

UConn Student Managed Fund Analyst Report

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Date: 3/31/23

(Alphabet Inc.) (NASDAQ:(GOOGL))

Recommendation: BUY

Target Price: 121	Market Cap: 1.324T	P/E Ratio: 31.95
Current Price: 102.68	Dividend Yield: N/A	EV/EBITDA: 13.82
Stop Loss: 25%	Beta: 1.07	EBITDA Margin: 32%
52 Week High/Low: 143.71/83.34	ROE: 23.62%	Gross Margin: 56%

Company Background:

Google is an American multinational technology company that specializes in Internet-related services and products. The company was founded in 1998 by Larry Page and Sergey Brin while they were Ph.D. students at Stanford University. Google is now a subsidiary of Alphabet Inc., which is Google's parent company.

Alphabet (GOOG) is the world's dominant internet search engine, with between 80% and 90% of the internet's search engine queries and close to 90% of all search engine revenue. Smartphones enable searches anytime, anywhere, and their proliferation has boosted usage considerably, with 70% of queries now mobile. The search engine's everyday presence became so common, so quickly that "google" was recognized as a verb by the Merriam-Webster and Oxford English dictionaries in 2006. In addition to search (55% to 65% of total revenue), Google generates ad revenue from its display ad network (10% to 12% of total) and YouTube (10% to 13% of total). Google is nurturing many other businesses, including "moonshots," with little revenue but tremendous long-term potential, e.g., autonomous vehicles, quantum computing, and drone delivery. Google Cloud is its largest source of non-ad revenue (6% to 9% of total), competing with Amazon AWS and Microsoft Azure.

Industry Outlook:

(1) Market Size and Growth: The technology industry is one of the largest and fastest-growing industries in the world, with a market size continually increasing. The industry is expected to continue growing at a rapid pace in the coming years, driven by trends such as digital transformation, cloud computing, and the internet of things.

(2) Key Players: Google is one of the key players in the technology industry, alongside other giants such as Apple, Microsoft, Amazon, and Facebook. These companies compete in areas such as search engines, cloud computing, hardware, and software products and services.

(3) Innovation: Innovation is a key driver of growth in the technology industry, and Google is known for its innovative culture and focus on research and development. The company invests heavily in areas such as artificial intelligence, machine learning, and cloud computing, and has launched several successful products and services in these areas.

	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
3 In millions									
4 AR	20816	20206	20300	20204	45108	54483	62144	70207	
5 Inventory	1107	899	728	1170	2010	1,086	2,280	2,351	3,004
6 Other CA	4286	4412	5895	8028	8199	5133	10,479	10,009	13,843
7 Current Assets	26111	25727	27140	30402	51317	65707	74,903	83,219	100,847
8 AP	4378	5861	5989	6037	11318	8,537	9,801	11,136	12,912
9 Accounts Payables + Other CL	16908	15057	15851	15444	27866	41,094	46,222	50,791	63,511
10 Current Liabilities	21286	20920	21840	20881	43014	50,539	56,023	60,927	76,443
11 Working Capital	4825	2707	2508	12419	8019	15,168	18,882	22,292	24,404
12 Net Change in WC	-2796	-819	-7485	-2394	8019	8,209	1,217	1,384	1,709
13 % of Revenue	-0.20%	-0.31%	-0.15%	-0.35%	0.84%	0.92%	0.26%	0.26%	0.43%

Valuation: Discounted Cash Flow Analysis

1	Current share price	101
2	Current shares outstanding	12,807
3	Current market cap.	1,292,098
4	Total debt	14,701
5	Cash plus marketable securities	139,649
6		
7	Discount rate input	
8	Debt ratio	1%
9	Equity ratio	99%
10	Levered beta	1.08
11	Treasury rate	3.55%
12	Market risk premium	4.78%
13	Cost of equity (CAPM)	8.71%
14	Cost of debt	2.43%
15	Tax rate	17%
16	WACC	8.63%
17	Terminal growth rate	1.00%

WACC	Terminal Growth				
2.80%	2.90%	3.00%	3.10%	3.20%	
5.00%	2,978,337	3,112,551	3,280,186	3,423,362	3,604,669
5.50%	2,467,326	2,556,079	2,651,928	2,755,769	2,868,631
6.01%	2,110,101	2,172,811	2,239,687	2,311,159	2,387,718
6.50%	1,859,644	1,906,861	1,956,776	2,009,627	2,065,681
7.00%	1,664,317	1,701,012	1,739,541	1,780,046	1,822,683

WACC	EBITDA Multiple				
	9.31	9.81	10.31	10.81	11.31
7.63%	1,432,527	1,490,996	1,549,464	1,607,933	1,666,401
8.13%	1,432,527	1,490,996	1,549,464	1,607,933	1,666,401
8.63%	1,432,527	1,490,996	1,549,464	1,607,933	1,666,401
9.13%	1,432,527	1,490,996	1,549,464	1,607,933	1,666,401
9.63%	1,432,527	1,490,996	1,549,464	1,607,933	1,666,401

WACC	Terminal Growth				
	2.80%	2.90%	3.00%	3.10%	3.20%
7.63%	125	127	129	132	134
8.13%	116	118	119	121	123
8.63%	108	110	111	113	114
9.13%	102	103	104	106	107
9.63%	96	97	98	100	101

WACC	EBITDA Multiple				
	9.31	9.81	10.31	10.81	11.31
7.63%	112	116	121	126	130
8.13%	112	116	121	126	130
8.63%	112	116	121	126	130
9.13%	112	116	121	126	130
9.63%	112	116	121	126	130

Free Cash Flow at year 2027	89,336
WACC	8.63%
Perpetuity Growth Rate	3.00%
Perpetuity Value in 5 years	1,634,005
Present Value of Perpetuity (@ WACC)	1,080,136
(+) Present Value of Free Cash Flows (@ WACC)	218,896
(*) Current Enterprise Value	1,299,031
(i) Long Term Debt	14,701
(+) Cash and Marketable Securities	139,649
(*) Equity Value	1,423,979
Shares outstanding	12,807
Estimated Value per Share (USD)	111
Current Price (USD)	101
Estimated Upside	10

Terminal EBITDA	176,900
WACC	8.63%
Exit Enterprise	10.31
Terminal Value	1,823,836
Present Value	1,205,621
(+) Present Val	218,896
(=) Current Ent	1,424,516
(-) Long Term Debt	14,701
(+) Cash and M	139,649
(=) Equity Value	1,549,464.39
Shares outstan	12,807
Estimated Value	121
Current Price (\$	101
Estimated Upside \$	20

Senerio	Perpetuity	EBITDA	Weights	Value
Bull	135	147	25%	142
Base	111	121	50%	117
Bear	101	110	25%	106
			Target Price	121
			Current Price	101
			MOS	20%

Inputs	
WACC	8.63%
Perpetual Growth Rate	3.00%
EBITDA Exit Multiple	10.31

Relative Valuation

	P/Sales	P/E	EV/EBITDA	ROIC	ROA	ROE
1						
2	GOOGL	4.69	22.13	13.82	20.66%	16.55%
3	AAPL	6.78	27.57	20.53	52.59%	26.15%
4	MSFT	10.44	31.56	21.01	28.72%	19.14%
5	META	13.94	24.2	13.94	15.79%	13.19%
6	AMZN	2.02	N/A	29.08	-0.70%	-0.62%
7						

ESG Score

Alphabet Inc Class A GOOGL Morningstar Rating

Sustainability | Rating as of Mar 28, 2023

Quote Chart Stock Analysis News Price vs Fair Value Sustainability Trailing Returns Financials Valuation Operating Performance Dividends Ownership Executive

Sustainability

ESG Risk Rating Assessment



ESG Risk Rating



Highest Controversy Level (1 = Low, 5 = Severe)

 High

Incidents: Customer

Top 3 Material ESG Issues

Business Ethics
Overall

Data Privacy &
Security
Overall

Human Capital
Overall

ESG Risk Rating is as of Mar 01, 2023. Highest Controversy Level is as of Mar 08, 2023. Sustainalytics Subindustry: Internet Software and Services. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: [sustainalytics.com/esg-ratings/](https://www.sustainalytics.com/esg-ratings/).