, net of allowance of \$581 and \$631	7,885	8,882
Inventories	505	426
Receivable under reverse repurchase agreements	700	100
Deferred income taxes, net	1,144	1,526
Income taxes receivable, net	0	408
Prepaid revenue share, expenses and other assets	2,132	2,827
Total current assets	60,454	72,886
Prepaid revenue share, expenses and other assets, non-current	2,011	1,976
Non-marketable equity investments	1,469	1,976
Property and equipment, net	11,854	16,524
Intangible assets, net	7,473	6,066
Goodwill	10,537	11,492
Total assets	<u>\$ 93,798</u>	<u>\$ 110,920</u>

Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	\$	2,012	\$ 2,453
Short-term debt		2,549	3,009
Accrued compensation and benefits		2,239	2,502
Accrued expenses and other current liabilities		3,258	3,755
Accrued revenue share		1,471	1,729
Securities lending payable		1,673	1,374
Deferred revenue		895	1,062
Income taxes payable, net		240	24
Total current liabilities		14,337	15,908
Long-term debt		2,988	2,236
Deferred revenue, non-current		100	139
Income taxes payable, non-current		2,046	2,638
Deferred income taxes, net, non-current		1,872	1,947
Other long-term liabilities		740	743
Commitments and contingencies			
Stockholders' equity:			
Convertible preferred stock, \$0.001 par value per share, 100,000 shares authorized; no shares issued and outstanding		0	0
Class A and Class B common stock and additional paid-in capital, \$0.001 par value per share: 12,000,000 shares authorized (Class A 9,000,000, Class B 3,000,000); 329,979 (Class A 267,448, Class B 62,531) and par value of \$330 (Class A \$267, Class B \$63) and 335,832 (Class A 279,325, Class B 56,507) and par value of \$336 (Class A \$279, Class B \$57) shares issued and outstanding		22,835	25,922
Class C capital stock, \$0.001 par value per share: 3,000,000 shares authorized; no shares issued and outstanding		0	0
Accumulated other comprehensive income		538	125
Retained earnings		48,342	61,262
Total stockholders' equity		71,715	87,309
Total liabilities and stockholders' equity	\$	93,798	\$ 110,920

Source: Google. (2014). Form 10-K: Securities Exchange Commission.

Google Inc annual income statement:

	Year Ended December 31,		
	2011	2012	2013
Revenues:			
Google (advertising and other)	\$ 37,905	\$ 46,039	\$ 55,519
Motorola Mobile (hardware and other)	0	4,136	4,306
Total revenues	\$ 37,905	\$ 50,175	\$ 59,825
Costs and expenses:			
Cost of revenues - Google (advertising and other) ⁽¹⁾	13,188	17,176	21,993
Cost of revenues - Motorola Mobile (hardware and other) ⁽¹⁾	0	3,458	3,865
Research and development ⁽¹⁾	5,162	6,793	7,952
Sales and marketing ⁽¹⁾	4,589	6,143	7,253
General and administrative ⁽¹⁾	2,724	3,845	4,796
Charge related to the resolution of Department of Justice investigation	500	0	0
Total costs and expenses	26,163	37,415	45,859
Income from operations	11,742	12,760	13,966
Interest and other income, net	584	626	530
Income from continuing operations before income taxes	12,326	13,386	14,496
Provision for income taxes	2,589	2,598	2,282
Net income from continuing operations	\$ 9,737	\$ 10,788	\$ 12,214
Net income (loss) from discontinued operations	0	(51)	706
Net income	\$ 9,737	\$ 10,737	\$ 12,920

Source: Google. (2014). Form 10-K: Securities Exchange Commission.

Google Inc Q2 2014 income statement:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
	(unaudited)			
Revenues	\$ 13,107	\$ 15,955	\$ 26,058	\$ 31,375
Costs and expenses:				
Cost of revenues ⁽¹⁾	5,195	6,114	10,331	12,075
Research and development ⁽¹⁾	1,766	2,238	3,383	4,364
Sales and marketing ⁽¹⁾	1,583	1,941	3,018	3,670
General and administrative ⁽¹⁾	1,098	1,404	2,113	2,893
Total costs and expenses	9,642	11,697	18,845	23,002
Income from operations	3,465	4,258	7,213	8,373
Interest and other income, net	236	145	370	502
Income from continuing operations before income taxes	3,701	4,403	7,583	8,875
Provision for income taxes	927	913	1,281	1,735
Net income from continuing operations	2,774	3,490	6,302	7,140
Net income (loss) from discontinued operations ⁽¹⁾	454	(68)	272	(266)
Net income	\$ 3,228	\$ 3,422	\$ 6,574	\$ 6,874
Net income (loss) per share -- basic:				
Continuing operations	\$ 4.17	\$ 5.17	\$ 9.51	\$ 10.59
Discontinued operations	0.68	(0.10)	0.41	(0.39)
Net income per share - basic	\$ 4.85	\$ 5.07	\$ 9.92	\$ 10.20

Source: Google. (2014). Form 10-Q: Securities Exchange Commission.

Google Inc 10-K Cash Flow Statement:

	Year Ended December 31,		
	2011	2012	2013
Operating activities			
Net income	\$ 9,737	\$ 10,737	\$ 12,920
Adjustments:			
Depreciation and amortization of property and equipment	1,396	1,988	2,781
Amortization of intangible and other assets	455	974	1,158
Stock-based compensation expense	1,974	2,692	3,343
Excess tax benefits from stock-based award activities	(86)	(188)	(481)
Deferred income taxes	343	(266)	(437)
Impairment of equity investments	110	0	0
Gain on divestiture of businesses	0	(188)	(700)
Other	6	(28)	106
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(1,156)	(787)	(1,307)
Income taxes, net	731	1,492	401
Inventories	(30)	301	(234)
Prepaid revenue share, expenses and other assets	(232)	(833)	(696)
Accounts payable	101	(499)	605
Accrued expenses and other liabilities	795	762	713
Accrued revenue share	259	299	254
Deferred revenue	162	163	233
Net cash provided by operating activities	14,565	16,619	18,659

	Year Ended December 31,		
	2011	2012	2013
Investing activities			
Purchases of property and equipment	(3,438)	(3,273)	(7,358)
Purchases of marketable securities	(61,672)	(33,410)	(45,444)
Maturities and sales of marketable securities	48,746	35,180	38,314
Investments in non-marketable equity investments	(428)	(696)	(569)
Cash collateral related to securities lending	(354)	(334)	(299)
Investments in reverse repurchase agreements	5	45	600
Proceeds from divestiture of businesses	0	0	2,525
Acquisitions, net of cash acquired, and purchases of intangibles and other assets	(1,900)	(10,568)	(1,448)
Net cash used in investing activities	(19,041)	(13,056)	(13,679)
Financing activities			
Net payments related to stock-based award activities	(5)	(287)	(781)
Excess tax benefits from stock-based award activities	86	188	481
Proceeds from issuance of debt, net of costs	10,905	16,109	10,768
Repayments of debt	(10,179)	(14,781)	(11,325)
Net cash provided by (used in) financing activities	807	1,229	(857)
Effect of exchange rate changes on cash and cash equivalents	22	3	(3)
Net increase (decrease) in cash and cash equivalents	(3,647)	4,795	4,120
Cash and cash equivalents at beginning of period	13,630	9,983	14,778
Cash and cash equivalents at end of period	\$ 9,983	\$ 14,778	\$ 18,898
Supplemental disclosures of cash flow information			
Cash paid for taxes	\$ 1,471	\$ 2,034	\$ 1,932
Cash paid for interest	\$ 40	\$ 74	\$ 72
Non-cash investing and financing activities:			
Receipt of Arris shares in connection with divestiture of Motorola Home	\$ 0	\$ 0	\$ 175
Fair value of stock-based awards assumed in connection with acquisition of Motorola	\$ 0	\$ 41	\$ 0
Property under capital lease	\$ 0	\$ 0	\$ 258

Source: Google. (2014). Form 10-K: Securities Exchange Commission.

Google Inc 10-Q2 Cash Flow Statement:

	Six Months Ended	
	June 30,	
	2013	2014
	(unaudited)	
Operating activities		
Net income	\$ 6,574	\$ 6,874
Adjustments:		
Depreciation expense and loss on disposal of property and equipment	1,331	1,629
Amortization of intangible and other assets	598	536
Stock-based compensation expense	1,555	1,802
Excess tax benefits from stock-based award activities	(198)	(292)
Deferred income taxes	265	(138)
Gain on divestiture of businesses	(690)	0
Gain on equity interest	0	(126)
Gain on sale of non-marketable equity investments	0	(138)
Other	(54)	(10)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	62	(454)
Income taxes, net	(156)	(62)
Inventories	(158)	20
Prepaid revenue share, expenses and other assets	(348)	499
Accounts payable	(72)	14
Accrued expenses and other liabilities	(363)	(68)
Accrued revenue share	8	(68)
Deferred revenue	(16)	0
Net cash provided by operating activities	8,338	10,018
Investing activities		
Purchases of property and equipment	(2,814)	(4,991)
Purchases of marketable securities	(22,782)	(24,857)
Maturities and sales of marketable securities	17,006	23,605
Investments in non-marketable equity investments	(172)	(467)
Cash collateral related to securities lending	1,538	1,713
Investments in reverse repurchase agreements	(70)	0
Proceeds from divestiture of businesses	2,351	0
Acquisitions, net of cash acquired, and purchases of intangibles and other assets	(1,301)	(3,490)
Net cash used in investing activities	(6,244)	(8,487)
Financing activities		
Net payments related to stock-based award activities	(268)	(921)
Excess tax benefits from stock-based award activities	198	292
Proceeds from issuance of debt, net of costs	5,651	6,293
Repayments of debt	(6,203)	(6,304)
Net cash used in financing activities	(622)	(640)

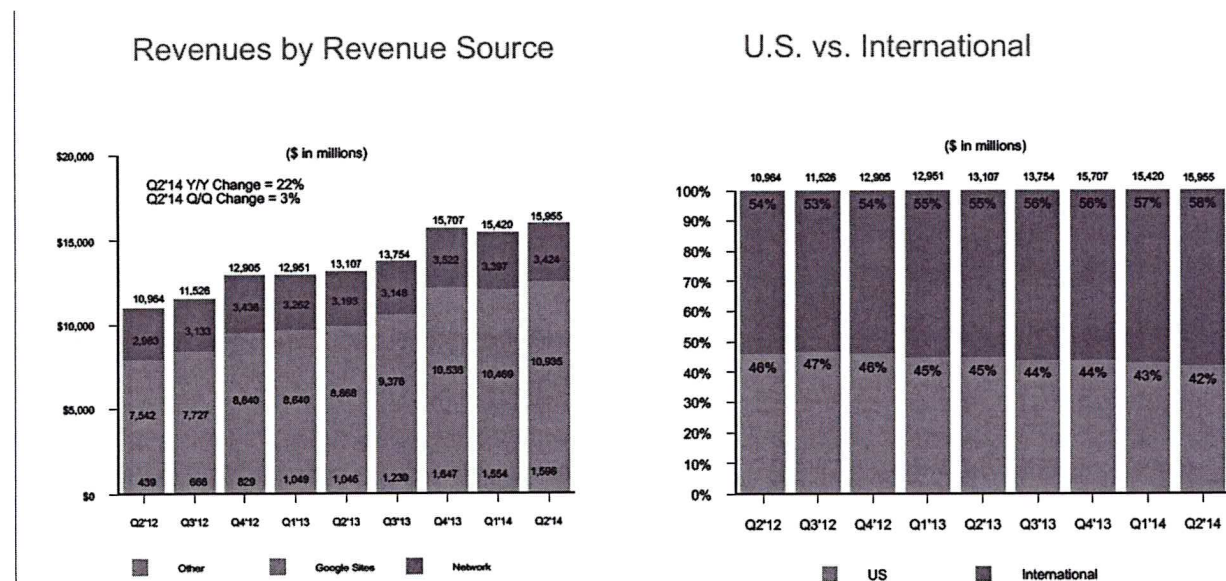
Effect of exchange rate changes on cash and cash equivalents	(86)	(9)
Net increase in cash and cash equivalents	1,386	882
Cash and cash equivalents at beginning of period	14,778	18,898
Reclassification to assets held for sale	0	(160)
Cash and cash equivalents at end of period	\$ 16,164	\$ 19,620
Supplemental disclosures of cash flow information		
Cash paid for taxes	\$ 796	\$ 1,666
Cash paid for interest	\$ 35	\$ 38
Non-cash investing activity:		
Receipt of Arris shares in connection with divestiture of Motorola Home	\$ 175	\$ 0

Source: Google. (2014). Form 10-Q: Securities Exchange Commission.

Google Inc's Q2 2014 earnings report highlights its most recent milestones from the following:

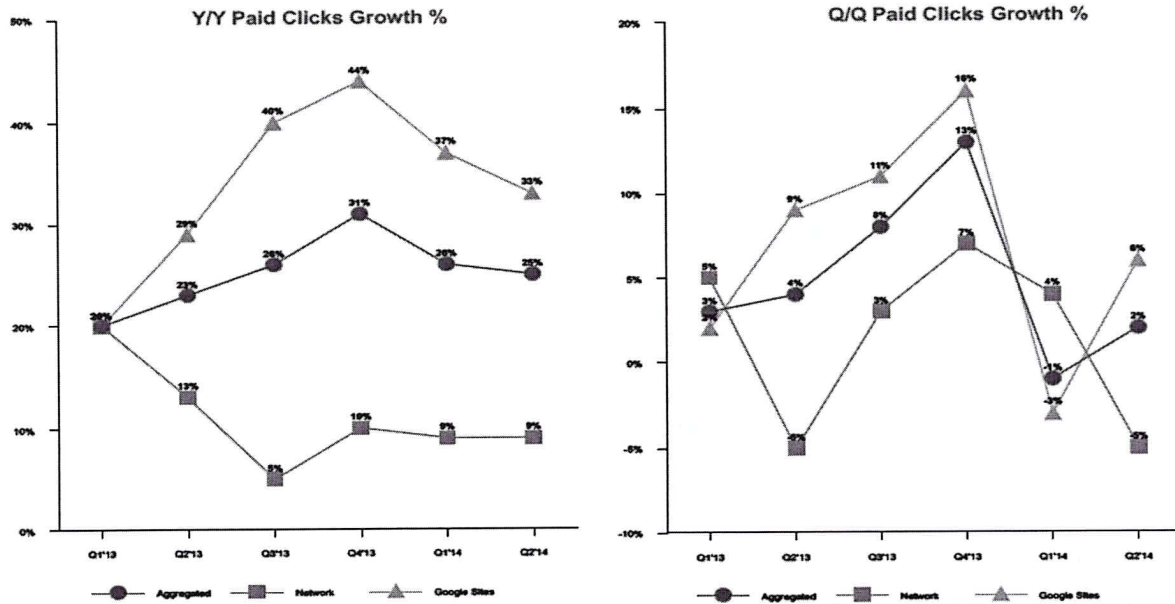
- 22% year-on-year growth in revenue (Google, 2014),
- 3% quarter-to-quarter growth in revenue (Google, 2014),
- Google sites revenue increased 23% year-on-year basis (Google, 2014),
- other revenues increased 53% year-on-year basis (Google, 2014) and;
- revenues were recorded at \$15.96 billion.

The subsequent diagrams illustrate Google Inc's most recent operations results:



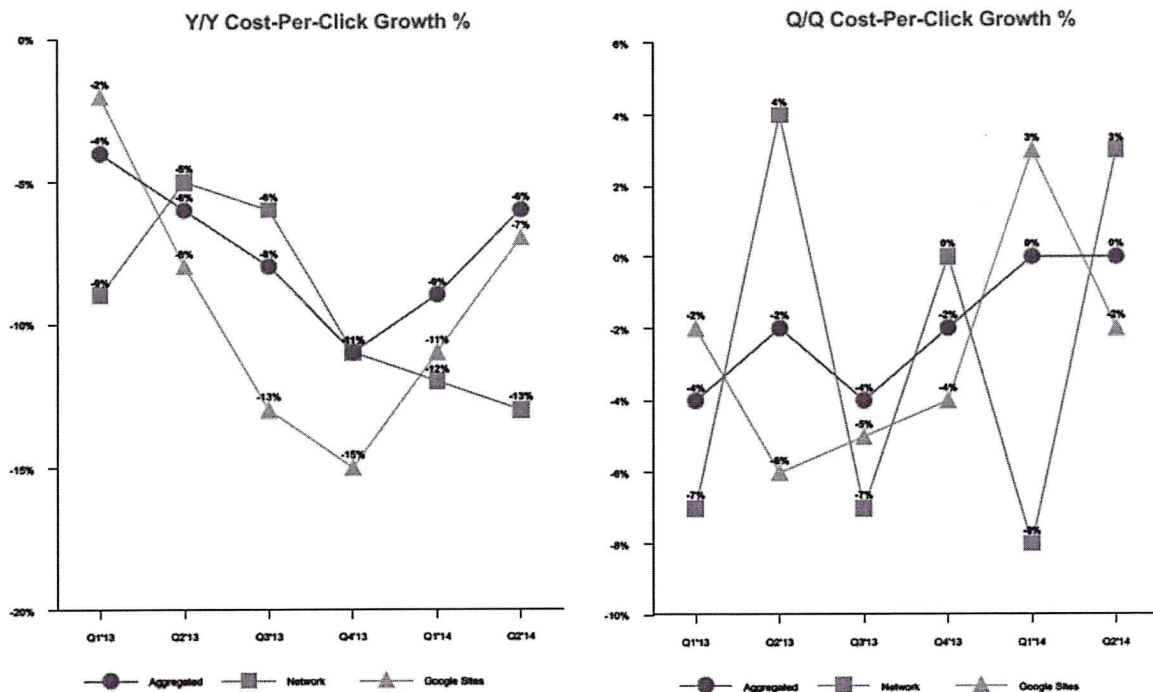
Source: Google. (2014). Q2 2014 Earnings Slides: Investor Relation.

Paid Clicks ⁽¹⁾



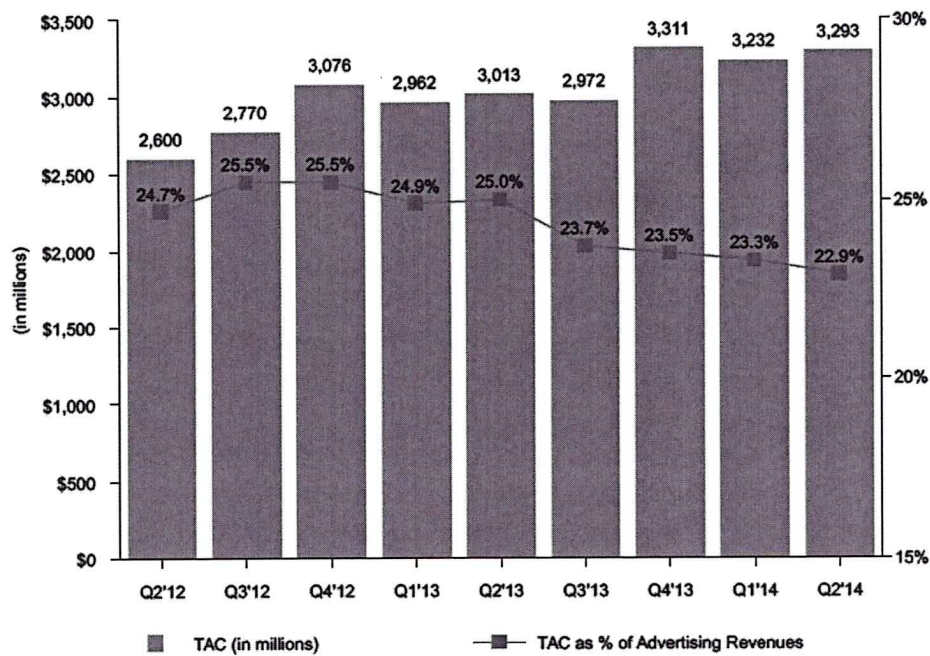
Source: Google. (2014). Q2 2014 Earnings Slides: Investor Relation.

Cost-Per-Click



Source: Google. (2014). Q2 2014 Earnings Slides: Investor Relation.

Traffic Acquisition Costs



Source: Google. (2014). Q2 2014 Earnings Slides: Investor Relation.

The following points contributed to increase in Google's revenue:

- increased in advertising revenue generated by Google websites, and Google Network Members' website (10-Q Form, 2014),
- increased in aggregate paid clicks by 25% (10-Q Form, 2014),
- improved monetization of advertising programs through new and richer ad formats (10-Q Form, 2014),
- decrease in average cost-per-click to 7% (10-Q Form, 2014),

- YouTube engagement ads like Trueview and other owned and operated properties like Maps and Finance approximately increased 33% and 35% respectively (10-Q Form, 2014),
- cost-per-click on Google network members' website decreased approximately 13% to 12% (10-Q Form, 2014) and;
- other revenues increased from \$550 million to \$1.055 billion from the three and six months ended June, 30, 2013 to the three and six months ended June, 30, 2014 due to the growth in its digital contents ,such as, apps music and movies, and hardware revenues (10-Q Form, 2014).

As there were concerns regarding Google's growth potentials, the findings above illustrate that growth is still present at Google. With large revenue growths in video advertising and reduction in cost per click, demonstrates that advertisement revenues will continue to grow. The reduction in average cost per click provides the incentive for advertisers to increase their expenditure. Furthermore, it is evident that video advertising is exponentially growing and with Google's dominant position in this field (YouTube) further supplements the factors for future growth. By analyzing Google Inc's Q2 2014 earnings report, it outlines the company's recent developments from the following bullet points:

- **Acquisitions:** Google in February 2014 completed the acquisition of Nest Labs for \$2.5 billion and out of that valuation, \$2.32 billion was attributed to goodwill (10-Q Form, 2014). Moreover, in June 2014, Nest also acquired Dropcam Inc. for \$555 million in cash as this company will enable consumers to monitor their homes and offices through video (10-Q Form, 2014). Also in June 2014, Google acquired Skybox Imaging, Inc for \$500

million in cash as this acquisitions is projected to enhance the accuracy of Google Maps with real-time imaging.

- ***Motorola Mobile:*** In early 2014, Google entered into an agreement with Lenovo providing for the disposition of the Motorola Mobile business for approximately \$2.9 billion which is to paid through \$660 million in cash, \$750 million in Lenovo shares and the remaining \$1.5 billion to be paid in the form of interest-free, 3 year pre-payable promissory note (10-Q Form ,2014).
- ***Antitrust Investigations:*** In late 2010, the European Commission's (EC) Directorate General for competition opened an investigation against Google with respect to numerous antitrust related complaints and the commission also opened an investigation into Motorola's licensing practices for standards-essential patents (10-Q Form, 2014).

Furthermore, the findings above creates caution for potential shareholders as the increase in goodwill and antitrust litigations could have adverse effects on Google's operation. Google had an increase in its goodwill account of approximately \$3.1 billion as of December 31,2013 to June 30, 2014. This increase in goodwill raises the question for the management team as their acquisition decisions may seem questionable. However, Google expresses that these acquisitions will enhance the breadth and depth of its expertise in engineering and other functional areas, its technologies and its product offerings to elevate the user-end experience for its customers (10-Q Form, 2014). Although the Motorola Mobile (MM) transaction is expected to close in the second half of 2014, Google stated that it will maintain ownership of the vast majority of MM patent portfolio, which will be licensed back to MM for its continued operations (10-Q Form, 2014). The retention of MM patent will provide Google to maintain its strong position for the Android market. Lastly, although Google is subject to various antitrust related litigations, Google

assures its shareholders by actively pursuing remedies that would avoid a finding of infringement and a fine (10-Q Form, 2014). On the positive note, although the EC's ruled that Motorola abused its dominant position with respect to standards-essential patents, the European Commission did not impose a fine (10-Q Form, 2014).

Security Valuation:

The following subsequent diagrams are extracted from J.P. Morgan's most recent valuation of Google Inc's stock:

Summary of the Quarter

Figure 1: Google 2Q Performance vs. J.P. Morgan Estimates

(\$ in millions)	2Q14 Estimates	2Q14 Actuals	Diff (%)
Gross Revenue	15,663	15,955	1.9%
Net Revenue	12,302	12,662	2.9%
Google Web Sites Gross	10,730	10,935	1.9%
Google Network Sites Gross	3,417	3,424	0.2%
Other*	1,517	1,596	5.2%
TAC*	3,361	3,293	-2.0%
% of Total Gross Ad Revs	23.8%	22.9%	
Google Net Ad Revenue	10,786	11,066	2.6%
Google Web Sites	9,829	10,042	2.2%
Google Network Sites	957	1,024	7.0%
Clicks Y/Y	23.0%	25.0%	
PPC Y/Y	-4.6%	-6.0%	
Google PF Operating Income	4,896	5,138	4.9%
Margin - Gross	31%	32%	
EBITDA	6,087	6,217	2.1%
EBITDA Margin - Net	49.5%	49.1%	
PF EPS	\$5.97	\$6.08	1.8%
GAAP EPS	\$4.89	\$4.99	2.0%
Y/Y Growth			
Gross Revenue	19.5%	21.7%	
Net Revenue	21.9%	25.4%	
EBITDA	16.2%	18.7%	
Sequential Growth			
Gross Revenue	1.6%	3.5%	
Net Revenue	0.9%	3.9%	
EBITDA	0.8%	2.9%	

Source: J.P. Morgan estimates; Company data

Source: Company reports and J.P. Morgan estimates (2014). Bloomberg Professional: Bloomberg (LP).

Figure 4: Google Inc Income Statement

	2012A	3/13A	6/13A	9/13A	12/13A	2013A	3/14A	6/14A	9/14E	12/14E	2014E	2015E	2016E
Gross Revenues	\$46,040.0	\$12,951.0	\$13,107.0	\$13,772.0	\$15,720.0	\$55,550.0	\$15,420.0	\$15,955.0	\$16,522.4	\$18,840.0	\$66,737.5	\$79,350.4	\$91,018.9
Traffic Acquisition Costs (TAC)	\$10,960.0	\$2,962.0	\$3,013.0	\$2,972.0	\$3,310.0	\$12,257.0	\$3,232.0	\$3,293.0	\$3,279.9	\$3,772.3	\$13,577.2	\$15,353.8	\$17,088.6
Net Revenues excluding TAC	\$35,080.0	\$9,989.0	\$10,094.0	\$10,800.0	\$12,410.0	\$43,293.0	\$12,188.0	\$12,662.0	\$13,242.6	\$15,067.7	\$53,160.3	\$63,996.6	\$73,930.2
Other cost of revenues	5,856.0	2,075.0	2,072.0	2,304.0	2,816.0	9,267.0	2,634.0	2,721.0	2,886.9	3,390.2	11,632.1	13,887.3	15,895.0
Gross profit	29,224.0	7,914.0	8,022.0	8,496.0	9,594.0	34,026.0	9,554.0	9,941.0	10,355.7	11,677.5	41,528.1	50,109.3	58,035.2
Operating expenses													
Research & development	4,809.0	1,279.0	1,365.0	1,385.0	1,467.0	5,496.0	1,670.0	1,791.0	1,787.7	1,943.7	7,192.5	8,447.6	9,537.0
Sales & marketing	5,017.0	1,317.0	1,458.0	1,473.0	1,754.0	6,002.0	1,582.0	1,783.0	1,854.0	2,139.6	7,358.6	8,895.5	10,128.4
General & administrative	3,090.0	915.0	991.0	1,003.0	1,058.0	3,967.0	1,348.0	1,229.0	1,324.3	1,265.7	5,166.9	6,079.7	6,875.5
Stock compensation expense	2,473.0	655.0	743.0	856.0	873.0	3,127.0	839.0	880.0	993.2	1,130.1	3,842.3	4,543.8	5,101.2
Total operating expenses	15,389.0	4,166.0	4,557.0	4,717.0	5,152.0	18,592.0	5,439.0	5,683.0	5,959.1	6,479.1	23,560.3	27,966.5	31,642.1
Operating Income	13,835.0	3,748.0	3,465.0	3,779.0	4,442.0	15,434.0	4,115.0	4,258.0	4,396.5	5,198.4	17,967.9	22,142.8	26,393.1
PF Operating Income	16,308.0	4,403.0	4,292.0	4,647.0	5,315.0	18,657.0	4,954.0	5,138.0	5,389.7	6,328.4	21,810.2	26,686.6	31,494.3
Other income, expense and other, net	625.0	134.0	236.0	24.0	125.0	519.0	357.0	145.0	158.7	177.4	638.0	1,162.2	1,631.2
One-time items	-	-	-	-	-	-	-	-	-	-	-	-	-
Income before taxes	14,460.0	3,882.0	3,701.0	3,803.0	4,567.0	15,953.0	4,472.0	4,403.0	4,555.2	5,375.7	18,805.9	23,305.0	28,024.3
Provision for income taxes	2,589.0	354.0	927.0	513.0	666.0	2,460.0	822.0	913.0	865.5	1,021.4	3,621.9	4,311.4	5,184.5
Effective tax rate	17.9%	9.1%	25.0%	13.5%	14.6%	15.4%	18.4%	20.7%	19.0%	19.0%	19.3%	18.5%	18.5%
Discontinued Operations - Motorola	(1,077.0)	(182.0)	454.0	(302.0)	(512.0)	(542.0)	(198.0)	(68.0)					
GAAP Net Income (loss)	10,794.0	3,346.0	3,228.0	2,988.0	3,389.0	12,951.0	3,452.0	3,422.0	3,689.7	4,354.3	15,184.1	18,993.6	22,839.8
GAAP Diluted Income (loss) per share	\$16.24	\$4.97	\$4.77	\$4.40	\$4.97	\$19.11	\$5.04	\$4.99	\$5.36	\$6.29	\$22.07	\$27.18	\$32.35
Diluted shares outstanding	664.6	673.3	676.7	678.5	682.0	677.6	685.2	686.4	688.5	692.0	688.0	698.9	705.9
Non-recurring items:													
Stock compensation expense	2,473.0	655.0	778.0	886.0	917.0	3,236.0	839.0	880.0	993.2	1,130.1	3,842.3	4,543.8	5,101.2
One-time items	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax Effect	(752.0)	(141.0)	(160.0)	(198.0)	(202.0)	(701.0)	(190.0)	(195.0)	(188.7)	(214.7)	(788.4)	(840.6)	(943.7)
Discontinued Operations - Motorola	1,077.0	182.0	(454.0)	302.0	512.0	542.0	198.0	68.0			266.0		
PF Net Income (loss)	13,592.0	4,042.0	3,392.0	3,378.0	4,616.0	16,028.0	4,299.0	4,175.0	4,494.2	5,269.7	18,503.9	22,696.7	26,997.3
PF Diluted Income (loss) per share	\$20.45	\$6.00	\$5.01	\$5.86	\$6.77	\$23.65	\$6.27	\$6.08	\$6.53	\$7.62	\$26.89	\$32.47	\$38.24
Diluted shares outstanding	664.6	673.3	676.7	678.5	682.0	677.6	685.2	686.4	688.5	692.0	688.0	698.9	705.9
EBITDA Reconciliation													
Operating Income (reported)	13,835.0	3,748.0	3,465.0	3,779.0	4,442.0	15,434.0	4,115.0	4,258.0	4,396.5	5,198.4	17,967.9	22,142.8	26,393.1
Depreciation & amortization	2,962.0	699.0	1,030.0	974.0	1,036.0	3,939.0	1,086.0	1,079.0	1,289.7	1,344.4	4,799.2	5,624.5	6,111.2
Stock compensation expense	2,473.0	655.0	743.0	856.0	873.0	3,127.0	839.0	880.0	993.2	1,130.1	3,842.3	4,543.8	5,101.2
EBITDA	19,270.0	5,302.0	5,238.0	5,609.0	6,351.0	22,500.0	6,040.0	6,217.0	6,679.5	7,672.9	26,609.3	32,311.0	37,605.5
Year/Year Growth													
Gross Revenues	21.5%	21.7%	19.5%	19.5%	21.8%	20.7%	19.1%	21.7%	20.0%	19.8%	20.1%	18.9%	14.7%
Traffic Acquisition Costs (TAC)	24.4%	18.0%	15.0%	7.3%	7.5%	11.8%	0.1%	0.3%	10.4%	14.0%	10.8%	13.1%	11.3%
Net Revenues	20.6%	22.8%	20.7%	23.3%	26.3%	23.4%	22.0%	25.4%	22.6%	21.4%	22.8%	20.4%	15.5%
Gross profit	17.1%	14.2%	13.0%	18.2%	19.3%	16.4%	20.7%	23.0%	21.0%	21.7%	22.0%	20.7%	15.8%
Research & development	17.3%	12.0%	17.4%	16.4%	11.0%	14.3%	30.0%	31.2%	29.1%	32.5%	30.9%	17.4%	12.9%
Sales & marketing	18.7%	12.4%	23.0%	17.0%	25.2%	19.0%	20.1%	22.3%	25.0%	22.0%	22.0%	20.0%	13.0%
General & administrative	27.0%	36.4%	30.5%	27.1%	17.0%	28.4%	47.3%	24.0%	32.0%	19.0%	30.2%	17.7%	13.1%
Total operating expenses	20.9%	17.7%	25.7%	20.1%	19.9%	20.8%	30.6%	24.7%	26.3%	25.8%	26.7%	18.7%	13.1%
Total cash operating expenses	21.3%	27.4%	31.0%	30.5%	36.2%	31.5%	31.2%	32.7%	26.4%	22.0%	27.7%	19.3%	14.6%
Operating Income	13.0%	10.0%	0.8%	15.8%	18.5%	11.0%	9.8%	22.0%	16.3%	17.0%	16.4%	23.2%	19.2%
PF Operating Income	14.7%	11.0%	7.9%	17.0%	20.1%	14.4%	12.5%	19.7%	16.0%	19.1%	16.9%	22.4%	18.0%
EBITDA	19.9%	19.0%	12.5%	17.4%	18.1%	16.8%	13.9%	18.7%	19.1%	20.8%	18.3%	21.4%	16.4%
GAAP EPS	-45.4%	13.5%	4.0%	8.0%	14.0%	17.7%	1.4%	4.5%	21.7%	20.0%	15.5%	23.1%	19.1%
PF EPS	-43.3%	19.1%	-2.0%	23.7%	21.0%	15.7%	4.5%	21.3%	11.3%	12.5%	13.7%	20.7%	17.8%
Sequential Growth													
Gross revenues		0.4%	1.2%	5.1%	14.1%		-1.9%	3.5%	3.6%	14.0%			
Traffic Acquisition Costs (TAC)		-3.8%	1.7%	-1.4%	11.4%		-2.4%	1.0%	-0.4%	15.0%			
Net revenues		1.7%	1.1%	7.0%	14.9%		-1.8%	3.9%	4.6%	13.8%			
EBITDA		-1.4%	-1.2%	7.1%	13.2%		-4.0%	2.0%	7.4%	14.0%			
% of Net Revenues													
Other cost of revenues (non-TAC)	16.7%	20.8%	20.5%	21.3%	22.7%	21.4%	21.6%	21.5%	21.8%	22.5%	21.9%	21.7%	21.5%
Research & development	13.7%	12.8%	13.5%	12.6%	11.8%	12.7%	13.7%	14.1%	13.5%	12.9%	13.5%	13.2%	12.9%
Sales & marketing	14.3%	13.2%	14.4%	13.6%	14.1%	13.9%	13.0%	14.1%	14.0%	14.2%	13.8%	13.9%	13.7%
General & administrative	8.8%	9.2%	9.8%	9.3%	8.5%	9.2%	11.1%	9.7%	10.0%	8.4%	9.7%	9.5%	9.3%
Stock compensation expense	7.0%	6.6%	7.4%	7.5%	7.0%	7.2%	6.9%	6.9%	7.5%	7.5%	7.2%	7.1%	6.9%

Source: Company reports and J.P. Morgan estimates (2014). Bloomberg Professional: Bloomberg (LP).

Google: Summary of Financials

Income Statement - Annual	FY13A	FY14E	FY15E	FY16E	Income Statement - Quarterly	1Q14A	2Q14A	3Q14E	4Q14E
Gross Revenues		68,755			Gross Revenues	-	-	-	-
Revenues	43,293	53,160	63,997	73,930	Revenues	12,188A	12,662A	13,243	15,068
Operating income	15,434	17,968	22,143	26,393	Operating income	4,115A	4,258A	4,397	5,198
D&A	3,939	4,799	5,624	6,111	D&A	1,086A	1,079A	1,290	1,344
EBITDA	19,373	22,767	27,767	32,504	EBITDA	5,201A	5,337A	5,686	6,543
Net interest income / (expense)	-	-	-	-	Net interest income / (expense)	-	-	-	-
Other income / (expense)	519	838	1,162	1,631	Other income / (expense)	357A	145A	159	177
Pretax income	15,953	18,806	23,305	28,024	Pretax income	4,472A	4,403A	4,555	5,376
Income taxes	(2,460)	(3,622)	(4,311)	(5,184)	Income taxes	(822)A	(913)A	(865)	(1,021)
Net Income	13,493	15,184	18,994	22,840	Net Income	3,650A	3,490A	3,690	4,354
Weighted average diluted shares	678	688	699	706	Weighted average diluted shares	685A	686A	688	692
Diluted EPS	23.65	26.89	32.47	38.24	Diluted EPS	6.27A	6.08A	6.53	7.62
Balance Sheet and Cash Flow Data	FY13A	FY14E	FY15E	FY16E	Ratio Analysis	FY13A	FY14E	FY15E	FY16E
Cash and cash equivalents	18,898	28,162	49,555	75,063	Sales growth	23.4%	22.8%	20.4%	15.5%
Accounts receivable	8,882	9,794	11,007	12,051	EBITDA growth	16.8%	18.3%	21.4%	16.4%
Other current assets	4,861	8,098	8,819	9,004	EPS growth	15.7%	13.7%	20.7%	17.8%
Current assets	72,886	87,638	110,965	137,701	EBITDA margin	52.0%	50.1%	50.5%	50.9%
PP&E	16,524	21,445	23,946	26,313	Net margin	37.0%	34.8%	35.5%	36.5%
Total assets	110,920	133,934	159,690	189,132	Debt / EBITDA	0.2	0.2	0.2	0.2
Total debt	5,245	6,549	6,549	6,549	Return on assets (ROA)	15.7%	15.1%	15.5%	15.5%
Total liabilities	23,611	26,906	28,533	31,295	Return on equity (ROE)	20.2%	19.0%	19.1%	18.7%
Shareholders' equity	87,309	107,028	131,157	157,837	Enterprise value / EBITDA	16.9	14.0	10.9	8.7
Net Income (including charges)	12,951	14,918	18,994	22,840	Enterprise value / Free cash flow	33.7	27.0	16.2	12.4
D&A	3,939	4,799	5,624	6,111	P/E	30.0	26.0	21.1	17.7
Change in working capital	(31)	(222)	106	282					
Other	-	-	-	-					
Cash flow from operations	18,660	22,434	28,693	33,760					
Capex	(7,358)	(8,635)	(7,040)	(7,393)					
Free cash flow	11,302	13,799	21,654	26,367					
Cash flow from investing activities	(13,679)	(12,131)	(7,040)	(7,393)					
Cash flow from financing activities	(857)	(870)	(859)	(859)					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec

By analyzing the data retrieved from J.P. Morgan Securities LLC, here are the following interpretations:

- The earnings per share (EPS) is projected to grow 15.7%, 13.7%, 20.7%, and 17.8% from 2013A, 2014E, 2015E, and 2016E respectively:
- sales is projected to grow 23.4%, 22.8%, 20.4%, and 15.5% from 2013A, 2014E, 2015E, and 2016E respectively:
- the forward price to earnings(P/E) ratio is projected to decrease over the next four years to 30.0, 26.0, 21.1, and 17.7, which implicates Google's potential growth in its earnings, and;

- illustrates a fairly consistent projection of return on assets (ROA) of approximately 15% indicating a strong profitability of Google's assets.

J.P. Morgan's valuation method is comprised of a key assumption which is applying a 17.5x multiple to the forecast EPS of 2016. As Google's actual earnings outperformed its estimated earnings, extrapolating the 2013-current CAGR of 15-20% (Anmuth, Connor, Gotla & Kluger, 2014) to the EPS is reasonable as the most recent quarter report illustrated significant growth in fields, such as, video advertising. Because Google is one of the few companies in the S&P 500 with growing revenues and EPS, the stock should trade at a premium. Thus, it is reasonable to utilize the multiple of 17.5x as the S&P 500 P/E trades at 13.5x (Anmuth, Connor, Gotla & Kluger, 2014). By implementing this methodology, Google Inc's target price is recorded at approximately \$670, which is derived from multiplying 17.5 to diluted 2016 FY EPS of 38.42. By applying the margin of safety rule with respect to the intrinsic value to the current market price of Google's class A stock $[(670-593.95) \div 593.95]$, the margin of safety is approximated to 12.8%.

Recommendation:

Google recorded 22% year-on-year (y/y) revenue growth which was attributed by increases in Google sites revenue, network revenue, and other revenue by 23% y/y, 7% y/y, and 53% y/y, respectively. As Google demonstrated strong revenue and cash flow growth, it indicates positive signs that Google's mobile monetization ability is accelerating. Aggregated paid click growth of 25% y/y and 53% growth of other revenues illustrates that growth is still present at Google. Google Inc.'s strong position in the mobile operating system market grants them to capture the growing market share of mobile searching and display advertising. YouTube captures approximately 41% of global video advertising revenue and that market share is expected to

grow to 49% by 2018 (Wieser, 2014). As Google is continuing to invest in core ads, mobile search and new enterprises, I recommend that the investors "buy" Google shares because it has demonstrated positive financial performance. Furthermore, I support the "buy" decision, as Google's proliferation in its product offerings exemplifies Google's potential to expand and obtain market share in other related sectors, while maintaining its dominant position in the search engine market.

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