

Company: Alphabet Inc.	Ticker: GOOGL Price: \$97	Industry: Internet Content & Information Sub Industry: Internet Media and Services	
Target Price: \$142.97	TTM P/E: 19.05X	Beta: 1.10	Market Cap: \$1.26T
Stop Loss: 25%	Forward P/E: 17.86	Credit Rating: Aa2 (Moody's)	Avg. Vol. (12 M): 22,704,807
52 Week High/Low: \$152.1/\$95.27	EPS: 5.10	Rating Outlook: Stable	Div. Yield: 0%

Company Background:

Alphabet Inc. is the holding company of **Google**. Google is a technology company that focuses on search engine technology, online advertising, cloud computing, computer software, quantum computing, e-commerce, artificial intelligence, and consumer electronics. Google's main business segments are Google Services; which is composed mainly of Google Advertising, Google Cloud, and Google other; which comprises Google Play, YouTube subscriptions, and device sales. Google had revenues of ~258B in 2021, with >80% of their revenues coming from digital advertising, where they lead the industry. Google's Cloud and Other segments have been growing at a faster rate over the past few years when compared to its advertising business, showing the diversification of its revenue streams.

Industry Outlook:

Companies operating within the digital advertising industry are facing pressure due to a cutback in advertisement spending this year due to the macro headwinds that are prevalent. Despite these pressures being currently high, the digital advertising industry is projected to continue its growth due to opportunities to take away ad spend from traditional sources and because of the increase in internet usage worldwide. On top of this, the cloud computing industry has continued to boom through advances in cloud infrastructure and customer adoptions. Analysts expect the digital advertising industry to grow at a 10.49% CAGR over the next five years, while the cloud computing industry is projected to grow at a 20.82% CAGR over the next two.

Investment Thesis:

Alphabet Inc. is a leader in the digital advertising industry, who is working diligently to expand their business in other segments. Our investment thesis for Google is centered around three key points which we expect to continue to drive future value for the company:

1. Leaders in the digital advertising industry, with continued room to grow
2. Emphasis on their growth in other business segments such as GCS and YouTube subscriptions, with room to grow against comps
3. Management has outlined plans to continue deploying capital in a strategic way and has plans to cut costs in order to preserve their bottom line

Investment Risks:

- Their dependence on advertising revenue remains a risk for the business. 80% of Google revenue comes from digital advertising and any decrease in ad spending from companies can have adverse effects on the company
- Google has emphasized investment in cloud computing and their other lines of business, but those portions face intense competition and Google will need to continue attributing a significant amount of capital to those businesses until they can secure enough market share to operate on their own
- As of recently, Google has faced some data privacy issues which has hurt their reputability

3-5 takeaway's from last quarter investor call transcript:

- Google is looking to invest in the best opportunities that are available to them within the current macroenvironment which include: YouTube shorts monetization and Google Cloud Platforms
- Margins have been squeezed on a year-over-year basis; management has attributed this to revenue lapping as well as economic headwinds
- There are plans to cut expenses in order to preserve the bottom line of the company. This includes slowing hiring, divesting from non-priority investments, and allocating their talent to work on projects where they can be most efficient and drive incremental return on investment for Google.

4-Year Financial Performance (Millions):

Discounted Cash Flow Valuation:

	2018	2019	2020	2021
Revenue	\$136,819	\$161,857	\$182,527	\$257,673
Net Income	\$30,736	\$34,343	\$40,269	\$76,033
NOPLAT	\$28,418	\$30,646	\$33,411	\$64,013
Revenue Growth %	18.9%	18.3%	12.8%	41.2%
EBIT % Margin	23.8%	22.2%	22.6%	30.6%
ROE	18.6%	18.1%	19%	32.1%
FCF	\$17,781	\$22,188	\$29,950	\$48,455

Implied Perpetuity Growth Rate	
Terminal Year FCF	\$151,036
Discount Rate	9.00%
Terminal Value	\$2,842,225
Perpetuity Growth Rate	3.50%
Implied Equity Value and Share Price	
PV of FCF	\$568,110
PV of Terminal Value	\$1,200,587
Enterprise Value	\$1,768,697
Less: Debt	\$28,728
Add: Cash & Equivalents	\$124,997
Equity Value	\$1,864,966
Diluted Shares Outstanding	13,044
Implied Share Price	\$142.97
Current Price	\$99.06
Margin of Safety	30.72%

Relative Valuation:													
Company Information		Financial Metrics			Valuation Metrics				Operational Metrics				
Ticker	Firm	Market Cap (\$mm)	Net Debt	Enterprise Value	EV/EBITDA	EV/Sales	P/E	P/FCF	Gross Margin	EBITDA Margin	Operating Margin	ROE	ROIC
GOOG	Alphabet	\$ 1,284,647	\$ (96,269)	\$ 1,198,378	11.96x	4.31x	18.60x	20.08x	56.80%	34.54%	30.60%	30.20%	22.77%
META	Meta	\$ 350,080	\$ (23,810)	\$ 326,270	6.57x	2.73x	10.79x	10.05x	81.99%	37.37%	29.00%	25.48%	22.66%
AMZN	Amazon	\$ 1,140,751	\$ 81,364	\$ 1,222,115	20.06x	2.51x	98.21x	-	45.21%	12.41%	2.74%	9.43%	5.54%
MSFT	Microsoft	\$ 1,752,977	\$ (26,357)	\$ 1,726,620	17.21x	8.71x	25.63x	27.03x	68.32%	48.54%	39.59%	47.15%	31.72%
Mean		\$ 1,081,269	\$ 10,399	\$ 1,091,668	14.61x	4.65x	44.88x	18.54x	65.17%	32.77%	23.78%	27.35%	19.97%
Median		\$ 1,140,751	\$ (23,810)	\$ 1,222,115	17.21x	2.73x	25.63x	18.54x	68.32%	37.37%	29.00%	25.48%	22.66%
Min		\$ 350,080	\$ (26,357)	\$ 326,270	6.57x	2.51x	10.79x	10.05x	45.21%	12.41%	2.74%	9.43%	5.54%
Max		\$ 1,752,977	\$ 81,364	\$ 1,726,620	20.06x	8.71x	98.21x	27.03x	81.99%	48.54%	39.59%	47.15%	31.72%

Total Return %			
	GOOGL	Comm. Services	SPY ETF
YTD	-34.53%	-37.67%	-20.03%
1 Year	-35.08%	-38.12%	-15.84%
5 Years	83.69%	14.23%	48.24%
Governance Disclosure Score			91.24
Social Disclosure Score:			33.25
Environmental Disclosure Score:			53.16
ESG Disclosure:			59.26